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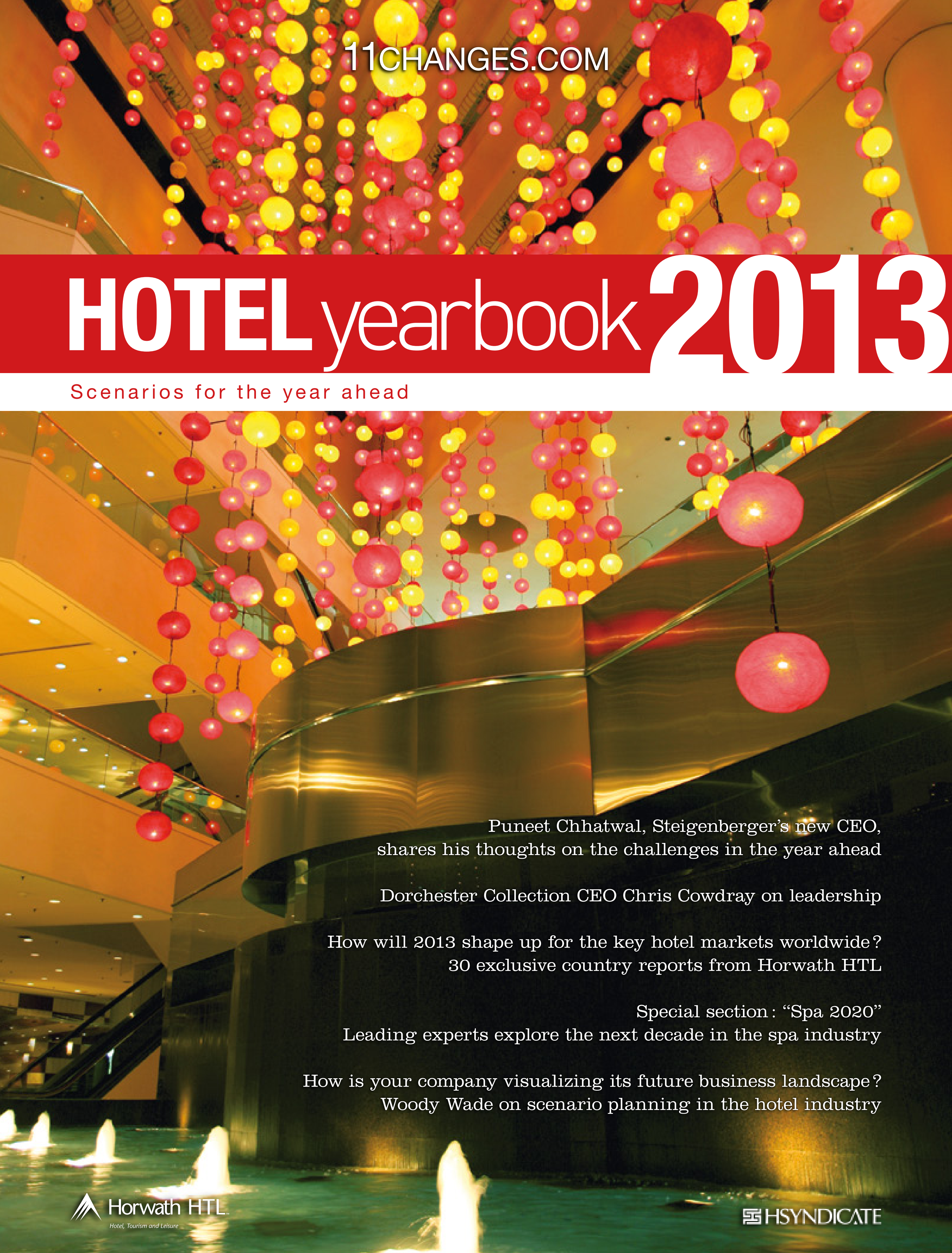
HOTEL yearbook 2013

Scenarios for the year ahead



Puneet Chhatwal, Steigenberger's new CEO, shares his thoughts on the challenges in the year ahead

Dorchester Collection CEO Chris Cowdray on leadership

How will 2013 shape up for the key hotel markets worldwide? 30 exclusive country reports from Horwath HTL

Special section: "Spa 2020" Leading experts explore the next decade in the spa industry

How is your company visualizing its future business landscape? Woody Wade on scenario planning in the hotel industry

Horwath HTL
Hotel, Tourism and Leisure

HSYNDICATE

This excerpt from the Hotel Yearbook 2013 is brought to you by :

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Horwath Hotel, Tourism and Leisure consulting are the world's number one hospitality consulting organisation, operating since 1915. Horwath HTL are the industry choice; a global network offering complete solutions in markets both local and international. Through involvement in thousands of projects over many years, Horwath HTL have amassed extensive, in-depth knowledge and understanding of the needs of hotel & real estate companies and financial institutions.

Horwath HTL are the world's largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.

HSYNDICATE

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries… serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.

Thirteen tales of hope

ACCORDING TO **HORWATH HTL,** 2013 WILL BE A YEAR WHEN MOST EUROPEAN HOTEL MARKETS FINALLY EMERGE FROM THE DOLDRUMS THEY HAVE BEEN IN FOR THE PAST 4 YEARS. THAT'S NOT TO SAY THE SITUATION WILL BE ROSY – FAR FROM IT. BUT THE INDICATORS ARE LOOKING BETTER THAN THEY HAVE FOR QUITE SOME TIME. TO GET AN IDEA OF THE OUTLOOK IN THE KEY MARKETS ACROSS THE CONTINENT, THE HOTEL YEARBOOK ASKED 13 DIFFERENT OFFICES OF HORWATH'S INTERNATIONAL NETWORK TO CONTRIBUTE THEIR PROFESSIONAL ASSESSMENT OF WHERE WE ARE AND WHERE WE ARE GOING.

THE NETHERLANDS

SITUATION REPORT

The lodging supply in The Netherlands, consisting of hotels, pensions and hostels, is clearly dominated by hotels. Here lodging accommodations are only allowed to carry the label “hotel” if they have been classified according to the Dutch Hotel Classification System. Within the hotel market, the 4-star segment has without a doubt the largest market share.

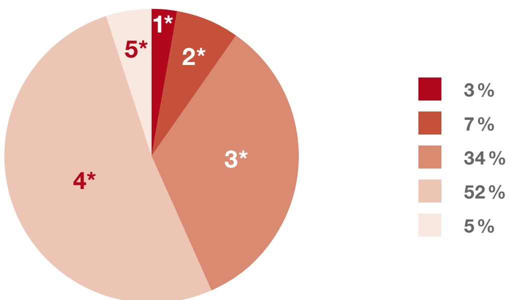
During the last five years, however, the market share of hotels within the supply of all Dutch lodging accommodations decreased, as the supply of non-hotels increased more quickly than that of hotels. This development is indicative of two supply-related trends in the Dutch hotel industry. Modern hotel concepts such as Qbic and citizenM, both “made in Holland”, do not fit the traditional classification system, mainly because of the room sizes. This leads to the decreasing use of the classification system, and a corresponding negative effect on the market share of hotels. At the same time, the relatively low prices, personal hospitality and increasing level of professionalism among B&Bs in the Netherlands are leading to both an increase in the number of B&Bs as well as the number of B&B registrations, with – again – a negative effect on the market share of hotels.

Another supply-related trend in the Dutch hotel industry is the increasing chain affiliation. At the end of 2011, only 39 % of Dutch hotel rooms was still independent of hotel chains, which was a reversal from ten years earlier when only 35 % of Dutch hotel rooms were chain affiliated. At the end of 2011, 50 hotel

> At the end of 2011, 50 hotel chains were active in the Netherlands, with 63 brands

chains were active in The Netherlands, with 63 brands. In 2012, this increased due to the addition of chains such as Meininger Hotel Gruppe and brands such as DoubleTree by Hilton, Hilton Garden Inn and Best Western Plus.

Facts & figures: Dutch hotel supply	2012
No. of lodging accommodations	3,151
No. of rooms in lodging accommodations	110,332
No. of hotels	2,215
No. of hotel rooms	91,108
Market share of hotels	83 %
Chain affiliation	61 %
Growth, rooms in lodging accommodations 2008-2012	+ 11 %
Growth, hotel rooms 2008-2012	+ 4 %
Growth, market share of hotels 2008-2012	- 6 %

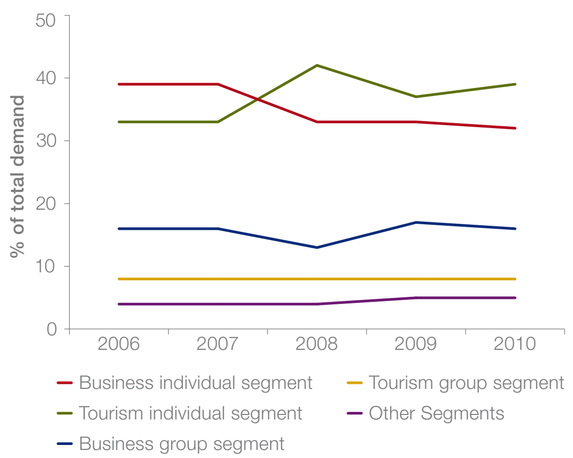


In 2011, guests spent almost 35 million nights in Dutch hotels, of which 52 % were Dutch as opposed to international guests, and 56 % were traveling as tourists rather than business guests. With respect to both national and international overnight stays in hotels, 2011 was a record year in the period 2007-2011. However, the number of overnight stays by business guests, in particular individual business guests, still had not recovered from the effects of the 2008-2009 international economic crisis. Hoteliers tried to make up for this lack of business demand with a rather aggressive sales strategy, targeting mostly Dutch, German and Belgian tourists traveling individually, with an increased use of pricey online booking intermediaries, online auctions, and discounts up to 50 %. Because both Internet transparency and the competitive supply continued to increase simultaneously, the RevPAR of Dutch hotels in 2011 was still well below the record level in 2007, as were the margins.

