The hotel sector continues as the bedrock of the domestic economy

**INTRODUCTION**

The hotel sector continues as the bedrock of the domestic economy. After record numbers of tourist visits in Spain for five consecutive periods, 82.8 million visits were recorded at the end of 2018. This represents an increase of 1.1% compared to 2017 and a 36% increase since 2013, according to the latest figures published by the National Statistics Institute (INE).

According to the INE, tourism in Spain set a new record for arrivals and expenditure by foreign tourists. In 2019, 83.7 million foreign tourists arrived, representing an annual increase of 1.1%. Expenditure by these visitors stood at 92.28 billion euros, also a new record, with an increase of 2.8% compared to 2018. Average expenditure per tourist was €1,102, an annual increase of 1.7%.

The majority of tourists were from the United Kingdom, France and Germany. Arrivals of tourists from the United Kingdom fell by 2.4% over the year, mostly because the tour operator Thomas Cook went bankrupt. Arrivals of German tourists decreased by 2.1%, whereas the number of tourists from France went down by 1.2%.

![Evolution of tourists in Spain](chart.png)

The tourism sector continues to be an employment driver. In 2018, the number of people registered on the social security system working in tourism rose to 2,389,766, representing 12.8% of the total. Over the last year, 100,000 new jobs were created in the tourism sector. In absolute terms, the biggest job increases took place in the Madrid, Valencia and Andalusia regions, whereas decreases occurred in the Balearic Islands, Catalonia and Asturias.

**1.1%**

 Nº TOURISTS
ANNUAL VAR 2018—2019

Source: INE

**1.7%**

INCREASE IN EXPENSES
BY TOURISTS IN 2019

Source: INE

**1,102€**

MEDIUM EXPENSE PER TOURIST IN 2019

Source: INE
OVERNIGHT STAYS

The number of overnight stays in Spain has seen sustained increases since 2011. In the last year they increased by 0.9%, with a total of 343.1 million overnight stays. This trend represents a recovery from a fall in 2018 (-0.2%). Since 2018 the number of foreign overnight stays has diminished, going down by 1% in 2019, to stand at 65.2% of total overnight stays. Domestic tourism, with a 2.6% increase in 2019, is driving the growth in total overnight stays.

Andalusia was the leading destination of Spanish tourists, representing 21.3% of the total overnight stays and up 4.5% from the previous year. It was followed by the Valencia and Catalonia regions, with 13.5% and 13.1% of the total, respectively.

The leading destination for foreigners was the Canary Islands, with 26% of overnight stays, a fall of 4.2% compared to the previous year. Overnight stays also went down (-1.1%) in the second most popular destination, the Balearic Islands that represents 24% of the total.

OCCUPATION, RATES AND YIELD

Hotel indicators confirm the current buoyancy of the sector. RevPar, ADR and occupancy rates have all increased in the last year. Average hotel occupancy per room stood at 65.9%, slightly higher than the rate in 2018 (+0.9%). Holiday resorts such as Malaga, Las Palmas and Tenerife had the highest occupancy rates, at 71.6%, 79.8% and 80.3%, respectively, followed by urban destinations such as Madrid and Barcelona, whose occupancy rates were around 70%.

The average daily rate per room (ADR) increased by 2.19% in the last year. The months with the highest level of activity were July (4.7%) and December (3.8%).

The rises in occupancy rates and ADR boosted the revenue per available room (RevPAR). An annual increase of 4.9% was recorded in 2019, reaching levels of around €59.

Performance and occupation indicators

Hotel price index

![Chart showing hotel price index and annual variation](chart.png)
**MADRID— 5* HOTELS**

**NEW OPENINGS IN 2019**

As predicted, 2019 will be a landmark year as far as the stock of luxury hotels in the capital is concerned. There is a high level of demand for 4 and 5-star hotels. 5-star hotels had 22.9 million overnight stays in 2019, representing an increase of 8.2% over the record figures of 2018. Average occupancy reached 68.25% in 2019, an increase of 2% over the previous year.

At the start of the year, Spain had 368 five-star and luxury five-star hotels, which represents 5.1% of the total stock. In 2019 the luxury hotel stock was bolstered by new deliveries throughout Spain. The deliveries included the Hotel Aloft in Madrid, which was also one of the biggest transactions of the year. Major hotel chains such as Hilton and Barceló also opened the doors on new establishments in Alicante (Casa Alberola) and the Balearic Islands (Hotel Elba), respectively.

**MADRID, LUXURY HOTEL ICON**

Madrid has become a leading destination for international premium hotel brands such as Four Seasons, Pestana, Marriott and Hyatt, as well as national companies including Iberostar, Barceló and RIU. This is boosting the city centre and will be highly attractive to businesses in the surrounding area.

Madrid is the Spanish city where tourists spend the most, ahead of Barcelona, with quality tourism and increasingly longer stays that result in higher expenditure.

There are currently more than ten projects for five star hotels with accommodation of more than 1,000 beds that are expected to open their doors in 2020. This means that the city’s current supply of this type of accommodation will be doubled.

