THE HOTEL AND TOURIST INDUSTRY

First elements of results at summer 2010

The serious crisis the French **hotel industry** went through in 2009 is now behind it. The industry rallied in the summer of 2010 and **the improvement was more rapid and more substantial** than expected. Since late winter, when the hotel business began to recover, results have been improving steadily, driven more particularly by the **vitality of Ile-de-France** and the **robustness** of the **top-of-the-range segment**.

Over the first eight months of the year, the **number of guest-nights** in tourist hotels saw accumulated **growth** of 2.4% compared to the same period in 2009 (source: survey of hotel guest occupancy). Business was **particularly brisk in early summer**, when occupancy even climbed back up to pre-crisis levels (a year-over-year increase of 6% in June and 3.1% in July). On the whole, however, hotel occupancy is still lower than it was in 2008 (4.5 million fewer guest-nights between January and August 2010 than in the same period in 2008, a 3.3% decline).

Occupancy was pulled up by a **strong return of foreign travellers**. The number of nights spent by foreigners went up by a total of 2.7% in one year: compare to a 2.2% increase for French guests. This result is due mainly to the flourishing **business brought in by clientele from distant countries**, in particular Asians (occupancy went up 6.2% for the Japanese and 49.5% for the Chinese), South Americans (up 36.1%) and Middle Eastern travellers (up 21.1%). Europeans are still preponderant, accounting for 75 to 80% of foreign guest-nights in French hotels, but **European occupancy has not risen**. Despite the renewed influx of tourists from Russia (whose occupancy rate went up 28.4%), Scandinavian countries (up 10.9%) and Spain (up 5.4%), it crept up a mere 0.1%. This poor performance can be attributed primarily to the dwindling numbers of British guests (occupancy down 7.3%), who constitute France's main foreign clientele, and Dutch guests (down 6.5%).

It is the regions that were hardest hit by the crisis that are gaining the most from the rebound. This is particularly true of **Ile-de-France**, where hotel occupancy has risen since the start of the year by 6% over 2009 thanks to the influx of French clientele (up 9.6%), in particular business travellers. The **north-eastern and south-eastern regions** also fared well, stimulated by the resurgence of foreigners flocking to hotels. The number of overnight stays is up 5.5% in Burgundy, 2.7% in Lorraine, 3.2% in the Provence-Alpes-Côte d'Azur region, and 4.3% in Corsica. On the other hand, neither the north-western quarter of France (Nord-Pas-de-Calais, Picardie, Upper Normandy, Brittany, Pays de Loire, Centre, Poitou-Charentes), nor Rhône-Alpes and Midi-Pyrénées have benefited from the boom for the moment: these regions saw occupancy fall off in the course of the year.

Not all segments enjoyed the effects of the economic upturn. For budget hotels, trends in the number of nights remained negative in the first eight months of the year, compared to 2009 (down 0.5% for hotels with no star and down 0.9% for 1-star establishments). But budget hotels are a minority, accounting for only 18% of occupancy for 2010. The core market is represented by 2-star hotels, which account for 40% of nights, and in this category occupancy was stable. **It is the most comfortable hotels that vitalized the business**: occupancy went up 3.7% in 3-star hotels (which account for 30% of nights) and rose by 12.1% in 4-star establishments (12% of nights). Entry-level categories, however, adjusted their accommodation capacities. By reducing the number of rooms on offer more sharply than the rate at which occupancy declined, these basic hotels were able to post stable, and even slightly higher, occupancy rates compared to 2009. But it was high-end hotels that boasted the greatest increase: occupancy jumped 4.2 points in the top of the range – more than three times as much as the hotel industry as a whole, which gained 1.2 points.

Trends

Occupation rate	↑
RevPAR	↑
Investments	↑
Prime yields	=

Trend / end 2009

The rebound in occupancy means that average room rates can bounce back up for most segments and locations. This upswing confirms the end of the policies of special offers on room rates that were introduced to fill rooms and thereby bolster occupancy rates during the crisis. **RevPAR** (revenue per available room), the hotel performance indicator, **is back on track to growth**. Here too, 3- and 4-star hotels stand out: total performance in the last nine months was up 7.9% and 6.5% respectively over 2009 (source: Deloitte). In this segment, many hotel owners took advantage of the crisis to renovate their establishments and are now reaping the benefit of the renovation works as business begins to thrive again.

Paris and the Ile de France region are particularly favoured, with 2-digit growth in hotel performance in the high end; since the start of the year, revenue went up 10.6% for 4-star superior hotels and 14.5% for the 4-star charm category in Paris, and rose by 11.3% in 4-star hotels in the outskirts of Paris. Although these **dynamics do not seem quite as pronounced in the provinces**, on the whole results there are good. Some cities – Avignon, Bordeaux, Dijon, Grenoble, Montpellier and Nice, among others – even boast RevPAR increases comparable to those of Paris for luxury and comfort hotels.

