2009

Market Intelligence Report – Madrid

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Madrid – Oversupply versus Niche Opportunities

This article sets out to give the reader a picture of the Madrid hotel market up to the end of 2008 and our view on current tourism and hospitality trends and tendencies.

Spanish Economic Overview

The overall health of Spain's economy is under considerable pressure from the current economic climate. According to the Economist Intelligence Unit (EIU), Spain will face difficulties until at least the end of 2009 in recapturing the same degree of public support that existed before the general election. PSOE (the leading Spanish Socialist Workers' Party) will continue to face difficulties in passing legislation in these difficult economic times and the severe financial situation in general is expected to increase the challenge.

The EIU has forecast that real GDP growth will slow to -2.4% in 2009 but will recover slightly, to -0.4%, in 2010. Further recovery is expected in 2011, when GDP growth is expected to rise to 1.8%, although the current uncertainty raises the question of whether this might take longer to emerge.

Inflation, which averaged 4.0% in 2008, is forecast to fall to 0.8% in 2009 and eventually to stabilize at approximately 2.0-2.2 % in 2011-12.

Table 1 Economic Indicators for Spain

	Actual				Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (%)	3.4	3.9	3.7	1.2	-2.4	-0.4	1.8	2.3	2.5
Consumer price inflation (%)	3.4	3.5	2.8	4.0	0.8	1.3	2.0	2.2	2.2
Budget balance (% of GDP)	0.3	1.8	2.2	-3.3	-7.2	-7.9	-6.1	-4.8	-3.1
Current-account balance (% of GDP)	-7.4	-8.6	-10.1	-9.4	-7.8	-7.0	-6.2	-5.8	-5.4
Short-term interest rate (av; %)	2.1	3.1	4.3	4.8	2.1	2.0	2.6	3.6	3.9
Exchange rate US$:€ (av)	1.2	1.3	1.4	1.5	1.3	1.3	1.3	1.4	1.4

Source: Economist Intelligence Unit, January 2009

Madrid is the political, financial and economic capital of Spain. It is also the largest city in Spain, the third most populous municipality in the European Union (after London and Berlin) and the fourth most populous urban area in the European Union (after Paris, London and the Ruhr region of Germany). The city has always been a predominantly business-oriented destination characterized by the presence of the headquarters of large multinationals, the stock exchange and many other financial institutions. In addition, Madrid is home to many technology companies and educational institutions and plays an important role in Spain's industrial production, much of which is located in the conurbations surrounding the city centre.

In recent years, the capital's importance as a primary city has allowed it to position itself as one of the most central venues for international conferences, attracting more than 4 million attendees every year. In 2007 the city was one of the top ten cities worldwide in terms of the number of meetings held, and according to the International Congress and Convention Association it was one of the top four in terms of the number of participants (after Vienna, Berlin and Barcelona).

Recently, local government has been trying to launch the city on the international tourism market, in an effort to increase the appeal of the city as a world-class cultural and leisure destination. The enlargement of the Prado, the Reina Sofia Museum and the first private museum in Europe, the Thyssen Bornemisza, have all helped to increase the city's appeal to leisure travellers and complement the strong business demand.

With the opening of landmarks such as the Caixa Forum, the recent Francis Bacon exhibition and the increasing role of Arco (a contemporary art fair), it is clear that the strategy of raising Madrid's profile goes far beyond the typical foreigner's perception of *toros, calor y moscas* ('bulls, heat and flies'). By leveraging its high quality of life and capitalizing on its famous nightlife (*"la movida"*), its architecture, gastronomy and sheer sense of joie de vivre *("alegría)*, Madrid has been able to increase its attractiveness to potential leisure and cultural tourists as one of the most vibrant spots in Europe.

This trend has been officially recognised by Euromonitor International's ranking (2006 and 2007), which places Madrid among the top 25 destinations in the world for city breaks.

The results in this sector of the market have been achieved by keeping an eye on the solid backbone supporting the tourism industry: the business and commercial segments for which Madrid has set in place very specific urban development plans. Some of these are already visible – the *Four Tower Skyscraper District (Torre Caja Madrid, Torre Sacyr, Torre Espacio, Torre Cristal)*, on a site previously occupied by Real Madrid football club, and *The New Exhibition and Congress Centre of Madrid*, which is expected to be completed and operational by 2010-12. The centre will be located on the northern stretch of Paseo de la Castellana and will have a total area of approximately 85,000 m² designed to attract large international conferences to the city.

