The European Hotel Valuation Index (HVI) shows that hotel values (expressed in euro) achieved a second consecutive year of growth. On average, values across Europe increased by 5% in 2005, compared with an increase of 3% in 2004. These rises in value followed three years of decline. The European average hotel value is now back at the level achieved in the peak year 2000, although much of this has been driven by growth in Eastern European markets. Many markets, such as Milan, Zürich, Geneva, Rome, Budapest and Edinburgh, have indeed surpassed the 2000 peak, whilst others, including Paris and Hamburg, have come very close.

We have also seen in 2005 that 18 of the 28 markets under review have achieved an increase in excess of inflationary growth; only five markets – Berlin, Munich, Barcelona, Athens and Lisbon – recorded a decline in average values. In contrast, in 2004 eight markets showed a decline in value and only Barcelona recorded a decline in both 2004 and 2005.

Istanbul was a star performer in 2005, bringing to an end Moscow’s four-year run of being the market that recorded the highest annual growth in values in our survey. After recording an increase in values in 2004 of almost 17%, Istanbul saw a dramatic improvement in trading performance in 2005: hotel values increased by 32%. This increase was driven largely by both occupancy (up by ten percentage points) and average rate (up by almost 25%); this led to an increase in RevPAR of 44%.

Hotel values in Moscow are continuing to reach for the skies, and a double-digit increase was again recorded this year. Values in the city have now seen double-digit increases for six consecutive years, with the exception of 2003 when they recorded an increase of only 9%. This now gives Moscow an average value of €240,910 per room, placing it above the Europe-wide average for the first time.

Despite a dramatic increase in values in 2005 of 8% (the seventh-highest growth rate in the survey), Warsaw still finds itself languishing at the bottom of the table of hotel values per room with a figure of approximately €104,500. This is some €16,700 (or 14%) adrift of the next contender – Lisbon – at €121,200. Other markets finding their hotels in the lower reaches of the table are Athens, Copenhagen, Frankfurt, Stockholm and Istanbul.

London has retained its position as the most expensive city in which to acquire a hotel, this year breaking through the €500,000 barrier; the average value per room was €516,120 and the growth rate 7.2%. Paris remains in second place (€484,520 per room and growth of 6.6%). There is a wide gap between second and third place in the table of €68,710 before we reach Milan on €415,820. The gap in value between third and fourth place is €39,880. Zürich is in fourth place on €375,990.

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**Highlights**

- The European Hotel Valuation Index (HVI) shows that hotel values (expressed in euro) achieved a second consecutive year of growth. On average, values across Europe increased by 5% in 2005, compared with an increase of 3% in 2004. These rises in value followed three years of decline. The European average hotel value is now back at the level achieved in the peak year 2000, although much of this has been driven by growth in Eastern European markets. Many markets, such as Milan, Zürich, Geneva, Rome, Budapest and Edinburgh, have indeed surpassed the 2000 peak, whilst others, including Paris and Hamburg, have come very close.

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- Istanbul was a star performer in 2005, bringing to an end Moscow’s four-year run of being the market that recorded the highest annual growth in values in our survey. After recording an increase in values in 2004 of almost 17%, Istanbul saw a dramatic improvement in trading performance in 2005: hotel values increased by 32%. This increase was driven largely by both occupancy (up by ten percentage points) and average rate (up by almost 25%); this led to an increase in RevPAR of 44%.

- Hotel values in Moscow are continuing to reach for the skies, and a double-digit increase was again recorded this year. Values in the city have now seen double-digit increases for six consecutive years, with the exception of 2003 when they recorded an increase of only 9%. This now gives Moscow an average value of €240,910 per room, placing it above the Europe-wide average for the first time.

- Despite a dramatic increase in values in 2005 of 8% (the seventh-highest growth rate in the survey), Warsaw still finds itself languishing at the bottom of the table of hotel values per room with a figure of approximately €104,500. This is some €16,700 (or 14%) adrift of the next contender – Lisbon – at €121,200. Other markets finding their hotels in the lower reaches of the table are Athens, Copenhagen, Frankfurt, Stockholm and Istanbul.

