



HRB EXPERT CONFERENCE 2006

Hospitality Industry Forum

Tourism and Leisure Market Opportunities in Central and Eastern Europe and Russia

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Session Format

- Short Presentations
- Questions from the Audience

European Hotel Values – Generic

- HVS International specialist hotel valuers
- Annual Survey (HVI) since 1983
- On average, values across Europe increased by 5% in 2005, compared with an increase of 3% in 2004
- These rises in value followed three years of decline
- 2006 likely to see further growth for most markets. Moscow is likely to top the league of growth due to RevPAR growth
- The European average hotel value is now back at the level achieved in the peak year 2000, although much of this has been driven by growth in Eastern European markets
- The majority of European markets experienced an increase in RevPAR (mainly driven by improved occupancy)
- All resulting in increasing revenues and profit (the base for hotel values)

What Happened in 2005?

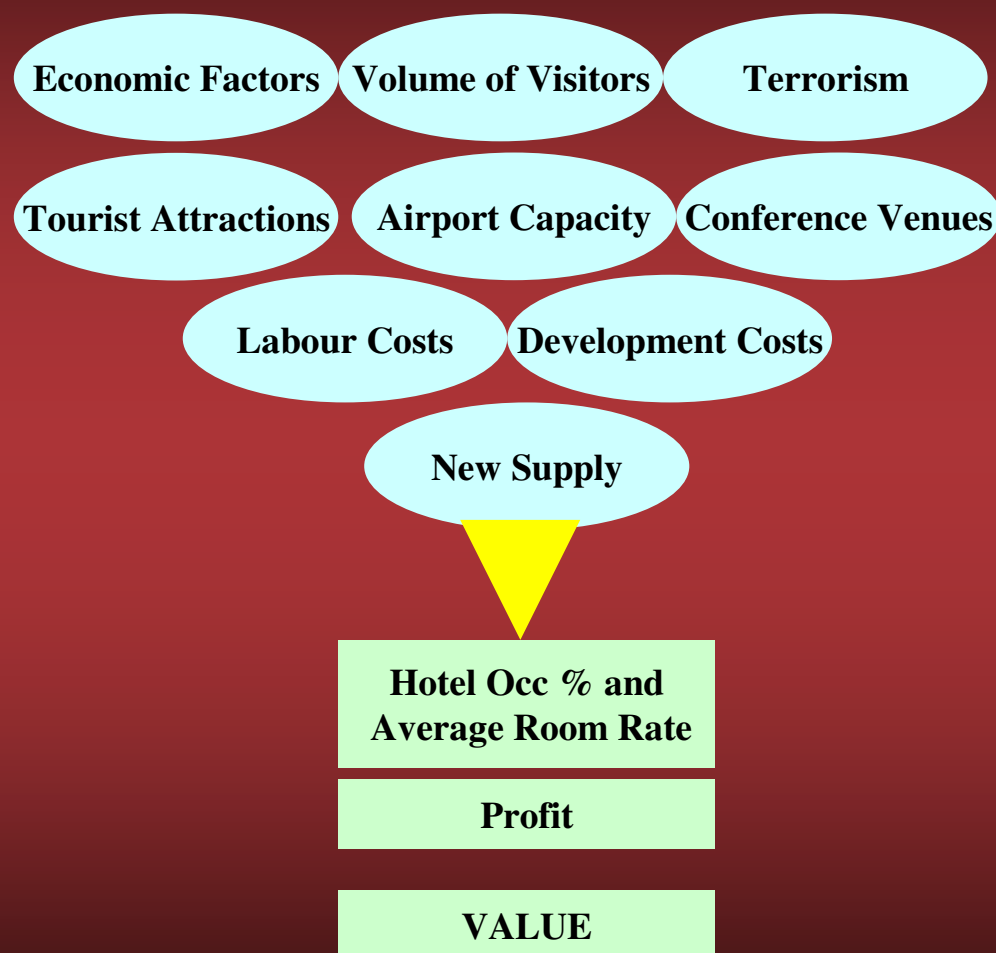
- The consensus is that most European markets were in the recovery part of the cycle
- Most markets have shown continuing signs of improvement in occupancy and average room rate
- Profitability improved in most cases
- Values therefore rose again in 2005
- But is it true for Central and Eastern European countries?

Factors Affecting Hotel Values

- Generally there is little prospect for immediate recovery in hotel values when:
 - Slow economic recovery
 - Significant supply growth (Warsaw, Budapest)
 - Investors perceive there is too much risk
- Interest rates have been low but are likely to rise again
- Construction costs are rising (material and labour)
- Historically the investment climate in many CEE countries has not been favourable and scared developers and investors

Factors Affecting Hotel Values

- What is valued is the future cash flow
- Investors' appetite is also a factor
- So factors affecting hotel values are factors affecting future cash flows:
 - Economic downturn
 - Terrorism
 - Significant new supply
 - Occupancy decline
 - Rate pressure
 - Profitability eroded
 - Development cost higher
 - Risk perception for investors



