

**Lodging Econometrics Industry Outlook for Europe Reports the Construction Pipeline At 949 Projects/163,919 Rooms**  
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Credit Crisis Likely to Impact Future Development

Lodging Econometrics (LE), the Global Authority for Hotel Real Estate, announced in its 2008 Outlook for the Lodging Industry in Europe that the Construction Pipeline stood at 949 projects and 163,919 guestrooms.

'This represents an 11% quarter over quarter (QoQ) increase for projects and 13% increase for guestrooms, up from 854 projects/145,636 guestrooms in the third quarter,' said Patrick Ford, President. 'Every project recorded into the Pipeline has been announced into the public domain, has a dedicated land parcel and is being actively pursued by the developer,' continued Ford.

<b>Total Construction Pipeline</b>		
	<b>Projs</b>	<b>Rms</b>
Under Construction	475	82,076
Scheduled Starts, Next 12 Months	267	45,375
Early Planning	207	36,468
<b>Total Construction Pipeline</b>	<b>949</b>	<b>163,919</b>

Source: Lodging Econometrics, Portsmouth, NH, USA the Global Authority for Hotel Real Estate

'The development boom follows a period of sustained prosperity. Hotel occupancies, in the high 60's and 70's, are at or near peak levels in many urban centers and resort destinations. Room rates have been strong, pushing RevPar growth rates into double digits in many markets. These lodging indicators are driving developer interest,' commented Ford.

<b>Construction Pipeline – Western Europe, Selected Countries</b>					
	<b>At 4Q 07</b>		<b>Forecast of New Guestroom Openings</b>		
	<b>Projs</b>	<b>Rms</b>	<b>2008</b>	<b>2009</b>	<b>2010+</b>
United Kingdom	260	39,553	10,651	13,344	15,558
Spain	187	29,630	9,530	8,178	11,922
Germany	69	12,889	3,446	4,898	4,525
France	57	6,815	1,975	2,040	2,800
Italy	47	7,349	2,083	2,318	2,948

Source: Lodging Econometrics, Portsmouth, NH, USA the Global Authority for Hotel Real Estate

Flagship brands from the major global companies populate the Pipeline: Hilton Hotels, InterContinental and Crowne Plaza from IHG, Radisson SAS, Starwood's W and Sheraton, and Marriott and Renaissance. Of equal significance are their mid-market hotels: Hilton Garden Inn, Doubletree, and Hampton Inns from the Hilton Family, Holiday Inn and Express by Holiday Inn from IHG, and Rezidor's Park Inn, and Marriott's Courtyard.

**Eastern Europe is Flourishing**

In many developing markets in Central and Eastern Europe, there has been a distinct shortage of guestrooms that meet international travel standards, thus triggering explosive growth. As they undergo an economic renaissance, many capitol and large secondary cities are attracting investment and have gained the attention of both developers and high profile brands from the major global companies.

<b>Construction Pipeline – Eastern Europe, Selected Countries</b>					
	<b>At 4Q 07</b>		<b>Forecast of New Guestroom Openings</b>		
	<b>Projs</b>	<b>Rms</b>	<b>2008</b>	<b>2009</b>	<b>2010+</b>
Russia	50	12,174	2,038	4,316	5,820
Turkey	22	3,913	1,257	1,345	1,311
Czech Republic	17	3,015	897	1,158	960
Poland	17	2,589	771	992	826
Romania	12	5,305	1,621	368	1,341

Source: Lodging Econometrics, Portsmouth, NH, USA the Global Authority for Hotel Real Estate

**Branding - A Future Consideration**

Franchise sales teams had a banner year selling their family of brands to both developers for New Construction and to investor groups interested in reflagging their already Open and Operating hotels. New Project Announcements into the Pipeline for the fourth quarter were an impressive 166 hotels/30,273 rooms.

Some 257 projects, or 27% of the 949 in the Construction Pipeline, have not yet made a branding selection. A number of these hotels in the Independent segment will open without a brand, but the balance represents solid potential for franchise sales teams, particularly since more and more lenders will make having a globally recognized brand a requirement for extending financing.

### **At Year-End, Developers Are Cautiously Optimistic About the Future**

There are 475 projects/82,076 rooms, or 50% of the Pipeline, already Under Construction. As a result, LE forecasts that 289 hotels with 43,847 rooms will open in '08, up slightly from their earlier forecast of 272 hotels/40,455 rooms. In '09, 348 hotels with 54,352 rooms are scheduled to open.

