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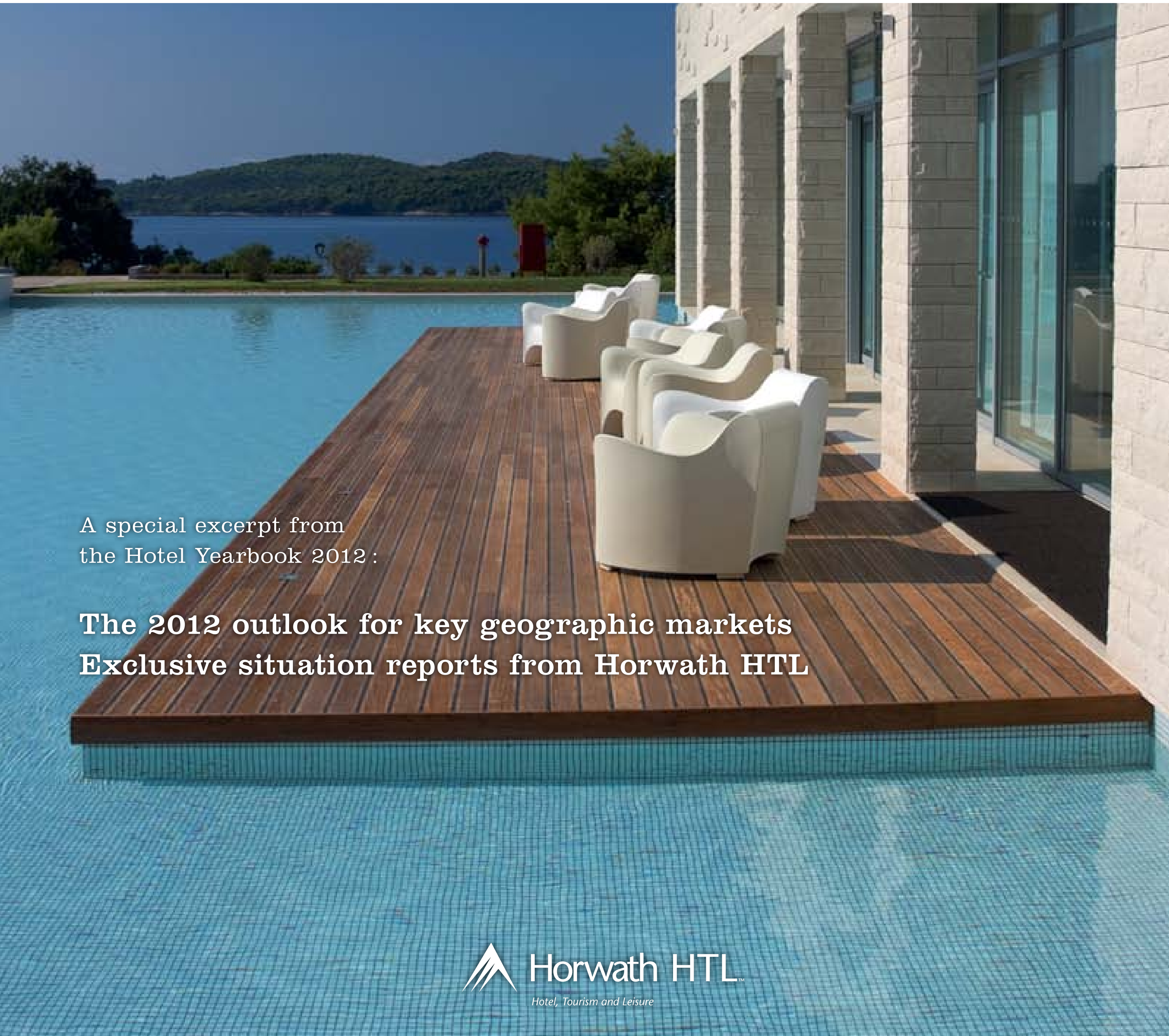
HOTEL yearbook 2012

Scenarios for the year ahead



A special excerpt from
the Hotel Yearbook 2012:

The 2012 outlook for key geographic markets
Exclusive situation reports from Horwath HTL

Horwath HTL
Hotel, Tourism and Leisure

This excerpt from the Hotel Yearbook 2012 is brought to you by :

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Eleven markets, eleven stories

ACCORDING TO **HORWATH HTL**, 2012 WILL BE A YEAR OF UNEVEN RECOVERY ACROSS EUROPE – UNLESS THE FINANCIAL, FISCAL AND EURO CRISIS WORSENS SUBSTANTIALLY, IN WHICH CASE ALL BETS ARE OFF. TO GET AN IDEA OF THE OUTLOOK IN KEY MARKETS ACROSS THE CONTINENT, THE HOTEL YEARBOOK ASKED 11 DIFFERENT OFFICES OF HORWATH'S INTERNATIONAL NETWORK TO CONTRIBUTE THEIR PROFESSIONAL ASSESSMENT OF WHERE WE ARE AND WHERE WE ARE GOING.

UNITED KINGDOM

SITUATION REPORT

The UK hotel market has continued its recovery from the global financial crisis, with year-to-date RevPAR to September 2011 increasing by 5.9 % to £58.37 according to STR Global (the source for all the performance data you see here). This recovery has largely been driven by ADR growth and in particular that of London, the driving force behind overall UK hotel performance. This growth in part illustrates the continued revival in corporate travel, which is less price sensitive than leisure demand, in addition to the continued benefit of the depreciation of Sterling, making visiting the country more affordable internationally.

London has experienced a remarkable year, with year-to-date RevPAR (to September 2011) growth of 10.7 % to £110.74, driven for the most part by rate growth. Hoteliers are now well ahead of pre-recession performance levels, illustrating the city's status as a key global hub. The capital continues its robust performance, reaping the benefits of being strengthened by the multi-national source of both business and leisure visitors, which generates demand 365 days a year. As at the time of writing, there has been talk of some softening of corporate demand towards the end of Q3 2011, in particular from the USA, which we attribute to the recent turmoil and continued uncertainty in the European financial markets.

