

Philippa Bock and Bernard Forster

Introduction

European hotel investment activity came to a near standstill in the months immediately following the sudden and unprecedented terrorist atrocities in the USA. Nevertheless, the strength of the European hotel investment market in 2001 prior to these events was phenomenal, resulting in record levels of investment activity in both single asset and portfolio sales transactions. In 2001 the total investment volume of single asset transactions over €7.5 billion achieved a new all-time record of over €3.2 billion, an increase of over 44% on the previous year. Meanwhile, portfolio and corporate activity recorded approximately €9.2 billion, an astounding 81% increase on the previous year.

The cautious and uncertain outlook that ensued during the last quarter of 2001 resulted in a sudden change in the investment market. As a result of uncertainty over future profit margins, and as evidence of a difference between the bid and the asking price unfolded, a number of deals close to completion were put on hold. Meanwhile, fewer assets came onto the market as hotel owners, able to service debt through falling interest rates and reduced gearing, chose instead to ride out the stormy conditions. In contrast to the previous year, which benefited from deals already well progressed following buoyant trading conditions in 2000, a reduced level of investment activity in the first half of 2002 was apparent. It is only in the second half of 2002 that the hotel investment market is showing distinct signs of recovery. Despite possible further military action against Iraq and other countries perceived as a threat to international security, there are signs of a renewed optimism as an increasing number of deals are completing, in terms of both single asset and portfolio transactions. As at September 2002 year-to-date, single asset and portfolio sales transactions were down by approximately 46% and

76% respectively, with approximately €1.1 billion of single asset sales transactions recorded and €2.1 billion of portfolio transactions.

European Single Asset Transaction Activity

During 2001 we recorded a total of 80 single asset hotel transactions which met the criteria for inclusion within our survey. These represented an 11% increase compared with the previous year's 72 qualifying transactions, and a 13% increase upon 1999 levels, when a total of 71 single asset hotel transactions were recorded. In 2002 we have recorded 34 qualifying transactions to-date in our survey.

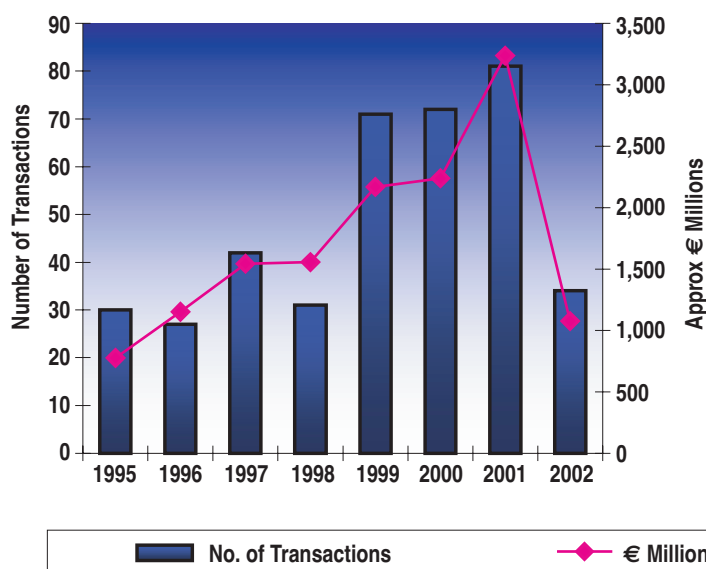
HVS International is pleased to have been involved with providing valuation and due diligence support to a significant proportion of the single asset and portfolio sales recorded within this report.

Over the past three years liquidity within the European hotel market has improved, with the total value of single asset hotel transactions rising phenomenally; in 2001 there was a record high of over €3.2 billion. This represented a 44% increase upon the total value of transactions in 2000 and an astounding 108% increase since 1998.

It is also interesting to note that, in addition to the increased volume of transactions, the average price achieved per room increased by 35% between 1999 and 2001. This trend has not yet been repeated in 2002; however, several quality single assets are currently being marketed (or are rumoured to be), including Starwood's Ciga portfolio, the Ritz in Paris, the Nikko in Düsseldorf, the Four Seasons in Milan, the Hotel des Bergues in Geneva and the Sheraton Pulitzer and the Sheraton Schiphol Airport in Amsterdam.

The surge in transactional activity began in 1999. This can be attributed to various factors, such as EMU convergence, benefiting the investment

Figure 1 European Hotel Single Asset Transactions 1995-02



Source: HVS International Research

climate; the removal of currency risk, allowing increased cross-border activity; lower interest rates, improved market transparency and improved profitability as a result of strong trading conditions in many of the European markets, thus ensuring greater funds were made available for acquisitions. Transactional activity has been further boosted by the availability of sources of finance, such as securitisation and sale and leasebacks. Furthermore, private equity investors have become increasingly prevalent within the European investment market, a market which was traditionally dominated by hotel owner-operators.

Investment activity in 2001 was particularly impressive (at least during the first three quarters of the year), spurred on by deals which began in 2000 and, in some instances, opportunistic investors realising the capital gains achieved from entering the market during the early growth stage of the cycle. The global economic slowdown and the resultant effects of the terrorist atrocities in the USA resulted in a considerable stagnation in the hotel investment market during the final quarter of 2001, stagnation that continued into 2002. Transactional activity in 2002 has so far been notably weaker, but several deals are in the pipeline and are expected to finalise in the last quarter of 2002 or in early 2003.

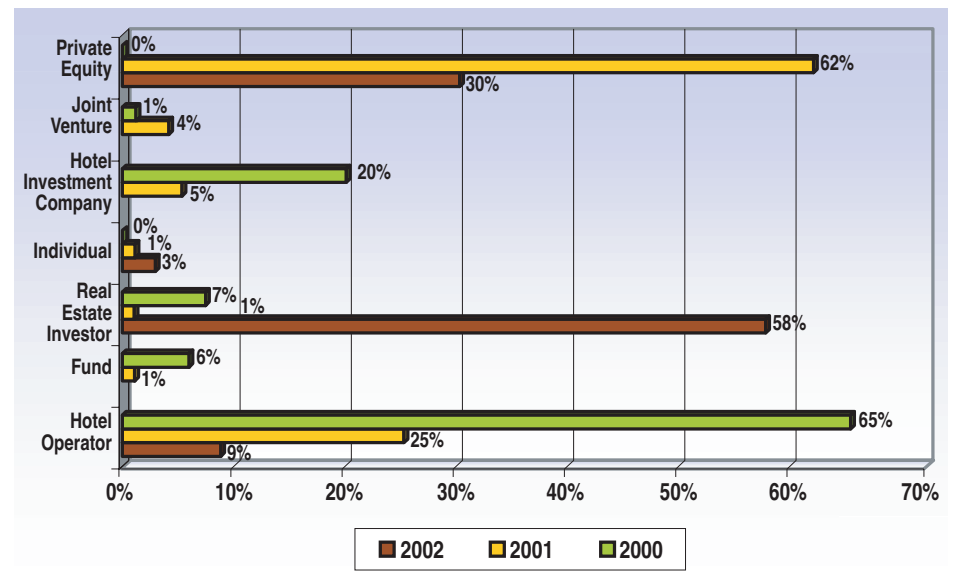
Company and Portfolio Transactions

Consolidation within the European hotel market has been a key phenomenon over the past few years as hotel operators and investors strive to gain maximum exposure in markets, and in doing so seek to achieve economies of scale and maximise shareholder value.

