

European Hospitality Real Estate 2024

PAN EUROPEAN CLUB PARTNER



Expert market perspectives on the trends and opportunities in the European hospitality real estate sector

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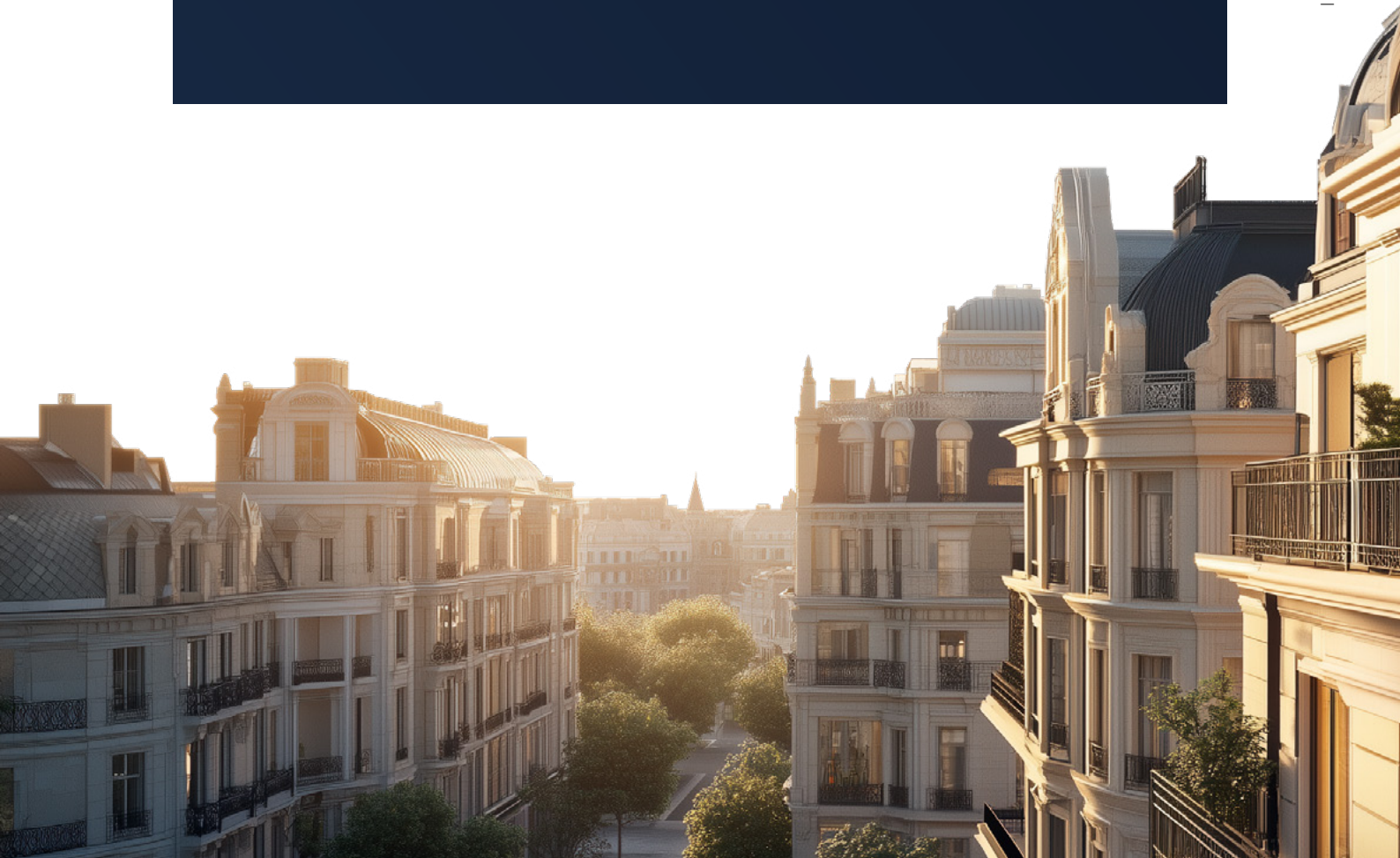
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Introduction

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports present the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following a number of private roundtable discussions across Europe among GRI Club members, including investors, lenders, and operators active in the European hospitality market.

