

Tourism Trends

2009 vs. 2008

Passengers	↓
Guests	↓
Nº of Nights	↓
Tourism Revenues	↓

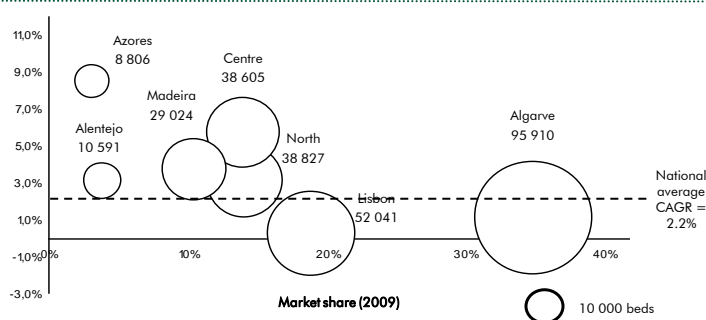
Main Indicators

- The European economic crises had a negative impact on the principal tourism indicators in Portugal;
- Nevertheless, the activity in the touristic sector showed some signs of recovery, indicating a slight improvement in 2010.

OVERVIEW OF TOURISM IN PORTUGAL

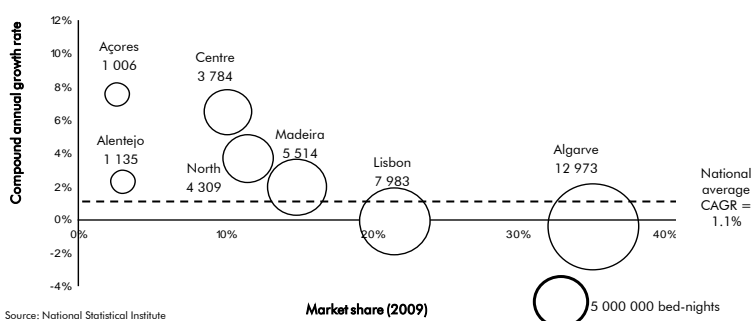
- In 2009, a total of 10.4 million passengers arrived in Portugal on international flights, representing a decrease of 5.4% in relation to 2008. The decreases occurred in all types of flights, with losses of 19 thousand, 228 thousand and 346 thousand passengers in the traditional, low-cost and charter flights, respectively. Traditional flights continue to represent the largest drop in the market share, with 54.7%.
- In Portugal, the supply of the number of beds in hotels, touristic villages and touristic apartments, increased by 3.5%, between 2007 and 2008, with growth in all the regions of the country (Continental Portugal and islands).
- On the whole during 2009, approximately 37 million nights were registered, reflecting a decrease of 6.4% in comparison to 2008. This reduction is a direct consequence of the behaviour of the foreign market, which dropped by 10.7% during the same period, representing 2.8 million less nights. On the other hand, the domestic market increased 2.2%, representing an additional 290 thousand nights in 2009 when compared to 2008. However, this increase was not sufficient to balance the decrease by the foreign market.
- During 2009, the United Kingdom registered 5.7 million nights and a market share of 24.5%, continuing to stand in 1<sup>st</sup> place on the international market ranking. This value represented a decrease of 1.6 million nights when compared to 2008. Germany recorded 3.3 million nights, thus occupying the 2<sup>nd</sup> place on the international ranking. We highlight that only 14.2% of the total nights were booked by foreigners. Germany, in line with the United Kingdom, also registered a decrease of 8.9% in relation to 2008, representing less 324 thousand nights.

Tourist Supply by Regions (1998 - 2009, Number of Beds)



Source: National Statistical Institute

Tourist Demand by Region (1998 - 2009; Thousand of Bed-Nights)



Source: National Statistical Institute

## LISBON HOTEL MARKET

### Supply and Demand

Since 1998, year of the Expo 98 exhibition, Lisbon has registered an increase in the supply for touristic accommodation (AAGR\* = 2.6%) slightly above the demand (AAGR\* = 2.3%), demonstrating that although the hotel industry is growing, it is becoming more competitive.

