

Commercial Research - 2021

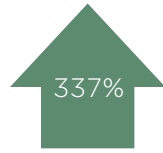
Q  
SPOTLIGHT  
Savills Research

# European Hotel Trends Outlook



● Recovery outlook ● Investment overview ● Pricing movements





EasyJet witnessed summer flight reservations increase of 337% in the week following the UK's roadmap announcement, compared to the same period in the week prior.

## Recovery imminent amid vaccine rollout

The widespread vaccine distribution across Europe is likely to influence large scale hotel reopening dates and the subsequent recovery period, with domestic and short-haul leisure travel to experience the initial bounce.

After what was the worst year on record for global hotel performance, 2021 presents a much more optimistic outlook. The ongoing successful vaccination rollout and containment of the virus is beginning to allow certain countries to once again encourage tourists back.

In Israel, those with a vaccine certificate can now visit hotels, gyms, bars and concerts, following the world's quickest vaccination campaign. Iceland began welcoming back vaccinated tourists from any country as of 18 March, without having to quarantine, with Greece shortly following suit. Meanwhile, the UK's promising inoculation process has provoked the government to outline a roadmap to reopening, equipped with provisional hotel reopening dates.

The relatively slower rollout across the European Union will likely result in a staggered reopening of cross-border travel over the course of the next six months, with mass vaccination being a key turning point in terms of confidence amongst travellers.

### Staycation boom impending, followed by short-haul leisure

As evidenced through the less restrictive months of 2020, domestic demand will likely return first, while sentiment concerning international travel remains tempered until there's more certainty regarding restrictions easing.

Countries such as Germany and the UK are therefore well-positioned, given the huge domestic source base coupled with historic demand for the population to travel. Out of five of the largest tourism markets in Europe, Germany and the UK boast the highest share of domestic travellers as a proportion of total visitation, at 79.3% and 74.4% respectively, according to pre-Covid 2019 figures (Figure 1). Being the two largest suppliers of outbound travellers in Europe as well, both markets therefore also have the potential to further boost domestic demand through the conversion of typical outbound

travel towards their domestic markets.

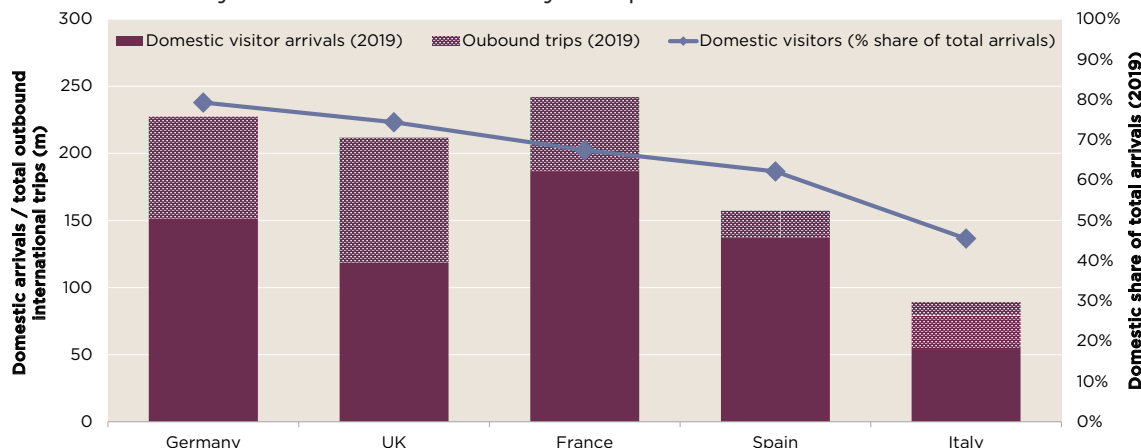
This was somewhat reflected within 2020 full-year occupancy figures. While travel was only viable for parts of the year, those countries with a more accessible domestic tourism market saw average occupancy surpass the regional average. As a result, France, Germany and the UK all exceeded the European occupancy average of 26.6%, whilst Spain and Italy, being more directly dependent on overseas demand, saw occupancy fall short of the regional average.

