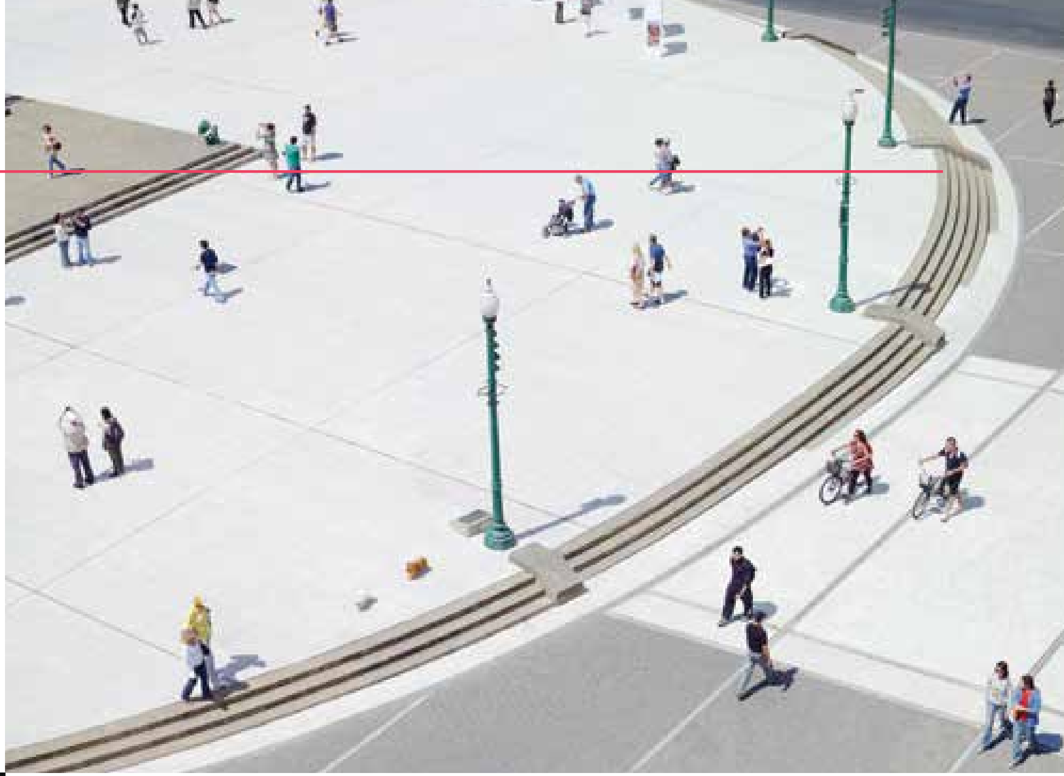
Room to grow



European cities hotel forecast for 2014 and 2015.
18 gateway cities, Amsterdam to Zurich

March 2014

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St Pancras
International
8
Way out
Sortie

Contents

Summary

This third edition of our European cities hotel forecast is published against a backdrop of a region that has taken an economic pounding but is seeing clear evidence of economic recovery and returning confidence


(c)Suzanne Christ

The world is changing at a pace and in this snapshot (taken in February 2014) we look forward to a resurgence in travel and hotel prospects in 2014 and 2015.

In terms of where hotels are compared to before the recession, in nominal terms the market is almost back at its pre-recession peak (reached during 2007) but it remains significantly behind in real terms. For example, European ADR is now only 5.7% below its pre-recession levels in nominal terms but 17.9% lower in real terms.

There are 18 cities in this econometric forecast – all are important gateway cities and/or business and tourism centres and some are en route to becoming mega cities. The 18 reflect the challenges facing other cities in Europe where position on the economic and hotel cycle is crucial, and some cities are clearly better placed to grow than others.

We anticipate growth in 17 out of the 18 cities in both 2014 and 2015. Madrid is alone in seeing no growth in either year.

Top RevPAR growth stories in 2014 are Dublin, followed by London and Paris, then Edinburgh, Berlin, Frankfurt, Vienna and Moscow.

In 2015 London tops the growth story, followed by Dublin, Lisbon, Prague, Moscow, Edinburgh, Zurich and Frankfurt.

In Dublin, a lack of new supply and strong demand is expected to drive RevPAR in 2014 and 2015 by 5.2% and 3.8% respectively. Despite sizeable supply increases, strong demand means London is forecast to see the flip side of Dublin, with RevPAR growth of 3.8% in 2014 and 5.2% in 2015.

Room for change and room for growth

Europe is the world's largest tourism destination with over 560 million international tourist arrivals in 2013. The cities in this survey represent over 680,000 hotel rooms and are visited annually by some 80 million international tourists. But, averages hide the story; Europe is a multi-layered market and one size does not fit all.

Megatrends are transforming today's businesses and include shifts in global economic power, innovation in technology and demographic change. Hotels need to be nimble and understand the issues and their implications for their business. Some trends, like the mobile and digital revolution are taking hotels into a whole new world as they battle to stay relevant to consumers.

The improving economic backdrop has the potential to rejuvenate the European hotel sector although it's likely to remain a challenging environment. Owners and operators are pressed to achieve profitable growth. The challenge for hotels is to capitalise on the improved environment and the new opportunities a changing world offers. There is plenty of room to grow on many fronts including traveller volumes, new hotels and brands, trading metrics and investment opportunities.

"There is growing optimism in the European economy which is now recovering from the double-dip recession triggered by the euro crisis. Significant improvements in confidence and activity through the second half of 2013 mean that we now expect growth across Europe in 2014 and 2015 – even in the economies at the centre of the economic crisis. The challenge for hotels will be to capitalise on this improving economic climate whilst responding to the megatrends impacting their business."

Dr Andrew Sentance CBE, Senior Economic Advisor to PwC

How did 2013 turn out?

Buffeted by economic cross winds – how did 2013 turn out? The market is almost back at its pre-recession peak in nominal terms but ADR is 17.9% behind in real terms

Where is the market today vs pre-recession?

In terms of where we are compared to before the recession the market is almost back at its pre-recession peak (reached during 2007) in nominal terms but it remains significantly behind in real terms.

Overall, average Europe-wide RevPAR in 2013 was €67.99, 6.5% lower than the 2007 high of €72.70, but 18.5% lower in real terms. This illustrates the extent to which the sector has underperformed the wider economy, as real GDP in 2013 across the EU was only marginally below the 2007 peak.

While both occupancy and ADRs are returning to their 2007 highs, the recovery in occupancy has been stronger; occupancy at 67.4% in 2013 was very close to the 2007 high of 68.0% in 2007. By contrast, ADR was further behind, at €100.88 compared to €106.98 in 2007, i.e. 5.7% lower than the pre-recession levels in nominal terms but 17.9% lower in real terms.

Ups and downs in 2013

2013 was volatile and very much a year of two, possibly three, parts. See chart opposite showing key metrics by month. Overall strong demand reflected Europe's popularity as a travel destination.

In annual terms, occupancy was up and all regions saw growth, with the strongest gains in Northern and Eastern Europe. Overall, hotels saw a 2.4% gain compared to the same period in 2012, according to STR Global data.

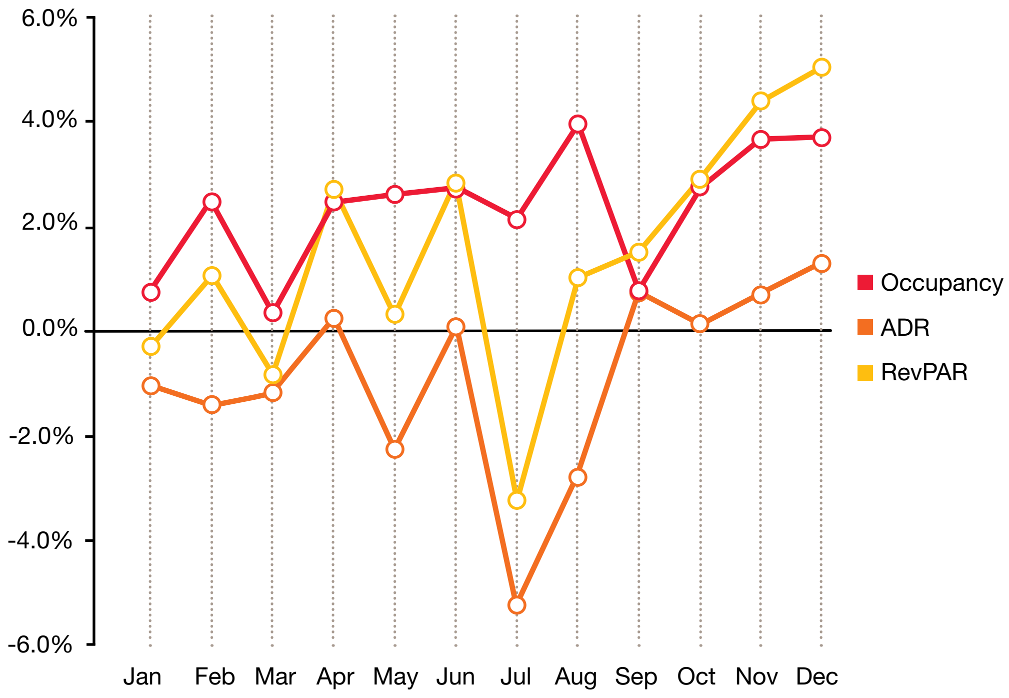
ADR was down and overall 1% lower than 2012. This is partly because of difficult comparisons with events in Summer 2012 such as the UEFA Euro 2012 in Poland and the London Olympics. Southern Europe saw the best gains.

RevPAR was up 1.4%, reflecting occupancy and rate trends with the best performing sub-region being Southern Europe.

City stars:

For the most part we were overly pessimistic in our 2013 forecasts and trading turned out stronger than we predicted. Many cities saw a volatile performance but fared better than their GDP forecasts or low confidence levels suggested at the time of our forecast. Indeed a year ago the EU was in the middle of a double-dip recession. Despite this many economies saw unexpected improvement as 2013 unfolded and Dublin enjoyed RevPAR growth of 11% in 2013; Zurich and Edinburgh saw around 8% RevPAR growth; Lisbon saw 6% and Frankfurt and Milan saw 5% apiece. Madrid, Geneva, Vienna and Paris underperformed compared to our expectations but all for different reasons.

Europe's ups and downs in 2013



Source: STR Global Jan 2014

Spotlight on prospects for 2014 and 2015

European cities rejuvenated by economic recovery. Growth across most cities as Dublin, London, Paris, Edinburgh and Berlin lead the charge in 2014

A growth story

The good news is that the improving economic and travel backdrop has fed into improvements in trading fundamentals in almost all the cities analysed. See RevPAR growth outlook chart. The pace of growth clearly varies from city to city.

None of our city forecasts shows double digit growth though and it's not been, nor is it likely to be, an easy ride. Many report a bit of a struggle in 2013 and it's often unclear how trends will crystallise in 2014, let alone 2015.

So, despite the challenges, which cities are best placed to take advantage of the improving economic backdrop?

Top RevPAR growth stories in 2014 are Dublin, followed by London and Paris, then Edinburgh, Berlin, Frankfurt, Vienna and Moscow.

In 2015 London tops the growth league, followed by Dublin, Lisbon, Prague, Moscow, Edinburgh, Zurich and Frankfurt.

We forecast growth in 17 of the 18 cities in one or both of the two years. The exception is Madrid, but encouragingly the rate of decline in the Spanish capital, hard hit by the impact of the financial crisis on domestic demand, is slowing.

In 2014 the most positive RevPAR growth stories are in Dublin and London. In Dublin, a lack of new supply and strong demand is expected to drives RevPAR up over each of the next two years by 5.2% and 3.8% respectively. In London, despite sizeable supply increases, strong demand should drive RevPAR growth of 3.8% and 5.2% in 2014 and 2015 – the flip side of Dublin.

Other cities with moderately strong growth expected over both years include Berlin, Edinburgh, Paris, Prague, Moscow, Frankfurt and Zurich; with more restrained growth expected for Vienna, Rome, Milan and Barcelona and lower paced growth expected in Amsterdam, Brussels and Geneva.

Timing-wise growth picks up in 2015 in London, Moscow, Zurich, Prague, Rome, Barcelona, Lisbon, Amsterdam and Brussels. In contrast, the pace slows in Dublin, Paris, Edinburgh, Berlin, Frankfurt, Vienna, Milan and Geneva.

What's driving growth?

It's a mix of ADR and occupancy, although in many cities ADR is the stronger metric. This is true in cities like London where despite a high supply pipeline, occupancy is already very high and the city is virtually full up mid-week.

Supply casts a shadow in some cities

High levels of new supply in some cities could drag down performance in off-peak times. Moscow, Amsterdam, London, Berlin, Edinburgh, Berlin, Zurich and Vienna have some significant pipelines, some above the long term average.

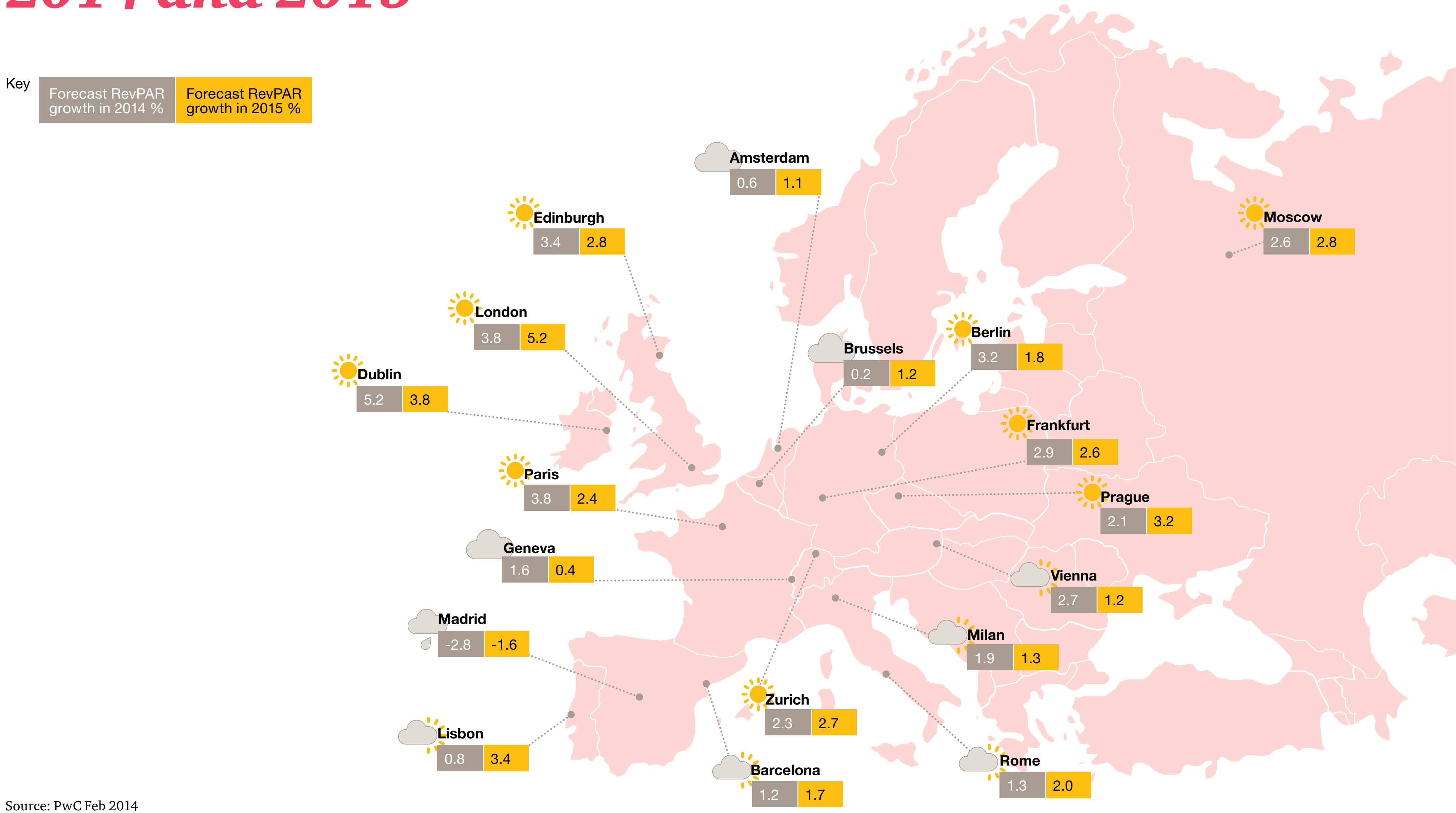
Growth in 2014 and 2015

RevPAR growth rates by year (local currency)

City	2014	2015
Dublin	5.2%	3.8%
London	3.8%	5.2%
Paris	3.8%	2.4%
Edinburgh	3.4%	2.8%
Berlin	3.2%	1.8%
Frankfurt	2.9%	2.6%
Vienna	2.7%	1.2%
Moscow	2.6%	2.8%
Zurich	2.3%	2.7%
Prague	2.1%	3.2%
Milan	1.9%	1.3%
Rome	1.3%	2.0%
Barcelona	1.2%	1.7%
Geneva	1.0%	0.4%
Lisbon	0.8%	3.4%
Amsterdam	0.6%	1.1%
Brussels	0.2%	1.2%
Madrid	-2.8%	-1.6%

Source: Econometric forecast PwC 2014
Benchmarking data: STR Global and Euromonitor

European cities RevPAR weather map 2014 and 2015



Source: PwC Feb 2014

Which cities are the most expensive, the fullest and will have the highest RevPAR ?

