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# VENICE MARKET PULSE

**A SLOW-MOVING MARKET**

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The resurgence of travel activity in Venice following the years afflicted by the COVID-19 pandemic has not only been a sign of recovery but also an indicator of evolving trends within the city's tourism sector.

In line with what observed with other Italian and European cities, Venice's hotel market experienced an unprecedented surge in the post-pandemic era. Despite hotel occupancy rates remaining below pre-pandemic levels, there has been a significant increase in average rates, leading to a notably positive impact on Revenue Per Available Room (RevPAR).

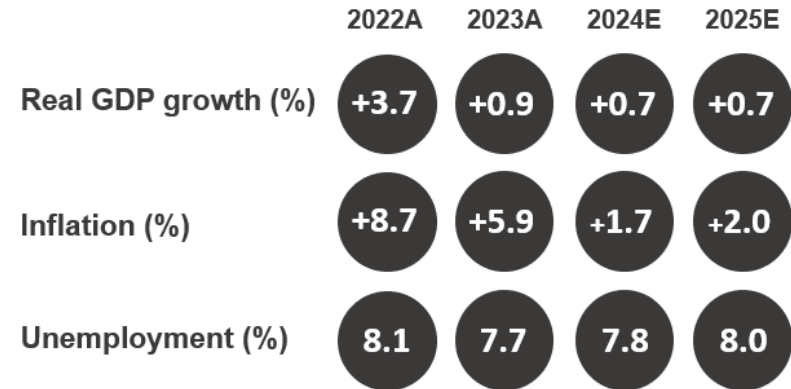
The vacation homes market, which was already gaining momentum before 2020, has accelerated further in the aftermath of the pandemic a trend driven by a combination of shifting traveller preferences and the rising prices of hotels, making them less accessible to certain traveler demographics.

### Airport Statistics

Passenger movement at Venice "Marco Polo" airport was 11.3 million in 2023, down by 2.1% compared to 2019. International passengers were 10% lower than pre-pandemic volumes, while domestic passengers showed an increase of nearly 50% from 2019 figures. During the first quarter of 2023, there was a 2.8% uptick in overall volumes, with the international segment experiencing a 4.2% year-on-year growth and the domestic segment witnessing a 3.1% decline.

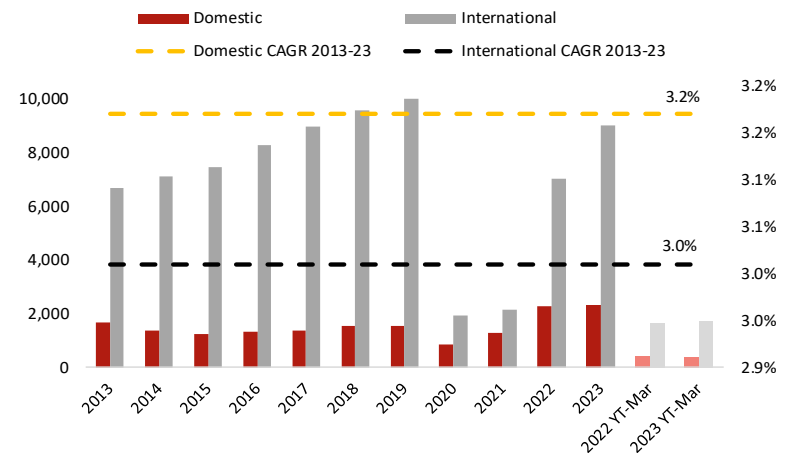
Meanwhile, Treviso airport "Antonio Canova" in 2023 was still 6.7% lower in passenger volumes compared to 2019. Despite a notable increase of 30.9% in the international segment, the domestic segment dropped by 80.7%. The beginning of the year was marked by a closure between February 25 and March 16. Still, international passengers aligned with the previous year while domestic passengers plummeted by 90.5%.

