

DECEMBER, 2010

Stockholm, Sweden

Market Snapshot

CRISTINA BALEKJIAN, *Consulting & Valuation Analyst*
LARA SARHEIM, *Associate Director*



HVS – LONDON OFFICE
7-10 Chandos Street
Cavendish Square
London W1G 9DQ
Tel: +44 207 878 7700
Fax: +44 207 878 7799

Stockholm, Sweden – Market Snapshot

This market snapshot is part of a series of articles that HVS is producing every month on a series of key hotel markets. In writing these articles we aim to combine the market expertise of HVS with STR Global data for each key market. Our analysis for this market is based on data for a sample of 100 mainly branded properties as provided by STR Global.

Highlights

- Stockholm has emerged as the star performer in Scandinavia and within Europe in general, thanks to occupancy and average rate returning to previous peak levels as early as mid-2010, despite increases in supply;
- Following a dip in economic growth in 2009, the Swedish economy started to show healthy growth in the second quarter of 2010, fuelled by GDP growth and government consumption. According to the Economist Intelligent Unit (EIU) Sweden's GDP growth is expected to reach 3.8% in 2010, 2.0% in 2011 and an average of just over 2.0% annually thereafter;
- Stockholm hotels primarily serves a domestic market, in terms of both leisure and corporate demand, which makes the improvement in the domestic economy an encouraging sign for hotel demand;
- Thanks to the high proportion of domestic business travel and leisure tourism during the summer, the impact of the worldwide economic downturn was less severe in Stockholm than in other Scandinavian cities, which are more exposed to source markets such as the USA, the UK and Continental Europe where many countries are slowly emerging from the worst economic downturn in several decades;
- Stockholm's main airport, Arlanda, has shown tremendous growth in passenger numbers over the past ten years. With Stockholm being the capital of Sweden and the principal business city, most businesses are located there. Because the country is so spread out, business travel is almost inevitable, leading to increasing numbers of passengers and hotel room nights.

Hotel Demand Patterns

Arlanda Airport is the most important airport for the Stockholm hotel market with over 16 million passengers in 2009 and an approximate 10% increase in November (2010) on the previous year. The airport has shown strong passenger growth over the past 20 years, with a compound annual growth rate of 2%, and handles nearly 90% of total airport passenger traffic to the city. Stockholm's fifth-largest airport, Bromma Airport is eight kilometres from the city centre but can only accommodate smaller aircraft. It is worth noting that, even though both airports have been growing steadily in terms of passenger movements since 1999, the last five years have shown stronger growth. Bromma Airport's recent growth has been particularly impressive with the airport registering a compound annual growth in passenger numbers of 14%.

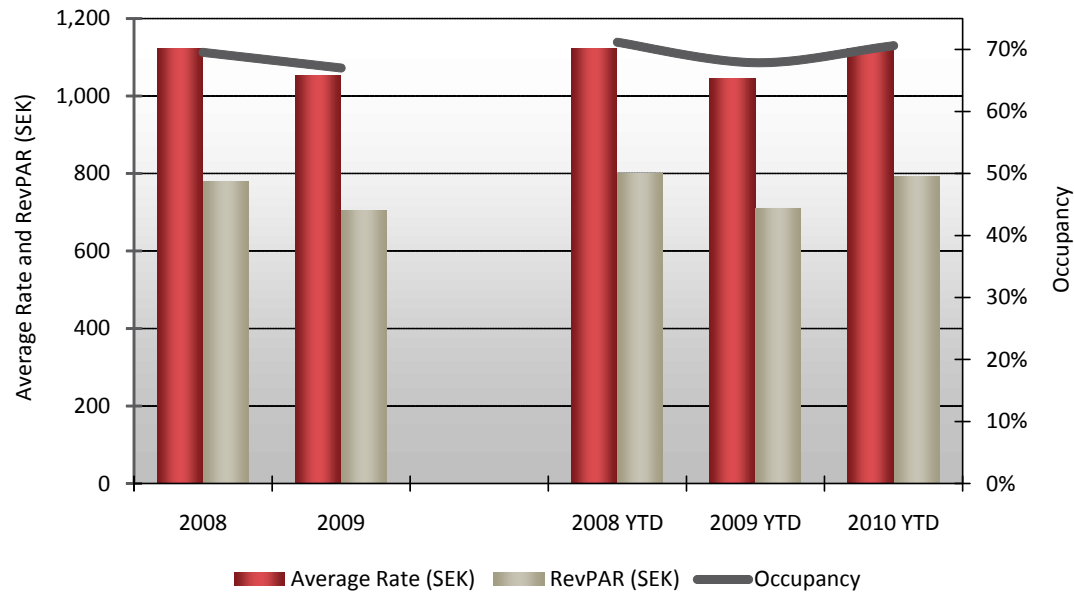
Arrivals and overnights have increased steadily over the past ten years. Domestic travellers have maintained stable growth levels, while international travellers have consistently grown year-on-year. Domestic travellers remain dominant in the city's overall visitation, with more than 50% of total overnights, though international demand is continuously developing and presents potential for further growth.