It's not just about growth rates and the absolute levels of trading are also a key piece of the jigsaw too. Each city has its own supply and demand characteristics and could be at a different stage on the hotel cycle. All these factors and more need to be taken into consideration in any comparisons.

The highest occupancies

In 2014, the highest occupancies are forecast to be up in the 80s in three cities, London, Paris and Edinburgh – with Dublin not far off.

In 2015 most cities see further growth and the league is topped, albeit by a whisker, by Edinburgh, with London runner up and Paris and Dublin following. However round up London's occupancy in 2015 and Edinburgh and London share the top spot.

See the rankings charts which illustrate the changing rankings since 2013. In the lower rankings there has been some jostling for position with upward movement for Frankfurt and Lisbon and downwards for Geneva, Moscow and Rome.

The highest ADRs (€)

In 2014 the most expensive city is Geneva, followed by Zurich and arguably the Swiss cities are in a league of their own, followed by London and Paris.

In 2015, most of the cities see further ADR growth. Geneva is an exception but the rankings remain the same.

While the ADR rankings show little change Dublin and Edinburgh have swopped positions at 13 and 14.

The highest RevPARs (€)

In 2014 the high ADR and occupancy rates translate into lofty RevPAR levels and Geneva, Zurich, London and Paris stay ahead of the others.

In 2015 there is more growth in yields including Zurich, London and Paris.

This translates into upward movement on the RevPAR ranking s for Frankfurt, Dublin and Prague. And downward for Barcelona, Brussels and Madrid.

Occupancy rankings

Edinburgh to overtake London and Paris in 2015
Some jostling for position further down the rankings

2013	2013 Rank	2014	2014 Rank	2015	2015 Rank
London (82.4%)	1	London (82.7%)	1	Edinburgh (83.0%)	1
Paris (81.2%)	2	Paris (81.7%)	2	London (82.9%)	2
Edinburgh (79.6%)	3	Edinburgh (81.5%)	3	Paris (82.0%)	3
Dublin (78.7%)	4	Dublin (79.0%)	4	Dublin (79.5%)	4
Amsterdam (75.4%)	5	Amsterdam (75.2%)	5	Amsterdam (75.5%)	5
Berlin (72.6%)	6	Berlin (72.8%)	6	Berlin (73.0%)	6
Zurich (72.3%)	7	Zurich (72.7%)	7	Zurich (73.0%)	7
Barcelona (71.7%)	8	Barcelona (71.9%)	8	Barcelona (72.1%)	8
Vienna (70.6%)	9	Vienna (71.2%)	9	Vienna (71.7%)	9
Prague (69.3%)	10	Prague (69.7%)	10	Prague (70.1%)	10
Moscow (67.5%)	11	Frankfurt (68.6%)	11	Frankfurt (69.2%)	11
Frankfurt (68.3%)	12	Moscow (68.6%)	12	Moscow (69.1%)	12
Rome (67.0%)	13	Rome (67.0%)	13	Lisbon (67.4%)	13
Brussels (66.8%)	14	Brussels (66.7%)	14	Brussels (67.3%)	14
Geneva (65.2%)	15	Geneva (66.1%)	15	Rome (67.2%)	15
Lisbon (65.0%)	16	Lisbon (65.7%)	16	Geneva (66.6%)	16
Milan (63.3%)	17	Milan (64.3%)	17	Milan (65.0%)	17
Madrid (61.4%)	18	Madrid (61.9%)	18	Madrid (62.6%)	18

Source: Econometric forecast PwC 2014 Benchmarking data: STR Global and Euromonitor

ADR (Euros) rankings

Geneva still at number one spot
Dublin and Edinburgh swop positions

2013	2013 Rank	2014	2014 Rank	2015	2015 Rank
Geneva (€232.1)	1	Geneva (€230.5)	1	Geneva (€227.6)	1
Zurich (€193.5)	2	Zurich (€196.4)	2	Zurich (€199.0)	2
London (€159.2)	3	London (€163.8)	3	London (€172.3)	3
Paris (€150.7)	4	Paris (€155.2)	4	Paris (€158.5)	4
Rome (€142.6)	5	Rome (€144.3)	5	Rome (€146.8)	5
Moscow (€139.9)	6	Moscow (€134.4)	6	Moscow (€133.7)	6
Milan (€127.7)	7	Milan (€128.1)	7	Milan (€128.5)	7
Frankfurt (€120.7)	8	Frankfurt (€123.9)	8	Frankfurt (€125.9)	8
Amsterdam (€119.3)	9	Amsterdam (€120.4)	9	Amsterdam (€121.2)	9
Barcelona (€116.9)	10	Barcelona (€118.2)	10	Barcelona (€119.7)	10
Brussels (€110.5)	11	Brussels (€111.3)	11	Brussels (€111.3)	11
Vienna (€94.5)	12	Vienna (€96.2)	12	Vienna (€96.7)	12
Edinburgh (€93.2)	13	Edinburgh (€93.7)	13	Dublin (€96.5)	13
Dublin (€89.3)	14	Dublin (€93.6)	14	Edinburgh (€94.8)	14
Berlin (€87.6)	15	Berlin (€90.2)	15	Berlin (€91.5)	15
Lisbon (€84.8)	16	Lisbon (€84.6)	16	Lisbon (€85.2)	16
Madrid (€82.4)	17	Madrid (€79.4)	17	Madrid (€77.2)	17
Prague (€70.5)	18	Prague (€69.7)	18	Prague (€70.5)	18

Source: Econometric forecast PwC 2014 Benchmarking data: STR Global and Euromonitor

Monetary values have been converted to euros from local currency units based on projections for future exchange rates derived from the International Monetary Fund's World Economic Outlook

RevPAR (Euros) rankings

Lofty RevPARs in Geneva, Zurich, London and Paris

2013	2013 Rank	2014	2014 Rank	2015	2015 Rank
Geneva (€151.3)	1	Geneva (€152.3)	1	Geneva (€151.5)	1
Zurich (€139.9)	2	Zurich (€142.7)	2	Zurich (€145.2)	2
London (€131.1)	3	London (€135.5)	3	London (€142.7)	3
Paris (€122.3)	4	Paris (€126.9)	4	Paris (€130.0)	4
Rome (€95.5)	5	Rome (€96.7)	5	Rome (€98.6)	5
Moscow (€94.5)	6	Moscow (€92.2)	6	Moscow (€92.4)	6
Amsterdam (€89.9)	7	Amsterdam (€90.5)	7	Amsterdam (€91.5)	7
Barcelona (€83.9)	8	Frankfurt (€84.9)	8	Frankfurt (€87.1)	8
Frankfurt (€82.5)	9	Barcelona (€84.9)	9	Barcelona (€86.3)	9
Milan (€80.8)	10	Milan (€82.4)	10	Milan (€83.5)	10
Edinburgh (€74.2)	11	Edinburgh (€76.4)	11	Edinburgh (€78.7)	11
Brussels (€73.9)	12	Brussels (€74.0)	12	Dublin (€76.8)	12
Dublin (€70.3)	13	Dublin (€73.9)	13	Brussels (€74.9)	13
Vienna (€66.7)	14	Vienna (€68.5)	14	Vienna (€69.3)	14
Berlin (€63.6)	15	Berlin (€65.6)	15	Berlin (€66.8)	15
Lisbon (€55.1)	16	Lisbon (€55.6)	16	Lisbon (€57.5)	16
Madrid (€50.6)	17	Madrid (€49.2)	17	Prague (€49.4)	17
Prague (€48.8)	18	Prague (€48.6)	18	Madrid (€48.4)	18

Source: Econometric forecast PwC 2014 Benchmarking data: STR Global and Euromonitor

Monetary values have been converted to euros from local currency units based on projections for future exchange rates derived from the International Monetary Fund's World Economic Outlook

Beyond the data: trends transforming hotel businesses

We are helping our clients to think about how structural changes (‘megatrends’) will affect their business models. We briefly describe the five megatrends below, followed by some potential implications for the hotels sector.

The global economic landscape is changing quickly, and hotels have to constantly adapt to these changes to remain successful in the market

Megatrends

Shifts in global economic power

- The realignment of the global economy from west to east.

Demographic and social change

- Ageing of the western world
- Social change
- Stagnation of median incomes across the developed world.

Technological breakthroughs

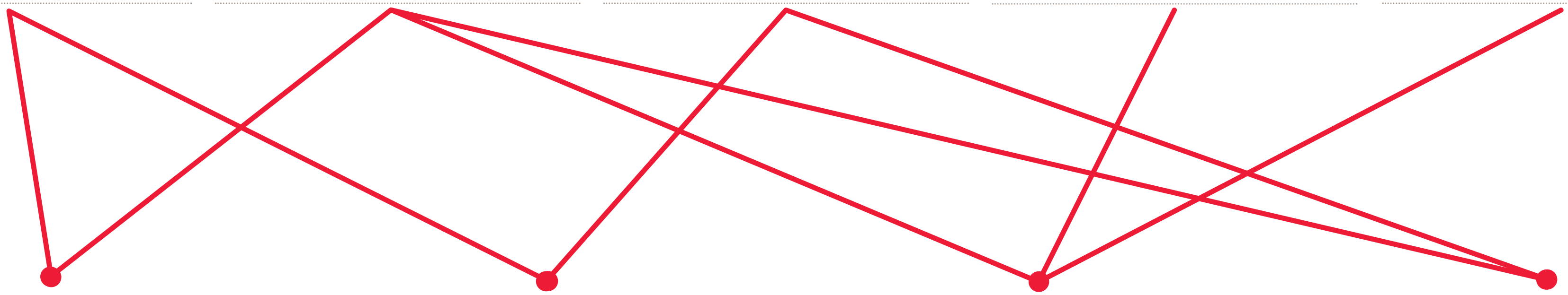
- Social media, mobile service, analytics and cloud services will drive technological change in organizations.

Accelerating urbanisation

- The current pace of urbanisation is unsustainable
- The glue that holds the city together is changing: from jobs to quality of life.

Sustainability, Climate change and scarce resources

- Current patterns of resource usage and emissions are unsustainable
- The consequences of mitigation or adaptation to climate change.



Implications for the hospitality industry

Customer

- The number of tourists from the emerging economies will increase, and hotels will increasingly need to cater to a multi-cultural clientele
- Hotels will need to customise their offering to attract the over-60 demographic as this groups rises in size and purchasing power.

Competition

- The budget segment will face increasing competition from smaller alternate providers
- Investment from emerging market firms will further increase competition in European markets
- Hotels will need to optimally balance bookings through their own website and through travel sites.

Business model

- Economic inequality will increase pressure on policy makers to raise minimum wages; hotels must find ways of mitigating the impact of rising wages without compromising on competitiveness and quality of service
- Meanwhile, standard business practices will need to adapt to the challenges of climate change by adopting more 'green' practices.

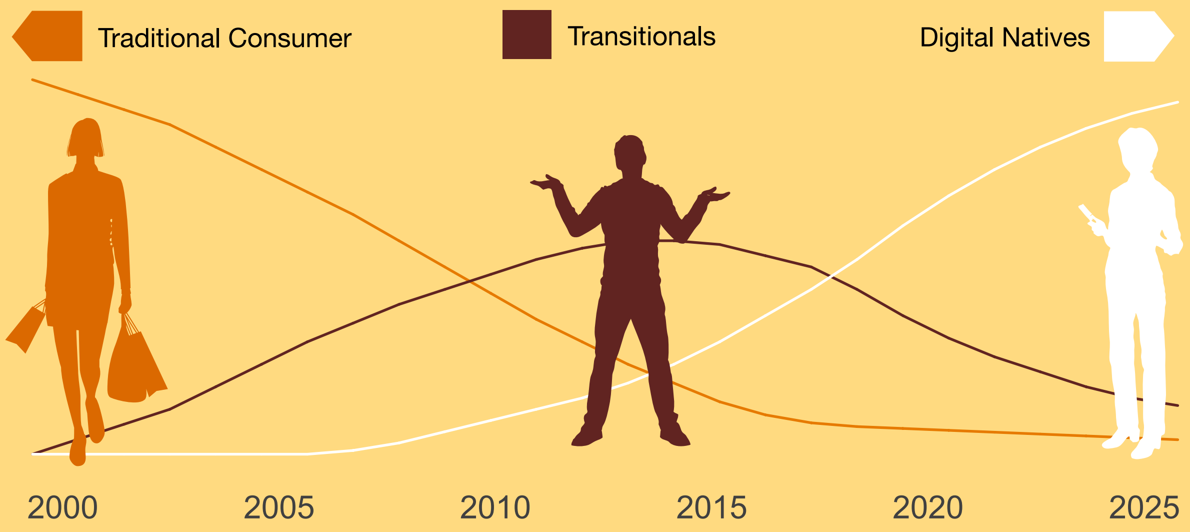
Technology

- The new generation of customers will judge based on feedback through social media, this will also mean that customers will be more willing and able to search for the best deal
- Fixed costs of marketing and customer communications are lower than ever before leading to the rise of micro-providers, e.g. Airbnb.

Megatrends: technological change – where is digital taking hotels?

