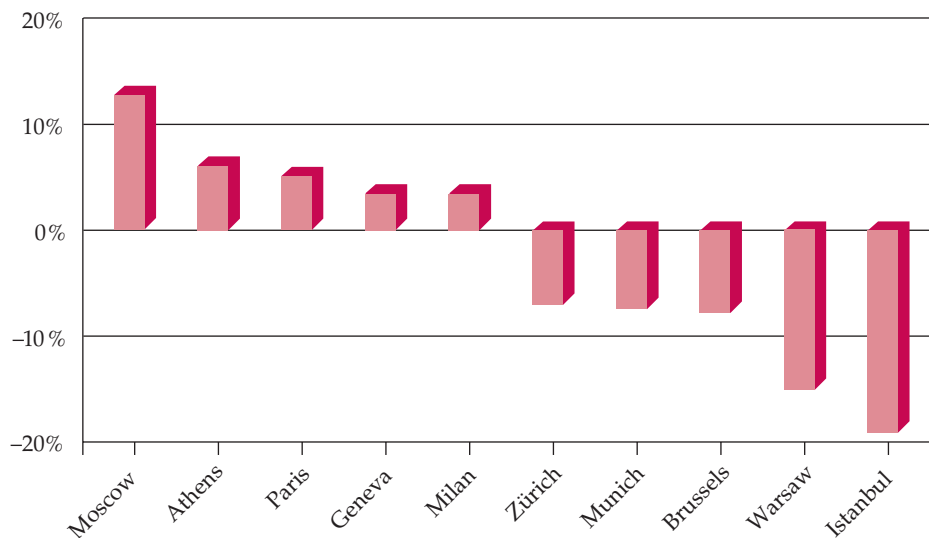


Highlights

- The European Hotel Valuation Index (HVI) shows that hotel values (expressed in euro) decreased on average by 1.5% across Europe in 2002 compared with a decrease of 1.9% in 2001, and increases of 10.5% in 2000, 3.8% in 1999 and 5.8% in 1998.
- The majority of European markets experienced a decline in rooms revenue per available room (RevPAR), led largely by a decrease in occupancy. However, it was noted that, in the case of most European markets, average room rates increased above the rate of inflation. The decline in values has been fuelled primarily by this decrease in RevPAR.
- During 2002, European hotel markets felt the combined effects of the events of 11 September 2001 and the general slowdown in the global economy. These have now been compounded by the uncertainty surrounding a possible war with Iraq, which, at the time of writing (February 2003), seems imminent.
- For the second year running, hotels in Moscow recorded the highest growth in value per room with an increase of 13.2%.
- For the second year running, hotels in Istanbul recorded the largest fall in value per room with a decrease of 19.5%.

Table 1: Winners and Losers in 2002 – Top 5 and Bottom 5 markets – % Change in Hotel Value



Source: HVS International

Introduction

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

The methodology employed in producing the HVI is based upon actual operating data from a representative

sample of four-star and five-star hotels. The data are then aggregated to produce a pro forma performance for a typical 200-room hotel in each market. Based upon our day-to-day experience of real-life hotel financing structures, which arises from our in-depth knowledge gained from valuing hundreds of hotels each year, we have determined appropriate valuation parameters for each market, including loan to value ratios, real interest rates and equity return expectations. These market-specific valuation/capitalisation parameters are applied to the net income for a typical hotel in each city. In determining the valuation

parameters relevant to each of the 28 European markets included in the HVI, we have also taken into account evidence of actual hotel transactions and the expectations of investors with regard to future changes in supply, market performance and return requirements. Investor appetite for each market in 2002 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2002. Values are based on recent market performance but the capitalisation rates reflect the anticipated future trends in performance, competitive environment, cost of debt and cost of equity.

Changes in Value

Our report shows that hotel values (expressed in euro) decreased on average by 1.5% across Europe in 2002 compared with a decrease of 1.9% in 2001, and increases of 10.5% in 2000, 3.8% in 1999 and 5.8% in 1998.

During 2002, European hotel markets felt the combined effects of the events of 11 September and the general slowdown in the global economy. Europe's gateway cities, particularly those heavily reliant on US visitation (such as London, Amsterdam, Brussels and Frankfurt), have suffered most. Airport hotels have also seen significantly lower occupancy, arising partly from reduced airline-related use and partly from less displaced demand emanating from the adjacent city centre. At the budget end of the market there has been more stability, as a result of greater dependence on domestic demand and the benefits gained from commercial travellers seeking to reduce travel costs.

For the first time since 1995, the values of hotels in London were exceeded by those of hotels in Paris. On average, hotels in Paris in 2002 were valued at €470,000 per room, compared with €457,000 per room in London. These compare with values of €450,000 and €481,000, respectively, in 2001, a rise of 4.4% in Paris compared with a decline of 5.0% in London.