Thirteen tales of hope cont.

The first quarter of 2012 showed a revenue increase of 2 % in relation to the same period in 2011. At 3 %, the increase in the second quarter was even a little higher. However, more than half of the hoteliers interviewed to determine the sentiment in the hotel market indicated that their revenue in the first half of 2012 was lower than expected, mostly due to disappointing average room rates. Also, in the course of the year, many hoteliers felt increasing pressure on revenue and margins, leading to the belief that the initial growth in 2012 will be moderated to a zero growth at the utmost for the whole year. Many hoteliers are even taking another revenue decrease into consideration.

Facts & figures: Dutch hotel demand	2007	2008	2009	2010	2011	Growth
Overnight stays in hotels (in M)	34.1	32.6	31.4	33.7	34.6	+1%
National overnight stays in hotels (in M)	17.8	17.7	17.1	17.5	17.9	+1%
International overnight stays in hotels (in M)	16.3	15.0	14.4	16.2	16.7	+2%
Business overnight stays in hotels (in M)	16.8	15.8	14.1	14.6	15.2	-10%
Occupancy 3-, 4- and 5* hotels (in %)	72.5	68.1	62.1	65.1	67.2	-7%
Average room rate 3-, 4- and 5* hotels (in €)	110	105	93	93	98	-11%
Revenue per available room 3-, 4- and 5* hotels (in €)	80	72	58	60	66	-18%



OUTLOOK FOR 2013

As recent history proved once again, results in the Dutch hotel industry are strongly related to international and national economic developments. For 2013, slow economic growth at best seems to be realistic, as it is expected to be held back not only by the challenges and uncertainties of the European debt crisis, but also by political uncertainties, as new government policies are slowly taking shape.

At the same time, from the supply side, the competitive pressure is expected to continue. For various urban locations, the real estate world sees hotels as “convenient” alternatives to empty offices. Also, the expansion drive of international hotel chains is leading to even more chains and brands entering the Dutch hotel market. Hyatt Hotels and Resorts aims to follow up on its 2012 entry in the Dutch hotel market (Andaz Hotel Amsterdam) with the opening of the first Dutch Hyatt Place Hotel near Amsterdam’s Schiphol Airport in 2013. Other chains expected to enter the Dutch hotel market in 2013 with new brands are the Spanish chain and brand Room Mate and Hilton Worldwide with the brand Waldorf Astoria.

These chains prefer a location in or near the capital Amsterdam because of its strong position in the Dutch hotel market. This position is expected to be even stronger in 2013 and onwards due to the many festivities planned for this year, among which are the 400th anniversary of the canals, the 125th anniversary of the city’s concert hall, and the reopening of some of the largest museums. It is no wonder then, that *Lonely Planet* designated Amsterdam as the second best city worldwide to visit in 2013.

| Rachèl Lardenoye

Thirteen tales of hope cont.

RUSSIA

SITUATION REPORT

Another tough year globally, but Russia is still performing from a strong economic base which is reflected in comparably good hotel trading performances in cities like Moscow and St. Petersburg.

At the annual Russian Hotel Investment Conference held in October 2012, opening presentations by two leading economists painted a mixed picture and some uncertainty where the global economy, and in particular the Euro crisis, were going. But nonetheless they felt that Russia will remain economically strong relative to Europe, buoyed by continuing strong oil prices representing the core of its economic success.

So what has been happening in Russia during the last year as far as hotel development is concerned?

New properties form luxury to budget continued to open throughout Russia, but many more projects remain in the pipeline awaiting finance. There seems to have been renewed interest in hotel real estate from domestic banks in 2012, but again with interest rates very high and term of loans short and continued lack of interest from foreign banks, the result remains that the rate of hotel development in the country is slowed down when compared with emerging markets such as Turkey and China.

Nonetheless, hotel development teams are being bolstered in order to sign up potential investors, as the market becomes increasingly competitive in terms of hotel operators offering a wider array of brand segmentation.

The level of interest in resort type properties has notably increased over the last 18 months, as the market becomes

Thirteen tales of hope cont.

more leisure-oriented, with anticipated competitive air fares and a more lenient visa regime for international visitors.

OUTLOOK FOR 2013

Thirteen may be an unlucky number for some. But the next five years will provide increased growth of hotel supply and profile exposure of Russia through the forthcoming Sochi Winter Olympics 2014 and FIFA World Cup 2018. Significant infrastructural projects have been undertaken in the Sochi area, while interest in the 11 cities selected for the FIFA World Cup are attracting investors already. These events are Russia's chance to sell itself to the world's media.

So, will 2013 prove to be the year when major deals are signed allowing the development of several significant portfolios of hotel brands, not only in Moscow but regionally? Will we finally see budget hotel properties entering smaller cities as the leading product, at least until the level of supply grows? Will everything be complete on time, that is, by the end of 2013 in readiness for the Winter Olympics? Will Russian banks start to offer more realistic levels of interest on loans to expedite the number of international properties entering the supply chain? Will franchising start to be the most popular form of agreement between owners and operators?

These are the key questions that will define Russia's progress in terms of successful hotel development in 2013 and beyond. If these issues are properly addressed, then the signs suggest that 2013 will be lucky for Russia.

| Michael O'Hare

FRANCE

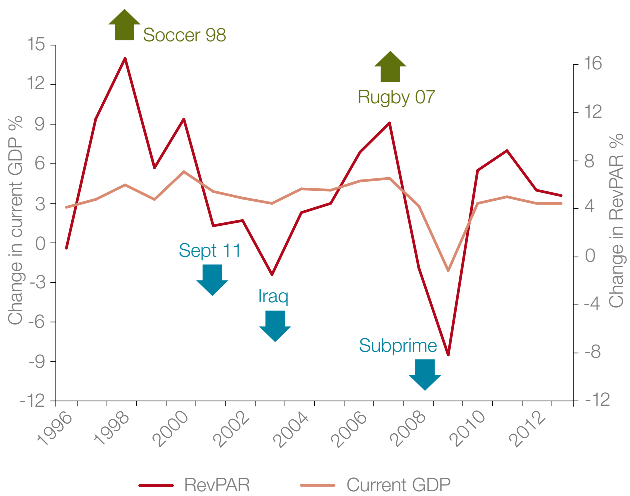
SITUATION REPORT

After the strong recovery in 2011, the slowdown of the French economy over the past 10 months combined with the uncertain outcomes of budgetary pressure call for cautious forecasts.

Indeed, France saw zero growth in GDP during the first half of 2012. So far, the French economy is likely to remain at a standstill, as growth is anticipated to stagnate at the same level for the full year.

The graph hereunder shows the evolution of the GDP at current values and the corresponding evolution of RevPAR, based on growth ratios.

FRANCE: GDP AND REVPAR GROWTH



Source: INSEE/Horwath HTL

As shown above, the hospitality industry's performance has proven to be directly linked to the changes in current GDP. Therefore, it has to be noticed that since the peak reached in 2008, and despite the post-rebound crisis of 2010, growth in current GDP never regained its pre-2008 level, oscillating from 3 to 5 %.

Current GDP forecast for 2013 indicates 0.8 % growth in volume which seems ambitious in the current context. At the same time, inflation should remain in the range of 2 %.

Thirteen tales of hope cont.

As a consequence, growth in RevPAR in 2012 is anticipated to be moderate and price driven only at around +3 % versus 2011. Occupancy is stable in most categories, while prices are pulled up by the upscale segment.

Undoubtebly, the French hotel industry remains driven by Paris which benefited from a favorable combination of high occupancy and continuing increase of ADRs. In this favorable context, Paris has achieved or planned upgrades of many hotel facilities in the 4 and 5 star segments. This, combined with the scarcity of land plots available for development, translates into ever higher rates.

Hotel investment in France, although affected by the crisis, was still solid in 2012, thanks to transactions of trophy assets in Paris. But if France remains globally one of the most dynamic markets in terms of hotel transactions, the increased uncertainty in financial markets has caused banks to be more selective and debt to become more difficult to source for new built projects.

OUTLOOK FOR 2013

The perspective for 2013 is rather stable. However, we anticipate a slower growth in RevPAR than in 2012, in relation to the poor performance in GDP anticipated by economists. In addition, we anticipate that the context will be less favorable to increase ADRs well above the expected inflation rate of 2 %.

