



JONES LANG
LASALLE HOTELSSM

Digest
Europe



Contents

Page

Foreword 1

Economic Environment 2

Commercial Property Market Overview 4

European Hotel Trading

Tourism Demand 6

City Profiles 7

European City Hotel Trading 10

Hotel Property Investment Markets

European Investment Overview 21

Country Reviews 22

Corporate and Portfolio Activity 28

Sources of Investment Capital 29

Debt Finance Market 30

Investment Outlook 31

Hotel Operators 33

Authors

Karen Astbury
Marketing & Research Associate

Sabine Balzer *Research Analyst*

Cosima Merck *Research Analyst*

Contributors

Anne Marie Campello
Research Analyst

Valerie Clack *Vice President*

Richard Eaton Hart
Senior Vice President

Coré Martin *Associate*

Alberto Minuto Lagorio *Analyst*

Aurora Prat *Consultant*

Jones Lang LaSalle Hotels

22 Hanover Square

London W1A 2BN

United Kingdom

tel +44 20 7493 6040

fax +44 20 7399 5694

www.joneslanglasallehotels.com



Foreword

Welcome to the fifth edition of Jones Lang LaSalle Hotels' D@gest Europe, which helps owners, operators, investors and lenders to understand the market dynamics and likely future performance of the European hotel sector in this very uncertain operating environment. This printed overview summarises the major findings of the report. Detailed market analyses can be found on our website, www.joneslanglasallehotels.com.

2002 was a tough year for most operating markets. There was no discernible recovery market-wide, and economic growth stagnated across Europe, with Germany having the toughest year. Some growth in room yields was managed by the best performers, including Barcelona, Paris, Hamburg and Milan, as well as regional UK markets. However, two-thirds of the markets monitored showed varying levels of decline in room yield, with some German cities and eastern European capitals among the worst performers.

We have analysed the performance of 23 markets in 2002 and assessed their prospects for 2003. This is a difficult task in the current environment, but analysis of the key supply and demand factors does give an indication of the potential speed and timing key of recovery. There is now a clear divergence in the performance of individual cities, and this is likely to widen during 2003.

The difficult operating environment has not shut down the hotel real-estate investment market, and capital remains available, although in 2002 there was a lack of properties made available to buy. The volume of single-asset transactions was 20% down on 2001 (29% down on the record year of 2000) and between the totals for 1996 and 1997. Domestic capital still dominated, but low interest rates have helped and will continue to assist deal assembly. Similar transaction volumes in 2003 would not be surprising, depending on the willingness of owners to put assets up for sale, but there may be more stock for investors to choose from.

It is hard to be confident about the future until the Iraq conflict is finally resolved and a period of calm allows confidence and a greater sense of security to return, along with economic growth. The beginning of a recovery in 2004 seems more likely than 2003. No economic growth means that 2003 will be another tough and long year.

If you do not already subscribe to the D@gest Europe and would like to do so, simply log onto our website, www.joneslanglasallehotels.com, and access the table of contents and order form. The D@gest Europe is available for an annual subscription of £400 or €600.

I hope that the D@gest Europe proves relevant to your business and would welcome any feedback that you have.



Nick Marsh, CEO Europe

nick.marsh@eu.joneslanglasalle.com

Economic Environment

Below-trend growth pattern continues

European hotel trading performance in 2002 generally reflected the state of the region's economies, most of which weakened further after the downturn of 2001. The best economic growth rates in 2002 were seen in eastern European countries, Spain, the UK and Sweden. Most other Eurozone countries showed GDP growth well below 1%, with weak fundamentals and budgets constrained by the European Growth & Stability Pact, the strict rules for the Euro. The German economy, in particular, is hampered by debt, unemployment and rising taxes.

This was the third year in which the EU economy grew below its long-term trend. It succeeded a downturn that differed markedly from previous ones, following the investment boom of the late 1990s that left many companies with high levels of debt and excess capacity in an era of historically low inflation and interest rates. The situation has not been helped by the unstable international environment caused by terrorism and war in Iraq, with the potential these factors have to destabilise the Middle East and have a severe impact on oil prices.

