European hotel market: 2011 a tale of two halves

At nearly €6.8 billion invested in 2011, investment in hotel property in the five leading European countries (France, Germany, Italy, Spain and the United Kingdom) continued the recovery trend that had begun in 2010 according to a study published by BNP Paribas Real Estate. Even though rising by 3.5% compared to 2010, investment volume pace of growth slowed down significantly in the second half of the year. Indeed, the first half of 2011 posted an increase of over 80% compared to the same period the year before, whereas the second half of 2011 (and especially the last quarter) lost steam with investment levels 31% lower than the same period in 2010. At the same time, the hotel industry weathered the recession and ended on a globally positive note despite the slowdown from September 2011 onwards. A rise in RevPAR (revenue per available room) ranging from 3.5% to 8.9% was recorded in the same five countries.

The United Kingdom: clear market dominance accounting for nearly half of all investment
At 49% of overall investment, the United Kingdom dominated the hotel investment market in 2011. Investment levels amounted to €3.3 billion, up by 13%, set against an 11% contraction in overall commercial real estate investment. Investors sought an alternative to retail premises, which are increasingly risky in the United Kingdom. In addition, Middle Eastern operators searching for “trophy” assets were very active. Among the most noteworthy transactions were the sale of the W Hotel for €233 million and the sale of the Holiday Inn Mayfair for €181 million.

The British hotel industry was the first to recover from the 2008 financial meltdown. British hotels booked one of the largest RevPAR increases in 2010. The increase in 2011 was therefore slightly less impressive. RevPAR rose by 3.5% to €63.80. Average prices fell in the last two months of 2011 which, given the stable occupancy rates, meant a drop in RevPAR and an end to two years of growth. The slowdown could continue in the first few months of 2012. However, London continued to boast the highest occupancy rate in Europe at 84.4% at the end of 2011, something that will continue in 2012 with the Olympics in town.

France: one of the most dynamic countries in Europe
Hotel investment levels amounted to over €1.8 billion in 2011 notes BNP Paribas Real Estate. Despite a slight drop (-3% compared to 2010), France is still one of the most dynamic markets in Europe. The sale of the Marriott Champs Elysées building (€215 million) in the first quarter was the most important transaction in 2011. The French market remained very active in portfolio transactions. At €713 million, France accounted for 68% of overall portfolio exchanges in 2011 in the five main European tourism markets.

Likewise, the hotel market in France went up. Occupancy rates rose by 1.3 points in one year reaching 66.5%, whilst the average rate increased by 3.6% to €84.20. RevPAR for 2011 amounted to €56, up by 5.8% over the previous year. Paris stood out from other European cities with the second highest RevPAR (€120 in 2011) behind Geneva (€133).
Germany: weak hotel property investment in the second half of the year
The first half of 2011 began with a fanfare (€652 million), although hotel property investment slowed down rapidly to generate only €283 million in the last six months of 2011. Among the most significant operations were the sale of the Radisson SAS in Frankfurt for €100 million and the sale of the Scandic in Berlin for €85 million. Despite the drop in average rates and RevPAR in April, June and September, the German hotel industry ended the year on a positive note with RevPAR rising by 4.3% at €55.8 compared to the previous year. Germany had returned to pre-recession levels in 2010 thanks to its leading position in conventions and trade fairs. Munich continued to record the best performance in Germany with an occupancy rate of 75.1% and average rates exceeding €102.

Spain: investment remained sluggish even though hotel indicators continued to rise
Investment in the hotel industry remained weak in 2011 with a 6% contraction compared to 2010, although this was far less than 46% drop in investment levels in commercial real estate. Investors were positive with a long-term outlook for a recovery in the hotel industry. Although impacted by the recession, Spain is still the world’s third favourite tourism destination in arrivals terms and the No. 1 destination in terms of tourism receipt. Among the most significant transactions were the sale of the Palace hotel in Barcelona for €68 million and the sale of the Hotel Hesperia in Madrid for €80 million. As for hotel performance, the market collapse was so severe between 2008 and 2009 (-22% in RevPAR) that hoteliers will need more time to recover. After a 7% rise between 2009 and 2010, Spanish hotels achieved a fine recovery with an 8.9% increase in RevPAR thanks to the two-fold growth in occupancy and average rates.

Italy: hotels missing from real estate investment
At €117 million, investment in Italian hotel real estate was lifeless in 2011. There was only one transaction in the second half of the year: the sale of the Hotel Sansicario Majestic for less than €10 million. The Italian hotel industry is, however, continuing to recover. In 2011 Italy still had the highest RevPAR level in the five countries under study at €65.7. Although up by 3.8% compared to 2010, this was still far below 2007 levels following the double-digit drop in average rates between 2008 and 2009 in an attempt to check falling demand.

BNP Paribas Real Estate points out the fact that the outlook for 2012 remains nevertheless positive despite tensions on the debt market, with the combination of a demand from investors with little recourse to financing and the placing on the market of quality assets.