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MARKET SNAPSHOT

VIENNA, AUSTRIA

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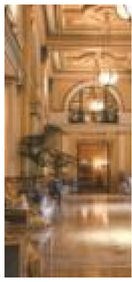


BELVEDERE PALACE AND MUSEUM, VIENNA

Source: HVS

This market snapshot is part of a series of articles that HVS produces on key hotel sectors across Europe. In writing these articles we combine the expertise of HVS with STR Global data for each market. Our analysis is based on data for a sample of 398 mainly branded properties as provided by STR Global.

Highlights

- Austria benefits from a strong economy, a stable political environment and a high standard of living. GDP growth in Austria fell by 3.9% in 2009, following the onset of the worldwide economic crisis. However, the economy rebounded the following year with an increase in GDP of 2.1%. Growth slowed in 2012 to 0.8%, and the Economist Intelligence Unit's (EIU) August 2013 Forecast shows GDP slowing further to merely 0.1% in 2013. From 2014 onwards, GDP growth is forecast to pick up, rising from 1.4% to 1.6% in 2017;
- After a fall in visitation in 2009, Vienna's hotel market made a quick recovery as travellers returned to the city in 2010. In 2012, Vienna attracted 5.6 million visitors, an increase of 10.8% on the peak of 2008. Bednights remained stable in 2012, at 12.2 million. However, during year-to-May 2013 both arrivals and bednights recorded an increase of 2.1% on the same period last year;
- In 2012, the main international source markets for Vienna in terms of arrivals were Germany (17.6%), Russia (4.6%) and the USA (4.6%). Russia is Vienna's fastest-growing source market with a compound annual growth rate (CAGR) of 29.4% from 2005-12;
- Passenger numbers at Vienna International Airport increased by 5.3% in 2012, to more than 22 million. For year-to-June 2013, airport passenger movements fell by 1.7% on the same period in 2012, owing to the severe winter experienced in Austria (which resulted in flight cancellations and restrictions on air travel) and strikes at airline companies and key airports;
- The meeting, incentive, conference and exhibition (MICE) sector in Vienna recorded a 7.0% increase in the number of meetings taking place in the city in 2012, with a total of 3,376 events. Vienna retained its number one spot in the International Congress and Convention Association's (ICCA) Top 20 Ranking for the international association meetings market. In 2012, MICE bednights exceeded the 1.5 million mark for the first time ever;
- Vienna's hotel market showed its resilience to the financial turmoil in other European markets, with a recovery in occupancy levels in 2010 of 10.8%, leading to a 6.6% increase in RevPAR. For the 12 trailing months to June 2013, occupancy has fallen slightly, as hoteliers seem to be driving rate at the expense of occupancy levels, with increases in average rate and RevPAR of 4.5% and 4.2%, respectively;
- Approximately three hotels entered the Vienna market over the past couple of years, and around a further 11 proposed assets are expected to come online between now and 2015;
- The hotel investment market in Vienna is illiquid, with just four transactions talking place over the past couple of years;
- As per the annual HVS Hotel Valuation Index (HVI), Vienna ended 2012 with values of around €189,400 per room for an internationally branded, four-star, city centre property.

Hotel Demand Patterns

Politics and Economics

THE RITZ-CARLTON VIENNA

Source: HVS

Austria has a well-developed market economy, a skilled labour force and a high standard of living. Although Austria was affected by the 2008 global financial crisis, after several years of solid demand for Austrian exports and record employment growth, the downturn caused a sharp but only brief recession. GDP contracted in 2009 (by 3.9%), but growth returned in 2010 with a rise of 2.1%. Owing to the Government subsidising reduced working hour schemes, allowing companies to retain employees, unemployment in Austria did not fall as steeply as in other European countries during the crisis. In fact, the country's 2012 unemployment rate of 4.3% was the lowest within the European Union (EU), compared to an average of 12.1% for the Eurozone.

