

2005



European Hotel Valuation Index

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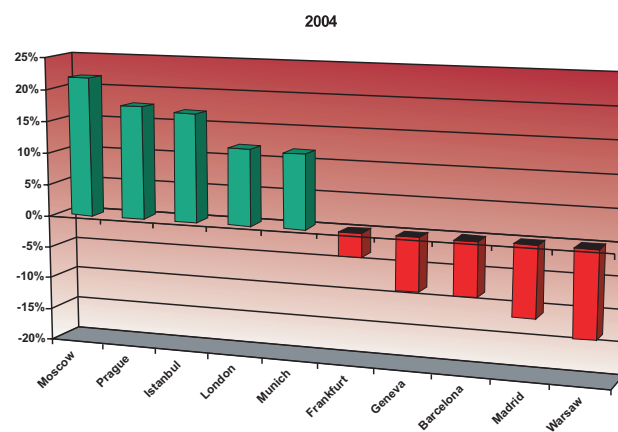
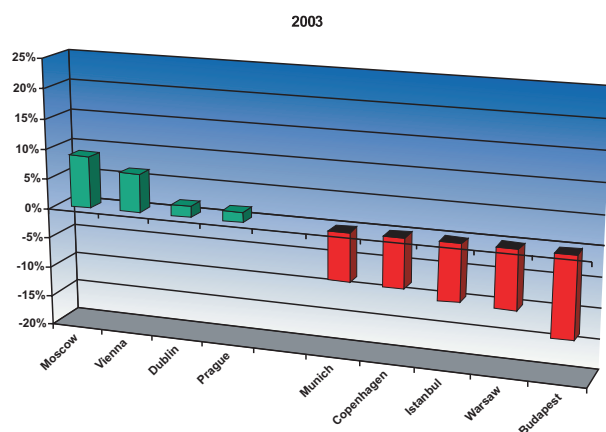
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Highlights

- The European Hotel Valuation Index (HVI) shows that hotel values (expressed in euro) increased on average by over 3% across Europe in 2004 compared with a decrease of over 4% in 2003, a decrease of 1.5% in 2002, a decrease of almost 2% in 2001 and an increase of 11% in 2000, 4% in 1999 and 6% in 1998.
- In contrast to 2003, the majority of the European markets experienced an increase in revenue per available room (RevPAR), which was mainly led by an increase in occupancy. The main exceptions to this growth in occupancy were Barcelona, Geneva, Madrid and Milan. Elsewhere, strong occupancy growth was recorded in Budapest, Istanbul and Moscow, whilst even Warsaw managed an increase of one percentage point in 2004 after annual decreases since 1997.
- In many cities, average room rates remained under pressure and approximately half of the markets experienced a decline. For in a small number of markets, 2004 was a very difficult year, with significant declines recorded in Barcelona, Geneva and Frankfurt. In Warsaw, the marginal increase in occupancy was overshadowed by a 15% decline in average room rate.
- The generally improving performance during 2004 can be attributed mainly to an improvement in the European economy and the absence of any new, significant worldwide event affecting demand over the course of 2004. Visitor numbers are improving and Americans are increasingly travelling again, even to Paris. However, the strength of the euro is making Europe a more expensive destination, especially for US visitors and those from countries whose currency is linked to the US dollar.
- In this year's HVI, over two-thirds of the markets surveyed recorded growth in value per room, compared to only four markets in 2003.
- For the fourth year running, hotels in Moscow recorded the highest growth in value per room with an increase of almost 22%.
- After three successive years of significant decline in value, hotels in Istanbul recorded growth of almost 17% during 2004. Other significant 'winners' this year included Prague (18%), London (12%) and Munich (12%).
- Hotels in Warsaw recorded the largest decline in value per room in 2004 with a fall of 13%. The other main 'losers' in 2004 were Madrid (-11%), Barcelona (-8.5%) and Geneva (-8.4%).
- We envisage that the growth in value per room across Europe is a trend that will continue during 2005 and 2006, but that some markets, such as Barcelona, Madrid and Milan, will continue to struggle due to significant recent or anticipated increases in supply.

Tables 1 and 2 Winners and Losers 2003 and 2004 – % Change in Hotel Value (€)



Source: HVS International

Changes in Value

In 2004, London regained its place as the most expensive city to acquire hotel accommodation after a two-year absence when it was usurped by Paris. On average, hotels in London in 2004 were valued at €481,000 per room (€430,000 in 2003), compared with €455,000 per room in Paris (€436,000 in 2003).

The general growth in value is demonstrated by upscale, hotels in 20 of the 28 markets surveyed experiencing an increase in value in 2004, with five markets experiencing double-digit growth.

Interest rates were at historical lows at the end of 2004. The improving performance of the hotel market, together with strong competition amongst banks and finance providers to the sector, saw margins decline and the cost of debt thus become more attractive. Ten-year euro swap rates in December 2004 were down by approximately 15% on December 2003. With capitalisation rates and equity yields in 2004 broadly similar to those of 2003, the increase in value has been driven by a lower cost of debt finance and improved net operating profits.

In 2004, hotel investment activity was particularly strong, with a 30% increase in the level of investment compared to 2003. This was driven by a 20% increase in single asset

transactions to €4 billion and a 39% rise in the level of portfolio activity to €4.9 billion. This continued increase in activity reflects the general improvement in the European hotel market.

The outlook for 2005 is positive. In the absence of further terrorist attacks and a continued improvement in European and worldwide economies, we expect that on average the trading performance of hotels across Europe will improve during 2005, driving further increases in hotel values.

The Amsterdam hotel market is heavily dependent on international demand and has been impacted in recent years by the reduction in business and leisure travel following the war in Iraq and the outbreak of SARS, and by the

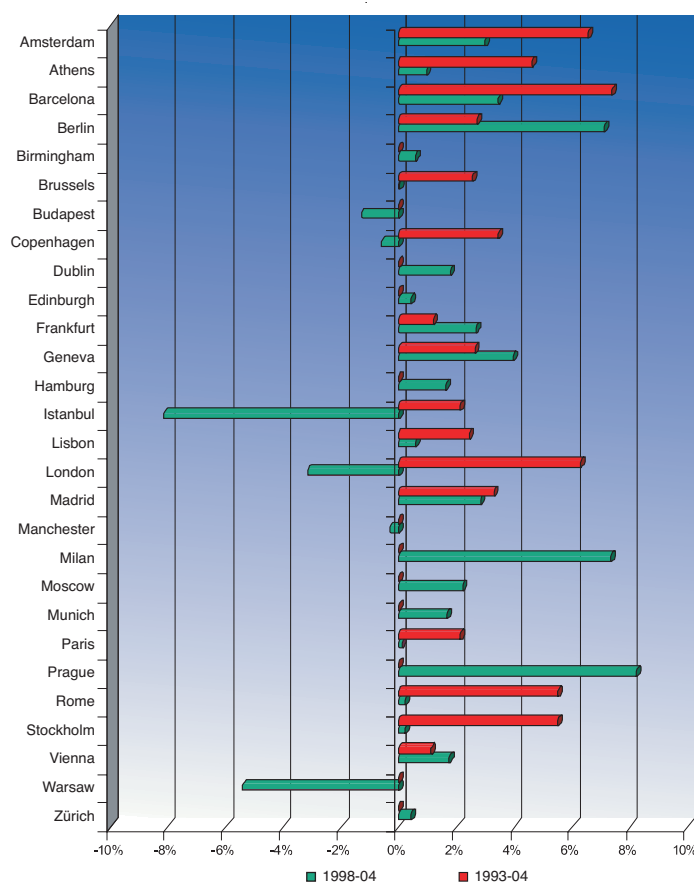
continued slowdown in national and regional economies. During 2004, however, hotels in Amsterdam experienced some recovery in occupancy (almost two percentage points), but this was at the expense of average room rate, which declined by 2%. Hotel values declined marginally, by 0.3%, in 2004. Despite these difficult trading conditions, Amsterdam is amongst Europe's strongest hotel markets and it is likely to remain strong in the foreseeable future. New supply to the city's upscale hotel stock has been strictly limited in recent years: the 120-room, three-star Lloyd Hotel opened in late 2004 and the 256-room Hotel Artemis, located on the outskirts of Amsterdam, is scheduled to open in spring 2005. Although the addition of approximately 4,000 rooms to the greater Amsterdam hotel market between 2007 and 2010 has been proposed, most of these projects have been at the planning stage for over two years and are rather speculative at this stage; only a 410-room Mövenpick City Harbour Hotel is under construction at present.

