

MARCH 2009

DLA PIPER 2009 EUROPE HOSPITALITY OUTLOOK SURVEY



EVERYTHING MATTERS

EUROPEAN H&L OUTLOOK SURVEY FOREWORD



It comes as no surprise that in the current economic climate, 80 percent of respondents to our survey describe their outlook for 2009 as bearish. However, there is a silver lining to this cloud for well capitalised investors who could emerge as winners as they snap up assets that come onto the market at rock bottom prices. However, timing is crucial as they could be catching a falling knife.

Reducing operating costs is one clear way for players in the hotel sector to minimise the impact of the downturn, but there are other ways to protect your business by taking recession-proofing measures. The hotel sector can learn from other sectors, such as retail, which have already felt the impact of the recession. A prudent step would be to conduct a full audit of your supply chain contracts to ensure that they are robust, relevant and put you on the right side of the law.

Being certain of your position and knowing your rights is imperative, particularly when it comes to negotiations with financiers and existing stakeholders. We have already seen an increasing interest from our sector clients in non-disturbance agreements.

According to the survey, we Europeans are less optimistic and more cautious than our US counterparts about the speed of recovery from the current downturn. The key now is for industry players to stay focused and avoid complacency. Now is the time to review corporate structures to ensure that you can adapt quickly to changing economic conditions. Almost three quarters of respondents believe that investment in sustainable hotels is a long-term trend which could help carry you out of the current gloom into the new, emerging global economy.

Karen Friebe

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EXECUTIVE SUMMARY

European hospitality executives are less optimistic about the health of their industry than their US counterparts.

According to the DLA Piper 2009 Europe Hospitality Outlook Survey, European hospitality executives are not expecting an industry-wide recovery until 2011, whereas the majority of US hospitality executives foresee a rebound in 2010 (as reported by DLA Piper earlier this year).

Lack of liquidity (debt or equity) remains the primary concern of European hospitality executives, with the majority of respondents expecting hotel assets to go down in the next 12-months.

Despite these challenges most respondents think current market conditions have created 'good' buying opportunities, with the economy/budget hotel sector representing the most attractive investment opportunity. Investment in sustainable hotel development is also regarded as a long-term trend.

Highlights of DLA Piper's 2009 Europe Hospitality Outlook Survey include:

- 84 percent of respondents describe their 12-month outlook for the European hospitality industry as 'bearish'.
- 9 out of 10 respondents do not expect the European hospitality industry to rebound in the coming year. Furthermore, only 39 percent expect the industry to rebound in 2010, compared to 59 percent in the US (based on US survey data). Over half of European respondents (52 percent) do not expect a recovery until 2011.
- 70 percent of respondents are witnessing a significant reduction in business travel.
- 8 out of 10 respondents think that current market conditions have created good buying opportunities for well-capitalised investors.
- 71 percent of respondents believe investment in sustainable hotel development is a long-term trend.
- The majority of respondents see a widespread risk of bankruptcy for European hotel chains. 39 percent expect 1-5 hotel chains to file for bankruptcy during the next 12-months, while 23 percent expect 5-10. Another 17 percent foresee 10 hotel chains or more filing for bankruptcy within the next year.
- The majority of respondents (32 percent) believe the EU Parliament's potential removal of an EU country's right to opt-out from the Working Time Directive – which caps an employee's working week to 48 hours – will have a negative impact on the industry.

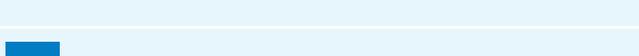
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1. How would you describe your 12-month outlook for the hospitality industry in Europe?

Responses	Count	%	Percentage of total respondents
Bullish	14	5.4	
Bearish	219	83.9	
None of the above /do not know	28	10.7	
Total responses	261		0 20 40 60 80 100

84 percent of respondents describe their 12-month outlook for the European hospitality industry as 'bearish'.

2. What is the primary reason for your confidence?

Responses	Count	%	Percentage of total respondents
Expected rebound of European economy	3	21	
Foreign investment in European market	2	14	
Investment opportunities created by financial crisis	3	21	
Abundance of equity capital available for investment	1	7	
Confidence in Europe's political leaders	0	0	
Expected rebound of US economy	2	14.2	
None of the above/do not know	3	21	
Total responses	14		0 20 40 60 80 100

Amongst the small minority of respondents who describe their 12-month outlook as 'bullish' (5 percent), most attribute their confidence to the expected rebound of the European economy and investment opportunities created by the financial crisis.

