



Horwath HTL

Hotel, Tourism and Leisure

Madrid's Luxury Hotel Market - Re-drawing the Map

June 2022



Introduction

When describing the current hotel market in Madrid, any observer will agree that the city is witnessing a long-awaited re-shaping. It could be said that the increase of hotel accommodation in the city in recent decades has been simply proportional to the growth in visitors, with international travellers now representing almost 50% of the total number of tourists.

At the same time, Spain has been attracting an important share of the luxury tourism market and Madrid has reacted to this with a remarkable rise in openings of upscale and luxury hotels. At first glance, this evolution in supply is just a response to the evolving needs of the market, but we must also consider the pace at which this change is happening and the implications for the market in the short to medium term.

In the latest report published by Global Market Insights, the luxury tourism market was worth over \$15 billion in 2020 and is expected to expand at around 16% CAGR from 2021 to 2027. The European luxury tourism market accounted for around 35% of the global revenue share in 2020.

Madrid has identified the opportunity that luxury travellers bring to the city and the City Town Hall together with other entities are implementing a series of approaches to help in positioning the city as a luxury destination.

In order to identify whether Madrid is replicating what is occurring on a larger, country-wide scale or whether it is drawing its own roadmap, we will firstly focus on the existing premium hotel sector at a national level.

With this as a basis, we will try to identify the different strategies that Madrid is pursuing to position itself as a luxury destination. Are these sufficient to compete with other cities that already have a long track record in this area?

With the big picture defined, we will then assess the current luxury hotel market in Madrid and its pipeline of new projects. We will unveil the existing diversity in hotel supply and the way Madrid has become the spotlight for major international luxury brands.

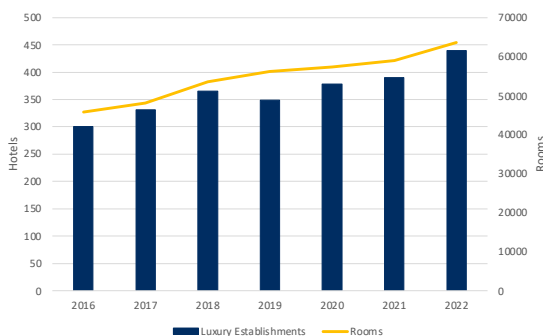
The luxury hotel market in Spain

The evolution of the luxury market is seen in the increase of 5* and 5* GL hotels in Spain. The hotel sector in recent years has been going through a buoyant period resulting in large national and international chains considering Spain as a prospective destination to pursue their development plans.

We have estimated using Alimarket's hotel census, that at the beginning of Q2 2022, the Spanish luxury hotel supply stood at around 64,000 rooms distributed in 439 establishments.

The critical situation caused by the coronavirus pandemic wasn't the best scenario for the launch of many of the projects that were scheduled for completion during 2020 and 2021 leading in many cases to delayed openings for at least one year, resulting in an increased emergence of premium properties over the last months.

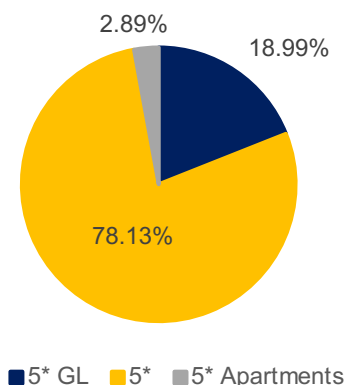
Evolution of the Spanish Luxury Segment



Source: Alimarket

Luxury hotels in Spain are distributed as shown in the chart below.

Rooms by Category – Luxury Segment in Spain 2022



Source: Alimarket

Of the hotel chains, Marriott International leads the high-end ranking with 33 5* and 5*GL establishments, and a total of 5,673 keys. Two of Marriott's most anticipated openings in the Spanish premium market were scheduled to happen in Madrid this year: the JW by Marriott in Plaza de Canalejas and The Madrid Edition in the Monte de Piedad building which was inaugurated with its preview opening in mid-March.