Development remains driven by two factors:

- A significant part of the stock of existing branded hotels continues to age (> 20 years on average), featuring too-small average size and often unattractive suburban locations. As a result, the city center is attractive again to hotel developers.
- The new star rating system, implemented gradually since 2010, should contribute to improve the overall quality of supply, but the weakest properties will exit the market. This will offer opportunities for renewal.

In total, this results in a two-gear hotel market:

- On the one hand, the Paris region, driven by international business and leisure dynamics, has proven to be a solid market. Interest from investors remains strong and demand is expected to remain solid, supported by sustained rates.
- On the other hand, regional markets are more volatile. They perform at a lower level, as they are often impacted by seasonality. However, regional markets could be looked at opportunistically if well located in a city center and/or in a perspective of market renewal.

Philippe Doizelet

Trianon Palace, Versailles

Courtesy Richmond International

Thirteen tales of hope cont.

SPAIN

SITUATION REPORT

After many seasons of being battered by the global economic downturn, Spain is living up to its name as one of the top tourist destinations in the world, as the country has received, up to September 2012, 47 million tourist arrivals, an increase of 3.8 % from the previous year, with the Islas Baleares and Cataluña leading the results.

Tourist spend up to September 2012 sees a 7.2 % increase from 2011, with a total of €45,106 million. September itself saw a 13 % increase from 2011, with €6,242 million spent, and an increase in spend per tourist and daily spend of 7.8 % and 7.6 % respectively, thanks to a 5.1 % increase in tourist arrivals for this month.

Overall numbers see Cataluña as the main receptor of tourist arrivals with a total of 11.9 million tourists, an 11.6 % increase, although the summer months see the Islas Baleares as the leader in tourist arrivals.

Neighboring countries Germany and the United Kingdom are the main markets, preferring the Islas Baleares (Mallorca especially) for their holidays, with an important increase in the French, Scandinavian and especially Russian markets. In Cataluña, the Russian market, for the first time, has taken the lead from the traditional French market in this area, and although their numbers have only just reached 1 million, that actually represents a 40 % increase from 2011. The US market is proving also to be a reliable market for Spain, with an increase of 25.2 % in September.

Andalucía and the Islas Canarias have also seen important increases in their tourist arrivals and spend, and Valencia saw the most important growth, 28 %. On the other hand, Madrid has seen a decrease in both tourist arrival and spend in September, although the YTD is a 3.7 % increase from 2011, with a total of 3.4 million foreign arrivals.

Leisure is still the top reason for travel to Spain, with a slight decrease in the results for business travel in many communities. The preferred accommodations remain the hotels, with a 5.9 % increase from 2011, and an important increase of 19 % in apartment rental is also an significant trend.

OUTLOOK FOR 2013

The forecast for 2013 is tricky: the ailing Spanish economy has a direct impact on touristic income. Government budget cuts and VAT increases negatively affect the competitiveness of Spain as a destination.

As many typical “sun & beach” communities depend between 50 and 70 % on tour operators, package agreements for 2013 are difficult to close. The uncertainty of the tax factor in pricing has meant many hotel businesses have prepared blindly for 2013, and certain tour operators have made it very clear that they are not willing to accommodate tax increases within their contract clauses. The result is hotels having to cover the cost of the tax increase that they cannot charge to the client.

Business travel from the Spanish market (Spanish business travelers within Spain) is set to follow the same negative trend in 2013, with expected falls of total spend of 4.1 % down to €14,700 million, due to the lower rates of economic growth and the austerity measures adopted by Spanish companies. 2008 saw a total business spend of €16,620 million, while 2011 reached only €15,350 million. Spanish hotel companies look to the European market for increases in business travel results.

However, Spain is expected to enjoy an increase in tourist arrivals in 2013, second only to the USA, thanks also in measure to the impulse created by the increase in travel of the BRIC countries to Spain, especially Russia, direct flights from these

Thirteen tales of hope cont.

countries being the main factor affecting growth. Also affecting growth are the persistent uncertainties in the European economy, with the continued debt crisis, added to the increase in energy and food costs.

Perspectives for 2013 tourist arrivals are cautiously optimistic, although the first quarter of the year will set the tone for the rest. But results are expected to be as positive as 2012, or even slightly better.

Mariá Rosa Barcia

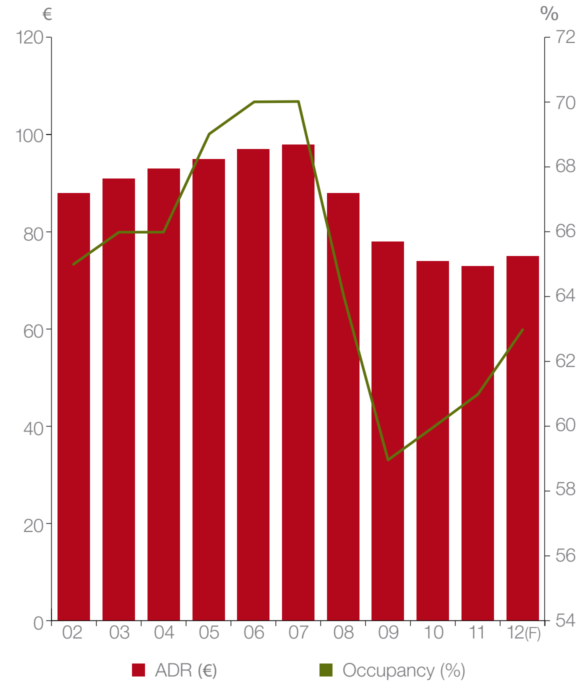
IRELAND

SITUATION REPORT

After three years of negative sentiment, the Irish hotel industry is gaining confidence with a stronger performance in 2012 and a general optimism for the year ahead. RevPAR is forecast to grow for the third year in a row in 2012, with improvements predicted in both occupancy and average rate. Dublin has experienced 22 months of consecutive rate growth and is ranked among the top 10 European cities in occupancy terms. Hotel performance is improving in city-based hotels, while rural properties continue to face challenges with an over-reliance on the price-sensitive domestic market.

> Dublin has experienced 22 months of consecutive rate growth and is ranked among the top 10 European cities in occupancy terms

HOTEL TRENDS – REPUBLIC OF IRELAND



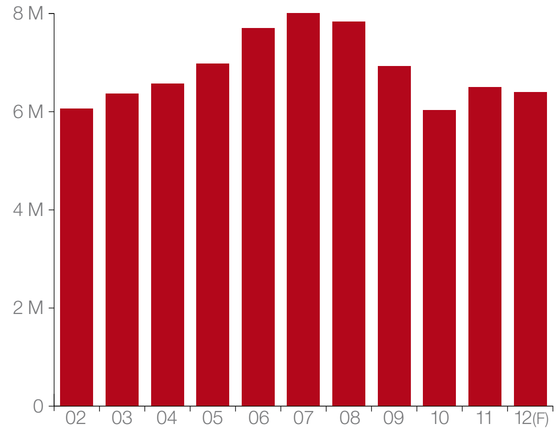
Source: Horwath HTL Ireland and Northern Ireland Hotel Industry Survey and Forecast

TOURISM NUMBERS

A total of 6.5 million trips were made to Ireland in 2011, up from 6.0 million in 2010. This boost in tourism numbers was helped by events such as President Obama's and the Royal Visit to Ireland in May 2011. There has been an estimated 4.5 million overseas visitors to Ireland in the first 8 months of 2012, 1.4 % fewer than the same period last year. The forecast to year-end is ca. 6.4 million visitors, a modest reduction on 2011.
The UK, which accounts for ca. 44 % of total visitor numbers, has experienced a decline in visitor numbers during 2012. Promoting Irish tourism in the UK is a key priority for Tourism Ireland.

Thirteen tales of hope cont.

OVERSEAS VISITOR NUMBERS



Source: Central Statistics Office and Horwath HTL Forecast

Tourism accounts for an estimated 196,000 jobs, equating to ca. 11 % of Ireland's total employment. Tourism continues to make a valuable input to the national economy, generating substantial export revenues and tax contributions, contributing ca. €5.3 billion in spending to the Irish tourist economy and generating ca. €1.3 billion in tax revenues.

Domestic tourism continues to account for a high share of total tourism demand. While the Irish economy has shown signs of a recovery and growth, the outlook remains vulnerable. While consumer confidence has risen during 2012, it has seen a decline in the third quarter, driven by concerns in relation to the outlook for household finances over the next 12 months. Budget 2013 is expected to result in a contraction of the public spending deficit by €3.5 billion through a mix of extra tax charges and spending cuts. These measures will weigh on consumer spending and will have an impact for the tourism sector.

BANK FINANCE

The Irish hotel industry is suffering from a significant debt overhang problem which is curbing recovery in the sector. The hotel sector is overleveraged and overweighed by debt as a result of high investment during the Celtic Tiger years.

There is an estimated €6.7 billion of debt in the sector. Indebtedness in the hotel sector has more than doubled from ca. €50k per room in 2001 to ca. €120k per room in 2011. This rapid increase in hotel indebtedness was driven by a significant investment in new supply, the refurbishment and upgrading of existing hotels, and a buoyant transaction market in the years to 2008 before the economic collapse.

