HVS

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2016 EUROPEAN HOTEL VALUATION INDEX

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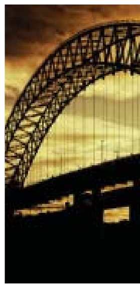

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Highlights

Growth in visitation

According to the WTO, visitation to Europe grew by 5% in 2015, thanks partly to the relative weakness of the euro compared to the US dollar and other main currencies. The reduction of BRICS tourists continued to be felt across Europe, balanced by strong visitation from the USA, Asia and intra-Europe. Chinese visitation increased by 30% in 2015. Europe remains exceptionally popular, with nine of the top 20 destinations across the world (of which London and Paris are in the top three).

Increased investment

Hotel investment volume in Europe increased by 66% in 2015 (see our sister publication, *European Hotel Transactions 2015*), coming from typical sources such as Europe (nearly half of the total transactions volume), the USA and the Middle East, but also increasingly from Asian buyers. Western Europe is considered by many overseas investors to be a haven where the rule of law, as well as safety and security, makes it a good place to invest for the foreseeable future.

Hotel performance

RevPAR continued to improve across the board in Europe, to almost double figures on average for the markets in our sample (and this despite continued declines in the Russian markets and Istanbul). Even the strength of the Parisian market was remarkable, in light of last year's terrorist attacks.

New investment interests

Strong interest in Spain is being followed by the promise of upside in the other PIGS markets (Portugal, Italy and Greece) as investors continue their hunt for value and hotel performances improve across these markets.

It has taken time, but interest in Eastern Europe is now finally gaining momentum, with investors increasingly pushing the boundaries in their search for yield. Strong above-average RevPAR recoveries and the relative price of assets represent good upside opportunities.

Yields and interest rates

Continued compression on cap rates in key gateway markets had a halo effect on yields for secondary markets with strong performance and promising outlooks.

The low-interest rate environment continues to propel investors' appetite and deal volumes.

Main transactions

2015 was a record year in terms of total transaction volume: €24 billion, or a 66% increase on 2014 (and well above the previous record of €20.3 billion in 2006). The UK again took the crown as the strongest driver of transactions (49%), with Germany, Spain and France following. More than 60% of the total transaction volume was portfolio driven (more than double that of 2014).

ME & Asian investments

In addition to almost 50% of the investment money coming from Europe, both North America and the Middle East continued to be strong players. Please refer to our sister publication, *European Hotel Transactions 2015* for more details.

Hotel values

Values per room in 2015 were 5% higher than in 2014, on aggregate. In this year's publication, we present the percentage change in value on the previous year as well as the index itself.

