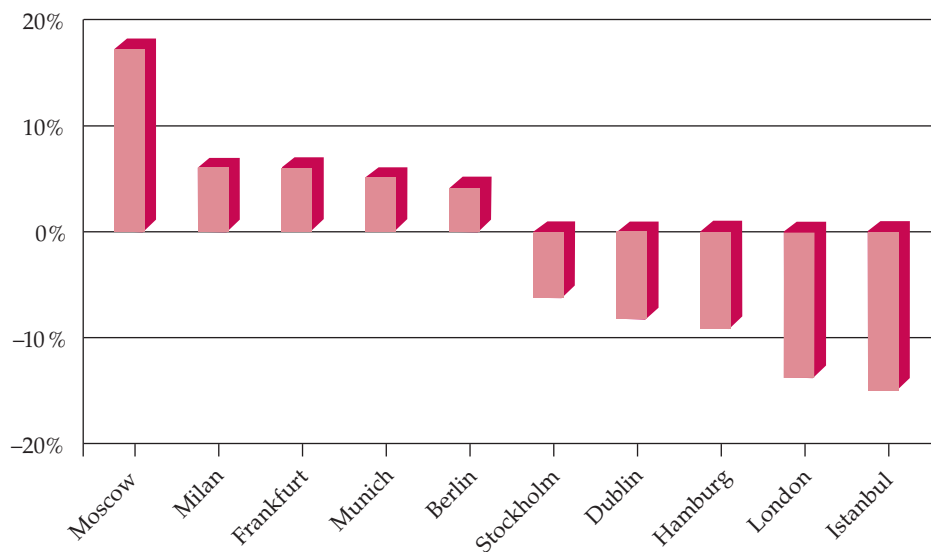


Highlights

- The European Hotel Valuation Index (HVI) shows that hotel values (expressed in local currency per room) decreased on average by 2.6% across Europe in 2001 compared with an increase of 7.8% in 2000, 2.0% in 1999 and 7.3% in 1998.
- The majority of European markets experienced a decline in rooms revenue per available room (RevPAR), led largely by a decrease in occupancy, while in the majority of European markets average room rates increased above the rate of inflation. The decline in values has been fuelled primarily by this decrease in RevPAR.
- Even before the events of 11 September, occupancy levels in many European markets had begun to decline as world economies began to slow down and the fear of a global recession hit.
- Hotels in Moscow recorded the highest growth in value per room in 2001 with an increase of 16.9%.
- Hotels in Istanbul recorded the largest decline in value per room in 2001 with a decline of 14.2%.

Table 1: Winners and Losers in 2001 – Top 5 and Bottom 5 markets – % Change in hotel value (local currency)



Source: HVS International

Introduction

The HVI is a sophisticated hotel valuation benchmark developed by HVS International. It monitors annual percentage changes in the values of, mainly, four-star and five-star hotels in 28 major European markets. Additionally, our research allows us to rank each market relative to a European average. In addition, the HVI reports the average value per room, in euro, for each market.

The methodology employed in

producing the HVI is based upon actual operating data from a representative sample of four-star and five-star hotels. The data are then aggregated to produce a pro forma performance for a typical 200-room hotel in each market. Based upon our day-to-day experience of real-life hotel financing structures, which arises from our in-depth knowledge gained during hundreds of assignments each year, we have determined appropriate valuation parameters for each market, including loan to value ratios, relevant

interest rates and equity return expectations. These market-specific valuation/capitalisation parameters are applied to the net income for a typical hotel in each city. In determining the valuation parameters relevant to each of the 28 European markets included in the HVI, we have also taken into account evidence of real hotel transactions and the expectations of investors with regard to future changes in supply, market performance and return requirements. Investor appetite for each market in 2001

is reflected in the capitalisation rate used in the HVI. The HVI assumes a date of value of 31 December 2001. Values are based on historical market performance but the capitalisation rates reflect the anticipated future trends in performance, competitive environment, cost of debt and cost of equity.

Changes in Value 2000-2001 (Local Currency)

