

## Research

# The Nordic hotel industry: A changing landscape

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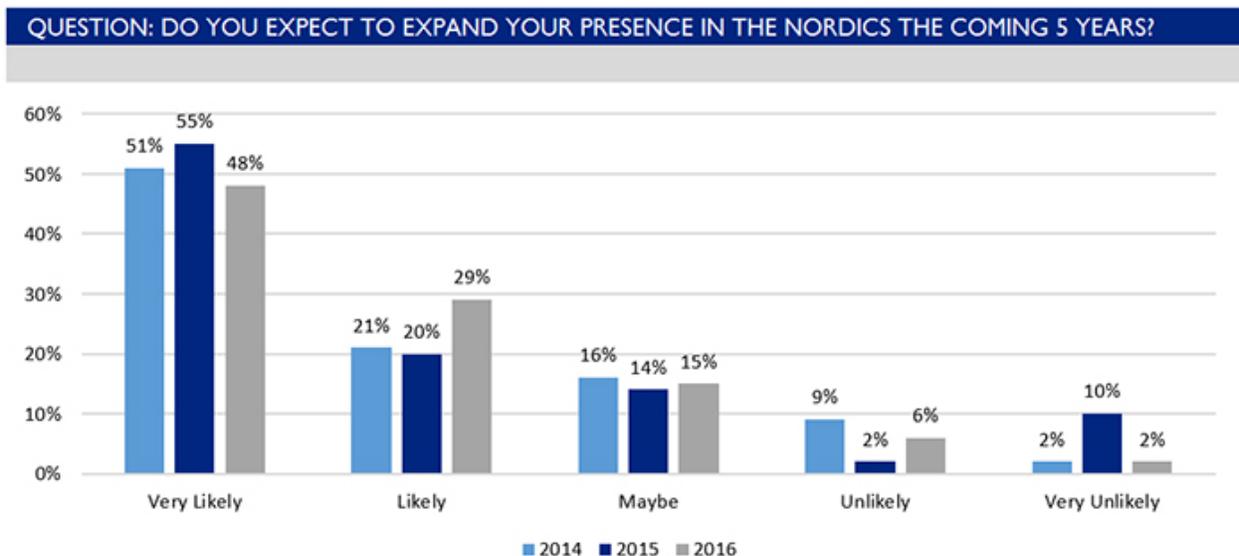
Hotel industry professionals involved in the Nordic region see a shift toward more lifestyle properties and international flags over the next 10 years.

By Sarah Sonne Larsen and Demian Hodari

According to a survey of the delegates who attended June's Nordic Hotel Consulting Conference in Copenhagen, there is continued optimism in the Nordic hotel industry. The high expectations of previous years have been met with booming key performance indicators in the region's capitals. Meanwhile, the local industry players have ventured outside their traditional comfort zones.

The once-insular hotel market of the Nordics is now welcoming new properties, players and ideas more than ever before.

In our survey of 142 industry representatives at the conference, 77% said they are likely or very likely to participate in the opening (development, financing or operation) of at least one new hotel in the Nordics within the coming five years. This continues a pattern witnessed in surveys over the past three years.



Source: NHC-Conference delegate surveys of 2014, 2015 and 2016

We suggest that strong market performance plays a role in this motivation to expand the hotel supply. For example, Reykjavik, Stockholm and Copenhagen saw particularly impressive revenue per available room growth rates in recent years. Helsinki is also picking up in RevPAR year-to-date comparisons for 2016.

**Expanding the landscape**

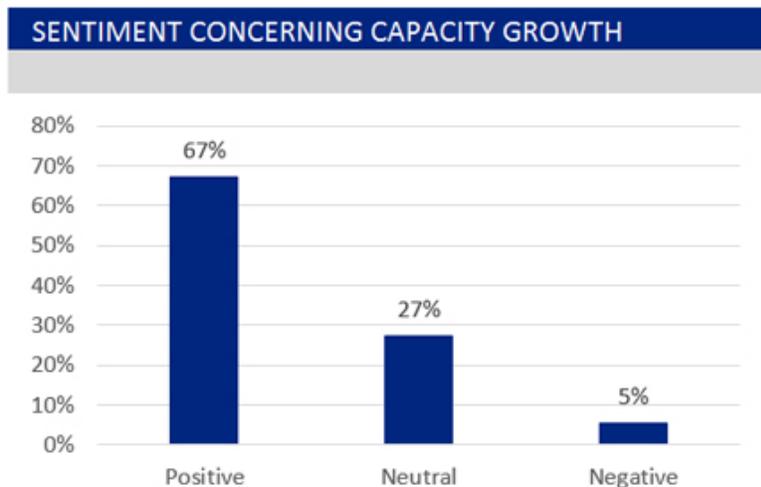
The confidence expressed in recent years has begun to materialize in dozens of properties and thousands of new rooms under development or construction in the Nordic capitals. Of course, these will have an important impact on the market’s overall supply. Across the five capitals, there are approximately 12,000 rooms in the pipeline for the coming few years, which corresponds to an average capacity growth of 16%.