HVS International recorded 14 corporate or portfolio transactions during 2001 and nine transactions year-to-date in 2002. In 2001 the number of deals was down 36% on the number of transactions recorded the previous year, but, more importantly, the total value of these transactions was considerably greater. In 2001 the portfolio activity represented an exchange of around €9.2 billion, an 81% increase on 2000. The activity was dominated by the disposal and fragmentation of the Compass portfolio, which opened the gateway to more innovative financing.

Sale and leaseback transactions were the predominant method of

Figure 2 Portfolio Investment Activity by Buyer Category 2000–02



financing hotel acquisitions in 2001, with the source of funding widening to include open and closed ended funds, pension funds and property companies. While the concept of sale and leaseback transactions is not new to the European hotel industry, with Accor having been particularly aggressive in the market for alternative methods of funding during the 1990s, it wasn't until 2001 that this method truly became more than a mild flirtation, at least within the UK hotel industry.

In 2001, sale and leasebacks became more than a passing fad: it became clear that they were to change the future shape of the hotel industry. Hotel operators, by divesting themselves of ownership of hotel assets in return for leases and management contracts, would gain a considerable sum of capital to be used towards refurbishment and to fund acquisition and development activity. Sale and leaseback, through the release of capital, provides the financial means for greater pan-European consolidation, which until now has been starved of appropriate sources of funding. An example of this was Hilton's sale and leaseback activity, which provided the necessary funds for it to acquire Scandic Hotels.

Troubled times in the global stock market have resulted in real estate once more becoming a desirable asset in which to invest. Net institutional investment in UK commercial property is estimated to have totalled €3.75 billion in 2001.¹ Although this represented a 50% reduction upon the record levels achieved in 2000, property weighting has increased for the past two consecutive years and the long-term outlook for institutional interest in

commercial property remains positive. DTZ Research anticipates higher turnover of property assets in 2002, with net investment expected to be in the region of €4.2 billion in the UK. Such conditions favour the hotel investment market, as there is an abundance of institutional capital seeking a more diversified property investment portfolio. As a result, there is a definite and long-lasting shift in attitude towards private equity investment in European hotel real estate.

Who are the winners with respect to sale and leaseback activity? It appears that hotel operators who have assets in key locations, strong brands and consistent operating standards will be the most likely to benefit. Sale and leasebacks are particularly attractive to hotel operators for the following three reasons.

1. The capital raised through this medium provides financing equal to 100% of market value, unlike debt financing which typically would only provide capital of between 60% and 80% of the value;
2. The removal of debt, which is shown as a liability on the balance sheet, will ultimately improve the financial and earnings ratios as well as the return on capital employed;
3. Operators are in a strong bargaining position at the time of arranging the deal and are likely to receive a good rate of return on their investment while assured of long-term leases and management contracts and the essential capital to fund expansion and development.

Meanwhile, the three major benefits enjoyed by investors include:

1. The ability to invest in hotel real

Table 1 Sale and Leaseback Transactions 2000–02 (€)

Year	Corporate/Portfolio	Country	Number of Properties	Rooms	Total Sales Price	Price per Room	Buyer	Seller
2002	Jarvis Hotels	UK	9	1,341	237,000,000	177,000	Lioncourt Capital led PE Consortium	Jarvis Hotels
2002	Hilton	UK	10	2,043	528,000,000	258,000	Rotch, Farnsworth Group, Hilton	Hilton International
2002	Thistle Hotels ¹	UK	37	5,454	951,000,000	174,000	Orb Estates	Thistle Hotels
2002	NH Hoteles	Spain	4	643	91,000,000	142,000	Pontegadea Inmobiliaria	NH Hoteles
2001	Le Meridien	UK	12	4,300	1,645,000,000	383,000	Royal Bank of Scotland	Nomura International
2001	Hilton	UK	11	2,131	512,000,000	240,000	Royal Bank of Scotland	Hilton International
2001	Accor	UK	13	1,200	98,000,000	82,000	London & Regional Properties	Accor
2001	Airtours	Spain	7	2,124	106,000,000	50,000	Private Investor	Airtours
2000	Premier Hotels	UK	8	660	69,000,000	105,000	Accor/London & Regional	Premier Hotels
2000	Club Med Hotels	Europe	5	2,119	112,000,000	53,000	Gothaer	Club Med

¹ 'Sale-and-management back'

estate without having the burden of hotel operations;

2. Sale and leasebacks lend themselves to passive investors who aim to diversify their property portfolio without having the cyclical volatility, due to the long-term stable revenue stream;

3. The benefit of an appreciating asset, and one which is able to be recouped in the future;

Sale and leasebacks are set to become increasingly common with the expanding pool of private equity investors and hotel operators' relentless need to raise capital. Nevertheless, with sale and leaseback activity considered in some countries as 'off-balance sheet', some concern exists over future legal regulations of off-balance sheet activity following the Enron scandal. Sale and leaseback deals are increasingly a combination of both fixed and variable lease structures. The fixed element allows investors to benefit from a guaranteed income stream, while the variable element allows the investor to benefit from the upside of the market and the growth prospects of the hotel sector.

The Royal Bank of Scotland (RBS) was particularly active in 2001, acquiring 11 Hilton hotels for approximately €510 million, with Hilton keeping operating leases of 20 to 30 years with extensions of fixed and variable portion rents. RBS continued its aggressive investment stance, providing finance to Nomura's Principal Finance Group (PFG) for the sale and leaseback of six Le Meridien properties, five Principal Hotels (acquired by Nomura in February 2001) and the Cumberland Hotel (acquired separately by Nomura from Compass). Under the agreement, Le Meridien agreed to pay either 25% of the 12

hotels' revenues or £50 million a year in rent for the 30-year leases, whichever is the greater. RBS, through the turnover structure of the lease, benefits from above average growth prospects that they envisage within the hotel sector.

In 2002 Thistle Hotels entered into a uniquely structured deal with Gamma Four, a subsidiary of the property group Orb Estates. The deal involved some 31 provincial UK properties and six London properties, equating to some 5,500 rooms. Strictly speaking the deal should be termed a 'sale and management-back' transaction rather than a pure sale and leaseback. Thistle signed 30-year management contracts and has guaranteed a minimum EBITDA of €70 million for the first ten years. The operator will meet any shortfalls, capped at twice the minimum EBITDA, with the minimum EBITDA indexed with inflation. Thistle is likely to receive management fees in excess of €12.5 million per annum. The corporate deal transacted for €950 million, representing a very low discount on the book value.

