HVS

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2020 EUROPEAN HOTEL VALUATION INDEX

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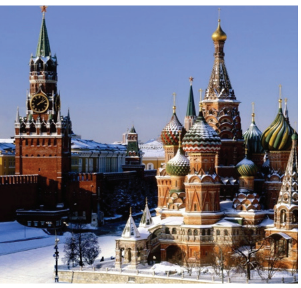



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Highlights

- Values across Europe gained a further 3% in 2019, on the back of similar RevPAR growth on average for all markets;
- Steady capitalisation rates in the hotel space, coupled with attractive risk-adjusted returns for this sector, drove transaction volumes up 46% in 2019;
- Tourism visitation continued to grow across Europe (+4% in 2019) and the world in general;
- Concerns around the final shape of Brexit, cost pressures (labour, overheads) and the repercussions of the coronavirus are some of the challenges that could well impact RevPAR growth in the short to medium term, and therefore hotel values.

Economy

The world economy has continued to be rather rocky over the last 12 months, although the feared downturn did not materialise. World GDP growth fell to 2.9% in 2019 – its lowest rate since the financial crisis – and is expected to remain at 3% over the next two years (OECD). The forecast for the euro area is of slow growth of 1.2% during 2020. Meagre growth prospects, the degree of recovery from trade tensions between the USA and China and the threat of the coronavirus repercussions still somewhat obscure the future. China's GDP growth is already forecast to be at least 1% lower this year.

Global Threats

Concerns over terrorist attacks in the last few years have now been replaced by the fear of the newly named Covid-19 virus, which originated in China in December 2019. The World Health Organization (WHO) has declared the virus a global health emergency, and government-imposed travel restrictions, principally directed at travellers arriving from China, are already having an impact on global tourism (all but annihilating the traditional Lunar New Year Chinese holiday). It is too early to quantify its impact on European tourism flows, but the recent cancellation of the world's biggest phone show, the Mobile World Congress, which was due in Barcelona in February, could be a taster of what lies ahead if the virus is not contained soon.

Tourism Dynamics

Whilst global tourism increased by 4% in 2019, this was the slowest pace for the last three years, and slightly below the ten-year average of 5%. Still half of all globetrotters end up in Europe: more than 720 million of them in 2019. This is also up 4% on 2018, as travellers braved challenges such as the collapse of Thomas Cook and of various low-cost airlines during the year and, indeed, the continuing Brexit uncertainty. Unsurprisingly, sunny destinations within the continent (such as Southern and Mediterranean Europe) did better than cloudy Northern Europe. France benefitted from the deepest tourist pockets last year, whilst Germany is this year expected to benefit from the Beethoven 2020 celebrations.

Brexit

The December UK election saw Boris Johnson gain a solid majority in parliament. Whilst this clear mandate will simplify his task at home, the negotiations with the EU will still be challenging. Even though since 31 January 2020 the UK is effectively no longer part of the EU, it is hoped that a satisfactory deal can be achieved by December 2020 to avoid a potentially disruptive exit at the end of the transition period. This should hopefully mean just a few more months to go, and at the end of this long-winded process the business community will finally (hopefully!) be able to more accurately plan for the short to medium term.

Hotel Performance

Although a bit less bubbly than in 2018, RevPAR performance for Europe was still positive in 2019, up almost 3% compared to the previous year. This includes a handful of cities with double-digit growth, driven by exceptional events (Madrid, Bratislava), currency dynamics (Istanbul) and post-event adjustments (Moscow). However, RevPAR increases didn't quite convert into similar profits, as GOP levels hovered just marginally higher than in 2018 owing to labour and overhead cost pressures. Whilst the European pipeline still remains below double figures and the lowest on a global basis, the key German cities and regional UK markets are already feeling the pressure of substantial new supply.

Capitalisation Rates

2019 was a mixed year for the European commercial real estate market. A very slow start to the year (we all thought interest rates were going up) was not compensated by a strong last quarter, resulting in a decrease in overall transactional volumes of 2% year-on-year. Hotel transactions, however, were up 37% on 2018 volumes. Whilst cap rates have, overall, remained at similar levels across Europe, they have compressed in markets such as Germany, where unwavering investor appetite is faced by slightly underwhelming KPIs (blame it on the new supply). Other 'red-hot' markets include Paris, Milan and Lisbon, though values are mainly driven by performance rather than compressing yields.

Transaction Volume

Total European hotel transaction volume reached €27.1 billion in 2019, a significant 46% increase on 2018's volumes and the highest annual level ever recorded, surpassing the previous peak of €23.7 billion in 2015. Institutional investors, hotel owner-operators and real estate investment firms represented the three largest capital contributors in 2019. Private equity saw a noticeable shift from 2018, with 60% less investment, after previously being the largest capital contributors in 2018. The UK and Germany remained the most liquid markets, with London also keeping its position as the top city to invest in, followed by Amsterdam. For more details, please refer to our sister publication *2019 European Hotel Transactions*.

Hotel Values

A further 3% gain in value across the board in European markets is a fair reflection of what 2019 was all about: solid hotel performances and ever-increasing investor appetite for the hotel sector. Over the last year, two more markets reached the levels of value per room in line with or beyond those that we had previously considered 'peak values' back in 2007. These two markets – Madrid and Vienna – enjoyed a combination of strong performances and increased liquidity to help them recover their former positions of glory. We still think there is a bit more room for growth in most Eastern European markets, albeit these hopes might be thwarted if the impact of the coronavirus is prolonged.

PARIS HOTEL VALUES ROSE BY 3.3% TO RETAIN THE TOP SPOT IN THE INDEX

The European Hotel Valuation Index

Three in a row! Following the incredible performances registered in 2017 and 2018, 2019 marked another milestone for the European hotel market. Europe continues to attract investors, developers and lenders, despite some persistent geopolitical instability and uncertainty. In 2019, hotel values grew again, by 3%, a positive trend in line with the last few years.

