Hotel chain supply in Europe 2009: momentum and indecison

Paul Slattery and Ian Gamse from Otus & Co analyse the sluggish European growth of the global majors

A year ago, we looked at the state of the UK chain hotel market and shuddered. We identified its soft underbelly, the provincial up-market and mid-market full feature hotels, observed that Folio and Real Hotel Company had already fallen victim to the recession and came up with a list of similar brands most likely to be under pressure during the year.

There were still some known unknowns, of course. How many failing hotels would be worth saving? To what extent would the chains jettison their existing hotels? How many companies would find their operating cashflow insufficient to meet lease or interest commitments? And above all, how would the banks behave?

We will deal with the UK shortly; first we should look at how Europe as a whole has fared in 2009.

Our regular readers will remember that the Otus Hotel Brand Database ("OHBD") tracks chains of four or more hotels under common ownership, operation or franchise, consistently classifying hotel and locational properties across the 54 countries of Europe from Iceland to Kyrgyzstan. At the end of December 2008, we record 14,493 chain hotels with 1.79m rooms; a year later the roomstock has grown by 2.6% net, to 1.84m rooms in 14,747 hotels. This net growth rate is down from 3.5% in 2008 and 2.9% in 2007, but still represents a net addition of 46,000 rooms, nearly as many as the 49,000 added in 2007 but well short of the 60,000 added in 2008.

That single statistic may make good headlines but is of little use. We need to dig deeper and understand the components of this net growth if we are to draw any valuable conclusion: how much stock is new, how much results from migration of hotels into and out of the chains, how much comes from completely new chains and what stock, if any, has been permanently lost. Then we need to look at the locations of those gains and losses: not just which countries, cities and resorts, but what types of place. Then what types of hotel. And finally, above all, which brands and types of brand are gaining and losing – and what does all this mean for the future?

A complete analysis is of course beyond the scope of this article: what we will do is raise a few of the questions that the data present – and, in some cases at least, suggest some answers.

How does the growth break down?

The largest single factor in the growth story continues to be new-build hotels. At 2.8% (see table 1), this contribution is at the same level as in 2008, slightly down from the 3.0% recorded in 2007 – though in absolute terms running steadily at between 47,000 and 50,000 rooms per year. New-build hotels opening in 2009 were in the main planned and financed before the credit crunch struck; what remains to be seen is whether this rate of construction will be sustained through 2010 and into 2011-12.

The net effect of migration into and out of the chains was negative: about 8,000 more rooms were lost than came in. The number of rooms being added by this route has remained roughly constant over the past three years: it is the losses

Table 1 – Europe chain hotel supply growth 2009

	Hotels	Rooms	% change (rooms)
New build	349	50,000	2.8%
Migration into the chains	252	23,800	1.3%
Hotels closed	-120	-12,400	-0.7%
Hotels dropped from chains	-354	-31,500	-1.8%
Net existing chain growth	127	29,800	1.7%
New hotels in new chains	125	16,300	0.9%
Net market growth	**252**	**46,100**	**2.6%**

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest hundred

Table 2 – Chain hotel rooms	2006	2009	CAGR	Absolute growth
Spain	370,000	390,000	1.7%	20,000
– Costas	251,000	257,000	0.8%	6,000
– Interior Spain	119,000	133,000	3.7%	14,000
United Kingdom	274,000	307,000	3.8%	33,000
France	263,000	273,000	1.2%	10,000
Germany	191,000	217,000	4.2%	25,000

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

that have varied sharply. The level in 2007 was similar to that in 2009, while in 2008 only 18,000 rooms were lost to the unaffiliated sector.

The pattern of hotel closures is similar: 14,000 rooms were lost in this way in 2007, only 5,000 in 2008 and 12,000 in 2009. Curiously, the same appears true of the contribution of new chains (including new hotels built by the major companies to launch new brands): 19,000 rooms added to the chain market in 2007, down to 12,000 in 2008 and back up to 16,000 in 2009. Perhaps 2008 was the year of indecision: in response to crisis, not only did business development decline but investors and operators were disinclined to take any major step.

Locational profile

Europe's four main chain hotel markets are Spain, the United Kingdom, France and Germany. Over the past three years, supply in each has behaved very differently:[1]

In Spain (see table 2), the largest market, growth appears to have been sluggish. The top-level number however conceals two different stories: the relative decline of hotel chains in the costas, where they have seen compound annual growth of only 0.6% in the period, and the far more rapid advance of the non-costas market which has grown at an average rate of 3.7%, similar to that in the United Kingdom. France has languished: a mere 10,000 net rooms growth in three years. Germany has been the fastest growing of the large markets.