However, the crisis did cause difficulties for Austria's largest banks, which faced large losses on account of their extensive operations in eastern and southeastern Europe, and the country continues to face external risks from the political and economic uncertainties caused by the Eurozone sovereign debt crisis. Banking and insurance are predominant in Austria's economy, and its strong industrial sector depends on exports with Germany, a key market.

In 2012, the budget deficit rose to 3.1% of GDP, and in March 2012 Parliament approved an austerity package that is expected to bring public finances into balance by 2016. According to the EIU, Austria's GDP grew by only 0.8% in 2012. Minimal growth of 0.1% is forecast for 2013, but GDP is then expected to increase to 1.6% by 2017.

Airport Demand

Vienna International Airport, the busiest and largest airport in Austria, is the hub of Austrian Airlines and budget airline Niki. International passenger movements at the airport represent 96.9% of total movements, highlighting the airport's status as Austria's international gateway.

In 2012, more than 22 million passengers passed through Vienna International Airport, an increase of 5.3% on 2011, showing further recovery from the recent downturn. Apart from 2009, when passenger numbers dropped by 8.3% on the previous year, due to a drop in demand caused by the economic crisis, passenger movements recorded good growth from 2002 to 2012, with a compound annual rise of 6.4%. However, year-to-June figures show a fall in total passenger movements of 1.7% on the same period in 2012; this could be attributed to the severe winter experienced in Austria, which led to numerous flight cancellations and limitations on air traffic across Europe during the first quarter of 2013, and strikes at airline companies and key airports.

Vienna International Airport has been undergoing a refurbishment and extension for the past several years. In June 2012, the Austrian Star Alliance (formerly Skylink) terminal extension opened, with capacity to handle up to 30 million passengers a year. According to the airport authority, €37 million was invested during the first half of 2013, including a €23.3 million renovation of one of the airport's runways. Investment for the full-year 2013 is expected to amount to €100 million.

The airport's underground railway station is to be expanded to provide space for long-distance trains. Additionally, the airport will be better connected to Vienna city centre with the completion of the new Vienna Central Station in 2015, making hotels in the city centre more accessible and appealing to both business and leisure arrivals at the airport.

Negotiations are ongoing with the surrounding communities regarding plans to add a third runway. However, these negotiations are proving challenging and increases in capacity at the airport might be inhibited if the runway extension plans are not realised, which would have an effect on growth in demand for hotel accommodation in Vienna.

CHART 1: ARRIVALS IN VIENNA 2000-12

Year	International	% Change	Domestic	% Change	Total	% Change
2000	2,789,582	—	749,349	—	3,538,931	—
2001	2,741,719	-1.7%	787,051	5.0%	3,528,770	-0.3%
2002	2,729,838	-0.4%	786,621	-0.1%	3,516,459	-0.3%
2003	2,855,069	4.6%	795,991	1.2%	3,651,060	3.8%
2004	3,064,317	7.3%	833,903	4.8%	3,898,220	6.8%
2005	3,222,041	5.1%	866,374	3.9%	4,088,415	4.9%
2006	3,338,629	3.6%	1,038,820	19.9%	4,377,449	7.1%
2007	3,480,242	4.2%	1,156,060	11.3%	4,636,302	5.9%
2008	3,793,342	9.0%	1,203,684	4.1%	4,997,026	7.8%
2009	3,581,334	-5.6%	1,175,108	-2.4%	4,756,442	-4.8%
2010	3,914,721	9.3%	1,412,051	20.2%	5,326,772	12.0%
2011	4,335,412	10.7%	1,358,980	-3.8%	5,694,392	6.9%
2012	4,375,017	0.9%	1,229,505	-9.5%	5,604,522	-1.6%
CAGR 2000-12		3.8%		4.2%		3.9%
Year-to-May						
2012	1,430,396	—	456,002	—	1,886,398	—
2013	1,465,774	2.5%	460,235	0.9%	1,926,009	2.1%

Sources: Vienna Tourist Board; TourMIS

Tourism Demand

Vienna's historic buildings and its cultural attractions ensure that it benefits from strong leisure demand. Additionally, Vienna is home to many international organisations, attracting business travellers, and is a well known conference destination. Charts 1 and 2 show a breakdown of international and domestic arrivals and bednights for Vienna since 2000. Efforts are also being made to further raise the city's international profile. The Vienna Tourist Board recently outlined its 'Vienna 2015' tourism plan. The goal is to attract 11 million overnights to the city by 2015, which is expected to generate an annual turnover of around €587 million just from the hotel industry.

