European Hotel Valuation Index 2008

This report is produced by the London Office of HVS *March 2008*

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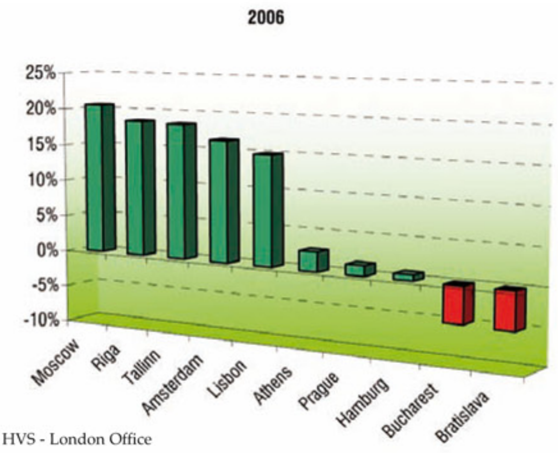
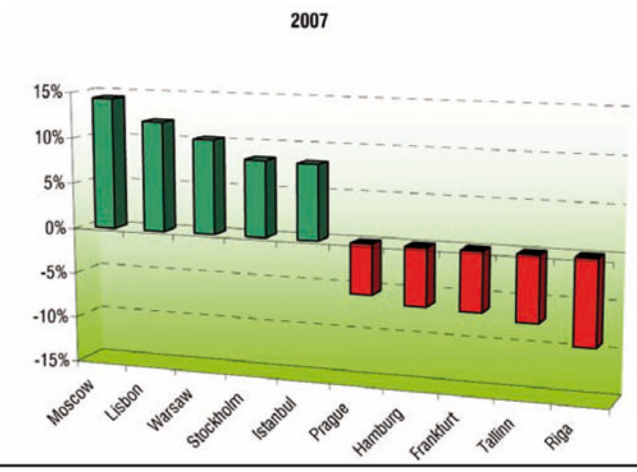
Highlights

- This year we added six key Eastern European capitals to the European Hotel Valuation Index 2008 (HVI) in addition to Budapest, Moscow, Prague and Warsaw that have been featured for a number of years: Belgrade, Bratislava, Bucharest, Riga, Tallinn, and Zagreb. We have included their values per room from 2003 onwards (2004 in the case of Bucharest).
- The recent strength of the European hotel industry continued into 2007; the average value per room in Europe is at its highest level in the 15 years recorded by the HVI. Average hotel values, expressed in euro, achieved a fourth consecutive year of growth in 2007 at 2.6% (in excess of Eurozone inflation) compared to 9.0% in 2006.
- The European average continues to be led by the dominant primary markets, particularly London, Paris, Zürich and Geneva, with Moscow's consistently strong growth also contributing significantly. However, while 18 of the markets reviewed experienced growth in excess of Eurozone inflation, the remaining markets (with the exceptions of Edinburgh and Copenhagen) experienced declines in value; these declines have contributed to the slowdown in average value growth in Europe.
- Nonetheless, values per room largely exceed the peak values of 2000 (Madrid, Barcelona, Warsaw, Hamburg and Frankfurt are the exceptions). Values in the newly included markets of Zagreb, Belgrade, Riga and Tallinn have dropped below their peak values of 2006.
- Moscow, Lisbon and Warsaw all experienced double-figure growth in values. Moscow's growth of 14.3%, while a slowdown compared to the last three years, remains at the top of the growth chart. Despite its strong growth, the value per room in Lisbon remains in the bottom five at €167,200. Stockholm and Istanbul also experienced strong growth in values, with Istanbul exceeding €300,000 for the first time. We note that value growth across Europe was predominantly rate driven in 2007.
- The top five most expensive cities in which to acquire a hotel continue to be London and Paris in first and second place, respectively; Moscow has moved into third place above Rome in fourth place; and Milan remains in fifth place. Both London and Paris have exceeded €600,000 per room for the first time, which has widened the value gap between second and third place. A room is now valued at €623,389 in London, €601,700 in Paris and €491,300 in Moscow.
- Prague, Hamburg, Frankfurt, Tallinn and Riga experienced the greatest losses in value and all in excess of 5%. The least expensive cities in which to acquire a hotel are Lisbon, Zagreb, Belgrade, Riga and Tallinn, each of which (bar Lisbon) has experienced a drop in value. The lowest values per room are found in Riga (€129,100) and Tallinn (€132,500), both cities dropping to the bottom of the table below Belgrade (€134,100) compared to 2006.
- We note that long-term compound annual growth rates across the markets have been higher between 1994 and 2007 compared to compound annual growth rates between 2000 and 2007, reflecting the market difficulties experienced in previous years.
- Between 2008 and 2010, new supply is concentrated predominantly in London, Moscow, Berlin, Madrid and Barcelona. Markets such as Belgrade, Athens, Geneva, Tallinn and Zagreb show little to no new rooms supply growth across the same period. In total, 50% of new rooms supply across Europe is scheduled to come on stream in 2010.

Tables 1a and 1b Top and Bottom Five - Percentage Change in Hotel Value per Room (€)

