EMEA HOTELS MONITOR

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Whitebridge Hospitality is a specialist advisor to investors, developers and operators in the hospitality industry around the globe. We provide investment, operational and planning advice, and guidance in respect of the entire hospitality spectrum, including: hotels, mixed-use resorts, leisure facilities, casinos, visitor attractions and sporting venues. Our uniquely qualified team can provide services throughout an asset's life cycle.

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Introduction

In January this year we hosted our 9th annual New Year Hotel Investment Summit and the general feeling among some 200 delegates was that 2013 may have been a watershed year, in which many banks in the UK and Ireland cleared out significant volumes of distressed stock, transaction volumes increased materially and performance levels remained relatively stable.

Have we hit the bottom of the cycle? I think that depends on which cycle. Assuming there are three cycles of relevance:

- The performance cycle is ticking along well in most markets and further growth is expected across EMEA in 2014 as world economies recover and strengthen.
- The development cycle still has some way to go before confidence returns in most of Europe. Parts of the Middle East are still very hot, but Africa remains somewhat subdued.
- The transaction cycle is heading into rich territory. With the strongest transaction year since the heydays of 2007 and the successful flotation of Hilton in the USA, the stage is set for an even busier transaction market in 2014. Perhaps even the continental European markets will also pick up as their banks see the positive effects of assertive action in the UK and Ireland.

> 2013 may have been a watershed year, in which many banks in the UK and Ireland cleared out significant volumes of distressed stock.

For this edition's back-page feature, we have invited ISG to pen a brief article on the ticking time bomb that is capex and the need to refurbish older properties in the Middle East in order to maintain performance levels.

Philip Camble
Director, Whitebridge Hospitality
Editor, EMEA Hotels Monitor

Performance Trends

Jan-Dec	2013			2012			Growth					
City	ADR	Occ	RevPAR	ADR	Occ	RevPAR	ADR		Occ		RevPAR	
	€	%	€	€	%	€	Abs (€)	%	Abs %	%	Abs (€)	%
Amsterdam	131.98	76.8	101.37	128.61	75.0	96.40	3.37	2.6	1.8	2.5	4.97	5.2
Berlin	87.62	72.6	63.65	87.97	72.5	63.81	-0.35	-0.4	0.1	0.2	-0.16	-0.2
Budapest	64.80	65.8	42.62	64.50	63.6	41.03	0.30	0.5	2.2	3.4	1.58	3.9
Cairo	76.97	35.7	27.48	80.28	46.0	36.91	-3.30	-4.1	-10.3	-22.4	-9.43	-25.5
Cape Town	88.48	64.5	57.05	95.58	61.0	58.27	-7.10	-7.4	3.5	5.8	-1.22	-2.1
Copenhagen	112.03	70.4	78.92	102.21	67.2	68.71	9.82	9.6	3.2	4.8	10.21	14.9
Dubai	185.20	79.7	147.69	178.21	77.4	137.86	6.99	3.9	2.4	3.1	9.83	7.1
Dublin	90.08	78.8	70.95	85.60	74.6	63.85	4.48	5.2	4.2	5.6	7.10	11.1
Edinburgh	96.59	79.7	76.97	97.04	77.3	75.04	-0.45	-0.5	2.4	3.1	1.94	2.6
Helsinki	100.18	64.9	64.98	101.67	67.1	68.21	-1.49	-1.5	-2.2	-3.3	-3.23	-4.7
Istanbul	148.71	67.5	100.33	152.97	72.4	110.74	-4.26	-2.8	-4.9	-6.8	-10.41	-9.4
London	162.24	82.4	133.70	173.26	80.6	139.70	-11.02	-6.4	1.8	2.2	-6.00	-4.3
Madrid	83.12	61.4	50.99	86.46	63.9	55.28	-3.34	-3.9	-2.6	-4.0	-4.29	-7.8
Milan	129.13	63.4	81.84	127.92	61.0	77.99	1.21	0.9	2.4	3.9	3.85	4.9
Moscow	139.44	67.5	94.15	147.29	66.7	98.17	-7.85	-5.3	0.9	1.3	-4.02	-4.1
Muscat	162.61	66.5	108.09	162.29	60.2	97.68	0.32	0.2	6.3	10.4	10.41	10.7
Paris	242.54	80.1	194.16	240.26	79.4	190.87	2.28	1.0	0.6	0.8	3.30	1.7
Prague	71.58	69.5	49.72	72.74	68.5	49.82	-1.15	-1.6	1.0	1.4	-0.10	-0.2
Riyadh	189.18	55.6	105.20	195.42	55.5	108.50	-6.24	-3.2	0.1	0.2	-3.30	-3.0
Rome	145.72	67.1	97.71	144.66	66.6	96.31	1.06	0.7	0.5	0.7	1.40	1.5
Vienna	94.81	70.8	67.15	97.96	71.8	70.33	-3.15	-3.2	-1.0	-1.3	-3.17	-4.5
Warsaw	72.38	71.8	51.97	83.22	69.3	57.63	-10.83	-13.0	2.5	3.7	-5.66	-9.8
Zurich	194.64	72.4	140.87	186.76	71.3	133.08	7.88	4.2	1.1	1.6	7.80	5.9