2004 was a milestone year for **Athens** as the city hosted the Olympic Games. This event spurred significant investment in the city's infrastructure, while the majority of hotels in the capital underwent extensive refurbishment and improvement. With adjustments made for the direct impact of the Olympic Games, Athens experienced an increase in occupancy of almost two percentage points in 2004 and an increase in average rate of 4%. Influenced by these results, hotel values increased by 6.7%. We comment, however, that this increase in value is partly a correction to the decline shown in 2003 – a particularly weak year for hotels, as visitors were deterred by the city's pre-Olympic preparations. New hotel supply in Athens has been minimal, with much of the additional demand arising from the Olympic Games accommodated temporarily aboard cruise ships. The only significant new hotel to open in Athens during 2004 was the 194-room Holiday Inn on Attica Avenue. A handful of boutique hotels has opened across the capital, but the impact of these hotels on room stock was relatively small.

For the second year in a row **Barcelona** has seen both occupancy and average room rate decline. Occupancy in 2004, at 73%, was still relatively high, but its year-on-year decline of two percentage points, combined with a decrease in average room rate of 8%, has resulted in a decline in RevPAR. Values for 2004 were impacted and declined by 8.5%. The significant increase in four-star and five-star hotel supply has contributed to this downturn. In 2004 alone, upscale hotel stock increased by approximately 2,500 rooms, an increase of approximately 20% on 2003. Despite the Mayor of Barcelona's calling for hotel openings to cease for one season in order to prevent a massive drop in prices, new supply is set to continue, with roughly 3,500 rooms planned to enter the market between 2005 and 2007. While demand is expected to continue to grow, assisted by important infrastructure developments in the city, such as the expansion of Barcelona Airport, which will double its capacity to 40 million passengers by 2007, in the medium term the hotel market will be challenged. Nonetheless, Barcelona has continued to attract significant attention from international hotel investors.

Following the series of difficult years that the German economy has faced since 2001, most of the major German hotel markets showed some improvement during 2004. In the capital **Berlin** occupancy reached 67% in 2004, an increase of three percentage points on 2003. Although average room rate was down by just less than 3%, the decline was less severe than the decline recorded in 2003. Values in 2004 rose slightly, by 1.0%, influenced by these improved results. We comment that the increase in occupancy in 2004 was particularly impressive,

Table 3 Average Annual Compound Growth Rate 1998–04 and 1993–04 (€)



Source: HVS International

given the noticeable increase in the capital's hotel supply during the year, including the 302-room Ritz-Carlton, the 379-room Marriott, the 427-room Radisson SAS and a 70-room extension to the Kempinski Adlon hotel. Continuing on from 2003, interest in the real estate market was also robust in 2004 with several hotels being transacted during 2004. Over the next two years an additional five hotels are expected to enter the four-star or five-star hotel market, with a room count of approximately 1,600, or an increase of 13% on the current level of hotel supply.

Hotels in **Birmingham** experienced an increase in value of 7.7% in 2004, influenced by an increase in occupancy of more than two percentage points and a 4% increase in average room rate. The increase in room rate is attributable in part to the positive impact of the fluctuation in the euro-sterling exchange rate between 2003 and 2004. In local currency, hotel values were up by almost 6%. However, the hotel market undoubtedly benefited from Birmingham's buoyant convention, trade fair and sports calendar, while the opening of new retail and leisure facilities, such as the remodelled Bull Ring in the latter part of 2003, has further supported moderate growth in demand. Additionally, there was no noticeable increase in upscale hotel supply during 2004. A new 220-room Radisson SAS hotel is scheduled to open in July 2005 and an extension to the Marriott is also planned.

The performance of the **Brussels** hotel market showed some improvement in 2004, following a series of year-on-year declines since 2001. Occupancy increased by two percentage points, and, although average rate remained flat, the effect on RevPAR was positive. Although leisure demand to Brussels has historically been and continues to remain significantly lighter than business demand, the improvement in the

global economic outlook, combined with the accession of ten new countries to the EU in May 2004, resulted in increased commercial activity in Brussels and, hence, an increase in hotel demand. Influenced by these positive factors, hotel values were up by 3.1% compared with 2003. These positive results for Brussels have been enhanced by the fact that there was no noteworthy new upscale hotel supply during 2004, with only the 191-room, four-star Courtyard by Marriott opening in October in the suburbs. Future new hotel supply in the four-star and five-star market is likely to be controlled over the next year or so, as a number of hotel projects have been put on hold. The next openings are scheduled for 2006 and include two 149-room hotels, a Sofitel and a Radisson SAS, which will both be located within the European Quarter.

Budapest recorded its first improvement in hotel performance after several years of decline. In 2004, occupancy in Budapest increased by 13 percentage points, to 70%, from a low of 57% in the previous year. From 1997 to 2003, with the exception of 2002, occupancy fell progressively due to the consistent increase in supply. The global economic downturn, which commenced in 2001, and the slowdown in the Hungarian and German economies exacerbated the situation, in particular causing a decline in corporate travel; average rate has been in decline since 2001 as a result. This trend continued in 2004, with average rates down by 7%. Overall, the impact on RevPAR was positive and hotel values have increased by 7.9%. Several events contributed to these positive results in 2004. In May, Hungary was one of the ten new countries that joined the EU and this stimulated a strong increase in demand, and one which is set to continue. At the same time, the country welcomed the first low-cost airlines to Ferihegy Airport, an event which facilitated travel to the city and boosted corporate demand. New supply during the year

