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European Hotel Transactions 2009
An Age of Austerity

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Key Issues

- How does investment activity in 2009 compare to that of previous years?
- What about distressed sales?
- Who was still able to buy or sell?
- How did Europe's main transaction markets fare?
- What to expect in 2010.

Introduction

When taking stock of hotel investments in Europe a year ago, we feared that the 'party was over'. There were record investment volumes of €18-20 billion in 2006 and 2007, but just over €6 billion in 2008. Owing to deepening recession in most European economies, falling RevPAR and a freeze on lending by commercial banks, 2009 took the investment community into an 'age of austerity'. European hotel investment activity in 2009 fell further, by approximately 50%, to just over €3 billion: a drop of more than 85% on the volumes of 2007!

This fall was expected. After the collapse of Lehman Brothers in September 2008, 2009 was certain to be a challenging year. But it also meant that 2009 would be a year of hope for opportunists, some of whom secretly hoped that banks' toxic assets would translate into distressed sales; others hoped lending would become relatively easy. However, for most of the year, there were only a limited number of distressed sales, lending remained largely restricted and RevPAR continued to fall in most European cities, right up until the very end of the third quarter for some and through to the end of 2009 for the rest

Just over €2 billion was transacted in single-asset deals. Only one trophy asset and a half stake in another changed hands in 2009 and no hotel transacted at a value of more than €900,000 a room (compared to one in 2008 and three in 2007). The one possibly trophy asset was The Stafford Hotel in London and the 'half' a 50% stake in the Four Seasons Hotel des Bergues in Geneva. The UK took the largest chunk of a relatively small distressed-assets pie. The Aviemore Highland Resort; the Park Inn London, Russell Square; and the Marconi building (the former Silken project) were the key assets taken out of administration.

A lack of funding from banks meant that portfolio transactions faced considerable hurdles, as nearly all such transactions are highly leveraged. Only €1 billion of the total transaction volumes (approximately 35%) were attributable to portfolios, and only two portfolios (Formule 1 and Steigenberger) transacted at more than €100 million. This compares with seven portfolios in 2008 and 27 in 2007.

In general, single-asset volumes fell to levels last seen in 2002 and portfolio values matched volumes last seen in the late 1990s.

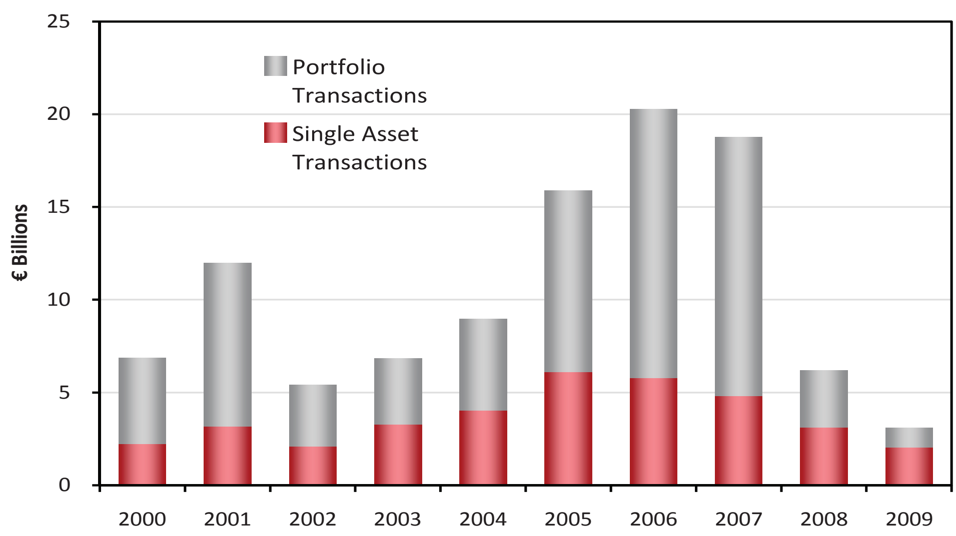
Hotels in Europe continued to experience a challenging year in 2009; RevPAR had begun to fall in mid-2008 as a result of the global economic downturn. To try to maintain their occupancy, hotels discounted average rate more heavily as the year progressed, and this led in turn to a double-digit decline in RevPAR in most European cities. Later on in the year, though, the decline in RevPAR slowed in most cities; markets such as London and Geneva even saw growth in the closing months.

GDP in the Eurozone is estimated to have declined by 4.1% in 2009, compared to growth of 0.8% in 2008. As a result of plunging financial markets and the general global economic slowdown, the European economy entered into an economic crisis the like of which had not been seen for more than a decade. For much of the year, the economic environment continued to prove difficult and this further restricted hotel investment, as there was a lack of financing and a lack of confidence in the markets, and hotel performance continued to weaken. The last quarter of the year, on the other hand, started to see some activity in terms of hotel investment and a slowdown in the decline of overall hotel performance.

Single Assets

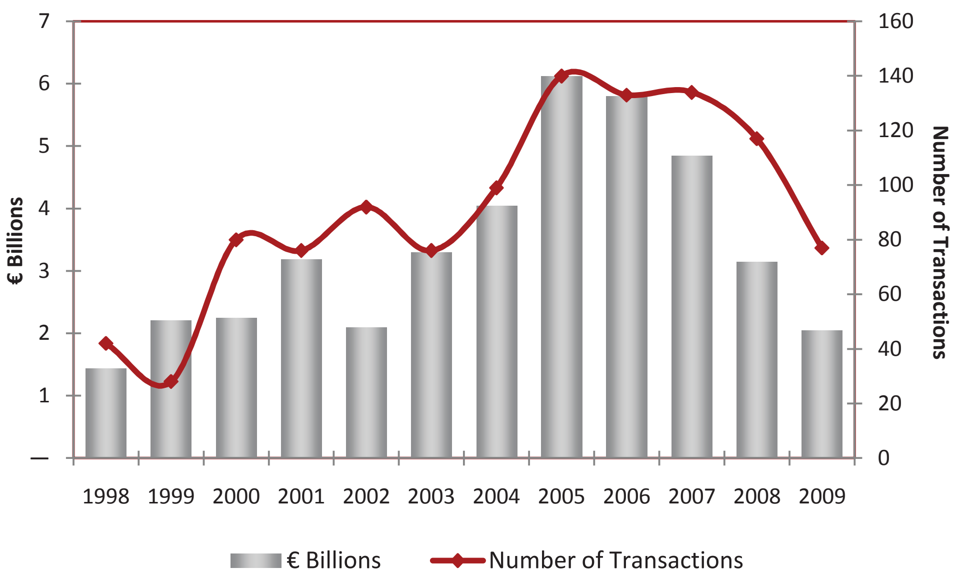
In 2009, HVS recorded a total of 62 single-asset transactions, each of more than €7.5 million. We again set €7.5 million as the minimum amount for a transaction to qualify for inclusion in our survey. The year continued in the same vein as the end of 2008 when transactions had already slowed significantly. In general, there was a 19% decrease in the number of transactions in 2009. (The number of transactions in 2008 was 77.) The year continued to prove challenging for investors interested in the hotel sector: banks were reluctant or unable to lend, and financing

