HOTELS & CHAINS IN ITALY

2016

Horwath HTL

Hotel, Tourism and Leisure

ASSOCIAZIONE ITALIANA CONFINDUSTRIA ALBERGHI

RES HOSPITALITY BUSINESS DEVELOPERS

TRUSTYOU

STR GLOBAL

Hotels & Chains in Italy 2016 – The Report

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Foreword

If you are curious about this great destination, Italy, you luckily approached one of the most reliable and accurate report on hotels and hotel chains, which covers trends and future perspectives for this Country.

For the fourth consecutive year we have meticulously recorded, literally one-by-one, chains hotels from Syracuse to Trieste. We double-checked our data together with collaborative chains, finally reaching a trustable picture of this phenomenon.

Moreover, thanks to a fertile cooperation with the Italian Hotel Chain Association, Associazione Italiana Confindustria Alberghi and STR Global, we can now provide you with valuable data on hospitality historic trends, international markets flows and hotel key performance indicators.

We even added up a selection of interesting researches and perspectives derived from our day-by-day experiences and operators concerns, such as the foreign guest' view of the F&B department potential, EXPO contribution to trading performances in Milan and the region, web reputation and impact on performance, and other...

Here I only anticipate that during 2015 chains' hotels in Italy have grown in number and in brands. Both domestic and international operators continued to deploy at a much faster pace their effort to consolidate their presence in key locations and their visibility of course. Increased acquisitions, foreign investments and the increased presence of second tier operators also prove consolidation of the Italian hospitality landscape is taking place.

I hope you will enjoy the reading and use this tool to support your understanding of the market.

We stay at your complete disposal to release further the complexity of this Country.

Zoran Bacic
Senior Partner Horwath HTL
Italy

It is very important for us to participate in the 2016 edition of the Hotels & Chains report that this year has been extended with a specific chapter on the Italian hotellerie.

33,000 hotels and 1.1 mln rooms placed Italy among the first countries in the world by accommodation capacity. Since 2008, however, hotels are decreasing in number... why is that?

Data released by the UNWTO confirmed for the sixth consecutive year a growth of international tourist arrivals in 2015 which exceeded expectations: 1.2 billion travellers, namely 50 mln more than in 2014.

Italy, however, continues to lag behind. Positive results have been achieved but they are less performing than what our competitors are doing, primarily Spain. The gap with other international destinations is telling about the wide room for improvement to attract increasing numbers of tourists.

First, we need a sort of single steering committee to promote the whole national system overseas.

Then, a redevelopment of the hotel facilities is required. Since 2008 some changes have occurred with a sharp drop in the number of facilities belonging to the economy segment (1 and 2 stars), while 4 and 5 star hotels have registered a significant increase.

The issue of the digitization of the facilities should not be neglected either, since the online channel is becoming increasingly important in travel choices. An effective presence on the Internet ensures greater visibility and increases business opportunities.

There must be also a 'fair' competitive environment with a few clear rules for all. The legal vacuum in which 'alternative hospitality' forms are operating promotes unregulated activities and a lower level of users' protection.

Giorgio Palmucci
Presidente
Associazione Italiana Confindustria Alberghi

2015 has been indeed a remarkable year for the Italian hotel industry.

Since the 2008 and 2012 downturn, industry performances have struggled to recover and they finally did thanks to multiple factors and three main reasons:

- *Increased number of national and international travelers*
- *Weaker Euro*
- *Expo Milano 2015.*

Milan performance achieved historical heights (+30,5 % RevPAR).

Malpensa (+16,8% RevPAR), Naples (+11,7% RevPAR), Perugia (+13,8% RevPAR) and Lecce (+9,9% RevPAR) showed positive results as well.

Particularly interesting is Turin, named n°6 City in the world to visit in 2016 by the New York Times, which sets a winning trend for secondary albeit peculiar destinations, continuously growing since 2013 thanks to their focus on cultural heritage, associated to an attractive event calendar.

The constant commitment of the industry community to the enhancement of Italy unique artistic and cultural heritage, favourable exchange rate Euro - US dollar, increased capacity in international flights, mainly from the United States and China, allow to be optimistic in forecasting positive flows also in 2016.

Marco Malacrida
President
RES Hospitality Business Developers
JV Partner in Italy STR Global and TrustYou

Legenda

ADR	Average Daily Rate	Room revenues in a period devided by rooms sold in the same period
Avg	Average	
EBITDAR	Earnings before Interest, Income Tax, Depreciation and Amortization, Rent	Operational result after deduction of management fees and fixed charges
F&B	Food & Beverage	
FF&E	Furniture, Fixtures & Equipment	Movable furniture, fixtures or other equipment which have no permanent connection to the structure of the building
GDP	Gross Domestic Product	
GM	General Management Services	All centralized services provided to all business units by the Group General Management
GOP	Gross Operating Profit	Operational result before management fees and fixed charges
IDC	Including Double Counting	Second Tiers managed hotels have been included and sum up twice to total
MICE	Meetings, Incentives, Congresses, Exhibitions	
MOD	Minor Operating Departments	Includes e.g. parking, guest laundry, shops, pay-TV, business center, …
NOI	Net Operating Income (or Net Operating Profit)	
P&L	Profit & Loss Statement (Income statement)	
OR	Occupancy Rate	Ratio between rooms sold and available rooms in a certain period
R&M&O	Repair, Maintenance and Others	
RevPAR	Revenue per Available Room	Total room revenues of a period divided by the number of total available rooms in the same period
VAT	Value Added Tax	

Definitions	Hotel Chains (in this report)	Any hotel organization operating 5 or more hotels in the world (of which, at least 1 is in Italy), by owning, managing, leasing or franchising properties.
	International Chain	A chain with headquarter outside Italy
	Domestic Chain	A chain with headquarter in Italy, including those that also have operations abroad.

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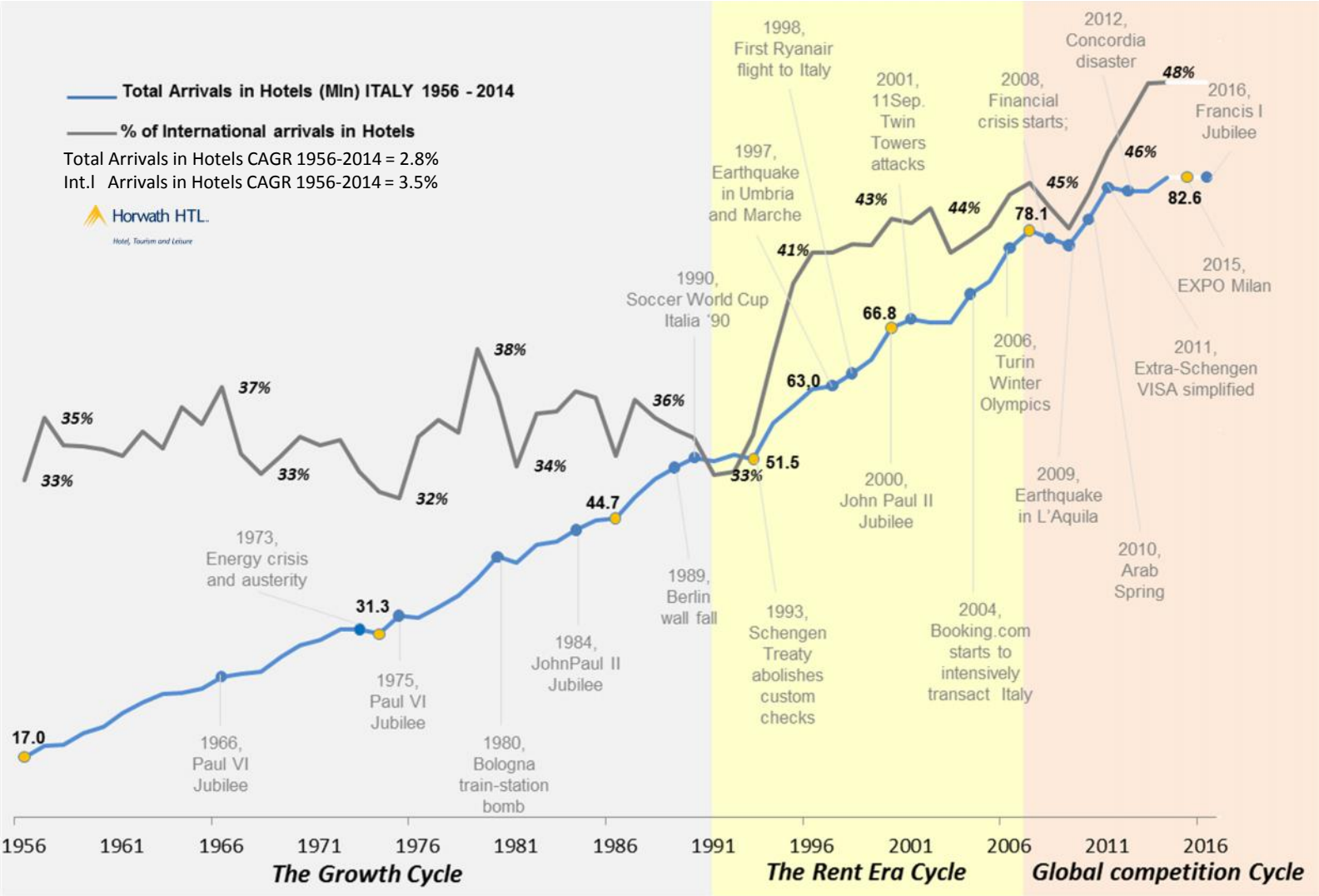
Hotel Industry in Italy

Last 60 years of hospitality at a glance

International (%) and Total (mln) hotel arrivals; Italy 1956-2014 – Events and Cycles



Which cycle are we in?

Since when the official statistics on tourism arrivals in hotels were first recorded by the national statistical bureau, Italy has continuously improved its volumes, at uneven velocity, with total arrivals growing at 2.8% and foreign at 3.5% CAGR , ranking always among the world top five destinations.

Up to the first years of the '90s, the contribution of international demand to tourism volumes was still limited, on average, to one third of overall demand: this mix made Italy more prone to its economic cycles and to Italian travel trends and habits.

Following the fall of the Berlin Wall and the came into effectiveness of the Schengen Treaty in 1993, hotel demand composition changed and the foreign component continuously increased reaching quota 44% in 2002, despite the wave of prudency and fear brought to international demand by the 11th Sept. 2001 attack.

On the boost of several years focused on "filling" the thousands of new hotels built (over 42 thousands hotels on the market in 1974), with the price competition starting to appear and making tourism to Italy more popular, overall demand saw a new acceleration, which continued up to the 2008 international financial crisis impact. This acceleration was supported by the improved accessibility (with the low cost carriers entering the Country) and improved visibility on the web, which made Italy more accessible to independent travellers.

Considering the long run, neither the 2008 financial crisis impacted overall hotel demand, at least in terms of arrivals, due to the boom of certain emerging markets, such as China and Russia, which significantly supported the growth of foreigners. In addition, the country southern regions greatly benefited of the turmoil of the Northern Africa destinations since 2011-2012, being perceived as safer.

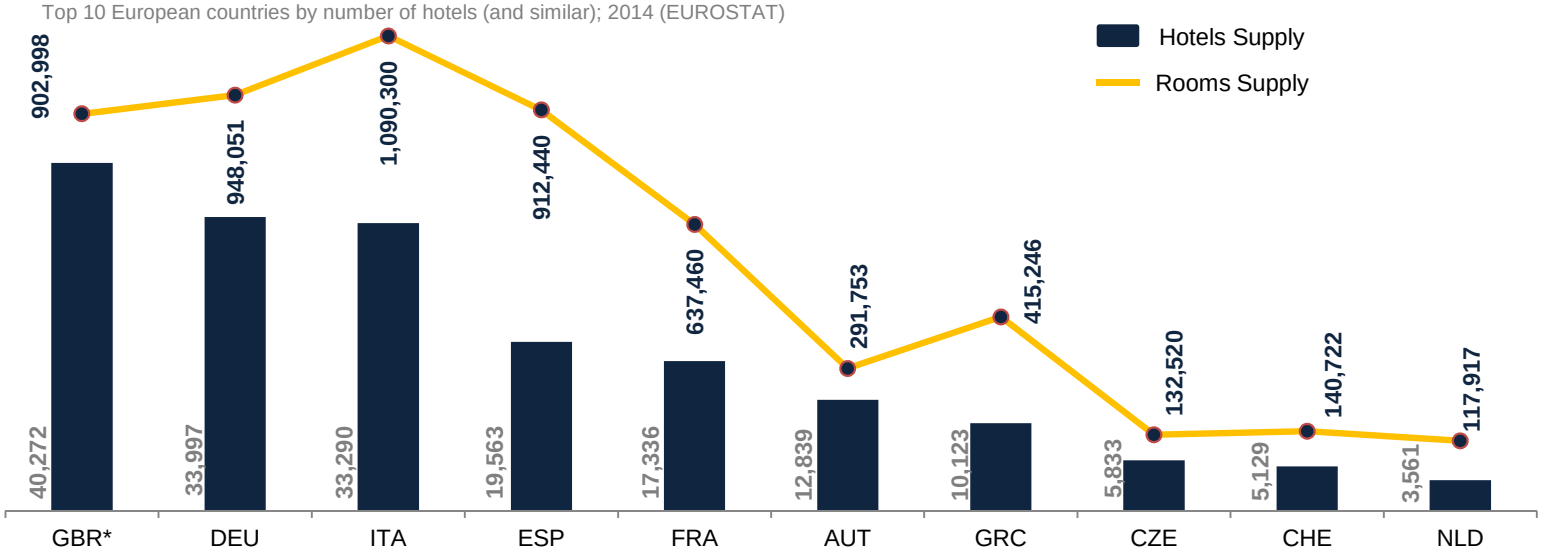
International demand for hotels accounted for almost 49% of overall demand in 2014. Considering that there are few reasons to predict a significant increase of domestic flows, and considering there is a clear unexplored potential to grow in emerging markets, very likely in the next 2-3 years Italian hotels will host more international than domestic tourists.

Market diversification and new reasons to travel to Italy will decide whether this shift in demand mix will drive to overall growth or decline, at least in the short run. Certainly, not all the growth of international demand potential was, is and much more, *will be* kept within the hotel segment: the continuous increase of alternative forms of hospitality promoted on the international market by foreign web platforms makes competition even harder than in the past, if yet fair.

