26-Apr-2023

Pandox AB (PNDX.B.SE)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Head of IR. Please go ahead.

Anders Berg

Senior Vice President, Head-Communications & Investor Relations, Pandox AB

Thank you. Welcome everyone to this presentation of Pandox Interim Report for the first quarter 2023. As I was introduced, I'm Anders Berg, Head of IR at Pandox. And I'm here together with Liia Nõu, our CEO and Anneli Lindblom, our CFO. And on the line, we also have Robin Rossmann, Managing Director at STR, who will guide us through the hotel markets after we have finished our formal presentation. And Robin represents a leading independent research firm focused on the wholesale markets and he will share STRs view on this market.

And please note that the views expressed by STR are completely separate from Pandox and that the presentation is offered only as a service to Pandox's our stakeholders. Before we left Robin in, Anneli and Liia will present the business update with financial highlights for the first quarter, followed by a Q&A session. And after that, Robin will provide his external hotel market update.

Next page, please. And with that, I'll hand over to Liia Nõu, the CEO of Pandox.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anders, and good morning and welcome, everyone. The first quarter was stable, positive and in line with our expectations. The hotel market was strong and resilient considering that the economic headwinds we've faced going into the quarter. Our earnings development was also positive, with solid growth in both the business segments and continued earnings recovery. Seasonality is back. Q1 is historically the weakest quarter of the year, with lower demand for meetings which has an effect on larger meeting hotels, particularly in more international destinations, such as, for example, Brussels. Also international travel and larger meetings are still trailing at 2019 levels.

We ended the first quarter on solid financial ground with an LTV of 46.2% and it's worth repeating that we have all our financing through relationship banks and that we have good and constructive dialogues on all future refinancing. This is also underlined by the refinancing done of approximately SEK 5.2 billion in the first quarter. Anneli will talk more about this later in the presentation.

So we move to next page, please. We have a well-diversified hotel property portfolio with 158 properties, with almost 36,000 rooms in 15 countries and 90 cities, or with a property market value of close to SEK 70 billion.

Pandox is divided into two business segments, property management and operating activities. The property management, we lease – we own the hotels and we lease them out to stronger, well-known operators under long revenue-based agreements. This is about 83% of our property market value. In operating activities, we own the hotels and also operate it ourselves under different operating markets. This segment makes up for some 17% of our property market value. The focus of our portfolio is upper mid-market hotels with mostly domestic and regional demand, which is the backbone of the hotel market. It's also strength in more uncertain economic times.

Next page, please. We have one of the strongest networks of brands and partners in the hotel property industry. This ensures efficient operations and revenue management which maximize our cash flow and property values. As you can see in this picture, we work together with several well-known operators like Scandic and Nordic Choice in the Nordics, and Leonardo in UK and Germany. We also have long relationship with strong international brands such as Holiday Inn, Hilton Brothers, Radisson Group, et cetera. In our operating activities segment, we also have some independent brands created by Pandox, for example, our newly renovated Hotel Berlin, Berlin, which is our largest hotel with over 700 rooms.

Next page, please. After a somewhat hesitant start, hotel demand strengthened as the first quarter progressed. And my view is that the hotel market is robust and in a good state for the coming quarters. Our growth was strong in the first quarter, although the comparable quarter last year, 2022, was negatively affected by pandemic restrictions. For comparable units, total net sales and net operating income increased by 47% and 45%, respectively. Like-for-like property management increased net of operating income by 21%. And as I said, our relationships with our banks are strong. And we had almost SEK 4.5 billion in cash and unutilized credit facilities at the end of the quarter. Our loan to value fell to 46.2%, which is in the low end of our financial target and this we adjust for the dividend which we paid out in April, the LTV was 46.8%. Return on equity measured by annualized growth and EPRA NRV was approximately 15%.

The next page, please. Here we see a comparison of the RevPAR level for our business segment property management from 2019 until today. The numbers are on a comparable basis. And as you can see, RevPAR in 2023 is largely at the same level as the corresponding period 2019, which was a record year.

