



Horwath HTL

Hotel, Tourism and Leisure

INDUSTRY REPORT

ITALY: Construction and Renovation Costs in Hospitality

JANUARY 2020



Introduction

With this very first report covering the cost of building, converting or renovating hotels and resorts, we try to shed light on the world of CapEx associated with hospitality development in Italy. This is the first report ever written covering the topic for the country, finally based on a consistent number of observations.

We have collected 63 projects (finally reduced to 50 after data cleaning), totalling over half billion Euros of investments in over five thousands rooms. Through this database, we are able to present what is the per room cost and the sqm cost associated to light or heavy renovations, new buildings or conversions, for several market segments.

The data shows that Italy is a very peculiar market for CapEx planning: due to the massive amount of hotels located in historic buildings, which are pretty delicate to approach, renovating in the luxury scale in a top destination may often cost more than building on greenfield.

Moreover, unexpectedly, we discovered that branded and independent hotels are not different in terms of CapEx requirements in greenfield developments.

Definitions

Costs (Euro):

- Excludes Administrative Costs
- Excludes purchasing asset/land/operating company
- VAT excluded, FF&E costs included ('turn-key' cost)
- All costs occurred prior to 2019 have been capitalized with historic inflation

Construction:

- Refers to cost of building a new property = Greenfield
- Only costs which have effectively occurred (no pipeline, all operating properties)
- Includes FF&E costs

Renovation:

- Refers to cost of heavy or light, full or partial renovations of existing properties
- Revamping is considered a light renovation
- Includes FF&E costs

Hospitality:

- Here: hotels, student/hostel hotels, resorts
- No other type of lodging

FF&E:

- Furniture, Fixtures and Equipment installed/removable
- May differ from one data provider to the other and therefore are not 100% reliable

Overview

While many studies concentrate on transactions and performance in hospitality, very few report about the investment requirement of building and construction of assets, as well as their renovation and certainly none for Italy.

This survey on construction and renovation costs in hospitality in Italy is based on completed projects of hotels, student hotels/residences and resorts, happened during the last 5 years (2015-2019).

We have collected data thanks to hotel chains, asset management companies, architect studios and engineering companies. All CapEx associated to the projects considered for this survey have been reported as current Euros for the year 2019 (capitalized in case occurred before, at the official inflation rate). Outliers have been excluded to come to consistent mean values.

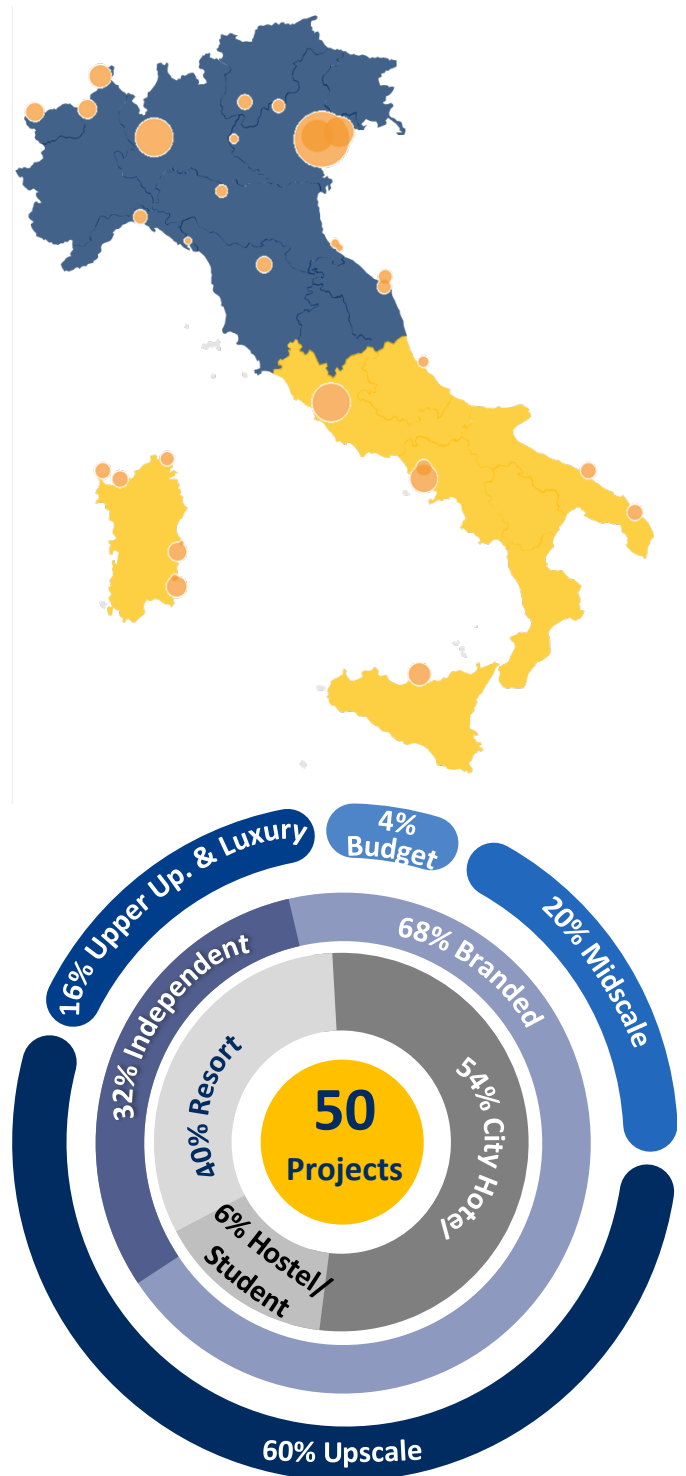
This is a starting point to get a clearer understanding of CapEx involved in conversions and renovations, in a country where greenfield projects are very rare.