However, against this background of softening trading conditions, there continues to be strong demand for hotels as investments. This demand has been driven by low interest rates and the relatively higher yields that have been achievable on hotels. This investment demand has come from European hotel companies, opportunity funds and, increasingly, institutional investors.

The general decrease in value growth is demonstrated by the fact that, on average, hotels in 16 of the 28 cities experienced a decrease in value; two cities – Istanbul and Warsaw – experienced a double-digit decrease. In 2002, 12 cities showed an increase in value compared with nine in 2001; in 2000 all 28 cities showed an increase in value. Moscow hotels, which had decreased in value in each of the two years prior to 2000, continued to show strong increases in value, and Moscow was the only market to achieve a double-digit increase in value, of 13.2%.

Interest rates still remain at an all-time low and could decrease even further. Despite a recent increase in margins associated with greater risk, the cost of debt still remains very attractive. 2002 was characterised by a continued decline in base rates initiated by central banks in Europe and the USA following the events of 11 September and in response to slowing economies and a potential recession in the USA. Ten-year euro swap rates in January 2003 were down by approximately 15% compared to January 2002. Equity yields tended to rise in the latter part of 2002, reflecting investors' concerns about the impact of the troubled US economy on Europe and the impending prospects of a second Gulf War. On balance, capitalisation

rates have remained stable, as at 1 January 2003, compared to the same time last year.

With the potential threat of war against Iraq and an uncertain economic outlook, Europe's hotel markets are unlikely to see significant recovery during the first half of 2003 and possibly not until 2004.

After peak performance in 2000, hotels in Amsterdam continued to experience further declines in occupancy and average rate in 2002 of 1.0% and 1.5%, respectively, contributing towards an overall decrease in value of 5.5%. Despite this decline in trading performance, Amsterdam is still one of the strongest hotel markets in Europe in terms of occupancy. After a particularly strong trading performance in 2000, thanks largely to a successful exhibition at the RAI and the country's hosting of the Euro 2000 Football Championships, marketwide occupancy fell to 76%. Due to its reliance on international visitation, Amsterdam experienced a further significant drop in demand as a result of the events of 11 September. New supply in Amsterdam continues to be constrained by a lack of sites and competition from the office market. Additions to supply during 2002 were limited mainly to extensions to existing properties. There are plans to add more than 3,000 rooms to the greater Amsterdam hotel market over the next few years, although most of these projects are rather speculative at this stage. The 120-room, four-star Lloyd Hotel is currently under construction, and is scheduled to open in 2003. In addition, the 388-room, four-star Dorint City Harbour close to the airport passenger terminal is planned to open in 2005.

Hotels in Athens experienced a decline in value of 2.9% in 2001, largely due to a decline in occupancy of 6.0%. However, hotel performance in Athens improved significantly in 2002 compared to 2001, resulting in an increase in value of 5.9%; this was largely due to an increase in average room rate of 5.9%. The improvement in hotel performance in 2002 can be partly attributed to the closure for renovation of the Hilton and Grand Bretagne hotels for several months. Contrary to what was envisioned, it looks unlikely that the capital's hosting of the Olympic Games in 2004 will impact significantly on the permanent supply of hotel rooms. Despite encouragement from the authorities, major hotel construction projects within the city have yet to materialise. Instead, temporary accommodation solutions are being sought to deal with the undersupply of room stock in the capital; this includes drafting in several cruise ships. Most hotel properties will, however, be renovated by August 2004. Several upscale hotels in Athens have been expanding their room capacity; the Hilton is expected to reopen in early 2003, having added 50 bedrooms and new conference facilities.

It would appear that the events of 11 September have had minimal negative impact on the Spanish hotel sector as a whole, and that any downturn is attributable primarily to increases in new supply, a slight slowdown in the Spanish economy and, more importantly, in feeder markets such as Germany.

Occupancy in Barcelona is currently at around 77%, with Barcelona maintaining strong trading conditions due to its broad seasonality and strong domestic demand base. Historically, Barcelona has experienced consistently strong increases in value; however, in 2001 Barcelona saw a decrease in value of 1.5%. Although occupancy in 2002 declined by 7.6%, average room rate increased by 11.7%. This increase in average room rate contributed to an overall increase in value of 1.4%.