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Despite an estimated year-end increase of almost 5% (to approximately 70 million) in the number of tourist arrivals in Spain in 2005, the continued and substantial increase in new supply in Barcelona continues to constrain hotel performance. For the third year in a row, the city has seen average room rate decline, by 2.4% in 2005 compared to 2004, and occupancy remain stable at 71%. This has contributed to a 5.4% decline in hotel values. Despite the significant number of new hotel rooms that has been added to the existing supply in recent years, there are plans for an additional 6,500 rooms to be added to the greater Barcelona area in the next two years. Nevertheless, it is worth noting that the number of new projects under construction is slowly starting to decrease, and is now back to 2000 levels. Among the significant developments opening this year is Hesperia's new hotel in the Hospitalet. The 280-room hotel will be located in the Hesperia Tower, which at 100 m will be one of the tallest buildings in the Barcelona metropolitan area. Another local player planning a hotel in a high-rise building is Barceló Hotels, which has scheduled the opening of the 190-room, five-star Barceló Rambla del Raval hotel for 2007. Last year we noted Berlin's impressive resilience in maintaining its occupancy despite the number of new additions to supply. With the increase in supply continuing throughout 2005, when nearly 1,300 new rooms were added, Berlin continues to impress; the city managed to maintain occupancy of nearly 69%. RevPAR decreased by 1.8%, which contributed to a marginal decline in hotel values of 0.7%. However, the amount of new supply entering the Berlin market in the near future will put even more pressure on the city’s hotel performance. The four-star Wallstreet Park Plaza Hotel in Wallstraße, Berlin-Mitte, is expected to open its 167 rooms in June of this year and the 146-room Rocco Forte hotel at the Grand Hotel de Rome is expected to open in August. A month later a 364-room Sol Meliá hotel near Friedrichstrasse is expected to open. This year, construction work will start on a three-star hotel project on Nürnbergstraße, in the district of Schöneberg, close to Kurfürstendamm; the envisaged opening date for this 300-room hotel is early 2007. Two hotel projects are in the early stages of development. Planning permission has been granted for the construction of a 252-room, three-star to four-star hotel that is due to open in the district of Schöneberg, close to Kantstraße. There are also plans to open a four-star hotel close to the airport at Schönefeld near the existing Holiday Inn in the first quarter of 2008.

Birmingham continues to reap the fruits of its marketing efforts, which in recent years have attracted an increasing number of foreign visitors and have boosted activity at the National Exhibition Centre. While retaining a stable occupancy, hotels in Birmingham managed to increase their average daily rate by 3%, to €100. This contributed to an increase in hotel values of 3%. A number of hotel closures are underway, especially in the budget and mid-market segments. Choice Hotels will be opening a 90-room Sleep Inn in the Star City entertainment complex in October this year. A proposed 120-room Etap is due to open at the end of 2007 at Birmingham International Airport and, within the same building, a 150-room Ibis hotel is planned. In addition, a 59-room extension to the Ibis hotel at Birmingham International Airport is planned to be opened by the end of 2007; this extension will take the hotel’s room count to 200. Plans for a 40-room luxury hotel at the Cube development were announced recently. Opening in mid 2008, the Cube is the last phase of the Mailbox development in Birmingham city centre and in addition to the hotel, it will contain a mixture of office, residential and retail components.

The improvement in hotel performance in Brussels in 2005 was attributable mainly to the continuing improvement in the European business environment, and to the city’s key political position as the capital of the European Union (EU). Occupancy increased by 1.5% and RevPAR by nearly 5%; this increase contributed to a rise in hotel values of 4.5%. Another important factor facilitating the recovery of the hotel market in Brussels is the limited addition to the supply of quality hotels. The first hotel to open in Brussels since late 2004 was the 149-room Radisson SAS EU Hotel, near the European Parliament, which opened in January this year. The increase in supply will continue to be restricted and there is currently only one opening confirmed for the next two years: a 150-room Sofitel, in June.