Table 4 Hotel Values – % Change (€)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | CAG 1993-04 | CAG 1998-04 |
|---------------|------------|------------|------------|-------------|------------|------------|-------------|-------------|-------------|-------------|------------|----------------|----------------|
| Moscow | n/a | n/a | n/a | n/a | -19.9 | -34.9 | 13.6 | 22.6 | 13.2 | 8.7 | 21.7 | n/a | 5.2 |
| Prague | n/a | n/a | n/a | n/a | 1.5 | 17.5 | 30.6 | -0.5 | -4.3 | 1.6 | 17.7 | n/a | 9.8 |
| Istanbul | 0.6 | -4.4 | 28.0 | 34.2 | -0.3 | -20.7 | 25.9 | -10.0 | -19.5 | -9.5 | 16.9 | 2.1 | -4.4 |
| London | 12.7 | 6.0 | 22.3 | 38.3 | 1.8 | -0.6 | 9.8 | -12.7 | -5.0 | -5.9 | 11.9 | 6.3 | -0.8 |
| Munich | n/a | n/a | n/a | n/a | 15.9 | 10.0 | 10.3 | 5.1 | -7.3 | -8.1 | 11.7 | n/a | 3.3 |
| Edinburgh | n/a | n/a | n/a | n/a | -1.3 | -1.2 | 9.5 | -5.3 | 3.3 | -3.4 | 9.4 | n/a | 1.9 |
| Budapest | n/a | n/a | n/a | n/a | 3.9 | 11.4 | 1.4 | -1.2 | -2.8 | -13.6 | 7.9 | n/a | 0.2 |
| Birmingham | n/a | n/a | n/a | n/a | 2.3 | 5.3 | 1.0 | -1.4 | 2.5 | -4.2 | 7.7 | n/a | 1.7 |
| Manchester | n/a | n/a | n/a | n/a | 3.2 | -3.2 | 3.9 | 3.1 | 0.7 | -5.7 | 7.5 | n/a | 1.0 |
| Athens | -2.3 | 0.3 | 14.1 | 17.7 | 11.7 | -5.1 | 10.7 | -2.9 | 5.9 | -2.8 | 6.7 | 4.6 | 1.9 |
| Zürich | n/a | n/a | n/a | n/a | 9.9 | 5.4 | 6.2 | 4.0 | -7.1 | -5.5 | 6.2 | n/a | 1.4 |
| Rome | 9.8 | -5.9 | 28.4 | 15.8 | 10.8 | 0.4 | 8.0 | -3.1 | -1.8 | -1.9 | 4.7 | 5.5 | 1.0 |
| Paris | -2.2 | -3.3 | -7.0 | 23.0 | 11.2 | 0.4 | 10.4 | -6.4 | 4.4 | -7.2 | 4.3 | 2.1 | 0.8 |
| Europe | 1.5 | 2.4 | 9.2 | 13.9 | 5.8 | 3.8 | 10.5 | -1.9 | -1.5 | -4.2 | 3.2 | 3.7 | 1.5 |
| Brussels | -5.3 | 4.2 | 5.7 | 13.0 | 8.4 | 2.5 | 15.3 | -4.2 | -7.7 | -4.0 | 3.1 | 2.6 | 0.6 |
| Lisbon | -4.8 | -2.2 | 13.6 | 3.1 | 13.2 | -2.7 | 12.4 | -0.1 | -1.9 | -4.0 | 2.6 | 2.4 | 0.9 |
| Dublin | n/a | n/a | n/a | n/a | -2.7 | 8.5 | 9.9 | -8.5 | -1.6 | 1.9 | 2.3 | n/a | 1.9 |
| Stockholm | 7.7 | 10.2 | 31.0 | 10.7 | 1.6 | 16.5 | 9.8 | -10.5 | -5.5 | -6.5 | 1.9 | 5.5 | 0.5 |
| Berlin | -1.6 | -1.8 | -12.1 | 11.1 | -0.1 | 15.0 | 19.9 | 3.8 | 1.5 | -2.9 | 1.0 | 2.7 | 6.1 |
| Vienna | -5.9 | 4.2 | -3.0 | -2.7 | 11.3 | 0.7 | 3.2 | 0.1 | -1.4 | 6.4 | 0.8 | 1.1 | 1.6 |
| Hamburg | n/a | n/a | n/a | n/a | 3.2 | 4.8 | 10.1 | -9.1 | 3.7 | -0.2 | 0.5 | n/a | 1.4 |
| Amsterdam | 6.8 | 11.5 | 16.6 | 13.4 | 10.8 | 13.2 | 21.9 | -6.5 | -5.5 | -4.9 | -0.3 | 6.6 | 2.4 |
| Copenhagen | 7.8 | 3.7 | 13.9 | 16.2 | 4.5 | 7.9 | 7.8 | -6.2 | -3.0 | -8.3 | -3.1 | 3.5 | -1.0 |
| Milan | n/a | n/a | n/a | n/a | 17.1 | 11.4 | 16.1 | 6.6 | 3.8 | -0.4 | -3.3 | n/a | 5.5 |
| Frankfurt | -1.9 | 2.8 | -5.3 | 5.6 | 2.8 | 4.0 | 12.9 | 6.4 | -6.6 | -2.0 | -3.7 | 1.2 | 1.6 |
| Geneva | 7.0 | 8.8 | -2.6 | 0.8 | 4.5 | 12.5 | 2.3 | 10.4 | 3.8 | -7.9 | -8.4 | 2.6 | 1.8 |
| Barcelona | -8.6 | 8.2 | 30.2 | 28.4 | 21.9 | 15.2 | 9.0 | -1.5 | 1.4 | -5.5 | -8.5 | 7.4 | 1.4 |
| Madrid | -5.1 | 0.2 | 13.5 | 16.6 | 10.9 | 9.7 | 11.5 | -2.6 | 2.4 | -5.7 | -10.9 | 3.3 | 0.4 |
| Warsaw | n/a | n/a | n/a | n/a | 2.1 | 1.2 | 1.2 | -2.0 | -15.2 | -10.9 | -13.4 | n/a | -6.8 |

Source: HVS International

was relatively limited, and new four-star and five-star supply included only the 182-room Ramada hotel and the 179-room Four Seasons Gresham Palace. The 180-room Boscolo New York Palace is under construction and is likely to open in phases, becoming fully operational by 2006. A 198-room Regent hotel, operated by Rezidor SAS, is planned for 2007. In terms of the city's infrastructure, the new congress centre within the Millennium City Centre development has been put on hold due to insufficient government funding. The plans are for the venue to accommodate 6,200 people in the main hall and it would be the largest congress facility in central Europe. In addition to a new theatre, which opened in 2003, the Millennium City Centre will eventually contain further leisure facilities such as a casino, and new hotels are planned nearby.

Hotel values in **Copenhagen** declined in 2004 (by 3.1%), for the fourth year in a row. Average rate also decreased (by 6%) compared with 2003. However, occupancy increased by four percentage points during 2004, ending a downward trend that had started in 2001. In recent years, Copenhagen has faced issues of oversupply, due to the increase in the number of new hotels in the market at a time when international demand has been negatively impacted by the global economic downturn, the war in Iraq and the continued threat of international terrorism. The improvement in occupancy largely reflects the absence of new upscale hotels opening during 2004. Several hotel projects are planned to enter the three-star market in the years ahead, but within the context of the upscale hotel market, supply is not expected to increase significantly until 2007 when a 325-room, four-star hotel located in Scala

is scheduled to open; a 160-room, five-star hotel located at Tivoli is due to open in 2007-08.

The **Dublin** hotel market enjoys demand from both the domestic and the international markets and has a good mix of business and leisure demand. As such, hotel performance in Dublin has been more stable in recent years than it has been in those European markets that have been particularly impacted by the downturn in the global economy, the terrorist attacks of 11 September 2001, SARS and the war in Iraq. The Dublin market continued to show stability in 2004, with occupancy remaining flat at 69%. Dublin has also proved remarkably resilient to the continued increase in new hotel supply, especially in the four-star and five-star segments, in recent years. Hotel values increased by 2.3% in 2004. New upscale hotels that are likely to enter the market in 2005 include the 166-room, four-star Hilton at Dublin Airport and the 225-room Jurys Croke Park Hotel in the city centre in August. In 2006 the 289-room Gresham Hotel is likely to come under the management of Hyatt International, while there are two new openings planned: a 180-room Le Meridien in 2007 and a 200-room Marriott in 2008.