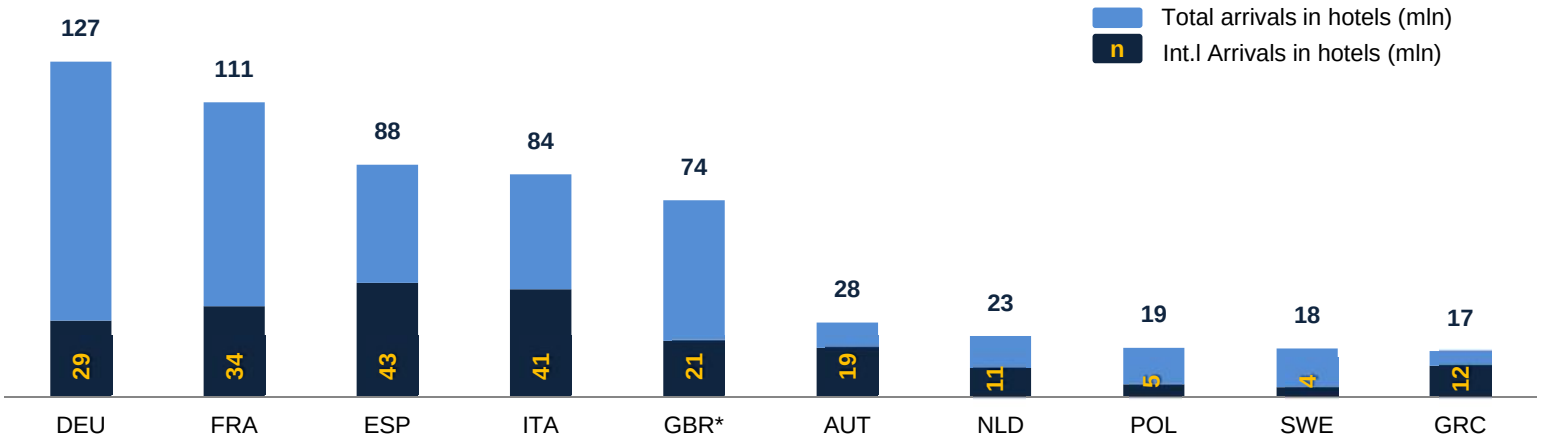
In the **Global Competition Cycle**, Italian hospitality becomes more liquid, easily accessible, more international, exposed to third party business models, competing to lever *the glory of the past*.

Italy and the European arena

Top 10 European countries by number of hotels (and similar); 2014 (EUROSTAT)



Top 10 European countries by total arrivals in hotels (and similar); 2014 (EUROSTAT)



**Data refer to 2013*

Italy and the European arena – country hotel portfolio

According to the latest EUROSTAT data, in 2014 in the EU-28 there were more than 202,000 Hotels and similar accommodation (-0.3% compared to 2013) for a total exceeding 6.6 mln rooms (+0.5% compared to 2013).

The average size in Europe in 2014 was 32.7 rooms.
The top 5 countries (UK, Germany, Italy, France and Spain) in terms of hotel capacity account for 71.4% of the supply - meant as number of facilities - and 67.8% if one considers the number of rooms.

With regard to the hotel offer, with almost 33,300 hotels and similar accommodation Italy ranks third in Europe by number of facilities, behind Great Britain and Germany, 40,000 and 34,000 Hotels and similar accommodation, respectively.

If one considers instead the number of rooms as an indicator of the accommodation capacity, in this case Italy leads the ranking at the European level with about 1.1 mln rooms, followed by Germany and Spain (about 950,000 rooms and 912,000 rooms, respectively).
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Italy and the European arena – hotel demand

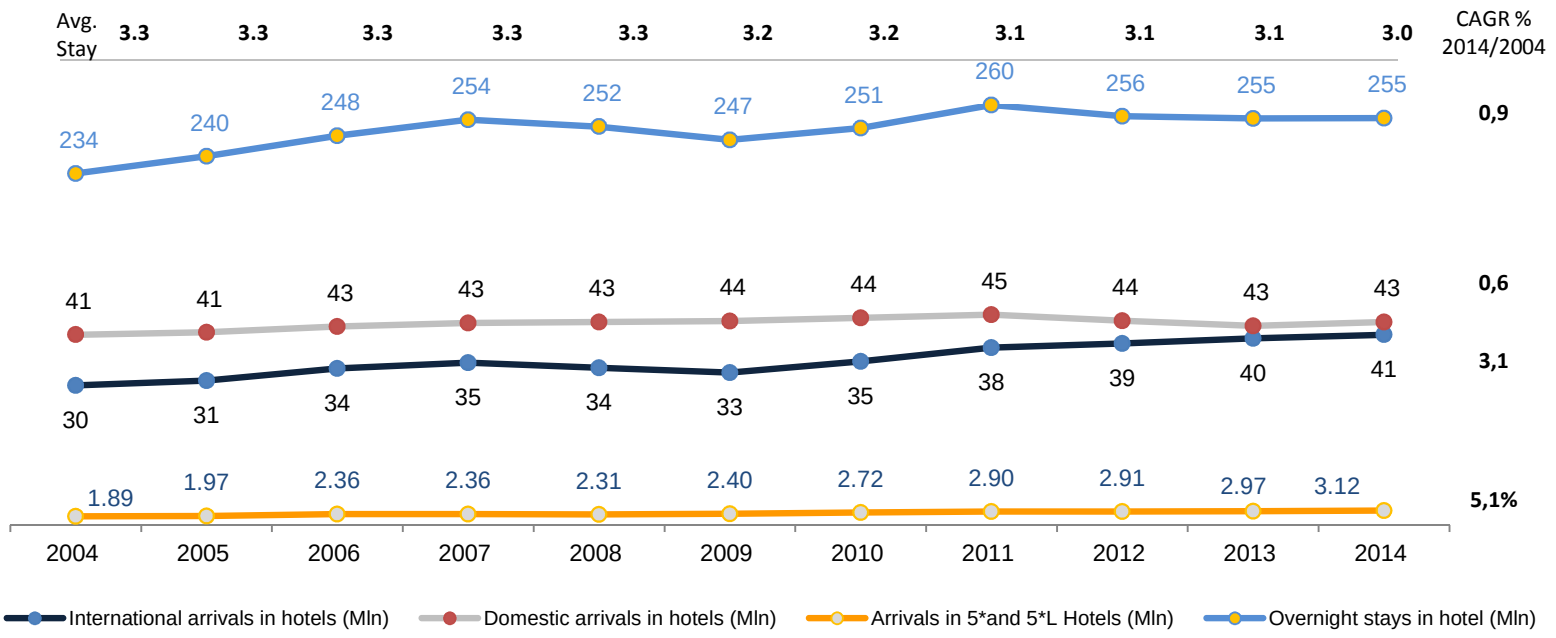
The EU was confirmed as the main destination of tourism flows also in 2014, although, according to Eurostat data, 90% of admissions in Europe is represented by EU residents, and only the remaining 10% by non-EU tourists, still growing in the last 10 years, though. Compared to 2005, the arrival of tourists from outside the EU in 2014 increased by 75%, largely due to the boom in arrivals from China (+ 282%), Russia (+ 248%), Brazil (+ 215%), while growth was moderated from the US (+ 13%) and even decreased from Japan (-11%).

Considering the first four European countries in terms of tourist arrivals in hotels, in 2014 Germany reinforced its leading position - with about 127 mln guests - for the fifth consecutive year ahead of France (111.3 mln), Spain (88 mln) and Italy (84.2 mln).

It is to be noted, however, that in the case of Germany and France the domestic share of the demand is particularly relevant. If we consider the only foreign clients, the top 4 ranking undergoes a major upsetting with Spain and Italy that vied for leadership in 2014 (the gap between the two countries is just under 2.3 mln foreigners), followed by France (34.4 mln) and Germany (28.9 mln).

Last 10 years of hotel demand in Italy

Arrivals, overnight stays and avg. stay in hotels in Italy, 2004-2014 (ISTAT)



Italy: the origin of demand structurally changed

Tourism demand registered by Italian hotels, both in terms of number of guests and overnight stays, is on the increase, despite the setbacks in 2007-2008 (the financial crisis which culminated with the bankruptcy of Lehman Brothers) and in 2011-2013 (the burst of the sovereign debt crisis).

2013 will be remembered as the most difficult year of the crisis, when indeed the origin of the demand structurally changed. If up until that year most of the demand was domestic, later the international component started to weigh more - although mainly directed to major art cities.

The European Union continues to be the main target market for the Italian hotel industry. It accounts for 22.5 mln guests and around 81 mln overnight stays. The top three European countries for incoming tourism to Italy continue to be Germany with 7.1 mln tourists (+0.5% compared to 2013) and 30.5 mln overnight stays (-0.8% compared to 2013), France with 3.1 mln tourists (-0.5% compared to 2013) and 8.9 mln overnight stays (-0.9% compared to 2013) and the United Kingdom with 2.6 mln tourists (+4.6% compared to 2013) and 9.6 mln overnight stays (+ 4% compared to 2013). Outside the EU, the USA and China register the largest flows: 4.1 mln visitors (+3.6 compared to 2013) from the US and over 10 mln overnight stays (+ 2.1%), while China accounts for 2.2 mln visitors (+23.9% compared to 2013) and 3.1 mln overnight stays (+23.5% compared to 2013).

Emerging countries are indeed those which strongly boosted foreign demand: in 2014 Italian hotels registered 6.7 mln people coming from the major emerging markets - mainly China, Russia and Brazil - against 3.7 mln in 2008.

On top of the increase of the foreign component and the enlargement of foreign countries' portfolio, two trends have characterised the last 10 years: a strong increase in the demand for Luxury accommodation (arrivals CAGR 2004/2014 +5.1%) and the shortening of the average stay (from 3.3 in 2004 to 3.0 nights in 2014).

If combined together, over time these two trends make of Italy a destination

- which markets visit **perhaps several times a year, but for shorter periods**
- sought after for exclusive holidays that are perhaps more affordable by reason of heightened competition on the 5 star segment and **prices volatility**,
- **generally more accessible from abroad,** thanks to the rise in connecting flights also with second tier cities and the increase of online supply, now widely available to the non-intermediate market.

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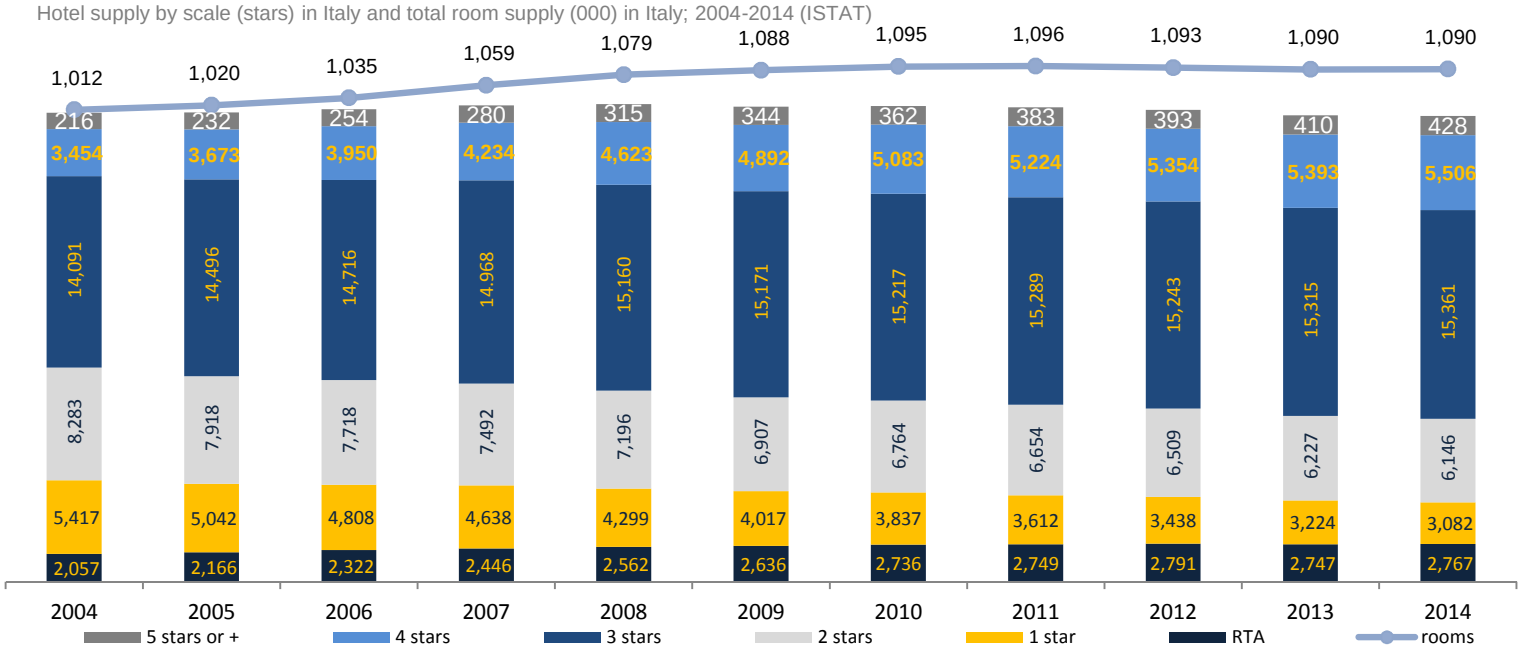
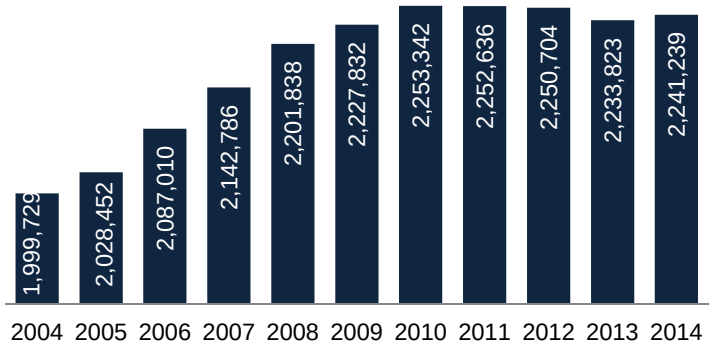
Last 10 years of hotel supply in Italy

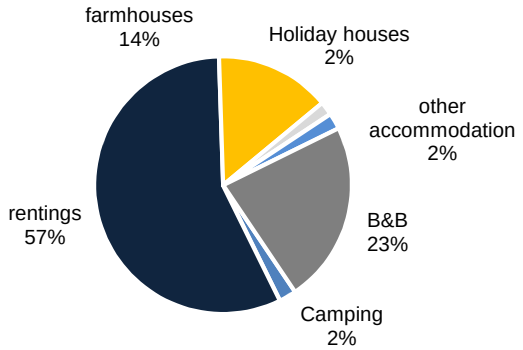
Hotel supply by scale (stars) in Italy and total room supply (000) in Italy; 2004-2014 (ISTAT)



Beds supply in hotels in Italy, 2004-2014 (ISTAT)



Non-hotel accommodations share by type in Italy; 2014 (ISTAT)



An ongoing trend of renovation for the Italian hotel portfolio

After years of a growing hotel supply, since 2008 there has been a trend reversal, with a slow and gradual decrease in the number of hotels in Italy. In fact, in 2008 over 34,000 facilities were surveyed, while today just under 33,300 are still in operation.

The overall decline in supply was caused mainly by the sharp drop in the number of hotels operating in the low-end market (1 and 2 star ranked hotels) which decreased overall by 32.6% against 2004.

Conversely, up-scale and luxury facilities are on the increase by 61.7%, and they shifted from 10.9% in 2004 to 17.8% of the total in 2014.

In the period from 2004 to 2014 the number of rooms was up by 7.8%. After a strong acceleration in the 2004-2010 period, the growth rate gradually slowed down and the number of rooms in hotel facilities was close to 1.1 mln.