Source: STR Global

- The Middle East saw overall RevPAR increase by 3.9%, driven mainly by occupancy (+3.4%) and a small increase in ADR (+0.5%). Instability in North Africa continues to impact performance, where RevPAR declined (-12.3%) resulting principally from falling occupancy (-10.5%). In contrast, Southern Africa saw occupancy grow (+2.4%).
- During 2013, the UK achieved one of the highest occupancy levels in Europe (75%), with Ireland following closely (72.8%). Both countries contributed towards Northern Europe's year end occupancy of 72.8% - one of the highest of the four sub-regions of Europe.
- In Europe, hotel performance remained on the path to recovery, with only slight increases in occupancy (reaching 67.4%). Of the four European sub-regions, Southern Europe reported strongest RevPAR growth (+6.0%), driven by both occupancy and ADR increases in Spain, Portugal, Greece and Italy.

Hotel Construction Costs

Country	Budget hotels	Mid market – low	Mid market – high	Luxury
	€ per sqm	€ per sqm	€ per sqm	€ per sqm
UK	1,480 - 2,000	1,730 - 2,400	2,250 - 3,400	2,800 - 4,250
Austria	1,360 - 1,500	1,650 - 2,200	2,300 - 2,900	2,980 - 3,500
Belgium	1,130 - 1,650	1,480 - 1,900	1,650 - 2,050	2,230 - 2,800
Bulgaria	680 - 800	800 -1,000	990 - 1,200	1,500 - 1,900
Czech Republic	900 - 1,250	1,200 - 1,400	1,250 - 1,750	1,600 - 2,100
France	1,600 - 2,100	2,100 - 2,700	2,600 - 3,500	2,800 - 4,500
Germany	1,660 - 1,820	1,740 - 2,040	2,070 - 2,900	2,690 - 3,410
Greece	1,100 - 1,300	1,550 - 1,700	1,950 - 2,400	2,700 - 3,300
Hungary	750 - 1,000	1,100 -1,500	1,300 - 2,000	1,600 - 2,500
Ireland	1,395 - 1,700	1,700 - 2,020	1,845 - 2,255	2,550 - 3,100
Italy	1,500 - 1,750	1,650 - 1,900	1,850 - 2,200	2,200 - 2,800
Norway	1,900 - 2,250	2,100 - 2,400	2,300 - 2,800	2,700 - 3,175
Netherlands	1,130 - 1,300	1,210 - 1,450	1,410 - 1,780	1,580 - 1,880
Portugal	950 - 1,200	1,100 - 1,300	1,350 - 1,700	1,450 - 1,950
Romania	800 - 900	900 - 1,100	1,100 - 1,400	1,600 - 2,050
Russia	2,000 - 1,700	1,500 - 2,200	1,500 - 2,700	2,300 - 3,700
Slovakia	750 - 1,200	850 - 1,300	1,100 - 1,550	1,350 - 1,800
Spain	1,000 - 1,750	1,500 - 2,000	2,000 - 2,750	2,500 - 3,500
Sweden	2,200 - 2,700	2,700 - 3,150	3,150 - 3,500	3,500 - 4,500
Turkey	750 - 850	800 - 1,000	900 - 1,500	1,000 - 1,990
Ukraine	1,300 - 1,900	1,450 - 2,150	1,650 - 2,300	1,700 - 3,100
Abu Dhabi	1,200 - 1,600	1,300 - 1,800	1,700 - 2,200	2,400 - 3,600
Qatar	1,400 - 1,500	1,500 - 1,700	1,800 - 2,300	2,500 - 3,700
Dubai	1,200 - 1,600	1,300 - 1,800	1,700 - 2,600	2,400 - 3,600
Saudi Arabia	960 - 1,100	1,350 - 1,460	1,490 - 1,580	1,630 - 2,100
Mozambique	1,300 - 1,500	1,600 - 1,900	2,100 - 2,500	2,600 - 3,000
South Africa	1,200 - 1,400	1,500 - 1,700	1,800 - 2,000	2,200 - 2,400
Botswana	1,250 - 1,450	1,550 - 1,750	1,850 - 2,050	2,250 - 2,450
Namibia	1,250 - 1,450	1,550 - 1,750	1,850 - 2,050	2,250 - 2,450
Mauritius	1,300 - 1,500	1,600 - 1,900	2,100 - 2,500	2,600 - 3,000
Seychelles	1,850 - 2,250	2,350 - 2,600	2,650 - 3,075	3,200 - 4,200

