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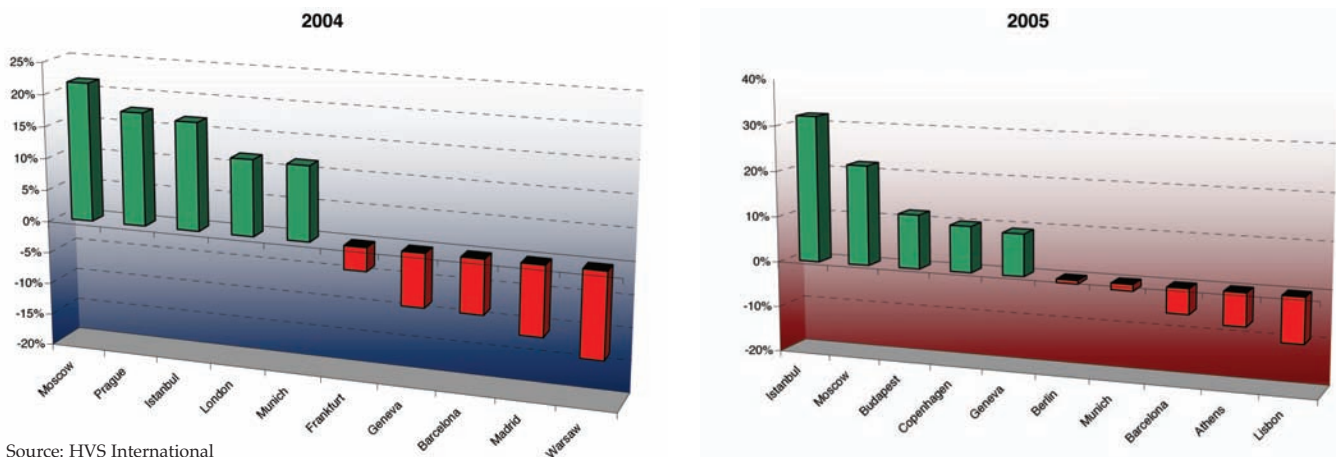
Highlights

- The European Hotel Valuation Index (HVI) shows that hotel values (expressed in euro) achieved a second consecutive year of growth. On average, values across Europe increased by 5% in 2005, compared with an increase of 3% in 2004. These rises in value followed three years of decline. The European average hotel value is now back at the level achieved in the peak year 2000, although much of this has been driven by growth in Eastern European markets. Many markets, such as Milan, Zürich, Geneva, Rome, Budapest and Edinburgh, have indeed surpassed the 2000 peak, whilst others, including Paris and Hamburg, have come very close.
- We have also seen in 2005 that 18 of the 28 markets under review have achieved an increase in excess of inflationary growth; only five markets – Berlin, Munich, Barcelona, Athens and Lisbon – recorded a decline in average values. In contrast, in 2004 eight markets showed a decline in value and only Barcelona recorded a decline in both 2004 and 2005.
- Istanbul was a star performer in 2005, bringing to an end Moscow's four-year run of being the market that recorded the highest annual growth in values in our survey. After recording an increase in values in 2004 of almost 17%, Istanbul saw a dramatic improvement in trading performance in 2005: hotel values

increased by 32%. This increase was driven largely by both occupancy (up by ten percentage points) and average rate (up by almost 25%); this led to an increase in RevPAR of 44%.

- Hotel values in Moscow are continuing to reach for the skies, and a double-digit increase was again recorded this year. Values in the city have now seen double-digit increases for six consecutive years, with the exception of 2003 when they recorded an increase of 'only' 9%. This now gives Moscow an average value of €240,910 per room, placing it above the Europewide average for the first time.
- Despite a dramatic increase in values in 2005 of 8% (the seventh-highest growth rate in the survey), Warsaw still finds itself languishing at the bottom of the table of hotel values per room with a figure of approximately €104,500. This is some €16,700 (or 14%) adrift of the next contender – Lisbon – at €121,200. Other markets finding their hotels in the lower reaches of the table are Athens, Copenhagen, Frankfurt, Stockholm and Istanbul.
- London has retained its position as the most expensive city in which to acquire a hotel, this year breaking through the €500,000 barrier; the average value per room was €516,120 and the growth rate 7.2%. Paris remains in second place (€484,520 per room and growth of 6.6%). There is a wide gap between second and third place in the table of €68,710 before we reach Milan on €415,820. The gap in value between third and fourth place is €39,880; Zürich is in fourth place on €375,990.

Tables 1 and 2 Winners and Losers 2004 and 2005 - % Change in Hotel Value (€)



Source: HVS International

Changes in Value

Amsterdam, one of Europe's strongest hotel markets, has seen hotel values gradually decline since 2001, albeit that this decline was marginal in 2004. In 2005, hotel values in Amsterdam rose by 5.7% as the city experienced a 6.5% improvement in RevPAR, compared to 2004. New supply entering the city's quality hotel stock has been limited in recent years and only one new hotel was opened in 2005: the 256-room, four-star Hotel Artemis, in May. However, it now appears that hotel supply is on the increase again; it is estimated that a total of 4,000 rooms will have been added to the greater Amsterdam area by 2010, although the

majority of these projects are rather speculative at this stage. Among the confirmed additions are the 410-room Mövenpick, which is currently under construction and due to open this September, and the 160-room Grand Scheepvaarhuis, which is due to open in December. Development work is also under way on a proposed 250-room Hyatt, which will open in January 2008. Planning approval has been granted for a 130-room Rocco Forte Hotel, and the plan is for this hotel to open in September 2008.

