DLA PIPER
2010 EUROPEAN HOSPITALITY OUTLOOK SURVEY

March 2010

DLA PIPER

EVERYTHING MATTERS

FOREWORD

Karen Friebe

Partner and Head of Hospitality & Leisure Sector, EMEA

It seems that 2010 is the year for caution and conservatism in the hospitality industry. These were the key watchwords from our respondents, with hospitality executives still expressing bearish sentiment and circumspection for the medium term in 2010.

However, it does seem that the tone from respondents has altered somewhat since our 2009 survey and that there are some "green shoots" to report on. 54 per cent of respondents described their 12-month outlook on the European hospitality industry as "bearish", down from the 84 per cent recorded in last year's survey.

2010 looks to be a year of "getting real". Rather than treading on economic quicksand it is time to shed the chains of the unprofitable elements of your hotel business. More than ever there is a need to revise your corporate structures to reduce operating costs, rescue margins and re-focus on areas of business with long-term, sustainable growth opportunities.

More than a quarter of respondents see opportunities for joint ventures this year. Sharing risk and knowledge through collaboration are obvious benefits.

The current climate has clearly exposed investment opportunities for those with cash but investors are naturally likely to be more vigilant and less opportunistic than during the boom times.

As the global economy begins to emerge from recession, developing countries are continuing to outpace the main developed economies in terms of GDP growth. Whilst all four BRIC countries are set for a strong rebound, China in particular is the only large economy where the growth rate is approaching 10%. This is good news for forward-thinking hotel investors who should explore growth opportunities outside of Europe.

HIGHLIGHTS OF DLA PIPER'S 2010 EUROPEAN HOSPITALITY OUTLOOK SURVEY INCLUDE:

- 54 percent of respondents describe their 12-month outlook for the European hospitality industry as "bearish," down from 84 percent in 2009. Bullishness is up from 5 percent to 27 percent.
- 45 percent of respondents cite a decline in room rates as having had an adverse impact as opposed to 37 percent mentioning a decline in occupancy.
- Only 2 percent of respondents expect to see a sustained recovery in the year ahead, but 54 percent see recovery a year away, up from 39 percent a year ago.
- 68 percent of respondents view the economy and mid-market sectors as the most attractive opportunities for investors in the next 12 months.
- 33 percent of respondents anticipate a slight increase in the amount of new-build activity in the coming year, as against 20 and 13 percent foreseeing a slight decrease and a significant decrease respectively.
- Respondents identified India (24 percent) and China (28 percent) as representing the best opportunities for significant growth for their businesses over the next three years.
- 33 percent of respondents are seeking "considerably less" advice and guidance from their bankers than 12 months ago.
- The Eco or Green sector is the most attractive opportunity for only 6 percent of respondents.

THE OUTLOOK IS MORE BULLISH

1. HOW WOULD YOU DESCRIBE YOUR 12-MONTH OUTLOOK ON THE EUROPEAN HOSPITALITY INDUSTRY?

Answer options	Response per cent		
Bullish	**2009**	5%	
	2010	27%	
Bearish	**2009**	84%	
	2010	54%	
Don't know/neither	**2009**	11%	
	2010	19%	
Total	**2009**	100%	**20% 40% 60% 80% 100%**
	2010	100%	

- 54 per cent of respondents describe their 12-month outlook on the European hospitality industry as "bearish", down from 84 per cent in 2009. Bullishness is up from 5 per cent to 27 per cent. From a very low base, confidence has begun to grow.

2. IF YOU ANSWERED BULLISH TO QUESTION 1, WHAT IS THE PRIMARY REASON FOR YOUR CONFIDENCE?

Answer options	Response per cent	
Investment opportunities created by financial crisis	30%	
Recovery in the European economy	29%	
None of the above/do not know	23%	
Abundance of equity capital available for investment	7%	
Foreign investment in the European market	6%	
Recovery of US economy	5%	
Total	100%	**20% 40% 60% 80% 100%**

- The most frequently cited reason for confidence among optimists was the availability of investment opportunities created by the financial crisis (30%). The reasons for optimism in 2010 chiefly relate to indigenous opportunities in Europe rather than economic recovery overseas or inward investment.
- The percentage of respondents answering "Don't know/none of the above" to this question increased from 11 to 23 over 2009, perhaps indicative of a growing general uncertainty in the short term economic outlook but a possible increase in the "feel good factor"

Note: This question was only made available to those respondents who described their outlook as "bullish".

