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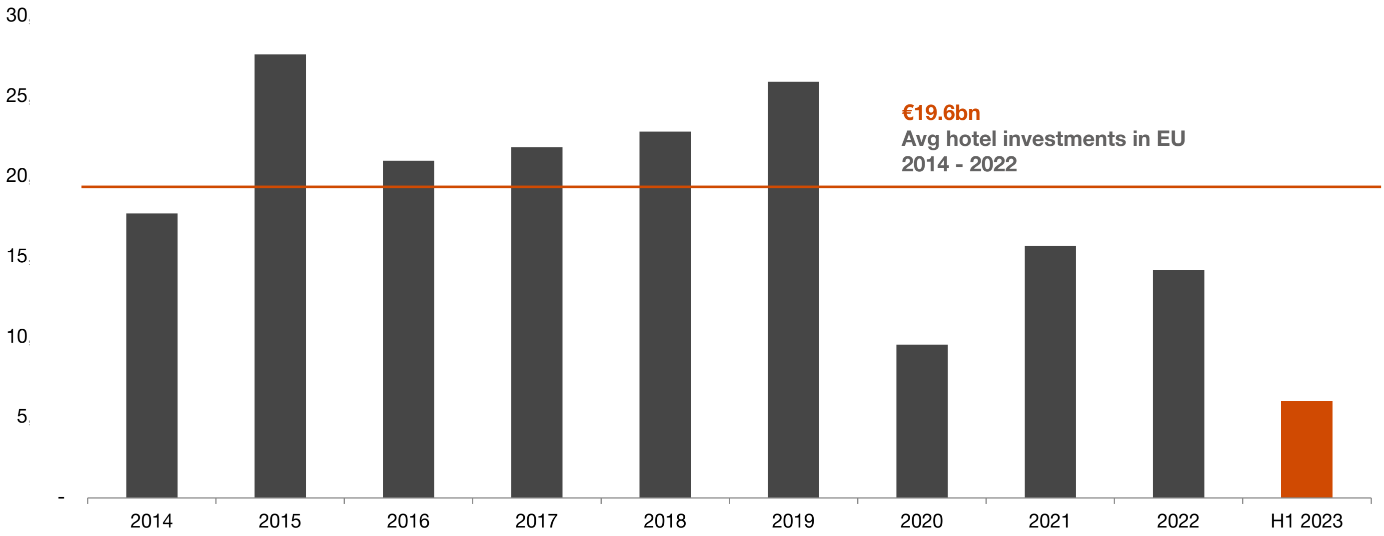
Hotel Market Snapshot 2023

Hotel Investments in the European markets (€bn)

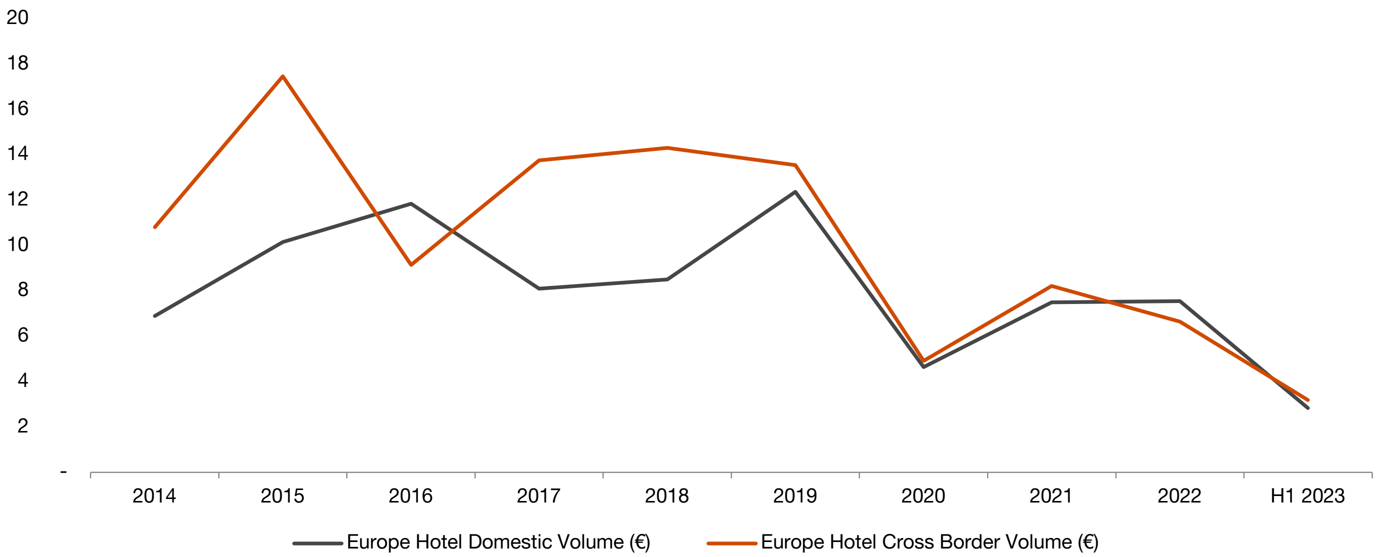
The European hospitality market, despite the recent problematic macroeconomic environment, continues to attract the interest of institutional investors. **The first half of 2023 confirmed notable investment volumes in the European countries** with some markets, such as France and Spain, performing better than in the same period last year.

Looking ahead, the growth of the hotel market should be supported by stabilizing inflation rates, which offers a brighter outlook and the prospect of moderating interest rates. Several owners may be forced to sell their properties due to difficult refinancing conditions or high capital expenditures, while some funds may face repayments and have to divest assets. Buyers will have to identify the right KPI for performance improvement.

Trend of investment volume in Europe €bn (2014 – H1 2023)



Trend of origin capital in Europe €bn (2014 – H1 2023)

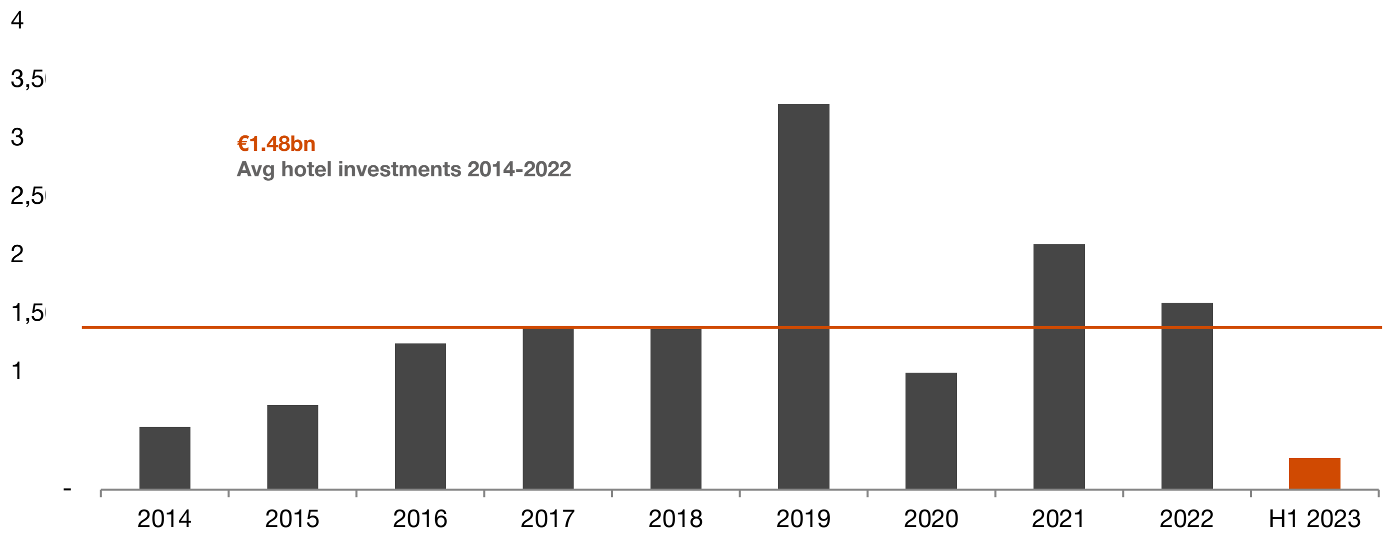


The share of funds coming from **domestic buyers is over 50% in 2022**, while in terms of cross-border capital the Middle East is the fastest growing source of capital. **Upscale and Upper Upscale hotels** accounted for about half of the transaction volume during the first half of the year; resorts continue to be in high demand among investors.

