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European Hotel Valuation Index 2010

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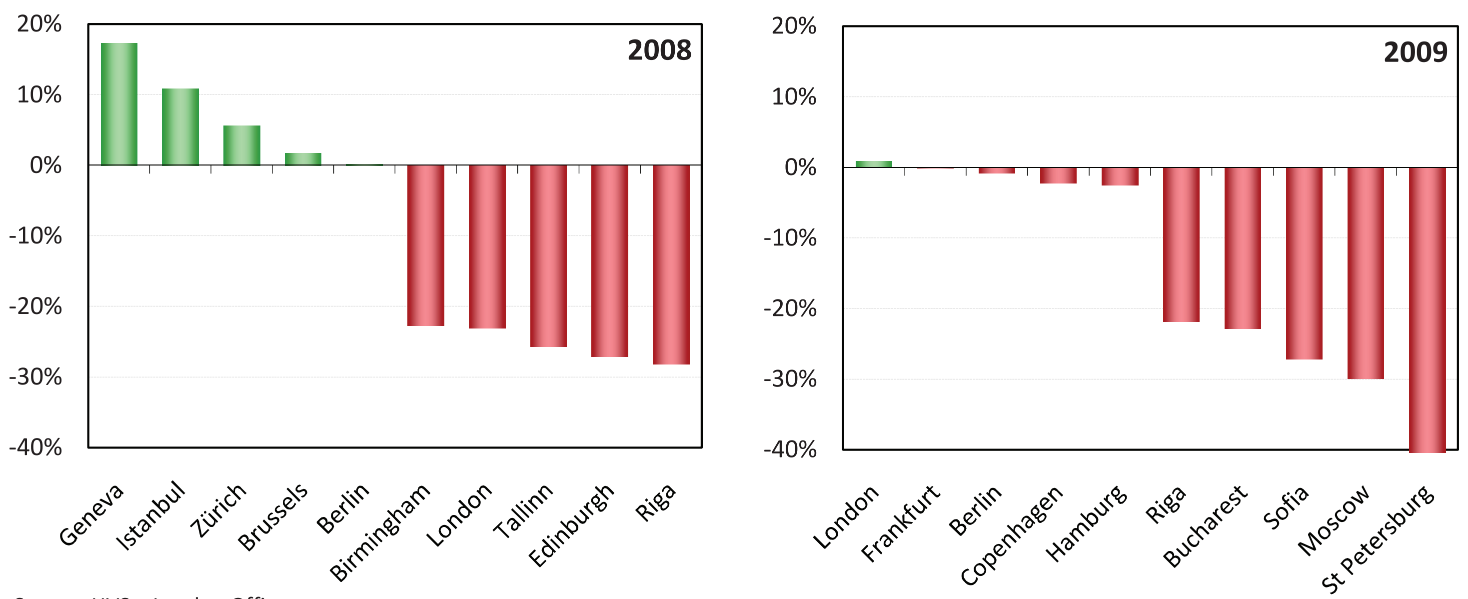
Highlights

- 2009 – What a year! The year that saw 10% falls in value greeted with relief;
- The year that all markets experienced the economic downturn albeit some started to see the light at the end of the tunnel, resulting in an average fall in values of 13.4% across Europe;
- The year that the focus on established markets intensified. The gap between the regions was further widened by the difference in strength of one national economy from another, and by differences in the strength of the various national currencies;
- With a continued lack of debt financing, 2009 was also the year hotel transaction volumes in Europe recorded an historical low of €3 billion (€6 billion in 2008 and above €15 billion in 2006 and 2007) – see HVS's recently released *European Hotel Transactions 2009* article for further details;
- Operators started the year confirming that they had learnt lessons from previous downturnts and would sacrifice occupancy to protect average rate; the year ended with many operators grateful for any business and slashing rates accordingly;
- There were exceptions; London enjoyed strong occupancy, supported throughout the year by a favourable exchange rate. Unfortunately, this level of visitation did not spread to the other English cities in our survey;
- Those operators quick off the mark were able to replace the non-existent commercial trade with leisure guests; one of the key aspects for 2010 will be balancing the reverse trend of displacing leisure guests with the slowly returning commercial traveller and conference delegates;
- Some hotels replaced the lost corporate demand with leisure customers and tours, resulting in retained demand for revenue streams, such as food and beverage outlets, and thus supporting the hotel's overall profitability;
- One of the positive aspects of the recession has been operators reviewing all costs and expenses, both fixed and variable. This has resulted in significant operational savings which have mitigated some of the falls in RevPAR. In many cities the percentage drop in value has been substantially less than the fall in RevPAR;
- The key question to be answered at the start of 2010 is: Have we reached the bottom in terms of trading and in value? And if not, when will that be? To assist in answering these questions we have included a forecast of the change in hotel values for the various cities;
- Taking into account the recent economic turmoil and the effect it has had on hotel trading and values, we decided this year that it was important to show that economic cycle and include an analysis of the fall in value from 2007 to 2009 (Figure 7). This ranges from a 1% fall in Berlin to a 46% fall in St Petersburg;
- We have also included a summary map (on page 15) to help identify at a glance the geographical division in values throughout Europe. The impact of unstable oil and energy prices and exchange rate fluctuations are clearly visible when reviewing Russian and Eastern European cities, the latter being penalised by reduced visitation from European travellers and a weakened domestic demand;
- All values are reported in euro and, therefore, any changes in exchange rates can distort the value reported. In London, for example, we are reporting a 1% increase in value in euro; however, expressed in sterling this growth equates to 14%. At the other end of the scale, Moscow and St Petersburg show declines in value of 30% and 43%, which in roubles are a more modest 15% and 31%, respectively. Other non-Eurozone countries also display differences in value changes in direct relation to exchange rate issues as detailed hereafter for each city;
- The importance of stability comes through in the HVI this year. Simply containing falls in performance has catapulted some cities up the rankings. Strong steady performers such as Istanbul, Zürich and Berlin are particular beneficiaries.

FIGURE 1 Top and Bottom Five – Percentage Change in Hotel Value per Room (€)



Source: HVS – London Office

Winners and Losers

Table 1 summarises the evolution in the HVI ranking from 2006 to 2009. We note the following from Table 1.

- Between 2006 and 2009 Istanbul moved seven places from 13th to 6th position;
- In 2008 Madrid moved from the top ten to 11th place but then returned to 10th position this year;
- This year, St Petersburg left the top ten after having been in 8th, 7th and 6th position in 2006, 2007 and 2008, respectively. Moscow on the other hand fell from 4th to 8th position;
- Paris maintained its pole position for the second consecutive year, and the bottom five remained fairly stable.

TABLE 1 Top Ten and Bottom Five Ranking

	2006	2007	2008	2009
Paris	2	2	1	1
London	1	1	2	2
Geneva	8	8	3	3
Zürich	6	6	5	4
Rome	3	4	7	5
Istanbul	13	12	9	6
Milan	5	5	8	7
Moscow	4	3	4	8
Amsterdam	9	9	10	9
Madrid	10	10	11	10
Sofia	31	29	31	32
Belgrade	36	34	34	33
Zagreb	32	33	33	34
Tallinn	35	36	35	35
Riga	34	35	36	36

Source: HVS – London Office

Changes in Value

In 2009, trading in **Amsterdam** was affected by several external factors. The global economic crisis severely impacted demand generated by international companies and the conference market for events at the RAI. In July 2008, an airport fuel tax was introduced and this contributed to a rise in fares, thus putting downward pressure on passenger arrivals at Schiphol Airport. The tax was abolished in the second half of 2009. These economic factors combined with significant additions to supply over the last two years put considerable pressure on average rate. The city's attractiveness to international tourists was also negatively affected by the strength of the euro, and therefore the traditional overflow from the city centre hotels to the airport or South Axis districts dried up in 2009. City centre hotels, on the other hand, concentrated on replacing the lost commercial demand with leisure travellers and tours, which contributed to further decreases in average rate. Despite a six percentage point decrease in occupancy to 69%, and a decline of 17% in average rate to €121, Amsterdam still has a well-balanced visitation profile, with solid business, meeting and conference and leisure demand. With a decline in RevPAR of 24% (€84), values have now decreased for the third year in a row to approximately €246,600 per room. The compound annual growth rate in values from 1994 to 2009 dropped to 3.4%; still a solid growth over 15 years. There is currently a lack of five-star hotels within the city centre, owing to limited space for development and high barriers to entry. However, most of the new projects in recent years are being developed in the outskirts of the city, including the Schiphol area. Despite the dynamism of the Dutch commercial capital, and its prominence in Western Europe as a leisure and business destination, time will be needed to absorb this new supply and for the hotel market to recover to historical performance levels.