In contrast to London, hotels in most of the regional markets are experiencing far more protracted recovery and are still struggling to generate pre-recession occupancy levels, with room rates remaining below the peak of the market, exemplifying the continued difficult times which face the country. Year-to-date RevPAR (to September 2011) has grown by 2.3 % to £42.51, wholly driven by occupancy increases, while ADR has marginally declined. Provincial hoteliers are typically heavily dependent upon corporate demand, and the continued reduction in public sector budgets, which drives much of regional hotel demand, has impacted performance. As a result, any business-focused hotel in the provinces is likely to be facing challenges. In addition, the rise in VAT and inflation has prompted reductions in consumer spend, further impacting

Eleven markets, eleven stories

demand. There are, however, bright spots – principally those markets which are bolstered by both business and leisure markets, such as Edinburgh.

As regards the investment market, the cost and limited availability of debt continue to shape the market, with deals taking much longer to complete than before the financial crisis. Nonetheless, whilst the total amount transacted has shown some growth compared to 2010 and in the region of £2.4bn to October 2011, including the contested £700m Maybourne Hotel Group transaction, there has been a considerable increase in the number of transactions taking place this year. The stellar hotel performance across the capital, coupled with the weakness of the pound, is continuing to draw cash-rich overseas buyers, in addition to a number of domestic companies, to London assets. Furthermore, the unsettling global financial climate has worked in the capital's favor, with many (in particular cash buyers entering the market for wealth preservation) perceiving London real estate to be safe to invest in at present. The upscale and luxury end of the market continue to drive transactions, with yields for trophy assets reported to be back to pre-recession levels. The majority of deals in the capital have comprised single asset disposals. Free and clear hotel investments are preferred, as they open the hotel up to a wider investment audience. In addition, this market is more liquid.

In the regions, there are signs of interest in well-located hotel assets, although a scarcity of available quality product continues to be an issue. However, 2011 has not been without its victims, with a number of hotels falling into administration over the course of the year. Prime casualties have included those that financed at the peak of the market, who have been forced to refinance as senior debts have matured, but have been unable to do so at current loan-to-value ratios; or those in breach of their covenants and where the banks have enforced their contractual rights. The vast majority of receiverships have occurred in the provinces as the sector struggles to get back to pre-recession levels, with a number of high profile portfolio receiverships, including the Von Essen portfolio, Menzies Hotels, Professional Ventures Corporation's (PVC) 42 Marriott-branded hotels, and Butterfly Hotels. Nonetheless, some London assets

Eleven markets, eleven stories

have not escaped, with the Crowne Plaza London-Shoreditch and Dorset Square Hotel suffering the same fate.

On the development side, the UK continues to hold Europe's largest active pipeline, and the focus has been on the capital in the run-up to the London 2012 Olympics. As a result, London is the most active city for hotel development with some 3,500 rooms (3.3 % of total London supply) expected to open by the end of 2011, according to Visit London. This new supply has largely been focused at the budget, four and five-star end of the market, and in the City/east London. High-profile openings have included the W Leicester Square, Corinthia Hotel, and Renaissance St. Pancras Hotel, ensuring that the five-star market in London continues to grow.

OUTLOOK FOR 2012

Looking ahead to the coming year, the eyes of the world will be on the UK, and in particular on London, with the London 2012 Olympics and Paralympics in the summer. 2012 is expected to be a good year for London, and while there have been mixed reports on what the Olympics will bring to the capital, with concerns regarding the potential displacement of tourists and corporate demand, we anticipate that London hotels will reach full occupancy during the games. However, hoteliers will have to be dynamic in their revenue management to guarantee that rate is optimized, while ensuring that they do not price themselves out of the market, and value is provided to customers.
Other major events during the year include the Farnborough International Air Show, which is expected to further boost London's Q3 performance, and the Queen's Diamond Jubilee celebrations, which include the creation of an additional bank holiday. This bank holiday could bring a mixed bag of fortunes to hoteliers in the form of increased domestic leisure visitors, but also potentially deterred business demand.

The outlook for the provinces remains mixed. Some UK regional markets are expected to benefit from increased leisure demand caused by the overspill effect of the Olympics during Q3, with those towns hosting or near to Olympic events – in addition to popular tourist destinations outside London – absorbing demand. However, the forecast for performance within the provincial market, which is largely influenced by UK GDP growth, UK investment growth, and UK unemployment, is more cautious and less bright as we move outside London and the major cities. UK public sector belt-tightening is expected to continue, and coupled with the Government's focus on cutting travel costs, is likely to have a direct impact on regional hotels and their ability to increase rates. The country's economic recovery still has a long way to go, and with UK families facing the biggest drop in their

> Looking ahead to the coming year, the eyes of the world will be on the UK, and in particular on London, with the London 2012 Olympics and Paralympics in the summer

standard of living for 30 years, with inflation levels currently at 5 %, utility costs mooted to increase by up to 25 % and the rise in the minimum wage from October 1, provincial hoteliers are likely to find it increasingly challenging to grow profitability. There could, however, be an increase in so-called « staycations, » which have been popular since the onset of the financial crisis and which could bolster performance somewhat in some regional markets.

The hotel investment market is likely to continue to be influenced by the cost and availability of debt, with loan-to-value ratios staying at between 50 % and 60 %, and continued higher margins and arrangement fees, favoring high net worth individuals and cash-rich buyers. Banks, special servicers and lenders are likely to continue introducing stock to the market as they try to clean up their balance sheets. A lot of the assets that the banks own is situated in secondary and tertiary locations, some of which are likely to sell at a discount, pressurizing the recovery of hotel values. London is expected to maintain

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its popularity due to its resilience, while hotel investment in the provinces is likely to be slower. Additional hotels which were acquired at the peak of the market and are unable to be refinanced at present loan-to-value ratios are expected to enter the market. As a result, we anticipate that there will be more receivership casualties to come during 2012.

On the development side, close to 4,000 (3.8 % of total London supply) additional rooms are anticipated to open in the capital over the course of 2012, with a focus on east London, completely reviving the area as hoteliers are keen to capitalize on the buoyant market hoped for during the Olympics. Elsewhere in the UK, where sourcing finance for new developments is much more challenging, development is expected to remain slow. Finance will, however, be available for the right product in the right location, and we expect continued development of the branded budget to mid-market hotel sector. This in turn is likely to put pressure on some of the independent poor-quality stock to improve their offering, or potentially force them out of the market.

