A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

Pricing Strategy for *Pestana Collection* and *Pestana CR7* in Madrid

Group Part A

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Abstract

The underlying project aims to achieve a pricing strategy of two Hotels of Pestana Group, from two different brands – *Collection and CR7* – that will be placed in Madrid. Thus, this work project centres on an analysis of the Madrid market with a posterior analysis of the consumer profile of each brand and respective competitors prices. Finally, for a successful internationalization a pricing entry strategy is suggested and supported by a revenue model that each hotel unit is expected to face in the first year.

Keywords: Competitive set, Pestana Collection, Pestana CR7, Pricing strategy

Glossary

International tourists: "travel occurs outside of the usual country of residence" (*Weaver and Lawton, 2010*).

Domestic tourists: "travel occurs beyond a person's usual environment but within his or her usual country of residence" (*Weaver and Lawton, 2010*).

Rooms occupied: According to the STR Global, "The number of rooms sold (excludes complimentary rooms)".

Cost-based approach: "is called cost-plus pricing, adding a standard mark-up to the cost of the product." *(Kotler et al, 2017*).

Value-based approach: "uses the buyer's perceptions of the value, not the seller's cost, as the key to pricing"(*Kotler et al, 2017*).

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1. Introduction and Objectives

This project was developed as part of the Tourism Management Field- Lab, with the purpose of defining an optimal pricing entry strategy for two new hotels of the *Pestana Hotels Group,* in Madrid - *Pestana Collection Madrid Hotel* and *Pestana CR7 Madrid Hotel*. These pricing strategies are based on a benchmarking performed of the hotels' competitive set. For a better analysis, information about the Madrid's market and these two Pestana brands was collected.

Pestana Group is the largest Portuguese hotel chain, with 4% of market share in the Portuguese hospitality market. Pestana Group in 2016 had revenues of 302.2 million euros, which represents an annual increase of 18%, being explained by the growth of touristic activity in 20.6 million euros and of non-touristic activity by 25.9 million euros. We also highlight the positive growth in EBITDA to 101 million euros, being the first time that Pestana Group reaches an amount above 100 million euros.

Pestana Group is divided into eight business units: Hotels & Resorts, Pousadas de Portugal, Holiday Ownership, Casinos, Travel, Golf and Residence, Industry and International Business Centre of Madeira. Pestana owns 82 hotels in 15 countries (*Appendix 1A*) and currently 75% of its revenues come from Portugal and 25% from foreign markets. Currently, Pestana Group employs 7000 collaborators worldwide. During the last 40 years, the Group has lived some cycles and counter cycles; however the Group has been growing in a sustainable way.

2. Company Overview

2.1. Origin and Internationalization

On 20th November 1972, Mr. Manuel Pestana bought the Atlantic Hotel, in Funchal, Madeira Island. Later on, the hotel was demolished and in its place was built a Madeira Sheraton, owned by Mr. Manuel Pestana in a partnership with Sheraton Hotels. Although the first years were complicated to Mr. Manuel in the hospitality industry, he managed to expand his hotels business in Madeira and Mozambique. In 1976, Mr. Manuel Pestana retired and he left the control to his son, Dionísio Pestana, who started to expand the Pestana Group. After building 13 hotels in Madeira, in 1985, Pestana Group expanded its business to Portugal mainland.

The internationalization process has started with hotels in Portuguese-speaking countries, first in Africa, with Mozambique, Brazil, Cape Verde and São Tomé e Príncipe. With the revolution of 1974, many Portuguese lost their investments in Mozambique, which were taken by the government, so Mr Manuel Pestana lost his hotel facility there. Later on, in 1998 the hotel chain invested again in Mozambique where 2 hotels were built. In 1999, Pestana Group acquired a hotel in Rio de Janeiro, Brazil, and in the following years continued to invest, having now a total of 6 hotels in this country. But in 2006, Pestana had its first internationalization outside of a Portuguese-speaking country, with one hotel in Buenos Aires and in 2008 it also opened a hotel in Caracas. In 2010, the Pestana Group opened, in London, the *Pestana Chelsea Bridge Hotel & Spa*, expanding for the first time its business to other European country besides Portugal. In May of 2011, it was opened a hotel in another European capital, Berlin.

In 2012, another three hotels were inaugurated: in Miami, Bogotá and Casablanca.

According to what is known, Pestana Group has never planned a well-designed internationalization strategy, the Group just took benefit from the opportunities that arose in the real estate sector. Due to its willingness to internationalize, its capacity and the years of experience in the hospitality sector, allowed the Group to expand continuously.

However, for the next years Pestana Group has already created a clear internationalization strategy: “reinforce the group in Portugal, become stronger in Europe and South America and invest more in the United States. The ultimate goal for 2020 is to expand the Group up to 20 countries and reach a portfolio of 100 hotels; with this it is intended to globally invest around 170 M€.” *(Dionísio Pestana, 2017).*

2.2. Pestana Brands

On the current days, Pestana Group owns four brands: *Pestana Pousadas de Portugal, Pestana Hotels and Resorts, Pestana Collection Hotels* and the most recent one, *Pestana CR7 Lifestyle Hotels*. The company felt the necessity of creating different brands inside Pestana Group in order to distinguish each brand's personalized service.

Pestana Pousadas de Portugal (**27 Units**): In 2003, Pestana Group acquired the license to manage Pousadas de Portugal, which was previously managed by a governmental agency. All of these units are located in exclusive and historical places; the majority were castles, palaces and convents that were refurbished to be used for hospitality purposes.

Pestana Hotels & Resorts (**49 Hotels & Resorts**): This brand is composed by some hotels that are located near beaches to enable the customer to relax and simultaneously other hotels located in the centre of the cities for business purposes. They also have all-inclusive resorts. All of them have a privileged location and a good price-quality relation.

Pestana CR7 Lifestyle Hotels (**2 CR7 Hotels**): Pestana's most recent brand and it represents the creation of a new generation of hotels. The first *CR7 Hotel* opened on 1st July 2016, in Funchal, Madeira and the second one is located in Lisbon. Cristiano Ronaldo and Pestana Group own this brand equally. The target of this brand is "Millennials", with a "Pure lifestyle personality". *Pestana CR7* is going to open two more units between 2018 and 2020.

Pestana Collection Hotels (**4 Hotels**): *Pestana Collection* is a brand that currently owns four hotels. All of them have a prime location with a historical overview. They are intended to provide guests with a unique experience replete with classic luxury and contemporary comfort. Some of these units are part of the leading Hotels of the World and Leading Business Hotels in 2015 by the world Travel Awards. Until the end of 2019, Pestana Group is expecting to open two collection units, one in Madrid and another one in Amsterdam.

Based on Pestana Group's characterization and on its four brands described above, it was developed a SWOT (*Albert Humphrey, 2005*) analysis (*Appendix 2A*) with the intention of understanding the Group's potential and the risks linked to the tourism sector. Further, a detailed analysis of Pestana CR7 and Pestana Collection brands will be done.

2.3. Supply Chain

"A supply chain consists of upstream and downstream partners" (*Kotler,2017*). The upstream part is associated with the suppliers of inputs needed to create a service. In hospitality, the main types of suppliers are food/beverages, laundry/cleaning, maintenance, infrastructures and IT. The downstream part is the distribution channel partners that "form a vital connection between the firm and its customers" (*Kotler, 2017)* - see *Appendix 3A* for Pestana's supply chain. Pestana Group has two types of distribution channels, according to the usage of the Internet: online and offline. In the Business-to-Business segment (selling through third parties), the online channel is the OTAs (online travel agencies- Booking, Expedia) plus Global Distribution Systems (GDSs) and the offline channel is the physical Travel Agencies (eg. Tui, Viagens Abreu, Viages SideTours). In the Business-to-Consumer segment (selling directly to guests), the online channel is the hotel's website and the offline channel is the direct booking/central reservation office. Pestana differentiates its customers according to the sources of its respective room revenues: business, contracted, corporate and direct (*Appendix 4A*).