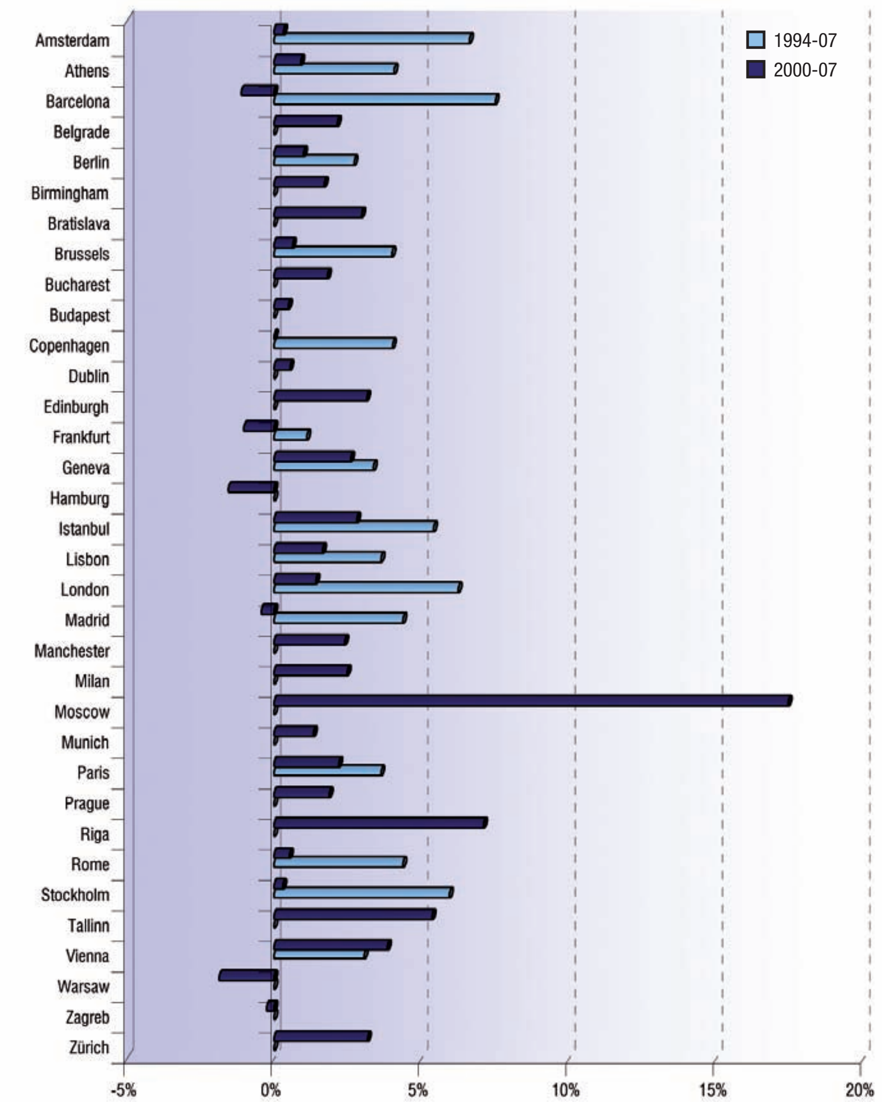




Source: HVS - London Office

Changes in Value

Table 2 Compound Annual Growth Rate 1994-07 and 2000-07 (€)



Source: HVS - London Office

Amsterdam experienced its eleventh year above the European average, despite experiencing a marginal drop in value to €344,700. New hotel openings and an already high occupancy percentage contributed to the nearly static market. Thanks to a very strong leisure base and growing corporate demand the city has the second-highest value per room compound annual growth rate since 1994 of 6.6%. New rooms supply is due to open predominantly in 2009 and 2010.

Improving occupancy levels over the last five years and a rate-driven revenue per available room (RevPAR) increase in 2007 have given **Athens** stronger-than-average value growth. The city has capitalised on its exposure from the 2004 Olympic Games, focused on improving the quality of rooms stock and has now experienced a second year of growth following a market correction in 2005. As such, hotel values in 2007 increased by nearly 5% to €218,000. We are not aware of any confirmed new rooms supply in the foreseeable future.

Haunted by oversupply in recent years, **Barcelona** experienced very strong, rate-driven growth in RevPAR in 2007. Values per room increased by more twice the European average growth rate to reach €315,700, which is the first time since 2003 that values have exceeded €300,000 per room and which places the city within the top ten highest values. The city has very strong long-term growth indicators, holding the highest compound annual growth rate since 1994 at 7.5%. There is still significant new supply due to enter the market between 2008 and 2010.

A relatively undiscovered market, **Belgrade** experienced a modest decline in values in 2007 to €134,100, placing it third from bottom in the list. New supply in an already small market in 2007 contributed to static occupancy and average rate levels. There is no new rooms supply expected until 2010, when several international hotel companies will enter the market for the first time.

The recent increase in lower-end rooms supply has decreased average rates while supporting occupancy in budget-friendly **Berlin**. Despite this occupancy-driven increase in RevPAR, hotel values per room in the German capital dropped by a negligible 0.7% to €174,900, placing it in the bottom ten markets in terms of value. There is still significant new supply due to enter the market, particularly in 2009 and 2010. Additionally, the consolidation of Berlin's three existing airports into one airport (Brandenburg International Airport) by 2011 will serve to increase the city's international reach.

Values per room remain under €200,000 in **Birmingham**, which experienced a 0.5% drop in value to €198,000 following a relatively flat occupancy and average rate performance in 2007. The city continues to steam ahead with its urban regeneration programme and there is significant new supply in the pipeline, especially in 2010.

With the opening of the Hotel Arcadia, its first five-star hotel, **Bratislava** experienced rate-driven RevPAR growth in 2007. Values per room grew by 3% to €196,600. New hotels are due to enter the market in 2009 and 2010, with all confirmed projects involving international hotel companies.

A highly corporate market, **Brussels** achieved strong rate-driven RevPAR growth in 2007 due to another busy year in the European capital. The city achieved the ninth-strongest value growth of 6.1% to €192,000, yet the city still has the tenth-lowest value per room in our survey. There is little new supply in the pipeline and it is concentrated in 2008.

Growing corporate demand and limited supply in **Bucharest** have supported strong occupancy and average rate growth in the Romanian capital. RevPAR is at its highest in the last five years, and values have exceeded €200,000 for the first time. The city experienced the sixth-strongest growth rate in Europe at 8.1% to a value of €204,000 per room. There is a good deal of new rooms supply in the pipeline, particularly in 2008 and 2010, with several notable international five-star operators entering the market.