International arrivals and **bednights** are important for Vienna, accounting for approximately 80% of total visitation and bednights. Both visitation and bednight numbers reached a peak in 2008. Following the start of the global economic crisis, the squeeze on household and corporate finances led to less disposable income for leisure or business trips; thus, visitation and bednight levels fell in 2009. However, demand recovered quickly in 2010 and numbers reached record levels in 2012. The pace of growth then slowed, but Year-to-May 2013 figures show an improvement. Additionally, over the last three years, the CAGR of international visitation and bednights has picked up momentum with an average increase per year of 5.7% and 5.3%, respectively.

CHART 2: BEDNIGHTS IN VIENNA 2000-12

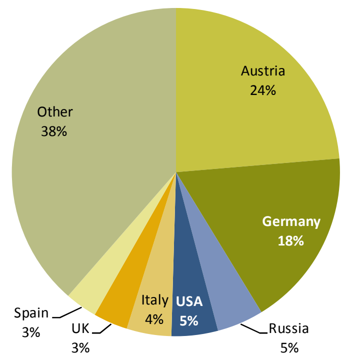
Year	International	% Change	Domestic	% Change	Total	% Change
2000	6,736,317	—	1,498,767	—	8,235,084	—
2001	6,657,745	-1.2%	1,539,230	2.7%	8,196,975	-0.5%
2002	6,621,253	-0.5%	1,557,873	1.2%	8,179,126	-0.2%
2003	6,956,277	5.1%	1,567,449	0.6%	8,523,726	4.2%
2004	7,482,302	7.6%	1,599,567	2.0%	9,081,869	6.5%
2005	7,818,867	4.5%	1,657,297	3.6%	9,476,164	4.3%
2006	8,085,262	3.4%	2,002,661	20.8%	10,087,923	6.5%
2007	8,186,344	1.3%	2,210,671	10.4%	10,397,015	3.1%
2008	8,723,112	6.6%	2,253,793	2.0%	10,976,905	5.6%
2009	8,295,047	-4.9%	2,221,827	-1.4%	10,516,874	-4.2%
2010	9,026,220	8.8%	2,650,214	19.3%	11,676,434	11.0%
2011	9,761,883	8.2%	2,484,321	-6.3%	12,246,204	4.9%
2012	10,002,078	2.5%	2,240,750	-9.8%	12,242,828	0.0%
CAGR 2000-12		**3.3%**		**3.4%**		**3.4%**
Year to May						
2012	3,269,175		812,154		4,081,329	
2013	3,343,710	2.3%	823,220	1.4%	4,166,930	2.1%

Sources: Vienna Tourist Board; TourMIS

Domestic visitation and **bednights** also reached a peak in 2008. However, domestic demand did not fare so well as international visitation after the global financial crisis. Numbers rebounded in 2010 with impressive growth on 2009, but domestic visitation then declined over 2011 and 2012; however, year-to-May 2013 figures show a small increase on the same period last year, hinting at a return to growth for the domestic segment.

Chart 3 shows the percentage share of visitation to Vienna by **source market**, in terms of arrival numbers. The most important international markets are Germany, Russia and the USA. Germany accounted for approximately 1.1 million arrivals in 2012, and Russia and the USA both achieved 280,000. Visitation from all three markets dipped in 2009, as Europe and the USA felt the effects of the slowdown that started in 2008. Apart from the dip in 2009, visitor numbers from Russia have increased year-on-year since 2005. Although Germany is Vienna's most import source market in terms of the sheer volume of visitors, Russia is Vienna's fastest-growing source market, with a compound annual growth of 29.4% from 2005 to 2012. Visitation from the USA suffered a three-year fall from 2007 to 2009, but picked up again to record a compound annual growth of 2.3 for the past eight years.

