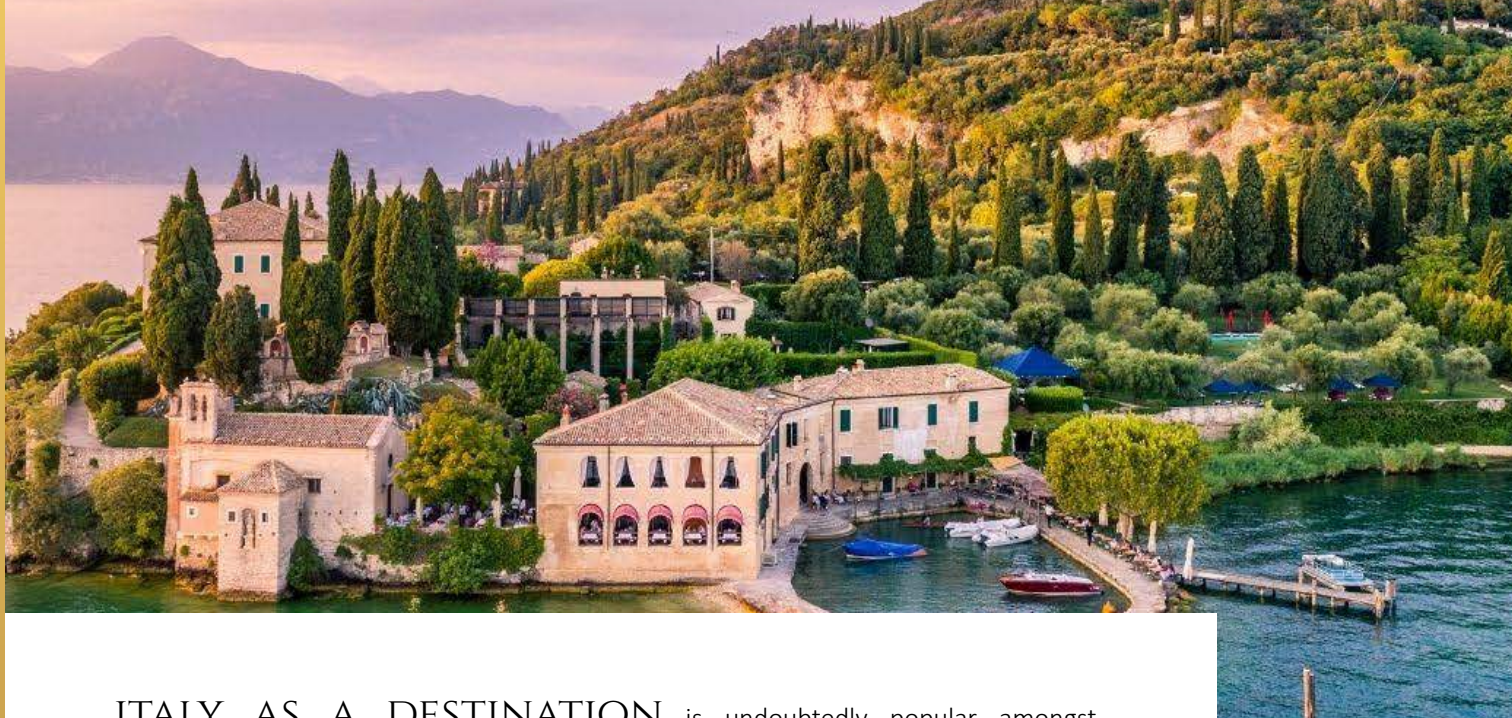




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ITALIAN HOTEL
MARKET OUTLOOK
2023





ITALY AS A DESTINATION is undoubtedly popular amongst international travellers, with the number of nights spent by foreign visitors consistently amongst the top three EU countries. In 2022, it ranked second only after Spain¹. Post-pandemic, following the remarkable rebound in hotel investments in 2021 where the volume of transactions increased 92% YOY², last year the country saw exceptional resilience in its hotel industry's performance as shown below.

The market's ADR and RevPAR in 2022 grew strongly above the 2019 level. This was led by the major cities (+41% ADR, +21% RevPAR) and the resort market (+22% ADR, +22% RevPAR), contributed mainly by the 5-star luxury segment³. Thanks to these positive impacts, hotels in the country's primary markets reported rising profitability levels despite wage inflation and higher energy costs.

Consequently, these incredible results continue to attract the attention of global brands and investors. At the GRI Club's meeting earlier this year, hotels were recommended strongly as an attractive option for investment and development in Italy, especially in the luxury segment⁴.

