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HOTEL MARKET SNAPSHOT **VERONA, ITALY**

Themis Trakas
Associate Director

Ezio Poinelli
Director

Summary

Situated in north Italy, Verona is a city with about 256,000 inhabitants and a key hotel market in the region. The broader Verona metropolitan area is home to about 715,000 people and represents one of the main tourist destinations in northern Italy due to its artistic heritage, many annual fairs, shows, and opera performances. Ease of access from Germany, Switzerland, Milan, and Venice and proximity to Lake of Garda constitute added advantages for visitation. As a result of its urban structure and architecture, Verona has been awarded as a UNESCO World Heritage Site.



This article discusses the Verona hotel market in terms of supply and demand, and analyzes the past tourism trends by presenting recent hotel performance parameters.

Airport Traffic

Verona is serviced by the Valerio Catullo international airport, located 12 kilometres southwest of the city. The airport is situated in the middle of the provinces of Brescia, Mantua, Rovigo, Vicenza, Trento, Bolzano, and Verona, serving a population of more than 4 million people. It offers scheduled and charter (seasonal) flights to many domestic and international destinations throughout Europe as well as to Cuba, Mauritius, North Africa, and the Middle East. Airlines servicing Verona include – amongst others – Adria, Air Moldova, Aer Lingus, Alitalia, Air Berlin, Austrian, Air Dolomiti, Belle Air, Air France, Air Italy, Blue Panorama, Meridiana Fly, bmibaby, British Airways, Ryanair, Carpatair, Transavia, easyJet, Volotea, FLYBE, Vueling, German Wings, Wind Jet, Lufthansa, Wizz Air, Monarch, and Neos.

Table 1 summarizes the passenger traffic movements at the airport for the past seven years.

TABLE 1: PASSENGER TRAFFIC, VERONA AIRPORT, 2005 – 11

Year	Total	Change	National	Change	International	Change	Share	
							National	International
2005	2,607,693	—	900,186	—	1,707,507	—	35 %	65 %
2006	2,961,399	13.6 %	1,066,425	18.5 %	1,894,974	11.0 %	36	64
2007	3,465,369	17.0	1,222,270	14.6	2,243,099	18.4	35	65
2008	3,366,546	-2.9	1,270,676	4.0	2,095,870	-6.6	38	62
2009	3,035,420	-9.8	1,215,696	-4.3	1,819,724	-13.2	40	60
2010	2,983,557	-1.7	1,185,048	-2.5	1,798,509	-1.2	40	60
2011	3,349,186	12.3	1,305,479	10.2	2,043,707	13.6	39	61
Growth 2005-11	28.4%		45.0%		19.7%			
Compound Annual Growth		4.3 %		6.4 %		3.0 %		
YTD October 2012	2,884,499	(3.2) %	943,884	(15.9) %	1,940,615	4.5 %	33 %	67 %
YTD October 2011	2,979,275	—	1,121,754	—	1,857,521	—	38	62

Source: Associazione Italiana Gestori Aeroporti, HVS Analysis

The following comments apply to the previous table:

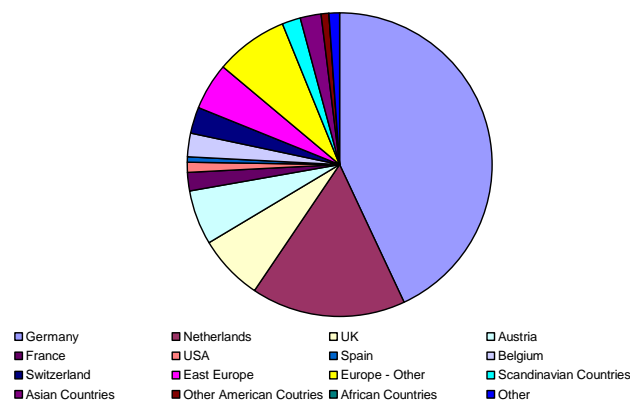
- Total traffic grew at a compound annual growth rate of more than 4% during the past seven years, primarily attributed to the national segment at a rate of nearly 6.5%. After three consecutive years (2008 to 2010) where total traffic declined, the 2011 passenger volume grew by more than 12% over 2010, returning close to the 2008 traffic volume, signifying a trend towards recovery, but still away from the total passenger volumes experienced in 2007, the peak year for the period under consideration.
- Total traffic through October 2012 has decreased over the same period in 2011 by just over 3%, affected by the nearly 16% decrease in the volume of national passengers. Overall, an average of more than 60% of traffic to Verona Airport relates to international passengers.