Since the 2004 peak in hotel values, which were driven up by the Olympic Games, **Athens'** hotel market has shown a decline in overall performance. Although the city has

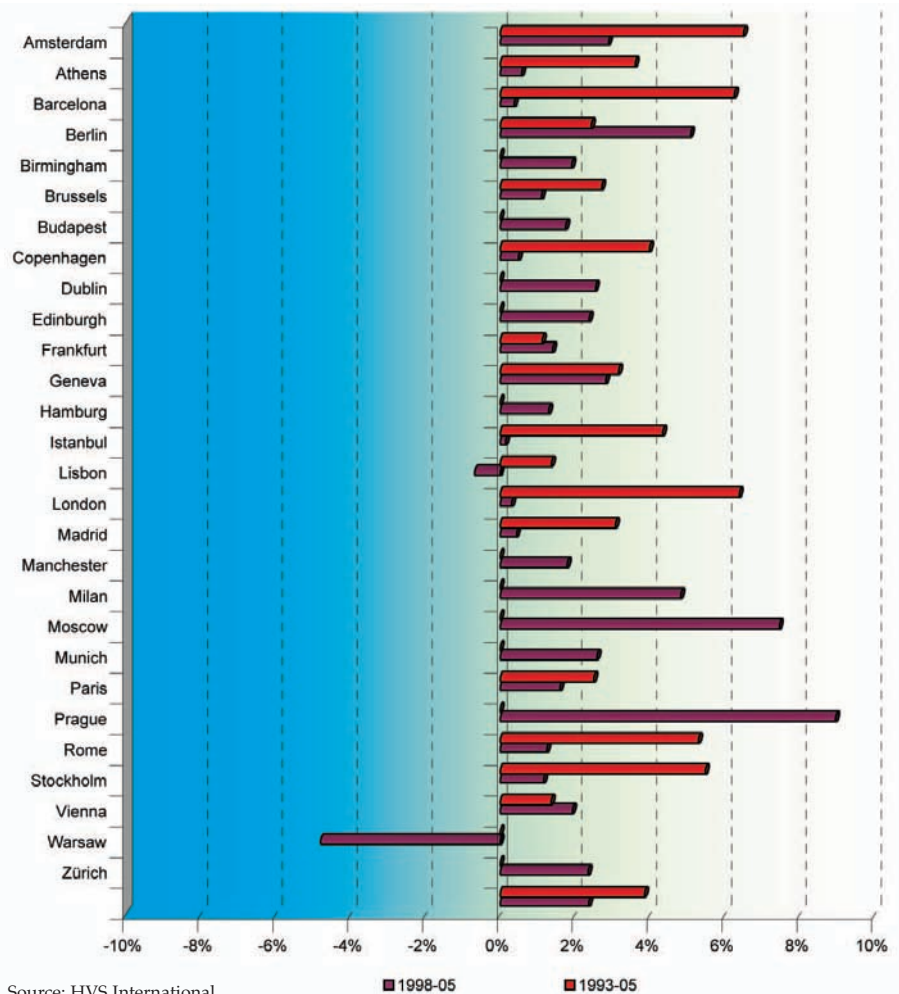
bucked the trend of tumbling occupancy, which has historically been the case among other host cities, and retained a stable occupancy of 61%, it has seen average rate fall by almost 21%. This led hotel values in Athens to drop by just over 7% compared to 2004, which is significant, considering that our 2004 values had already been adjusted for the direct impact of the Olympic Games. Perhaps surprisingly, additions to hotel supply in 2005 were only minimal and no major hotel developments are under way. Activity in the hotel investment market was also minimal, as owners sought to benefit from all the marketing and media exposure of Athens and Greece in connection with the Olympic Games.

Despite an estimated year-end increase of almost 5% (to approximately 70 million) in the number of tourist arrivals in Spain in 2005, the continued and substantial increase in new supply in **Barcelona** continues to constrain hotel performance. For the third year in a row, the city has seen average room rate decline, by 2.4% in 2005 compared to 2004, and occupancy remain stable at 71%. This has contributed to a 5.4% decline in hotel values. Despite the significant number of new hotel rooms that has been added to the existing supply in recent years, there are plans for an additional 6,500 rooms to be added to the greater metropolitan area in the next two years. Nevertheless, it is worth noting that the number of new projects under construction is slowly starting to decrease, and is now back to 2000 levels. Among the significant developments opening this year is Hesperia's hotel in the Hospitalet. The 280-room hotel will be located in the Hesperia Tower, which at 100 m will be one of the tallest buildings in the Barcelona metropolitan area. Another local player planning a hotel in a high-rise building is Barceló Hotels, which has scheduled the opening of the 190-room, five-star Barceló Rambla del Raval hotel for 2007.

Last year we noted **Berlin's** impressive resilience in maintaining its occupancy despite the number of new additions to supply. With the increase in supply continuing throughout 2005, when nearly 1,300 new rooms were added, Berlin continues to impress; the city managed to maintain occupancy of nearly 69%. RevPAR decreased by 1.8%, which contributed to a marginal decline in hotel values of 0.7%. However, the amount of new supply entering the Berlin market in the near future will put even more pressure on the city's hotel performance. The four-star Wallstreet Park Plaza Hotel in Wallstraße, Berlin-Mitte, is expected to open its 167 rooms in June of this year and the 146-room Rocco Forte hotel the Grand Hotel de Rome is expected to open in August. A month later a 364-room Sol Meliá hotel near Friedrichstraße is expected to open. This year, construction work will start on a three-star hotel project on Nürnberger Straße, in the district of Schöneberg, close to Kurfürstendamm; the envisaged opening date for this 300-room hotel is early 2007. Two hotel projects are in the early stages of development. Planning permission has been granted for the construction of a 252-room, three-star to four-star hotel that is due to open in mid 2008 in Berlin-Charlottenburg, close to Kantstraße. There are also plans to open a four-star hotel close to the airport at Schönefeld near the existing Holiday Inn in the first quarter of 2008.

Birmingham continues to reap the fruits of its marketing efforts, which in recent years have attracted an increasing number of foreign visitors and have boosted activity at the National Exhibition Centre. While retaining a stable occupancy, hotels in Birmingham managed to increase their average daily rate by 3%, to €100. This contributed to an increase in hotel values of 3%. A number of hotel developments are under way, especially in the budget and mid-market segments. Choice Hotels will be opening a 90-room Sleep Inn in the Star City entertainment complex in October this year. A proposed 120-room Etap is due to open at the end of 2007 at Birmingham International Airport and, within the same building, a 150-room Ibis hotel is planned. In addition, a 59-room extension to the Holiday Inn at Birmingham International Airport is planned by the end of 2007; this extension will take the hotel's room

Table 3 Average Annual Compound Growth Rate 1998-05 and 1993-05 (€)



Source: HVS International

count to 200. Plans for a 40-room luxury hotel at the Cube development were announced recently. Opening in mid 2008, the Cube is the last phase of the Mailbox development in Birmingham city centre and in addition to the hotel, it will contain a mixture of office, residential and retail components.