	<b>Pipeline:</b>	<b>Forecasted Supply Growth:</b>
Copenhagen	4,100	26%
Helsinki	1,600	18%
Oslo	1,900	16%
Reykjavik	1,200	26%
Stockholm	3,300	10%
Total	12,000	16%

While new supply is often considered a threat to existing hotels, both in terms of rate and occupancy, our survey found overwhelming support for these new properties, given the new and increased demand they are also expected to generate for the local economies. Of the conference participants, 67% said they have a positive perspective on the new capacity inflow, while 27% were neutral and only a small minority expressed negative views.

“Although occupancy levels will be impacted, as they have benefited from low supply growth,” Nordic Hotel Consulting partner Christian Kielgast said the new developments “are also expected to induce significant demand.”

“This will be generated both by the total market capacity growing, and hence being able to accommodate more large events such as congresses, but also by generally absorbing unaccommodated demand from peak periods,” he said.



Source: NHC-Conference delegate survey, 2016

The support for new supply may be due to the diversity of the product offering, which is critical to maintain a healthy balance of price points.

“We are monitoring more development on the product side, both from existing Nordic operators, but also from international operators and investors looking to enter the market, including development in segments such as boutique/lifestyle hotels, affordable luxury and extended stay, which will drive new guest segments supporting the overall demand growth” Kielgast said. “The long-term balance of the markets will depend on the continuation of this trend creating more dynamic hotel markets that can sustain and grow the interest from an increasing internationalization of visitors and changing consumer demands.”

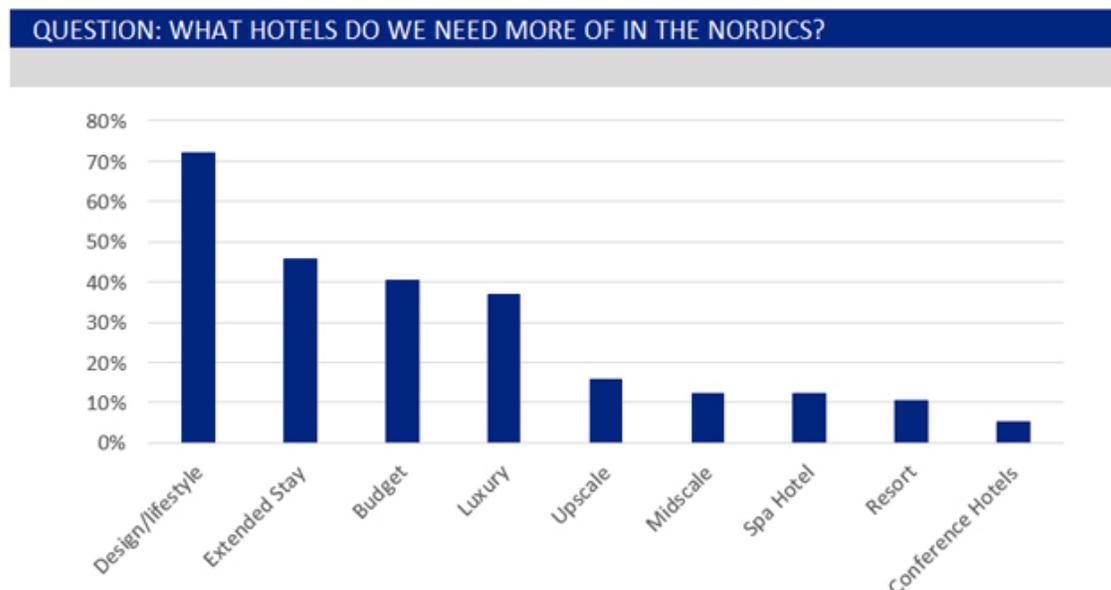
It is a prerequisite for healthy market growth that the product side keeps evolving.

The pipelines for Copenhagen, Helsinki, Reykjavik and Stockholm feature everything from budget to luxury, as well as extended stay properties, hostels and lifestyle hotels—though not in equal shares. More than one-third of the room supply in Copenhagen’s pipeline, for instance, comes from local budget operator Cabinn. Meanwhile in Oslo, the pipeline primarily consists of midscale and upscale conference properties.

Some would say there is a big risk in adding more of what is already found in abundance, whereas others may suggest that these segments are simply the best fits for the markets. Reykjavik and Helsinki are both characterized by a relatively big share of international flags in their portfolios, as well as pipelines. This currently sets them aside from the rest of the Nordics.

