FEBRUARY 2014 | PRICE £500

2014 EUROPEAN
HOTEL VALUATION INDEX

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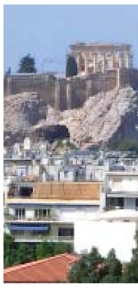

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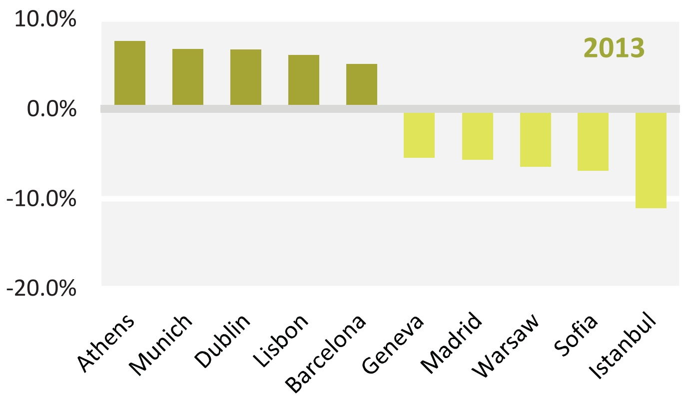
Highlights

At the end of 2012, the outlook was positive, and numerous markets saw strong growth in 2013, but it wasn't quite the giant investment leap forward that many market observers hoped for. The troubled Eurozone started to improve in the south (Portugal, Spain and Greece), but this was somewhat overshadowed by political turmoil in Eastern and Central European countries (notably Turkey and Ukraine) and uncertainty surrounding the economies of France and Italy.

- World economies have not behaved as generally expected: the BRIC countries slowed down; the USA narrowly avoided the 'fiscal cliff' crisis in early 2013, but saw further improvements in its economy; and some parts of the Middle East saw ongoing tension and unrest;
- Investor interest for Africa, 'the continent of opportunities', gathered momentum (look out for the publication of our inaugural *African Hotel Valuation Index*, to be released in the coming weeks);
- Stock markets seemed generally unimpressed by most market turbulence and, with a rally towards the end of the year, reached new heights (partially driven by low base interest rates and cheap money being pumped into the system);
- 2013 saw a mediocre first quarter with flat RevPAR growth;
- Hotel revenues improved slightly during the second quarter; some markets experienced a strong summer on the back of increased leisure activity;
- It was the third and fourth quarters that were really interesting thanks to improved economic stability in Europe and greater investor confidence;
- Rate growth continues to be a struggle; in many markets revenue improvements have been driven by occupancy growth. Increasing price transparency and product commoditisation caused by the increasingly powerful online distribution channels, as well as tight restrictions on corporate travel budgets, pose challenges for hotel managers when it comes to rate-focused strategies;
- Hotel values have been quite stable in 2013. Athens and Lisbon, two southern European markets, started to recover from heavy decreases following the downturn in 2008;
- Munich and Dublin continued their strong growth from 2012, and Barcelona, in contrast to Madrid, continues to be a strong performer;
- In the bottom five are three Central and Eastern European cities: Istanbul, Sofia and Warsaw;
- Madrid also had another disappointing year, and Geneva, normally a relatively stable market, also saw a decline in value (despite this, it is still the fourth most valuable city in our survey);
- We have seen little change from last year's volatility rankings, with Berlin, Copenhagen, Hamburg, Manchester and Brussels the least volatile cities, and Tallinn, Athens and the newly reintroduced St Petersburg being the most volatile;
- There is growing interest from investors in secondary and tertiary cities;
- While debt markets are improving, cash-rich investors such as real estate trusts (REITs), institutional investors and high-net-worth individuals (HNWIs) continue to be key players;
- A gradual, cautious return of bank lending has been observed, although there have been no material changes in loan to value ratios. It is at least a good sign that banks are, again, becoming comfortable with hotel real estate;
- Transactions activity continued to increase in 2013 and overall transaction volume in Europe was €7.7 billion in 2013, increasing by 39% on 2012 (see our sister publication, *2013 European Hotel Transactions*);
- Overall, European hotel values are still below the peak years of 2006 and 2007. Whilst in 2012 only half of the markets showed a recovery or positive value growth, during 2013 only a minority displayed a decline and most cities saw decent increases in hotel values.

Hotel values have been quite stable in 2013, with Lisbon and Athens starting to recover from the downturn

CHART 1: TOP AND BOTTOM FIVE – PERCENTAGE CHANGE IN HOTEL VALUE PER ROOM 2013 (€)



Source: HVS – London Office

Winners and Losers

Remarkably, year after year the top five cities remain unchanged, with the same old suspects topping the list: Paris, London, Zürich, Geneva and Rome refuse to let go of their privilege (see Chart 3). At the other end of the spectrum, Tallinn has moved up a place, from bottom of the list last year, and left the lowest position to Sofia. Athens climbed two places following its good performance in 2013. Finally, Bratislava and Bucharest complete the five bottom. The bottom five cities are the same as last year, but their positioning has changed.

CHART 2: HOTEL VALUES – PERCENTAGE CHANGE 2004-13 (€)

