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HOTELyearbook 2011

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* Recent WTTC estimate

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A Representative Sample of Projects

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- Due Diligence & Sales Agent for: ANA Harbour Grand Sydney; Marriott Resort Surfers Paradise; Four Seasons Sydney (formerly Regent Sydney)

CHINA

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INDIA

- Market & Financial Feasibility of the Grand Hyatt, Mumbai; Hyderabad International Convention Centre; Oberoi Rajvilas, Jaipur

INDONESIA

- Macro Tourism Analysis & Master Plan for Nusa Dua Tourism Complex, Bali
- Market & Financial Feasibility for the InterContinental, Jakarta

JAPAN

- Market & Financial Feasibility for Park Hyatt, Tokyo
- Due Diligence & Operator Selection for Hilton Niseko Village
- Due Diligence for Niseko Northern Resort, Annupuri

MALAYSIA

- Master Planning for Kuala Lumpur Convention Centre Hotel
- Market & Financial Feasibility of the Westin Kuala Lumpur

NEW ZEALAND

- Business Case Analysis of Skycity, Auckland
- Market & Financial Feasibility of the TelstraClear Pacific Events Centre, Manukau

PHILIPPINES

- Market & Financial Feasibility, and Renovation Study of the InterContinental, Manila
- Market & Financial Feasibility for El Nido Resorts, Palawan

SINGAPORE

- Market & Financial Feasibility of the Crowne Plaza Hotel Changi Airport
- Market Study, Facilities Planning & Financial Analysis for Suntec Singapore International Convention and Exhibition Centre

SOUTH KOREA

- Due Diligence for the Acquisition of the Seoul Hilton Hotel
- Operator Selection & Contract Negotiation for Hilton Namhae Gold and Spa Resort

THAILAND

- Redevelopment Planning of the Siam Paragon and Siam Kempinski (formerly InterContinental Siam), Bangkok
- Opinions of Value for the InterContinental and Holiday Inn Bangkok (formerly President Park Complex)

VIETNAM

- Market & Financial Feasibility of the Nam Hai, Hoi An
- Operational Review of the Sofitel Legend Metropole, Hanoi
- Market & Financial Feasibility of the InterContinental Asiana, Saigon

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Horwath HTL™

Local Expertise, Global Perspective

Why Horwath HTL?

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Horwath HTL

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- Strategic Management & Planning
- Transaction Management & Closure

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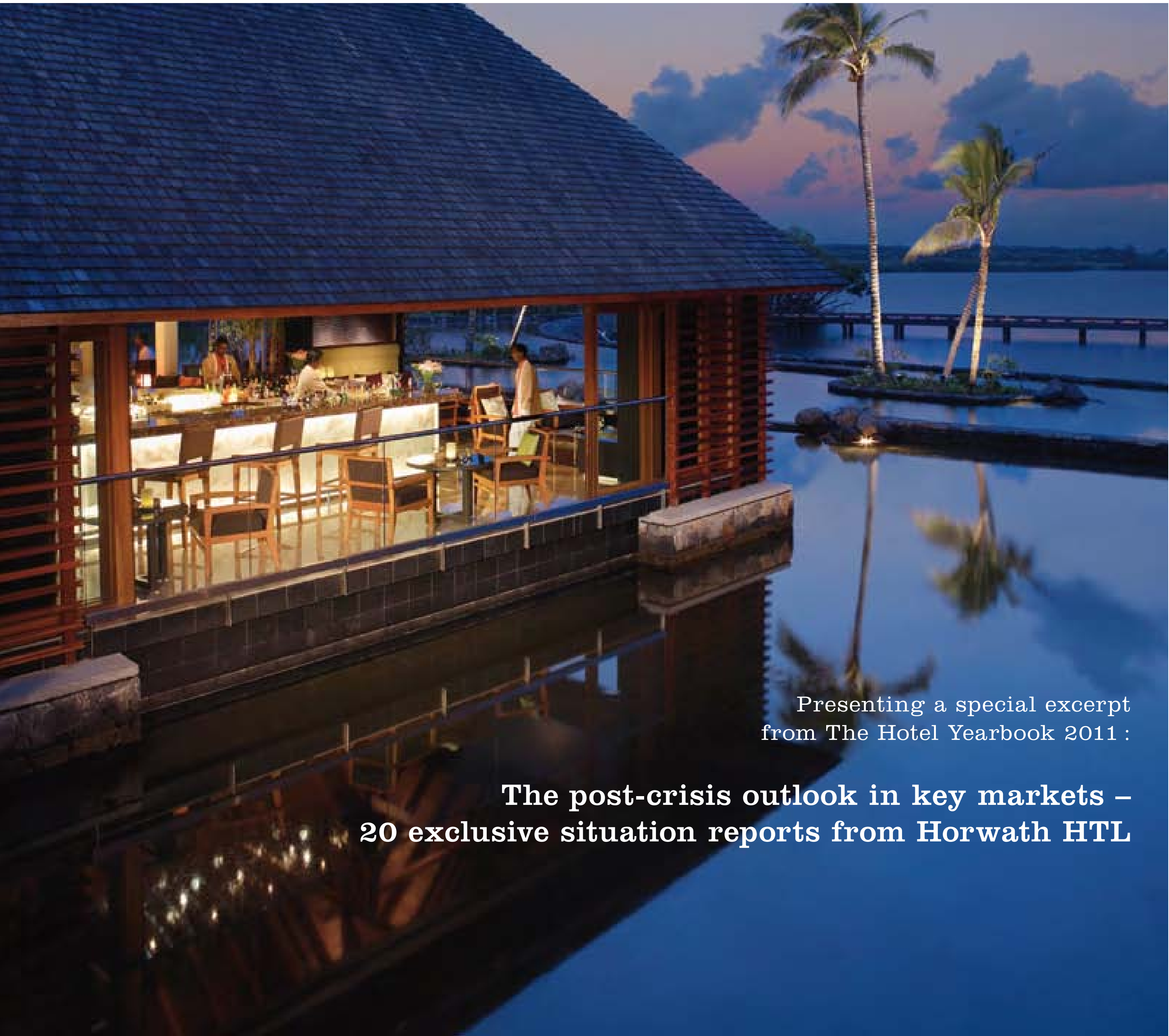
HOTEL yearbook 2011

What to expect in the year ahead



Presenting a special excerpt from The Hotel Yearbook 2011 :

The post-crisis outlook in key markets – 20 exclusive situation reports from Horwath HTL

Picking up steam

HOW WILL 2011 PLAY OUT FOR THE KEY HOTEL MARKETS IN EUROPE? TO GET AN IDEA OF THE CURRENT SITUATION AND VARYING PACE OF RECOVERY ACROSS THE CONTINENT, THE HOTEL YEARBOOK ASKED **HORWATH HTL** FOR AN ASSESSMENT. NINE DIFFERENT OFFICES CONTRIBUTED TO THIS EXTENSIVE REGIONAL OUTLOOK, WHICH EXAMINES MARKETS FROM SPAIN AND IRELAND TO RUSSIA AND MONTENEGRO.

UNITED KINGDOM

SITUATION REPORT

The last few years have proved extremely challenging for UK hoteliers as the global economic recession took hold.

Since the onset of the financial crisis, UK hoteliers have witnessed declines in business and leisure demand, as corporate travel budgets were slashed and uncertainty gripped the nation, resulting in countrywide occupancy falling from 73 % in 2007 to 68.7 % in 2009, according to STR Global (the source for all the performance data you see here). Rates were quick to follow as hoteliers attempted in vain to stimulate demand, and corporate room lets were replaced by lower-yielding leisure bookings with Average Daily Rate (ADR) declining from £82.78 in 2008 to £78.23 in 2009.

2010 has brought its own challenges to UK hoteliers: the nationwide « white out » early on in the year was followed by severe disruption to travel as a result of the Icelandic volcanic ash cloud; then in May, the change to a new Conservative-Liberal Democrat coalition government which has instigated tough spending reviews and announced a number of austerity measures. Nonetheless, the landscape appears to be improving for UK hoteliers, with year-to-date RevPAR (to September 2010) up 7.4 % to £57.32 compared to the same period last year.

However, there remains a major disparity between London and UK regional performance, with London hotels faring significantly better than their regional equivalents and driving much of the overall uplift in UK hotel performance. In fact, London hotels' recovery started towards the end of 2009, achieving the highest occupancy ever recorded in Q4. The capital has now posted 11 months of almost uninterrupted occupancy growth (with the exception of April 2010, thanks to the Icelandic volcano). Unquestionably, London hotels benefited from the weak pound, which encouraged overseas leisure visitors and abated further occupancy declines. In addition, hotels in the capital are less dependent on domestic corporate and leisure demand than their regional counterparts, and combined with a greater pricing power, this has made London hotels more resistant to the significant rate cuts undertaken across the provinces. Year-to-date performance data is extremely encouraging with a 12.2 % increase in RevPAR compared to the same period last year, reaching £101.67. In essence, London remains a global center for finance, business, culture and entertainment, and thus acts as a 365-day a year attraction and hotel hotspot.