Source: PwC analysis on RCA Data

Hotel Investments in the Italian market (€bn)

Hotel investments in Italian market €bn (2014 – H1 2023)



Hotel investments in 2022 ended below 2021 due to a slowdown in investment activity in Q3 and Q4 from rising interest rates and general uncertainty. **However, investment volumes remained higher than the average since 2014.**

The hospitality sector recorded an investment volume of approximately **€270 million in the first half of 2023 (-64% compared to the H1 2022)**, mainly distributed in small to medium sized deals.

Noteworthy transactions in the Italian hospitality sector

Date	Property Name	City	Owner/Buyer	Seller
Q3 2023	Hotel Ritter	Milan	N.A.	Montello S.p.A.
Q3 2023	Duomo Luxury Apartments by Rosa Grand	Milan	Tel Aviv Investimenti Srl	InvestiRE SGR SpA
Q3 2023	HD8 Hotel	Milan	Coima SGR	Covivio
H1 23	Grand Hotel Gardone	Gardone Riviera	Apex Alliance, Dedeman	N.A.
H1 23	43 Station Hotel	Milan	Milan Cap Re	N.A.
H1 23	Principe di Lazise	Lazise	Fattal Hotels	Bain Capital
H2 22	SHG Hotel Verona	Verona	AHC International Consulting AG	NEXT RE SIIQ
H2 22	Hotel Giulio Cesare	Rome	Paris Inn Group	N.A.
H2 22	Hotel Alexandra	Rome	Molo Hotel Group	N.A.
H2 22	W Rome	Rome	CPP Investment Board, Hamilton Pyramid Europe	Omnam Group, King Street Cap Mgmt, Kryalos
H2 22	Almar Jesolo Resort & Spa	Jesolo	SCPI PF Hospitalite Europe, Perial	Oaktree, Castello Sgr
H2 22	Hotel Bellevue	Cortina d'Ampezzo	Prodea Investments	Sorgente SGR
H2 22	Excelsior	Venice	London + Regional	Coima SGR
H2 22	Residence del Mare	Trieste	JP Immobilien	N.A.

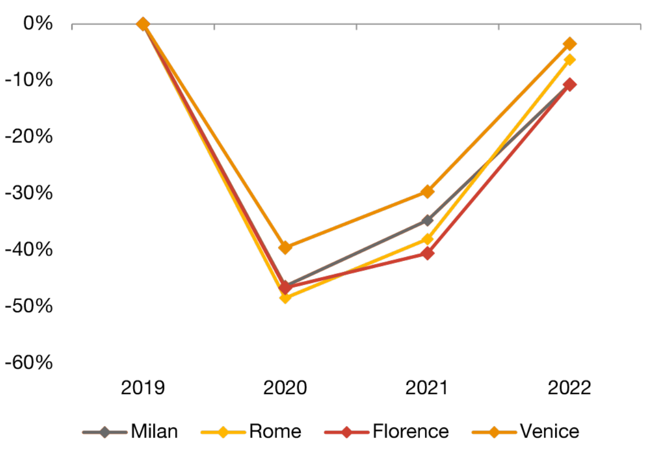
Since the start of H2 2022, the main transactions occurred in Rome (W Rome) and Venice (Excelsior) for assets that already completed heavy capex plans and are operational, concluding the investment cycle for the sellers with an exit of their investments.
Other core transactions have occurred, such as Duomo Luxury Apartments and HD8 Hotel in Milan and Almar Jesolo just outside of Venice.

Investor interest has also been directed towards value add operations to provide the market with higher-quality assets as they are repositioned to upper-upscale/luxury categories (Ritter Milan, Hotel Alexandra Rome, Hotel Giulio Cesara Rome, Grand Hotel Gardone, Hotel Bellevue in Cortina).

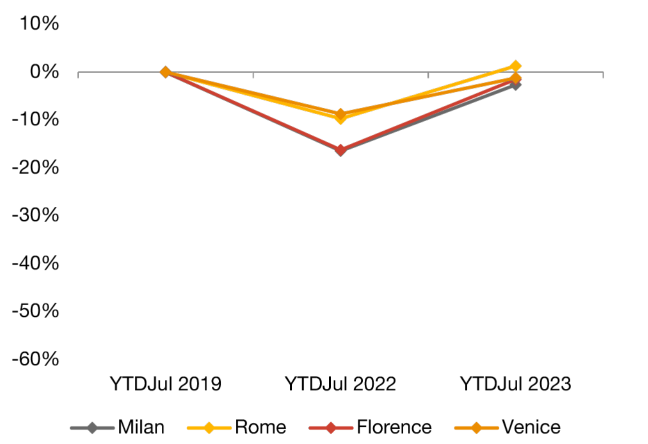
Source: PwC analysis on RCA Data

Main Italian cities performance indicators

Occupancy trend 2019 – 2022



Occupancy trend YTD 7/2019 – 7/2023



Occupancy var% points 2019 - 2022

Milan	**-11%**
Rome	**-6%**
Florence	**-11%**
Venice	**-4%**

Occupancy var% points YTD 7/19 vs 22 and 23

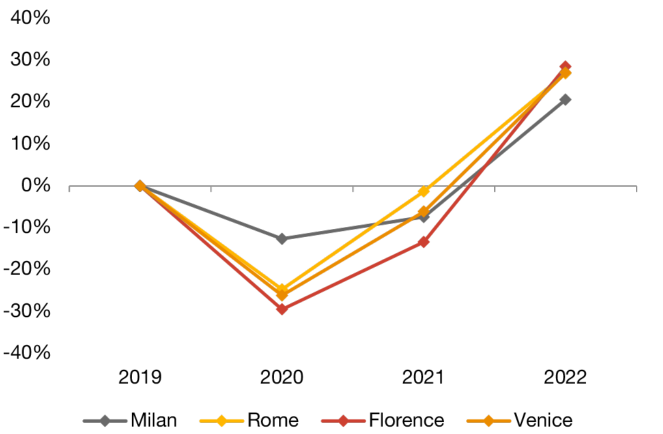
	YTD 7/22 vs YTD 7/19	YTD 7/22 vs YTD 7/19
Milan	**-16%**	**-3%**
Rome	**-10%**	**1%**
Florence	**-16%**	**-2%**
Venice	**-9%**	**-1%**

The four main Italian tourism markets recorded substantial gains in occupancy in 2022 compared to 2021 confirming the recovery of demand.

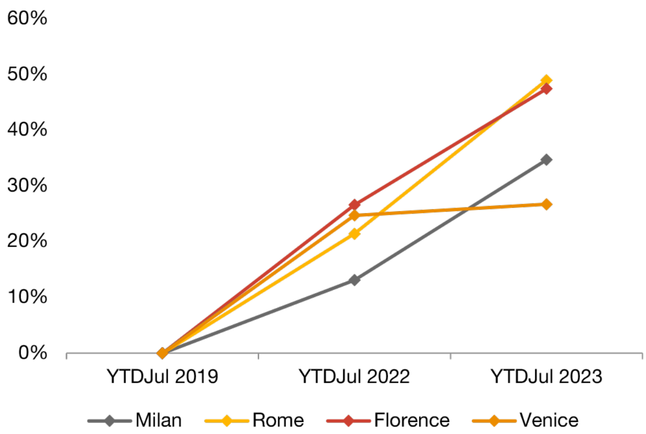
Although 2022 figures were still below 2019 levels, **the first 7 months of 2023 show an almost full recovery in occupancy.**