3. Madrid's Market Potential

Following its internalization strategy, Pestana Group intends to increase its presence in European capitals. So, knowing that a part of Pestana's international guests are Spanish and in order to increase its brand awareness, the Group decided to open two hotel units in Madrid - a Collection Hotel in Plaza Mayor and a CR7 Hotel in Gran Vía - by a Foreign Direct Investment as their entry mode. Additionally, it was conducted a Madrid's PESTEL analysis in order to understand which Madrid's main attractive factors for tourism and hospitality businesses are that motivated Pestana Group coming to this decision.

3.1 Macro Environmental Analysis of Madrid

The **PESTLE** framework (*Francis J. Aguilar, 1967*) helps to identify the macro environmental factors that can have impact in the hospitality business in Madrid.

- Political: According to the World Bank, in 2015 Spain was ranked in 32th place out of 45 European countries for political stability index, which measures economic distresses and political vulnerability. Spain normally has been a politically stable country, but on the last 2 years in relation to the rest of Europe, the country had some political issues, as a 10-month political deadlock and more recently the tensions between the central government in Madrid and Catalonia. On one hand, the country risk has risen up with the last terrorist attack in Barcelona, in 2017 that consequently can have a negative impact in tourism and hospitality industry in Spain. On the other hand, the fact that Spain is part of the European Union can influence positively the tourism in the whole country, as EU citizens can travel freely to other EU country members.

- **Economical**: The unemployment rate for Madrid in 2016 was about 12,6%, which is lower than the Spanish average. In 2015, the GDP of Madrid was responsible for almost 19% of the total GDP of Spain and at the end of year the city had the highest GDP per capita of the country, 36,6% higher than the average GDP per capita. When compared to the Spanish average, Madrid has a higher living cost, but provides the same social conditions (healthcare and social security).

- Social: <u>Demographic:</u> Madrid is the capital and the largest city of Spain and the fourth of Europe, being the mainly financial and business centre in the country.

Artistic, cultural and architectural heritage: Madrid has 1.723 monuments and 88 museums, including the Madrid's "Golden Triangle of Art" - Prado Museum, Reina Sofia Museum and Art Museum Thyssen-Bornemisza.

Gastronomy: This city has a great gastronomic offer, with 15 restaurants awarded a total of 23 Michelin stars. There are also many gastronomic events such as MadrEAT.

Leisure and shopping: Madrid has a lot of shopping centres, bars and clubs. Madrid was ranked as the 2nd best European city for shopping, according to Globe Shopper Index.

Sport: There are lots of sports events in Madrid during the year. The "king sport" is football and its famous teams are Real Madrid and Atlético de Madrid. Other known events are the Mutua Madrileña Tennis Open and the San Silvestre Vallecana Marathon.

Events & Festivities: There are different events and national/regional holidays along the year in Madrid (see *Appendix 5A* - 2018 calendar)

-Technological: In Madrid, the public transport network, the railway and the airport infrastructures have a very high quality that contributes to an increase in tourism. The Madrid-Barajas Adolfo Suárez Airport, for example, is one of the most used forms of entry in Spain. The High-speed train network also connects Madrid with other major Spanish and French cities. Finally, there are more than 300 subway stations and 14 lines. All these public facilities, due to technology evolution, are one of the main contributions to the increase of tourism in Madrid.

- Environmental: In terms of climate, the recommended time to visit Madrid is during the spring (April-June) and early autumn (September-October), as it is when the temperatures are more pleasant (around 20 and 25 ºC) to visit the city. During the summer, the temperatures can reach up to 40 ºC. The winter in Madrid tends to be cold (average temperatures about 6-8º C) and dry.

- Legal: In 2015, Madrid's city council has launched two tools based on a public-private collaboration to develop the tourism in Madrid: the Sociación Turismo Madrid and a 5-Year Strategic Plan, with the goal to increase the flow of tourists, improving hotel occupancy rates and cutting seasonality by 20%. A tourist whose permanent residence is outside the European Union can request the 21% Value Added Tax refund on goods purchased in Spain, if he has spent more than €90,15. Currently there is no city tax for tourists in Madrid. These two tax regulations have a positive impact in the tourism in Madrid.

Despite of some Spanish political concerns and Madrid having a higher living cost comparing to other Spanish cities which can influence negatively the hospitality business, it was concluded that there are many external factors, as the different leisure and business activities that the city offers, the transport infrastructures quality and having in average a good climate, which have a positive impact in Madrid's attractiveness for hospitality businesses.

3.2. Tourism Demand & Hotel Supply in Madrid

A) Tourism Demand

Being Madrid one of the main economic and financial centres of Europe, these factors make this city not only ideal for business travelling purposes but also for leisure and recreation. There are two types of tourist profile who visit Madrid, the younger ones aged between 25 and 44 years old and the older ones (45-64 years old).

After the financial crisis in 2012, the number of visitors has increased substantially by a Compound Annual Growth Rate of 6,3%, reaching over 9 million visitors in 2016 (50,9% international visitors and 49,1% domestic visitors – *chart on Appendix 6A).*

On *Appendix 7A* it can be observed the average monthly tourism demand for 2017, calculated on a market level to Madrid, from a daily database. Regarding the **variations on demand seasonality**, the expected period of the highest affluence in Madrid corresponds to months between April and June and also from September until the end of October; while the low season is between January and March. As a consequence, November/December and July/August are included in the mid-season. Although these two last referred months coincide with the European Summer holiday's period, the demand is lower due to extreme weather conditions and relatively lack of business travellers. In terms of **weekly demand variations**, the demand for the business segment usually increases from Monday to Thursday period and the leisure segment demand has its peaks during weekends and national/regional holidays, especially due to domestic tourism. This fact was verified when analysing the daily database that the Madrid's tourism demand during 2017 was bigger on holidays and weekends comparing to weekdays, which is in line with the point that this city attracts many leisure travellers.

In the last six years, the **Average Length of Stay (ALOS),** which is the "average amount of days that guests stay at the hotel" (*Xotels, 2017*), has been fluctuating between around 1,9 and 2 days. In 2016, the ALOS was around 1,93 days (*Appendix 8A*). These values are in accordance with the fact that, as a European Capital, the tourism demand usually increases on weekends and holidays and leisure travellers enjoy these short break periods to visit the city. The international tourists had a longer ALOS compared to the domestic ones. Regarding the international tourists who have visited Madrid in 2015, the American and the British people were the ones who visited Madrid more, followed by Italians and the French (*Appendix 9A*). Madrid is also the Spanish city with the highest **average daily expenditure per tourists**, being the Americans and the French the tourists who spend a higher amount of money in Madrid (*Appendix 10A*). The total expense in Madrid by foreign tourists stood at €6.240 million in 2015, with an average daily expense of €183,25 per tourist *(INE, 2015).*

B) Hotel supply analysis

Outlook

In the end of 2016, there were around 456 lodging facilities in Madrid, being 25 of them five-star hotels and 202 four-star hotels. In *Appendix 11A*, it can be observed that 44,3% of Madrid hotels belong to the four-star segment. The rising of this segment is due to a great extent of the positioning of Madrid as a MICE (Meetings, Incentives, Conferences and Events) & business centre over the last years.

