33 Margaret Street
London W1G 0JD
+44 (0)20 7499 8644

Paseo de la Castellana, 81
28046 Madrid
+34 913 10 10 16

Praça Marquês de Pombal, 16
1250-163 Lisboa
+351 21 313 9000

REPORT
Savills Research

November 2020

Iberian Hotel Market

savills

Foreword: hot views disruption & opportunity

At the end of 2019, concerns for the Iberian hotel market (Spain and Portugal), consolidated as the world's largest touristic destination after a decade of great demand expansion, contemplated a potential – then thought to be dramatic – drop in demand of up to 10%, derived from threats of a recession and other external events such as Brexit.

Within months, however, we ran into the unexpected and truly dramatic outbreak of COVID-19, with its traumatic loss of human life and healthcare system crisis, which struck particularly hard in Southern Europe.

The effects of the protective measures implemented throughout Europe and the rest of the world are resulting in the worst drop ever in touristic activity, down over 70%, putting an abrupt end to a great decade of growth and profitability and hibernating the industry, which is currently surviving on the aid and incentive plans currently in place.

Despite the disruptive effects of COVID-19, the exogenous and non-structural nature of the current crisis, together with the renewed strength of our industry, the natural resilience of the market and what will hopefully be effective application of the aid and incentive packages, we have a very positive outlook for recovery in terms of both pace and strength.

While recent news provides reason to be optimistic, providing visibility as to a medical solution to the pandemic, and despite some optimistic predictions that tourism will rebound quickly and strongly, we do not foresee significant elimination of travel restrictions and the recovery of consumer confidence until Q2 2021, and expect commercial activity to reach pre-COVID levels by late 2023 or 2024.

The road to recovery will not be free from challenges, both old and new, including Brexit, new consumer habits and corporate policies, administrative regulations and, above all, consumer confidence. Above all, we anticipate that pre-COVID trends will be reinforced with new values deriving from the current situation, which will require further focus and management, but will continue to provide attractive growth opportunities.

In a post-COVID world, with adjusted cash flows and financial pressure, there will certainly be opportunities and further concentration, but we do not anticipate a distressed market overall, as the immediate effects of COVID are not likely to condition long-term value or have structural impacts.

The disruptive effects of COVID will, however, provide for a window of opportunity, perhaps unique, for both value-add and core investors to capitalise on value opportunities in the largest, consolidated, yet growing, touristic market in the world.

Contents

A great growth cycle 03
outstanding demand growth strengthening the Iberian market's position as the world's largest touristic destination (over 110 million international visitors), with stable inventory slowly evolving in terms of product offering and branding to generate healthy growth of commercial parameters, but still maintaining high growth potential as regards ADR and seasonality

The world biggest touristic destination 07
with a diverse urban offering for the corporate and leisure traveller and a uniquely heterogenous universe of coastal destinations on three seas for all client profiles, with prime destinations consolidated among both urban and resort segments and up-and-coming, attractive second tier destinations

An unprecedented shock 11
resulting in a more than 70% drop in touristic activity due to lockdowns and travel restrictions, an economic aftermath which is yet to be seen and changes to consumer and corporate trends

Certain recovery 15
to be consolidated between 2023 and 2024 on the basis of the industry's proven resilience and strength after the decade of expansion leading up to 2019, with good signs beginning to emerge in terms of a medical solution to the pandemic and in Asian markets

New market, old trends 17
reinforced demand-driven trends – experience, sustainability and digitalization – with new requirements in terms of flexibility, safety and security and remote connectivity, continued evolution of the operating model and additional focus on refurbishment and repositioning over new development.

A consolidated and maturing investment market 18
on hold in 2020, to rebound strongly with the overcoming of the current situation normalization, picking up concentration trends and opportunities for both the value add and core investment profiles, but without general market distress

A great growth cycle allowing the Iberian market to strengthen its position as the world's biggest tourist destination

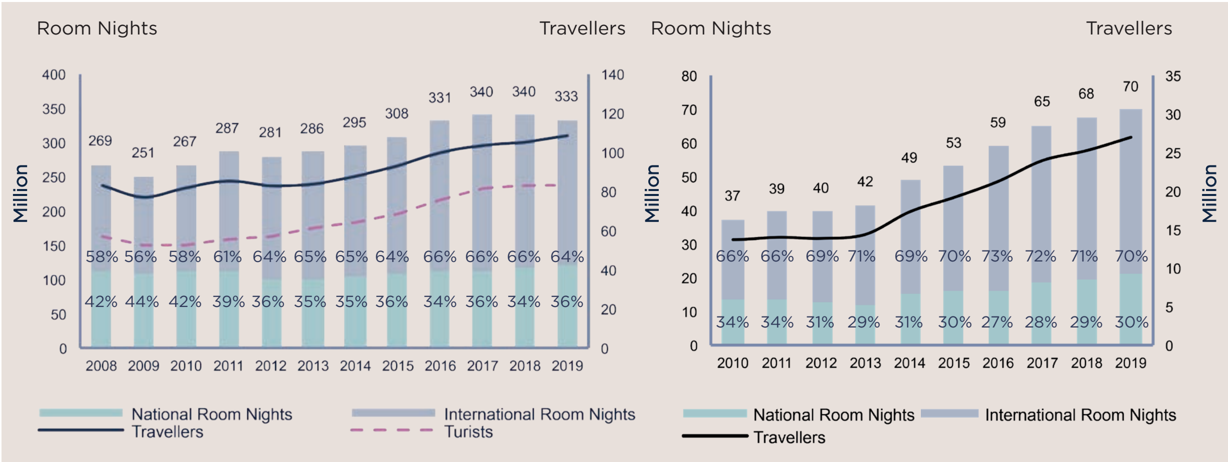
A period of demand expansion reaching over 110 million international visitors and over 400 million hotel room nights in 2019 after successive record-breaking, with significant growth potential despite growth slowdown, uncertainties and challenges

The tourism industry in Spain and Portugal, after the difficult "double dip" effects of the global financial crisis, has expanded to set successive records (7 years in a row) both in terms of traveller volume, overnight stays and commercial parameters, performing above average as compared to the outstanding growth rates of the industry worldwide despite the challenges it has faced, which have only provided for a slowdown in growth in the more recent years, and still with significant growth potential

The key driver of this expansive growth cycle, consolidated in large part beginning in 2012, has been the strength of the international leisure markets, which has led to the increasing arrival of international visitors, reaching over 110 million in 2019 (almost doubling in Portugal to reach nearly 27 million and increasing over 30% in Spain – which experienced over 40% growth on a combined basis over the last decade – to more than 83.5 million) and higher average expenditure per tourist, with a slight reduction in the average stay.

Consequently, hotel room nights have increased, surpassing 400 million on aggregate (up more than 30% over the last decade), consistent with continually outperforming international market growth (accounting for over 65% of total hotel room nights). The growth trend has been diminishing, however, with 2019 being almost flat as compared to 2018 (a slight adjustment in the Spanish market to 333 million room nights, with Portugal reaching nearly 70 million, 3% growth over 2018).

Evolution of the demand. Travellers and Room nights by origin in Spain and Portugal

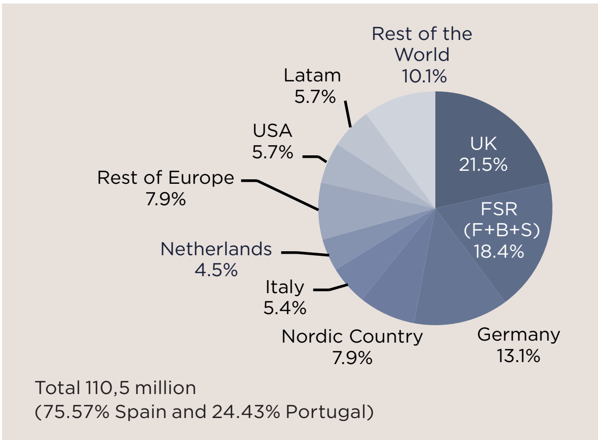


Source: INE España **Source:** Turismo de Portugal

International demand is heavily concentrated in the European Union (and Switzerland), accounting for over 75% of international visitors. While uncertainty over Brexit conditioned forecasts, our main source market the UK; on its part the denominated FSR (France, Belgium and Switzerland) is closing the gap, with a very positive growth trend, as is the German market (these three markets combined account for close to 50% of total international visitors). For its part, despite the relative strength of the LATAM markets, due to the historical ties of both Spain and Portugal and clear potential, long-haul travel is still lagging (comparatively low in major cities as compared to comparable European cities of reference).

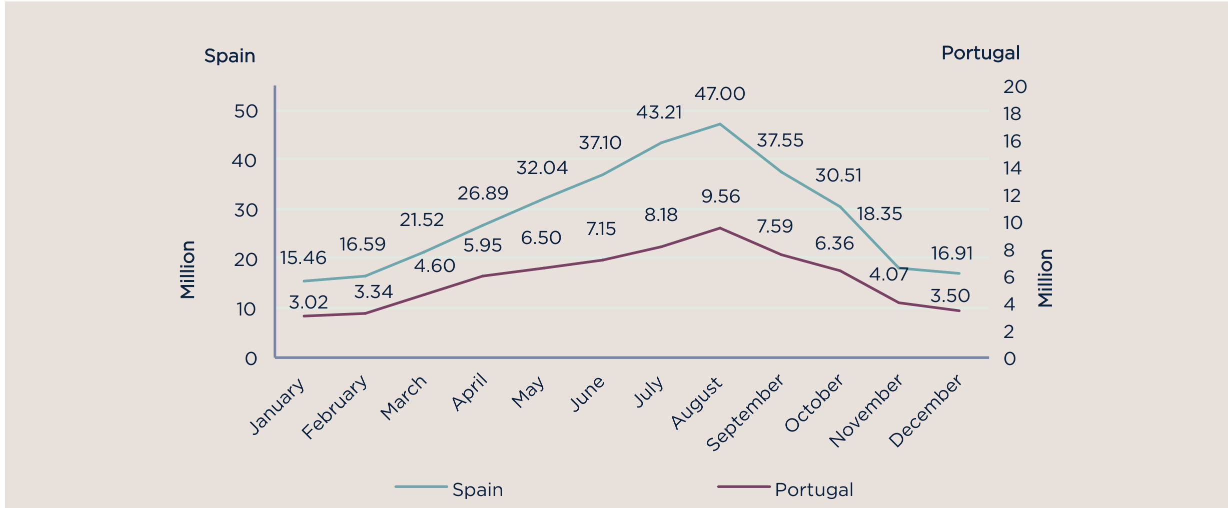
A key challenge of the market pre-COVID was to provide for further growth potential, overcoming the historical seasonality of the market based around sun and beach leisure (concentrating close to 65% of total hotel room nights between April and September). This had slowly been becoming a reality as the industry was evolving in more recent years to upgrade its product and revamp its marketing to reach new markets with alternative motivations.

