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2013 EUROPEAN HOTEL VALUATION INDEX

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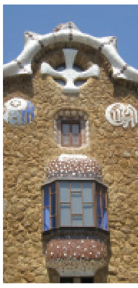

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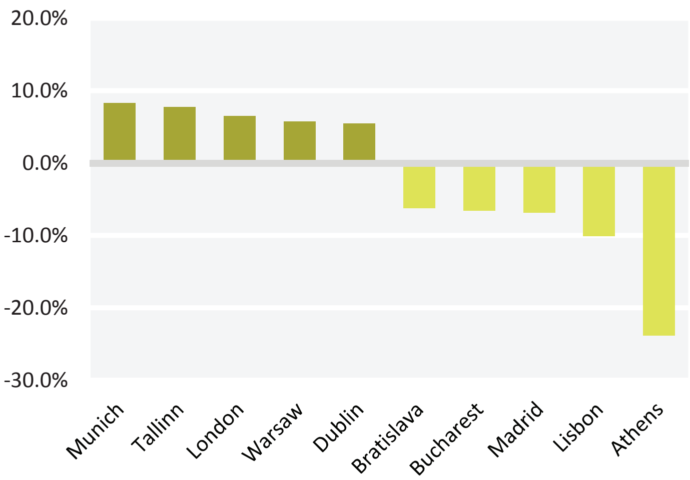
Highlights

Was 2012 a case of two steps forward and one step back? Just as 2011 started positively, following a promising end to 2010, and deteriorated as the year went by, 2012 was a year of reduced visibility, increased risk aversion and no rises in bank lending. Although investors did keep busy, notably during the second half of the year, we might be starting to get used to the idea that caution and strategic thinking are here to stay. While the fall from grace was dramatic for many markets, recovery is likely to be very slow and steady. The main highlights for 2012 are as follows.

- Overall, market performance in 2012 was slightly better than in 2011. The results were mixed amongst the countries reviewed, with stable markets experiencing solid growth while others were more badly affected by the Eurozone crisis;
- However, strong performances in some markets were mitigated (or even wiped out) by increases in cost structures, such as online travel agents (OTAs) commissions or undistributed and fixed expenses. All of these factors resulted in subdued value growth compared to rises in RevPAR for several markets;
- The current level of bank funding is being accepted as the new normal. Whilst 'alternative' lenders have not yet leapt in to fill the vacuum, institutional investors and debt funds are examples of new sources of finance;
- As shown in Chart 4, the gap between values per sub-region since 2003 had significantly narrowed by the end of 2011. However, the change in fortunes of several economies in southern Europe resulted in a widening of this gap over the course of 2012, as both trading performance and investor appetite for hotels in these markets deteriorated;
- In terms of transaction levels, the improvements in 2010 and 2011 have given way to a more restrained European transactions arena in 2012, as hotel transaction volume decreased by 21% from €7.1 billion in 2011 to €5.6 billion in 2012 (see our sister publication, *2012 European Hotel Transactions*);
- This year, we have also included a volatility index, which measures the volatility of values per market over a given period of time;
- With regards to value changes, results have also been mixed: just over half of the markets in our survey recorded value increases in 2012; this just about compensated for the falls in the others. The average value for Europe remained stagnant on 2011. For 2013, we forecast growth for the majority of the markets in our survey, albeit on average at inflationary levels.

CHART 1: TOP AND BOTTOM FIVE – PERCENTAGE CHANGE IN HOTEL VALUE PER ROOM 2012 (€)



Winners and Losers

Remarkably, for 2012 the five top markets in the HVI remain practically unchanged on 2011 (see Chart 3). Paris is top of the table at about €660,000 per room, followed by London, Zürich, Geneva and Rome. Tallinn is still at the bottom of the index but with strong growth rates. Sofia remains second to last and neither Bratislava nor Bucharest have moved. Athens, on the other hand, dropped four places in the index to 30.

The markets that recorded the biggest percentage rises and falls in hotel values during 2012 are shown in Chart 1.

Changes in Value – Strong Performers

In a change to previous versions of the HVI, we have elected this year to discuss in the following paragraphs the most interesting changes in value (up and down) for the past year. Although we don't mention all of the markets in detail, it is great to see that Tallinn enjoyed another strong year of recovery, but just as disappointing (if not surprising) to see Lisbon and Athens struggle the most.

The **Munich** hotel market continues to impress with its dynamism and strength. The entry of about 1,700 new rooms into the market in 2011 didn't dent performance: the lower-than-average RevPAR decrease in 2009 was more than compensated for in the following two years, and a string of renovated (and rebranded) assets recorded stellar performances in 2012, with double-figure RevPAR growth. Combine a well-balanced mix of business-, leisure- and meeting-driven demand with high barriers to entry (only 320 new rooms are expected to enter the market over the next year) and the strong economic performance of the city, and you get the perfect recipe for a successful hotel market. Munich is in top position in terms of percentage growth in values in this year's index (compared to 15th place in 2011).

Munich is still a top performer

CHART 2: HOTEL VALUES – PERCENTAGE CHANGE 2003-12 (€)