3. IF YOU ANSWERED BEARISH TO QUESTION 1, WHAT IS THE PRIMARY REASON FOR YOUR LACK OF CONFIDENCE?

Answer options	Response per cent	
Struggling economy in Europe	35%	
Lack of liquidity (debt or equity)	26%	
Current operating performance of hotels	13%	
Weak demand for business travel	12%	
None of the above/do not know	9%	
Weak demand for leisure travel	3%	
Struggling US economy	2%	
Total	100%	**20% 40% 60% 80% 100%**

- Responses were generally consistent with DLA Piper's 2009 survey, in that the struggling economy and lack of liquidity were issues of concern to more than half of the "bearish" respondents. Current operating performance was seen as a threat by a greater proportion of bears than last year (13 per cent as against 5 per cent).

Note: This question was only made available to those respondents who described their outlook as "bearish".

INVESTING IN EMERGING MARKETS

4. WHICH GEOGRAPHIC MARKETS REPRESENT THE BEST OPPORTUNITIES FOR SIGNIFICANT GROWTH FOR YOUR BUSINESS OVER THE NEXT THREE YEARS?

Answer options	Frequency
UK	40%
China	28%
Russia	27%
India	24%
South America/Latin America	24%
Germany	23%
Central and Eastern Europe	22%
Middle East/Gulf	20%
Other Western Europe	16%
France	15%
SE Asia	14%
North America	13%
Other Asia	8%
Spain	8%
Australasia	4%
Caribbean	3%

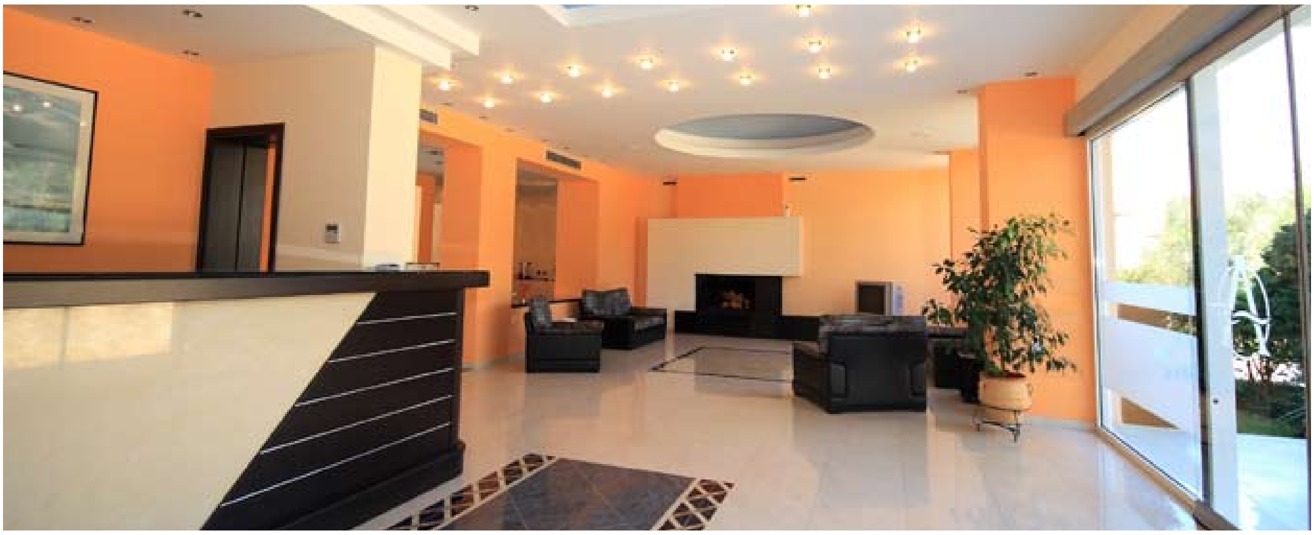
- China and India make a strong showing, being of interest to 28 and 24 per cent of respondents respectively. They are countries identified as engines for growth in hospitality and in terms of economic development more generally.
- South America/Latin America makes a strong showing. As with China and India the continent is seen as having wider economic potential. Brazil in particular will be a focus for the hospitality sector as both the 2014 World Cup and the 2016 Olympics are due to take place in Rio de Janeiro.
- The mature markets such as the UK and Germany are still attracting attention, which is encouraging for Europe, although the sample was heavily weighted in favour of UK-based respondents (52 per cent of all respondents have their home base in the UK).