On an individual basis, most of the markets showed a positive performance in 2019, and only six of the 33 cities included in our analysis experienced a value decline. With just ten markets experiencing value swings of more than 5%, this year has been marked by milder value changes. Whilst the leaders in the index remain unchanged, some cities further down were able to move up in the ranking. This was the case for Istanbul, 2019's fastest-growing market, which went up to 23rd (from 26th in 2018), and Bucharest, which moved up one place. Despite also registering double-digit growth, Bratislava and Athens kept their previous positions on the ladder.

Declines in value were modest, thereby having little impact on our ranking. The upsurge of new supply was a precursor to value drops in various markets – including Warsaw, Edinburgh and Copenhagen – and the cooling-off of the German markets, despite strong investment appetite for Germany. Moscow was a singular case this year, as it 'returned to normality' in the aftermath of an exceptional 2018 (thanks to the FIFA World Cup boom).

Winners and Losers

We have shortlisted the winners and losers in terms of percentage change in value in 2019 and presented them in a 'top and bottom' chart (refer to page 6). In 2019, currency dynamics continued to have an impact on value changes, especially in Istanbul and the Swiss markets. Thus, we also present the top and bottom markets in local currency value change (page 7).

CHANGES IN VALUE
Strong Performers

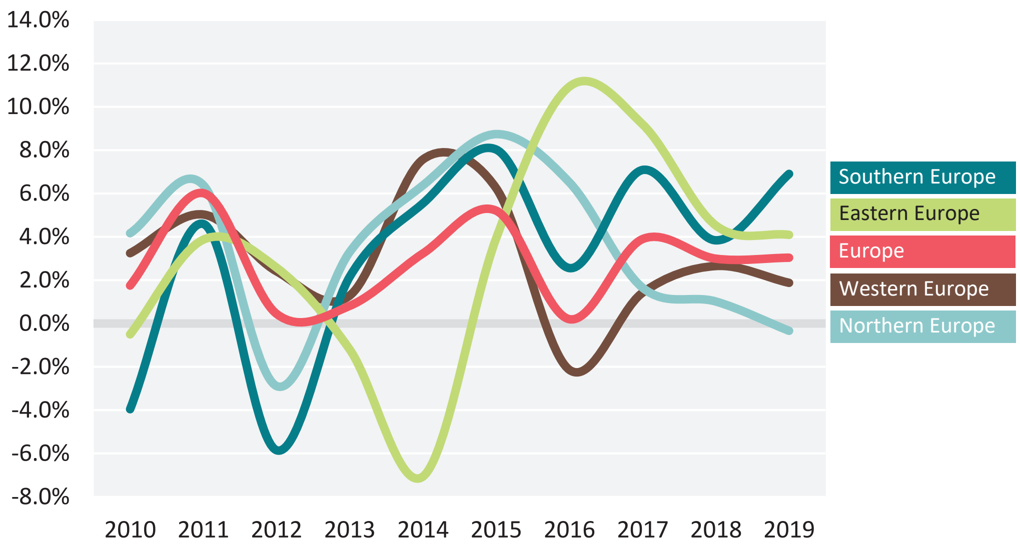
2019 saw increased momentum for Southern Europe, with an overall increase in values of 7% (compared to the 4% reached in 2018), and not a single market in this region experienced a decline. Istanbul and Athens led the growth in this region, achieving double-digit increases of 17% and 10%, respectively, which earned both a place in our top five. It is worth remembering both are 'making a return' from a low base. This rising trend was followed, albeit to a minor degree, by the rest of the cities in Southern Europe. Milan, up 7%, was the standout of an otherwise positive but moderate performance by the Italian markets. On the Iberian Peninsula, Barcelona is on a recovery path following the aftermath of the October 2017 independence vote, and Madrid experienced an exceptionally eventful year, hosting the UEFA Champions League final and the United Nations Climate Change Summit, amongst others.

Paris and London remain unchallenged at the top of our Hotel Valuation Index.

Eastern Europe was a mixed bag. On the one hand, after two years of modest growth, Bratislava and Bucharest drove double-digit growth in the area.

