

# Spotlight French Hotel Market

Winter 2012-13



## Spotlight **French Hotel Market**



#### **Economic background**

Economic conditions remain challenging, fluctuating in line with the turmoil in the Eurozone. In Q3 2012, French GDP increased by 0.2% yearon-vear after a decrease of 0.1% the previous quarter. Over the year as a whole growth should stand between 0.1% and 0.2%. The unemployment rate is expected to continue to grow, standing at 10.6% at the end of the year. Purchasing power is set to suffer a triple blow: job losses, the increase in the tax burden, and the rise in oil prices, keeping inflation at 1.9% year-on-year. However, thanks to a drop in the savings ratio, household consumption should remain stable.

#### **Tourism and hotel** activity

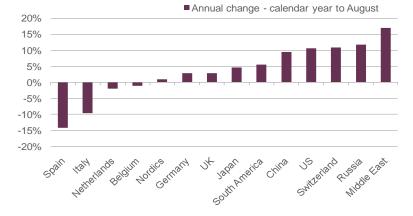
According to the latest estimations from the DGCIS (General Direction of Competition, Industry and Services) the volume of tourist overnight stays in July-August 2012 decreased by 1.6% compared to the same period in 2011. The drop would have been even more pronounced without the strong growth of international tourist's arrivals (+2.2%).

France continued to attract more foreign tourists last summer compared to the previous thanks to the influx of visitors from European countries such as Germany, Switzerland and Russia. In particular those from some emerging economies, notably the BRICs, and those from mature markets, such as the United States, Canada and Japan, were up as they took advantage of a favourable exchange rate compared with the Euro.

The level of foreign visits nevertheless slowed due to the overall deterioration in business and consumer confidence notably from some of our European neighbours, who reduced their journeys abroad. Some households even cancelled their holiday departure, as shown in a study led in July 2012 by the Italian Hotel Federation, which stated a fall of more than 10 basis points in holiday departures.

Despite the increase in international tourisim, it was not enough to compensate for the fall of overnight stays by national tourists with a -2.8% year-on-year fall recorded in July-August. As their European counterparts did, French citizens adopted a wait-and-see attitude in a context of economic stagnation, weighed down by gloomy weather conditions in the summer.

#### **Overnight stays** Strong growth of international tourist arrivals notably from non-European countries



Graph source: INSEE

#### **SUMMARY**

#### 5-star hotels, the star performer

- In spite of the current economic conditions, France continues to attract an increasing number of foreign tourists notably from Germany Switzerland, Russia, the US, Canada and Japan.
- According to HotStats average occupancy across four and five-star Paris hotels was 79.3% over the first three quarters of 2012, 80 basis points above 2011 levels. Five-star hotel occupancy excelled increasing 180 basis points to 79.6%, peaking at 92.5% in June.
- Revenue per available room (RevPAR) increased by 5.8% over the same period across both hotel categories in Paris. Gross profit per available room (GOPPAR) was also up 5.8%. Again, five-star hotels out-performed with GOPPAR up 13.2%.
- The number of hotels in France has been decreasing continuously since 2005. Development activity has decelerated sharply since the beginning of the year with the exception of Ile-de-France and in particularly Paris.
- Investors demand for hotels is growing; the supply of prime assets on the market was significant and equity was available. Thus investment in hotel properties totalled €2.1 billion in 2012, 40% above the turnover recorded in 2011
- Paris and the Riviera remain the key centres of the French hotel investment market whereas activity in regional markets remains subdued and sporadic.



"Growing investor interest and the availability of prime assets boosted hotel

investment volumes in 2012, with year end figures expected to exceed €2 billion." Lydia Brissy, Savills European Research

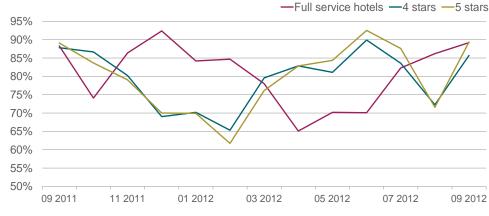
However, these poor weather conditions had no impact on the French capital. According to a survey conducted by the Regional Committee of Tourism in Paris-IDF, 67% of hotel professionals considered that their activity was good during July, of which 45% stating that their activity increased compared to the previous year thanks to international tourists. In three to five stars hotels. the satisfaction rate of professionals climbed to 85%. The creation of a fifth star in the French tourist hosting system, which already existed in other destinations, provided international tourists a better comparison between French hotels and those of other countries.