CHART 3: SOURCE MARKETS



Source: Austrian National Tourist Office

All of Vienna's international source markets recorded growth in 2012, apart from Italy and Spain, which is unsurprising given the economic turmoil in these countries, particularly Spain. However, Spain recorded good compound annual growth of 4.1% for the period under review.

Vienna's **MICE segment** comprises congresses and corporate events. Chart 4 shows a summary of the number of events and participants at venues in Vienna from 2002 to 2012. Events fell drastically in 2009, owing to the effect of the global economic crisis on business and event budgets. However, tying in with the rises in arrivals and bednights, MICE demand picked up again in 2010 and 2011. Although in Vienna even years are generally weaker than odd ones, owing the cyclical nature of some events taking place in the city, the number of events grew further in 2012 to surpass the peak of 2008.

Of the events in 2012, 1,939 were international – 57% of total events – again highlighting the importance of international demand for Vienna. Additionally, in 2012 Vienna retained its number one place in the ICCA's Top 20 Ranking for the international association meetings market, with 195 meetings.

The MICE segment produced 8.0% more bednights in 2012 compared to 2011. Over the past five years, the MICE segment has been responsible for a yearly average of 1.3 million bednights (13.0% of total citywide overnights). In 2012, MICE bednights exceeded the 1.5 million mark for the first time ever. Conference tourists also bring more revenue to the city in terms of spend per head, which is considerably higher than that of leisure tourists. In 2012, the average spend of those travelling to Vienna to attend conferences/congresses was €480 per head and bednight compared to an average of just over €265 for total visitors to Vienna.

CHART 4: MICE STATISTICS

Year	Number of Events	% Change	Number of Participants	% Change
2002	1,376	—	205,300	—
2003	1,416	2.9 %	238,400	16.1 %
2004	1,633	15.3	240,600	0.9
2005	1,748	7.0	274,100	13.9
2006	2,318	32.6	326,800	19.2
2007	2,764	19.2	395,100	20.9
2008	3,257	17.8	369,900	(6.4)
2009	2,569	(21.1)	426,100	15.2
2010	2,934	14.2	432,276	1.4
2011	3,151	7.4	475,298	10.0
2012	3,376	7.1	498,009	4.8

Source: Vienna Convention Bureau, 2013

International participants represented 67% of total participants in 2012. Interestingly, although Vienna hosted more international corporate events than congresses, three quarters of total international participants attended congresses, cementing Vienna's continuing success as a congress destination.

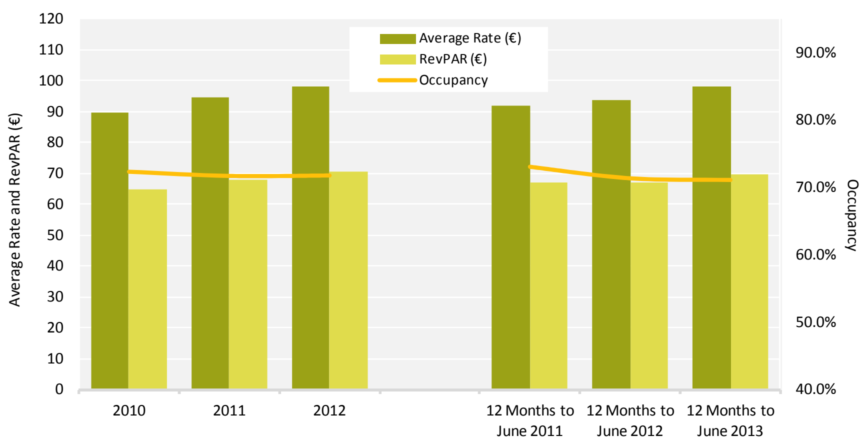
There are no year-to-date figures available for 2013, but the current congress calendar points to further increases in events and participants on 2012 by year-end. With the return of business travellers, as corporate budgets recover after the downturn, Vienna's MICE market will most likely continue to grow.

