

# Challenges of the Hotel Market

## Barcelona vs Madrid 2015

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In this report Christie+Co looks at the margins for growth and development in the hotel sectors in Barcelona and Madrid in 2015, based on its survey of the opinions of directors of three-, four- and five-star hotels in both cities.

In particular, the respondents were asked for their views on:

- the potential for increased occupancy and ADR rates;
- the opportunity for change in their established mix of clientele;
- the influence of growing competition;
- new challenges; and
- the role of external organisations in promoting each city.

## Market snapshot

In 2014, some 65 million international tourists visited Spain – a record number for the second consecutive year. Of these visitors, around 15 million were from the United Kingdom, making it the largest international market for the country. The overall increase in tourists from the EU can be partly attributed to the stability of Spain's political climate, compared with previously popular but recently more volatile destinations, such as Turkey and Egypt.

Barcelona was the more popular choice for international visitors in 2014, outperforming the Spanish capital in all respects – as shown below:

	Barcelona	Madrid
No. of overnight stays	17.44 million	16.56 million
ADR rates (Jan-Nov)	€113.59	€73.93
Occupancy	73.49%	67.02%
Average length of stay	2.6 days	1.98 days

Source: INE and Minestur

# Mix of clientele

As could be expected, Madrid sees more national and business visitors than Barcelona, which attracts more international and leisure visitors. In the capital, the differences (between national and international, and between business and leisure visitors) are far less pronounced than in Barcelona.

In 2015, according to the survey respondents, both cities will likely see:

### An increase in the number of international visitors

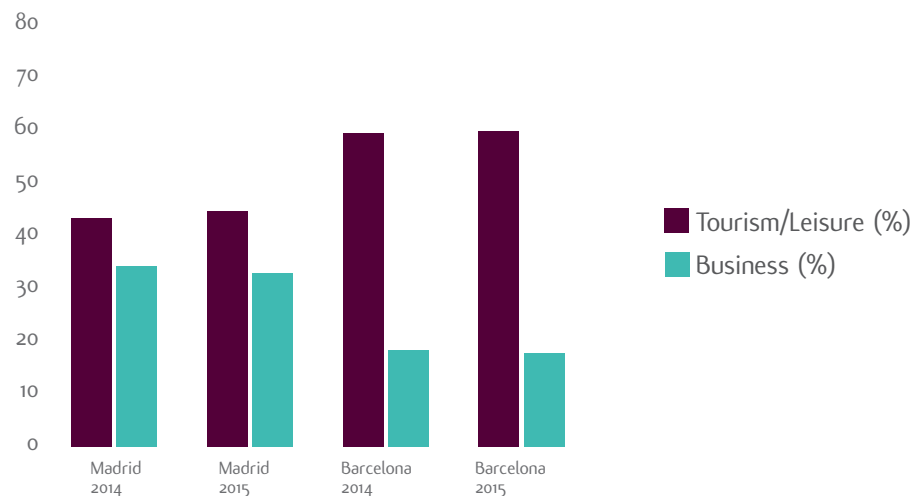
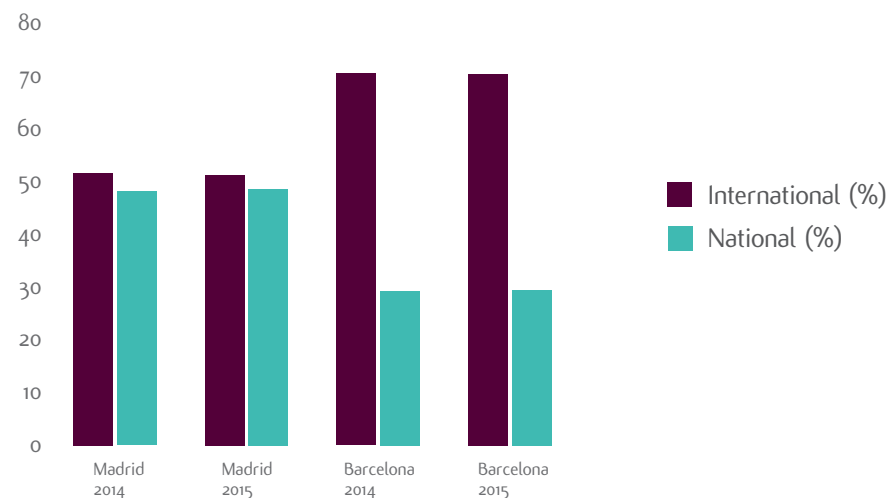
- **Madrid** – up from 55.9% to 57.6%
- **Barcelona** – up from 76.5% to 77.2%