A parallel, soundless, but impacting advance of non-hotel lodging

But the main feature of Italian lodging supply is the clear prevalence of non-hotel accommodations, which account for almost 80% of the total supply and, in spite of what is happening to the hotel industry, continue to experience a steady growth over time.

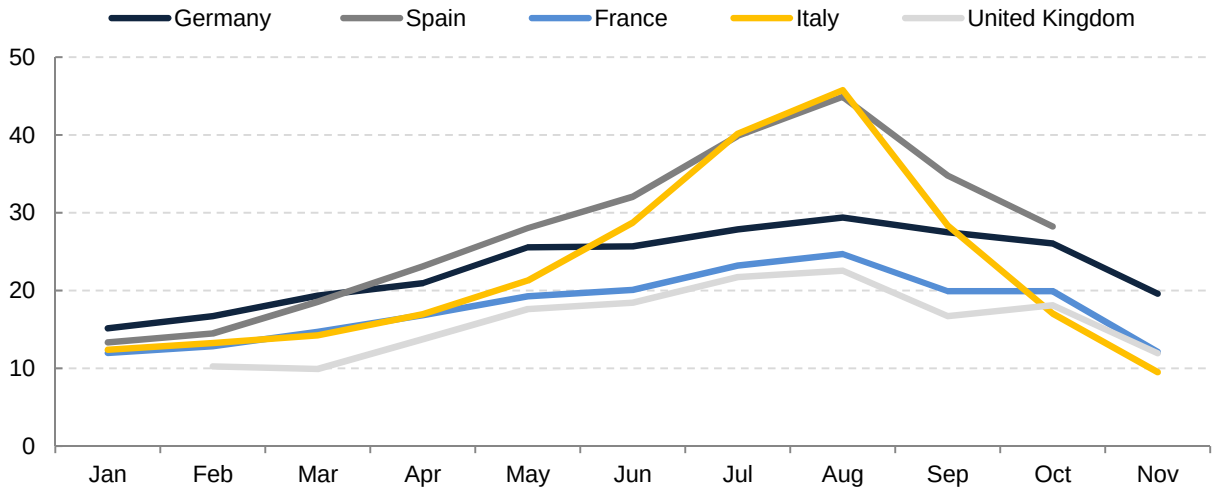
On top of non-hotel accommodation, there is another form of hospitality that has boomed recently: the alternative accommodation whose best known provider is AirBnB and for which Italy is the third largest market in the world, after the US and France.

Despite its size, this phenomenon continues to be virtually uncontrolled. New types of hospitality are being developed in the absence of even minimal safety measures to provide guarantees to guests and the community.

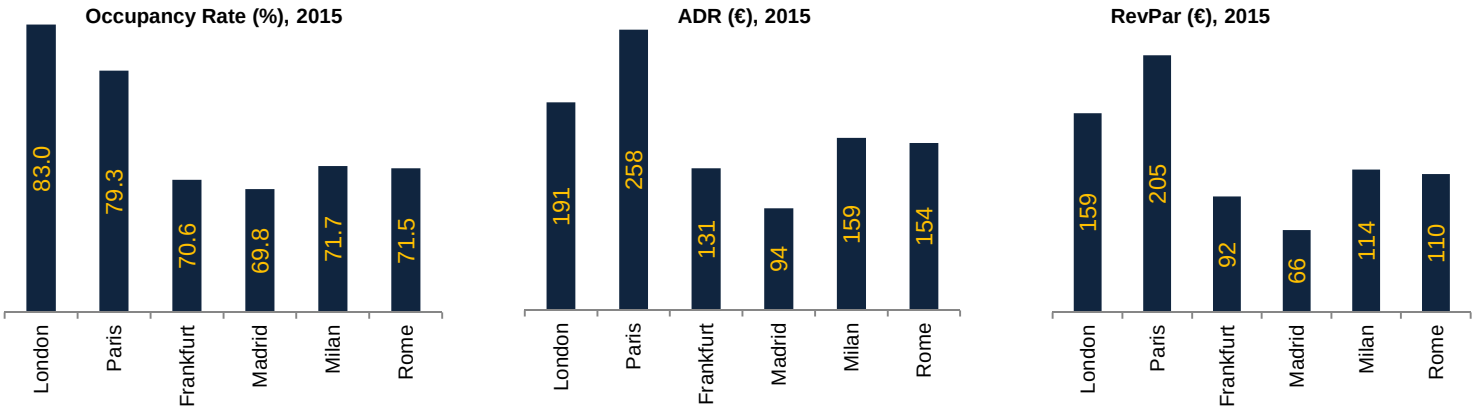
Today, the hotel industry is waiting for an answer by the institutions to ensure transparency and fairness, so that hotel companies can continue to keep up their business and compete with new accommodation forms on an equal footing.

Recent trends and performances

Overnight stays in hotels (and similar) (mln) selected countries; as of November 2015 (EUROSTAT)



Key trading performance for a selection of European cities based on 2015 full data (STR Global)



Signs from 11 months of 2015

In the period ranging from January to November 2015 Italian hotels registered 70.2 mln guests and more than 247 mln overnight stays, on the increase by 2.4% and 2% compared to the same period in 2014. This trend should be confirmed also in the fourth quarter, thus closing 2015 with over 86 mln guests and approximately 260 mln overnight stays in hotels.

In comparison with the European competitors, Italian hotels rank third by overnight stays for the first eleven months of 2015, after Spain (277 mln overnight stays) and Germany (253 mln overnight stays). If we consider, however, the internationalisation degree of clients, Spain is the first destination, with 179.2 mln stays, followed by Italy with 124.6 mln and France with 72.4 mln.

If we take the Italian hospitality sector as a whole (hotels and non-hotel facilities), guests in 2015 are expected to exceed 109 mln, for a total of 384.5 mln overnight stays.

Although still a minority, guests who stay in non-hotel facilities are growing in percentage: from 19.3% in 2008, visitors will rise to 21% in 2015. The share of the number of stays instead is on a slight decline from 32, 6% in 2008 to 32.5%.

Italian capitals vs European

Last year performances saw a privileged situation for Milan and Rome that over-performed previous year results.

Overall, European capitals we listed here (Milan, Rome, Paris, London, Madrid, Frankfurt) had a very good year in 2015: Milan achieved a +30.4% increase in RevPAR, followed by Madrid (+17.9%) and Frankfurt (+8.8%).

Rome did very well in distributing higher rates (ADR +5.5%), but accounting for an occupancy which did not grow compared to 2014.

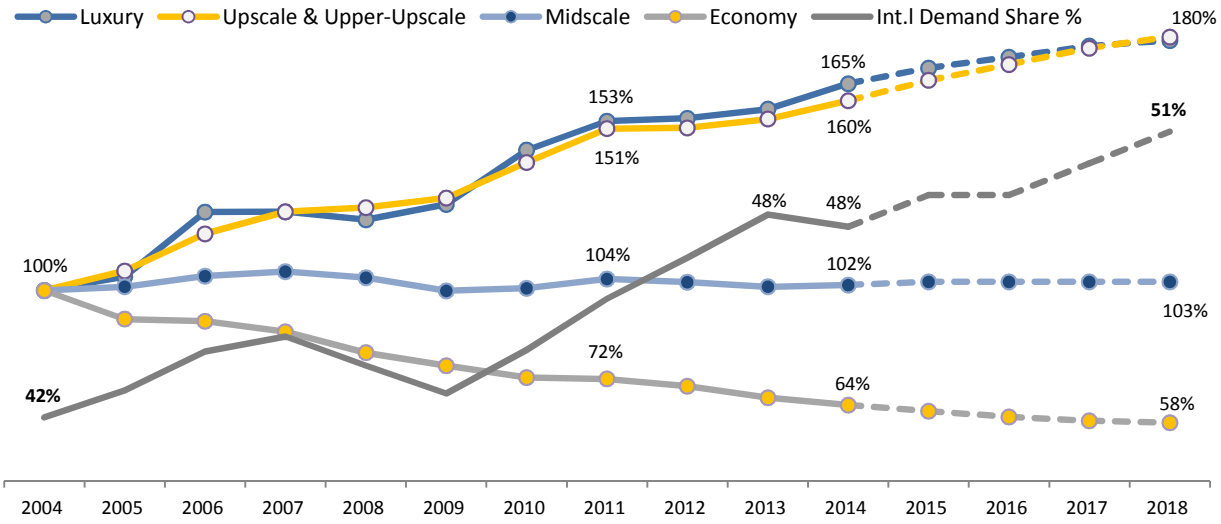
Both Milan and Rome maintained firmly their path to full recovery of 2008 and 2009 performances and continued to gain appeal, which is demonstrated especially in their improved ADR.

This year, in particular, sky-rocketed Milan RevPAR (107,87) to a level that is even higher than 2007 (105.3 Euros). The challenge for the next year is to keep demand well balanced between new reasons to visit and sustained willingness to pay for stepping into the city center (see also the focus on Milan – page 26).

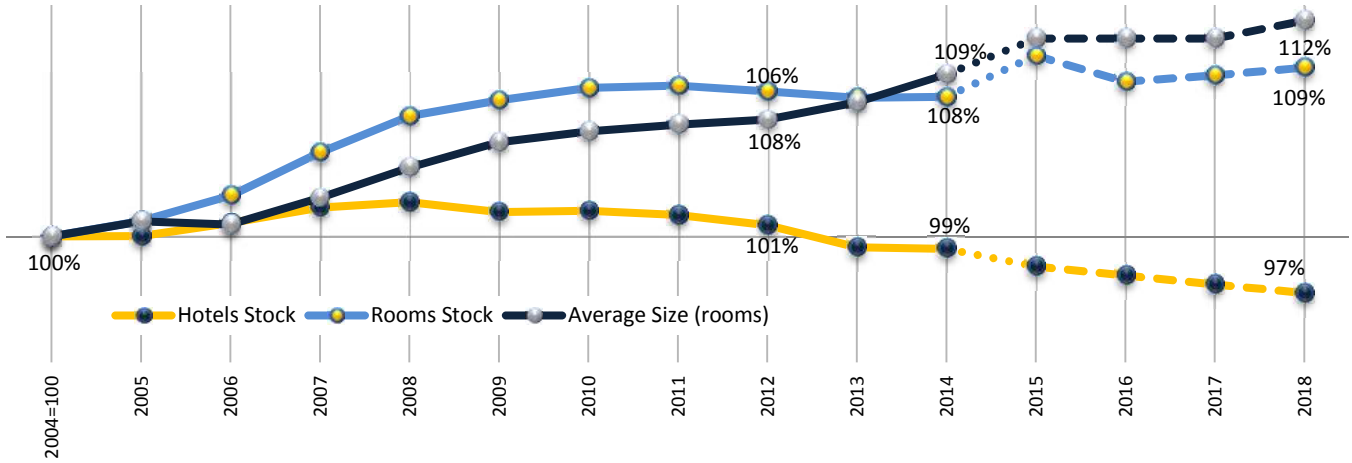
Compared to achieved trading performances of London and Paris, the two Italian Arts & Business cities significantly improved their previous gap, but still demonstrate a lower ADR and record a limited occupancy.

Trends for the coming 3 years

Hotel demand trends by scale in terms of units; international arrivals trends (%); 2004-2018 (2004=100); [2016-2018 Horwath HTL projections]



Overall hotel supply trends: hotels stock, rooms stock and average size of hotels; 2004-2018 (2004=100); [2016-2018 Horwath HTL projections]



Demand mix for hotels dramatically changed in the last decade

Three major trends appeared clearly in the last ten years and will certainly drive change for the forthcoming:

- The growth of international demand for hotels
- The continuous steady growth of demand in the luxury and upscale segments, which partially derives from the previous
- The loss of appeal (especially towards the international market) of the economy scale, which today (2014 data) accounts for only 58% of the arrivals recorded in 2004, partially following the correspondent loss of room supply in the 1 and 2 star scales. .

Data indicate that, during the last decade, Luxury scale demand has grown of about 65%, while Upscale demand has grown of about 60%. 2015 first unofficial data confirm this trend.

Demand for Luxury and Upscale hotels will drive market growth

Not surprisingly, this trend will mostly explain future growth for hotel demand in Italy in the next three years, but the ongoing renovation of the Italian hotels portfolio may re-new the interest toward updated (and partially, branded) Midscale and Economy properties.

At the same time, according to Horwath HTL, the share of international arrivals to hotels will continue to grow: in 2018 foreign arrivals will overcome domestic arrivals to hotels.

Average size of properties and room stock expected to increase

On the supply side, following current trends, we expect the overall hotels stock will modestly continue to reduce, at least in the economy scale, mostly in the destinations which rely on S&B tourism and have not diversified the product mix. As a consequence, in three year time we might have a further decrease of hotels number in the area of 2% on 2014 figures.

On the contrary, with a look at current pipeline (see our pipeline analysis at page 24) and considering both the size of greenfield projects and increasing presence of chains, it seems prudent to estimate a modest growth of the average size of properties.

Nevertheless, the growth of conversion projects of noble mansions and city center residential buildings is driving even chains to admit smaller sizes, even by means of dedicated brands, and this tendency makes the last prediction more difficult.

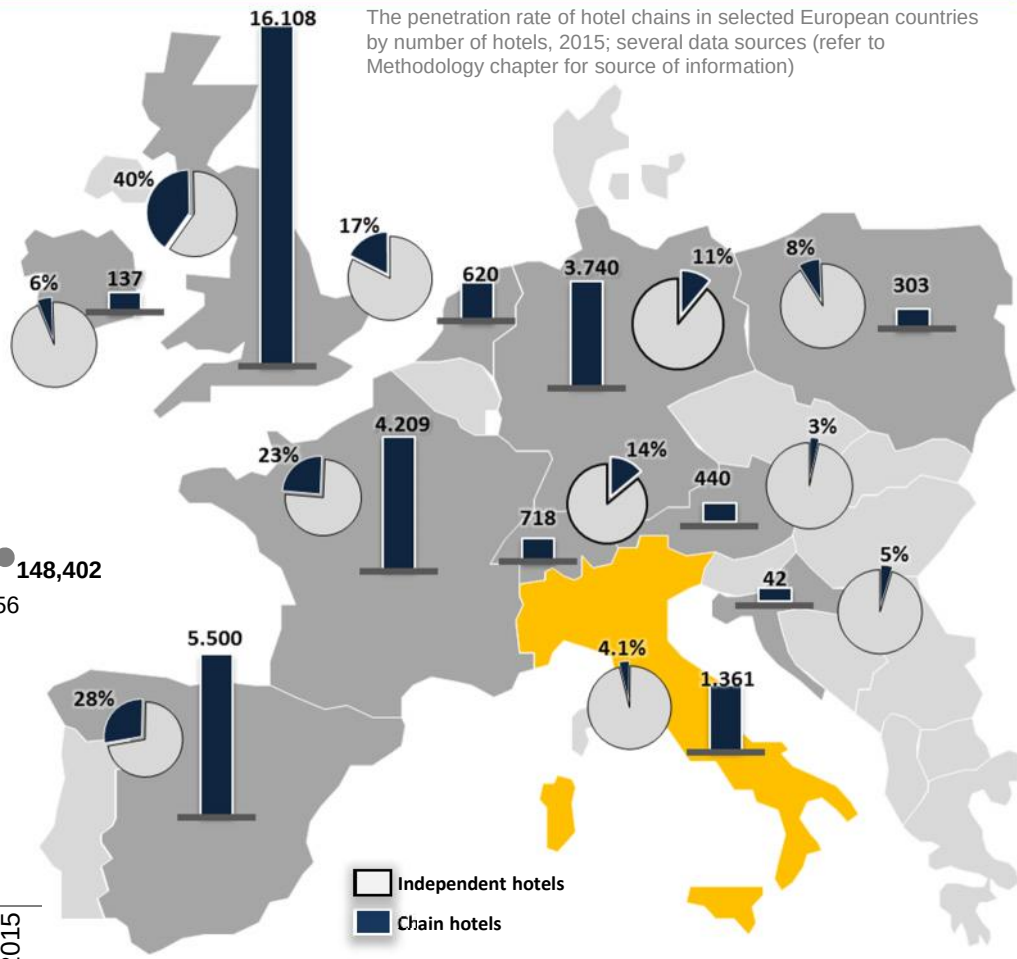
As a result, though, the room stock will increase, thanks to more new opening in the luxury and upscale segments than closing in the other scales.

