

HOTEL INVESTMENT GUIDE LAPLAND

HOW TO DO BUSINESS
IN FINLAND, THE LAND
OF SUCCESS STORIES.

**INVEST IN
FINLAND**

**INTRODUCTION
TO LAPLAND**

**HOTEL MARKET
DESCRIPTION**

BUILD YOUR NEXT BIG THING IN FINLAND

THE FINNISH TRAVEL INDUSTRY
OFFERS OPPORTUNITIES FOR
INVESTMENTS AND GROWTH
THROUGHOUT THE COUNTRY.

For anyone considering investing in Finland, there are three major regions to consider outside the well-known, densely populated Helsinki metropolitan area:

LAPLAND, known for its winter tourism, Northern Lights, and Santa Claus

FINNISH LAKELAND, known for its natural beauty, with more than 50,000 lakes covering a fourth of the area

THE COAST AND ARCHIPELAGO, home to 1,100 km of beautiful coastline and one of the largest archipelagos in the world

Every region, city, and town has something unique to stand out from the rest, harboring different hotel investment opportunities. For someone new to the country, navigating across such diverse regions might be a difficult task. Investment opportunities can be found almost anywhere, ranging from resorts amid tranquil nature to hotels in mid-sized cities. This guide gives you essential information for your journey through the regions.



EVERY REGION
IN FINLAND
OFFERS
SOMETHING
UNIQUE.

DEFINITIONS OF THE KEYWORDS AND ABBREVIATIONS

Approx.	Approximately
ARR	Average Room Rate (exc. VAT)
ca.	Circa
CAGR	Compound Annual Growth Rate
e.g.	For example (exempli gratia)
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
etc.	Et cetera
F&B	Food & Beverage
FF&E	Furniture, Fixtures, & Equipment
FLA	Fixed Lease Agreement
GOP	Gross Operating Profit
HMA	Hotel Management Agreement or Helsinki Metropolitan Area
i.e.	That is (id est)
IFRS	International Financial Reporting Standards
km	Kilometer
KPIs	Key Performance Indicators
M	Million
OCC	Occupancy
P&L	Profit & Loss Statement
RevPAR	Revenue per Available Room
SPV	Special Purpose Vehicle
TO	Turnover

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10 REASONS TO EXPAND INTO FINLAND

#1

**NUMBER 1 BUSINESS
ENVIRONMENT
IN THE WORLD**

BY GLOBAL INNOVATION INDEX 2019

#1

**DIGITAL
COMPETITIVENESS
IN THE EU**

BY THE EUROPEAN COMMISSION 2019

#1

**MACROECONOMIC
STABILITY**

BY THE GLOBAL COMPETITIVENESS
REPORT 2018

#1

**THE FREEST COUNTRY
IN THE WORLD**

BY FREEDOM HOUSE 2018

#1

**GOVERNED COUNTRY
IN THE WORLD**

BY LEGATUM INSTITUTE 2018

#1

**SKILLS OF THE WORKFORCE
AND THE QUANTITY AND
QUALITY OF EDUCATION**

BY THE GLOBAL COMPETITIVENESS
REPORT 2018

#1

**FINANCIAL SYSTEM
IN EUROPE**

BY THE GLOBAL COMPETITIVENESS
REPORT 2018

#1

**THE SAFEST COUNTRY
IN THE WORLD
TO TRAVEL**

BY WORLD ECONOMIC FORUM 2017

#1

**THE MOST STABLE
COUNTRY
IN THE WORLD FOR THE
14TH YEAR IN A ROW**

BY THE FUND FOR PEACE 2019

#1

**THE HAPPIEST
COUNTRY
IN THE WORLD**

BY WORLD HAPPINESS REPORT 2019

INVEST IN FINLAND

DOING BUSINESS IN FINLAND IS SMOOTH, THANKS TO THE STABLE BUSINESS ENVIRONMENT, WELL-FUNCTIONING SOCIETY, AND LACK OF CORRUPTION.

Finland, one of the world’s northernmost countries, has a solid economy and a highly efficient and transparent business environment. The country benefits from a highly educated and skilled labor force. All of these factors make it easy for international companies to expand their business operations to Finland.

Finland enjoys excellent connectivity, with direct flights to and from Helsinki, and further through its well-developed regional airport network. In line with the global trend, tourism is booming in the country. The passenger volume at Helsinki Airport grew by 25% over the

last three years, further feeding the traffic to regional airports. Air connectivity is supported by well-developed rail and road network across the whole country.

Finland is called a land of thousands of lakes. There are 188,000 clear water lakes and almost endless deep green forests that offer visitors the unique peace and tranquillity of the Nordic nature. Finland offers an endless array of outdoor activities across all seasons, from chasing Aurora Borealis in the winter season to hiking and observing wildlife in the national parks during summer.

The rapidly increasing tourism can be seen in the number of overnight visits. In the last five years, we have seen the number of overnight visitors grow on average 5% a year.

Finland does not have a large number of internationally branded hotels. The Finnish hotel market is mostly dominated by domestic mid-market hotel operators. This offers international investors an excellent opportunity to enter the hotel market across the whole country.

INDICATOR	2015	2019	CAGR
Population, m	5.5	5.5	0.2%
GDP per Capita, EUR	38,570	43,484	3.0%
Investment Grade, S&P	AA+	AA+	n/a
Total Area, km²	338,424		n/a
Unemployment rate	9.3%	6.7%	n/a
Inflation change	n/a	n/a	0.5%
International overnights, m	5.5	7.1	6.4%

THE DEFINITIONS OF THE
KEYWORDS AND ABBREVIATIONS
USED IN THIS GUIDE CAN BE
FOUND ON PAGE 3.



DEFINITION OF THE REGIONS

FOR THIS GUIDE, FINLAND HAS BEEN SPLIT INTO FOUR MAJOR REGIONS: HELSINKI METROPOLITAN AREA, COAST & ARCHIPELAGO AREA, LAKELAND, AND LAPLAND.



LAPLAND



LAKELAND



COAST &
ARCHIPELAGO
AREA



HELSINKI
METROPOLITAN
AREA



ACCESSIBILITY OF THE REGIONS BY TRAIN & AIR

BESIDES EXCELLENT ROAD CONNECTIVITY ACROSS THE COUNTRY, FINLAND ALSO BENEFITS FROM GREAT CONNECTIVITY BY AIR, WATER, AND RAIL.

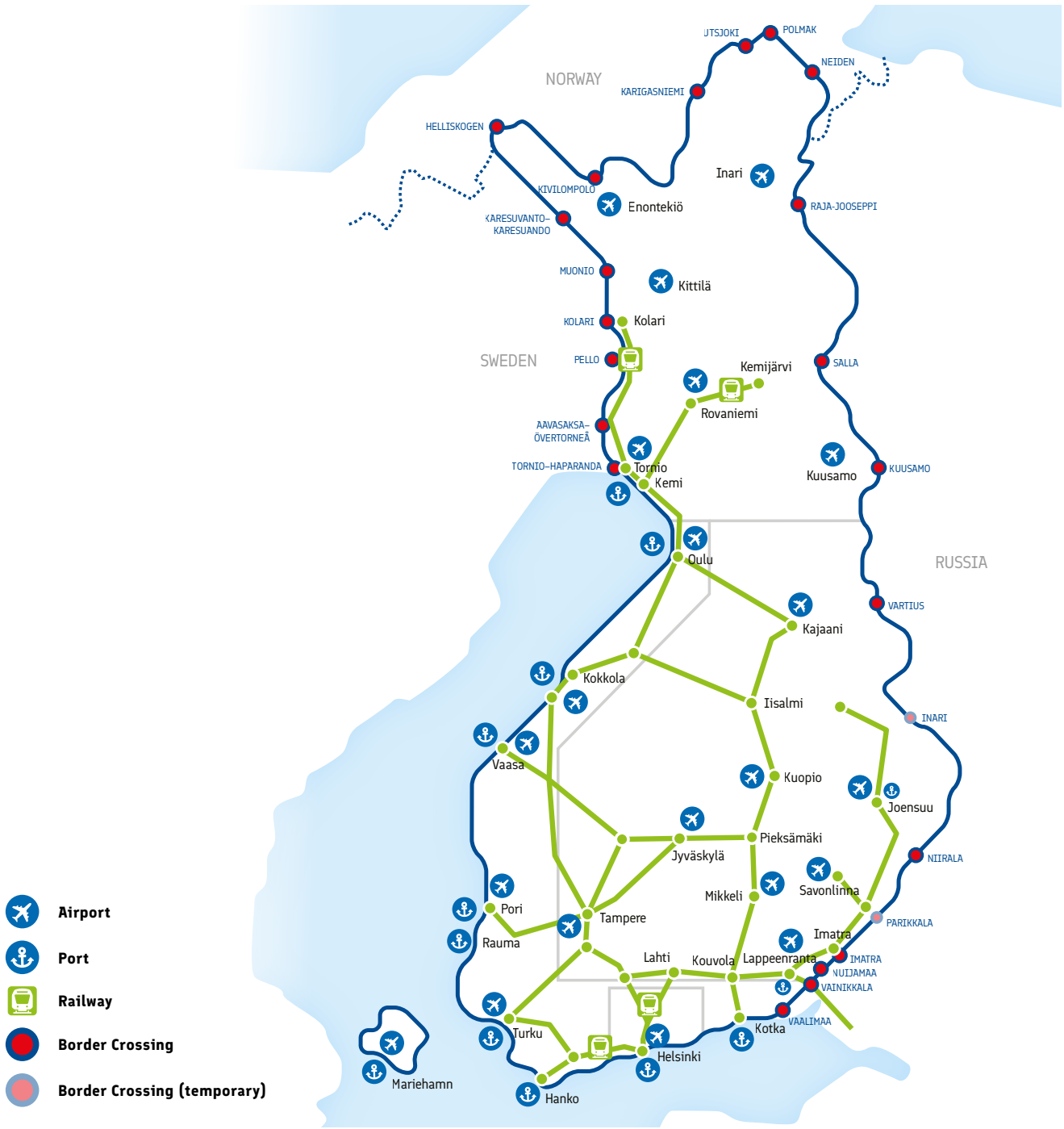
BORDER CROSSINGS FIN-RUS 2019

	2019	SHARE
Nuijamaa	3,002,694	30%
Vaalimaa	2,463,410	27%
Imatra	1,588,868	17%
Niirala	1,118,980	13%
Vainikkala (Rail)	656,107	6%
Vartius	383,562	4%
Salla	120,202	1%
Raja-Jooseppi	80,864	1%
Kuusamo	55,346	1%
Parikkala (temporary)	24,011	0%
Inari (temporary)	5,747	0%
Total	9,499,791	100%

Note that 81% of the FIN-RUS border crossings in 2019 took place at the very southeast part of Finland, corresponding with further access to St. Petersburg and beyond. Furthermore, an additional 12% of the crossings took place at the just slightly more northern Niirala crossing point.