The next page, please. Here we have a breakdown of the performance for a selection of countries, regions and cities versus 2019. We show ADR on the vertical axis and occupancy on the horizontal axis. Thus [ph] origo (07:32) is the point corresponding to 2019 on both ADR and occupancy. In the boxes, we indicate how much higher or lower RevPAR is compared with the corresponding period in 2019. Take For example, Edinburgh on the top right hand side, occupancy was at 2019, it's around 1%, 2% ahead and ADR is 25% up on 2019, meaning a total RevPAR of 27% above 2019. The [ph] metric (08:14) shows that basically all markets are trading above 2019 levels on rate, whereas the majority of markets are trading below 2019 levels on occupancy, due to that we still are lacking international traffic, Asian traffic hasn't even started, larger meeting taking some time, et cetera, et cetera.

Hanover here is the only outlier which is very much depends on fairs and exhibition, and this is something which is taking off in Q2 of this year. So Q1 was a slower quarter when it comes to fairs and exhibition in Germany. In terms of RevPAR, UK is above and Germany below 2019 level on aggregate. In terms of RevPAR in the Nordics, regional markets are well above 2019. However, among the Nordic capital cities, only Oslo has so far climbed past 2019 levels.

Next page, please. During the first quarter we acquired the Queens Hotel in Leeds, which is operating activities segment. This is an amazing hotel. We've 232 rooms in the best location in Leeds. We also acquired the Best Western Hotel, Sweden's Fridhemsplan, Stockholm, Sweden, with 221 rooms. I'm super happy to be able to acquire a hotel in Stockholm with such great potential. We have a long and successful history of acquiring underperforming hotel properties and increasing their profitability and value. Both of these acquisitions are done at very attractive prices and [indiscernible] (10:05) levels. So very excited about both of these.

Next page, please. And with that, I hand over to Anneli, our CFO.

Anneli Elisabet Lindblom

Chief Financial Officer, Pandox AB

Thank you, Liia. Good morning, everyone. We are happy to report continued earnings recovery and strong like-for-like growth in this first quarter. And yes, we do have a [ph] easy (10:29) comp this quarter, but still we are proud of continued earnings recovery in a traditionally weak quarter. So totally revenue based rents increased to SEK 208 million compared with SEK 98 million last year and revenue-based rent was generated in 55 out of 96 agreements, which is in line with normal seasonality. We therefore play in the second quarter on a good level.

Operator Activities delivered in line with our expectations. As you know, we do have mostly large meeting hotels in international destinations in this business segment. And in the first quarter, it is a bit slower in that respect. This will improve in the second quarter and even more so in the second half of the year.

Next page, please. We perform internal validations of our hotel properties each quarter, 94% of the properties have been externally valued during the past 12 months, and the valuation are in line with our own internal valuations. Unrealized changes in value were a negative SEK 420 million in the period mainly increased by an increase in yields. Of this SEK 410 million was for investment properties following an increase in yields with 0.04 percentage points, the remaining SEK 10 million was for operating properties, where an increase in the yields 0.09 percentage points, was almost fully balanced by higher cash flow.

In the first quarter, we also had a positive realized change in value of SEK 198 million. Firstly, a capital gain from the divestment of our hotel in Canada, Montreal. And secondly, a positive impact from disposal of hotel in Germany, which suffered flooding damage in 2021 and has been closed since then. And as always, please remember that investment properties are recognized at fair value. According to IFRS, unrealized changes in value for operating properties are only reported for information purpose, but is included in the EPRA NRV. End of period, the average valuation yield for investment properties, both at 5.62% and for operating properties it was 6.59%.

Next page, please. Yes. And as you know, Pandox has two sources of financing, equity and bank loans, secured by underlying properties. We have no market financing in the form of bonds and no external rating requirements. Given our business model, we focus on hotels and variable rent. This has proven to be the most efficient and predictable financing over time. On the right, we highlight our capital structure at the end of the period and based on the closing price of yesterday, Pandox's value that the discount EPRA NRV on approximately 35%.

