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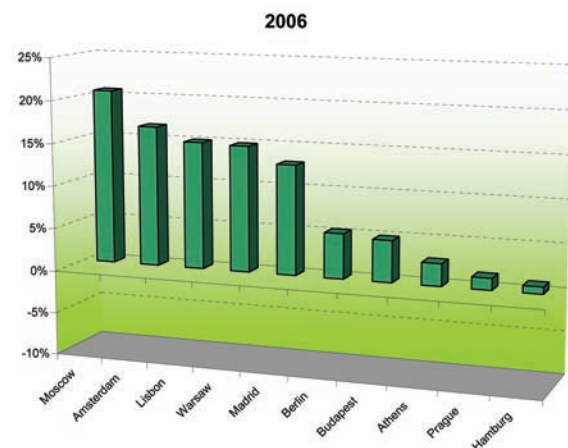
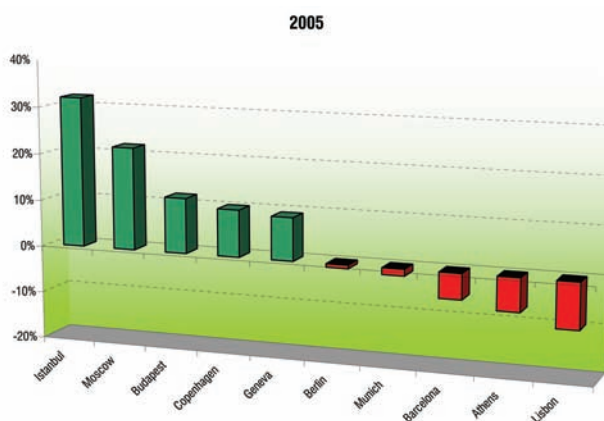
Highlights

- The European Hotel Valuation Index (HVI) 2007 shows that hotel values, expressed in euro, achieved a third consecutive year of growth. On average, values across Europe increased by 9.4% in 2006, compared with an increase of 5.0% in 2005. It is the first year in which all of the 28 markets covered in the index experienced increases in value since 2000, reflecting the health of the industry throughout Europe. The European average hotel value is now at its highest in the 14 years recorded by the HVI.
- The European average is boosted largely by the extraordinary growth in value by the top markets, including London, Paris, Milan, Zürich and Geneva, as well as the strengthening of the remaining markets. All but two of the 28 markets under review achieved value increases in excess of inflationary growth. Only Prague and Hamburg showed little growth.
- Values per room now exceed the peak of 2000 with the exception of eight of the 28 markets (Barcelona, Brussels, Copenhagen, Frankfurt, Hamburg, Madrid, Stockholm, and Warsaw) although Brussels and Copenhagen have come close.
- For the fourth time in the last five, Moscow had the greatest percentage growth in value, at 21% in 2006.
- Hotel values in Amsterdam had the second-highest percentage growth in value in 2006, at 16%, after the recovery in 2005 which

followed four years of declining values. Amsterdam hotels now have an average value of €304,000 per room.

- Lisbon has pushed itself up to third place on the growth table with an increase of almost 15% over 2005, followed closely by Warsaw in fourth place (15%). Nonetheless, Lisbon has the third lowest values per room at €139,300, followed by Athens (€135,600) and Warsaw (€119,900).
- Perhaps unsurprisingly, the top four most expensive cities in which to acquire a hotel remain the same. London is beginning to edge towards the €600,000 per room barrier, with the average value per room now at €576,700 an increase of 11.7%. Paris, in second place, is only the second market since 2000 to break the €500,000 barrier (€528,200 per room, growth of 9%), surpassing London's value per room last year. The gap between second and third place has shrunk to €61,200 as Milan posts a value per room of €467,000. The gap in value between third and fourth place has increased to €53,200; Zürich shows growth of 10% with values at €413,800 per room.
- After only one year with hotel values above the European average, Prague has once again dropped just below the European average value per room at €252,300 per room. Edinburgh (€319,600) has overtaken Rome (€311,000) with the sixth highest value per room, after Geneva (€365,800), while on the other side of the table Athens (€135,600) and Frankfurt (€165,600) have both dropped in the rankings.

Tables 1 and 2 Top and Bottom Five 2005/2006 - % Change in Hotel Value per Room (€)



Source: HVS International

Changes in Value

Amsterdam continued gathering strength in 2006 with the fifth highest RevPAR growth, at 13%, driven by continuing high barriers to entry across the market, compounding demand and accompanying increases in average rate. Hotel values rose by nearly 17% to €304,000 per room in 2006, the first time they have ever exceeded €300,000 per room and the second-highest percentage growth in value, after Moscow. There have not been a significant number of new quality hotels opening in Amsterdam over the last few years. The 408-room Mövenpick Hotel, a five-star hotel within walking distance of Central Station, was

the only new hotel in 2006, opening its doors in September. The number of rooms planned to open in the greater Amsterdam area by 2010 has decreased to about 1,900 as projects such as the proposed Rocco Forte and Hyatt hotels are apparently no longer in the pipeline. As was the case last year, the majority of projects remain speculative at this stage. Two confirmed projects include the five-star, 173-room Grand Hotel Amrâth Amsterdam, located in the Scheepvaarthuis, a national monument, expected to open in July 2007, and the 210-room Royal Tulip Amsterdam Symphony, expected to open in the financial district, the Zuidas, in July 2009.

Following a significant drop in average rate during 2005, occupancy in Athens in 2006 increased to 64% accompanied by a marginal increase in average rate, driving up RevPAR by 9.5%. Hotel values subsequently rose by 3% to €135,600, indicating a return to relative stability driven by small, but sustainable occupancy and average rate increases in the market. This obviously follows the impact of the 2004 Olympic Games, supported by consequent growth in tourist arrivals following the increased awareness of Athens as a holiday destination. However, unlike other Olympic cities such as Barcelona and Sydney, Athens did not experience a significant increase in hotel supply. Thus development as well as investment

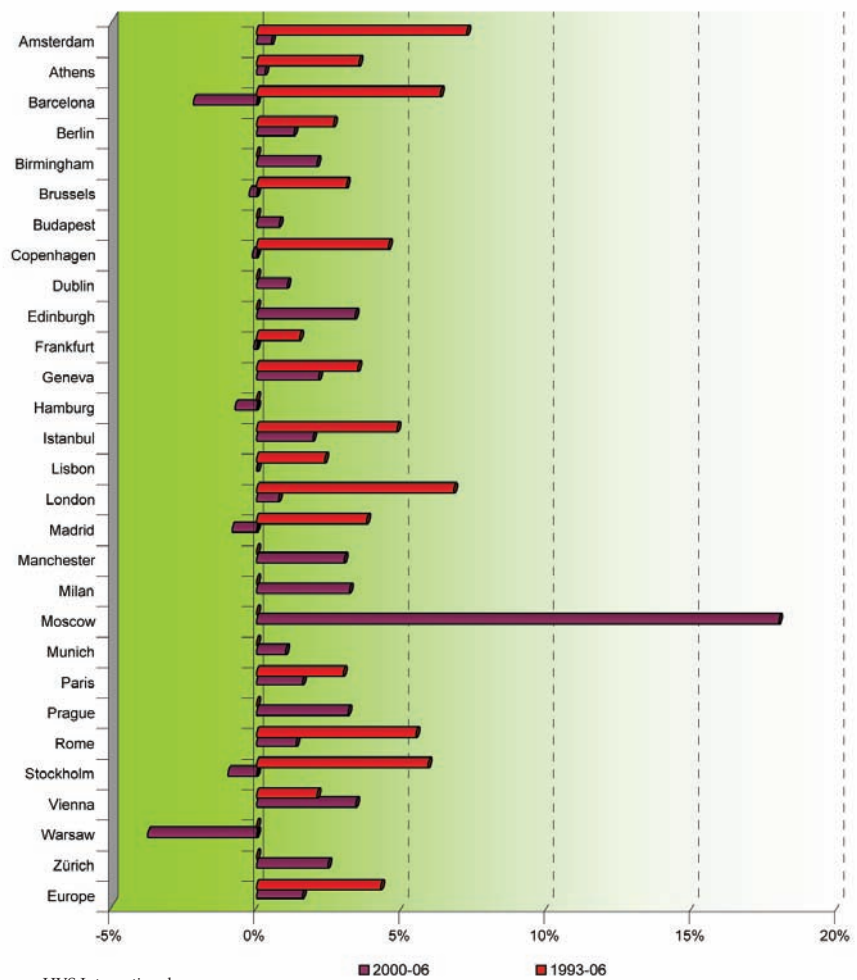
activity in Athens remains virtually static.