Hotels Performance - KPIs

An analysis about the Key Performance Indicators of the previous years to different hotel segments will be performed, as well as a prediction for 2018.

ADR: Average daily rate is a KPI used by hotels to indicate "The average selling price of guest rooms during a specific time period" (*Hayes and Allisha, 2011*) and according to STR Global, it is calculated by dividing the Total Rooms revenue by rooms' sold/occupied. Due to the recovery of the Spanish economy, ADR levels have been increasing since the end of the financial crisis, especially in the five-star hotel segment (*Appendix 12A and 13A*). In 2016, Madrid four-star and five-star hotels' ADR was respectively €87 and €173. It is forecasted that the Madrid's hotel industry ADR will grow 2,8% in 2017 and 4,6% in 2018 (*Appendix 14A*). Applying these same growth rates to the four-star and five-star hotels segment, it is predictable that the annual average ADR will be respectively **€94** and **187€** for **2018** (*Appendix 15A and 16A*).

Occupancy rate (OCC): It represents the "Rooms sold divided by rooms available multiplied by 100. Occupancy is always displayed as a percentage of rooms occupied" (*Hayes and Allisha, 2011).* The occupancy rates of four and five-star hotels have been increasing since the financial crisis (*Appendix 12A and 13A*), growing by 9,4% and 7,6% correspondingly on the period 2012-2016. In 2016, Madrid four-star and five-star hotels OCC were respectively 73,4% and 66,4%. It is forecasted that the Madrid's hotel industry OCC will grow 3,1% in 2017 and 3,4% in 2018 *(Appendix 14A).* Applying these same growth rates to the four-star and five-star hotels segment, it is predictable that the annual average OCC will be respectively **80%** and **72%** for **2018** *(Appendix 15A and 16A).*

<u>RevPAR</u>: Revenue per available room is a measure used in hotel industry and according to STR Global, it is the average revenue generated by each available guest room during a specific period of time. "It is calculated by dividing the Room revenue by Rooms available in a certain period or by multiplying ADR by the Occupancy Rate" (*Hayes and Allisha, 2011).* During the period 2012-2016, RevPAR has considerably increased in five-star hotels (28,2%), while four-star hotels RevPAR rose 24%, (*Appendix 12A and 13A*). In 2016, Madrid four-star and five-star hotels RevPAR was respectively €62 and €110. It is forecasted that the Madrid's hotels RevPAR will grow 5,9% in 2017 and 8,2% in 2018 (*Appendix 14A*). Applying these same growth rates to the four-star and five-star hotels segment, it is predicted that the annual average RevPAR will be respectively **€71** and **126€** for **2018** (*Appendix 15A and 16A*).

3.3 Hotels' location description

Madrid is divided into 21 districts, which are further subdivided into 128 wards (*barrios* in Spanish). Madrid's central district is divided into 6 *barrios* (*Appendix 17),* which has the biggest number of tourist accommodations, representing 34% of the total offer in Madrid. *Pestana CR7* and *Pestana Collection*'s Hotels are located respectively in Gran Vía and Plaza Mayor, which are part of *Barrio del Sol*. This barrio has lots of attractions that capture the tourists' attention, such has historical and shopping places, restaurants, the most famous nightclubs and theatres and cinemas (*Appendix 18A and 19A*). Since the two hotels are relatively close to each other, around 0,5km, they will have the same location benefits and take advantage of the attractions mentioned before on *Barrio del Sol*.

Therefore, according to the reasons mentioned above, Madrid and specifically *Barrio del Sol* seems to be a good option for Pestana Group to expand its business.

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APPENDIX A

(Group Part)

Appendix 1: Total Pestana Group unit among the different four brands
Source: Information provided by Pestana Group

Hotels & Resorts	Pousadas de Portugal	Collection Hotels	Pestana CR7
Pestana Casino Park	Pousada Serra da Estrela	Pestana Palace Lisboa	Pestana CR7 Lisbon
Pestana Porto Santo	Pousada Lisboa Praça do Comércio	Pestana Cidadela Cascais	Pestana CR7 Funchal
Pestana Royal	Pousada Viseu	Pestana Vintage Porto	
Pestana Delfim	Pousada Palácio Estoi - Faro	Pestana Palácio do Freixo	
Pestana Carlton Madeira	Pousada Mosteiro Guimarães		
Pestana Ocean Bay	Pousada Sagres		
Pestana Dom João II	Pousada Viana do Castelo		
Pestana Rio Atlântica	Pousada Convento Vila Viçosa		
Pestana Chelsea Bridge	Pousada Caniçada - Gerês		
Pestana Colombos	Pousada Convento Évora		
Pestana Alvor Praia	Pousada Convento Tavira		
Pestana São Paulo	Pousada Convento Beja		
Pestana Caracas	Pousada Castelo Alcácer do Sal		
Pestana VilaSol	Pousada Castelo Estremoz		
Pestana Vila Sol	Pousada Mosteiro Amares - Gerês		
Pestana Tróia Eco-Resort	Pousada Convento Arraiolos		
Pestana Viking	Pousada Marvão		
Pestana Grand	Pousada Castelo Palmela		
Pestana Curitiba	Pousada Forte Angra do Heroísmo		
Pestana Village	Pousada Convento Vila Pouca da Beira		
Pestana Cascais	Pousada Forte Horta		
Pestana Berlin Tiergarten	Pousada Queluz		
Pestana Sintra Golf	Pousada Mosteiro Crato		
Pestana Buenos Aires	Pousada Ria - Aveiro		
Pestana Rovuma	Pousada Castelo Óbidos		
Pestana São Tomé	Restaurante Casa do Leão		

Pestana Promenade Pestana Bahia Praia Pestana South Beach Pestana Race Apartments Pestana Trópico Pestana Alvor South Beach Pestana Casablanca Pestana Arena Barcelona Pestana Bahia Lodge Pestana Convento do Carmo Pestana Alvor Atlântico Pestana Palms Pestana Race Pestana Kruger Lodge Pestana Palm Gardens Pestana Alvor Park Pestana Carvoeiro Golf Pestana Miramar São Tomé Pestana Ilha Dourada Pestana Dom João Villas Pestana Equador Ilhéu das Rolas Pestana Porches Praia Quinta do Arco by Pestana	Grupo Pestana Pousadas - Sede		

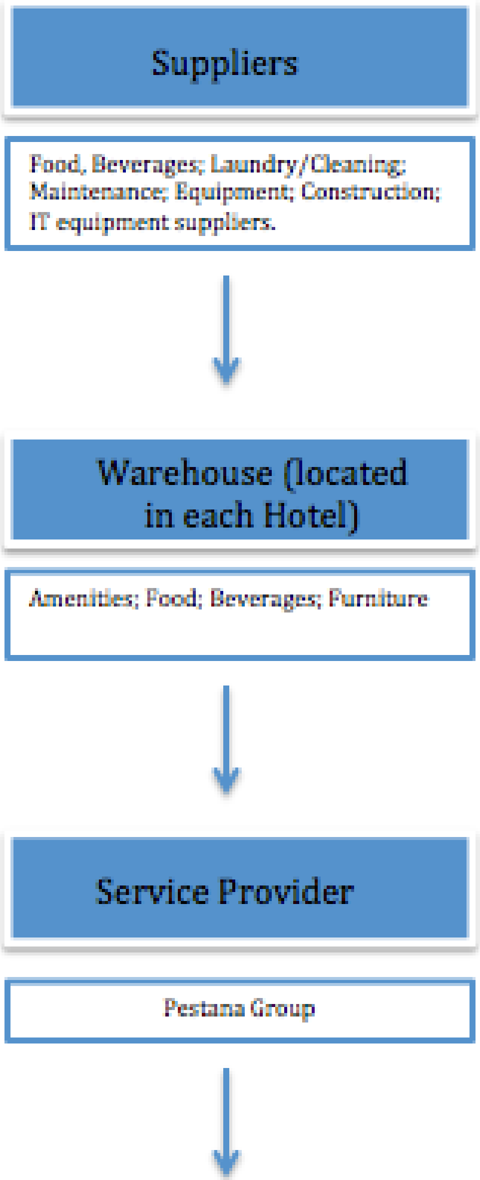
Appendix 2 - SWOT Analysis for Pestana Group