FIGURE 1 Total Hotel Investment Volume 2000-09 (€ billions)



Source: HVS – London Office

FIGURE 2 European Single Asset Hotel Transactions 1998-09



Source: HVS – London Office

remained an enormous obstacle to any larger single-asset deal and portfolio activity. One result of the general deceleration in activity was a decrease of 22% in the average price per room, to €169,000. The economic downturn has had an impact on the availability of trophy assets in the market, as those owners under no obligation to sell have been more reluctant to place their properties in an unfavourable market. For this reason, few trophy assets were transacted in 2009, with the highest transaction value per room of approximately €1.6 million (based on a 100% asset value) being in Geneva, where a 50% stake in the Four Seasons Hotel de Bergues was sold. The next two highest prices per room were the €827,000 of The Stafford Hotel and the €707,000 of the former Silken Hotel development project on The Strand, in London.

We note that the sales price of almost a third of the qualifying single-asset transactions in 2009 was not publicly disclosed. HVS estimates that the total price of these transactions was just over €400 million.

The UK continues to dominate the transactions market, claiming just over a quarter of the single asset transactions by value (€543 million). The UK has been predominant since taking over from Spain as the leader in 2005. We recorded 11 transactions in the UK provinces, and six in London. Hotel investment values in London were approximately €306 million in 2009, or just over half of the total investment volume in the UK. Meanwhile, the UK provinces registered an estimated transaction volume of €237 million, a figure enhanced by the sale, for more than €143 million, of the Aviemore Highland Resort in Scotland. Weighted average sales prices per room in the UK varied from €137,000 in the provinces to €449,000 in London. HVS puts the value of the undisclosed hotel transactions in the UK at around €55 million.

Last year, Germany proved to be an active investment arena in terms of the number of hotels transacted, having overtaken Spain and France the previous year; there were a total of 12 transactions in Germany in 2009, compared with nine in 2008. Such investment resulted in a total volume of €393 million: a 19% share of the total single-asset investment volume. Key properties sold included the Radisson Blu Hamburg, which had a sales price of approximately €155 million. HVS estimates the value of the undisclosed transactions in Germany to be approximately €135 million.

Spain continues to be one of the leaders in terms of the number of hotels transacted: a total of seven properties (1,465 rooms), translating into a total investment volume of approximately €317 million. Spain accounted for 15% of the total single-asset investment volume and sales included the Meliá Madrid Princesa and the AB Skipper Hotel, which sold for a combined total of an estimated €160 million (approximately).

France maintained its investment activity; five properties were sold there, four of them in Paris. Such investments accounted for 5% of the total number of single-asset deals, and a total investment of roughly €111 million. Paris's continued importance was underlined by the sale of upscale assets such as the Radisson Paris Boulogne, which was bought by Algonquin Asset Management France (AAMF), and the Renaissance Paris Hotel Le Parc Trocadero, which was bought by Westmont Hospitality Group in partnership with Rockpoint.

In 2009, a total of five qualifying transactions were made in central and eastern Europe, down from the seven of 2008. Poland saw two prominent assets sold in Cracow: the Radisson Blu Hotel, which Union Investment Real Estate acquired for €32 million (a yield of 7.5%), and the 159-room Andel's Hotel Cracow, which was acquired by Deka Immobilien for approximately €29 million.

Unlike previous years, when we saw many transactions with a sales price of more than €50 million, 2009 saw only eight deals at or above this figure, a decrease of almost half compared to 2008.

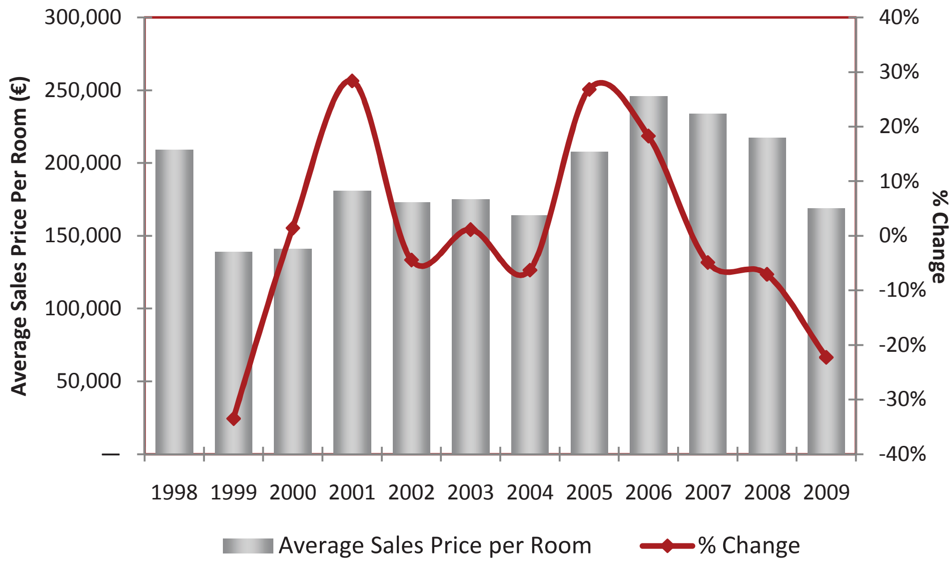
The following significant single-asset transactions were recorded in 2009 (full listing in Tables 2 and 3).

