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2011 EUROPEAN HOTEL VALUATION INDEX

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Highlights

- 2010 was, by-and-large, the year of global recovery. In football terms, it was a year of two halves, the unspectacular first half giving way to significant growth in the latter half;
- A total of 20 cities have shown growth in hotel values in euro terms in this year's index, compared to only one last year;
- Germany proved to be a star performer in 2010. Its strong manufacturing industry and continued demand for its exports not only boosted its domestic economy but also drove hotel performance across all the cities analysed. Frankfurt, the country's financial capital, was the best performer in terms of value growth in 2010, followed by Munich, the secondary financial centre after Frankfurt and the city with the strongest economy in Germany;
- The Hotel Valuation Index (HVI) highlights the annual change in value each year. This year, many markets, particularly those in Germany, only saw an increase in value as a result of remarkable growth from the third quarter onwards. For most of the 33 markets, it was only the final two quarters that saw year-on-year growth;
- The importance of understanding the local dynamics of each market is more pronounced than ever. There is no longer a 'European Hotel Market' (if it ever existed) just a group of independent markets sharing the same geographical proximity that is Europe;
- As a result of reduced international visitor numbers, the domestic economy and political situation of each country is playing a significant role in shaping the speed of recovery;
- In prior years, there was a clear divide between Eastern and Western European markets with markets in the west clearly outperforming those in the east. In 2010, that clear distinction blurred, with some cities (such as Warsaw) showing growth beyond those in the west;
- Many cities have welcomed a return of the corporate segment; within some markets this has competed with the leisure sector and therefore driven room rates upwards;
- Towards the end of 2010, many proposed hotel developments that had been put on hold in 2009 were reactivated. Appetite is still evident from existing operators looking to expand into new territories, specifically with regards to the budget sector where growth opportunities are evident and more plentiful;
- A number of cities within Eastern Europe have limited international brand coverage and, as such, interest is gathering, although growth is often held back as a result of poor infrastructure and airport connections;
- Transactional volumes, although still considerably below the peaks of 2007, are improving. European hotel transactions for 2010 recorded total investment of €6.5 billion against €3.1 billion in 2009 (see our sister publication, *European Hotel Transactions 2010*);
- For the greater part, the recovery in value appears to be led by improved operating performance rather than a yield shift as a result of improved investor sentiment in 2010;
- Whilst many investors were hoping for a greater number of forced sales, this did not prove to be the case. Banks throughout 2010 remained unwilling to offload those assets that are in breach of their loan covenants. With the recovery now becoming more certain and a continuing shortage of debt financing, it will be interesting to see how many such sales are brought to market in 2011. In any event, we do not expect distressed sales to kick-start or promote any recovery in the markets, and value growth will continue to be performance led;
- The effects of currency exchange rates remain evident. Some cities witnessed a much-needed recovery in their currency, particularly those in Russia. London still benefits from the relatively weak sterling against the euro, which is attracting international visitors. Equally, Switzerland, and specifically Zürich, has benefited from international investors looking for a safe haven outside of the Eurozone; however, the strong Swiss currency has had an impact on visitor numbers, especially in Geneva;
- Given the improving conditions in the majority of the countries analysed, the big question all are asking is 'has the bottom been reached?' The answer remains dependent on the market but, as can be seen in the charts that follow, many markets are now enjoying stability or growth;
- This year we have changed the focus of the HVI. Whilst we have continued to look back and analyse performance and value, we have concentrated more on discussing and considering the future. On the assumption that most markets are either at, or close to, the bottom of the cycle, it is important to consider the recovery; 'when?' and 'how fast?' are the key questions to consider.

CHART 1: TOP AND BOTTOM FIVE – PERCENTAGE CHANGE IN HOTEL VALUE PER ROOM (€)

Source: HVS – London Office

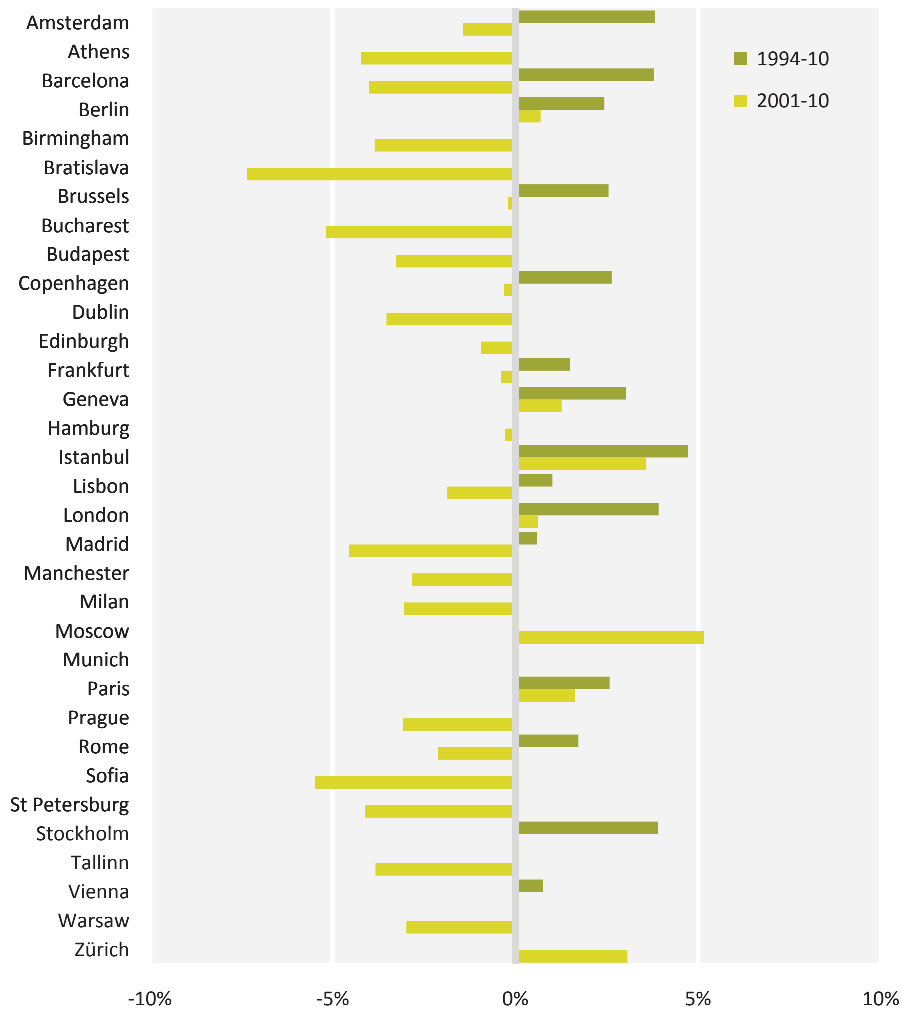
Winners and Losers

In 2010, Europe witnessed a healthy growth in hotel values, although admittedly from a low base with most markets underperforming in 2009. Two German cities, Frankfurt and Munich, sit at the top of the recovery, outpacing Zürich. St Petersburg entered the top five performers whilst in 2009 it ranked as the worst (see Chart 1). All the top five performers have achieved a percentage growth of more than 10%, which is a good sign of recovery, and good news for Western European cities, which occupy four of the places. Among the bottom five performers we note the struggle of Bucharest whose values have shown a substantial decrease in both 2009 and 2010. Athens' performance is a consequence of the country's economic problems.

Changes in Value

Owing to high barriers to entry, **Amsterdam** registered a 10% increase in RevPAR driven by an increase in both occupancy (6%) and average rate (4%). Large events already booked for 2011 are a source of optimism for this coming year while the balanced market mix that the city attracts and limited new supply will continue to reinforce market stability. After recent problems (such as the global economic downturn and high barriers to entry), Amsterdam's tourism industry is improving and attracting worldwide visitors again.

CHART 2: COMPOUND ANNUAL GROWTH RATE IN VALUES 1994-10 AND 2001-10 (€)



Source: HVS – London Office

After the bailout in May 2010, Greece has been experiencing a period of economic uncertainty and turmoil and **Athens** especially has recently been assailed by public demonstrations and strikes. This makes tourists uncomfortable and has caused the majority of hoteliers grave concern for the immediate future of the Athenian tourism industry. In 2010, RevPAR in Athens continued to decline, leading to an overall drop of 29%. As a result, eight downtown hotels in Athens have ceased operations in the last 12 months and the deterioration in visitation has shaken the economic stability of many other hotels. It is impossible to predict how long this situation will last. However, we have assumed that the country in general will return to economic stability and growth within the next three to five years. Against this negativity and in an effort to increase the competitiveness of the tourism sector, the Greek government has taken some specific measures that include a reduction in VAT on hotel services to 6.5% (effective 1 January 2011) from 11.0%. Athens is ranked 27th by hotel value in the index and is one of this year's bottom five performers.

Economic turmoil, public demonstrations, strikes and declining RevPAR led to a 29% drop in values in Athens in 2010

With national unemployment rates as high as 22% and a forecast GDP growth for 2011 of a meagre 0.5%, Spain is still struggling for an economic recovery. This is reflected in the very slow pace of recovery in domestic visitor numbers. International visitation registered a stronger increase, stimulated by the economic recovery of the main source markets: the UK, France and Germany. **Barcelona** has long been a dynamic and mature market in many segments and in 2010 registered an increase in occupancy and a stable average rate that resulted in a 3% increase in RevPAR. Furthermore, the move of Ryanair's Spanish hub to the city has contributed to increases in both domestic and international visitation to the Catalan capital. However, it will be a challenge to recover to pre-crisis levels and we do not foresee this happening before 2013.