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	CAGR [1] 2003-2012 [2]
1	Munich	-8.1	11.7	-1.4	7.8	3.4	-7.0	-10.2	14.7	4.6	8.3	3.2%
2	Tallinn	n/a	5.6	6.1	18.4	-7.1	-25.7	-19.5	3.2	14.0	7.7	-0.8%
3	London	-5.9	11.9	7.2	11.7	5.5	-23.1	0.9	8.4	12.0	6.5	4.0%
4	Warsaw	-10.9	-13.4	8.1	14.7	10.2	-4.0	-18.2	5.1	8.7	5.7	1.3%
5	Dublin	1.9	2.3	6.7	6.5	-2.5	-18.6	-20.2	-5.4	6.1	5.5	-2.7%
6	Prague	1.6	17.7	4.3	1.4	-5.4	-21.0	-20.3	1.6	3.7	4.7	-2.2%
7	Paris	-7.2	4.3	6.6	9.0	6.0	-5.9	-3.6	4.2	10.9	4.6	3.9%
8	Edinburgh	-3.4	9.4	5.5	12.0	1.7	-27.1	-7.6	2.8	1.7	4.5	-0.4%
9	Manchester	-5.7	7.5	6.9	6.2	-1.2	-21.9	-12.2	-4.4	0.2	3.8	-2.2%
10	Birmingham	-4.2	7.7	3.0	5.4	-0.5	-22.7	-13.1	-12.0	-6.7	3.3	-4.5%
11	Moscow	8.7	21.7	21.8	20.6	14.3	-9.9	-30.0	4.3	3.4	3.0	4.1%
12	Vienna	6.4	0.8	3.9	11.2	6.5	-5.2	-18.4	-1.7	3.0	2.6	0.0%
13	Berlin	-2.9	1.0	-0.7	5.2	-0.7	0.2	-0.8	4.4	-2.6	2.6	0.9%
14	Frankfurt	-2.0	-3.7	0.2	5.9	-6.4	-7.9	-0.1	19.4	6.9	2.4	1.6%
15	Barcelona	-5.5	-8.5	-5.4	7.2	5.5	-19.4	-15.0	3.3	2.4	1.3	-3.6%
16	Istanbul	-9.5	16.9	32.0	10.9	8.2	10.8	-8.0	5.8	1.6	0.3	8.2%
17	Sofia	n/a	n/a	n/a	9.1	12.4	-16.0	-27.1	0.5	-9.2	0.3	-5.2%
	EUROPE	**-10.0**	**2.5**	**4.1**	**8.9**	**3.1**	**-10.8**	**-13.4**	**1.6**	**11.6**	**0.0**	**0.5%**
18	Hamburg	-0.2	0.5	0.5	0.8	-6.3	-3.2	-2.5	4.4	6.3	-0.3	0.0%
19	Copenhagen	-8.3	-3.1	10.0	11.4	1.0	-6.4	-2.2	-0.9	4.1	-0.5	1.4%
20	Budapest	-13.6	7.9	11.7	4.8	-1.2	-17.1	-16.8	-0.8	4.0	-0.5	-1.4%
21	Brussels	-4.0	3.1	4.5	7.8	6.1	1.7	-11.8	0.1	3.7	-1.5	1.4%
22	Rome	-1.9	4.7	2.9	7.8	-4.3	-17.6	-10.2	1.9	6.0	-2.4	-1.6%
23	Amsterdam	-4.9	-0.3	5.7	16.5	-0.8	-14.9	-16.0	10.4	6.4	-2.8	-0.1%
24	Geneva	-7.9	-8.4	9.1	7.6	5.4	17.3	-9.6	-1.4	13.1	-3.5	2.9%
25	Milan	-0.4	-3.3	0.8	12.3	-1.7	-13.6	-13.0	-12.4	3.9	-4.1	-3.8%
26	Zürich	-5.5	6.2	8.4	10.1	7.6	5.6	-4.5	12.1	11.1	-5.1	5.5%
27	Stockholm	-6.5	1.9	5.2	11.2	8.3	-6.9	-9.4	3.0	8.7	-5.4	1.6%
28	Bratislava	n/a	n/a	11.6	-5.0	3.0	-15.2	-18.8	-15.9	4.0	-6.2	-8.1%
29	Bucharest	n/a	17.0	2.6	-4.9	8.1	-21.4	-22.9	-8.0	4.6	-6.6	-4.3%
30	Madrid	-5.7	-10.9	0.6	12.8	2.0	-16.8	-18.2	-7.4	2.6	-6.8	-5.2%
31	Lisbon	-4.0	2.6	-9.7	14.9	11.9	-11.8	-14.0	-2.7	11.1	-10.0	-1.4%
32	Athens	-2.8	6.7	-7.1	2.6	4.7	-2.5	-14.0	-29.3	5.9	-23.8	-7.2%

Source: HVS – London Office

[1] Compound Annual Growth Rate
[2] CAGR from 2003 or closest year

Poland co-hosted the European Football Championship in 2012. The event was a great marketing opportunity for **Warsaw**, speeding up investment in infrastructure, and it is expected to boost future tourism arrivals significantly. Warsaw has achieved strong growth in RevPAR over the past few years. A rise of about 10% in 2011 was followed by more double-figure growth in 2012. Strong trading performances and increased investor interest resulted in a 5.7% increase in value per room for this market, the fourth-highest increase in the index. We forecast Warsaw to grow further to a value of about €225,000 per room by 2017. Future developments to watch out for include the repositioning of the Hotel Europejski into a Raffles hotel for approximately €65 million, which is expected to take place in 2015. Additionally, Hilton is very active in Warsaw as it currently has three hotels under development that are expected to open in the next few years: two Hampton Inns (one with 166 rooms at the airport and one with 300 rooms in the city centre) and the DoubleTree by Hilton Warsaw Conference Centre & Spa (358 rooms).

Warsaw continues to grow on the back of Euro 2012

The **Dublin** hotel market recorded double-figure RevPAR growth in 2012. The rebounding of this market is the result of both an increase in interest from investors and solid trading performances, translating into a 5.5% increase in value. There are also welcome signs of the banks and the National Asset Management Agency releasing more assets for sale, both in the city and throughout the Republic of Ireland.

Dublin achieved a strong recovery

WARSAW OLD TOWN

Notable transactions include the purchase and rebranding of the Morrison and the Burlington hotels in separate transactions. Dublin remains a somewhat expensive destination for the UK, although it is very successful at attracting British visitors, and it appears to be staging a recovery despite its exchange rate issues.

It is difficult to imagine that investor appetite for **London** and **Paris** can ever fade away. Not only are they important business and financial centres, but a host of cultural and historic attractions make sure that both cities can keep attracting leisure visitors. Whilst visitation for both markets remains strong, 2012 was an exceptional year for London, which hosted the Olympic and Paralympic Games and the Queen's Diamond Jubilee celebrations. Although year-end RevPAR reflected the interest caused by these events, London experienced a slightly more subdued increase in value, owing to concerns over new supply and the post-Olympics drop in demand. Paris also achieved a strong RevPAR performance, mainly driven by solid growth in average rate. High barriers to entry and the costs of conversion make this city challenging, and result in the majority of conversion projects being at the higher end of the market. Over the next few years, a number of hotels will either open or reopen following extensive renovation, such as the Crillon, Ritz, Plaza Athénée and Prince de Galles and proposed hotels like the Peninsula, Cheval Blanc and the Hermitage project. The capacity of the market to absorb this many luxury rooms is likely to be tested. Paris has fared well (again) in this year's HVI, ranking seventh in terms of value growth. Despite RevPAR gains, however, hotels in both markets have experienced a squeeze to their bottom lines, as increases in OTA and undistributed expenses (as well as property taxes for some Paris hotels) eroded profitability and impacted values.

The dynamic duo – visitation to London and Paris is still going strong

Commentators have been quick to cast regional locations in the UK aside, saying that trading remains tough and a lack of available finance is stifling the investment market. Whilst these concerns are mainly true, there are a few tentative signs of a recovery in key regional cities. Both **Birmingham** and **Manchester** enjoyed strong RevPAR growth in excess of 5% for 2012. However, this did not translate into the same level of growth in values, owing to rising food and fuel costs reducing profitability. Unfortunately, we expect pressure on operational costs to continue throughout 2013. We acknowledge that finance remains challenging for anything other than key locations in key cities, but the first signs that this may be easing are emerging. We have not changed our valuation parameters substantially this year, but we suspect (and hope) that there will be pressure to do so next year.