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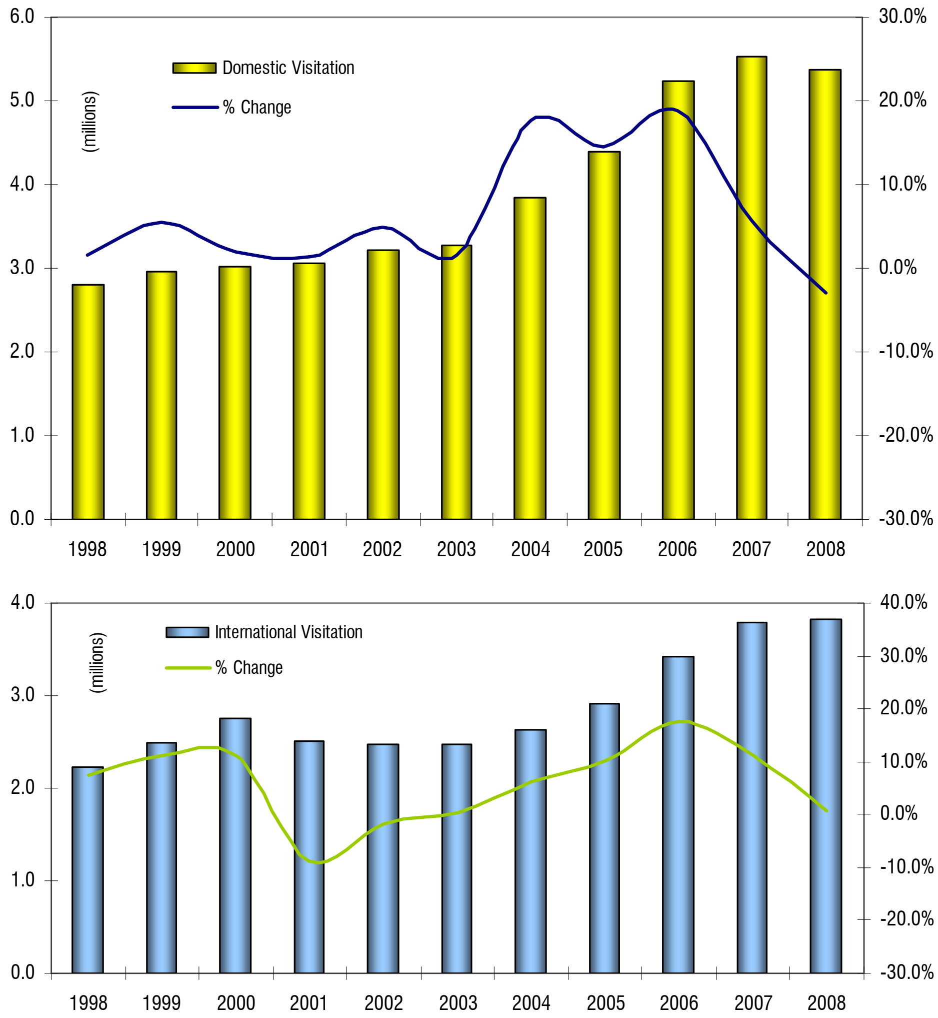
The same part of the city is also witnessing a new financial district that will be developed as part of a larger plan along with *The Four Tower Skyscraper District*. This district is located in the area of Chamartin, north of the city, and includes four office buildings with a total area of approximately 200,000 m², along with a hotel, a library, a golf course and other sports facilities.

It should be noted that although these developments have been created by the finance sector for the finance sector, they have contributed significantly to changing the city's skyline and creating many new city landmarks with a strong appeal to international leisure travellers. This phenomenon goes hand in hand with the work of local authorities to position the city as a more attractive leisure and cultural destination. For example, no tour of Madrid is complete without a visit to the Kio Towers, which have become one of the international symbols of contemporary Madrid.

Tourist Arrivals and Demand

Total visitation to Madrid from 2000 to 2008 increased by 59.0%, a compound annual growth rate of 6.0%. The split in the number of arrivals between domestic and international is shown in Table 2.

Table 2	Domestic and International Arrivals (millions) in Madrid 1998-08



Source: INE

The number of arrivals over the last eight years has increased, with the exception of 2001 when a decrease of 3.5% in total visitation was recorded, mostly due to a fall in international demand (-8.9%). International travellers were more sensitive to the terrorist attacks that year than were domestic travellers.

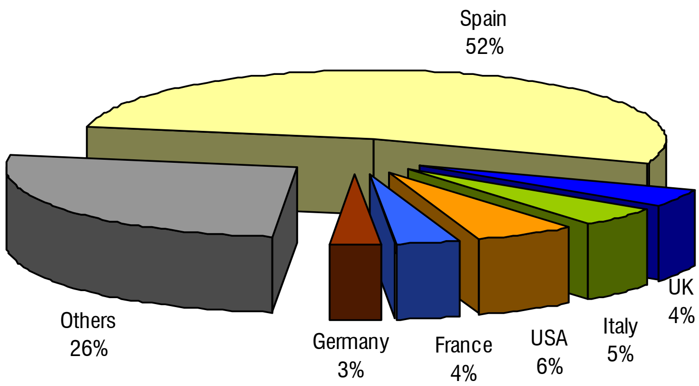
This fall in demand was soon overcome when international visitors regained confidence; the domestic market remained more than healthy. In 2004, 2005 and 2006 there was a double-digit increase in total visitation owing to a strong increase in both international and domestic demand, whereas 2007 registered an increase of a 'mere' 7.8% owing to stabilisation in domestic demand (international demand, though, continued to grow at double-digit rates).

Data for 2008 indicates a slight decrease of 1.4% in total arrivals compared to the previous year.

At end of 2008 the proportion of domestic to international tourists was 58%:42%. In 1988 the split was 60%:40% and this steadiness is testament to the healthy balance between domestic and international tourism in the city.

As illustrated in Table 3, in 2008 the USA was the main international feeder market, accounting for 6% of the total number of visitors. EU countries such as the UK, Italy, France and Germany contributed very similar amounts to one another. The domestic market accounted for approximately 52% of the total number of arrivals.

