The European Hotel Valuation Index (HVI) 2007 shows that hotel values, expressed in euro, achieved a third consecutive year of growth. On average, values across Europe increased by 9.4% in 2006, compared with an increase of 5.0% in 2005. It is the first year in which all of the 28 markets covered in the index experienced increases in value since 2000, reflecting the health of the industry throughout Europe. The European average hotel value is now at its highest in the 14 years recorded by the HVI.

The European average is boosted largely by the extraordinary growth in value by the top markets, including London, Paris, Milan, Zürich and Geneva, as well as the strengthening of the remaining markets. All but two of the 28 markets under review achieved value increases in excess of inflationary growth. Only Prague and Hamburg showed little growth.

Values per room now exceed the peak of 2000 with the exception of eight of the 28 markets (Barcelona, Brussels, Copenhagen, Frankfurt, Hamburg, Madrid, Stockholm, and Warsaw) although Brussels and Copenhagen have come close.

For the fourth time in the last five, Moscow had the greatest percentage growth in value, at 21% in 2006. Hotel values in Amsterdam had the second-highest percentage growth in value in 2006, at 16%, after the recovery in 2005 which followed four years of declining values. Amsterdam hotels now have an average value of €304,000 per room.

Lisbon has pushed itself up to third place on the growth table with an increase of almost 15% over 2005, followed closely by Warsaw in fourth place (15%). Nonetheless, Lisbon has the third lowest values per room at €139,300, followed by Athens (€135,600) and Warsaw (€119,900).

Perhaps unsurprisingly, the top four most expensive cities in which to acquire a hotel remain the same. London is beginning to edge towards the €600,000 per room barrier, with the average value per room now at €576,700 an increase of 11.7%. Paris, in second place, is only the second market since 2000 to break the €500,000 barrier (€528,200 per room, growth of 9%), surpassing London’s value per room last year. The gap between second and third place has shrunk to €61,200 as Milan posts a value per room of €467,000. The gap in value between third and fourth place has increased to €53,200; Zürich shows growth of 10% with values at €413,800 per room.

After only one year with hotel values above the European average, Prague has once again dropped just below the European average value per room at €252,300 per room. Edinburgh (€319,600) has overtaken Rome (€311,000) with the sixth highest value per room, after Geneva (€365,800), while on the other side of the table Athens (€135,600) and Frankfurt (€165,600) have both dropped in the rankings.

Changes in Value

Amsterdam continued gathering strength in 2006 with the fifth highest RevPAR growth, at 13%, driven by continuing high barriers to entry across the market, compounding demand and accompanying increases in average rate. Hotel values rose by nearly 17% to €304,000 per room in 2006, the first time they have ever exceeded €300,000 per room and the second-highest percentage growth in value, after Moscow. There have not been a significant number of new quality hotels opening in Amsterdam over the last few years. The 408-room Mövenpick Hotel, a five-star hotel within walking distance of Central Station, was the only new hotel in 2006, opening its doors in September. The number of rooms planned to open in the greater Amsterdam area by 2010 has decreased to about 1,900 as projects such as the proposed Rocco Forte and Hyatt hotels are apparently no longer in the pipeline. As was the case last year, the majority of projects remain speculative at this stage. Two confirmed projects include the five-star, 173-room Grand Hotel Amrâth Amsterdam, located in the Scheepvaarthuis, a national monument, expected to open in July 2007, and the 210-room Royal Tulip Amsterdam Symphony, expected to open in the financial district, the Zuidas, in July 2009.

Following a significant drop in average rate during 2005, occupancy in Athens in 2006 increased to 64% accompanied by a marginal increase in average rate, driving up RevPAR by 9.5%. Hotel values subsequently rose by 3% to €135,600, indicating a return to relative stability driven by small, but sustainable occupancy and average rate increases in the market. This obviously follows the impact of the 2004 Olympic Games, supported by consequent growth in tourist arrivals following the increased awareness of Athens as a holiday destination. However, unlike other Olympic cities such as Barcelona and Sydney, Athens did not experience a significant increase in hotel supply. Thus development as well as investment...
Despite the significant number of new hotels that entered the market in 2006, **Barcelona** experienced small increases in both occupancy and average rate, resulting in a 4% increase in RevPAR following three years of decline. Hotel values rose by 2% to €189,700. There are an estimated 5,700 new rooms expected to enter the market by 2010, which represents an 18% increase in supply. Significant hotel developments include the 144-room Mandarin Oriental opening at the end of this year and the 473-room W Hotel, expected to open in 2009. Furthermore, several new hotels are being developed in the 220-hectare industrial area that is being transformed into an important science, technology and culture platform. This urban transformation project in Barcelona, one of the most ambitious in Europe, has high real estate potential and benefits from a public investment of €180 million. When completed, the area should be home to 15% of the economic activity of the city.