- In November, Invesco Real Estate announced it had closed the acquisition for the Radisson Blu Hamburg in Germany. The 556-room hotel sold for €155 million, a price per room of approximately €279,000. This purchase is considered to be in line with the company's strategy of diversifying its European portfolio by acquiring three-star and four-star properties. This was Invesco's twelfth acquisition in Germany to-date;
- In June, the Aviemore Highland Resort in the Scottish Highlands

was rescued from administration by its operator Macdonald Hotels, after it had managed to secure financing for the purchase of the resort and for the completion of an £80 million (€92 million) refurbishment currently under way. The resort was originally held by a consortium of owners that included Macdonald Hotels, Lloyds Banking Group, and Tulloch, a Scottish construction company. Delays in the refurbishment project led to difficulties, but the hotel operator managed to secure funding for the remainder of the project and came to an agreement with the administrators for the acquisition of the business. The refurbishment project will see the addition of children's facilities, a cinema, and a clubhouse for the golf course;

- In September, Shire Hotels, controlled by the brewer Daniel Thwaites, the owner of The Stafford Hotel in London, sold the hotel to Britannia Hospitality, a company which belongs to an Egyptian family. The hotel is said to have sold for approximately €87 million, making it – at €827,000 a room – one of the highest priced per room sales of the year. The 105-room hotel recently took the Kempinski brand and joined the company's portfolio to become Kempinski's only London property. It is expected that all of the hotel's public areas will have been renovated by the end of 2011;
- London saw the acquisition of another hotel in November when Crimson Hotels Group purchased the Park Inn London, Russell Square, formerly known as the Bonnington Hotel. The hotel had first been acquired by WG Mitchell in 2007 for an estimated £70 million (€89 million). Last year, the owners handed the hotel over to its administrators who concluded the sale for an estimated sum of nearly €50 million. The 214-room hotel includes a restaurant, bar and 14 conference and meeting rooms. Crimson plans to enhance the hotel's facilities including the reception, food and beverage outlets, as well as its meeting rooms. The company will additionally seek to rebrand and reposition the property;
- Paris proved yet again that it is an active hotel investment market, although there were no trophy asset transactions in 2009. The French capital registered a total of four transactions, in line with the previous year. In terms of investment volume, on the other hand, there was a significant decrease, from €335 million to just over €100 million. Such a drop in investment can be attributed to the economic slowdown and to a lack of prime luxury assets available in the market. The two most prominent deals in Paris were the sale of the 170-room Radisson Paris Boulogne (€32 million) and the Renaissance Paris Hotel Le Parc Trocadero (€35.5 million).

FIGURE 3 Single Asset Price per Key 1998-09



Source: HVS – London Office

We have witnessed relatively few distressed asset sales (the expectation was that there would be more) as banks have not called in their commitments or sought buyers in 'off market' transactions. Many owners have technically been in breach of their loan covenants (loan to value, for example); but as long as interest payments are kept up – banks are continuing to turn a blind eye. With continuing low interest rates, it will, however, be interesting to see how long the lenders' patience lasts.

Many of the distressed properties sold were in the UK. A number of administrators were appointed, owing to the financial difficulties owners found themselves in. We estimate that approximately 20% of all transaction volume in 2009 can be considered to be distressed, and more than 60% of these distressed assets were acquired by hotel operators. Distressed assets sold included the Aviemore Highland Resort, the former Silken Hotel in London, and the Park Inn London, Russell Square.

Over the last 12 years, the average transaction price per key for single assets averaged €188,000. The average price in 2009 was some 11% short of this, at €169,000. The decrease in value in 2009 was due to a lack of trophy assets being transacted and to a number of distressed assets being sold at a discount to their Market Value. Between 2005 and 2008, the average price per key exceeded €200,000, peaking at €246,000 in 2006 (as shown in Figure 3).

Portfolios

Just as they did in 2008, illiquid market conditions drastically reduced the number of portfolios transacted in the market (see Table 1). With many buyers finding it difficult to secure finance for single-asset deals exceeding €50 million, portfolio deals were scarce in 2009.

Hotel portfolios, which, in the past, made up approximately three-quarters of the total transactions volume, accounted for only 50% of the total volume in 2008 and just 34% in 2009, owing to the vast lack of finance for larger deals.

In 2009, portfolio transactions were a mere €1.1 billion, a reduction of two-thirds on 2008. The volume of investment in portfolios has dropped by a staggering 92% from the boom years of 2006 and 2007 when portfolio deals were worth approximately €14 billion, owing to many hotel operators selling off their portfolios to manage or lease them back. It is certain that 2009 has seen the smallest number of portfolio transactions since the late 1990s. It is interesting to note that although the average number of hotels in each portfolio transacted did not change dramatically (it was eight in 2008 and ten in 2009) the price per key halved between 2008 and 2009 (€140,000 in 2008 and a mere €69,000 in 2009). However, we attribute this not only to a fall of overall values but to the sheer volume of budget hotels transacted last year. Budget hotels are widely regarded as more recession-proof and only a small number of full service properties changed hands in a portfolio transaction in 2009.

It is also important to note that 2009 was characterised by the increased secrecy surrounding published transaction prices. Therefore, HVS's estimates for undisclosed portfolio transactions are almost half of the total investment value.

The number of portfolio transactions recorded in 2009 was 17; there were 24 in 2008. With the exception of the Steigenberger and Formule 1 transactions, which involved 82 and 158 hotels, respectively, the majority of portfolio deals involved only two or three hotels.

Only two European deals last year exceeded the €100 million threshold, compared to seven in 2008.

- Accor continued to pursue its asset-light strategy and sold 158 of its 270 Formule 1 budget hotels in France in a sale and leaseback deal to a consortium of French investors for €272 million, or €22,000 a room. Around 100 of these properties had recently been renovated to conform to Accor's 'duo' concept. Accor will continue to operate the hotels, which have a total of 12,300 rooms, under the F1 brand on 12-year leases (renewable six times at Accor's option). The rent will be 100% variable and comprises 20% of total turnover. As a result of the transaction, Accor will be able to reduce its adjusted net debt from last year by approximately €187 million, and €130 million of this will be added to the company's cash reserves;
- The family-owned Steigenberger Hotels AG, comprising the Steigenberger Hotels and Resorts and InterCity Hotels brands, was sold for an undisclosed price to the Egyptian tourism group Travco. The German family retained only three properties (Frankfurter Hof, Steigenberger Airport Hotel and the Hotel Belvedere, in Davos, Switzerland) of the original portfolio of hotels across Switzerland, Germany and Austria.

Golden Tulip Hospitality BV, the management company of the various Golden Tulip brands, went into voluntary receivership in early 2009 and was subsequently bought by Starwood Capital, which saw it as a good fit with its existing Louvre Hotels portfolio (consisting of the Première Classe, Campanile and Kyriad brands). Golden Tulip complements the portfolio in terms of brand variety and geographical spread. The transaction included the franchise and development businesses, the joint venture interests and all trademarks and intellectual properties of Golden Tulip but excluded any real estate interest in the Golden Tulip hotels. For that reason, this transaction, although noteworthy, is excluded from our listings.

