

CHAIN REACTION: A HOTEL REVOLUTION

BEDNIGHTS – 2024

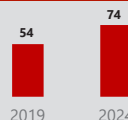


+2.0% YOY
20.7 MILLION

TOURIST ARRIVALS – 2024



REVPAR GROWTH 2024 VS 2019 (€)



AIRPORT PASSENGERS – 2024



+2.0% YOY
9.8 MILLION
at Faro Airport
+9.1% over 2019

Market Profile

The Algarve is one of Portugal's most popular tourist regions, accounting for around 30% of overnight stays in the country. Known for its mild climate and 3,000 hours of sunshine a year, it rose to prominence in the 1960s as an upscale alternative to the Mediterranean. Today, it remains a favourite for retirees and second-home buyers from Northern Europe. The region is also considered one of the world's leading golf destinations, hosting 31 of Portugal's 75 golf courses. Strict development controls have preserved much of the coastline, distinguishing it from other overdeveloped European resorts.

Tourism Demand

The pandemic years aside, demand in the Algarve has remained remarkably stable. In 2024, international bednights exceeded pre-pandemic levels, reaching 16.0 million, compared to 15.9 million in 2019. While domestic demand has declined slightly in recent years, the surge in international visitors largely compensated for this shift. A key driver of this growth is the expansion of flight connections between the USA and Portugal. From 2025, United Airlines will operate four weekly flights between Newark (New York) and Faro from May to September, which is expected to boost the region's popularity with US travellers.

Despite its price sensitivity, the golf segment is crucial for the Algarve, extending tourism beyond the summer months. Sports teams, particularly football clubs on winter training camps, are also drawn by the area's mild climate and high-quality infrastructure and are especially beneficial during the low season, as teams opt for full-board and use the meeting facilities, keeping multiple hotel departments active during an otherwise quiet period. Thus, hotels are investing in professional-grade sports facilities to better attract this market.

Hotel Performance

The Algarve has demonstrated a consistently stable level of demand. Despite the pandemic's significant impact, the Algarve's recovery was swift. Domestic demand fluctuated very little during the pandemic, and international demand rebounded quickly. By 2023/24, bednights had returned to pre-pandemic levels. This rapid recovery is reflected in occupancy rates, which stood at 57% in 2019, recovered after the pandemic to 55% in 2022, and climbed to 58% in 2023 and 59% in 2024. This record performance was influenced by a temporary reduction in supply, as several hotels underwent renovations.

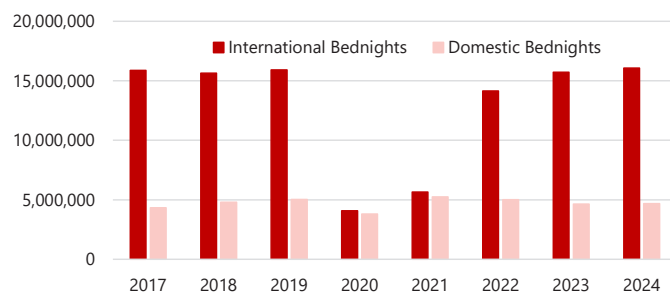
Average rates in the Algarve lagged inflation from 2017 to 2020, but in 2021, as tourism surged across resort destinations, they enjoyed a sharp increase that continued into 2022 despite rising and more evenly distributed demand throughout the year. The region has since kept pace with inflation, leveraging post-pandemic momentum to push rates beyond inflationary levels. Consequently, the 2024 average rate stood 13% higher in real terms than that achieved in 2019. As a result, the 2024 RevPAR for the Algarve registered a 16% increase over 2019 in real terms.

ECONOMIC INDICATORS – PORTUGAL

	2023A	2024A	2025F
GDP GROWTH (%)	+2.6%	+1.9%	+2.0%
CPI (%)	+5.3%	+2.7%	+1.9%
UNEMPLOYMENT (%)	6.6%	6.5%	6.4%

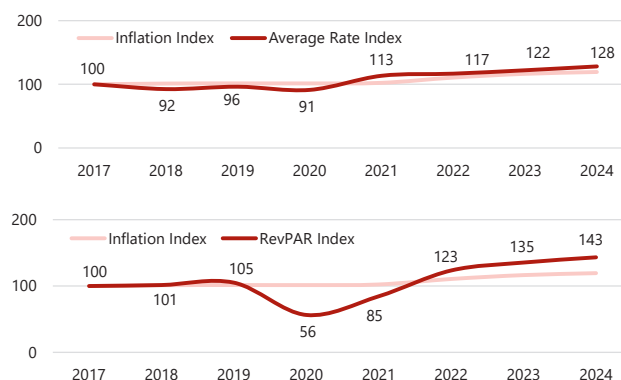
Source: International Monetary Fund (IMF), April 2025

INCREASE IN US FLIGHTS DRIVES BEDNIGHT GROWTH



Source: HVS Research

AVERAGE RATES RIDING THE INFLATION WAVE AND REVPAR REACHING NEW HEIGHTS



2017=100 (Base Year)

Source: HVS Research

Hotel Supply

The Algarve's hotel supply remained stable between 2017 and 2024, with the temporary reduction in available rooms during the pandemic now fully recovered. Notably, the five-star segment grew at a compound annual rate of 2% over that period. Although hotel openings have been relatively limited in recent years, significant developments are on the horizon. Approximately 1,200 new rooms are expected to enter the market over the next few years, equivalent to a 3% increase in supply. A further 2,200 rooms are undergoing renovation and repositioning, representing 5% of the existing supply. While these upgrades do not expand supply, they are significant in terms of market repositioning. Many of the upgrades involve independent or locally branded properties transitioning to international hotel chains, signalling a growing trend toward branding in the Algarve. Several major projects materialising soon will mark a shift that could redefine the region's hospitality landscape.