Hotels in the UK's regional cities achieved growth but with reduced profitability

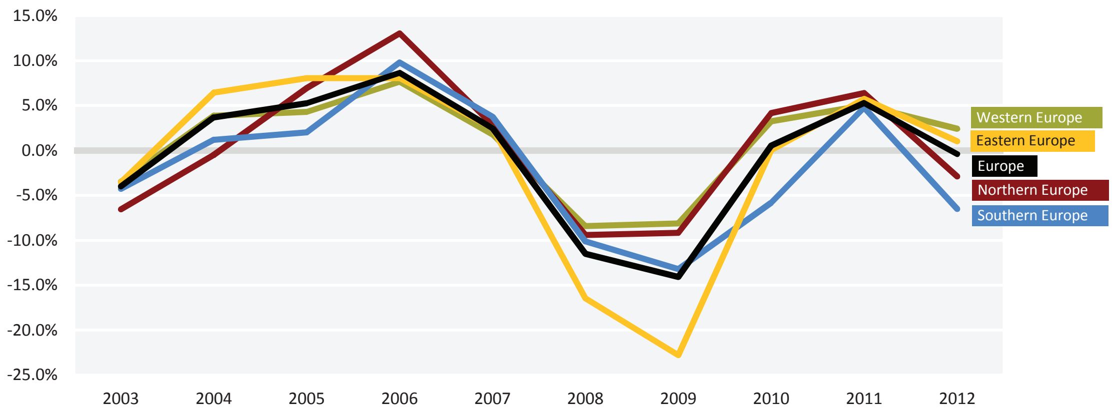
CHART 3: HOTEL VALUATION INDEX

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	Paris	2.697	2.813	2.997	3.267	3.463	3.259	3.142	3.274	3.632	**3.798**
2	London	2.536	2.838	3.043	3.400	3.588	2.760	2.786	3.018	3.380	**3.599**
3	Zürich	1.744	1.852	2.008	2.210	2.377	2.510	2.397	2.686	2.984	**2.833**
4	Geneva	2.006	1.838	2.006	2.158	2.275	2.669	2.414	2.379	2.690	**2.597**
5	Rome	2.349	2.460	2.531	2.729	2.610	2.150	1.929	1.967	2.085	**2.034**
6	Moscow	1.384	1.684	2.051	2.473	2.828	2.547	1.784	1.860	1.924	**1.982**
7	Istanbul	0.969	1.134	1.496	1.659	1.795	1.990	1.831	1.938	1.968	**1.975**
8	Amsterdam	1.629	1.624	1.717	2.000	1.984	1.689	1.419	1.567	1.667	**1.620**
9	Milan	2.235	2.162	2.180	2.449	2.408	2.080	1.809	1.585	1.647	**1.579**
10	Munich	1.090	1.217	1.200	1.293	1.338	1.243	1.116	1.281	1.340	**1.451**
	EUROPE	**1.319**	**1.351**	**1.407**	**1.533**	**1.580**	**1.409**	**1.220**	**1.240**	**1.384**	**1.383**
11	Barcelona	1.855	1.698	1.606	1.722	1.817	1.465	1.245	1.287	1.317	**1.334**
12	Edinburgh	1.349	1.475	1.556	1.743	1.773	1.293	1.195	1.228	1.249	**1.305**
13	Stockholm	1.097	1.119	1.177	1.308	1.417	1.319	1.196	1.231	1.338	**1.265**
14	Copenhagen	1.047	1.015	1.116	1.244	1.256	1.176	1.150	1.140	1.187	**1.182**
15	Frankfurt	1.013	0.976	0.977	1.035	0.969	0.892	0.892	1.064	1.138	**1.165**
16	Hamburg	1.159	1.164	1.170	1.180	1.105	1.070	1.043	1.089	1.158	**1.154**
17	Warsaw	1.016	0.879	0.950	1.090	1.202	1.154	0.944	0.993	1.079	**1.141**
18	Madrid	1.815	1.617	1.626	1.834	1.872	1.556	1.273	1.179	1.210	**1.127**
19	Vienna	1.093	1.102	1.145	1.273	1.355	1.285	1.049	1.031	1.062	**1.090**
20	Berlin	0.961	0.971	0.964	1.014	1.007	1.009	1.000	1.044	1.017	**1.043**
21	Brussels	0.898	0.926	0.967	1.042	1.105	1.125	0.992	0.993	1.029	**1.014**
22	Prague	1.221	1.436	1.498	1.519	1.437	1.135	0.904	0.919	0.953	**0.997**
23	Dublin	1.242	1.270	1.355	1.443	1.407	1.146	0.915	0.865	0.918	**0.968**
24	Manchester	1.031	1.109	1.185	1.259	1.244	0.971	0.853	0.815	0.817	**0.847**
25	Budapest	0.883	0.953	1.064	1.115	1.101	0.913	0.760	0.754	0.784	**0.780**
26	Lisbon	0.808	0.829	0.748	0.860	0.962	0.849	0.730	0.710	0.789	**0.710**
27	Birmingham	0.980	1.056	1.087	1.146	1.140	0.881	0.766	0.674	0.629	**0.650**
28	Bucharest	n/a	1.113	1.142	1.086	1.175	0.923	0.712	0.655	0.685	**0.640**
29	Bratislava	n/a	1.036	1.157	1.099	1.132	0.960	0.780	0.656	0.682	**0.640**
30	Athens	1.178	1.257	1.168	1.199	1.255	1.223	1.051	0.743	0.787	**0.599**
31	Sofia	n/a	n/a	0.839	0.915	1.029	0.864	0.630	0.633	0.575	**0.577**
32	Tallinn	0.603	0.637	0.676	0.800	0.743	0.552	0.445	0.459	0.523	**0.563**

Source: HVS – London Office

Note: Based on euro calculations

CHART 4: YEAR-ON-YEAR CHANGE IN VALUES PER ROOM BY REGION 2003-12



Source: HVS – London Office

Note: Based on euro calculations

Changes in Value – The Biggest Falls

Madrid and **Barcelona**, the two largest cities in Spain and cornerstones of the country's economy and culture, recorded opposite performances: although Madrid won the latest Spanish football league, it was Barcelona that clearly outperformed Madrid in hotel value growth during 2012. Values grew in Barcelona by 1.3% to about €232,000 per room, whereas in Madrid they declined by a dramatic 6.8% to €196,000 per room. There are several reasons for this significant difference in performance. First of all, Barcelona attracts more international visitors as it is positioned globally as a more attractive and better-established destination than Madrid. Visitors tend to stay longer in Barcelona and more meetings were held there than in Madrid over the last few years. Also, access to a beach and proximity to mountains are key selling points for Barcelona. As domestic demand is more important for Madrid, it is affected more by the challenging Spanish economy. Not only does the profile of visitors vary from one market to the other, in terms of supply, Madrid accounts for about 12% of Spain's total five-star room supply compared to 16% for Barcelona. Barcelona's luxury segment outperforms Madrid's by about €30 in average rate, owing to higher international demand levels, a higher percentage of internationally branded hotels and, in some cases, newer and better quality assets. As a result, international operators in Barcelona are able to drive value with the help of brand standards, brand recognition and distribution power. Interestingly, international brands are rather under-represented in both cities. However, this is not because of a lack of interest but more due to limitations in suitable real estate. Therefore, developers often require financing for conversions of existing buildings or mixed-use developments. Nevertheless, there is quite a significant pipeline for both cities, although, not surprisingly, Barcelona is leading with almost twice as many rooms planned. A potential cloud on the horizon for Barcelona is the ongoing calls for independence. If this were ever to gain significant momentum, instability may deter investors in the short term and put values under pressure.

