HVS

European Hotel Transactions 2008

Is The Party Now Over?

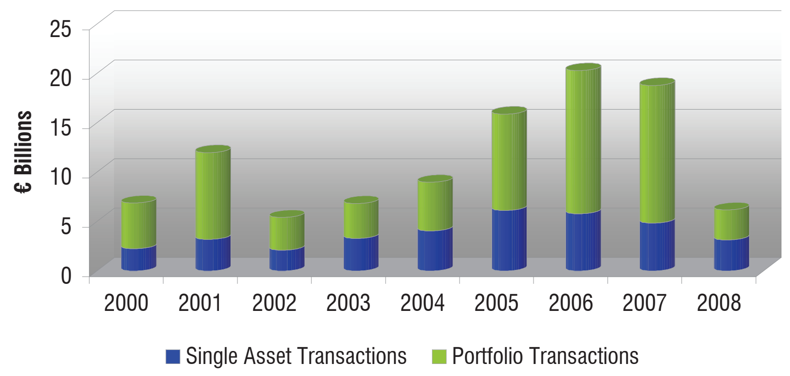
This report was published by the London office of HVS *March 2009*

Cristina Balekjian, Elke Geieregger and Saurabh Chawla

In this report...

- What happened to the investment market in 2008?
- Who was still buying or selling?
- How did Europe's major transaction markets fare?
- When could things start to improve?

Figure 1 Total Hotel Investment Volume 2000-08



Source: HVS – London Office

Introduction

We saw some warning signs in 2006 and the beginning of the end in 2007, but we had to wait until 2008 before the party was officially declared over. After a record year in 2006, in terms of the volume of hotel investment, activity in the European hotel market declined by approximately 7% in 2007. In 2008, it fell back enormously to just over €6 billion, a drop of two-thirds.

We have seen declining hotel investment activity before, the last time in 2002, when the European hotel market dropped as a consequence of the 9/11 attacks in 2001. In the European Hotel Transactions report published in 2002, HVS noted a drop of more than 50% in hotel transactions from 2001 levels. However, this was primarily driven by plunging values as a direct result of inferior hotel trading performance leading to a gap in the asking and bidding prices. The decline was relatively short lived and thus transaction volumes started to increase again in 2003.

At the time this report went to print, the situation was severe and deep. Banks had almost turned off the lending tap allowing only a few dribbles here and there. For those lucky enough to secure funding, the borrowing was a lot more expensive, which in turn affected their financial leverage. This, combined with poor economic growth and a bleak outlook for many EU countries, also led to inferior hotel trading performance, further impeding transactions from all angles.

Thus 2008 saw a transformation. Interestingly, small and budget hotel companies were spotted buying assets in 2008 and private equity firms with their highly leveraged business model joined other investors in playing the waiting game. Business models like the one used by GuestInvest found it challenging to survive the storms and major hotel operators were seen closing their shared ownership divisions.

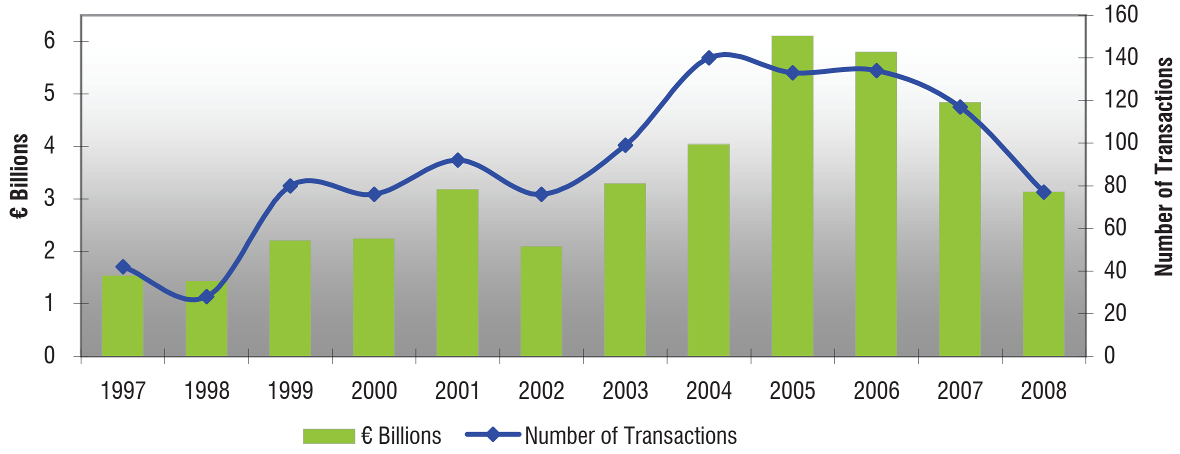
Few trophy assets managed to change hands during 2008, and there was only one asset that transacted at a value above €900,000 per room (compared to three in both 2006 and 2007). The JW Marriott Capri Tiberio Palace Resort & Spa on the Mediterranean island of Capri, Italy, was acquired for €61 million or approximately €990,000 per room under a sale-and-leaseback agreement.

Overall, we are now back to transaction volumes similar to those seen in 2002-03 as shown in Figure 1, with many still wondering if we have hit the bottom yet.

Hotels in Europe received a bit of a cold shower in 2008 when RevPAR started to fall as a result of the global economic downturn. Although the hotel industry managed to maintain its performance levels for the first half of the year, the beginning of the summer months saw RevPAR declines across European hotels. After the summer, the hotel sector found it difficult to recover as stock exchanges across Europe began to plummet during the autumn, resulting in decreasing occupancy rates and a near halt in average rate growth. Hotels are somewhat dependent on the corporate and meeting, incentive, conference and exhibition (MICE) markets. Businesses have had to amend budgets and cut costs, reducing the amount of travel from these segments and negatively impacting overall hotel performance. Some markets, however, proved to be more resilient to the current economic situation and recorded positive RevPAR growth levels by the end of the year (for example, in Germany, with Berlin achieving close to 4% growth on the previous year, and in Switzerland, with Geneva and Zürich demonstrating RevPAR increases of 14% and 10%, respectively).

The Eurozone is estimated to have achieved GDP growth of 0.8% in 2008, compared to 2.7% in 2007. As a result of the plunging financial markets and the general global economic slowdown, the European economy as a whole entered into an economic crisis the likes of which had not been seen for over a decade. In the first half of the year, a reasonable economic environment allowed levels of hotel investment to be maintained, while hotel performance also managed to sustain itself. The second half of the year, on the other hand, saw an aggresive slowdown in hotel investment and a significant

Figure 2 European Single Asset Hotel Transactions 1997-08



Source: HVS – London Office

decrease in hotel performance. This became more evident after Lehman Brothers filed for bankruptcy in mid-September. Banks became even more reluctant to lend and investor confidence crumbled.