In late August 2002, Hilton announced that it had successfully completed its second sale and leaseback deal, releasing a further €488 million of capital. The deal involved ten properties, some 2,043 rooms, and led to the formation of a limited partnership between the property company Rotch, the hotel investment company Farnsworth Group, and Bank of Scotland. Hilton itself invested €39 million for a 40% equity stake (with the option to reduce its stake to 20%). The hotels thus sold for a total of €528 million; this contrasts with a book value of €467 million. Hilton will lease the hotels for a period of 27 years under a variable lease agreement. The lease charge is based upon 28.8% of turnover

plus a €5 million payment, equating to approximately €37 million per annum until 2004. Thereafter the lease is subject to a minimum guarantee of €27.5 million, which is adjusted in line with inflation capped at 5%. The lease charge is higher than the sale and leaseback deal completed with the Royal Bank of Scotland, but this is considered in part to be due to the inclusion of a central London property, which is expected to make a significantly greater margin than the provincial UK properties. Hilton's guaranteed rental payments until 2004, together with its retaining a 40% stake in the assets, are an indication of the complexity of completing such a deal during the current, uncertain trading environment.

Most recently, in October 2002, Jarvis confirmed that it had entered into a sale and leaseback agreement with a private equity consortium led by Lioncourt Capital for €237 million in exchange for a 34-year lease. The deal involved nine properties, some 1,341 rooms, of which three hotels are located in London and represent 43% of the bedroom stock. The rent payment, which is linked to turnover, is equivalent to 31% of turnover, and is subject to minimum and maximum payments of between €15.6 million and €17 million; this represents an initial yield of 7%. The deal confirms the group's intentions to focus on hotel management as opposed to hotel ownership, although the weak economic environment is thought to have resulted in the size of the deal to have been scaled down. Nevertheless, the hotels are reported to have been sold at 101% of their net asset value.

In addition to the fragmentation of the Compass portfolio in 2001, which resulted in the €1.3 billion sale of the

79-strong Posthouse chain to Six Continents at 7.9 times EBITDA, and the €385 million sale of the 48-strong Heritage Hotels group in a joint venture agreement between Macdonald Hotels and the Bank of Scotland at eight times EBITDA, there have been a number of other significant portfolio transactions in the European market.

Hilton's sale and leaseback deal with RBS provided the necessary capital to fund a strategic acquisition in the Scandinavian market. The Hilton Group surprised the market with the acquisition of Scandic Hotels for over €1 billion in a cash and share offer. Of the 154 hotels, 132 are located in Scandinavia and the rest in other European countries. Scandic's reported operating profit in 2001 was approximately €75 million, which represents an earnings multiple of 13.4 and a yield of approximately 7.5%.

In April 2001 the troubled Swiss company SAirGroup disposed of its hotel interests through the sale of Swissôtel to Singapore's Raffles Holdings for €268 million. The transaction enabled Raffles Holdings to significantly extend its market coverage, increasing its room inventory by 139% to some 13,500 rooms; it now operates in 17 countries across six continents.

In February 2002 NH Hoteles secured the purchase of an 80% majority stake in Astron Hotels, the German owner operator, for €130 million, with the option of buying the remaining 20% within three to four years. Almost all of the 53 hotels (8,396 rooms) are held as leasehold, with an average length of 22 years remaining. This transaction reflects an 8.4 multiple on 2001 EBITDA for the 80% transacted. NH Hoteles helped to fund the acquisition through the sale and leaseback of four of its Spanish properties to the property company Pontegadea Inmobiliaria.

The number of portfolio/corporate transactions in the year-to-date 2002 has been far fewer than in the previous year. This is due to investors erring on the side of caution, the decline in European-wide operating performance, and the differentials between the bid and asking price. Nevertheless, as the European market recovers and operating performance improves, investor interest and confidence will be revived, which is likely to mean that investment activity increases and higher prices are achievable.

Most recently, Accor announced the acquisition of a 30% stake in the

German hotel group Dorint for a price quoted to be around €50 million, with an option to raise its stake to 55% by 2010. The opportunity arose as a result of the German company's financial distress brought about by an aggressive expansion plan in 1999–01. Dorint currently has 91 hotels, 75 of which are in Germany, and all the hotels are operated on fixed leases, typical of the German hotel market.

Finally, in December 2002, Compass completed its sale of the 220-strong Travelodge hotel chain and the 397 Little Chef restaurants. The private equity group Permira emerged as the triumphant party, agreeing to pay a total of €111 million. Compass is likely to seal its exit from the hotel business in 2003, with the sale of the Strand Palace and the Regent Palace, some 1,700 rooms, most likely. Initially the two assets were to have been sold to London and Regional; however, it has since been reported that the deal failed to complete.

A deal involving four of Starwood's Ciga properties in Italy is understood not to have completed, although Starwood are endeavouring to sell the portfolio, yet retain the management of the hotels.

Other possible targets in the quest to consolidate include Copthorne, Jolly Hotels, Maritim, Moat Houses, NH

Table 2 Selected Portfolio/Corporate Transactions 2000–02 (€)

Year	Company/Portfolio	Country	Number of Properties	Rooms	Total Sales Price (000s)	Price per Room	Buyer
2002	Astron Hotels	Germany/Austria/Switzerland	53	8,396	130,000	15,000	NH Hoteles
2001	Principal Hotels	UK/Denmark/Netherlands	17	2,500	418,000	167,000	Nomura Principal Finance Group
2001	Heritage Hotels	UK	48	3,110	385,000	124,000	Macdonald Hotels/Bank of Scotland
2001	Le Meridien Hotels	Worldwide	128	40,000	3,008,000	75,000	Grand Hotels (M) Acquisitions Co.
2001	Posthouse Hotels	UK	79	12,300	1,328,000	108,000	Six Continents
2001	Scandic	Sweden	154	26,452	1,004,000	38,000	Hilton International
2001	Swissôtel	Worldwide	23	7,827	268,000	34,000	Raffles Holdings
2000	Malmaison Hotels	UK	5	572	125,000	219,000	MWB/Radisson SAS ¹
2000	Rafael Hotels	Europe & USA	6	1,223	237,000	194,000	Mandarin Oriental
2000	BAA Hotel Portfolio	UK	8	2,927	307,000	105,000	Airport Hotels Partnership
2000	Sungarden	Spain	4	1,786	180,000	101,000	Iberostar
2000	Oriel Leisure	UK	8	818	69,000	84,000	Premier Hotels
2000	Krasnapolsky	Europe	64	10,000	495,000	50,000	NH Hoteles
2000	Millennium & Copthorne	Worldwide	N/A	22,500	845,000	38,000	City Development
2000	Tryp Hotels	Spain, Cuba, Tunisia	60	9,700	360,000	37,000	Sol Meliá
2000	Provobis	Sweden	17	3,000	71,000	24,000	Scandic
2000	Don Pedro Hotels	Spain	28	5,000	72,000	14,000	Airtours
2000	Hotetur Club	Spain	19	3,300	47,000	14,000	Airtours
2000	Orbis	Poland	N/A	10,500	145,000	14,000	Accor (25% stake) led Consortium
2000	Gran Dorado	Benelux & Germany	N/A	8,664	101,000	12,000	Pierre & Vacances

¹ MWB acquired Radisson SAS's interests in 2002

Hoteles and Steigenberger. Meanwhile, the Thistle group is rumoured to be considering further sale and leaseback activity with its remaining owned properties and Le Meridien has revived plans for a sale and leaseback of ten of its continental European properties. In terms of likely buyers, the poor performance of the stock market in recent times is likely to make property investment more attractive, with German open-ended and closed-ended funds as well as private equity funds likely to increase their prominence further in the European hotel investment market.

