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MARCH 2024

HVS 2024 EUROPEAN
HOTEL VALUATION INDEX

Clemence Sennavoine
Associate

Julia Dzerkach
Associate

Sophie Perret, MRICS
Managing Director

HVS London Office
30 Crown Place
London EC2A 4EB

HVS.com

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Highlights

Yes, 2023 has been another ‘never-a-dull-moment’ year in Europe, for both good and bad. Some of the key highlights of this eventful year are presented below.

- Geopolitical challenges multiplied, with no progress on the Ukraine war front, the start of a war between Israel and Hamas in October, a shaky Chinese economy, and the simmering Red Sea conflict endangering trade routes and supply chains – which could ultimately stoke inflation all over again;
- Against this backdrop, however, the desire to travel didn’t waver. Eurostat reported close to 3 billion overnight stays in the EU in 2023, a 1.6% increase on the 2019 numbers and a record high. International visitation was key to this increase as, for the first time post-pandemic, it recovered to 46-47% of total visitation, the share that was typical before the pandemic;
- Hotel demand thrived in 2023 and continued unabated off the back of the strong recovery that had started in 2022. Leisure continued to be the main driver, although group events have recovered and finished the year at around 80-90% of pre-pandemic levels. Whilst occupancy levels are yet to fully recover across many markets, average rates continued to increase in real terms, surpassing inflation, and often placing RevPAR levels above those of 2019 in real terms. The concern of the day is the sustainability of rate levels in some markets and for luxury hotels in particular;
- Inflationary pressures eased and started to come under control across Europe during the course of the year. The European Central Bank indicated that growth in negotiated euro-area wages had slowed to 4.5% by the end of 2023. Strong increases in room rates (for those hotels well placed to yield rates) resulted in overall reasonable rooms profit margins, but lingering high expenses in the F&B space, and reticence from clients to splash out on food and drink, led to a general deterioration of these margins;
- Interest rates went through a period of ongoing increases during H1 2023, as central banks attempted to tame inflation. Whilst inflation started ebbing off towards the latter part of the year and fears of a recession somewhat subsided, hotel investment remained depressed. Transaction volumes declined by 18% year-on-year, delivering the lowest overall investment amount in a decade (excluding 2020). Those expecting distressed sales were, again, disappointed;
- Despite the many geopolitical and economic challenges in Europe throughout 2023, most European hotel markets managed to achieve a strong performance, yielding modest, yet noteworthy, value gains.

The European Investment Landscape

Following the continuing increases in the cost of debt in the first half of 2023, as well the persisting macroeconomic challenges caused by the rising geopolitical tensions, the bid-ask spread for hotel sales and acquisitions remained wide, resulting in subdued European hotel transactional activity in 2023 (please refer to our sister publication *2023 European Hotel Transactions* for more details). Some of the highlights for the year were as follows.

- With 17 fewer transactions than 2022, European hotel investment volume reached €10.7 billion, recording a 19% year-on-year decrease. These dynamics took the investment landscape further away from recovery, with the 2023 transaction volume representing only 40% of the pre-pandemic amount;
- Despite the 2023 single-asset transaction volume decreasing by 17% and the volume of portfolio transactions declining by 24%, the 2:1 ratio (single-asset against portfolio transaction volume) remained similar to the one recorded throughout the last four years. The most notable single-asset transactions included the sale of the 428-room Westin Vendôme Paris (€325 million or €759,000 per key) in February, the 96-room Six Senses Rome (€245 million or €2.6 million per key) in October and the 120-room Mandarin Oriental Barcelona (€200 million or €1.7 million per key) in July. The most outstanding 2023 portfolio transaction was the acquisition of 17 Spanish hotels by Abu Dhabi Investment Authority for an undisclosed sum in June, which consisted of six Meliá hotels, eight Tryp hotels and three Sol hotels;
- The two hottest markets were Spain and France, which together accounted for almost €4.7 billion, or nearly half (44%) of the total European volume in 2023. The volumes of the two markets each grew by 21% over 2022 levels;
- Amidst buyers, REICs, Hotel Operators, Institutional Investors and Hotel Investment Companies were highly active with 83% of the total transaction value in 2023. Institutional Investors and Hotel Operators were the largest net buyers, collectively acquiring €2.7 billion more than they sold. The largest net sellers were Private Equity funds, with 630 million in net disposals;