Hotel Performance

The analysis in this market snapshot is based on a sample of 398 hotels in Vienna. Chart 5 shows Vienna's hotel market performance in euro. Unsurprisingly, hotel performance in Vienna suffered over 2008 and 2009, as the financial crisis gripped Europe and the USA, affecting both leisure and business travel from the city's source markets.

However, unlike some other European markets that remained effected by the slowdown, Vienna's hotels achieved a 10.8% rise in occupancy in 2010, highlighting the resilience, stability and maturity of the market.

CHART 5: HOTEL PERFORMANCE IN VIENNA 2011-13 (€)



Source: STR Global

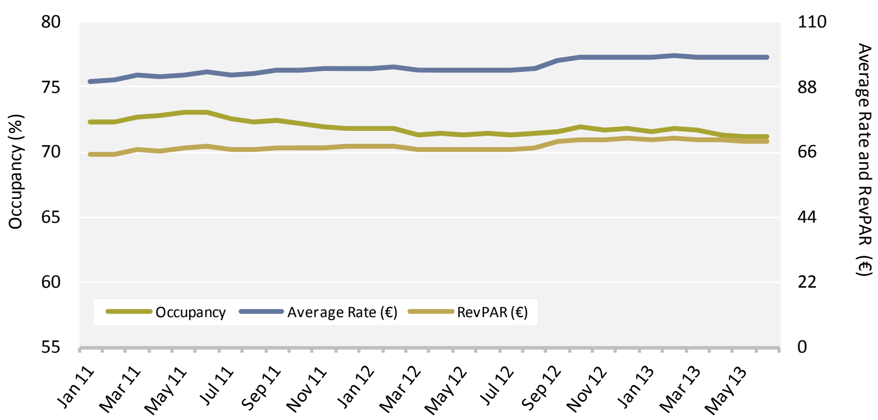
Occupancy fell marginally and then remained flat at 71.8% in 201l and 2012. The increases in average rate in 2011 and 2012, of 5.3% and 3.9%, respectively, suggest that hoteliers were pushing rate ahead of occupancy in order to improve performance. Owing to the rises in rate, RevPAR rose by 4.5% in 2011 and 4.0% in 2012.

The market's hotels continued to drive rate at the expense of occupancy over the trailing 12 months to June 2013, although the fall in occupancy was not pronounced at only 0.3%. Average rate increased by 4.5% (to €98) over the same period.

Chart 6 shows the monthly moving average of hotel occupancy, average rate and RevPAR from January 2011 to May 2013. There are no extreme dips or increases in performance over the period under review. On the whole, average rate has increased steadily, whilst occupancy has slowly declined, as hoteliers concentrated on driving up rates.

However, occupancy has not suffered drastically from this approach and, with continued economic recovery in Vienna's source markets, the subsequent increases in corporate and conference demand and the return of leisure travellers, it is likely that occupancy will recover to stable levels within the next few years.

CHART 6: 12-MONTH MOVING AVERAGE – OCCUPANCY, AVERAGE RATE AND REVPAR JANUARY 2011-MARCH 2013

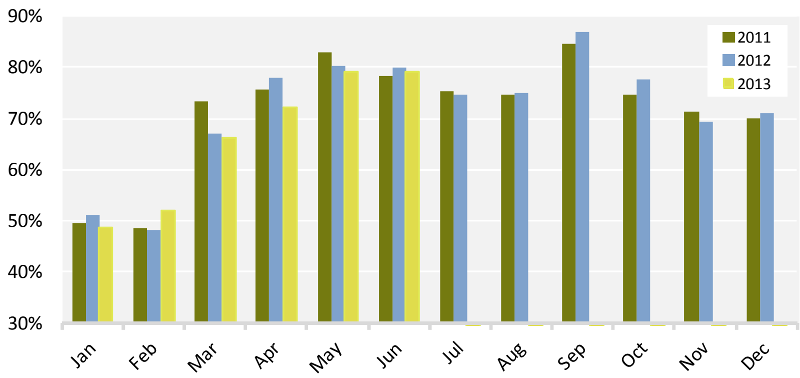


Source: STR Global

Seasonality

Chart 7 shows the seasonality for the hotel market in Vienna for 2011, 2012 and year-to-June 2013.

