2014 EUROPEAN HOTEL VALUATION INDEX

Christof Bertschi  
Associate

Sophie Perret  
Director
At the end of 2012, the outlook was positive, and numerous markets saw strong growth in 2013, but it wasn't quite the giant investment leap forward that many market observers hoped for. The troubled Eurozone started to improve in the south (Portugal, Spain and Greece), but this was somewhat overshadowed by political turmoil in Eastern and Central European countries (notably Turkey and Ukraine) and uncertainty surrounding the economies of France and Italy.

- World economies have not behaved as generally expected: the BRIC countries slowed down; the USA narrowly avoided the ‘fiscal cliff’ crisis in early 2013, but saw further improvements in its economy; and some parts of the Middle East saw ongoing tension and unrest;
- Investor interest for Africa, ‘the continent of opportunities’, gathered momentum (look out for the publication of our inaugural African Hotel Valuation Index, to be released in the coming weeks);
- Stock markets seemed generally unimpressed by most market turbulence and, with a rally towards the end of the year, reached new heights (partially driven by low base interest rates and cheap money being pumped into the system);
- 2013 saw a mediocre first quarter with flat RevPAR growth;
- Hotel revenues improved slightly during the second quarter; some markets experienced a strong summer on the back of increased leisure activity;
- It was the third and fourth quarters that were really interesting thanks to improved economic stability in Europe and greater investor confidence;
- Rate growth continues to be a struggle; in many markets revenue improvements have been driven by occupancy growth. Increasing price transparency and product commoditisation caused by the increasingly powerful online distribution channels, as well as tight restrictions on corporate travel budgets, pose challenges for hotel managers when it comes to rate-focused strategies;
- Hotel values have been quite stable in 2013. Athens and Lisbon, two southern European markets, started to recover from heavy decreases following the downturn in 2008;
- Munich and Dublin continued their strong growth from 2012, and Barcelona, in contrast to Madrid, continues to be a strong performer;
- In the bottom five are three Central and Eastern European cities: Istanbul, Sofia and Warsaw;
- Madrid also had another disappointing year, and Geneva, normally a relatively stable market, also saw a decline in value (despite this, it is still the fourth most valuable city in our survey);
- We have seen little change from last year’s volatility rankings, with Berlin, Copenhagen, Hamburg, Manchester and Brussels the least volatile cities, and Tallinn, Athens and the newly reintroduced St Petersburg being the most volatile;
- There is growing interest from investors in secondary and tertiary cities;
- While debt markets are improving, cash-rich investors such as real estate trusts (REITs), institutional investors and high-net-worth individuals (HNWIs) continue to be key players;
- A gradual, cautious return of bank lending has been observed, although there have been no material changes in loan to value ratios. It is at least a good sign that banks are, again, becoming comfortable with hotel real estate;
- Transactions activity continued to increase in 2013 and overall transaction volume in Europe was €7.7 billion in 2013, increasing by 39% on 2012 (see our sister publication, 2013 European Hotel Transactions);
- Overall, European hotel values are still below the peak years of 2006 and 2007. Whilst in 2012 only half of the markets showed a recovery or positive value growth, during 2013 only a minority displayed a decline and most cities saw decent increases in hotel values.

**Highlights**

At the end of 2012, the outlook was positive, and numerous markets saw strong growth in 2013, but it wasn't quite the giant investment leap forward that many market observers hoped for. The troubled Eurozone started to improve in the south (Portugal, Spain and Greece), but this was somewhat overshadowed by political turmoil in Eastern and Central European countries (notably Turkey and Ukraine) and uncertainty surrounding the economies of France and Italy.