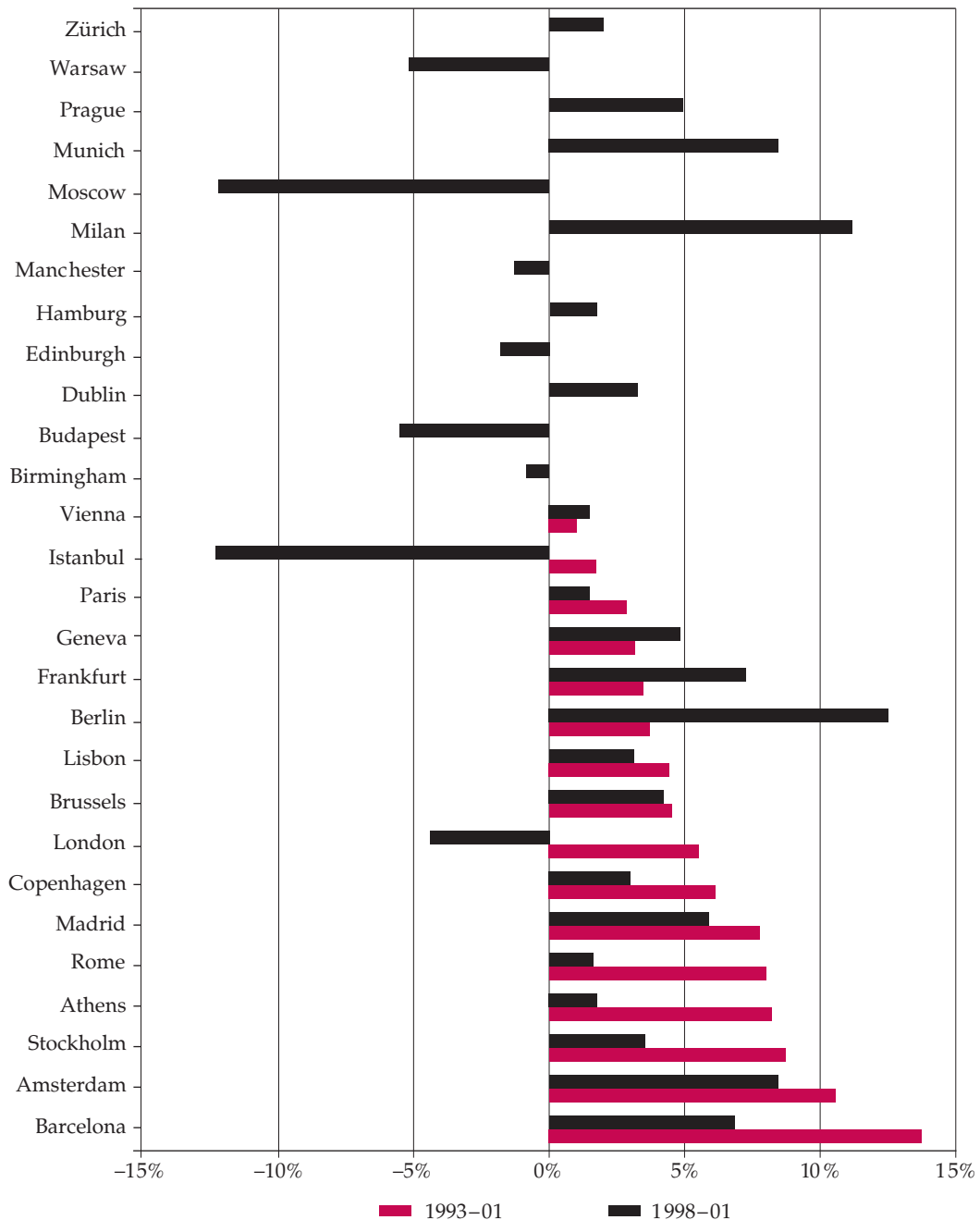
Our report shows that hotel values (expressed in local currency per room) declined by 2.6% across Europe in 2001 compared to an increase of

7.8% in 2000 and 2.0% in 1999. Even before the events of 11 September, occupancy levels in many European markets had begun to decline as a result of weakening economies. As the fear of a global recession set in, companies began cutting travel budgets. The events of 11 September added a second factor that caused a profound decline in all forms of travel, resulting in a further decrease in hotel occupancies and values across Europe.

The general decrease in value growth is demonstrated by the fact that 20 of the 28 cities experienced a decrease in value; two cities experienced a double-digit decrease in value. In 2000 only five cities experienced a decrease in value. Of the

28 cities in 2001, only eight showed an increase in value compared with 23 in 2000, with only one city showing a double-digit increase in value compared with 14 in 2000. Moscow, which has decreased in value in each of the previous three years, was the only market to achieve a double-digit increase in value, of 16.9%. Manchester, which showed a decrease in value of 5.1% in 1999 and 0.6% in 2000 recorded growth of 2.4%. Several markets that had showed double-digit or high growth in 1999 and 2000 recorded decreases in value in 2001, notably Amsterdam, Madrid and Prague. London recorded a double-digit decrease in value for the first time since our survey in 1993.

Table 2: Average Annual Compound Growth Rate 1993-01 and 1998-01 (Local Currencies)



Source: HVS International

Table 3: Hotel Values – % Change (local currency)