NH Hoteles and Hesperia signed an agreement to merge their hotel management businesses, thus creating the largest Spanish hotel group in the urban segment. Again,

TABLE 1 Portfolio Transactions 2009

Portfolio	Location	Number of Hotels	Number of Rooms	Total Sales Price (€)	Price per Room (€)	Buyer	Seller
158 Formule 1 Hotels	France	158	12,300	272,000,000	22,000	Institutional Investors	Accor
Six Travelodge Hotels in London	UK	6	828	96,600,000	117,000	Travelodge	Undisclosed
12 UK Hotels	UK	12	1,443	88,550,000	61,000	Travelodge	Undisclosed
Hotel Budapest JSC (55% Stake)	Russia	2	137*	45,925,000	335,000	Mos City Group	VTB (15%) and MC Ko Hotels Mgt Ltd
5 Premier Inn Hotels and Restaurants	UK	5	450	40,682,000	90,000	M&G Investments	Whitbread
Two Spanish Hotels	Spain	2	912	—	—	Hotasa Hoteles	Maspalomas Hoteles SA/Estancia Hotelera SA
4 Aquis Hotels & Resorts	Greece	4	964	—	—	Aquis Hotels & Resorts	Undisclosed
3 Purple Hotels	UK	3	258	—	—	Travelodge	BDO Stoy Hayward (for The Real Hotel Company)
2 H10 Hotels	Spain	2	432	—	—	Nueva Rumasa	H10 Hoteles
Two Spanish Hotels	Spain	2	335	—	—	Hotasa Hoteles	Stil Hoteles
Nordic Hotels	Sweden	2	542	—	—	Choice Hotels Scandinavia	Ejnar Söder & Hans Mellstrom
Six Campanile Hotels	France	6	268	—	—	LFPI/Time Hotels	BNP Paribas Real Estate
Princess Hotels & Resorts	Spain	2	530	—	—	Ibersol	Reda Alaywan/Princess Hotels
Intrawest Hotels & Residences	France	2	793	—	—	Pierre & Vacances	Intrawest Hotels & Residences
Steigenberger Hotels AG	Various	81	14,890	—	—	Travco Group International Holding	Steigenberger Hotels AG
Nine Hotels in France	France	9	600	—	—	LFPI/Time Hotels	Sopalia Compagnie Financière Holdings SA
8 Folio Hotels	UK	8	498	—	—	Akkeron Hotels	Folio Hotels

* Pro rata (55% stake)

Note: The total investment volume shown includes transactions for which the sales prices are confidential

Source: HVS – London Office

since no real estate was exchanged, this transaction is not featured in our hotel investment totals.

UK budget hotel operator Travelodge has used the difficult economic environment affecting the owners of distressed hotels to increase its portfolio. In March 2009, Travelodge acquired 12 hotels for €88.6 million, or €61,000 a room, across the UK in locations such as Cambridge, Edinburgh, Epsom, Liverpool, London (Waterloo) and Twickenham. In July, Travelodge acquired another six properties for development across London for €96.6 million with the aim of having them ready for the 2012 Olympic Games in London.

Whitbread signed a deal with M&G Investments to acquire five Premier Inn properties, including the adjacent restaurants, for €40.7 million, or approximately €90,000 a room. The reported yield on this transaction was 5.5%. Whitbread is leasing the properties back on 25-year leases.

Mos City Group (MCG) acquired two hotels in Moscow: the 116-room Budapest Hotel and the 133-room Peter I. The 55% stake in the two hotels had a transaction value of €45.9 million. MCG plans to refurbish the Budapest Hotel to a five-star standard. This is a rare deal, as eastern Europe hardly ever features among portfolio transactions.

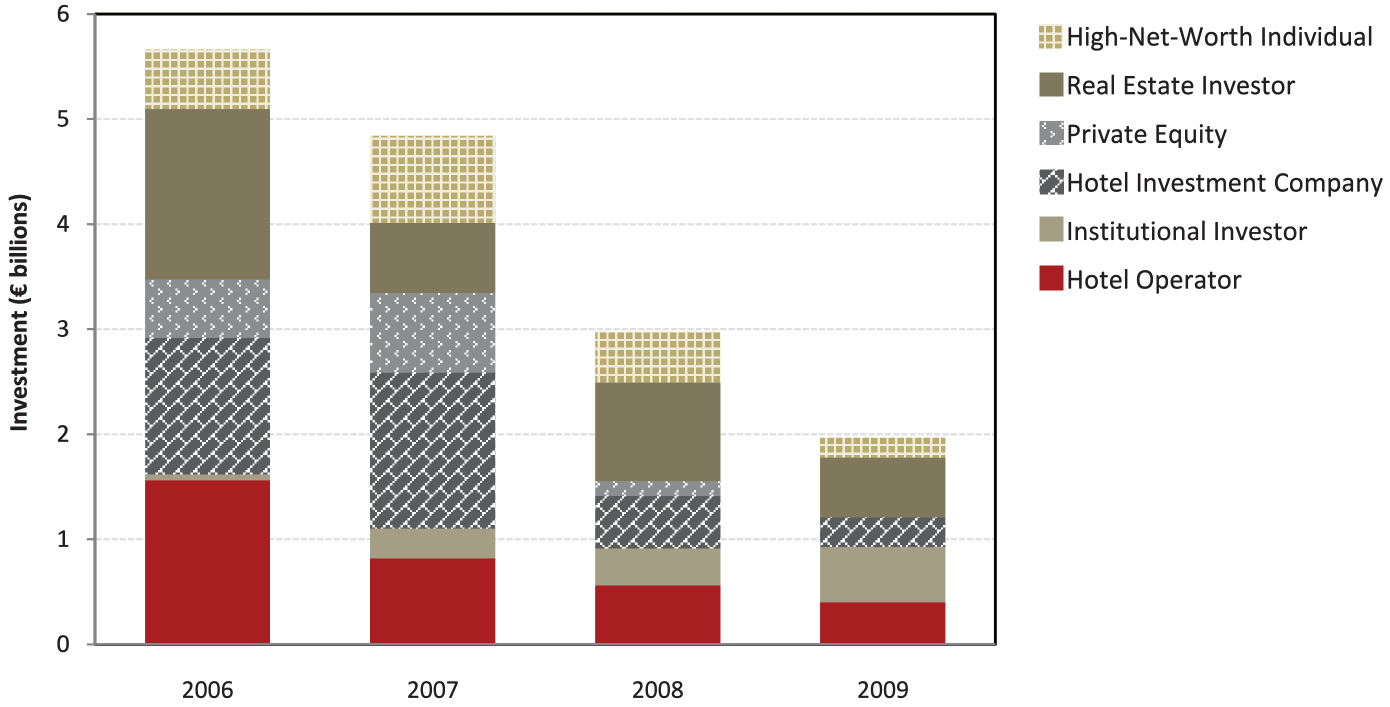
Time Hotels, part of La Financière Patrimoniale d'Investissement (LFPI), recently completed the acquisition of nine hotels in France for an undisclosed sum. The hotels are all in the Île-de-France region and have a total of approximately 600 rooms. The seller was Sopalia Compagnie Financière Holdings SA. Time Hotels also acquired six Campanile-branded properties (268 rooms) from the asset manager BNP Paribas Real Estate in July 2009. Time Hotels will continue to operate the hotels under a Campanile franchise.