Occupancy and average rate in **Berlin** hotels in 2006 were up marginally when discounting the effect of the FIFA World Cup. RevPAR increased by 2%, accompanied by a 5% increase in value to €188,700 per room. Apart from a newly gained optimism and positive image of the city, which has led to continued growth from leisure travellers, Berlin has established itself as one of the top ten conference destinations worldwide, which has resulted in strong growth within the meeting, incentive, conference and exhibition (MICE) segment. Despite numerous new hotels which materialised within the last few years, including Rocco Forte’s 146-room Hotel de Rome, further developments are in the pipeline.

**Birmingham** has continued to reap the benefits of maintaining its impressive marketing efforts and has experienced strong ongoing activity at the National Exhibition Centre (NEC). RevPAR in the city increased by a modest but not negligible 2%. Hotel values per room increased by 5% to €200,700, the first time values have exceeded €200,000 per room, albeit only just. There are at present a significant number of projects in the hotel development pipeline. While Accor has not yet begun construction of the planned and approved 120-room Etap and 150-room Ibis hotels at Birmingham International Airport, it is now also considering the potential for a further addition of one of its brands at the NEC. Simultaneously, the Holiday Inn at Birmingham International Airport has put in hold its planned 59-room extension but remains committed to the additional rooms being launched within the next two years, which will take the hotel’s room count to 200. In Birmingham city centre, plans for two major mixed-use developments were recently announced, at City Park Gate and the Martineau Galleries. Both developments are in their early stages and application for planning consent has only just been submitted. As well as offices, residential apartments, food and beverage facilities and other retail outlets, these developments are planned to include 14,000 m² and 30,000 m² of hotel space, respectively, which may only come to fruition if swapped with part of the space allocated to the residential apartments.

As with most of continental Europe, **Brussels** continued to experience an improvement in hotel performance in 2006. Overall the hotel market in Brussels benefitted from a 9.4% increase in RevPAR. Values rose to €181,100 per room, an 8% growth on the previous year. This improvement in performance and thus value was achieved by hotels at both ends of the spectrum, and was further aided by the relatively low increase in supply levels brought about by the opening of the 149-room Radisson SAS in January 2006, and the 149-room Sofitel Brussels Europe in September 2006. Planned hotel openings include the 268-room Dolce La Hulpe in 2007 and an as-yet-unnamed 600-room hotel near Gare du Midi opening in 2008. Whilst RevPAR enjoyed double-figure growth in the past two years, the increase in 2006 was a modest 2% and values per room grew by nearly 5% to €176,300. One of the major hotel openings in 2006 was that of the 107-suite Boscolo New York Palace hotel. Hotels currently under construction and expected to open in 2007 include a 237-room, five-star hotel near Opera Plaza, which is expected to be managed by Radisson, and a 60-room Baglioni hotel. Budapest has significant potential to further develop tourism through its wide variety of attractions, its central location in Europe and its accessibility from main feeder markets.