The main international source markets for Stockholm are Germany, the UK and the USA. Despite the effects of the economic crisis influencing these countries, travel from Germany, in particular, remained strong with a significant increase on year-to-October overnights of 19%. After being negatively impacted in 2009, the US market has also started to show growth in its visitation patterns with more than 180,000 visitors in 2010 (year-to-October), 8% growth on the previous year. Additionally, visitation from emerging economies, such as Russia and China, has shown significant growth in recent years, with year-to-October increases of 14% and 30%, respectively.

Stockholm's demand is primarily business-oriented, accounting for more than 60% of total overnights in the capital. The meeting, incentive, conference and exhibition (MICE) segment is a growing sector for hotel demand in the city and it presents further potential growth, especially when considering the opening of the Waterfront Congress Centre in 2011, comprising 14,000 m² of meeting and exhibition facilities. Additionally, the city will see the development of the Arenastaden in Solna, which will include the largest arena in Scandinavia hosting major sports championships, as well as the largest shopping centre in Scandinavia, the 100,000 m² Mall of Scandinavia, with 230 shops and a number of restaurants, bars and entertainment facilities. The Arenastaden is expected to be completed in 2012 and will be a significant demand generator for Stockholm and its hotel market.

Hotel Performance

The analysis in this market snapshot is based on a sample of approximately 18,000 rooms in Stockholm. Charts 1 and 2 present the hotel market's performance indicators (occupancy, average rate and RevPAR) in Swedish krona.