Single Assets

In 2008, HVS recorded a total of 77 transactions involving single hotel assets, each of more than €7.5 million, the minimum amount that we have set for a transaction to qualify for inclusion in our survey. Although the number of hotel deals in 2008 started off at similar levels to that of the previous year, we noticed that the market began to decline after the summer months through to the end of the year. As the year unravelled, the world moved further into the economic downturn which unsurprisingly had an effect on the amount of deals done in the hotel sector, turning it into a weaker investment market. The number of transactions decreased by a third in 2008. (The number of transactions in 2007 was 117.) While in 2007 we saw a shift from single asset investment to portfolios, the case for 2008 differs quite significantly. With banks reluctant or unable to lend, financing became an enormous obstacle for any larger deal in single asset and portfolio activity. As a result of the general deceleration in activity, we have seen a decrease in the average price per room of 7.3%, reaching a total of €217,000. In 2006 and 2007, we saw a number of trophy assets being traded for a per-room price above €900,000, including the Four Seasons Milan (€1.7 million per room), the Chateau de Bagnols in France (€1.2 million per room), and Blakes in London (€999,000 per room). In 2008, on the other hand, we have seen only one such transaction: the sale of the JW Marriott Capri Tiberio Palace Resort & Spa (€993,000 per room).

We note that a third of the qualifying single asset transactions in 2008 did not have their sales price publicly disclosed. The total price of these transactions has been estimated by HVS at just under €616 million.

The UK continues to dominate the transactions with approximately a quarter of the single asset transactions by value (€690 million), having taken over from Spain as the leader since 2005. We recorded 12 transactions in the UK provinces, compared to only five in London. Hotel investment values in London amounted to approximately €367 million in 2008, accounting for just over half the total investment volume in the UK. Meanwhile, the UK provinces registered an estimated €323 million in transaction volume, enhanced by the sale of luxury assets such as the Four Seasons Hamphire (€76 million) and the Turnberry Golf Resort, in Scotland (€69 million). Average prices per room varied from €167,000 in the provinces to €488,000 in London. HVS puts the value of the undisclosed hotel transactions in the UK at around €40 million.

Spain remains a strong contender within the hotel investment market with a total of 17 properties (2,677 rooms) transacted for a total of approximately €659 million, demonstrating a 7% increase in the total amount spent within the country. Spain accounted for 21% of the total single asset investment volume, maintaining its share of total investment from 2007. HVS estimates the value of undisclosed transactions in Spain at approximately €102 million.

In third place, France maintained its investment activity with the sale of seven properties, accounting for 12% of total single asset deals, and a total investment of roughly €385 million. Paris continued to maintain its level of investment with the sale of prominent luxury assets such as the landmark Hotel Prince de Galles and the Hotel Ambassador, which has recently been rebranded by Rezidor to become the Radisson SAS Ambassador Hotel, Paris Opera.

In 2008, Germany continued to attract interest from investors. Despite showing a decrease in the number of properties being transacted, Germany still proved to be a relatively strong market registering a total of nine hotel deals with an approximate total investment of €274 million, which represented a 9% share of the total number of assets traded. HVS estimates a total of €105 million for undisclosed transactions.

We also note the following significant **single asset transactions** in 2008.

- Lampsa Hellenic Hotels and Plaka, a company owned by the Sbokos family, acquired the **Hilton Rhodes Resort** from Ionian Hotel Enterprises, a subsidiary of Alpha Bank, for €35.5 million, or €88,000 for each of the hotel's 402 rooms. The deal proved to be one of the most important acquisitions in Greece in recent years;
- On Spain's southern coast, the **Park Hyatt Casares**, still under development and expected to open in the third

quarter of 2009, attracted early interest from buyer Qatar National Hotels. The group is said to have invested €70 million (approximately €412,000 per room) in the acquisition of the five-star de luxe hotel. The seller, Grupo Evemarina, is the company behind the creation of the Doña Julia Golf Resort in which the hotel is located. The resort is composed of three 18-hole golf courses and residential developments, with the first phase of the resort's construction estimated to cost around €300 million, of which one-fifth is being invested in the hotel component;

- In May, InterContinental Hotels Group's (IHG) first ever European Crowne Plaza, the **Crowne Plaza Hotel Amsterdam City Centre**, was acquired by HHR Euro CV (a joint venture between Host Hotels & Resorts, the Dutch pension fund Stichting Pensioenfonds and Jasmine Hotels, which is affiliated to the Singaporean GIC Real Estate). The joint venture invested a reported €72 million (approximately €267,000 per room) in the 270-room hotel. IHG's share of the earnings was €18 million, which reportedly included an agreed settlement for the management contract and a repayment on existing loans. The new management contract will last for another 40 years, and IHG is to remain the manager of the property;

- The highest value per room in 2008 was achieved by the sale of the **JW Marriott Capri Tiberio Palace Resort & Spa** on the Mediterranean island of Capri, in Italy. The Italian real estate company Aled SpA acquired the luxury resort for approximately €61 million, or €993,000 per room, under a sale-and-leaseback agreement. The hotel is a short walk from the famous piazzetta, in the heart of Capri, and has 61 rooms and ten serviced apartments situated in the nearby Residence Tiberio. The seller of the property, Salvatore Naldi Group, is expected to focus on the expansion of its hotel management company in primary Italian cities;

- Once again, Scotland appeared to be an appealing destination for investment in 2008 with four transactions in total. **The Point Hotel** in Edinburgh became the second hotel in Scotland to carry the Mercure flag after its new owner, EBH, appointed Accor to manage and rebrand the 139-room, three-star property. It is reported that EBH paid €25 million (approximately £20 million, as the exact amount has not been disclosed) for the hotel and a neighbouring bar called The Chanter. Meanwhile, on Scotland's western coast, Leisurecorp (part of Dubai World) acquired the 219-room **Turnberry Golf Resort** for approximately €69 million (£55 million). The golf resort consists of two 18-hole golf courses, one nine-hole course and a golf academy. The sovereign wealth fund is investing a further £30 million in a renovation scheme that will see the hotel reopen during the summer, in time to host the Open Championship;

- Serbia got a taste of the hotel investment arena when NBGP Properties, a local real estate development and investment company, acquired the **Hotel Continental** in Belgrade for €148.8 million or €359,000 per key. The assets acquired covered an area of 72,225 m², including the hotel and the Genex apartments located in the city centre. The buyer is reportedly investing a further €35 million to renovate the hotel over the next two years and rebrand it as a Crowne Plaza under a management agreement;

- London saw another two major transactions out of a total of five in 2008. Just over 18 months since its first sale, the **Crowne Plaza Hotel London – The City** has once again changed hands for an investment price of €106 million (£85 million), or €524,000 a room. Gruppo Statuto had purchased the hotel in January 2007 for a reported €123 million (£81 million), thus showing a 5% increase in value in sterling. The buyer, ARG Hotels, is a company established by Marg Galadari, a wealthy businessman based in Dubai. Another notable transaction in London, was the sale of **The Metropole Building**, in Northumberland Avenue, just off Trafalgar Square, by the Crown Estate. After having received a number of strong bids, IHI and its principal shareholders, Istithmar Hotels FZE and LAFICO, were selected as having the vision to meet the challenge of restoring the once grand hotel to its original use. The investors have so far spent a total of €172 million (roughly €606,000 per room), and plan to refurbish the building to convert it into a five-star luxury hotel that will operate under the Corinthia brand. The three remaining deals in London were the sale of **The Pelham Hotel** (€25 million), the **Citadines London Holborn-Covent Garden** (approximately €54 million), and the **Carlton Court Hotel** (€10 million);

- Given the high barriers to entry, Paris, yet again, proved to be an investment hot spot in 2008, with five properties being transacted in the city, accounting for 11% of the total investment value on single assets. Trophy assets continued to attract investors to the French capital, resulting in the sale of one of Paris's most renowned hotels, the **Hotel Prince de Galles**, on avenue George V, adjacent to the Four Seasons George V. MH Limited, a Saudi-based company owned by the Mussallam family, acquired 'les murs' (the walls) of the hotel for an estimated €141.5 million, €842,000 per room, one of the largest hotel acquisitions in 2008. The five-star hotel, originally built in 1928, currently operates under Starwood Hotels & Resorts' 'Luxury Collection' brand and has 138 rooms and 30 suites.

