

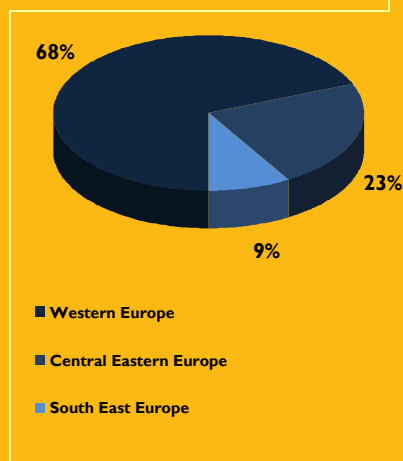


EUROPE HOTEL MARKET SENTIMENT SURVEY

February 2009

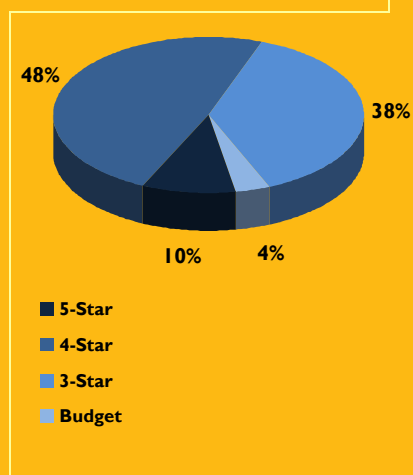
SHARE OF RESPONDENTS

BY REGION



SHARE OF RESPONDENTS

BY STAR CLASSIFICATION



INTRODUCTION

The Horwath HTL Europe Hotel Market Sentiment Survey has been designed to provide the European hotel industry a quick assessment of the market outlook for the coming 12 months. The survey focuses on the outlook for occupancy, average room rates and total revenue.

Hoteliers have also been asked to make comments on the impacts of key factors that drive room night demand growth as well as rate the outlook for each major demand segment.

This report summarizes the outcome of the survey, gathered from responses across **22 countries** in Europe. In order to present results by regions we have grouped the respective countries based on their geographical locations. Regions and countries where the survey was done are the following: **Western Europe:** Andorra, Austria, Belgium, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, UK. **Central and Eastern Europe (CEE):** Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia. **South East Europe:** Bulgaria, Croatia, Macedonia, Montenegro, Serbia.

Of the **1,228 respondents**, 68 percent of them came from Western Europe followed by CEE (23 percent) and South East Europe (9 percent). The majority of the contributions were from 4 star hotels (48 percent), followed by 3 star (38 percent), 5 star (10 percent) and budget (4 percent).

At the current point in time, with the financial crisis affecting all corners of the world, it is not surprising to find most markets across Europe having the same negative assessment of the outlook for 2009. However, we hope that the following analysis provides some useful insight as to the expectations for different hotel markets across Europe.



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SENTIMENT RANKINGS

By Region	Score
1. South East Europe	-23.8
2. Western Europe	-39.1
3. Central Eastern Europe	-45.7
Top 5 Countries	Score
1. Macedonia	-2.7
2. Germany	-10.3
3. Norway	-20.5
4. Serbia	-21.1
5. Croatia	-24.4

"An average sentiment score of negative 36.1 clearly indicates that hoteliers across Europe are expecting declines in performance in 2009."

RANKING SCORE KEY

Much Worse	-150.0
Worse	-75.0
Same	0
Better	75.0
Much Better	150.0

SENTIMENT RANKINGS

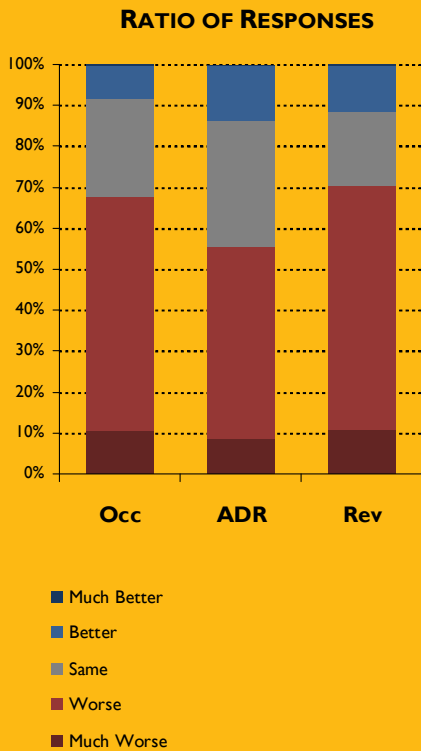
As a way to measure and compare the results across regions and countries, we have created an index to formulate an overall average sentiment score from all survey questions. Points were assigned to each corresponding response and compounded accordingly. The index utilized a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism; a zero score indicates unchanged expectations from the previous year whereas a positive 150 signifies a very optimistic outlook.