Source: PwC analysis based on EBTL

ADR trend 2019 – 2022



ADR trend YTD 7/2019 – 7/2023



ADR var% 2019 - 2022

Milan	**21%**
Rome	**27%**
Florence	**28%**
Venice	**27%**

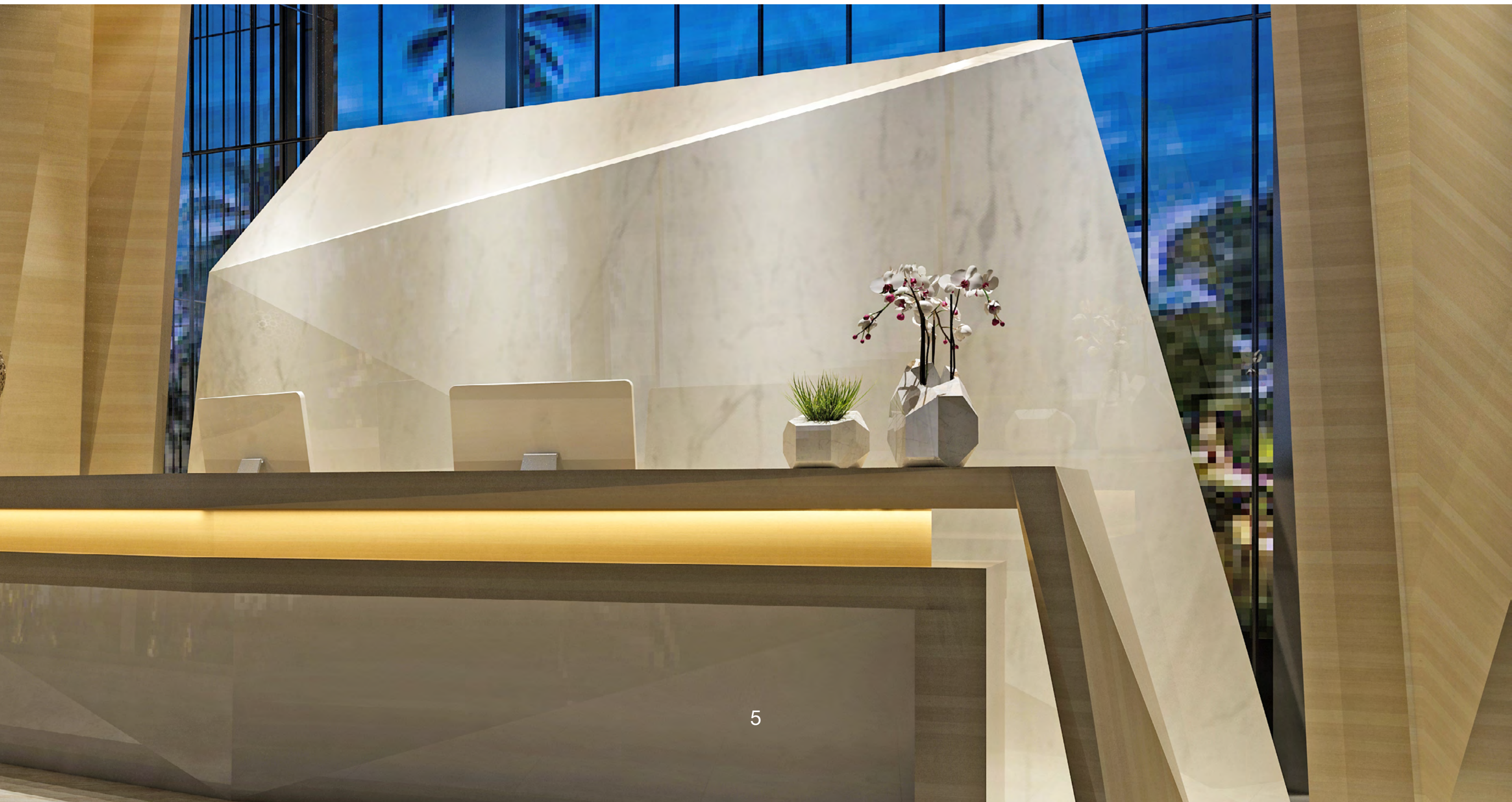
ADR var% YTD 7/19 vs 22 and 23

	YTD 7/22 vs YTD 7/19	YTD 7/22 vs YTD 7/19
Milan	**13%**	**35%**
Rome	**21%**	**49%**
Florence	**27%**	**48%**
Venice	**25%**	**27%**

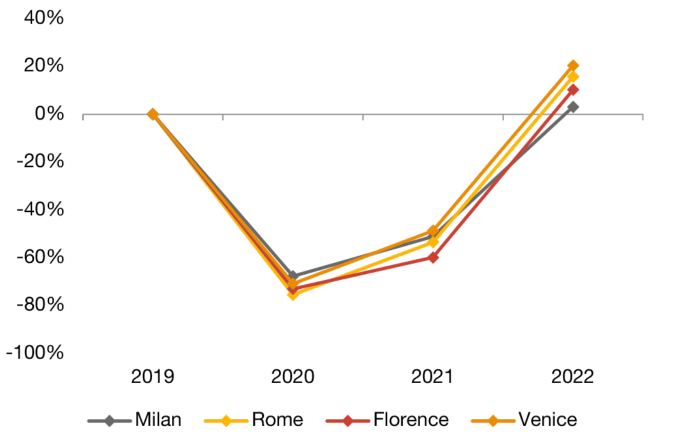
During 2022, ADR significantly increased across all four markets recording remarkable results ranging from +21% to +28% over 2019 levels.

The first 7 months of 2023 confirm the continuation of this positive trend with even stronger figures ranging from +27% to +49% over the same period in 2019.

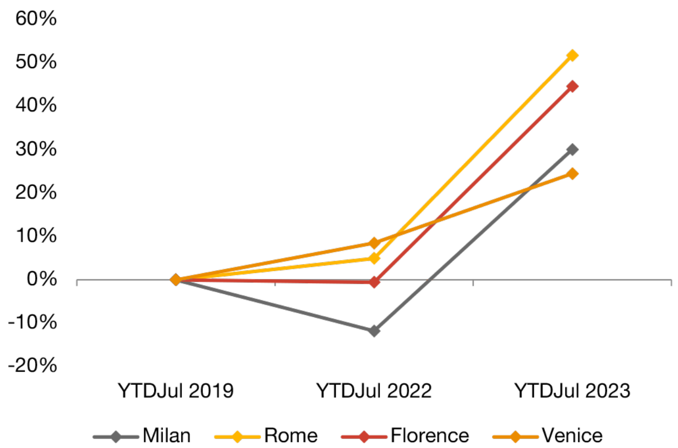
Source: PwC analysis based on EBTL



RevPAR trend 2019 – 2022



RevPAR trend YTD 7/2019 – 7/2023



RevPAR var% 2019 - 2022

Milan	**3%**
Rome	**16%**
Florence	**10%**
Venice	**20%**

RevPAR var% YTD 7/19 vs 22 and 23

	YTD 7/22 vs YTD 7/19	YTD 7/22 vs YTD 7/19
Milan	**-12%**	**30%**
Rome	**5%**	**52%**
Florence	**-1%**	**45%**
Venice	**8%**	**24%**

The average RevPAR levels for 2022 show a big leap forward, in particular for Venice, which recorded +20% compared to the average performance in 2019.