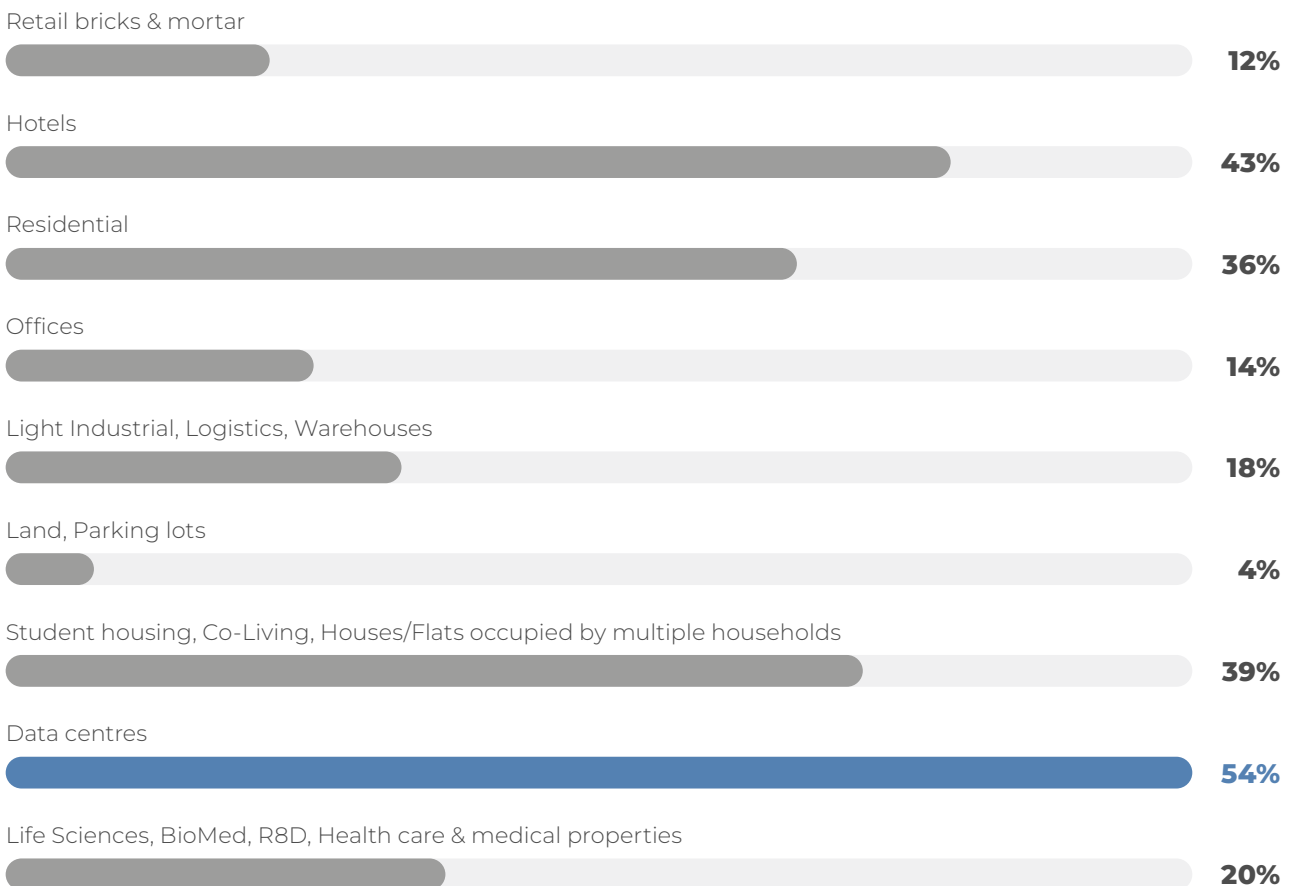


HOSPITALITY MARKET PERSPECTIVES

At the beginning of 2024, the most senior figures in European real estate gathered for the GRI Chairmen's Reunion 2024 in St. Moritz. Among the high-level strategic discussions and knowledge-sharing, a number of polls were carried out among participants to gauge quantitative market perspectives.

Hotels and hospitality fared particularly well regarding the most attractive asset class to be involved in the coming two years - chosen by 43% of participants and surpassed only by data centres.

What is the BEST property asset to be involved with for the next two years?