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR [1] 1997-2013	CAGR [1] 2004-2013[2]
1	Athens	6.7	-7.1	2.6	4.7	-2.5	-14.0	-29.3	5.9	-23.8	7.6	-2.7%	-7.1%
2	Munich	11.7	-1.4	7.8	3.4	-7.0	-10.2	14.7	4.6	8.3	6.7	3.7%	2.7%
3	Dublin	2.3	6.7	6.5	-2.5	-18.6	-20.2	-5.4	6.1	5.5	6.6	-0.8%	-2.3%
4	Lisbon	2.6	-9.7	14.9	11.9	-11.8	-14.0	-2.7	11.1	-10.0	6.0	0.5%	-1.1%
5	Barcelona	-8.5	-5.4	7.2	5.5	-19.4	-15.0	3.3	2.4	1.3	5.0	0.5%	-2.1%
6	Tallinn	5.6	6.1	18.4	-7.1	-25.7	-19.5	3.2	14.0	7.7	4.9	n/a	-0.8%
7	St Petersburg	2.7	4.1	6.9	1.3	-25.0	-47.6	9.2	11.3	11.5	4.9	n/a	-5.0%
8	Copenhagen	-3.1	10.0	11.4	1.0	-6.4	-2.2	-0.9	4.1	-0.5	4.9	1.1%	2.2%
9	Amsterdam	-0.3	5.7	16.5	-0.8	-14.9	-16.0	10.4	6.4	-2.8	4.8	1.8%	0.5%
10	Frankfurt	-3.7	0.2	5.9	-6.4	-7.9	-0.1	19.4	6.9	2.4	4.7	2.2%	2.5%
11	Milan	-3.3	0.8	12.3	-1.7	-13.6	-13.0	-12.4	3.9	-4.1	3.6	1.3%	-3.1%
12	Edinburgh	9.4	5.5	12.0	1.7	-27.1	-7.6	2.8	1.7	4.5	2.5	0.0%	-1.1%
13	Budapest	7.9	11.7	4.8	-1.2	-17.1	-16.8	-0.8	4.0	-0.5	2.5	-0.8%	-1.9%
14	Rome	4.7	2.9	7.8	-4.3	-17.6	-10.2	1.9	6.0	-2.4	2.3	0.0%	-1.8%
15	Hamburg	0.5	0.5	0.8	-6.3	-3.2	-2.5	4.4	6.3	-0.3	2.2	0.8%	0.1%
16	Zürich	6.2	8.4	10.1	7.6	5.6	-4.5	12.1	11.1	-5.1	1.9	4.0%	5.1%
17	Paris	4.3	6.6	9.0	6.0	-5.9	-3.6	4.2	10.9	4.6	1.7	3.0%	3.6%
18	Brussels	3.1	4.5	7.8	6.1	1.7	-11.8	0.1	3.7	-1.5	1.5	1.4%	1.2%
19	Birmingham	7.7	3.0	5.4	-0.5	-22.7	-13.1	-12.0	-6.7	3.3	0.6	-2.2%	-5.2%
	EUROPE	**2.5**	**4.1**	**8.9**	**2.2**	**-11.3**	**-13.6**	**1.5**	**11.7**	**0.6**	**0.6**	**1.1%**	**0.4%**
20	Bucharest	17.0	2.6	-4.9	8.1	-21.4	-22.9	-8.0	4.6	-6.6	0.4	n/a	-5.9%
21	Manchester	7.5	6.9	6.2	-1.2	-21.9	-12.2	-4.4	0.2	3.8	0.2	-1.1%	-2.9%
22	Stockholm	1.9	5.2	11.2	8.3	-6.9	-9.4	3.0	8.7	-5.4	0.2	1.1%	1.4%
23	Prague	17.7	4.3	1.4	-5.4	-21.0	-20.3	1.6	3.7	4.7	0.0	1.3%	-4.0%
24	London	11.9	7.2	11.7	5.5	-23.1	0.9	8.4	12.0	6.5	0.0	1.3%	2.7%
25	Bratislava	n/a	11.6	-5.0	3.0	-15.2	-18.8	-15.9	4.0	-6.2	0.0	n/a	-5.2%
26	Berlin	1.0	-0.7	5.2	-0.7	0.2	-0.8	4.4	-2.6	2.6	-0.4	2.7%	0.8%
27	Moscow	21.7	21.8	20.6	2.1	-4.8	-38.8	4.2	3.8	11.6	-4.2	0.6%	0.1%
28	Vienna	0.8	3.9	11.2	6.5	-5.2	-18.4	-1.7	3.0	2.6	-4.8	0.9%	-0.7%
29	Geneva	-8.4	9.1	7.6	5.4	17.3	-9.6	-1.4	13.1	-3.5	-5.4	2.8%	3.3%
30	Madrid	-10.9	0.6	12.8	2.0	-16.8	-18.2	-7.4	2.6	-6.8	-5.6	-1.8%	-4.5%
31	Warsaw	-13.4	8.1	14.7	10.2	-4.0	-18.2	5.1	8.7	5.7	-6.4	-1.3%	2.2%
32	Sofia	n/a	n/a	9.1	12.4	-16.0	-27.1	0.5	-9.2	0.3	-6.8	n/a	-5.4%
33	Istanbul	16.9	32.0	10.9	8.2	10.8	-8.0	5.8	1.6	0.3	-11.0	1.1%	5.0%

Source: HVS – London Office

[1] Compound Annual Growth Rate

[2] CAGR from 2004 or closest year

Changes in Value – Strong Performers

What a spectacular response by **Athens**: this market was listed as the biggest 'loser' in 2012 and bounced back with such strength in 2013 that it is the year's top performer in our sample. The risk of a Greek Eurozone exit has receded, but it remains possible amid high political instability. The outlook certainly is one of significant caution, but much improved compared to a year ago. Visitation to Athens had greatly decreased in 2012, in the wake of political upheaval and general unrest. The market is therefore recovering from a very low base. Tourism, however, is generally rebounding as the city, a home port, is experiencing an ever-growing volume of cruise-related demand. In this context, and with a limited supply pipeline (work at the Athens Astir Palace development could start as soon as the acquisition by the winning bidder has been completed, but its completion will not happen for at least a couple of years), we expect this market to continue to recover over the next few years.

We have little to add to what has previously been said about **Munich**: stellar performance (not quite double-figure RevPAR growth as in 2012, but still a respectable 5.0%), high barriers to entry, well balanced, resilient market within an economically sound country. Who could ask for more? And as such, Munich often comes third on the list of desired European cities for most investors, just after Paris and London. Not a bad place to be. With limited new supply coming its way – just under 400 rooms expected over the next few years – we expect Munich to continue to be a leader in the years to come.

DUBLIN'S VALUE PER ROOM GREW 7%

Three years after a bailout that allowed the country to avert bankruptcy, Ireland officially left the programme in December 2013. Ireland cut spending and raised taxes to rebalance its economy, and in the process regained investor confidence. **Dublin** has since been in the sights of investors: in January 2014 alone, three hotels (just over 600 rooms) changed hands for a total of about €175 million. This, combined with the improvements in hotel performance helped by the newly fortified economy, has resulted in a robust increase in values for Dublin, by 6.6% in 2013 to €179,000 a room, 19.0% higher than its 2010 low.

Another two cities that also saw impressive returns to positive territory are Lisbon and Barcelona. Both are part of the troubled economies in Southern Europe, which have just recently seen a rebound in performance, albeit modest in both cases. GDP growth for both countries in 2014 is expected to be a meek 0.6-0.7%. However, investor appetite is returning to these cities, with the improved economic outlook and the view that performance for both Barcelona and Lisbon has bottomed out.

Lisbon's performance has been a bit of a rollercoaster over the last few years: double-figure value growth in 2011 was followed by a double-figure fall in 2012. So the recovery in 2013 leaves the city with a value per room of about €131,000, 6.0% higher than the year before (but still 22.0% below its peak value in 2007). Also, over the last few years many projects in this city have been cancelled, and it is still difficult to assess how many might materialise in the medium term. New supply in the short term, however, is expected to be very limited, which is positive for a city with decent occupancies but fairly low room rates.