The German hotel market has shown a healthy increase in performance in 2010. The stability of the economy and the strong manufacturing sector, together with a VAT reduction for hotel services, have contributed to business growth. Hotels in **Berlin** reported an increase in RevPAR of 4%, which was driven by a 5% increase in average rate, with occupancy decreasing slightly by 1%. Berlin hotel supply has grown quickly in recent years and this has led to potential oversupply in the market, which explains the marginal decrease in occupancy. Demand is mostly driven by the leisure and arts sectors, with the city hosting numerous events and exhibitions. Berlin is ranked 19th in terms of values in this year's survey, which is still surprisingly low for such an important capital city but reflects the low average rates achieved by hotels in Germany generally.

Although occupancy in **Birmingham** remained stable at 66%, the city's hotels continued to discount rates to attract guests and average rates declined by 5% to €69. Room values are now at a new historical low of €117,100, a drop of 12% on 2009 values (15% in local currency from £118,600 to £100,500) and still behind Manchester and Edinburgh. We are of the view that, in the not too distant future, Birmingham will begin to feel the benefits of improvements in the UK economy, and growth should be evident in the second half of 2011.

Bratislava is still feeling the impact of the global economic crisis. Although the economy is showing signs of recovery, both domestic and international foreign demand for services remains restricted. Bratislava has also been affected by substantial new supply in hotel rooms, which it is still absorbing. Occupancy in Slovakia's capital recorded a six percentage point increase to 52% in 2010; however, this was at the cost of rates, which continued to be discounted and thus recorded a further 7% decline to €77. RevPAR remains largely unchanged since 2009, at €40, as a result of improved occupancy levels. Despite an improvement in the domestic economy, overseas investor sentiment remains cautious and therefore hotel values have declined a further 16% to €114,000 as a result of yield shifts. The city is now ranked 30th, falling three places since 2009.

As shown in Chart 3, the European average value per room increased by 1.5% in 2010, following two consecutive years of double-figure declines

Brussels registered a small increase in value of 0.1% in 2010, with the city ranked 21st in the index at €172,500 per room. Demand has been maintained mainly by government representatives somewhat offsetting the drop in corporate demand that has slowed down average rate and occupancy growth. The lack of value fluctuations over a large period also reflects limited supply growth and shows the stability of the market.

Bucharest was one of the cities in Europe hit the hardest by the global economic crisis, with RevPAR declining by 40% in 2009, and in 2010 Bucharest was still feeling the effects. Despite an early increase in exports and signs of positive domestic growth, demand remained fragile. Local government increased VAT during the second half of the

CHART 3: HOTEL VALUES – PERCENTAGE CHANGE 2001-10 (€)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR [1] 2001-2010[2]
1	Frankfurt	6.4	-6.6	-2.0	-3.7	0.2	5.9	-6.4	-7.9	-0.1	19.4	-0.4%
2	Munich	5.1	-7.3	-8.1	11.7	-1.4	7.8	3.4	-7.0	-10.2	14.7	0.0%
3	Zürich	4.0	-7.1	-5.5	6.2	8.4	10.1	7.6	5.6	-4.5	12.1	3.1%
4	St Petersburg	n/a	n/a	n/a	2.7	4.1	6.9	9.5	-5.9	-42.9	10.8	-4.1%
5	Amsterdam	-6.5	-5.5	-4.9	-0.3	5.7	16.5	-0.8	-14.9	-16.0	10.4	-1.4%
6	London	-12.7	-5.0	-5.9	11.9	7.2	11.7	5.5	-23.1	0.9	8.4	0.6%
7	Warsaw	-2.0	-15.2	-10.9	-13.4	8.1	14.7	10.2	-4.0	-18.2	5.1	-3.0%
8	Hamburg	-9.1	3.7	-0.2	0.5	0.5	0.8	-6.3	-3.2	-2.5	4.4	-0.3%
9	Berlin	3.8	1.5	-2.9	1.0	-0.7	5.2	-0.7	0.2	-0.8	4.4	0.7%
10	Moscow	22.6	13.2	8.7	21.7	21.8	20.6	14.3	-9.9	-30.0	4.3	5.2%
11	Paris	-6.4	4.4	-7.2	4.3	6.6	9.0	6.0	-5.9	-3.6	4.2	1.6%
12	Barcelona	-1.5	1.4	-5.5	-8.5	-5.4	7.2	5.5	-19.4	-15.0	3.3	-4.0%
13	Istanbul	-10.0	-19.5	-9.5	16.9	32.0	10.9	8.2	10.8	-8.0	3.3	3.6%
14	Tallinn	n/a	n/a	n/a	5.6	6.1	18.4	-7.1	-25.7	-19.5	3.2	-3.8%
15	Stockholm	-10.5	-5.5	-6.5	1.9	5.2	11.2	8.3	-6.9	-9.4	3.0	-0.1%
16	Edinburgh	-5.3	3.3	-3.4	9.4	5.5	12.0	1.7	-27.1	-7.6	2.8	-0.9%
17	Rome	-3.1	-1.8	-1.9	4.7	2.9	7.8	-4.3	-17.6	-10.2	1.9	-2.1%
18	Prague	-0.5	-4.3	1.6	17.7	4.3	1.4	-5.4	-21.0	-20.3	1.6	-3.1%
	EUROPE	**-2.1**	**-1.6**	**-10.0**	**2.5**	**4.1**	**8.9**	**3.1**	**-10.8**	**-13.4**	**1.5**	**-2.0%**
19	Sofia	n/a	n/a	n/a	n/a	n/a	9.1	12.4	-16.0	-27.1	0.5	-5.5%
20	Brussels	-4.2	-7.7	-4.0	3.1	4.5	7.8	6.1	1.7	-11.8	0.1	-0.2%
21	Budapest	-1.2	-2.8	-13.6	7.9	11.7	4.8	-1.2	-17.1	-16.8	-0.8	-3.3%
22	Copenhagen	-6.2	-3.0	-8.3	-3.1	10.0	11.4	1.0	-6.4	-2.2	-0.9	-0.3%
23	Geneva	10.4	3.8	-7.9	-8.4	9.1	7.6	5.4	17.3	-9.6	-1.4	1.3%
24	Vienna	0.1	-1.4	6.4	0.8	3.9	11.2	6.5	-5.2	-18.4	-1.7	-0.1%
25	Lisbon	-0.1	-1.9	-4.0	2.6	-9.7	14.9	11.9	-11.8	-14.0	-2.7	-1.9%
26	Manchester	3.1	0.7	-5.7	7.5	6.9	6.2	-1.2	-21.9	-12.2	-4.4	-2.8%
27	Dublin	-8.5	-1.6	1.9	2.3	6.7	6.5	-2.5	-18.6	-20.2	-5.4	-3.5%
28	Madrid	-2.6	2.4	-5.7	-10.9	0.6	12.8	2.0	-16.8	-18.2	-7.4	-4.6%
29	Bucharest	n/a	n/a	n/a	17.0	2.6	-4.9	8.1	-21.4	-22.9	-8.0	-5.2%
30	Birmingham	-1.4	2.5	-4.2	7.7	3.0	5.4	-0.5	-22.7	-13.1	-12.0	-3.9%
31	Milan	6.6	3.8	-0.4	-3.3	0.8	12.3	-1.7	-13.6	-13.0	-12.4	-3.1%
32	Bratislava	n/a	n/a	n/a	n/a	11.6	-5.0	3.0	-15.2	-18.8	-15.9	-7.3%
33	Athens	-2.9	5.9	-2.8	6.7	-7.1	2.6	4.7	-2.5	-14.0	-29.3	-4.2%