Since Hungary’s accession to the EU in 2004, Budapest has enjoyed a significant increase in the number of visitor arrivals. The majority of the inflow of foreign tourists into Hungary is driven by leisure purposes, which has been greatly influenced by low-cost airlines, whose passengers accounted for nearly 30% of the total traffic at Ferihegy International Airport in 2005. In total, passenger traffic at the airport grew by almost 25% and topped 8 million last year. Hotel occupancy grew modestly, whereas average daily rate grew by a healthy 10.3% and RevPAR increased by nearly 15%. This contributed to a rise in hotel values of nearly 12%, securing Budapest a place among this year’s major winners. However, the strong performance of the market over the last two years has whetted the appetite of investors and we are aware of several new hotel projects that will be opening in the next few years. Hotels currently under construction and expected to open in 2006 include the 107-room Boscolo New York Palace hotel, a 175-room Novotel and a 55-room spa hotel at the Rac baths. A number of other projects are rumoured; however, the planned increase in supply is likely to offset the continuing increase in demand generated by leisure travellers coming to Budapest.

In 2005 Copenhagen was again rated as one of the world’s ten most popular cities for international conventions. The city has also experienced continued growth from leisure travellers in recent years. In particular, the opening of the Oresund Bridge, linking Denmark and Sweden, and an increase in cruise-ship passenger arrivals influenced the strong room night growth. The hotel construction boom in Copenhagen, which was ignited in 1999, has brought about an increase in hotel capacity of 40%; this has further increased the attractiveness of the city, especially to the meeting and conference segment. In last year’s edition of the HVI it was noted that occupancy had risen for the first time since the hotel boom began, as no new upscale hotels opened over the course of 2004. The recovery continued in 2005 when occupancy rose by nearly five percentage
points and RevPAR by nearly 20%. This recovery had a positive impact on hotel values, which rose by 10%, placing Copenhagen among the top five cities in terms of the greatest growth in hotel values last year. It appears that the hotel boom is to resume, as the number of developments is on the increase again. The 230-room Copenhagen Island Hotel by the ARP-Hansen Hotel Group, and a 225-room, four-star hotel in Scala, close to the Tivoli Gardens, are both scheduled to open this year. A five-star Tivoli Scala, close to the Tivoli Gardens, are both scheduled to open this year. Among the more speculative projects is a 200-room hotel opening is scheduled for mid 2006. Another boutique hotel, the 18-room Le Monde, is expected to open in the Dublin hotel market in the near future will make the hotel market increasingly competitive environment.

Edinburgh's hotel industry has been enjoying a boom in recent years and the city managed to sustain occupancy of 78% for the second year in a row. Average daily rate increased by over five percentage points, however, due to expectations that significant new supply will hit the market over the coming years, hotel values remained flat. Developers seem to have responded to the urgent call made by Edinburgh City Council for more private investment to be made in the city's hotel industry, although many projects can still be considered to be rather speculative. The opening of the 132-room Dakota Hotel at South Queensferry is scheduled for later this year, as is the completion of the £17.5 million upgrading of the George Hotel, which was recently acquired by Principal Hotels. The construction of a 33-room boutique hotel on George Street is well under way and the opening is scheduled for mid 2006. Another boutique hotel, the 18-room Le Monde, is scheduled for opening this year. Among the more speculative projects is a 200-room hotel on the site of the former New Street bus station, immediately to the east of the site where Edinburgh Council’s new headquarters are now being built.