	1994	1995	1996	1997	1998	1999	2000	2001	Forecast		1993-01	1998-01	Forecast
									2002	2003			2001-03
Moscow	n/a	n/a	n/a	n/a	-16.5	-41.1	0.1	16.9	10.0	8.0	0.0	-42.4	38.9
Milan	n/a	n/a	n/a	n/a	18.0	11.4	16.1	6.6	7.0	5.0	0.0	62.7	19.8
Frankfurt	-1.9	2.8	-5.3	5.6	2.8	4.0	12.9	6.4	2.5	4.0	29.5	28.4	13.4
Munich	n/a	n/a	n/a	n/a	16.2	9.7	10.3	5.1	4.0	4.0	0.0	47.8	13.6
Berlin	-1.6	-1.8	-12.1	11.1	-0.1	15.0	19.9	3.8	3.0	3.0	35.0	43.1	10.2
Manchester	n/a	n/a	n/a	n/a	3.2	-5.1	-0.6	2.4	0.0	2.0	0.0	-0.4	4.4
Geneva	0.9	6.5	-3.2	0.1	5.9	11.6	2.3	1.4	2.0	3.0	27.7	22.6	6.5
Vienna	-5.9	4.3	-3.0	-3.3	11.8	0.7	3.2	0.1	5.0	4.0	7.1	16.3	9.3
Lisbon	0.2	0.1	11.5	2.6	13.4	-2.7	12.4	-0.1	3.0	5.0	42.3	24.0	8.1
Barcelona	-1.8	14.0	25.7	29.4	22.6	15.2	9.0	-1.5	-2.5	-2.5	176.2	51.7	-6.4
Birmingham	n/a	n/a	n/a	n/a	2.3	3.3	-3.4	-2.0	0.0	2.5	0.0	0.0	0.4
Madrid	1.9	5.5	9.6	17.5	11.5	9.7	11.5	-2.6	-2.6	-2.5	84.0	32.9	-5.0
Europe	2.6	6.5	8.4	12.3	7.3	2.0	7.8	-2.6	1.3	3.9	52.7	15.0	2.5
Athens	5.6	8.3	13.6	17.7	16.6	-1.7	10.7	-2.9	5.0	10.0	88.4	23.2	12.2
Rome	14.9	7.8	15.0	11.6	11.6	0.4	8.0	-3.1	3.0	5.0	86.5	17.3	4.8
Brussels	-6.7	4.1	5.6	13.3	8.4	2.5	15.3	-4.2	3.0	3.0	42.6	22.7	1.6
Zürich	n/a	n/a	n/a	n/a	11.4	4.6	6.2	-4.5	3.0	5.0	0.0	18.1	3.2
Prague	n/a	n/a	n/a	n/a	5.7	6.4	15.1	-5.1	1.5	5.0	0.0	22.8	1.1
Budapest	n/a	n/a	n/a	n/a	8.3	0.8	-10.6	-5.8	1.5	4.0	0.0	-8.1	-0.5
Edinburgh	n/a	n/a	n/a	n/a	-4.0	-3.2	4.7	-6.0	0.0	5.0	0.0	-8.5	-1.3
Copenhagen	7.8	3.4	12.2	15.0	4.8	7.3	8.2	-6.1	-5.0	0.0	64.2	14.2	-10.8
Paris	-2.2	-3.3	-8.6	22.3	11.3	0.4	10.4	-6.4	0.0	6.0	22.2	15.6	-0.7
Warsaw	n/a	n/a	n/a	n/a	6.4	3.0	-10.8	-6.5	-5.0	0.0	0.0	-8.7	-11.2
Amsterdam	6.6	11.4	16.6	13.4	11.4	13.2	21.9	-6.5	1.0	4.0	125.5	43.6	-1.8
Stockholm	9.1	15.3	17.4	9.0	12.5	7.8	10.5	-6.7	0.0	4.0	101.3	25.0	-3.0
Dublin	n/a	n/a	n/a	n/a	2.0	9.5	9.9	-8.5	-5.0	1.0	0.0	12.3	-12.2
Hamburg	n/a	n/a	n/a	n/a	3.2	4.8	10.1	-9.1	3.0	5.0	0.0	8.1	-1.7
London	12.7	16.8	16.6	15.3	-1.0	-2.5	5.0	-13.3	0.0	6.0	55.5	-12.2	-8.1
Istanbul	2.5	8.3	22.0	16.4	3.9	-28.2	11.0	-14.2	0.0	7.0	12.0	-29.0	-8.2

Source: HVS International

Interest rates are at an all-time low and are likely to decrease further. Despite a recent increase in margins associated with greater risk, the cost of debt remains very attractive. 2001 was characterised by a continued decline in base rates initiated by central banks in Europe and the USA following the events of 11 September and in response to slowing economies and a potential recession in the USA. Ten-year euro swaps in January 2002 were down by approximately 0.5% compared to January 2001. Equity yields tended to rise in the latter part of 2001 reflecting investors' concerns about the impact of the troubled US economy on Europe. On balance, capitalisation rates have remained stable, as at 1 January 2002, compared to the same time last year.

Hotels in **Amsterdam** enjoyed a particularly strong trading performance in 2000 thanks largely to successful exhibitions at the RAI and the country's hosting of the Euro 2000 Football Championships. Such a performance proved difficult to beat in 2001, with the hotel market hit by an economic slowdown and the outbreak of foot-and-mouth disease, further exacerbated by the

events of 11 September. Amsterdam saw a decrease in occupancy of over 8% in 2001 resulting in an overall decrease in value of 6.5% in 2001.