Source: Rider Levett Bucknall

These costs have been prepared from a survey of Rider Levett Bucknall worldwide offices and members of the RLB | EuroAlliance. Costs are expressed per square metre of gross internal floor area. The costs include FF&E, but exclude operator's stock and equipment. Fees, land costs and local taxes (VAT or similar) are also excluded. Costs are generally based on constructing international hotels to Western European specifications. Data is prepared to highlight key cost trends and differences between markets. Users should verify the suitability of general cost data to their specific circumstances. Exchange rates and inflation can distort generic data, for specific project guidance please contact Rider Levett Bucknall.

- Europe continues to be a mixed story in terms of GDP growth, with modest increases being offset by contraction in a few countries. Tender prices are beginning to react accordingly (if slowly), but can vary significantly within countries.

- Middle East countries are showing signs of modest growth, but construction sectors in many countries are still dominated by sizeable infrastructure and socio-economic projects.
- Following a prolonged period of adjustment, labour constraints are expected to be a significant driver of tender prices, with challenges differing by region and country.

Transaction Tracker

Region	Hotel	Location	No. of Keys	Total Price	Price per Key
Portfolio Transactions				€	€
	4 x Club Med resorts [1]	France	1,315	280,000,000	213,000
	2 x resort hotels [2]	Turkey	621	53,700,000	86,000
	Menzies Hotels	UK	1,565	101,300,000	65,000
Single Asset Transactions					
Benelux	Sofitel Le Louise	Brussels, Belgium	169	16,500,000	98,000
	Rembrandt Classic Hotel	Amsterdam, Netherlands	111	25,000,000	225,000
CEE	Hilton Sofia	Sofia, Bulgaria	245	24,000,000	98,000
	Kempinski Zografski	Sofia, Bulgaria	421	45,000,000	107,000
	Sheraton Krakow	Krakow, Poland	232	37,600,000	162,000
Germany	NH Dusseldorf City Nord	Dusseldorf	330	37,500,000	114,000
	Melia Dusseldorf	Dusseldorf	200	35,000,000	175,000
Ireland	Fota Island Golf Resort *	Cork	131	20,000,000	153,000
	Radisson Blu & Spa *	Cork	126	8,000,000	63,000
	Citywest Hotel *	Dublin	789	30,000,000	38,000
	Clarion Hotel IFSC *	Dublin	165	33,000,000	200,000
	Trinity Capital Hotel *	Dublin	195	35,000,000	179,000
	Jurys Inn Limerick	Limerick	151	3,000,000	20,000
Italy	Four Seasons Florence	Florence	117	150,000,000	1,282,000
	Hotel Eden	Rome	121	105,000,000	868,000
UK	Premier Inn Cathedral Quarter *	Belfast	171	10,700,000	63,000
	Travelodge River Street	Bolton	80	4,500,000	56,000
	Novotel Cardiff Centre	Cardiff	138	14,400,000	105,000
	Holiday Inn Express Armouries	Leeds	130	3,500,000	27,000
	Travelodge KC Royal Scot *	London	408	62,800,000	154,000
	Grand Plaza	London	200	117,100,000	586,000
	Park Inn York	York	200	21,100,000	106,000
Other EMEA	Hilton Vienna Danube	Vienna, Austria	367	52,000,000	142,000
	Concorde Opera	Paris, France	266	150,000,000	564,000
	Hotel Arena	Barcelona, Spain	84	15,000,000	179,000
	First Hotel Amaranten	Stockholm, Sweden	461	114,700,000	249,000