Chart 1 Hotel Performance in Stockholm 2008-10

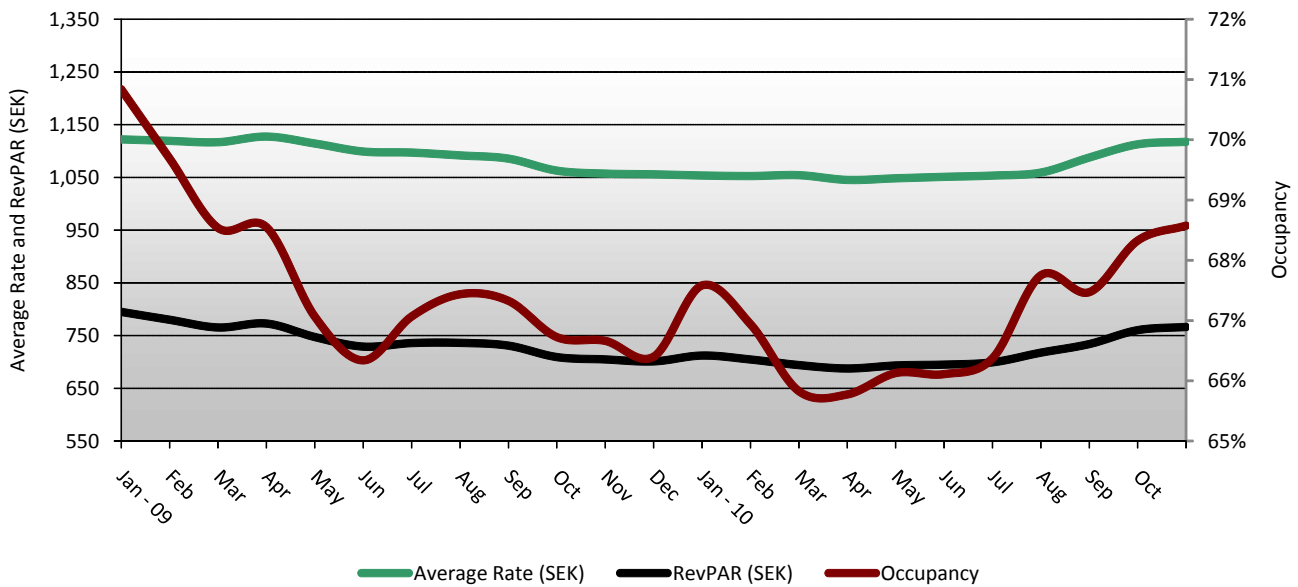
Source: STR Global

Occupancy levels declined from 70% in 2008 to 67% in 2009 and average rate in local currency decreased by 6%.

Year-to-October numbers from 2008 and 2009 show the impact of the credit crunch in 2009, driven by decreasing occupancy levels from 71% to 68%.

Year-to-October 2010 has seen occupancy bouncing back to 2008 levels at 71%, with average rate reaching SEK1,122 compared to SEK1,124 in 2008. Overall RevPAR shows a healthy recovery, reaching SEK792, driven by both an increase in occupancy levels and the return of average rate to previous levels.

Chart 2 shows the monthly moving annual average of hotel occupancy, average rate and RevPAR (in Swedish krona) in Stockholm from January 2009 to October 2010.

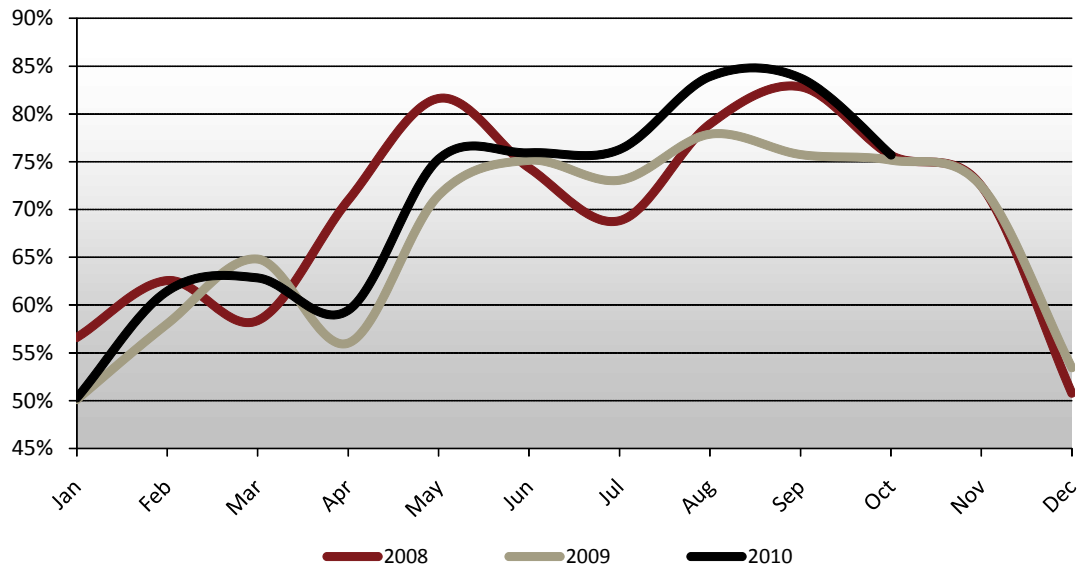
Chart 2 Monthly Moving Annual Average – Occupancy, Average Rate and RevPAR January 2009 to October 2010

Source: STR Global

Chart 2 illustrates a relatively flat average rate performance for the period under study. It is interesting to observe that despite fluctuations in occupancy hotels did not undercut rates as occupancy levels dropped. From the moving average it appears as though the recovery in occupancy began solidly in May 2010, showing an upward trend since then.