ATHENS SEES DOUBLE-FIGURE VALUE GROWTH IN 2015

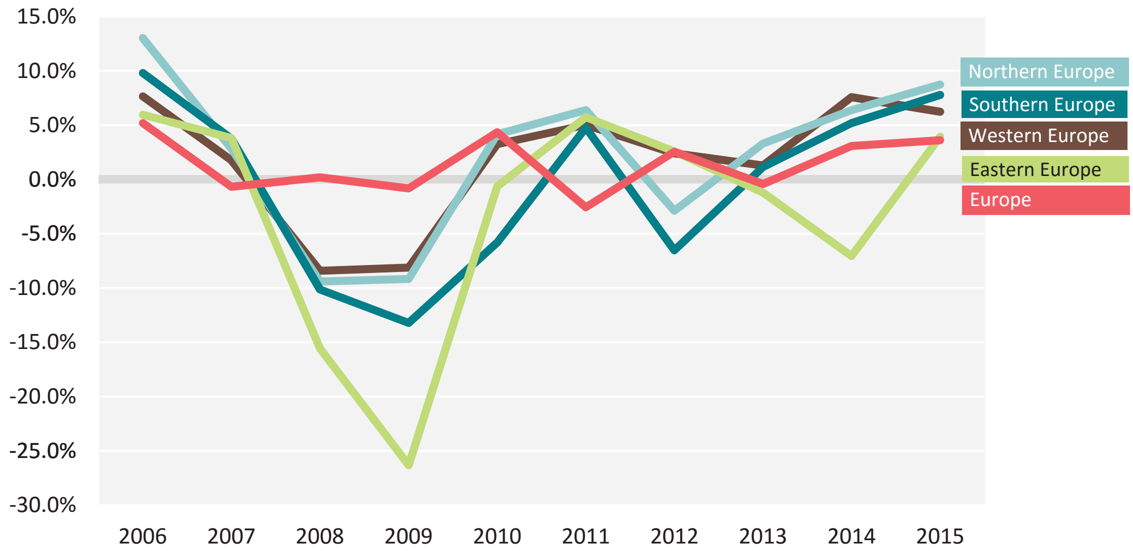
European and Regional Performance

It is challenging to summarise all that happened in 2015. Last year witnessed oil prices falling to unexpected levels; terrorist attacks right at the heart of Europe; the migrant crisis; the slowdown of the Chinese economy... but against this rather gloomy background, the hotel world was living in a sort of parallel reality: record hotel transactions, record performance data, and generally a very upbeat mood.

Looking into individual European regions, we note that 2015 was a particularly good year for the Eastern European market, which was able to bounce back from declining values in 2014 to reach a 5% increase in room values and match the European average for the year. Northern and Southern Europe saw the biggest growth in 2015 and surpassed that of Western Europe, which had the strongest value per room growth in 2014.

Year-on-Year Change

IN VALUES PER ROOM BY REGION 2006-15



Source: HVS – London Office

Note: Based on euro calculations

Hotel Values

PERCENTAGE CHANGE IN HOTEL VALUE IN EURO

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR [1] 1997-2015	CAGR [1] 2006-2015
1	Madrid	12.8	2.0	-16.8	-18.2	-7.4	2.6	-6.8	-5.6	**14.3**	**14.2**	-0.1%	-3.0%
2	Dublin	6.5	-2.5	-18.6	-20.2	-5.4	6.1	5.5	6.6	**13.2**	**13.4**	0.7%	-0.9%
3	Birmingham	5.4	-0.5	-22.7	-13.1	-12.0	-6.7	3.3	0.6	**11.0**	**12.9**	-0.7%	-3.6%
4	Athens	2.6	4.7	-2.5	-14.0	-29.3	5.9	-23.8	7.6	**5.9**	**12.6**	-1.5%	-4.8%
5	Manchester	6.2	-1.2	-21.9	-12.2	-4.4	0.2	3.8	0.2	**13.5**	**11.6**	0.3%	-1.7%
6	Lisbon	14.9	11.9	-11.8	-14.0	-2.7	11.1	-10.0	6.0	**10.3**	**11.1**	1.6%	0.8%
7	Barcelona	7.2	5.5	-19.4	-15.0	3.3	2.4	1.3	5.0	**6.3**	**10.9**	1.4%	-0.5%
8	Bratislava	-5.0	3.0	-15.2	-18.8	-15.9	4.0	-6.2	0.0	**-6.3**	**10.7**	n/a	-5.4%
9	Edinburgh	12.0	1.7	-27.1	-7.6	2.8	1.7	4.5	2.5	**7.3**	**10.7**	1.0%	-1.0%
10	Milan	12.3	-1.7	-13.6	-13.0	-12.4	3.9	-4.1	3.6	**5.7**	**10.1**	2.0%	-2.8%
11	Prague	1.4	-5.4	-21.0	-20.3	1.6	3.7	4.7	0.0	**5.7**	**9.4**	2.0%	-3.0%
12	Bucharest	-4.9	8.1	-21.4	-22.9	-8.0	4.6	-6.6	0.4	**5.9**	**9.3**	n/a	-4.1%
13	Copenhagen	11.4	1.0	-6.4	-2.2	-0.9	4.1	-0.5	4.9	**9.1**	**8.9**	2.0%	1.9%
14	Stockholm	11.2	8.3	-6.9	-9.4	3.0	8.7	-5.4	0.2	**1.5**	**8.7**	1.5%	0.7%
15	Frankfurt	5.9	-6.4	-7.9	-0.1	19.4	6.9	2.4	4.7	**2.2**	**8.6**	2.5%	3.0%
16	Amsterdam	16.5	-0.8	-14.9	-16.0	10.4	6.4	-2.8	4.8	**8.6**	**8.6**	2.6%	0.0%
17	Berlin	5.2	-0.7	0.2	-0.8	4.4	-2.6	2.6	-0.4	**6.3**	**8.1**	3.2%	1.8%
18	Budapest	4.8	-1.2	-17.1	-16.8	-0.8	4.0	-0.5	2.5	**7.5**	**8.0**	0.1%	-2.0%
19	Sofia	9.1	12.4	-16.0	-27.1	0.5	-9.2	0.3	-6.8	**7.1**	**7.5**	n/a	-4.3%
20	Hamburg	0.8	-6.3	-3.2	-2.5	4.4	6.3	-0.3	2.2	**6.7**	**5.3**	1.4%	1.3%
21	Vienna	11.2	6.5	-5.2	-18.4	-1.7	3.0	2.6	-4.8	**7.3**	**5.3**	1.5%	-0.9%
22	Rome	7.8	-4.3	-17.6	-10.2	1.9	6.0	-2.4	2.3	**3.7**	**4.5**	0.4%	-2.1%
23	Munich	7.8	3.4	-7.0	-10.2	14.7	4.6	8.3	6.7	**7.8**	**3.7**	3.9%	3.3%
	EUROPE	**8.9**	**2.5**	**-10.9**	**-13.4**	**1.5**	**6.2**	**0.6**	**0.6**	**3.1**	**3.6**	**0.9%**	**0.0%**
24	Brussels	7.8	6.1	1.7	-11.8	0.1	3.7	-1.5	1.5	**4.0**	**3.5**	1.7%	0.7%
25	London	11.7	5.5	-23.1	0.9	8.4	12.0	6.5	0.0	**8.5**	**2.9**	1.8%	1.9%
26	Warsaw	14.7	10.2	-4.0	-18.2	5.1	8.7	5.7	-6.4	**-7.0**	**2.4**	-1.4%	-0.8%
27	Zürich	10.1	7.6	5.6	-4.5	12.1	11.1	-5.1	1.9	**6.6**	**0.9**	3.9%	3.9%
28	Geneva	7.6	5.4	17.3	-9.6	-1.4	13.1	-3.5	-5.4	**6.5**	**0.9**	2.9%	2.3%
29	Paris	9.0	6.0	-5.9	-3.6	4.2	10.9	4.6	1.7	**4.9**	**-0.5**	2.9%	2.4%
30	St Petersburg	6.9	1.3	-25.0	-47.6	9.2	11.3	11.5	4.9	**-31.6**	**-2.6**	n/a	-10.3%
31	Istanbul	10.9	8.2	10.8	-8.0	5.8	1.6	0.3	-11.0	**-9.9**	**-8.9**	-0.2%	-1.5%
32	Moscow	20.6	2.1	-4.8	-38.8	4.2	3.8	11.6	-4.2	**-37.9**	**-13.2**	-2.9%	-10.4%