Source: HVS – London Office

[1] Compound Annual Growth Rate

[2] CAGR from 2001 or closest year

CHART 4: HOTEL VALUATION INDEX

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1	Paris	2.785	2.907	2.697	2.813	2.997	3.267	3.463	3.259	3.142	**3.274**
2	London	2.838	2.695	2.536	2.838	3.043	3.400	3.588	2.760	2.786	**3.018**
3	Zürich	1.986	1.846	1.744	1.852	2.008	2.210	2.377	2.510	2.397	**2.686**
4	Geneva	2.099	2.178	2.006	1.838	2.006	2.158	2.275	2.669	2.414	**2.379**
5	Rome	2.438	2.394	2.349	2.460	2.531	2.729	2.610	2.150	1.929	**1.967**
6	Istanbul	1.331	1.071	0.969	1.134	1.496	1.659	1.795	1.990	1.831	**1.892**
7	Moscow	1.125	1.273	1.384	1.684	2.051	2.473	2.828	2.547	1.784	**1.860**
8	Milan	2.162	2.244	2.235	2.162	2.180	2.449	2.408	2.080	1.809	**1.585**
9	Amsterdam	1.812	1.713	1.629	1.624	1.717	2.000	1.984	1.689	1.419	**1.567**
10	St Petersburg	n/a	n/a	1.846	1.895	1.974	2.110	2.311	2.175	1.242	**1.375**
11	Barcelona	1.935	1.963	1.855	1.698	1.606	1.722	1.817	1.465	1.245	**1.287**
12	Munich	1.280	1.187	1.090	1.217	1.200	1.293	1.338	1.243	1.116	**1.281**
	EUROPE	**1.488**	**1.464**	**1.319**	**1.351**	**1.407**	**1.533**	**1.580**	**1.409**	**1.220**	**1.239**
13	Stockholm	1.242	1.174	1.097	1.119	1.177	1.308	1.417	1.319	1.196	**1.231**
14	Edinburgh	1.351	1.396	1.349	1.475	1.556	1.743	1.773	1.293	1.195	**1.228**
15	Madrid	1.880	1.925	1.815	1.617	1.626	1.834	1.872	1.556	1.273	**1.179**
16	Copenhagen	1.177	1.142	1.047	1.015	1.116	1.244	1.256	1.176	1.150	**1.140**
17	Hamburg	1.121	1.162	1.159	1.164	1.170	1.180	1.105	1.070	1.043	**1.089**
18	Frankfurt	1.107	1.034	1.013	0.976	0.977	1.035	0.969	0.892	0.892	**1.064**
19	Berlin	0.975	0.990	0.961	0.971	0.964	1.014	1.007	1.009	1.000	**1.044**
20	Vienna	1.042	1.027	1.093	1.102	1.145	1.273	1.355	1.285	1.049	**1.031**
21	Brussels	1.013	0.935	0.898	0.926	0.967	1.042	1.105	1.125	0.992	**0.993**
22	Warsaw	1.344	1.140	1.016	0.879	0.950	1.090	1.202	1.154	0.944	**0.993**
23	Prague	1.255	1.201	1.221	1.436	1.498	1.519	1.437	1.135	0.904	**0.919**
24	Dublin	1.239	1.219	1.242	1.270	1.355	1.443	1.407	1.146	0.915	**0.865**
25	Manchester	1.086	1.093	1.031	1.109	1.185	1.259	1.244	0.971	0.853	**0.815**
26	Budapest	1.052	1.022	0.883	0.953	1.064	1.115	1.101	0.913	0.760	**0.754**
27	Athens	1.144	1.211	1.178	1.257	1.168	1.199	1.255	1.223	1.051	**0.743**
28	Lisbon	0.858	0.842	0.808	0.829	0.748	0.860	0.962	0.849	0.730	**0.710**
29	Birmingham	0.999	1.023	0.980	1.056	1.087	1.146	1.140	0.881	0.766	**0.674**
30	Bratislava	n/a	n/a	n/a	1.036	1.157	1.099	1.132	0.960	0.780	**0.656**
31	Bucharest	n/a	n/a	n/a	1.113	1.142	1.086	1.175	0.923	0.712	**0.655**
32	Sofia	n/a	n/a	n/a	n/a	0.839	0.915	1.029	0.864	0.630	**0.633**
33	Tallinn	n/a	n/a	0.603	0.637	0.676	0.800	0.743	0.552	0.445	**0.459**

Source: HVS – London Office *Note: Based on euro calculations*

year by five percentage points, which is likely to further delay recovery. The number of hotel rooms has increased over the past eight years which, when coupled with a still fragile economy, meant that Bucharest's hotels continued to discount average rates to maintain occupancy levels. In 2010, the city achieved an occupancy of 58% (an 11 percentage point increase on 2009) and an average rate of €86, resulting in RevPAR decline to €49. This places Bucharest in 31st position with a room value of €114,000 (a decline of 8% on 2009 values, or 9% in local currency).

Hosting the EU presidency in 2011 and with proposals for a €260 million refurbishment of its airport, Budapest has much to look forward to

Since joining the EU in 2004 and with the prevalence of budget airlines, **Budapest** has enjoyed a period of sustained growth with strong marketwide occupancy for the city between 2004 and 2008. These positive demand factors were soon recognised by hotel operators and significant new hotel supply entered the market. In 2009, the global economic downturn severely impacted domestic and international visitor numbers, and thus both occupancy and average rate for the city plummeted. This meant that a large proportion of proposed hotel developments were put on hold, easing oversupply concerns. The past 12 months have been positive for Budapest's economy as, according to the Hungarian National Statistics Office, total overnight stays in the market increased by 5% during the first three quarters of 2010 compared to the previous year. By the year's end, occupancy levels increased by eight percentage points to 61% at the expense of average rate, which decreased to €68. Room values remained largely unchanged at €131,000, and the city therefore lies in 26th position. The increase in visitors has come largely from tour groups and individual leisure travellers taking advantage of the discounted prices. Looking forward, we expect the region to continue to recover; with the EU presidency in 2011 and a proposed €260 million investment in Budapest's airport over the next few years, we expect both occupancy and average rate to grow in 2011.

There is evidence in Denmark that the effects of the global economic crisis are still being felt. In **Copenhagen**, occupancy has remained largely flat at 65%; however, the city recorded a fall of 6% in average rate to €108, which translates into a RevPAR drop of 5% to €70, and a decrease in value of 1% to €198,000 in 2010 (or DKr1,490,000 to DKr1,470,000), dropping one place to 16th in our index. Copenhagen has experienced a significant increase in hotel openings at a time when the commercial environment remains budget conscious; this has led hotels to continue to discount average rates in order to maintain occupancy

HOTELS IN DUBLIN SAW A 5% DROP IN REVPAR IN 2010

levels. Over the same period, Copenhagen's conference activity has benefited from the recent improvements in hotel facilities. Whilst the number of annual events held within Copenhagen remains light compared to neighbouring countries, we foresee continued growth in this sector as Copenhagen is a city with an established cultural offering that provides quality services. We highlight that, for some, Copenhagen is considered an expensive city in which to host meetings and events.

For many cities, 2010 was the year of recovery. For **Dublin**, however, the aftershocks of the global economic crisis continued to be felt throughout the Irish economy. In November 2010, Ireland formally requested financial support from the European Union's European Financial Stability Facility (EFSF) and the International Monetary Fund. This move, although necessary, has caused much local unrest and brought forward an early general election, where a coalition result is expected. In line with the local difficulties, Dublin's hotels continued to suffer with a 5% decline in RevPAR in 2010, triggered by heavily discounted rates. Occupancy remained stable and saw a marginal improvement to 67% by the end of the year. Unfortunately, the increase in visitation was primarily driven by price-conscious tourists, which suppressed rate further. Hotel values per room continued to decline (by 5%) to €150,300. This decline is low in comparison to the 20% drop recorded last year. Looking forward, Dublin's primary feeder market, the UK (which accounts for 50% of international visitors), remains price sensitive as a result of the relative high cost of the euro and this will continue to suppress visitor numbers and more importantly average rate, specifically within the commercial sector. We consider that a strong recovery of the international markets and a more settled political climate will help Ireland emerge from recession and show signs of growth towards the second half of 2011.

Edinburgh has emerged from the global economic crisis largely unscathed. As a result of the still popular 'staycation' trend and the cultural importance of the city – the UK's second most popular tourist destination – 2010 proved to be a positive year for Edinburgh's hotels. There has also been a revival of the corporate sector, which was badly impacted in 2009. The city succeeded in improving occupancy levels by three percentage points to 80%. Average rate has also benefited with a 2% increase on 2009, largely fuelled by improved leisure bookings. As a result, RevPAR improved by 4%, which has driven the value per room to €213,400, a 3% increase on 2009 (although a 1% decline in sterling, from £184,900 to £183,100), placing the Scottish capital in 14th position in our index. The city has witnessed a number of additions to supply in recent years and approximately 1,600 rooms are forecast to enter the market over the next two years. In light of the improving markets, we consider there to be potential for future growth in average rate in 2011, but occupancy may be at risk owing to the large supply due to enter the market.

Frankfurt, Germany's commercial and financial centre, is ranked 18th in terms of values in this year's index and it recorded the strongest growth in values per room of all 33 cities considered, increasing by 19% on the previous year. It was also the most improved German market in 2010 with an increase in occupancy of 11% and a 7% increase in average rate; the city thus recorded an increase in RevPAR of 19%. At 66%, occupancy levels are still the lowest of the German cities surveyed as Frankfurt suffers from more extreme seasonality and attracts very little weekend business. However, the city is looking to address this and has recently won some high-profile awards ceremonies from Hamburg.

Leading the recovery, hotel values per room in Frankfurt increased in line with RevPAR at 19%

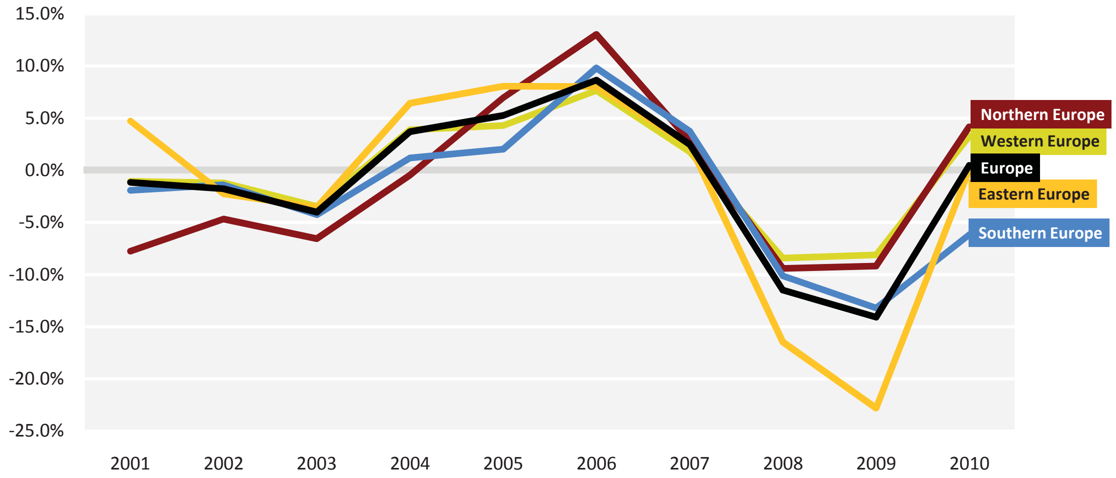
Geneva, ranking fourth in the index at €413,200 per room, is a relatively stable market heavily dependent on corporate and MICE business as a result of numerous international companies having their headquarters in the larger Geneva area. The 1% decrease in value was driven by a 5% decrease in average rate. The drop was even more pronounced in local currency at 10% from SFr633,200 to SFr570,700.