ITALIAN HOTEL PERFORMANCE 2022³ BY MARKET & SEGMENT

MARKETS	HOTELS PERFORMANCE (YTD DEC 2022)			CHANGE 2022/2019 (DEC 2022)		
	Occupancy	ADR	RevPar	Occupancy	ADR	RevPar
Primary	61%	265	162	-14%	+41%	+21%
Secondary	60%	110	66	-12%	+18%	+4%
Resort	70%	140	97	0%	+22%	+22%
Rome	60%	260	156	-15%	+53%	+31%
Milan	60%	215	129	-15%	+24%	+5%
Florence	65%	255	166	-14%	+41%	+22%
Venice	60%	330	198	-13%	+44%	+25%

SEGMENTS	HOTELS PERFORMANCE (YTD DEC 2022)			CHANGE 2022/2019 (DEC 2022)		
	Occupancy	ADR	RevPar	Occupancy	ADR	RevPar
5-Star	60%	570	342	-11%	+41%	+26%
4-Star	65%	140	91	-8%	+18%	+8%
3-Star	62%	65	40	-4%	+14%	+10%

In 2022, the hotel investment volume in Italy reached €1.6 billion³. While this figure is lower than the previous year due to Europe’s complex economic and geopolitical situation, i.e. the Ukraine War, inflation, and energy cost, that leads to caution, there has been a growing interest in the hospitality sector in the last 10 years. In 2013, 10% of total Real Estate transactions

in Italy were hotels, but the average share in the last four years has gone up to 15% with the total volume nearly doubled. Leading this growth is the high-value luxury hotel segment. Luxury properties make up an exceptionally high proportion, 73% of 2022’s total hotel transaction volume⁵, indicating significant interest in this segment.

TRANSACTION VOLUME BY HOTEL CLASS 2022⁵ (% CHANGE, 2022 VS 2021)

HOTEL CLASS	% OF TOTAL VOLUME	% CHANGE	HOTEL CLASS	% OF ROOMS SOLD	% CHANGE
Luxury	73%	▲ 53%	Luxury	23%	▲ 54%
Upper Upscale	2%	▼ -89%	Upper Upscale	2%	▼ -85%
Upscale	10%	▼ -74%	Upscale	16%	▼ -76%
Upper Midscale	7%	▼ -67%	Upper Midscale	16%	▼ -50%
Midscale	4%	▲ 232%	Midscale	31%	▲ >500%
Economy	5%	n/a	Economy	12%	n/a



CHANGING THE FACE OF THE ITALIAN HOTEL MARKET

In this country dominated by multi-generational family-owned businesses, recently there has been a growing investment appetite for branded hotels. In the Upper Upscale and Luxury space, the Chains' penetration rate increased to 50.5% in 2021, meaning more than half of these hotels are branded with equal parts made up of international brands and domestic brands⁶. They typically target the high-paying foreign tourism segment, predominantly from the USA and UK and, thus, boast a much more premium room rate than the rest of the market.

Specifically, Italian 5-star hotel ADR and RevPAR in 2022 were at €570 and €342 respectively, which are each four times higher than the next tier 4-star hotels' figures³. Hence, associating with high-quality brands for these types of properties is deemed beneficial. Many leading luxury brands have appeared in Italy for the first time in recent years, including Six Senses Rome debuting in March 2023. More excitement is in the pipeline as we will see the arrival of many first-timer international luxury brands in the coming years such as Edition, Orient Express, and Cheval Blanc⁹, which would positively affect the market average room rate.

SIX SENSES DEBUT ITS FIRST ITALIAN HOTEL
IN ROME, 2023



In terms of hotel inventory, in 2021, 5-star and luxury hotels accounted for only 1.8% of the total Italian hotel market stock, much lower than the average in Europe⁷. There is also a scarcity of prime assets in central locations and asset pricing has risen accordingly as the desire for international brands and investors to enter this market is building. However, this scarcity has driven the market for conversions and repositioning. This marks the predominant value-add strategy transactions in 2022, that will allow for an upgrade of the country's hotel stock.

Another important trend to watch is the growth of the second-tier operated hotel segment (or properties managed by white-label operators), whose number of hotels increased by 18.7% in 2021

compared to the previous year⁶. The increasing presence of these third-party operators in the market will help create more options for hotel investors in terms of brand selection.

A recent hotel deal in May 2023 is another example of the above-mentioned movement. The 4-star 18th-century Grand Hotel Gardone on the shore of Lake Garda was bought from the Mizzaro-Papini family by Lithuanian hotel group Apex Alliance in partnership with Romanian investment firm Pavăl Holding. This hotel will be renovated and re-opened as a 5-star international branded hotel in 2026, managed by the white-label operator Apex Alliance Hotel Management⁸.