Seasonality

Stockholm is both a business and leisure destination; however, its seasonality patterns are still quite pronounced based on the winter season with January and December being the two quietest months. Chart 3 shows the seasonality of hotel occupancy for 2008, 2009 and Year-to-October 2010.

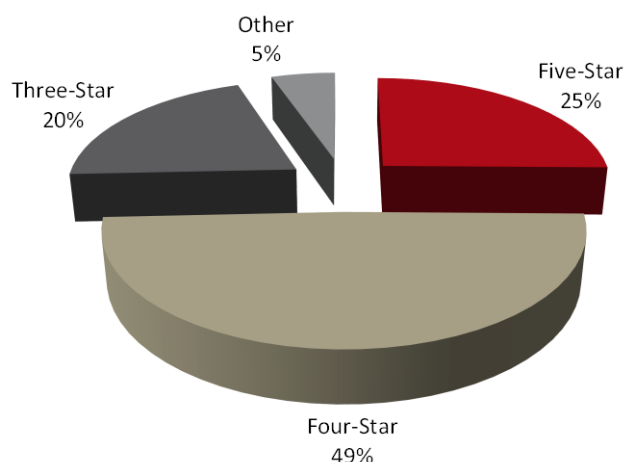
Chart 3 Seasonality – Stockholm Monthly Occupancy 2008, 2009 and Year-To-October 2010

Source: STR Global

Chart 3 indicates that strong months for hotel accommodation are typically May, August and September, underlying the combination of leisure and business demand for the city. The summer months are indicative of the high level of leisure demand, particularly domestic tourism. We note, however, that a large conference was held in August this year, the Congress of the European Society of Cardiology, thus providing further demand during that month. The trough is typically from November to February, primarily on account of the year-end holidays and the winter season. From March to May, and late September to October, demand is characterised by conference and exhibition business as well as commercial activities, which drive most of the city's occupancy.

Supply

According to a report produced by the Stockholm Business Region Development agency, there are 133 hotels in Stockholm accounting for more than 15,700 rooms. The city's hotel room supply covers all categories, with the majority being branded by groups such as Scandic, Rezidor and Choice. Chart 4 shows the make-up of the current supply in Stockholm.

Chart 4 Hotel Supply in Stockholm 2009

Source: Stockholm Business Region Development

Currently, the city's room supply is dominated by the four-star category, accounting for nearly half of total room supply. Given the predominance of midscale and upscale hotels, there is an opportunity for further growth of the budget sector in the city, which is currently undersupplied and is well suited to capturing a proportion of the growing leisure and MICE demand.

New Supply

Stockholm's hotel market has seen a lot of development over the past few years, especially in 2008 when the capital saw a boost in its overall room count by an estimated 7%. Since then, growth has slowed while the city's hotels have faced more fierce competition with the recent additions to the market.

Table 5 illustrates the confirmed future branded hotel supply in Stockholm over the next few years. We note that this excludes any non-branded hotels.

Table 5 New Supply – Stockholm, Sweden

Proposed Property	Category	Number of Rooms	Opening Date	Location
Courtyard by Marriott Stockholm	4-star	278	Mid-2010	Kungsholmen
Nobis Hotel Stockholm	5-star	201	Dec-10	Norrmalmstorg Square
Radisson Blu Waterfront Hotel	4-star	418	2011	Waterfront Congress Centre
Scandic Grand Central	4-star	397	2011	Vasagatan
Scandic Victoria Tower	4-star	300	2011	Kista Science City
Clarion Hotel Arlanda Airport	3-star	414	2012	Arlanda Airport
Quality Hotel Solna	3-star	380	2012	Solna
Omena Stockholm	2-star	200	2013	Torsgatan
Total		2,588		

Source: HVS Research

We make the following comments on the new supply.