Profile of Investors – Single Assets

Within single asset investment, the profile of buyers continued to demonstrate a balanced spread of investment among the different investor types, with real estate investors once again being at the top of the single-asset investor table (see Figure 4). We expect the presence of high-net-worth individuals (HNWI) and institutional investors in hospitality investment to increase in the future, particularly HNWIs from Asian countries, as their appetite to acquire European assets becomes stronger. We expect to see too the re-emergence of more sovereign wealth funds and the emergence of new REITs and funds formed as a result of the economic slowdown in the hope of seizing the opportunity and acquiring desirable properties that may come onto the market in the medium term.

- In single asset investment, real estate investors continued to maintain their position as the top investors in 2009, accounting as they did for approximately 28% of the total number of single asset transactions. The amount of capital spent on hotel acquisitions decreased to just over €568 million, down from nearly €940 million in 2008. Investors within this category were particularly active in Germany, where a total of nine deals were completed. Key assets acquired by real estate investors included the Radisson SAS Royal Viking Hotel in Stockholm, by the Norwegian property company KLP Fastigheter for just over €112 million (a yield of approximately 6%); the Radisson Blu Hotel, Cracow, by Union Investment Real Estate for approximately €32 million; and The Charles Hotel in Munich, by AM Alpha. The Charles Hotel is part of a mixed-use complex that sold for around €200 million (a yield of around 6%);
- Institutional investors accounted for 26% of the total single-asset investment, an increase of 11% on 2008, amounting to a sum of €525 million. Deals completed by such buyers included the Meliá Madrid Princesa in Spain (€88 million), the Park Inn Frankfurt Airport (€28 million), and the former Silken Hotel project in London (€122 million);
- The investment made by hotel investment companies totalled approximately €285 million, or 14% of the total single-asset investment volume. Such investors managed essentially to maintain the share they had in the previous year (of 16%) by acquiring prime assets in gateway locations. Acquisitions made by this group of buyers included The Stafford Hotel and a 50% stake in the Four Seasons Hotel des Bergues;
- Hotel operators remained active in the single-asset transactions market, acquiring a total of 16 properties (or 20% of the total single-asset investment volume) for a total of approximately €401 million. Such investors become increasingly active in 2009, and we are likely to see increased activity from similar buyers. Last year saw increased activity by hotel operators in the UK especially; a number of hotels in the UK found themselves in financial difficulty and consequently many entered administration. Hotel operators who found themselves in a better position made an investment decision to acquire these struggling properties in the hope of better managing and operating them. Examples of investments made by hotel operators include the Park Inn London, Russell Square, which was acquired by Crimson Hotels Group, and The Forbury Hotel, which was acquired in October by von Essen Hotels;
- HNWIs continued to maintain their activity, albeit at a relatively reduced level, by acquiring seven properties in 2009, a 9% share of the total single-asset investment volume, for €188 million. Investments made by such buyers include La Perla Ionica in Italy, which was bought by a Middle Eastern investor for approximately €46 million; Lapa Palace Hotel, in Lisbon, which was bought by a private investor for just over €29 million; and La Canaria Hotel, in Spain, which was bought by a Norwegian investor for an undisclosed sum.