While hotel profits increased in 2011 to €5,220 per room, these levels are insufficient to repay the debt facing the sector. We expect the debt overhang to be resolved over the coming years through a mixture of asset sales or refinancing and through formal debt restructuring. Banks are continuing to assess their hotel portfolio to decide which loans to restructure and to establish an appropriate sustainable debt level.

Domestic based banks, in particular, have expressed and demonstrated appetite for providing funding for new acquisitions and capital expenditure projects. This is a positive step towards Ireland retaining a high quality hotel stock.

MARKET

After 3 years of almost no transactional activity, 2012 has witnessed a surge of hotel properties being brought to the market by lenders. A number of banks have signalled their exit from the market and are committed to winding down their operations and are now aggressively selling assets. This activity will present exciting opportunities for new entrants to the market to acquire quality hotel assets at attractive prices. Hotels in prime urban locations have seen strong international demand with transactions over the past 12 months including the Four Seasons, The Marker and The Morrison.

International purchasers have successfully acquired a number of hotel assets and opportunities are certainly evident for consolidation in the market.

Thirteen tales of hope cont.

OUTLOOK FOR 2013

We are optimistic that 2013 should deliver improved results for the Irish hotel industry. Occupancy levels should continue to grow on a national basis. Rate recovery will continue to be led by the key cities, but it will be a slow process and may take several years to recover to pre-recession levels.

A number of government incentives have been introduced to support the Irish tourism industry. These include a reduction in air tax, maintenance of the current 9 % VAT rate and increased funding for tourism marketing.

The government's flagship tourism program, "The Gathering" has also been launched for 2013. The Gathering is a year-long calendar of events hosted by local communities throughout the country to showcase and share the very best of Irish culture and tradition. Statistics show that over 70 million people worldwide claim Irish ancestry and it is hoped that The Gathering will entice an additional 300,000 visitors to Ireland next year.

The Tourism Recovery Taskforce has been established as an industry initiative, which identifies the market segments which offer the best potential for growth, and sets out a plan for future marketing and development in Great Britain. The Taskforce is confident that the implementation of all elements of this strategy will restore growth from the GB holiday market to the island of Ireland, yielding increases of close to 5 % per annum over the next 4 years, or 200,000 additional visitors annually by 2016.

From January until June 2013 Ireland will host the Presidency of the Council of the European Union. For those six months, it will be at the center of decision making in Europe, helping to shape policies and drive forward legislation that will impact on the futures of over 500 million EU citizens. Hosting the Presidency is an important position, as the host nation must undertake a number of functions that are essential for the smooth operation of the European Union as a whole. This will encourage many representatives worldwide to visit Ireland, having a positive impact on overseas visitor numbers.

The current economic conditions will continue to create a difficult operating environment for the Irish hotel industry. The reliance of the industry on the domestic market will impact the level of recovery during 2013. There was evidence of a turnaround for the industry in 2011 / 2012, and through the recently introduced initiatives and uplift in overseas visitor numbers, we are confident that the Irish hotel industry will continue to grow in 2013.

Naoise Cosgrove

BALKANS

CROATIAN tourism volumes continue to grow in 2012, reaching more than 60 million annual overnights and growing around 4 % compared to 2011. EU accession in July 2013 now seems definite – driving hotel performance as well, both on the side of occupancy and especially ADR. Important administrative adjustment is going to take place as of January 1st, 2013, when the VAT rate is set to decrease to 10 %. Croatia is in the final stage of adjusting its tourism and hotel-related legislation to EU standards, a process that is expected to be finished in a year's time. There have been few hotel openings (notably the Zagreb Hilton DoubleTree), but several state-owned brownfield objects have been initiated, meaning that the period from 2013 to 2015 will probably see further growth in supply of new capacities and a revitalization of destinations that so far have remained underdeveloped.

Thirteen tales of hope cont.

Although the crisis fully hit **BULGARIA** three year ago, the hotel market is still feeling the impact in terms of ADR, while arrivals continued their weak recovery. According to estimates, occupancy growth in Bulgaria should show a slight recovery, but not yet one that provides a profitable framework for the majority of non-branded hotels. Taxation and the gray economy will still remain among the top issues in Bulgaria in 2013.

ROMANIAN tourism is still mostly business-related, with Bucharest as the most important city destination. Followed by a room oversupply resulting in hotels struggling to maintain profitable performances, the year 2012 brought a recovery in ADR of over 6 %, on account of a slight further decrease of occupancy by 2 %. In 2013, slight performance improvements can be expected, mainly in terms of occupancy – also an impact of the new branding of 2010. The investment cycle in Romanian tourism is still in a downturn following the recession in the EU and key markets.

MONTENEGRO in 2012 continued the growth begun in 2010 following the global crisis recovery. In 2012, the estimated growth in terms of overnights will be around 2 %. Tourism receipts amounted €680 million in the first nine months of the year, while on a yearly basis, receipts are estimated to grow by 3 %. In 2012, Montenegro continued to attract hotel investors. There have been public tenders on several seaside locations

Thirteen tales of hope cont.

which attracted a set of interested parties. There are still pending issues for the Lustica development project and the Sveti Marko island project, so the expected projects are still in preparation phase. According to the WTTC, Montenegro is the top country in the world regarding long-term growth prospects.

In **MOLDOVA,** the hotel market is still predominantly concentrated in the capital Chisinau, which generates 80 % of all the hotel overnights recorded in the country. After years of crisis, the market has started a strong recovery in 2011 which is expected to accelerate further with the announced opening of the Radisson Blu in Chisinau in spring 2013.

The tourism sector in **SERBIA** is still focused on business travel to the capital, while the main focus of development is in the Danube region, Kopaonik, Stara Planina and Zlatibor mountains, predominantly through public sector initiatives in competitiveness building and destination management. Both tourism and hotel performance were stagnating in 2012 on rather unfavorable levels of business performance. However, there are several projects that have been launched recently or are awaiting their launch in December 2012 – Metropol in Belgrade and two Falkensteiner objects (Stara Planina and Belgrade). These developments, together with expected results of the public sector development initiatives in several regions mentioned above, provide arguments for expected growth in 2013.

| Miroslav Dragicevic

SCANDINAVIA

SITUATION REPORT

Nordic Choice Hotels retains its position as the largest hotel operator in Scandinavia, and recently surpassed Scandic in the number of hotels, also in Sweden. Hilton has withdrawn from both Oslo and Malmö, leaving Rezidor and Best Western as the only chains with a presence in all the Nordic countries.

	Total		Avg. hotel size (rooms)
Per September 2012	**Hotels**	**Rooms**	
Nordic Choice Hotels	161	25,096	156
Scandic Hotels	120	22,890	191
Rezidor Hotel Group	48	11,771	245
Best Western	136	11,161	82
Rica Hotels	73	10,498	144

Local property owners and banks are reluctant to sign management agreements, and hotel operators prefer fixed and variable lease contracts. As such, the meager presence of international operators in the region is not likely to change any time soon.

Four of the five cities with the highest RevPAR in Scandinavia are located in Norway:

Stavanger	€89
Stockholm	€87
Bergen	€84
Oslo	€80
Trondheim	€71

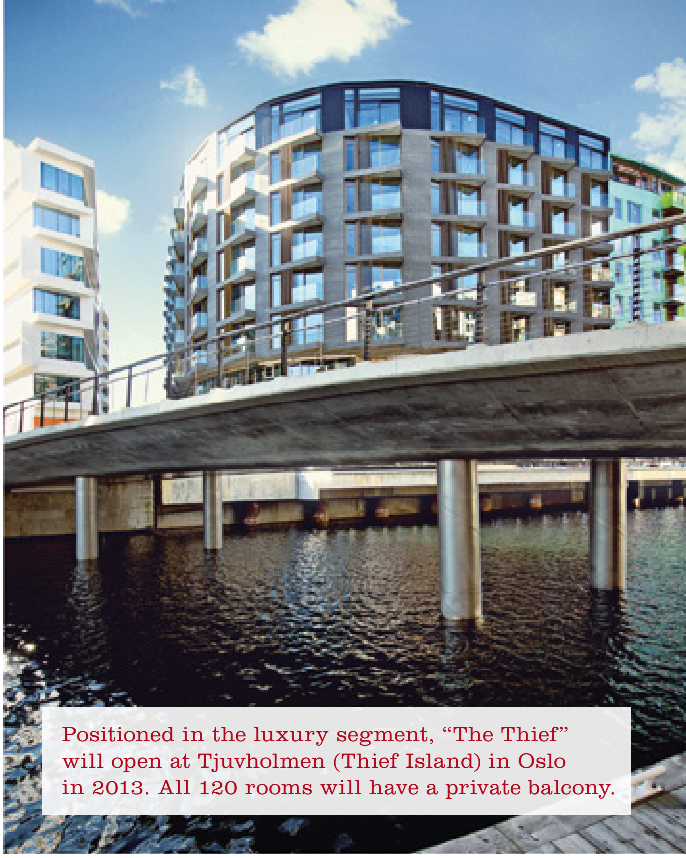
2011 figures from STR Global, based on average Euro exchange rate for 2011

Gothenburg is trailing right behind, with a RevPAR at €70 for 2011.

Economic development in Scandinavia is mixed, and so is hotel performance. As visitor demand is fairly stable, hotel performance is most significantly influenced by additional supply.