Iberian Market total visitors 2019



Source: INE España / Turismo de Portugal

Seasonality of the demand. Room nights in 2019



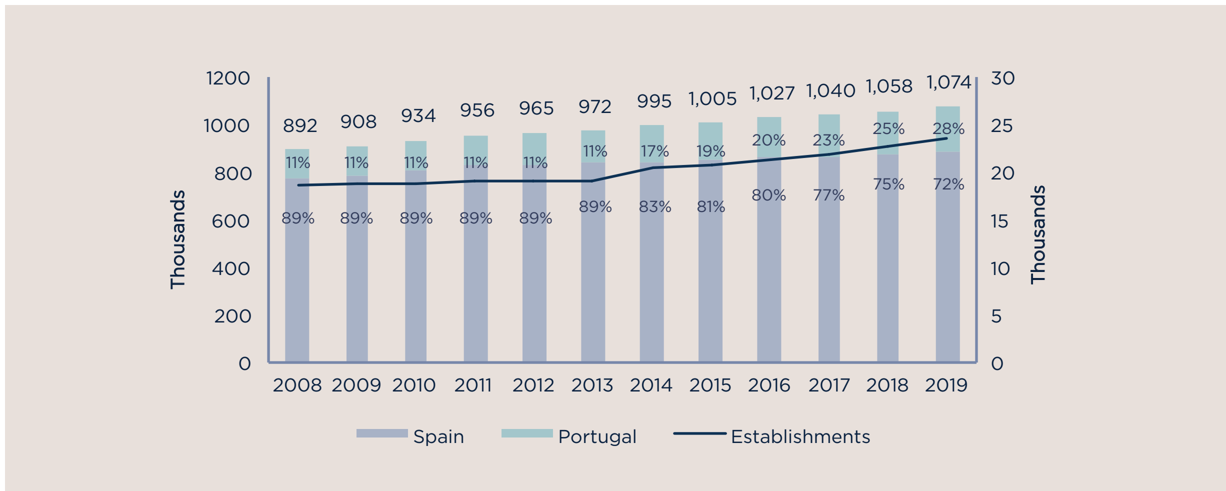
Source: INE España / Turismo de Portugal

Improving hotel offerings with moderate hotel inventory growth and greater focus on refurbishment and repositioning rather than development, in a still highly fragmented property structure with low penetration by international brands

The hotel supply has been relatively stable since 2008, with steady growth but limited to a CAGR of 1.7% (over 4% in Portugal and just over 1.2% in Spain), compared to the close to 3% growth in hotel room nights. This moderate growth has been in part due to the financial restrictions deriving from the global financial crisis (GFC), which delayed development projects, the increasing town planning restrictions and the growing focus on refurbishment rather than development.

The increasing investment in refurbishment has been a growing trend in the past few years as investors have focused on improving existing inventory standards, adapting to demand trends and improving efficiency, and upgrading categories and requirements deriving from the entry of international brands (repositioning).

Evolution of the Supply. Number of rooms in Spain and Portugal



Source: Turismo de Portugal

The traditional family base ownership of the hotels in Iberia results, on top of a fragmented industry structure (with close to 75% independently-held and small operator-owned), in very limited penetration by large operators and brands (the top 60 operators hold less than 35% of total hotel inventory), with an increasing but still timid foreign international brand presence (less than 10% and mainly through corporate acquisitions), providing for outstanding opportunities in terms of repositioning and concentration of the industry.

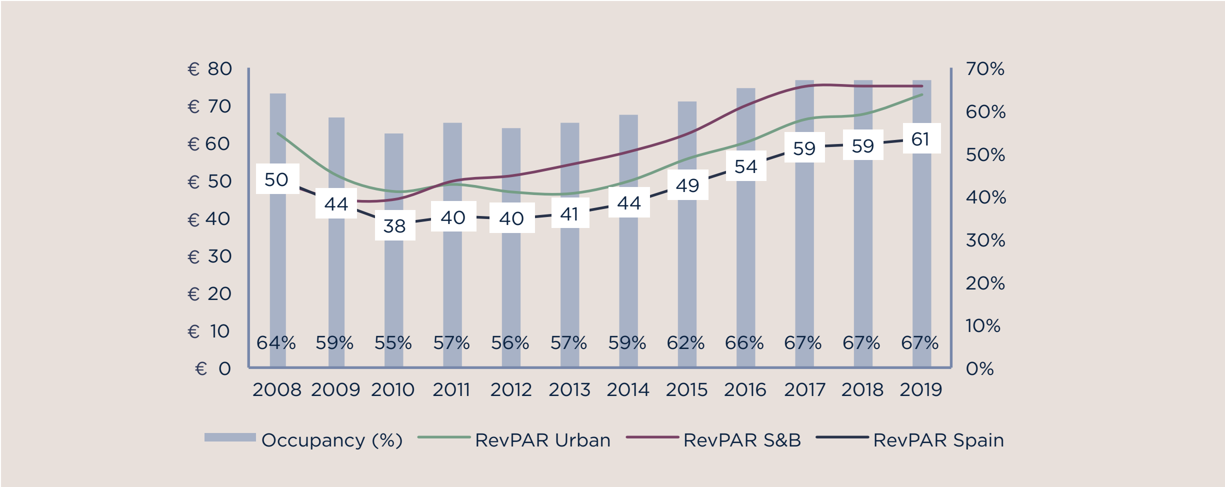
Healthy growth of commercial parameters throughout an expansive decade, with outstanding consistent annual growth rates and overperforming pre-GFC peak levels

The industry's commercial parameters have shown a combination of expanding demand over a stable inventory and a slowly improving product offering. This has provided for a very healthy growth rate (CAGR of close to 5.5% in Spain and 6.5% in Portugal), based on ADR growth (3.0% and 3.9%, respectively) and a similar trend in occupancy (in line at 2.3%), reaching RevPAR growth of 20% over the 2008 peak (pre-GFC). The growth trend began in 2012 and peaked between 2014 and 2017, in line with the expansion of demand (both international and domestic).

In 2019, the Spanish market had a RevPAR of EUR 61.20 on the basis of a still low ADR of EUR 91.00 and a good 67.3% occupancy rate. These parameters were significantly outperformed by both the selected (excluding interior and alternative products) urban (RevPAR of EUR 72.82 with an ADR of EUR 98.80 and 73.7% occupancy) and leisure (RevPAR of EUR 75.10 with an ADR of EUR 96.40 and 77.9% occupancy) segments.

The growth is, in large part, derived from the leisure segment, with a moderate occupancy CAGR of 1.65% over the last decade, but an outstanding 4.2% of ADR growth (outperforming the corresponding 2008 level by almost 38%). The urban segment has provided for an interesting yet more discrete CAGR of ADR of 2.4% (barely reaching 2008 levels) and a much more appreciative 2.5% annual occupancy growth.

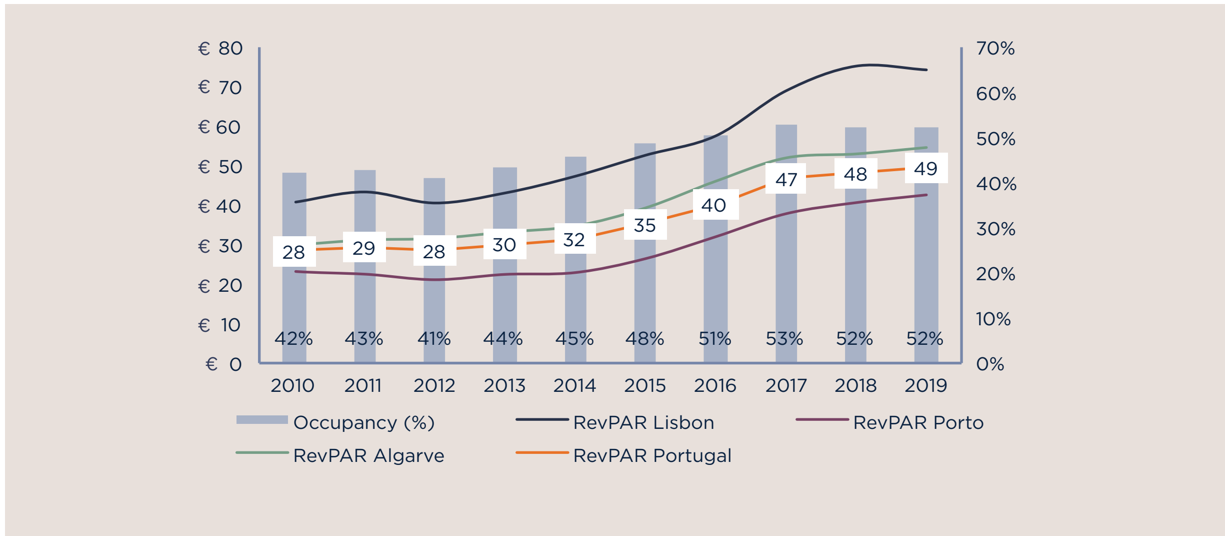
Evolution of the Commercial Parameters in Spain



Source: Exceltur

The Portuguese market reached a RevPAR of EUR 49.47 by 2019 with a meritorious ADR of EUR 94.42 but still a very modest 52.4% occupancy rate. Market growth is mainly derived from its three prime destinations, including Port (RevPAR CAGR of 7.09%), Algarve (6.94%, although still heavily seasonal) and Lisbon (6.89%), which is continuing to consolidate.

