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ROME, ITALY

UPSCALE HOTEL MARKET

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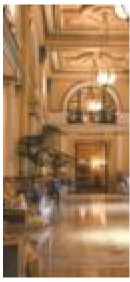


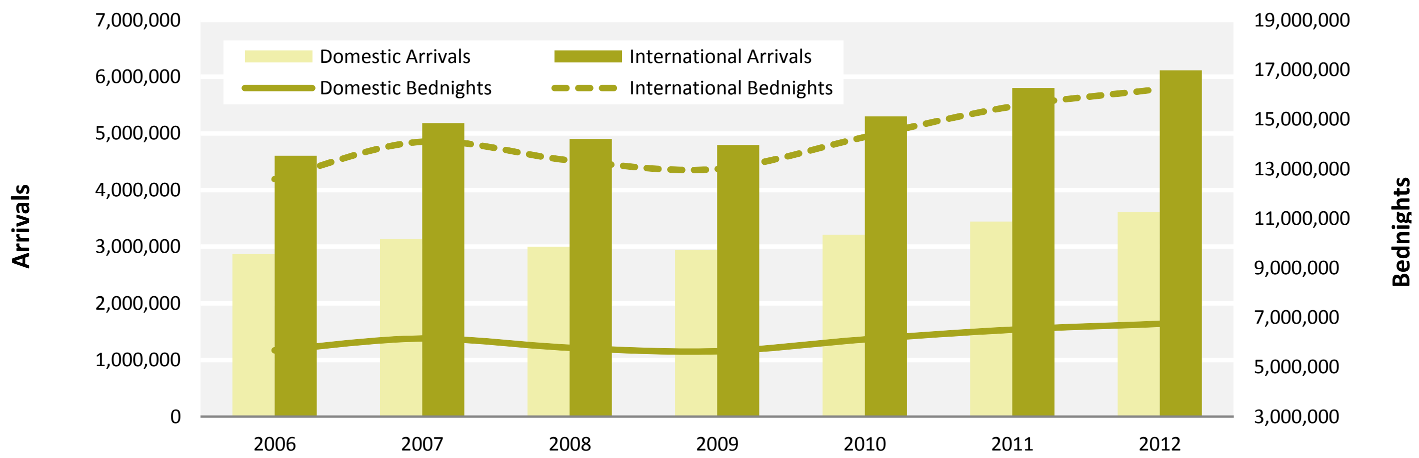
Summary

Rome, the capital of Italy, is a must see for any traveller; the legacy of its long history is imbued in every stone. As well as leisure travellers, Rome attracts corporate and conference business (though to a lesser extent). In this article, we present tourism visitation trends, the most recent performance of upscale hotels and a performance forecast to 2017. We also discuss the current values of hotels in Rome.

Demand

After contractions in **arrivals** in 2007 and 2008, 2010 saw a complete recovery with both domestic and international arrivals surpassing 2007 levels by 2%. Overall, between 2006 and 2012 arrivals registered a compound annual growth rate of 4.5%, mainly driven by the growth in international arrivals. Similarly, the annual increase of 3.9% in bednights was mainly driven by the 4.3% growth in international bednights.

FIGURE 1: ARRIVALS AND BEDNIGHTS AT HOTELS – ROME



Compound Annual Growth Rates

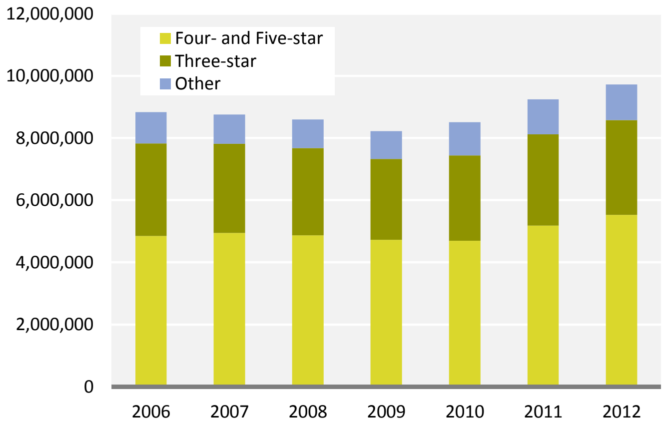
Domestic Arrivals	3.9%	Domestic Bednights	2.9%
International Arrivals	4.8%	International Bednights	4.3%
Combined Arrivals	**4.5%**	**Combined Bednights**	**3.9%**