Hamburg has historically been considered a domestic leisure destination, but in recent years it has seen the opening of several internationally branded hotels. The slight decrease in occupancy in 2010 is symptomatic of the fact that the city is still struggling with oversupply. Nonetheless, average rate increased by 6%, triggering an increase in RevPAR of 5%. The city ranked 17th this year in terms of value per room.

Istanbul is recognised as Turkey's financial and commercial capital and enjoyed a relatively fast recovery in 2010, particularly during the second half of the year. With a sound domestic economic platform and GDP growth of 8% in 2010 (projected to stabilise at around 5% over the next few years) the city is benefiting from revived

EDINBURGH SAW A HIGHER-THAN-AVERAGE INCREASE IN VALUES PER ROOM IN 2010

CHART 5: YEAR-ON-YEAR CHANGE IN VALUES PER ROOM BY REGION 2001-10



Source: HVS – London Office

Note: Based on euro calculations

interest from local and international investors. Istanbul had been designated European Capital of Culture 2010, which led to a boost in tourism potential and therefore hotel operators are keen to penetrate the market further. In 2010, occupancy gained five percentage points to 73% and average rate grew by 5% to €157. The growth in average rate was assisted by an increase in leisure visitors as well as a boost in corporate travel, the latter market segment benefiting from the many prestigious conferences now being held in the city. As a result, RevPAR and the value per room showed positive gains in 2010. Whilst in euro terms the value per room recorded a 3% gain to €326,700, in local currency this actually reflects a 5% decline. The city remains in 6th position in our index. We consider that Istanbul presents opportunities across a mix of market segments. With Istanbul's continued promotion as both a leisure and a business destination, investment in its infrastructure and new supply looking likely to maintain market occupancies at existing levels, we expect there to be further gains in average rate over the next few years.

With occupancy and average rate increasing in 2010 and a 3% increase in value per room, Istanbul retained 6th spot in our index

The Portuguese government has put in place an Austerity Plan to be implemented in 2011 that includes a 1% VAT increase in room rates and food and beverage prices. **Lisbon** saw a recovery in visitation in 2010 with an overall increase in occupancy of 9%. International visitors accounted for most of the recovery with an 8% increase, against a 4% increase in the domestic market. The highest increase was reported in the five-star hotel category, which saw a double-figure increase at an average of 28%, followed by four-star (8%) and three-star (2%) hotels. Concurrently, average rate registered an 11% decrease. Hotel supply is expected to grow in 2011, adding six new upscale properties. This might lead to a period of oversupply which would make it harder for upscale hotels to increase rates, at least until the new supply has been absorbed by the market. Occupancy is expected to remain stable, owing to the effect of new supply coming to the market. Some relief for occupancy levels might come from a renewed interest from the meeting and conference segment, even if at the expense of average rate.

LISBON IS EXPECTED TO SEE SIX NEW UPSCALE HOTELS IN 2011

In 2010, **London** emerged from recession at a speed that took many by surprise. London benefited from its position as a global financial centre, and the city's hotels welcomed the return of the business traveller, especially within the meeting and conference segment, which was badly impacted during 2009. Against this, the total number of passenger movements at London's airports recorded a marginal decline of almost 2% on 2009 figures. It is worth noting that the second half of 2010 recorded a higher total number of passenger movements than the first half of the year, which supported the late recovery. London continues to benefit from the relative strength of the euro against the sterling and has therefore remained a popular destination for visitors within the Eurozone and further afield. As a result, occupancy levels have remained stable at 82%. Average rate recorded strong growth of 14% to €163 and RevPAR grew by 15% to €134. Hotel room values have therefore benefited and increased by 8% to €524,400 (4% in local currency from £431,200 to £450,100), meaning London remains in 2nd position behind Paris. As London is not in the Eurozone, has enjoyed strong performance and is seen as a stable real estate market, investors have been eager to purchase hotels in London at very keen yields. Over the next few years we expect London to continue to dominate growth within the UK. Significant landmark

Chart 5 presents the year-on-year average variations in values by region. This shows the correlation between European markets since the start of the millennium and how each cluster (Western, Eastern, Southern and Northern Europe) has performed comparatively to each other from 2001 to 2010

calendar events – including the Royal Wedding in 2011 and the Olympic Games in 2012 – will not only draw significant levels of commercial and leisure visitors to London, but could also assist London in taking pole position in terms of room value from Paris and prove itself once more to be the strongest city in Western Europe.

In 2010, **Madrid** registered an increase in occupancy, mainly generated by the business segment, which is still strong in the city; 37 new congresses have been captured by the city for the next six years and this is expected to secure further growth in the meeting and conference segment. The 4% increase in occupancy was countered by a concurrent 12% drop of €13 in average rate. The increase in occupancy was not sufficient to register an increase in RevPAR, which decreased by 7% in 2010. The hotel value per room also fell by 7%.

With the government's tightening of fiscal spending, **Manchester** continued to suffer a decline in both RevPAR and value per room. Manchester, hailed by some as the UK's second city, has felt the impact of the political spending reviews. Owing to its strong retail and cultural offering, as well as enjoying an international airport, occupancy levels have been maintained, with a marginal increase on 2009 to 71% for year-end 2010. Although Manchester's hotels reported an overall 4% decline in average rate in 2010, the second half of 2010 has shown a strong recovery and we therefore expect this upward trend to continue throughout 2011. Overall, hotel values per room have declined by 4% to €141,600 (an 8% drop in sterling from £132,000 to £121,500), but we suspect values grew slightly in the second half of the year. Despite the drop, the city has gained a place in our index to 25th.

The Italian economy is still stagnant and fragile. In 2010, **Milan** hotels registered a 12% decrease in average rate and, with a stable occupancy of about 61%, saw a drop in RevPAR of 12% and a ranking of 8th in this year's index at €275,300. As the financial centre of Italy and with a more limited range of tourist attractions than, say, Rome, Milan is dependent on commercial and business demand and might be subject to a longer recovery period than tourism-driven cities. The slowdown of the euro economies has certainly dented visitation to the city over the last two years, and recent austerity measures by a number of European governments are likely to result in a slow recovery to visitor levels experienced in the past. New supply in all hotel categories is expected to further limit Milanese hotels' ability to increase occupancy levels. The

Dependent on commercial and business demand, Milan saw a 12% drop in value per room in 2010; leisure-driven Rome witnessed a 2% increase

CHART 6: HOTEL VALUES PER ROOM 2001-10 (€)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1	Paris	483,823	504,973	468,642	488,637	520,657	567,582	601,736	566,182	545,887	**568,772**
2	London	492,997	468,253	440,589	493,147	528,685	590,700	623,389	479,586	483,946	**524,414**
3	Zürich	344,981	320,644	303,071	321,776	348,816	383,896	412,929	436,164	416,455	**466,654**
4	Geneva	364,598	378,445	348,545	319,394	348,553	374,928	395,337	463,664	419,322	**413,254**
5	Rome	423,617	415,946	408,025	427,329	439,706	474,115	453,513	373,474	335,209	**341,718**
6	Istanbul	231,174	186,101	168,425	196,943	259,962	288,298	311,874	345,688	318,160	**328,684**
7	Moscow	195,379	221,221	240,379	292,597	356,385	429,738	491,250	442,442	309,908	**323,123**
8	Milan	375,619	389,819	388,362	375,607	378,780	425,408	418,292	361,405	314,326	**275,323**
9	Amsterdam	314,879	297,539	283,081	282,177	298,276	347,480	344,731	293,440	246,615	**272,250**
10	St Petersburg	n/a	n/a	320,777	329,300	342,922	366,545	401,525	377,850	215,727	**238,917**
11	Barcelona	336,221	341,063	322,233	294,942	278,972	299,168	315,731	254,503	216,289	**223,514**
12	Munich	222,380	206,169	189,397	211,504	208,544	224,723	232,382	216,013	193,960	**222,562**
	Europe	258,576	254,434	229,079	234,799	244,457	266,287	274,427	244,837	212,026	**215,246**
13	Stockholm	215,816	203,956	190,634	194,343	204,438	227,309	246,204	229,155	207,715	**213,887**
14	Edinburgh	234,700	242,543	234,293	256,289	270,269	302,830	308,027	224,606	207,560	**213,362**
15	Madrid	326,582	334,500	315,270	280,863	282,425	318,668	325,149	270,403	221,173	**204,891**
16	Copenhagen	204,473	198,353	181,906	176,344	193,944	216,080	218,247	204,279	199,805	**198,062**
17	Hamburg	194,679	201,830	201,356	202,289	203,288	204,941	192,032	185,881	181,228	**189,262**
18	Frankfurt	192,358	179,599	175,961	169,497	169,811	179,872	168,302	155,043	154,888	**184,863**
19	Berlin	169,398	171,922	166,977	168,681	167,454	176,141	174,941	175,269	173,824	**181,387**
20	Vienna	180,950	178,379	189,872	191,412	198,867	221,081	235,469	223,289	182,220	**179,192**
21	Brussels	176,061	162,422	155,942	160,799	167,979	181,015	192,041	195,401	172,325	**172,488**
22	Warsaw	233,496	198,109	176,439	152,723	165,083	189,431	208,847	200,436	164,056	**172,487**
23	Prague	218,023	208,653	212,065	249,529	260,316	263,895	249,576	197,115	157,019	**159,598**
24	Dublin	215,301	211,756	215,852	220,721	235,425	250,642	244,497	199,027	158,897	**150,268**
25	Manchester	188,644	189,950	179,167	192,692	205,929	218,703	216,057	168,737	148,116	**141,580**
26	Budapest	182,708	177,574	153,460	165,514	184,914	193,737	191,347	158,591	131,961	**130,966**
27	Athens	198,785	210,423	204,603	218,340	202,946	208,274	218,010	212,539	182,680	**129,065**
28	Lisbon	148,996	146,202	140,296	143,955	129,972	149,358	167,172	147,476	126,887	**123,437**
29	Birmingham	173,488	177,813	170,258	183,382	188,794	199,043	198,044	153,081	133,092	**117,104**
30	Bratislava	n/a	n/a	n/a	180,070	200,954	190,899	196,613	166,769	135,473	**113,915**
31	Bucharest	n/a	n/a	165,197	193,316	198,380	188,751	204,066	160,328	123,690	**113,789**
32	Sofia	n/a	n/a	n/a	n/a	145,770	159,016	178,800	150,132	109,387	**109,960**
33	Tallinn	n/a	n/a	104,755	110,663	117,448	139,035	129,107	95,920	77,234	**79,709**