DENMARK

Denmark is significantly affected by the troubles of the Euro-zone and is on the verge of recession. Despite overall economic development, overnight stays increased 3.4 % compared to YTD September 2011. Fifty-five percent of all guest nights in Denmark are in the Copenhagen area. The Copenhagen hotel market is performing quite well, with an increase in rates having generated 6 % RevPAR growth as of September.



Positioned in the luxury segment, "The Thief" will open at Tjuvholmen (Thief Island) in Oslo in 2013. All 120 rooms will have a private balcony.

NORWAY

During 2012, guest nights are up by 2.7 % from a year earlier. RevPAR has increased by 1.7 %, negatively affected by large capacity increases in some of the bigger cities. Especially hotels in Oslo have experienced pressure on prices (slightly down this year) with an occupancy decline of 3.3 %, despite an increase in guest nights of 1.4 %.

SWEDEN

Sweden rebounded quickly after the economic crisis in 2009, and its economy has been stable since then. The country as a whole posted a small increase in sold room nights of 1.5 % as of September, but due to an increase in supply, occupancy is down 1.7 %, and RevPAR is down 1.5 %. Stockholm is in a negative trend with a RevPAR decline of 4 % in 2012 (-11 % in Q3). This is in large part due to capacity increases, and to make things worse, several new hotels are being built to be introduced in late 2012 and 2013.

OUTLOOK FOR 2013

Scandinavia benefits from significant intra-regional travel, both in the business and leisure segments. Interest rates in Scandinavia are being kept low for the foreseeable future to counteract the effect of local currencies growing too strong. The economic outlook varies, but the Norwegian oil industry continues to put Norway ahead of the rest.

Hotel capacity is set to grow by 5 % in Norway in 2012 and 2013. Further growth is expected in 2014-2016. Several of the major cities in Norway could experience a decline in occupancy and ARR, though some areas will be hit harder than others.

The Swedish economy was surprisingly strong during first half of 2012, but the outlook is more clouded. Foreign investment interest in Stockholm, along with domestic investors, has led to several new projects being developed in and around the capital. Both ADR and occupancy should be influenced, leading to a flat RevPAR development, at best, for next year. A recent study of confidence among Swedish hoteliers shows negative values, indicating a more difficult hotel market in 2013.

Forecasts for the Danish economy project slow growth in 2013. In Copenhagen, capacity growth is expected to be moderate, which should lead to an optimistic outlook for 2013.

Bjørn Kjølstad

GERMANY

SITUATION REPORT

During the first eight months of 2012, the German hotel market benefited from a general economic upturn which is also proven by recent tourist statistics. According to the German Federal Bureau of Statistics, the accumulated number of overnight stays from January to August 2012 increased by 3.9 % compared to last year's period, to 278.9 million. During the same period, the accumulated arrivals in German lodging establishments increased as well, by 4.6 % to roughly 102.4 million. As already mentioned in the Hotel Yearbook 2012, in particular the decrease of the Value-Added Tax has significantly contributed to improving the German hotel market's international competitiveness, resulting in an increase of foreign arrivals and overnight stays by respectively 7.7 % and 8.4 % in 2012.

The positive development of overnight stays and arrivals is also reflected in the performance measurements of the first half-year of 2012. The average occupancy rate increased by roughly 2.2 % to 63.8 %, whereas the average net room rate rose as well by 3.2 % to €95. As a result, the German hotel market

Thirteen tales of hope cont.

profited from RevPAR growth to €61, an increase of 5.4 % compared to the first six months of 2011. Thanks to the overall positive development, German hoteliers recorded an increase in inflation-adjusted revenues of 1.1 %.

OUTLOOK FOR 2013

Increase in international tourists

Based on the positive developments in the year 2012, we can expect that the German hotel market will register an ongoing upswing in 2013. According to the German National Tourist Board (DZT), the German hotel market will especially benefit from an increase in international tourists, since in the long run it is capable of accommodating roughly 80 million overnight stays of foreign guests, which would connote an increase of roughly 70 %. In the near future, a great percentage of foreign arrivals and overnight stays will be generated from European source markets, particularly Spain and Italy as well as Eastern European countries, such as Poland and the Czech Republic.

Thirteen tales of hope cont.

China and India constitute further significant source markets for Germany.

Predicted economic slowdown due to European debt crisis
The German Hotel and Restaurant Association (DEHOGA), though, preaches caution due to the European debt crisis and the slowdown of the global economy which might both lead to an economic slowdown in Germany as well. Whereas those lodging establishments situated in primary locations, as well as business and convention hotels, are facing a promising 2013, hotels that are located away from the classical tourist centers and in secondary locations, by contrast, are slightly less optimistic. About 37 % of German hoteliers are expecting a decrease in revenues for 2013 and even 44 % are preparing for lower profits. These negative expectations are primarily based on increasing cost pressure, in particular with regard to rising food prices and energy costs.

Trends and developments

In 2013, budget hotels as well as hostels will still constitute a significant trend. Especially hybrid forms, such as design budget hotels, will become increasingly popular for both leisure and business travelers. This implies also that hostels and budget hotels will be converging more and more so that a clear distinction will be almost impossible.

Especially domestic tourism and health tourism – or a combination of both – will constitute profitable market segments in the next year. German hoteliers will increasingly catch the trend of medical wellness and even cooperate with physicians and health insurance companies. This trend will not be limited to tourist regions any longer, but also expand to city hotels.

| Rüdiger Knospe

POLAND

SITUATION REPORT

The year 2012, when Poland together with Ukraine undertook the organization of the European Football Championship UEFA EURO 2012®, was a very interesting period, not only for the Polish hotel industry. The decision on where the championship would be held was made on April 18th, 2007 in Cardiff, which gave Poland five years to make all the necessary investments to prepare for the event. The preparations had an impact on most of the sectors of the economy, including the hotel industry, which was expected to benefit greatly not only from an inflow of tourists during the event, but also from intense development of the infrastructure and promotion of our country.

Six months after this event, it can safely be said that the Polish hotel market in 2012 recorded a steady growth, both in terms of an increase of the hotel base, as well as hotel results. We estimate that during this year, over 100 new hotel projects entered the market, which represents ca. 5 % of the hotel market. The table below presents the results of the Polish hotel industry in 2012 compared to 2011.

POLISH HOTEL RESULTS IN 2011 AND 2012

	Occupancy	ADR in PLN	RevPAR in PLN
2011	58.7%	271.09	159.21
2012*	60.1%	282.95	170.03

Source : STR Global **Data for 11 months of 2012*

2012 was marked by the development of hotel chains. No new international hotel chain emerged in Poland ; however, chains already present opened new properties. In total, 13 hotels under international hotel brands were opened, mainly by Orbis/Accor (4 hotels), Louvre Hotels Group (3 hotels) and Best Western (3 hotels).

Another significant trend on the hotel market in 2012 is the increasing importance and interest of investors in economy and budget hotels. In today's uncertain times, investing in economy hotels was regarded by both Polish and international investors as the most reasonable option. What's more, these investors were more likely to choose less promising destinations, such as regional cities. Locations such as these have great potential for the hospitality industry.

Thirteen tales of hope cont.

OUTLOOK FOR 2013

In terms of new hotel openings, we assume that the year 2013 will be slightly worse than 2012. This is mainly due to the many new openings that took place in 2012, which were partly related to UEFA EURO 2012. Due to the fact that nowadays, many hotel chains are planning their investments, and new chains are showing an interest in the Polish market, we anticipate a growing importance of hotel chains in the country.

Janusz Mitulski

HUNGARY

SITUATION REPORT

Circumstances could not be more difficult and challenging, as economic conditions experienced in Hungary in 2012 have not been favorable, to say the least. While endless lists of complaints could be compiled, luckily the moaning has been replaced by action, as hotel industry stakeholders have rolled up their sleeves.

Owners have no reason to cheer yet, as in part at least, they need to blame themselves. While banks have shown patience

n sorting issues with non-performing loans, management and wners have panicked and figured that a filled bed at any price s better than an empty one. This self-destructive price policy as hurt the market overall, and the already bargain-basement rice level of Hungary became even more affordable. There vas no need for such price dumping, as senselessly priced ookings largely through web-based distribution channels have esulted in more volume, but often less revenues or profits. The ong-lasting pain is still healing, as only now, after three years of ignificant occupancy increases, have we begun to see some cross-the-board increases in ADR levels (Budapest registered 21.7 % RevPAR increase in October, according to STR, osting the second highest gain in Europe).

emand profiles have also shifted heavily towards an xtraordinarily value-conscious segment, as with the collapse of the national carrier, low cost airlines have descended on Budapest to grab as much of the 36 % of the cake MALÉV left behind when it shut down overnight. Business passenger seats and the airline's alliance partners from overseas have been lost, which really hurt the hotels.

It is clear that hotel financing, as other corporate loans, will not get the backing of the government, forcing banks to apply a fixed exchange rate to ease the blow on outstanding loan balances, as was the case with mortgages on residential housing. The depreciation of the national currency against the fast-appreciating Swiss Franc and Euro-dominated debt sent debt obligations through the roof in 2010 and 2011. The resulting financial obligations of borrowers have clearly put properties into technical defaults, as asset values were quickly eclipsed by outstanding debts. As such coverage imbalance has emerged practically for the entire real estate industry, exceptional patience has been demonstrated by lenders, who have had their hands full with a number of issues, including bank taxes, losses, reorganizations and write-offs of unprecedented proportions (similarly to other parts of Central/Eastern Europe).