Despite the significant number of new hotels that entered the market in 2006, **Barcelona** experienced small increases in both occupancy and average rate, resulting in a 4% increase in RevPAR following three years of decline. Hotel values rose 7% to €189,700. There are an estimated 5,700 new rooms expected to enter the market by 2010, which represents an 18% increase in supply. Significant hotel developments include the 144-room Mandarin Oriental opening at the end of this year and the 473-room W Hotel, expected to open in 2009. Furthermore, several new hotels are being developed in the 22@ zone, a 200-hectare industrial area that is being transformed into an important science, technology and culture platform. This urban transformation project in Barcelona, one of the most ambitious in Europe, has high real estate potential and benefits from a public investment of €180 million. When completed, the area should be home to 15% of the economic activity of the city.

Occupancy and average rate in **Berlin** hotels in 2006 were up marginally when discounting the effect of the FIFA World Cup. RevPAR increased by 2%, accompanied by a 5% increase in value to €188,700 per room. Apart from a newly gained optimism and positive image of the city, which has led to continued growth from leisure travellers, Berlin has established itself as one of the top ten conference destinations worldwide, which has resulted in strong growth within the meeting, incentive, conference and exhibition (MICE) segment. Despite numerous new hotels which materialised within the last few years, including Rocco Forte's 146-room Hotel de Rome, further developments are in the pipeline. An as-yet-unnamed 285-room, three-star hotel project on Nürnberger Straße, in the district of Schöneberg close to Kurfürstendamm, has been approved and the envisaged opening date is March 2007. Bayerische Immobilien AG has received approval for the construction of a 200-room, three- to four-star hotel in Berlin-Charlottenburg, close to Kantstraße, due to open mid-2008. Furthermore, there is a development plan to open a 195-room four-star hotel close to Schönfeld Airport, near the existing Holiday Inn, in the first quarter of 2008.

Birmingham has continued to reap the benefits of maintaining its impressive marketing efforts and has experienced strong ongoing activity at the National Exhibition Centre (NEC). RevPAR in the city increased by a modest but not negligible 2%. Hotel values per room increased by 5% to €200,700, the first time values have exceeded €200,000 per room, albeit only just. There are at present a significant number of projects in the hotel development pipeline. While Accor has not yet begun construction of the planned and approved 120-room Etap and 150-room Ibis hotels at Birmingham International Airport, it is now also considering the potential for a further addition of one of its brands at the NEC. Simultaneously, the Holiday Inn at Birmingham International Airport has put on hold its planned 59-room extension but remains committed to the additional rooms being launched within the next two years, which will take the hotel's room count to 200. In Birmingham city centre, plans for two major mixed-use developments were recently

Table 3 Compound Annual Growth Rate 2000-06 and 1993-06 (€)



Source: HVS International

announced, at City Park Gate and the Martineau Galleries. Both developments are in their early stages and application for planning consent has only just been submitted. As well as offices, residential apartments, food and beverage facilities and other retail outlets, these developments are planned to include 14,000 m² and 30,000 m² of hotel space, respectively, which may only come to fruition if swapped with part of the space allocated to the residential apartments.

As with most of continental Europe, **Brussels** continued to experience an improvement in hotel performance in 2006. Overall the hotel market in Brussels benefited from a 9.4% increase in RevPAR. Values rose to €181,100 per room, an 8% growth on the previous year. This improvement in performance and thus value was achieved by hotels at both ends of the spectrum, and was further aided by the relatively low increase in supply levels brought about by the opening of the 149-room Radisson SAS in January 2006, and the 149-room Sofitel Brussels Europe in September 2006. Planned hotel openings include the 268-room Dolce La Hulpe in 2007 and an as-yet-unnamed 600-room hotel near Gare du Midi opening in 2008. Whilst Brussels has had a reputation for hotel development costs exceeding values, recent growth is encouraging and the process now seems to have been reversed.

The increase in low-cost airline flights since Hungary's accession to the EU and the subsequent rise in city-break tourism have

played an important role in developing the accessibility and attractiveness of **Budapest** as a European destination. Apart from the growth of leisure from short-break holidays, Budapest is also becoming an important business destination and currently stands as the eighth best conference destination in Europe. Whilst RevPAR enjoyed double-figure growth in the past two years, the increase in 2006 was a modest 2% and values per room grew by nearly 5% to €176,300. One of the major hotel openings in 2006 was that of the 107-suite Boscolo New York Palace hotel. Hotels currently under construction and expected to open in 2007 include a 237-room, five-star hotel near Opera Plaza, which is expected to be managed by Radisson, and a 60-room Baglioni hotel. Budapest has significant potential to further develop tourism through its wide variety of attractions, its central location in Europe and its accessibility from main feeder markets.

The success of **Copenhagen** as a convention city and a popular leisure destination continued in 2006. Hotel demand was boosted by the strong expansion of the Danish economy and the improved economies of the key feeder markets, including neighbouring countries such as the UK and Germany. Despite the addition of two new upscale hotels, the market enjoyed small increases in both occupancy and average rate to increase RevPAR by 8.4%. Hotel values rose by 11% to €174,000. Other changes in supply include the former Hotel Sophie Amalie, part of Remmen Hotels, which underwent a complete renovation and opened as a contemporary