- European investors remained the most active in both acquisitions and disposals, representing 75% of the transaction volume in 2023. Most notably, acquisitions by North American investors dropped heavily, decreasing from 12.8% of total acquisitions in 2022 to 2.2% in 2023. Conversely, Middle Eastern investors seized the opportunity, acquiring nearly €1.7 billion worth of hotels, compared to only €289 million in 2022;
- Paris dethroned London as the most liquid hotel market in Europe, standing at €914 million, a 22% year-on-year increase in transaction volume. The most notable change, however, was the strong decline in hotel investments in London. Albeit being the second most liquid market in Europe, London's hotel investment volume dropped by nearly €889 million in a year, coming down to just under €865 million in 2023. Madrid completed the podium with a total transaction volume of close to €500 million, but still a 42% decline compared to the previous year.

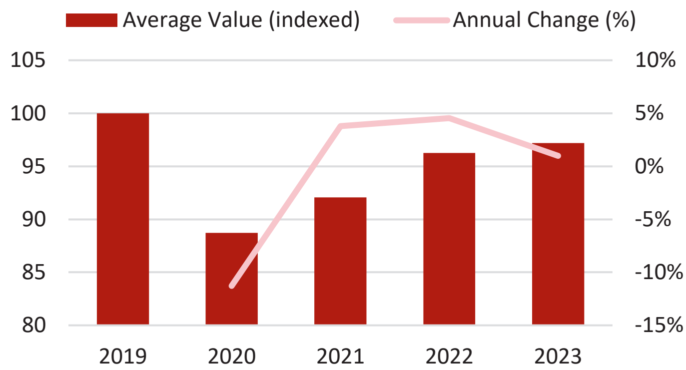
Recovery in European Hotel Values in 2023

We continue to track a large sample of hotels that we value regularly. We compared the value changes for these properties from 2019 to the end of 2023 and indexed the values for this sample to 2019, for reference, as presented in the following graph.

Values declined, on average, by around 11% in 2020 owing to the pandemic. They then started recovering in 2021, with an uplift of around 3.8%, and a further improvement of around 4.5% in 2022. The value recovery in 2023 was only 1.0%. Some of the key drivers for this change were as follows.

- Driven by both continuous recovery in hotel demand and increases in average rates, RevPAR growth led to improved hotel revenues. Strong rooms revenues helped to protect profit margins, despite less flamboyant results in ancillary revenues such as F&B. Wages remained elevated but started to stabilise, as did energy costs;
- Throughout 2023, high interest rates continued to negatively impact discount rates, as expectations of declines in the cost of debt only materialised towards the end of 2023. High discount rates, coupled with still comparatively elevated yields, mostly offset the upside in value that strong revenues and profits could have generated;
- Revenue and profit recovery still resulted in marginal gains in value over the year, despite the still negative outlook on valuation parameters.

Percentage Change in European Hotel Values
VALUATIONS OF THE SAME SET OF HOTELS FROM 2019-23

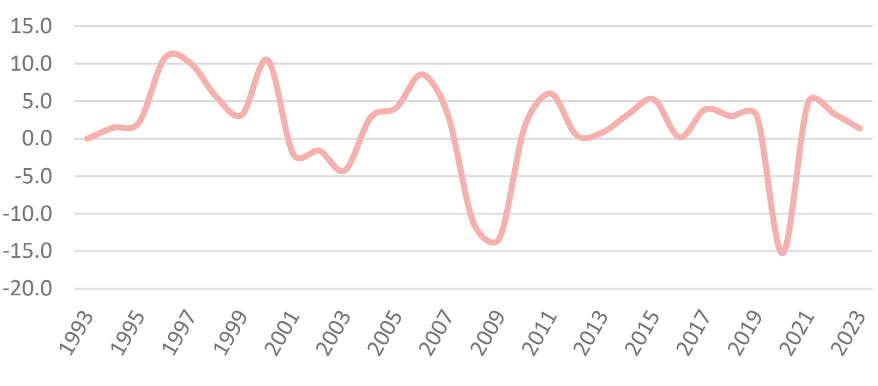


Source: HVS London Office

The 2023 values per room were, however, still only 97% recovered compared to the 2019 benchmark.