However, this is not to say that short-haul international travel won't begin to pick up in the short-term. Early holiday booking data for 2021 suggests traditional tourist destinations are likely to be amongst the first priority for pent-up international travel demand. This is evidenced from booking agencies statements, such as TUI reporting a 500% increase in bookings from July onwards, with demand focused on Greece, Spain and Turkey. Similarly EasyJet announced summer flight reservations jumped 337% in the week following the UK's roadmap announcement – with Malaga, Alicante and Palma being prime spots for a return to British overseas trips.

Looking at the timing of future bookings, as a proportion of bookings made in the two weeks to 31 March (Figure 2), it's clear to see the bulk of future bookings are for the following month, suggesting that travel continues to be dominated by short lead times and last-minute bookings.

The UK appears to have a far higher share of bookings from May through to September, compared to other major countries, in line with more confidence regarding domestic summer travel generated by the higher level of inoculation and provisional hotel reopening dates. In contrast, future hotel bookings across other major European destinations have been hindered by third waves and further restrictions, delaying a return to usual holiday planning. Regardless, Italy, Spain and Germany are beginning to see a marginal spike in bookings for August/September trips.

**Figure 1: Domestic vs outbound trips in 2019** emphasises the potential growth for domestic holiday visits across the five key European tourism markets.



Source Savills Research, official local tourism statistics, Eurostat

### Looking longer term - the rise of the digital nomad

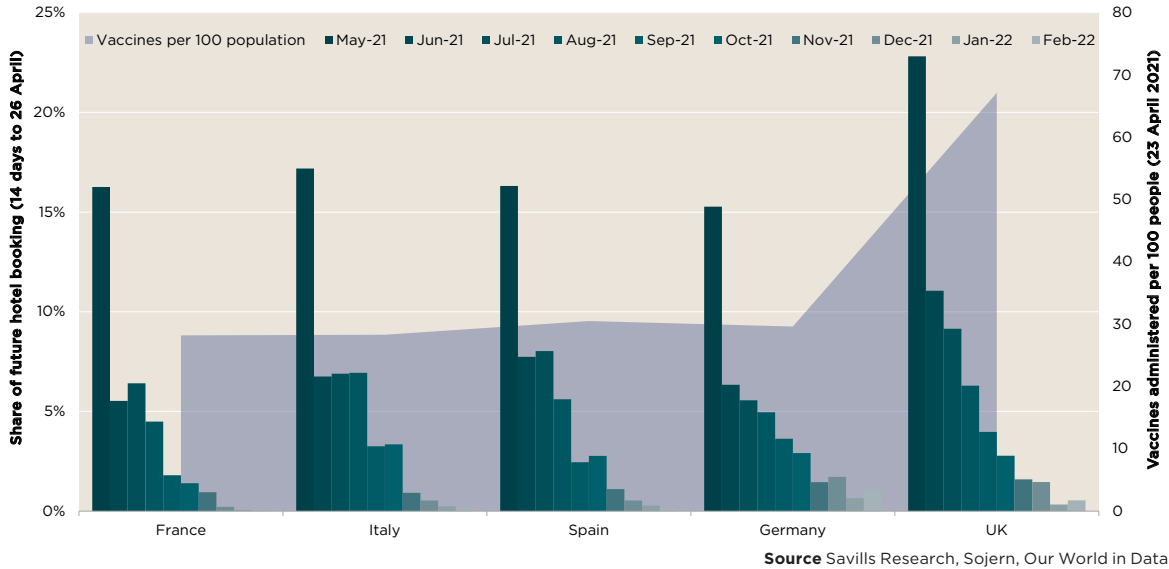
If there's one thing the pandemic has taught us, it's the ability to work productively away from the office. As employers become more open to the idea of staff being able to operate from a wider range of locations, we're likely to see a rise in the digital corporate nomad, alongside a blending of leisure and corporate travel (aka "bleisure").

This opens the door to new and existing operators to pivot their offer to appeal to both corporate and leisure demand - something that serviced apartment operators and branded residences have been achieving for a while. This can come in many formats, whether it's increased room size, desk space and rapid connectivity, on-site co-working space and so on.