Barcelona and Madrid registered opposing performances

PARK GÜELL IN BARCELONA

Switzerland was seen as a haven for investment during the worldwide financial crisis. The limited impact from the recession, low inflation, a low unemployment rate and a strong currency pushed investors towards the Swiss franc. As a result, the currency reached peak levels and the Swiss National Bank was forced to interfere. Whereas the economy, with the exception of the banking sector, was more or less stable and is continuing to grow, the same unfortunately cannot be said for the country's tourism industry.
The strong currency affected Switzerland in two ways: European visitation declined as those living in many of the source markets had less disposable income and Swiss destinations became more expensive. Additionally, domestic visitation decreased as other destinations became cheaper for Swiss travellers. As a result Switzerland's two largest cities, **Zürich** and **Geneva**, both recorded decreases in RevPAR (measured in Swiss francs) from 2010 to 2011, a trend that continued during 2012. Although these changes had a slight negative impact on hotel room values, both markets managed to remain in the top four. Zürich reached about €492,000 per room and ranked in third place, right behind Paris and London. Geneva follows in fourth place with €451,000 per room. Values in local currency decreased for both markets: Geneva experienced a drop of 2.0% and Zürich decreased by 4.0%.

Currency fluctuations in Switzerland impacted tourism demand

CHART 5: HOTEL VALUES PER ROOM 2003-12 (€)

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	Paris	468,642	488,637	520,657	567,582	601,736	566,182	545,887	568,772	630,928	659,819
2	London	440,589	493,147	528,685	590,700	623,389	479,586	483,946	524,414	587,153	625,325
3	Zürich	303,071	321,776	348,816	383,896	412,929	436,164	416,455	466,654	518,496	492,163
4	Geneva	348,545	319,394	348,553	374,928	395,337	463,664	419,322	413,254	467,394	451,263
5	Rome	408,025	427,329	439,706	474,115	453,513	373,474	335,209	341,718	362,168	353,389
6	Moscow	240,379	292,597	356,385	429,738	491,250	442,442	309,908	323,123	334,254	344,355
7	Istanbul	168,425	196,943	259,962	288,298	311,874	345,688	318,160	336,652	341,979	343,071
8	Amsterdam	283,081	282,177	298,276	347,480	344,731	293,440	246,615	272,250	289,563	281,512
9	Milan	388,362	375,607	378,780	425,408	418,292	361,405	314,326	275,323	286,098	274,263
10	Munich	189,397	211,504	208,544	224,723	232,382	216,013	193,960	222,562	232,728	252,104
	EUROPE	**229,079**	**234,799**	**244,457**	**266,287**	**274,427**	**244,837**	**212,026**	**215,467**	**240,407**	**240,307**
11	Barcelona	322,233	294,942	278,972	299,168	315,731	254,503	216,289	223,514	228,776	231,696
12	Edinburgh	234,293	256,289	270,269	302,830	308,027	224,606	207,560	213,362	217,060	226,764
13	Stockholm	190,634	194,343	204,438	227,309	246,204	229,155	207,715	213,887	232,397	219,789
14	Copenhagen	181,906	176,344	193,944	216,080	218,247	204,279	199,805	198,062	206,257	205,326
15	Frankfurt	175,961	169,497	169,811	179,872	168,302	155,043	154,888	184,863	197,658	202,377
16	Hamburg	201,356	202,289	203,288	204,941	192,032	185,881	181,228	189,262	201,151	200,529
17	Warsaw	176,439	152,723	165,083	189,431	208,847	200,436	164,056	172,487	187,532	198,250
18	Madrid	315,270	280,863	282,425	318,668	325,149	270,403	221,173	204,891	210,187	195,855
19	Vienna	189,872	191,412	198,867	221,081	235,469	223,289	182,220	179,192	184,540	189,400
20	Berlin	166,977	168,681	167,454	176,141	174,941	175,269	173,824	181,387	176,749	181,269
21	Brussels	155,942	160,799	167,979	181,015	192,041	195,401	172,325	172,488	178,796	176,173
22	Prague	212,065	249,529	260,316	263,895	249,576	197,115	157,019	159,598	165,561	173,281
23	Dublin	215,852	220,721	235,425	250,642	244,497	199,027	158,897	150,268	159,477	168,237
24	Manchester	179,167	192,692	205,929	218,703	216,057	168,737	148,116	141,580	141,907	147,241
25	Budapest	153,460	165,514	184,914	193,737	191,347	158,591	131,961	130,966	136,226	135,592
26	Lisbon	140,296	143,955	129,972	149,358	167,172	147,476	126,887	123,437	137,103	123,326
27	Birmingham	170,258	183,382	188,794	199,043	198,044	153,081	133,092	117,104	109,303	112,948
28	Bucharest	165,197	193,316	198,380	188,751	204,066	160,328	123,690	113,789	118,985	111,184
29	Bratislava	n/a	180,070	200,954	190,899	196,613	166,769	135,473	113,915	118,486	111,144
30	Athens	204,603	218,340	202,946	208,274	218,010	212,539	182,680	129,065	136,716	104,124
31	Sofia	n/a	n/a	145,770	159,016	178,800	150,132	109,387	109,960	99,873	100,165
32	Tallinn	104,755	110,663	117,448	139,035	129,107	95,920	77,234	79,709	90,877	97,891