Table 3 Hotel Values - Percentage Change 1994-2007 (€)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	CAGR[1] 1994-07	CAGR 2000-07†
Moscow	n/a	n/a	n/a	n/a	-19.9	-34.9	13.6	22.6	13.2	8.7	21.7	21.8	20.6	14.3	n/a	17.4%
Lisbon	-4.8	-2.2	13.6	3.1	13.2	-2.7	12.4	-0.1	-1.9	-4.0	2.6	-9.7	14.9	11.9	3.6%	1.6%
Warsaw	n/a	n/a	n/a	n/a	2.1	1.2	1.2	-2.0	-15.2	-10.9	-13.4	8.1	14.7	10.2	n/a	-1.9%
Stockholm	7.7	10.2	31.0	10.7	1.6	16.5	9.8	-10.5	-5.5	-6.5	1.9	5.2	11.2	8.3	6.0%	0.3%
Istanbul	0.6	-4.4	28.0	34.2	-0.3	-20.7	25.9	-10.0	-19.5	-9.5	16.9	32.0	10.9	8.2	5.4%	2.8%
Bucharest	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	17.0	2.6	-4.9	8.1	n/a	1.8%
Zürich	n/a	n/a	n/a	n/a	9.9	5.4	6.2	4.0	-7.1	-5.5	6.2	8.4	10.1	7.6	n/a	3.2%
Vienna	-5.9	4.2	-3.0	-2.7	11.3	0.7	3.2	0.1	-1.4	6.4	0.8	3.9	11.2	6.5	3.1%	3.9%
Brussels	-5.3	4.2	5.7	13.0	8.4	2.5	15.3	-4.2	-7.7	-4.0	3.1	4.5	7.8	6.1	4.0%	0.6%
Paris	-2.2	-3.3	-7.0	23.0	11.2	0.4	10.4	-6.4	4.4	-7.2	4.3	6.6	9.0	6.0	3.6%	2.2%
Barcelona	-8.6	8.2	30.2	28.4	21.9	15.2	9.0	-1.5	1.4	-5.5	-8.5	-5.4	7.2	5.5	7.5%	-1.1%
London	12.7	6.0	22.3	38.3	1.8	-0.6	9.8	-12.7	-5.0	-5.9	11.9	7.2	11.7	5.5	6.2%	1.4%
Geneva	7.0	8.8	-2.6	0.8	4.5	12.5	2.3	10.4	3.8	-7.9	-8.4	9.1	7.6	5.4	3.4%	2.6%
Athens	-2.3	0.3	14.1	17.7	11.7	-5.1	10.7	-2.9	5.9	-2.8	6.7	-7.1	2.6	4.7	4.1%	0.9%
Munich	n/a	n/a	n/a	n/a	15.9	10.0	10.3	5.1	-7.3	-8.1	11.7	-1.4	7.8	3.4	n/a	1.3%
Bratislava	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	11.6	-5.0	3.0	n/a	3.0%
Europe	**1.5**	**2.1**	**10.7**	**10.1**	**5.6**	**3.2**	**10.5**	**-2.1**	**-1.6**	**-11.1**	**2.5**	**5.4**	**9.0**	**2.6**	**3.4%**	**0.5%**
Madrid	-5.1	0.2	13.5	16.6	10.9	9.7	11.5	-2.6	2.4	-5.7	-10.9	0.6	12.8	2.0	4.4%	-0.4%
Edinburgh	n/a	n/a	n/a	n/a	-1.3	-1.2	9.5	-5.3	3.3	-3.4	9.4	5.5	12.0	1.7	n/a	3.2%
Copenhagen	7.8	3.7	13.9	16.2	4.5	7.9	7.8	-6.2	-3.0	-8.3	-3.1	10.0	11.4	1.0	4.0%	0.0%
Birmingham	n/a	n/a	n/a	n/a	2.3	5.3	1.0	-1.4	2.5	-4.2	7.7	3.0	5.4	-0.5	n/a	1.7%
Berlin	-1.6	-1.8	-12.1	11.1	-0.1	15.0	19.9	3.8	1.5	-2.9	1.0	-0.7	5.2	-0.7	2.7%	1.0%
Amsterdam	6.8	11.5	16.6	13.4	10.8	13.2	21.9	-6.5	-5.5	-4.9	-0.3	5.7	16.5	-0.8	6.6%	0.3%
Manchester	n/a	n/a	n/a	n/a	3.2	-3.2	3.9	3.1	0.7	-5.7	7.5	6.9	6.2	-1.2	n/a	2.4%
Budapest	n/a	n/a	n/a	n/a	3.9	11.4	1.4	-1.2	-2.8	-13.6	7.9	11.7	4.8	-1.2	n/a	0.5%
Milan	n/a	n/a	n/a	n/a	17.1	11.4	16.1	6.6	3.8	-0.4	-3.3	0.8	12.3	-1.7	n/a	2.5%
Belgrade	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-2.1	7.8	5.0	-1.7	n/a	2.2%
Dublin	n/a	n/a	n/a	n/a	-2.7	8.5	9.9	-8.5	-1.6	1.9	2.3	6.7	6.5	-2.5	n/a	0.5%
Zagreb	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-9.3	5.6	6.9	-3.3	n/a	-0.3%
Rome	9.8	-5.9	28.4	15.8	10.8	0.4	8.0	-3.1	-1.8	-1.9	4.7	2.9	7.8	-4.3	4.4%	0.5%
Prague	n/a	n/a	n/a	n/a	1.5	17.5	30.6	-0.5	-4.3	1.6	17.7	4.3	1.4	-5.4	n/a	1.9%
Hamburg	n/a	n/a	n/a	n/a	3.2	4.8	10.1	-9.1	3.7	-0.2	0.5	0.5	0.8	-6.3	n/a	-1.6%
Frankfurt	-1.9	2.8	-5.3	5.6	2.8	4.0	12.9	6.4	-6.6	-2.0	-3.7	0.2	5.9	-6.4	1.1%	-1.0%
Tallinn	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.6	6.1	18.4	-7.1	n/a	5.4%
Riga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	16.6	4.9	18.6	-9.2	n/a	7.1%

Source: HVS - London Office

[1]Compound annual growth rate
†CAGR from 2000 or most recent year

The absorption of recent new supply in **Budapest** has kept RevPAR growth minimal as occupancy declined albeit that average rate recovered enough to surpass 2003 levels for the first time. This contributed to a 1.2% decline in value to €191,300 per room, the eighth-lowest value per room in our survey. Currently, new supply is concentrated in 2009.