If sustained by strong demand fundamentals, the increase of size of Italian hospitality will call for more interest from international investors and will motivate more than a couple of domestic owners to look at their hotels as *competing businesses* rather than *cold rent-generator-buildings*.

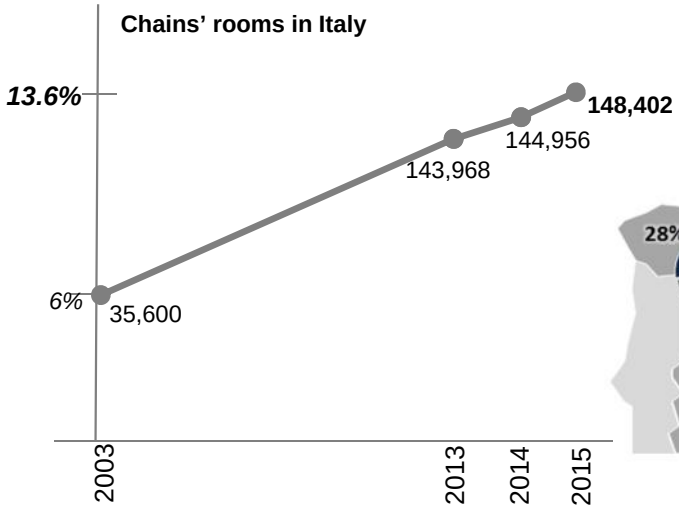
Hotel Chains in Italy

Chains' growth

The penetration rate of hotel chains in selected European countries by number of hotels, 2015; several data sources (refer to Methodology chapter for source of information)



The growth of chain hotels in Italy, by rooms supply (2003-2015); (2003 Mintel data; 2013-2015 Horwath HTL census data)



A rough environment for hotel chains, although moving

Hotel chains are less present in Italy than in the rest of most of European countries, at least in terms of penetration rate, not always true if we consider the absolute number of hotels or rooms.

Last available data place UK, Spain and France as the countries with the highest number of branded properties (over 16, 5 and 4 thousands respectively - see this page chart).

We do not look at chains growth as a positive phenomenon *per se*, as it seems wise, first, to correctly understand the contribution to visibility and performance that each brand may bring to each destination and, obviously, to each property.

For Italy, it is remarkably an issue of history, of peculiar distribution of hotels portfolio along the peninsula and of supply segments.

Indeed, many big tourism destinations in Italy have a considerable share of leisure (S&B mostly) demand. It is evident that the majority of well-established US, UK and French brands are meant to attract predominantly business travelers, for which they cannot explain their potential in all locations as they would (in general) in Germany or UK.

Moreover, almost half of the Italian hotel supply lays in the Midscale segment, while the international Midscale brands that entered the Italian market are limited to less than 10 (while all international brands are 87).

In addition, not all proposed business models pushed by international chains to expand in Italy can be considered as, always and in any case, clearly beneficial to the owner. Our statistics indicate that management contracts are increasing in number but many areas and segments are still reluctant to this business model. This is a sign which may be difficult to interpret, but it is a sign.

When it comes to luxury brands, on the contrary, Italy shows a wide variety of domestic and international brands which cover major and secondary cities: this makes their additional growth, now, less probable. There are yet luxury brands looking at Italy to expand, they are more than a couple, but their impact on this phenomenon is expected to be modest, with the chain penetration rate that will remain close to 4-5% in terms of hotels and 14-15% in terms of rooms for the next years.

Where can we expect to search for growth?

The 3 year scenario: will chains adapt?

For chains to expand and enrich their presence in such a big market as Italy is today, it will take some adjustments, that we already feel in the air, though at an embryonic stage:

- New brands conceived to adapt to conversion of peculiar buildings
- Variable lease as an acceptable compromise
- More focus on the Economy and Midscale segments

Key evidences from the 2015

Key evidences of the last 3 years (all rannking made by rooms)	2013 rev.	Growth %	2014 rev.	Growth %	2015
Chains Hotels	1,308	1.7%	1,330	2.6%	1,365
Chains Rooms	143,968	0.7%	144,956	2.4%	148,402
Average Size per Chain Hotel in Rooms	110	-1.0%	109	-0.2%	109
Italian Hotels Stock (overall supply)	33,728	-1.2%	33,316	-0.1%	33,290
Italian Rooms Stock (overall supply)	1,093,286	-0.3%	1,089,770	0.0%	1,090,300
Average Size per Hotel in rooms	32.4	0.9%	32.7	0.1%	32.8
Chain penetration % by hotels	**3.9%**	2.9%	**4.0%**	2.7%	**4.1%**
Chain penetration % by keys	**13.2%**	1.0%	**13.3%**	2.3%	**13.6%**
Total number of brands	148	14.9%	170	15.3%	196
Domestic Brands	87	12.6%	98	12.2%	110
International Brands	61	18.0%	72	19.4%	86
Second tier operated hotels	68	-1.5%	67	-7.5%	62
International Chains Hotels IDC	516	-0.2%	515	4.3%	537
Domestic Chains Hotels IDC	860	2.6%	882	0.9%	890
International Chains Keys IDC	64,260	-2.0%	62,945	4.9%	66,042
Domestic Chains Keys IDC	88,231	2.9%	90,809	-0.2%	90,637
Top 10 Chain Groups total hotels	488	-0.2%	487	7.4%	523
Top 10 Chain Groups total rooms	63,078	-1.8%	61,964	1.4%	62,848
Top 10 Chain Groups Hotels %	40%	-8.0%	37%	4.6%	38%
Top 10 Chain Groups Rooms %	45%	-6.0%	43%	-0.9%	42%

Chains hotels slowly grow in number and size

At the end of 2015 Italy accounted for 1,365 chains hotels and 148,400 rooms. It is a modest increase in the number of properties on 2014 (just +35) but a consistent increase in the number of affiliated rooms (over 3,500).

As a result, the average size of affiliated properties remained almost unchanged, at 109 keys per hotel.

Both units and rooms have constantly grown during the last 3 years, despite several hotels have turned into independent after long or short periods of affiliation.

In 2014 and 2015 we counted 201 hotels that have left their affiliation, while very few of them re-entered because of re-branding. But the most evident sign of interest towards Italy is the growth of brands that have at least one flag in Italy. They were 148 in 2013 and are 176 today, with an increase which is the same among the domestic and international components (+15 brands each in the last year).

2015 has been a remarkable year also for concentration in the hotel industry, especially among chains: top 10 chains groups have grown in size, we have read about the initial stage of some relevant mergers among domestic brands and we also reported the growth of size of second tier (third party) operators.

More international exposure for the Italian hotellerie

As a result of new opening of affiliated properties, re-branding and leavings, **at the end of December 2015 the census reported a penetration rate of 4,1% on total hotels supply and 13.6% on total rooms supply.**

537 properties are affiliated to international brands (among which over 50 are managed by domestic second tier operators), while the amount of domestic chains hotels is predominant (890, IDC), as it has always been.

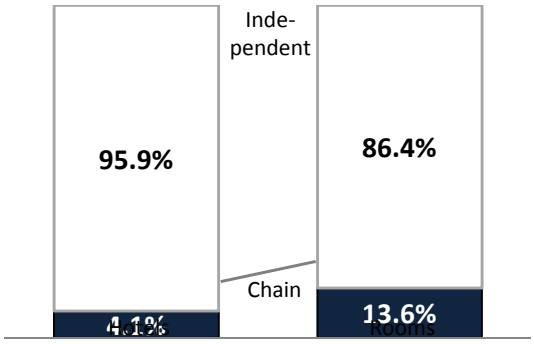
This was very likely the cause of a wrong reporting of chains presence in Italy done by previous studies: they were desk-based and reported an image from far, omitting to count even big domestic chains which were unknown abroad in the past and providing a misleading perception of this phenomenon for Italy.

Today, the Italian hotel industry can be considered highly exposed to international flows of capital, to international focus, and sufficiently structured to welcome strategic alliances, both on the side of ownership (private equity and investment funds) and on the side of management.

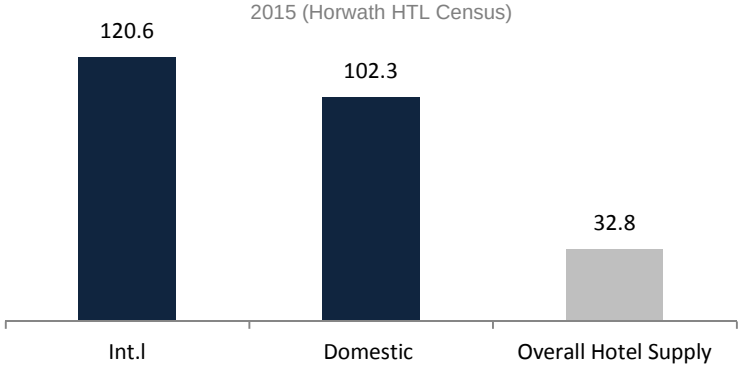
The growth of importance of second tier operators is a clear sign of increasing professionalism and positive integration in this industry, as it is the growing international (abroad) presence of some domestic chains.

Chain Hotels *by* Number and Size

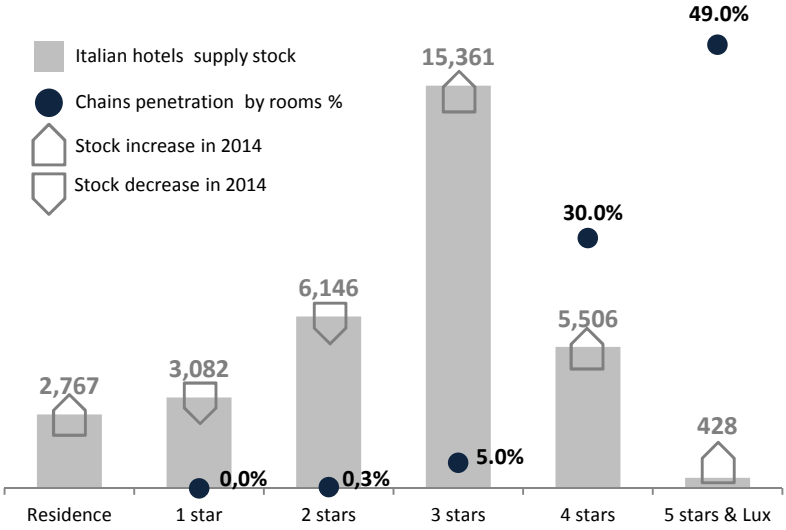
Chains penetration rate in Italy, by hotels and by rooms; 2015 (Horwath HTL Census)



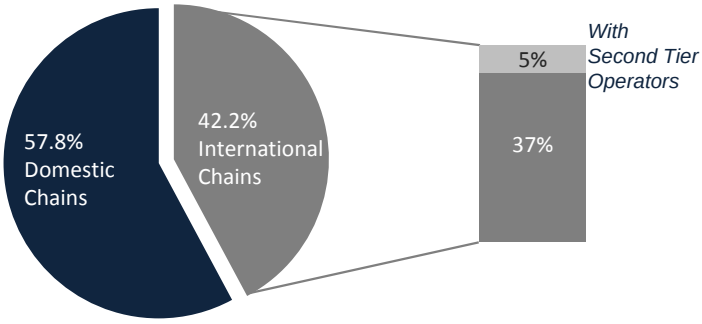
Branded hotels and overall hotel supply average size in rooms; 2015 (Horwath HTL Census)



Italian hotel stock distribution (2014) per scale and chain penetration by rooms , 2015 (Horwath HTL Census)



Chains' room stock by nationality, 2015



Domestic chains prevail in the Italian market

There is nothing new under the sun about the share of domestic chains in Italy, which continue to lead the affiliation trend and have grown in number and in size during 2015.

They represent 58% of the branded room stock, with exclusion of those properties which they manage under an international brand. The number of domestic brands with 5 or more properties increased in the census from 87 in 2013 to 113 in 2015.

Domestic affiliated hotels are generally smaller than international affiliated ones: 102 rooms and 121 rooms per hotel on average, respectively, but in both cases there is a significant difference with the overall Italian supply average hotel size, which doesn't reach 33 keys.

Northern Italy gateway cities continue to be the first magnet for chains

As for the last year, southern regions account for the biggest properties, due to a significant presence of chains in S&B resort. With 147 rooms each on average, these resorts are much bigger than mountain or countryside properties and average city hotels in Central and Northern Italy.

1 out of 2 luxury rooms is affiliated

The concentration of hotel chains is very high in the Luxury scale, where it reaches 49% of overall 5 star rooms supply. It was 48% in 2014. The overall size of this supply segment is still very limited, but growing, and accounted for 428 properties in 2014.

Chain presence is still very high (30%) in the upscale segment, which explains 72% of all affiliated rooms in the country (see following page). The 4 star properties also grown in number in 2014 and today account for around 5.5 thousands.

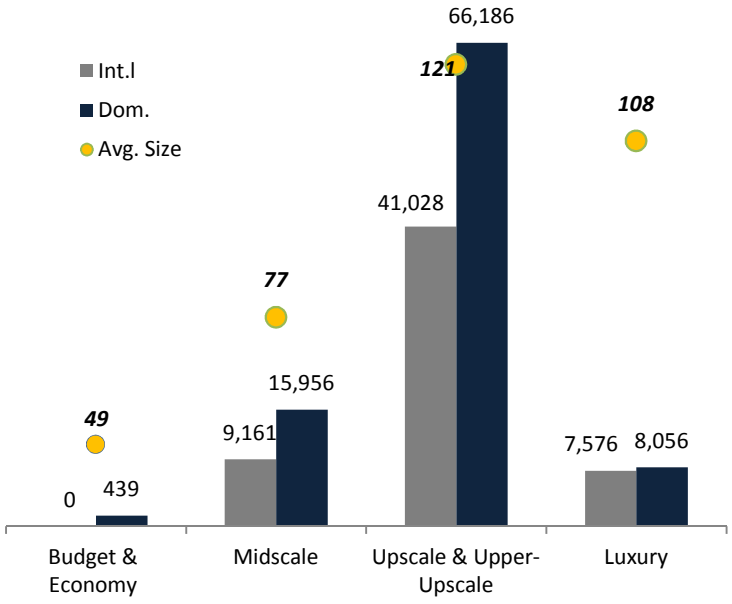
Enormous room for growth in the Midscale

With a very relevant presence all along major cities and coasts of the country, the Midscale segment accounts for over 15.300 hotels. Here the chain presence is limited to 5% (25,117) of all Midscale rooms and much modest in terms of properties.

