A life of luxury: where are the next European hospitality hotspots?

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Four investors and brokers discuss the best prospects for high-end investment

When looking at what's happening in the hotel sector right now, the focus is on high-end properties in affluent regions, where wealthy tourists and business travellers cross paths.

Take the Paris Hilton Opéra, which is being bought by Singapore-based City Developments Limited (CDL); the Art Deco Imperial Hotel in Prague, which is due to change hands soon; or Gruppo Statuto, owner of arguably the best hotel portfolio in Italy, which is looking for a partner to inject €2bn of capital in the company.

React News caught up with four investors and brokers to discuss the European hotspots for luxury hospitality investments.

Spain

A top holiday destination for many European nations as well as the top destination for European hospitality investment last year, Spain has an undersupply of luxury hotels and so offers good prospects for upgrading, conversion and development.

Jorge Ruiz, head of hotels Iberia at CBRE, believes this is best explained by the history of tourism in the country.

"Spain became a major destination in the 1960s and the 1970s. While still under dictatorship, the country began slowly opening and wanted to attract international travellers. The most natural way to do that was to bring the tour operators in," he says.

Atom Hoteles, the owner of hotel Melia Sevilla, Spain, secured a €211.5m loan last year to continue implementing its development plan

"However, that is a mass-market type of tourism. The properties that were developed to fit the requirements of that type of visitor were, at best, three or four-star. These segments have been historically overdeveloped. France, Italy and even Greece have a better luxury offering."

These assets form the core of the country's hospitality base to this day – as many as around 70% of Spain's beds are in three and four-star hotels.

Nevertheless, according to CBRE data, five-star and five-star grand luxury assets accounted for as much as 25% of the country's 2023 total hospitality investment volume. "People who have traditionally been travelling to Italian resorts are now coming to Spanish ones. And there are a lot of US travellers," says Ruiz.

"Operators and owners are investing more in the existing hotels and new products are being developed. There is a growing presence of international brands while the domestic brands that have dominated the market for decades are looking abroad."

Ruiz emphasises that Spain has the two most crucial things needed to attract luxury hospitality investment. "Firstly, it has efficient infrastructure. Tourists can access the resorts and city hotels easily and quickly. Secondly, it is a safe country."

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> JORGE RUIZ, CBRE

The performance of Spain’s luxury assets has improved in recent years as more have sprung up. According to Ruiz: “Ten years ago, the highest rate that you could pay in a five-star hotel in Madrid was around €300 per night. Today, it’s €1,000, because Four Seasons, Rosewood and Mandarin are all present there.”

The situation of Barcelona is trickier due to development restrictions. But once it has its first Rosewood and Four Seasons, “the profile of the traveller coming to the city will rise significantly”.

As fundamentals are strong, he expects development, upgrading, rebranding and conversions to luxury hospitality assets as well as transactions. “Many of the investors exploring the market now are sovereign funds and high-net-worth individuals who do not need to leverage their investment so much or even do not need debt at all. Many of them have preference to buy luxury assets," says Ruiz.

Portugal

Similar to Spain, Portugal has traditionally been popular for mass-market tourism. Nonetheless, the country has fewer luxury hotels than might be expected.

John Calvao, the managing principal of funds at Arrow Global, says: "In local terms, a hotel's five-star rating is determined by room size and bed count, which hardly reflects the quality of service."

In recent years, the alternative asset manager has maintained a strong focus on Portugal, with acquisitions including six hotels and five golf courses from the Dom Pedro Group in July, and the Palmares Ocean Living & Golf on the Algarve, acquired from King Street and Kronos Homes for over €110m in November.

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> JOHN CALVAO, ARROW GLOBAL

However, tourists seeking genuine luxury will welcome the arrival of renowned brands exploring opportunities in the westernmost part of Europe.

“Many of these brands cater to clients who typically vacation in Monaco, on the Champs-Elysees in Paris, or in southern France. For example, there’s already is a Six Senses in Porto,” says Calvao. He anticipates Lisbon will soon boast more authentic five-star hotels.

But he believes that Portugal’s most promising opportunities lie in resorts outside major cities, particularly in the wine regions along the Douro river, which he compares to Tuscany. “A Six Senses is perfectly at home there. And there is no reason the Algarve shouldn’t have genuine world-class five-star establishments today.”

Calvao is particularly excited about the acquisition in Palmares, envisioning it as an exclusive resort that will particularly appeal to US travellers – who can travel direct to Faro from May. “The introduction of direct flights will be a game-changer,” Calvao says.