Weak Growth Expected to Continue in 2003

	GDP GROWTH %		
	2003	2002	2001
European Union (15 countries)	1.3	0.9	1.5
Euro Area	1.1	0.7	1.4

Source: EIU, March 2003

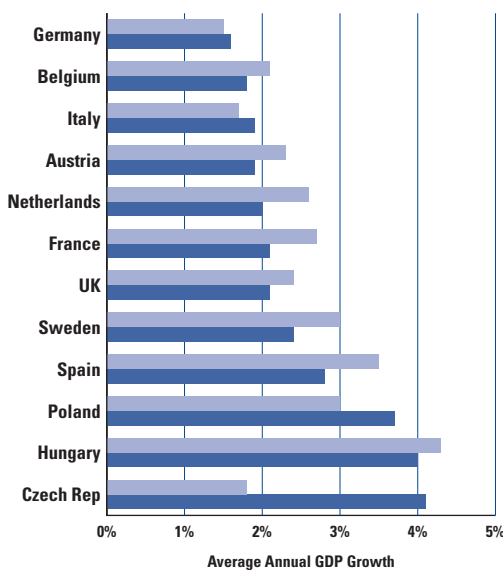
Another year of weak economic growth across Europe is forecast in 2003, with further downside risk due to the unstable international environment. If the economic situation in Germany worsens, the Eurozone economy will grow at an even slower rate. Confidence among consumers in the 12 Eurozone nations fell to its lowest in more than six years in February 2003 and continued falling in March as a result of the start of war in Iraq, with concern that it may be followed by terrorist attacks on key centres.

Since early December 2002 the European Central Bank has cut its key refinancing rate by 75 basis points to 2.5%. Despite this, in mid-March the European Commission cut by almost half (to 1%) its prediction for 2003 growth for the dozen nations in the Euro area.

With considerably reduced demand for exports, all economies are reliant on domestic demand to drive economic growth, but confidence has been severely affected by big falls in equity prices in Europe and this will hold back consumption and investment growth in 2003. Consumer spending will be helped by low inflation, but confidence has been damaged by the stalling of employment growth in most of the region.

A significant recovery in business investment seems unlikely in 2003 given the fragility of business demand and levels of excess capacity, while strong growth in exports is unlikely until there is improved demand from the USA. Appreciation of the Euro is affecting the region's export performance, as European price competitiveness suffers at a time when US demand is already weak. Economic growth in Europe is expected to accelerate in 2004 as confidence returns and the US economy picks up.

European GDP Growth



Source: EIU, March 2003

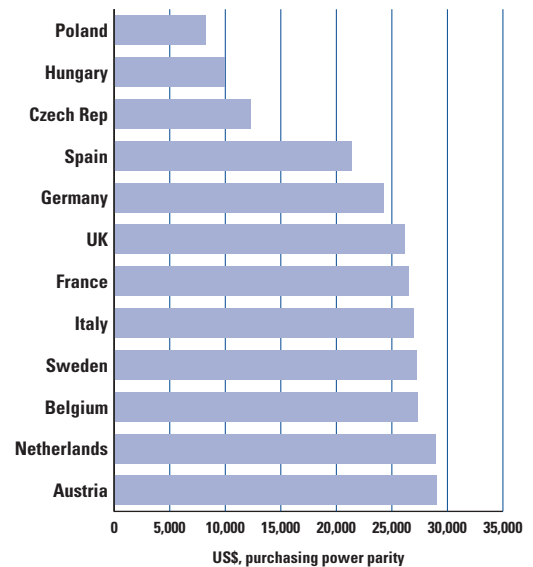
■ 1998-2002 ■ 2003-2007

Geographic variations

Economic growth varies noticeably between European markets, with Germany presently expected to achieve only 0.4% growth compared to 2.2% for Spain, according to the EIU. This would make 2003 the third consecutive year of growth below 1% in Germany, where private consumption has been particularly weak and is likely to remain so as job creation and consumer confidence remains low. Options for a stimulus to the economy are very limited as government debt is already above the criteria set out in the Growth and Stability Pact. Politicians, investors and executives place the blame for Germany's economic woes on the burdens of Reunification, causing growth to lag the European average since 1993.

