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IMPACT OF THE CORONAVIRUS ON TOURISM IN EUROPE

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TOURISM HAS GROUND TO A HALT, A HUGE BLOW TO MEDITERRANEAN COUNTRIES

What should have been a record year for the Dutch hotel industry has turned into a real-life nightmare. Events such as the UEFA European Football Championship, the Formula 1 Grand Prix in Zandvoort and the Eurovision Song Festival in Rotterdam have all been postponed. The speed with which this coronavirus is spreading is hitting the tourism sector incredibly hard. Not in the least because almost all international and domestic travel has been suspended. What are the expected financial losses in the Netherlands and how will this compare to other European countries? How quickly will countries be able to recover? And what will happen if the virus continues to ravage the continent for the foreseeable future?



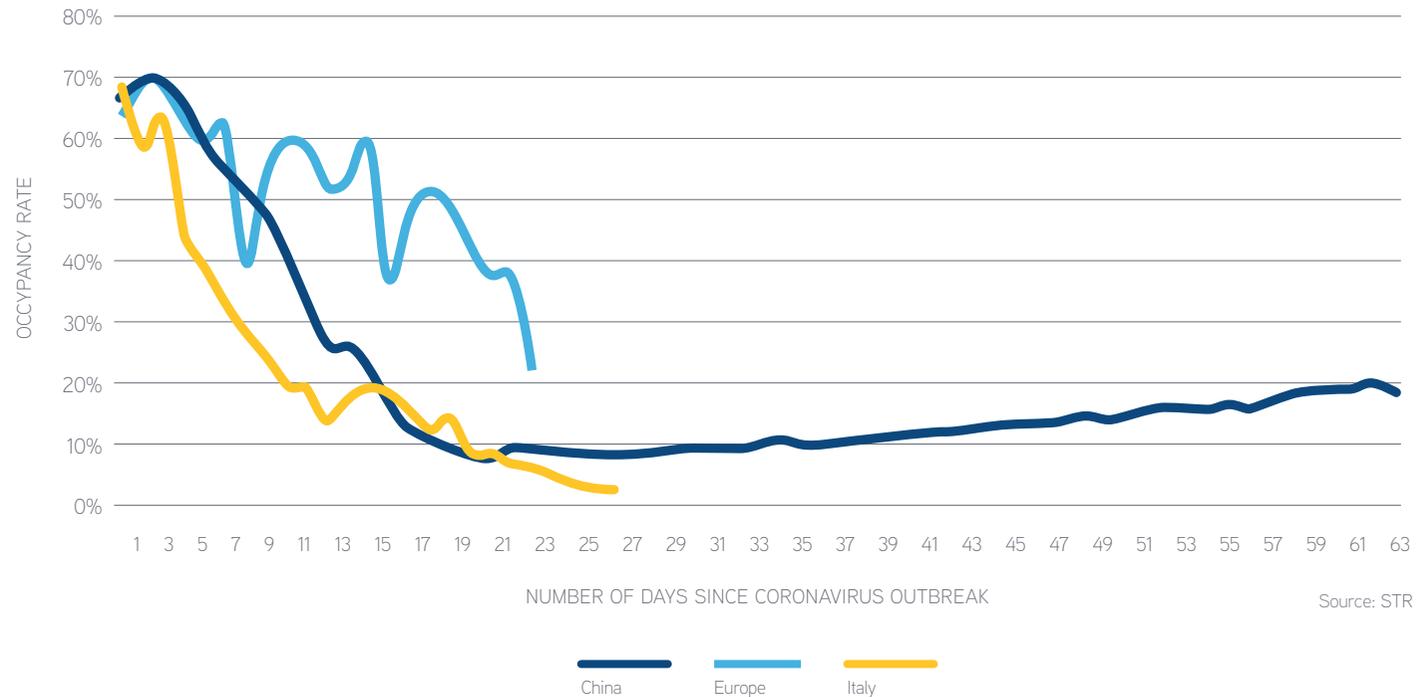


IN EUROPE, THE AVERAGE OCCUPANCY RATE IS NOW AT 20%

OCCUPANCY RATE PER DAY IN CHINA, EUROPE AND ITALY SINCE CORONAVIRUS OUTBREAK

OCCUPANCY RATES FALL TO A MAXIMUM OF 5-10%

The lockdowns in many European countries are not only bringing tourism to a standstill, but business travel is now being limited to videoconferencing. The result is that occupancy rates are at an all-time low across the globe. In Europe, the average occupancy rate is now at 20%. It is expected that this low percentage will go down further, closer to the zero mark, as is the current state of affairs in Italian hotels. The hotel industry in China, which is a month ahead of Europe in the context of the coronavirus, shows that occupancy rates continue to remain low for the time being.



Source: STR

ALL HANDS ON DECK FOR GREECE AGAIN

In the current situation, it helps if your country depends on tourism to the smallest degree possible. With 2.5% of the national income, the Netherlands is in a shared 7th position with Germany and Denmark of the 23 European countries investigated. Least dependent are Poland and Sweden, at less than 2%. Spain takes the lead and is the only country to exceed the 7% mark. An alarmingly high percentage, particularly if it turns out that the spread of the virus cannot be contained. And even more so considering the impact on related sectors, including the hospitality industry, will lead to an even greater economic downturn.

In the Netherlands, almost 6 out of every 10 tourists is domestic. In this area it ranks in 13th place in Europe. Countries such as Finland and Germany, that rely more on domestic tourism, will prove most resilient. In those countries, almost 9 out of every 10 tourists is domestic. For Greece and Croatia, however, the coming period looks worse. These countries almost entirely depend on international tourism. The economies of these countries also depend on tourism to a significant degree. Greece was already struggling with an enormous national debt, so this is a particularly tough hit for the country. This combination also applies to Italy and Portugal: two other countries that were also hit hard by the financial crisis.