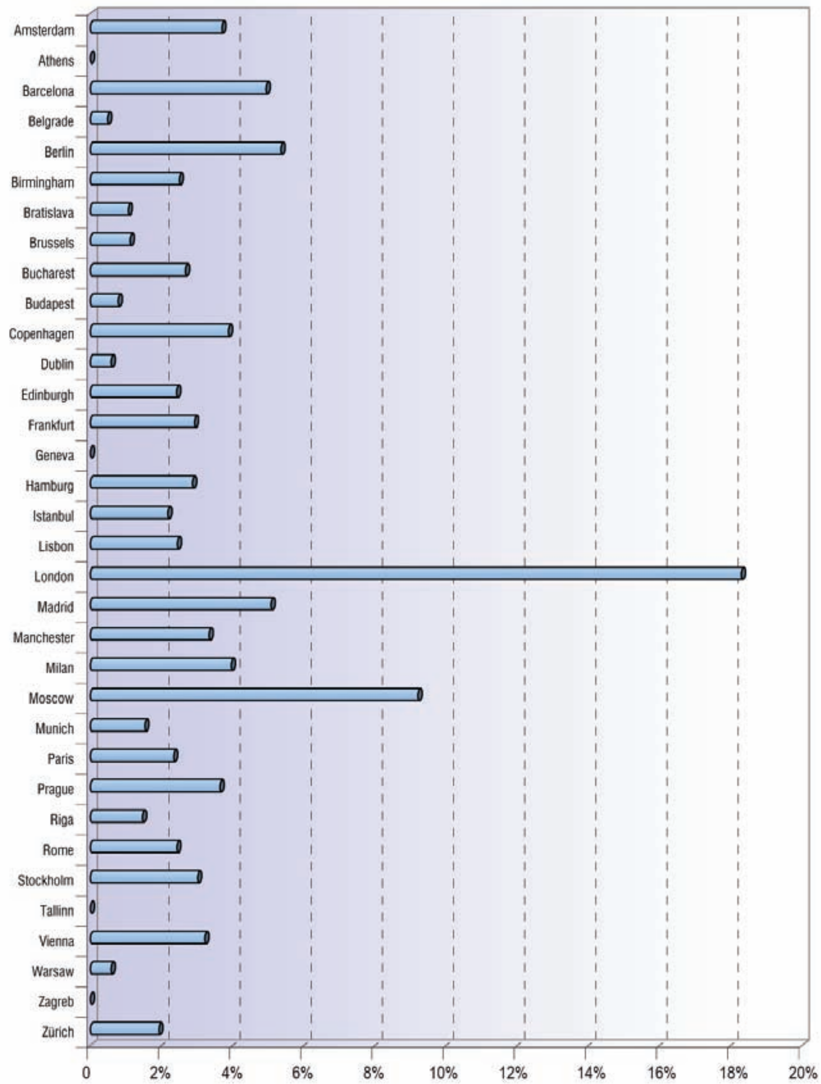
Urban regeneration and infrastructure development are the two terms defining **Copenhagen** at the moment. Rate-driven RevPAR growth, despite a drop in already strong occupancy levels, resulted in a 1.0% growth in value to €218,200 per room, which is still below the European average. New rooms supply is expected between 2009 and 2010.

Table 4 Hotel Valuation Index (€)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
London	1.448	1.632	1.729	2.115	2.924	2.977	2.961	3.250	2.838	2.695	2.536	2.838	3.043	3.400	3.588
Paris	2.228	2.179	2.107	1.960	2.412	2.681	2.693	2.974	2.785	2.907	2.697	2.813	2.997	3.267	3.463
Moscow	n/a	n/a	n/a	n/a	1.549	1.240	0.808	0.917	1.125	1.273	1.384	1.684	2.051	2.473	2.828
Rome	1.363	1.496	1.408	1.807	2.093	2.320	2.330	2.516	2.438	2.394	2.349	2.460	2.531	2.729	2.610
Milan	n/a	n/a	n/a	n/a	1.338	1.568	1.747	2.027	2.162	2.244	2.235	2.162	2.180	2.449	2.408
Zürich	n/a	n/a	n/a	n/a	1.552	1.706	1.799	1.910	1.986	1.846	1.744	1.852	2.008	2.210	2.377
Geneva	1.381	1.478	1.608	1.566	1.580	1.651	1.857	1.900	2.099	2.178	2.006	1.838	2.006	2.158	2.275
Amsterdam	0.806	0.861	0.960	1.119	1.269	1.406	1.591	1.939	1.812	1.713	1.629	1.624	1.717	2.000	1.984
Madrid	1.130	1.072	1.074	1.219	1.422	1.577	1.730	1.930	1.880	1.925	1.815	1.617	1.626	1.834	1.872
Barcelona	0.775	0.709	0.767	0.999	1.283	1.564	1.802	1.965	1.935	1.963	1.855	1.698	1.606	1.722	1.817
Istanbul	0.899	0.904	0.865	1.106	1.485	1.481	1.175	1.479	1.331	1.071	0.969	1.134	1.496	1.659	1.795
Edinburgh	n/a	n/a	n/a	n/a	1.337	1.320	1.303	1.427	1.351	1.396	1.349	1.475	1.556	1.743	1.773
Europe	**1.000**	**1.015**	**1.036**	**1.147**	**1.263**	**1.334**	**1.376**	**1.520**	**1.488**	**1.464**	**1.303**	**1.335**	**1.407**	**1.534**	**1.574**
Prague	n/a	n/a	n/a	n/a	0.810	0.822	0.966	1.261	1.255	1.201	1.221	1.436	1.498	1.519	1.437
Stockholm	0.620	0.668	0.736	0.964	1.068	1.085	1.264	1.388	1.242	1.174	1.097	1.119	1.177	1.308	1.417
Dublin	n/a	n/a	n/a	n/a	1.169	1.137	1.233	1.355	1.239	1.219	1.242	1.270	1.355	1.443	1.407
Vienna	0.973	0.916	0.954	0.925	0.900	1.001	1.008	1.040	1.042	1.027	1.093	1.102	1.145	1.273	1.355
Munich	n/a	n/a	n/a	n/a	0.866	1.004	1.104	1.218	1.280	1.187	1.090	1.217	1.200	1.293	1.338
Copenhagen	0.698	0.752	0.780	0.889	1.032	1.079	1.164	1.255	1.177	1.142	1.047	1.015	1.116	1.244	1.256
Athens	0.764	0.746	0.748	0.854	1.005	1.122	1.064	1.178	1.144	1.211	1.178	1.257	1.168	1.199	1.255
Manchester	n/a	n/a	n/a	n/a	1.015	1.047	1.013	1.053	1.086	1.093	1.031	1.109	1.185	1.259	1.244
Warsaw	n/a	n/a	n/a	n/a	1.313	1.340	1.355	1.371	1.344	1.140	1.016	0.879	0.950	1.090	1.202
Bucharest	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.113	1.142	1.086	1.175
Birmingham	n/a	n/a	n/a	n/a	0.930	0.952	1.002	1.012	0.999	1.023	0.980	1.056	1.087	1.146	1.140
Bratislava	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.036	1.157	1.099	1.132
Brussels	0.701	0.664	0.692	0.731	0.826	0.895	0.918	1.058	1.013	0.935	0.898	0.926	0.967	1.042	1.105
Hamburg	n/a	n/a	n/a	n/a	1.036	1.069	1.120	1.233	1.121	1.162	1.159	1.164	1.170	1.180	1.105
Budapest	n/a	n/a	n/a	n/a	0.907	0.942	1.050	1.064	1.052	1.022	0.883	0.953	1.064	1.115	1.101
Berlin	0.722	0.710	0.698	0.613	0.682	0.681	0.783	0.939	0.975	0.990	0.961	0.971	0.964	1.014	1.007
Frankfurt	0.855	0.839	0.862	0.817	0.862	0.887	0.922	1.041	1.107	1.034	1.013	0.976	0.977	1.035	0.969