The banks' slow actions have been attributed to a number of factors. The banks need sufficient reserves to write off bad

Thirteen tales of hope cont.

debt. Taking possession in Hungary is a real legal challenge, and some owners can sit in their properties without paying the bank with relative comfort. Clearly, most banks are not set up to deal with becoming the owners of these assets – understanding that no apparent real buyers are around – and taking on the burden of employees, providing working capital and dealing with operating companies. Accordingly, banks have little choice but to wait for better times and for the owners/operators to sort out these issues themselves. Such lack of real pressure on some owners to maximize revenues has also hurt efforts to increase prices.

While hotel prices suffered, the national Tourist Board has had notable, albeit long-awaited, successes in numerous markets. While the work is in no way complete (as it never can be), the dedication and hard work has also become a source of motivation for struggling hoteliers. More needs to be done, however, to finally get a proper convention center for Budapest, and the Tourist Board must be the lightning rod in fighting for it. The challenges of Budapest hotels, the key tourist destination in the country, have been very different from the hotels in the countryside, which depend largely on domestic leisure and MICE business, both of which are clearly witnessing shrinking, or entirely disappearing, travel budgets. The thermal wellness and spa segments, with escalating increase in demand from Russia (finally hoteliers woke up to the obvious after a two-decade hiatus) have saved the day. The domestic market has also got tired of the constant negative news and decided to relax and enjoy spa weekends and packages at the country's overwhelming supply, given the size of the population, of relatively new wellness resorts. The health of this segment has proven resilient; hopefully, banks will start noticing as the development of spa hotels remains a clear niche in the Hungarian hotel industry already in the short term, to help attract a larger share of the constantly growing international spa and wellness travel markets.

While the asset mix of hotels is quite amazing, so is the cross section of brands in Budapest. Room for niche products and brands still exists as much in the capital as elsewhere in Hungary. Banks; financing; hotels; three words in one sentence, which have yet to regain their meaning in Hungary. Although the sentiment is understandable, the bank's attitude should not be black and white when it comes to hotel lending. We see the evidence of some projects clearly deserving attention, particularly if the developers have proven track records, good credit standings and successful hotels under ownership.

Buddha-Bar Hotel Budapest, opened in 2012

OUTLOOK FOR 2013

Bargains are great, and it is time to visit Hungary. Who knows how long such rates will last, as 2013 is expected to bring, by all international accounts, positive GDP growth. Hence the hotel industry is due to see some encouraging changes in the much-awaited recovery of the corporate and MICE travel sectors to complement the already strong, but still budget-conscious leisure markets.

Marius Gomola

Thirteen tales of hope cont.

UNITED KINGDOM

SITUATION REPORT

The UK entered 2012 with great expectations for the year ahead, as the year was peppered with numerous one-off events, including the Diamond Jubilee, The London Olympics and the Paralympics, providing worldwide exposure to the country.

The UK economy, however, continued its bumpy ride with on-going uncertainty in the Eurozone as a result of the sovereign debt crisis playing its part, resulting in the country returning to a technical recession at the beginning of the year. Nonetheless, the UK experienced growth of 1 % in Q3 boosted by the Olympic Games and has subsequently exited the recession, although the economy overall is expected to shrink by 0.1 % in 2012.

International arrivals to the UK (foreigners staying at least one night) fared well this year and are expected to rise by 1.9 % to 29.7 million by the close of 2012 according to Tourism Economics. Despite the good growth this year, this figure remains somewhat short of the 2007 peak which recorded 30.9 million arrivals.

According to STR Global (the source of all performance data here), London has recorded another strong year, influenced by the Olympic Games, and – in spite of an occupancy reduction of 2 % to 81.1 % in the year-to-date (to October 2012) – ADR grew by 5.4 % over the same period last year resulting in an ADR of £140.67, posting record year-to-date in ADR terms.

As anticipated, some regular leisure and business tourists were displaced by the Olympic effect, preferring to avoid the capital altogether during the Games for fear that venues would be crowded and prices high. In fact, many tour operators removed London entirely from their 2012 itineraries as a result of the Olympics and the anticipated associated price hikes.

However, what was not foreseen was the pre-games decline in London arrivals which was recorded in June and July with a lot of tourist attractions experiencing diminished levels of visitation. The reasons were many: poor weather; logjams at Heathrow; media coverage of the transport problems; reporting of high prices; Ramadan which fell early this year, resulting in a reduced number of Middle Eastern guests or a shortening in the length of their stay; a strong June and July 2011; and on the corporate side a number of big corporations asking staff to avoid London during the summer, impacting expectations. Furthermore, big events such as Farnborough and Wimbledon, which typically create significant additional demand, did not have much of an impact this year. The Diamond Jubilee didn't generate much demand, either, as fewer people than expected travelled to London than the capital experienced with the Royal Wedding last year.

In August, however, London ADR increased by an incredible 43.7 % while occupancy rose marginally, illustrating the Olympic effect and local hoteliers' focus on rates during this period. The luxury end of the market seemed to benefit most, and in the early stages of the Games (27 July – 1 August) occupancy was up 16.6 % to 89.3 % and ADR spiked by an incredible 95.9 % to £461. Budget hotels, however, fared less well in terms of volume during this period and recorded a 15.6 % reduction in occupancy to 79 % although experienced ADR growth of 62.6 % to £110.66.

While the Paralympic Games were largely successful with sold out events, they proved to be the Londoners' games with more limited inbound demand.

Hotel performance in the provinces remains closely connected to the strength of the national economy and as a result, there is an intimate connection between RevPAR and GDP. Furthermore, provincial hotels are dependent upon corporate demand (which has historically been government-led in some markets) and as the meetings and events market has been badly affected by the recession, this has had a particular effect on regional hotels. As a result of the sluggish recovery, performance in the regions remains challenging with a 1.7 % reduction in occupancy to 70.9 % year-to-date (to October 2012) and a 0.9 % growth in ADR to £59.55 over the same period. However, there is apparently some light at the end of

Thirteen tales of hope cont.

the tunnel with some return of the corporate sector, although this remains restricted to day meeting events as opposed to residential events. In addition, there are reports of profit growth, illustrating that provincial hoteliers are now starting to effectively control costs.

The picture has, however, been quite mixed with some cities such as Aberdeen, which continues to reap the benefits of the local oil market, and Belfast, the birthplace of the Titanic which marked the 100-year anniversary of its sinking and opened a commemorative museum, recording strong occupancy increases and good rate growth. Other cities which have also posted positive results include Brighton, Cambridge, Gatwick, Southampton and York, some of which are the result of the Olympic halo effect. Other markets fared less well such as Newcastle and Heathrow which have opened a number of new hotels recently so the market is trying to stabilize, and Edinburgh and Bradford, all experiencing reduced performance. This relates to performance year-to-date (to September 2012).

Room supply in the UK in 2012 increased by the highest rate in the last 10 years, with the London Olympics sparking significant new hotel development in addition to some regional cities trying to establish themselves in the short-break market. Branded budget supply has dominated the regional pipeline, and the shortage of finance for new developments has shaped development in the provinces with new supply led by conversions which are then rebranded and refurbished.

Thirteen tales of hope cont.

The investment market remains well below peak levels with deal activity mostly down across the country with £1.3 billion year-to-date in November 2011, compared to approximately £2.4 billion over the same period last year, including the contested £700 million Maybourne Group transaction. The transaction of the 42 Marriott hotels could change this figure significantly, although this deal has been in the market for over a year and is taking its time to complete. The limited availability of finance continues to present challenges and shape the market (it is only available for the right deal, in the right location, often with existing customers only and with an appropriate brand proposed). This remains a major issue outside London. We have, however, seen a number of alternative funding sources entering the market, including private equity and insurance companies which are stepping in to fill the void left by the banks, although the current market is clearly favoring cash-rich buyers – of which there are a good number – who are currently examining opportunities. Nonetheless, the pricing mismatch continues between buyer and seller expectations.

London remains a prime location for investment, with foreign investors seeing the capital as a safe haven given its balanced leisure and business demand profile from a number of international markets. This has become of particular importance given the current uncertainty within the Eurozone and the wider global economic fragility that exists at present. The upscale and luxury end of the market continues to drive transactions, with yields for trophy assets back to pre-recession levels.

In the provinces, there is interest in well-positioned hotel assets, although a dearth of obtainable quality product remains an issue.

Despite reporting a 20 % increase in profits last year to £55 million in 2011, the UK's second biggest budget hotel chain Travelodge caused a stir earlier in the year when Goldman Sachs and two New York hedge funds took control from the heavily debt-laden Dubai International Capital. Travelodge's new owners have now put the budget hotel company into a company voluntary arrangement (CVA) to deal with its crippling debt pile. It is expected to offload 49 hotels, while the landlords of a further 109 will take a 25 % cut in rent. The remaining 347 will be unaffected, but this sent shockwaves around the investment community given Travelodge's solid reputation and strong historic performance.