### A slight decrease in the number of leisure visitors

- **Madrid** – down by 0.5%
- **Barcelona** – down by 0.1%

Asked whether improved accessibility as a result of more flights and routes to the cities' airports would make a difference to their established clientele mix, 59% of Madrid hotel directors said yes, while exactly the same percentage of their Barcelona-based counterparts said no.

Respondents whose hotels have an established mix of clientele said they expected occupancy levels to rise but their visitor breakdown to remain the same.



# Occupancy

The average occupancy rate of hotels is, not surprisingly, higher in Barcelona and this is not expected to change. The vast majority of hotel directors in both cities were optimistic about potential for growth but far fewer believe there will be actual growth without certain developments and improvements being made in the sector.

- **92% of Madrid respondents** believe there's a margin for growth in the city in 2015 BUT only 14% actually think occupancy rates will improve;
- **62% of Barcelona respondents** believe there's a margin for growth in the city BUT only 11% actually think occupancy rates will improve.

The difference in views on margin for growth can be partly explained by the lower occupancy rates in Madrid, and the over-supply of beds in Barcelona (caused, to some extent, by the proliferation of 'apartment lets' in the city).

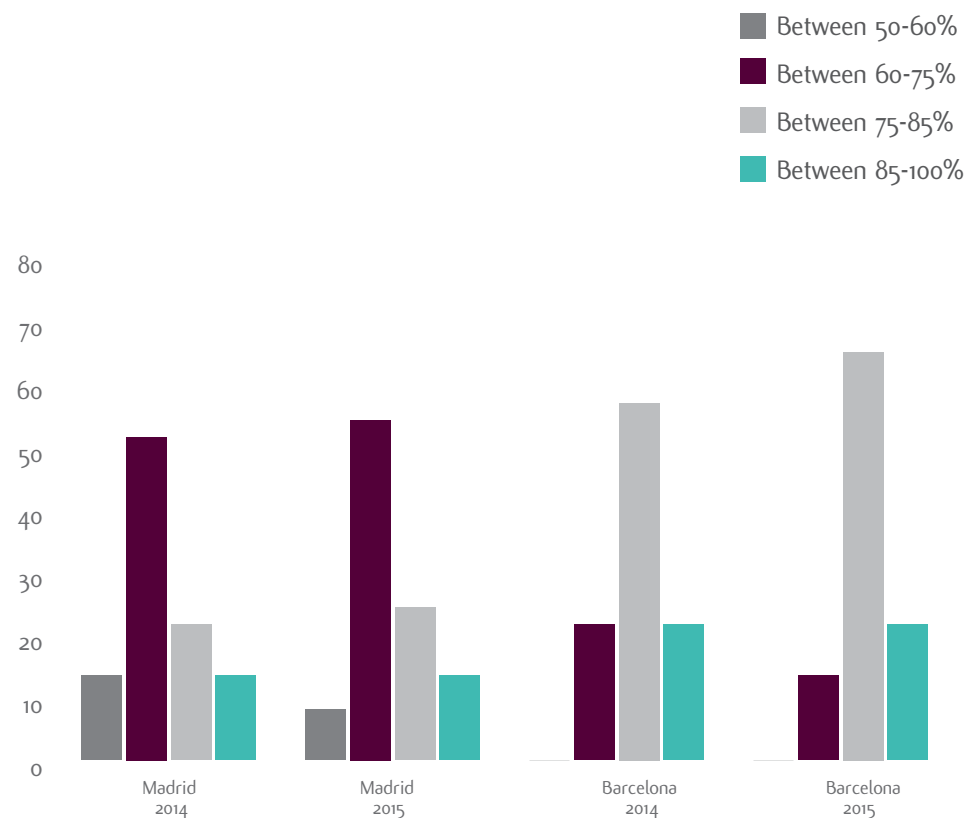
Sector improvements and developments that could help realise the potential for growth include:

