The Netherlands – Spring 2020

SPOTLIGHT

Savills Research

Hotel Developments in the Netherlands: Bubble or Boost?

savills

Question Are existing and pipeline hotel stock levels sustainable and what is the impact of this development on growth markets outside Amsterdam?

Introduction Despite recent geopolitical turbulence including Brexit, trade conflicts and other concerns, the Dutch hotel market performed confidently in 2019 on the back of robust hotel user demand. A response to this aggressive near decade-long growth in hotel occupancy and daily rates has been a plethora of new hotel supply. Consequently people ask, does Amsterdam, for example, have too many or too few hotels? Is the current supply pipeline sufficient to capture future forecast guest demand in the capital? Conversely, are existing and pipeline stock levels sustainable and what is the impact of this development on growth markets outside Amsterdam? These are complex questions with contrasting answers depending on several variables, few of which are perfectly predictable.

Despite the capitals 2017 hotel moratorium, which does impact previously confirmed pipeline developments, much of national hotel supply has recently been, and remains to be released, in the country's strongest accommodation market, Amsterdam. However, developers, operators and stakeholders have and are continuously attempting to capture growth experienced in other "unprotected" Dutch hotel markets, resulting in a significant volume of new and pipeline supply in the other major cities in the Randstad area, such as Utrecht, The Hague, Rotterdam and Amsterdam's metropolitan region (including Schiphol Airport). Consequently, hotel investor interest, both domestic & cross-border, is increasingly directing attention to these envisaged growth markets.

Presently, hotel supply will be dramatically reduced in Amsterdam from 2023 onwards, due primarily to the aforementioned moratorium. Assessing newly launched room stock against future room supply in combination with forecast demand based on current data is therefore a useful starting point.

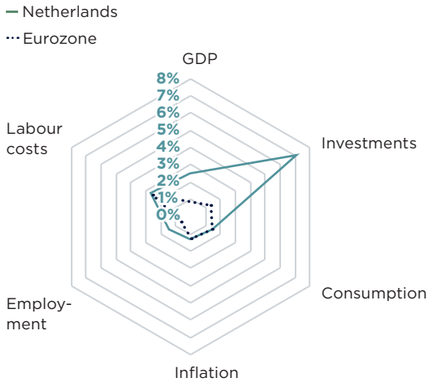
Premier Suites Plus Amsterdam (115 extended stay keys) Copyright Dam&Partners

The Dutch economy is a stable factor

As the performance of the tourism & hospitality industry is correlated to domestic and wider macro-economic metrics, we must furthermore assess how resilient the anticipated growth of future visitor demand is. Despite macro-economic uncertainties and international trade volatilities, the Dutch economy continues to outperform the Eurozone average on almost every economic indicator.

How resilient is the future hotel market for investors, considering the current pipeline?

Graph Economic performance of the Netherlands annual YoY %-change



Source Eurostat, CBS

The Dutch tourism industry

Tourism remains one of the most buoyant economic sectors.

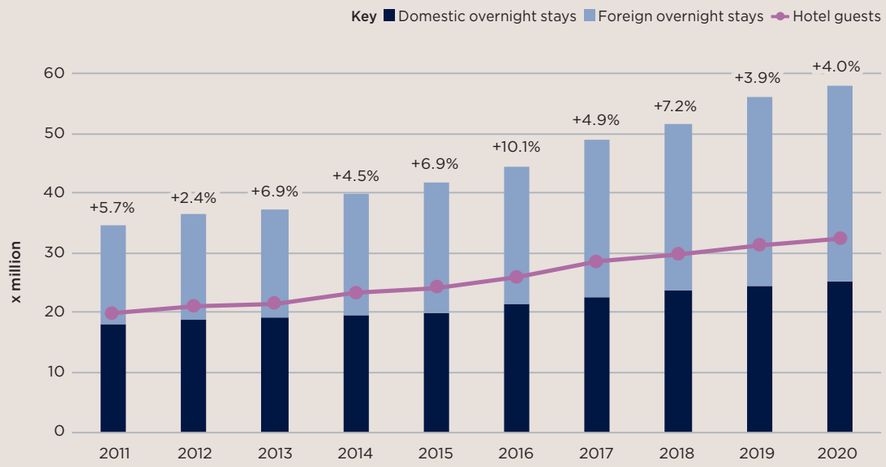
Overall visitation to Amsterdam alone has grown at a compound growth rate of almost 7% annually over the past 10 years with continuous national year-on-year arrivals growth since 2008. The Netherlands is therefore no exception to a wider booming global tourism sector, itself one of the world's fastest growing global industries and an increasingly important pillar of the Dutch economy. The number of overnight stays grew by over 53% over the last decade.