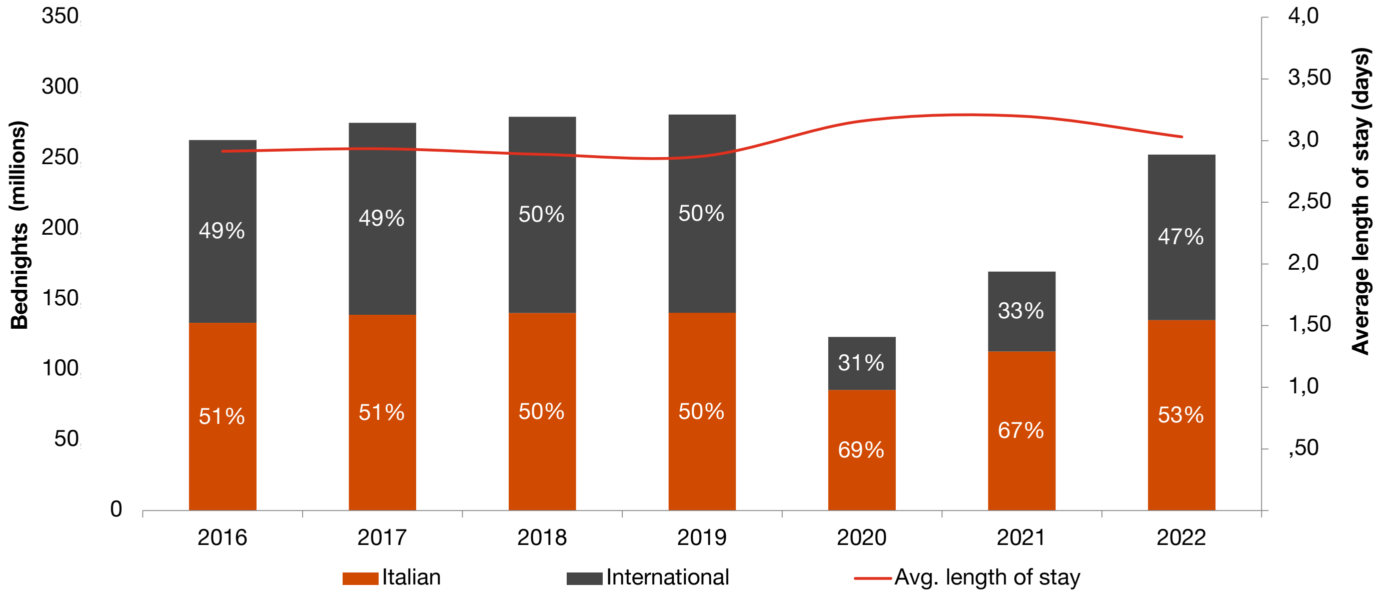
Due to a full occupancy recovery and strong ADR, RevPAR in the first 7 months of 2023 shows significant numbers across the board compared to the same period in 2019.

Source: PwC analysis on EBTL

Hotel demand overview

Total demand in Italy in terms of nights spent 2016 – 2022

The data for 2022 confirms that hotel demand in Italy is returning following the pandemic but still 10% lower than 2019. The national demand has practically fully recovered, while the international component has shown huge growth compared to 2021 (+108%) but still -16% lower compared to 2019. Preliminary occupancy data indicates that 2023 could be the full recovery of demand as the international component continues to return.

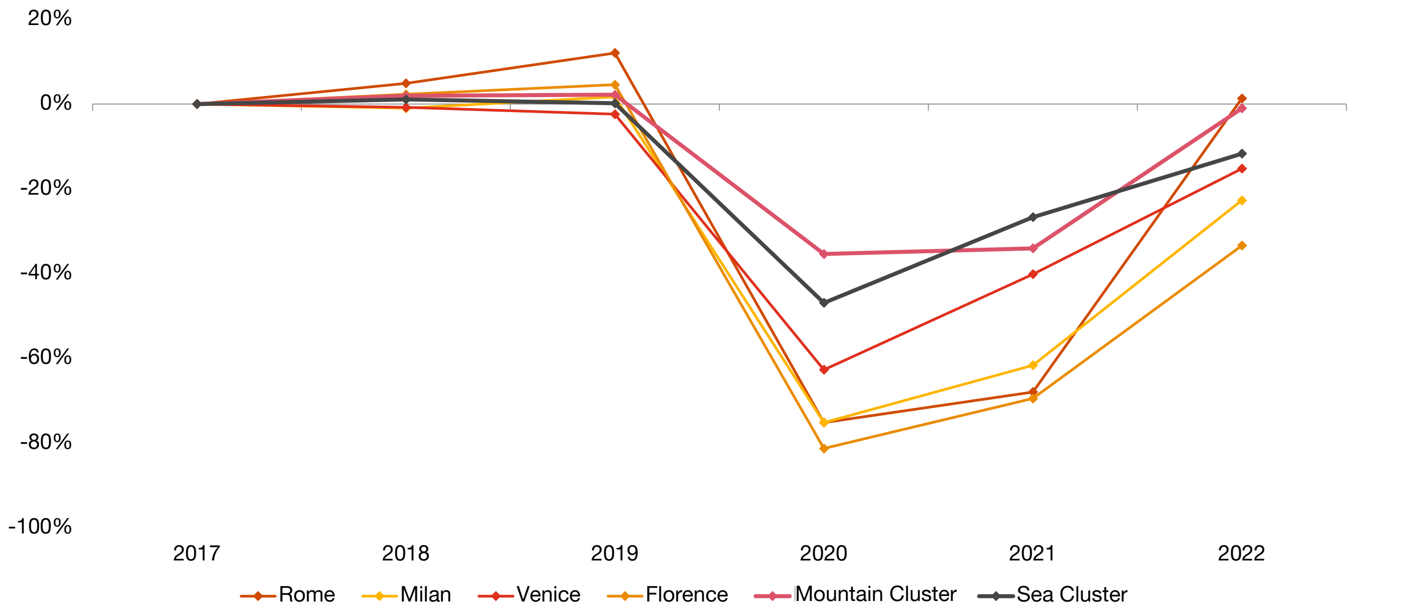


Source: PwC analysis on INSI data

Hotel demand recovery

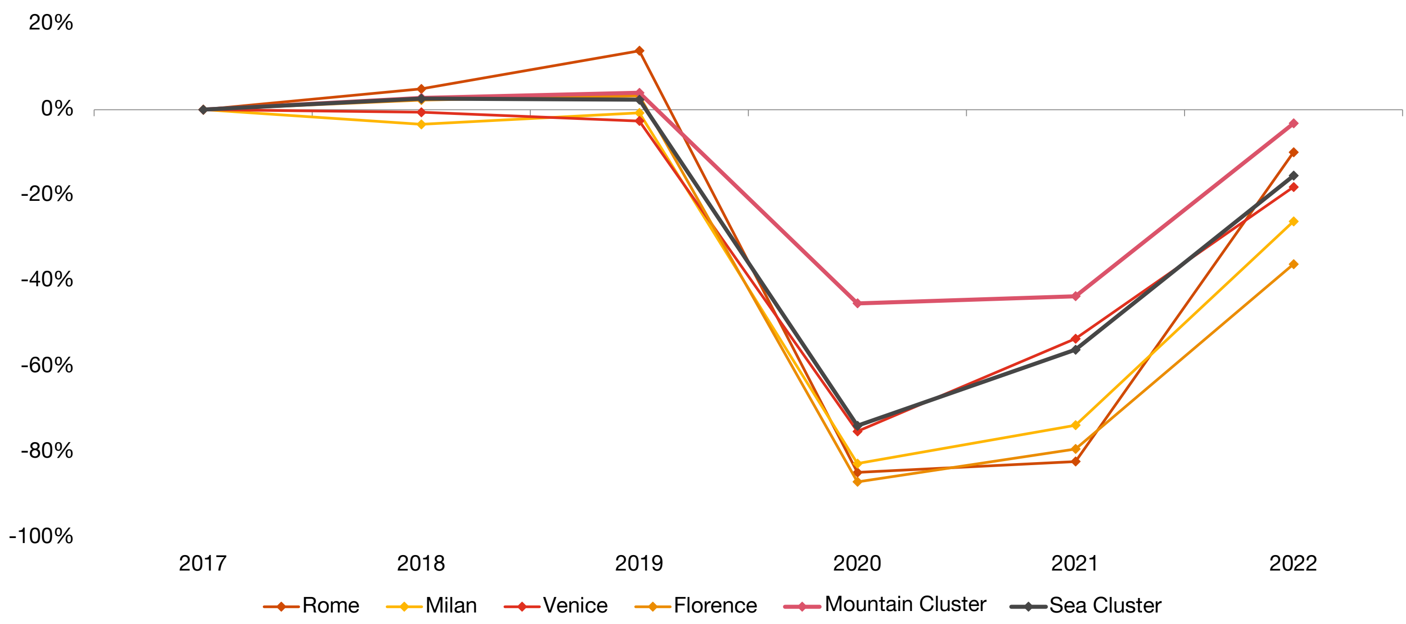
Total hotel demand by location

We have monitored the following locations to track the recovery of the market and have found that on the basis of total demand, the mountain cluster and Rome have recorded the strongest recovery. The other main cities of the Italian tourism market recorded numbers that were still lower than in 2019, but recovered strongly from the previous year which was still influenced by the pandemic.
The full recovery of the sea cluster was impeded by the slow return of international demand.