Evolution of the Commercial Parameters in Portugal



Source: Turismo de Portugal

The growth curve was slowing down as of 2019, with mild concern for 2020 derived from the much-anticipated potential recession, socio-political occurrences (including Brexit and other events in the political arena) and widening appeal of alternative destinations.

However, the market's potential remained, as the progressive reduction of seasonality and upgrading by repositioning (guest profile), as a consequence of ongoing industry repositioning (products and brands) and the heterogeneity of the many different destinations found within the world's biggest touristic market (everything under the sun).

The world's biggest touristic market with a diverse urban offering for the corporate and leisure traveller

The city or urban segment accounts for almost half of total visitors but only approximately 30% of total hotel room nights and inventory; traditionally powered by the corporate and MICE segments, in recent years the biggest growth has been derived from the leisure segment and the "Bleisure" trends.

Destinations within the Iberian market can be segmented into prime (Barcelona, Madrid and Lisbon), second tier (including Seville, Palma, Valencia, Malaga, Port, Bilbao and San Sebastian), other capitals and regional cities.

Barcelona, despite recent events including the socio-political situation (both in the city and in the region) as well as the 2017 terrorist attack, continues to hold the highest RevPAR at EUR 108.7 in 2019 based on international demand of over 85% and high occupancy rates (81%) and Euro level ADRs (EUR 134.2). Madrid, with a RevPAR level of EUR 80.8 in 2019, has been increasing its growth pace (77.9%) and undergoing a profound repositioning, which is yet to manifest itself in ADR (EUR 103.9) – still very far from its potential (it should be more in line with Barcelona and other comparable European cities). Lisbon has already shown great growth rates, reaching a RevPAR level of EUR 74.3 in 2019 with a strengthening ADR level (EUR 122.9) but still having a discrete occupancy level (60.4%) and also providing for good growth potential.

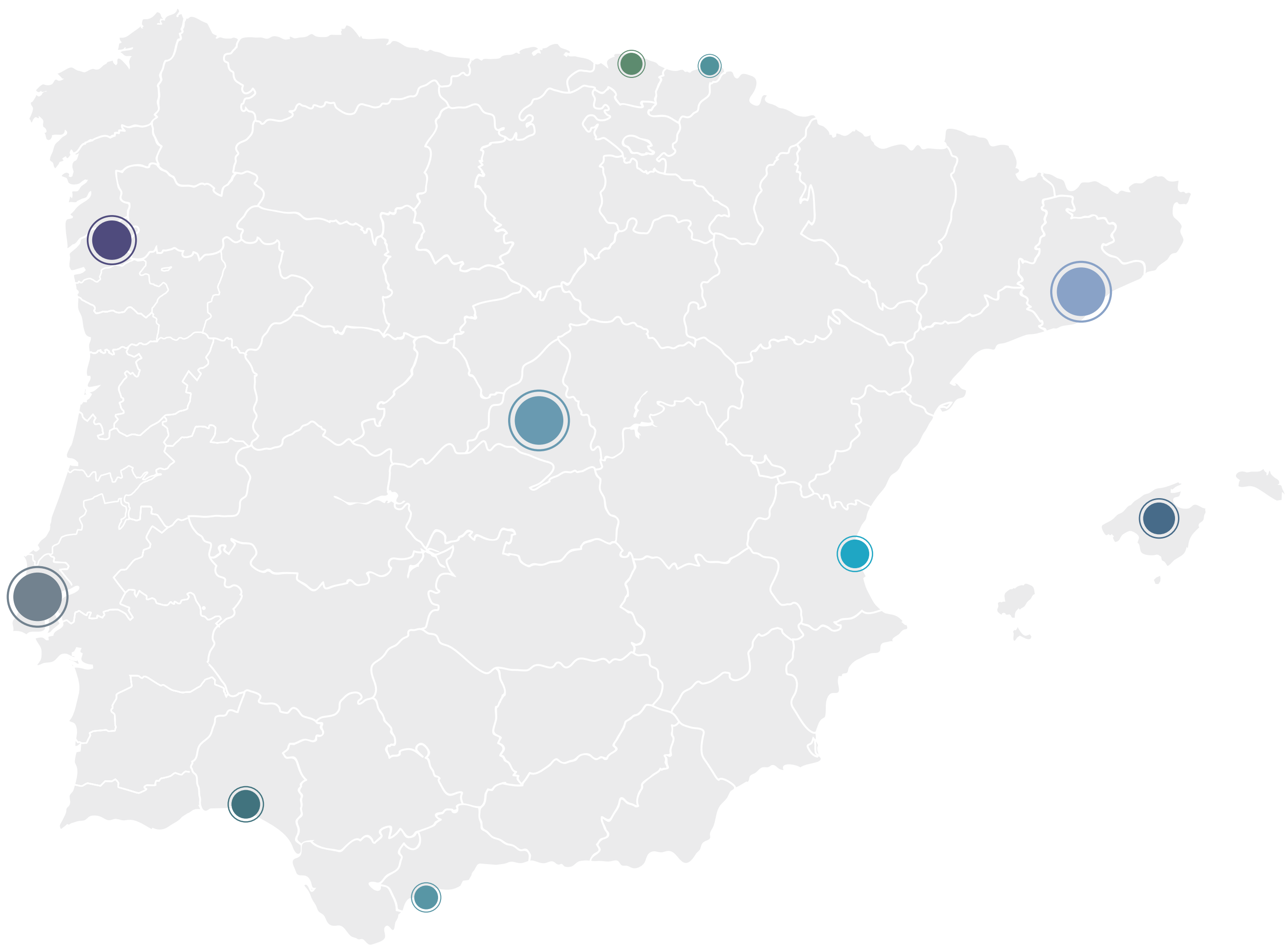
Among the selected second tier destinations, all have overperformed reference market segment RevPAR CAGR, and have improved upon the pre-GFC 2008 peak by close by over 35% (on average). Among them, Malaga and Port have consolidated their positioning significantly, together with Palma and San Sebastian, while Seville, Valencia and Bilbao started to achieve attractive growth levels in the later years of the decade.

The urban segment's growth potential assumes a continuation of the development of key industry trends: repositioning with further segmentation, development of new segments and niche products to capture alternative markets and profiles, adapting to evolving consumer demands focusing on the experience for increasing leisure and new Bleisure and traditional corporate clients, on top of the growing relevance of digitalisation and sustainability.

MADRID	2019	vs 2010	vs 2008
Room Nights	20,676,110	36%	48%
Occupancy Rate	77.90%	21%	16%
ADR	103.7	36%	-10%
Revpar	80.8	46%	4%

BARCELONA	2019	vs 2010	vs 2008
Room Nights	21,332,211	41%	84%
Occupancy Rate	81.00%	17%	12%
ADR	134.2	34%	8%
Revpar	108.702	57%	21%

LISBOA	2019	vs 2008
Room Nights	18,425,019	114%
Occupancy Rate	60.43%	1%
ADR	122.90	81%
Revpar	74.3	82%



The World's biggest touristic market

PORTO	2019	vs 2008
Room Nights	10,720,425	142%
Occupancy Rate	52.4%	9%
ADR	81.29	71%
Revpar	42.6	85%

SEVILLA	2019	vs 2010	vs 2008
Room Nights	5,840,969	75%	82%
Occupancy Rate	79.10%	42%	28%
ADR	96.8	24%	10%
Revpar	76.5688	75%	40%

VALENCIA	2019	vs 2010	vs 2008
Room Nights	4,345,817	34%	34%
Occupancy Rate	77.30%	32%	30%
ADR	87.7	25%	-2%
Revpar	67.7921	65%	28%

MÁLAGA	2019	vs 2010	vs 2008
Room Nights	2,785,302	75%	100%
Occupancy Rate	78.70%	38%	23%
ADR	99.2	40%	15%
Revpar	78.0704	93%	41%

BILBAO	2019	vs 2010	vs 2008
Room Nights	1,886,187	55%	78%
Occupancy Rate	75.00%	18%	18%
ADR	97.8	32%	-1%
Revpar	73.35	57%	17%

SAN SEBASTIAN	2019	vs 2010	vs 2008
Room Nights	1,421,668	44%	64%
Occupancy Rate	72.50%	10%	13%
ADR	140.6	48%	16%
Revpar	101.9	63%	32%

PALMA DE MALLORCA	2019	vs 2010	vs 2008
Room Nights	8,979,437	23%	15%
Occupancy Rate	77.90%	na	11%
ADR	110	na	55%
Revpar	85.69	na	72%

The world's biggest touristic market with a unique universe of coastal destinations on three seas for all client profiles

The Iberian hotel market has historically thrived based on the attractiveness of its weather and coasts, as a sun and beach destination, with about 70% of its total hotel inventory concentrated in coastal destinations.

The coastal destinations have been the driver for industry and growth and development in the last decade, still holding great potential for future growth based on the ongoing transformation and evolution which have been the basis for its ADR-based growth.