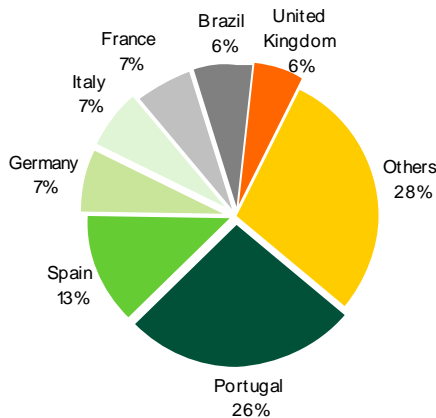
Despite the fact that since 2003 there has been a relatively sustained increase in the level of demand for accommodation, 2008 was marked by a decrease of approximately 150 thousand nights. Nevertheless, since 2003, the average annual growth in demand has been 5.7%, higher than the 3.4% relative to supply, indicating an even more rapid recovery in demand.

This situation was further aggravated in 2009, due to the fact that until September of last year, Lisbon International Airport registered 6% less number of flights and 3.9% less number of passengers, when compared to the same period in 2008.

The hotels continue to represent the type of tourist accommodation with the highest share in the city of Lisbon, with 80% of the supply of the rooms available. Pensions also have a significant share of in the Lisbon accommodation market. However, this market share which in 1998 was of 22% dropped to 16% in 2008.

With regards to the origin of the markets, in the Greater Lisbon Area, 26% of the nights originate from the local market, followed by the Spanish market with around 3%.

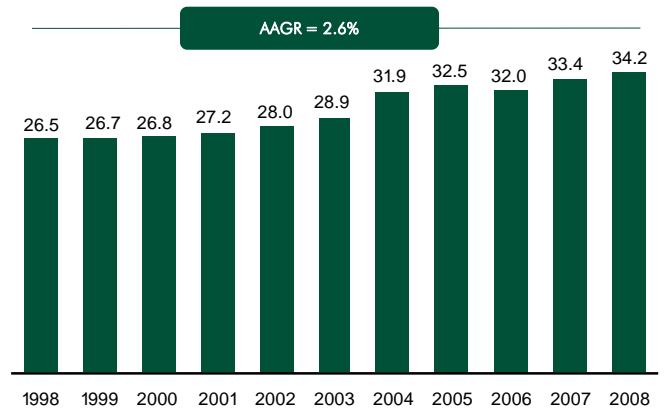
#### Market Share by Country in Lisbon (% of Number of Beds, 2008)



Source: National Statistical Institute / Tourism of Portugal, PI

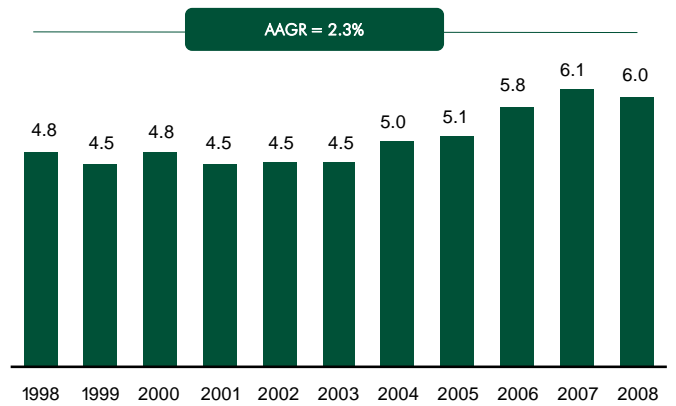
\* AAGR: Average Annual Growth Rate

#### Touristic Accommodation Supply in Lisbon Municipality (Number of Beds 000's)



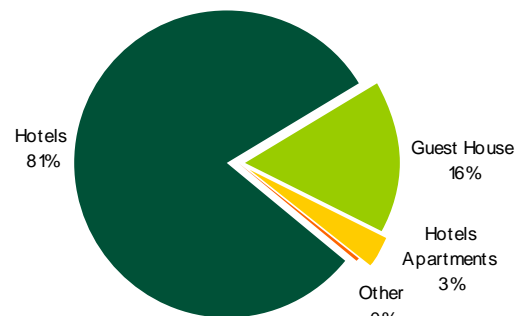
Source: National Statistical Institute / Tourism of Portugal, PI