DISCOUNTED ROOM RATES HIT HOTELIERS HARD

5. IN WHICH OF THE FOLLOWING WAYS HAS THE ECONOMIC DOWNTURN IMPACTED YOUR BUSINESS?

Answer options	Frequency
A decline in average room rates	45%
We have reduced operating costs	42%
Margins are being squeezed	39%
A decline in occupancy levels	37%
Reduced or defined capital expenditure	27%
Debtors are taking longer to pay and/or bad debts have increased	25%
The bank has reduced or re-priced its facilities	20%
The downturn has provided my business with an opportunity to grow and expand	20%
We are relying on creditors to extend their terms	5%
There has been no noticeable impact on my business	5%

- The decline in room rates as opposed to the decline in occupancy is identified as having had the greatest negative impact on the business. This was cited by 45 per cent of respondents, but only 37 per cent referred to occupancy. Some 39 per cent said that their margins had been squeezed. Has the consumer taken the opportunity of the financial storm to secure a better deal?
- Operating costs have also been subject to downward pressure. What is not clear is whether this is a response to the fall in revenue or a positive decision. If service levels drop this will put further pressure on both room rates and occupancy rates.



A MORE POSITIVE OUTLOOK BY 2011?

6. WHEN DO YOU THINK THE HOSPITALITY INDUSTRY IN EUROPE WILL SHOW A SUSTAINED RECOVERY?

Answer options	Response per cent	
2010	2%	
2011	54%	
2012	32%	
After 2012	11%	
None of the above/do not know	1%	
Total	100%	20% 40% 60% 80% 100%

- When asked when recovery will come, more than half of respondents are looking to 2011. Interestingly, in our 2009 survey 37 per cent of respondents foresaw a recovery in 2010. Only 2 per cent still have that view. Perhaps good times are always a year away. In a sense the results, when compared with those of the 2009 survey, do show a slight increase in short-term optimism. In 2009, 59 per cent thought recovery was more than two years away. This year that figure is down to 43 per cent.

RECOVERING COSTS FROM DISCOUNTED ROOM RATES WILL TAKE SOME TIME

7. HOW LONG DO YOU THINK IT WILL TAKE TO RESTORE ROOM RATES TO PRE-FINANCIAL CRISIS LEVELS?

Answer options	Response per cent
2010	1.7%
2011	9.0%
2012	29.9%
After 2012	54.5%
None of the above/do not know	4.9%
Total	100%