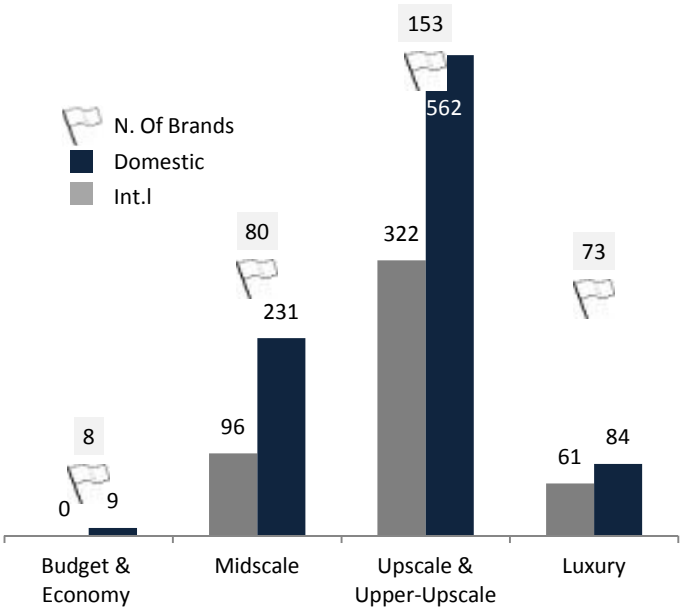
The domestic chains' presence in this segment is predominant. Only recently, international chains started to sign franchising contracts with an increasing number of 3 star properties, but they are still almost absent when it comes to lease or management contracts.
There is, then, an unexplored potential to grow in this segment and in the Economy segment as well.

Chain Hotels *by* Scale

Chains' rooms by scale and avg. size, 2015 (Horwath HTL Census)



Chains' hotels by scale and number of brands, 2015



Chains Hotels and Rooms by scale	2015				2014		2013		Historic Trend	
	Hotels	%	Rooms	%	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Economy	9	*0.7%*	439	*0.3%*	9	431	7	406	↗	↗
Midscale	327	*24.0%*	25,117	*16.9%*	310	23,962	309	24,156	↑	↑
Upscale & Upper-Upscale	884	*64.8%*	107,214	*72.2%*	888	106,711	879	106,328	↗	→
Luxury	145	*10.6%*	15,632	*10.5%*	123	13,852	113	13,078	↑	↑
TOTAL	**1,365**	*100.0%*	**148,402**	*100.0%*	**1,330**	**144,956**	**1,308**	**143,968**	↗	↑

There are 153 brands competing in the Upscale segment, but 8 in the Budget and Economy scales

The distribution of chains' presence hasn't changed that much in the last 3 years. The majority of brands is concentrated on affiliating 4 star properties. There are 73 brands operating in the Luxury tier, almost 1 each 2 affiliated hotels, but a very limited presence in the Budget and Economy scales, accounting for only 9 properties and 8 brands.

While the coverage of domestic and international operators in the Luxury scale is almost comparable, there is a clear predominance of domestic brands in the Midscale segment, which accounts for 231 domestic chains hotels.

One of the historic trend which appears clearly is then, as mentioned, the increase of Luxury branded properties, which recorded a very limited number of leavings and rebranding (7 properties for 990 rooms) during 2015.

Not differently from 2014, the Upscale segment accounts for the biggest size, with an average of 123 keys per property (it was 121 las year).

A vibrant market ?

Overall, the Italian market depicted by daily news appears much vibrant than what is coldly referred by these figures, since while many new affiliations are happening, many contracts are not renovated or are interrupted prematurely, especially in S&B destinations and when it comes to seasonal resorts.

Along the 2014 we recorded 91 properties for about 10,900 rooms which left the census for contract expiration or prematurely and very few of them changed brand. Along 2015 we recorded 111 properties for about 10,500 rooms which left the census.

That's why the balance of new entries and hotels getting back independent returns a much steady and unchanging picture. Indeed, if we look only at branded hotels entering the census in 2015 they are 141 for over 13,400 rooms.

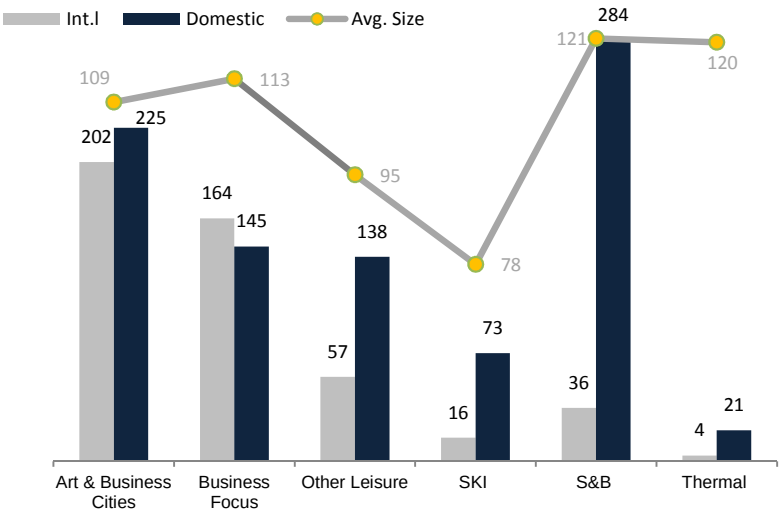
The market will clearly become more vibrant thanks to the potential increase of chains presence with Economy and Midscale dedicated brands or thanks to a new search for value to generate in non-core cities, expanding to thermal and ski resorts, or to islands and other leisure destinations.

Chains Hotels *by* Location

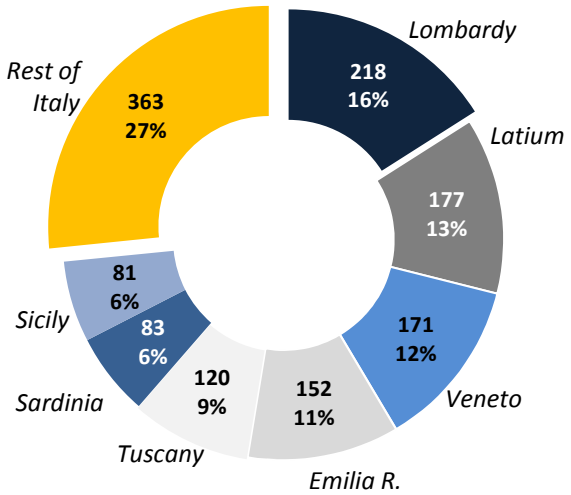
Rank	*Top 10 destinations for new Chain Hotels entered in 2015*	New Hotels	New Rooms
1	Milan	15	1470
2	Rome	12	1128
3	Rimini	5	255
4	Forte dei Marmi	5	104
5	Naples	4	419
6	Fasano	3	246
7	Verona	3	166
8	Parma	2	278
9	Venice	2	272
10	Turin	2	240

Rank	*Top 10 destinations by rooms*	Rooms 2015	Hotels 2015	Hotels 2014	Hotels 2013
1	Rome	19,970	161	151	146
2	Milan	17,871	129	127	123
3	Florence	5,302	66	59	58
4	Venice	4,192	46	49	46
5	Bologna	3,380	26	26	27
6	Turin	2,665	25	26	24
7	Naples	2,579	17	16	16
8	Genoa	2,080	20	19	21
9	Taormina	1,641	14	12	12
10	Rimini	1,442	30	23	25

Chains' hotels by type of destination and average size, 2015



Chains' hotels distribution among Italian regions, 2015



One third of all branded rooms are located in Rome, Milan, Florence and Venice

With over 47.000 thousands rooms under a domestic or an international brand, the cities of Milan, Rome, Florence and Venice display the highest concentration of chains and account for almost one third of all branded rooms in the country. In these cities, the international presence is very strong and highly comparable to the domestic one.

As it was for 2014, yet in 2015 Bologna, Turin, Naples, Genoa, Taormina and Rimini lead with the four top cities, the ranking of most sought after destinations for chains.

Lombardy, Latium, Veneto, Emilia Romagna and Tuscany are therefore the regions where chains mostly concentrate, not only because of the mentioned star destinations, but also because of the predominant business demand they account for.

But among the destinations that recorded the highest increase of new branded hotels we unexpectedly find also Forte dei Marmi, Fasano (Apulia) and Verona (Veneto), besides Parma, Venice and Turin.

International chains very little attracted by the Italian coasts

The distribution of hotel chains along the several types of destinations in the country clearly shows a prevalence of domestic players in SKI and Thermal resorts, while international chains focus mostly on business-demand-driven cities.

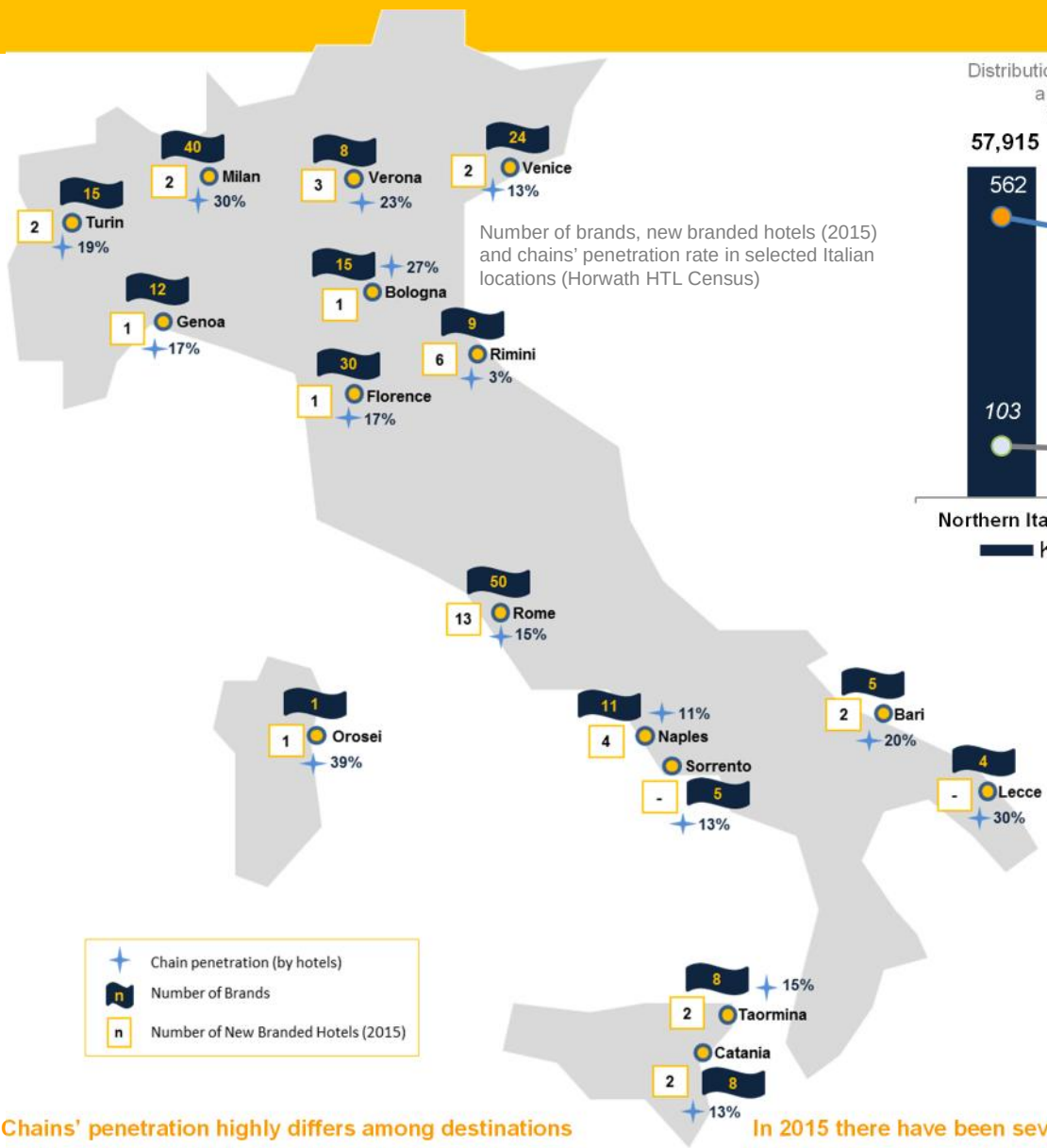
These latter seem to care little about S&B locations, where, very probably, their contribution would be limited or not so evident as it is in other kind of destinations. Here seasonality also plays a strong impact on profitability of operations and there is probably, in general, less space for third party fees within the P&L.

Along the 2014 and beginning of 2015, indeed, more than a couple of European chains have left in advance S&B resorts, that were on the contrary expected to perform well thanks to the favorable current international demand trends registered in Apulia, Sicily and Sardinia.

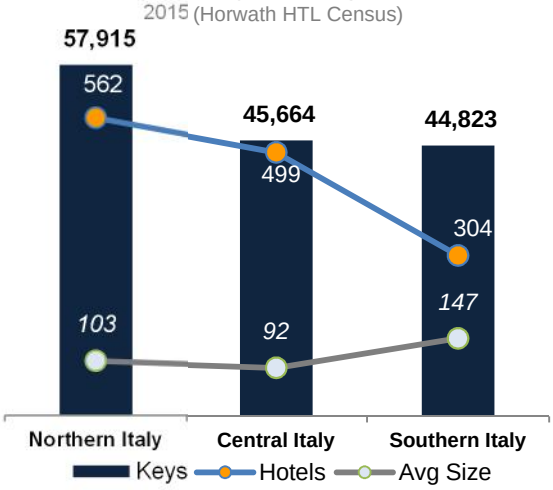
These resorts, together with the Thermal resorts, are the biggest branded hotels and are sized, on average, respectively 121 and 120 rooms, much bigger than average branded hotels in SKI (78 rooms) or other leisure destinations (95 rooms)

Chains Hotels *by* Location

Number of brands, new branded hotels (2015) and chains' penetration rate in selected Italian locations (Horwath HTL Census)



Distribution of chains' rooms and hotels among areas of Italy and average size, 2015 (Horwath HTL Census)



Chains' penetration highly differs among destinations

It seems impossible to define a standard or a formula to understand why a city has a higher penetration rate than others have. Even when destinations are highly comparable in terms of trading performance, the history of the hotel industry in the area makes a clear change in the ability of chains to penetrate or to find partners for development.