## Madrid

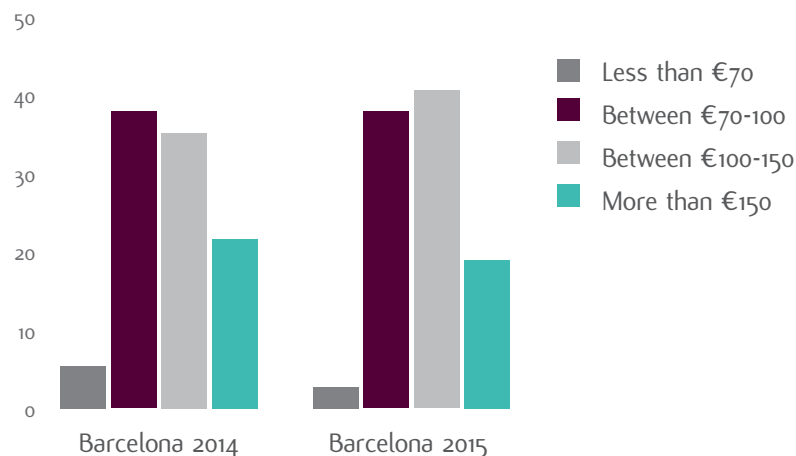
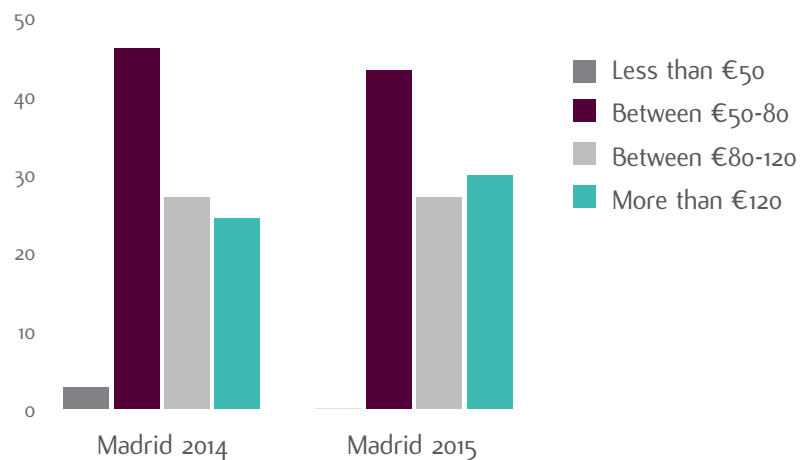
- Improved international marketing programme for the low season (Nov-Apr);
- Development of the business-events sector;

## Barcelona

- New points of interest to be developed outside the saturated tourist centre;
- Increase in the number of international fairs and conventions.



# ADR



None of the hotel directors surveyed in either city predicts that average room rates will go down in 2015. As in the case of occupancy rates, respondents in both cities believe there is potential for growth in ADR in 2015. Again, Madrid hotel directors were more positive on this question than those in Barcelona – most likely due to the current lower ADR in the capital, and to the arrival of new 5\* hotels there, which may spur price increases for existing 4\* and 5\* establishments.

## Madrid

- 14% of respondents predict a rise in ADR in 2015, which corresponds to the percentage who foresee a rise in occupancy rates;
- 95% feel there is a margin for growth in ADR in 2015;

## Barcelona

- 5% expect ADR to increase, versus the 11% who predict a rise in occupancy rates;
- 57% feel there is a margin for growth in ADR in 2015.

Owing to the substantially lower average room rates in Madrid, a different set of price brackets was used to measure ADR in each city.