For **Barcelona**, the tale was not just one of a country bouncing back economically; this city has a long history of solid performance. A well-balanced demand base that includes its fair share of leisure, MICE and corporate clients, both domestic and international, provides a broad seasonality all year round. This combination of strong fundamentals has attracted the attention of investors, who consider there to be good upside opportunities in this city: the value per room in 2013, at €243,000, is 23.0% below its 2007 peak and, although unemployment remains stubbornly high and GDP growth is likely to remain at best anaemic for the next few years, Spain remains one of the biggest economies in Western Europe.

Barcelona's strong fundamentals have attracted the attention of investors

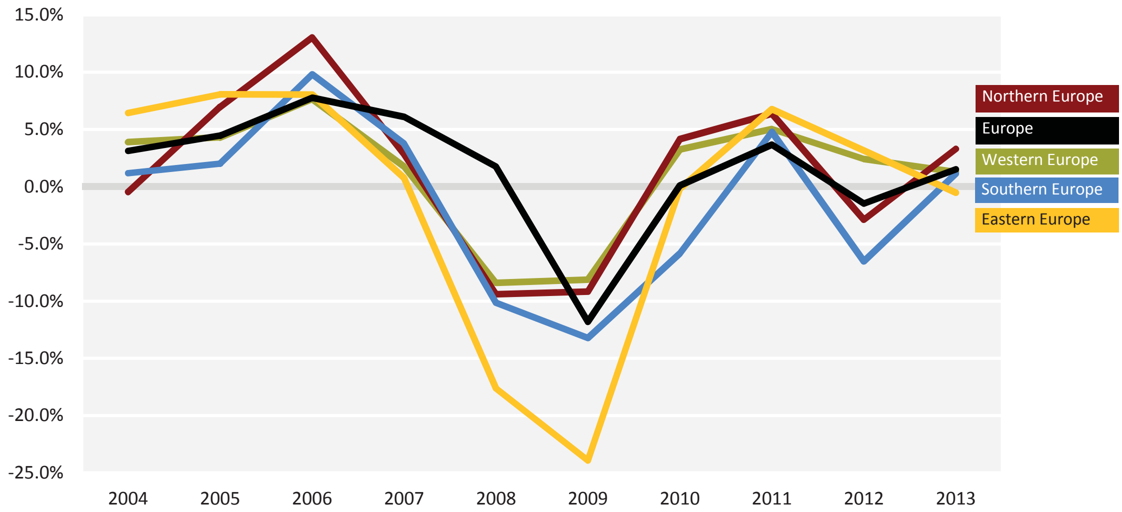
CHART 3: HOTEL VALUATION INDEX

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	Paris	2.813	2.997	3.267	3.463	3.259	3.142	3.274	3.632	3.798	**3.861**
2	London	2.838	3.043	3.400	3.588	2.760	2.786	3.018	3.380	3.599	**3.599**
3	Zürich	1.852	2.008	2.210	2.377	2.510	2.397	2.686	2.984	2.833	**2.886**
4	Geneva	1.838	2.006	2.158	2.275	2.669	2.414	2.379	2.690	2.597	**2.457**
5	Rome	2.460	2.531	2.729	2.610	2.150	1.929	1.967	2.085	2.034	**2.082**
6	Istanbul	1.134	1.496	1.659	1.795	1.990	1.831	1.938	1.968	1.975	**1.757**
7	Moscow	1.684	2.051	2.473	2.525	2.403	1.471	1.533	1.591	1.775	**1.701**
8	Amsterdam	1.624	1.717	2.000	1.984	1.689	1.419	1.567	1.667	1.620	**1.698**
9	Milan	2.162	2.180	2.449	2.408	2.080	1.809	1.585	1.647	1.579	**1.636**
10	Munich	1.217	1.200	1.293	1.338	1.243	1.116	1.281	1.340	1.451	**1.548**
11	Barcelona	1.698	1.606	1.722	1.817	1.465	1.245	1.287	1.317	1.334	**1.400**
	EUROPE	**1.351**	**1.407**	**1.533**	**1.566**	**1.389**	**1.201**	**1.218**	**1.361**	**1.369**	**1.377**
12	Edinburgh	1.475	1.556	1.743	1.773	1.293	1.195	1.228	1.249	1.305	**1.338**
13	Stockholm	1.119	1.177	1.308	1.417	1.319	1.196	1.231	1.338	1.265	**1.268**
14	Copenhagen	1.015	1.116	1.244	1.256	1.176	1.150	1.140	1.187	1.182	**1.240**
15	Frankfurt	0.976	0.977	1.035	0.969	0.892	0.892	1.064	1.138	1.165	**1.220**
16	St Petersburg	1.895	1.974	2.110	2.138	1.604	0.840	0.917	1.021	1.139	**1.195**
17	Hamburg	1.164	1.170	1.180	1.105	1.070	1.043	1.089	1.158	1.154	**1.179**
18	Warsaw	0.879	0.950	1.090	1.202	1.154	0.944	0.993	1.079	1.141	**1.069**
19	Madrid	1.617	1.626	1.834	1.872	1.556	1.273	1.179	1.210	1.127	**1.064**
20	Berlin	0.971	0.964	1.014	1.007	1.009	1.000	1.044	1.017	1.043	**1.039**
21	Vienna	1.102	1.145	1.273	1.355	1.285	1.049	1.031	1.062	1.090	**1.038**
22	Dublin	1.270	1.355	1.443	1.407	1.146	0.915	0.865	0.918	0.968	**1.033**
23	Brussels	0.926	0.967	1.042	1.105	1.125	0.992	0.993	1.029	1.014	**1.029**
24	Prague	1.436	1.498	1.519	1.437	1.135	0.904	0.919	0.953	0.997	**0.997**
25	Manchester	1.109	1.185	1.259	1.244	0.971	0.853	0.815	0.817	0.847	**0.850**
26	Budapest	0.953	1.064	1.115	1.101	0.913	0.760	0.754	0.784	0.780	**0.800**
27	Lisbon	0.829	0.748	0.860	0.962	0.849	0.730	0.710	0.789	0.710	**0.753**
28	Birmingham	1.056	1.087	1.146	1.140	0.881	0.766	0.674	0.629	0.650	**0.654**
29	Athens	1.257	1.168	1.199	1.255	1.223	1.051	0.743	0.787	0.599	**0.645**
30	Bucharest	1.113	1.142	1.086	1.175	0.923	0.712	0.655	0.685	0.640	**0.643**
31	Bratislava	1.036	1.157	1.099	1.132	0.960	0.780	0.656	0.682	0.640	**0.640**
32	Tallinn	0.637	0.676	0.800	0.743	0.552	0.445	0.459	0.523	0.563	**0.591**
33	Sofia	n/a	0.839	0.915	1.029	0.864	0.630	0.633	0.575	0.577	**0.537**

Source: HVS – London Office

Note: Based on euro calculations

CHART 4: YEAR-ON-YEAR CHANGE IN VALUES PER ROOM BY REGION 2004-13



Source: HVS – London Office

Note: Based on euro calculations

Changes in Value – The Biggest Falls

Although 2013 was generally a better year for many European hotel markets, some cities were less fortunate than others. Amongst those with the biggest declines were three Eastern and Central European cities: Istanbul, Sofia and Warsaw.