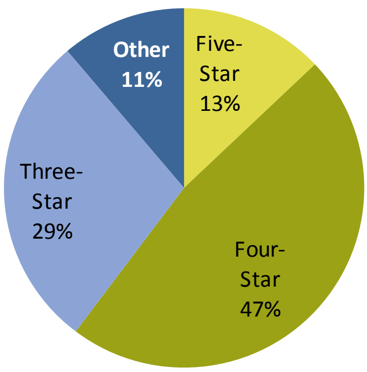
CHART 7: SEASONALITY – VIENNA MONTHLY OCCUPANCY 2011, 2012 AND YEAR-TO-JUNE 2013



Source: STR Global

Historically, the busiest month in Vienna is September (a strong conference month), when occupancy reaches the mid 80s. Overall, seasonality in the Vienna market is reasonably smooth with few large dips and occupancy of mainly above 70%, showing that the market is able to attract a good balance of leisure and business demand. A pronounced dip in occupancy, to around 50%, is recorded during the city's low season in the winter months of January and February, when the weather in Vienna is cold and both business and leisure demand is slow.

CHART 8: HOTEL ROOM SUPPLY IN VIENNA



Source: Vienna Tourist Board

Supply

Hotel supply in Vienna consists of approximately 426 hotels, ranging from five-star to three-star and other, with almost 30,100 rooms. Although, the city's hotel supply covers all segments, the majority of hotels are in the four- or three-star categories, which together account for 76% of Vienna's total room stock. In terms of the number of hotels, the five-star segment is the smallest with just 18 properties, although it has a higher room count than the 'other' segment (77 hotels). The four-star supply has the highest room count, representing almost half of total supply. The luxury market in Vienna includes internationally renowned brands such as Accor's Sofitel, Starwood's Luxury Collection and InterContinental. Chart 8 shows the breakdown of the current supply in Vienna by number of rooms.

New Supply

Notable openings in the market over the past couple of years include the debut of Israeli chain Leonardo Hotels in Austria in 2012, with the Leonardo Hotel Vienna. The group signed a long-term lease agreement with IMMOFINANZ Group for the 213-room hotel, on Europaplatz. Additionally, the Ritz-Carlton Vienna opened in August 2012; this 202-room hotel was originally slated to be a Shangri-La, but the Singapore-based group pulled out of the project after delays in construction. More recently, the Palais Hansen, a listed historic palace in the Schottenring area of the city, underwent a £65 million renovation and restoration before becoming Kempinski's first hotel in Vienna earlier this year.

The economic crisis does not seem to have had an effect on hotel development in Vienna and there is a decent pipeline of new arrivals expected to come online, as shown in Chart 9. The new supply is likely to put pressure on the supply/demand balance in the short term.

CHART 9: RECENT HOTEL OPENINGS AND DEVELOPMENTS

Future/Recent Openings	Category	No. of Rooms	Opening Date	Status
Palais Hansen Kempinski Vienna	Luxury	152	Mar 2013	Recently Opened
ibis Styles Wien City	Budget	133	Sep 2013	Under Construction
ME Vienna	Luxury	255	Autumn 2013	Under Construction
The Guesthouse	Luxury	39	Oct 2013	Under Construction
Tulip Inn	Budget	120	Jan 2014	Under Construction
Park Hyatt Vienna	Luxury	143	Jan 2014	Under Construction
Motel One Wien-Prater	Budget	348	Spring 2014	Under Construction
Motel One Wien-Staatsoper	Budget	400	End of 2014	Under Construction
Motel One Wien-Hauptbahnhof	Budget	530	2015	Preparation to Construction
Four Seasons	Luxury	320	2015	In Planning
Hotel im Palais Schwarzenberg		128	2015	In Planning
Wien Oberlaa		140	2015	In Planning
Total		2,708		

