

2004



European Hotel Valuation Index

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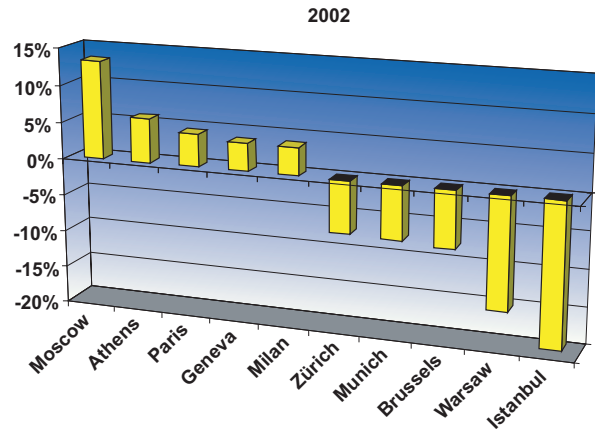
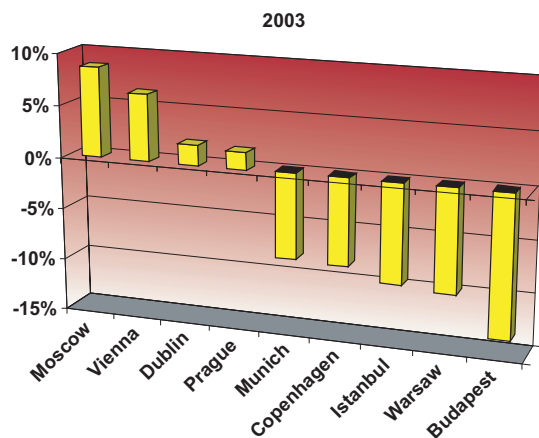
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Highlights

- The European Hotel Valuation Index (HVI) shows that hotel values (expressed in euro) decreased on average by 4% across Europe in 2003 compared with a decrease of 1.5% in 2002, a decrease of 2% in 2001, and increases of 11% in 2000, 4% in 1999 and 6% in 1998.
- The majority of the European markets experienced a decline in rooms revenue per available room (RevPAR), led largely by significant decreases in average room rate. However, the majority of the European markets experienced modest growth in occupancy.
- The decline in performance during 2003 can be attributed to the war in Iraq, the continued unfavourable global economic conditions that started in 2001, the outbreak of SARS and the continued threat of further terrorist attacks. These factors have caused a continued decline in international business and leisure travel (in particular among American and Japanese visitors) throughout Europe. The situation in many European markets has been compounded by the appreciation of the dollar against the euro, which makes Europe more expensive for US visitors.
- These adverse trading conditions have resulted in visitors becoming even more price sensitive, leading to significant declines in average room rate.
- In this year's HVI only four markets recorded growth in value per room in euro terms: Moscow (9%), Vienna (6.5%), Dublin (2%) and Prague (2%).
- However, whilst in euro terms declines were recorded in 2003, in sterling terms hotel values in UK cities rose by 5% in Birmingham, 6.5% in Edinburgh, 4% in London and 4% in Manchester.
- Similarly, in Swiss francs terms hotels in Geneva rose in value by 4.5% and decreased by 2% in Zürich.
- For the third year running, hotels in Moscow recorded the highest growth in value per room with an increase of 9%. Hotels in Budapest recorded the largest decline in value per room in 2003 with a fall of 14%.
- We envisage that some cities, especially the major international gateways, will show growth in hotel values in 2004 with further sustained growth in hotel values during 2005 and 2006 in almost all the cities in our survey.
- Those cities affected by significant growth in hotel supply – such as Warsaw, Budapest and Istanbul – will be the slowest to recover.

Tables 1 and 2 Winners and Losers 2002 and 2003 – % Change in Hotel Value (€)



Source: HVS International

Changes in Value

For the second year running, the values of hotels in London were exceeded by those of hotels in Paris. On average, hotels in Paris in 2003 were valued at €436,000 per room (€470,000 in 2002), compared with €430,000 per room in London (€457,000 in 2002).

Despite the continued decline in RevPAR in the majority of the European markets in 2003, single asset investment

activity was particularly impressive. This increased level of activity in 2003 compared to 2002 confirms the general consensus that the majority of hotel operating markets are at a turning point. Many European cities are at the bottom of their trading cycles, or showing the first signs of early recovery, and this is likely to stimulate increased levels of investment activity.

The general decrease in value is demonstrated by the fact that, on average, hotels in only four out of 28 cities experienced an increase in value (Moscow,

Vienna, Dublin and Prague); one city – Budapest – experienced a double-digit decrease.

Interest rates stood at an all-time low at the end of 2003. Despite a recent increase in margins associated with greater risk, the cost of debt still remains very attractive. 2003 was characterised by a continued decline in base rates initiated by central banks in Europe and the USA following the war in Iraq and in response to slowing economies. Ten-year euro swap rates in December 2003 were down by approximately 7% compared

to December 2002. Low interest rates and lower achieved equity yields as a result of lower net incomes resulted in lower capitalisation rates as at 31 December 2003, compared to the same time the previous year.