Next page, please. And then this slide with some balance sheets KPIs per 31st of March. Loan to value as well as EPRA LTV amounted to 46.2%. Adjusted for dividend pay in April, the loan to value was 46.8%. Cash and unutilized credit facilities amounted to SEK 3.8 billion. Credit facility maturing in less than one year amounted to SEK 11 billion, of which SEK 3.5 billion will mature in the second quarter and then we have SEK 6.7 billion that will mature in the fourth quarter. And we do have well advanced and positive dialogues ongoing with banks regarding all of these credits. Interest cost will of course continue to increase a bit as upcoming maturities are refinance based on the current conditions on the market.

Next page, please. And with that, I'll hand back to Liia.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Anneli. Pandox is a company driven to succeed and we are financially strong, a business model with variable revenues offer protection against both inflation and higher interest rates. We continue to see a recovery potential in business and international travel. And we also see a stronger trade fair and exhibition calendars than in 2022 in all of our important markets. So all in all, we remain cautiously optimistic on 2023.

Next page, please. And we now move over to Q&A. Operator, we are now ready for questions. And please don't forget to hand the call back to us afterwards for Robin's presentation.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] Your first question comes from Albin Sandberg from Kepler. Please go ahead.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Yes. Hi, there, good morning. So a few questions for me. The comment you're making about seeing sort of a pickup of demand, as I understand it, throughout Q1. Is that in line with your initial expectations on how the year was going to start? And also, if you could comment maybe a little bit on what you're seeing in terms of start of Q2. And I guess also just trying to factor in what we're seeing of the overall macroeconomic development?

Liia Nõu
Chief Executive Officer, Pandox AB

A

Right. Hi, Albin, great to have to you on the call. A busy, busy day, I think you all report. And yes, we were at – first quarter is very much in line or actually above our current expectations about this for the Q1, because it is [indiscernible] (17:47) when it comes to [indiscernible] (17:49) exhibition. We see that the report picking up for Q2 and forward. So the book is looking good from there. We are ramping up, we still with these meetings, the conferences, the exhibitions, the trades, et cetera, et cetera, of course we have not looked to Q1, they're coming in and [indiscernible] (18:13) just ramp up, we have been expecting, so very much on line. There's always a fear of how will [indiscernible] (18:23) travel. We haven't seen any [indiscernible] (18:26) on that. People seem to prioritize travel and also when and if there would be any slowdown there, we do see that the business segment is coming up compensating for that [indiscernible] (18:39), so in line with our own expectations, so even above.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

And I know on the owned business segment that you mentioned there, are no signs of potential, let's say, cancellations of planned meetings and so forth on the back of maybe a weakening outlook, no?

Liia Nõu
Chief Executive Officer, Pandox AB

A

No, not at all. And of course, we are humble and cautious, but as we have said all the time, people want to meet, people need to meet. There is always – there has been hesitation last year of booking major events or trades, but these are booked for the rest of the year. So, no.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

And then I saw in your balance sheet that you have not separately highlighted the rent receivables any longer, is that because you're now back on a normalized level, so it's not worthwhile highlighting them specifically, and also what – was there lessons learned from this whole COVID, did you actually end up receiving everything that you expected?

Liia Nõu
Chief Executive Officer, Pandox AB

A

I mean, you're completely right, we don't highlight them anymore because it's sort of just back to normal. And we have got – I mean, we have no issues with non-payment from that period. So we are sort of back on track and we did get paid what, all the expected amount. So that's why we don't highlight it anymore, because I mean we're sort of back to normal.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay, great. And then my final question is around the financing and the refinancing, as [ph] unless (20:22) you point out. I mean, you're doing a quite substantial amount in Q1, but there is still quite a lot falling due within a year or so. Did you expect to refinance now on a quarterly basis or will we see like one big news coming out from Pandox saying, okay, now we're done with all the refinancing for this year? And also, if you could make a comment on how you see margin progression maybe over the last six or nine months in your negotiation with the banks?

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

Okay. I mean, we are continuously working with our banks. So this is sort of normal for us to do the financing. So we have a bunch now coming in the next quarter and then in the fourth quarter. But this is ongoing discussion. So I mean, I do expect us to have no problems with doing the financing.

