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IN FOCUS:

# MILAN, ITALY

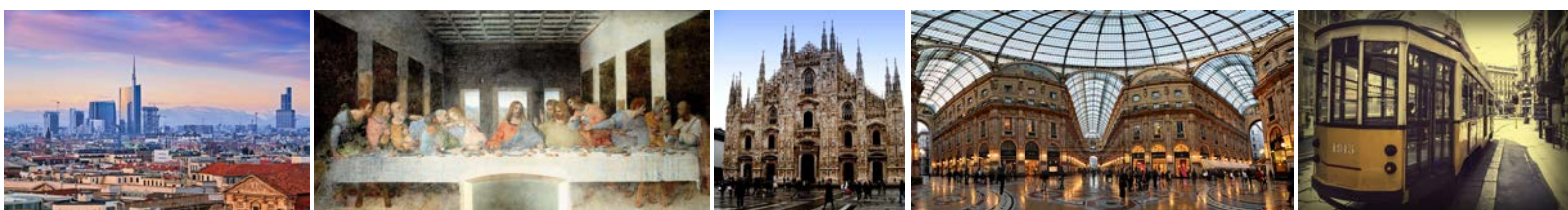
THE VIEW ON THE CITY'S TOURISM INDUSTRY BEFORE AND AFTER  
EXPO 2015

**Ezio Poinelli**

*Director*

**Paolo Buffa**

*Senior Consultant*



*This article focuses on the Milan hospitality and tourism industry and the effect the hosting of the 2015 World Exposition is expected to have on the industry. Forecasts and impacts of the event are quite debated in the hospitality community and numbers mainly hypothetical until they will materialize, especially in the context of Italy's complicate economic and social environment (persistent crisis, delays and scandals on the assignments of the works for Expo, etc). Despite the situation, various new hotel projects will be materializing in the next months and coming years in the greater area of Milan, aiming to leverage on Expo positive heritage and the expected possible recovery of the economy. Besides the Expo, it is very important to look at the fundamentals of the market, in order to assess how it will evolve and possibly benefit from the 6 months of global exposure, and finally how many rooms the market will be able to absorb. In writing this article, we utilise the expertise of HVS in each market to the full extent by combining our in-house data and research, interviews with opinion leaders, together with published information regarding the examined destination.*

## City Overview

Milan is Italy's second largest city, the country's business and financial centre, and a leader in technological and scientific research. The city is home to Italy's stock exchange and one of Europe's largest trade fair and congress venues. At the forefront of the international fashion and design scene, Milan is the preferred city for many national and international fashion and design companies for their headquarters and hosts several globally-renowned events throughout the year, such as Milan Fashion Week and the Milan Furniture Fair. The city is also strategically located close to lakes, mountains, and the coast, while being a gateway to Europe. In the last few years, various big mixed use development projects and infrastructure works started (or were planned). Many of them have a deadline corresponding to Expo 2015, while others will just continue to be completed later, in order to improve the city's accessibility and mobility system. Few examples are the addition to the transportation system of 2 new motorways (Bre-bemi and TEM), extension of Metro lines 1, 5 and 4, completion/starting of the mixed use projects City Life, Porta Nuova, Milano Santa Giulia, MilanoSesto, etc. The site of the Expo is under development, and after the exhibition will be object of reconversion.

Starting in May 2015 and for 6 months, Milan will be under the global spotlight as it will be hosting the 2015 World Exposition (EXPO 2015). This event is likely to create further visibility for the region and trigger more potential visitation demand that is likely to have an effect on the performance of the region's hotels from 2016 onwards.

### MAP OF THE 2015 MILAN EXPO



Source: EXPO 2015 S.p.A.

## Overview of the Milan 2015 World Exposition and expected visitors<sup>1</sup>

- The 2015 World Exposition will be taking place in Milan, Italy from May 1<sup>st</sup> to October 31<sup>st</sup> 2015. There will **be more than 147 official participants**. The Exhibition Site will cover an area of 1 million m<sup>2</sup>.