While the majority of premium hotels in Spain are operated by independent owners, the rest are controlled by means of management or franchise agreements. This trend however, may change after the health crisis due to the "asset light" strategies that are increasingly common in

the sector, including, among others, sale and leaseback operations. Examples include the transactions completed by Único Hotels both in Madrid and Barcelona, which sold the Hotel Único Madrid and Grand Hotel Central de Barcelona, while maintaining the leasehold operation. Earlier this year, Pau Guardans exercised his right to repurchase the Hotel Único in Madrid just one year after it was sold. Some chains have been forced to sell part of their own assets or even disengage completely from the real estate division in order to solve liquidity shortages or focus on the business of hotel management.

However, as pointed out by Adrian Messerli, Regional Vice President and General Manager at the Four Seasons Hotel Madrid, upcoming projects may not have been affected by the current scenario given that "many of these international hotel projects were planned prior to the pandemic", but he believes that there is indeed a massive shift happening and foresees it will continue this way in the future".

Madrid 5* Hotel Transactions

Year	Property	Rating	Rooms	Price €	Price per Key €
2018	Hotel Villa Magna	5* GL	150	210,000,000	1,400,000
2021	Madrid Edition	5*	200	205,000,000	1,025,000
2021	Hotel Bless Madrid	5*	111	115,000,000	1,036,036

Source: Real Capital Analytics and Horwath HTL

Hotel investments reached peak levels in 2018 and 2019, followed by a 62% drop in 2020. All in all, however, everything pointed to 2021 being the turning point where a slight recovery in hotel investments would be seen. In fact, market commentators report over €3 billion in hotel transactions in 2021, tripling the hotel investment figures for 2020 and representing a 26% increase over 2019. The purchase of The Madrid Edition by Archer Capital and that of the Bless Hotel by RLH Properties have been a major boost to investment in the hotel sector in both Madrid and Spain.

The luxury sector at a national level is progressing rapidly, and this can be linked to an evolution in the type of tourist visiting Spain. The expectations and needs of the premium traveller are evolving and the market needs to adapt fast to these changes in consumer behaviour in order not to lag behind other strong competitive markets.

Madrid's positioning as a luxury destination

The luxury hotel market in Spain is evolving rapidly. In the last decade we have seen how Spain as a whole and some cities in particular have been adapting their tourism offer to attract an important target market focused on luxury. If we think about luxury destinations in the country, other names such as Barcelona, Mallorca, Ibiza and Marbella come to mind. If Madrid wants to join this group, it will need to develop clear positioning strategies. When talking about luxury tourism, what position does Madrid hold compared to other destination cities?

Quoting Madrid's City Council; *"Madrid offers its visitors unique experiences ranging from private visits to its museums and art galleries to flamenco shows paired with the best gastronomy, the best musical productions, five-star hotels of major national and international chains, Michelin-starred cuisine, artisan shops and the most exclusive fashion brands. Added to this is a unique historical, artistic and natural heritage that makes the city the new European capital of luxury."*

Charles Morris, General Manager at the Rosewood Villa Magna Hotel believes that *"in order to attract as many visitors to the city as possible, Madrid should create an attractive brand image, keeping the growth dynamics and facilitating the access of major brands to the city."* Madrid's City Town Hall is definitely working hard on improving the city's image through various strategies.

The "Tourism Strategic Plan 2020-2023" is aimed at positioning the city among the world's major urban destinations. Recently, the Town Hall has launched the "Marca Madrid" project to give its City Brand a facelift seeking "the construction of a solid and differentiating city story, with the aim of increasing its competitiveness, attracting tourism and investment".

One of the most recent platforms launched to position the capital as a luxury destination is Forward_MAD. Supported by Madrid City Council through Madrid Destino, its main objective will focus on finding out how to coordinate Madrid's luxury business network to create a unique, complete and innovative proposal within the framework of a sustainable business model.

Madrid is bridging the gap with other luxury destinations. The Barrio de Salamanca alone, with its luxury stores, the "Golden Mile", Michelin-starred restaurants and high-end nightlife accounts for 34% of spending on luxury products in the city. Quoting Adrian Messerli, "In addition to the art scene and food and culture offerings, Madrid now also has the luxury hospitality component making it a must in everyone's travel plans."

Besides the broad spectrum of cultural and social activities available, on July 2021 Madrid entered the UNESCO World Heritage List for the first time in the cultural landscape category with the urban area that comprises the Paseo del Prado and the Buen Retiro Park. This will represent a new added value to the city in terms of attracting foreign travellers.