Source: Ente Bilaterale Turismo Lazio (EBTL)

The proportion of domestic and international arrivals has remained practically unchanged since 2006 with international travellers making up approximately 60% of arrivals and 70% of bednights at hotels in Rome. Average length of stay has remained fairly constant throughout this period, at two nights for the domestic traveller and three nights for the international traveller.

This demonstrates a strong and stable market which has proven resilient to the global economic downturn. We note that these data refer to arrivals and bednights registered at hotels only, excluding any other type of accommodation such as bed and breakfasts, holiday homes and other such types of accommodation.

FIGURE 2: ARRIVALS AT HOTELS BY CATEGORY



Compound Annual Growth Rate	
Four- and Five-star	2.2%
Three-star	0.4%
Other	2.1%
Combined	**1.6%**

Source: EBTL

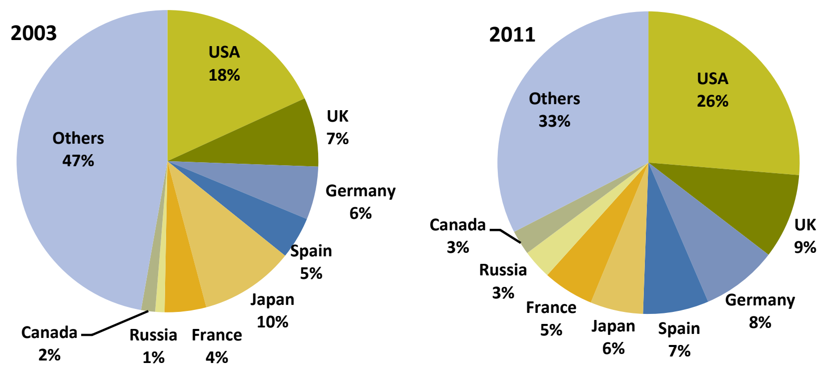
Figure 2 shows four- and five-star hotels combined registering the highest CAGR in arrivals between 2006 and 2012. Also, lower-category hotels' arrivals registered a similar CAGR while the mid-market hotels' arrivals remained almost unchanged over this period. This suggests a stronger demand for either high-end or budget accommodation and consistent demand for mid-market accommodation.

In 2011, arrivals from the main **source countries** increased compared to 2003. While arrivals from the USA, Germany and Spain more than doubled, the UK and France also showed healthy increases of 72% and 71%, respectively. The only exception to this upwards trend was Japan, while Russia and Canada registered the highest growth (of 339% and 144% respectively) albeit from a low base.

FIGURE 3: MAIN SOURCE COUNTRIES 2003 AND 2010

Source Countries	2003	2011
USA	758,025	1,529,700
UK	307,704	528,516
Germany	236,989	472,950
Spain	187,619	410,081
Japan	421,304	328,409
France	185,449	316,947
Russia	41,525	182,178
Canada	62,664	152,632
Others	1,967,139	1,892,673
Total	**4,168,418**	**5,814,086**

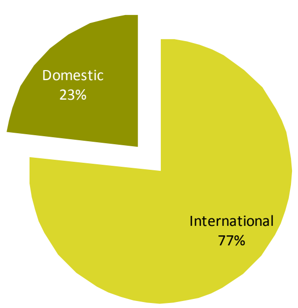
Source: Istat 2013



Foreign visitation to Rome has further diversified since 2003, as demand from various other regions – notably China and Australia – picked up, registering 130,000 arrivals (or a 35% increase from 2003) and 145,000 arrivals (a 99% increase), respectively, in 2011. Figure 3 shows the key changes from 2003-11.