Source: HVS - London Office

Table 5 New Rooms Supply per Market as a Percentage of Total New European Rooms Supply 2008-10



Source: Lodging Econometrics

A drop in occupancy and an increase in average rate meant that RevPAR increased by a negligible amount in **Dublin** in 2007. Values per room declined by 2.5% to €244,500 as the city prepared for the impending loss of quality room stock due to the closure of several hotels, such as the Jurys Ballsbridge, Berkeley Court and Burlington hotels, placing the Irish capital among the bottom ten markets in terms of value growth and increasing the gap to the European average. Limited new supply is currently scheduled to enter the market in 2008 and 2009.

Rate-driven increases in RevPAR and already strong occupancy levels have helped **Edinburgh**'s value per room to increase by 1.7% to €308,000. Values per room remain just above the European average. Significant new supply is expected to come on stream over the next three years.

A drop in both occupancy and average rate has hit **Frankfurt** hard as values declined by 6.4% in 2007 to €168,300. Frankfurt remains the worst-performing German city in our survey and remains in the bottom ten markets in terms of value per room, despite having one of the highest proportions of luxury hotels in Germany. Although bedevilled by chronic oversupply in recent years, Frankfurt is expecting the entrance of a lot more new supply over the next three years.

A third consecutive year of strong RevPAR growth (supported by increases in both occupancy and especially average rate) has pushed **Geneva**'s values per room closer to €400,000, with growth of 5.4% leading to a value of €395,300 per room; this places the French-speaking Swiss city in seventh place, immediately after Zürich. Occupancy and average rate levels are greatly above their five-year averages, thanks in part both to the regeneration of the luxury hotel segment in recent years and to high barriers to entry. The city's hotels also enjoy a strong 3.4% long-term compound annual growth rate in value (since 1994). There is currently no new supply in the pipeline.

Hamburg suffered in 2007 as values per room dropped to under €200,000, an eight-year low. While occupancy and average rate levels remain above the five-year average, some oversupply led to small declines in both occupancy and average rate. Values per room in Hamburg have now been overtaken by Warsaw, Bucharest, Birmingham, Bratislava and Brussels to land in the bottom ten, with a value decline of 6.3% to €192,000 per room. There continues to be significant new supply in the pipeline until 2010.

The fourth year of mostly rate-led RevPAR growth further cements **Istanbul**'s growing popularity; RevPAR is nearly double its level in 2003, with 2007 average rate 20% higher than the five-year average. Growth of 8.2% (the fifth highest) has meant that values have exceeded €300,000 for the first time to reach €311,900, which remains above the European average for the third consecutive year. The long-term compound annual growth rate (since 1994) remains far above the European average at 5.4%. Significant new supply is expected to enter the market over the next three years.

Despite double-figure average rate growth, which led to double-figure RevPAR growth in 2007, values per room in **Lisbon** remain the fifth lowest in Europe. Values per room grew by 11.9% to €167,200, the second-strongest percentage value growth in 2007 and also the second consecutive year of strong value growth for the city. The long-term compound annual growth rate since 1994 is above the European average at 3.6%. New supply projects are predominantly composed of smaller properties, from both domestic and international brands, coming on stream until 2010.

London retains the number one spot in our value per room rankings having surpassed the €600,000 mark in 2007. Rate-driven growth has pushed RevPAR to 50% higher than 2003 RevPAR levels as occupancy remains above 80%, and values per room have risen by 5.5% to €623,400 per room. A huge number of new developments have been sparked in preparation for the 2012 Olympic Games. Developments in London will account for 6.2% of new rooms supply in Europe in 2009 and close to 9.7% in 2010, while overall the city will account for an impressive 18.3% of total new rooms supply in Europe between 2008 and 2010.

Occupancy and average rate increases in

Madrid have led to RevPAR that is twice that achieved in 2006. However, a significant amount of new supply in 2007 has slowed value growth to 2.0% to reach €325,100 per room. Nonetheless, values per room remain in the top ten, followed closely by Barcelona. New supply in Madrid remains high with several projects coming on stream between 2008 and 2010.

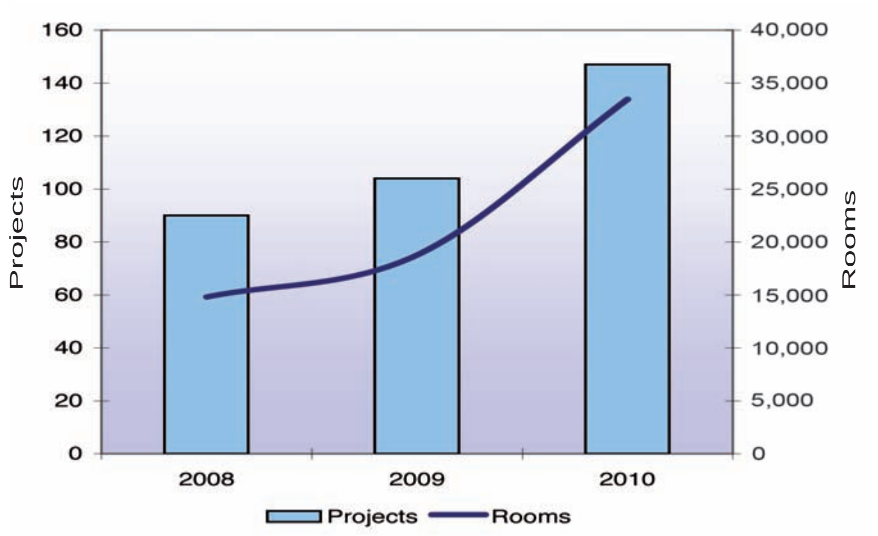
Much like Birmingham, **Manchester**'s small growth in RevPAR, despite a drop in occupancy, was due to an increase in average rates. Values per room in the UK's third-largest city dropped by 1.2% to €216,000 in 2007, falling just below Athens. Despite this drop, Manchester continues to have a short-term compound annual growth rate (since 2000) in excess of inflation at 2.4%. There is significant new supply coming on stream, particularly in 2008 and 2010, and the city will account for 3.3% of total new European rooms supply between 2008 and 2010.