In 2018, tourism alone generated over €87 billion for the domestic Dutch economy, almost equalling the IT and construction industries, with accommodation spending accounting for the largest share of direct expenditure. The industry supports approximately 800,000 jobs and therefore maintaining the Netherlands as an attractive visitor and corporate destination with sufficient accommodation facilities is imperative for multiple public & private stakeholders alike.

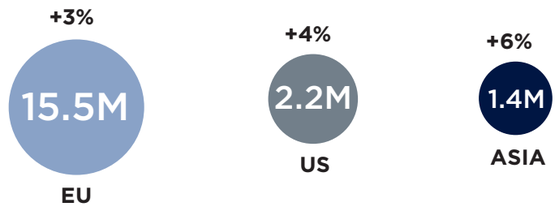
Overnight stays

The hotel market in 2019 witnessed an increase of 8.1% in overnight stays and 5.1% in hotel guests with the majority of visitor growth generated by domestic tourism and the key neighbouring markets of Germany, Belgium and the UK. The influx of tourists from Asian countries has also increased exceptionally. Between 2012 and 2018, visitors from Taiwan increased by 160%, Indian visitors enlarged by 134% and South Korean visitors to the Netherlands were up by over 87%. Current research however indicates that as a result of the fact that Europeans and Americans are going to travel more in the future, the ratio between the different visitors by origin, will remain broadly similar.

Graph Nationwide development of overnight stays and hotels guests



International inbound tourism in the Netherlands in 2019 19.5 M (+4%)

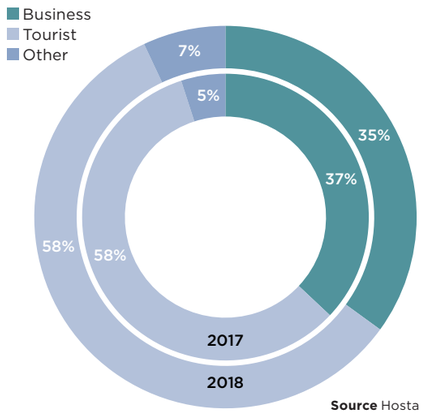


Lest we Forget

Weight of Corporate Guest Demand to the Dutch Market

Leisure guests, although the largest customer base accounting for approximately 58% of hotel-users last year, are not the only significant drivers of accommodation demand in the Netherlands. The export-orientated Dutch economy and dependence on global trade ensures a healthy balance between leisure and corporate accommodation demand. Business guests accounted for approximately 35% of overnight stays nationally in 2018. The additional 7% contributes to other travel related purposes. The country is an important global central hub for congresses and corporations, due in part to world class infrastructure, attractive tax incentives, and an educated, English speaking labour force. For example, the recently repositioned EMA (European Medicine Agency), which relocated from London to Amsterdam following Brexit, accounts annually for an estimated 15,000 hotel rooms for participants for its meetings, and an additional 15,000 hotel rooms booked directly by visiting experts and guests. It is expected that more companies will follow as a result of Britain's recent departure from the EU, likely resulting in great hotel demand.

Graph A balanced tourism industry in the Netherlands with strong domestic, international and balanced market fundamentals has positively affected the performance of the Dutch tourism industry.



Source Hosta

Krimpton Hotel Rotterdam 231 keys

Agressive Growth
global tourism will continue to grow aggressively over the next ten years

TOURISM KEEPS OUTPACING THE WORLD ECONOMIC GROWTH AVERAGE

According to the UNWTO (United Nations World Tourism Organization) global tourism will continue to grow aggressively over the next ten years, further stimulating developers & investors into hotel real estate. Asian Pacific visitors, discounting recent coronavirus (COVID-19) fears, are forecast to account for the largest growth share with European tourists forecast to retain their position as the largest overall tourist demographic. The primary reasons, amongst others, for this general forecast boom in tourism are the following:

Cheaper, faster and more available travel options worldwide. Low cost carrier airlines have made cross-border tourism more readily available to a much wider demographic than ever before, contributing to the surge in hotel KPI's and reactionary room supply.