<sup>1</sup> Sources: Expo web-site and Explora's forecasts (company in charge of promoting and marketing Expo)

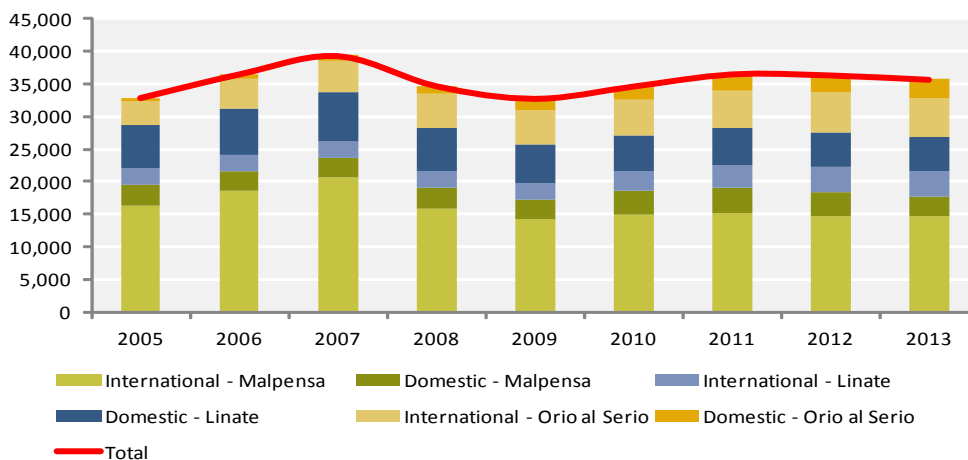
- The central theme is: Feeding the Planet, Energy for Life. According to the EXPO website: “Expo Milano 2015 will talk about the problems of nutrition and the resources of our planet. The idea is to open up a dialogue between international players to exchange views on these major challenges which are relevant to everyone.”
- Instead of geographical grouping of participants, there are nine clusters, each revolving around a common theme and food group: Rice; Cocoa; Coffee; Fruits and Legumes; Spices; Cereals and Tubers; Bio-Mediterranean; Islands, Sea and Food; Arid Zones. Still, individual countries will have their own pavilions
- The central theme will also be explored in five thematic areas: Pavilion Zero; Future Food District; Children’s Park, Biodiversity Park; Arts and Foods.
- **Twenty million visitors are expected to attend the Expo** throughout its six-month duration, with 24 million entrances.
- Out of the total visitors, 12-14 million are expected to be Italians; 6-8 millions are expected to be foreigners (55% from European countries) and a relevant share of them (40%) should be likely to spend few days in Italy as part of their trip
- Visitors are expected to be quite evenly distributed during the months of the exhibition

CHART 1: EXPO ATTENDANCE FORECAST BY MONTH (000S)

May	June	July	Aug	Sept	Oct	Total
4,100	4,700	3,600	3,900	3,700	4,400	24,400

## Air Traffic and Visitation

CHART 2: AIR ARRIVALS, MILAN 2005-13 (000s)



Source: Italian Association of Airport Operators

### Airport Traffic

Milan has two dedicated airports: **Malpensa International**, which is about a 50-minute journey northwest of the city and **Linate International**, which is about 15 minutes east of the city centre. These two airports represent Italy's second largest airport hub after Rome's Fiumicino airport. The city also benefits from **Orio al Serio International Airport** in Bergamo, located some 60 km east of Lombardy's capital city. This airport was recently refurbished and primarily caters to low-cost carrier traffic.

- Total traffic at **Milan Malpensa** has significantly fluctuated during the past nine years, primarily attributed to the consecutive sharp decreases in international passenger volumes in 2008-09. The decision of Alitalia to move the base of some of its international flights to Rome Fiumicino airport contributed to these results during the 2008-09 period, and generated a nine-year total compound annual decline rate of just over 1%.
- Total passenger traffic at **Milan Linate** was significantly boosted by the international segment at a compound annual growth rate of over 5% in the examined nine-year period, while the domestic segment recorded a 3% compound annual decline over this period.
- Total traffic at **Milan Orio al Serio** witnessed significant growth in both its domestic and international passenger volumes, registering a nearly 10% total compound annual growth rate over this nine-year period, all attributed to the robust growth of low-cost airline travel throughout Europe.

