# THE EUROPEAN HOTEL INDUSTRY REPORT **2024**

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# Part I

# Introduction

This report provides a current overview of the European hotel industry and projects future trends and developments. The report begins with a review of key issues impacting the industry and moves on to detail the presence of chains across the continent and by major country. Branding, distribution trends, the importance of ESG for attracting financing, as well as the outlook for investment in the sector are also discussed and analysed.

## This report looks at the following areas:

- What are the key issues facing the European hotel industry now?
- Which are the biggest hotel chains in Europe and what are their prospects?
- Which are the major hotel owning groups in Europe?
- What are the key trends regarding hotel branding in Europe?
- What are the trends regarding lease structures in Europe?
- How are ESG (environmental, social and governance) concerns impacting the European hospitality sector?
- How will climate change impact the sector?
- What has been the recent trend in performance in European hotels and what is the outlook?
- What are the latest developments regarding investment, transactions and M & A in the European hospitality sector and what is the outlook by major European hotel market?

## Key Findings

- **Given the challenge of attracting a retaining staff, several programs have been launched by industry associations and hotel chains to promote and facilitate employment in the hospitality sector.**
- **Accor heavily dominates the European hotel sector, being the leading chain by room count not only in France, but also in Belgium, Germany, Poland and Switzerland. The chain is de-emphasising many of its traditional core brands, in favour of lifestyle concepts, especially those owned by Ennismore, in which the group holds a 62.2% stake.**
- **Accor was the last of the major international chains to shed its hotel assets and has now evolved into an essentially asset light structure. As of the end of 2022, only 9 of the group's 3,000-plus hotels in Europe were leased or owned.**
- **Five of the top-ten chains in Europe are based outside the region- 3 in the US (Marriott, Hilton and Best Western), one in China (Jinjiang) and one in Thailand (Minor). The Asian-based chains have established their presence in Europe mainly through acquisitions.**
- **Chain penetration varies considerably by major European country – from 65% of rooms in Spain to only 19% in Italy, for example, according to Horwath HTL.**

- **Franchising has become the preferred brand affiliation structure of the major international chains, while management contracts are increasingly restricted to the luxury and upper-upscale segments**.
- **Fixed leases continue to be widely used across the major European hotel markets.**
- **Owner operator and third-party (or white-label) management groups, which typically have major brand franchises, are expanding their portfolios rapidly in Europe.**
- **Cloud-based PMS and upgraded bookings engines are the top priority categories for technology purchases by hotels; meanwhile guest-facing technological gadgets like in-room voice commands are accorded relatively low priority.**
- **The focus of hotel technology has shifted from combatting OTAs to promote direct bookings to fostering internal operational efficiencies.**
- **ESG criteria are affecting the ability of hotels to attract financing and investment.**
- **Hotels that rely heavily on guests arriving on long-haul flights could be vulnerable to sharply rising air fares in the coming years, as the aviation sector incurs heavy cost increases to reduce $CO_2$ emissions.**
- **Some hotel assets may end up ‘stranded’ due to climate change, e.g., as Mediterranean cities and coastal destinations become unliveable in the summer season.**
- **Climbing interest rates and tighter bank lending criteria have sharply reduced the volume of hotel transactions in most major European hotel markets.**
- **However, Iberia is proving to be an exception. Indeed, hotel investment in Portugal has rebounded strongly from the Covid-induced slowdown, with the total volume of transactions for 2022 surging past the previous record year of 2019 to reach a total of €1.2bn - double that of 3 years previous. Meanwhile, in Spain, hotel transactions during the first half of 2023 reached a total volume of €1.4bn, the fourth best semester ever.**
- **Hopes are high that value add acquisition opportunities will emerge in the coming year in the European hotel sector, as many owners come under pressure to refinance in an era of rising interest rates and lower LTVs. Rising interest rates are also putting downward pressure on hotel values.**

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# Part 2 Issues in the Market

Hotel Analyst has identified five issues that are currently impacting the European hotel sector including: staffing shortages; inflation and rising costs; the outlook for business travel; the outlook for air travel in Europe; and the outlook for Chinese travel to Europe

## Overcoming staffing shortages

Besides attracting customers, the hiring and retaining staff is one of the major operational challenges for European hospitality sector. In order to overcome the lack of staff, several initiatives have been launched with the aim of rendering the sector more attractive as a career prospect and to connect job applicants with employers, including a massive public relations campaign, employer branding and an online jobs platform which bypasses intermediaries. For example, the small 'lean' luxury Ruby Hotels group has a unique employee retention scheme. Once new hires have served for six months, they are offered the choice of a piercing or a tattoo up to a value of €500.

### Hotel employee numbers down over 26% from 2019 in Germany

According to the IHA (German Hotel Association) Industry Report Hotel Market Germany 2023, the classic hotel industry had a total of 356,818 employees in 2022, which represents an increase of 8.2% compared to the previous year, but is still 26.6% below the 2019 level of 485,990, which illustrates the dimension of the problem facing the hotel sector in Europe's largest economy. Meanwhile, the entire hospitality industry had a total of 1.84 million employees in 2022, an increase of 11.8% compared to the previous year. The number of employees subject to social insurance contributions in the hospitality industry reached 1.06 million in 2022, an increase of 8.2%, but still 4.5% below the 2019 level. Nevertheless, there was a positive development on the trainee front: 21,300 young people entered into apprenticeships in 2022, which was in line with the pre-Covid trend.

### Upgrading the image of hospitality

Hospitality is experiencing a major staffing crisis in the UK, as it is elsewhere. There is a finite number of people available to work in the UK and only 20% of people in the UK would consider working in hospitality. In response to this state of affairs, Hospitality Rising has been launched as a promotional campaign with the goal of improving the image of hospitality as a career choice in the UK.  It is the official response of the hospitality industry to the recruitment crisis and is backed by Hospitality and Tourism Skills Board, which was set up in 2021 to control the quality of hospitality apprenticeships and to align other workplace skills and vocational education activities.

The campaign was launched on 24 October 2022, with a 30-second video headlined 'rise fast, work young', promoting the industry as an 'exciting, exhilarating, electrifying' place to work. Some 400,000 vacancies in the sector have obliged hospitality businesses to scale back operations and to put new ventures on hold. Hospitality Rising strives to capture the interest of young people with straplines, such as, "you can't get further faster" and "9-5ers wouldn't get it".

The campaign was developed by former Pret A Manger and YO! marketing director, Mark McCulloch, with the backing of more than 300 businesses and trade bodies and it targets people aged under 30, directing them towards a jobs board. More than 5,000 vacancies across a varied number of roles were initially posted by backers of the campaign at its inception.

renewing these passports. Renewals are now possible, but the backlog could slow the travel rebound by a few months. Furthermore, travel visas for destination countries can take some time to be processed and issued. Altogether, these factors suggest that the returning wave of Chinese travellers most likely only gathered momentum by the summer of 2023 and that China's travel recovery will likely lag Hong Kong's by a few months.

