At a glance - 2018
HOTEL MARKET IN SPAIN

RECORD OF TOURISTS AND INCREASE IN AVERAGE EXPENDITURE

82.8 million international tourists in 2018

2018 set a new record of international visitors to our country. This occurred even though the forecasts of tourists visiting Spain, made in the middle of last year, were less positive than 12 months earlier. Those forecasts were set against a background of re-entry of competitor markets in North Africa and uncertainty in Spain itself as a place to visit with political disputes.

A figure of 82.8 million visitors was recorded in 2018, a 1.1% increase compared to the results obtained in 2017 and the sixth consecutive year of all-time highs according to the latest data published by the Spanish National Institute of Statistics (INE). As the chart on tourist evolution shows, since 2009 the growth of tourism in Spain is consistently upwards, making this sector one of the main pillars of the domestic economy.

This massive influx of tourists generated an annual increase of 3.1% in tourism expenditure in Spain compared to 2017, reaching 90bn euros. The money origin of expenditure altered in composition with more tourists from North America and Asia, and fewer German and British tourists, more of which opted to travel to destinations such as Turkey, Tunisia or Egypt.

The tourism sector continues to be an engine of economic growth and jobs. In 2018, the number of persons registered in the social security system as working in tourism was 2,389,766, which represents 12.8% of the total employment pool. During the past year 100,000 new jobs were created in the tourism sector.
**Overnight Stays**

The number of overnight stays (nights spent) in Spain has continued to increase steadily since 2011. Of the 340 million overnight stays recorded in 2018, 64% correspond to foreign tourists and 36% to Spanish residents. This differential between domestic and foreign demand is now decreasing because of alteration in the drivers of tourism. There is an increase in domestic demand that comes from improvement in households' income situation, stemming from better economic growth. The number of overnight stays by foreign tourists is lower in part because of domestic political uncertainty. Mostly it is the reopening of North African destinations following security reviews that prompted diversion of trade.

The city of Barcelona, together with Madrid, led the way in the number of overnight stays with around 20 million a year. In general, coastal destinations are the ones most demanded by foreign tourists. Of particular note are the Canary Islands, where 90% of overnight stays last year were by foreign tourists. The northern regions of Spain and Andalusia attract a greater share of national holiday makers, Salou and Seville being the tourist sites registering the highest number of overnight stays with more than five million per year.

**Occupancy, Price Indices & Yields**

The average hotel occupancy in Spain in 2018 was around 65.48%, remaining virtually the same as in 2017. The tourist sites with the highest occupancy in Spain have been the Canary Islands, Mallorca, San Sebastián, Madrid, Barcelona and Valencia.

The Average Daily Rate (ADR) for each hotel room increased by an average of 2.17%. If we compare the rates of the month of August, the busiest time of the year, an increase can be seen of 1.7% compared to August 2017, reaching €107.2.

The increase in hotel occupancy and ADR is generating an increase in profitability. The Average Revenue per Available Room (RevPAR) registered an annual increase of 0.6% in August, reaching levels of €84, while the average increase in 2018 was 2.29%.

Five-star hotels have an ADR of €220, four-star hotels €116.8 and three-star hotels €96.5, whereas the RevPARs for these categories are €73.7, €69 and €61.7, respectively, in August 2018.
Hotel Infrastructure

Spain has an extensive hotel infrastructure that enables it to easily cope with European and international competition. At the beginning of 2019 Spain has more than 8,600 assets, from tourist apartments to five-star luxury hotels. These assets amount to more than one million beds all over the Spanish territory, above all in its main cities, the Balearic Islands and Canary Islands.

Looking at hotels by category, we can see the importance of higher-standard hotels. The greatest market share is held by four-star hotels, making up half the Spanish hotel infrastructure, followed by five-star hotels, with 21% of the total figure.

Luxury hotels are largely located in the Canary Islands, Andalusia and Barcelona with 13%, 12% and 9% of the total Spanish hotel room stock, respectively. Lower-rated hotels are concentrated in Catalonia, with a 23% of the total room stock being one-star. On the other hand, we can see this type of hotel is almost non-existent in the Canary Islands, which consists of higher-standard tourist accommodation.

Luxury Hotels

The market is experiencing high demand for luxury hotels in Spain. The arrival of higher spending tourists is a large factor in generating higher demand for luxury hotels; they simply want a better experience and are willing to pay for it.

5-star hotels registered 21.2 million overnight stays in 2018, a new record, and the average occupancy rate reached 67.05% in 2018, a 24% increase in relation to 2010. The hotel occupancy evolution shows lower seasonality in top-standard hotels compared with less exclusive types.

Until 1999, this market niche offer was residual; between one and two luxury hotels per year coming onto the market. Only over the last ten years has 51% of today’s stock has been developed. 2016 was particularly active year when 8 hotels entered the market, incorporating 778 rooms.