The ominous cloud of the European sovereign debt crisis continues to unsettle global markets and hangs heavily over the UK. There are early indications that this uncertainty has flowed into business confidence, and this could clearly have a significant negative impact on the recovery of the UK hotel market as we look at 2012. Nonetheless, there are many reasons to stay positive about the coming year, in particular given the global showcasing of the country worldwide with the London 2012 Olympics – which can only serve to enhance the country's image worldwide.

| Alexandra van Pelt

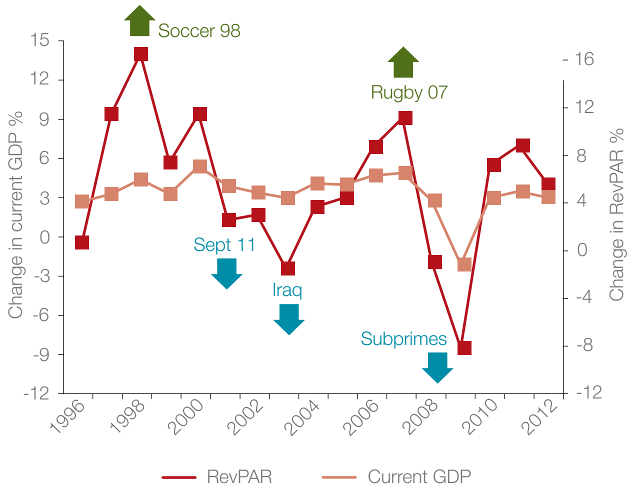
FRANCE

SITUATION REPORT

Like most of the European economies hit by the debt crisis, France saw its growth rate melting in 2011. Real GDP grew by 1 % over the first half and slowed to 0.3 % during the third quarter, while a 0 % growth is expected for the last quarter.

The graph presented here shows the evolution of GDP growth in France over the last few years, and the corresponding evolution of RevPAR.

FRANCE: GDP AND REVPAR GROWTH



Source: INSEE/Horwath HTL

French hoteliers took advantage of higher occupancies recorded in 2010 to increase their rates in the upper segments, while growth remained very moderate in the economy and budget segments. As a result, the average RevPAR for 2011 is expected to grow at the same pace as for 2010.

On the development side, financing organic development is still an issue as credit terms and equity to debt ratios are very challenging: 40 to 50 % equity to debt ratio is required assorted with a 6 % interest rate for a 12/15 years loan.

Another threat for hoteliers is the announcement made by the government to revise upwards the VAT rate on food and beverage from current 5.5 % to 7 %.

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OUTLOOK FOR 2012

The outlook for 2012 is moderate, as growth in GDP is anticipated by the economists to be 1 % instead of the 1.7 % as forecasted initially.

Nationwide, it is reasonable to anticipate RevPAR growth in the range of 3 to 4 % for 2012, deriving mostly from increases in price rather than occupancy, and with a stronger dynamic in Paris than elsewhere in France.

Regardless of the crisis affecting the country, the French capital is still acclaimed as one of the leading destinations worldwide and attracts an increasing number of long-haul visitors from emerging countries, and is specifically feeling more Chinese demand. One of the most notable events on the agenda of top Parisian hotels in 2012 will be the opening of the Peninsula, while the Ritz and also probably the Crillon will close for major renovation works.

| Philippe Doizelet

GERMANY

SITUATION REPORT

According to the German Hotel Association (IHA) the number of overnight stays totaled 85.2 million, a growth of 6.9 % resulting in an increased turnover rate of 3.8 % in the first term of 2011. Furthermore, the ARR also recorded a rise in price amounting to €93 ; however, this was still less than the average rate in Europe (€99.00) which rose by 4.1 %.

This growth process also had an impact on the willingness to invest. In February 2011, almost 80 % of all hoteliers surveyed planned to invest the same amount or even more in their hotel facilities. Hoteliers could proclaim a positive increase in revenue which was not solely invested in goods but also in the labor force. The Federal Labor Office reported about 7,000 employees more than in the previous year within the hotel industry. This is partially due to the « bed tax, » a new introduction in effect because of the decrease in the VAT.

Due to the economic upswing, a positive result in the German hotel industry can be noted, and about 70 % of the most important hotel companies received a Blue Chip rating, making them a desired investment partner. Their RevPAR recorded a growth of 15-20 %.

OUTLOOK FOR 2012

In Germany, Switzerland and Austria about 760 hotel projects are currently under development. As a result of this construction boom, the predatory competition will increase within the next few years. A considerable development will occur in 2012 by the hotel group Lindner Hotels. They will introduce a new hotel concept called « me and all » by the end of next year. In their hotels, they will introduce a completely different concept : without reception, lobby or restaurant. Instead, it is planned to install a lounge for multiple use. This new brand will be positioned within the 4-star segment and will target business and city travelers in need of modern communication technologies. These latest technologies will be installed in each room, as well as in the lounge, where a kind of test lab for such equipment will be launched.

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Courtesy of KLAFS GmbH & Co. KG

In Germany, only 26 % of all hotel rooms are affiliated to hotel chains. This is a rather low rate in comparison with other European major countries. However, independent hotels are increasingly challenged to compete with large hotel chains in terms of brand recognition. Current developments show that independent hotels are joining big hotel brands more and more in order to strengthen their position and increase their market share. This conversion is a great opportunity to gain more revenue and brand awareness. Jeff Wagoner, president of Wyndham Hotels and Resorts, added that the brand can be a contributor to the industry, creating new support opportunities such as « big-brand websites » and « reward programs. » He further states that independent hotels hesitate to change their concepts. This is regarded positively and encourages independent hotels to join branded companies.

According to the latest trends, budget hospitality, wellness and cruising have been identified as growth segments in Germany. Budget hotels are mostly located in city centers and stand for clean and modern accommodation facilities with a tendency to use spaces efficiently in terms of fusing public components. These hotels are equipped with only the necessary amenities, whereas the market is turning toward unique and extraordinary designs as a counter-balance. The fact that travelers are more price-conscious underlines this development. « No-frill hotels » will be the name of the game.

Medical wellness is a combination of holidays, preventive health measures, recovery and wellness, whereby even health insurance companies underwrite some of the costs. It is an alternative to passive wellness activities. Large tour operators have discovered

Eleven markets, eleven stories

this growing and lucrative niche market and are including the medical tourism segment in their programs. Many foreigners come to Germany for treatments, as the country is known for its advanced medical technologies and skills. Today, demand is already greater than supply, and especially the age 50+ target market is increasingly interested in health-oriented tourism. As more and more people strive for longevity and pay substantial attention to their health, we believe that this trend should continue.

