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IN FOCUS: AMSTERDAM HOTEL MARKET UPDATE

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Introduction

Amsterdam is a popular destination for leisure, business and MICE travellers, given its balanced demand generators for each segment complementing each other throughout the year. Demand for the city is currently strong, with a record growth in overnight stays registered in 2014 and double-figure growth expected for 2015.

The city's excellent international connectivity with well-developed transport links and significant tax incentives for international companies has helped to establish Amsterdam as a popular business hub.

For these reasons, the hotel sector continues to attract significant investor interest, demonstrated by a considerable hotel project pipeline. This article discusses marketwide developments and follows our previous updates in January 2012 and February 2014¹.

AMSTERDAM CITY CENTRE



Market Characteristics

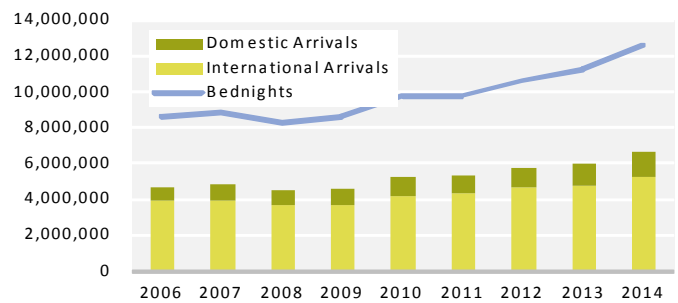
Tourism

Tourist arrivals have been steadily increasing since 2011, reaching a high of 6.8 million in 2014, owing to the reopening of several museums in Amsterdam, along with some large conferences at the RAI Convention Centre and an expanding cruise business. The increase in visitation directly impacted accommodated bednights with a 12% increase from 2013 to 2014.

The international feeder markets for Amsterdam remained relatively similar from 2012 to 2014,

with tourists coming mainly from the UK, the USA, Germany and France. Further growth has been observed from BRIC countries, especially Russia (+20%) and China (+10%). Domestic visitation to Amsterdam remains the highest, with 1.4 million visitors in 2014 alone.

FIGURE 1: TOURIST ARRIVALS AND ACCOMMODATED BEDNIGHTS



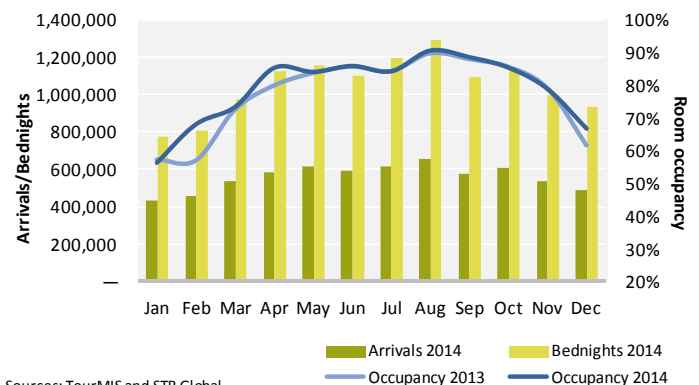
Source: European Cities Tourism

Seasonality

Amsterdam records relatively high hotel occupancy levels throughout the year; the low season falls in the winter months owing to lower leisure visitation. During 2013, occupancy in Amsterdam fluctuated between 57% in January to 90% in August, with April to October being the busiest period.

2014 was a better year in the off-peak months, with an occupancy growth of 19% in February and 6% in April.

FIGURE 2: SEASONALITY



Sources: TourMIS and STR Global

¹ The Schiphol airport hotel market has been specifically excluded from our analysis as it present different characteristics compared to the city market.

Transportation

Amsterdam Schiphol Airport is the fourth-busiest airport in Europe in terms of passenger numbers. Between 2003 and 2014 passenger numbers at Schiphol grew at a compound annual growth rate of 3%, with 55 million passengers arriving and departing in 2014. The addition of a new pier along with the expansion of the terminal and a new car park contribute to a forecasted growth in passenger numbers to 65 million in 2020.

A new Metro line is scheduled to open in 2017 which will provide a rapid connection between Buikslotermeer in the north and Amsterdam Zuid station in the south, via Amsterdam Centraal.