International Feeder Markets

Following is a chart illustrating the breakdown of foreign tourist visitation at all accommodation establishments (hotels, tourist villages, camp sites, private accommodation units, and other) in terms of accommodated bednights in the province of Verona by nationality for 2010, as published by the Verona Hotel Association.

CHART 1: BREAKDOWN OF FOREIGN TOURIST VISITATION BY NATIONALITY, 2010

Origin	Overnight Stays	Share
Germany	4,137,338	43.0%
Netherlands	1,591,635	16.5%
UK	671,424	7.0%
Austria	541,267	5.6%
France	201,137	2.1%
USA	94,342	1.0%
Spain	69,789	0.7%
Belgium	232,065	2.4%
Switzerland	280,209	2.9%
East Europe	460,594	4.8%
Europe - Other	770,981	8.0%
Scandinavian Countries	172,207	1.8%
Asian Countries	204,058	2.1%
Other American Countries	83,490	0.9%
African Countries	18,880	0.2%
Other	97,559	1.0%
Total Foreign	9,626,975	100.0%
Total Italian	3,949,900	29.1%
Total Foreign	9,626,975	70.9%
Grand Total	13,576,875	100.0%



Source: Verona Hotel Association

The primary foreign source markets for visitation to the Verona Province were Germany (43%), the Netherlands (16.5%), and the United Kingdom (7%). It is noted that the Province of Verona is in the Veneto region of Italy and its capital is the city of Verona. It has an area of 3,109 km², a total population of 912,981 (2009 census), and features 98 municipalities. The most important municipalities are Bovolone, Bonavigo, Bussolengo, Cerea, Isola della Scala, Legnago, Negrar, Peschiera del Garda, San Bonifacio, San Giovanni Lupatoto, San Martino Buon Albergo, Soave, Sona, Valeggio sul Mincio, and Villafranca di Verona.

Drivers of Tourism Demand

The two main drivers of demand for transient hotel accommodation in the city of Verona are the Arena and the Exhibition Centre.

The **Arena** is a Roman amphitheatre in Piazza Bra in downtown Verona famous for hosting large-scale opera performances. Its seating capacity is limited to 15,000 spectators.



The period that opera performances are hosted spans from mid-June to early-September, during which more than 500,000 spectators visit amphitheatre. The Arena has featured many of world's most notable opera singers. In recent times, it has also hosted several concerts of international rock and pop bands.

The Verona Exhibition Authority officially became an international exhibition centre in 1977. The objectives of the authority are to perform and sustain every direct and indirect activity involved in the organization of exhibition events, as well as the organization of congress activity and initiatives promoting trade in goods and services and their commercialization on a national and international scale.



The services offered include the operation of the congress centre, catering services, hotel reservations services, and exhibition centre services. The Verona Exhibition Authority is the leading direct show organizer in Italy and during 2011 it scheduled and managed 38 events in its exhibition centre and 12 events abroad with a total turnover of €84 million. Net sales occupied 790,000 m² with over 14,000

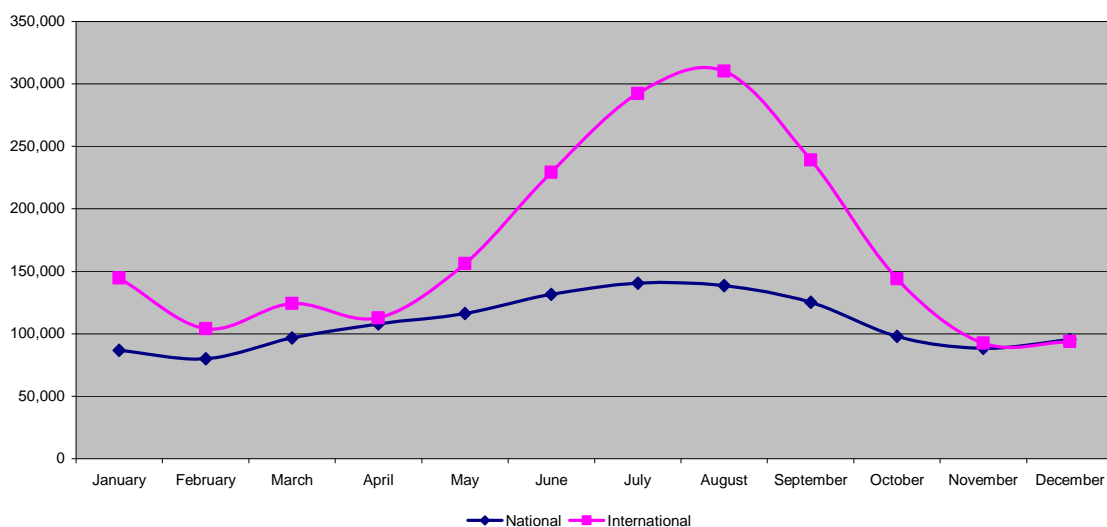
exhibitors (19% of which were international) and more than 1,200,000 visitors (14% of which were international).