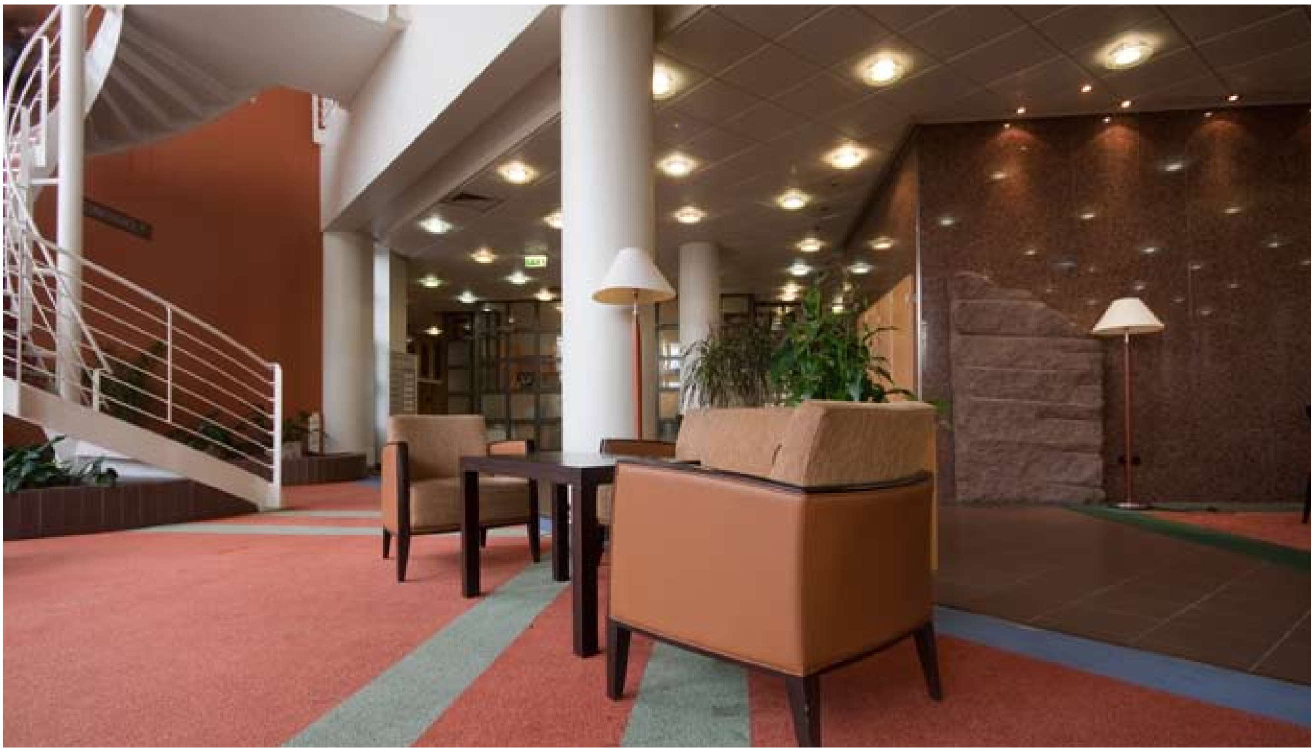
- The responses to this question showed the greatest degree of caution. Very few people anticipate a return to the good times in the foreseeable future. Even those who see recovery as likely in the medium term do not expect a rapid upswing. Some 35 per cent of those who, when answering question 6, foresaw recovery in 2011 expected a full recovery in room rates in 2012 but 45 per cent of that group did not expect it until a later date.
- This suggests that confidence is fragile. When asked to commit to a time for recovery, respondents were strongly pessimistic. Caution and lack of confidence will still affect investment decisions while the industry "watches and waits".

THE FUTURE IS "ECONOMY" HOTELS

8. WHICH SECTOR OF THE HOSPITALITY INDUSTRY REPRESENTS THE MOST ATTRACTIVE OPPORTUNITY FOR INVESTORS IN THE NEXT 12 MONTHS?

Answer options	Response per cent	
Economy/budget	35%	
Mid-market	33%	
Luxury	10%	
Upmarket	8%	
Eco/green sector	6%	
Resorts	4%	
Mixed-use/branded residential	4%	
Total	100%	20% 40% 60% 80% 100%

- The economy and mid-market sectors were clearly identified as offering the most attractive opportunities, being tipped by around 68 per cent of those who answered our question about service levels; however fewer than 50 per cent of those based in the Middle East concurred with this.
- Eco or green hospitality is interesting to a number of respondents but it is not likely to be the driver behind any immediate recovery. The level of interest in the eco/green sector has remained almost constant since 2009, suggesting that it will remain on the agenda for 2010. In a cautious market, perhaps its time has not yet come (or perhaps it is only for the forward-thinking investor who seizes opportunities while others hesitate).