Source: Whitebridge Hospitality

*Sold out of receivership

[1] Val d'Isere, La Plagne, Peisey Vallandry, Opio
[2] Seven Seas Hotel, Kemer Imperial Hotel

- Transactions of interest in the Middle East included: sale of Atlantis the Palm (Dubai) and Jumeirah securing a debt facility of US$1.4bn to fund future expansion.
- Elsewhere, the Astir Palace complex near Athens (including 3 x Starwood hotels) was sold for €400m and Melia Hotels International raised €250m in a bond issue.
- Corporate deals in the last six months of 2013 included: Chardon Management (UK) and further tranches of NH Hoteles.
- Refinances included: 10 x Interhotels (Germany), Moran Hotels (Ireland), Waldorf Hilton (London), Paradores (Spain) and Phoenicia Hotel (Malta).

The data shown in the table above is just a small selection of transactions taken from our comprehensive database of deals done around the region.

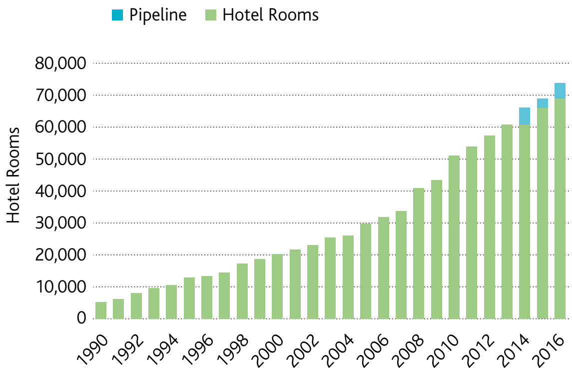
Prices have been rounded where appropriate. We do not warrant the accuracy of this data which was obtained from publicly available sources and reported in industry journals. Conversions to euros were made according to the exchange rate at the time of the announcement.

OUT WITH THE OLD, IN WITH THE NEW

Introduction

Expo 2020 Dubai will undoubtedly further stimulate the recovering Middle East hotel market, reports Peter Kilby of international construction firm ISG, with a return to 2007/8 levels of activity and property prices.

The major challenge facing many of the established hotels in the region, and Dubai in particular, is the volume of hotel stock more than seven years old, set to be in direct competition with newly opened and planned developments in the run up to 2020.



Source: DTCM

The chart above shows that the number of hotel rooms older than seven years old represented only half of total room stock in 2013. The pace of development is dramatic and more than 12,600 new keys are expected to open by the end of 2016 (an increase of c. 21% over total supply in 2013).

Thus in order to maintain market position, performance levels and profitability over the long term, Dubai's established hotels will need to invest in their existing assets.

Capex Becoming A Priority

Staying on track with the standard refurbishment cycle in the hotel industry of between five and seven years can prove problematic in a relatively young and dynamic market. A situation that can be exacerbated by the limited choice of qualified providers.

Dubai is home to world renowned new-build contractors, but there are major opportunities in the market for specialists with the expertise and suitable skills-set required to refurbish operating hotels.

Factors to take into account when considering the implementation of a refurbishment program include:

- robust impact assessments
- plans and strategies to mitigate the effects of lost business
- strong reputation management and damage limitation.

Alternative Options

Even with the benefit of a full refurbishment program, some hotels in Dubai may still fail to compete effectively in future against the much larger and more highly specified new hotels in the emirate (particularly at the high end). This leaves an owner with two alternatives to refurbishment, both of which have been exercised in recent years:

- *Conversion to another brand:* in the 1980s and 1990s, the hotel regularly achieving the highest performance levels was the former InterContinental Hotel on the Creek in Deira. It was rebranded to a Radisson Blu in 2006.
- *Redevelopment:* the former Metropolitan Hotel Sheikh Zayed Road was demolished in 2012 and its owner, Al Habtoor Group, is presently constructing the largest hotel complex in the UAE, which will include three luxury hotels with over 1,600 rooms and suites at a cost of AED 4.9bn.

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