# Part 3 Leading Hotel Chains in Europe

In 2019, the consultants, Horwath, estimated that there were 146,616 hotels, with roughly 6mn rooms, in 22 European countries (excluding Austria, Belarus, Belgium, Bulgaria, Finland, Romania, Russia and Ukraine). About 4% to 5% of total rooms in European hotels closed as a result of Covid - roughly double what occurred in the Great Recession - according to STR's Robin Rossmann, speaking at IHIF in May 2023, who added that, "But that has been offset by rooms openings of around 4% and another 1% will open this year…." Thus, it can be concluded that the continent's total hotel stock has evolved little over the past four year. However, the share of chains has no doubt increased.

The European hotel market is heavily dominated by the top-four players, led by Accor with a 28% share of top-ten rooms, and followed by Jin Jiang, Marriott and IHG. Indeed, these four leading chains account for 64% of total top-ten room capacity. Furthermore, Horwath estimates that there are 18,575 chain hotels with 2,289,879 rooms in Europe, which indicates chain penetration of the overall rooms in the market of 38%. Thus, it can be estimated that the top-10 chains account for over half (54%) of total chain-branded rooms in Europe and almost 21% of the total hotel market

However, in the past year the top-10 room total basically marked time, declining by less than a quarter of a percent. In fact, only five of the top-10 chains grew their room count last year, led by B&B, Hilton and Whitbread.

FIGURE 3: TOP-TEN HOTEL CHAINS IN EUROPE, 1 JANUARY 2023

| Hotel Group | # of hotels | % of top-10 | # of rooms | % change in rooms 2021-2022 | % of top-10 rooms | Rooms/hotel |
|---|---|---|---|---|---|---|
| | | | | | | |
| Accor | 3,068 | 31.0% | 346,115 | +1.1% | 27.9% | 113 |
| Jin Jiang | 1,545* | 15.6% | 190,745* | 0.0% | 15.4% | 123 |
| Marriott Int. | 712 | 7.2% | 134,752 | +1.4% | 10.9% | 189 |
| IHG | 772 | 7.8% | 124,726 | -0.7% | 10.1% | 162 |
| Hilton | 512 | 5.2% | 101,867 | +3.6% | 8.2% | 199 |
| Whitbread | 898 | 9.1% | 92,618 | +3.2% | 7.5% | 103 |
| Best Western | 1,152 | 11.6% | *86,400 | 0.0% | 7.0% | 75 |
| B&B Hotels | 712 | 7.2% | *64,080 | +7.6% | 5.2% | 90 |
| Meliá | 232 | 2.3% | *51,000 | -2.2% | 4.1% | 220 |
| Minor | 290 | 2.9% | 46,785 | -4.0% | 3.8% | 161 |
| **Total Top-10** | **9,893** | **100.0%** | **1,239,088** | **-0.2%** | **100.0%** | **125** |

Note: *Hotel Analyst estimate

Source: Chains 342,344

## Accor

With almost 350,000 branded rooms, Accor remains the undisputed market leader in Europe, where the chain is present with 28 of its 34-odd hotel brands. Luxury, upscale and midscale hotels occupy a higher proportion of Accor's portfolio in Northern Europe than in Southern Europe which includes France, where there is massive legacy economy capacity.

are designed to "reflect the locale" of each hotel, with a decor "inspired by Scandinavian style", that offers a light and a bright aesthetic quality, according to Marriott. The hotels' public areas will serve as flexible social spaces, alongside food and beverage outlets.

# IHG

IHG's European portfolio has shown no growth over the past year, but there are new hotels on the way in 2023 and beyond. In early June, Holiday Inn Express made its debut in Bulgaria, when the Holiday Inn Express Sofia Airport opened. The 152-room property is owned by Hotel Express Sofia Airport Ltd. and represents the first signing between IHG and the owner group. Three of the group's brands, including Holiday Inn, Holiday Inn Express and Crowne Plaza account for almost 79% of IHG's total room capacity in Europe.

FIGURE 10: IHG'S EUROPEAN PORTFOLIO BY BRAND AT 31 MARCH 2023

| Brand | Hotels | Rooms | Rooms/hotel |
|---|---|---|---|
| | | | |
| Six Senses | 8 | 598 | 75 |
| Regent | 3 | 663 | 221 |
| InterContinental | 31 | 9,067 | 292 |
| Kimpton | 8 | 1,574 | 197 |
| Indigo | 41 | 3,988 | 97 |
| Vignette | 1 | 40 | 40 |
| **Total Luxury & Lifestyle collection** | **92** | **15,930** | **173** |
| voco | 15 | 2,419 | 161 |
| Crowne Plaza | 89 | 19,670 | 221 |
| **Total Premium collection** | **104** | **22,089** | **212** |
| Holiday Inn | 258 | 41,004 | 159 |
| Holiday Inn Express | 286 | 37,701 | 132 |
| **Total Essentials collection** | **544** | **78,705** | **145** |
| Staybridge Suites | 9 | 1,082 | 120 |
| Other/unbranded/Iberostar* | 23 | 6,920 | 301 |
| **Grand total** | **772** | **124,726** | **162** |

NOTE: *IBEROSTAR BEACHFRONT RESORTS JOINED IHG'S SYSTEM AS PART OF A LONG-TERM COMMERCIAL AGREEMENT IN NOVEMBER 2022.

SOURCE: IHG'S Q1 TRADING UPDATE TO 31 MARCH 2023

## IHG's agreement with Iberostar (please discussion on page 38)

In an effort to accelerate the group's move into the leisure space, IHG signed a long-term commercial agreement with Iberostar, a leading Spanish resort hotel operator in late November 2022. Up to 70 hotels (24,300 rooms) under the Iberostar Beachfront Resorts brand are being added to IHG's system worldwide over the succeeding two years. IHG had fewer than 20 resort properties in the countries where the Iberostar Beachfront Resorts properties are located. According to the agreement, Iberostar retains 100% ownership of the properties, which gain access to IHG's distribution channels and loyalty program. The agreement boosts IHG's global estate by 2.8%.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 18 | Preferred Hotels & Resorts | Newport Beach, CA, US | 130,000 | 650 | 136,240 | 658 | -4.6% | 200 |
| 34 | Leading Hotels of the World | New York, NY, US | 50,000 | 400 | 50,000 | 400 | 0.0% | 125 |

Note: *This ranking is against all chains worldwide, including integrated chains and consortia

Source: hotelsmag.com Jul/Aug 2023/author

As can be observed above, there is considerable divergence amongst the consortia listed in the table above, as to growth trend and the nature of the portfolio. Given the average size of its affiliates, HotelREZ, like Best Western, is obviously targeting small-to-medium-sized independent hotels, offering channel management and hotel distribution technology solutions, revenue management advice, as well as sales and marketing representation.