Development Overview

Hotel developments in Amsterdam can be categorised into two distinct areas: the historic city centre and the areas outside the city centre. The former is tightly controlled in terms of hotel development and the government has only granted planning consent for five new hotel developments in the past eight years (Andaz, Art'otel, Waldorf Astoria, W, Hyatt Regency). We understand that except for 'new and unique' hotel concepts such as the Palace of Justice (luxury), which adds major value to the hotel offer, no new city centre schemes will obtain permission in the medium term.

THE WALDORF ASTORIA HOTEL, AMSTERDAM



We expect the value of centrally located hotels to investors to continue to increase at the same time as more 'fringe' locations will be considered. This stance has thus generated additional interest in the more emerging locations described below.

Amsterdam Noord

Traditionally a residential district, the area now benefits from the EYE Museum and shortly from the A'DAM Tower, a mixed-use development featuring a boutique hotel. With the opening of the North-South Metro line in 2017 alongside the Buiksloterweg-Centraal Station ferry, the gentrification of the area is expected to gather momentum.

Amsterdam Sloterdijk (West)

Following the departure of a number of office tenants, Sloterdijk has witnessed some conversions of vacant office space to hotels, such as the Meininger and Holiday Inn Express, soon to be joined by a Mercure and Park Inn opening in 2015 and 2016, respectively. The area is not particularly physically attractive, though efficient transport connections are an advantage and seem to attract budget-conscious visitors.

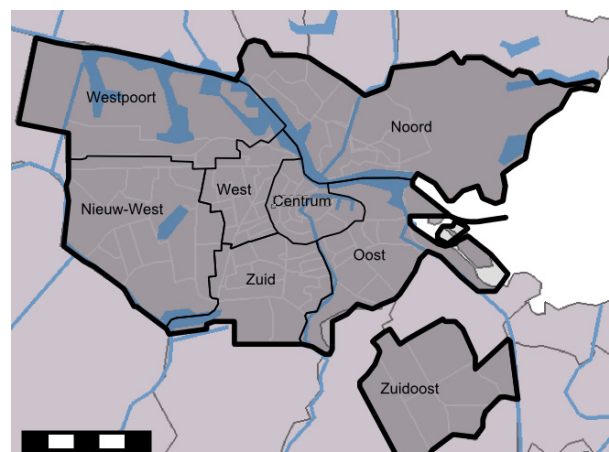
Amsterdam Oost

A recognised up-and-coming area; some new restaurant and bar openings and innovative hotel concepts, such as the Volkshotel, have lifted the tone of the area. As the Metro and some train lines cross the zone, it is reasonably well connected and includes university campuses and some corporate headquarters.

Amsterdam Zuid

Like Canary Wharf in London or La Défense in Paris, Zuidas, in the south of Amsterdam, now serves as a principal business and financial

FIGURE 3: MAP OF AMSTERDAM



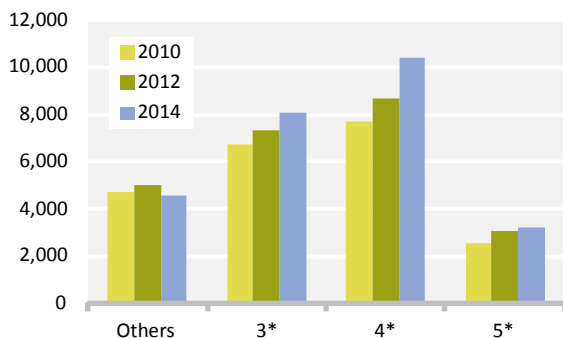
district. This area continues to expand in proximity to the RAI, which is amongst the largest convention centres in Europe. In May 2015, the RAI is supposed to welcome another 1,000 m² of space to its existing 91,000 m². The new North-South Metro line could allow for more corporate guests to choose city centre and more peripheral hotels over those in the Zuidas/RAI area.

The Amsterdam Hotel Market

Full-Service Hotel Market Overview

Today, full-service hotels constitute around 20,000 rooms in the city, a large percentage of which are branded. In 2014, the majority of the hotel rooms available were in the three- and four-star categories, with a room count of around 8,000 and 10,500, respectively.

FIGURE 4: FULL-SERVICE HOTEL ROOMS SUPPLY



Source: Amsterdam in numbers

In 2014, the Amsterdam full-service hotel market experienced a 1.2% increase in occupancy, 4% increase in ADR and 6% growth in RevPAR compared to 2013.