#### Touristic Accommodation Demand in Lisbon Municipality (Number of Beds 000's)



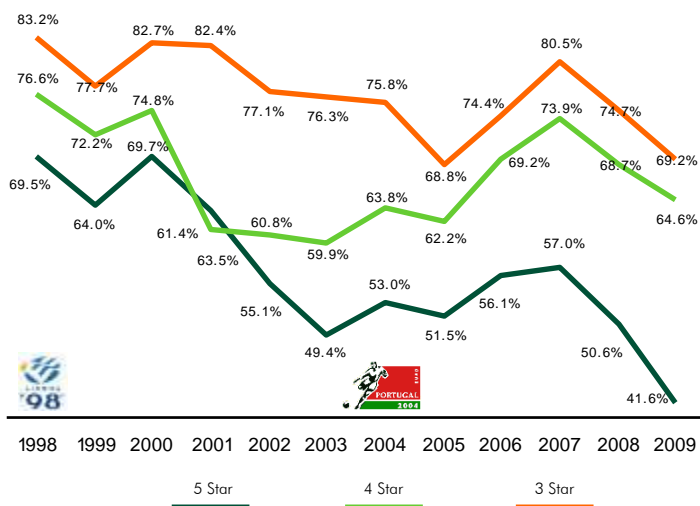
Source: National Statistical Institute / Tourism of Portugal, PI

#### Supply by Typology in Lisbon Municipality (% of Number of Beds, 2008)



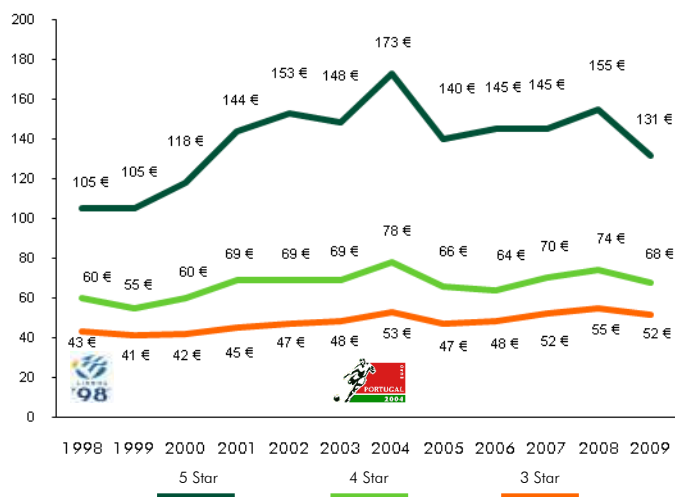
Source: National Statistical Institute / Tourism of Portugal, PI

### Room Occupancy Rate in the City of Lisbon



Source: Tourism Observatory of Lisbon

### Average Room Rate in Lisbon



Source: Tourism Observatory of Lisbon

### Room Occupancy in the City of Lisbon (Accumulated from January to December)

	2009	2008	Variation
3 Star	69.2%	74.7%	-7.4%
4 Star	64.6%	68.7%	-6.0%
5 Star	41.6%	50.6%	-17.8%
<b>Synthesis</b>	<b>60.1%</b>	<b>66.1%</b>	<b>-9.1%</b>

Source: Tourism Observatory of Lisbon

### LISBON HOTEL MARKET (Continued)

#### Performance of the Hotel Sector

The improved performance evident since 2005 in the occupancy rates witnessed a setback in 2008 and 2009.

In 2009, there was a marked reduction in occupancy with a decrease in the region of 10 percentage points (p.p.). The 5 star hotel units were the most affected, with a reduction of around 15 p.p.