Portfolios

The drastic reduction in portfolio transaction value was one of the most direct effects of the credit crunch that has taken hold of Europe over the past 18 months. In terms of investment value, portfolio transaction activity shrank by three-quarters to just over €3 billion. This is in stark contrast to 2007 (€13.9 billion) and particularly 2006 (€14.4 billion). The overall volumes are already below the difficult years of 2002/03. In previous years, portfolios have averaged two-thirds of the total annual transaction value; however, this year the contribution of portfolio transactions reached half the total, which itself was significantly down on 2007 levels. Whilst it is our natural tendency to consider the economic downturn as the main cause for the decline in portfolio activity, it is valuable to consider that the 'asset-light' strategy adopted by hotel operators during 2006 and 2007 had a significant impact on the number of portfolio deals consummated throughout that period.

While the absolute number of portfolio transactions has reduced from 52 to 24, roughly half, the average deal size has also drastically reduced. Between 2003 and 2007, the average number of hotels per deal was 28; this average has decreased to a mere eight properties per deal in 2008. Notable exceptions include 39 properties across Sweden and Finland acquired by CapMan, the acquisition of 16 Italian hotels by Blackstone, and Whitbread snapping up 21 Express by Holiday Inn properties across the UK.

Unsurprisingly, more than two-thirds of all portfolio transactions were recorded in the first half of the year, and only four hotel portfolios were transacted 'post-Lehman', or after the end of September, none of which involved more than four properties.

Large **portfolio transactions** were naturally the first ones to fall victim to the extremely difficult lending conditions that characterised 2008. Therefore, we have only recorded one transaction in Europe that exceeded the €500 million mark.

- The largest portfolio deal in 2008 with a value of €805,000,000 was agreed between private equity real estate fund CapMan plc and Northern European Properties (NEPR), a Jersey-based incorporated company that is partly owned by London & Regional Properties. The 39 hotels included in this transaction (6,477 rooms) are located across Finland and Sweden and are made up of the following brands: **Crowne Plaza**, **Cumulus**, **Holiday Club**, **Holiday Inn**, **Radisson**, **Ramada**, **Rantasipi**, **Scandic** and **Sokos**. Most hotels were transacted subject to lease agreements with the hotel operators.

Despite the woes of the financial world, 2008's investor scene has seen a few familiar faces:

- Travelodge, one of the UK's largest budget hotel operators, has acquired 18 new hotels in the UK in three separate transactions. The first batch was **six Menzies Hotels** for approximately €106 million, followed by **seven Swallow Hotels** at roughly €88 million and finally, in August 2008, **five independent hotels** for approximately €40 million. With these leasehold acquisitions, Travelodge will be able to continue its rapid expansion with upcoming hotels in cities such as Edinburgh, Coventry, Bath, Blackpool, and Newcastle to name a few. All sites have considerable conservation and renovation budgets allocated;

- Whitbread, Travelodge's main competitor in the UK budget market, has also benefited from the current situation to enlarge its portfolio. In July 2008, Whitbread announced the acquisition of **21 Express by Holiday Inn** hotels from Mitchells & Butlers plc in exchange for 44 Whitbread pub/restaurants. The exchange has been made on an estimated asset value of close to €98 million. Subject to planning approval on some sites, this transaction will add roughly 1,500 rooms to the Premier Inn network. Earlier in the year, Whitbread acquired **three 'Real Hotels'** in London under the Purple, Quality and Comfort Inn brands for nearly €23 million or €57,000 a key. The difficult financial position of the Real Hotel Company did not improve over the remainder of the year and it passed into administration in January 2009;

- Europe Italy Hotel Srl, a special-purpose vehicle wholly controlled by Blackstone Real Estate Partner Funds, acquired a portfolio of 16 hotels across Italy for €250 million or €92,000 a key. The portfolio includes the **Crowne Plaza Hotel** in San Donate, Milan, **13 Holiday Inn** hotels in Milan, Rome, Venice and other provincial cities across the country and **two Jolly Hotels**, in Sicily and Sardinia. The transactions were financed by Hypo Real Estate Bank International AG and Merrill Lynch.

2008 also witnessed some hotel operating chains returning to the hotel transaction scene as buyers. Current market conditions and falling asset values represent opportunities for small to medium-sized operators in particular to improve or upgrade their existing portfolios.

- JJW Hotels & Resorts, operator of prestigious hotel assets such as the Hotel Balzac Paris, the Grand Hotel Vienna and 42 The Calls in Leeds, acquired the 196-room **Le Meridien Penina Golf and Resort** and the 154-room **Le Meridien Dona Filipa** on Portugal's Algarve coast for approximately €180 million or €514,000 per room. Seller Starman has achieved the highest price per room in a portfolio transaction this year. JJW intends to invest and upgrade both properties with state-of-the-art spas and conference facilities;

- Louvre Hotels has acquired **two Novotel/Ibis** hotels in Swindon and Bradford, in the UK, to rebrand them as Campanile hotels. This transaction has added 239 rooms to the brand's portfolio;

- **Four German hotels** under the Best Western and Four Points by Sheraton brands, totalling 182 rooms, were acquired by hotel operator Mark Hotels from Westmont Hospitality in the latter part of the year;

- Hand Picked Hotels, a privately owned and managed UK hotel operator, has acquired three properties of the Bridgehouse Hotel portfolio (60-room **New Hall**, 72-room **Audleys**

Table 1 Portfolio Transactions 2008

Portfolio	Location	Number of Hotels	Number of Rooms	Total Sales Price (€)	Price per Room (€)	Buyer	Seller
Northern European Properties Portfolio	Sweden	39	6,477	805,000,000	124,000	CapMan	Northern Europe Properties (NEPR)
Park Inn Heathrow, Marriott Victoria & Albert	UK	2	1,029	250,300,000	243,000	Yianis Group	RBS
16 Italian Hotels (Crowne Plaza, Holiday Inn, Jolly Hotels)	Italy	16	2,721	250,000,000	92,000	Blackstone Real Estate	Undisclosed
2 Le Meridien Resorts Portugal	Portugal	2	350	180,000,000	514,000	JJW Hotels & Resorts	Starman UK
3 Starwood Hotels	Italy	3	418	156,000,000	373,000	EST Capital	Starwood Hotels & Resorts
6 Menzies Hotels	UK	6	650	106,300,000	164,000	Travelodge	Menzies Hotels
2 Husa Hotels	Spain	2	423	100,000,000	236,000	Dutch Property Fund	Metrovacesa
21 Express by Holiday Inn Hotels	UK	21	1,245	97,700,000	78,000	Whitbread	Mitchells & Butlers
7 Swallow Hotels	UK	7	669	88,500,000	132,000	Travelodge	Undisclosed
5 Independent (Travelodge) Hotels	UK	5	500	39,700,000	79,000	Travelodge	Undisclosed
4 UK Regional Hotels	UK	4	335	31,700,000	94,000	Hallmark Hotel Group (Zeus Group)	Private Owner
3 Real Hotel Company Hotels	UK	3	400	22,900,000	57,000	Whitbread	Real Hotel Company
2 Valmeda Hotels	Lithuania	2	302	19,800,000	66,000	Triangle Group	Invalda AB
4 Paten Hotels	UK	4	404	—	—	BDL Select Hotels	Paten Hotels
2 Sirenis Hotels	Spain	2	450	—	—	Hotel Paraiso	Sirenis Hotels & Resorts
2 Novotel/Ibis Hotels	UK	2	239	—	—	Louvre Hotels	Unknown
3 Achat Hotels	Germany	3	295	—	—	European Hospitality Properties	Unknown
20 Three-Star Hotels (Austrian Hotel Company)	Europe	20	1,875	—	—	Azimut Hotel Company	Austrian Hotel Company
3 Bridgehouse Hotels	UK	3	189	—	—	Hand Picked Hotels	Bridgehouse Hotels
3 Brentwood Hotels	UK	3	182	—	—	Moorfield Group	REIT Asset Management
4 German Hotels (Best Western, Four Points by Sheraton)	Germany	4	425	—	—	Mark Hotels	Westmont, Goldman Sachs
Seaham Hall and The Samling	UK	2	29	—	—	von Essen hotels	Tom's Companies
2 Mercure Hotels	Germany	2	370	—	—	Private Israeli Hotel Company	Falk Fonds 66
50% Stake in Jurys Inn	Europe	33	1,650	—	—	Oman Investment Fund	Quinlan Private