Year-on-Year Change

IN VALUES PER ROOM BY REGION 2010-19



Source: HVS – London Office

Note: Based on euro calculations

Hotel Values

PERCENTAGE CHANGE IN HOTEL VALUES IN EURO

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR [1] 2010-19
1	Istanbul	5.8	1.6	0.3	-11.0	-9.9	-8.9	-23.7	-3.4	4.3	**17.3**	-4.3%
2	Bratislava	-15.9	4.0	-6.2	0.0	-6.3	10.7	18.9	4.6	2.3	**11.2**	4.1%
3	Bucharest	-8.0	4.6	-6.6	0.4	5.9	9.3	14.6	3.7	2.4	**10.6**	4.8%
4	Athens	-29.3	5.9	-23.8	7.6	5.9	12.6	10.6	11.0	5.7	**10.0**	4.4%
5	Brussels	0.1	3.7	-1.5	1.5	4.0	3.5	-6.7	10.6	6.7	**7.0**	3.1%
6	Milan	-12.4	3.9	-4.1	3.6	5.7	10.1	-3.7	4.4	4.5	**6.5**	3.3%
7	Barcelona	3.3	2.4	1.3	5.0	6.3	10.9	13.8	7.1	-4.9	**6.5**	5.2%
8	Budapest	-0.8	4.0	-0.5	2.5	7.5	8.0	9.9	12.2	6.0	**6.3**	6.1%
9	Madrid	-7.4	2.6	-6.8	-5.6	14.3	14.2	11.0	14.1	4.9	**6.1**	5.8%
10	St Petersburg	9.2	11.3	11.5	4.9	-31.6	-2.6	2.6	14.4	6.3	**5.6**	1.5%
11	Vienna	-1.7	3.0	2.6	-4.8	7.3	5.3	4.3	2.0	5.8	**4.8**	3.3%
12	Lisbon	-2.7	11.1	-10.0	6.0	10.3	11.1	10.2	14.7	8.9	**3.9**	7.1%
13	Prague	1.6	3.7	4.7	0.0	5.7	9.4	9.9	8.5	5.8	**3.9**	5.7%
14	Berlin	4.4	-2.6	2.6	-0.4	6.3	8.1	1.7	3.3	6.6	**3.5**	3.2%
15	Paris	4.2	10.9	4.6	1.7	4.9	-0.5	-8.1	4.7	7.3	**3.3**	3.1%
	EUROPE	**1.8**	**6.0**	**0.4**	**0.8**	**3.2**	**5.2**	**0.2**	**3.9**	**3.0**	**3.0**	**2.9%**
16	Florence	9.1	3.3	-1.1	9.3	8.0	9.7	1.8	6.4	2.1	**2.5**	4.6%
17	Geneva	-1.4	13.1	-3.5	-5.4	6.5	0.9	-4.0	-0.1	-3.5	**2.4**	0.6%
18	Rome	1.9	6.0	-2.4	2.3	3.7	4.5	0.5	2.3	5.3	**2.4**	2.7%
19	Sofia	0.5	-9.2	0.3	-6.8	7.1	7.5	16.0	9.9	5.9	**2.3**	3.4%
20	Manchester	-4.4	0.2	3.8	0.2	13.5	11.6	-3.9	-5.8	-1.5	**2.2**	2.1%
21	Zürich	12.1	11.1	-5.1	1.9	6.6	0.9	-6.2	-0.4	0.6	**2.0**	1.1%
22	London	8.4	12.0	6.5	0.0	8.5	2.9	-13.9	-2.5	1.2	**1.7**	1.6%
23	Dublin	-5.4	6.1	5.5	6.6	13.2	13.4	15.5	2.7	5.6	**0.9**	7.6%
24	Munich	14.7	4.6	8.3	6.7	7.8	3.7	-1.1	3.2	5.7	**0.8**	4.4%
25	Stockholm	3.0	8.7	-5.4	0.2	1.5	8.7	5.0	-3.0	-4.3	**0.8**	1.2%
26	Frankfurt	19.4	6.9	2.4	4.7	2.2	8.6	-2.0	4.0	1.3	**0.3**	3.1%
27	Amsterdam	10.4	6.4	-2.8	4.8	8.6	8.6	6.7	5.8	4.5	**0.1**	4.7%
28	Hamburg	4.4	6.3	-0.3	2.2	6.7	5.3	7.8	3.0	-2.5	**-0.1**	3.1%
29	Birmingham	-12.0	-6.7	3.3	0.6	11.0	12.9	-6.8	-4.1	3.5	**-0.5**	1.3%
30	Copenhagen	-0.9	4.1	-0.5	4.9	9.1	8.9	7.8	2.2	2.9	**-1.9**	4.1%
31	Edinburgh	2.8	1.7	4.5	2.5	7.3	10.7	-6.7	-0.7	0.3	**-2.1**	1.8%
32	Moscow	4.2	3.8	11.6	-4.2	-37.9	-13.2	5.5	11.5	8.2	**-2.4**	-3.2%
33	Warsaw	5.1	8.7	5.7	-6.4	-7.0	2.4	10.1	8.6	-0.7	**-4.7**	1.7%

Source: HVS – London Office [1]*Compound Annual Growth Rate*

Local Hotel Values

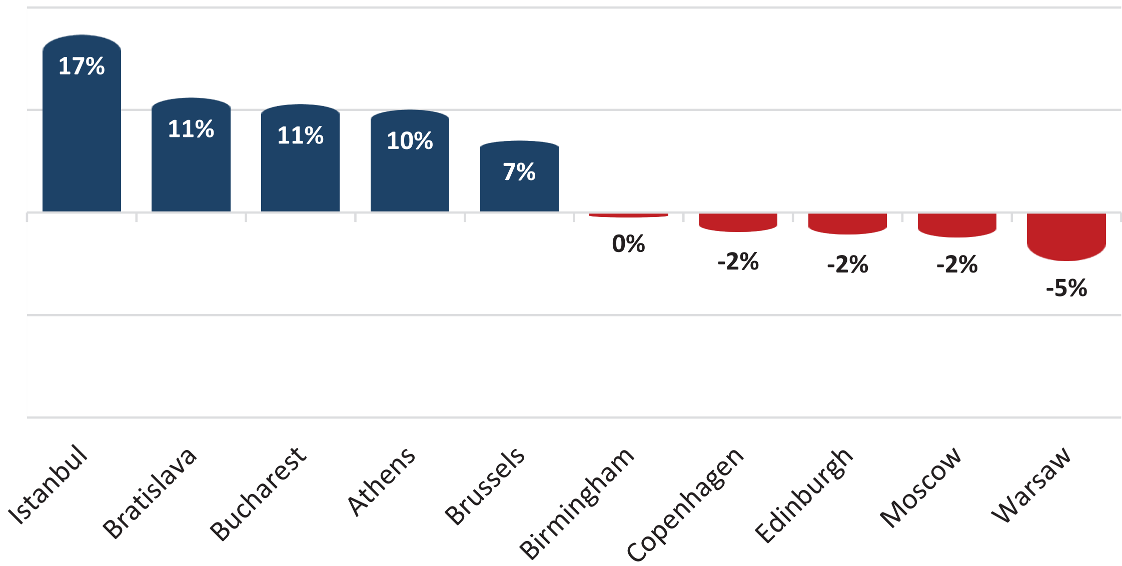
PERCENTAGE CHANGE IN HOTEL VALUE IN LOCAL CURRENCY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	CAGR [1] 2010-19
Birmingham	-15.3	-5.4	-2.6	4.0	5.6	1.7	5.1	2.7	4.4	**-1.3**	1.5
Bucharest	-8.6	7.2	-3.8	-0.5	6.6	9.3	15.9	5.3	4.5	**12.5**	6.2
Budapest	-2.7	12.3	-3.1	6.7	10.0	9.5	9.5	11.3	9.3	**8.4**	8.1
Copenhagen	-0.9	4.0	-0.3	4.9	9.1	8.9	7.7	2.1	3.1	**-1.7**	4.1
Edinburgh	-1.0	3.1	-1.5	6.0	2.1	-0.3	5.3	6.3	1.2	**-2.9**	2.1
Geneva	-9.9	-2.5	-2.1	-3.3	5.5	-12.1	-1.8	1.8	0.3	**-1.3**	-1.8
Istanbul	-2.3	18.0	-0.4	-2.4	3.9	-5.8	-15.3	18.7	44.7	**31.0**	8.8
London	4.4	13.4	0.4	3.4	3.2	-7.3	-2.8	4.3	2.1	**0.8**	1.8
Manchester	-7.9	1.6	-2.2	3.6	8.0	0.5	8.5	0.8	-0.7	**1.3**	2.3
Moscow	-5.3	-13.5	8.3	2.1	-24.0	12.9	16.7	-1.1	21.8	**-4.5**	1.1
Prague	-2.7	0.8	7.2	4.4	10.9	8.3	9.0	5.3	3.2	**4.0**	5.9
Sofia	0.5	-9.1	0.3	-6.8	7.1	7.5	16.0	9.9	5.8	**2.3**	3.4
St Petersburg	-0.8	-7.2	8.3	11.8	-16.3	26.7	13.5	1.5	19.6	**3.4**	6.0
Stockholm	-7.4	2.8	-8.9	-0.7	7.1	11.9	6.2	-1.7	2.2	**4.0**	2.4
Warsaw	1.1	7.4	8.0	-6.4	-7.4	2.5	14.7	6.1	-0.6	**-3.9**	2.0
Zürich	2.5	-4.2	-3.7	4.2	5.7	-12.1	-4.1	1.5	4.5	**-1.7**	-1.3