The 3 star hotel units had the highest occupancy levels, with 69.2% while the 5 star units registered lower values of this indicator, with an average rate of 41.6%.

Despite the drop in the occupancy levels during 2008, as a result of the global economic crises, average prices showed an increase of around 6%. This phenomenon did not occur in 2009, with average prices decreasing approximately 9%.

In 2009, as was the case with occupancy levels, the 5 star units were the most affected, with a decrease in the average price of around 15%.

### Average Room Rate (Accumulated from January to December)

	2009	2008	Variation
3 Star	51.8€	54.9€	-5.8%
4 Star	67.5€	74.1€	-8.9%
5 Star	131.4€	154.6€	-15.0%
<b>Synthesis</b>	<b>74.2€</b>	<b>82.7€</b>	<b>-10.3%</b>

Source: Tourism Observatory of Lisbon

## LISBON HOTEL MARKET (Continued)

### Trends

- Hotel specialisation and development in four geographic areas:
  - Parque das Nações: larger sized units targeted at individual business deals and trade fair/congress segments (e.g. Construction initiated of the Olissipo at Parque das Nações, 5 star hotel with 340 rooms);
  - Restauradores – Campo Grande Axis: development of medium sized units targeted at two segments of the market: leisure (week days and weekends) and business (during the week);
  - Baixa/ Historic Areas/ Riverfront: development concentrated on smaller and medium sized units, with special emphasis on design and charm hotels;
  - Av. José Malhoa – significantly diversified area in terms of hotels (from 2 to 5 star) mainly targeted for business.
- Increased supply of “Design” style hotels, examples include the Altis Belém, Fontana Park and Internacional Design Hotel.
- Reinforcement of the positioning of the city in terms of leisure, with the increase in the number of city breaks, resulting from the increase in low cost and business flights. In 2009, the number of events grew to 83 congresses/year according to the ICCA\*, placing Lisbon on a short list of 10 of the most sought out cities.
- Expected increase in the upper segment of the market, namely 4 and 5 star hotels, despite the apparent lack of the global reference hotel chains, aggravated by the Orient-Express having withdrawn from Lisbon, the sale of the Lapa Hotel and the change from the Le Méridien Hotel to the Tiara Park Hotel.
- Due to the drop in demand registered in 2009, between 10% to 20% when compared to the year before, the majority of hotel units have been reducing rates. However, several hotels have opted for an added value strategy, offering more services for the same price applicable the previous year.
- The city of Lisbon offers a concentration of supply of rooms in 4 star units. The SANA, Vip and Olissipo groups alone comprise approximately 25% of the number of rooms in this category.
- Various international chains (ex. Melia, Hilton or Hyatt) have already publically stated their interest in Lisbon, and are been to negotiate essentially through the signature of management contracts.

