European Hotel Transactions 2003

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Introduction

The volatility in the hotel market in 2002 continued into 2003 with events such as the war in Iraq and the sudden and unexpected outbreak of SARS. However, while hotels are often the first to suffer during a challenging business environment, hotels have the advantage of recovering more quickly than other real estate asset classes and are considered to be a useful indicator of future economic activity. Despite the continued decline in RevPAR in the majority of European hotel markets in 2003, single asset hotel investment activity changed pace considerably; meanwhile, portfolio and corporate activity remained at a similar depressed level with the previous year. Overall, HVS recorded a 21% increase in total investment activity in 2003 compared with the previous year, to approximately €6.6 billion. Hotel investment activity was fuelled by a significant number of opportunistic acquisitions, as well as non-traditional hotel investors seeking to diversify their property portfolio and acquire higher-yielding investments.

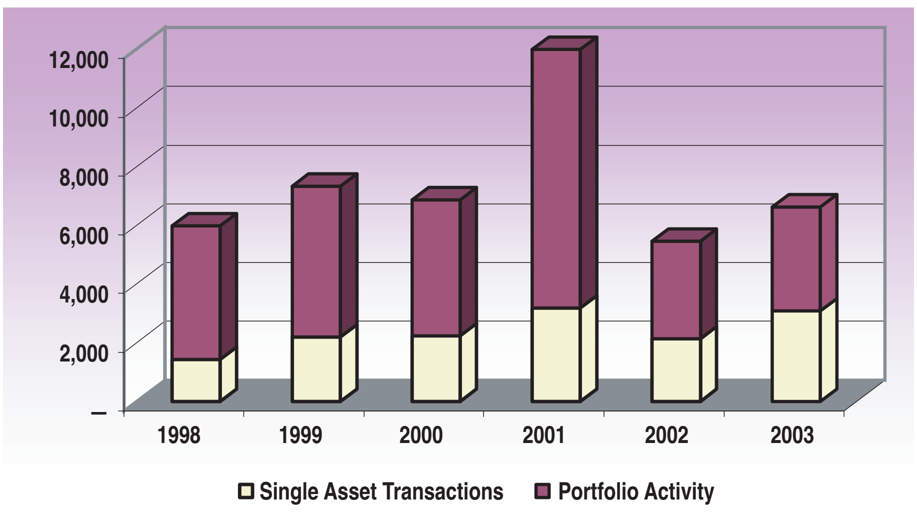
European Single Asset Transaction Activity

Despite the continued volatile trading conditions in 2003, the single asset hotel investment performance was particularly impressive, achieving approximately €3.1 billion, just 3% below the record high of approximately €3.2 billion in 2001. During 2003, HVS recorded a total of 91 single asset hotel transactions of above €7.5 million, the criterion set for inclusion within our survey. Single asset transactions represented approximately 47% of total investment activity, which is much higher than in previous years, with the average at approximately 35%. In contrast, during 2002 we recorded a total of 76 single asset hotel transactions, which represented a total sales volume of €2.1 billion, 30% lower than the volume achieved in 2003. This increased level of activity in 2003 confirms the general consensus that the majority of hotel operating markets are at a turning point.

Notable single asset transactions in 2003 included the 404-room Principe de Savoia hotel in Milan to the Dorchester Hotel Group for approximately €275 million (€681,000 per room); the 141-room Quinta do Lago Hotel in the Algarve to a private investor for approximately €35 million (€248,000 per room); the 212-room Le Meridien Barcelona to the German open-ended fund Deka Immobilien Investment for approximately €87 million (€410,000 per room); the 167-room Ritz hotel in Madrid to Orient-Express Hotels and Omega Capital for approximately €125 million (€749,000 per room); the 122-room Hotel des Bergues in Geneva to Kingdom Holding Company for approximately €75.6 million (€620,000 per room); the 118-room Brown's Hotel in London in a joint venture agreement between Sir Rocco Forte & Family and Halifax Bank of Scotland for approximately €75 million (€635,000 per room) and the Mayfair InterContinental hotel in London to Radisson Edwardian Hotels for approximately €166 million (€575,000 per room).

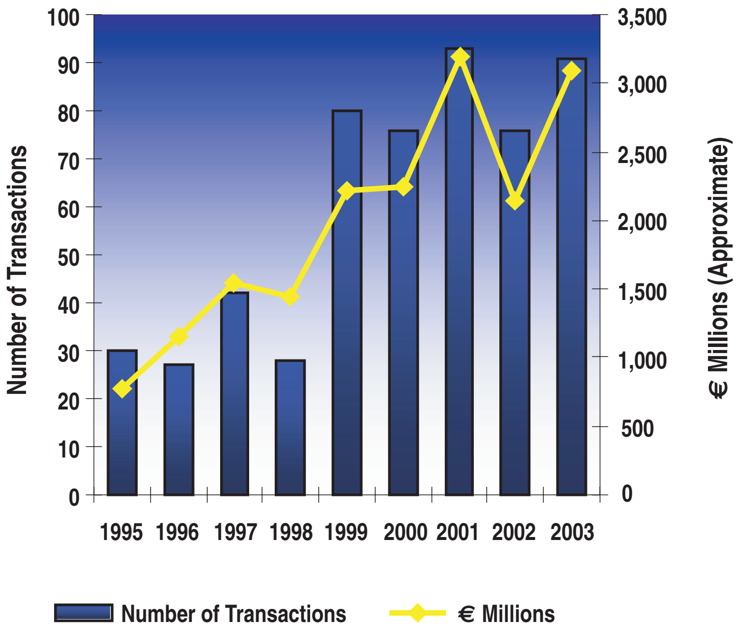
Despite the difficult trading conditions in recent times, it is interesting to note that the average price achieved per room has remained relatively static, decreasing by approximately 3% since 2001, to approximately €175,000 per room. Due to historically low interest rates, reduced gearing and limited supply growth in many markets, there have been few distressed sales. Furthermore, these conditions have enabled hotel owners to maintain greater control and not accept a price that illustrates a depressed market, but instead negotiate a price that reflects the future earnings potential of the property. Consequently, the strong recovery in single asset investment activity in 2003 was achieved in tandem with a most respectable average price per room sold.

Figure 1 Total Hotel Investment Volumes 1998–03 (€000,000s)



Source: HVS International Research

Figure 2 European Single Asset Hotel Transactions 1995–03



Source: HVS International Research

Portfolio Transaction Activity

The consolidation and globalisation of the hotel industry is likely to remain a key theme and have wide-ranging implications for investment as hotel operators seek to create or maintain footholds in key strategic locations. The recent decline in 2002 and 2003 of portfolio investment transactions, which is the overriding cause of the fall in total investment volumes, is not considered to be a lasting phenomenon.

HVS International recorded 14 portfolio transactions in 2003, compared with 11 the previous year. In 2003, portfolio activity represented approximately €3.5 billion, representing a 7% increase on the previous year, but this level of activity remained in a different league to the unprecedented volume achieved in 2001, of €8.8 billion. Overall, the total value of portfolio activity in 2003 declined by 60% compared with 2001 and was characterised by small to medium-sized deals.

