

## Going Beyond RevPAR To Determine Value

any hotel consulting firms collect and publish occupancy, average rate and RevPAR data for major hotel markets around the world. While these room revenue statistics are interesting, they only provide a partial picture of a market's economic health. HVS takes this data two steps further and develops a hotel profit and loss statement for each market, and using this information, then estimates the value of a typical hotels in that market. When these values are updated annually, hotel investors clearly can see value trends by market and also can compare the relative values among several markets. Bottom line profit and value information is always more beneficial than just revenue data.

HVS tracks hotel value trends around the world. This month I will focus on the major hotel markets in Europe and Asia. The table on p. 26F shows the annual percentage change in hotel values for a number of markets.

The year 2005 was very good for value growth. Out of the 29 hotel markets tracked in Europe, only five registered a decline in hotel values during 2005. In Asia, only two out of 14 markets had a value loss. The largest loss for both continents was a 15% decline in Bali, which was the result of the two terrorist bombings in Kuta and Jimbaran in October 2005. Going back to 2003, 25 markets in Europe and 13 markets in Asia had hotel value declines. During 2005, the average hotel in Europe increased 5%

in value, and in Asia hotel values rose 4%.

Because hotels possess operating leverage, during periods of strong occupancy and rate growth, value enhancement is amplified. This was the case in 2005 when a typical hotel in Istanbul increased 32%, Moscow 22%, Budapest 12%, Hong Kong 10% and Singapore 10%. Operating leverage also can be reversed, as was the case in Jakarta during 1998 when hotel values declined more than 180% because of local political problems.

Looking into the future, hotel values should continue to increase in most European and Asian markets. The global economy is growing, and for the most part, new hotel development is proceeding at a slow to moderate rate.

In Europe, the availability of debt financing and improved hotel operating performance eventually will lead to overbuilding, but with the typically long project approval process, it will be a number of years before many of the European hotel markets will actually become overbuilt. The availability of debt also has been a positive factor in overall value growth as the lower cost of capital depresses hotel capitalization rates and pushes values up.

The Asian hotel market appears to have fully recovered from the effects of the tsunami. Avian influenza continues to have a minor impact on some markets, and potential for continued terrorist attacks is always on people's minds. Offsetting these



negative influences is the proliferation of budget airlines throughout the region, which enables more of the area's middle-class to start traveling. In addition, many Asian countries, especially China and India, are making huge investments in infrastructure such as highways, airports and convention centers, which will further encourage tourism, business and convention travel. As with Europe, the threat of overbuilding does not seem to be an issue. While some markets might be approaching saturation in the 5-star hotel category, I think there is plenty of development opportunity with mid-market product.

The global hotel industry is thriving. Having attended many of the hotel investment conferences around the world, almost everyone is very optimistic about future value trends. We have learned that events such as terrorist attacks, outbreaks of flu and disasters like tsunamis have only a brief, transitory effect on hotel values. In the long run, hotels offer an excellent investment vehicle for those looking for value enhancement.



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## **Hotel Values - % Change**

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2%	17%	10%	-11%	-6%	-7%	2%	5%
6%	4%	11%	-2%	-2%	-4%	3%	5%
8%	2%	15%	-4%	-8%	-4%	3%	5%
2%	18%	31%	-1%	-4%	2%	18%	4%
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Source: HVS International