### Economic Indicators - Italy



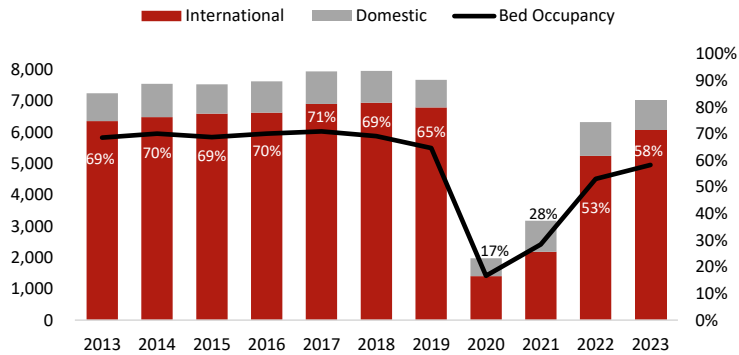
Source: International Monetary Fund, April 2024

### Passenger Movement – Venice “Marco Polo” Airport (000s)



Source: HVS elaboration of Assaeroporti data

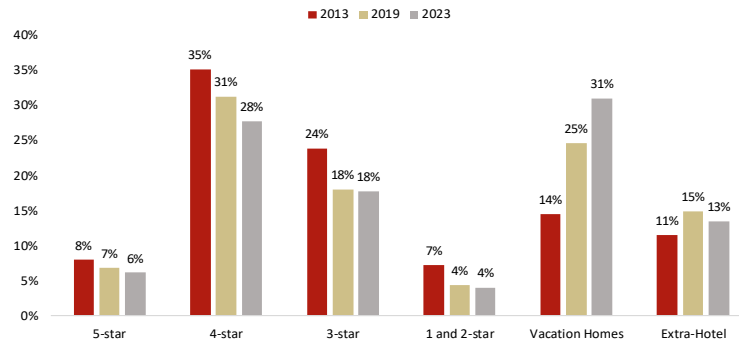
### Accommodated Hotel Bednights and Gross Bed Occupancy (000s)



\* 2023 bed occupancy is estimated

Source: HVS elaboration of Regione Veneto and ISTAT data

### Share of Bednights by Type of Accommodation



Source: HVS elaboration of Regione Veneto data

### Tourism Demand

In 2023, accommodated bednights in the Venice market nearly caught up to 2019 figures (-2.5%). However, the hotel sector remains evidently impacted by the aftermath of the COVID-19 pandemic, as it still lags by 10.3% compared to 2019. Conversely, extra-hotel accommodations, including B&Bs, guesthouses, vacation homes, and hostels, have experienced a tremendous surge in demand in the wake of the pandemic. By the end of 2023, bednights in these categories had increased by 9.5% compared to 2019, with vacation homes emerging as the primary driver of this trend. Over the past decade, in fact, Venice has witnessed a significant increase in short-term rental accommodations, with vacation homes showcasing double digit CAGR from 2013 to 2023 (+11%). Consequently, their market share rose from 14% in 2013 to 25% in 2019 and further to 31% in 2023, indicating an acceleration of this trend.

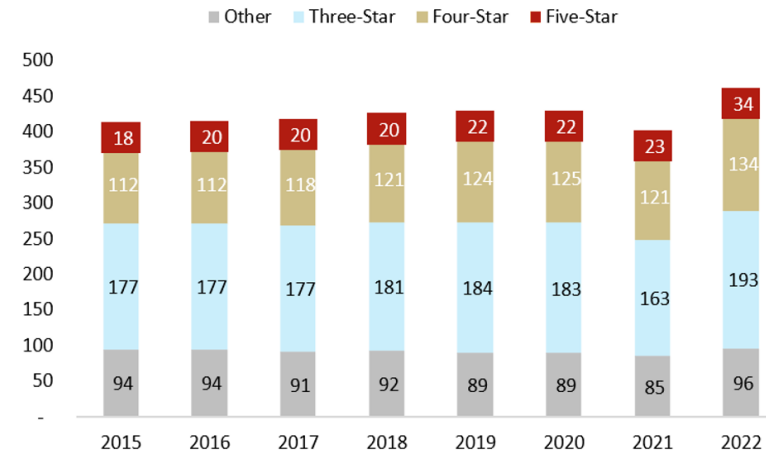
In terms of geographical distribution, the Centre/Lagoon area remains the most sought-after, capturing approximately 72% of all accommodated bednights, followed by Mestre/Inland with 25%, and Lido with 3%. While the Centre/Lagoon area has successfully recovered to 2019 bednights volumes (+3.1%), Mestre/Inland and Lido di Venezia continue to lag significantly, standing at -14.1% and -17.2% respectively. Notably, Lido appears to have experienced a substantial decline in appeal, with its accommodated bednights volume decreasing by over 30% over the past decade.