- World economies have not behaved as generally expected: the BRIC countries slowed down; the USA narrowly avoided the ‘fiscal cliff’ crisis in early 2013, but saw further improvements in its economy; and some parts of the Middle East saw ongoing tension and unrest;
- Investor interest for Africa, ‘the continent of opportunities’, gathered momentum (look out for the publication of our inaugural African Hotel Valuation Index, to be released in the coming weeks);
- Stock markets seemed generally unimpressed by most market turbulence and, with a rally towards the end of the year, reached new heights (partially driven by low base interest rates and cheap money being pumped into the system);
- 2013 saw a mediocre first quarter with flat RevPAR growth;
- Hotel revenues improved slightly during the second quarter; some markets experienced a strong summer on the back of increased leisure activity;
- It was the third and fourth quarters that were really interesting thanks to improved economic stability in Europe and greater investor confidence;
- Rate growth continues to be a struggle; in many markets revenue improvements have been driven by occupancy growth. Increasing price transparency and product commoditisation caused by the increasingly powerful online distribution channels, as well as tight restrictions on corporate travel budgets, pose challenges for hotel managers when it comes to rate-focused strategies;
- Hotel values have been quite stable in 2013. Athens and Lisbon, two southern European markets, started to recover from heavy decreases following the downturn in 2008;
- Munich and Dublin continued their strong growth from 2012, and Barcelona, in contrast to Madrid, continues to be a strong performer;
- In the bottom five are three Central and Eastern European cities: Istanbul, Sofia and Warsaw;
- Madrid also had another disappointing year, and Geneva, normally a relatively stable market, also saw a decline in value (despite this, it is still the fourth most valuable city in our survey);
- We have seen little change from last year’s volatility rankings, with Berlin, Copenhagen, Hamburg, Manchester and Brussels the least volatile cities, and Tallinn, Athens and the newly reintroduced St Petersburg being the most volatile;
- There is growing interest from investors in secondary and tertiary cities;
- While debt markets are improving, cash-rich investors such as real estate trusts (REITs), institutional investors and high-net-worth individuals (HNWIs) continue to be key players;
- A gradual, cautious return of bank lending has been observed, although there have been no material changes in loan to value ratios. It is at least a good sign that banks are, again, becoming comfortable with hotel real estate;
- Transactions activity continued to increase in 2013 and overall transaction volume in Europe was €7.7 billion in 2013, increasing by 39% on 2012 (see our sister publication, 2013 European Hotel Transactions);
- Overall, European hotel values are still below the peak years of 2006 and 2007. Whilst in 2012 only half of the markets showed a recovery or positive value growth, during 2013 only a minority displayed a decline and most cities saw decent increases in hotel values.

**Winners and Losers**

Remarkably, year after year the top five cities remain unchanged, with the same old suspects topping the list: Paris, London, Zürich, Geneva and Rome refuse to let go of their privilege (see Chart 3). At the other end of the spectrum, Tallinn has moved up a place, from bottom of the list last year, and left the lowest position to Sofia. Athens climbed two places following its good performance in 2013. Finally, Bratislava and Bucharest complete the five bottom. The bottom five cities are the same as last year, but their positioning has changed.
Changes in Value – Strong Performers

What a spectacular response by Athens: this market was listed as the biggest ‘loser’ in 2012 and bounced back with such strength in 2013 that it is the year’s top performer in our sample. The risk of a Greek Eurozone exit has receded, but it remains possible amid high political instability. The outlook certainly is one of significant caution, but much improved compared to a year ago. Visitation to Athens had greatly decreased in 2012, in the wake of political upheaval and general unrest. The market is therefore recovering from a very low base. Tourism, however, is generally rebounding as the city, a home port, is experiencing an ever-growing volume of cruise-related demand. In this context, and with a limited supply pipeline (work at the Athens Astir Palace development could start as soon as the acquisition by the winning bidder has been completed, but its completion will not happen for at least a couple of years), we expect this market to continue to recover over the next few years.

We have little to add to what has previously been said about Munich: stellar performance (not quite double-figure RevPAR growth as in 2012, but still a respectable 5.0%), high barriers to entry, well balanced, resilient market within an economically sound country. Who could ask for more? And as such, Munich often comes third on the list of desired European cities for most investors, just after Paris and London. Not a bad place to be. With limited new supply coming its way – just under 400 rooms expected over the next few years – we expect Munich to continue to be a leader in the years to come.

DUBLIN’S VALUE PER ROOM GREW 7%
Three years after a bailout that allowed the country to avert bankruptcy, Ireland officially left the programme in December 2013. Ireland cut spending and raised taxes to rebalance its economy, and in the process regained investor confidence. **Dublin** has since been in the sights of investors: in January 2014 alone, three hotels (just over 600 rooms) changed hands for a total of about €175 million. This, combined with the improvements in hotel performance helped by the newly fortified economy, has resulted in a robust increase in values for Dublin, by 6.6% in 2013 to €179,000 a room, 19.0% higher than its 2010 low.