Demand Trend – Luxury Segment

FIGURE 4: SHARE DOMESTIC AND INTERNATIONAL ARRIVALS AT LUXURY AND UPSCALE HOTELS

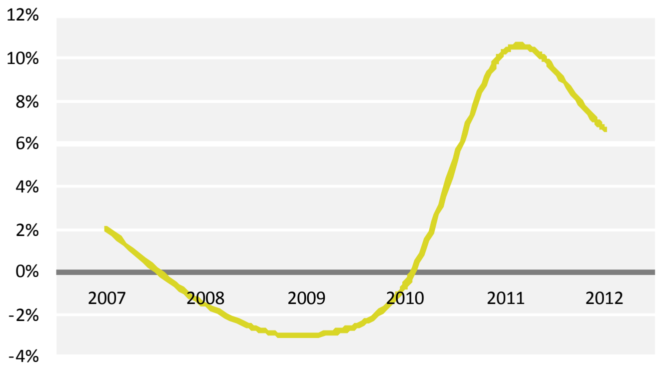


Source: EBTL

Demand for **luxury and upscale hotels** in Rome slightly decreased on average by 2% from 2008 to 2010, before registering healthy growth of 10% and 7% in 2011 and 2012, respectively. Arrivals reached approximately 5.5 million in 2012.

Statistics available for Rome for the first three months of 2013 also show a positive growth trend when compared to the same period in 2012, as reported in Figure 5, below.

FIGURE 5: DOMESTIC AND INTERNATIONAL ARRIVALS' CHANGE AT LUXURY AND UPSCALE HOTELS (%)



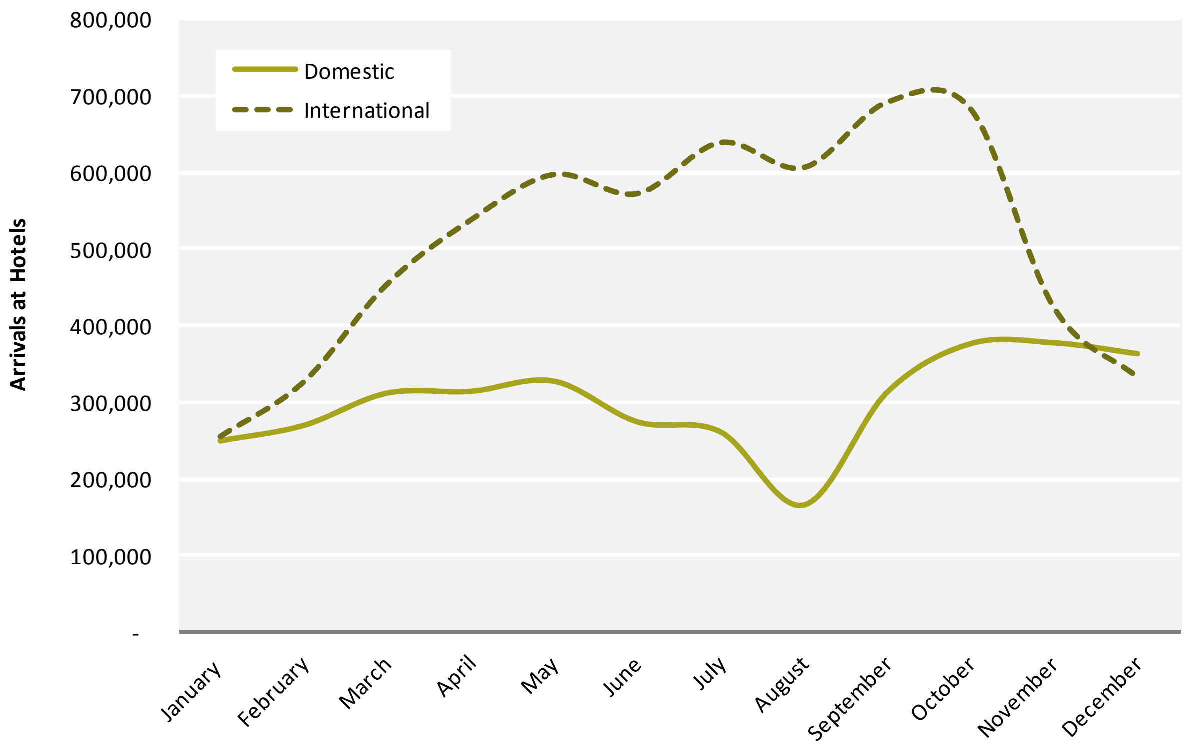
Growth in Arrivals Year-to-March 2012/13