BUSINESS AND LEISURE TRAVEL IS ON THE UP

9. IN THE LAST THREE MONTHS HAVE YOU SEEN AN INCREASE IN BUSINESS TRAVEL/ LEISURE TRAVEL?

Answer options		Frequency	
Business travel	Significant increase	2%	
	Slight increase	36%	
	No change	23%	
	Slight decrease	18%	
	Significant decrease	13%	
	None of the above/do not know	7%	
Leisure travel	Significant increase	3%	
	Slight increase	31%	
	No change	32%	
	Slight decrease	18%	
	Significant decrease	8%	
	None of the above/do not know	8%	
			20% 40% 60% 80% 100%

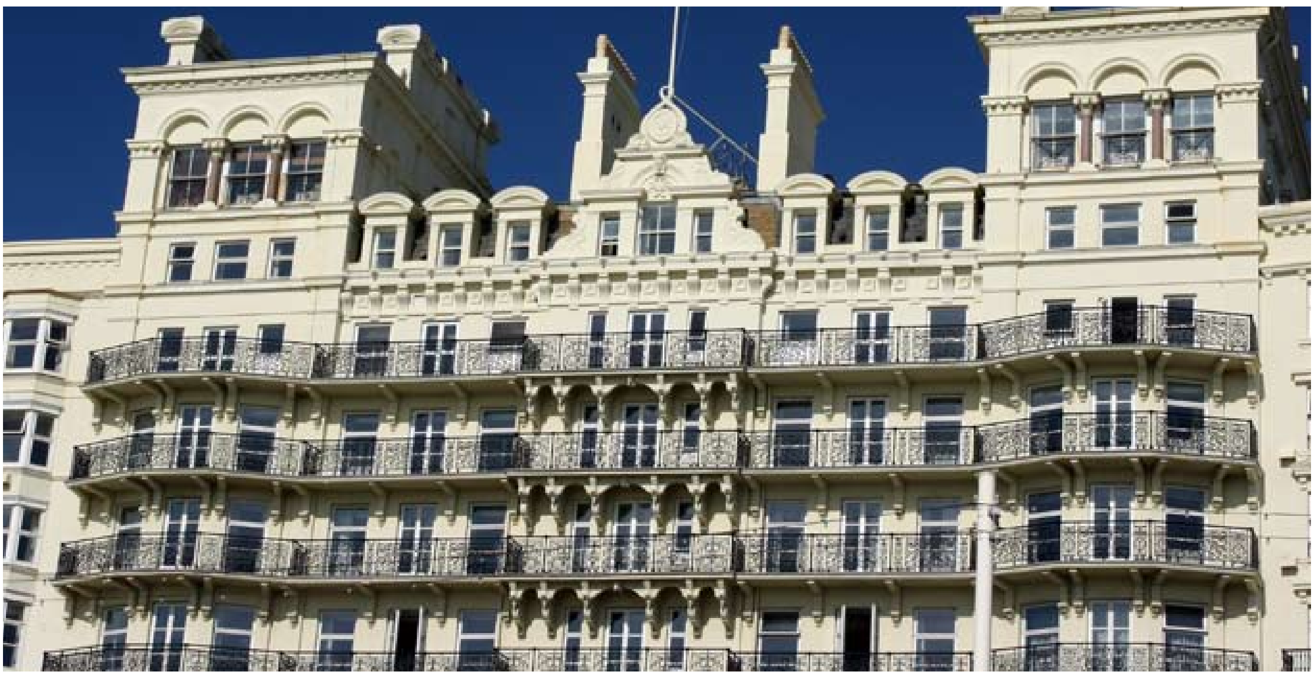
- Responses to this question are indicative of the general tone of cautious optimism. The majority see volumes of both leisure and business travel as either static or on the increase. The position for business travel appears to be slightly more positive.

GOOD NEWS FOR DEVELOPERS

10. DO YOU THINK HOTEL NEW-BUILD ACTIVITY WILL INCREASE IN THE NEXT 12 MONTHS?

Answer options	Response per cent	
Significant increase	3.0%	
Slight increase	32.5%	
No change	31.1%	
Slight decrease	19.5%	
Significant decrease	12.7%	
None of the above/do not know	1.2%	
Total	100%	20% 40% 60% 80% 100%

- On the development front, the note of cautious optimism is repeated, with more people identifying an increase in activity here than a decrease, but very few foreseeing any strong improvement.
- This is potentially positive news for developers who have suffered considerably throughout 2008-2009.