Cruising is the fastest growing segment in tourism. Last year, river cruises in Germany recorded a considerable 11.3 % increase in revenue. In our view, this trend will continue over the next decade. The most popular river cruises for passengers are along the Rhine and its tributaries, and the Danube. However, forecasts should be viewed with caution. By the end of 2011, the 7 % VAT rate for river cruises expires. Unless no other agreement is concluded, the VAT will increase to 19 % in 2012. This will have a direct impact on current sales prices, investment and operating costs. How big the effect of this regulation will be on the German cruise industry remains to be seen. We will surely keep an eye on this market.

The Cruise Baltic, a cooperation between 24 destinations in the Baltic Sea region, has noted an average increase in the total

> Cruising is the fastest growing segment in tourism

number of passengers of 11.4 % per year over a period of ten years, and this number is expected to grow significantly. On the Baltic Sea, the German port of Rostock is the second largest destination in terms of turnarounds, including part-turnarounds. Rostock received 114 calls last year, ranking number seven in the Baltic Sea. This destination experienced strong growth in the numbers of calls over the last few years, and a drastic increase is expected in the years to come.

| Rüdiger Knospe

RUSSIA

SITUATION REPORT

It's a relatively inspiring tale. All being said, 2011 has been a reasonably good year, considering the global economic downturn, which impacted Russia from late 2008 until autumn 2010.

New openings at all levels in Moscow, such as the upscale new InterContinental Hotel; the W and Four Seasons in St. Petersburg (2012), in addition to a portfolio of mid-market and budget hotels and numerous international mid-market brands, such as Park Inn, Courtyard by Marriott, Ibis and Novotel to name a few in key regional cities. The economy in Russia has proven to be more resilient than its European counterparts, and with oil prices still relatively high, the prognosis therefore must be considered good going forward; however, Russia has shown that it is not economically immune to global downturns, as evidenced by a significant reduction in investment in the hospitality sector during 2009/2010. The main stumbling block remains the lack of local or international bank finance for hotel projects in Russia – and indeed, neighboring CIS countries as well.

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The profile of Russia has been raised with the increased media coverage of the forthcoming Winter Olympics in Sochi and the awarding of the 2018 FIFA World Cup to Russia – acting very much as a catalyst to increased momentum of hotel development.

Hopefully, with advent of these worldwide sports events it will lead to an easing of visas, the advent of competitive air fares going forward and opening of tourism to the country on a much greater scale.

OUTLOOK FOR 2012

So what will investors be focusing on in 2012 – will the rate of hotel development pick up or remain patchy? Certainly there appears to be a willingness on behalf of international hotel companies to expand their respective brand portfolios throughout the country, and investors – usually high net worth individuals – wanting to secure attractive returns on investment in the hotel sector, today's most favored component within the real estate world.

One salient fact that must be borne in mind when considering Russia as an emerging market is that the global economic downturn has not altered the considerable imbalance between quality hotel supply and demand. Indeed, opportunities are being sought in cities as small as 150,000 populations to develop international hotels where there is a proven demand from local businesses. For quite some time, the optimum opportunity has been considered to be the introduction of mid-market hotels in major cities with populations of 800,000 or more – as a result, some popular regional cities such as Ekaterinburg, Kazan and Samara are in danger of becoming oversupplied.

Sentiment from the recent Russian Hotel Investment Conference (RHIC) in Moscow in mid-October 2011 suggests there is still a positive mood in the investment community, with investors continuing to push forward hotel projects and, in many instances, over and above alternative real estate propositions. Although lack of domestic bank finance is still a key characteristic in the Russian economy, it is becoming more available to those who choose, albeit at punitively high interest rates. It is likely that the surge in availability of domestic finance on more attractive and competitive terms will occur only when international institutions start to lend once again – which in the short term seems unlikely.

One factor that remains unquestionable in the successful development of hotel and leisure-related projects in Russia lies in the ability of foreign and, indeed, Russian developers to find suitable local partners who can secure the best land deals, obtain the necessary and numerous permits, deal with sometimes difficult local officials and be safe in the knowledge that the business is secure. Many projects have failed as a result of poor local representation, over-inflated construction contracts, and generally poor advice being sought.

Will 2012 be the year the Russian authorities decide to relax visa requirements? Will more low-cost airlines be allowed competitive access to Russia's cities? It has already been confirmed by government sources that visa restrictions will

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be lifted for the Winter Olympics in 2014, and with the FIFA World Cup to be hosted in 13 cities throughout Russia, it may well be a precursor to the permanent introduction of a much more lenient immigration system – which can only enhance the attractiveness of Russia as a holiday and business destination.

As key investors in the hotel sector in Russia are local as opposed to foreign, it is likely that they are less affected by the swirl of economic doubt that seems to be hovering over USA and Europe at the moment – who knows?

| Michael O'Hare

SPAIN

SITUATION REPORT

In 2011, Spain has seen a long-awaited, if somewhat timid, recovery in the tourism market. After 2009, when Spain logged the lowest figures in history in this sector, the country received 20.9 million visitors during the 2011 summer months only – the third highest in history.

The economic downturn of the last 3 years has left Spain in a very weak financial situation. However, tourism is set to take big role in the country´s recovery. The encouraging results of the past year had an immediate positive impact on transactions and development. In the first six months of 2011, 15 hotel transactions worth a total of EUR 400 million had been agreed, an amount representing 75 % of the total of all transactions from the previous year.

OUTLOOK FOR 2012

Today we can say that Spain is slowly but surely returning to its pre-economic crisis standards with regard to volume and, to a lesser extent, tourist expenditure. Forecasts are positive for the near future.

In 2012, one segment of the hotel industry that appears to make a fair contribution to this growth is the Condominium Hotel sector. We've written about that in detail in a separate article (see page 98).

| María Rosa Barcia

The 812-room Comwell Bella Sky, largest hotel in Scandinavia

SCANDINAVIA

SITUATION REPORT

2011 has been a good year for hotels in Scandinavia, with RevPAR growth in all countries and capital cities. Both occupancy and ADR levels are up in all countries, numbers for the year through September show.