It seems that the efforts being made by the different entities to convert Madrid into a luxury landmark destination are being fruitful. Recent studies have positioned Madrid as one of the best tourist destinations of the moment and ahead of other benchmark cities in the world such as Rome, New York or Mexico City. The fact that Madrid ranks high in terms of Sustainability and of Tourism Policy and Attractiveness makes it a desirable destination for those looking for premium and outstanding tourism sites.

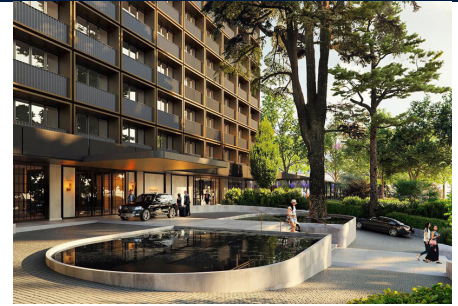




Mandarin Oriental Ritz, Madrid



Four Seasons Hotel Madrid

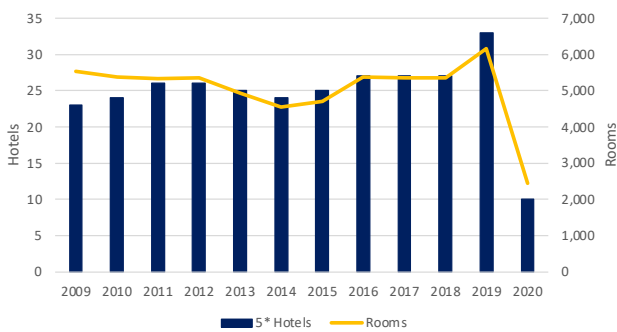


Rosewood Villa Magna

Madrid Luxury Hotel Market

The supply of high-end hotels in Madrid has grown steadily in the last decade. According to INE (Instituto Nacional de Estadística), 5* opened establishments in Madrid increased by 43% from 2009 to 2019, although just 11% with respect to number of rooms, revealing that new hotels have been smaller in size, reflecting the lack of available large properties in the centre of the city. Although official INE figures are not available yet for 2021, which would be even more substantial and reinforce our research, data previous to the pandemic was starting to reveal an upward trend in terms of new openings in the premium segment (+15% rooms from 2018 to 2019).

Madrid 5* Hotel Supply – Open Establishments



Source: INE

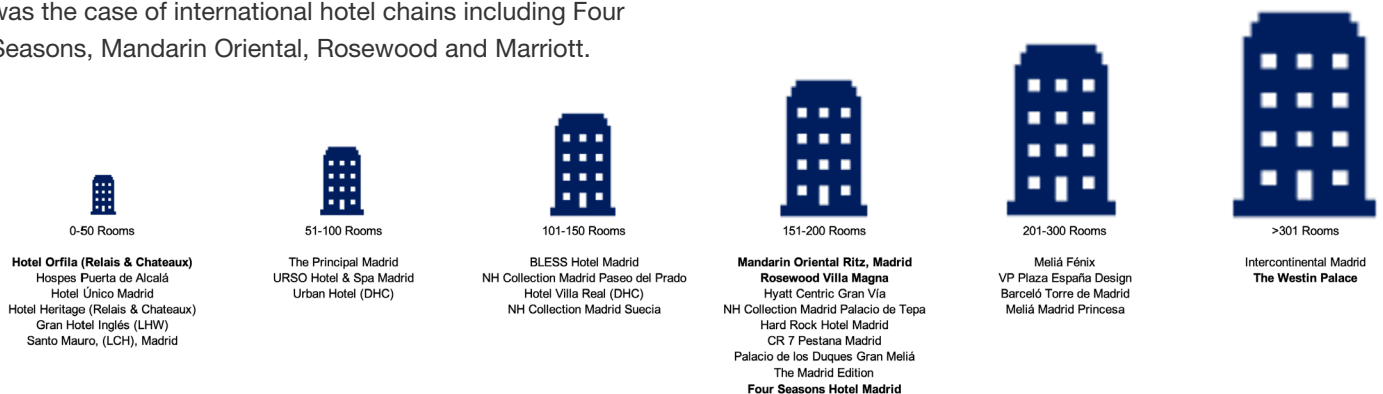
National and foreign hotel chains identified the existing opportunity in the city given the shortage of luxury supply and opted to expand their premium offer in Madrid. This was the case of international hotel chains including Four Seasons, Mandarin Oriental, Rosewood and Marriott.