Germany's hotel markets are strongly oriented towards domestic demand and are insulated to some degree from the international economic downturn experienced during 2001. However, Germany's economy is one of the weakest in Europe and is currently in a technical recession. Visitation to trade fairs, the biggest source of demand for hotels, declined and hotel occupancy fell by approximately four to eight percentage points to below 60% in most German cities. Berlin experienced a decline in occupancy of approximately 4% during 2002, due to further increases in supply. Average room rates showed only minimal growth of approximately 2%. Occupancy and average rate are likely to grow in the medium to long term, with Berlin benefiting from its increasing importance in the international arena, more leisure demand to the city and better accessibility through construction, by 2007, of the new international airport at Berlin-Schönefeld and the Lehrter railway station. However, Berlin faces a risk from new supply: approximately 2,000 rooms under construction with new international operators such as Radisson SAS, Mövenpick and Marriott planning to enter the market, and lower demand for conferences and conventions as German companies further scrutinise their cost base. Hilton has recently withdrawn from leasing the 566-room hotel project owned by Ebertz & Partner near Berlin Zoo. Construction of the hotel, which was scheduled to open in 2004, has been put on hold.

Hotels in Birmingham experienced an increase in value of 2.5%, driven mainly by an increase in average room rate of 6%. The increase in average room rate was partly a result of a heavy schedule of conventions and events, headed by the Motor Show (biennial) and the Interplas trade fair.

The Brussels hotel market experienced further decreases in occupancy and average rate in 2002 of approximately 3.0% and 3.3%, respectively, resulting in a decline in value of 7.7%. This decline is due to lower demand in 2002 due to the general global economic slowdown, which, together with the terrorist attacks of 11 September, led to a reduction in non-essential travel. The hotels in the airport area were further affected by the bankruptcy of Sabena, in November 2001, which in turn reduced the number of arrivals and transit passengers at the airport. Brussels Airport was the hub for Sabena Airlines, which used to serve 109 destinations. The volume of passengers at Brussels Airport plummeted from 21.6 million in 2000 to an anticipated 14.4 million in 2002. While 2000 was an excellent year, due to the Euro 2000 Football

Table 2: Average Annual Compound Growth Rate 1993-02 and 1998-02



Source: HVS International

Championships, the decline represented a loss of approximately 5 million passengers on 2001. The supply of hotels in Brussels has increased with the opening of the 218-room Marriott in the city centre and the 234-room NH hotel in the airport area. Also, Hyatt took over the management of the Barsey Hotel in February 2002. Further new supply is likely to enter the market in the short term. In the Gare du Midi area, a 234-room Park Plaza is scheduled to open during the course of 2003. In the airport area, a 314-room Crowne Plaza is expected in autumn 2003, while a 191-room Courtyard by Marriott is likely to open during the course of 2004.

Budapest hotel occupancy has continued to fall steadily since 1997 due to a consistent increase in supply. Performance in 2001 was particularly affected, mainly by the oversupply of 2000 and partly by the events of 11 September. The rate of decline

(4%) in occupancy experienced in 2001 slowed a little in 2002. Budapest hotels experienced an increase in occupancy of 2.6%, while average rates continued to decline by 7.0%, resulting in an overall decrease in value of 2.8%. Quality new rooms supply increased by 2% following the opening of the 224-room Novotel Palace and the 416-room Corinthia Grand Hotel Royal. Currently under construction are the 179-room Four Seasons Hotel at the Gresham Palace, due to open in October 2003; the 120-room New Yorker Plaza Boscolo, due to open at the end of 2003; and a 168-room NH hotel, due to open in August 2003. By the end of 2003 hotel rooms supply is set to increase by around 12%. Construction of the Millennium City Centre Project, which is scheduled to include a 6,000-delegate congress centre, museums, a new national theatre, office and residential space, and four to six hotels with approximately 2,000

rooms, is now unlikely to start in the next few years.

In 2001 **Copenhagen** occupancies decreased by approximately 9% compared to 2000, while average room rate increased by 8.5%, resulting in an overall decline in value of 6.2%. Copenhagen had experienced continued growth in occupancy in the five years prior to 2001. The major downturn in 2001 reflected a decline in demand and an increase in hotel supply, with the addition of the 375-room Hilton and 395-room Marriott. This decline in performance continued into 2002, when Copenhagen hotels experienced a decline in occupancy of 2%; average room rate declined by only 0.5%, resulting in an overall decline in value of 3.0%. Hotel supply is set to continue in 2003 and is likely to have a negative impact on hotel performances and values in the short to medium term. Hotels currently under construction include a 180-room Arp-