- Total traffic at all three airports grew at a compound annual growth rate of 1% from 2005 to 2013, reflecting a compound annual growth rate of 1.1% for international traffic and 0.8% for domestic traffic. Total passenger traffic in 2013 reached almost 36 million (25 million foreigners), approximately the same numbers of Fiumicino Airport only in Rome.
- January-October 2014 data from the Italian Airport Operators Association (Assaeroporti) show a 6.4% increase of total passenger movements at Milan Malpensa and a 0.3% increase of total passenger movements at Milan Linate.

## Visitation

The volume of total overnight stays increased by over 20% in 2013 over 2009, primarily attributed to the significant increase by roundly 31% in the volume of foreign-related overnights and affected to a lesser extent by the increase in the volume of Italian-related overnights at 11%. Foreign arrivals and overnight stays recorded a compound annual growth rate of 7%, while Italian overnight stays recorded a more moderate compound annual growth rate of 2.5% during the period 2009-13. Nevertheless, in 2013, domestic overnight stays showed an increase over previous years, recording a year-on-year increase at over 16% over 2012. The average length of stay has been rather constant at roundly 2 days for both segments over the 5-year period.

Taking into consideration a longer period of time (2003-2013), the total compound annual growth rate for overnights was 2.6% and for arrivals 3.3% (all types of accommodation).

Traditionally, tourism in Milan Province has been highly influenced by corporate and trade fair demand and the city enjoys a healthy mix of international visitors, historically representing a

little more than 50% of total visits and overnight stays. Total tourism demand peaked in 2013 with about 6.3 million arrivals and just over 13.5 million bednights. Arrivals and bednights at all types of accommodation registered year-on-year uplifts of 1.2% and 7.5% over 2012, respectively, as a result of significant growth in demand from emerging markets.

CHART 3: BEDNIGHTS - MILAN PROVINCE

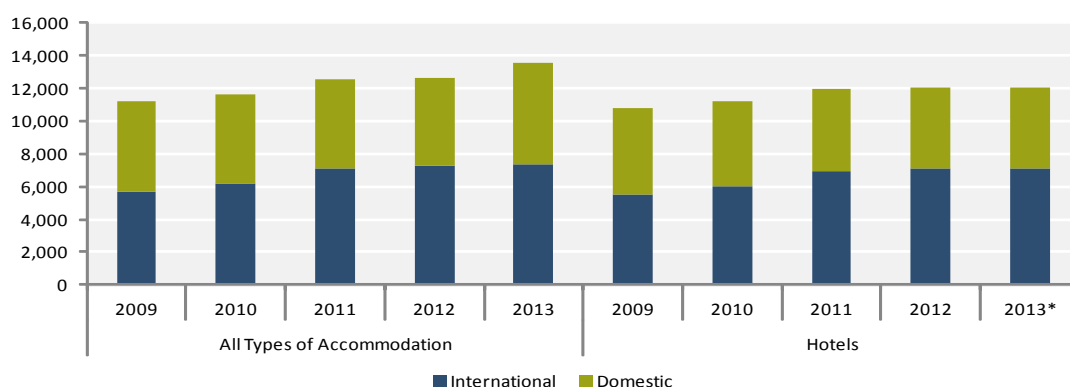
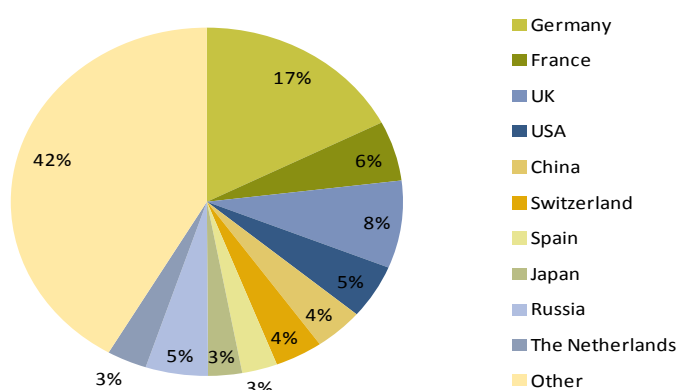