The success of **Copenhagen** as a convention city and a popular leisure destination continued in 2006. Hotel demand was boosted by the strong expansion of the Danish economy and the improved economies of the key feeder markets, including neighbouring countries such as the UK and Germany. Despite the addition of two new upscale hotels, the market enjoyed small increases in both occupancy and average rate to increase RevPAR by 8.4%. Hotel values rose by 11% to €174,000. Other changes in supply include the former Hotel Sophie Amalie, part of Remmen Hotels, which underwent a complete renovation and opened as a contemporary...
boutique hotel, Front. The refurbishment of Le Meridien Palace and Hotel 27 (previously known as Hotel Mermaid) are due for completion by the end of this year. In 2007, the Danish hotel chain Zleep plans to open its third hotel, situated 300- to 400-metre away from the airport. The hotel is planned for completion by the second half of 2008. The five-star hotel in Tivoli Gardens with 160 rooms is now expected to open in 2009. Four seasons is rumoured to be in negotiation for the operation of this hotel. Although the conversion of Scarla into a hotel in the city centre has been rumoured for some time, there is to date no definite information of Scarla into a hotel in the city centre. Proposed locations include Edinburgh Castle and the Palace of Holyrood House at ‘Royal Mile’ route, which connects Edinburgh’s most prominent locations in the heart of Europe and the presence of the European Central Bank and numerous company headquarters, demand for transient accommodation is likely to remain stable in the medium to long term. The next few years will see several new hotel openings, particularly around Edinburgh’s main points of interest along the ‘Royal Mile’. New openings expected in 2007 are expected to include the expansion of the Steigenberger InterCity Hotel to 1,100 rooms, as well as the addition of the 650-room Le Meridien Frankfurt Airport and the 320-room Fleming’s Hotel Frankfurt. Other developments include a Jolly Hotel due in 2008, the 314-room Hilton Garden Inn Frankfurt Airport and the 247-room Hilton Hotel Frankfurt Airport both due in 2009, and the Mandarin Oriental Frankfurt due by 2010.

Geneva is a relatively stable market heavily dependent on corporate and MICE business. This is a result of numerous international companies having their main headquarters in the greater Geneva area, as well as those of the UN and related organisations. Most of Geneva’s major exhibitions, trade fairs and congresses take place at the Palexpo complex, the International Congress Centre (CICG), the UN buildings, or at Geneva’s larger hotels, such as the Crowne Plaza, the InterContinental and the Mandarin Oriental Frankfurt due by 2010. **Geneva**

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### Table 4 Hotel Values - % Change (€)

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**HVS International**

**European Hotel Valuation Index 2007**

*Compound annual growth rate*
a lack of development sites in the city centre and restrictive planning policies requiring local
referenda that have historically limited the growth in hotel supply. Only a very limited
number of new hotels have been built in the last ten years, with international hotel operators
typically entering the market by taking over the management of existing hotels. There is only one
new hotel scheduled to open within the next five years, the 430-room Grand Hotel Kempinski
Geneva, which will take the place of the former Noga Hilton by May of this year.

After no real growth in marketwide occupancy in Hamburg between 2003 and 2005, both
occupancy and average rate grew in 2006 with the city achieving RevPAR growth of 7%.
Despite this, hotel values have only marginally increased by 1% to €182,400 due to cost
pressures. There was little change in hotel supply in 2006, with only the Ellysee Hotel extending
by 200 guestrooms to a total of 500 rooms. New supply scheduled to enter the market includes
the 226-room Mövenpick Hotel in March of this year, followed shortly thereafter by the
opening of the 328-room, four-star Empire Riverside Hotel in June. Furthermore, the 160-
room Arcotel Rubin Hotel and a presently unnamed 200-room, five-star hotel are also due
to open by the end of the year. In spring 2008 the awaited 166-room Four Seasons Atik Pasha
Hotel will finally open its doors. Further planned openings include a Marriott in the
suburb of Kadiköy, the re-entry of Starwood Hotels Group in Istanbul, with further growth expected. The
economy as a whole in Turkey has also performed well, the Turkish tourism ministry’s plan to attract 10
million visitors annually within the next ten years (equating to a 10% compound annual
growth rate over that period) and other major new events (such as Istanbul preparing to be the
cultural capital of Europe in 2010) have resulted in many hotel developments. Several hotels are
due to open in 2007. If all goes to plan, the long-
awaited 130-room W Hotel in Besiktas and the re-entry of Starwood
Hotels Group into Starwood brands. Other brands that are opening hotels include
Mövenpick, Holiday Inn, Novotel and Ibis, however, the strong branding associated with
some significant hotel developments are still underway. In 2007, ten hotels will open: the 260-
room Hotel Quinta Bassacule, the 108-room Quality Green Plaza, the 200-room Hotel
Junqueiro, the 105-room Hotel Rua Castilho, the 44-room Hotel Alis Belem, the 66-room and 104-
room Vincci Hotels, the 295-room Vip Grand, the 150-room Etap Hotel and the 250-room Ibis
Hotel. In 2008, four further hotels will begin operation: the 63-room Hotel CS Barata
Salgueiro, the 61-room Hotel CS Governor, the 65-room Real Sao Pedro de Alcantara and the
119-room Holiday Inn Prior Velho. While plenty more hotels are due to enter the market over the
coming years, demand in Lisbon is likely to increase in the medium term owing to important
developments in the transport infrastructure, such as the expansion of Portela International
Airport planned for completion by 2010, when it will achieve its capacity of 16 million passengers,
an increase of 4 million over current levels. In addition, a new international airport will be
located 5 km east of Lisbon. The new airport is planned to open in 2017. Moreover, a new high-
speed train link will connect Lisbon to other major cities in Europe and will be completed by
2015, thereby further improving its accessibility.