FIGURE 5: FULL-SERVICE HOTEL MARKET PERFORMANCE

	2012	2013	2014
Occupancy	79%	80%	81%
ADR	€142	€147	€153
RevPAR	€113	€118	€125

Source: STR Global

Despite the relatively compact nature of Amsterdam compared to larger cities such as London or Paris, the location of the hotels is arguably more important than in some other

cities owing to some guests' preferences for city centre accommodation. Recent years and growing additions to hotel supply have brought location-specific challenges for many properties located outside the historic city centre. As a result, those hotels will not feature on a 'city centre' search on Online Travel Agents (OTAs) websites and are at a disadvantage in trying to secure leisure demand.

Future Full-Service Hotel Supply

Figure 6 presents the hotel pipeline for full-service hotels.

FIGURE 6: FUTURE FULL-SERVICE HOTEL SUPPLY

Property Name	Number of Rooms	Estimated Opening Date	Quality level	Location
Steigenberger Jaz	253	2015	Upscale	Ziggo Dome
W Hotel	238	2015	Luxury	City Centre
Element Amsterdam	160	2015	Upscale	Gelderlandplein
Hoxton Hotel	111	2015	Upper upscale	City Centre
Mercure Sloterdijk	172	2015	Upscale	Sloterdijk Station
Corendon Vitality Hotel	248	2015	Midscale	Zuid
Courtyard Atlas Park	170	2015	Upscale	Atlas Park
Sir Adam	110	2016	Upper upscale	Noord
Hyatt Regency	211	2016	Upper upscale	Weesperplein
Pestana Amsterdam	189	2017	Upper upscale	Diamantbuurt
Amsterdam Mauritskade Hotel	101	2017	Upper upscale	Oosterpark
Crowne Plaza Amstelkwartier	310	2018	Upscale	Amstel Station
Amsterdam RAI	600	2018	Upscale	RAI
Maritim Group	478	2018	Upscale	Noord
Amsterdam Palace of Justice	120	2018	Luxury	City Centre

Source: HVS Research

Amsterdam will witness the addition of several new hotels to the market. Part of this new supply involves hotel chains introducing brands for the first time in Amsterdam: Hyatt Regency, Steigenberger Jaz, Hoxton, Pestana, Element and W (both Starwood).

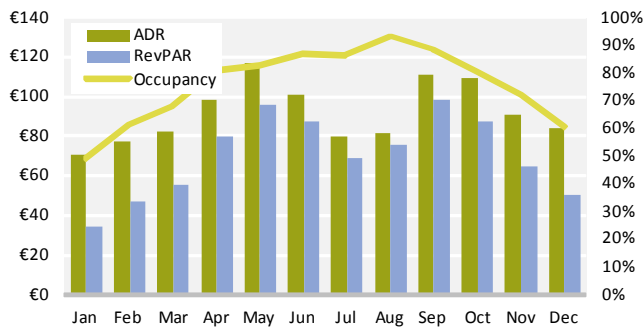
Only two of those will be located in the city centre: the W Hotel and the Hoxton Hotel. We note that the Hoxton is a conversion from the former Rembrandt Hotel and thus not enlarging the hotel supply.

Limited-Service Market Overview

Amsterdam has recorded a considerable increase in hotel inventory in the limited-service category in the past few years. Nevertheless, performance of these properties appears to be very strong.

According to STR Global, in 2013, the supply of limited-service hotels grew by 18% and demand

FIGURE 7: 2014 LIMITED-SERVICE HOTEL MARKET PERFORMANCE



Sources: TourMIS and STR Global

by 22% compared to the same period the year before. In 2014, it was 2% and 7%, respectively. Limited-service hotels' RevPAR in 2014 was €70.62, a 9% increase compared to 2013

As shown in Figure 7, the limited-service market operated at above 70% occupancy levels from April to November in 2014. ADR was highest in April, May, September and October which are very strong months for the corporate and MICE segments.

On a daily comparison, Fridays and Saturdays yield the highest occupancy and ADR levels, as shown in Figure 8, indicating the importance of

FIGURE 8: DAILY LIMITED-SERVICE REVPAR PERFORMANCE (€)

2014 Daily RevPAR						
Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
64.70	70.70	72.00	67.00	77.50	89.40	53.10

Source: STR Global

leisure demand.

Future Limited-Service Hotel Supply

Figure 9 presents the hotel pipeline for limited-service hotels.