The emerging middle classes in especially developing (BRIC etc.) countries, is forecast to further boost the global flow of tourists.

The general trend and demand in developed countries for a better work-life balance, typically resulting in employees having shorter works weeks and more holiday time.

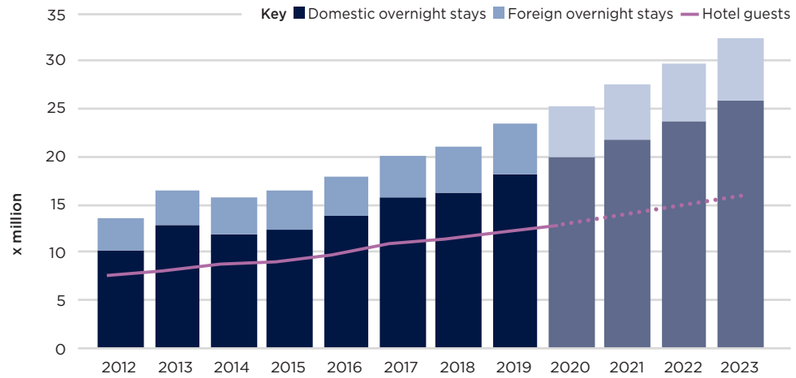
The desire for generation Y & Z (millennials) to direct more of their disposable income to experiences 'the experience economy' rather than material goods is evolving in comparison to older generations.

> **Randstad hotel markets are partly linked to each other, due to limited geographic distances and excellent connecting infrastructure**

Favourable predictions for Tourism Industry

There are different predictions for the future growth of tourism, which are not always in line with each other. Therefore, there is reason for measuring sensitivity, which results in several scenarios of future growth of tourism.

Graph Growth predictions of industry in the Randstad Region (incl. metropolitan region of Amsterdam)



Source Savills Research, CBS

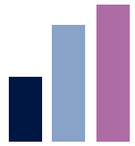
In order to analyse future hotel user demand in the Netherlands, it is important to gain insights into industry growth figures.

The NBTC (National Bureau Tourism & Congresses) assumes a maximum future annual growth of 7% and a minimum growth of 4% of international visitors, and a 3% and a 2% growth rate for domestic visitors respectively. It is important to note that the Randstad hotel markets are partly linked to each other, due to limited geographic distances and excellent connecting infrastructure. For instance, fully booked hotels in Amsterdam as a result of congresses or leisure events, can push these visitors to neighbouring cities, such as Utrecht or The Hague. For this reason, we have analysed scenarios per city via the total prediction of visitors growth in the entire Randstad region. In the table below it is estimated how many hotel rooms are needed per city in order to accommodate current forecast growth levels, given different scenario's. In the mentioned growth figures, the recent legal statement with regards to Airbnb were not incorporated in the growth figures. Due to this, the real implications are not yet entirely unambiguous. However, it can be stated that this point will likely increase the demand for hotel rooms.

Table Need of hotels keys per city based on growth scenario's till 2023[1]

	Offensive Scenario	Base Scenario	Defensive Scenario
Amsterdam	14,555	11,070	8,068
Haarlemmermeer (incl. Schiphol Airport)	2,209	1,729	1,253
Rotterdam	1,483	1,164	856
The Hague	1,064	834	612
Utrecht	468	369	268
Total	19,779	15,166	11,057