The improvement in hotel performance in **Brussels** in 2005 was attributable mainly to the continuing improvement in the European business environment, and to the city's key political position as the capital of the European Union (EU). Occupancy increased by 1.5% and RevPAR by nearly 5%; this increase contributed to a rise in hotel values of 4.5%. Another important factor facilitating the recovery of the hotel market in Brussels is the limited addition to the supply of quality hotels. The first hotel to open in Brussels since late 2004 was the 149-room Radisson SAS EU Hotel, near the European Parliament, which opened in January this year. The increase in supply will continue to be restricted and there is currently only one opening confirmed for the next two years: a 150-room Sofitel, in June.

Since **Hungary's** accession to the EU in 2004, Budapest has enjoyed a significant increase in the number of visitor arrivals. The majority of the inflow of foreign tourists into Hungary is driven by leisure purposes, which has been greatly influenced by low-cost airlines, whose passengers accounted for nearly 30% of the total traffic at Ferihegy International Airport in 2005. In total, passenger traffic at the airport grew by almost 25% and topped 8 million last year. Hotel occupancy grew modestly, whereas average daily rate grew by

a healthy 10.3% and RevPAR increased by nearly 15%. This contributed to a rise in hotel values of nearly 12%, securing Budapest a place among this year's major winners. However, the strong performance of the market over the last two years has whetted the appetite of investors and we are aware of several new hotel projects that will be opening in the next few years. Hotels currently under construction and expected to open in 2006 include the 107-room Boscolo New York Palace hotel, a 175-room Novotel and a 55-room spa hotel at the Rac baths. A number of other projects are rumoured; however, the planned increase in supply is likely to offset the continuing increase in demand generated by leisure travellers coming to Budapest.

In 2005 **Copenhagen** was again rated as one of the world's ten most popular cities for international conventions. The city has also experienced continued growth from leisure travellers in recent years. In particular, the opening of the Oresund Bridge, linking Denmark and Sweden, and an increase in cruise ship passenger arrivals influenced the strong room night growth. The hotel construction boom in Copenhagen, which was ignited in 1999, has brought about an increase in hotel capacity of 40%; this has further increased the attractiveness of the city, especially to the meeting and conference segment. In last year's edition of the HVI it was noted that occupancy had risen for the first time since the hotel boom began, as no new upscale hotels opened over the course of 2004. The recovery continued in 2005 when occupancy rose by nearly five percentage

Table 4 Hotel Values - % Change (€)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	CAG 1993-05	CAG 1998-05
Istanbul	0.6	-4.4	28.0	34.2	-0.3	-20.7	25.9	-10.0	-19.5	-9.5	16.9	32.0	4.3	0.1
Moscow	n/a	n/a	n/a	n/a	-19.9	-34.9	13.6	22.6	13.2	8.7	21.7	21.8	n/a	7.5
Budapest	n/a	n/a	n/a	n/a	3.9	11.4	1.4	-1.2	-2.8	-13.6	7.9	11.7	n/a	1.8
Copenhagen	7.8	3.7	13.9	16.2	4.5	7.9	7.8	-6.2	-3.0	-8.3	-3.1	10.0	4.0	0.5
Geneva	7.0	8.8	-2.6	0.8	4.5	12.5	2.3	10.4	3.8	-7.9	-8.4	9.1	3.2	2.8
Zürich	n/a	n/a	n/a	n/a	9.9	5.4	6.2	4.0	-7.1	-5.5	6.2	8.4	n/a	2.3
Warsaw	n/a	n/a	n/a	n/a	2.1	1.2	1.2	-2.0	-15.2	-10.9	-13.4	8.1	n/a	-4.8
London	12.7	6.0	22.3	38.3	1.8	-0.6	9.8	-12.7	-5.0	-5.9	11.9	7.2	6.4	0.3
Manchester	n/a	n/a	n/a	n/a	3.2	-3.2	3.9	3.1	0.7	-5.7	7.5	6.9	n/a	1.8
Dublin	n/a	n/a	n/a	n/a	-2.7	8.5	9.9	-8.5	-1.6	1.9	2.3	6.7	n/a	2.5
Paris	-2.2	-3.3	-7.0	23.0	11.2	0.4	10.4	-6.4	4.4	-7.2	4.3	6.6	2.5	1.6
Amsterdam	6.8	11.5	16.6	13.4	10.8	13.2	21.9	-6.5	-5.5	-4.9	-0.3	5.7	6.5	2.9
Stockholm	7.7	10.2	31.0	10.7	1.6	16.5	9.8	-10.5	-5.5	-6.5	1.9	5.2	5.5	1.2
Europe	1.5	2.4	9.2	13.9	5.8	3.8	10.5	-1.9	-1.5	-4.2	3.2	5.0	3.9	2.4
Brussels	-5.3	4.2	5.7	13.0	8.4	2.5	15.3	-4.2	-7.7	-4.0	3.1	4.5	2.7	1.1
Prague	n/a	n/a	n/a	n/a	1.5	17.5	30.6	-0.5	-4.3	1.6	17.7	4.3	n/a	9.0
Vienna	-5.9	4.2	-3.0	-2.7	11.3	0.7	3.2	0.1	-1.4	6.4	0.8	3.9	1.4	1.9
Birmingham	n/a	n/a	n/a	n/a	2.3	5.3	1.0	-1.4	2.5	-4.2	7.7	3.0	n/a	1.9
Rome	9.8	-5.9	28.4	15.8	10.8	0.4	8.0	-3.1	-1.8	-1.9	4.7	2.9	5.3	1.2
Milan	n/a	n/a	n/a	n/a	17.1	11.4	16.1	6.6	3.8	-0.4	-3.3	0.8	n/a	4.8
Madrid	-5.1	0.2	13.5	16.6	10.9	9.7	11.5	-2.6	2.4	-5.7	-10.9	0.6	3.1	0.4
Hamburg	n/a	n/a	n/a	n/a	3.2	4.8	10.1	-9.1	3.7	-0.2	0.5	0.5	n/a	1.3
Frankfurt	-1.9	2.8	-5.3	5.6	2.8	4.0	12.9	6.4	-6.6	-2.0	-3.7	0.2	1.1	1.4
Edinburgh	n/a	n/a	n/a	n/a	-1.3	-1.2	9.5	-5.3	3.3	-3.4	9.4	0.0	n/a	2.4
Berlin	-1.6	-1.8	-12.1	11.1	-0.1	15.0	19.9	3.8	1.5	-2.9	1.0	-0.7	2.4	5.1
Munich	n/a	n/a	n/a	n/a	15.9	10.0	10.3	5.1	-7.3	-8.1	11.7	-1.4	n/a	2.6
Barcelona	-8.6	8.2	30.2	28.4	21.9	15.2	9.0	-1.5	1.4	-5.5	-8.5	-5.4	6.3	0.4
Athens	-2.3	0.3	14.1	17.7	11.7	-5.1	10.7	-2.9	5.9	-2.8	6.7	-7.1	3.6	0.6
Lisbon	-4.8	-2.2	13.6	3.1	13.2	-2.7	12.4	-0.1	-1.9	-4.0	2.6	-9.7	1.4	-0.7