Source: HVS – London Office

most recent addition to the market is the 137-room Idea Hotel at Malpensa Airport, which opened on 11 February 2011.

During 2008, we were forcefully reminded of the influence of commodity prices over Russia's economy. As a consequence, the effects of the global economic crisis by the end of 2008 were severe. Following a sharp fall in oil and metal prices, as well as a decline in international demand for Russia's resources, Russia's economy suffered huge capital outflows and massive currency depreciation. As a result, GDP recorded a fall of 9% during 2009. The government took immediate action and allocated substantial capital to support the financial and labour markets. **Moscow** witnessed the benefits of the improved local economy, but was nonetheless affected by the severe droughts and forest fires caused by heat waves in August 2010. Despite this, the strong domestic and international recovery has resulted in significant growth in hotel occupancy and average rate in 2010. This gain is against a backdrop of a 55% decline in RevPAR in 2009. The recovery in average rate and occupancy led to a 4% gain in room values to €323,100 (a 5% drop in roubles from Rb13.8 million to Rb13.0 million). A number of proposed hotels are due to open in the coming years, of which a large proportion will include luxury and upscale projects. With a sharp domestic recovery and an increase in business activity, we expect Moscow's hotels to continue to see positive rate growth; however, whilst we consider the city capable of absorbing the additional supply, we expect occupancy will decline slightly in the short term as additional rooms enter the market.

Moscow's 4% increase in values per room in euro actually equated to a 5% drop in values in roubles

Munich was the best-performing German city in this year's survey, registering 72% occupancy and €111 average rate, with both experiencing strong growth. Munich's value per room increased between 2005 and 2007, only to be hit in 2008 and 2009 by the global economic crisis, a situation exacerbated by oversupply in the market. Although yet to reach pre-crisis levels, with a 15% growth in value in 2010 Munich is above the European average and the highest-placed German city, reaching a value of €222,600 per room. These results can be considered an even stronger signal of healthy performance if we take into account that Munich is still struggling with oversupply. Most of the demand is driven by trade fairs and events that have come back to the city throughout 2010. Also, the presence of automobile manufacturers' headquarters, such as BMW, has helped attract the commercial segment to the city's hotels. Munich is ranked 12th in terms of value in this year's index.

IMPROVING OCCUPANCY DROVE REVPAR INCREASE IN PRAGUE

VALUES PER ROOM IN MUNICH INCREASED BY 15% IN 2010

The French capital was again ranked first in the index at €568,800 per room, a 4% increase on last year. A 3% increase in RevPAR in the **Paris** hotel market was driven by a 1% increase in occupancy and a 2% increase in average rate. This growth was generated by returning business demand and an increase in foreign arrivals from the Middle East, Africa and North America. Following the opening of the Shangri-La in 2010, a number of luxury hotels are coming into the market, including Mandarin Oriental (2011), W (2011) and Peninsula (2013) hotels. In addition to these, several properties have undergone renovation and are reopening their doors as luxury and boutique hotels.

Mandarin Oriental, W and Peninsula hotels will all be opening their doors in Paris

The large number of new hotels that came to the market just before (and during) the economic downturn has driven down average rates in **Prague**. Nonetheless, these lower rates meant that the city was able to capture more volume and register a 6% increase in RevPAR driven by a 10% increase in occupancy. The city, with a value per room of €159,600, ranks 23rd in the index. While the hotel value per room in euro increased by 2%, in local currency it actually dropped 3% (from Kč4.2 million to Kč4.0 million). Demand, which had already accelerated towards the year's end, is expected to grow further in 2011 as the number of events planned for this year is significantly higher than the previous year. Also, absorption of the current oversupply is expected to benefit the city's performance in the next few years.

Despite a 3% drop in average rate, an occupancy-led increase in RevPAR of 2% placed **Rome** in fifth position in the index at €341,700. Rome is a unique destination with a good mix of leisure and business visitation, both national and international, and very good accessibility via its road networks and two airports. Therefore, we consider that Rome is likely to recover to past levels of visitation in the short term. As noted in our half-year update for 2010, Rome's hotel market is expected to increase by around 350 rooms in 2011.

Bulgaria suffered a long and drawn out recession and 2010 proved to be another difficult year. Bulgaria's capital city, **Sofia**, continues to be primarily a business-oriented market and this has proved challenging for Sofia's hotels, owing to the restricted international and domestic corporate travel. However, after two consecutive years of significant RevPAR decline, Sofia's hotels showed signs of recovery in 2010, with this year not only showing evidence that corporate travel is returning but also that the market enjoyed an increase in leisure activity. The increase in leisure activity had a negative impact on the market's average rate, but the resulting strong gain in occupancy led to a modest RevPAR increase of 4% to €40. This RevPAR gain meant that the city enjoyed a modest gain in average hotel room value to €110,000 (increasing from BGN214,200 to BGN215,300) and the city remains in 32nd position in our index.

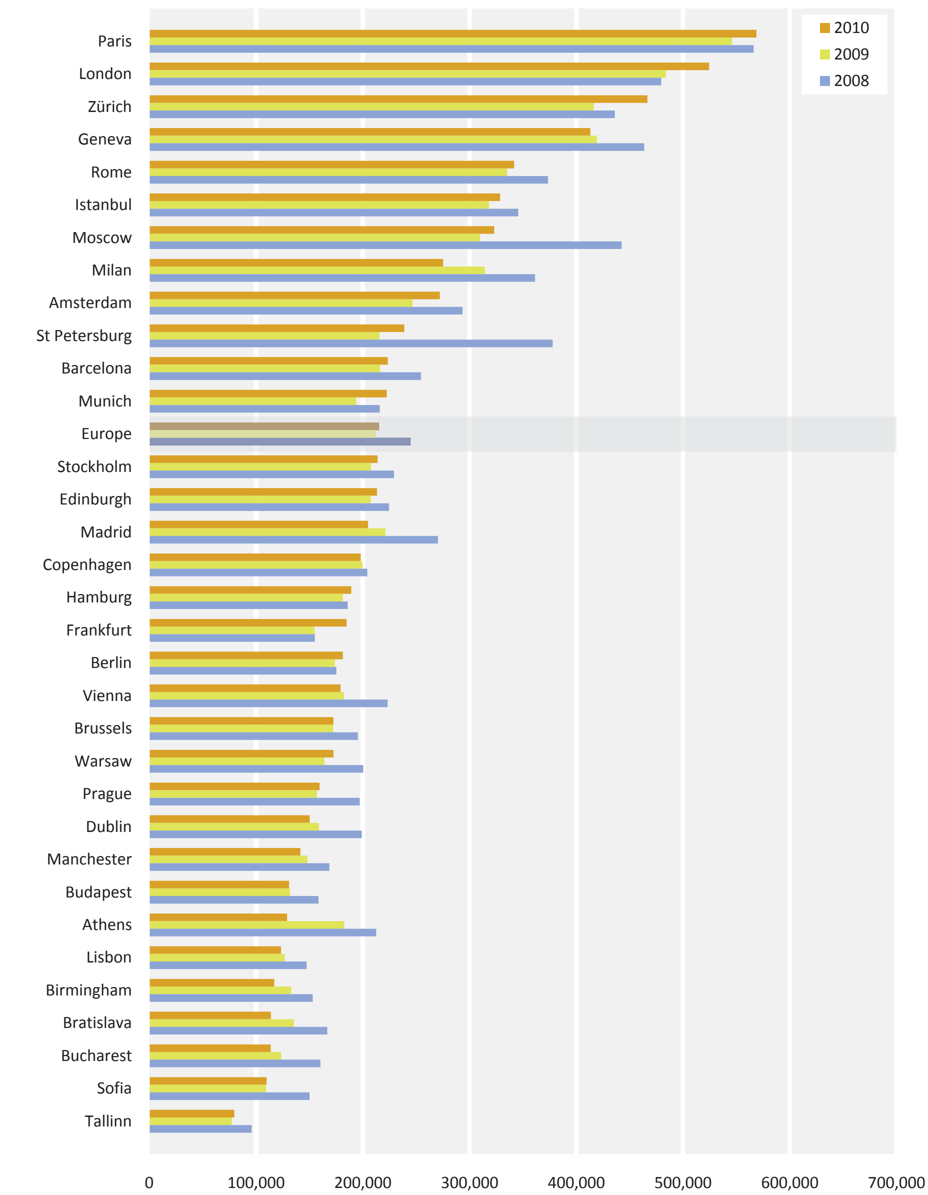
St Petersburg, like Moscow, suffered dramatic occupancy and average rate declines in 2009. Although the recovery was largely led by Moscow, the domestic economic conditions have also ensured that St Petersburg has enjoyed positive RevPAR growth. St Petersburg's hotels have reported significant gains in occupancy, which reached 55%; average rate is also up, at €176, with RevPAR at €97. These positive signs have assisted in increasing hotel values per room by 11% to €238,900 (or a more marginal increase of just 1% in roubles to Rb9.6 million). We consider the principal challenges for the further development of the region to be the lack of direct flights, entry regulation, poor infrastructure and limited tourism promotion. These issues are being tackled with a €340 million renovation and expansion of Pulkovo Airport. There are a number of recent additions to supply and a number of hotels will be entering the market in 2011 (the 299-room Crowne Plaza Airport, a 183-room Four Seasons and a 137-room W Hotel, for example). This additional supply is likely to have some impact on marketwide occupancy levels in the short term.