Source: HVS – London Office

[1] *Compound Annual Growth Rate*

Local Hotel Values

PERCENTAGE CHANGE IN HOTEL VALUE IN LOCAL CURRENCY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Birmingham	5.1	-0.1	-10.2	-2.5	-15.3	-5.4	-2.6	4.0	5.6	**1.7**
Bucharest	-7.8	2.4	-13.3	-11.2	-8.6	7.2	-3.8	-0.5	6.6	**9.3**
Budapest	10.3	-5.5	-17.1	-7.2	-2.7	12.3	-3.1	6.7	10.0	**9.5**
Copenhagen	11.4	1.0	-6.3	-2.3	-0.9	4.2	-0.3	4.9	9.1	**8.9**
Edinburgh	12.2	1.7	-15.3	3.6	-1.0	3.1	-1.5	6.0	2.1	**-0.3**
Geneva	14.1	5.4	13.2	-13.9	-9.9	-2.5	-2.1	-3.3	5.5	**-12.1**
Istanbul	18.2	8.2	17.7	4.7	-4.6	20.8	-0.4	-2.4	3.9	**-5.8**
London	11.9	5.5	-10.7	13.1	4.4	13.4	0.4	3.4	3.2	**-7.3**
Manchester	6.3	-1.2	-9.3	-1.6	-7.9	1.6	-2.2	3.6	8.0	**0.5**
Moscow	19.7	14.3	-6.0	-14.8	-5.3	-13.5	8.3	2.1	-24.0	**12.9**
Prague	-5.7	-5.4	-29.0	-15.6	-2.7	0.8	7.2	4.4	10.9	**8.3**
Sofia	9.6	12.2	-16.2	-27.1	0.5	-9.1	0.3	-6.8	7.1	**7.5**
St Petersburg	3.6	3.8	-21.7	-36.3	-0.9	12.6	8.3	11.8	-16.3	**26.7**
Stockholm	10.9	8.2	-5.4	2.4	-7.4	2.8	-8.9	-0.7	7.1	**11.9**
Warsaw	11.3	7.1	-11.1	0.9	1.1	7.4	8.0	-6.4	-7.4	**2.5**
Zürich	11.8	12.3	2.0	-9.1	2.5	-4.2	-3.7	4.2	5.7	**-12.1**