As the overall stagnation in the German economy continues, with unemployment figures hitting a post-war record in early 2005, hotel performance in Frankfurt remained stagnant. Occupancy dropped by 0.5 percentage points, to 61.5%, whereas average daily rate grew by a modest 1%. This contributed to hotel values growing by a marginal 0.2% on 2004. However, in 2006 a substantial increase in average daily rate can be anticipated as Frankfurt is one of 12 German cities hosting the FIFA World Cup in June/July. Significant additions to supply this year are the 163-room Rocco Forte Villa Kennedy, located close to the south bank of the River Main and due to open in March, and a 283-room, four-star Mövenpick Hotel scheduled to open in June. Continuing the trend of 2004, the hotel investment market in Germany remained fairly active during 2005. The eye-catching Radisson SAS Hotel in Frankfurt changed hands, for €298,200 per room when it was sold by Hochtief Projektentwicklung to a group of Danish investors.

Preliminary figures for 2005 indicate that the number of tourist arrivals in Geneva increased by more than 11% on 2004. The affluent Middle Eastern leisure market, whose share decreased significantly following the events of 11 September 2001 and the war in Iraq, now seems to be slowly recovering with an increase in the number of arrivals of 10% year on year. The recovery in tourism, combined with the overall improvement in the global business climate, helped to produce an increase in hotel values in Geneva of 9.1% in 2005. Occupancy rose by six percentage points and RevPAR grew by just over 13%, Average daily rate, having been under pressure in recent years following an increase in supply, rose by 3% as some of these significant upscale hotels were closed for much of 2005 for refurbishment. The 103-room Hotel des Bergues reopened as a Four Seasons Hotel in November 2005, having been closed since late 2004. The Hotel Le Richemond closed during the year and will reopen in 2007 as a Rocco Forte Hotel. The Hotel de la Paix closed in early 2005, and will reopen in late 2006 as a 4-star Concorde hotel later this year. There was one new opening in Geneva in 2005: Accor’s 86-
The modest recovery in the Geneva airport.

room Suite Hotel, which opened in May near final in May. However, Istanbul also Grand Prix in August and the European Cup the city, events such as the Formula One impressive results are attributable largely to a have contributed to an enormous 32% increase in RevPAR of 42.6%. These figures the city achieved an improvement in average from adversity, as was the case in 2005 when

Riverside Hotel is currently under Pauli district, in close proximity to the 220-room Hilton Hotel will be part of the expected to open in November this year. A Mövenpick Hotel is under construction in the Zeytinburnu district. The development in Nisantasi, the boutique and future growth in visitation to the city. A 100- room Park Hyatt hotel is currently under development in Nisantasi, the boutique and fashion district of Istanbul that is to the north of Taksim. Although construction has not yet begun it is expected that the hotel will be operational as early as 2008. Four Seasons has Begun it is expected that the hotel will be<br>

occupancy in the city fell by nearly four percent points, reaching an average of just 45.5%. The fall in average daily rate was even greater, at 14.5%, resulting in a decrease in RevPAR of nearly 20%. The sheer number of new hotels added to the Lisbon market in recent years has put further pressure on hotel performance. With just over 5,000 rooms available in 2004, the stock has increased by more than 10% in 2005, and it is expected that almost 1,000 rooms will be added in the next two years. One hopeful sign of the pipeline for Lisbon reveals the strong position that local hotel operators such as Hotéis Real and Amorim have maintained; they account for the majority of the current developments. Two Ibis hotels are under construction: one a 120-room hotel in Alfragide and the other a 90-room unit in the Sintra area. The hotels are expected to open in April and May of this year, respectively.