In 2003, significant portfolio transactions included:

- The disposal of 37 Thistle-managed Hotels by a subsidiary of Orb Estates to the property entrepreneur Andy Ruhan, through his investment vehicle Atlantic Hotels, for approximately €990 million (approximately €181,000 per room);
- Orbis SA, the Polish hotel operator, acquired from Accor SA and Accor Polska shares in Hekon-Hotele Ekonomiczne SA, which comprised ten Accor-branded hotels in Poland, one Novotel in Vilnius and the management contract to the Mercure Frederic Chopin in Warsaw. The transaction totalled €92 million, approximately €55,000 per room;
- The sale of the budget hotel chain Premier Lodge, comprising 131 units, some 8,500 rooms, following Scottish & Newcastle's divestment of its retail division for approximately €3.6 billion to Spirit Amber Bidco, a new company formed by a consortium of investors including private equity firms Texas Pacific Group and the Blackstone Group and also comprising CVC Capital Partners and Merrill Lynch Global Private Equity;
- The disposal of 13 Swallow Hotels by Whitbread, some 1,148 rooms, to REIT Asset Management for a consideration of approximately €74 million, approximately €64,000 per room. The hotels are to be leased to Maycastle Ltd, a subsidiary of The London Inn Group, which purchased the hotel operating business for a further €7.1 million;
- A hostile takeover bid by Jack Petchey's Trefick vehicle resulted in Hanover International being acquired for approximately €54.3 million, or approximately €30,000 per room. Jack Petchey is understood to have taken advantage of the depressed equity market to build a 49% stake in the company prior to the takeover.

In addition to the above listed portfolio transactions, a number of listed hotel companies have been subject to management buyouts and privatised during 2003. We outline

Table 1 Selected Portfolio Transactions 2003 (€)

Portfolio	Country	Number of Properties	Number of Rooms	Total Sales Price (€)	Price per Room (€)	Buyer
Thistle Hotels	UK	37	5,454	987,000,000	181,000	Atlantic Hotels
Starwood Hotels (Ciga properties)	Italy	4	382	290,000,000	759,000	Colony Capital
Accor	Poland	11	1,677	92,000,000	55,000	Orbis SA
Galaxie	France	108	7,260	200,000,000	28,000	Duke Street Capital
Accor (all leased hotels)	UK & Netherlands	35	N/A	590,500,000	—	Goldman Sachs
Swallow Hotels	UK	13	1,148	73,800,000	64,000	REIT Asset Management
Accor	Hungary	5	1,163	88,000,000	76,000	Erste Bank and Immorent
Portfolio of Luxury Country Hotels	UK	4	57	22,900,000	402,000	Von Essen Hotels
Hanover International	UK	15	1,789	54,300,000	30,000	Trefick – Jack Petchey

Source: HVS International Research

below the various public to private transactions that have taken place during 2003.

- Thistle Hotels was taken private by its major shareholder BIL International. The unconditional offer of 130 pence per share valued the company at €880 million (£627 million), significantly below the total hotel book value;
- Macdonald Hotels was the subject of a management buyout through a company called Skye Leisure Ventures, backed by Bank of Scotland. The management buyout offered 260 pence per share for the 100-strong group. Since the buyout, 15 hotels, some 825 rooms, that do not fit within the company's strategic plan, are reported to be on the market;
- In a management buyout by Lioncourt Capital and Kayterm plc, Jarvis Hotels was privatised in a deal offering 140 pence per share. The deal valued Jarvis Hotels issued share capital at approximately €225 million (£159 million).

One further deal not included within our analysis involves the Le Meridien portfolio, whereby Starwood Hotels & Resorts and Lehman Brothers Holdings have shouldered all of Le Meridien's outstanding senior debt of some US$1.3 billion. In 2004, Lehman and Starwood will set out to renegotiate Le Meridien's refinancing, following which there is a strong possibility that Starwood will gain managerial control of the 126-strong luxury hotels worldwide.

The number of portfolio transactions in 2002 and 2003 has been far fewer than in previous years. Capital sourced by private equity dominates portfolio activity, totalling approximately €1.9 billion in 2003, which represents 53% of total portfolio activity. While hotel operators are also the largest selling group, they still remain active buyers, as hotel operators seek to build a dominant global presence. Meanwhile, sale-and-leaseback activity was used significantly less during 2003. However, this structure remains popular, particularly as a means for hotel owner-operators to raise significant capital to expand, while continuing to operate the asset via lease or management agreements. Sale-and-leaseback activity is expected to remain buoyant across Europe in the medium term.

The limited portfolio and transactional activity throughout 2003 is due to investors and lenders erring on the side of caution, the decline in European-wide operating performance and the differentials between the bid and ask price. Nevertheless, as the European market recovers and operating performance improves, investor interest and confidence will be revived, with portfolio activity expected to be more robust in 2004, with private equity continuing to be a major source of a capital.

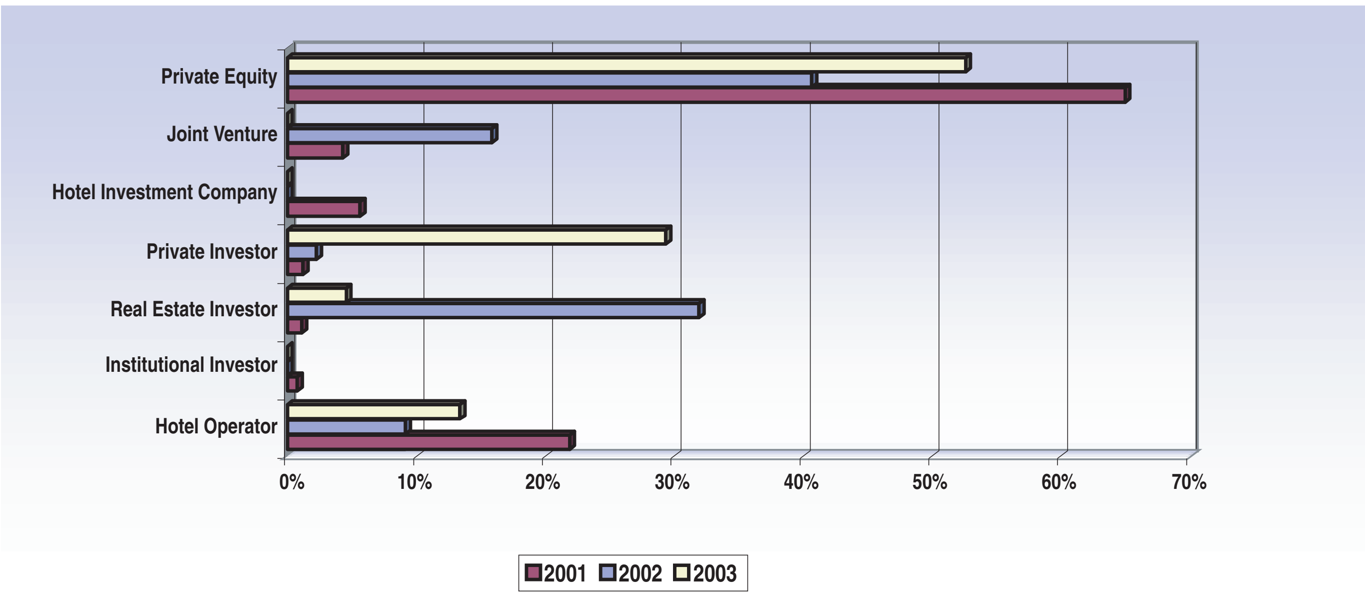
Sources of Investment Capital

In Europe a large proportion of the quality hotel supply has traditionally been owned by direct investment. This has taken the form of mainly two options: owner occupation, whereby the owner controls both the property and the business risk; or a passive investment, whereby the owner controls the real estate but divests of the business risk in the form of a lease or a management contract.