Strengths	Weakness
- Well-known brand - Exclusive and personalized -Different brands with exclusive services for specific targets - Good price/ quality ratio -Presence in 15 different countries -Well located Hotels -Partnership with Cristiano Ronaldo – boost effect to brand Pestana CR7	-Some brands (Collection and Cr7) are not internationalized yet -Some Employees from Pestana's brands did not assimilate the respective brand concept - Low efficient e-mail marketing - Low investment power in relation to the other international hotel chains

Opportunities	Threats
-Internationalization: “becoming stronger in Europe and in South America and invest more in United States” -Reinforce the presence in Portugal: increase market share in hotels industry -Continuous growth of global tourism	- The existence of seasonality in its core business (hospitality) -The entry of competitors near its existence Hotels - There is a possible risk associated to the Cristiano Ronaldo's celebrity image that may cause damages to the Pestana CR7 brand

Appendix 3 – Pestana's supply chain and Top 10 Travel Agents used by the Group

Figure 1 - Pestana's Supply Chain



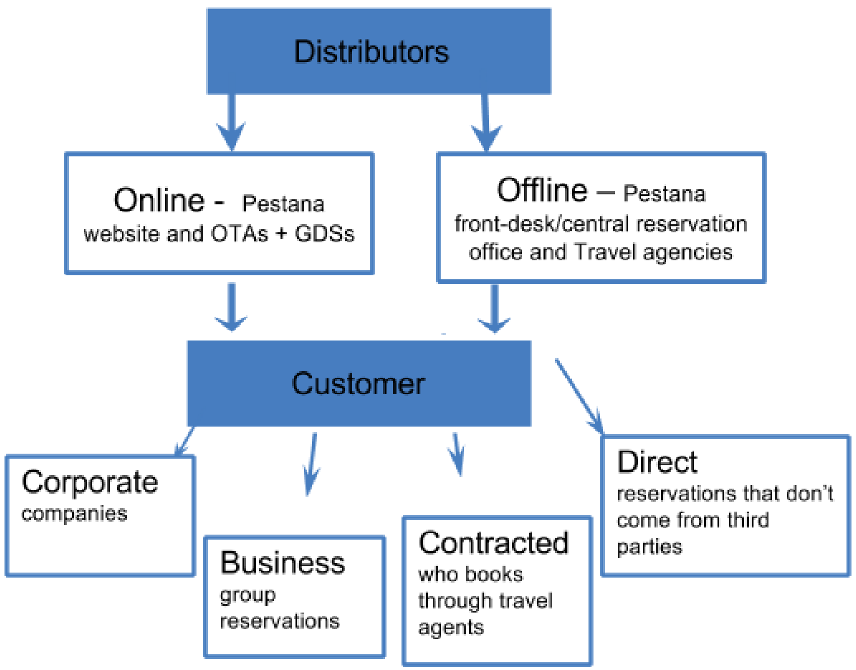


Figure 2 - Top 10 Travel Agents (OTAs + travel agencies) used by Pestana Group
Source: Information provided by Pestana Group

Travel agents 2017	% total RoomRev
BOOKING COM	11%
EXPEDIA	5%
TUI UK	5%
TUI DEUTSCHLAND	3%
JET2HOLIDAYS COM	2%
HOTELBEDS	2%
INTERVISA VIAGENS E TURISMO	1%
GULLIVER S TRAVEL ASSOCIATES	1%
VIAGENS ABREU S A	1%
VIAJES SIDETOURS S A	1%

Appendix 4 – Pestana rooms' revenue % by customer type in 2016 and 2017

Source: Information provided by Pestana Group

Room Rev	2016	2017
Business	16%	15%
Contracted	53%	54%
Corporate	8%	6%
Direct	23%	24%
Total	**100%**	**100%**

Appendix 5 – Events and National/Regional Holidays in Madrid for 2018

Source: **http://www.whatmadrid.com/festivals.html**

https://www.timeout.com/madrid/music-and-nightlife/music-festivals-in-madrid

Holidays: Regional Holiday Constitution Day (6th December); Religious Holiday Imaculate Conception (8th December); Holiday Christmas Day (25th December); Nochevieja (31th December); New Year's Day (1st January); Epiphany (6th January); Good's Friday (30th March); Labour Day (1st May); Festivity San Isidro (15th May); Assumption of Mary (15th August) and Religious Madrid Festivities San Lorenzo, San Cayetano & La Paloma (during August); Hispanic Day (12th October); All Saints Day (1th November)

Events:

- MICE events: In 2015, Madrid was ranked in the 5th place by the International Congress and Conference Association ranking and in 2017 it is already confirmed that the capital is going to host seven large international conferences set to generate over 700,000 over-night stays. Most of the MICE events take place in IFEMA (Institucíon Ferial de Madrid), as FITUR (International Tourism Fair) and Mercedes Benz Madrid Fashion Week (twice a year, September and February).
- Leisure events: Some of the most traditional events are: flamenco dancing performances (all year) and bullfight shows (all Sundays and festivities). The most trendy music festivals are: DCODE Festival (September), Mad Cool (July) and Madrid Jazz Festival (November/ December).