CHART 4: TOP SOURCE COUNTRIES - MILAN 2013



Source: HVS Analysis, Italian Statistics Office

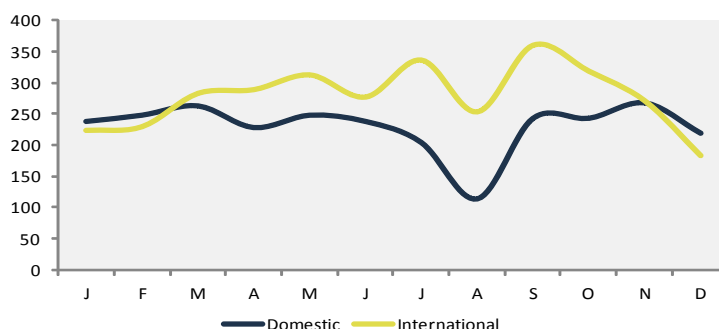
Although arrivals and bednights have historically been driven by business and corporate demand, inbound tourism flows to the city are continuously evolving. Leisure demand to Milan continues to increase, while the city's historic source markets are being exceeded by new emerging markets, such as Russia. Other emerging markets that affect visitation to Milan are China and Japan.

The primary foreign source markets for tourism visitation to the region have been Germany, the United Kingdom, France, Russia, the USA, and China. Italians accounted for 48% of the total overnights in Milan Province.

## Seasonality

Milan's hotel market has historically been characterized by business and trade fair demand, with room yield peaking during the major trade fair and business months of February, April, and September. The weakest months in Milan have been August, which is the traditional Italian holiday month, along with December and January. In the past few years, the city has experienced uplift in leisure demand, which will undoubtedly affect hotel trading seasonality in the medium to long term. Chart 4 illustrates the seasonality pattern that is prevailing in the province of Milan, expressed in monthly arrivals at hotels.

CHART 5: SEASONALITY, MILAN 2013 (000S)



Source: HVS Research and Analysis

## Hotel Supply and Performance

CHART 6: HOTEL SUPPLY – MILAN 2013

### City of Milan

No. of Hotels:	No. of Hotels	No. of Rooms	No. of Beds	Average Rooms	Average Beds
5* Hotels	19	2,152	4,894	113	2.3
4* Hotels	129	14,003	28,280	109	2.0
3* Hotels	120	5,675	10,196	47	1.8
Tourist Residences	48	2,005	4,540	42	2.3
2* Hotels	60	944	1,720	16	1.8
1* Hotels	70	970	1,739	14	1.8
<b>Total:</b>	<b>446</b>	<b>25,749</b>	<b>51,369</b>	<b>58</b>	<b>2.0</b>

### Milan Province

No. of Hotels:	No. of Hotels	No. of Rooms	No. of Beds	Average Rooms	Average Beds
5* Hotels	20	2,202	4,994	110	2.3
4* Hotels	211	21,983	44,646	104	2.0
3* Hotels	191	8,283	15,257	43	1.8
Tourist Residences	58	3,347	7,985	58	2.4
2* Hotels	81	1,407	2,538	17	1.8
1* Hotels	83	1,146	2,064	14	1.8
<b>Total:</b>	<b>644</b>	<b>38,368</b>	<b>77,484</b>	<b>60</b>	<b>2.0</b>

Source: Italian Statistics Office

The number of hotels in Milan Province (including Milan city) has been rather unchanged since 2010 at about 640 units and 38,300 rooms as a result of the difficult and uncertain economic outlook of the country and the difficulty to find land and acquire all related permits to construct new hotels in the attractive locations of the city.