With cross-border activity on the increase, and as capital for hotel investment becomes available from a wider source of investors, the trend towards indirect property investment is becoming increasingly prominent. There are many reasons for this, such as:

- An era of low inflation, low interest rates and a sustained negative performance on the equity markets has driven capital towards real estate. Due to an increased focus towards a diversified portfolio, coupled with the desire to increase returns, quality hotels are starting to be considered as mainstream real estate;
- An increase in the consolidation and globalisation of the sector has resulted in seeking innovative means of financing. In the efforts of hotel owner-operators to gain global brand recognition, sale-and-leaseback activity has become far

Figure 3 Portfolio Investment Activity by Buyer Category 2001–03



Source: HVS International Research

more widespread as a means of raising capital to fund expansion;

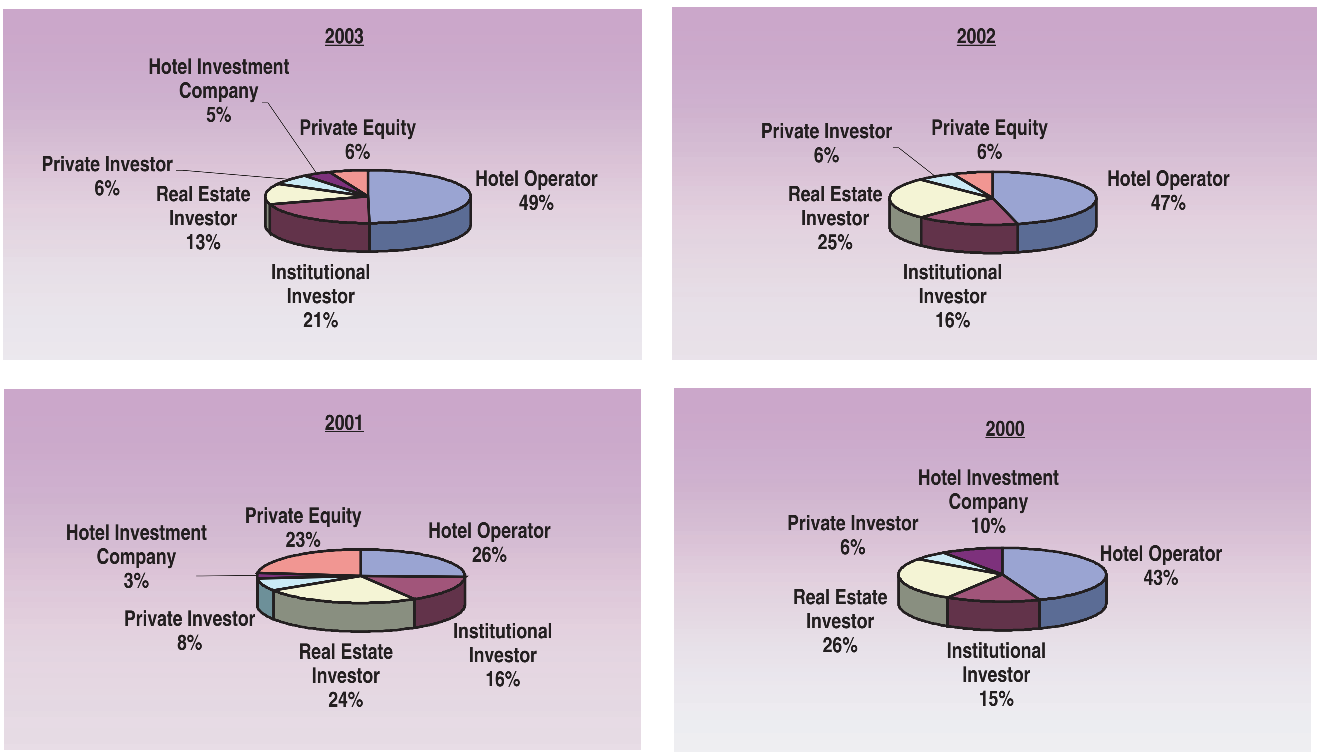
- Increased competition amongst hotel operators to gain a global presence has resulted in greater flexibility with respect to operating agreements. As a result, the acceptance of leases has become much more widespread, fuelling the entry for indirect investment vehicles;
- The growing disparity between net asset values of publicly traded hotel companies and their share price has resulted in hotel companies going private, such as Jarvis Hotels and Macdonald Hotels, as well as Thistle Hotels;
- Phenomenal growth in equity available from German open-ended funds and US opportunity funds has increased investment opportunities. Meanwhile, in preparation for the implementation of Basle II in 2006 (which governs the international banking rules, regulations and standards), a reduction in capital available to hotel projects is likely, as banks will be held accountable for operational risk and will require capital being held in reserve for protection against potential loss. Consequently, increased debt opportunities will exist for established hotel assets in prime locations, with a strong covenant and a resilient cash flow;
- Improving transparency and knowledge of the industry among real estate, financial specialists and investors;
- The introduction of the euro has removed many of the barriers relating to foreign currency, thus allowing the potential for greater cross-border investment and lending.

By reviewing the types of buyers active in the European hotel market, it is evident that investment capital is available through a wide variety of sources, although trade buyers continue to dominate the single asset investment market. Institutional investors have continued to invest significant amount of capital into single asset hotels, with investment totalling approximately €600 million during 2003. Meanwhile, capital from private equity investors, which has dominated portfolio activity since 2001, is less influential with respect to single asset investments. Nevertheless, single asset transactions from private equity investors totalled approximately €180 million in 2003, an increase of approximately 43% on the previous year. Although the combined volume of investment in 2003 by private equity and institutional investors remains below the level recorded in 2001, these two groups jointly represented 27% of total single asset transaction volume in 2003, compared with 22% the previous year. The representation of non-specialist buyers is likely to strengthen in 2004, due to their continued desire to build increasingly diversified portfolios, geared towards higher yielding investments.

