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MARKET SNAPSHOT GOTHENBURG, SWEDEN

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This market snapshot is part of a series of articles that HVS produces on key hotel sectors across Europe. In writing these articles we combine the expertise of HVS with STR Global data for each market. Our analysis is based on data for a sample of 28 mainly branded properties as provided by STR Global.

Highlights

- Gothenburg is the second largest city in Sweden, after the capital Stockholm, and the fifth largest city in Scandinavia, attracting more than 1.9 million visitor arrivals and 3.9 million bednights in 2010;
- Following a dip in economic growth in 2009, the Swedish economy showed healthy signs of recovery in 2010 with GDP growth of 5.4%. According to the Economist Intelligence Unit's (EIU) November 2011 forecast, Sweden's GDP growth is expected to reach 3.7% in 2011, 0.5% in 2012 and 1.0% in 2013;
- Gothenburg primarily serves the domestic market, in terms of both leisure and corporate demand, which makes the improvement in the domestic economy an encouraging sign for hotel demand. Despite this, international arrivals are relatively important, accounting for approximately 24% of demand;
- Gothenburg Landvetter Airport has recorded significant growth in passenger numbers over the past twenty years, driven largely by international arrivals, which have more than doubled over this period and now account for approximately 75% of total arrivals. The airport handled just over 4.1 million passengers in 2010;
- The corporate sector was impacted strongly by the economic crisis; however, the market experienced positive signs of recovery, with the Swedish Exhibition and Congress Centre fully booked in the second half of 2010 and the number of delegate days doubling the levels reached in 2009. 2011 has also been a successful year so far in terms of exhibitions and conferences as companies increase travel and conference arrangements in the city;
- Hotel demand varies significantly by season. The majority of travel takes place in the summer months and in the second half of the year when numerous conferences and events take place. December, January and February are normally low-occupancy months for the city;
- Year-to-September 2011 hotel performance figures show that Gothenburg's hotel market is recovering from the economic crisis, with average rate and revenue per available room (RevPAR) increasing by 5.8% and 13.3%, respectively, on year-to-September 2010;
- Gothenburg's hotel investment market is generally unremarkable, with just two transactions taking place since 2009: one single asset and one as part of a wider portfolio.

Hotel Demand Patterns

With connections to more than forty scheduled destinations, Gothenburg Landvetter Airport, Sweden's second-largest, is the most important airport for the Gothenburg hotel market. The airport handled more than 4.1 million passengers in 2010, a 12.0% growth on the previous year. The airport has shown significant growth over the past 20 years, specifically in terms of international arrivals, which recorded a compound annual growth rate of 3.8%. This growth in international arrivals can be attributed to Gothenburg's improving infrastructure which makes the city more accessible to business and leisure

passengers, and the increasing number of airlines introducing flights to the city; in 2010, easyJet opened three routes from Gothenburg Landvetter Airport to London (Gatwick), Berlin and Manchester, and British Airways opened a new route to London Heathrow. The city is also served by a second international airport, Gothenburg City Airport, Sweden’s seventh-largest airport. This airport, which mainly serves low-cost airlines, handled approximately 715,000 passengers in 2010 – 98% of these were international passengers.

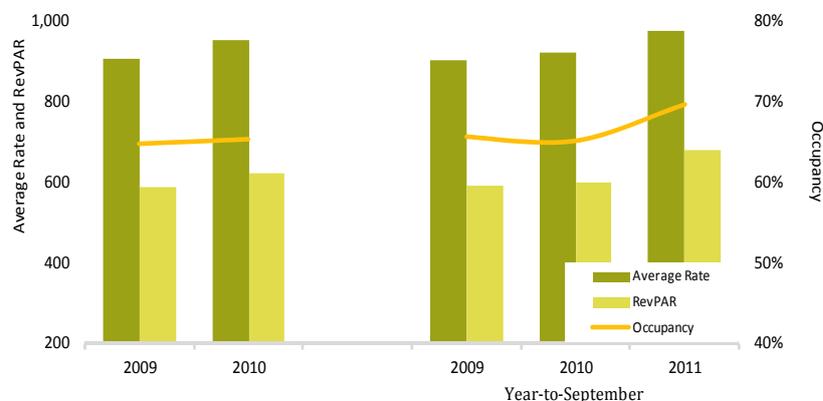
Tourism arrivals and bednights have increased steadily over the last ten years with compound annual growth rates of 3.2% (international) and 4.9% (domestic). Tourism in Gothenburg has followed the general trend in Europe with both bednights and arrivals growing as economic conditions improved; in 2010, tourism peaked at 1.9 million arrivals and 3.9 million bednights. This growth was driven by a significant increase in domestic tourism, which accounts for approximately 75% of bednights and arrivals in the city. Despite this, international tourism remains important, accounting for more than 460,000 arrivals in 2010. Tourism is expected to continue to grow in Gothenburg as economic conditions improve, both domestically and across Europe.