Consumption growth is also expected to be weak in France and the other two large economies of Europe, Italy and the UK. The UK has performed more strongly than most western European economies in recent years, but real GDP growth in 2002 was 1.7%, the slowest rate since 1992. Some improvement is expected in 2003, supported by increased government spending on public services, but with a significant shift away from private demand as consumer spending slows after the prolonged boom of the last few years.

European GDP Per Capita, 2002



Source: EIU, March 2003

“Eastern Europe is again proving to be one of the more attractive emerging market regions”

Growth is also slowing throughout most of eastern Europe and the Commonwealth of Independent States (CIS), largely because of the weakness of the global and western European economies. However, compared to other emerging regions, their economic performance has been surprisingly good. Years of foreign direct investment (FDI) inflows and higher productivity are allowing exports to hold up rather better than would be expected from the lacklustre demand growth being seen in the EU. Eastern Europe is again proving to be one of the more attractive emerging market regions.

The EU is set to be enlarged from 15 to 25 member states in May 2004 and should by then have agreed on a new constitutional treaty.

COUNTRY	EUROPEAN ECONOMIC STRUCTURE								
	AVERAGE ANNUAL GDP GROWTH		GDP PER CAPITA	SHARE OF WORLD GDP	FDI INWARD FLOWS	INFLATION	UNEMPLOYMENT RATE	CURRENT ACCOUNT BALANCE	GLOBAL BUSINESS RANK
	1998-2002	2003-07	2002	2002	2002	2002	2002	2002	2003-07
Austria	2.3%	1.9%	29,019	0.5%	0.7%	1.8%	6.9%	0.6%	18
Belgium	2.1%	1.8%	27,309	0.6%	8.9%	1.6%	7.3%	4.3%	15
Czech Rep.	1.8%	4.1%	12,330	0.3%	11.4%	1.8%	9.2%	-5.1%	26
France	2.7%	2.1%	26,527	3.3%	3.5%	1.9%	9.1%	1.6%	12
Germany	1.5%	1.6%	24,301	4.6%	1.9%	1.3%	9.8%	2.7%	16
Hungary	4.3%	4.0%	9,930	0.2%	1.9%	5.3%	5.8%	-5.0%	27
Italy	1.7%	1.9%	26,935	3.3%	1.0%	2.5%	9.0%	-0.5%	23
Netherlands	2.6%	2.0%	28,978	1.0%	6.9%	3.3%	2.4%	2.1%	1
Poland	3.0%	3.7%	8,250	0.7%	2.9%	1.9%	17.8%	-3.6%	30
Spain	3.5%	2.8%	21,429	1.8%	3.3%	3.5%	11.4%	-2.5%	17
Sweden	3.0%	2.4%	27,221	0.5%	4.2%	2.1%	4.0%	4.2%	9
UK	2.4%	2.1%	26,150	3.3%	1.5%	2.2%	5.1%	-2.0%	4

Source: EIU, March 2003

* Notes: 1. US\$ at purchasing power exchange rates; 2. % of GDP; 3. Out of 60 countries.

Commercial Property Market Overview

Office rents declining in western Europe

Prime office rents in western Europe declined by nearly 9% in 2002 and are now over 12% below the peak reached in 2001. Amsterdam, Berlin, Düsseldorf, Edinburgh, Frankfurt, London, Madrid, Munich, Paris, Hamburg and Stockholm all recorded falling prime rents in the fourth quarter of 2002.

In many of the markets where prime rents did not fall – such as Barcelona, Brussels, Milan and Rome – incentives have increased and two-tier markets have developed, with peripheral locations experiencing high vacancy levels and the strongest rental declines.