Note: The total investment volume shown in this report includes transactions for which the sales prices are confidential
Source: HVS – London Office

Wood, 57-room **Hendon Hall**) for an undisclosed sum. This brings the Hand Picked Hotels portfolio up to 17 hotels (949 rooms).

Other noteworthy transactions include the following.

- Following its record acquisition of the Jurys Inn chain for €1.1 billion in 2007, private equity group Quinlan Private sold **50% of the Jurys Inn enterprise** to Oman Investment Fund (OIF), an investment arm of the Sultanate of Oman. Since July 2007, Quinlan has grown the portfolio by three hotels in operation and has ten more in the development pipeline. OIF is an example of an oil-rich Sovereign Wealth Fund (see *Cross-Border Activity*) investing in hotels in Western Europe;

- Central European Hotel Investment (CEHI), an affiliate of Azimut, the largest Russian Hotel operator, has spread its wings into Western Europe. In April 2008, the company acquired a portfolio of **20 three-star hotels** (totalling 1,875 rooms) from the Austrian Hotel Company. The hotels are in Austria, Germany and the Czech Republic. The parties agreed not to disclose the transaction price;

- Real-estate investor and developer Yianis Group acquired the largest hotel at Heathrow Airport, the 881-room **Park Inn**, together with the 148-room **Marriott Victoria and Albert** in central Manchester for some €250 million or €243,000 per room. The seller was Royal Bank of Scotland. The Yianis Group already owns the prestigious Four Seasons Canary Wharf and the Marriott West India Quay in London's Docklands;

- The second-highest portfolio transaction on a price-per-room basis was the sale of three Italian hotels (**Westin Excelsior Resort** and the **Hotel des Bains** in Venice Lido and the **Hotel Villa Cipriani** in Asolo) for €156 million or €373,000 per room to EST Capital, an independent asset management company that specialises in closed-end property funds. Seller Starwood Hotels & Resorts is expected to agree a management contract for the hotels.

For a few companies, however, 2008 presented a few stumbling blocks and some transactions that were previously announced failed to materialise.

- One of these abandoned transactions was the acquisition of six Marriott-branded hotels by a joint venture of Host Hotels & Resorts, Stichting Pensioenfunds and GIC Real Estate Pte Ltd. The hotels in question are Paris Marriott Rive Gauche Hotel & Conference Center, Renaissance Amsterdam Hotel, Renaissance Paris Hotel La Defense, Renaissance Paris Vendome Hotel, Courtyard by Marriott Düsseldorf Seestern and Courtyard by Marriott Paris Defense West Colombes, totalling 1,954 rooms. The announced purchase price for these properties was €565 million and therefore would have been the second-largest portfolio transaction in 2008;

- Scandinavian hotel group Norgani was said to be on the verge of being sold again in 2008, one year after current owner Norwegian Property succeeded to take it over. Despite several bidders this time around – one of which allegedly reached a sum of NOK11.2 billion (€1.4 billion) – Norwegian Property decided to retain ownership of Norgani's 74-hotel portfolio (totalling some 12,800 rooms);

- Hotel Silken, in London, was to be purchased by the Spanish group Losan Hotels World and was reported as sold in early 2008. However, we understand that the deal failed to materialise when the project, which was under development, was put on hold and Losan Hotels World decided to step away from the investment;

- Whitbread has been coveting the budget hotel company Travelodge for the past five years but a deal looked set to close in the beginning of 2008. The takeover plan was ready and both Whitbread's boss and its adviser, Deutsche Bank, had given the go ahead for the purchase of the hotel group. The seller, Dubai International Capital (DIC), on the other hand, was hesitant as it looked to gain over €1 billion for the sale after having purchased the hotel group 18 months earlier for approximately €977 million (£675 million). Questions remain for the possible merger of the two companies in the medium term, although in the long-term such a deal seems unlikely.

Profile of Investors

Within single asset investment, the profile of buyers has also seen a more balanced spread of investment amongst the different investor types, with real estate investors rising to the top of the single asset investor table. We expect the presence of high-net-worth individuals and institutional investors in hospitality investment to increase in the future. We expect to see too the emergence of Sovereign Wealth Funds from the Middle East as these begin to diversify their portfolios and invest in hotels in the West.

- In regards to single asset transactions, real estate investors led the investors' table after showing a sharp increase on the previous year (see Figure 3). With a share of 14% of all single asset transaction activity in 2007, their relative share increased to 30% and a total investment of €938 million, showing the greatest increase on investment from 2007 with a 40% growth, when investments totalled €671 million. Major investments undertaken by real estate investors include the acquisition of the JW Marriott Capri Tiberio Palace Resort & Spa by Aled SpA and the Crowne Plaza Amsterdam City Centre by HHR Euro CV;

- Hotel operators remained at similar levels in 2008 in terms of single asset transactions with an 18% share of investment activity. As we investigate later in the article, however, it is notable that such buyers have become much more dominant within portfolio activity. The total monies invested by this category amounted to €560 million compared to €819 million in 2007;