Table 1 – Madrid’s main events calendar for 2018

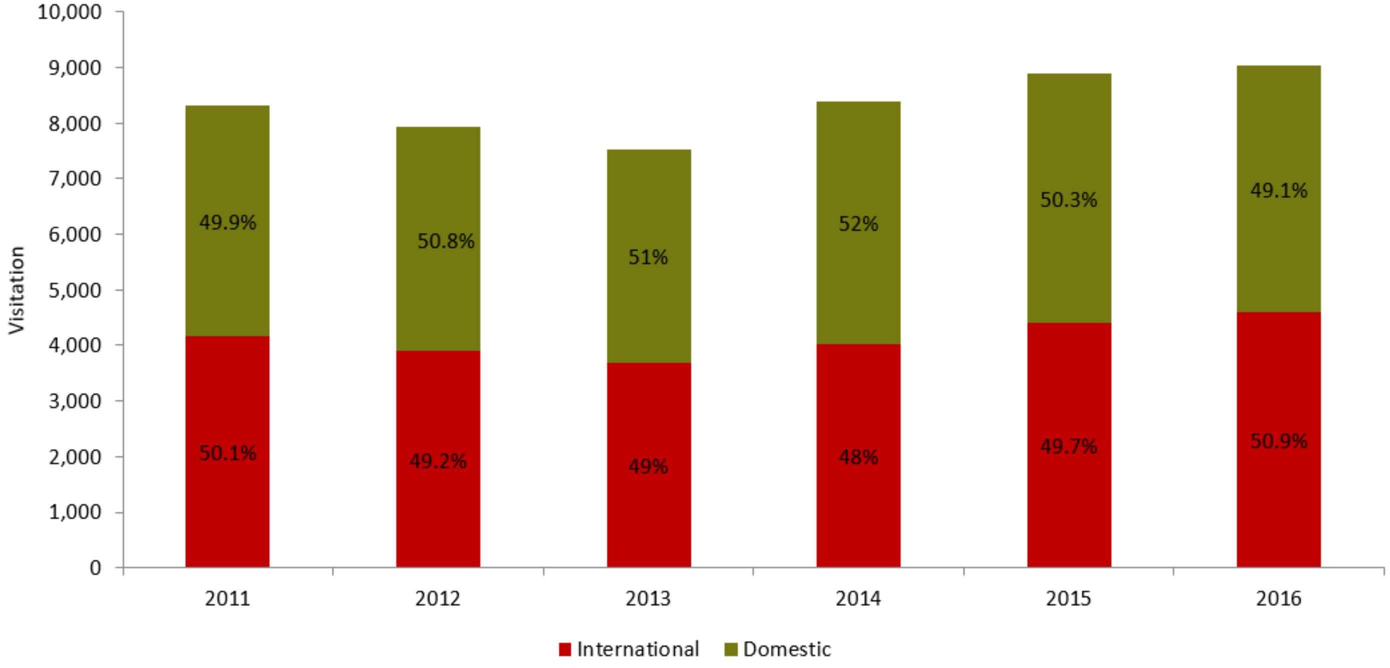
Source: **https://www.esmadrid.com/en/whats-on-madrid?utm_referrer=https%3A%2F%2Fwww.google.pt%2F**

http://turismomadrid.es/images/Contenido/agenda/Calendario%20eventos%20CAM_oct_dic_2017%20y%20avance%202018.pdf

	Event Category	**January**	**Feb**	**March**	**April**	**May**	**June**	**July/ August**	**Sep**	**October**	**Nov**	**Dec**
Leisure Events	Exhibitions		Mechanical Art	Festival Arte Sacro Madrid			The birth of Op Art exposition	Disney-the art of storytelling	Apertura Madrid gallery weekend	Max Bechman – figures in exile		
	Concerts/Music Festivals	Inverfest;			Imagine Dragons; Arcade Fire	Jazz festival; Game of Thrones Live concert experience	Musics in the Antiquity;	Mad Cool Fest; Veranos de la Villa	DCODE Festival			New Year’s eve concerts
	Theatre and dance	Dead man Walikng	The Painter	AIDA	Gloriana	National Dance Company	24 hours lying					
	Sports				Madrid Half Marathon; Derby Soccer Game	Mutua Madrid Open		Photo Espana				Silvestre Vallecana Marathon

	Other leisure events	Madrid Fusion; Gastro-Festival	China Taste	MotoMadrid	The night of books	Fiestas del 2 de Mayo; Madrid Book Fair	Madrid Gay Pride					
MICE Events	Conventions	Harry Potter Exhibition		Schools Day		Digital Business World Congress						
	Fairs	FITUR; Mercedes-Benz Fashion Week Madrid	Arcomadrid; SICUR; Momad Metrópolis	ExpoElearning; Unigolf	Expoóptica; Global Robot Expo	Madrid Auto; Salón de Gourmets	TECMA; GENERA	Mercedez-Benz Fashion Week	Momad Metrópolis; Madrid Gaming experience	CPHI Worldwide; Fruit Attraction	VETECO; FERIART	Gamergy

Appendix 6 - Chart with % of domestic and international visitors in Madrid between 2011 and 2016



Source: Ayuntamiento de Madrid

Appendix 7 – Seasonality for Madrid according to the Madrid's Tourism Market Demand in 2017

Chart 1 - Madrid's tourism market demand along 2017, showing the seasonality

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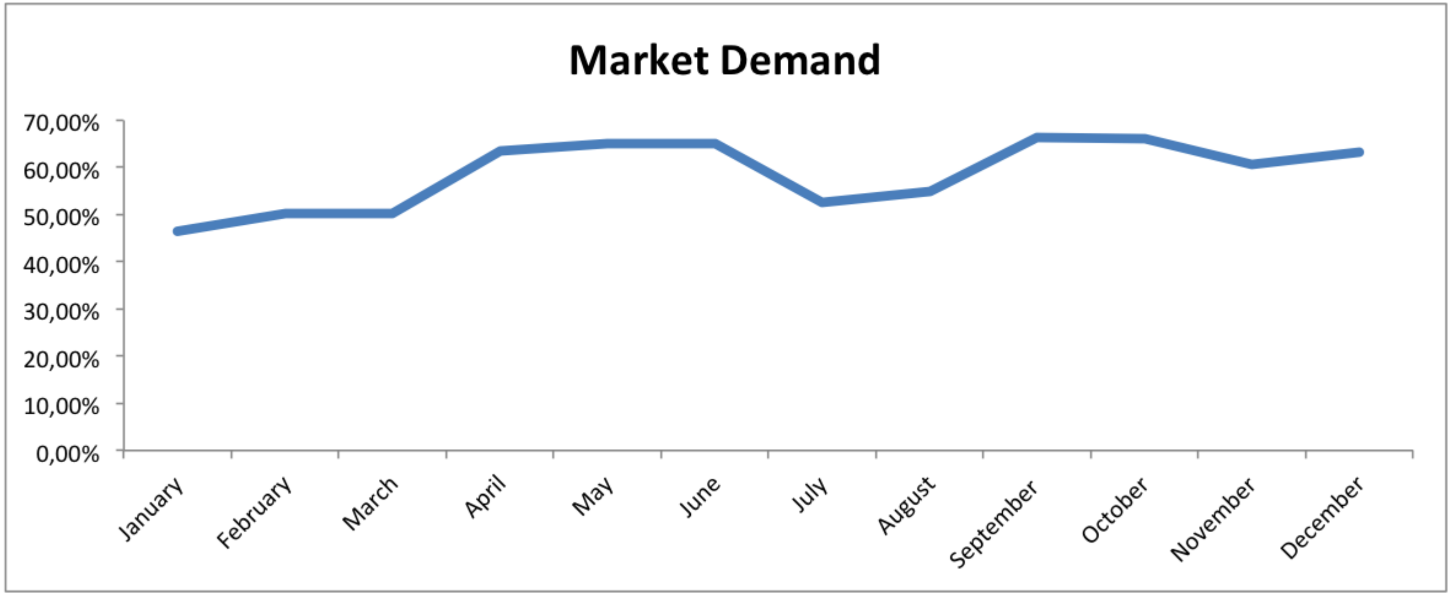
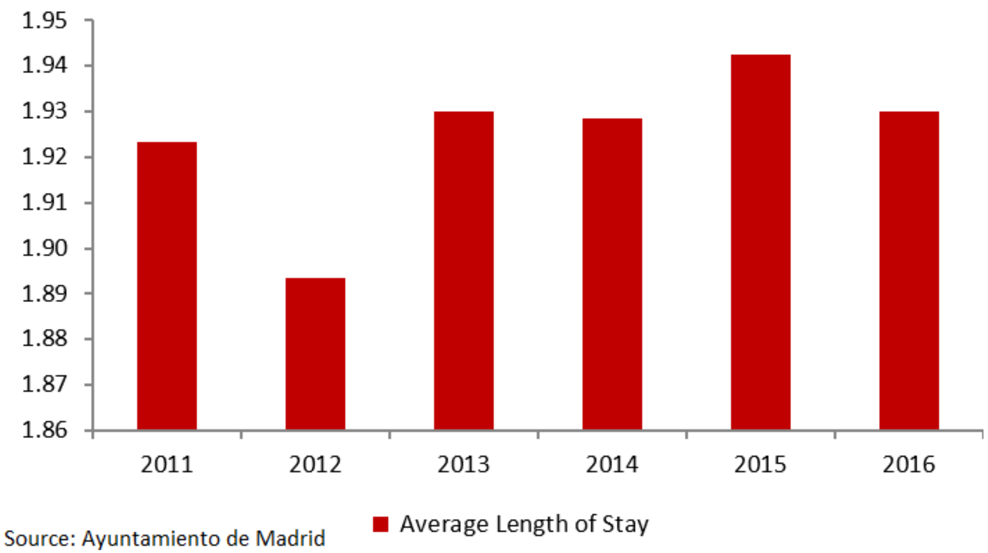