It would be a mistake however to confuse low net growth with lack of activity. In both Germany and the United Kingdom there was net growth of about 10,000 rooms in 2009. The total number of rooms that moved in or out of the market in the United Kingdom was about 17,000 – 13,500 rooms added and 3,500 removed (see table 3). German growth was far more orderly: the same net result with only 14,000 moves. In France, by contrast, the net growth of 1,600 rooms in 2009 masks a huge amount of activity, with 14,500 rooms moving in or out of the market: slightly more activity than in Germany but with a very different result. And in Spain, the net growth in 2009 of 2,500 rooms resulted from activity that involved 23,000 rooms moving in and out of the market. So in Spain, 6% of the roomstock moved in or out of the market to produce net growth of 0.07%, while in Germany 7% of the roomstock moved but produced net growth of 5%. (Jokes about Teutonic efficiency may be supplied by the reader.)

If we define the "chaos ratio" as the absolute value of the number of rooms moving in or out of the market divided by the net change in roomstock, we get a measure of the extent to which market growth is disorderly. Top of the pile for 2009 is Turkey, where more than 10,000 hotel rooms moved in or out of the chain market, yet the net effect was almost zero, giving a chaos ratio of 411. Italy came close, with a net change of about 100 rooms from nearly 9,000 moves – a ratio of 76. The ratios for Spain and France were about 9; for the United Kingdom 1.7 and for Germany 1.4, the lowest result for a significant market.

Another useful measure is "volatility", defined as the number of moves divided by the roomstock at the beginning of the year. Unsurprisingly, the Turkish market was very volatile – 20%; the four large markets of Spain, the United Kingdom, France and Germany all scored around 6% and the market as a whole around 7%. Other particularly volatile markets were Italy on 10% and Greece on 17%.

What does all this mean? That the European markets behave independently at country level; that most of them did not exhibit any particular clear direction in 2009; and again, perhaps, that indecision ruled. ▶

Table 3 – Chain rooms, 2009	Rooms at end 2008	New-build	Migration into the chains	Hotels closed	Hotels dropped from chains	New chains	Net chain growth	Net chain growth (%)	Total activity	Total activity (%)
Spain	387,500	4,200	5,000	2,300	7,800	3,400	2,500	0.6%	22,800	6%
United Kingdom	296,700	9,700	3,100	1,300	2,300	800	10,100	3.4%	17,100	6%
France	271,100	4,700	3,200	1,800	4,700	100	1,600	0.6%	14,500	5%
Germany	206,200	7,900	2,200	500	1,400	2,200	10,300	5.0%	14,200	7%

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest hundred

[1]We use 2006 as the base year in this analysis in order to cover the credit crunch period

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Table 4 – European chain hotels	2006	2009	CAGR	Absolute growth
City – Urban	551,000	617,000	3.8%	66,000
City – Suburban	228,000	266,000	5.2%	37,000
City – Airport	51,000	60,000	5.6%	9,000
Town	402,000	422,000	1.6%	20,000
Village	453,000	476,000	1.7%	23,000

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Table 5 – United Kingdom	2006	2009	CAGR	Absolute growth
City – Urban	104,000	120,000	4.9%	16,000
City – Suburban	49,000	55,000	4.0%	6,000
City – Airport	15,000	17,000	4.4%	2,000
Town	53,000	58,000	3.3%	5,000
Village	53,000	56,000	2.0%	3,000

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Table 6 – Germany	2006	2009	CAGR	Absolute growth
City – Urban	92,000	102,000	3.5%	10,000
City – Suburban	40,000	48,000	6.6%	8,000
City – Airport	6,000	8,000	9.2%	2,000
Town	34,000	38,000	3.1%	3,000
Village	19,000	21,000	2.9%	2,000

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Table 7 – France	2006	2009	CAGR	Absolute growth
City – Urban	66,000	69,000	1.7%	3,000
City – Suburban	46,000	48,000	1.4%	2,000
City – Airport	10,000	10,000	1.9%	1,000
Town	85,000	86,000	0.4%	1,000
Village	56,000	59,000	1.6%	3,000

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Table 8 – Spain	2006	2009	CAGR	Absolute growth
City – Urban	70,000	77,000	3.2%	7,000
City – Suburban	28,000	31,000	3.6%	3,000
City – Airport	2,000	3,000	11.8%	1,000
Town	99,000	102,000	1.0%	3,000
Village	171,000	176,000	1.0%	5,000

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Growth areas

We turn our attention to the types of places in which hotels are located. Otus classifies each hotel location first according to whether it is in a centre of population. We use the term "city" to refer to a conurbation whose population is 100,000 or more; "town" for populations of at least 10,000 but less than 100,000; and "village" for conurbations with populations smaller than 10,000. In doing this, we consider where the hotel is actually located, not where its owner would like us to believe it to be located. We further sub-categorise city locations as urban, suburban and airport. (One simple reason for doing this is that it enables us to assess the level and mix of business and leisure demand to which a hotel has access.)