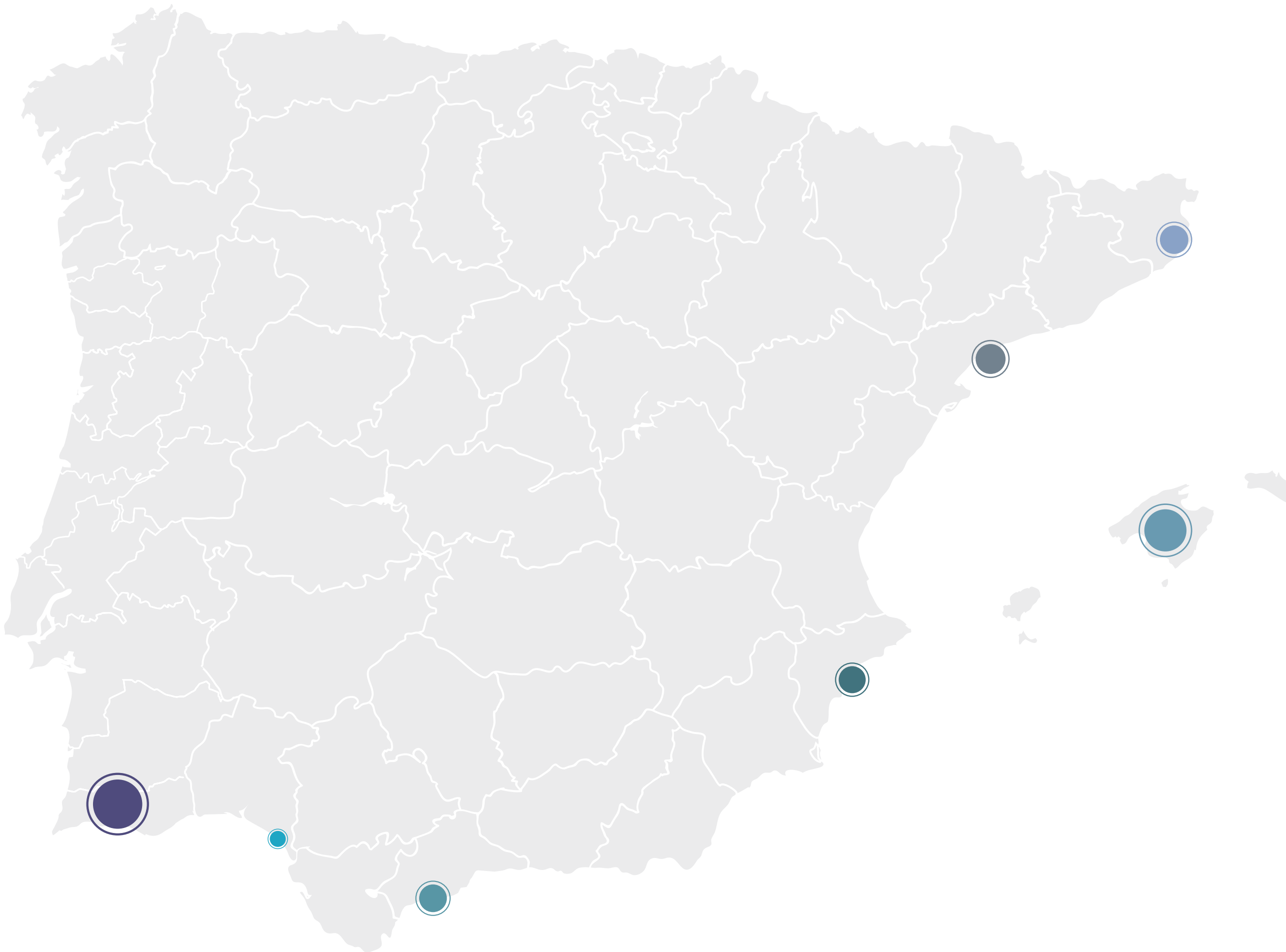
Its diversity provides for attractive submarkets for almost any guest profile, from the islands (Balearic Islands and Canary Islands) to the Mediterranean Coast (Costa Brava, Dourada, Blanca and Sol), as well as the Atlantic options (Costa de la Luz, Algarve and Green Spain).

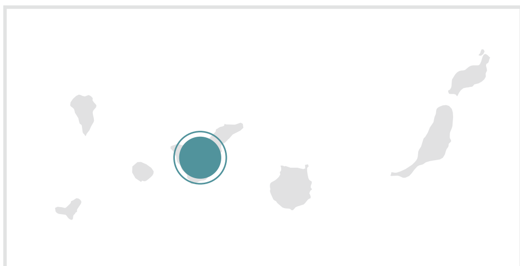
The greatest RevPAR growth has been achieved in the Balearic Islands (in particular, having nearly doubled its RevPAR level over the past decade based on outstanding annual ADR growth of over 6%), the Canary Islands (very much in line with ADR growth but stagnant in terms of occupancy), Costa del Sol (with balanced occupancy and ADR growth) and Algarve (relying more on occupancy growth).

Within the submarkets, certain specific destinations have evolved into prime destinations, based on strengthened demand, particularly of an international nature, and special destination positioning, becoming comparable to prime city destinations.

Among these jewels in the market, Marbella, Mallorca and Ibiza stand out as the upscale destinations, while southern Tenerife, Gran Canaria and Benidorm are the locations of reference among the mass tourism destinations.

At the end of last year, the outlook for the coastal segment was very much conditioned on the final outcome of Brexit and the development of alternative markets, with the added challenge of reducing seasonality and increasing expanding profiles to allow for additional growth in occupancy and ADR. Key strategies were based on smart spending in repositioning, including rebranding, product proposals, optimisation and sustainability.





COSTA BRAVA	2019	vs 2010	vs 2008
Room Nights	11,753,177	15%	8%
Occupancy Rate	64.30%	16%	
ADR	77.4	31%	
Revpar	49.7682	52%	

ISLAS BALEARES	2019	vs 2010	vs 2008
Room Nights	58,273,379	20%	17%
Occupancy Rate	78.67%	13%	
ADR	112.73	73%	
Revpar	101.7864	104%	

COSTA DORADA	2019	vs 2010	vs 2008
Room Nights	9,760,369	9%	12%
Occupancy Rate	67.90%	16%	
ADR	84.2	34%	
Revpar	57.1718	55%	

COSTA BLANCA	2019	vs 2010	vs 2008
Room Nights	17,330,805	22%	59%
Occupancy Rate	73.00%	20%	
ADR	76.2	30%	
Revpar	55.626	56%	

ALGARVE	2019	vs 2008
Room Nights	20,953,422	58%
Occupancy Rate	49.6%	22.5%
ADR	110.09	49.3%
Revpar	54.6	83%

COSTA DEL SOL	2019	vs 2010	vs 2008
Room Nights	19,144,545	33%	16%
Occupancy Rate	75.50%	30%	
ADR	98.7	27%	
Revpar	74.5185	65%	

ISLAS CANARIAS	2019	vs 2010	vs 2008
Room Nights	66,064,426	32%	34%
Occupancy Rate	80.35%	16%	
ADR	97.4	38%	
Revpar	78.35	61%	

COSTA DE LA LUZ	2019	vs 2010	vs 2008
Room Nights	3,872,373	11%	18%
Occupancy Rate	64,15%	21%	
ADR	95.5	18%	
Revpar	61.22635	42%	

An unprecedented shock ending the expansion cycle with effects yet to be seen

Lockdowns, travel restrictions and consumer concerns are rendering the worst expectations for 2020 a reality, with a drop in the travel industry almost seven times greater than that occurring post-GFC

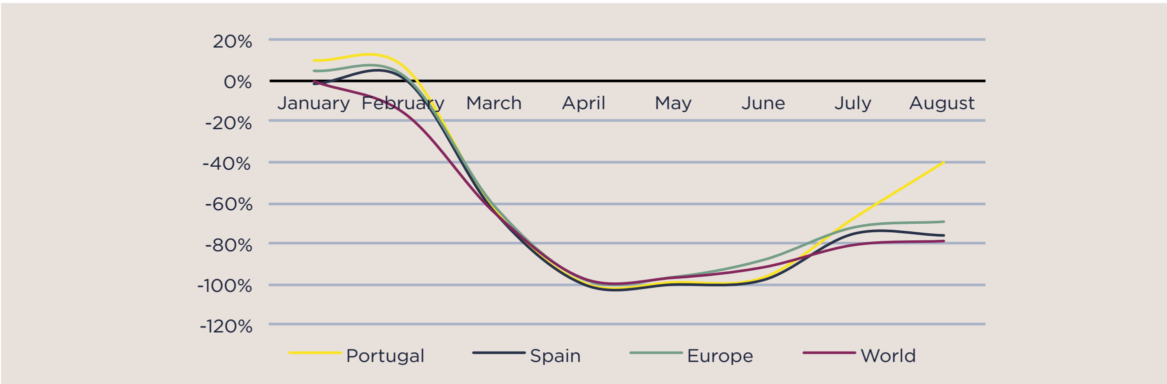
The direct effects of the COVID outbreak, as in many other industries, have been especially dramatic for the tourism industry as a consequence of lockdowns, travel restrictions and consumer safety concerns.

According to the UNWTO, international travel has fallen by 70% as of August 2020 as compared to 2019, consisting of a drop of 700 million arrivals and an estimated loss of US$ 730 BN in export revenues from international tourism.