As with occupancy rates, the over-supply of beds in Barcelona is keeping prices from rising there. Again, hotel directors in both cities feel that the sector needs to take collective action to increase prices, including:

## Madrid

- Better promotion of the city;
- Better positioning for target markets;
- Introduction of minimum prices for each star segment;

## Barcelona

- Maintenance of all hotels in optimum condition to avoid price reductions;
- Introduction of minimum prices for each star segment.

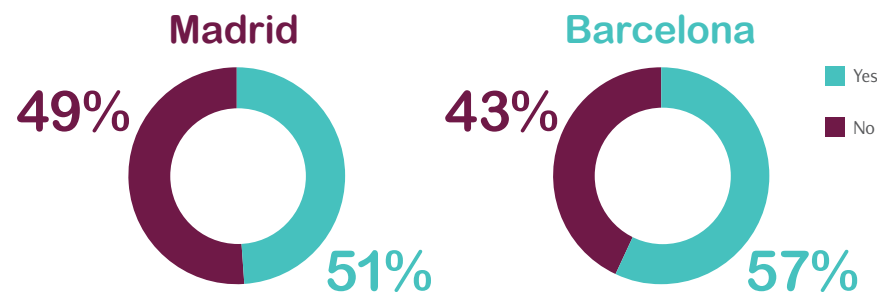
# The impact of holiday apartments

In 2014, letting of holiday apartments by foreign visitors rose by 17.2%, compared with a rise of just 5.3% in the hotel/regulated accommodation sector (source: Exceltur). Apartments are usually priced economically and located centrally – two key factors for visitors when choosing accommodation.

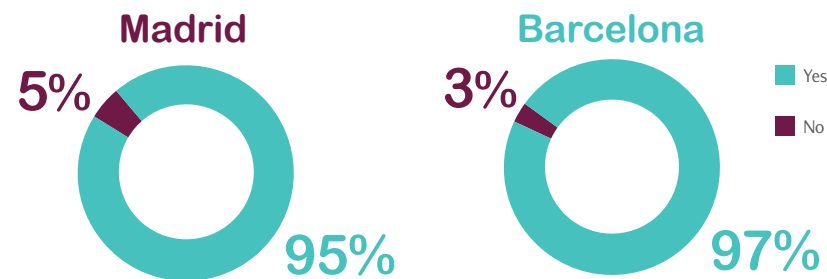
More than half the hotel directors in both cities feel their establishments will be negatively affected by growing competition from holiday lets in 2015. However, as such lets appeal mainly to leisure travellers rather than business visitors, directors of high-end establishments do not believe their business will be greatly affected.

Almost all of those questioned believe the holiday lets sector should be regulated. They are concerned that the absence of tax/financial regulation, lack of quality guarantees for guests, and failure to adhere to safety and security rules by operators in this sector could harm the image of both cities as destinations for current and future travellers.

Will your hotel be affected by growth in the holiday apartment letting sector in 2015?



Should holiday lets be regulated by the administration?



# Role of external organisations in promotion

The majority of respondents in both cities believe that efforts to promote the hotel sector by outside organisations – public-private – are very valuable.

In Barcelona, for example, immense growth has been fuelled over the last 20 years by Turisme de Barcelona, which developed customised promotional campaigns for the various sub-sectors and geographical regions.