Also note that driving was by far the most popular way of crossing the border, accounting for 93% of the crossings. Thus, just 7% of the border crossings were done via the Vainikkala rail crossing point (Helsinki–St. Petersburg train).

Source: The Finnish Border Guard



BORDER CROSSINGS FIN-SWE

Karesuvanto-Karesuando	Road 959/E45
Muonio	Road 954/404
Kolari	Road 943/403
Pello	Road 937/402
Aavasaksa-Övertorneå	Road 98
Tornio-Haparanda	Road E4

Source: Christie & Co Research

BORDER CROSSINGS FIN-NOR

Neiden	Road 92
Polmak	Road 970/895
Utsjoki	Road E75
Karigasniemi	Road 92
Kivilompolo	Road E45
Helligskogen	Road E8

INTRODUCTION TO LAPLAND

LAPLAND IS A HIGHLY POPULAR TRAVEL DESTINATION FOR SEEKERS OF ARCTIC NATURE AND NORTHERN MYSTIQUE.

Thanks to its natural beauty, northern charm and almost endless possibilities for outdoor activities all year-round, Lapland is a highly popular travel destination, both in Finland and internationally. The area offers some of the best opportunities for investing in Finland.

The cities in the analysis were chosen according to population base. This guide focuses on the cities of Rovaniemi, Kemi and Tornio.

Lastly, this analysis focuses on a set of significant tourism hotspots, namely ski resorts, providing potential investment opportunities outside of larger cities and towns.

The map on the right shows the largest cities in the region. The circle size equals annually generated market value by hotels in the respective city.



HOTEL MARKET DESCRIPTION

THE UNIQUE WILDERNESS OF
LAPLAND ATTRACTS 3.6 MILLION
OVERNIGHT VISITORS ANNUALLY.
THE AREA OFFERS SOME
OF FINLAND'S GREATEST
INVESTMENT OPPORTUNITIES.

221
HOTELS

10K
ROOMS

+2.8%
CHANGE IN ROOMS
2018–2019

Lapland is the largest and northern-most part of Finland. With an area of around 100,000 km², it accounts for nearly a third of Finland's size. Despite a population of only 180,000, Lapland generates a substantial 3,600,000 overnight stays annually. Tourism is very crucial to the area and well-backed by the state. Compared to the Finnish Lakeland, Coast & Archipelago, Lapland has the most international overnight stays.

In the last few years, Lapland's hotel market has experienced stellar growth. In 2015–2019, RevPAR was growing, on average, 11.3% annually, reaching EUR 52 in 2019. Some of Finland's highest RevPARs are achieved in Lapland.

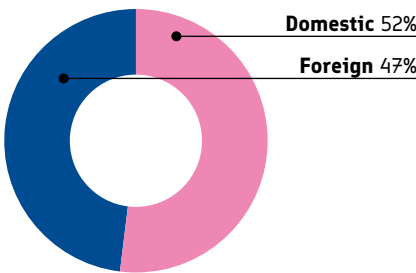
During 2015–2019, the share of international overnight visitors increased by 8% (from 40% to 48%).

If the trend continues, it's highly likely that international visitors will account for more than half of overnight stays.

The winter season offers visitors the chance to enjoy activities such as downhill and cross-country skiing, chasing the Northern Lights or just enjoying the Holidays, leading to solid performance in Lapland's hotel markets. Even though winter is the most popular travel season, there is quite a steady demand throughout the year.

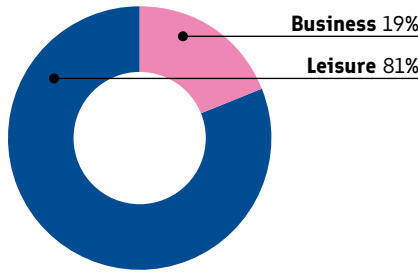
The growth in overnight stays and hotel market KPI's indicates an exceptionally positive future outlook for the region. Investors and hotel operators have shown strong interest in the area.

OVERNIGHTS 2019
3,719,000 +3,5%



Source: Statistics Finland

BUSINESS VS LEISURE 2019



Source: Statistics Finland

TOP 6 FOREIGN SOURCE MARKETS

OVERNIGHTS	2018	2019	CHANGE %
United Kingdom	320,300	306,900	-4.2%
Germany	173,700	185,000	+6.6%
France	163,400	184,900	+13.1%
Netherlands	112,700	123,300	+9.4%
Russian Federation	97,400	99,500	+2.2%
China	73,900	84,300	+14.0%

← Source: Statistics Finland

Source: Statistics Finland

KPIs 2019

OCC	45% (+0.6%)
ARR	€115 (+10.9%)
REVPAR	€52 (+12.4%)

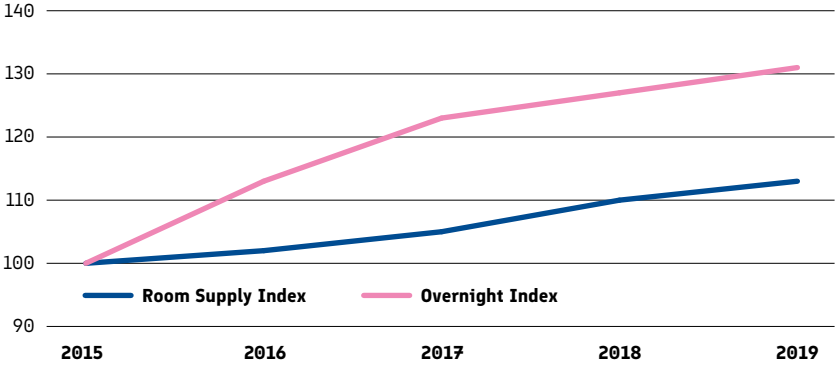
CAGR 2015–2019

OCC	+3.1%-POINTS
ARR	+8.0%
REVPAR	+11.3%

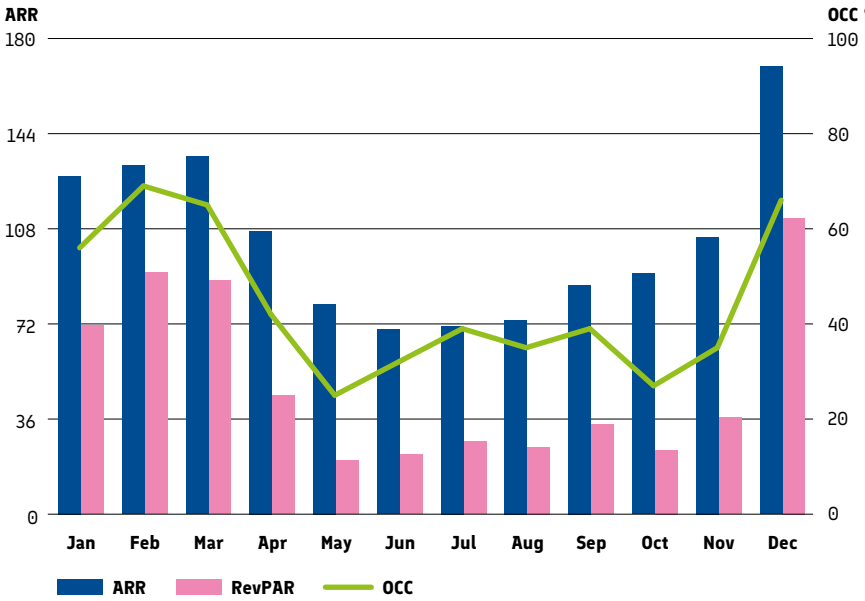
MARKET ROOM
SALES 2019

196M (+15.6%)

SUPPLY VS DEMAND INDEX

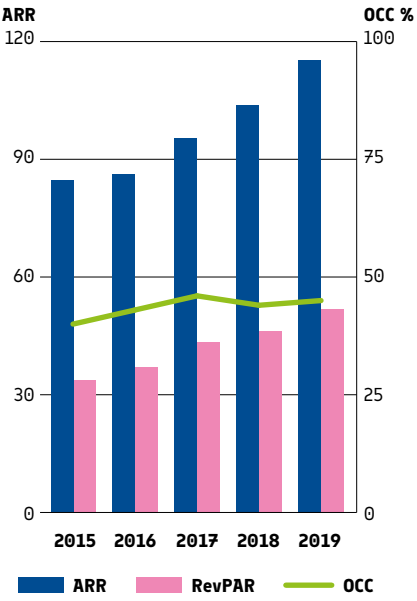


SEASONALITY 2019



Source: Statistics Finland

KPIs 2015–2019



LAPLAND
ATTRACTS
3.6 MILLION
OVERNIGHT
VISITORS
ANNUALLY



ROVANIEMI

THIS ARCTIC CITY IS THE
WORLD-FAMOUS OFFICIAL
HOMETOWN OF SANTA CLAUS.

20 HOTELS
1,660 ROOMS
+3.7%
CHANGE IN ROOMS
2018–2019

63,000
POPULATION

661,000
FLIGHT PASSENGERS (-3%)

552,000
TRAIN PASSENGERS (+24%)

Rovaniemi, located on the Arctic circle, is world-famous for being the official hometown of Santa Claus. It is Lapland’s administrative and business center.

Rovaniemi, despite having a population of only 63,000, is one of Finland’s most visited cities. Rovaniemi welcomes around 650,000 visitors annually and has the 3rd busiest airport in Finland.

Rovaniemi’s most significant demand generator is the home of Santa Claus, the Santa Claus Village, where tourists are also invited to enjoy winter activities, such as Northern Lights tours and reindeer or husky rides.

Rovaniemi’s hotel market benefits from having the highest average room rate in the whole country, surpassing

EUR130. The superior rate performance is mainly achieved via less-price sensitive international travelers, who account for two thirds of the city’s overnight stays.

In 2015–2019, the city enjoyed a 71% RevPAR growth period, mainly through spectacular ARR growth (+59% in the period).