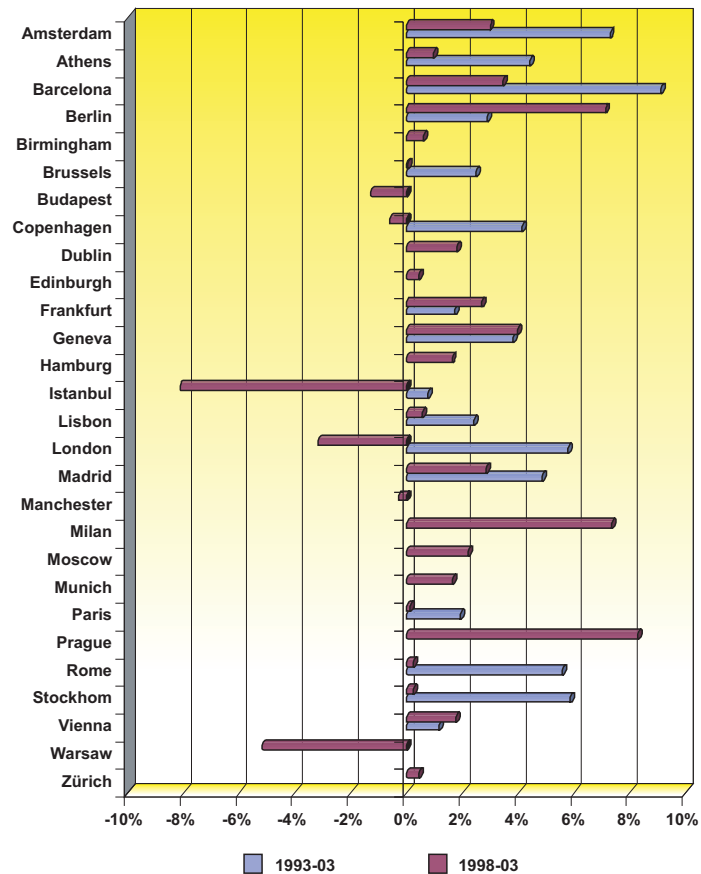
Although the war against Iraq is over, the uncertain economic outlook and the continued threat of terrorist attacks still seem likely to negatively impact European hotel markets in 2004. However, many European hotel markets have shown signs of early recovery in the first quarter of 2004, although it is unlikely that significant recovery will be experienced until the first half of 2005.

Hotels in **Amsterdam** continued to experience further declines in occupancy (three percentage points) and average rate (7%), contributing towards an overall decrease in value of 5%. Despite this decline in trading performance, Amsterdam is still one of the strongest hotel markets in Europe in terms of occupancy. New supply in Amsterdam continues to be constrained by the lack of sites and competition from the office market. During 2003 there were no significant additions to hotel supply in Amsterdam city centre; however, a 442-room, four-star Dorint Sofitel opened at Schiphol Airport. There are plans to add over 4,000 rooms to the greater Amsterdam hotel market in the next few years, although most of these projects are rather speculative at this stage. A 120-room, four-star Lloyd Hotel is currently under construction and scheduled to open in 2004.

In 2002 **Athens** was one of the few markets to experience an increase in value (6%). However, in 2003 hotels in Athens experienced a 3% decrease in value due largely to a decrease in occupancy of almost eight percentage points, to 58%. The decline in occupancy was compounded by the reopening of the renovated Grand Bretagne and Hilton hotels, creating a rise in room stock into the market from early 2003. These two hotels had been closed for much of 2002 for refurbishment. Despite the massive increase in hotel demand that is anticipated as a result of the 2004 Olympic Games, there has been a minimal increase in the capital's hotel supply. The authorities have been reviewing many applications for hotel developments, but to-date there have been no definite developments. The shortage in the hotel supply will be dealt with in part by the provision of temporary accommodation in large cruise ships that will dock in Piraeus for the duration of the Games.

Despite the economic recession within important feeder markets, Spain experienced an increase in the number of international visitor arrivals in 2003. Given that 1998, 1999, 2000 and 2001 were exceptionally good years, the relative decline in hotel occupancy is largely a result of a more balanced relationship between supply and demand as new hotels have been opened recently. In **Barcelona**, a very broad seasonality and a considerable number of major urban developments helped the city's hotels achieve a steady 75% occupancy in 2003, although average room rate declined by 3%, resulting in a 5.5% decline in hotel values. The decline in average room rates was partially caused by the further shift from business to leisure markets, and a reduction of the upper-end corporate

Table 3 Average Annual Compound Growth Rate 1993-03 and 1998-03 (€)



Source: HVS International

segment. The increase in supply was well absorbed by this dynamic market, although it experienced a decrease in average rate.

The German economy remains slow and is likely to remain so until the UK and US economies start to show signs of more significant improvement. However, 2003 saw renewed interest in the real estate sector given the weak stock market, which helped fuel an upturn in business, although this came predominately through domestic investors. **Berlin** recorded an increase in occupancy of almost three percentage points, to 65%, while average room rate experienced a severe decline of 9.5%; the overall decline in RevPAR of 6% contributed to a decline in value of 3%. The decline in average room rate was primarily due to new supply, with four new hotels opening during the first half of 2003. A further ten hotels are under construction.

Hotels in **Birmingham** experienced a decrease in value in euro of 4%, driven mainly by a fall in average room rate of 10%. Birmingham's hotels did experience moderate growth in occupancy (0.5 percentage points), achieving an annual occupancy of 69%. The decline in average rate was also adversely affected by the fluctuation in the euro-sterling exchange rate between 2002 and 2003. In sterling, average room rates in Birmingham were flat compared to 2002, and hotel values in Birmingham actually increased by almost 5% compared to 2002. The competitive market benefited from strong demand generated by the Ryder Cup and a reduction in room supply following the closure of the Grand Moat House in 2002.

Despite the opening of the Crowne Plaza at the National Exhibition Centre (NEC) towards the end of 2002 and the opening of the Malmaison in 2003, marketwide occupancy experienced a moderate increase, due to the continued strong demand also generated by major convention business and events such as the International Textile Exhibition, held at the NEC, and the World Indoor Athletics Championships. Additionally, the opening of new retail and leisure facilities, including the remodelled Bull Ring in the latter part of 2003, further supported moderate growth in demand.