This optimistic outlook for the hospitality industry was also reflected in discussions, where participants reported positive forecasts for revenues per available room (REVPAR) with expectations for increases in the next two years driven by strong occupancy levels.

However, polls revealed that 53% of participants believed that although hotel pricing is currently fair, there is risk of overheating. Furthermore, sales are only part of the story, and amid a high-inflation environment, EBITDA rates were expected to feel pressure.

Hotels are currently being priced...

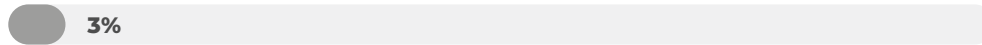
Perfectly, supply and demand is spot on



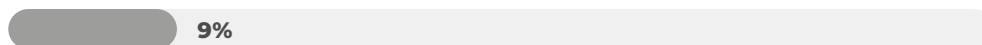
Fair for the current demand but in danger of overheating



Undervalued for city hotspots and room for more



Don't know



Discussions drew conclusions that both five-star luxury and budget hotels are proving more resilient considering their lower sensitivity to price and market fluctuations, while middle-range hotels are facing more challenges.

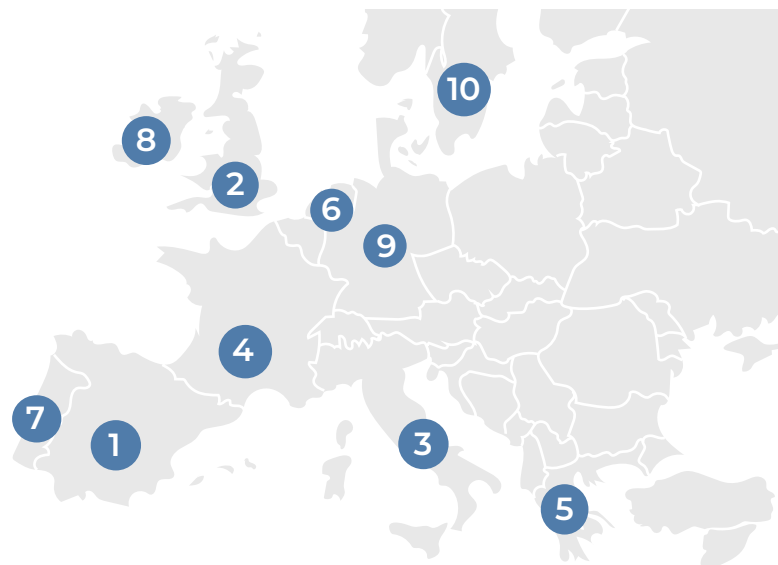
The results of CBRE's [European Hotel Investor Intentions Survey 2024](#) demonstrated similar preferences of investors towards the luxury and upscale hotel market, showcasing confidence in the profitability and resilience of premium segments.

Overall, the study reveals a positive outlook for the European hotel market, including a strong inclination among investors to increase their hotel investments, with over 40% planning significant expansions.

European cities such as London, Paris, and Rome continue to attract substantial investment interest, and Spain particularly stands out with two appearances on the list of top 10 markets expected to see increased investment interest, with Madrid ranked in second place and Barcelona in sixth.

Country level performance ranking

- 1) Spain
- 2) UK
- 3) Italy
- 4) France
- 5) Greece
- 6) Netherlands
- 7) Portugal
- 8) Ireland
- 9) Germany
- 10) Sweden



Source: 2024 European Hotel Investor Intentions Survey, CBRE Research

ALTERNATIVE ACCOMMODATION

Alternative accommodation is experiencing rapid growth in response to addressing the evolving needs of the twenty first century travel market and significant shifts in guest preferences. This sector's market share tripled from approximately 10% in 2010 to over 30% in 2019.

Traveller behaviour has shifted notably. During the pandemic, 19% of travellers stayed in a vacation rental for the first time, and 86% now plan to continue booking vacation rentals post-pandemic. Furthermore, 52% of travellers now prefer vacation rentals over traditional hotels, reflecting a lasting change in preferences.

This shift underscores the increasing importance of alternative accommodations in the travel industry, offering significant growth potential and opportunities for investors. The versatility in property types, including serviced apartments, tourist apartments, and hostels, further underscores their robust market potential.