Table 2 - average monthly Madrid's demand in 2017
Source: information on OTA Insight Report provided by Pestana

Months	Average Monthly Tourism Demand (2017)	Season
January	46%	Low Season
February	50%	
March	50%	
April	63%	High Season
May	65%	
June	65%	
July	53%	Mid Season
August	55%	
September	66%	High Season
October	66%	
November	61%	Mid Season
December	63%	
Year	**59%**	

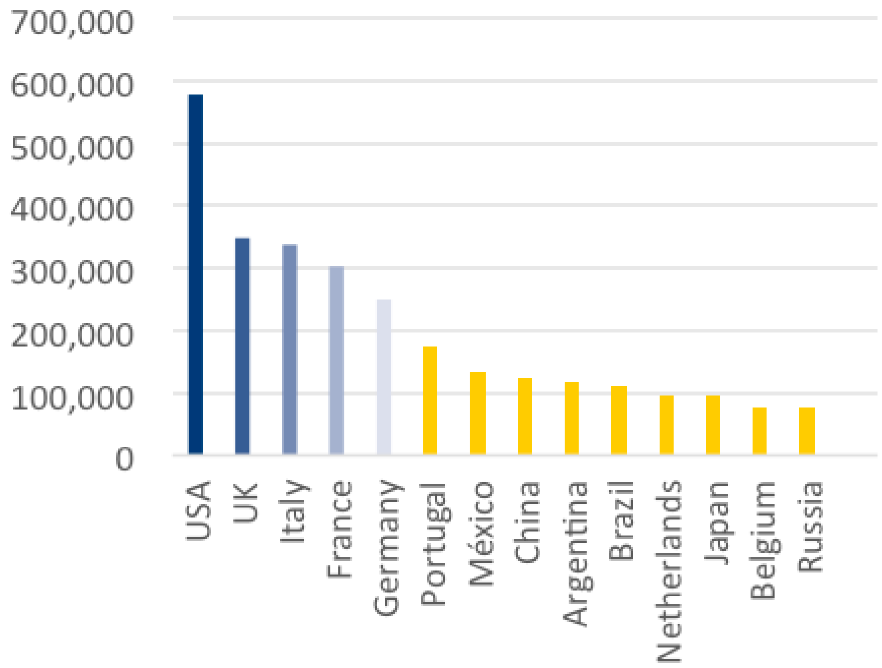
Explanation by OTA Insight of how was computed the mentioned demand:
"Demand is calculated on a market level, this is for your city or region. The Demand % is based on the available hotels, room & rate types and the restrictions hotels are using in your city or region. It is based on all 3, 4 and 5 star hotels in the area and not just your competitive set."

Appendix 8 - Chart with Total Average Length of Stay – Madrid's evolution (2011-2016)

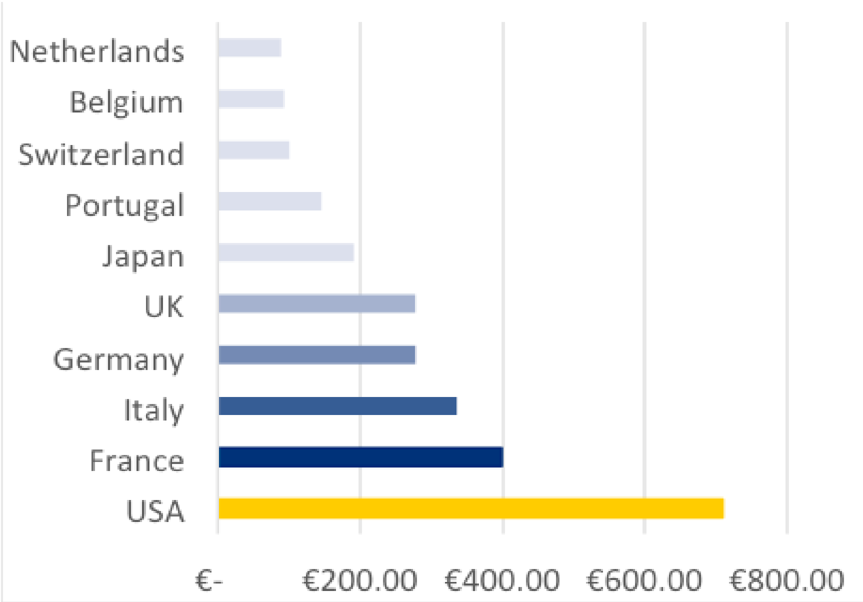


Source: Ayuntamiento de Madrid

Appendix 9 – chart with Ranking: Nº of Madrid International tourist arrivals by country of origin (2015)
Source: INE & Munimadrid.es



Appendix 10 – chart with Ranking: TOTAL expenditure by country in 2015 (Millions €)
Source: INE & Munimadrid.es