The main international source markets for Gothenburg are Germany, the UK and the USA. Despite the economic circumstances influencing these countries, travel from Germany and the USA, in particular, remained strong with significant increases in 2010 of 12.9% and 11.9%, respectively. Bednights from the UK declined in both 2009 and 2010, probably due to the strength of the Swedish krona, but this is showing signs of recovery with an increase of 13.0% in the first two months of 2011. Gothenburg also attracts a large proportion of visitors from other Scandinavian countries, with Norway and Denmark accounting for 6.3% and 2.1% of total arrivals, respectively. In addition, bednights from Russia increased by more than 50% in 2010 compared to the previous year, albeit from a small base.

The meeting, incentive, conference and exhibition (MICE) segment is a growing sector for hotel demand in Gothenburg. Many large international conferences took place in the second half of 2010, resulting in a turnover of SEK800 for the tourism economy; the number of delegate days in 2010 reached 225,000, double that of 2009. Further growth in the MICE sector is likely as the Hotel Gothia Towers announced plans to add a third tower including conference and exhibition facilities and an additional 478 room hotel, and a number of other conference hotels are slated to open in the city.

Hotel Performance

CHART 1: HOTEL PERFORMANCE IN GOTHENBURG 2009-11 (SEK)



Source: STR Global

The analysis in this market snapshot is based on a sample of 28 hotels in Gothenburg. Charts 1 and 2 present the hotel market’s performance indicators (occupancy, average rate and RevPAR) in Swedish krona.

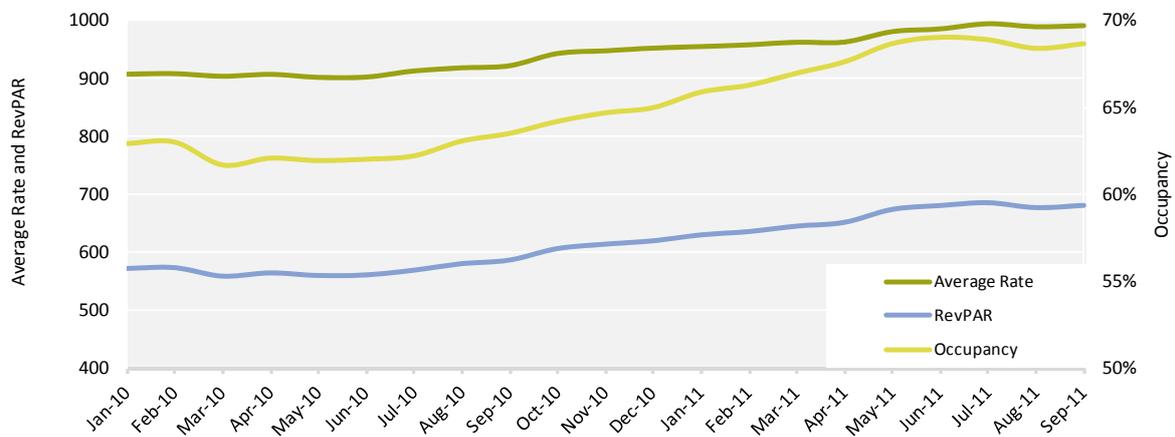
Despite occupancy levels showing minimal growth from 2009 into 2010, hoteliers were able to increase average rate by 5%

from SEK908 in 2009 to SEK952 in 2010, which is likely to have been fuelled by the large number of international conferences held in the city in the second half of the year. The rise in average rate led to a 5.9% increase in RevPAR.

The year-to-September figures for 2010 demonstrate how Gothenburg has recovered from the economic crisis; despite a slight decline in occupancy, average rate recorded modest growth of 2.1%, resulting in a 1.3% increase in RevPAR. Moreover, year-to-September 2011 figures show that Gothenburg is well on its way to recovery with occupancy, average rate and RevPAR showing significant growth – occupancy and average rate increased by 7.1% and 5.8%, respectively, leading to a double-digit growth of 13.3% in RevPAR, which peaked at SEK680.

Chart 2 shows the monthly moving annual average of hotel occupancy, average rate and RevPAR (in Swedish krona) in Gothenburg from January 2010 to September 2011.