Given the emergence of new premium hotels in such a short period of time, it is worth analysing how the current map appears. The criteria used to select our shortlisted hotels include positioning, price, product and location.

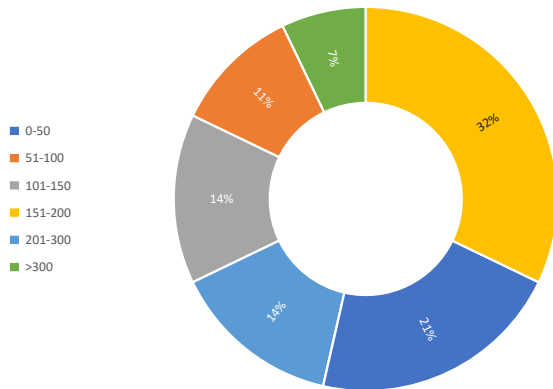
Building up a comparative or competitive set based on star rating can be misleading. Nonetheless, for the purposes of this analysis, we have divided the list into two sections: 5* and 5* GL. In some cases, the star rating is not relevant when it comes to establishing a competitive or comparative market. In Spain, star ratings are determined by construction features and not by other characteristics that could be more decisive, such as the quality of the service offered, price point or location. Out of the 28 shortlisted hotels, only five are categorised as 5*GL and from these, the three identified above play an important role as they represent currently the main driving force behind Madrid's hotel luxury landscape.

In addition to the initial fragmentation when it comes to classifying the premium segment itself (5* and 5* GL), there are other differences that are worth mentioning. For example, when taking a closer look at this shortlist of hotels, we observe that there exists a great variety in terms of size, location and price.

The market offers small, boutique hotels with only 32 keys up to hotels with more than 250 rooms. The key count is often determined by the location of the property or the intrinsic characteristics of the building.



Room Key Count of Shortlisted Hotels



Source: Horwath HTL

Madrid's premium hotel market is available for all kind of budgets. Room rates ranging from less than €200 to €1,000 per night*1. This diversity reflects the reality of the current market and the way it has evolved over the years. Nevertheless, average rates overall for Madrid have been rising year after year. One of the reasons behind this, as explained by Adrian Messerli, is that newly arrived brands have established substantially higher rates compared to the history of the rates in the city giving the opportunity to the midscale hotels to raise their average rates.

*1Source: Hotel's websites published rates based on a one-night weekday stay in June 2022. (Superior / Deluxe category - only accommodation and VAT included)

In general, from our shortlist, those hotels with higher rates correspond to properties managed by international brands, with standard rooms over 30m², centrally located with good accessibility, with a diverse selection of Food and Beverage offerings and surrounded by popular city tourist attractions. Something to bear in mind is also the revenue management strategy pursued by each hotel which make direct comparison of published prices more difficult to interpret.

Although these are high-end properties, aimed at a specific sector seeking a high-quality product, not all hotels target the same client profile. Adrian Messerli states that the new international branded hotels entering the market and targeting different guests will allow all properties to find their proper segmentation varying the guests' profile and travel purpose. Some hotels are more focused on targeting leisure-oriented guests, others may focus more on corporate clients or groups, or a combination of both.

The attractiveness of the city does not go unnoticed by the large international chains and investors who are betting on Madrid to develop their new projects. Charles Morris reinforces this view as he thinks that Madrid has been a very well-kept secret to many potential emerging leisure and group markets and believes that the destination has a lot of potential for any brand as the curve is now starting on the rise.

This hotel development focused on premium hotels brings to light not only the notable rise in hotel supply available but also the evolution of the definition of luxury itself.

In the 20th Century, a luxury traveller would look for a hotel that combined a perfect location, excellent service and a high-quality product. Today, HNW and UHNW travellers have changed. They are interested in fulfilling specific personal needs, living memorable experiences and receiving personalised customer care. Some experts are clear that the pandemic has also contributed to these shifts in consumer behaviour, for example "by looking for premium spaces and suites or opting for more exclusive means of transportation such as private jets", as confirmed by Adrian Messerli.

