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2012 EUROPEAN HOTEL VALUATION INDEX

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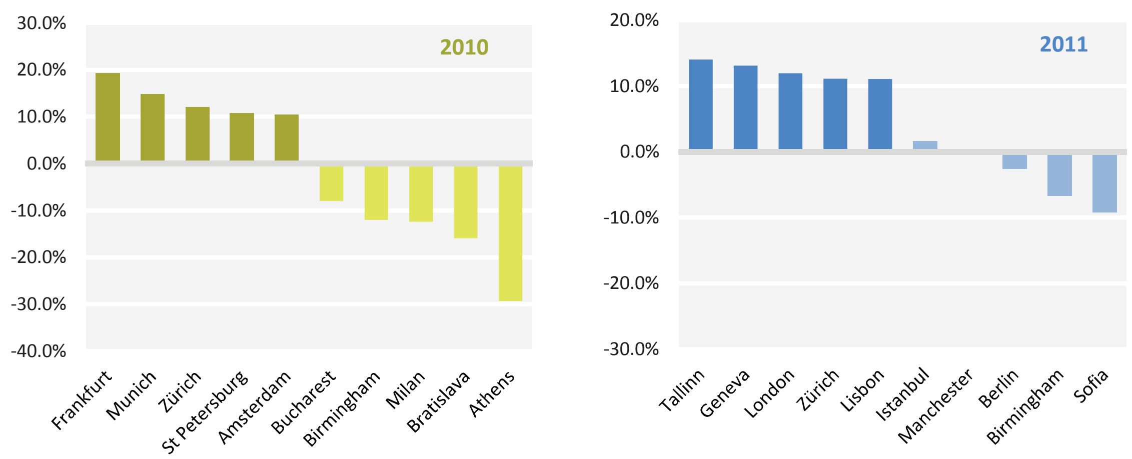
Highlights

- Following an exciting year in 2010, when many markets were recovering from the global financial crisis, 2011 started as a year of hope and improved performance, but it deteriorated to renewed uncertainty about the future during the second half of the year;
- Trading performance was good for most European markets, especially before the summer. Although the slowdown over the summer did not prove to be a permanent turning point, overall average rates and occupancies lost some momentum, as uncertainty over the economic environment and concerns around the Eurozone crisis widened. Year-end rooms revenue per available room (RevPAR) figures showed positive growth (in euro) for all but two markets: Berlin and Birmingham;
- Within this mixed trading context, the lack of debt funding has continued to be a sore point. This situation is also unlikely to reverse in the short term, as lenders will be busy over the next year refinancing loans that are coming to maturity (or declining to) rather than looking for new loans. In addition, the uncertainty surrounding the euro gives weight to the 'wait and see' strategy for many markets;
- Hesitation about 2012 is compounded by the complicated economic situation in Europe (particularly Southern Europe), the recent downgrading by S&P of several European countries and, further away but still important, uncertainties surrounding the price of oil, as several conflicts continue to affect the Middle East;
- During the course of 2011, only three cities experienced a decrease in value and six markets recorded double-figure growth. The overall change in value for the 33 markets in our survey was a gain of 2% on 2010. The majority of this growth was due to improved trading performance rather than any improved investor sentiment;
- Since our values are reported in euro, changes in exchange rates are likely to distort some of the results. A notable case this year is Switzerland, where the stability of the market amidst the euro crisis has resulted in the Swiss franc being perceived as a 'safe haven', hence the notable appreciation of this currency (since it is contained by the Swiss Central Bank). The changes in values per room for Geneva and Zürich have, therefore, significantly increased in euro but slightly decreased in Swiss francs. The opposite is true for other markets: Istanbul experienced a slight increase in values in euro, but in Turkish lira values increased by a notable 21%. British markets have also fared slightly better when values are considered in pound sterling. See Chart 8 for more details;
- During the midst of the recession and the following 12-18 months, hotel operators slashed costs and expenses, both fixed and variable, in order to help dwindling profit lines. Some of these operational savings were not sustainable in the long term and, as such, we have increasingly seen a return to more 'normal' cost structures, which has somewhat reduced the positive impact of increased revenues on the bottom line;
- On a positive note, the hosting of the Olympic Games in London in July and August will certainly generate additional interest in this market (and indeed in Europe in general), although it is likely that full occupancy will not be achieved as traditional demand might be displaced during the weeks of the event. The Queen's Diamond Jubilee (marking the 60th year of her reign) will also attract additional media attention and should generate more visitation to the city;
- After the improved transaction levels in 2010, the volume of hotel sales in Europe increased further in 2011 by 9%, to a total investment of about €7.1 billion compared to €6.5 billion in 2010 (see our sister publication, *2011 European Hotel Transactions*). Investors' appetites were constrained by a lack of debt finance in paticular;
- Operators' appetites to expand remain healthy, but the lack of debt funding continues to somewhat restrain the pipeline of new hotels. With banks not inclined to lend on new developments, the search for alternative sources of funding remains challenging. The conversion of other non-hotel properties remains an attractive option;
- The question of what the market will experience in 2012 will remain difficult to answer until we have a clearer picture of the future of the euro. Whether it continues in its current form or changes dramatically will have a significant impact on the economic and political situations of most of the countries in this survey.

CHART 1: TOP AND BOTTOM FIVE – PERCENTAGE CHANGE IN HOTEL VALUE PER ROOM (€)



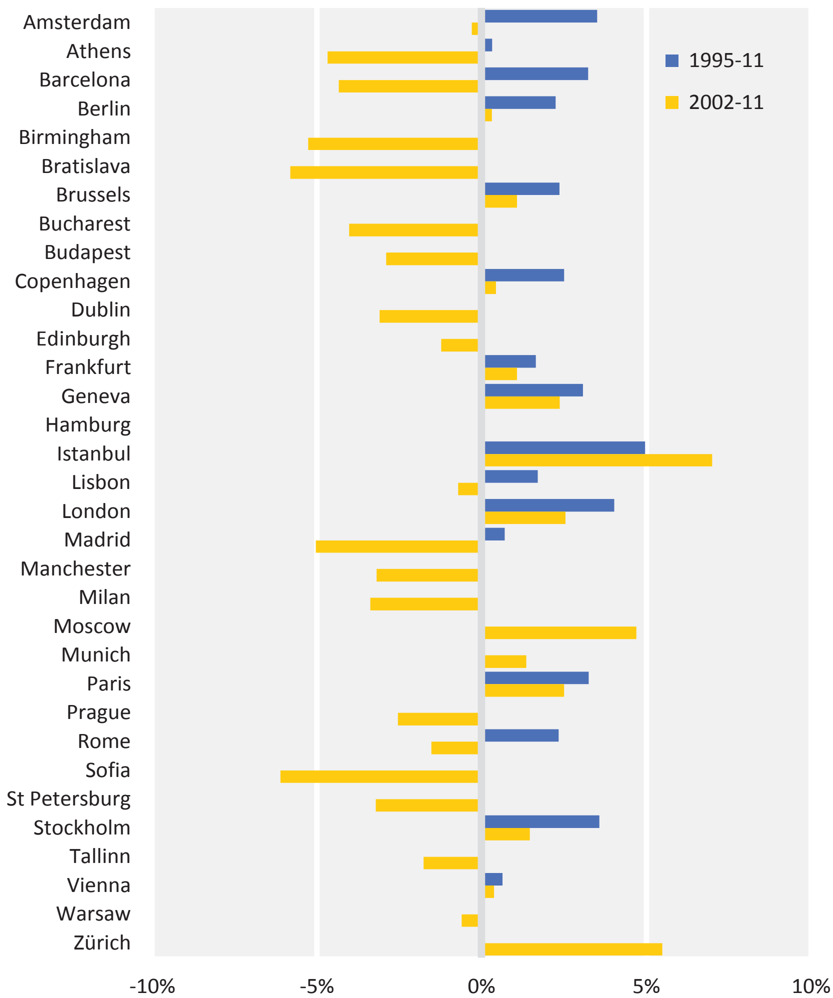
Source: HVS – London Office

Winners and Losers

In 2010, most markets had started recovering from the devastating recession that hit hotel performance in 2009. Starting from this improved base in 2011, the top five markets all experienced improvements in value of more than 10%. Four of these markets are (as in 2010) in Western Europe, but the top performer is an Eastern European market, Tallinn (see Chart 1). Albeit from a small base, values per room in Tallinn increased by 14% in 2011, driven mainly by significant improvements in performance. It is interesting to note that because values for this market are the lowest within the survey overall, it is still forecast to have the lowest value per room in 2016, despite the strong growth forecast for the next few years (see Chart 9).

Only three of the bottom five markets actually recorded a decrease in values (Sofia, Birmingham and Berlin); the other two merely registered either little or no growth. Lisbon, at the bottom end of the index last year, witnessed an 11% increase in values in 2011 and is therefore one of the top performers in terms of percentage growth. Istanbul may be listed as one of the bottom five, but it still recorded growth, hinting at an overall positive outlook for most of the markets. It is currently one of the most attractive cities for new hotel development in Europe.