Liia Nõu
Chief Executive Officer, Pandox AB

A

And to add to Anneli's point, I mean, these are very much dependent on also risk portfolio financing. It's maybe 3 properties or maybe 10 properties and is not dependent on sort of a quarterly calendar. It's more depending on when we acquired it, was it just 3 or 5 year term loan we put in place coming up for refinancing. So you see this with the maturities in our report. During the COVID, we have sometimes [ph] rolled (21:53) has these shorter maturities, because it's been more uncertainties around their levels on the margins. These are tightening, of course, and we are rolling them longer. So back to more normal pattern of the same patterns we had before.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

I know you don't have like a stated financial target from credit maturity, but I see your most recent report that is 2.1 years. Do you expect that to be prolonged or is this the level where [indiscernible] (22:26) would be in a steady state scenario?

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB

A

No. I would guess that sort of the level that we will have now, because I mean we – I mean you do – as for now, one – no one actually knows from where the credits are heading. So my opinion, it's better to don't go that long, wait. I mean, unless you do get to a really good level from the bank. But so far we sort of – we will stay on this level because this is where we get the best price from the banks.

Albin Sandberg
Analyst, Kepler Cheuvreux SA (Sweden)

Q

Okay. Thank you very much. Those were my questions.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

Thank you.

Operator: Thank you. [Operator Instructions] Your next question comes from Fredrik Stensved from ABG. Please go ahead.

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

Thank you very much. May I start with a follow-up on the last question? Maybe I wasn't listening carefully enough, but margin development in the last quarter of last six months or so, can you say anything about that?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Well, on the – let me say, actually during all of the pandemic, the COVID, the margin were – if they were around 150 bps prior to the pandemic, they are now may be at around 200, 200 – between 200, 230 bps. So it hasn't changed so much. It is just that during the pandemic we rolled the maturities shorter. Our sweet spot normally is about three, four year credit term to be a bit more expensive when banks were, I don't know, [indiscernible] (24:19) requirement or whatever it is, but they tend to be more expensive if you go plus – five plus years. So this is like a sweet spot there. And we are going from this [indiscernible] (24:30) pandemic shorter with slightly increasing margins. Some of our maturities are now refinancing. So of course, we are coming up on those credit margins, which are more in line with 200 bps instead of 150 bps. But above that no major differences other than that underlying CIBOR, what they call it, not LIBOR any more...

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

CIBOR rate?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Exactly. And those of have been sort of shocked high.

Fredrik Stensved
Analyst, ABG Sundal Collier AB
Q

Okay, great. Thanks. And then secondly, you did state in the presentation and in the report that 55 hotels generated turnover rent now in Q1, and that sort of in line with the historical pattern, can you state what share of hotels normally or historically or 2019 generate the turnover I think in Q2, Q3, Q4?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yeah. In 2019, which was [indiscernible] (25:41) a record year in the first quarter. It was about 70, 73 or so hotels, so about 18, 20 hotels less this quarter than four years ago coming about this [indiscernible] (26:00) threshold. Then remember that during all of these four years, our minimum rents have been indexed with inflation. So of course, targets are higher. So that you have to take in this, because of – you have this inflation adjustment. And also, of course, there are some hotels, especially in Germany, which have due to recession, taking on some longer time to get out of this without starting blocks.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Right, okay. And sort of, if we look at the historical pattern throughout the year, if it was 73 hotels in Q1 in 2019, what was sort of the Q2, Q3, Q4 figures? When is the, I mean sort of looking for the historical pattern in terms of pick up and when you reach that full level?

Liia Nõu
Chief Executive Officer, Pandox AB

A

In 2019, we have 95 hotels that have – that are turnover based with a minimum level. We were, I mean usually in the – basically in the second, third or fourth quarter, maybe all of them except for two or three or four, were at turnover based rent. So first quarter always being like 20 hotels being struggling, more because of normal seasonality And then there has been typically one, two, three hotels with maybe trading around, or yes, below because of renovation or something else. So in normal quarter, this would be a substantial pick up during the second quarter, but of course the calendar [indiscernible] (27:55) needs to catch up for the first quarter. So in 80 and 90 and maybe 85, 86 hotels of the 95 were at revenue based, above that level and almost all of them down fully in Q3 and Q4 depending on if there had been a renovations or something like that.

Fredrik Stensved
Analyst, ABG Sundal Collier AB

Q

Great. Perfect. Thank you very much. That's all for me.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Thank you.