Sources: HVS Research; Vienna Tourist Board, as of 6 June 2013

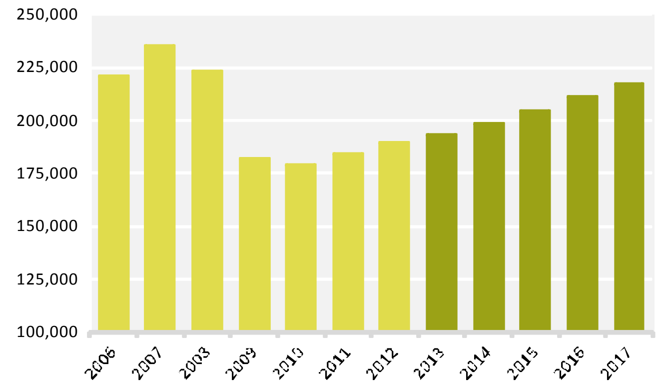
After years of little growth, the city's luxury supply has recently started to expand and there are more luxury hotels in the pipeline. Meliá Hotels International's ME brand will make its debut in Vienna this autumn in Austria's tallest building, a 220-metre-high, 60-storey skyscraper near the UN headquarters in the new Donau-City commercial district. Additionally, Park Hyatt and Four Seasons will make their first appearance in the city over the next few years. Approximately €220 million is being invested to transform the former head office of Länderbank into the 143-room Park Hyatt Vienna, and the 320-room Four Seasons property is to be developed in a former court building for around €75 million.

Hotel Investment and Values

Just this month, INTERNOS Global Investors acquired the 367-room Hilton Vienna Danube for almost €52 million from Immofinanz Group, for its Hotel Real Estate Fund. The hotel will continue to be operated by Hilton Worldwide under a long lease. No other sales have been recorded in 2013 so far, but three transactions took place in Vienna in 2012: Wertinvest purchased the 458-room InterContinental Vienna from a Lebanese investment firm headed by Toufic Aboukhater for €50 million, but it is rumoured that the hotel needed the same amount of capital expenditure. In December 2012, the 197-room Hotel De France and the 95-room Hotel Kummer were acquired by Gerstner when it purchased hotel group Austria Hotels International for an undisclosed sum.

From our valuation experience and knowledge of the market, we estimate that hotel values in Vienna have evolved and will grow as shown in Chart 10. Following five years of continuous growth, the value per room peaked in 2007 at €235,500, before falling 5.2% in 2008 to €223,300, a result of the worldwide economic crisis. Values dropped again significantly in 2009 as the crisis took hold and debt lending was constricted. Growth returned in 2011 with an increase of 3.0% on 2010

CHART 10: FIVE-YEAR FORECAST OF HOTEL VALUES IN VIENNA



Source: HVS – London Office

As per our annual European Hotel Valuation Index report (HVI), Vienna is 19th in terms of value per room. Vienna ended 2012 with values of €189,400 per room for a typical internationally branded, four-star, city centre property, ranking it nine places below the average value per room for the 32 cities covered by the HVI, which was €240,000 in 2012. HVS forecasts that the value per room will achieve sustained growth over the next few years to rise to €217,400 (at current exchange rates) in 2017, an increase of around 12.9% on 2012 prices, but still 8.3% lower than the 2007 peak.

HVS

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.
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STR Global provides clients – including hotel operators, developers, financiers, analysts and suppliers to the hotel industry – access to hotel research with regular and custom reports covering Europe, the Middle East, Africa, Asia Pacific and South America. STR Global provides a single source of global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information. STR Global is part of the STR family of companies and is proudly associated with STR, RRC Associates, STR Analytics, and HotelNewsNow.com.

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