

Lodging Econometrics' Europe Construction Pipeline at a Cyclical High of 1,031 Projects/172,815 Guestrooms

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Emerging Countries Are a Major Development Focus

July 2, 2008 (USA) - Lodging Econometrics (LE), the Global Authority for Hotel Real Estate, has released its Construction Pipeline Report for Europe, announcing the Total Construction Pipeline at a new cyclical high of 1,031 projects/172,815 guestrooms at the end of Q1 2008. LE President Patrick Ford commented, 'The Pipeline in Europe continued to grow, propelled by peak occupancy rates, ADR and RevPAR in many markets, as well as the ongoing global development surge of the very popular, smaller, contemporary branded hotels, particularly in the upscale and mid-market segments.'

Europe Pipeline by Chain Scale

At Q1 2008	Under Construction		Starts Next 12 Months		Early Planning		Total Pipeline		% of Pipeline Rooms
	Proj	Rms	Proj	Rms	Proj	Rms	Proj	Rms	
Luxury	24	4,289	15	2,297	17	3,208	56	9,794	5.6%
Upper Upscale	74	14,728	20	4,267	16	2,549	110	21,544	12.5%
Upscale	121	21,577	50	9,360	42	7,790	213	38,727	22.4%
Midscale w/F&B	98	16,909	26	5,654	42	6,527	166	29,090	16.8%
Midscale w/o F&B	63	7,469	36	4,281	18	2,616	117	14,366	8.3%
Economy	59	8,429	21	3,002	31	3,200	111	14,631	8.5%
Independent	141	20,191	38	7,821	75	14,451	254	42,463	24.6%
Casinos	2	1,150			2	1,050	4	2,200	1.3%
Total Pipeline	582	94,742	206	36,682	243	41,391	1,031	172,815	100.0%

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

There are a cyclical high 582 projects/94,742 rooms currently Under Construction, some 55% of project and room counts in the Total Pipeline. With financing for these projects secured earlier, developers have noticeably rushed to get underway and opened. Totals in Early Planning also reached a cyclical high of 243 projects/41,391 rooms. In the wake of the credit crisis, larger projects in the Pipeline not yet under construction are encountering some difficulty in securing financing and will idle while developers wait for the credit crisis to resolve. As a result, totals for projects Scheduled to Start Construction in the Next 12 Months have decreased to 206 projects/36,682 rooms. All projects included in the LE Pipeline have dedicated land parcels, are being actively pursued by developers and have been verified by the brands.

Ford noted, 'With Europe's abundance of international business and financial centers, the historic and cultural allure of its capital cities, the shortage of land parcels, and the high barriers to entry, Europe's lodging industry remains a very attractive investment sector. The challenge is finding financing, as institutional lending for mixed-use projects and larger, freestanding hotels has evaporated. Still, there are a few smaller lenders without balance sheet difficulties willing to provide financing to experienced developers, particularly if their project involves a globally recognized brand. Generally, the projects finding financing are smaller and the terms are more stringent.'

Lodging's operating performance has been excellent through early spring, particularly in Northern and Western Europe. For the most part, developers remain optimistic, thinking the slowdown from high operating peaks, while prolonged, should be shallow. As a result, developers are looking beyond today's concerns and into the next cycle, thinking the lending crisis will eventually right itself.

LE's Forecast for New Hotel Openings

During Q1 2008, 57 New Hotels/8,691 rooms came online. LE's Forecast for the rest of 2008 calls for 233 New Hotel Openings with 32,349 rooms, and 361 Hotels/56,316 rooms in 2009. With 94,742 guestrooms currently Under Construction, these projected New Openings are already in the ground, making LE's New Supply Forecast for 2008-2009 a certainty.