The performance of the **Brussels** hotel market deteriorated in 2003, continuing the downward trend from a peak in 2000. In 2003 occupancy decreased marginally, by 0.5 percentage points, to 65%, while average room rate decreased by 3%. The resultant 4% decrease in RevPAR helped produce an overall decrease in value of 4% compared to 2002. The decline in hotel performance is attributable mainly to weakened global economies and the direct negative impact that these have had on business travel; the Brussels hotel market is heavily reliant on commercial demand. The hotels around Brussels International Airport suffered particularly badly, due to weakened commercial and airport-related demand following the demise of the national airline, Sabena. The volume of passengers at Brussels Airport plummeted from 21.6 million in 2000 to 14.2 million in 2002. In 2003 Brussels Airport experienced an increase in passenger numbers of 5.5% (to 15 million), but this was a long way short of the

Table 4 Hotel Values – % Change (€)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	CAG 1993-03	CAG 1998-03
Moscow	n/a	n/a	n/a	n/a	-19.9	-34.9	13.6	22.6	13.2	8.7	n/a	2.2
Vienna	-5.9	4.2	-3.0	-2.7	11.3	0.7	3.2	0.1	-1.4	6.4	1.2	1.8
Dublin	n/a	n/a	n/a	n/a	-2.7	8.5	9.9	-8.5	-1.6	1.9	n/a	1.8
Prague	n/a	n/a	n/a	n/a	1.5	17.5	30.6	-0.5	-4.3	1.7	n/a	6.8
Hamburg	n/a	n/a	n/a	n/a	3.2	4.8	10.1	-9.1	3.7	-0.2	n/a	1.6
Milan	n/a	n/a	n/a	n/a	17.1	11.4	16.1	6.6	3.8	-0.4	n/a	7.4
Rome	9.8	-5.9	28.4	15.8	10.8	0.4	8.0	-3.1	-1.8	-1.9	5.6	0.2
Frankfurt	-1.9	2.8	-5.3	5.6	2.8	4.0	12.9	6.4	-6.6	-2.0	1.7	2.7
Athens	-2.3	0.3	14.1	17.7	11.7	-5.1	10.7	-2.9	5.9	-2.8	4.4	1.0
Berlin	-1.6	-1.8	-12.1	11.1	-0.1	15.0	19.9	3.8	1.5	-2.9	2.9	7.1
Edinburgh	n/a	n/a	n/a	n/a	-1.3	-1.2	9.5	-5.3	3.3	-3.4	n/a	0.4
Brussels	-5.3	4.2	5.7	13.0	8.4	2.5	15.3	-4.2	-7.7	-4.0	2.5	0.1
Lisbon	-4.8	-2.2	13.6	3.1	13.2	-2.7	12.4	-0.1	-1.9	-4.0	2.4	0.6
Europe	1.5	2.4	9.2	13.9	5.8	3.8	10.5	-1.9	-1.5	-4.2	3.8	1.2
Birmingham	n/a	n/a	n/a	n/a	2.3	5.3	1.0	-1.4	2.5	-4.2	n/a	0.6
Amsterdam	6.8	11.5	16.6	13.4	10.8	13.2	21.9	-6.5	-5.5	-4.9	7.3	3.0
Zürich	n/a	n/a	n/a	n/a	9.9	5.4	6.2	4.0	-7.1	-5.5	n/a	0.4
Barcelona	-8.6	8.2	30.2	28.4	21.9	15.2	9.0	-1.5	1.4	-5.5	9.1	3.5
Manchester	n/a	n/a	n/a	n/a	3.2	-3.2	3.9	3.1	0.7	-5.7	n/a	-0.3
Madrid	-5.1	0.2	13.5	16.6	10.9	9.7	11.5	-2.6	2.4	-5.7	4.8	2.8
London	12.7	6.0	22.3	38.3	1.8	-0.6	9.8	-12.7	-5.0	-5.9	5.8	-3.2
Stockholm	7.7	10.2	31.0	10.7	1.6	16.5	9.8	-10.5	-5.5	-6.5	5.9	0.2
Paris	-2.2	-3.3	-7.0	23.0	11.2	0.4	10.4	-6.4	4.4	-7.2	1.9	0.1
Geneva	7.0	8.8	-2.6	0.8	4.5	12.5	2.3	10.4	3.8	-7.9	3.8	4.0
Munich	n/a	n/a	n/a	n/a	15.9	10.0	10.3	5.1	-7.3	-8.1	n/a	1.7
Copenhagen	7.8	3.7	13.9	16.2	4.5	7.9	7.8	-6.2	-3.0	-8.3	4.1	-0.6
Istanbul	0.6	-4.4	28.0	34.2	-0.3	-20.7	25.9	-10.0	-19.5	-9.5	0.8	-8.1
Warsaw	n/a	n/a	n/a	n/a	2.1	1.2	1.2	-2.0	-15.2	-9.9	n/a	-5.2
Budapest	n/a	n/a	n/a	n/a	3.9	11.4	1.4	-1.2	-2.8	-13.6	n/a	-1.3

Source: HVS International

levels reached in 2000. The airport authority BIAC predicts that the level of passenger arrivals reached in 2000 will only be returned to in 2010. New hotel supply in Brussels during 2003 included the 315-room Crowne Plaza at Zaventem International Airport, which opened in November. A 190-room Courtyard by Marriott hotel is expected to open in mid-2004, also at the airport. A 120-room, four-star Cerruti hotel is under construction in the city centre, but its opening – set for autumn 2004 – is likely to be delayed. A 190-room hotel has been partly constructed at the Gare du Midi, though an operator has yet to be confirmed. Various proposals for extensions to hotels exist, though plans remain speculative at present.

2003 saw a continued decline in demand for hotel accommodation in **Budapest**, with a significant impact on the performance of the leading international hotels. In 2003 occupancy decreased by approximately five percentage points, from 62% in 2002 to 57% in 2003, while average room rate decreased by 17%, resulting in a 25% decline in RevPAR. Budapest is the only market in this year's HVI to have experienced a double-digit decline in value per room in 2003, a fall of 14% on 2002. The downturn in 2003 reflected a decline in demand, particularly corporate travel, due to the global economic downturn, the slowdown in the Hungarian economy, the war in Iraq and the ongoing threat of international terrorism. Budapest was also

affected by the downturn in the German economy. The situation in Budapest was compounded by the increase in hotel supply that started in 2000. In 2003 the 414-room Corinthia Grand Hotel Royal and the 160-room NH hotel opened. Meanwhile, the 353-room Hyatt Atrium was rebranded as a Sofitel. Hotel supply growth is set to continue in 2004. Hotels currently under development include the 179-room Gresham Palace Four Seasons, due to open in the middle of 2004, and the 180-room New York Palace Boscolo hotel, which is now scheduled to open at the beginning of 2005. The new congress centre within the Millennium City Centre development, although still planned, is unlikely to go ahead before 2007. The venue will accommodate 6,200 people in the main hall and will be the largest congress facility in central Europe. The congress centre will contain a casino with three additional hotels planned close by. A new theatre within the Millennium City Centre project opened in 2003; a new cultural centre is currently under construction and is due to open in 2004.