Much of expansion still takes place based on pure deal opportunities.

Most of target destinations today account for even more than 5-10 brands each. The one that have the highest concentration of chain hotels are those with the predominance of upscale supply. This is the case of Genoa (60% in terms of rooms), Bologna (60%), Milan (over 60%), Catania (49%), while where hotels are distributed over several scales and record a major presence of 1 and 2 star properties (such in the case of Rimini), penetration rate and chains' impact in general is less evident.

The count of brands in the destination also returns an interesting picture of Italy, being the litmus test of how destinations are perceived abroad, given a certain presence of international brands. This is the case, for example, of Sorrento, Amalfi, Positano, Ravello and Taormina, which, although being S&B destinations, show a certain presence of international chains.

In 2015 there have been several new affiliations in the South

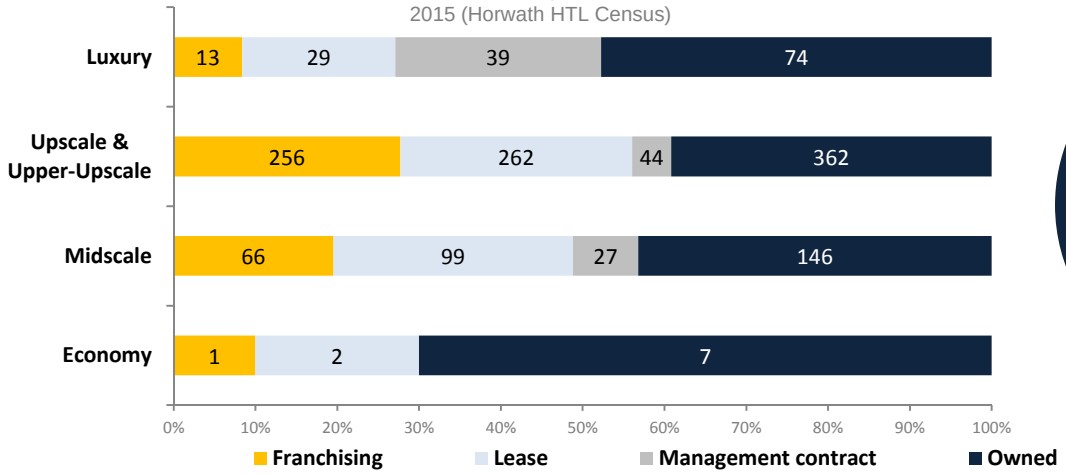
Although southern regions record, historically, less affiliation and demonstrate a less vibrant environment for hotel transactions, there have been numerous new affiliations in 2015, taking place in Sardinia, Sicily, Calabria and Campania (namely Naples).

Naples in particular saw the interest of some international brands in the Midscale and Upscale tiers, for overall 419 new rooms in 4 properties.

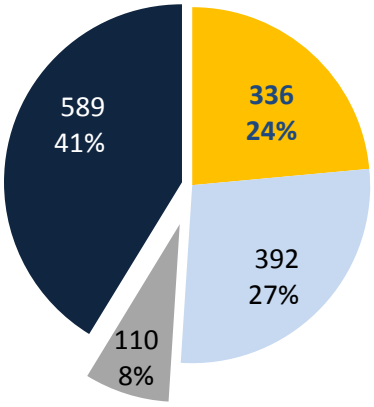
Taormina continues to attract the interest of those domestic and international operators in the Luxury tier, while Lecce and Sorrento are also under investigation for their potential growth of trading performance.

Chain Hotels Business Models and Contracts

Distribution of chains' hotels by business model and scale 2015 (Horwath HTL Census)



Distribution of chains' hotels (%) by business model



Distribution of chains' hotels and rooms by type of destination and business models in selected locations and overall; 2015 (Horwath HTL Census)

Types of Destinations	Hotels				Rooms				Avg. Size				Total	
	Franch.	Lease	Mgmnt contract	Owned	Franch.	Lease	Mgmnt contract	Owned	Franch.	Lease	Mgmnt contract	Owned	Hotels	Keys
Arts & Business	150	96	42	173	17,048	11,386	5,979	16,725	114	119	142	97	461	51,138
Business Focus	112	78	34	95	10,259	8,816	5,479	12,067	92	113	161	127	319	36,621
Other Leisure	38	41	16	108	3,309	4,571	2,173	9,300	87	111	136	86	203	19,353
Ski	4	46	3	37	295	3,742	139	2,789	74	81	46	75	90	6,965
Sun & Beach	27	129	13	159	1,993	18,645	1,459	17,219	74	145	112	108	328	39,316
Thermal	5	2	2	17	647	426	180	2,033	129	213	90	120	26	3,286
Total n.	**336**	**392**	**110**	**589**	**33,551**	**47,586**	**15,409**	**60,133**	**100**	**121**	**140**	**102**	**1,427**	**156,679**

Franchising is expanding, but lease is still the rule

The majority of hotels «belonging» to chains in Italy fall under the ownership model (41%).

This share was very likely much stronger in the past, but the owned properties component is still very relevant among the domestic brands.

The second most common model is the lease (27%), but not too far from the franchising (24%), which is obviously much common among international brands.

Franchising represents the first option for growth among international operators and it is becoming more and more the way in the Midscale segment, as it is already in the Upscale. It seems to work well for the affiliation of Arts & Business destinations hotels when they size around 100 rooms, while it is almost not present in Thermal and SKI areas.

Less relevant, as it is well known, is the management contract model, which represents in Italy 8% of hotels (110 properties).

When does management contract work by statistics

Management contracts start to be more frequent among even domestic operators in major tourism capitals, namely Milan, Florence and Rome, for those brands reaching already a certain size and with some changes admitted in the contract, that make it more flexible to fit to the Italian lodging environment.

Management contracts are concentrated especially in the Arts & Business destinations and in Business Focus locations, for properties that are sized, on average, over 140 rooms.

The Italian legal and administrative infrastructure as well as the history of hotel management make management contracts not clearly appealing for hotels that are already on the market, so that they are almost absent in the case of re-branding, where franchising and lease appear to be the first choices.

On the contrary, this model may have a privileged entry in greenfield projects and in conversion projects , when the owner comes from a different sector or when an acquiring fund is used to partner with hospitality brands.

Ranking 2016

Rank	Top 20 Chain Groups by Rooms in Italy 2015	Hotels	Rooms
1	BEST WESTERN	172	12,523
2	ACCOR	77	9,953
3	NH HOTELS	55	8,660
4	ATA HOTELS	21	5,670
5	IHG	33	5,222
6	STARWOOD	24	5,148
7	HILTON	19	4,430
8	OROVACANZE	23	4,353
9	ITI HOTELS	29	3,486
10	STARHOTELS	20	3,403
11	BLU HOTELS	30	3,214
12	BLUSERENA	8	3,130
13	MARRIOTT INTERNATIONAL	18	3,117
14	UNA	31	2,968
15	AEROVIAGGI	12	2,680
16	B&B	24	2,261
17	GETURHOTELS	15	2,115
18	PARC HOTELS	13	2,004
19	JSH	18	1,997
20	ALPITOUR	7	1,755

Rank	Top 20 Chain Brands by Rooms in Italy 2015	Hotels	Rooms
1	BEST WESTERN	153	10,877
2	NH HOTELS	43	6,851
3	ATAHOTELS	21	5,670
4	VALTUR	13	3,484
5	STARHOTELS	20	3,403
6	BLU HOTELS	30	3,214
7	BLUSERENA	8	3,130
8	MERCURE	26	2,844
9	HOLIDAY INN	17	2,722
10	AEROVIAGGI	12	2,680
11	SHERATON	8	2,587
12	UNA HOTELS & RESORTS	26	2,315
13	B&B	24	2,261
14	NOVOTEL	13	2,200
15	GETURHOTELS	15	2,115
16	HILTON	6	2,096
17	PARC HOTELS	13	2,004
18	JSH	18	1,997
19	IBIS	11	1,858
20	ITI HOTELS-MARINA H&R	15	1,777

Few changes in the top ranking of chains groups in 2015

The ranking of the biggest groups in Italy recorded few changes in 2015, besides a major consolidation that has been announced, but is yet to be finalized, as of January 2016.

Best Western, as a chain with 3 brands, is still the most relevant operator in Italy, followed by Accor and NH, a ranking that was the same in 2014, if we consider the room supply.

This first 3 groups have encountered minor changes in terms of room count: BW accounted for 13,105 rooms in 2014 and loss around 600 rooms as a whole, while Accor accounted for 9,008 rooms and has grown to 9,900 rooms. The Accor growth is among the most relevant occurred in 2015.

NH also recorded a significant increase in rooms. It accounted for 8,089 keys in 2014 and records now almost 600 rooms more.

B&B also greatly improved its presence, both in terms of properties and rooms, reaching 2,261 rooms, while it covered 1,663 rooms in 2014.

Among the domestic groups in the top 20 ranking, certainly Orovacanze recorded major changes, together with Alpitour.

More domestic brands in the top 20 rank by rooms

The picture of the ranking by brands we propose this year is different from 2014, because it is based on rooms and not on hotels.

Even through this picture we still see the predominance of domestic big S&B resorts brands, such as Valtur, Blu Hotels, Bluserena, Aeroviaggi.

If we do not consider the pipeline of domestic operators for 2016-2017, little has changed among brands in the top 20 rank in 2015, although some major changes happened for some growing and sizing today less than 1,700 rooms.

Among the international chains' brands, Mercure, Holiday Inn and Ibis have grown in rooms since last year.

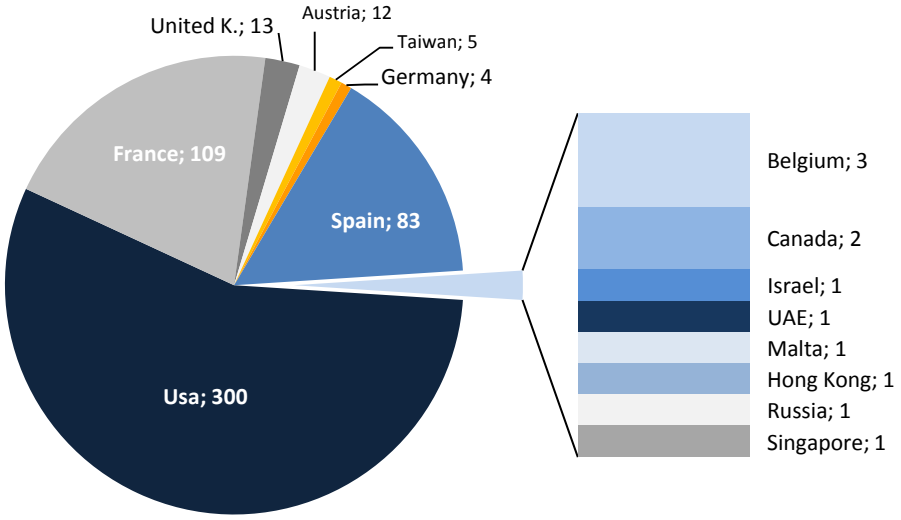
International Brands figures

Rank	Economy & Midscale	Hotels	Rooms
1	B&B	24	2,261
2	BEST WESTERN	39	2,238
3	IBIS	10	1,713
4	CLUB MED	2	1,282
5	IBIS STYLES	8	852
6	HOLIDAY INN	2	345
7	TULIP	3	325
8	MERCURE	3	309
9	HOLIDAY INN EXPRESS	3	260
10	BEST WESTERN PLUS	4	193

Rank	Upscale & Upper-Upscale	Hotels	Rooms
1	BEST WESTERN	114	8,639
2	NH HOTELS	42	6,728
3	SHERATON	7	2,507
4	MERCURE	22	2,411
5	HOLIDAY INN	14	2,304
6	NOVOTEL	13	2,200
7	HILTON	5	1,717
8	CROWNE PLAZA	7	1,476
9	HILTON GARDEN INN	8	1,300
10	NH COLLECTION	8	1,245

Rank	Luxury	Hotels	Rooms
1	WESTIN	4	899
2	LUXURY COLLECTION	6	644
3	MGALLERY COLLECTION	5	479
4	AUTOGRAPH MARRIOTT	3	464
5	MELIA'	4	449
6	ROCCO FORTE	3	427
7	DORCHESTER COLLECTION	2	422
8	BELMOND	6	406
9	HILTON	1	379
10	WALDORF ASTORIA	1	370

Distribution of international chains' hotels by nationality of corporate headquarter 2015 (Horwath HTL Census)



A strong presence of Accor brands in the Economy and Midscale

As it was for 2014, this year the census mapped international brands that landed on more than a scale (i.e. Midscale and Upscale), because of the peculiarity of hotel ranking and hotel physical standards in the Italian market.

Accor group records a strong presence in the Economy and Midscale segments with dedicated brands, accounting for almost 2,900 rooms with Ibis, Ibis Styles and Mercure brands only.

The leadership in these segments is anyhow in the hands of the fast-developing B&B brand, that reached quota 24 hotels and over 2,200 rooms in few years of presence in the Peninsula.

The Upscale segment shows bigger figures in the top 10 ranking of international brands. Best Western and NH are by far the biggest players in this segment, together accounting for more than 150 hotels and 15 thousands affiliated rooms, not counting the new brand NH Collection. In this scale, Sheraton faced a certain downsizing of around 900 rooms, while Mercure has modestly grown.

With the exception of NH, compared to 2013 and 2014, the Upscale international brands ranking has little changed within the top 10, but much has happened within the rest, with TUI opening new resorts, Leonardo entering in Milan, LDC opening in Rome and Exe growing in Naples, Falkensteiner in the Garda Lake, Hilton starting up a new DoubleTree close to Venice...and others.

A lot of change took place also in the Luxury tier, but again not all is visible within the top players ranking.

Mandarin Oriental entered the Country (Milan), together with JW Marriott (in Venice), a Melià in Campione, a Luxury Collection in Sistiana and many others, totaling, among re-branding and new opening, 1,080 rooms in 11 hotels.

This year we also traced the provenance of brands according to their original headquarter.

As of December 2015, US based brands are by large the most established in the Country, followed by a strong presence of the French and Spanish brands.

These countries convey brands covering more than 85% of all foreign branded hotels in Italy.