Source: HVS International

points and RevPAR by nearly 20%. This recovery had a positive impact on hotel values, which rose by 10%, placing Copenhagen among the top five cities in terms of the greatest growth in hotel values last year. It appears that the hotel boom is to resume, as the number of developments is on the increase again. The 200-room Copenhagen Island Hotel by the ARP-Hansen Hotel Group, and a 225-room, four-star hotel in Scala, close to the Tivoli Gardens, are both scheduled to open this year. A five-star Tivoli hotel project of approximately 160 rooms, but with currently no exact developmental time-frame, is rumoured to be entering the market in the medium term, confirming the continued interest in the Copenhagen hotel market.

The number of visitors to **Dublin** continued to increase and despite the continued increase in room supply in the quality hotel market, Dublin's hotel performance has remained remarkably resilient. Hotel values increased by 6.7% year on year, following a modest increase in occupancy, while average daily rate was stable for the third year in a row. This is particularly impressive given that last year Dublin experienced a significant increase in the supply of rooms; new hotels included the 295-room Clarion Liffey Valley Hotel, which is managed by Choice Hotels International and which opened in April, the 232-room Jurys Croke Park Hotel, which opened in September, and the 166-room Hilton at Dublin airport, which opened at the end of June. From 2006 to 2009 an additional 2,750 rooms are expected to enter the Dublin hotel market, of which approximately 1,000 will be in the quality hotel market. In addition, various international five-star hotel operators still plan to enter the market in the near future. However, in the short term Dublin's hotel market is unlikely to experience significant changes as international demand, especially

demand from the USA and other long haul destinations, is still suffering from the continued strength of the euro. In addition, the new hotel supply that is envisaged to be entering the Dublin hotel market in the near future will make the hotel market increasingly competitive environment.

Edinburgh's hotel industry has been enjoying a boom in recent years and the city managed to sustain occupancy of 78% for the second year in a row. Average daily rate increased by over five percentage points; however, due to expectations that significant new supply will hit the market over the coming years, hotel values remained flat. Developers seem to have responded to the urgent call made by Edinburgh City Council for more private investment to be made in the city's hotel industry, although many projects can still be considered to be rather speculative. The opening of the 132-room Dakota Hotel at South Queensferry is scheduled for later this year, as is the completion of the €17.5 million upgrade of the George Hotel, which was recently acquired by Principal Hotels. The construction of a 33-room boutique hotel on George Street is well under way and the opening is scheduled for mid 2006. Another boutique hotel, the 18-room Le Monde, is scheduled for opening this year. Among the more speculative projects is a 200-room hotel on the site of the former New Street bus station, immediately to the east of the site where Edinburgh Council's new headquarters are now being built.

As the overall stagnation in the German economy continues, with unemployment figures hitting a post-war record in early 2005, hotel performance in **Frankfurt** remained stagnant. Occupancy dropped by 0.5 percentage points, to 61.5%, whereas average daily rate grew by a modest 1%. This contributed to hotel values growing by a

marginal 0.2% on 2004. However, in 2006 a substantial increase in average daily rate can be anticipated as Frankfurt is one of 12 German cities hosting the FIFA World Cup in June/July. Significant additions to supply this year are the 163-room Rocco Forte Villa Kennedy, located close to the south bank of the River Main and due to open in March, and a 283-room, four-star Mövenpick Hotel scheduled to open in June. Continuing the trend of 2004, the hotel investment market in Germany remained fairly active during 2005. The eye-catching Radisson SAS Hotel in Frankfurt changed hands for €298,200 per room when it was sold by Hochtief Projectentwicklung to a group of Danish investors.

Preliminary figures for 2005 indicate that the number of tourist arrivals in **Geneva** increased by more than 11% on 2004. The affluent Middle Eastern leisure market, whose share decreased significantly following the events of 11 September 2001 and the war in Iraq, now seems to be slowly recovering with an increase in the number of arrivals of 10% year on year. The recovery in tourism, combined with the overall improvement in the global business climate, helped to produce an increase in hotel values in Geneva of 9.1% in 2005. Occupancy rose by six percentage points and RevPAR grew by just over 13%. Average daily rate, having been under pressure in recent years following an increase in supply, rose by 3% as some significant upscale hotels were closed for much of 2005 for refurbishment. The 103-room Hotel des Bergues reopened as a Four Seasons Hotel in November 2005, having been closed since late 2004. The Hotel Le Richemond closed during the year and will reopen in 2007 as a Rocco Forte Hotel. The Hotel de la Paix closed in early 2005 and will reopen as an 84-room Concorde hotel later this year. There was one new opening in Geneva in 2005: Accor's 86-

Table 5 Hotel Valuation Index 1993-05

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

Source: HVS International

room Suite Hotel, which opened in May near Geneva airport.

The modest recovery in the **Hamburg** hotel market that was noted in last year's edition of the HVI continued throughout 2005; occupancy grew by four percentage points, to 71%, the highest occupancy we have noted for this market since 2000. Average daily rate declined by just under 2%, which left RevPAR and hotel values in Hamburg virtually unchanged on last year. Nevertheless, as Hamburg will be one of the cities hosting matches in the FIFA World Cup later this year we expect Hamburg to enjoy a significant improvement in ADR this year. Additions to the supply in the four-star and five-star markets have been limited since 2001, but development activity in these segments is the liveliest it has been for years. A 226-room Mövenpick Hotel is under construction in the vicinity of the Sternschanze public park and is expected to open in November this year. A 220-room Hilton Hotel will be part of the mixed-use development at Hafen City and is likely to open by January 2008. In the Sankt Pauli district, in close proximity to the infamous Reeperbahn, the four-star Empire Riverside Hotel is currently under construction. The hotel is expected to have 300 rooms and is due to open in 2007. Other, more speculative, projects include a new NH hotel at the airport, a 225-room Arcotel at Steidamm and a 140-room Flight Hotel at Finkenwerder.