The purpose of creating a sentiment index or score is also to better track changes in market sentiment in future surveys to be conducted by Horwath HTL.

The sentiments of hoteliers across all countries have been clearly affected by the global economic crisis, visible from the results. General market sentiment was rather pessimistic with a European average score of negative 36.1, slightly below the global average.

The highest average sentiment score was achieved by hoteliers from South East Europe, registering a negative score of 23.8. Western Europe, which includes markets hugely affected by the global economic downturn, expected a relatively bleak outlook in 2009 as the region registered a sentiment score of negative 39.1. Hoteliers in the CEE region held the most pessimistic outlook for the year with an overall average negative score of 45.7 far below the global average sentiment score of -34.2, including Slovakia (-68.4), Russia (-58.9) and the Czech Republic (-54.0) as the most pessimistic countries in the region.

The top five countries with the highest sentiment scores were Macedonia (-2.7), Germany (-10.3), Norway (-20.5), Serbia (-21.1) and Croatia (-24.4) whilst Andorra (-73.5), Slovakia (-68.4), Russia (-58.9) and Portugal (-55.1) rounded up the bottom five.



"67.8 percent of the respondents stated that market-wide occupancy performance is going to be worse than 2008, only 8.5 percent said it would be better."

MARKET PERFORMANCE RANKING

	Occ,	ADR	Rev.
1. South East Europe	-28.8	-8.2	-25.0
2. Western Europe	-51.8	-39.8	-54.9
3. Central Eastern Europe	-66.0	-54.5	-68.0

MARKET PERFORMANCE

The first survey question dealt with the contributors' outlook on their markets' performance in 2009 as opposed to 2008.

In response to expectations on market-wide occupancy performance, 67.8 percent of the European hoteliers replied that matters will get worse, 23.8 percent said that things will remain the same whilst 8.5 percent stated that things will get better. Clearly the global financial crisis is expected to impact demand in all regions of Europe.

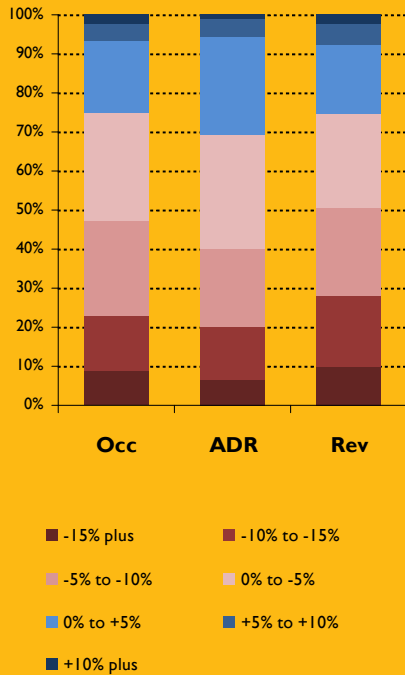
Similarly to the global sentiment most of the European hoteliers believed a disappointing outcome in terms of ADR performance, as 55.6 percent stated that market-wide ADR performance is expected to be worse than the previous year and 30.6 percent mentioned that ADR will achieve the same results as the previous year, while only 13.8 percent were buoyant about their markets' performance.

Revenue followed the same trend wherein the majority or 70.4 percent of the respondents had bleak sentiments about the market's future revenue performance while merely 18 percent stated that revenue will follow last year's trend and 11.5 percent who were optimistic about 2009's performance.

The index was used to gauge the average score and all regions recorded a negative score. CEE region registered the lowest points with an average negative 62.8 as participants from countries such as the Czech Republic, Russia and Slovakia believe that the gloomy economic situation will largely affect their market performance. Western European countries are somewhat less concerned achieving a negative score of 48.8, slightly below the European average (negative 47.1), whilst the South East European region has the least pessimistic outlook in terms of their market performance reaching a negative score of 20.7.

Regions are less concerned about ADR whilst decrease in occupancy and revenues will be largely affected.

RATIO OF RESPONSES



“Based on the European averages, all three performance indicators measured in 2009 are expected to decline by about 5 percent or more.”