Source: HVS – London Office

CHART 6: CHANGE IN HOTEL VALUES IN LOCAL CURRENCY

		2007	2008	% Change	2009	% Change	2010	% Change	2011	% Change	2012	% Change
Birmingham	€	198,044	153,081	-23%	133,092	-13%	117,104	-12%	109,303	-7%	112,948	3%
	£	135,545	121,657	-10%	118,589	-3%	100,501	-15%	95,046	-5%	92,580	-3%
Bucharest	€	204,066	160,328	-21%	123,690	-23%	113,789	-8%	118,985	5%	111,184	-7%
	lei	683,110	592,424	-13%	525,871	-11%	480,548	-9%	515,206	7%	495,882	-4%
Budapest	€	191,347	158,591	-17%	131,961	-17%	130,966	-1%	136,226	4%	135,592	0%
	Ft	48,198,259	39,947,470	-17%	37,067,819	-7%	36,078,817	-3%	40,499,892	12%	39,226,848	-3%
Copenhagen	€	218,247	204,279	-6%	199,805	-2%	198,062	-1%	206,257	4%	205,326	0%
	DKr	1,626,280	1,523,334	-6%	1,487,754	-2%	1,474,774	-1%	1,536,616	4%	1,531,735	0%
Edinburgh	€	308,027	224,606	-27%	207,560	-8%	213,362	3%	217,060	2%	226,764	4%
	£	210,818	178,499	-15%	184,942	4%	183,112	-1%	188,748	3%	185,872	-2%
Geneva	€	395,337	463,664	17%	419,322	-10%	413,254	-1%	467,394	13%	451,263	-3%
	SFr	649,584	735,391	13%	633,226	-14%	570,714	-10%	556,422	-3%	544,872	-2%
Istanbul	€	311,874	345,688	11%	318,160	-8%	328,684	3%	341,979	4%	343,071	0%
	YTL	558,614	657,701	18%	688,807	5%	656,974	-5%	793,837	21%	790,435	0%
London	€	623,389	479,586	-23%	483,946	1%	524,414	8%	587,153	12%	625,325	7%
	£	426,657	381,138	-11%	431,209	13%	450,063	4%	510,568	13%	512,562	0%
Manchester	€	216,057	168,737	-22%	148,116	-12%	141,580	-4%	141,907	0%	147,241	4%
	£	147,873	134,099	-9%	131,976	-2%	121,507	-8%	123,397	2%	120,689	-2%
Moscow	€	491,250	442,442	-10%	309,908	-30%	323,123	4%	334,254	3%	344,355	3%
	Rb	17,176,558	16,149,139	-6%	13,759,935	-15%	13,029,164	-5%	13,637,549	5%	13,636,476	0%
Prague	€	249,576	197,115	-21%	157,019	-20%	159,598	2%	165,561	4%	173,281	5%
	Kč	6,928,820	4,920,496	-29%	4,152,833	-16%	4,039,440	-3%	4,072,808	1%	4,366,677	7%
Sofia	€	178,800	150,132	-16%	109,387	-27%	109,960	1%	99,873	-9%	100,165	0%
	BGN	350,691	294,037	-16%	214,215	-27%	215,291	1%	195,752	-9%	196,323	0%
Stockholm	€	246,204	229,155	-7%	207,715	-9%	213,887	3%	232,397	9%	219,789	-5%
	SKr	2,277,384	2,154,058	-5%	2,205,044	2%	2,040,910	-7%	2,098,545	3%	1,912,169	-9%
Tallinn	€	129,107	95,920	-26%	77,234	-19%	79,709	3%	90,877	14%	97,891	8%
	EEK	2,020,140	1,500,867	-26%	1,208,475	-19%	1,247,205	3%	na	na	na	na
Warsaw	€	208,847	200,436	-4%	164,056	-18%	172,487	5%	187,532	9%	198,250	6%
	PLN	791,595	703,704	-11%	710,197	1%	717,776	1%	770,755	7%	832,649	8%
Zürich	€	412,929	436,164	6%	416,455	-5%	466,654	12%	518,496	11%	492,163	-5%
	SFr	678,490	691,775	2%	628,896	-9%	644,461	2%	617,257	-4%	594,256	-4%

Source: HVS – London Office

Note: Estonia joined the Eurozone on 1 January 2011

The development pipelines are also very limited, owing mainly to high barriers to entry (strict regulations and shortage of land). There are no projects for new hotel openings planned for Geneva, but many of the city's prestigious hotels are currently undergoing renovation. In Zürich, the new 25hours Hotel (126 rooms) opened during 2012 in Zürich West. There are plans for a large development around the airport area, which involves a Hyatt Regency and a Hyatt Place with a combined room count of 500 (to open in 2017) as well as a 239-room Dorint (2014). In the luxury segment, the Kameha Grand (250 rooms) is scheduled to open in 2015, although it will not be in the city centre but in the Glattpark mixed-use development north of Zürich.

A capital of fashion, **Milan** is going through some rather challenging times. Optimism rose in 2011 when a three-year cycle of declining values was broken, and values increased by almost 4.0%. However, political and economic circumstances in Italy remain difficult: its reduced competitiveness after the Eurozone crisis and a highly uncertain political outlook following the 24-25 February poll, with a possible return to a fractious coalition government, are off-putting to investors. Further projected contractions in GDP in 2013 will not help. Although new supply in the market (W Milan, Mandarin Oriental) and a broadly corporate demand base are likely to further test RevPAR, over the years the city has demonstrated the ability to reinvent itself and push through expected rate limits. Also, Milan is set to host Expo 2015, which will focus on technology, innovation, culture, traditions and creativity and how they relate to food and diet; this event is expected to further promote Milan as a must-see destination and if nothing else it will represent a strong marketing opportunity for the city.

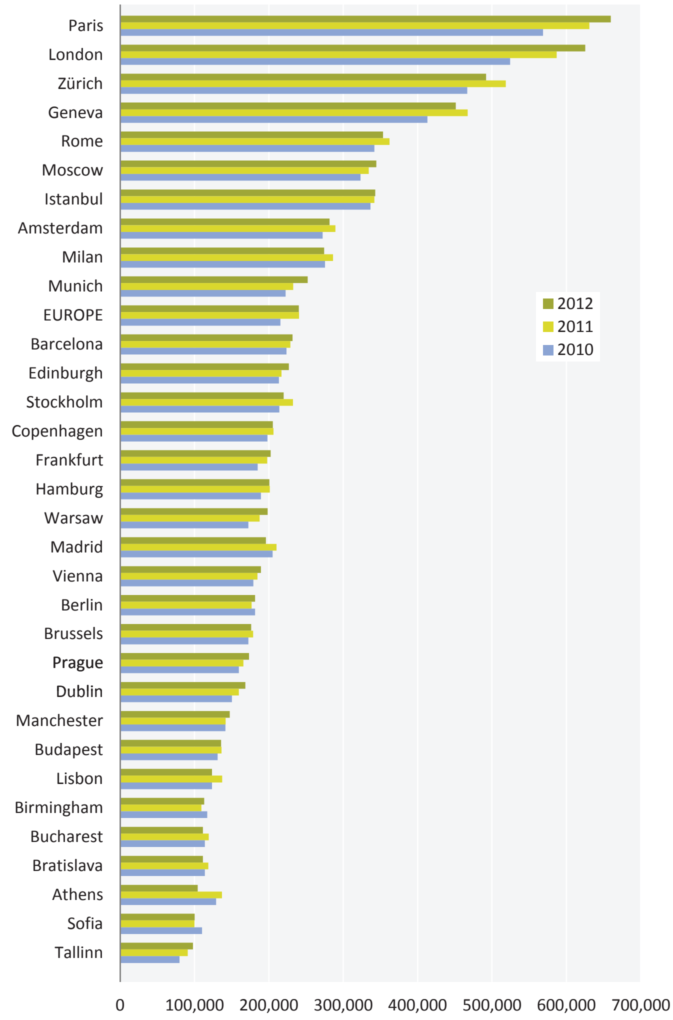
Challenging times for Milan

In terms of percentage change in value, it is not breaking news that **Athens** and **Lisbon** are at the very bottom of the table. Hotel values in Athens fell by almost 24% on 2011, whilst Lisbon experienced a decline of about 10%. The harsh economic circumstances that both countries have been submerged in over the last couple of years (especially Greece) have had a major impact on demand drivers for the Athens and Lisbon hotel markets. In Greece, a fragile three-party coalition took office after the June 2012 poll. The country's debt sustainability remains suspect. Despite a restructuring of Greek public debt held by the private sector and the easing of debt terms held by the official sector in 2012, GDP contracted by an estimated 6.8% and is only expected to start growing in 2015 by a modest 1.9%. Portugal faces a severe economic adjustment. Its bail out by the EU, IMF and European Central Bank emergency credit facility entails tough fiscal consolidation and structural reforms, which could threaten political stability. Portugal will be hostage to the development of the Eurozone debt crisis. After an estimated contraction of 3% in 2012 and forecast contractions of 2.8% in 2013 and 0.5% in 2014, the Economist Intelligence Unit expects GDP growth to average 0.8% from 2015 to 2017. Additionally, the limited spending power of international visitors to both countries adds to the drawbacks. As a result, in Portugal the number of overnight stays associated with tourist trips decreased by 3.8% year-on-year in 2012. The same trend was visible in Greece, where Athens International Airport recorded a drop of 3.3% in tourist arrivals last year.