Another two cities that also saw impressive returns to positive territory are **Lisbon** and Barcelona. Both are part of the troubled economies in Southern Europe, which have just recently seen a rebound in performance, albeit modest in both cases. GDP growth for both countries in 2014 is expected to be a meek 0.6–0.7%. However, investor appetite is returning to these cities, with the improved economic outlook and the view that performance for both **Barcelona** and **Lisbon** has bottomed out.

**Lisbon**’s performance has been a bit of a rollercoaster over the last few years: double-figure growth in 2011 was followed by a double-figure fall in 2012. So the recovery in 2013 leaves the city with a value per room of about €131,000, 6.0% higher than the year before (but still 22.0% below its peak value in 2007). Also, over the last few years many projects in this city have been cancelled, and it is still difficult to assess how many might materialise in the medium term. New supply in the short term, however, is expected to be very limited, which is positive for a city with decent occupancies but fairly low room rates.

For **Barcelona**, the tale was not just one of a country bouncing back economically; this city has a long history of solid performance. A well-balanced demand base that includes its fair share of leisure, MICE and corporate clients, both domestic and international, provides a broad seasonality all year round. This combination of strong fundamentals has attracted the attention of investors, who consider there to be good upside opportunities in this city: the value per room in 2013, at €243,000, is 23.0% below its 2007 peak and, although unemployment remains stubbornly high and GDP growth is likely to remain at best anaemic for the next few years, Spain remains one of the biggest economies in Western Europe.
Changes in Value – The Biggest Falls

Although 2013 was generally a better year for many European hotel markets, some cities were less fortunate than others. Amongst those with the biggest declines were three Eastern and Central European cities: Istanbul, Sofia and Warsaw.

The socio-political turmoil in Istanbul over the last few months has had a damaging impact on the economy and the tourism industry. The Turkish lira depreciated quite substantially against the euro owing to creditor concerns about the stability of the country. Interventions from Turkey’s central bank have had limited impact on stabilising the currency. The market performance has been fairly mixed, and whilst the market has experienced a fairly flat RevPAR performance in 2013 in local currency, the conversion to euro shows a very different picture, with RevPAR tumbling in local currency terms. A large part of the decrease in value can therefore be attributed to exchange rate fluctuations; hotel values only fell by 2% in local currency (but about 11% in euro terms). The uncertainties about the situation in Turkey, though, pose a threat to the hotel and tourism industry in the short term. Nevertheless, the pipeline for new hotel openings in Istanbul remains high. The presidential elections in August 2014 might be a turning point for the country to stabilise the political situation.

Sofia has experienced a similar mix of political uncertainty and a struggling hotel market. Hotel rates in both local currency and euro declined again in 2013 owing to continued weak demand in the Bulgarian capital. Within this grim context, new supply also remains subdued, partly reflecting developer appetite for the city.

Warsaw was Europe’s darling for the last two years with record growth in 2011 and 2012 owing to high demand related to non-recurring events (EU Presidency in 2011 and European Football Championship in 2012). The aftermath of these events in 2013 resulted in declines in visitation,

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 cities. Additionally, our index allows us to rank each market relative to a European average (see Chart 3). The HVI also reports the average value per room, in euro, for each market (Chart 5). All data presented are in euros, 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 supplemented by hotel values only fell by almost double figures. A large part of the decrease in value can therefore be attributed to exchange rate fluctuations; hotel values only fell by 2% in local currency (but about 11% in euro terms). The uncertainties about the situation in Turkey, though, pose a threat to the hotel and tourism industry in the short term. Nevertheless, the pipeline for new hotel openings in Istanbul remains high. The presidential elections in August 2014 might be a turning point for the country to stabilise the political situation.

Sofia has experienced a similar mix of political uncertainty and a struggling hotel market. Hotel rates in both local currency and euro declined again in 2013 owing to continued weak demand in the Bulgarian capital. Within this grim context, new supply also remains subdued, partly reflecting developer appetite for the city.

