MADRID, SPAIN
Hotel Market Snapshot
Madrid’s Wake-Up Call
December 2014
HIGHLIGHTS

Even though it is the economic, cultural and administrative capital of Spain, Madrid has long remained in the shadow of Barcelona in terms of tourism. However, over the last decade, the city managed to renew itself and has made major investments to improve its image as well as its infrastructures. The Spanish capital has thus returned as a real challenger to the Catalan city.

Madrid is one of the primary destinations for hotel investors and operators in Europe. Historically, the lack of available prime locations for luxury properties combined with high real estate prices for redevelopment have created high barriers to entry.

Our Madrid Hotel Market Snapshot will give you an insight of the recent trends and developments that the Spanish capital has to offer.

WHAT’S NEW? WHAT’S COMING UP IN MADRID?

• In September 2014, the 5-star boutique hotel URSO Hotel & Spa opened its doors. Situated 5 minutes away from the city centre, the hotel counts 78 rooms and suites.

• The Canalejas development project comprises the opening of a 215-room Four Seasons property as well as luxury residences and an exclusive shopping centre by 2017.

• Madrid’s prestigious Ritz hotel is currently the subject of a potential takeover by the Fairmont Group (FRHI Hotels & Resorts) for €120 million, with an additional €60 million renovation plan.

• The Bernabeu stadium development plan, including the construction of a new hotel, is currently suspended following an investigation of the European Commission.
ACCESSIBILITY

Adolfo Suárez Barajas Airport, Madrid’s main international airport, located 13 km from the historic city centre, was Europe’s 6th busiest airport in 2013.

From 2000 to 2013, the number of passengers increased by +21.3%, reaching its highest level in 2007. Since then, the total number of passenger movements has been decreasing, mainly due to the domestic market, and registered a total drop of -48.0% between 2007 and 2013. This significant decrease was first partially offset by the increase in international travellers until 2011, but these are now also on a downward trend. The number of international passengers has declined by -14.6% since 2011 to reach 27.7 million passengers in 2013.

In 2013, the total number of passengers at Barajas airport exceeded 39 million, an important decrease of -12.1% compared to 2012, partly due to costly airport fees.

Barajas Airport – Most represented international passengers 2013 (in thousands)

Source: AENA

Besides the problem of high airport charges, the substantial decrease in the number of domestic passengers in Barajas airport since 2007 can be partially explained by the increase in train passengers and the modernisation of the AVE high-speed train network, as well as the increasing commodity of the train over the plane for medium-distance travels of up to 4 hours.

The number of passengers travelling by high speed trains grew at a CAGR of +5.5% between 2003 and 2013, from 10.2 million in 2003 to 17.5 million in 2013.
DEMAND

Main feeder markets – Tourists arrivals

2013


In 2013, Madrid welcomed 7,520,834 tourists, recording a -5.1% decrease compared to 2012. Among these, more than 50% were Spanish, and almost three quarters came from Europe (including Spain), showing the high reliance of Madrid’s tourism industry on the Old Continent’s travellers.

The top 5 foreign feeder markets were the United States (6.1%), the United Kingdom (3.8%), Italy (3.8%), France (3.5%) and Germany (2.5%) which together represented 19.7% of total arrivals.

Over the last six years, following the same trend as Barajas airport’s passengers, the number of commercial overnights reached a record high level in 2011 with 16.4 million overnights.

In 2013, overnight stays registered a decrease for the second year in a row, dropping by -3.9% compared to 2012 to reach 14.8 million overnights, a total decrease of -9.5% since 2011.

Regarding the distribution by origin, international overnights represented 55.7% of the total overnight stays in 2013, reflecting a higher average length of stay than the domestic market.
Business tourism

Madrid ranked 2nd in the 2013 International Congress and Convention Association (ICCA) ranking*, positioned right after Paris and before Vienna and Barcelona. According to the ICCA, trade fair and congress demand in Madrid has witnessed a steady growth since 2000, from 57 meetings held to 186 in 2013.