In the last few years, we have seen some banks disposing of the "easy wins" where they were able to sell hotel assets quickly and with limited exposure. However, now we are starting to see Lloyds offloading its hospitality loans where they have already taken a write-off rumored to include Menzies Hotels.

OUTLOOK FOR 2013

The Bank of England's GDP growth forecast for 2013 is around 1 % (cut from nearer 2 % earlier in the year), with recovery expected to be "slow and protracted." Lower growth is attributed to reduced growth internationally and the expectation of further austerity measures. Osborne recently indicated that austerity measures will remain in place until 2018. GDP growth next year is likely to rely more on household consumption. However, positive indications from lower unemployment and falling inflation rates could spark a resumption of confidence from consumers and businesses.

It is clear that the UK experienced unprecedented levels of international media exposure in 2012 thanks to the Diamond Jubilee, the Olympics and Paralympics. The hope now is that this will translate into a surge in international visitors in 2013 and thereafter. London and Partners anticipates a further one million tourists between now and 2017 thanks to the Olympic legacy. Despite this, Tourism Economics forecasts that UK international arrivals will soften in 2013, falling by 0.9 %, largely driven by a decline in arrivals from Eurozone markets, which account for the vast majority of international arrivals to the UK (over 21 million) which illustrates the country's intrinsic links and dependence upon this market. Furthermore, while it is common for hosts to see a drop in arrivals post-Olympics, this reduction is much smaller than witnessed in other host cities. The weakening is the result of the tough on-going economic climate in the Eurozone, and looks set to continue until the economic situation

Thirteen tales of hope cont.

improves. While there is strong growth in emerging markets – and thanks to the Olympics, this is likely to have been further increased – these markets remain in their relative infancy and will not be enough to offset the fall in arrivals from Europe.

As a consequence, London occupancy is expected to fall marginally in 2013 as the fallout of the Eurozone crisis is felt and further new room supply enters the market, even though dissuaded travellers are likely to return. Nonetheless, tour operators which avoided the capital in 2012 are expected to return to London in 2013 – which is encouraging. While London has witnessed strong ADR growth in the recent past, the question is, how long can it last? Given the positive impact on ADR during the Games, which is likely to help lift London to another record year, it is not estimated that this can be replicated in 2013, and ADR is expected to drop marginally. We anticipate that it will move back to growth in 2014. As a result, RevPAR is forecast to drop by 1.6% in 2012.

In the provinces, future performance is expected to be flat and while a small reduction in occupancy is expected to 69%, ADR is forecast to grow, resulting in a 0.9% growth in RevPAR. As a result, provincial hoteliers are likely to continue to face challenges, with costs continuing to escalate above rate growth. Across the regions particularly, the speed of economic recovery will be the biggest influencer for business travel going forward, and given the UK's sluggish and patchy recovery, companies are likely to remain prudent and cost conscious. The south east (excluding London) is expected to recover more quickly than the rest of the UK, and those hotels which have international brand affiliation are likely to outperform the unbranded offerings.

Concerns remain regarding post-Olympic oversupply in the Capital, with a further 5,000 keys anticipated in 2013 according to AM:PM Hotel Database. The average supply increase has historically been circa 1,500 bedrooms annually. While there may be some readjustment, and occupancy could be impacted in the short-term, London has experienced unprecedented global showcasing in 2012 and this is very likely to have a positive impact on arrivals going forward. We anticipate that the market will absorb the rooms over the next few years. Furthermore, the city continues to evolve and diversify its demand markets, thereby positioning itself as a key global hub and insulating it further. As a result, we do not anticipate that this will create a big shock in the market as experienced by a number of other Olympic hosts in their post-games period.

In the coming years, we expect continued rebranding in the regional mid-market is expected. This would provide the opportunity for new owners to clean up the portfolios, disposing of non-core or poorly performing assets, refreshing others and restructuring them into groups or brands.

London is likely to maintain its position as a highly sought-after investment market with high barriers to entry, as long as there are no worldwide market shocks. In the regions, we anticipate that more portfolio transactions are likely to enter the market

> Equity-rich buyers, or those that are not subject to bank financing, will continue to be the frontrunners in any deals

in 2013, particularly in the form of small UK branded hotel groups, and coming out of the bank portfolios, offering investors the opportunity to dispose of non-core assets, refurbish and rebrand with a view to a short- to medium-term hold accelerating regional consolidation. While we are waiting for the return of bank finance, we also expect other institutional investors to move into the lending market, replacing parts of the bank financing. We expect the gap between buyer and seller price expectations to continue. Equity-rich buyers, or those that are not subject to bank financing, will continue to be the frontrunners in any deals. We also expect that more banks will start to off-load their debt in 2013 now that the "easy wins" are behind them.

Alexandra van Pelt

Thirteen tales of hope cont.

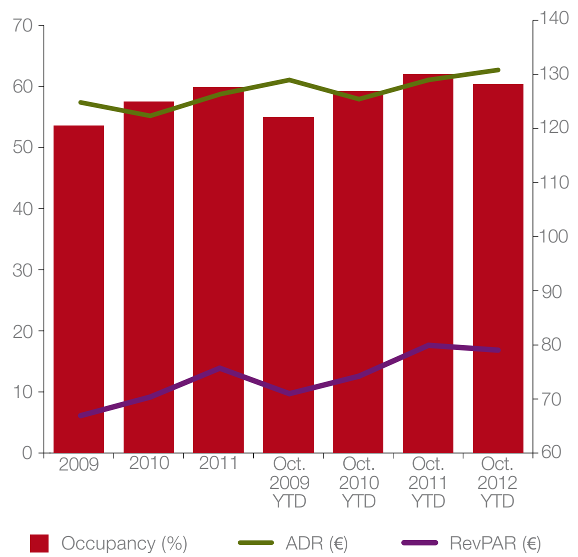
ITALY

SITUATION REPORT

2012 was a hard year for Italy in terms of political and economical issues, impacting considerably the tourism market, as well as the hotel market, mainly driven by domestic travelers, forcing hoteliers to attract travelers from outside the country.

Indeed, according to STR Global data, occupancy fell from 62.0 % year-to-date October 2011 to 60.4 % year-to-date October 2012 (a drop of 2.6 %), whereas ADR slightly increased from € 128.98 year-to-date October 2011 to € 130.82 year-to-date October 2012 (an increase of 1,4 %). Combined, these factors led to stabilization of the RevPAR, which experienced a decrease of only -1.1 %.

ITALY HOTEL MARKET HISTORICAL PERFORMANCE 2009 TO YTD OCT 2012



Elaborated by Horwath HTL from STR Global Data

Both primary and secondary destinations were impacted by the crisis, with all indicators in decline. The market is still driven, both in terms of occupancy and rates, by the leaders Venice, Florence, Milan and Rome, which were able to compensate for, or at least reduce, the impact of the drop in occupancy with an improved ADR, leading to a balanced or slightly negative RevPAR compared to the same period (January to August) last year *(source: AICA - Associazione Italiana Compagnie Alberghiere / Italian Association for Hotel Companies).*

		OCCUPANCY		
		40-49 %	50-59 %	60-70 %
ADR	140-160 €			Rome Venice
	120-139 €			Milan
	100-119 €			Florence
	80-99 €		Turin	
	60-79 €	Bologna Brescia	Bergamo Genoa Padova	Catania Naples Verona

Elaborated by Horwath HTL from AICA Data for branded hotels located in the Pronvinces

The four leading cities Florence, Milan, Rome and Venice all experienced a drop in occupancy, from -0.4 % in Milan to -5.9 % in Rome. However, they all benefited from an increase of ADR from +0.2 % in Milan to an impressive +6.9 % in Florence, reducing the effects on the RevPAR with a drop of -1.0 % in Milan and -2.9 % in Venice, and a stabilization at +0.0 % of the RevPAR in Rome. Florence is the only one of these markets that saw its RevPAR growing, by +6.9 %, driven by the significant increase in rates.

Thirteen tales of hope cont.

OUTLOOK FOR 2013

2013 is expected to be a challenging year for the Italian hotel market. The general confidence of Italian hoteliers is at half-mast, and they expect performance to remain stable next year. As the political situation of the country remains uncertain, they do not anticipate a recovery of domestic travel. However, they believe that an increase in occupancy is possible, especially thanks to a likely increase ion the number of international travelers, driven by the Americas and Europe as well as BRIC countries, whose share of the Italian tourism market is increasing each year.

Regarding the market leading cities, the hotel pipeline is strong in Milan, in anticipation of the Milan 2015 World Exposition, as well as in Venice, where 15 new hotels are planned or in renovation, including the iconic Gritti Palace, which is worrying hoteliers, as they doubt that the demand will be able to sustain the significant increase in supply, especially in the current market situation. However, there are doubts that all the projects will go through, and we assume that there will be fewer additional rooms than anticipated.