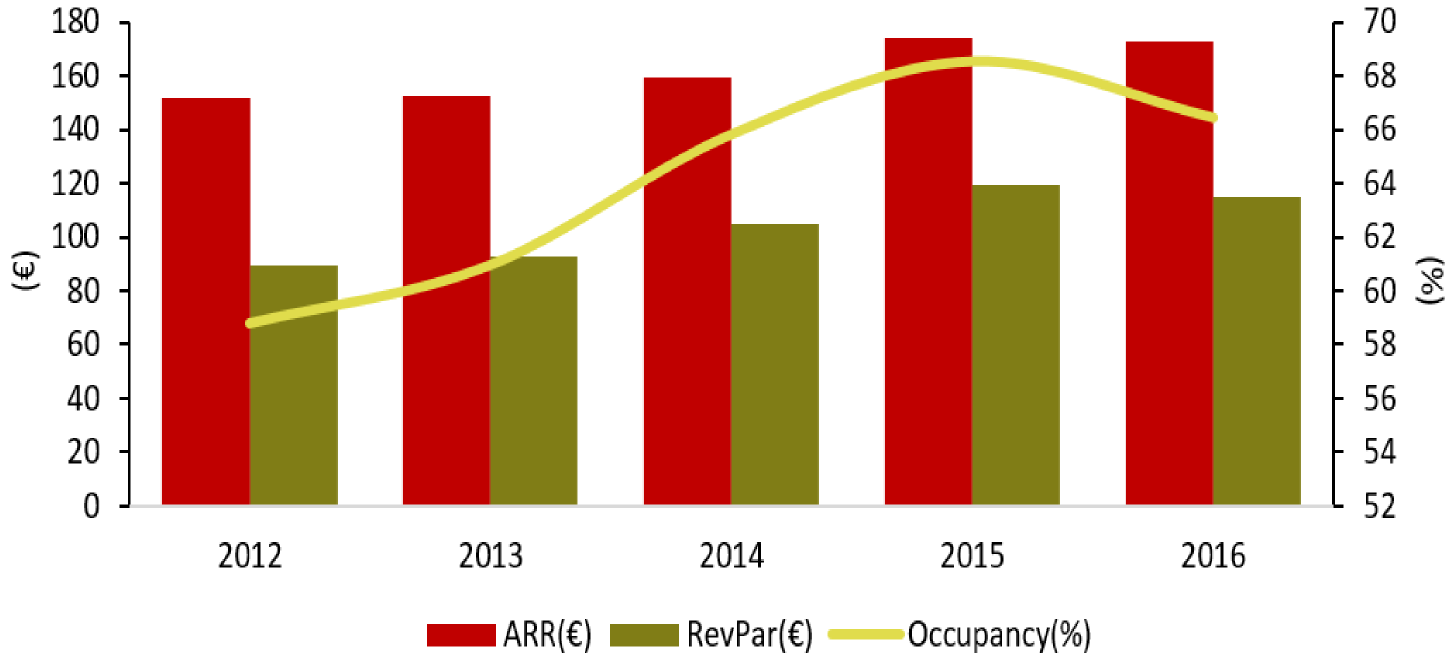


Appendix 11 – Chart with the Hotel Supply in Madrid 2010-16
Source: Ayutamiento Madrid

	2010	2011	2012	2013	2014	2015	2016	Share of Total (2016)
Number of Hotels								
Five-Star	26	21	22	24	21	19	25	5.5%
Four-Star	148	180	192	202	199	198	202	44.3%
Three-Star	93	111	116	121	119	119	126	27.6%
Other	85	118	121	123	110	109	103	22.6%
Total	**352**	**430**	**451**	**470**	**449**	**445**	**456**	100%
Number of Rooms								
Five-Star	5,075	4,059	4,457	4,856	4,194	4,061	5,343	14.6%
Four-Star	16,478	20,230	21,421	22,560	21,436	22,308	22,760	62.3%
Three-Star	4,815	5,680	5,970	6,265	5,901	6,152	6,514	17.8%
Other	1,587	2,170	2,217	2,271	2,000	2,008	1,898	5.2%
Total	**27,955**	**32,139**	**34,065**	**35,952**	**33,531**	**34,529**	**36,515**	100%
Number of Beds								
Five-Star	9,903	8,013	8,465	8,917	8,043	7,024	9,652	14.2%
Four-Star	31364	38604	40798	42995	42208	42208	42992	63.1%
Three-Star	8,815	10,468	10,971	11,475	11,262	11,273	11,974	17.6%
Other	2910	4030	4111	4195	3741	3730	3525	5.2%
Total	**52,992**	**61,115**	**64,345**	**67,582**	**65,254**	**64,235**	**68,143**	**100%**

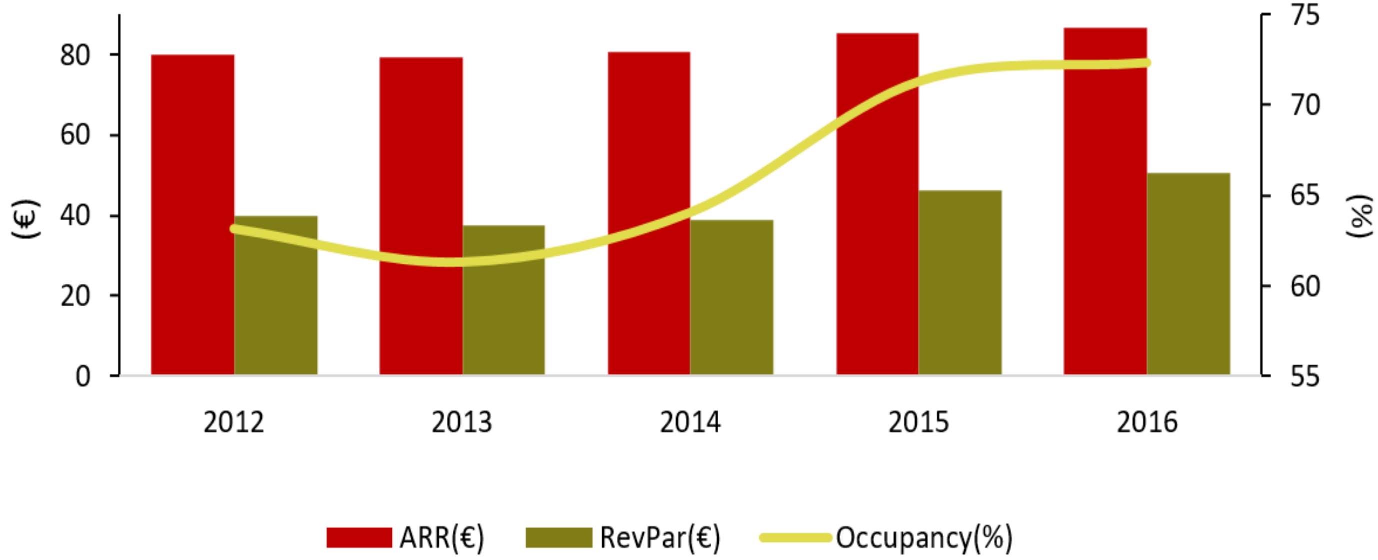
Source: Ayutamiento de Madrid

Appendix 12 – Chart with Five-Star Hotels Performance – City of Madrid 2012-16



Source: INE

Appendix 13 – Chart with Four-Star Hotels Performance – City of Madrid 2012-16



Source: INE

Appendix 14 - Annual Madrid's Hotel Statistics and Growth Rate for 2016, 2017 and 2018
Source: Based on information given on PwC report "Standing Out from the Crowd, European Cities hotel forecast for 2017 and 2018", March 2017
Data: STR Global 2017; Econometric forecast: PwC 2017

Table 1 - Madrid Hotels Industry Statistics

Year	Occupancy (OCC)	ADR (€)	RevPAR (€)
2016	71%	98	69
2017F	73%	100	73
2018F	75%	105	79

Table 2 - Growth rate on the previous year

Year	Occupancy (OCC)	ADR (€)	RevPAR (€)
2016	2,1%	5,0%	7,2%
2017F	3,1%	2,8%	5,9%
2018F	3,4%	4,6%	8,2%

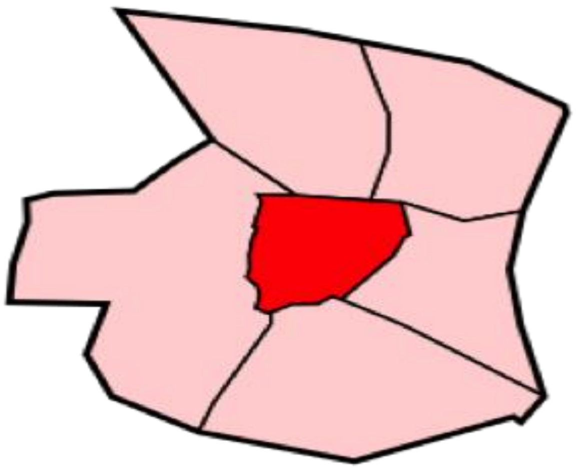
Appendix 15 - Forecasts for Madrid's four-star hotels KPIs (2016-2018)

4-star Hotels Annual KPIS- Madrid	2016	2017	2018
OCC	73%	77%	80%
ADR	87 €	89 €	94 €
RevPAR	62 €	66 €	71 €

Appendix 16 - Forecasts for Madrid's five-star hotels KPIs (2016-2018)

5-star Hotels Annual KPIS- Madrid	2016	2017	2018
OCC	66%	69%	72%
ADR	174 €	179 €	187 €
RevPAR	110 €	116 €	126 €

Appendix 17 – Central District Map and its division into barrios, highlighting Barrio del Sol location into the district
Source: **https://en.wikipedia.org/wiki/Sol_(Madrid)#/media/File:Barrio_de_Sol_(16),_Madrid.svg**



Appendix 18 - Additional information about the attractions of *Barrio del Sol*
Source: **https://www.esmadrid.com/en/nightlife-sol-gran-via**; **https://www.timeout.es/madrid/es/sol**

- Historical places: The most famous historical places are Puerta del Sol and Plaza Mayor. Puerta del Sol is the epicentre of Madrid, being considered the starting point of all roads in Spain. Plaza Mayor is a historical plaza, surrounded by traditional shops and cafes.