London has retained its position as the most expensive city in which to acquire hotel accommodation for the second consecutive year; hotel values grew by 7.2% in 2005 (or 9.2% when measured in constant US dollars). Following the celebrating victory in the race to host the 2012 Olympic Games, the city was subjected to terrorist attacks on 7 July. The initial fear was that these attacks would have a major impact on the overall hotel performance in London. However, year-end figures indicate that the effect of the attacks has been limited; occupancy has fallen by 1.4% but average rate has risen by 4%. This performance is due largely to the strength of the euro against sterling. The outlook for London for the year to November 2005 indicate an overall increase in visitor numbers, despite the environment. The growth in the European market was aided by the strength of the euro against sterling. However, the weakness of the US dollar has been a concern throughout 2005 as it has had an impact on the number of visitors from the USA. Nevertheless, the USA is still the leading overseas market, although its share declined by 6% in 2005. The outlook for selling to London in 2006 is mixed; a continued decline in the domestic market is
anticipated, while emerging markets in Eastern Europe are expected to stimulate overseas visits. Due to the lack of suitable sites in the city centre, additions to the supply in the four-star and five-star markets have been limited in recent years; however, some significant developments are now under way as new operators enter the market. NH Hoteles is about to place itself in the London market following the acquisition of the 200-room Harrington Hall Hotel in South Kensington. Another Spanish operator entering the market is Silken Hoteles, which is currently planning a luxury 170-room hotel beside the façade of Marconi House on the Aldwych in central London. Yotel will be pioneering its radical, new hotel concept; the first Yotels will be opening inside the terminal buildings at Heathrow and Gatwick later this year and in central London in 2007. Stelios Haji-Ioannou’s first easyHotel opened in 2005 and this is set to be followed by others in the foreseeable future. Hong Kong based Shangri-La Hotels has plans to enter the Manchester market; the conversion of Telecommunications House into a 230-room hotel is set to start in 2007. The authorities in Manchester have worked on building the city’s profile with the aim of increasing UK and international conference and incentive business in Manchester and the surrounding area. This has led the number of association meetings held annually in the city to quadrupling from 1995 to 2004. In 2005 hotel values in Manchester grew by 6.9% compared to 2004 (or by 7.7% when measured in sterling). This growth was attributable mainly to the more than 5% rise in average daily rate, which, when combined with a modest growth in occupancy, led to RevPAR growth of 8.6%. Despite the significant growth in hotel stock in Manchester in recent years, occupancy has rarely dropped below 70%. This year will see the opening of the 285-room Hilton hotel and in spring 2007 a 284-room City Inn will be opening at the Piccadilly Triangle site, which is currently undergoing major regeneration. Macdonald Hotels has plans to enter the Manchester market; the conversion of Telecommunications House into a 230-room hotel is set to start in 2007.

Although occupancy in Milan increased by modest 1.4 percentage points, average daily rates remained stagnant for the second year in a row. This resulted in hotel values growing less than 2% due to high supply and average daily rate in both 2003 and 2004, Madrid managed an increase in occupancy last year of 3.6 percentage points, to 67.4%. This has resulted in hotel values growing 2.7% in 2005 resulting in an unprecedented 30% increase in RevPAR. This contributed to a hefty increase in hotel values of almost 22%. The significant increase in RevPAR is likely to remain in the near future, despite the significant development activity of the last 12 months. Three properties opened their doors in 2005: the 301-room Holiday Inn Lsnaya, in April; the 236-room Swissôtel Riverside Towers, in May; and the long-awaited 217-room Courtyard by Marriott, in December. It is estimated that Moscow’s current hotel room stock is 35,000, although only 8,000 of these rooms are considered to be of an international standard. In terms of new projects, a 332-room Ritz-Carlton is expected to enter the market in January 2007 and Four Seasons has secured a management agreement to operate a property on the site of the former Moskva hotel. It is envisaged that the hotel will feature 210 rooms and luxury residential apartments; the hotel is expected to open in 2009. A 360-room Crowne Plaza hotel is also envisaged to open in 2009 at the Moscow City Business Centre development. Two Holiday Inns are under construction: the 312-room Holiday Inn Suchevsky Val will be operated under a franchise agreement and the Holiday Inn Express centre. In addition, we are aware of a number of speculative projects that might enter the Milanese market over the coming years.