Madrid counts 7 main venues dedicated to MICE tourism, such as the IFEMA (Spain’s largest convention centre), the Príncipe Felipe Congress Centre or the Municipal Conference Centre. Nonetheless, it should be noted that one of the oldest conference centre, the Centro de Convenciones located on Paseo de Castellana, closed its door for renovation in December 2012 and has remained closed since then. To date, it is unclear whether the municipality will find the required funds for its renovation.

* It should be noted that the ICCA ranking should only be seen as a benchmark tool, as it only includes international meetings which rotate in a minimum of three different countries.

In 2014, the organisation of key international conferences and exhibitions such as the European Society of Medical Oncology (ESMO) Congress and the 16th World Congress of Psychiatry (WPA) shows the importance of Madrid as a leading MICE destination.

In 2013, Madrid registered a decrease of -15.6% in the number of participants in Conferences & Exhibitions compared to 2012, mainly explained by a -18.3% drop in the number of Spanish attendees. This important decrease is partially due to the closing of the Centro de Convenciones late 2012.

Leisure tourism

Renowned for its vibrant nightlife and the good quality of life it offers, Madrid also welcomes diverse major recurrent events which have a significant impact on its tourism industry, boosting hotel occupancy and revenues. For instance, in September 2014, the capital hosted some of the games of the Basketball World Cup as well as the beatification ceremony of Alvaro del Portillo.

Major tourist attractions

Number of visitors, 2012-2013 (in thousands)

<table>
<thead>
<tr>
<th>Attractions</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CaixaForum Museum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thyssen Bornemisza Museum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royal Palace</td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Prado Museum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reina Sofia Museum</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate Hotels

![IFEMA Centre](Source: © Madrid Visitors & Convention Bureau, 2013)

![Participants in International Conferences & Exhibitions](Source: IFEMA, Munimadrid)

![Caixa Forum](Source: © Madrid Visitors & Convention Bureau, 2013)
**Main recurrent events hosted in Madrid each year**
*Length and number of participants in 2013*

![Graph showing events and number of participants]

Source: BNP Paribas Real Estate Hotels

**SUPPLY**

In 2013, Madrid's total supply consisted of 265 classified hotels offering a total of 67,344 rooms. Since 2008, a total of 10,693 hotel rooms has been added to the Spanish capital, primarily in the upscale segment.

The market is **highly dominated by the 4-star segment which represents over 50% of the total supply**, but counts a small proportion of international hotel brands compared to other similar cities. As for the 5-star and luxury segment, it is still under-represented, and Madrid's hotel supply has long been considered to stand below other European capitals' standards.

Over the last couple of years, several national and international brands have entered the market, starting to reposition it in line with other European destinations. This movement recently recorded a marked acceleration, with the announcement in 2013 of the arrival of Four Seasons by 2017 which boosted the search for prime assets by many other upscale international hotel groups.

The midscale and economic sectors are not left behind and saw the openings of two One Shot properties and two Room007 hostels in 2013 and 2014.

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**Hotel rooms per category 2013**

Source: Munimadrid

Note: Only hotels classified from 1 star to 5 stars have been taken into consideration, other categories existing in Spain (e.g. "Estrella de plata") were not considered.
Besides the Four Seasons project, Madrid is the scene of other redevelopment projects, such as the Edificio de España, currently being converted into a 5-star VP hotel and expected to open in 2016.

The majority of future hotel developments are focused on the 4 and 5-star segments.

Based on our research, total room supply should increase by +3.7% from 2013 to 2017 to reach over 69 824 rooms. The additional 2 480 rooms to enter the market will mainly be located in the city centre within the Centro, Retiro and Chamartin districts.

Even though international brands have been actively looking over the last 8 years to enter the market, only the Four Seasons Hotel in Canalejas has been confirmed so far.

Given the high number of rooms opened over the last 3 years in Madrid and the additional room supply in the pipeline, we expect the volume of openings to slow down after 2017.