The table on page 4 shows the annual percentage change in hotel values, based on euro calculations, in each of the 33 cities covered by our survey, along with the overall average across Europe. Athens enjoyed the strongest double-figure value growth, generated by a strong RevPAR performance as well as high investor appetite; this market remains good value compared to most European gateway cities. Other European markets that experienced value increases of between 3% and 5% included Florence, Dublin, Brussels, Barcelona, Paris, Madrid and Lisbon. Rate increases were the main drivers for these improved values. Values in the Eastern-European markets like Bucharest, Budapest and Bratislava recovered

30-Year Trend in European Hotel Values
PERCENTAGE CHANGE PER ANNUM BASED ON EURO



Source: HVS London Office

more modestly, while German markets – such as Berlin, Hamburg and Frankfurt – suffered from a value decline as important demand drivers like fairs are yet to fully recover. At the same time, currency fluctuations resulted in lower values in markets like Istanbul and Stockholm. Overall, most markets remained below the 2019 benchmark, with only Amsterdam, Athens, Dublin and Paris having fully recovered to pre-pandemic values.

We highlight that for Moscow and St Petersburg, value changes remain highly indicative, given the dearth of transactional activity in Russia and the economic sanctions in place as a result of the war in Ukraine, and need to be considered in light of these heightened uncertainties. Moreover, visibility over these markets has diminished with the departure of brands and the subsequent decline in the number of hotels that report their performance.

The table on page 5 shows the annual percentage change in hotel values for those cities outside the Eurozone, based on their local currency. Local currency dynamics and fluctuating exchange rates will result, at times, in a very different expression of value changes when looking at the performance in local currency or in euro. The chart on page 5 shows the regional changes in values per room based on euro calculations.

The table on page 6 presents the Hotel Valuation Index for each of the cities and the overall average for Europe, again based on euro calculations. The aggregates on a per region basis might mask some of the differences across markets. For example, German markets were impacted by challenging economic prospects at home, whilst Eastern European markets continue to experience a slower recovery, partly caused by the long shadow of the ongoing war in Ukraine. Southern Europe, on the other hand, saw markets such as Lisbon, Athens and Rome benefit from very strong top-line performances in 2023, thanks to the continued influx of leisure demand.

Having peaked in late 2022, inflation levels softened in 2023; the outlook remains positive, with an expected stabilisation of inflation levels by 2025. Across our sample of 33 cities, we have adopted a consistent view on inflation, based on euro, at 3.5% for 2024 and 2.0% from 2025 onwards.