The socio-political turmoil in **Istanbul** over the last few months has had a damaging impact on the economy and the tourism industry. The Turkish lira depreciated quite substantially against the euro owing to creditor concerns about the stability of the country. Interventions from Turkey's central bank have had limited impact on stabilising the currency. The market performance has been fairly mixed, and whilst the market has experienced a fairly flat RevPAR performance in 2013 in local currency, the conversion to euro shows a different picture, with RevPAR tumbling by almost double figures. A large part of the decrease in value can therefore be attributed to exchange rate fluctuations; hotel values only fell by 2% in local currency (but about 11% in euro terms). The uncertainties about the situation in Turkey, though, pose a threat to the hotel and tourism industry in the short term. Nevertheless, the pipeline for new hotel openings in Istanbul remains high. The presidential elections in August 2014 might be a turning point for the country to stabilise the political situation.

Sofia has experienced a similar mix of political uncertainty and a struggling hotel market. Hotel rates in both local currency and euro declined again in 2013 owing to continued weak demand in the Bulgarian capital. Within this grim context, new supply also remains subdued, partly reflecting developer appetite for the city.

Warsaw was Europe's darling for the last two years with record growth in 2011 and 2012 owing to high demand related to non-recurring events (EU Presidency in 2011 and European Football Championship in 2012). The aftermath of these events in 2013 resulted in declines in visitation,

Understanding the HVI

The HVI is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typically four-star and five-star hotels in 33 major European cities. 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 in 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 city. Using our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined valuation parameters for each market that reflect both short-term and longer-term sustainable financing models (loan to value ratios, real interest rates and equity return expectations). These market-specific valuation and capitalisation parameters are applied to the net operating income for a typical upscale hotel in each city. In determining the valuation parameters relevant to each of the 33 cities 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 city at the end of 2013 is therefore reflected in the capitalisation rates used. We removed St Petersburg from our previous edition of the HVI as we felt that the sample of hotels was not representative enough of a typical upscale hotel. This year we have reintroduced this market after restructuring both the St Petersburg and the Moscow samples to bring them back in line with the profile of hotel represented by the HVI. This reshuffling of the sample has been applied retrospectively and has therefore had an impact on the long-term values for these markets and the European average.

The HVI assumes a date of value of 31 December 2013. 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 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 city's PAR value is then indexed relative to this base. For example, in 2013 the index for Paris was 3.861 (€670,843/€173,737), which means that the value of a hotel in Paris in 2013 was more than three times higher than the European average in 1993.

CHART 5: HOTEL VALUES PER ROOM 2004-13 (€)

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	Paris	488,637	520,657	567,582	601,736	566,182	545,887	568,772	630,928	659,819	670,843
2	London	493,147	528,685	590,700	623,389	479,586	483,946	524,414	587,153	625,325	625,207
3	Zürich	321,776	348,816	383,896	412,929	436,164	416,455	466,654	518,496	492,163	501,417
4	Geneva	319,394	348,553	374,928	395,337	463,664	419,322	413,254	467,394	451,263	426,841
5	Rome	427,329	439,706	474,115	453,513	373,474	335,209	341,718	362,168	353,389	361,677
6	Istanbul	196,943	259,962	288,298	311,874	345,688	318,160	336,652	341,979	343,071	305,320
7	Moscow	292,597	356,385	429,738	438,766	417,556	255,636	266,343	276,331	308,460	295,523
8	Amsterdam	282,177	298,276	347,480	344,731	293,440	246,615	272,250	289,563	281,512	294,983
9	Milan	375,607	378,780	425,408	418,292	361,405	314,326	275,323	286,098	274,263	284,214
10	Munich	211,504	208,544	224,723	232,382	216,013	193,960	222,562	232,728	252,104	268,952
11	Barcelona	294,942	278,972	299,168	315,731	254,503	216,289	223,514	228,776	231,696	243,243
	EUROPE	**234,799**	**244,457**	**266,287**	**272,133**	**241,392**	**208,580**	**211,679**	**236,539**	**237,931**	**239,257**
12	Edinburgh	256,289	270,269	302,830	308,027	224,606	207,560	213,362	217,060	226,764	232,539
13	Stockholm	194,343	204,438	227,309	246,204	229,155	207,715	213,887	232,397	219,789	220,299
14	Copenhagen	176,344	193,944	216,080	218,247	204,279	199,805	198,062	206,257	205,326	215,357
15	Frankfurt	169,497	169,811	179,872	168,302	155,043	154,888	184,863	197,658	202,377	211,970
16	St Petersburg	329,300	342,922	366,545	371,411	278,716	145,942	159,319	177,347	197,807	207,559
17	Hamburg	202,289	203,288	204,941	192,032	185,881	181,228	189,262	201,151	200,529	204,864
18	Warsaw	152,723	165,083	189,431	208,847	200,436	164,056	172,487	187,532	198,250	185,645
19	Madrid	280,863	282,425	318,668	325,149	270,403	221,173	204,891	210,187	195,855	184,878
20	Berlin	168,681	167,454	176,141	174,941	175,269	173,824	181,387	176,749	181,269	180,507
21	Vienna	191,412	198,867	221,081	235,469	223,289	182,220	179,192	184,540	189,400	180,369
22	Dublin	220,721	235,425	250,642	244,497	199,027	158,897	150,268	159,477	168,237	179,389
23	Brussels	160,799	167,979	181,015	192,041	195,401	172,325	172,488	178,796	176,173	178,849
24	Prague	249,529	260,316	263,895	249,576	197,115	157,019	159,598	165,561	173,281	173,287
25	Manchester	192,692	205,929	218,703	216,057	168,737	148,116	141,580	141,907	147,241	147,603
26	Budapest	165,514	184,914	193,737	191,347	158,591	131,961	130,966	136,226	135,592	138,956
27	Lisbon	143,955	129,972	149,358	167,172	147,476	126,887	123,437	137,103	123,326	130,761
28	Birmingham	183,382	188,794	199,043	198,044	153,081	133,092	117,104	109,303	112,948	113,651
29	Athens	218,340	202,946	208,274	218,010	212,539	182,680	129,065	136,716	104,124	111,993
30	Bucharest	193,316	198,380	188,751	204,066	160,328	123,690	113,789	118,985	111,184	111,629
31	Bratislava	180,070	200,954	190,899	196,613	166,769	135,473	113,915	118,486	111,144	111,111
32	Tallinn	110,663	117,448	139,035	129,107	95,920	77,234	79,709	90,877	97,891	102,733
33	Sofia	n/a	145,770	159,016	178,800	150,132	109,387	109,960	99,873	100,165	93,314