Operator: Thank you. Your next question comes from Edoardo Gili from Green Street. Please go ahead.

Edoardo Gili
Analyst, Green Street Advisors, LLC

Q

Hello.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Hello.

Edoardo Gili
Analyst, Green Street Advisors, LLC

Q

One question for me on the refinancing. Do you have more color around the SEK 5 billion you've managed until now in terms of locations and types of hotels as well, just to get a bit more information around what's left for the year? And do you have an easier time going through the refinancing for certain locations versus others?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Well, again, as I mentioned before, the refinancing has to do with when we acquired the portfolio. In first quarter, the majority part has been refinancing of the previous European portfolio, which we acquired in 2017, which had the financing which was a little bit plus five years and was maturing now in the first quarter. The European portfolio which has been rebranded now to Leonardo with 21, 23 hotels in UK, so very much UK here, but also some other refinancing mainly in Sweden, something in Denmark, I think. And then for the rest of the year, I mean it's a diversified portfolio we have. So there will be a mix of refinancing portfolios both in our own operations, but also in the Nordics. Basically, one of our 13 relationship banks.

Edoardo Gili
Analyst, Green Street Advisors, LLC
Q

Understood, and do you have a split between the, the operations versus the property management's, just for the rest of the year?

Liia Nõu
Chief Executive Officer, Pandox AB
A

In what exact? Sorry.

[indiscernible] (30:20)

Edoardo Gili
Analyst, Green Street Advisors, LLC
Q

...refinancing of the hotels.

Liia Nõu
Chief Executive Officer, Pandox AB
A

Well, there's not separate, we don't have separate financing for operations or for property management. Sometimes when we buy a portfolio, it may be because of them both. So it little bit depends on which relationship and what's sort of the nature of that portfolio, so not really.

Edoardo Gili
Analyst, Green Street Advisors, LLC
Q

Understood, thank you. So in the next couple of months it's going to be more Nordics and then the past quarter was more UK, is that correct?

Liia Nõu
Chief Executive Officer, Pandox AB
A

Yes, this quarter was more UK, absolutely.

Anneli Elisabet Lindblom
Chief Financial Officer, Pandox AB
A

Yeah. But there was also Germany. So, it's really a mix.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Yeah.

Edoardo Gili
Analyst, Green Street Advisors, LLC

Q

Perfect. Thank you.

Liia Nõu
Chief Executive Officer, Pandox AB

A

Thank you.

Operator: Thank you. As there are no any further questions at this time, I'd now like to turn the conference over to Robin Rossmann, MD – and STR. Please go ahead.

Robin Jack Rossmann
Managing Director, STR Global Ltd.

Well. Good morning, everyone. Just checking, can you hear me all right? I presume so, if not, jump in.

Liia Nõu
Chief Executive Officer, Pandox AB

Yes.

Robin Jack Rossmann
Managing Director, STR Global Ltd.

Thank you very much for that. I'm going to now hand over – not hand over, I'm going to take over from the slide entitled European Hotel Performance Update. I'll just give an overview of where performance has gone in the last quarter and expectations going into the rest of the year.

Starting on the slide with the world and showing occupancy for the first quarter or year-to-date 2023 and the big bubbles and then the percentage change versus 2019. What you can see, yes, it is seasonally, especially in the Northern Hemisphere, a pretty lower performance quarter. But when we look compared to 2019, in most places across the world, occupancy is either already recovered or exceeding 2019 levels. You can see that in Central South America, the Middle East, Southern Africa, not far off or not far behind, in North America 3% behind, Europe 5% behind. That even China has seen a significant rebound domestically now that things have reopened and is only 3% behind. Only a quarter ago that was in a much worse state.

The only region still really lagging is some of those important outward bound Chinese market, so international travel from China not yet recovered yet. So Asia, excluding mainland China still trailing, Australia is still trailing. But focusing on Europe, it is not far behind but it is still not fully recovered to 2019 levels. And when trying to understand why that is, I'm going to go on to the next slide and just show you the picture across some of the major countries in the region.