### Lifestyle is the new darling

The vibrant lifestyle idea has caught the attention and interest of the Nordic hotel industry. When we asked survey participants to identify what types of products are needed across the region, there was a strong consensus for lifestyle and extended stay properties, with budget and luxury following just behind.



*Note: Delegates were asked to choose three types of hotels from the list. The percentage is calculated on the basis no. of respondents, not no. of responses. Therefore, the total exceeds a hundred percent.*

*Source: NHC-Conference delegate survey, 2016*

There are still relatively few lifestyle hotels in the Nordics, although most city hotels have a substantial design element. The lifestyle and design properties are either part of smaller regional chains—such as Nobis, Kämp Collection and Brøchner—or a collection series under a major regional operator like The Thief in Oslo (Nordic Choice Hotels), or independently operated properties such as Ett Hem in Stockholm and 101 Hotel in Reykjavik.

Lifestyle is definitely the new darling of the Nordics, and it has potential to expand widely and play a central part in the future accommodation market, since this region is known worldwide to be very design and experience driven.

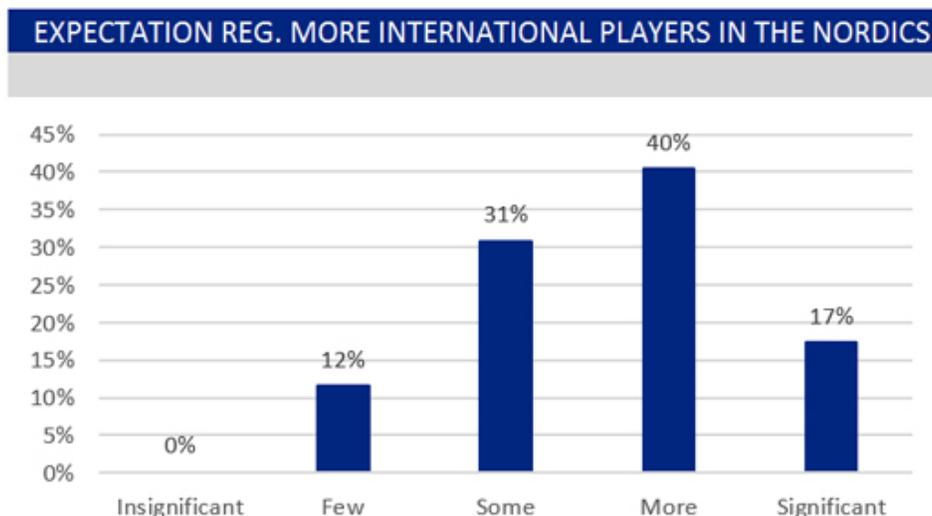
The Nordics is a region traditionally dominated by midscale and upscale supply, operated by regional chains. Until recently, it looked as if the inflow of new midscale hotels would continue and risk creating an unhealthy balance with an overly dominating midscale supply.

The NHC-Conference survey in 2014 identified midscale as the segment needing most development. The following year, we probed deeper and asked why. Many explanations were given, but the prevalent point of views were that “the northerners are more prone to midscale” and “midscale is the best business model here.” It is surprising then that so few of the delegates at this year’s conference requested more midscale properties.

Currently, many rooms in the Nordic capital pipelines are classic midscale and upscale, but it appears that the future could hold quite a few creative lifestyle and boutique products. This shift in interests among the industry professionals active in the Nordics may be due not only to a midscale-dominance, but also a larger change in mindset. Developers and operators are seeing the need for more creative, design-oriented and fun accommodation concepts that do not fit nicely into these segments.

### International players

The current pipelines do not feature many international flags, but are instead dominated by regional heavyweights such as Scandic, Choice, Thon, Elite and Cabinn. However, this might change, judging by the expectations of the region’s industry professionals. Of the delegates surveyed at the NHC-Conference, 40% believe the Nordics will see a growing representation of international players over the next 10 years, while 17% expect to see a significant rise.



Source: NHC-Conference delegate survey, 2016

Historically, international operators have found it challenging to penetrate the close-knit northern countries, due to a regional opposition to management contracts on the owner side. Furthermore, operating costs are relatively high, which scares away operators in search of high margins. These challenges are still relevant and a barrier for many. But the model of a local or regional management company allied with an international brand on a franchise-basis appears to be the solution—and one of the principal paths to more international brand flags.

It seems the region is ready to accept and embrace more presence from international players in the Nordic arena. This can generate healthy competition and inspire further product development. Not least of all, it can help keep a good market balance in the Nordics, by offering added diversity to a region which has a tendency towards insularism. However, we have yet to see international companies really leaving their mark on the Nordic countries.

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