With international brands such as Marriott, IHG and Hilton entering at the luxury end of the spectrum, the overall price ceiling for the destination is likely to rise, ultimately benefiting the rest of the market as well. Additionally, the presence of global chains with strong distribution networks will elevate the Algarve's visibility on the international stage, enhancing its competitiveness with Mediterranean resort destinations. This is also relevant for the incentive travel segment, popular with US travellers, which will be further supported by new direct flight routes.

However, despite this momentum, industry players do not foresee the Algarve transforming into the next Marbella or Costa del Sol. Strict development controls remain in place to preserve the region's natural coastline, and the Algarve's location on the Atlantic rather than the Mediterranean, along with seasonal and infrastructure limitations, naturally curbs unchecked expansion.

Investment Market

The Algarve saw a surge in hotel investment activity in 2023, with 16 hotels changing hands, marking a strong rebound after a sluggish 2021 and 2022, during which only six hotels transacted across the two years. Over the past four years, hotels in the region have sold at an average price of approximately €293,000 per key.

Two key players have been particularly active in the Algarve market. Arrow Global has aggressively expanded its Portuguese portfolio, acquiring, for instance, an 11-hotel portfolio in 2023, including four Dom Pedro properties in the Algarve, which are now undergoing repositioning and rebranding. Meanwhile, Mercan Properties has been capitalising on recent changes to Portugal's residency-by-investment programme. Following the October 2023 reform eliminating real estate investments from the Golden Visa programme and shifting focus to alternative investment routes like venture capital funds, Mercan has strategically leveraged this shift to expand its portfolio, with most of these acquisitions currently undergoing repositioning works.

Outlook

The Algarve is a market to watch, underpinned by strong fundamentals and proven resilience. Its robust post-pandemic recovery and growing appeal among travellers have drawn interest from investors and operators alike. The rising demand from US visitors and the entry of international hotel brands are aligning to drive potential average rate growth across the region. However, with a surge in new supply in a small market, competitive pressures may temper future rate acceleration. Nonetheless, the Algarve stands at the threshold of an exciting period of transformation, with several high-profile developments set to shape its hospitality landscape in the years ahead.

UPCOMING HOTEL OPENINGS IN THE ALGARVE

Property	City	Rooms	Opening
Holiday Inn Express Portimao	Portimao	60	H2 2025
Hard Rock Hotel Algarve	Portimao	275	Sep-26
Hotel Indigo Faro Ribeirinha	Faro	127	Dec-26
Hilton Alvor Praia	Alvor	363	2026
Hilton Garden Inn Lagos	Lagos	90	2026
Lagos Marina Hotel Curio Collection by Hilton	Lagos	181	2026
Verdelago Resort Algarve	Castro Marim	197	May-27
Agua Hotel Ferragudo	Parchal	169	May-27
Marriott Lagos Algarve	Lagos	200	Jul-27
JW Marriott Algarve Palmares Hotel & Spa	Lagos	305	2028

Source: HVS Research

REPOSITIONING PROJECTS IN THE ALGARVE

Property	City	Rooms	Opening
Hotel Indigo Albufeira	Albufeira	80	Apr-25
Algarve Marriott Salgados Golf Resort & Conference Center	Guia	228	May-25
Kimpton Atlantico Algarve	Albufeira	149	May-25
The Westin Salgados Beach Resort Algarve	Guia	95	May-25
Marriott Residences Salgados Resort Algarve	Guia	192	May-25
Palacio de Tavira	Tavira	36	Jun-25
PortoBay Ocean Blue	Albufeira	349	Jul-25
Hyatt Regency Vilamoura	Quarteira	266	2026
Canopy by Hilton Vilamoura Marina	Quarteira	155	2026
Ikos Cortesia	Olhos de Agua	264	2029

Source: HVS Research

KEY RECENT HOTEL TRANSACTIONS IN THE ALGARVE

Property	Rooms	Sale Date	Estimated Price (€)
Conrad Algarve, Loule	224	Dec-24	200,000,000
TUI Blue Falesia, Albufeira ¹	349	Feb-24	158,400,000
PortoBay Falesia, Albufeira ¹	312	Feb-24	141,600,000
Hotel California, Albufeira	80	Dec-23	13,000,000
Tivoli Marina Portimao ¹	196	Dec-23	26,800,000
Tivoli Lagos ¹	296	Dec-23	40,500,000
Tivoli The Residences at Victoria, Loule ¹	145	Dec-23	19,800,000
Anantara Vilamoura Algarve Resort, Faro ¹	260	Dec-23	35,600,000

¹As part of a portfolio transaction

Source: HVS Research

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