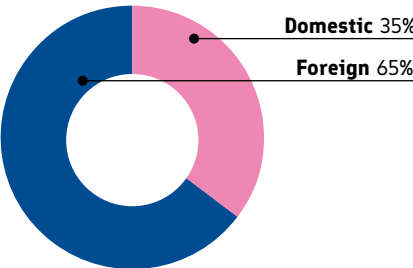
Following the growth in hotel market performance, there are currently several hotel projects in the city’s pipeline. None of them are, however, currently under construction. International brands are warmly welcomed on the hotel market.

TOP 6 FOREIGN SOURCE MARKETS

OVERNIGHTS	2018	2019	CHANGE %
China	38,000	44,400	+16.8%
France	33,200	41,100	+24.1%
United Kingdom	39,300	37,600	-4.3%
Germany	28,800	32,100	+11.4%
Israel	28,900	31,100	+7.5%
Spain	25,200	25,900	+2.7%

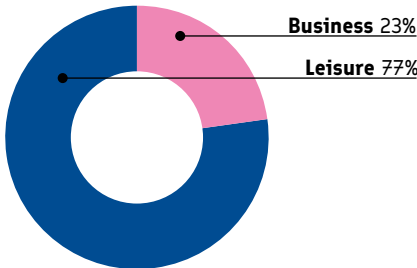
OVERNIGHTS 2019

691,000 +10.3%



← Sources: Statistics Finland, Finavia, VR

BUSINESS VS LEISURE 2019



Source: Statistics Finland



KPIs 2019

OCC 60% (+1.5%)
ARR €133 (+8.9%)
REVPAR €79 (+11.8%)

Source: Statistics Finland

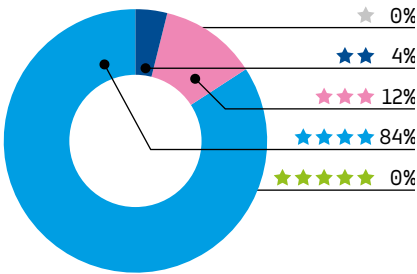
CAGR 2015–2019

OCC +4.2%-POINTS
ARR +12.4%
REVPAR +14.4%

MARKET ROOM
SALES 2019

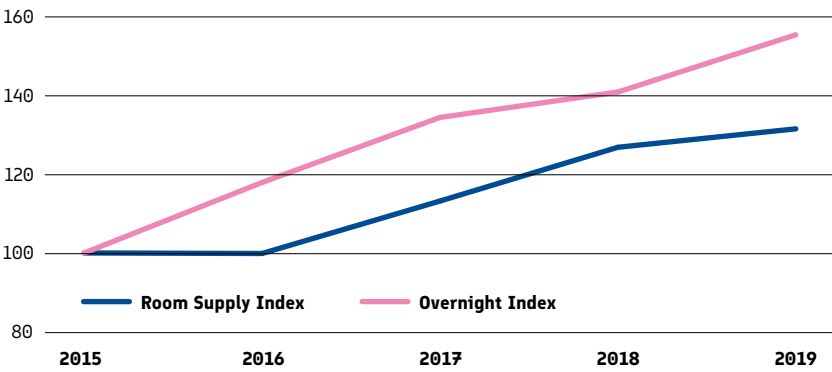
48M (+15.9%)

ROOM SUPPLY QUALITY
DISTRIBUTION 2019



Source: Christie & Co Research

SUPPLY VS DEMAND INDEX



Source: Statistics Finland

NEW SUPPLY

ROOMS	NAME	OPENING
240	Intl. branded hotel in Citycentrer	2022
225	Sokos Arina Hotel	2023
120	Arctic City Hotel Extension	2022
200–300	Lapland hotel	2024

KEY DEMAND GENERATORS

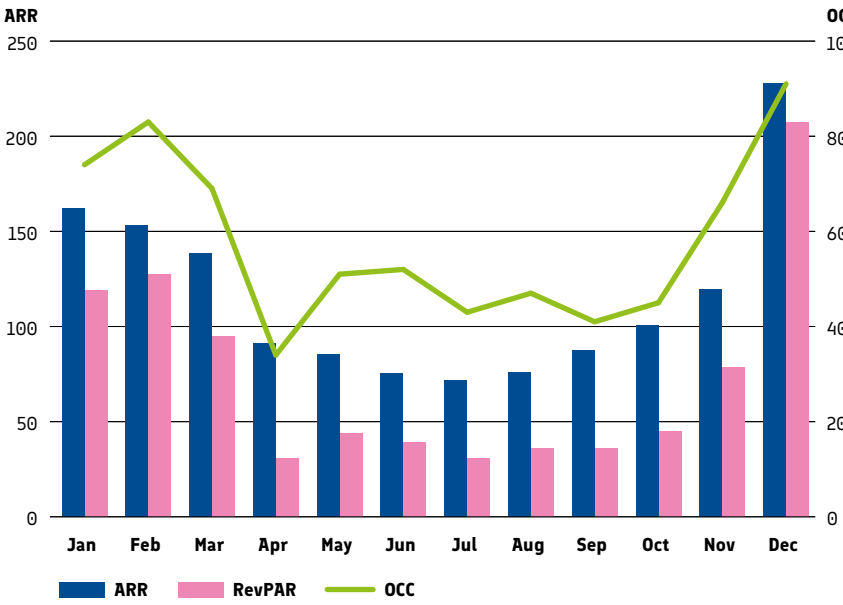
DEMAND GENERATOR	NO OF VISITORS
Santa Claus Village	550,000
Ranua Zoo	130,000
Arktikum	120,000
Santa Park Arctic World	100,000
Arctic Circle Hiking Area	90,000

KEY EVENTS

EVENT	NO OF VISITORS
Kuninkuusravit	50,000
Sime Rock	25,000
International Sportsmen's Fair	23,000
Jukola, Arctic Circle	21,000
Kelekkamessut	19,000
Arctic Lapland Rally	10,000

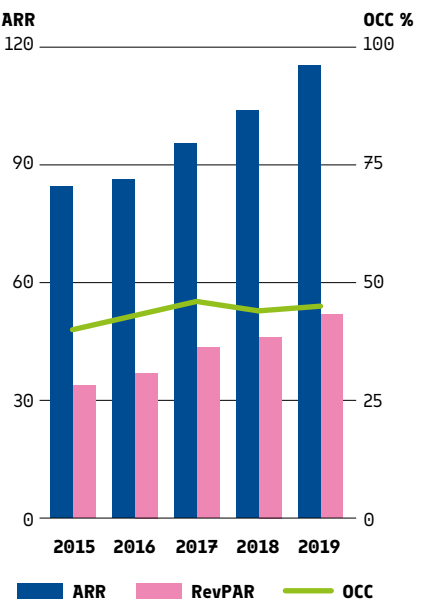
Source: Christie & Co Research

SEASONALITY 2019



Source: Statistics Finland

KPIs 2015–2019



Source: Statistics Finland

KEMI AND TORNIO

THESE CHARMING, SMALLER TOWNS HAVE A WELL-DEVELOPED INDUSTRIAL SECTOR, MAKING THEM WELL-FREQUENTED BY BUSINESS TRAVELERS.

19 HOTELS
704 ROOMS
+10.5% CHANGE IN ROOMS 2018–2019

43,000 POPULATION (-1.0%)

64,000 FLIGHT PASSENGERS (-5%)

195,000 TRAIN PASSENGERS (+7%)

Kemi and Tornio are located 30 kilometers from one another, on the southwestern border of Lapland. Both towns have slightly over 20,000 inhabitants.

The Kemi-Tornio region is Lapland’s industrial center. Metal and forest industries are well developed, making the share of business travelers more prominent than elsewhere in Lapland. Further growth in business travel is expected, thanks to some significant coming investments in the industrial sector. For example, Metsä Fibre is planning to invest EUR 1.5 billion in a bioproduct mill in Kemi.

Despite a slight decline in occupancy, caused by new supply, the Kemi-Tornio hotel market has experienced an average RevPAR growth of 1.7%

annually during 2015–2019. Note that RevPar increased although the supply of new rooms outpaced a simultaneous increase in demand for overnight stays by 1.8% per year (8.7% vs. 6.9%).

The area’s internationally known winter attractions, Kemi Snow Castle and Icebreaker Sampo, attract leisure travelers

The close relationship with Sweden makes Kemi-Tornio one of the most frequented border crossings in Finland (10 M+ in 2018). Thanks to the Kemi-Tornio airport, the area is also well-connected by air. The airports of Oulu, Rovaniemi and Luleå are only a one-hour drive away. Kemi and Tornio both have seaports, ensuring excellent connectivity by water.

TOP 6 FOREIGN SOURCE MARKETS

OVERNIGHTS	2018	2019	CHANGE %
China	7,100	7,500	+4.7%
Norway	4,900	5,400	+12.0%
Germany	5,100	5,100	+1.1%
Sweden	4,600	4,800	+4.0%
Russian Federation	2,100	3,100	+49.3%
Taiwan	2,300	2,900	+26.5%

Source: Statistics Finland

KEY DEMAND GENERATORS

DEMAND GENERATOR	NO OF VISITORS
Experience factory Lappari	400,000
SnowCastle of Kemi	100,000
Icebreaker Sampo	17,000
Kukkolaforsen/Kukkolankoski	10,000

KEY EVENTS

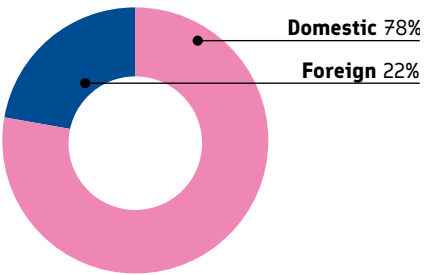
EVENT	NO OF VISITORS
Easy Living in Kemi week	22,000
Satama Open Air	12,000
Wheels Motor Week Haparanda	10,000
International Dog Show	6,000
Kalottjazz & Blues Festival	6,000
Paavo Nurmi Games	13,000

