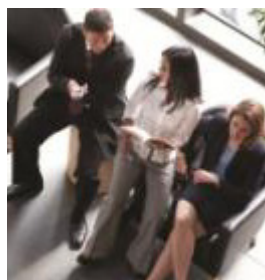
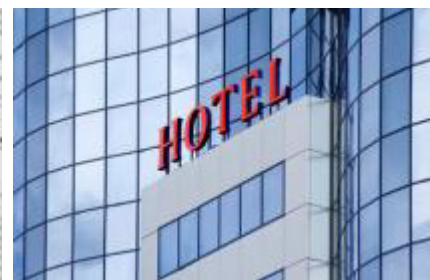




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MONTE CARLO, MONACO UPSCALE HOTEL MARKET

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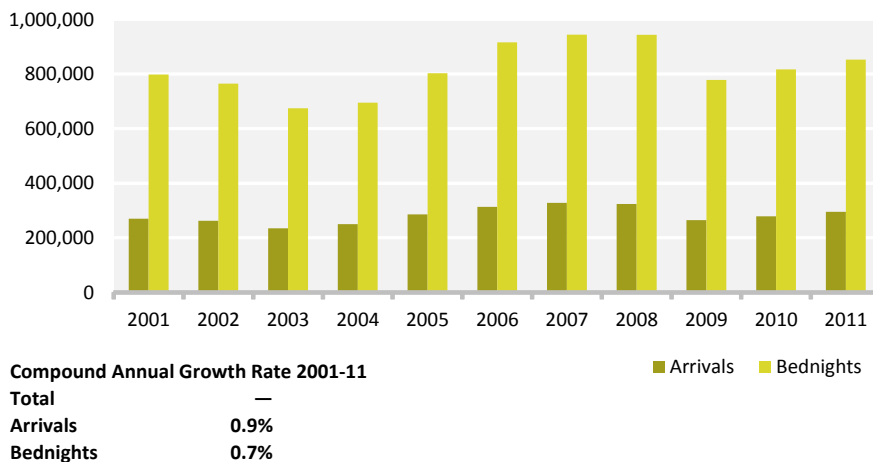
Summary

This article discusses the performance of the upscale hotel market in Monte Carlo over the last few years. It discusses recent supply and demand trends, and presents our forecast of how the market is expected to perform in the coming years.

Demand Trends

After strong recovery in both **arrivals** and **bednights** was recorded from 2004 to 2007, the start of the economic recession in 2008 resulted in a minor decrease in visitation for that year, followed by a sharp

FIGURE 1: BEDNIGHTS AND ARRIVALS IN MONACO – 2001-11



Source: Direction du Tourisme et des Congres

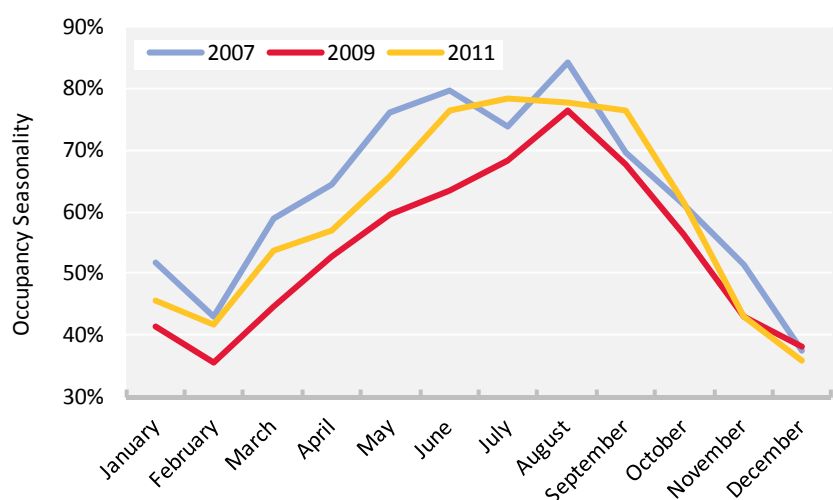
decrease of about 18% for both arrivals and bednights in 2009. Recovery started in 2010 and continued in 2011, with both years recording growth in arrivals of more than 5%. This steady recovery led 2011 above the average for 2001-05, although still below the levels reached in 2006-08. A recent trend towards a slightly decreasing length of stay, however, is resulting in a proportionally lower increase in the volume of accommodated bednights. This is especially noticeable in the

