MARCH 2015 | PRICE £500

2015 EUROPEAN
HOTEL VALUATION INDEX

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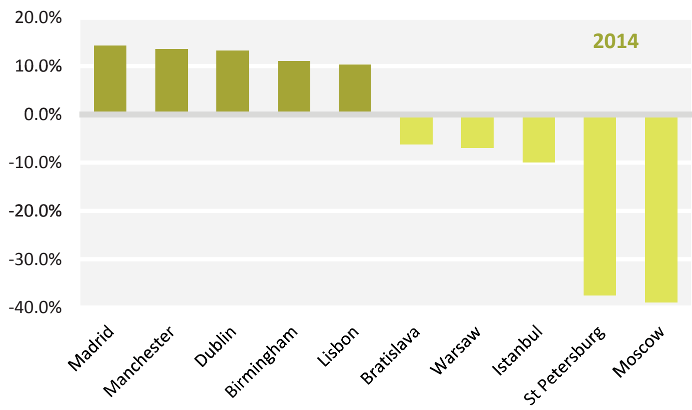
Highlights

Without a shadow of a doubt, 2014 will be a year to remember. Following a mixed 2013, where performance in the first part of the year was, at best, lukewarm, the momentum that started in the summer of 2013 continued right through 2014. From beginning to end, markets throughout Europe experienced a definite recovery in performance, and investment appetite for regions such as the Iberian Peninsula and Eastern Europe took off. Whilst the slowdown of several economies continued, with a mixed picture depending on whether it was the BRIC countries, Europe (and then which country within Europe!) or the USA, this did not prevent the leap forward in investment from finally materialising in 2014, with significant compression of cap rates for most markets. Political turmoil in Eastern and Central European countries (especially Ukraine, Turkey and Russia) resulted in specific markets suffering both from a performance point of view as well as from an investment perspective. In this context, global dynamics such as the falling price of oil benefit some and hinder others. Whilst the short-term economic outlook remains different for say the UK than for France or Italy, lending is back, and low interest rates and cheap money being pumped into the system have resulted in a strong year for transactions.

- Putting aside a few troubled markets where specific political or economic circumstances set the tone, performance continued to be strong in the majority of markets, with overall RevPAR growth well above inflation – and even into double figures for about a quarter of the markets in our index;
- It was also a year of contrasts: whilst for some markets it was a time for the regions to be increasingly thought-after (as was the case for the UK, for example), some gateway cities experienced a slowdown in comparison to previous years owing to the economic woes of the country (Paris comes to mind);
- Occupancy improvements have continued in markets which still had some ‘catching up’ to do, whilst generally there were further improvements in rate across most markets, with half a dozen experiencing strong average rate growth on the back of healthy occupancy levels;
- Excluding the outlier markets with particular circumstances such as the Russian cities or Istanbul, values have generally improved. Southern European capital cities are firmly present, with Lisbon still amongst the five largest increases, as last year, and Madrid now leading the pack (from being a value ‘loser’ in 2013). Also, secondary cities such as Manchester and Birmingham have shown double-figure value growth, in euro terms, following improved performance and investor interest;
- The combined effect of the sanctions on the back of the Ukraine war and the decline in oil prices have had a detrimental impact on both Russian cities, with Moscow and St Petersburg showing the most dramatic declines in value. Istanbul also had another difficult year, amidst continued socio-political turmoil. In a somewhat different situation, Athens had a stronger year following a recovery in both occupancy and rate. However, current uncertainties related to the direction that the new political helm might take make Athens less attractive to potential investors in the short term than would otherwise have been the case;
- Transactions such as the Marriott Champs Elysées and the InterContinental Grand in Paris, or the London EDITION illustrate the continued interest in acquiring hotels in gateway cities, although interest in secondary and tertiary cities continues to grow. The return of lending, combined with cash-rich investors, translated into an overall transactions volume of €14.4 billion in 2014, a remarkable 86% improvement on 2013. Please refer to our sister publication, *2014 European Hotel Transactions*, for more. Opportunities within the hotel arena, such as

Markets throughout Europe experienced a definite recovery in performance

CHART 1: TOP AND BOTTOM FIVE – PERCENTAGE CHANGE IN HOTEL VALUE PER ROOM 2014 (€)