Domestic Brands and Second Tiers figures

Rank	Economy & Midscale	Hotels	Rooms
1	VALTUR	8	1,943
2	GETURHOTELS	7	1,330
3	AEROVIAGGI	4	1,026
4	CHINCHERINI HOLIDAY G.	10	994
5	APOGIA HOTELS GROUP	15	804
6	AZZURRO CLUB	12	647
7	BIANCHI HOTELS	9	511
8	AURUM	2	508
9	OROVACANZE	6	439
10	VIVA HOTELS	4	392

Rank	Upscale & Upper-Upscale	Hotels	Rooms
1	ATAHOTELS	18	5,458
2	STARHOTELS	20	3,403
3	BLUSERENA	8	3,130
4	BLU HOTELS	23	2,746
5	UNA HOTELS & RESORTS	25	2,250
6	VOI HOTELS	7	1,755
7	JSH	16	1,662
8	AEROVIAGGI	8	1,654
9	PARC HOTELS	10	1,626
10	TH RESORTS	7	1,552

Rank	Luxury	Hotels	Rooms
1	ITI HOTELS- COLONNA LUX.	4	828
2	GB THERMAE HOTELS	3	542
3	BOSCOLO	3	464
4	ALLEGROITALIA HOTELS & R.	5	454
5	SELECT	3	451
6	BAGLIONI	6	398
7	SINA	5	392
8	DELPHINA	2	344
9	MITHOS HOTELS	3	311
10	AMT HOTELS	3	297

Distribution of domestic chains' hotels by region of Italy and business models; 2015 (Horwath HTL Census)

BUSINESS MODEL	ABRUZZO	BASILICATA	CALABRIA	CAMPANIA	EMILIA R.	FRIULI V. G.	LAZIO	LIGURIA	LOMBARDY	MARCHE	PIEDMONT	APULIA	SARDINIA	SICILY	TUSCANY	TRENT.A.D.	UMBRIA	VAL D'AOSTA	VENETO	Total per bus. model	Total per bus. model
Franchising				1	4				1		1	1	1	1			1			**11**	1%
Lease	2	4	9		51	5	41	7	27	3	10	24	30	27	19	22	3	4	28	**316**	36%
Management contract			1		6				1		1		1	3	5		1		1	**20**	2%
Owned	2	1	8	27	55	11	61	8	84	11	16	13	45	27	61	16	12	4	81	**543**	61%
Total per Region	**4**	**5**	**18**	**28**	**116**	**16**	**102**	**15**	**113**	**14**	**28**	**38**	**77**	**58**	**85**	**38**	**17**	**8**	**110**	**890**	100%

Economy and Midscale vibrant, Luxury hosts new big players

Part of the change that took place during 2015 happened among the domestic players and in the Midscale segment.

In this scale 19 properties entered the census, but totalling a modest increase in rooms supply (+965).

Leading brands of this scale maintained the position hold last year or modestly increased their size. Outside the top 10 in Midscale, Espressohotel recorded 2 new hotels for over 200 rooms, as well as Bianchi Hotels, for around 80 rooms.

In the Upscale and Upper-Upscale segments we recorded the most of change, including re-branding, new opening and, certainly, a number of leavings. Within the top 10 brands, TH Resorts has significantly grown for over 460 keys in 2 properties.

Besides the top 10, an extensive list of brands recorded new "acquisitions": Piazza di Spagna View, which recorded the most relevant growth of the census in 2015, with additional 703 rooms in 5 new branded properties, Allegroitalia (+110 rooms), Voi Hotels (+474), Apogia (+142) and others. We also listed for the first time the brand Compagnie Des Hotels, accounting for 6 properties for over 600 rooms.

Leadership in the Luxury tier is much stable

With the only exception of Allegroitalia that entered with a strong positioning the domestic top 10 ranking in 2015, the Luxury tier in Italy is a quite stable ground for competition.

Baglioni, Sina, Allegroitalia and ITI Colonna Luxury are in 2015 the domestic brands with the highest presence in terms of 5 star properties in the country.

Domestic operators expand through leasing in most cases (316 properties), when they do not already own the hotel (543).

There are very few management contracts signed by domestic brands (20), surprisingly concentrated mostly in Emilia Romagna and Tuscany.

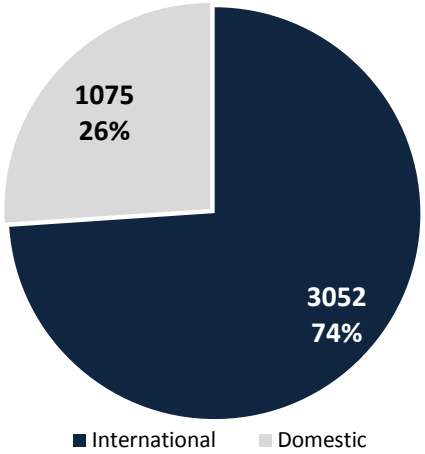
For what we can record, real franchising contracts are almost absent (1% of properties) among the business models of domestic operators.

In the Pipeline

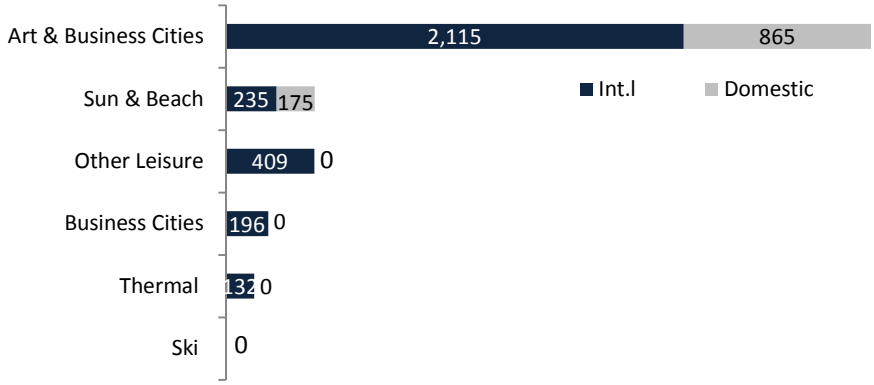
Pipeline (Including re-branding) 2016-2017 in selected Italian cities by scale; 2015 (Horwath HTL Census)

Scale	Bologna		Como		Florence		Livorno		Milan		Palermo		Rome		Venice		Total Italy	
	H	R	H	R	H	R	H	R	H	R	H	R	H	R	H	R	H	R
Economy					1	390							2	192			**3**	**582**
Midscale					1	180							1	148			**2**	**328**
Upscale & Upper Upscale	1	149	1	162					1	120	1	104	5	896			**15**	**2,393**
Luxury							1	123	1	76			1	200	1	190	**5**	**824**
Total per destination	**1**	**149**	**1**	**162**	**2**	**570**	**1**	**123**	**2**	**196**	**1**	**104**	**9**	**1436**	**1**	**190**	**25**	**4,127**

Share of pipeline (Including re-branding) 2016-2017 among domestic and international brands ; 2015 (Horwath HTL Census)



Pipeline (including re-branding) 2016-2017 by domestic and international brands and type of destination; ; 2015 (Horwath HTL Census)



Where is the expansion expected to take place?

It is an hard work to get to know about future hotel projects in Italy. There is a lot of talking about domestic and international expansion programs for most of big brands, but it remains very hard to be precise and certain about what is really happening in the next 12-18 months.

We have tried our best, with the cooperative support of chains, to be precise and to record the most of trustable information about development projects in pipeline for the next 2 years.

Overall, as of December 2015, we know 25 new chains' projects (including re-branding) are taking place in the next 24 months, for more than 4,100 affiliated rooms.

We admit it is almost impossible to correctly track all chains' new activities for the next months and strongly believe our figures may reflect 70% of the real new branding targets currently planned for next 18-24 months. So that, in our understanding, during the years 2016-2017, nearly 6,000 new branded rooms (including re-branding) will show up in the country (while, of course, it is not possible to know how many will leave to get back to independent).

This amount is of course destined to grow and must be considered a «moving» figure.

Most of the pipeline is concentrated on the Upscale tier, with 15 properties and in the Luxury tier, with 5 properties.

We show here the future branded projects happening in next 18-24 months in selected destinations, among which Rome and Florence appear to be under strong development.

In general, Art & Business cities will convey much of new developments, while other Leisure Destinations account for few properties as do Sun & Beach destinations.

Given the tendency of international operators to plan in advance and to promote the visibility of their expansion plans, it is hard to state that the share of new projects in pipeline is the one here displayed: 26% domestic, 74% international.

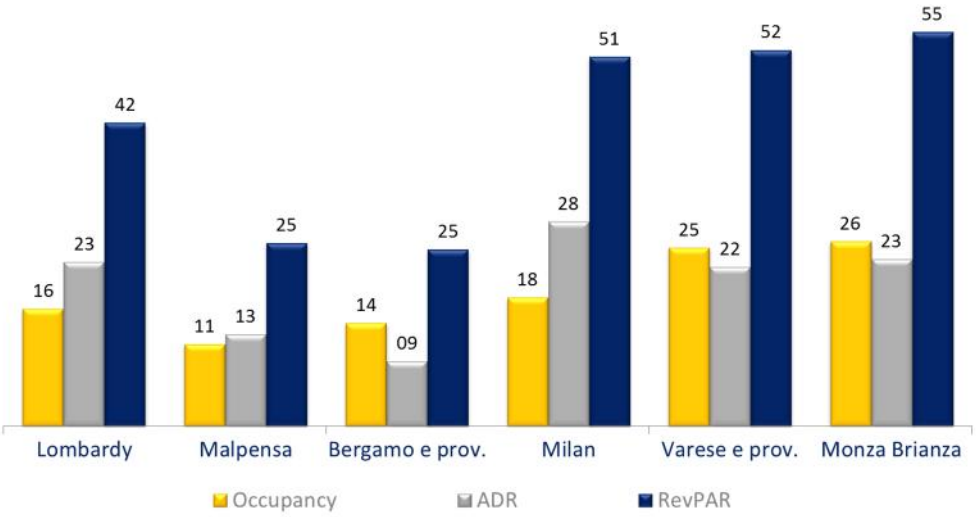
We acknowledge there are currently several relevant expansion activities carried out by domestic operators, of which little is anyhow known, but which will shape, in the short run, the country competitive environment.

2016 Outlook & Trends

EXPO impact on Milan and Italy

Change in key trading performance **of Milan**: % May – October 2015
compared to May – October 2014 (per scale and per ADR class), based on 18.000 rooms (STR Global)

Change in key trading performance **of Lombardy**: % May – October 2015
compared to May – October 2014 (per scale and per ADR class), based on 24.000 rooms (STR Global)



Expo impact on Milan performance

According to STR Global data, Expo period (May – October 2015) in comparison with the same period of 2014 shows a positive impact on Milan hotels' performance.

A sample of about 18.000 rooms (4 and 5 stars hotels) has been divided into four different categories, according to scale and ADR class. Results show an overall positive performance in terms of room occupancy, ADR and RevPAR.

Luxury hotels (ADR > 150€): +4,3% room occupancy, +10,7% ADR , +15,4 RevPAR

Upper Upscale hotels (ADR 90€ << 150€): +9,7% room occupancy, +28,9% ADR, +41,4% RevPAR

Upscale hotels (ADR 75€ << 90€): +24,5% room occupancy, +34,1 ADR, +67% RevPAR

Midscale hotels (ADR < 75€): +24,5 room occupancy, +48,5 ADR, +84,9 RevPAR.

Expo impact on Lombardy performance

Expo Milan 2015 positively impacts also nearby areas. The period May – October 2015, in comparison with the same months of 2014, registers a positive performance on six markets, on a sample of 24.000 rooms.

Markets analyzed are Lombardy, Malpensa, Bergamo and province, Milan, Varese and province, Monza Brianza. Their performance follow:

Lombardy: +16% room occupancy, +23% ADR, +42% RevPAR

Malpensa: +11% room occupancy, +13% ADR, +25% RevPAR

Bergamo and province: +14% room occupancy, +9% ADR, +25% RevPAR

Milan: +18% room occupancy, +28% ADR, +51% RevPAR

Varese and province: +25% room occupancy, +22% ADR, +52% RevPAR

Monza Brianza: +26% room occupancy, +23% ADR, +55% RevPAR.

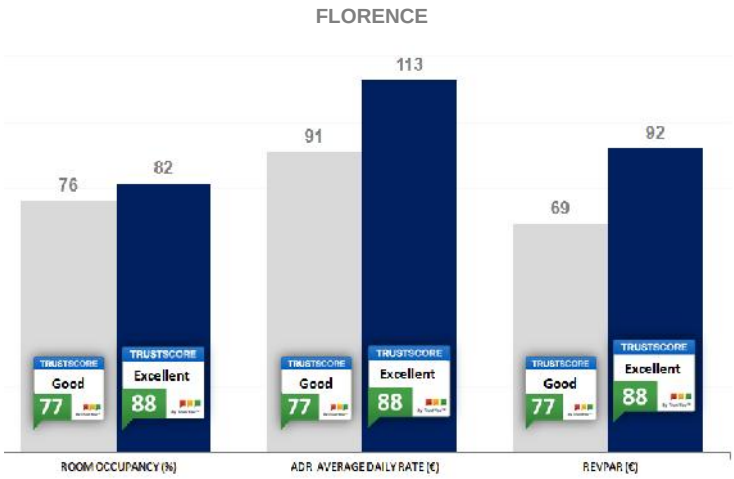
P&L benchmarks updated

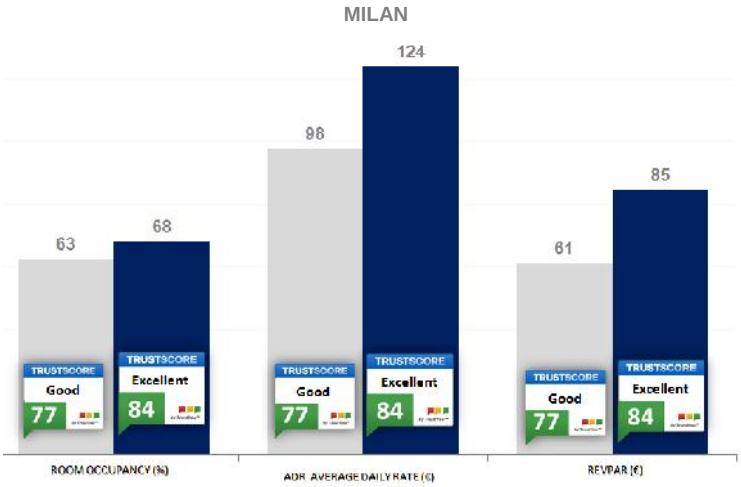
Hotel Prototype	Full Service - Luxury	Full service Upscale with congress facilities	Limted service - Branded Residence City center, Business District
Location / Type	SPA Resort	City Hotel	Business District
Rooms Size Range	80-100	200-240	90-110
Business model	Management Contract	Management Contract	Lease
Revenues	*% of Total revenue*	*% of Total revenue*	*% of Total revenue*
Room dept.	*52%*	*75%*	*98%*
Food & Beverage dept.	*27%*	*19%*	
Wellness, Spa, Sport Facilities	*18%*		
Minor Operating Dept.	*3%*	*6%*	*2%*
Total revenues (GOR)	***100%***	***100%***	***100%***
Cost of sales	*% of dept. revenues*	*% of dept. revenues*	*% of dept. revenues*
Food & Beverage	*28%*	*32%*	
Wellness, Spa, Sport Facilities	*17%*		
Minor Operating Dept.	*15%*	*20%*	*40%*
Total cost of sales	***11%***	***7%***	***1%***
Payroll			
Room dept.	*20%*	*17%*	*22%*
Food & Beverage	*49%*	*52%*	
Wellness, Spa, Sport Facilities	*36%*		
Minor Operating Dept.	*0%*	*20%*	*0%*
Total Dept. payroll	***30%***	***24%***	***22%***
Other direct expenses			
Room dept.	*13%*	*10%*	*15%*
Food & Beverage	*8%*	*6%*	
Wellness, Spa, Sport Facilities	*4%*		
Minor Operating Dept.	*4%*	*10%*	*2%*
Total other direct expenses	***10%***	***9%***	***15%***
Departmental income			
Room dept.	*67%*	*73%*	*63%*
Food & Beverage	*15%*	*10%*	
Wellness, Spa, Sport Facilities	*43%*		
Minor Operating Dept.	*81%*	*50%*	*58%*
Total operating income	***49%***	***60%***	***63%***
Undistributed expenses	*% of Total revenue*	*% of Total revenue*	*% of Total revenue*
Payroll	*4%*	*3%*	*2%*
A&G - Administrative & General	*3%*	*3%*	*4%*
S&M - Sales & Marketing	*3%*	*3%*	*1%*
Utilities	*6%*	*4%*	*6%*
R&M&O -	*2%*	*2%*	*5%*
Total undistributed expenses	***18%***	***15%***	***18%***
GOP	***31%***	***45%***	***45%***
Licence/Brand Fees	*1%*	*2%*	*4%*
Management Fees	*2%*	*3%*	
Incentive Fees	*3%*	*4%*	
Income Before Fixed Charges	***25%***	***36%***	***41%***
Property Tax & Insurance	*1%*	*2%*	*3%*
EBITDAR	***24%***	***34%***	***38%***
Reserve for Replacement (FF&E)	*4%*	*4%*	
Rent			*20%*
NET OPERATING PROFIT (NOI)	***20%***	***30%***	***18%***