The Exhibition Centre, located in the south of the city of Verona, near Highway A4 and 10 km from the airport, features 143,000 m² of indoor meeting space and 157,000 m² of outdoor meeting space in 13 halls with 7 separate entrances. The total available car parking spaces are 14,000. Of these, some 5,400 spaces are offered immediately around the exhibition centre and the remaining 8,600 spaces are located near the highway and ring road exits. Exhibitors and visitors are further supported by a wide range of services such as international banks, currency exchange offices, business meeting points, fax transmission and photocopies, post office, telephone centers, and public utilities (newsagents and tobacconists).

Seasonality of Visitation

The following graph illustrates the 2011 passenger traffic at Verona's Airport by month.

GRAPH 1: SEASONALITY OF VISITATION AT VERONA AIRPORT, 2011



Source: Associazione Italiana Gestori Aeroporti, HVS Analysis

The peak visitation period occurs from May to September, when nearly 60% of foreigners and 50% of Italian nationals use the airport, primarily driven by the performances hosted at the Arena. Although the seasonality pattern of foreign visitation is rather distinct with a clear difference between peak and off-peak visitation periods, the seasonality pattern of the visitation of the Italian nationals is rather flat.

Supply

The evolution of the hotel, room, and bed supply in the city of Verona by hotel classification is illustrated in the following table for the past three years. In 2011, the number of units increased by 3% and the number of rooms increased by approximately 6%. The 160 new 4-star rooms for 2011 relate to the 4-star Crowne Plaza hotel that opened in April 2011, located just four kilometres from downtown Verona.

The primary room stock relates to 4-star hotels with about 45% of the total rooms available. Branded units, i.e. hotels that operate under management or franchise agreements with well-known international

TABLE 2: EVOLUTION OF HOTEL, ROOM, AND BED SUPPLY IN THE CITY OF VERONA, 2009 – 11

2011	Number of Hotels	Share	Number of Rooms	Share	Number of Beds	Average Rooms per Hotel	Average Beds per Room
5* Hotels	2	3%	118	4%	218	59	1.8
4* Hotels	17	24%	1,390	46%	2,765	82	2.0
3* Hotels	28	40%	1,066	36%	2,096	38	2.0
2* Hotels	16	23%	345	12%	635	22	1.8
1* Hotels	7	10%	77	3%	137	11	1.8
Total	70	100%	2,996	100%	5,851	43	2.0

2010	Number of Hotels	Share	Number of Rooms	Share	Number of Beds	Average Rooms per Hotel	Average Beds per Room
5* Hotels	2	3%	118	4%	221	59	1.9
4* Hotels	16	24%	1,230	44%	2,445	77	2.0
3* Hotels	28	41%	1,066	38%	2,096	38	2.0
2* Hotels	16	24%	345	12%	614	22	1.8
1* Hotels	6	9%	64	2%	112	11	1.8
Total	68	100%	2,823	100%	5,488	42	1.9

2009	Number of Hotels	Share	Number of Rooms	Share	Number of Beds	Average Rooms per Hotel	Average Beds per Room
5* Hotels	2	3%	118	4%	221	59	1.9
4* Hotels	15	22%	1,207	42%	2,402	80	2.0
3* Hotels	27	40%	1,081	38%	2,115	40	2.0
2* Hotels	16	24%	352	12%	608	22	1.7
1* Hotels	8	12%	87	3%	156	11	1.8
Total	68	100%	2,845	100%	5,502	42	1.9

Source: Verona Hotel Association, HVS Analysis

hotel operators are limited. The InterContinental Hotel Group is represented in Verona with two units operating under its Holiday Inn and Crowne Plaza brands. Other brands include Best Western and Accor under its Ibis brand.

Recent Hotel Market Performance

The following table was compiled from information given to HVS by the Verona Hotel Association and further expanded by HVS under certain assumptions to derive at the estimated room occupancy. These are:

- All Verona city hotels operate throughout the year.
- The conversion of accommodated bednights to accommodated roomnights was done using an assumed weighted-average number of occupants per occupied hotel room of 1.5 for the three market segments assumed to operate in the Verona hotel market. This factor fundamentally constitutes the assumption of a number of occupants per room of: two for the Group Leisure segment, one for the FIT segment, and one and a half for the MICE segment.