Warsaw was Europe’s darling for the last two years with record growth in 2011 and 2012 owing to high demand related to non-recurring events (EU Presidency in 2011 and European Football Championship in 2012). The aftermath of these events in 2013 resulted in declines in visitation,
### CHART 6: HOTEL VALUES IN LOCAL CURRENCY 2007-13 (€)

<table>
<thead>
<tr>
<th>City</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birmingham</td>
<td>€ 198,044</td>
<td>€ 201,152</td>
<td>€ 193,081</td>
<td>€ 188,091</td>
<td>€ 181,901</td>
<td>€ 178,710</td>
<td>€ 175,520</td>
</tr>
<tr>
<td>London</td>
<td>€ 427,329</td>
<td>€ 370,942</td>
<td>€ 353,429</td>
<td>€ 333,929</td>
<td>€ 326,429</td>
<td>€ 318,929</td>
<td>€ 311,429</td>
</tr>
<tr>
<td>Moscow</td>
<td>€ 131,945</td>
<td>€ 121,657</td>
<td>€ 110,838</td>
<td>€ 100,501</td>
<td>€ 100,501</td>
<td>€ 95,045</td>
<td>€ 92,800</td>
</tr>
<tr>
<td>Bucharest</td>
<td>€ 133,874</td>
<td>€ 121,838</td>
<td>€ 110,838</td>
<td>€ 100,501</td>
<td>€ 100,501</td>
<td>€ 95,045</td>
<td>€ 92,800</td>
</tr>
<tr>
<td>Stockholm</td>
<td>€ 141,526</td>
<td>€ 132,436</td>
<td>€ 121,838</td>
<td>€ 110,838</td>
<td>€ 100,501</td>
<td>€ 95,045</td>
<td>€ 92,800</td>
</tr>
<tr>
<td>Sofia</td>
<td>€ 133,874</td>
<td>€ 121,838</td>
<td>€ 110,838</td>
<td>€ 100,501</td>
<td>€ 100,501</td>
<td>€ 95,045</td>
<td>€ 92,800</td>
</tr>
<tr>
<td>Stockholm</td>
<td>€ 141,526</td>
<td>€ 132,436</td>
<td>€ 121,838</td>
<td>€ 110,838</td>
<td>€ 100,501</td>
<td>€ 95,045</td>
<td>€ 92,800</td>
</tr>
</tbody>
</table>

### CHART 5: HOTEL VALUES PER ROOM 2004-13 (€)

<table>
<thead>
<tr>
<th>City</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edinburgh</td>
<td>€ 247,357</td>
<td>€ 262,539</td>
<td>€ 215,357</td>
<td>€ 232,539</td>
<td>€ 124,027</td>
<td>€ 207,560</td>
<td>€ 213,362</td>
</tr>
<tr>
<td>Barcelona</td>
<td>€ 294,928</td>
<td>€ 273,872</td>
<td>€ 250,428</td>
<td>€ 245,428</td>
<td>€ 124,027</td>
<td>€ 225,872</td>
<td>€ 221,576</td>
</tr>
<tr>
<td>Sofia</td>
<td>€ 193,613</td>
<td>€ 188,821</td>
<td>€ 178,849</td>
<td>€ 174,897</td>
<td>€ 124,027</td>
<td>€ 273,872</td>
<td>€ 221,576</td>
</tr>
<tr>
<td>Stockholm</td>
<td>€ 193,613</td>
<td>€ 188,821</td>
<td>€ 178,849</td>
<td>€ 174,897</td>
<td>€ 124,027</td>
<td>€ 273,872</td>
<td>€ 221,576</td>
</tr>
</tbody>
</table>

Source: HVS – London Office
and hence subdued revenues and profits. Hotels suffer from heavy corporate weekday seasonality. Warsaw has nevertheless good potential, as the Polish economy and the Warsaw Stock Market continue to show a strong performance. Furthermore, Warsaw has not yet managed to capitalise on its potential as a short-break leisure destination alternative to Prague or Budapest, which would help it broaden its seasonality. Overall, investor appetite for assets in Poland’s capital is positive and Warsaw’s best hotel in town, the Hotel Bristol, was sold during 2013.

**Madrid**’s hotel market has not managed to reach a turning point, although the Spanish economy has shown signs of recovery. Hotel performance in Madrid bore no correlation with that of Barcelona’s; hotel revenues and profits dropped again during 2013 in the Spanish capital, resulting in a 5.6% decrease in value, whilst Barcelona’s value per room grew by 5.0%. The main reason lies in Barcelona’s ability to attract more international demand all year round, whilst Madrid’s domestic demand focus is still impacted by the economic challenges. It did not help when Las Vegas Sands announced that it had cancelled the prestigious US$30 billion ‘Eurovegas’ project in December 2013. The project was planned in the southwestern outskirts of Madrid and included six casinos, 12 hotels and retail facilities and was expected to create up to 250,000 jobs.