Today Spain has 368 hotels that are 5-star and 5-star GL, representing 5.1% of the total stock in Spain.

Around 90% of this stock is distributed between Andalusia, Catalonia, the Canary Islands, the Balearic Islands and Madrid. Barcelona is the province with the highest number of hotels belonging to this category.

Madrid over the last two years is playing an trend setting role in pricing in the luxury hotel market. Hotel companies are responding to the demand for luxury accommodation with a new offer of properties offering top-standard facilities and services.

In 2018 Madrid saw the opening of the Gran Meliá Palacio de los Duques (5-star GL) and the Hotel Puerta America (5-star GL).

2019 will be a milestone in the luxury hotel offer in the capital, mainly due to the opening of the new project “Four Seasons” in the Canalejas Center. It will be the first hotel to be opened by the group in Spain and the first of this category in Madrid city centre. Furthermore, we will see the opening of the Mandarin Oriental in Plaza de la Lealtad, the new opening of Hotel Villa Magna on Paseo de la Castellana and Hotel Edition near Sol square, which have been recently purchased.
Hotel Investment

Investor interest in Spanish hotels continues to be high. 2018 registered a total investment volume of around 6bn Euros, augmented by a high volume of corporate acquisitions of businesses.

Despite the fact that total investment in Spain increased by 13% compared to the previous year, direct hotel investment (as opposed to indirect through purchase of businesses) amounted to 1.6bn Euros in 2018, a great difference in comparison with the 3bn registered in 2017.

Indirect investment is significant with corporate deals for a volume of approximately 4.3bn Euros. Especially relevant is the purchase by Blackstone of a portfolio of 48 hotels from Hispania hotel group amounting to 1.9bn euros and 50% of the Ritz-Carlton, Abama in Tenerife South through HI Partners. In addition, this year other major operations have taken place, including the Minor takeover bid for NH.
Where are investments being made?

Madrid received the most investment during 2018: 540 million euros in seven transactions, which represents 34% of total investment. The hotel market in Madrid attracted mainly American institutional investors, who principally targeted urban centre assets with little seasonality because they are more focused on business trips. Of the total volume invested in the capital, 430 million Euros were distributed in only two transactions. The purchase of Hotel Villa Magna was one of the largest purchases in the sector, and is a record capital cost per room: 1.4 million euros paid for each of the 150 rooms.

Hotel investment also focused on locations with a high tourist activity, especially coastal areas with a good climate, such as Andalusia, the Canary Islands and the Balearic Islands. The Canary Islands represented 17% of the total capital invested, comprising a figure of 266 million Euros in eight individual transactions. Domestic investors have a high profile in deals carried out in the Canary Islands, the Balearic Islands and some holiday locations in southern Spain. The investment recorded in Andalusia represents 15% of the investment in Spain; Estepona and Seville are the locations most in demand from investors.

During the first three months of 2019, the two most important market operations have been signed in the Moncloa and Chamartín districts of Madrid. The city is seeing the highest investment of the year to date (Q1 2019) with a total investment of 73.3 million Euros. In addition, the positive market situation for hotel occupancy is leading many owners to hold onto their assets and invest in them to increase turnover.

Who are the Buyers?

Domestic investors are important to direct investment in 2018, generating a total of 501.2 million Euros even before taking into account the volume invested through Socimis (277 million Euros). American funds have also played an important role spending 227 million Euros buying 10 assets, of which 9 are part of the divestment portfolio by the Urvasco hotel company in the last quarter of the year. The 430 million euros invested in Hotel Villa Magna and Hotel Edition deals came from Mexican and Malaysian investors respectively.
**Sector Yields**

The sustained increase in the investment activity generated a compression in yields over the past year. The value of the assets has increased over the last year in Spain as a result of the adjustment of yields, the latter being around 4.5% in more prime markets at the end of 2018.

Compression also means investment activity in secondary markets is picking up, enhanced by the attractiveness of higher yield differential in these areas.

![Graph showing Sector Yields with Hotels, Logistics, Retail High Street, Offices, and 10-year bond with yields ranging from 3.25% to 4.50% and -0.1%]

**Outlook**

BNP Paribas Real Estate estimates that 2019 hotel investment will remain at the same level as in 2018, driven by the positive hotel market situation. The attractive yields offered by hotel assets in Spain in comparison with other sectors, are encouraging investment. The interest of investors and large international hotel brands in entering growth markets in Spain will remain at very high levels.

The new brands and hotel groups that have emerged, particularly over the past two years, will see investment in hotel assets by other means beyond the direct acquisition of assets. These include joint ventures, investment in debt, recapitalization or through mergers and acquisitions.

Source: BNP Paribas RE
BIZINESS LINES in Europe
A 360° vision

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