As governments also continue to clamp down on the over-exposure of Airbnbs and short-term rentals, there opens a significant opportunity for hotels to bridge the gap and capture some of this longer-stay corporate/leisure demand. This move to a more flexible, blended way of working and living could therefore provide significant opportunities for well-attuned hotel brands.

👉 Pivoting to a more streamlined business model might be enough to provide operators with the vital breathing room needed until demand filters back to pre-Covid levels. 👉

**Figure 2: Share of future hotel bookings by month** highlights the higher proportion of booking over summer months for the UK, in line with a higher level of vaccination.



Despite ongoing challenges, 2021 will mark the early beginnings of recovery for many hotels, with the longer-term outlook remaining promising. The vaccine rollout suggests any current lockdowns will be the last, and that demand pickup is imminent. STR predict occupancy will reach between 80-100% of 2019 levels by Q4 2022 for most markets, with full RevPAR recovery expected by at least 2024.

**Reopening will be a complex process, bearing both opportunities and challenges**

The reopening process remains a complicated situation for many hoteliers. Whilst the earliest possible reopening will be the intention for most operators, reopening under heavily reduced demand could potentially be harmful to cashflow. Timing and certainty will therefore be key.

For those well-positioned hotels with a safe and secure offer, occupancy on the books will go some way to alleviating immediate pressures. However, the short lead time and last minute booking/cancellation associated with many trips at this time can therefore make planning ahead very difficult. What's more, the reopening of the entire sector at once could spark an initial pricing war, ultimately hampering profitability.

What's promising is that a great deal of hotel operators have significantly reduced their overheads over the last 12 months, meaning they will be reopening under much leaner business models. This will therefore allow some hotels to operate more profitably at lower occupancies compared to pre-Covid levels, which will be pivotal during the initial stage of recovery. Hotstats announced total overhead costs for departments such as sales/marketing and utilities had fallen by -61% and -33% year-on-year respectively in 2020, for European-based hotels. Of course, some of these costs will creep back in line with demand during the recovery period, albeit gradually, allowing for hotels to better understand new break-even points.

Payroll, being one of the primary costs to hotel operators, plays a pertinent roll in terms of cashflow. Employment numbers in hotels have reduced significantly over the past 12

months, and refilling such roles could be a complex procedure, with the movement of people and reskilling effectively reducing available workforce talent. For example, the UK has witnessed many European nationals (of whom the hospitality sector is heavily reliant on to fill roles) return to their home-countries. This, coupled with the recently increased National Living Wage, could result in a costly rehiring process. For some hotels, operating with reduced staffing numbers has been possible through the closure of parts of their business models (from marketing to catering staff), and could potentially hold off rehiring some of these roles until there's substantial revenue generated to support it.

Government relief continues to support hospitality sectors across Europe, albeit varying widely from country-to-country. A commonly adopted initiative to support hotel income during recovery is a temporary reduction in hospitality VAT rates, with rates decreasing as much as 75% in the UK, and 50% in both Belgium and Austria. While this is a temporary fixture, there's mounting pressure on some governments to retain reduced hospitality VAT rates more permanently.

In Italy, whereby hotels remain largely private family-run enterprises, significant financial pressure has accumulated due to restricted equity available to owners, putting a substantial number of assets at risk of closure or being sold under distressed terms to international buyers. As a result, the tourism ministry, alongside state-backed CPD and other investors, have established a €2 billion National Tourism Fund to help protect historic assets, through temporary acquisitions whilst retaining current management with the aim of selling it back after ten years.

Elsewhere, commercial eviction moratoriums, temporary tax relief measures and income support schemes have undoubtedly saved many hotel businesses from insolvency since March 2020. As these support packages begin winding down, it's likely there will be further casualties across more exposed parts the sector. However, for many operators, pivoting to a more streamlined business model might be enough to provide the vital breathing room needed until demand filters back to pre-Covid levels.