Hotels in **Athens** experienced a strong year in 2000; however, overall hotel performance was weaker during 2001. Athens' quality hotels achieved citywide occupancies of approximately 65% and average room rates of around Drs42,000. Athens' hotels experienced a decline in value of 2.9%, due largely to a decline in occupancy of 6.0%. There was an overall decrease in tourism demand in Greece in 2001. However, with Greece accepted into the EMU and with the 2004 Olympic Games on the horizon, the outlook remains positive and investment in the country's infrastructure continues apace. Major projects include the Eleftherios Venizelos Airport, the railway link to the capital and the redevelopment of the former Hellenikon Airport, which is to include a new conference centre. Hotel supply in Greece is undergoing change and consolidation. A scheme to convert the Greek grading system of hotels to the international five-star system is in progress. In Athens, hotel development is set to increase following

the lifting of a 14-year ban on hotel construction.

The strong performance of **Barcelona's** hotels in recent years has increased interest in new hotel developments, with a large number of new hotel projects currently under construction and due to enter the market in the next two to three years. The effects of 11 September will no doubt have an effect on demand in the short term. However, considering that Barcelona has a strong domestic demand base, we expect it to suffer to a lesser extent than other European cities. From 1995 to 2000 hotels in Barcelona experienced a consistently strong increase in value. However, in 2001, Barcelona saw a decrease in value of 1.5%. Although occupancies in Barcelona declined by 8.0%, average room rates increased by 12.0%.

After two years of double-digit growth in value **Berlin's** hotels showed moderate growth of 3.8% in 2001. The hotel market in 2001 slowed as the market came to terms with the increase in hotel supply and weakening demand as a result of a slowing economy and the events of 11 September. Nevertheless, by staging

successful events such as the Internationale Funkausstellung trade fair, Berlin has recorded strong average rate growth of some 6%. As the city continues to establish itself as the capital of Germany, some 600 new rooms were added to the market in 2001, increasing supply by approximately 1.5%. By the end of 2002, supply is likely to increase by a further 5% with the opening of six new hotels, predominantly in the budget or mid market sectors. Hotel occupancies are likely to fall further as it cannot be expected that the large increase in supply will be absorbed immediately.

Hotels in **Birmingham** experienced a decline in value of 2.0%, due largely to the recent increase in hotel supply in the market, including the 66-room Hotel du Vin.

Hotels in **Brussels** experienced an exceptional trading performance in 2000 thanks largely to Belgium's co-hosting of the Euro 2000 Football Championships. However, for Brussels' hotels, the trading performance in 2001 struggled in comparison. The softening of the European economies, exacerbated by the terrorist attacks in the USA, has impacted further on the Brussels hotel market. Brussels is vulnerable due to its exposure to Germany, the largest European economy, and its reliance on the conference sector. Brussels' hotels recorded a decrease in value of 4.2%, led largely by a decrease in occupancy and moderate growth in average rate. 2001 witnessed no new supply to Brussels' stock of hotels. Nevertheless, the gateway to new hotels is open following the government's lifting of the suspension on hotel construction. Hotel supply is likely to grow by 10% in 2002 with three hotels currently under construction: the 225-room Ibis Gare du Midi, the 224-room NH Hotel and the 218-room Marriott Hotel Centrale.

In 2001, hotels in **Budapest** saw a decline of 6.0% in RevPAR (expressed in US dollars), driven by a decline in occupancy of five percentage points. This resulted in a decline in value of 5.8% in 2001. Visitor arrivals in Hungary continued to decrease in 2001 as they had done over the last couple of years, resulting in declining hotel demand. This decline has been compounded by the events of 11 September. During 2000, at least 1,000 rooms were added to the quality hotel market in Budapest. Quality new supply increased by 1% in 2001 following the opening of the 71-room, four-star Hotel Andrassy and the 72-room

Central Hotel. Currently under construction are the 179-room Four Seasons Hotel at the Gresham Palace building, the 415-room Corinthia Grand Hotel Royal and the 230-room Novotel; all are due to open in mid 2002. By the end of 2003, hotel supply is set to increase further by around 15%. Another project currently at the planning stage is the Millennium City Centre Project. The development will include a 5,000-seat congress centre, a museum of modern art, a new national theatre, a casino, a thermal spa and residential and office space. There are also plans for between four and six hotels, providing a total of approximately 2,000 rooms, to be developed as part of the project. Costs for the project are estimated at US\$550 million with the expected opening planned for around 2005.

The **Copenhagen** hotel market experienced a decrease in occupancy of nine percentage points compared to 2000. Average rates increased by 8.5% resulting in a decrease in RevPAR and value. During 2001 Hilton opened a 375-room airport hotel, and Marriott opened a 395-room hotel in the centre of Copenhagen. In addition to these hotels, another 900 rooms are expected to enter the market between 2002 and 2003. It is rumoured that an additional 1,900 rooms will be entering the market in the following two to three years.

