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Franc fumbles affect hotels in Switzerland

This report aims to put a spotlight on the effect this year's monetary policy change has on Swiss tourism by analyzing the performance of select cities and regions.

THE SWISS FRANC & ECONOMY

In our 2013 issue of this report series, we highlighted the underlying political system which inuences the Swiss economic and touristic development.

We also mentioned that added to high price levels, the strong Swiss Franc is also burdening the Swiss economy. It had been considered a safe haven currency for some time when the global financial crisis hit in 2008. As a result, a massive capital inflow was recorded causing the currency exchange rates to sky-rocket. The Swiss National Bank resorted to artificially stabilizing the exchange rate versus the Euro and US Dollar through buying currency on a large scale.

Swiss Franc – blessing or curse?

In January 2015, the SNB was no longer able to uphold this policy and discontinued backing the Swiss Franc, which immediately caused its revalue, shortly quoting slightly above the Euro (1 CHF = 1,02 EUR).

Since then, exchange rates have recovered slightly. Yet, experts agree that the Swiss Franc is still overrated and would see Purchasing Power Parity at an exchange rate of 1 EUR = 1,25 CHF.

In 2014, the hospitality industry accounted for only 1.7% of the country's total gross value added. Until recently, the industry was not permanently present on the radar of politicians or the general public and its lobby had potential for improvement. Now, the industry sets high hopes in the freshly founded Tourism Party, which aims at supporting assemblymen with a positive attitude towards tourism-related policies; and there is certainly a need for action. Updated methodology and newly introduced indicators in compiling the Travel & Tourism Competitiveness Index let Switzerland drop from rank one (2013) to rank 6 in 2015. The report names the price competitiveness as the major challenge the country faces.

SWITZERLAND & GATEWAY CITIES

This report aims to put a spotlight on the effect this year's monetary policy change has on Swiss tourism by analysing the performance of select cities and regions.

A look at STR Global data year-to-date July 2015 reveals that Switzerland's overall occupancy rate has not changed compared to the same period last year. The level could only be maintained by reducing rates, though. ADR has dropped from CHF 231 in 2014 to CHF 224 in 2015, thus, bringing about a lower RevPAR (-2.2%).

However, performance of individual cities and regions deviate, some for the better, some worse.

Zürich's performance stable; Geneva's rates yield

Zürich, the country's chief financial centre, experienced hardly any deviance from previous year's performance. Occupancy slightly increased by +1.8%, ADR dropped by marginal -0.7%, bringing a RevPAR growth of +1% totalling at CHF 170. (iii)

Geneva, the second most important business destination and gateway city in the French speaking part of the country, was also able to sustain its occupancy level (67.8% year-to-date), according to STR Global. However, ADR dropped by -5.1% and, as a consequence, RevPAR fell to CHF 192 (-4.8%). (iii)

Neither of these two cities recorded a remarkable change in supply.

THE WINNERS ARE... BASEL AND LUCERNE?

There has been tremendous movement on the markets of Basel and Lucerne this year. Both cities report record-numbers in arrivals and nights, which prompts a more in-depth investigation.

Basel, is located at the border triangle of Germany, France and Switzerland. It is primarily known for being home to big multi-national chemical corporations, and as such considered a business and MICE destination, but also has quite a lot of cultural offerings waiting to be discovered.

There's the Basel Tattoo, the Paul Gauguin exhibition and the Musical "The Lion King", just to name a few. The Basel Tattoo participants alone generated roughly 12,500 nights in July. Year-to-date July 2015, Basel (city) welcomed 365,476 guests, that is +11% more than during the same period 2014. The number of nights grew by +7.4% to a total of 698,743.

This development is in part owed to a strong increase in domestic demand (+12.4% nights), and in part to higher international demand (+5.1% nights).

Basel certainly profits from its good mix of business, MICE and leisure tourism, with roughly one third of its visitors coming from within the country itself. Another third originates from Eurozone countries. Germany is Basel's main market according to Luzern Tourismus.

On the other hand, growth in demand is accompanied by growth in supply. While the number of rooms sold increased by +7.1%, room supply was also growing by +8.2%, according to STR Global.