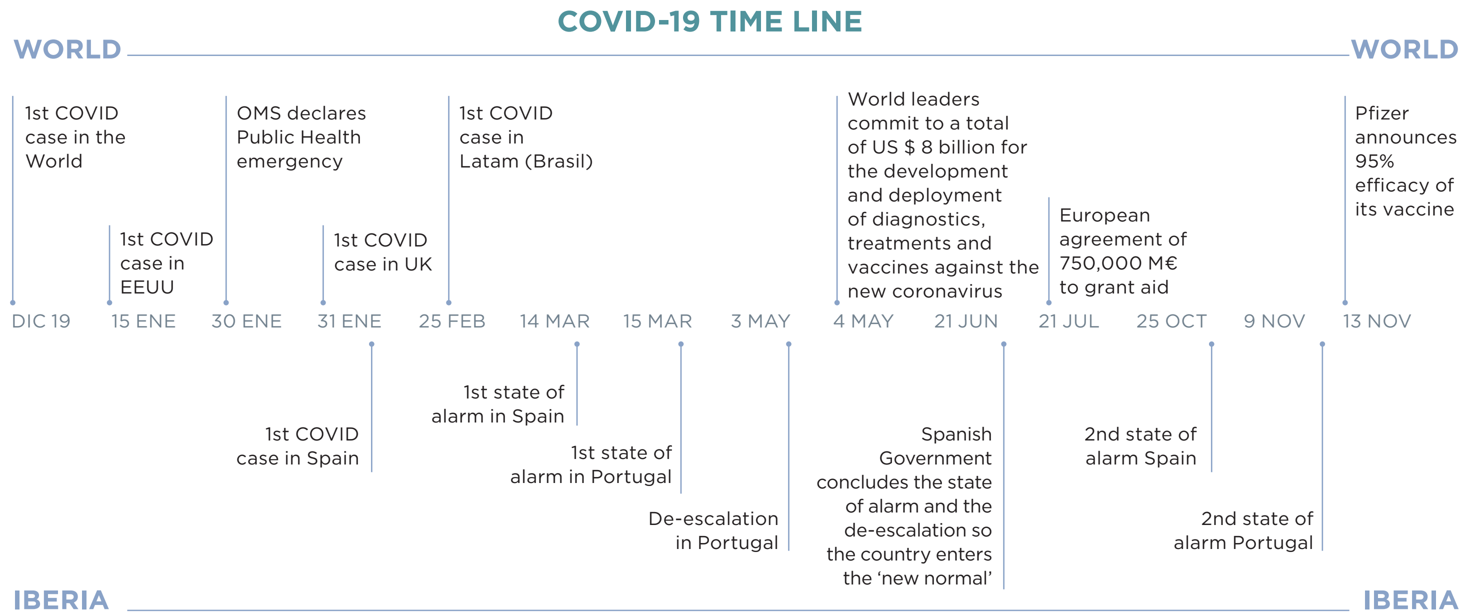
The impact of COVID, after an unstable and already affected first quarter of 2020, deriving from Asian markets, peaked during the second quarter with an unprecedented global closure in which hotel room night numbers were down by over 95% as compared to 2019 across almost all markets, including Europe and of course Iberia (flights in Europe fell from an average of 2,900 daily in January and February to 230 in April and rebounded to 948 in June with the de-escalation of restrictions, only to fall again as restrictions were re-imposed).

The third quarter showed some signs of recovery with the relaxation of lockdown measures, which were shattered in late July and August with the implementation of quarantines and related requirements. Early autumn brought a second wave which, although it has not yet proven to be as severe as the first, is leading to a second dip owing to general travel restrictions and selective lockdowns. The year-end outlook thus provides for a dramatic and unprecedented fall in line with the worst forecasts, and the Iberian market has been no exception.

International Travellers Fall



Source: UNWTO



Evolution of Covid-19 and the Economy

The Iberian hotel market as a whole is by far the biggest worldwide travel destination with over 110 million international visitors (ahead of France's just over 89 million) in 2019, but more importantly tourism directly accounts for well over 10% of Iberian GDP and employment.

Spain was one of the hot spots in Europe during the first wave of the virus in Europe, suffering a dramatic loss of human life especially among the senior, most vulnerable segment of the population, while Portugal was able to anticipate lockdowns before the virus spread. In any case, both countries, highly dependent on the international leisure markets, have experienced a very significant blow to their touristic activity, with a similarly significant impact on their economies.

These effects have had a never-before seen impact on the Iberian economy, which has fallen much more than the EU average and is surviving on subsidised personnel and financial programs and administrative and financial moratoriums deployed by the countries' respective governments.

Focus Economics Noviembre 2020	Euro Area	Spain	Portugal
GDP (% Oct. 2020)	-7.47%	-12.84%	-10.34%
CPI	-0.03%	-0.63%	-0.37%
GDP per capita vs 2019 (forecast)	-6.68%	-11.37%	-6.57%
Unemployment rate	8.36%	17.57%	7.90%
Tourism (% GDP) *2018	3.90%	12.30%	19%
Tourism (% Employment) *2018	5.10%	12.70%	21.80%

Source: Focus Economics / World Travel & Tourism Council

Year-end projections follow the same pattern, although it is expected that selective lockdowns and restrictions will provide for better control of the virus during this second wave and allow for de-escalation of restrictive measures in time for the holiday season.

In 2021, there is a potential risk of a third wave at the end of the winter season, which will hopefully be final and milder in nature, with better management and further improved treatment, so the outlook for the first half of the year remains tempered until a definitive treatment or vaccine is readily available.

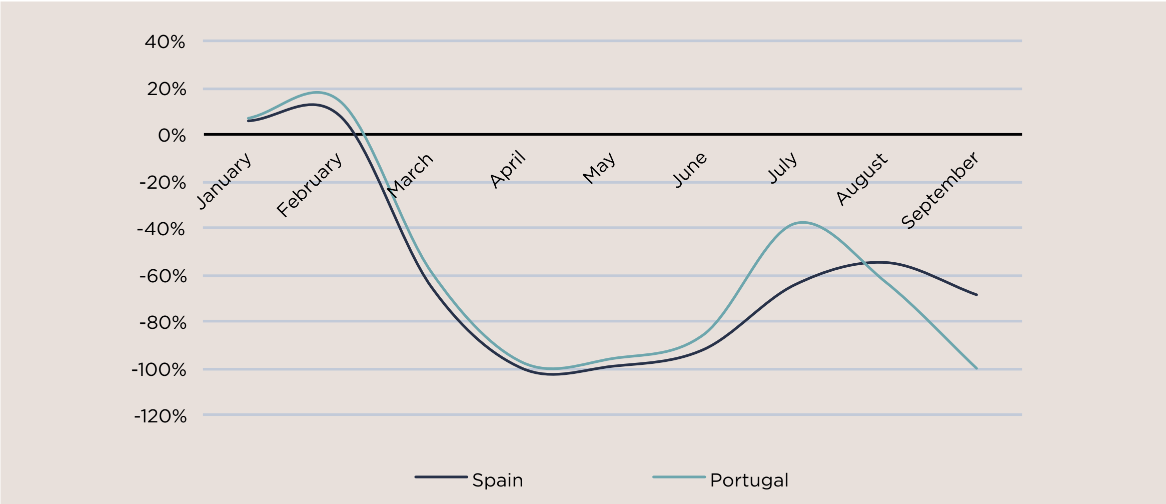
Seasonality and dependence on international markets have resulted in an even deeper impact on the Iberian tourism industry

While demand during the first two months prior to the outbreak of COVID-19 in Europe was stable (hotel room nights in line with 2019), Spain registered a devastating drop of 65.8% in the number of travellers and 71.0% in the number of hotel room nights accumulated to September with respect to 2019. This drop was close to 98% in Q2 and just over 75% in Q3, with international demand naturally suffering more (-79.4% international vs -55.2% domestic), especially following the imposition of non-anticipated restrictions by the UK, Germany and other countries, which shattered any hopes of salvaging the summer season.

The dramatic drop in demand has delayed the reopening of hotels after the lockdown with hotel inventory down to half of its capacity (vs. the same period in 2019). Despite the reduced inventory, hotels in Spain recorded a 50% decline in RevPAR, mainly driven by drops in occupancy levels but also in ADRs, which have dropped close to 25% on average.

Portugal implemented the lockdown before the virus had fully spread but followed the same trend, with drops in hotel room nights of over 95% in Q2. Business improved during the summer season (Q3), due mainly to the amazing pick-up in touristic activity in the Algarve in August, where most of the European demand, especially British, was concentrated, and was running at close to full capacity until the imposition of restrictions.

Roomnights fall 2020 vs 2019



Source: INE España/Turismo de Portugal

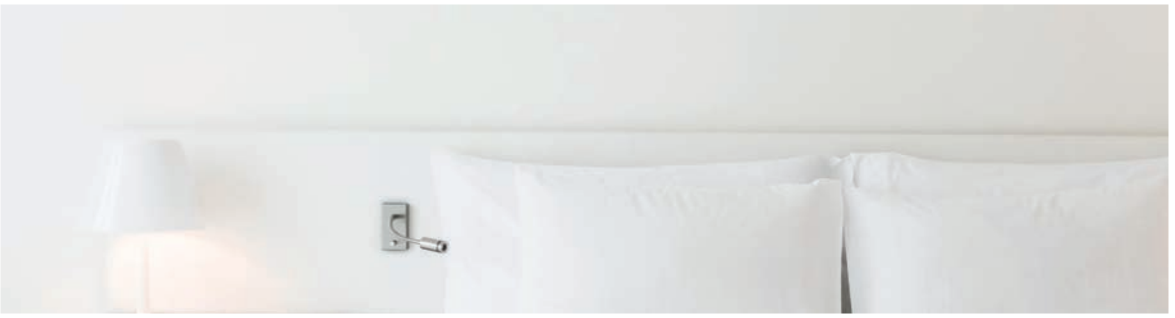
The overall effect on Iberia has been even more significant considering the natural seasonality of a market heavily concentrated around the sun and beach summer season and its dependence on international markets (over 65% of total hotel room nights in 2019 and even more during the summer season).