FIGURE 4 Single Asset Investment Activity by Buyer Category 2006-09



Source: HVS – London Office

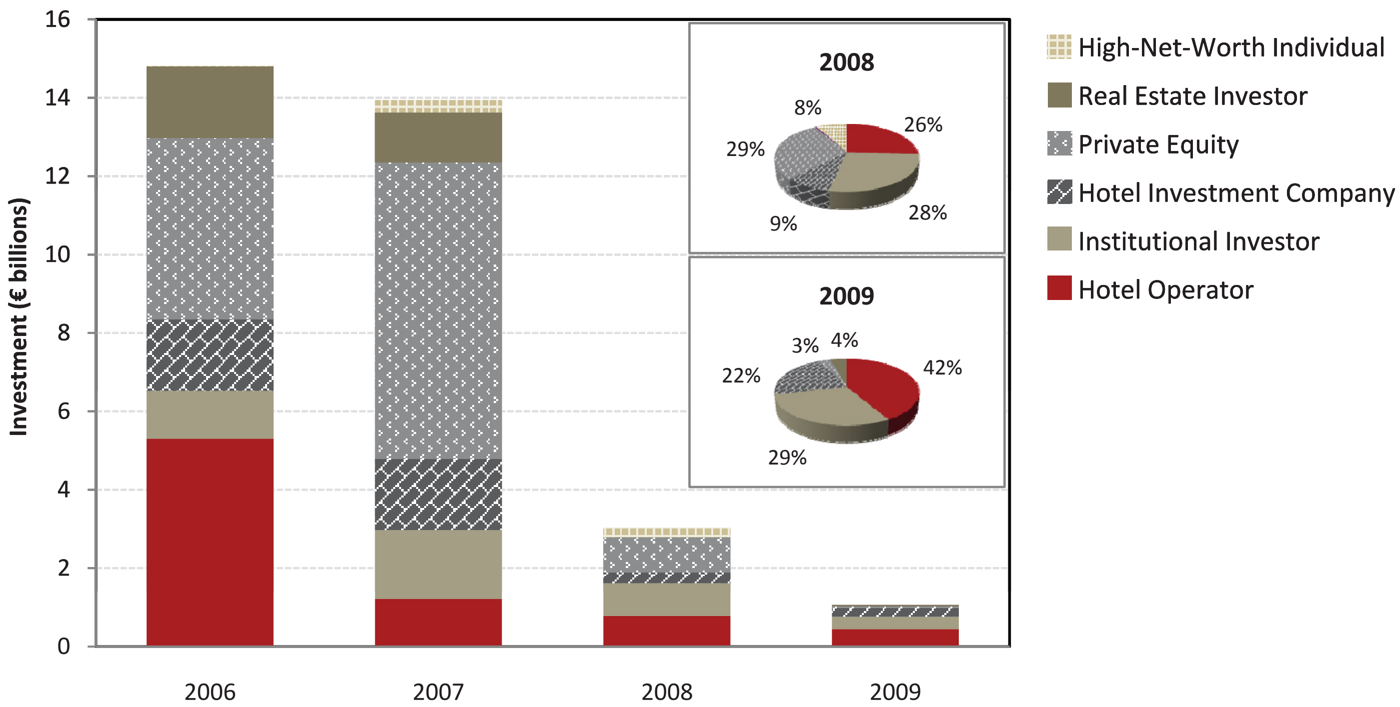
Profile of Investors – Portfolios

In 2008 and especially in the years before that, private equity funds were one of the top investors in portfolios (see Figure 5). In 2009, however, private equity funds, with their highly leveraged buyouts, found it increasingly difficult to remain at the top in the prevalent economic climate and they therefore disappeared from the buying scene almost entirely. Investments made by this category of buyer totalled €33 million in 2009 compared with €892 million in 2008 and a staggering €6.8 billion in 2007. An example is the acquisition by La Financière Patrimoniale d'Investissement (LFPI) of several Campanile properties in 2009.

A number of investors are currently planning private equity funds for 2010. It will be interesting to see how many are successful and how easy they find it to invest their capital.

Like they did in 2008, hotel operators are still buying hotel real estate, as the Travelodge and

FIGURE 5 Portfolio Investment Activity by Buyer Category 2006-09



Source: HVS – London Office

Whitbread transactions demonstrate. This investor type took a 42% share of the total portfolio transaction activity: €445 million compared with the €781 million of 2008.

Institutional investors had another strong year in 2009. They usually look for a stable income play in the form of a lease, and this risk-averse strategy fits well with banks' currently limited lending appetites. Accounting for 29% of the total portfolio activity, institutional investors bought hotel assets totalling approximately €313 million in 2009, compared to €836 million in 2008. The largest portfolio deal of the year was that carried out between Accor and a consortium of institutional investors for 158 Formule 1 hotels.

Investments made by hotel investment companies totalled approximately €231 million, or 22% of the total portfolio activity; this figure is close to the €270 million of 2008 and the acquisition of Steigenberger by Travco is one example.

Real estate investors showed little activity within portfolio deals: their investment volume of €46 million accounted for 4% of the total investment made in 2009. This was a significant decrease on 2007, when real estate investors accounted for approximately €1.3 billion worth of portfolio transactions, but was higher than the €10 million of 2008. Russia's Mos City Group, which acquired two hotels in Moscow in 2009, falls into this category.

We recorded no portfolio transactions made by high-net-worth individuals in 2009.

Cross-Border Activity

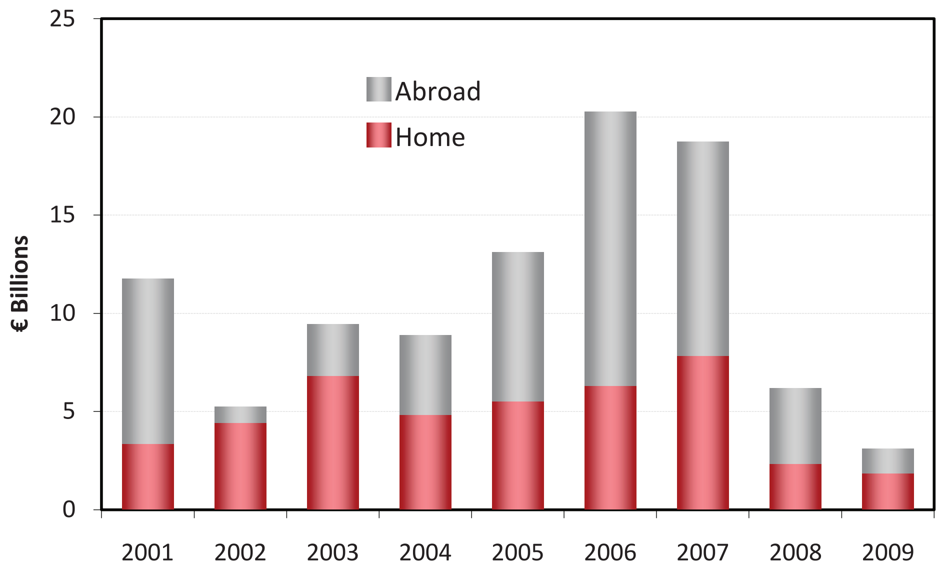
Cross-border activity has witnessed a shift in buyer preference. With the marketplace becoming more and more international, hotel transactions have become an international affair in recent years. However, with the deepening of the financial crisis, of which last year brought but a foretaste, buyers have increasingly looked inside their home country for hotel assets. Familiarity with the market and legal procedures, the avoidance of currency fluctuations and banks' preference for lending closer to home are likely to be the main reasons why the geographical split of hotel assets in terms of volume has shifted towards domestic markets: 60% of all acquisitions, €1.9 billion worth, were generated in the country of the buyer. By contrast, in 2008, only 38% of all acquisitions, a total of €2.3 billion, were made by buyers in their home countries. Cross-border transactions totalled €1.2 billion in 2009. In terms of volume, cross-border activity fell by 68% between 2008 and 2009 (see Figure 6).

As access to finance slowly improves and with the expectation of more trophy assets hitting the market in the medium term, we foresee the return of Middle Eastern and Asian buyers, often using sovereign wealth funds as investment vehicles.

In 2009, only one Middle Eastern investor was active in the European market. Sheikh Hamed Al Hamed of Abu Dhabi bought the resort La Perla Ionica in Italy.