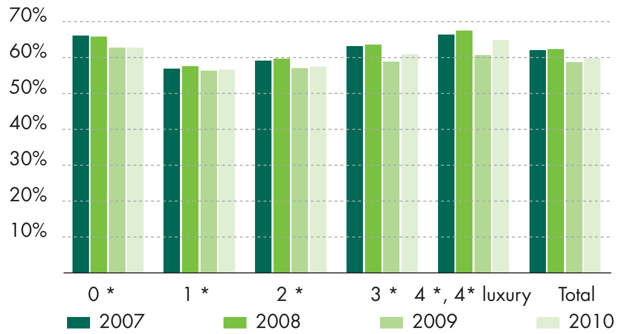
Outlook

Today the **outlook** for the French hotel industry seems **encouraging**. **Results have been steadily improving since the start of the year**. The only exception was the month of August, when inclement weather put a damper on leisure travel, which is the predominant type of tourism at this time of year. Furthermore, Ramadan coming early this year meant that high-end hotels lost the custom of wealthy clientele from the Persian Gulf. But September's excellent results, including exceptionally sharp increases in RevPAR in the best Paris hotels, proved that this rough patch was just temporary.

In effect the **economic improvement** is tangible on the **international scale**. The world GDP growth rate is expected to reach 4.8% in 2010 and 4.2% in 2011 - compare to a 0.6% drop in 2009 - thanks to the robust economies of emerging countries. Which explains why foreign guests, more particularly from distant countries, are the first to flock back to France. All the more so as, despite sharp fluctuations, the **euro/dollar exchange rate** is still more favourable for foreign travellers than it was in 2009; this means that **France is a more competitive, more attractive destination**. High-end establishments are making the most of the **return of foreign travellers**.

The budget hotel industry is more dependent on French guests. In the still-faltering French economy where high unemployment, stagnant buying power and a shaky recovery prevail, **French tourists are very cautious** when it comes to spending. They continue to prefer holiday stays in non-market accommodation or more economical arrangements such as camping. Business **travel has recovered**, though - but only at the cost of adjusting practices. Businesses are refocusing on France and business travellers cutting down on seminars and travelling in economy class or even on low cost carriers.

Occupancy rate in tourist hotels by category from January to August



Source: survey of hotel occupancy - INSEE, Department of Tourism, regional partners.

Performance of French hotels
Cumulated results from January to September 2010

	4*	3*	2*
Occupancy rate	68.60%	68.10%	65.00%
Trends / Y-1	+ 5.5 points	- 4.7 points	- 0.9 points
Average revenue per room rented	€223	€98	€65
Trends / Y-1	2.30%	1.70%	0.70%
Average revenue per available room (RevPar)	€153	€67	€42
Trends / Y-1	7.90%	6.50%	- 0.10%

Source: Deloitte

CBRE CB RICHARD ELLIS

ZOOM...

CONVERTING BUILDINGS INTO HOTELS, THE REGULATORY AND LEGAL ASPECTS

From a real estate viewpoint, making a hotel out of other premises usually requires works, and planning permission must be obtained prior to carrying them out. This involves complying with a certain number of laws that can sometimes be complex. It should be noted that **since introduction of the LME**, the law for the modernisation of the economy, in August 2008, it is **no longer necessary to secure authorization for the development of commercial space in order to create or extend a hotel or convert another building into one**, regardless of the establishment's capacity (art. 102, IX, e).

Change of usage

The Urban Code (art. R. 123-9) defines nine possible major building usages: housing, hotel accommodation, offices, retail business, small crafts, industry, farming or logging operation, warehousing, and public services or services of community interest. There is a change of usage when an existing building shifts from one of these nine categories to another. Transforming other premises into a hotel thus constitutes a change of usage, and when the **conversion involves works** that modify the bearing structures of the construction or the façade, **planning permission is required** (art. R. 421-1). Otherwise, it is enough to make a declaration beforehand. In any case, the change of usage must be compatible with town planning rules (Plan Local d'Urbanisme), including prohibited usages or usages subject to conditions in the zone in question, and compliance with the plot ratio (COS).

Change of allotted usage

If premises were initially meant for housing, a specific system is in force for changes in building usage in *communes* of more than 200,000 inhabitants and in the Hauts-de-Seine, Seine-Saint-Denis and Val-de-Marne departments (Building and Housing Code: art. L. 631-7 to L. 631-8). A permit must be obtained prior to the change of usage; this permit is usually subject to compensation in the form of a concurrent transformation into housing of premises with a different usage.

This system was reformed in 2005, and the permit is now attached to the premises rather than to the person. It is therefore a right in rem that is published in the real estate registry or the land registry. The reform also did away with the prohibition against transforming tourist hotels into any usage other than housing.

