



Horwath HTL™

Hotel, Tourism and Leisure

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2017 could be a bounce year for French hotels!

At the time of a challenging post presidential elections' context, the French tourism industry remains one of the bright spots of national economy.

Yet, 2016 has enabled hoteliers to overpass pre-crisis performance levels and hotel development is accelerating, at least in the top ten metropolitan areas.

Background

After an economic standstill, the French economy has shown signs of recovery, with a GDP growth by 1.2% in 2016 almost at par with 2015. Following the presidential elections in May, economic forecasts for 2017-2018 are positive and we expect a pickup of business investments. The recent election of Emmanuel Macron as the new President of France has brought by positive perspectives and strong expectations. The new government shall take place in the course of the month.

Provided long time expected economic reforms are implemented during a course of 2017, a rebound of GDP is anticipated. According to the last IMF publication released in April 2017, the organization forecasts a stronger growth in real GDP, which should reach 1.4% in 2017 and 1.6% in 2016.

The business environment should improve slightly in 2017-2018, owing to tax cuts, lower social charges and low interest rates. The favorable environment is expected to entail stronger private consumption and a faster job creation.

From a tourism standpoint, France remains one of the most popular destinations for international tourism with 35 million arrivals per annum. The French tourism industry is indeed considered as one of the bright spots of the French economy, accounting for 7.5% of the country's GDP. One of France's biggest challenges will be to reduce risks induced by the past years' terrorist attacks. While the French tourism industry was recovering from the Paris and Nice attacks that occurred in 2015-2016, shootings were witnessed in April 2017 on Paris iconic Champs Elysees.

Official 2016 data are not yet available but in spite of a troubled context, tourism spending rose by 2.4% in 2015 and was forecast to grow by 2.7% in 2016 according to the World Travel & Tourism Council. French tourism fundamentals remain solid and show a change in demand dynamics. While the domestic demand has remained stable over the past 10 years, an accrued growth of high-spending foreign has been observed over the past three years. French industry champions as Club Med, AccorHotels, Louvre Hotel Group and Pierre & Vacances remain attractive to foreign investment with the recent entry of Chinese equity from Fosun, Jin Jiang or HNA.

Investment Climate

In 2016, as per INSEE, the statistical French agency, the overall hotel supply accounted for about 18,000 hotels and 652,000 rooms. The country experienced an important increase in room supply, supported by the ongoing development of hotel chains still expanding their network.

French hotel supply has remained rather stable in volume over the past years; a significant share of this inventory is obsolete as mostly developed in the 70's or 80's and numerous properties are undergoing renovation programs, especially in gateway cities.

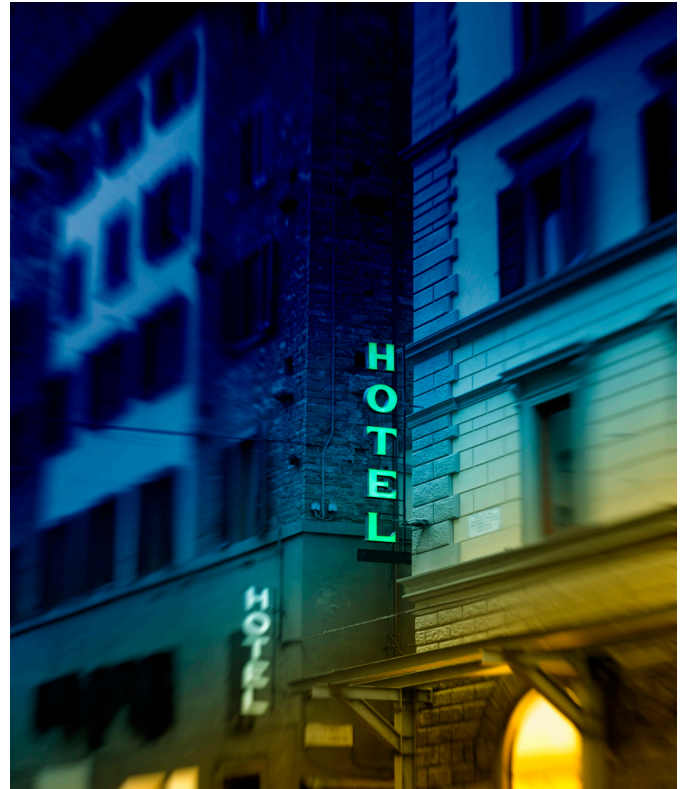
Meanwhile, urban renovation plans including hotel components are conducted to rejuvenate the centre of key cities. As a result, hotel opportunities have switched from the suburbs to the city as many plants or buildings are being redeveloped (post offices, railroad tracks).