Athens and Lisbon suffered from harsh economic circumstances

As the overall valuation index is based on euro calculations, some values were impacted by exchange rates, as shown in Chart 6. The UK markets were particularly affected as pound sterling appreciated against the euro during most of 2012. Istanbul witnessed a major depreciation from 2010 to 2011, but in 2012 only slight appreciation was recorded for Turkish lira against the euro. Switzerland's currency remained more stable as the Swiss National Bank set a lower limit for the Swiss franc to euro exchange rate. However, Zürich and Geneva were still affected by the strong currency.

CHART 7: HOTEL VALUES PER ROOM 2010-12 (€)



Source: HVS – London Office

Five-Year Forecast

What an eventful year 2012 has been! Whilst the USA was focused on deciding who would be its next president, the Middle East battled with continued unrest and Europe was mired in the complex battle to avoid the spread of the Eurozone crisis that created havoc in various member countries. We mentioned in our 2012 edition of the HVI that our forecast was one of cautiousness and vigilance. As it turned out, great doses of both were needed in 2012. Values were generally lower than we had predicted, as bank lending became ever more restrained and asking prices for assets on sale in gateway cities remained high. Put simply, the level of recovery expected for 2012 for many markets did not materialise.

CHART 8: FIVE-YEAR FORECAST OF HOTEL VALUES (€)

	Peak Years			HVS Forecast				
	2006	2007	2012	2013	2014	2015	2016	2017
Amsterdam	347,480	344,731	281,512	290,000	296,000	302,000	308,000	314,000
Athens	208,274	218,010	104,124	99,000	99,000	102,000	106,000	110,000
Barcelona	299,168	315,731	231,696	236,000	241,000	248,000	258,000	266,000
Berlin	176,141	174,941	181,269	183,000	187,000	192,000	198,000	202,000
Birmingham	199,043	198,044	112,948	115,000	118,000	123,000	130,000	133,000
Bratislava	190,899	196,613	111,144	113,000	116,000	121,000	127,000	131,000
Brussels	181,015	192,041	176,173	180,000	183,000	187,000	191,000	195,000
Bucharest	188,751	204,066	111,184	115,000	118,000	124,000	130,000	134,000
Budapest	193,737	191,347	135,592	140,000	144,000	151,000	159,000	163,000
Copenhagen	216,080	218,247	205,326	211,000	218,000	224,000	231,000	238,000
Dublin	250,642	244,497	168,237	177,000	185,000	191,000	197,000	203,000
Edinburgh	302,830	308,027	226,764	234,000	241,000	253,000	260,000	268,000
Frankfurt	179,872	168,302	202,377	208,000	215,000	221,000	228,000	232,000
Geneva	374,928	395,337	451,263	460,000	469,000	479,000	488,000	498,000
Hamburg	204,941	192,032	200,529	207,000	213,000	219,000	226,000	230,000
Istanbul	288,298	311,874	343,071	357,000	371,000	382,000	394,000	405,000
Lisbon	149,358	167,172	123,326	123,000	123,000	126,000	130,000	133,000
London	590,700	623,389	625,325	635,000	654,000	673,000	694,000	714,000
Madrid	318,668	325,149	195,855	194,000	194,000	198,000	202,000	206,000
Manchester	218,703	216,057	147,241	150,000	153,000	161,000	169,000	174,000
Milan	425,408	418,292	274,263	274,000	277,000	291,000	300,000	309,000
Moscow	429,738	491,250	344,355	355,000	365,000	380,000	395,000	407,000
Munich	224,723	232,382	252,104	262,000	273,000	284,000	292,000	301,000
Paris	567,582	601,736	659,819	680,000	700,000	721,000	743,000	765,000
Prague	263,895	249,576	173,281	178,000	184,000	193,000	203,000	209,000
Rome	474,115	453,513	353,389	357,000	364,000	375,000	386,000	398,000
Sofia	159,016	178,800	100,165	102,000	104,000	109,000	113,000	116,000
Stockholm	227,309	246,204	219,789	224,000	231,000	236,000	240,000	245,000
Tallinn	139,035	129,107	97,891	103,000	108,000	111,000	114,000	118,000
Vienna	221,081	235,469	189,400	193,000	199,000	205,000	211,000	217,000
Warsaw	189,431	208,847	198,250	204,000	209,000	215,000	220,000	225,000
Zürich	383,896	412,929	492,163	502,000	512,000	522,000	533,000	543,000

Source: HVS – London Office

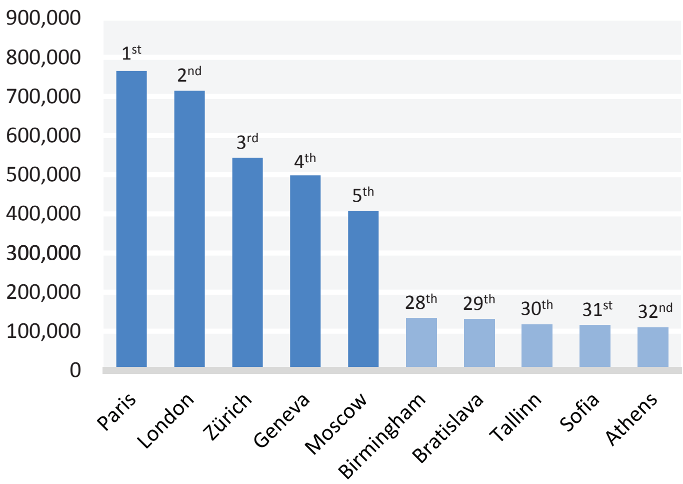
By year-end, the Eurozone had not imploded, bank lending started to be at least partially replaced by lending from institutional investors and debt funds and the volume of transactions was lower than in 2011. We expect 2013 to be broadly similar to 2012; perhaps a sustained albeit slow recovery will start, with a cautious return to bank lending by more debt providers. We have once more approached our forecast with caution, but also with optimism that the worst of the Eurozone crisis might now finally be behind us, the fiscal cliff in the USA will be solved for good and developing economies will continue to drive growth on a global scale. We consider that the new breed of lenders, if satisfied in their returns, have no reason to walk away from this rediscovered source of return that is hotels. Hence, we have counted on increased debt to spice up 2013.

Chart 8 shows that only 12 markets are expected to achieve higher values than their peak (2006-07) by the end of the forecast period in 2017. We expect only Athens and Madrid to contract further in 2013, but no market is expected to experience double-figure growth. Over the five-year period, we forecast growth to be on average about 15% for all markets, or about 3% a year.

Although trading fundamentals in many gateway cities have been relatively strong over the course of 2012, increases in payroll costs and OTA costs have resulted in reduced margins; hence affecting net income and values. We expect a combination of these factors, plus sustained occupancy and average rate improvements, to continue to drive values, albeit moderately, for most of the European markets in our survey. Markets in Greece, Spain, Portugal and Italy are more likely to continue to struggle owing to the economic problems in these countries.