Source Savills Research



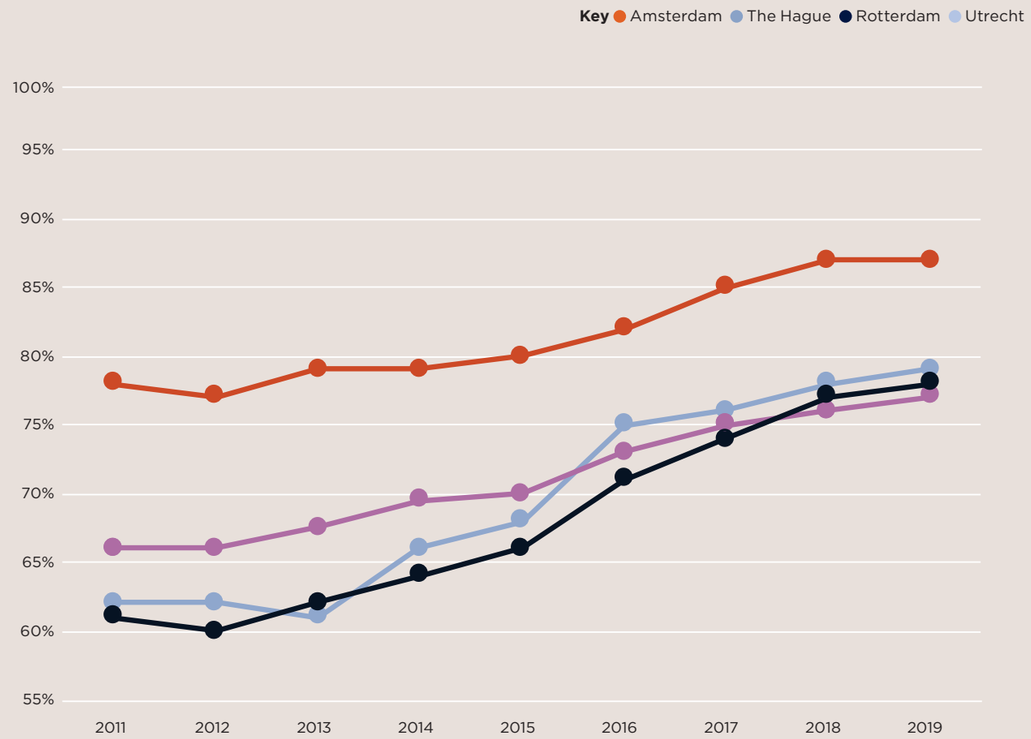
Further increase
Stop on Airbnb will likely result in a further increase of demand to hotel rooms in the Netherlands

UPDATE AIRBNB

Holiday rentals on platforms like Airbnb, will operate in a legal grey area until new legislation comes into effect in late Q2 2020, according to the Dutch Council of State who, unexpectedly in January 2020, declared it illegal to rent out property to tourists without a permit as landlords are effectively removing a home from the national housing stock and to combat the explosive growth in holiday rentals. Technically, the ruling means anyone who rents out a property to tourists without a permit is in breach of the law. However, no official licencing system has yet been established at time of writing. A potential result of this ruling is an increased guest flow to hotels or other established types of accommodation. This may result in higher occupancy & ADR rates.

1) Note: calculated by dividing the number of new visitors by the total number of days per year in the different scenarios and considering the current occupancy rate of the different cities.

Graph Ripple effect causes little differences in occupancy rates



Source Savills Research, Hosta

New hotel developments

Performance of Dutch hotels makes room for new developments

Before discussing planned developments, it is important to consider the occupancy rates of the existing stock. If occupancy rates are relatively low, existing stock can absorb demand growth. This is not applicable to the major (Randstad) Dutch accommodation markets. The Hague, Rotterdam and Utrecht have established high average market occupancy rates, 79%, 78%, 77% respectively, with Amsterdam the clear outlier at 87%. Consequently, these Randstad cities are far above the national Dutch average of 65%. In conclusion, all cities form a very sound basis of a healthy exploitation.

Remarkably, even though Amsterdam is positioned in a league on his own, the differences are sharpening. As a result of an increase in industry performance, the occupancy rates of Rotterdam, The Hague and Utrecht increased rapidly between 2011 and 2019 and grew gradually closer to Amsterdam, as visualised in the graph above. It is likely that the gap between the occupancy rates of Amsterdam and the other cities will narrow due to high incoming demand and reduced future new supply in Amsterdam from 2023 onwards.

Due to these relatively high occupancy rates, all above mentioned markets cannot absorb future visitors growth, therefore future hotel developments are needed.

> **“The gap between the occupancy rates of Amsterdam and the other cities will narrow due to high incoming demand and relatively little new supply in Amsterdam”**