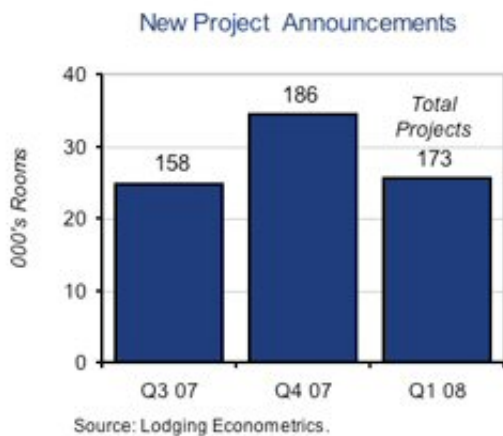
Construction Starts Jumped Forward in Q1



Source: Lodging Econometrics.

New Construction Starts for hotels already in the Pipeline jumped up in Q1 2008, with 173 projects/24,938 rooms now underway. These projects had financing in place before the credit crisis materialized. Postponements and Cancellations trended upward to 45 projects/8,318 rooms. The reduced availability of financing will likely restrain Construction Starts going forward, and will also result in increased Postponements and Cancellations.

Fewer New Projects Announced in Q1



After peaking in Q4 2007, New Project Announcements into the Construction Pipeline declined to 173 projects/25,488 rooms. As New Project Announcements are a key indicator of developer sentiment, this slowdown underscores the disappearance of institutional financing for large four- and five-star projects, and the growing popularity of smaller, mid-market branded properties that are easier to finance.

Many New Project Announcements are located in London, as well as in other cities throughout the UK, and are set to open early next decade in anticipation of the tourist boom for the 2012 Olympics. There are also a large number of New Projects announced in emerging markets in Central & Eastern Europe (CEE) and the Commonwealth of Independent States (CIS).

Country and Market Trends

The United Kingdom, a target area for every global brand, has the largest Total Pipeline in Europe, with a total of 321 projects/46,531 rooms. 75 projects/14,010 rooms are in London, 44 of which are expected to come online in 2010 and beyond, as the city prepares to host the 2012 Olympics. High levels of development with New Openings planned for early next decade are also seen in other urban areas and key industrial centers. Among the cities expected to benefit from increased travel are Birmingham, Manchester, Liverpool, Edinburgh, Aberdeen, Sheffield, Leeds, and Glasgow, which have a combined 83 projects/13,271 rooms.

Other than in Russia and the CIS countries, where Pipelines are just beginning to form, Pipelines in other European countries were seeded much earlier in the decade and have 50% or more of their projects already under construction and have a heavy flow of New Hotel Openings scheduled for 2008-2009.

Spain has the second largest Pipeline in the region with 179 projects/27,701 rooms, led by Madrid with 20 projects, Barcelona with 19, then the port city of Malaga, all popular tourist and cultural hubs. Germany has 76 projects/14,274 rooms in various stages of development. The capital of Berlin has 13 projects/3,148 rooms, followed by the financial centers of Frankfurt and Munich, and the industrial port city of Hamburg. France's Total Pipeline has 56 projects/6,347 rooms. Its capital, Paris, leads with 11 projects.

Countries in Central & Eastern Europe (CEE) are enjoying growing economies, increased consumer spending and an expanding flow of inbound tourists. Lodging companies have aggressive growth strategies in these countries, targeting their high-end brands in the capital cities and their mid-market hotels elsewhere.

The Czech Republic has 19 projects/3,320 rooms in its Pipeline. Prague, the capital, accounts for 15 of those projects. Of Poland's 16 projects/2,449 rooms, 3 are in the capital of Warsaw, with the remainder in key locations like the main seaport of Gdansk, education hub Poznan, and Katowice, a major coal and steel center. With its celebrated coastline on the Adriatic Sea, Croatia is gaining ground as a resort destination. The country has 14 projects/3,319 rooms in its Total Pipeline, all in coastal locations such as Zadar, Split and Dubrovnic.

Russia has the fourth largest Pipeline in Europe with 60 projects/14,261 rooms. 21 projects are in Moscow, which is rapidly expanding due to growing oil and gas revenues. 11 projects are in historic, more tourist-oriented Saint Petersburg. Kazakhstan has 9 projects/1,801 rooms in its Pipeline, mostly in its capital and commercial center, Almaty.

