



European Hotel Transactions

The State of the Game

March 2008

A retrospective look at 2007 – “A game of two halves”

First half – a number of factors continued to underpin exceptional hotel transactional activity:

- + The global hotel companies continued to shed assets in pursuit of an asset-light strategy.
- + Hotel trading performance continued to show strong RevPAR growth.
- + Private and institutional investors were keen to invest in hotel assets – eager for an alternative to the volatile stock markets.
- + Lenders were willing to fund the acquisition of large hotel portfolios, with low cost debt and historically high loan to value ratios.

Accor and Hilton both continued to shed assets in the early part of the year . . .

In June 2007 Accor completed the sale of two large hotel asset portfolios

Sale and leaseback of 29 UK hotels, 4,925 Ibis and Novotel branded rooms, to Land Securities Trillium for €693 million, on 12-year variable leases.



Sale and leaseback of 86 hotels in Germany and the Netherlands, 11,137 rooms, to Moor Park Real Estate for €740 million, on 12-year variable leases.



Accor formed development partnerships with both Moor Park and Land Securities following these asset sales.

Hilton sold the Scandic Hotel Chain to EQT and 10 European Hiltons to MSREF

In March 2007 EQT partners agreed a deal to purchase the Scandic Hotels AB company from Hilton. The deal comprised 132 hotels and in excess of 23,000 rooms, for €833 million, with a yield, after FF&E reserve, of circa 6.5%. The sale of the Scandic Hotels company, which was predominantly composed of leasehold hotels, was part of Hilton's stated strategy to produce a higher proportion of its income from management and franchise fees.



In June 2007 Morgan Stanley Real Estate announced that one of its funds had completed the acquisition of eight Hilton hotels in Europe, with two further Hilton hotels expected to be acquired later in 2007. The purchase price for the 10 hotels (3,330 rooms) was reported to be €566M in total.



At the time it was understood that management agreements were in place for 5 of the hotels, with 3 expected to be signed. The Los Zocos Resort in the Canary Islands was sold without a contract in place, and the future of the Hilton Weimar was undecided (although it retained Hilton branding in the short term). Reports suggest that the €566M price represented a yield of circa 6.6%, based on trailing 12 months' earnings.



Whilst hotel assets continued to be churned between investors . . .

RBS got a quick return on its investment

In April 2007, RBS sold 47 Marriott Hotels (8,456 rooms) to a consortium led by Quinlan Private and the Igal Ahouvi Group for £1.1 billion. The hotels continue to be operated by Marriott via 30-year management contracts (signed in 2006).



RBS had acquired the 46 hotels for £951.4M and 1 additional Marriott development site for £30M, from a Whitbread/Marriott JV.



The bank indicated that the sale was in line with its strategy to exit its hotel investments as quickly as possible. Reports suggested the sale represented an exit multiple of 14.1 times EBITDA, giving a yield of 7.1%.

Second half – a “Credit Crunch” slowed hotel mega deals . . . but there was still plenty of deal activity

Mortgage arrears and home repossessions in the US sub-prime market had been rising since 2006. The “Credit Crunch” emerged as a real phenomenon in June 2007, with the announcement by Bear Stearns that two of its hedge funds involved in the sub-prime market were in financial difficulty. This, followed by other investment banks declaring exposure to the sub-prime market, resulted in the banks hoarding cash, whilst calculating their losses, and a consequential tightening of the credit markets.

The limited availability and increasing cost of debt led to an immediate slowdown in large-scale deal activity in the hotel sector – with investors struggling to fund the major portfolio deals at the low yields previously enjoyed. Two notable hotel portfolio sales (both of which had formed part of the proposed Vector REIT IPO) were postponed at this time as a direct result:

- + In August, RBS was forced to postpone the sale of 15 Hilton Hotels, due to be sold to Robson Asset Management for £1.1B.
- + In September, MWB announced that it was to delay the sale of Malmaison and Hotel du Vin as a result of “current uncertainties in the markets”. The reported frontrunner at the time, the Prem Group, was reported to have made a £685M bid.

Despite these postponements, there was plenty of deal activity, with single asset and smaller portfolio transaction volume remaining steady – particularly where deals did not require large quantities of cheap debt financing, or where deferred consideration could be exercised.

In the second half of 2007 Christie + Co pushed through a number of portfolio transactions . . .

Eight Thistle hotels were purchased by Menzies Hotels



In August 2007, Christie + Co acted for The CIT Group in the sale of eight Thistle hotels (totalling 978 bedrooms), across the UK, on an unencumbered basis to Menzies Hotels for £54M.