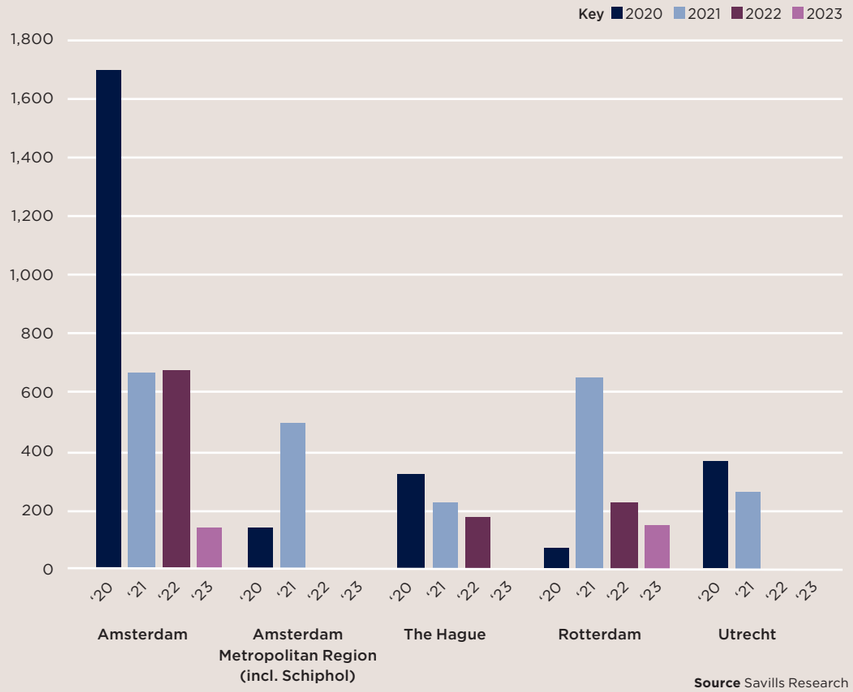
Running dry

As mentioned, there are two different stories occurring in Amsterdam. In the first instance, ‘overtourism’ is a well-established characteristic in Amsterdam, stimulating local resentment of same.

Therefore, the local government introduced a moratorium in Amsterdam in Q1 2017. The goal of this policy was to limit the addition of new hotels in order to reign in growth, stop overcrowding and the rising ‘tourist tide’ in certain tourist-crowded areas of the city. This policy led to the supply of hotels in Amsterdam being controlled. On the other hand, the ban on new hotel development in Amsterdam did and does not impact the developments that were already in the development pipeline. This meant that major developments such as Nhow Hotel Rai (650 rooms), Olympic Hotel (309 rooms) and The Novum Niu Fender & Entrepothaven Yays Hotel (330 rooms) opened in 2019. Are these recent developments actually too limited given the anticipated growth of tourism? In the graph below, the pipeline of new hotels per city is visualised. A total of 6,434 rooms are in the development pipeline. The majority of the pipeline is still concentrated in Amsterdam, however the magnitude of hotel developments will gradually shift to the other cities in The Randstad area, where no restrictive policies apply.

All new developments need to be absorbed by the expected growth of tourism. As mentioned earlier, there are three different scenarios with regards to tourism growth. The table below visualises the expected oversupply or shortage per city.

Graph Pipeline of hotel rooms in the G4 (incl. metropolitan region of Amsterdam)



Source Savills Research

6,434 **Hotel rooms are in the development pipeline of which the majority is located in Amsterdam**

EFFECT OF HOTEL MORATORIUM

There are certain locations in Amsterdam where the ruling does not apply ‘no-unless policy’. In these localities, hotel developments will only be permitted if the concept makes a ‘demonstrable and exceptional contribution to both the innovative supply of overnight accommodation and a particular aspect of the social, cultural, or economic climate. The result of this introduced policy was that the performance and value of existing hotels increased in Amsterdam. The already competitive tight and competitive market, in combination with the expected future demand for Amsterdam, it is expected that the shortage of hotels will increase rapidly when incoming supply would stumble in the next few years.

Maratim Hotel Amstedam 579 keys

A VISIBLE SHORTAGE IN THE MAJOR CITIES IN THE NETHERLANDS

Remarkably, even in case of a defensive scenario, there is still a visible shortage in the major cities in the Netherlands. The shortages are high in especially Amsterdam, but less apparent in the other cities. However, as mentioned earlier, it is important to look to the entire region, therefore it can be concluded that the entire Randstad Region has a shortage of hotel rooms in every scenario.
The analysis is based on the hard pipeline of hotels. In addition, there are multiple plans for new hotel developments, in especially the greater metropolitan region of Amsterdam and in areas in Amsterdam, where the hotel stop does not apply. These developments amount from 5,000 to 7,000 rooms. Even if all these developments will be permitted, the supply is still not sufficient in two of the three scenarios in order to accommodate the expected growth. Currently, the future supply-demand ratios are favourable for the Dutch hotel market.