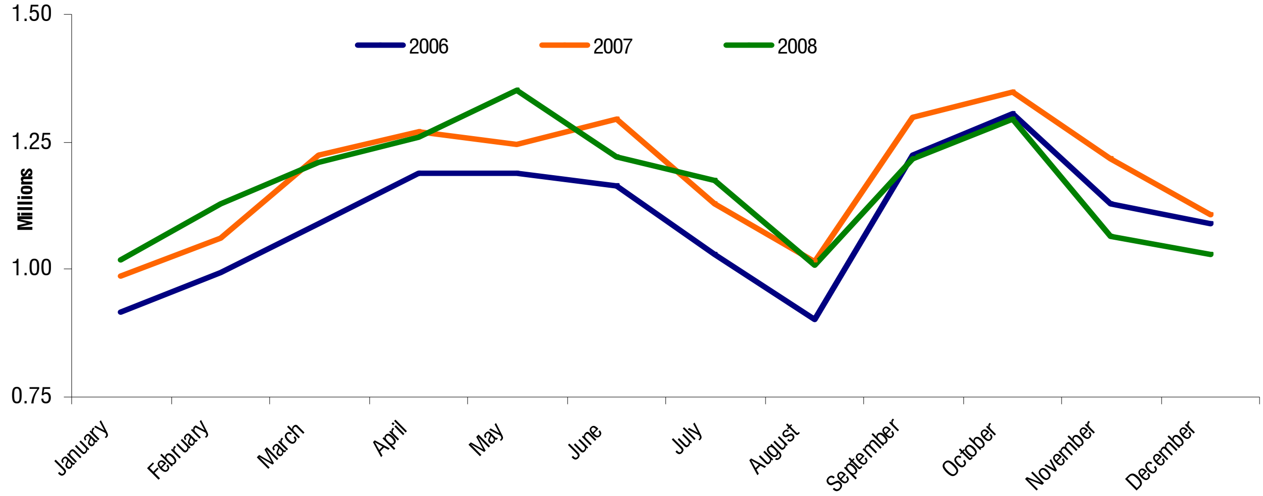
Table 3 Madrid Nationality Mix - 2008



Source: INE

Table 4 indicates the spread of the seasonality of guest nights throughout the year from 2006 to 2008.

Table 4 Guest Night Seasonality – Madrid 2006-08



Source: Patronato Municipal de Turismo de Madrid

The peak months have consistently been March, April, May and June, as well as September, October and November. The summer months of July and August and the winter months of January and February (traditionally the low season in most major cities in Europe) have always been times when the city is less crowded.

This graph is further confirmation that Madrid reflects the seasonality of a typical destination driven by business and corporate meetings. August is a very slow month and activity in January and February is limited in the run-up to the traditional springtime convention and events calendar.

It should be noted that, in absolute terms, the seasonality of the city is getting flatter with the gap between the most occupied and the least occupied months having narrowed over the last three years. This is further evidence that the tourism strategy of making Madrid a leisure destination is gradually producing some results.

Between 2006 and 2007 the total number of guest nights increased by 7.3%. However, in 2008 a slight decrease, of 1.5%, was registered in the market. This decrease was mostly due to the bad performance in the final part of the year, since from January to October there had been an increase of 0.1%. The last two months of the year were very slow, with the average decrease in the number of guest nights being 9.9% on the previous year.

Therefore, the current economic slowdown has been felt only in the last quarter of the year, perhaps because many business trips are arranged well in advance and were not cancelled despite the imminent economic downturn. In facts the months of September, October, November and December all registered negative rates of growth with the low coming in November, when negative growth of -12% was recorded.

Airport Arrivals

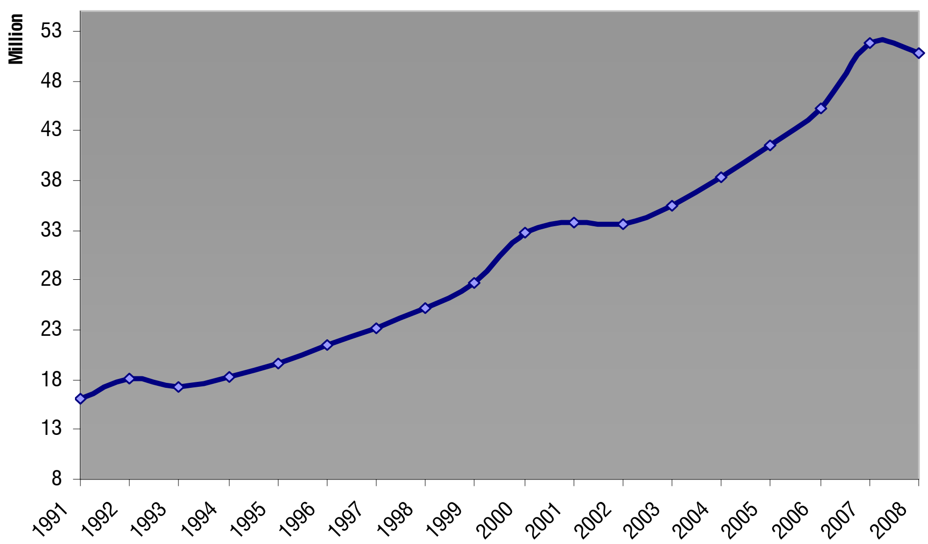
The number of arrivals at Madrid's Barajas International Airport was approximately 51.8 million in 2007, putting the airport into the top ten of the busiest airports in the world and fourth in Europe. The role of Madrid as a European hub for Latin America is sufficient to explain the high level of transient passengers at Barajas.

As Table 5 shows, most of the growth has come since 2002. The number of passengers grew at a compound annual rate of approximately 5.7% from 2000 to 2008, with almost one-third of this increase registered in a single year (2007), on account of the opening of Terminal 4 in May of that year.

The opening of Terminal 4 and a satellite building increased airport capacity significantly: to more than 70 million passengers a year. With two additional runways having been constructed, Barajas is a fully operational four-runway airport and it has the potential to cope with a large increase in the number of passengers in the coming years.

However, the number of airport passengers decreased in 2008, partly on account of the opening of the high-speed train (AVE) connection between Madrid and Barcelona, which took away some of the market that had previously been using the *puente aereo* for their daily commute.

