



Barcelona, Spain – Market Snapshot

This is the second in a series of articles that HVS will be producing on the hotel markets in a number of key cities, combining the market expertise of HVS with STR Global data for each city. Our analysis is based on a sample of over 15,000 available daily rooms provided by STR Global. In today's challenging environment, being up to date with market conditions is more vital than ever in helping to assess trends and determine the best strategy for hotel owners and operators.

Highlights

- Barcelona is probably one of the best known short-break destinations in Western Europe and one of the most important cities for trade fairs and conferences. Despite unfavourable economic cycles in the US and European economies, overall visitation to the city from 1997 to the end of 2008 did not experience a single decrease. Declines in either international or domestic visitation have always been offset by an increase in the other;
- Occupancy in the first six months of 2009 was 59%, compared to the 68% registered for the same period in 2008. Following this downward trend, average rate has also fallen (by 18%) from €142 during year-to-June 2008 to €116 during year-to-June 2009, which resulted in a decline of almost 30% in revenue per available room (RevPAR). This is the highest decline in RevPAR for Barcelona in the last decade;
- However, supply in the city is increasing rapidly: approximately 14 new hotels (2,200 rooms) are expected to open by the end of the year. A significant proportion of this new supply consists of four and five-star properties. This will increase the risk of oversupply in the upscale segment and could exacerbate the current room night decline. The opening of new luxury branded properties, however, will help to raise average rate levels and promote the city as a world class destination, preparing the ground for recovery.

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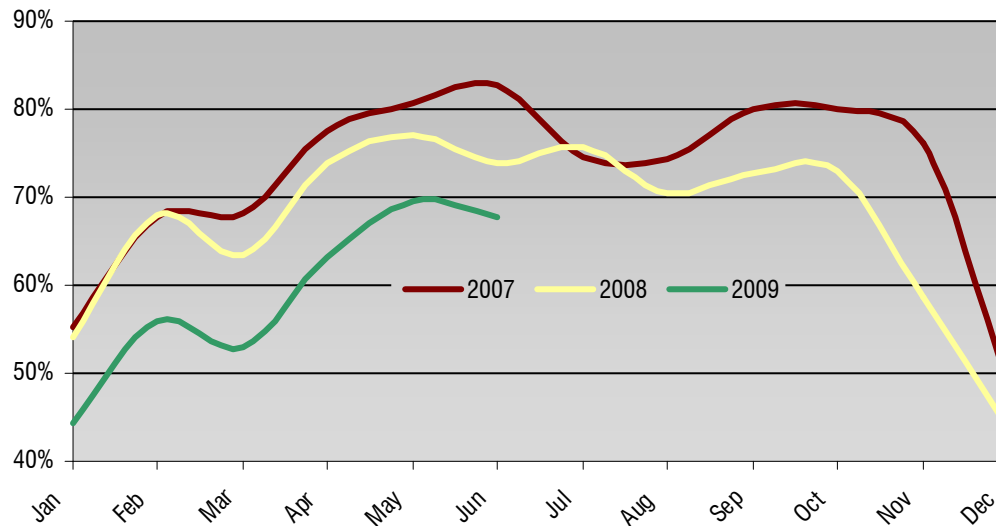
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DEMAND

- In recent years Barcelona has without doubt established itself as one of the main destination cities in Europe, attracting demand from both business and leisure travellers and becoming a major destination for the meetings incentives conferences and exhibitions (MICE) segment. The city's wide range of attractions (which includes more than 50 museums, theatres and permanent exhibitions) combined with beaches, a world famous gastronomic tradition, a favourable climate and lively nightlife, make the Catalan capital one of the most vibrant cities in Europe;
- The area of 22@, situated along the stretch of coast to the north of the city centre, is developing at a rapid pace. This area is destined to become a new IT, media and technology hub for new companies and start-ups financed by both private and public money;
- The port of Barcelona is one of the Mediterranean's main hubs for commerce, transport and distribution and it is the leading cruise harbour in Europe and the Mediterranean (as stated by *Lloyd's Cruise International Magazine*);
- The number of total visitors to Barcelona grew at a compound annual rate of 13% over the last eight years;
- Data for 2008 showed an increase of 17.4% in total visitation compared to the previous year, owing to a strong increase in domestic demand. However, visitor numbers for the first six months 2009 decreased by 6.7% compared to the same period in 2008. This decrease was due mainly to a decline in international visitation;
- As in previous years, in 2008 the UK was Barcelona's main feeder market, followed France, Germany, Italy and the USA. The domestic market accounted for approximately 29% of total arrivals. Despite total arrivals increasing by almost half a million in 2008, visitor numbers from each of the main feeder markets decreased compared to 2007 numbers. This is evidence that the nationality mix of visitation to the city is changing and thus diversifying the main source markets.

Seasonality

Table 1 shows the seasonality of hotel occupancy in Barcelona's overall hotel market from 2007 to June 2009.