In a context of supply renewal, hotels rely on a robust investment climate held by diverse investor profiles. It is to underline however that the hotel investment market still shows some contrasts:

- Paris, key regional cities (Top 10 metropolitan cities such as Lyon and Bordeaux) or tourist areas (such as the French Riviera and coastal areas) remain attractive locations for international hotel investors. We also observe an increase of green-field & urban projects in those locations.
- Paris is the leading hotel market in Europe with a RevPAR of 205 € in 2016. The shortage of supply and the continuing growth in arrivals sustain high occupancy and revenue per available room, most significantly in the upscale and luxury market. Paris luxury market is undergoing a continued upgrade of hotel facilities. As a matter of fact, the 4- to 5-star segment now represents over one third of the total room stock according to the Paris Tourist and Congress Office.

Witnessing a strong appeal for hotel investment, French single asset hotel transactions amounted over 1.2 billion € in 2016, representing a growth by over 130%. Those accounted for 11% of total hotel transactions in Europe.

The most remarkable event in Paris hotels in 2016 was the reopening of the Ritz Hotel, after four years of heavy renovation works. The Crillon shall also reopen in summer 2017 under the Rosewood brand. This inventory add-up will require an adjustment of the market and may lead to temporary occupancy rate decreases.



Outlook

Market performances for French hotels are induced by the health of general economy and international events. Growth in GDP has historically sustained RevPAR increase while international sports & historical events as well as major exhibitions have boosted it.

The hotel climate is rather uneven in the rest of the country. Some tertiary markets still do not achieve pre-crisis levels and are the most impacted by the contraction of domestic expenses. Moreover, those markets are often led by independent hotels, which do not profit from strong commercial power.

The terrorist attacks that occurred in France in 2015-2016 led to a RevPAR decrease by 9 points (Jan-Oct) in comparison to 2016, mainly explained by a decrease in key international feeder markets. This performance was partially offset by the EuroCup that took place during spring 2016.

Despite a rather stable supply, the contraction of domestic demand has had an impact on the budget segment market performances, especially the dated hotel products. At the same time, the increasing share of business channeled by the OTAs has impacted negatively their GOP margin which was historically well above 40% of revenues.



The Handball World Cup took place in Paris in January 2017 and the Ryder Cup is expected in 2018 in the Paris Region. France has also applied to host the Olympic Games in 2024, which would foster a strong growth of international markets, especially Asia and the Middle East.

On a local perspective, the Paris Metropolis is undergoing a major urban planning to operation, which will lead to the opening of 4 new tube lines (Grand Paris Express Project), and the development of new business areas around Paris City center. This plan offers numerous hotel development prospects for domestic and international hotel groups, and should enable a renewal of Paris Region's supply. Most dynamic suburban areas include Disneyland Paris area, Roissy CDG airport and La Defense business hub.

Beyond the non-predictable security context affecting Europe and France, Horwath HTL anticipates that international demand will rebound in 2017, resulting in an increase in hotel occupancy. As a consequence, we anticipate a RevPAR growth for 2017 in the range of 1.5 - 3.5%, depending on the price sensitivity of demand.

Still, 2017 and the coming years will also be remembered for the launch of innovative hotel concepts. MOB (Maimonide of Brooklyn) hotel of the people opened in March 2017 in Northern Paris, Joe&Jo - AccorHotels' new brand – will be launched in June and new hostel brands such as Yooma and France Hostels will enter the market.

In such a dynamic environment, international lifestyle brands from major multibrand groups should also enter the market or reinforce their network in Paris and France.



Horwath HTL France

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- The 'Leisure Factory' - our project laboratory and incubator - is evidence of our significant R&D capacity, our innovation and our creativity

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Philippe started his career as a consultant with Horwath & Horwath then KPMG before joining Europcar as Project Director. He then worked as Corporate Research Director for the Accor group.

Philippe joined Horwath HTL France as a partner in 2006. Specializing in hotel market and feasibility studies, Philippe has managed some 300 development studies both in France and internationally.

Philippe Doizelet is regularly invited to speak at leading Hotel Investment Conferences in Dubai and participates in several industry publications (Hotel Yearbook, Global Hotel News, STR Global). He is a member of RICS & ISHC.



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Soazig graduated with an MBA in Hospitality Management (ESSEC 2013) specialising in Hotel Real Estate, Corporate Finance and Strategy, and has a Bachelor's degree in International Hotel and Restaurant Management (Institut Paul Bocuse 2010).

Soazig began her career in Hotel Real Estate at Carlson Rezidor Hotel Group, where she developed expertise in hotel and real estate markets in Europe and the Middle East. She then joined Fundotel, a real estate consulting firm, where she participated in operator selection, financing, valuation, market studies, feasibility studies and transaction assignments in Paris, Europe and the Middle East.

Soazig has seven years of operational experience, at junior or managerial roles, within different hotel structures, and has demonstrated her project management abilities, successfully completing a training consulting assignment in Lebanon.



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