Hotels in **Edinburgh** experienced an increase in value of 9.4%, influenced largely by increase in average room rate on 2003 of slightly more than 7%. The increase in average rate was boosted by the fluctuation in the euro-sterling exchange rate between 2003 and 2004. In sterling terms, hotel values in Edinburgh increased by 7% on 2003. Occupancy in Edinburgh increased by slightly more than one percentage point to reach an impressive 78%. Edinburgh is Scotland's administrative centre and its healthy financial services industry provides strong commercial demand for hotels. The city is also an important

leisure destination and enjoys strong demand from leisure segments. Additionally, there was no noticeable increase in upscale hotel supply during 2004 and there are no other hotels presently under construction in the city centre. Although it is likely that some new hotel supply will materialise, the outlook for the market is positive.

In common with other major German hotel markets, **Frankfurt** showed signs of improvement in 2004, with occupancy increasing by three percentage points during the year, to 62%. However, as Frankfurt is a regional and international headquarters for many companies, hotels in the city have continued to feel the effect of the downturn in the domestic economy since 2001, and, more importantly for the city, the slowdown in the economies of Germany's key trading partners. In addition, the biennial nature of the city's conference and exhibition market resulted in fewer events during the year, and therefore did not contribute the levels of demand enjoyed in previous years. As such, average room rate in 2004 declined by 8%, having a negative impact on RevPAR and contributing to a 3.7% decline in value on 2003. Among the considerable amount of new supply planned for Frankfurt in 2005 are a 440-room Radisson SAS hotel at the Messe and the 146-room Inside Residence in Niederrad. A 165-room, de luxe five-star Rocco Forte Hotel is expected to open in 2006, and several other hotel projects currently at the planning stage are likely to materialise in the medium term.

For the second year in a row, the **Geneva** hotel market experienced a decline in occupancy and a strong decline in average room rate (10%). This declining performance contributed to a decrease in value of 8.4% in 2004. In Swiss franc

Table 5 Hotel Valuation Index 1993–04

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| London | 1.684 | 1.898 | 2.012 | 2.460 | 3.402 | 3.463 | 3.444 | 3.781 | 3.243 | 3.080 | 2.898 | 3.244 |
| Paris | 2.471 | 2.416 | 2.337 | 2.174 | 2.674 | 2.973 | 2.986 | 3.297 | 3.034 | 3.166 | 2.939 | 3.064 |
| Milan | n/a | n/a | n/a | n/a | 1.751 | 2.051 | 2.285 | 2.652 | 2.778 | 2.883 | 2.873 | 2.778 |
| Zürich | n/a | n/a | n/a | n/a | 1.619 | 1.835 | 2.310 | 2.453 | 2.505 | 2.329 | 2.201 | 2.337 |
| Geneva | 1.606 | 1.718 | 1.870 | 1.821 | 1.836 | 2.192 | 2.159 | 2.209 | 2.397 | 2.488 | 2.291 | 2.100 |
| Rome | 1.065 | 1.170 | 1.100 | 1.413 | 1.636 | 1.814 | 1.822 | 1.967 | 1.873 | 1.839 | 1.804 | 1.889 |
| Edinburgh | n/a | n/a | n/a | n/a | 1.993 | 1.439 | 1.490 | 1.794 | 1.669 | 1.725 | 1.666 | 1.822 |
| Amsterdam | 0.841 | 0.898 | 1.001 | 1.167 | 1.323 | 1.466 | 1.659 | 2.022 | 1.856 | 1.754 | 1.669 | 1.664 |
| Prague | n/a | n/a | n/a | n/a | 0.923 | 0.936 | 1.100 | 1.437 | 1.404 | 1.344 | 1.366 | 1.607 |
| Munich | n/a | n/a | n/a | n/a | 1.088 | 1.261 | 1.386 | 1.530 | 1.579 | 1.464 | 1.345 | 1.502 |
| Europe | 1.000 | 1.009 | 1.025 | 1.111 | 1.274 | 1.355 | 1.414 | 1.580 | 1.539 | 1.516 | 1.452 | 1.499 |
| Madrid | 1.028 | 0.975 | 0.977 | 1.109 | 1.293 | 1.434 | 1.573 | 1.755 | 1.679 | 1.720 | 1.621 | 1.444 |
| Moscow | n/a | n/a | n/a | n/a | 1.247 | 0.999 | 0.650 | 0.739 | 0.890 | 1.008 | 1.095 | 1.333 |
| Manchester | n/a | n/a | n/a | n/a | 1.198 | 1.236 | 1.196 | 1.243 | 1.259 | 1.268 | 1.196 | 1.286 |
| Barcelona | 0.586 | 0.535 | 0.580 | 0.754 | 0.969 | 1.182 | 1.362 | 1.484 | 1.437 | 1.457 | 1.377 | 1.260 |
| Dublin | n/a | n/a | n/a | n/a | 1.172 | 1.140 | 1.236 | 1.358 | 1.221 | 1.201 | 1.224 | 1.251 |
| Birmingham | n/a | n/a | n/a | n/a | 1.117 | 1.144 | 1.205 | 1.216 | 1.179 | 1.208 | 1.157 | 1.246 |
| Berlin | 0.922 | 0.907 | 0.891 | 0.783 | 0.870 | 0.870 | 1.000 | 1.199 | 1.223 | 1.241 | 1.205 | 1.218 |
| Hamburg | n/a | n/a | n/a | n/a | 1.099 | 1.134 | 1.188 | 1.307 | 1.167 | 1.210 | 1.207 | 1.213 |
| Vienna | 1.053 | 0.991 | 1.032 | 1.001 | 0.974 | 1.083 | 1.091 | 1.125 | 1.107 | 1.091 | 1.162 | 1.171 |
| Brussels | 0.836 | 0.791 | 0.825 | 0.871 | 0.984 | 1.067 | 1.094 | 1.261 | 1.187 | 1.095 | 1.051 | 1.084 |
| Stockholm | 0.601 | 0.647 | 0.713 | 0.934 | 1.034 | 1.051 | 1.224 | 1.344 | 1.182 | 1.117 | 1.044 | 1.064 |
| Frankfurt | 0.938 | 0.920 | 0.946 | 0.896 | 0.946 | 0.973 | 1.012 | 1.142 | 1.193 | 1.114 | 1.092 | 1.051 |
| Budapest | n/a | n/a | n/a | n/a | 0.984 | 1.022 | 1.138 | 1.154 | 1.121 | 1.089 | 0.941 | 1.015 |
| Athens | 0.592 | 0.579 | 0.580 | 0.662 | 0.779 | 0.870 | 0.864 | 0.914 | 0.872 | 0.923 | 0.897 | 0.958 |
| Copenhagen | 0.670 | 0.722 | 0.748 | 0.853 | 0.991 | 1.035 | 1.117 | 1.204 | 1.109 | 1.076 | 0.987 | 0.957 |
| Lisbon | 0.706 | 0.672 | 0.658 | 0.747 | 0.770 | 0.872 | 0.848 | 0.954 | 0.936 | 0.919 | 0.881 | 0.904 |
| Istanbul | 0.688 | 0.692 | 0.662 | 0.847 | 1.136 | 1.133 | 0.899 | 1.132 | 1.000 | 0.805 | 0.729 | 0.852 |
| Warsaw | n/a | n/a | n/a | n/a | 0.990 | 1.011 | 1.022 | 1.034 | 0.996 | 0.845 | 0.753 | 0.651 |