2001 will be remembered as a particularly tough trading year for Irish tourism and the hotel market, due to the outbreak of foot-and-mouth disease, the fall in the number of US visitors, as a result of a slowing economy, and the resultant uncertainty and fear following the terrorist atrocities of 11 September. 2001 saw the first drop in overseas visitor numbers in ten years, with Ireland expecting to end the year with a fall in visitation of up to 10%. Consequently, **Dublin's** hotels suffered a fall in occupancy of five percentage points, to 69%, resulting in a decline in value of 8.5% in 2001.

Hotels in **Edinburgh** experienced a decline in value of 6.0%, largely due to a 2% decrease in average room rates. Occupancies in Edinburgh are near capacity, at around 75%.

Hotels in **Frankfurt** recorded strong growth in RevPAR and value, which was led by an increase in average rate of 10%, compared with 2000. In 2001 the Frankfurt Messe was extended, and the year also saw the completion of a direct underground link to Frankfurt's main station. Although heavily dependant on

corporate demand, Frankfurt enjoys the largest proportion of international demand of major German cities. As a result, Frankfurt has been cushioned slightly from Germany's relatively poor economic performance compared to its European neighbours.

Hotels in **Geneva** recorded strong growth in RevPAR and value, which was led by an increase in average rate of 12.0%, compared with 2000.

Hotels in **Hamburg** experienced a decline in value of 9.1%, largely due to a decrease in occupancy of nine percentage points. The events of 11 September and the slowing of the German economy have had a significant effect on hotel demand, particularly on corporate demand, in the Hamburg market.

Until the terrorist attacks in the USA of 11 September, operating performances in Istanbul were positive, continuing the recovery which began in 2000 following the war in Kosovo, PKK terrorist threats and a major earthquake. The Turkish economy and the rise in the number of tourist arrivals provided an encouraging environment for the tourism industry in **Istanbul**. Turkey is now heading for the biggest contraction in its gross national product since 1945, and international travel has been dramatically curtailed due to the economic uncertainty and security fears. In September the number of visitors to Turkey rose by 5% compared with the same month of 2000. Yet arrivals from the USA in the same month were down by 38%. In 2001 Istanbul recorded a decline in RevPAR of 14% led largely by a decline in occupancy of nine percentage points, resulting in a decline in value of 14.2%.

Lisbon's strong hotel performance in recent years has increased interest in new hotel developments, where some 20 proposed hotels (3,000 new rooms) would increase the current capacity by approximately 30%. The country's hosting of the Euro 2004 Football Championships is likely to lead to further infrastructure developments in order to accommodate the expected deluge of visitors. Occupancy in Lisbon rose to a record level of 82% in 2000. Lisbon's recorded moderate growth in RevPAR and negligible decline in value, which was led by an increase of 8.5% in average rate, compared with 2000. The concerns about the Portuguese economy and significant new supply planned to enter the market over the next few years are countered by Lisbon's growing popularity as a conference and short-break destination.

Table 4: Hotel Value per Room in euro – 1993–03

	1993	1994	1995	1996	1997	1998	1999	2000	2001	Forecast	
										2002	2003
London	245,617	276,810	293,330	358,743	496,007	504,990	502,180	551,308	481,279	481,279	510,156
Paris	360,262	352,336	340,709	316,953	389,947	433,515	435,387	480,798	450,251	450,251	477,266
Milan	n/a	n/a	n/a	n/a	255,262	299,025	333,174	386,692	412,349	441,214	463,274
Zürich	n/a	n/a	n/a	n/a	290,675	319,572	336,866	357,671	371,852	383,007	402,158
Geneva	234,149	250,549	272,657	265,541	267,766	279,867	314,807	322,171	355,750	362,865	373,751
Rome	155,319	170,562	160,459	205,974	238,614	264,487	265,612	286,789	277,912	286,249	300,562
Amsterdam	122,574	130,897	145,949	170,177	192,981	213,762	241,923	295,299	275,523	278,278	289,409
Madrid	149,874	142,183	142,416	161,663	188,540	209,076	229,370	255,843	249,238	243,007	243,007
Edinburgh	n/a	n/a	n/a	n/a	245,165	241,935	238,926	261,603	247,672	247,672	260,056
Munich	n/a	n/a	n/a	n/a	158,574	183,805	201,704	223,051	234,324	243,697	253,445
Europe	148,415	150,664	154,286	168,510	191,954	203,031	210,755	232,821	228,432	231,810	241,153
Barcelona	85,399	78,074	84,504	110,015	141,299	172,308	198,575	216,445	213,201	207,871	202,674
Prague	n/a	n/a	n/a	n/a	134,533	136,485	160,409	209,487	208,411	211,537	222,114
Manchester	n/a	n/a	n/a	n/a	174,631	180,174	174,440	181,298	186,891	186,891	190,629
Berlin	134,394	132,243	129,863	114,150	126,866	126,796	145,828	174,780	181,489	186,933	192,541
Dublin	n/a	n/a	n/a	n/a	170,872	166,186	180,232	198,067	181,166	172,107	173,828
Frankfurt	136,758	134,160	137,916	130,606	137,920	141,829	147,541	166,502	177,093	185,948	191,526
Brussels	121,886	115,376	120,223	127,017	143,492	155,594	159,499	183,874	176,123	181,407	186,849
Stockholm	87,589	94,355	103,986	136,182	150,744	153,216	178,531	196,009	175,400	175,400	182,416
Birmingham	n/a	n/a	n/a	n/a	162,921	166,748	175,632	177,376	174,962	174,962	179,336
Hamburg	n/a	n/a	n/a	n/a	160,238	165,297	173,176	190,644	173,244	178,442	187,364
Budapest	n/a	n/a	n/a	n/a	143,425	149,045	165,972	168,319	166,305	168,799	175,551
Copenhagen	97,643	105,259	109,116	124,337	144,450	150,920	162,823	175,561	164,661	156,428	156,428
Vienna	153,557	144,497	150,496	145,934	141,970	157,959	159,090	164,110	164,310	172,525	179,426
Istanbul	100,258	100,896	96,454	123,435	165,709	165,276	131,060	164,991	148,456	148,456	158,848
Warsaw	n/a	n/a	n/a	n/a	144,352	147,349	149,048	150,784	147,802	140,412	140,412
Lisbon	102,966	98,029	95,877	108,879	112,256	127,098	123,684	139,034	138,940	143,108	150,264
Moscow	n/a	n/a	n/a	n/a	181,863	145,648	94,848	107,718	132,073	145,280	156,903
Athens	86,393	84,405	84,627	96,554	113,645	126,896	125,951	133,255	129,407	135,878	149,465