Source: HVS – London Office

Hotel Valuation Index

2006-15

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Paris	3.267	3.463	3.259	3.142	3.274	3.632	3.798	3.861	4.052	**4.030**
2	London	3.400	3.588	2.760	2.786	3.018	3.380	3.599	3.599	3.904	**4.018**
3	Zürich	2.210	2.377	2.510	2.397	2.686	2.984	2.833	2.886	3.077	**3.106**
4	Geneva	2.158	2.275	2.669	2.414	2.379	2.690	2.597	2.457	2.616	**2.639**
5	Rome	2.729	2.610	2.150	1.929	1.967	2.085	2.034	2.082	2.159	**2.257**
6	Amsterdam	2.000	1.984	1.689	1.419	1.567	1.667	1.620	1.698	1.844	**2.002**
7	Milan	2.449	2.408	2.080	1.809	1.585	1.647	1.579	1.636	1.729	**1.904**
8	Munich	1.293	1.338	1.243	1.116	1.281	1.340	1.451	1.548	1.670	**1.731**
9	Barcelona	1.722	1.817	1.465	1.245	1.287	1.317	1.334	1.400	1.489	**1.651**
10	Edinburgh	1.743	1.773	1.293	1.195	1.228	1.249	1.305	1.338	1.437	**1.590**
11	Copenhagen	1.244	1.256	1.176	1.150	1.140	1.187	1.182	1.240	1.352	**1.472**
	EUROPE	1.596	1.637	1.458	1.263	1.282	1.361	1.369	1.377	1.420	1.471
12	Istanbul	1.659	1.795	1.990	1.831	1.938	1.968	1.975	1.757	1.583	**1.442**
13	Stockholm	1.308	1.417	1.319	1.196	1.231	1.338	1.265	1.268	1.287	**1.399**
14	Madrid	1.834	1.872	1.556	1.273	1.179	1.210	1.127	1.064	1.216	**1.389**
15	Frankfurt	1.035	0.969	0.892	0.892	1.064	1.138	1.165	1.220	1.247	**1.355**
16	Dublin	1.443	1.407	1.146	0.915	0.865	0.918	0.968	1.033	1.169	**1.326**
17	Hamburg	1.180	1.105	1.070	1.043	1.089	1.158	1.154	1.179	1.258	**1.325**
18	Berlin	1.014	1.007	1.009	1.000	1.044	1.017	1.043	1.039	1.104	**1.193**
19	Vienna	1.273	1.355	1.285	1.049	1.031	1.062	1.090	1.038	1.114	**1.174**
20	Prague	1.519	1.437	1.135	0.904	0.919	0.953	0.997	0.997	1.054	**1.153**
21	Brussels	1.042	1.105	1.125	0.992	0.993	1.029	1.014	1.029	1.071	**1.109**
22	Manchester	1.259	1.244	0.971	0.853	0.815	0.817	0.847	0.850	0.964	**1.076**
23	Warsaw	1.090	1.202	1.154	0.944	0.993	1.079	1.141	1.069	0.994	**1.017**
24	Budapest	1.115	1.101	0.913	0.760	0.754	0.784	0.780	0.800	0.860	**0.929**
25	Lisbon	0.860	0.962	0.849	0.730	0.710	0.789	0.710	0.753	0.830	**0.922**
26	Moscow	2.473	2.525	2.403	1.471	1.533	1.591	1.775	1.701	1.057	**0.917**
27	Birmingham	1.146	1.140	0.881	0.766	0.674	0.629	0.650	0.654	0.726	**0.820**
28	St Petersburg	2.110	2.138	1.604	0.840	0.917	1.021	1.139	1.195	0.817	**0.796**
29	Athens	1.199	1.255	1.223	1.051	0.743	0.787	0.599	0.645	0.683	**0.769**
30	Bucharest	1.086	1.175	0.923	0.712	0.655	0.685	0.640	0.643	0.681	**0.744**
31	Bratislava	1.099	1.132	0.960	0.780	0.656	0.682	0.640	0.640	0.600	**0.664**
32	Sofia	0.915	1.029	0.864	0.630	0.633	0.575	0.577	0.537	0.575	**0.618**