Istanbul's hotel market has in the past demonstrated its ability to recover quickly from adversity, as was the case in 2005 when the city achieved an improvement in average daily rate of 24.5%; this led to an impressive increase in RevPAR of 42.6%. These figures have contributed to an enormous 32% increase in hotel values on 2004. These impressive results are attributable largely to a recovery in tourist visitation, which increased by 47% on 2004. Tourism figures in 2005 were boosted by major sporting events hosted by the city, events such as the Formula One Grand Prix in August and the European Cup final in May. However, Istanbul also

experienced significant growth in the meetings, incentives, conferences and exhibitions (MICE) segment; the number of delegates attending conferences grew by 156% in 2005 compared to 2004. With two exhibition and meeting centres under development in addition to the existing three and EU accession negotiations now officially open there is reason to believe that further growth in the MICE segment can be expected. The number of hotels under development in the city confirms investors' expectations of future growth in visitation to the city. A 100-room Park Hyatt hotel is currently under development in Nisantasi, the boutique and fashion district of Istanbul that is to the north of Taksim. Although construction has not yet begun it is expected that the hotel will be operational as early as 2008. Four Seasons has a second hotel under development, which involves the reconstruction of Atik Pasha Palace. The hotel is expected to have 170 bedrooms and a scheduled opening date of 2008. A Novotel is currently under construction in the Zeytinburnu district. The four-star hotel is envisaged to have 215 rooms and to be operational by October 2006. Accor also has a 228-room Ibis under construction in the city, and this hotel is expected to be open at around the same time. Two major developments are still at the preliminary stage. First, a 300-room hotel in a 50-storey skyscraper to be named 'Diamonds in Istanbul' is to be constructed in the Maslak district. Second, two towers – the Dubai Towers – Istanbul – are likely to become prominent features on the skyline by 2008. The mixed-use project, which will cost more than €420 million, is set to incorporate a luxury hotel.

Portugal's hosting of the European Football Championships in June 2004 had a positive impact on visitor growth and the event caused a significant increase in hotel demand. There have been no such sporting events in 2005, which explains to some extent the bleak performance of the **Lisbon** hotel market, where values have declined by nearly 10%. Occupancy in the city fell by nearly four percentage points, reaching an average of just

55%. The fall in average daily rate was even greater, at 14.5%, resulting in a decrease in RevPAR of nearly 20%. The sheer number of new hotels added to the Lisbon market in recent years has put further pressure on hotel performance. With just over 5,000 rooms available in 2004, the stock has increased by more than 10% in 2005, and it is expected that almost 1,000 rooms will be added in the next two years. One look at the development pipeline for Lisbon reveals the strong position that local hotel operators such as Hoteis Real and Amorim have maintained; they account for the majority of the current developments. Two Ibis hotels are under construction: one a 120-room hotel in Alfragide and the other a 90-room unit in the Sintra area. The hotels are expected to open in April and May of this year, respectively.

London has retained its position as the most expensive city in which to acquire hotel accommodation for the second consecutive year; hotel values grew by 7.2% in 2005 (or 9.7% when measured in local currency). After celebrating victory in the race to host the 2012 Olympic Games, the city was subjected to terrorist attacks on 7 July. The initial fear was that these attacks would have a major impact on the overall hotel performance in London. However, year-end figures indicate that the effect of the attacks has been limited; occupancy has fallen by 1.4% but average rate has risen by 4%. This left RevPAR to rise by just under 2%, to €160. The resilience of the London hotel industry has been driven by improving economic conditions and an increase in visitor numbers, despite the terrorist attacks; figures from Visit London for the year to November 2005 indicate an overall increase in visitor numbers of 10%. The growth in the European market was aided by the strength of the euro against sterling. However, the weakness of the US dollar has been a concern throughout 2005 as it has had an impact on the number of visitors from the USA. Nevertheless, the USA is still the leading overseas market, although its share declined by 6% in 2005. The outlook for visitation to London in 2006 is mixed; a continued decline in the domestic market is

Table 6 Hotel Values per Room 1993-05(€)

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

Source: HVS International

anticipated, while emerging markets in Eastern Europe are expected to stimulate overseas visits. Due to the lack of suitable sites in the city centre, additions to the supply in the four-star and five-star markets have been limited in recent years; however, some significant developments are now under way as new operators enter the market. NH Hoteles is about to place itself in the London market following the acquisition of the 200-room Harrington Hall Hotel in South Kensington. Another Spanish operator entering the market is Silken Hoteles, which is currently planning a luxury 170-room hotel behind the façade of Marconi House on the Aldwych in central London. Yotel will be pioneering its radical, new hotel concept; the first Yotels will be opening inside the terminal buildings at Heathrow and Gatwick later this year and in central London in 2007. Stelios Haji-Ioannou's first easyHotel opened in 2005 and this is set to be followed by others in the foreseeable future. Hong Kong based Shangri-La Hotels recently announced its entrance into the London market in 2009 when the group plans to open a luxury hotel in London Bridge Tower, which is expected to become one of London's leading visual landmarks.

Madrid's position as Spain's key commercial and financial hub is undisputed and, thanks to efforts made by the authorities to increase the city's appeal as a leisure destination and the further development of the MICE segment, demand for hotel accommodation in the market has been positively impacted. Figures for the year to October 2005 indicate that visitation was 11% up on the same period in 2004. Having experienced a drop in both occupancy and average daily rate in both 2003 and 2004, Madrid managed an increase in occupancy last year of 3.6 percentage points, to 65%. However, this increase came at the cost of average daily rate, which declined by 2.7%. Despite the overall positive impact on RevPAR, hotel values increased by only 0.6% as concerns of continuing oversupply in the city remained. Having in recent years suffered from an imbalance between hotel supply and demand, Madrid will see a bleak outlook for

its recovery in the short term. It is estimated that, by the end of 2008, approximately 5,800 hotel rooms will have been added to the market, an increase of approximately 20% on the existing amount of supply. Among the additions are a 101-room Etap hotel and a 128-room Ibis hotel, both located on Avenida de América and both expected to open in June 2007.