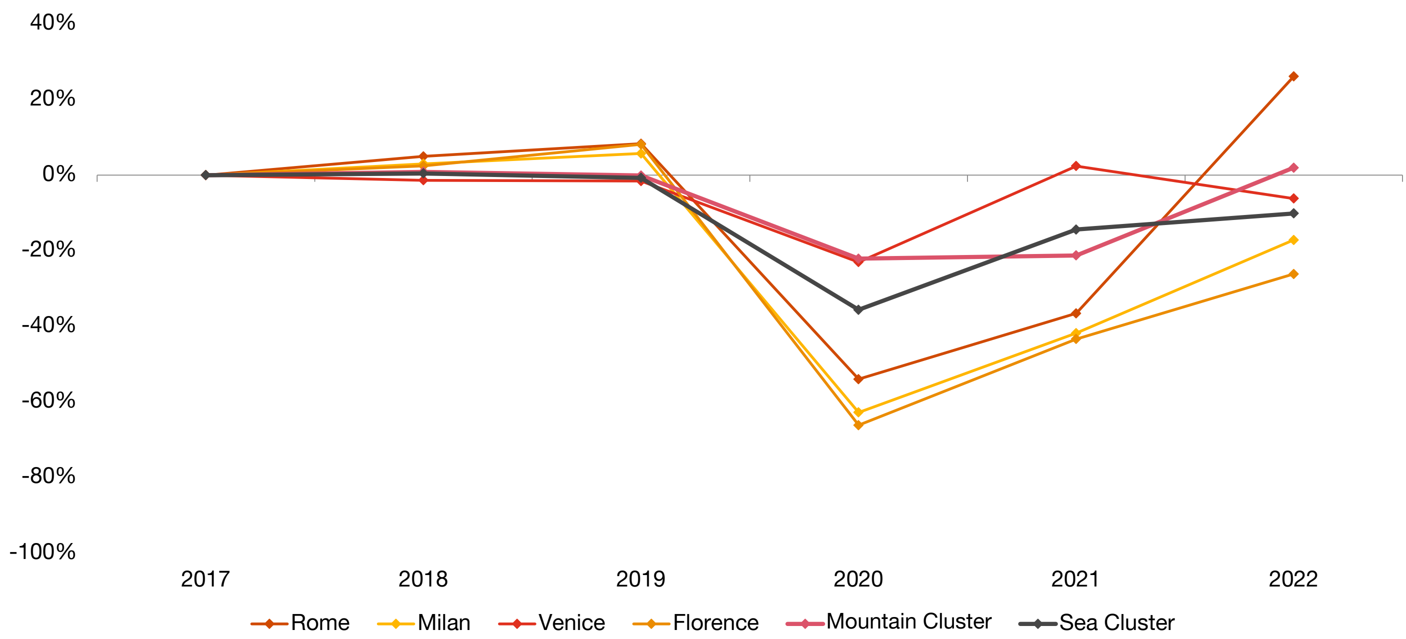


Source: PwC analysis on INSI data

International demand by location



Domestic demand by location



The differentiation of demand between the foreign and domestic component shows a different recovery trend among the various clusters analyzed. The demand for international tourists in 2022 recorded an upward trend but not yet at pre-covid levels. Instead, 2023 could be the year that will certify the true recovery of international demand.

Domestic demand recovered significantly in 2022 with Rome reporting the most significant increase, exceeding the long-term average, although the other large cities still recorded below-average numbers.

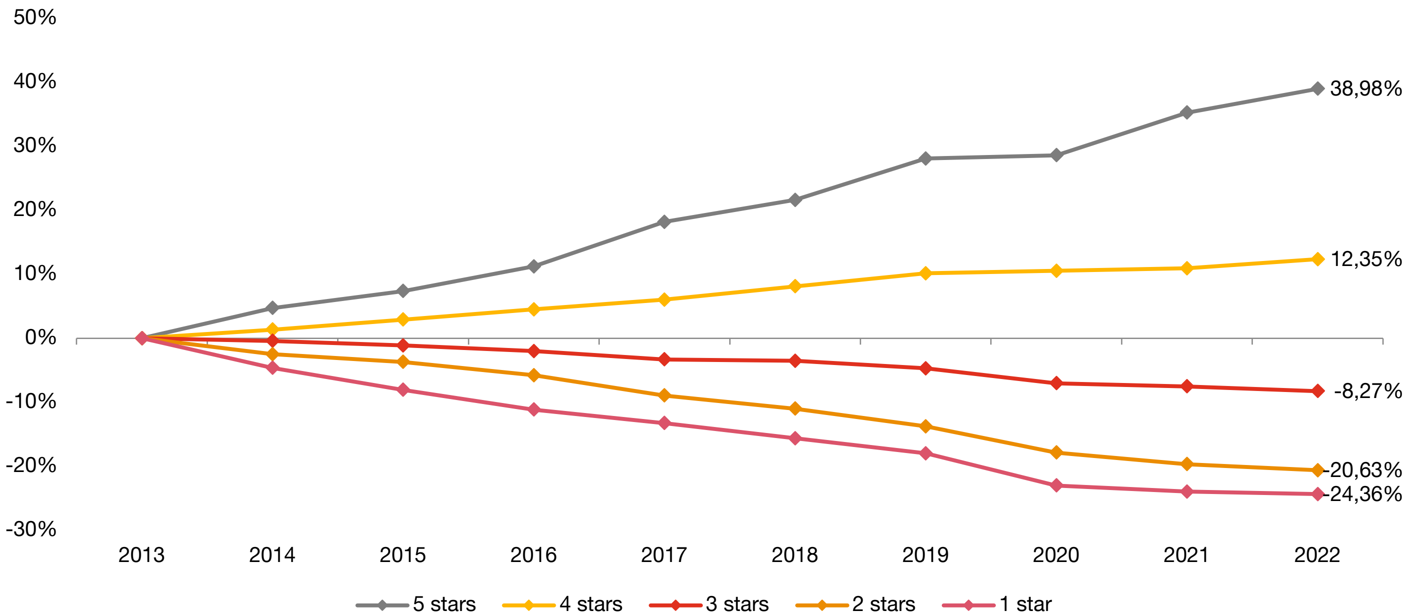
Source: PwC analysis on INSI Data

Hotel supply overview

The supply of hotels in Italy is dominated by 3 and 4 star facilities. In recent years in particular, a general repositioning of the hotel supply to higher categories has been taking place in large cities and popular tourist destinations to meet international standards and offer a superior travel experience.

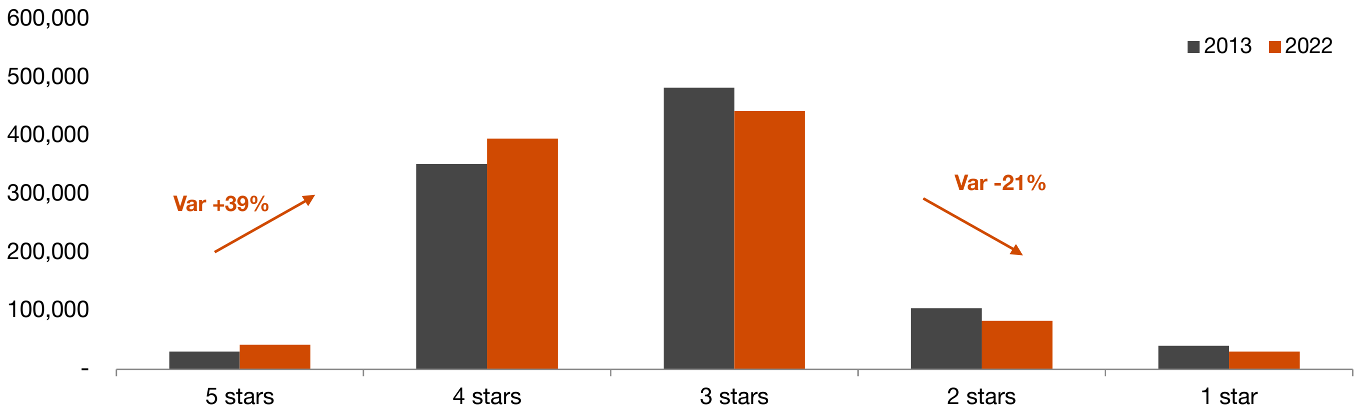
The Italian hospitality market continues to evolve as local and national players compete with large international chains that offer an increasingly tailor-made service that hotels in the midscale segment are not be able to meet.