CHART 2: COMPOUND ANNUAL GROWTH RATE IN VALUES 1995-11 AND 2002-11 (€)



Source: HVS – London Office

Changes in Value

With an increase of around 10% in 2010, **Amsterdam** recorded a continued rise in value of around 6% in 2011. Amsterdam reported a RevPAR rise of 11%, driven primarily by a 10% increase in average rate to €140. The return of the commercial segment to the city has helped to boost conference rates as well as rack rates. With many celebratory events taking place in 2013, such as the anniversary of Amsterdam's canals, 200 years of the Dutch royal family and 150 years of Heineken, as well as the signing of big conference events in 2012 and 2013, Amsterdam is well on the road to further recovery and to reaching pre-crisis hotel values, which in 2011 rose to €290,000. Amsterdam will also see a considerable amount of new supply coming into the market over the next two to three years, including the 122-room Andaz, the 94-room Waldorf Astoria and the 150-room Park Inn by Radisson at Schiphol Airport.

Athens struggled to attract tourists in 2010, owing to the bailouts in May leading to economic uncertainty and turmoil, which led to a fall in hotel values of 30%. In 2011, the city managed to achieve a growth in values of nearly 6% to €137,000. Despite the decrease in international air arrivals of around 4%, RevPAR in Athens grew by 5%, driven by growth in both occupancy and average rate. Despite this increase, hotel occupancies fell by 15 to 20 percentage points on average, while hotel prices are still 30-40% lower than those achieved in the peak years. Major changes in the market are highlighted by the closure of 15 hotels in the city centre. New supply includes the luxury 79-room, boutique New Hotel, part of the Greek chain Yes Hotels. Radisson Blu Hotels and Resorts recently broke into the Greek market through a 15-year franchise agreement for the five-star Radisson Blu Park Hotel on Alexandras Avenue. Another major development is the tender for the redevelopment of the Faliro Olympic Sports Hall into a conference centre, which has long been expected in the city, by a private consortium of five Athens hotels and a major Greek airline.

Despite a difficult economic environment, **Barcelona** remains a very popular short-break destination, both domestically and internationally. In addition to leisure visitation, the city also has a fair share of business demand, hence its well-balanced seasonality for the hotel market. In 2011, Barcelona received 8% more visitors than in 2010 and is now heading towards the 7 million mark. This has led to an overall RevPAR increase of 8%. After significant increases in supply in the city in the early 2000s, the pipeline eased somewhat, but a number of projects are back on the drawing board, with some 2,000 rooms expected to come into the market during the course of 2012 and 2013. A further 1,700 rooms, mostly in the three- and four-star categories, have no confirmed completion dates. This volume of new supply is expected to somewhat constrain occupancy growth for Barcelona in the short term. The modest operational

In 2011, Barcelona received 8% more visitors than in 2010 and is now heading towards the 7 million mark

gains have resulted in an increase in value per room of 2% for the city, to €229,000, in line with our forecast for the year, which remains positive considering the overall difficult economic circumstances in Spain.

Berlin, unlike most other German markets, struggled with flat performance in 2011, with occupancy showing only a 1% increase. A 2% fall in average rate led to a 1% decrease in RevPAR to €60. Considering the massive increase in hotel supply in 2011, Berlin has only experienced a small value decrease overall to €177,000. By the end of 2011, 2,600 additional rooms had entered the market, including the 505-room Motel One Hauptbahnhof. We do not expect a significant increase in values until the new supply has been absorbed by the market, with a further 870 rooms to become operational in 2012. Despite this new supply, the long-term forecast looks positive for the German capital.

Despite a massive increase in supply in 2011 (2,600 rooms), Berlin recorded only a small decrease in hotel values

Birmingham was one of only three cities included in the HVI that saw a drop in RevPAR in the first seven months of 2011 (-9%). However, this performance improved significantly in the second half of the year, resulting in a small annual increase in occupancy, but a further fall in average rate. Overall, RevPAR fell by 8% for the full year. This was due in part to the increase in supply with new hotels providing opening offers to atrract volume. More than 600 rooms have entered the market in the past 12 months, so hoteliers have focused on occupancy at the expense of average rates. This trend looks to continue with the announcement that Staywell Hospitality has lodged a planning application to develop a 300-room Park Regis hotel (its first outside Australasia, the Pacific and Asia) and plans to reopen the city's Grand Hotel as a 152-room, five-star property. Neither trading performances nor values currently warrant these new openings, but it is an encouraging sign that some developers have long-term confidence in the city. Values for the existing hotels are only likely to increase significantly from their current level of €109,000 (£95,000) once there is more debt available in the UK regions.

After witnessing a 16% drop in 2010, **Bratislava** experienced a slight increase in values to €118,000 in 2011. The 2% decline in average rate was offset by an 11% increase in occupancy, leading to an overall RevPAR increase of 9%. Yet RevPAR still remains at just above €30, one of the lowest in Europe. With the collapse of the government in October 2011 and elections scheduled for March 2012, the country is experiencing political uncertainty. Furthermore, arrivals at Bratislava airport have been declining since 2009. However, international brands such as Kempinski and

CHART 3: HOTEL VALUES – PERCENTAGE CHANGE 2002-11 (€)

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR [1] 2002-2011[2]
1	Tallinn	n/a	n/a	5.6	6.1	18.4	-7.1	-25.7	-19.5	3.2	14.0	-1.8%
2	Geneva	3.8	-7.9	-8.4	9.1	7.6	5.4	17.3	-9.6	-1.4	13.1	2.4%
3	London	-5.0	-5.9	11.9	7.2	11.7	5.5	-23.1	0.9	8.4	12.0	2.5%
4	Zürich	-7.1	-5.5	6.2	8.4	10.1	7.6	5.6	-4.5	12.1	11.1	5.5%
5	Lisbon	-1.9	-4.0	2.6	-9.7	14.9	11.9	-11.8	-14.0	-2.7	11.1	-0.7%
6	Paris	4.4	-7.2	4.3	6.6	9.0	6.0	-5.9	-3.6	4.2	10.9	2.5%
7	Warsaw	-15.2	-10.9	-13.4	8.1	14.7	10.2	-4.0	-18.2	5.1	8.7	-0.6%
8	Stockholm	-5.5	-6.5	1.9	5.2	11.2	8.3	-6.9	-9.4	3.0	8.7	1.5%
9	Frankfurt	-6.6	-2.0	-3.7	0.2	5.9	-6.4	-7.9	-0.1	19.4	6.9	1.1%
10	Amsterdam	-5.5	-4.9	-0.3	5.7	16.5	-0.8	-14.9	-16.0	10.4	6.4	-0.3%
11	Hamburg	3.7	-0.2	0.5	0.5	0.8	-6.3	-3.2	-2.5	4.4	6.3	0.0%
12	Dublin	-1.6	1.9	2.3	6.7	6.5	-2.5	-18.6	-20.2	-5.4	6.1	-3.1%
13	Rome	-1.8	-1.9	4.7	2.9	7.8	-4.3	-17.6	-10.2	1.9	6.0	-1.5%
14	Athens	5.9	-2.8	6.7	-7.1	2.6	4.7	-2.5	-14.0	-29.3	5.9	-4.7%
15	Munich	-7.3	-8.1	11.7	-1.4	7.8	3.4	-7.0	-10.2	14.7	4.6	1.4%
16	Bucharest	n/a	n/a	17.0	2.6	-4.9	8.1	-21.4	-22.9	-8.0	4.6	-4.0%
17	Copenhagen	-3.0	-8.3	-3.1	10.0	11.4	1.0	-6.4	-2.2	-0.9	4.1	0.4%
18	Budapest	-2.8	-13.6	7.9	11.7	4.8	-1.2	-17.1	-16.8	-0.8	4.0	-2.9%
19	Bratislava	n/a	n/a	n/a	11.6	-5.0	3.0	-15.2	-18.8	-15.9	4.0	-5.8%
20	Milan	3.8	-0.4	-3.3	0.8	12.3	-1.7	-13.6	-13.0	-12.4	3.9	-3.4%
21	Prague	-4.3	1.6	17.7	4.3	1.4	-5.4	-21.0	-20.3	1.6	3.7	-2.5%
22	Brussels	-7.7	-4.0	3.1	4.5	7.8	6.1	1.7	-11.8	0.1	3.7	1.1%
23	Moscow	13.2	8.7	21.7	21.8	20.6	14.3	-9.9	-30.0	4.3	3.4	4.7%
24	St Petersburg	n/a	n/a	2.7	4.1	6.9	9.5	-5.9	-42.9	10.8	3.4	-3.2%
25	Vienna	-1.4	6.4	0.8	3.9	11.2	6.5	-5.2	-18.4	-1.7	3.0	0.4%
26	Madrid	2.4	-5.7	-10.9	0.6	12.8	2.0	-16.8	-18.2	-7.4	2.6	-5.0%
27	Barcelona	1.4	-5.5	-8.5	-5.4	7.2	5.5	-19.4	-15.0	3.3	2.4	-4.3%
	EUROPE	**-1.6**	**-10.0**	**2.5**	**4.1**	**8.9**	**3.1**	**-10.8**	**-13.4**	**1.6**	**2.3**	**-1.6%**
28	Edinburgh	3.3	-3.4	9.4	5.5	12.0	1.7	-27.1	-7.6	2.8	1.7	-1.2%
29	Istanbul	-19.5	-9.5	16.9	32.0	10.9	8.2	10.8	-8.0	5.8	1.6	7.0%
30	Manchester	0.7	-5.7	7.5	6.9	6.2	-1.2	-21.9	-12.2	-4.4	0.2	-3.2%
31	Berlin	1.5	-2.9	1.0	-0.7	5.2	-0.7	0.2	-0.8	4.4	-2.6	0.3%
32	Birmingham	2.5	-4.2	7.7	3.0	5.4	-0.5	-22.7	-13.1	-12.0	-6.7	-5.3%
33	Sofia	n/a	n/a	n/a	n/a	9.1	12.4	-16.0	-27.1	0.5	-9.2	-6.1%