Source: HVS – London Office [1]*Compound Annual Growth Rate*

Top and Bottom Five

PERCENTAGE CHANGE IN HOTEL VALUES IN EURO



Source: HVS – London Office

Most regional markets followed suit, fuelled by improved infrastructure, coupled with affordability and strong economic performance. On the other hand, Eastern Europe also registered some of 2019's most significant drops in value. Namely, Warsaw, impacted by extensive new supply, and Moscow, which in 2018 boomed thanks to the FIFA World Cup. Meanwhile, stability defined Western and Northern Europe. Apart from Brussels and Vienna, which continued to grow at a faster pace, none of the other markets experienced variations of more than 3%.

Turkey's capital, **Istanbul**, was Europe's fastest-growing market in 2019. While the market had already ranked first in 2017 and 2018 from a local currency value analysis, exchange rate dynamics between the Turkish lira and the euro had prevented it from entering the top five growing markets (in euro). After hitting rock bottom in 2016 – owing to a combination of terrorist attacks, Turkey's involvement in the Syrian civil war and its unstable relationship with Russia – Istanbul has seen constant recovery since 2017. The continued depreciation of the Turkish lira (10% in 2019) coupled with favourable government actions, such as the development of a new airport that opened in April 2019, resulted in a demand boost for the city, mainly from international visitors. Consequently, RevPAR experienced a double-figure increase in euro (more than 20% in local currency). Developers' interest continued to return as new supply entered the market in 2019 and 2,100 rooms (3% of the current supply) remain in the pipeline for 2020 and 2021. Despite Istanbul's remarkable recovery, hotel values remain significantly lower than other European cities.

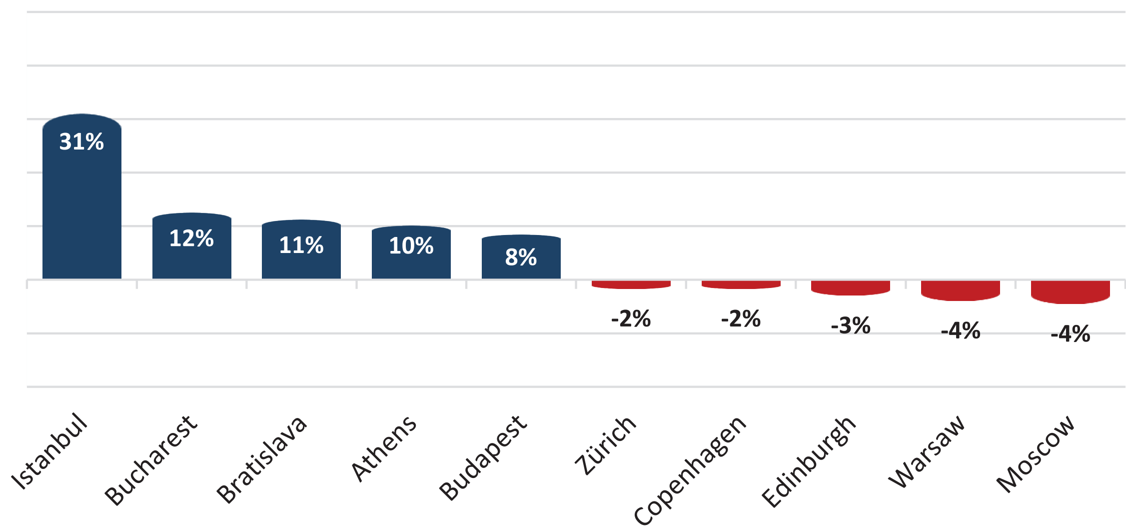
One of the smallest European capitals, **Bratislava** secured a spot in our top five. Hosting the Ice Hockey World Championship in May 2019 was the main driver of a dynamic increase in demand, which was led by the neighbouring markets of Czech Republic, Hungary, Poland and Austria. With a supply of just 5,000 rooms, the demand boost translated into an impressive increase in rates, resulting in RevPAR growth of more than 95% during the month of May, compared to the same month in 2018. The destination is actively promoting MICE tourism, enabled by the city's excellent connectivity through both its own airport and Vienna International airport. Given the lack of major international events planned for 2020, we remain reasonably cautious regarding Bratislava's future performance.

