



The Changing Dynamics of the Swiss Hotel Market

Switzerland's reputation as a leader in hospitality is renowned around the world. In recent years, however, industry professionals and business and leisure travelers alike have started to question this. While the global hotel and tourism industry has rapidly progressed, it seems that in Switzerland not much has changed. However, inside the industry various external and internal forces are challenging the traditional characteristics of the market, driving transformation.

Demand side changes

On the demand side, the dynamics of the market are changing rapidly. While tourism in Switzerland used to be dominated by European guests from Germany, the United Kingdom, France and Italy, in recent years these source markets have systematically declined while the number of Asian, Indian and Middle Eastern travelers has increased. According to the Swiss Statistics Authority — the Bundesamt für Statistik BFS — the number of Chinese overnight stays in Switzerland in 2010 grew 48.8%, while stays from India and the Arabian Gulf grew by 21.1% and 13%, respectively. This trend seems to be continuing, as during the first half of 2011 the number of Chinese and Indian guests grew by 42.5% and 25.7%, respectively. Overnight stays from the Gulf countries grew only marginally — 4.5% — due to Ramadan taking place in August, keeping many Arab visitors in their home countries during the usual travel months of June and July.

Changes in the key source markets are placing pressure on the services and facilities that hotels in Switzerland offer. Many have been quick to capitalize on the new opportunities, like the Victoria-Jungfrau Grand Hotel & Spa in Interlaken, which transformed one of its suites with a Bollywood theme dedicated to the famous Indian film director Yash Chopra. Similarly, the Dolder Grand in Zürich launched special Ramadan services to attract the premium-paying Muslim guests. To appeal to Chinese travelers, many hotels have added key signage in Mandarin and increased Chinese food options in restaurants. These relatively simple adaptations and improvements have shown positive results and are likely to continue to shape the service and facility offerings in hotels.

Growing international interest

Changes are occurring on the supply side as well. Hotels in Switzerland commonly used to be family-owned assets, often passed from one generation to another. While this is still true, a new type of ownership has emerged, as large international investors and developers have entered the market. Some have taken advantage of emerging acquisition opportunities such as QDHP Swiss Management AG, a subsidiary of Qatari Diar Real Estate Investment Company, which in 2007 (at that time under the name Barwa) purchased a significant hotel portfolio of prime assets including the Hotel Schweizerhof Bern, Hotel Royal-Savoy Lausanne and Resort Bürgenstock from Rosebud Hotels Holding AG.

Since this acquisition, QDHP has committed more than US\$509 million (450 million Swiss francs) to upgrading and repositioning these properties. This seems to be yielding results, as the Hotel Schweizerhof Bern recently reopened, receiving much praise about the renovations. Apart from the QDHP's portfolio deal, Qatari investors are showing significant appetite for the Swiss hotel market, and there have been several inquiries about acquisition opportunities with negotiations currently taking place.

Other international developers have taken a different strategy. Rather than acquiring existing assets, they have launched large-scale development projects. The most prominent is perhaps the Andermatt project in central Switzerland, which is being developed by Orascom Development Holding AG from Egypt. The project resembles the large-scale mixed-use project schemes that the developer has successfully executed on the Red Sea and Sinai in Egypt and in Ras Al Khaimah in the United Arab Emirates. However, in Switzerland — and for that matter all of central Europe — the project has unique characteristics as it involves creating a destination resort rather than a stand-alone property. By Swiss standards the project is colossal, consisting of six hotels, more than 500 residential units, a golf course, a commercial center and other recreational facilities.

While the project has not been without criticism — most Swiss know Andermatt as an army training field — it has generated significant international interest, which has been reflected in the sales of the residential real estate. Unlike most places in Switzerland, the development has been granted an exemption from foreign ownership legislation, allowing non-Swiss residents to purchase properties, which has amplified sales success. For the hotel component, Orascom Development has targeted international operators, so far successfully signing The Chedi from General Hotel Management Ltd. and Radisson Blu from the Rezidor Hotel Group.

Another company actively involved in the development of new projects is the Geneva-based Swiss Development Group. The group was established in 2007 and is developing various exclusive hotel real estate projects in Switzerland, backed by Kazakhstani millionaire Ilyas Khrapunov and other private and institutional investors. The group's first project, the Du Park Kempinski Private Residences, is approaching completion on Lake Geneva and features panoramic lake views and ultra high-end facilities such as a private cinema, wine-tasting cellar and cigar salon.

The group is also developing a spa retreat in Leukerbad, famous for its thermal waters, and a ski resort village in 4 Vallées, close to Verbier and Sion. Both developments have substantial size, involving high-end hotel and residential components, extensive spa and recreational facilities, gourmet restaurants and high-end retail. International operators have shown significant interest, with the developers recently signing a letter of intent with a renowned international luxury operator for one of the resorts.

The increasing interest from international operators is another sign of the changing dynamics in the Swiss hotel market. Traditionally, there has been a very low representation of international brands, as most properties have been owner-operated. However, in recent years there has been a gradual change in favor of international operators, partly reflective of the changing ownership. Renaissance, Holiday Inn and Ramada have all recently opened in Zürich, while Courtyard by Marriott opened in Basel and the Dorchester Collection took over management of the Le Richemond in Geneva. Upcoming openings include the Sheraton in Zürich, InterContinental in Davos and Novotel, Ibis and Etap in Lugano.

While most operators have been active in bidding for management contracts, some have taken a more assertive approach and invested capital to acquire a property in order to ensure their presence in the Swiss market. A recent example of that is the acquisition of the Hotel Alpine Rock in Silvaplana by Nira Hotels and Resorts, a boutique luxury hotel management company.

Spas

In the hotel spa sector, the dynamics are also changing, as owners are showing increasing interest to employ international, branded spa operators. The Le Mirador Kempinski on Lake Geneva portrays an extensive Givenchy Spa, also to be featured at the upcoming Du Park Kempinski Private Residences.

International niche spa operators are also entering the market, as highlighted by a top Asian operator recently signing an agreement to manage the spa component of an upcoming luxury resort in central Switzerland.

The operator interest is unlikely to decline in the future, especially given that many management companies have recently moved their regional or global headquarters to Switzerland due to favorable corporate tax conditions in the country. Perhaps this is one of the aspects of the Swiss market that is unlikely to change any time soon.

About Tea Ros - Strategic Hotel Consulting



Tea Ros is the Managing Director of Strategic Hotel Consulting, an international management consulting firm specialising in hotel and tourism investments. Strategic Hotel Consulting provides advice to owners, investors, developers and operators on how to optimise project investment, enhance asset value and maximise profitability. For more information, please see www.strategichotelconsulting.com or contact tea@strategichotelconsulting.com.