Chart 9 shows the forecast top- and bottom-five markets in 2017. All forecasts and values are reported in euro. We note that only two of the top markets are in the Eurozone; therefore, the impact of currency fluctuations will remain a constant issue and influence investment decisions.

CHART 9: FORECAST TOP AND BOTTOM MARKETS 2017 – VALUES PER ROOM (€)



Source: HVS – London Office

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Volatility

This year, the European HVI introduces an additional way for investors to quantify, to some extent, the overall level of risk associated with a hotel investment. Hotels are not only a capital-intensive type of asset, but they also might be affected by external factors such as micro and macro market issues (oversupply, economic recessions, natural disasters and so forth). All of these factors could have an impact on the profitability of the business; thus, it is critical to be able to quantify the overall level of risk associated with a hotel investment. A good indicator of investment risk is volatility, which provides a measure for variation in asset prices over time. Higher volatility implies higher risk. We have therefore included a volatility index, which calculates the standard deviation of the annual capital appreciation/depreciation in value divided by the average value for Europe as a whole over the same period. For example, Prague has a volatility index of 40%, which means that hotel values are 40% more volatile than the value of a typical hotel in Europe. A higher level of volatility would be more acceptable in cases where the returns are also high. A market with the highest negative volatility would in fact be the most stable market, as it would change even less than the average for Europe.

Chart 10 shows the five most and five least volatile European markets over seven years (2006-12) in local currency (to remove the impact of currency fluctuations).

Tallinn is the most volatile at 69%. Since we first included this market in 2004, it has experienced some of the strongest growth (2006, 2011), as well as some of the most pronounced decreases (2008, 2009). Tallinn is forecast to exhibit growth by 2017 at a higher rate than the European average. Sofia's growth rate will be in line with the European average, whilst exhibiting stronger volatility. At the opposite end of the spectrum, Berlin and Copenhagen are the least volatile, at -73% and -62%, respectively. Berlin shows slightly below-average growth, but with a much lower volatility.

The volatility index is an interesting and useful tool, which at first glance has thrown up one or two surprises, but puts the performance of hotels in those markets into perspective. There is little surprise that German cities are some of the most stable markets; Copenhagen is also a solid, constant market. However, for Manchester and Birmingham to be amongst the least volatile might be more of a revelation, but a pleasant one for hotel investors in these cities. This is perhaps a result of the continued interest in UK real estate and should be seen as a timely boost for regional UK markets.

For emerging markets, such as Tallinn, to be some of the most volatile is no surprise; however, as the economy of Estonia grows it will be interesting to see how the volatility changes.

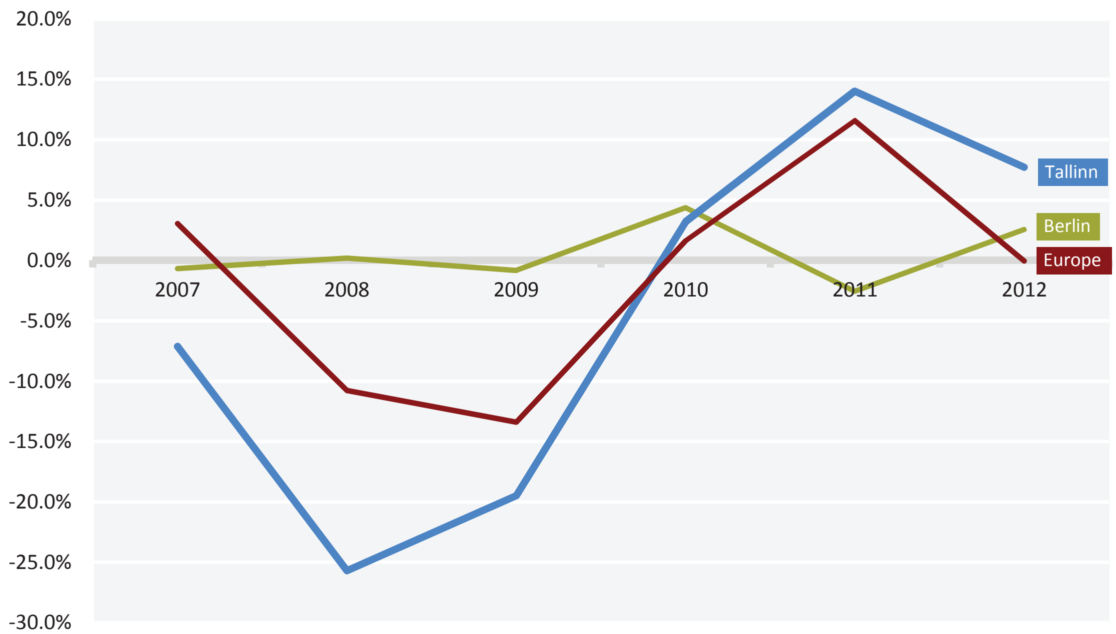
CHART 10: MOST VOLATILE AND LEAST VOLATILE CITIES

Rank	Most Volatile	Index	Rank	Least Volatile	Index
1	Tallinn	69%	32	Berlin	-73%
2	Athens	60%	31	Copenhagen	-62%
3	Sofia	51%	30	Manchester	-54%
4	Prague	40%	29	Hamburg	-48%
5	Lisbon	24%	28	Birmingham	-40%
	Europe	0%			

Note: volatility is expressed in relation to the overall European average

Source: HVS – London Office

CHART 11: CHANGE IN VALUES OF THE MOST AND LEAST VOLATILE MARKETS COMPARED TO EUROPE



Source: HVS – London Office

THE MUNICH SKYLINE

Outlook

The start of 2012 was characterised by an almost total lack of visibility for investors. The debt crisis and depressed consumer and business confidence certainly dented investment appetite. Although 2013 might, to some extent, seem more promising than 2012 was, it could also be that the paradigms of investment have shifted slightly, and a landscape of greater forethought and more moderate risk-taking might have become the new norm. Broadly, about half of the markets in our European survey experienced RevPAR growth in 2012. The average RePAR growth for all of the markets was practically flat. This seems to be a good representation of the polarity of the various economies within the Eurozone, where some countries have managed to a greater extent to ride out the financial crisis, whilst other markets are likely to require several years to recover.

We expect most markets (with the exception of only two) to experience growth in 2013, albeit at modest levels. Amsterdam is to host many anniversaries and celebrations in 2013, which, with the reopening of many of the city's major museums after refurbishment, should lead to a good year for the Dutch capital. Additionally, Milan is expected to benefit from the xpo event in 2015. On the other hand, the uplift in RevPAR experienced in London last year as a result of the Olympics and the Queen's Diamond Jubilee is expected to make RevPAR growth in 2013 seem somewhat subdued by comparison. Generally, in 2013 we expect travel patterns for Europe to remain relatively unchanged from 2012.

As bank lending parameters further hardened in 2012, we expect the main investments to continue to come from cash-rich real estate investment trusts, institutional investors and high-net-worth individuals. This is likely to continue to fuel the acquisition of key assets in gateway cities, similar to 2012 (please refer to our sister publication *2012 European Hotel Transactions*).