TABLE 3: ANALYSIS OF DEMAND FOR HOTEL ACCOMMODATION AT VERONA HOTELS, 2009 – 11

2011	Available Beds	Accommodated Bednights	Bed Occupancy	Arrivals in People	Average Length of Stay (days)	Estimated Accommodated Roomnights	Available Rooms	Estimated Room Occupancy
5* Hotels	79,570	51,000	64%	25,000	2.0	34,000	43,070	79%
4* Hotels	1,009,225	485,182	48%	266,404	1.8	323,455	507,350	64%
3* Hotels	765,040	489,637	64%	280,121	1.7	326,425	389,090	84%
2* Hotels	231,775	97,198	42%	55,078	1.8	64,799	125,925	51%
1* Hotels	50,005	14,769	30%	8,811	1.7	9,846	28,105	35%
Total	2,135,615	1,137,786	53%	635,414	1.8	758,524	1,093,540	69%

2010	Available Beds	Accommodated Bednights	Bed Occupancy	Arrivals in People	Average Length of Stay (days)	Accommodated Roomnights	Available Rooms	Room Occupancy
5* Hotels	80,665	50,000	62%	24,500	2.0	33,333	43,070	77%
4* Hotels	892,425	419,404	47%	237,022	1.8	279,603	448,950	62%
3* Hotels	765,040	435,481	57%	245,711	1.8	290,321	389,090	75%
2* Hotels	224,110	100,245	45%	56,309	1.8	66,830	125,925	53%
1* Hotels	40,880	13,023	32%	6,732	1.9	8,682	23,360	37%
Total	2,003,120	1,018,153	51%	570,274	1.8	678,769	1,030,395	66%

2009	Available Beds	Accommodated Bednights	Bed Occupancy	Arrivals in People	Average Length of Stay (days)	Accommodated Roomnights	Available Rooms	Room Occupancy
5* Hotels	80,665	50,000	62%	24,000	2.1	33,333	43,070	77%
4* Hotels	876,730	390,818	45%	218,000	1.8	260,545	440,555	59%
3* Hotels	771,975	402,172	52%	220,935	1.8	268,115	394,565	68%
2* Hotels	221,920	100,703	45%	56,486	1.8	67,135	128,480	52%
1* Hotels	56,940	17,097	30%	9,440	1.8	11,398	31,755	36%
Total	2,008,230	960,790	48%	528,861	1.8	640,527	1,038,425	62%

Source: Verona Hotel Association, HVS Analysis

Evolution of Arrivals and Overnights Stays at Verona Hotels

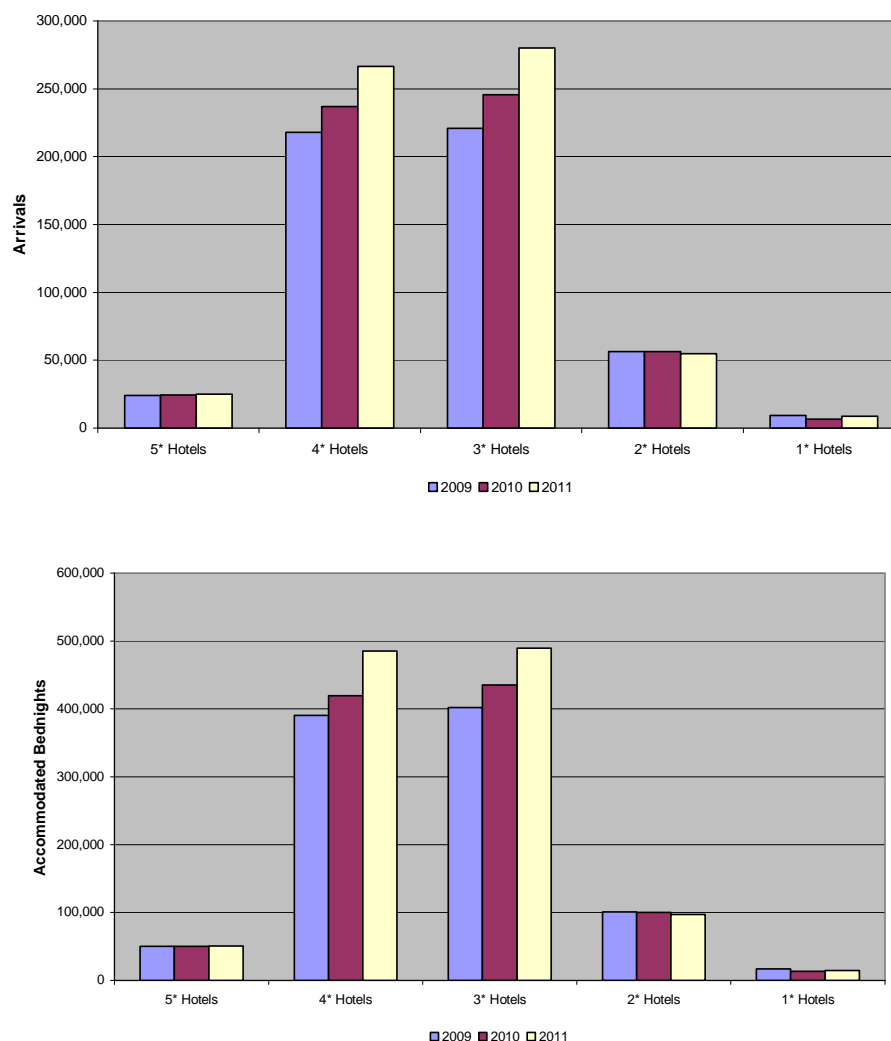
Since visitors arrive at Verona by air, car, and train, we have put together an analysis of the evolution of arrivals and overnights stays at all hotels in the city for the past three years, as illustrated in the following graph. Each hotel category has demonstrated different behaviour in each variable for the past three years.