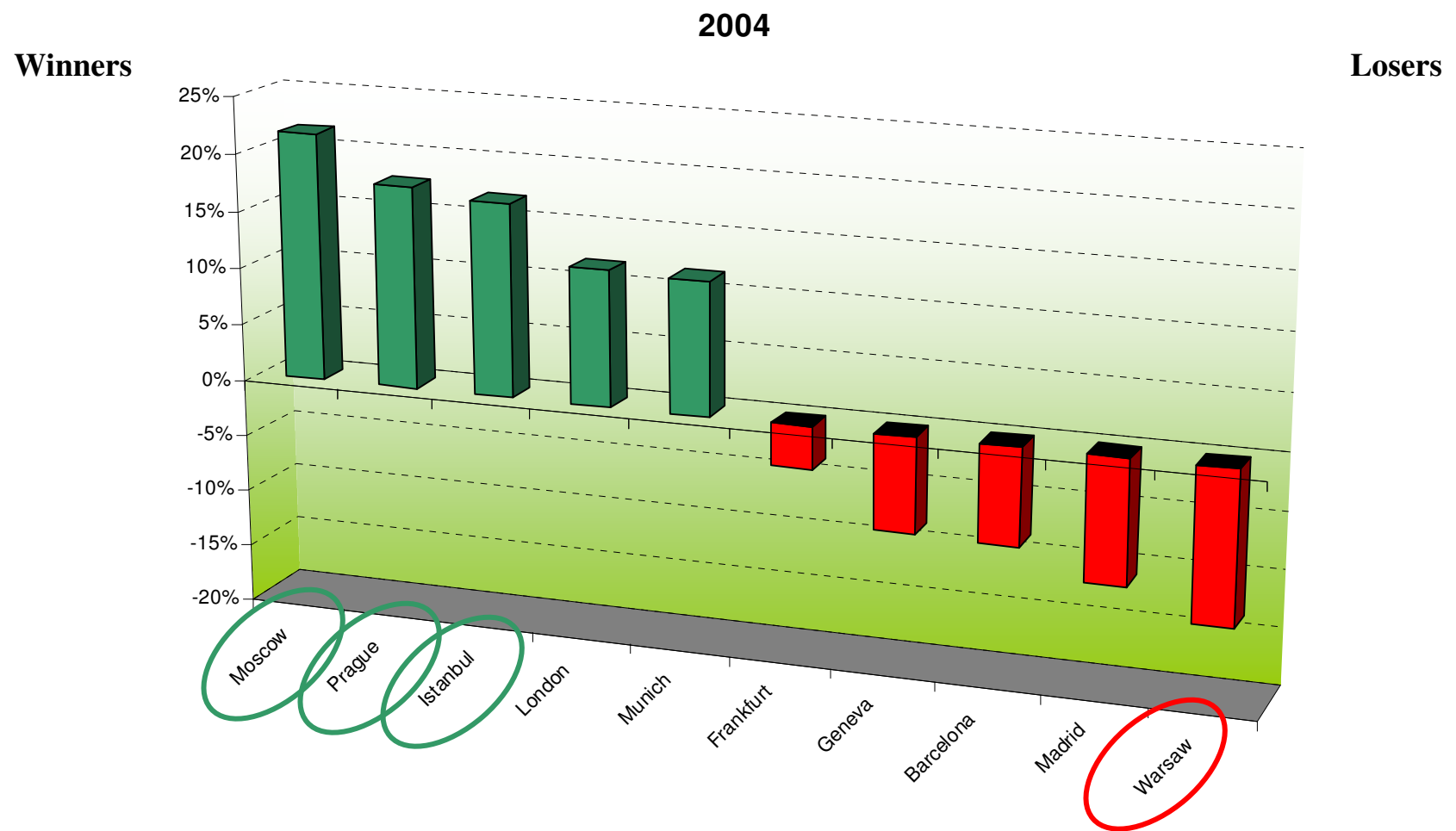
Factors Affecting Hotel Values

- Hotels vs Other Investment Options
 - Long development phase and performance build-up
 - Lower leverage
 - Cash flows are variable and subject to multiple external influences
 - High returns are rare in the short term
 - Exit strategies and future/take-out buyers are not obvious
 - Hotels are not built speculatively like offices and retail, so the operator is tied in before construction starts which the finance markets like
- Hotel Performance can Vary
 - Supply and demand, over-supply drives down rates
 - Occupancy recovers more quickly than rate
 - Profit can be very rate-sensitive (selling the same product for less)
- Hotel Values are Income-Related
 - Values may not reflect historical cost
 - Bid – ask gap