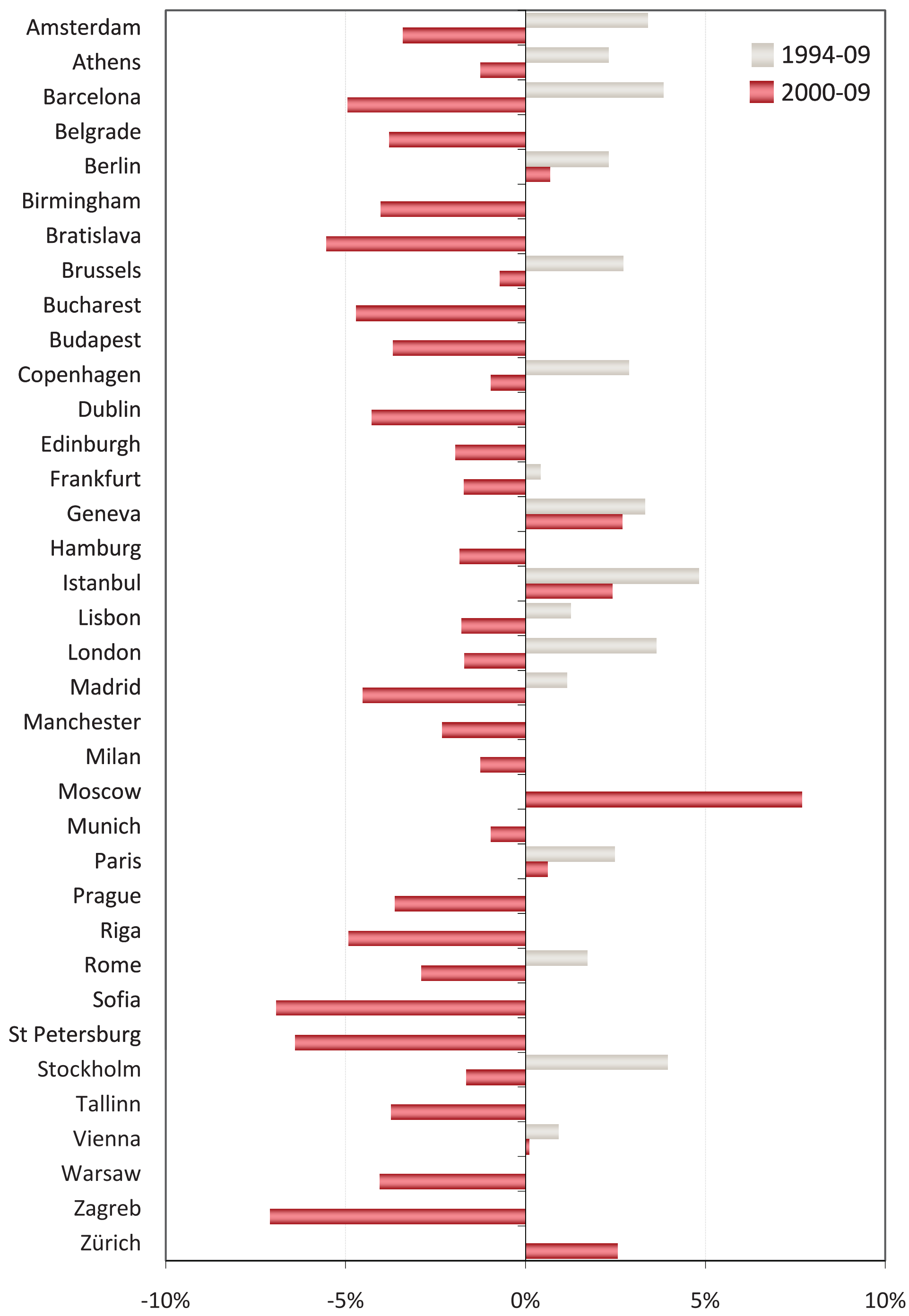
Athens recorded its lowest occupancy since the 2004 Olympics with 58%, a decrease of seven percentage points from 2008. Despite a decrease of 12% in 2009, with €131, some 13% lower than that of Istanbul, Greece's capital has the second-highest average rate of the six southeastern European capitals present in the index. In the context of reduced demand and the unclear direction of tourism to this market, the city's supply remained stable in 2009 and only marginal additions are expected in the future, including Starwood's 120-room W Athens, which is due to open in spring 2011. The potential of Athens as a business and conference destination still needs to be proven as there is an increased level of competition from other European cities, including Istanbul, Barcelona, Vienna and Budapest. Also, like other Mediterranean capitals, the country's current level of debt is likely to put pressure on the domestic market, magnifying the city's reliance on international visitors, and is likely to challenge Athens' pace of recovery. In 2009, the city achieved a RevPAR of €75, a 22% decrease on 2008; this decrease pushed hotel values per room down by 14% to approximately €182,700, and the city maintained its 17th position on the index. As they were marginally exposed to 'toxic assets' or structured products, Greek banks managed to somewhat weather the crisis throughout 2009. However, in December two of the major rating agencies downgraded Greece's credit rating in relation to concerns over the country's public deficit and the forecast that public debt is to rise to 125% of gross domestic product next year. Despite the government's announced intentions to improve the country's fiscal policies, the message sent to global investors by these successive credit rating cuts is that of the country's increased risk profile and this is therefore likely to put pressure on investment and value growth in the short term.

Barcelona was first hit by the recession in late 2008, before Madrid. The impact was felt both in occupancy levels and average rates. Owing to a more balanced tourism profile than other Spanish cities, with leisure and cruise travellers, Barcelona managed to minimise the fall and like other Western European cities seems to have reached the bottom in December 2009. However, the city saw the completion of significant additions to its hotel supply, particularly in the upscale and luxury segments (with the 98-room Mandarin Oriental and the 473-room W Barcelona), and this is expected to continue as Barcelona has the second-largest pipeline in Europe. The decrease in international visitation, notably from the UK, and the weakening of the domestic market coupled with a rise in unemployment levels negatively affected occupancy, which decreased by five percentage points to 63% in 2009. Average rate decreased by 18% to €115, resulting in a year-on-year decline in RevPAR of 24% to €73. With values per room only reaching €216,300, a low not recorded since 1997, Barcelona ranks in 11th position (just behind Madrid) in the HVI, a position occupied in 2005 and 2007. Despite a second year of decline, Barcelona maintains a solid compound annual growth rate in value of 3.8% from 1994 to 2009. The gradual recovery of foreign feeder markets is likely to stabilise the city's performance in the future. Nevertheless, the flow of new supply together with the recent weakening of the Spanish economy and rising unemployment levels has added pressure on domestic travel, and is likely to delay the city's performance recovery when compared to other gateway cities in Western Europe.

The still low level of hotel supply in **Belgrade** allowed the hotel market to show more resilience to the recession than many other markets in the Balkan region; thus, Belgrade achieved an annual occupancy of 45%, almost ten percentage points below that of 2008. While the limited supply allows for relatively high rates, compared to neighbouring markets, heavy discounting during weekends and shoulder periods has constrained average rate, which declined for a second year by 24% (13% in local currency) to €79. A resulting 38% decrease in RevPAR led hotel values per room in Belgrade to drop by nearly 15% (3% in local currency) in 2009 to €97,700. Serbia's capital recorded the smallest year-on-year decline in terms of Hotel values amongst the Eastern European cities, but it is in 33rd position in terms of values per room, above only Zagreb, Tallinn and Riga. The anticipated entry of international hotel brands into the Belgrade hotel market in the next few years (approximately 1,000 rooms by 2013) and vast infrastructural changes to the city coupled with more than 30 trade events lined up for 2010 are likely to help enhance the visibility of this business-driven market, and support the stabilisation of its seasonality and trading performance. While Serbia's accession to the European Union (EU) is still far away, the country and its capital city have sustained interest for foreign direct investment and have the tourism potential to attract further hotel developments.

Berlin was less affected by the economic crisis than other German cities owing to less influence from financial institutions and

FIGURE 2 Compound Annual Growth Rate in Values 1994-09 and 2000-09 (€)



Source: HVS – London Office

manufacturing industries and the stable demand generated by government bodies. The city was negatively affected by a sharp fall in the convention and congress business. However, the World Athletics Championships, the 20th anniversary of the fall of the Berlin Wall, Berlin Fashion Week and other cultural events throughout the year have helped to counterbalance those declines and rebalance the city's visitation profile. This is certainly a major reason why the city's infrastructural plans (such as the opening of Berlin Brandenburg Airport in 2011) as well as its hotel pipeline have not been drying up. A noticeable number of new bedrooms entered the city in 2009, with more than 900 rooms for the upscale segment alone. Berlin recorded an occupancy of 70% (a growth of half a percentage point on 2008) and an average rate of €83, resulting in an annual RevPAR decrease of about 10% in 2009. Overall, this relatively small performance decline compared to other cities has helped Berlin to soften its decrease in hotel values and improve its ranking to 20th position, from 24th position in 2008, with a value per room of approximately €173,800.

With the deterioration of the UK banking and manufacturing sectors **Birmingham** has experienced the effects of major cuts in corporate travel budgets and reduced attendance at trade fairs as the country went through the recession. The city recorded a further decrease in occupancy of three percentage points to 65%. Attempts by some hotels in the market to accommodate a significant number of tour groups, who use Birmingham as a shopping stop-off point for trips from southern to northern England, at discounted rates helped average rates to plunge by 22% to €73. As a result RevPAR decreased by 25% (8% in local currency) and values per room fell to a historically low level of €133,100, below that of Edinburgh and Manchester. Although the depreciation of sterling against the euro supported some leisure visits to London, the limited tourism attractions available in Birmingham did not allow for the replacement of the lost corporate and conference demand.

Bratislava's occupancy this year continued to suffer from the city's dependence on foreign sources of demand for accommodation, its dominant business profile and significant additions to its hotel supply in the recent past. Occupancy in Slovakia's capital declined sharply in 2009 by 13 percentage points to 46%. In the context of an already challenging environment, the aggressive discounts offered by newly opened hotels (five properties and more than 750 rooms in the last 12 months) put considerable pressure on the city's average rate which dropped by 18% to €83. Despite a year-on-year RevPAR decrease of 36% to €38 and a decline in values of 19%, Bratislava now ranks in 27th position in the index, and 4th amongst the Eastern European cities reported in the index, with hotel values of €135,500 per room. The city currently lacks quality conference facilities, which constrains the emergence of Bratislava as a conference destination and its ability to attract conference and convention demand. In January 2009 Slovakia entered the Eurozone; this development is expected to facilitate travel to and commerce with other European countries. The number of hotels and hotel rooms in Bratislava has nearly doubled over the last eight years; however, the reduction in trans-border lending in the recessionary credit-dry environment impacted a large chunk of the supply pipeline for the next few years, with some developments being postponed or even cancelled. The 1,000 additional rooms currently under construction in the city include the Kempinski Riverpark and Sheraton Bratislava, which are expected to open in the first half of 2010.

