



# The hotel boom in Zurich

2019



## Foreword

Over the last few years, we have been observing rapid growth in new hotels in the Zurich region. Competitive pressure is challenging the industry, and at the same time, there is increasing uncertainty among hoteliers: “Where is this heading?” or “Hotel boom? So what? We can’t do anything about it anyway.” The next question is always: “How much longer can we maintain our prices?”

The reasons for this development are obvious. Around the world, city tourism is on the rise, the economy is thriving, Switzerland is more popular than ever as a travel destination, and Zurich is the city with the world’s second best quality of life (Mercer city ranking). Among other things, this is why Zurich has become Switzerland’s largest tourism region over the last few years. The situation bears witness to the well-known economic principle that additional demand is met by an increase in the supply of rooms.

At the same time, the structural challenges in our industry still remain. The shortage of skilled labour will be exacerbated by new hotels. There is an increased risk of necessary investments being deferred because of potentially falling profits. The high cost structure and the currency situation are meanwhile applying further pressure to margins, which gives no hope of higher returns for investors. The driving factors of the construction boom, as described in the following study, are not factors that hoteliers can actually influence.

Despite this, we have to ask ourselves what the business consequences of this development might be. In its quest for answers, the board of directors of the Zurich Hotel Association commissioned Jones Lang LaSalle AG (thereafter “JLL”) with the present study. As JLL is a renowned international real estate consultancy firm, it was specialists who took on the task. A survey of the members of Zurich Hoteliers also furnished valuable insights.

This study is intended to provide information to hoteliers, hotel operators, investors and also the real estate sector and policy-makers about which factors are contributing to the hotel boom and the effects this could have on existing hotels. It raises questions, generates scenarios, and highlights options and opportunities that can arise from them. The study cannot and should not be considered a guide on how to stop this development.

The only thing that is constant is change. Fear and protectionism do not make for good advice. We need to look ahead with the aim of further enhancing the quality and high service standard of our hotel industry. And if the survey reveals that, in the event of a sharp decline in room occupancy, the majority of respondents would initially invest in quality, increase marketing measures and reduce costs before lowering their room rates, then this is a positive sign and emphasises the professionalism of our sector.

**Martin von Moos**

President of the Zurich Hotel Association

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# 1 Executive summary

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Numerous new hotels have been constructed in the Zurich region over the last few years. Since 2010, the number of hotel rooms in the Zurich area has risen by around a quarter, from 10,830 to 13,680 rooms. On the whole, the rooms were relatively well absorbed as the number of overnight stays increased to a similar extent at the same time. In some cases, however, this was accompanied by lower room rates (5-star hotels). The hotel boom may continue over the next few years if all of the planned hotel projects are realised. 18 additional new hotels with some 2,400 rooms could be constructed by 2022. A large number (approx. 60%) of these new hotels are situated in Zurich North and do not (yet) have a specific star category. However, in comparison with the previous increase in supply, there will probably be a stronger focus on the 3-star segment. In addition to the new hotels, there are also plans for alternative accommodation projects, e.g. 1,000 new serviced apartments by 2022. The majority of the serviced apartments are also planned to be situated in Zurich North. Alongside hotels and serviced apartments, Airbnb recorded very high growth rates in the last few years as a distribution channel for alternative accommodation.

Local groups of investors and international hotel chains are the main drivers behind the hotel boom. From an investment point of view, hotel projects benefited in the last few years from record-low interest rates which pushed investors towards real estate assets, as well as from the weakness of the Zurich office rental market, which propelled the search for alternative forms of use for existing properties and new construction projects. General investment pressure remains high. Many investors from the pension sector are now substantially exposed in real estate and are likely to become more cautious. At the same time, the situation in the office rental market in Zurich has significantly improved. Now, it hardly makes sense anymore to convert older office premises into hotels in central locations. International hotel chains, which often use Zurich to launch new hotel concepts onto the market, clearly dominate as the operators of new hotels. This pressure from foreign hotel brands in Zurich may well continue, as top-line revenues appear attractive when compared internationally.

Scenario calculations were carried out to estimate the future absorption capability of the planned hotels. The average occupancy rate in the Zurich region may fall from around 72% today to approx. 67% in 2022 if all of the

hotel projects are realised as planned and if the growth in demand remains at the same level as in the past few years. However, the effect will probably be greater, as room rates could also come under pressure as a result of more intense competition. The average revenue per available room (RevPAR) would decrease by at least 7.3% in this scenario. To keep the average occupancy rate more or less stable, it would be necessary to significantly accelerate the growth dynamics on the demand side. In this context, certain measures for exploiting new demand groups could be initiated.

In collaboration with the Zurich Hotel Association (thereafter “ZHA”), JLL conducted an online survey of the members of ZHA in June 2019. Around 45% of the hoteliers surveyed are worried about the increase in capacity. Concern is generally greater among smaller hotels with fewer than 50 rooms than among large hotels. The majority of survey participants expect that the occupancy rate and room rates will develop negatively in future owing to the increase in capacity. They also foresee a rise in staff costs. In reaction to the boom, the hoteliers’ most important measure is to make larger investments into their own existing hotels. The hoteliers surveyed are planning to step up their annual investments over the next five years by 30% on average compared to their yearly investment spending during the last ten years. If this figure is extrapolated to all hotels in the Zurich region, the total investment volume could be around CHF 860 million over the next five years. The main focus of the planned investments is on the rooms and their furnishings.

## 2 Current situation: the hotel boom in the Zurich region

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### 2.1 Region under analysis

As a basis for further analysis, this section looks at the portfolio, the more recent historical development and the current project pipeline. The analysis focuses on the City of Zurich and the neighbouring agglomeration (thereafter “Zurich region”), as this is where the market dynamics principally take place. The Zurich region as defined for this study can be divided into the following sub-regions: City of Zurich, Zurich North and Limmat Valley. Zurich North comprises all of the municipalities from Opfikon to Bülach; the Limmat Valley area includes the municipalities from Schlieren to Würenlos.<sup>1</sup>

### 2.2 Overview of the portfolio in the Zurich region

The analysis of the portfolio and the more recent historical development is based on data from the tourist accommodation statistics (HESTA) of the Federal Statistical Office. Every month, the Federal Office surveys and compiles data on around 6,000 hotels across the country, mostly hotels, regarding their current offering (number of rooms, beds, etc.) and their operative performance (overnight stays, revenue, etc.). Owing to comprehensive coverage, the HESTA data can provide a relatively accurate image of the general state of the hotel industry.

In the HESTA database, hotels are also categorised according to their number of stars. Those hotels which are not allocated to a classic star category, such as the base category “Swiss Lodge”, are listed in the “Other” category in the present study. Many new hotel concepts that deliberately avoid any star classification use the base category “Swiss Lodge” and are therefore listed in the “Other” category.

#### Offering: number of rooms has risen by more than a quarter since 2010

Since 2010, the hotel portfolio in the Zurich region has risen from 162 to 182, i.e. by 20 hotels (+12%) (Figure 1). This increase can be attributed to just two hotel categories: 4-star hotels, with six additional hotels (+16%), and hotels in the “Other” category, which increased

by 15 hotels (+26%). 1-star hotels have decreased from three to two hotels since 2010. At the regional level, the 20 new hotels were primarily in the City of Zurich (+11 hotels) and the Zurich North region (+7 hotels).

Owing to the new hotels, the number of rooms also increased. Since 2010, the number of rooms has grown by around 2,850 rooms, from approx. 10,830 to 13,680 (Figure 2). This means a cumulative increase of 26% over the last eight years, or 3% per year. The newly constructed hotels are, on average, larger than the existing ones, which explains the above-average growth in the number of rooms compared to the hotels. In 2017, for example, the construction of Motel One resulted in one hotel with around 400 rooms. The a-ja City Resort in Zurich-Altstetten, which has 319 rooms, opened in 2018. In the same year, a hotel in the Zurich region had an average of 75 rooms.

Once again, 4-star hotels were responsible for the largest increase in new rooms (approx. 1,520 new rooms), as well as hotels in the “Other” category (approx. 1,380 new rooms). The latter are likely to be mainly the newer hotel concepts by international chains. As a result of the newly constructed hotels, the City of Zurich also recorded the most new rooms (+1,850), followed by Zurich North (+830 rooms). Relative to the portfolio, however, both sub-regions recorded a similarly large increase of around one quarter over the last eight years.

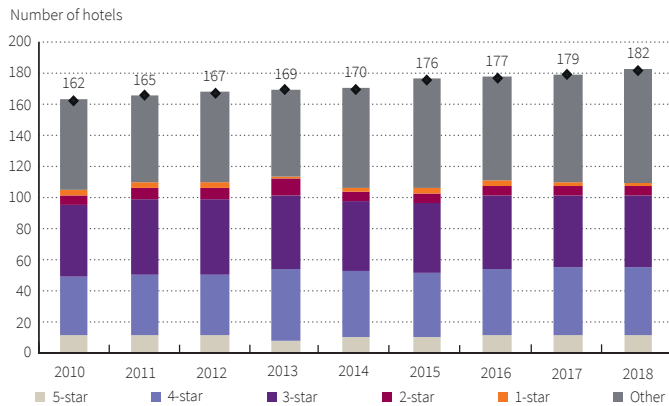
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<sup>1</sup> All municipalities in the Zurich North region: Bachenbülach, Bassersdorf, Bülach, Dielsdorf, Dietlikon, Dübendorf, Embrach, Kloten, Lufingen, Niederglatt, Niederhasli, Nürensdorf, Oberembrach, Oberglatt, Opfikon, Regensdorf, Rümlang, Wangen-Brüttisellen, Wallisellen, Winkel. All municipalities in the Limmat Valley region: Bergdietikon, Dietikon, Geroldswil, Killwangen, Oberengstringen, Oetwil an der Limmat, Schlieren, Spreitenbach, Unterengstringen, Urdorf, Weiningen, Würenlos.

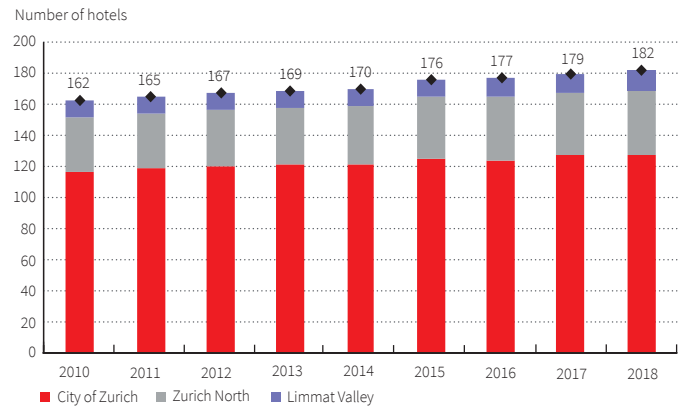
Figure 1

### Development in the number of hotels in the region under analysis

#### Category



#### Region

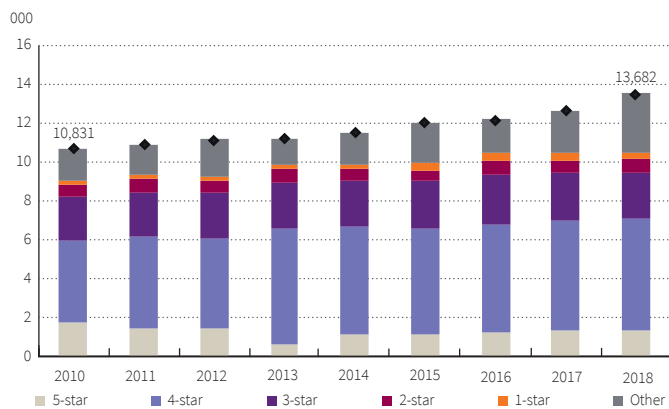


Source: HESTA, JLL

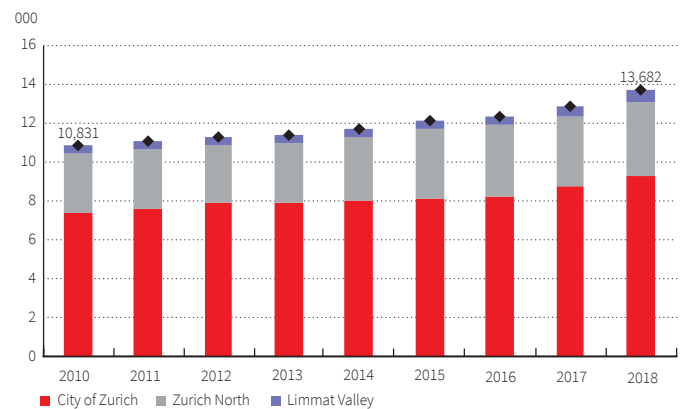
Figure 2

### Development in the number of rooms in the region under analysis

#### Category



#### Region



Source: HESTA, JLL

### Demand: overnight stays grew at the same rate as the offering

The increase in new hotels and rooms over the last few years was relatively well absorbed owing to the rise in the number of overnight stays. Since 2010, the number of room nights in the region under analysis also increased

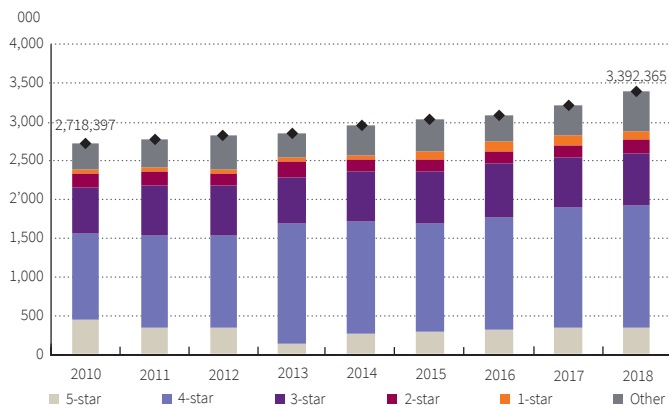
– like the offering – by around 25% from 2.7 million to 3.4 million (Figure 3). As a result, the average occupancy rate<sup>2</sup> of all hotel rooms in the region under analysis was 72.3% in 2018, similar to the level of 72.2% recorded in 2010. There were large differences between categories. 4-star hotels, for example, recorded a 43% increase in

<sup>2</sup> Here, the occupancy rate is calculated based on HESTA data as follows: room nights/(number of rooms in the hotels surveyed\*number of days of opening), calculated for a whole year in each case.