Table 4 Hotel Values - % Change (€)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | CAGR ¹ 1993-06 | CAGR ¹ 2000-06 |
|------------|------|------|-------|------|-------|-------|------|-------|-------|-------|-------|------|------|------------------------------|------------------------------|
| Moscow | n/a | n/a | n/a | n/a | -19.9 | -34.9 | 13.6 | 22.6 | 13.2 | 8.7 | 21.7 | 21.8 | 20.6 | n/a | 18.0 |
| Amsterdam | 6.8 | 11.5 | 16.6 | 13.4 | 10.8 | 13.2 | 21.9 | -6.5 | -5.5 | -4.9 | -0.3 | 5.7 | 16.5 | 7.2 | 0.5 |
| Lisbon | -4.8 | -2.2 | 13.6 | 3.1 | 13.2 | -2.7 | 12.4 | -0.1 | -1.9 | -4.0 | 2.6 | -9.7 | 14.9 | 2.4 | 0.0 |
| Warsaw | n/a | n/a | n/a | n/a | 2.1 | 1.2 | 1.2 | -2.0 | -15.2 | -10.9 | -13.4 | 8.1 | 14.7 | n/a | -3.7 |
| Madrid | -5.1 | 0.2 | 13.5 | 16.6 | 10.9 | 9.7 | 11.5 | -2.6 | 2.4 | -5.7 | -10.9 | 0.6 | 12.8 | 3.8 | -0.8 |
| Milan | n/a | n/a | n/a | n/a | 17.1 | 11.4 | 16.1 | 6.6 | 3.8 | -0.4 | -3.3 | 0.8 | 12.3 | n/a | 3.2 |
| Edinburgh | n/a | n/a | n/a | n/a | -1.3 | -1.2 | 9.5 | -5.3 | 3.3 | -3.4 | 9.4 | 0.0 | 12.0 | n/a | 3.4 |
| London | 12.7 | 6.0 | 22.3 | 38.3 | 1.8 | -0.6 | 9.8 | -12.7 | -5.0 | -5.9 | 11.9 | 7.2 | 11.7 | 6.8 | 0.8 |
| Copenhagen | 7.8 | 3.7 | 13.9 | 16.2 | 4.5 | 7.9 | 7.8 | -6.2 | -3.0 | -8.3 | -3.1 | 10.0 | 11.4 | 4.5 | -0.1 |
| Stockholm | 7.7 | 10.2 | 31.0 | 10.7 | 1.6 | 16.5 | 9.8 | -10.5 | -5.5 | -6.5 | 1.9 | 5.2 | 11.2 | 5.9 | -1.0 |
| Vienna | -5.9 | 4.2 | -3.0 | -2.7 | 11.3 | 0.7 | 3.2 | 0.1 | -1.4 | 6.4 | 0.8 | 3.9 | 11.2 | 2.1 | 3.4 |
| Istanbul | 0.6 | -4.4 | 28.0 | 34.2 | -0.3 | -20.7 | 25.9 | -10.0 | -19.5 | -9.5 | 16.9 | 32.0 | 10.9 | 4.8 | 1.9 |
| Zürich | n/a | n/a | n/a | n/a | 9.9 | 5.4 | 6.2 | 4.0 | -7.1 | -5.5 | 6.2 | 8.4 | 10.1 | n/a | 2.5 |
| Europe | 1.5 | 2.4 | 9.2 | 13.9 | 5.8 | 3.8 | 10.5 | -1.9 | -1.5 | -4.2 | 3.2 | 5.0 | 9.4 | 4.3 | 1.6 |
| Paris | -2.2 | -3.3 | -7.0 | 23.0 | 11.2 | 0.4 | 10.4 | -6.4 | 4.4 | -7.2 | 4.3 | 6.6 | 9.0 | 3.0 | 1.6 |
| Rome | 9.8 | -5.9 | 28.4 | 15.8 | 10.8 | 0.4 | 8.0 | -3.1 | -1.8 | -1.9 | 4.7 | 2.9 | 7.8 | 5.5 | 1.4 |
| Brussels | -5.3 | 4.2 | 5.7 | 13.0 | 8.4 | 2.5 | 15.3 | -4.2 | -7.7 | -4.0 | 3.1 | 4.5 | 7.8 | 3.1 | -0.3 |
| Munich | n/a | n/a | n/a | n/a | 15.9 | 10.0 | 10.3 | 5.1 | -7.3 | -8.1 | 11.7 | -1.4 | 7.8 | n/a | 1.0 |
| Geneva | 7.0 | 8.8 | -2.6 | 0.8 | 4.5 | 12.5 | 2.3 | 10.4 | 3.8 | -7.9 | -8.4 | 9.1 | 7.6 | 3.5 | 2.1 |
| Barcelona | -8.6 | 8.2 | 30.2 | 28.4 | 21.9 | 15.2 | 9.0 | -1.5 | 1.4 | -5.5 | -8.5 | -5.4 | 7.2 | 6.3 | -2.2 |
| Dublin | n/a | n/a | n/a | n/a | -2.7 | 8.5 | 9.9 | -8.5 | -1.6 | 1.9 | 2.3 | 6.7 | 6.5 | n/a | 1.1 |
| Manchester | n/a | n/a | n/a | n/a | 3.2 | -3.2 | 3.9 | 3.1 | 0.7 | -5.7 | 7.5 | 6.9 | 6.2 | n/a | 3.0 |
| Frankfurt | -1.9 | 2.8 | -5.3 | 5.6 | 2.8 | 4.0 | 12.9 | 6.4 | -6.6 | -2.0 | -3.7 | 0.2 | 5.9 | 1.5 | -0.1 |
| Birmingham | n/a | n/a | n/a | n/a | 2.3 | 5.3 | 1.0 | -1.4 | 2.5 | -4.2 | 7.7 | 3.0 | 5.4 | n/a | 2.1 |
| Berlin | -1.6 | -1.8 | -12.1 | 11.1 | -0.1 | 15.0 | 19.9 | 3.8 | 1.5 | -2.9 | 1.0 | -0.7 | 5.2 | 2.6 | 1.3 |
| Budapest | n/a | n/a | n/a | n/a | 3.9 | 11.4 | 1.4 | -1.2 | -2.8 | -13.6 | 7.9 | 11.7 | 4.8 | n/a | 0.8 |
| Athens | -2.3 | 0.3 | 14.1 | 17.7 | 11.7 | -5.1 | 10.7 | -2.9 | 5.9 | -2.8 | 6.7 | -7.1 | 2.6 | 3.5 | 0.3 |
| Prague | n/a | n/a | n/a | n/a | 1.5 | 17.5 | 30.6 | -0.5 | -4.3 | 1.6 | 17.7 | 4.3 | 1.4 | n/a | 3.1 |
| Hamburg | n/a | n/a | n/a | n/a | 3.2 | 4.8 | 10.1 | -9.1 | 3.7 | -0.2 | 0.5 | 0.5 | 0.8 | n/a | -0.7 |

Source: HVS International

¹Compound annual growth rate

boutique hotel, Front. The refurbishment of Le Meridien Palace and Hotel 27 (previously known as Hotel Mermaid) are due for completion by the end of this year. In 2007, the Danish hotel chain Zleep plans to open its third hotel, situated close to Ballerup Super Arena, 15 km outside Copenhagen. Going forward, hotel developments in the pipeline include Denmark's largest hotel with 700 rooms, which is planned to open in 2008. The hotel will be operated by the Danish budget hotel chain Cab Inn, and located near the congress and convention Bella Centre. In addition, the Bella Centre plans to construct a four-star, 300- to 400-room hotel. The project is planned for completion by the second half of 2008. The five-star hotel in Tivoli Gardens with 160 rooms is now expected to open in 2009. Four Seasons is rumoured to be in negotiation for the operation of this hotel. Although the conversion of Scarla into a hotel in the city centre has been rumoured for some time, there is to date no further development. Finally the real estate company, KLP Ejendomme plans to build a four-star hotel in the new city quarter Orestad as part of a mixed-use development. The hotel is expected to offer 240 rooms and its construction is scheduled to begin in the spring of 2007. The significant number of new hotels due to enter the market is likely to result in a decline in RevPAR in Copenhagen in the short term

Hotel values in **Dublin** rose by 7% in 2006 to €210,900, making 2006 the first year in which hotel values in the Irish capital exceeded €200,000 per room. The increase was driven by an increase in RevPAR of 5.3%. As with 2005, Dublin has proved resilient in the face of numerous additions to supply in the market, establishing its popularity as a destination thanks to both increased weekend tourism and the flourishing low-cost airline sector. There are still new rooms in the pipeline over the next

year. The 161-room Radisson SAS Royal Hotel is scheduled to open in March 2007, followed closely by the 276-room Shelbourne Hotel, operated by Renaissance Hotels and Resorts, which is due to reopen in June. The 19-room boutique Mount Hybla Hotel, part of the Fylen Collection, is due to open during the course of the spring. In addition, Hilton will be opening its 120-room Hilton Kilmainham sometime this year.