Consolidation Brings Rebranding

Following much consolidation within the European hotel market, considerable investment has taken place involving a number of rebranding exercises and rationalisation of brands.

NH Hoteles' acquisition of the Dutch chain Krasnapolsky has resulted in considerable rebranding. In addition, in February 2002, NH Hoteles sold the company Golden Tulip Worldwide and therefore the rights to the Golden Tulip and Tulip Inn franchises. This instigated the rebranding of all of NH Hoteles' owned and leased Golden Tulip and Tulip Inn hotels to the NH brand. Most recently the group announced that it will invest €8 million in the rebranding of the Astron group to the NH flag.

Hilton's acquisition of Scandic in 2001 will result in approximately 20–25 properties being converted to the Hilton brand in Scandinavia. In addition, eight former Holiday Inn franchises under Scandic ownership have been terminated and the hotels have been rebranded either as Scandic or as Hilton. With the prominence of the mid-market Scandic brand within the Scandinavian market, coupled with some properties in Germany not meeting Hilton brand standards, the future of the Scandic brand is set to continue within the European hotel market.

Six Continents' acquisition of Posthouse in 2001 has resulted in the entire portfolio being converted to the Holiday Inn brand. Seven hotels earmarked for disposal at the time of the acquisition have since been sold, providing additional sales at the lower end of the single asset transaction market.

Sol Meliá's acquisition of Tryp Hoteles in 2000 resulted in a new branding structure for the group, with

Tryp becoming the brand for the group's city hotels in both the three-star and the four-star categories.

Marketing Alliances and Franchise Agreements

While the European hotel market has experienced extensive consolidation in recent times, there is also a growing trend towards strategic alliances. Such a practice allows the parties concerned to extend their geographical exposure, widen their sales and marketing distribution channels, and provides benefits to both the customers and the companies concerned, without the need to acquire and amalgamate the two existing portfolios.

In September 2002 Rezidor SAS Hospitality entered into an agreement with Carlson Hotels that entitles it to hold the 30-year master franchise for the Regent, Park Inn and Country Inns & Suites brands in Europe, the Middle East and Africa. Rezidor will gain control of existing management and franchise contracts for these brands and will continue to extend the reach of these three brands alongside the Radisson SAS brand to total some 700 hotels within the next ten years.

In May 2002 Raffles International and Hotel Okura Co. of Japan formed a strategic alliance to explore business opportunities in areas including hotel development, securing of management contracts, marketing and procurement opportunities. Hotel Okura comprises 23 hotels, 16 of which are located in Japan; Raffles, which operates under the Swissôtel and Raffles brands, has some 39 hotels.

In August 2001 Le Meridien and Nikko Hotels announced an expansion of their global strategic alliance, formed in 2000, which encompassed all Nikko Hotels' properties outside of Japan and China. The alliance has been extended to include all Nikko hotels. Together, the alliance provides a combined worldwide network of 169 properties within 63 countries.

In June 2001 the UK group Jarvis Hotels entered into a 20-year franchise deal with Marriott International, under which 56 of its 66 hotels have since been rebranded as Ramada Jarvis. Eventually, the co-branding is expected to disappear altogether, leaving just the Ramada name. More recently, in June 2002, Jarvis entered into a second franchise deal, with the US giant Cendant. Under the terms of the deal Jarvis will manage budget hotels under the Days Inn and Howard Johnson

brands. This latest deal is part of the company's plan to transform itself into a hotel operator rather than owner, repositioning itself as a hotel management services group.

In May 2001 Millennium & Copthorne (M&C) announced that it had entered into a global strategic marketing alliance with Maritim Hotels. The alliance provided Maritim with instant marketing exposure in key gateway cities throughout Europe, Asia and the USA. Meanwhile, M&C will benefit from Maritim's strong foothold in the German market. Together, the alliance provides a combined portfolio of some 130 hotels, totalling some 35,000 rooms.

Sources of Investment Capital

By reviewing the types of buyers active in the European hotel market, it is evident that investment capital is available through a variety of sources. The prevalence of trade buyers, which represented some 57% and 40% of total single asset investment activity in 1999 and 2000 respectively, has been shown to have weakened considerably in 2001 and 2002. Indeed, diversity in today's competitive investment market is becoming more apparent, resulting in real change to the capital structures of hotel ownership.

Increasingly, dynamic and innovative means of financing are taking place, with the European hotel investment market witnessing a notable shift away from public equity to that of private equity in the form of private equity players, property companies and institutions. There is a growing trend of splitting hotel ownership from management, with joint ventures, partnerships and sale and leasebacks all becoming familiar terminology within the realm of hotel financing. Such methods of financing hotel real estate are in fact not new, having been practised within France and Germany for some considerable time. However, the fundamental difference now is that a number of factors, such as the increasing desire to benefit from a more diversified and balanced portfolio, and the transfer of capital from the depressed stock markets to that of property investment, have had the effect of widening the range of investment media available to hotel real estate. Alternative methods of financing hotels can no longer be considered simply as a phenomenon, but truly an established and sophisticated form of hotel financing.

In addition to private equity funding, new sources of financing have come through the establishment of development funds, very often in the form of a joint venture agreement between the operator and the investor. Examples include partnerships between Macdonald Hotels, in conjunction with Royal Bank Development Capital, and the Bank of Scotland; a joint venture agreement between Hanover and the Bank of Scotland, which has created the investment vehicle Tweed Investments; and a joint venture between Rocco Forte Hotels and the Bank of Scotland.