Source: HVS International

The recent events in the USA, and the subsequent impact on the UK hotel market, have somewhat overshadowed what was already a difficult year for the UK. An epidemic of foot-and-mouth disease, which began in February 2001, caused a downturn in the number of overseas and domestic visitors to both London and the UK. The terrorist atrocities of 11 September and the decline in the US and global economies have had a more significant impact on the London hotel market than the foot-and-mouth crisis, and this impact has the potential to last longer. The top end of the market in London has been particularly badly affected, although mid-market and limited service hotels have also been hit. In 2001 London recorded a decline in RevPAR of 13% led largely by a decline in occupancy of eight percentage points. This resulted in a decline in value of 13.3%. This is the first time London's hotels have recorded a double-digit decline in value since our survey in 1993.

The strong performance of hotels in **Madrid** in recent years has increased interest in new hotel developments, with

a large number of new hotel projects currently under construction and due to enter the market in the next two to three years. The effects of the events of 11 September will no doubt have an effect on demand in the short term. However, considering that Madrid has a strong domestic demand base, we expect it to suffer to a lesser extent than other European cities. From 1994 to 2000 hotels in Madrid also experienced a consistently strong increase in value. In 2001 Madrid saw a decrease in value of 2.6%. Although occupancy in Madrid declined by ten percentage points, average room rates increased by 12.0%.

After recording a decrease in value growth in 1999 and 2000, hotels in **Manchester** recorded moderate growth in value per room of 2.4%. During 2001 several important infrastructure developments were completed, including the International Convention Centre and a second runway at Manchester airport which greatly increased airport capacity. Despite an increase in hotel supply, including the 150-room Lowry Hotel, demand has been sufficiently high enough to allow

Manchester to register occupancy levels of 70%.

Milan hotels recorded the second-highest growth in value in our survey, at 6.6%. Until the terrorist attacks in the USA of 11 September, operating performances in Milan were extremely positive, recording RevPAR increases of 12% year-on-year. With Milan reliant upon US visitation and the European feeder markets, occupancies have since declined, but only marginally. The growth in value has been predominately driven by an increase in average room rates, which grew by 7.0%. In Milan, the 288-room Meliá Milano opened at the beginning of 2001. There are only two new properties under construction: the 117-room Park Hyatt and the 52-room Bvlgari hotel. Two hotels are extending their existing facilities. The high barriers to entry and the limited new competition, together with the stable demand, have allowed the city's hotels to increase their average rates without any significant drop in occupancy.

Hotels in **Moscow** achieved the highest growth in value in our survey, with an increase of 16.9%. More than two

and a half years after the 1998 financial crisis in Russia, occupancy rates in Moscow still fall short of the levels achieved in the mid 1990s. Nevertheless, trading performance has shown significant signs of recovery. While average room rates stagnated, occupancy levels in 2001 increased by ten percentage points compared to 2000. Despite hotels in Moscow enjoying growing domestic demand, the city remains vulnerable due to the increased global economic uncertainty and the fact that its share of international visitors provides the high-spending business. Furthermore the outlook remains cautious, with both Germany and the USA, its two largest source markets, in recession. In recent times, quality hotel supply has been on the increase in Moscow, and this trend is set to continue. The 218-room Hilton Bolshoi is expected to open shortly, thus putting added pressure on occupancies and average rates. Meanwhile the Intourist Hotel is due to be demolished and replaced by a new luxury hotel, the 288-room Hyatt. Furthermore, the 3,200-room Hotel Rossiya is due to undergo a major renovation, with plans to split the hotel into three different units. The renovation of the 983-room Moskva Hotel is expected. Competition in the market will therefore remain strong as new or renovated quality hotels open.