> In fact, London hotels' recovery started towards the end of 2009, achieving the highest occupancy ever recorded in Q4

UK regional hotel performance, on the other hand, is a somewhat different and less upbeat story, as domestic business travel frequency plummeted, forcing rate cuts which continue today. Year-to-date performance records a 1.3 % decline in ADR to £61.28 compared to the same period last year. On a positive note, however, corporate travel, conferences and meetings are displaying early signs of a slow resurgence with occupancy recovering, resulting in a 3.0 % year-on-year RevPAR increase to £41.67 for year-to-date. Although during previous downturns, the UK regional hotel market has tended to be more resilient than London, a more sophisticated regional hotel industry with active yield management has increased the competitiveness in the regions and thereby the impact of the downturn this time around.

HOTEL TRANSACTIONS AND VALUES

The limited availability of debt as a result of the credit crunch has undoubtedly caused a seismic shift in the UK investment market and this, coupled with the decline in trading as described above, has resulted in a considerable reduction in transaction volume, be it financing for new acquisitions or refinancing of existing assets. As a result, many hoteliers have struggled to meet their loan repayments, and a number of high-profile hotel groups as well as many independents went into administration over the course of 2009. Some of the highest-profile casualties included Folio Hotels, Swallow Hotels and the Real Hotel Company. While distressed assets have not entered the market at the rate anticipated, with lenders reluctant to crystallize their losses, 2010 has continued to see some companies go into receivership, the latest example of note being the Eton Group. We anticipate further distressed sales in 2011, although it remains to be seen how active the banks will be in terms of foreclosing due to the likely or potential losses on these deals.

Nonetheless, 2010 has witnessed some high-profile transactions, including The Cumberland Hotel, the Le Meridien Piccadilly, Blakes Hotel, the Jolly St Ermin's Hotel, the Hilton Hyde Park and the St James's Hotel and Club. It is notable,

however, that all of these transactions relate to properties situated in London, demonstrating the capital's continued appeal. London's resilience during market fluctuations has meant that the city continues to be a very attractive investment market. In addition, the weak pound made London even more attractive during this period. Purchasers today are largely cash-rich buyers/high net worth individuals (HNWI) who now have a purchasing advantage. Highly leveraged investors such as private equity funds who previously dominated the market during the boom period are expected to remain less active, giving way to more opportunistic buyers as well as HNWIs and sovereign wealth funds.

The cost and availability of debt is likely to remain a key factor in shaping the market going forward. Deal terms have changed significantly since the peak, with lower loan-to-value ratios (50-60 % compared to 85 % pre-crisis) in addition to higher margins and arrangement fees, and we anticipate that lending levels are unlikely to return to historic highs in the short to medium term, if ever. Finance is available for the right project, however, and we are likely to see a continued preference for deals relating to fixed-income, smaller lot sizes, existing proven hotels, gateway cities, high-quality operator/tenants, budget/economy segment and trophy assets. The large portfolio deals that characterized the UK hotel market pre-crisis are unlikely to return, with the focus likely to continue on single assets in the short term.

Any increases in value in the short to medium term are likely to be more the result of improving hotel performance than the investment dynamics that characterized the peak, and even in the longer term, it is questionable whether we will ever see a return to the pricing levels witnessed between 2003 and 2007.

THE OUTLOOK FOR 2011

The road ahead, however, is starting to look more positive for UK hoteliers, with London performance forecast to maintain its strong rate and occupancy growth into 2011, and UK provincial hotels projected to recover, albeit at a significantly slower pace than the London market, as regional economic performance and domestic corporate travel increase. It is important to stress that any uplift in

Picking up steam cont.

ADR in the short term is likely to reflect a change in customer mix as higher-yielding corporate, conference and passing clients return, rather than any increase in prices. While UK hotel performance will continue to be influenced by the strength of the pound, uncertainty regarding interest rates, consumer confidence and the government's Comprehensive Spending Review, all have the potential to hamper the projected recovery, especially as public sector travel and training/conference budgets are likely to be cut significantly. In short, the UK hotel sector relies on the public sector for a substantial share of its revenue, and those markets that are most dependent upon the public sector – typically the regional hubs – are likely to be most impacted by any such cuts.

WINNERS AND LOSERS

While the budget and luxury segments have not escaped the negative effects of the downturn, they have fared better than the overall market, and looking to 2011 and beyond, we anticipate that this is likely to continue. The mid-market sector, on the other hand, is likely to continue suffering, especially in the regions, as it continues to find itself being pressured by the newer top-end limited service properties and faces the threat of being sidelined by recently repositioned or re-branded properties. In addition, those hotels which are branded are most likely to outperform their independent counterparts.

Crucially, in under two years Britain will be under the global spotlight in the run-up to the London 2012 Olympic and Paralympic Games. This major event is expected to bring about an unprecedented level of media exposure and assist in enhancing Britain's image abroad. It is therefore anticipated that London, and to a lesser extent, the UK hotel market will benefit from this exposure and enjoy a significant return to form.

Contributed by Alexandra van Pelt and Erlend Heiberg

GERMANY

SITUATION REPORT

The recent financial downturn has also hit the German hotel market, and official figures of the Federal Statistical Office in Germany show that the number of overnights in 2009 decreased between 0.1 % and 0.2 %. A downturn in this sector has not been recorded since 2002 and can be attributed to the global market decline. However, on an international scale Germany has posted better performance in 2009 than tourism worldwide: With 132.8 million guests in German accommodation facilities and 368.7 million overnights in 2009, the decrease was below the global decline of 4 %.

With regard to the performance of hotel prices in Germany, the recession in 2009 caused a decline in hotel room rates.

> Nevertheless, Germany can note an increase of 3 % in average room rates compared to the second quarter of 2009

Although prices have been raised by 2 % worldwide in the second quarter of 2010 compared to the previous year (according to www.hotels.com), the global price level remains as low as in 2004. Germany has an average room rate of €89 and is placed at position number 14 among the 22 most important tourism destinations in Europe. Nevertheless, Germany can note an increase of 3 % in average room rates compared to the second quarter of 2009.

THE OUTLOOK FOR 2011

The «ultimo effect», where market prices often increase drastically towards the end of the year, has led to positive expectations on the part of investors for the year 2011. In general, the hotel industry in Germany is showing signs of recovery, which might also be due to the decrease in VAT to 7 % on hotel accommodation. Other political discussions which may affect the German tourism industry in 2011 is Chancellor Merkel's introduction of a tax on air transport, taking effect in

January 2011. How big the impacts of these policies will be on the German tourism industry remain to be seen.

Considering future investment projects, such as expansions of international hotel chains within Germany, the tourism industry seems to have regained confidence after a long downturn.

Meanwhile, two fascinating developments will dominate the 2011 landscape here:

- Dubai-based luxury hotel company *Jumeirah* is about to launch a major new 5-star hotel in Frankfurt, following an agreement to lease and operate the hotel element of the city's major new PalaisQuartier leisure and retail development, a project of MAB Development. The opening of the 219-room luxury hotel is set for late 2011. « We believe this agreement will see the establishment of a world-class, market-leading luxury hotel in Frankfurt city center, » said Gerald Lawless, Executive Chairman of Jumeirah Group.

- In 1997 investors were first chosen for what was then called the « Airrail Center » at Frankfurt Airport. Now the planning for « *The Squaire*, Frankfurt » – its new name – is in place. Original plans called for an investment of €600 million, assuming construction work could start in early 2003 so that the grand opening would take place in 2006. The enormous building (660m long, 65m wide and 45m high) will boast, among other companies, two hotels by Hilton. The Squaire will finally open in early 2011, and these hotels are not the only ones planned to open in Frankfurt. Currently, around 20 hotel developments are in the pipeline indicating the demand for room nights for this important hub. This is not least due to the recovery of the market and the extension of the airport with a third terminal which will inevitably bring additional business.

The Squaire, Frankfurt Airport

Contributed by Rüdiger Knospe

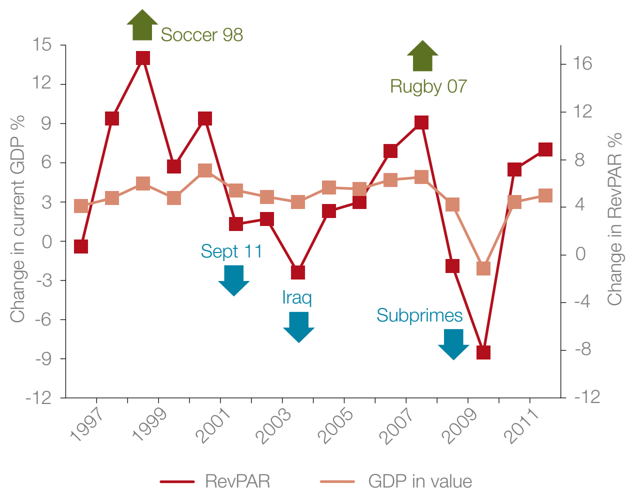
FRANCE

SITUATION REPORT

Most economists agree that 2010 marks a rebound in France, as elsewhere in the world. Public re-launch plans, combined with low interest rates, are starting to produce positive effects on the economy. However, as observed for the Euro zone globally, growth in GDP was moderate in France for 2010, reaching only 3 % at current values.

The graph presented here shows the recent evolution of GDP growth for France, and the corresponding evolution of RevPAR.

FRANCE: GDP AND REVPAR GROWTH



Source: INSEE/Horwath HTL

Picking up steam cont.

Induced economic sectors including air travel and hotels are recovering, with an acceleration expected for the last quarter of 2010. As a consequence, RevPAR recorded for the first three quarters of 2010 is anticipated to have grown 5 to 6 % vs. the previous year. This performance is better than expected due to a strong performance in Paris and in the upscale segment. It has to be noted also that the impact of the October 2010 strikes was offset by the Paris Motor Show which is organized every two years.