An alternative source of capital has

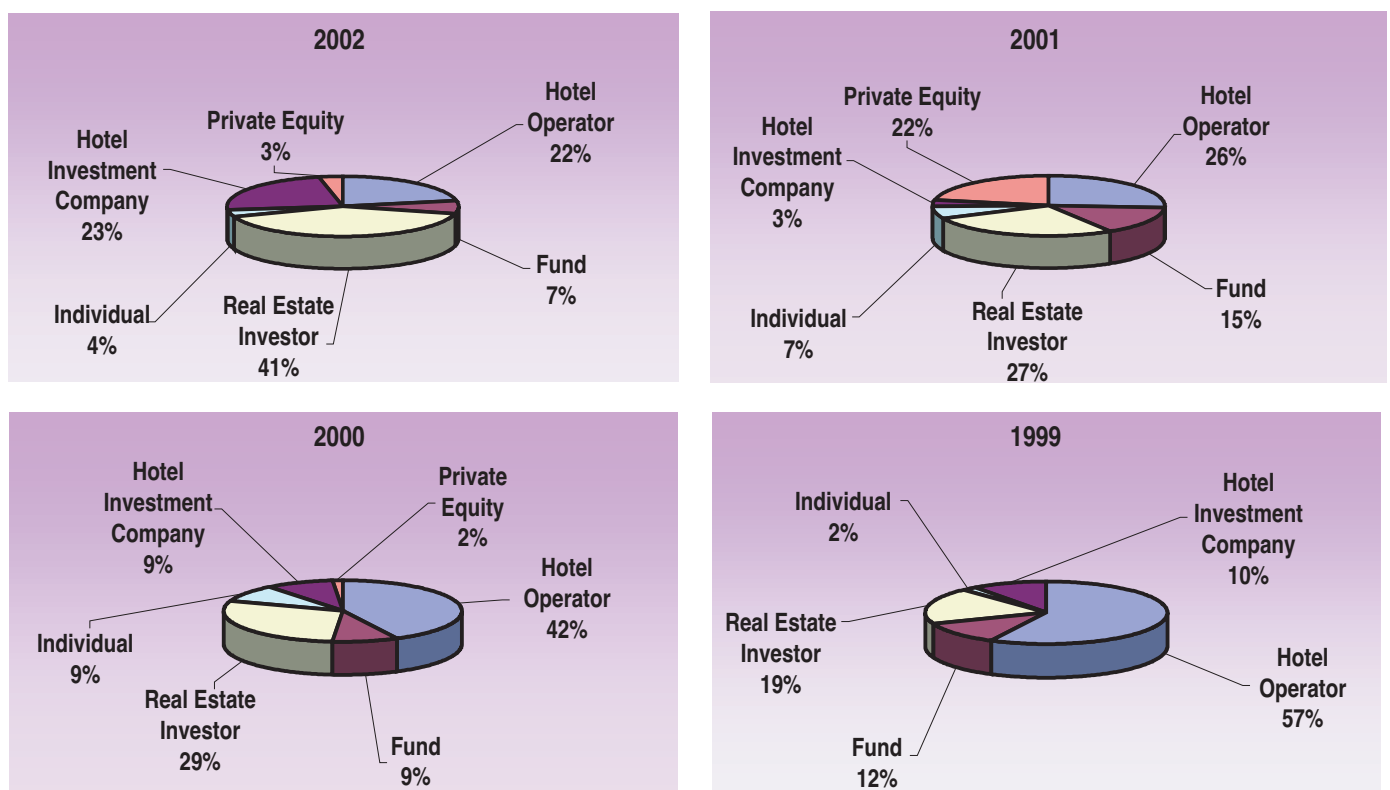
joint venture with Ian Schrager and has since opened two hotels in London.

Finally, direct institutional funding is also a new source of capital. In 1999 Norwich Union, the UK pension fund, purchased nine Hilton hotels and subsequently leased them to Jarvis Hotels. This is perhaps the first known example of a deal involving part fixed and part variable lease structures. Since then a number of dedicated hotel funds have been formed in which institutions hold direct equity stakes; one example is MWB's hotel fund, which enlists institutional investors such as Norwich Union, Clerical Medical and Scottish

perspective such innovative deals allow it to focus on the management aspect, and moreover provide the opportunity for a wider spread of capital, thus accelerating brand exposure. From a property investor's perspective, despite hotel markets' cyclical nature and volatility, an above average return is achieved over the long term. Moreover, hotel assets are increasingly sought after to provide an alternative to office and retail investments, providing a more diversified and balanced portfolio.

European quoted hotel companies are relatively few in number and are characterised by a relatively small

Figure 3 Single Asset Hotel Investment by Buyer Category 1999–02



Source: HVS International Research

stemmed directly from property companies. Active players include Marylebone Warwick Balfour (MWB), which has invested in the Howard Hotel (managed by Swissôtel) and ownership of the Malmaison portfolio. London & Regional, another property company, is also active, having purchased the boutique Trafalgar Hotel in London and more recently a majority stake in the Hilton on Park Lane. It also purchased eight Premier hotels and subsequently leased them to Accor. The Burford Group is another example; the company has formed a

Widows. One further example worthy of mention is that of the partnership formed between the British Airports Authority (BAA) and a number of direct institutional investors. The deal, which involved eight airport hotels in the UK (six are located at either Gatwick or Heathrow), is based upon turnover-based leases with a minimum guarantee, and BAA retaining a minority equity stake.

This new intensity in private equity funding makes strategic and good business sense for both parties concerned. From the hotel operator's

market capitalisation when compared to other industries. Sentiment towards hotel stocks has in recent times been relatively weak, and failure to raise sufficient capital through the equity markets has resulted in companies increasingly seeking alternative methods of financing. With hotel companies very often trading at a discount to their net asset value, the opportunity to divest hotel ownership to savvy property investors and other hotel investment vehicles provides a welcome impetus for change in the capital structures of the European

Table 3 Top Single Asset Investment Transactions 2001–02 (€)

Year	Hotel	Location	Star Rating	Rooms	Sales Price	Sales Price Per Room	Buyer
2002	Hilton Park Lane	London	5	450	247,652,000	550,000	London & Regional/Land Securities
2002	Hyatt Regency	Budapest	5	353	50,000,000	142,000	HVB-Leasing Hungary
2002	Hotel Praha	Prague	4	120	16,934,000	141,000	Falcon Capital
2002	Novotel Düsseldorf	Düsseldorf	4	232	32,499,000	140,000	Deutsche Bank Subsidiary
2001	Hotel Arts ¹	Barcelona	5	482	285,000,000	591,000	Deutsche Bank Private Equity/Patron Capital Partners
2001	Noga Hilton	Geneva	4	410	188,000,000	459,000	UBS/BNP Paribas
2001	Four Seasons	Prague	5	162	70,000,000	432,000	Quinlan Partnership
2001	Radisson SAS	Brussels	5	281	85,000,000	302,000	DIFA Fund
2001	Maritim Pro Arte	Berlin	5	406	119,000,000	293,000	Allgemeine Leasing
2001	Radisson SAS	Manchester	5	360	62,000,000	172,000	Not Disclosed
2001	Hilton	Vienna	5	600	69,000,000	115,000	Soravia Baurtrager GmbH

¹Price includes 13,000 m² of retail space, 12,000 m² of office space, residential apartments and a casino.

hotel market. Furthermore, with the recent troubles in the global stock markets, liquidity in hotel real estate is set to increase as investors seek to increase the weighting of real estate in general and hotel assets in their portfolios.

Particular trends in recent times have witnessed German funds looking increasingly outside their domestic markets and institutional investors continuing to gain a stronger foothold within hotel real estate, with pension funds becoming increasingly active. Meanwhile, private equity finance, such as Tweed Investments and Nomura Principal Finance, has provided a wealth of capital. Nevertheless, US investors who historically sought quality assets in primary locations within markets that have a strong US exposure are now exercising caution due to the recession in their home market. Instead, US investors have become far more particular in terms of their asset selection to avoid over reliance on a single source market.

Conclusions and Outlook

The outlook for European hotel operating markets is positive following the challenging times experienced after a substantial slowdown in the global economy,

compounded by the terrorist atrocities in the USA. Nevertheless, the possibility of war with Iraq and the risk of further terrorist attacks are likely to have an impact upon the future trading environment especially while there is uncertainty as to when such conflagrations may erupt.

The strength of the European hotel investment market in 2001 prior to 11 September was phenomenal, resulting in record levels of investment activity in both single asset and portfolio sales transactions. This was due to a number of late deals completing from the previous year and a particularly strong year with respect to portfolio transactions. However, the real effect of the slowdown in the economy has been felt in 2002, and this is true with respect to hotel investment activity. The first six months of 2002 were particularly quiet, due to the caution exercised by potential investors, a lack of suitable products available, due to the difficulty in pricing assets in troublesome times, the difference in price expectations between the buyer and the seller and little pressure from lenders to sell assets at below market prices. Nevertheless, 2002 has witnessed an impressive roster of both single asset and corporate deals, and the investment market is expected to continue to strengthen and resume the traits and trends set in the previous years.