Besides, even though the penetration of international brands across all segments has increased over the last decade, we expect the overall market to still be mainly driven by national hotel groups and independent owner / operators.
## Hotel supply – Recent openings  
**2013-2014**

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>Hotel</th>
<th>Rooms</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>4*</td>
<td>Holiday Inn Madrid Calle Alcalá</td>
<td>261</td>
<td>Calle de Alcalá</td>
</tr>
<tr>
<td>2013</td>
<td>4*</td>
<td>Hotel Exe Dome Madrid</td>
<td>182</td>
<td>Calle Maria Tubau</td>
</tr>
<tr>
<td>2013</td>
<td>4*</td>
<td>Exe Moncloa</td>
<td>161</td>
<td>Calle Arcipreste Hita</td>
</tr>
<tr>
<td>2013</td>
<td>4*</td>
<td>Holiday Inn Madrid LasTablas</td>
<td>133</td>
<td>Calle Maria Tubau</td>
</tr>
<tr>
<td>2013</td>
<td>4*</td>
<td>Eurostars Plaza Mayor</td>
<td>92</td>
<td>Calle Cortezo</td>
</tr>
<tr>
<td>2013</td>
<td>4*</td>
<td>Only You Hotel &amp; Lounge (Ayre)</td>
<td>70</td>
<td>Calle Barquillo</td>
</tr>
<tr>
<td>2013</td>
<td>4*</td>
<td>Innside Madrid Genova</td>
<td>65</td>
<td>Plaza Alonso Martinez</td>
</tr>
<tr>
<td>2013</td>
<td>4*</td>
<td>Innside Madrid Luchana</td>
<td>43</td>
<td>Calle Luchana</td>
</tr>
<tr>
<td>2013</td>
<td>3*</td>
<td>One Shot 23</td>
<td>42</td>
<td>Calle Prado</td>
</tr>
<tr>
<td>2013</td>
<td>2* hostel</td>
<td>Room007 Ventura</td>
<td>21</td>
<td>Calle Ventura de la Vega</td>
</tr>
<tr>
<td>2013</td>
<td>1*</td>
<td>Ibis Budget Madrid Las Ventas</td>
<td>100</td>
<td>Calle Siena</td>
</tr>
<tr>
<td>2013</td>
<td>1*</td>
<td>Travelodge Madrid Alcalá</td>
<td>98</td>
<td>Calle de Santa Leonor</td>
</tr>
<tr>
<td>2014</td>
<td>5*</td>
<td>Urso Hotel &amp; Spa</td>
<td>78</td>
<td>Calle Mejia Lequerica</td>
</tr>
<tr>
<td>2014</td>
<td>4*</td>
<td>NH Collection Eurobuilding (intense refurbishment)</td>
<td>431</td>
<td>Calle de Padre Damían</td>
</tr>
<tr>
<td>2014</td>
<td>4*</td>
<td>Innside Madrid Suecia (rebranding of the Suecia Hotel)</td>
<td>127</td>
<td>Calle Marqués de Casa Riera</td>
</tr>
<tr>
<td>2014</td>
<td>4*</td>
<td>Hotel Indigo Gran Vía</td>
<td>85</td>
<td>Calle de Silva</td>
</tr>
<tr>
<td>2014</td>
<td>4*</td>
<td>Mercure Madrid Centro</td>
<td>59</td>
<td>Calle Lope de Vega</td>
</tr>
<tr>
<td>2014</td>
<td>3*</td>
<td>Sidorme Hotel Las Rozas</td>
<td>79</td>
<td>Calle Peru</td>
</tr>
<tr>
<td>2014</td>
<td>3*</td>
<td>One Shot 04</td>
<td>64</td>
<td>Calle Salustiano Olozaga</td>
</tr>
<tr>
<td>2014</td>
<td>2* hostel</td>
<td>Room007 Chueca</td>
<td>33</td>
<td>Calle Hortaleza</td>
</tr>
<tr>
<td>2014</td>
<td>1*</td>
<td>Ibis Budget Madrid Calle 30</td>
<td>107</td>
<td>Calle Lozano</td>
</tr>
<tr>
<td>2014</td>
<td>1*</td>
<td>Smart Boutique Hotel Fuencarral 52</td>
<td>44</td>
<td>Calle Fuencarral</td>
</tr>
</tbody>
</table>