A flat occupancy level and a small increase in average rate in **Milan**, coupled with some new supply, led to a slowdown in previously double-figure RevPAR growth in 2007. Although having the tenth-lowest growth rate among the markets covered, the city still retains a value above €400,000 per room; Milan's value per room is the fifth highest in Europe at €418,300, but the margin with Zürich, currently in sixth place, is quickly decreasing. A significant number of new rooms supply in Milan will enter the market between 2008 and 2010.

Moscow experienced double-figure RevPAR growth for the fourth consecutive year, largely rate driven and a function of supply constraints. As such, the city once again experienced the strongest value growth (14.3% in 2007) to reach €491,300 per room, which is more than double the city's value per room in 2003. Moscow therefore jumps to third place, having overtaken Rome. Consequently, Moscow has the highest compound annual growth rate of 17.4% since 2000. Numerous international brands have projects in the pipeline, amounting to nearly 10% of total new supply in Europe by 2010.

Munich was the strongest performing German market in 2007 with both occupancy and average rates experiencing strong growth. At 3.4%value growth was thus above the European average, reaching a value of €232,400 per room. Munich's value per room

Table 6 New Supply in Europe - Total Number of Projects and Rooms 2008-2010



Source: Lodging Econometrics

Table 7 Hotel Values per Room 1993-07 (€)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
London	251,597	283,549	300,471	367,477	508,083	517,285	514,406	564,730	492,997	468,253	440,589	493,147	528,685	590,700	623,389
Paris	387,124	378,607	366,113	340,586	419,023	465,839	467,850	516,648	483,823	504,973	468,642	488,637	520,657	567,582	601,736
Moscow	n/a	n/a	n/a	n/a	269,035	215,461	140,311	159,350	195,379	221,221	240,379	292,597	356,385	429,738	491,250
Rome	236,751	259,986	244,586	313,964	363,716	403,154	404,869	437,149	423,617	415,946	408,025	427,329	439,706	474,115	453,513
Milan	n/a	n/a	n/a	n/a	232,524	272,389	303,497	352,247	375,619	389,819	388,362	375,607	378,780	425,408	418,292
Zürich	n/a	n/a	n/a	n/a	269,670	296,479	312,523	331,825	344,981	320,644	303,071	321,776	348,816	383,896	412,929
Geneva	239,973	256,781	279,438	272,145	274,426	286,828	322,637	330,184	364,598	378,445	348,545	319,394	348,553	374,928	395,337
Amsterdam	140,083	149,595	166,797	194,486	220,547	244,296	276,480	336,913	314,879	297,539	283,081	282,177	298,276	347,480	344,731
Madrid	196,383	186,305	186,611	211,830	247,048	273,957	300,548	335,237	326,582	334,500	315,270	280,863	282,425	318,668	325,149
Barcelona	134,675	123,124	133,264	173,495	222,830	271,732	313,155	341,337	336,221	341,063	322,233	294,942	278,972	299,168	315,731
Istanbul	156,120	157,114	150,197	192,211	258,040	257,366	204,085	256,922	231,174	186,101	168,425	196,943	259,962	288,298	311,874
Edinburgh	n/a	n/a	n/a	n/a	232,324	229,263	226,412	247,901	234,700	242,543	234,293	256,289	270,269	302,830	308,027
Europe	**173,737**	**176,267**	**180,042**	**199,333**	**219,389**	**231,689**	**239,060**	**264,086**	**258,576**	**254,434**	**226,301**	**232,019**	**244,464**	**266,493**	**273,502**
Prague	n/a	n/a	n/a	n/a	140,738	142,780	167,808	219,149	218,023	208,653	212,065	249,529	260,316	263,895	249,576
Stockholm	107,772	116,097	127,947	167,562	185,479	188,521	219,668	241,175	215,816	203,956	190,634	194,343	204,438	227,309	246,204
Dublin	n/a	n/a	n/a	n/a	203,068	197,499	214,191	235,386	215,301	211,756	215,852	220,721	235,425	250,642	244,497
Vienna	169,108	159,131	165,737	160,713	156,348	173,956	175,201	180,730	180,950	178,379	189,872	191,412	198,867	221,081	235,469
Munich	n/a	n/a	n/a	n/a	150,491	174,436	191,831	211,682	222,380	206,169	189,397	211,504	208,544	224,723	232,382
Copenhagen	121,251	130,709	135,498	154,399	179,375	187,410	202,191	218,008	204,473	198,353	181,906	176,344	193,944	216,080	218,247
Athens	132,710	129,656	129,997	148,318	174,572	194,927	184,922	204,695	198,785	210,423	204,603	218,340	202,946	208,274	218,010
Manchester	n/a	n/a	n/a	n/a	176,269	181,865	176,077	183,000	188,644	189,950	179,167	192,692	205,929	218,703	216,057
Warsaw	n/a	n/a	n/a	n/a	228,045	232,780	235,465	238,207	233,496	198,109	176,439	152,723	165,083	189,431	208,847
Bucharest	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	193,316	198,380	188,751	204,066
Birmingham	n/a	n/a	n/a	n/a	161,548	165,343	174,153	175,882	173,488	177,813	170,258	183,382	188,794	199,043	198,044
Bratislava	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	180,070	200,954	190,899	196,613
Brussels	121,843	115,335	120,181	126,972	143,442	155,539	159,443	183,810	176,061	162,422	155,942	160,799	167,979	181,015	192,041
Hamburg	n/a	n/a	n/a	n/a	180,064	185,749	194,603	214,232	194,679	201,830	201,356	202,289	203,288	204,941	192,032
Budapest	n/a	n/a	n/a	n/a	157,571	163,745	182,342	184,920	182,708	177,574	153,460	165,514	184,914	193,737	191,347
Berlin	125,441	123,433	121,212	106,546	118,415	118,349	136,114	163,137	169,398	171,922	166,977	168,681	167,454	176,141	174,941
Frankfurt	148,546	145,724	149,804	141,864	149,808	154,054	160,258	180,854	192,358	179,599	175,961	169,497	169,811	179,872	168,302
Lisbon	110,418	105,124	102,816	116,759	120,381	136,297	132,636	149,097	148,996	146,202	140,296	143,955	129,972	149,358	167,172
Zagreb	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	149,042	135,242	142,756	152,624	147,537
Belgrade	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	123,176	120,600	129,967	136,488	134,139
Riga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100,651	117,333	123,066	145,912	132,469
Tallinn	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	104,755	110,663	117,448	139,035	129,107

Source: HVS - London Office

has been catching up to the European average, placing the city in the top 20 markets. New supply is limited to openings in 2008 and 2009.