### Global Hotel Alliance, a collective loyalty scheme

Global Hotel Alliance is not a traditional consortium in the usual sense of the term. In fact, it is a global loyalty scheme serving some 40 different small-to medium-sized chains, such as: lila, Anantara, Atura, Avani, Corinthia, Discovery Destinations, Doyle, Elewana, GLO, JA Resorts, Kempinski, Leela, Lungarno, Marco Polo, Meritage, Meydan, Mysk, Niccolo, NUO, Oaks, Omni, Outrigger, Pan Pacific, PARKROYAL, QT, The Residence by Cenizaro, Rydges, Shaza, Thon, Tivoli, Ultratravel Collection and Viceroy. This allows smaller hotel groups to offer extensive ‘earning’ and ‘burning’ possibilities in their loyalty programs, which they could never equal operating alone.

### Preferred and Leading Hotels struggle to grow

Preferred Hotels & Resorts and Leading Hotels of the World are well known as consortia of luxury and upper-upscale hotels. Both groups seem to have difficulty growing in the current environment. This could be due to the growing luxury and upper-upscale ‘collection’ brands of the major chains, such as: Marriott’s Autograph Collection and Luxury Collection; Hilton’s LXR Hotels & Resorts and Waldorf Astoria; or Radisson Collection. Again, these large integrated groups have strong distribution networks and multi-faceted loyalty schemes which make it difficult for small consortia to compete for affiliates.

# Part 4 Leading Chains by Major European Country

Below the leading chains in five of the biggest European hotel markets are tabulated and discussed, including France, Germany, Italy, Spain and the UK.

## France

The French hotel market is heavily dominated by hotel groups that were founded as French companies, but which, in some cases, are controlled by foreign interests, such as Louvre, now owned by Jin Jiang, and B&B, which was acquired by Goldman Sachs in 2019 from the French private equity group, PAI Partners. The leading group, Accor, which is publicly quoted on the Paris bourse, has a room total exceeding that of the other nine chains ranked below put together. Unsurprisingly 6 out of the top-ten brands in France are from Accor. In recent times, the capacity of the group’s barebones Hotelf1 super budget offering, which never succeeded outside France, has been substantially reduced in favour of ibis styles and Novotel properties. Otherwise, three of the top-ten brands, Campanile, Première Classe and Kyriad, belong to Jin Jiang’s Louvre Hotel Group, the second-ranked chain in the market.

## Travelodge for sale

UK budget hotel chain Travelodge has been put up for sale by its owner, the US asset management firm, GoldenTree, which is reportedly vetting consultants to lead the £1.2bn sale, according to the 11 June edition of the *Sunday Times*. With a portfolio of 595 hotels and room rates as low as £50 a night or less, the budget chain has achieved strong performance in recent years, thanks to staycations, and guests trading down, as well as so called “blue collar” business travel. Already, in 2012, GoldenTree acquired an equity stake in Travelodge, through a debt for equity swap.

The planned sale by an investment consortium led by GoldenTree comes on the back of booming revenue and profits boom, following the vicissitudes of much-publicised fallout with its hotel owners over non-payment of rent. Indeed, the group’s revenues for the year ended 30 September 2022 are up by 25% from 2019 to reach £909.9mn, while pre-tax earnings for the year rose by 65% to £212.9mn.

Goldman Sachs, GoldenTree and Avenue Capital acquired Travelodge Hotels Limited in a debt restructuring in 2012 and in 2014 agreed to buy the 144 UK hotels in the Grove portfolio leased to Travelodge in 2014 for about £500mn. The sellers were Lloyds Banking Group, Prestbury Investment Holdings, which was a circa 15% investor in Secure Income REIT, West Coast Capital and Aldersgate Investments.

In 2016, Secure Income REIT purchased 55 of the Travelodge hotels for £196.2mn financed by a £140mn share placement and a £60mn seven-year non-recourse secured debt facility agreed with M&G, London-based global investment manager. In March 2018, Secure Income REIT bought a further 76 Travelodge hotels from the GoldenTree, Avenue Capital and Goldman Sachs consortium.

FIGURE 27: HOTEL CHAINS AND BRANDS RANKED BY NUMBER OF ROOMS IN THE UK, 2023

| Hotel chain ranking by rooms | | | | Brand ranking by rooms | | | |
|---|---|---|---|---|---|---|---|
| **Rank** | **Hotel group** | **Hotels** | **Rooms** | **Rank** | **Brand** | **Hotels** | **Rooms** |
| | | | | | | | |
| 1 | Whitbread | 847 | 83,576 | 1 | Premier Inn | 847 | 83,576 |
| 2 | IHG | 348 | 50,470* | 2 | Travelodge | 551 | 50,470* |
| 3 | Travelodge | 581 | 44,160* | 3 | Holiday Inn | 137 | 20,680* |
| 4 | Accor | 272 | 38,513 | 4 | Holiday Inn Express | 146 | 18,030* |
| 5 | Hilton | 168 | 34,983 | 5 | Hilton | 54 | 14,215 |
| 6 | Marriott | 129 | 25,400* | 6 | Mercure | 79 | 13,825 |
| 7 | Best Western | 218 | 12,710* | 7 | DoubleTree | 53 | 10,188 |
| 8 | Britannia Hotels | 61 | 10,000 | 8 | Britannia hotels | 61 | 10,000 |
| 9 | Radisson | 36 | 7,530* | 9 | ibis | 64 | 9,560* |
| 10 | Wyndham | 72 | 5,407 | 10 | Best Western | 158 | 8,890 |

Note: *Hotel Analyst estimate

Source: Chains

# Part 5 Major Hotel Owners in Europe

| Hilton | 4% |
|---|---|
| Mercure | 2% |
| Other | 8% |

SOURCE: PANDOX

### Minimum rent clauses

Most (72%) Pandox leases contain a minimum rent clause, which makes it possible to achieve increased income in a rising market, while also having downside protection (for the lessee) in a weaker market. Pandox prefers revenue-based leases which normally have two different rent levels:

(1) A higher percentage rent based on the operator's room revenue and the operator's conference room rental revenue.

(2) A lower percentage rent based on other operator revenue, mainly generated by F & B. This also includes revenue that may be specific to the hotel's offering, such as parking and spa services. With revenue-based leases the property owner and operator have a joint incentive to develop the hotel's business and to target profitability. Ultimately, offering turnover-based leases make leasing more palatable to hotel groups because it lowers the risk for the hotel group/lessee.