← Sources: Statistics Finland, Finavia, VR

Source: Christie & Co Research

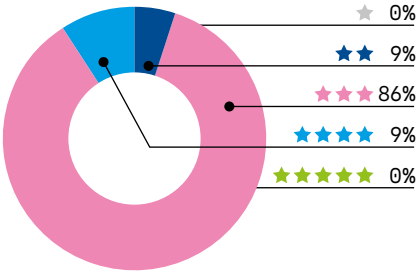
OVERNIGHTS 2019

172,800 +10.9%



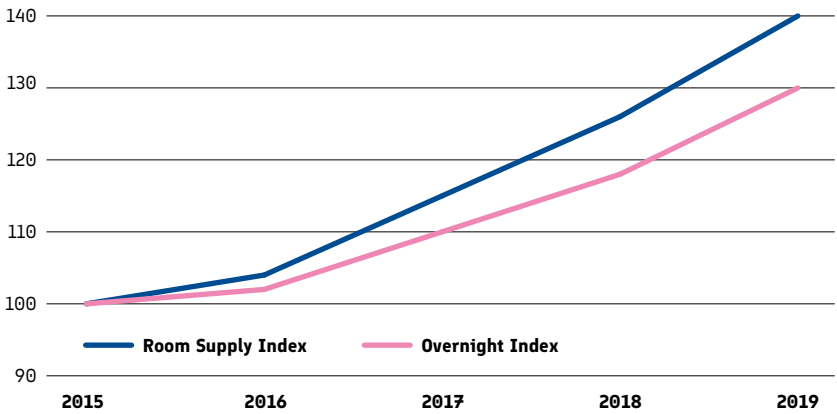
Source: Statistics Finland

ROOM SUPPLY QUALITY
DISTRIBUTION 2019

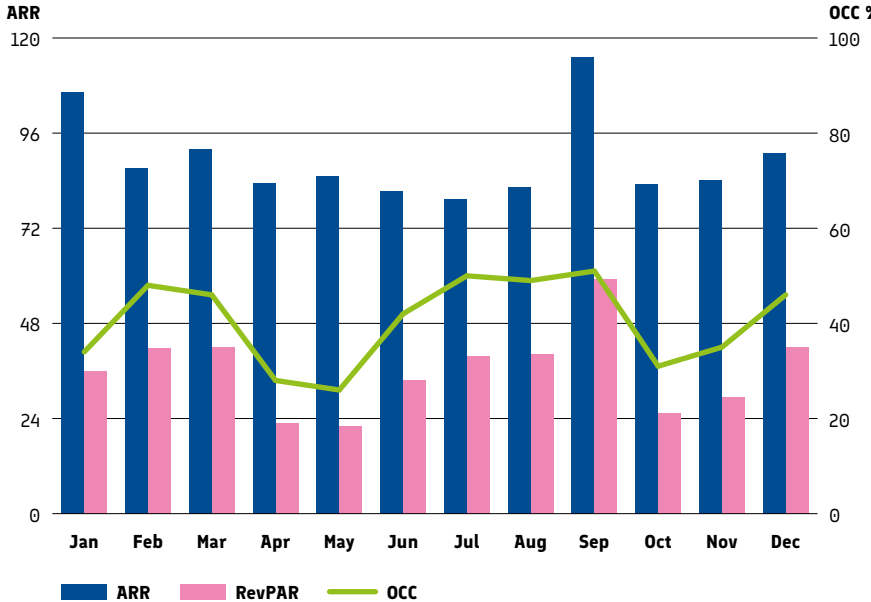


Source: Christie & Co Research

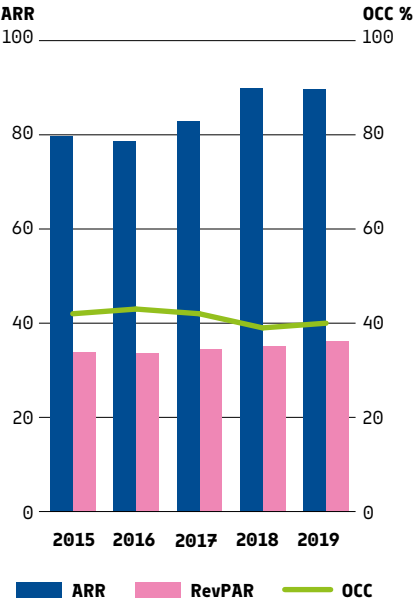
SUPPLY VS DEMAND INDEX



SEASONALITY 2019



KPIs 2015–2019



Source: Statistics Finland



KPIs 2019

OCC 40% (+1.3%)
ARR €90 (-0.4%)
REVPAR €36 (+3.0%)

CAGR 2015–2019

OCC -1.2%-POINTS
ARR +3.0%
REVPAR +1.7%

MARKET ROOM
SALES 2019

9.3M
(+13.8%)

Source: Statistics Finland

LAPLAND DESTINATIONS

118
HOTELS

6,231
ROOMS

+1.2%
CHANGE IN ROOMS
2018–2019

LAPLAND ATTRACTS VISITORS ALL YEAR ROUND WITH UNIQUE NATURE EXPERIENCES, NORTHERN LIGHTS AND AUTUMN COLORS

This is a consolidated performance of some of the Lapland's key ski resorts and their respective markets, namely Kittilä (Levi), Kolari (Ylläs), Inari (Saariselkä), Pyhä-Luosto, Kuusamo (Ruka), and Salla.

Levi, Ruka, and Ylläs are the three biggest Finnish ski resorts, generating 12, 11, and EUR 6 million respectively in annual ski pass sales, with their combined number of skiing days exceeding one million visitors.

The skiing-resorts also offer an extensive network of world-class cross-country skiing tracks. Marked and well-maintained trails stretch hundreds of kilometers in length, providing some of the best views in Lapland.

Similarly to the broader hotel market in Lapland, the selected markets have

been demonstrating stellar performance, with 10.2% average RevPAR growth annually during 2015–2019.

The resorts are easily accessible by air (airports in Kittilä, Rovaniemi, Ivalo, Kuusamo) and by rail (stations in Rovaniemi, Kolari, Kemijärvi), good bus connections from the airports and railway stations.

Even though winter is by far the most popular travel season, there has been quite a strong growth in summer and fall, as well. Fall, for example, offers visitors great chances of spotting Northern Lights and to enjoy the beautiful fall colors.

The increase in international demand means that more internationally branded high-quality full-service resort operations are welcome to the region.

TOP 6 FOREIGN SOURCE MARKETS

OVERNIGHTS	2018	2019	CHANGE %
United Kingdom	243,000	228,200	-6.1%
Germany	102,800	108,500	+5.6%
France	95,100	105,600	+11.0%
Netherlands	88,200	96,900	+9.9%
Russian Federation	70,100	68,800	-1.9%
Switzerland	54,200	52,200	-3.8%

Source: Statistics Finland

NEW SUPPLY

ROOMS	NAME	OPENING
108	Upscale resort in Pyhä	TBD
41	Aurora Estate hotel in Inari	2021
Various	Several igloo projects around Saariselkä	Various
180	Upscale hotel in Ruka	TBD
40	Livojärvi igloo project	2021/2022

↑ Source: Statistics Finland

Source: Christie & Co Research

KPIs 2019

OCC 43% (+4.2%)
ARR €109 (+5.8%)
REVPAR €47 (+10.2%)

Source: Statistics Finland

CAGR 2015–2019

OCC +4.2%-POINTS
ARR +5.8%
REVPAR +10.2%

MARKET ROOM SALES 2019

107M (+2.4%)

KEY DEMAND GENERATORS

DEMAND GENERATOR	NO OF VISITORS
Pallas-Ylläs tunturi National Park	550,000
Levi Ski Resort*	450,000
Ruka Ski Resort*	430,000
Urho Kekkonen National Park	340,000
Oulanka National Park	200,000
Pyhä-Luosto National Park	175,000

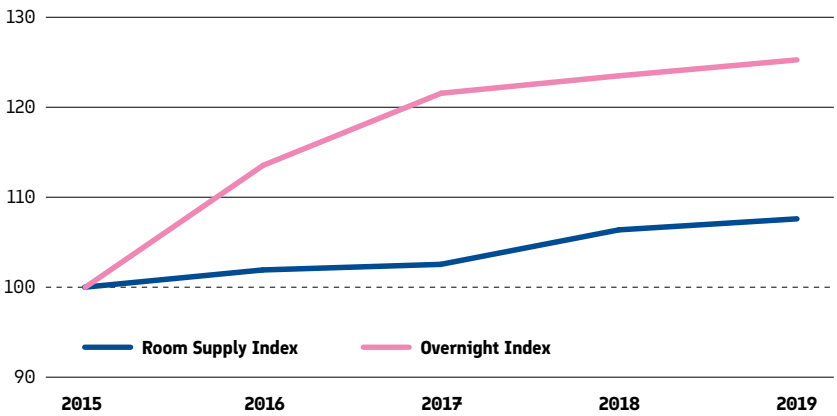
*Number of skiing days

KEY EVENTS

EVENT	NO OF VISITORS
Sodankylä Film Festival	31,000
Ruka Nordic	25,000
World Cup Levi	20,000
Pyhä Unplugged festival	4,000
Ylläs Jazz Blues	3,000
Ylläs Soikoon festival	3,000

Source: Christie & Co Research

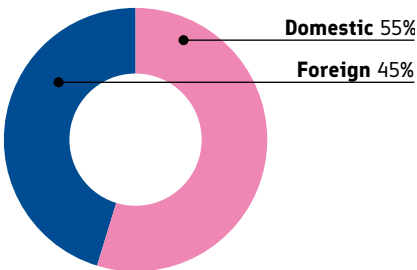
SUPPLY VS DEMAND INDEX



Source: Statistics Finland

OVERNIGHTS 2019

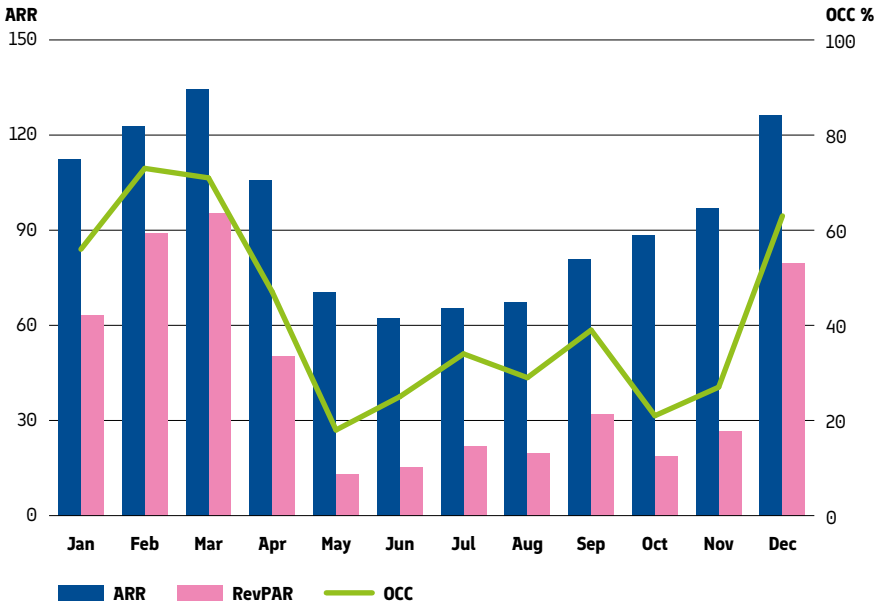
2,304,000 +1.4%



LAPLAND
HAS SOME OF
THE LARGEST
NATIONAL
PARKS IN
FINLAND.