Digital and mobile platforms are changing everything…

By 2017 a new breed of customer will dominate – we call them Digital Natives



[1] PwC Global Entertainment & Media Outlook: 2013-2017, www.pwc.co.uk/outlook

[2] IHG, The new kinship economy: from travel experiences to travel relationships

[3] www.tnooz.com/article/the-most-popular-mobile-travel-apps-so-far-in-2013/

In 2013, 1.1 billion international business and leisure travellers were recorded and changes in global demographics and rapid technological change mean these consumers have different expectations, greater freedom of choice and a high degree of familiarity with digital technology. By 2017, more than 3 billion people will have mobile internet access.[1] At the same time, mobile and tablet hotel bookings are already beginning to overtake 'traditional' web-based booking. The travel consumer is leading the way in driving technological change.

A new generation of customers

Travel consumers want mobility, flexibility and easy real-time access to information and to shop and pay safely and easily on the go. They expect seamless connectivity allowing them to access the content they want when they want it across all platforms, and also increasingly expecting seamless transitions between different platforms.

These new customers will judge based on feedback through social media.

An InterContinental Hotel Group (IHG) survey showed that 43% of adults would choose not to stay in a hotel that charged for the internet, with travellers from China placing the most importance on connectivity, with nearly 47% listing it as the most important thing to them when staying in a hotel for business.[2] After IHG offered free wi-fi for its loyalty programme members, Accor and others made this freely available to all customers. Connectivity has become an essential part of the hotel offering, on a par with electricity and water.

...creating lot of challenges for hotels – but also opportunities

While these trends present some opportunities for hotel companies, they also present a complex dilemma because as hotels try to differentiate themselves – from each other and from online intermediaries – the issue is how can they evaluate the optimal channel distribution mix as well as win and keep customers – and do it profitably?

It means conventional hotel business models are being challenged by the emergence of well-established as well as new online entrants mediating between hotelier and guest, and disrupting the traditional patterns of planning and reservations. These players are diluting hotels' brand visibility, threatening their margins, and weakening customer loyalty by eroding the direct relationship between the hotel operator and even its most regular loyal customers.

Mobile is playing its part here too. In the first quarter of 2013, the hotels.com iPhone and iPad app topped the most popular travel app in both the UK and US,[3] something that the brand has used to its advantage by encouraging repeated use through loyalty points. PhocusWright has estimated that online travel agencies made up about 64% of gross mobile hotel bookings in 2012, compared with 36% for hotels' own mobile sites.

What does this mean for hotels?

Source: PwC 2014

If free wi-fi is not a component of a broader digital strategy, then it may become part of the threat of commoditisation, a commoditisation in which the hotel becomes just 'a room and a router'.

Hotels are fighting backagainst commoditisation

Hoteliers' toolkit for fighting commoditisation should include:

- Developing a business strategy for the digital age (as opposed to a digital strategy)
- Recognising the rise of the 'Digital Native' segment
- Using social media effectively
- Using digital to take loyalty and personalisation further
- Understanding 'big data' by thinking small.

Issues facing hotels

The cost of doing business, regulations and taxes, competitive accommodation products, keeping customers – all these and more concern the sector

Cost of doing business is set to increase

Although economic prospects are improving and inflation rates are relatively subdued across the Eurozone, hotels will have to be watchful of changes in the cost of doing business. Hotels increasingly have to pay to secure bookings from intermediaries like comparison websites, loyalty programmes used by larger hotels must be funded, and after years of pay freezes or restraint – employees are pushing for higher salaries. In some countries like the UK politician's are considering significant increases in the minimum wage.

On the other hand fixed costs of marketing and customer communications are lower than ever before, leading to the rise of micro-providers, e.g. Airbnb. Technological innovations, such as automated check in and check out may be as much about trying to reduce labour costs as about meeting customer preferences, but are likely to become more common.

“Big international hotel chains will have to step up their efforts to keep and win customers with a highly personalised guest experience approach, rather than the standardisation-mode which has gotten them to where they are now. The smaller hotel companies are showing the way!”

Jan Hein Simons (Demand Hospitality B.V.)

More regulation and taxes

In illustration of this we see hotels, victims of their own success, being viewed as an easy target for raising tax revenues by hard pressed local governments. There are new city taxes in Milan (2013) and Berlin is introducing a tax on private overnight stays this year. Oversupply fears have ushered in stricter planning policies in Amsterdam.

Is it goodbye hotel rooms?

Structural shifts in travel habits mean many people are using alternatives to hotels through companies like Airbnb and sites like FlipKey, Homeaway, Rentalo etc. However we have seen some governments move against this trend. In France there are plans to clamp down on holiday rentals which could push some travellers back into hotels. Hardly goodbye hotel rooms but the competition is hotting-up.

More branding but a more personal touch needed

Branding is likely to continue as the large chains seek to gain market share and offer consumers a range of products. While not everyone thinks it’s a good thing – see the quote opposite as Jan Simons calls for a more personal and less standardised approach to guests – brands with over 2,000 rooms in the active pipeline in Europe include Hilton’s Garden Inn, Hampton Inn, Hilton and Doubletree brands; Carlson’s Park Inn and Radisson Blu; Accor’s Ibis; Whitbread’s Premier Inn; Motel One; IHG’s Holiday Inn Express and Holiday Inn brands; Kempinski; Marriott and Travelodge.

More investment opportunities

Improved trading fundamentals in 2014 are expected to stoke investor interest in the sector. While the UK and France accounted for more than half of 2013’s deals, Germany, Spain and Ireland are forecast to be investment hot spots this year.

While debt financing is becoming easier, it’s often only for acquisitions and refinancing rather than new development.

In the UK property experts believe there will be increased interest for alternative assets like hotels in the second half of 2014 as more compression is seen on mainstream property yields as the year progresses. And PwC/Urban Land Institute’s Emerging Trends in Real Estate in Europe found that out of 19 alternative investment classes, hotels ranked twelfth.

Economic, travel and supply outlook

Economic outlook: the success of the hotel sector depends on the growth patterns across Europe

Eurozone

Most of the hotel markets we are analysing are based in the Eurozone. Growth prospects in the Eurozone have until recently been characterised by a strong North and weak Southern periphery. Things are beginning to change and we are now projecting that growth in Portugal will outperform France, and growth in Ireland will outperform Germany. Even Greece is expected to be one of the best performing economies in 2015 with growth of 1.8%.

The economic situation is looking more optimistic as countries start to exit bailout programmes (The Irish government recently returned to the debt markets) and can ease back the pace of austerity. Falling wages and prices in the periphery have improved competitiveness against countries within the eurozone which should help trade support growth. This is evidenced by Greece which is headed for its first ever current account surplus since joining the Eurozone.

Despite the uneven growth pattern across the Eurozone, the overall outlook for 2014 is much better than last year. In our main scenario – where we assume structural reforms continue unabated – we project Eurozone GDP will expand by 0.8% in 2014 compared to a decline of 0.5% in 2013. We expect growth to accelerate further in 2015, reaching 1.2%.

Non euro countries

We also look at several non-euro economies, including Russia, the UK and Switzerland. We have a slightly more positive view of these countries. GDP growth in 2014 in the UK is expected to come in at 2.5% and in 2015, at 2.4%, stronger than any other large Western European economy.

Russian GDP is expected to grow by 2.1% in 2014 and 3.5% in 2015. Russia's high dependence on oil and gas exports makes it vulnerable to fluctuations in prices.

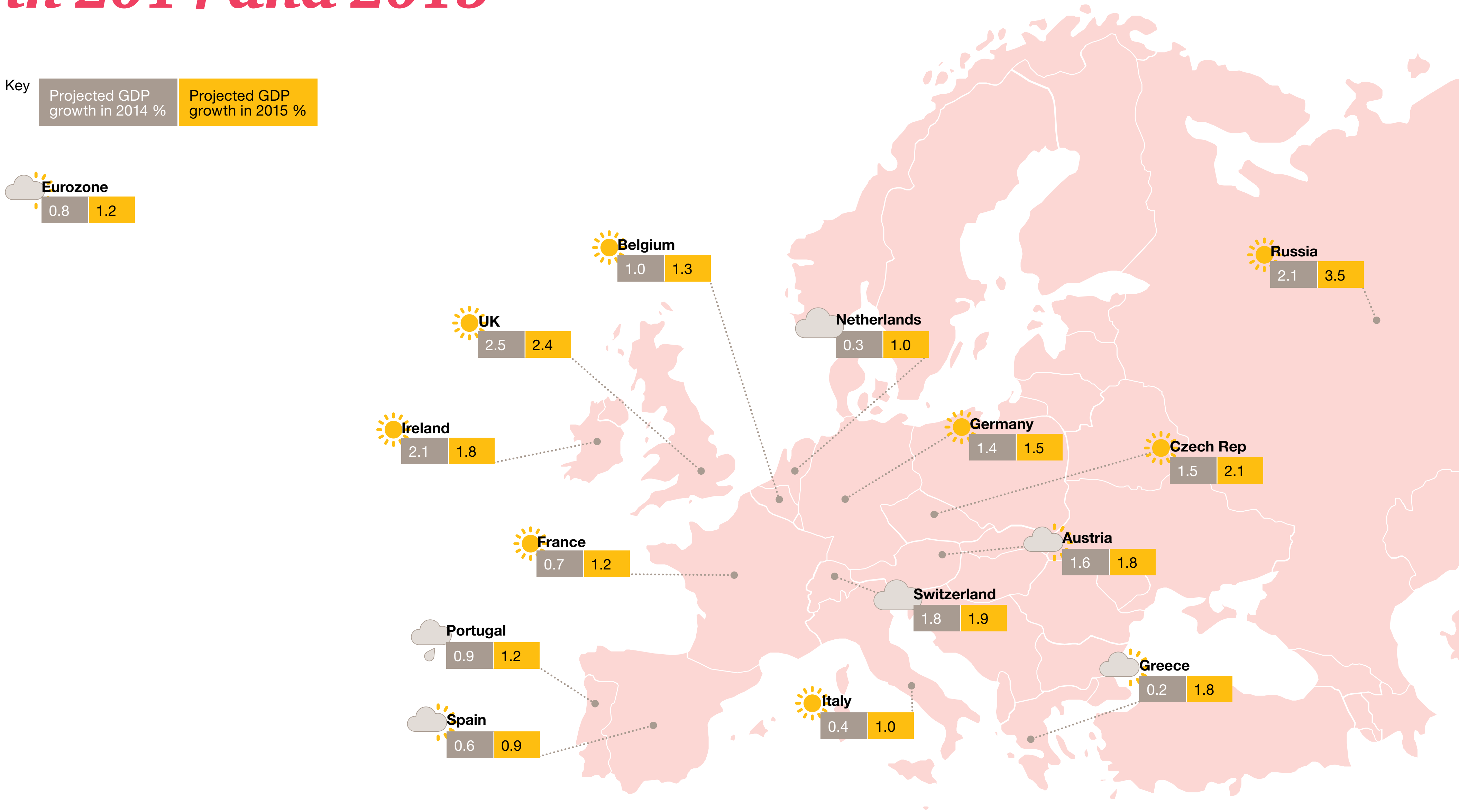
Switzerland is expected to see GDP expand by 1.8% in 2014 and 1.9% in 2015.

Other key markets

Many visitors to Europe come from the United States and continued strong economic performance there should support the sector. We project 3.0% growth in the United States in both 2014 and 2015.

For example, key emerging markets continue to deliver strong growth figures which should also support demand in European hotels. We expect a modest slowdown in China from 7.7% growth in 2013 to 7.5% in 2014.

European economic weather map in 2014 and 2015



Source: PwC forecasts (Feb 2014)

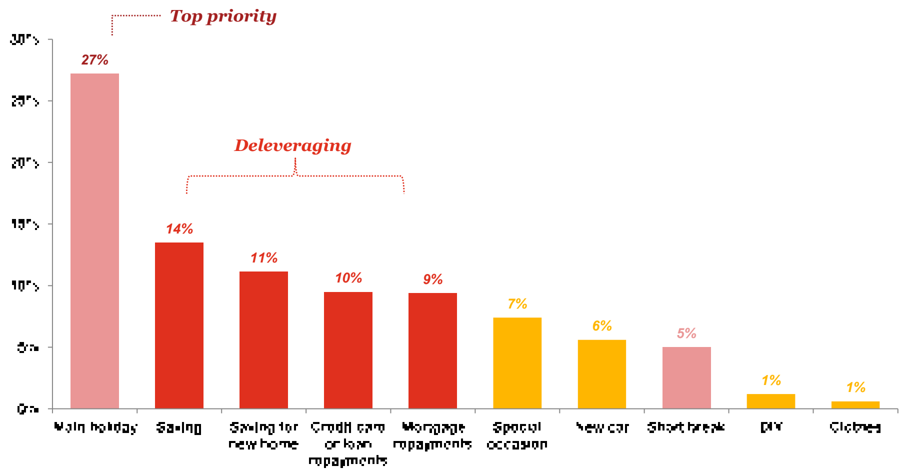
Brighter travel prospects for 2014

Stronger corporate and leisure travel outlook

- Europe remains the world's largest tourism region and in 2013 international tourist arrivals globally grew by 5% to reach a record 1,087 million. Europe benefited the most from this growth, receiving 29 million more arrivals than in 2012, a 5% gain. Central and Eastern Europe (+7%) and Southern and Mediterranean Europe (+6%) performed particularly well and Spain welcomed a record 60.6m international tourists last year, 5.6% more than in 2012. Russia and China were Europe's largest source markets in 2013.
- PwC consumer research into the 2014 travel intentions of 10,000 Small Luxury Hotel Club Members shows most expect to be at least as well off as they were in 2013 and 44% expected to be better off in 2014. The proportion expecting to be worse off has steadily improved from 18% in 2012 to 11% in 2014.
- Research confirms that while essentials and deleveraging are clearly of major concern, the main holiday remains an important spending priority. But consumers still remain cautious and their disposable incomes remain squeezed. Business travel intentions reveal that around 26% of those surveyed expect to travel more in 2014 (about the same proportion as in 2013) and fewer expect to travel less this year.
- The improving economic back drop buoyed by a calmer Eurozone will clearly help boost consumer sentiment and drive intra-European travel although slower growth in some Emerging Markets could impact inbound tourism to Europe. PhoCusWright suggests millions of travellers are returning back to the traveller pool in 2014. ('Green Shoots' Leisure Management Issue 1 2014).
- Business travel is expected to be a major travel driver in Germany, UK and France. Instability in North Africa could drive more tourism to southern European destinations.
- UNWTO anticipate Europe will see between 3% and 4% volume growth in 2014 – encouraging, but some way off 2011's 7.5% growth.

A main holiday remains a top spending priority

Deleveraging is also high on the agenda but short breaks much less so



Source: PwC and Small Luxury Hotels consumer research 2012

Room for new supply and brands – no Europe-wide room boom yet

But overheating in some local markets

Over 61,000 new rooms under construction

The European hotel development pipeline at end December 2013 comprised 864 hotels totalling 142,953 rooms, according to the monthly Global Construction Pipeline Report by STR Global. These figures were up on November's pipeline of 813 hotels and 136,032 rooms.

What's actually being built? There are over 61,000 rooms estimated under construction in Europe according to STR Global. The supply pipeline (including hotels in the planning stage) is forecast to increase by 3% over the next three years – although this can be expected to increase as the economic backdrop improves and developers and investors see new opportunities.