## Hotel Supply and Pipeline

Between 2015 and 2022, the number of hotels increased from 401 to 457, accompanied by a rise in rooms from 15,808 to 16,988. It's worth noting that the methodology for counting establishments in Veneto region changed in 2022, contributing to the substantial growth observed that year. During the period from 2015 to 2019, the five-star hotel segment experienced the most rapid expansion in terms of the number of hotels, with a Compound Annual Growth Rate (CAGR) of +5.1%, while the three-star segment saw the fastest growth in terms of rooms, with a CAGR of +3.1%. Conversely, the "other" hotel segment witnessed a decline in both the number of establishments and rooms. Five-star hotels boasted the largest average room count, with 74 rooms in 2022, compared to 58 rooms for four-star hotels, 26 rooms for three-star hotels, and 16 rooms for other establishments.

We identified an interesting pipeline primarily concentrated in the Venice Centre/Lagoon area, comprising approximately 1,500 rooms, representing around 9% of the existing supply. This pipeline comprises only hotels in the five-star (7 hotels, 784 rooms) and in the three-star (3 hotels, 749 rooms) segments. The Hampton by Hilton and the B&B Hotel are both greenfield constructions being developed in the Tronchetto area, while the other hotels stem from the renovation and/or conversion of existing assets. More in detail, the Hotel Gabrielli will be managed by Starhotels after renovation, the historical Hotel Danieli is expected to fly the Four Seasons flag and Palazzo Donà Giovanelli is being transformed into Orient Express Venice (Accor). Les Airelles will result from the renovation of the ex-Bauer assets in Giudecca (Hotel Palladio and Villa F. Similarly, the NUMA Residenza Grunwald Venice will take shape through the renovation of the old Bauer Casanova, adjacent to the Bauer hotel. "Only You" Bonvecchiati, a brand under the Palladium Hotel Group, will

Hotel Supply 2015-22



Source: ISTAT

## Hotel Pipeline and Rebrandings

Hotel	Rooms	Projected Opening
Hampton by Hilton Venice	324	Q2 2024
B&B Hotel Venezia Tronchetto	406	Q3 2024
Hotel Gabrielli, Starhotels Collezione	68	Q1 2025
Hotel Danieli, Venezia, A Four Seasons Hotel	204	Q2 2025
Les Airelles Venice	51	Q2 2025
Orient Express Venice	45	Q4 2025
NUMA Residenza Grünwald Venice	19	Q1 2026
Only You Palazzo Bonvecchiati	168	Q1 2026
The Langham Venice	138	Q3 2026
Rosewood Hotel Bauer	110	N/A

Source: HVS Research

emerge from the fusion and refurbishment of the Hotel Bonvecchiati and the Palace Bonvecchiati. Hong Kong-based Langham Hospitality Group instead is in the process of converting an ex-glass factory on the island of Murano into an ultra-luxury hotel. Lastly, while the Hotel Bauer was slated to operate under the Rosewood brand after extensive renovation works, the project appears to be on hold following the crisis involving Signa, the former owner of the asset.

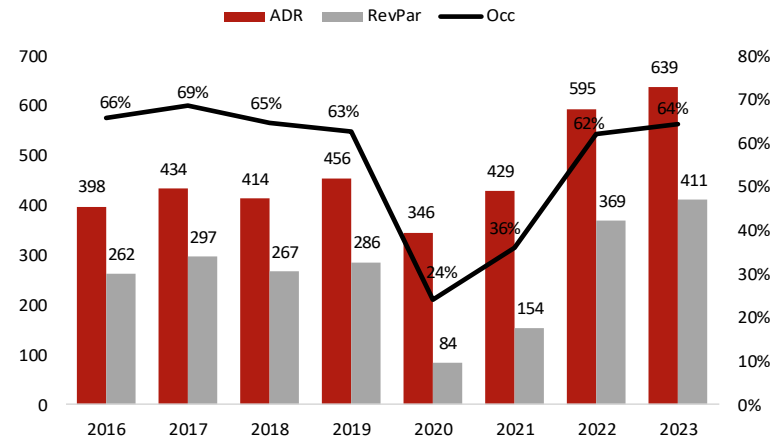
### Hotel Operating Performance

We conducted an analysis of approximately 2,300 rooms spanning the period 2016-23, all positioned within the upper-upscale and luxury segments and located in the Centre/Lagoon area. The data indicate that occupancy rates in 2023 have returned to pre-pandemic levels, while the Average Daily Rates (ADRs), in line with what was observed in other Italian and European cities, experienced a substantial increase in 2022 and 2023. Consequently, both ADR and Revenue Per Available Room (RevPAR) experienced an increase of over 40% over 2019. It must be noted that occupancy rates of hotels in the upper-upscale / low five-star segments hovers around 75%, and that the reported figure is impacted by ultra-luxury properties and by some large hotels that operate seasonally.