Bratislava was not the only Eastern European market to perform remarkably well in 2019. In the last few years, the CEE region has seen a significant inflow of capital as more investors go further afield in their quest for attractive yields, supported by the increased willingness of lending institutions, both domestic and international. Romania remains one of the fastest-growing economies in the EU, driven by strong fiscal stimuli implemented by the government over the past few years. While still very much dominated by the business sector, **Bucharest** is increasingly on the radar of leisure travellers and MICE demand. The latter experienced a push during the first semester of 2019, owing to Romania becoming host to the rotating presidency of the EU's Council. Substantial potential exists in the destination, as occupancies are high (>70%) and rates are still below some more established markets in the region, such as Vienna, Prague and Budapest. Notwithstanding, more than 700 rooms are expected to enter the market in 2020-21, representing a 7% increase on the existing supply and bringing internationally renowned brands to the city. Given that some time might be needed to digest the expected new supply and considering that a degree of political volatility will persist in the near future (fostered by the 2020 elections), we are

Southern and Eastern Europe led the growth in 2019, with Istanbul showing the way.

Top and Bottom Five

PERCENTAGE CHANGE IN HOTEL VALUES IN LOCAL CURRENCY



Source: HVS – London Office

somewhat vigilant of Bucharest's performance in the coming years.

Repeating last year's HVI results, **Budapest** made it into our top five markets in local currency. Much like Romania, the Hungarian economy has been growing steadily since 2013, with GDP growth reaching 5% in 2019, one of the highest in the EU and ahead of countries such as the UK, France and Germany. Budapest's international recognition as a 'must-see' destination in Europe has translated into phenomenal performance for hotels in recent years, generally driven by the international leisure segment. All in all, 2019 saw a RevPAR increase of more than 5% in local currency, which once again allowed the market to reach a new value record (in nominal prices). Going forward, an extensive pipeline and other challenges similar to those of other CEE countries, including the shortage of qualified personnel, could have an effect on the trading performance of the city.

ISTANBUL: BACK ON TRACK?

Alongside the stabilisation of the country's economic situation, the Greek tourism industry has been on the way to a strong recovery and **Athens** has celebrated a comeback over the recent past. Total traffic at Athens International Airport reached more than 25 million passengers in 2019, up 6% on 2018, thanks to robust growth in international passenger movements. Overall, between 2014 and 2019, RevPAR grew at a compound annual rate of 7%, mainly driven by rate increases.

Finally, **Brussels** experienced yet another year of steady growth, breaking value records once again. After the terrorist attacks in March 2016, which highly impacted visitation to the city, 2017 already showed signs of recovery, primarily coming from the business demand generated by the various EU and international entities based in Brussels. Needing a longer recovery period, the leisure segment revived in 2018, recording the strongest growth in terms of arrivals and bednights and making up about half of total demand, broadly in line with historical levels. Brussels' performance continued to improve in 2019, as the city achieved another 5% increase in RevPAR. The market is finally enjoying the benefits of a city-break destination. Additionally, the MICE segment recorded a positive year, as city conferences are recognised to have been a significant driver of 2019's record numbers. Brussels remains a strategic city with solid fundamentals, and a broadly stable hotel room supply. As such, its improved performance is only likely to further advance its prospects in the eyes of investors.

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Hotel Valuation Index

2010-19

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	Paris	3.274	3.632	3.798	3.861	4.052	4.030	3.705	3.880	4.162	**4.301**
2	London	3.018	3.380	3.599	3.599	3.904	4.018	3.461	3.375	3.416	**3.473**
3	Zürich	2.686	2.984	2.833	2.886	3.077	3.106	2.912	2.899	2.917	**2.976**
4	Geneva	2.379	2.690	2.597	2.457	2.616	2.639	2.534	2.531	2.443	**2.503**
5	Rome	1.967	2.085	2.034	2.082	2.159	2.257	2.268	2.321	2.443	**2.501**
6	Florence	1.605	1.658	1.640	1.793	1.936	2.124	2.161	2.300	2.348	**2.406**
7	Amsterdam	1.567	1.667	1.620	1.698	1.844	2.002	2.135	2.259	2.360	**2.362**
8	Milan	1.585	1.647	1.579	1.636	1.729	1.904	1.833	1.913	1.998	**2.128**
9	Barcelona	1.287	1.317	1.334	1.400	1.489	1.651	1.880	2.013	1.915	**2.039**
10	Madrid	1.179	1.210	1.127	1.064	1.216	1.389	1.542	1.760	1.846	**1.958**
11	Munich	1.281	1.340	1.451	1.548	1.670	1.731	1.712	1.768	1.868	**1.884**
	EUROPE	**1.317**	**1.396**	**1.402**	**1.414**	**1.459**	**1.535**	**1.538**	**1.598**	**1.646**	**1.696**
12	Dublin	0.865	0.918	0.968	1.033	1.169	1.326	1.532	1.573	1.661	**1.677**
13	Copenhagen	1.140	1.187	1.182	1.240	1.352	1.472	1.588	1.623	1.669	**1.638**
14	Prague	0.919	0.953	0.997	0.997	1.054	1.153	1.267	1.375	1.454	**1.510**
15	Edinburgh	1.228	1.249	1.305	1.338	1.437	1.590	1.483	1.473	1.477	**1.446**
16	Hamburg	1.089	1.158	1.154	1.179	1.258	1.325	1.430	1.472	1.436	**1.434**
17	Frankfurt	1.064	1.138	1.165	1.220	1.247	1.355	1.327	1.381	1.399	**1.402**
18	Vienna	1.031	1.062	1.090	1.038	1.114	1.174	1.225	1.249	1.322	**1.386**
19	Berlin	1.044	1.017	1.043	1.039	1.104	1.193	1.214	1.254	1.336	**1.383**
20	Stockholm	1.231	1.338	1.265	1.268	1.287	1.399	1.469	1.425	1.363	**1.374**
21	Lisbon	0.710	0.789	0.710	0.753	0.830	0.922	1.016	1.166	1.269	**1.319**
22	Brussels	0.993	1.029	1.014	1.029	1.071	1.109	1.035	1.144	1.221	**1.307**
23	Istanbul	1.938	1.968	1.975	1.757	1.583	1.442	1.100	1.063	1.109	**1.301**
24	Budapest	0.754	0.784	0.780	0.800	0.860	0.929	1.021	1.145	1.214	**1.290**
25	Warsaw	0.993	1.079	1.141	1.069	0.994	1.017	1.120	1.216	1.208	**1.151**
26	Moscow	1.533	1.591	1.775	1.701	1.057	0.917	0.968	1.079	1.168	**1.140**
27	Athens	0.743	0.787	0.599	0.645	0.683	0.769	0.850	0.944	0.998	**1.098**
28	St Petersburg	0.917	1.021	1.139	1.195	0.817	0.796	0.817	0.935	0.994	**1.050**
29	Bucharest	0.655	0.685	0.640	0.643	0.681	0.744	0.852	0.884	0.905	**1.001**
30	Manchester	0.815	0.817	0.847	0.850	0.964	1.076	1.034	0.974	0.959	**0.980**
31	Bratislava	0.656	0.682	0.640	0.640	0.600	0.664	0.789	0.826	0.845	**0.939**
32	Sofia	0.633	0.575	0.577	0.537	0.575	0.618	0.717	0.788	0.834	**0.854**
33	Birmingham	0.674	0.629	0.650	0.654	0.726	0.820	0.764	0.733	0.758	**0.755**