Table 3: Hotel Values – % Change

	1994	1995	1996	1997	1998	1999	2000	2001	2002	1993-02	1998-02
Moscow	n/a	n/a	n/a	n/a	-19.9	-34.9	13.6	22.6	13.2	n/a	0.7
Athens	-2.3	0.3	14.1	17.7	11.7	-5.1	10.7	-2.9	5.9	58.6	1.9
Paris	-2.2	-3.3	-7.0	23.0	11.2	0.4	10.4	-6.4	4.4	30.4	2.0
Geneva	7.0	8.8	-2.6	0.8	4.5	12.5	2.3	10.4	3.8	57.7	7.2
Milan	n/a	n/a	n/a	n/a	17.1	11.4	16.1	6.6	3.8	n/a	9.4
Hamburg	n/a	n/a	n/a	n/a	3.2	4.8	10.1	-9.1	3.7	n/a	2.1
Edinburgh	n/a	n/a	n/a	n/a	-1.3	-1.2	9.5	-5.3	3.3	n/a	1.4
Birmingham	n/a	n/a	n/a	n/a	2.3	5.3	1.0	-1.4	2.5	n/a	1.8
Madrid	-5.1	0.2	13.5	16.6	10.9	9.7	11.5	-2.6	2.4	70.3	5.1
Berlin	-1.6	-1.8	-12.1	11.1	-0.1	15.0	19.9	3.8	1.5	37.1	9.8
Barcelona	-8.6	8.2	30.2	28.4	21.9	15.2	9.0	-1.5	1.4	153.2	5.8
Manchester	n/a	n/a	n/a	n/a	3.2	-3.2	3.9	3.1	0.7	n/a	1.1
Europe	1.5	2.4	9.2	13.9	5.8	3.8	10.5	-1.9	-1.5	51.6	2.6
Vienna	-5.9	4.2	-3.0	-2.7	11.3	0.7	3.2	0.1	-1.4	5.5	0.6
Dublin	n/a	n/a	n/a	n/a	-2.7	8.5	9.9	-8.5	-1.6	n/a	1.8
Rome	9.8	-5.9	28.4	15.8	10.8	0.4	8.0	-3.1	-1.8	75.7	0.8
Lisbon	-4.8	-2.2	13.6	3.1	13.2	-2.7	12.4	-0.1	-1.9	32.4	1.8
Budapest	n/a	n/a	n/a	n/a	3.9	11.4	1.4	-1.2	-2.8	n/a	2.0
Copenhagen	7.8	3.7	13.9	16.2	4.5	7.9	7.8	-6.2	-3.0	63.6	1.4
Prague	n/a	n/a	n/a	n/a	1.5	17.5	30.6	-0.5	-4.3	n/a	9.9
London	12.7	6.0	22.3	38.3	1.8	-0.6	9.8	-12.7	-5.0	86.1	-2.5
Stockholm	7.7	10.2	31.0	10.7	1.6	16.5	9.8	-10.5	-5.5	89.2	2.0
Amsterdam	6.8	11.5	16.6	13.4	10.8	13.2	21.9	-6.5	-5.5	112.2	5.1
Frankfurt	-1.9	2.8	-5.3	5.6	2.8	4.0	12.9	6.4	-6.6	20.9	3.9
Zürich	n/a	n/a	n/a	n/a	9.9	5.4	6.2	4.0	-7.1	n/a	2.0
Munich	n/a	n/a	n/a	n/a	15.9	10.0	10.3	5.1	-7.3	n/a	4.3
Brussels	-5.3	4.2	5.7	13.0	8.4	2.5	15.3	-4.2	-7.7	33.3	1.1
Warsaw	n/a	n/a	n/a	n/a	2.1	1.2	1.2	-2.0	-15.2	n/a	-4.0
Istanbul	0.6	-4.4	28.0	34.2	-0.3	-20.7	25.9	-10.0	-19.5	19.2	-7.8

Source: HVS International

Hansen Hotel, due to open in June 2003 on the Town Hall Square; a 220-room, three-star Quality Hotel (Choice Hotels) situated on Molestien, at South Harbour, due to open in 2003; and a 350-room Cab Inn hotel, at Glytotek behind the Tivoli Gardens, is due to open in 2004. Another hotel under development by the Arp-Hansen Hotel Group is due to open in 2004; the three-star Copenhagen Island hotel will be located on an artificial island in the middle of Copenhagen harbour, adjacent to the Fisketorvet shopping centre.

Following a tough trading year in 2001, due to the outbreak of foot-and-mouth disease and the fall in the number of US visitors, hotel markets across Ireland and particularly in **Dublin** experienced a difficult trading year. During 2002 the hotel market in Dublin continued to suffer, with a 2% decline in occupancy and a 1.5% increase in average room rate resulting in a decline in value of 1.6%. After the opening of the 259-room Four Seasons and the 163-room Westin in 2001, no major addition to quality hotel supply was recorded in Dublin during 2002. In 2003, two openings are scheduled: the 142-room, three-star Grand Canal Hotel, part of the McEniff Hotel Group, and the 81-room, four-star Iveagh Market Hotel. Further additions to supply are largely dependent on whether Dublin's first major national convention centre goes ahead and on whether the recovery of US visitors to pre-2001 levels materialises.

Hotels in **Edinburgh** experienced an increase in value of 3.3%, largely due to a 3% increase in average room rate. Occupancies in Edinburgh remained at around 75%.