Institutional Investors

The broadening of hotel ownership to non-specialist investors has resulted in the growing importance of lease structures as a means of providing a more secure and attractive investment. Financial institutions and pension funds all fit under the bracket of institutional investors, which reap the benefit of lease structures, with the exception of US private equity funds, who rarely adopt lease structures due to their long-term commitment and perceived level of reduced flexibility. Lease terms are increasingly moving away from fixed-based rental payments to turnover-based leases, which comprise a guaranteed component (base rent

Figure 4 Single Asset Hotel Investment by Buyer Category (by Transaction Volume) 2000–03

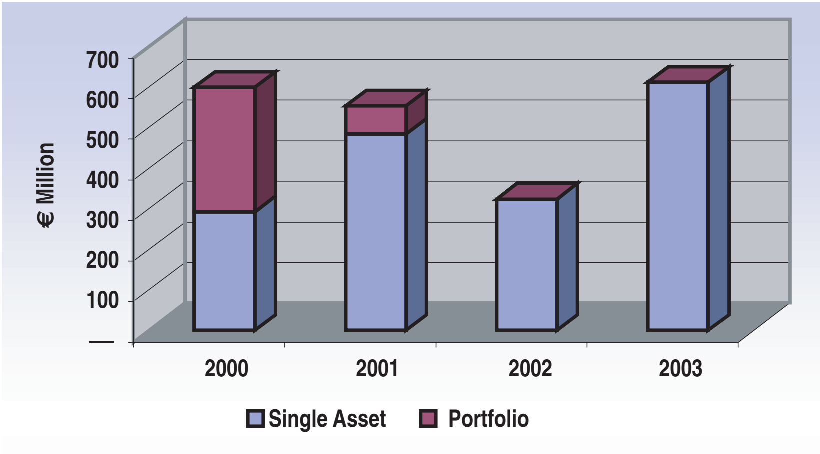


Source: HVS International Research

which is normally fixed but index-linked to the consumer price-index) and a variable rent component, which offers a rental income linked to the hotel's trading performance. Nevertheless, during the past twelve to eighteen months, hotel operators have become increasingly reluctant to sign lease agreements because of the risks involved and the impact on the company's balance sheet.

Troubled times in the global stock market have resulted in real estate becoming a desirable asset in which to invest. Cross-border acquisitions of UK commercial property remained respectable throughout 2002, with purchases totalling €10.5 billion[1]. Purchases by German investors have increased substantially since 2000, when it accounted for just over 3% of total cross-border investment[1]. During the first quarter of 2003, the level of investment by this investor group accounted for an unprecedented 44% of cross-border investment. This can be attributed in part to German open-ended fund activity. Such conditions favour the hotel investment market, as there is an abundance of institutional capital seeking a more diversified property investment portfolio, focused on real estate providing long term, secure income streams.

Figure 5 Total Investment Volume – Institutional Investors 2000–03



Source: HVS International Research

German Institutional Funds

German institutional investors include both open-ended and closed-ended real estate funds. A major attraction for investors is that a significant proportion of the annual return is tax-free, thus allowing funds to buy on lower yields, providing long-term, secure income streams. Open-ended funds are property funds that invest directly in real estate, offering shares to private investors. Examples of German open-ended funds include CGI Commerz Grundbesitz Investment, DIFA and Deka Immobilien. Closed-ended property funds in contrast are more complex and have developed more of a private structure and, as such, they are less common. Examples of closed-ended funds include Dr Ebertz & Partner and Fundus.

An anomaly that has occurred in 2003, however, is the growing trend for German open-ended funds to invest in hotel development projects, because this bucks the trend of investing in an asset with a proven track record. While German open-ended funds are particularly sensitive with respect to their choice of asset investment, the risk of investing in an asset under construction is particularly higher than investing in a going concern. However, emphasis by German funds is placed upon factors such as the quality of the covenant and the location of the site to ensure that it is a viable long-term investment opportunity.

German funds operate under a strong regulatory framework; for example, funds must invest a minimum of 50% of their capital in real estate and their income must be derived through leases, thus making themselves suitable to hotel investment. Furthermore, in recent years, due to changes in Germany's legislation, the funds have had to seek higher-yielding investments, such as hotels, to compensate for the loss in tax incentives. German open-ended and closed-ended funds are expected to continue to invest in hotels in order to comply with their diversification strategies. Furthermore, recent changes in legislation in 2002, aimed at increasing market transparency and providing greater flexibility to investors, has resulted in unresticted investment in assets located in countries outside of Europe. So long as returns on the equity markets remain uninspiring and real estate remains an attractive investment class, German funds are likely to increase the liquidity of certain hotel markets in the short-term and provide an important source of capital for the European market. However, because German open-ended and closed-ended funds are considered to be long-term, low risk and secure, the long-term liquidity of certain investment markets may be impaired.

Private Equity Groups

Private equity groups have become significant players in the European hotel market. One catalyst in the development of the private equity market is due to legal and structural changes, such as to pension funds and insurance company regulations, which have allowed for the liberalisation of investment choices. Consequently, the spectrum of investors in private equity has significantly expanded.

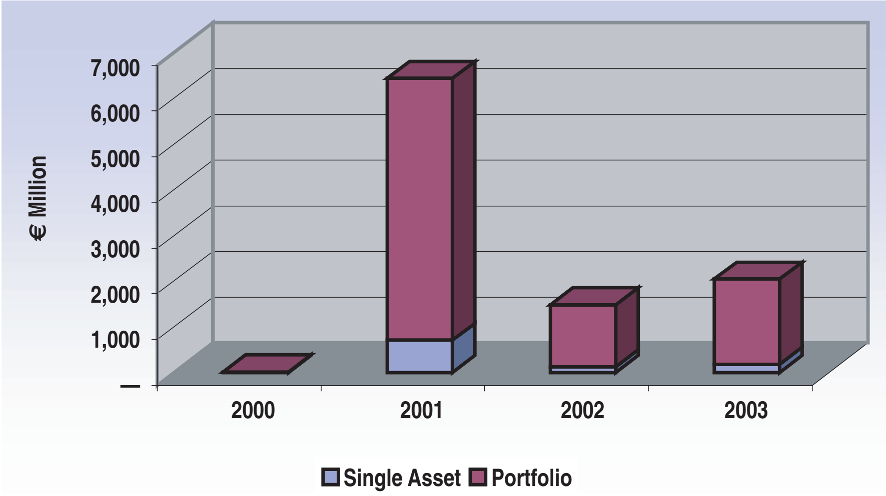
Private equity real estate funds, which have formed in recent years, have recognised the favourable conditions for investment in the hotel sector. Low interest rates, a low inflationary environment, moderate supply growth, anticipated increases in cash flow in the medium term, enhanced value potential and the availability of debt capital, are all favourable conditions currently available for hotel private equity funds looking to take advantage of well-located hotel assets across the globe. Private equity funds are likely to have greater access to debt at favourable lending terms than independent hotel investors, due to their size, expertise, track record and their diversified well-balanced portfolio.

