

Analysts advise hoteliers to watch out for tougher times

BY EMILY MANSON

Hotel investors are still in confident mood, despite increasing concerns over how long the good times can last.

At the International Hotel Investment Forum in Berlin last week, Derek Scott, economic adviser at consultancy KPMG, warned the hotel industry against becoming too optimistic and complacent about the market.

Opening the annual hotel investment conference, Scott said: "Capitalism thrives on optimism and most people seem to be optimistic about the future."

"However, nobody can really explain why. And for pessimists, the low levels of bond yields across the world are warning lights that something is seriously wrong with the world financial system."

The consensus among the banks attending a discussion on debt, which included Barclays, Morgan Stanley, the Royal Bank of Scotland and Deutsche Bank, was that hotel transactions were currently highly leveraged against asset values.

One industry insider claimed this could cause problems in the future: "A change in world economics, interest rates or supply and demand could have implications for transactions



Last week's International Hotel Investment Forum opens in Berlin

being done at the moment at these high leverages."

But it was not all doom and gloom: the market in 2005 proved to be the most successful since 2001 and investment deals were predicted to continue throughout 2006.

A survey by consultancy HVS showed that European hotel values grew by 5.6% in 2005 and that growth had returned to 2000 levels.

HVS director Karen Smith said: "HVS recorded a 77% year-on-year increase in total investment activity to €15.9b (£11b) in 2005, fuelled by a significant number of investors seeking to diversify their property portfolio and acquire higher-yielding investments."

Although most growth was driven by Eastern European

markets, only five markets out of 28 (Berlin, Munich, Barcelona, Athens and Lisbon) saw increases below inflation.

Joni Smith, associate director at CB Richard Ellis Hotels, remained upbeat about the hotel

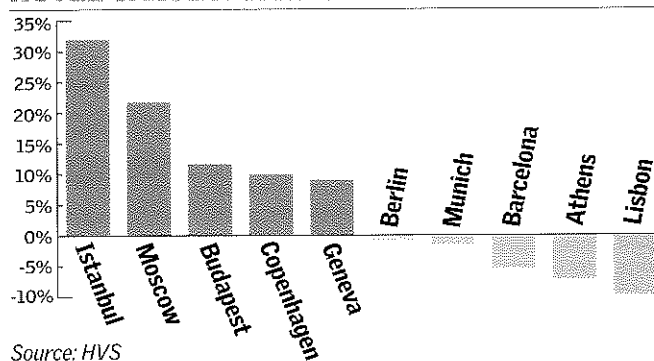
real estate market: "We've got so much more investor confidence, despite the cyclical nature of the business," she said.

"There are increasing numbers of investors looking at hotels as an asset class, and a huge amount of money going into real estate through pension funds. That will have a positive effect on hotel investment values."

Hotel investors have also moved away from sale-and-leaseback deals to more sale-and-manage-back contracts.

Jonathan Langston, managing director at Tri Hospitality Consulting, explained this was partly because investors understood the sector better now and could see additional potential earnings from hotels.

HOTEL VALUES: WINNERS AND LOSERS IN 2005



Europe looks set to get US hotel brands

A myriad of new hotel brands looks set to hit the European market within the next few years.

Following Hilton Hotel Corporation's (HHC) takeover of its UK counterpart, Hilton International, other HHC

brands, such as Double Tree, Hilton Garden Inn and Homewood Suites could soon be introduced into Europe.

Wolfgang Neumann, president of Europe and Africa at Hilton, said: "We are currently evaluating which

brands to bring across. We will be announcing details over the next few months."

Starwood has already begun its expansion of its W brand into Europe and the Middle East with the opening of W hotels in Barcelona and Dubai in 2008.

Roeland Vos, Starwood's president of Europe, Africa and the Middle East, said: "The expansion of both W and Aloft brands depends on maintaining clear brand definition and finding the right partners and locations."

Richard Hartman, managing director of Europe, Africa and the Middle East at InterContinental Hotels and Resorts, said its new US brand, Indigo, "had traction" outside the USA.

New hotels for Peak District and Cotswolds

Hotel management companies are being sought to run two new UK-based resort hotel projects.

Iconic hotel designer Philippe Stark has teamed up with Jade Jagger and John Hitchcox to create Yoo, a five-star complex set in 500 acres of the Cotswolds. It is billed as "country retreat meets luxury urban chic".

The 120-bedroom hotel contains 165 lodges, which will retail for about £400,000.

In Derbyshire's Peak District a £90m development will initially incorporate a 150-bedroom hotel, as well as 250 cottage/lodges, conferencing facilities, an 18-hole golf course, spa and indoor water park.



Starwood's Aloft brand will be one of those rolled out in Europe