The number of rooms offered by the five-star units in the province of Milan represents only a very small fraction of the total number of rooms offered in the entire province (5.7%). The market continues to be dominated by the 4-star category, which represents 57% of total bedroom stock in the province. The average size of 3-star, 2-star, 1-star hotels, and Tourist Residences, indicates that these categories are not properly represented with the size and standard required by international hotel brands for rentable operations.

As of year-end 2013, the city of Milan featured 446 hotels, with 25,749 rooms, and 51,369 beds, representing 69% of the total hotel supply of the province, as indicated in chart 5.

In the city of Milan, the total offer remained stable in terms of rooms and hotels, though there has been a dynamic change through renovations, addition of new hotels, closing of old hotels, category upgrades – in favour of 5-star and 4-star hotels over the lower categories. In view of the Expo and foreseeing the exit of the long crisis cycle, many of the projects on hold are expected to restart and there is a pipeline of about 1.700-1.800 new rooms in the greater Milan area that should materialize by 2017. Recent openings are Moxy hotel by Marriott Malpensa, Ibis Lainate. Among other hotels opening soon is the long expected Mandarin Oriental, the W, the Excelsior Hotel Gallia, the Me by Melia Duca di Milano, and the Hilton Garden Inn Milan North. The majority of these hotels are again in the 4-star and 5-star categories, but a big opportunity exists for the 2-star and 3-star categories. New hotels are also included in the plans for the big mixed use developments in and around Milan (i.e. City Life, Santa Giulia, MilanoSesto, etc). By adding the rooms of rumoured projects to the rooms of projects in the pipeline, the total number of hotel rooms planned for the greater Milan area would reach 2.700-2.800 in mid-long term.



The operating performances of the hotels in the province of Milan, as reported by the Italian Association of Hotel chains (AICA) and STR, from a sample of 40 hotels, is depicted in the following table.

CHART 7: OPERATING PERFORMANCE OF HOTELS IN THE PROVINCE OF MILAN

	2009	12 Month Change	2010	12 Month Change	2011	12 Month Change	2012	12 Month Change	2013	12 Month Change	2014*	12 Month Change
ADR (€)	125	-	123	-1.6%	127	3.3%	126	-0.8%	126	0.0%	133	5.8%
Occ (%)	56%	-	60%	7.1%	63%	5.0%	62%	-1.6%	65%	4.8%	66%	0.9%
RevPar (€)	70	-	74	5.4%	80	8.4%	78	-2.4%	82	4.8%	87	6.7%

\* Through October 31

Source: AICA-STR

The RevPAR metric has increased by 24.9% in 2014 over 2009, showing that the Milan hotel market has managed to weather the Italian crisis well enough, showing strong resiliency and growth regardless of the surrounding climate.

## Indicative Demand Projections for the city and province of Milan and sustainable rooms

Give the trends and performance up to 2013 and the imminent staging of EXPO 2015, projections for arrivals and demand for the Milan market from 2014 to 2019 are based on the following assumptions:

- For year 2014 and from 2017 onwards, growth rates represent the average projected GDP growth rate for each respective year of the main visitation source markets to Milan (six foreign countries from chart 3, and including Italy).
- For 2015 and 2016, the growth rates projected stem from the data collected through interviews with local hotel operators and heads of hotel chains, relating to EXPO and post EXPO impact, those data are within their budgets and are on the low side of Expo's forecast.
- The resulting compound annual growth rate for the period 2014-2019 is about 2.5%

### City of Milan specific assumptions:

- The projections result in an estimated increase of about 714,000 arrivals in 2019 over 2013, which in turn can be converted to an estimated 1.45 million overnight stays (using the overall average length of stay for the city of Milan from 2005 to 2013 of 2.03). At an assumed average double occupancy factor of 1.8, these overnight stays represent about 805,000 additional occupied roomnights. This figure translates to **a maximum of 3,150 new rooms sustainable** to accommodate this volume of additional roomnights, under the assumption that all new hotels/residences built will operate annually at occupancies averaging at about 70%, while existing hotels will keep their actual occupancy levels and no existing units will discontinue their operations. These new rooms translate to about **16 new hotels/residences**, under the assumption that each will feature on average 200 rooms.