During 2006 **Edinburgh** was the second best performing UK market after London. Although the Scottish city didn't see the greatest average rate growth, it is consistently outperforming the rest of the UK's regional markets, greatly benefiting from its well-balanced position as both a financial hub and cultural centre. The city experienced a growth in RevPAR of almost 9%. Edinburgh has joined the group of cities with hotels worth €300,000 or more per room, after 12% growth pushed values in the city to €319,600. In terms of new supply, Hotel Missoni Edinburgh represents one of the city's most high-profile hotel developments. With an anticipated opening date in late 2008, the hotel will offer 130 rooms and will occupy one of the most prominent locations in the city on the 'Royal Mile' route, which connects Edinburgh Castle and the Palace of Holyrood House at Victoria Terrace and George IV Bridge. Novotel is also currently building a 160-room hotel in nearby Hermiston Gait. Moreover, a considerable number of hotel developments are being contemplated as part of planned mixed-used property schemes addressing the issue of the growing need for hotel accommodation in the city. Proposed locations include Edinburgh Park, the biomedical research facility, as well as Orchard Brae House, just off Queensferry.

Despite **Frankfurt** being one of the 12 German

cities to host the FIFA World Cup in 2006, Frankfurt's hotel performance showed a relatively modest 5% RevPAR growth. Hotel values rose by 6% to €165,600. Owing to Frankfurt's importance as an international convention and exhibition destination, its strategic position within the heart of Europe and the presence of the European Central Bank and numerous company headquarters, demand for transient accommodation is likely to remain stable in the medium to long term. The next few years will see several new hotel openings, particularly around Frankfurt's airport. New openings for 2007 are expected to include the expansion of the Steigenberger InterCity Hotel to 1,000 rooms, as well as the addition of the 650-room Le Meridien Frankfurt Airport and the 320-room Fleming's Hotel Frankfurt. Other developments include a Jolly Hotel due in 2008, the 314-room Hilton Garden Inn Frankfurt Airport and the 247-room Hilton Hotel Frankfurt Airport both due in 2009, and the Mandarin Oriental Frankfurt due by 2010.

Geneva is a relatively stable market heavily dependent on corporate and MICE business. This is a result of numerous international companies having their main headquarters in the greater Geneva area, as well as those of the UN and related organisations. Most of Geneva's major exhibitions, trade fairs and congresses take place at the Palexpo complex, the International Congress Centre (CICG), the UN buildings, or at Geneva's larger hotels, such as the Crowne Plaza, the InterContinental and the Noga Hilton. The five busiest routes serviced by Geneva's airport are those to London, Zürich, Paris, Amsterdam and Frankfurt. Geneva's hotels enjoyed a 10% increase in RevPAR in 2006. Hotel values grew by 8% in 2006 to €365,800 per room. This growth was assisted by

Table 5 Hotel Valuation Index 1993-06

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| London | 1.684 | 1.898 | 2.012 | 2.460 | 3.402 | 3.463 | 3.444 | 3.781 | 3.243 | 3.080 | 2.898 | 3.244 | 3.478 | 3.885 |
| Paris | 2.471 | 2.416 | 2.337 | 2.174 | 2.674 | 2.973 | 2.986 | 3.297 | 3.034 | 3.166 | 2.939 | 3.064 | 3.265 | 3.559 |
| Milan | n/a | n/a | n/a | n/a | 1.751 | 2.051 | 2.285 | 2.652 | 2.778 | 2.883 | 2.873 | 2.778 | 2.802 | 3.147 |
| Zürich | n/a | n/a | n/a | n/a | 1.619 | 1.835 | 2.310 | 2.453 | 2.505 | 2.329 | 2.201 | 2.337 | 2.533 | 2.788 |
| Geneva | 1.606 | 1.718 | 1.870 | 1.821 | 1.836 | 2.192 | 2.159 | 2.209 | 2.397 | 2.488 | 2.291 | 2.100 | 2.292 | 2.465 |
| Edinburgh | n/a | n/a | n/a | n/a | 1.993 | 1.439 | 1.490 | 1.794 | 1.669 | 1.725 | 1.666 | 1.822 | 1.922 | 2.153 |
| Rome | 1.065 | 1.170 | 1.100 | 1.413 | 1.636 | 1.814 | 1.822 | 1.967 | 1.873 | 1.839 | 1.804 | 1.889 | 1.944 | 2.096 |
| Amsterdam | 0.841 | 0.898 | 1.001 | 1.167 | 1.323 | 1.466 | 1.659 | 2.022 | 1.856 | 1.754 | 1.669 | 1.664 | 1.759 | 2.049 |
| Moscow | n/a | n/a | n/a | n/a | 1.247 | 0.999 | 0.650 | 0.739 | 0.890 | 1.008 | 1.095 | 1.333 | 1.623 | 1.957 |
| Europe | 1.000 | 1.009 | 1.025 | 1.111 | 1.274 | 1.355 | 1.414 | 1.580 | 1.539 | 1.516 | 1.452 | 1.499 | 1.574 | 1.723 |
| Prague | n/a | n/a | n/a | n/a | 0.923 | 0.936 | 1.100 | 1.437 | 1.404 | 1.344 | 1.366 | 1.607 | 1.677 | 1.700 |
| Madrid | 1.028 | 0.975 | 0.977 | 1.109 | 1.293 | 1.434 | 1.573 | 1.755 | 1.679 | 1.720 | 1.621 | 1.444 | 1.452 | 1.639 |
| Munich | n/a | n/a | n/a | n/a | 1.088 | 1.261 | 1.386 | 1.530 | 1.579 | 1.464 | 1.345 | 1.502 | 1.481 | 1.595 |
| Manchester | n/a | n/a | n/a | n/a | 1.198 | 1.236 | 1.196 | 1.243 | 1.259 | 1.268 | 1.196 | 1.286 | 1.375 | 1.460 |
| Dublin | n/a | n/a | n/a | n/a | 1.172 | 1.140 | 1.236 | 1.358 | 1.221 | 1.201 | 1.224 | 1.251 | 1.335 | 1.421 |
| Vienna | 1.053 | 0.991 | 1.032 | 1.001 | 0.974 | 1.083 | 1.091 | 1.125 | 1.107 | 1.091 | 1.162 | 1.171 | 1.217 | 1.353 |
| Birmingham | n/a | n/a | n/a | n/a | 1.117 | 1.144 | 1.205 | 1.216 | 1.179 | 1.208 | 1.157 | 1.246 | 1.283 | 1.353 |
| Barcelona | 0.586 | 0.535 | 0.580 | 0.754 | 0.969 | 1.182 | 1.362 | 1.484 | 1.437 | 1.457 | 1.377 | 1.260 | 1.192 | 1.278 |
| Berlin | 0.922 | 0.907 | 0.891 | 0.783 | 0.870 | 0.870 | 1.000 | 1.199 | 1.223 | 1.241 | 1.205 | 1.218 | 1.209 | 1.272 |
| Istanbul | 0.688 | 0.692 | 0.662 | 0.847 | 1.136 | 1.133 | 0.899 | 1.132 | 1.000 | 0.805 | 0.729 | 0.852 | 1.125 | 1.247 |
| Stockholm | 0.601 | 0.647 | 0.713 | 0.934 | 1.034 | 1.051 | 1.224 | 1.344 | 1.182 | 1.117 | 1.044 | 1.064 | 1.120 | 1.245 |
| Hamburg | n/a | n/a | n/a | n/a | 1.099 | 1.134 | 1.188 | 1.307 | 1.167 | 1.210 | 1.207 | 1.213 | 1.219 | 1.229 |
| Brussels | 0.836 | 0.791 | 0.825 | 0.871 | 0.984 | 1.067 | 1.094 | 1.261 | 1.187 | 1.095 | 1.051 | 1.084 | 1.132 | 1.220 |
| Budapest | n/a | n/a | n/a | n/a | 0.984 | 1.022 | 1.138 | 1.154 | 1.121 | 1.089 | 0.941 | 1.015 | 1.134 | 1.188 |
| Copenhagen | 0.670 | 0.722 | 0.748 | 0.853 | 0.991 | 1.035 | 1.117 | 1.204 | 1.109 | 1.076 | 0.987 | 0.957 | 1.052 | 1.172 |
| Frankfurt | 0.938 | 0.920 | 0.946 | 0.896 | 0.946 | 0.973 | 1.012 | 1.142 | 1.193 | 1.114 | 1.092 | 1.051 | 1.053 | 1.116 |
| Lisbon | 0.706 | 0.672 | 0.658 | 0.747 | 0.770 | 0.872 | 0.848 | 0.954 | 0.936 | 0.919 | 0.881 | 0.904 | 0.817 | 0.938 |
| Athens | 0.592 | 0.579 | 0.580 | 0.662 | 0.779 | 0.870 | 0.864 | 0.914 | 0.872 | 0.923 | 0.897 | 0.958 | 0.890 | 0.914 |
| Warsaw | n/a | n/a | n/a | n/a | 0.990 | 1.011 | 1.022 | 1.034 | 0.996 | 0.845 | 0.753 | 0.651 | 0.704 | 0.808 |