Supply trend number of rooms by categories (2013 = 100)

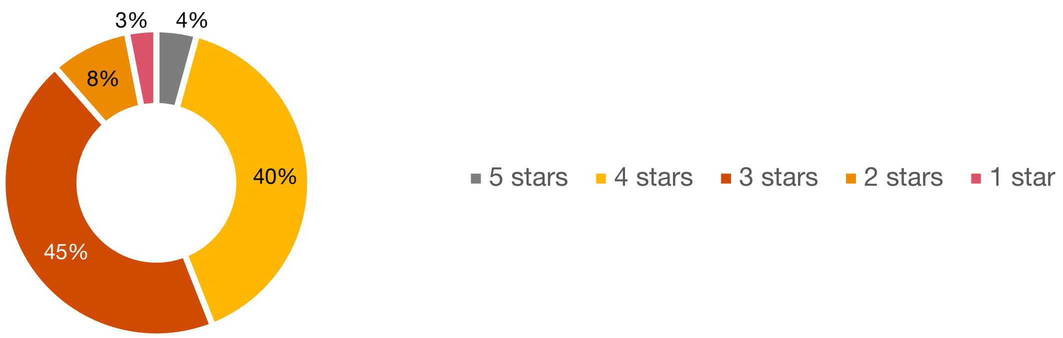


Source: PwC analysis on INSI data

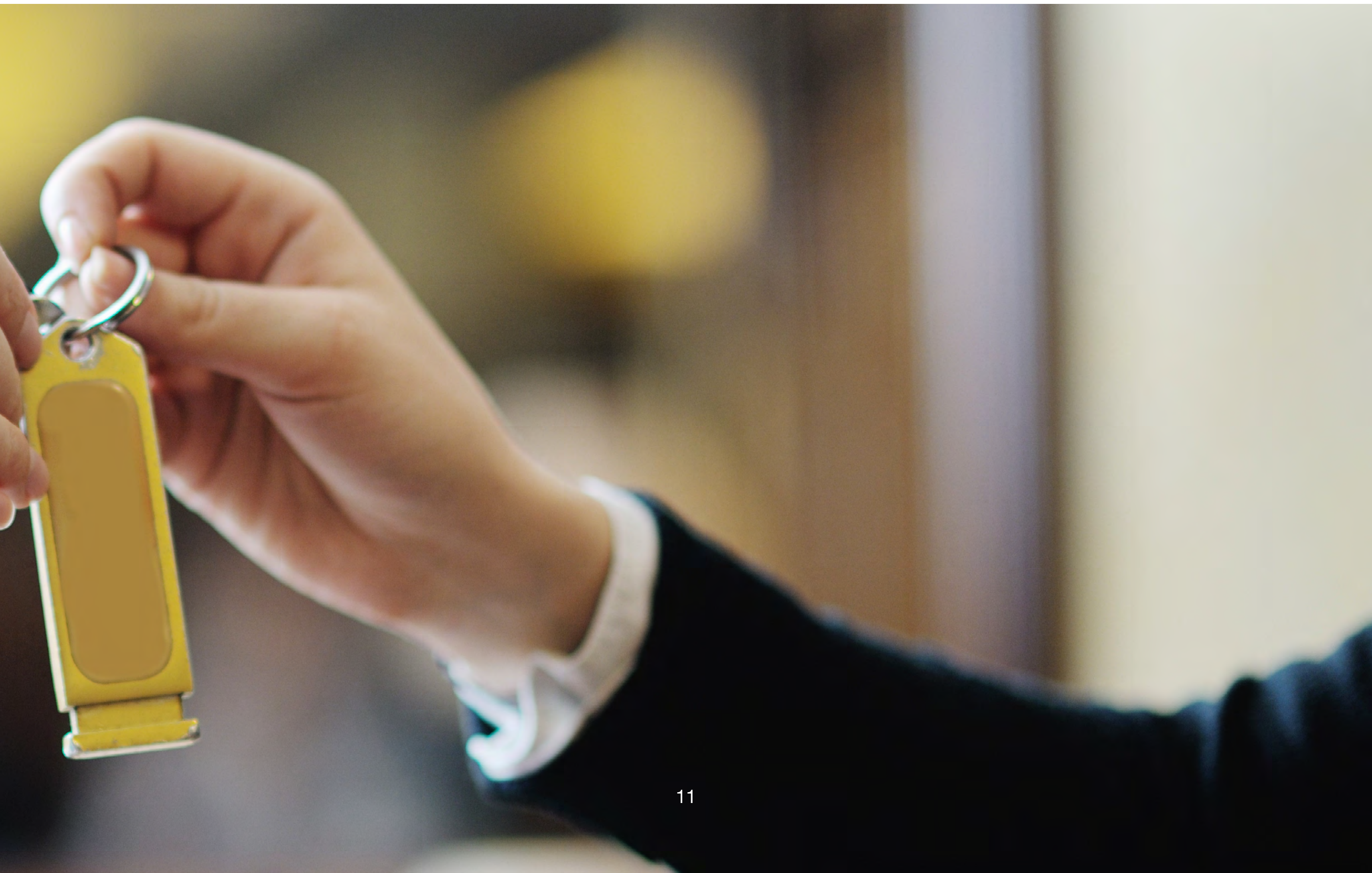
Supply in terms of number of rooms 2013 vs 2022



Supply in terms of number of rooms 2022



Source: PwC analysis on INSI data

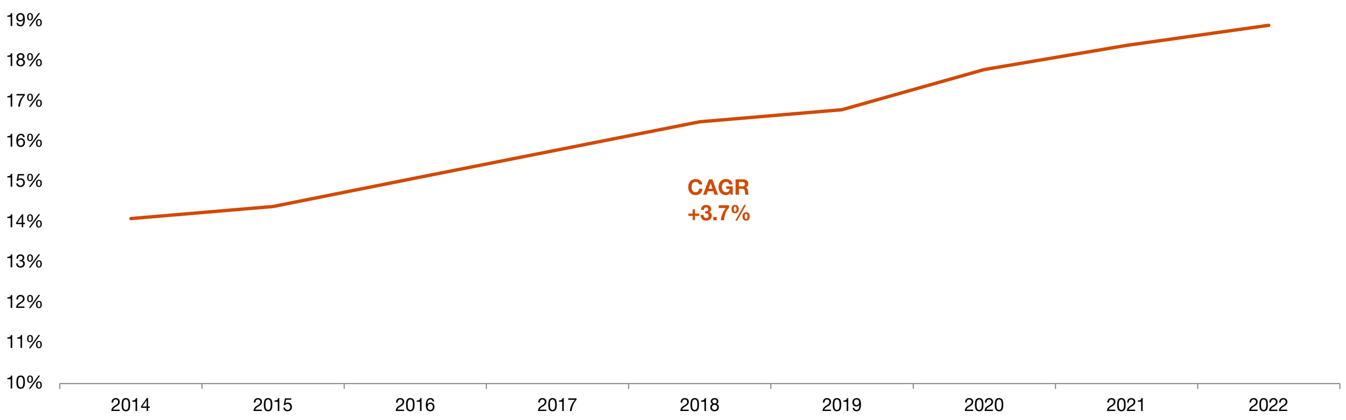


Hotel chains in the Italian hospitality market

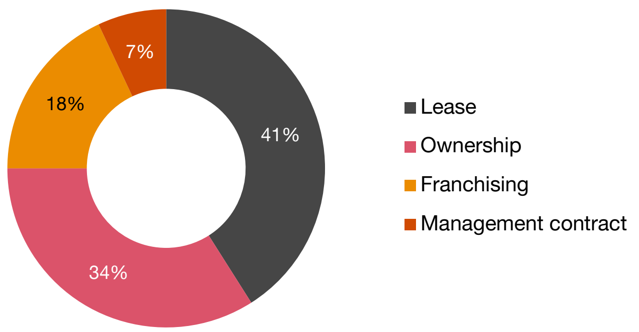
The Italian hotel market is historically characterized by a high number of family-owned properties that hand down the hotel management from generation to generation. In recent years, however, there has been a growing presence of hotel chains, both Italian and international, in the Italian hospitality market.