This ensures that the interest of investors will continue in the coming years. This is not only due to the healthy supply-demand ratio's, but also due to the different risk profile of having hotel investments compared to other real estate assets.

Table Shortage or oversupply of rooms in 2023[2]

	Offensive Scenario	Base Scenario	Defensive Scenario
Amsterdam	11,780	8,232	5,311
Haarlemmermeer (incl Schiphol Airport)	1,527	1,114	616
Rotterdam	626	307	0
The Hague	493	263	41
Utrecht	-14	-86	-214
Total	14,456	9,829	5,754

2) Note: Calculated by deducting the new developments from the need of hotels based on the earlier described scenarios

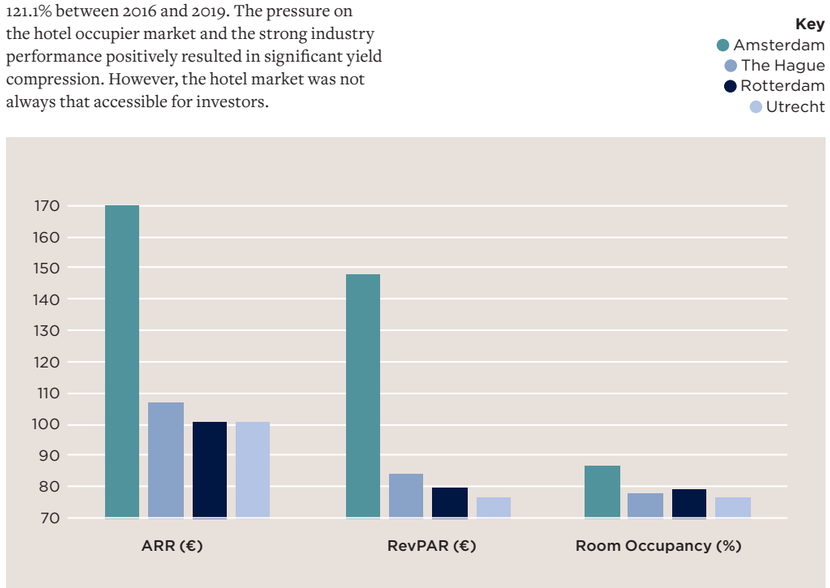
Source Savills Research

Investment diversification

More diversified types of investors are entering the Dutch hotel market. The increasing occupancy rates and the influx of tourism were underlying drivers for the popularity of the Dutch hotel investment market.

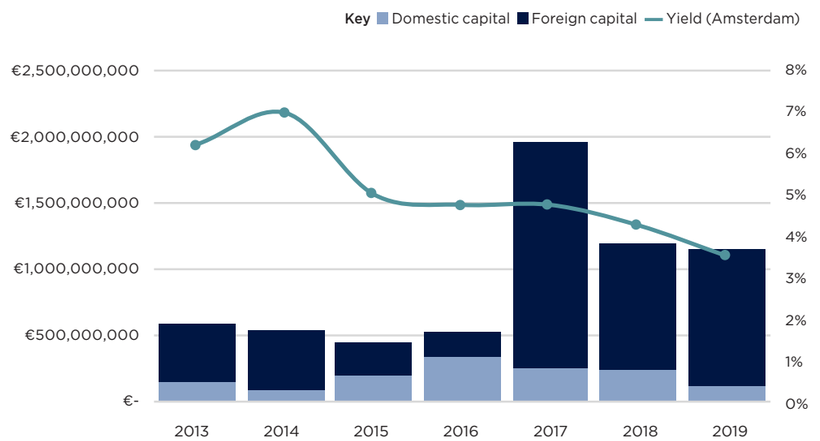
For instance, the investment volume increased 121.1% between 2016 and 2019. The pressure on the hotel occupier market and the strong industry performance positively resulted in significant yield compression. However, the hotel market was not always that accessible for investors.