In 2003 **Copenhagen**, in common with most European markets, continued to experience a decline in hotel performance. The downturn in 2003 reflected a decline in demand due to the global economic downturn, the war in Iraq and the continued threat of international terrorism. Copenhagen hotels have never previously experienced such severe declines in

occupancy and average rate as those experienced by other European cities, because Copenhagen is not as reliant as many other European capitals are on visitors from the US and Japan; the decline in performance has been fuelled by the continued increase in new hotel supply. In 2003 hotels in Copenhagen experienced further declines in occupancy and average room rate of four percentage points and 6%, respectively, contributing towards an overall decrease in value of 8%. The situation in Copenhagen was compounded by the continued increase in hotel supply. In 2003 the 192-room Arp-Hansen The Square Hotel and the 215-room Clarion Hotel opened. The only major hotel under construction and due to open in 2004 is the 350-room Cab Inn budget hotel at Glytotek behind the Tivoli Gardens. Several other hotel projects were planned for 2004 and 2005 but, due to the difficult trading conditions in Copenhagen, these projects have been either postponed or cancelled.

Demand for hotel accommodation in **Dublin** emanates predominantly from the domestic market, but is also highly dependent upon international visitation, particularly from the UK, the USA and Eurozone countries. For this reason, the Dublin hotel market has suffered in recent years from the outbreak of foot-and-mouth disease, the terrorist attacks of 11 September 2001, SARS and, more recently, the war in Iraq. In addition, the city has witnessed

Table 5 Hotel Valuation Index 1993-03

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Paris	2.471	2.416	2.337	2.174	2.674	2.973	2.986	3.297	3.034	3.166	2.939
London	1.684	1.898	2.012	2.460	3.402	3.463	3.444	3.781	3.243	3.080	2.898
Milan	n/a	n/a	n/a	n/a	1.751	2.051	2.285	2.652	2.778	2.883	2.873
Geneva	1.606	1.718	1.870	1.821	1.836	2.192	2.159	2.209	2.397	2.488	2.291
Zürich	n/a	n/a	n/a	n/a	1.619	1.835	2.310	2.453	2.505	2.329	2.201
Rome	1.065	1.170	1.100	1.413	1.636	1.814	1.822	1.967	1.873	1.839	1.804
Amsterdam	0.841	0.898	1.001	1.167	1.323	1.466	1.659	2.022	1.856	1.754	1.669
Edinburgh	n/a	n/a	n/a	n/a	1.993	1.439	1.490	1.794	1.669	1.725	1.666
Madrid	1.028	0.975	0.977	1.109	1.293	1.434	1.573	1.755	1.679	1.720	1.621
Europe	1.000	1.009	1.025	1.111	1.274	1.355	1.414	1.580	1.539	1.516	1.453
Barcelona	0.586	0.535	0.580	0.754	0.969	1.182	1.362	1.484	1.437	1.457	1.377
Prague	n/a	n/a	n/a	n/a	0.923	0.936	1.100	1.437	1.404	1.344	1.366
Munich	n/a	n/a	n/a	n/a	1.088	1.261	1.386	1.530	1.579	1.464	1.345
Dublin	n/a	n/a	n/a	n/a	1.172	1.140	1.236	1.358	1.221	1.201	1.224
Hamburg	n/a	n/a	n/a	n/a	1.099	1.134	1.188	1.307	1.167	1.210	1.207
Berlin	0.922	0.907	0.891	0.783	0.870	0.870	1.000	1.199	1.223	1.241	1.205
Manchester	n/a	n/a	n/a	n/a	1.198	1.236	1.196	1.243	1.259	1.268	1.196
Vienna	1.053	0.991	1.032	1.001	0.974	1.083	1.091	1.125	1.107	1.091	1.162
Birmingham	n/a	n/a	n/a	n/a	1.117	1.144	1.205	1.216	1.179	1.208	1.157
Moscow	n/a	n/a	n/a	n/a	1.247	0.999	0.650	0.739	0.890	1.008	1.095
Frankfurt	0.938	0.920	0.946	0.896	0.946	0.973	1.012	1.142	1.193	1.114	1.092
Brussels	0.836	0.791	0.825	0.871	0.984	1.067	1.094	1.261	1.187	1.095	1.051
Stockholm	0.601	0.647	0.713	0.934	1.034	1.051	1.224	1.344	1.182	1.117	1.044
Copenhagen	0.670	0.722	0.748	0.853	0.991	1.035	1.117	1.204	1.109	1.076	0.987
Budapest	n/a	n/a	n/a	n/a	0.984	1.022	1.138	1.154	1.121	1.089	0.941
Athens	0.592	0.579	0.580	0.662	0.779	0.870	0.864	0.914	0.872	0.923	0.897
Lisbon	0.706	0.672	0.658	0.747	0.770	0.872	0.848	0.954	0.936	0.919	0.881
Warsaw	n/a	n/a	n/a	n/a	0.990	1.011	1.022	1.034	0.996	0.845	0.762
Istanbul	0.688	0.692	0.662	0.847	1.136	1.133	0.899	1.132	1.000	0.805	0.729

Source: HVS International

significant growth in hotel supply, particularly in the five-star segment in 2001 and 2002. Considering all these factors, Dublin's hotel market performance in 2003 is all the more remarkable, as it is one of very few European hotel markets to have recorded positive growth in RevPAR, of around 2%. Dublin is also one of only four markets in this year's HVI to have experienced an overall increase in value per room in 2003. There are signs that the phenomenal supply growth in recent years has started to be absorbed, with marketwide occupancy levels recording growth of approximately 1%. Meanwhile, average room rates remained fairly flat in 2003 compared to 2002. Dublin, therefore, has proven to be remarkably resilient, in spite of the continuing difficult trading environment. The outlook for Dublin's hotel market is encouraging in the medium term, as international demand is expected to recover and only limited further new hotel supply is anticipated.