Chain rooms penetration in Italy has grown significantly over the last few years, arriving to 19.7% of the total in 2022 (from 14% in 2014), however, the rate is much lower compared with countries such as Germany (45.5%), France (57%) and Spain (46%).

Chains penetration in Italian hospitality market (rooms - 2014 - 2022)



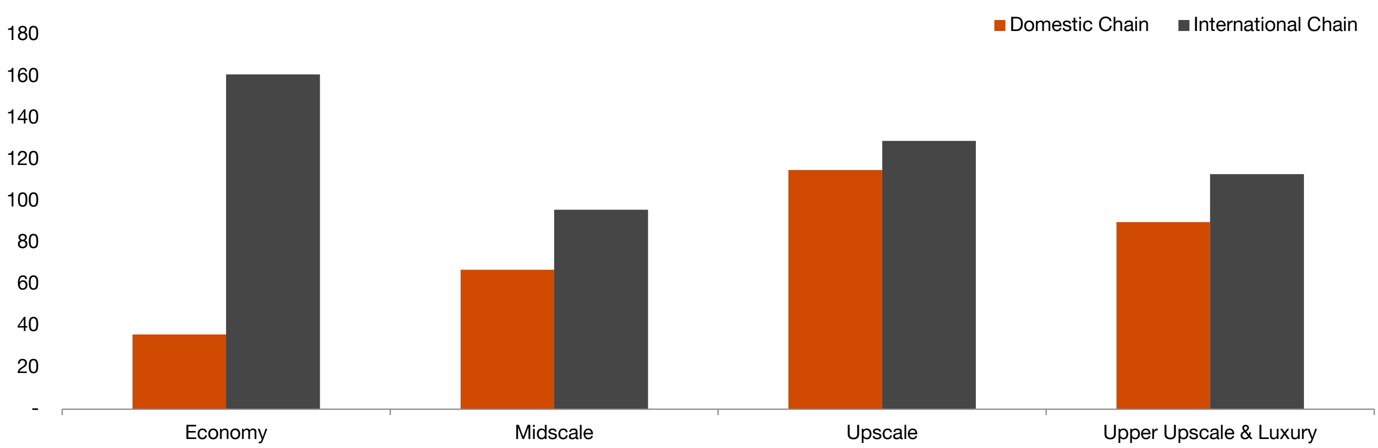
Breakdown of Chain by type of management in 2022



Despite the increase over the last 10 years in the number of hotel groups, t**he most popular business models remain lease and ownership at 41% and 34% respectively of the total**.

Management contracts have been increasing recently as large international chains expand in the territory and partner with international investors who are comfortable with this type of operation.

Chain origin in number of keys (rooms) in 2022



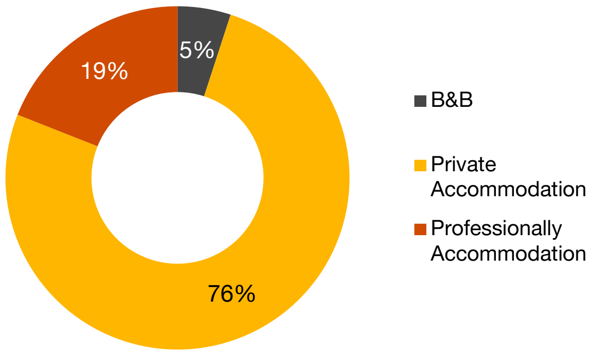
The **hospitality market segments, in terms of number of rooms, average around 110 rooms per hotel**, with international groups having a higher average size than domestic facilities (100 vs 120). Upscale facilities still maintain the highest average size among the various hotel scales, followed by upper upscale & luxury. The trend since 2013 shows that the average room count is decreasing across all segments (except economy), which helps brands penetrate the market.

Source: PwC analysis on HTL Data

Alternative forms of hospitality (short-term rentals)

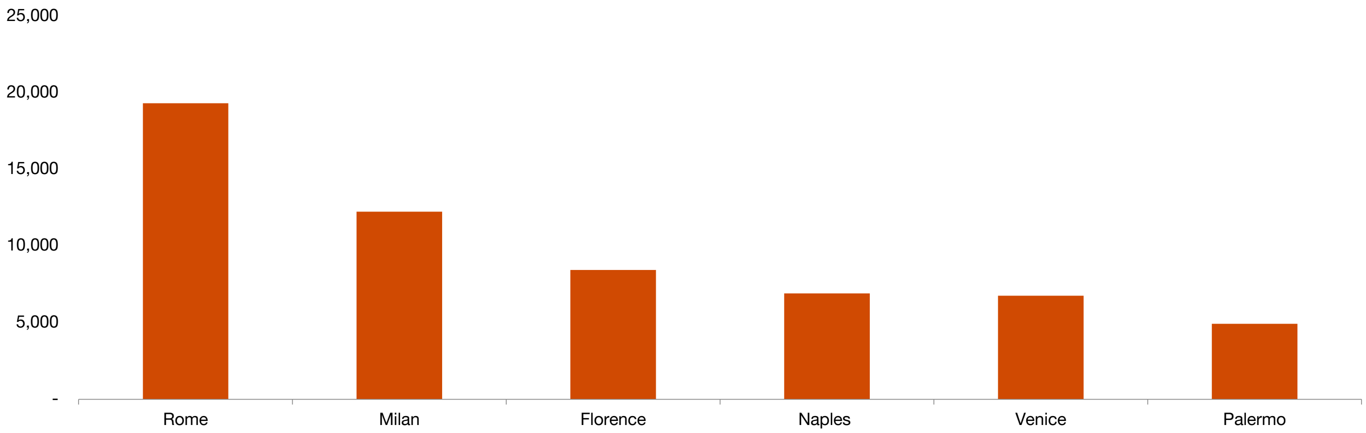
In recent years, there has been an explosion of the short-term rental sector in Italy, creating an alternative market to the classic form of hospitality represented by the hotel offer. When analysing the short-term rental market, part of the tourist flows using this mode of accommodation escapes official statistics because those presences are not recorded.

Breakdown of supply by different types of hospitality in 2022



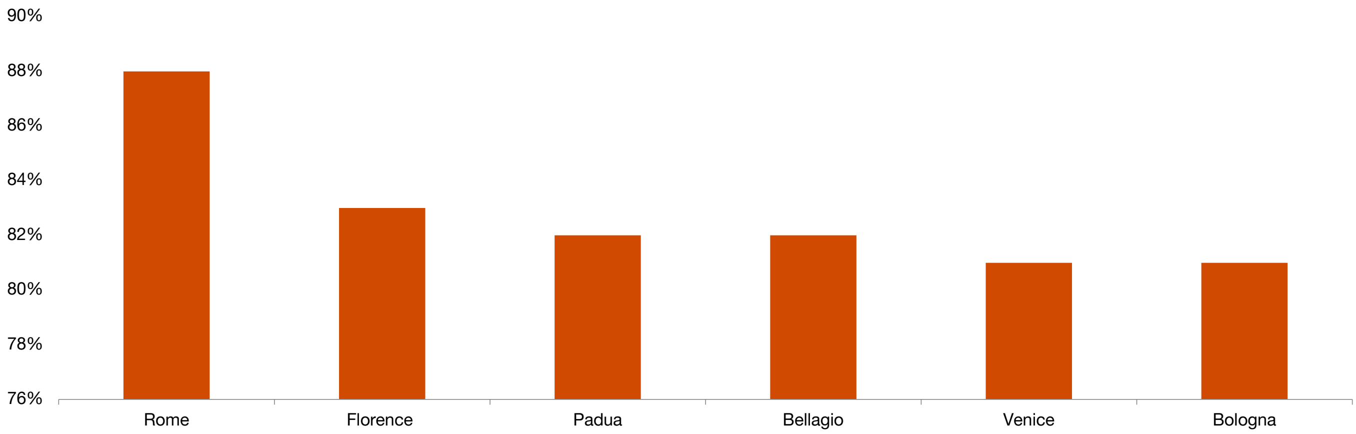
The Italian short-term rental offer includes different forms. The most used form is private management of accommodation, followed by professionally managed units and finally **the last form used is B&B with only 5% of the total. The residential stock used for short-term rentals is constantly increasing in Italy (+615 thousand units in 2022)**.