Source: HVS – London Office

Note: Based on euro calculations

Winners and Losers

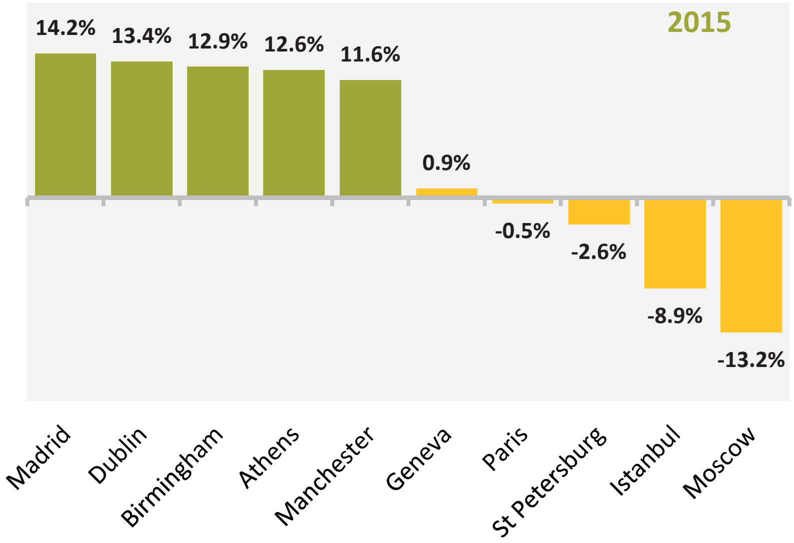
In 2015, Europe experienced a sixth consecutive year of hotel value growth. However, most markets are still below their previous peak, with some exceptions such as Paris, London, Copenhagen, Amsterdam and the German cities.

Whilst Madrid, Dublin, Birmingham and Manchester were already part of the value growth winners last year, Lisbon was replaced by Athens this year. Exceptionally, this year only four cities have experienced decreases in value (the same four worst performers of last year's HVI), resulting in Geneva being one of this year's 'losers' with almost 1.0% growth in value, and Paris with almost no change in value from last year. This is testament to 2015's remarkable performance.

Despite changes in value, Paris remains the strongest market of the index this year. In fact, the top five spots remained unchanged, though London and Paris are now really neck and neck. There are also limited changes at the bottom of the list, as strong 2015 performers like Athens are climbing from a low base and will need time to return to peak levels. Whilst Copenhagen is now above the European average, Istanbul has declined from 9th place in the ranking in 2014 to 12th this year.

Top and Bottom Five

PERCENTAGE CHANGE IN HOTEL VALUE IN EURO



Source: HVS – London Office

CHANGES IN VALUE

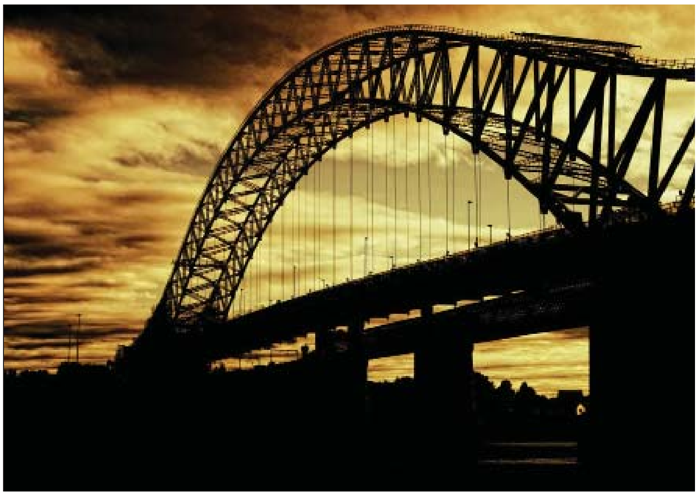
Strong Performers

Impressively, **Madrid** keeps the highest value growth position in Europe for the second consecutive year. The city continues its recovery following years of decline, yet there is more potential to grow as RevPAR is still significantly below its previous peak. Whilst Madrid's hotel supply has not changed significantly in the last year, an increase of almost 10% in visitors has led to growth in occupancy and even greater growth in average rate. The strengthened economy encourages growth both from domestic travellers, which represent about half of total visitors, and international demand, which is critical for a market that relies heavily on corporate and meeting, incentive, conference and exhibition (MICE) demand. Madrid made it to the top three of the International Congress & Convention Association's popularity index in 2015. On account of the overall growth of the market, hotel transactions in Spain have increased substantially in the last two years, with a focus on Barcelona and Madrid. The purchases in Madrid of the iconic Ritz, the Hostal Pereda and the Holiday Inn Bernabéu in 2015, as well as the planned opening of the W Hotel and the Four Seasons (both in 2018), are testimony to the ongoing appetite and promise for this key Spanish city.