Table 5 Airport Passenger Movements in Madrid 1991-08



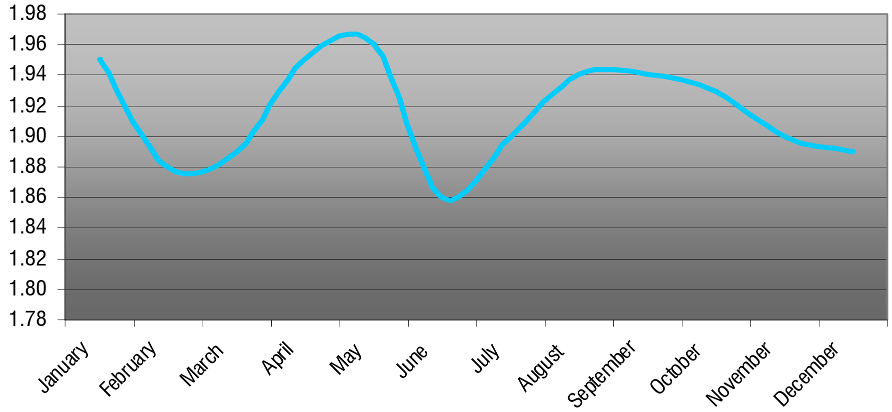
2008 Data taken from AENA (Spanish Airport Authority)
Source: ACI Worldwide Airport Traffic Report

Length of Stay

Table 6 indicates the average length of stay in hotel establishments in the city of Madrid in 2008. The average length of stay registered in 2008 was 1.92 days; this confirms the strong presence of business travellers who usually stay for two days on average.

The yearly average length of stay has not varied significantly since 2006, remaining at just under two days.

Table 6 Length of Stay in Madrid 2008

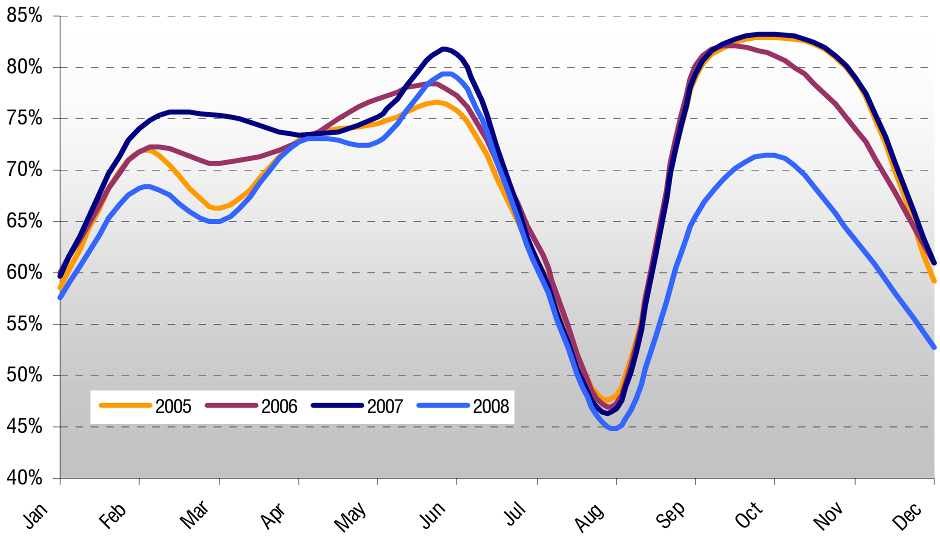


Source:INE

Hotel Occupancy

Table 7 shows the seasonality of hotel occupancy in Madrid from 2005 to 2008. The curves indicate a healthy balance of demand throughout the year apart from August, when occupancy fell to 44.9% before recovering rapidly to 65.5% in September.

Table 7 Seasonality of Hotel Occupancy in Madrid 2005-08



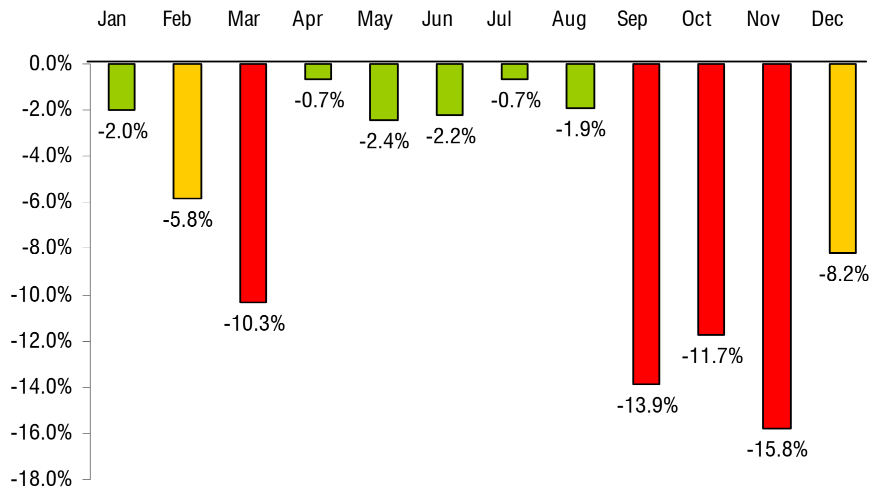
Source: STR Global

It should be noted that the performance from September to December 2008 was significantly lower than that seen in previous years: the impact of the 'crisis' is clearly visible.

Year-round average occupancy always exceeded 70% from 2005 to 2007. In 2008 overall occupancy was 64%.

Table 8 shows that in 2008 every month showed a decrease in hotel occupancy. It might be said that the economic slowdown implicit in the number of arrivals and guest nights from September to the end of the year did not establish the trend but simply made it worse.