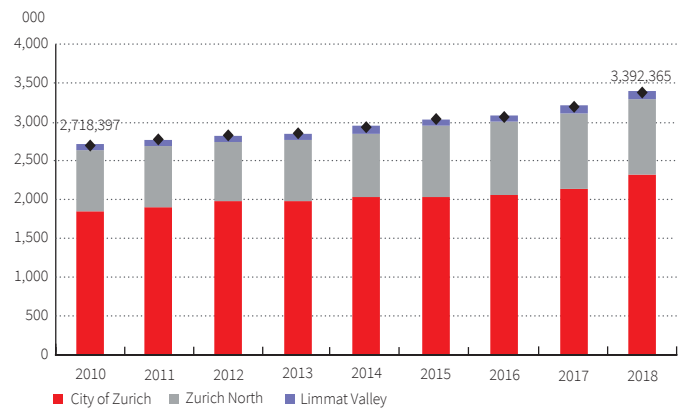
Figure 3

**Development in room nights in the region under analysis**

Category



Region

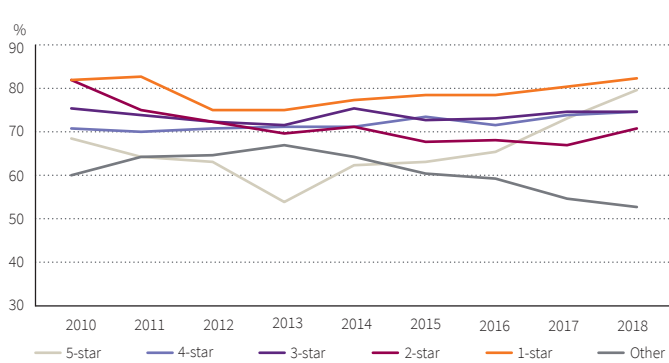


Source: HESTA, JLL

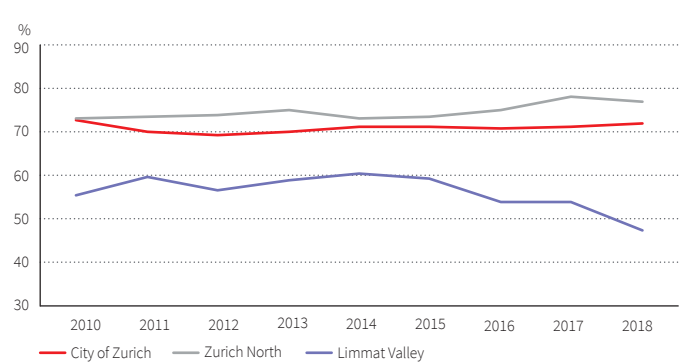
Figure 4

**Development of the average occupancy rate in the Zurich region**

Category



Region



Source: HESTA, JLL

room nights. By comparison, the number of 4-star rooms grew by “only” 36% over the same period. Accordingly, the average occupancy rate in this segment has risen from nearly 71% to almost 75% since 2010 (Figure 4).

The new offering of 4-star hotels thus created its own demand. 3 and 5-star hotels also recorded a robust increase in occupancy rates over the last few years. In the “Other” category, the number of room nights rose by 55%, but demand could not quite keep up with the strong growth in new hotels in this category.

As a result, the occupancy rate in this category decreased from 59.9% (2010) to 52.6% (2018). By sub-region, the number of room nights in the last eight years rose by 24% in the City of Zurich, by 28% in Zurich North, and by 8% in the Limmat Valley. As the number of rooms in the Limmat Valley grew at an above-average rate during the period under review (+41%), the occupancy rate developed negatively, from 55.3% in 2010 to 47.1% in 2018. In the City of Zurich the occupancy rate has remained constant, and in Zurich North it has actually risen slightly since 2010.

Figure 5 compares the development of demand for hotel rooms with the development of the supply of hotel rooms. The graph shows that development has been fairly similar for the region under analysis across all segments and sub-regions. The average annual rate of growth between 2010 and 2018 was 2.8% for the number of room nights, and 3.0% for the number of rooms. In the period under review, the supply of hotel rooms therefore increased at a higher rate than the demand for them. Furthermore, the figure illustrates how those hotel projects currently at the planning stage will affect supply. It was decided to refrain from forecasting the demand for hotel rooms here, as this would depend on the economic scenario chosen. Section 4 contains a detailed discussion on this topic.

For further comparison, pages 15 and 16 cover the developments in supply and demand in selected European cities.

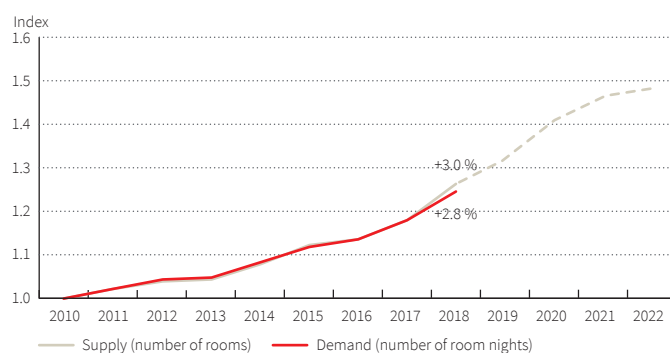
### Development of RevPAR

The analysis of revenue figures is based on data from the company STR, whose key figures are internationally established. Investigations conducted as part of this study rely on STR's dataset, which covers 87 hotels. Based on the available data, evaluations for the entire region under analysis, the City of Zurich and Zurich North are representative and were used for the study. With regard to classifications, data from hotels in the 3, 4 and 5-star categories were analysed. For the remaining classifications (1 and 2 stars, "Other"), there is insufficient data coverage so that results would not be representative. The evaluations are based on 2013–2018, as STR's coverage of Switzerland is only representative as of 2013.

Across all segments, the average revenue per available room (RevPAR) has dropped by around 5% since 2013, and was CHF 149 for the region under analysis in 2018. There is a noticeable difference in RevPAR between the City of Zurich and Zurich North. In 2018, RevPAR in the City of Zurich was

Figure 5

### Comparison of the development of number of room nights and number of rooms



Source: JLL

around CHF 170, while RevPAR in Zurich North was CHF 107. In all sub-regions, RevPAR was lower in 2018 than in 2013.

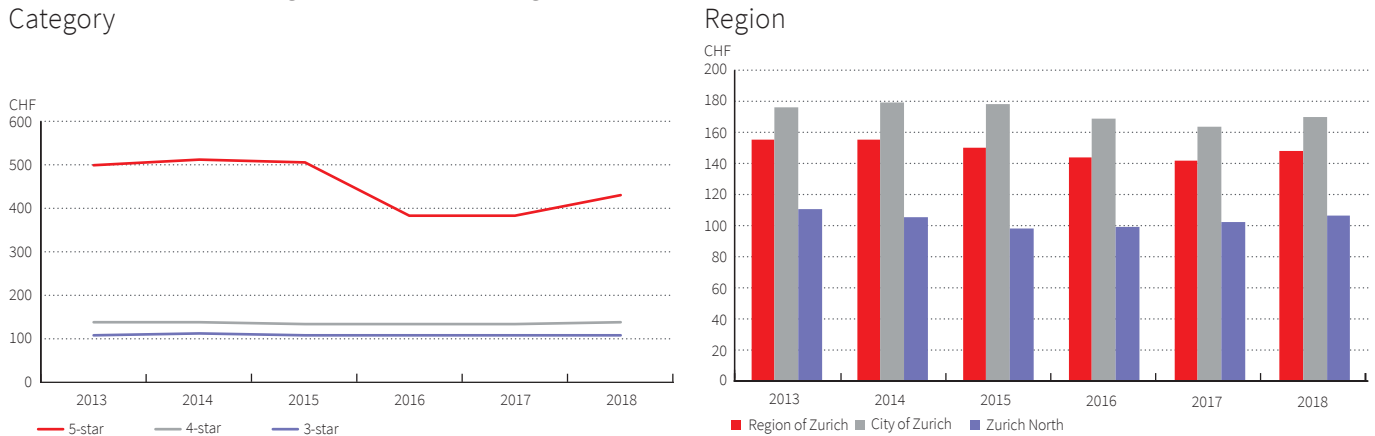
By segment, the 5-star hotels recorded a negative trend over the long term: average RevPAR fell from CHF 499 to CHF 431 (–14%, Figure 6) in the period under review. In 2018, RevPAR developed positively again following a negative trend since 2014. The drivers behind this negative trend were primarily the room rates in the 5-star segment. While the average daily rate (ADR) was still CHF 739 in 2013, it was just CHF 627 (–15%) in 2018.

A consistent trend in RevPAR was observed for the 4-star hotels. In the period under review, it even rose slightly from CHF 136 to CHF 138 (+1%). This positive trend can be attributed to an increased occupancy rate in the period under review. The ADR for 4-star hotels declined from CHF 187 to CHF 178 (–5%) in the same period. The new supply of 4-star hotels may have generated its own demand, but also resulted in increased price competition.



Figure 6

### Development in average RevPAR in the region under analysis



Source: STR

## 2.3 The dynamic development of the luxury hotel sector

The scene of luxury hotels in Zurich has changed dramatically in recent years. This can primarily be traced back to re-openings following complete renovations, or brand new hotels. Table 1 gives an overview of the current portfolio of luxury hotels in Zurich. Only those hotels with 5-star or 5-star superior classifications are listed.

Table 1

### Overview of the luxury hotel portfolio in the City of Zurich

Hotel	Postcode	Category	Number of rooms	Ownership (land registry)
Baur au Lac	8001	5* Superior	119	H. Kracht's Erben AG
Hotel Atlantis by Giardino	8055	5* Superior	95	Neue Hotel Atlantis AG
Hotel Park Hyatt Zurich	8002	5* Superior	138	Zurich Escherwiese Hotel GmbH <sup>3</sup>
Savoy Hotel Baur en Ville	8001	5* Superior	104	Savoy Hotel Baur en Ville AG
The Dolder Grand	8032	5* Superior	175	Dolder Hotel AG
Widder Hotel	8001	5* Superior	49	Swiss Life Fund Management (LUX) S.A.
ALDEN Suite Hotel Splügenschloss Zurich	8002	5*	22	Alden Hotel AG
La Réserve Eden au Lac Zurich	8008	5*	40	Swiss Hospitality Properties AG
Storchen Zurich	8001	5*	66	Hotel Storchen AG
<b>Total</b>			<b>808</b>	

<sup>3</sup> Zurich Escherwiese Hotel GmbH is the leaseholder; the City of Zurich is the freeholder.

In addition to new openings in recent years, a lot of money has been invested in existing hotels. Over the last few years, one luxury hotel was renovated almost every year. Figure 7 below shows the investments made in the luxury hotel industry in chronological order. For renovation work lasting several years, only the year in which the renovation work was completed is shown.

