Investor caution keeps hotel values static, says Hotel Valuation Index

Investors in Europe's hotel market are still being cautious over purchases keeping the value of hotels across the sector virtually unchanged on 2011 levels.

The **2013 European Hotel Valuation Index** (HVI), published this week by hotel consultancy HVS London, shows that hotels in **Paris** still top the valuation chart with an average price of ?660,000 per room, followed by hotels in **London** (?625,000 per room**), Zürich** (?492,000), **Geneva** (?451,000) and **Rome** (?353,000).

The average value of a hotel room across **Europe** is ?240,000, unchanged on 2011 levels but up from ?215,000 in 2010.

Tallinn remains at the bottom of the index, which surveys 2012 hotel values across 32 markets. Room values in the Estonian capital have an average value of ?98,000, despite strong growth rates of 7.7%. Also bottom of this year's chart are the Bulgarian city of **Sofia** (?100,000), **Athens** (?104,000), **Bratislava** (?111,000) and **Bucharest** (?111,000).

Speaking ahead of next week's International Hotel Investment Forum in Berlin [4-6 March], report author Sophie Perret, director, HVS London, said that while the valuations across the board had remained static year-on-year, several cities stood out as being good performers.

London's hotel market remained strong throughout 2012, with an impressive value growth of 6.6%, taking the average value of hotel rooms in the city to ?625,000, up from ?587,000 in 2011. Likewise, values in **Paris** rose from ?630,000 in 2011 to ?660,000 in 2012.

?It is difficult to imagine that investor appetite for London and Paris can ever fade. Not only are they important business and financial centres, but their cultural and historic attractions make sure that both cities can keep attracting leisure visitors,? said Perret.

The London Olympics and Queen's Diamond Jubilee celebrations boosted RevPAR in London's hotels, but the city experienced slightly more subdued increase in values towards the end of 2012 due to concerns over new supply and a post-Olympic drop in demand.

Trading in London remains tough and lack of available finance is still stifling the investment market. Outside the capital, tentative signs of recovery could be seen in **Birmingham** and **Manchester**, both of which saw strong RevPAR growth in excess of 5% for 2012, although this has not translated into the same level of growth in values due to rising food and fuel costs reducing profitability. This is likely to continue throughout 2013.

Other top performers in this year's HVI

Munich's hotel market continues to impress with its dynamism and strength. With about 1,700 new rooms coming into the market in 2011, performance in the city wasn't dented.

Poland is also performing well, based partly on the fact it co-hosted the European Football Championship in 2012, which speeded up investment in infrastructure. **Warsaw**, in particular, achieved a RevPAR rise of about 10% in 2011 followed by further double-digit growth in 2012. HVS expects Warsaw's hotel values to grow to a value of about ?225,000 per room by 2017.

There was also movement in **Dublin**'s hotel market, which recorded double figure RevPAR growth in 2012 improving investor interest and boosting the city's value per room to ?168,000. This rise from ?159,000 in 2011 gave Dublin the fifth-highest increase in the index.

HVI's biggest value fallers and most volatile markets

Cities experiencing the biggest value falls year-on-year were: **Athens**, with a 24% drop in average values per room; **Lisbon** with a decline of around 10%; **Madrid**, with a 6.8% decline; **Milan**, which saw a 4.1% decline**;** and **Zurich** and **Geneva**, with a 2% and 4% fall respectively.

This year's HVI includes a volatility index for the markets surveyed, which helps investors to quantify the overall risk associated with a hotel investment by measuring the change in value compared to a benchmark over time. **Tallinn, Athens, Sofia, Prague** and **Lisbon** top the volatility chart, while **Berlin, Copenhagen, Manchester, Hamburg** and **Birmingham** are the least volatile markets in economic terms.

Investment: Looking ahead

Said Perret: ?At a time when an increasing number of investors are purchasing hotels with a long-term view aimed at capital protection rather than short- to medium-term returns, the art and science of valuation is ever more challenged by changing investment paradigms. For experienced investors, the acquisition of the right asset and then strategic repositioning or rebranding will continue to yield attractive returns in the near future. Identifying the right deal, however, remains more critical than ever before.?

HVS does not expect 2013 to be the year when investors start to turn to secondary markets and somewhat more risky propositions. Hence, strong fundamentals and key locations will remain essential factors. Appetite for cities such as Paris and London will remain as healthy as ever, and steady, solid Germany will be perfectly suited for institutional investors and the generally more risk-averse pocket. As reflected in the volatility index, some markets might offer lower returns but also reduced risk.

?As bank lending parameters further hardened in 2012, we expect the main investments to continue to come from cash-rich real estate investment trusts, institutional investors and high-net-worth individuals. This is likely to continue to fuel the acquisition of key assets in gateway cities, similar to 2012,? concluded Perret.

2013 European Hotel Valuation Index by Christof Bertschi and Sophie Perret can be downloaded at http://www.hvs.com/article/6229/2013-european-hotel-valuation-index/?campaign=email <
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