The authorities in **Manchester** have worked on building the city's profile with the aim of increasing UK and international conference and incentive business in Manchester and the surrounding area. This has led the number of association meetings held annually in the city to quadrupling from 1995 to 2004. In 2005 hotel values in Manchester grew by 6.9% compared to 2004 (or by 7.7% when measured in sterling). This growth was attributable mainly to the more than 5% rise in average daily rate, which, when combined with a modest growth in occupancy, led to RevPAR growth of 8.6%. Despite the significant growth in hotel stock in Manchester in recent years, occupancy has rarely dropped below 70%. This year will see the opening of the 285-room Hilton hotel and in spring 2007 a 284-room City Inn will be opening at the Piccadilly Triangle site, which is currently undergoing major regeneration. Macdonald Hotels has plans to enter the Manchester market; the conversion of Telecommunications House into a 230-room hotel is set to start in 2007.

Although occupancy in **Milan** increased by modest 1.4 percentage points, average daily rate remained stagnant for the second year in a row. This resulted in hotel values growing by just under 1%. Two new hotels opened in Milan in 2005: the 172-room, four-star Visconti Palace, early in the year, and the 52-room Bvlgari in May. This year will see the opening of a 340-room NH hotel on Via Tortona. Also opening, later this year, on Corso Como is a 160-room AC hotel, and the 500-room Domina Hotel, located in the old city, close to Fiera di Milano. The 242-room Jolly Hotel is planning to construct an additional 20 guest rooms and

meeting facilities; this work is likely to be completed in 2007. The Italian luxury hotel chain Starhotels recently announced plans to open a 200-room hotel near the Fiera di Milano exhibition centre. In addition, we are aware of a number of speculative projects that might enter the Milanese market over the coming years.

The hotel market in **Moscow** experienced another record year in 2005. After a significant increase in 2004, occupancy declined by slightly more than two percentage points. The hotel market, meanwhile, recorded an enormous 35% increase in average room rate in 2005 resulting in an unprecedented 30% increase in RevPAR. This contributed to a hefty increase in hotel values of almost 22%. The current shortage of international-quality hotel rooms is likely to remain in the near future, despite the significant development activity of the last 12 months. Three properties opened their doors in 2005: the 301-room Holiday Inn Lesnaya, in April; the 236-room Swissôtel Riverside Towers, in May; and the long-awaited 217-room Courtyard by Marriott, in December. It is estimated that Moscow's current hotel room stock is 35,000, although only 8,000 of these rooms are considered to be of an international standard. In terms of new projects, a 332-room Ritz-Carlton is expected to enter the market in January 2007 and Four Seasons has secured a management agreement to operate a property on the site of the former Moskva hotel. It is envisaged that the hotel will feature 210 rooms and luxury residential apartments; the hotel is expected to open in 2009. A 360-room Grand Hyatt hotel will open in 2009 at the Moscow City Business Centre development. Two Holiday Inns are under construction: the 312-room Holiday Inn Suchevsky Val will be operated under a franchise agreement and the Holiday Inn Sokolniki will be managed by InterContinental Hotels Group. A 220-room Novotel, which is expected to open in late 2007, will be located inside the Gostiny Dvor exhibition and retail complex. The demolition of the Rossiya hotel has been approved by the City of Moscow and a 1,000-room complex of

luxury hotels, a shopping mall and an entertainment venue will be developed on the site. Further hotel development projects are planned for Moscow over the coming years, and many of these involve the refurbishment of existing hotels.

As with many other German cities, **Munich** saw hotel performance remain stagnant in 2005. Occupancy in the city rose by just over one percentage point, to 68%. Average daily rate dropped by 3%, and this contributed to a slight decline in hotel values, of 1.4%, on 2004. The city received a few additions to supply this year, in anticipation of a boost to demand accompanying the FIFA World Cup to be held in Germany this year. A new hotel chain Acom Hotels will be launched when its first hotel opens in Munich this year. The hotel will have 106 rooms and is expected to open in March. Another regional player, Flemings Hotels, will be opening a 113-room hotel in the city centre in May, and the opening of the 240-room Courtyard by Marriott is also scheduled around that time. Rocco Forte Hotels will enter the Munich market in 2007 when its 132-room hotel opens its doors. In April 2007 there are plans for a 148-room Etap hotel to be opened near München Messe.

Hotel values in **Paris** increased by 6.6%, an increase that was driven largely by an increase in occupancy of nearly four percentage points and a relatively stable average daily rate. In 2005 a number of new hotels opened in Paris. Among these were three boutique hotels: the 29-room Villa Malraux, the 17-room Hotel du Petit Moulin and the 27-room Hotel Le Sezz, which is located on the Left Bank on Avenue Fremiet. A 115-room Express by Holiday Inn was opened in the vicinity of Roissy Charles de Gaulle airport and two Radisson SAS hotels opened: the 170-room Radisson SAS Hotel Boulogne and the 139-room Radisson SAS Val d'Europe at Golf Disneyland. Future openings include the 81-room Hotel Fouquet Barrière on the premises of Fouquet's Restaurant on the Champs Elysées in January 2007 and a 350-room Le Meridien hotel, which is currently under development on La Défense with an envisaged opening in 2007/08. Shangri-La Asia, the parent company of Shangri-La Hotels and Resorts, has acquired the former home of Prince Roland Bonaparte and has plans to convert it into the 140-room Shangri-La Hotel Paris in late 2008. This hotel will mark the group's European debut, coming as it does approximately a year ahead of the group's planned London hotel, and it will be the first luxury hotel in Paris to be fully owned and operated by an Asian hotel group. On the investment side, Paris and the rest of France experienced a buoyant year with a record €660 million worth of single asset transactions and €3.7 billion worth of hotel portfolio transactions (see our sister publication on hotel transactions in 2005). Among the more notable single asset transactions was the 97-room Plaza Vendome in Paris, which was acquired by Marriott for €38 million; the hotel is to be rebranded as the Renaissance Paris Vendome. The 438-room InterContinental Paris was sold to GIC Real Estate for €315 million and is now managed by Starwood Hotels & Resorts under the Westin brand.