Source: HVS – London Office

CHART 2: HOTEL VALUES – PERCENTAGE CHANGE 2005-14 (€)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	CAGR [1] 1997-2014	CAGR [1] 2005-2014 [2]
1 Madrid	0.6	12.8	2.0	-16.8	-18.2	-7.4	2.6	-6.8	-5.6	14.3	-1.0%	-3.2%
2 Manchester	6.9	6.2	-1.2	-21.9	-12.2	-4.4	0.2	3.8	0.2	13.5	-0.3%	-2.3%
3 Dublin	6.7	6.5	-2.5	-18.6	-20.2	-5.4	6.1	5.5	6.6	13.2	0.0%	-1.6%
4 Birmingham	3.0	5.4	-0.5	-22.7	-13.1	-12.0	-6.7	3.3	0.6	11.0	-1.5%	-4.4%
5 Lisbon	-9.7	14.9	11.9	-11.8	-14.0	-2.7	11.1	-10.0	6.0	10.3	1.1%	1.2%
6 Copenhagen	10.0	11.4	1.0	-6.4	-2.2	-0.9	4.1	-0.5	4.9	9.1	1.7%	2.1%
7 Amsterdam	5.7	16.5	-0.8	-14.9	-16.0	10.4	6.4	-2.8	4.8	8.6	2.4%	0.8%
8 London	7.2	11.7	5.5	-23.1	0.9	8.4	12.0	6.5	0.0	8.5	1.8%	2.8%
9 Munich	-1.4	7.8	3.4	-7.0	-10.2	14.7	4.6	8.3	6.7	7.8	4.2%	3.7%
10 Budapest	11.7	4.8	-1.2	-17.1	-16.8	-0.8	4.0	-0.5	2.5	7.5	-0.3%	-2.3%
11 Vienna	3.9	11.2	6.5	-5.2	-18.4	-1.7	3.0	2.6	-4.8	7.3	1.3%	-0.3%
12 Edinburgh	5.5	12.0	1.7	-27.1	-7.6	2.8	1.7	4.5	2.5	7.3	0.4%	-0.9%
13 Sofia	n/a	9.1	12.4	-16.0	-27.1	0.5	-9.2	0.3	-6.8	7.1	n/a	-4.1%
14 Hamburg	0.5	0.8	-6.3	-3.2	-2.5	4.4	6.3	-0.3	2.2	6.7	1.2%	0.8%
15 Zürich	8.4	10.1	7.6	5.6	-4.5	12.1	11.1	-5.1	1.9	6.6	4.4%	4.9%
16 Geneva	9.1	7.6	5.4	17.3	-9.6	-1.4	13.1	-3.5	-5.4	6.5	3.2%	3.0%
17 Tallinn	6.1	18.4	-7.1	-25.7	-19.5	3.2	14.0	7.7	4.9	6.4	n/a	-0.8%
18 Barcelona	-5.4	7.2	5.5	-19.4	-15.0	3.3	2.4	1.3	5.0	6.3	0.9%	-0.8%
19 Berlin	-0.7	5.2	-0.7	0.2	-0.8	4.4	-2.6	2.6	-0.4	6.3	3.1%	1.5%
20 Athens	-7.1	2.6	4.7	-2.5	-14.0	-29.3	5.9	-23.8	7.6	5.9	-2.4%	-5.8%
21 Bucharest	2.6	-4.9	8.1	-21.4	-22.9	-8.0	4.6	-6.6	0.4	5.9	n/a	-5.6%
22 Prague	4.3	1.4	-5.4	-21.0	-20.3	1.6	3.7	4.7	0.0	5.7	1.7%	-3.8%
23 Milan	0.8	12.3	-1.7	-13.6	-13.0	-12.4	3.9	-4.1	3.6	5.7	1.6%	-2.5%
24 Paris	6.6	9.0	6.0	-5.9	-3.6	4.2	10.9	4.6	1.7	4.9	3.3%	3.4%
25 Brussels	4.5	7.8	6.1	1.7	-11.8	0.1	3.7	-1.5	1.5	4.0	1.6%	1.1%
26 Rome	2.9	7.8	-4.3	-17.6	-10.2	1.9	6.0	-2.4	2.3	3.7	0.2%	-1.7%
EUROPE	3.9	8.9	2.5	-10.9	-13.4	1.5	6.2	0.6	0.6	3.1	1.2%	-0.4%
27 Frankfurt	0.2	5.9	-6.4	-7.9	-0.1	19.4	6.9	2.4	4.7	2.2	2.3%	2.7%
28 Stockholm	5.2	11.2	8.3	-6.9	-9.4	3.0	8.7	-5.4	0.2	1.5	1.2%	1.0%
29 Bratislava	11.6	-5.0	3.0	-15.2	-18.8	-15.9	4.0	-6.2	0.0	-6.3	n/a	-7.0%
30 Warsaw	8.1	14.7	10.2	-4.0	-18.2	5.1	8.7	5.7	-6.4	-7.0	-1.7%	0.5%
31 Istanbul	32.0	10.9	8.2	10.8	-8.0	5.8	1.6	0.3	-11.0	-9.9	0.4%	0.6%
32 St Petersburg	4.1	6.9	1.3	-25.0	-47.6	9.2	11.3	11.5	4.9	-31.6	n/a	-9.3%
33 Moscow	21.8	20.6	2.1	-4.8	-38.8	4.2	3.8	11.6	-4.2	-37.9	-2.4%	-7.1%

Source: HVS – London Office

[1] Compound Annual Growth Rate

[2] CAGR from 2005 or closest year

hotels' comparably attractive income return and uplift performance potential through clustering, brand or platform creation, have resulted in hotel real estate being the asset type that grew the most in 2014, ahead of other commercial or industrial asset types;

- Despite the overall improvements in value, the peak values of 2006 and 2007 still remain, on average, some 15% higher than the 2014 values. Notwithstanding the few outliers, however, most markets performed well, and the few declines were a result of macro circumstances.

Winners and Losers

In 2014, Europe witnessed its fifth consecutive year of hotel value growth, stretching back to the economic low of 2009. To provide an overview, we have shortlisted the winners and losers of 2014 into a top and bottom 5. The top 5 winners are those cities ranked highest by value per room, whereas the bottom 5 are those ranked lowest (see Chart 1). Our hotel valuation index for 2014 sees the usual suspects occupying the top five positions: Paris, London, Zürich, Geneva and Rome (see Chart 3). However, several cities have made significant strides in 2014 in terms of closing the gap on the top 5 as strong growth has been witnessed across several European markets. As for the bottom 5, we see Sofia remain in the lowest position, Tallinn leap above Bratislava to third-bottom, whilst Bucharest and Athens remain fourth- and fifth-bottom, respectively.

PARIS HOTEL VALUES PER ROOM ROSE TO €704,000

Changes in Value – Strong Performers

2014 was the year in which **Madrid** finally delivered significant growth, having been on the verge of a turnaround for the last couple of years. The market has benefitted from a slowdown in new hotel supply over the last year, following several years of significant growth, as overall gains have been achieved in occupancy rather than rate, which is in line with the increase in visitation statistics for the year. Improvements in performance are widely attributed to the country's strengthening economy which has encouraged a relaxation of domestic budgets and, in turn, an increase in domestic demand. International demand is also returning to a market that relies heavily on corporate and MICE demand; Madrid regularly features in the top 5 of the International Congress & Convention Association's leading locations. This positive scenario has resulted in an increase in potential investors looking to the Spanish capital, and beyond, to acquire cut-price assets ahead of the expected growth of the next few years. In addition, Four Seasons is scheduled to enter the market in 2018 and The Ritz continues to attract investor interest.