Hotels in **Munich** recorded strong growth in RevPAR and value, which was led by an increase in average rate of 12%, compared with 2000. This growth can be attributed to the opening of two new trade fair halls at the Neue Messe Riem. These openings, together with minimal supply growth, have been of benefit to trading at Munich's quality hotels.

Until the terrorist attacks in the USA of 11 September, occupancy levels at hotels in **Paris** showed a slight increase. Average room rates continued their upward progression with an increase of approximately 9%. As a result of the economic uncertainty and a sharp decrease in the number of international travellers, Paris has experienced difficult trading conditions since the terrorist attacks. Hotels in Paris recorded a moderate decline in RevPAR growth fuelled by a decrease in occupancy but an increase in average rate. This resulted in a decline in value of 6.4% in 2001.

2000 was a particularly good year for hotels in **Prague** due to the International Monetary Fund summit, which was held during September. Prague was also one of

nine cities awarded the title of European City of Culture 2000 by the European Union. Until the terrorist atrocities in the USA, the Prague hotel market had performed strongly in 2001. Despite Prague's enjoying strong domestic demand, the city remains vulnerable due to the increased economic uncertainty and the fact that its share of international visitors provides the high-spending business. Hotels in Prague saw a decline in RevPAR of 2.1% (expressed in US dollars), driven by a decline in occupancy of 5%, resulting in a decline in value of around five percentage points in 2001. A wealth of new hotel supply also entered the Prague market during 2001. This new supply included the 162-room, five-star Four Seasons, the 251-room, four-star Holiday Inn and the 32-room, five-star Liberty Hotel.

In **Rome** hotel occupancy levels remained around 75%, although they did experience a decline of around three percentage points compared to 2000. Average rates increased by 2.0%, resulting in a decrease in RevPAR and value. In 2000, hotel supply in Rome increased and this trend continued in 2001 with the opening of three additional hotels: the 70-room Hotel Splendide Royal, the 240-room Four Points Roma West and the 162-room Mövenpick Hotel Central Park.

Hotels in **Stockholm** enjoyed a particularly strong trading performance in 2000, with occupancies reaching 80%. Such a high level of performance proved difficult to beat in 2001, with the hotel market hit by an economic slowdown and the effects of the events of 11 September. Most affected were the top-end internationally branded hotels that have historically been very exposed to the US market. Five-star hotels in Stockholm saw a decrease in occupancy of five percentage points in 2001, resulting in an overall decrease in value of 6.7% in 2001.

Following a period of political unrest and EU sanctions in 2000, hotels in **Vienna** experienced a revival in trading performance at the beginning of 2001. Hotel occupancy remained stable at approximately 70%. However, the events of 11 September and the resulting increased economic uncertainty have had a negative impact on Vienna's hotel market. Vienna is very reliant on international tourism demand and its exposure to the US market, which accounts for some 15% of the luxury hotel demand. Hotels in Vienna recorded

moderate growth in RevPAR and value, which was led by an increase in average rate of 6.0%, compared with 2000.