### Lisbon Hotel Market Map



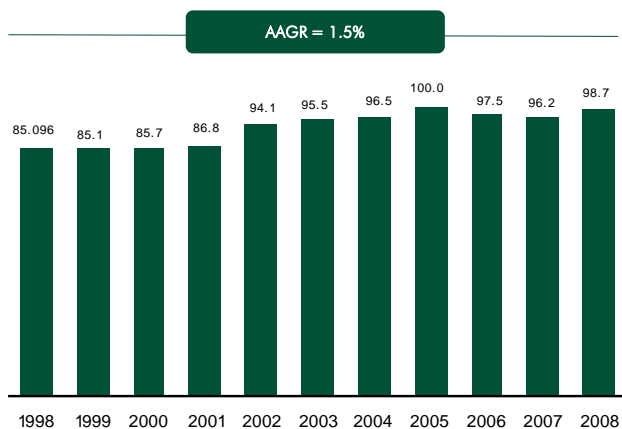
Source: CB Richard Ellis / neoturis

\* ICCA: International Congress and Convention Association

### Trends

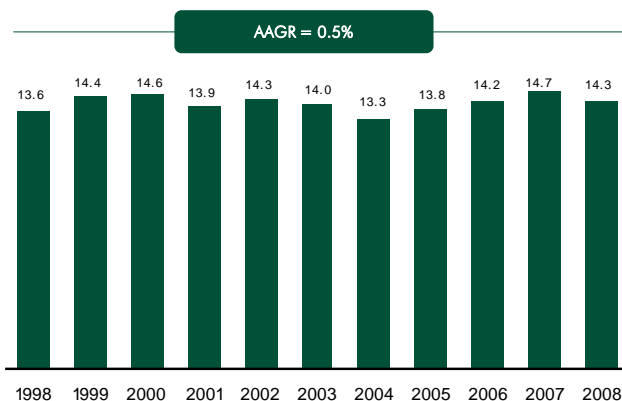
	2009 vs. 2008	
	Occupancy	Price
Lisbon	↓	↓
Algarve	↓	↓

**Touristic Accommodation Supply in Algarve (Number of Beds 000 's)**



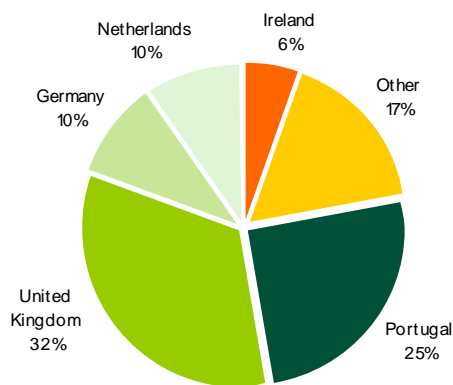
Source: National Statistical Institute / Tourism of Portugal, PI

**Touristic Accommodation Demand in Algarve (Number of Beds 000 's)**



Source: National Statistical Institute / Tourism of Portugal, PI

**Market Share by Country in Algarve (% of Number of Beds, 2008)**



Source: National Statistical Institute / Tourism of Portugal, PI

**ALGARVE HOTEL MARKET**

**Supply and Demand**

Since 1998, the Algarve has witnessed a moderate increase in supply and demand for touristic accommodation, with the supply (AAGR of 1.5%) growing slightly above the demand (AAGR of 0.5%).

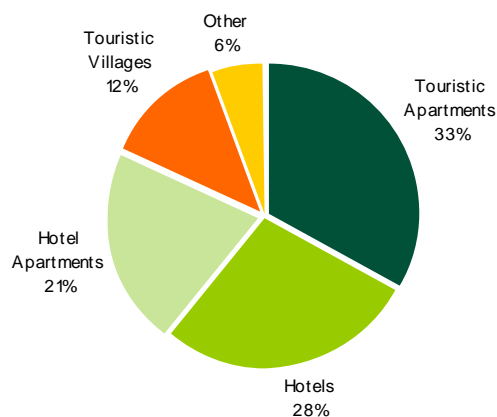
In terms of the distribution of supply, the hotels represent a mere 28%, while the self-catering units account for 66% of the number of beds.

In terms of growth in types of accommodation, supply of Hotels and Aparthotels increased from 42% in 1998 to 49% in 2008. Supply of the remaining types of accommodation has decreased during this same period, namely the Touristic Villages and Touristic Apartments, dropping from 51% in 1998 to 45% in 2008.

The increase in the hotel sector supply results mainly from the increasing demand by the market for developments offering a wider range of services and with more guarantees in terms of quality and maintenance.

With regards to the origins of demand, in the Algarve Region, the most important market is that of the United Kingdom, with 32% of the nights, followed by the Portuguese market with 25% of the total demand in 2008. As a result of the development in residential tourism, Ireland registered an increase in demand in this region, with 6% of the nights in 2008.