Scandinavia's largest hotel, the 812-room Comwell Bella Sky, opened in May in Ørestaden, just outside Copenhagen. The regions tallest hotel, the Scandic Victoria Tower in Kista, outside Stockholm (299 rooms, 34 floors, 118 meters tall) opened in September.

Denmark

The summer of 2011 was the best on record for Danish hotels, with an increase in overnight stays of almost 9 % over 2010 (for the months of June, July and August). Total revenue is lagging behind, though, indicating a lower spend per guest. A significant increase in capacity, especially in Copenhagen, has been absorbed by higher demand.

> The summer of 2011 was the best on record for Danish hotels, with an increase in overnight stays of almost 9 % over 2010

Scandinavia's largest hotel operator, Nordic Choice Hotels, has pulled out of the Danish market and its portfolio of hotels will be taken over by First Hotels, another pan-regional operator.

Norway

The oil-fuelled economy of Norway is performing well. Hotels have managed to maintain rates and increase occupancy in 2011, resulting in RevPAR growth of 5-6 %. Growth is coming despite new capacity in some of the biggest cities. Hotels in less urban areas are struggling with occupancy rates in the low 40s.

Sweden

The industrially driven Swedish economy is also performing well. High GDP growth in 2011 (compared to European peers) has resulted in higher hotel demand and higher rates. Gothenburg, Sweden's second largest city, is especially outperforming, with double digit RevPAR growth expected for the year.

THE OUTLOOK FOR 2012

Scandinavia benefits from significant intra-regional travel, both in the business and leisure segments. With the Swedish and Norwegian economies outperforming the rest of Europe (Denmark is doing well, but not that well), the region is somewhat insulated from the troubles of the Euro-zone. However, a significantly weaker Euro could negatively impact future trading as foreign arrivals decrease and locals pursue good deals farther south. Interest rates in Scandinavia are being kept low for the foreseeable future to counteract the effect of local currencies growing too strong.

In 2012, the independent Hotel d'Angleterre in Copenhagen will reopen as a pure-bred 5-star property with 80 refurbished suites. Other significant developments in the region include the Clarion Hotel Post in Gothenburg, with 500 rooms in the former main post office, opening in January 2012. In Trondheim, Norway's third largest city, room capacity is set to grow by 25 % in 2012.

International operators are still struggling to establish a significant presence in the region. Local property owners and banks are reluctant to sign management agreements – at least outside the capital cities. With no shortage of local operators willing to enter into long leases, this situation will change slowly, if at all.

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Sentiment studies for the three countries show continued optimism for the latter half of 2011 and for 2012 as well. Hotel operators are positive about the hotel market as a whole, wish to hire more staff and invest.

The main airports serving Copenhagen, Stockholm and Oslo are all ramping up for higher passenger numbers in the years to come. Air traffic in both Stockholm and Oslo is near current capacity.

All three capital cities are also major cruise ports, and in Copenhagen in particular, this benefits the hotel industry as the city is a major turnaround port. Additional growth is expected in 2012.

We expect there to be continued growth in demand for hotel services in all the capitals of the region as well as in secondary city markets. In some cities, like Stockholm, both ADR and occupancy are expected to increase, possibly indicating double-digit RevPAR growth. In Oslo, significant new room capacity will open in and around the city, putting pressure on both occupancy and rates. In Copenhagen, capacity growth has slowed and 2012 promises to be a good year as well.

| Erik Myklebust

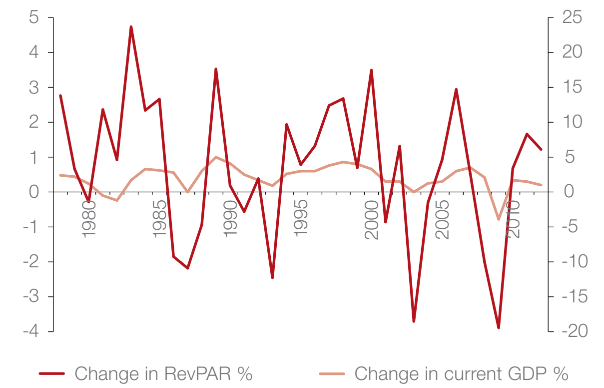
THE NETHERLANDS

SITUATION REPORT

The hotel market in The Netherlands showed a modest recovery in 2010, after the economic crisis led to strong declines in 2008 and 2009. While the recovery continued in the first half of 2011, the growing concern regarding the debt crisis and possible Euro crisis has increased the uncertainty for the coming months.

As shown in the graph below, there is a strong correspondence between GDP growth and RevPAR growth in The Netherlands.

THE NETHERLANDS



Source: CBS/CPB/Horwath HTL

The recovery in the Dutch hotel industry was led by the hotels in Amsterdam, which presented a strong increase in occupancy in 2010 and are expected to have achieved further increases in both occupancy and room rates in 2011. In the rest of the Netherlands, the recovery has been far more modest.

The relative strength of the Amsterdam hotel market is reflected in the number of new openings and renovations. Over 1,000

new hotel rooms were opened in Amsterdam in 2011, including the 550-room Double Tree by Hilton Amsterdam Central Station and the five-star, 128-room Conservatorium Hotel Amsterdam. Additionally, many of the top-tier hotels in Amsterdam underwent extensive renovations, including Sofitel The Grand, Hotel de l'Europe and Okura Amsterdam.

OUTLOOK FOR 2012

The outlook for 2012 remains clouded by uncertainty. The forecast for the GDP growth has already been changed from 1.75 % in June 2011 to 1 % in September. It should be noted that this forecast does not include a potential new financial crisis, in which case all bets would appear to be off. At the same time, supply will continue to increase. New hotel developments are announced almost daily, particularly in Amsterdam. Most notable among the newly announced developments is the arrival of a Waldorf Astoria in the city center of Amsterdam, expected to open in 2013.

In light of these developments, the projections for RevPAR growth may also need to be reconsidered. Based in part on the results of the first 6 months of 2011, RevPAR was originally estimated to increase by 8 % in 2011 and 6 % in 2012. These figures will undoubtedly be corrected downwards as time moves on.