Covering 34 destinations of Italy, including Milan, Venice, Florence, Rome, Naples, Genoa and many others, we have investigated over 60 projects and finally analysed 50 of them covering almost all market segments. Upscale (60% of all assets, by segment), city hotels (54% of all kind of assets) and branded (68% of management models) are the most relevant projects in the survey.

The value of the CapEx invested in these 50 completed hospitality projects was over 530 million Euros.

50	Real projects of greenfield or renovated properties, effectively concluded
34	Destinations: Milan, Rome, Venice, Florence, Courmayeur, Napoli, Rimini etc
5,570	Rooms, dorms or apartments
>0.53 b	A stock of over 530 mln Euros of investments in renovation or greenfield developments

Concentration of hotels and resorts projects in the survey, among northern and southern regions of Italy



The Results:

Greenfield

Greenfield developments are very rare in Italy. Nevertheless, we have accounted for 12 greenfield projects, almost 20% of the panel, for a total value of 182 mln Euros, equivalent to 147.5 thousand Euros per key.

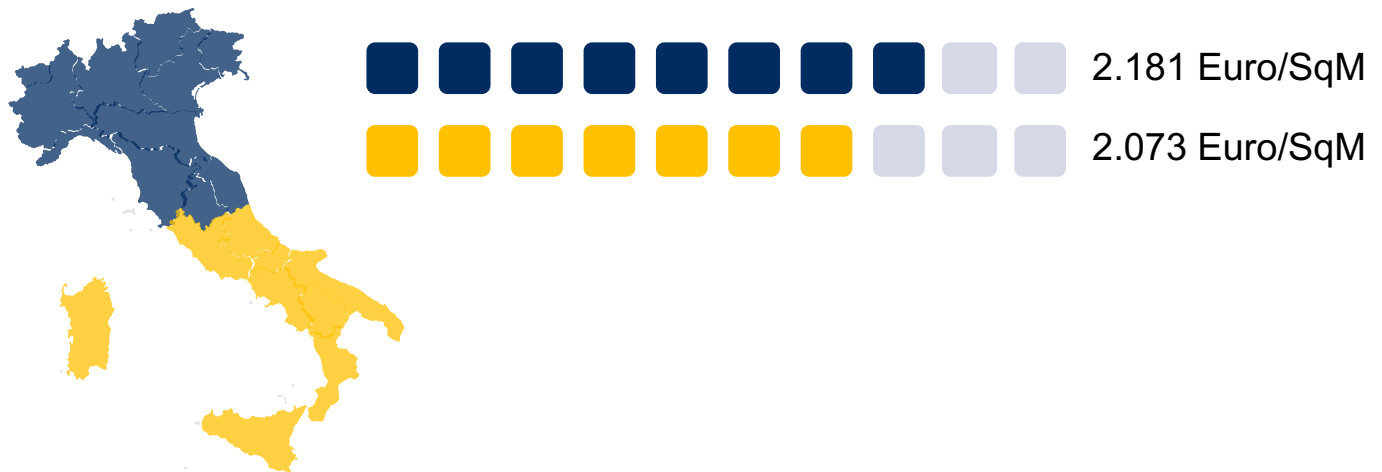
- Midscale properties have more concise budgets
- Luxury greenfield developments are very few but demonstrate low volatility
- Projects in Southern Italy are less expensive
- Avg. building costs: 2,000 €/sqm