After holding its breath at the end of 2008, the inevitable happened, and **Brussels**, although favoured by the solid demand generated by the European institutions and a stable level of supply, saw a RevPAR decline of 18% to €68. While tourism to the Belgian capital remains more affordable than other European gateways, Brussels continues to rely heavily on corporate and institutional demand, and was therefore strongly hit by the reduction in travel budgets in the financial sector, with an annual decrease in occupancy of seven percentage points to 65%. Continuous renegotiations over corporate contracts also put pressure on average rate which declined by around 10%, to €104. The central position of Brussels in Europe and its relationships with European institutions have helped somewhat to contain the drop in hotel values and the city is in 21st position, up one rank from last year's index. In terms of risk-adjusted capital appreciation, Brussels ranks 7th with a ratio of 0.24, well above the Western European average. While supply has proven to be fairly stable over the last few years (approximately 180 rooms in 2009), some 700 rooms are expected to enter the market in the near future. Despite relatively high labour costs, Brussels' position as a key business and conference city in Europe, the reopening of the Palais des Congrès in 2009 and stable levels of demand from local institutions coupled with a steady supply pipeline are likely to support the city's trading performance recovery and therefore maintain hotel investment interest.

In previous years, high barriers to entry have prevented new hotels from being developed in **Bucharest**. However, the privatisation process that Romania has undergone has allowed the hotel industry to develop, with the number of five-star and four-star hotels having increased by 10% and 9%, respectively, over the last seven years. By 2013, some 1,170 additional bedrooms are expected to enter the market, predominantly in the upscale segment. In general Bucharest has been one of the cities in Europe to be hit the hardest with RevPAR decreases of up to 40% in 2009. Many hotels are trading below 50% occupancy and are struggling to cover their fixed costs, hence the slashing of rates to maintain occupancy. In 2009, the city achieved an occupancy of 47% (a 13 percentage point drop on 2008) and an average rate of €87, resulting in a RevPAR decrease of about 25%. This places Bucharest in 31st position with a value per room of €123,700, its lowest level within the last six years (a decline of 23% in euro and 11% in local currency). The city is in 6th position amongst the other Eastern European cities.

Similarly to Prague, in 2009 the entry of several new hotels in **Budapest** put pressure on occupancy and led to heavy room rate discounting for both the business and leisure segments. By the year's end occupancy levels decreased by ten percentage points to 53%, and average rate dropped by 16% to €70. This resulted in a RevPAR decrease of around 28%, and a decrease in value of 17% (9% in local currency) to €132,000 per room. Despite a steep decline in trading performance, the outlook for the Budapest hotel market could be brightened over the next few years by the EU presidency, which is to be held by Hungary in the first half of 2011, and a €260 million investment in the city's airport infrastructure. With the repatriation of capital to Western Europe and a credit-dry environment, many hotel developments in the city have been put on hold or cancelled, lifting pressure on supply for the immediate future. Following Hungary's receipt of a massive EU loan in 2009, which helped contain the effect of the recession, the repayment of this debt will affect the pace of recovery for Budapest's hotel market.

In 2009, hotels in **Copenhagen** recorded a decline in occupancy of approximately four percentage points to 64%, driven by a reduction in foreign tourist arrivals and in travel budgets at local corporations. Whilst average rates also decreased by almost 4% to €115, conferencing activity in the last quarter of the year was boosted by the city hosting the International Olympic Committee's conference in October and the Copenhagen Climate Conference the following month. This resulted in a RevPAR drop of 10% to €74 in 2009. Following the opening of the 366-room Crowne Plaza Copenhagen Towers towards the end of 2009, other large-scale schemes are expected to enter the market in the near future (approximately 1,600 rooms). The average size of these developments highlights the confidence of investors and operators in Copenhagen's future as a key conference destination in Europe in the long term. Also, when comparing room prices with neighbouring countries, such as Sweden or

TABLE 2 Hotel Values – Percentage Change 1994-09 (€)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR[1] 1994-09	CAGR[1] 2000-09[2]
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	-23.1	0.9	3.6%	-1.7%
2 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	-7.9	-0.1	0.4%	-1.7%
3 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	0.2	-0.8	2.3%	0.7%
4 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	-6.4	-2.2	2.9%	-1.0%
5 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	-3.2	-2.5	n/a	-1.8%
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	-5.9	-3.6	2.5%	0.6%
7 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	5.6	-4.5	n/a	2.6%
8 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	-27.1	-7.6	n/a	-2.0%
9 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	10.8	-8.0	4.8%	2.4%
10 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	-6.9	-9.4	4.0%	-1.6%
11 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	17.3	-9.6	3.3%	2.7%
12 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	-7.0	-10.2	n/a	-1.0%
13 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	-17.6	-10.2	1.7%	-2.9%
14 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	1.7	-11.8	2.7%	-0.7%
15 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	-21.9	-12.2	n/a	-2.3%
16 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	-13.6	-13.0	n/a	-1.3%
17 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	-22.7	-13.1	n/a	-4.0%
EUROPE	**1.5**	**2.1**	**10.7**	**10.1**	**5.6**	**3.2**	**10.5**	**-2.1**	**-1.6**	**-10.0**	**2.5**	**4.1**	**8.9**	**3.1**	**-10.8**	**-13.4**	**1.3%**	**-2.7%**
18 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	-11.8	-14.0	1.3%	-1.8%
19 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	-2.5	-14.0	2.3%	-1.3%
20 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	-14.4	-14.9	n/a	-3.8%
21 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	-19.4	-15.0	3.8%	-4.9%
22 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	-14.9	-16.0	3.4%	-3.4%
23 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	-17.1	-16.8	n/a	-3.7%
24 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	-4.0	-18.2	n/a	-4.1%
25 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	-16.8	-18.2	1.2%	-4.5%
26 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	-5.2	-18.4	0.9%	0.1%
27 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	-15.2	-18.8	n/a	-5.5%
28 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	-25.7	-19.5	n/a	-3.7%
29 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	-18.6	-20.2	n/a	-4.3%
30 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	-18.5	-20.3	n/a	-7.1%
31 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	-21.0	-20.3	n/a	-3.6%
32 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	-28.1	-21.9	n/a	-4.9%
33 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	-21.4	-22.9	n/a	-4.7%
34 Sofia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.1	12.4	-16.0	-27.1	n/a	-6.9%
35 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	-9.9	-30.0	n/a	7.7%
36 St Petersburg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.7	4.1	6.9	9.5	-5.9	-42.9	n/a	-6.4%

[1] Compound Annual Growth Rate

[2] CAGR from 2000 or closest year

Source: HVS – London Office

TABLE 3 Hotel Valuation Index

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1 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	3.259	**3.142**
2 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	2.760	**2.786**
3 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	2.669	**2.414**
4 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	2.510	**2.397**
5 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	2.150	**1.929**
6 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	1.990	**1.831**
7 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	2.080	**1.809**
8 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	2.547	**1.784**
9 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	1.689	**1.419**
10 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	1.556	**1.273**
11 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	1.465	**1.245**
12 St Petersburg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.846	1.895	1.974	2.110	2.311	2.175	**1.242**
EUROPE	**1.000**	**1.015**	**1.036**	**1.147**	**1.263**	**1.334**	**1.376**	**1.520**	**1.488**	**1.464**	**1.319**	**1.351**	**1.407**	**1.533**	**1.580**	**1.409**	**1.220**
13 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	1.319	1.196
14 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	1.293	**1.195**
15 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	1.176	**1.150**
16 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	1.243	**1.116**
17 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	1.223	**1.051**
18 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	1.285	**1.049**
19 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	1.070	**1.043**
20 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	1.009	**1.000**
21 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	1.125	**0.992**
22 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	1.154	**0.944**
23 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	1.146	**0.915**
24 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	1.135	**0.904**
25 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	0.892	**0.892**
26 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	0.971	**0.853**
27 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	0.960	**0.780**
28 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	0.881	**0.766**
29 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	0.913	**0.760**
30 Lisbon	0.636	0.605	0.592	0.672	0.693	0.785	0.763	0.858	0.858	0.842	0.808	0.829	0.748	0.860	0.962	0.849	**0.730**
31 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	0.923	**0.712**
32 Sofia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.839	0.915	1.029	0.864	**0.630**
33 Belgrade	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.709	0.694	0.748	0.786	0.772	0.661	**0.562**
34 Zagreb	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.858	0.778	0.822	0.878	0.849	0.692	**0.551**
35 Tallinn	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.603	0.637	0.676	0.800	0.743	0.552	**0.445**
36 Riga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.579	0.675	0.708	0.840	0.762	0.548	**0.428**

Source: HVS – London Office

Note: Based on euro calculations

Norway, Copenhagen reveals potential for higher yields. Consequently, hotel values for Copenhagen have declined by only 2% (3% in local currency) to €199,800 per room, placing Denmark's capital 15th on the index, just behind Stockholm, and around only 7% below the European average.

After a number of years of strong GDP growth, Ireland was significantly affected by the global economic and financial crisis and is currently not expected to achieve post economic growth before 2011. In the context of contracting corporate demand and the strength of the euro against sterling, **Dublin**'s hotel market suffered a 32% fall in RevPAR, fuelled by rate cuts of around 27% to €98 and a marketwide occupancy of 66% by the end of 2009 (a five percentage point decrease on 2008). Hotel values per room declined by 20% throughout 2009 to €158,900. Despite the decline of Dublin's trading performance and further supply entering the market, the anticipated improvements of the city's infrastructure (including the Conference Centre Dublin, a metro system and the regeneration of Dublin's Spencer Dock) are expected to support Dublin's hotel market in building up demand levels from both the leisure and business segments over the medium term.