SEEKING LESS ADVICE FROM BANKS

11. ARE YOU TAKING MORE OR LESS EXTERNAL ADVICE AND GUIDANCE THAN 12 MONTHS AGO FROM LAWYERS, BANKERS, NON-EXECS, ACCOUNTANTS OR INDUSTRY ASSOCIATIONS?

Answer options		Frequency
Lawyers	Noticeably more	19%
	About the same	45%
	Considerably less	12%
	Not applicable	25%
Bankers	Noticeably more	20%
	About the same	30%
	Considerably less	33%
	Not applicable	18%
Non-Executive Directors	Noticeably more	24%
	About the same	23%
	Considerably less	12%
	Not applicable	42%
Accountants	Noticeably more	29%
	About the same	34%
	Considerably less	15%
	Not applicable	22%
Industry Associations	Noticeably more	16%
	About the same	42%
	Considerably less	14%
	Not applicable	28%
		20% 40% 60% 80% 100%

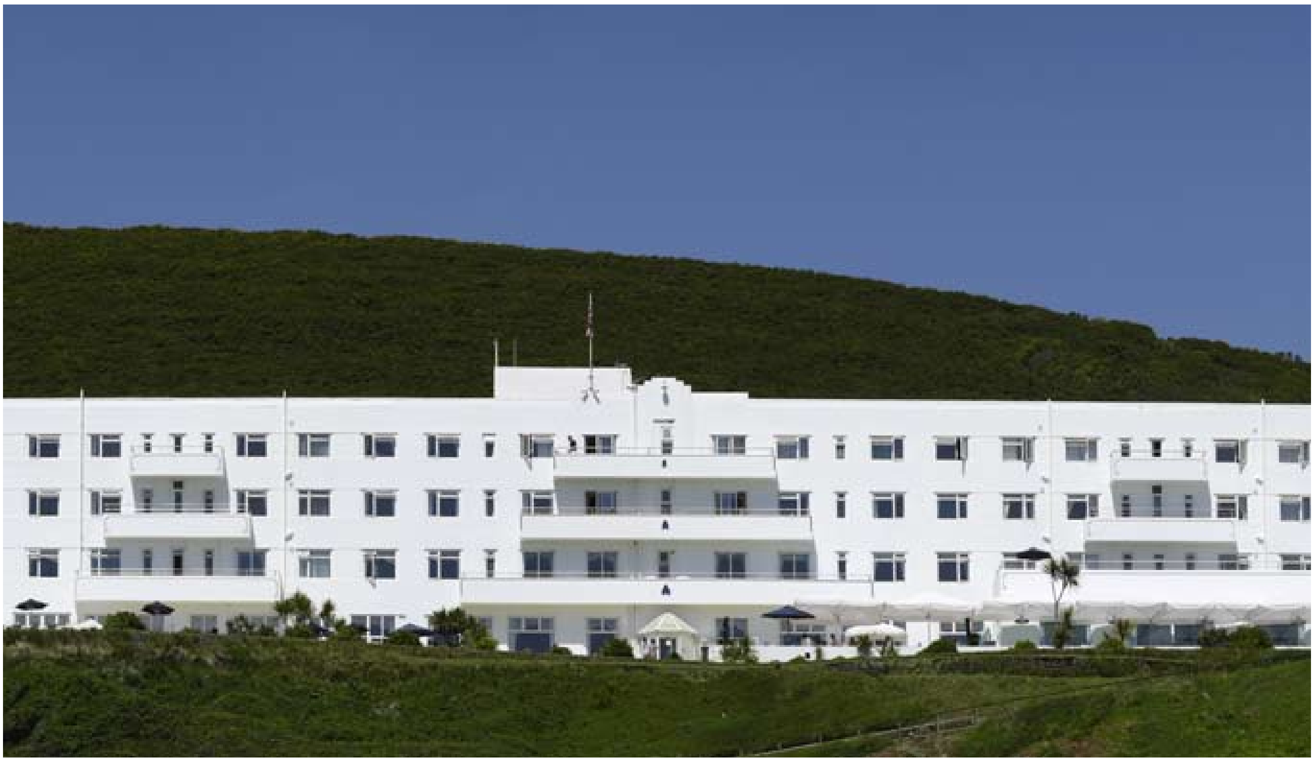
- Bankers appear to have suffered the most from the troubles of recent years, with as many as 30 per cent of respondents going to the finance houses for advice less often than a year ago. Lawyers, non-execs, accountants and industry associations have seen a less significant drop-off. The trends shown by this data may be less significant than those shown by other questions, as only around one-third of respondents answered this question.
- Whether this will be a continuing trend or whether this will be a return to "business as usual" when bank lending is back to pre- 2008 levels of activity is difficult to say but at present it looks as though banks may take slightly longer to regain previous levels of relationship with their clients.