As shown in Chart 7, 12 of the cities surveyed finished 2010 with values per room in excess of the European average. Of those 12, six are in the Eurozone. The top ten remains largely unchanged from last year's index; Geneva and Zürich swapped places – as did Moscow and Milan – and the only newcomer was St Petersburg which, after dropping out in 2009, returned to the upper echelons at the expense of Madrid

Sweden surprised many in 2010 with the dramatic recovery it experienced from the lows of 2009, with growth now forecast at levels beyond most Western European countries. **Stockholm**'s hotels recorded an 11% gain in average rate to €118 and maintained occupancy levels at 69%. Thus, RevPAR grew by 4% to €82 and room values increased by 3% to €213,900 (which was actually a drop of 7% in Swedish kronor from SKr2.2 million to SKr2.0 million). This improvement is a result of the strong local economy and return of consumer confidence. Looking forward, we foresee further growth potential in hotel room values as average rates still remain at a historical low. The Swedish government increased interest rates by 0.25% at the end of 2010 to 0.75% in an attempt to curb rising residential prices and suppress inflation. With further rate increases likely, a happy medium needs to be achieved to ensure the recent gains in growth are not eroded.

Tallinn has one of the highest per capita income levels in Central Europe and the Baltic region. The existing and previous governments have strongly promoted growth through a free market and pro-business economic agenda. However, the region was impacted during the global economic crisis as a result of a slowdown in national and international investment. GDP dropped nearly 15% in 2009, among the world's highest rates of contraction. A modest recovery began in 2010, but unemployment remains an issue. Tallinn's hotels recorded an increase in occupancy of 16% to 57%; however, this was at the expense of average rate, which showed a decline of 4% to €59.

CHART 7: HOTEL VALUES PER ROOM 2008-10 (€)



Source: HVS – London Office

RevPAR over the same period increased to €33. As a result, hotel room values have grown by 3% to €79,700 (EEK1.2 million). Tallinn still remains an emerging market, with limited upscale products and international brands; as such, we consider there to be growth opportunities in this area. Estonia adopted the euro in January 2011, which could lead to increased international investor interest, despite the country becoming the poorest member of the Eurozone. Overall, we expect growth to continue over the next few years.

RevPAR in **Vienna** hotels registered growth of 4%, driven by an increase in occupancy of 7%. The city's hotel supply is expected to grow between 2011 and 2014 by a number of key properties, which will affect the overall performance of hotels in the Austrian capital. Among the new luxury openings are a 210-room Shangri-La (in 2011), a 150-room Kempinski (in 2012) and a 160-room Four Seasons (in 2014).

Warsaw was the economic darling of Central Europe in 2010. The country's strategic location, large domestic consumer market, stable and balanced economy, well educated labour force and the availability of EU funds are some of the contributing factors to Poland's popularity among foreign investors. With positive GDP growth of 3.5% in 2010 and a strong economic outlook, especially within the domestic market, Warsaw will continue to attract foreign investment and consumer confidence will strengthen further. These factors helped Warsaw's hotels achieve a 7% increase in average rate to €80, which is back in line with 2007 figures. Hotel room values have gained in excess of 5%, reaching €172,500 (a 1% increase in zloty to PLN717,800). Over the next 12 months, we consider that the market is likely to continue to benefit from the strong local economy, as well as forthcoming calendar events such as Warsaw's chairing the EU presidency during the latter half of 2011 and Poland's co-hosting of UEFA's European Football Championship with Ukraine in 2012.

VIENNA TO SEE RAPID GROWTH IN LUXURY SUPPLY IN 2011-14

Hotel values in **Zürich** showed an increase of 12%, placing the city third after Paris and London in the index with a value of €466,700 per room (though only a 2% increase in local currency to SFr644,500). This increase was driven largely by an exchange rate-led 15% increase in average rate; with a stable occupancy, RevPAR increased by 15% on 2009. As with Geneva, hotel demand in Zürich is mostly generated by the corporate segment. The healthy growth in marketwide RevPAR in 2010 and the resilience of Zürich's hotel market to the economic crisis can be partly attributed to the limited available space for development and tight control by planning authorities restricting supply growth. In addition, the importance of a stable economy and currency outside the Eurozone has further heightened the attractiveness of the Swiss economy and real estate to foreign investors.

Chart 8 shows the changes in hotel values in local currency for those cities outside the Eurozone. Five markets that saw an increase in value in euro terms actually saw a drop in value when the comparison is made in local currency

CHART 8: CHANGE IN HOTEL VALUES IN LOCAL CURRENCY

		2007	2008	% Change	2009	% Change	2010	% Change
Birmingham	€	198,044	153,081	-23%	133,092	-13%	117,104	-12%
	£	135,545	121,657	-10%	118,589	-3%	100,501	-15%
Bucharest	€	204,066	160,328	-21%	123,690	-23%	113,789	-8%
	lei	683,110	592,424	-13%	525,871	-11%	480,548	-9%
Budapest	€	191,347	158,591	-17%	131,961	-17%	130,966	-1%
	Ft	48,198,259	39,947,470	-17%	37,067,819	-7%	36,078,817	-3%
Copenhagen	€	218,247	204,279	-6%	199,805	-2%	198,062	-1%
	DKr	1,626,280	1,523,334	-6%	1,487,754	-2%	1,474,774	-1%
Edinburgh	€	308,027	224,606	-27%	207,560	-8%	213,362	3%
	£	210,818	178,499	-15%	184,942	4%	183,112	-1%
Geneva	€	395,337	463,664	17%	419,322	-10%	413,254	-1%
	SFr	649,584	735,391	13%	633,226	-14%	570,714	-10%
Istanbul	€	311,874	345,688	11%	318,160	-8%	328,684	3%
	YTL	558,614	657,701	18%	688,807	5%	656,974	-5%
London	€	623,389	479,586	-23%	483,946	1%	524,414	8%
	£	426,657	381,138	-11%	431,209	13%	450,063	4%
Manchester	€	216,057	168,737	-22%	148,116	-12%	141,580	-4%
	£	147,873	134,099	-9%	131,976	-2%	121,507	-8%
Moscow	€	491,250	442,442	-10%	309,908	-30%	323,123	4%
	Rb	17,176,558	16,149,139	-6%	13,759,935	-15%	13,029,164	-5%
Prague	€	249,576	197,115	-21%	157,019	-20%	159,598	2%
	Kč	6,928,820	4,920,496	-29%	4,152,833	-16%	4,039,440	-3%
Sofia	€	178,800	150,132	-16%	109,387	-27%	109,960	1%
	BGN	350,691	294,037	-16%	214,215	-27%	215,291	1%
St Petersburg	€	401,525	377,850	-6%	215,727	-43%	238,917	11%
	Rb	14,039,335	13,791,514	-2%	9,578,260	-31%	9,633,765	1%
Stockholm	€	246,204	229,155	-7%	207,715	-9%	213,887	3%
	SKr	2,277,384	2,154,058	-5%	2,205,044	2%	2,040,910	-7%
Tallinn	€	129,107	95,920	-26%	77,234	-19%	79,709	3%
	EEK	2,020,140	1,500,867	-26%	1,208,475	-19%	1,247,205	3%
Warsaw	€	208,847	200,436	-4%	164,056	-18%	172,487	5%
	PLN	791,595	703,704	-11%	710,197	1%	717,776	1%
Zürich	€	412,929	436,164	6%	416,455	-5%	466,654	12%
	SFr	678,490	691,775	2%	628,896	-9%	644,461	2%

Source: HVS – London Office

Note: Estonia joined the Eurozone on 1 January 2011

HVS

CHART 9: FIVE-YEAR FORECAST OF HOTEL VALUES (€)