In 2009, the weakening of sterling and a rise in unemployment supported a decrease in international travel by UK holiday makers, which benefited some UK markets; in fact, thanks to the 'staycation' trend and the solid tourism attributes of **Edinburgh**, the city's airport became the first UK hub to display year-on-year growth in passenger numbers as early as April (and through to October). Despite an increase in hotel supply, with the addition of the 187-room Apex Waterloo Hotel and the 136-room Hotel Missoni Edinburgh, the city succeeded in moderately increasing occupancy levels by one percentage point to 77%. Average rate, however, declined sharply by 16% to €90, driven mainly by the cuts in corporate spending by the local financial sector. This resulted in a RevPAR decline of 15% to €69 but a drop in values per room of only 8% (which translates into a 4% growth in local currency terms) to €207,600, placing the Scottish capital in 14th position just above the European average. On a risk-adjusted basis, Edinburgh showed a value per room appreciation below the European average from 1998 to 2009, with a ratio approaching -0.04. The city's supply pipeline indicates that approximately 2,000 new rooms are to enter the market in the next few years.

Similarly to several other German cities, **Frankfurt** displays an important reliance on the business-related segments and therefore a strong seasonality which caps the city's occupancy levels even in 'good' years. This risk greatly exposed the city in 2009, with significant cuts in corporate travel budgets and reduced volumes of attendees, exhibitors and sponsors at most trade fairs and conferences. In order to compensate for these declines, hoteliers replaced some of the lost demand with airline crews at heavily discounted rates. Occupancy levels reached such low levels that a number of hotels had to temporarily close some of their food and beverage outlets to ensure sufficient cost reductions. Altogether, these factors led to an annual decrease in occupancy of three percentage points to 58%. Like other major corporate destinations in Europe, corporate contracts went through further renegotiations, and thus 2010 rates were decided in a recessionary context and therefore only moderate growth can be expected on the €100 average rate achieved in 2009 (a 4% decrease on 2008). Frankfurt experienced a marginal decrease in values per room in 2009 to €154,900 (25th position). On a rate-adjusted capital appreciation basis, Frankfurt has a ratio of 0.07, above the Western Europe average and that of Hamburg but significantly behind Munich. However, Germany's financial centre still has ambitious development plans in terms of infrastructure with the extension of its airport (a new terminal and runway), and a substantial development pipeline, including international brands, which may put pressure on hotels' trading performances and values in the near future.

From pole position last year (with the strongest year-on-year growth in 2008), **Geneva**'s hotel market was characterised by further renovations and expansions within the luxury segment in 2009. Although resilient levels of demand generated by international and government organisations have helped shield the city from the harsh impact of the worldwide economic downturn, the reduced attendance at the main trade events at Palexpo and a reduction in corporate travel budgets across most local corporations have led to a sharp decline in occupancy to 60% (a five percentage point decrease on 2008). The concentration of hotel supply within the luxury segment exposed traditionally high average rates to significant discounts and by the year's end average rate had decreased by 15% (7% in local currency) to €225, leading to a RevPAR decline of 22% to €135. Despite this shortfall in trading performance in 2009, Geneva remains a strategic location with high barriers to entry that have helped maintain its rank in the index (3rd position behind Paris and London) with a value per room of €419,300 (10% below 2008 level or 14% expressed in local currency). The strength and resilience of the city is highlighted by its 3rd position ranking in terms of risk-adjusted capital appreciation between 1998 and 2009.

Owing to hotel demand generated by both business and leisure travellers, **Hamburg** showed more resilience to the recession than other German cities, as it was able to replace some of its lost commercial and conference demand with leisure guests. Additionally, in 2009 the Radisson Blu Hotel, Hamburg, the tallest building in the city and the largest hotel with 557 rooms, remained closed until August 2009, and this cushioned the fall in occupancy for the other hotels. Therefore, 2010 is likely to be more challenging for the four-star segment. Overall, occupancy decreased by two percentage points to 71% in 2009, while average rate dropped by 8% to €93, resulting in a year-on-year RevPAR decrease of 11% to €66. Values per room suffered accordingly with a drop of 3% to €181,200, placing Hamburg in 19th position in the 2010 index, four places up from last year. We note that on a risk-adjusted capital appreciation basis, Hamburg shows a ratio of 0.03, just above the European average.

Istanbul felt the delayed effects of the recession in 2009 with a slowdown in visitation and trading performance levels. A decline in tourist arrivals and the introduction of several new internationally branded hotels within the upscale and luxury segments in 2009 were the two main drivers of a five percentage point year-on-year decrease in occupancy to 68%. Despite a 17% increase in average rate in 2008, Istanbul's average rate dropped by almost 9% (despite a growth of 7% when expressed in local currency) to €150 in 2009. This led to an overall decrease of 15% in RevPAR and a deterioration in hotel values per room of 8% (but an annual growth of 5% in local currency terms) to €318,200 by the end of 2009. Despite this slowdown, Turkey's GDP forecast for the near future and Istanbul's position as the country's financial and commercial capital puts it in a good position for recovery. The city enjoys strong recognition as a meeting and incentive destination while tourism is a major component of the country's growth strategy, with 2009 tourism-related revenues forecast to almost double by 2019. It is thought that the city's hosting of the World Water Forum and the International Monetary Fund summit in 2009 may have softened the slowdown, as real GDP decreased by 6%. Growth is expected to rebound markedly in 2010 and 2011 as Istanbul is the European Capital of Culture for 2010. Istanbul's investment outlook and hotel values are thus expected to recover in the immediate future.

In 2009, **Lisbon**'s performance was negatively impacted by its reliance on foreign feeder markets, including the UK and Spain, and the incentive and congress business, which in this recessionary environment saw some of the sharpest budget cuts. As a result, Portugal's capital experienced a RevPAR drop of 24% which was driven by an 18% decline in average rate to €86. Occupancy decreased sharply by five percentage points to 57% by the year's end. This second year of RevPAR decreases has resulted in a further drop in hotel values per room to €126,900, which puts Lisbon in 30th position in the index. While Lisbon is still considered to be one of the most affordable destinations in Europe, which should in the short term help it recover some of its foreign demand, the uncertainty attached to the recovery pace of Portugal and Lisbon's expected additions of upscale hotels in the next decade will have to be followed closely.

Thanks to the rapid reactions of **London** hoteliers at the end of 2008, discounting rates in order to attract leisure visitors and replace the lost commercial demand, the city recorded strong occupancy levels with even year-on-year growth in some instances. This strategy in 2009 supported by the weakening of sterling against the euro, which therefore increased the affordability of the city for some of its European feeder markets, such as Spain, France and Italy enabled London to contain its occupancy decline to only one percentage point to 82%. Average rate decreased by 16% to €144 (only a 5% decrease in local currency). As a result, London suffered a RevPAR decline of 16% to €117. However, this performance should also be considered with regards to certain neighbourhoods and hotel classes that have fared much better than others. Hotels located in the West End have been able to maintain occupancy, albeit with a drop in average rate; however, hotels on the fringes of the city centre or hotels very dependent on business travel (for example, those at London's airports or Canary Wharf) have experienced severe declines in both occupancy and average rate. Hotel values per room have increased by 1% (14% in local currency), thus keeping London in 2nd position behind Paris, and resulting in values per room of €483,900. However, we highlight that, as values are reported in euro, the weakening of sterling has undermined London's trading performance and values per room. We note that this converts into a solid compound annual growth rate of 3.6% from 1994 to 2009 and an annual average contraction of 1.7% between 2000 and 2009. London's attractiveness as a destination is not at stake considering the high demand expectations set by the Olympic Games, both from the organising committees in late 2011 as well as visitors and sponsors in 2012. In spite of the pressure added by its important development pipeline, London has demonstrated its flexibility and resilience in a highly challenging environment and is therefore expected to lead the recovery of trading performance amongst the Western European cities.

In 2009, the reliance of the **Madrid** hotel market on the business segment coupled with reduced international visitation, notably from the UK because of the strengthening of the euro, has led the city's occupancy levels to spiral downwards, particularly within the upscale and luxury segments. The entry of more than 570 hotel rooms and the reopening of the 150-room Villa Magna has put additional pressure on the market's occupancy and initiated a price war. As budget and limited serviced properties also opened, it is likely that average rate will take longer to recover. Values per room decreased by 18% to €221,200 (almost on a par with Barcelona) as a result of a 30% decrease in RevPAR, coupled with a still uncertain outlook and the deteriorated investment attractiveness of the local hotel market. Like other Spanish cities, Madrid is likely to recover some of its international demand with the recovery of some of its European feeder markets. However, a forecast further contraction of the country's GDP in 2010 combined with a rising unemployment rate will put pressure on consumer spending and the domestic market, and therefore delay its recovery.

Like most secondary British cities, **Manchester**'s share of demand from the corporate and conference segments combined with a still dominantly domestic demand led to a further deterioration of the city's occupancy levels in 2009, by two percentage points on 2008, to 70%. In addition to further corporate travel cost cutting, lower disposable income levels amongst UK residents and a higher unemployment rate, Manchester followed the example of London by discounting rates heavily to attract leisure travellers. As a result, RevPAR plunged by 25% to €52, driven by a decline in average rate of 23% to €74. In 2009, hotel values fell by 12% (but displayed a 1% growth in local currency terms) to €148,100 per room, its lowest level in the last 13 years. Nevertheless, it is important to note that Manchester has undergone a major regeneration over the past decade and has proven to be a stable hotel market in the past, improving the prospects for recovery in the medium to long term and enhancing its accessibility and attractiveness for international leisure travellers. Hotel supply in the city has remained stable, while a series of projects have been delayed or temporarily put on hold. The expected new supply, regardless of star rating, totals approximately 1,000 rooms.

Figure 3 presents the year-on-year average variations in values by region. This shows the increasing 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 2000 to 2009.