Source: HVS – London Office

[1] Compound Annual Growth Rate

[2] CAGR from 2001 or closest year

CHART 4: HOTEL VALUATION INDEX

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1	Paris	2.907	2.697	2.813	2.997	3.267	3.463	3.259	3.142	3.274	**3.632**
2	London	2.695	2.536	2.838	3.043	3.400	3.588	2.760	2.786	3.018	**3.380**
3	Zürich	1.846	1.744	1.852	2.008	2.210	2.377	2.510	2.397	2.686	**2.984**
4	Geneva	2.178	2.006	1.838	2.006	2.158	2.275	2.669	2.414	2.379	**2.690**
5	Rome	2.394	2.349	2.460	2.531	2.729	2.610	2.150	1.929	1.967	**2.085**
6	Istanbul	1.071	0.969	1.134	1.496	1.659	1.795	1.990	1.831	1.938	**1.968**
7	Moscow	1.273	1.384	1.684	2.051	2.473	2.828	2.547	1.784	1.860	**1.924**
8	Amsterdam	1.713	1.629	1.624	1.717	2.000	1.984	1.689	1.419	1.567	**1.667**
9	Milan	2.244	2.235	2.162	2.180	2.449	2.408	2.080	1.809	1.585	**1.647**
10	St Petersburg	n/a	1.846	1.895	1.974	2.110	2.311	2.175	1.242	1.375	**1.422**
11	Munich	1.187	1.090	1.217	1.200	1.293	1.338	1.243	1.116	1.281	**1.340**
12	Stockholm	1.174	1.097	1.119	1.177	1.308	1.417	1.319	1.196	1.231	**1.338**
13	Barcelona	1.963	1.855	1.698	1.606	1.722	1.817	1.465	1.245	1.287	**1.317**
	EUROPE	**1.464**	**1.319**	**1.351**	**1.407**	**1.533**	**1.580**	**1.409**	**1.220**	**1.240**	**1.268**
14	Edinburgh	1.396	1.349	1.475	1.556	1.743	1.773	1.293	1.195	1.228	**1.249**
15	Madrid	1.925	1.815	1.617	1.626	1.834	1.872	1.556	1.273	1.179	**1.210**
16	Copenhagen	1.142	1.047	1.015	1.116	1.244	1.256	1.176	1.150	1.140	**1.187**
17	Hamburg	1.162	1.159	1.164	1.170	1.180	1.105	1.070	1.043	1.089	**1.158**
18	Frankfurt	1.034	1.013	0.976	0.977	1.035	0.969	0.892	0.892	1.064	**1.138**
19	Warsaw	1.140	1.016	0.879	0.950	1.090	1.202	1.154	0.944	0.993	**1.079**
20	Vienna	1.027	1.093	1.102	1.145	1.273	1.355	1.285	1.049	1.031	**1.062**
21	Brussels	0.935	0.898	0.926	0.967	1.042	1.105	1.125	0.992	0.993	**1.029**
22	Berlin	0.990	0.961	0.971	0.964	1.014	1.007	1.009	1.000	1.044	**1.017**
23	Prague	1.201	1.221	1.436	1.498	1.519	1.437	1.135	0.904	0.919	**0.953**
24	Dublin	1.219	1.242	1.270	1.355	1.443	1.407	1.146	0.915	0.865	**0.918**
25	Manchester	1.093	1.031	1.109	1.185	1.259	1.244	0.971	0.853	0.815	**0.817**
26	Lisbon	0.842	0.808	0.829	0.748	0.860	0.962	0.849	0.730	0.710	**0.789**
27	Athens	1.211	1.178	1.257	1.168	1.199	1.255	1.223	1.051	0.743	**0.787**
28	Budapest	1.022	0.883	0.953	1.064	1.115	1.101	0.913	0.760	0.754	**0.784**
29	Bucharest	n/a	n/a	1.113	1.142	1.086	1.175	0.923	0.712	0.655	**0.685**
30	Bratislava	n/a	n/a	1.036	1.157	1.099	1.132	0.960	0.780	0.656	**0.682**
31	Birmingham	1.023	0.980	1.056	1.087	1.146	1.140	0.881	0.766	0.674	**0.629**
32	Sofia	n/a	n/a	n/a	0.839	0.915	1.029	0.864	0.630	0.633	**0.575**
33	Tallinn	n/a	0.603	0.637	0.676	0.800	0.743	0.552	0.445	0.459	**0.523**

Source: HVS – London Office

Note: Based on euro calculations

Sheraton opened in Bratislava in 2010 and DoubleTree by Hilton in April 2011. This represents a significant increase in branded hotels in the city and more are expected to enter the market.

Brussels continues to be a stable market; one which capitalises on the demand from reliable governmental sources (EU and Nato amongst others) to complement an otherwise weak corporate demand. Even when corporate and meeting and conference demand fell by 14% and 5%, respectively, in 2009, leisure demand increased by 7%, shifting the traditional balance of this business-driven market to a more even mix between business and leisure. A limited pipeline also benefits the existing hotels; despite few hotels entering the market in 2011 (the 142-room Park Inn Brussels Midi opened in March), occupancy remained flat at about 67%, and rate grew modestly by inflationary levels, resulting in a RevPAR increase of just over 4.0%. The proposed Thon Hotel EU Quarter, with 442 bedrooms and apartments, is expected to open in mid 2012. Additionally, we understand that work is continuing at the Astoria Hotel, with a view to reopen this property in 2014. The steady hotel values per room for this market have again not disappointed, rising by 4% in 2011 to about €179,000, almost exactly the level predicted in the 2011 HVI.

Bucharest's increase in RevPAR of about 9% was driven mainly by an increase in occupancy, while average rate remained stagnant. No new supply is expected to come into the market for at least five years. This is mainly due to a lack of available bank financing and absorption of new supply from the boom years of 2006, 2007 and early 2008, which saw great investment opportunity in Eastern Europe and the former Soviet countries. This trend is also evident in the office market, where the oversupply created in the boom years is now facing a contraction in demand that resulted in a decrease in rents of as much as 80% in some cases with a vacancy rate of 20-30%. However, we understand that the outlook for 2012 is positive with growth recorded in February and conferences in the fourth quarter already on the books. The increase in RevPAR is positive; however, with investment concerns in the short term, some of this growth has not translated into an increase in hotel value, which rose by 5% in 2011 to €119,000.

The outlook for Bucharest for 2012 is positive, with conferences already booked for the fourth quarter of the year

Budapest was hit hard by the global economic crisis in 2008, and recovery only began at the end of 2010 with a GDP growth of 1%. Recovery continued in 2011 with an increase in RevPAR of 8%, driven by an increase of 7%

COPENHAGEN IS EXPERIENCING AN INCREASE IN INTERNATIONAL VISITATION

in occupancy and a slight rise in average rate to just over €60. The makeover of Budapest's main trade fair expo (Hungexpo) is expected to help the city gain importance in the convention market, and there are plans for a €260 million investment in the city's airport. Budapest Airport registered a 9% increase in passenger traffic in 2011, reaching an all-time high. Encouraging signs of foreign investment in the region, with the opening of a Mercedes-Benz manufacturing plant near Budapest and an Audi plant near Györ, and an increase in the number of film productions compared to 2010 all resulted in a value increase of 4% to €136,000 in 2011.

The Danish economy started 2011 on a good note, as exports to Germany and Sweden were at high levels. As the year progressed, the economy started to slow down as a result of the impact of the debt crisis from the USA and Europe. However, **Copenhagen**'s hotel market managed to achieve higher performance levels as demand continued to increase in the city and additional supply has been somewhat limited. An increase in international visitation, particularly from emerging markets such as Russia and China, as well as growing demand from Sweden, translated into increased activity for the hotel market in Copenhagen. Additionally, the local tourism board is currently making efforts to attract further international leisure and meeting, incentive, conference and exhibition (MICE) business as the city establishes itself as a conference destination, despite its higher prices compared to other main European cities. As such, occupancy has remained relatively stable at 66%, while average rates increased by 4% to €99, translating into a RevPAR increase of 5% to €65 and an increase in value of 4% to €206,000 in 2011.

Dublin has recorded a steady fall in hotel values for the past five years, but there was light at the end of the tunnel, with a 6% increase in average rate in 2011. This strong performance was compounded by a 6% increase in occupancy, which was partly due to a number of large events that Dublin hosted in 2011, such as UEFA's Europa League Final. However, issues remain; for example, the austerity measures originally announced may need to be increased and many of the issues in the Irish economy persist. Similarly, the problems affecting the UK and the pound sterling exchange rate against the euro have hindered efforts to encourage visitors to Ireland; the UK still views Dublin as an expensive destination. However, economic issues have reduced new supply and, combined with some hotel closures, this should assist further recovery. Values increased by 6% to €160,000 in 2011 and we are forecasting further growth for the next few years.