Investment activity is likely to be increasingly characterised by innovative

financing structures, previously more the norm for other asset classes. The increased weighting of the real estate sector, particularly by pension funds and institutional investors, is likely to result in greater hotel investment activity. Investment in hotel real estate looks set to become more than just a flirtation, as both property and financial investors become more accustomed to determining hotel-sector risk. In the medium term, this will increase investment by those institutions that would traditionally shy away from 'revenue-generating' property, therefore increasing portfolio diversification.

Sale and leaseback deals are expected to become more numerous as operators seek to remove themselves from the burden of real estate ownership, concentrating instead on what they know best – hotel management. This is likely to increase net asset value to share prices and improve financing capabilities and ratings.

As a result, further consolidation in the European hotel sector can be expected both among hotel owners – institutions, banks, private equity houses and investment funds – and hotel operators seeking to extend their penetration and distribution.

¹ Money Into Property, edition 27 – DTZ Research 2002

EUROPEAN SINGLE ASSET HOTEL TRANSACTIONS 2000-02 (€)

Sale Date	Property	City	Country	Rooms	Sales Price	Sales Price per Room	Buyer	Seller
2002	ANA Grand Hotel	Vienna	Austria	205	87,800,000	428,000	JJW Hotels	All Nippon Airways (ANA)
2002	Sheraton-Sofia Balkan	Sofia	Bulgaria	188	24,075,000	128,000	EFG Eurobank, Axxon Bulgaria, Intl Lodging Bulgaria	Daewoo Engineering & Construction
2002	Hotel Praha	Prague	Czech Republic	120	16,934,000	141,000	Falcon Capital	Prague 6 Municipality
2002	Radisson SAS Royal	Copenhagen	Denmark	1004	155,985,000	155,000	Wenaas Hotels	Copenhagen Int. Hotels
2002	Radisson SAS Scandinavia	Copenhagen	Denmark		As Radisson SAS Royal		Wenaas Hotels	Copenhagen Int. Hotels
2002	Radisson SAS Globetrotter	Copenhagen	Denmark		As Radisson SAS Royal		Wenaas Hotels	Copenhagen Int. Hotels
2002	Cannes Beach Residence	Cannes	France	692	32,000,000	46,000	Pierre & Vacances	Lucia SA (Colony Capital Group)
2002	Radisson SAS Nice	Nice	France	329	24,384,000	74,000	CIT (Capital and Income Trust Group of Companies)	Morun Corporation NV (Abela Corp)
2002	Novotel Dusseldorf	Dusseldorf	Germany	232	32,499,000	140,000	Deutsche Bank Subsidiary	NCC Property Development
2002	Lindos Memories Hotel	Rhodes	Greece	70	9,000,000	129,000	Mitsis Group	n/a
2002	Hyatt Regency (Atrium Hotel)	Budapest	Hungary	353	50,000,000	142,000	HVB-Leasing Hungary	Pannonia Hotel Rt.
2002	Jurys Skylon Hotel	Dublin	Ireland	186	14,000,000	75,000	McEniff Hotels	Jurys Doyle Hotels
2002	Jurys Waterford Hotel	Waterford	Ireland		As Jurys Skylon		McEniff Hotels	Jurys Doyle Hotels
2002	Central Palace Hotel	Sicily	Italy	200	23,800,000	119,000	UNA Hotels & Resorts	Private Individual
2002	Palace Hotel	Naples	Italy		As Central Palace Hotel		UNA Hotels & Resorts	Private Individual
2002	La Residencia	Mallorca	Spain	63	24,000,000	381,000	Orient Express Hotels	Virgin Group
2002	Colombo Hotel	Mallorca, Portocristo	Spain	140	7,810,000	56,000	Hoteles Catalonia	Hotel Colombo SA
2002	Hotel Diagonal 1 (Project)	Barcelona	Spain	368	69,000,000	188,000	Princess Hotels	Espais/Landscape
2002	Illa del Cel	Barcelona	Spain	144	24,000,000	167,000	Vincci Hoteles	Iber Espais
2002	Hotel Maya	Alicante	Spain	195	10,000,000	51,000	Hotel Maya	Prom. Alicantinas
2002	Paradiso Garden	Mallorca	Spain	135	10,000,000	74,000	Mac Hotels	Lucy Hotels
2002	Mornington Hotel	Goteborg	Sweden	92	10,414,000	113,000	Koncept Fastighets	Choice Hotels Sweden
2002	Stadshotellet (Best Western)	Eskilstuna	Sweden	220	9,318,000	42,000	Debutanten 1124 AB (Home Invest AS)	Graflunds Byggnads AB
2002	Scandic Hotel Anglais	Stockholm	Sweden	212	63,127,000	298,000	AFA Sjukförsäkrings AB	AB Hotelinvest & Co KB
2002	Comfort Inn Hotel	Birmingham	UK	166	8,941,000	54,000	Private Individual	Choice Hotels Europe
2002	Quality Hotel Kensington	London	UK	72	11,954,000	166,000	International Currency Exchange (ICE)	Kingston Smith & Partners
2002	47 Park Street - Sofitel Demeure	London	UK	53	43,033,000	812,000	Orion European RE Fund/Marriott Intl	Colony Capital / Blackstone / Accor
2002	Mornington Hotel	London	UK	66	14,000,000	212,000	Losan	Hesperia
2002	Posthouse - Croydon	London, Croydon	UK	83	8,535,000	103,000	Private Individual	Six Continents

EUROPEAN SINGLE ASSET HOTEL TRANSACTIONS 2000-02 (€)