On the development side, financing organic development is still an issue, as credit terms and equity-to-debt ratios are very challenging. However, the transaction side is more active with the recent takeover of the B&B budget chain by Carlyle (€480 M) and the continuing disposal of the Concorde portfolio by Starwood Capital Europe including two major Paris hotels: Lutetia (€150 M) and Crillon (€250 M).

THE OUTLOOK FOR 2011

The outlook is positive as growth in GDP is anticipated by economists to accelerate moderately.

A poll conducted by IPSOS in August 2010 confirms this regain of confidence, as 76 % of hoteliers share the sentiment that the business climate is improving. It has to be noted that this trend has not only been improving month after month since the beginning of 2010 but also is the corresponding figure for any month in 2009. Moreover, 17 % of hotelkeepers surveyed declared they are intending to hire additional permanent staff vs. only 13 % in 2009.

> Among other positive signs, it has to be noted that France will head the Group of Twenty in 2011 after South Korea in 2010

Among other positive signs, it has to be noted that France will head the Group of Twenty in 2011 after South Korea in 2010. It is anticipated that several political summits would be organized, not only in Paris but in Deauville and Cannes as well. This is likely to boost international visibility to these French upscale destinations and thus contribute to raise RevPAR locally. Nationwide, it is reasonable to anticipate growth in the range of 6 to 8 % with a stronger dynamic in Greater Paris and the top ten metros.

In Paris, 2011 will coincide also with significant additions in supply in the top-end segment, as this segment today comprises 8 properties but will rise to 10 with the addition of the Shangri-La and Mandarin Oriental units next year, followed by Peninsula in 2012. Those properties should have no major difficulty reaching a strong occupancy level, but a stronger pressure on ADR is to be anticipated in the entire segment.

Contributed by Philippe Doizelet

NETHERLANDS

In 2010 the classified hotel market in The Netherlands consists of circa 2,100 hotels and more than 90,000 hotel rooms. Compared to the millennium, the supply of hotels increased by 2 %, whereas the supply of hotel rooms increased by 20 %. Dutch hotels are clearly scaling up, which is closely related to an increasing share of chain-related hotels. In 2010 at least 55 % of all classified hotel rooms are chain related. Even in 2009 the Dutch classified hotel supply increased by more than 2 %. These additions to the market had already entered the development phase when the international economic crisis hit and therefore remained unaffected. However, some did have difficulties finding an operator, the best example of which is the Symphony Hotel on the Amsterdam South Axis.

Although many planned developments faced serious delays or were even cancelled, other developments were pushed through the pipeline despite the economic challenges. Particularly the capital, Amsterdam, will welcome additions to the hotel market with impressive projects such as the IJdock hotel. The

4 or 5-star hotel with almost 300 rooms will be surrounded by the Court of Justice, 25,000m² of office space, 70 high-end apartments and a whole lot of water; the hotel will open at 4-star plus level in 2013. Further, between the main shopping area and the major museums, a 130 room « 6-star » hotel will open in 2011in the former conservatory, done by Alrov Group, who is

The IJdock Hotel, Amsterdam

working on a similar job in the former Café Royal near Piccadily Circus in London. A 500-room City Inn near Central Station and the opening of a 200-room 4-star hotel on the South Axis will make 2011 a busy year for openings in Amsterdam.

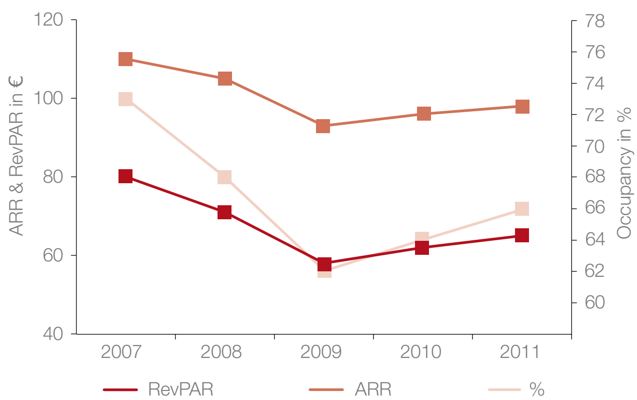
Despite the observed continued growth in hotel supply, in 2009 transactions in the Dutch hotel market were scarce. The registered transaction volume in the Dutch hotel market in 2009 was almost 80 % smaller than the record volume in 2008. Fortunately, 2010 shows the first signs of improvement. The transaction volume in the first two quarters of the year was a little more than the transaction volume for all four quarters of 2009. It is safe to say that transactions are slowing picking up. Some parties are particularly interested in acquiring distressed properties. For example, the Dutch Hotel Management Group acquired at least three hotels under the Fletcher brand, leading to a total of almost 40 hotels. Others want to free up financial sources for management expansion ; e.g. Accor continues with colossal sale and lease back transactions in the Benelux and surrounding countries ; and still others wish to roll out a new brand.

The increase in hotel demand since the millennium has been notably smaller than the increase in supply, particularly during the last couple of years. In 2008 and 2009 the number of overnight stays in Dutch hotels even decreased by 4.5 % and 3.4 % respectively. This is largely caused by tightening budgets in the business segments. As a result, the occupancy rate in the Dutch mid and high level market decreased from 73 % in 2007 to 62 % in 2009, and the average room rate from €110 in 2007 to €93 in 2009, according to the 33rd annual edition of Horwath HTL's HOSTA report.

This caused the average RevPAR to have decreased by almost 28 % since 2007 – there has not been a steeper decrease for 30 years. Also profit margins decreased, both relatively and in absolute numbers. The gross operating profit, in percentage of total revenues, reached the lowest level since 1995.

Mid-2010, occupancy rates are slowly increasing, which is the first sign of recovery. Based on historic patterns, the average

REAL AND EXPECTED PERFORMANCE, DUTCH MID AND HIGH LEVEL HOTEL MARKET



Source : Horwath HTL

Picking up steam cont.

room rates are supposed to follow, but they are still taking their good time. Although recovery so far is slow to say the least and

> The majority of the interviewees expect the Dutch hotel market to have fully recovered in 2012 or 2013

a gloomy few of the hoteliers interviewed expect the recovery phase to last to 2015 or later, the majority of the interviewees (78 %) expect the Dutch hotel market to have fully recovered in 2012 or 2013.

Contributed by E.G. Hoogendoorn and R. Lardenoye

THE BALKANS

The Balkan countries are considered to be an emerging leisure and business market, with Croatia, Montenegro, Bulgaria, Romania and Serbia the most important players. More

Excelsior Hotel, Dubrovnik

standardized and comprehensive tourism statistics need to be implemented throughout the region in the next few years.

Due to the recent economic slowdown, Croatian tourism has experienced some negative trends in KPIs in 2009; while in 2010 ADR is expected to rise by 9.9 %, occupancy by 1.3 % and RevPAR by 13.3 % compared to 2009. Privatization of several state-owned hotel companies is certain. As the Croatian hotel sector experienced only a minor negative impact of the global economic crisis in 2009, modest growth in performance is expected in the coming year. Further stabilization is expected, as well as accession to the EU. In terms of new hotel developments that will appear on the Croatian hotel market, there are few major projects planned for opening in 2011.

Althought the crisis did hit the Bulgarian hotel market, new hotels were built and further growth is expected, thus leading to an oversupply in hotel accommodation. There are some city hotel projects for 2011, but the pipeline is not clear due to lack of financing. Slight improvements in hotel operating performance indicators is expected in terms of recovering rates of occupancy (up to 60 % in city hotels), and the ADR of branded properties will also tend to rise, ranging between €60 and €85. Meanwhile, a new tourism law is being drafted, and a flat 9˚% VAT will also be introduced from April 2011.

Romanian tourism is mostly business-related (more than 50 % of arrivals), while the leisure aspects of tourism are in their early phase of development and are local market-driven. Like the whole Romanian economy, the hotel industry was hit hard by the financial crisis in 2009, with both occupancy and ADRs decreasing by 25 %. In 2010, a weak recovery is expected while in 2011 increases of about 7 % are expected for these indicators. However, the recovery will be sluggish, and a long time will be needed to reach pre-crisis performance results.

Montenegro is a highly tourism-dependent country which means that its government pays a lot of attention to sector improvements and new tourism policies. This of course did not stop the impact of the crisis, and in 2009 occupancy decreased by 10 % and ADR by 9 %. In 2010, a strong recovery is in process with an expected 5-10 % increase in occupancy and up to 5 % in ADRs. In 2011, further recovery is expected with strong growth rates.

The hotel industry, and the tourism market in general, are starting to develop in Serbia. Tourism is focused on business travel in the capital Belgrade and in several second-tier cities. The recent global economic crisis slowed down the emergence of Serbia's hotel and tourism sector, and brought about a drop in performance. In the year ahead, there are several mountain and spa resorts planned, while some major projects are on the way, for example Stara Planina. The recovery of hotel performance indicators is expected in 2011. Further development in city and resort capacities is expected, combined with the penetration of international hotel brands in Belgrade and in the country's resorts.