CHART 8: HISTORICAL AND PROJECTED DEMAND – MILAN CITY AND PROVINCE 2010-19

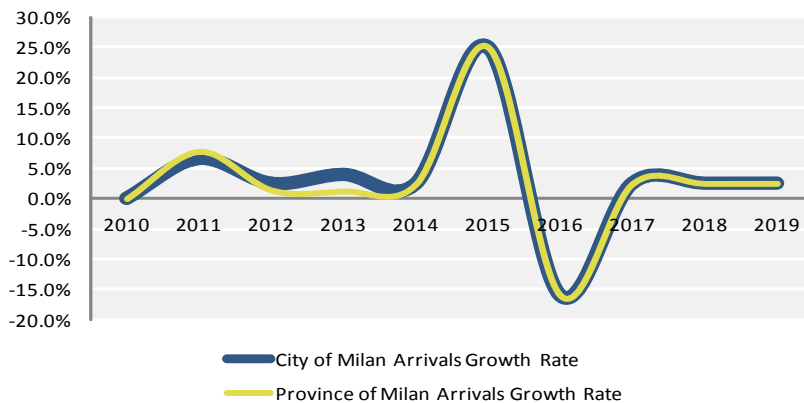
Year	City of Milan Arrivals (000s)	Growth Rate	Province of Milan Arrivals (000s)	Growth Rate
2010	3,984	—	5,693	—
2011	4,246	6.6%	6,136	7.8%
2012	4,351	2.5%	6,222	1.4%
2013	4,523	3.9%	6,300	1.3%
2014	<b>4,631</b>	<b>2.4%</b>	<b>6,451</b>	<b>2.4%</b>
2015	<b>5,789</b>	<b>25.0%</b>	<b>8,064</b>	<b>25.0%</b>
2016	<b>4,863</b>	<b>-16.0%</b>	<b>6,774</b>	<b>-16.0%</b>
2017	<b>4,984</b>	<b>2.5%</b>	<b>6,943</b>	<b>2.5%</b>
2018	<b>5,109</b>	<b>2.5%</b>	<b>7,117</b>	<b>2.5%</b>
2019	<b>5,237</b>	<b>2.5%</b>	<b>7,294</b>	<b>2.5%</b>

Source: City of Milan Statistics Office and HVS Projections

- If the growth rate used in year 2014 and from 2017 onwards were to be assumed at 3.7% – the compound annual growth rate of arrivals in the city of Milan from 2005 to 2013 – then the incremental arrivals in 2019 over 2013 become 968,930. If all aforementioned assumptions are applied to this volume of additional arrivals, **the maximum number of new hotels/residences** needed to absorb this level of arrivals becomes **about 22 (4,400 rooms)**.

### Province of Milan (including Milan city) specific assumptions:

CHART 9: DEMAND GROWTH RATE, MILAN CITY AND PROVINCE, 2010-19



Source: City of Milan Statistics Office and HVS Projections

- The projections result in an estimated 995,000 increase in arrivals in 2019 over 2013, which in turn can be converted to an estimated 2.1 million overnight stays (using the overall average length of stay for the Province of Milan from 2003 to 2013 of 2.12). At an assumed average double occupancy factor for Milan Province of 1.2, these overnight stays represent about 1.75 million additional occupied roomnights. This figure translates to a **maximum of about 6,880 new rooms sustainable** to accommodate this volume of additional roomnights, under the assumption that all new hotels built will operate annually at occupancies averaging at about 70%, while existing hotels/residences will keep their actual occupancy levels and no existing units will discontinue their operations. These new rooms

translate to about **35 new hotels/residences**, under the assumption that each will feature on average 200 rooms.

- If the growth rate used in year 2014 and from 2017 onwards were to be assumed at 3.3% – the compound annual growth rate of arrivals in the Province of Milan from 2003 to 2013 – then the incremental arrivals in 2019 over 2013 become 1.23 million. If all aforementioned assumptions are applied to this volume of additional arrivals, **the maximum number of new hotels/residences** needed to absorb this level of arrivals becomes **about 43 (8,600 rooms)**.