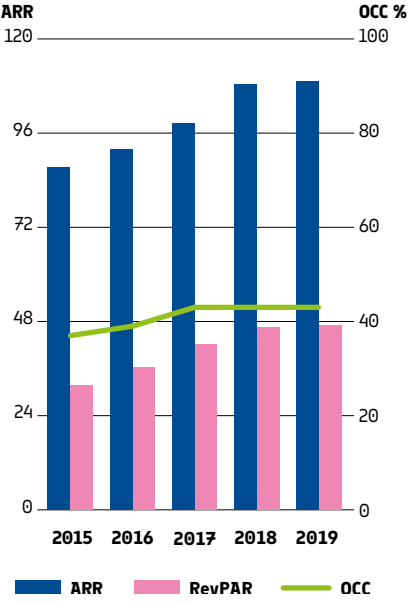


SEASONALITY 2019



Source: Statistics Finland

KPIs 2015–2019



Source: Statistics Finland

VISITORS ARE
ABLE TO CHOOSE
FROM VARIOUS
EXCITING OUTDOOR
ACTIVITIES, FROM
DOG SLEDDING TO
NORTHERN LIGHT
SAFARIS.



LEVI

THE MOST POPULAR SKI RESORT IN
FINLAND WITH THE MOST DEVELOPED
SKI LIFTS IN THE NORDICS.

Levi, Finland's most visited and well-known ski resort is located just 15 km from Kittilä Airport. The resort benefits from one of the most developed ski lift infrastructures in the Nordics.

Levi is famous for hosting the World Cup in Alpine Skiing, attracting tens of thousands of people, as live audience and millions of TV viewers worldwide.

Levi generates 450,000 skiing days

annually, resulting in approximately EUR 12 million in ski pass ticket sales. Considering the resort's eminent recognition, it provides appealing grounds for potential hotel investment.



RUKA

RUKA OFFERS THE LONGEST
SKIING SEASON IN THE NORDICS,
STARTING AS EARLY AS OCTOBER.

Ruka, with 430,000 skiing days annually, trails just slightly to the Levi ski resort. Similarly to Levi, Ruka hosts international sporting events, namely the Ski Jumping World cup, which is well-attended and broadcasted worldwide.

The resort enjoys the longest skiing season in Nordics, with some slopes opening as early as the beginning of October, by using pre-stored snow from previous seasons.

Ruka, with its strong brand and superior lift infrastructure, provides attractive hotel investment opportunities for potential investors.



YLLÄS

YLLÄS BENEFITS FROM HAVING
A LONGER SLOPE NETWORK
THAN ITS COMPETITORS.

Ylläs, located just 60 km southeast from Levi Ski Resort, is the 3rd most visited ski resort in Finland with 200,000 skiing days. The resort is well connected to the nearest airport and train station.

Ylläs provides a comprehensive array of skiing options by offering a Super Ski Pass, which can also be used at the nearby Levi ski resort.

Even though the lifts and the infrastructure in Ylläs are slightly less developed than in Levi and Ruka, the resort differs from its competitors by having a longer and more extensive slope network.

All in all, the resort has an attractive case for hotel investment projects.



PYHÄ-LUOSTO

THESE TWO SKI RESORTS ARE
LOCATED NEAR THE BEAUTIFUL
PYHÄ-LUOSTO NATIONAL PARK.

Pyhä and Luosto are two closely
located ski resorts, located just 120
km away from Rovaniemi airport.

While Luosto is a rather small ski
resort, Pyhä, with 110,000 skiing
days, is the 7th largest and one of the
fastest-growing ski resorts in Finland.

Since Pyhä ski resort is a sister ski
resort to Ruka (located 190 km to the
southeast), the same ski pass can be
used at both resorts.

Both of the resorts benefit from the
nearby Pyhä-Luosto national park,
which has approximately 175,000
visitors annually. The combination of
the two well-located ski resorts and the
nearby national park provides a robust
investment case in hotels.



SALLA

THE WELL-CONNECTED
SALLA SKI RESORT IS
LOCATED RIGHT NEXT TO
THE RUSSIAN BORDER.

Salla is a small, yet well-connected ski resort in southeastern Lapland, located 70 km from Kemijärvi train station and 110 km from Kuusamo Airport. Salla benefits from the nearby Russian border, which records approximately 125,000 crossings annually.

The resort also benefits from being located 70 km from Oulanka National Park, which, with 200,000 visitors annually, is one of the largest national parks in Finland.

Even though Salla is not among the largest ski resorts in Finland, its unique location encourages more exotic hotel investment opportunities.



SAARISELKÄ

SAARISELKÄ PROVIDES
INTERESTING INVESTMENT
OPPORTUNITIES IN IGLOO MARKETS.

While Saariselkä, like Salla, is a somewhat small ski resort in terms of skiing days, its many other attractions make it a highly popular destination.

The resort offers a wide range of winter-themed activities to enjoy, such as reindeer and husky rides, as well as the opportunity to enjoy the Northern Lights.

Saariselkä and its surroundings provides investment opportunities in the rapidly growing igloo markets.



OPERATORS AND BRANDS

INCREASING OPPORTUNITIES FOR NEW
CONCEPTS AND OPERATORS

Overall, the Nordic market has continued to be a predominantly domestically driven operating business.

Due to historical market conditions, most markets have been local businesses, with only co-ops like Sokos and Restel having risen above this and become nationally dominating businesses. Due to its corporate acquisition of Restel hotel operations, Scandic has now achieved greater penetration in the country, and especially in the provincial markets. Lately, Scandinavian Choice acquired Kämp Hotel Group and achieved a more dominating position in the capital region market.

However, as most of the markets are driven by mid-market operators, such as Sokos and Scandic, there is ample space for other brands to penetrate the market. Similarly, the full-service market has historically been dominated by Radisson (with Sokos as the operator) and Hilton in the capital region (operated by Scandic due to the historical connection) and more recently, by Clarion (operated by Nordic Choice).

At the moment, there are fewer than 1,000 rooms (approx. 2.5%) of internationally branded capacity outside of the Helsinki Metropolitan Area (HMA).

As markets have evolved and demand for different types of accommodation concepts is on the rise, there are plenty of opportunities for new concepts to penetrate the markets in most categories, except for the more saturated mid-market category.

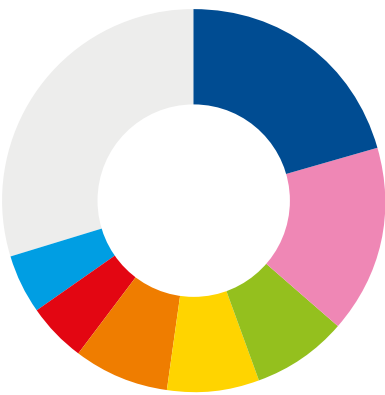
Currently, there are very few franchisers in the whole country. Franchisers would benefit from utilizing well tested and approved concepts and could potentially achieve quite rapid market penetration, both concept wise as well as geographically, in Finland.

Historically, the markets have been dominated by various lease agreements as the dominant operating form, leaving international management companies offshore. This may change in the near future, if fewer risk-averse investors would favor potentially higher market penetration over predictable and stable cash flow.

The provincial markets are dominated by very few players, such as Scandic, Sokos, Lapland Hotels, and Holiday Club, whose room stock represent approx. 25% of the number of hotels and 55% of room stock.

In general, the hotel supply is very fragmented, unit sizes are rather small (approx. 70 room on average), and a large proportion of the stock is somewhat dated.

MAJOR OPERATORS (OUTSIDE HMA)



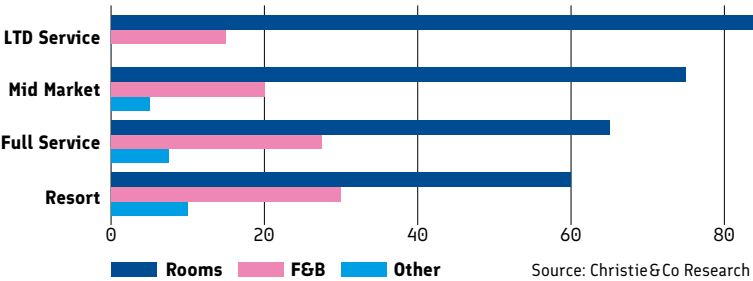
OPERATOR	HOTELS	ROOMS
Sokos Hotels	43	7,350
Scandic Hotels	55	9,021
Lapland Hotels	16	1,787
Radisson Hotels	3	493
Omena Hotels	5	336
Santa's Hotels	8	790
Holiday Club	8	1,145
Other operators	405	17,392
Total	543	38,314

Source: Christie & Co Research

GENERAL PROFITABILITY OF HOTELS

- Typically, the Rooms Revenue represent the largest share of Total Revenue in the Limited Service category, shrinking its share while the level of hotel services keeps increasing
- We consider the Rooms Revenue to represent a range of 60–90% of Total Revenue, depending on the concept and range of other services
- Food & Beverage Revenue tends to represent approximately 10–50% of Total Revenue, depending on the level and range of services
- When measured in GOP-%, the Limited Service Hotel sector is usually the most profitable
- Measured in euros, Resort or Full-Service Hotel operations may yield higher returns, but tend to be more labor-intensive and less profitable by percentage
- Seasonal markets, higher labor costs and harsher weather conditions than elsewhere in most of Europe may have a downward effect on the profitability of the hotel business
- Hotel operations based on a concept covering a wider range of market segments tend to have a less risky market position and better profitability