And the Celtic Tiger keeps on roaring: with one of the strongest RevPAR increases in Europe in 2015 as evidence of strong investor appetite for this city, **Dublin** again maintains its privileged position. Visitation to Ireland increased strongly in 2015, and anecdotal evidence and hotel performance also point to strong demand. This, coupled with a limited pipeline (for the moment at least), keeps the momentum going for this market. Having said that, the city is expecting an additional 5,000 rooms to enter the market in the next five years. Tiger, keep it up!

Birmingham and **Manchester** also keep on counting their lucky stars and, by the same token, are maintaining the interest of investors. In these two thriving UK secondary cities, average rates were the main drivers behind very solid RevPAR growth in 2015, both assisted by a successful Rugby World Cup. Birmingham has seen increased visitation levels, driven by effective promotion as a major event destination in

MANCHESTER CONTINUES TO ATTRACT MORE LEISURE DEMAND



the UK. A £600 million redevelopment of the city's New Street railway station and an extension of the runway at Birmingham Airport in 2015 are expected to help increase its connectivity. Currently, there are 11 hotels at various stages of planning or construction in Birmingham.

In the meantime, investors continue to have a strong appetite for Manchester, with an additional 800 rooms added to the city in 2015, and seven more hotels expected over the next two years. From its former life as an engine room of the Industrial Revolution, the city's new persona is that of an art and culture city, attracting more leisure travellers. Backed up by a strong sporting heritage and annual events such as the Christmas markets, Manchester is a clear example of the successful reinvention of a city.

There was another return from the ashes, as **Athens** shows double-figure value growth in this year's index; strong RevPAR recovery, albeit from a very low base (and still miles away from peak years), is the result of both a subdued pipeline and the strong return of visitors to the country and its capital (passenger numbers to Athens surpassed those of 2007). From an investor perspective, there is clear upside potential in this market, provided they are comfortable with the levels of economic and political stability going forward... However, the strong fundamentals of this city point to a certain recovery, such as is already shaping other Mediterranean markets in our index.

CHANGES IN VALUE

Challenged Markets

All in all, 2015 was a very positive year for the European hotel market, which experienced value growth and recoveries for many cities. This led to the rather unusual situation whereby cities with low growth are classified as 'challenged' markets. This is the case for **Geneva**, with 0.9% growth in values, but classified as the fifth worst performing market. This is the result of the unpegging of the euro/Swiss franc in January 2015, which directly impacted tourism visitation and thus overall hotel performance in Switzerland. The proximity of Geneva to France resulted in many tourists visiting Geneva staying overnight in France, which meant lower RevPAR in 2015. Although economy and midscale hotels still face competition from France, the recent strengthening of the euro against the Swiss franc is expected to help drive demand for the city.

Paris has had a challenging 2015: despite a reasonable recovery from the Charlie Hebdo attack in January, the 13 November atrocity further hindered year-end results. Our view is that recent events are only likely to dent the perception of this city as both a tourist and investor hotspot for a limited amount of time and to a minimal degree. The attractiveness of Paris from so many different angles will surely rapidly outweigh security concerns. However, these attacks are certainly a reminder of the increased urgency for the hotel industry to be prepared to tackle 'Black Swan' events such as these.

DUBLIN ENJOYED ONE OF THE STRONGEST REVPAR INCREASES IN EUROPE

MADRID HAS HIGHEST VALUE GROWTH IN HVI. AGAIN.