Hotel Category	January	February	March
Five-Star	+5.33%	+4.00%	+2.93%
Four-Star	+5.21%	+6.14%	+7.24%

Source: EBTL

The **seasonality** of demand for hotel accommodation, depicted in the following graph, shows that domestic and international demand for hotel accommodation follow a different trend: domestic demand is more flat throughout the year with the exception of a pronounced drop in August; while international demand is more seasonal with the season going from April until October and a peak in September/October. (Figure 6).

FIGURE 6: SEASONALITY – ARRIVALS AT HOTELS 2012



Source: EBTL

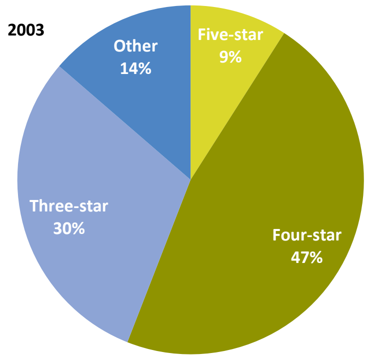
Supply

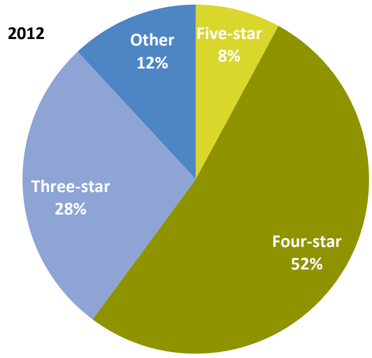
With regards to **supply**, the total number of hotel rooms in Rome increased by 10% to approximately 47,300 between 2007 and 2012. For comparison, Milan has approximately 38,300 rooms, Paris 77,000 and London 90,000. The Roman increase was mainly driven by the four-star category (up 23%) while the five-star category lost 155 rooms in the same period. Three-star properties increased their rooms by 1% while lower category rooms' inventory decreased by 4%. Consequently, the share of four-star rooms has increased from 47% to 52%.

FIGURE 7: HOTEL SUPPLY PER CATEGORY 2003 AND 2010

Category	2007	2012	% Change
Five-star	3,908	3,753	-4%
Four-star	20,159	24,728	23%
Three-star	13,051	13,208	1%
Other	5,895	5,654	-4%
Total	**43,013**	**47,343**	**10%**

Source: EBTL





In summary, demand across the market has risen by 17% and supply by 10% for the period of 2007 to 2012. Demand in the luxury segment over the same period grew by almost 12%.

Supply Trend – Luxury and Other Segments

In regards to **new supply**, the Roman hotel scene has witnessed a number of rebrandings rather than new openings. There has been only one new opening in recent years: the 116-room **Gran Meliá Villa Agrippina** which opened in the spring of 2012. Early 2012 rebrandings include the **Jumeirah Grand Hotel Via Veneto**. The **Four Seasons** hotel, to be located in the State Mint and Polygraphic Institute in Piazza Verdi, is expected to include a 200-room hotel and 200 luxury apartments, 50 of which branded. The Hotel Eden will undergo refurbishment to be re-branded as a **Dorchester Collection.**