Occupier demand for office space remains weak across western Europe, with gross leasing activity in 2002 at the lowest level since 1996. With a proven statistical relationship between occupational demand and economic activity, this situation is likely to continue in 2003 in most markets. It will be exacerbated by increasing amounts of space being released by tenants, just when a peak in new supply is forecast in 2003. The European aggregate vacancy rate is thus set to rise further and surpass levels recorded in the downturn of the early 1990s. Some markets, such as Amsterdam, Brussels and Munich, have already reached this point.

“Occupier demand for offices remains weak across western Europe but still strong in central and eastern Europe”

By contrast, demand for office space in central and eastern Europe remained good in 2002, with gross leasing activity over 20% above the level of 2001 and prime rents remaining stable. Budapest was the only city in this region with lower demand.

Prime retail rents remained stable across most of Europe in 2002, with major exceptions being Brussels and Berlin. In some markets, notably Milan and Rome rents continued to rise due to strength of demand for retail units. However, the sharp decline in consumer confidence towards the end of 2002 and the beginning of 2003 is likely to translate into reducing retail activity, although there is still strong demand in some growth markets and from luxury brand retailers.

Investment markets remain strong

The divergence between Europe's real-estate occupier and capital markets grew in 2002. While office leasing activity was around 30% lower than in 2001, commercial property investment volumes, estimated at €67.5 billion, were only 1% lower than the previous year.

A combination of low interest rates and high levels of available liquidity in investment funds has driven strong activity throughout 2002, as in the past three years. Geared private investors and private equity-based German open-ended funds were particularly active, both seeking safer alternatives to poorly performing equity

markets. US managed opportunity funds, using capital from a variety of European, US and other sources, were also active players in 2002.

As a result of the high levels of activity, investment yields remained constant. However, rising margins and lower loan-to-value ratios are signs of greater caution being applied by financiers, who may seek to ease back on lending as companies mount up debt.

“Investors have recognised the importance of cross-border investment for diversification and as a means of improving returns”

The volume of foreign purchases was 4% lower in Euro terms than in 2001 but as a proportion of total investment it was only marginally down from 33% to 32%. This demonstrates that investors have recognised the importance of cross-border investment for diversification and as a means of improving returns. German open-ended funds spent more on European commercial property outside Germany than US-based investors in 2002, boosted by new regulations allowing them greater flexibility when investing overseas.

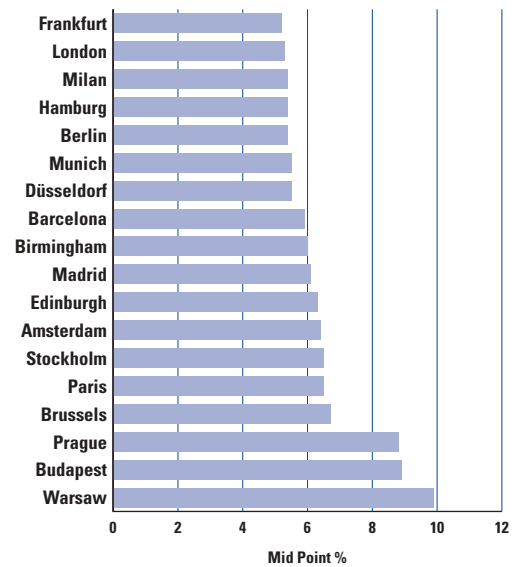
Offices continued to be the favourite property sector for cross-border investors, accounting for almost half of all activity across Europe, while the UK and France remain by far the most popular destinations for foreign investors, accounting for 37% and 24% respectively of foreign purchases. This illustrates the fact that investors are seeking high-quality assets in the largest and most liquid markets.

All-property returns in the UK, as measured by the IPD index, improved from 6.7% in 2001 to 9.7% in 2002 despite a marginal fall in rental values at the all-property level, while the all-property equivalent yield fell by 0.25 percentage points to 7.6%, adding 3.3% to capital growth and returns. This performance masked a divergence in sector performance, with office total returns halving to 3.3% in 2002 while retail returns more than doubled to 14.1%.