The **Frankfurt** hotel market faced two significant challenges during 2002. First, the impact that the uncertain global and European climate had on hotel markets: achieving the historically high levels will be slow and a gradual process. The second challenge will be the increase in supply in the short and medium term both in the city and on its outskirts. With more quality products entering the city centre market, competition among the four-star and five-star operators will become more intense. Hotels in Frankfurt recorded a decline in RevPAR of 12.5%, mainly due to a decline in occupancy of 6%, resulting in a decline in value of 6.6%.

Hotels in **Geneva** recorded significant increases in average rate in 2002 of approximately 18% while occupancies remained stable. The increase in RevPAR contributed towards an overall increase in value of 3.8%. Although demand for hotel accommodation was down on the previous year during the first quarter of 2002, this was partially offset by recovery in May, June and July. This was largely due to the arrival of HRH King Fahd of Saudi Arabia and his 300-strong entourage on 20 May 2002. The king and his attendants stayed in Geneva for some 15 weeks. Hotels in Geneva enjoyed an unprecedented summer with very many suites and rooms being sold at rack rates.

In 2001 hotels in **Hamburg** experienced a decline in value of 9.1%, largely due to a decrease in occupancy of nine percentage points. Historically, Hamburg has always had a broad base of demand across the corporate, trade fair, congress and leisure sectors. Tourism has been traditionally driven by musical events and retail outlets, which help the local hotel market with weekend business. Although Hamburg suffered from the events of 11 September and the slowing of the Germany economy, the closure of a number of musicals in Hamburg helped to depress occupancies further. However, during 2002 Hamburg was the strongest German market, experiencing an increase in value of 3.7%, as a result of a 1% increase in occupancy and a 2% increase in average rate. This increase in demand was mainly the result of three new musicals opening in Hamburg towards the end of 2001 and the beginning of 2002: The Lion King, Mamma Mia and Titanic. In terms of new hotel supply there are three hotels currently under construction. The 284-room Le Royal Meriden hotel located on An der Alster, adjacent to the Auseanalster Lake, is due to open in September 2003. All the rooms are due to be fitted with 'Art and Tech' facilities, featuring the latest technology and design, including 42-inch flat plasma screen televisions and three-nozzle power showers. There are currently two Accor hotels under construction in the entertainment district of St Pauli. A 186-

room Etap hotel and a 162-room Ibis are due to open towards the end of 2003.

Whilst all major hotel markets have felt the impact of the current worldwide economic slowdown and the security fears posed by continued terrorist attacks, Turkey's proximity to the Middle East and its border with Iraq have had a dramatic impact on hotel operating performance over the last two years. In 2002 hotel occupancies in **Istanbul** decreased by four percentage points to 51%, while average rooms rates decreased by 18.0%, resulting in an overall decline in value of 19.5%. The decline in value experienced in 2002 is worse than the 10% decline in 2001. In terms of new hotel supply in Istanbul, the 323-bedroom Grand Cevahir Hotel opened in March 2002. The 249-bedroom Mövenpick Hotel is due to open in March 2003; Four Seasons' second hotel in Istanbul, which is located on the Bosphorus, will open in 2005.

Portugal's hotel market proved to be resilient during 2002, with only limited impact in comparison to other tourism destinations. Hotel room nights in Portugal fell by 2% in 2002, with the biggest decrease in foreign tourists registered among German, Dutch and British tourists; the number of French and Spanish tourists staying at hotels increased by more than 10%. **Lisbon** has been enjoying growing popularity as a conference and short-break destination in recent years, which caused further increases in hotel performances and new supply. In 2002, however, Lisbon's hotels experienced a decline in occupancy of approximately 4%, whereas average rates increased significantly, by over 5%, contributing towards a decline in value of 1.9%. Further increases in supply are planned, with a total of 24 three-star to five-star hotels due to open in the Portuguese capital by 2005, increasing the rooms capacity of Lisbon hotels by 25%. Demand for hotel accommodation is likely to increase further; however, occupancy performances are unlikely to exceed 2000 levels. The Algarve accounts for 50-60% of all Portuguese tourism. Hotel occupancy in the Algarve decreased by 4% in 2002, mainly due to a significant decline in tourist arrivals from its key source markets. However, average rates increased by more than 10%. The European Football Championship in 2004, combined with the growing popularity of Portugal as a conference destination, will help Portugal to raise its profile within Europe. Mainly a tourist destination, Portugal is seeking to appeal to new market segments, actively promoting itself as a conference and incentive destination. As a result, demand is likely to increase further in the short to medium term, as new convention centres are planned for Estoril and the Algarve.