> Tourism is focused on business travel in the capital Belgrade and in several second-tier cities

Contributed by Miroslav Dragičević

RUSSIA

SITUATION REPORT

2010 has proved to be a better year for hotels in Russia in terms of trading levels, with significant recovery in occupancy levels, yet average room rate levels generally remain well below that of pre-crisis times. A number of new international hotel openings in Moscow, St. Petersburg and a number of key regional cities have been tempered by the cancellation and delay to many pipeline projects for financing reasons as evidenced throughout Europe.

One salient fact that must be borne in mind when considering Russia as an emerging market is that the economic downturn has not altered the considerable imbalance between quality hotel supply and demand.

THE OUTLOOK FOR 2011

Initial signs are that the economy is beginning to move again as evidenced by the increase in interest from private and institutional investors since the summer vacation period ended. At the third Russian Hotel Investment Conference (RHIC) held in Moscow at the end of October 2010, there was a noticeable change in mood, with investors now reconsidering some hotel projects that have been placed on hold over the last two years. Although lack of domestic bank finance is still a key characteristic in the Russian economy, it is becoming more available to those who choose, albeit at punitively high interest rates. It is likely that the surge in availability of domestic finance on more attractive and competitive terms will occur only when international institutions start to lend once again – which is unlikely to happen quickly.

Return on investment possibilities remain attractive by comparison to investing in similar type projects in Western Europe and, as confirmed at RHIC by a number of leading hotel companies, namely Hyatt, IHG, Hilton and Starwood, the future pipeline is optimistic, particularly in the mid-market and economy hotel sectors where projects are being actively pursued as investors appear to be less cautious.

Picking up steam cont.

The cost of travelling and staying in Moscow and St Petersburg still remains high, which together with the issue of most visitors requiring an entry visa, still acts as a deterrent to many a business and in particular leisure tourist. Will 2011 be the year the Russian authorities decide to relax visa requirements? And will more low-cost airlines be allowed competitive access to these cities? The impact on visitor numbers could only be positive as proven when the key cities of Eastern Europe – Prague, Warsaw and Budapest – implemented an « open skies » policy.

> Will 2011 be the year the Russian authorities decide to relax visa requirements?

The prognosis for 2011 would appear to be optimistically cautious, if that is not a dichotomy in itself, as developers start to press ahead with projects and as the economic climate improves, increasing demand for hotel accommodation.

Contributed by Michael O'Hare

IRELAND

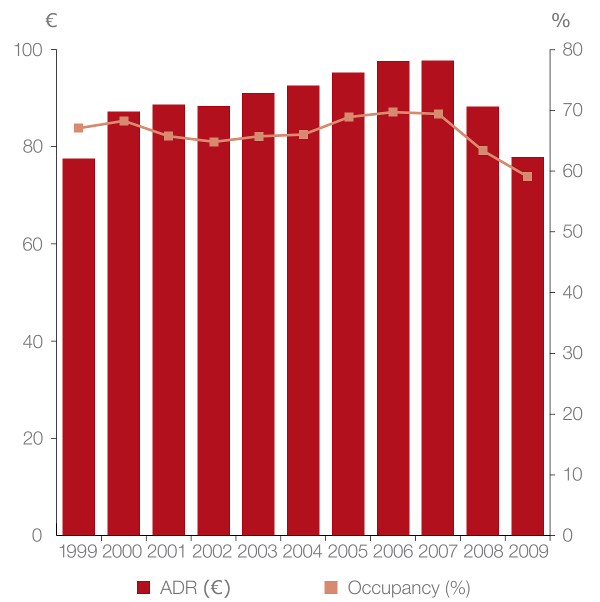
SITUATION REPORT

A game of two halves is probably the best way of summing up the performance of the Irish hotel market over the last decade. Up until 2007, Ireland experienced a period of considerable and uninterrupted growth, with a booming economy and rising demand as well as significant investment in the sector, all of which benefited the tourism market and resulted in hotel performance peaking in 2007. However, the onset of the global economic crisis in 2008 changed the landscape and the once roaring Celtic Tiger is now struggling.

The arrival of the downturn caused hotels to suffer a major dip in demand as corporate and leisure travel reduced significantly, resulting in occupancy rates declining 14.8 % between 2007 and 2009. According to Horwath Bastow Charleton (HBC), rates fell to 59.4 %, and this decline in demand has increased downward pressure on rates, with HBC estimating that room rates have fallen to those experienced during 1999. This would mean that profits across Irish hotels have declined by 50 % since 2007.

This downturn alone would have put significant pressure on hoteliers. However, what has compounded the situation in Ireland is the substantial oversupply in bedroom stock. While the development of additional hotels was necessary in order to satisfy growing demand as the economy expanded, capital allowance tax incentives and the easy availability of debt led to an influx of new hotels often without due consideration of individual projects' feasibility. This resulted in the number of

OCCUPANCY AND ADR PERFORMANCE REPUBLIC OF IRELAND



Source: Horwath Bastow Charleton

rooms constructed far outstripping demand, with over 40 % of Irish room stock, equivalent to 25,000 bedrooms, constructed over the last decade. While in any normal situation this would prove testing, in today's challenging market it has brought saturated markets near collapse.

As a result, it is estimated that over one third of Irish hotels are struggling to pay interest on their loans and are now experiencing acute cash flow problems. The combination of these factors has resulted in an increasing number of hotels being declared insolvent or going into administration.

Transactions remain scarce, with only one sale of significance in the first half of 2010, a far cry from the peak of the market between 2005 and 2007, when around 30 to 40 hotels sold annually. The hotels which are being transacted are distressed. The latest victim appears to be Dublin's iconic Four Seasons Hotel which was put up for sale by its investors following a reported €2m loss last year. In 2009, the National Asset Management Agency (NAMA) was set up by the Irish Government in response to the global banking and property crisis with the aim of removing the riskiest loans (mainly linked to land and development or bad/impaired assets) from the five participating banks (AIB, Bank of Ireland, EBS Building Society, Anglo Irish Bank and Irish Nationwide Building Society), enabling them to restore their capital position and recommence lending. Worryingly, it is forecast that up to 200 hotels may soon fall into the hands of NAMA.

Worryingly, it is forecast that up to 200 hotels may soon fall into the hands of NAMA

THE OUTLOOK FOR 2011

Looking ahead to 2011 and beyond, the oversupply of hotels in Ireland will continue to hamper any potential recovery and put pressure on operators as they struggle to raise rates and improve cash flow. The number of Irish hotels entering administration looks set to continue and for the most leveraged owners, their future most likely lies with the decisions of their banks, creditors or perhaps NAMA.

As such, we forecast that a number of poor performing hotels will fall out of the market, easing the pressure somewhat and cleaning up the industry of the poorer quality hotel stock. Ultimately, the weakest players will not survive. New branded operators are likely to outmaneuver their independent counterparts, and those hoteliers that have clear market positioning and understanding of their guest base, as well as of their competitors, will be best placed to survive and benefit from the future upturn.

Picking up steam cont.

The return to growth, therefore, is likely be slow, with hotel performance largely driven by the return of international visitors and increasing GDP as Ireland begins its recovery from the considerable effects of the economic crisis.

Contributed by Alexandra van Pelt and Erlend Heiberg

SCANDINAVIA

SITUATION REPORT

2009 guest nights were lower in all Scandinavian markets except Sweden. Denmark saw the largest drop (8 %) from 2008. In 2010, demand has recovered with Sweden leading the way, driven by increased MICEET activity in the Stockholm area. Danish hotel operators are still struggling. An expected capacity increase of 8-10 % in Copenhagen is likely to depress room rates and occupancy there.

In Norway as well, increased capacity will continue to depress average room rates, especially in key city markets and at Oslo Airport, where Park Inn by Radisson recently opened a new 300-room hotel (see photo).

The Park Inn by Radisson, Oslo Airport

Choice Hotels Scandinavia is the region's largest hotel operator ranked by number of hotel rooms, with Scandic Hotels following closely. Choice is set to retain its position given the known development pipeline.

Sweden-based hotel owner Pandox recently acquired the Norwegian company Norgani to become Europe's largest independent hotel property owner (24,000 rooms and growing).

THE OUTLOOK FOR 2011

The regional economy in Scandinavia is performing well – better than Europe in general – and this will continue to drive demand for hotel services.

Sweden has recovered more rapidly than the other Scandinavian countries. RevPAR for the first eight months of 2010 was up

> Sweden has recovered more rapidly than the other Scandinavian countries

4.6 % on the same period in 2009. 2011 looks to be a good year for the Swedish market, possibly on par with 2008.

In Denmark, the first half of 2010 continued on a negative path, but the number of guest nights was picking up. A recent industry survey reveals that 52 % of Danish hotel operators expect an increase in guest nights, whereas 32 % expect a decrease, compared to 2009. For 2011, about 65 % expect an increase in volumes, whereas only 7 % expect a decrease. Room rates remain soft and travellers spend less in hotels and restaurants.

In Norway, only about 20 % of industry professionals expect occupancy in the second half of 2010 to be worse than 2009, with about 45 % expecting higher occupancy rates. Room rates are expected to lag behind but firm up in 2011. Low interest rates in Norway encourage investment activity and room capacity is set to increase by 4.7 % in 2010 and 3 % in 2011.

In the summer of 2011, the largest hotel in Scandinavia will open in Copenhagen. The Comwell Bella Sky will have 814 rooms and be located next to the Bella Sky conference centre in Ørestaden.