LARGE HOTEL CHAINS DOMINATE THE HOTEL INDUSTRY

12. DO YOU THINK THAT THE SECTOR WILL OFFER INCREASED OPPORTUNITIES FOR JOINT VENTURES?

Answer options	Response per cent
Yes	73%
No	12%
Don't know	15%
Total	100%

- When asked if the hospitality sector would offer increased opportunities for joint ventures, 74 per cent of respondents thought it would. Some 80 per cent of respondents expected a continuation in the trend towards conversion of independent hotels and small chains into parts of larger chains and 66 per cent expected large chains to increase their market share in 2010 (although 30 per cent thought otherwise).



LESSONS LEARNT

13. WHAT IS THE SINGLE MOST IMPORTANT BUSINESS LESSON YOU HAVE LEARNT OVER THE PAST 12 MONTHS?

The last question in the survey, which allowed respondents to give free rein to their emotions, unsurprisingly elicited some of the most telling answers. Some 204 respondents provided their comments. Consequently, the comments were very diverse, although evidently some key themes emerged.

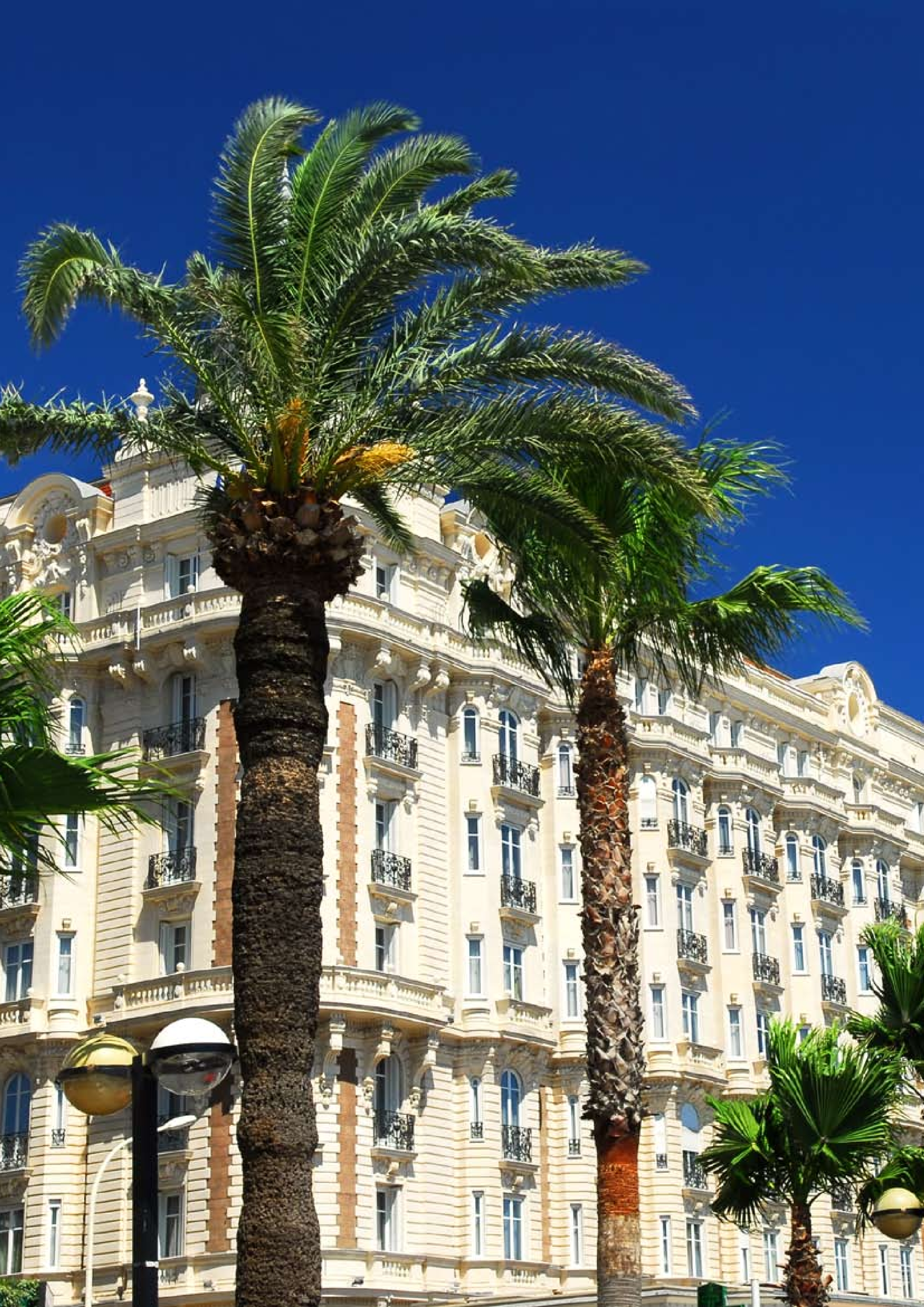
One of the most telling comments was "be realistic, be prudent". The recent years of downturn have clearly prompted a need for change in the way the hospitality industry approaches business. It has almost been a case of reassessing the current practices, particularly in future investment decisions.