Overhead costs for sales/marketing and utilities declined -61% and -33% year-on-year in 2020 respectively, for European hotels on average, according to Hotstats

STR predict occupancy will be somewhere between 80-100% of 2019 levels by Q4 2022 for most European markets



# The European hotel investment outlook

Investment volumes remain subdued compared to historic levels but a significant weight of capital has been raised, ready to be deployed.

European hotel investment volumes in Q1 2021 remained historically low, reaching €2.16 billion, down -49.7% year-on-year. However, this does represent the least severe quarterly year-on-year decline since the onset of the pandemic.

Debt availability in the face of ongoing operational headwinds remains a barrier to entry for many investors. However, a significant weight of capital continues to be raised by well-capitalised private equity firms, spanning both new and existing players in the market. This follows an expectation of discounting across the market, coupled with confidence in the longer-term prospects of European travel.

The UK remains the most liquid hotel market in Q1 2021, totalling €746.5 million, accounting for a 34.6% share of total European transaction volumes. The maturity of the hotel sector across markets such as the UK, and Germany, coupled with a strong domestic travel profile, has supported ongoing investor demand.

New prospective buyers are particularly keen on acquiring in markets with historically higher barriers to entry; typically prime gateway cities. The notion that key bucket-list tourist destinations will be amongst top priority for pent-up travel demand also supports investor interest in such markets, evidenced by a number of key transactions across the likes of Madrid and Barcelona. Subsequently, Spain has overtaken Germany to become the second most liquid market in Q1 2021, accounting for an 18.6% share of transaction volumes.

While prime trophy assets continue to dominate investment volumes, it's smaller deals (sub €10 million) that are driving the bulk of sales in terms of deal count. This is largely steered by private buyers seeking investment opportunities on assets boasting a relatively positive operational outlook, in key coastal and country staycation markets. Confidence in this segment has also sparked interest amongst larger players, with Blackstone acquiring Butlin's parent company, Bourne Leisure, in February; driven largely by confidence in the British staycation segment.

In typical recessionary behaviour, the bid-ask gap does still exist; although is beginning to narrow. This is being caused by bidder-side competition (owed to the weight of capital

hovering over the market), a relative scarcity of prime assets available as well as mounting debt obligations likely to result in downward pressure on pricing from the owner side. This is expected to open further transaction opportunities as we move towards the second half of the year.

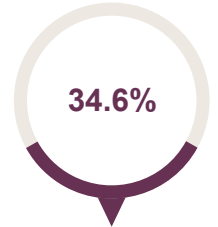
## Where does this leave pricing?

With capital preservation still key and many buyers therefore focused on prime locations, our prime hotel yield index remains largely unchanged compared to Q3 2020. After an initial outward yield movement following the onset of the pandemic, some of the more insulated markets have retreated back closer to pre-Covid levels. It's worth noting that for this exercise, prime yields are based on a hypothetical city centre hotel with stabilised cashflow and is largely sentiment-led due to very limited deal evidence.

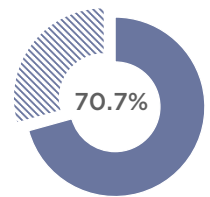
Prime gateway cities including London, Paris and Amsterdam remain sharpest, in line with strong levels of investor demand. German cities, despite some outward pressure across more MICE-exposed markets, remain comparatively sharp owed largely to a strong domestic visitor profile and economic outlook. Leased hotel yields in Berlin and Munich therefore remain competitive at 3.75%.

The emphasis on prime assets is evidenced across key Q1 2021 deals. For example, the Zetter Group (comprising of three prime London assets) was acquired by Orca Holdings in March, with the brand looking to expand further into key European gateway markets, noting Paris, Madrid and Amsterdam as primary targets. Similarly, albeit completing in early Q2, FAM AB acquired the five-star city centre Grand Hotel Stockholm for €356 million from Vectura.

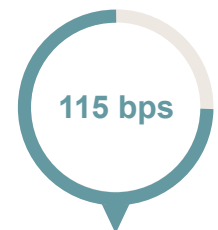
The non-prime segment is likely to experience further outward yield movement, driven more directly by tough market conditions and financial challenges. The yield spread between prime and secondary is therefore widening. Looking ahead, we could these pricing adjustments open attractive opportunities for those investors seeking higher yields or potentially change-in-use or value-add opportunities.