Tourist municipalities with the largest supply of short-term rental accommodations



The estimate must be made on the number of available units present on the platforms, linking these to their occupancy rates. The **highest occupancy rate was recorded in Rome (88%)**, followed by other major Italian tourist destinations such as Florence and Venice.
The phenomenon of short-term rentals has developed particularly in the major cities of art, complementing a wide range of offers in the hospitality sector and in the seaside destinations of Southern Italy, particularly in the historical centers where there is a large availability of second homes used by owners for this purpose.

Tourist municipalities with the highest occupancy rate for short-term term accommodations



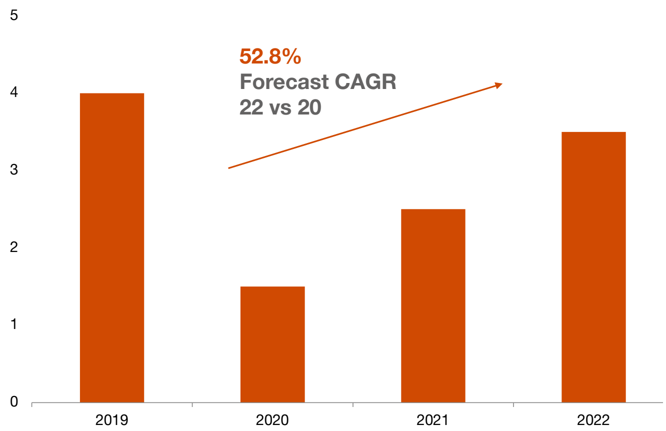
Source: PwC analysis of Sociometrica data

Historic trend revenues and forecast trend in Italian hospitality sector (€ bn)

The first months of 2023 have certified the renaissance of world tourism. Europe is the continent with the highest growth. The tourism boom is having a positive impact on both the hotel market and newer sectors such as short-term rentals.

Hotel real estate investments at European level remained substantially stable, ending 2022 with a turnover of 20.5 billion Euro.

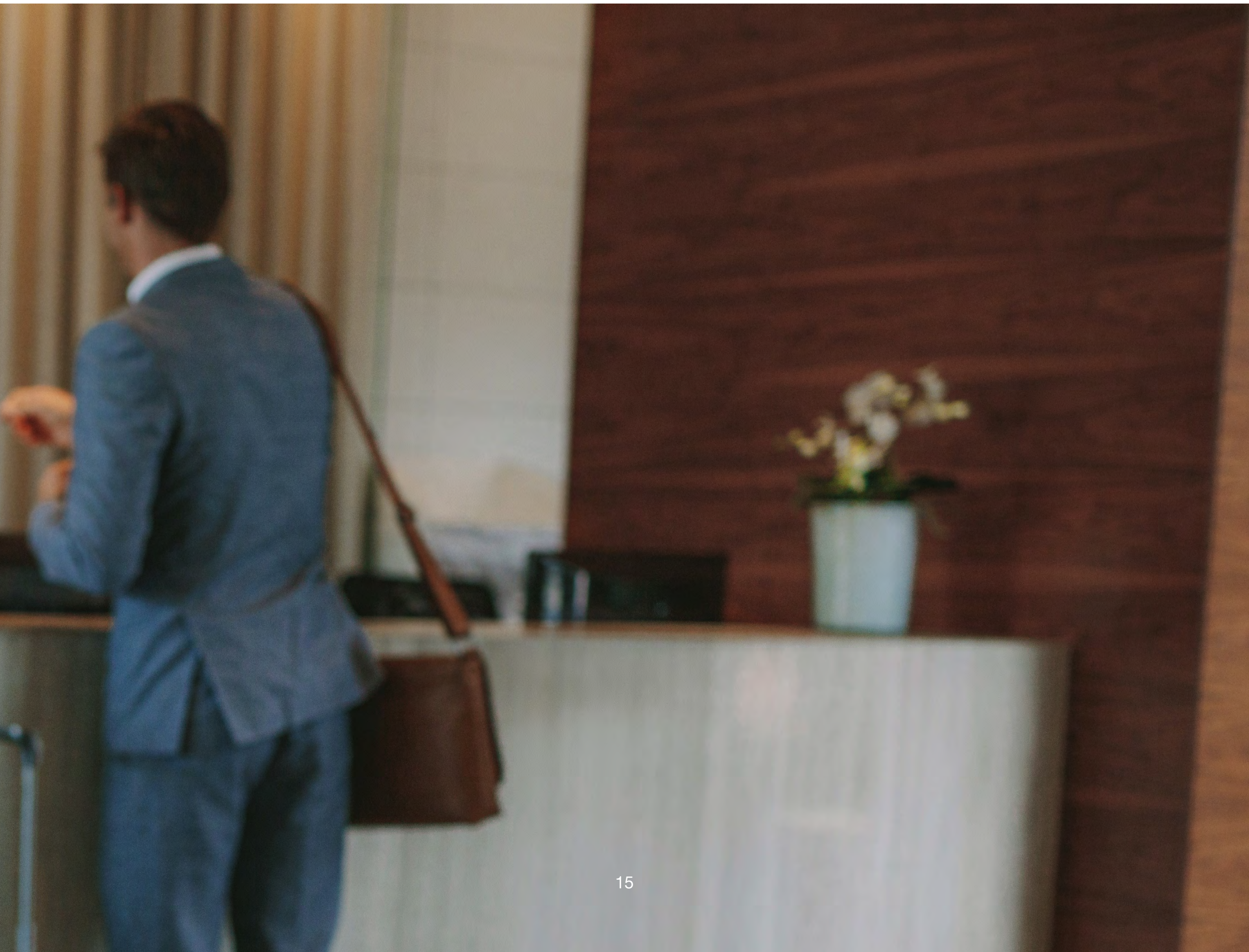
Italy continues its positive trend and closes 2022 with a 40 per cent increase in total turnover, amounting to EUR 3.5 billion, while a realignment to the levels recorded in 2019 is expected for 2024.



Source: PwC analysis on Scenari Immobiliari data

Key takeaways

- Transaction volume in 2022 remained robust (over average), but 2023 is showing signs of a slowdown from rising interest rates and uncertainty on pricing. However, some ongoing significant transactions are expected to close by the end of the year.
- Full equity investors are the preferred counterparties for transactions in the current environment. Buyers using leverage could now be at a disadvantage when previously they were the primary target and pushing prices higher.
- Value add still the main play in Italy (low brand concentration, supply with requested characteristics, higher returns).
- 2022 demand is still below 2019 levels from a slower recovery of the international component which is also confirmed by lower occupancy in the main markets.
- However, in the main markets, the first 7 months of 2023 show full recovery of occupancy while ADRs remain elevated pushing RevPARs higher (+24-52% vs same period 2019).
- Rome confirms its position as Italy's leading hotel market in terms of demand recovery, RevPAR growth and recent investment volumes.
- Higher interest rates are influencing values, debt ratios and debt sustainability. As loans mature, debtors will need refinancing or fresh capital, which is creating opportunities for alternative lenders. In the event of distress, "soft enforcement" by lenders could be the strategy as opposed to formal insolvency.
- Italy remains a strong destination for hotel investments due to:
  - Worn supply with desirable characteristics needing refresh/ full renovations;
  - Low international brand penetration compared to other markets;
  - Numerous upscale/luxury destinations attracting consistent, recurring demand (historic cities, coastal, mountains, countryside, SPA, islands).



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