HOTEL PERFORMANCE RANKING

	Occ.	ADR	Rev.
1. South East Europe	-8.9	-8.0	-16.3
2. Western Europe	-21.2	-13.3	-29.2
3. Central Eastern Europe	-39.3	-32.2	-41.9

HOTEL PERFORMANCE

The second question asked each respondent to estimate the growth or decline in hotel performance for 2009 compared with 2008.

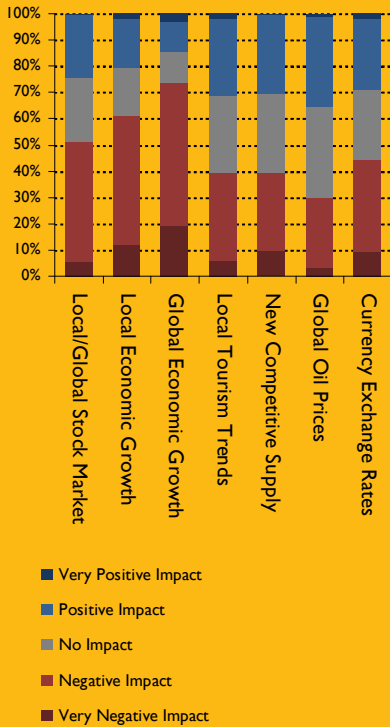
When asked if they still expect growth in their hotels’ performance in 2009, 74.9 percent of the hoteliers stated that their hotels will likely suffer a decline in occupancy. Another 69.2 percent believed that ADR will experience the same fate while 74.5 percent replied that revenues will follow the same trend. Only a few of the respondents believed that performance will improve. Merely 6.7 percent, 5.3 percent and 7.8 percent forecasted improvements in occupancy, ADR and revenue respectively.

Based on the European averages, all three performance indicators measured in 2009 are expected to decline by about 5 percent or more.

Utilizing the average index score, amongst the regions, the highest average score was achieved by the South East European region (negative 11) followed by Western Europe with a score of negative 21.2 and the CEE region with a negative score of 37.8.

Although none of the regions achieved positive rankings, hoteliers are least concerned about ADR. The most optimistic region is South East Europe whilst some of the countries such as Hungary, Croatia, Belgium and Norway recorded positive average sentiment scores suggesting that hoteliers in these countries are the most optimistic regarding their hotels’ performance and managed to achieve positive scores in at least two of the respective indicators. The most pessimistic countries are Slovakia, the Czech Republic, Russia, Spain and Portugal achieving negative score of 45 or below.

RATIO OF RESPONSES



“Economic related issues are clearly the primary concern for hoteliers in 2009.”

FACTORS AFFECTING PERFORMANCE RANKING

1. Local Tourism Trends	-14.9
2. Global Oil Prices	-17.2
3. Currency Exchange Rates	-31.7
4. New Competitive Supply	-37.3
5. Local Economic Trends	-41.2
6. Local/Global Stock Market	-49.9
7. Global Economic Growth Trends	-54.1

FACTORS AFFECTING PERFORMANCE

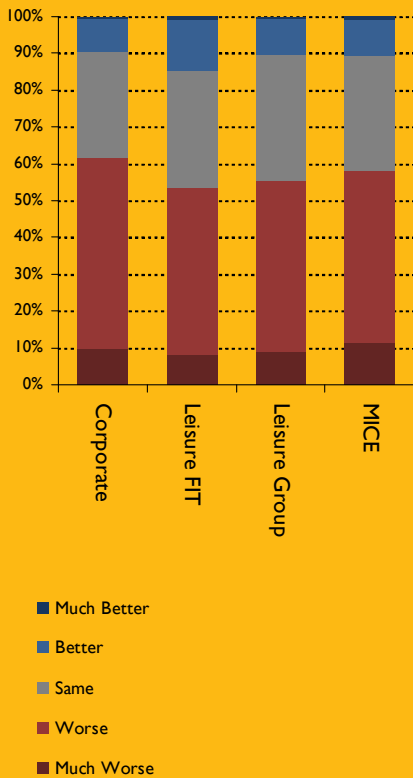
Each hotelier was also asked to gauge their attitude towards seven factors namely (1) local/global stock market, (2) local economic growth trends, (3) global economic growth trends, (4) local tourism trends, (5) new competitive supply additions, (6) global oil prices and (7) currency exchange rates and how these will impact their hotels’ performance in 2009.