Source: HVS International

terms, the decline in hotel values in Geneva compared to 2003 is slightly less pronounced, at 7%. Geneva is heavily reliant on the financial sector and as business has been negatively impacted by the global economic slowdown and the sharp appreciation of the Swiss franc, demand has faltered. Furthermore, Geneva has previously enjoyed leisure demand during the summer driven by affluent Middle Eastern markets. However, due largely to the events of 11 September 2001, visitors from these markets were reduced in 2003-04 and they may not increase significantly in the short term. Historically, hotel performance has been supported to some degree by high real estate prices, lack of development sites in the city centre and restrictive planning policies, which have resulted in limited growth in hotel supply in the city. However, since 2003 there has been notable new hotel supply and extensions made to existing hotels in the Geneva Airport area and this has put downward pressure on room rates in the city centre. As very few new hotels have been built in the centre of Geneva in the last ten years, international hotel operators have typically entered the market by taking over the management of existing hotels. Continuing this trend, several hotels have been earmarked for extensive refurbishment and rebranding. The Hotel des Bergues closed in late 2004 and will open in late 2005 as a 95-room Four Seasons hotel; Hotel Le Richemond will undergo extensive renovation during 2005 and it will be extended to 125 rooms, before being repositioned as a Rocco Forte hotel; and the Hotel de la Paix closed in February 2005 and will reopen in mid 2005 under the Concorde brand as a fully refurbished five-star de luxe hotel.

The performance of the **Hamburg** hotel market was stable in 2004, with occupancy

increasing by almost one percentage point and average room rate declining by slightly less than 1%. The overall increase in RevPAR of 0.5% contributed to a small increase in value of 0.5% on 2003. During 2004, the market absorbed the impact of the new 284-room, five-star Le Royal Meridien hotel, which opened in September 2003 and was the first significant addition to supply since 2001. New supply in the four-star and five-star markets is likely to be contained during the next few years and the market is set to continue to enjoy a stable balance of midweek business and weekend leisure visitation.

The hotel market in **Istanbul** has experienced considerable volatility in recent years. In particular, the earthquake in 1999 had a major effect on tourism visitation, as did the war in Iraq, SARS and the global economic slowdown. In addition, a continuing increase in hotel supply in recent years has resulted in significant rate competition and downward pressure on average room rate, which has declined year-on-year from 2000 to 2003. However in 2004, the hotel market experienced a recovery, and occupancy increased by nine percentage points, to 59%. Average room rate also increased during the year, by almost 1%, which is impressive considering that they recorded a double-digit decline in the previous year. These figures have contributed to an impressive 16.9% increase in hotel value on 2003. These positive results are attributable largely to a recovery in tourist visitation, which was stimulated by talk of Turkey's beginning the process that might lead to the country's accession into the EU, heightened interest in the Turkish investment market from international parties and the new Grand Prix racing circuit. There is also potential for a new conference centre to be developed, which would generate

additional meeting and conference demand. In terms of new hotel supply, there were no new openings in 2004. However, around 2,000 rooms could potentially be added to the four-star and five-star hotel market between 2005 and 2008. The 144-room, four-star Divan City is due to open in spring 2005. The Grand Tarabya Hotel will follow in mid 2005 under the management of Millennium & Copthorne; this hotel is on the Bosphorus, some 20 km north of Istanbul, and is currently closed for renovation. A 200-room Novotel is due to open in September 2006, followed by the 175-room Four Seasons Atik Pasha Palace. The 185-room Dolmabahce Hotel is scheduled to open in 2007 and Radisson SAS Hotels has recently been appointed to operate two hotels that are currently under construction – a 145-room hotel in the Taksim district and a 124-room hotel in Ortaköy.

Lisbon benefits from strong demand from the corporate segment, the meeting and incentives segment and the leisure segments. In 2004, Portugal hosted the European Football Championships, which boosted summer tourism and spurred a revitalisation of Lisbon's infrastructure. With adjustments made for the direct impact of the Football Championships, Lisbon experienced an increase in occupancy of one percentage point in 2004 and an increase in average rate of slightly more than 1%; hotel value increased by 2.6%. Lisbon has withstood continual increases in new hotel supply in recent years – with the exception of 2004 – and the hotel market suffered as a result. New supply in Lisbon continued in 2004 with the opening of two new hotels – the four-star Sana Lisboa and the Sana Milhoa Hotel, which together added a further 472 rooms. The Corinthia Alfa Hotel reopened in May 2004 with 517 bedrooms following its renovation. In mid 2005 the 128-room, four-star

Table 6 Hotel Values per Room 1993–04 (€)

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| London | 245,617 | 276,810 | 293,330 | 358,743 | 496,007 | 504,990 | 502,180 | 551,308 | 481,279 | 457,124 | 430,117 | 481,426 |
| Paris | 360,262 | 352,336 | 340,709 | 316,953 | 389,947 | 433,515 | 435,387 | 480,798 | 450,251 | 469,933 | 436,123 | 454,731 |
| Milan | n/a | n/a | n/a | n/a | 255,262 | 299,025 | 333,174 | 386,692 | 412,349 | 427,938 | 426,338 | 412,336 |
| Zürich | n/a | n/a | n/a | n/a | 290,675 | 319,572 | 336,866 | 357,671 | 371,852 | 345,619 | 326,677 | 346,839 |
| Geneva | 234,149 | 250,549 | 272,657 | 265,541 | 267,766 | 279,867 | 314,807 | 322,171 | 355,750 | 369,261 | 340,086 | 311,643 |
| Rome | 155,319 | 170,562 | 160,459 | 205,974 | 238,614 | 264,487 | 265,612 | 286,789 | 277,912 | 272,879 | 267,682 | 280,346 |
| Edinburgh | n/a | n/a | n/a | n/a | 245,165 | 241,935 | 238,926 | 261,603 | 247,672 | 255,948 | 247,243 | 270,455 |
| Amsterdam | 122,574 | 130,897 | 145,949 | 170,177 | 192,981 | 213,762 | 241,923 | 294,802 | 275,523 | 260,350 | 247,698 | 246,908 |
| Prague | n/a | n/a | n/a | n/a | 134,533 | 136,485 | 160,409 | 209,487 | 208,411 | 199,454 | 202,715 | 238,527 |
| Munich | n/a | n/a | n/a | n/a | 158,574 | 183,805 | 202,134 | 223,051 | 234,324 | 217,242 | 199,570 | 222,864 |
| Europe | 148,415 | 150,664 | 154,286 | 168,510 | 191,954 | 203,031 | 210,755 | 232,821 | 228,432 | 225,053 | 215,570 | 222,443 |
| Madrid | 149,874 | 142,183 | 142,416 | 161,663 | 188,540 | 209,076 | 229,370 | 255,843 | 249,238 | 255,281 | 240,605 | 214,347 |
| Moscow | n/a | n/a | n/a | n/a | 181,863 | 145,648 | 94,848 | 107,718 | 132,073 | 149,541 | 162,492 | 197,790 |
| Manchester | n/a | n/a | n/a | n/a | 174,631 | 180,174 | 174,440 | 181,298 | 186,891 | 188,184 | 177,502 | 190,901 |
| Barcelona | 85,399 | 78,074 | 84,504 | 110,015 | 141,299 | 172,308 | 198,575 | 216,445 | 213,201 | 216,272 | 204,331 | 187,026 |
| Dublin | n/a | n/a | n/a | n/a | 170,872 | 166,186 | 180,232 | 198,067 | 181,166 | 178,183 | 181,630 | 185,726 |
| Birmingham | n/a | n/a | n/a | n/a | 162,921 | 166,748 | 175,632 | 177,376 | 174,962 | 179,324 | 171,704 | 184,940 |
| Berlin | 134,394 | 132,243 | 129,863 | 114,150 | 126,866 | 126,796 | 145,828 | 174,780 | 181,489 | 184,192 | 178,894 | 180,720 |
| Hamburg | n/a | n/a | n/a | n/a | 160,238 | 165,297 | 173,176 | 190,644 | 173,244 | 179,607 | 179,186 | 180,016 |
| Vienna | 153,557 | 144,497 | 150,496 | 145,934 | 141,970 | 157,959 | 159,090 | 164,110 | 164,310 | 161,975 | 172,412 | 173,810 |
| Brussels | 121,886 | 115,376 | 120,223 | 127,017 | 143,492 | 155,594 | 159,499 | 183,874 | 176,123 | 162,479 | 155,996 | 160,856 |
| Stockholm | 87,589 | 94,355 | 103,986 | 136,182 | 150,744 | 153,216 | 178,531 | 196,009 | 175,400 | 165,761 | 154,934 | 157,948 |
| Frankfurt | 136,758 | 134,160 | 137,916 | 130,606 | 137,920 | 141,829 | 147,541 | 166,502 | 177,093 | 165,347 | 161,997 | 156,047 |
| Budapest | n/a | n/a | n/a | n/a | 143,425 | 149,045 | 165,972 | 168,319 | 166,305 | 161,632 | 139,683 | 150,655 |
| Athens | 86,393 | 84,405 | 84,627 | 96,554 | 113,645 | 126,896 | 120,383 | 133,255 | 129,407 | 136,984 | 133,195 | 142,138 |
| Copenhagen | 97,643 | 105,259 | 109,116 | 124,337 | 144,450 | 150,920 | 162,823 | 175,561 | 164,661 | 159,733 | 146,488 | 142,009 |
| Lisbon | 102,966 | 98,029 | 95,877 | 108,879 | 112,256 | 127,098 | 123,684 | 139,034 | 138,940 | 136,335 | 130,828 | 134,239 |
| Istanbul | 100,258 | 100,896 | 96,454 | 123,435 | 165,709 | 165,276 | 131,060 | 164,991 | 148,456 | 119,511 | 108,160 | 126,474 |
| Warsaw | n/a | n/a | n/a | n/a | 144,352 | 147,349 | 149,048 | 150,784 | 147,802 | 125,402 | 111,685 | 96,673 |