Issues in some markets

With demand currently outstripping supply in Europe, these levels are not considered an issue, although at a local market level this could be a different story. Generally, Russia, UK, Turkey and Germany have sizeable pipelines and account for around 60% of the 61,000 rooms.

Some of the largest increases as a proportion of existing supply can be seen in Moscow, Istanbul, London, Amsterdam, Berlin, Edinburgh, Zurich, Frankfurt and Vienna. Currently Dublin has no new rooms in the pipeline.

Upscale leads the charge

Upscale segments comprise over half of the total under construction with midscale rooms accounting for around a quarter and economy and luxury, around 13% and 8% respectively. A further 5, 500 rooms are also under construction but so far have no affiliation, according to STR Global.

Room for more new brands

The hotel sector is fragmented across Europe, about 40-60% of Europe's hotels are currently estimated branded – more in the cities – and more chain affiliated brands open each year, putting pressure on smaller independent operators.

Chain brands with over 2,000 rooms in the active pipeline include Hilton's Garden Inn, Hampton Inn, Hilton and Doubletree; Carlson's Park Inn and Radisson Blu; Accor's Ibis; Whitbread Premier Inn; Motel One; IHG's Holiday Inn Express and Holiday Inn brands; Kempinski; Marriott and Travelodge.

More branding is likely in Europe as second and third generation hotel owners plan to sell

As competition increases and trading improves more owners are likely to look to sell-up and more buyers are likely to be eager to acquire.

Supply shake-up

While supply may not be an issue in some cities there has been a lot of change including ownership, re-branding, and the introduction of new products which has shaken up some markets.


OLA

From Amsterdam to Zurich: Which cities are best placed to grow?

Amsterdam

After 2013's success, 2014 will see new hotel supply levels impact occupancy, although ADR nudges up a little to just over €120. In 2015 the expectation is for a modest RevPAR gain.

Role

Amsterdam is the financial and cultural capital of the Netherlands, home to many large Dutch institutions as well as seven of the world's top 500 companies. The Amsterdam Stock Exchange, the oldest stock exchange in the world, is located in the city centre. Amsterdam's conference centre and main attractions, including its historic canals and museums, draw more than five million international visitors annually.

Robust 2013 trading

In 2013 several one-off events contributed to the large number of tourists and business trips to Greater Amsterdam. These included the reopening of Amsterdam's most important museum, the Rijksmuseum and The Coronation of Prince Willem Alexander. There were also three major conferences, which boosted the business travel market.

Latest Supply trends

Many new hotels opened in 2013 or are under construction and opening in 2014, such as the 5 star Hotel Waldorf Astoria, and a number of 3 star and 4 star hotels.

Amsterdam has one of the highest supply pipelines and to prevent oversupply in the local hotel market, the Municipality of Amsterdam has introduced stricter planning requirements for new hotels within the city-centre. Previously approved developments cannot be stopped, so the policy will only start to have the desired effect from 2015/2016.

Opportunities

Despite few large events and only one major conference scheduled, it is hoped that 2013's success will help spur on 2014 and 2015, especially building on the growing achievements and investment of the City's marketing department – Marketing Amsterdam.

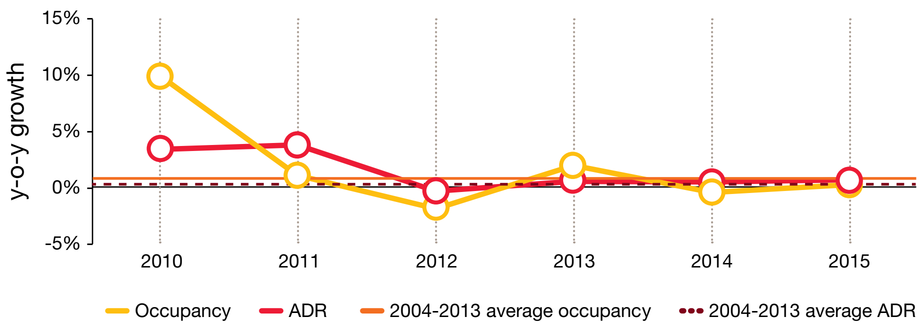
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	72.7%	132.2	96.2
2009	66.5%	112.0	74.5
2010	73.1%	115.9	84.8
2011	74.0%	120.4	89.1
2012	73.9%	118.4	87.4
2013	75.4%	119.3	89.9
2014 F	**75.2%**	**120.4**	**90.5**
2015 F	**75.5%**	**121.2**	**91.5**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-8.5%	-15.3%	-22.5%
2010	9.9%	3.5%	13.8%
2011	1.3%	3.9%	5.2%
2012	-0.2%	-1.7%	-1.9%
2013	2.0%	0.8%	2.9%
2014 F	**-0.3%**	**0.9%**	**0.6%**
2015 F	**0.4%**	**0.7%**	**1.1%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

In 2013, the Dutch economy continued in a state of protracted recession. GDP contracted by 1.1% in 2013, whilst unemployment reached 7.0% in Q3 2013. The expectation is that the economy will grow slightly, at 0.3% in 2014 and 1.0% in 2015, as the rest of the Eurozone recovers from the recession.

Barcelona

Buoyed by international tourism volumes, we expect 2014 will see continued growth albeit at a slower pace than in 2013. We forecast ADR growth of 1.3% and RevPAR growth of 1.7% in 2015.

Role

Barcelona is the second largest city of Spain, with a population of about 1.6 million. The city is known for its international appeal and stands out today as one of the world's leading tourism centres. Its warm climate and modern architecture attract the largest number of tourists in Spain, 7.4 million tourists in 2012, of which 78% were international.

2013 trading

In 2013 occupancy rates saw a very slight increase from 71.3% in 2012 to 71.7% . In addition, ADR increased 3%, pushing up RevPAR by 3.6%, according to data from STR Global. Despite the economic crisis, Barcelona's hotels were buoyed by healthy international tourism volumes and by the fact that the city has held some important events such as the Swimming World Championship and the Mobile World Congress, which helped to boost hotel occupancy.

Latest supply trends

The city provides a suitable location for the launch of niche hotel brands. Over 400 rooms opened recently including IHG's new 'Indigo Barcelona-Plaza Catalunya' and two new 'Mercure' by Accor. In addition, Catalonia Hotels has opened its new chain 'Vueling' by HC. In contrast some chains have reduced supply e.g.Grupo Husa which abandoned its luxury hotel in Barcelona, the Hotel Rey Juan Carlos I. An African hotel chain Mangalis, expects to open two new hotels in the city, one in 2014 next to the airport and another in 2016 in the city centre.

Opportunities

Barcelona will continue to benefit from its role as a leading tourism destination. A new project of note includes one of the most spectacular buildings in the city, the Agbar Tower, which will host a new hotel and a convention centre and will attract meetings and events.

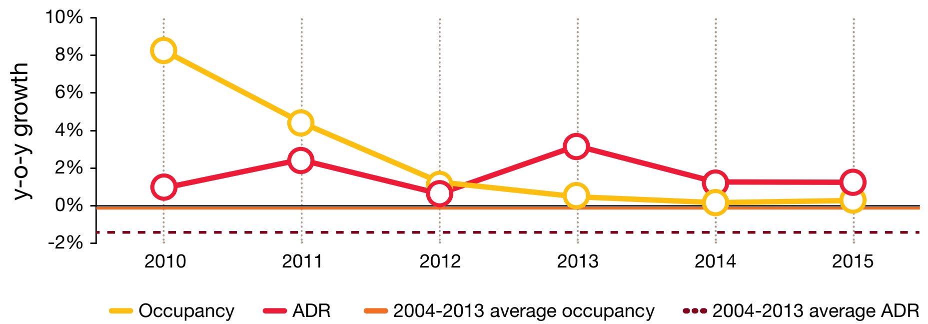
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	67.2%	130.7	87.9
2009	62.4%	109.2	68.2
2010	67.6%	110.3	74.6
2011	70.5%	112.6	79.4
2012	71.3%	113.5	81
2013	71.7%	116.9	83.9
2014 F	**71.9%**	**118.2**	**84.9**
2015 F	**72.1%**	**119.7**	**86.3**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-7.1%	-16.4%	-22.4%
2010	8.2%	1.0%	9.3%
2011	4.3%	2.1%	6.5%
2012	1.2%	0.8%	2.0%
2013	0.6%	3.0%	3.6%
2014 F	**0.2%**	**1.1%**	**1.2%**
2015 F	**0.4%**	**1.3%**	**1.7%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

The Spanish economy continued to deteriorate in 2013. GDP is expected to contract by 1.3% and unemployment continues to grow, reaching 26% in February 2014 with only Greece at comparable levels. The last few quarters of growth data suggest that Spain may be turning the corner and our forecasts for 2014 are that the economy will grow by 0.6% and in 2015 by 0.9%, though high government borrowing costs and fiscal tightening will continue to hold back growth.

Berlin

We expect a robust 2014, with a 2.9% ADR gain driving 3.2% RevPAR growth. In 2015, despite a new city tax on private overnight stays, we predict further ADR growth to €91.50.

Role

Berlin is the capital and political centre of Germany; tourism is an important sector and the city attracts a mix of business and leisure travellers (approx. 57% domestic). Politics and government drives much of the business travel. Demand from foreign travellers has increased strongly in recent years.

2013 trading

Berlin RevPAR remained stable at approximately €64 in 2013 after reaching by far its highest level of the 21st century in 2012. Demand in Berlin is still growing as the increasing tourism volumes demonstrate. A new city tax on private overnight stays was launched in 2014; which could negatively impact room rates in future. In general the solid German economy has supported Berlin's stable hotel performance.

Latest supply trends

Berlin is often the first step for international brands to launch in the German market. Overall, more than 4,000 rooms are planned and under construction. The owners of the Estrel Hotel, Germany's largest hotel, focused on conferences and events, are planning to increase their hotel capacity. This project and the new public congress centre City Cube will provide modern and extensive facilities for the MICE segment.

Opportunities

Investors, especially from abroad, show ongoing interest in acquiring hotels in Germany and especially in Berlin. Recent hotel targets in Berlin have been widely spread, ranging from core to opportunistic purchases.

The opening of the long awaited Brandenberg international airport is still delayed and not expected to open before 2015. Once open the airport will support the growth of international tourist numbers.

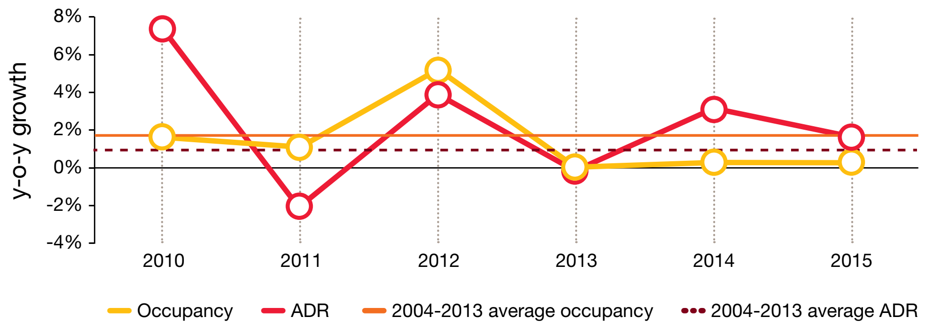
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	68.8%	86.7	59.7
2009	67.4%	80.6	54.3
2010	68.5%	86.3	59.1
2011	69.1%	84.6	58.5
2012	72.5%	87.7	63.6
2013	72.6%	87.6	63.6
2014 F	**72.8%**	**90.2**	**65.6**
2015 F	**73.0%**	**91.5**	**66.8**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-2.1%	-7.0%	-9.0%
2010	1.6%	7.0%	8.8%
2011	1.0%	-1.9%	-1.0%
2012	4.8%	3.7%	8.7%
2013	0.2%	-0.1%	0.0%
2014 F	**0.3%**	**2.9%**	**3.2%**
2015 F	**0.2%**	**1.5%**	**1.8%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Berlin's economy is dominated by the service sector, with around 80% of all companies doing business in services. The German economy grew by 0.4% in 2013, and is expected to grow by 1.4% in 2014 and 1.5% in 2015. Unemployment was 5.3% in Q3 2013, amongst the lowest of the Eurozone's large economies. Moreover Germany is currently running a major current account surplus and is close to a fiscal balance, an enviable position relative to other Eurozone members.

Brussels

After 2.1% RevPAR growth in 2013, we expect only slight growth in 2014. Luxembourg takes over the EU presidency in 2015 and this should have a positive impact with RevPAR growth of 1.2% to almost €75.

Role

Brussels is the Belgian capital and home to many international associations and EU institutions. The City is ranked second place worldwide and first place in Europe in a league of top meeting cities according to the Union of International Associations (2012). The City saw approximately 5.7 million hotel nights with 57% business vs 43% leisure according to the Brussels Institute for Statistics and Analysis (2012). While no new EU institutions are expected, the existing ones are growing.

2013 trading

Occupancy has been relatively stable at around 67% between 2010 and 2013. RevPAR saw an increase of 2.1% in 2013 driven by a 2% ADR increase to €110.50, while occupancy remained stable.

Latest supply trends

Currently there are around 200 hotels with almost 20,000 rooms in the City, and around 600 rooms under construction. New hotels include the 4 star Hotel Mercure Brussels, with 201 rooms which opened in January 2014; Motel One – 490 rooms expected Spring 2014; the 5 star Hotel Tangla Brussels, 181 rooms and also expected in 2014. The Hotel Astoria – 140 rooms is under construction and expected to open in 2015.There is a trend to downgrading 5 star hotels to 4 star hotels to make them more attractive for business congresses.

Opportunities

The city aims to double the number of overnight visitors from 5 million in 2010 to 10 million in 2020 by building on its role as a top conference centre and by further increasing international city tourism breaks.

Federal and European Parliament elections this year will mean fewer conferences and events are organised in the City. In 2015 Luxembourg will take over the EU presidency which is expected to have a positive impact on visitor numbers to Brussels and business travel.

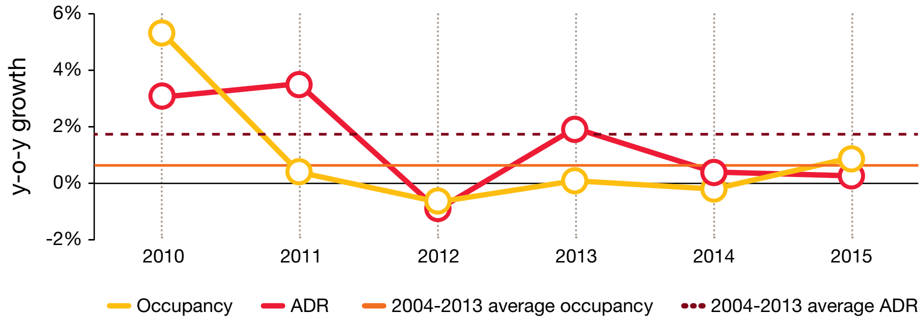
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	69.3%	112.7	78.1
2009	63.5%	102.3	64.9
2010	66.9%	105.6	70.7
2011	67.2%	109.4	73.5
2012	66.8%	108.4	72.4
2013	66.8%	110.5	73.9
2014 F	**66.7%**	**111.0**	**74.0**
2015 F	**67.3%**	**111.3**	**74.9**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-8.4%	-9.2%	-16.8%
2010	5.5%	3.2%	8.8%
2011	0.4%	3.6%	4.0%
2012	-0.6%	-0.9%	-1.5%
2013	0.1%	2.0%	2.1%
2014 F	**-0.2%**	**0.4%**	**0.2%**
2015 F	**0.9%**	**0.3%**	**1.2%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

The Belgian economy stabilised in 2013, with GDP growing marginally at 0.1% in 2013, though weak confidence, weak external demand and fiscal consolidation at home continued to act as a drag on growth. Growth is expected to pick up to around 1% in 2014 and 1.3% in 2015.