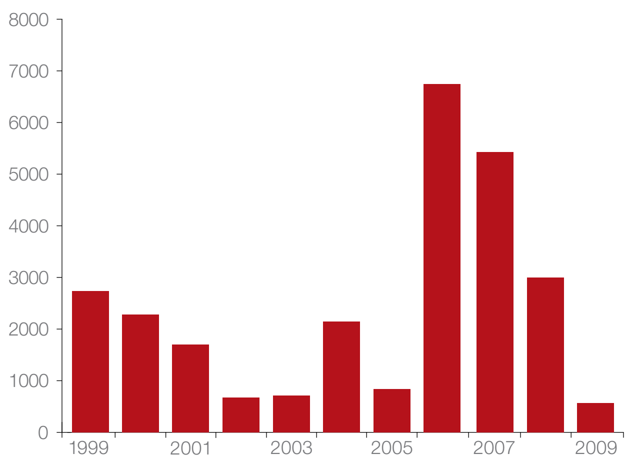
| Marco van Bruggen

IRELAND

SITUATION REPORT

In recent years, the performance of the Irish hotel industry has been severely impacted by several factors – oversupply in the market, a fall-off in overseas visitor numbers, over-reliance on the domestic market and rate discounting. One of the main talking points within the industry is the issue of oversupply. Hotel room stock in Ireland increased by over 26,000 rooms between 1999 and 2009. Almost half of these were introduced in 2006 and 2007. This surge in development coincided with the introduction of the hotel capital allowance scheme. This scheme allowed for a 7-year rate of write-off of capital expenditure incurred in the construction/refurbishment of hotels. The scheme was extended until 2008.

INCREASE IN HOTEL ROOM STOCK 1999-2009



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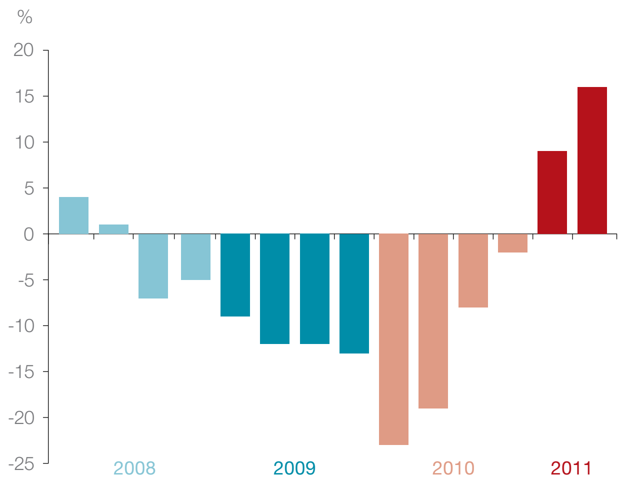
There are currently over 880 hotels in Ireland – ca. 60,000 rooms. In the peak years of 2006 and 2007, where overseas visitor numbers reached over 8 million and the domestic market benefited from high levels of disposable income, hotels in Ireland enjoyed occupancy levels of ca. 70 % and average rates of €97. The consequences of the additional room stock were not felt until 2009, when the industry was severely impacted by the global economic crisis.

The world reacted quickly to the economic climate, with overseas visitor numbers beginning to fall in late 2008, dropping by some 2 million since 2007 to around 6 million in 2010.

QUARTERLY MOVEMENT IN OVERSEAS VISITOR NUMBERS 2008-2011



In order to boost occupancy levels, Irish hotels aggressively targeted the domestic market. This market now accounts for 65 % of all hotel guest-nights sold in Irish hotels, up from 53 % in 2005. While the number of domestic trips in 2010 were at a similar level to 2010, spend was down ca. 10 %. Discounting room rates became one of the key business strategies adopted by Irish hotels to attract the price-sensitive domestic market.

The average rate for Irish hotels has fallen €24 since 2007. Profit levels of Irish hotels have fallen by 50 % since 2008 but stabilized in 2010. Due to reduced room rates, the Irish hotel sector is now a much lower profit margin business.

Following 10 years of high capital investment in the hotel sector, mainly funded by bank loans, many hotels have loan interest costs which represent twice the achievable profits for their hotel. Many Irish hotels have become insolvent entities. This is evident as receivers have been appointed to 11 % of the Irish hotel room stock. Although it is normally a last resort for banks to appoint a receiver, we are likely to see the number of receiverships increase over the next 12 months as more hotels are unable to pay their bills.

There is evidence that some recovery for the Irish hotel market has begun in 2011, but future recovery will be two-tiered and led by the capital city, with more provincially located properties experiencing more challenging operating conditions than the key cities. While Dublin and Cork have recorded increases in both average rate and occupancy each month during 2011, other cities such as Galway, Limerick and Waterford are taking longer to increase their occupancy levels, indicating it may take some time for them to be in a position to yield rate.

Dublin and Cork have enjoyed an increase in tourist and commercial activity, targeting several market segments enabling them to maintain stable occupancy levels. Dublin benefited from the high profile visits of Queen Elizabeth II and President Obama in May 2011. These visits attracted widespread global media coverage worth an estimated advertisement equivalent of €289 million. It is also positive to see that overseas visitor numbers increased in 2011, as Ireland welcomed over 440,000 additional overseas visitors in the first eight months of 2011 against the same period in 2010.

OUTLOOK FOR 2012

We are optimistic that 2012 should deliver better results for the Irish hotel industry. Occupancy levels should continue to grow on a national basis. Rate recovery will continue to be led by the

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key cities, but it will be a slow process and may take several years to recover to pre-recession levels.

Key concerns recently highlighted by Irish hoteliers include level of charges and extent of arrears for Local Authority property rates, pressure on disposable income levels, the issue of oversupply and the level of support from banks. Irish hotels have become more reliant on their banks for overdraft facilities, forbearance on loan repayments and for capital expenditure funding.

While international brands are well represented in the Irish market, brands such as Marriott, Conrad, Days Inn, Hilton and Starwood have recently reduced their representation in Ireland. This has diluted the presence of international brands in the sector. Several indigenous hotel management companies have emerged, capitalizing on the increase in hotel receiverships as they have taken over the management of a number of hotels.

The Dublin Convention Centre celebrated its first year in operation in September 2011, hosting over 300 events. There are over 200,000 delegate-days confirmed for 2012. Delegates are likely to spend an average of six days in the host country. With 25 % bringing their family, many delegates capitalize on the opportunity to combine business and leisure. This will not only benefit Dublin but, as delegates are likely to travel around the country, this will provide a much needed boost for other locations.