The hotel market in Moscow experienced another record year in 2005. After a significant increase in 2004, occupancy declined by slightly more than two percentage points. The hotel market, meanwhile, recorded an enormous 35% increase in average room rate in 2005 resulting in an unprecedented 30% increase in RevPAR. This contributed to a hefty increase in hotel values of almost 22%. The significant increase in RevPAR is likely to remain in the near future, despite the significant development activity of the last 12 months. Three properties opened their doors in 2005: the 301-room Holiday Inn Lsnaya, in April; the 236-room Swissôtel Riverside Towers, in May; and the long-awaited 217-room Courtyard by Marriott, in December. It is estimated that Moscow’s current hotel room stock is 35,000, although only 8,000 of these rooms are considered to be of an international standard. In terms of new projects, a 332-room Ritz-Carlton is expected to enter the market in January 2007 and Four Seasons has secured a management agreement to operate a property on the site of the former Moskva hotel. It is envisaged that the hotel will feature 210 rooms and luxury residential apartments; the hotel is expected to open in 2009. A 360-room Crowne Plaza hotel is also envisaged to open in 2009 at the Moscow City Business Centre development. Two Holiday Inns are under construction: the 312-room Holiday Inn Suchevsky Val will be operated under a franchise agreement and the Holiday Inn Express centre. In addition, we are aware of a number of speculative projects that might enter the Milanese market over the coming years.

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luxury hotels, a shopping mall and an entertainment venue will be developed on the site. Further hotel development projects are planned for Moscow over the coming years, and many of these involve the refurbishment of existing hotels.

As with many other German cities, Munich saw hotel performance remain stagnant in 2005. Occupancy in the city rose by just over one percentage point to 66%, and average daily rate grew by 3%, and this contributed to a slight decline in hotel values, of 1.4%, on 2004. The city received a few additions to supply in the form of a 129-room Hotel Le Bernard accompanying the FIFA World Cup to be held in Germany this year. A new hotel chain Acom Hotels will be launched when its first hotel opens in Munich this year. The hotel will have 126 rooms, and is expected to open in March. Another regional player, Flemings Hotels, will be opening a 113-room hotel in the city centre in May, and the opening of the 240-room Courtyard by Marriott is also under way. The effective market conditions in Prague have sparked the interest of some of the more prominent hotel investors and brands. A 98-room Mandarin Oriental is currently under construction and the hotel is due to open in late June. In October 2007, a proposed 109-room Rocco Forte hotel is due to open. Consent has been given for the development of a luxury five-star hotel with 200 rooms on the U Sixtu site, which is likely to be operated by Ritz-Carlton and is expected to open in early 2009. Consent has been granted for the development of a 165-room Le Royal Meridien Hotel; it is likely to open in early 2009.

Italy’s capital Rome saw hotel values increase by nearly 3%, a rise fuelled by an increase of five percentage points in occupancy and a 2% increase in average rate. The improved performance is in part due to the extensive coverage the city received in April with the funeral of Pope John Paul II and the subsequent inauguration of Pope Benedict XVI. However, it should be noted that Rome continues to enjoy enhanced performance figures due to the extremely high barriers to entry in the city caused by rigid planning restrictions; in 2005 room stock in the city increased marginally. Development in 2006 looks set to be more active, however. The Marriott Park hotel is due to open in the middle of the year with 600 bedrooms and extensive meeting and conference facilities, making it one of the largest conference venues in Europe. Also opening at the same time is the 140-room Roma Magliana Ibis hotel. Hilton Hotels is currently developing a 300-bedroom hotel at the airport, which will take the Scandic brand. Other development plans include an additional conference centre hotel with 700 rooms and a 500-bedroom hotel development at the Nuova Fiera di Roma; however, no time-frame has been set for these developments.

The Stockholm hotel market experienced an improvement in operating performance in 2005, which caused hotel values to climb by 5.2%. Occupancy increased by four percentage points and average daily rate grew by a modest 2.7%, leading to an overall improvement in RevPAR of slightly more than 8%. The majority of developments are under way. A 250-room hotel adjacent to the International Exhibition Centre and operated by Rica Hotels is expected to open in May of this year. The 300-room Clarion hotel is under construction and expected to open in September 2007. In 2008 Marriott will enter the Swedish market for the first time with a 190-room Courtyard by Marriott in Stockholm. The long-discussed Klara Post Office Sorting Centre project has finally received a proposed tenant under the Radisson SAS brand. The 400-room proposed hotel is due to open in January 2010. A lively investment market, largely due to the arrival of Norgani Hotels, a new Nordic property company with its headquarters in Oslo. Through its portfolio acquisitions, the company has purchased properties worth more than €650 million. Forty-four of these properties, totalling more than 7,000 rooms, were in Sweden.