Snapshots of CEE Hotel Market and Russia



HVI 2004 Winners and Losers

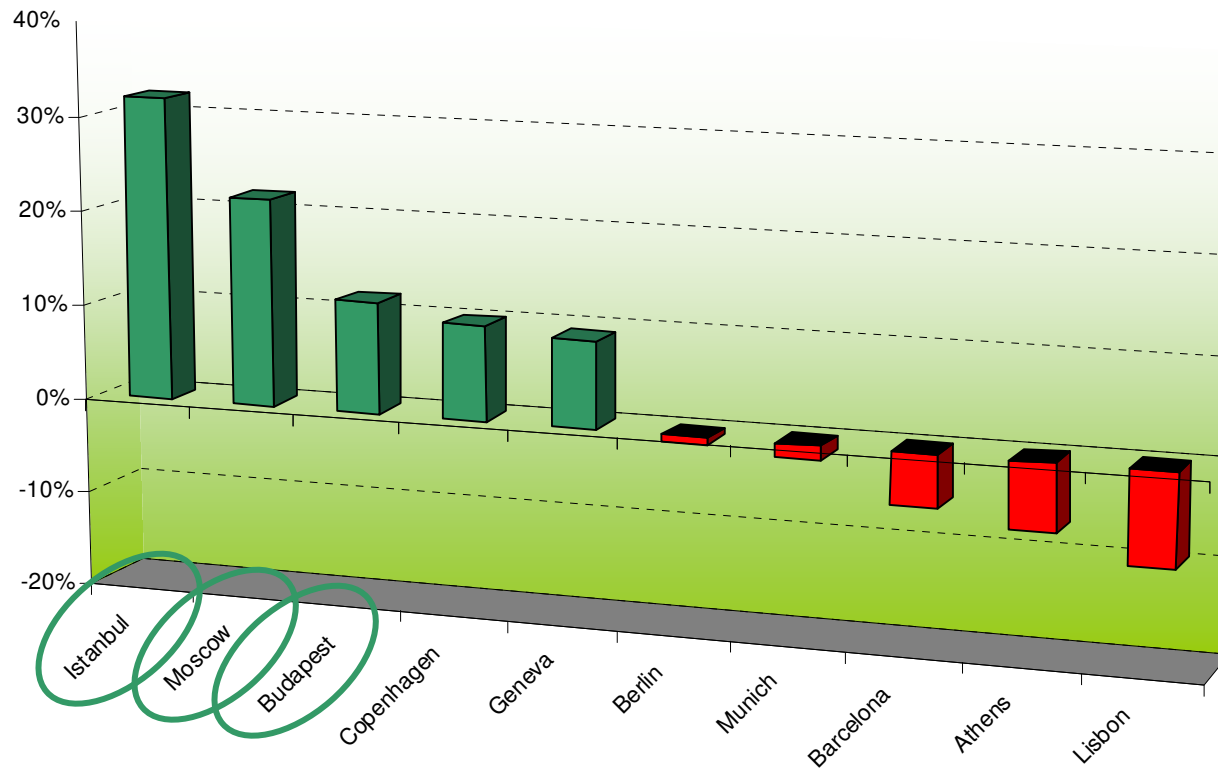


HVI 2005 Winners and Losers

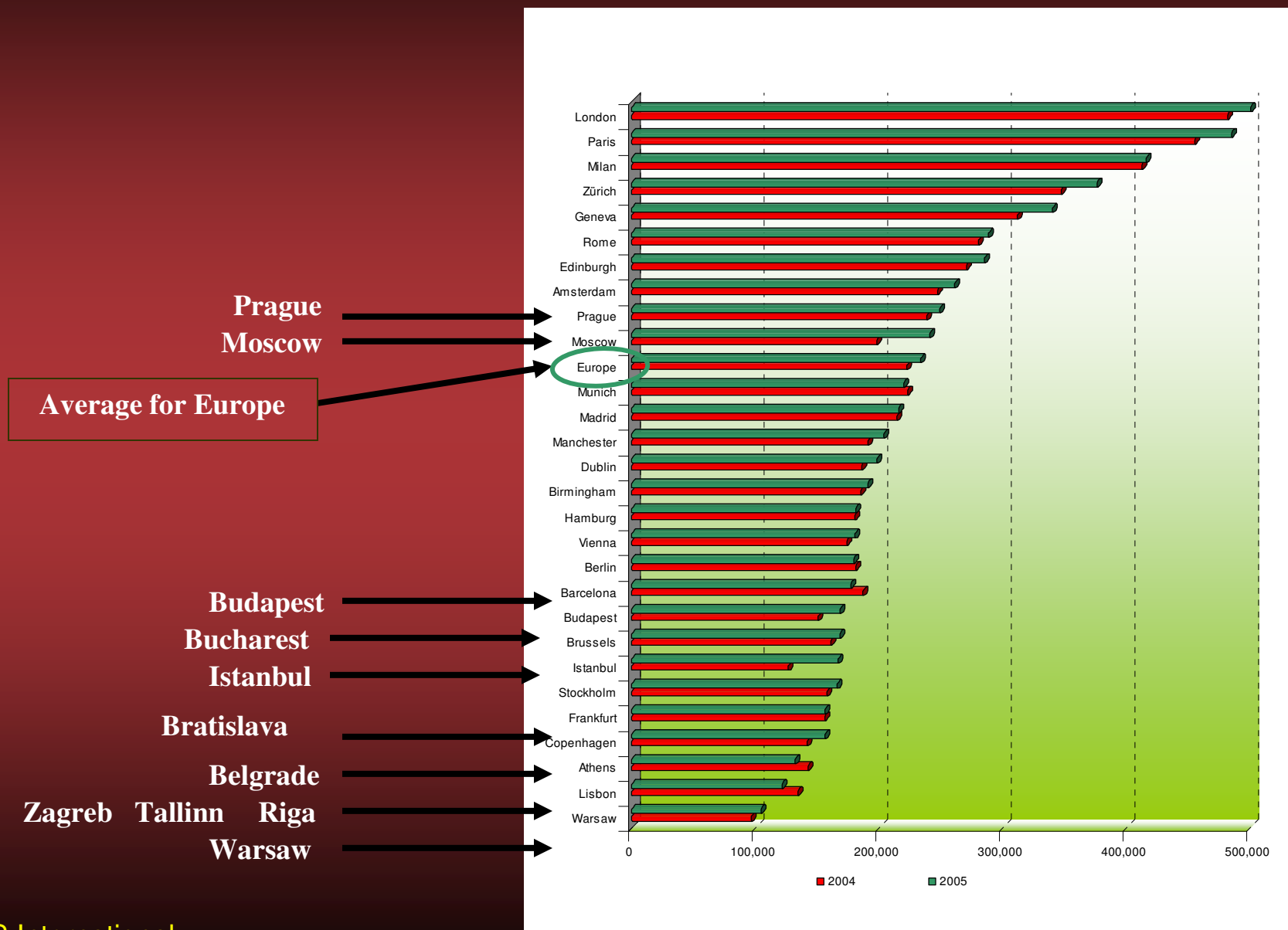
Winners

2005

Losers



CEE Countries and Russia in the European Context



Prague
Moscow

Average for Europe

Budapest
Bucharest
Istanbul