Dublin

With no new supply growth and strong demand we forecast 5.2% RevPAR growth in 2014, driven by ADR increases. In 2015 further rate growth pushes RevPAR up by 3.8% to €76.8.

Role

Dublin is the capital and economic centre of Ireland. The city is globally recognised as a leading location for a range of internationally traded financial services, pharma and ICT companies. In addition Dublin is home to a host of strategically important European headquarters of born-on-the-internet companies, such as Google, Facebook, LinkedIn, ebay and Twitter. Dublin is the most popular tourist region in the country, attracting close to 4m overseas tourists in 2013.

2013 trading

In 2013 occupancy saw a 5.5% increase, ADR increased 5.4% and RevPAR by 11.2%. Dublin hotels were boosted by a number of major events including the EU Presidency, major sporting events, The Gathering and continued improvement in the corporate market.

Latest supply trends

There has been an increase in hotel transactions over the last couple of years, with international investors buying some of the large, prominent hotel properties in the city. In fact, it is expected that Dublin will rank number one out of 28 European cities for real estate investment in 2014. 2013 saw the first new hotel (The Marker) open for a number of years. Planning permission is been sought for several hotel extensions and redevelopments, however there are no new hotels due to come on stream in 2014.

Opportunities

The Grow Dublin Taskforce was established in 2013,with the key aim to bring about extensive growth in tourism in Dublin City and air and ferry services are to expand in 2014.

The National Asset Management Agency (NAMA) control over 30 hotels in the Dublin area. They intend to bring 'several prime Dublin hotels' to the market in early 2014 to capitalise on significant international interest.

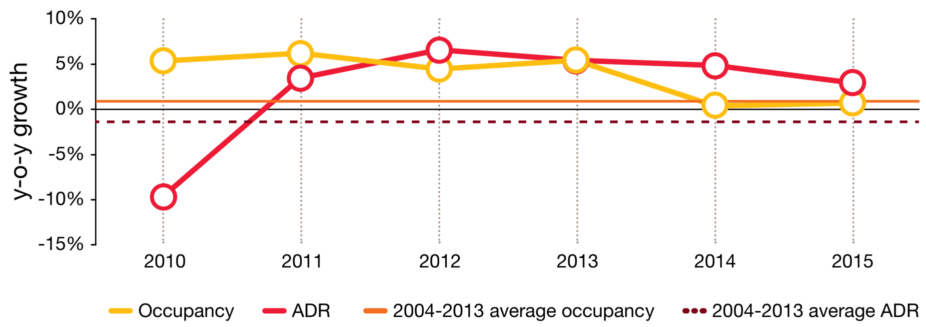
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	66.6%	104.7	69.7
2009	63.7%	85	54.1
2010	67.2%	76.9	51.7
2011	71.4%	79.6	56.8
2012	74.5%	84.8	63.2
2013	78.7%	89.3	70.3
2014 F	**79.0%**	**93.6**	**73.9**
2015 F	**79.5%**	**96.5**	**76.8**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-4.3%	-18.8%	-22.3%
2010	5.5%	-9.5%	-4.6%
2011	6.3%	3.5%	9.9%
2012	4.4%	6.5%	11.2%
2013	5.5%	5.4%	11.2%
2014 F	**0.4%**	**4.8%**	**5.2%**
2015 F	**0.7%**	**3.1%**	**3.8%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Economic activity is picking up following the post-crisis adjustment and Ireland has recently emerged from its bail-out mechanism and returned to the government debt markets. The economy grew at 0.1% in 2013. Unemployment has declined since 2011, but remains high at 12.8% in Q3 2013. The Irish GDP is expected to grow at 2.1% in 2014 and 1.8% in 2015, which should be sufficient to continue to bring unemployment levels down.

"We saw good growth in Dublin in 2013, with strong momentum in the last quarter. I expect RevPARs will continue to increase in 2014, perhaps more modestly, driven by the continued underlying correction in the market, good corporate activity and returning confidence in leisure markets."

Sean McKeon
CFO, Dalata Hotel Group

"It has been another very strong year for us, with high single digit growth. The EU presidency was a big help in the first few months of the year and The Gathering had a positive impact, particularly from the US market. 2014 has started well – booking pace is strong, momentum is good and economic activity is improving. These factors, coupled with no new supply coming on stream should help RevPAR growth, driven primarily by an increase in room rates."

Cormac Ó Tighearnaigh
CFO, Jurys Inn

Edinburgh

We expect another two good years – not as strong as 2013 – but high occupancies and rates look like staying put in 2014 and 2015. We forecast the highest occupancy rate of the 18 cities surveyed in 2015, touching 83%.

Role

Edinburgh is the UK's second largest financial centre outside London, a major financial and historical centre of Europe, home to a number of large global financial institutions and a variety of cultural attractions. The city draws over two and a half million visitors a year and boasts a diverse range of features from Dynamic Earth and Edinburgh Castle to the Camera Obscura and 12 annual festivals.

Whilst the political future remains uncertain, the impending Independence referendum continues to raise the worldwide profile of Edinburgh and Scotland as a whole.

2013 trading

Edinburgh's hotels have typically been resilient., with growth in occupancy, ADR and RevPAR of 3.1%,4.4% and 7.7% respectively. Performance peaks in the summer months, the height of Edinburgh's festival and tourism season. Edinburgh Airport saw unprecedented passenger numbers during 2013 of 9.8 million (2012: 9.2 million).

Latest supply trends

Investors, developers and operators remain keen to invest. The Soco development is home to a 259 room Accor Ibis hotel and another 161 room Ibis hotel is now under construction on the city outskirts. Tune Hotels launched its Scottish presence this year with its 179 room hotel and has further planning permission for a new 200-250 room hotel. The Caltongate city centre regeneration project is due for completion in late 2015. It includes a five-star hotel, a 128 room Premier Inn and a 130 room Hub by Premier Inn. Another Hub is due to be opened by 2015. De Vere has also secured a site for a 120 room Urban Village Resort hotel. These proposed developments will see at least a 10% rise in available rooms in the city.

Opportunities

Lonely Planet lists Scotland as one of the top three countries in the world to visit during 2014. Edinburgh's hotels are likely to benefit from 2014 events such as the Commonwealth Games in Glasgow, the Ryder Cup at Gleneagles; and a staged repeat of 2009's Homecoming campaign throughout the year.

The expansion of Edinburgh Airport and the launch of further long and short haul routes are also likely to positively impact hotels this year. Tourism is likely to be boosted by expansion of the Edinburgh International Conference Centre (EICC) and redevelopment of the St James' retail quarter.

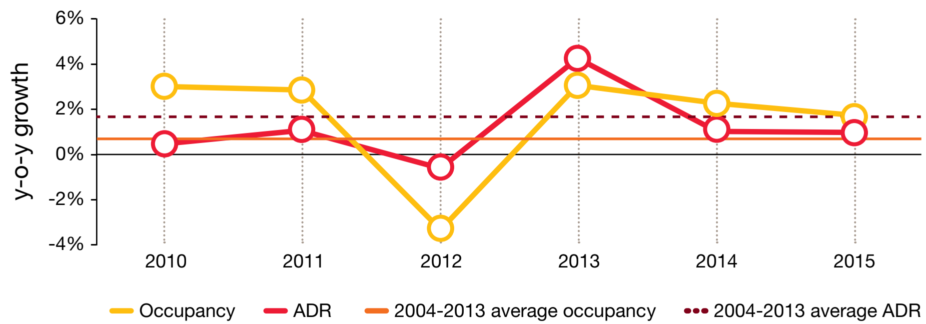
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (GBP)	RevPAR (GBP)
2008	74.5%	80.1	59.7
2009	75.3%	76	57.3
2010	77.7%	76.4	59.3
2011	80.0%	77.2	61.7
2012	77.2%	76.8	59.3
2013	79.6%	80.2	63.8
2014 F	**81.5%**	**81**	**66.1**
2015 F	**83.0%**	**81.9**	**67.9**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	1.1%	-5.1%	-4.0%
2010	3.1%	0.5%	3.6%
2011	2.9%	1.1%	4.0%
2012	-3.4%	-0.6%	-4.0%
2013	3.1%	4.4%	7.7%
2014 F	**2.4%**	**1.0%**	**3.4%**
2015 F	**1.8%**	**1.0%**	**2.8%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Consistently one of the most prosperous parts of the UK, the economy is largely based around the services sector, with tourism and financial services particularly important. 2013 was a very good year that saw the economy bouncing back in the UK, and the effects of the Olympics being reversed. 2014 is expected to be another good year in the UK, with GDP expected to grow at 2.5% and by 2.4% in 2015. Scotland's economy has outperformed other parts of the UK; unemployment in the Sep-Nov 2013 period was 6.4% compared to 7.2% in the rest of the UK. Added uncertainty over our projections stem from the independence referendum scheduled for September 2014.

Frankfurt

Frankfurt's hotel market has performed strongly with the highest occupancy in more than 10 years in 2013. We forecast almost 3% RevPAR growth in 2014 and a further 2.6% in 2015.

Role

Frankfurt is Germany's financial centre and an important hub for the service industry. The city is also an important traffic hub and generates demand for room nights from international – especial Asian – travellers, who visit Frankfurt for short breaks, sightseeing and shopping trips. The business segment, including the trade fair segment, represents the most important demand generating sector for the hotel industry in Frankfurt.

2013 trading

In 2013 occupancy rose to 68.3%, the highest occupancy level for more than 10 years. It also saw 2013 saw ADR growth of 3.3% following an increase of 3.2% in 2012. The resulting RevPAR growth of 5% was enabled by the healthy German economy. Frankfurt also recorded a strong trade fair year e.g. the biennial international Motor Show was held in autumn 2013.

Latest supply trends

The Frankfurt hotel market has over 500 new rooms under construction and another 500 rooms in planning across various segments. For example, a 400 room Motel One recently opened at the fairground and the opening of the 150-rooms Sofitel is planned for late 2014. New developments focus on central locations in the city.

Opportunities

There are opportunities for hotel acquisition in the five-star segment; however, a considerable price is likely to be expected for such products. The latest hotel transactions data showed, that mid-scale and budget hotels are also of interest to investors; e.g. two hotels in the Fattal portfolio (Holiday Inns) are located in Frankfurt.

A new congress centre, the Kap Europa will open in May 2014. It is located next to the fairground and with a capacity for up to 1,000 participants will further boost conference and congress facilities in Frankfurt.

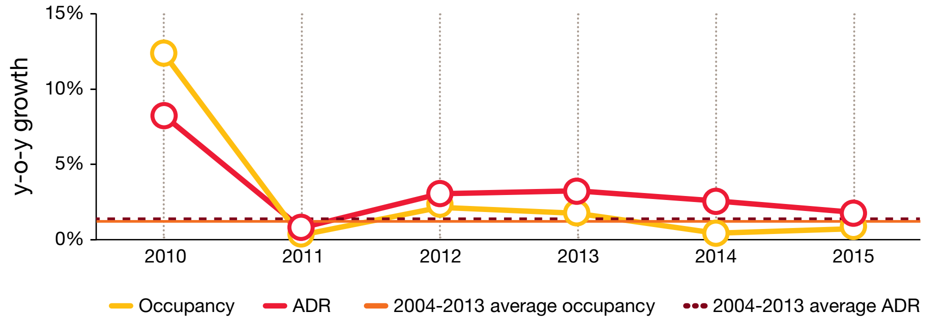
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	60.8%	110.8	67.4
2009	58.2%	103.9	60.5
2010	65.5%	112.5	73.6
2011	65.7%	113.3	74.5
2012	67.2%	116.9	78.6
2013	68.3%	120.7	82.5
2014 F	**68.6%**	**123.9**	**84.9**
2015 F	**69.2%**	**125.9**	**87.1**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-4.3%	-6.3%	-10.2%
2010	12.5%	8.3%	21.8%
2011	0.4%	0.8%	1.2%
2012	2.2%	3.2%	5.4%
2013	1.7%	3.3%	5.0%
2014 F	**0.3%**	**2.6%**	**2.9%**
2015 F	**0.9%**	**1.6%**	**2.6%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Frankfurt is the financial capital of the Eurozone's strongest economy and its hotel market has performed strongly as well. We see continued growth in Germany's economy and Frankfurt's hotel market next year, albeit at a slightly higher pace. German GDP is expected to grow by 1.4% in 2014 and 1.5% in 2015.

Geneva

Modest occupancy gains should offset ADR falls in 2014 and break a three year negative RevPAR trend.

Role

Situated on the banks of Lake Geneva at the foot of the Alps, Geneva is Switzerland's second largest tourist destination. The Geneva metropolitan area is an international centre of finance, culture and politics and hosts many global company headquarters, financial institutions and international organisations. Around 70% of visits are business related. Due to its spectacular setting, it is also a popular tourism destination and the gateway to western Switzerland's mountain resorts.

2013 trading

RevPAR declined by 2.7% in 2013, driven by an ADR decrease of 2.9%. The principal negative impacts on rates were the timing of Ramadan falling in the height of summer and currency appreciation.

Negative impacting factors were partly compensated by the overall recovery of the EU economy and continuing influx of expatriate business resulting from company relocations.

Latest supply trends

Hotel supply has been stable with only a slight increase of 210 rooms in 2013. In 2014 and beyond around 400 rooms are forecast, with additional projects of 700 rooms beyond 2016. In addition to new developments, we observe significant capex investments in the upscale segment, reflecting owners' response to an ageing rooms supply.

Opportunities

Limited opportunities remain for standardized mid-segment property development downtown, but the inauguration of the CEVA Rail line around 2017 is expected to boost development of several areas especially in LaPraille – Carouge – Lancy. We expect this development will also provide interesting hotel development opportunities in neighbouring France, at a more attractive price point.

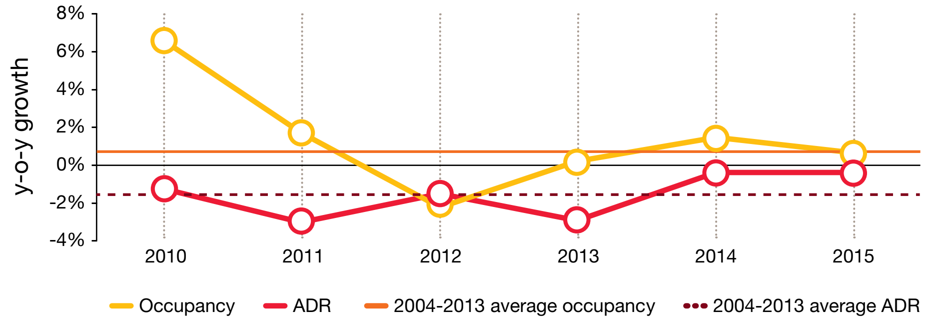
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (CHF)	RevPAR (CHF)
2008	68.6%	334.8	229.8
2009	61.3%	312.6	191.5
2010	65.2%	308.8	201.4
2011	66.4%	300.2	199.2
2012	65.1%	296.2	192.7
2013	65.2%	287.7	187.5
2014 F	**66.1%**	**286.5**	**189.4**
2015 F	**66.6%**	**285.7**	**190.2**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-10.7%	-6.6%	-16.7%
2010	6.4%	-1.2%	5.2%
2011	1.7%	-2.8%	-1.1%
2012	-1.9%	-1.3%	-3.3%
2013	0.1%	-2.9%	-2.7%
2014 F	**1.4%**	**-0.4%**	**1.0%**
2015 F	**0.7%**	**-0.3%**	**0.4%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

The Swiss economy is gradually improving, GDP growth in 2013 is estimated to have been 1.7% and is expected to grow by 1.8% in 2014 and 1.9% in 2015. The economy is also recovering from a deflationary period, but inflation is now modestly positive at 0.5% in 2013. A strong currency and recovery in the rest of the Eurozone are likely to influence how the economy grows in the near future.