The dotted line show that 95 index, so just 5% below the 2019 levels, the average for the continent. And you can see that Ireland, the United Kingdom, Portugal, Spain, Italy, all above that 95 level and the countries where that are lagging the recovery and pulling us down from that fully recovered level are France, Netherlands, Belgium and Germany. So, I'll just touch on France first, even though it's in the middle and that is definitely the impact or being pretty much fully recovered to as you can see, trending downwards. But that is expected to recover now that those protests are receding, which then takes us to the Netherlands, Belgium and Germany in particular. And the reasons underlying those countries, slower recovery or lagging recovery, is a greater reliance on international business travel and meetings which have not yet come back and unlike some of the countries at the top where that has been offset by significant growth in US inbound travel, though destinations at the bottom are not as strong in terms of pulling that US demand to offset other demand which has not come back yet.

And so when we go on to the next slide, you'll see that when we look at the major gateway cities, it broadly mirrors what we've seen at a country level. So Edinburgh, Dublin, London, all sort of close to fully recovered in Southern Europe, all between sort of 90% and 100% recovered. It is that really Amsterdam, Brussels, Berlin and some of the other countries I'll mention, the broader DACH Market, Zurich and Vienna, also trailing a bit further behind because of those factors that I mentioned.

So just going on to the next slide and looking specifically at Germany, because Germany was also the last to recover coming out of the pandemic last year. Here you can see 22 index versus 2019 and 2023 index versus 2019, and so it's consistent with last year that Germany has been weak than the rest. Last year, Germany had some of the strongest COVID controls still in place. And whilst those COVID controls have gone away, I think the hypothesis is that certainly the German consumer and German business traveler has reacted the most conservatively due to the concerns around the war in Ukraine and restrictions on energy supply. And that certainly has played into the slower recovery that we've seen this year. However, what happened last year is even though Germany was behind in the first quarter, it did recover for the amounts with rest of European countries as we headed into the second and third.

So, moving on to the next slide and focusing on the rooms rate or ADR. Here you can see a similar graph to before. It's showing absolute rates in the US dollars and then it's showing the percentage change in the smaller bubble versus 2019, slightly different sort of color coding here. Anything that is exceeding, but with the [indiscernible] (37:15) and Europe where rates are on average 21% above 2019 levels, similar to North America and Central America, which is just above the sort of inflationary growth between 2020 and where we are now of just under 20%. So rates are at or ahead of inflation, broader economic inflation. That compares to the Middle East and Southern Africa where rate growth is up close to 25%, 27%, so ahead of inflation, and Northern Africa and South America where rate growth is significantly higher than inflation. And then the markets where because of the slow recovery, rates have not tracked inflation is in China and Asia, excluding Mainland China. But we do expect that to change as that Chinese outward bound demand comes back and demand fully comes back in domestic China.

So just a bit more on Europe then, and last year, it wasn't necessarily true that the markets that had the highest occupancy recovery, had the same rate recovery. But that certainly is what we have now stepped into, which is what you would expect. Those markets that have seen the strongest demand recovery, ultimately enabled hotels to generate the pricing power and push rates up. And you can see here that Ireland at the top, but also Portugal getting rates now that are now over 32%, almost 40% higher than 2019 levels. And as we head down to that European average of just about 20%, you can see Spain, UK and Italy above that or tracking above inflation, or ADL growth in real terms. However, it's not true for all countries in Europe, France slightly below, more from a domestic perspective than from Paris which is well ahead. And then it is Netherlands, Belgium and Germany that are certainly trailing the rest of Europe. And that is underpinned by those demand drivers that I mentioned earlier.

So just a bit more on those demand drivers that when we look into some of the outlook. The one other thing I would mention that has certainly not helped, then sort of moving on to the next slide, which is Europe luxury class ADR, and apologies, I may have forgotten to tell you to advance slides for the last couple. So if you are now in a slide that says Europe luxury class ADR tops the charts and it starts with luxury class on the left hand side.

Then just on this one, the thing I wanted to explain was one of the other reasons why Germany, Belgium and Amsterdam has have underperformed the rest of Europe, particularly on rate growth, is they have less luxury supply in those markets. And certainly when we look at rate growth across the world and in Europe, it is the luxury hotel market that has seen the best rate growth coming out of the pandemic with about 43% ahead of 2019 levels, whereas the rest of the market is somewhere between mid-teens and low-20s.