The Czech Republic has proven to be one of the most attractive emerging central European tourism destinations. Fuelled by an increasing number of routes offered by low-cost airlines, **Prague** was able to record another year of growth in tourism visitation. The rise in cheap air travel and the inclusion

of the Czech Republic in the EU are likely to facilitate healthy growth in both leisure and business travel, and it is estimated that the total number of visitors arriving in the Czech Republic will increase to 14 million a year by 2010. After recovering strongly in 2004, both occupancy and average rate saw growth rates fall. The growth in hotel values remained resilient, increasing by 4.3% in 2005. The drop in occupancy was due mainly to the combination of a decrease in the average length of stay, the decline of visitation from the United Kingdom, and the increasing strength of the Czech koruna compared to the euro. The attractive market conditions in Prague have sparked the interest of some of the more prominent hotel investors and brands. A 98-room Mandarin Oriental is currently under construction and the hotel is due to open in September this year. In October 2007, a proposed 109-room Rocco Forte hotel is due to open. Consent has been given for the development of a luxury five-star hotel with 200 rooms on the U Sixtu site, which is likely to be operated by Ritz-Carlton and is expected to open in early 2009. Consent has been granted for the development of a 165-room Le Royal Meridien Hotel; it is likely to open in early 2009.

Italy's capital **Rome** saw hotel values increase by nearly 3%, a rise fuelled by an increase of five percentage points in occupancy and a 2% increase in average rate. The improved performance is attributable in part to the extensive coverage the city received in April with the funeral of Pope John Paul II and the subsequent inauguration of Pope Benedict XVI. However, it should be noted that Rome has traditionally enjoyed enhanced performance figures due to the extremely high barriers to entry in the city caused by rigid planning restrictions; in 2005 room stock in the city increased only marginally. Development in 2006 looks set to be more active, however. The Marriott Park hotel is due to open in the middle of the year with 600 bedrooms and extensive meeting and conference facilities, making it one of the largest conference venues in Europe. Also opening at the same time is the 140-room Roma Magliana Ibis hotel. Hilton Hotels is currently developing a 300-bedroom hotel at the airport, which will take the Scandic brand. Other development plans include an additional conference centre hotel with 700 rooms and a 500-bedroom hotel development at the Nuova Fiera di Roma; however, no time-frame has been set for these developments.

The **Stockholm** hotel market experienced an improvement in operating performance in 2005, which caused hotel values to climb by 5.2%. Occupancy increased by four percentage points and average daily rate grew by a modest 2.7%, leading to an overall improvement in RevPAR of slightly more than 8%. Some significant hotel developments are under way. A 250-room hotel adjacent to the International Exhibition Centre and operated by Rica Hotels is expected to open in May of this year, and a 450-room Clarion hotel is under construction and expected to open in September 2007. In 2008 Marriott will enter the Swedish market for the first time with a 190-room Courtyard by Marriott in Stockholm. The long-discussed Klara Post Office Sorting Centre project has finally received a proposed tenant under the Radisson SAS brand. The 400-room proposed hotel is due to open in January 2010. A lively investment market was due largely to the arrival of Norgani Hotels, a new Nordic property company with its headquarters in

Oslo. Through its portfolio acquisitions, the company has purchased properties worth more than €650 million. Forty-four of these properties, totalling more than 7,000 rooms, were in Sweden.

The hotel market in **Vienna** benefits from demand that is a good balance between business and leisure. Both segments are forecast to grow, due to increased trade with the new EU member states in Central Europe and thanks to events such as the Mozart Year (2006 marks the 250th anniversary of the composer's birth), Austria's presidency of the EU in 2006 and the European Football Championships in 2008. Vienna is about to see its airport expand, its central railway station redeveloped and additional meeting facilities provided, thus further enhancing the attractiveness of the city. Occupancy in Vienna in 2005 rose slightly, by 0.5 percentage points, with an increase in ADR leading to an increase in RevPAR of 4.4%. The effect on hotel values was positive: they rose by just under 4%. Openings in 2005 included two boutique hotels: the 70-room Levante Hotel on Auerspergstrasse and the 50-room Do&Co hotel on Stephansplatz. New hotel supply in Vienna has been restricted in the past by the lack of available sites in the city centre; however, several hotel developments are under way and these will put pressure on hotel trading performance, especially in the luxury segment. The 44-room, five-star Hotel im Palais Schwarzenberg closed in January this year for renovation. When it reopens in July 2007, the hotel will have approximately 90 bedrooms. Also opening in 2007 is the 350-room Hotel Domina Belvedere. A 138-room Mandarin Oriental hotel is expected to open at the beginning of 2008 in an historic building adjacent to the Börseplatz. Four existing, interconnecting buildings on Schubert Ring 5 are to be developed into a de luxe five-star hotel with 223 bedrooms by January 2009; the hotel will be operated by an as yet unnamed international luxury hotel operator. The operator of a five-star hotel that is expected to open in 2009 on Praterstrasse is also yet to be confirmed.

In last year's edition of the HVI we noted a long-awaited recovery in hotel occupancy in **Warsaw**. In 2005 the city experienced an increase in hotel values of approximately 8%, which is the first time hotel values have increased since 2000. The pace of the recovery in the Warsaw market appeared to have picked up substantially in 2005 when the city experienced a healthy increase in occupancy of nearly 12 percentage points. Again, this was accompanied by a decline in ADR, although the overall effect on RevPAR was positive. Four-star and five-star hotels are still suffering from significant oversupply, hence the continued decline in average daily rate. The improved trading performance was driven by Poland's accession to the EU in 2004 and an increase in leisure groups and MICE business. The number of passengers handled at Frederic Chopin airport increased by 16% in 2005 compared to 2004; the construction of a second terminal at the airport is well under way and it is due to open in May this year. The new terminal will be able to handle 10 million passengers a year. It appears that new hotel supply in Warsaw will be regulated in years to come, and this will facilitate a further improvement in trading performance, as currently only two proposed hotels have had their opening confirmed. A 320-room Hilton hotel is currently under construction and is expected to open in mid 2007. Construction is due to start this year on a 70-room, five-star hotel that is to open in January 2008. It is

expected that the hotel will be operated by Vienna International.

Following the bankruptcy of Swissair in 2002, the number of tourist arrivals in **Zürich** declined sharply. However, preliminary figures for 2005 suggested that visitor numbers were on the increase again; there was a modest increase of 3.7% in passenger numbers at Zürich International Airport last year. Quality hotels in Zürich registered an increase in occupancy of three percentage points. Average daily rate rose by nearly 10%. This helped produce an overall increase in RevPAR of 15.8% and an increase in hotel values of approximately 8%. Hotels currently under development in Zürich include a 155-room Courtyard by Marriott, which is scheduled to open in Oerlikon in early 2007. A 350-room Radisson SAS airport hotel project with extensive conference facilities has now been confirmed and is scheduled to open in early 2008. Construction work has started on the 132-room Four Points by ArabellaSheraton in Sihlcity, a new entertainment and business district in western Zürich; the hotel has an estimated opening date of spring 2007.