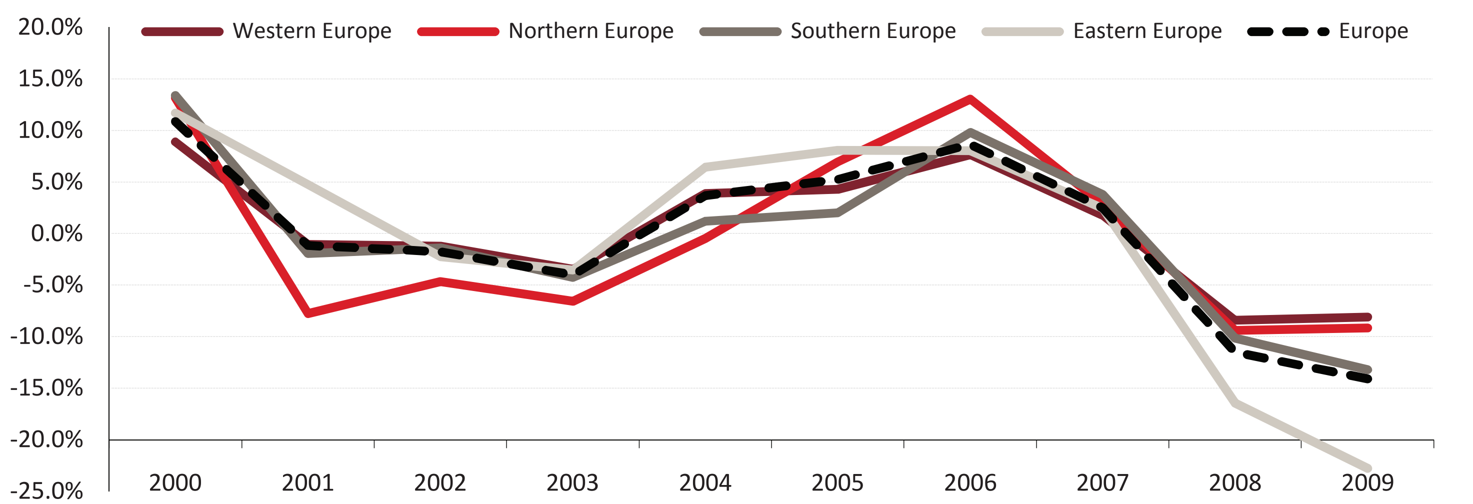
In 2009, **Milan** experienced a decline of three percentage points in occupancy to 60%, explained mainly by the city's profile, which is still dominated by the corporate (mainly financial sector) and conference segments, and the limited number of tourist attractions that would justify an extended length of stay and create a more stable seasonality. The repeated renegotiations imposed by major corporate accounts at upscale and luxury properties created an aggressive price war that led to a 15% decline in average rate to €145. Within the next two to three years Milan's hotel supply is expected to increase by some 400 rooms in the city centre and 440 rooms at Malpensa Airport (154 rooms were added to the city centre and almost 600 rooms to its outskirts in 2009). While the city's pipeline, especially in the luxury segment, is likely to put pressure on occupancy levels, the prominence of Milan as Italy's financial centre and the prospective exposure to international tourism in 2015 with the World Expo and related infrastructure developments are likely to sustain important demand levels and investment interest in the long term. As such, hotel values per room have declined by 13% to €314,300, placing Milan in 7th position in the index, two places behind Rome. There is also some concern among hoteliers about a possible saturation of the hotel market with a rooms surplus that could put pressure on the city's performance once the 2015 World Expo is over.

At the end of 2008 Russia and its capital **Moscow** suffered from dwindling oil prices and a drop in international demand for Russia's energy and mineral resources. By the end of the first half of 2009 international tourist arrivals, historically dominated by Germany, the USA and the UK, had dropped by approximately 19%. The rouble's depreciation in 2009 didn't help stimulate international visitation to the Russian capital. Monthly occupancy levels recorded throughout 2009 fluctuated from six to almost 20 percentage points below 2008 levels, ending at 58% by the year's end, some 12 percentage points below the 2008 performance. Moscow's hotels also recorded a severe average rate decline in 2009 of 46% to €146, resulting in a RevPAR decrease of 55% (34% in local currency) to €85. These two years of slowdown in Moscow's headlong race to develop its hotel market led values per room to fall another 30% (albeit only around 15% in local currency) to €309,900. The city still remains in 8th position but with values back to 2004 levels in euro terms. New supply in the city is expected to increase by over 7,000 branded hotel rooms in the next three to four years, most of which will be in the upscale segment.

Although **Munich**'s hotel market enjoys a healthy mix of international businesses, major conferencing and trade fair activity and leisure visitors in summer months, it was not exempt from the recession effect. Lower attendance volumes for conferences and trade fairs, fewer events, further renegotiations of corporate contracts and mixed performance over the summer significantly deteriorated occupancy, which dropped to 68% (a three percentage point decrease), and put significant pressure on average rate, which declined by 17% to €98. However, despite considerable additions to the city's hotel supply, especially in the upscale segment, the second half of the year brought good news for the city's outlook with the announcement that the European Society of Cardiology conference is coming back to Munich in 2012. Despite an expected short-term drop in trading performance, Munich's maturity and its internationally established name across all segments of travellers supports a solid investment profile and outlook for the years to come. Values per room decreased by 10% on 2008 to €194,000, and the city's score in risk-adjusted capital appreciation was 0.28 from 1998 to 2009 (6th position), just above the Western European average.

In 2009, the **Paris** hotel market once again demonstrated its resilience, supported by a diverse range of feeder markets both in terms of reasons for travel and geographical origins, by containing the decline of occupancy to only three percentage points to 74%. However, like London, Parisian hoteliers have had to react to a changing market with significant discounts offered to stimulate the leisure market. Despite values having decreased by 4%, Paris has maintained its leading position in values per room at €545,900. We note that this converts into a compound annual growth rate of 2.5% from 2000 to 2009 and 0.6% from 1994 to 2009. On a risk-adjusted basis, capital appreciation for the city is ranked 4th with a ratio of 0.36, just ahead of Milan. Although France's GDP in 2009 was estimated to be some 2.3% down on 2008, like Germany, France was one of the first countries in Europe to show a positive quarterly GDP growth this winter, a sign that the recession is coming to an end and envisaging a start in recovery in 2010. With high barriers to entry, the French capital displays a steady development pipeline. Its prominence as both a business and a tourism destination and its resilience to the recession have maintained Paris's status as one of the most sought-after destinations in Europe. The next three years are expected to see the addition of approximately 650 rooms to the luxury segment, including the entry of several high-end Asian operators.

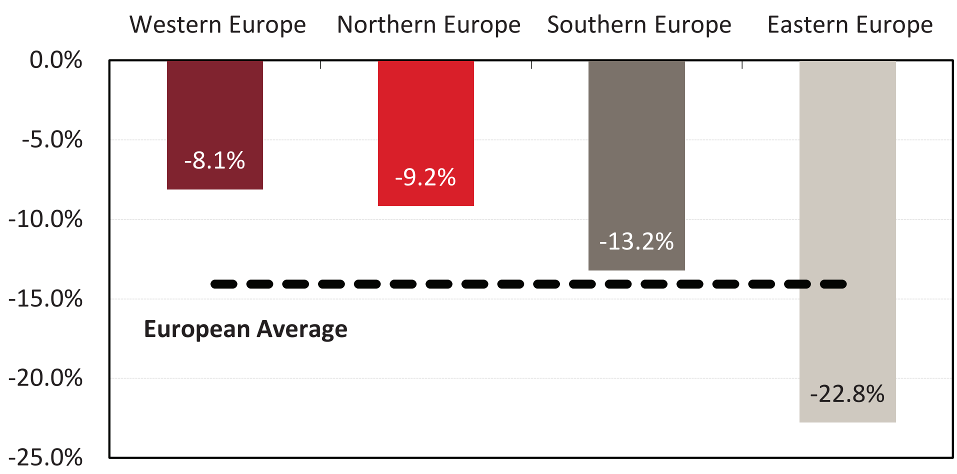
FIGURE 3 **Year-on-Year Change in Values per Room by Region 2000-09**



Source: HVS – London Office

Note: Based on euro calculations

FIGURE 4 Year-on-Year Fall in Values per Room by Region 2008-09



Source: HVS – London Office

Note: Based on euro calculations

In order to stem plummeting occupancy, hotels in **Prague** have been forced into a price war, cutting rates more and more, particularly at the higher end of the market. In some cases RevPAR has dropped in excess of 30%. Following a RevPAR decrease of nearly 12% in 2008, Prague's performance further deteriorated throughout 2009 owing to a decline of seven percentage points in occupancy to 58% and an average rate decrease of 23% to €78. This below-average performance was the result of the double-edged sword of significant additions to Prague's hotel supply over the past two years coupled with strong reliance on some key feeder markets including Germany, the UK, the USA and Italy. Values per room have therefore decreased by 20% (16% in local currency) to €157,000, placing Prague in 24th position (it was 21st in 2008) in this year's HVI. The city (and national) tourist boards themselves are not as proactive as they could be; this impacts the perception of the destination abroad and its ability to compete in the international conference market with cities like, for example, Barcelona or Geneva.

Following declines in hotel values of 9% and 28% in 2007 and 2008, **Riga** recorded a further decrease of 22% (both in euro and local currency terms) in 2009 at €74,400 per room, almost on par with Tallinn, thus placing the Latvian capital last in this year's index. While hoteliers recorded a lesser fall in occupancy compared to 2008 (seven percentage points), the contraction of average rate by around 27% led to an annual fall in RevPAR of 36%. The Latvian economy experienced an estimated 18% decrease in GDP in 2009, weakening the domestic market further. Similarly to other Baltic cities, although the emerging market of Riga has limited hotel supply and only a moderate presence of international operators, the instability of the existing hotels' performance has limited investors' investment initiatives.