Sale Date	Property	City	Country	Rooms	Sales Price	Sales Price per Room	Buyer	Seller
2002	Hilton Park Lane	London	UK	450	247,652,000	550,000	London & Regional/Land Securities	Land Securities
2002	Princess Hotel	Manchester	UK	85	8,115,000	95,000	Carlton Hotels UK	Private Individual
2002	Posthouse - Manchester	Manchester	UK	191	10,567,000	55,000	Britannia Hotels	Six Continents
2002	Wood Norton Hall	Worcester	UK	292	12,172,000	42,000	Private Individual	BBC Resources
2002	Aldwark Manor Golf & Country Club	York	UK	60	12,425,000	207,000	Marston Hotels	n/a
2001	Hilton Am Stadpark	Vienna	Austria	600	68,700,000	115,000	Soravia Bauträger GmbH	Sodereal Holdings / SAir Group
2001	Le Meridien (Project)	Vienna	Austria	295	100,000,000	339,000	Deka Fund	n/a
2001	Hotel Mate	Vienna	Austria	172	8,357,000	49,000	Diana Hotels	Private Individual
2001	Hotel Dependance	Vienna	Austria		As Hotel Mate		Diana Hotels	Private Individual
2001	Radisson SAS Brussels	Brussels	Belgium	281	85,000,000	302,000	DIFA Fund	Memphis Group
2001	Swissotel Brussels	Brussels	Belgium	262	37,228,000	142,000	City Hotels SA	Bannimo Real Estate
2001	Barsey Hotel Mayfair	Brussels	Belgium	99	22,300,000	225,000	Private Individual	Private Individual
2001	Jolly Hotel Sablon	Brussels	Belgium	195	34,700,000	178,000	West Invest	Private Individual
2001	Excelsior Hotel	Dubrovnik	Croatia	172	22,348,000	130,000	Private Individual	Croatian Government
2001	Four Seasons Prague	Prague	Czech Republic	162	69,740,000	430,000	Quinlan Partnership	Four Seasons Hotels Inc.
2001	Mont Vallon Hotel	Meribel, Alps	France	92	13,700,000	149,000	Alp Azur Hotels	Colony Capital
2001	Radisson SAS Etoile Marceau	Paris	France	46	16,794,000	365,000	Brussels City Hotels	n/a
2001	Nikko Hotel de Paris	Paris	France	764	66,675,000	87,000	Colony Capital/Accor	Japan Airlines
2001	Forest Hill Balard	Paris	France	130	12,954,000	100,000	Saudi Investor	n/a
2001	Hotel Development	Paris, Roissy	France	300	37,500,000	125,000	GI Fund	n/a
2001	Hotel Golf Plaza	Sainte-Maxime	France	111	10,668,000	96,000	JJ France Hotels & Resorts	Consortium de Realisation
2001	Pro Arte Maritim	Berlin	Germany	406	119,000,000	293,000	Allgemeine Leasing	Deutsche Interhotel Holding
2001	Ritz-Carlton Schlosshotel	Berlin	Germany	54	23,000,000	426,000	Dr Ebertz & Partner	Albeck & Zehden
2001	Holiday Inn Bonn	Bonn	Germany	252	25,600,000	102,000	Dr Ebertz & Partner	Drott AB
2001	Park Hotel	Bremen	Germany	150	20,967,000	140,000	Dr Ebertz & Partner	Sparkasse Bremen
2001	Astron Hotel (Project)	Cologne	Germany	205	28,000,000	137,000	Wilhelm Sander Stiftung	Kaphag Holding
2001	Hilton Hotel (Project)	Cologne	Germany	296	54,000,000	182,000	WestInvest InterSelect	n/a
2001	Nassauer Hof	Wiesbaden	Germany	195	37,000,000	190,000	Dr Ebertz & Partner	Stinnes Logistik AG
2001	Aukamm Hotel	Wiesbaden	Germany	158	19,429,000	123,000	Astron Hotels	Private Individual

EUROPEAN SINGLE ASSET HOTEL TRANSACTIONS 2000-02 (€)

Sale Date	Property	City	Country	Rooms	Sales Price	Sales Price per Room	Buyer	Seller
2001	Hotel Rose	Wiesbaden	Germany	30	21,475,000	716,000	Subsidiary of Hessische Landesbank	BBV Immobilien Fonds
2001	Hyatt Regency	Budapest	Hungary	353	25,323,000	72,000	Pannonia Hotels	Malev Hungarian Airlines
2001	Royal Marine Hotel	Dublin	Ireland	103	28,802,000	280,000	William Neville & Sons Ltd	Ryan Hotels
2001	Limerick Inn	Limerick	Ireland	154	9,875,000	64,000	Knox Hotels	Ryan Hotels
2001	Caruso Belvedere Hotel	Ravello	Italy	24	31,200,000	1,300,000	Orient Express Hotels	n/a
2001	Inter-Continental	Warsaw	Poland	406	174,759,000	430,000	Six Continents / Warimpex Finanz / UBM Vienna	n/a
2001	Neptuno Hotel	Algarve, Monte Gordo	Portugal	335	12,675,000	38,000	Portuguese Business Group	Sosul
2001	Nevskiy Palace	St Petersburg	Russia	282	168,818,000	599,000	Corinthia Group	St Petersburg City Government
2001	La Nina	Adeje	Spain	232	36,000,000	155,000	Globalia Hotels	Amrey
2001	Playa Hotel	Barcelona	Spain	215	45,000,000	209,000	Playa Hoteles	n/a
2001	Hotel Gravina	Barcelona	Spain	85	9,015,000	106,000	Group H10	n/a
2001	Hotel Arts	Barcelona	Spain	482	285,000,000	591,000	Deutsche Bank Private Equity/Patron Capital Partners	Sogo Co/HOVISA
2001	Apartotel Dorado Beach	Canaries	Spain	195	18,030,000	92,000	Bull Hotels	n/a
2001	Hotel Costa Lago	Costa del Sol	Spain	204	18,030,000	88,000	Riu Hotels	n/a
2001	Hotel Ses Estaques	Ibiza	Spain	159	14,000,000	88,000	Catalonia	Ses Estaques
2001	Hotel Mindanao	Madrid	Spain	281	45,000,000	160,000	Bancor Pastor	Hotel Mindanao
2001	Villa Magna Hotel	Madrid	Spain	182	80,000,000	440,000	Queiroz Pereira	Shirayama
2001	Hotel Helios	Salou	Spain	216	10,000,000	46,000	Sara Hoteles	n/a
2001	Hotel Peregrino	Santiago de Compostela	Spain	179	10,217,000	57,000	Private Individual	n/a
2001	Porta Coeli Hotel	Seville	Spain	244	18,030,000	74,000	Hesperia Hoteles	Occidental Hotels
2001	Hotel Samil	Vigo	Spain	137	9,000,000	66,000	Hot Lao Garriga	Inm Samil
2001	Scandic Hotel	Linkoping	Sweden	220	15,477,000	70,000	City Financing A/S	NCC Group
2001	Mr Chip Hotel	Stockholm, Kista	Sweden	150	13,421,000	89,000	Pandox AB	Private Individual
2001	Stockholm Plaza	Stockholm	Sweden	151	20,347,000	135,000	SSRS Holding	Skandia Life Insurance
2001	Scandic Hotel Malmen	Stockholm	Sweden	328	29,547,000	90,000	Capona AB	Nordisk Renting
2001	Noga Hilton	Geneva	Switzerland	410	188,496,000	460,000	UBS/BNP Paribas	Ogan Family
2001	Swan Diplomat Hotel	Berkshire	UK	46	9,875,000	215,000	Nike Group	Hotell Diplomat AB
2001	Crowne Plaza (Project)	Birmingham	UK	242	39,428,000	163,000	Six Continents	David Mclean Developments
2001	Chamberlain Tower Hotel	Birmingham	UK	695	66,171,000	95,000	Jurys Doyle Hotels	Chamberlain Hotel Group

EUROPEAN SINGLE ASSET HOTEL TRANSACTIONS 2000-02 (€)