	Peak Years			HVS Forecast				
	2006	2007	2010	2011	2012	2013	2014	2015
Amsterdam	347,480	344,731	272,250	300,000	320,000	340,000	340,000	350,000
Athens	208,274	218,010	129,065	130,000	140,000	150,000	160,000	160,000
Barcelona	299,168	315,731	223,514	230,000	250,000	270,000	290,000	300,000
Berlin	176,141	174,941	181,387	190,000	190,000	200,000	200,000	210,000
Birmingham	199,043	198,044	117,104	120,000	140,000	140,000	150,000	150,000
Bratislava	190,899	196,613	113,915	120,000	130,000	140,000	150,000	160,000
Brussels	181,015	192,041	172,488	180,000	180,000	180,000	190,000	190,000
Bucharest	188,751	204,066	113,789	110,000	120,000	130,000	140,000	160,000
Budapest	193,737	191,347	130,966	130,000	140,000	150,000	170,000	180,000
Copenhagen	216,080	218,247	198,062	200,000	210,000	220,000	220,000	230,000
Dublin	250,642	244,497	150,268	150,000	160,000	170,000	180,000	180,000
Edinburgh	302,830	308,027	213,362	220,000	240,000	240,000	250,000	260,000
Frankfurt	179,872	168,302	184,863	190,000	190,000	200,000	200,000	200,000
Geneva	374,928	395,337	413,254	420,000	430,000	450,000	460,000	470,000
Hamburg	204,941	192,032	189,262	190,000	200,000	210,000	210,000	220,000
Istanbul	288,298	311,874	328,684	340,000	350,000	370,000	390,000	410,000
Lisbon	149,358	167,172	123,437	120,000	130,000	140,000	140,000	140,000
London	590,700	623,389	524,414	580,000	620,000	640,000	660,000	680,000
Madrid	318,668	325,149	204,891	220,000	230,000	250,000	260,000	270,000
Manchester	218,703	216,057	141,580	150,000	160,000	170,000	180,000	180,000
Milan	425,408	418,292	275,323	290,000	310,000	340,000	380,000	390,000
Moscow	429,738	491,250	323,123	340,000	370,000	400,000	420,000	450,000
Munich	224,723	232,382	222,562	230,000	240,000	250,000	250,000	260,000
Paris	567,582	601,736	568,772	590,000	620,000	630,000	640,000	650,000
Prague	263,895	249,576	159,598	170,000	180,000	190,000	210,000	220,000
Rome	474,115	453,513	341,718	350,000	370,000	410,000	430,000	440,000
Sofia	159,016	178,800	109,960	110,000	120,000	130,000	140,000	150,000
St Petersburg	366,545	401,525	238,917	250,000	270,000	290,000	300,000	320,000
Stockholm	227,309	246,204	213,887	220,000	230,000	240,000	250,000	250,000
Tallinn	139,035	129,107	79,709	90,000	100,000	100,000	110,000	110,000
Vienna	221,081	235,469	179,192	190,000	200,000	220,000	230,000	240,000
Warsaw	189,431	208,847	172,487	180,000	200,000	210,000	210,000	220,000
Zürich	383,896	412,929	466,654	480,000	490,000	500,000	520,000	530,000

Source: HVS – London Office

Five-Year Forecast

This year we extended our forecasts to show values for the next five years for each of the markets. On the assumption that the worst of the downturn is behind us, it is important to look forward. It is very difficult to forecast values at present as they are so affected by external factors; namely, national and international economies and the relaxing of debt markets across the region. We have assumed that the region will not be dramatically impacted by the political unrest in the Middle East and Africa and will continue on a steady path of growth over the next five years. Regarding the availability of debt, we have assumed that – other than key markets – debt will continue to be restricted in 2011, but will gently free itself of its self-imposed shackles, market by market, from 2012 onwards. Those economies with more deep-rooted problems will take decidedly longer.

HVS estimates that the markets surveyed will see growth in values in excess of 20% on average over the next five years

Chart 9 shows that 14 of the markets will be above their previous 2006/07 peak by 2015, showing the resilience and underlying maturity of the hotel market in general.

We have assumed that only five markets will not grow in 2011, but neither will they contract. We show an average growth of 24% over the five years, or 4% a year. Ten markets are forecast to grow by more than 30% over that period.

The growth in value will start with improving performance trends, which will vary from market to market. This upward trend may be down to a return of business or a change in business mix and improvements in room rates if the market, such as London, already has a high occupancy. Once the trend is established, there should be an improvement in investor sentiment, and therefore valuation parameters. This should hopefully coincide with the freeing up of the debt markets.

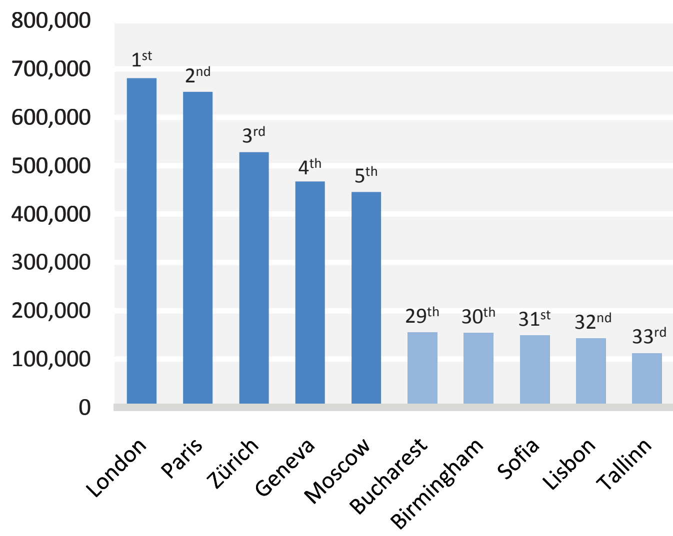
In sterling terms, with an assumed stable exchange rate, all UK cities are showing growth from the peak years, demonstrating the continued underlying strength of the UK regional market, despite the current difficulties.

A detailed understanding of each individual market will only become more crucial; for example, the likely delivery of new supply will impact both performance and value. Cities such as Copenhagen and Hamburg, which have significant supply still to absorb, will not grow as fast as others. However, Berlin has the impact of a new airport in 2012, which should improve the performance levels of hotels in the city by improving access and transport links. Although there are not many emerging markets in the survey, Istanbul is certainly one. We have assumed that the current interest in the market will continue and investment opportunities will arise; as such, we forecast 22% growth in values over the five-year period.

We forecast that by the end of the five years the top and bottom five markets will be as shown in Chart 10.

All forecasts and values are reported in euro; we note that only one of the top five markets is in the Eurozone, so the impact of currency fluctuations will remain a constant issue and influence investment decisions.

CHART 10: FORECAST TOP AND BOTTOM FIVE MARKETS 2015 (€)



Source: HVS – London Office

WITH A 4% INCREASE IN VALUES PER ROOM, PARIS TOPS THE INDEX ONCE AGAIN AS AT DECEMBER 2010

Outlook

It has become apparent that the 'European Hotel Market' can no longer be seen as one group; instead, a detailed understanding of each market is crucial in identifying both risk and opportunity. Those markets that continue to lose ground through either a poor domestic economy or the introduction of fiscal policies will become less attractive to investors and be forced to traverse a far longer road to recovery.

This point has become particularly topical during 2010 as those regions that the press has labelled 'PIIGS' (Portugal, Italy, Ireland, Greece and Spain; the five Eurozone nations who continue to suffer from particularly weak economies) have been unable to adopt independent monetary policy in order to help their domestic markets. This has reignited the debate as to the efficiency of a single currency being employed among the Eurozone nations. As a result, there have been some clear winners and losers. Germany, for instance, with its relatively stable economy, low deficit and strong manufacturing, has enjoyed periods of sustained growth and its city's hotels have subsequently seen substantial rises in performance. In contrast, Ireland has suffered on account of the strength of the euro against the sterling, as the UK is its primary feeder market.

We expect continued strengthening of values for key markets such as London, Paris, Istanbul and the Swiss and German markets (Geneva, Zürich, Berlin, Frankfurt, Hamburg and Munich)

With a severe shortage of quality hotel stock on the market, hotel ownership has become an international investment. This is clearly demonstrated by the purchase of trophy assets across Paris and London by private individuals and funds. Those countries that are demonstrating sound economic fundamentals are benefiting from this as competition for quality stock has become fiercer. However, those regions with limited security are seeing little to no investor interest and room values are suffering as a consequence. We therefore expect continued strengthening of values for key markets such as London, Paris, Istanbul and the Swiss and German markets (Geneva, Zürich, Berlin, Frankfurt, Hamburg and Munich).

Germany has proved to be this year's top performer amongst Western Europe. We are of the view that the country remains undervalued, specifically in land terms when compared to cities in other countries. At some point, we would expect German hoteliers to muster the confidence to increase average rate, especially considering the strong performance recorded over the past 12 months. This in turn would improve hotel values overnight.

Istanbul is also an interesting case and clearly demonstrates the positive effect government can have on a hotel market. Istanbul's council and the Turkish government are combining to market the city and the country as a cultural and business destination. In addition, significant development and infrastructure works are under way, which continue to push hotel performance and investor sentiment forwards.

Occupancy has shown year-on-year growth for the 33 markets, with average rate and RevPAR generally following an upward trend. We also expect hotels' net operating income to improve as a result. An increase in net operating income and stable parameters should drive values upwards.

The UK hotel industry, and London specifically, has much to be excited about. You could not buy better or more effective marketing opportunities than a Royal Wedding (April 2011) and the Olympic Games (Summer 2012); ignoring the trading benefits, the marketing of the country alone should further strengthen the perception of the city. London will certainly enjoy continued strong occupancy throughout 2011, partly as a result of preparation for the 2012 Olympics. However, many other markets are set to benefit from landmark calendar events including London's Olympic Games, which will attract visitors to Europe in 2012. This will drive demand and may make 2012 the year that we see a return to positive trading indicators for all of Europe.