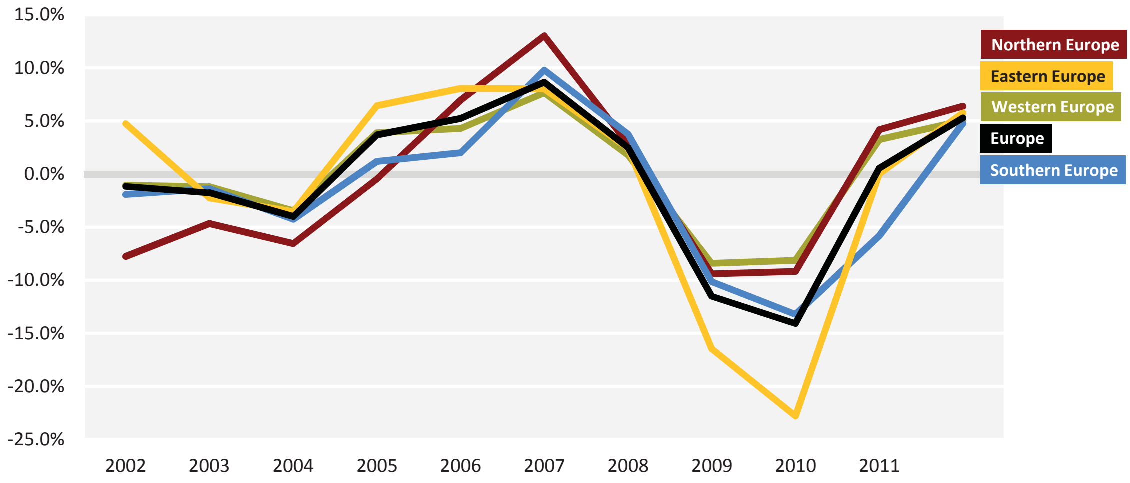
After a fall in hotel values over the past few years, Dublin recorded a rise of 6% in 2011

Edinburgh presents a similar picture to other cities in the UK, with occupancy growing and average rate showing a slight decrease. Overall, the city remained flat in terms of RevPAR, aided by a 3% increase in occupancy to about 80% for 2011. It is important to note that occupancy in Edinburgh is particularly high and it competes with major European gateway cities such as Paris and London. Edinburgh has continued to benefit from Eurozone visitors to London deciding also to visit the Scottish capital, partly helped by the more affordable currency exchange. Overall, it has been another good year for the city, with many operators still keen to enter the market. It is not surprising that Motel One and Residence Inn by Marriott have opened their first UK properties in this thriving city. At €217,000 per room (£189,000), Edinburgh continues to box above its weight compared to other European cities.

As the strong economic performance in Germany continued, hotel performance in **Frankfurt** had another year of strong recovery – by Frankfurt standards of stability. The increase in value per room for 2011 is 7%, to €198,000, putting this city 18th in the index. Occupancy showed a modest increase, but an average rate increase of nearly 3% resulted in a RevPAR rise of about 4%, which is very positive for 'steady' Frankfurt. Frankfurt remains Germany's financial centre as well as a key European hub for business and air transportation; it also holds a strong position in regards to domestic and international conferences and trade fairs. A positive trend in visitation and bednights in 2011 is partly explained by the occurrence of a number of biennial events (IAA Frankfurt, ISH fair and the CPhI congress amongst others) together with a number of matches for the FIFA Women's World Cup. In terms of hotel supply, we note that the InterContinental Hotel Frankfurt is expected to benefit from a full refurbishment in the near future and the Westin Grand recently underwent a €3.5 million renovation. The 218-room Jumeirah Hotel Frankfurt opened in September 2011, next to the Thurn and Taxis Palais, and the 249-room Hilton Frankfurt Airport opened in December 2011. Two additional hotels are planned to enter the market in the coming years: the proposed 170-room Sofitel Frankfurt am Opernplatz (January 2013) and the proposed 405-room Grand Hyatt Frankfurt (February 2014). In addition to these

FRANKFURT ENJOYED ANOTHER YEAR OF STRONG RECOVERY

CHART 5: YEAR-ON-YEAR CHANGE IN VALUES PER ROOM BY REGION 2002-11



Source: HVS – London Office

Note: Based on euro calculations

upscale hotels, a number of additions across the three-star and four-star segments are expected over the same period, which might put pressure on occupancy for the market in the short to medium term.

Geneva is a global hub, owing to the presence of numerous international organisations (such as the UN), financial institutions and major research and development laboratories. Hotel supply in this market is very stable; because of the high barriers to entry, apart from the refurbishment of existing properties, no new hotels are expected to enter the market in the near future. Surprisingly, the strong appreciation of the Swiss franc that started toward the end of 2010 (as a result of the euro crisis) seems to have had limited effect on demand, as occupancy remained practically unchanged in 2011. The strong increase in average rates is due to currency appreciation, as average rates in local currency have slightly decreased as hoteliers try to make their hotels a little less expensive to international customers. This appreciation has resulted in an increase in value per room for the market of 13%, to €467,000, well above our forecast in last year's survey. In local currency, however, values fell by 3% to SFr556,000.

Hotel supply in Geneva is very stable, owing to high barriers to entry

HOTELS IN LISBON HAVE BENEFITED GREATLY FROM THE LACK OF ADDITIONAL SUPPLY AND A RECOVERY IN THE MARKET

Hamburg has experienced further growth in hotel values, driven by strong performance. Hamburg's hotel values have already surpassed 2008 levels, rising to €201,000 in 2011, indicating a full recovery of the market. Hamburg has shown the greatest increase in RevPAR (of almost 7%) in Germany, owing to strong leisure and conference markets, despite the fact that the city has seen an increase in supply, which will continue to grow. Occupancy and average rate have grown by 4% and 3%, respectively. Hamburg is ranked 17th in terms of value in this year's index.

As a result of the government's introduction of economic stimulus measures in 2010, the Turkish economy has shown positive GDP growth over the past year, with forecast numbers averaging around 4% for the next five years. **Istanbul** continues to benefit from revived interest from local and international investors as a result of this sound economic growth. Being designated European Capital of Culture 2010 meant that the city has been able to capitalise on its tourism potential and hotel operators have therefore been eager to enter and expand within the market. Despite growing demand in the city, occupancy in 2011 fell slightly to 70%, a 4% decrease on 2010. Hotels have driven their performance through average rates, which experienced an increase of 11% to reach €155. The growth in average rate was assisted by an increase in leisure visitors as well as a boost in corporate travel, with the latter market segment benefiting from the many prestigious conferences now being held within the city. As a result, RevPAR and hotel values per room showed positive gains in 2011. The value per room recorded a 2% gain to €342,000. In local currency terms, however, the growth in values per room was a staggering 21% to YTL794,000. The market is to experience a significant increase in branded supply, which may impact occupancy and rate – and values – over the long term.

Chart 5 presents the year-on-year average variations in values by region, showing the correlation between the markets and how Western, Eastern, Southern and Northern Europe have performed comparatively to each other from 2002 to 2011

In recent years, the **Lisbon** market has successfully shifted from a leisure- to a business-oriented destination. The continuing popularity of cruise and golf tourism and an increased awareness of Lisbon in the MICE sector have aided demand growth. While the majority of new supply is likely to be operated by local brands, we are also aware of the possible development of an 86-room Hyatt. Progress on both local and international projects has been very slow, owing to the economic crisis, although a few projects may be coming into the market in 2012/13. Hotels in Lisbon have benefited greatly from the lack of additional supply and a recovery in the market, especially in terms of average rate which increased by 9% in 2011 to around €88; RevPAR rose by 11%. Values also rose by 11% to €137,000 per room in 2011.

On account of its status as a global destination and its resilient hotel performance, **London** has seen hotel values grow throughout the year. The city remains in second place in the HVI, with values per room of €587,000 (£511,000). RevPAR increased by 6% in 2011, driven primarily by average rates, which increased by 6%. Occupancy showed almost no change. However, this was expected, since London boasts the highest occupancy across the major European cities. Significant growth in occupancy is not expected in the short to medium term, as more than 5,000 rooms are expected to enter the market. There was a cooling off in performance in the last quarter of 2011, but with three significant events (the Queen's Diamond Jubilee, Farnborough Airshow and the Olympic Games) all set to ensure London remains in everyone's focus, performance is expected to remain strong in 2012. Those hotels that have changed hands in the past year have been purchased at very keen yields, reflecting the importance of the London hotel real estate market. There remains a strong development pipeline at both the budget and luxury ends of the spectrum, with existing and new operators keen to open hotels in London. Much of the improvement in performance over the past two years has been attributed to the weakness of the sterling against the euro; although this may change, with burgeoning visitors from new markets such as the BRIC countries continuing to support the city, London should remain a strong performer in the short term.