London demand peaked in 2000 when occupancy levels reached 82%. However, the foot-and-mouth epidemic in the UK, the terrorist atrocities of 11 September, the reprisals in Afghanistan, the threat of war in the Gulf and the continuing global economic slump have combined to greatly reduce premium hotel demand in London since 2000. Although occupancy increased by

nearly two percentage points, to 76%, it still fell short of 2000 levels. Average room rates suffered as hoteliers, in a weakened market, sought to maintain occupancy by increased reliance on lower-rated market segments and discounted room rates. Hotel values in London decreased by 5.0% in 2002, due mainly to a decline in average room rate of around 7%.

The strong performance of hotels in **Madrid** in recent years has continued to raise interest in new hotel development, with a large number of new hotels currently under construction and due to enter the market in the next two to three years. As expected, the events of 11 September affected demand, but only in the short term. Because of Madrid's strong domestic demand base, it has not suffered to the same extent as other European cities. In 2002 Madrid saw an increase in value of 2.4%, driven mainly by an increase in occupancy of two percentage points.

Hotels in **Manchester** experienced a small increase in value, of 0.7%, mainly as a result of an increase in average room rate of 3%.

Until the terrorist attacks of 11 September, operating performance in **Milan** was extremely positive. With the city reliant upon US visitation and the primary European feeder markets, occupancy rates declined, but only marginally. In 2002 occupancy levels decreased by 1% while average rooms rate increased by 5%, contributing towards an overall increase in value of 3.8%. In 2002, Milan witnessed no major addition to its quality hotel supply. The Carlton Baglioni hotel completed its 30-room extension. There are two properties under construction: the 117-room Park Hyatt, due to open in mid 2003, and the 52-room Bvlgari Hotel, due to open at the beginning of 2004. The high barriers to entry and the limited new competition, together with relatively stable demand, have allowed the city's hotels to increase their average rates without any significant drop in occupancy.

Hotels in **Munich** experienced a significant decline in RevPAR of 18%, driven mainly by a 10% decline in occupancy. This drop in operating performance, fuelled by the weak German economy, resulted in an overall decline in value of 7.3%. The opening of the 255-room Le Meridien hotel during 2002 further compounded the situation.

2001 and 2002 saw a significant increase in both demand for hotel accommodation and the performance of the leading international hotels in **Moscow**. Occupancies increased to approach the high levels of 1997 and early 1998. Average rates, however, still fell short of the levels achieved in the mid 1990s. There is a very strong level of interest in hotel development in Moscow, particularly at the mid-market level. There is also strong interest in hotel development in St Petersburg, and in other large Russian cities. Growing confidence in the Russian economy, and in ongoing political and fiscal stability, has outweighed the negative effects on travel caused by the events of 11 September and the ongoing

threat of international terrorism. In 2002 occupancy increased by six percentage points to 64%, while average rates increased by only 2%. The resultant 13% increase in RevPAR gave an increase in value of 13.2% compared to 2001. The 219-room Ararat Park Hyatt opened near the Bolshoi in October 2002, and work is well underway on the demolition and reconstruction of the Intourist hotel. Hilton International, which lost out to Hyatt on the Bolshoi hotel, is expected to operate a de luxe hotel of 400 to 450 rooms, which will rise from the redeveloped Intourist site. A 255-room Novotel opened during the summer at Novoslobodskaya, and a 200-room Courtyard by Marriott is also expected to be developed in central Moscow. Otherwise, rumours continue to abound in Moscow about the redevelopment of former state-owned hotels, including the Moskva, the Rossiya and the Belgrade. The mayor has also called for the development of 20 or more mid-market hotels, an announcement which has caused a surge of interest in this sector in Moscow and throughout the country.

The **Paris** hotel market has shown stronger improvement in trading compared to most European markets. This is largely due to the increased number of European visitors and the numerous trade fairs such as the biennial motor show and the air show. Occupancy increased by 2%, while average room rate also increased, by 2.1%, contributing towards an overall increase in value of 4.4%. 2002 witnessed the opening of the 205-room, five-star Park Hyatt on rue de la Paix, the 46-room boutique-style Radisson SAS Champs Elysées hotel, the 34-room, four-star Villa Royale Pigalle and the reopening of the Hotel de la Trémoille after a 15-month refurbishment. The 53-room, four-star Villa Murano, the 185-room Holiday Inn in Rueil Malmaison, and the 363-room Kyriad hotel on Place de Catalogne will open in 2003. In addition, a 169-room, four-star Courtyard by Marriott is currently under construction in Boulogne's Porte de St Cloud. Furthermore, a 463-room Hilton located in the 8th district is scheduled to open in 2004. Three hotels, totalling approximately 1,000 rooms, are under construction in close proximity to the Euro Disney theme park.