#### **Operational** performance

**GRAPH 3** 

In August last year the occupancy rate in France was 66.8%, reflecting a decline of 1.2 points compared to August 2011. Since the beginning of 2012, average occupancy stands at 60.7%, 0.7 points down compared to the same period the year before. Chain hotels achieved, once again, better performances than private hotels; 67.6% against 66.1% respectively. All hotel categories were affected by a decline in occupancy but 0-3 stars hotels were the most affected. Better occupency levels were achieved in the 4-5 star category (69.5%). In Corsica, PACA and Poitou-Charente the occupancy levels were the highest; 82.2%, 80.9% and 75.8% respectively, whereas in IDF, which used to be the best performing region it stood at 62.2% in August, compared to 79.4% the previous month.

Paris hotel occupancy The occupancy rate of 5-star hotels increased by 30 bps y-o-y to reach 89.4% in September



Graph source: HotStats

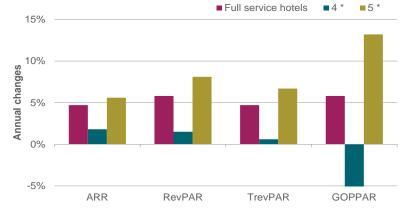
According to HotStats, the average occupancy rate in Paris (four and fivestar hotels) over the first three quarters of 2012 was 79.3%, 80 basis points above that achieved the previous year. Over the same period the occupancy rate of five-star hotels increased by 180 basis points to 79.6%, peaking at 92.5% in June, confirming the strong performance of luxury hotels. Paris achieved a huge average room rate in 2012 as the city benefited from strong demand from both the corporate and leisure sectors. Average room rates (ARR) were €289.34 across four and five-star categories and €387.33 for five-star, a year-on-year increase of 4.7% and 5.6% respectively. Over the same period RevPAR across both categories increased by 5.8% with GOPPAR also up 5.8% compared to 2011. Yet again, luxury (five-star) hotels

performed much better achieving an increase of 8.1% in RevPAR and 13.2% in GOPPAR. In contrast fourstar GOPPAR declined by 5.7% as the marginal increase in RevPAR came under pressure from increasing payroll

#### Stock and development

Since 2005 the number of hotels in France has been decreasing continuously, from 18,309 to 17,000 in 2012 according to INSEE. However, this decline has slowed since 2012 and the number of rooms increased from 611,609 to 614,684 between 2011 and 2012. The share of rooms in four to five star hotels is currently 15% of the total hotel capacity against 5% in 1995. In Paris, which accounts for 13% of the national stock, the share of hotel

Paris hotel performance review Five-star hotel performances well above the average



Graph source: INSEE, DGCIS Graph source: HotStats

#### GRAPH 4 Four and five-star hotel stock in France 15% of the national room capacity



rooms in four to five-star establishements is 33%.

> Hotel development starts in France from January to November 2012 totalled nearly 520,000 sq m, a relatively weak volume compared to the 831,000 sq m started during the whole of 2011. Whereas nearly all regions have witnessed a slowdown in development activity so far this year, in Ile-de-France and particularly in Paris the first 11 months of 2012 already show an increase of 3% and 8% respectively compared to the previous full year.

Additionally there are approximately 350 hotel developments in the pipeline representing more than 33,000 rooms. Most projects are part of wider schemes including leisure parks, golf resorts, retail parks, care homes or full mixed used projects. The large majority are new schemes, with a few extension and refurbishment projects, notably within Paris. Of the total number of projects 55% have received planning consent and 14% are currently under review. More than 5,000 rooms are expected per year until 2014 based on those projects with planning consent. In Paris three 5-star hotels are planned until 2014, which will be added to the existing 44 hotels in this category. Additionally the Hermitage project will increase the number of luxury hotels in La Defense to three from 2016.

#### Investment

Contrary to all expectations, the investment market in 2012 did not experience the decline expected. More than €13.1 billion was invested in commercial real estate over the first 11 months of the year in France, compared to €12 billion for the same period in 2011. The market remains dominated by equity driven investors and is characterised by an ever increasing aversion to risk.

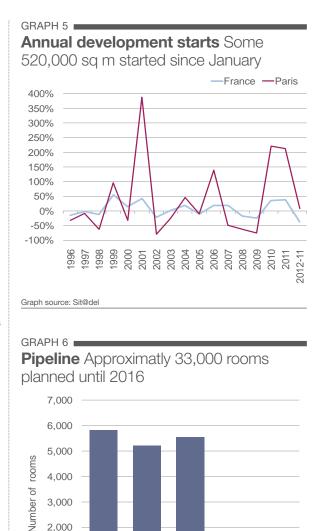
Market fundamentals for the traditional commercial sectors are becoming increasingly challenging as business and consumer confidence falls and unemployment rises. The financial crisis drove property investors to narrow their target market to increasingly rare top quality assets. High competition for the limited supply of top class assets has caused renewed prime yield compression, with certain segments of the market looking expensive once again. In

spite of tough financial conditions, significant amounts of equity are waiting to be invested. Therefore many investors are seeking alternative investment strategies including "sale and manageback" rather than sale and leaseback. Thereby a growing number of investors are considering an exposure to alternative asset classes including hotels.