Source: HVS – London Office

CHART 6: HOTEL VALUES IN LOCAL CURRENCY 2007-13

		2007	2008	% Change	2009	% Change	2010	% Change	2011	% Change	2012	% Change	2013	% Change
Birmingham	€	198,044	153,081	-23%	133,092	-13%	117,104	-12%	109,303	-7%	112,948	3%	113,651	1%
	£	135,545	121,657	-10%	118,589	-3%	100,501	-15%	95,046	-5%	92,580	-3%	96,314	4%
Bucharest	€	204,066	160,328	-21%	123,690	-23%	113,789	-8%	118,985	5%	111,184	-7%	111,629	0%
	lei	683,110	592,424	-13%	525,871	-11%	480,548	-9%	515,206	7%	495,882	-4%	493,400	-1%
Budapest	€	191,347	158,591	-17%	131,961	-17%	130,966	-1%	136,226	4%	135,592	0%	138,956	2%
	Ft	48,198,259	39,947,470	-17%	37,067,819	-7%	36,078,817	-3%	40,499,892	12%	39,226,848	-3%	41,867,292	7%
Copenhagen	€	218,247	204,279	-6%	199,805	-2%	198,062	-1%	206,257	4%	205,326	0%	215,357	5%
	DKr	1,626,280	1,523,334	-6%	1,487,754	-2%	1,474,774	-1%	1,536,616	4%	1,531,735	0%	1,606,566	5%
Edinburgh	€	308,027	224,606	-27%	207,560	-8%	213,362	3%	217,060	2%	226,764	4%	232,539	3%
	£	210,818	178,499	-15%	184,942	4%	183,112	-1%	188,748	3%	185,872	-2%	197,067	6%
Geneva	€	395,337	463,664	17%	419,322	-10%	413,254	-1%	467,394	13%	451,263	-3%	426,841	-5%
	SFr	649,584	735,391	13%	633,226	-14%	570,714	-10%	556,422	-3%	544,872	-2%	526,964	-3%
Istanbul	€	311,874	345,688	11%	318,160	-8%	328,684	3%	341,979	4%	343,071	0%	305,320	-11%
	YTL	558,614	657,701	18%	688,807	5%	656,974	-5%	793,837	21%	790,435	0%	771,544	-2%
London	€	623,389	479,586	-23%	483,946	1%	524,414	8%	587,153	12%	625,325	7%	625,207	0%
	£	426,657	381,138	-11%	431,209	13%	450,063	4%	510,568	13%	512,562	0%	529,837	3%
Manchester	€	216,057	168,737	-22%	148,116	-12%	141,580	-4%	141,907	0%	147,241	4%	147,603	0%
	£	147,873	134,099	-9%	131,976	-2%	121,507	-8%	123,397	2%	120,689	-2%	125,087	4%
Moscow	€	491,250	442,442	-10%	309,908	-30%	323,123	4%	276,331	-14%	308,460	12%	295,523	-4%
	Rb	17,176,558	16,149,139	-6%	13,759,935	-15%	13,029,164	-5%	11,274,324	-13%	12,215,020	8%	12,471,064	2%
Prague	€	249,576	197,115	-21%	157,019	-20%	159,598	2%	165,561	4%	173,281	5%	173,287	0%
	Kč	6,928,820	4,920,496	-29%	4,152,833	-16%	4,039,440	-3%	4,072,808	1%	4,366,677	7%	4,557,459	4%
Sofia	€	178,800	150,132	-16%	109,387	-27%	109,960	1%	99,873	-9%	100,165	0%	93,314	-7%
	BGN	350,691	294,037	-16%	214,215	-27%	215,291	1%	195,752	-9%	196,323	0%	182,896	-7%
St Petersburg	€	371,411	278,716	-25%	145,942	-48%	159,319	9%	177,347	11%	197,807	12%	207,559	5%
	Rb	12,986,385	10,173,147	-22%	6,479,820	-36%	6,424,151	-1%	7,235,767	13%	7,833,165	8%	8,759,002	12%
Stockholm	€	246,204	229,155	-7%	207,715	-9%	213,887	3%	232,397	9%	219,789	-5%	220,299	0%
	SKr	2,277,384	2,154,058	-5%	2,205,044	2%	2,040,910	-7%	2,098,545	3%	1,912,169	-9%	1,898,978	-1%
Warsaw	€	208,847	200,436	-4%	164,056	-18%	172,487	5%	187,532	9%	198,250	6%	185,645	-6%
	PLN	791,595	703,704	-11%	710,197	1%	717,776	1%	770,755	7%	832,649	8%	779,711	-6%
Zürich	€	412,929	436,164	6%	416,455	-5%	466,654	12%	518,496	11%	492,163	-5%	501,417	2%
	SFr	678,490	691,775	2%	628,896	-9%	644,461	2%	617,257	-4%	594,256	-4%	619,034	4%