At a time when an increasing number of investors are purchasing hotels with a long-term view aimed at capital protection rather than short- to medium-term returns, the art and science of valuation is ever more challenged by changing investment paradigms. For experienced investors, the acquisition of the right asset and its strategic repositioning/rebranding will continue to yield attractive returns in the near future. Identifying the right deal, however, remains more critical than ever before.

We do not expect 2013 to be the year when investors start to turn to secondary markets and somewhat more risky propositions. Hence, strong fundamentals and key locations will remain essential factors. Appetite for cities such as Paris and London will remain as healthy as ever, and steady, solid Germany will be perfectly suited for institutional investors and the generally more risk-averse pocket. As reflected in the volatility index, some markets might offer lower returns but also reduced risk. So watch this space for some of the regional markets that might look somewhat unexciting but are more predictable!

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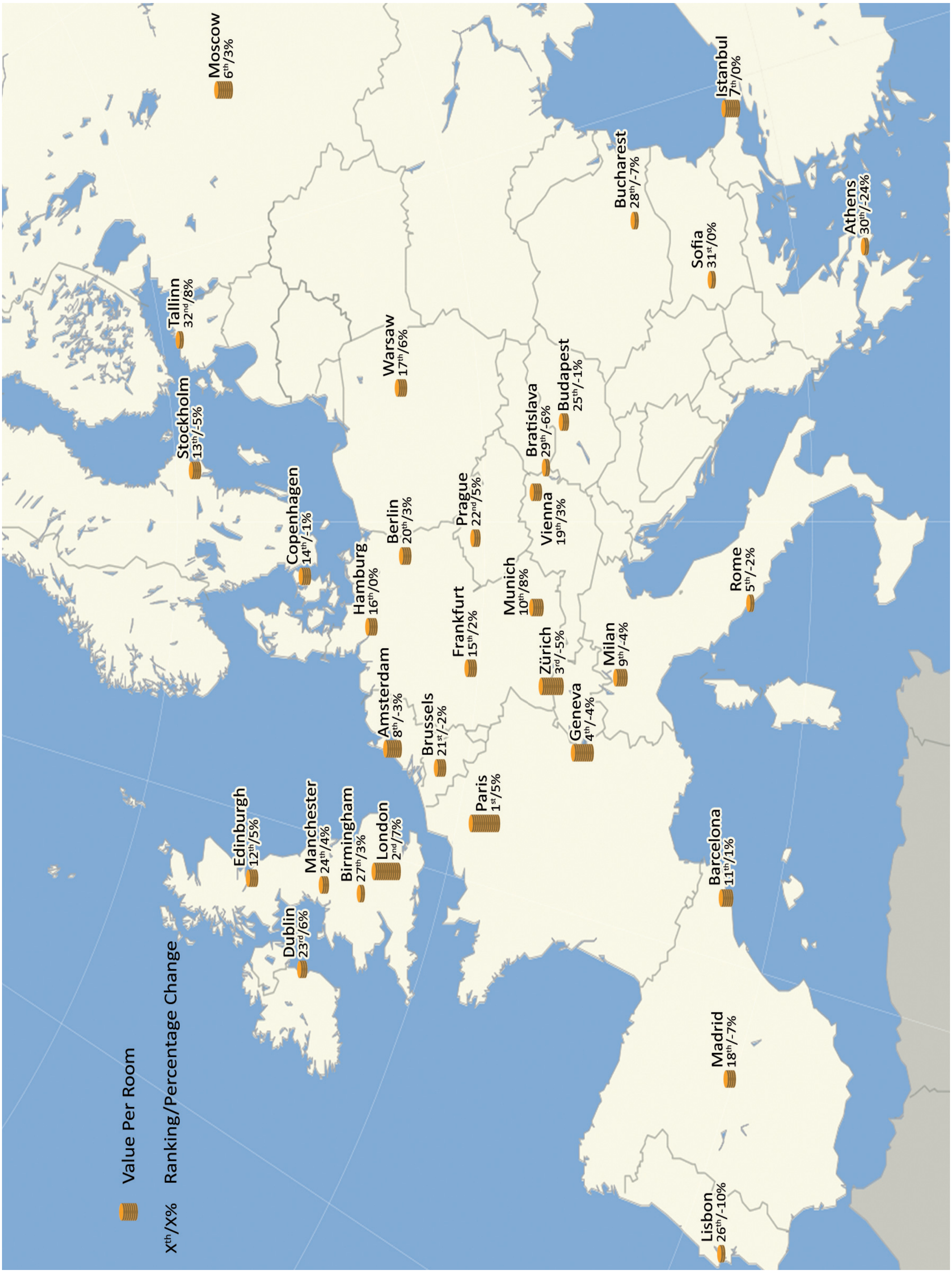
Understanding the HVI

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 32 major European markets. Additionally, our index allows us to rank each market relative to a European average (see Chart 3). The HVI also reports the average value per room, in euro, for each market (Chart 5). All data presented are based on euro, unless otherwise stated.

The methodology employed in producing the HVI is based upon actual operating data from a representative sample of four-star and five-star hotels. Operating data from the STR Global Survey were used to supplement our sample of hotels in some of the markets. The data are then aggregated to produce a pro forma performance for a typical 200-room hotel in each market. Using our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined valuation parameters for each market that reflect both short-term and longer-term sustainable financing models (loan to value ratios, real interest rates and equity return expectations). These market-specific valuation and capitalisation parameters are applied to the net operating income for a typical upscale hotel in each city. In determining the valuation parameters relevant to each of the 32 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 2012 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2012. Values are based on recent market performance but the capitalisation rates reflect the expected future trends in performance, competitive environment, cost of debt and cost of equity. As our opinion of value remains an opinion of Market Value, when analysing transactions and in assessing the opinions of value we have attempted to remove all aspects of distress. The parameters adopted have reflected the new world order of financing but assume a reasonable level of debt and investor sentiment. Conversely, the values reported may not therefore bear comparison with actual transactions completed in the marketplace. However, this is the best approach to retain the integrity of the HVI as a rolling annual index.

The HVI allows comparisons of values across markets and over time by using the 1993 average European value of €173,737 per available room (PAR) as a base (1993=1.000). Each market's PAR value is then indexed relative to this base. For example, in 2012 the index for Paris was 3.798 (€659,819/€173,737), which means that the value of a hotel in Paris in 2012 was more than three times higher than the European average in 1993.


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

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About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

With offices in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios. For further information about the services of the London office, please contact Sophie Perret, Director, on +44 20 7878 7722 or sperret@hvs.com.

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Sophie Perret is a director at the HVS London office. She joined HVS in 2003 following ten years' operational experience in the hospitality industry in South America and Europe. Originally from Buenos Aires, Argentina, Sophie holds a degree in Hotel Management from Ateneo de Estudios Terciarios and an MBA from IMHI (Essec Business School, France and Cornell University, USA). Since joining HVS, she has advised on hotel investment projects and related assignments throughout the EMEA region. Sophie is currently pursuing an MSc in Real Estate Investment and Finance at Reading University. She is responsible for the development of HVS's business in France and the French-speaking countries.

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