Bratislava

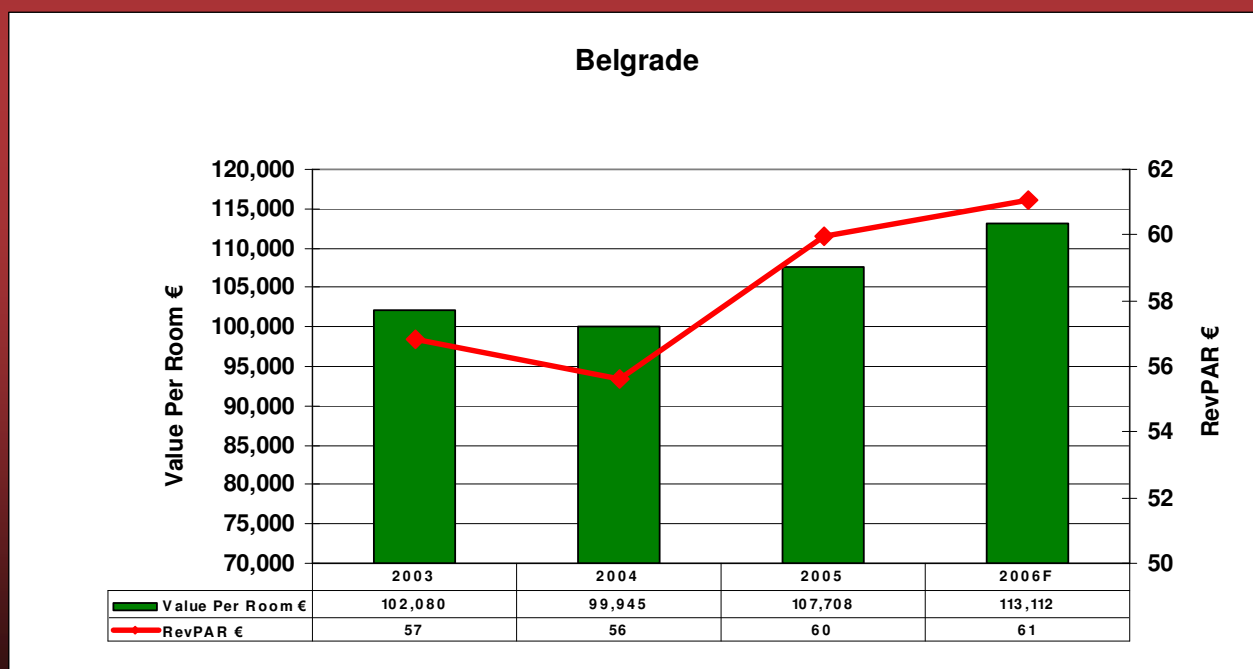
Belgrade

Zagreb Tallinn Riga

Warsaw

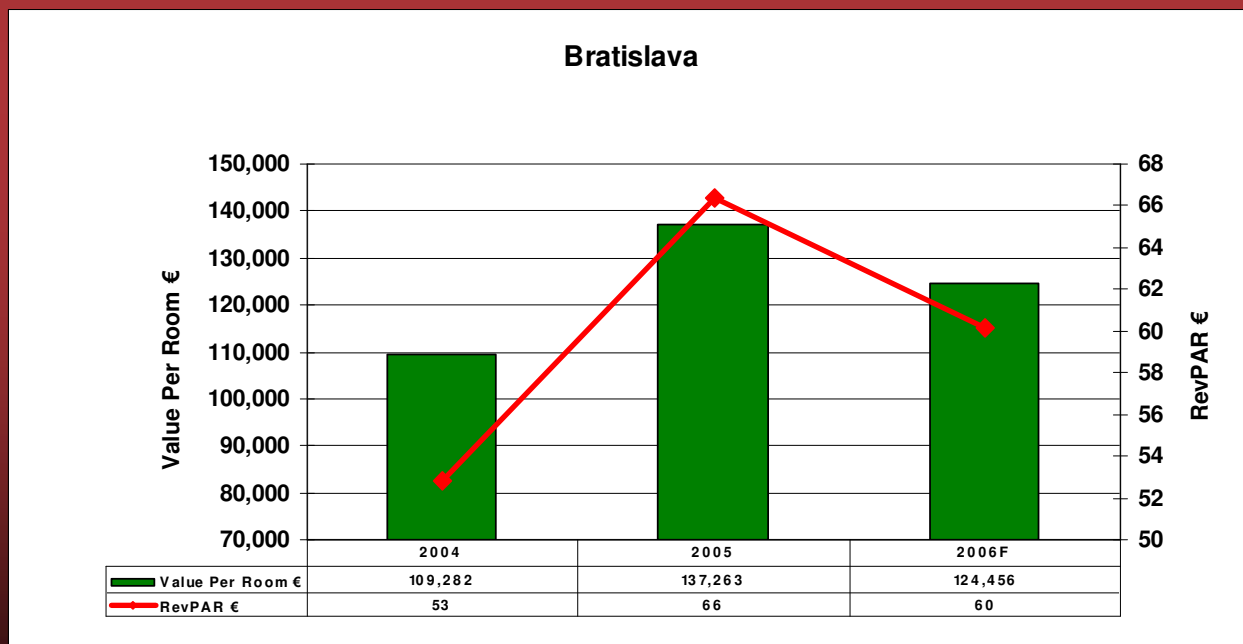
Belgrade Snapshot

- Small market with low RevPAR
- Limited supply and limited prospect for new supply
- Growth expected in 2006
- Limited prospects in Serbia outside the capital city