The FIS Nordic World Ski Championships are to be held in Oslo, Norway at the end of February 2011, and many hotels have refurbished and extended their rooms in anticipation of the event.

LARGEST HOTEL CHAINS IN SCANDINAVIA
(Hotel chains active in more than one country)

4Q 2010	Total Hotels	Total Rooms	Ave. hotel size (rooms)
Choice Hotels Scand.	169	24,435	145
Scandic Hotels	112	20,647	184
Rezidor Hotel Group	47	11,138	237
Rica Hotels	78	10,318	132
Best Western	125	9,861	79
Thon Hotels	59	8,661	147
First Hotels	47	6,381	136
Hilton Group	4	940	235
IHG	2	734	367
TOTAL	**641**	**92,381**	**144**

Several new hotels are being built in Stockholm city and around Stockholm Airport Arlanda. The Waterfront complex with a 414-room Radisson Blu hotel will open in 2010/11.

International hotel operators are struggling to establish a market for management agreements in the region. Scandinavian hotel owners still prefer fixed and variable leases.

All in all, 2011 looks to be a better year for the Scandinavian market, but growth may be hampered by strong exchange rates. Occupancy in major markets like Copenhagen, Stockholm and Oslo will be affected by capacity increases.

Contributed by Erik Myklebust

SPAIN

SITUATION REPORT

The Spanish tourism markets have been hit hard by the international financial crisis. In 2009 Spain lost 9.8 % of its international tourists, and this large decline took a deadly toll on the hotel market, forcing hotels in every category into bankruptcy. In the real estate market, hotel investments fell 25 % in 2009, mostly due to the difficulty in obtaining credit and the continued gap between buyers' and sellers' valuation of assets, post-crisis.

Fortunately, 2010 has shown signs of recovery and in Spain, the tourism sector has grown more than GDP and is playing a key role in the recovery of the Spanish economy. So far during 2010, Spain has experienced a 2 % increase in its international tourists and a 4 % increase in tourism expenditure. Cities like Madrid, Barcelona, Seville or Granada, all supporting a good mix of tourism and business travelers, are the ones leading the recovery. So far, hotel investment has experienced a 27 % rebound this year, compensating for the collapse of 2009.

Profound crises like the one we have experienced can change the shape of things in a market permanently. Insofar as some products, services and ideas may vanish with the crisis, some new ones will appear. In the case of Spain during 2010, we have

So far, hotel investment has experienced a 27 % rebound this year, compensating for the collapse of 2009

Picking up steam cont.

LC Torre Europa, Barcelona

seen that while Spain's real estate market may still be in the doldrums, the country's tourism sector is moving forward and in a way, is contributing to the recovery of the real estate market.

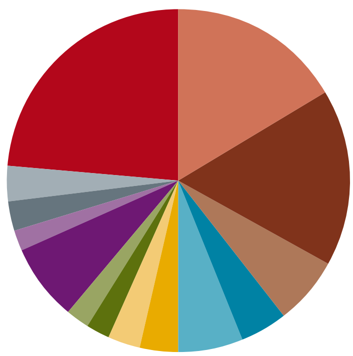
Back in the sixties, the first large waves of tourists visiting Spain brought about a booming of the real state sector. Thousands of apartments were built to host the incoming tourists, and together with the new apartments came the development of the complementary tourist offer (i.e. bars, restaurants, shops, etc.)

THE OUTLOOK FOR 2011

Nowadays, the tourism sector is playing a very important role in the recovery of the real estate market. One of the most successful business formulas used last year in Spain was the «recycling» of apartment or residential buildings for tourism use. Unfortunately, Spain has excess capacity in residential products and these products cannot find investors and barely obtain credit. Adapting these residential products for tourism use serves two purposes; it allows the properties of the residential buildings to earn some income and therefore service their debt, and it allows the hotel market more time to absorb part the current supply. From the perspective of the hotel operators, this is also a time of opportunity and the crisis has opened up good residential units as well as old hotels placed in unique locations.

Contributed by Victor Martí ■

VISITORS TO SPAIN FROM...



- United Kingdom **23.57 %**
- France **16.65 %**
- Germany **16.45 %**
- Italy **6.42 %**
- Netherlands **4.41 %**
- Nordic countries **6.22 %**
- Portugal **3.51 %**
- Belgium **3.11 %**
- Ireland **2.31 %**
- Switzerland **2.11 %**
- Rest of Europe **7.32 %**
- US **1.91 %**
- Rest of America **2.71 %**
- Rest of world **3.31 %**

Patchwork recovery

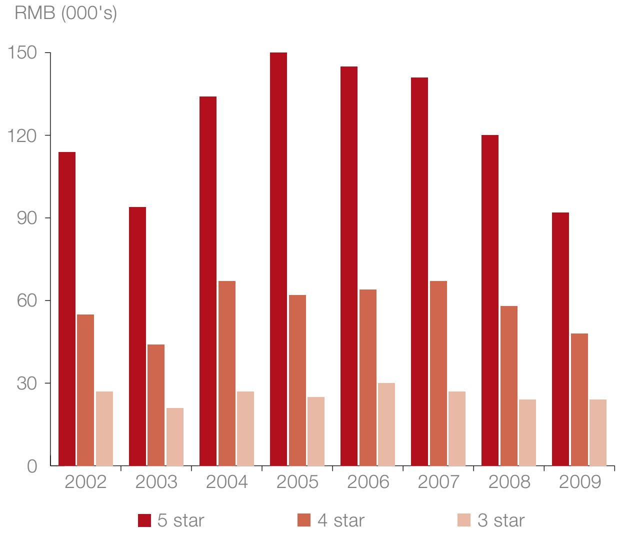
EVEN FOR ECONOMIC POWERHOUSES LIKE CHINA AND INDIA, THE ROAD HAS BEEN BUMPY THESE LAST COUPLE OF YEARS. TO FIND OUT HOW THESE AND SEVERAL OTHER ASIAN MARKETS WILL LIKELY FARE IN 2011, WE TURNED TO **HORWATH HTL**, WHOSE CONSULTANTS JUMPED INTO HIGH GEAR TO PRODUCE THIS SITUATION REPORT AND OUTLOOK, COVERING ELEVEN COUNTRIES.

CHINA

SITUATION REPORT

2010 for the China hotel industry will be remembered as a year in which the market had a positive turning point ending a number of consecutive years of declining performance levels and profitability. Based on data from the 2010 China Hotel Industry Study, in 2009 the Gross Operating Profit per room for 5-star hotels in China decreased to a low of RMB 91,752, the lowest level recorded in the eight year history of the Study. RevPAR had declined by about 20 % in 2009 following a decline in RevPAR of 10 % in 2008.

GROSS OPERATING PROFIT PER ROOM – CHINA HOTELS BY STAR RATING; 2002 TO 2009



Source:
China Hotel Industry Study (Horwath HTL & China Tourist Hotels Association)

In 2010, this RevPAR decline has been spectacularly reversed, with China generally recording a RevPAR increase of 31 % for year-to-date September according to STR Global data. Leading the way has been Shanghai, with improvements in performance levels well and truly exceeding expectations with RevPAR growth of about 63 % in 2010. While the 2008 Olympics made a big bang in Beijing, it was short and sweet and left the city with a massive hangover in 2009. The 2010 World Expo in Shanghai, on the other hand, has created a 6-month period of high demand in the city from which local hoteliers have taken full advantage. It has allowed the market to get its head above water and assisted in a pain-free introduction of new supply (at least temporarily). With both strong growth in occupancy (36 %) and room rate (19 %), Shanghai has at least set itself up to weather the storm from continued impacts from new supply once Expo closes its doors.

China's other primary hotel market – Beijing – has also had a positive year, with STR Global reporting growth in RevPAR of about 30 % year-to-date September. However, while these numbers sound impressive, the reality is that performance results are still very low for a major market, with occupancy at 62 % and room rates at approximately RMB 625. Beijing is still trying to get on top of its oversupply headache, and this can be particularly seen in its sluggish room rate growth of about 3 % year-to-date.

THE OUTLOOK FOR 2011

Actually, when looking at the performance levels for both Shanghai and Beijing in comparison to regional and global major markets, they do not compare well. Excessive growth in supply has severely impacted the performance of these markets and it will take at least another 12 or 24 months before we see performance numbers befitting their status as major commercial centres both in Asia and globally.

In fact, China as a whole continues to struggle from a burden of continuous strong supply growth and this will again be one of the major themes that we will see the market experiencing in 2011. There are many hotel markets across the country that have occupancy levels below 60 % and that still have to face the impact of new supply in 2011 and beyond. With so much investment continuing to be poured into the real estate market, and the typical requirement for many projects to include commercial components (most local governments favor hotel development), developers will continue to develop hotels not based on the investment potential of the hotel itself, but rather based on the profits to be made from selling residential properties.

So while I expect to see some continued improvement in performance levels across the board in China for 2011, I think that growth will be curtailed by continued additions to new supply, particularly in regard to the room rate growth potential of most markets. I will also find it interesting in 2011 to monitor the performance of the increasing spread of international 5-star brands into the smaller secondary and tertiary markets, as well as some deluxe brands into markets outside of Beijing and Shanghai. For me, there are question marks on the depth of these markets and their ability to support such brands at suitable price levels.

> China as a whole continues to struggle from a burden of continuous strong supply growth

Contributed by Damien Little

INDIA

SITUATION REPORT

The Indian hotel industry is clearly on a roll, although performance has been somewhat trailing the stronger development and investment interest.

