Hotel *Intelligence*

September 2016

Paris

Paris' solid market fundamentals rely on strong international tourism demand and tight hotel supply. As opportunities to enter the market remain scarce, hoteliers have been encouraged to increase rates to higher levels in comparison to other key destinations.

Although performance of Parisian hotels are suffering from security threats, Paris is well established as a leading international leisure and business destination. The UEFA Euro 2016 has slow downed the negative RevPAR growth. In the second half 2016, the political uncertainty in Europe is likely to affect RevPAR and delay the recovery to early 2017.

Tourism

Paris remains one of the world's most visited cities and resilient markets, attracting a balanced mix of leisure and business clientele. Its historic and cultural heritage draws more than 73 million visitors each year to museums and monuments. At the same time, the city is one of the top international destinations for conventions and conferences, resulting in strong demand for corporate travel. Over the past few years, business travel has consistently accounted for around 40%-45% of overnight stays.

Demand

The city enjoys strong international visibility, with foreign visitors taking up about 65-70% of total hotel stays. International demand directly correlates to GDP growth in key feeder markets, as well as geopolitical events and exchange rates. The US and the UK represent nearly 30% of total international hotel overnight stays. Growth from China has stablised after the tremendous increase over the last few years, mainly because of the change in travel insurance coverage after the terrorist attacks, affecting tour groups. Japan and Russia registered the strongest decline of 51% and 39%, respectively, due to terrorism and domestic issues in Russia.

Supply

As at June YTD 2016 there are around 1,550 hotels in Paris, with 80,200 rooms according to Insee. Over the last 10 years, Paris experienced an upgrade of its hotel supply. This is due to the new hotel classification, which encouraged hotel owners to upgrade their products. Moreover the world's largest hotel groups have increased their presence in Paris, with hotels primarily positioned in the upscale and luxury segment. The Palace segment is expected to become more competitive in the medium term with the opening/re-opening of three properties by 2018. This trend illustrates investors' confidence in the city's long-term prospects.

Performance

In the first half of 2016, the market recorded a fall in RevPAR of 16% due to a drop in both occupancy and average rate. The decline was mainly attributed to the terrorist attacks and heightened travel alert in the capital. Despite a 2% growth of tourist arrivals in June, Euro 2016 did not provide a major upsurge due to increased competition from alternative accommodation such as Airbnb and subdued visitations. The main factor pushing prices down has been the lack of foreign customers. However, despite terrorism and continued domestic economic challenges, the destination has always proven to bounce back quickly thanks to its strong trading fundamentals and international outreach.

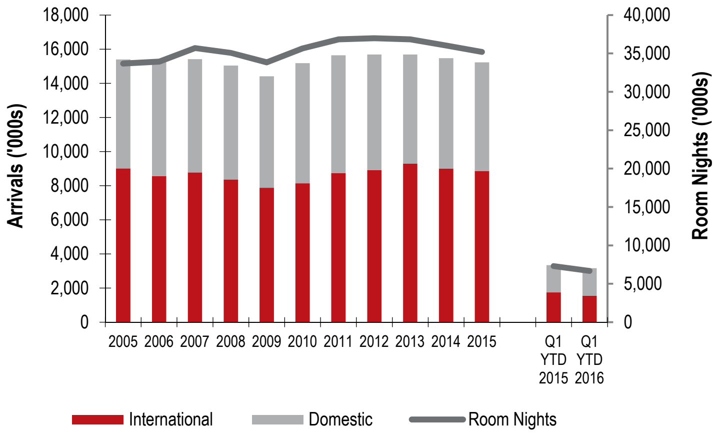
Quick facts

€153 RevPAR ▼15.9%	67.9% Occupancy ▼10.7%	€225 Average Rate ▼5.8%
80,200 Current Room Supply ▲ 2%	4% - 5.25% Hotel Yield Range	€302 million Hotel Investment Volumes June YTD 2016