This change in needs has forced owners and operators to diversify their offer and update their premium products to attract all possible types of clients. A recent example of these strategies is the re-branding of the Hotel Santo Mauro as part of The Luxury Collection.

Madrid Luxury Pipeline Projects

Some of the hotel projects that were expected to open during 2020, such as the Mandarin Oriental Ritz, Madrid were delayed due to the coronavirus pandemic. During the period of lock down, construction work was halted in many cases and in others, hotel owners decided to reschedule the reopening of their hotels to reduce overheads.

Although there has been a sudden emergence of international brands in Madrid, it seems that this trend has only just started. The upcoming projects include mostly international brands like Nobu Hotels, Curio Collection by Hilton or Thompson Hotels by Hyatt. As Charles Morris comments, “the implementation of new and strong hospitality brands in Madrid will increase interest and leverage the destination.”

Pipeline Projects	Rooms	Category	Type	Phase	Expected Opening
El Metropol Madrid, Curio Collection by Hilton	93	5*	Conversion	Under Construction	2022
Teatro Albéniz	115	5*	Conversion	Under Construction	2022
Hotel Nobu Madrid	TBC	5*	Conversion	Planning	TBC
JW Madrid	139	5*	Conversion	Under Construction	2022
Evok Gran Via (Brach)	59	5*	Conversion	Under Construction	2022
Estadio Santiago Bernabéu (Hotel)	TBC	5*	New Construction	Under Construction	TBC
Hotel Hyatt Thompson Madrid	174	5*	Conversion	Under Construction	2022
Madrid Teatro Reina Victoria (Canalejas)	78	5*	Conversion	Pre-planning	TBC
Edificio Metrópolis		5*	Conversion	Pre-planning	TBC

Source: TopHotelProjects and Horwath HTL Research

Madrid Luxury Hotel Map

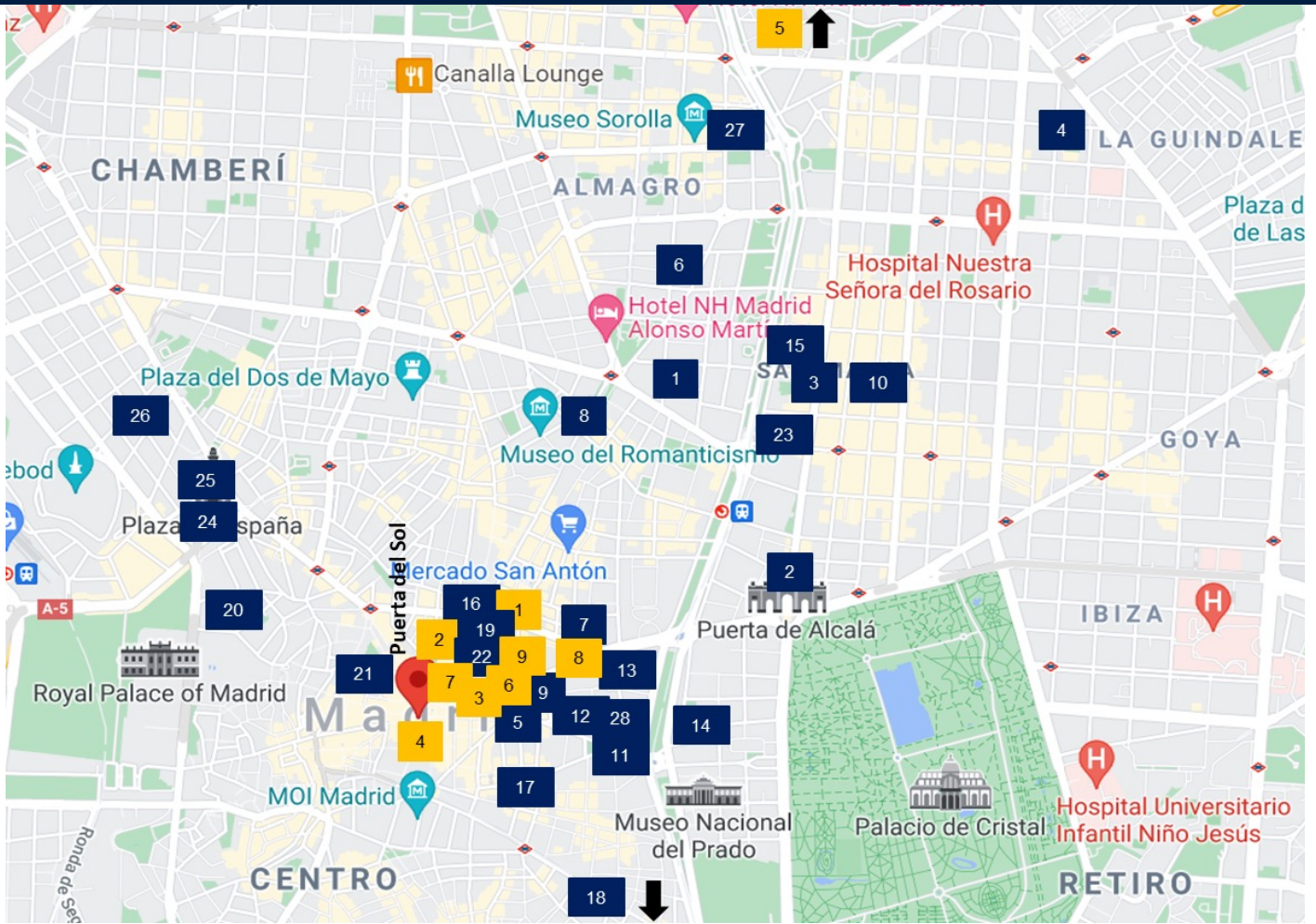
Taking a closer look at the location of these properties, there is a concentration in specific areas of the city. In addition to the initial shortlist, we have incorporated hotels in the same categories that are currently in the pipeline and would also form part of the comparative set.