Table 8 Trend in Occupancy during 2008



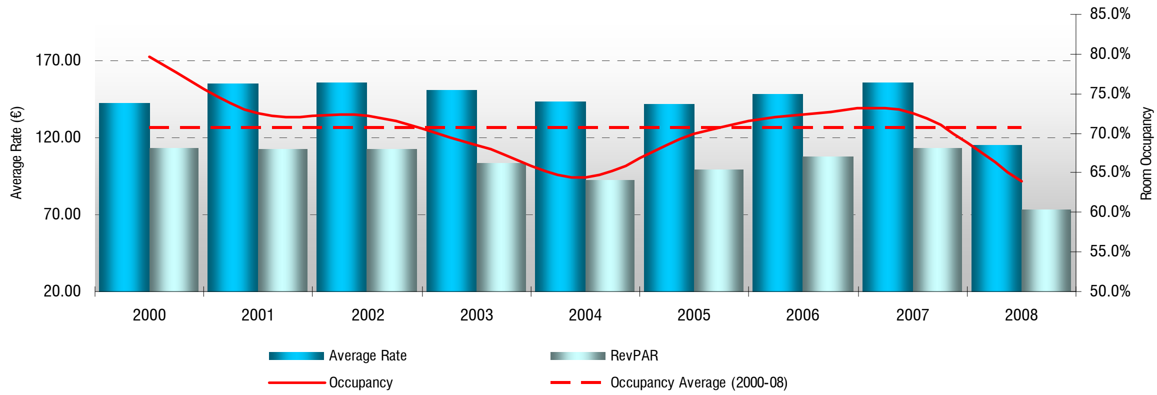
Source: STR Global

When we consider the historical trend in hotel performance, we see that branded hotels in Madrid had occupancies of between 64.5% and 79.6% between 2000 and 2007 (Table 9).

As the red line in Table 9 shows, after a significant peak in 1999 and 2000, marketwide average occupancy declined until 2004, when it hit 64.5%. Occupancy was healthier by 2007 but it fell sharply in 2008, to 63.9%.

Fluctuations in occupancy of this nature are not uncommon in the hotel industry. We live in an imperfect world: one in which neither supply nor demand can ever adjust rapidly enough. Therefore, with an overall increase in demand, it is common for the performance of branded hotels to be cyclical, since the hotels have to absorb higher demand during times of undersupply and deal with a more selective clientele during times of oversupply.

Table 9 Hotel Performance in Madrid 2000-08



Source: STR Global

Average rate followed a similar trend to occupancy in decreasing between 2001 and 2005; its low was €141.26 in 2005. Average rate returned to levels seen in 2002 in 2007, when it was €155.63.

Such a pattern in average rate is not unusual in a more mature market where yield management techniques are able to respond very quickly to fluctuations in demand and occupancy with higher room rates or lower discount factors.

RevPAR at branded establishments also decreased in 2008. With a decrease of 8.7% in occupancy and 26% in average rate, RevPAR fell drastically, from €113 in 2007 to €73 in 2008: the lowest it had been for a decade.

Supply

In 2008 the Madrid hotel market had 223 hotel properties. The breakdown of these properties by category is shown in Table 10.

The largest category of hotel in Madrid is the four-star segment, a reflection of the nature of business tourism (identified at the beginning of this article) that has consistently sought upscale (but not luxury) accommodation.

In terms of the number of rooms, four-star properties accounted for 58% of the market.

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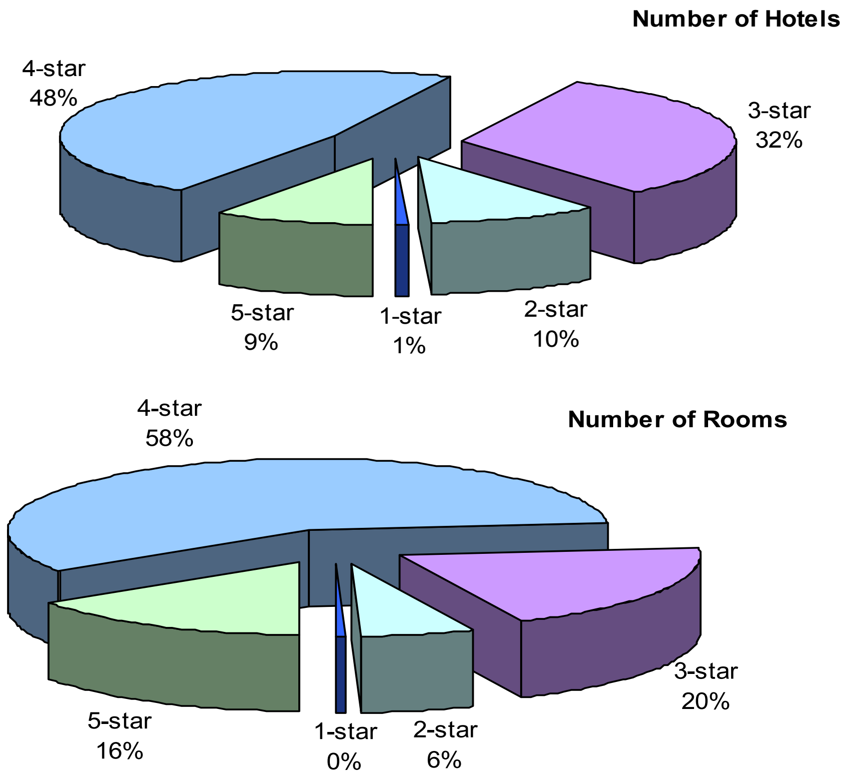
Table 10 Supply Market Share – City of Madrid



Source: INE

Table 11 shows the increase in room inventory and a breakdown by category from 2000 to 2007. When analysing the historical trend in Madrid's room inventory it is important to note how the overall trend has always been for an increase in supply. This is to be expected, as no conversion of existing hotel properties into residential or other use has been registered and effectively no hotels have ceased to operate in the city in recent years.

Table 11 clearly shows that the four-star segment registered the biggest increase, followed by three-star and five-star properties.