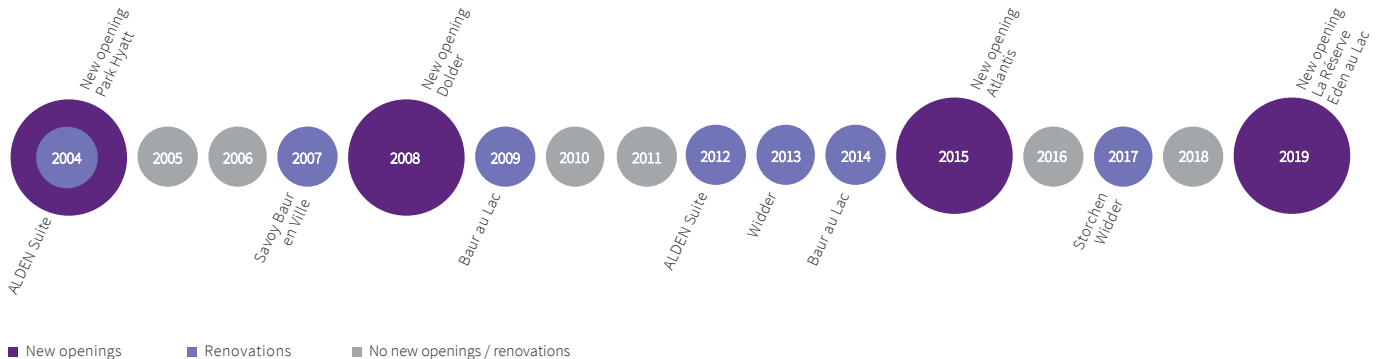
Owing to new openings, the structure of hotels in the luxury segment has also changed. In Zurich, there is still a majority of traditional establishments and smaller boutique hotels that are not affiliated with international hotel chains (Figure 8).

However, international chains have established themselves in Zurich's luxury segment thanks to new openings in particular.

Outside the City of Zurich and the region under analysis, Hotel Alex Lake Zurich in Thalwil celebrated its opening in the summer of 2019. Renovation of the hotel, which is situated right on Lake Zurich, took over four years. Forming part of the international luxury group Campbell Gray Hotels, this establishment has a total of 44 suites and rooms and targets long-stay guests in the luxury segment.

Figure 7

### New openings and investments in the luxury hotel sector since 2004

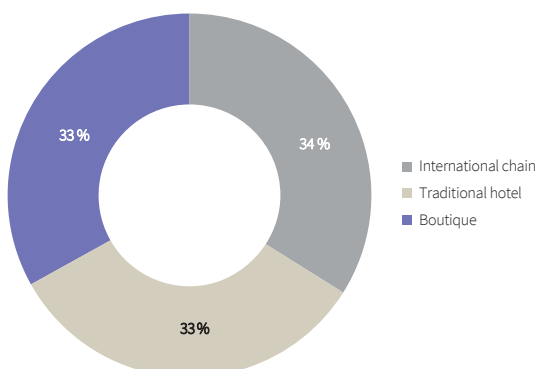


Source: JLL

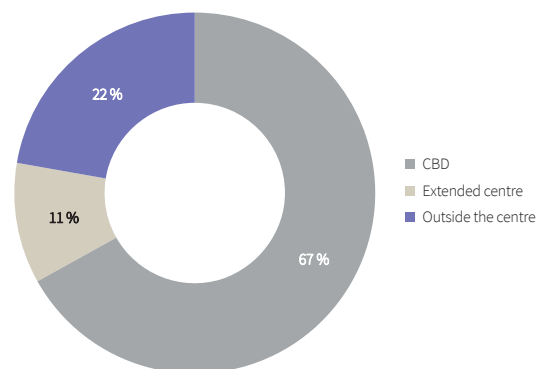
Figure 8

### Type of hotel and hotel location as of May 2019

Type



Location



Source: JLL

Geographically, the hotels are predominantly located in the city centre, especially in the Central Business District (thereafter “CBD”) (Figure 8), which is home to two thirds of all hotels. Two notable exceptions are The Dolder Grand and Hotel Atlantis by Giardino, which are situated at an elevated location outside of the city centre.

As regards the size of the hotels, the situation in terms of the number of establishments is relatively balanced between smaller/medium-sized businesses with fewer than 100 rooms and larger hotels (Table 1).

A glance at the owners of the hotels (Table 1) reveals a more heterogeneous image. Alongside long-standing

family owners and private owners, there are also well-known institutional investors, such as Swiss Life (Widder Hotel), owning hotels.

## 2.4 Realised and planned hotel construction projects

The increase in supply will continue in the coming years. 18 new hotel projects with some 2,400 rooms are planned up until 2022. Table 2 gives an overview of the hotels which have been newly realised in the last three years, and the hotel projects planned for the next few years. The following evaluations of the planned hotel construction projects were made in May 2019.

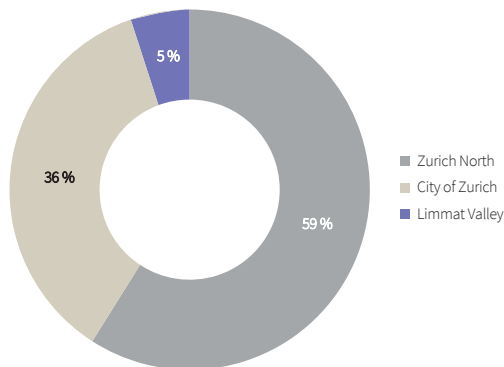
Table 2

### Overview of completed and ongoing hotel projects as of May 2019

Hotel project	Location	Number of new rooms	Completion	Ownership (land registry)	Hotel chain
Placid Hotel Zurich	Zurich	87	2016	Diakonie Bethanien	No hotel chain
25hours Langstrasse	Zurich	166	2017	SBB	Accor Hotels
Motel One	Zurich	394	2017	Swiss Prime Site Immobilien AG	Motel One
a-ja City Resort	Zurich	319	2018	Credit Suisse Investment Foundation	aja Resorts
B&B Hotel	Rümlang	170	2018	Nestor Immobilien AG	B&B Hotels
B&B Hotel (r2 Hochhaus)	Wallisellen	142	2019	Credit Suisse Investment Foundation	B&B Hotels
Hotel Josef	Zurich	n/a	2019	Candrian Immobilien AG	No hotel chain
Allegra Lodge	Kloten	90	2019	Gaho AG	Welcome Hotels
Harry's Home	Wallisellen	123	2019	Rietpark Immobilien AG	Harry's Home
CitizenM	Zurich	160	2019	UBS “Sima” (Balintra AG)	CitizenM
Hilton Garden Inn Zurich Limmattal	Spreitenbach	114	2019	Immo Invest Partner AG	Hilton Hotels & Resorts
Leonardo Hotel	Kloten	116	2020	Beltopo Immobilien AG	Fattal Hotel Group
Intercity Hotel	Rümlang	260	2020	Necron AG	Deutsche Hospitality
The Circle: Hyatt Regency	Kloten	250	2020	Flughafen Zürich AG / Swiss Life AG	Hyatt Hotels
The Circle: Hyatt Place	Kloten	300	2020	Flughafen Zürich AG / Swiss Life AG	Hyatt Hotels
Sorell Hotel St. Peter	Zurich	45	2020	Genossenschaft ZFV-Unternehmungen	Sorell
MEININGER (Greencity)	Zurich	174	2021	Credit Suisse Investment Foundation	MEININGER Hotelgruppe
Niu Hotel (Glasi Quartier)	Bülach	131	2021	Logis Suisse AG	Novum Hotel Group
Hotel Ruby	Zurich	210	2021	PSP Properties AG	Ruby Hotels
Dolder Waldhaus	Zurich	97	2022	Dolder Hotel AG	No hotel chain
Easy Hotel (3 hotels planned)	Zurich	174	n/a	PHS Immobilien AG	Easy Hotels
<b>Total for the Zurich region</b>		<b>3,522</b>			

Figure 9

### Geographical distribution – new rooms by sub-region



Source: JLL

One further hotel project, which is not listed in the overview, is being planned by Cinerent AG in Rümlang. It involves the construction of a hotel, in addition to a new event hall, near Glattbrugg station. As the project is still at an early stage of planning, no details are available as yet with regard to the size of the hotel or the planned year of completion.

### Zurich North has the largest planned increase in supply

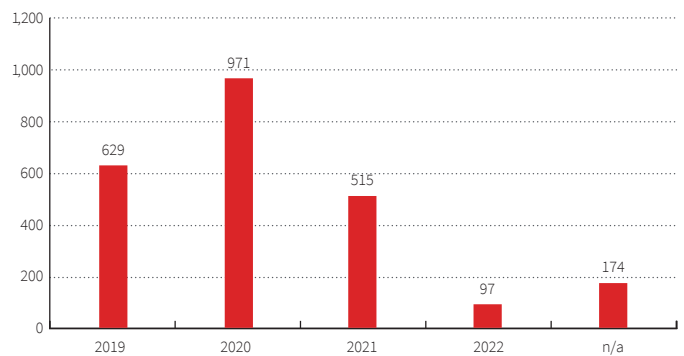
A glance at the geographical distribution (Figure 9) shows that the City of Zurich and Zurich North account for practically all new hotel projects (95%). At the same time, the planned future increase in supply in Zurich North is almost double that in the city. Within Zurich North, there are many projects at the airport and its vicinity in particular. At Zurich Airport, for example, two new hotels comprising a total of around 550 rooms (Hyatt Regency and Hyatt Place) will be realised for the major project “The Circle” by 2020. Alongside the completion of “The Circle”, two additional hotel projects in Kloten and Rümlang could start operating in the same year.

### Large number of completions in 2019 and 2020

Most new hotel rooms are scheduled for 2020 (Figure 10). Of the 971 new rooms in 2020, over 95% will be in the area around the airport. The 926 new rooms in Zurich North in 2020 alone amount to around 25% of Zurich North’s portfolio at the end of 2018.

Figure 10

### Timeline – new rooms by expected completion



Source: JLL

### Focus of the planned hotels

The focus of the planned hotels is relatively balanced (Figure 11). In each case, around 30% of the new hotels fall into the “Business and Leisure” category.

The largest proportion (40%) of the planned hotels come under the “Hybrid” category, which addresses both leisure and business customers. One example of the Hybrid concept is the new MEININGER Hotel, which is scheduled to open in the first half of 2021 as part of the “Greencity” development area. In addition to classic double rooms, multi-bed rooms will be available. This concept is intended to appeal to a wide spectrum of potential hotel guests, ranging from business travellers to families, individuals and groups.

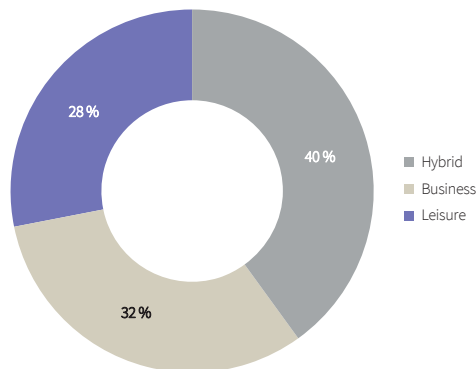
With regard to hotel category, it should be noted in Figure 11 that hotels or hotel concepts no longer wish to commit to a particular star category, or have not yet defined the category. All of the planned hotels which have established a star category are either 3-star or 4-star hotels.