GRAND HOTEL GARDONE RIVIERA CHANGED HANDS TO BE RE-OPENED AS AN INTERNATIONAL BRAND 5-STAR HOTEL IN 2026



LOOKING FORWARD TO THE FUTURE

Historically, Italy's hotel market has been very fragmented and characterised by generational ownership, which makes it different and possibly challenging for outside investors to access. However, the pandemic has caused a shift in this. A number of family-owned businesses are under post-Covid debt loads, which they may struggle to repay, especially if under pressure at the time of refinancing. As a result, more and more opportunities for foreign investors are expected to emerge over the next few years.

Italy has high barriers to entry, typified by close local relationships and challenging bureaucracy so that off-market situations through direct dialogue with sellers are more likely. As such, overseas investors will benefit from working with experienced advisory support able to ensure access.

While the sentiment over foreign investors buying up Italian prized hotels is divisive amongst local industry insiders, the attractiveness of international luxury hotel brands that bring affluent tourists to the country is undeniable. This will also help upskill the local labour force and create more jobs as luxury hotels generally require a higher staff per guest ratio. It also has added benefits to the local economy as the associated businesses that will grow around these properties will positively impact the wealth and image of the entire destination.

SELECTED MAJOR HOTEL TRANSACTIONS (2021-2023)

HOTEL	CITY	NUMBER OF KEYS	PRICE	PRICE PER KEY	BUYER	SELLER
W Rome	Rome	162	€ 172,000,000	€ 1,062,000	Hamilton Pyramid Europe	King Street Capital Management
The Pantheon Iconic Rome Hotel Autograph Collection	Rome	79	€ 62,000,000	€ 785,000	InvestiRE SGR SpA	Private
Hotel Bellevue Suites & Spa Cortina	Cortina d'Ampezzo	66	€ 49,000,000	€ 742,000	Invel Real Estate Partners	Private
25Hours Hotel Piazza San Paolino Florence	Florence	171	€ 109,000,000	€ 637,000	Invesco Ltd	Art-Invest Real Estate
Lefay Resort & Spa Lago Di Garda	Lake Garda	96	€ 59,000,000	€ 615,000	CDP Real Asset Sgr Spa	Lefay Resorts
Hotel Bonvecchiati	Venice	191	€ 100,000,000	€ 523,000	ECE Real Estate Partners	Private
Hotel Excelsior Venice Lido Resort	Venice	197	€ 97,500,000	€ 495,000	London & Regional Properties	COIMA SGR SpA
Hotel Londra & Cargill	Rome	101	€ 34,500,000	€ 342,000	PPHE Hotel Group	Private
Four Points by Sheraton Milan Center	Milan	239	€ 58,500,000	€ 245,000	Castello SGR	Aina Hospitality
Principe di Lazise Wellness & Spa	Lazise	127	€ 25,000,000	€ 197,000	Fattal Hotel Group	Bain Capital LP

Currently, the markets of major interest remain the main Italian cities. Rome is leading in terms of future development, estimated at 2000 more rooms in the next 3 years, followed by Milan, and Venice¹⁰. While coastal cities and smaller towns, for example, in the Lake Region, are popular for tourists, the current lack of infrastructure and potential difficulty recruiting skilled labour make them less attractive. Nevertheless during 2023, the overflow of interest in the Italian hotel market sees the arrival of capital towards secondary cities such as Verona, Bologna, Turin, Naples, and Catania, both for the dynamism of these places and for the highest achievable yields.

In support of sustainable growth for a future Italy, the Italian National Recovery and Resilience Plan was launched in 2021 with investment funding of €191.5 billion to tackle six major missions in coherence with the six pillars of the Next Generation EU¹¹.

Some of the highlights directly impacting tourism and the hotel business include integrated funds to renovate and redevelop hotel facilities throughout Italy, a national villages plan for the tourist and cultural revitalisation of small towns, and a profound change in the transport offer to create more modern and sustainable roads, railways, ports and airports throughout the country within five years. As a result, these improvements will further expand hotel investment opportunities in the secondary market significantly in the coming years.

Much remains to be explored in this dynamic and evolving market. There seems to be an option for everybody. More than ever, hotel investors will benefit greatly from the combined expertise of a hotel-specialised investment advisor and dedicated asset manager, who has experience in Italian hotel transactions and provides end-to-end exclusive services. ●

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