Alternative accommodations offer a compelling proposition with their guest journey automation, catering to short, mid, long, and extended stays. These accommodations were noted to offer lower operating staff costs compared to traditional hotels, enhancing their cost-efficiency and profitability.

Finding a competitive advantage in this market lies in the efficient use of space and minimalistic requirements for both front and back of house areas. Built-in operational flexibility is important in order to operate efficiently in various market segments, and to adapt to various stay durations and unique markets. The scalable operating structure is seen to be profitable with as few as 15 units.

Meanwhile, digitisation is reported to hold the potential to reduce operating costs by more than 60%. This emphasis on automation and flexibility makes alternative accommodation an attractive option for both guests and investors.



Image: GRI Club / Midjourney

» Short-Term Rental

The global short-term accommodation market is projected to grow from USD 1,248 billion in 2019 to USD 1,826 billion by 2030, an increase of USD 578 billion, highlighting the expanding opportunities within this sector.

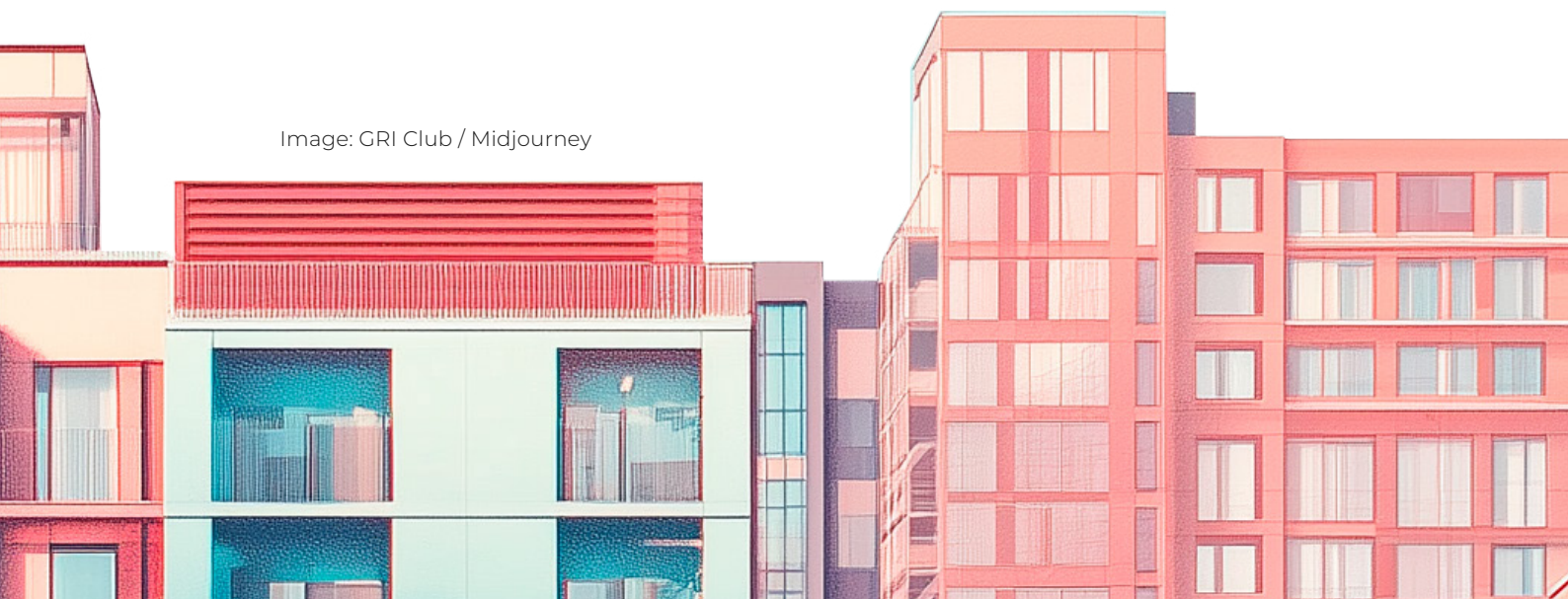
Amid this scenario, cities across Europe are being shaped by increasing legislative efforts to regulate short-term rental platforms, such as Airbnb, due to their impact on housing affordability for middle-class residents. This regulatory trend aims to prevent the reduction of residential spaces available for long-term rent.