London finished the year on top of the rankings once again in terms of value per room at
€576,700, a 12% growth over 2005’s record value. Values have increased by 54% over the past 10
years in spite of terror alerts at London airports in August. Occupancy crossed the 80% mark for
the first time since 2000 with double-figure increases for the full service and upscale hotels,
and budget hotels lagging not far behind. In terms of average rate, London hotels achieved similar patterns to the occupancy levels with full
service and upscale properties catching up with the global upturn in hotel trading performances
demonstrated by the booming business climate and increased tourism visitation to the city.
The recent additions to the capital’s hotel stock include two Hilton properties at Tower Bridge
and Canary Wharf and the lodge-style Hoxton Hotel developed by Pret-A-Manger founder

Table 5 Hotel Valuation Index 1993-06

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Source: HVS International
Sinclair Beecham. On the development side, London experienced a 61% increase in its stock of budget accommodation in the period 2002 to 2006, which is likely to continue with the opening of four Travelodge properties in the fourth quarter of 2007. The four- and five-star categories have shown 11% and 9% increases in room stock, respectively. Notable developments under construction are a Firmdale boutique hotel at Haymarket, scheduled for opening in late 2007, the 245-room Renaissance St Pancras in 2009 and the 400-condominium development at Westminster Bridge roundabout operated by Park Plaza in 2010.

Madrid's position as Spain's key commercial hotel market continued to exceed the market average for the fourth time in the last five years. Demand continues to exceed supply in all categories of hotels and because of the slow pace of development, we expect this to continue for some time. In addition, due to very strong average rate increases, RevPAR growth has been in double figures for the last three years, although growth slowed down in 2006 to 16% from 31% in 2005. The lower growth in RevPAR last year might indicate some market resistance to sustained increases in hotel prices. Since 2000 the average rate in Madrid has increased by around 45%. The extraordinary market performance has resulted in hotel values rising by approximately 21% to €290,500. This growth is also partially fuelled by the strong desire of developers and operators to enter the market. There are several hotels under construction and many projects in the pipeline. The branded hotel supply remains relatively low (approximately 8,000 rooms) compared to, for example, Paris (75,000 rooms) and London (80,000 rooms). Recent openings include the 312-room Holiday Inn Suchovsky and the 520-room Holiday Inn Sokolní. The Ritz-Carlton Moscow opening, which has been delayed to Easter 2007, finally saw the demise of the 3,000-room hotel Rossya whose site has now been cleared for redevelopment. Other brands expected to enter the market or expand their presence in the short term include Best Western, Conrad, InterContinental, Lotte, Novotel, Park Inn and Radisson SAS, to mention a few. We expect that Moscow will continue to rapidly improve its hotel rankings. The city is now in its second year of exceeding the European average. Our index shows hotel values have nearly doubled since 1998.

As Germany's third-largest city, Munich is looking back on a turbulent year. The World Cup effect, initially expected to inspire business confidence all over Germany in the medium term, fell short of hoteliers' expectations in 2006. Looking back on a turbulent year. The World Cup effect, initially expected to inspire business confidence all over Germany in the medium term, fell short of hoteliers' expectations in 2006. Munich, which is an established leisure destination, was largely due to an increase in Milan's MICE business following the opening of the Fiera Milano exhibition centre in 2006. As for recently opened hotel supply, in September 2006 NH Hotels opened the 249-room Nhow Milano. In 2007 AC Hotels and Domina Hotels are due to open 160-room and 200-room hotels, respectively. Furthermore, GMH is currently developing a 299-room luxury hotel in the city, which is due to open in March 2007. Also, we are aware that planning has been approved for an 80-room Rocco Forte hotel, which is planned to open some time in 2010. There are several additional yet speculative projects that might enter the Milan market over the coming years. Despite the significant amount of new hotel supply entering the market, we estimate that 2007 will be a strong year for Milan hotels, particularly given the large number of MICE events planned for the year.