The unprecedented fall in demand is seven times more severe than that of the GFC and shockingly quick (compare a drop of 25% during the GFC over 2+ years with a drop of 50% with inventory levels at 50% over 3 months in 2020), and has outpaced the worst projections ever anticipated.

The industry has since found itself in a paralysed state, supported by the governmental assistance measures that have been deployed (including subsidies of personnel expenses, moratoriums and subsidised financing) and the financial health of the property structure that consolidated during the prior cycle.

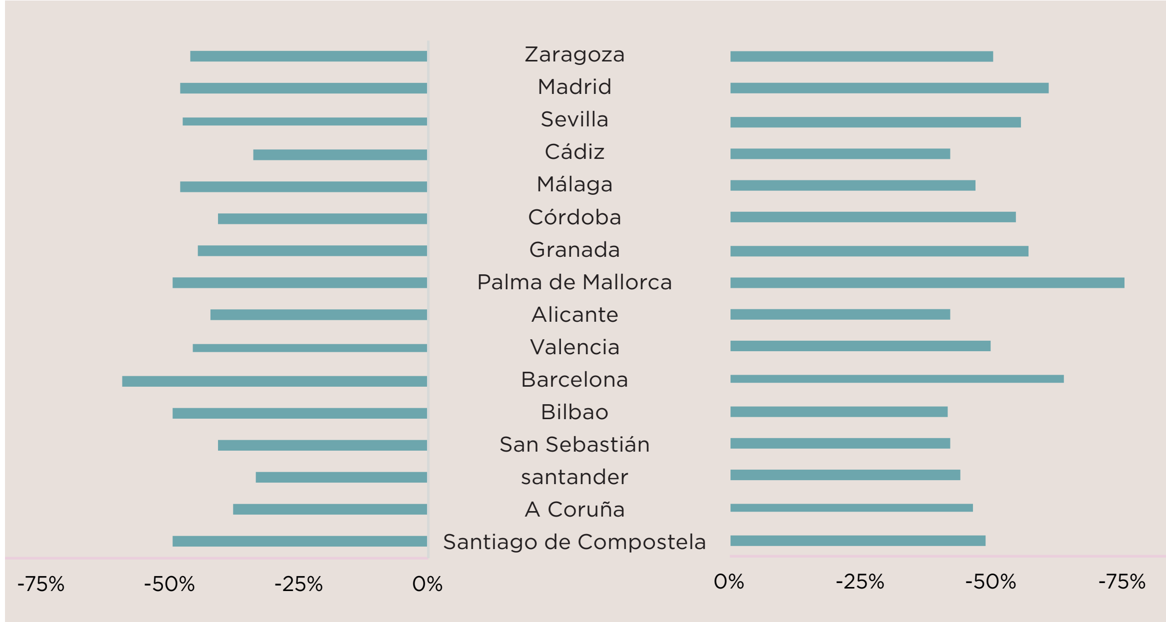
A key element to be considered in the near- and medium-term for the industry, together with visibility as to a medical solution to the pandemic, above all, is the ongoing provision of government-implemented measures and the management of the European aid package in order to reactivate the dormant and impacted economy, and particularly the hotel industry, by allowing for the necessary liquidity in the financial system to permit working capital financing to be available at assumable costs.

The trend is set to continue through the fourth quarter to round out the worst year in Iberia as it relates to tourism with an unprecedented drop of over 70% in hotel room nights as compared to 2019, and further into 2021, until there is clearer visibility as to a medical solution to the virus.



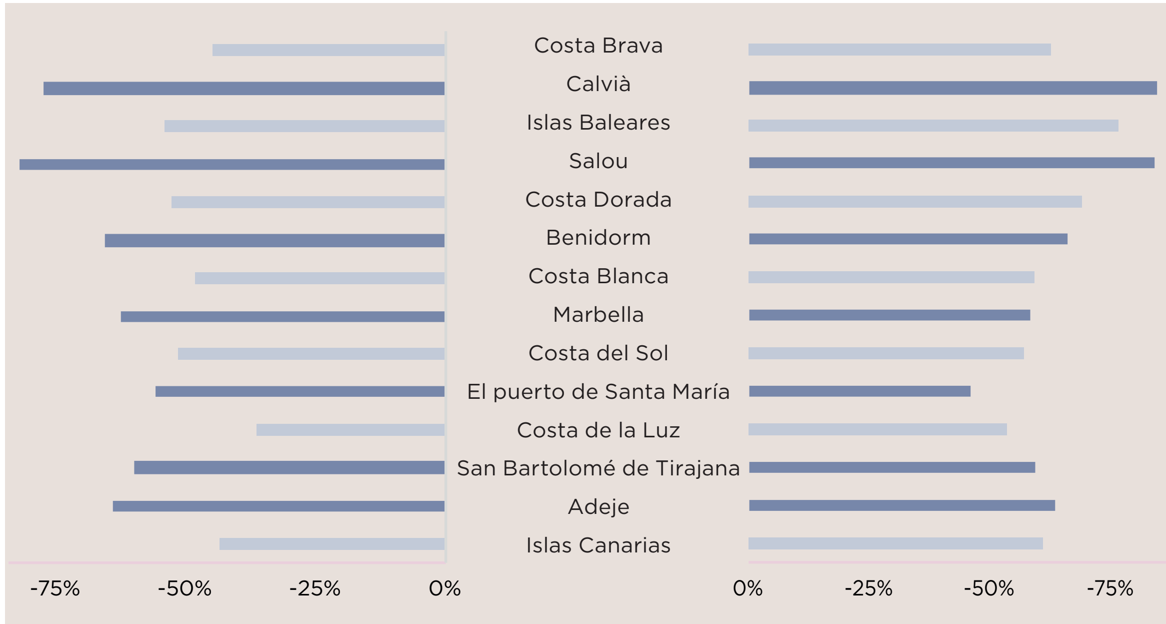
An Unprecedent Shock

Occupational Rates Fall **In urban destinations vs 2019** **Inventory Reduction**



Source: INE España

Occupational Rates Fall **In S&B destinations vs 2019** **Inventory Reduction**



Source: INE España

Certain recovery beginning to take shape

The dramatic effects of the COVID-19 outbreak on the industry, despite being unique, unprecedented and severe, are of a one-time nature and are not structural, allowing for a positive outlook on recovery

The aftermath of COVID-19 will certainly bring new challenges and potentially changes to the industry, but a change of paradigm is not expected as could be the case in other industries or even in certain real estate segments.

In addition to the industry's unique natural resilience, demonstrated in the wake of the GFC and already beginning to take shape judging by indicators in Asian markets, supported by the globalisation of the right to vacation, accessibility to growing population segments worldwide and the corporate need to travel, the industry's recovery is not in doubt. Furthermore, it is anticipated that the industry will also pick up on pre-existing trends, reinforced by certain additional features and values derived from the current situation.

The market still assumes a difficult 2021, until medical advances arrive at a definitive remedy to control the virus, hopefully within Q1 of 2021, in order to allow for the recovery to begin and take hold before the summer season. Operating under this premise, while some optimistic views foresee a strong rebound of demand once restrictions are lifted and perceptions of personal safety regained, experts remain moderately cautious and expect a good level of occupancy but anticipate significant pressure on prices derived from a last-minute, cash flow-driven market and the aftermath of COVID-19's economic effects.

As to the pace of the industry's recovery post-COVID-19, it will be important to take account the availability of liquidity in the financial system, governmental incentives and the deployment and management of the European aid package, the recovery of complementary touristic players (particularly carriers and distributors in general) and potential changes in consumer habits and corporate polices, as well as the ultimate outcome of other coexisting challenges such as Brexit and positioning of alternative destinations.

The base scenario, however, provides for a general consensus anticipating that the industry's upturn will take hold in 2022 and reach pre-COVID levels (on average, between 2016 and 2019) by late 2023/2024, maintaining its position as the world's leading destination and touristic save haven .

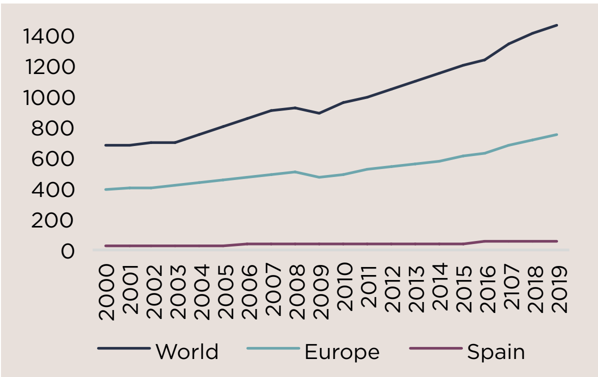
The recovery is expected to be led by the leisure segment, driven principally by international markets, with short- and mid-haul as the key drivers, while corporate travel and long-haul will take longer, with MICE lagging until corporate policies are relaxed (travel and expense restrictions).

Proven Resilience, Strong Industry

Tourism has shown unbeatable strength marked by continuous growth, consistently outperforming economic growth as it comes to be increasingly viewed as a personal right, provides greater stimulus and continues to adapt to the needs and motivations of the customer. But more importantly, the industry has shown a unique capacity to overcome unprecedented shocks including terrorism, financial crises and, yes, epidemics, providing for the best empirical proof of the meaning of resilience.

Over the last 20 years, despite the effects of 9/11, the terrorist attacks in all major European cities, regional conflicts, social unrest in the Balkans and certain key markets, and the successive global viruses, the only relevant drop is due to the effects of the GFC, which effectively led to a 4% drop globally, just over 5% in Europe and 10.5% in Iberia.