CHART 2: MONTHLY MOVING ANNUAL AVERAGE – OCCUPANCY, AVERAGE RATE AND REVPAR JANUARY 2010 TO SEPTEMBER 2011 (SEK)



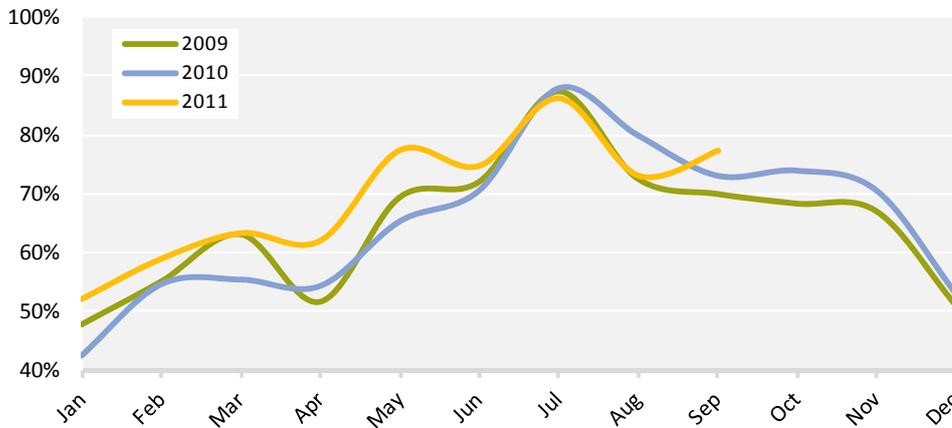
Source: STR Global

Chart 2 shows a relatively flat average rate for the first half of 2011, with modest but steady increases thereafter. Occupancy dropped at the beginning of 2010, allowing for growth in the second half of the year and into 2011 as hotel demand picked up. This increase, paired with an improvement in average rate for the same period, led to positive growth in RevPAR.

Seasonality

Gothenburg is both a business and leisure destination; however, its seasonality patterns are quite pronounced with a particularly low winter season. Despite the city’s efforts to promote Gothenburg Christmas City, December, January and February are the quietest months in terms of occupancy. Chart 3 shows the seasonality of hotel occupancy for 2009, 2010 and year-to-September 2011.

CHART 3: SEASONALITY – GOTHENBURG MONTHLY OCCUPANCY 2009, 2010 AND YEAR-TO-SEPTEMBER 2011



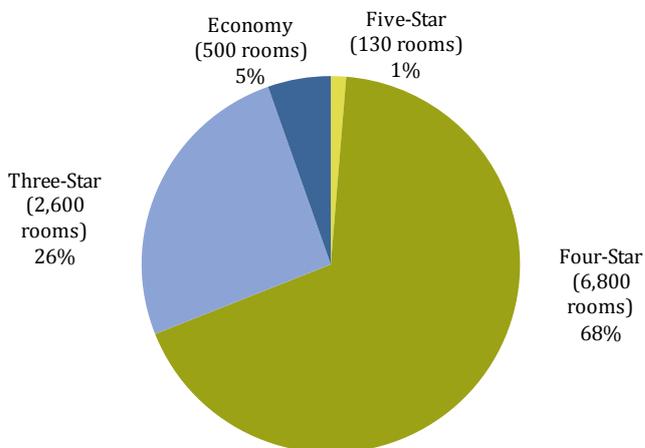
Source: STR Global

Chart 3 indicates that the strongest month for hotel accommodation is July, with June and August following closely behind. The summer months are indicative of the high level of leisure demand, specifically domestic tourism as high numbers of visitors are attracted to the numerous sporting and music events. Major events, such as the Culture Festival in August, came close to attracting record visitor numbers during the period under review, a sign of the improving tourism market. Hotel occupancy remains higher in the second half of the year as a result of this and a number of conferences, increased business demand and generally better weather.

Supply

According to Göteborg & Co, the cities platform for destination development, there are 92 hotels in Gothenburg, accounting for more than 10,000 rooms and 21,000 beds. The city’s hotel room supply covers all categories with a mixture of international brands and independently run hotels. Chart 4 shows the make-up of current supply in Gothenburg.

CHART 4: HOTEL SUPPLY IN GOTHENBURG BY STAR RATING (ROOMS)



Source: Göteborg & Co, 2011

The main international brands operating in Gothenburg are Best Western, Choice and Scandic Hotels; together these brands account for approximately 39% of total room supply.

The city’s hotel supply is currently dominated by four-star hotels which account for 68% of total room supply. Three-star hotels account for 26% of rooms while economy and five-star hotels account for just 5% and 1% respectively. The majority of economy hotels are independently run. It would appear the luxury sector is undersupplied, with just one five-star hotel in the city, the 130-room Elite Plaza Hotel.