Source: HVS – London Office

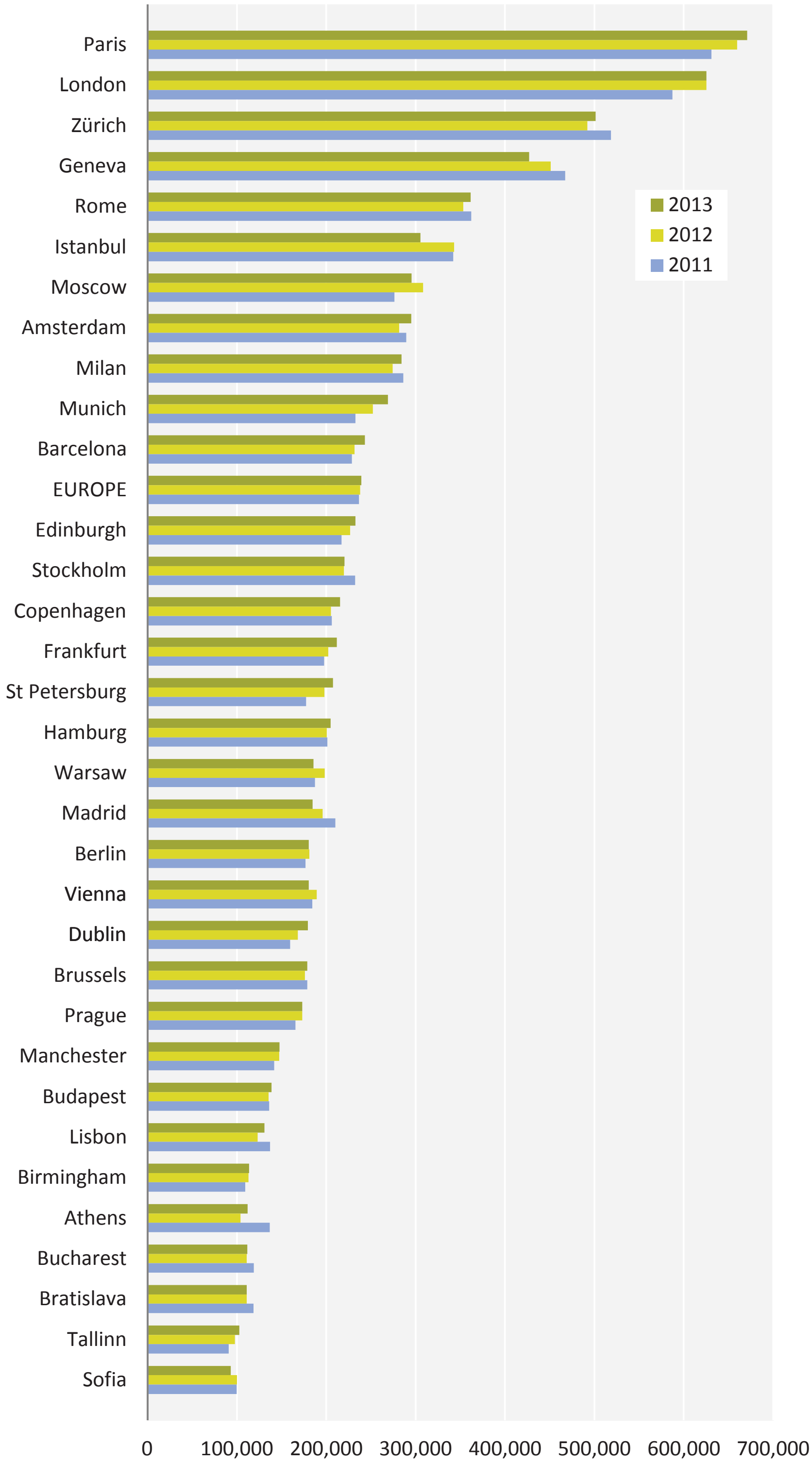
and hence subdued revenues and profits. Hotels suffer from heavy corporate weekday seasonality. Warsaw has nevertheless good potential, as the Polish economy and the Warsaw Stock Market continue to show a strong performance. Furthermore, Warsaw has not yet managed to capitalise on its potential as a short-break leisure destination alternative to Prague or Budapest, which would help it broaden its seasonality. Overall, investor appetite for assets in Poland's capital is positive and Warsaw's best hotel in town, the Hotel Bristol, was sold during 2013.

Madrid's hotel market has not managed to reach a turning point, although the Spanish economy has shown signs of recovery. Hotel performance in Madrid bore no correlation with that of Barcelona's; hotel revenues and profits dropped again during 2013 in the Spanish capital, resulting in a 5.6% decrease in value, whilst Barcelona's value per room grew by 5.0%. The main reason lies in Barcelona's ability to attract more international demand all year round, whilst Madrid's domestic demand focus is still impacted by the economic challenges. It did not help when Las Vegas Sands announced that it had cancelled the prestigious US$30 billion 'Eurovegas' project in December 2013. The project was planned in the southwestern outskirts of Madrid and included six casinos, 12 hotels and retail facilities and was expected to create up to 250,000 jobs.

The cancellation of Las Vegas Sands' 'Eurovegas' project has somewhat dented Madrid's hopes for improved hotel performance

Whilst still the fourth highest market in our survey, **Geneva** suffered from a bad summer in 2013, with decreased demand from the Middle East (partially due to the timing of Ramadan), weak MICE activity and pressure on room rates owing to the strength of the Swiss franc. The meeting and convention business faces increased competition from other traditional MICE cities such as Vienna, Munich, Barcelona, Paris and London owing to more attractive price offers. Although the Swiss National Bank weakened the currency against the euro by establishing a minimum exchange rate in 2012, the Swiss franc remains overvalued compared to the years before the financial crisis, and Switzerland continues to be an expensive destination for both leisure and business travellers. Overall, the outlook for the city though is positive: with a stable economy, low inflation and no additions to hotel supply, hotel performance and values in Switzerland's second-largest city are expected to grow again in 2014 and beyond. Barriers to entry for this market are amongst the highest in Europe, making existing supply all the more attractive to potential investors.

CHART 7: HOTEL VALUES PER ROOM 2011-13 (€)



Source: HVS – London Office

Volatility

The volatility index is a tool to assess (to a certain extent) the fluctuation in value and the overall risk associated with a hotel investment. Hotels are not only a capital-intensive 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). Any 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. The volatility index calculates the standard deviation of the annual capital appreciation/depreciation in value divided by the average value (Europe) over the same period. For example, Prague has a volatility index of 46%, which means that hotel values are 46% 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 city with the highest negative volatility would in fact be the most stable, as it would change even less than the average (Europe).

Chart 8 shows the five most and five least volatile European cities over eight years (2006-13) in local currency (to remove the impact of currency fluctuation).

There have been few changes compared to last year's publication. Unsurprisingly, two German cities, **Berlin** and **Hamburg**, were amongst the most stable in Europe. The global financial crisis had a more limited impact on these markets, than on most others, as rates in the two cities have historically been lower than in other cities and have therefore been under more limited pressure during the crisis. Hamburg has seen quite an increase in demand in recent years, reaching new record levels in 2013. However, the demand for hotels in the city remains largely domestic driven at this point.

Copenhagen and **Manchester** have also been fairly stable over the last few years with little fluctuation in values. Copenhagen had a good year in 2013, although new supply might put a bit of pressure on overall performances over the next two to three years. **Brussels** is a market highly dependent on business associated with the European Union and, although new countries have been (and continue to be) accepted in the European Union, the hotel market has not seen any strong fluctuations in recent years. The annual mandatory increase in staff payroll; however, poses a challenge to hoteliers' profits as increasing rate is a difficult exercise in a market so dependent on government officials' 'per diem' allowances. We do not expect these five cities to become much more volatile in the future as the underlying demand drivers of the respective hotel markets are relatively stable.