**Total Rooms Recently Opened**  
2,375

*Source: BNP Paribas Real Estate Hotels*

## Hotel supply – Future openings  
**2015-2017 forecast**

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>Hotel</th>
<th>Rooms</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>5*</td>
<td>Hotel Ada Palace (reopening / upgrading / 3-room extension)</td>
<td>77</td>
<td>Gran Vía</td>
</tr>
<tr>
<td>2015</td>
<td>4*</td>
<td>Ayre Atocha</td>
<td>230</td>
<td>Calle Alfons XII</td>
</tr>
<tr>
<td>2015</td>
<td>4*</td>
<td>Exe Central</td>
<td>135</td>
<td>Calle Mejia Lequerica</td>
</tr>
<tr>
<td>2015</td>
<td>4*</td>
<td>Durval Puerta de Alcala (renovation)</td>
<td>70</td>
<td>Calle Salustiano Olozaga</td>
</tr>
<tr>
<td>2016</td>
<td>5*</td>
<td>Conversion Project</td>
<td>TBC</td>
<td>Gran Vía</td>
</tr>
<tr>
<td>2016</td>
<td>5*</td>
<td>VP Hotel (conversion of the Edificio de España)</td>
<td>257</td>
<td>Plaza de España</td>
</tr>
<tr>
<td>2016</td>
<td>4*</td>
<td>Vincci Gran Vía</td>
<td>88</td>
<td>Gran Vía</td>
</tr>
<tr>
<td>2016</td>
<td>3*</td>
<td>Suite Novotel Valdebebas</td>
<td>126</td>
<td>Valdebebas</td>
</tr>
<tr>
<td>2017</td>
<td>5*</td>
<td>Four Seasons Canalejas</td>
<td>215</td>
<td>Plaza Canalejas</td>
</tr>
<tr>
<td>2017</td>
<td>5*</td>
<td>Bernabeu Stadium (currently interrupted by court order)</td>
<td>175</td>
<td>Padre Damian</td>
</tr>
<tr>
<td>TBC</td>
<td>4*/5*</td>
<td>Hotel Project</td>
<td>136</td>
<td>Paseo de la Castellana 200</td>
</tr>
</tbody>
</table>

**Total Rooms in the Pipeline**  
1,509

*Source: BNP Paribas Real Estate Hotels*
In terms of seasonality throughout the year, demand is generally strong from March to July and September to November. Little demand is generally recorded during August and the beginning of the year.

Over the 2009-2013 period, Madrid’s hotel performances were on a downward trend, except for 2010, its single year of recovery after the financial crisis. Since then, hotel occupancy dropped by -5.7 points, due to Spain’s economic situation and the significant share of domestic tourists among Madrid’s visitors. This clientele is also very price sensitive. Between 2009 and 2013, Madrid observed a -9.9% decrease in average daily rates, resulting in a RevPAR drop of -6.8%, reaching €47.3 in 2013.

However, in 2014, performances in Madrid rebounded. Occupancy rates saw a significant improvement (+5.3 points) which, combined with a slight increase in ADR of +0.8%, led to a RevPAR improvement of +9.5%, at €51.8.

The opposite graph shows a comparison of hotel performances (RevPAR) in four major cities located in Southern Europe, including Madrid.

As can be seen, all cities were affected to a different extent in 2012, after a couple of years of recovery. Even though Rome is still the leader in terms of RevPAR, the Italian city saw the most significant decrease (-10.0%) from 2012 to 2013, resulting from a drop in both occupancy and average rates.

Whereas Barcelona’s performances managed to take off in 2011, recording a buoyant +26.9% RevPAR growth, the two Iberian peninsula capitals remain hovering around the €55 threshold, with Madrid still lagging behind.

**INVESTMENT MARKET**

Many institutional investors consider the current situation as an excellent opportunity for taking positions in the hotel market in Madrid. The Spanish capital is definitely considered as one of the European hot spots of the moment for both hotel investors and operators, after London and Paris, and on par with Barcelona, its historical rival.

Regarding Madrid, 2014 started very actively, with the acquisition as part of a five-hotel portfolio of the InterContinental Madrid by Katara Hospitality for an estimated €60 million. Other noteworthy transactions were recorded in 2014, such as the sale of the landmark building Edificio España to a Chinese property developer who is currently converting it into an upscale hotel.