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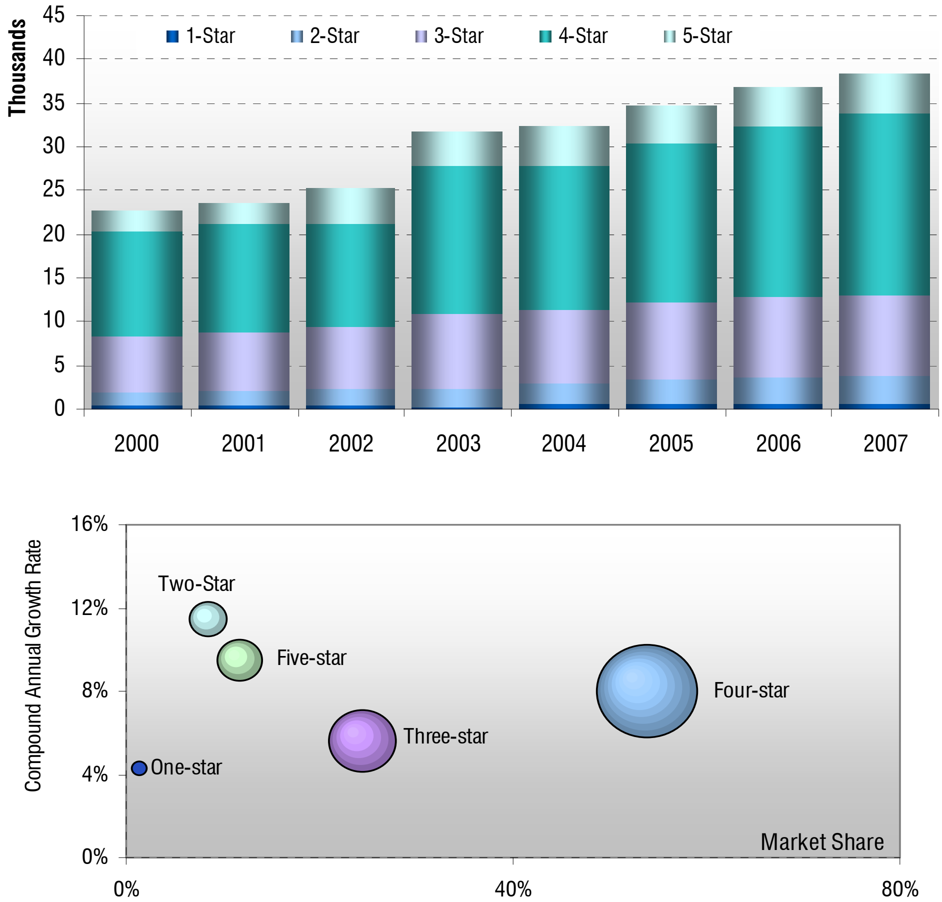
Table 11 Supply Market Share and Compound Annual Growth – City of Madrid



Source: Registro de Empresas y Actividades Turisticas de la Comunidad de Madrid

Upscale and Luxury Segments

Table 12 shows the growth rate in room inventory in the four-star and five-star categories. After 2004, in line with the trend for increasing occupancy, new properties entered the market, especially in the four-star category. The number of rooms in the upscale hotel segment grew from 16,607 in 2004 to 20,670 in 2007 (an increase of 24.5%).

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Table 12 Upscale and Luxury Room Inventory – City of Madrid 2000-07

	5-Star		4-Star		TOTAL	
Year	No. of Rooms	Growth	No. of Rooms	Growth	No. of Rooms	Growth
2000	2,388	—	12,034	—	14,422	—
2001	2,374	-1%	12,274	2%	14,648	2%
2002	4,007	69%	11,850	-3%	15,857	8%
2003	3,804	-5%	16,908	43%	20,712	31%
2004	4,337	14%	16,607	-2%	20,944	1%
2005	4,453	3%	18,087	9%	22,540	8%
2006	4,467	0%	19,494	8%	23,961	6%
2007	4,510	1%	20,670	6%	25,180	5%

Source: Registro de Empresas y Actividades Turisticas de la Comunidad de Madrid

New Supply

Over the course of 2008 several openings were registered in the upscale and luxury segments. The most relevant of these are shown in Table 13 along with the estimated opening date of new and renovated properties.

Table 13 Recent and Future Openings of New Supply – Madrid

Proposed Property	Category	Number of Rooms	Date Opening
Pozuelo Praquesol	4-star	150	2008
Fuentepizarro	4-star	28	2008
Hilton Madrid Airport	5-star	284	2008
Doña Candida	4-star	107	2008
Confortel Atrium	4-star	195	2008
Maydrit - Hotusa	4-star	112	2008
Villa Magna	5-star	150	2009
Eurostars Madrid Tower	5-star	474	2009
NH Las Tablas	4-star	149	2009
Andrea Palace	4-star	80	2009
Radisson SAS, Madrid Prado	4-star	54	2009
Clement Tach	4-star	80	2009
Ayre Gran Hotel Colon (Edificio America)	4-star	160	2009
Selenza Hotel Madrid	5-star GL	44	2009
Axor Suites Barajas	5-star	217	2009
Hotel Axor Feria	4-star	285	2009
Juan de Austria - Summa Hotels	4-star	51	2009
Rafaelhotels Castellana 200	5-star GL	145	2010
Three NH Hotels	4-star	330*	2010
Fiesta Marquesa Ciudad de Aldama	4-star	70	2010
Ritz	5-star GL	0*	2011
Manzana Canalejas	5-star GL	150	2011 or later
Total		**3,315**	

* HVS estimates. In the case if Ritz no difference in the room inventory has been estimated

Source: HVS Research

The new supply in 2008 raised the current supply in Madrid by approximately 3.5%. The following hotels are some of the more significant additions to Madrid's upscale supply.