year-to-April data for 2012, with a small increase in arrivals coupled with a decrease in bednights, as a result of the length of stay reducing from 2.65 nights in 2011 to 2.57 in 2012. Visitation to Monaco is mainly generated from neighbouring **source countries**, with France, Italy, the UK and the USA taking the lion's share, at historically about 60% of total visitation.

In regards to **seasonality**, Monaco exhibits the typical seasonality of resort destinations, peaking in the summer months from mid-June to September. Average yearly marketwide **occupancy** for the last six years was just under 59%, with little variation during the recent turbulent times: occupancy peaked at 63% in 2007, and was at its lowest at 54% in 2009, showing the limited volatility of this market during peaks and troughs.

Average rate has also remained fairly stable. Marketwide average rate decreased by about 6.0% in

FIGURE 2: SEASONALITY IN MONACO – 2007, 2009 AND 2011



Source: HVS research

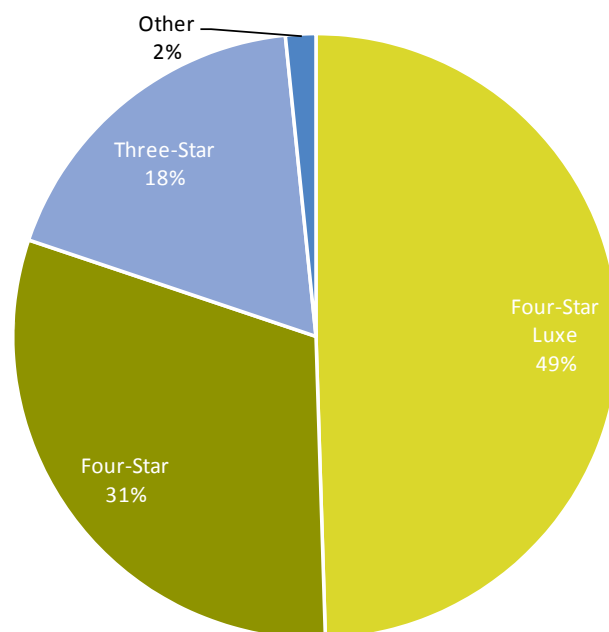
2009, and average rate in 2011 was just below the level attained in 2007 (the highest rate attained between 2006 and 2011 was recorded in 2008, with rates up by 4% on 2007). Average rate variations during the year are in line with trends in occupancy, except for the notable increase in May (which records the highest rates of the year), during the Formula 1 Grand Prix.

Supply Trends

Hotel **supply** in Monte Carlo remains fairly stable, owing to the extreme scarcity of land. The most remarkable changes in supply since 2004 remain the opening of the 334-room Monte Carlo Bay Hotel & Resort in 2005, followed by the opening of the 213-room Novotel in 2007. Other hotels have changed their room count over this period, notably the Hermitage, which added 51 rooms in 2004, whilst the Metropole Palace lost five rooms the same year. Le Méridien Beach Plaza added 65 rooms in 2005 and, finally, the 100-room Mirabeau Hotel closed in 2007 to be converted into residential units.

As can be seen from Figure 3, rooms within the four-star luxe category represent almost half of the total supply in Monaco, in keeping with the upscale profile of the destination. This category mix is partly a result of the very expensive real estate in Monaco, which results in owners seeking to maximise the return on their investment through higher cash flows. We are not aware of any proposed hotels in the market at the time of our writing.