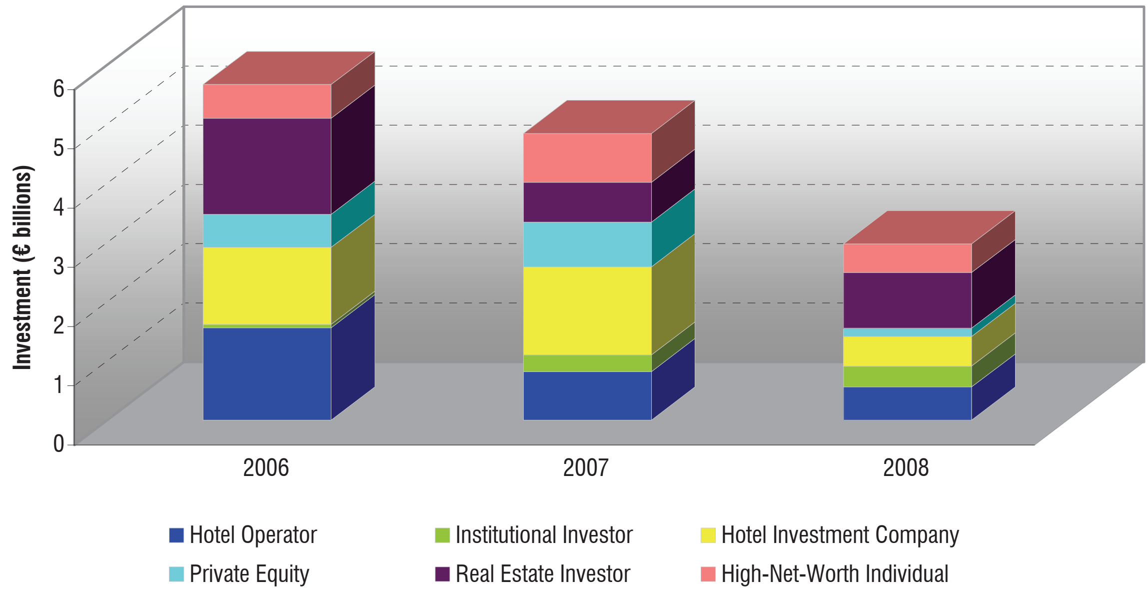
- Investment activity by hotel investment companies accounted for 16% of all single asset transactions (€500 million), which is down from the 31% share they had in 2007 (€1.5 billion). Noteworthy transactions included the acquisition of the Park Hyatt Casares Golf & Spa Resort by Qatar National Hotels and the Hotel Ambassador in Paris sold to Westmont Hospitality Group;

- High-net-worth individuals showed a decrease in their share of single asset transaction activity from 17% (€827 million) in 2007 to 15% (€484 million) in 2008. The acquisition by Bahraini investors of the Four Seasons Hotel Hampshire and the purchase of Amsterdam's Dylan Hotel by the Murtagh Family are examples of investments made by high-net-worth individuals in 2008;

- Institutional investors, who were not particularly prominent in acquiring single assets in 2006, have proved to be one of the fastest-growing investor segments in 2008, with a 25% growth in single asset investment on the previous year. Institutional investors' share of investment amounted to 11% (€353 million), a notable five percentage points higher than in 2007 when it accounted for 6% (€282 million) of single asset activity. We expect activity from this particular group of buyers to continue to increase in the future;

- Not surprisingly, private equity funds followed at the bottom end of the single asset investment table with

Figure 3 Single Asset Investment Activity by Buyer Category 2006-08



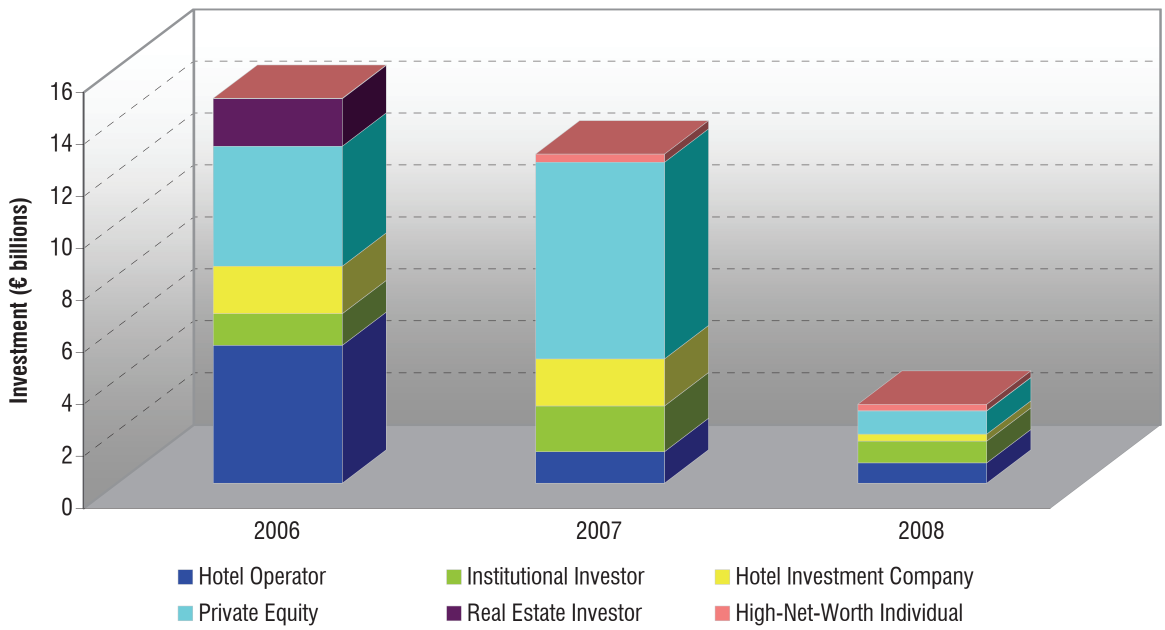
Source: HVS – London Office

a share of 4%. Total investment for the group amounted to €140 million, showing a significant decrease on the activity in 2007 when transactions totalled €755 million. Examples of transactions made by such buyers include the sale of the Marriott Munich to JER Partners and the purchase of the NH Sanvy Hotel Madrid by the Spanish Grupo Testa.

When we consider portfolio transactions, we note a shift in the main investor type when compared to the previous year. We note the resurgence of hotel operators as one of the main prevailing contenders, even though private equity funds remained top of the investors table in terms of portfolio investment volumes (see Figure 4). However, private equity funds, with their highly leveraged buyouts, will find it increasingly difficult to remain at the top in the current economic climate.

- Private equity funds found themselves in first position within portfolio investment, accounting for 29% of the total activity, though a drop in the number of deals closed by the investor group is evident. Investments made by this buyer category amounted to €892 million in 2008, compared to €7.6 billion in 2007. Such a level of investment can be attributed primarily to the sale of the Northern European Properties Portfolio, including 39 hotels across Scandinavia, to private equity group CapMan plc. The buyers are said to have invested an estimated €805 million;

Figure 4 Portfolio Investment Activity by Buyer Category 2006-08



Source: HVS – London Office

• Institutional investors accounted for a 28% share of the total portfolio activity, just a percentage point behind the private equity funds. This type of investor showed a significant increase in its share from 13% in 2007 (€1.8 billion), thus proving such investors continue to be and will remain active buyers and future contenders in the hotel investment market. Total investments made by institutional investors amounted to €836 million. One noteworthy deal involving the sale of three Starwood hotels to EST Capital amounted to an investment of €373,000 per room for the luxury Westin Excelsior, Hotel Des Bains and Villa Cipriani;

• Hotel operators' share of total portfolio activity significantly rose from 9% (€1.2 billion) in 2007 to 26% (€781 million) in 2008. Whitbread and Travelodge have established themselves as active investors within portfolio transactions, having been involved in a total of five out of the 13 hotel operator deals completed. Notable portfolio transactions include the sale of six Menzies Hotels to Travelodge, as well as the sale of the two Le Meridien hotels in the Algarve to JJW Hotels & Resorts;

• Investments made by hotel investment companies totalled approximately €270 million, or 9% of the total portfolio activity. In terms of share of investment, such buyers showed a slight decrease (investments totalled €1.8 billion in 2007) returning to a share similar to that shown in 2006 when they accounted for the same percentage of portfolio investment. One example would be the sale of four Paten Hotels to BDL Select Hotels for an undisclosed sum;

• High-net-worth individuals continued to make a much bigger proportional impact on portfolio activity in 2008, with an estimated total of €250 million and an 8% share of portfolio activity, while in 2007 the group represented a 2% share with total investments of €319 million. We note that activity by high-net-worth individuals is set to continue as they are less dependent on debt and have cash to spend;

• Real estate investors have also shown little activity within portfolio deals representing 0.3% of total investment made in 2008. This shows a significant decrease on 2007 when real estate investors accounted for approximately €1.3 billion of portfolio transactions, which was equivalent to 9% of total portfolio investment volumes. We have recorded one deal in this segment: the sale of three Brentwood Hotels to the Moorfield Group for an undisclosed sum.