Lisbon

Improved performance from key markets helped boost metrics in 2013, despite a significant increase in supply. We predict only slight RevPAR growth in 2014 but stronger gains in 2015 as occupancy picks up.

Role

Lisbon is the capital of Portugal and is thought to be the second oldest capital in Europe, after Athens. In the top 15 list for meetings and congresses, Lisbon hosts history, culture, music and entertainment along side commerce and business. In 2013 Lisbon was awarded: the best value destination by Forbes; the best price-quality destination by TripAdvisor; the second best destination in Europe by European Best Destinations; Europe's Leading City Break Destination, by World Travel Awards and the fourth most beautiful city in the world by UCityGuides.

2013 trading

In 2013, despite a 3.6%, increase in room supply, trading data from STR Global report an increase in occupancy, ADR and RevPAR of some 4.2%, 1.4% and 5.7% respectively. This performance was achieved partly due to comparisons to a poor 2012 as well as positive performance from key markets like Germany, France and Brazil. The Rotary Convention also brought 30,000 participants to the city. Domestic tourism demand was down due to the squeeze on household income.

Latest supply trends

STR data point to around 179 hotels with almost 18,900 rooms in Greater Lisbon. In 2013, seven new hotels opened (two 3 star ; four 4 star, one 5 star) adding 650 extra rooms. For 2014, 10 new hotels are expected to open, implying an increase of a further 5% to 6% in supply. In January 2014, two 4 star hotels have already opened.

Opportunities

In 2014, Lisbon will host the final of the UEFA Champions League and the Rock in Rio festival, which are expected to bring several thousand people to the city. In addition, easyJet, TAP and Ryanair will start five, two and one new routes, respectively, mainly to Europe, bringing new visitors.

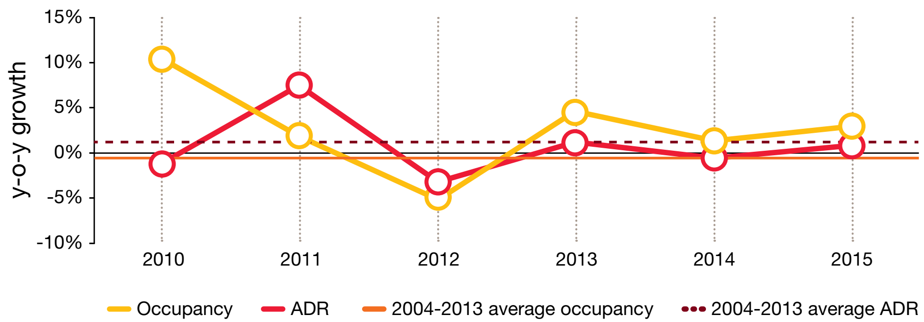
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	63.1%	89.2	56.3
2009	58.6%	81.5	47.8
2010	64.3%	80.7	51.9
2011	65.5%	86.5	56.7
2012	62.3%	83.7	52.2
2013	65.0%	84.8	55.1
2014 F	**65.7%**	**84.6**	**55.6**
2015 F	**67.4%**	**85.2**	**57.5**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-7.2%	-8.6%	-15.2%
2010	9.8%	-1.1%	8.6%
2011	1.9%	7.3%	9.4%
2012	-4.9%	-3.3%	-8.1%
2013	4.2%	1.4%	5.7%
2014 F	**1.1%**	**-0.2%**	**0.8%**
2015 F	**2.7%**	**0.7%**	**3.4%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

The Portuguese economy continues to be in a state of recession, having contracted by 1.4% in 2013. An improvement in the Eurozone outlook and the effects of improved domestic demand and the on-going structural reforms should mean that the economy recovers from the recession in 2014, registering growth of 0.9% in 2014 and 1.2% in 2015.

London

We have high hopes for London as strong demand drives up ADR. We forecast almost 4% growth for RevPAR in 2014 as rates and occupancy hit new highs. Further records are expected to be broken in 2015.

Role

London is the largest urban area in Europe, a mega city and one of the world's largest financial centres. It leads in many fields and global business clusters. A leading destination for international tourism with extensive cultural, sporting and historical attractions. In 2012 London was host city for the Olympic Games. In 2013 preliminary data suggest it could get close to over 17m overseas visits – more than a 9% increase over 2012.

2013 trading

London saw a poor start to 2013, but the year rallied and delivered exceptional records for overseas tourism. ADR strengthened despite continuing supply increases and occupancy remains high, averaging 82% in 2013. The capital is effectively full up at peak times. Overall 2013 has seen a 1.8% decline in ADR but a 2.2% advance in occupancy resulting in a 0.4% gain in RevPAR.

Latest supply trends

After 11,000 new rooms opened in 2011 and 2012 London saw a post Olympics supply slowdown in 2013. Supply is set to rise again by around 5% in 2014 and again in 2015 when we will see above average growth as over 12,000 new rooms open. According to AM PM Hotels, about half these rooms will be in the budget sector.

Opportunities

With an improving economy and overseas tourism forecast to be keep growing in 2014, the year should see strong hotel trading trends with a positive impact on hotel values. London remains at the forefront of major deals with high prices still being achieved. But further supply additions could depress ADR in trough periods. There remain opportunities for new build, renovation, rebranding and operational enhancement for those with the cash and skills to invest.

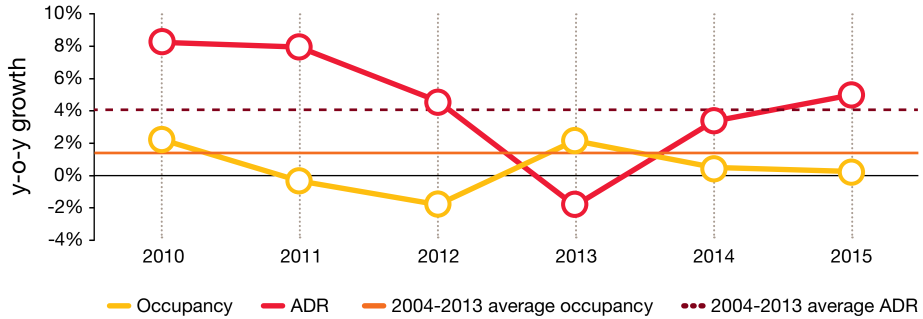
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (GBP)	RevPAR (GBP)
2008	79.6%	119.8	95.4
2009	80.5%	113.9	91.7
2010	82.3%	123.4	101.6
2011	82.1%	133.4	109.5
2012	80.6%	139.4	112.3
2013	82.4%	136.9	112.8
2014 F	**82.7%**	**141.6**	**117.1**
2015 F	**82.9%**	**148.7**	**123.2**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	1.2%	-5.0%	-3.8%
2010	2.2%	8.4%	10.8%
2011	-0.3%	8.1%	7.8%
2012	-1.8%	4.5%	2.6%
2013	2.2%	-1.8%	0.4%
2014 F	**0.4%**	**3.4%**	**3.8%**
2015 F	**0.2%**	**5.0%**	**5.2%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

London continues to be buoyant with the economy doing significantly better than the rest of the UK. The capital attracts a growing number of tourists and property prices and consumer spending continue to outperform the rest of the country. Unemployment in the UK is expected to decline, and GDP growth is expected to be around 2.5% in 2014 and 2.4% in 2015.

Madrid

Madrid, largely dependent on national and business tourism, has been badly affected by the economic crisis. But we expect a small improvement in occupancy in 2014 and 2015 and a slowdown in the rate of ADR decline.

Role

Madrid is the capital of Spain and is the economic, political and cultural centre of the country. The city is considered as one of the main financial centres of Southern Europe and hosts the head offices of key Spanish companies, such as Telefonica, Iberia, Banco Santander and Repsol.

2013 trading

In 2013 occupancy and ADR decreased by 4.1% and 3.7% respectively. RevPAR fell 7.6% from €54.8 in 2012 to €50.6 in 2013. Madrid, largely dependent on national and business tourism, has been badly affected by the economic crisis.

Latest supply trends

Large hotel chains have continued to increase their presence in Madrid, already accounting for 82% of the total supply. New hotel openings have included Ibis, IHG's Indigo and Holiday Inn brands, Palladium Hotel Group and three new 'Innside' hotels by Melia. Madrid has also seen the exit of the historical Foxa chain, which had four hotels in the city.

Opportunities

The first Four Seasons hotel in Spain is set to open in Madrid in 2016. Located in the city centre it is hoped it will provide a boost to the city's tourism assets.

Madrid has been hurt by fewer air passengers travelling to Madrid – Barajas Airport. In an attempt to reverse this trend, Aeropuertos Españoles y Navegación Aérea (AENA) has announced that it will decrease airport fees in the near future.

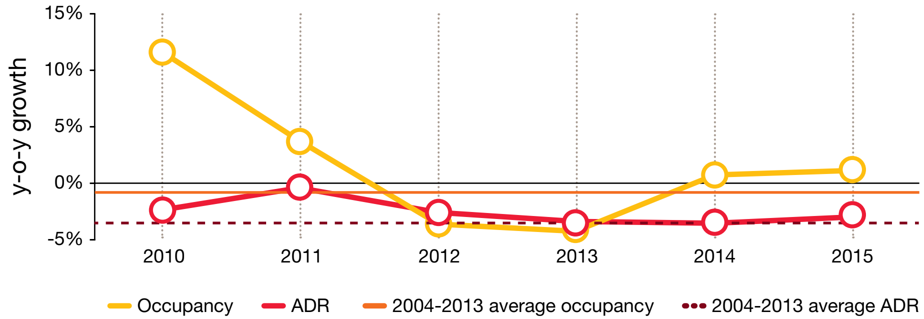
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	64.2%	109.7	70.4
2009	57.3%	90.4	51.8
2010	64.0%	88.3	56.5
2011	66.3%	87.9	58.3
2012	64.0%	85.6	54.8
2013	61.4%	82.4	50.6
2014 F	**61.9%**	**79.4**	**49.2**
2015 F	**62.6%**	**77.2**	**48.4**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-10.7%	-17.5%	-26.3%
2010	11.6%	-2.4%	8.9%
2011	3.7%	-0.4%	3.3%
2012	-3.5%	-2.7%	-6.1%
2013	-4.1%	-3.7%	-7.6%
2014 F	**0.8%**	**-3.6%**	**-2.8%**
2015 F	**1.2%**	**-2.8%**	**-1.6%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Madrid is Spain's second largest industrial centre after Barcelona. Its economy is also heavily dependent on public administration. Unlike in Barcelona, Madrid's hotel market has felt the full force of the economic decline in Spain. We expect the economy to have reached a turning point and for GDP to grow at 0.6% in 2014 and 0.9% in 2015. However, fiscal discipline is likely to continue for the foreseeable future – which will affect Madrid disproportionately.

Milan

Milan recovered well in 2013 and will host the next World Fair 'Expo 2015' which is expected to boost visitor volumes. We forecast almost 2% RevPAR growth in 2014 and a further 1.3% in 2015.

Role

Milan is the second largest city in Italy and the main industrial, commercial and financial centre of the country. Its business district hosts the Italian Stock Exchange and the HQ's of the largest national banks and companies. The city is a major world fashion and design capital. Thanks to its important museums, theatres and landmarks, Milan attracts more than two million annual visitors. The city is also well known for international events and fairs, including Milan Fashion Week and the Milan Furniture Fair.

2013 trading

RevPAR recovered well in 2013 with an increase of 5.2% driven by a 3.9% growth in occupancy rates, and 1.3% growth in ADR. Room rates and occupancy rates typically peak in March, April and September, with the arrival of events such as the annual furniture fair and the women's fashion weeks.

Latest supply trends

New hotels opening in 2013 include the Palazzo Parigi Hotel, NH Milano Congress, and Best Western Hotal St. George. 2014 will see the expected opening of the Moxy Hotel and three new Accor openings. 2015 will see an increase in 2 and 3 star room supply for the Expo. In total around 500 rooms are under construction according to STR Global.

Opportunities

Milan will host the next World Fair – Expo 2015 – themed 'Feeding the Planet. Energy for Life' which lasts from May to October and it is hoped will give Milan and host nation Italy a boost. It is hoped that this event will promote Milan as a must-see Italian destination and marketing activities related to the Expo are likely to benefit the city. Milan will also benefit from extensive infrastructural initiatives associated with the Expo preparation.

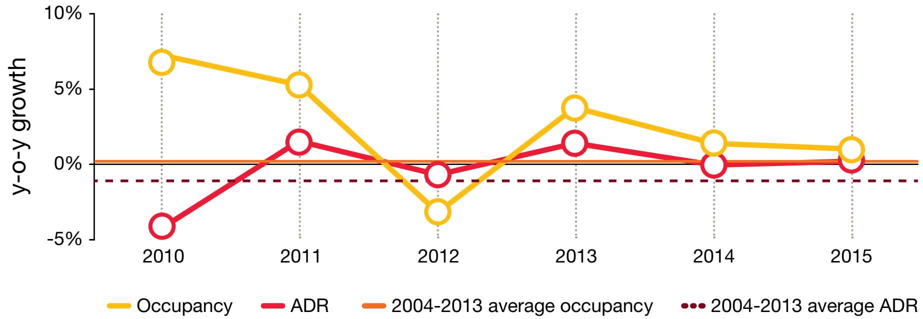
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	61.1%	148.4	90.7
2009	55.9%	130.8	73.2
2010	59.8%	125.1	74.8
2011	63.0%	127.0	80.0
2012	61.0%	126.1	76.8
2013	63.3%	127.7	80.8
2014 F	**64.3%**	**128.1**	**82.4**
2015 F	**65.0%**	**128.5**	**83.5**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-8.5%	-11.9%	-19.3%
2010	6.9%	-4.4%	2.2%
2011	5.4%	1.5%	7.0%
2012	-3.2%	-0.7%	-3.9%
2013	3.9%	1.3%	5.2%
2014 F	**1.6%**	**0.4%**	**1.9%**
2015 F	**1.1%**	**0.3%**	**1.3%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

The Italian economy contracted by 1.8% in 2013. The economy is expected to recover as the Eurozone exits the crisis period and fiscal consolidation eases; GDP growth is expected to be 0.4% in 2014 and 1.0% in 2015. Unemployment is high at 12.3% in Q3 2013. A revival in domestic demand and continuing reforms will strengthen the weak recovery.