While overseas visitor numbers are increasing, the domestic market is still under considerable pressure and will continue to curtail discretionary spend over the next 12 months as an austere budget is expected to be announced in December. The UK market accounts for ca. 44 % of all overseas visitors, so it will be imperative during 2012 to target this market, emphasizing the quality of our hotel stock and the value for money available. The recent reduction in the VAT rate (from 13.5 % to 9 %) for restaurant and catering services, hotel and holiday accommodation and admissions to a variety of entertainment services will help in promoting Ireland as a value-for-money destination.

London will host the Olympic Games in 2012, and Ireland is hoping to capitalize on this. The introduction of a short-stay visa waiver program was announced by the Irish Government in mid-2011 with a view to attracting additional overseas visitors. Visitors from countries such as Russia, Saudi Arabia and India who have received a UK visa will no longer need to apply for a second visa for entry to Ireland. We are optimistic that this will encourage additional overseas visitors to include Ireland in their Olympic itinerary.

The current economic conditions will continue to create a difficult operating environment for the Irish hotel industry. The reliance of the industry on the domestic market will impact the level of recovery during 2012. There was evidence of a turnaround for the industry in 2011, and through the recently introduced initiatives and uplift in overseas visitor numbers, we are confident that the Irish hotel industry will continue to turn the corner in 2012.

| Eimear Harney

POLAND

SITUATION REPORT

2011 has been another year of recovery from the crisis that hit the market in 2009 resulting from the global financial crisis. In 2011, as well as in 2010, the main indicators on the market (occupancy rate, ADR, RevPAR) were growing and were close to, or for some hotels or regions, actually as high as the results from 2008, which was the best year for hoteliers before the crisis.

In our opinion, this situation is a result of many factors, among which we must mention:

- Recovery from the financial crisis in terms of number of hotel guests – which in 2010 was the highest in the last decade.
- Growth in the total number of hotel guests, mostly the result of a strong domestic market and growing demand generated by Polish tourists; the share of Polish tourists in the structure

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of hotel guests grew in last 5 years by 8 percentage points (to almost 2.5 million guests).

- Relatively good situation of the Polish economy, which was not hit by the financial crisis as hard as in Western countries.
- The growth of ADR and RevPAR was a result not only of growing demand and occupancy levels, but also of growing prices and the end of the price war that took place in 2009 and in 2010.

2011 is kind of special for Poland because of the Polish EU presidency. Many events related to that were organized in Polish cities, which significantly stimulated the hotel market. Especially in Warsaw, the prices and occupancy rates in hotels are growing thanks to the demand generated by the officials from EU countries coming to Poland. In the other top cities of Poland, it varies due to the room supply, which for example in Katowice increased in 2010. Concerning the hotels located in tourism destinations – i.e. the seaside – we noticed that bad weather confounded the high expectations of hoteliers for higher profits than in 2010. We expect that the results achieved by hotels in Q4 2011 should be better than in 2010 – mostly thanks to the EU presidency.

OUTLOOK FOR 2012

The year 2012 is going to be very special for the whole hotel sector in Poland. Along with Ukraine, Poland is the host country of the EURO 2012 football (soccer) tournament, which will take place in June and July and will definitely result in significant growth of prices and demand on the market – not only during the tournament, but also before and after it. The demand is also expected to grow for the regular reasons, such as the further development of the economic situation and new foreign investments in Poland. Here in Poland, we believe that the best performing markets will be the main Polish cities, traditionally perceived mostly as business destinations, which now, thanks to the EURO 2012 tournament, will have a chance to be perceived as touristic destinations, too.

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Demand will be additionally stimulated by the largest promotion campaign of Poland in history, run by the Polish Tourism Organization. Many people associated with the tourism business in Poland believe that this tournament can be a breakthrough for the touristic market and a great opportunity for Poland to promote itself in the international arena. Of course, we must stay tuned for news concerning the second stage of the financial crisis, which could negatively influence the continued growth of Poland's GDP. This is very important because without strong domestic demand for hotel services, we can face difficulties improving on the results achieved in 2011.

On the supply side, we believe that we will witness further dynamic development. In 2012, many investments will be finished that were started 4 or 5 years ago, but stopped due to problems obtaining financing from the bank during the worst moments of the crisis. We expect the appearance of around 6,000 new hotel rooms in approximately 70 facilities in Poland in 2012, around half of which will appear in the main Polish cities (i.e. 30 hotels and 3,000 rooms). This means for the whole of Poland a growth in the supply of 7 % and 8 % in terms of hotels and rooms respectively.

What we are also going to observe in 2012 is a further development of hotel chains in Poland which used to be interested in high-end hotels and now are changing their focus more on economic and mid-scale hotels, to be developed, we believe, mostly in the main Polish cities. Among the most interesting news items in this regard:

- Best Western, which had 11 hotels in Poland in mid-2011, will almost double this number by the end of 2012 (20 hotels are planned).
- Hilton Int. announced signing 2 contracts for DoubleTree by Hilton, 4 for Hampton by Hilton, and 1 for Hilton Garden Inn, which will all be realized by the end of 2013. Currently there are only 3 hotels belonging to this group in Poland.
- Louvre Hotel Group, with its partner Warimpex, plans to open 6 new hotels (4 Campanile and 2 Premiere Classe) in main cities in southern and western Poland.
- New chains are interested in entering Polish market – the most important one seems to be German Motel 1 with its modern economy products.

The scale of new openings outside the cities will be similar to the past but the character of the new supply will be different. In central Poland and touristic destinations, hotel investors currently see the potential in conference hotels with a full range of services and condo hotels, for both of which there is a growing demand on the Polish market.

Hotel chains are interested both in opening new hotels in Poland as well as conversion of their existing ones. Also, Polish hotel owners seem to understand the potential benefits of being a part of an international hotel chain and are more willing to sign franchise and management contracts. We expect that especially chains such as Hilton Int., Best Western, LHG, Accor and IHG will be the most active in Poland, particularly with their economy brands.

We believe that the growing supply on the market will meet the expectations of guests and will even generate some demand from those who, for the time being, were not interested in Poland due to its lack of suitable hotel facilities.

| Janusz Mitulski

THE BALKANS

The Balkans, a culturally and economically diverse region which is still unintegrated and financially dependent on the EU, together with Greece as an issue, represents a less developed EU emerging market. Although influenced by the crisis, some new projects are happening, revealing the positive expectations of international investors regarding the future.