Graph Key Hotel Indicators (2019)



Source Savills Research, Hosta

Graph Significant Yield Compression



Source Savills Research

PRIMARY FEATURES ATTRACTING INVESTORS INTO DUTCH HOTEL REAL-ESTATE

Long-leases
Average leases typically 20 to 25 years

Stable income strategy
Underpinned by strong covenants, rental guarantees and variable lease risk-return lease structures

Multi-asset approach
Diversification benefits as part of a multi-asset portfolio approach by many investors

Rebranding
Opportunity to brand and remodel existing hotels and other real estate into more attractive branded offerings

Scarcity
Scarcity of more conventional commercial real-estate investment product

Asset management
Further asset management opportunities to create, protect and increase future value

KEY FINDINGS

1 Tourism continues to outpace world economic growth, resulting in a strong global and Dutch accommodation performance.

2 Visitor streams continue in grow: 2019 has seen an increase of 8.1% in overnight stays and 5.1% in hotel guests, originating from a variety of countries and a healthy demand driver (leisure and corporate user demand).

3 Restrictive hotel development policies in Amsterdam will result in a shortage of hotel rooms from 2023, but also partly for the Randstad Region.

4 This Moratorium has and continues to cause a ripple effect in the Dutch hotel market and pushes capital to growth markets such as The Hague, Rotterdam, the Amsterdam metro-politan region and Utrecht.

5 The legal change with regards to Airbnb should improve the performance of Dutch hotels operators.

6 Strong industry performance, intensified investor demand, and lower initial risks has led to notable hotel real estate investment yield compression over the last number of years.

7 Amsterdam cannot accommodate its entire visitors growth. Therefore, other surrounding markets such as The Hague, Rotterdam, Utrecht and surrounding markets of Amsterdam are poised to benefit. This development is positive for hotel operators and will lead to higher investment volumes in these markets.

Due to the fact that the hotel investment market was previously so specialised and perceived to be more risky than commercial investments, typically only investors with extensive knowledge of the sector are active in the market. We have witnessed investors understanding and being more comfortable with different, less conventional hotel lease structures. For example, hybrid leases that offer new entrants fixed guaranteed rents combined with variable profit components. Strong Dutch industry performance and lower initial risks contributed to this shift to more hybrid leases and strong yield compression. In combination with anticipated future demand, comparatively lower development pipeline and increasing occupancy rates, it is possible that the markets of Utrecht, Rotterdam and The Hague will progress towards to the current occupancy rate of Amsterdam, further intensifying the investor interest and increasingly pushing capital into these cities.

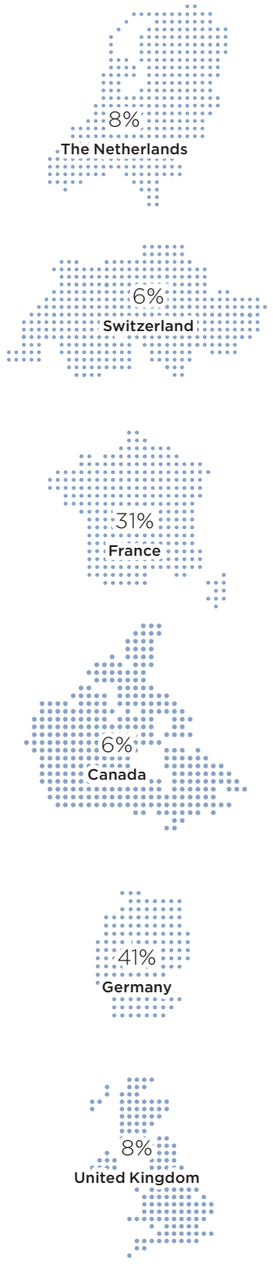
Voco Hotel, The Hague 204 keys, developed by UBM

Outlook

Despite the existing pipeline, the current and future supply-demand ratio enhance the fundamentals of the Dutch hotel market. Due to this fact, Amsterdam cannot adequately accommodate the entire forecast growth of visitor. Therefore, other surrounding markets such as The Hague, Rotterdam, Utrecht and surrounding areas of Amsterdam are poised to benefit. This development is positive for hotel operators and will lead to higher investment volumes in these markets.

2019 has seen an increase of 8.1% in overnight stays and 5.1% in hotel guests

Investment volume
as a share per country in 2019



Source Savills Research

> Strong industry performance, intensified investor demand, and lower initial risks has led to notable hotel investment yield compression over the last few years

Aloft Hotel Leidsche Rijn, Utrecht 224 keys

Source CBS, Eurostat, Hosta, Horvath, Municipality of Amsterdam, Savills Research, PropertyNL, VGM, NBTC, UNWTO

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