### Hotel Investment Market

We have identified 18 transactions between 2019 and 2022 in Venice. In 2023, we are not aware of any significant hotel transaction taking place. The most significant transaction was the sale, in 2019, of the Bauer portfolio: four assets, 290 keys for an estimated price of €400 million. The Bauer Palazzo was then resold to Signa in 2020 for a reported €250 million. Signa then declared insolvency in late 2023, and the asset is currently switching hands. The future of the Hotel Bauer, which was planned to rebrand to Rosewood, is currently unknown.

### KPIs – Upper Upscale and Luxury Hotels 2016-23



Source: HVS Research

### Hotel Transactions 2019-22

Property	Rooms	Sale Date	Estimated Price (€)	Per Room (€)
Hotel Excelsior Venice Lido Resort	197	Jul-22	100,000,000	507,614
Hotel Ai Cavalieri	* 32	Jun-22	24,999,994	781,250
Hotel Ai Reali	* 32	Jun-22	24,999,994	781,250
Bonvecchiati Complex	191	May-21	100,000,000	523,560
Baglioni Hotel Luna	93	Feb-21	100,000,000	1,075,269
NH dei Dogi	* 64	Sep-20	47,556,499	743,070
NH Bellini Venezia	* 100	Sep-20	74,307,029	743,070
Bauer Palazzo	210	May-20	250,000,000	1,190,476
Hotel Helvetia	50	Apr-20	Undisclosed	
7 Days Premium Hotel Venice Mestre	* 208	Nov-19	52,537,499	252,584
Wombat's City Hostel Venice	* 122	Nov-19	46,686,162	382,673
Stacycity Venice Mestre	* 175	Nov-19	44,202,223	252,584
Leonardo Royal Mestre	* 244	Nov-19	56,574,072	231,861
Hotel Palazzo Giovanelli	41	Oct-19	50,000,000	1,219,512
Bauer Casa Nova	* 19	Jun-19	26,206,897	1,379,310
Villa F	* 11	Jun-19	15,172,414	1,379,310
Bauer Palazzo	* 210	Jun-19	289,655,172	1,379,310
Bauer Palladio Hotel & Spa	* 50	Jun-19	68,965,517	1,379,310

\* Portfolio transaction - price per key allocated

Source: HVS Research

Other important transactions involved the Bonvecchiati Complex and the Hotel Baglioni Luna and the Hotel Excelsior Venice Lido, all sold for an estimated €100 million.

### **Outlook Venice**

Venice has always been a market of strong hotel performance. However, rather than stimulating innovation and investment, this stability has inadvertently hindered the hotel market. In recent years, there have been few notable hotel transactions, contributing to Venice being perceived as one of the markets with the highest barriers to entry in Italy. Consequently, the city is characterized by a significant number of aging properties across all categories.

Looking forward, there is considerable investor and brand interest in Venice, particularly following the recent upturn in hotel performance over the past two years. However, greenfield projects are exceptionally rare due to the limited availability of land. Furthermore, the conversion of existing buildings presents significant challenges, particularly of a bureaucratic nature. Additionally, with a scarcity of available properties for sale, many investors (and brands) find themselves unable to enter the market.

There is some activity observed within the luxury segment, with seven projects in the pipeline totaling 784 rooms. Of these, 620 stem from the renovation and rebranding of existing hotel assets, and only 183 come from the conversion of non-hotel assets, of which 138 are in Murano (The Langham Venice). So, more than a proper pipeline of new hotels coming in, what is being observed is mostly the upward repositioning of existing assets where the spread between actual and potential performance allowed for some room for negotiation.

Hotels in the lower segments, instead, tend to be small in size on average, which makes them less appealing to both brands and investors. Therefore, the market in these categories is expected to remain largely unbranded, especially in the centre. Additionally, many of these hotels, predominantly family-run establishments, lack the resources and innovation capabilities to renovate their properties and enhance their offerings and are therefore expected to suffer the most from the competition with vacation homes in the future. However, there may be some transaction activity involving these assets in the future, driven by refinancing needs and generational transitions. This could potentially catalyze the development of an intriguing boutique hotel scene in Venice.

Finally, it's worth mentioning that there are some interesting projects in the feasibility and design stages on Murano Island. These projects involve the potential conversion of disused glass factories, similar to what is being done with The Langham Venice, and are currently under evaluation.

## About HVS

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