In 2011, **Croatian** tourism continued its growth with a 7 % increase in overnights and ADR recovery. With EU negotiations finished, 2013 is the expected year Croatia will join the EU, and therefore the positive effects of higher volumes and further

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growth are expected in 2012. Croatia is still adjusting its investment and general framework in order to provide a better environment for the hotel business. International hotel brands are to open several hotels in 2012, predominantly in Zagreb and the coastal region (Istria, Split and Dubrovnik), with Hilton as the most active brand.

Although the crisis hit **Bulgaria** two years ago, the hotel market is still feeling the impact in terms of ADR, while occupancy – though slightly recovered – is still not providing a profitable framework for the majority of non-branded hotels. City hotels suffered a strong decline in overnights in 2011 – around 30 % compared to 2010. Taxation and the gray economy are still an issue in Bulgaria. Several hotel companies are opening hotels in the near future here – Hilton, Meliá and Accor.

Romanian tourism is mostly business-related, with Bucharest the most important city destination. Room oversupply resulted in hotels struggling to maintain profitable performances. City hotel occupancy is notably recovering, reaching 52 %, while ADR remains at the same levels of 2010. In 2012, slight performance improvements can be expected, mainly in terms of occupancy – also an impact of 2010's new branding. The investment cycle in Romanian tourism is in a downturn with only a few investments in second-tier destinations (Cluj, Poiana Brasov).

Montenegro in 2011 is continuing the growth begun in 2010 after it began to recover from the global crisis. In 2011, estimated growth in terms of overnights will be around 10 %. In 2012, some major investments will be started, but it will be several years before they are finished. The hotel complex in Tivat, the Luštica development project and the island Sveti Marko project are good examples.

Chisinau, the **Moldovan** capital, generates 80 % of all hotel overnights achieved in Moldova, with MICE being the most important market segment. The Chisinau hotel market was severely hit by the crisis in 2008 and 2009, causing ADR to fall by approximately 15 % and occupancy rates by 10 %. In 2010, the first signs of recovery were noted, and this trend will continue in 2012, but with higher growth rates.

The developing tourism sector in **Serbia** is focused on business travel to the capital and some second-tier cities. In 2011, the tourism sector experienced an upward trend in occupancy and ADRs, but is still recovering from the crisis. In the near future, there are several mountain and spa resorts planned, while some major projects are on the way – Stara Planina and Kopaonik. Tenuous development in city and resort capacities is expected, combined with the penetration of Belgrade by some international hotel brands.

Miroslav Dragičević

ITALY

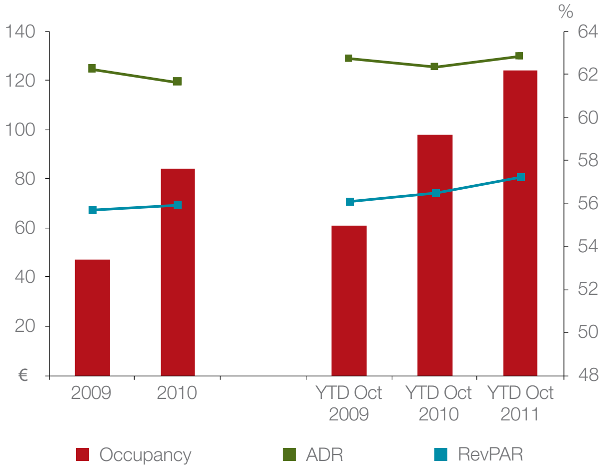
SITUATION REPORT

After being hit hard by the global economic recession, and despite the difficult position of the Italian economy, the Italian hotel market recovered in 2011 with all indicators up. Hotel performance figures were boosted by the increase in demand, both from local and international markets, with an increase, respectively of +1.9 % for local travelers for the first half of 2011, and +0.9 % for international travelers, according to Federalberghi. Indeed, 2011 was a year full of major events, attracting additional local and international visitors, such as the 150^{th} anniversary of the Italian Republic in March, and above

all the beatification of Pope Jean Paul II in May, which attracted more than a million visitors from all over the world.

The launch of an accommodation tax at the beginning of 2011 did not discourage travelers to Italy, and the country's key tourist destinations such as Rome, Venice, Milan and Florence have led the way toward recovery, all experiencing major improvements in occupancy along with an increase in rates. In terms of operating figures, after a drop from 2009 to 2010 resulting in a 3 % decrease in rates to maintain occupancy levels, in 2011 the Italian hotel market is surpassing its 2009 results. This year, occupancy increased from 59.2 % in YTD October 2010 to 62.2 % in YTD October 2011, whereas in the same period, ADR grew from €125.43 to €130.00. This led to a 8.9 % growth in RevPAR to €80.84, according to data from STR Global. Compared to YTD October 2009, occupancy is up 13 %, ADR up 1 %, and RevPar up 14 % – an impressive jump underlining the success of the price sacrifice Italian hotels opted for rather than an occupancy boost, and illustrating very welling the strength of the Italian hotel market and its capacity to react and recover quickly.

ITALY HOTEL MARKET HISTORICAL PERFORMANCE - 2009 TO YTD OCT. 2011



Elaborated by Horwath HTL from STR Global Data

OUTLOOK FOR 2012

According to the Horwath HTL Global Market Survey 2011, most hoteliers believe that the market will have performed better, or equally well, in 2011 compared to than 2010. Their general sentiment for 2012 is in line with this expectation. In short: Italy's hoteliers are rather optimistic for the coming year.

Even if the economic situation is quite unsure, the change of government is expected to give back enthusiasm to local travelers and boost domestic demand, which is the main feeder market for the country. International travelers, leisure and corporate, are also back in the country and expected to play an increasing role in the Italian hotel market.

Considering the pipeline of investment projects, the Italian economy is opening itself towards international investors with politics facilitating foreign investments along with marketing campaigns for promoting the country.

The fragmentation of the hotel market leaves spaces for new development opportunities in major cities as well as secondary destinations, both for hotel investors and international hotel chains, which are under-represented in the country with an aggregation rate of 6 % (compared to 31 % for France and 22 % for Spain, Italy's main competitors). Important historical buildings are also becoming available for reconversions into hotels, creating new opportunities.

Zoran Bacic