Hotels included in this list are distributed in two areas: one covering the entire central area between Puerta del Sol and Banco de España; and the other closer to the Barrio de Salamanca and Paseo de la Castellana. The greatest concentration of hotels is undoubtedly in the first area, which includes Paseo del Prado, Barrio de Las Letras, Gran Vía and the area around Puerta del Sol (with almost 50% of the hotels on the list). As far as future high-end projects are concerned, again the highest concentration is in the central area of Madrid - Gran Vía and Puerta del Sol.

There are several plans underway focused on revitalizing Gran Vía and Puerta del Sol resulting in a growing interest for these areas. In the 1960's, Gran Vía used to be the meeting point for the most glamorous and select society in the city.

This area is now reviving its past glory through the incorporation of new high-end hotels such as the conversion of the Metrópolis building, the new Madrid Teatro Reina Victoria hotel project in Canalejas or the WOW gallery that recently opened and includes the world's most recognised luxury brands. Similarly, the Community of Madrid on the 22nd of March initiated the project to transform the Puerta del Sol area into an example of what it wants to be the “Madrid of the Future”, increasing its attractiveness to investors.

Location has always been the key determinant for new hotel developments as it plays a critical role in the success of the business. For hotel guests, even in the luxury segment, location is always a primary consideration, especially in urban destinations, where access to key demand generators and visitor attractions is very important, such as Madrid's famous Golden Triangle of Art. The fact that, as pointed out by Adrian Messerli, Madrid is a fairly small city and very accessible by foot, results in the grouping of all these areas within easy reach. The combination of these two factors explains the existing clustering of premium hotels in the neighbourhoods shown on the next page.



Source: Google Maps

Existing Hotels		Rooms
1	Hotel Orfila (Relais & Chateaux)	32
2	Hospes Puerta de Alcalá	41
3	Hotel Único Madrid	44
4	Hotel Heritage (Relais & Chateaux)	46
5	Gran Hotel Inglés (LHW)	48
6	Santo Mauro, Luxury Collection Hotel	49
7	The Principal Madrid	76
8	URSO Hotel & Spa Madrid	78
9	Urban Hotel (Derby Hotels Collection)	96
10	BLESS Hotel Madrid	111
11	NH Collection Madrid Paseo del Prado	113
12	Hotel Villa Real (Derby Hotels Collection)	115
13	NH Collection Madrid Suecia	123
14	Mandarin Oriental Ritz, Madrid	153
15	Rosewood Villa Magna	154
16	Hyatt Centric Gran Vía	159
17	NH Collection Madrid Palacio de Tepa	160
18	Hard Rock Hotel Madrid	161
19	CR 7 Pestana Madrid	168
20	Palacio de los Duques Gran Meliá	180