Source: HVS – London Office *Note: Based on euro calculations*

Challenged Markets

2019's Achilles heel was new room supply that entered some markets which have otherwise been performing remarkably well in the recent past. Warsaw, Edinburgh and Copenhagen found themselves in the bottom list, mainly due to the impact on performance of substantial new supply. Moscow and Birmingham complete the euro 'losers' list, and Zürich is included in the bottom performers in local currency terms, impacted by currency dynamics.

After three consecutive years of growth, the last two years, especially 2019, have proved complicated for **Warsaw**. As we already predicted last year, the short-term performance of the city remains challenged by the vast upsurge in new supply. The Polish economy has been undergoing an increasingly stable expansion and experiencing impressive GDP growth (+4% in 2019). The country's promising economic conditions, affordable workforce and favourable regulations (such as tax exemptions for investors) make Poland an attractive location for investment. Evidence of this growing interest is the 1,600+ additional rooms (+10% of 2018 room supply) that entered the market in 2019, which diluted the demand and resulted in a decline in occupancy while average rates remained broadly stable. Given that another 2,200 rooms are expected to materialise between 2020 and 2021, we expect the present market dynamics to continue in the short term.

Our crystal ball also proved accurate when it came to **Moscow**. Hosting the 2018 FIFA World Cup represented a major upturn for the Russian markets, especially Moscow, which recorded a remarkable growth of 8% in last year's index, placing the city in the top five performers of 2018. The FIFA World Cup, held between 14 June and 15 July, resulted in an exceptional RevPAR increase of more than 180% in euro (and more than 195% in local currency) during the months of the event. It is precisely the lack of such an extraordinary event that brings the index value down by 2% (4% in local currency) and made Moscow appear to have underperformed in 2019. In reality, the city thrived in 2019. Looking at RevPAR evolution without accounting for the months of June and July, and thus showing the organic growth of the city, Moscow is up almost 10% in local currency.

Having been on a roll since 2013, **Edinburgh** experienced a value decline of 3% in local currency terms in 2019 (-2% in euro), owing to the significant new supply entering the market in the past couple of years. One of the most popular cities in the UK, Edinburgh's continued popularity is undeniable. Not only does the city burst during its famous summer festival season, but it has also become a year-round destination and, despite a slight decline in 2019, annual occupancy levels have remained over 80% for the past six years. The city's strong positioning suggests Edinburgh is well placed to absorb the recent and upcoming openings, but nonetheless we expect new supply to impact the market in the immediate future.

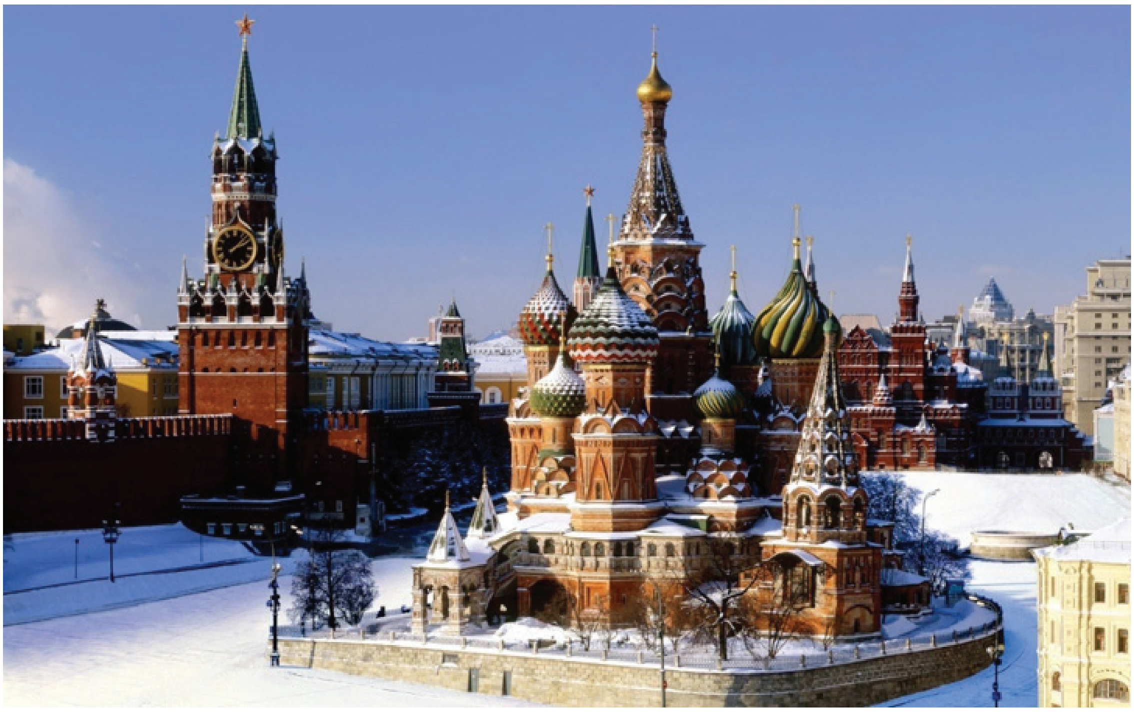
Similarly, **Copenhagen** finds itself at the lower end of the list after six years of continued value growth (in euro). Much like Edinburgh, Copenhagen has been a victim of its own success, owing to investors' appetite for this market. At the crossroads of Scandinavia and the Baltic region, Copenhagen enjoys a privileged location, making it a business, financial and commercial hub for the Nordic countries and the Øresund region. Visitor numbers continued to increase in 2019, achieving a 7% increase in overnight stays. These were driven mainly by a 14% increase in domestic overnights, which represented almost 40% of the total. The destination's popularity has been increasing strongly and steadily, as demonstrated by a 6% compound annual growth rate in overnight stays over the past decade. In 2019, new openings resulted in a 10% increase in the rooms available, negatively impacting both occupancy levels and rates. Given that more than 4,000 rooms are in the pipeline for 2020 and 2021, we forecast a somewhat subdued performance for Copenhagen in the short term; however, we remain very positive about its prospects.