Greenfield construction costs by building type, destination and management model, per key and per sqm

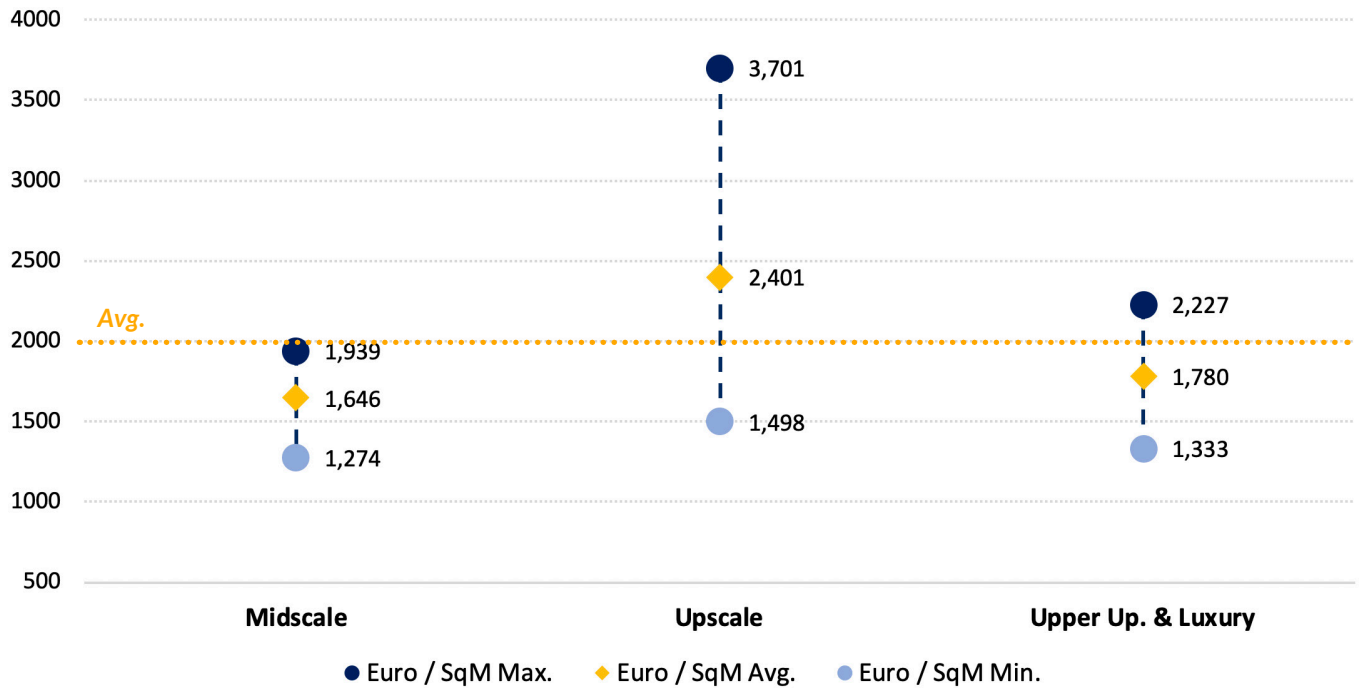
Building Type	Euro/SqM	City Hotel	1.843
		Resort	2.311
	Euro/Key	City Hotel	109k
		Resort	161k