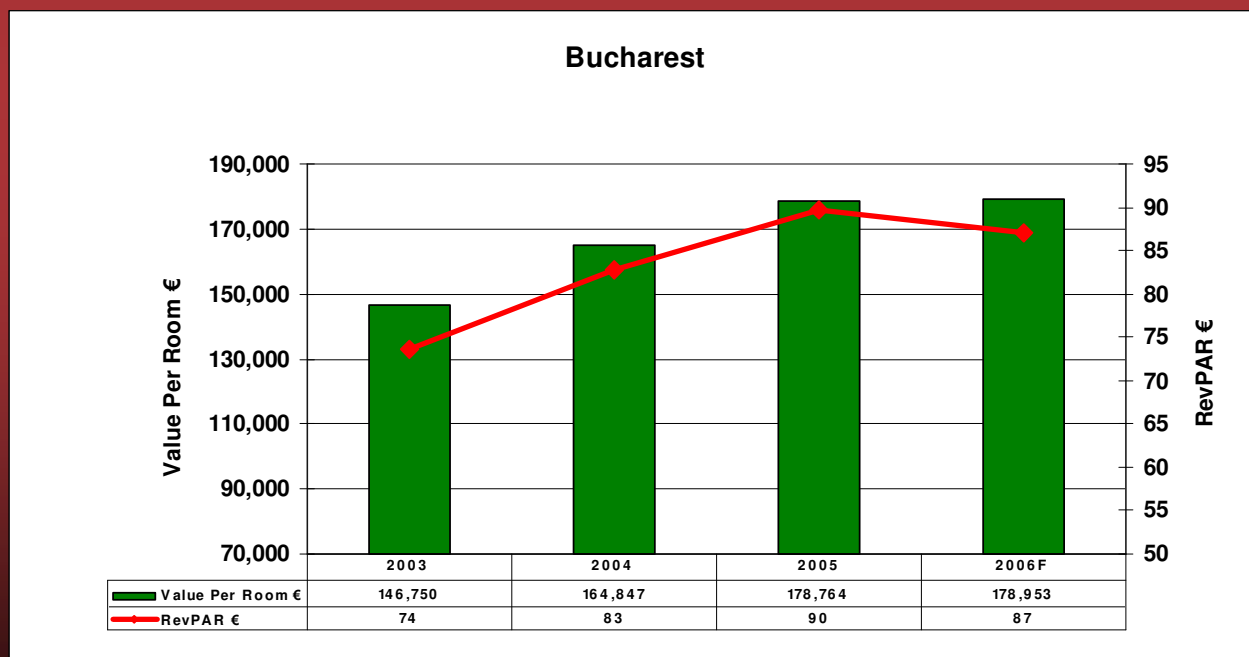
Bratislava Snapshot

- Small immature market with a lot of new supply
- Performance likely to decline in 2006 and beyond
- Some prospects outside the capital city but still limited



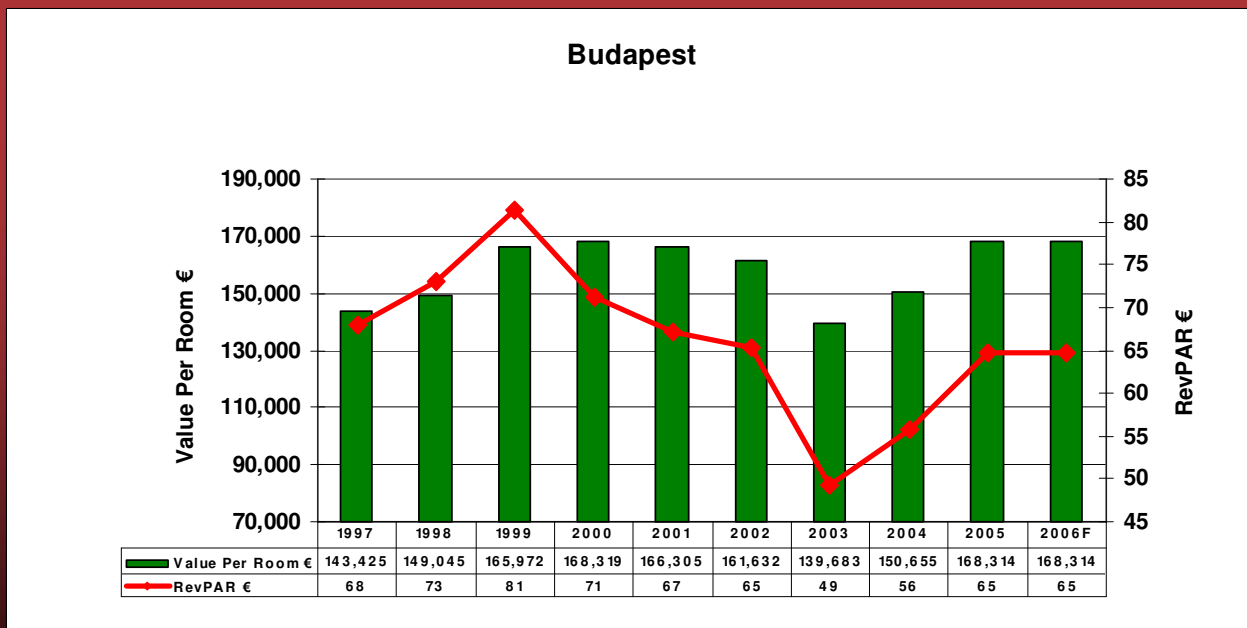
Bucharest Snapshot

- Strong market which has been growing
- A fair amount of new supply coming up (big hotels)
- Performances are already starting to decline slightly in 2006
- Potential prospect in secondary cities albeit limited but Black Sea resorts potentially