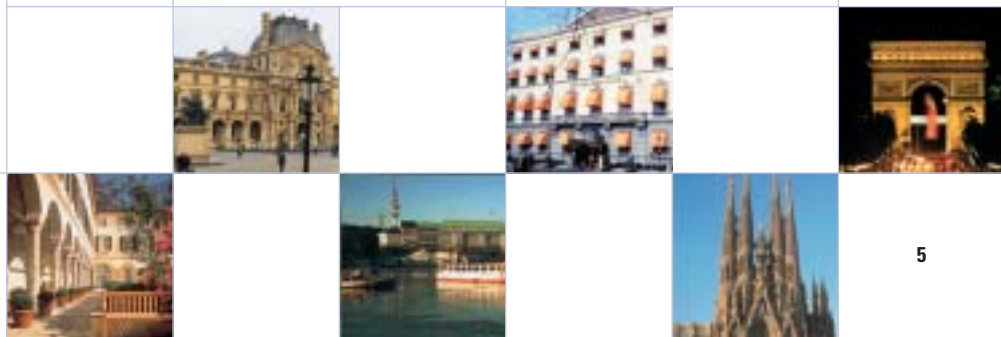
Property has been the best performing asset class over the last one, three and five years, having outperformed both gilts and equities. It will maintain its appeal as long as uncertainty in the current international climate prevails, although some investors will return to equities as soon as the external environment stabilises and the stock market is perceived to be at or near its trough.

Income will be the main driver over the next few quarters as buyers seek safe investments offering stable income instead of capital growth.

European Prime Office Yields, Q4 2002



Source: Jones Lang LaSalle



European Hotel Trading

Tourism Demand

“War and tourism are completely incompatible, just like fire and water”, says the Secretary General of the World Tourism Organisation (WTO). The Gulf War had an extremely negative impact on international tourism numbers in 1991 when growth slowed to only 1.2%, but this was followed by an increase of 8.2% in 1992. It remains to be seen what the effect of the present conflict in Iraq will be for the whole of 2003, but considerably reduced airline demand was reported by early April (partly attributable also to the outbreak of the SARS (pneumonia) epidemic in Hong Kong and China). The War Scenario, which outlines the possible outcome of a prolonged war on world travel and tourism in 2003, is for real growth of 0.3% compared to the ‘normal’ scenario of 2.9%. In nominal dollar terms, the War Scenario impact is expected to total US\$120 billion.

“World tourism numbers in 2002 increased by 3.1%, demonstrating the inherent resilience of tourism demand”

Recently released statistics from the WTO will come as a surprise to many. Despite the grim predictions, world tourism numbers in 2002 increased by 3.1%, demonstrating the inherent resilience of tourism demand. Europe remains firmly in first place, and the Americas was the only region where international tourism numbers fell, although this was offset by a high number of domestic visitors. Europe also enjoyed growth in domestic visitors, with increasing numbers opting out of the long-haul option and choosing instead to holiday in their own backyard.

	INTERNATIONAL TOURIST ARRIVALS (MILLION)						
	1990	1995	2000	2001	2002	GROWTH 02-01	CAAG 99-02
World	456.8	551.7	696.1	692.9	714.6	3.1%	3.8%
Europe	282.2	324.2	402.8	401.4	411.0	2.4%	3.2%
Northern Europe	29.1	37.6	44.1	41.5	42.5	2.3%	3.2%
Western Europe	113.8	116.7	141.2	138.9	141.4	1.8%	1.8%
Central/Eastern Europe	43.8	67.1	76.8	78.0	81.1	3.9%	5.3%
South Mediterranean Europe	95.5	102.7	140.7	143.0	146.1	2.2%	3.6%

Source: WTO 2003

Europe received 411 million inbound international tourists in 2002, a record number. The South Mediterranean region (including Spain, Italy and Greece) led the way with a 20% share of the world market, followed closely by Western Europe. Business travel continued the decline that began in the early part of 2001. It is suggested that this can only partly be attributed to a cut in corporate budgets, with the fear of further terrorist attacks also discouraging long-haul trips.