Rules applying to buildings open to the public

As private places that host paying guests, hotels come under the **legislation that applies to buildings open to the public**, which sets **rules about how they are run and fitted out** (art. R123-1 et seq. of the Building and Housing Code). They must be designed in such a way as to limit the risk of fire, alert occupiers of any disaster, facilitate their evacuation, prevent panic, enable emergency services to be alerted and facilitate rescue work. In addition, **buildings open to the public must be accessible to persons with reduced mobility**: disabled parking spaces, wide doors, access ramps, and disabled lifts and bathrooms must be provided . The level of detail and constraint in the legislation depends on the size of the public a given building caters for and what kind of activity is engaged in therein. Hotels belong to category O.

Rules of habitability

For an establishment to be classified as a hotel and thus be officially designated a tourist hotel, specific provisions exist in the legislation in addition to general rules of habitability. **The number of stars** a hotel is awarded **depends on the number and floor area of the rooms and common areas** (reception, lounges and restaurant dining room). The order of 23 December 2009 now sets the norms and the procedure for ranking tourist hotels.

[1] *Cf order of 1 August 2006 amended by the order of 30 November 2007.*

INVESTMENT IN FRANCE IN 2010

After weathering a crisis of unparalleled scale last year, the **French hotel investment market is back on its feet**. In the **first nine months** of the year slightly less than **600 million euros of investments** were already recorded; compare to 500 million invested in all of 2009. The summer months were particularly active, mainly in the luxury hotel segment: the two largest transactions were signed then - Alrov's acquisition of the Lutetia from Starwood for 150 million euros and Deka's acquisition of the Marriott Renaissance Paris Arc de Triomphe from Altaréa-Cogedim for 114 million. Moreover, some **extremely large transactions are now in the process of being finalized and should push investment volumes for 2010 up to nearly 1.2 billion euros**. Prédica and Foncière des Murs have signed an acquisition agreement with Accor for the purchase of a portfolio of 48 hotels, including 31 in France, for 367 million euros. And Starwood is about to close the sale of the Crillon to Saudi capital for a sum reported to be in the region of 250 million euros. The outcome of these major transactions - some of them, like the Crillon, after long and arduous negotiations - is a positive signal for the market. As is the **return of significant portfolios of hotel premises,** a segment that fortified volumes in 2007 and 2008 but virtually disappeared when the crisis hit.

But **the market has not regained all of its liquidity and remains in the hands of buyers**. Narrower and more risky, the market is driven **mainly by a few specialised players** such as property companies dedicated to the possession of the bricks and mortar of business concerns, and family or international hotel groups. In the high-end segment, however, non-specialised foreign funds are returning, attracted by the opportunity to get hold of assets that are rare in terms of quality and location. Private investors remain active on the market of small and medium-sized transactions, having fallen back on real estate owing to the financial and stock market crisis because it was considered a safe investment.

Supply remains limited compared to the scale of demand. Most hotel groups have improved their cash flow. So there is less pressure to sell. In these conditions, **potential sellers are not prepared to sell off their assets cheaply** and prefer to wait for a more clear-cut upturn in the market; this limits the fall in market values. Opportunist investors on the look-out for **distressed assets** are not having much luck. Furthermore, **the market of off-plan sales has yet to make up for the lack of existing products available for sale**. It is still difficult to finance new constructions. This is the reason practically no more new hotels are being developed: developers would have to make too great an investment in equity capital.

In the end, the **improvement in hotels' operational results**, which came about more rapidly than expected, is playing a part in **restoring investors' confidence** in the hotel industry. As we predicted, the most financially sound groups and specialised funds managed to capitalize on the more favourable economic context to put their know-how to work and prove themselves active again. **Nevertheless, extreme caution is still usual for large corporate names**, which continue to prefer to sign management contracts unencumbered with operational risk when they take a lease, **and for financiers**, even if the cost of debt is falling again. Moreover, buyers are not yet willing to pay the price it takes to convince potential sellers to put their assets back on the market and thereby put an end to the shortage of supply. In these conditions, the **recovery of investment volumes**, albeit real, **will remain limited**.

Hotel yields, October 2010

Paris inner city	6.50% - 8.00%
City-centre in regional france	8.00% - 9.50%
Outskirts	9.50% - 10.50%

Source: CB Richard Ellis

CONTACTS

Research
Aurélie LEMOINE
Head of Research
Tel.: 33 (0) 1 53 64 36 35
Fax: 33 (0) 1 53 64 40 00
aurelie.lemoine@cbre.fr

Christelle BASTARD
Senior analyst
Tel.: 33 (0) 1 53 64 37 30
Fax: 33 (0) 1 53 64 40 00
christelle.bastard@cbre.fr

Hotels
Jean-Charles DONNAT
Tel.: 33 (0) 1 53 64 37 18
Fax: 33 (0) 1 53 64 33 01
jc.donnat@cbrehotels.com

Olivier BARTHOLIN
Tel.: 33 (0) 1 53 64 33 71
Fax: 33 (0) 1 53 64 33 01
olivier.bartholin@cbrehotels.com

CB Richard Ellis Ressources - Economic Interest Group
Head office: 145-151, rue de Courcelles 75017 PARIS - Siren: 412 352 817 - RCS Paris

CCC Paris 10 - 01 45 23 23 10