Manchester is another city to have benefitted from a relative lack of new supply in recent years, although we note this is expected to change as the city has one of the most active pipelines in the UK with approximately 2,000 rooms entering the market by 2017. In a corporate and MICE market dominated by domestic demand, the improving economic situation has seen an increase in RevPAR that has been driven primarily by rate growth. This has been attributed to a relaxing of corporate budgets that have constrained spending over recent years. Corporate travel has increased significantly, driven by an increased amount of project work, particularly in the city centre. A healthy leisure market, underlined by the city's

An increase in corporate travel to Manchester has contributed to a 13.5% increase in values per room in euro terms

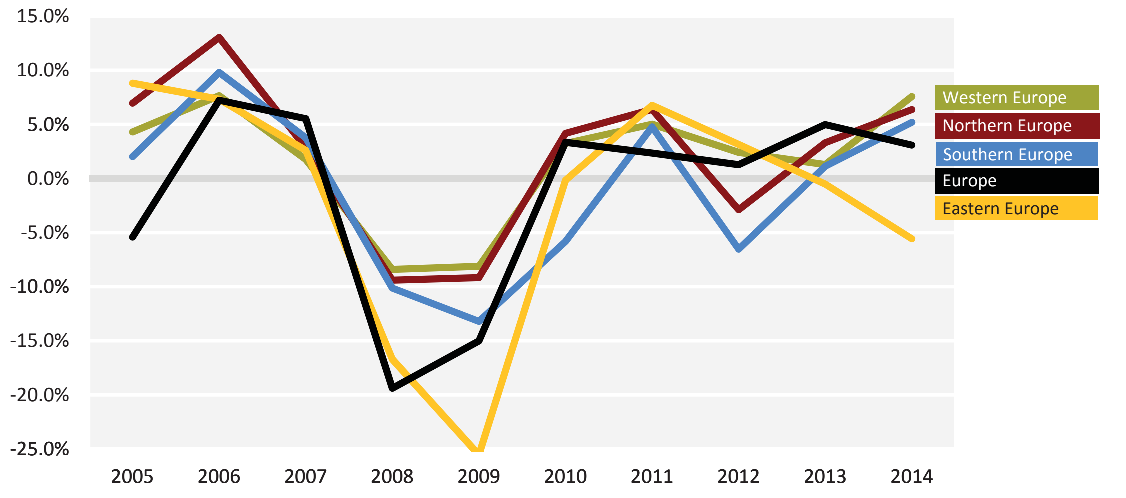
CHART 3: HOTEL VALUATION INDEX

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1	Paris	2.997	3.267	3.463	3.259	3.142	3.274	3.632	3.798	3.861	**4.052**
2	London	3.043	3.400	3.588	2.760	2.786	3.018	3.380	3.599	3.599	**3.904**
3	Zürich	2.008	2.210	2.377	2.510	2.397	2.686	2.984	2.833	2.886	**3.077**
4	Geneva	2.006	2.158	2.275	2.669	2.414	2.379	2.690	2.597	2.457	**2.616**
5	Rome	2.531	2.729	2.610	2.150	1.929	1.967	2.085	2.034	2.082	**2.159**
6	Amsterdam	1.717	2.000	1.984	1.689	1.419	1.567	1.667	1.620	1.698	**1.844**
7	Milan	2.180	2.449	2.408	2.080	1.809	1.585	1.647	1.579	1.636	**1.729**
8	Munich	1.200	1.293	1.338	1.243	1.116	1.281	1.340	1.451	1.548	**1.670**
9	Istanbul	1.496	1.659	1.795	1.990	1.831	1.938	1.968	1.975	1.757	**1.583**
10	Barcelona	1.606	1.722	1.817	1.465	1.245	1.287	1.317	1.334	1.400	**1.489**
11	Edinburgh	1.556	1.743	1.773	1.293	1.195	1.228	1.249	1.305	1.338	**1.437**
	EUROPE	1.466	1.596	1.637	1.458	1.263	1.282	1.361	1.369	1.377	**1.420**
12	Copenhagen	1.116	1.244	1.256	1.176	1.150	1.140	1.187	1.182	1.240	**1.352**
13	Stockholm	1.177	1.308	1.417	1.319	1.196	1.231	1.338	1.265	1.268	**1.287**
14	Hamburg	1.170	1.180	1.105	1.070	1.043	1.089	1.158	1.154	1.179	**1.258**
15	Frankfurt	0.977	1.035	0.969	0.892	0.892	1.064	1.138	1.165	1.220	**1.247**
16	Madrid	1.626	1.834	1.872	1.556	1.273	1.179	1.210	1.127	1.064	**1.216**
17	Dublin	1.355	1.443	1.407	1.146	0.915	0.865	0.918	0.968	1.033	**1.169**
18	Vienna	1.145	1.273	1.355	1.285	1.049	1.031	1.062	1.090	1.038	**1.114**
19	Berlin	0.964	1.014	1.007	1.009	1.000	1.044	1.017	1.043	1.039	**1.104**
20	Brussels	0.967	1.042	1.105	1.125	0.992	0.993	1.029	1.014	1.029	**1.071**
21	Moscow	2.051	2.473	2.525	2.403	1.471	1.533	1.591	1.775	1.701	**1.057**
22	Prague	1.498	1.519	1.437	1.135	0.904	0.919	0.953	0.997	0.997	**1.054**
23	Warsaw	0.950	1.090	1.202	1.154	0.944	0.993	1.079	1.141	1.069	**0.994**
24	Manchester	1.185	1.259	1.244	0.971	0.853	0.815	0.817	0.847	0.850	**0.964**
25	Budapest	1.064	1.115	1.101	0.913	0.760	0.754	0.784	0.780	0.800	**0.860**
26	Lisbon	0.748	0.860	0.962	0.849	0.730	0.710	0.789	0.710	0.753	**0.830**
27	St Petersburg	1.974	2.110	2.138	1.604	0.840	0.917	1.021	1.139	1.195	**0.817**
28	Birmingham	1.087	1.146	1.140	0.881	0.766	0.674	0.629	0.650	0.654	**0.726**
29	Athens	1.168	1.199	1.255	1.223	1.051	0.743	0.787	0.599	0.645	**0.683**
30	Bucharest	1.142	1.086	1.175	0.923	0.712	0.655	0.685	0.640	0.643	**0.681**
31	Tallinn	0.676	0.800	0.743	0.552	0.445	0.459	0.523	0.563	0.591	**0.629**
32	Bratislava	1.157	1.099	1.132	0.960	0.780	0.656	0.682	0.640	0.640	**0.600**
33	Sofia	0.839	0.915	1.029	0.864	0.630	0.633	0.575	0.577	0.537	**0.575**