Source: HVS International

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

After no real growth in marketwide occupancy in **Hamburg** between 2003 and 2005, both occupancy and average rate grew in 2006 with the city achieving RevPAR growth of 7%. Despite this, hotel values have only marginally increased by 1% to €182,400 due to cost pressures. There was little change in hotel supply in 2006, with only the Elysee Hotel extending by 200 guestrooms to a total of 500 rooms. New supply scheduled to enter the market includes the 226-room Mövenpick Hotel in March of this year, followed shortly thereafter by the opening of the 328-room, four-star Empire Riverside Hotel in June. Furthermore, the 160-room Arcotel Rubin Hotel and a presently unnamed 200-room, five-star hotel are also due to open by the end of the year. In spring 2008 Lindner Hotels will be opening a 260-room, four-star hotel in Hamburg city centre. We are also aware of approximately 500 new three-star hotel rooms entering the market between 2008 and 2009. There is a potential risk of oversupply over the next few years, especially if international demand does not increase significantly.

The increase in **Istanbul's** value per room is largely supported by the 13% increase in average rate in 2006. Despite occupancy declining slightly, RevPAR grew by 8.5% with the value per room increasing by 11% to €185,100. This growth is more modest after 2005's phenomenal performance in which RevPAR increased by over 40%. Major events that attracted large visitor figures included the Formula One Grand

Prix in August, which is now in its second year, and a strengthening in the meetings and conferences market, which is growing rapidly in Istanbul, with further growth expected. The economy as a whole in Turkey has also performed well. This positive growth, the Turkish tourism ministry's plan to attract 10 million visitors annually within the next ten years (equating to a 10% compound annual growth rate over that period) and other major new events (such as Istanbul preparing to be the cultural capital of Europe in 2010) have resulted in many hotel developments. Several hotels are due to open in 2007. If all goes to plan, the long-awaited 166-room Four Seasons Atik Pasha Hotel will finally open its doors. Further planned openings include a Marriott in the suburb of Kadiköy, the re-entry of Starwood Hotels & Resorts into the market with the opening of a 130-room W Hotel in Besiktas and the rebranding of two former InterContinental Hotels Group hotels into Starwood brands. Other brands that are opening hotels include Mövenpick, Holiday Inn, Novotel and Ibis, among others. This significant increase in hotel supply (over 1,300 rooms by 2008) will no doubt have some effect on overall market performance; however, the strong branding associated with most projects is likely to result in a further strengthening of net room rates.

The hotel market in **Lisbon** has experienced a strong improvement in operating performance in 2006 compared to the previous year. Lisbon benefits from strong demand from the corporate, meeting and incentive, and leisure segments. Occupancy has increased by six percentage points, reaching 63%. Although the average rate has remained static, RevPAR has increased by 13%, helping to drive values per room by 15% to €139,300, the third-highest growth rate in Europe in 2006. The improved performance is, in part, attributable to the marketing efforts of the city promoting Lisbon abroad (with a €12 million budget in 2006, representing an increase of 32% over 2005). In recent years, Lisbon has withstood steady increases in new supply, and

some significant hotel developments are still underway. In 2007, ten hotels will open: the 260-room Hotel Quinta Bensaúde, the 108-room Quality Green Plaza, the 200-room Hotel Junqueira, the 105-room Hotel Rua Castilho, the 44-room Hotel Altis Belém, the 66-room and 104-room Vincci Hotels, the 295-room Vip Grand, the 150-room Etap Hotel and the 250-room Ibis Hotel. In 2008, four further hotels will begin operation: the 63-room Hotel CS Barata Salgueiro, the 61-room Hotel CS Governador, the 65-room Real Sao Pedro de Alcantara and the 119-room Holiday Inn Prior Velho. While plenty more hotels are due to enter the market over the coming years, demand in Lisbon is likely to increase in the medium term owing to important developments in the transport infrastructure, such as the expansion of Portela International Airport planned for completion by 2010, when it will achieve its capacity of 16 million passengers, an increase of 4 million over current levels. In addition, a new international airport will be located some 50 km north of Lisbon in Ota and is planned to open in 2017. Moreover, a new high-speed train link will connect Lisbon to other major cities in Europe and will be completed by 2015, thereby further improving its accessibility.

London finished the year on top of the rankings once again in terms of value per room at €576,700, a 12% growth over 2005's record values which followed a 15% growth in RevPAR, in spite of terror alerts at London airports in August. Occupancy crossed the 80% mark for the first time since 2000 with double-figure increases for the full service and upscale hotels, and budget hotels lagging not far behind. In terms of average rate, London hotels achieved similar patterns to the occupancy levels with full service and upscale properties catching up with the global upturn in hotel trading performances demonstrated by the booming business climate and increased tourism visitation to the city. The recent additions to the capital's hotel stock include two Hilton properties at Tower Bridge and Canary Wharf and the lodge-style Hoxton Hotel developed by Pret-A-Manger founder

Table 6 Hotel Values per Room 1993-06 (€)