Traditional private equity funds operating in Europe include Blackstone Group, Colony Capital, Strategic Hotel Capital and Walton Street Capital. All of these companies have significant expertise in real estate and are particularly skilled at sourcing and selectively acquiring single asset investments. Hotel assets of particular interest are sited in prime locations, have a significant cash flow and have strong residual value enhancement potential through creative and assertive asset management techniques. The Savoy Group, the Four Seasons Milan and the Marriott Champs-Elysées are all examples of quality assets either currently or historically owned by these concerns.

Specialist Hotel Investment Companies

European specialist hotel companies have developed since the mid-1990s, but have become more prominent and active within the last five years, although they remain relatively few in number. These companies offer specialist expertise in the hotel market, hotel operations and business development. None of these companies operate outside Europe and the majority focus within a specific area. For example, Pandox operate predominantly in Northern Europe, and Capona and Dividum operate only in Scandinavia. Other similar traits include owning assets in strong locations (such as in city centres, at airports or at convention centres), and focus on core market segments (such as business and leisure). Specialist hotel investment companies' income is derived through leases. Through a combination of different lease structures, they are able to add value through higher cash flows or through limiting the risk involved. The structure of each lease is adapted to each prevailing situation and can take the form of turnover-based leases, profit-based leases, fixed leases and operating leases.

Figure 6 Total Investment Volume – Private Equity 2000–03

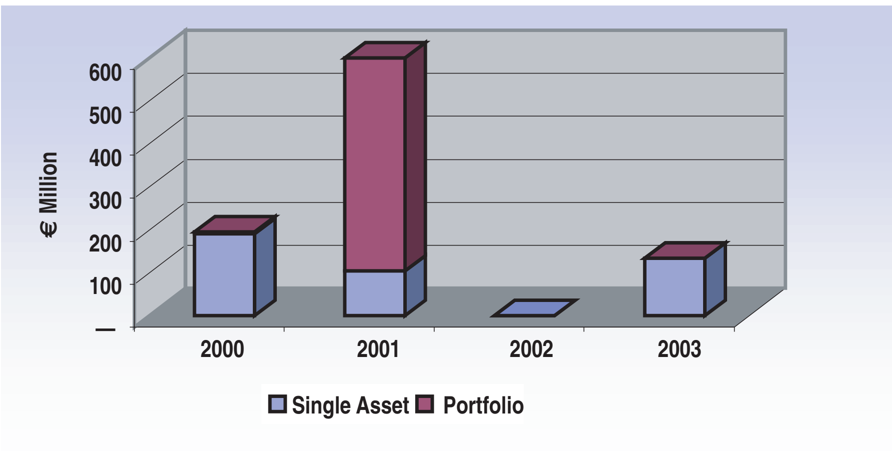


Source: HVS International Research

A REIT Revolution?

An REIT is a listed or listable portfolio real estate investment vehicle that has to distribute a substantial proportion of its income to its shareholders in return for exemption from corporation and capital gains tax. REITs originated in the USA, but have since been introduced in a number of countries, including the Netherlands, Belgium, Japan, Canada, Italy, Australia and most recently France. The UK and Germany remain the only two G7 countries without an equivalent although, following recent moves by the UK government, REITs are likely to be introduced from 2005 and may shape the UK property market of the future. The benefits of REITs include improved liquidity and diversification, transparency and scrutiny in indirect real estate markets, lower cost of capital and access to the wider capital markets to help finance acquisitions and developments. However, capital investment and expansion plans can be limited by the REIT's highly regulated and restrictive structure and, furthermore, listed REITs can experience significant volatility in their share prices. Nevertheless, REITs have proven to lend themselves to the hotel sector, and remain popular, particularly to institutional investors who seek liquidity and diversification and longer-term security. We consider REIT structures to be ideal for UK provincial mid-market hotel groups, such as Thistle or Macdonald Hotels, who, regardless of the recent downturn in the economy, have remained resilient.

Figure 7 Total Investment Volume – Specialist Hotel Investment Companies 2000–03



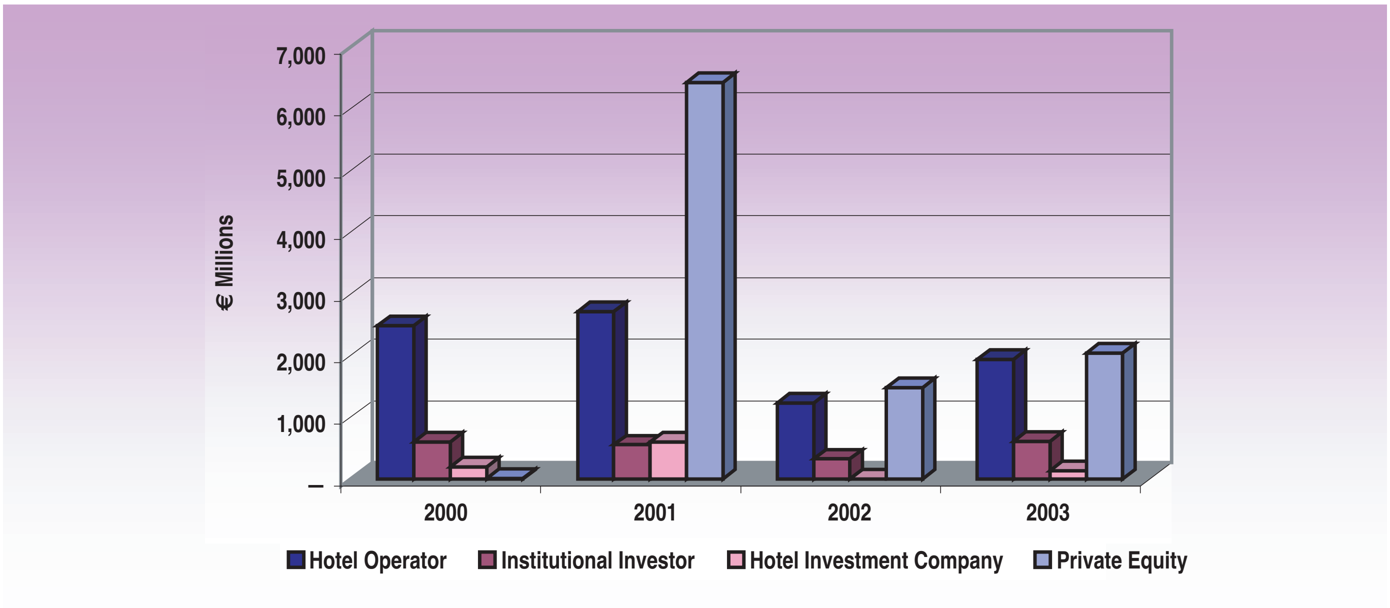
Source: HVS International Research

Exit Strategy

A flexible exit strategy is critical for a successful hotel investment. With the growing trend of splitting hotel ownership from management on the increase, there is an increased pool of non-specialist hotel investors. Failure to understand the fundamentals of the hotel industry, and the importance of timing and the cyclical nature of the industry, is simply a formula for disaster. Different owners have different exit strategies.