Cross-Border Activity

Despite the transactions market being relatively sluggish last year, European assets in general remain a major attraction for investors all over the world. The credit crunch has not affected investors' preference to look abroad for suitable assets rather than in the country where they are based. We expect that investors, today more than ever, will take an opportunistic view and look for the best deal available, even if it means forfeiting the ease of buying closer to home.

In 2008, 38% of all acquisitions, a total of €2.3 billion, were made by buyers in their home countries. Cross-border transactions totalled €3.8 billion, or 62% of the total transaction value. Both single asset and portfolio transactions show a higher-than-average foreign share: 52% and 73%, respectively. By comparison, the average of the last five years has been 43% for single assets and 57% for portfolios. We note that in markets such as Spain and Italy domestic transactions are still very common.

It is widely expected that Sovereign Wealth Funds (SWFs) will play a more important role over the next few years. SWFs are defined as pools of money derived from a country's reserves, which are set aside for investment purposes that will benefit the home country's economy. Very often Middle Eastern funds are organised as SWFs. For example, 2008 witnessed the sale of 50% of the Jurys Inn group to Oman Investment Fund (OIF) by Quinlan.

In previous issues of this report, we have noted the likely emergence of eastern European investors. The first evidence was the Azimut Group investing in 20 hotels of the Austrian Hotel Corporation. However, given the fact that funding difficulties have now reached Russia as well, we expect Russian/CEE investors to sit tight for the next few months, even though their appetite for Western European hotel assets still appears to be very strong.

Our buyer analysis by region (see Figure 6) shows the clear dominance of European companies; however, we note that the Middle Eastern share has grown to 17%, outperforming even the North American share of 8% of total hotel investment in Europe.

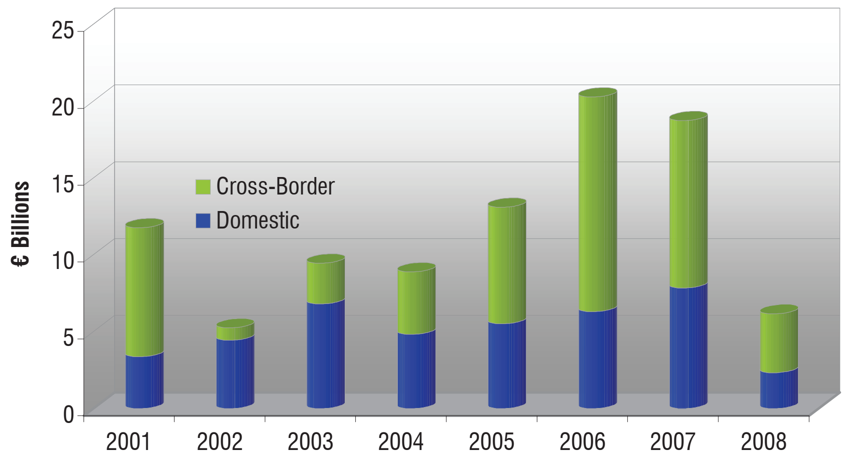
Conclusions, Outlook and How Long Will the Hangover Last?

We all are aware of the two cycles that affect hotels: the investment market/investor confidence cycle and the hotel trading performance cycle.

The investment market and investor confidence suffered as debt financing became increasingly scarce and more expensive which, combined with either higher yield requirements or the 'wait and see' approach of investors, led to a huge drop in transaction activity in 2008.

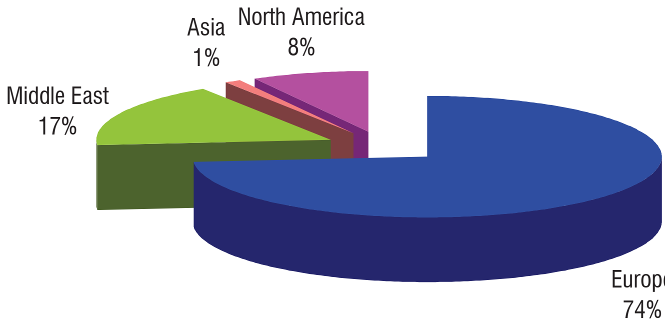
Similarly, hotel trading performance has suffered. With the global downturn and poor economic forecast, businesses across the globe increased their cost cutting, thereby impacting adversely on hotels, especially those that are

Figure 5 Single Asset and Portfolio Transactions 2001-08



Source: HVS – London Office

Figure 6 Buyer Analysis by Region 2008



Source: HVS – London Office

dependent upon MICE and commercial segments. Hotels witnessed dropping occupancies and many reduced rates to try to sustain what levels of occupancy they could. This decline in hotels' trading performance precipitated the overall fall. HVS has for a long time been advising hotels not to cut rates indiscriminately, especially during extraordinary events. Our past experience suggests that hotels that reduced their rates across the board to boost occupancy levels took longer to rebuild their trading performance. Our advice continues to be 'it's wiser to use a rifle rather than a shotgun when it comes to pricing'.

While the big question of 'Have we reached the bottom yet?' still remains unanswered, we consider this to be dependent upon yet another question: 'Can hotels hold steadfast during this economic downturn?' If most of the hotels can maintain their trading performance, and thus manage to stay within their bank's lending covenants, it will indeed help those banks with minimal losses to restore their confidence to lend again, albeit carefully. Should hotel performances deteriorate more significantly, the debt market will no doubt remain closed for some time.

In contrast to 2007, when we saw an increase in large-scale investment made by private equity funds, as hotel operators continued their move away from asset ownership, 2008 has seen some return of hotel operators as buyers, as well as an increase in activity from institutional and other real estate investors. The increased activity of hotel operators in the hotel investment arena demonstrates a clear strategy for growth by investing in existing properties. Interestingly enough, Travelodge came up with a rather novel idea to acquire hotels through a campaign to the public, by offering, through its website, £500 per room upon introduction to a possible hotel site.

The award for 'perfect timing' no doubt will be given to all those hotel operators who embarked upon their strategy to go asset light during 2006-07. It will be interesting to note if the major hotel operators return to buying assets again in the medium term.

Whilst 2008 challenged perhaps more novel business models, like the one used by GuestInvest, 2009 and beyond is expected to see the continuing success of budget and no frills hotels. The boutique hotel trend is also expected to continue, at least for the medium term. Most new developments, if they are still to happen, are likely to be mixed-use.