Consequently, performance data for the Basel region does not call for celebration. Occupancy decreased -1.1%, ADR dropped -5.1%, culminating in a negative RevPAR growth of -6.1%. In absolute figures, ADR was at CHF 215, RevPAR at CHF 139. (iii)

Lucerne's long-term strategy pays off

Lucerne is situated in the heart of Switzerland at Lake Lucerne and home of the Lucerne Festival, a must for every fan of world-class classical music. The geographical situation of the city allows a nearly perfect combination of city/culture tourism and active sports/nature experiences at the lake and adjacent countryside and nearby mountains. Lucerne started establishing itself as a strong brand in Asian and American markets decades ago and profits from foreign movies or soaps being shot in and around the city. The city produced 426,320 nights year-to-date July 2015, that's +9.1% over the same period the previous year. On 5-year-average, nights increased even by 12.4%.

The Asian market produces 32% of all nights spent in Lucerne, followed by the Swiss (26%), Europe (19%) and the Americas who contribute 18% of all nights. It is this mix that makes the destination more resilient to the Swiss Franc turbulences, which affect most of all Eurozone markets.

Over the last five years, there has been a shift in market shares. European visitors decreased by nearly 18% while Americans gained 26% and Asians 38%, according to Luzern Tourismus.

The supply side did not change over last year's comparison period. This allowed for stabilized rates, permitting increased occupancy rates (+7.3%) to translate into a RevPAR growth of +7.1%.

As a region and in terms of performance, Central Switzerland (excl. Lucerne) tops all other regions. The industry there recorded growth in occupancy (+2.3%), ADR (+10.5%) and of course RevPAR (+13%). The latter was registered at CHF 110. (iii)

BOTTOM DRAWER: MOUNTAIN RESORTS?

Some say resorts are the big losers in the currency exchange rally. Many certainly are, while some do well (up to now).

It is too early to look at summer destinations such as Ticino with the main season still ongoing. Instead, we'll focus on mountain resorts with their main business during winter season.

For example, we put the spotlight on the cantons of Valais (excl. Zermatt) and Grisons, each home to excellent winter sport destinations. We excluded Zermatt as the "Matterhorn pilgrimage" would skew the results.

Year-to-date 2015, hotels in Valais reporting to STR saw an increase in occupancy of +1.4% (to 50.6%) and ADR rose by +8.3% leaving the canton with a RevPAR of CHF 146, up 9.8% from last year.

Grisons also recorded ADR growth of +9.5%, but occupancy decreased -9.4% resulting in a negative RevPAR growth of -0.8%. Overall, hotels in the canton achieved a 46.2% occupancy rate year-to-date July, -1.7% less than last year.

Grisons relies heavily on the domestic and European markets (shares of 56% and 37%, nights respectively). They lost -1.1% of Swiss visitors and -10.3% nights from European visitors over last year's comparison period, owed to the Swiss Franc exchange rate, especially from Eurozone countries, but the number of Russian tourists also dropped by -25%.

Added to the burden, Swiss travellers are making use of the opportunity that the strong Swiss Franc provides for cheap holidays abroad. The canton's proximity to Austrian and Italian destinations makes it especially vulnerable in that regard. Davos, renown worldwide for hosting the WEF, struggles not to lose congresses to more affordable destinations.

Valais, while having a similar profile (57% nights generated by Swiss, 39% by Europeans), was able to keep the number of nights spent by Swiss residents stable, yet lost -12.7% on the European markets, especially in Germany (-11.5%), the UK (-18.8%) and Russia (-38.9%). (iv)

Finally, there is Zermatt with exceptional skiing resorts, their famous Matterhorn, excellent marketing and hoteliers who manage to act together. The village contributes roughly one third of all nights spent in the canton of Valais. Year-to-date July 2015, hotels reporting to STR Global sold 11.3% more rooms than during the same period last year. The ADR dropped by 4.3% (down to still above average CHF 376) but the occupancy increased by 12.3%, and thus RevPAR by 7.4% (CHF 269). (iii)
Overall, Zermatt's occupancy rate was 67.4% (2014: 68.2%). (iv)

OUTLOOK

It remains to be seen what the rest of the year and the coming winter season will bring. Tour Operator contracts had been signed long before the Swiss Franc went through the roof again and contract negotiations for the coming year will certainly be challenging.

Some hotels had already resorted to pricing only in euros and others offered a guaranteed exchange rate. Resort destinations, which rely primarily on Eurozone markets, will face a continuing struggle unless the Swiss Franc miraculously devalues.

i Basel Tourismus
ii Luzern Tourismus
iii STR Global
iv Bundesamt für Statistik

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