Following the terrorist atrocities in the USA in 2001, which resulted in a fall in international visitation, the **Prague** hotel market was anticipating a recovery in 2002. However, the lack of momentum from 2001 continued into 2002 as economies in the country's top feeder markets remained depressed. In August 2002 the city of Prague and the rest of the Czech Republic suffered from severe flooding, with the damage widely reported internationally. The flooding had severe consequences for tourism to Prague, and hoteliers are now lobbying for government support and funding to market the city of Prague internationally. Hotel performance in 2002 was somewhat depressed, with occupancy declining by 2.0% and average room rate decreasing by 7%, contributing towards a decline in value of 4.3%. The floods resulted

Table 4: Hotel Values per Room in euro – 1993 – 2002

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

Source: HVS International

in the temporary closure of a number of hotels, including the InterContinental and the Hilton, situated closest to the river; the Four Seasons Hotel and the Hotel President will remain closed until mid 2003. Despite the tough market conditions, new hotel supply entered the Prague market during 2002. These hotels included the 239-room, lifestyle Andel's Hotel, the 110-room, designer Josef Hotel, the 72-room Le Palais Hotel, the 174-room Mercure Hotel and the 100-room Ramada Hotel Symphony. The trading outlook for 2003 remains cautious as the market copes with the continued depression in some of its main feeder markets, most notably Germany and the USA, and with absorbing new hotel supply, including the 148-room, five-star Boscolo Hotel, located on Senovazne Square. This hotel is currently under construction and is expected to open in mid 2003.

In Rome hotel occupancy declined by four percentage points to 71%, and average room rate increased by 3.5%. However, this increase in average rate was not enough to yield an increase in RevPAR and value. Hotel values in Rome declined by 1.8% in 2002 compared to 2001. Hotel supply in Rome increased in 2002 with the openings of three hotels: the 210-room, five-star Boscolo Hotel Esedra, the 96-room, four-star Boscolo Hotel near Via Veneto, and the 235-room, four-star Es Hotel. Three new properties are currently under construction, a total of approximately 1,000 rooms.

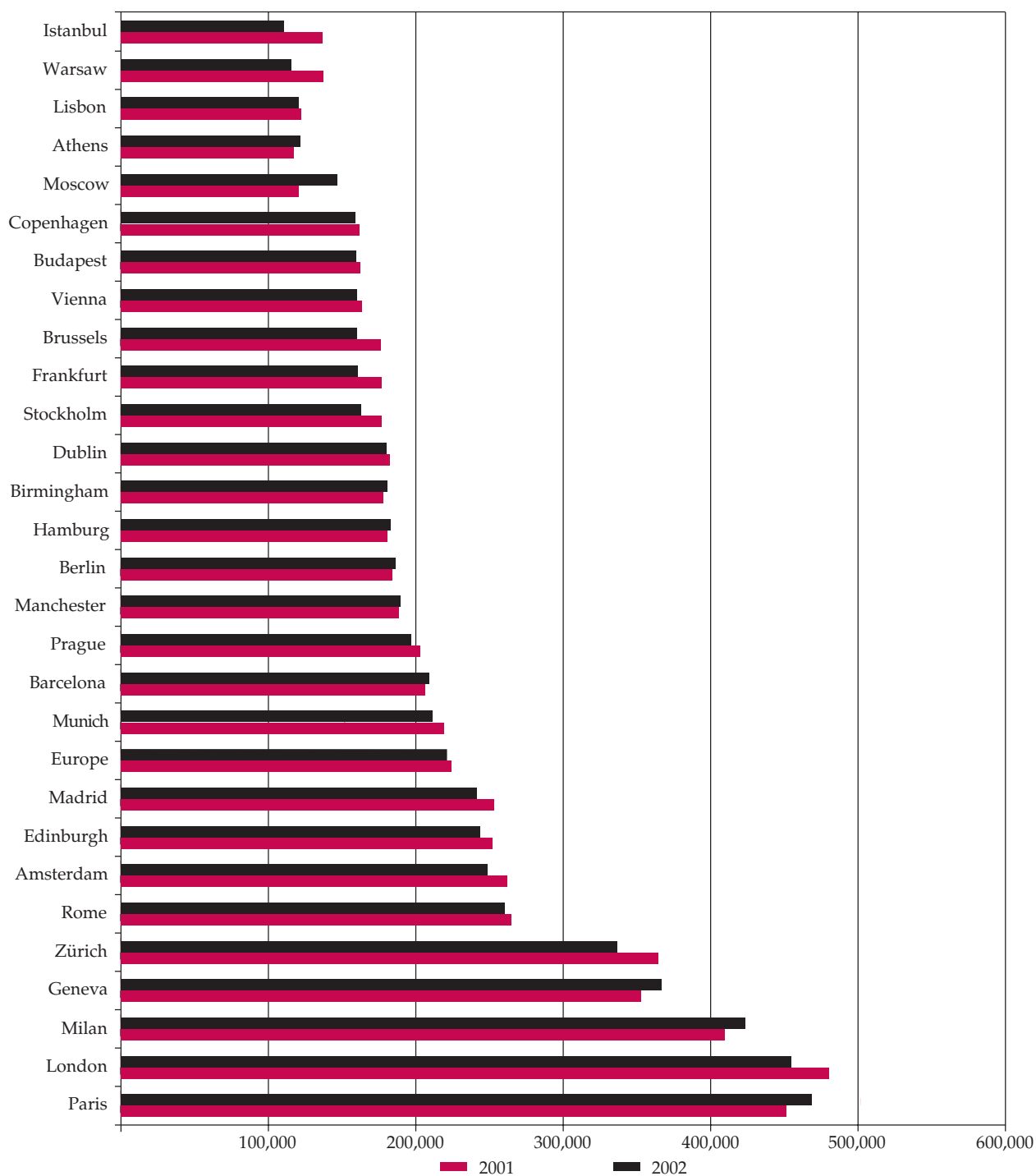
The Swedish hotel market, like those in other European countries has been impacted by the general economic slowdown and the increased fears surrounding international travel following the events of 11 September. During 2002 both American Airlines and Delta Airlines ceased flying to Stockholm, as there was a reduction in demand for direct flights to the city from the USA. Stockholm city centre, which comprises some 111 hotels totalling approximately 12,000 rooms, is dependent predominantly on the domestic market, which increased during 2002. In 2002 overall occupancy levels in Stockholm decreased by two percentage points to 73%, while average room rate remained stable, contributing towards a decline in value of 5.5% compared to 2001. In terms of new supply, the Royal Viking Hotel opened an additional 108 bedrooms in September and the 532-room, four-star Choice Clarion Hotel will open in Slussen in July 2003. In August, Hilton completed the rebranding of the Scandic Ofra City to a Hilton hotel.