Hotel Values

PERCENTAGE CHANGE IN HOTEL VALUES IN EURO

Market	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	CAGR[1] 2013-23
Athens	7.6	5.9	12.6	10.6	11.0	5.7	10.0	-18.2	5.1	11.6	**11.2**	6.2%
Warsaw	-6.4	-7.0	2.4	10.1	8.6	-0.7	-4.7	-20.5	2.2	3.7	**5.3**	-0.4%
Zürich	1.9	6.6	0.9	-6.2	-0.4	0.6	2.0	-12.8	4.3	1.2	**5.0**	0.0%
Florence	9.3	8.0	9.7	1.8	6.4	2.1	2.5	-17.5	5.8	4.9	**4.7**	2.6%
Prague	0.0	5.7	9.4	9.9	8.5	5.8	3.9	-18.8	4.0	1.8	**4.7**	3.1%
Dublin	6.6	13.2	13.4	15.5	2.7	5.6	0.9	-15.9	4.3	9.8	**4.3**	5.0%
Brussels	1.5	4.0	3.5	-6.7	10.6	6.7	7.0	-14.6	5.2	4.7	**4.2**	2.2%
Barcelona	5.0	6.3	10.9	13.8	7.1	-4.9	6.5	-12.8	6.0	3.2	**3.8**	3.7%
Paris	1.7	4.9	-0.5	-8.1	4.7	7.3	3.3	-11.7	6.8	2.1	**3.5**	1.1%
Edinburgh	2.5	7.3	10.7	-6.7	-0.7	0.3	-2.1	-13.6	5.1	5.0	**3.3**	0.6%
Lisbon	6.0	10.3	11.1	10.2	14.7	8.9	3.9	-17.1	5.3	9.3	**3.2**	5.6%
Madrid	-5.6	14.3	14.2	11.0	14.1	4.9	6.1	-15.3	6.4	4.9	**3.0**	6.0%
Vienna	-4.8	7.3	5.3	4.3	2.0	5.8	4.8	-18.2	3.6	4.2	**2.6**	1.9%
Milan	3.6	5.7	10.1	-3.7	4.4	4.5	6.5	-16.7	5.0	7.0	**2.3**	2.2%
Sofia	-6.8	7.1	7.5	16.0	9.9	5.9	2.3	-21.8	2.2	3.8	**2.0**	3.0%
Rome	2.3	3.7	4.5	0.5	2.3	5.3	2.4	-16.5	5.1	5.8	**1.7**	1.3%
Amsterdam	4.8	8.6	8.6	6.7	5.8	4.5	0.1	-10.3	3.1	7.2	**1.6**	3.4%
Manchester	0.2	13.5	11.6	-3.9	-5.8	-1.5	2.2	-14.2	7.2	3.2	**1.5**	1.1%
Copenhagen	4.9	9.1	8.9	7.8	2.2	2.9	-1.9	-12.2	5.0	2.5	**1.5**	2.4%
Bucharest	0.4	5.9	9.3	14.6	3.7	2.4	10.6	-20.6	2.2	4.6	**1.4**	3.0%
EUROPE	**0.8**	**3.2**	**5.2**	**0.2**	**3.9**	**3.0**	**3.0**	**-15.3**	**4.9**	**3.3**	**1.3**	**1.1%**
London	-0.0	8.5	2.9	-13.9	-2.5	1.2	1.7	-13.8	5.8	4.5	**0.9**	-0.7%
Birmingham	0.6	11.0	12.9	-6.8	-4.1	3.5	-0.5	-14.6	7.6	5.0	**0.8**	1.2%
Budapest	2.5	7.5	8.0	9.9	12.2	6.0	6.3	-19.7	2.8	5.4	**0.8**	3.5%
Bratislava	-0.0	-6.3	10.7	18.9	4.6	2.3	11.2	-19.7	2.7	8.9	**0.7**	2.9%
Geneva	-5.4	6.5	0.9	-4.0	-0.1	-3.5	2.4	-13.3	4.9	1.4	**0.5**	-0.6%
Berlin	-0.4	6.3	8.1	1.7	3.3	6.6	3.5	-11.8	5.0	5.2	**-0.2**	2.6%
Hamburg	2.2	6.7	5.3	7.8	3.0	-2.5	-0.1	-12.9	5.1	1.1	**-0.4**	1.1%
Istanbul	-11.0	-9.9	-8.9	-23.7	-3.4	4.3	17.3	-23.5	3.5	3.4	**-0.8**	-5.0%
Munich	6.7	7.8	3.7	-1.1	3.2	5.7	0.8	-12.6	4.4	6.5	**-1.6**	1.5%
Stockholm	0.2	1.5	8.7	5.0	-3.0	-4.3	0.8	-12.0	5.2	1.1	**-3.4**	-0.2%
Frankfurt	4.7	2.2	8.6	-2.0	4.0	1.3	0.3	-13.4	2.1	2.6	**-7.5**	-0.4%
St Petersburg	4.9	-31.6	-2.6	2.6	14.4	6.3	5.6	-22.1	4.6	-21.9	**-23.7**	-8.2%
Moscow	-4.2	-37.9	-13.2	5.5	11.5	8.2	-2.4	-21.2	6.1	-29.0	**-29.4**	-11.9%