Many markets are expected to benefit from landmark calendar events in the next few years, such as London's Olympic Games attracting visitors to Europe in 2012

Over the past year, HVS has worked in all of the markets represented, though less frequently in Eastern Europe than we have in previous years (and given the low level of trading and investments, this is not surprising). We are, however, seeing a return of investor interest as operators look to expand, specifically within the budget sector. This is encouraging, especially at a time when the global economy is in a fragile state.

GERMANY LEADS THE RECOVERY WITH FRANKFURT AND MUNICH SEEING THE LARGEST GROWTH IN VALUE IN 2010

LONDON, PARIS AND ZÜRICH ARE THE MARKETS TO WATCH

An interesting year awaits, but it may be interesting for different reasons. Some markets will enjoy performance and value growth, others will remain reasonably static (and relieved to be so) whilst others may fall in the early part of 2011. Although we expect all markets to stop declining during the year, the next few months will be of paramount importance as they will show the depth, shape and speed of the recovery.

Last year, we hinted at a return to real estate fundamentals. 2010 has further shown the impact of location and management capabilities. We expect 2011 to further emphasise the positive lessons learnt from the downturn. With this in mind, 'where would we invest?' In a market with high barriers to entry, a strong seven-day-week trade and demonstrable growth in both occupancy and average rate. Assuming other investors are thinking the same, it could be strong and steady growth for more and more markets as the year progresses. And with that, we will all breathe a collective sigh of relief.

Understanding the HVI

The HVI is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typically four-star and five-star hotels in 33 major European markets. Additionally, our index allows us to rank each market relative to a European average (see Chart 4). The HVI also reports the average value per room, in euro, for each market (Chart 6). All data presented are based on euro, unless otherwise stated.

The methodology employed in producing the HVI is based upon actual operating data from a representative sample of four-star and five-star hotels. Operating data from the STR Global Survey were used to supplement our sample of hotels in some of the markets. The data are then aggregated to produce a pro forma performance for a typical 200-room hotel in each market. Using our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined valuation parameters for each market that reflect both short-term and longer-term sustainable financing models (loan to value ratios, real interest rates and equity return expectations). These market-specific valuation and capitalisation parameters are applied to the net operating income for a typical upscale hotel in each city. In determining the valuation parameters relevant to each of the 33 markets included in the European HVI, we have also taken into account evidence of actual hotel transactions and the expectations of investors with regard to future changes in supply, market performance and return requirements. Investor appetite for each market at the end of 2010 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2010. Values are based on recent market performance but the capitalisation rates reflect the expected future trends in performance, competitive environment, cost of debt and cost of equity. As our opinion of value remains an opinion of Market Value, when analysing transactions and in assessing the opinions of value we have attempted to remove all aspects of distress. The parameters adopted have reflected the new world order of financing but assume a reasonable level of debt and investor sentiment. Conversely, the values reported may not therefore bear comparison with actual transactions completed in the marketplace. However, this is the best approach to retain the integrity of the HVI as a rolling annual index. The HVI allows comparisons of values across markets and over time by using the 1993 average European value of €173,737 per available room (PAR) as a base (1993=1.000). Each market's PAR value is then indexed relative to this base. For example, in 2010 the index for Paris was 3.274 (€568,772/€173,737), which means that the value of a hotel in Paris in 2010 was more than three times higher than the European average in 1993.

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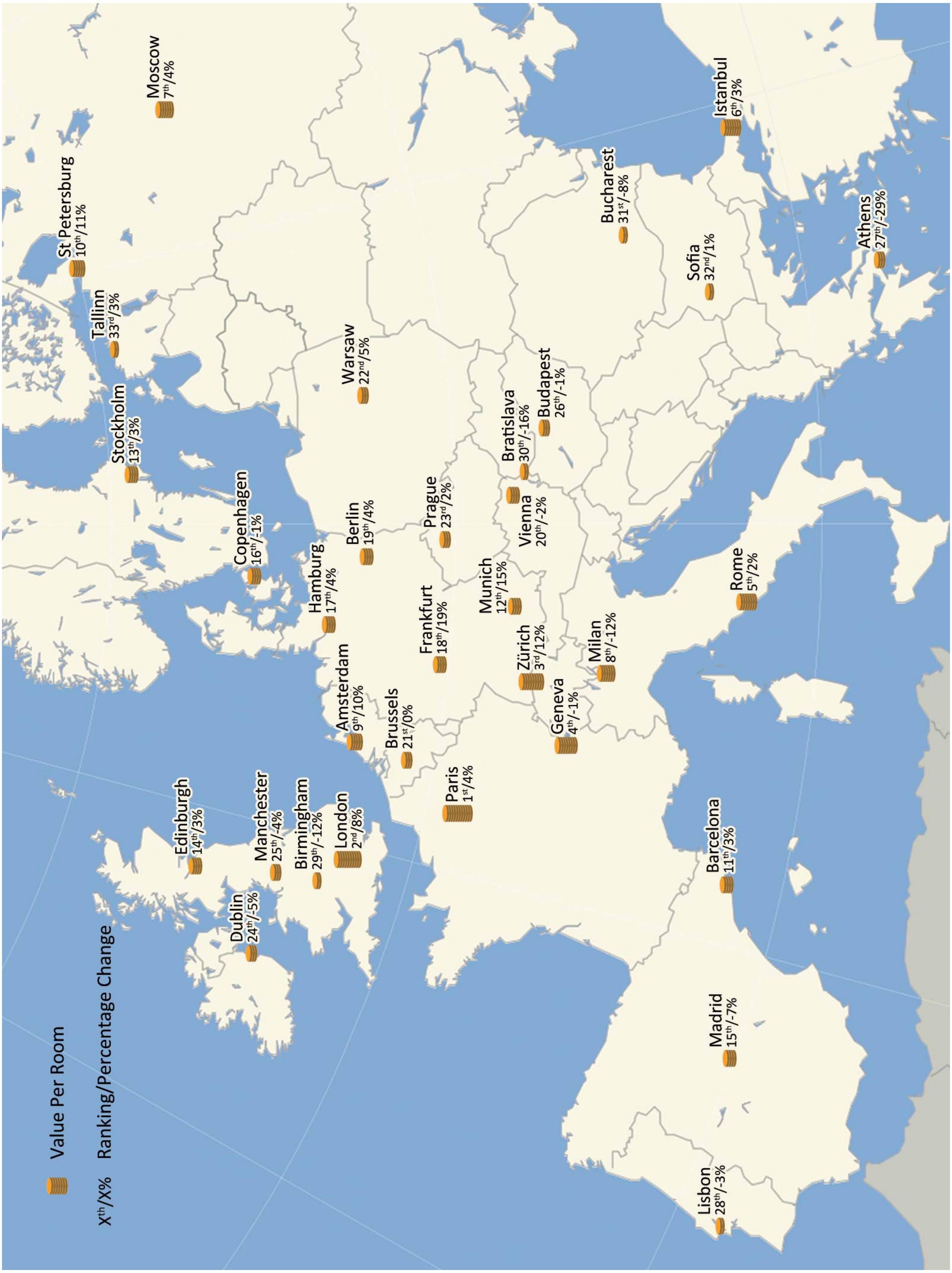
Value Per Room
Xth/X% Ranking/Percentage Change
Moscow 7th/4%
St Petersburg 10th/11%
Tallinn 33rd/3%
Stockholm 13th/3%
Copenhagen 16th/-1%
Warsaw 22nd/5%
Hamburg 17th/4%
Berlin 19th/4%
Prague 23rd/2%
Bratislava 30th/-16%
Budapest 26th/-1%
Vienna 20th/-2%
Munich 12th/15%
Frankfurt 18th/19%
Amsterdam 9th/10%
Brussels 21st/0%
Zürich 3rd/12%
Geneva 4th/-1%
Milan 8th/-12%
Rome 5th/2%
Bucharest 31st/-8%
Sofia 32nd/1%
Istanbul 6th/3%
Athens 27th/-29%
Edinburgh 14th/3%
Manchester 25th/-4%
Birmingham 29th/-12%
London 2nd/8%
Dublin 24th/-5%
Paris 1st/4%
Barcelona 11th/3%
Madrid 15th/-7%
Lisbon 28th/-3%

About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

With offices in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios. For further information about the services of the London office, please contact Tim Smith on +44 20 7878 7729 or tsmith@hvs.com.

Ben Russell MRICS is a Consulting and Valuation Analyst with HVS's London office. He joined HVS in 2010. Ben has years of experience in valuing licensed and leisure property across the UK, and recently gained valuable international experience working in the leisure sector in New York. At HVS, Ben has conducted feasibility studies, valuations and market research across Europe and North Africa.

Liliana Ielacqua is a Consulting and Valuation Analyst with HVS's London office. She joined the company in 2008 after completing her Management in Hospitality masters degree at Cornell University's School of Hotel Administration. Since then, Liliana has conducted feasibility studies, valuations and market research across Europe, and written a number of market- and industry-related articles.

Tim Smith MRICS is Director of Valuations in the London office of HVS. Tim graduated from De Montfort University with a degree in Estate Management and has worked for firms of chartered surveyors in London since 1995, specialising in the valuation and sale of hotels and all forms of leisure properties. Tim has valued properties in more than 30 countries across the EMEA region and has been involved with the valuation of some of the most important individual assets and portfolio transactions across the region.