Following a third consecutive year of double-figure RevPAR growth due to a strong occupancy and average rate performance, with a little help from the Rugby World Cup, values per room in **Paris** have exceeded the €600,000 mark to reach €601,700. The French capital experienced the tenth-strongest value growth in 2007 at 6.0% to narrow the gap on London's value per room. The majority of the new supply will be entering the market from 2009 onwards.

Due to a third consecutive year of occupancy decreases as well as a small decline in average rate, RevPAR in **Prague** decreased to below 2004 levels. In addition, new supply contributed to the fifth-largest drop in value of 5.4% to €249,600 per room, a value that remains just under the European average and is nearly equal to the city's value per room in 2004. New supply is evenly spread over next three years.

A relatively poor year for **Riga**, with drops in both occupancy and average rate, supported the biggest fall in value of all the markets at 9.2% to €132,500 per room, the second-lowest value in our survey after neighbouring Tallinn. However, Riga has the second-highest compound annual growth rate since 2000 after Moscow at 7.1%. There is little new supply forecast and it is limited to openings in 2008 and 2010.

An occupancy-led decline in RevPAR despite an increase in average rate meant that **Rome** had the sixth-lowest value growth, dropping to fourth place in terms of value per room after being overtaken by stalwart Moscow. Values per room have dropped by 4.3% to €453,500 per room. Most of the new supply is due to enter the market in 2010.

Stockholm enjoyed the fourth-strongest value growth in 2007 due mainly to double-figure RevPAR growth (following occupancy and, especially, average rate increases) and limited new supply entering the market. Vales per room in the Swedish capital grew by 8.3% to reach €246,200, overtaking Dublin and moving closer to the European average. New supply planned to open between 2008 and 2010.

Following three years of positive growth, drops in both occupancy and average rates caused a fall in RevPAR in **Tallinn**, much like Riga. However, average rate is still nearly 10% higher than the average over the last five years. Tallinn has dropped to the bottom of the table after the strengthening of Belgrade, experiencing a value loss of 7.1% resulting in a value per room of €129,100. However, Tallinn follows Riga with the third-strongest compound annual growth rate since 2000 at 5.4%. There is no confirmed new supply currently in the pipeline.

A fourth straight year of predominantly rate-driven growth in **Vienna** has resulted in average rates in 2007 being 12% higher than the five-year average. A fifth straight year of value growth, which was the eighth strongest at 6.5%, brought values to €235,500 per room, overtaking Munich. Vienna enjoys a stable market, as indicated by healthy short-term and long-term compound annual growth rates. There is new supply planned to enter the market over the next three years.

Following strong occupancy and average rate increases, **Warsaw**'s RevPAR in 2007 was notably higher than the five-year average. The Polish capital, which has been dealing with its previous problems of oversupply, has experienced a third year of value growth and the second consecutive double-figure value growth. The third-strongest value growth (after Moscow and Lisbon) at 10.2% resulted in a value of €208,800 per room, overtaking markets such as Birmingham, Bratislava, Hamburg and Budapest. Limited new supply will be entering the market in 2008 and 2009.

2007 was a stagnant year for **Zagreb**, with no change in RevPAR and a drop in value. The Croatian city is within the bottom ten markets in terms of value growth. Values dropped by 3.3% to €147,500 per room, which is the fourth-lowest value in 2007. There is no new supply confirmed in the pipeline.

As Switzerland's most popular city and its unofficial capital, **Zürich** experienced a third consecutive year of double-figure RevPAR growth that was particularly rate driven alongside an already very healthy occupancy. Both are notably higher than their five-year averages (average rate is nearly 15% higher). The city crossed the €400,000 mark for first time in 2007 after having the seventh-highest value growth. While Zürich remains in sixth place, after Milan, its value per room is quickly closing the gap on the fashionable Italian city; values grew by 7.6% to reach €412,900 per room. The city also shows an above-inflation compound annual growth rate since 2000 at 3.2%. Investment interest remains strong, with new supply coming on stream particularly in 2008 and 2010.

Hotel Values per Room

2007 will be remembered for being the year of compressed yields, cheaply available debt, large portfolio divestments and the two-pound dollar. It also continued to showcase the momentum of the European hotel market, even with the inclusion of additional Eastern European markets. The top five most expensive European cities in which to buy a hotel remain many of the same players as previous years. Our analysis of values per room in euro (Table 7) shows that London remains at the top at €623,400, followed closely by Paris at €601,700. Tallinn is at the bottom of the table at €129,100, with Riga not far away at €132,500.

Outlook

Average European values per hotel room in 2007 continued growing to another year of record values. Strong growths in markets such as London, Paris, Moscow and Zürich continue to pull the average upwards, albeit at a slower rate than in the previous two years. Investors continued to develop their interests in Eastern Europe, and competitive debt markets, particularly in the first half of the year, tended to assist the growth in average values.