For short-term investments, investors need to understand and learn to take advantage of the cyclical nature of the industry, to redeem their assets at the optimum time. It is therefore debatable whether for short-term hotel investments it is truly possible to separate the unique hybrid of business risk from that of real-estate risk, as successful asset managers require a

Figure 8 Total Hotel Investment by Buyer Category (by Transaction Volume) 2000–03



Source: HVS International Research

sound knowledge of the hotel market. Understanding the cyclical nature of hotels is therefore crucial as it results in fluctuating revenue streams, thus the knowledge of understanding when to enter and when to exit is critical as it dictates the degree of profitability. US investors generally prefer short-term investments, shown in their preference for management contracts, which are generally considered to offer the greatest capital appreciation potential.

With respect to long-term investors, an acute knowledge of the cyclical nature of the hotel market and general understanding of the fundamentals of the industry is not as critical. Lease agreements generally bode well for long-term investors, and as such US investors are relatively few. German funds are an example of long-term investors seeking a secure, sound investment. The addition of hotels as real-estate assets helps to provide a balanced and diversified portfolio, enjoying a reasonable return over the long-term. Investors of this kind generally retain the asset for between ten and 40 years.

The ability to generate strong cash flows and deliver value is dependent upon various issues, such as economic, social and demographic trends, as well as the quality of the brand and the efficiency of the management. Structuring the lease or management agreement is essentially governed by various factors, such as the type of hotel, an educated and informed understanding of the hotel market, the selected operator and brand, and the length of the agreement. Structuring the lease agreement or management contract to link the return to both the operator and the investor is likely to provide greater motivation to improve performance (barring any non-recurring, exceptional circumstances, such as terrorist activity). As a result, well-structured leases reduce cyclicality and can have a direct and positive impact upon the cash flow and hence the value of the asset.

Hotel investments, due to their increased volatility, are considered an opportunistic investment. During troughs in the market when no debt covenants have been broken or there is no need to sell, it is generally unlikely to achieve a hotel sale at book value (to a rational investor). However, it is important to note that, during the recent downturn in the market, values have declined but not to the extent of underlying profits, due to the sheer weight of capital looking to invest in the sector and the general belief that the market will recover. An example of which, is the recent transaction of the freehold interest in the Mayfair InterContinental in London.

Exiting from a portfolio of assets at the optimum time requires a different exit strategy, because hotels within a portfolio rarely perform uniformly, due to the age of the asset, the market positioning of the hotel, its location and the quantity of new hotel supply entering the market. In terms of portfolio disposals, the level of profitability is not simply dependent upon the stage in the business cycle, but the age and physical condition of the various assets will impact the future performance prospects. Furthermore, while it is advantageous to sell a large group of limited service hotels, thereby providing the potential investor the chance to achieve critical mass and increase their willingness to pay a market premium, this is less likely to be the case for an up-market hotel group, where individual hotel sales are more likely to achieve a premium. The market positioning of the assets therefore also helps to determine the preferred exit strategy.

Debt Finance

Hotel lenders require a sound knowledge of the cyclical nature of hotels, similar to that of investors, in order to gain an understanding of the potential return and risk exposure. Despite more extensive cross-border activity by lenders increasing the availability for debt finance, the recent negative downturn in the hotel investment cycle, together with preparations for the implementation of Basle II (resulting in more rigid, and an increased number of, investment parameters), lenders have become more cautious. Lenders are now extremely sensitive towards choosing viable hotel assets in which to provide debt finance, preferring going concerns as opposed to developments. Factors that are taken into consideration to ensure that the asset generates sufficient cash flow in order to service debt payments include:

- The location of the hotel, both on a regional and local scale;
- The quality/star-rating of the hotel asset;

- The appropriateness of the brand and the capabilities of the operator;
- The diversity of the hotel's market segmentation, the suitability of its facilities and amenities towards its market and its strategic positioning;
- The sales and marketing and distribution strategies;
- The structure of the lease or management contract.

In recent times, the introduction of the euro has encouraged cross-border investment and lending. However, continued consolidation of the banking industry, such as Royal Bank of Scotland and Natwest, Bank of Scotland and Halifax, and the merging of Deutsche Hyp, Eurohypo and Rheinhyp, as well as several banks downsizing their commercial real estate lending divisions, has resulted in a reduced number of hotel lenders. Nevertheless, as hotel lenders seek high-quality assets with sustainable cash flows, attractive lending terms are available for such assets.

In light of the current economic climate and with hotels severely affected by events such as terrorist activity, the war in Iraq and the outbreak of SARS, lenders continue to be more disciplined and conservative in underwriting debt. A review of the underlying loan conditions shows that hotel loan terms in Europe are typically shorter, loan-to-value ratios have remained relatively stable, at around 65%, and there has been a moderate lessening of debt coverage ratio requirements.

With respect to the differences in lender preference between public and private borrowers, this has narrowed in recent years. Previously, lenders favoured public companies due to their lower risk profile; however, as a result of large-scale corporate scandal and the improved profile of private equity funds and other institutional investors, the gap is reducing. Portfolio diversification, both across different asset classes and through geographical diversification, reduces risk exposure, thus allowing access to cheaper sources of debt finance. A strong distinction continues to be made, however, for private individual investors with a lack of viable covenant.

Conclusions and Outlook

The more disciplined lending standards during the late 1990s have helped to restrain over-supply and over-leveraging, and together with the low inflationary and low interest rate environment, the majority of hotel owners have survived the downturn in the hotel cycle. Apart from the difficulties experienced by Le Meridien, there have been no high-profile bankruptcies affecting hotel companies in the past year, compared with the early 1990s, despite hotel trading conditions being the worst in living memory for many hotel operators. Consequently, despite the continued difficult and challenging economic environment within Europe, investor confidence in the hotel sector is relatively robust, with 2003 witnessing an increased number of single asset hotels available on the open market and the narrowing of the gap between bid and asking price. Furthermore, as institutional investors and other non-specialist hotel investors seek to diversify their portfolios, hotels are increasingly considered a more mainstream asset class. The pool of capital available to hotel investment, both single asset and portfolio activity, is therefore widening.

With many European cities now positioned at the bottom of their trading cycles, or showing the first signs of early recovery, this is likely to stimulate an increased level of investment activity. Following significant portfolio activity in recent years, hotel operators are likely to forge ahead with disposal strategies of assets not considered to be of a strategic fit in an attempt to provide a welcome boost to share prices. For example, InterContinental Hotels Group has recently announced its intention to dispose of 20 hotels, among which are several InterContinental Hotels as well as former Posthouse Hotels. Consolidation is also anticipated to continue, as operators continue their drive towards global representation. Various other portfolios rumoured to be on the market include Queens Moat Houses' UK, German and Dutch portfolios, the remaining Ciga hotels and the Finnish hotel real estate company Dividum. Meanwhile, the explosion of equity capital, in the form of private equity and German and American funds, is anticipated to increase for as long as the stock markets and other real-estate asset classes, such as offices, under-perform, and low inflation and low growth markets continue, leaving few alternative options but for investors to seek higher returns through portfolio diversification and to include higher-risk asset classes such as hotels.