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| London | 245,617 | 276,810 | 293,330 | 358,743 | 496,007 | 504,990 | 502,180 | 551,308 | 481,279 | 457,124 | 430,117 | 481,426 | 516,119 | 576,660 |
| Paris | 360,262 | 352,336 | 340,709 | 316,953 | 389,947 | 433,515 | 435,387 | 480,798 | 450,251 | 469,933 | 436,123 | 454,731 | 484,529 | 528,198 |
| Milan | n/a | n/a | n/a | n/a | 255,262 | 299,025 | 333,174 | 386,692 | 412,349 | 427,938 | 426,338 | 412,336 | 415,819 | 467,006 |
| Zürich | n/a | n/a | n/a | n/a | 290,675 | 319,572 | 336,866 | 357,671 | 371,852 | 345,619 | 326,677 | 346,839 | 375,986 | 413,799 |
| Geneva | 234,149 | 250,549 | 272,657 | 265,541 | 267,766 | 279,867 | 314,807 | 322,171 | 355,750 | 369,261 | 340,086 | 311,643 | 340,095 | 365,829 |
| Edinburgh | n/a | n/a | n/a | n/a | 245,165 | 241,935 | 238,926 | 261,603 | 247,672 | 255,948 | 247,243 | 270,455 | 285,207 | 319,568 |
| Rome | 155,319 | 170,562 | 160,459 | 205,974 | 238,614 | 264,487 | 265,612 | 286,789 | 277,912 | 272,879 | 267,682 | 280,346 | 288,467 | 311,040 |
| Amsterdam | 122,574 | 130,897 | 145,949 | 170,177 | 192,981 | 213,762 | 241,923 | 294,802 | 275,523 | 260,350 | 247,698 | 246,908 | 260,994 | 304,049 |
| Moscow | n/a | n/a | n/a | n/a | 181,863 | 145,648 | 94,848 | 107,718 | 132,073 | 149,541 | 162,492 | 197,790 | 240,910 | 290,495 |
| Europe | 148,415 | 150,664 | 154,286 | 168,510 | 191,954 | 203,031 | 210,755 | 232,821 | 228,432 | 225,053 | 215,570 | 222,443 | 233,655 | 255,730 |
| Prague | n/a | n/a | n/a | n/a | 134,533 | 136,485 | 160,409 | 209,487 | 208,411 | 199,454 | 202,715 | 238,527 | 248,839 | 252,260 |
| Madrid | 149,874 | 142,183 | 142,416 | 161,663 | 188,540 | 209,076 | 229,370 | 255,843 | 249,238 | 255,281 | 240,605 | 214,347 | 215,539 | 243,198 |
| Munich | n/a | n/a | n/a | n/a | 158,574 | 183,805 | 202,134 | 223,051 | 234,324 | 217,242 | 199,570 | 222,864 | 219,745 | 236,793 |
| Manchester | n/a | n/a | n/a | n/a | 174,631 | 180,174 | 174,440 | 181,298 | 186,891 | 188,184 | 177,502 | 190,901 | 204,014 | 216,669 |
| Dublin | n/a | n/a | n/a | n/a | 170,872 | 166,186 | 180,232 | 198,067 | 181,166 | 178,183 | 181,630 | 185,726 | 198,099 | 210,903 |
| Vienna | 153,557 | 144,497 | 150,496 | 145,934 | 141,970 | 157,959 | 159,090 | 164,110 | 164,310 | 161,975 | 172,412 | 173,810 | 180,579 | 200,750 |
| Birmingham | n/a | n/a | n/a | n/a | 162,921 | 166,748 | 175,632 | 177,376 | 174,962 | 179,324 | 171,704 | 184,940 | 190,398 | 200,734 |
| Barcelona | 85,399 | 78,074 | 84,504 | 110,015 | 141,299 | 172,308 | 198,575 | 216,445 | 213,201 | 216,272 | 204,331 | 187,026 | 176,899 | 189,706 |
| Berlin | 134,394 | 132,243 | 129,863 | 114,150 | 126,866 | 126,796 | 145,828 | 174,780 | 181,489 | 184,192 | 178,894 | 180,720 | 179,406 | 188,712 |
| Istanbul | 100,258 | 100,896 | 96,454 | 123,435 | 165,709 | 165,276 | 131,060 | 164,991 | 148,456 | 119,511 | 108,160 | 126,474 | 166,944 | 185,141 |
| Stockholm | 87,589 | 94,355 | 103,986 | 136,182 | 150,744 | 153,216 | 178,531 | 196,009 | 175,400 | 165,761 | 154,934 | 157,948 | 166,152 | 184,741 |
| Hamburg | n/a | n/a | n/a | n/a | 160,238 | 165,297 | 173,176 | 190,644 | 173,244 | 179,607 | 179,186 | 180,016 | 180,905 | 182,376 |
| Brussels | 121,886 | 115,376 | 120,223 | 127,017 | 143,492 | 155,594 | 159,499 | 183,874 | 176,123 | 162,479 | 155,996 | 160,856 | 168,038 | 181,078 |
| Budapest | n/a | n/a | n/a | n/a | 143,425 | 149,045 | 165,972 | 168,319 | 166,305 | 161,632 | 139,683 | 150,655 | 168,314 | 176,345 |
| Copenhagen | 97,643 | 105,259 | 109,116 | 124,337 | 144,450 | 150,920 | 162,823 | 175,561 | 164,661 | 159,733 | 146,488 | 142,009 | 156,182 | 174,008 |
| Frankfurt | 136,758 | 134,160 | 137,916 | 130,606 | 137,920 | 141,829 | 147,541 | 166,502 | 177,093 | 165,347 | 161,997 | 156,047 | 156,335 | 165,598 |
| Lisbon | 102,966 | 98,029 | 95,877 | 108,879 | 112,256 | 127,098 | 123,684 | 139,034 | 138,940 | 136,335 | 130,828 | 134,239 | 121,200 | 139,278 |
| Athens | 86,393 | 84,405 | 84,627 | 96,554 | 113,645 | 126,896 | 120,383 | 133,255 | 129,407 | 136,984 | 133,195 | 142,138 | 132,116 | 135,584 |
| Warsaw | n/a | n/a | n/a | n/a | 144,352 | 147,349 | 149,048 | 150,784 | 147,802 | 125,402 | 111,685 | 96,673 | 104,497 | 119,909 |

Source: HVS International

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

Madrid's position as Spain's key commercial and financial hub remains undisputed. In addition, Madrid is currently undergoing one of its most important redevelopments with a number of city regeneration plans and infrastructure upgrades under development. Such transformations are likely to further increase Madrid's appeal as a leisure destination. Occupancy remained stagnant in 2006, but average rate increased 9.5%, driving RevPAR up by the same figure. Hotel values increased by 13% to 243,200 per room, the fifth-highest growth rate registered in 2006. Due to the strong growth in both domestic and international tourism demand, the hotel oversupply experienced in Madrid in recent years seems now to have been absorbed.

Similarly to Birmingham, **Manchester** experienced hardly any increase in occupancy while average rate increased by 7%, driving RevPAR up by nearly 8%. Hotel values increased by 6% to €216,700 per room. In its role as an international conference and convention destination, Manchester continued to attract a number of conferences and annual meetings in 2006. In its destination management plan, the city has outlined four main targets for Greater Manchester to achieve in 2008: 10 million visitor nights, 885,000 overseas visitors, £1.47 billion visitor spend and 44,900 jobs supported by tourism. This will no doubt become a more

achievable objective after Manchester was selected to build the first super-casino in the UK. The proposed site will also contain an entertainment complex with a range of facilities such as a multi-purpose arena, a swimming pool, an urban sports venue, restaurants, bars, a nightclub and a hotel. Having seen a number of new hotels in the last year, including the 279-room Hilton Deansgate, we are aware of only one confirmed hotel project which will open in early 2008: the Yang Sing Oriental boutique hotel which will feature 48 rooms in a converted cotton mill.