REVENUE MIX



ISSUES TO CONSIDER BEFORE EBITDA

A number of items will be deducted from GOP before reaching EBITDA, such as:

- Real Estate Tax and Insurances (around 2–3% of Turnover)
- On the Finnish market, Furniture, Fixtures, & Equipment Reserve is quite often an overlooked issue (3–5% of TO)
- Lease payments (25–35% of TO) or Hotel Management Agreement fees (around 6–10% of TO)

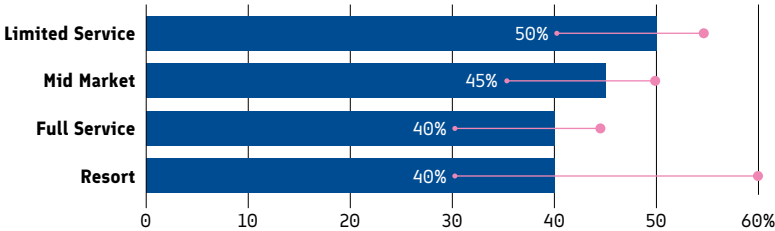
ISSUES AFFECTING PROFITABILITY

Profitability is often a sum of several factors, such as, but not limited to:

- Accessibility and proximity to a wide range of demand generators
- Having access to a wide range of market segments and submarkets
- The ability to attract higher yielding customers at relatively low marketing costs
- Continuously keeping the hotel product competitive
- Access to global marketing distribution channels at a relatively low cost
- Brand recognition and membership reward programs



GROSS OPERATING PROFITS (GOP)



LABOR COSTS IN FINLAND

Hotel and Restaurant operations tend to be very labor-intensive segments, making labor costs one of the most important focus areas when thinking of successful and profitable hotel operations.

In Finland, labor costs tend to vary between approx. 25% and 35% of turnover, making it one of the most expensive cost items in operations.

The vast majority of the staff members belong to labor unions, and the employees are generally well protected, and Finnish labor and occupational and safety legislation covers all of the employees working in Finland, regardless of nationality.

In addition to basic salary, many issues such as overtime, working hours, vacations, sick leave and minimum wages are based on

LABOUR COSTS VARY BETWEEN 25–35% OF TURNOVER

applicable collective agreements between workers and trade unions, which may be negotiated annually or biannually.

Furthermore, the employer will also face the costs of pension contributions, accident insurance, unemployment and group life insurance. Moreover, costs will be borne from the employer's social security contribution, potential annual bonus, and holiday pay, but also

from further training and sick leave coverage.

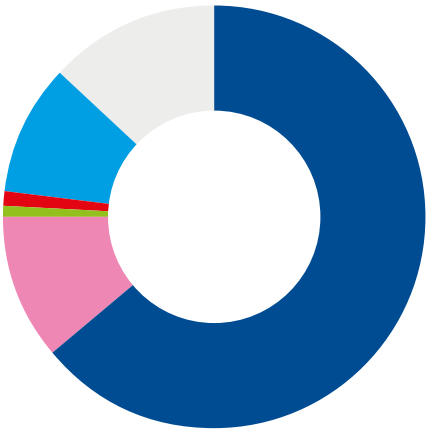
Although the country has a reasonably well-educated workforce that also speaks a minimum of three languages, the extra costs on top of the basic salary can reach 50–60%.

In the seasonal markets, there are shortages of domestic staff members; another important issue to consider is temporary accommodations for staff members.

Typical working hours are 112.5 h over a 3-week period and 30 days of vacation annually.

As collective union agreements in many sectors are due for update negotiations, including the hospitality sector, there is currently upward pressure to keep salaries competitive in the sector.

OVERALL EMPLOYMENT COSTS

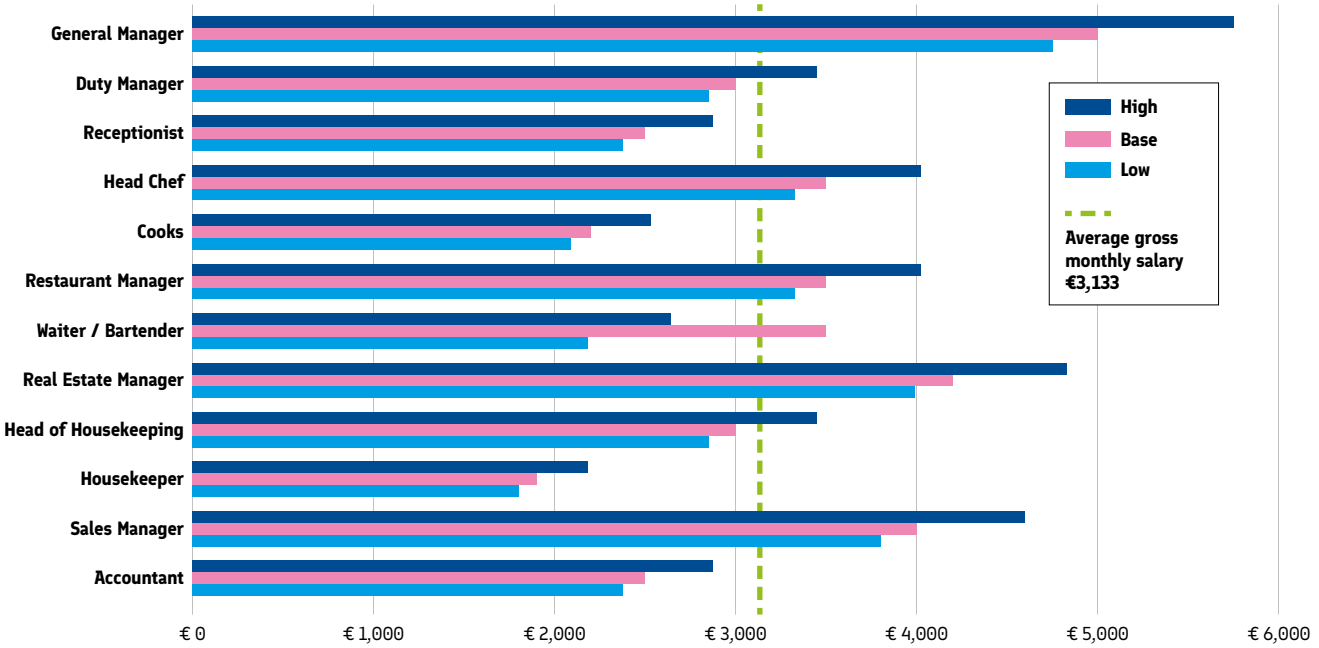


Source: Christie & Co Research

Gross Salary	64.09%
Pension Contribution	11.38%
Employment Accident Insurance	0.51%
Unemployment Insurance	0.42%
Group Life Insurance	0.04%
Employer's Social Security Contributions	0.55%
Annual Bonus and Holiday Pay	10.19%
Training & Sick Leave Coverage	12.82%

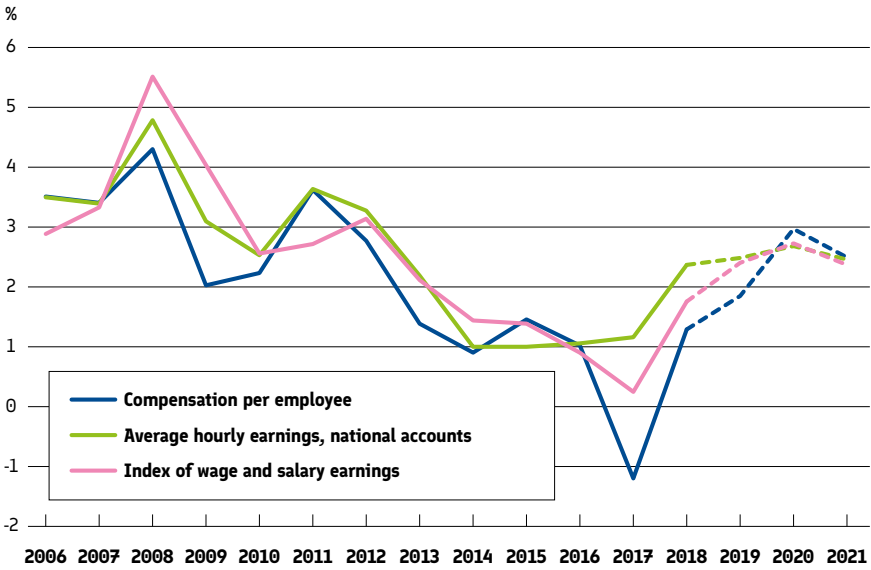
1.6X BASE SALARY

TYPICAL AVERAGE BASE MONTHLY GROSS SALARIES IN THE INDUSTRY



Source: Collective Agreement for the Hotel, Restaurant and Leisure industry;
Christie & Co Research