Despite a well-balanced demand profile and the provision of both business and tourist centres of interest, **Rome** has been recording a decline in occupancy since 2006, from nearly 78% to 63% in 2009; however, in 2009 this decline was contained to around two percentage points. The abundance of hotel supply in Italy's capital coupled with significant reductions in travel budgets by local corporate accounts led to a highly competitive market, where average rate decreased year-on-year by around 17% to €135. Consequently, in 2009 Rome recorded an annual RevPAR decline of 18% to €85, following last year's 12% drop. Rome's long history as both a national and international destination for business travellers and tourists has led to limited opportunities for further development in the city centre, which combined with tight construction restrictions (high costs) increased the barriers to entry for newcomers. In fact the vast majority of the recent additions to supply and anticipated developments (approximately 1,070 rooms) are taking place on the axis that connects the city to Fiumicino Airport and in proximity of the airport itself. Owing to its status as a major business and tourism hub in Europe and the development characteristics mentioned above, the 'Eternal City' has a compound annual growth in values of 1.7% from 1994 to 2009 despite a decline in hotel values per room of 10% to €335,200 in 2009. This performance places Rome in 5th position of this year's index, up from 7th position last year. The combination of a challenging economic outlook for Italy, putting pressure on domestic demand, and new supply already under construction in the outskirts of the city and likely to enter the market in 2010 is expected to slow down the city's pace of recovery.

Since 2005, hotel performance in **Sofia** has benefited strongly from Bulgaria's accession to the EU, with an average rate growth of 25% between 2005 and 2007. In 2009, however, the city experienced its second consecutive year of RevPAR decline (47% on 2008). Sofia remains primarily a business-oriented market, with strong seasonality, and was therefore markedly affected by the reduction in international corporate travel, which left hoteliers with limited alternative travel segments to tap into to replace this lost business. The combination of a significant growth in hotel rooms supply (22% in the last seven years), coupled with a slowdown in the demand for accommodation, has led to a price war among existing hotels, especially those in the four-star and five-star segments, where rates experienced a year-on-year decline of 24% in 2009. Sofia has yet to emerge as a popular leisure destination with sufficient strength to be able to diversify its sources of demand and be less vulnerable to downturns in global and national economies and foreign direct investment. Following the fall of trading performance, hotel values per room in 2009 dropped by 27% (similar as in local currency terms) to €109,400, which now places Sofia 32nd in the index.

Figure 4 presents the variation of the fall in values per room in 2009 by region. Figure 4 shows that Eastern Europe has been the hardest hit by last year's downturn in trading performances and loss of investment interest while Western European cities were the least impacted.

Stockholm's hotel market is dominated by Scandinavian hotel brands, and supply is mainly concentrated within the three-star and four-star segments. In 2009, despite the entry of some 300 additional rooms and a drop in Sweden's GDP of nearly five points by the year's end, a stronger than expected summer of European tourism stimulated by a weakened Swedish krona enabled Stockholm's occupancy levels to hold up to 70%, approximately one percentage point lower than 2008. Average rate, however, was victim of the city's supply profile, which led to heavy discounting, targeted particularly at the leisure market, and a year-on-year decrease of 17% to €106. With a marginal decrease of 0.6% in 2008, Stockholm's RevPAR recorded a fall of 19% in 2009 to €74. This mixed performance resulted in the city remaining in 13th position in the index at €207,700 per room, just above Copenhagen (9% down from 2008 but a 2% annual growth when expressed in local currency). Nevertheless, the recent entry of more upscale international brands to the city's hotel market with large-scale mixed-use developments proves a continued interest and confidence for further supply; and the solid fundamentals of the market are likely to allow for the absorption of this new supply and for further growth in values. Of the 1,800 rooms planned for the city, approximately 1,700 are already under construction (ten hotels). The new waterfront convention centre (due to open in 2010) is expected to contribute to the absorption of the new supply and improve Stockholm's attractiveness as a conference city, somewhat following the example of Copenhagen.

Similarly to Moscow, in 2009 **St Petersburg**'s hotel market experienced a sharp decline in RevPAR of around 68% (albeit only 43% in local currency) to €46. As a seasonal market with a large share of leisure

TABLE 4 Hotel Values per Room 1993-09 (€)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1 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	566,182	**545,887**
2 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	479,586	**483,946**
3 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	463,664	**419,322**
4 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	436,164	**416,455**
5 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	373,474	**335,209**
6 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	345,688	**318,160**
7 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	361,405	**314,326**
8 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	442,442	**309,908**
9 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	293,440	**246,615**
10 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	270,403	**221,173**
11 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	254,503	**216,289**
12 St Petersburg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	320,777	329,300	342,922	366,545	401,525	377,850	**215,727**
EUROPE	**173,737**	**176,267**	**180,042**	**199,333**	**219,389**	**231,689**	**239,060**	**264,086**	**258,576**	**254,434**	**229,079**	**234,799**	**244,457**	**266,287**	**274,427**	**244,837**	**212,026**
13 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	229,155	207,715
14 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	224,606	**207,560**
15 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	204,279	**199,805**
16 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	216,013	**193,960**
17 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	212,539	**182,680**
18 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	223,289	**182,220**
19 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	185,881	**181,228**
20 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	175,269	**173,824**
21 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	195,401	**172,325**
22 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	200,436	**164,056**
23 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	199,027	**158,897**
24 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	197,115	**157,019**
25 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	155,043	**154,888**
26 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	168,737	**148,116**
27 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	166,769	**135,473**
28 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	153,081	**133,092**
29 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	158,591	**131,961**
30 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	147,476	**126,887**
31 Bucharest	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	165,197	193,316	198,380	188,751	204,066	160,328	**123,690**
32 Sofia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	145,770	159,016	178,800	150,132	**109,387**
33 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	114,829	**97,690**
34 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	120,215	**95,811**
35 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	95,920	**77,234**
36 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	95,204	**74,385**

Source: HVS – London Office

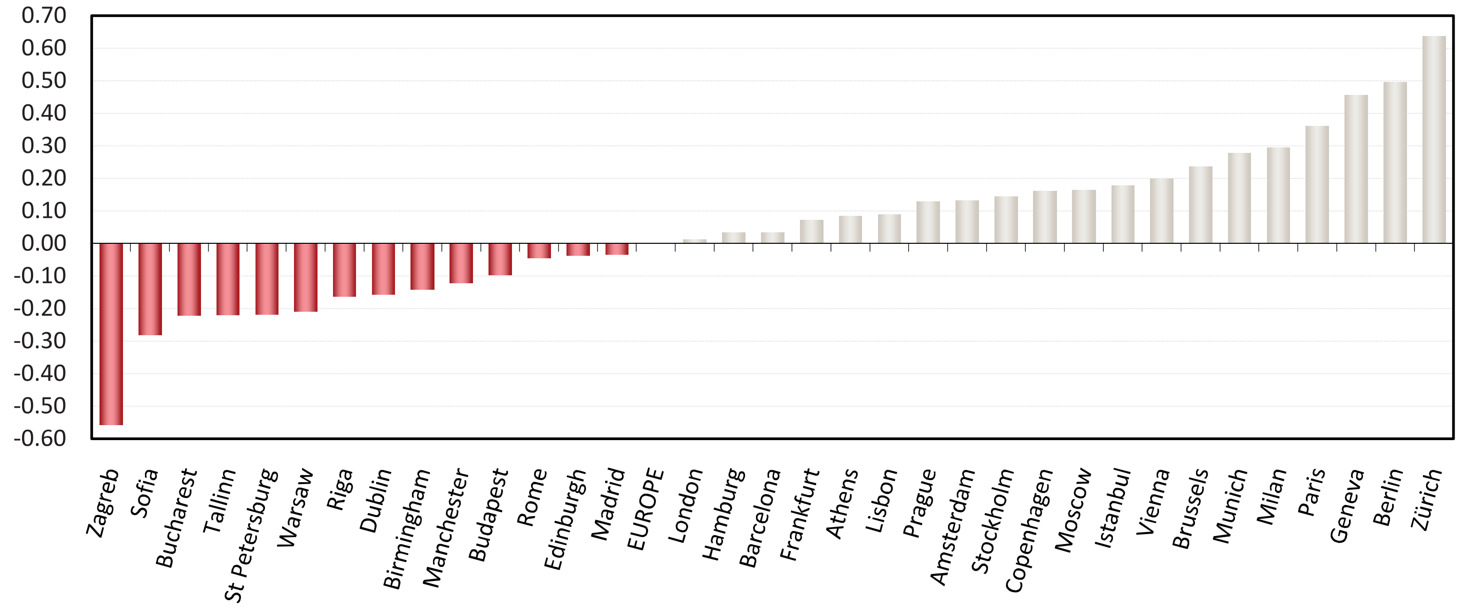
guests, occupancy declined by 20 percentage points to 40%. While the Russian economy is expected to recover in relation to oil prices, it is likely that Moscow will benefit first from this recovery, fuelling in turn renewed commercial demand to St Petersburg. From its position as the city with the fifth-highest RevPAR in Europe in 2008, in 2009 St Petersburg dropped to 12th position in the index with €215,700 per room (a 43% change from 2008 and 31% in local currency terms). This value, however, places it almost on par with Edinburgh, and 1% above the European average, while still offering space for large developments as illustrated by new projects in the pipeline, which total an impressive 1,100 rooms planned to enter the luxury segment over the next two years. Owing to this major supply expansion, it is likely that the market's recovery to historical levels will take some time with brighter prospects unlikely before the second half of 2011.