Source: HVS International

Acores hotel is due to open and a further 1,000 bedrooms are due to enter the market by 2008.

London led the UK market with an encouraging performance in 2004. This followed a series of difficult years after 2001, during which time the capital suffered, particularly as global economies slowed and international visitors, especially those from the transatlantic market, dwindled. However, in 2004 hotels achieved a respectable occupancy of 79%, an increase of four percentage points on 2003. Average room rate also climbed, increasing by 8% during the year. The impact on hotel values was positive, showing a growth of 11.9% compared with 2003. Some of this growth is attributable to the positive impact of the fluctuation in the euro-sterling exchange rate between 2003 and 2004; in sterling terms, hotel values increased by just under 10%. These positive results have been driven by the improving economic outlook and a strong increase in visitor numbers. Airports in London handled 140.1 million passengers during 2004, an increase of 6.9% on 2003. The strength of the euro compared to sterling facilitated tourism from the continent. Although the weakness of the US dollar remains a concern for 2005, as this may have a negative impact on the number of visitors from the USA and other long haul markets, such as Asia, that are linked to the dollar, the outlook is positive for London. Due mainly to a lack of suitable sites in the centre of London, new hotel supply has been limited. There is set to be less new supply in 2005, with just two upscale hotels due to open – the 462-room Riverbank Park Plaza and the 101-room In&Out Club in Piccadilly – and a total of 500 new rooms opening in the four-star segment. New supply in the four-star and five-star market is likely to continue to be controlled in the

foreseeable future, as barriers to entry are likely to remain high.

For the second year in a row **Madrid** has experienced declines in both occupancy and average room rates. Occupancy declined by 4 percentage points to 61% in 2004 while average room rates decreased by 7% compared with 2003. Values have been impacted, showing a double-digit decline of 10.9%. Madrid is heavily reliant on business demand and has faced a challenging trading environment since 2001 as global economies slowed and US visitors, which historically formed an important source of visitation to Madrid – decreased due to the war in Iraq. These difficult trading conditions have been compounded by the terrorist attacks that occurred in Madrid in March 2004. Similar to other Spanish cities, this downturn has been exacerbated by significant increases in four-star and five-star hotel supply. While plenty more hotels are due to enter the market over the coming years, demand in Madrid is likely to be stimulated in the medium-term by important developments in transportation infrastructure, such as the airport expansion that is planned to be completed by the end of 2005 and will increase its capacity to 75 million passengers, the new high-speed train link and the city's bid to host the Olympic Games in 2012.

Similar to other key markets in the UK hotels in **Manchester** experienced an increase in value of 7.5% in 2004, driven by increases in occupancy (three percentage points) and in average room rates (7%). The increase in value is partially attributable to the positive impact of the fluctuation in the euro-sterling exchange rate between 2003 and 2004 – in sterling terms, hotel values increased by 5%. Although the UK hotel industry was adversely affected by the global economic slowdown in recent years, the war in

Iraq and so forth, the impact on Manchester has been contained. Its hotel market has continued to benefit from the city's promotion during the Commonwealth Games in 2002, and from regeneration projects such as Piccadilly Gardens, and from more recent development of sports and conference facilities, such as the Manchester City football stadium and Manchester International Convention Centre (MICC). Additionally, new hotel supply has been limited in 2004 and is set to continue as such. In the four-star segment, Arora Hotels International opened a 312-room hotel in June 2004, while a 250-room Radisson Edwardian opened later in the year. A 285-room Hilton hotel is planned for mid 2006 in the city-centre.

The four-star and five-star hotel market in Italy has suffered in recent years due to the continued economic slowdown in the domestic economy and the economies of Italy's key trading partners. But since the termination of the war in Iraq, overall global economic outlooks have improved and there has been improvement in hotel demand. In **Milan**, Italy's financial capital, occupancies across four-star and five-star hotels declined during 2004 by approximately 2 percentage points compared with 2003, to 68%. Average room rates, which experienced year-on-year growth from 1997 to 2003, remained flat in 2004. The impact on RevPAR was negative and hotel values have also decreased in 2004 (by 3.3%). These declines are directly related to the significant increase in four-star and five-star hotel supply in Milan in recent months, as the volume of hotel roomnights in Milan actually increased during 2004. In early 2004, the 172-room four-star Visconti Palace opened, followed by the 52-room five-star Bvlgari in May. Considering that the upscale hotel market in Milan is relatively small and that it was already reacting to new supply

entering the market with the opening of the five-star 117-room Park Hyatt Milan in November 2003, the hotel market's declines are unsurprising.