Source: HVS – London Office

Note: Based on euro calculations

CHART 4: YEAR-ON-YEAR CHANGE IN VALUES PER ROOM BY REGION 2005-14



Source: HVS – London Office

Note: Based on euro calculations

strong sporting heritage and annual events such as the Christmas markets, continues to grow as Manchester increasingly becomes a key stop-off on the UK tourist trail. Manchester Airport, as a key regional transport hub, continues to strengthen as new routes are added, and passenger numbers surpassed 22 million for the first time since 2007.

Dublin also witnessed strong RevPAR growth in 2014, reflected in double-figure room value growth. The city continues to convince an increasing number of investors that a corner has definitely been turned with regard to the recession that so crippled the country. With Ireland's banks on the road to recovery, the city's property prices are on the rise, with reported increases of 25% over the last year. Combine that with an economy showing strong signs of a rebound, and the mauled Celtic Tiger looks increasingly likely to roar again. International visitation to Dublin represents 75% of total visitation to the city, highlighting the importance of overseas tourism to the city's economy and the clear benefit of key source markets emerging from recession.

Along with Manchester, further proof of the heightened interest in secondary UK markets is the presence of **Birmingham** within the list of 2014's strong performers. Once again, RevPAR growth was primarily driven by average rate growth across all areas of the city compared to 2013. Visitation levels were driven by a strong events calendar as well as the impact of recession recovery, as corporate and consumer spending has noticeably increased. The future for the city looks positive as more than £10 billion of public infrastructure investment is either planned or underway, including the

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 2014 is therefore reflected in the capitalisation rates used.

The HVI assumes a date of value of 31 December 2014. 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 2014 the index for Paris was 4.052 (€703,935/€173,737), which means that the value of a hotel in Paris in 2014 was more than four times higher than the European average in 1993.

CHART 5: HOTEL VALUES PER ROOM 2005-14 (€)

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1	Paris	520,657	567,582	601,736	566,182	545,887	568,772	630,928	659,819	670,843	**703,935**
2	London	528,685	590,700	623,389	479,586	483,946	524,414	587,153	625,325	625,207	**678,222**
3	Zürich	348,816	383,896	412,929	436,164	416,455	466,654	518,496	492,163	501,417	**534,645**
4	Geneva	348,553	374,928	395,337	463,664	419,322	413,254	467,394	451,263	426,841	**454,438**
5	Rome	439,706	474,115	453,513	373,474	335,209	341,718	362,168	353,389	361,677	**375,127**
6	Amsterdam	298,276	347,480	344,731	293,440	246,615	272,250	289,563	281,512	294,983	**320,357**
7	Milan	378,780	425,408	418,292	361,405	314,326	275,323	286,098	274,263	284,214	**300,396**
8	Munich	208,544	224,723	232,382	216,013	193,960	222,562	232,728	252,104	268,952	**290,061**
9	Istanbul	259,962	288,298	311,874	345,688	318,160	336,652	341,979	343,071	305,320	**275,107**
10	Barcelona	278,972	299,168	315,731	254,503	216,289	223,514	228,776	231,696	243,243	**258,686**
11	Edinburgh	270,269	302,830	308,027	224,606	207,560	213,362	217,060	226,764	232,539	**249,609**
	EUROPE	**254,687**	**277,312**	**284,322**	**253,329**	**219,424**	**222,729**	**236,539**	**237,931**	**239,257**	**246,641**
12	Copenhagen	193,944	216,080	218,247	204,279	199,805	198,062	206,257	205,326	215,357	**234,858**
13	Stockholm	204,438	227,309	246,204	229,155	207,715	213,887	232,397	219,789	220,299	**223,539**
14	Hamburg	203,288	204,941	192,032	185,881	181,228	189,262	201,151	200,529	204,864	**218,622**
15	Frankfurt	169,811	179,872	168,302	155,043	154,888	184,863	197,658	202,377	211,970	**216,682**
16	Madrid	282,425	318,668	325,149	270,403	221,173	204,891	210,187	195,855	184,878	**211,290**
17	Dublin	235,425	250,642	244,497	199,027	158,897	150,268	159,477	168,237	179,389	**203,092**
18	Vienna	198,867	221,081	235,469	223,289	182,220	179,192	184,540	189,400	180,369	**193,624**
19	Berlin	167,454	176,141	174,941	175,269	173,824	181,387	176,749	181,269	180,507	**191,855**
20	Brussels	167,979	181,015	192,041	195,401	172,325	172,488	178,796	176,173	178,849	**186,046**
21	Moscow	356,385	429,738	438,766	417,556	255,636	266,343	276,331	308,460	295,523	**183,597**
22	Prague	260,316	263,895	249,576	197,115	157,019	159,598	165,561	173,281	173,287	**183,156**
23	Warsaw	165,083	189,431	208,847	200,436	164,056	172,487	187,532	198,250	185,645	**172,710**
24	Manchester	205,929	218,703	216,057	168,737	148,116	141,580	141,907	147,241	147,603	**167,510**
25	Budapest	184,914	193,737	191,347	158,591	131,961	130,966	136,226	135,592	138,956	**149,404**
26	Lisbon	129,972	149,358	167,172	147,476	126,887	123,437	137,103	123,326	130,761	**144,190**
27	St Petersburg	342,922	366,545	371,411	278,716	145,942	159,319	177,347	197,807	207,559	**142,020**
28	Birmingham	188,794	199,043	198,044	153,081	133,092	117,104	109,303	112,948	113,651	**126,142**
29	Athens	202,946	208,274	218,010	212,539	182,680	129,065	136,716	104,124	111,993	**118,652**
30	Bucharest	198,380	188,751	204,066	160,328	123,690	113,789	118,985	111,184	111,629	**118,234**
31	Tallinn	117,448	139,035	129,107	95,920	77,234	79,709	90,877	97,891	102,733	**109,273**
32	Bratislava	200,954	190,899	196,613	166,769	135,473	113,915	118,486	111,144	111,111	**104,161**
33	Sofia	145,770	159,016	178,800	150,132	109,387	109,960	99,873	100,165	93,314	**99,902**

Source: HVS – London Office

redevelopment of New Street railway station, the extension of the Midland Metro tram network and the extension of the runway at Birmingham Airport to aid its development in becoming a truly global gateway. The local market is currently experiencing significant development activity. There are 17 hotels at various stages of planning and/or construction, demonstrating the confidence investors hold in the city's visitor economy.