Estonia's fragile economy suffered an estimated 15% decrease in GDP, which, combined with limited international visibility, translated into a significant decline of the **Tallinn** hotel market's trading performance throughout 2009. Following an 18% drop in RevPAR in 2008, Tallinn recorded a further decline of 33% in 2009, driven mainly by a decrease in rate of almost 26%, from an already low base of €74 in 2008. As a result, hotel values per room are estimated to have decreased by 19% (20% in local currency) in 2009, to €77,200, placing Estonia's capital and largest city second to last in the 2010 index. As an emerging market, Tallinn still has limited supply and only a moderate presence of international operators.

As one of Europe's main tourist and congress destinations, **Vienna** displays a healthy mix of business and leisure travellers. The leisure segment was eventually targeted through discounted rates and packages to replace falling demand from the conference segment, which helped contain the fall in occupancy to 14 percentage points and the RevPAR decline, amongst the sharpest within the Western European markets, to 26% in 2009. The marketwide average rate decrease of 19% to €96 should, however, be considered in the context of 2008 having achieved above average rate growth because of the European Football Championship. Through new developments and conversions, Vienna's luxury branded supply is expected to increase by more than 700 rooms by 2012. Despite the city's prominence as both a major conference hub and a short-stay leisure destination Vienna recorded a sharp decline in hotel values per room of 18% to €182,200, placing Austria's capital in 18th position in this year's index. The city's robust 0.20 risk-adjusted capital appreciation ratio over the period 1998-2009 (on par with the Western European average) demonstrates the stability of Vienna's value per room compared to other European cities.

Despite a five percentage point decrease in occupancy in 2009 to 61%, owing to a decline in international business travellers and the deceleration of local economic growth, the **Warsaw** hotel market showed some improvement in performance towards the end of the year, and, in some months, was even able to grow its average rate in zloty. Similarly to other European markets, heavy discounting was applied to room rates in order to attract the leisure segment with moderate success and an unarguable downwards effect on average rate, which dropped to €73, a decrease of 27% on 2008 (but only 10% when expressed in local currency). However, the weakening of the Polish zloty against the euro, US dollar and sterling translates into a greater average rate decrease and therefore a steeper drop in value. As a result, RevPAR decreased by 33% year-on-year to €44, and values per room dropped by 18% (but grew by 1% in local currency terms) to €164,100 (22nd position). Compared to other cities in central Europe, and as a centre of investment in Poland and central Europe, Warsaw remains

FIGURE 5 Risk-Adjusted Capital Appreciation Ratio by City 1998-09



Source: HVS – London Office

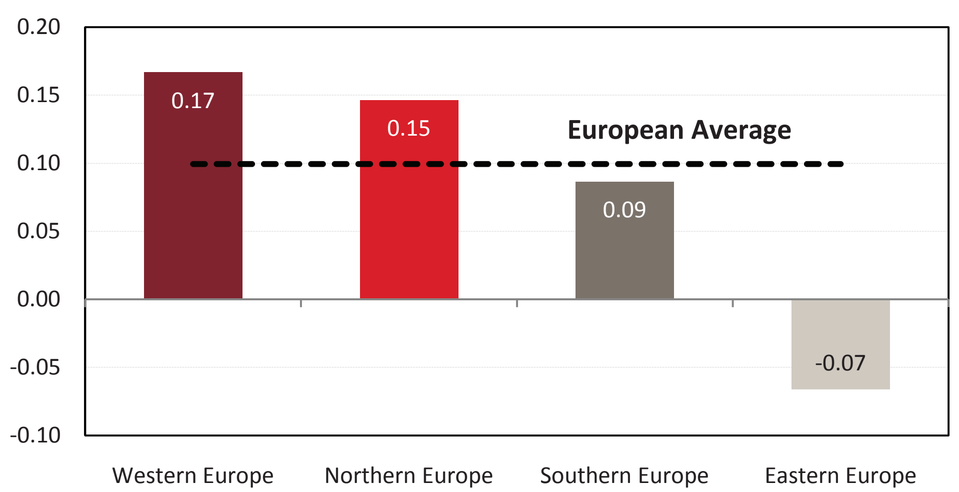
a hot spot with increasingly strong domestic demand, political stability, a strategic location and relatively low labour costs. In addition, a series of events are expected to support the city's recovery (events relating to the 200th anniversary of the birth of Chopin in 2010, the rotating presidency of the EU in 2011 and the hosting of the European Football Championship 2012). We note that within the past year uncertainty has increased in relation to supply increases planned following the announcement of Warsaw's participation in the European Football Championship 2012, as several projects have been put on hold or even cancelled. However, this delayed pipeline is expected to lift some of the pressure on the market's recovery in occupancy.

Croatia's fragile economy suffered an estimated 6% decrease in GDP in 2009 which, coupled with the emerging nature of this destination, resulted in a sharp decline of **Zagreb** hotels' trading performance throughout 2009. After an 11% decline in RevPAR in 2008, the city recorded a further drop of 38% in 2009, driven mainly by a decrease in rate of 24%, from an already low base of €88 in 2008. As a result, hotel values per room are estimated to have decreased by 20% (19% in local currency) in 2009, to €95,800, placing Croatia's capital in 34th position of this year's index.

Zürich, the Swiss financial capital, experienced weakened levels of performance in 2009 owing to its heavy reliance on the commercial segments, albeit less severely than many other European cities. Despite a strong 9% (13% in local currency) decline in average rate, approximately €15 less than in 2008, occupancy levels remained pretty solid at 71% versus 74% in 2008, demonstrating the market's resilience and favourable supply and demand balance. Like other cities in Europe, the renegotiation of corporate contracts contributed to a 9% reduction in the city's average rate. However, the magnitude of this decrease is somewhat misleading and has to be considered in relation to the above average performance achieved in summer 2008 when Switzerland co-hosted the European Football Championship. Zürich's RevPAR decreased by 12% in 2009, which in turn led values per room to shrink by 5% (but some 9% expressed in local currency) to €416,500. Owing to limited international supply and space for further development, Zürich remains a challenging market to enter (approximately 280 rooms under construction), but one with untapped hotel potential in the longer term. Zürich has proven to be one of the most stable markets in Europe, with the highest risk-adjusted capital appreciation ratio (0.64) for two consecutive years from 1998 to 2009.

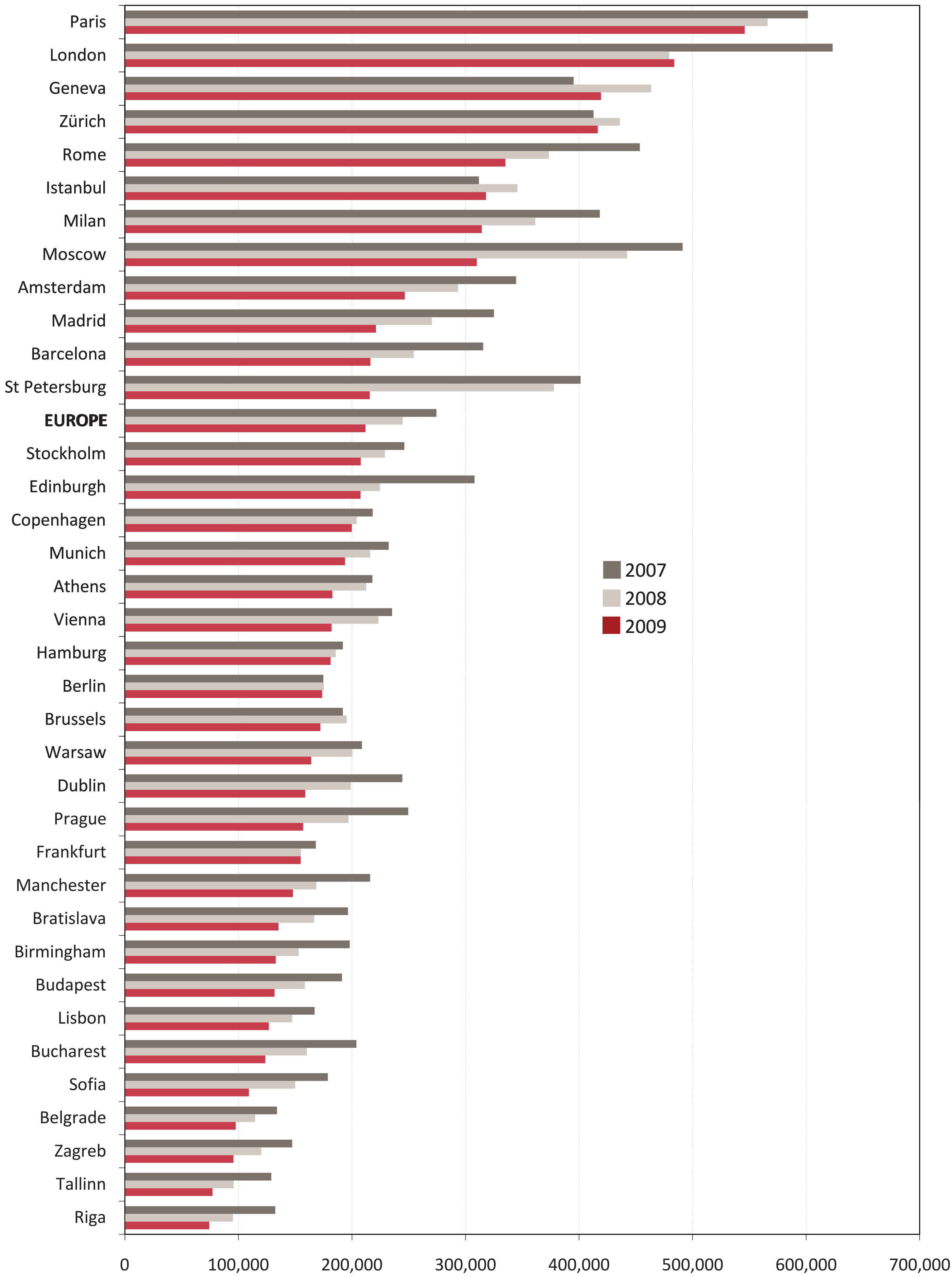
Figures 5 and 6 show the risk-adjusted capital appreciation by city and region, respectively. The risk-adjusted capital appreciation aims to measure the return on capital appreciation over a given period (here, 1998 to 2009) adjusted for investment risk. Details of how this ratio is calculated are provided in our 'Understanding the HVI' section. We note that while this measure does not directly account for yearly generated income, the capital appreciation from one year to the next depends heavily on yearly performances and income and therefore accounts for it to a certain extent.