FIGURE 34: PANDOX LEASES BY TYPE, 2023

| Type of lease | % of total Pandox leases |
|---|---|
| | |
| Revenue-based leases with a minimum rent level | 72% |
| Revenue-based leases without a minimum rent level | 23% |
| Fixed leases | 6% |

SOURCE: PANDOX

### Lease terms

New or renegotiated hotel leases usually have a term of 10–25 years. On 31 December 2022 Pandox's lease portfolio had a weighted average unexpired lease term (WAULT) of 15.0 (14.0) years.
The way maintenance costs and investments are shared between the tenant and the property owner in a leased hotel is an important factor that distinguishes hotels from, say, office properties. The sharing of responsibility between the parties is defined in a checklist. Hotel tenants in the Nordic countries are normally responsible for maintenance of hotel rooms, restaurants, lobbies and other public spaces, including furniture, fixtures and equipment. The property owner is typically responsible for technological investments and installations in the property, technical maintenance and usually for bathrooms as well. In general, the tenants' responsibility is greater outside the Nordic region.

## Acquisitions, divestitures and reclassifications

During the year ended 31 December 2022, Pandox acquired NH Brussels Louise in Belgium and the 176-key DoubleTree by Hilton Bath, UK. The company signed a lease with the Norwegian operator Citybox Hotels for NH Brussels Louise in the third quarter of 2022. The lease period is expected

SOURCE: UNION INVESTMENT

# PART 6 Major White Label Management Companies in Europe

There are a number of small white label operators in Europe. Besides Aimbridge, two of the larger ones are RBH, with offices in London and Glasgow, and Amsterdam-based Cycas, as well as UK-based Bespoke Hotels, Event Hotels, GCH and Hamilton Pyramid. In an environment of sharply rising interest rates and construction costs, White Label (sometimes called 'third party') management companies seem to have the upper hand. Indeed, there are a number of factors that favour these companies in the current context.

First of all, White Label operators offer hotel owners more flexibility and often represent a cheaper alternative for acquiring a major brand affiliation. The typical structure of a white-label managed hotel in Europe is three-tiered, including: the owner, the contract with a third-party manager, all topped off with a major brand franchise. White label management agreements are usually significantly shorter in duration than those with the major chains.

This has the advantage of allowing a hotel property to become 'unencumbered' by any brand affiliation in a shorter time period, which enhances its market value, when put up for sale, according to Sophie Perret, Senior Director at HVS London, who moderated a panel, entitled "Choosing the Right Partner for your Operating Model", at the IHIF Berlin in mid-May. This aspect is particularly attractive to opportunistic investors, like private equity funds which typically target a relatively short holding period of 5 to 7 years.

In any case, there are two important trends in the European hotel market that favour third party managers. Firstly, it has become very difficult and costly to initiate new greenfield projects, which means that conversions have become the principal vehicle of expansion for the big brands. The shorter term of contract and the ability to choose from a wide variety of franchise offerings definitely give white label managers an advantage in the marketplace.

Secondly, franchises have become the affiliation structure of choice for the major chains, which are becoming ever more asset light. As third-party managers, "we are in a neutral position" vis à vis the brands, observes Sabina Wyss di Corrado, Vice President Development, EMEA - Aimbridge Hospitality, who, also participated on the abovementioned panel at IHIF. As a Swiss national, she is happy to be 'neutral'. Indeed, since the large White Label managers like Aimbridge work with virtually all the major brands, they are well placed to advise hotel owners regarding brand selection, based on their insider knowledge and experience.

## Franchisees get chain conditions

Keith Oltchick, Executive Vice President of Business Development at Dallas-based Remington Hospitality, who also participated in the panel discussion, noted that the large third-party operators succeed in getting the same attractive terms for OTA commission costs for their affiliates as the major branded chains do.

## Aimbridge

Following the 2019 purchase of Interstate and Aimbridge Hospitality by Advent, a private equity fund,

The company has established a second line of business with Primestar Operator GmbH. This division is planning to develop its own brand in the 3-star segment with up to 20 properties, including an extended stay concept and co-working. The group is focusing on the acquisition of existing hotels, their leases or operators and is focused on hotels with limited/focused service and a room count of 100 – 350 in central locations with good infrastructure, as well as selectively on airport hotels. Regionally, Primestar focuses on hotels in Germany's Top-7 cities as well as on selected metropolitan areas.

### RBH

RBH manages a portfolio of 54 hotels across the UK, 21 of which are franchised to IHG brands, mainly Holiday Inn and Holiday Inn Express. Otherwise, the group also has franchises with Accor, Hilton and Wyndham brands. There are also 14 hotels that operate as independent unbranded properties managed by RBH.

# PART 7 Trends in Affiliation Structures

In spite of the criticism from the large international hotel groups, leases are alive and well across the major hotel markets of Europe, including Germany, the UK, France, Spain and Italy. While variable (turnover-based) leases have made some headway, fixed leases remain the norm. Management contracts are on the downswing, as the big chains increasingly favour franchises, the ultimate asset-light structure which allows for rapid expansion of their brands and generates low-risk revenue. The large publicly quoted chains like Accor, Marriott, Hilton, etc. are obliged to show a high rate of growth, which boosts the value of their brands and satisfies the investment community.

## Leases

The pandemic has taught some hotel owners and chains a hard lesson. As it turns out, fixed lease contracts are high risk - not only for lessee hotel operators, but also for some owners, who had trouble collecting their rental payments. For example, Aroundtown, a major publicly quoted German property investor, which owns hotels on fixed-payment lease contracts, notes that uncollected hotel rents amounted to €125mn in 2021, but declined to €75mn in 2022. The company expects the collection rate on hotel lease payments to improve significantly over the coming year, going from 69% in 2022 to 85%-90% in 2023, with a full recovery projected only in 2024. The large German institutional investors like Union Investment or Deka continue to require fixed leases, due to statutory requirements. Fixed leases continue to be widely used in the UK too, especially by the two biggest economy hotel operators, Whitbread's Premier Inn and Travelodge.

There is even the case of a counter trend, whereby Covivio Hotels, Europe's biggest hotel REIT, transformed turnover leases into fixed contracts. In late March 2022, Covivio signed an agreement with B&B Hotels to take back the operating rights on 31 hotels (2,565 rooms) located in France, which had previously been leased to AccorInvest on a variable contract. With the new agreement, Covivio now has a fixed lease with B & B for a period of 12 years. According to the company, this represents a "substantial rise" in lease revenue for Covivio. No doubt the turnover leases were very unproductive for Covivio during the pandemic when hotel activity virtually ground to a halt.

### LXI REIT extends leases on 122 Travelodge hotels

# PART 8 Branding Trends

Brand proliferation is ongoing as new concepts regularly come to the market. Lifestyle has become practically the fastest growing sub-segment of the hotel industry in recent years. Soft brands are particularly in vogue, given the difficulty and high cost of launching greenfield projects. And finally, hotel brand values have rebounded from their Covid-induced lows.

