News release

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PwC European Hotel Forecast Expects Growth in 2014 and 2015

European Cities Rejuvenated by Economic Recovery

New York, 3 Mar 2014--Growing optimism about economic growth is fueling expectation for hotel sector growth in 17 of 18 major European cities surveyed in the third annual PwC European Cities Hotel Forecast. This year's report explores revenue and occupancy forecasts framed within the context of influential megatrends and challenges facing the European hotel sector.

All of the 18 cities featured in the forecast are crucial gateway cities and/or business and tourism centres – some anticipated to become mega cities – and mirror challenges facing other cities in Europe where position on the economic and hotel cycle is crucial. Some cities are clearly better placed to grow than others, given a variety of factors including economic stability, regulation, supply and demand.

The cities predicted to have the greatest revenue per available room (RevPAR) growth in 2014 are Dublin, followed by London and Paris, then Edinburgh, Berlin, Frankfurt, Vienna and Moscow. In 2015, London is predicted to lead RevPAR growth, followed by Dublin, then Lisbon, Prague, Moscow, Edinburgh, Zurich and Frankfurt. In Dublin, a lack of new supply and strong demand is expected to drive RevPAR over each of the next two years by 5.2% and 3.8% respectively. Despite sizeable supply increases, strong demand means London is forecast to see the flip side of Dublin, with RevPAR growth of 3.8% and 5.2% in 2014 and 2015, respectively.

2013 Results
The hotel market has nearly returned to its pre-recession peak (reached in 2007), however, only in nominal terms. The sector remains significantly behind in real terms. Overall, the average Europe-wide RevPAR in 2013 was €67.99, which was 6.5% lower than the 2007 high of €72.70, but 18.5% lower in real terms. The RevPAR disparity shows how the hotel sector has underperformed the wider economy, as real GDP in 2013 across the EU was only marginally below the 2007 peak.

Growth in occupancy has been stronger, with a percentage close to its 2007 peak. In 2013, occupancy reached 67.4% in 2013 compared to 68.0% in 2007. ADR lagged with €100.88 compared to €106.98 in 2007, which was 5.7% lower than the pre-recession levels in nominal terms but 17.9% lower in real terms.

Though overall demand for European travel remained strong, 2013 proved to be a volatile year of up and down growth, varied by market. In annual terms, overall occupancy was up and all regions saw growth, with the strongest gains in Northern and Eastern Europe. Hotels saw a 2.4% gain compared to the same period in 2012, according to STR Global data.

Megatrends

The following five megatrends have been identified as ones that will have significant impact on the hotel sector's business models:

- **Shifts in global economic power:** as the global economy shifts from west to east, the number of tourists from emerging economies is expected to increase. Hotels will need to cater to a more multi-cultural clientele. As the 'over 60' demographic increases in number and in purchasing power, hotels will also need to customise their offering.
- **Demographics and social change:** ageing of the Western world, social change, and stagnation of median incomes across the developed world will all affect the hospitality sector in myriad ways.
- **Technological breakthroughs:** technological change will be driven by social media, mobile service, analytics and cloud services.
- **Accelerating urbanisation:** the current rate of urbanisation is unsustainable and the shift from prioritisation on jobs to quality of life is shifting.
- **Sustainability, climate change and scarce resources:** Resource usage and emissions are unsustainable and hotels will need to explore mitigation and/or adaption.

These megatrends hold potential implications for the hospitality industry; affecting key facets such as customers, competition, business models and technology. As the demographics of hotels' customer base shifts, offerings will also need to be adjusted in response.

Robert Milburn, Hotels leader, PwC, stated:
"Though economic and hotel growth is forecasted for 2014 and 2015, megatrends and shifting challenges are revolutionising this sector. Those in the hospitality market that are attuned to the demographic, technological and economic changes and are able to adapt accordingly have the chance to thrive. Those who do not respond quickly and strategically may struggle in this bustling, competitive landscape."

Issues facing hotels

Although economic recovery and consumer confidence levels are rising, several issues remain top of mind concern for the hospitality industry, including an increased cost of doing business, additional regulation and taxes, the rise of hotel alternatives such as AirBnb, among other issues.

Liz Hall, Hospitality & Leisure Research Head, PwC, concluded,
"The European hotel market cannot be viewed as a single entity – it's a multi-layered market and one solution does not fit all. Despite economic recovery, many challenges persist for the hotels industry - owners and operators are pressured to find profitable growth. Hotels need to capitalise on the improved economic environment and the new opportunities brought by innovation in technology and demographic shifts."

Notes to Editor:

- To download a copy of the report **"Room to grow: Hotel forecast for European cities 2014 and 2015"** go to http://www.pwc.com/hospitality
- Europe is the world's largest tourism destination, with over 560 m international tourist arrivals in 2013. The cities in this survey represent over 680,000 hotel rooms and are visited annually by some 80 million international tourists.

- Revenue per available room (RevPAR) is a key performance metric for the hotel industry. Also knows as yield, it can be calculated by multiplying the average achieved room rate by the average annual room occupancy rate.
- ADR – Average Daily Room Rate

Growth in 2014 and 2015

RevPAR growth rates by year (local currency)

City	2014	2015
Dublin	5.2%	3.8%
London	3.8%	5.2%
Paris	3.8%	2.4%
Edinburgh	3.4%	2.8%
Berlin	3.2%	1.8%
Frankfurt	2.9%	2.6%
Vienna	2.7%	1.2%
Moscow	2.6%	2.8%
Zurich	2.3%	2.7%
Prague	2.1%	3.2%
Milan	1.9%	1.3%
Rome	1.3%	2.0%
Barcelona	1.2%	1.7%
Geneva	1.0%	0.4%
Lisbon	0.8%	3.4%
Amsterdam	0.6%	1.1%
Brussels	0.2%	1.2%
Madrid	-2.8%	-1.6%

Source: Econometric forecast PwC 2014
Benchmarking data: STR Global and Euromonitor

Source Data: STR Global Forecasts: PwC February 2014