Equity still exists and all opportunistic investors will carefully scan the markets. Distressed sales are also expected to happen, especially for hotels with soon-to-expire debt maturity, although perhaps initially not to a great extent as both sellers and banks will be reluctant to sell assets in the prevailing conditions. Highly leveraged private equity is expected to remain impossible until the debt market improves and we should see an increase in activities from long-term investors like pension funds and SWFs as the year unfolds.

On the positive side, at least for the UK, the depreciating pound should attract more tourists and increase cross-border deals into the UK. The reluctance of some UK citizens to travel to Europe for leisure because of the exchange rate will also produce an increase in domestic tourism.

Overall, we expect transaction activity to remain at relatively low levels during 2009, particularly during the first half. Bank lending appears to remain restricted in the short term, together with weak buyer confidence with a general opinion that values may decline further. Also, hotel pricing has not yet adjusted to the extent already seen in other commercial real estate sectors, making hotel investments comparatively less attractive at present.

Charles Human, Managing Director of our sister company, HVS Hodges Ward Elliott adds, 'Towards the end of 2009 and into 2010 we expect to see an upturn in activity as operating markets stabilise, increased liquidity returns and prices reduce either as a consequence of owners needing to sell or banks foreclosing. We expect activity, when it does return, to be strongest in the core European markets, such as the UK, France and Germany. There will be a flight to quality and generally less appetite for emerging markets, where risk premiums have become inadequate relative to higher yields which are now becoming available in Europe's established markets.'

The situation of investors in 2008 was similar to that of a 'deer in headlights': shocked and somewhat confused to see the events unfold and finding it impossible to decide on how best to react. As we now move through 2009, the outlook appears to be more encouraging, especially for the latter part of the year; however, it will be some time before the scars from the current economic climate begin to fade. We suspect things have to worsen still before the hotel transaction market in Europe gets appreciably better.

– HVS –

Table 2 European Single Asset Hotel Transactions 2008 (€)

Property	Location	Country	Rooms	Sales Price	Sales Price Per Room	Buyer	Seller
Arcotel Kaiserwasser	Vienna	Austria	282	34,000,000	121,000	Union Investment Real Estate	Raiffeisen Evolution Project Development
Hilton Vienna (75% stake)	Vienna	Austria	572	Undisclosed	—	Raiffeisen Zentralbank Österreich	Soravia Group
Dvořák Spa Hotel	Karlovy Vary	Czech Republic	126	Undisclosed	—	Raiffeisen Leasing	Warimpex Finanz- und Beteiligungs
Sokos Hotel Helsinki	Helsinki	Finland	202	42,000,000	208,000	Exilion Capital	Sponda
Le Marquis	Paris	France	36	11,800,000	329,000	Hélion	Hall Phoenix Inwood
Le Walt	Paris	France	25	8,200,000	329,000	Hélion	Hall Phoenix Inwood
Hotel Ambassadeur	Juan-les-Pins	France	225	25,000,000	111,000	Jesta Group	Undisclosed
Hotel Prince de Galles	Paris	France	168	141,500,000	842,000	MH Limited Partnership	Caisse Autonome Nationale de la Sécurité Sociale dans les Mines
Citadines Paris Louvre	Paris	France	51	21,500,000	422,000	The Ascott Group	Predica
Hotel Ambassador	Paris	France	294	152,000,000	517,000	Westmont Hospitality Group	Starwood Capital Group
Campanile Paris Berthier	Paris	France	246	Undisclosed	—	Paninvest	Undisclosed
Marriott Munich	Munich	Germany	348	65,000,000	187,000	JER Partners	Marriott International
Courtyard by Marriott Bremen	Bremen	Germany	150	23,800,000	159,000	Deka Immobilien	Baum Gruppe of Hanover
Mövenpick Hotel Frankfurt City	Frankfurt	Germany	288	63,000,000	219,000	Union Investment Real Estate	CA Immobilien Anlagen
Iberotel Fleesensee	Göhren-Lebbin	Germany	156	17,600,000	113,000	Lloyd Fonds	GBI AG
Mercure Hotel Remscheid	Remscheid	Germany	116	Undisclosed	—	Danish Investor	Private investor
Grand Hyatt Berlin	Berlin	Germany	342	Undisclosed	—	SEB Asset Management GmbH	DaimlerChrysler
Novotel Freiburg	Freiburg	Germany	219	Undisclosed	—	Ebertz + Partner	Westinest Gesellschaft fuer Investmentfonds mbH
Motel One Nürnberg-City	Nuremberg	Germany	200	Undisclosed	—	Lloyd Fonds	GBI AG
Treff Hansa Hotel	Düsseldorf	Germany	198	Undisclosed	—	Mark Hotels	GA Holding
Hilton Rhodes Resort	Rhodes	Greece	402	35,500,000	88,000	Lampsa Hotels and Plaka SA (Sbokos Family) – 50:50	Ionian Hotel Enterprises
Green Isle Hotel	Dublin	Ireland	270	40,000,000	148,000	Brennan Hotels	Lynch Hotels
Newpark Hotel	Kilkenny	Ireland	129	25,000,000	194,000	John and Allen Flynn	Private Owners
South Court Hotel & Suites	Limerick	Ireland	127	15,000,000	118,000	Robert Butler and Paul O'Brien	Lynch Hotels
JW Marriott Capri Tiberio Palace Resort & Spa	Capri	Italy	61	60,600,000	993,000	Aled SpA	Salvatore Naldi Group
Hotel Giardino	Ascona	Italy	72	33,000,000	458,000	Credit Suisse Real Estate Fund LivingPlus	Hotel Giardino Immobilien AG
Club Med Kamarina	Kamarina (Sicily)	Italy	636	Undisclosed	—	Ability Group	Heron International
Residenza Cannaregio	Venice	Italy	66	Undisclosed	—	Losan Hotels World (75%) and Hotusa Group (25%)	Undisclosed
Dylan Hotel	Amsterdam	The Netherlands	41	27,000,000	659,000	Murtagh Family	Apollo Real Estate Advisors
Sofitel Amsterdam the Grand	Amsterdam	The Netherlands	182	60,000,000	330,000	Omani Family	Accor
Crowne Plaza Amsterdam City Centre	Amsterdam	The Netherlands	270	72,000,000	267,000	HHR Euro CV	Institutional Investor (83%) and IHG (17%)