	WORLD'S TOP 5 TOURISM DESTINATIONS				
	INTERNATIONAL TOURIST ARRIVALS RANK	INTERNATIONAL TOURIST ARRIVALS 2001	INTERNATIONAL TOURIST ARRIVALS GROWTH 01-02	INTERNATIONAL TOURISM RECEIPTS RANK	INTERNATIONAL TOURISM RECEIPTS 2001 (€ BILLION)
France	1	75.2m	2.0%	3	33.5
Spain	2	50.1m	3.3%	2	36.7
United States	3	45.5m	-0.1%	1	80.7
Italy	4	39.1m	1.0%	4	29.0
China	5	33.2m	11.0%	5	19.9

Source: WTO 2003

Of the world's top five tourism destinations, three – France, Italy and Spain – are European, with France replacing the USA as the most visited country in the world. However, France's much lower level of international receipts compared to the USA demonstrates the greater value of tourism to the latter, indicating a greater use of hotel rooms rather than camp sites or other unregistered accommodation. The increase in visitor numbers to Turkey (at 13.6%) probably reflected its good value relative to the more expensive European destinations, especially after the introduction of the Euro, and this has particularly affected traditional holiday destinations such as Spain.

City Profiles

Supply and Demand

European hotel demand in 2002 not surprisingly reflected the depressed economic conditions being experienced around the world and the uncertain international environment, although a few cities managed to buck this trend. In terms of air passenger movements, London (all five airports) was among the best performing markets in 2002, which fed into increased bed nights in the capital. Record figures at Stansted reflected the booming budget-airline sector, and movements at Heathrow grew as well, despite the slowdown in global passenger movements.

EUROPEAN CITY PROFILES, 2002					
CITY	POPULATION	TOTAL BED NIGHTS	INTERNATIONAL DEMAND	AIR PASSENGER MOVEMENTS	ALL GRADED HOTEL ROOMS AT END 2002
	(MILLIONS)+	(MILLIONS)	BED NIGHTS %	(MILLIONS)	
Amsterdam	1.2	8.1 ¹	89.2% ¹	40.6	17,295
Barcelona	4.6	8.6	64.0%	21.2	19,267
Berlin	3.4	11.0	29.0%	12.2	21,171
Birmingham	2.6	15.7 ¹	31.9% ¹	8.0	6,801
Brussels	0.9	2.5 ¹	91.1% ¹	14.4	9,280
Budapest	2.9	5.1 ¹	84.4% ¹	4.4	14,490
Cardiff	0.4	25.5 ²	17.0% ²	1.4	3,431
Cologne	1.6	3.1	33.0%	5.5	9,185
Düsseldorf	2.2	2.4	41.0%	14.6	8,092
Edinburgh	0.7	14.5 ¹	34.4% ¹	6.9	7,720
Frankfurt	1.8	4.0	50.0%	48.5	15,251
Hamburg	1.7	4.8	23.0%	8.9	11,741
London	7.3	118.7	78.0%	116.6 ³	64,045
Madrid	5.0	12.3	46.6%	33.9	26,892
Manchester	2.6	15.3 ¹	27.5% ¹	18.7	7,165
Milan	3.8	5.5 ⁴	55.6% ⁴	25.1	22,020
Munich	1.6	6.6	40.2%	23.2	16,385
Paris	10.8	32.9	47.0%	71.6 ⁵	75,829
Prague	1.2	8.1 ¹	86.0% ¹	6.3	19,852
Rome	3.9	14.6	68.8%	25.9	7,165
Stockholm	1.8	6.6	33.8%	17.5	n/a
Vienna	1.6	7.6	81.6%	12.0	19,600
Warsaw	5.1	1.3 ⁶	59.2% ⁶	5.0	6,801

+ Sourced from Cambridge Econometrics, 2002 Population Figures at NUTS2

¹ 2001 figures

² Refers to South Wales, 2001 figures

³ Includes Heathrow, Gatwick, Luton, Stansted and London City airports

⁴ Ytd 2002 figures

⁵ Includes Charles de Gaulle and Orly airports

⁶ Ytd 2000 figures

Source: Jones Lang LaSalle Hotels

**European
Hotel Trading**
(continued)

Among other European airports, the best performers were Amsterdam and Barcelona (showing more than 3% growth), with growth also feeding into bednights in Barcelona. Strong growth in airport arrivals was also seen at Edinburgh, Prague and Warsaw, although from much lower bases.