## Conclusion

In interviews held with executives of hotel brands regarding their opinion and estimate on the outlook of the greater Milan area hotel market, following the completion of EXPO 2015, the following key points emerged:

- To accommodate the incremental demand for hotel accommodation from all visitors to EXPO 2015 for 6 months, and the following years, some new hotels are planned or rumoured to be developed. The exact number of units, their room count and date of opening is not fully known, though 1,700-1,800 seems a reasonable estimate (by 2017-2018) however, these new hotel projects are expected to be dispersed throughout the region and not all of them will be purposely built to accommodate the incremental demand expected to be generated by EXPO 2015 (many of them, already planned in previous years, were on hold due to the long crisis affecting Italy).
- Due to the EXPO opening, during 2015, the Milan market is expected to grow by about 25-30% in terms of demand for that year, with pressure on increasing ADR. Extra-hotel accommodation will have a relevant role in absorbing excess of demand and eventually balancing the prices during the exhibition.
- The performance of the Milan hotel market in 2016, versus the previous year, is expected to witness a drop in occupancy, average room rates, and RevPAR following their substantial and anticipated increase in 2015 as a result of EXPO 2015. Some players indicate in 20% Revpar decrease.

- The net effect of Expo on hotel performances, from 2016 onwards, is expected to be from neutral to positive: conservative forecasts indicate occupancy will remain the same due to the increase in offer, but slightly higher ADR is expected. Other forecasts indicate a net effect of Expo estimated in 10% increase in RevPAR of the hotels. Everybody agree that Expo will possibly leave Milan with higher demand and better hotel offer.
- The greatest positive after Expo effect is expected to be realized by the Milan leisure segment as the visibility of the city during 2015 is likely to generate new leisure demand from 2016 onwards.
- The business/corporate segment is likely to be reinforced from 2016 onwards, building upon its already strong performance thus far.
- The independent / non-branded hotels are likely to experience decreases in their operating performance from 2016 onwards due to competition.
- The region of the suburbs to the northeast and east of the city of Milan – currently observed as relatively undersupplied in terms of quality branded hotels – constitutes a strong candidate (in terms of location) to see some of the new hotels being developed in the immediate future.
- The low-cost/budget/ limited service hotels, with international standards, are considered the segments with highest potential of development for Milan in the coming years, because of the actual low coverage of the market by international brands.

The analysis of the indicative demand projections for the city and Province of Milan results in the following observations:

- According to the assumptions above, the number of new potential hotel rooms able to absorb the demand in a sustainable way, is estimated in a maximum of 3,150 (16 hotels) for the City of Milan and 6,900 (35 hotels) for the Province of Milan.
- Most probably, given the higher difficulty to find land to build new hotels/reconvert buildings in the city of Milan – and under the fundamental assumption that the region's current hotel operating performance remains rather unchanged in the future – it is more likely that more than 50% of the new hotels/residences needed to absorb the incremental demand in the Province of Milan under the conservative scenario (i.e. 35 units) will be built in the immediate outskirts of the city of Milan, within the Province of Milan.





## About HVS

**HVS** is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. [www.hvs.com](http://www.hvs.com)

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## About the Authors



**Ezio Poinelli** is the Director of the HVS office in Milan. He has more than 17 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](mailto:epoinelli@hvs.com) or +39 02 8734 3016.



**Paolo Buffa** is a Senior Consultant with HVS Milan & Athens. He joined HVS in 2014 having 12 years experience on hotels and mixed use developments, asset management and sales & marketing for hospitality projects. He worked for Real Estate developers and Private Equity firms in EMEA region (mainly Spain and Italy) and for consultancy firms as Northcourse Advisory Services (Wyndham Worldwide) and Ernst & Young. He holds a Master of Science (M.Sc.) in Business Administration and Executive Education at Cornell University. He can be contacted at [pbuffa@hvs.com](mailto:pbuffa@hvs.com) or +34 661 905 496.