**Supply by Typology in Algarve (% of Number of Beds, 2008)**



Source: National Statistical Institute / Tourism of Portugal, PI



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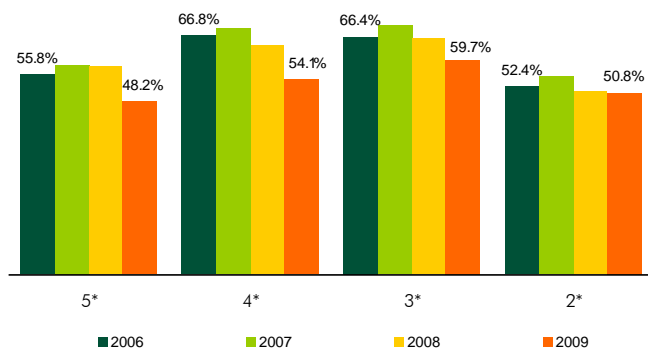
## ALGARVE HOTEL MARKET (Continued)

### Performance of the Hotel Sector

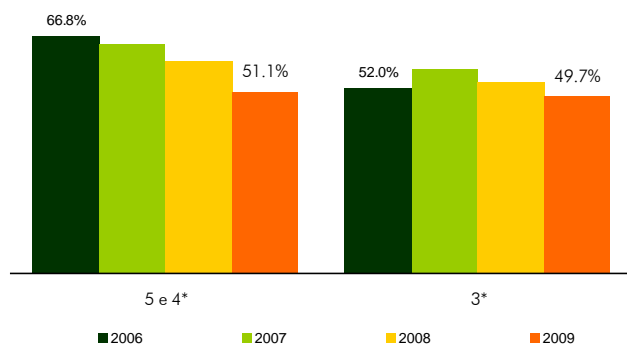
In the Algarve region, by analysing the room take up rate in 2009, the following conclusions can be reached:

- The 3 star Hotels and Aparthotels reflect the highest occupancy, registering 50.7%. However, the 3 star category dropped 6 p.p. when compared to 2008, and this trend is expected to continue in 2010.
- In the 4 star category, the occupancy rate in 2009 was of 54%, representing 10 p.p. Less than the year before.
- In the Touristic Village and Apartment sector, the categories reflecting the best performance were the 4 and 5 star, with an average annual take up of 51.1% during 2009. As is the case of the Hotels and Aparthotels, this rate is 8.5 p.p. less when compared to 2008.
- In terms of regions, 2009 the highest room occupancy were in the area of Monte Gordo and Vila Real de Santo António with an average of 76.1%. Albufeira registered, an average take up of 55.3% during the same period.

#### Room Occupancy Rate of Hotels and Hotel Apartments, in Algarve



#### Room Occupancy Rate of Touristic Village and Apartment, in Algarve



## Trends

- Hotel sector supply in the Algarve is strongly concentrated in the Albufeira – Loulé axis, while Vilamoura is considered an almost autonomous destination, offering a wide range of accommodation and sporting, entertainment and leisure activities. Despite this concentration in the central axis, other zones of the Algarve are also showing signs of growth, namely Tavira, Castro Marim, Lagos and Sagres.
- There is a tendency for the development of hotel supply within resorts.
- As is the case throughout most of the country, the Algarve has also experienced growth in charm/design units, but in less traditional areas, such as, Sagres or Lagoa.
- We have also seen an increase in supply of higher category units, the 5 star Hilton Vilamoura and Tivoli Vitória being examples. New projects in this category are also forecast for the medium term.
- Self-catering accommodation has a experienced significant growth in the Algarve, both in Touristic Villages as wells as in Touristic Apartments.
- During recent years the Algarve has seen an increase in supply and demand in Residential Tourism. The fact that Faro Airport was included on the low cost flight routes significantly contributed towards this development. A continued increase in development of Residential Tourism alongside the Hotel Sector can be witnessed.
- Increased market influence by the international chains is reflected, both in the management of traditional hotel units and/or units integrated within resorts, as well as in the management of leisure valences such as golf. Examples of chains: Hilton, Marriott, Hyatt Crowne Plaza.
- There is a strong need to refurbish many of the hotel units that are outdated or inadequate for present needs of the type of public at which these are targeted.