Furthermore, the Ritz is currently the subject of a potential takeover by the Fairmont Group for €120 million, with an additional €60 million budget for a full renovation of the building. The sale had not been officially confirmed at the time of the writing of our Hotel Market Snapshot.
The following table shows hotel transactions recorded in 2014 in Madrid:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cat</th>
<th>Hotel</th>
<th>Rooms</th>
<th>Price (€)</th>
<th>Price per room (€)</th>
<th>Seller</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>TBC</td>
<td>Edificio España (conversion project)</td>
<td>TBC</td>
<td>265 000 000</td>
<td>Not disclosed</td>
<td>Banco Santander</td>
<td>Wanda-Wang Jianlin</td>
</tr>
<tr>
<td>2014</td>
<td>5*</td>
<td>InterContinental Madrid</td>
<td>302</td>
<td>60 000 000</td>
<td>198 675</td>
<td>Dutch private investor</td>
<td>Katara Hospitality</td>
</tr>
<tr>
<td>2014</td>
<td>4*</td>
<td>Foxa 32 Suites Hotel (renovation)</td>
<td>161</td>
<td>27 000 000</td>
<td>167 702</td>
<td>BBVA</td>
<td>HVD Casas</td>
</tr>
<tr>
<td>2014</td>
<td>4*</td>
<td>Foxa 25 Suites Hotel (renovation)</td>
<td>121</td>
<td>16 750 000</td>
<td>138 430</td>
<td>Not disclosed</td>
<td>Pryconsa</td>
</tr>
<tr>
<td>2014</td>
<td>3*</td>
<td>NH Pacífico</td>
<td>62</td>
<td>Not disclosed</td>
<td>Not disclosed</td>
<td>IDL Group</td>
<td>Hispania Real SOCIMI</td>
</tr>
<tr>
<td>2014</td>
<td>3*</td>
<td>NH San Sebastián de los Reyes</td>
<td>99</td>
<td>Not disclosed</td>
<td>Not disclosed</td>
<td>IDL Group</td>
<td>Hispania Real SOCIMI</td>
</tr>
<tr>
<td>2014</td>
<td>2*</td>
<td>Hotel Asturias</td>
<td>175</td>
<td>35 000 000</td>
<td>200 000</td>
<td>Salazar Family</td>
<td>Platinum Estates</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate Hotels

OUTLOOK

Considering its higher proportion of domestic tourists, Madrid was more vulnerable to the decline of the Spanish economy than Barcelona. On the European scale, the city is one example of the most severely hit tourist destinations by the crisis. Nevertheless, an estimated +1.3% GDP growth in 2014 and forecasts of +1.9% in 2015 and +1.8% in 2016* could herald the recovery of Madrid’s hotel market for the coming years.

Madrid City Council’s focus has been on the development of Madrid as a leading MICE destination through an intense international promotion and collaboration with key actors of the industry. This commitment is very encouraging for the future, as the city ranked 2nd in the 2013 ICCA ranking and organised key international conferences and exhibitions in 2014.

Between 2008 and 2013, room supply in the city increased at a CAGR of +3.5%. The announcement of an upcoming Four Seasons property in the Spanish capital started arousing the interest of other international hotel investors and operators for the city and 2014 confirmed the arrival of several international groups in the market. Further hotel openings are planned in the coming years, notably many conversion projects in the city centre.

Spain’s hesitant economic recovery has made hotel investments more appealing than in other countries as investors have seen a potential for higher returns upon exit/disposal of the assets. In 2014, the market was exceptionally active in terms of hotel transactions.

The announced economic recovery and the positive tourism performances in 2014 make the near future look promising for investments in the Spanish capital and we expect to see properties changing hands in its hospitality sector.

*Source: BNP Paribas Research
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We cover every stage of the hospitality property cycle and have a thorough understanding of the different challenges faced by private owners, institutional investors, financing institutions or developers. We provide targeted expertise in response and our service offer is fully adaptable to meet your specific needs and requirements.

For more information, please do not hesitate to contact us.

* 18 under direct ownership and 22 alliances

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