Whilst still the fourth highest market in our survey, **Geneva** suffered from a bad summer in 2013, with decreased demand from the Middle East (partially due to the timing of Ramadan), weak MICE activity and pressure on room rates owing to the strength of the Swiss franc. The meeting and convention business faces increased competition from other traditional MICE cities such as Vienna, Munich, Barcelona, Paris and London owing to more attractive price offers. Although the Swiss National Bank weakened the currency against the euro by establishing a minimum exchange rate in 2012, the Swiss franc remains overvalued compared to the years before the financial crisis, and Switzerland continues to be an expensive destination for both leisure and business travellers. Overall, the outlook for the city though is positive: with a stable economy, low inflation and no additions to hotel supply, hotel performance and values in Switzerland’s second-largest city are expected to grow again in 2014 and beyond. Barriers to entry for this market are amongst the highest in Europe, making existing supply all the more attractive to potential investors.

---

The cancellation of Las Vegas Sands’ ‘Eurovegas’ project has somewhat dented Madrid’s hopes for improved hotel performance.
Volatility

The volatility index is a tool to assess (to a certain extent) the fluctuation in value and the overall risk associated with a hotel investment. Hotels are not only a capital-intensive asset, but they also might be affected by external factors such as micro and macro market issues (oversupply, economic recessions, natural disasters and so forth). Any of these factors could have an impact on the profitability of the business; thus, it is critical to be able to quantify the overall level of risk associated with a hotel investment. A good indicator of investment risk is volatility, which provides a measure for variation in asset prices over time. Higher volatility implies higher risk. The volatility index calculates the standard deviation of the annual capital appreciation/depreciation in value divided by the average value (Europe) over the same period. For example, Prague has a volatility index of 46%, which means that hotel values are 46% more volatile than the value of a typical hotel in Europe. A higher level of volatility would be more acceptable in cases where the returns are also high. A city with the highest negative volatility would in fact be the most stable, as it would change even less than the average (Europe).

Chart 8 shows the five most and five least volatile European cities over eight years (2006-13) in local currency (to remove the impact of currency fluctuation).

There have been few changes compared to last year’s publication. Unsurprisingly, two German cities, Berlin and Hamburg, were amongst the most stable in Europe. The global financial crisis had a more limited impact on these markets, than on most others, as rates in the two cities have historically been lower than in other cities and have therefore been under more limited pressure during the crisis. Hamburg has seen quite an increase in demand in recent years, reaching new record levels in 2013. However, the demand for hotels in the city remains largely domestic driven at this point.

Copenhagen and Manchester have also been fairly stable over the last few years with little fluctuation in values. Copenhagen had a good year in 2013, although new supply might put a bit of pressure on overall performances over the next two to three years. Brussels is a market highly dependent on business associated with the European Union and, although new countries have been (and continue to be) accepted in the European Union, the hotel market has not seen any strong fluctuations in recent years. The annual mandatory increase in staff payroll; however, poses a challenge to hoteliers’ profits as increasing rate is a difficult exercise in a market so dependent on government officials’ ‘per diem’ allowances. We do not expect these five cities to become much more volatile in the future as the underlying demand drivers of the respective hotel markets are relatively stable.

Cities with high fluctuations in value remain Tallinn, Athens, Sofia and Prague. As we have re-introduced St Petersburg into our index, the city has also made it to the top of our most volatile cities. St Petersburg suffered from high decreases in value from 2008 to 2010 owing to the financial crisis and currency fluctuations, but has seen strong growth rates in the last few years. It is likely that these five cities will remain amongst the most volatile as historically they have been impacted by the economic challenges and uncertainties in their countries. Athens has hopefully ‘bottomed out’ and, should the economic and political environment continue to improve, hotel values are likely to grow further. The expected recoveries of Athens and Prague are likely to keep these cities volatile for some years to come (albeit in a good way).

Five-Year Forecast

Five years seems like a rather long time to hear the phrases ‘financial crisis,’ ‘recession’ and ‘economic slowdown’ repeated time and again. It was therefore about time we had a change in tune and, indeed, it seems as if this moment is finally upon us; slowly, cautiously, for sure, but arriving at long last. Of course there are still areas of concern, such as the recent decision by Germany’s constitutional court to refer the ECB’s crucial bond-buying programme to the ECJ, which could be a potentially destabilising development and one which would displease investors.