Not only is investor demand for hotels is growing but in 2012 the supply of prime assets available on the market was significant. This combined with the return of foreign investors: notably from Qatar has driven the market activity for the segment. In 2012, investment in hotel properties totalled €2.1 billion, 40% above the previous year. The market activity was notably fuelled by the sales of 5 large portfolios representing approximatly 75% of the total amount invested since the beginning of the year.

Paris and the Riviera remain the key centres for hotel investment activity accounting for more than 85% of the total hotel investment. In the regional markets where conditions can be challenging, activity remains subdued and sporadic.

Yields have remained stable over the past 12 months. They currently range between 4.5% and 7.5%.



Future development of 5-star hotels in Paris and La Defense

4,000

3,000

2,000

1,000

Graph source: Savills, Explore

2012

2013

2014

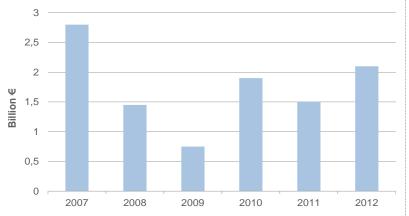
2015

> 2016

Project	Adresse	Location	Туре	Rooms	Delivery
Sofitel Beaujon	Rue Beaujon	Paris 08	Hotel refurbishment	123	2013
Pullman	8-12 rue Louis Armand	Paris 15	Refurbishment	200	2014
Peninsula	19 avenue de Kléber	Paris 16	Refurbishment of a conference centre into a hotel	208	2013
Hermitage	49, voie communale des Damiers	La Defense	New development including top end residential units, offices, retail	210	2016+

Graph source: Savills

#### **GRAPH 7** Hotel investment The annual volume is likely to exceed €2 billion at year-end



Graph source: Savills, RCA

TABLE 2

Major investment deals

Asset	Buyer	Vendor	Price (€ m)
Hotel Pullman - Paris Rive gauche	Bouygues Immobilier	Accor	77.0
Portfolio (Martinez, Palais Méditerranée, Hotel du Louvre, Concorde Lafayette)	Katara Hospitality	Starwood Capi- tal Group	750.0
Portfolio Accor - 6 Hotels	Axa	SFL	132.9
Portfolio -167 hotels B&B	Fonciere des Murs	ANF	508.0
Portfolio	Host Hotels & Resorts	Whitehall	350.0
	Hotel Pullman - Paris Rive gauche  Portfolio (Martinez, Palais Méditerranée, Hotel du Louvre, Concorde Lafayette)  Portfolio Accor - 6 Hotels  Portfolio -167 hotels B&B	Hotel Pullman - Paris Rive gauche  Bouygues Immobilier  Portfolio (Martinez, Palais Méditerranée, Hotel du Louvre, Concorde Lafayette)  Portfolio Accor - 6 Hotels  Axa  Portfolio -167 hotels B&B  Fonciere des Murs  Portfolio  Portfolio  Resorts	Hotel Pullman - Paris Rive gauche  Bouygues Immobilier  Portfolio (Martinez, Palais Méditerranée, Hotel du Louvre, Concorde Lafayette)  Portfolio Accor - 6 Hotels  Axa  SFL  Portfolio -167 hotels B&B  Portfolio  Portfolio  Portfolio  Rost Hotels & Resorts  Whitehall

#### **OUTLOOK**

#### Bright prospects

- According to the latest Focus Economics forecast, GDP growth will slowly be back to positive figure during the second half of 2013 on the back of a moderate acceleration in external demand. The weak labour market is not expected to improve in 2013 which is, together with the increasing austerity measures, dragging on consumer spending.
- France and more particularly Paris will remain a sought after destination to both corporate and leisure sectors, nevertheless 2013 will be a challenging year for the hotel market as growth in occupancy may
- Tourism activity is likely to continue to rely on international tourists, notably coming from the Americas, Asia and Middle East, which should favour the performance of four and five-stars hotels.
- The market may progressively run out of prime opportunities in 2013. However, we believe a similar level of activity than recorded last year can be achieved fuelled by portfolio deals and interest from overseas investors.

### Savills teams

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HotStats provides unique monthly profit and loss information to hoteliers, investors and hotel owners across Europe, Middle East and North Africa. The HotStats database now totals 1,650 properties representing 360,000 rooms under 100 different brands. To obtain a market specific report and more information please contact Tony Oliveira, tony.oliveira@hotstats.com and visit hotstats.com

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