Proof that 2019 was an incredible year is the fact that we are reviewing **Birmingham** as one of the bottom performers, even though this market remained broadly constant in 2019 and represents one of the most stable markets of the last five years. Birmingham can be reached in under two hours from most major cities in the UK, and strong investment in the infrastructure of its well-connected transport network is expected to continue to increase the visitor numbers to the city. The fuller event calendar, improved connectivity (including the expected HS2 railway project) and modest pipeline augur well for the continued development of the city's hotel performance.

New supply, new supply, new supply... bringing values down in the short-term.

The Swiss markets were impacted by currency dynamics in 2019, bringing **Zürich** down to the bottom five in local currency terms, despite recording a 2% value increase in euro. A stronger Swiss franc against the euro has translated into higher rates in euro terms, but not in local currency. This, combined with a slight decline in occupancy, translated into a decrease in value in local currency.

MOSCOW: A DISTORTED REALITY



Volatility Index

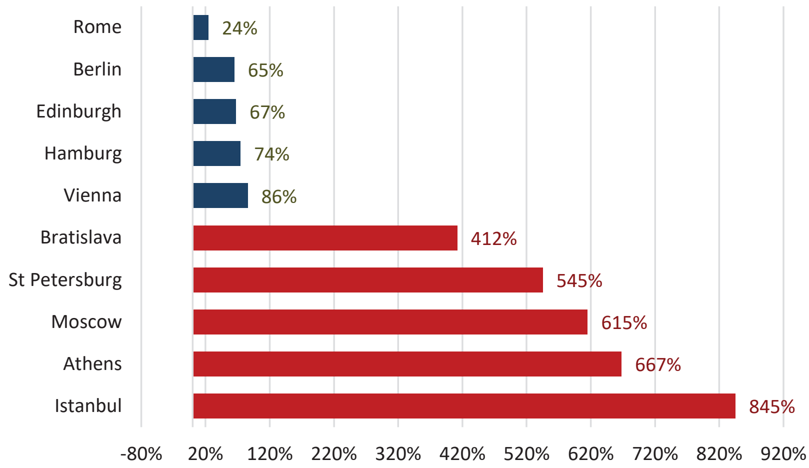
The volatility index is a tool to assess (to a certain extent) the fluctuation in value and the overall risk associated with a hotel investment. Hotels are not only a capital-intensive type of asset, but they might also be affected by external factors such as micro and macro market issues (oversupply, recessions, natural disasters, terrorism, and so forth). Any of these factors could have an impact on the profitability of the business; thus, it is critical to be able to quantify the overall level of risk associated with a hotel investment. A good indicator of investment risk is volatility, which provides a measure for variation in asset prices over time. Higher volatility implies higher risk. We have therefore included a volatility index, which calculates the standard deviation of the annual capital appreciation/ depreciation in value divided by the average value (Europe) over the same period. For example, Vienna has a volatility index of 86%, which means that hotel values are 86% more volatile than the value of a typical hotel in Europe. A higher level of volatility would be more acceptable in cases where the returns are also high. A market with the highest negative volatility would, in fact, be the most stable market, as it would change even less than the average (Europe).

The Volatility Ratio chart shows the five most and five least volatile European markets over ten years (2010-19) in local currency (to remove the impact of currency fluctuation) with Europe as a whole set at 0%. A novelty this year is that the European average is in fact the least volatile, and thus we do not see any city showing a negative figure (hence being less volatile than the European average).

The most volatile markets remain largely unchanged from last year's HVI, apart from Bratislava which this year replaces Sofia in fifth place, and some shifts in positions amongst Athens (third in 2018), Moscow (fourth) and St Petersburg (second). Despite encountering the same names down the list, volatility levels heightened significantly in 2019. For instance, while remaining the most volatile market, Istanbul's volatility increased from 212% in 2018 to 845% in 2019. The aforementioned was a consequence of the low volatility of Europe as a whole over the past ten years, as heights have compensated lows. In terms of the least volatile, Vienna (which was not present in 2018) entered the list in fifth position. Rome topped the list, replacing Edinburgh (third in 2019) and Hamburg was pushed down one position, making the top four. As shown in the graph, hotel markets with 'stabilised' values per room, such as Rome or some German markets, are unlikely to fluctuate much, while markets such as Athens, St Petersburg or Moscow, which have seen significant changes in value over the last decade (declines in value followed by strong recoveries), show larger variations as they tend to revert to their fair values.

Volatility Ratio

2019



Note: volatility is expressed in relation to the overall European average

Source: HVS – London Office

Outlook

We scratch our heads as we try to make sense of where exactly the world economy stands at the moment. Amidst talk of economic slowdown, companies reporting results in early 2020, both Big Tech and others, show healthy profits. So, what is this all about? Fears of a recession, following this long expansion, have not materialised. Economists and academia continue to argue as to whether the expansion should be measured not in time but in GDP (which has been below average since 2007-09), in which case the cycle is not yet over – it is 'elongated'.