The Moscow hotel market continues to outperform the majority of European markets with the city's hotels showing the greatest growth in value for the fourth time in the last five years. Demand continues to exceed supply in all categories of hotels and because of the slow pace of development, we expect this to continue for some time. In addition, due to very strong average rate increases, RevPAR growth has been in double figures for the last three years, although growth slowed down in 2006 to 16% from 31% in 2005. The lower growth in RevPAR last year might indicate some market resistance to sustained increases in hotel prices. Since 2000 the average rate in Moscow has increased by around 45%. The extraordinary market performance has resulted in hotel values rising by approximately 21% to €290,500. This growth is also partially fuelled by the strong desire of developers and operators to enter the market. There are several hotels under construction and many projects in the pipeline. The branded hotel supply remains relatively low (approximately 8,000 rooms) compared to, for example, Paris (75,000 rooms) and London (80,000 rooms). Recent openings include the 312-room Holiday Inn Suchovsky and the 520-room Holiday Inn Sokolní. The Ritz-Carlton Moscow opening, which has been delayed to Easter 2007, finally saw the demise of the 3,000-room hotel Rossya whose site has now been cleared for redevelopment. Other brands expected to enter the market or expand their presence in the short term include Best Western, Conrad, InterContinental, Lotte, Novotel, Park Inn and Radisson SAS, to mention a few. We expect that Moscow will continue to rapidly improve its hotel rankings. The city is now in its second year of exceeding the European average. Our index shows hotel values have nearly doubled since 1998.
summer. The increase in RevPAR in 2006 is mainly rate-driven; moreover, with average rates increasing to €142, Munich continues to out-perform cities such as Hamburg and Frankfurt in terms of rate. Early 2006 saw the opening of two four-star properties: the 241-room Courtyard by Marriott Munich City Centre and 112-room Fleming's Hotel Munich-City. A 116-room Acorn Hotel increased room supply in the mid-market segment. Significant new hotel developments in the Bavarian capital debut with the luxurious 170-room Rocco Forte hotel in early 2007. For 2008, a 250-room Park Plaza hotel is in the pipeline, as well as a Dolce Hotel with 233 rooms and extensive conference facilities adjacent to the new BallhausForum exhibition centre.

Paris witnessed a surge in RevPAR in 2006, driven primarily by an improved average rate. Occupancy remained stagnant as average rate, and therefore RevPAR, increased by 7%. Hotel values nonetheless rose by 9% to €526,200, exceeding last year’s record values achieved in London. Paris, which is Europe’s largest hotel market, saw five four-star hotels open new limited openings over the last 12 months. A 150-room Courtyard by Marriott opened in September in Colombes, a suburb located some ten minutes west of the Champs Elysées. The 81-room luxury Hotel Le Fouquet’s Barrière pre-opened in December. Its full opening was in January 2007. Future openings include a 350-room Le Méridien in La Défense, a 100-room Shangri-La located on Avenue d’Iena for 2008/09, and Mandarin Défense, a 100-room Shangri-La located on the Avenue des Champs Elysées. The 81-room luxury Hotel Le Fouquet’s Barrière pre-opened in December. Its full opening was in January 2007. Future openings include a 350-room Le Méridien in La Défense, a 100-room Shangri-La located on Avenue d’Iena for 2008/09, and Mandarin Défense, a 100-room Shangri-La located on the Avenue des Champs Elysées.