Following very little growth in 2005, **Milan's** hotel market experienced growth in occupancy and average rate of 4% and 5%, respectively. Consequently, RevPAR for the Milan hotel market was up by 9.5%, with values per room growing by slightly more, 12%, to €467,000. This was largely due to an increase in Milan's MICE business following the opening of the Fiera Milano exhibition centre in 2006. As for recently opened hotel supply, in September 2006 NH Hotels opened the 249-room Nhow Milano. In 2007 AC Hotels and Domina Hotels are due to open 160-room and 200-room hotels, respectively. Furthermore, GMH is currently developing a 299-room luxury hotel in the city, which is due to open in March 2007. Also, we are aware that planning has been approved for an 80-room Rocco Forte hotel, which is planned to open some time in 2010. There are several additional yet speculative projects that might enter the Milan market over the coming years. Despite the significant amount of new hotel supply entering the market, we estimate that 2007 will be a strong year for Milan hotels, particularly given the large number of MICE events planned for the year.

The **Moscow** hotel market continues to outperform the majority of European markets with the city's hotels showing the greatest growth in value for the fourth time in the last five years. Demand continues to exceed supply in all categories of hotels and because of the slow pace

of development, we expect this to continue for some time. In addition, due to very strong average rate increases, RevPAR growth has been in double figures for the last three years, although growth slowed down in 2006 to 16% from 31% in 2005. The lower growth in RevPAR last year might indicate some market resistance to sustained increases in hotel prices. Since 2000 the average rate in Moscow has increased by around 45%. The extraordinary market performance has again resulted in hotel values rising by approximately 21% to €290,500. This growth is also partially fuelled by the strong desire of developers and operators to enter the market. There are several hotels under construction and many projects in the pipeline. The branded hotel supply remains relatively low (approximately 8,000 rooms) compared to, for example, Paris (75,000 rooms) and London (80,000 rooms). Recent openings include the 312-room Holiday Inn Suchevsky and the 512-room Holiday Inn Sokolniki. The Ritz-Carlton Moscow opening has been delayed to mid-2007. 2006 finally saw the demise of the 3,000-room Hotel Rossya whose site has now been cleared for redevelopment. Other brands expected to enter the market or expand their presence in the short to medium term include Best Western, Conrad, Four Seasons, Hilton, Grand Hyatt, Ibis, InterContinental, Lotte, Novotel, Park Inn and Radisson SAS, to mention a few. We expect that Moscow will continue to rise rapidly through the rankings. The city is now in its second year of exceeding the European average. Our index shows hotel values have nearly doubled since 1998.

As Germany's third-largest city, **Munich** is looking back on a turbulent year. The World Cup effect, initially expected to inspire business confidence all over Germany in the medium term, fell short of hoteliers' expectations in Munich, which is an established leisure destination. Hosting five matches, Munich recorded a relatively low RevPAR increase of around 6% in 2006 as many tourists seemed intent on avoiding the football crowds in the

summer. The increase in RevPAR in 2006 is mainly rate-driven; moreover, with average rates increasing to €142, Munich continues to out-perform cities such as Hamburg and Frankfurt in terms of rate. Early 2006 saw the opening of two four-star properties: the 241-room Courtyard by Marriott Munich City Centre and 112-room Fleming's Hotel Munich-City. A 116-room Acom Hotel increased room supply in the mid-market segment. Significant new hotel developments in the Bavarian capital debut with the luxurious 170-room Rocco Forte hotel in early 2007. For 2008, a 250-room Park Plaza hotel is in the pipeline, as well as a Dolce Hotel with 233 rooms and extensive conference facilities adjacent to the new BallhausForum exhibition centre.

Paris witnessed a surge in RevPAR in 2006, driven primarily by an improved average rate. Occupancy remained stagnant as average rate, and therefore RevPAR, increased by 7%. Hotel values nonetheless rose by 9% to €528,200, exceeding last year's record values achieved in London. Paris, which is Europe's largest hotel market, has witnessed limited new openings over the last 12 months. A 150-room Courtyard by Marriott opened in September in Colombes, a suburb located some ten minutes west of the Champs Elysées. The 81-room luxury Hotel Le Fouquet's Barrière pre-opened in December. Its full opening was in January 2007. Future openings include a 350-room Le Meridien in La Défense, a 100-room Shangri-La located on Avenue d'Iena for 2008/09, and Mandarin Oriental has announced the opening of a 150-room luxury hotel that will be located on rue Saint Honoré from 2010. One of the many hotels sold in 2006, the Marriott International, is currently under full renovation and is slated for reopening in April 2007.

Prague's hotel market has in the past demonstrated its ability to recover quickly from adversity, as was the case in 2003 and 2004 when the city saw an increase in visitation of 19% and 28% after severe flooding in the city resulted in a decrease in visitation in 2002. RevPAR in Prague dropped by 4% in 2006 as the market absorbed the substantial new supply that entered the market. As a result, hotel values per room have increased by a modest 1.4% to €252,300, and values are just shy of the European average. The number of guests accommodated in hotels in the Czech Republic has increased significantly over the last two years. This increase can be explained by the high popularity of Prague as a city break destination, the relocation of several international companies to the city and the increase in low-cost carrier flights. The number of hotels under development in the city confirms investors' expectations of future growth in visitation to the city. In recent years, there has been significant growth in design/boutique hotel supply, and several international luxury brands, most notably Four Seasons and Mandarin Oriental, have recently entered the market. Future openings include a 101-room, five-star Rocco Forte hotel in 2007. The hotel is to be located in five buildings, two of which used to be a monastery, in the Lesser Quarter. Consent has also been given for the development of a 165-room Royal Meridien hotel. The proposed hotel is to be converted from the existing CSOB Bank building at Senovazne Square and is estimated to open in mid-2009. In addition, there

is speculation about a 200-room proposed Ritz-Carlton near the Old Town Square. However, there are some uncertainties surrounding this project, and construction work has been put on hold for the time being.

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

In 2006, the **Stockholm** hotel market benefited from strong demand growth which was driven by domestic and regional economic recovery. Stockholm's increasing popularity as a leisure destination, especially among Europeans and Americans, further contributed to hotel demand growth. Occupancy closed at 79%, a three percentage point increase over 2005. Average rate rose by 6%, leading to a RevPAR increase of 10%. Hotel values per room rose by 11% to €184,700. 2006 saw the opening of the 248-room Rica-Talk Hotel and the reopening of Scandic Anglais with 233 rooms. The existing Grand Hotel expanded by opening 78 new rooms and suites in the late summer of 2006. The total room stock in the city is expected to grow significantly in the next few years. The Clarion Hotel that is currently under construction is scheduled to open by January 2008. This 558-room hotel will be the largest hotel in Stockholm. Rezidor announced that the new Park Inn Congress Centre Stockholm with 420 rooms in the heart of Stockholm will open in 2010. Another new Park Inn hotel is to be built in Stockholm's 'new town', Hammarby Sjostad, located approximately five kilometres from the city centre. The hotel will comprise 177 rooms and is scheduled to open in 2009. A 272-room Courtyard by Marriott is due to open in Stockholm in either late 2008 or early 2009. This will be the second Marriott hotel in Scandinavia (the first being the Marriott Copenhagen).