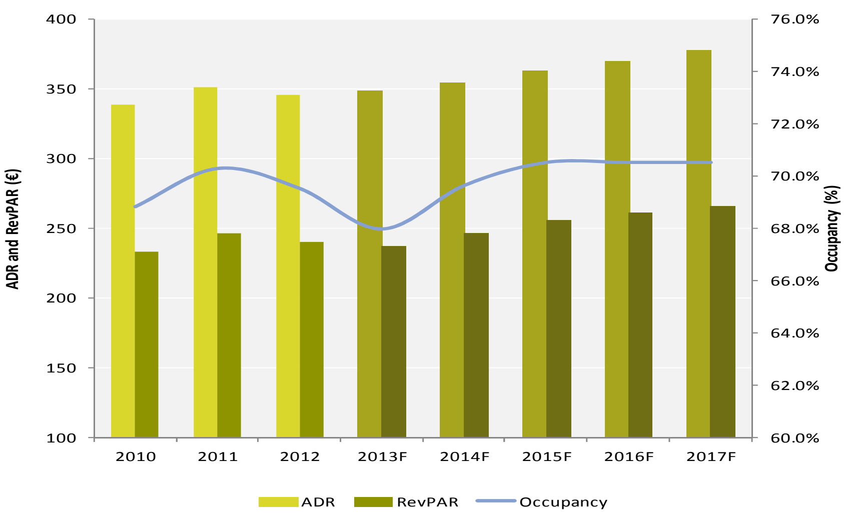
ISITUTO POLIGRAFICO PIAZZA VERDI – PLANNED FOUR SEASONS

The **Hilton Garden Inn Claridge** is opening in the Parioli area, and three hotels are to be rebranded under the **Barceló** flag. IHG has signed a franchise agreement with Roma Ovest for an existing hotel that will undergo a conversion to reopen as the 229-room **Holiday Inn Rome Pisana** in the fourth quarter of 2013. In the spring of 2013, IHG has signed an agreement to rebrand a boutique hotel in central Rome under the **Indigo** brand. The hotel will be operated under a franchise agreement and is expected to undergo conversion and come to the market in the first quarter of 2014. Most hotels in the pipeline, mainly in the mid-market segment, are on hold owing to financial or planning reasons. Should these developments be finalised in the next few years they would add approximately 2,000 rooms to the market. However, we currently consider these new openings speculative and have therefore not accounted for any of these developments in our projections. It was recently announced that funds have been released to complete the '**La Nuvola**' (The Cloud) convention centre at the EUR. Construction started in 2007 and was put on hold several times. This development will also include a luxury hotel and is now expected to be completed in 2014. The hotel (The Blade) is planned to have 441 rooms across 17 floors. There are rumours that **Mandarin Oriental** and **Shangri-La** are looking to open hotels in the city. It seems that two historic buildings have been acquired to be transformed into hotels run by these two luxury brands.

Recent and Forecast Upscale Hotel Performance

Our analysis takes into account the historical performance of a sample of upscale hotels in Rome totalling approximately 1,600 rooms. We analysed occupancy and average rate performance between 2010 and 2012. We have considered only one new addition to the market (the Gran Meliá Villa Agrippina) as the other developments are currently on hold and there is no certain opening date. The Gran Meliá opened its doors in April 2012 and we have considered that the full impact of this new opening will hit the market in 2013, the hotel's first full year of operation. Figure 8 illustrates the historical and forecast performance for the defined competitive market.

FIGURE 8: USPCALE HOTEL PERFORMANCE 2010-17



Even though average rate is not yet back to 2007 values, overall luxury hotel performance in Rome for 2011 showed signs of growth in both occupancy and rate and consequently in RevPAR. However, the decrease of 1% in occupancy and 2% in rate registered in 2012 has resulted in an decrease of 3% in RevPAR. This was due to the opening of the 116-room Gran Meliá Villa Agrippina in April 2012.

Occupancy is forecast to slightly decrease by around 1% in 2013 owing to the full impact of new supply entering in the market while average rate is forecast to remain stable in 2013 and from 2014 to constantly increase slightly owing to the increase of internationally branded hotels in the market which are expected to introduce a higher yield through more effective revenue management. This results in RevPAR constantly increasing as the decrease in occupancy is offset by the increase in rate. We forecast overall market occupancy to stabilise at around 70.5% from 2015 onwards.