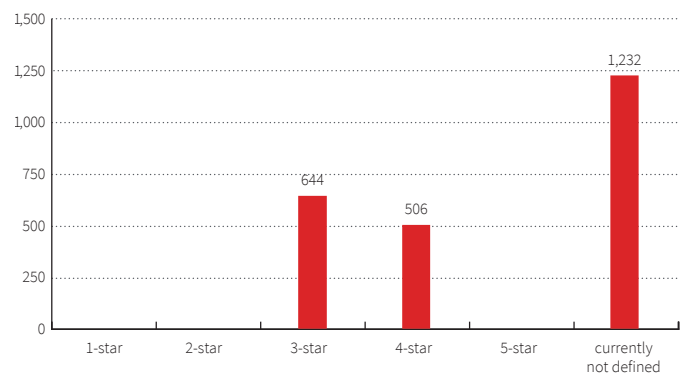
Figure 11

**Focus – new rooms by target group and category**

Target group



Category



Source: JLL

**2.5 Alternative accommodation: serviced apartments and Airbnb**

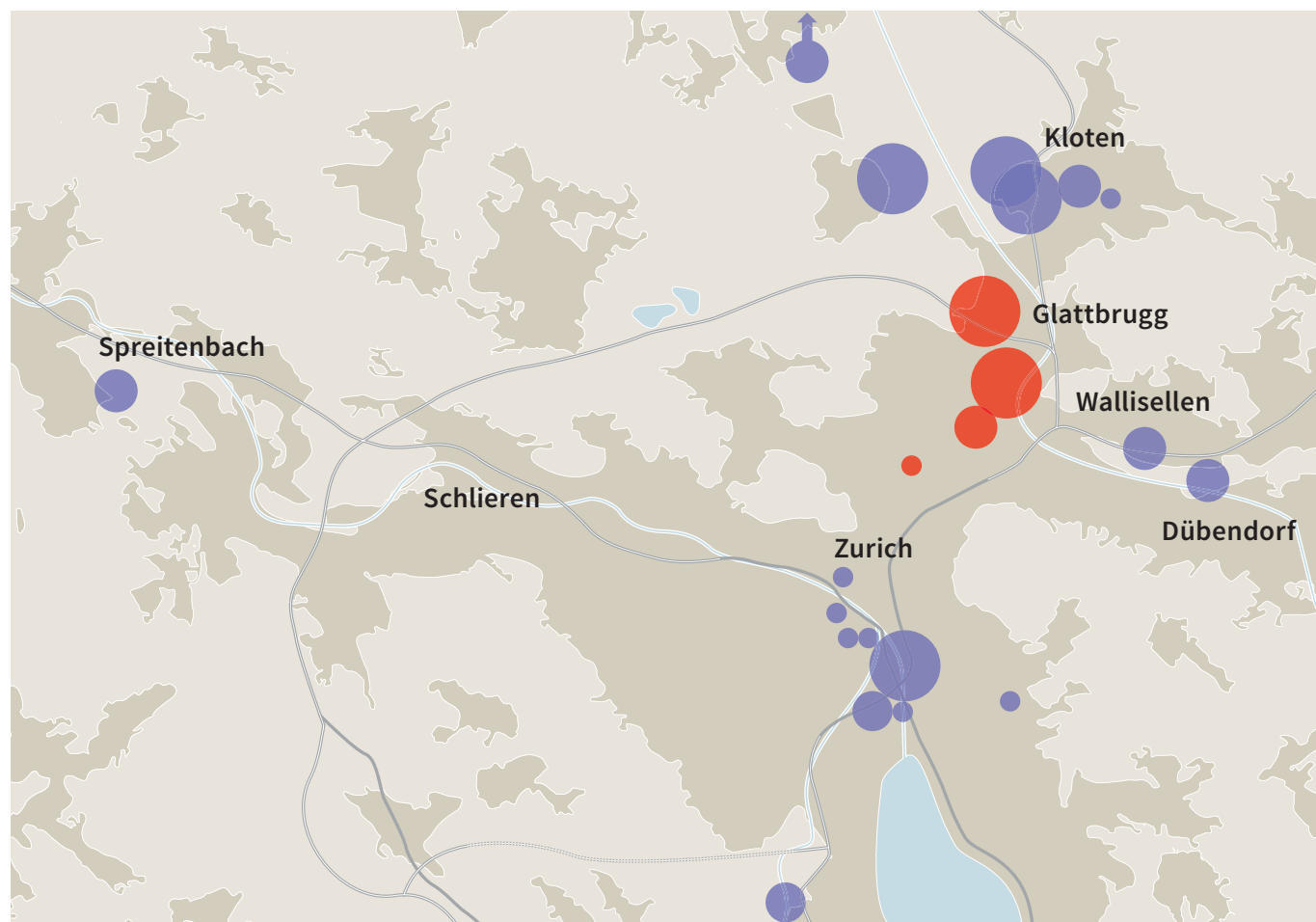
Existing hotels in Zurich are in competition not only with other hotels, but also with offerings that cannot be assigned to the classic hotel industry. The overarching term “alternative accommodation” includes, for example, the concept that everyone is talking about – Airbnb. Recently, however, there have also been significant developments in the area of serviced apartments. The majority of serviced apartments are marketed via Airbnb.

Specifically, around 1,000 new serviced apartments in the Zurich area are at an advanced planning stage or under construction and could be completed by 2022. Most of the serviced apartment projects are again situated in Zurich North. For example, Turicum PropCo AG will realise around 450 apartments and rooms in the Glattpark area by the end of 2020, together with serviced living provider JOYN, and VISIONAPARTMENTS are planning more than 300 new residential units in Glattbrugg by 2021. In Zurich North, around the Glattpark area in particular, other major projects could follow; they have not yet been specified in detail, though, and have therefore not been included in the 1,000 units mentioned. If the 1,000 new serviced apartments are added to the planned hotel rooms, this gives a total increase in supply of around 3,400 new overnight stay options by 2022 (Figure 12). In Zurich North alone, around 2,200 rooms and apartments of the planned projects will be located, which corresponds to about two thirds.

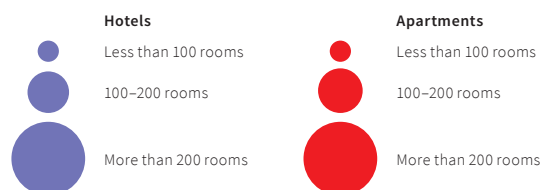
The situation appears even more remarkable if Airbnb and similar offerings that have already shown impressive growth rates in Switzerland in recent years, are also taken into account. According to Airbnb, there were 35,800 active accommodation options in Switzerland in 2018, which is double the figure recorded in 2016. A study by Fahrländer Partner (thereafter “FPRE”) showed that in autumn 2017, there were 2,500 active accommodation options on Airbnb in the City of Zurich, of which 1,500 were private apartments. The latter corresponds to almost 15–20% of the City of Zurich’s portfolio of hotel rooms at that time. It seems unlikely that private offerings will double every two years in future. According to the FPRE study, it is assumed that Airbnb’s growth will slow down over the next few years until market saturation is reached. But even annual growth of 20% each year between the end of 2017 and 2022 would also result in doubling the number of Airbnb apartments (i.e. another 1,500) over this 5-year period.

With regard to the proportion of Airbnb overnight guests, estimates in the FPRE study assume that around 10% of all overnight stays in the City of Zurich are via Airbnb. In an international comparison, Zurich thus lags significantly behind cities such as Barcelona (40%), Prague (35%), Amsterdam (29%) and Berlin (29%). With regard to legal requirements, Airbnb offers are subject to fewer conditions than hotels. The subject of fire prevention regulations, in particular, consistently fuels debate, as Airbnb offerings are exempt from them. Another source of conflict in many cantons is visitor’s tax. In 2018, Zurich introduced the city tax for Airbnb bookings.

Figure 12

**Overview map of planned hotels and serviced apartments as of May 2019**

Source: Federal Office of Topography, JLL



## 2.6 Comparison with other European cities

The development of hotel markets in other European cities such as Berlin, Munich, Vienna, Amsterdam and Warsaw illustrates that these, too, have shown significant growth in supply in the past, and that they will continue to experience strong growth in supply in the coming years (Figure 13).

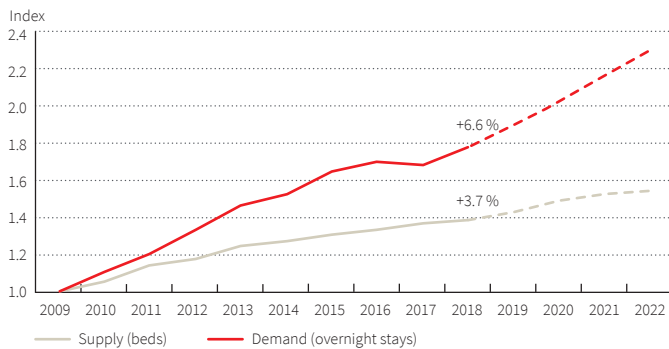
The number of future hotel beds is based on research by JLL. The future demand trend was forecast using the compound annual growth rate (CAGR) with regard to hotel stays in the past ten years (2009 to 2018). The graphs illustrate that the growth in supply is facing a comparatively high growth in demand in all of the markets shown. Because of this, and also based on past experience, it can be assumed that demand

can continue to absorb supply in the medium to long term. In the hotel market in Munich, for example, a CAGR of +4.9% was reported for hotel beds, which was compensated for by an increase in overnight stays of +6.8%. However, owing to strong growth in sub-markets, competition will become much fiercer, at least in the short term, which will affect performance results. This applies in particular to older, inadequately maintained houses with no brand connection and in rather unfavourable locations.