BIRMINGHAM SAW 11% VALUE GROWTH

A strong year from **Lisbon** saw improvement in value of around 10%, backed by performance growth of a similar level over the course of 2014. A room supply increase of 3.2% from 2013 to 2014 was not enough to absorb the increase in demand as the number of room nights increased by more than 15% to 11.5 million. However, it will be interesting to see the reaction to the expected addition of 20 new hotels in 2015. Opportunities for growth remain as the city continues its redevelopment and restoration of the Ribeirinha da Cidade and Cais do Sodre tourist areas.

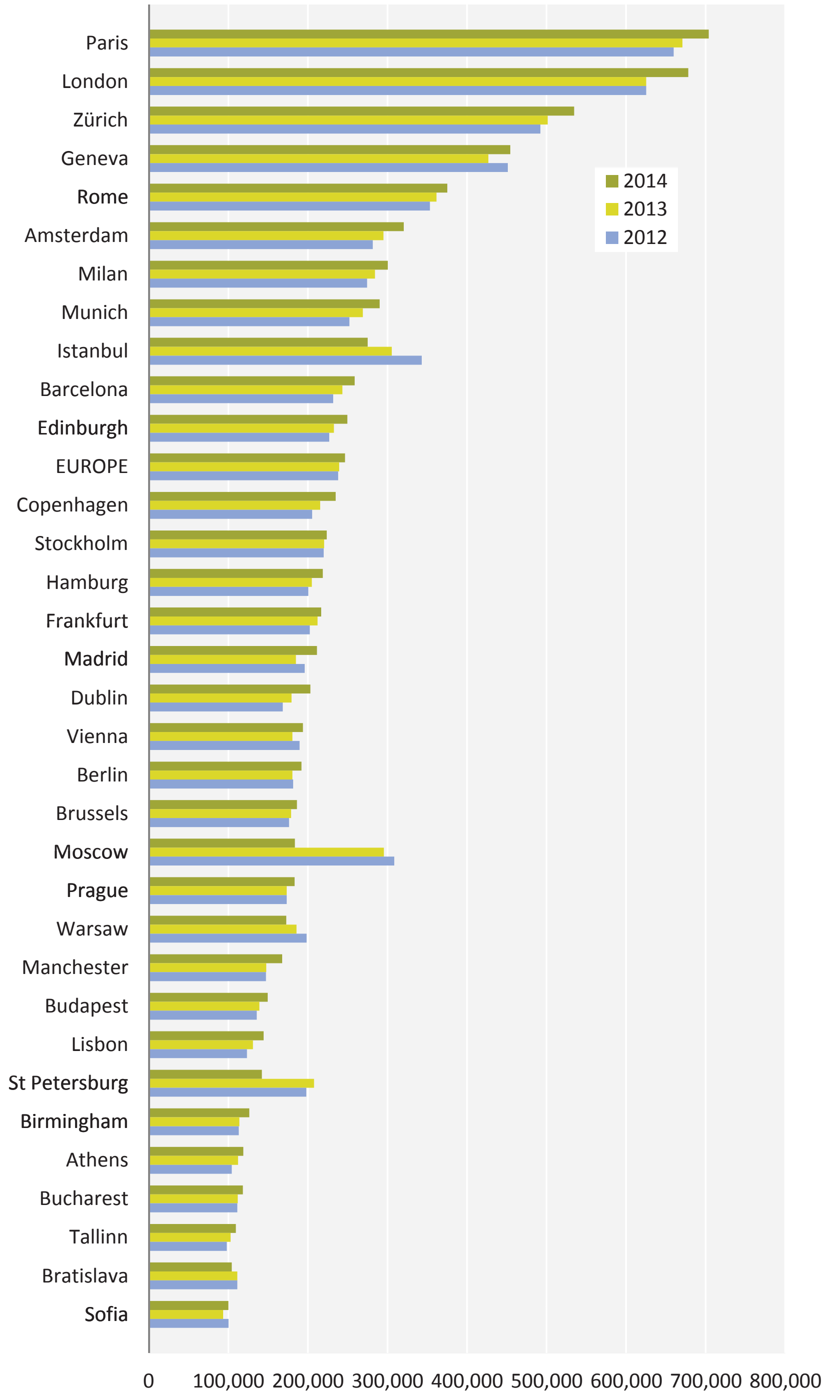
Changes in Value – Challenged Markets

The two biggest percentage declines in value recorded in 2014 across Europe were those witnessed in **Moscow** and **St Petersburg**. Russia was never far from global headlines throughout the year, with political turmoil in Ukraine followed by international sanctions, falling oil prices, a currency crisis and recessionary fears. Both cities are heavily dependent on the corporate and MICE segments, traditionally attracting a significant number of groups and delegations from the domestic and international markets. The domestic market has been impacted by a severe tightening of budgets, whereas international visitation has been impacted by the political stance many source countries have taken against Russia; St Petersburg, in particular, is a market with significant leisure visitation during the peak summer months. The political situation with regard to Ukraine, and the resultant international fallout, is thought to have been the main driver behind a reduction in tourism in 2014. However, by far the biggest impact on the market, in terms of our ranking, has been the extreme pressure on the value of the Russian rouble that accelerated towards the end of 2014. This is widely perceived to have been caused by the combination of falling oil prices and imposition of Western sanctions. Exchange rates remain highly fragile as both fundamental and market pressures persist. Whilst Russian authorities were banking on oil prices of US$100 per barrel in 2015 to balance the books, with oil prices currently below US$60 per barrel and only a brittle political solution with the West having been reached through the Minsk Agreement, fundamental pressures on Russian markets and Russian reserve assets will prevail at least for the short term.