A number of cities have seen a notable reduction in supply of Airbnb accommodations, including Barcelona (46%), Amsterdam (65%), Berlin (54%), Paris (51%), Hamburg (69%), and Prague (46%). Overall, more than 40% of Airbnb supply in major cities has been wiped out since 2018 due to these regulations.

Although the reduction in Airbnb supply opens opportunities in the hospitality sector, this regulatory environment poses challenges and it is essential to align with these regulations by operating in compliance with commercial zoning laws and securing appropriate short-stay licences. This ensures that operations do not contribute to the housing crisis and align with governmental objectives to protect residential spaces.

GRI Club member discussions suggested that operating on a level that serves a niche market that is too large for smaller operators and too small for major hotel brands is an interesting strategy for short-term rental operators.

Image: GRI Club / Midjourney



HOSPITALITY NEEDS LIVING

GRI Club member discussions brought to light the growing integration of hospitality and living spaces, highlighting innovative approaches to meet the needs of modern travellers and residents, focusing particularly on short and mid-term stays through serviced apartments and hotels.

This hybrid model is gaining traction as lifestyles become more dynamic and the need for flexible living solutions grows. Participants noted that sectors such as student housing and senior living share significant overlap with traditional hospitality, suggesting a convergence of business models that could offer mutual benefits.

As consumers seek more flexibility and dynamic living solutions, traditional hospitality providers are compelled to rethink their offerings, and the concept of “living hospitality” is considered a natural evolution.

However, the path forward is not without challenges. The hospitality sector faces significant hurdles, including staff shortages, high operating costs, and the impact of economic cycles. Innovative business models and strategic investments in technology and operations are necessary, as well as a focus on quality and customer satisfaction.

» **Operational Efficiencies**

Operational efficiencies and flexible solutions are a critical area of focus, such as fully furnished apartments with ready-to-use utilities. This trend reflects a broader shift towards convenience and ease of use, which is becoming a hallmark of successful hospitality and living offerings. Companies that can seamlessly integrate these elements into their business models are likely to gain a competitive edge in the market.

Revenue management within hospitality can also learn from the living sector. For instance, the use of dynamic pricing and sophisticated revenue management strategies can be adapted to enhance profitability. This cross-pollination of ideas highlights the potential for significant operational improvements, driven by technology and data analytics.

» **Pricing**

The integration of flexible living concepts within the hospitality framework has implications for asset valuation and yield compression, and investors must explore the potential for pricing adjustments in markets where the lines between hospitality and living are increasingly blurred.

The consensus among GRI Club member discussions was that flexible living models, which can cater to both short and long-term stays, will command different pricing structures compared to traditional hotel operations.

TRENDS IN THE HOSPITALITY SECTOR

» **AI & Technology**

Innovative hospitality concepts are increasingly gaining traction, and the market is witnessing a rise in tech-enabled short-term rentals, serviced apartments, and branded residences. These new offerings cater to travellers who desire flexibility, home-like amenities, and seamless digital experiences, as well as an increased traveller demand for customisation and personalisation.

Companies at the forefront of this transformation are using AI-driven customer service and smart room features to personalise and enhance guest experiences, as well as data analytics to streamline operations, cut costs, and provide valuable data insights for better decision-making.

The shift towards tech-enabled models allows operators to maintain a consistent and high-quality experience across different locations and property types, ensuring a competitive edge in the market.

» **Food and Beverage**

Food and Beverage (F&B) has become a crucial differentiator in the hospitality sector, with high-end dining experiences proving integral to the value proposition of many hospitality brands as they significantly drive occupancy and revenue.

There is also a growing trend towards integrating renowned F&B brands within hotels, attracting both guests and locals, and boosting the overall appeal and profitability of the properties.

» **Changing Traveller Demographics**

Younger generations, including Millennials and Gen Z, are becoming more prominent within the hospitality market, bringing different preferences and expectations, such as a desire for unique experiences and digital connectivity.

There is a growing emphasis on health and wellbeing, driving hotels to focus on providing wellness amenities and services, such as spas, fitness centres, and healthy dining options, to cater to the holistic needs of guests.

The blending of business and leisure travel is also becoming increasingly popular, as travellers are extending business trips to enjoy leisure activities, indicating a shift in how people balance work and personal time.