[1]Compound Annual Growth Rate
Source: HVS London Office

Local Hotel Values

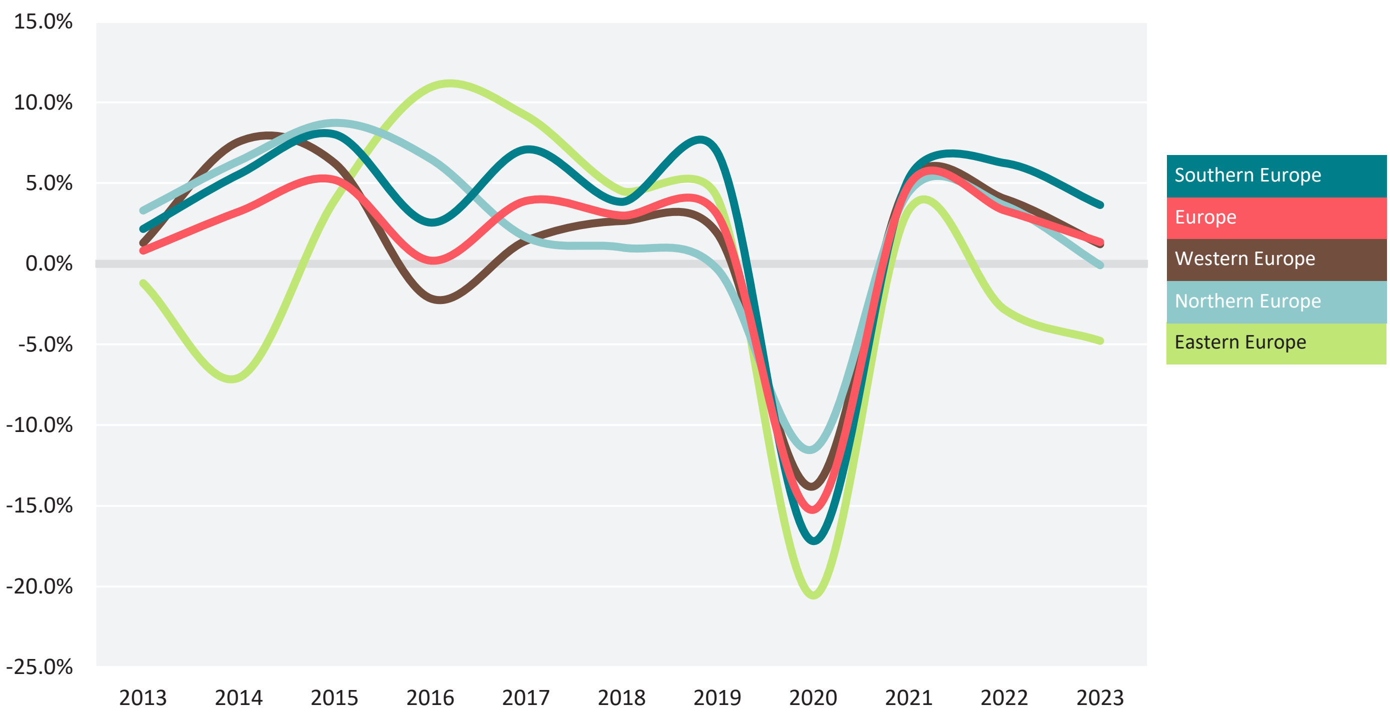
PERCENTAGE CHANGE IN HOTEL VALUE IN LOCAL CURRENCY