Hotel values in London grew by 12% in 2011 and the city remains in second place in the HVI

The Spanish economy grew by just 1% in 2011, and it is expected to contract by about 2% in 2012. **Madrid** is Spain's key commercial and financial hub, and it has also positioned itself as a MICE destination over the last few years, thus broadening its demand base. Hotel occupancy recovered to about 66% in 2011, from a low of about 60% in 2009. However, average rates have continued to either remain flat or show signs of weak growth; therefore RevPAR increased by only 3% for 2011. The pipeline for the city remains reasonable, with about 870 rooms expected to enter the market over the next few years. Most of these proposed hotels will be of a small size and independently operated. The branded increases in supply are represented by NH, Accor and Travelodge. The 85-room NH Palacio Mejía

CHART 6: HOTEL VALUES PER ROOM 2002-11 (€)

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1	Paris	504,973	468,642	488,637	520,657	567,582	601,736	566,182	545,887	568,772	630,928
2	London	468,253	440,589	493,147	528,685	590,700	623,389	479,586	483,946	524,414	587,153
3	Zürich	320,644	303,071	321,776	348,816	383,896	412,929	436,164	416,455	466,654	518,496
4	Geneva	378,445	348,545	319,394	348,553	374,928	395,337	463,664	419,322	413,254	467,394
5	Rome	415,946	408,025	427,329	439,706	474,115	453,513	373,474	335,209	341,718	362,168
6	Istanbul	186,101	168,425	196,943	259,962	288,298	311,874	345,688	318,160	336,652	341,979
7	Moscow	221,221	240,379	292,597	356,385	429,738	491,250	442,442	309,908	323,123	334,254
8	Amsterdam	297,539	283,081	282,177	298,276	347,480	344,731	293,440	246,615	272,250	289,563
9	Milan	389,819	388,362	375,607	378,780	425,408	418,292	361,405	314,326	275,323	286,098
10	St Petersburg	n/a	320,777	329,300	342,922	366,545	401,525	377,850	215,727	238,917	247,066
11	Munich	206,169	189,397	211,504	208,544	224,723	232,382	216,013	193,960	222,562	232,728
12	Stockholm	203,956	190,634	194,343	204,438	227,309	246,204	229,155	207,715	213,887	232,397
13	Barcelona	341,063	322,233	294,942	278,972	299,168	315,731	254,503	216,289	223,514	228,776
	EUROPE	**254,434**	**229,079**	**234,799**	**244,457**	**266,287**	**274,427**	**244,837**	**212,026**	**215,467**	**220,373**
14	Edinburgh	242,543	234,293	256,289	270,269	302,830	308,027	224,606	207,560	213,362	217,060
15	Madrid	334,500	315,270	280,863	282,425	318,668	325,149	270,403	221,173	204,891	210,187
16	Copenhagen	198,353	181,906	176,344	193,944	216,080	218,247	204,279	199,805	198,062	206,257
17	Hamburg	201,830	201,356	202,289	203,288	204,941	192,032	185,881	181,228	189,262	201,151
18	Frankfurt	179,599	175,961	169,497	169,811	179,872	168,302	155,043	154,888	184,863	197,658
19	Warsaw	198,109	176,439	152,723	165,083	189,431	208,847	200,436	164,056	172,487	187,532
20	Vienna	178,379	189,872	191,412	198,867	221,081	235,469	223,289	182,220	179,192	184,540
21	Brussels	162,422	155,942	160,799	167,979	181,015	192,041	195,401	172,325	172,488	178,796
22	Berlin	171,922	166,977	168,681	167,454	176,141	174,941	175,269	173,824	181,387	176,749
23	Prague	208,653	212,065	249,529	260,316	263,895	249,576	197,115	157,019	159,598	165,561
24	Dublin	211,756	215,852	220,721	235,425	250,642	244,497	199,027	158,897	150,268	159,477
25	Manchester	189,950	179,167	192,692	205,929	218,703	216,057	168,737	148,116	141,580	141,907
26	Lisbon	146,202	140,296	143,955	129,972	149,358	167,172	147,476	126,887	123,437	137,103
27	Athens	210,423	204,603	218,340	202,946	208,274	218,010	212,539	182,680	129,065	136,716
28	Budapest	177,574	153,460	165,514	184,914	193,737	191,347	158,591	131,961	130,966	136,226
29	Bucharest	n/a	165,197	193,316	198,380	188,751	204,066	160,328	123,690	113,789	118,985
30	Bratislava	n/a	n/a	180,070	200,954	190,899	196,613	166,769	135,473	113,915	118,486
31	Birmingham	177,813	170,258	183,382	188,794	199,043	198,044	153,081	133,092	117,104	109,303
32	Sofia	n/a	n/a	n/a	145,770	159,016	178,800	150,132	109,387	109,960	99,873
33	Tallinn	n/a	104,755	110,663	117,448	139,035	129,107	95,920	77,234	79,709	90,877

Source: HVS – London Office

Lequerica is set to open in 2012, a year that will also see the debut of InterContinental Hotels Group's Indigo brand (89 rooms). At the budget end, ibis will be opening a 104-room hotel and a 112-room hotel during the course of 2012, and Travelodge will be adding a 98-room property to the market in 2013. Starwood Hotels and Resorts has announced its first Sheraton hotel for Madrid; the existing Mirasierra Suites Hotel is currently being adapted to Sheraton standards and is expected to be rebranded as the 180-room Sheraton Madrid Mirasierra this spring. Another 400 rooms have also been announced but have no confirmed dates. Hotel values per room for Madrid increased modestly by 3% on 2010, to about €210,000 in 2011.

Manchester enjoyed a steady performance throughout the first half of 2011, although it recorded strong occupancy growth in the second half. For the full year, occupancy rose by 4% but at the cost of a 1% decrease in (euro) average rates. This triggered a 3% growth in RevPAR. Hotel values have continued to experience a slight decrease but remain more or less stable at €142,000. However, in local currency values rose by a modest 2% to £123,000 a room. This recovery is set against the 4% fall in value reported in 2010. 2012 is expected to see more of the same: a slow and steady improvement. There are several projects with planning consent promising new supply for the market, although how many of these will actually be developed remains to be seen; we surmise that it will depend upon a recovery in performance and the availability of debt.

A slow and steady improvement in hotel values is expected for Manchester in 2012

Milan witnessed a 4% increase in values to €286,000 in 2011, driven by a 6% increase in occupancy together with a slight increase of 2% in average rates, which resulted in an overall 7% increase in RevPAR. After three years of constant decreases in RevPAR, driven by falls in both occupancy and rate, 2011 was a year of recovery. Milan is ranked ninth in this year's index. A few new hotels are expected to enter the market in the upscale segment between 2012 and 2014, including a W by Starwood, a Mandarin Oriental and an InterContinental. These, together with those hotels recently opened in 2010 and 2011, will result in an increase of approximately 1,000 rooms for the upscale segment over this period. The Expo 2015, to be hosted by Milan, will focus on technology, innovation, culture, traditions and creativity and how they relate to food and diet; this event is expected to promote fashionable Milan further.

PARIS TOPS THE TABLE AGAIN AT €631,000 PER ROOM

LONDON IS SET FOR AN EXCITING SUMMER IN 2012

With a second consecutive year of RevPAR growth, **Moscow** is on its way up, albeit it is some distance from the peak of 2007. In 2010, the city recorded a significant increase in occupancy with slight average rate growth in euro (average rate dropped in local currency). Last year not only saw a modest increase in occupancy (3%), it also witnessed average rate increases of 6% and 8% in euro and local currency, respectively. This growth was desperately needed by Moscow to not only recover from unjustifiable hotel values, but also to protect itself from the impact of new supply which is expected to enter Moscow in the short term. This growth is expected to continue, especially in light of returning commercial business, increasing commodity prices, and Russia's initiative to host major games like the Winter Olympics in Sochi (2014) and FIFA's Football World Cup (2018). However, this growth could appear either magnified or significantly subdued in euro terms, as currency exchange rates continues to create uncertainty.

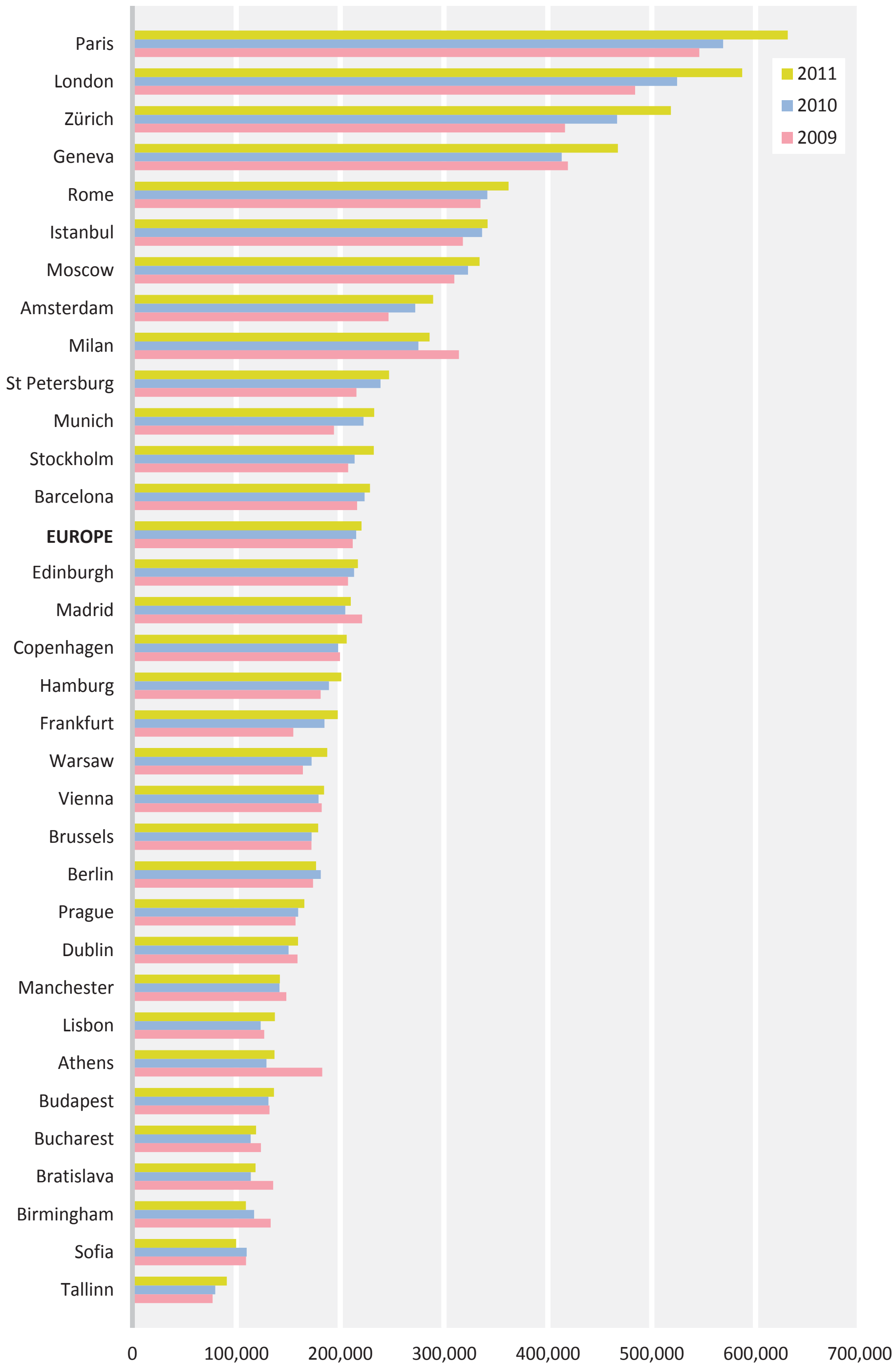
Moscow is seventh in this year's index with hotel values per room of approximately €334,000 (or around Rb14 million)