- Two new hotels entered Stockholm's hotel market: the Courtyard by Marriott Stockholm and the Nobis Hotel Stockholm. The **Courtyard by Marriott Stockholm** in Kungsholmen, which opened in June, is Marriott's first hotel in the city and, with 278 rooms, is the largest Courtyard by Marriott in Europe. The hotel also has a bar and grill restaurant, as well as 12 meeting rooms, totalling 1,000 m² of meeting space. A member of Design Hotels, the **Nobis Hotel Stockholm** recently opened on Norrmalmstorg Square in central Stockholm. The 201-room hotel has a number of bars and restaurants and is housed in two interconnecting, late 19th century buildings;
- Rezidor Hotel Group will be upgrading the former Park Inn Stockholm Waterfront Hotel to a Radisson Blu to be rebranded as the **Radisson Blu Waterfront Hotel, Stockholm**. The hotel is between the World Trade Centre and City Hall, next to Central Station, and is part of the Waterfront Congress Centre complex offering 21 conference rooms and 14,000 m² of events space. The hotel will have 418 rooms (of which four will be suites), an all-day-dining restaurant, a bar and a fitness centre. Expected to open early 2011, the hotel will increase Rezidor's portfolio in the area to almost 1,800 rooms;
- Scandic will be adding another two hotels to the city's hotel market with the entrance of the **Scandic Grand Central** (397 rooms) and the **Scandic Victoria Tower** (300 rooms) in the third quarter of 2011. Located in one of the city's most historic streets within a landmark building, the Scandic Grand Central is set to become the brand's flagship in the capital, with 397 guest rooms, a bar, restaurant, meeting facilities and a gym. In contrast to the Scandic Grand Central, the Scandic Victoria Tower is set to be located in a modern glass building, near Sweden's largest corporate park: Kista Science City. It will offer 300 rooms, food and beverage outlets, and conference and fitness facilities;
- Choice Hotels International will be introducing two properties to the market: Clarion Hotel Arlanda Airport and Quality Hotel Solna. Set to be connected to SkyCity and its terminals, the **Clarion Hotel Arlanda Airport** will be the largest hotel at the airport, with 414 rooms. Additionally, with a total of 40 meeting rooms, the hotel will be able to host conferences for up to 900 delegates. The hotel is expected to open in November 2012 with the aim of becoming one of the leading airport hotels in Europe. The **Quality Hotel Solna** will be in the greater region of Stockholm, in Solna, where the Arenastad is currently being developed. The hotel is expected to have 380 rooms and is envisaged to open in 2012;
- Finally, Omena Hotels, a Finnish budget hotel group currently present in Denmark and Finland, will be further expanding its portfolio in Scandinavia with the opening of a hotel in Stockholm. The **Omena Stockholm** will be built in an office building in Torsgatan near Central Station. It will comprise 200 rooms and is envisaged to open in 2013.