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## RESIDENTIAL TOURISM

### Present Market Trends

There has been a strong decrease in the volume of sales of touristic-residential units. This drop results essentially from the retraction over the past months of all the outbound markets, without exception. This trend started in the second quarter of 2008, and continued in 2009.

Despite the decline in demand, asking price for dwellings: of over 500.000€ have stabilised and, on the other hand, asking prices for those units valued below this price have decreased. Developers have been opting for the added value strategy, namely including decoration, furniture, equipment etc., rather than reducing prices significantly.

The end of summer 2009 was brought with it small signs of recovery in the market including an increase in acquisition levels of units. However, the sales volume continues to reduce.

The crisis in the economy in general, resulted in a strong reduction in the sale of touristic-residential units. This scenario resulted in the “freezing” of several resort projects and leading to the cancellation in expansion of a number of developments. Notwithstanding the slowing down of the development of resorts, several developments have already initiated construction, for example, Pinheirinho in Grândola, Roncão del Rey in Alqueva or L’and Vineyards, in Montemor-o-Novo.

With the recovery of the UK Pound, Portugal has become more attractive as a tourist destination, and has resulted in an increase in the number of tourists coming to Portugal from the United Kingdom. However, 2009 was notable for the almost complete lack of transactions involving touristic-residential property.

Interest has been shown by the major internationally renowned brands in the management of hotel and touristic-residential units in Portugal. On the one side, several projects have been abandoned such as, for example the Westin (Starwood) at Campo Real and of the Luxury Collection (Starwood) at Colombo’s Resort. On the other hand, the interest in unique projects by brands, not yet represented in Portugal, has increased, examples of which are the Banyan Tree in the Land Reserve project, in the Alqueva. This trend will grow in the near future, increasing the potential sale and the development of additional supply, as the awareness in new destinations increases.

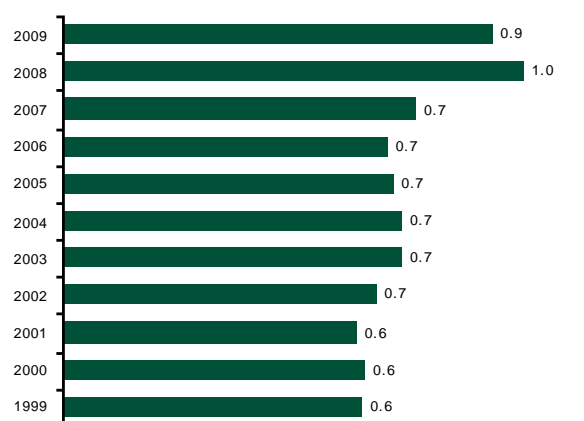
The deterioration of the budget balances and accumulation of public debt has increased the profile of global risk, leading to difficulties in accessing finance by banks.

### Vale do Lobo, Algarve, Portugal



Source: Vale do Lobo, S.A.

### Exchange Difference Between EUR/GBP



Source: Bank of Portugal

**RESIDENTIAL TOURISM (Continued)****Perspectives of Future Development**

Following this period of recession, more traditional and mature destinations, including the Algarve, are expected to show a more rapid recovery when compared to the emerging and less consolidated markets such as Turkey, Croatia and Bulgaria, or even some of the more dense zones of Spain.

The increase in demand in the touristic-residential sector is expected to occur alongside the economic recovery, the availability of financing by banks and the level of attractiveness of the product.

Despite the high level of uncertainty regarding economic recovery, two distinct periods are foreseen: (1) between 2010 and 2015 characterised by variations, lack of consumer confidence, higher levels of speculation, amongst others; and (2) from 2015 onwards, marked by a new growth cycle, more controlled and resistant to speculation.

Several changes in the profile of the consumer demand are also expected, as consumers become increasingly better informed and more cautious, with preference for closer and more accessible destinations, environmentally sustained products, amongst other characteristics.

**Alila Uluwatu, Bali, Indonesia**



Source: Alila Uluwatu

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