## What drives brand proliferation?

Surprisingly, even Covid did not slow the pace of brand proliferation in the hotel industry. New brands continue to be created for four basic reasons. While hotel executives will tell you that they bring out new brands "to give our customers more choice", there is also a second reason, which is to allow more hotels of the same chain to enter a given local market without infringing on existing franchise or management contracts with hotel owners in that market. Having more hotels in a given market, especially major urban centres, can give a chain an advantage when it comes to negotiating with various suppliers, notably OTAs, for example. A third factor favouring new brand development, related to the first, is to strengthen the chain's loyalty scheme by having ever more possibilities for customers to 'earn' and 'burn' points. A final factor that supports the ongoing creation of new lodging concepts by the major chains is the relatively low marginal cost of bringing out one more brand. Indeed, the major groups have marketing teams, distribution infrastructure and hotel owner associations (since they are mostly asset light) already in place which can be readily harnessed to conceive, test and rollout new brand concepts.

Speaking at Accor's semi-annual Capital Markets Day on 27 June, Accor's CEO, Sébastien Bazin, declared, "I don't think we have too many brands (Accor has some 40 and counting); I think there will be more brands in future. Customers need to feel that they belong to a 'community' of brands".

## New brands

A number of new brands and lodging concepts have entered the market in recent months and years. In some cases, these new operators are causing a blurring of the lines between the various accommodation categories, combining hotel style-offerings with hostel-like dormitories, along with co-living, extended stay, and even student housing. Just as it seemed likely that the proliferation of brands might be coming to an end, more new lodging concepts have appeared on the horizon. Economy, extended stay and collection (or soft brands) have been prominent categories amongst the new brands entering the market recently. Notably, two of the biggest American chains, Marriott and Hilton, have decided to move into the economy space, where they have had no previous presence. There have also been several economy brands launched in Europe recently and sports champions, who have long been sponsored by clothing and sport equipment brands have now got into the business of associating themselves to new hotel concepts.

### LyvInn, a new hybrid concept

A good example of burring lines in accommodation is LyvInn, which combines hotels and hostels with extended stay, and has been launched by Navneet Bali, the former CEO of the hostel chain, Meininger. He notes that the target customer base of his new property ranges from 16-year-olds to young families. The brand's first property, a 164-key former Meininger hotel in Frankfurt, has been undergoing extensive renovation and opened on 15 May 2023.

## Radisson’s Radisson Collection and Radisson Individuals

Radisson Hotel Group, a Jin Jiang affiliate, operates two soft brands, the upper upscale Radisson Collection and the more midscale Radisson Individuals. Launched in 2018, Radisson Collection now features 21 properties in Europe, with 3,978 rooms as well as six in the brand’s European pipeline with 838 rooms.  21 3,978 6 838

### Radisson Individuals

In October 2020, Radisson announced the launching of its newest soft brand, Radisson Individuals, which is designed to be a conversion brand that offers independent hotel, as well as local and regional chains the opportunity to join the group’s distribution network. According to Radisson’s CEO, at the time, Federico J. González, hotels wishing to join Radisson Individuals undergo a compliance assessment focusing on the four following parameters: health and safety compliance; GRI (Global Reporting Initiative); compliance with fire and life safety regulations; and the ability to connect to the group’s main operating systems. Hotel members of Radisson Individuals also receive training on the group’s “Yes I Can!” service philosophy and will have a GRI score above 80%, which will ensure high guest service quality standards and “Every Moment Matters”, according to the chain.

Currently, there are currently 15 of the brand’s properties open in Europe with 2,224 rooms and a further 7 with 1,208 rooms in the pipeline.

## Accor’s Emblems Collection

In late November 2021, Accor launched the Emblems Collection as a group of luxury boutique hotels and resorts, with a portfolio to be divided into three categories:

- Emblems Collection Heritage: hotels that are landmarks of a destination, and contribute to the character of a city, place or nation;

- Emblems Collection Retreat: resort properties on beaches, in the country, in the mountains, offering spa and wellness facilities; and

- Emblems Collection Signature: design-led hotels that represent the style of the designers or original residents who contributed to the hotel’s legacy.

The Emblems Collection brand is to have "flexible, light, and easy to attain," brand standards, according to the company, and will operate as a franchise product—the only Accor luxury brand to offer this option. The brand's first (and, so far, only) hotel opened in China in December 2022 and Accor has set the objective of opening a further 60 hotels worldwide by 2030. In Europe, the focus has been on Paris and Prague for the Emblems Collection Heritage and Emblems Collection Signature. For Emblems Collection Retreat, Tuscany, Mykonos, Bodrum and the Algarve are being targeted.

# Branding in CEE

- Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 0-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.

- Determine brand specific revenues estimating a proportion of parent company revenues attributable to each specific brand and industry sector.

- Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.

- Apply the royalty rate to the forecast revenues to derive the implied royalty charge for use of the brand.

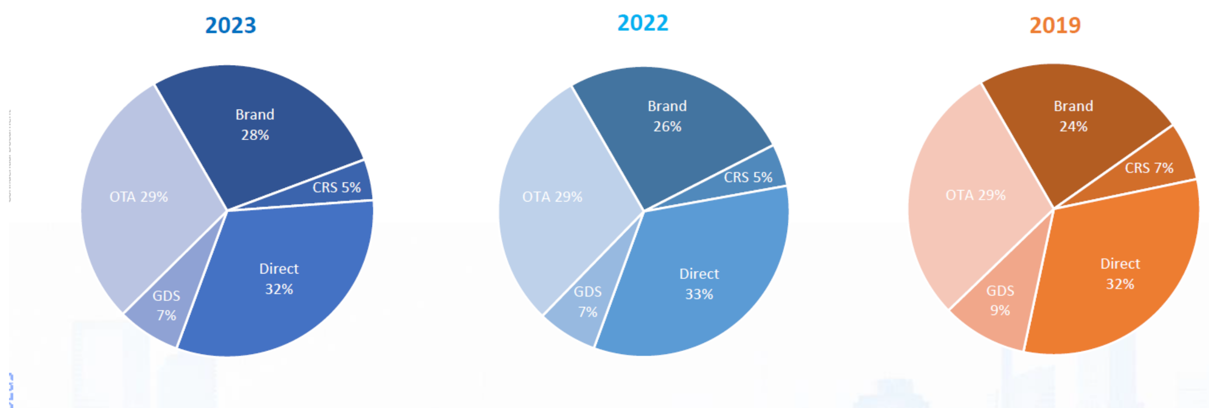
- The forecast royalties are discounted after tax to a net present value (NPV) which represents current value of the future income attributable to the brand asset.

# Part 9 Distribution Trends

In 2022, over half of hotel bookings were direct (34.5% online and 25.3% offline), according to a 2023 survey by Statista and booking.com. The other channels included: OTAs (27.1%); destination marketing platforms (1.6%); tour operator/hotel chains/event platforms (8.5%); and social media/GDS (3.0%).