FIGURE 9: AMSTERDAM FUTURE LIMITED-SERVICE HOTELS

Property Name	Number of Rooms	Estimated Opening Date	Location
Motel One Amsterdam	315	2015	EuropaBoulevard
Zoku	128	2015	City Centre
Park Inn Sloterdijk	478	2016	Sloterdijk

Source: HVS Research

Motel One is due open its first Dutch property in Q3 2015 opposite the RAI. The Park Inn development, located in one of the largest former office buildings in Sloterdijk, is set to become a new European flagship hotel for the brand with 478 rooms and more than 4,000 m² of meeting space. Zoku, a hybrid between a hotel and a short-stay office, is the brainchild of Hans Meyer, creator of the CitizenM concept.

Hostel Market Overview

The hostel market in Amsterdam is significant and features some international brands: St Christopher's Inn operates three properties in the city; Stayokay, a Dutch hostel chain operating 26 units across the Netherlands, has three properties in Amsterdam, and Meininger also operates a property in Sloterdijk which is due to be expanded. Even though the hostel chains offer some private rooms, the hostel business traditionally sells beds, making a direct performance comparison with traditional hotels challenging. Nevertheless, hostels constitute real competition for the limited-service hotels, with several of the newer hostel properties offering superior products to some traditional budget hotels.

THE STAYOKAY HOSTEL, AMSTERDAM ZEEBURG



Future Hostel Supply

International hostel chains will add an estimated 2,600 beds to the Amsterdam market in 2015, half of these in one property. A further 1,000+ are due to follow in 2017/18.

The 1,300-bed A&O Amsterdam Zuidoost will be located close to the Amsterdam Arena in the southeast of the city, as the group's first property outside Germany and Austria.

FIGURE 10: AMSTERDAM FUTURE HOSTEL SUPPLY

Property Name	Number of Beds	Estimated Opening Date	Location
ClinkNOORD	750	March 2015	Amsterdam North
A&O Amsterdam Zuidoost	1,300	June 2015	Amsterdam Arena
Generator	556	Late 2015	Oosterpark
Meininger Sloterdijk (extension)	296	January 2017	Sloterdijk
Meininger Amstel Station	800	July 2018	Amstel Station

Source: HVS Research

The ClinkNOORD, the first non-UK property of the brand, will be located in the former Royal Dutch Shell head office in northern Amsterdam, behind the A'DAM Tower and the EYE Museum.

The Generator Amsterdam will open in late 2015 in the former zoological and health department of the University of Amsterdam near the Oosterpark in the east of the city.

Meininger is developing its second Amsterdam property in the Amstel Station area southeast of the city centre, to be opened in 2018.

Hotel Investment Market

Transactions

Although traditionally there have been relatively few hotel transactions on an annual basis in Amsterdam, this level of activity has increased significantly in the past few years with eight transactions from the beginning of 2014 until 2015, of which five were single asset transactions and three were part of a portfolio. We comment on them below.

Single Asset Transactions

- In June 2014, the French investment firm Foncière des Régions acquired, through its subsidiary Foncière des Murs, the 232-room **NH Amsterdam Centre** hotel for €47.9 million (€206,000 per room) on a sale-and-lease-back basis. The property is subject to a 20-year triple net fixed-term lease;
- The 252-room **Radisson Blu Hotel Amsterdam** was sold in June 2014 by Capital Hospitality Group to Union Investment for a reported price of €85 million (€337,000 per room). The property is fully leased to the Carlson Rezidor Group, with a remaining term of 21 years;

- In December 2014, the 254-room **Holiday Inn Express Sloterdijk** was sold to Invesco Asset Management for €23 million (€91,000 per room). The Vincent Hotel Group currently operates the hotel under a 25-year lease;
- In December 2014, the 244-room **Holiday Inn Express Hoofddorp** was sold to Archon Group for €9.3 million (€38,000 per room);
- In January 2015, the 51-room **Cornelisz Hotel** was sold to Van der Vorm Vastgoed, a Dutch real estate investment firm for €18.2 million, or €357,000 per room;