Several different responses summed up the year with the comment "cash is king". Many businesses have faced financial pressure during the economic downturn, yet more than ever, equity rules. As financing remains difficult to find, investment is generally only possible for cash rich investors. The importance of cash was voiced by 8 of the 204 respondents who referred to the importance of managing cash flow and therefore suggesting the increased emphasis that needs to be placed on cost control.

"Back to basics" and "paying attention to the fundamentals" was also a key comment amongst respondents. There were, however, contrasting views, with other respondents extolling the importance of diversification with one particular comment reading "diversification is a virtue".

Planning for the future and making forward-thinking predictions is hard in the current marketplace where change seems to be a constant feature. "Make no assumptions about the future" wrote one respondent with another "the market never reacts as you would expect". This complements the many calls for a need for "flexibility" and "caution" in the approach to business in 2010. Adaptability in particular seems to be critical to sustaining business strategy and responding to market changes.

In summary the respondents of this survey clearly provided some food for thought for the hospitality industry. "Being realistic", "flexible", "cost conscious" and "savvy" are the buzzwords for 2010. In the words of one of the respondents, the motto for the hospitality industry for 2010 appears to be "survive, adapt, overcome".



METHODOLOGY

In February 2010, DLA Piper (in conjunction with Bench Events) distributed a survey via email to top executives within the hospitality industry, including CEOs, COOs, CFOs and other senior executives, which was completed by 340 respondents.

Question No. 2 was only made available to those respondents who described themselves as "bullish" in Question No. 1.

Question No. 3 was only made available to those respondents who described themselves as "bearish" in Question No. 1.

Owing to rounding up all percentages used in all questions may not add up to 100 per cent.

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FOR MORE INFORMATION

To learn more about DLA Piper, visit www.dlapiper.com or contact:

Karen Friebe
Global Co-Chair,
Hospitality and Leisure group, DLA Piper
T +44 (0)20 7796 6155
M +44 (0)7971 142359
karen.friebe@dlapiper.com

Nicholas Breakspeare
UK Media and PR Manager, DLA Piper
T + 44 (0)20 7796 6731
M +44 (0)7738 295180
nicholas.breakspeare@dlapiper.com

Anya Webster
Marketing Manager,
Hospitality and Leiure Group, DLA Piper
T + 44 (0)20 7153 7452
M +44 (0)7841 317558
anya.webster@dlapiper.com

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