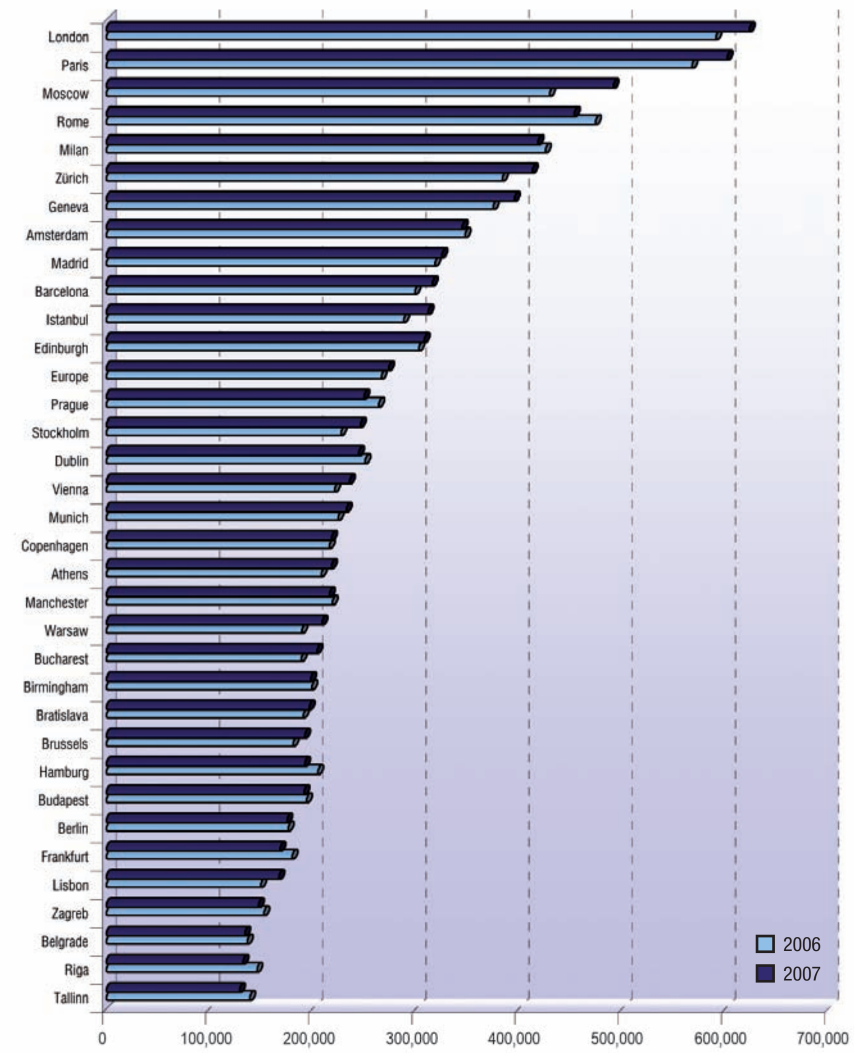
The emergence of the 'credit crunch' around August 2007 has since destabilised the market and has played a part in some markets' declines in value by the end of 2007; had we published an edition of the HVI in mid-2007 the values reported would in all likelihood have been higher than they were by the year end. Lenders in particular are more cautious and some have stopped lending to new customers. Overall, projects at the moment are proving more difficult to finance, and debt is certainly more expensive. This has slowed down development growth and discouraged buyers to some extent, resulting in fewer transactions in the latter part of last year. Investors and operators now have the opportunity to look at business optimisation and efficiency in the form of better cost control and streamlining, and also to better determine the trajectories of supply and demand trends across Europe.

We recommend avoiding kneejerk reactions to the state of the US markets. Europe has become more of its own entity, and the winners will be those visionaries who have the courage to take the lead and make change happen. After all, 2007 has seen only a small increase in yields, averaging about 25 points, and the base from which this increase is coming must be kept in mind. Yields have been at their lowest in years; it is entirely probable that the European hotel market is simply in a time of readjustment and that it will have picked up its momentum again before 2009.

In the meantime, two questions involving currencies should play on everyone's minds, as their answers should provide good indications of the industry's future course. First of all, where will the two-pound dollar go, and what will the impact be? Secondly, what changes will there be in the strength of the pound and the Swiss franc versus the euro, and what kinds of impacts will those changes have on developers, operators and their gap in prices?

In 2008 we expect values in general to level out in the first half of the year before gaining momentum closer to 2009. The potential for development in some Western European markets will have dried up to some extent except for mixed-use and budget hotels, but the interest of international investors, developers and operators in Central and Eastern Europe, Russia and Kazakhstan will continue to grow. We consider that upcoming markets will include Croatia, Turkey, the Black Sea states, provincial Russia and Kazakhstan.

Table 8 Hotel Values per Room 2006 and 2007 (€)



Source: HVS - London Office

Understanding the HVI

The HVI is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typically four- and five-star hotels in 34 major European markets. Additionally, our index allows us to rank each market relative to a European average (see Table 4). The HVI also reports the average value per room, in euro, for each market (Table 7) and 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- and five-star hotels. Operating data from Deloitte's Hotel Benchmark 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. Based upon our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined appropriate valuation parameters for each market, including 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 hotel in each city. In determining the valuation parameters relevant to each of the 34 European markets included in the 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 2007 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2007. Values are based on recent market performance but the capitalisation rates reflect the anticipated future trends in performance, competitive environment, cost of debt and cost of equity. 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 2007 the index for London was 3.588 (€623,389/€173,737), which means that the value of a hotel in London in 2007 was more than three and a half times higher than the European average in 1993.

In 2008 we have rebased our calculations and our values to ensure that the index remains relevant, while the values are clearly and consistently representative of a typical four- to five-star hotel in each city.

This year we have also incorporated Pipeline data for 2008 to 2010 in our analysis, which has been kindly provided by Lodging Econometrics (www.lodging-econometrics.com or +1 603 431 8740). LE's market analysts and research specialists monitor international markets, gathering details of all hotel real estate activity from public domain sources (owners, investors, developers, contractors and others concerned with the industry), re-verifying each record with 95 brand managers and updating them quarterly.

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Elana Bader is an Associate with the London office of HVS. She joined the firm in 2005 after having worked for six years in various operational hospitality roles in Europe as well as the USA. Originally from Zürich, Switzerland, Elana holds a Bachelor of Science in Hotel Administration from Cornell University. Since joining HVS she has provided hotel investment advice and conducted valuations and feasibility studies in numerous countries within Europe, Africa and the Middle East and written several market and industry-related articles.

Dominique Bourdais is a Director in the London office of HVS. His background is that of a trained hotelier. Before entering the consultancy world, he worked for Forte Hotels in the UK and Sheraton in West Africa. He has more than 20 years specialist hotel consultancy experience. In 2008 he will be celebrating his tenth year with HVS. During his years as a management consultant he has gained substantial international experience, having completed a wide range of hotel-related assignments, while diversifying into other fields such as extended stay hotels, serviced apartments, other areas of real estate, golf and leisure, and mergers and acquisitions. His work within HVS generally focuses on the provision of specialist hotel valuation, property and consultancy services throughout Europe, the Middle East and Africa. Dominique has extensive experience of Central and Eastern Europe and he is responsible for the development of HVS's business in that region.

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