The hotel market in Vienna benefits from demand that is a good balance between business and leisure. Both segments are forecast to grow, due to increased trade with the new EU member states in Central Europe and thanks to events such as the Mozart Year (2006 marks the 250th anniversary of the composer’s birth), Austria’s presidency of the EU in 2006 and the European Union and Championships in 2008. Vienna is about to see its airport expand, its central railway station redeveloped and additional meeting facilities provided, thus further enhancing the attractiveness of the city. Occupancy in Vienna in 2005 rose slightly, by 0.5 percentage points, with an increase in ADR leading to an increase in RevPAR of 4.4%. The effect on hotel values was positive: they rose by just under 4%. Openings in 2005 included two boutique hotels: the 70-room Levante Hotel on Auersprergstrasse and the 50-room Do&Co hotel on Stephansplatz. New hotel supply in Vienna has been restricted in the past by the lack of available sites, and this remains the case this year for the most part. In 2006 marks the 250th anniversary of the composer’s birth, Austria’s presidency of the EU in 2006 and the European Union and Championships in 2008. Vienna is about to see its hotel market experience a buoyant year with a record 660 million worth of single asset transactions, which is the first time hotel values have increased since 2000. The pace of the recovery in the Warsaw market appeared to have picked up substantially as well, and this city experienced a healthy increase in occupancy of nearly 12 percentage points. Again, this was accompanied by a decline in ADR, although the overall effect on RevPAR was positive for the five-star hotels and five-star hotels suffering from significant oversupply, hence the continued decline in average daily rate. The improved trading performance was driven by Poland’s accession to the EU in 2004 and an increase in the number of visitors to the country. The number of passengers handled at Frederic Chopin airport increased by 16% in 2005 compared to 2004; the construction of a second terminal at the airport is well under way and it is due to open in May this year. The new terminal will be able to handle 10 million passengers a year. It appears that new hotel supply in Warsaw will be regulated in years to come, and this will facilitate a further improvement in trading performance, as currently only two proposed hotels have had their opening confirmed. A 320-room Hilton hotel is currently under construction and is expected to open in January 2009. The 70-room, five-star hotel that is to open in January 2008. It is
expected that the hotel will be operated by Vienna International.

Following the bankruptcy of Swissair in 2002, the number of tourist arrivals in Zürich declined sharply. However, preliminary figures for 2005 suggested that visitor numbers were on the increase again; there was a modest increase of 3.7% in passenger numbers at Zürich International Airport last year. Quality hotels in Zürich registered an increase in occupancy of three percentage points. Average daily rate rose by nearly 10%. This helped produce an overall increase in RevPAR of 15.8% and an increase in hotel values of approximately 8%. Hotels currently under development in Zürich include a 155-room Courtyard by Marriott, which is scheduled to open in Oerlikon in early 2007. A 350-room Radisson SAS airport hotel project with extensive conference facilities has now been confirmed and is scheduled to open in early 2008. Construction work has started on the 132-room Four Points by AracelliSheraton in Sihlcity, a new entertainment and business district in western Zürich; the hotel has an estimated opening date of spring 2007.