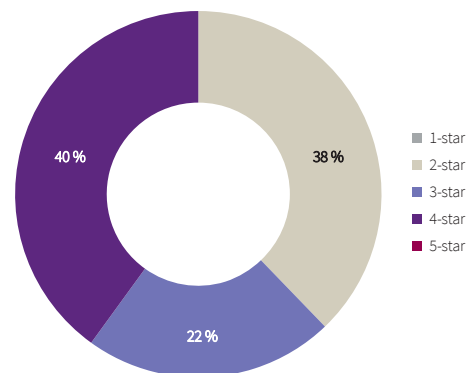
Figure 13

### Predicted development in European cities

Berlin supply vs. demand

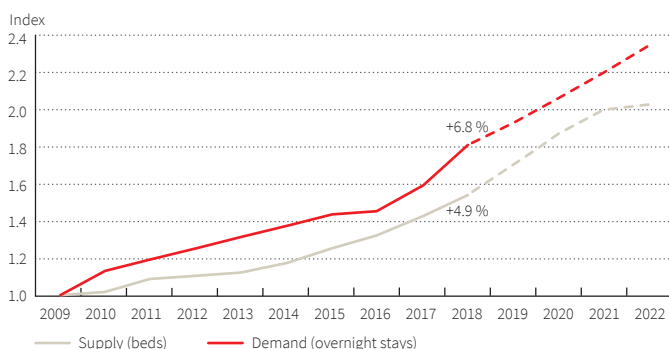


Category future supply 2019–2022

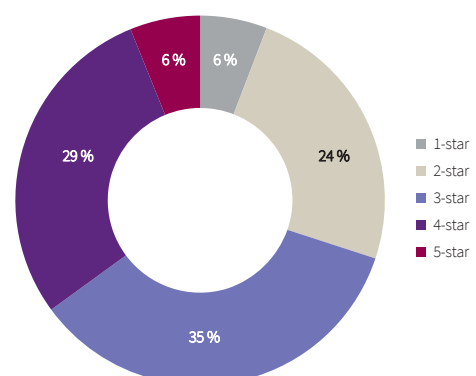


Source: statistical offices, STR, JLL

Munich supply vs. demand

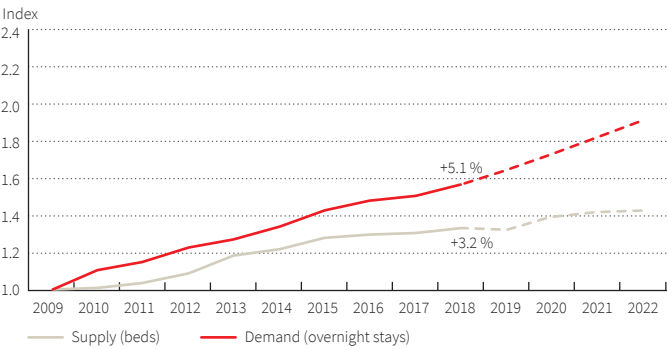


Category future supply 2019–2022

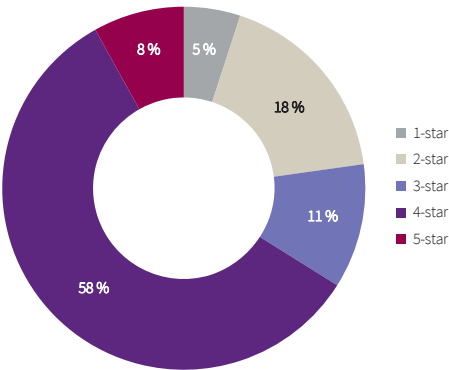


Source: statistical offices, STR, JLL

Vienna supply vs. demand

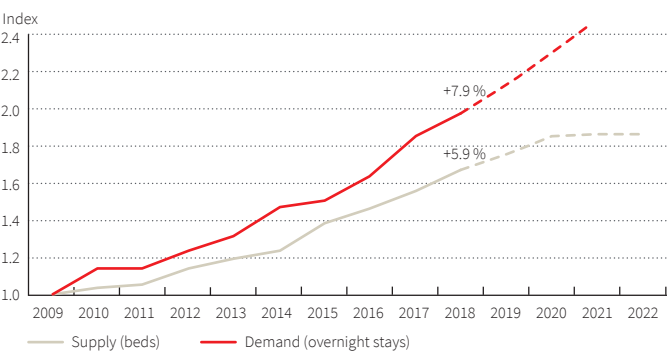


Category future supply 2019–2022

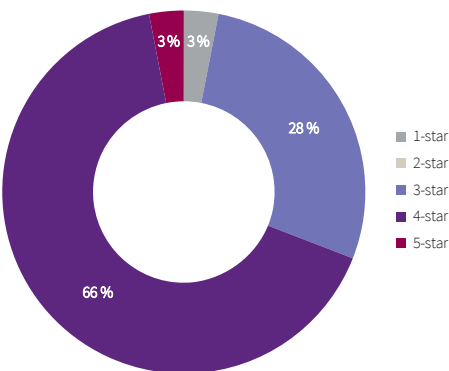


Source: statistical offices, STR, JLL

Amsterdam supply vs. demand

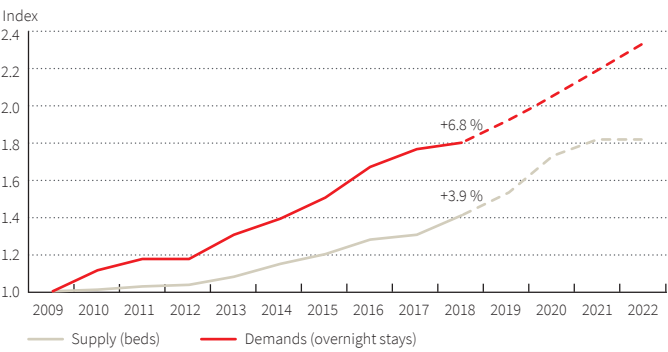


Category future supply 2019–2022

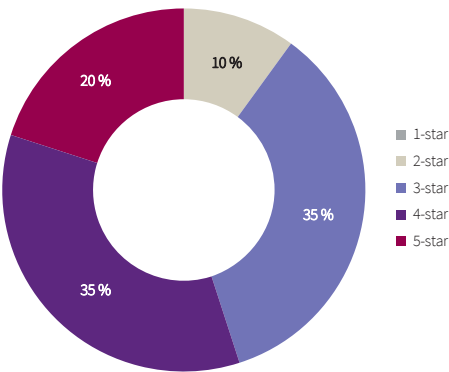


Source: statistical offices, STR, JLL

Warsaw supply vs. demand



Category future supply 2019–2022



Source: statistical offices, STR, JLL



Furthermore, it can be seen that segments which are currently underrepresented in the hotel sector, such as lifestyle and long-stay hotels, which are primarily positioned in the 3 and 4-star segments, have recorded growth. With regard to location, a growth in supply can be increasingly observed in extra-urban regions owing to city expansion and the resulting decentralisation of large cities with the formation of new city districts. It should be noted here that in more difficult economic times, such extra-urban locations, in particular, will be affected by a decline in demand and less overflow potential from the city.

## 2.7 Key takeaways

- Since 2010, the number of hotel rooms in the Zurich area has increased by around one quarter, i.e. 2,850 rooms, to 13,680 rooms in total. From an occupancy rate point of view, the rooms were relatively well absorbed on the whole as the number of overnight stays increased to a similar extent at the same time.
- 4-star hotels and hotels with unknown classification accounted for the largest increase in new rooms. The average occupancy rate of 4-star hotels was also maintained, although in part at the expense of room rates, which resulted in an average RevPAR around 15% lower than in 2010.
- The hotel project pipeline is full for the next few years, too. By 2022, 18 new hotels with around 2,400 rooms could be realised. The majority of new hotels are planned for construction in Zurich North.
- The focus of the new hotels is relatively balanced. They do not (yet) have any particular star category. However, in comparison with the previous increase in supply, there will probably be a stronger focus on the 3-star segment.
- In addition to the new hotels, the supply of alternative accommodation will also increase. These are not just Airbnb rentals; for example, almost 1,000 new serviced apartments are currently planned for the Zurich area. If they are added to the hotel pipeline, supply will even increase by 3,400 rooms by 2022. In comparable European cities (Berlin, Munich, Vienna, Amsterdam and Warsaw), it can be seen that the growth in supply is facing a comparatively high growth in demand in all of the markets shown. Because of this, it can be assumed that demand can continue to absorb supply in the medium to long term.

### 3 The drivers behind the boom in new-builds

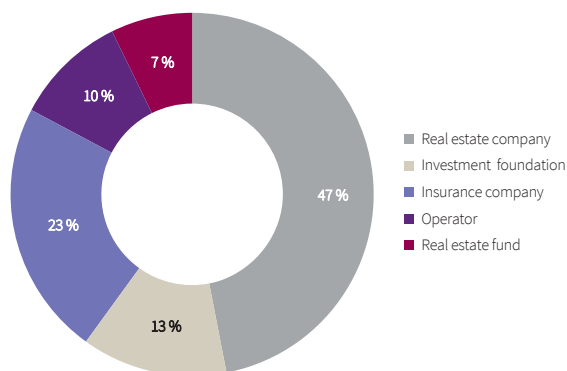
An analysis of the project pipeline by owner and operator shows a clear picture as to who is behind the boom (Figure 14). In over 90% of the hotel projects, the investors or property owners are classic investors, usually from the institutional sector: real estate companies, investment foundations, insurance companies and real estate funds. Among real estate companies, it is predominantly smaller and private real estate companies, in addition to the listed real estate companies (e.g. PSP Properties AG),

that invest in hotel projects. At the same time, investor interest is meeting open-minded hotel operators, especially from abroad. Among the operators of new hotels, international hotel chains dominate with a 90% share. Where does the current interest of investors and international operators in Zurich's hotel market come from, and will this trend continue?

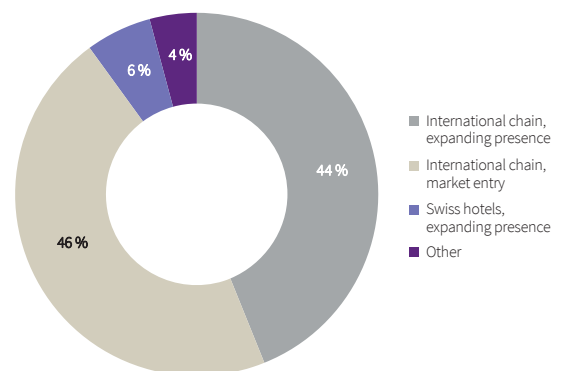
Figure 14

#### Stakeholders – new rooms by owner type and operator

Owner type



Operator



Source: JLL

#### 3.1 Driver 1: investment pressure in the real estate investment market

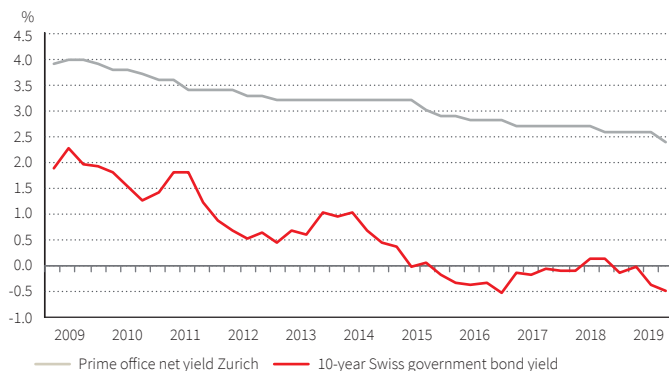
The real estate investment market has boomed over the last few years. A continual decrease in interest rates and declining income in other investment segments encouraged capital inflows into real estate investments, resulting in lower yield requirements and higher prices. While ten-year Swiss Federal bonds had a 3.5% interest rate at the beginning of 2002, interest rates have predominantly been below 0% since 2015, causing many investors to switch to supposedly higher-yielding investments, especially real estate. According to Swisscanto, pension funds' share of direct and indirect real estate investments (including mortgages) rose from 21% to 26% between 2010 and 2018, for example (Figure 15). Most other investor groups from the pension sector also changed their asset allocation substantially in favour of real estate investments. With regard to investment properties, the massive inflow of funds led to what is known as yield compression.

While purchasers of high-quality properties in Zurich city centre expected a net rental return of around 4.0% in 2002, this value was only 2.4% in the second quarter of 2019. The yield spread on Federal bonds remains correspondingly high despite the compression, and real estate therefore remains attractive as an asset class.

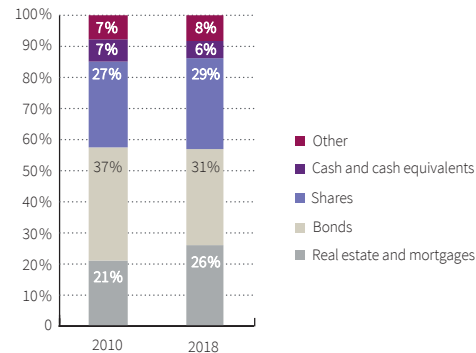
Figure 15

**Prime office net yield vs. government bond, asset allocation of Swiss pension funds**

Comparison of returns



Asset allocation of Swiss pension funds



Source: Thomson Reuters, Swisscanto, JLL

However, hotel real estate is by no means the preferred sector for investors. The operational risks are often too difficult to assess, and the structural (renovation/extension) components of hotel real estate are too specialised in the event that it becomes necessary to re-let a property with another use. Currently, hotel real estate in tourist regions is very difficult to place with local investors. Purchasers for such hotels can usually only be found abroad, if at all. It is a different situation for city hotels and hotels in urban areas. Roughly speaking, there are three types of hotel projects that have attracted investors:

- Tailored stand-alone developments, such as the Hilton Garden Inn in Spreitenbach or the Intercity Hotel in Rümlang.
- Newly constructed hotels as part of a larger site development, such as the two Hyatts in "The Circle" or the MEININGER Hotel in Greencity.
- The conversion of existing properties into hotels, such as CitizenM or Hotel Ruby in the city centre.

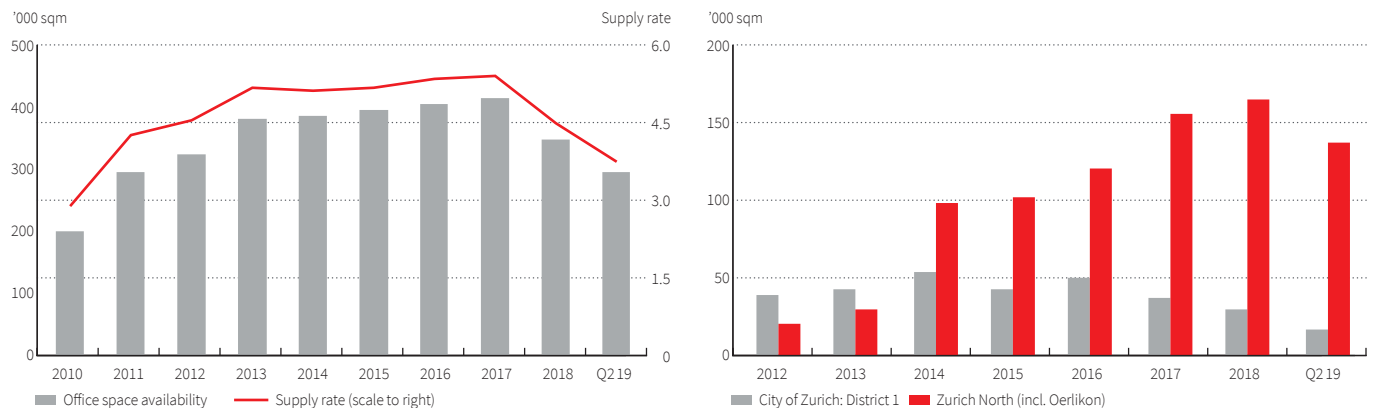
Hotel projects of all three types have benefited from the weak office market, among other things. Over the last decade, the office market in Zurich has developed from a scarce and limited market to an open and expansive one with higher area availability. One significant driver behind this long-term paradigm shift was the expansion

of the S-Bahn network, which enabled the development of successful new business sub-centres outside of the city centre. This expansion primarily took place in the west and north of the city. As a result, vacant office space in the Zurich region rose temporarily to more than 400,000 m<sup>2</sup>, or over 5% of the total portfolio (Figure 16). Initially, the city centre was disproportionately affected by this development, as many financial service providers took the opportunity presented by the new offering to relocate middle and back-office departments from outdated CBD properties into modern office buildings in the new sub-centres.

Owners of city centre office buildings were left wondering whether they would ever find new tenants for the now vacant office space in the competitive market environment. Against this background, converting the buildings into hotels was an attractive prospect. A similar situation was observed in project developments. For commercial project developments – with few exceptions – construction was only started once a certain pre-letting rate was achieved. Meeting this requirement is a challenge, especially for projects with a high proportion of office space and located outside of the city centre.

Figure 16

### Development in the supply of office space



Source: Office Market Profile – Q3 2019

Accordingly, owners of development projects are interested in alternative usage concepts that may trigger a construction project. In the Vulcano project in Altstetten, for example, which was completed in 2018, around 14,000 m<sup>2</sup> of office space had been planned before the option of building a hotel presented itself.