While modest compared to the rest of Europe, the Pipeline in the CIS, at 79 projects/18,364 rooms is likely to expand quickly. Several global lodging companies recently outlined expansive development aspirations in this area, for Russia in particular.

For Global Companies, Upscale and Mid-Market Brands Are Finding Favor

Approximately 75% of projects in the Construction Pipeline have already made a branding decision. Of the remaining 25%, nearly 80% will make a branding decision prior to opening. This may be a surprising observation to some, as a sizeable portion of Europe's Current Supply of Open and Operating Hotels is unbranded. But, as elsewhere, the branding revolution is well underway in Europe, as global companies see great opportunity in rapidly expanding their modern, contemporary

branded concepts so popular with global travelers.

InterContinental Hotels Group leads development in the region, with 137 projects in their Pipeline. The company's midscale offerings are most prominent. This includes 34 Holiday Inn projects, many of which will be in the United Kingdom and Russia, and 68 Express by Holiday Inn projects, the majority being sited in the UK, Germany and Spain.

Marriott continues to expand its global reach with 33 projects in its Pipeline, 15 from its high-end brands: Ritz-Carlton, Marriott and Renaissance, as well as 18 Courtyards. The company has plans to further expand its European portfolio, which includes an added focus on the Courtyard brand. A number of New Project Announcements will soon be forthcoming for the Edition brand, an exciting new venture between Marriott and noted boutique hotel developer/designer Ian Schrager.

Hilton Hotels has 31 projects in its Pipeline, 19 of which will be from its Hilton Hotel brand. The company is aggressively increasing its presence throughout Europe with its new, enlarged portfolio of brands, including Doubletree Hotels, Hilton Garden Inn and Hampton Inn. Joint ventures are a preferred strategy for Hilton to accelerate the introduction of its family of brands throughout the region. Recent joint venture agreements include 15 projects in the UK, 25 properties throughout Russia, and another 25 hotels in Turkey.

Starwood's 22 projects in their Pipeline draw heavily from their portfolio of luxury and upper upscale offerings, including 10 large, full-service Sheraton Hotel projects.

European-based global companies are active and strong pace-setters throughout the region.

France's Accor has 92 projects in its Pipeline, including 41 midscale Hotel Ibis properties, with 11 in France and 13 in Spain. Accor also has significant development with their budget brand Etap Hotels with 22 projects, mostly in the UK, France and Spain.

Rezidor Hotel Group, based in Belgium, has 74 projects in their Total Pipeline, with 40 to be upscale Radisson SAS properties, 23 of which will be in emerging markets in CEE and CIS countries. Rezidor also has 30 projects in its mid-market Park Inn brand.

Kempinski Hotels & Resorts has 14 projects, most already Under Construction and being built in Central & Eastern European countries, including Croatia, Slovakia and Latvia.

Spain-based NH Hoteles has 21 projects in their Pipeline, while Sol Melia Hotels & Resorts, has 11 projects, 7 of which are their mid-market Sol Hotels brand.

For UK hotel companies, Whitbread has 16 Premier Inn projects making up their Pipeline, and budget hotel company Travelodge has 38 projects. All projects are being developed in the UK.

Summary

The Construction Pipeline is set to unfold at a quickening pace throughout Europe, with over 88,800 rooms forecasted to come online over the next two years. Much of this is already under construction and is certain to occur. However, the lending crisis and resulting uncertainty have projects in Early Planning idling a bit, while developers wait for the financing situation to improve.

The number of New Project Announcements into the Pipeline is declining as developers await more visibility about how the financial crisis, rising inflation and slower economic growth rates will impact existing hotel operations.

The summer travel season will be a true test, as we assess how consumers react and businesses respond to changing economic conditions. A few more months are needed for new trend lines to take shape, before we can project the future impact on both hotel operations and development trends.

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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