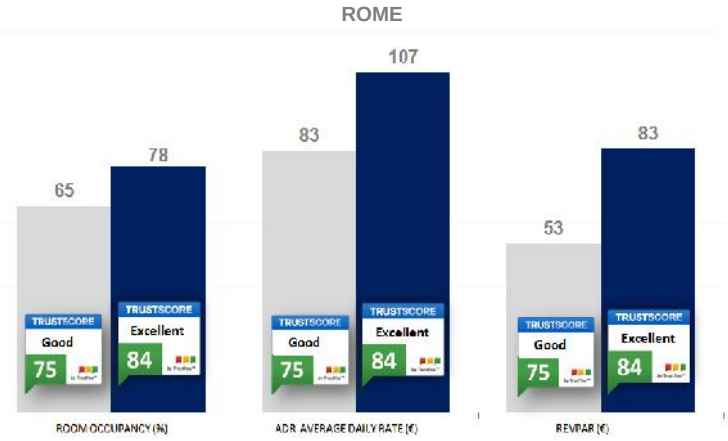
Data are reported as merely indicative of market average achievable performance and cannot represent a real case, therefore cannot be assumed to project P&L performance for a specific case.

All data at stabilized year, assuming a location in Italy in 2015, based on Horwath HTL databases.

Sales Performance and Reputation







Recent studies state that guests choose their destination and accommodation according to online reviews. The consequence is that hotels' performance is tightly linked to their online reputation.

These charts show the performance of some markets in terms of room occupancy, ADR and RevPAR and their *TrustScore*™ * on a 12 months average. Hotels analyzed are all 4 stars, mid-range.

The results show clearly that when hotels increase their quality and pay attention to the service, they have an excellent online reputation. This justifies an increase in ADR, helps reaching a higher room occupancy and brings consequently to a positive increase in RevPAR.

Blue columns represent hotels with an "Excellent" *TrustScore*™ in Florence, Milan and Rome. Grey columns include hotels with a "Good" TrustYou score in the same cities.

Performance in terms of room occupancy, ADR and RevPAR is higher in Blue clusters than in Grey ones.

Details of the analysis follow.

FLORENCE

GREY GROUP: 8 Upscale Class hotels (4 stars, mid-range hotels), 7000+ reviews, TrustScore between 74 and 82 (average: **77**)

BLUE GROUP: 8 Upscale Class hotels (4 stars, mid-range hotels), 8000+ reviews, TrustScore between 84 and 91 (average: **88**)

MILAN

GREY GROUP: 18 Upscale Class hotels (4 stars, mid-range hotels), 11000+ reviews, TrustScore between 68 and 80 (average: **77**)

BLUE GROUP: 20 Upscale Class hotels, (4 stars, mid-range hotels), 19000+ reviews, TrustScore between 81 and 93 (average: **84**)

ROME

GREY GROUP: 9 Upscale Class hotels (4 stars, mid-range hotels), 5000+ reviews, TrustScore bewteen 72 and 79 (average: **75**)

BLUE GROUP: 9 Upscale Class hotels (4 stars, mid-range hotels), 8000+ reviews, TrustScore between 80 and 87 (average: **84**)

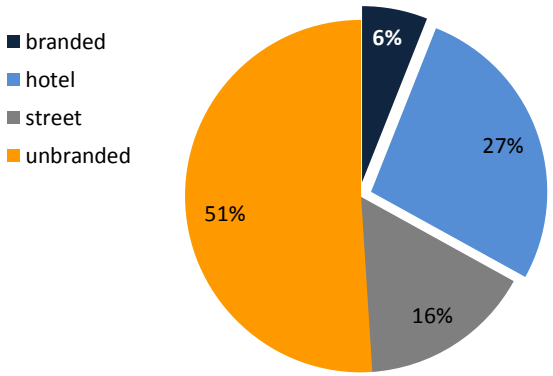
* TrustScore™ is property of TrustYou GmbH

TrustScore™ is the first independent "customer trusted" score representing the online reviews of travelers from all around the world. It summarizes in a unique score (on a 100 basis) the online reviews of a given period posted on more than 250 sources in over 28 different languages. In the score calculation the less recent reviews count less than the more recent ones.
TrustYou analysis is based solely on verified travel reviews from more than 250 sources worldwide. They do not include data from TripAdvisor. Sources: OTAs, review websites, forums and travel blogs from all over the world.

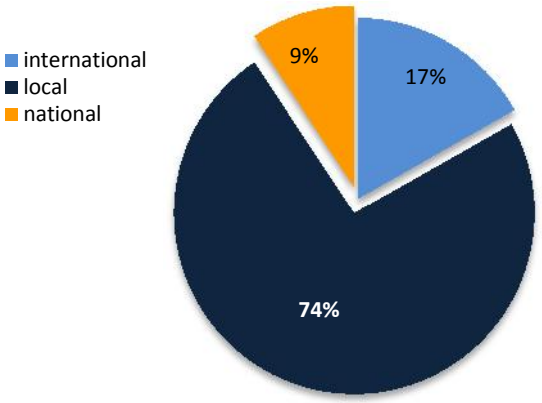
A new era for hotel restaurants ?

International tourists' image of hotels' restaurants in Italy; EXPO 2015; (Horwath HTL Research)

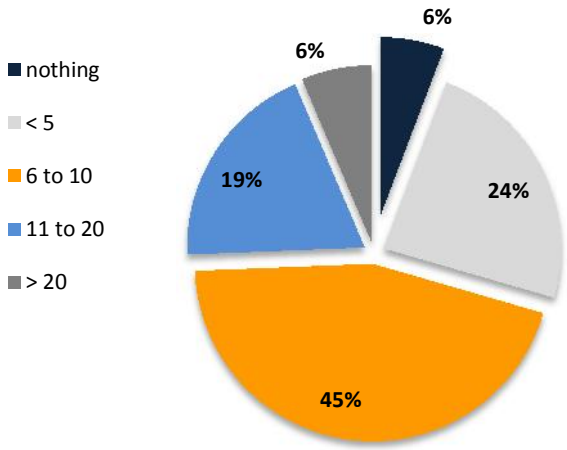
International tourists' preferences on where to spend a meal EXPO 2015; (Horwath HTL Research)



International tourists' food experience preferences in hotel restaurants; EXPO 2015; (Horwath HTL Research)



International tourists' willingness to pay for local food in addition to standard price, in Euros at hotel restaurants; EXPO 2015; (Horwath HTL Research)



During EXPO Milan 2016, Horwath HTL completed 230 interviews to chains experienced foreign visitors to investigate **their preferences on lunch and dinner at hotel restaurants**, for both chains and independent hotels. The intention was to investigate their **food and service experience in hotel restaurants in Italy and explore areas of potential improvement** for a department (F&B) which is critical and unprofitable for the vast majority of hotels in the Country.

The charts highlight a selection of most relevant findings, here listed:

- **Independent hotel restaurants** are described as: *classic* in the design; *familiar* in the welcoming the guests; *typical* in the choice of the concept; in addition, the food service is strictly connected to the culinary *traditions* and appears to be reasonably *cheap*.
- **Branded hotel restaurants** (in the chart), are perceived differently: the restaurant experience seems to be still tied to the tradition but *innovative* and is perceived even *cheaper* than unbranded hotel restaurant; the design is *extremely classic*; the atmosphere loses part of its *familiarity.*
- Only ¾ of respondents have experienced the hotel restaurant, meaning **25% of hotel guests has never had not even 1 meal at the hotel restaurant**, dining outside.
- In general the first decision is to have a meal outside: the hotel restaurant is the first choice for only 27% of respondents. **Over 50% prefers to try local food that an unbranded restaurant** outside the hotel may offer.
- Experience of restaurants in chains' hotels does not always correspond to interviewed preferences when it comes to Italy: while expecting to find more standardized and international-inspired service**, market find more interesting and appealing to discover the authenticity of the territory through regional cuisines, traditional high-quality or locally-rooted food (74%).**
- The desire to access local culture and culinary traditions is strong enough to rise the willingness to pay to over 20€ in addition to the standard price of a meal for 6% of market, between 11-20€ for the 19%, **between 6-10€ for 45%** and to 5€ for ¼ of the market.

Some conclusions and managerial implications are straightforward:

- There is room for improvement for the sales performance of hotel restaurants to be searched in the potential and appeal of the "local and regional touch": *if this drives to a more expensive menu, it may be worthwhile to take the risk.*
- The restaurant experience that the international market is looking for when it comes to Italy is *more articulated than usual*: sourcing, standard of service and atmosphere in general are areas of improvement to look at, especially to grasp the guest interest and make him try the restaurant for the first time, before he leaves for the trattoria on the corner.

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For further information on the research "*F&B in hotel restaurants*" please contact Daniela Rossetti at italy@horwathhtl.com

Horwath HTL
Hotel, Tourism and Leisure
ASSOCIAZIONE ITALIANA CONFINDUSTRIA ALBERGHI

Methodology

COUNTRY	HOTEL STOCK (2014)*	CHAIN PENETRATION DATA SOURCE
UK	40,272	The Hotel Analyst
Spain	19,563	CEHAT
France	17,336	INSEE
Netherlands	3,561	Horwath HTL Netherlands estimate
Switzerland	5,129	Horwath HTL Switzerland
Germany	33,997	PKF HotelExperts
Poland	3,646	Horwath HTL Poland Census
Republic of Ireland	2,438	Horwath HTL Ireland estimate
Croatia	909	Horwath HTL Croatia census
Italy	33,290	Horwath HTL Italy Census
Austria	12,839	Horwath HTL projection based on Mintel Data

**Source: Eurostat 2014*

% displayed are calculated as the ratio: number of chain hotels / total number of hotels

All data on Italian competitiveness and comparison with other EU states are based on Eurostat data as of December 10th, 2015.

This report contains evidences from the Horwath HTL census of operating chain hotels in Italy in the year 2015, as of December 5th, 2015

All trading performance data referring to 2015 are full 2015 year (total) and have been provided by STR Global. Web Reputation data have been provided by TrustYOU.

For the purpose of the hotel chains census:

- "Chains" and "brands" are assumed as equivalent nouns. Chains groups are corporation owning several brands.
- A chain is any organization operating 5 or more hotels in the world (of which, at least 1 is in Italy), by owning, managing, leasing or franchising properties.
- *Light brands* and the so called "*voluntary affiliation networks*" are not considered into the count.
- International chains are those with headquarter outside Italy; domestic chains are those with headquarter in Italy, including those that also have operations abroad.
- Investigation is based on volontary cooperation pf participating hotel chains and desk research covering several sources such as official websites, international and domestic chains directories, previous studies.
- As for the census, scales are based on the official classification of the hotels (Italian stars system) and do not represent the target positioning of the brand itself.
- As for the trading performance (OR, ADR and RevPAR) scales are based on a STR own classification
- Double counting of hotels managed by second tier operators and franchised by a chain has been avoided. Therefore, aggregated data is net of double-counting.
- When the case, figures including double counting of properties are reported as "IDC"
- For the scope of this report, Pipeline hotels are counted separately and do not sum up into the census. Pipeline and re-branded hotels are counted together. Pipeline do not include the count of independent hotels
- "*Rooms*" is used as equivalent to "*keys*", even in the case of suites and apartments.
- All charts showing international and domestic chains may not sum up to overall because of second tier operated hotels
- All projections have been elaborated by Horwath HTL
- Because of some chains that, due to their recent growth in size, have been included in 2015 census, with a certain, limited, impact on the previous years, we have partially reviewed the census figures for 2013 and 2014. Therefore we reported "2013rev." and "2014rev." data to indicate that there might be some differences with previous Hotel Chains Reports.

For any enquire on the census methodology please contact the author, Giorgio Ribaudo at gribaudo@horwathhtl.com

About the Authors

Crowe Horwath International, founded in New York in 1915, is an international network with 558 independent offices offering managerial consultancy services in more than 102 countries around the world and with more than 26,000 partners and professionals. Crowe Horwath International member firms are known as leading consulting firms in the area of Hospitality, Auditing, Assurance, Services, Corporate Finance, Risk Consulting, Tax and Technology.

In its field, Horwath HTL (Hotel, Tourism and Leisure) has been recognized as the pre-eminent consulting specialist in the hotel, tourism and leisure industries by providing unequalled experience and expertise for client projects around the world through a combination of detailed local knowledge and international understanding. It is involved with projects in all phases of the property lifecycle and supports national and international clients: developers, lenders, investors, industrial corporations, public administrative offices and institutions

Associazione Italiana Confindustria Alberghi originated from the merger of the two industry- representing players at Confindustria: the independent hotels and the hotel companies.
Associazione Italiana Confindustria Alberghi is present throughout the country, with more than 2,500 tourist accommodation facilities totalling 175,000 rooms, 70,000 employees and more than 5 billion Euros in revenues. It is therefore a reference player of the tourism economy in Italy and has an entrepreneurial vision whose main features are commitment, planning skills, and attention to market change and rationale.
Associazione Italiana Confindustria Alberghi is a member of Confindustria and of Federturismo and, as such, it integrates with the other players of the Italian economy and tourism industry.
At an international level Associazione Italiana Confindustria Alberghi looks to new phenomena and dynamics that drive investments and tourist flows. Its aim is to provide companies with the tools to address today's crisis while looking at the future of an industry that all indicators see as growing strongly in the years to come, worldwide.

RES - Hospitality Business Developers – since 1998 the leading consulting agency providing market intelligence in the Italian hospitality industry.
Thanks to the partnership with STR Global - the foremost provider of global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information - and with TrustYou - the standard for reputation, Google official provider - RES monitors qualitative and quantitative performance data on a sample of 87.000 rooms in 38 destinations.

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