IMPACT OF THE CORONAVIRUS CONSIDERABLY GREATER THAN THE 2003 SARS VIRUS

History has shown us that recovery will happen, but the question on everyone's mind is: when? When the SARS outbreak was contained in China, the occupancy rates for the cities that were hit the worst showed recovery up to their former levels within six months. Due to increasingly stricter lockdown measures, we expect recovery to take longer this time. The fact that this virus affects far more countries than the previous SARS virus has resulted in the global economic crisis that is currently emerging. The question is whether the virus will make a resurgence once lockdowns are lifted and societies go back to 'business as usual'. As China is currently ahead of the curve and lockdowns have been lifted, we should keep close watch on the situation there for a clearer idea of what the future might hold.



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THREE SCENARIOS

In three months the summer season will begin in Europe. If the virus is not stable or under control at that time, then the consequences will be even more significant for the tourism industry and the world economy. Under normal circumstances, summer is the most profitable season for many sectors. For this reason there are three scenarios to keep in mind:

1. THE CORONAVIRUS WILL BE UNDER CONTROL BEFORE JUNE.

The hotel industry is used to seasonal variations. The option of reducing corporate costs is an effective short-term strategy. Recurring costs can be reduced by at least 30% through measures including less cleaning during lower occupancy. Hotels have also made good money in recent years, which has allowed them to accrue buffers. This should give many hotels approximately three months to survive the crisis. In this scenario, they can expect a strong revival in the second part of the year. People will be taking holiday leave and going on vacation en masse. This could even lead to a shortage in hotel rooms and result in more expensive room rates. Recovery will be quick, comparable to the situation after SARS. This scenario is particularly beneficial to the Mediterranean countries, where the tourism sector could give the economy a much-needed boost. For Greece and Spain, this boost would be crucial.

2. THE CORONAVIRUS WILL BE UNDER CONTROL AFTER THE SUMMER.

If tourism does not make a comeback during the peak season, then this will have a massive impact on most national economies in Europe – particularly on the countries whose economies rely heavily on tourism. The losses for the tourism sector will quickly run up in this scenario, and at that time hotels may not be able to meet their payment obligations. When banks demand that these businesses make payments on their loans, this could lead to bankruptcies for hotels. No income in the summer months will prove disastrous for Mediterranean countries.