Certainly, from a tourism point of view, there isn't much evidence of a global economic slowdown, as the number of people crisscrossing the planet (and, importantly, their spending whilst doing so) continues to grow year-on-year, unabated (albeit the coronavirus is currently causing a number of travellers to cancel their trips). Europe is exceptionally well-placed to capitalise on this: it is centrally located amongst all other continents, offers all sorts of riches including history, culture, gastronomy, solid infrastructure and sophisticated accommodation. As a corollary of this, the European hotel pipeline continues to be the lowest in the world (with a few exceptions, there have been no dramatic supply jumps for most key markets).

On the back of this, there is also little sign of interest rates moving, as central banks hold rates for the foreseeable future both in the USA and in Europe, as the mantra is for fiscal and monetary policy to remain supportive of growth. Whilst trade tensions and increased protectionism will continue to weigh on global growth, equity is still plentiful. This, in an environment of ultra-low yields across most real estate asset types, enhances the hotel space appeal as offering attractive, risk-adjusted returns for investors willing to go for alternative, non-mainstream investment opportunities. A fairly rosy picture for hotels then, surely?

Of course, there are some ‘buts’, such as figuring out what the UK’s relationship with the EU will look like a year from now, as the transition period concludes in December 2020 and negotiations still have these many months to run. An even more significant unknown for the tourism industry globally is figuring out the ramifications of the Covid-19 virus epidemic, which has already hurt tourism in Asia and was the talk of the ALIS conference (and no doubt will be a major discussion point at the IHIF). Owing to the importance of Chinese visitation across the globe, international chain share prices already reflect investors’ concerns, and parallels on the impact of the SARS virus back in 2003 abound. Whilst it is too early to say at the time of publishing, a substantial decline in visitation to Europe as a result of the virus, and therefore reduced RevPARs, would certainly have an impact on hotel values.

What to watch for in the hotel space: hostels are all the rage – Safestay nearly doubled the size of its portfolio in 2019, and MEININGER is considering a potential float, with the objective of tripling its beds over five years. We can’t get enough of affordable lifestyle hotels (new brands include Hilton’s Tempo and Accor’s Greet). Disruptors such as AirBnB and OYO might have had testing times during 2019, but are certainly here to stay and to make sure traditional hotels are on their toes in the way they approach and exploit technology. On the management front, third-party operators topped the news: a recent merger saw Hamilton Hotel Partners and Pyramid Hotel Group join forces (now jointly 32,000 rooms in eight countries), following in the footsteps of Aimbridge Hospitality and Interstate Hotels & Resorts (sharing 1,400 branded hotels in 20 countries). This increased sophistication is good news for institutional hotel investors, as it gives the opportunity to adapt the management structure to their specific needs; a winning formula to maximise profits and therefore values. Finally, hotels that understand how to be mindful of the environment (save water, save energy, don’t waste food, curtail single-use plastics, and so forth), will be increasingly appealing to younger ‘woke’ generations. This, together with the careful management (and protection!) of customer data, will increasingly be unavoidable angles to consider in the quest to maintain and enhance hotel values. Some banks and investors will now not consider companies which do not have an acceptable CSR policy in place.

So where are the brightest value prospects? We consider most gateway markets in Europe to be fully priced or close to. The hunt for higher yields should focus investors’ interest on Eastern European markets, where strong RevPAR growth continues. However, the risk-reward trade-offs for this region encompass their challenging political environment and their exposure to Western Europe’s economic fortunes, and to shifts in investor sentiment dictated by global growth and trade. In short, there is no obvious answer. But Europe’s fundamentals remain as solid as ever, and whilst low yields point to somewhat unexciting returns, the prospects for the hotel industry in Europe are such that this might be heaven for long-term holds. Investors with shorter-term views will continue to circle the periphery and sniff for those as yet unloved, underinvested, unbranded hotels that offer a juicy upside to make their day (or year).

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Understanding the HVI

The HVI is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typically four-star and five-star hotels in 33 major European cities. Additionally, our index allows us to rank each market relative to a European average. All data presented are in euro, unless otherwise stated.

The methodology employed in producing the HVI is based upon actual operating data from a representative sample of four-star and five-star hotels. Operating data from STR were used to supplement our sample of hotels in some of the markets. The data are then aggregated to produce a pro forma for a typical 200-room hotel in each city. Using our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we have determined valuation parameters for each market that reflect both short-term and longer-term sustainable financing models (loan to value ratios, debt coverage ratios, real interest rates and equity return expectations). These market-specific valuation and capitalisation parameters are applied to the EBITDA less FF&E Reserve for a typical upscale hotel in each city. In determining the valuation parameters relevant to each of the 33 cities included in the European HVI, we have also taken into account evidence of actual hotel transactions and the expectations of investors with regard to future changes in supply, market performance and return requirements. Investor appetite for each city at the end of 2019 is therefore reflected in the capitalisation rates used and investment yields assumed.

The HVI assumes a date of value of 31 December 2019. Values are based on recent market performance, but the capitalisation rates reflect the expected future trends in performance, competitive environment, cost of debt and cost of equity. As our opinion of value remains an opinion of Market Value, we have attempted to remove all aspects of distress when analysing transactions and assessing the opinions of value. The parameters adopted assume a reasonable level of debt and investor sentiment. Conversely, the values reported may not therefore bear comparison with actual transactions completed in the marketplace. However, this is the best approach to retain the integrity of the HVI as a rolling annual index.

The HVI allows comparisons of values across markets and over time by using the 1993 average European value of €173,737 per available room (PAR) as a base (1993=1.000). Each city’s PAR value is then indexed relative to this base. For example, if the index for Paris was 4.000 (€694,948/€173,737), the value of a hotel in Paris would be four times higher than the European average in 1993.

About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrates its 40th anniversary in 2020. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of 60 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. HVS.com

Superior Results through Unrivalled Hospitality Intelligence. *Everywhere*.

With offices in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 4,000 hotels or projects in more than 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios.

For further information about the services of the London office, please contact Sophie Perret, senior director, on +44 20 7878 7722 or sperret@hvs.com.

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