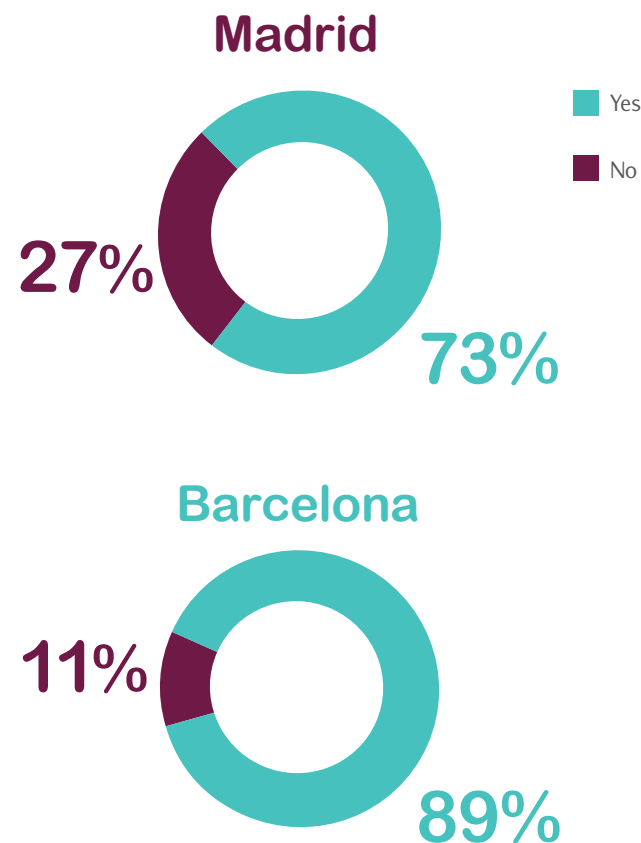
However, hotel directors there believe more can be done, including:

- Better support for smaller hotels in lower-end categories;
- Better representation of young members of the sector.

Madrid hotel directors have seen the results achieved by the relationship between the hotel sector and promotional organisations in Barcelona but feel that, in order to make the same progress in the capital, the promotion would have to be:

- Specific and directed;
- Free from any political influence; and
- Led by industry professionals and experts.

Would the involvement of public-private organisations in the promotion of the hotel sector bring positive results?



# Key challenges in 2015

## Madrid

- Increasing prices and ADR across all segments, but especially the mid to high-end markets – in order to position the city in line with EU competitor destinations;
- Developing Madrid as a 'brand' via improved promotion by external organisations and increased investment;
- Reviving the image of the city as a tourist destination;
- Attracting more higher-quality international business events.

## Barcelona

The over-riding challenge faced by the hotel sector in Barcelona is to manage the over-supply of beds. Fuelled by the boom in low-cost holiday lets, this is causing the following problems for the city, which it must address:

- Damage to the relationship between price and quality/service due to intense price wars and fierce competition;
- A drop in the average daily spend of visitors, owing to the higher number of 'budget' travellers staying in holiday lets – typically, they spend around 46% less than hotel guests (source: Turespaña);
- Negativity among citizens in the face of the influx of tourists to their city, which, in turn, has repercussions for the international Barcelona 'brand'.

Asked how the changing demands of travellers would affect their business, hotel directors in both cities were unanimous on what will have the biggest impact: technology.

According to the survey respondents, free wifi access can be the deciding factor in choosing one hotel over another – especially for business guests, for whom staying connected is essential.

Technology offers a huge opportunity for development in the hotel sector, particularly in city locations.



# Summary and conclusions

## Overall

- Actual growth in the hotel sector will not be high;
- Potential growth is significant, providing it is actively encouraged by both the hotel sector and external public and private organisations;
- ADR and occupancy rates will not increase significantly;
- Hotels with an established mix of clientele will not see much change in that mix;
- Competition from the growing holiday lets sector is having a negative impact on all but the high-end hotels;
- Technology, such as free wifi access, is becoming an increasingly important part of hotels' offering.

## Madrid

- Lower ADR and occupancy rates than Barcelona mean there is a higher potential for growth in both these areas in the Spanish capital;
- Increasing ADR and improving occupancy rates are seen as equal challenges, and equally possible, if the right promotion and developments take place;
- A dedicated and non-political body to promote the hotel sector is crucial;
- The city needs to attract more high-quality international business events.

## Barcelona

- Increasing ADR is a greater challenge than increasing occupancy levels because the excess of accommodation supply is affecting ADR more than occupancy;
- Competition from the holiday lets sector is affecting Barcelona more than Madrid, leading to a growth in low-cost tourism (and lower-spending tourists) to the coastal city;
- The 5\* segment is less affected by this competition;
- There needs to be better promotion of lower-end hotels and investment in improving quality and consistency across the category;
- Minimum prices should be introduced for each star category.

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