International visitation to Moscow and St Petersburg has been impacted by the political stance many source countries have taken against Russia

The political and economic challenges facing Turkey continue to have a negative effect on **Istanbul** visitation and its tourism industry. Although the depreciation of the Turkish lira stabilised somewhat over the last year, after a significant drop in 2013, there were few signs of economic recovery. However, appetite for

CHART 6: HOTEL VALUES PER ROOM 2012-14 (€)



Source: HVS – London Office

CHART 7: HOTEL VALUES IN LOCAL CURRENCY 2007-14

		2007	2008	% Change	2009	% Change	2010	% Change	2011	% Change	2012	% Change	2013	% Change	2014	% Change
Birmingham	€	198,044	153,081	-23%	133,092	-13%	117,104	-12%	109,303	-7%	112,948	3%	113,651	1%	126,142	11%
	£	135,545	121,657	-10%	118,589	-3%	100,501	-15%	95,046	-5%	92,580	-3%	96,314	4%	101,727	6%
Bucharest	€	204,066	160,328	-21%	123,690	-23%	113,789	-8%	118,985	5%	111,184	-7%	111,629	0%	118,234	6%
	lei	683,110	592,424	-13%	525,871	-11%	480,548	-9%	515,206	7%	495,882	-4%	493,400	-1%	526,141	7%
Budapest	€	191,347	158,591	-17%	131,961	-17%	130,966	-1%	136,226	4%	135,592	0%	138,956	2%	149,404	8%
	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%	46,061,315	10%
Copenhagen	€	218,247	204,279	-6%	199,805	-2%	198,062	-1%	206,257	4%	205,326	0%	215,357	5%	234,858	9%
	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%	1,752,041	9%
Edinburgh	€	308,027	224,606	-27%	207,560	-8%	213,362	3%	217,060	2%	226,764	4%	232,539	3%	249,609	7%
	£	210,818	178,499	-15%	184,942	4%	183,112	-1%	188,748	3%	185,872	-2%	197,067	6%	201,297	2%
Geneva	€	395,337	463,664	17%	419,322	-10%	413,254	-1%	467,394	13%	451,263	-3%	426,841	-5%	454,438	6%
	SFr	649,584	735,391	13%	633,226	-14%	570,714	-10%	556,422	-3%	544,872	-2%	526,964	-3%	556,051	6%
Istanbul	€	311,874	345,688	11%	318,160	-8%	328,684	3%	341,979	4%	343,071	0%	305,320	-11%	275,107	-10%
	YTL	558,614	657,701	18%	688,807	5%	656,974	-5%	793,837	21%	790,435	0%	771,544	-2%	801,303	4%
London	€	623,389	479,586	-23%	483,946	1%	524,414	8%	587,153	12%	625,325	7%	625,207	0%	678,222	8%
	£	426,657	381,138	-11%	431,209	13%	450,063	4%	510,568	13%	512,562	0%	529,837	3%	546,954	3%
Manchester	€	216,057	168,737	-22%	148,116	-12%	141,580	-4%	141,907	0%	147,241	4%	147,603	0%	167,510	13%
	£	147,873	134,099	-9%	131,976	-2%	121,507	-8%	123,397	2%	120,689	-2%	125,087	4%	135,089	8%
Moscow	€	491,250	442,442	-10%	309,908	-30%	323,123	4%	276,331	-14%	308,460	12%	295,523	-4%	183,597	-38%
	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%	9,473,626	-24%
Prague	€	249,576	197,115	-21%	157,019	-20%	159,598	2%	165,561	4%	173,281	5%	173,287	0%	183,156	6%
	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%	5,055,106	11%
Sofia	€	178,800	150,132	-16%	109,387	-27%	109,960	1%	99,873	-9%	100,165	0%	93,314	-7%	99,902	7%
	BGN	350,691	294,037	-16%	214,215	-27%	215,291	1%	195,752	-9%	196,323	0%	182,896	-7%	195,808	7%
St Petersburg	€	371,411	278,716	-25%	145,942	-48%	159,319	9%	177,347	11%	197,807	12%	207,559	5%	142,020	-32%
	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%	7,328,240	-16%
Stockholm	€	246,204	229,155	-7%	207,715	-9%	213,887	3%	232,397	9%	219,789	-5%	220,299	0%	223,539	1%
	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%	2,034,205	7%
Warsaw	€	208,847	200,436	-4%	164,056	-18%	172,487	5%	187,532	9%	198,250	6%	185,645	-6%	172,710	-7%
	PLN	791,595	703,704	-11%	710,197	1%	717,776	1%	770,755	7%	832,649	8%	779,711	-6%	721,930	-7%
Zürich	€	412,929	436,164	6%	416,455	-5%	466,654	12%	518,496	11%	492,163	-5%	501,417	2%	534,645	7%
	SFr	678,490	691,775	2%	628,896	-9%	644,461	2%	617,257	-4%	594,256	-4%	619,034	4%	654,192	6%

Source: HVS – London Office

the Istanbul market remains strong, and many representatives associate the fall in occupancy and average rate with the periods of public protesting that now appear to be over. Caution appears to be the appropriate word associated with this market at present, though we note that a period of sustained stability could quite easily see a reversal of the current decline in hotel values.