New Supply

Gothenburg's hotel market has seen a number of renovations and extensions over the past few years. The four-star Grand Hotel Opera underwent a complete renovation in 2010, and the Elite Park Avenue and Landvetter Airport Hotels are currently undergoing renovations. In addition, 2011 saw the opening of the 112-room Rica Hotel No. 25, the property had an extra storey added and all rooms were completely renovated throughout 2010-11.

Chart 5 shows the branded hotel supply that is expected to enter the market over the next few years.

CHART 5: NEW SUPPLY – GOTHENBURG, SWEDEN

Future Openings	Category	Number of Rooms	Opening Date	Location
Clarion Hotel Post	Upper Midscale	500	Jan-12	Drottningtorget Square
Radisson Blu Riverside	Upscale	266	Q1 2013	Lindholmen Science Park
Hotel Gothia Towers – Extension	Upscale	478	2014	Svenska Mässan 24
Total		1,244		

Source: HVS Research

We make the following comments on the new supply.

- Choice Hotels International will expand its current portfolio with the addition of the 500-room **Clarion Hotel Post**. This business hotel, which is expected to open in January 2012 will have 407 standard rooms, 74 superior rooms, 16 deluxe rooms, 3 suites and 17 conference rooms; guest room and suite sizes range from 18-145 m² and the largest conference space is more than 1,000 m²;
- Rezidor Hotel Group's 266-room **Radisson Blu Riverside Hotel Gothenburg** is scheduled to enter the market in the first quarter of 2013. This property will have a contemporary restaurant and bar, 150 m² of meeting space and a spa with an indoor pool, a sauna, a gym and treatment rooms. The hotel is situated just outside the city centre on the north bank of the Gothia River at Lindholmen Science Park. The hotel is owned and being developed by Skanska, the Swedish construction company; Winn Hotel Group has entered into a 25-year rental agreement with Skanska and construction will begin in spring 2012. The signing brings Rezidor's portfolio to 65 hotels (15,000 rooms) either in operation or under development in the Nordics;
- The four-star Hotel Gothia Towers plans to add a 24-storey tower housing 478 rooms, 51 of which will be five-star standard, and a conference floor. This extension was on hold until late 2010, owing to challenging economic conditions, but is now going ahead. The SEK800 million investment will bring the hotel's room count to 1,208; construction has recently commenced and the extension is scheduled to be completed in 2014.

Hotel Investment

Gothenburg's hotel investment market has been generally unremarkable in the past decade, with only a few hotels changing hands. In 2009 and 2010 there were two noteworthy transactions, one single asset and one portfolio; no publicly recorded transactions have taken place this year.

In July 2009, Deka Immobilien, on behalf of its fund WestInvest ImmoValue, acquired the **First Hotel G** from Host Hoteleiendom. The 300-room hotel, which is centrally situated above Gothenburg Central

Station, has a restaurant, a champagne bar and extensive spa and conference facilities. It was purchased for approximately €41 million, representing almost €137,000 per room.

In December 2010, a joint venture between hotel investor/operator Event Holding, asset management company Midstar and Stockholm-based private equity house Sveafastigheter acquired Accor Hotels Sweden AB through a sale-and-franchise-back transaction. The sale comprised Accor's portfolio of 18 hotels (1,760 rooms) across Sweden, including the 122-room **Ibis Göteborg City**, a floating hotel three kilometres from Gothenburg city centre. The 14 Ibis properties and four Formule 1 hotels continue to operate under their current brands, and will undergo an extensive renovation programme.

Conclusion

Tourism demand is recovering with an increase in both domestic and international arrivals. The city was impacted by the economic crisis but corporate demand is now picking up, the Swedish Exhibition and Congress Centre is performing strongly, with events booked well into 2012 and beyond. As a result of the increased demand, hotel performance is recovering with occupancy, average rate and RevPAR all showing considerable growth as at year-to-date September 2011. It is likely that the heightened demand and improved hotel performance will continue as economic conditions improve further and the number of international conferences and direct flight routes to Gothenburg Landvetter Airport continue to increase.

As well as the various events hosted annually in Gothenburg, the city will host additional events over the next few years, such as the World Championship in Team Figure Skating in 2012, the European Athletic Indoor Championships in 2013 and the UEFA Women's EURO tournament in 2013; we anticipate that these international events will help the city gain further prominence and grow as an international tourist destination.

Looking to the future, the new supply pipeline for Gothenburg shows a considerable increase in the number of conference hotels and facilities. International brands with existing hotels in the market, such as Choice and Rezidor, are adding more hotels. It is also interesting to note that the Gothia Towers extension, which was on hold, has recently been given the green light; a clear sign that economic conditions are considered to be improving and demand is increasing.

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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.

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