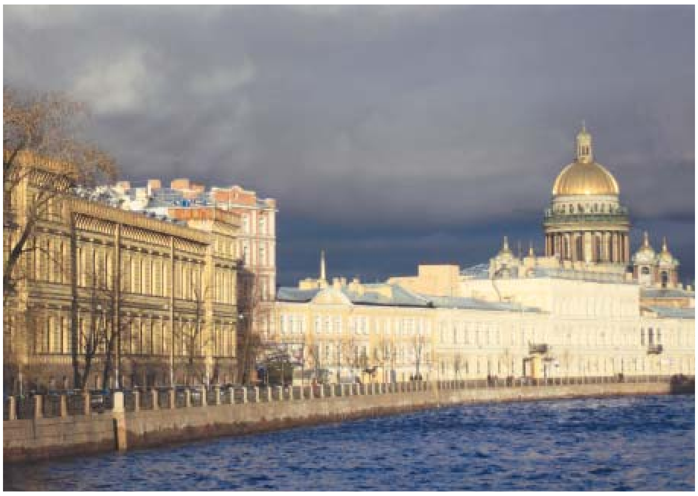
In 2014, **Moscow** and **St Petersburg** experienced severe losses in room values owing to political turmoil, international sanctions, currency devaluation and falling oil prices, which affected hotel performance. If only we could give better news this time. Since then, however, the picture has been mixed. Both cities, especially St Petersburg, have seen some recovery in terms of visitation and hotel occupancies, as the devalued rouble boosted domestic travel. The stronger increase in occupancy in St Petersburg was due to the city's attractiveness to international and domestic leisure guests alike. On the other hand, Moscow is mainly a MICE- and business-driven city and, given the ongoing difficulties faced by the country, the market recorded slower growth in occupancy. Average rates are still fragile, with both cities experiencing drops over last year. Over the last few months, the worsening decline in oil prices hurt forecasts of GDP growth and consumption, and EU sanctions over Russia have been prolonged until July 2016, which doesn't help. On the positive side, the country will be hosting the FIFA World Cup football championships in 2018 and cities such as Moscow are currently developing their infrastructures to accommodate the increase in tourists. St Petersburg's airport has been reconstructed while regional authorities are building roads for the World Cup that should improve links between city neighborhoods. In total, it is estimated that around US$10 billion will be invested in the country in light of the tournament. We consider it difficult to see any material improvement in values for anywhere other than the two main Russian cities.

Until not long ago, **Istanbul** (and Turkey as a whole) was the darling of investors. No longer. Though recognised as a popular tourism destination, Istanbul has been a troubled market in recent years, firstly owing to economic challenges and more recently to terrorism attacks in the city and across the country, which damaged consumer confidence. The end of 2015 also marked political disputes between Russia and Turkey, and resulted in Russian sanctions over Turkish goods and raw material, hurting the overall economy. With Russia the second strongest source country for Turkey's tourism, the pain is likely to continue well into 2016 – and possibly beyond. Although Turkey's economy is expected to experience some growth, investors still view the country's investment potential as risky. The healing process might require more time yet.

Most and Least Volatile Cities

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 also might be 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 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 94%, which means that hotel values are 94% 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 (Europe).

ST PETERSBURG IS THE MOST VOLATILE MARKET SURVEYED



The following chart shows the five most and five least volatile European cities over ten years (2006-15) in local currency (to remove the impact of currency fluctuation).

MOST AND LEAST VOLATILE CITIES

Rank	Most Volatile	Index	Rank	Least Volatile	Index
1	St Petersburg	197%	32	Berlin	-45%
2	Athens	127%	31	Hamburg	-29%
3	Prague	94%	30	Copenhagen	-22%
4	Sofia	90%	29	Paris	-22%
5	Dublin	89%	28	Brussels	-21%
	Europe	0%			

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

Most of the cities featured in the table are similar to those presented in last year's HVI. However, we note the shift in position of Sofia to the fourth most volatile market and the entry of **Dublin** as the fifth most volatile market.

Given their recent setbacks, **St Petersburg**, **Athens** and **Prague** are still the most volatile markets, although they are slowly recovering from their recent economic performance. On the other hand, **Berlin**, **Hamburg** and **Copenhagen** are again the most stable markets.

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 cities. Additionally, our index allows us to rank each market relative to a European average. 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 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 EBITDA less FF&E Reserve for a typical upscale hotel in each city. In determining the valuation parameters relevant to each of the 32 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 2015 is therefore reflected in the capitalisation rates used and investment yields.

The HVI assumes a date of value of 31 December 2015. 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, we have attempted to remove all aspects of distress when analysing transactions and assessing the opinions of value. 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, if the index for Paris was 4.000 (€694,948/€173,737), the value of a hotel in Paris would be four times higher than the European average in 1993.

Outlook

2015 was a vintage year for the hotel industry in Europe (and further afield). Despite an undercurrent of concern for 2016, we consider 'cautious optimism' should do the trick this year. Yes, the context might be challenging, but there is still abundant equity in most markets, and debt is still inexpensive. Hence, pension funds, sovereign wealth funds and private equity investors should still find European hotel real estate attractive compared to other forms of investment.