2004 has been a record year for **Moscow's** hotel market. For the fifth consecutive year, occupancy for the quality hotel market increased and reached a peak of 73%, surpassing the high levels recorded in 1997 and early 1998. Average room rates also increased, by an impressive 9% compared with 2003. The positive impact on RevPAR influenced hotel values, which increased by 21.7% compared to 2003. These results have been fuelled by continued growth of and confidence in the Russian economy, and in ongoing political and fiscal stability. These have outweighed negative factors affecting the hotel market, such as the effects on travel caused by the war in Iraq, the ongoing threat of international terrorism and the weakness of the US dollar to other global currencies. Furthermore, Moscow's capacity of quality hotel supply is currently constrained. While several hotel projects are rumoured, most of them have been delayed by bureaucratic hurdles and the difficulty to secure suitable sites in the city centre. We note that the construction of the proposed 436-room Hilton on the site of former Intourist hotel planned for completion in 2004 has not yet seen any ground work. The same applies to the redevelopment of the soviet era hotels such as the Rossyia and the Moskva. In terms of new projects, Raffles announced the management of a 235-room Swissotel Riverside Towers, which is due to open by May 2005, while construction of a 300-room Ritz-Carlton has been announced and is due for completion by mid 2006. Surprisingly, the proposed redevelopment of the Moskva into a 210-room Four Seasons hotel has been delayed due to the 'excellent views' that the demolition of the 1935 building revealed - its opening has been set back to 2008. Another 80-room boutique Four-Seasons hotel is also planned for that year. Finally, the City Hall approved the demolition of the 3,000-room Rossiya to be redeveloped into a multi-functional complex hosting 2,000 rooms by 2008. The recent surge in interest in this sector in Moscow and throughout the country, has resulted in numerous rumoured hotel projects for the city. Although there is bound to be additional new supply in forthcoming years, many of these projects will not materialise.

In common with other main markets in Germany, hotels in **Munich** have encountered a more positive trading environment in 2004. Munich recorded an increase in occupancy, of 3 percentage points, while average room rates increased by 6%, recovering somewhat from the severe decline of 9% in 2003. These results have contributed to an increase in hotel values in 2004 of 11.7%. We would comment however, that this increase is partially a correction to the decline shown in 2003, a year which was a particularly weak due mainly to weak trade fair activity. New four-star supply during the year included the 199-room InterCity Hotel at the main train station and the 278-room Dorint-Novotel, while in the five-star segment the 392-room Dorint-Sofitel opened.

Following a series of challenging years beginning in 2001, **Paris** has led the French hotel market in 2004 by recording some improvement. Occupancy increased by 2 percentage points to 71% and average room rates increased by 1%, contributing to improved RevPAR and an increase in value of 4.3% compared with 2003. We comment that growth in occupancy during 2004 was strongest in the five-star segment, while average rate growth, was driven primarily by the four-star segment. The main reasons for this improvement in performance for the Parisian hotel market is the overall improvement in the global economic outlook and more specifically the performance of the national

economy. However, the appreciation of the euro against the main currencies of the world, particularly the US dollar, combined with political tensions between France and the US, which continues to suppress US visitation the Paris, are likely to restrain hotel demand over the foreseeable future to some extent. With regard to new hotel supply, Paris is still characterised by its high barriers to entry. However, 2004 witnessed the opening of a new 552-room five-star Hilton Arc de Triomphe and nearby, management of the renovated 182-room Hotel Royal Monceau has been appointed to Mandrin Oriental from January 2005. Other planned hotels include a 62-room 'boutique hotel' on Avenue Marceau, which is due to open in 2005 under the management of Holiday Inn. Opening of the re-developed Relais Carré d'Or hotel located on Avenue George V has been delayed until 2006, when it will open as a five-star property with 120-rooms.

The **Prague** hotel market has improved its performance for a second year in a row distancing itself further from the year 2002 – the year in which the city suffered disastrous effects from the August floods of that year. Occupancy in 2004 increased by 9 percentage points compared to 2003 and average rates increased by 5%. Overall RevPAR showed double-digit growth, while hotel values have increased by 17.7% compared with 2003. Signs of a strong recovery from the difficult trading conditions of recent years affected by the floods of 2002, the war in Iraq and the slowdown in global economies, had already commenced from the second half of 2003. During 2004, demand continued to grow and the accession of the Czech Republic to the European Union in May 2004 had a particularly positive effect on corporate demand. Prague remains the main tourist magnet in the Czech Republic, benefiting from good business and leisure demand generators, its competitive pricing environment, well-developed tourism infrastructure and good accessibility from international destinations. An increasing number of low-cost carriers have added Prague to their routes, which, in particular has led to an increase in the number of British visitors. Furthermore, Prague has seen limited new supply to the upscale hotel segments in recent years. In 2004 new hotels included the independently operated 130-room five-star President hotel that opened in August and the 130-room K+K Hotel that opened in November 2004. Proposed new hotel developments include a 161-room Courtyard by Marriott, scheduled to open in 2005 and a 98-room Mandarin Oriental hotel in 2006.

In **Rome**, the overall improvement in the global economic outlook since the end of the war in Iraq facilitated the capital's hotel market to increase its occupancy during 2004 by 4 percentage points compared with 2003. Average room rates, declined by just less than 1%, as hotels discounted their rates to re-gain some occupancy. The combined effect on RevPAR was positive, while hotel values were also up by 4.7% in 2004. These positive results for Rome were enhanced by the fact that there has been no significant growth in hotel supply in the city during the year. The anticipated opening of the 600-room Rome Marriott Park Hotel has been set back to July 2005. Rome continues to present reasonably high barriers of entry and thus new hotel supply is likely to remain regulated.

During 2004 the **Stockholm** hotel market showed some improvement, mainly due to an upturn in the global economic outlook and buoyancy in the Swedish economy. These conditions had a positive effect on corporate demand, which directly impacted the hotel market, as this is by far the most important source of demand for four-star and five-star hotels in Stockholm. Simultaneously, demand from the meeting and conference segments also

showed an increase during 2004. Overall, occupancy for Stockholm increased by three percentage points compared to 2003, reaching 72%. However, as a result of new hotel supply in the market, there has been downward pressure on hotel room rates, which have declined year-on-year, since 2001. In 2004, rates were down by 3% compared with 2003. Values in 2004 also declined slightly compared with 2003, by 1.9%. Although there was no significant new hotel supply in 2004, four hotels comprising some 500 rooms are planned to open during 2006 (including a 175-room boutique hotel). There are another four hotels planned to open during 2007-08, representing some 1,600 rooms (including a 250-room and a 600-room Courtyard by Marriott hotels).

Following a successful year in 2003 the **Vienna** hotel market managed to maintain its position in 2004. Occupancy remained static at 70% in 2004, while average room rates increased marginally by just over 1%. The impact on RevPAR in 2004 was positive and values also increased slightly (by 0.8%) compared with 2003. Considering that there has been considerable new hotel supply in recent years, these results are impressive. Specifically, a 294-room, five-star Le Meridien hotel, located on Opernring and a 33-suite five-star Palais Coburg hotel opened in November 2003. In 2004, the 579-room Hilton Am Stadtpark reopened in May following an 18-month refurbishment programme. New hotel supply is largely restricted due to a lack of available sites in Vienna city-centre. Within the upscale hotel segment a 75-room four-star hotel opened in February 2005. Beyond this, two five-star hotels are rumoured to open in 2007-08 – a 150-room hotel, to be located on Börseplatz and a 170-room hotel located on the Schubert Ring. Vienna is an established leisure destination and benefits from strong convention, meeting and incentive, and commercial demand. In order to remain competitive as a leisure and business destination, Vienna has focused attention on preserving the city's heritage while upgrading its tourist attractions such as, the Prater Amusement Park and Schönbrunn Palace which are currently undergoing renovation. In addition the city has expanded its congress and meeting venues, with the opening of the new RX Messe Wien Congress Centre in January 2004, and is improving its communication infrastructure. Due to its geographic position, Vienna is likely to benefit from the EU enlargement in terms of additional business travel due to increased trade between new EU member states in Central Europe. Vienna's airport is set for a major redevelopment programme which includes expanding the airport's terminal to accommodate an additional 10 million passengers by 2007 (which would double its current capacity) and adding a new runway by 2013.