Moscow

Despite it being a bit of a struggle in 2013 compared to recent years and more supply increases, Moscow RevPAR is expected to see growth in 2014 and 2015 of 2.6% and 2.8% respectively.

Role

Moscow is Russia's financial centre and home to more than 600 of the 1,250 credit institutions operating in the country. Moscow is the most populated city in Europe with 11.5 million people. There are numerous places of architectural and historical interest including museums, galleries and exhibition halls attracting about 4.5 million international tourists visitors in 2011 and this is forecast to more than double by 2020.

2013 trading

Despite a slow first quarter, 2013 occupancy saw a 1.3% increase to 67.5% and rates increased 0.9% to RUB 5,943.6. RevPAR saw a 2.2% increase.

Latest supply trends

The city saw several major hotel openings in 2013, including brands such as: Novotel, Kempinski, Ibis, Mercure and Adagio. The pipeline for 2014 includes two Holiday Inn hotels with 1,000 rooms and 250 rooms respectively, as well as a new Marriott and a new DoubleTree by Hilton. The 175 room Four Seasons hotel is also scheduled to open mid 2014. Overall, supply is considered an issue in the city but there is a shortage of high quality rooms and many consider rates will remain stable or see small increases.

Opportunities

According to the city government, historical buildings in the central part of Moscow are to be available for purchase to investors interested in their renovation for hotel purposes. Investors will also benefit from tax benefits.

'Leisure and tourism development in 2012-2016' is a state programme which aims to attract more tourists to the city each year and this should continue to boost tourism.

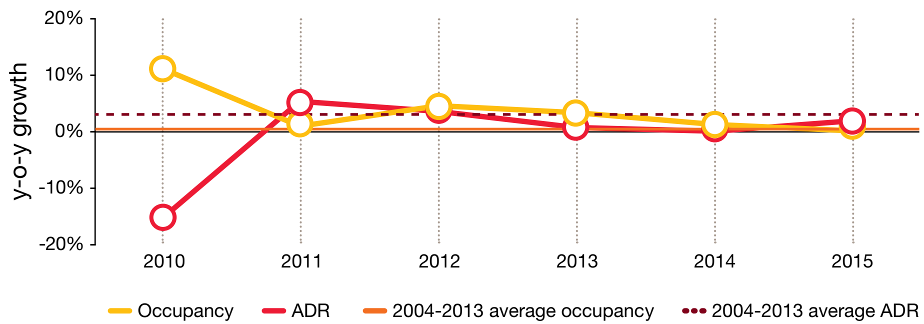
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (RUB)	RevPAR (RUB)
2008	63.9%	8037.8	5139.3
2009	56.2%	6358.8	3573.5
2010	62.8%	5358.9	3364.6
2011	63.6%	5647.4	3592
2012	66.7%	5889.7	3927.1
2013	67.5%	5943.6	4013.9
2014 F	**68.6%**	**6006.0**	**4118.7**
2015 F	**69.1%**	**6125.6**	**4232.6**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-12.1%	-20.9%	-30.5%
2010	11.7%	-15.7%	-5.8%
2011	1.3%	5.4%	6.8%
2012	4.8%	4.3%	9.3%
2013	1.3%	0.9%	2.2%
2014 F	**1.5%**	**1.0%**	**2.6%**
2015 F	**0.8%**	**2.0%**	**2.8%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Growth in Russia has slowed down significantly in the last year. The economy grew at 1.9% in 2013. Looking ahead, growth is expected to be 2.1% in 2014 and 3.5% in 2015. Russia's high dependence on oil and gas exports makes it vulnerable to fluctuations in prices.

Paris

Paris is performing well with high occupancies and ADR, buoyed up by international leisure travellers. We expect almost 4% RevPAR growth this year and a further 2.4% in 2015, driven by rates growth.

Role

Paris is a global city and the political and cultural capital of France as well as a major financial and commercial centre. It remains the number one tourist destination in the world attracting over 29 million visitors in 2012 to its numerous cultural attractions. The city attracted as many foreigners as French tourists in 2012. In Paris, the cultural offer is supported by temporary exhibitions organized by various museums and exhibition venues which draw more than 10 million visitors each year.

2013 trading

2010's post recession recovery continued into 2011 and 2012, as Parisian tourism volumes reached record levels with 36.9 millions hotel overnights recorded in 2012. Occupancy remained high in 2013 and 2 star and 3 star hotels were the best performers in terms of occupancy growth. ADR saw only modest growth but 1 star hotels performed very well with a 4% gain in rates.

Latest supply trends

There are 77,438 rooms in 1,478 hotels in Paris with around an 80% occupancy rate. More than 300 rooms are thought to be currently under construction. New hotels set to open in 2014 include the Peninsula, L'indochine and the AC by Marriott.

Opportunities

Paris is poised to experience a third record year in a row in tourist volumes and as a consequence hotel occupancy.

Three main historical anniversaries and a range of events are expected to drive tourism growth this year: The French campaign of Napoleon: 200 years, First World War: 100 years, Liberation of Paris: 70 years.

In terms of business events, the biennial Paris Motor Show will take place in 2014, with more than 1 million visitors expected this year. Between January and March 2013, 40% of hotel reservations are linked to business events.

The launch of the direct rail link between Paris and Barcelona could bring, one million passengers in 2014, according to the SNCF.

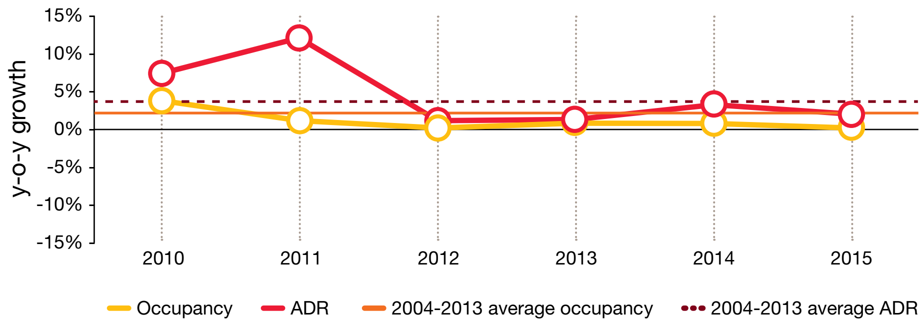
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	78.2%	134.9	105.5
2009	75.4%	121.8	91.8
2010	78.8%	130.4	102.7
2011	80.0%	146.6	117.3
2012	80.5%	149.0	120.0
2013	81.2%	150.7	122.3
2014 F	**81.7%**	**155.2**	**126.9**
2015 F	**82.0%**	**158.5**	**130.0**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-3.6%	-9.7%	-12.9%
2010	4.5%	7.0%	11.8%
2011	1.6%	12.4%	14.3%
2012	0.6%	1.7%	2.3%
2013	0.8%	1.1%	1.9%
2014 F	**0.7%**	**3.0%**	**3.8%**
2015 F	**0.4%**	**2.1%**	**2.4%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global and Euromonitor Forecast: PwC 2014
The STR sample for Paris only includes luxury hotels located in central Paris. To make these figures more comparable with other cities we have rebased the data based on the historical differences between the STR sample and a selection of other sources which survey a broader range of hotels. This does however, mean that the data for Paris is no longer comparable to that published in our 2012 report.

Economic outlook

The French economy is recovering from a dip in growth in 2012. The economy grew at a marginal 0.1% in 2013. Meanwhile unemployment continues to rise and increased to 11% in 2013 compared to 10.3% in 2012. We project that growth will accelerate going forward, with GDP expected to grow at 0.7% in 2014 and 1.2% in 2015.

Prague

Further ADR and small occupancy gains are expected to drive RevPAR up by 2.1% in 2014 and 3.2% in 2015.

Role

Prague is the capital and economic and political centre of the Czech Republic with more than 1.3 million inhabitants. The main attractions include Prague Castle, Charles Bridge, Old Town Square and Jewish Quarter. Since 1992 the historical centre has been listed as a UNESCO World Cultural and Natural Heritage site. Prague is a popular short break tourism destination and one of Europe's top 10 cities in terms of a number of conventions (ICCA). Prague was ranked #9 in TripAdvisor 2013 Top 25 Travelers' Choice World Destinations.

2013 trading

In 2013 occupancy reached 69.3%, as PwC predicted in last year's forecast. ADR and RevPAR increased by 1.6% and 3% respectively. Demand analysis shows a substantial decline in the number of visitors coming from Southern Europe, but this was compensated by larger volumes from Russia, Asia and other long haul destinations. The number of events in 2013 fell compared to 2012.

Latest supply trends

There were several new openings last year (Unic, Emblem, B&B) and there are more expected in 2014 (Motel One). Overall, according to STR Global over 200 rooms have recently opened and a further 140 rooms are under construction.

Opportunities

Incoming travel and hence hotels will benefit from the depreciation of the CZK driven by market interventions performed recently by the Czech National Bank.

However downward pressure on room rates is not likely to ease in the mid-term and will potentially harm the midscale segment most.

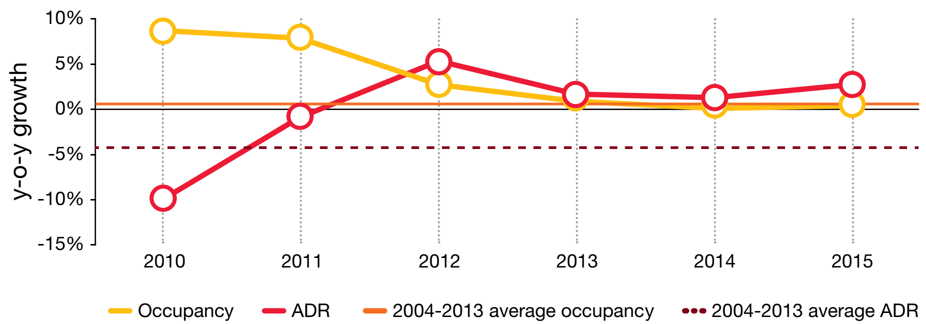
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (CZK)	RevPAR (CZK)
2008	63.2%	2318.7	1464.8
2009	56.5%	1921.5	1086.5
2010	61.5%	1732	1064.7
2011	66.5%	1717.6	1141.7
2012	68.3%	1809.2	1236.4
2013	69.3%	1838.8	1273.5
2014 F	**69.7%**	**1864.6**	**1300.5**
2015 F	**70.1%**	**1916.1**	**1342.5**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-10.5%	-17.1%	-25.8%
2010	8.7%	-9.9%	-2.0%
2011	8.1%	-0.8%	7.2%
2012	2.8%	5.3%	8.3%
2013	1.3%	1.6%	3.0%
2014 F	**0.7%**	**1.4%**	**2.1%**
2015 F	**0.5%**	**2.8%**	**3.2%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Although the EU's economic recovery is fragile recent indicators suggest careful optimism for 2014/15. Prague is gradually recovering from recession, although Czech GDP continued to decline by 0.4% in 2013. A return to growth is expected however, we expect GDP to rise by 1.5% in 2014 and 2.1% in 2015.

*The Ministry of Finance of the Czech Republic recently revised its estimated GDP growth in 2013 to -1.4%, which is significantly lower than the IMF estimate of -0.4% for the year. Our forecasts, based on the IMF estimates for 2013, do not reflect the recent downward revision for 2013, and so may be optimistic in light of the revisions.

Rome

Modest ADR growth is expected to drive 1.3% and 2% RevPAR growth in 2014 and 2015 respectively, taking already high rates to €146.8 and RevPAR to €98.6.

Role

Rome is Italy's capital city and a major EU and international financial, cultural and business centre. Its visitors are a mix of both national and international, and those visiting for leisure and business. 2012 saw nearly 8 million international visitors to Rome and it remains the top tourist destination in Italy. Rome hosts many major international and worldwide political and cultural organisations.

2013 trading

Rome's hotel market is strong and stable, mainly driven by leisure demand, which has proven relatively resilient to the global economic downturn. ADR and RevPAR in Rome grew in 2013 by 0.4% and 1.1% respectively, taking ADR to €142.6 and RevPAR to €95.5. Occupancy saw a 0.7% gain to reach 67%.

Latest supply trends

Rome's hotel supply has seen a number of re-brandings rather than new openings. There has been only one new opening in recent years: the 116 room Gran Melià Villa Agrippina. Rebrandings include Jumeriah Grand Hotel Via Veneto. The Hotel Eden will undergo refurbishment to be rebranded as a Dorchester Collection. Looking ahead there are around 650 rooms under construction, according to STR Global.

Opportunities

Big events in Rome in 2014 include the Pope Woytila and Pope Roncalli sanctifications in April (more than 4 m. visitors are expected). It is also hoped that the Milan Expo 2015 will boost hotel trading further afield than Milan over the next two years. For investors, the market is fragmented and a significant number of small-and medium-sized facilities, owned by second or third generation hoteliers, could be planning to sell their hotels.

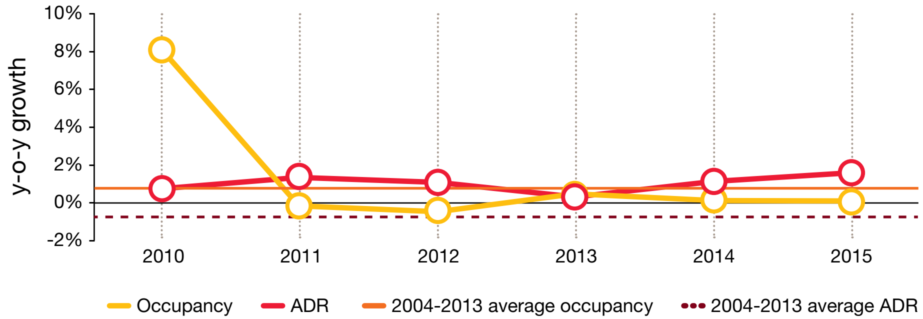
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	64.3%	153.7	98.9
2009	62.0%	137.3	85.1
2010	67.0%	138.5	92.7
2011	66.8%	140.5	93.9
2012	66.5%	142.1	94.5
2013	67.0%	142.6	95.5
2014 F	**67.0%**	**144.3**	**96.7**
2015 F	**67.2%**	**146.8**	**98.6**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-3.7%	-10.7%	-14.0%
2010	8.1%	0.9%	9.0%
2011	-0.2%	1.5%	1.2%
2012	-0.5%	1.1%	0.6%
2013	0.7%	0.4%	1.1%
2014 F	**0.1%**	**1.2%**	**1.3%**
2015 F	**0.2%**	**1.8%**	**2.0%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

As with Milan, Rome has experienced the effects of a weak Italian economy. However, the high level of tourism in Rome means that it stands to gain more from recovery elsewhere. It should be helped by improving prospects in important markets like Germany, the United States and the UK. The Italian economy contracted by 1.8% in 2013. The economy is expected to recover as the Eurozone exits crisis period and fiscal consolidation eases; GDP growth is expected to be 0.4% in 2014 and 1.0% in 2015.

Vienna

Vienna dipped into negative growth in 2013 due to a further increase in room supply. We expect occupancy and ADR rates to stabilize in 2014 driving RevPAR growth of 2.7% and further modest gains in 2015.

Role

Vienna is the capital of Austria and a major economic capital within the CEE region. It is home to major international organizations such as OPEC and innovation driven corporations. The city has significant banking, insurance and manufacturing sectors and is a cultural centre. It had 4.1 million international tourist arrivals between January and November 2013. Vienna is a European congress and conference hub and the leading city in Europe for international conventions. There were 3,376 corporate events and conventions in 2013.