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

3. What is the primary reason for your lack of confidence?

Responses	Count	%	Percentage of total respondents
Struggling European economy	73	33.3	
Lack of liquidity (debt or equity)	94	42.9	
Current operating performance of hotels	12	5.4	
Time and cost restraints on consumer travel	8	3.6	
Reduced business travel	17	7.7	
Lack of confidence in Europe's political leaders	2	0.9	
Struggling US economy	11	5	
None of the above/do not know	2	0.9	
Total responses	219		0 20 40 60 80 100

Lack of liquidity (43 percent) and the struggling European economy (33 percent) top the list of concerns for 'bearish' respondents.

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

4. Which recession do you believe has had the greatest impact on revenue per available room (revPAR)?

Responses	Count	%	Percentage of total respondents
Early 1980s	12	4.6	
1991 – 1992 recession	48	18.4	
2001 recession	38	14.6	
Current recession	114	43.7	
None of the above/do not know	49	18.8	
Total responses	261		0 20 40 60 80 100

The largest percentage of respondents (44 percent) believes that the current recession has had a greater impact on revenue per available room (RevPAR) than any other previous recession during the past 30 years.

5. Where do you think hotel asset values are headed during the next 12-months?

Responses	Count	%	Percentage of total respondents
Up	4	1.5	
No significant change	40	15.3	
Down	212	81.2	
None of the above/do not know	5	1.9	
Total responses	261		0 20 40 60 80 100

Reflecting lower occupancy rates and lower daily rates, 8 out of 10 respondents think that hotel asset values will decline during the next 12-months.

6. When will the hospitality industry in Europe rebound?

Responses	Count	%	Percentage of total respondents
2009	1	0.4	
2010	98	38.6	
2011	132	52	
2012	15	5.9	
After 2012	2	0.8	
None of the above/do not know	13	5	
Total responses	261		0 20 40 60 80 100

Consistent with respondents' 'bearish' outlook, the majority of respondents (52 percent) do not expect the European hospitality industry to rebound until 2011.

7. Which sector of the hospitality industry represents the most attractive opportunity for investors in the next 12-months?

Responses	Count	%	Percentage of total respondents
Economy/budget	122	46.7	
Midscale	54	20.7	
Upscale	15	5.7	
Luxury	26	10	
Resorts	1	0.4	
Eco-friendly/green	18	6.9	
Mixed-use/branded residential	13	5	
None of the above/do not know	12	4.6	
Total responses	261		0 20 40 60 80 100

Reflecting the decline in consumer spending, the majority of respondents (47 percent) rank the economy/budget sector of the hospitality industry as the most attractive investment opportunity in the next 12-months.

8. For well-capitalised investors, do you think current market conditions have now created good buying opportunities?

Responses	Count	%	Percentage of total respondents
Yes	215	82.4	
No	37	14.2	
None of the above/do not know	9	3.4	
Total responses	261		0 20 40 60 80 100

8 out of 10 respondents think that current market conditions have created good buying opportunities for well-capitalised investors.

In an interesting contrast, the majority of respondents think now is a good time to buy, despite the fact they do not expect the industry to rebound until 2011. This inconsistency suggests that even better buying opportunities will surface later in 2009.

9. What types of investors do you expect to be the most active in Europe's hospitality industry in the coming year?

Responses	Count	%	Percentage of total respondents
Foreign investors	97	37.2	
Insurance companies	7	2.7	
Pension funds	10	3.8	
Private equity	81	31	
REITs	6	2.3	
None of the above/do not know	31	11.9	
Other (please specify)	29	11.1	
Total responses	261		0 20 40 60 80 100

The majority of respondents (37 percent) expect that foreign investors will be the most active in the European hospitality industry in 2009, followed by private equity investors (31 percent).

10. What types of lenders do you expect to be the most active in Europe's hospitality industry in the coming year?

Responses	Count	%	Percentage of total respondents
Commercial banks	75	28.7	
Hedge funds	12	4.6	
Investment banks	22	8.4	
Mutual insurance/assurance companies	23	8.8	
Pension funds	22	8.4	
None of the above/do not know	107	41	
Total responses	261		0 20 40 60 80 100

Over a quarter of respondents (29 percent) believe commercial banks will be the most active type of lender in the European hospitality industry in the coming year. However, the majority of respondents (41 percent) are unsure as to who will be the most active lenders in 2009, indicating widespread confusion amongst hospitality executives over sources of loans.