Cities with high fluctuations in value remain **Tallinn**, **Athens**, **Sofia** and **Prague**. As we have re-introduced **St Petersburg** into our index, the city has also made it to the top of our most volatile cities. St Petersburg suffered from high decreases in value from 2008 to 2010 owing to the financial crisis and currency fluctuations, but has seen strong growth rates in the last few years. It is likely that these five cities will remain amongst the most volatile as historically they have been impacted by the economic challenges and uncertainties in their countries. Athens has hopefully 'bottomed out' and, should the economic and political environment continue to improve, hotel values are likely to grow further. The expected recoveries of Athens and Prague are likely to keep these cities volatile for some years to come (albeit in a good way).

CHART 8: MOST AND LEAST VOLATILE CITIES

Rank	Most Volatile	Index	Rank	Least Volatile	Index
1	St Petersburg	115%	33	Berlin	-73%
2	Athens	75%	32	Copenhagen	-55%
3	Tallinn	66%	31	Hamburg	-48%
4	Sofia	48%	30	Manchester	-46%
5	Prague	46%	29	Brussels	-34%
	Europe	0%			

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

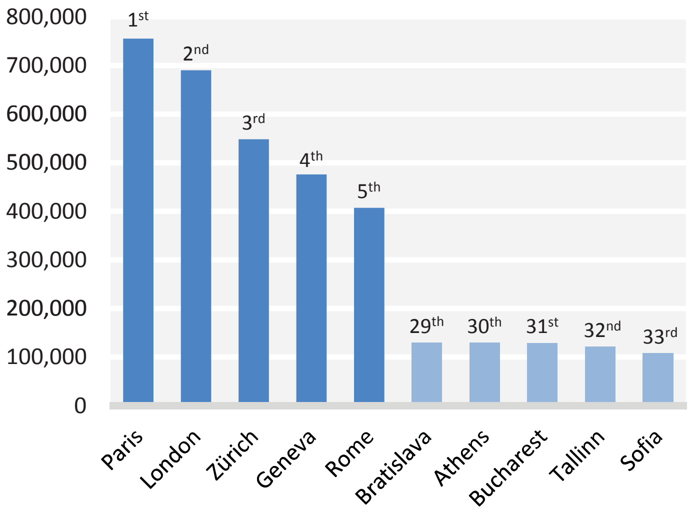
Source: HVS – London Office

Five-Year Forecast

Five years seems like a rather long time to hear the phrases 'financial crisis', 'recession' and 'economic slowdown' repeated time and again. It was therefore about time we had a change in tune and, indeed, it seems as if this moment is finally upon us; slowly, cautiously, for sure, but arriving at long last. Of course there are still areas of concern, such as the recent decision by Germany's constitutional court to refer the ECB's crucial bond-buying programme to the ECJ, which could be a potentially destabilising development and one which would displease investors.

The world context is always shaped by many simultaneous events, and while in 2013 areas

CHART 9: FORECAST TOP AND BOTTOM CITIES 2018 – VALUES PER ROOM (€)



Source: HVS – London Office

of conflict remained, notably in the Middle East, and the pace of growth for the BRIC countries slowed owing to their own various challenges, the USA was firmly back to growth, and Europe survived the Eurozone crisis without having to sacrifice the euro. Despite a slow start to the year, investor appetite was firmly back by the end of 2013, which proved our average forecast for Europe last year to be broadly in line with reality. Whilst some cities, such as Istanbul, have taken us by surprise with unexpected falls, cities such as Athens have instead rebounded with unexpected vigour.

We expect 2014 to see a continued recovery in investment, with an increasing number of transactions taking place, an increasingly favourable lending environment and improving fundamentals at the hotel level, as economic recovery slowly but surely pushes up demand.

CHART 10: FIVE-YEAR FORECAST OF HOTEL VALUES (€)

	Peak Years			HVS Forecast				
	2006	2007	2013	2014	2015	2016	2017	2018
Amsterdam	347,480	344,731	294,983	304,000	310,000	316,000	322,000	329,000
Athens	208,274	218,010	111,993	114,000	118,000	122,000	126,000	130,000
Barcelona	299,168	315,731	243,243	248,000	256,000	266,000	274,000	279,000
Berlin	176,141	174,941	180,507	182,000	186,000	190,000	193,000	197,000
Birmingham	199,043	198,044	113,651	116,000	119,000	124,000	128,000	130,000
Bratislava	190,899	196,613	111,111	112,000	114,000	120,000	126,000	130,000
Brussels	181,015	192,041	178,849	182,000	186,000	190,000	194,000	197,000
Bucharest	188,751	204,066	111,629	113,000	115,000	121,000	127,000	129,000
Budapest	193,737	191,347	138,956	142,000	146,000	152,000	156,000	161,000
Copenhagen	216,080	218,247	215,357	222,000	228,000	235,000	242,000	250,000
Dublin	250,642	244,497	179,389	188,000	194,000	200,000	206,000	212,000
Edinburgh	302,830	308,027	232,539	240,000	247,000	254,000	262,000	270,000
Frankfurt	179,872	168,302	211,970	218,000	225,000	229,000	234,000	239,000
Geneva	374,928	395,337	426,841	435,000	448,000	457,000	467,000	476,000
Hamburg	204,941	192,032	204,864	209,000	213,000	222,000	228,000	233,000
Istanbul	288,298	311,874	305,320	311,000	321,000	330,000	340,000	351,000
Lisbon	149,358	167,172	130,761	133,000	136,000	139,000	142,000	144,000
London	590,700	623,389	625,207	638,000	650,000	663,000	677,000	690,000
Madrid	318,668	325,149	184,878	190,000	196,000	202,000	208,000	214,000
Manchester	218,703	216,057	147,603	151,000	155,000	160,000	163,000	166,000
Milan	425,408	418,292	284,214	290,000	301,000	308,000	314,000	320,000
Moscow	429,738	491,250	295,523	307,000	320,000	332,000	342,000	353,000
Munich	224,723	232,382	268,952	280,000	291,000	300,000	309,000	318,000
Paris	567,582	601,736	670,843	691,000	712,000	726,000	740,000	755,000
Prague	263,895	249,576	173,287	173,000	177,000	182,000	189,000	195,000
Rome	474,115	453,513	361,677	369,000	380,000	391,000	399,000	407,000
Sofia	159,016	178,800	93,314	94,000	97,000	102,000	105,000	108,000
St Petersburg	366,545	401,525	207,559	216,000	224,000	233,000	240,000	248,000
Stockholm	227,309	246,204	220,299	227,000	229,000	234,000	238,000	243,000
Tallinn	139,035	129,107	102,733	108,000	111,000	114,000	118,000	121,000
Vienna	221,081	235,469	180,369	184,000	189,000	195,000	201,000	207,000
Warsaw	189,431	208,847	185,645	189,000	195,000	201,000	207,000	211,000
Zürich	383,896	412,929	501,417	506,000	517,000	527,000	537,000	548,000