Now in terms of how we expect this to develop, what we've seen in the US and what we expect to see in Europe is that luxury rate growth will moderate and potentially even go down slightly this year. A lot of that was pent-up demand which is now spent up. And what we're seeing in the US is those hotels at the bottom, in the middle of the market, continue to grow rate whilst that luxury is coming down.

So on to the next slide which says outlook and then on to the next slide, which shows GDP over the long-term indexed with room demand. And this is one of the key points that historically in almost every economy in the world, because hotel activity is underpinned by broader economic activity, there is a very strong correlation between the two. However, because of certain barriers to that travel and in Europe in particular around airlifts, around group demand still not fully back because of concerns of the logistics. And we have seen that although the economies are either fully recovered to 2019 levels or ahead of 2019 levels, there is still this gap to demand, but that is expected to close as some of those factors reside in the coming months. And just to give you an idea on group demand, in particular the US which does tend to be ahead of Europe in these sort of things, has for the past four, five months had group demand that is really single digits behind 2019 levels, whereas Europe is still some 50%, 60% behind 2019 levels.

So moving on to the next slide, I'm just focusing for a moment on supply growth, because obviously where supply growth exceeds demand growth that would cause occupancies to go down. And what we've seen in the last couple of years is that supply growth slowed down slightly in 2020 as a result of disruption, there was a bit of catch up. But broadly, over three years, 2020 to 2022 was about 66,000 in gross per annum rooms and based on known rooms under construction and pipeline and anticipated delays, for the next two to three years we expect that to remain at a similar level, so no significant increases in supply. And just to give some context, it's about 6 million odd rooms in Europe. So 67,000 rooms growth represents just over 1% growth in supply per year, which is broadly the same as consensus forecast of economic growth across Europe for the next couple of years, just about that 1% mark. So from a high level macro perspective, supply growth is broadly in line with demand growth, with economic GDP growth being the proxy for that.

However, there are still a number of factors that should help close the gap with the fact that that demand growth hasn't recovered fully to percent that the GDP has. And one of them is, if you move on to the next slide, the international arrivals. And what you can see is that even though there was significant recovery in 2022, it is still below those 2019 levels. And Tourism Economics, who we work with, are forecasting that will recover further in 2023 and even further in 2024. And certainly when you look in the airlines capacity levels, they are all back to pretty much the levels they were in 2019.

So, just getting on to a bit more granular data that really focuses only on the next 90 days, but it is indicative of what we expect to see this year. And so on slide 27, the next slide, business on the books, it shows you across the major gateway cities. Business on the books for the next 90 days, are rooms already sold as at 17th of April and what that is versus same time last year. And what that's showing is that there's already much more business on the books, particularly in Rome, Lisbon, Amsterdam, Madrid, Brussels than there was this time last year and that would be indicative of stronger actualized performance in the next 90 days than what we saw in the second quarter last year.

So in summary, on the last slide, they are clearly sort of broader economic concerns across the world and in Europe. But there are a number of factors that are benefiting the accommodation sector. We still have a relatively weak euro and sterling and we are seeing that drives stronger demand from dollarized economies, so not just the US and the Middle East too. And that's benefited some countries and destinations more than others. And that should continue for the coming period. There is still recovery to happen in business travel, and that's being facilitated by increased airlift.

What we've seen from a rate perspective is significant growth last year due to pent up leisure demand, in particular over the summer months. There was a concern that that might tail off, because business demand would not recover. However, we did see and we have seen in the [indiscernible] (46:45) data that even though there's still that bit to go, that sort of 5% to go, business demand had a significant recovery and sufficient enough to certainly hold on to that rate growth that the market achieved through the summer months. And the combination of that, the continued demand drivers as above and the limited supply growth should support the sustainability of that going forward.

And with that, I'd like to hand it back.

Liia Nõu

Chief Executive Officer, Pandox AB

Thank you, Robin, for this hotel market update. And thank you all for participating in this call. We really appreciate your time and interest in Pandox. And our interim report for the second quarter is published on July 14. So thank you, enjoy spring and stay in our hotel. Thank you.