Table 7 Hotel Values per Room 2004 and 2005 (€)

<table>
<thead>
<tr>
<th>City</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>199,300</td>
<td>214,700</td>
</tr>
<tr>
<td>Paris</td>
<td>176,500</td>
<td>192,500</td>
</tr>
<tr>
<td>Milan</td>
<td>165,900</td>
<td>181,700</td>
</tr>
<tr>
<td>Zürich</td>
<td>156,100</td>
<td>172,300</td>
</tr>
<tr>
<td>Geneva</td>
<td>115,800</td>
<td>123,200</td>
</tr>
<tr>
<td>Rome</td>
<td>114,900</td>
<td>122,500</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>105,400</td>
<td>113,200</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>104,300</td>
<td>112,100</td>
</tr>
<tr>
<td>Prague</td>
<td>96,900</td>
<td>104,800</td>
</tr>
<tr>
<td>Moscow</td>
<td>61,400</td>
<td>68,500</td>
</tr>
<tr>
<td>Europe</td>
<td>54,000</td>
<td>61,100</td>
</tr>
<tr>
<td>Munich</td>
<td>49,400</td>
<td>56,500</td>
</tr>
<tr>
<td>Madrid</td>
<td>45,400</td>
<td>52,600</td>
</tr>
<tr>
<td>Berlin</td>
<td>42,600</td>
<td>49,800</td>
</tr>
<tr>
<td>Ankara</td>
<td>40,000</td>
<td>47,200</td>
</tr>
<tr>
<td>Istanbul</td>
<td>36,800</td>
<td>44,100</td>
</tr>
<tr>
<td>Athens</td>
<td>33,400</td>
<td>40,600</td>
</tr>
<tr>
<td>Lisbon</td>
<td>31,000</td>
<td>38,200</td>
</tr>
<tr>
<td>Warsaw</td>
<td>26,600</td>
<td>33,900</td>
</tr>
</tbody>
</table>

Source: HVS International

Hotel Values per Room

One look at 2004 reveals that the top five positions in our list are unchanged. Our analysis of the values per room in euro (Table 6) reveals that London has retained its position at the top for the second year in a row, with a value of approximately €516,100 per room. Istanbul, which has for so many years could be jeopardised in some markets the middle east, together with the propensity of the country’s values have still not reached the heights of 2000. However, the European average is now on par with what it was in 2000, with growth driven mainly by the improved trading performance in the Central and Eastern European markets.

We are now witnessing development activity picking up rapidly following the upturn in European hotel markets in 2004 and the increased availability of debt financing. Hence the growth witnessed in the last two years could be jeopardised in some markets by excessive new supply.

We foresee that the upward trend in hotel values that was established in 2004, and which continued in 2005, is likely to continue well into 2006 and beyond. Aside from increases in values driven by improving trading performance, yields are still compressing and driving values up. The accessibility of debt financing is continuing to improve, with lending sources offering increasingly competitive terms.

Outlook

In 2005 we have seen the pace of the recovery pick up following the continued improvement in the global economy. This is especially apparent in the case of London, which, in spite of terrorist attacks, has retained its position at the top although the city’s values have still not reached the heights of 2000. However, the European average is now on par with what it was in 2000, with growth driven mainly by the improved trading performance in the Central and Eastern European markets.

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Whilst the threat of terrorism now appears to have had only a limited effect on the main hotel markets in Europe, continuing unrest in the Middle East, together with the propensity of Middle Eastern guests to travel to Europe, could impact values in the short to medium term. The other major unknown as we make our forecasts for the future is the prospect of a global avian flu epidemic; this could have catastrophic implications for the demand for hotel accommodation and thus hotel values if it were to take hold.

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 Deloitte’s 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 at the end of 2005 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2005. 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 value PAR is then indexed relative to this base. For example, in 2005 the index for London was 3.478 (€516.119/€148,415), which means that the value of a hotel in London in 2005 was more than 3 times the European average in 1993.
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Karen Smith is a Director with HVS International’s London office, specialising in hotel valuation and consultancy. She holds a BSc (Hons) in Urban Estate Surveying and is a Chartered Surveyor with over 13 years experience in the hotel property industry. Karen joined HVS International in 2001 and has conducted and managed numerous valuations, feasibility studies and consultancy assignments across Europe, the UK, North Africa and Asia.

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