More recently, however, trends have swung back in the direction of office use. Over the last few quarters, the Swiss economy has enjoyed a marked upturn. The effects of this were also clearly noticeable in the market for office space. Demand and therefore space absorption developed positively, and vacancy rates have shrunk again in Zurich. The supply of office space in the Zurich region dropped in the first half of 2019 by a further 15.5%, from 351,600 m<sup>2</sup> to 297,100 m<sup>2</sup>, or 3.8% of the entire office space portfolio. From an owner's perspective, the current development in vacancy rates is positive, especially in the city centre. The office space available in Zurich's CBD has fallen by around 70% since its peak in 2014 (Figure 16). At present, there is even a shortage of supply for larger office areas in the CBD. Owing to the improved demand situation in Zurich's office market, converting existing properties into hotels at central locations is no longer such an attractive prospect. This means that the risk of additional conversion projects in future has decreased significantly. In contrast, office vacancy rates in the north of Zurich remained in the double-digit percentage range, and hotels are still an attractive alternative form of use there as long as profits do not drop off significantly.

### 3.2 Driver 2: entry of international hotel chains into the Swiss market

In terms of operators, the new hotel projects will be managed almost exclusively by international hotel chains. A distinction can be made between brands that are already active in the Zurich region and wish to expand their presence, and brands that are seeking to enter the market. The first group includes the new Hyatts planned at the airport, and the Leonardo Hotel of the Fattal Hotel Group in Kloten. The second group is significantly larger and comprises the German brands a-ja City Resort, Niu Hotel, Hotel Ruby, and Intercity, as well as B&B Hotel (France), MEININGER Hotel (UK), Harry's Home (Austria) and citizenM (Netherlands).

Zurich represents an attractive environment for expansion for international hotel chains. Top-line revenues such as room rates and RevPAR appear high from an international perspective and stable from a market perspective (at least over the last few years, see section 2.2). On the other hand, costs are also higher – a fact which is often underestimated. But many of the new hotel concepts such as citizenM and Motel One stand out for their very low operating costs, e.g. for catering and staff, and accordingly have higher margins for the same revenue.

If the market components do not significantly change, pressure from foreign brands on Switzerland and the Zurich region is likely to continue, especially from operators



with innovative hotel concepts. In addition to a growing presence of existing chains, further market entries by successful international brands with an expansion strategy in Europe cannot be ruled out. Brands with different target groups and price categories that might be interested in Zurich as a location include Kimpton, The Hoxton, Saco, Student Hotel and Yotel.

### 3.3 Key takeaways

- In over 90% of the hotel projects, the investors or property owners are classic investors from the institutional sector: real estate companies, investment foundations, insurance companies and real estate funds.
- From an investment point of view, hotels in urban areas have benefited from record-low interest rates over the last few years which pushed investors towards real estate, as well as from Zurich's weak office rental market in recent years which propelled the search for alternative forms of use for existing properties and new construction projects.
- General investment pressure remains high. However, many investors from the pension sector are now substantially exposed in real estate and are likely to become more cautious. At the same time, the office rental market in Zurich has significantly improved. Now, it hardly makes sense any more to convert old office premises into hotels in central areas.
- International hotel chains, which often use Zurich to launch new hotel concepts onto the market, clearly dominate as the operators of new hotels. The pressure from foreign brands on Zurich may well continue, as top-line revenues appear attractive at the international level. At the same time, the higher cost structure is often underestimated.

## 4 Scenario analysis: is there demand for the planned new hotel rooms?

As described in section 2.2, the hotel market in Zurich has absorbed the recent increase in supply relatively well. Over the past few years, the number of overnight stays has increased more or less in line with the newly created rooms. Does this mean that concern surrounding the additional planned hotel projects might be inflated, or is there really a medium-term risk of excess supply on Zurich's hotel market? To enable a commentary on future developments in the occupancy rate, a simplified model calculation for various demand scenarios will be provided below.

### 4.1 Scenario analysis for supply/demand in the hotel market in Zurich

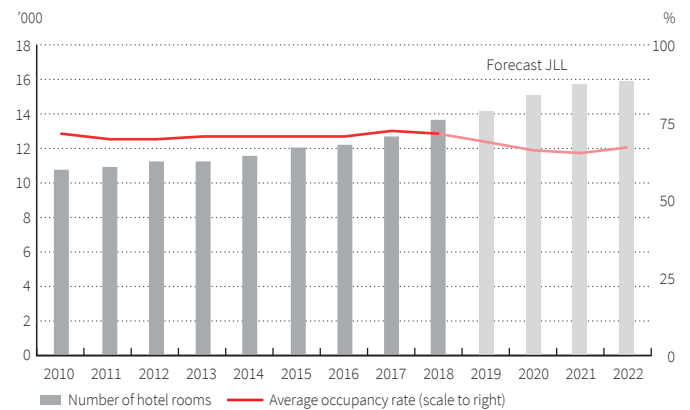
It is difficult to assess development on the demand side. For the main scenario, it was assumed that the number of room nights would increase by 2.8% per annum over the next four years, i.e. the average annual growth rate between 2010 and 2018. On the other hand, the number of hotel rooms would rise by a total of 17.4% over the next four years, or 4.1% per year, provided all of the hotel projects are realised as planned. This already indicates a growing gap between supply and demand. Figure 17 shows the predicted development in the number of rooms and the average hotel occupancy rate for the Zurich area.

The market-wide hotel key figures are therefore likely to deteriorate even if the number of room nights develops about as positively as in the last few years. In this case, the average hotel occupancy rate in the Zurich area would decline from around 72.3% today to about 67% owing to the planned increase in supply. This may not seem to be much at first glance, but the average RevPAR would fall by around 7.3% as a result, and only if room rates could be maintained at the current level. The latter could also become more difficult in light of increasingly intensive competition. This not only affects the prospects of the new hotels, but also "old" hotel providers who are in direct competition with the new offering, which is why some of their concerns appear justified (more about this and their measures can be found in section 5).

For the sensitivity analysis, two alternative scenarios were drawn up: one positive and one negative with regard to the dynamics in the market. For the positive scenario, it was assumed that the growth in room nights would be twice as much as in the main scenario; for the negative

Figure 17

### Main scenario forecasts for all hotels in the region under analysis



Source: JLL

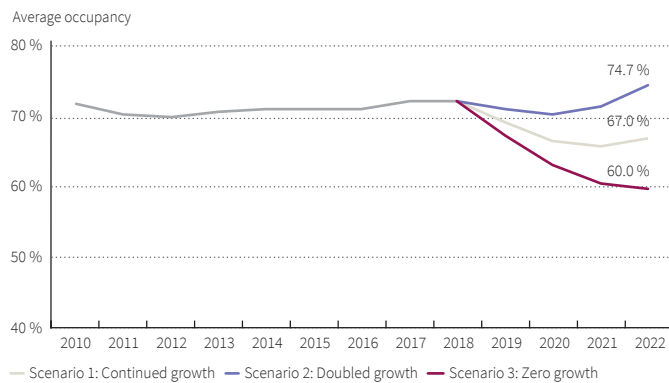
scenario, it was assumed that room nights would remain stagnant at today's level. Figure 18 shows the results of the scenario analysis. In the event of stagnation in demand, average occupancy would come under considerable pressure and fall to 60% by 2022. In the positive scenario, however, occupancy would be maintained or even slightly increased. From today's perspective, however, such acceleration in the growth in overnight stays seems unlikely. It can generally be concluded from the scenario analysis that absorption of the new rooms will essentially depend on how the demand side develops. In this context, the exploitation of new demand segments is a promising aspect that can be addressed by associations, policy-makers, etc. (see section 4.3).

### 4.2 Segments and regions

The increase in supply over the next four years is most pronounced in the Zurich North sub-region. While around 100 new rooms were created there annually over the last eight years, around 350 new rooms per year are planned for 2019–2022. In the City of Zurich, the increase in supply will be similar to that of recent years, with just over 200 new rooms annually over the next four years (Figure 19). If it is assumed, as in the main scenario for the entire region, that there will be continued growth in overnight stays using the average growth rate between 2010 and 2018 in each sub-region, then average occupancy in the City of Zurich would be 72.3% – the same as the current level – at the end of 2022, whereas it would fall dramatically in Zurich North

Figure 18

### Scenario analysis for all hotels in the region under analysis



Source: JLL

from over 75% to almost 60%.

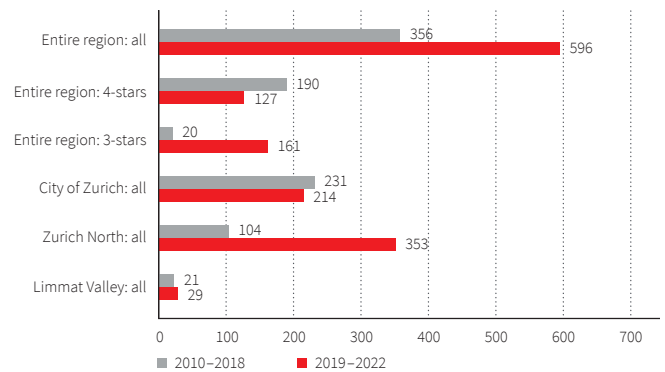
Analysis by segment is more difficult, as most hotel projects have not (yet) been allocated a specific category or do not fall into the traditional star categories (Figure 11). However, it can generally be said that, in comparison to the last few years, the new offering is more focused on the 3-star segment and less so on 4-star rooms. If the rate of overnight stays remains the same in both star categories, this would mean a significant reduction in average occupancy at 3-star hotels. Such a scenario would actually see occupancy at 4-star hotels increase by 2020. However, even in the segments, the modelled effects would be diminished in reality owing to endogenous demand generation and the shift of overnight stays between hotel categories.

### New supply also generates additional demand

In reality, the new supply will also generate its own additional demand. For example, completion of the major project “The Circle” at Zurich Airport will trigger a surge in demand for hotel stays in the airport region. Alongside the planned retail and office spaces, there are also plans for offerings in the areas of education, art and health/beauty. In the health/beauty area, there are plans for an offshoot of Zurich University Hospital. Furthermore, the planned Convention Centre at the airport (The Circle Convention Centre) in particular will probably create a surge in demand. The new Convention Centre will be built in connection with the construction of the Hyatt

Figure 19

### Annual growth in hotel rooms by region and period



Source: JLL

Regency Hotel, and will have over 5,000 m<sup>2</sup> of floor space, including an event hall with a conference capacity for up to 2,500 people. Because of those effects, it can be assumed that average occupancy will be affected less negatively. Nevertheless, regarding the hotels, like in the office market, Zurich North may well feel the strongest competitive pressure in the market.

### 4.3 Measures for promoting relevant demand groups

Strengthened growth in demand for hotel rooms in the Zurich area is therefore necessary to be able to deal with the new hotel projects without any major negative effects on the hotel industry. Of course, a thriving economy is a basic requirement for robust demand for rooms from business travellers. But there is also further potential for growth in the tourist and MICE sectors. Possible measures for promoting relevant demand groups are shown below. The measures are geared towards the respective target groups of Business/MICE, Leisure and Hybrid/Bleisure. Moreover, a side note discussing a further measure for exploiting a new demand group has been included.

- **Business/MICE: improving the conference infrastructure**

In Zurich, there is still potential in the area of convention infrastructure. The existing infrastructure in Zurich is not suitable for holding larger international conventions. To become established in this area, it would be necessary to construct a large convention centre in a well-connected location in Zurich with corresponding capacities alongside the existing and currently planned convention capacities. Particularly with regard to the number of planned hotel rooms, demand could be boosted with a convention centre. A convention centre could also help to enhance the city's image and to position it in visitor segments that are attractive in terms of quality, while strengthening Zurich's international presence. Zurich has been looking into this topic for a long time, and a solution is not likely to be found any time soon.

- **Leisure: recurring events or festivals**

To boost demand in the leisure area, one possible measure would be recurring events or festivals. Particularly in months with low demand, events or festivals could help to improve occupancy. Zurich already has a range of various events, such as the Street Parade, which also help to promote the city's image. The same applies to the completion of new crowd-pullers in the areas of culture, sport and entertainment, such as the extension of the Kunsthaus (art museum) or the construction of a new ice hockey arena in Zurich-Altstetten. The subject of events in the City of Zurich sometimes meets resistance from local residents, as was the case with the Formula E race in 2018. With this in mind, it would be advisable also to consider locations outside the city centre (e.g. Zurich North, Lake

Zurich region) which have good transport links, as hosts for events or festivals. In terms of major sporting events, Zurich has held numerous prestigious events in the past. For the coming years, too, Zurich has been awarded contracts for a number of international sporting events. In 2020, for example, Zurich and Lausanne are the venues of the Ice Hockey World Championships. Furthermore, in 2024, Zurich will hold the UCI Road World Championships.

- **Hybrid/Bleisure: positioning as a destination for incentive travel**

In the area of hybrid demand groups, or "Bleisure" (Business and Leisure), incentive customers offer interesting potential. As a destination, Zurich has already been able to welcome various incentive tour groups from abroad in the past. Such groups can comprise several hundred or even several thousand people. In 2019, a Chinese cosmetics company tour group consisting of 12,000 people drew considerable media attention. Split into groups, the tourists spent around one week visiting various sightseeing spots in Switzerland. Trips such as these make it possible to combine business and leisure. Frequently, events are held (e.g. annual sales meetings) and leisure activities offered (e.g. day trips). Here, Zurich scores highly as a location with optimal transport infrastructure and short distances (even for trips within Switzerland).