Menzies announced that it would carry out a £12M capital investment programme, in order to reposition the hotels in line with its existing operations.



Four Pillars Hotel Group was acquired by RREEF Real Estate



In September 2007, Christie + Co brokered the sale of the Four Pillars Hotel Group to RREEF Real Estate for a reported £120M.



The company owns and operates five hotels in Oxfordshire and Gloucestershire, and operates a sixth (Abingdon Four Pillars) on a management contract. A joint venture between the founding shareholders of Four Pillars and RREEF has been formed in order to identify and build new hotels for the group.



19 Bonsai branded Hotels sold to Dynamique Hotels

In November 2007, Christie + Co negotiated the sale of a portfolio of 19 Bonsai hotels, with 1000 budget hotel rooms across France, to Dynamique Hotels for a confidential sum.

The purchaser, a hotel investment fund formed by CBRE Investors, has been acquisitive throughout 2007 and early 2008, in spite of the credit crunch, and has completed on a number of single asset and portfolio deals.



Whilst sales of prime single assets appear to be much less affected by the credit crunch . . .

The Dylan Hotel Amsterdam was acquired by a private investor

In January 2008 Christie + Co sold the 41-bedroom Dylan Hotel in Amsterdam on behalf of Apollo Real Estate Advisors for a confidential sum.



Mrs Bhatia acquired another Hilton in London

In February 2008 Mrs Gulshan Bhatia, the current owner of the Hilton London Paddington and the Hyatt Regency Birmingham, was reported to have acquired the freehold of the 299-bedroom Hilton London Waldorf for £185M. The hotel is operated under a lease agreement with Hilton, although Mrs Bhatia is reportedly seeking to convert the lease to a management contract.



It is worth noting that the hotel had previously formed part of the portfolio of 15 Hilton hotels that RBS had tried to exit earlier in the year.

And investors still see the sector as having growth potential . . .

JER Partners buys Morethanhotels and builds the portfolio



In October of 2007, JER Partners acquired the Morethanhotels business for a reported £115M. JER was advised by Christie + Co's consultancy team.



Morethanhotels owns and operates 11 Express by Holiday Inn hotels throughout the UK, and owns two development sites close to the Birmingham NEC.



In February 2008, Christie + Co acted for the vendor in the sale of the 129-bedroom Express by Holiday Inn Stevenage to JER Partners. The latest deal leaves the group with a portfolio of 1,399 rooms with more in the pipeline.

2008 – The story so far...

Late in 2007 and early in 2008 we have seen deal activity, with some larger portfolio transactions taking place, including another asset divestment by Accor . . .

Accor announced the sale of 57 hotel assets

In December 2007 Accor announced the signing of an agreement to sell 57 Hotels in France and Switzerland to a consortium including CDC and two funds managed by AXA REIM, on a sale and leaseback basis.



The purchase price was quoted as €518M, with Accor to continue operating the hotels on variable leases, with the rent estimated at €29.6M (based on estimated 2007 Revenue) a 5.71% yield.



CapMan raised a hotel real estate fund – and purchased 39 hotels in Finland & Sweden

In January 2008, CapMan plc announced that it had established a new €835M hotel real estate fund, CapMan Hotels RE Ky, and acquired a portfolio of 39 hotel assets (38 in Finland, 1 Sweden) from Northern European Properties. The hotels are operated by a diverse range of tenants under a variety of brand names and were purchased for €805M.



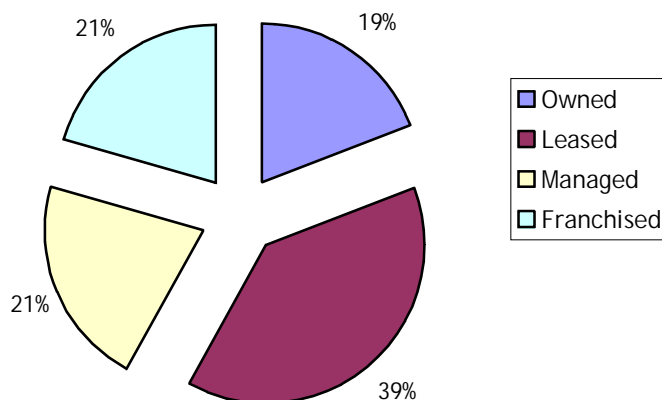
The existing tenants operate the hotels on long leases generating around €50M per annum, a yield of 6.2%. The financial package included some €292M of equity (36%).