AVERAGE EARNINGS AND LABOR COSTS IN FINLAND



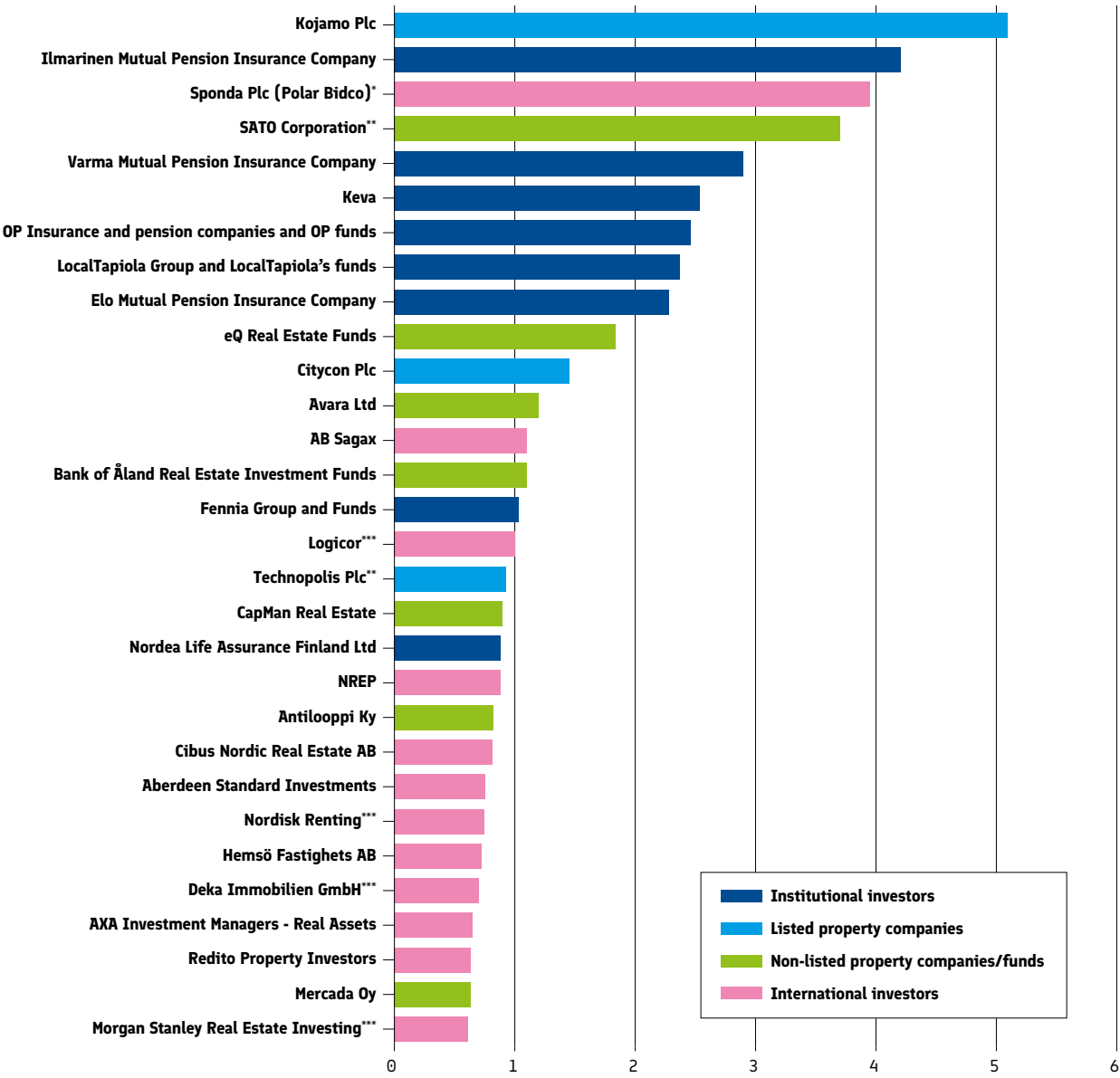
Source: Statistics Finland and Bank of Finland

AVERAGE CAGR 2010–2019

2.5%

REAL ESTATE OWNERS

LARGEST REAL ESTATE OWNERS,
EUR BILLION



* Q2/2018 ** Q3/2018
*** KTI estimate

Source: KTI



MOST COMMON OPERATING AGREEMENTS

ALMOST ALL OPERATING AGREEMENTS IN FINLAND ARE LEASE-BASED, THEREBY GIVING THE MARKET ITS OWN DISTINCT CHARACTER.

As most hotel operations are not operated by real estate owners, there is usually another professional party operating the hotel. The most common operating structure in Finland is a lease, whereby the tenant occupies the premises and operates the hotel, and in return pays the lease to the property owner.

There are a few ways how the operational risk has been split between the parties, indicating the risk vs. reward structure.

Currently, almost all of the operating agreements in Finland are lease-based, although most new and renewed agreements are becoming variable lease agreements, providing the real estate owner an opportunity to benefit

from potential financial success of the operator's performance.

The reason behind this is that the country has a very limited pool of investors willing to take more of the operational risk, although it could be financially more rewarding. Partly, the reason lies in the limited number of professional sector specialists focusing on the hospitality sector in these companies.

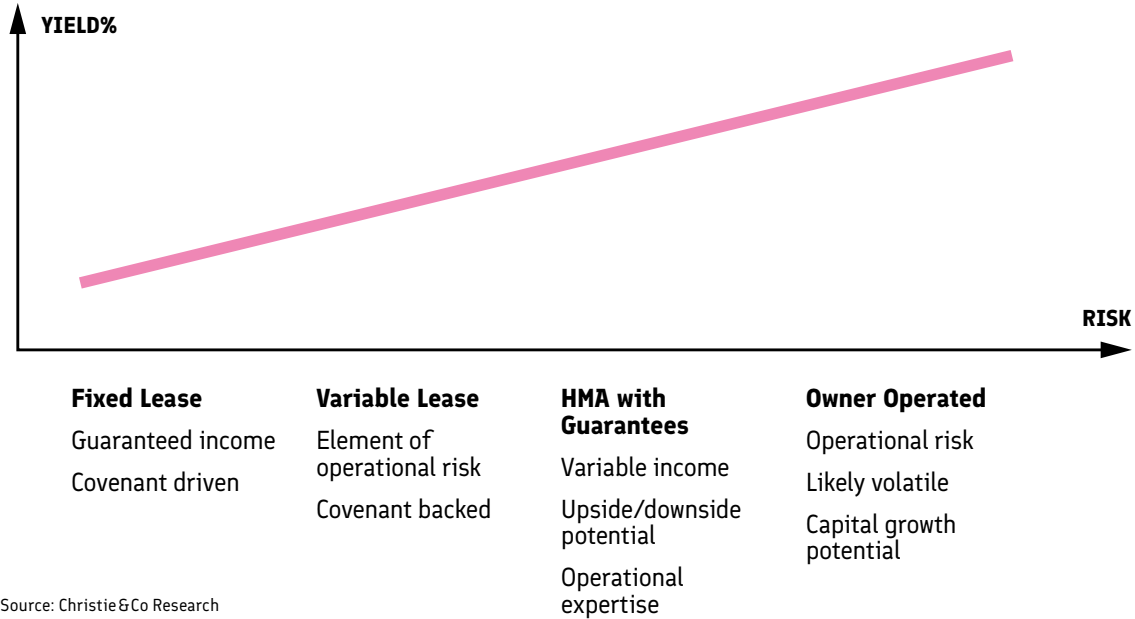
This position of favoring leases as the dominant operating structure is also the fundamental reason why the most prominent international hotel operators have not found their way to the Nordic region, including Finland.

The vast majority of hotel owners are institutional investment companies

who favor long-term, predictable income streams over perhaps more volatile unpredictable cash flows, although these could potentially be even 30–50% higher.

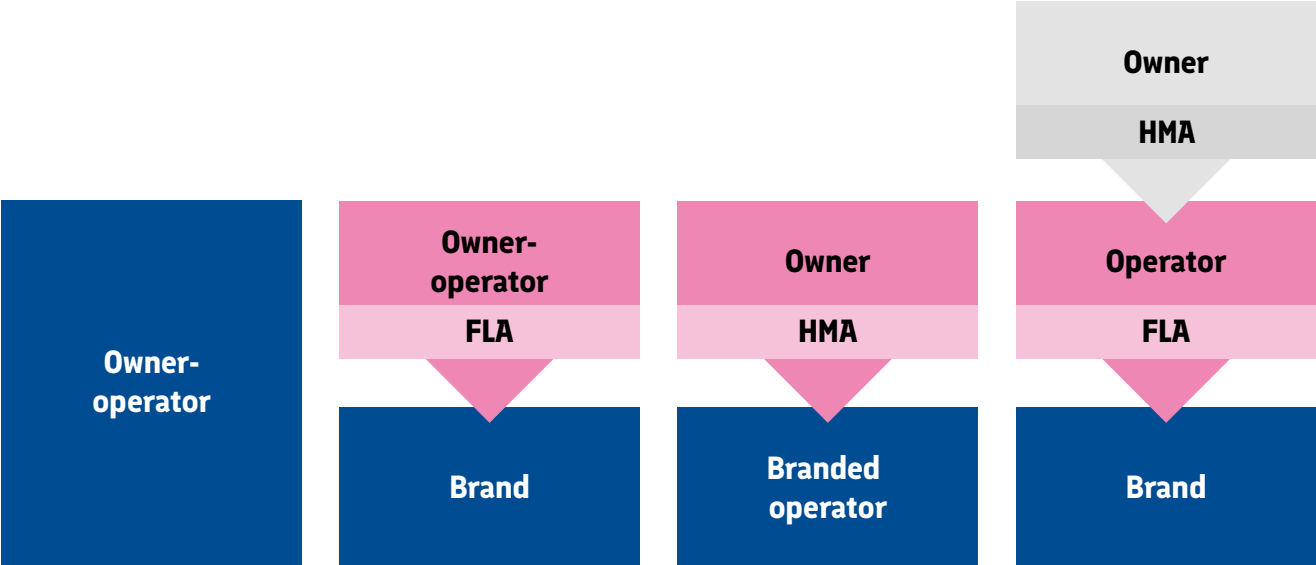
Lease agreements are not maximizing the returns for investors. In addition, according to the current rules of IFRS, all liabilities, such as leases, will have to be correctly allocated to the balance sheet, which in turn may have a downward impact on the stock price of the operating company, making it less attractive to investors.

Nonetheless, each investor has their own unique risk profile, and most of the projects are different from each other, so no right or wrong structure can be appointed.



Source: Christie & Co Research

COMMON OPERATING AGREEMENT STRUCTURES



Source: Christie & Co Research

COMMON AGREEMENT TYPES

LEASE AGREEMENT	
INVESTOR	
PROS <ul style="list-style-type: none">+ Opportunity to negotiate compensation performance driven, aligning the interest of the operator and investor+ Access to the hotel operator’s operational expertise, branding, distribution, loyalty programs, etc.+ Exposure to capital appreciation	CONS <ul style="list-style-type: none">- Exposure to the operational risk of the asset remains- Balancing requirements of the asset owner and operator can sometimes be challenging- Cost of management fees impact on profitability
HOTEL OPERATOR	
PROS <ul style="list-style-type: none">+ Hedge of financial and operational risks+ Receipt of management fee income giving less exposure to the P&L of the hotel+ Retaining more control over operations and general management of the property and business+ Insurance obligation from the investor+ Minimal capital cost for expansion+ Potential for minority equity investments	CONS <ul style="list-style-type: none">- Asset can be disposed of by the investor at any time deemed appropriate- Time cost of the preparation of property performance information for owners/investors- No benefit from the capital appreciation of asset

Fees consist of a fixed base fee (varies, but usually around 2–3% of total revenue) and an incentive fee, which is more profit-driven (varies, but usually ranges between 5% and 10% adjusted GOP).