According to Amadeus, the most noticeable change in booking channels between 2019 and 2023 in Europe has been the increase in the brand channel, coupled with declines in CRS (central reservation systems) and GDS, which is understandable, given the drop in corporate travel that is only just recovering presently. Meanwhile, the shares of direct and OTA bookings have remained unchanged.

FIGURE 43: YEAR-ON-YEAR CHANNEL MIX/EUROPE FOR JULY 2023 VS JULY 2019




SOURCE: AMADEUS

Ellis Connolly, chief revenue officer at Laasie, a Los Angeles-based loyalty program consultancy, sees these tweaks [to Accor's program] as still failing to address fundamental issues. "At the end of the day, the core model remains the same: accrue points over a long period of time. And in the end, most consumers are frustratingly stuck between their current loyalty tier and a much more desirable top-tier status." Connolly makes the point that we live in a world of instant gratification, while points-based programs force consumers to wait for their reward. He also sees a challenge for traditional loyalty programs, in a world of hybrid work where employers prefer a mix of Teams and Zoom calls and are less keen to have their teams jumping on planes than they used to. "Without constant work-paid travel, who else is accumulating enough points with their leisure adventures alone? Today's hoteliers need to entice the majority of casual travellers to book and interact with their brand through instant gratification", he remarks, adding that, "Anytime someone interacts with your brand, you should reward them", with the value of the reward related to the value of the interaction. Today's travellers, he argues, "want content, rewards now". Laasie offers a broad variety of rewards, served by more than 1,000 merchant partners – with hotels able to add their own products or services to the platform. "It is all about right now", he concludes.

Expansion plans are under way. "Most of our customer base today is in the US, Caribbean and Canada. But we are in beta with a customer in an EMEA market, and in Asia Pacific. The value of our platform is the merchant network that our clients have access to", notes Connolly, who maintains that Lassie appeals not to a particular scale of business, but to a particular type: "Certain types of hotel and short-term rental groups gravitate to us," appreciating the philosophy of regular, immediate rewards. The platform can be used for more than simply rewarding loyalty, as it can promote certain types of behaviour, such as incentivising digital key downloads to reduce check-in queues.

The company charges clients a per room, per month subscription fee, along with an additional charge for the cost of rewards delivered. "If the price point is low enough, and the value is high enough, it can be an interesting model." Connolly also notes that does not always replace a points-based loyalty program; rather it can serve as an enhancement to existing programms, providing an additional and more immediate layer of reward. Still, it's early days for Lassie in the hotel space, which is just one of the group's targeted sectors, that include retailers notably. So far, the firm is only working with a handful of US-based niche operators like Nobu, Margaritaville, Sahara Las Vegas, The Godfrey, Eden Roc, etc.

# Part 10 Hotel technology

Hotel technology can be divided into two broad categories. On the one hand, there has been a lot of discussion about and promotion of guest-facing technologies, like mobile apps for check-in, check-out, key-entry, booking hotel services, as well as voice-controlled commands in rooms. Meanwhile, probably more important are various back-of-house technologies that help hotels to rationalise their revenue management, distribution and operations, especially in an era of severe labour shortages.

Hotel technology can be further divided into four separate categories, including:

- **operations**, which includes PMS, staff management tools, finance and accounting and MICE management;

- **revenue management**, which includes channel managers, upselling tools and CRS;

- **marketing**, which includes digital marketing, hotel websites, CRM and loyalty schemes; and

Otherwise, the remaining products in the group were even farther down the list: direct booking tools (5.1%), guest room tablets (4.6%), business intelligence (4.4%), and housekeeping management software (4.3%). Interestingly, only 4% of respondents prioritise voice-activated technology, a feature that gets a lot of coverage, but has yet to prove itself as an essential component of the guest room experience. How many people really need Alexa to open a window or turn down the heat in their hotel room?

### Overteched?

We may be getting to a tipping point where some guest-facing technology is actually meeting with customer resistance and disapproval - even from tech-savvy Millennials. In fact, a lot of this gadgetry is really there to save costs, as much as "to improve the guest experience". A case in point: two Millennials stay in a citizen M in Geneva. He is a software engineer, trained at the Swiss Federal Institute of Technology in Zurich, one of Europe's top engineering and scientific universities; she is a cyber security manager for Oracle - so not exactly tech neophytes. Their conclusion about the hotel – "it's over-teched". Their complaints: difficulty adjusting and turning off the lights in the capsule-sized room; they go to the bar to order a drink and are told to scan the QR code, but it doesn't work, so why isn't there a paper menu backup? The man wants to pay in cash in Swiss francs, but is told that only cards are accepted.

In a reverse rather humorous sense, the new Radisson Red in Vienna's attempt at retro-chic recently fell flat, when the hotel installed old-fashioned 1950's-60's vintage dial-up phones, which require the caller to rotate a circular disk and let it retract. The result was that the property has had to replace the phones with more modern devices, because the younger clientele (Generation Z and Millennials) were unable to figure out how to operate them.

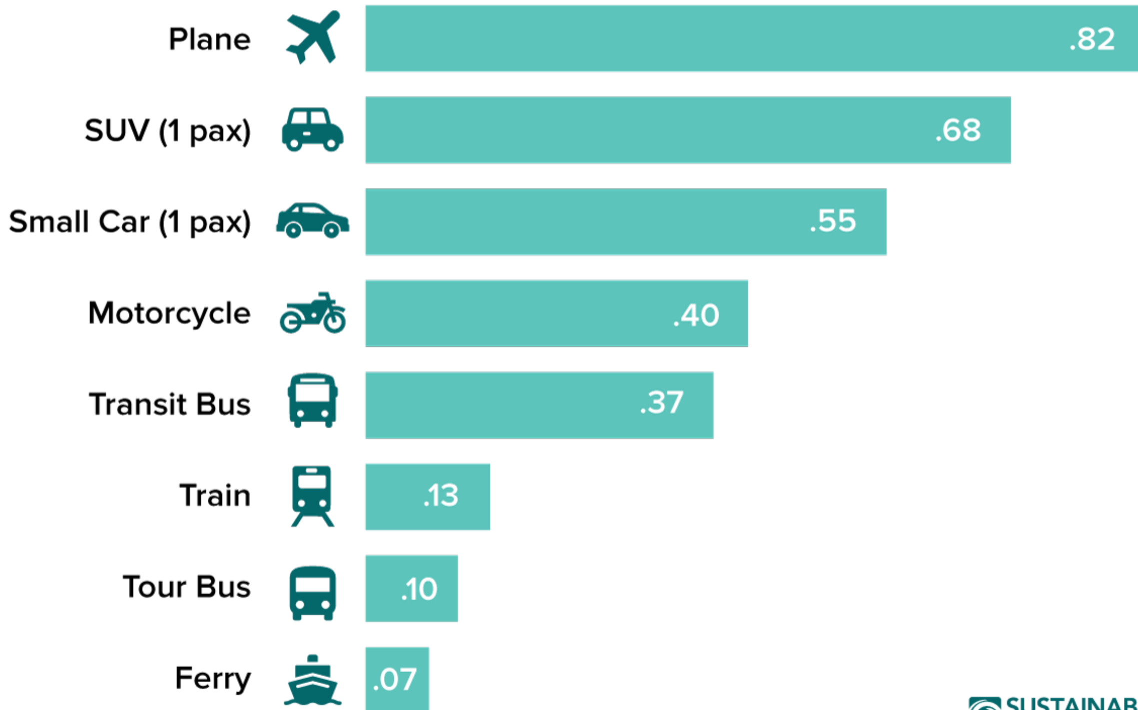
# Part 11 ESG Impact on the European Hotel Sector