While Portugal presents viable opportunities for luxury hospitality investment, Calvao stresses that the nation has a long way to go before it can compete with the established markets of France or Italy.

“Merely acquiring properties isn’t enough. We must train staff accustomed to working in three or four-star environments to deliver five and six-star service, which is a significant challenge, but also an opportunity, for us and for the broader Portuguese hospitality industry in Portugal,” he adds.

Central and Eastern Europe

The rapid economic growth of the CEE is translating into higher demand for a better hospitality base. For instance, the volume of investments in hotels in the Czech Republic increased by 68% year on year in 2023, according to Cushman & Wakefield data.

One of the major hospitality transactions in the region was CPI’s sale of the Sun?ani Hvar portfolio in Croatia to Eagle Hills for a reported €200m. Mindee Lee, corporate strategy director and board secretary at CPI, saw a lot of interest in the assets.

“We garnered significant interest from major real estate players in the region. Given the strong performance during the summer, the bidding process was quite competitive,” she says.

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>
> MINDEE LEE, CPI

According to Lee: “The CEE’s upscale and luxury offering is catching up with Western European cities. Many of the region’s key cities are rapidly developing, not only five-star hotels, but also in other categories of hotels.”

Among locations in the region, Lee highlights Budapest which will soon be home to an Autograph and a W by Marriott. She points out that Poland and the Czech Republic already have such brands as Four Seasons, Raffles, and Bristol, “so the new supply will be a little bit more muted.” Fairmont is a grand opening anticipated in Prague this year.

CPI's luxury hospitality assets have reported strong performance recently and, among them, Lee highlights those in Croatia. "We saw strong performance for our portfolio there as the leisure demand returned with vigour last year," she says.

According to Lee, growing demand for luxury in CEE is being driven mainly by middle-income travellers who are "willing to spend more for comfort and focusing on experiences. There is definitely growing demand for personalised service and catered experiences offered by luxury and five-star hotels."

In December, CPI and Best Hotel Properties, a CEE hospitality investor, created a joint venture consisting of eight properties in the Czech Republic owned by the former company plus its operator CPI Hotels. Best Hotel will subscribe for 50% of shares in the joint venture, which has a total portfolio value of €350m.

One United Properties acquired One Plaza Athénée, a former abandoned building in Bucharest, Romania, to transform it into a five-star hotel with a gross development value of €48m

"The plan is to build a good partnership to operate the properties and share knowledge and expertise, while recycling a portion of our capital from the portfolio," Lee says.

While she is confident the luxury hospitality sector in the CEE should continue to grow, Lee recognises obstacles. "Currently, we are facing utility cost increases as well as cost inflation and a lack of a good employee pool, which is more critical for operating luxury hotels.

“However, on the positive side, the market is always recovering, and on the financial side, we are able to achieve even better numbers than we have seen after the GFC in 2008 or Covid in 2022.”

Romania

Geographically close to the popular holiday destinations of Turkey, Greece, Croatia and Italy, Romania remains far behind in terms of hospitality investment. But one of Europe’s fastest growing economies is opening up to tourists as it is partially included in the Schengen zone. And with many businesses nearshoring to Romania or establishing branches there, demand for business accommodation is increasing too.

Last year, Bucharest’s biggest and listed developer One United Properties and Ennismore agreed on the development of the first Mondrian in the capital. The brand’s locations include Los Angeles, New York, Doha, Cannes, London and Singapore.

What prompted One United Properties to enter the hospitality sector with a luxury hotel development in central Bucharest was, according to Victor C?pitanu , the company’s co-founder and co-chief executive: “The big shortage of such assets in the city. Guests who can afford and prefer to stay in such accommodation simply have no options here.”

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> VICTOR C?PITANU, ONE UNITED PROPERTIES

It is important for C?pitanu to bring international brands to the city. "We would certainly like to develop more hotels in partnership with Ennismore in the future. But we have entered talks with several other international operating businesses as well.

"There is an opportunity for us to build more luxury hotels in Bucharest. We are currently doing feasibility studies for another two assets. There is a structural demand, so there is a business opportunity."

Hyatt is to open its first Romanian hotel too, while Ascott is introducing the Crest Collection to the country. The first Kempinski Hotel in Romania will be opened in the mountain resort of Poiana Bra?ov by a developer that is another newcomer to luxury hospitality, Rock Development Holding.