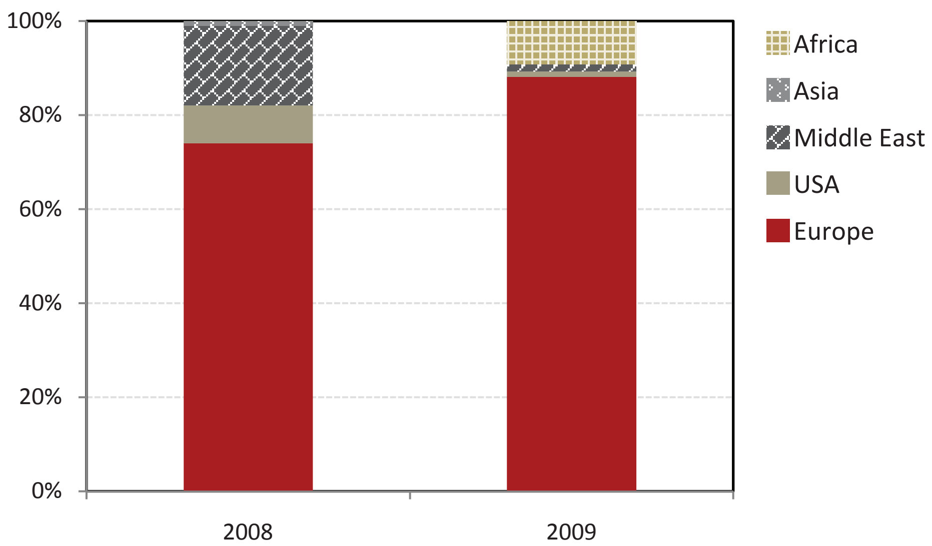
Our buyer analysis by continent (see Figure 7) shows the clear dominance of European companies. However, we note that the investment share from Africa increased strongly, albeit only to 9%, on account of the acquisitions made by Travco and Britannia Hospitality.

FIGURE 6 **Cross-Border Transaction Activity 2001-09**



Source: HVS – London Office

FIGURE 7 **Buyer Analysis by Region 2008-09**



Source: HVS – London Office

Outlook for 2010 and Conclusions

Inactivity in the transaction market over the past 12 months has largely been the consequence of four factors: the wide bid-ask pricing spread between buyers and sellers, the lack of distressed selling, the difficulties in obtaining new financing for purchases and the continued decline in the trading environment.

Can we expect an improvement in these areas over the course of the next 12 months?

There does appear to be greater visibility in respect of the trading outlook; most commentators, including HVS, are predicting a bottoming out of RevPAR in most European hotel markets during 2010. A number of banks also seem to be looking at new financing with genuine intent to lend, albeit on a conservative basis. These two factors, together with a marked upturn in the broader commercial real estate investment market, have resulted in a noticeable increase in the number of buyers looking to take advantage of the anticipated upswing.

2010 thus could see a rise in institutional investors who are likely to continue to count on security and quality and who will therefore prefer western European properties with lease contracts or management contracts with guarantees in place. Unencumbered properties and repositioning opportunities are also expected to be popular acquisition targets with small-scale private investors and well-capitalised private hotel groups. Private equity funds with new capital already raised are also looking to return to the hotel investment scene.

It will, however, be some time until the hotel investment community takes a stronger interest in eastern Europe (which has, to-date, been an illiquid investment market) or on properties in secondary cities and resort markets.

With values still at a low point in the cycle and owners unwilling to sell, a large portion of sales is still expected to be bank-driven. Many hotels sold in the transaction peak of 2006-07 are expected to come up for refinancing in 2010. This, combined with banks' wait-and-see approach towards underperforming assets so far, should give rise to distressed assets particularly in the UK and Spain, but far from the flood that most investors have been predicting and eagerly awaiting.

In general, the European transaction market is expected to remain under immense pressure for another 12 months or so, until confidence in hotel trading performance is restored, sellers start pricing their assets in line with market value, and banks send sustained signals of support for the hotel sector.

Our expectation is that hotel investments in 2010 will, at the very least, fare better than they did in 2009, with a more meaningful upturn occurring in 2011. It will, however, be several years before confidence is restored similar to the levels of the dizzy heights of 2006 and 2007. But for now it is the Age of Austerity – at least in terms of the European hotel transaction market!

– HVS –

About the Authors

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TABLE 2 European Single Asset Hotel Transactions 2009 (€)

Property	Location	Country	Number of Rooms	Sales Price	Sales Price Per Room	Buyer	Seller
Sheraton Brussels Hotel	Brussels	Belgium	511	—	—	International Real Estate (plc) IRE	Starwood Hotels & Resorts
Renaissance Paris Hotel Le Parc Trocadero	Paris	France	116	35,500,000	306,000	Westmont/Rockpoint	Strategic Hotels & Resorts
Radisson Paris Boulogne	Paris	France	170	32,000,000	188,000	Algonquin Asset Management France (AAMF)	Compagnie La Lucette
Hotel Forest Hill La Villette	Paris	France	259	24,900,000	96,000	Forest Hill	Caisse de Dépôts
Hotel Arc Altitude	Les Arcs	France	222	11,000,000	50,000	Mer Montagne Vacances SA	Club Med
Citea Paris La Villette	Paris	France	71	7,900,000	111,000	Caisse d'Epargne	Caisse de Dépôts
Radisson Blu Hamburg	Hamburg	Germany	556	155,000,000	279,000	Invesco European Hotel Real Estate Fund	Azure Property Group
NH Frankfurt City	Frankfurt	Germany	256	30,000,000	117,000	Deka Immobilien	Quinlan Private/FOM Real Estate
Park Inn Frankfurt Airport	Frankfurt	Germany	209	27,500,000	132,000	Fondshaus Hamburg	Lang & Cie. Real Estate
Innside Premium Hotel Düsseldorf-Deredorf	Düsseldorf	Germany	160	20,000,000	125,000	LB Immo Invest	Undisclosed
Motel One Dresden Palace Square	Dresden	Germany	228	14,000,000	61,000	LB Immo Invest	GBI AG
Mercure Hotel Erfurt Altstadt	Erfurt	Germany	141	10,000,000	71,000	Ejendoms Plus	Undisclosed
Steigenberger Badische Hof	Baden-Baden	Germany	139	—	—	EP Group Germany GmbH	Steigenberger Hotels & Resorts
Kempinski Hotel Rotes Ross Halle-Leipzig	Halle	Germany	73	—	—	Aurum	Private company
Motel One Hamburg	Hamburg	Germany	450	—	—	Union Investment Real Estate	Neuer Steinweg GmbH & Co. KG
InterCity Hanover (Rosenquartier)*	Hanover	Germany	148	—	—	Deka Immobilien	Euroland Projektierungen/Wölbern Projektentwicklung
The Charles Hotel*	Munich	Germany	160	—	—	AM Alpha GmbH	Immofinanz
Ramada Treff Hotel Munster	Munster	Germany	140	—	—	SEB Asset Management	Harpen Immobilien Gmbh & Co.
Rogner Hotel	Heviz	Hungary	232	35,000,000	151,000	Taverna Holding	Lotus Therme
Chia Laguna Resort	Cagliari	Italy	452	82,600,000	183,000	Castello SGR SpA	Chia Invest SpA
La Perla Ionica	Catania	Italy	459	46,350,000	101,000	Sheikh Hamed Al Hamed	Constanzo Family
Hotel Internazionale	Bologna	Italy	116	21,500,000	185,000	Leasint Spa	Gruppo Monrif
Etrusco Palace Hotel	Arezzo	Italy	80	8,000,000	100,000	Happy Days Hotels di Rimini	Sogefin SpA
Le Méridien Beach Plaza	Monte Carlo	Monaco	403	25,000,000	62,000	Cyril Dennis	Starman Hotels
Novotel The Hague World Forum	The Hague	The Netherlands	216	25,000,000	115,700	Invesco European Hotel Real Estate Fund	TCN Property Projects BV
Park Inn Oslo	Oslo	Norway	119	17,710,000	149,000	Kristiania Eiendomsforvaltning	Norgani Hotels
Radisson Blu Hotel	Cracow	Poland	196	32,000,000	163,000	Union Investment Real Estate	UBM Realitätenentwicklung
Andel's Hotel Cracow	Cracow	Poland	159	29,000,000	182,000	Deka Immobilien	Warimpex
Hotel Villa Rica	Lisbon	Portugal	171	31,000,000	181,000	VIP Hotels	Grupo Fibeira
Lapa Palace Hotel	Lisbon	Portugal	109	29,400,000	270,000	Private Portuguese Investor	Orient-Express Hotels
West City Hotel Cluj	Cluj	Romania	101	12,000,000	119,000	Elena Greek	Coratim