The worst performers in terms of air passenger movements were Brussels (-26%), Stockholm and all German cities except Frankfurt and Munich, the latter recording only small falls. Markets such as Brussels, which attract a minimal number of domestic visitors, have felt the full effects of reduced international travel.

“The rise of budget airlines and cheaper travel helped to sustain demand to many markets in 2002”

The rise of budget airlines and cheaper travel helped to sustain demand to many markets in 2002. The accessibility of low-cost travel has encouraged Europeans to take more holidays, including long weekends, to visit destinations that have not previously been served by other carriers, and to travel by air when they would previously have travelled by sea or rail.

Supply is now becoming an issue in several markets, especially Barcelona, Brussels, Madrid and Warsaw, which all have significant new development proposed for 2003-04. If all the proposed projects come to fruition, this is likely to have a significant impact on trading performance.

The German markets of Berlin, Cologne, Frankfurt and Hamburg are also expected to have supply growth in 2003. Other cities, including London and some regional UK cities, Paris, Milan, Rome and Vienna, have relatively restricted supply pipelines.

It is almost certain that these supply increases will not be absorbed by an increase in demand until the high-spending US and Japanese visitors return. In the current global climate, it is almost impossible to predict when this will be.

Hotel Trading Overview

The outlook for the trading markets in 2002 was moderately positive at the start of the year, with interest rates remaining low across the EuroZone, business demand starting to return, and economies looking as though they were beginning to strengthen. However, with continuing terrorist attacks and the ongoing possibility of war with Iraq, events took a turn for the worse. Economic growth forecasts were downgraded



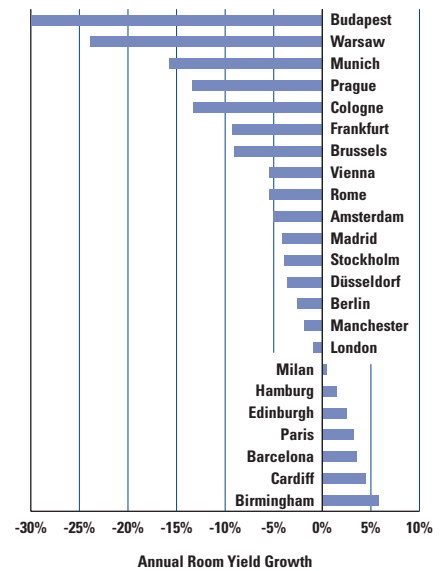
and there was a further fall in hotel trading performance in many European cities, particularly in Germany, following falls in 2001. Influenced by future supply additions and a weak domestic economy, the German markets appear to have little prospect of recovery in the short term as international business continues to stay away.

Room yields have suffered in about two-thirds of the European markets monitored, with double-digit falls from 2001 seen in Budapest, Warsaw, Prague, Munich and Cologne. All five cities suffered from severe declines in both occupancy and ARR, with reduced international demand coinciding in some with weak trade-fair years. The fall in Munich was particularly notable as it followed strong room-yield growth in 2001 thanks to its well-balanced business mix.

“Across the continent, hotel markets with strong barriers to entry, constrained supply and good demand fundamentals are holding their ground”

Few markets achieved significant room-yield growth. Among the top performers again were Barcelona and Paris, but there were also a few unlikely contenders – Birmingham, Edinburgh and Cardiff. The regional UK cities have benefited from hosting international sporting events (the Ryder Cup in Birmingham and various sporting spectacles in Cardiff), and attracting more domestic visitors who have chosen to take short breaks and holidays closer to home.