The UK saw the highest investment volumes by country in Q1 2021, totalling €746.5 million, accounting for a 34.6% share of total European volumes.

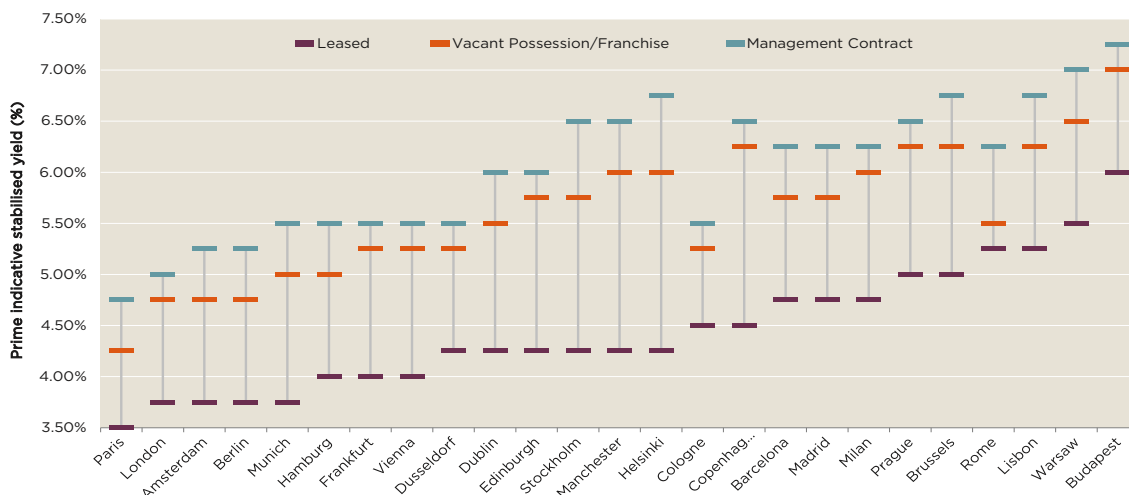


Cross-border investment accounted for a 70.7% share of European hotel investment volumes in Q1 2021



The average yield spread between leased assets and VP/franchise hotels in Europe widened marginally to 115 bps (vs 114 bps in Q3 2020)

## European city hotel prime indicative yield comparison



Note yields based on a hypothetical hotel in a prime urban location.

Source Savills Research



## Savills Commercial Research

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team

---

### Hotel Capital Markets

**Rob Stapleton**

EMEA Hotels  
+44(0)20 7409 8029  
rstapleton@savills.com

**Richard Dawes**

EMEA Hotels  
+44(0)20 7409 8106  
rdawes@savills.com

**Mai Kawashima**

Global Hotels  
+44(0)20 7420 6306  
mai.kawashima@savills.com

**Juan Garnica**

Southern Europe  
+34 91 319 1314  
juan.garnica@savills-  
aguirrenewman.es

**Javier Oroz Usoz**

Southern Europe  
+34 91 319 1314  
javier.oroza@savills-  
aguirrenewman.es

**Bas Wilberts**

The Netherlands  
+31 20 301 2000  
b.wilberts@savills.nl

**Tom Barrett**

Ireland  
+353(1) 618 1415  
tom.barrett@savills.ie

---

### Valuation Advisory

**Tim Stoyale**

EMEA Hotels  
+44(0)20 7409 8842  
tstoyale@savills.com

**Giles Furze**

EMEA Hotels  
+44(0)20 7409 8138  
gfurze@savills.com

**James Bradley**

EMEA Hotels  
+44(0)20 7409 8771  
jbradley@savills.com

### Research

**Marie Hickey**

Commercial Research  
+44(0)20 3320 8288  
mlhickey@savills.com

**Josh Arnold**

Commercial Research  
+44(0)20 7299 3043  
josh.arnold@savills.com