Source: HVS – London Office

Table 3 European Single Asset Hotel Transactions 2008 (€) – continued

Property	Location	Country	Rooms	Sales Price	Sales Price Per Room	Buyer	Seller
Quality Hotel Mastemyr	Oslo	Norway	152	17,500,000	115,000	Home Properties AB	City Finansiering
Andel's Hotel Krakow (50% stake)	Krakow	Poland	159	33,000,000	208,000	Warimpex	UBM
IBB Andersia	Poznan	Poland	171	82,500,000	482,000	Deka Immobilien Investment	Von der Heyden Group
Hotel Cristal	Algarve	Portugal	118	7,500,000	64,000	José Emídio (Private Investor)	Private Owner
Memmo Baleeira Hotel	Algarve	Portugal	144	Undisclosed	—	ARTEH Hotels and Resorts	Undisclosed
Park Inn Ekaterinburg	Ekaterinburg	Russia	160	22,500,000	141,000	Wenaas Hotel Russia	SRV Russia
Sokos Hotel Vasilievsky	St Petersburg	Russia	255	Undisclosed	—	Group SOK	Manutent OU
Hotel Sovetskaya	St Petersburg	Russia	1000	Undisclosed	—	AMG Worldwide Comfortable Hotels (Cyprus)	Salyut Estate
Hotel Continental [1]	Belgrade	Serbia	415	148,800,000	359,000	NBGP Properties	Genex
Bauza Hotel & Restaurant	Madrid	Spain	177	65,000,000	367,000	Rosales 2007	Habitat Hotels
Monasterio de San Miguel	Cádiz	Spain	175	24,000,000	137,000	BBVA	Incosol
Park Hyatt Casares Golf & Spa Resort	Marbella	Spain	170	70,000,000	412,000	Qatar National Hotels	Group Evemarina
NH Sanvy Hotel Madrid	Madrid	Spain	149	61,000,000	409,000	Grupo Testa	Caja Madrid and Mapfre
General Alava	Vitoria	Spain	115	14,000,000	122,000	AC Hotels	Hotel General Alava
Confortel Barcelona	Barcelona	Spain	224	47,000,000	210,000	Inmobiliaria Oncisa	Familia Nozaleda
Sky Hotel & Restaurant	Barcelona	Spain	259	103,000,000	398,000	Sol Meliá (40%), Caja Mediterráneo-CAM, Invernostra and Caja Duero (60%)	Altavista Hotelera
Hotel Palacio de Miramar	Málaga	Spain	188	21,500,000	114,000	Grupo Promur	Junta de Andalucia
Gran Hotel Canarias	Madrid	Spain	116	36,000,000	310,000	NH Hoteles	Santana Cazorla
Hotel Los Monteros	Marbella	Spain	172	115,000,000	669,000	North-West Oil Group	Private owners
Apsis Aranea	Barcelona	Spain	84	Undisclosed	—	Best Hotels	Apsis Hotels
Guadalete Hotel	Jerez de la Frontera	Spain	137	Undisclosed	—	Hotusa Hotels	JOSÉ ESTEVEZ, S.A.
Husa Via Barcelona	Barcelona	Spain	90	Undisclosed	—	Husa Hotels	Martinsa-Fadesa
Mediterrani	Minorca	Spain	180	Undisclosed	—	Grupo Optursa	Bojucasa S.A.
Summa Paguera	Majorca	Spain	145	Undisclosed	—	BQ Hoteles	Summa Hoteles
Carabela	Tarragona	Spain	108	Undisclosed	—	Igor Rothensteyn (Independent)	PIVISE, S.L.
Hotel Bahía del Este	Cala Millor	Spain	188	Undisclosed	—	Alltours	Undisclosed
Holiday Inn Zürich Messe	Zürich	Switzerland	160	35,000,000	219,000	KanAm Grund	Undisclosed
Hotel Schweizerhof	Berne	Switzerland	84	Undisclosed	—	Barwa International	Undisclosed
Hotel Royal Savoy Lausanne	Lausanne	Switzerland	108	Undisclosed	—	Barwa International	Undisclosed

[1] As part of a mixed-use transaction

Source: HVS – London Office

Table 4 European Single Asset Hotel Transactions 2008 (€) – continued

Property	Location	Country	Rooms	Sales Price	Sales Price Per Room	Buyer	Seller
Four Seasons Hampshire	Hampshire	UK	133	76,200,000	573,000	Al Khalifa Family (Bahrain's royal family)	Gregory Park Limited
The Metropole Building London	London	UK	283	171,600,000	606,000	Nakheel, IHI, LAFICO	Crown Estate
Express by Holiday Inn Strathclyde	Motherwell	UK	120	9,500,000	79,000	Geminex Hotels and Leisure	LRG Acquisition
Express by Holiday Inn Stevenage	Stevenage	UK	129	13,700,000	106,000	JER Partners	LRG Acquisition
The Point Hotel	Edinburgh	UK	139	25,400,000	183,000	EBH Ltd	WG Mitchell Group
Ramada Jarvis Leeds North	Leeds	UK	105	9,200,000	88,000	Blair Estates	Morley Property Fund
Wessex Hotel	Bournemouth	UK	109	9,100,000	84,000	LaSalle Investment	Forestdale Hotels
Carlton Court Hotel	London	UK	22	10,000,000	455,000	Private Investor	Sunterra Group
Turnberry Golf Resort	Ayrshire, Scotland	UK	219	68,800,000	314,000	Leisurecorp (Dubai World)	Starwood Hotels & Resorts
Citadines London Holborn-Covent Garden	London	UK	192	54,400,000	283,000	The Ascott Group	Land Securities
Patio Hotel Aberdeen	Aberdeen	UK	168	45,200,000	269,000	Invesco Real Estate	Patio Hotels Ltd
Ten Square	Belfast	UK	23	12,600,000	548,000	Private Investor	Hill Brothers
Crowne Plaza Hotel London – The City	London	UK	203	106,300,000	524,000	ARG Hotels Ltd	Gruppo Statuto
The Pelham Hotel	London	UK	52	25,000,000	481,000	Private Investors	Firmdale Hotels
Premier Inn Stoke (Trentham Gardens)	Stoke-on-Trent	UK	119	12,600,000	106,000	KS Habro Stoke	St Modwen
Liverpool Marriott Hotel South	Liverpool	UK	164	Undisclosed	—	Kew Green Hotels	Undisclosed
Norfolk Hotel	Birmingham	UK	169	Undisclosed	—	Undisclosed	Undisclosed

Source: HVS – London Office

HVS Offices and Services

About the authors

Cristina Balekjian is a Market Intelligence Analyst with HVS's London office. Cristina holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey. She worked in a number of operational roles in the hospitality industry before joining HVS in 2007, where she has worked on a number of research-based assignments in Europe, the Middle East and Africa.

Elke Geieregger is a Senior Associate with HVS's London office. Having worked as a consultant and in various roles in hospitality accounting, she is now completing assignments in numerous European countries. Originally from Austria, Elke holds a BA (Hons) in tourism management and is a part-qualified member of the Chartered Institute of Management Accountants (CIMA).

Saurabh Chawla is an Associate Director with HVS's London office. He joined HVS in 2006 after seven years' operational and managerial experience in the hospitality industry. Saurabh holds an MBA from IMHI (ESSEC Business School – France), and degrees in Hotel Management and a Bachelor of Commerce. He has conducted numerous valuations, feasibility studies and consulting assignments across Europe, the Middle East and Africa.

Published by:
HVS London Office, 7-10 Chandos Street, London W1G 9DQ
Tel: +44 20 7878 7700 Fax: +44 20 7878 7799

HVS Offices

Athens
Atlanta
Beijing
Boston
Boulder
Buenos Aires
Chicago
Dallas
Denver
Dubai
Hong Kong
London
Madrid
Mexico City
Miami
Moscow
Mumbai
New Delhi
Newport, RI
New York
San Francisco
São Paulo
Shanghai
Singapore
Toronto
Vancouver
Washington, D.C.

Services

- Consulting & Valuation
- Executive Search
- Investment Banking
- Interior Design
- Shared Ownership Services
- Hotel Management
- Convention, Sports & Entertainment Facilities Consulting
- Asset Management & Strategic Advisory
- Parking Consulting
- Food & Beverage Services
- Gaming Services
- Marketing Communications
- Golf Services

For further information please contact Saurabh Chawla on +44 20 7878 7708 (schawla@hvs.com) or visit our website at www.hvs.com

A global consulting and services organization focused on the hotel, restaurant, shared ownership, gaming and leisure industries

www.hvs.com