The world context is always shaped by many simultaneous events, and while in 2013 areas

### Chart 8: Most and Least Volatile Cities

<table>
<thead>
<tr>
<th>Rank</th>
<th>Most Volatile</th>
<th>Index</th>
<th>Rank</th>
<th>Least Volatile</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>St Petersburg</td>
<td>115%</td>
<td>33</td>
<td>Berlin</td>
<td>-73%</td>
</tr>
<tr>
<td>2</td>
<td>Athens</td>
<td>75%</td>
<td>32</td>
<td>Copenhagen</td>
<td>-55%</td>
</tr>
<tr>
<td>3</td>
<td>Tallinn</td>
<td>66%</td>
<td>31</td>
<td>Hamburg</td>
<td>-48%</td>
</tr>
<tr>
<td>4</td>
<td>Sofia</td>
<td>48%</td>
<td>30</td>
<td>Manchester</td>
<td>-46%</td>
</tr>
<tr>
<td>5</td>
<td>Prague</td>
<td>46%</td>
<td>29</td>
<td>Brussels</td>
<td>-34%</td>
</tr>
</tbody>
</table>

Note: volatility is expressed in relation to the overall European average Source: HVS – London Office

### Chart 9: Forecast Top and Bottom Cities 2018 – Values Per Room (€)

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Value (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Paris</td>
<td>800,000</td>
</tr>
<tr>
<td>2</td>
<td>London</td>
<td>700,000</td>
</tr>
<tr>
<td>3</td>
<td>Zürich</td>
<td>600,000</td>
</tr>
<tr>
<td>4</td>
<td>Geneva</td>
<td>500,000</td>
</tr>
<tr>
<td>5</td>
<td>Rome</td>
<td>400,000</td>
</tr>
<tr>
<td>6</td>
<td>Bratislava</td>
<td>300,000</td>
</tr>
<tr>
<td>7</td>
<td>Athens</td>
<td>200,000</td>
</tr>
<tr>
<td>8</td>
<td>Bucharest</td>
<td>100,000</td>
</tr>
<tr>
<td>9</td>
<td>Tallinn</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Sofia</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: HVS – London Office
of conflict remained, notably in the Middle East, and the pace of growth for the BRIC countries slowed owing to their own various challenges, the USA was firmly back to growth, and Europe survived the Eurozone crisis without having to sacrifice the euro. Despite a slow start to the year, investor appetite was firmly back by the end of 2013, which proved our average forecast for Europe last year to be broadly in line with reality. Whilst some cities, such as Istanbul, have taken us by surprise with unexpected falls, cities such as Athens have instead rebounded with unexpected vigour.

We expect 2014 to see a continued recovery in investment, with an increasing number of transactions taking place, an increasingly favourable lending environment and improving fundamentals at the hotel level, as economic recovery slowly but surely pushes up demand.

Despite the positive signs, the recovery to pre-crisis levels (2006-07) is still a distant dream for almost two thirds of the cities in our sample. Whilst only eight countries were at above-peak values in 2013, we expect this number to increase only modestly to about ten in 2014, and to just over a dozen by 2018, as shown in Chart 10. We expect slightly steeper growth for the Russian cities in 2014, which should replace Moscow as the fifth most expensive destination and with a significant in line with Spain). Zürich, still perceived as an expensive destination and with a significant pipeline (for the size of the city), is also expected to experience modest growth.

Chart 9 shows the top and bottom five markets as per our forecast in five years time. Rome has replaced Moscow as the fifth most expensive city in 2018, and there is some improvement for Athens, which went from last in the list last year (out of 32 markets) to 29th position (out of 33 markets).

All forecasts and values are reported in euro. We note that two of the top markets are in Switzerland; therefore, the impact of currency fluctuations will remain a constant issue and influence investment decisions.

ISTANBUL VALUES PER ROOM FELL 2% IN 2013 IN LOCAL CURRENCY
Outlook

Depending on whom you ask, the start of 2013 was either already promising or rather uninspiring. Opinions were divided early in the year, and an overall lack of visibility seemed to permeate most moods. The summer was a turning point for those that still needed convincing; as relatively good news started emerging in regard to the economic prospects of a number of countries in Europe, business confidence picked up and investment was firmly back on the scene.

As highlighted in this report, most of the cities we survey are still far below their peak values and are expected to continue to be for the foreseeable future. Although the flight to security has resulted in an increased gap between those cities that remained in investors’ sights throughout the crisis and those that fell into oblivion, this gap is now expected to stop widening, if not start narrowing. We expect that changes in value will be increasingly driven by improving fundamentals and property enhancements, thereby allowing the least-favoured cities to play catch-up to some extent.