Current and Future Values

As detailed in our European Hotel Valuation Index report (see Figure 9), the combination of hotel performance and investment appetite for the Rome market resulted in a 2% increase in values per room in 2012, continuing the upward trend this market experienced in the previous two years. Rome was therefore ranked as fifth in the 2013 European Valuation index at approximately €350,000 per room.

FIGURE 9: VALUE CHANGES IN THE MAIN EUROPEAN MARKETS

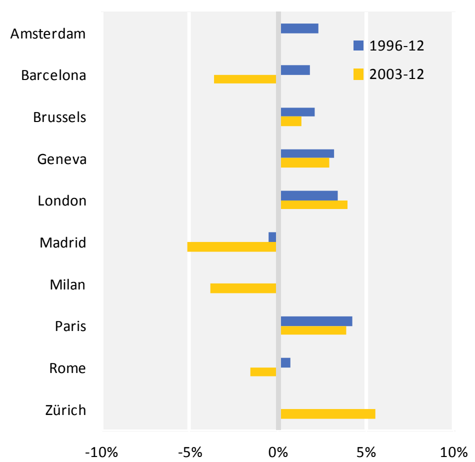


FIGURE 10: VALUE FORECAST CHANGES IN THE MAIN EUROPEAN MARKETS

	Peak Years			HVS Forecast				
	2006	2007	2012	2013	2014	2015	2016	2017
Amsterdam	347,480	344,731	281,512	290,000	296,000	302,000	308,000	314,000
Barcelona	299,168	315,731	231,696	236,000	241,000	248,000	258,000	266,000
Brussels	181,015	192,041	176,173	180,000	183,000	187,000	191,000	195,000
Geneva	374,928	395,337	451,263	460,000	469,000	479,000	488,000	498,000
London	590,700	623,389	625,325	635,000	654,000	673,000	694,000	714,000
Madrid	318,668	325,149	195,855	194,000	194,000	198,000	202,000	206,000
Milan	425,408	418,292	274,263	274,000	277,000	291,000	300,000	309,000
Paris	567,582	601,736	659,819	680,000	700,000	721,000	743,000	765,000
Rome	474,115	453,513	353,389	357,000	364,000	375,000	386,000	398,000
Zürich	383,896	412,929	492,163	502,000	512,000	522,000	533,000	543,000

Source: HVS – London Office

There are generally few transactions taking place in Italy. No significant transactions were registered in 2011 whilst just a handful took place in 2012. In 2013, the most remarkable Italian transactions to mid-October were those of the Four Seasons Florence, of 116 rooms, which sold for €150 million (almost €1.3 million per room), to a Qatari high-net-worth individual; and that of the 121-room Hotel Eden in Rome, which sold for €105 million (€870,000 approximately) to The Dorchester Collection. No other meaningful transactions took place in Rome.

We note, however, that two hotels are currently for sale in the suburban area of Rome: the 238-room Eurostars Congress Hotel and Convention Centre and the 237-room Holiday Inn Aurelia.

Conclusion

Rome is an established international market driven mainly by leisure demand, but nevertheless also attracts a share of corporate and congress demand, mainly due to its position as the political capital of Italy. Owing to the historic nature of the city, gaining planning consent for conversion to hotel use remains challenging and the pipeline of new supply is limited for this reason, while existing hotel construction is generally stagnant owing to lack of financing and lengthy bureaucratic procedures. Domestic and international arrivals to the city have been steadily increasing from 2009 to 2012 and the upscale hotel market in particular has proven resilient to the global economic crisis already registering increases over the peak level achieved in 2007, before the crisis began. We consider that the many appeals of the Roman market, including its unique tourist attractions and its weight within the Italian economy, will continue to drive demand for this market. The relatively constrained supply will further enhance the future prospects for Rome.

HVS

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