Hotels in **Edinburgh** experienced a decrease in euro value of 3%, due largely to a decrease in average room rate of 10%. The decline in average rate was also compounded by the fluctuation in the euro-sterling exchange rate between 2002 and 2003. In sterling terms, however, hotel values in Edinburgh actually increased by 1.5% compared to 2002, and average room rates in Edinburgh decreased by only 1.5% compared to 2002. Occupancies in Edinburgh hotels increased by 1.5

percentage points to around 76%.

Following record levels of trading in 2001, which saw 5% growth in RevPAR, the hotel market in **Frankfurt** felt the full effect of the global and national economic downturn in 2002. Frankfurt saw little improvement in 2003, but the decline in RevPAR was only 2.5%, contributing to a 2% decline in value compared to 2002. The ongoing challenge in Frankfurt is the continued increase in hotel supply. Hotel supply in and around Frankfurt is set to increase significantly over the coming years, with six new developments currently under construction. Ten other projects, a total of more than 3,000 hotel rooms, are at the planning stage. However, many of these projects have already been postponed several times, which would suggest that not all of them will come to fruition in the foreseeable future.

Hotels in **Geneva** performed strongly in terms of occupancy performance in 2001 and 2002, but they experienced a significant fall in demand (7.5%) and average rate (12%) during 2003, due to the global economic climate and the decline in international travel resulting from the war in Iraq and the sharp appreciation of the Swiss franc against the euro. These declines in performance contributed to a decrease in value of 8%. In Swiss franc terms, hotel values in Geneva actually increased by 4.5% compared to 2002. Nevertheless, the historical average rate growth is impressive. The particularly strong market performance

of 2002, due to the visit of King Fahd of Saudi Arabia and his retinue, is considered to be exceptional. Nevertheless, average rate growth between 2001 and 2003 has been very strong, especially considering today's challenging economic environment. High real estate prices, a lack of development sites in the city centre and restrictive planning policies requiring local referenda have historically limited the growth in hotel supply. Only a very limited number of new hotels have been built in the last ten years, with international hotel operators typically entering the market by taking over the management of existing hotels.

Hotels in **Hamburg** recorded an increase in occupancy of three percentage points, while average room rate experienced a decline of 4%. The overall decline in RevPAR of only 0.5% contributed to values remaining flat compared to 2002. Hamburg has been the only one of the main German hotel markets not to have recorded a significant decline in RevPAR and value compared to 2002. This is due to its more stable balance of midweek (business) and weekend (leisure) visitation.

The impact of the war in Iraq in March 2003 had a noticeable effect on the performance of the neighbouring Turkish hotel market during the year. The war resulted in not only lower occupancies during the conflict itself, but also in a lower level of bookings in the run-up as people knew that war was inevitable yet did not know when it would occur. The trading

Table 6 Hotel Values per Room 1993-03 (€)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Paris	360,262	352,336	340,709	316,953	389,947	433,515	435,387	480,798	450,251	469,933	436,123
London	245,617	276,810	293,330	358,743	496,007	504,990	502,180	551,308	481,279	457,124	430,117
Milan	n/a	n/a	n/a	n/a	255,262	299,025	333,174	386,692	412,349	427,938	426,338
Geneva	234,149	250,549	272,657	265,541	267,766	279,867	314,807	322,171	355,750	369,261	340,086
Zürich	n/a	n/a	n/a	n/a	290,675	319,572	336,866	357,671	371,852	345,619	326,677
Rome	155,319	170,562	160,459	205,974	238,614	264,487	265,612	286,789	277,912	272,879	267,682
Amsterdam	122,574	130,897	145,949	170,177	192,981	213,762	241,923	294,802	275,523	260,350	247,698
Edinburgh	n/a	n/a	n/a	n/a	245,165	241,935	238,926	261,603	247,672	255,948	247,243
Madrid	149,874	142,183	142,416	161,663	188,540	209,076	229,370	255,843	249,238	255,281	240,605
Europe	148,415	150,664	154,286	168,510	191,954	203,031	210,755	232,821	228,432	225,053	215,621
Barcelona	85,399	78,074	84,504	110,015	141,299	172,308	198,575	216,445	213,201	216,272	204,331
Prague	n/a	n/a	n/a	n/a	134,533	136,485	160,409	209,487	208,411	199,454	202,770
Munich	n/a	n/a	n/a	n/a	158,574	183,805	202,134	223,051	234,324	217,242	199,570
Dublin	n/a	n/a	n/a	n/a	170,872	166,186	180,232	198,067	181,166	178,183	181,630
Hamburg	n/a	n/a	n/a	n/a	160,238	165,297	173,176	190,644	173,244	179,607	179,186
Berlin	134,394	132,243	129,863	114,150	126,866	126,796	145,828	174,780	181,489	184,192	178,894
Manchester	n/a	n/a	n/a	n/a	174,631	180,174	174,440	181,298	186,891	188,184	177,502
Vienna	153,557	144,497	150,496	145,934	141,970	157,959	159,090	164,110	164,310	161,975	172,412
Birmingham	n/a	n/a	n/a	n/a	162,921	166,748	175,632	177,376	174,962	179,324	171,704
Moscow	n/a	n/a	n/a	n/a	181,863	145,648	94,848	107,718	132,073	149,541	162,492
Frankfurt	136,758	134,160	137,916	130,606	137,920	141,829	147,541	166,502	177,093	165,347	161,997
Brussels	121,886	115,376	120,223	127,017	143,492	155,594	159,499	183,874	176,123	162,479	155,996
Stockholm	87,589	94,355	103,986	136,182	150,744	153,216	178,531	196,009	175,400	165,761	154,934
Copenhagen	97,643	105,259	109,116	124,337	144,450	150,920	162,823	175,561	164,661	159,733	146,488
Budapest	n/a	n/a	n/a	n/a	143,425	149,045	165,972	168,319	166,305	161,632	139,683
Athens	86,393	84,405	84,627	96,554	113,645	126,896	120,383	133,255	129,407	136,984	133,195
Lisbon	102,966	98,029	95,877	108,879	112,256	127,098	123,684	139,034	138,940	136,335	130,828
Warsaw	n/a	n/a	n/a	n/a	144,352	147,349	149,048	150,784	147,802	125,402	113,038
Istanbul	100,258	100,896	96,454	123,435	165,709	165,276	131,060	164,991	148,456	119,511	108,160