* Part of a mixed-use development

Source: HVS – London Office

TABLE 3 European Single Asset Hotel Transactions 2009 (€) – Continued

Property	Location	Country	Number of Rooms	Sales Price	Sales Price Per Room	Buyer	Seller
Hello Hotel	Bucharest	Romania	150	9,000,000	60,000	Immorent	Continental Hotels/Radu Enache
Meliá Madrid Princesa	Madrid	Spain	274	87,800,000	320,000	BBVA Renting	Sol Meliá
AC Som	Barcelona	Spain	102	13,400,000	131,000	Invisa Hoteles	AC Hotels
Semiramis Hotel	Tenerife	Spain	300	—	—	Hotasa Hoteles	Best Hotels
La Canaria Hotel	Grand Canary	Spain	249	—	—	Norwegian Investor	Dunas Hotels & Resorts
AB Skipper Hotel	Barcelona	Spain	241	—	—	AXA REIM	Grupo Preyco 44
Radisson SAS Royal Viking Hotel	Stockholm	Sweden	459	112,380,000	245,000	KLP Fastigheter	RBS Nordisk
First Hotel G	Gothenburg	Sweden	300	41,000,000	137,000	Deka Immobilien	Host Hoteleiendom
Coppehill Mountain Lodge	Åre	Sweden	112	18,586,000	166,000	Home Properties	Private Owner
Vildmarkshotellet	Kolmården	Sweden	213	14,852,800	70,000	Pandox	Parks & Resorts Scandinavia AB
Renaissance Hotel Malmö	Malmö	Sweden	128	11,260,000	88,000	Stockholm Hus	Faktor Eiendom ASA
Four Seasons Hotel des Bergues (50% stake) *	Geneva	Switzerland	50	80,000,000	1,600,000	International Hotel Investments	Kingdom Holding Company
Marconi House (former Silken project)	London	UK	173	122,329,900	707,000	BBVA (subsidiary)	Grupo Urvasco
The Stafford Hotel	London	UK	105	86,800,000	827,000	Britannia Hospitality	Daniel Thwaites
Park Inn London, Russell Square	London	UK	214	49,801,500	233,000	Crimson Hotels Group	WG Mitchell
Travelodge London Tower Bridge	London	UK	190	28,300,000	149,000	Aprirose Real Estate	Lenta Properties
St Brelade's Bay Hotel	Jersey	UK	82	13,272,000	162,000	Jayne Best	Frost Family
Aviemore Highland Resort	Aviemore	UK	359	143,780,000	401,000	Macdonald Hotels	Aviemore Highland Resort Ltd
The Liddington Hotel	Swindon	UK	192	11,044,800	58,000	Holidaybreak plc	Grant Thornton UK
Norfolk Royale Hotel	Bournemouth	UK	95	9,322,500	98,000	Peel Hotels	English Rose Hotels
Holiday Inn Express Crawley	Crawley	UK	74	8,865,600	120,000	Sojourn Hotels	Mitchells & Butlers (M&B)
Shendish Manor	Apsley	UK	70	8,175,000	117,000	Planned Holding Ltd	Shendish Manor Ltd
The Forbury Hotel	Reading	UK	23	7,600,000	330,000	von Essen Hotels	Waterbridge Group
Tophams Hotel	London	UK	49	—	—	Berkeley London Ltd	Zola Hotels
Travelodge Borehamwood	Borehamwood	UK	97	—	—	Offshore Fund	Undisclosed
Inverness Terrace (former GuestInvest)	London	UK	187	—	—	Undisclosed	Undisclosed
Holiday Inn Stevenage	Stevenage	UK	140	—	—	Queensgate Hotel	Unknown
Central Hotel Glasgow	Glasgow	UK	222	—	—	Principal Hayley	BDO Stoy Hayward
Premier Inn Hull	Hull	UK	139	—	—	Undisclosed	Undisclosed

* Room count adjusted for percentage stake acquired.
Source: HVS – London Office

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 by President, Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialised industry expertise to help you enhance the economic returns and value of your hospitality assets.

Steve Rushmore began his career in the 1970s as a consultant in the hospitality division of a prominent New York City real estate firm. Through that experience, he noted the limited body of knowledge available to assess the value of hotels and motels, taking into consideration both the business and real estate components. Rushmore's first book, The Valuation of Hotels and Motels, quickly became the definitive work on the subject and, soon after, HVS was born. The HVS method of providing an economic study and appraisal for hotels immediately became, and continues to be, the industry standard.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 300 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry.

Our clients include prominent hotel owners, lending institutions, international hotel companies, management entities, governmental agencies, and law and accounting firms from North America, Europe, the Middle East, Asia, Latin and South America, and the Caribbean. Our principals literally 'wrote the book' on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are client driven, entrepreneurial and dedicated to providing the best advice and services in a timely and cost-efficient manner. HVS employees continue to be industry leaders, consistently generating a wide variety of articles, studies, and publications on all aspects of the hospitality industry.

HVS is the industry's primary source of hotel ownership data. Our 2,000+ assignments each year keep us at the forefront of trends and knowledge regarding information on financial operating results, values, management contracts, franchise agreements, compensation programmes, financing structures, and transactions. With access to our industry intelligence and data, you will have the most timely information and the best tools available to make critical decisions about your hospitality assets.

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