The importance of respecting ESG criteria for hotels is well-established, especially in Europe, which has taken the lead worldwide in promoting and enforcing environmental standards. It has become a major topic of discussion and concern at all major hotel industry conferences and it has become widely accepted that hotel properties which fail to respect and even anticipate future ESG guidelines and regulations risk becoming 'stranded assets', i.e., devalued. So far, the environmental aspect (the 'E' in the acronym) has received the most attention, because it has a physical dimension that lends itself to objective measurement and invokes a sense of urgency, given the growing evidence of climate change and depredation of the environment.

Two organisations which strive to promote ESG practices in the hotel industry are the Sustainable Hospitality Alliance and the Energy and Environmental Alliance.

## Sustainable Hospitality Alliance

Headed up by Glenn Mandziuk, the Sustainable Hospitality Alliance sees as its mission "to accelerate the path to net positive hospitality through strategic industry leadership, collaborative action, harmonisation of metrics and regenerative solutions". The organisation's membership includes 25 hotel companies with a combined total of over 50,000 properties (7 million rooms) globally.



SOURCE: NATURE CLIMATE CHANGE (2018)

## Air travel will get more expensive

The airlines are likely facing an expensive and challenging few decades ahead as environmental regulations get stricter. There's evidence that this is already happening. For example, according to the metasearch site, Kayak, a unit of Booking Holdings, 2023 summer flights between the UK and the continent are one-third more expensive than in the prior year. Furthermore, average air fares across Europe were between 20% to 30% higher over summer 2023 compared with 2019, according to EU data released in October in response to a question in the European parliament. Two new reports make it clear that this isn't just a temporary situation, notes Lara Williams in a 23 April Bloomberg article.

The first headwind comes from two major changes in the EU's Emissions Trading System (EU ETS). This requires airlines to have sufficient emissions allowances to cover every metric tonne of carbon dioxide released into the atmosphere on flights starting and ending in the European Economic Area, the UK and Switzerland. At the present time, the companies get about half of these allowances for free, but that deal comes to an end in 2026, as the share of allowances they have to purchase starts to rise from 2024. That is going to effectively double their carbon costs over just three years, according to Ms. Williams.

The more widespread shift to rail, coupled with climbing airfares is likely to reduce the value of some airport hotels, while increasing the value of hotels nearby rail stations, for example. The value of hotels in major European capitals that depend on overseas clientele could also be impacted by rising airfares. As well, hotels in mass tourism resorts, either in the mountains or on the seaside, that depend on guests arriving on intra-European flights could also be affected. Meanwhile, hotels that are in drive-to destinations serving a domestic or regional clientele stand to benefit.

## Stranded assets due to climate change?

So far, the term ‘stranded assets’ has been used to refer to hotels that lose their value, because they don’t meet ESG criteria, relating to insulation, building materials, energy efficiency, water use, etc. However, in light of climatic trends, the term may be extended to refer to hotels that are stuck in a destination which is being impacted by climate change that makes the location less desirable. Indeed, this eventuality has come into focus over the summer of 2023 with respect to Southern European tourist destinations, whether in cities or on the seaside, where temperatures reached 40°C and more for extended periods during July and August, rendering the region virtually unliveable.

The European Travel Commission (ETC) sounded the alarm in a report published in late July 2023, that noted that repeated heatwaves and growing fears about the climate crisis may signal the beginning of the end for the Mediterranean as a viable midsummer holiday destination. Tourists are choosing milder destinations such as Ireland and Scandinavia, as the heatwave over southern Europe has led to temperatures rising as high as 45°C with sea temperatures in excess of 30°C in Italy and Spain.

Meanwhile, the tourism industry has heavy fixed investments in places impacted by high summer temperatures. These include hotels, which have 1.5mn beds in Spain against 10,700 rooms in Iceland, for example. Owners may be local property investors, international funds, or large tour operators like TUI, which owns 38% of its hotels directly.

### Promote the shoulder season as a solution?

One partial solution is to encourage more travel in “shoulder” months of the spring and autumn. Indeed, the number of Europeans planning to travel in August-September in 2023 already decreased by 3%, compared to 2022, while those planning to get away in October or November rose by 5%. according to the ETC report. The constraint is that most families can only get away during school summer holidays. Thus, if heatwaves keep recurring in the Mediterranean, hotel owners may be faced with declining asset values. Indeed, luxury hotel properties on the Mediterranean coasts have been among the most sought-after hospitality-related assets. Extreme temperatures are already starting to influence a minority of holidaymakers, according to the ETC, as some higher-end travel agencies report booming interest in cooler destinations such as Iceland and Scandinavia. It’s been estimated that Spain will receive 85mn incoming tourists in 2023, two million more than in 2019. Although the country continues to attract visitors, two consecutive summers of temperatures over 40°C may prove too to be much for even the most ardent sunseekers.