» Sustainability

Hotels are adopting green practices like energy efficiency, waste reduction, and the use of sustainable materials to meet the increasing pressure for eco-friendly accommodation and ESG-compliance from financiers, operators, and guests.

However, during GRI Club member discussions, it was contested whether ESG compliance and sustainability is such a determining factor in the decision making process of guests, and internal pressure from employees was suggested to be more significant.

Furthermore, the sustainability of the tourist industry in general was questioned, exemplifying the steep increase in tourists to Spain, from 60 million in 2016 to a staggering 85 million in 2023, putting considerable strain on the country's environment and community. The lack of consideration to this matter was highlighted as conflicting while more generic ESG pressures are so firmly in the spotlight.

» Luxury Hospitality

The luxury hotel industry has been steadily growing over the past two decades, and since the COVID-19 pandemic growth has accelerated. According to research by Savills, during the five years pre-pandemic, the average y-o-y growth was 2.6%, while average y-o-y growth in the five years post-pandemic is forecast to reach an impressive 10%.

These numbers highlight the growth as a structural shift, rather than a temporary trend, and Average Daily Rates (ADRs) have reached new heights, with increases of as much as 38% in cosmopolitan hubs such as London. However, growth is not limited to urban centres, and many brands are expanding into resort destinations.



PORTUGUESE HOSPITALITY MARKET

The Portuguese hospitality market has been a magnet for significant interest and investment. The country's growing appeal as a tourist hotspot, combined with the introduction of innovative hospitality concepts, has bolstered this trend.

Portugal's travel and tourism sector is poised for record-breaking growth in 2024, with projections indicating a contribution of over EUR 54 billion to the nation's economy, or 20% of its GDP. This growth is being fueled by substantial governmental investments and anticipated expansion over the next decade, including events like the Morocco-Portugal-Spain 2030 FIFA World Cup.

The growth trajectory of the Portuguese hospitality market is particularly notable in major cities like Lisbon and Porto, whose popularity among tourists continues to increase.

Despite the saturation of existing and planned developments, there remains a strong belief in the market's capacity to integrate additional hotels and serviced apartments, considering the consistent influx of leisure and business travellers, ensuring sustained demand.

Main challenges are regulatory hurdles, rising construction costs, and project timelines delaying development. Sustainable, innovative, and adaptable practices are needed to ensure long-term success and positive impact on the local economy and communities.



Image: GRI Club / Midjourney

SPANISH HOSPITALITY MARKET

The Spanish hospitality market has shown robust recovery and growth following the pandemic-induced decline in 2020. Traveller numbers and overnight stays have been increasing steadily, with 2024 starting on a strong note.

But, will the spectacular growth in the Spanish hospitality real estate market continue? Consensus among GRI Club member discussions was that the trend in Spain's tourist numbers will continue, as well as the constraints on supply, supporting the fundamentals and the resultant "mega-trend" in the hospitality real estate sector.

Furthermore, although liquidity in the sector remains a problem, the entry of more private equity into the market should improve this, further encouraging sector growth.

The sustainability of the growth was questioned, however. The current double-digit growth in ADRs will most likely drop to single-digit growth, supported by macro-trends, changes of generation, new feeder markets, and the recovery of long haul flights.

The significant increase in costs including labour, operations, land, and construction over recent years must eventually be transferred to the final product. In certain cities, where operators cannot reach a certain level of ADR, that market will eventually suffer. However, recognising that Spain remains a relatively cheap tourist destination within Europe, discussion participants were optimistic that there is still room for growth in many destinations.

» **Sourcing Supply**

Since the COVID-19 pandemic, the Spanish hospitality investment landscape has become increasingly crowded as many investors recognise its resilience and growth potential, making it persistently more competitive.

The ultimate challenge in the market at present is sourcing value-add supply. Particularly in the resorts sector, where the market is occupied by low-leverage sellers with high cash flow, and commonly family-owned assets. The motivation of this type of seller remains the same as it has for decades: price per room, and not yield.

Participants explained that although there is a certain level of institutionalisation occurring, it is simply not a yield market in terms of the ecosystem dynamics.

Hotel development and creating product is extremely challenging, especially for luxury four-five star hotels. Obstacles include finding plots in suitable locations, particularly in Barcelona where licensing is difficult, and Madrid where there is a sheer lack of opportunities.

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GRI HOSPITALITY EUROPE 2024

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