The European chain market as a whole in 2006 was almost evenly split between city locations on the one hand and towns and villages on the other. The change since then is shown in table 4.

The far more rapid growth in cities than outside them is striking, and a sign of the maturing of the market. However, there is still probably room for faster growth in urban locations.

Turning to the significant country markets, we observe that the primary driver of growth in the German market has been the cities (table 6). Berlin alone added more than 6,000 rooms in these three years, while Munich, Hamburg, Frankfurt and Dusseldorf together added another 7,000. In the United Kingdom (table 5), although London slightly lagged the market, growing at 3.5%, it was cities like Manchester, Edinburgh and Liverpool that recorded the strongest growth. More generally, and positively, growth was strongest in urban areas and weakest in villages.

But in Germany, worryingly, it was the suburbs that were ahead in percentage terms, if not on absolute growth.

And in France (table7) growth in villages was disturbingly strong.

In Spain (table 8) meanwhile, as we would expect given the costas/interior split already mentioned, growth has overwhelmingly been city-based.

In each case we can see clear, and different, trends. The question for further consideration is the extent to which the supply trends are in line with current and likely future hotel demand.

Hotel categories

It's useful to break down the market by market level and hotel configuration to get an overall picture of the categories of hotel that are prominent. Taking the UK as an example, its profile in 2006 is shown in table 9.

Net growth over the years 2006-09 is shown in table 10. By far the largest growth was in the economy/limited feature segment; and the economy segment as a whole had pulled clear of the mid-market to become the largest market level segment.

Writing a year ago, we thought the hotels at greatest risk in the United Kingdom to be in the up-market full feature and mid-market full feature segments. What actually happened in 2009 is shown in table 11.

It was precisely those two endangered species that delivered the highest net growth. The reason for this is twofold: first, a large number of new-build hotels opened, having been planned and financed of course well before the crunch. Second, the fallout from the collapse of Real and Folio was less than expected – and the banks have been happy to ignore the structural decline in demand for full feature hotels, dreaming instead of the happy day when real estate prices will recover to bubble level and they can find buyers to relieve them of their troublesome portfolios.

At the same time, the economy segment – in particular Premier Inn and Travelodge – whose development cycle is so much shorter, was able to respond to the downturn by gently applying the brakes. We can only hope that our metaphor is not too precise and that the full feature segment is not heading for the buffers.

And the brands…

And finally, what about the brands? We will conclude with a single table (12) that may provide food for thought.

We segment the chains into three convenient sets: the global majors;[2] "national" chains whose activities are exclusively or predominantly in a single country; and the "internationals" – everything else.

In 2006 the three segments were of similar size, each around 550,000 rooms. Their net growth over the past three years is summarised in the table:

The global majors as a group have produced less than half the growth of the national chains – and that's even when we ascribe growth driven by the big national and international franchise operators to the franchisors. Have they given up on Europe? Are they failing to compete? Is the asset-light model constraining growth? Or are the capital providers unconvinced of the benefit of a global brand?

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Table 9 – United Kingdom 2006

	Resort	Full feature	Basic feature	Limited feature	Rooms only	Total
Deluxe	1,000	4,000	1,000			6,000
Up-market	10,000	61,000	15,000			86,000
Mid-market	2,000	43,000	43,000	2,000	1,000	91,000
Economy		2,000	10,000	37,000	42,000	91,000
Budget					1,000	1,000
Total	13,000	110,000	69,000	39,000	44,000	

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Table 10 – United Kingdom: Net growth over the years 2006-09

	Resort	Full feature	Basic feature	Limited feature	Rooms only	Total
Deluxe						
Up-market	1,000	4,000	2,000			7,000
Mid-market		4,000	3,000	2,000		9,000
Economy			4,000	7,000	3,000	14,000
Budget					2,000	2,000
Total	1,000	8,000	9,000	9,000	5,000	

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Table 11 – United Kingdom: Growth 2008-9

	Resort	Full feature	Basic feature	Limited feature	Rooms only	Total
Deluxe						
Up-market		3,000				3,000
Mid-market		2,000	1,000	1,000		4,000
Economy			1,000	1,000	1,000	3,000
Budget						
Total		5,000	2,000	2,000	1,000	

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

Table 12 – Net growth over the past three years

Brand type	2006	2009	CAGR	Absolute growth
Global	563,000	595,000	1.9%	32,000
International	529,000	585,000	3.4%	56,000
National	593,000	660,000	3.6%	67,000

Source: Otus & Co. Advisory Ltd.; room numbers rounded to nearest thousand

[2]The global companies are Accor, Carlson, Choice, InterContinental, Hilton, Hyatt, Marriott, Starwood and Wyndham.