▲▼ % change compared to the prior year

Hotel performance data sourced from STR

Paris Hotel Demand



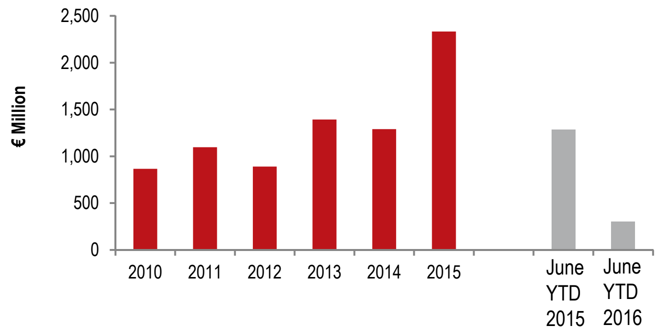
Source: Observatoire du Tourisme Parisien

Investment

Paris remains a highly attractive city for hotel operators seeking flagship properties in continental Europe. However, the lack of available development sites, high development costs and limited sale opportunities in the market represent significant barriers to entry. Along with the Grand Paris, the City is enhancing new developments. In early 2016, five hotel projects have been confirmed by the results of the competition for innovative urban projects “Reinventer Paris”. In addition, the conversion of office buildings is continuing to gain momentum (between 2008 and 2017, nearly 40% of new room supply came from conversions).

Investor appetite remains strong and has not been affected by the terrorist attacks. Purchasers have factored low yields in 2016 in their pricing due to decreasing performance with a view of recovery by 2017. The year-on-year decline in H1 2016 investment volumes was mainly due to the €1.3 billion Groupe du Louvre Hotels transaction which took place in H1 2015. Looking forward, a couple of major transactions are expected to exchange in the second half of 2016.

Hotel Investment Volumes



Source: JLL Hotels & Hospitality

Recent Openings	Pipeline	Notable Deals	Infrastructure Developments
Ritz Paris 143 rooms, reopened June 2016	**Hôtel Fauchon Madeleine** 60 rooms, Due 2018	**Pullman Paris Bercy** June 2016, Price Confidential	**Les Halles** Redevelopment Project Due 2016
Okko Hotel Rueil-Malmaison 110 rooms, Opened May 2016	**Mama Shelter Porte de Versailles** 200 rooms, Due 2019	**Timhotel Opera St Lazare** June 2016, Price Confidential	**Clichy-Batignolles** Urban Development Due 2018-2020
Novotel Suites Paris Expo 99 rooms, Opened April 2016	**Kimpton Hotel Paris** 149 rooms, Due 2020	**Sofitel Paris Le Faubourg** May 2016, € 136m	**Paris Rive Gauche** Due 2020
Renaissance Paris République 122 rooms, Opened April 2016	**Tours Duo** 237 rooms, Due 2020	**Citadines Suites Champs Elysées** January 2016, Price Confidential	**Grand Paris** Due 2030

Outlook

With numerous transactions and iconic openings, Paris confirmed the strength and vigour of its hotel market remaining one of the most sought-after markets in terms of hotel investment in 2015.

The main risks remain geopolitical and economical. However, the outlook for hotel performance in the medium term remains promising with favourable exchange rates and strong fundamentals. Economic growth is projected to reach 1.4% this year and 1.5% in 2017, which put Paris on the radar of global investors.

Market demand continues to outweigh supply while new developments are expected to be limited. The new additions will be more modern and iconic, providing a new dynamism to the city. Potential investors, with various profiles and nationalities, continue to show interest in office building conversions.

Even if 2016 is likely to end up as a declining year on the operational side due to terrorism, recovery is expected in 2017 and should be rapid as observed in previous situations, as long as no other attacks occur. Hotel investment volumes should remain high, and yields stable.

Contacts

Gwénola Donet
Hotels & Hospitality - France
gwenola.donet@eu.jll.com
+33 1 40 55 17 18

Jessica Jahns
EMEA Hotels & Hospitality Research
jessica.jahns@eu.jll.com
+44 (0)20 7399 5821