- Shopping: Calle Preciados and Calle Carmen are two pedestrian parallel streets that connect Puerta del Sol to Callao. They are considered to be one of the main shopping areas in Madrid, at the beginning they had a lot of local shops, but nowadays big known stores have replaced them.

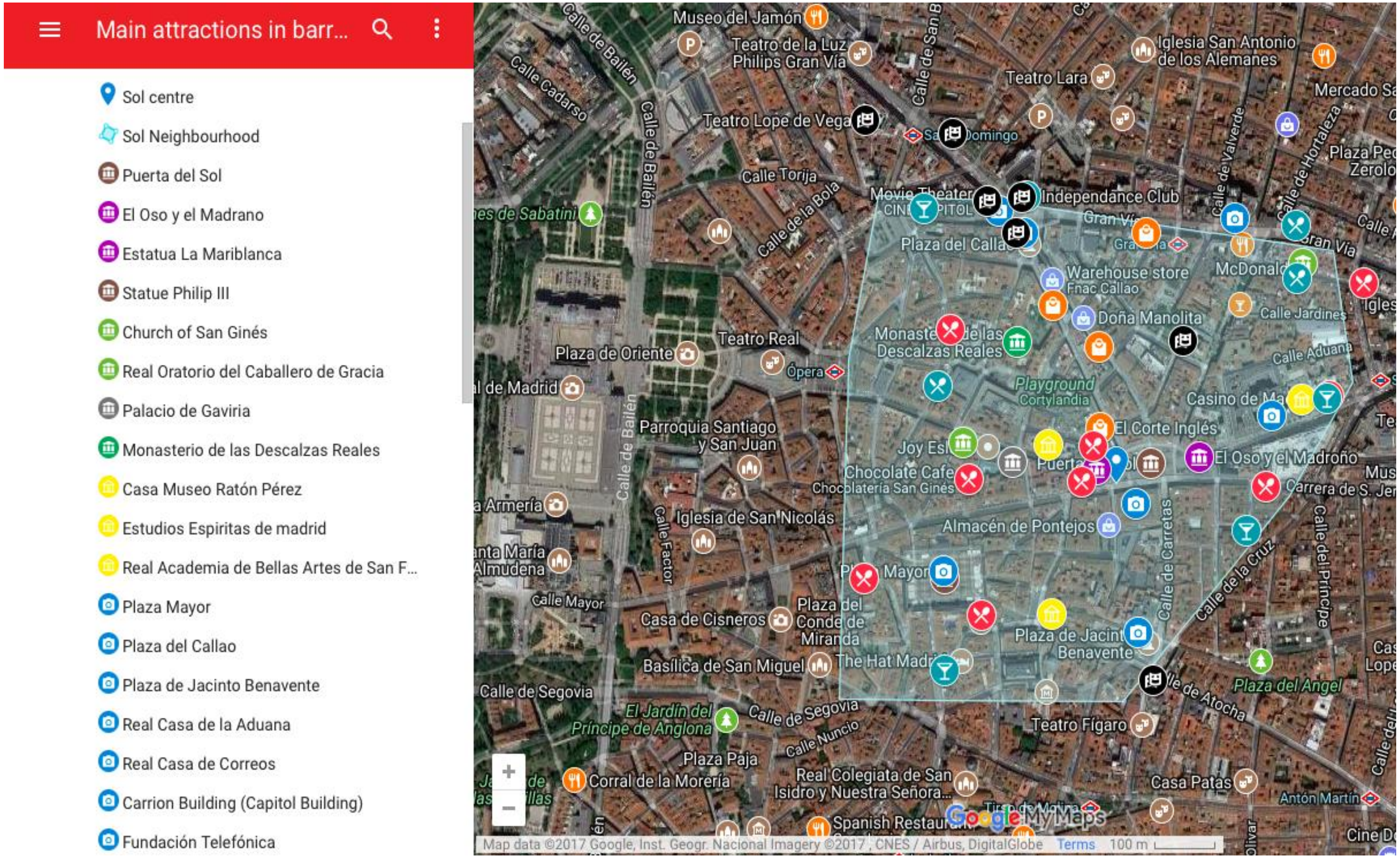
- **Restaurants**: There are lots of tapas bars around Sol, like Casa Labra, which is a very traditional and well-recognized restaurant. As well there is the famous restaurant La Terraza del Casino with Michelin stars and the Lhardy Tapas.

- **Nightlife**: This place has become to be a party destination for the people who come to celebrate the 'last night of freedom' in Madrid. There are some nightclubs in this area as well, as disco el Son and disco Velvet Madrid. Near by, in Calle de Alcalá, there is the emblematic Casino de Madrid.

- Theatres and Cinemas: The Cine Callao movie theatre, one of the most famous cinemas of Madrid, unfolds the red carpet whenever there's a musical or movie premiere. The Rialto Movistar and Lope de Vega theatres run the many musicals that come to Madrid every year.

Appendix 19 – Map with Barrio del Sol main attractions location

Source: **https://www.google.com/maps/d/edit?mid=1gPPR8dHBYWYCriyui8IDk6tbjkA&ll=40.41763756503873%2C-3.7044466500000226&z=16**



Layers description:

Statues: Puerta del Sol , El Oso y el Madrano, Estatua La Mariblanca, Statue Philip III

Churches: Church of San Ginés, Real Oratorio del Caballero de Gracia, Monasterio de las Descalzas Reales

Museums: Casa Museo Ratón Pérez, Estudios Espiritas de Madrid, Real Academia de Bellas Artes de San Fernando

Buildings/Plazas: Plaza Mayor, Plaza del Callao, Plaza de Jacinto Benavente, Real Casa de la Aduana, Real, Casa de Correos, Carrion Building (Capitol Building), Fundación Telefónica

Shopping: Calle de Preciados, Calle del Carmen, El Corte Ingles, Real Madrid Official Store

Restaurants: Casa Labra, La Mallorquina, Chocolatería San Ginés, San Miguel Market, Al Trapo, Restaurante Vargas 83, Restaurante Los Galayos, Terraza del Casino, Lhardy

Nightlife: Gula Gula Madrid, Discoteca El Son, Discoteca Velvet Madrid, Cibeles Night Club, Independance Club, Costello Club, Casino de Madrid, Casino Gran Via

Theatres and cinemas: Cine Callao, Acteón, Film Press, Cine Capitol, Teatro Rialto, Teatro Lope de Vega, Calderon Theatre