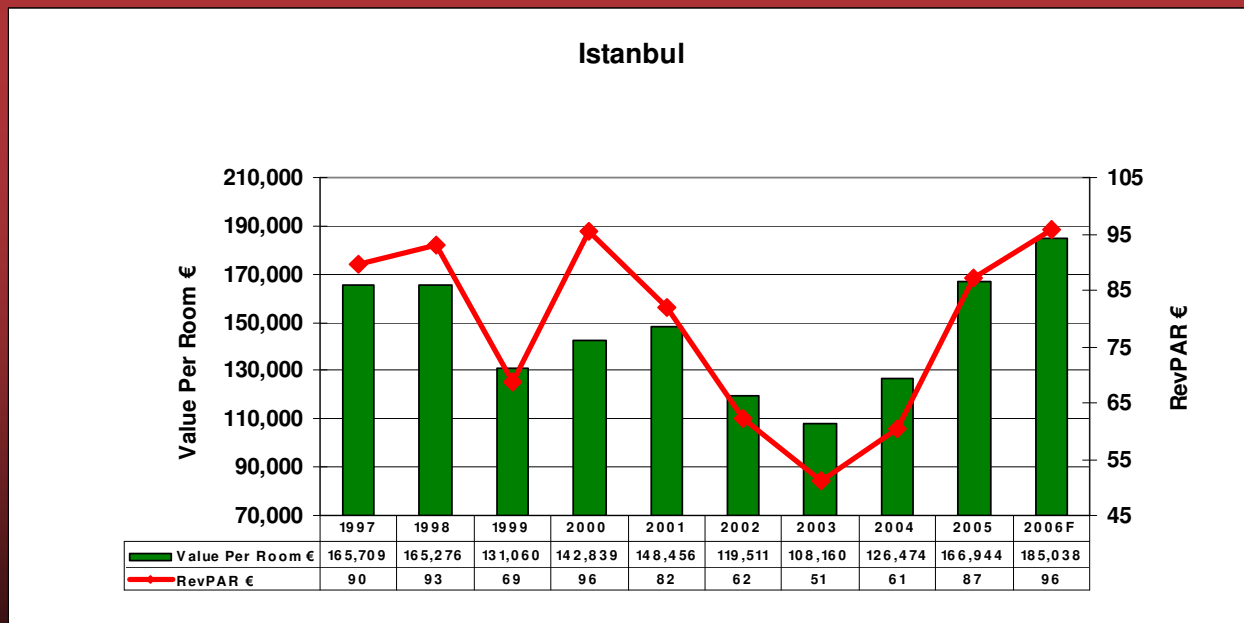
Budapest Snapshot

- Maturing market
- Affected by new supply
- Recovering since 2003 but more new supply likely to maintain performance level for a while
- Very limited prospects outside the capital city



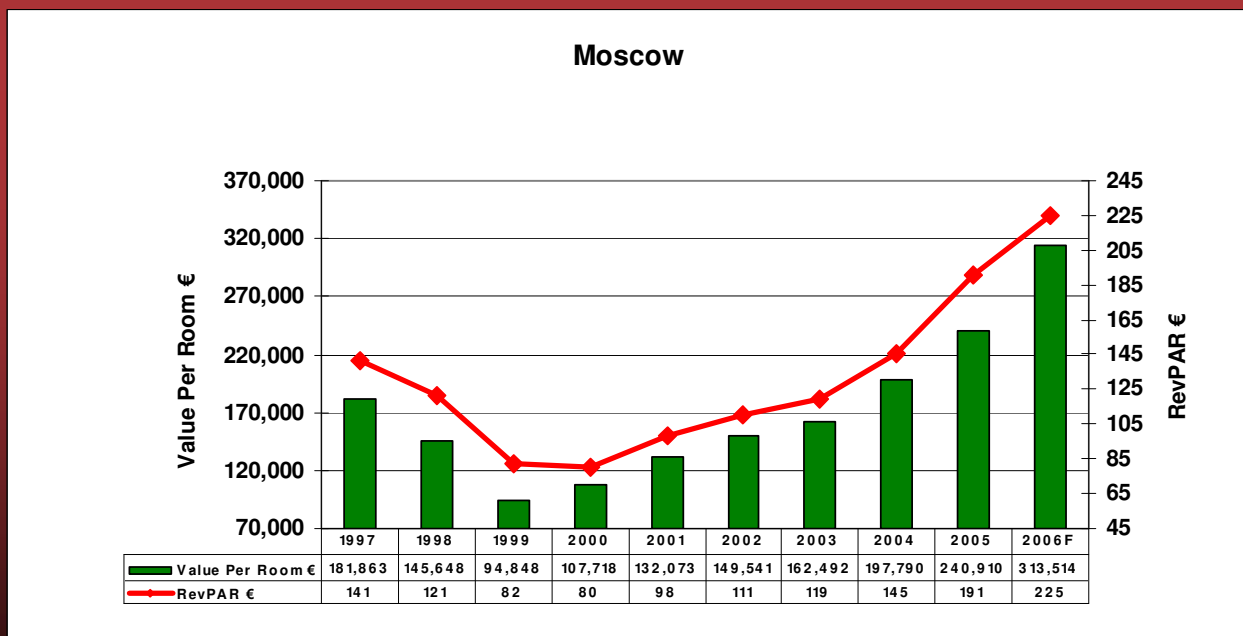
Istanbul Snapshot

- Strong recovering market with good growth potential
- Resilient to downturn
- Tremendous RevPAR growth has fuelled value growth
- Some potential for further resort development in Turkey



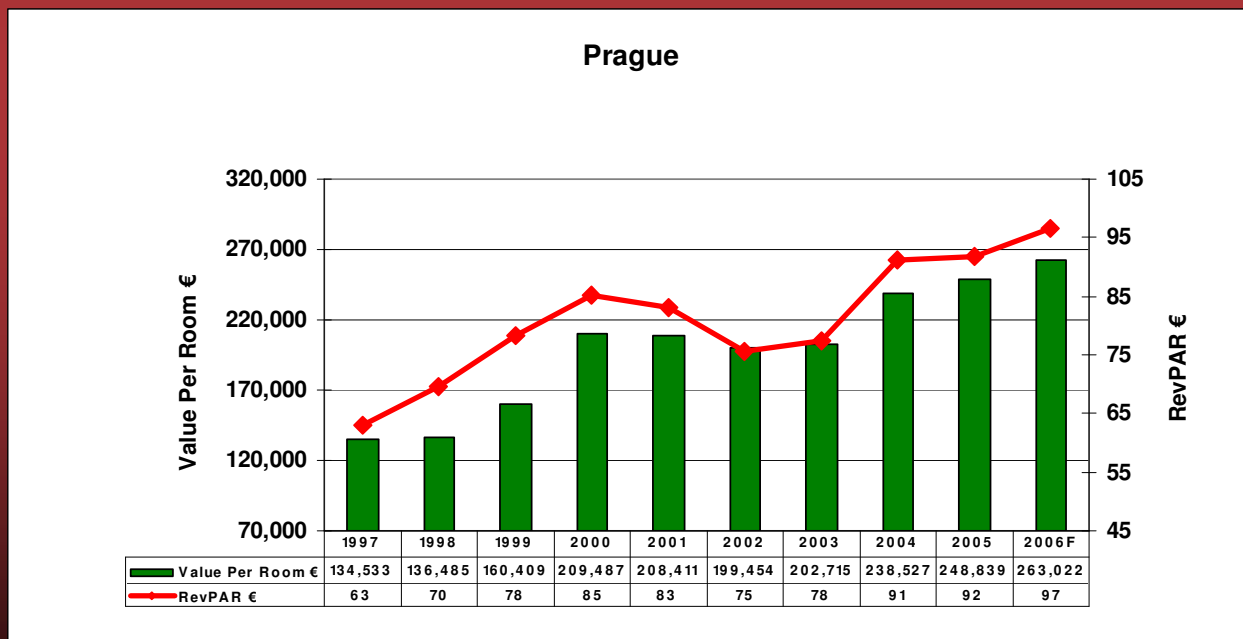
Moscow Snapshot

- Strongest market which is undersupplied in all categories of hotel
- Phenomenal RevPAR growth which is likely to be sustained
- At least five years of growth (maybe ten) before supply meets demand
- Unexploited provincial market (except St Pets)