These transactions illustrate that there is the desire amongst investors and the available debt to do hotel deals providing:

- + There is a stable and secure cash flow from the properties.
- + The transaction is not dependent on excessive levels of debt.
- + The portfolio acquired provides income from a range of hotel types and brands.
- + The hotels acquired have the security of being operated by major operators on lease or management contracts.

At this point in time the large, publicly traded hotel companies are coming to the end of their asset disposal programmes and are now asset light . . . and more vulnerable to takeovers

Accor Global Rooms Portfolio by contract type

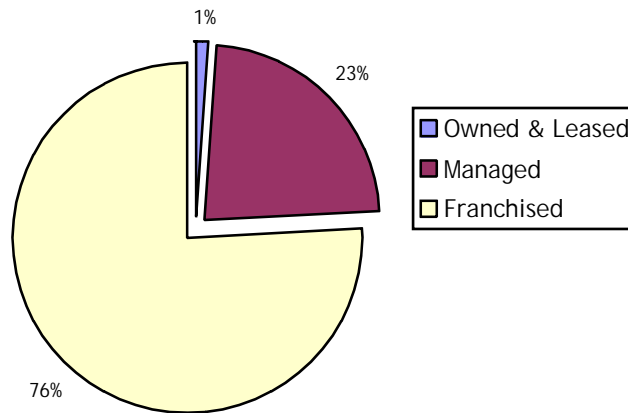


Source: Hotel Portfolio by operating structure and region at December 31, 2007

As of December 2007, Accor had reduced its owned hotel rooms to only 19% of total rooms. Leased hotel rooms now make up the biggest part of its room count, following the completion of a number of sale-and-leaseback transactions in the last 12 months.

According to Accor, further asset divestments are due in the next couple of years, which will result in further reductions in its owned operations.

IHG Global Rooms Portfolio by contract type



Source: Hotel & Room Count at 31 December 2007

As of December 2007, IHG had reduced its leased and owned hotel room count to only 1% of total rooms, with the bulk now being made up of management contracts and franchised rooms.

One of their number has already been taken private . . .

The “big” deal – Blackstone purchased Hilton

In October 2007, Hilton Hotels Corporation and Blackstone Group announced that the merger of Hilton with an affiliate of the Blackstone Group’s real estate and corporate private equity funds had completed.



The deal for \$26Bn, financed with circa \$5.7B of equity, uniting the hotel ownership activities of Blackstone with the hotel management activities of Hilton, is the biggest hotel company deal in history.

The Blackstone Group®

This deal could signal a new trend in the ownership of the large hotel companies, with many of them being linked with take-private deals

InterContinental Hotels Group has been the subject of a great deal of speculation following the Hilton-Blackstone deal. A number of parties having been linked to a potential takeover:

- + CVC Capital Partners
- + Kingdom Hotel Investments
- + The Barclay Brothers
- + Starwood Hotels & Resorts

With the hotel assets of the big companies now largely in the hands of investors, what are the likely future transactional trends for these valuable assets?

- + Short term investors, such as private equity companies, will continue to churn assets as they seek a relatively quick return on their investment, or need to refinance or restructure their investment portfolios
- + Long term investors (including REITs) will become increasingly active in acquiring assets in Europe. Fonciere des Regions, a diversified REIT based in France, holds a number of Accor properties in Belgium and France
- + Development partnerships between operating companies and the companies that own their assets will become increasingly common. Accor has formed such partnerships with both Land Securities and Moor Park Real Estate, following asset sales to these companies in 2007, and there is of course the partnership between Hilton and its new owner Blackstone.
- + With the drop in available debt, investors who are able to fund a significant part of deals from their own balance sheets will be ideally placed to acquire hotel assets, as more equity is required to fund deals at the present time
- + All hotel investment activity is of course dependent on the operating performance of the hotel assets themselves continuing to whet the appetite of investors

—Ends—

Founded in 1935, Christie + Co is the leading firm of surveyors, valuers, agents and consultants specialising in the hospitality, leisure, retail and care sectors. Currently employing close to 400 professional and specialist staff, it has 17 offices throughout the UK – with valuation, agency, investment and consultancy teams focused on its key sectors. Christie + Co’s international operations are based in Barcelona, Berlin, Frankfurt, Hamburg, Helsinki, Dusseldorf, London, Madrid, Marseilles, Munich, Paris and Rennes.

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