In 2010, **Munich** showed the second-largest increase in hotel values, due in part to a rise in RevPAR spurred by the strong exhibition and trade fair market. Average rates and occupancy continued to grow in 2011, but at a slower pace, to €114 and 73%, respectively. The growth in hotel values also saw a decrease in pace on 2010, registering a rise of just under 5% for 2011 to €233,000. This slower growth can be explained partly by a large increase in supply, with some 1,700 new rooms entering the market in 2011, including two Motel One hotels. Through continued demand from the leisure and commercial sector, as well as an increase in arrivals from the BRIC countries, hotel values in Munich have managed to climb to pre-crisis levels. Munich is ranked 11th in terms of value in this year's index. Continued growth after the steady performance in 2010 illustrates the maturity and popularity of the city.

Mighty **Paris** continues to reap the benefits of its strategic location, its wealth of cultural attractions and the number of corporate offices. This results in strong and well balanced demand both from business and leisure guests. Up until October 2011, arrivals to Paris had increased by 3%, with a notable increase of 4% from the USA. Chinese visitation increased by more than 20%, albeit from a small base. Owing to the high barriers to entry, the number of new projects in the City of Lights remains limited, given the relevance of this market. It is interesting to note that the addition to the upper end of the market of three hotels in late 2010 and the first half of 2011 have not had a noticeable impact on the market's performance. The W Paris – Opéra has also recently opened. Other projects in the pipeline include the 200-room Peninsula Hotel in mid 2013 and the 80-room Cheval Blanc in the former Samaritaine department store, which is expected to open in 2014. Other changes in supply are the full renovation of the 73-room Hotel Marignan Paris Champs-Elysées, to reopen in mid 2012, and the refurbishment of the 168-room Luxury Collection Prince de Galles Hotel, which closed in February 2011 and is expected to reopen in mid 2012 with a slightly reduced room count. Finally, it has just been announced that Mövenpick will take over the management of the Courtyard by Marriott Paris Neuilly in January 2013; a multimillion euro renovation of the hotel is scheduled to take place next year, increasing the room count to 282. The proposed rooms represent an increase for the market of less than 2%. Given all of these factors, it is of little surprise that Paris continues, once more, to top the list of hotel values, with an 11% increase on 2010 to €631,000 per room.

RevPAR bottomed out for **Prague** in 2010. As occupancies recovered, however, 2011 showed the first signs of average rate improvement. With a limited commercial base and heavy reliance on the leisure and MICE segments, Prague is not only exposed to seasonality but also to stiff competition, especially from Vienna and Budapest. Limited new supply for the market will ensure that the recovering performance will impact values directly, at least in the medium term. The city has been ranked 23rd in this year's index with a value of €166,000 per room, a growth of 4%.

CHART 7: HOTEL VALUES PER ROOM 2009-11 (€)



Source: HVS – London Office

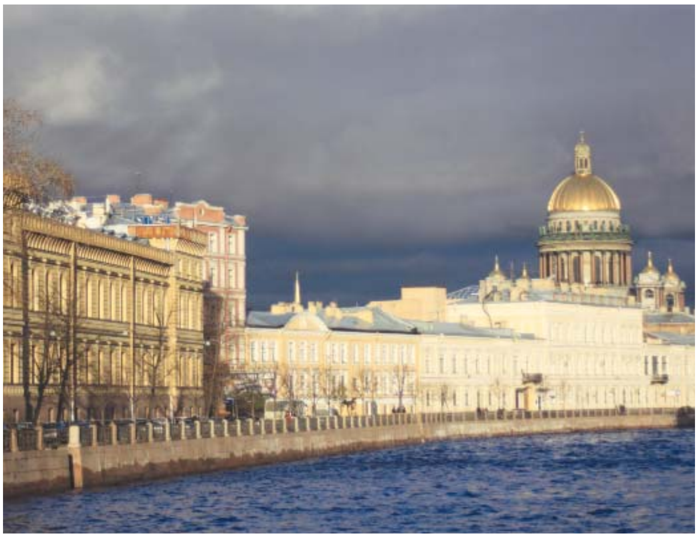
With 5.5 million international arrivals in 2009, Italy's capital ranked 12th in Euromonitor International's survey of the world's most-visited cities. Like other destinations, **Rome** was strongly affected by the global economic downturn in 2008 but, despite the difficult political and economic conditions in Italy, Rome continues to be a popular destination with domestic and international visitors. Recovery started in 2010 and continued in 2011 with an increase in occupancy to 68% and a 4% increase in average rate to just under €150. This helped values to rise by 6% to €362,000 per room. In terms of new supply, Meliá Hotels International opened its latest luxury flagship hotel, the 116-room Gran Meliá Hotel, in late 2011 and Jumeirah took over the management of a 120-room hotel in January 2012. Furthermore, a 340-room Renaissance will open its doors in 2012.

In fifth place in the HVI, Rome recorded hotel values per room of approximately €362,000, a 6% increase on 2010

Sofia saw a 6% RevPAR increase in 2011; however, this growth was driven by occupancy. Average rate for this market has dropped consistently for a few years now. Sofia is primarily a business destination and it does seem odd that it is finding it difficult to stop average rate declining even though occupancy is on the rise. This is due in part to the fierce competition between four-star and the more dated five-star hotels in the market leading to a price war. We are hopeful that the long-awaited average rate growth will come, driving much needed profitability to the bottom line to further help the struggling values for this market, which dropped to just below the €100,000 a room mark in 2011.

Similarly to Moscow, **St Petersburg** has also had two consecutive years of RevPAR increases, albeit at a more modest growth than that recorded by the capital. RevPAR increases for 2010 and 2011 came mostly from a significant increase in occupancy (18% and 7%, respectively). Average rate in euro for 2010 and 2011 increased by 4% and 1%, respectively. Values per room grew by 3.4% in 2011 to €247,000 and, in local currency, by 5% to Rb10 million. St Petersburg, unlike Moscow, has a relatively small commercial base and relies heavily on seasonal leisure demand. The city also has a significant pipeline of new hotels. The recently opened Crowne Plaza Ligovsky and the W hotel will be followed by the Four Seasons, Domina and InterContinental hotels. Lotte and Hilton are also cited amongst potential operators looking to enter the market. However, the completion of the Pulkovo Airport expansion in 2013, the construction of a state-of-the-art football stadium for the FIFA World Cup, several initiatives to relax the visa procedure (especially for St Petersburg), a new expo centre expected to open in 2013 and continuing investment in the sea port are some of the factors that are likely to help St Petersburg recover from the impact of the new supply.

ST PETERSBURG WILL SEE SIGNIFICANT NEW SUPPLY IN THE NEXT FEW YEARS



The strengthening of hotel demand in **Stockholm** since 2010 corresponds with the expansion trend of the Scandinavian economy and the recovery of its key feeder markets' economies. Stockholm's hotels recorded a 10% gain in average rate to €130 and maintained occupancy levels at around 68%, a slight decline on 2010. The value of Swedish