The Indian economy recovered quickly and rapidly, leading to a return of international business travel to back sustained domestic business travel. Hotel demand has consequently shown healthy recovery in several leading business cities including Gurgaon/Delhi NCR, Bangalore and Mumbai. Room rates are yet to rise significantly, with average rates lower than the peak of 2007-08 by up to 30 % in several cases ; on the other hand, the peak rates were unreal, and a correction was overdue and has occurred. Rates of $180-200 for first class hotels are generally being achieved and will likely be the typical range for the next 12-18 months. Introduction of new supply – between 1,500 to 2,000 rooms in each of the above markets in the last 18 months – has inevitably impacted city-wide occupancies and rates ; however, the absorption of new supply has been faster than anticipated, and this points to a strong performance capability, particularly in the busier winter months. However, substantial catch-up is needed to get to comfortable occupancy levels in the mid-70 % range.

The leisure sector has been relatively much slower, particularly luxury leisure – occupancies fell sharply in the last season, between 30 % to 50 % of peak levels in some cases. Domestic leisure uses first class and lower segments and continued to be strong through the summer ; however, resorts are clearly hoping for a much better 2010-11 winter season. Luxury leisure has however held onto its rates, with average rates of up to $450 at the highest levels and $140-170 in the first class segment.

Some markets such as Pune are working through the impact of a hotel glut, with several simultaneous hotel completions. On the other hand, several second tier cities such as Ahmedabad and Jaipur are attracting significant development interest.

THE OUTLOOK FOR 2011

2011 should deliver better results, with sustained business travel, continued growth of the Indian economy, attraction of foreign investments into different sectors and improved leisure sector performances. Room rates will, however, see only moderate growth as increased supply comes on board ; the strengthening of the Rupee means lower local currency realizations impacting the average room rates.

Thus, there is an air of optimism ; what it leads to is over-optimistic valuations and expectations which could limit

Patchwork recovery cont.

meaningful development. Private equity funding is available, but deals are limited by valuation issues. Development will diversify into different hotel segments, as compared to a more 5-star oriented attitude. Development will also diversify into smaller cities and towns, though one would only wish that the herd mentality would somehow go away; concentrated surges of development in specific markets hurts the medium-term performance and longer-term expectations often to the detriment of the destination.

> The world is looking at India, and will not be disappointed

The world is looking at India, and will not be disappointed – though the virtue of patience would be learned in the process.

Contributed by Vijay Thacker

JAPAN

SITUATION REPORT

Key performance Indices (KPI) in five key Japanese markets (Tokyo, Osaka, Kyoto, Nagoya, Fukuoka) had tumbled for the past two years. Specifically, occupancies at major full-service hotels in the five cities dropped by 3 to 12 %, ADR by 3 to 12 %, and RevPAR by 10-18 % in 2009 compared to the previous year.

Amid this turmoil, key hotel investment players dramatically changed in Japan, which is more notable when you look at the lineups of off-shore players. Until the recent global financial crisis, Western investors from the US or Europe had played a key role in hotel investments in Japan for decades. Horwath HTL estimates that at least 160 major hotels in Japan are now owned by overseas investors. Among them, the US-based Lonestar Funds alone held as many as 72 properties at their peak in 2009.

In contrast with Westerners, who are looking for exit opportunities now, Asian investors are now taking center stage in Japan, with the following recent visible transactions:

- Crown Plaza Kobe (592 rooms) purchased by TCC Land (Thailand)
- Hyatt Regency Hakone (79 rooms) purchased by Sun Hung Kai Properties (Hong Kong)
- Hilton Niseko Village (506 rooms) purchased by YTL Corporation (Malaysia)
- 70 % of total investment units of Nippon Hotel Fund (REIT) purchased by Real Estate Capital Asia (Singapore)

Since the beginning of 2010, occupancy in the five key markets has improved by as much as 1-12 % compared to the same period in 2009. While ADR is still below 2009 figures by 4-10 % in the five major cities, we project that ADR at some key cities start improving in the near future. From our past experience, average ADR for major hotels begins its upward trend when their average occupancy stays at about 78 % or higher for a few consecutive months.

THE OUTLOOK FOR 2011

Looking to the future, the most important factor that brings growth to the mature Japanese market will be the inbound segment, i.e. visitors from overseas countries. The Japanese government is targeting 15 million visitors from overseas by 2013, more than double from 6.7 million in 2009 according

> The Japanese government is targeting 15 million visitors from overseas by 2013

to the Japan National Tourism Organization. The increasing trend in overseas visitor arrivals will be further promoted by deregulation in tourist visa requirements for Chinese visitors and by new direct-flight operations by Low Cost Carriers (LCC) from key Asian cities.

Regarding hotel investment, Asian money will be key, since many Asian investors are revealing their passion to acquire hotels in Japan. In 2011, as KPIs for major hotels improve,

Patchwork recovery cont.

we may see some one or more transactions for major hotel(s) in Tokyo, although the specific hotel name(s) are yet to be disclosed. Also, Asian investors are aggressively searching for resort properties in Hokkaido, Hakone/Izu (Mt. Fuji area), Kyoto, and Okinawa, all of which are particularly famous in the eyes of people in their home countries. Such active movement by Asian investors is sure to stimulate the market, which will lead to a comeback of both domestic and Western players in the near future.

Contributed by Koji Takabayashi

THAILAND

SITUATION REPORT

The past few years have been a challenge for Thailand, both economically and politically. Aside from the impact of the global financial crisis, the country has had to grapple with internal political and security issues. Since the coup d'etat in September 2006 which ousted then-Prime Minister Mr. Thaksin Shinawatra, the country has seen five prime ministers come and go. During this period of uncertainty, mega projects were stalled and frequent amendments of government and fiscal policies resulted in a loss of confidence on the part of investors and consumers. GDP growth slowed from 5.1 % in 2006 to -2.7 % in 2009, while growth in international visitor arrivals to Thailand also slowed from 19.5 % in 2006 to -3.4 % in 2009. According to STR Global, RevPAR of hotels in Thailand fell by 22.9 % year-on-year in 2009 – the largest negative growth since 2005.

The current Prime Minister Mr. Abhisit Vejjajiva was appointed at the end of 2008, but the road has been tumultuous as anti-government movements continue. The protests escalated and peaked in April/May 2010, when a violent clash broke out between government troops and anti-government protestors in downtown Bangkok, resulting in a curfew put in place for several weeks in Bangkok and 23 other provinces. High-end hotels in downtown Bangkok, such as the Four Seasons, Grand Hyatt and Inter-Continental were forced to close for a few days due to security reasons and extremely low occupancy.

Siam Kempinski Hotel

Other hotels in the city operated at occupancy levels of less than 30 %, and ADR was hit badly. Resort destinations such as Phuket, Pattaya and Samui, however, experienced minimal negative impact from the chaos in the capital. As of YTD September 2010, RevPAR of hotels in Thailand grew by 2.5 %

Resort destinations such as Phuket, Pattaya and Samui, experienced minimal negative impact from the chaos in the capital

year-on-year, largely driven by a slight growth in occupancy, while ADR continued to slide as the mechanism for inducing demand during the periods of turmoil in Bangkok.

Since his appointment, Abhisit has administered two economic stimulus packages – a $40 billion, three-year infrastructure improvement plan, and a more than $3 billion program featuring cash subsidies and other initiatives to help the poor, elderly and farmers. This has helped the export-dependent country ride out the global financial slump. In 2010, the stock market and the value of the Thai Baht have rebounded to their highest levels since the 1997 Asian Financial Crisis, and Moody's Investors Service has lifted the outlook for Thailand's credit ratings from negative to stable in October 2010.

THE OUTLOOK FOR 2011

Looking forward into 2011, the market will be heavily dependent on the ability of the government to manage anti-government sentiments and continue to stimulate the economy.

In recent months, stalled hotel projects in Bangkok have been restarted and some hotels have finally opened their doors after much delay. The newest hotel to enter the market is the long anticipated 303-room Siam Kempinski Hotel, while hotels such as the Four Points by Sheraton Bangkok (Sukhumvit 15) and St. Regis Bangkok are expected to open in the coming months. Hotel developers have renewed their interest in the country, with more interest in resort destinations than the oversupplied capital.

| Contributed by Ho Shyn Yee

INDONESIA

JAKARTA

The GFC effects on the Jakarta market were fairly light, especially compared to other parts of the world or elsewhere in the region. The sizable and relatively buoyant domestic market helped keep hotel performances from dipping significantly. Indonesia's rather stellar economic performance in 2009, and proceeding into 2010, has supported trading performances throughout the last 24 months.

Jakarta	2008 YTD Dec.			2009 YTD Dec.			2010 YTD Sept.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Top Tier	65%	$78	$50	60%	$71	$42	62%	$84	$52
Mid Tier	75%	$50	$38	72%	$49	$36	72%	$55	$39
Combined	70%	$64	$44	66%	$60	$40	67%	$69	$46

Industry practitioners are cautiously optimistic about the prospects for 2011 and further leading up to the next presidential election in 2014. Aiding the outlook is the limited supply pipeline in the top tier segment with the Raffles at Ciputra World currently the only confirmed project.

Patchwork recovery cont.