Source: HVS International

environment in **Istanbul** was compounded by the terrorist attacks in the city towards the end of 2003. In 2003, Istanbul's hotels achieved occupancy levels of 58% and an average room rate of €95. These figures represent decreases of 0.5% and 17%, respectively, on the same period in the previous year, contributing to a decline in value of 9.5%. In terms of new hotel supply in Istanbul, the 249-room Mövenpick Hotel opened in February 2003 and the 40-room Bentley Hotel, a member of the 'Design Hotels' consortium, also opened in early 2003. The development of a second Four Seasons hotel in the city has been delayed but is still expected to proceed, though it is unlikely to open before late 2005/early 2006. Radisson SAS has been awarded the management contract for two hotels under construction – a 145-room hotel in the Taksim district and a 124-room hotel in Ortaköy. The Grand Tarabya Hotel, located on the Bosphorus and approximately 20 km north of Istanbul, is closed for renovation and upon its anticipated reopening in early 2005 the hotel will be operated by Millennium & Copthorne.

With Portugal being viewed as a relatively safe destination, hotels saw an increase in the number of American tourists. Nevertheless, foreign overnights declined, mostly as a result of the economic recession that affected main feeder markets such as Germany and the Netherlands. Portugal's hosting of the European Football Championships in 2004 is giving a welcome

boost to the country's tourism, as **Lisbon** is being revitalised and rebuilt. Nevertheless, 2003 was not a year to remember: room occupancy decreased by almost two percentage points, to 60%, whilst average rate decreased by nearly as much. Lisbon's rise in popularity as a short-break destination is helping to increase its new supply still further, although this is not helping performances. A considerable number of rooms will be added to the market in 2004: the Corinthia Alfa Lisboa, with its fully refurbished 517 rooms, and two new hotels from the Portuguese group Sana: the 287-room Sana Park Lisboa, and the 185-room Sana Park Malhoa.

Hotels both in the UK provinces and in London began trading in 2003 under difficult conditions. **London** was particularly affected by the war in Iraq and the slowdown in international visitors, primarily those from transatlantic markets. Occupancy decreased by only one percentage point, to 75%, a figure that is still a long way short of the peak achieved in 2000. Average room rates continued to suffer, as hoteliers in the weakened market sought to maintain occupancy by increased reliance on lower-rate market segments and discounted room rates. Euro values in London decreased by 6% in 2003, due mainly to a decline in average room rate of around 12%. The decline in average rate was also compounded by the fluctuation in the euro-sterling exchange rate between 2002 and 2003. In sterling terms, hotel values in

London actually increased by 4% compared to 2002, and average room rate in London decreased by only 3% compared to 2002.

In 2003 **Madrid** saw a decrease in value of 6%, driven mainly by a decline in average room rate of 4%. In 2003 occupancy in Madrid was around 65%, a decrease of two percentage points on 2002. Large increases in supply resulted in a difficult year for three-star and four-star hotels, whereas five-star hotels suffered from the decrease in spending from the corporate sectors. However, important developments in the transportation infrastructure, such as the high-speed train and the extension of the airport, and Madrid's bid to host the 2012 Olympics, are likely to grow and strengthen the market. Unlike many cities in Europe which have already started to show signs of recovery in hotel performance in the first quarter of 2004, the difficult trading environment in Madrid has been exacerbated by the terrorist attacks which took place in the city in March.

Hotels in **Manchester** experienced a decrease in euro value of 6%, driven mainly by a decrease in average room rate of 8%. The decline in average rate was also adversely affected by the fluctuation in the euro-sterling exchange rate between 2002 and 2003. In sterling terms, average room rate in Manchester increased by 1.5% compared to 2002, and hotel values in Manchester therefore increased by 4% compared to 2002. The UK hotel industry was adversely affected in 2003 by a

slowdown in worldwide economic growth, the impact of the war in Iraq, and the outbreak of SARS, which resulted in a significant decline in foreign visitors coming to the country and to London in particular. However, while Manchester was also affected by these global events to some extent, several factors, including the promotion of the city during the Commonwealth Games, regeneration projects such as Piccadilly Gardens and the development in recent years of sports and conference facilities such as the Manchester City football stadium and Manchester International Convention Centre, have supported demand and helped maintain 2002's marketwide occupancy of 70%.

Italy has suffered heavily since 11 September 2001 and from the subsequent economic decline, and last year recorded one of the lowest GDP growth levels within the EU. The appreciation of the dollar against the euro, coupled with the slowdown in international traffic, has certainly had its part to play, in particular in the decline in American and Japanese visitors. In **Milan**, the typically strong fashion business months of March and April were badly affected by the war in Iraq, but hotels only experienced a decline in annual occupancy of approximately one percentage point. Fortunately, Milan has a wide base of domestic business demand and is therefore less susceptible than Rome to the continued slowdown in international visitation. Milan was able to grow average room rate by 1%, helping to produce a decline in value of only 0.5%. In terms of upscale new supply, the 117-room Park Hyatt opened in 2003 and the 52-room luxury Bvlgari Hotel opened in 2004.