Five-star, 2-star, and 1-star hotels have demonstrated flat results year over year in both variables. On the contrary, 3-star and 4-star units have depicted increasing results year over year in both variables.

The 4-star hotel market has recorded a 22% increase in arrivals and a 24% increase in accommodated bednights in 2011 over 2009.

The 3-star market has recorded a 27% increase in arrivals and a 22% increase in accommodated bednights in 2011 over 2009.

GRAPH 2: EVOLUTION OF ARRIVALS AND ACCOMMODATED BEDNIGHTS AT VERONA HOTELS, 2009 – 11



Source: Verona Hotel Association, HS Analysis

Tourism Infrastructure Developments

The two most important city infrastructure projects that are anticipated to enhance accessibility and mobility and potentially contribute towards further growth in the tourism industry in Verona are:

1. The completion of the new bypass ring road around the city towards its north section from the highway exit 'Casello Verona Nord' towards the highway exit 'Casello Verona East', and
2. The construction of a low-floor tram line connecting north-south points and east-west points all around the city. The project, however, has been placed on hold since early 2008.

Conclusion

The two main drivers of tourism demand in Verona have played a very important role towards the region's sustained economic and tourism growth in recent years.

Verona has handily proved to be a successful hotel market during the past three years, illustrating resilience towards the economic difficulties experienced throughout Europe. Its hotel market performance has continuously improving, despite the limited number of branded units in its supply.

Recent information (June 2012) indicate that two four-star hotel units, totalling more than 200 rooms, are expected to enter the Verona competitive hotel market in the next 2-3 years. One of these units, still in development stage, is rumoured to be located close to the Exhibition Centre and probably carry an international brand.

Furthermore, recently-available information indicate the possibility of the addition of about 1,330 hotel rooms in the broader Verona metropolitan region over the next 4-5 years. This information reflects the current availability of empty land plots suitable for the construction of about 66,450 m² of buildable hotel surfaces. If eventually materialized, this increase in Verona's hotel room inventory is expected to place pressure on its occupancy and average room rate performance.

But for the moment, hotel performance trends seem to indicate continued growth, but at a slower pace than in recent years.



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No investment decision should be made based on the information in this survey.

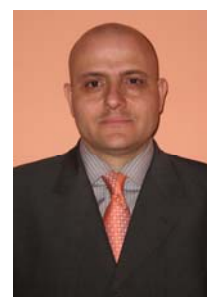
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About the Authors



Ezio Poinelli is the Director of the HVS Milan office. He has more than 15 years experience in Hospitality, Real Estate, and Leisure Real Estate markets in Europe, Caribbean, Latin America, and South Africa. He joined HVS in

2010 having significant experience in executive positions at Northcourse Advisory Services (Wyndham Worldwide), Ernst & Young, and other companies in the hospitality and real estate field. He is a graduate in Economics and Business Administration and holds a M.Sc. in Tourism Economics from Bocconi University. He can be contacted at epoinelli@hvs.com or +39 02 873-43016.



Themis Trakas is an Associate Director with the HVS Athens Office. He joined HVS in 2006 having eight years of operational experience in the hospitality industry in Greece, Switzerland, and the United States. He holds an MBA in Accounting from Baruch College in New

York and a Bachelor of Science in Hotel and Restaurant Administration from Cornell University. Since joining HVS, he has completed numerous feasibility studies, valuations, and market research analyses throughout Greece, Italy, Morocco, Cyprus, Turkey, and Malta. He can be contacted at ttrakas@hvs.com or +30 (210) 361-2085.