- **Villa Magna** (five-star luxury). Reopened in January 2009 after a complete 14-month renovation costing €50 million. Villa Magna now has 150 rooms (previously 180) and, after the departure of Hyatt, is now independently managed;
- **Eurostars Madrid Tower** (five-star). The recently inaugurated Eurostars Madrid Tower occupies 30 floors of the 235-metre Sacyr Tower: one of four buildings at the new Four Towers Business Area. The €350 million hotel has 474 rooms;
- **Andrea Palace** (four-star). The hotel plans to open its doors at the beginning of April 2009. It will have 80 rooms and an auditorium for 120 people. With an interior designed by Cidon Interior Design & Contract, the hotel will be managed under a 25-year contract by Corporación Hispano Hotelera and is expected to play an important role in the luxury segment in Madrid;
- **Radisson SAS, Madrid Prado**. This hotel on Prado-Recoletos (Paseo del Prado) is expected to be open by mid 2009. The hotel will have 54 rooms and will include facilities such as a spa, a gym and meeting rooms;
- The **Ritz** is planning to renovate its guest rooms and certain of its facilities in order to optimise the number of rooms and improve the overall mix of room types;
- **Ayre Gran Hotel Colon** (four-star). The hotel has been open for two to three years and currently has 164 rooms in the 'Europa' building. Since February 2009 another adjacent building (the 'America' building) has been undergoing renovation work expected to increase room inventory by approximately 160 rooms. This construction process is planned to be finished by September 2009.

First Quarter 2009 and Future Outlook

With the recent upscale hotel openings and the downturn in the total number of arrivals the market has seen occupancy decrease at branded hotel facilities.

Table 14 shows the trend in branded room inventory and guest night demand over the last nine years. After a major expansion in 2003, room supply has grown steadily since.

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Table 14 Upscale Room Inventory and Guest Nights – Madrid 2000-08

Year	Room Inventory	Growth %	Upscale Occupancy	Guest Night Demand	Growth %
2000	14,422	—	79.6%	4,190,167.88	— %
2001	14,648	1.6 %	72.5%	3,876,227.00	-7.5
2002	15,857	8.3	72.2%	4,178,795.21	7.8
2003	20,712	30.6	68.4%	5,170,957.92	23.7
2004	20,944	1.1	64.5%	4,930,741.20	-4.6
2005	22,540	7.6	70.0%	5,758,970.00	16.8
2006	23,961	6.3	72.4%	6,331,933.86	9.9
2007	25,180	5.1	72.6%	6,672,448.20	5.4
2008	26,056	3.5	63.9%	6,077,171.16	-8.9

Source: HVS Estimates

As Table 14 shows, Madrid went through a phase of overbuilding (2000-04), during which time the growth in branded room inventory was greater than the increase in guest night demand. From 2005 the city started to absorb the additional room inventory as demand increased. This led to further growth and additional projects in the pipeline. The current difficult economic climate, and the consequent decline in guest nights and occupancy, has accelerated the timing, and the impact of oversupply has been felt much earlier.

Although the information in Table 14 is not exhaustive, we can estimate the increase in inventory over the next couple of years and the consequent impact on occupancy.

As shown in Table 15, supply is expected to maintain a steady rate of growth for 2009 on account of the number of projects already in the pipeline. In order to keep the actual occupancy (63.9%), demand would be expected to increase. With the current trend in overall arrivals and guest nights, this appears unlikely.

Taking into account the pipeline for 2009 and 2010, we have estimated occupancy for the upscale segment for these years.

In a zero-growth scenario, occupancy is expected to fall to 58.7% on account of an increase in room inventory.

Table 15 Guest Nights – Zero-growth Scenario

Year	Room Inventory	Growth %	Upscale Occupancy	Guestnights Demand	Growth %
2009	27,800	6.7	59.9%	6,077,171.16	0.0
2010	28,345	2.0	58.7%	6,077,171.16	0.0

Source: HVS Estimates

In a pessimistic scenario, with the number of guest nights decreasing by 7.5% in 2009, occupancy could fall as low as 55.4%, again simply because of the impact of new room supply.

A further decrease of 5.0% in 2010 would result in a decrease in occupancy to an unprecedented 51.6%.

Table 16 Guest Night - Decrease Scenario

Year	Room Inventory	Growth %	Upscale Occupancy	Guestnights Demand	Growth %
2009	27,800	6.7	55.4%	5,621,383.32	-7.5
2010	28,345	2.0	51.6%	5,340,314.16	-5.0

Source: HVS Estimates

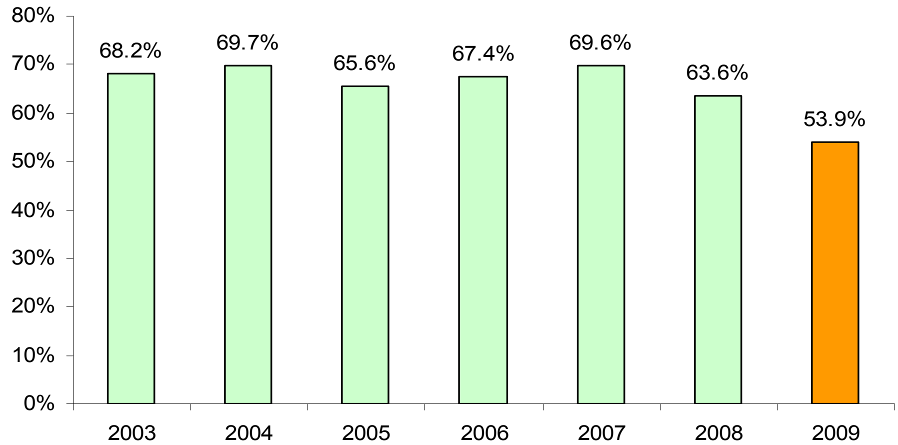
From the data available for the first quarter of 2009 it is possible to see that these forecasts could easily materialise. When comparing the first quarter of 2009 with the same period in previous years (see Table 17), it should be noted that at the start of 2009 average occupancy was already below 2008 levels, and indeed lower than 60% for the first time in the last seven years. Additionally, it is important to notice that the *Semana Santa* effect (the Easter break), typically a peak period during the spring, was in April during 2008 (therefore not included in the figures presented) and in March this year. This means that the gap is actually larger than the one presented in the table and highlights the strong decrease in occupancy registered in the first quarter of 2009.