Table 1 Seasonality of Hotel Occupancy in Barcelona 2007-June 2009


Source: STR Global

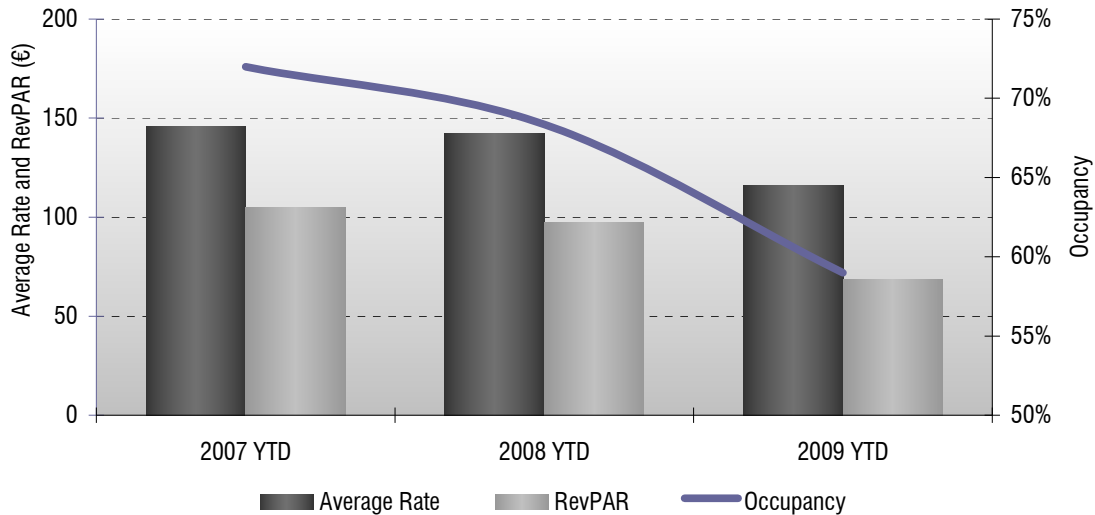
Table 1 shows that there is a healthy balance, with arrivals spread fairly evenly from April to October. Occupancy only declines in November, December and January, which are traditionally difficult months in the hospitality business.

From 2007 to 2009, seasonality has levelled slightly, which shows that the city is reaching a more stable level of demand throughout the year. In 2007 occupancy was only below 70% during January, February and December, which highlights the overall market potential of the city when supply and demand are in balance. The healthiest month in 2008 was May when occupancy of 77% was achieved.

Occupancy in 2008 decreased on 2007 levels in every month except for February and July. In the first six months of 2009 occupancy decreased by 14% compared to the same period in 2008. The trend registered for 2009 so far, albeit at a lower level, is in line with that registered for the same months of 2008.

HOTEL PERFORMANCE

Table 2 shows the overall hotel performance in Barcelona for the first six months of 2007, 2008 and 2009.


Table 2 Hotel Performance – Barcelona Year-to-June 2007-09


Source: STR Global

Year-to-June figures show that occupancy in 2007 was 72% compared to 68% in 2008, and citywide average rate fell slightly from €146 in 2007 to €142 in 2008. For the same period in 2009, Barcelona registered a decrease in occupancy of 14% compared to 2008. Average rate also decreased, from €142 in 2008 to €116 in 2009, which resulted in a drop in RevPAR of 30%.

The economic slowdown has clearly left its mark on overall market performance. From January to June 2009 there was a significant decrease (of more than 20%) in RevPAR levels compared to 2008; the worst month for RevPAR was April, which registered a decrease of 39%. This fall in RevPAR was due mainly to the major decrease in average rate.

SUPPLY

This analysis is based on a customised sample of mostly branded upscale hotels, comprising 26,705 rooms in 310 hotel properties.

The most significant hotel category in Barcelona is the four-star segment which comprises 38% of total supply (a reflection of the high demand for business tourism in the city), followed by the three-star segment (34%), one and two-star establishments (22%) and five-star hotels (6%).

New Supply

Table 3 shows the most relevant new openings and future developments within the upscale and luxury segments (four and five-star properties).