Destination	Euro/Key	Top	147k
		Secondary	142k

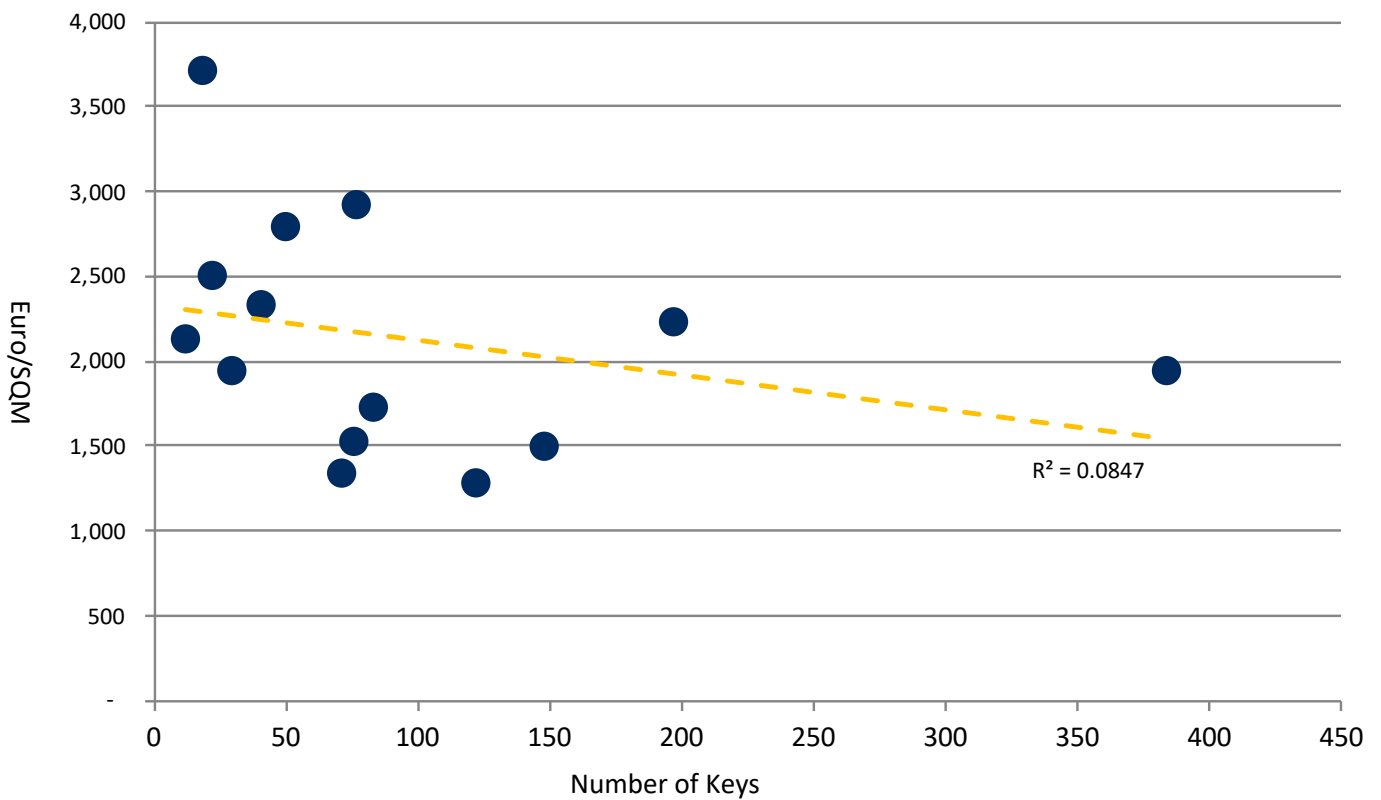
Management	Euro/SqM	Branded	2.174
		Indep.	2.062
	Euro/Key	Branded	137k
		Indep.	152k



Range of costs (Min, Avg, Max) per sqm by segment in greenfield projects



Low correlation between €/sqm costs and number of keys (size)



The Results:

Heavy And Light Renovations

Heavy and light renovations cover most of the survey panel. Italy is especially rich in historic buildings converted in hotels, undergoing continuous renovations, revamping and upgrading.

The luxury segment is going through a massive process of revamping, since the beauty of an historic building itself is not sufficient to guarantee adequacy to brand standards.

To such an extent, branded renovations in top destinations reported twice the costs of secondary ones.