FIGURE 6 Risk-Adjusted Capital Appreciation Ratio by Region 1998-09



Source: HVS – London Office

FIGURE 7 Hotel Values per Room 2007-09 (€)



Source: HVS – London Office

2009 – A Year of Change

As reflected in this year's index, both at a European level and at an individual market level, 2009 has been a challenging year. As such, market participants have been far more selective than in recent years, with transaction volumes recording an historical low with a total spent on hotel assets in Europe of €3 billion or half the capital invested in 2008. Indeed, 2009 will be remembered as the year that all parties involved came back to real estate and operational fundamentals. One thing certain is that 'market knowledge' was vital this year to a detailed understanding of an existing business and also when reviewing potential acquisitions.

> Figure 8 shows a forecast of the change in the value per room for 2010 and 2011.

More than ever, the picture drawn in this year's index emphasises the importance of location, the balance of feeder markets and demand segments and the level of flexibility of the operational cost structure.

Some economic factors could also not be ignored this year. London was a good example of the positive effect on demand of the weakeness of sterling against the euro. On the contrary, this very same factor had a less positive meaning for Paris. For some markets, the reduction in international trade and travel meant the need for a pragmatic focus on the domestic market. Unfortunately, the heavily industrial profile of some countries, the concentration of businesses within the financial sector or simply the limited spending power of the domestic leisure market meant a reduced range of alternatives and therefore stronger decrease in trading performance and a likely darker outlook in the short term.

Also, while trading performance can be compared from one market to another, the pace of recovery will be dependent on the entry of new players to the market together with intensified competition.

Towards the end of the year, as some governments announced the first quarterly growth in GDP as a sign of the end of the recession, a handful of hotel markets showed some encouraging signs of early rebound. London is one of those with the strongest year-on-year growth in value and the promise to lead the recovery of Western Europe, with some drivers including an anticipated almost unchanged euro-sterling exchange rate and the forthcoming 2012 Olympics. Other markets, including secondary German cities, Zürich and Geneva recorded a softening of the decrease in value, and therefore seem well positioned to enjoy some growth in the short term. On the other hand, Eastern European markets are likely to experience more delays in recovery owing to increased levels of national debt and significant additions to supply.

Istanbul has consolidated its position within the top ten (at 6th place) with a value per room of €318,200, while Paris, London and Geneva held the podium with values per room of €545,900, €483,900 and €419,300, respectively.

FIGURE 8 Value Per Room Forecast

	2010	2011
1 Amsterdam	↔	⬆
2 Athens	↓	↔
3 Barcelona	↓	↑
4 Belgrade	↔	↑
5 Berlin	↑	↑
6 Birmingham	↔	↑
7 Bratislava	↓	↑
8 Brussels	↔	⬆
9 Bucharest	↔	↑
10 Budapest	↔	↑
11 Copenhagen	↑	↑
12 Dublin	↓	↔
13 Edinburgh	↔	↑
14 Frankfurt	↔	↑
15 Geneva	↑	↑
16 Hamburg	↔	↑
17 Istanbul	↑	↑
18 Lisbon	↓	↔
19 London	⬆	↑
20 Madrid	↓	↑
21 Manchester	↔	⬆
22 Milan	↑	↑
23 Moscow	↓	⬆
24 Munich	↑	↑
25 Paris	↔	↑
26 Prague	↓	↔
27 Riga	↓	↔
28 Rome	↑	↑
29 St Petersburg	↓	↑
30 Sofia	↓	↑
31 Stockholm	↑	↑
32 Tallinn	↔	↑
33 Vienna	↔	⬆
34 Warsaw	↑	↑
35 Zagreb	↔	↑
36 Zürich	↑	↑

Key (Based on Previous Year)

⬆	Growth >5%
↑	Growth <5%
↔	Stable
↓	Decline <5%
⬇	Decline >5%

Source: HVS – London Office

Valuing Hotels under the Current Recessionary Market Conditions

In the current environment, which features declines in trading performance and immediate depressed earnings, one would expect the single capitalisation of 2009 earnings to produce considerably deteriorated hotel values, based on which potential investors with sufficient liquidities could purchase properties at a discount and enjoy considerable gains as the market recovers and that trading improves.

However, the purpose of the Hotel Valuation Index is to present a general opinion of Market Value, which is defined as:

> *'the estimated amount for which an asset should exchange on the date of valuation [here, 31 December 2009] between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.'*
>
> – Royal Institution of Chartered Surveyors' (2008) *Appraisal and Valuation Standards*

When valuing an asset in the current economic landscape, one must realise and maintain a distinction between Market Value and liquidation value. The premise of Market Value assumes a paradigm of a 'willing buyer and willing seller' conducting a transaction after market-appropriate exposure and marketing times. On the contrary, liquidation value connotes the principle of 'unwilling seller', most likely facing bankruptcy or foreclosure, under extreme duress to sell. While our approach accounts for the recent fluctuations in trading performance throughout the markets studied, it also considers valuation parameters that reflect future trends in performance, a competitive environment, both demand and supply, cost and availability of debt and cost of equity.

Outlook

The European-wide decrease in value of 13.4% in 2009 is not that different from the fall last year of 10.8%. It does not tell the whole story, however, and it is more important than ever to review each market individually. We expect that nine of the 36 markets will return to positive territory at some point in 2010; however, this is likely to be a small increase rather than dramatic return. Whether any particular market enjoys overall growth in 2010 will depend on if there are further significant falls in the first part of the year. In terms of growth, Berlin is the only city to have featured in the top-five performers (Figure 1) for the past two years. This is partly owing to the fact that Berlin's hotels have a relatively low value compared to other major capital cities in Europe, and, thus, is starting from a low base, but it also illustrates the continuing reinvention of the city. Although the city's performance has been boosted in 2009 by the 20th anniversary of the fall of the Berlin Wall, we expect this level of performance to continue in 2010.

With softened annual declines in values per room of 0.1% and 2.5%, respectively, Frankfurt and Hamburg joined Berlin, London and Copenhagen in this year's top-five performers, further demonstrating investors' current appetite for established and solid investment markets. Conversely, all of the bottom five cities are in Eastern Europe.

Over the past 12 months we have worked in nearly all of the 36 cities in the index, demonstrating continuing activity and interest in the European hotel industry. Most of this work has been valuation focused, but feasibility studies are still being commissioned, demonstrating the confidence some are showing in the market and also that we are at or close to the bottom of the cycle. Assuming debt providers continue to relax their requirements, a recovery in confidence and value should be around the corner.

2010 is likely to continue to be a challenging year and for reasons specific to each market as a consequence of both local and national factors: VAT change (UK and Germany), the level of supply entering the market, a depreciated currency exchange rate, repayment of European loans (Eastern European countries mainly) and a reform of the fiscal system (Greece). It is evident, however, that some markets have already shown signs of improvement towards the end of 2009 and will be leading the recovery in 2010.

We expect the buzz words of the European hotel industry will remain 'stability', 'slow but sure' and 'bursting bubbles'. Our 2011 publication may well focus on a two-tier Europe with some markets enjoying a relatively good year in 2010 whilst others continue to suffer. Whatever happens, it promises to be another unique and interesting year...

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 36 major European markets. Additionally, our index allows us to rank each market relative to a European average (see Table 3). The HVI also reports the average value per room, in euro, for each market (Table 4). 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. Based upon 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 hotel in each city. In determining the valuation parameters relevant to each of the 36 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 2009 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2009. 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. 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 (albeit few) 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 2009 the index for Paris was 3.259 (€545,887/€173,737), which means that the value of a hotel in Paris in 2009 was more than three times higher than the European average in 1993.

In 2008, we introduced the risk-adjusted capital appreciation per city and per region in order to assess the risk/return factor for cities for which we had a sufficient amount of data to perform the calculation. The calculation was performed by taking the arithmetic average of yearly capital appreciation per room from 1998 to 2009, divided by the standard deviation of each of those variations. Our findings are presented in Figures 5 and 6.

– HVS –

About the Authors

Pierre Ricord is an Associate with HVS's London office, specialising in hotel valuation and consultancy. He joined HVS in 2008 after completing an MBA at IMHI (ESSEC Business School, Paris, France) and a diploma in Hotel and Restaurant Operations Management at the Lycée Hôtelier Savoie-Léman, Thonon-les-Bains, France. Since then he has provided hotel investment advice and conducted valuations, feasibility studies, strategic advisories and other consultancy assignments in numerous countries across Europe, and written several market and industry-related articles.

Tim Smith MRICS is Director of Valuations in the London office of HVS. He has been valuing hotels for 15 years and is a member of the Royal Institution of Chartered Surveyors (RICS). 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 excess of 30 countries across the EMEA region and has been involved with the valuation of both individual assets and some of the most important portfolio transactions across the region.

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Zagreb 34th/-20%
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Milan 7th/-13%
Zürich 4th/-5%
Geneva 3rd/5%
Amsterdam 9th/-16%
Brussels 21st/-12%
Paris 1st/-4%
London 2nd/4%
Birmingham 27th/-11%
Manchester 25th/-8%
Edinburgh 13th/-4%
Dublin 23rd/-20%
Barcelona 11th/-15%
Madrid 10th/-18%
Lisbon 30th/-14%
Value Per Room
Xth/X% Ranking/Percentage Change

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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