Although the European operating markets remain volatile, the overall consensus is that the tide is turning and the outlook for the European hotel investment market is strong. We envisage that 2004 will not only witness a significant volume of single asset activity, but there will be a notable increase in portfolio activity, with the volume significantly greater than that experienced during the past two years.

[1] Money into Property edition 28 – DTZ Research 2003

ABOUT THE AUTHORS

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EUROPEAN SINGLE ASSET HOTEL TRANSACTIONS 2003 (€)

Property	City	Country	Rooms	Star Rating	Sales Price	Sales Price per Room	Buyer	Seller
Crowne Plaza – Brussels	Brussels	Belgium	356	4	31,800,000	89,000	Pandox	NH Hoteles
Holiday Inn Sarajevo	Sarajevo	Bosnia-Herzegovina	338	3	22,800,000	67,000	Alpha Baumanagement	Government
Grand Hotel Lav	Split	Croatia	445	3	14,900,000	33,000	Private Investor	Government
Beau Rivage Hotel	Nice	France	119	4	14,500,000	122,000	Vigie-Finance	Lone Star and Caisse des Dépots du Quebec
Hotel Pierre	Paris	France	50	3	11,000,000	220,000	JJW Hotels and Resorts	Private Individual
Marriott Champs-Elysées	Paris	France	192	5	Undisclosed Sum		Deutsche Immobilien Fonds (DIFA)	Strategic Hotel Capital
Steigenberger Hotel	Bad Homburg	Germany	169	5	20,000,000	118,000	AXA Immoselect	Not in the public domain
Grand Hotel	Bad Nauheim	Germany	106	3	24,000,000	226,000	Vivacon AG	Not in the public domain
Steigenberger Hotel 'Der Sonnenhof'	Bad Wörishofen	Germany	200	5	Undisclosed Sum		DKV – German Health Insurance Company	Not in the public domain
Maritim ProArte	Berlin	Germany	403	3	111,400,000	276,000	Sachsenfonds & 6b GMBH & Co	Not in the public domain
Nikko Hotel & Offices[1]	Düsseldorf	Germany	301	4	54,400,000	181,000	Blackstone Group/Event Hotels	Marubeni
Maritim	Frankfurt	Germany	543	5	Undisclosed Sum		WestInvest	Unnamed Developer
Dorint Hotel	Frankfurt-Eschborn	Germany	179	3	28,000,000	156,000	WestInvest	Unnamed Developer
Marriott	Munich	Germany	348	4	Undisclosed Sum		Blackstone Group/Event Hotels	Private.Trust linked to Sanwa
Holiday Inn – Munich Nord	Munich	Germany	365	3	Undisclosed Sum		Austrian Investor	Winterthur Versicherungen
Johnstown Hotel & Spa	Co. Meath	Ireland	84	4	18,600,000	221,000	John Sweeney (Developer)	Tony Murray
Jurys Green Isle Hotel	Dublin	Ireland	90	3	11,000,000	122,000	Lynch Hotel Group	Jurys Doyle Hotel Group
Jurys Tara Hotel	Dublin	Ireland	113	3	14,200,000	126,000	Woodmead Ltd.	Jurys Doyle Hotel Group
Galway Ryan Hotel	Galway	Ireland	96	3	10,900,000	114,000	Elite Catering	Gresham Hotel Group
Killarney Ryan Hotel	Killarney	Ireland	168	3	13,900,000	83,000	Hepton Developments	Gresham Hotel Group
Limerick Ryan Hotel	Limerick	Ireland	181	3	11,000,000	61,000	Budelli	Gresham Hotel Group
Angelo American Grand	Florence	Italy	115	4	24,500,000	213,000	Piramide Globale	Not in the public domain
Principe de Savoia	Milan	Italy	404	5	275,000,000	681,000	Dorchester Hotel Group	Starwood Hotels and Resorts
Luxembourg Hilton	Luxembourg	Luxembourg	337	4	25,800,000	77,000	Hilton Plc	Not in the public domain
Sofitel Grand	Amsterdam	Netherlands	182	5	Undisclosed Sum		Accor	Blackstone/Colony Capital
Centre Parcs – Eemhof	Eemhof	Netherlands	600	–	90,000,000	150,000	Zeeland Investments Beheer	Pierre et Vacances
Quinta do Lago	Algarve	Portugal	141	5	35,000,000	248,000	Private investor	Orient-Express Hotels Lda
Penha Longa Golf Resort	Sintra	Portugal	177	5	51,000,000	288,000	Consortium, Eurohypo	Aoki
Hotel Forum	Bratislava	Slovakia	222	4	13,000,000	59,000	Diamond Hotels Slovakia	Slovak Government
Hotel Ponderosa	Adeje	Spain	150	3	8,500,000	57,000	Ramchand Bhawnani	Tropical Hoteles SA
AC Front Maritim	Barcelona	Spain	177	4	13,000,000	73,000	Best Hotels	AC Hoteles

EUROPEAN SINGLE ASSET HOTEL TRANSACTIONS 2003 (€)