**1,200**

5* HOTEL BEDS IN 2020

Four Seasons will arrive in Spain in 2020, Madrid

**IBEROSTAR**

The current buoyancy of the hotel segment in Spain has led the big hotel chains to intensify their expansion plans. The Iberostar chain recently announced that in 2020 it will open 11 new centres with the aim of continuing its growth in city hotels. The major scheme is the opening of the Iberostar Selection Teatro Albéniz. This hotel will be 5 stars, have 115 rooms, and a location in the heart of Madrid, near Plaza Jacinto Benavente, Plaza Mayor and Puerta del Sol.
**HOTEL INVESTMENT**

**BEHAVIOR OF HOTEL INVESTMENT IN SPAIN**

In 2019 the total volume of investment was 1.6 billion euros, representing an increase of 1.6% compared to 2018. The hotel sector market share is unchanged at 13% of the total real estate investment in Spain. Most transactions were for individual assets in 2019, as there were few purchases of large portfolios. Around 85% of the total amount invested came from individual asset transactions, which translates into 1.36 billion euros over 40 assets. The remaining 15% is the purchase of 16 hotels included in 6 portfolios, for a total of 243 million euros, including the acquisition of seven hotel assets by Azora for a total amount of 30 million euros. In addition, land and real estate operations have been carried out in order to convert them into hotels for a volume of approximately 500 million euros.

**MAIN INVESTMENT OPERATIONS**

2018 ended with record investment figures due to the high level of corporate hotel transactions (4.5 billion euros). Key deals included the purchase by Blackstone of 48 hotels from Hispania and the 50% stake in Hospes Hotel Group acquired by GCP Hospitality. Corporate activity remained positive in 2019, albeit with few large deals. One of the most significant transactions was the purchase by the French luxury giant Louis Vuitton of Belmond, which runs La Residencia in Deia in the Balearic Islands, among other establishments.

Two of the largest transactions in Madrid came with the purchase by Socimi Milenium of Marriott’s Hotel W in Plaza Canalejas owned by the Platinum Estates group, for approximately 80 million euros. The other purchase was made by Henderson Park who acquired Aloft Hotel, a four-star establishment located on Calle Jacometrezo which opened last June. The transaction was agreed at 56 million euros.

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**Evolution of investment volume**

Source: BNP Paribas Real Estate

**Number of assets traded**

Source: BNP Paribas Real Estate
HOTEL INVESTMENT

WHERE IS IT INVESTED?

Around 420 million euros or 26% of total investment was concentrated in the Madrid Region in 2019. This makes Madrid the region with the largest share of hotel investment in Spain, although the volume was lower than in 2018. In addition, three of the ten transactions completed in Madrid made up more than 40% of investment in the city. It reflects the preference of investor interest for high-class hotel assets in cities, which are less affected by seasonality. This preference drives the high demand for hotels seen in the Valencia Region, which concentrates 18% of domestic hotel investment, and stands behind Madrid but ahead of the Canary Islands. In 2019, total hotel investment in Valencia was around 290 million euros, three times more than 2018 with 91.2% located in Valencia city centre. Particularly significant was the purchase by Socimi Atom of the Hotel Meliá Valencia for 42 million euros.

As well as hotels in the biggest Spanish cities, around 40% of investment was focused on locations with a high level of tourist activity. Around 12.7% of investment was in Andalusia, the vast majority for investments along the Costa del Sol by private capital and real estate investment companies (SOCIMIs). The Canary and Balearic Islands together equalled the amount invested in Andalusia, including the purchase of the 4 star Hotel SMY Puerto de la Cruz in Santa Cruz de Tenerife. The 300 room hotel was purchased for 55 million euros.

The Catalan region had a low number of transactions with hotel investment falling by 34.8% compared to the previous year. This was a consequence of the sector's sensitivity to the political uncertainty experienced over the last year.

Investment by type of buyer

Hotel chains played a major role in investment over the last year, with 38% of the total investment made by leading hotel firms. Deals included the Millenium portfolio, which was one of the most important transactions of the year.

Investment funds were involved in large-volume transactions for individual hotel assets, with a 20% share of hotel investment in 2019, spread across fewer than 10 deals.

Approximately 75% of the capital invested in Spanish hotel real estate in 2019 came from international funds or investments made through these vehicles.

Who is buying?

AT A GLANCE 2019

HOTEL MARKET IN SPAIN
OUTLOOK FOR 2020

With a favourable outlook for the Spanish economy, and buoyancy of real estate market fundamentals, the forecasts for 2020 are encouraging. Leading investment funds are continuing to raise capital for investment in real estate and Spain is a target market for transactions in the year ahead.

The hotel market may be entering a maturity phase following the boom undergone since 2014. Growth in tourism is likely to slow in line with a weaker global economy. In Spain, we predict growth in tourism GDP of around 2% in 2019 and 2020, just above total GDP growth. The Spanish hotel sector will possibly face an adjustment to its business from reduced tourist activity.

The degree of impact from this adjustment will vary according to the different markets within Spain. The strongest growth markets where requirements for accommodation are concentrated, maybe less be affected. Especially in the city hotel market that is also driven by business travel needs.

HOTEL INVESTMENT

A stage of maturation is approaching after the boom experienced by the hotel sector since 2014.

HOTEL SECTOR YIELDS

Yields are being squeezed by the sustained increase in investment activity from national and international investors. The value of hotel assets in Spain is gradually increasing placing the yield at around 4.0% in the leading prime markets at the end of 2019. Yields may continue to compress due to the fact that the market still has more capital to spend than supply of prime assets to buy.

That mismatch is helping boost investment activity in secondary markets, driven by the appeal of the higher yields in those areas.

YIELD IN PRIME HOTELS

4.0%

SINGLE ASSET INVESTMENT IN 2019

85%

INVESTMENT IN 2019 PORTFOLIOS

15%
6 BUSINESS LINES in Europe
A 360° vision

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