Zoran Bacic

BELGIUM

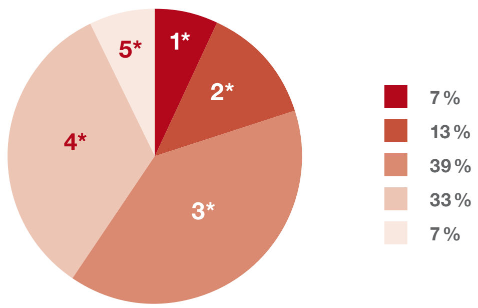
SITUATION REPORT

Belgium is characterized as a country divided – linguistically, politically and economically. Geographically, the nation is divided in three regions: the Dutch-speaking northern region of Flanders, the French-speaking southern region of Wallonia and the officially bilingual, central Brussels-Capital Region. Due in part to this division, Belgium holds the European record for the most costly political system, with 57 ministers and state secretaries spread across six different governments, seven parliaments and twelve provincial governments. The complexities were also evident in the latest federal election, which was held in June 2010 but was followed by 541 days before a government was actually formed in December 2011.

The division of the country has also resulted in three separate hotel markets. Flanders, which consists of approximately 45 % of the land area, offers more than twice the number of hotel rooms than the larger area of Wallonia. Flanders also has a relatively higher classified hotel supply, with 33 % four- and five-star hotel rooms, against 25 % in Wallonia. Both, however, pale in comparison to the Brussels-Capital region, which covers only 0.5 % of Belgium's area but accounts for 28 % of the total hotel supply – and 92 % of the five-star hotel supply. Brussels also features the highest occupancies and average room rates in the country, resulting in a RevPAR that is 39 % higher than that in Flanders, and 50 % higher than in Wallonia.

Facts & figures Belgium hospitality supply	2011
No. of lodging accommodations	3,635
No. of rooms/places in lodging accommodations	106,652
No. of hotels	1,776
No. of hotel rooms	57,514
Market share of hotels	54%
Growth, No. of rooms in lodging accommodations 2006-2011	+3 %
Growth, No. of hotel rooms 2006-2011	+11 %
Growth, market share of hotels 2008-2012	+4 %

Thirteen tales of hope cont.



Like most western European countries, Belgium experienced a decline in hotel occupancies and room rates as a result of the economic crisis, reaching a low point in 2009. After a modest recovery in 2010, the results in 2011 remained relatively stable, with only a slight increase in both occupancies and average room rates. However, there was a clear shift in the market segmentation. In 2006, before the crisis, the business individual segment supplied 48 % of all room nights in Belgium. In 2011, this was down to 38 %. The tourist individual segment, meanwhile, increased from 24 % to 33 %. This shift helps explain why the average room rates have not recovered, as the tourist rates are traditionally lower than those paid by business travellers.

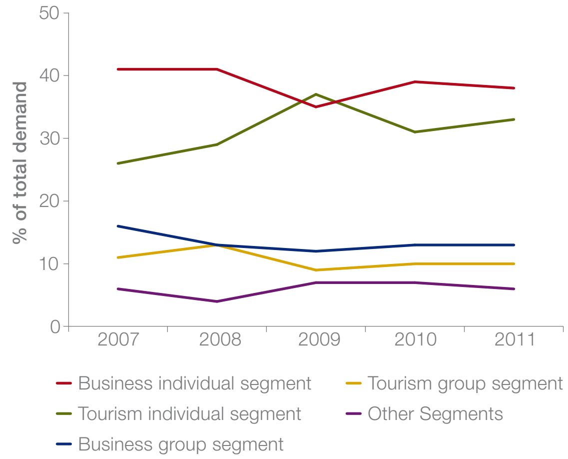
At the start of 2012, most hoteliers forecasted a continued modest increase in occupancies and average room rates. However, at the end of the first half year of 2012, more than half

> A full recovery is not expected before 2015, and may be as far off as 2017 or 2018

of the hoteliers indicated that the actual results were worse, or much worse, than expected. By October, year-to-date figures indicate a decrease in occupancies of 0.7 percentage points, while the average room rates remained stable.

In Brussels, however, both occupancies and average room rates have decreased compared to last year, resulting in a 3 % drop in RevPAR.

Facts & figures: Belgium hospitality demand	2008	2009	2010	2011	Growth
Overnight stays (in M)	30.0	29.3	30.3	31.4	+5 %
Overnight stays in hotels (in M)	15.2	14.8	15.9	17.2	+13 %
International overnight stays (in M)	16.4	15.5	16.2	16.7	+2 %
Business overnight stays in hotels (in M)	7.3	6.7	7.3	7.8	+7 %
Occupancy 3-, 4- and 5* hotels (in %)	70.0	63.1	68.1	69.3	-1 %
Average room rate 3-, 4- and 5* hotels (in €)	95	84	90	91	-4 %
Revenue per available room 3-, 4- and 5* hotels (in €)	67	53	61	63	-6 %



OUTLOOK FOR 2013

The outlook for 2013 remains clouded in Belgium. The Belgian economy appears to have stalled after the summer of 2012. The

Thirteen tales of hope cont.

Economist Intelligence Unit projects that, following a negative economic growth of -0.2 % in 2012, the Belgian economy will experience 0 % growth in 2013. As such, it is expected to do slightly better than the average of the European Union. However, the economic stability will depend on the stability of the new government and in fact of the nation itself, as calls for a separatist Flanders continue to increase.

The outlook for the hotel market is even less optimistic. 55 % of Belgium hoteliers expect a decrease in revenues in the second half of 2012, and this trend seems likely to continue in 2013. Only the leisure segment appears to give reason for optimism, as decreases are expected in both the business individual and MICE segments. Negative impact is expected from the developments in the stock market as well as the local and global economy. Another negative impact is expected from the increase in the hotel supply, which will continue in 2013. As a result, negative RevPAR growth of -2 % has been forecasted for 2013. A full recovery is not expected before 2015, and may be as far off as 2017 or 2018.

| Marco van Bruggen ■

AUSTRIA

SITUATION REPORT

Concerning tourism performance, 2012 has been a successful year for Austria. The crisis, for tourism providers at least, appears to be forgotten, with numbers exceeding pre-crisis peaks. According to Statistic Austria, the most recent tourism arrivals (until August 2012) account for an increase of 4.2 % in comparison to the year before, and overnight stays have increased by 3.5 %. This is mainly the result of a change in tourism markets. Declining traditional markets such as Germany and Netherlands are being substituted by above-average growth rates from Central and Eastern Europe (CEE) and Russia.

A variety of new hotel openings has extended Austria's tourism product, especially in the country's capital Vienna. Renowned brands such as Ritz-Carlton Vienna, Hotel Topazz & Hotel Lamée by Lenikus and 25hours Hotels have established themselves in the city, which was awarded first place in the Quality of Living ranking by Mercer in 2011. Moreover, Hotel Topazz was recently awarded as the winner of the Hotel Property Award 2012 by hotelforum management Munich. In total, eleven new hotels with 1,169 rooms have opened in Vienna in 2012.

Despite the favorable tourism developments, Austria's real GDP growth has been estimated by the Institute of Advanced Studies Vienna to decline by 1.9 % from 2.7 % in 2011 to 0.8 % in 2012. HIS Vienna argues that continuing economic uncertainties have slowed down recovery. The growth of 0.5 % in the first quarter of 2012 has dropped to 0.1 % in the second quarter of 2012 in comparison to the first and second quarter of 2011. As a result, the forecast has been revised downward due to low global momentum and unfavorable sentiment indicators.

OUTLOOK FOR 2013

It is projected that the crisis of confidence in Europe will slowly commence dissolving in the near future, with structural changes set in place. The Austrian Institute of Economic Research (WIFO) estimates a positive change in real GDP of 1 % for Austria in 2013. In terms of tourism development, the Austrian Federal Ministry of Economy, Family and Youth estimates an annual growth of 0.5 %. In the same scenario, tourism exports of EU-15 countries average 3 %, and global rates reach a growth of up to 5.5 %.

This comparison implies that there are significant reserves of growth that Austria may benefit from. In order to increase Austria's tourism expenditures to 1.7 % in 2013, the focus has to shift toward quickly growing tourist markets, e.g. CEE markets. Furthermore, product innovation and differentiation need to be implemented to achieve an overall improvement in quality and attractiveness that appeal to modern tourists.

The Explorer Hotel concept is an approach to capture recent trends in a differentiated product. The design-budget hotel is Europe's first passive hotel to realize environmental sustainability. It is designed for a particular market segment, taking under consideration changed travel and booking behavior. One of the three already existing Explorer Hotels is located in Gaschurn (Montafon).

Schladming is going to host the FIS Alpine World Ski Championships 2013 in the beginning of February. The premium winter location in Styria will be the center point of worldwide attention attracting 400'000 estimated visitors. During the preparation phase, a total of 400m Euros was invested, of which 150m Euros account for hotel investments only. The expected additional guest demand of 10 % justifies new constructions such as the Falkensteiner Hotel Schladming. Besides this, nine new hotels with 1,868 rooms are going to be opened in Vienna, such as the luxury hotel Palais Hansen Kempinski and the design hotel 25hours Hotel, which will be extended.

These investments indicate that potential growth reserves exist in Austria. Its image as a tourism destination is going to be strengthened by enhancing marketing coordination. Public initiative will put frameworks in place to stimulate innovative tourism developments. The intention is to consistently preserve vivid regions and to advance innovative mobility to improve quality of life for locals and tourists.

| Konstantin Ploberger ■