Table 3 Recent and Future Openings – Barcelona

| Proposed Property | Category | N. of Rooms | |
|------------------------------|-----------|--------------|---------------|
| Wilson Boutique (reopened) | 5-star | 54 | Dec-08 |
| Eurostar Lex | 4-star | 46 | Mar-09 |
| Villa Olympic@ Suites | 4-star | 150 | Mar-09 |
| SB Diagonal Zero | 4-star | 262 | Apr-09 |
| Suites Avenue Luxe | 5-star | 41 | May-09 |
| W Barcelona | 5-star GL | 473 | 2009 |
| Barcelo Premium | 5-star | 251 | 2009 |
| High Tech | 4-star | 61 | 2009 |
| High Tech | 4-star | 70 | 2009 |
| Mandarin Oriental | 5-star GL | 98 | 2009 |
| Grupotel Gran Via | 4-star | 100 | 2009 |
| Ayre Rosellon | 4-star | 106 | 2009 |
| Hoteles Catalonia | 4-star | 70 | 2009 |
| Apsis Hoteles | 4-star | 98 | 2009 |
| Gran Hotel Barcino | 4-star | 65 | 2010 |
| Medinaceli | 4-star | 44 | 2010 |
| Barcelona Hotel Colonial | 4-star | 83 | 2010 |
| Alma Barcelona | 4-star | 100* | 2010 |
| Edition Barcelona (Marriott) | 5-star GL | 77 | 2010 |
| Catalonia Plaza Europa | 4-star | 150 | 2010 |
| H10 Forum Mar | 5-star | 290 | 2010 |
| Aqua Hotels | 5-star | 72 | 2010 |
| Acta Ramblas | 4-star | 37 | 2011 |
| Acta Hoteles | 4-star | 40 | 2011 |
| Sidorme Hoteles | 4-star | 100* | 2011 |
| Sunotel | 4-star | 275 | 2011 |
| Bagues | 5-star | 32 | not confirmed |
| Fiesta Hotel Rosellon | 4-star | 53 | not confirmed |
| ZT 22@ | 4-star | 150 | not confirmed |
| Eurostar San Cugat | 4-star | 145 | not confirmed |
| Total | | 3,593 | |

* HVS Estimates

Source: HVS Research

We comment as follows on the new supply in Barcelona.

- The Suites Avenue Luxe apartments opened in May 2009, with 41 suites, on Passeig de Gràcia, opposite Gaudí's La Pedrera. This property is managed by Derby Hotel Group;
- The next few years will see three major international brands entering the city's luxury hotel segment with the opening of the W Barcelona, the Mandarin Oriental and Marriott's Edition hotel. The introduction of these properties will enrich the Catalan capital's branded luxury hotel offering with an additional 648 rooms as well as adding,



especially in the case of the W, new landmark buildings to the city's skyline;

- By the end of 2010 Barcelona will see an increase in its upscale hotel inventory of 14 new four and five-star properties (approximately 1,560 rooms).

The aforementioned additions to supply represent an increase of approximately 11% in the city's total room inventory.

CONCLUSION

Barcelona is a major manufacturing centre, accounting for about one-fifth of Spain's industrial production. The city is also an important banking and financial centre, and its transport links and proximity to France have helped to attract considerable foreign investment over the past few years.

The city has become an international benchmark for the MICE market. According to the International Congress and Convention Association (ICCA), Barcelona currently holds third position worldwide in terms of the number of international congresses held, and it has maintained this position for the last seven years.

Barcelona has increased its business profile by improving its railway connections; the high-speed train link (AVE) to Madrid now operates 17 times daily and the journey time between the two cities is approximately 2.5 hours.

It is clear that the growth trend experienced in the past decade has been affected by the current economic market conditions. Widespread economic uncertainty makes it difficult to predict short-term visitor trends and to what extent occupancy and average rate will recover in the future.

Year-to-date figures for 2009 show some signs of recovery as the gap between 2008 and 2009 occupancy levels is finally reducing. The first three months of 2009 saw an average occupancy decrease of more than 10 percentage points (January -9.6, February -11.8 and March -10.5). In May and June this trend slowed with decreases of -7.3 in May and -6.1 in June. This could be a sign that current demand may be experiencing a change of direction and, despite downward pressure on occupancy, it seems that the city could be ready for an upturn.

New infrastructure projects such as the opening of a new terminal at Barcelona airport are creating high expectations in terms of visitor growth and the consequent impact on occupancy levels.

Average rate levels have decreased dramatically in every month of 2009 so far, resulting in a year-to-date overall fall of approximately 18.4%.



With the introduction of new luxury hotels such as the W, Mandarin Oriental and Edition properties, Barcelona will definitely raise its profile as a truly first class European destination and this should help overall average rate levels to increase in the future. The risk of price dumping seems to be a relatively distant threat to Barcelona, where experienced hoteliers are well aware of the difficult implications this would have for the entire market.

On top of this, Barcelona has always demonstrated an ability to reinvent itself or to create new areas of activity in order to respond to market needs. Since hosting the Olympics Games, the city has registered a sound track record of victories in attracting new and improved segments of the market, showing that 'brand Barcelona' can be resilient to externally driven slowdowns. Hospitality companies and the local administration are now facing a different challenge and they will need to identify new ways of boosting the city's attractions to leverage further its international appeal and its strategic location on the Mediterranean.



About the Authors



Gabriele Kiessling is a Market Intelligence Analyst at HVS Madrid. Gabriele is originally from Berlin and speaks English, Spanish and French in addition to her native German. She graduated from the University of Surrey in 2006 and holds a Bachelors Degree (Hons) in Tourism and Management. Since joining HVS in 2007, she has been responsible for all aspects of market intelligence and supports the activities of the Madrid office through research, analysis, consulting and publication.



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