Despite a 5.9% growth in values per room, the **Athens** market is still facing stern challenges and is being subjected to heightened global interest at present owing to the complicated political and economic climate. At the time of writing, both the EU and Greece state the country should remain in the Eurozone, but creditors are resisting pressure from the new Greek government to write off massive debts. 2014 was generally a strong year for Greek tourism and visitation as international arrivals reached 22 million, generating a record level of more than £13 billion for the economy. Germany, the UK and France remain the key international source markets and all saw significant increases in visitation as the country benefitted from improving economic conditions across the continent; as such, the market experienced strong RevPAR recovery. We have accounted, to some extent, for the political uncertainty of Q1 2015; however, we have taken the view that the uncertainty will be isolated to this period and not beyond, resulting in a continued appetite for the market going forward.

A SUSTAINED PERIOD OF STABILITY COULD QUICKLY REVERSE ISTANBUL'S FORTUNES

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 type of asset, but they are also affected by external factors such as micro and macro market issues (oversupply, recessions, natural disasters and so forth). Any of these factors could have an impact on the profitability of the business; thus, it is

CHART 8: MOST AND LEAST VOLATILE CITIES

Rank	Most Volatile	Index	Rank	Least Volatile	Index
1	St Petersburg	158%	33	Berlin	-56%
2	Athens	114%	32	Hamburg	-31%
3	Tallinn	105%	31	Copenhagen	-31%
4	Prague	90%	30	Paris	-22%
5	Sofia	86%	29	Brussels	-20%
	Europe	0%			

Note: volatility is expressed in relation to the overall European average
Source: HVS – London Office

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 (Europe) over the same period. For example, Prague has a volatility index of 90%, which means that hotel values are 90% 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 European average.

Chart 8 shows the five most and five least volatile European markets over nine years (2006-14) in local currency (to remove the impact of currency fluctuation).

The ten markets featured in the most and least volatile lists were very similar in 2013; however, there have been some changes in position and, on the least volatile side, Manchester dropped out of the list (owing to its strong increase in value in 2014) to be replaced by **Paris**. As per our results in Chart 8, **Berlin** remains the most stable market on our list, and is joined by another German city, **Hamburg**, in second place, moving up one place from last year's third position. Both markets actually recorded their respective peak growth levels since HVI records began, though this is midscale growth in the context of a generally positive year for the continent. Economically, Germany continues to be amongst the most stable countries on the continent, and Berlin and Hamburg are two of the most stable hotel markets in the country. In northern Europe, mid-size cities experienced particularly high levels of investment as a proportion of GDP. Cities including **Hamburg** and **Copenhagen** attracted corporate tenants and investors with transparent and stable real estate markets that boast strong technology and environmental credentials.

Having discussed earlier in the report the issues that have compounded the already volatile market of **Athens**, we also highlight the potential of the market and note that we expect hotel values to grow further once the political and economic situation improves. Our outlook is also positive for the **Prague** market as it continues to recover from the significant setbacks of recent years. We expect both markets to continue to be amongst the most volatile over the coming years, though this will be based on positive growth as opposed to the negative impact of the post-recession years, particularly 2008 to 2010.

Prague is one of the most volatile markets, but seems to be experiencing an upturn with a steady recovery from recent setbacks

HAMBURG AND BERLIN ARE TWO OF THE MOST STABLE MARKETS

Outlook

With no hesitation, 2014 was the kind of year we have all been waiting for. So what a joy it is to see investor confidence and improved performance firmly back. Whilst the economic situation in some of the key European countries still raises questions about the short- and medium-term prospects for the wider region, overall prospects remain very promising, as evidenced by investors' interest in previously underperforming markets, which now show clear signs of potential upside.

Whilst overall values continue to be, on average, about 15% lower than those of the peak years, the trend for improving values should be sustained in the foreseeable future. There is clearly a narrowing of the gap that has, for the last few years, separated primary markets from those cities that were previously considered 'no-go' areas for most investors. The continued flight to security of funds coupled with improving prospects for an increased number of cities across Europe have contributed to the resuscitation of various cities, where improving fundamentals and property enhancements are likely to maintain positive momentum, resulting in the eventual catch-up of these (until recently less favoured) cities compared to the core ones. Given pricing, there certainly is significant upside for seasoned investors, compared to established cities which have become very expensive.

RevPAR improvements continued in 2014, with a good two thirds of the cities surveyed showing further progress on the previous year. Looking ahead, specific events such as the Expo in Milan and the Rugby World Cup, taking place in London and several secondary cities in England and Wales, are expected to provide local boosts to demand in these cities and even further afield. Improved demand both from the business and the leisure markets (with the return of demand from the USA, on the back of improved economic prospects there, amongst other markets), bode well for Europe. As a somewhat patchy and uneven recovery in 2013 has crystalised into a more widely encompassing one in 2014, we certainly expect this positive trend to continue into 2015.