Barajas International Airport also registered a strong decrease in passenger traffic over the first four months of 2009. Passenger movements decreased by 14.7% in February, 16.8% in March and 2.3% in April (data for January were not available) compared to the respective months in 2008. Such a decrease in passenger movements may result in the cancellation of some connections or a reduction in flight frequency and, therefore, reduce Madrid's overall accessibility. This would create an additional barrier, assuming some sort of recovery, whereby reduced air flight may not be increased in time to meet growing demand for hotel stays.

It is important to note that together with the decrease in occupancy registered for the first quarter of 2009 average rate has also decreased from €119 in 2008 to €103 in 2009 (Source: STR Global). This 13% decrease in rate has been limited by the fact that the majority of hotel managers are standing firm against the current economic crisis and are prepared to sacrifice occupancy levels in order to try and keep rates as high as possible.

General managers are well aware that a price dumping scenario would not benefit anybody as it would not have a positive effect on occupancy. And, besides, if it did produce such an effect, it would be short term and would make a recovery of rate levels even harder than they already are.

Table 17 First Quarter Performance Comparison



Source: STR Global

Niche Products

With the majority of city hotels depending on the business segment, and owing to the current economic climate, it is difficult to estimate when demand will actually recover and the extent of such a recovery. Companies are becoming more cost-conscious than ever: the number of trips has been reduced to a minimum, with a bias towards same-day business trips if possible or a reduction in the average length of stay. On top of this, more price-value oriented accommodation has for many taken the place of traditional business hotel facilities.

In times of financial uncertainty such as the current economic crisis, travellers will inevitably decide to postpone making plans regarding holidays and business trips and make more last-minute decisions. It is also likely that that in many cases longer trips will be put on hold or cancelled, but shorter trips and week-end city breaks may even increase as they represent a more affordable substitute.

This has given some of the niche products – the limited service sector for example – an opportunity to see an overall increase in their clientele. This effect is twofold: on one side there has been a shift of business demand to more value-for-money accommodation and, on the other, leisure tourists have become more sophisticated in their understanding of the products on offer and make more informed choices.

Hotels are an intrinsic part of our lives and we can easily select which one is more likely to satisfy our needs. Through the phenomenon of low-cost flights, customers have been educated through affordable prices to prefer no-frills transport. The same shift has been registered in the hotel sector: customers are looking for accommodation that satisfies their basic needs without additional frills. In the words of Travelodge: 'All hotel rooms are the same once the lights are off'. Travelodge would seem to be happy with the performance of its two assets on the outskirts of Madrid. There is certainly some truth in this statement; leisure customers are currently less willing to choose a hotel because it has a swimming pool or other additional facilities if they know they will not use it. The leisure segment has evolved.

Following the rise of low-cost carriers, leisure destinations have become more accessible to all segments of the market. Under the motto of 'save on flights, spend on nights', there has been a shift in accommodation demand towards better-quality products. Short-break tourists started choosing limited service hotels in central locations to guarantee reasonable quality of accommodation and a good level of connectivity to the rest of the city in order to take advantage of the time available without having to spend unnecessary time commuting.

Together with Travelodge, other limited service operators have gambled on this segment, including Spanish operators such Room Mate, which trebled its sales in 2008, and High-Tech Hotels, which is planning to maintain its growth into 2009. With ambitious expansion strategies claimed by all, it is clear that potential returns are attractive.

The case of High-Tech Hotels is symbolic. With 19 hotels in November 2008 it notified the press of a pipeline of nine new hotels solely for Madrid from 2009 to 2010. Some of these hotels will be created by the conversion of existing properties – an example is the recently opened 58-room Petit Palace Mayor. Three buildings in Plaza de Santa Bárbara, calle Alfonso XII and calle Caracas were also expected to be converted. However, only one of these projects (the Plaza Santa Barbara) is actually undergoing refurbishment; it seems that the other two have been put on hold for the moment.

As might be expected, with the prospect of occupancies of around 80% and average rates hovering around the €100 mark, this market has been identified by other local and international operators. Easyhotel, Qbic, and PentaHotels all offer design-driven accommodation 'boxes' with comfortable beds and high-tech amenities and all are looking at main Spanish urban centres (together with other European major cities) as interesting expansion possibilities.

In addition, the traditional hotel operators are also considering entering this profitable segment of the market with new low-cost brands.

Uncertain Times

It is generally accepted that nobody knows exactly when these recessionary times will end and how they will eventually affect previously booming economies such as Spain.

Limited service hotels seem to have been an oasis in the desert of declining demand for traditional full service hotels, but with the introduction of many new players with ambitious expansion strategies, those already in the game know it would be difficult to predict how long this niche will continue to offer good returns.

Now all eyes are on Madrid's bid for the 2016 Olympic Games – a chance to raise the city's profile yet further. With the exposure and the induced demand this event could generate, perhaps now is the right time for both investors and operators in the city, especially upscale and luxury properties, to plan for recovery; but recovery in a world that has probably changed forever.

Note: *No investment decision in this market should be based on this article. For further information or advice, please contact the authors.*

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