### Introduction

Spain has broken its record for visitor numbers for the third consecutive year. Up to the month of December, the number of arrivals reached 81.7 million visitors, some 8.3% more than the figure for the same period in 2016 which closed with 75.3 million tourists.

Moreover, for the second year running Spain has taken the top spot as the most welcoming destination worldwide, according to the report of the “World Economic Forum 2017”.

The deluge of tourists, together with the strong performance of hotel market indicators (Occupancy, ADR and RevPAR) is further whetting the strong investor appetite for the Spanish hotel market. Hotel investment during the first half of the year doubled that of the same period in 2016 and by the end of the year, investment volume reached €3,000 M without taking into account 360 M€ of the corporate operation made by Blackstone and H1 Partne.

### Occupation, price index and profitability indicators

By the end of 2017 hotel occupancy in Spain reached 66% (average January-December 2017), slightly higher compared with an occupancy of 64% for the same period in 2016. The tourist spots showing greatest occupancy were the Canary Islands, Majorca, San Sebastian, Madrid, Barcelona and Valencia.

The increase in hotel occupancy is spurring the rise in returns. The average daily rate (ADR) increased by 2.6% in December compared to the same period of the previous year, reaching a level of €81.8.

The increase in hotel occupancy along with the increase in rates is favoring the increase in profitability. The average revenue per available room (RevPAR) recorded an annual increase of 4.5% in December, climbing to €42.4.

Using the most recent data published by the National Statistics Institute, five-star hotels in October enjoyed an average daily rate (ADR) of €172.3, four-star €89.2 and three-star €63.7, whereas the revenue per available room (RevPAR) for these categories amounted to €92.4, €53.2 and €35.1, respectively, in December 2017.

### Dichotomy in overnight stays

Overnight stays by overseas tourists have recovered significantly since 2009. Domestic demand has been more restrained however, trending gently upwards since 2013. Andalucía, Catalonia, the Valencia region and Madrid represent the preferred destinations at a domestic level, whereas overseas visitors primarily head for the Balearic and Canary Islands.
Tourism Compatibility Index (ICT)

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<th>Country</th>
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<td>Spain</td>
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Source: “World Economic Forum 2017”

Foreign tourists in Spain

- Portugal: 3%
- Switzerland: 3%
- Belgium: 4%
- Austria: 9%
- Italy: 6%
- Netherlands: 5%
- Nordics: 9%
- Germany: 18%
- France: 17%
- The UK: 28%
- The US: 4%
- Ireland: 3%

Source: INE

Evolution of the hotel investment volume in Spain

The leading generator of tourists for Spain remains the UK, with 28% of the total, followed by Germany (18%), France (17%) and Scandinavia (9%).

Record in hotel investment

The With more than 80 million arrivals anticipated for 2017, the flood of tourists has made Spain one of the world’s most attractive destinations for international investors.

Hotel investment took off over, reaching historic peaks by the end of the year reaching €3.0 billion, representing an increase of 82% in comparison with 2016 and 43% over 2015 (the record year to date, with a figure of €2.55 billion).

The market share of the hotel segment as a proportion of total property investment in 2017 is now very large, at approximately 30%; it is surpassed only by retail.

This compares to real estate investment allocation to hotels at a European level of almost 20% in 2016, itself greatly increased over the 7% seen ten years before.

Despite Madrid and Barcelona remaining in the crosshairs as the leading investment destinations, markets such as Valencia, Seville and Bilbao are awakening significant interest from investors.

The Canary Islands (23%), Andalusia (13%) and the Balearic islands (9%) are at the forefront for holiday market investments, followed by the best locations on the Costa Blanca.

Relevant operations

From January to December 2017, a total of 115 channelled hands, collected in 54 transactions, which 13 of them are portfolios. The most significant deal for the year to date consists of the acquisition by the Baraka group and subsequent sale to Riu Hoteles & Resorts of the Edificio España in Madrid for €272 million. Also noteworthy is the corporate transaction of 14 assets by Blackstone from Sabadell (HI Partners) for €630 million.

Affected by the moratorium on new hotel developments, transactions are focused on existing hotels in Barcelona. The leading deals consisted of the acquisition of 55% of the Hilton Diagonal Mar by AXA for €80 million and the Silken Diagonal by Bensot Elliot and Highgate.
Investment activity in the holiday segment has been very intense, the number of portfolio deals reflecting the strong momentum being enjoyed by Spanish holiday hotels.

The acquisition by London & Regional of a portfolio of four hotels owned by Starwood Capital and Meliá for approximately €240 million is worth mentioning.

Another of the most notable deals is the acquisition from Intertur Hotels of five hotels in Majorca and Ibiza by KKR and Dunas Capital, the 1,126 rooms of these properties are going to be managed by Alua Hotels & Resorts. The volume of this transaction amounted to more than €120 million.

**Price per room and buyer type**

Without including Blackstone’s portfolio transaction, the average price for the deals struck amounted to €25.5 million, giving an average price per room of €124,500. In terms of price per room, the most expensive is the sale of the Riu España Project, with an approximate figure of €357,000 per room, along with the sales of the hotels Silken and Hilton Diagonal in Barcelona, both deals closing at above €300,000 per room.

By type of buyer, it can be seen how the main protagonists of 2017 were funds together with Socimis, adding up to 60% of the total registered volume. The strong commitment to investment funds together with specialized Socimis such as Hispania, is favoring market professionalization. Finally, in 2017, hotel companies have been very present in various operations, reaching a market share of 24%.

**Greater market specialization**

The trend towards separating the ownership and management of hotels remains increasingly common to deals in the hotel segment, especially with investors specialising in with the sector.

The fact that yields are more attractive than those obtained for other real estate products is favouring hotel investment. It is likely to see continued yield pressure.

**OUTLOOK 2018**

The hotel segment will remain fashionable, in a scenario of strong appetite for investors in Spain, the second largest tourist destination in the world (81.7 million visitors in 2017).

The strong buying pressure of investors, given the liquidity of capital markets, will motivate the owners of hotel assets, especially small and medium family hotel groups, to sell their assets. On the other hand, big funds will start to get rid of assets that are not part of their business strategy.