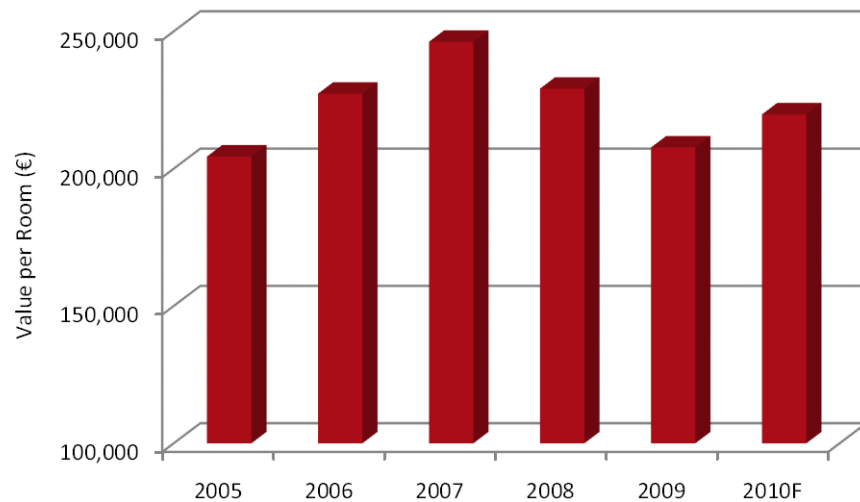
Hotel Investment Market

Stockholm's hotel investment market has been generally unremarkable in the past decade, with only a few hotels changing hands. In 2010, there have been two notable single-asset transactions in the city: the Courtyard by Marriott Stockholm and the Park Inn Solna (which is on the outskirts of central Stockholm). Additionally, Sweden has seen a number of portfolio transactions with Pandox and formerly Norgani being major players in the hotel investment arena. Noteworthy portfolio transactions in Sweden include the sale of Norgani Hotels and the recent sale of Accor's portfolio in Sweden.

We make the following comments on these transactions.

- Invesco Real Estate's hotel fund announced the completion of the purchase of the newly built **Courtyard by Marriott Stockholm** for approximately €66 million. The hotel is the fund's first acquisition in Scandinavia and will be leased by Scandinavian Hospitality Group while being operated under a franchise agreement with Marriott. The 278-room hotel has a restaurant, bar, fitness facilities and 12 meeting rooms;
- Pandox announced the acquisition of the **Park Inn Solna** in September. The group purchased the hotel from Unibail-Rodamco for a price equivalent to €22 million. The 274-room hotel is owned and run by Winn Hotels, while Pandox has a 15-year sale-and-leaseback agreement.
- Prior to acquiring the Park Inn, Pandox spent more than €1 billion in the acquisition on the **Norgani Hotels** portfolio, comprising 73 properties (or 12,900 rooms) spread throughout Scandinavia. The sale marks a turning point for the hotel investment company, making Pandox the leading specialised hotel property company in Europe in terms of geographical diversity, number of hotels and range of brands;
- Finally, as part of Accor's 'asset-right' strategy (franchise agreements preferred to management contracts/leases), the hotel operator has recently (December) divested its Swedish portfolio, comprising 18 hotels, of which five are in Stockholm and the remainder spread throughout the country. Sveafastigheter, a private equity fund based in Stockholm, acquired the portfolio for an undisclosed sum in a joint venture with Midstar and Event Holding, who will operate and asset manage the properties under franchise agreements.

From our valuation experience and based on our knowledge of the market, we estimate that hotel values have evolved as shown in the following chart.

Chart 6 Evolution of Hotel Values (2005-10) – Stockholm

*2010 Figures are forecast results

Source: HVS – London Office

As per our annual Hotel Valuation Index (HVI), Stockholm is placed tenth in terms of value per room. According to our estimates, Stockholm should end the year at values of around €220,000 per room for a four-star, city centre property.

Conclusion

The Stockholm hotel market has demonstrated strong resilience in the past 18 months, with average rate and occupancy returning to previous levels by mid-2010. The impact of the worldwide economic downturn was short and not as pronounced as in other Scandinavian cities thanks to the high proportion of domestic demand, both leisure and corporate, compared to cities such as Copenhagen that have a very high proportion of international demand and a strong domestic economy.

Looking to the future, the new supply pipeline for Stockholm shows a considerable increase in the supply of four-star hotels over the next two years, mostly in the city centre. Interestingly, although the presence of large international brands in Stockholm is not widespread, the regional brands, or brands with Scandinavian roots such as Scandic and Radisson SAS (now Radisson Blu), have several hotels in the city and are adding more. This would indicate that these brands see potential for growth in the Stockholm hotel market.