Through year-end, developers were cautiously optimistic, reflective of a strong operating surge in most developed countries and the prospects for rapid economic growth ahead in many emerging markets. Developers hoped that the lending crisis would be solved by the time they were ready to pursue financing and that any disruption to the economy would not be deep or prolonged.

### **The Economic Environment is Now Quickly Changing**

With the exception of the US housing crisis, which started well over a year ago, the UK and Eurozone countries are running 3-6 months behind other economic changes occurring in the US. Originally, many had thought the global economies might decouple and act more independently of one another. Unfortunately, that is not entirely the case. In the UK, Ireland and Spain, housing markets are beginning to falter. Consumer spending slowed markedly nearly everywhere in late '07 and early '08. Prices are accelerating for food, energy and other necessities - sure signs of an increase in inflation ahead. The consumer is nearly maxed out credit-wise, and has little access to additional liquidity. As a consequence, discretionary spending is being reined in. Businesses, particularly those in financial services, have also begun to cut back. Travel policies are tightening everywhere.

Many countries appear to be suffering from the same malaise. Few seem immune.

Lodging operating statistics first began to show weakness in November and December, and again in January, with YoY declines in guestroom demand and falling occupancies. Further weakness is expected throughout '08, but the length and breadth of the expected slowdown is uncertain. The credit crisis is not contained to the financial markets, as originally hoped, and has begun to impact the overall economy and hence, lodging's operating performance. Operating trends cannot stabilize and reverse until the banking and credit crisis rights itself.

### **The Outlook for Future Development is Uncertain**

The credit crisis came upon us quickly. It means that financing for mixed-use development and for large hotel projects in urban and resort locations is largely unobtainable. Investment banks and other large national lenders have all but closed down mortgage lending. Central banks have found it necessary to provide them with inexpensive loans to bolster their liquidity.

There's no new spark for mortgage lending ahead until banks are able to clear their books of backlogged loans and sell them to investors. The market for mortgage investments is closed down as well. For now, banks are focused only on their own balance sheets and corporate well-being. Lending has taken a back seat.

Only smaller hotel projects are being considered, and then only for the most qualified and experienced developers. Lenders are far more selective. Larger equity investments are required and other lending terms have stiffened considerably.

What does it mean for hotel development? By mid-year, the number of New Project Announcements into the Pipeline could wane. Those projects already in the Pipeline but without financing could experience some problem securing funding. Because more equity will be required, some developers will need time to search for additional partners. Both could prompt project delays and a flow of cancellations.

As developer sentiment often lags behind changes in the general economy, LE expects the Total Pipeline to continue to expand and not top out until mid '08. Developers will then wait for a better day, certainly until the full extent of the economic downturn ahead is clarified.

### **The Road from Here**

Lenders have made a strategic decision to phase in balance sheet write-downs throughout '08 rather than address the problem in its entirety at a single point in time. The result will be further cutbacks in lending to both consumers and businesses in the months ahead. That means the credit crisis will not be contained to the financial markets, as originally hoped, but will spill over and affect the economy's performance, and therefore impact lodging operating performance.

As mentioned before, the effects of the tightening of lending will be a decrease in New Project Announcements and delays in projects already in the Pipeline but not yet Under Construction, as financing and underwriting will take much longer. Project cancellations are likely.

Financing for large acquisitions and for Reflaggings will be difficult to access, as lenders are reluctant to finance on forward pro formas in a softening market.

The length and the depth of the slowdown ahead is the big question. 2008 is certain to be a year of challenges for lodging operators, developers and investors. It's just starting to play out, as the issues are all in front of us:

The banking and lending crisis

A softening economy

Weakening guestroom demand, room rates, RevPar, and profitability growth rates

Fading real estate values

It will be a year of transition, with an array of challenges. After being bolstered by the global boom of credit availability, the pace of international growth is now slowing. Stock markets have already corrected in anticipation of a slowdown. We are late in the economic cycle. Will it be a soft landing ahead? There's little information available because it's just beginning to unfold and clarity has yet to emerge. Stay tuned!

Lodging Econometrics (LE) of Portsmouth, NH is the global authority for hotel real estate. LE conducts Supply Side research for all markets, developers and brands and companies in: U.S., Canada, Mexico, Central America and the Caribbean, Europe, Asia, Middle East, South America, and Africa.

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