EVENTS SUCH AS THE EXPO IN MILAN WILL BOOST DEMAND IN 2015

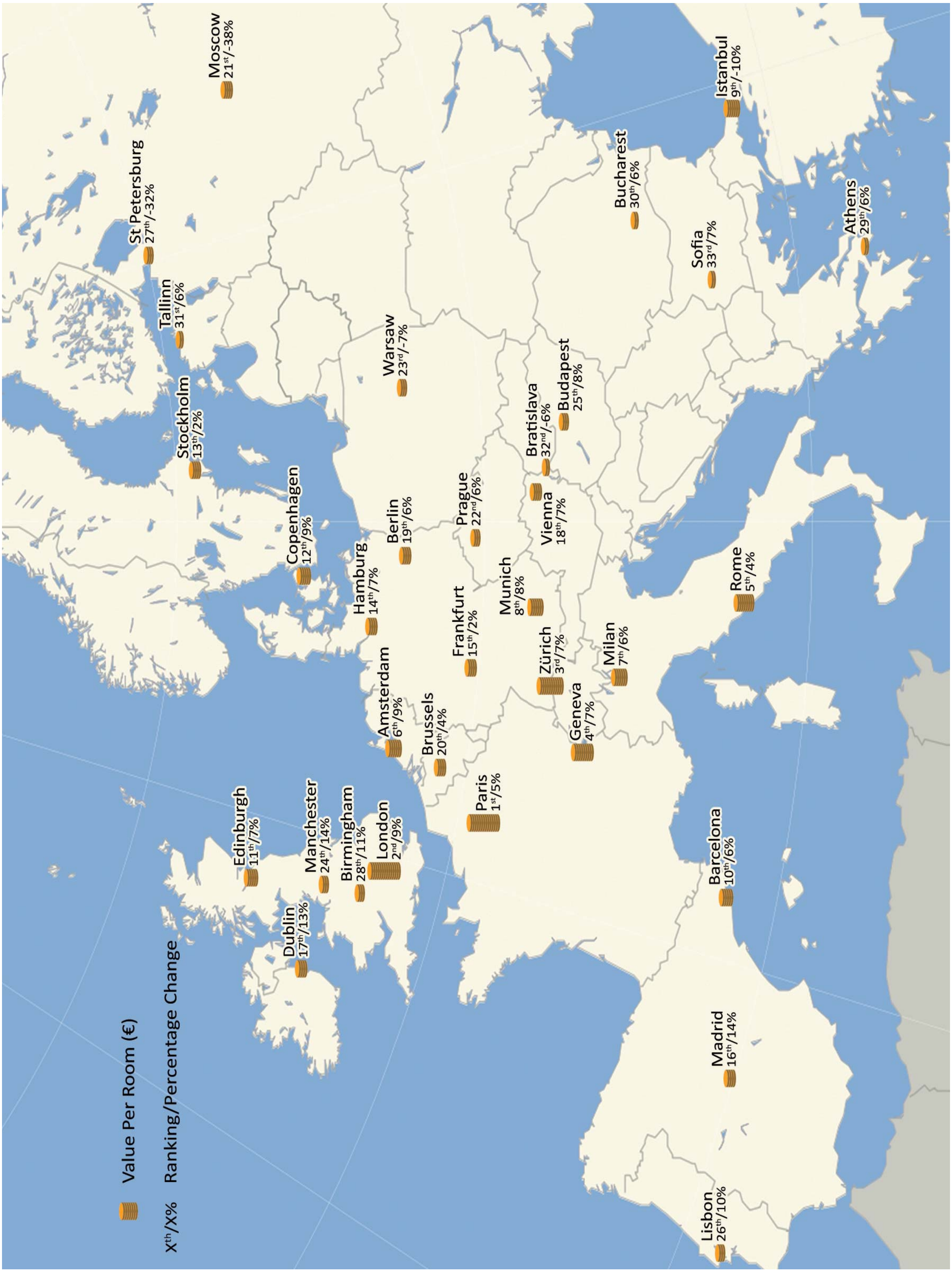
Bank lending is clearly back for the time being, although the cost of debt (at an all-time low at the moment) is expected to eventually creep back up; loan-to-value ratios might have gone up for trophy assets, but remain somewhat cautious for most deals. Whether we will see any material changes to this over the year ahead will surely depend on the unfolding of some of the challenging situations in Europe and the wider regions, as highlighted earlier in this article. We expect cash-rich real estate investment trusts (REITs), institutional investors and high-net-worth individuals (HNWIs) to continue to seek comparatively better value for money and upside potential in deals in Europe than those available in, for example, the USA.

Bank lending has clearly returned, though the current low cost of lending is expected to creep back up

As interest from Middle Eastern investors continues (13% of total investment in 2014), Asian investment into Europe is only expected to increase, as a result of the liberalisation of domestic controls governing outbound investment. Some acquisitions, such as the Marriott Champs Elysées and the Louvre Hotel Group, are recent examples of this trend, which we expect will gain momentum in 2015.

As always, the secrets to unlocking a good deal are a rational purchase price, knowledgeable and appropriate management/brand, and judicious and timely improvements to the property, as needed. Savvy investors who tick all these boxes will be rewarded. These opportunities will be there in 2015. Cities such as Paris and London will remain out of reach for most, as has been the case for some time now, but German cities continue to offer reliable opportunities, Southern European markets are certainly a brighter spot at the moment (but be sure to enter these markets eyes-wide-open, with an understanding of their particular dynamics!), and secondary and tertiary cities have a significant way to go to reach their true place on the podium. Opportunities await! Arm yourself with a good strategy and sensible know-how, and go get them.

– HVS –


Value Per Room (€)
Xth/X% Ranking/Percentage Change
Moscow 21st/-38%
St Petersburg 27th/-32%
Tallinn 31st/6%
Stockholm 13th/2%
Warsaw 23rd/-7%
Copenhagen 12th/9%
Berlin 19th/6%
Hamburg 14th/7%
Amsterdam 6th/9%
Brussels 20th/4%
Frankfurt 15th/2%
Prague 22nd/6%
Munich 8th/8%
Zürich 3rd/7%
Geneva 4th/7%
Vienna 18th/7%
Bratislava 32nd/-6%
Budapest 25th/8%
Milan 7th/6%
Rome 5th/4%
Bucharest 30th/6%
Sofia 33rd/7%
Istanbul 9th/-10%
Athens 29th/6%
Edinburgh 11th/7%
Manchester 24th/14%
Birmingham 28th/11%
London 2nd/9%
Dublin 17th/13%
Paris 1st/5%
Barcelona 10th/6%
Madrid 16th/14%
Lisbon 26th/10%

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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 some 4,000 hotels or projects in more than 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.

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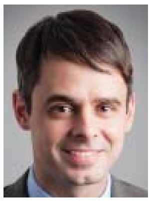
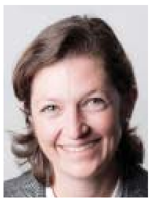
About the Authors



James Heavey is an analyst with HVS London, specialising in hotel valuation, feasibility studies and consultancy. James holds a BA (Hons) Business Management (International Business) degree and joined HVS in 2014 after several years in operational and financial analysis at Marriott International. Since joining HVS London, James has conducted hotel appraisals and feasibility studies in Europe and Africa.



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, an MBA from IMHI (Essec Business School, France and Cornell University, USA) and an MSc in Real Estate Investment and Finance at Reading University. Since joining HVS, she has advised on hotel investment projects and related assignments throughout the EMEA region. She is also responsible for the development of HVS's business in France and the French-speaking countries.

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