2003 saw a continued increase in demand for hotel accommodation in the leading international hotels in **Moscow**. Occupancy has increased and now approaches the high levels of 1997 and early 1998. Average room rate, however, still lags behind that achieved pre-crisis. The continued growth of and confidence in the Russian economy, and continuing political and fiscal stability, has outweighed the negative effects on travel caused by the war in Iraq and the ongoing threat of international terrorism. In 2003 occupancy increased by two percentage points, to 65%, while average room rate increased by 5%. The resultant 8% increase in RevPAR gave an increase in value of 9% compared to 2002. Since the opening of the Novotel City Centre and the Ararat Park Hyatt in 2002 no new hotels have opened in Moscow. New hotels under construction include the 219-room Riverside Towers hotel (being developed by ENKA), which is due to open at the beginning of 2006, and a 200-room hotel located at Ul Lesnaya, which is due to open at the beginning of 2005. We understand that this latter hotel is likely to be operated under a Holiday Inn franchise. A 436-room Hilton hotel on the site of the former Intourist hotel is due to open in mid-2006. In last year's HVI we mentioned that a 200-room Courtyard by Marriott hotel was under construction and due to open in 2003. However, just before the development was completed, the owner of the development changed its use from hotel to residential.

Otherwise, numerous rumours continue to abound in Moscow about the redevelopment of former state hotels, including the Moskva (which has been partially demolished), the Rossiya, the Budapest, the Pekin, the Minsk, the Centralnaya and the Leningradskaya. The mayor has called for the development of 20 or more mid-market hotels, an announcement that has caused a surge of interest in this sector in Moscow and throughout the country.

In common with those in Berlin, hotels in **Munich** also found 2003 a difficult year, due primarily to weak trade fair activity. Munich recorded a small increase in occupancy, of half a percentage point, while average room rate experienced a severe decline of 9%. The overall decline in RevPAR of 8% contributed to a similar decline in value.

2003 was a challenging year for the **Paris** hotel market. The continued uncertainty in the economic environment, the war in Iraq and the SARS outbreak in Asia further affected international visitation to Paris. The fluctuations in exchange rates and the French opposition to the US-led war against Iraq had a negative impact on US visitation, on which the Paris hotel market, particularly the luxury end, is heavily reliant. Hotels in Paris continued to experience further declines in occupancy and average room rate in 2003 of 6% and 5%, respectively, contributing towards an overall decrease in value of 7%. The 477-room InterContinental Le Grand hotel reopened in April 2003 following an 18-month renovation. The 53-room, four-star Villa Murano, the 25-room Le Walt, the 36-room Le Marquis and the 97-room Paris Plaza Vendôme also opened during 2003. Three new hotels and a Pierre & Vacances aparthotel, together totalling approximately 1,400 rooms, opened in close proximity to the Disneyland Resort Paris theme park. The 512-room Hilton Arc de Triomphe on rue de Courcelles in the 8th district opened in 2004. A 354-room Kyriad hotel is also scheduled to open in Montparnasse during 2004. Furthermore, the Relais Carré d'Or on Avenue George V, part of the Lucien Barrière group, closed in April 2003 and will be turned into a palace hotel with approximately 100 guest rooms during a planned two-year renovation. A 405-room Mövenpick hotel is under construction close to the Disneyland Resort Paris theme park.

Following the severe flooding of August 2002, which caused widespread disruption, hotels in **Prague** had a difficult start to 2003, as a result of continued cancellations from tour and leisure businesses. Nevertheless, the second half of the year was more promising and Prague showed a greater degree of resilience compared with its eastern European counterparts; an increase in RevPAR of 3% in 2003 contributed to a 2% increase in value. Prague is also one of only four markets in this year's HVI to have experienced an overall increase in euro value per room in 2003. Prague benefits from being a destination city and it is also more accessible than other central European capitals. As a result, it is in a strong position to attract corporate, leisure and incentive

business. The increase in rooms yield stemmed from a six percentage point increase in occupancy to around 69%, while average room rate declined by 6% to approximately €116 – a result of the difficult economic climate, the impact of SARS and the war in Iraq. Prague has seen only limited new hotel supply, such as the 150-room, five-star Carlo IV Boscolo Hotel, the 67-room Tulip Inn Terminus and the 52-room Aria Hotel. However, the Four Seasons also re-entered the market having been closed since August 2002 after substantial flood damage.

In **Rome**, exposure to international visitation saw occupancy for the year fall by 1.5 percentage points. This decline, together with a decrease in average room rate of 3%, contributed to a decline in value of 2%. That said, Rome enjoys a comparatively high average rate, which is due primarily to the difficulty in gaining planning permission, and the rate is therefore relatively unaffected by the impact of new supply. In terms of upscale new supply the 96-room Boscolo Aleph Hotel opened in March 2003.

In 2003, the sluggish performance of the information technology and telecommunications sectors had a negative impact upon demand for hotel accommodation in **Stockholm**. This was exacerbated by the considerable increase in hotel supply, which resulted in a poor operating performance for branded hotels in the city. Hotels in Stockholm experienced declines in occupancy and average rate in 2003 of 4%, respectively. This represents a decline in RevPAR of approximately 10%, when compared to 2002, and a fall in value of 7%. In early 2003, Sweden Hotels AB and Marriott International signed a master licensing agreement, which will result in the conversion of 60 Sweden Hotels into Ramada International properties. This is likely to have a positive impact on the presence and brand awareness of the US-based operator in Sweden and other Scandinavian countries. The latest hotel openings in Stockholm include the 532-room Choice Clarion Hotel and the 99-room Rival Hotel.

Despite continued uncertainty in the economic environment and the war in Iraq, demand for hotel accommodation in **Vienna** experienced healthy growth in 2003. The major source markets to Vienna are generated from Europe primarily, and therefore the level of visitation to the city was not significantly affected by the reduced US visitation to Europe during 2003. Occupancy levels for 2003 experienced an increase of approximately four percentage points, when compared to 2002, registering 70%. The increase in occupancy levels during 2003 can be partially attributed to the closure of the 600-room Hilton hotel. Similarly, average rate for quality hotels in Vienna experienced a 2% growth in 2003, contributing to an increase in value of 6% compared to 2002. Vienna is one of only four markets in this year's HVI to have experienced an overall increase in euro value per room in 2003. In 2003, Le Meridien opened a 300-bedroom hotel; however, no further new supply is expected until 2005 when three four-star hotels, the 300-room Hotel Mondschein, the 200-room

Hotel Wien Messe and the 80-room Hotel Monte Laa, are scheduled to open. These developments will represent an increase in quality hotel rooms supply of 3% in 2005.