MANAGEMENT AGREEMENT	
INVESTOR	
PROS <ul style="list-style-type: none">+ Lower perceived risk+ Variety – Fixed Stable Yield or Variable+ Limited Hotel Operational Experience required+ Avoiding the issue with having employees on the investor’s payroll	CONS <ul style="list-style-type: none">- Operator is in full control of the interior of the asset- Security of tenure for a longer period
HOTEL OPERATOR	
CONS <ul style="list-style-type: none">+ Fixed Lease – No benefit of upside cycles of business+ Passive – Very limited control over operational business+ Very limited control over the internal quality of asset+ At the termination of a contract, if the asset is furnished by the operator, a period for refurbishment may be required – Not producing income during the period!+ Very difficult to replace the operator during the contract period	CONS <ul style="list-style-type: none">- Very slow and capital-intensive way of expanding and growing the brand- May warrant more complicated resources beyond the SPV for the project as guarantees- According to the IFRS rules, lease payments will be registered as liabilities under the balance sheet, usually impacting investor sentiment negatively – this is reflected in a downward trend in the share price- The operator often has an insurance obligation- No benefit from the capital appreciation of asset

Large variation in typical amounts, may vary between 20–35% of turnover, influenced by concept, quality class, and financial forecast and investor’s needs

FRANCHISE AGREEMENT – OWNER OPERATED SCENARIO	
INVESTOR	
PROS <ul style="list-style-type: none">+ Access to a wider pool of concepts and brands+ Fee is tied to incentives+ Benefits from upside business cycles+ Better control over operations and development - guidelines and standards set by the brand+ Wider access to international markets, brand value, improved marketing efforts	CONS <ul style="list-style-type: none">- Closely bound to global management company brand standards – lack of flexibility- Responsibility and liability over employees- Requires a further and deeper understanding of the hotel operational business

Fee usually based on a percentage of rooms revenue (varies but usually around 3–5%).

May also have a royalty allocation for food & beverage revenues, depending on the underlying concept, around 1–3% food & beverage revenue.

Program fee for marketing, distribution, and reservation costs usually ranges between approx. 2% to 4% of room revenue.

Quite often, the base fee is more negotiable, but the program fee is pretty much fixed as a more universal element.

TYPICAL LEASE TERMS

TYPICAL LEASE AGREEMENT TERMS

RENTAL TERM	VALUE RANGE	COMMENTS
Turnover Based Lease with minimum Guarantee		
Rooms Revenue Rental Income	25–37%	
F&B Revenue Rental Income	8–15%	Greatly dependent on concept, may also be 0
Minimum Guaranteed Lease Level	65–90%	Strongly dependent on the concept and location
General Lease Terms		
Rental Income Guarantee – Bank Guarantee	6–24 months	Either Bank Guarantee or Corporate, length depends on likelihood of finding a replacement tenant, can also be a “roll over”, “renewing”, or “balloon”-style
Property Tax	Usually the responsibility of the tenant	
Furniture, Fixtures, & Equipment Reserve (FF&E)	2–5% of Turnover	Usually a phased build-up, in the older agreements, may be ignored, or if the investor’s responsibility
Agreement Length	10–25+ years	Many views affecting the desired length
FF&E Investment	Tenant/Owner	Many views affecting the desired party, usually the responsibility of the tenant, but can also be financed separately
Maintenance & Refurbishment		
Facade & Exterior	Owner	
Technical Installations	Owner	Usually the tenant is responsible for servicing
Bathrooms/Wet Areas	Owner	Predominantly owner responsibility, few exceptions
Interior/FF&E	Tenant	If originally acquired by tenant, the tenant owns property at the termination of agreement – needs to be settled at the end of the period

Source: Christie & Co Research and Analysis

RECENT HOTEL
TRANSACTIONS

THE NORDICS
ARE NOW
ATTRACTING MORE
INTERNATIONAL
INVESTORS THAN
EVER BEFORE.

Until recently, transactional activity in Finland and the Nordics has been fairly low, driven at least to some extent by predominant institutional ownership and long, fixed-lease agreements.

In recent years, however, the Nordics, which has previously been more or less exclusively an intra-Nordic market, has emerged on the radar of international investors. As a euro-based economy, Finland has a currency advantage over the other Nordic countries.

As the prevailing economic conditions and compressed yields make it increasingly difficult for investors to achieve attractive return in the more traditional real estate asset classes, investor appetite for the hotel asset class appears to be on the rise throughout Europe. International interest focuses mainly on Nordic capitals or the top two or three cities per country.

In the past five years, two large, international hotel acquisitions have been recorded in Finland. In 2016, 153-room German Deka Immobilien acquired St George hotel in central Helsinki. In 2018, French asset management firm Corum acquired a portfolio of six hotels from CapMan in various locations in Finland for a sales price of around EUR 72 million and a capitalization rate of 7.4%. The transaction was notable for also including resort type properties. While large differences exist between regional markets, the yield level is indicative of lease deals in the type of small markets presented in this report.

YEAR	MARKET	PROPERTY	HOTELS	ROOMS	BUYER	SELLER
2019	Pori	Scandic Pori	1	120	Evli Bank	Investors House
2019	Helsinki	Scandic Kallio	1	121	Fastighets Ab Balder	Tradeka Kiinteistöt
2018	Helsinki	Hotel Katajanokka	1	106	Fennia Life Insurance	N/A
2018	Ikaalinen, Kotka, Rauma	Scandic Ikaalisten Kylpylä, Scandic Kotka, Hotel Kalliohovi	3	340	Investors House and private investor	Tradeka
2018	Turku, Kemi, Rauma, Saariselkä, Kuusamo and Vuokatti	Holiday Club Saariselkä, Holiday Club Kuusamo, Holiday Club Katinkulta, Scandic Kemi, Scandic Rauma, Scandic Plaza	6	870	Corum Asset Management	CapMan
2018	Turku	Sokos Hotel Kupittaa Development	1	200	Rausanne Oy	YIT
2017	Espoo	Forenom Aparthotel	1	133	CapMan	VVT Kiinteistösijoitus
2017	Kuopio	Hotel Atlas	1	131	eQ Oyj Asset Man	Carlson
2017	Helsinki	Holiday Helsinki West	1	256	Fastighets Ab Balder	Tradeka
2017	Helsinki	Sokos Hotel Tripla Development	1	430	Exilion	YIT
2017	Kotka	Sokos Hotel Seurahuone	1	128	S Group	CapMan
2016	Hyvinkää	Rantasipi Sveitsi	1	194	Kiinteistörahasto Sveitsi Ky	CapMan
2016	Helsinki	St George Development	1	153	Deka Immobilien	CapMan

Source: Christie & Co Research

ROAD MAP FOR HOTEL INVESTMENT

INTERESTED IN ENTERING
THE FINNISH HOTEL
MARKET? HERE ARE NINE
CONCRETE STEPS TO TAKE.

IDEA	1	Spot the opportunity. Secure and/or acquire the opportunity to pursuit.
	2	Zoning. Make sure that the current zoning allows hotel development and operation. Zoning and land use amendments may take some time and cause critical delays to your project.
CONCEPT	3	Research & Analyze. Conduct a feasibility study for the project to ensure what kind of concept would maximize the profitability of the project, indicate cash flow potential, and benchmark your project against market and competitor performance, in the given location, on the current and future market.
	4	Secure the Best Operator. If you, as an investor, are not the proposed and most experienced operator for the project, it is probably best to leave it to the professionals needed to maximize cash flow and return of investment. Make sure that the operator can reach anticipated market segments cost-efficiently and be at the top of revenue management issues.
OPERATOR	5	Design, Architecture, and Compliance. Make sure to involve a local architect to assist in designing the project in compliance with local and national legislation, and to bring efficiency and practicality to your planning. To maximize efficiency and to comply with brand standards, you should also involve the operator's technical team in your project's designs and plans.
	6	Secure Financing. If you are the developer, it is naturally critical to have an investor for your project. To mitigate the perceived risks for investors and debt financiers, you should carefully plan which concepts, markets, and operators that you want to work with; investors measure all of the related risks.
FINANCING	7	Planning Permission. To proceed with the project, you need to apply for planning permission by describing and detailing your project. For this, you should submit preliminary drawings to the city officials. At a later stage, you also need to provide more detailed and final plans in order to proceed. Sometimes development plans may draw complaints from citizens or other members of society that may hinder the project.
	8	Construction. A critical element in hotel investment! Thoroughly research the various options and compare the offers from many different construction companies. Cost overruns or severe delays in project delivery can jeopardize the development or seriously lower return on investment. Construction conditions may also vary from what was anticipated. To avoid surprises in the anticipated construction timelines and assumed schedules, you need to discuss in detail with the construction company in advance.
PLANNING	9	Fit-out & Preopening. Make sure that the considered furniture, fixtures, and equipment to be installed are in line with the brand requirements and procured from reliable sources that can also assist if something needs to be addressed before opening the hotel. Many operators also need to have access to the site, or a comparable location, quite early in advance before the opening (in some cases, even up to one year in advance) to launch their premarketing and other business measures.
OPENING		

WELCOME TO FINLAND!

LAPLAND'S NORDIC WILDERNESS OFFERS A WIDE RANGE OF INVESTMENT OPPORTUNITIES

The Lapland region offers a broad array of hotel investment opportunities. Lately, most markets in Lapland have been enjoying stellar performance. Even though the smaller markets weren't included in this analysis, we are confident that there are excellent hotel investment opportunities in them, as well.

Most hotels on the market are domestic and brand-driven. They are saturated in mid-market segments, providing excellent opportunities to penetrate the market with internationally proven hotel concepts in most categories.

THIS GUIDE WAS FINALISED BEFORE THE OUTBREAK OF THE COVID-19 PANDEMIC.

The lockdown measures to stop the virus from spreading have restricted movement and business activities globally and had severe consequences on travel and hotel industries. It is uncertain what the impact for these industries will be in the end. Thus, there is a significant risk the market growth in the coming years will not be as high as forecasted in this guide.

DISCLAIMER This guide has been prepared for prospective investors as a part of conducting their own internal due diligence process and preliminary market data evaluation for investing in Finnish Tourism sectors. Each prospective investor should conduct their own investigation and analysis of any market of interest, and information presented in this document is not intended to be complete nor sufficient alone for this purpose. Business Finland and Christie & Co have in preparation of this document relied on third party information, and thus cannot guarantee the accuracy, or completeness, of the information contained in this document, including any forecasts or market data.

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We are happy to help you discover the hotel opportunities in Finland and provide you with the right contacts and market information. Our services are confidential and complimentary.



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