Market	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	CAGR[1] 2013-23
Istanbul	-2.4	3.9	-5.8	-15.3	18.7	44.7	31.0	-3.1	31.8	74.0	**74.0**	21.8%
Prague	4.4	10.9	8.3	9.0	5.3	3.2	4.0	-16.4	-1.4	-0.2	**4.3**	2.4%
Warsaw	-6.4	-7.4	2.5	14.7	6.1	-0.6	-3.9	-17.9	5.0	6.4	**2.1**	0.3%
Bucharest	-0.5	6.6	9.3	15.9	5.3	4.5	12.5	-19.1	3.9	4.8	**2.0**	4.2%
Sofia	-6.8	7.1	7.5	16.0	9.9	5.8	2.3	-21.9	2.2	3.8	**2.0**	3.0%
Copenhagen	4.9	9.1	8.9	7.7	2.1	3.1	-1.7	-12.3	4.8	2.5	**1.7**	2.4%
Stockholm	-0.7	7.1	11.9	6.2	-1.7	2.2	4.0	-12.9	1.9	9.5	**1.1**	2.7%
Edinburgh	6.0	2.1	-0.3	5.3	6.3	1.2	-2.9	-12.5	1.5	4.2	**0.4**	0.9%
Zurich	4.2	5.7	-12.1	-4.1	1.5	4.5	-1.7	-16.1	5.3	-6.0	**-0.3**	-2.6%
Manchester	3.6	8.0	0.5	8.5	0.8	-0.7	1.3	-13.1	3.6	2.4	**-1.2**	1.3%
Budapest	6.7	10.0	9.5	9.5	11.3	9.3	8.4	-2.6	-6.7	15.0	**-1.7**	6.0%
Birmingham	4.0	5.6	1.7	5.1	2.7	4.4	-1.3	-13.4	4.0	4.1	**-1.7**	1.4%
London	3.4	3.2	-7.3	-2.8	4.3	2.1	0.8	-12.7	2.2	3.7	**-2.7**	-1.0%
Geneva	-3.3	5.5	-12.1	-1.8	1.8	0.3	-1.3	-16.6	5.9	-5.8	**-4.6**	-3.1%
St Petersburg	11.8	-16.3	26.7	13.5	1.5	19.6	3.4	-11.6	10.6	-36.8	**-5.9**	-1.3%
Moscow	2.1	-24.0	12.9	16.7	-1.1	21.8	-4.5	-10.6	12.2	-42.6	**-12.9**	-5.3%