International Tourists Evolution



Source: INE España y UNWTO

Certain recovery beginning to take shape

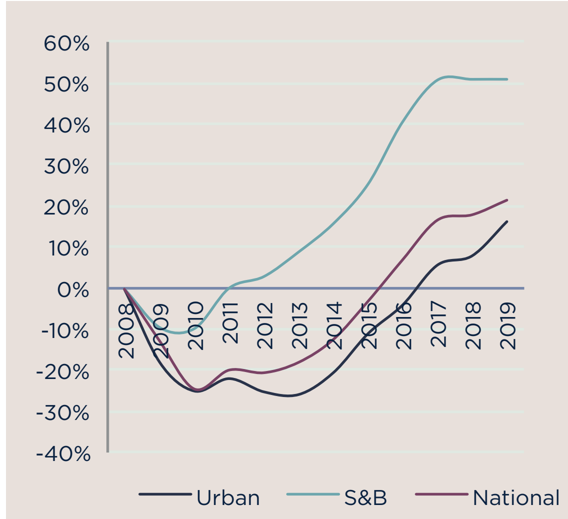
In Iberia, the effect of the crisis was deeper given its dependency on international markets and deep impact on the domestic economy, which also impacted the industry's recovery, also led by international leisure markets.

The overall recovery of the market as measured by the RevPAR to pre-GFC levels took over 7 years; however, the "double dip" effect must be taken into account (the market bottomed out after year 3, providing for a 4-year recovery period).

City destinations lagged behind as a segment, with a drop in RevPAR of more than 25% extended over a five-year period (double dip), conditioned by smaller destinations, non-competitive asset categories and the harsh effects of the crisis on the Iberian economy, but also by a transformation of the industry which is currently underway and has not yet been completed.

On the other hand, coastal destinations enjoyed a very fast recovery, driven by the international leisure market. RevPAR dropped by 10% for less than three years and even avoiding the double dip effect, outperforming pre-crisis levels in less than 4 years, despite the weight of purely domestic destinations, which hindered the segment's recovery.

Resilience to previous crisis of the Spanish Hotel Market



Source: Exceltur

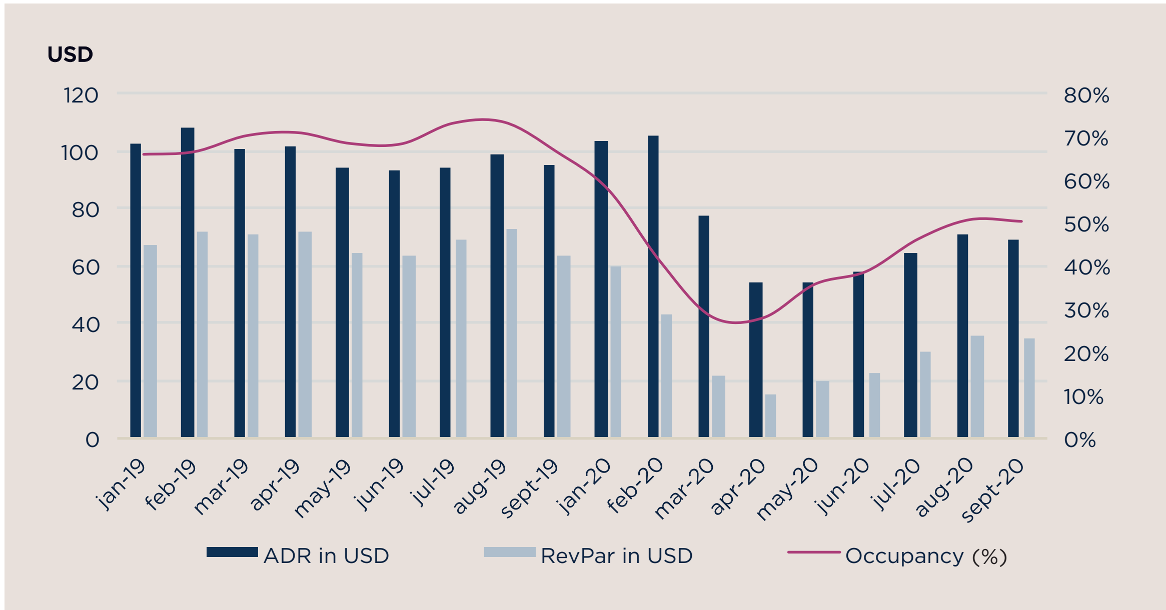
Improving Good Signs from Asia

Commercial parameters and investment activity are picking up in Asia, supported by domestic markets given the international travel lockdown.

Asia and the Pacific, the first region to suffer the impacts of COVID-19, recorded a 35% decline in arrivals during the first quarter of 2020, but is also showing signs of recovery as of Q3 2020 as domestic travel restrictions have been lifted (although international restrictions are still in place).

Performance as of September still shows weak occupancy and ADR, mainly due to the absent international market, but more importantly shows occupancy levels surpassing the 50% marker and ADRs slowly picking up. The potential lifting of international travel restrictions will certainly boost the market.

Operative Parametres Asia and Pacific



Source: Savills APAC

Investor sentiment is also starting to recover in the region, with 80% of the activity concentrated in Taiwan, Singapore and South Korea, although there is still a noticeable gap in pricing expectations between buyers and sellers and financing liquidity is very low.

New market, old trends reinforced and new challenges

Considering the exceptional, exogenous nature of the current situation, as the industry recovers, it is expected that pre-COVID-19 trends will pick back up, potentially reinforced and possessing additional attributes and requirements derived from the aftermath of the health crisis.

Demand-Driven Market

The perception is that a renewed acceleration of ultimate client-driven requirements will take place as disintermediation continues to grow in which hotels will need to offer a differential experience within the destination, with wider motivational alternatives and services and social interaction, now enriched with further product and service flexibility; environmental and social sustainability, now enhanced with further safety and security needs; and, of course, even more, technology and digitalisation to provide for further teleworking capacities.

Differential Experience + **Further Flexibility**

Social & Enviromental Sustainability + **Safety & Security**

Digitalization & technology + **Teleworking capacities**

All of this leads to new product proposals which will likely benefit the upper-level categories that are able to provide differential features, guaranteed delivery and alternative products (such as serviced apartments) that can deliver on new consumer values including, in addition to the experience, safety, security, sustainability and further flexibility.

New market, old trends reinforced

An Evolving Operating Model

During the past decade, the traditionally independent operating model has been progressively evolving as the demand-driven market has required product and operational adjustments.

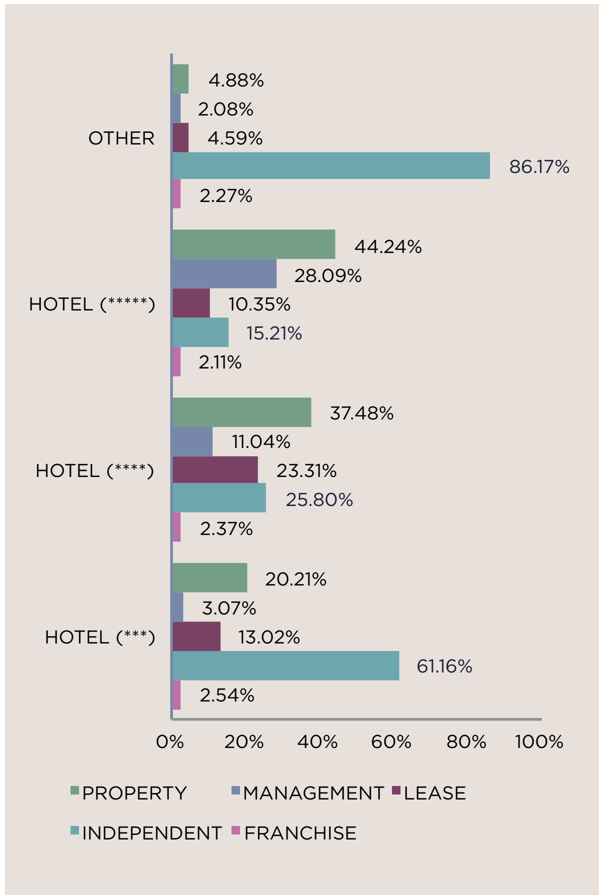
As such, the capital and technological requirements for the digitalisation and optimisation of marketing and operations, together with an ever-global market, a further competitive operating environment and a more sophisticated corporate arena, have pressed for growing integration in operating groups and penetration by bigger brands.

This trend might be further reinforced by the guaranteed value of brands, especially now with safety and security protocols in place, but more generally in line with the required consumer values.

Concurrently, the trend will lead to a progressive reduction of fixed lease contract structures and a migration to variable lease contracts, management and franchises, with the continuous development of generic (white) brand operators, although it will entail some uncertainty considering its weak corporate structure.

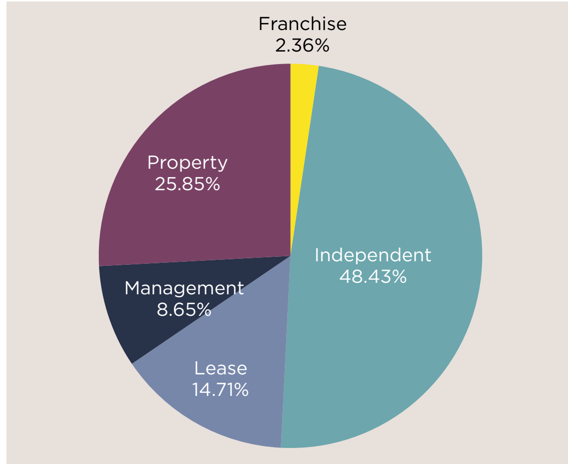
This has on the one hand led to distancing of owners in terms of management, but has also increased the involvement of financial investors in business risks, requiring a new approach at the levels of hotel ownership and corporate management.