2013 trading

Compared to 2012, the occupancy rate in Vienna dropped by 1.4% in 2013. ADR decreased by 2.5% and RevPAR by 3.9%. The decrease in occupancy is due to a relatively strong increase in supply in 2013, especially in the budget and 5 star segments.

Latest supply trends

There are more than 30,700 rooms in Vienna, and the 4 star segment predominates. A further 1,406 rooms are under construction, the largest share of which can be attributed to the budget segment. Motel One is currently building two new hotels totalling 933 rooms.

Supply growth is expected to slow with only two more additional hotel openings scheduled for 2014: Hotel Park Hyatt am Hof (143 rooms) and Hotel Meliá Vienna (253 rooms).

Opportunities

In the coming years, the main challenge will be to safeguard the high number of conventions and congresses hosted in Vienna. Provided that adequate measures are taken to boost the MICE sector, we expect that the increasing room supply will be matched by an increase in demand, especially in the budget and 5 star segments. In 2014, 3 and 4 star hotels will have to focus on improving their positioning and customer retention to safeguard against rate declines.

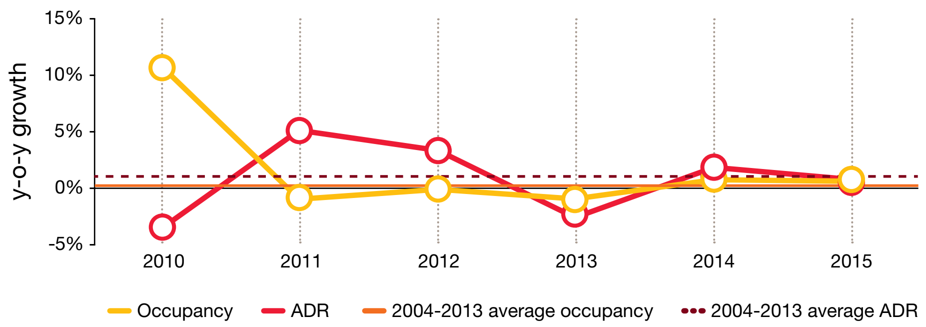
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (EUR)	RevPAR (EUR)
2008	70.7%	103.5	73.2
2009	65.1%	92.5	60.2
2010	72.2%	89.1	64.3
2011	71.6%	93.7	67.1
2012	71.6%	96.9	69.4
2013	70.6%	94.5	66.7
2014 F	**71.2%**	**96.2**	**68.5**
2015 F	**71.7%**	**96.7**	**69.3**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-8.0%	-10.6%	-17.8%
2010	10.9%	-3.7%	6.8%
2011	-0.9%	5.2%	4.3%
2012	0.1%	3.4%	3.4%
2013	-1.4%	-2.5%	-3.9%
2014 F	**0.8%**	**1.9%**	**2.7%**
2015 F	**0.7%**	**0.5%**	**1.2%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

Austria has weathered the eurozone crisis better than most. It avoided a double dip recession as GDP grew by 0.9% in 2012 and 0.4% in 2013. It is expected to grow at 1.6% in 2014 and 1.8% in 2015. Austria also has the lowest unemployment of any major European nation (4.9%) and we expect this environment to support the hotel market.

Zurich

While positive economic development is expected, increasing room supply will dampen RevPAR growth in 2014 and 2015. We expect ADR growth will drive RevPAR gains of 2.3% in 2014 and 2.7% in 2015.

Role

Zurich is Switzerland's largest city and an international financial, economic and educational centre. The city is home to a large number of financial institutions and banking giants such as UBS and Credit Suisse. Also, many research and development centres are concentrated in Zurich and the low rate of tax attracts overseas companies to set up their headquarters there. It is the gateway to many of Switzerland's mountain destinations.

2013 trading

Trading has came back after the financial downturn and 2013 saw RevPAR growth of 8.3% mostly driven by a 6.6% rate increase. Due to the economic importance of the city, Zurich benefits disproportionately more from the strong Swiss economy. RevPAR, however, are not up to the 2008 mark of CHF 190 and have been fluctuating in past years due to currency variations impacting inbound travel from neighbouring EU countries.

Latest supply trends

Supply increases are ongoing, concentrated in the airport area and up and coming city districts. While the pipeline is currently full (verging on too full), some projects are being pushed back e.g. 'The Circle'. Presently known projects encompass a 25% increase of room stock by 2017.

Opportunities

Due to a significant oversupply in office space across the city, conversion to lodging options have become an area of interest for many (re-)developers, providing attractive opportunities to position lodging assets in previously unavailable prime locations. Additionally, we expect increased opportunities for extended stay/serviced apartment products, where the current supply is considered as insufficient and partially dated.

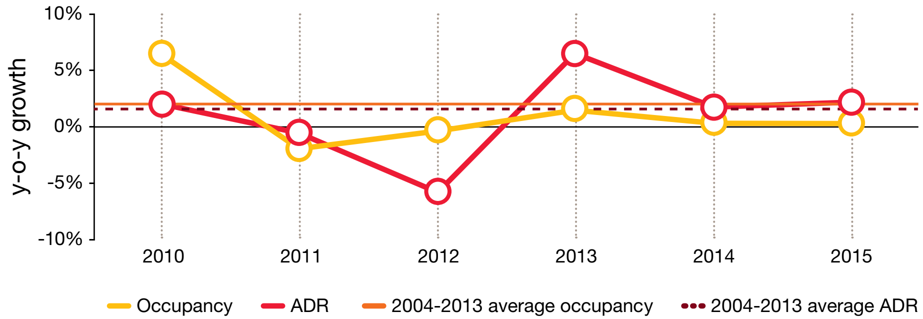
Annual hotel statistics and forecast 2014 and 2015

	Occupancy	ADR (CHF)	RevPAR (CHF)
2008	72.5%	261.8	189.7
2009	68.3%	234.8	160.4
2010	72.8%	239.4	174.3
2011	71.3%	238.4	170.1
2012	71.2%	224.9	160.1
2013	72.3%	239.8	173.4
2014 F	**72.7%**	**244.2**	**177.5**
2015 F	**73.0%**	**249.8**	**182.3**

Average annual growth rates

	Occupancy	ADR	RevPAR
2009	-5.8%	-10.3%	-15.5%
2010	6.6%	2.0%	8.7%
2011	-2.0%	-0.4%	-2.4%
2012	-0.2%	-5.7%	-5.8%
2013	1.6%	6.6%	8.3%
2014 F	**0.5%**	**1.8%**	**2.3%**
2015 F	**0.4%**	**2.3%**	**2.7%**

Forecast ADR and occupancy growth vs long run average



Source: Data: STR Global Forecast: PwC 2014

Economic outlook

As with Geneva, the strong Swiss franc has deterred visitors to Zurich, as has the struggling financial services sector – which has seen a series of job cuts and downsizing. The economic situation in Switzerland is fairly benign, with growth of 1.7% in 2012 and a further 1.8% expected in 2014 and 1.9% in 2015. This should help to stabilise the market.

About the survey, methodology and model assumptions

Methodology for the hotel forecasts

This section outlines in more detail the PwC models used to forecast hotel occupancy, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) for 18 European cities.

Data

Our hotels dataset provided by STR Global contains ADR, hotel room supply, demand and occupancy on a monthly basis for each of the 19 cities. For Paris, the STR data does not include hotels in the economy and budget segments. We have therefore adjusted the values based on historic differences between this and broader samples. Macroeconomic variables such as GDP growth and Consumer Price Indices (CPI) were obtained from Eurostat for all countries except Russia.

For Russia, GDP and CPI data were obtained from the Russian National Statistics office. Investment growth rates, used in the model for Dublin only, were obtained from Eurostat. All exchange rate data were obtained from Thomson Reuters Datastream. The total nights spent by residents and non-residents in hotels, used to calculate GDP weights, and are also obtained from Eurostat for all countries except Russia (see notes 1 and 2).

Econometric model

We developed a 2-stage least squares (2SLS) instrumental variables approach that models hotel demand and price (ADR) using a two-stage process with the specifications. This is consistent with the modelling approach we used for London and the rest of the UK in our report published in September 2013; The right kind of growth: UK hotels forecast 2014.

Forecasts

Forecasts for ADR growth and hotel demand were generated using PwC forecasts of macroeconomic variables, supplemented by additional forecast data for hotel supply based on country-level pipeline data provided by STR Global.

Allowance was made for attrition in the existing supply stock and pipeline based on historic trends and local expectations.

RevPAR forecasts were constructed using ADR, demand and supply forecasts. This model was used to generate forecasts through to Q4 2015.

Notes

1. We have used a weighted GDP measure in our models; this is a weighted average of GDP growth of the major countries of origin of hotel guests, the weights being the proportion of hotel guests from the corresponding country. For example, if 80% of Edinburgh hotel guests were from the UK, 10% from France and 10% from the US, then the weighted GDP measure for Edinburgh is the weighted average of GDP growth in the UK (weight 80%), France (10%) and US (10%).
2. No visitor data was available for Moscow, for which we have used Russian GDP only.

Appendices

Amsterdam to Zurich: the forecasts

City	Occupancy rates		ADR (local currency)		ADR (Euro)		RevPAR (local currency)		RevPAR (Euro)	
	2014	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
Amsterdam	75.20	75.50	120.37	121.24	120.37	121.24	90.46	91.50	90.46	91.50
Barcelona	71.90	72.10	118.16	119.69	118.16	119.69	84.90	86.33	84.90	86.33
Berlin	72.80	73.00	90.17	91.55	90.17	91.55	65.64	66.80	65.64	66.80
Brussels	66.70	67.30	110.96	111.27	110.96	111.27	74.02	74.92	74.02	74.92
Dublin	79.00	79.50	93.65	96.52	93.65	96.52	73.94	76.76	73.94	76.76
Edinburgh	81.50	83.00	81.03	81.87	93.74	94.85	66.05	67.93	76.41	78.69
Frankfurt	68.60	69.20	123.87	125.91	123.87	125.91	84.93	87.11	84.93	87.11
Geneva	66.10	66.60	286.50	285.66	230.45	227.6	189.37	190.20	152.32	151.55
Lisbon	65.70	67.40	84.64	85.22	84.64	85.22	55.57	57.46	55.57	57.46
London	82.70	82.90	141.62	148.70	163.84	172.27	117.13	123.22	135.51	142.74
Madrid	61.90	62.60	79.44	77.25	79.44	77.25	49.17	48.39	49.17	48.39
Milan	64.30	65.00	128.10	128.48	128.10	128.48	82.40	83.51	82.40	83.51
Moscow	68.60	69.10	6006.02	6125.57	134.45	133.68	4118.66	4232.60	92.20	92.37
Paris	81.70	82.00	155.25	158.45	155.25	158.45	126.91	129.99	126.91	129.99
Prague	69.70	70.10	1864.58	1916.12	69.68	70.45	1300.52	1342.53	48.60	49.36
Rome	67.00	67.20	144.29	146.82	144.29	146.82	96.71	98.61	96.71	98.61
Vienna	71.20	71.70	96.22	96.68	96.22	96.68	68.47	69.28	68.47	69.28
Zurich	72.70	73.00	244.20	249.81	196.42	199.04	177.45	182.25	142.74	145.21

Source: Econometric forecast PwC 2014
Benchmarking data: STR Global and Euromonitor

*Monetary values have been converted to euros from local currency units based on projections for future exchange rates derived from the International Monetary Fund's World Economic Outlook.

Amsterdam to Zurich: the growth rates

City	Occupancy growth rates		ADR growth rates (local currency)		RevPAR growth rates (local currency)	
	2014	2015	2014	2015	2014	2015
Amsterdam	-0.3%	0.4%	0.9%	0.7%	0.6%	1.1%
Barcelona	0.2%	0.4%	1.1%	1.3%	1.2%	1.7%
Berlin	0.3%	0.2%	2.9%	1.5%	3.2%	1.8%
Brussels	-0.2%	0.9%	0.4%	0.3%	0.2%	1.2%
Dublin	0.4%	0.7%	4.8%	3.1%	5.2%	3.8%
Edinburgh	2.4%	1.8%	1.0%	1.0%	3.4%	2.8%
Frankfurt	0.3%	0.9%	2.6%	1.6%	2.9%	2.6%
Geneva	1.4%	0.7%	-0.4%	-0.3%	1.0%	0.4%
Lisbon	1.1%	2.7%	-0.2%	0.7%	0.8%	3.4%
London	0.4%	0.2%	3.4%	5.0%	3.8%	5.2%
Madrid	0.8%	1.2%	-3.6%	-2.8%	-2.8%	-1.6%
Milan	1.6%	1.1%	0.4%	0.3%	1.9%	1.3%
Moscow	1.5%	0.8%	1.0%	2.0%	2.6%	2.8%
Paris	0.7%	0.4%	3.0%	2.1%	3.8%	2.4%
Prague	0.7%	0.5%	1.4%	2.8%	2.1%	3.2%
Rome	0.1%	0.2%	1.2%	1.8%	1.3%	2.0%
Vienna	0.8%	0.7%	1.9%	0.5%	2.7%	1.2%
Zurich	0.5%	0.4%	1.8%	2.3%	2.3%	2.7%

Source: Econometric forecast PwC 2014
Benchmarking data: STR Global and Euromonitor

Further reading

Emerging Trends in Real Estate Europe
A joint undertaking of the Urban Land Institute and PwC, the Emerging Trends in Real Estate® series provides an outlook on real estate investment and development trends, real estate finance and capital markets, trends by property sector and metropolitan area, and other real estate issues.

UK Hotels Forecast
Our flagship publication for the UK hospitality and leisure industry. Provides forecasts of occupancy and hotel revenues and analysis of key trends for the UK hotels sector.

Hospitality Directions US
Quarterly outlook for the US lodging sector providing our forecast for occupancy and hotel revenues and analysis of key issues impacting the US industry.

South African Hospitality Outlook
PwC's team of hospitality specialists provide an unbiased overview of how the hospitality industry in South Africa is expected to develop over the coming years.

MarketVision of the hospitality sector in Italy
This report provides an overview of past performance trends for the Italian hospitality sector with an analysis of future drivers and prospects in 2015. It includes market trend data for Milan, Rome, Venice, Florence and Naples.

How can hotels achieve the right kind of growth in a digital age? A toolkit for fighting commoditisation
Brands, hotel owners and operators that are able to capitalise on social media, mobile, analytics and cloud (SMAC) – and put customer experience at the heart of everything they do – can gain significant competitive advantage in the longer run.

OHE (Observatorio de la Industria Hotelera Española) Spain
A 4-monthly report by PwC Spain and CEHAT, with the macro-economic forecast and the sector perspectives on each of the main tourism seasons.

For more information visit www.pwc.co.uk/hospitality-leisure or contact Liz Hall, Hospitality & Leisure Research: liz.hall@uk.pwc.com

About PwC

PwC provides industry-focused assurance, tax, deals and consulting services to the hotel industry. We also deliver a fully integrated service at every stage of the deal process, from origination to post investment appraisal. In a rapidly changing world adapting to the digitally demanding and mobile savvy consumer, we're renowned for our forward looking in depth research and insights.

To find out more about PwC's Hospitality & Leisure practice visit www.pwc.com/hospitality.

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