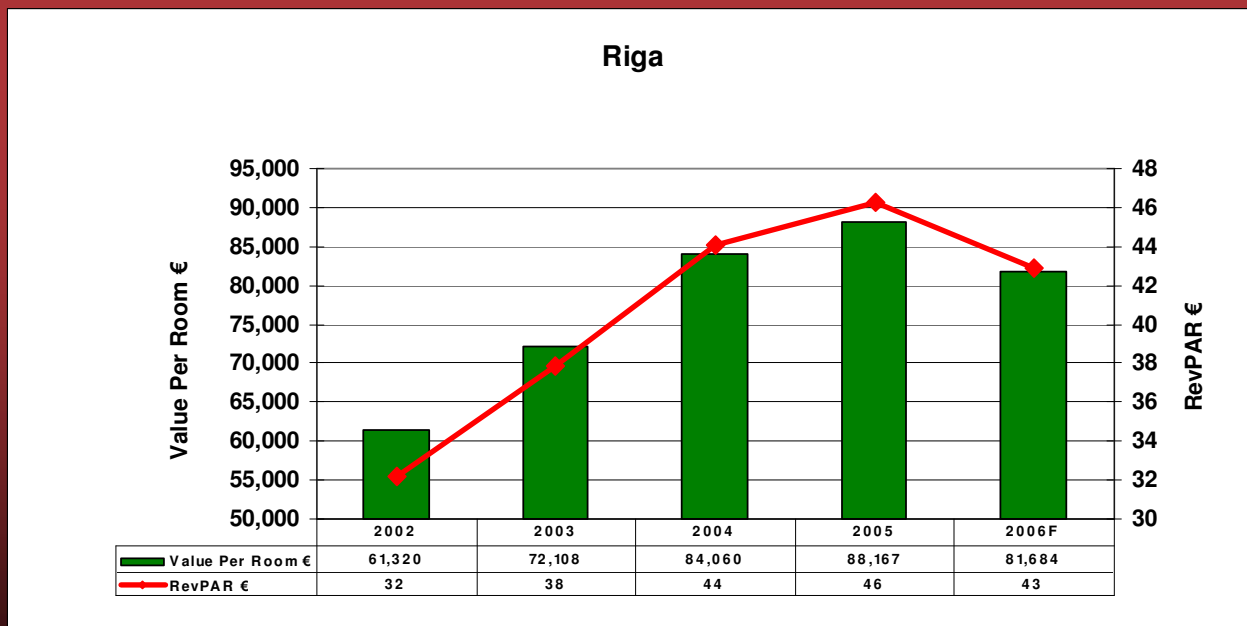
Prague Snapshot

- One of the strongest markets in CEE
- Good historical growth despite a lot of new supply
- Maturing market approaching its peak
- Short term likely to be flat until the new supply is absorbed
- Limited provincial prospects



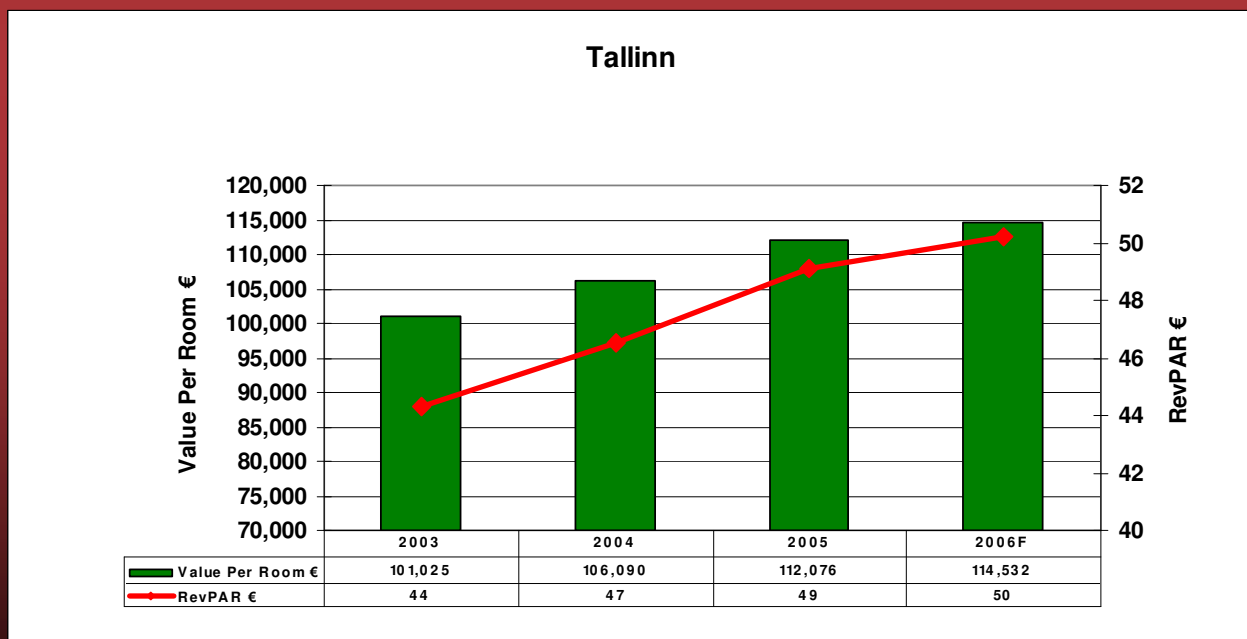
Riga Snapshot

- Small market with good recent historical growth
- A lot of new supply entering the market
- Decline expected for 2006 and likely to carry on in the short term
- No real provincial prospects