Following a disappointing year in 2002, the **Warsaw** hotel market continued to endure difficult times, recording a double-digit fall in RevPAR for the third consecutive year. Demand for hotel accommodation is strongest during weekdays but, with continued weak demand at weekends and during non-business periods, marketwide occupancy did well to sustain only a small decline of approximately 2.5%, to approximately 50%. However, average room rate declined significantly, due to a surge in the supply of quality hotels during 2002 and 2003. In Polish zloty terms, hotel values in Warsaw actually increased by 3.3% compared to 2002. However, this was mainly due to the increase in the zloty-euro exchange rate. After seeing some 800 rooms enter the market in 2002, Warsaw experienced an additional increase in excess of 20% in the supply of quality hotel rooms as new entrants including the 361-room Westin Atriumm, the 406-room InterContinental hotel and the 220-room Courtyard by Marriott opened. Supply is expected to outstrip demand for some time to come, as other new hotels will enter the market in 2004 and 2005. Nevertheless, in the longer term, the outlook is one of greater optimism, as the city is likely to capitalise on increasing demand from eastern Europe, experience growth in demand from Europe and the USA, and maximise the benefits of Poland's membership of the EU.

In 2003 hotels in **Zürich** experienced a fall in occupancy and average room rate, resulting in a decline in RevPAR of 15%. This contributed to a decline in value of 5% in euro terms. This decline in RevPAR can be attributed in particular to the slowdown in the Swiss economy. According to the Economist Intelligence Unit (EIU), in 2003 the Swiss economy experienced a decline in GDP of 0.4%; the Swiss economy was hit hard by the global downturn, the sharp appreciation of the Swiss franc and a global weakness in manufacturing, tourism and financial services, upon which the Swiss economy is particularly dependent. In Swiss franc terms, hotel values in Zürich only decreased by 2% compared to 2002.

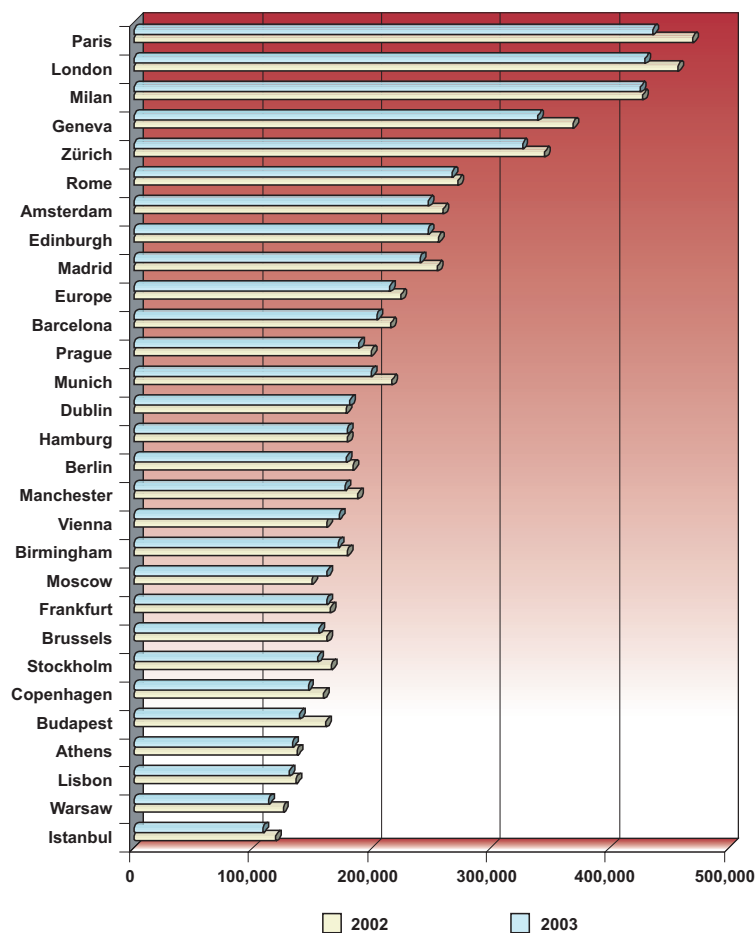
Hotel Values per Room

According to our analysis of values (Table 6), for the second year in a row hotels in Paris have achieved the highest value per room (€436,123), followed by hotels in London, Milan and Geneva. Hotels in Zürich, Rome, Amsterdam, Edinburgh and Madrid continue to feature above the European average of €215,621. In contrast, values per room in Istanbul remain the lowest of the 28 markets, at €108,160.

Outlook

Although we have started to see the first signs of recovery in hotel performance in the first quarter of 2004, the uncertain economic outlook and

Table 7 Hotel Values per Room 2002 and 2003 (€)



Source: HVS International

the continued threat of terrorist attacks in Europe and elsewhere around the world mean that hotel values in the same cities are likely to remain somewhat depressed for the next six to 12 months before they start to move significantly upwards and experience value growth similar to that achieved before 2001. We are optimistic that hotel values in many cities covered by our survey will rise in 2004, with further growth anticipated in 2005 and 2006. Those cities affected most by the introduction of significant new supply of hotel rooms will be the slowest to see a return to robust growth in hotel values. International gateway cities should recover quickest.

Understanding the HVI

The HVI is a 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. The HVI also 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 international quality, first class hotel in each

market. Based upon our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined appropriate valuation parameters for each market, including loan to value ratios, real 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 actual 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 2003 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2003. Values are based on recent market performance but the capitalisation rates reflect the anticipated future trends in performance, competitive environment, cost of debt and cost of equity. The HVI allows comparisons of values across markets and over time by using the 1993 average European value of €148,415 per available room (PAR) as a base (1993=1.000). Each market's PAR value is then indexed relative to this base. For example, in 2003 the index for Paris was 2.939 (€436,123/€148,415), which means that the value of a hotel in Paris in 2003 was almost three times higher than the European average in 1993.



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