Portfolio Transactions

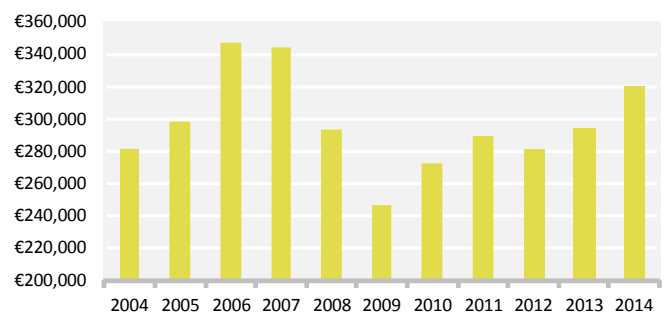
- As part of a five-property portfolio deal (all InterContinental hotels), the Qatar Investment Authority acquired the 79-room InterContinental Amstel in June 2014;
- In April 2014, the 256-room Holiday Inn Amsterdam Zuid and the Crowne Plaza in Hofddorp near Schiphol Airport were sold to Apollo Global Real Estate, as part of an eighteen-property portfolio transaction.

Hotel values

From our valuation experience and knowledge of the market, we estimate that hotel values per room in Amsterdam have grown significantly since 2009, approaching pre-crisis levels. We expect values to continue their growth in the next few years.

In 2014, we estimate average values to have reached €320,000 per room, an increase of 8.6 percent compared to 2013. This growth was the result of increased business, leisure and MICE

FIGURE 11: AMSTERDAM HOTEL VALUES PER ROOM 2004-14



Source: HVS Research

demand to the city, especially due to large RAI congresses and the reopening of some key leisure attractions in the city.

As per our annual European Hotel Valuation Index (HVI), Amsterdam is ranked sixth in hotel values per room in 2014 with values being 29.8% higher than the average of the 33 European cities monitored.

Short- & Long-Term Challenges

Barriers to Entry & New Supply

Barriers to entry for new hotel developments are extremely high in the historic city centre owing to strict planning restrictions. The majority of the new developments are therefore currently concentrated outside of the city centre, primarily driven by conversions of vacant office buildings.

While city representatives try to ensure a match between hotel demand and supply, some critics still view the continuous increase of rooms as a risk of oversupply in certain areas outside the city centre that are not intrinsically attractive to leisure guests. However, strict supply constraints in the historic city centre are expected to enable city centre properties to perform relatively strongly. The recent addition of a limited number of hotels within the city centre is expected to put pressure on some hotels to renovate. Therefore, the quality of hotels should continue to improve.

Amongst the new supply, two major hotels – the RAI hotel and the Maritim – are to be constructed in the north and south of Amsterdam by 2018, offering more than 1,000 rooms combined, targeting mainly corporate and MICE clientele. Our research highlighted that such properties are potential threats to the demand for some smaller MICE and corporate hotels located further away from the RAI, which today benefit from a large

overspill of demand during peak periods in the city, particularly associated with major international congresses.

AirBnB and other Accommodation Providers

The emergence of alternative room providers such as AirBnB (currently offering almost 6,000 rooms) has been an issue for some Amsterdam hotel operators over the past two years, primarily with regard to leisure guests, some of whom prefer renting flats in the central canal district as opposed to hotels outside the city centre. Several initiatives such as the adjustment of tax payments for AirBnB providers have been put in place to face those challenges.

Conclusion

With a robust reputation for attracting corporate, MICE and leisure travellers, Amsterdam has experienced healthy demand growth in recent years, and we see no reason for that to cease. The increasing number of corporate events at the RAI and particular leisure events such as the Sail event or Mysteryland Festival are expected to contribute to visitation growth in 2015.

The location of hotels continues to be pivotal owing to guests' preference for city centre accommodation. Recent regulations have, however, seen new hotel projects concentrated towards other areas outside of the city centre. Those areas will welcome new hotel and hostel brands in the coming three years.

The strong performance of the Amsterdam market has also caught the attention of hotel investors, with eight traded assets in 2014, including two in Schiphol, and considerable room value growth achieved in the same year according to the HVS HVI, hitting the €300,000 mark. With the strict limitations on hotel construction in the city centre, existing properties in that area are expected to continue to experience value growth in at least the medium term.

While the city continues to experience strong growth in demand and the city centre market will continue to perform strongly given the supply constraints, other properties will face challenges, particularly those with no intrinsic appeal to leisure visitors.

AMSTERDAM CANALS





About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming and leisure industries. Established in 1980, the company performs 4,500+ assignments a year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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