11. Are you witnessing/suffering from a significant reduction in business travel?

Responses	Count	%	Percentage of total respondents
Yes	182	69.7	
No	54	20.7	
Do not know	25	9.6	
Total responses	261		0 20 40 60 80 100

The majority of respondents (70 percent) are experiencing a significant reduction in business travel which is impacting on industry players.

12. Recently the EU Parliament voted in favour to remove an EU country’s right to opt-out from the Working Time Directive which caps an employee’s working week to 48 hours. If this change was made permanent what type of impact would it have on the European hospitality industry?

Responses	Count	%	Percentage of total respondents
Significantly positive	9	3.4	
Positive	43	16.5	
No impact	73	28	
Negative	68	26.1	
Significantly negative	15	5.7	
Do not know	53	20.3	
Total responses	261		0 20 40 60 80 100

The majority of respondents (32 percent) believe the EU Parliament’s potential removal of an EU country’s right to opt-out from the Working Time Directive – which caps an employee’s working week to 48 hours – will have a negative impact on the industry.

13. Amidst the current economic uncertainty and questions surrounding ROI, do you think that investment activity in eco-friendly/green hotels is a long-term trend?

Responses	Count	%	Percentage of total respondents
Yes	184	70.5	
No	56	21.5	
Do not know	21	8	
Total responses	261		0 20 40 60 80 100

Despite the recession, the majority of respondents (71 percent) believe investment in sustainable hotel development is a long-term trend.

14. How many hotel chains/brands do you expect to file for bankruptcy in the next 12-months?

Responses	Count	%	Percentage of total respondents
None	17	6.5	
1-5	101	38.7	
5-10	60	23	
More than 10	44	16.9	
Do not know	39	14.9	
Total responses	261		0 20 40 60 80 100

The majority of respondents see a widespread risk of bankruptcy for European hotel chains. 39 percent expect 1-5 hotel chains to file for bankruptcy during the next 12-months, whilst 23 percent expect 5-10. Another 17 percent foresee 10 hotel chains or more filing for bankruptcy within the next year.

15. Is your organisation considering a rebranding campaign or brand conversion in order to meet the challenges of today's marketplace?

Responses	Count	%	Percentage of total respondents
Yes	40	15.3	
No	183	70.1	
Do not know	38	14.6	
Total responses	261		0 20 40 60 80 100

Only 15 percent of respondents report that their organisation is considering a rebranding campaign or brand conversion in response to today's challenging economic conditions.

Not surprisingly, the majority of respondents' organisations are not willing to commit the capital for new signage and other investments necessary for a rebranding campaign or brand conversion.

16. To minimise the impact of the economic downturn on your organisation's bottom line, which of the following will be most significant?

Responses	Count	%	Percentage of total respondents
Reducing operating expenses	95	36.4	
Downsizing staff	49	18.8	
Deferring capital expenditures	18	6.9	
Pursuing new revenue channels or outlets	51	19.5	
Renegotiating loan terms	9	3.4	
Increasing sales team	7	2.7	
Discounting average daily rate	5	1.9	
None of the above/do not know	27	10.3	
Total responses	261		0 20 40 60 80 100

The majority of respondents (37 percent) rank the reduction of operating expenses as the top measure that will be implemented to protect their organisation's bottom line.

Discounting their average daily rate is a last resort for respondents as they appear unwilling to sacrifice a further decline in RevPAR in order to improve occupancy rates.

METHODOLOGY

In February 2009, DLA Piper distributed a survey via email to top executives within the European hospitality industry, including CEOs, COOs and CFOs, which was completed by 261 respondents.

This followed a similar piece of research conducted amongst hospitality executives in the US (results available at http://www.dlapiper.com/2009-hospitality-outlook-survey_release/).

Question2 was only made available to those respondents who described themselves as 'bullish' in Question 1.

Question3 was only made available to those respondents who described themselves as 'bearish' in Question1.

Due to rounding, percentages used in all questions may not add up to 100 percent.

ABOUT US

From the quality of our legal advice and business insight to the efficiency of our legal teams, we believe that when it comes to the way we serve and interact with our clients, everything matters.

DLA Piper is an international legal practice with lawyers across Asia, Europe, the Middle East and the United States.

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