Improvements in performance are evident, as about two thirds of the cities in our survey experienced RevPAR growth in 2013, compared to only about half of them in 2012. Some cities are expected to benefit from events such as the Sochi Winter Olympics in 2014, which is expected to have a ‘halo effect’ for other Russian gateway cities as it promotes tourism within the country; the same is true for the Expo in Milan in 2015. Other than this, we generally expect RevPAR to continue to improve. Following the dramatic fall in RevPAR in 2009, recovery in both occupancy and rate has been uneven across the various markets we survey, and the slowness and patchiness of the recovery makes it difficult to identify truly improving trends until they are fully established. We expect the recovery to continue in 2014 and gain momentum thereafter.

Bank lending is back, but caution remains, and parameters have yet to experience any meaningful changes. It seems early to say whether we can expect any adjustments in the months to come. The eyes are now on the movement of central banks’ interest rates, still at rock-bottom lows, both in the UK and in continental Europe. In the meantime, cash-rich REITs, institutional investors and HNWIs will continue to seek investment, as other markets such as the USA are becoming too expensive for some, and opportunities in Europe might seem to offer comparatively better value for money and upside potential.

In these stimulating times, investors with a clear strategy across the various phases of an investment – be it acquisition, holding or disposal of the asset – are those likely to be able to capitalise on the opportunities available. A coherent purchase price, an appropriate management team and brand, and a sensible capital improvement plan are the order of the day to maximise potential returns.

Finally, we expect 2014 to be the year for secondary, regional markets and for countries which are emerging from a more acute recession, such as Spain, and offer increased upside opportunities, albeit at a somewhat higher risk. Cities such as Paris and London are expected to remain aspirational for most, as they have become unaffordable for the average investor. These havens, and others such as Munich and a series of German cities, will remain just as appealing to those seeking capital protection and long-term holding strategies, or stable, sturdy markets for low-risk investors. In any case, we expect this to be a most exciting year, one of (dare we say it?) cheer and optimism, and opportunities in most markets, which should be able to satisfy most investors. We should not, however, let ourselves get carried away – again, good sense, a degree of caution and a solid strategy must be key components of the investor survival kit. Happy hunting.

– HVS –

We expect changes in value to be driven by improving fundamentals and property enhancements

Finally, we expect 2014 to be the year for secondary, regional markets and for countries which are emerging from a more acute recession, such as Spain, and offer increased upside opportunities, albeit at a somewhat higher risk. Cities such as Paris and London are expected to remain aspirational for most, as they have become unaffordable for the average investor. These havens, and others such as Munich and a series of German cities, will remain just as appealing to those seeking capital protection and long-term holding strategies, or stable, sturdy markets for low-risk investors. In any case, we expect this to be a most exciting year, one of (dare we say it?) cheer and optimism, and opportunities in most markets, which should be able to satisfy most investors. We should not, however, let ourselves get carried away – again, good sense, a degree of caution and a solid strategy must be key components of the investor survival kit. Happy hunting.

– HVS –

THE RECOVERY IS ON, AS THE VALUE PER ROOM FOR ATHENS HOTELS GREW BY 8%
About HVS

HVS is the world’s leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. 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 some 4,000 hotels or projects in more than 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, Director, on +44 20 7878 7722 or sperret@hvs.com.

Superior results through unrivalled hospitality intelligence. Everywhere.

About the Authors

Christof Bertschi is an associate in the London office of HVS. He joined the company in 2012 after completing his Bachelor of Science in International Hospitality Management at École hôtelière de Lausanne, Switzerland. Prior to HVS, Christof worked in Switzerland and the UAE.

Sophie Perret is a director at the HVS London office. She joined HVS in 2003 following ten years’ operational experience in the hospitality industry in South America and Europe. Originally from Buenos Aires, Argentina, Sophie holds a degree in Hotel Management from Ateneo de Estudios Terciarios and an MBA from IMHI (Essec Business School, France and Cornell University, USA). Since joining HVS, she has advised on hotel investment projects and related assignments throughout the EMEA region. Sophie is currently pursuing an MSc in Real Estate Investment and Finance at Reading University. She is also responsible for the development of HVS’s business in France and the French-speaking countries.