Source: HVS – London Office

Despite the positive signs, the recovery to pre-crisis levels (2006-07) is still a distant dream for almost two thirds of the cities in our sample. Whilst only eight countries were at above-peak values in 2013, we expect this number to increase only modestly to about ten in 2014, and to just over a dozen by 2018, as shown in Chart 10. We expect slightly steeper growth for the Russian cities in 2014, which should somewhat benefit from the marketing effect of the Sochi Winter Olympics. Other cities where we expect to see further growth are Tallin, due to its continued strong performance, and Dublin, a current darling of investors. We expect more subdued growth for the main Eastern European markets, including Prague, Bratislava, Bucharest and Sofia. Despite the recovery of the Spanish economy, Madrid's dependence on the domestic and corporate markets is likely to result in somewhat limited growth for this city in 2014, although we expect growing interest for this destination (generally in line with Spain). Zürich, still perceived as an expensive destination and with a significant pipeline (for the size of the city), is also expected to experience modest growth.

We expect steeper growth for the Russian cities, benefitting from the marketing of the Sochi Winter Olympics

Chart 9 shows the top and bottom five markets as per our forecast in five years time. Rome has replaced Moscow as the fifth most expensive city in 2018, and there is some improvement for Athens, which went from last in the list last year (out of 32 markets) to 29th position (out of 33 markets).

All forecasts and values are reported in euro. We note that two of the top markets are in Switzerland; therefore, the impact of currency fluctuations will remain a constant issue and influence investment decisions.

ISTANBUL VALUES PER ROOM FELL 2% IN 2013 IN LOCAL CURRENCY

Outlook

Depending on whom you ask, the start of 2013 was either already promising or rather uninspiring. Opinions were divided early in the year, and an overall lack of visibility seemed to permeate most moods. The summer was a turning point for those that still needed convincing; as relatively good news started emerging in regard to the economic prospects of a number of countries in Europe, business confidence picked up and investment was firmly back on the scene.

As highlighted in this report, most of the cities we survey are still far below their peak values and are expected to continue to be for the foreseeable future. Although the flight to security has resulted in an increased gap between those cities that remained in investors' sights throughout the crisis and those that fell into oblivion, this gap is now expected to stop widening, if not start narrowing. We expect that changes in value will be increasingly driven by improving fundamentals and property enhancements, thereby allowing the least-favoured cities to play catch-up to some extent.

We expect changes in value to be driven by improving fundamentals and property enhancements

Improvements in performance are evident, as about two thirds of the cities in our survey experienced RevPAR growth in 2013, compared to only about half of them in 2012. Some cities are expected to benefit from events such as the Sochi Winter Olympics in 2014, which is expected to have a 'halo effect' for other Russian gateway cities as it promotes tourism within the country; the same is true for the Expo in Milan in 2015. Other than this, we generally expect RevPAR to continue to improve. Following the dramatic fall in RevPAR in 2009, recovery in both occupancy and rate has been uneven across the various markets we survey, and the slowness and patchiness of the recovery makes it difficult to identify truly improving trends until they are fully established. We expect the recovery to continue in 2014 and gain momentum thereafter.

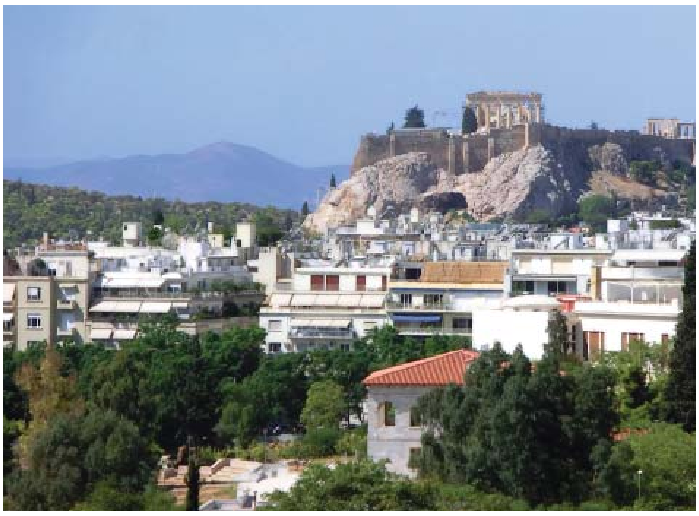
Bank lending is back, but caution remains, and parameters have yet to experience any meaningful changes. It seems early to say whether we can expect any adjustments in the months to come. The eyes are now on the movement of central banks' interest rates, still at rock-bottom lows, both in the UK and in continental Europe. In the meantime, cash-rich REITs, institutional investors and HNWIs will continue to seek investment, as other markets such as the USA are becoming too expensive for some, and opportunities in Europe might seem to offer comparatively better value for money and upside potential.

In these stimulating times, investors with a clear strategy across the various phases of an investment – be it acquisition, holding or disposal of the asset – are those likely to be able to capitalise on the opportunities available. A coherent purchase price, an appropriate management team and brand, and a sensible capital improvement plan are the order of the day to maximise potential returns.

Finally, we expect 2014 to be the year for secondary, regional markets and for countries which are emerging from a more acute recession, such as Spain, and offer increased upside opportunities, albeit at a somewhat higher risk. Cities such as Paris and London are expected to remain aspirational for most, as they have become unaffordable for the average investor. These havens, and others such as Munich and a series of German cities, will remain just as appealing to those seeking capital protection and long-term holding strategies, or stable, sturdy markets for low-risk investors. In any case, we expect this to be a most exciting year, one of (dare we say it?) cheer and optimism, and opportunities in most markets, which should be able to satisfy most investors. We should not, however, let ourselves get carried away – again, good sense, a degree of caution and a solid strategy must be key components of the investor survival kit. Happy hunting.

– HVS –

THE RECOVERY IS ON, AS THE VALUE PER ROOM FOR ATHENS HOTELS GREW BY 8%




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

About HVS

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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 also responsible for the development of HVS's business in France and the French-speaking countries.

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