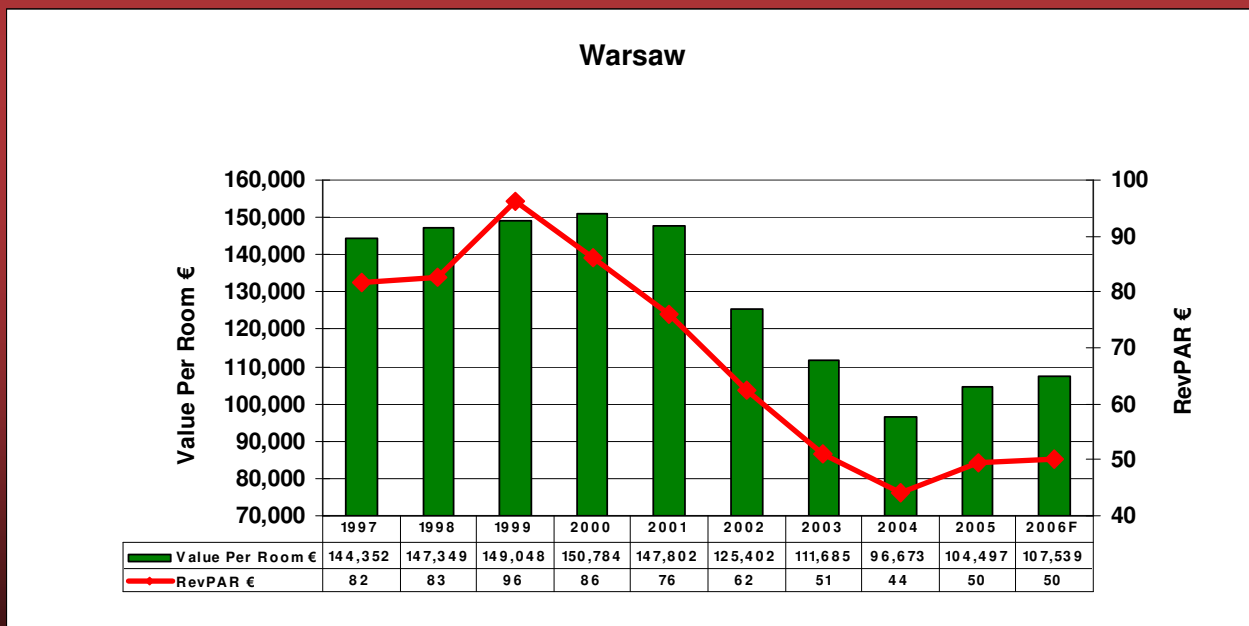
Tallinn Snapshot

- Small market with good recent historical growth
- New supply will cause some short-term imbalance
- Growth expected for 2006 but thereafter likely to decline slightly
- No real provincial prospects



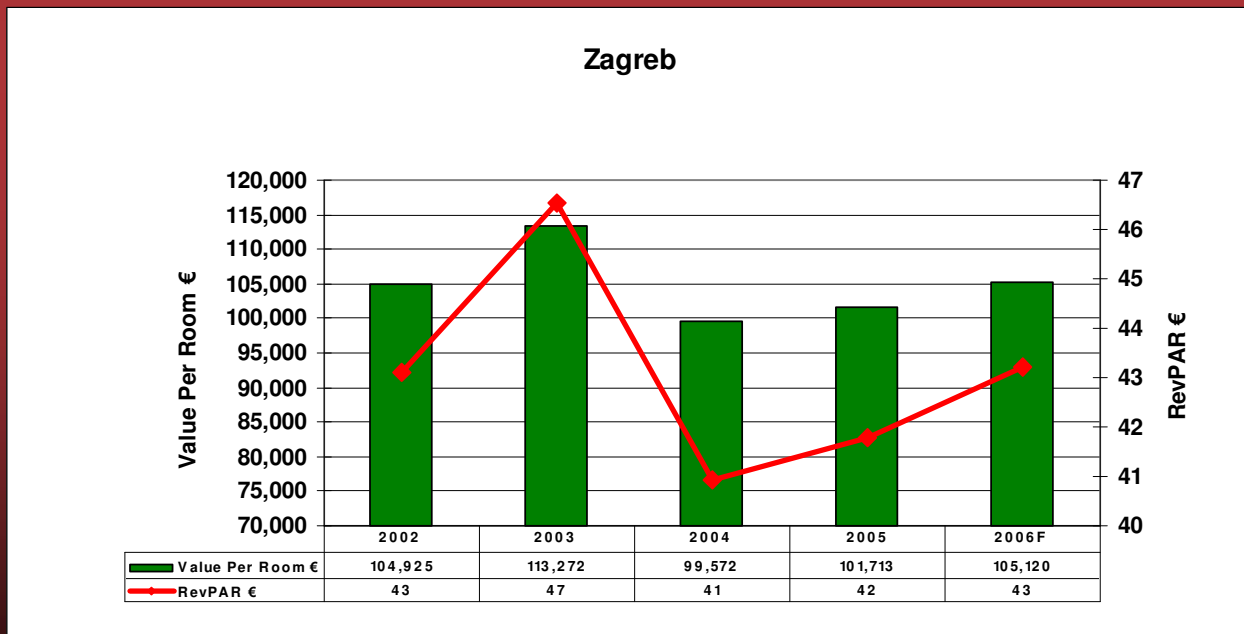
Warsaw Snapshot

- Starting to recover from oversupply at the top end of the market
- Will take time to recover to 1999 peak
- More opportunities in the mid-market and budget market
- Provincial markets developing



Zagreb Snapshot

- Small market with low RevPAR
- Unlikely to grow very much beyond what it is now
- Excellent prospect in Croatia for resort development and redevelopment
- A tremendous amount of interest being shown for coastal locations and islands



Thank you !

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