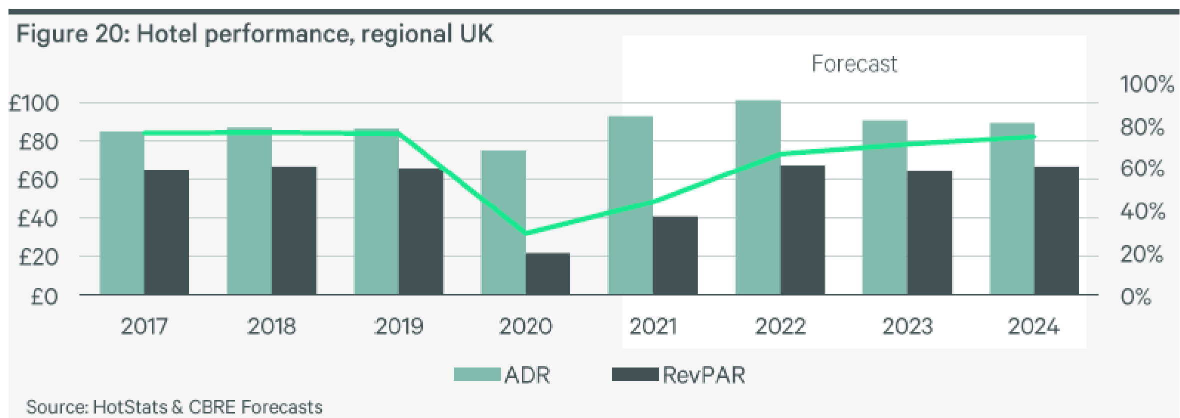
# Part 12 Recent Performance and Outlook

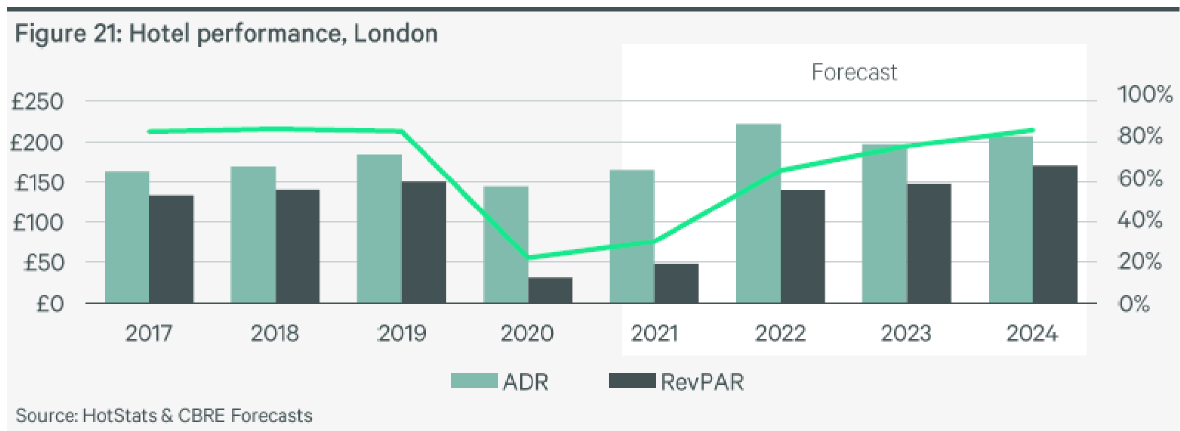
Due to the rise in the cost of holidays, the extreme heat and over-tourism, there is an increase in those planning to travel outside of the high summer season. This is evidenced by a slight decline in occupancy for the month of August, coupled with an excellent month of June, when overall occupancy was up 2 percentage points and RevPAR up 21% year-on-year. Furthermore, as of mid-August, hotel occupancy booked for September was already at 41.6% nationally, as against only 35% last year.

## Performance in the UK

ADR probably peaked in both London and the Regions in 2022, but RevPAR should remain steady or continue to edge up, on the back of recovering occupancy, especially in London.

FIGURE 56: HOTEL PERFORMANCE IN THE UK, 2017-2024

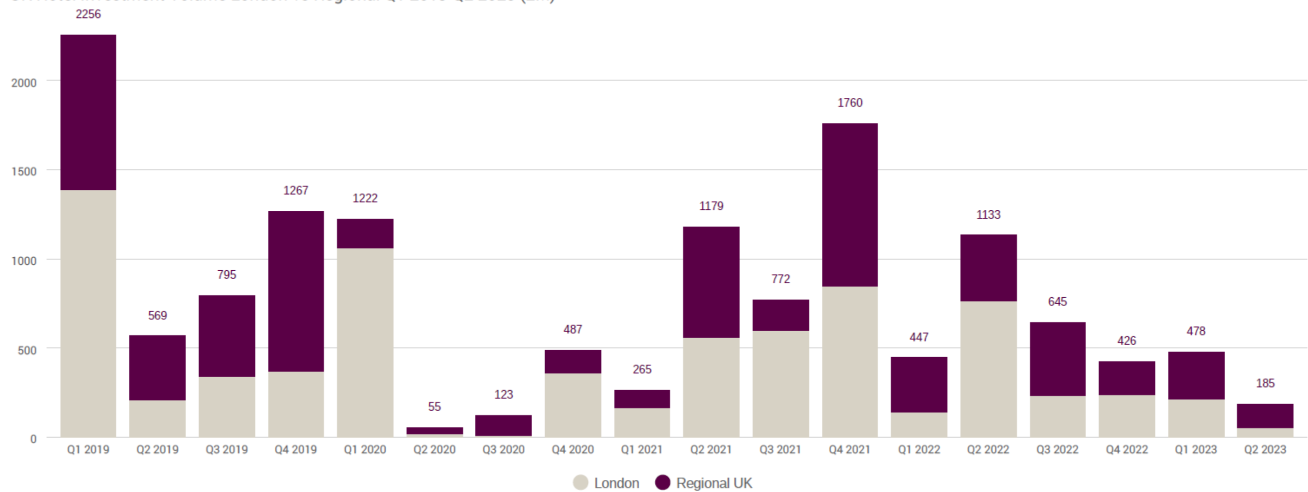



SOURCE: HOTSTATS AND CBRE

# Part 13 Investment Outlook

In this section of the report, the European pipeline is presented as well as recent performance data. Then, the availability of debt financing is discussed, followed by review of the outlook for hotel investment in seven major European country markets, including: France, Germany, Greece, Italy, Portugal, Spain and the UK.




SOURCE: CHRISTIE & CO

## Outlook

While the hotel sector has demonstrated its ability to withstand a challenging trading environment during H1 2023, there may be a shift over the coming 12 to 18 months, accelerated by a stubborn inflationary environment and rising interest rates.

Although trading performance is expected to remain in an uptrend, distress will most likely come from capital structure challenges, as opposed to pressure on operating margins. Much of the debt that was taken on pre-pandemic will be maturing in the coming months, putting many hotel owners in a difficult position to refinance. With interest rates not expected to fall until the middle of 2024, at the earliest, many hotels will have to refinance at much higher rates and may be forced to sell. This will likely throw up some interesting opportunities over the coming 24 months, due to lower LTVs, higher debt cost and downward pressure on valuations. Indeed, according to Chris Sheppardson, managing director of the magazine, EP Business in Hospitality, there is £43bn of hotel debt in the UK set to mature. Furthermore, according to James Salford, partner in real estate and hotel finance at the law firm, Bird & Bird, the current interest-rate environment has four major ramifications for the hotel industry:

- The fall in asset values will result in challenges to loan-to-value ratios.
- Interest coverage ratios will be challenged and breached.
- Many existing deals are now outside of lending mandates.
- Kicking the can down the road, any “extend and pretend” strategy, is not a long-term option.