Property	City	Country	Rooms	Star Rating	Sales Price	Sales Price per Room	Buyer	Seller
Le Meridien Barcelona	Barcelona	Spain	212	5	87,000,000	410,000	Deka Immobilien Investment	Le Meridien
NH Sant Angelo	Barcelona	Spain	50	4	8,500,000	170,000	Cesar Orenga	NH Hoteles
InterContinental Princesa Sofía	Barcelona	Spain	500	5	135,500,000	271,000	Expo Hoteles	NH Hoteles
Sol Patos	Benalmàdena	Spain	277	3	16,800,000	61,000	Symbol Hoteles – Jaime Martinez Zapata	Sol Meliá
Bahia Sur	Cádiz	Spain	330	4	15,600,000	47,000	Cargill Financial Markets	Grubarges
Flamenco Coñil	Coñil	Spain	114	3	9,600,000	84,000	Hipotels	Exturga
Garonda Jandía	Fuerteventura	Spain	238	4	28,000,000	118,000	Grupo Lopesan	MAC Hoteles
Riu Maxorata	Fuerteventura	Spain	506	4	42,000,000	83,000	Sunrise Beach Hotels	Riu Hotels & Resorts
Riu Ventura	Fuerteventura	Spain	Included in Riu Maxorata above				Sunrise Beach Hotels	Riu Hotels & Resorts
Riu Tamango	Fuerteventura	Spain	Included in Riu Maxorata above				Sunrise Beach Hotels	Riu Hotels & Resorts
Stella Canaris	Fuerteventura	Spain	1075	3	102,000,000	95,000	Hoteles Dunas	Stella Canaris
Cala Tarida	Ibiza	Spain	195	2	12,000,000	62,000	Grupo Playa Sol	Grupo Suntours
Royal Sherry Park	Jerez de la Frontera	Spain	173	4	16,000,000	92,000	Hipotels	Resort España
Balneario Blancafort	La Garriga	Spain	62	3	8,000,000	129,000	Grupo VMP	S.A. Blancafort
Occidental Allegro Oasis	Lanzarote	Spain	685	4	45,000,000	66,000	Metropolis & La Caixa	Occidental Hoteles
Occidental Gran Teguise	Lanzarote	Spain	Included in Occidental Allegro Oasis				Metropolis & La Caixa	Occidental Hoteles
NH Breton	Madrid	Spain	56	3	8,500,000	152,000	Elier Goñi	NH Hoteles
NH Lagasca	Madrid	Spain	100	3	17,200,000	172,000	NH Hoteles	Grupo Inmocaral
The Ritz	Madrid	Spain	167	5	125,000,000	749,000	Orient Express Hotels/Omega Capital	Le Meridien
Marina Golf-Playa	Mojácar	Spain	724	4	60,000,000	83,000	Hot. Servi Group	Arenamar Hoteles
Regina Gran Hotel	Salou	Spain	294	4	30,000,000	102,000	Mediterranea Ind.	RS Hoteles
Alcora	Seville	Spain	401	4	45,000,000	112,000	Inmobiliaria Espacio	OHL
Bonanza Palace	Tenerife	Spain	641	4	38,000,000	59,000	Hotasa	German Investors
Canarife Palace	Tenerife	Spain	Included in Inter Palace Hotel Above				Hotasa	German Investors
Inter Palace Hotel	Tenerife	Spain	Included in Inter Palace Hotel Above				Hotasa	German Investors
Hotel Murillo	Tenerife	Spain	130	3	9,000,000	69,000	Jacamar (Socios de Gema Hoteles)	Grupo Piñero
Quality Hotel 11	Gothenburg	Sweden	184	3	30,200,000	164,000	Choice Hotels Scandinavia	Aspelin-Ramm Real Estate Group
Quality Hotel 11	Gothenburg	Sweden	184	3	31,201,000	170,000	Consortium of Anker Holding AS	Choice Hotels Scandinavia
Scandic Hotel Opalen	Gothenburg	Sweden	242	4	16,500,000	68,000	Lansberg Forvaltning AB/Hospitium AB	Atrium Fastigheter AB
Nordic Light Hotel	Stockholm	Sweden	542	4	63,000,000	116,000	Vital – Norweigan Insurance Company	JM – Swedish Real Estate Company
Nordic Sea Hotel	Stockholm	Sweden	Included in Nordic Light Hotel Above				Vital – Norwegian Insurance Company	JM – Swedish Real Estate Company

EUROPEAN SINGLE ASSET HOTEL TRANSACTIONS 2003 (€)

Property	City	Country	Rooms	Star Rating	Sales Price	Sales Price per Room	Buyer	Seller
Scandic Hotel Swania	Trollhattan	Sweden	196	4	9,700,000	49,000	Pandox	Trollhattan Tomt AB
Hotel des Bergues	Geneva	Switzerland	122	5	75,600,000	620,000	Kingdom Holding Company (KHC)/Prince Al-Waleed	Société Nouvelle des Bergues (affiliate of UBS)
Royal Crescent Hotel	Bath	UK	77	5	71,300,000	926,000	Von Essen Hotels	Lazard
Cliveden	Berkshire	UK	Included in Royal Crescent Hotel Above				Von Essen Hotels	Lazard
Norbreck Castle	Blackpool	UK	363	4	11,400,000	31,000	Britannia Hotels	Le Meridien
Crewe Hall	Cheshire	UK	65	4	22,700,000	349,000	Marston Hotels	Private Individual
Le Meridien Chester	Chester	UK	128	4	8,800,000	69,000	Feathers Group	Le Meridien
The Lygon Arms	Cotswolds	UK	69	5	21,100,000	306,000	Furlong Hotels Ltd	BHAC (Blackstone/Colony & co investors)
Manor House Hotel	Devon	UK	86	4	12,100,000	141,000	Carnegie Club (owned by Peter de Savary)	Le Meridien
Dalhousie Castle Hotel	Edinburgh	UK	32	4	14,200,000	444,000	Von Essen Hotels	Nexus Hotels
Royal Terrace Hotel	Edinburgh	UK	108	4	11,600,000	107,000	Prima Hotels	Le Meridien
Crowne Plaza	Edinburgh	UK	238	4	Undisclosed Sum		Mondiale	Westmont Hospitality Group
Queens Hotel	Leeds	UK	199	4	26,300,000	132,000	Quintessential Hotels	Le Meridien
Bentley Hotel, Harrington Gardens (50% stake)[2]	London	UK	64	5	20,000,000	625,000	Mastcraft	Landsmark Ltd
Sherlock Holmes Hotel	London	UK	119	4	19,300,000	162,000	Golfrate Properties	J Leon & Co
Quality Hotel Crystal Palace	London	UK	149	3	11,100,000	75,000	Aconflag	Private
The Hempel Hotel	London	UK	47	5	14,500,000	309,000	O & H Properties	AC Real Estate
Cliveden Town House	London	UK	35	5	11,400,000	326,000	The Mantis Collection	Lazard
Brown's Hotel	London	UK	118	5	74,900,000	635,000	Sir Rocco Forte & Family plc/Bank of Scotland Corporate Banking	Raffles Holdings Ltd
Draycott House	London	UK	13	5	12,900,000	992,000	Private	Private
Cadogan Hotel	London	UK	65	4	16,400,000	252,000	Leading Hotels Fund Advisors	Historic Hotels (Richard Broyd)
Mayfair InterContinental	London	UK	289	5	166,200,000	575,000	Radisson Edwardian Hotels	InterContinental Hotels Group
Kensington Moat House	London	UK	107	4	19,400,000	181,000	London Plaza Hotels Group	Queens Moat House
Somerset Kensington Gardens (50% stake)[2]	London	UK	40	Aparthotel	13,600,000	680,000	Private Investor	Ascott
Marriott Grosvenor Square Hotel	London	UK	221	5	Undisclosed Sum		Blackstone Group	PrivateTrust linked to Sanvwa
Golden Tulip Hotel (25% Stake)[2]	Manchester	UK	160	4	18,500,000	463,000	Golden Tulip UK	Manchester United Football Club
Holiday Inn, Castle Marina	Nottingham	UK	128	4	15,200,000	119,000	Quinn Group	CRD Catering (City) Ltd
Skibo Castle	Scottish Highlands	UK	33	5	46,400,000	1,406,000	Private Investors of the Carnegie Club	Peter de Savary
Welcombe Hotel	Stratford-upon-Avon	UK	64	4	22,700,000	355,000	Menzies Hotels	Countess de Chastenet du Puysegur
Le Meridien Warwick	Warwick	UK	218	4	32,200,000	148,000	Quintessential Hotels	Le Meridien

[1] Sale price includes offices
[2] The price per room has been adjusted in order to reflect the stake purchased

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