FIGURE 3: HOTEL SUPPLY PER CATEGORY – 2010

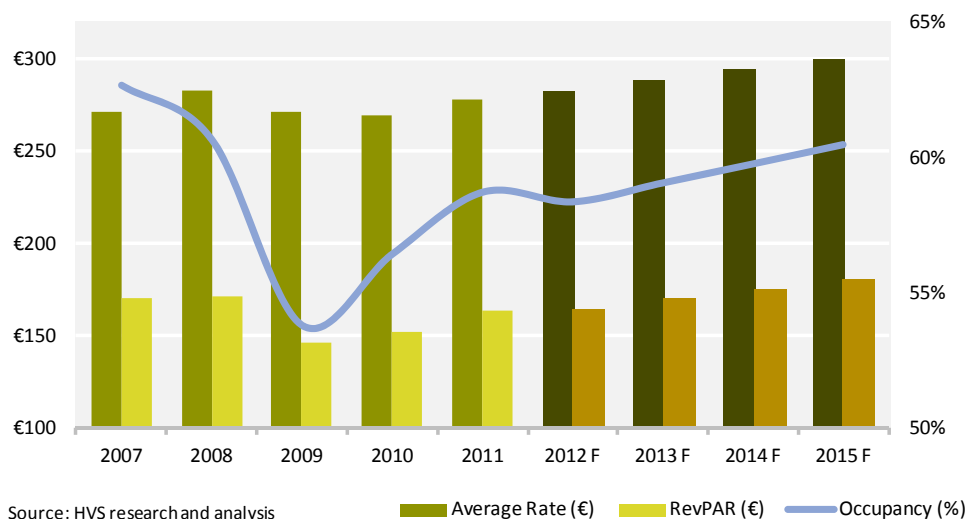


Source: Direction du Tourisme et des Congrès 2011

Recent and Forecast Hotel Performance

We have researched and analysed the occupancy and average rate performance of a sample of approximately 2,400 upscale hotels rooms in Monaco. Our analysis considers the historical performance

FIGURE 4: UPSCALE HOTEL PERFORMANCE 2007-15



Source: HVS research and analysis

from 2007 to 2011 (no new supply has been accounted for, since we are not aware of any new projects). Figure 4 summarises our research and conclusions from this room night analysis.

As can be seen from Figure 4, **historical** occupancy in Monaco for upscale hotels started declining in 2008 from its peak of 63% in 2007 to about 54% in 2009. Recovery started in

2010, with occupancy back to 59% in 2011. Average rate, on the contrary, increased in 2008 to over €280, before losing 5% over the following two years. It then grew in 2011 and is forecast to continue to grow in the coming years, although in line with inflation. The occupancy and average rate dynamics resulted in revenue per available room (RevPAR) declining in 2009 only, by 15%, and recovering from that point by 12% over the following two years. With no expected changes in supply over the forecast period, and given the limited fluctuations in performance during the depth of the economic slowdown, we have **forecast** average rate to continue to recover with modest growth over the next four years, whilst occupancy reaches stabilisation at 60% from 2014-15. Our forecast shows steady growth, rather than spectacular change. As demonstrated in the last few challenging years, hotel performance in Monte Carlo has proven to be stable and resilient. We expect this to continue.

Although we are unaware of any hotels recently changing hands in the Principality, it is worth highlighting the sale of the InterContinental Cannes in the last few months as evidence of the continued demand for real estate and hotels on the Côte d'Azur.

Conclusion

The unique nature of Monaco as a destination, combined with high barriers to entry, result in a hotel market that has enjoyed limited volatility over the last four turbulent years. Although the market is fairly seasonal owing to its high volumes of leisure visitation, the resilience of its occupancy and average rate performance bodes well for this small, high-profile market, and we certainly expect that it will continue to enjoy a similarly solid performance over the coming years.



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About the Author



Sophie Perret is an associate director at the HVS London office. She joined HVS in 2003 following ten years' operational experience in the hospitality industry in South America and Europe. Originally from Buenos Aires, Argentina, Sophie holds a degree in Hotel Management from Ateneo de Estudios Terciarios, and an MBA from IMHI (Essec Business School, France and Cornell University, USA). Since joining HVS, she has advised on hotel investment projects and related assignments throughout the EMEA region and is specifically responsible for the development of HVS services in France and the French-speaking world. Sophie is currently pursuing an MSc in Real Estate Investment and Finance at Reading University.

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