CHART 8: CHANGE IN HOTEL VALUES IN LOCAL CURRENCY

		2007	2008	% Change	2009	% Change	2010	% Change	2011	% Change
Birmingham	€	198,044	153,081	-23%	133,092	-13%	117,104	-12%	109,303	-7%
	£	135,545	121,657	-10%	118,589	-3%	100,501	-15%	95,046	-5%
Bucharest	€	204,066	160,328	-21%	123,690	-23%	113,789	-8%	118,985	5%
	lei	683,110	592,424	-13%	525,871	-11%	480,548	-9%	515,206	7%
Budapest	€	191,347	158,591	-17%	131,961	-17%	130,966	-1%	136,226	4%
	Ft	48,198,259	39,947,470	-17%	37,067,819	-7%	36,078,817	-3%	40,499,892	12%
Copenhagen	€	218,247	204,279	-6%	199,805	-2%	198,062	-1%	206,257	4%
	DKr	1,626,280	1,523,334	-6%	1,487,754	-2%	1,474,774	-1%	1,536,616	4%
Edinburgh	€	308,027	224,606	-27%	207,560	-8%	213,362	3%	217,060	2%
	£	210,818	178,499	-15%	184,942	4%	183,112	-1%	188,748	3%
Geneva	€	395,337	463,664	17%	419,322	-10%	413,254	-1%	467,394	13%
	SFr	649,584	735,391	13%	633,226	-14%	570,714	-10%	556,422	-3%
Istanbul	€	311,874	345,688	11%	318,160	-8%	328,684	3%	341,979	4%
	YTL	558,614	657,701	18%	688,807	5%	656,974	-5%	793,837	21%
London	€	623,389	479,586	-23%	483,946	1%	524,414	8%	587,153	12%
	£	426,657	381,138	-11%	431,209	13%	450,063	4%	510,568	13%
Manchester	€	216,057	168,737	-22%	148,116	-12%	141,580	-4%	141,907	0%
	£	147,873	134,099	-9%	131,976	-2%	121,507	-8%	123,397	2%
Moscow	€	491,250	442,442	-10%	309,908	-30%	323,123	4%	334,254	3%
	Rb	17,176,558	16,149,139	-6%	13,759,935	-15%	13,029,164	-5%	13,637,549	5%
Prague	€	249,576	197,115	-21%	157,019	-20%	159,598	2%	165,561	4%
	Kč	6,928,820	4,920,496	-29%	4,152,833	-16%	4,039,440	-3%	4,072,808	1%
Sofia	€	178,800	150,132	-16%	109,387	-27%	109,960	1%	99,873	-9%
	BGN	350,691	294,037	-16%	214,215	-27%	215,291	1%	195,752	-9%
St Petersburg	€	401,525	377,850	-6%	215,727	-43%	238,917	11%	247,066	3%
	Rb	14,039,335	13,791,514	-2%	9,578,260	-31%	9,633,765	1%	10,080,295	5%
Stockholm	€	246,204	229,155	-7%	207,715	-9%	213,887	3%	232,397	9%
	SKr	2,277,384	2,154,058	-5%	2,205,044	2%	2,040,910	-7%	2,098,545	3%
Tallinn	€	129,107	95,920	-26%	77,234	-19%	79,709	3%	90,877	14%
	EEK	2,020,140	1,500,867	-26%	1,208,475	-19%	1,247,205	3%	na	na
Warsaw	€	208,847	200,436	-4%	164,056	-18%	172,487	5%	187,532	9%
	PLN	791,595	703,704	-11%	710,197	1%	717,776	1%	770,755	7%
Zürich	€	412,929	436,164	6%	416,455	-5%	466,654	12%	518,496	11%
	SFr	678,490	691,775	2%	628,896	-9%	644,461	2%	617,257	-4%

Source: HVS – London Office

Note: Estonia joined the Eurozone on 1 January 2011

TALLINN HOLDS A STRONG ECONOMIC POSITION WITHIN THE BALTIC REGION

kronor may have impacted some of the country's main source markets as it has become slightly more expensive to travel to Sweden. Nevertheless, RevPAR recorded growth of 9% to almost €90 and room values increased by almost 9% to €232,000. In local currency, room values increased by 3% to SKr2 million. Given the uncertainty of the global economy over the next year, the city may be impacted by some decreases in business demand and travel patterns within Scandinavia and other European countries, in addition to an estimated 2,500 additional rooms coming into the market by the end of 2012.

Tallinn has one of the highest per capita income levels in Central Europe and the Baltic region and is responsible for 50-60% of Estonia's GDP. The city holds a strong economic position within the region. It has also benefited during the recent economic recession from its advantage of being closely connected to the neighbouring Scandinavian countries. In tourism terms, the city has experienced a very good recovery with room nights achieving record numbers (double-figure percentage growth), resulting in Tallinn's hotels recording an increase in occupancy of 17% to 65%, while average rates increased by 12%; this translated into an impressive RevPAR growth of just over 30% to reach almost €40, although this is still low in comparison to other European capitals. As a result, hotel room values grew by 14% to €91,000. Tallinn remains an emerging market, with limited upscale products and international brands; as such, we consider there to be growth opportunity within this area. Overall, we consider that growth is likely to continue over the next few years.

Although it remains bottom of the index, Tallinn topped the leader board this year in terms of percentage growth in hotel values, with a 14% rise on 2010

Hotel values in **Vienna** recorded a modest increase of 3% in 2011, to €185,000. During the course of 2011, a 6% increase in average rate was counterbalanced by a slight reduction in occupancy, resulting in a limited 5% increase in RevPAR for the year. The slight decrease in occupancy is, to a limited extent, the result of the increase in rooms, with the opening of the 182-room Sofitel Stephansdom in late 2010 and the 441-room Motel One Wien-Westbahnhof in November 2011. The city's pipeline boasts luxury names galore, with the following openings: the 202-room Ritz-Carlton Vienna (April 2012), the 150-room Kempinski Vienna (October 2012), the 160-room Four Seasons (mid 2013) and the 143-room Park Hyatt Vienna (mid 2013). Additionally, the Hotel Sacher Wien is undergoing renovation. Also, the imminent completion of new projects such as the Wien Mitte building (130,000 m² of retail and office space, leisure facilities and 500 parking spaces) and the initial phases of the new Wien Hauptbahnhof station (a new large-scale railway station with high-speed connections to Paris, Stuttgart, Munich and Budapest) demonstrate the dynamism of this destination. In addition to this, and after a slow-moving 2011, 2012 promises to be a good year in terms of conventions and exhibitions in Vienna, with a significant number of large events already booked. The above factors are all good news for the hotel market in this city.

Warsaw is closer to Western Europe than Eastern Europe, at least in terms of hotel performance. Just when everyone thought it couldn't get any better for the city, Warsaw hotels surprised us all by reporting strong growth in 2011. The city's RevPAR growth was well into double figures in local currency (12%) and a more modest 8% in euro. A country with one of the highest GDP growths in Europe, a central location and a strong domestic consumer market, are some of the factors that help Warsaw consistently to increase its performance. With UEFA's Euro 2012 tournament taking place this year, we expect Warsaw to enjoy another winning year. In 2011, hotel values increased by 9% on 2010, reaching €188,000, or PLN771,000 in local currency, a growth of 7%.

In terms of hotel performance, Warsaw is closer to Western Europe than Eastern Europe

Hotel values in **Zürich** increased by 11% in 2011. This increase was largely driven by a 12% increase in average rate (in euro) due to currency appreciation. Occupancy, on the other hand, slightly decreased, but RevPAR still rose by nearly 9%. Hotel values in Zürich remain the third highest in Europe, at €518,000 per room, or SFr617,000 in local currency, a fall of 4% on the previous year. By the end of November 2011, arrivals to the Zürich area had increased by 3%, with overnights also up by 3% on the same period in 2010. After suffering a small decline in RevPAR, compared to other markets in Europe, as a result of the economic crisis, Zürich has surpassed the levels of performance attained before the slowdown, aided by both the economic stability of the country (in which Zürich remains a robust corporate market) and the currency appreciation. Hotel development in Zürich remains challenging, owing to the scarcity of available land and the strict planning regulations. As such, the pipeline is proportionally undersized for such a strong market. In August 2011, the 300-room Renaissance Zürich Tower Hotel opened on Turbinenstrasse, within walking distance of the Hardbruecke station. Another addition to supply, opening in autumn 2012, is the 126-room 25hours Zürich Hotel; it will be located in the new Hard Turm Park, adjacent to Zürich University of the Arts. The 260-room Kameha Grand Zürich and the 196-room Sheraton Zürich Hotel are expected to enter the market in 2013 and 2014, respectively.

Five-Year Forecast

As in previous years, we have extended our forecasts and are showing the estimated values for the next five years for each market. We remain cautious about 2012, and do not expect this to be a year of fireworks and cheer but rather one of vigilance and careful planning. Investment is likely to remain constrained by the lack of debt funding from banks, keen interest in expensive and scarce assets for sale in gateway cities and a general lack of interest for assets in secondary locations and beyond, except those at the bottom end of the price scale. Our forecasts assume economic stability and that

CHART 9: FIVE-YEAR FORECAST OF HOTEL VALUES (€)

	Peak Years			HVS Forecast				
	2006	2007	2011	2012	2013	2014	2015	2016
Amsterdam	347,480	344,731	289,563	300,000	320,000	340,000	350,000	350,000
Athens	208,274	218,010	136,716	140,000	140,000	140,000	150,000	150,000
Barcelona	299,168	315,731	228,776	240,000	260,000	280,000	290,000	300,000
Berlin	176,141	174,941	176,749	180,000	190,000	200,000	200,000	210,000
Birmingham	199,043	198,044	109,303	110,000	120,000	130,000	130,000	140,000
Bratislava	190,899	196,613	118,486	120,000	130,000	140,000	150,000	160,000
Brussels	181,015	192,041	178,796	180,000	190,000	190,000	190,000	200,000
Bucharest	188,751	204,066	118,985	120,000	130,000	150,000	160,000	170,000
Budapest	193,737	191,347	136,226	140,000	150,000	170,000	180,000	190,000
Copenhagen	216,080	218,247	206,257	210,000	220,000	220,000	230,000	230,000
Dublin	250,642	244,497	159,477	170,000	180,000	180,000	190,000	190,000
Edinburgh	302,830	308,027	217,060	220,000	230,000	250,000	260,000	270,000
Frankfurt	179,872	168,302	197,658	200,000	200,000	210,000	210,000	210,000
Geneva	374,928	395,337	467,394	470,000	480,000	480,000	490,000	490,000
Hamburg	204,941	192,032	201,151	210,000	210,000	210,000	220,000	220,000
Istanbul	288,298	311,874	341,979	350,000	370,000	390,000	410,000	420,000
Lisbon	149,358	167,172	137,103	140,000	150,000	160,000	160,000	170,000
London	590,700	623,389	587,153	620,000	640,000	650,000	670,000	690,000
Madrid	318,668	325,149	210,187	220,000	220,000	230,000	250,000	260,000
Manchester	218,703	216,057	141,907	150,000	150,000	160,000	170,000	180,000
Milan	425,408	418,292	286,098	300,000	320,000	350,000	370,000	380,000
Moscow	429,738	491,250	334,254	350,000	370,000	410,000	430,000	450,000
Munich	224,723	232,382	232,728	240,000	240,000	250,000	250,000	260,000
Paris	567,582	601,736	630,928	650,000	660,000	670,000	690,000	700,000
Prague	263,895	249,576	165,561	170,000	180,000	200,000	220,000	230,000
Rome	474,115	453,513	362,168	380,000	400,000	420,000	440,000	450,000
Sofia	159,016	178,800	99,873	100,000	110,000	110,000	120,000	140,000
St Petersburg	366,545	401,525	247,066	260,000	280,000	310,000	320,000	340,000
Stockholm	227,309	246,204	232,397	240,000	240,000	250,000	250,000	260,000
Tallinn	139,035	129,107	90,877	100,000	110,000	120,000	120,000	130,000
Vienna	221,081	235,469	184,540	190,000	210,000	220,000	240,000	250,000
Warsaw	189,431	208,847	187,532	210,000	220,000	220,000	230,000	230,000
Zürich	383,896	412,929	518,496	520,000	530,000	530,000	540,000	540,000