[1]Compound Annual Growth Rate
Source: HVS London Office

Year-on-Year Change

IN VALUES PER ROOM BY REGION 2013-23



Note: Based on euro calculations
Source: HVS London Office

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Hotel Valuation Index

2013-23

Market	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Paris	3.86	4.05	4.03	3.70	3.88	4.16	4.30	3.80	4.06	4.14	**4.29**
London	3.60	3.90	4.02	3.46	3.37	3.42	3.47	2.99	3.17	3.31	**3.34**
Zürich	2.89	3.08	3.11	2.91	2.90	2.92	2.98	2.60	2.71	2.74	**2.88**
Amsterdam	1.70	1.84	2.00	2.14	2.26	2.36	2.36	2.12	2.18	2.34	**2.38**
Rome	2.08	2.16	2.26	2.27	2.32	2.44	2.50	2.09	2.20	2.32	**2.36**
Geneva	2.46	2.62	2.64	2.53	2.53	2.44	2.50	2.17	2.28	2.31	**2.32**
Florence	1.79	1.94	2.12	2.16	2.30	2.35	2.41	1.99	2.10	2.20	**2.31**
Milan	1.64	1.73	1.90	1.83	1.91	2.00	2.13	1.77	1.86	1.99	**2.04**
Barcelona	1.40	1.49	1.65	1.88	2.01	1.91	2.04	1.78	1.89	1.95	**2.02**
Madrid	1.06	1.22	1.39	1.54	1.76	1.85	1.96	1.66	1.76	1.85	**1.91**
Euro Inflation	**1.51**	**1.51**	**1.52**	**1.52**	**1.54**	**1.57**	**1.59**	**1.59**	**1.63**	**1.77**	**1.87**
Munich	1.55	1.67	1.73	1.71	1.77	1.87	1.88	1.65	1.72	1.83	**1.80**
Dublin	1.03	1.17	1.33	1.53	1.57	1.66	1.68	1.41	1.47	1.61	**1.68**
EUROPE	**1.41**	**1.46**	**1.54**	**1.54**	**1.60**	**1.65**	**1.70**	**1.44**	**1.51**	**1.56**	**1.58**
Copenhagen	1.24	1.35	1.47	1.59	1.62	1.67	1.64	1.44	1.51	1.55	**1.57**
Edinburgh	1.34	1.44	1.59	1.48	1.47	1.48	1.45	1.25	1.31	1.38	**1.42**
Prague	1.00	1.05	1.15	1.27	1.37	1.45	1.51	1.23	1.27	1.30	**1.36**
Berlin	1.04	1.10	1.19	1.21	1.25	1.34	1.38	1.22	1.28	1.35	**1.34**
Hamburg	1.18	1.26	1.33	1.43	1.47	1.44	1.43	1.25	1.31	1.33	**1.32**
Lisbon	0.75	0.83	0.92	1.02	1.17	1.27	1.32	1.09	1.15	1.26	**1.30**
Brussels	1.03	1.07	1.11	1.03	1.14	1.22	1.31	1.12	1.17	1.23	**1.28**
Vienna	1.04	1.11	1.17	1.22	1.25	1.32	1.39	1.13	1.17	1.22	**1.25**
Stockholm	1.27	1.29	1.40	1.47	1.42	1.36	1.37	1.21	1.27	1.29	**1.24**
Frankfurt	1.22	1.25	1.35	1.33	1.38	1.40	1.40	1.21	1.24	1.27	**1.18**
Athens	0.64	0.68	0.77	0.85	0.94	1.00	1.10	0.90	0.94	1.05	**1.17**
Budapest	0.80	0.86	0.93	1.02	1.15	1.21	1.29	1.04	1.06	1.12	**1.13**
Istanbul	1.76	1.58	1.44	1.10	1.06	1.11	1.30	1.00	1.03	1.06	**1.06**
Warsaw	1.07	0.99	1.02	1.12	1.22	1.21	1.15	0.92	0.94	0.97	**1.02**
Manchester	0.85	0.96	1.08	1.03	0.97	0.96	0.98	0.84	0.90	0.93	**0.94**
Bucharest	0.64	0.68	0.74	0.85	0.88	0.91	1.00	0.79	0.81	0.85	**0.86**
Bratislava	0.64	0.60	0.66	0.79	0.83	0.84	0.94	0.75	0.77	0.84	**0.85**
Birmingham	0.65	0.73	0.82	0.76	0.73	0.76	0.75	0.64	0.69	0.73	**0.73**
Sofia	0.54	0.58	0.62	0.72	0.79	0.83	0.85	0.67	0.68	0.71	**0.72**
St Petersburg	1.19	0.82	0.80	0.82	0.94	0.99	1.05	0.82	0.85	0.67	**0.51**
Moscow	1.70	1.06	0.92	0.97	1.08	1.17	1.14	0.90	0.95	0.68	**0.48**

Note: Based on euro calculations
Source: HVS London Office

Outlook

The consolidation of the post-pandemic recovery, the persistent desire to travel, the taming of inflation (and a likely 'soft landing' of economies across the euro area, despite interest rates hikes) and the strength of average rates have all been bright spots in 2023, in what was otherwise a year of ongoing geopolitical challenges both near and far. As we look to the year ahead, these are some of the trends that could shape 2024.