About the Authors



Cristina Balekjian is a Consultant & Valuation Analyst with HVS's London office. Cristina holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey. She worked in a number of operational roles in the hospitality industry before joining HVS as a Market Intelligence Analyst in 2007, where she has worked on a number of assignments in Europe, the Middle East and Africa.



Lara Sarheim is an Associate Director with HVS's London office. She joined HVS in 2007, having had six years' operational and managerial hotel industry experience in the USA. Before joining HVS, Lara held the position of Director of Revenue Management with Mandarin Oriental Hotel Group at their flagship property in New York. Lara holds a Bachelor of Science in International Hospitality Management from the Ecole Hôtelière de Lausanne, in Switzerland. Since joining HVS, Lara has worked on feasibility and valuation studies across Europe, particularly in the luxury sector.

For further information, please contact:

Cristina Balekjian – Consulting & Valuation Analyst

cbalekjian@hvs.com

+44 20 7878 7724

Lara Sarheim – Associate Director

lsarheim@hvs.com

+44 20 7878 7765

Or visit hvs.com

About STR Global

STR Global provides clients—including hotel operators, developers, financiers, analysts and suppliers to the hotel industry — access to hotel research with regular and custom reports covering Europe, the Middle East, Africa, Asia Pacific and South America. STR Global provides a single source of global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information. STR Global is part of the STR family of companies and is proudly associated with STR, RRC Associates, STR Analytics, and HotelNewsNow.com.



For further information, please contact:

Konstanze Auernheimer – Director of Marketing & Analysis

STR Global
Blue Fin Building
110 Southwark Street
London SE1 0TA
Main Phone +44 (0)207 922 1930
Fax +44 (0)207 922 1931
kauernheimer@strglobal.com

For more information visit strglobal.com

About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company offers a comprehensive scope of services and specialised industry expertise to help you enhance the economic returns and value of your hospitality assets.

Because hotels represent both real property and operating businesses, the founding partners of HVS decided to develop the first comprehensive valuation methodology for appraising these specialised assets. Their initial textbook on this topic entitled *The Valuation of Hotels and Motels*, published by the Appraisal Institute, created the industry standard for valuing hotels and is now used by virtually every appraiser around the world. HVS continues to be at the forefront of hotel valuation methodology, having published six textbooks and hundreds of articles on this subject, which are used in appraisal courses and seminars and at leading hotel schools such as Lausanne, IMHI and Cornell. HVS associates are constantly called upon to teach this methodology to hotel owners, lenders and operators and to participate at industry conferences. HVS principals literally 'wrote the book' on hotel valuation, which significantly enhances the credibility and reliability of our conclusions.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

Consulting & Valuation	Convention, Sports & Entertainment Facilities
Investment Banking	Interior Design
Asset Management & Advisory	Sales & Marketing Services
Shared Ownership Services	Hotel Management (US only)
Golf Services	Eco Services
Executive Search	Food & Beverage Services
Risk Management	Gaming Services
Property Tax Services	Hotel Parking Consulting

Our clients include prominent hotel owners, lending institutions, international hotel companies, management entities, governmental agencies, and law and accounting firms from North America, Europe, Asia, Latin America and the Caribbean. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are client driven, entrepreneurial and dedicated to providing the best advice and services in a timely and cost-efficient manner. HVS employees continue to be industry leaders, consistently generating a wide variety of articles, studies, and publications on all aspects of the hospitality industry.

HVS is the industry's primary source of hotel ownership data. Our 2,000+ assignments each year keep us at the forefront of trends and knowledge regarding information on financial operating results, management contracts, franchise agreements, compensation programmes, financing structures and transactions. With access to our industry intelligence and data, you will have the most timely information and the best tools available to make critical decisions about your hospitality assets.

For further information regarding our expertise and specifics about our services, please visit www.hvs.com.