Austria improved its business environment, but with elections due in 2003, the economic situation is likely to face some political uncertainties. Vienna recovered quickly from the effects of the events of 11 September. Hotel occupancy remained fairly stable at 67%, while average room rate decreased by 4% contributing towards a decline in value of 1.4% compared to 2001. Vienna's hotels benefit from a healthy and diversified demand mix, with strong

corporate and congress business; tourism demand fills hotels over the weekends and holiday periods. Vienna's hotel supply is expected to remain relatively stable in the future, with only the 292-room Le Meridien currently under construction and due to open in 2004. The site was bought by the German open-ended fund Deka Immobilien, a subsidiary of the German Sparkasse. Two further four-star hotels, the 300-room Hotel Mondschein and the 200-room Hotel Wien Messe, are planned to open in 2005.

The Warsaw hotel market continued to experience reduced levels of demand during 2002. Demand for overnight accommodation during weekdays remained strong, although occupancies were low due to weekends and non-business periods. Unlike many other European cities Warsaw did not experience any improvement in trading in the first half of 2002. For the full year 2002 occupancy levels declined by five percentage points and average room rate fell by 10%, contributing towards an overall decline in value of 15.2%. The continued increase in hotel supply will not help to improve marketwide performance. The opening of the Hyatt Regency and the Radisson SAS Centrum at the beginning of 2002 further increased supply in Warsaw. There are also a large number of new hotels planned for 2003 and 2004, including the 361-room Westin Hotel, due to open in July 2003, and the 406-room InterContinental

Table 5: Hotel Values per Room in euro – 2001 and 2002



Source: HVS International

hotel, due to open at the beginning of 2004. However, many of these developments are linked to new conference facilities, which will help to generate demand for the Warsaw hotel market in general. If the remaining phase of the Eurocentrum project is completed on schedule, this should help to increase hotel demand. However, due to the lead time involved in the conference market, it is unlikely that the centre will operate at high capacity in the short term.

In 2002 hotels in Zürich experienced a decline in occupancy and average rate, resulting in a decline in RevPAR of 16.9%. Overall this equated to a decline in value of 7.1%. This decline in RevPAR can be

attributed partially to the slowdown in the Swiss economy and the collapse of Swiss Air, which happened in October 2001.

Hotel Values per Room

According to our analysis of values (Table 5), for the first time since 1995, Paris has achieved the highest value per room (€469,933), followed by hotels in London, Milan and Geneva. Hotels in Zürich, Rome, Amsterdam, Edinburgh and Madrid continue to feature above the

European average of €225,000. In contrast, values per room in Istanbul are the lowest of the 28 markets, at €119,511.

Outlook

Although we had started to see a stabilisation in the performance of European hotels post 11 September, the current threat of war with Iraq means that hotel values are likely to remain somewhat depressed for the next six to 12 months before they start to move significantly upwards.



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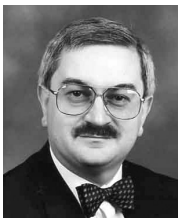
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