- Markets started pricing substantial easings in **interest rates** from the end of 2023, despite cautious messaging from policymakers over lingering concerns on a return of price pressures. Whilst interest rates are expected to have peaked, and cuts are indeed expected over the next few months, the timing for these remains uncertain and markets are moving in line with central banks. This is, all in all, positive news given the volume of loans due for refinancing over the course of 2024;
- **Price stability** is expected to return and would indeed be welcome. Whilst average rates are expected to grow only modestly (and even potentially decline on aggregate, as demand from lower-yielding corporate and groups continues to recover), more normalised inflation levels and wage growth will help to manage costs and solidify profit margins. Further disruption caused by the Red Sea conflict could, however, mean a return of inflationary pressures if supply chains are disrupted;

- **Demand** is expected to remain robust. The cost-of-living crisis of late 2022 and early 2023 didn't dent the yearning to travel, and events such as the Olympics in France over the summer and blockbuster concerts such as the Eras Tour are expected to generate additional revenues for hotels in the markets hosting such events. However, climate change and war-related events will continue to impact visitation to the affected countries. Also, never have so many elections taken place in a single year: 2024 will be 'the year of the vote' and could witness diminished outbound travel from the affected countries – for Europe, fewer American travellers could be painful;
- Travel continues to increasingly be about the '**experience**'. This might revolve around leisure activities, wellness and holistic retreats (with the search for longevity creating new opportunities for hotels). Expect to see a continued appetite for blended indoor and outdoor spaces, and an ever-increasing focus on **sustainability**. The enthusiasm for concepts such as luxury glamping and destination resorts in remote locations is expected to continue;
- More visibility around the cost of debt and reduced inflation expectations will be welcomed by **lenders**. These more predictable conditions should result in increased flexibility to offer more competitive deals to existing and prospective clients – positive news in a year with significant numbers of loans due for refinancing; it could also hasten the pace of transactions for 2024. Furthermore, margins or interest cover covenants may have to reduce to allow financings to complete.

Conclusions

2023 was certainly a memorable year, to be remembered both because of the extraordinary average rate growth that drove hotel income recovery, but at the same time a year peppered with wars and climate-change events on a scale that we would not have imagined just a few years ago. Geopolitical challenges will continue to create uncertainty in the year ahead, but more stability in terms of price changes, and the prospect of declines in interest rates, coupled with modest RevPAR growth as demand volumes completely recover, should bode well for 2024.

Investors have, over the last few years, been subject to the mantra of 'wait and see' given the lack of visibility on the cost of debt or inflation. Still, substantial amounts of capital remain available for hotel investment, and current conditions should allow investors greater certainty that the required levels of return can be attained. Investment volumes can only go one way in 2024, given how low the bar was set in 2023. In the current environment, where concerns mount around the decline in real estate values driven by the increased cost of financing, hotels remain a strong investment option as a good hedge against inflation – as abundantly demonstrated in 2023.

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. 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 STR 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, debt coverage 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 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 2022 is therefore reflected in the capitalisation rates used and investment yields assumed.

The HVI assumes a date of value of 31 December 2023. 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.

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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 40th anniversary in 2020. 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 50 offices and more than 250 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. HVS.com

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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, managing director, on +44 20 7878 7722 or sperret@hvs.com.

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About the Authors

Clemence Sennavoine joined the HVS London office as a consulting and valuation intern in August 2022. She holds a Bachelor's degree in International Hospitality Management from Les Roches Switzerland. After completing her Bachelor's degree, she pursued a Master's at Glion in London, specialising in Real Estate, Finance and Hotel Development. Prior to studying at Glion, Clemence gained operational experience in both hotels and serviced apartments. Her primary responsibilities at HVS include valuations of single assets and hotel portfolios, feasibility studies and market research within the EMEA region.

Julia Dzerkach joined the HVS London office as a consulting and valuation analyst in July 2022. She holds a Bachelor's degree in International Hospitality Management from EHL Hospitality Business School Lausanne. Prior to joining HVS, Julia gained operational and administrative experience in the hotel industry in Switzerland. Her primary responsibilities at HVS include valuations of single assets and hotel portfolios, feasibility studies and market research within the EMEA region.

Sophie Perret, MRICS is the Managing Director of 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 valuation of hotels and especially portfolios throughout Europe. Sophie completed an MSc in Real Estate Investment and Finance at Reading University in 2014. Sophie is also a chartered surveyor and a member and registered valuer of the RICS.