Sale Date	Property	City	Country	Rooms	Sales Price	Sales Price per Room	Buyer	Seller
2001	Chamberlain Park Hotel	Birmingham	UK		As Chamberlain Tower Hotel		Jurys Doyle Hotels	Chamberlain Hotel Group
2001	Chamberlain Park Hotel	Birmingham	UK	250	13,578,000	54,000	Cockpit Hotels	Jurys Doyle Hotels
2001	Cedar Court Hotel	Bradford	UK	131	23,609,000	180,000	Tweed Investments	Acropolis hotels (Sirdar Estates)
2001	Burstin Hotel	Folkestone	UK	481	18,894,000	39,000	Grand Hotel Group	Leisure Great Britain
2001	Four Seasons Hampshire (Project)	Hampshire	UK	120	12,633,000	105,000	Rochamel Construction Systems/Four Seasons	Union Holdings
2001	Sundridge Park	Kent, Bromley	UK	151	24,687,000	163,000	Tweed Investments	PA Consulting Group
2001	Holiday Inn Express Leeds	Leeds	UK	112	11,592,000	104,000	Standard Life Investments Ltd	Premier Hotels
2001	Holiday Inn Express Albert Dock	Liverpool	UK	117	8,978,000	77,000	Centre Island	EHI Development
2001	Kensington Hotel	London	UK	226	50,385,000	223,000	Lancaster Landmark Hotel Group	n/a
2001	Cumberland Hotel	London	UK	894	238,308,000	267,000	Nomura Principal Finance	Compass Group
2001	Albany Hotel	London	UK	79	8,231,000	104,000	Private Individual	Kuwaiti Algerian Investment Co.
2001	Berners Hotel	London	UK	216	83,908,000	388,000	JJW Hotels & Resorts	SAIF Inc.
2001	Holiday Inn Heathrow	London, Heathrow	UK	230	50,385,000	219,000	Standard Life Investment Funds	BDL Hotels
2001	Heathrow Park Hotel	London, Heathrow	UK	309	22,063,000	71,000	Private Company	Equitable Life Assurance Society
2001	Kensington Edwardian Hotel	London	UK	69	12,339,000	179,000	Private Individual	Kuwaiti Algerian Investment Co
2001	Knightsbridge Hotel	London	UK	50	14,807,000	296,000	Firmdale Hotels	n/a
2001	Hotel Europe	London	UK	100	15,630,000	156,000	Private Individual	n/a
2001	Radisson SAS Manchester Airport	Manchester	UK	360	61,697,000	171,000	n/a	Radisson SAS - Rezidor
2001	Prince of Wales	Stockport	UK	103	7,578,000	74,000	Britannia Hotels	Paramount Hotels
2001	Dunchurch Conference Centre	Rugby	UK	79	8,896,000	113,000	First! Venues Ltd	Jarvis Hotels/Marconi
2001	Buchanan Arms Hotel	Loch Lomond	UK	52	28,152,000	541,000	Stonefield Castle Group	Paramount Hotels
2001	Hilton Stoke on Trent	Stoke	UK	136	8,229,000	61,000	Prince Hotel Group	Hilton International
2001	Park Royal International Hotel	Warrington, Cheshire	UK	142	35,373,000	249,000	Tweed Investments	Mossley
2001	Bishopstrow House Hotel	Warminster, Wiltshire	UK	33	8,089,000	245,000	Von Essen Hotels	Private Investors
2001	Hilton Edinburgh Belford	Edinburgh	UK	378	44,025,000	116,000	Menzies Hotels	Hilton International
2001	Hilton Newcastle	Newcastle	UK		As Hilton Edinburgh		Menzies Hotels	Hilton International
2001	Hilton Bath Waterside	Bath	UK		As Hilton Edinburgh		Menzies Hotels	Hilton International

The Latest Hospitality News Straight to your Desk

HVS International's London Office offers a free weekly news service via e-mail. *HVS Hospitality Enews* is issued weekly on Fridays and covers the latest breaking news affecting the European hotel industry. To subscribe to *HVS Hospitality Enews*, simply send an e-mail to enews-europe@hvsinternational.com noting 'subscribe' in the reference/subject box and include your full contact details in the body of the message section. Please include the e-mail address where you wish to receive *HVS Hospitality Enews*.

ABOUT THE AUTHORS

Philippa Bock is an Associate with HVS International's London Office. She joined



HVS International in February 2000 having worked in various management roles within the European hotel industry and holds a first class BSc (Hons) degree in Hotel and Catering Management

from Oxford Brookes University. Philippa was responsible for the HVS Research department before joining the consultancy team in September 2001, during which time she pioneered the successful news journal *HVS Hospitality Enews*. Since then, she has conducted several valuation and consultancy assignments in the UK and Europe.

Bernard Forster is a Director with HVS International's London Office. He joined HVS



International in 1997, previously working in the IT sector as well as several years in various hotel operational management roles in Switzerland and London. Bernard holds an MSc in Property

Investment from City University London, as well as a BSc in Hotel Management from Oxford Brookes University. He has advised on hotels throughout Europe, the Middle East and Africa.

DIVISIONS:

HVS Investment Services

HVS Asset Management & Operational Advisory Services

HVS Eco Services

HVS Executive Search

HVS Food & Beverage Services

HVS-Compass (Interior Design)

HVS Timeshare Consulting Services

HVS Gaming Services

Hospitality Venture Services, Inc

HVS/The Ference Group: Operational & Management Strategy Development

HVS Marketing Communications

HVS Capital Corp

OFFICES:

London

Russell Kett
Charles Human
Simon Hudspeth
Dominique Bourdais
Bernard Forster
14 Hallam Street
London W1W 6JG
United Kingdom
+44-20-7878-7700
+44-20-7436-3386 fax

Madrid

Laurent de Kousemaeber
Paseo de la Castellana 93-2
28046 Madrid, Spain
+34-91-597-4635
+34-91-597-3054 fax

New York

372 Willis Avenue
Mineola, New York 11501, USA
+1-516-248-8828
+1-516-742-3059 fax

San Francisco

116 New Montgomery St,
Suite 620
San Francisco, California 94105, USA
+1-415-896-0868 x 108
+1-415-896-0516 fax

Miami

8925 SW 148th Street, Suite 216
Miami, Florida 33176, USA
+1-305-378-0404 x 11
+1-305-378-4484 fax

Denver

2229 Broadway
Boulder, Colorado 80302, USA
+1-303-443-3933
+1-303-443-4186 fax

Vancouver

4235 Prospect Road
N Vancouver, British Columbia
Canada V7N 3L6
+1-604-988-9743
+1-604-988-4625 fax

Toronto

Hammersmith House
2120 Queen Street East, Suite 202
Toronto, Ontario
Canada M4E 1E2
+1-416-686-2260
+1-416-686-2264 fax

Sao Paulo

Av Brig Faria Lima
1912 cj 7F
01452-001 São Paulo/SP
Brazil
+55-11-815-5722
+55-11-815-5722 fax

Buenos Aires

Reconquista 1056 - 10^o Piso
1003 Buenos Aires
Argentina
+54-11-4515-1461
+54-11-4515-1462

New Delhi

C-67 Anand Niketan
2nd Floor
New Delhi 110021
India
+91-11-410-1005
+91-11-410-1066 fax

Singapore

100 Beach Road
#28-10/13 Shaw Towers
Singapore 189702
+656-293-4415
+656-293-5426 fax

© 2002 HVS International. All rights reserved.

Published by:

HVS International, 14 Hallam Street, London W1W 6JG
Tel: +44 (20) 7878 7700 Fax: +44 (20) 7436 3386

For further information please contact Philippa Bock or Bernard Forster, or visit our website at:

www.hvsinternational.com