The combined benefits of European Union membership and a strong currency have given many cities in Eastern Europe a new competitive advantage, with several ranking among the best performing markets in Europe. Although the **Warsaw** hotel market has continued to suffer from the affects of oversupply, reaching an occupancy of just 57% in 2004, it is significant that in 2004 there was an increase in occupancy (albeit, one percentage point), which has interrupted the year-on-year trend in decline recorded since 1997. Average room rate, however, showed a decline of 15% compared with 2003 resulting in a weaker RevPAR. Hotel values have been affected and showed a decline of 13.4% compared with 2003. In local currency, the decrease in value compared with 2003 equates to 11%. Once again, it is noteworthy that although average rates have declined in 2004, this result is less severe than the 22% decline recorded in the previous year. In comparison with the 1,750 new hotel rooms in the four-star

and five-star market that have been added to Warsaw's supply since 2001, new supply in these segments was limited in 2004 with only the 61-room boutique Hotel Le Regina opening during the year. There was however new supply in the lower end of the market. Further new supply is anticipated in 2005 and 2006, albeit at a more modest rate compared with historic levels. Based on the results achieved by Warsaw's hotel market to-date, it is reasonable to conclude that if new hotel supply is regulated over the next few years, and that demand does not decrease below current levels, that the downward trend in its current cycle is likely to have bottomed out in 2003. It must be noted that budget hotels in Warsaw have performed well compared to four- and five-star hotels. There is no doubt that four- and five-star hotel values are severely depressed (to the extent that they are below development costs) and that the prospect of recovery in value in the short-term (three to five years) is bleak. However, patient investors could be rewarded because in the longer term, the outlook for Warsaw is more optimistic and the city is likely to capitalise on increasing demand from Eastern Europe, benefit from growth in demand from Europe and the USA and maximise benefits from Poland's recent accession to the European Union.

In 2004, the **Zürich** hotel market registered some improvement following a series of difficult years since 2001, during which the Swiss economy has been badly affected by the downturn in global economies and the financial sector, the sharp appreciation of the Swiss franc, the events of 11 September 2001 and the bankruptcy of Swissair. Reversing a downward trend that commenced in 2000, hotel occupancy in Zürich registered an increase of 8 percentage points compared with 2003 to 66% in 2004. Average room rate however declined further by 3% compared with 2003. The impact on RevPAR however was positive, and contributed to an increase in hotel values of 6.2%. In Swiss franc terms, the increase in Zürich hotel values versus 2003 equates to 8%. We comment that the increase in value in 2004 is partly a correction for the decreases recorded in 2002 and 2003, which were particularly weak years for the Zürich hotel market with occupancy falling by more than ten percentage points below the market's historic levels of over 70%. In terms of new hotel supply, a 142-room Park Hyatt hotel opened in September 2004, while a 152-room Courtyard by Marriott hotel is due to open in mid-2006.

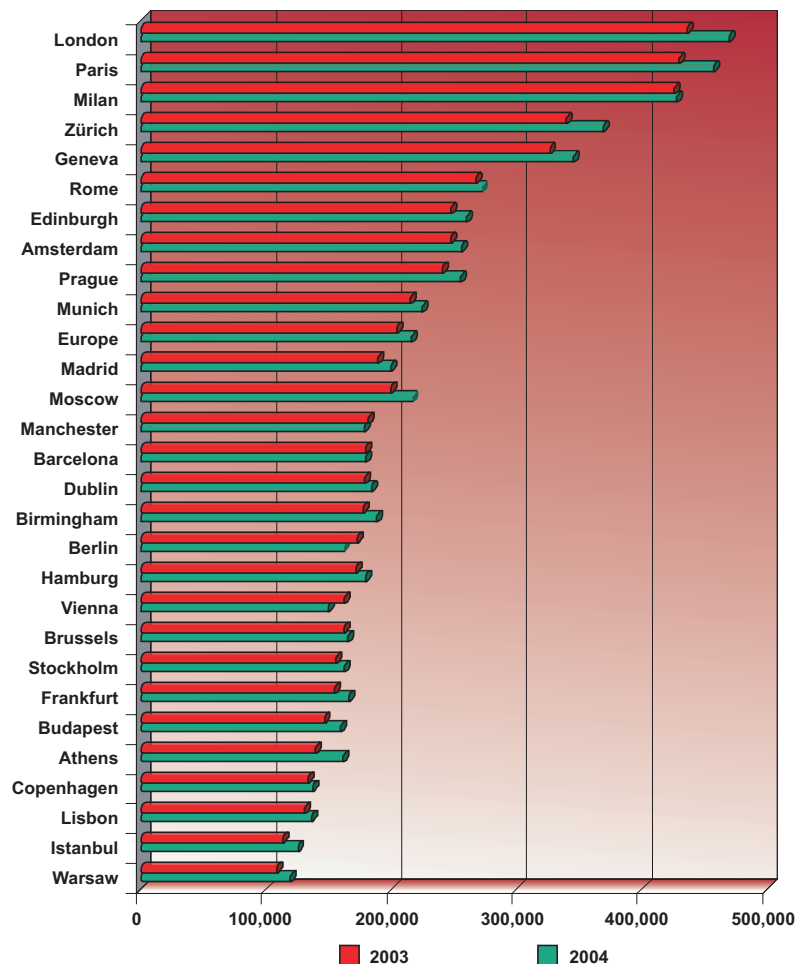
Hotel Values per Room

According to our analysis of values in euro (Table 6), London has overthrown Paris to regain its position at the top of the 28 HVI markets, claiming the highest value per room (€481,426). Together with London, upscale hotels in Paris and Milan each feature values per room that exceed the €400,000 mark. The Swiss cities of Zürich and Geneva follow, with values per room between €300,000 and €400,000, while Rome, Edinburgh, Amsterdam, Prague and Munich also claim values per room that is above the European average of €222,443 in 2004. At the other end of the scale, Istanbul has gained a notch, leaving Warsaw at the bottom, with value per room at €96,673.

Outlook

In 2004, we have seen clear signs of recovery in hotel performance as predicted in our last edition of the HVI. With the exception of Warsaw, Eastern European markets, including Moscow and Istanbul, have outperformed their

Table 7 Hotel Values per Room 2002 and 2004 (€)



Source: HVS International

Western European counterparts in terms of value growth. Cities in the UK have also performed well, benefiting from the UK's robust economy. Future performance will depend largely on the extent and continuity of improvement in global economies. We re-iterate that excessive new hotel supply to a market has an adverse impact on hotel values; therefore, those cities that are, or will experience this phenomenon will suffer the results. However, this does not apply to the majority of cities covered in our survey, and given the depressed nature of hotel values recorded in recent years, we consider that there is plenty of potential for improvement in hotel values over the next two to three years. Finally, while the events of recent years are likely to have resulted in better all-round ability to deal with uncertainty, the threat of terrorist activity remains and should this occur the effects could be detrimental to our positive outlook.

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. Operating data from the Deloitte HotelBenchmark Survey were used to supplement our sample of hotels in some of the markets. The data are then aggregated to produce a pro forma performance for a typical 200-room hotel in each 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 2004 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2004. 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 2004 the index for London was 3.244 (€481,426/€148,415), which means that the value of a hotel in London in 2004 was more than three times higher than the European average in 1993.



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