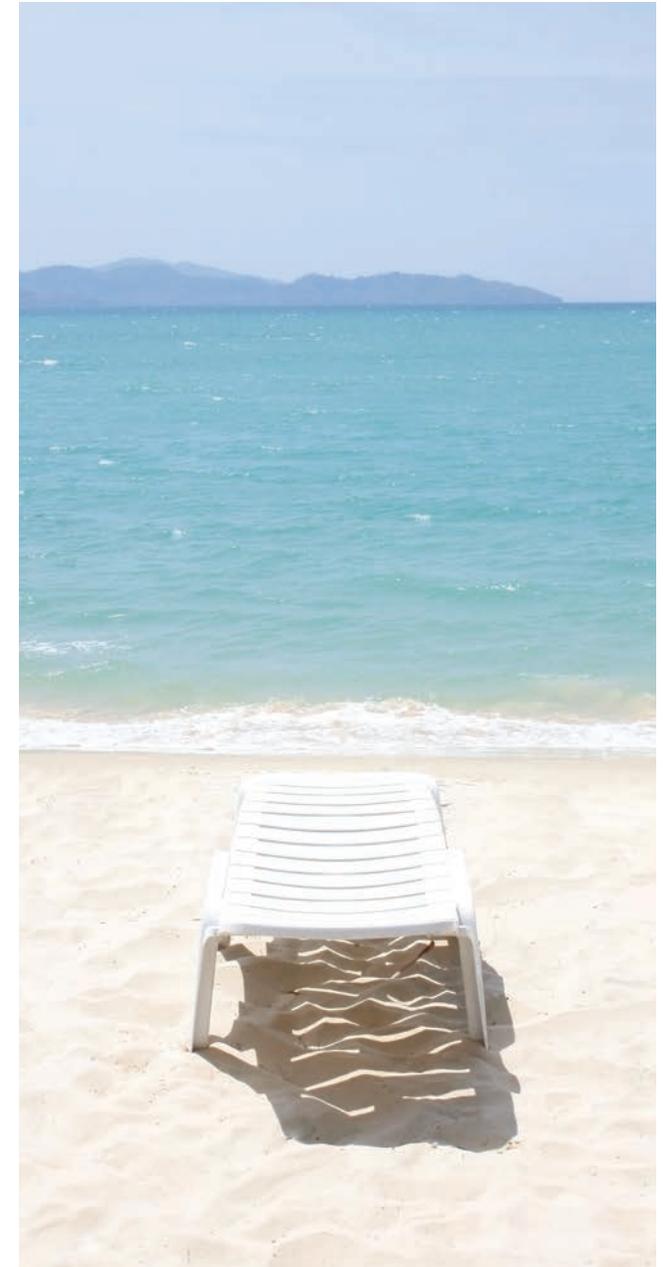
3. THE CORONAVIRUS WILL NOT BE UNDER CONTROL UNTIL 2021.

The worst-case scenario is one where the virus continues to spread all year and won't be under control until a vaccine becomes available in 2021. In this grave scenario, cost savings will not be able to rescue hotels and many will end up going bankrupt. All national economies will be hit hard. Not to mention other economic sectors that will go under due to societal disruption. Bailouts, rising national debts, mass unemployment.

WORLD OF TRAVEL FOREVER CHANGED

No matter which scenario comes true, the impact on the hotel industry and the economy will be considerable and will last at least three months (in the best-case scenario). In the worst-case scenario, recovery could take several years. Economies that rely on tourism the most will suffer greatly. The countries in question are Greece, Italy, Portugal and Austria. If domestic tourism also fails to start up again for a longer period of time, Spain will be hit the hardest out of all European economies.

In the Netherlands, if the first scenario comes true, the tourism sector and the economy will be able to recover relatively quickly. In the second scenario the recovery timeframe will be considerably longer, and we need to expect it to take at least a year. In scenario three, we will also be feeling the aftershocks for many years to come. And the question is, will the world look the same after corona? Many business trips have been replaced by videoconferencing, and the first digital events are already being organized. It is entirely possible that this crisis could forever change corporate tourism.





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