In 2006, the Stockholm hotel market benefited from strong demand growth which was driven by domestic and regional economic recovery. Stockholm’s increasing popularity as a leisure destination, especially among Europeans and Americans, further contributed to hotel demand growth. Occupancy closed at 79%, a three percentage point increase over 2005. Average rate rose by 6%, leading to a RevPAR increase of 10%. Hotel values per room rose by 11% to €184,700. 2006 saw the opening of the 248-room Rica-Talk Hotel and the reopening of Scandic Anglais, with 233 rooms. The existing Grand Hotel expanded by opening 78 new rooms and suites in the late summer of 2006. The total room stock in the city is expected to grow significantly in the next few years. The Clarion Hotel that is currently under construction is scheduled to open by January 2008. This 588-room hotel will be the largest hotel in Stockholm. Rezidor announced that the new Park Inn Congress Centre Stockholm with 420 rooms in the heart of Stockholm will open in 2010. Another new Park Inn hotel is to be built in Stockholm’s ‘new town’, Hammarby Sjöstad, located approximately five kilometres from the city centre. The hotel will comprise 177 rooms and is scheduled to open in 2009. A 272-room Courtyard by Marriott is due to open in Stockholm in either late 2008 or early 2009. This will be the second Marriott hotel in Sweden, and construction work has been put on hold for the time being.

Rome managed to increase its RevPAR by almost 10% in 2006, which is similar growth to 2005. This increase on the 2005 performance is especially significant given that the extensive coverage received in April 2005 surrounding the funeral of Pope John Paul II and the following inauguration of Pope Benedict XVI had already given a boost to the Italian capital’s hotels in that year. As a result, hotel values are up by 8% to €311,000 and consequently Rome is another market which has witnessed increased €300,000 for the first time. Two hotels opened in 2006, adding 741 new rooms to a market with high barriers to entry, a factor that typically enhances the performance of the hotels. In September 2006, the Rome Marriott Park Hotel opened its 601 rooms in via Colonnello Tommaso. The hotel, which is immersed in a 20-acre private park, offers approximately 11,000 m² of meeting space, making it one of the largest conference venues in Europe. The Roma Magliana Isis hotel also opened in 2006, with an additional 140 rooms. Domina Roma Capannelle Hotel & Conference Centre is Domina Hotel Group’s new hotel in Rome. Opening in March 2007, the hotel will be located in the Capannelle district, close to Ciampino Airport, and will feature 252 rooms. Further development plans include an additional conference centre hotel with 700 rooms and a 500-room hotel development at the Nuova Fiera di Roma; however, no time-frame has been set for these developments.

In 2006, the Berlin hotel market benefited from strong demand growth which was driven by domestic and regional economic recovery. Berlin’s increasing popularity as a leisure destination, especially among Europeans and Americans, further contributed to hotel demand growth. Occupancy closed at 79%, a three percentage point increase over 2005. Average rate rose by 6%, leading to a RevPAR increase of 10%. Hotel values per room rose by 11% to €184,700. 2006 saw the opening of the 248-room Rica-Talk Hotel and the reopening of Scandic Anglais, with 233 rooms. The existing Grand Hotel expanded by opening 78 new rooms and suites in the late summer of 2006. The total room stock in the city is expected to grow significantly in the next few years. The Clarion Hotel that is currently under construction is scheduled to open by January 2008. This 588-room hotel will be the largest hotel in Stockholm. Rezidor announced that the new Park Inn Congress Centre Stockholm with 420 rooms in the heart of Stockholm will open in 2010. Another new Park Inn hotel is to be built in Stockholm’s ‘new town’, Hammarby Sjöstad, located approximately five kilometres from the city centre. The hotel will comprise 177 rooms and is scheduled to open in 2009. A 272-room Courtyard by Marriott is due to open in Stockholm in either late 2008 or early 2009. This will be the second Marriott hotel in Sweden, and construction work has been put on hold for the time being.

The performance of the hotel market in Warsaw in 2006 continued to improve on 2005’s significant recovery efforts. The Polish capital had the fourth-highest increase in values with nearly 15% improvement over last year to a value per room of €119,900. However, Warsaw still has the lowest value per room of the 28 markets. A second year of significant growth in RevPAR is a clear indication that at last the market is recovering from extremely difficult years due to severe over supply. A 17% RevPAR increase was primarily rate-driven as economic conditions within Poland improved, the number of both low-cost air carriers and flights into Poland (in particular Warsaw) increased along with the number of corporate, leisure and MICE guests, and again there was a lack of any significant additions to supply. In terms of new supply, the long-awaited Hilton Warsaw, which was due to open in November 2006, experienced setbacks and has now postponed its opening date to April 2007. In addition to this, construction is due to start this year on the 70-room, five-star Vienna International hotel which is due to open in 2008. We further add that the development of the 230-room Barceló Blue City hotel is currently on hold, and no date for the resumption of development is known at present.
Recent additions include a 152-room Courtyard by Marriott in Oerlikon, which opened in September. A 132-room Four Points by Sheraton is expected to open at the end of March 2007 in Sihl City, a new entertainment and business district in western Zürich. The luxurious Dolder Grand Hotel is scheduled to reopen with 174 rooms in early 2008 after extensive refurbishment. A 330-room Radisson SAS airport hotel project with extensive conference facilities has been confirmed and is scheduled to open in mid-2008. Finally, a 180-room Turicum hotel is planned to open in 2009, near the Hallenstadion.