Regardless of the individual measures to promote demand, a well-functioning infrastructure is important for the demand for hotel stays in the Zurich region. Alongside a well-developed public transport network, this also includes an airport that has the necessary capacity and offers direct international connections. Moreover, as a result of the current climate debate, rail travel is increasingly being chosen over air travel. It remains to be seen whether this trend will continue in the long term.



#### 4.4 Excursus: co-working spaces

In addition to the measures mentioned above which aim to increase occupancy, there is also the potential for measures that open up new revenues for a hotel by improving and optimising the usage of the existing hotel infrastructure. One example is the promotion of co-working spaces in hotels.

An increasing number of companies are pursuing flexible work policies, as a result of which demand is growing for places that allow people to do their work in a social environment and create a sense of community. From the perspective of a hotel, this ongoing trend could represent an opportunity. More and more hotels around the world are getting involved in the boom in flexible spaces – a trend which is emerging in the office market. This way, underused spaces in communal areas or outdated business centres are being converted into modern, lively co-working spaces.

The co-working models in hotels can vary greatly. At present, it is possible to distinguish roughly between three different models:

- **Usage free of charge**

In this model, hotel guests and visitors who use the workspaces are not charged any fees. Instead, the hotel operators see the benefit of increasing occupancy levels in the hotel's own catering facilities (e.g. coffee, hotel bar). At the same time, this model promotes brand awareness, which is of particular interest to international chains.

- **Pay-to-stay models**

In the pay-to-stay model, work-friendly rooms are monetised by hotels. For example, visitors or companies can purchase weekly passes, or monthly membership fees are charged. This model can also be extended to other hotel infrastructure. It is conceivable, for example, that a gym or the spa area could be used as well, which would be included in the price. The price could also include refreshments (e.g. unlimited coffee).

- **Co-working hotel experience**

Co-working spaces in hotels can also be used to cater to specific hotel guests. The French hotel brand "Mama Shelter", for example, uses its co-working spaces to

target "digital nomads". Hotel brands such as these, which gear themselves towards a younger generation of travellers, offer the co-working element as part of the hotel experience.

Depending on the model, co-working spaces probably have little or no direct influence on the room occupancy of a hotel. However, they can help to boost the occupancy of general guest areas which would otherwise be fairly low on weekdays during working hours. Such measures allow a hotel's revenues to be diversified.

#### 4.5 Key takeaways

- Average occupancy in the region under analysis may fall from around 72% today to approx. 67% in 2022 if all of the hotel projects are realised as planned and if growth in demand remains at the same level as that of the past few years.
- In this scenario, the average RevPAR would decline by at least 7.3%. However, the effect will probably be greater, as room rates could also come under pressure as a result of more intense competition.
- Regionally, Zurich North is significantly more exposed to any possible negative effects on occupancy than the City of Zurich. Moreover, the increase in supply in the coming years seems to be geared more towards the 3-star segment.
- To keep average occupancy more or less stable, growth dynamics on the demand side would need to almost double (Figure 18).
- Measures for promoting relevant demand groups could include expanding the conference infrastructure with a convention centre designed for international conventions, introducing new events or festivals, and positioning Zurich as an incentive destination. Co-working spaces in hotels also present a possible alternative for generating additional revenue.

## 5 Effect on existing hotels: increased investments into the portfolio?

As described in section 4.1, average occupancy in the region under analysis would fall from 72.3% to 67% according to the main scenario, owing to the increase in new hotels. Average RevPAR would thus decline by 7.3% or more, depending on how much pressure is placed on room rates. Of course, a development such as this would also have a major impact on existing hotels. A survey of the members of the Zurich Hotel Association was conducted to find out what hoteliers think of this development and how they intend to hold their ground against the new competition in this environment.

### 5.1 Outline of survey

In collaboration with ZHA, JLL conducted an online survey of the association's hoteliers in June 2019. ZHA's geographical coverage extends beyond the region under analysis as defined above. For example, hotels in other regions of the Canton of Zurich and in selected Obersee municipalities are also members of ZHA. However, the majority of ZHA hotels are located in the greater area of the City of Zurich.

Participants were asked about their own hotel, their assessment of the ongoing increase in capacity of hotels in the Zurich region, and any completed or planned investments. In another part of the survey, the hoteliers were asked about their expectations of the association and policy-makers. This part of the survey is used by ZHA as a basis for information, and it is not used in this study. The survey was sent to around 160 hoteliers, of whom 73 completed the survey in full. Only those surveys which were completed in full were used in the analysis. Incomplete surveys were disregarded. In the case of hotel chains, each hotel was sent its own survey and asked to complete it.

Table 3 gives an overview of the composition of the sample. The large majority of the hotels which took part in the survey are located in the City of Zurich (75%), while only 10% are located in the airport region. The high proportion of the City of Zurich in the survey is roughly equivalent to its share of the total portfolio. In terms of category, hotels with 3 and 4 stars dominate – together, they make up a share of around 75% of survey respondents. The size of the hotels is balanced: small, medium-sized and large hotels make up one third each. In terms of focus, hotels targeting the Business/MICE group dominate, which is

interesting because most future projects are aimed more at a hybrid clientele. Over 40% of survey respondents are part of a hotel group with more than three hotels, although only 29% are affiliated with an international hotel chain.

Table 3

### Overview table: composition of the sample

Region	City of Zurich	75 %
	Airport region	10 %
	Other	15 %
Star category	5* incl. superior	10 %
	4* incl. superior	42 %
	3* incl. superior	34 %
	2* incl. superior	1 %
	1* incl. superior	0 %
	Other	12 %
Number of hotel rooms	< 50 rooms	32 %
	50–99 rooms	34 %
	> 100 rooms	34 %
Target group	Business/MICE	53 %
	Leisure/Leisure Groups	7 %
	Equal share	40 %
International hotel chain	Yes	29 %
	No	71 %
Hotel group (> 3 hotels)	Yes	42 %
	No	58 %

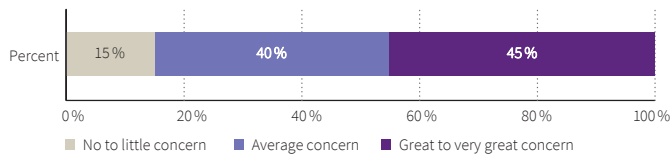
Source: JLL

### 5.2 Results: assessment of hotel boom

The hotel boom in the Zurich region is a matter of concern to the industry. The question as to how concerned hoteliers are in general about the ongoing increase in capacity was answered by 45% of respondents with “great to very great concern” and by another 40% with “average concern”. Just 15% seem to have no to little concern (Figure 20). The level of concern is generally higher for small hotels with fewer than 50 rooms and lower for large hotels with more than 100 rooms.

Regarding specific effects, the large majority of survey respondents expect that both occupancy (77%) and room rates (87%) will be affected negatively to very negatively by the new projects (Figure 21). The effect

Figure 20

**Level of concern among hoteliers**

Source: JLL, survey June 2019

on room rates is generally assessed as being worse. This is in line with recent experience in the 4-star segment, where the previous increase in supply primarily pushed down room rates, while average occupancy remained stable (see section 2.2).

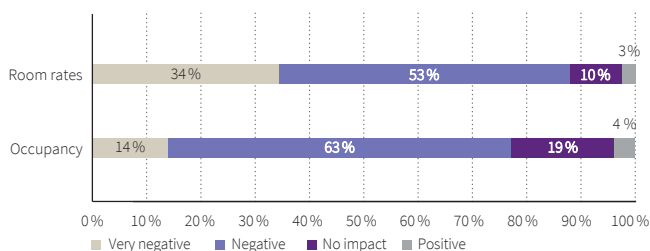
Looking at costs, it is expected that staff costs in particular will rise because of the new hotels. On the other hand, hoteliers consider the risk of higher goods and other operating costs to be low (Figure 22). There is little unemployment in Switzerland, and a certain shortage of skilled labour can be observed in many professions. This is also affecting the hotel industry, which relies on skilled workers in areas from reception to catering, facility management and operations management. Each

additional new hotel – even if it is operated with a small workforce – increases the demand for good employees in the region and exerts upward pressure on wages. Goods and other operating costs are primarily affected by other economic drivers, and are less dependent on specific developments in the hotel market itself.

Finally, another interesting topic is the hoteliers' own investment activity in the portfolio. More than two thirds of survey respondents are planning larger investments in their hotels in reaction to the new competition. This means that money is not just going into new hotels, but also increasingly into the refurbishment and upgrading of existing hotels. This topic is discussed in greater detail in section 5.3.

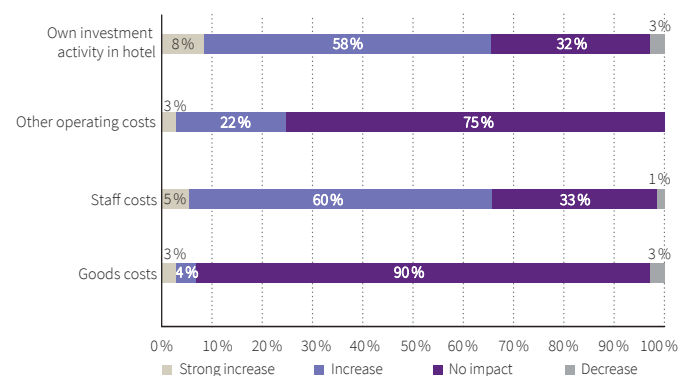
If the occupancy of their hotels were to fall below a critical level, hoteliers would consider a wide range of measures (Figure 23). Only 8% of respondents would lower room rates first of all and thus enter into a price war. Around 19% of hoteliers would turn their attention to employee costs. The remaining 73% of hoteliers would prioritise investments to stimulate demand. These investments may relate to the property and infrastructure directly (30% of survey respondents), to marketing or to the positioning of the hotel.

Figure 21

**Impact of increase in capacity I/II**

Source: JLL, survey June 2019

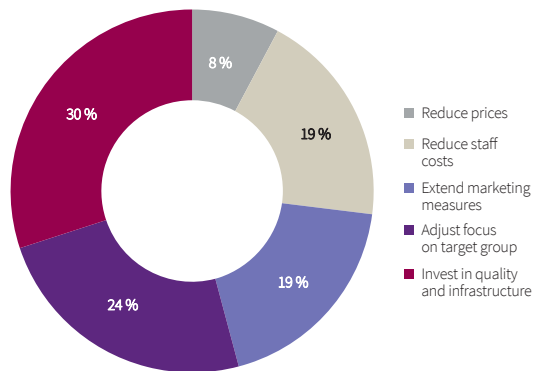
Figure 22

**Impact of increase in capacity II/II**

Source: JLL, survey June 2019

Figure 23

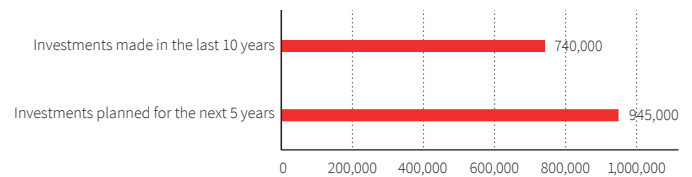
### Initial measures in the event of a drop in occupancy



Source: JLL, survey June 2019

Figure 24

### Comparison of average annual investments per hotel in CHF



Source: JLL, survey June 2019

## 5.3 Result: investment activity

As described in the previous sub-section, the new competition represents a potential catalyst for investment activity in the portfolio. Accordingly, the survey focused in particular on past investments and those planned for the future by ZHA hotels.

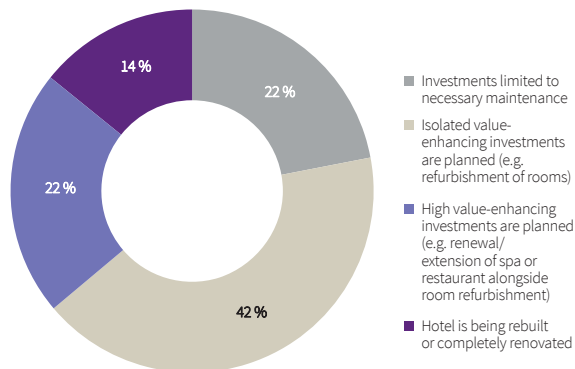
Existing hotels are actually planning to make significantly larger investments in the next few years. According to the survey, while the hoteliers surveyed invested around CHF 740,000 annually over the last ten years, the figure for the next five years is around CHF 945,000 annually, an increase of almost 30% (Figure 24). Simply extrapolated to all 182 hotels in the Zurich region, this would indicate a total investment volume of around CHF 860 million over the next five years. These investments are sure to have a positive impact on guests and also Zurich as a tourism region. The quality of existing hotels will be enhanced further and guests will have a wider selection of modernised hotels to choose from.