Similarly to the global sentiment, global economic growth trends, due to concerns with regard to the worsening of the global economy, has the highest negative response rate with 72.4 percent, indicating that the majority of the participants believe that the worsening global economic conditions will negatively impact performance. On the other hand, with oil prices beginning to stabilize, global oil prices have the least negative response with 38.1 percent.

Utilizing the index, following the global trends, all choices registered negative results, indicating that all factors were believed to negatively affect performance. The contributors perceived that the worsening economic crisis will likely have the most harmful impact on hotel performance as global economic growth trends attained the lowest score of negative 54.1 points. This was followed by local/global stock market with negative 49.9 points, local economic growth trends (negative 41.2), new competitive supply (negative 37.3), currency exchange rates (negative 31.7), local tourism trends (negative 17.2) and global oil prices (negative 14.9).

Shifting our focus on individual countries, with the exception of Romania, all European hoteliers believe that global economic growth trends will have negative impacts on their respective markets as global economic growth trends tallied the least score amongst all seven factors in the majority of the European countries. Romania is the least concerned about global and local economic trends whilst Germany has the same fate regarding local tourism trends and stock market and UK is the least worried about currency exchanges negatively affecting performance. The most pessimistic countries in terms of global economic trends are Andorra, the Czech Republic, Slovakia, UK and Spain whilst the same group of countries supplemented with Italy is the most concerned about the negative effects of the new competitive supply.

RATIO OF RESPONSES



"More than 50 percent stated that performance across all segments will get worse"

MARKET SEGMENT PERFORMANCE	
1. Leisure FIT	-34.3
2. Leisure Group	-40.4
3. MICE	-43.4
4. Corporate	-46.0

MARKET SEGMENT PERFORMANCE

The last question dealt with each participant's opinion with regard to primary market demand segments which were Corporate, Leisure FIT, Leisure Group and MICE (Meetings, Incentive, Conference, Exhibition) and how they are expected to perform in 2009.

The majority of the respondents had negative opinions about the future performance of all segments as more than 50 percent stated that performance across the four segments will get worse.

Employing the scoring system to obtain an average score, all segments yielded negative results, indicating that respondents generally think performance across all segments will suffer this year. The participants believe the Corporate segment will be the worst affected one this year as it scored the lowest point total with negative 46.0. This is not surprising given the current impact the financial crisis has had on major corporations throughout Europe.

Due to the fact that a considerable number of European countries and their capital cities are amongst the most popular MICE destinations such as Austria, Italy, Spain, UK, Germany and Hungary, the MICE segment, which is largely affected by the global and local economic trends, was expected to be the second poorest performing segment in 2009 with a score of negative 43.4. The Leisure Group segment, which is typically the most price-sensitive of the four segments surveyed, recorded a score of negative 40.4, while the Leisure FIT segment recorded the highest score of negative 37.1.

Corporate segment achieved the highest (most positive) scores in Germany (positive 11.1) and Serbia (negative 6.8) whilst the lowest scores in this segment were recorded in the UK, France and Andorra. MICE scored the highest points in Germany, Macedonia and Montenegro and the lowest scores were achieved in the UK, Russia and Portugal. In Leisure FIT segment attained the highest scores in Belgium and Slovenia with scores of positive 18.0 and 0.0 respectively, whilst the lowest scores were achieved by Slovakia, Montenegro, Andorra and Spain.

CONCLUSIONS

Hoteliers in all regions of Europe expected a tough year with respect to market-wide and individual property performance. The majority of the contributors projected that performance in all three measures, room occupancy, average room rates and total revenue will likely decline this year. In terms of hotel performance the most pessimistic outlook was given by hoteliers from countries in the CEE region such as Slovakia, Russia and the Czech Republic. However, hoteliers in Croatia, Hungary and Norway on average had a more positive outlook than most other countries across Europe and actually anticipated slight increase in their hotels' performance in 2009.

Although all of the seven factors were estimated to have a negative effect on performance, global economic growth trends was perceived to have the most severe effect. Clearly, economic related concerns, whether it be the global economy in general, local economic trends or stock market performance are the primary concern of hoteliers right across Europe, whilst global oil prices have the least negative response.

Following the global trends it is not unexpected that corporate demand is anticipated to be the most heavily affected of the primary demand segments whilst MICE segment was expected to be the second poorest performing sector in 2009. However, sentiment ranking suggests that the FIT segment will be the least affected one.

Other Market Sentiment Reports

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