21	The Madrid Edition	200
22	Four Seasons Hotel Madrid	200
23	Meliá Fénix	203
24	VP Plaza España Design	214
25	Barceló Torre de Madrid	258
26	Meliá Madrid Princesa	274
27	Intercontinental Madrid	302
28	The Westin Palace	470

Pipeline Hotels		Rooms
1	Evok Gran Vía (Brach)	59
2	El Metropol Madrid, Curio Collection by Hilton	93
3	Madrid Teatro Reina Victoria (Canalejas)	TBC
4	Teatro Albéniz	115
5	Estadio Santiago Bernabéu (Hotel)	TBC
6	JW Madrid	139
7	Hotel Hyatt Thompson Madrid	174
8	Edificio Metrópolis	TBC
9	Hotel Nobu Madrid	TBC

Summary & Conclusions

In December 2021, the “Save the Date” campaign was launched with the tourism programming of Madrid for 2022. The mayor claimed, “the excellence of the tourism sector” and the commitment of the City Council to generate “the right framework to continue progressing and having the highest per capita expenditure, as well as to increase high-impact tourism, beneficial for the sector and for the city as a whole”. There is an awareness of the importance of tourism for the city and the interest in boosting this and especially luxury tourism, is outstanding.

Adrian Messerli's perspective is that Madrid was to a large degree undiscovered to luxury travellers due the lack of premium inventory, however with the general shift in lifestyle and with the complementary offer Madrid already had, the city is now able to attract luxury costumers better. The upgrade in supply together with the strategies pursued by different entities will position Madrid in the place it has deserved for a long time.

There is no question about the increased interest of international brands in Spain and its capital city, but mainly for the premium segment, as revealed by the prominent number of new or re-branded luxury hotels. This will eventually lead to an increased competitiveness due to the new challenges that operators will face to obtain significant market penetration.

If we sum up the recent openings of new premium establishments, the refurbishment of existing hotels and the pipeline under development, it is apparent how Madrid's luxury hotel market map has been re-drawn and undergone a general upgrade. As outlined by Charles Morris, newly-arrived brands implies that the city will be positioned as a significant luxury destination. The investments made by local and foreign players in premium hotels will position Madrid as the focal point for luxury travellers.

The market for 5* hotels in Madrid is both extensive and fragmented. This brief analysis reinforces our view that hotel star classification is clearly not the preferred way to categorize hotels; perhaps it is efficient technically speaking but not for reliable property comparisons focused on the guest experience. The brand operators now face a significant challenge creating a clear identity for their hotels and presenting themselves to specific target markets with differentiated value propositions.

Madrid's luxury hotel market is experimenting a rapid transformation, and it was no surprise that sooner or later this moment would come. But how long will it take to enter a phase of maturity or stabilisation? Besides, what does stabilisation look like in today's volatile world?

Is there still space for new participants in the luxury segment or is the opportunity over? And what of the luxury serviced apartment and branded residence markets? Is there now clear space in these sectors to create competitive advantage in a city has that been under-supplied with these product types for many years?

We are all very aware of how the hospitality industry can be turned upside down by events that were not in anybody's business plan. The words “uncertainty” and “risk” have taken on new meanings. Timing is everything, they say, but constant change is the new normal and Madrid still has some catching up to do with other major European capitals. It is well on the way, but there is more to do and we are watching closely.

With all of this in mind, should investors hold a “wait and see” position until the market is settled? By then, they will be able to assess how the market reacts to this new supply as well as identify any missed opportunities. This will assist owners and operators in distinguishing the unique selling points that will provide them with the right competitive advantage not fulfilled by other hotels in the market. As Warren Buffet said “never invest in a business you can't understand”. Perhaps this will depend on the role new players want to assume – as market leaders or followers. New opportunities in the city are becoming hard to find and price expectations are likely to grow, despite the current global uncertainties.

Whatever the future holds, Madrid has proven itself to be a city capable of significant change, and change always offers opportunity. In the absence of greater geo-political and economic change, the next two years are expected to be crucial in determining how the re-drawing of Madrid's luxury hotel map has created a new platform for continued growth.

*Horwath HTL would like to thank our industry leaders for their valuable contributions to this article:
Adrian Messerli, Regional Vice President & GM, Four Seasons Hotel
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