- Renovation in Resorts is mostly a ‘maquillage’ rather than a full renovation
- The room is the first area which is renovated
- Top destinations cost as twice as secondary
- Chain projects are more demanding (but possibly deliver higher value)
- Avg. renovation costs: 1,300 €/sqm

Renovation costs by building type, destination, construction type and management model, per key and per sqm

Building Type	Euro/SqM	City Hotel	1.415
		Resort	916
	Euro/Key	City Hotel	94k
		Resort	52k

Destination	Euro/Key	Top	108k
		Secondary	60k

Existing Building	Euro/SqM	Other Use	1.686
		Historic Hotel	1.729
		Modern Hotel	887
	Euro/Key	Other Use	98k
		Historic Hotel	123k
		Modern Hotel	55k

Management	Euro/SqM	Branded	2.174
		Indep.	2.062
	Euro/Key	Branded	137k
		Indep.	152k

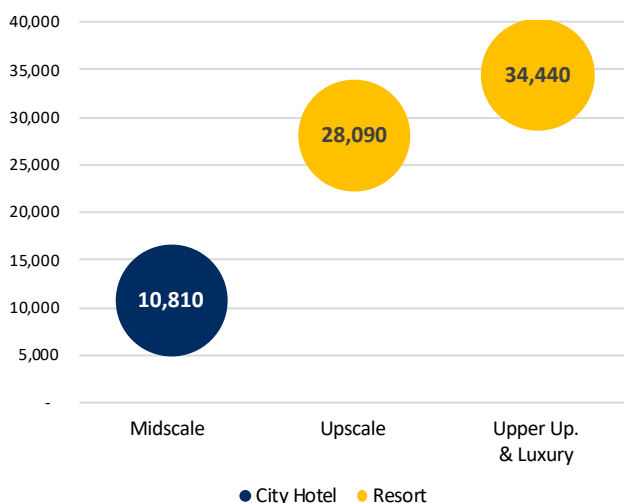


The Results:

Furniture, Fixtures and Equipment (FF&E)

This acronym, which locally has been interpreted wrongly, is difficult to explore with a precision in Italy (and, possibly, in Europe). Nevertheless, with this survey we attempted to make it clear what the range of costs can be for renovations and greenfield developments. Finally, we found that values are fairly concentrated around an average of approximately 28 thousand Euros in greenfield resorts and 9 thousand Euros for renovated resorts.

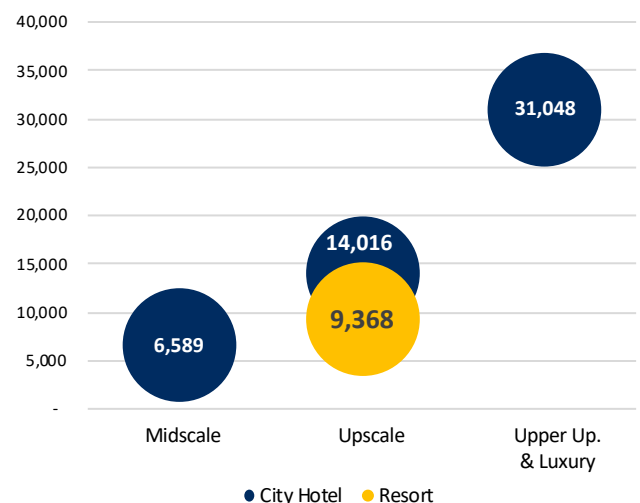
Greenfield: CapEx invested in FF&E per room, by segment and type of lodging



Values for hotels differ substantially for intuitive reasons, while the segment is also very relevant in terms of explaining FF&E costs.

- Very opaque definition for Italy
- FF&E cost impact on total costs for renovation projects:
 - 11% in Midscale
 - 18% in Upscale
 - 18% in Luxury
- FF&E costs impact on total costs for greenfield developments:
 - 13% in Midscale
 - 17% in Upscale
 - 26% in Luxury

Renovation: CapEx invested in FF&E per room, by segment and type of lodging





Conclusion

The evidence from this initial survey has contributed to the industry in two ways: it created a platform for analysts and investors to benchmark their planned CapEx for hospitality projects in Italy and has in turn, created an opportunity for further research in this field.

Italy accounts for relatively low costs in new developments and renovation. Many of the projects we have surveyed had a budget lower than 1.5 thousand Euros per sqm for renovation and lower than 2 thousand Euros for completely new built.

Thus we can conclude, that rather than CapEx and their potential return, what ultimately slows down the renovation of the Italian hospitality portfolio is Italian bureaucracy and political/administrative uncertainty.

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The survey was conducted in partnership with Hospitality Project SRL, a company of Teamwork Hospitality.

Horwath HTL

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