However, not all hotels wish to make investments to substantially raise quality. On the contrary, around 22% of the hotels surveyed wish to restrict investments to necessary repair work (Figure 25). It was not possible to establish any particular pattern with regard to hotel size or category. On the other hand, almost 15% of hotels are planning a total renovation or a new-build. However, the majority provide for at least some value-adding investments.

The planned investments are mainly focused on the core area of most hotels: their rooms. For their planned investments, over 50% of the hotels surveyed attach great to very great importance to the refurbishment of hotel rooms (e.g. bathrooms, floors), the renewal of their furnishings (FF&E) and the technical equipment (Figure 26). The next most important investments are in other guest areas, such as lobbies or reception areas, building structure and catering. Around 50% of respondents considered the renovation of conference infrastructure as rather unimportant. For smaller hotels with fewer than 50 rooms, the proportion of those attaching little to rather little importance to conference infrastructure rose as high as 65%, as these hotels probably have fewer facilities in this area anyway. By far the last in the list of priorities were investments into wellness areas and spas. Any answers with a medium to strong focus on this area almost exclusively came from 4 and 5-star hotels.

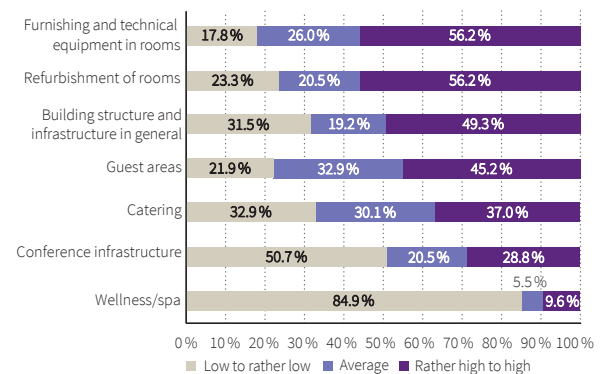
The planned investments can be interpreted as hoteliers giving priority to those areas of a hotel that are used most frequently by guests. Guest areas that are less frequently used or are only used by certain guests (e.g. conference infrastructure, wellness and spas) are treated with a lower priority. The majority of survey respondents indicated that the investments would not result in any repositioning of their hotel (93%). A

Figure 25

**Investments planned for the next 5 years**

Source: JLL, survey June 2019

Figure 26

**Focus of the planned investments**

Source: JLL, survey June 2019

majority of hotels (85%) will also not change their number of rooms.

**5.4 Key takeaways**

- The hotel boom in the region is a matter of concern to hoteliers. Around 45% of the hoteliers surveyed were concerned to very concerned about the increase in capacity. Concern is generally greater among smaller hotels with fewer than 50 rooms than among large hotels.
- The majority of survey participants expect that in future, both occupancy and room rates will be negatively affected by the increase in capacity. They also foresee a rise in staff costs.
- In reaction to the boom, the hoteliers' most important measure is to make larger investments into their own existing hotels. Those surveyed are planning to step up their annual investments over the next five years by 30% on average compared to their yearly investment spending during the last ten years. Extrapolated to all hotels in the Zurich region, this could result in total investments into the portfolio of around CHF 860 million.
- The main focus of the planned investments is on the rooms and their furnishings. The planned investments can be interpreted as giving priority to those areas of a hotel that are used most frequently by guests.

## 6 Summary and outlook

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### Summary

The scene of hotels in Zurich will continue to change and expand over the coming years. An increasing number of new and innovative hotel concepts will appear in the Zurich region thanks to the new construction projects. To date, the supply of new hotel beds has been well absorbed owing to the increase in demand. However, because of the large number of projects, it cannot be assumed that the upcoming increase in supply can be absorbed to a similar extent. The new hotels will also create their own demand, though.

International hotel chains are the main drivers of the hotel boom. Over the past few years, they have encountered an environment in Zurich in which mainly institutional investors have switched to alternative uses in the form of hotels, owing to an oversupply of office space and correspondingly high vacancy rates. As the situation in Zurich's office market has improved significantly in recent years and office use has become much more attractive again, it cannot be assumed that such a large number of hotel projects will continue to be planned. One exception is the situation in Zurich North, which is still struggling with high office vacancy rates.

According to the survey of hoteliers, the hotel boom in the Zurich region is a cause for concern to them. As a result, it can be observed that existing hotels are bracing themselves for the upcoming competition. It is intended not to counter the new competition primarily by reducing room rates, but rather by substantially investing into quality.

### Outlook: Zurich as a quality destination

The recently constructed hotels and the planned projects for hotels and serviced apartments are predominantly in the low and medium-price segments. In addition, there are accommodation options marketed via Airbnb, recording strong growth figures. The increase in supply and the growing trend towards more affordable offerings are making Zurich more attractive to travellers with lower budgets.

The steady increase in the number of guests benefiting from cheap accommodation options has led to some negative reactions among the local population in various European cities. The term "overtourism" is commonly heard in cities such as Barcelona, Venice and Amsterdam. The marketing platform Airbnb is playing a decisive role in this development. Airbnb offerings have pushed up apartment prices for the local population in attractive city centre locations. In turn, this has led to city residents being pushed out to some extent, in favour of tourists. This kind of tourism is not desirable for the Zurich region, as these tourists tend to be less wealthy on the one hand, and on the other, this kind of development would cause the local population to question their acceptance of tourism.

So as not to be affected by such negative developments, it is necessary for the Zurich region to position itself as a quality destination – something that was, in part, already the case in the region. The following topical fields hold potential for Zurich in promoting appropriate qualitative growth:

- Art and culture
- Conferences and conventions
- Corporate incentive trips

In terms of the visual arts, Zurich already has a good standing internationally. This is evidenced not only by the good reputation of the Zurich Kunsthaus, which is likely to gain even more appeal following the imminent completion of its extension, but also by the high density of galleries and the presence of leading auction houses. Culturally, Zurich also has a lot to offer. There is already a wide range of permanent cultural institutions, such as the opera and various theatres. In addition to year-round art and cultural activities, Zurich offers a variety of temporary events.



These include the Zurich “Theaterspektakel”, the Zurich Film Festival, and the Long Night of Zurich’s Museums.

In comparison, the range of internationally oriented conferences and conventions is poor, especially when considering the fact that Zurich has great potential. The two largest universities in the city alone, the University of Zurich and the Federal Institute of Technology, which have over 45,000 students between them, engage in leading international research. Apart from them, there are dozens of state and private organisations that develop pioneering technologies, are market leaders in their disciplines, and run substantial research and development sites in the Zurich region. Zurich therefore boasts various factors, including the high level of education and the international networking and integration of the Zurich region, that should encourage the demand for conferences and conventions. On the other hand, a certain lack of, among other things, suitable infrastructure – especially the lack of suitable venues – hinders the clear establishment of Zurich as a provider of conferences and conventions. “Think Big” has never been one of Zurich’s virtues, but for conferences and conventions in particular, the existing logistical and intellectual infrastructure could serve as a stepping stone towards successful positioning. It is something that many competing locations are unable to offer on a comparable level, if at all.

In the area of corporate incentive tours, Zurich has already collected positive experiences with major international tour groups. This topical field offers further potential for growth and value creation. By pursuing a clever hub strategy and, at the same time, employing targeted marketing of itself as a quality destination towards interested companies, the number of overnight stays in the Zurich region could rise without any major impact on the local population.

To further establish the Zurich region’s present standing in the topical field of art and culture, investments are necessary, such as the current expansion of the Kunsthaus. Increasingly positive growth effects on high-quality tourism are entirely possible by promoting suitable prevailing conditions or making targeted investments into a MICE infrastructure.

The topical fields mentioned provide essential stimuli for a sustainable, high-quality tourism destination with high value creation which considers and integrates the local population.

### Outlook for hotels: trends and courses of action

Digitisation is a modern buzzword and it has found its way into many different areas – even the hotel industry has been and will continue to be affected by it. Digitisation has also brought about a change in the way people work; for example, work is no longer tied to a specific location. These developments and changes also give rise to opportunities.

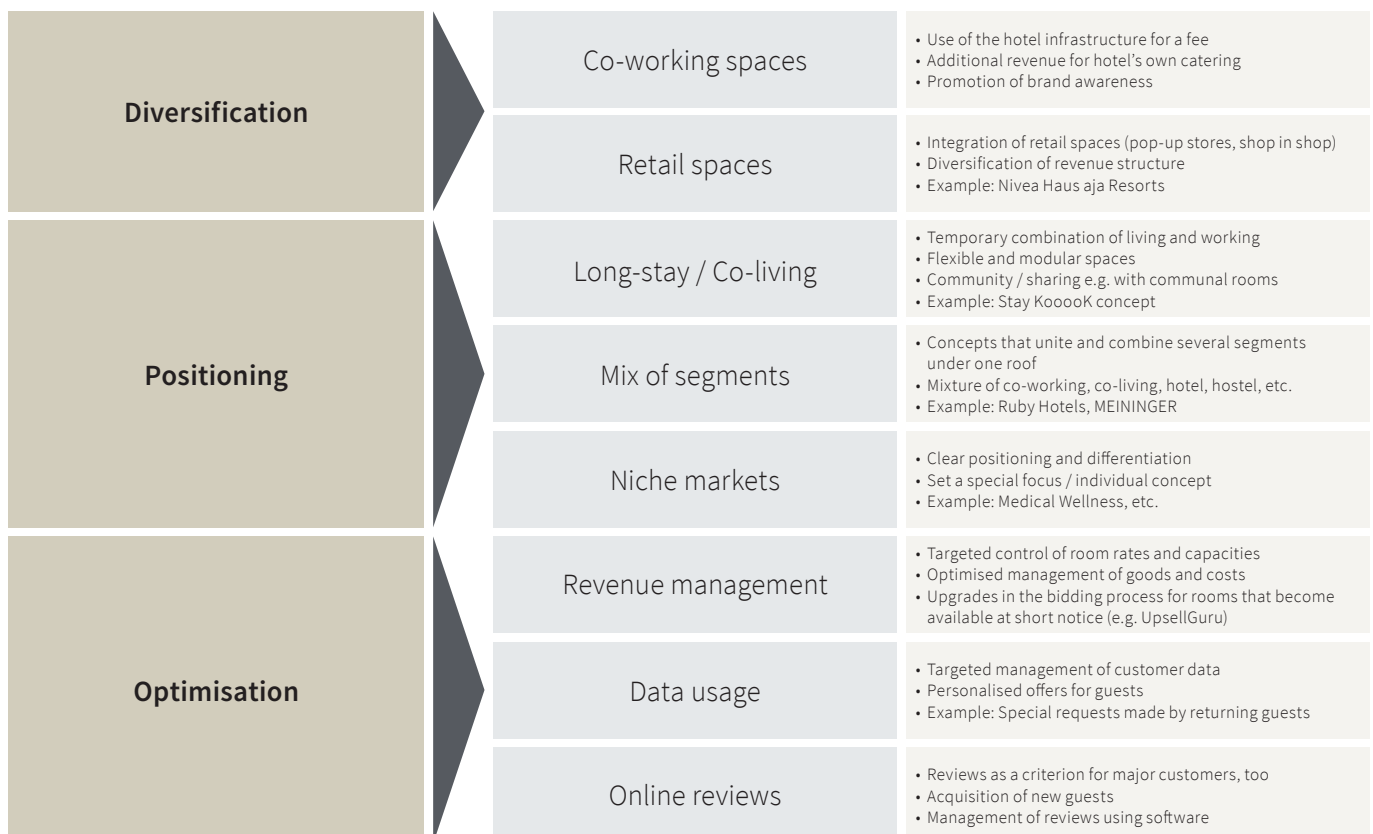
The following list shows possible trends and fields of activity that can serve as the basis for coming to terms with these changes and trends and aligning oneself accordingly (Figure 27).

The courses of action are divided into three areas: diversification, positioning and optimisation. Diversification

is geared towards the optimum use of the existing infrastructure of a hotel and how additional revenue can be generated as a result. The second area, positioning, deals with the current, international trends in the hotel industry. The long-stay sector, in particular, is becoming increasingly well-established in the market. Furthermore, it can be observed that work and personal life become more and more mixed, which is something that new hotel concepts can increasingly focus on. On the other hand, there are distinct niche markets in which hotels aim to address specific target groups. The last field, optimisation, is strongly aligned with digitisation. Suggestions are provided as to how hotels can become more efficient in their day-to-day business and more target-oriented in their interaction with customers.

Figure 27

### Trends and courses of action



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