The hotel market in **Vienna** experienced continued growth in 2006, with a 10% increase in RevPAR. This was driven by a three percentage point increase in occupancy levels and a 5%

increase in average rate. This improvement in marketwide performance came about despite various new additions to supply, including the 70-room Levante Hotel on Auerspergstrasse and the 50-room Do&Co Hotel on Stephansplatz. Hotel values are up by 11% to €200,800, the first time values have exceeded €200,000 per room. This improvement in performance can be attributed to an improvement in trade with new EU member states, Austria's presidency of the EU in 2006, preparation for the European Football Championships in 2008 and events such as Mozart 250 Year (2006 marked the 250th anniversary of the composer's birth). Vienna has historically been limited to the amount of new additions to supply, due to the lack of available sites in the city centre; however, there are now several hotel developments underway that will add pressure to hotel trading performance, particularly in the luxury segment. The 44-room, five-star Hotel im Palais Schwarzenberg closed in January 2006 for renovation. Opening in June 2007 is the 350-room, four-star Hotel Domina Belvedere, which will have extensive meeting and conference facilities. A 289-room, four-star Arcotel is due to open in May 2007, and a 67-room five-star JWJW hotel is due to open in November 2007. A 145-room Mandarin Oriental hotel is expected to open at the beginning of 2008 in an historic building adjacent to the square known as Börseplatz, with the Steigenberger Hotel Group opening a 186-room, four-star hotel in the Old Town in early 2009. In addition, four existing, interconnecting buildings on Schubert Ring 5 are to be developed into a de luxe five-star hotel with 223 rooms by January 2009 and will be operated by an international luxury hotel operator yet to be announced.

The performance of the hotel market in **Warsaw** in 2006 continued to improve on 2005's significant recovery efforts. The Polish capital had the fourth-highest increase in values, with nearly 15% improvement over last year to a value per room of €119,900. However, Warsaw still has the lowest value per room of the 28 markets. A second year of significant growth in RevPAR is a clear indication that at last the market is recovering from extremely difficult years due to severe over supply. A 17% RevPAR increase was primarily rate-driven as economic conditions within Poland improved, the number of both low-cost air carriers and flights into Poland (in particular Warsaw) increased along with the number of corporate, leisure and MICE guests, and again there was a lack of any significant additions to supply. In terms of new supply, the long-awaited Hilton Warsaw, which was due to open in November 2006, experienced setbacks and has now postponed its opening date to April 2007. In addition to this, construction is due to start this year on the 70-room, five-star Vienna International hotel which is due to open in 2008. We further add that the development of the 230-room Barceló Blue City hotel is currently on hold, and no date for the resumption of development is known at present.

Hotel values in **Zürich** increased by 10%, an increase driven largely by a 6.5% increase in occupancy, with RevPAR increasing by 12% over 2005 and exhibiting the second consecutive year of double-figure growth. Hotel values remain the fourth highest in Europe, at €413,800 per room. The market is expected to stabilise in the next few years as a result of additional supply.

Recent additions include a 152-room Courtyard by Marriott in Oerlikon, which opened in September. A 132-room Four Points by Sheraton is expected to open at the end of March 2007 in Sihl City, a new entertainment and business district in western Zürich. The luxurious Dolder Grand Hotel is scheduled to reopen with 174 rooms in early 2008 after extensive refurbishment. A 330-room Radisson SAS airport hotel project with extensive conference facilities has been confirmed and is scheduled to open in mid-2008. Finally, a 180-room Turicum hotel is planned to open in 2009, near the Hallenstadion.

Hotel Values per Room

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

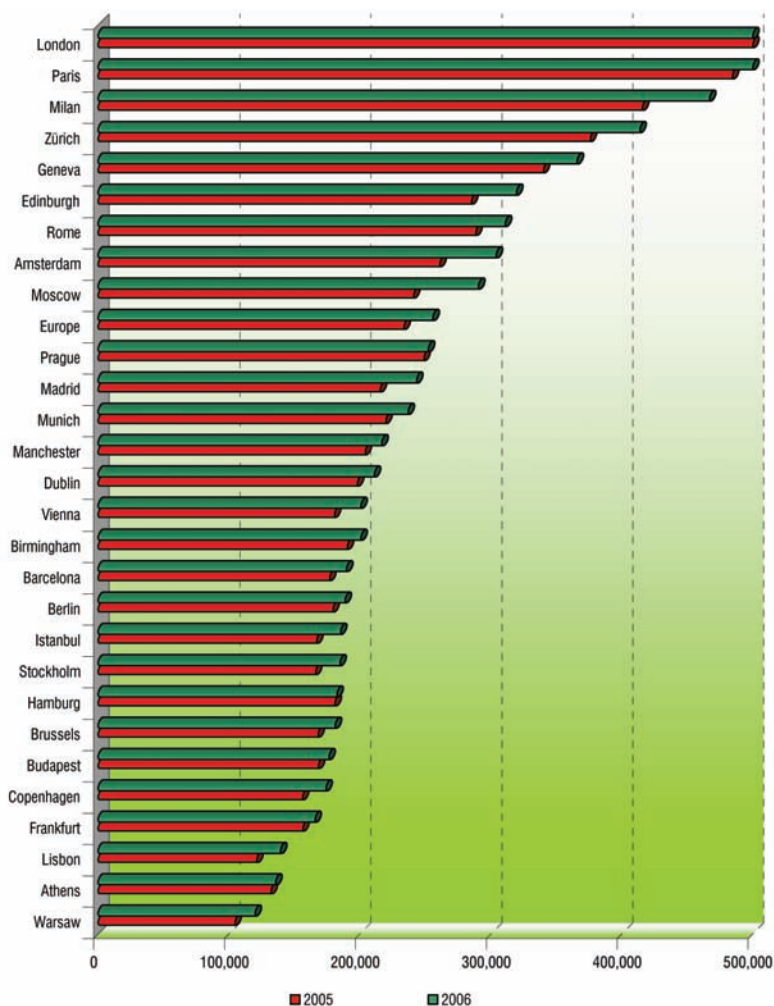
Outlook

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

The concern of increased availability of debt financing and resulting growth causing oversupply didn't quite pan out as thought in early 2006, but the same concern remains for the coming year as markets show no signs of drastic decline.

In 2007 we expect that a lot of the markets will continue the upward trend in hotel values for a further year, albeit perhaps not at the same rate as 2006 or indeed 2005. Lending terms are in all likelihood at their most competitive which would probably not enable there to be further yield compression. Nevertheless, investors' appetite for the hospitality industry in view of recent performance is very likely to push yields

Table 7 Hotel Values per Room 2005 and 2006 (€)



Source: HVS International

slightly further down as many investors compete for each opportunity. Terrorist-led events in recent years have caused a temporary blip and have been followed by generally short periods of recovery, demonstrating the resilience of the hotel guest throughout Europe to such shocks. Unless there is something on a much larger scale, it is reasonable to assume (as most investors do) that terrorism should not have an adverse effect on the main hotel markets in Europe in 2007.

Understanding the HVI

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

The methodology employed in producing the HVI is based upon actual operating data from a representative sample of four- and five-star hotels. Operating data from Deloitte's HotelBenchmark Survey were used to supplement our sample of hotels in some of the markets. The data are then aggregated to produce a pro forma performance for a typical

200-room hotel in each market. Based upon our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined appropriate valuation parameters for each market, including loan to value ratios, real interest rates and equity return expectations. These market-specific valuation and capitalisation parameters are applied to the net operating income for a typical hotel in each city. In determining the valuation parameters relevant to each of the 28 European markets included in the HVI, we have also taken into account evidence of actual hotel transactions and the expectations of investors with regard to future changes in supply, market performance and return requirements. Investor appetite for each market at the end of 2006 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2006. Values are based on recent market performance but the capitalisation rates reflect the anticipated future trends in performance, competitive environment, cost of debt and cost of equity. The HVI allows comparisons of values across markets and over time by using the 1993 average European value of €148,415 per available room (PAR) as a base (1993=1.000). Each market's PAR value is then indexed relative to this base. For example, in 2006 the index for London was 3.885 (€576,660/€148,415), which means that the value of a hotel in London in 2006 was nearly four times higher than the European average in 1993.



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