Hotel Values per Room

2006 was a breakthrough year for all of the markets involved in our survey with no decreases in value per room recorded. All bar eight markets have either reached their highest ever values or surpassed the high values achieved in 2000. The top five most expensive European cities in which to buy a hotel remain in the same order for the third consecutive year. Our analysis of values per room in euro (Table 6) reveals that London remains at the top with a value of €576,700 per room. Warsaw remains at the bottom of the value table at €119,900 per room, with Athens narrowly overtaken by Lisbon and slipping down the rankings to €135,600 per room.

Outlook

The average European values per hotel room in 2006 have reached the highest levels in history. Propelled by the extremely strong values per room in London, Paris, Milan, Zürich and Geneva, it was also the first year since 2000 in which none of the 28 markets covered in our survey experienced a decrease in value per room. Not only have the debt markets remained competitive, but investors have increased their typical geographic investment boundaries and pushed up activity in areas such as Eastern Europe over the last few years. From next year HVS will introduce more Central and Eastern European markets to the HVI. Initial calculations show that the average value of hotels in Central in Eastern European cities is in the order of €160,000 per room. Whilst this is below the European average it exceeds the performances of Lisbon, Athens and Warsaw. 2006 growth in hotel values in Central and Eastern European capital cities was 6% compared to 12% in the previous year.

The concern of increased availability of debt financing and resulting growth causing oversupply didn’t quite pan out as thought in early 2006, but the same concern remains for the coming year as markets show no signs of drastic decline. In 2007 we expect that a lot of the markets will continue the upward trend in hotel values for a further year, albeit perhaps not at the same rate as 2006 or indeed 2005. Lending terms are in all further year, albeit perhaps not at the same rate.

Understanding the HVI

The HVI is a hotel valuation benchmark developed by HVS International. It monitors annual percentage changes in the values of typical four- and five-star hotels in 28 major European markets. Additionally, our index allows us to rank each market relative to a European average (see Table 5). The HVI also reports the average value per room, in euro, for each market (Table 6).

The methodology employed in producing the HVI is based upon actual operating data from a representative sample of four- 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 and capitalisation parameters are applied to the net operating 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 2006 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2006. 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 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 2006 the index for London was 3.885 (€576,660/€148,415), which means that the value of a hotel in London in 2006 was nearly four times higher than the European average in 1993.
Elana Bader is a Consulting & Valuation Analyst with the London office of HVS International, specialists in hotel valuation and consultancy. She joined the firm in 2005 after having worked for six years in various operational hospitality roles in Europe as well as the USA. Originally from Zürich, Switzerland, Elana holds a Bachelor of Science in Hotel Administration from Cornell University. Since joining HVS International she has conducted several valuations, market and financial feasibility studies in Europe and the Middle East, as well as written articles on various European markets, European hotel transactions in 2005, hotel management contracts in Europe and sustainable business practices in hotels.

Dominique Bourdais is a Director in the London office of HVS International. His background is that of a trained hotelier. Before entering the consultancy world, he was Forte Hotels in the UK and Sheraton in West Africa. He has more than 20 years specialist hotel consultancy experience. He has been with HVS International for nine years. During his years as a management consultant he has gained substantial international experience, having completed a wide range of hotel-related assignments, while diversifying into other fields such as extended stay hotels, serviced apartments, other areas of real estate, golf and leisure, and mergers and acquisitions. His work within HVS International generally focuses on the provision of specialist hotel valuation, property and consultancy services throughout Europe, the Middle East, Africa and Asia. Dominique has extensive experience of Central and Eastern Europe and he is responsible for the development of HVS International’s business in that region.

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