Raffles Hotel, Jakarta

By contrast, development of budget/limited service products under international and domestic brands such as Formule One, Holiday Inn Express and Amaris (Santika Group) has proliferated throughout Indonesia, while new budget-oriented products/brands such as Whiz, Tune, and Pop! are pursuing aggressive development strategies.

With improved accessibility facilitating increased domestic business traffic, the Indonesian government is looking to improve infrastructure further in order to boost tourism from both domestic and regional travelers, helping to drive additional developer interest in Indonesia's burgeoning budget hotel sector.

BALI

The most affected segment in Bali's hotel market in 2009 was the luxury sector, with an almost 20 % decline in RevPAR. By contrast, the RevPAR decline for the top tier sector was limited to 65 %, while the mid-tier sector managed a 5 % increase.

Bali	2008 YTD Dec.			2009 YTD Dec.			2010 YTD Sept.		
	Occ	ADR	RevPAR	Occ	ADR	RevPAR	Occ	ADR	RevPAR
Luxury	65%	$373	$243	56%	$348	$195	65%	$380	$245
Top Tier	76%	$131	$100	70%	$135	$94	76%	$137	$104
Mid Tier	81%	$74	$60	82%	$77	$63	85%	$78	$66
Bali Overall	77%	$111	$86	73%	$120	$87	76%	$134	$102

For YTD September 2010, however, all sectors have experienced a strong RevPAR rebound. Throughout the past three year period, Bali has been registering its best ever performance in foreign visitor arrivals, passing the 2 million mark and already half way to reaching 3 million. Initiation of the airport expansion project is expected to support and facilitate continued growth.

Although the new hotel pipeline is lengthy, many projects have been delayed due to financing issues, making completion forecasting difficult. However, some long delayed projects were finally completed this year or now appear to be moving forward towards completion. Among those opened recently are the Alila Villas Ungasan, Alila Villas Soori and Banyan Tree Ungasan, while new lower-tier entrants to the market include a variety hotels under the Aston, Best Western, Tune and Accor brands. Like the rest of the country, Bali is experiencing a boom in mid- to lower-mid-tier hotel development. One of the most anticipated openings is the W Seminyak, which is now on track to open in the first quarter of 2011.

Bali is expected to further expand on its status as one of Asia's premier holiday destinations with the opening of new resort products across all sectors. The durability of Bali's tourist

> The durability of Bali's tourist and holiday traveler appeal continues to make it a developer/ investor favorite

and holiday traveler appeal continues to make it a developer/ investor favorite. However, increasing traffic congestion and infrastructure strain in the traditional South Bali tourist areas such as Kuta, Jimbaran, Legian, Seminyak, Nusa Dua, Pecatu are becoming threats to the tourist experience and potential constraints to further growth. As an initial response, the new regional government of Bali seems to be directing development towards less congested areas via various incentives and facilitation, but confronting infrastructure deficiencies remains an urgent need to be addressed for sustainable tourism growth.

Contributed by Rio Kondo

PHILIPPINES

SITUATION REPORT

As with most of the ASEAN countries, the global economic crisis had a major impact on the economy as well as tourism in the Philippines in 2009. Despite the drop in several sectors of the economy, growth in Business Process Outsourcing activities and remittances from Overseas Filipino Workers (OFWs) lifted the nation's GDP by 0.9 %. However, unlike the economy that managed to rise, the tourism industry had some setbacks.

International tourism arrivals contracted by almost 4 % in 2009, primarily caused by a 13 % decline in Korean visitors (18 %), the country's largest source market, contributing between 15 and 20 % of total international arrivals to the country each year. The hotel industry was also negatively impacted by the slow economy and drop in arrivals. According to STR Global, average occupancy rates across the country declined by 7 percentage points, while ADR ended almost flat compared to 2008.

Nevertheless, there are some events in 2009 positively affecting the tourism industry moving forward. One of these is the opening of the Resorts World Casino complex, including the 342-room Marriott hotel. The complex has boosted tourism-related activity especially in the city of Manila. The last time a major international chain hotel entered the market was in 2004 (with the opening of the Hyatt Hotel and Casino).

Manila Marriott Hotel

Patchwork recovery cont.

Present indicators and 3rd quarter YTD performances are suggesting a major turn-around in the economic and tourism environment in 2010. Positive sentiments have been running high since President Benigno Aquino stepped into office. Fixed investments, both foreign and domestic, have poured in due to promising indications of better governance. The IMF has doubled its 2010 GDP forecast to 7 % (from 3.6 % in April) and is projecting a growth of 4.5 % in 2011. According to STR Global, September YTD 2010 occupancy performances of hotels across the country surged by an average of 8 percentage points while ADR grew by 2 %.

THE OUTLOOK FOR 2011

Unfortunately, the tourism sector has also had its share of setbacks in 2010 – the bus hostage taking situation in August and terrorist threats in November instigating travel warnings from the US, Australia and other governments. Despite these events, general sentiment remains very optimistic. Hoteliers in Metro Manila are anticipating strong performances to continue in 2010 and an increase of at least 5 % in ADR and a growth of at least 3 percentage points in occupancy performances in 2011.

Looking at 2011, we share the same optimistic views, especially with the rise in economic and tourism activities after the elections. However, the Philippines still warrants a cautious outlook given the historically unstable political environment and continuing security/terrorism threats. Political stability and safety are still the two most critical factors in determining economic and tourism industry performances in the country moving forward.

> Positive sentiments have been running high since President Benigno Aquino stepped into office

Contributed by Jerome Siy

MALAYSIA

SITUATION REPORT

In 2009, the H1N1 threat and the economic downturn across the region led Tourism Malaysia to revise its projected tourist arrival figures from 20 million to 19 million for the year. Despite this, the country recorded a 7.2 % increase in visitor arrivals to 23.6 million. However, the increase in arrivals did not result in an increase in average occupancy levels of the hotel market (3-star to 5-star hotels) in Kuala Lumpur : 67.0 % in 2009 versus 73.0 % for the previous year. In terms of ADR, the hotel market registered a small decline of 4.0 % to RM 261 (US$ 74). This was attrributable to the market's reaction to the economic downturn in the country.

The Malaysian economy is expected to improve significantly in 2011, with a positive GDP growth target of 6.4 %, compared to a 1.7 % decline in 2009. Arrivals for the first 8 months of 2010 rose 5.2% compared to the corresponding period last year to 16.2 million (2009 : 15.4 million). The target of 24 million visitors for the whole year of 2010 set by the government is likely to be achieved. This represents a modest 1.5 % increase as opposed to increases of 7.2 % (2009), 5.1 % (2008) and 19.5 % (2007).

The average occupancy levels of the hotel market in Kuala Lumpur for the first 8 months improved by 4.0 percentage points to 70.0 % compared to the corresponding year in 2009. It is expected the whole year's average occupancy for 2010 will register between 70.0 and 72.0 %. As concerns ADR, it is estimated the hotel market will achieve a small increase of between 1.0 and 2.0 % ; i.e. between RM 263 and RM 266 (US$ 81 and US$ 82).

THE OUTLOOK FOR 2011

Malaysia has started negotiations with the European Union for a free trade agreement. Net investment outflow amounting US$ 47.2 billion over the last 5 quarters to Q2 2009 was reversed as net investment inflow of US$ 15 billion was achieved in the 4 quarters to Q2 2010. Recently, Malaysia was upgraded to « advanced emerging market » status in the FTSE global index. According to economic analysts, this upgrade could attract as much as US$ 3 billion in new funds into the country.

In the hotel market, 2011 is expected to see continuing growth in both the average occupancy levels and ADRs as confidence returns following the downturn of 2008/2009. The ADR growth is estimated to be between 3.0 and 5.0 %, while average occupancy levels are expected to register between 1.0 and 2.0 percentage points. No new major hotels are expected to open in 2011.

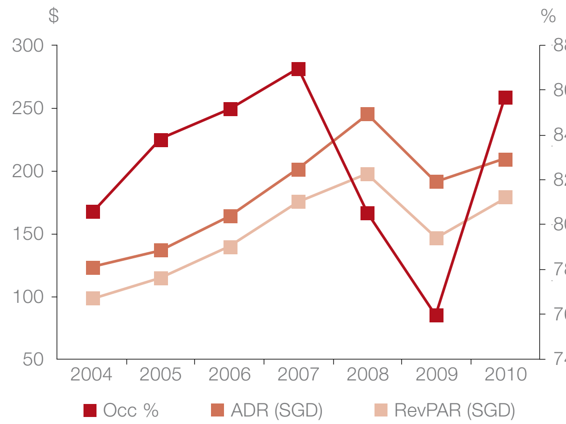
> The Malaysian economy is expected to improve significantly in 2011

SINGAPORE

SITUATION REPORT

After climbing to new record heights in ADR and RevPAR in 2008, the market came tumbling back to earth in 2009 with a 26 % drop in RevPAR as arrivals impacted by the GFC fell off nearly 5 % and room nights sold declined even more significantly, by almost 7 %. Hotels responded quickly with rate discounting to draw in regional visitors, helping limit the demand decline and occupancy drop to 76 %, but incurring an average 22 % cut in rates in the process.

SINGAPORE HOTEL MARKET PERFORMANCE 2004-2010 (YTD AUGUST)



Demand recovery actually began occurring in the fourth quarter of 2009, but the primary drivers of the steep « V » recovery witnessed in 2010 were the opening of the two highly anticipated mega Integrated Resort complexes : Resorts World Sentosa in January and the Marina Bay Sands in April.