Property Contract by Category



Source: Alimarket

Property Contract by Category



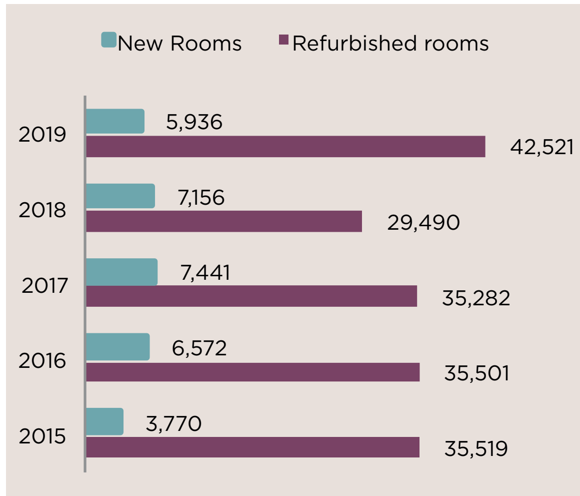
Source: Alimarket

Refurbishment Versus Development

Development will be further conditioned by the expected limitations on financing in the market and the required recovery period (as well as by business considerations and town planning restrictions), fostering even more investment in refurbishing and repositioning, a clear pre-COVID-19 trend already.

During the 2015-2019 period, the number of rooms refurbished was almost 6 times the number of new rooms developed. Investments focused on value-add refurbishing and repositioning of significantly tired and outdated hotel offerings from a commercial and operating point of view.

New vs Refurbished inventory in Spain



Source: Alimarket

The new industry requirements at all levels, including product proposals, digitalisation and sustainability, reinforced by new demand requirements and the evolving operating model, will require additional focus on capital investments and management to optimise asset value.

Consolidated and maturing investment market on standby to rebound

Specific opportunities without general distress, with a potentially limited window of opportunity as the industry continues to concentrate, always subject to financing liquidity uncertainty.

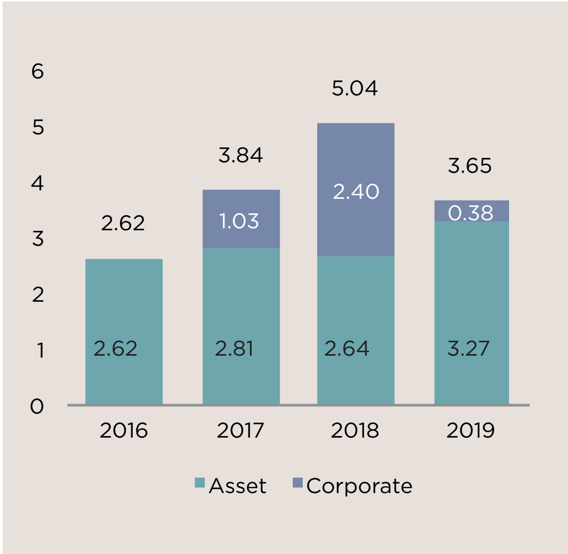
During the expansion period, Spain and Portugal consolidated their position as a hotel investment market with high liquidity, reaching an average investment volume of over €2.5MM per year of asset-based transactions and over €3.5MM per year including corporate transactions.

The institutional investor has been the driver behind the rise in this investment trend, accounting for close to 70% of investments made in recent years, which is consistent with the consolidation of hotels as an asset class within the European real estate market and particularly their entry into the resort segment.

The attraction to the Iberian industry in general and to the resort segment in particular is based on its resilience, growth and profitability value-add opportunities. Value-add opportunities derive from a very fragmented property structure (mainly in the hands of independent owners and small and medium-sized hotel groups), with outdated inventory in need of repositioning and low levels of penetration by international brands.

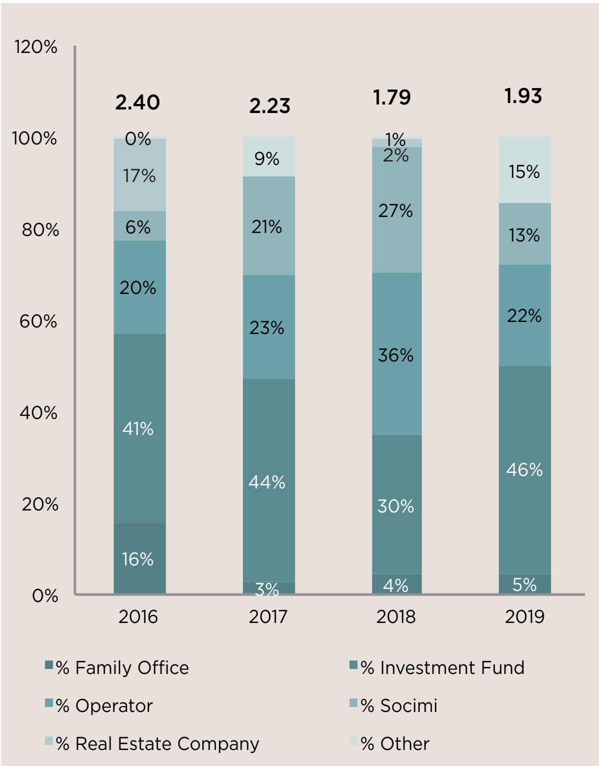
The core investor profile, traditionally focused on the prime city destinations, has also started to expand to second-tier city destinations and prime international resorts, with comprising yields arbitrage in a market that is consolidated but still has considerable growth potential.

Annual Direct Investment



Source: Savills Research

Investor Typology (Asset Deal)



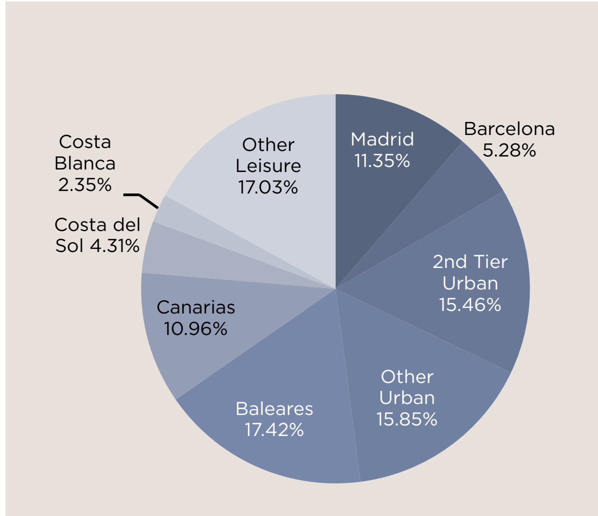
Source: Savills Research

A direct effect of the COVID-19 outbreak has also been the collapse of the market for transactions, as it has temporarily frozen the movement of capital, both equity and debt, limiting transactions to pre COVID-19 agreements, rescue capital and very few opportunistic investments.

Overall, the year-end investment level will barely surpass EUR 1.0 billion (subject to any unanticipated year-end corporate transactions), but this figure is not indicative or significant as it is heavily conditioned by Q1 transactions (50% of total expected volume for the year, including the Edition turnkey sale and the Elaia portfolio) and deferments from 2019 (close to 70% of transaction volume, including most Q1 transactions, a portfolio deal in Canaries and a mixed-use complex sale in Barcelona). Only a handful of transactions could be considered to reflect COVID's impact (Beverly Park auction, Stoneweg portfolio, Sercotel corporate deal) but there are too few of them to permit conclusions to be drawn or trends to be identified.

Market apathy will disappear, however, as soon as visibility as to the medical solution to COVID-19 is obtained. A key differential element as it relates to industry investment outlook is, together with the non-structural nature of the current crisis, the consolidation of hotel and resort investment as an asset class investment in Europe. In fact, there is a significant volume of equity focus in the industry, institutional and private, ready to capitalise on opportunities on the part of both value-add investors searching for distressed deals and more core investors focused on what have up until now been scarce prime assets and destinations available at an adequate price (or at a discount).

Number of Transactions by Region (2016 - 2019)



Source: Savills Research

While there will be opportunities in the market, the strengthened pre-COVID-19 capital structure of many operators and owners, together with the support of aid packages to be implemented (and monetary policy) and the industry's resilience, along with equity available from investors, will prevent a generally distressed market and may limit the window of opportunity that many expect to see.

Additional factors conditioning the transaction market will be derived from liquidity in the senior financing market, which could jeopardize the attractive low interest rate environment in the medium-term to favour real estate investment in general.

Finally, as industry trends also require, the financial constraints imposed on mid-size operators will potentially result in further concentration of the industry through corporate transactions.

The key to success in order to capitalise on this window of opportunity will be to embrace the investment momentum to benefit from favourable discounts but also to focus on value and fundamentals, rather than opportunistic pricing which might never manifest or which could lead to underperforming destinations and assets in the long term.

TEAM

George Nicholas
Head of Global Hotels

Jaime Pascual
CEO Savills Aguirre Newman

Paulo Silva
Head of Portugal

Juan Garnica
Head
Hotels Southern Europe

Jorge Rosillo
Director Business Development
Hotels Southern Europe

María Uriarte
Consultant
Hotels Southern Europe

Javier Oroz
Director Transactions
Hotels Southern Europe

Sandra López
Director of Valuations
Hotels Southern Europe

Emma Gomez
Director Hospitality Servicing
Hotels Southern Europe

Alberto Henriques
Associate Capital Markets
Portugal

Andrea García
Senior Consultant Valuations
Hotels Southern Europe

Jorge Clemente
Senior Consultant Hospitality
Hotels Southern Europe

Gabriela Martialay
Senior Consultant Transactions
Hotels Southern Europe

Marta Antón
Senior Consultant Transactions
Hotels Southern Europe

Sonia López Doriga
Consultant Transactions
Hotels Spain

Ramón Machín
Consultant
Hotels Southern Europe

Agustín Marañón
Consultant
Hotels Southern Europe

Jacobo Herrero
Consultant
Hotels Southern Europe

Oliva Aguirre
Analyst
Hotels Southern Europe

Paz de la Puente
Analyst
Hotels Southern Europe

Carmen de la Sierra
Analyst
Hotels Southern Europe