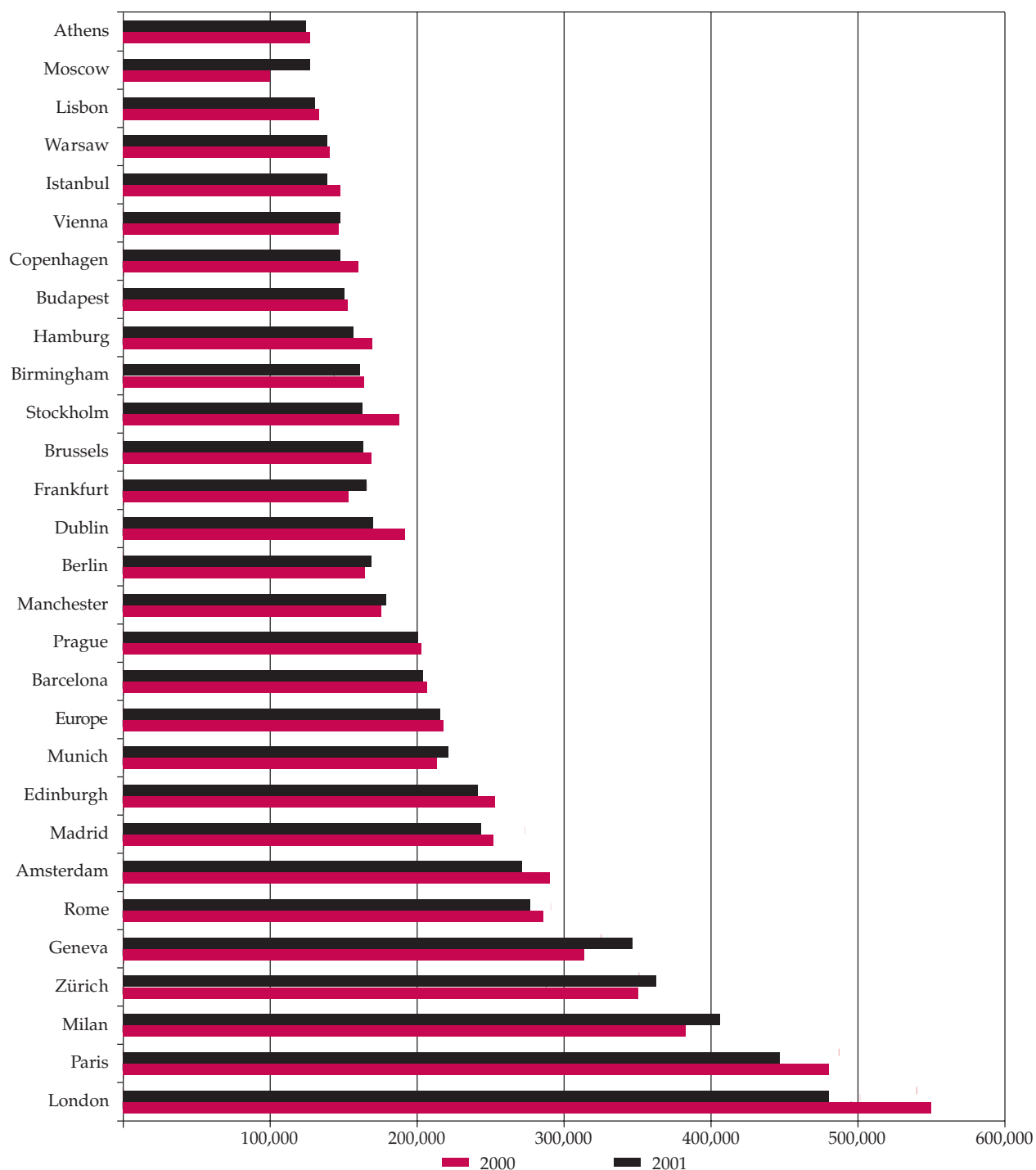
The **Warsaw** hotel market has seen reduced demand growth rates over the last few years. Demand for overnight accommodation during weekdays remains strong, although occupancy levels remain depressed due to the lack of demand at weekends and during non-business periods. Since 1998 the downward turn in marketwide occupancy and demand has been largely attributed to the Russian financial crisis of 1998. However, in recent times there have been tremendous additions to hotel supply in Warsaw, which has hindered the city's recovery. Warsaw recorded a decline in RevPAR of 12% (expressed in US dollars), which was caused by a decrease in both occupancy and average rate, resulting in a decline in value (expressed in US dollars) of 6.5% in 2001. Warsaw's hotel sector could indeed face a grave oversupply situation, with several hotel projects due to open in the next few years. These projects include the 250-room Hyatt Regency, a 310-room Radisson SAS, a 360-room Westin, a 406-room Inter-Continental hotel and several mid-market hotels. These new hotels will increase room supply in Warsaw by a further 2,500 rooms over the next two to three years. It is likely that over the next couple of years capitalisation rates will begin to increase: a reflection of the difficult trading conditions anticipated as a result of the entry of new hotels, resulting in a further decrease in hotel values in Warsaw.

In 2001 hotels in **Zürich** recorded occupancy levels of around 70%, although they did experience a decline of around seven percentage points compared to 2000. Average rates increased by 6.0%, resulting in a decrease in RevPAR of 2.5% and a decrease in value of 4.5%.

Hotel Values in euro

According to our analysis of values in euro (Table 4 and 5), hotels in London still have the highest value per available room (€481,279 PAR), followed by hotels in Paris, Milan and Zürich. Hotels in Geneva, Rome, Amsterdam, Madrid and Edinburgh continue to feature above the European average of €228,432 PAR. Munich appears above the European average for the first time. In contrast, values per room in Athens decreased by 2.9% in 2001 (€129,407 PAR) compared to an increase of 10.7% in 2000 (€133,255 PAR).

Table 5: Hotel Value per Room in euro – 2000 and 2001



Source: HVS International

Outlook

- Although we are starting to see a stabilisation in the performance of European hotels, post 11 September, hotel values are nevertheless likely to remain somewhat depressed for the next six to 12 months before they start to move significantly upwards.
- For 2002 we estimate that hotel values across Europe will experience moderate growth of only 1.3%.
- For 2003 we predict that hotel values will experience an increase of around 3.9%.
- In 2002 only five markets will experience a decline in value is mainly as a result of new hotel supply.
- Despite the problems caused by 11 September, interested purchasers of hotels still far outweigh the number of sellers.
- The cost of debt being at an all-time low remains one of the key drivers to invest in the real estate (and hotel) sector.
- In 2002 we predict that growth in hotel values in Moscow, Milan, Frankfurt and Munich will be above the European average.
- In 2003 we predict that growth in hotel values in Moscow, Milan, Athens and Istanbul will be above the European average.



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