Singapore's first casinos may be a primary draw of the Integrated Resorts, but Resorts World Sentosa also features a Universal Studios theme park, Festive Walk, four hotels (totaling 1,350 rooms) and soon-to-be-added Maritime Xperiential Museum, Equarius Water Park and Quest Marine Life Park, while the iconic Marina Bay Sands, topped off by its towering, gravity-defying, Sky Park, offers 120,000 m^2 of convention/exhibition space, a 75,000 m^2 shopping mall, performance theater, museum and over 2,500 hotel rooms.

Patchwork recovery cont.

Marina Bay Sands

THE OUTLOOK FOR 2011

Approximately 55 % of the incremental visitor arrivals in 2010 originated from within Southeast Asia, while another 25 % and 6 % originated from North and South Asia, respectively. Another one million induced/incremental visitors are expected in 2011, resulting in a forecasted 8 % growth in hotel demand. In addition to the pull of the two IRs for leisure travelers, Singapore's attraction as an international MICE destination has been enhanced along with the increased capacity provided by the IRs' significant allocations of MICE facilities.

> One million induced or incremental visitors are expected in 2011

Despite introducing nearly 4,000 new rooms over the course of the first six months of 2010, market occupancy grew from 80 % in January to 90 % in July, clearly proving how, sometimes, when you build it, they will indeed come! The quantity of induced demand generated has helped not only to quickly absorb the new rooms supply, but also spread demand to uplift hotel occupancies across the market. Along with the incremental 1.4 million visitors year-on-year recorded as of YTD August 2010 (+22 %), market ADR also increased to reach nearly $210 (+11 %).

Resorts World Sentosa

With only a « limited » increase in supply of approximately 4 % (+1,200 rooms), Singapore hotel owners and operators can look forward to another year of strong demand and occupancy conditions, and thus ripe conditions for increasing ADRs via further rate increases and business mix management. As a consequence, market ADR is expected to grow by at least 15 % in 2011, bringing with it record profitability to warm the hearts of existing hotel owners and certainly making Singapore Asia's hottest market for hotel investors and developers.

Contributed by Robert Hecker

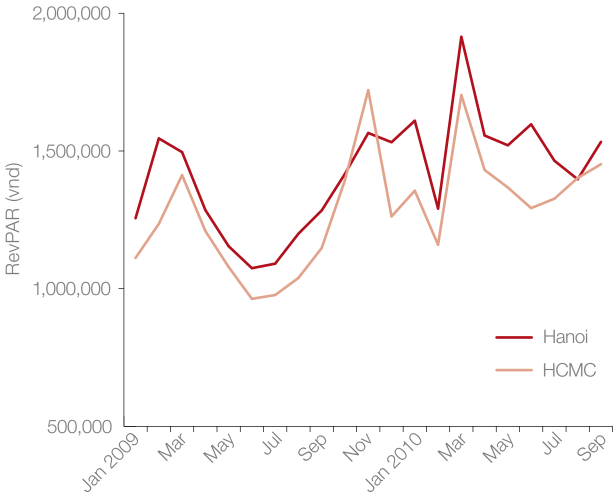
VIETNAM

SITUATION REPORT

After experiencing steady growth until 2007, the Vietnam hotel market saw weakening demand starting from the beginning of 2008 due to domestic economic issues, well before the onset of the GFC which exacerbated the market situation for most of 2009, during which RevPAR for the upscale hotel markets in Hanoi/HCMC fell by 12 %. However, the monthly demand trend turned positive from the last quarter of 2009 and, as of YTD

September 2010, occupancy surged by 10 percentage points to 61 %, while RevPAR has almost recovered to 2008 levels. This suggests the market is back on track.

HISTORICAL REVPAR COMPARISONS, UPPER-TIER MARKET, HANOI AND HCMC



Source: Horwath HTL

Both the Ho Chi Minh City (HCMC) and Hanoi upper-tier hotel markets have undergone tough times, but HCMC suffered slightly more, given its more corporate-oriented market. Historically, the HCMC hotel market has always overshadowed Hanoi in terms of RevPAR, but going through the recent recession, the gap between the two markets has noticeably narrowed.

The decreased number of inbound leisure travelers over the prior two years was somewhat counterbalanced by a booming domestic tourism market. As a result, hotels and markets focused more on the domestic market performed better in comparison to the Upper Tier hotels in HCMC and Hanoi that generally cater heavily to foreign corporate business. According to the 2008 annual Global Retail Development Index TM (GRDI) published by AT Kearney, Vietnam was selected the most attractive retail market in the world, driven by strong GDP growth and increasing consumer demand for modern retail concepts. The domestic tourism market also benefited from this trend and the country's major leisure destinations in central coast such as Da Nang/Hoi An and Nha Trang saw continued growth in domestic demand even during the global recession. As a result, hotels in the Da Nang/Hoi An area experienced only a minor 4 % drop in occupancy, while ADR and RevPAR have grown, albeit slightly.

Accordingly, most new hotel projects are seen in the central coast area. For instance, as of September 2010, there are approximately 3,800 new hotel rooms coming only in the Da Nang/Hoi An market area. About 70 % of these new rooms will be under international branding and management, some of which are scheduled to open by the end of 2010. By comparison, new hotel development in HCMC and Hanoi is moving at a much slower pace, with little international branded supply expected to enter the market within the next five years.

Hyatt Regency Danang

THE OUTLOOK FOR 2011

The booming domestic leisure market is expected to continue, as there is increasing demand for modern leisure life. As a result, hotel market growth will be driven heavily by the leisure demand segment in 2011 and the next several years. According to a recent Horwath HTL study, room demand in Da Nang/Hoi An is anticipated to grow by 15-20 % per annum for the next several years. The HCMC and Hanoi markets are also expected to grow, but at a slower pace, especially compared to the level of growth experienced during the boom period between 2000 and 2007.

Contributed by Steve Baek

Patchwork recovery cont.

AUSTRALIA

SITUATION REPORT

The Australian hotel industry has continued to recover in 2010 from what, in global comparative terms, was a mild downturn during the GFC. Having been one of the few countries to avoid negative GDP growth, Australia's real GDP is expected to grow by 2 % in 2009/10 and by 4 % in 2011/12, driven by surging mining exports predominately to China and India. Unemployment remains at only 5 % and corporate profits have held up, both of which have supported hotel demand.

Visitor arrivals are expected to reach 5.9 m in 2010 (up 5.5 %) however the domestic leisure market continues to suffer from cheaper outbound destinations, in part due to the sharp appreciation of the Australian dollar and the increased number of low cost carriers. Further growth in inbound demand will largely be dependent on the rate of recovery in Australia's major inbound markets (including New Zealand, Japan, USA and the UK) and on continued growth from China. Domestic business travel has also improved in several capital cities, resulting in many hotels experiencing stronger mid-week occupancies.

> The domestic leisure market continues to suffer from cheaper outbound destinations

As an indication of the strength of recent demand, data provided by STR Global reveals that in Q1 2010, Sydney achieved the highest level of occupancy (85 %) among any of the Asia-Pacific city markets that STG Global tracks. YTD occupancy for Sydney is 83 % (a 9 % increase over last year), while RevPAR has increased 13 %. Due mostly to recent new room supply, RevPAR for Melbourne has only increased 1.5 % in 2010 year to date.

HOTEL INVESTMENT

Demand for Australian hotels remained strong during the GFC and values held up well, although transaction volume fell markedly. During 2009/10, demand from cashed up Asian investors resulted in several notable transactions, particularly in Sydney, including the sale of Australia's largest hotel by number of rooms, the Four Points by Sheraton in Sydney. Sellers were predominantly domestic investment funds taking advantage of firm values and aiming to meet redefined investment strategies. Contrary to expectations, few distressed hotel asset sales occurred.

THE OUTLOOK FOR 2011

Buy sentiment for Australian hotel assets remains strong with sentiment survey data prepared by Jones Lang LaSalle Hotels in May 2010 indicating Perth, Brisbane and Sydney to be respectively the first, fifth and eighth most desirable markets for hotel purchases in the Asia-Pacific region. In contrast, the Gold Coast represented one of the highest sell markets in the survey.

Contributed by John Smith and Vasso Zographou

NEW ZEALAND

SITUATION REPORT

The New Zealand economy continues on a recovery path with export commodity prices increasing markedly, aided by recent currency depreciation and the strength of its key trading partners, particularly Australia and Asia. Household spending is growing firmly and private consumption is now close to pre-recession levels. As a result, GDP is expected to grow from 2.8 % in 2009/10 to 4.2 % in 2010/11.

International visitor arrivals to New Zealand in 2009 held up and in 2010 a modest lift is expected mostly from growth in short-haul markets from the Asia Pacific region. Demand in 2011 will be supported by New Zealand's hosting of the Rugby World Cup.

> Demand in 2011 will be supported by New Zealand's hosting of the Rugby World Cup

RevPAR in Auckland, Christchurch and Queenstown dropped by over 10 % during 2009, mostly due to rate discounting, and now faces the challenge of new hotel and serviced apartment supply increases during 2010.

THE OUTLOOK FOR 2011

Transaction volumes remain low and buy sentiment for New Zealand hotel remains weak with Auckland rating third lowest in Asia Pacific in the JLL May 2010 sentiment survey.

Contributed by John Smith and Vasso Zographou ■