Hotel Values per Room

One look at 2004 reveals that the top five positions in our list are unchanged. Our analysis of the values per room in euro (Table 6) reveals that London has retained its position at the top for the second year in a row, with a value of approximately €516,100 per room. Istanbul, which has for so long languished near the bottom of the list, can now pride itself on having returned hotel values that are higher than ever. However, despite Warsaw's improvement, the city is still at the bottom with a value per room of approximately €104,500.

Outlook

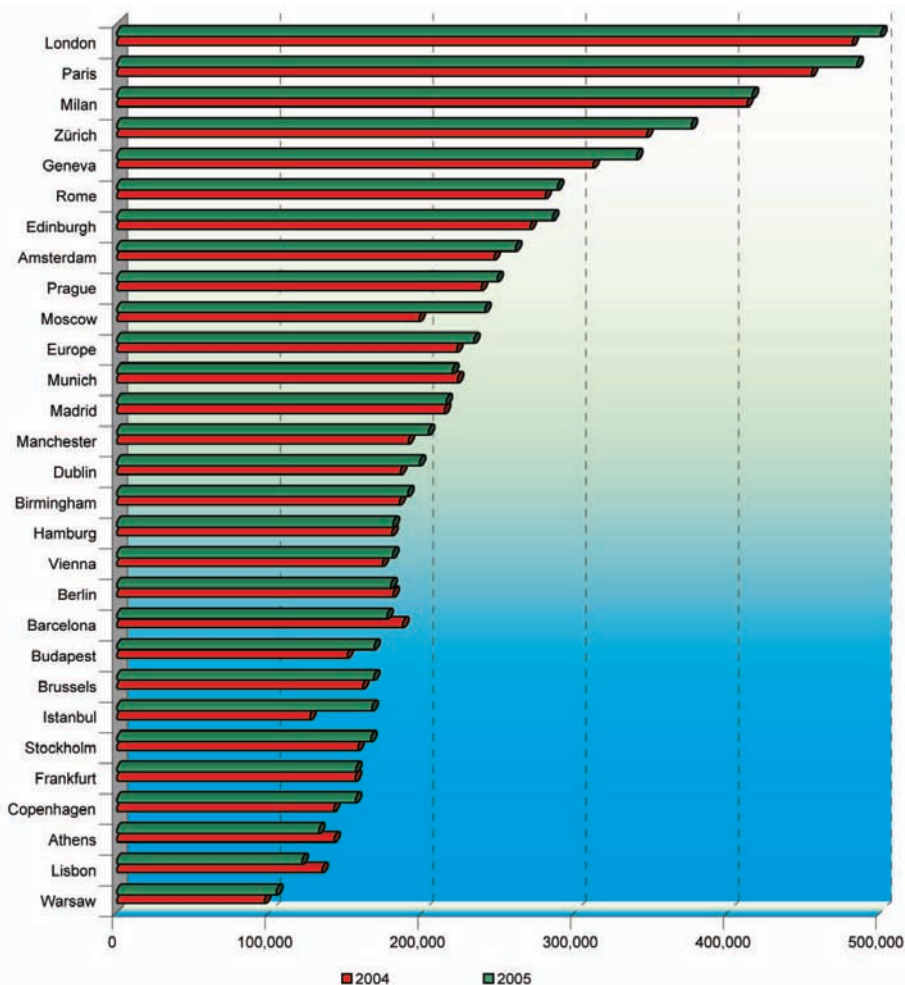
In 2005 we have seen the pace of the recovery pick up following the continued improvement in the global economy. This is especially apparent in the case of London, which, in spite of terrorist attacks, has retained its position at the top although the city's values have still not reached the heights of 2000. However, the European average is now on par with what it was in 2000, with growth driven mainly by the improved trading performance in the Central and Eastern European markets.

We are now witnessing development activity picking up rapidly following the upturn in European hotel markets in 2004 and the increased availability of debt financing. Hence the growth witnessed in the last two years could be jeopardised in some markets by excessive new supply.

We foresee that the upward trend in hotel values that was established in 2004, and which continued in 2005, is likely to continue well into 2006 and beyond. Aside from increases in values driven by improving trading performance, yields are still compressing and driving values up. The accessibility of debt financing is continuing to improve, with lending sources offering increasingly competitive terms.

Whilst the threat of terrorism now appears to

Table 7 Hotel Values per Room 2004 and 2005 (€)



Source: HVS International

have had only a limited effect on the main hotel markets in Europe, continuing unrest in the Middle East, together with the propensity of Middle Eastern guests to travel to Europe, could impact values in the short to medium term. The other major unknown as we make our forecasts for the future is the prospect of a global avian flu epidemic; this could have catastrophic implications for the demand for hotel accommodation and thus hotel values if it were to take hold.

Understanding the HVI

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

The methodology employed in producing the HVI is based upon actual operating data from a representative sample of four-star and five-star hotels. Operating data from Deloitte's HotelBenchmark Survey were used to supplement our sample of hotels in some of the markets. The data are then aggregated to produce a pro forma performance for a typical 200-room hotel in each market. Based upon our experience of real-life hotel financing

structures gained from valuing hundreds of hotels each year, we have determined appropriate valuation parameters for each market, including loan to value ratios, real interest rates and equity return expectations. These market-specific valuation/capitalisation parameters are applied to the net income for a typical hotel in each city. In determining the valuation parameters relevant to each of the 28 European markets included in the HVI, we have also taken into account evidence of actual hotel transactions and the expectations of investors with regard to future changes in supply, market performance and return requirements. Investor appetite for each market at the end of 2005 is therefore reflected in the capitalisation rates used. The HVI assumes a date of value of 31 December 2005. Values are based on recent market performance but the capitalisation rates reflect the anticipated future trends in performance, competitive environment, cost of debt and cost of equity. The HVI allows comparisons of values across markets and over time by using the 1993 average European value of €148,415 per available room (PAR) as a base (1993=1.000). Each market's value PAR is then indexed relative to this base. For example, in 2005 the index for London was 3.478 (€516.119/€148,415), which means that the value of a hotel in London in 2005 was more than 3 times the European average in 1993.



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