We envisage this to be a strong year in terms of transactions (unlikely though to reach the levels of 2015), but also mired in potential challenges. Strong performance recovery across most of the cities in our survey in 2014-15 is likely to lead to more modest occupancy and rate growth in key markets, though secondary cities still have some ground to cover to return to peak levels. Also, although values per room remain, on the whole, around 8-10% lower than those of the 2006-07 peak, expecting a recovery to those levels seems, at best, unrealistic, given the current economic environment. Geopolitical instability in parts of Europe, immigration, the threat of deflation and sluggish economic growth are all very real concerns nowadays. Regardless, some investors' horizons have shortened, driven by strong demand for hotel acquisitions; this trend to early exit might continue as long as strong demand remains, resulting in a sustained number of assets available for transaction.

The increase of interest rates also looms in Europe, and is already on its way in the USA, which foretells the end of cheap money. And what will happen with Asian and Middle Eastern investment? Quite controversial views can be found in that regard. On the Chinese side of the equation, whilst some view the deflation of the renminbi and its new global profile (it is now part of the IMF basket of currencies) as a clear opportunity for a Chinese investment boom in Europe as investors seek to safely park their money away from their home country, others worry that the economic slowdown in China might instead dampen investment. In the short term, the former seems more probable. Likewise for Middle Eastern investment: despite declining oil prices, substantial oil reserves should allow for overseas real estate investment to continue, at least in the short term.

In addition to this, OTAs, consolidation and Airbnb continue to drive the debate, and will certainly carry on keeping us on our toes during the course of 2016 as we try to anticipate the impact of all these trends on hotels, be they branded or independent, urban or resort, boutique or MICE-oriented.

Generally speaking, there is a prevalent feeling that the hotel industry could reach the peak of the current investment cycle in the next few years, and hence a somewhat different investment climate might be waiting for us in 2017 and beyond. Clever investors will need to keep eyes wide open and remain vigilant in this ever-changing arena.

– HVS –


St. Petersburg
28th | -2.6%
Stockholm
13th | +8.7%
Moscow
26th | -13.2%
Edinburgh
10th | +10.7%
Dublin
16th | +13.4%
Manchester
22nd | +11.6%
Copenhagen
11th | +8.9%
Amsterdam
6th | +8.6%
Hamburg
17th | +5.3%
Birmingham
27th | +12.9%
Warsaw
23rd | +2.4%
Brussels
21st | +3.5%
Berlin
18th | +8.1%
London
2nd | +2.9%
Prague
20th | +9.4%
Frankfurt
15th | +8.6%
Paris
1st | -0.5%
Munich
8th | +3.7%
Zürich
3rd | +0.9%
Bratislava
31st | +10.7%
Vienna
19th | +5.3%
Bucharest
30th | +9.3%
Budapest
24th | +8.0%
Geneva
4th | +0.9%
Lisbon
25th | +11.1%
Milan
7th | +10.1%
Madrid
14th | +14.2%
Barcelona
9th | +10.9%
Istanbul
12th | -8.9%
Sofia
32nd | +7.5%
Rome
5th | +4.5%
Athens
29th | +12.6%

HVS

About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming and leisure industries, celebrated its 35th anniversary in 2015. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.
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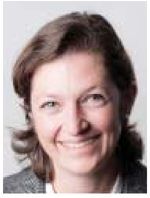
With offices in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 4,000 hotels or projects in more than 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, 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.

For further information about the services of the London office, please contact Sophie Perret, director, on +44 20 7878 7722 or sperret@hvs.com.

About the Authors

Constance Biria is a consulting & valuation analyst with the HVS London office. Before graduating with an MSc in Management from London Business School, Constance received a double BSc (Hons) in International Hospitality Management and Finance from Glion Institute of Higher Education. Prior to joining HVS in 2015, she gained exposure in European luxury hotel operations and also worked in commercial banking and consulting. Recent assignments at HVS include hotel feasibility studies, valuations and market overviews for European and African markets.



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, and is responsible for the development of HVS's business in France and the French-speaking countries, as well as Africa. Sophie completed an MSc in Real Estate Investment and Finance at Reading University in 2014, and is in the process of becoming a RICS certified surveyor.

Additional input: Simon Hulten, Analyst

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