Source: HVS – London Office

Europe will not be dramatically impacted by the continued political unrest in the Middle East and Africa. Furthermore, we assume that in the near future the national and international economies will recover and that there will be an increase in debt availability. In preparing our forecasts we have assumed a stable growing market.

Despite some markets recovering quicker than expected in 2011 and others showing a more steady performance, the increase in available debt did not materialise and continued macroeconomic uncertainty prevailed.

With continued tight investment paramaters, slower growth in trading performance is expected in 2012

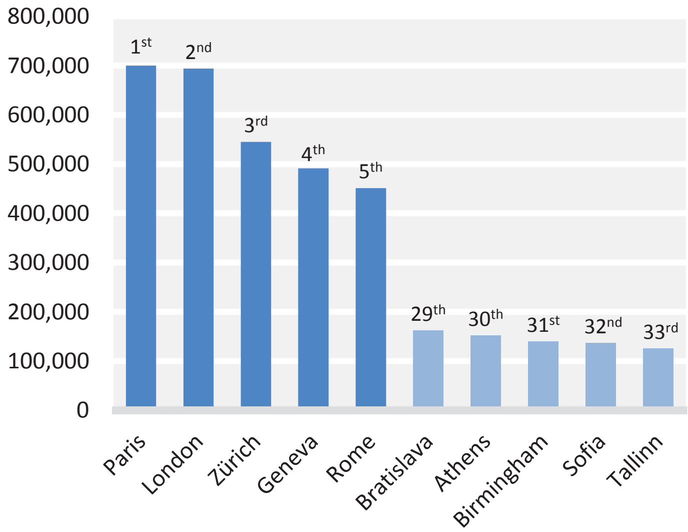
Chart 9 shows that 16 markets are forecast to achieve values above their previous peak (in euro terms) by 2016. We have assumed that some markets will only achieve below inflationary growth. We forecast a 20% growth over the next five years, or 4% a year. We expect six markets to have grown by more than 30% by the end of 2016.

Overall, growth in value becomes more prominent from 2013 onwards for most of the cities, as we expect slower growth in trading performance in 2012, with continued tight investment parameters. Well established markets such as London and Paris are already operating at high occupancies, but a further increase in rate, with a varied business mix, is expected to continue to help push value. Secondary and provincial markets are likely to see continued modest growth as the much-valued corporate and meeting business takes time to fully recover, but it is expected to do so shortly. The slow growth in trading and, hopefully, increased lending levels will help these markets to recover further over the next five years.

As predicted last year, Istanbul has become a booming city with increased investor interest; we expect this to continue throughout 2012, and beyond, with an overall growth in value per room of 20% by 2016. Markets such as Hamburg, Munich and Milan, with significant levels of new supply, are likely to see slower growth in values, as each market takes time to absorb its new supply, impacting both performance and value. However, Milan is expected to attract demand for hotels by hosting the Expo in 2015, and Russia will benefit from the Winter Olympics in 2014, drawing attention and increased travel to the country.

Chart 10 shows the forecast top- and bottom-five markets in five years' time. All forecasts and values are reported in euro (except when stated otherwise); we note that only two of the top five markets are in the Eurozone; therefore, the impact of currency fluctuations will remain a constant issue and influence investment decisions.

CHART 10: FORECAST TOP AND BOTTOM MARKETS 2016 – VALUES PER ROOM(€)



Source: HVS – London Office

HOTEL VALUES IN ISTANBUL ARE EXPECTED TO INCREASE BY 20% THROUGH TO 2016

Outlook

The much anticipated recovery continued throughout the first half of 2011 and came to a sudden stop in the second half, on account of the continued debt crisis in the Eurozone and depressed consumer and business confidence. As a result, 2012 started as a year with further doubt and uncertainties.

With all markets but two in Europe seeing a gain in RevPAR in 2011, we expect to see continued growth in 2012, but at a slower pace. As the Eurozone issues unfold, we expect growth in travel to slow down compared to 2011, albeit still potentially showing a small increase.

In the coming year, we expect main investments to continue to come from cash-rich real estate investment trusts, institutional investors and high-net-worth individuals, as banks are likely to remain overly cautious with new lending. Debt financing is not likely to reach the levels attained in the peak years within the short to medium term. However, debt remains available for the right product in key gateway cities. An increase in the number of distressed sales has been expected for the past two years, but this has not materialised significantly. Hence, we expect a small increase in 2012 but this is unlikely to be dramatic.

Valuing hotels in a time of political and economic uncertainty will remain a challenge in the coming years, when value is likely to be mainly driven by improved hotel performance, similar to 2011, rather than by investor sentiment. Investors are likely to remain risk averse and focused on gateway cities for the most part. Some values reported remain below replacement cost, so it is unlikely that there will be a material increase in new developments in the short term.

London will be celebrating the Olympic Games and the Queen's Diamond Jubilee in 2012, providing great marketing potential for the city. We expect London to enjoy an uplift in trading and an influx of visitors during this exciting period. The Olympics will also benefit the whole of Europe. Furthermore, prime cities such as Paris and London will also see continued interest from investors, especially for the so-called 'trophy assets' that have helped shape the transaction market over the past few years.

Overall, 2012 is likely to be another year of quality and a return to sound investment fundamentals, which will benefit markets such as the stable German cities, dynamic Istanbul, bright Paris and solid London. Reliable markets will again benefit from investors' confidence. Additionally, increased travel from emerging markets such as the BRIC countries is a positive sign, as it represents a further opportunity for hotels throughout Europe to shine.

Understanding the HVI

The HVI is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typically four-star and five-star hotels in 33 major European markets. Additionally, our index allows us to rank each market relative to a European average (see Chart 4). The HVI also reports the average value per room, in euro, for each market (Chart 6). All data presented are based on euro, unless otherwise stated.

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 STR Global 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.

Using our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined valuation parameters for each market that reflect both short-term and longer-term sustainable financing models (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 upscale hotel in each city.

In determining the valuation parameters relevant to each of the 33 markets included in the European 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 2011 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2011. Values are based on recent market performance but the capitalisation rates reflect the expected future trends in performance, competitive environment, cost of debt and cost of equity.

As our opinion of value remains an opinion of Market Value, when analysing transactions and in assessing the opinions of value we have attempted to remove all aspects of distress. The parameters adopted have reflected the 'new world order' of financing but assume a reasonable level of debt and investor sentiment. Conversely, the values reported may not therefore bear comparison with actual transactions completed in the marketplace. However, this is the best approach to retain the integrity of the HVI as a rolling annual index.

The HVI allows comparisons of values across markets and over time by using the 1993 average European value of €173,737 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 2011 the index for Paris was 3.632 (€630,928/€173,737), which means that the value of a hotel in Paris in 2011 was more than three-and-a-half times higher than the European average in 1993.

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Value Per Room
Xth/X% Ranking/Percentage Change
St Petersburg 10th/3%
Tallinn 33rd/14%
Stockholm 12th/9%
Moscow 7th/3%
Edinburgh 14th/2%
Dublin 24th/6%
Manchester 25th/0%
Copenhagen 16th/4%
Birmingham 31st/-7%
Hamburg 17th/6%
London 2nd/12%
Amsterdam 8th/6%
Berlin 22nd/-3%
Warsaw 19th/9%
Brussels 21st/4%
Frankfurt 18th/7%
Prague 23rd/4%
Paris 1st/11%
Munich 11th/5%
Bratislava 30th/4%
Vienna 20th/3%
Zürich 3rd/11%
Budapest 28th/4%
Geneva 4th/13%
Milan 9th/4%
Bucharest 29th/5%
Lisbon 26th/11%
Madrid 15th/3%
Barcelona 13th/2%
Sofia 32nd/-9%
Istanbul 6th/2%
Rome 5th/6%
Athens 27th/6%

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About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

With offices in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios. For further information about the services of the London office, please contact Sophie Perret, Associate Director, on +44 20 7878 7722 or sperret@hvs.com.

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