European Room Yield Growth, 2002



Source: Deloitte & Touche

EUROPEAN CITY HOTEL PERFORMANCE				
CITY	OCCUPANCY	ARR (€)	ROOM YIELD (€)	% CHANGE ON 2001
Amsterdam	74.60%	164.60	122.73	-5.10%
Barcelona	76.50%	185.52	141.84	3.50%
Berlin	62.20%	142.74	88.78	-2.60%
Birmingham	70.50%	127.40	89.81	5.80%
Brussels	65.90%	111.41	73.42	-9.10%
Budapest	61.20%	100.84	61.69	-30.04%
Cardiff	69.90%	88.29	61.71	4.50%
Cologne	59.80%	115.22	68.93	-13.30%
Düsseldorf	64.50%	114.97	74.16	-3.60%
Edinburgh	74.50%	147.28	109.74	2.50%
Frankfurt	64.20%	134.60	86.41	-9.30%
Hamburg	68.80%	110.88	76.29	1.50%
London	70.40%	348.71	245.45	-0.90%
Madrid	68.30%	160.50	109.60	-4.10%
Manchester	75.10%	112.56	84.52	-1.90%
Milan	67.10%	228.85	153.46	0.46%
Munich	64.90%	113.17	73.45	-15.80%
Paris	72.90%	230.93	168.32	3.20%
Prague	66.50%	117.07	77.85	-13.40%
Rome	64.50%	210.51	135.76	-5.50%
Stockholm	67.40%	125.91	85.35	-3.92%
Vienna	66.50%	119.04	79.16	-5.50%
Warsaw	54.20%	136.91	74.21	-23.90%

Source: HotelBenchmark Survey by Deloitte & Touche © 2003

European Hotel Trading (continued)

Across the continent, it is those hotel markets with strong barriers to entry, constrained supply and good demand fundamentals that are holding their ground in the present difficult market. Markets suffering from an imbalance in these fundamentals will continue to show room-yield declines and in 2003 there is likely to be minimal improvement, if any. A return to healthy growth levels is not expected until 2004, and even then will be affected by supply growth in some cities. However, accession to the EU for Prague, Warsaw and Budapest in 2004 should have a positive long-term impact on trading in those cities.

European City Hotel Trading

Amsterdam

Amsterdam benefits from a strong leisure market, which in 2002 has compensated to some extent for a significant drop in corporate and conference demand. Coupled with a drop in high-spending US visitors, this resulted in a decline in occupancy and a decrease in room yield. However, when compared to other European cities, hotel trading in Amsterdam has remained relatively stable, a situation helped by restrictions to supply in the historic city centre. Supply growth is, however, expected at the airport and in Amsterdam South-East.

In 2003, the improved calendar of events at Amsterdam's RAI Exhibition Centre should support visitor numbers and help to counteract any drop in demand from neighbouring German markets. There is evidence to suggest that some corporate and leisure guests are deferring their travel plans or taking shorter breaks as a result of the international situation. It is likely that once stability returns, Amsterdam will again be one of Europe's top performing cities in the medium term, with room-yield growth continuing to grow above inflation.

Barcelona

Barcelona managed to buck the trend experienced by many hotel markets during 2002, despite a further increase in supply. In a year generally marked by recession in the tourist industry in the post 9/11 environment and the economic slowdown, total visitor numbers and bed nights in the city increased significantly, particularly international visitors. Coupled with its well-balanced demand base, this ensured slight occupancy growth in the face of the increase in supply.

Average room rates have continued to grow, though not at the same level as in previous years. However, Barcelona is rapidly becoming one of Europe's most expensive cities in terms of room rate and runs the risk of pricing itself out of the European market. The rise in occupancy and room rate resulted in a significant increase in yield to a new record level.

This extraordinary performance suggests that there is still a significant level of displaced demand within the city, which should help it to absorb additional new hotel rooms planned in 2003 as previously delayed projects are completed in time for the Forum celebrations in 2004.



Le Méridien, Barcelona

With its diversified demand base, high international profile and balanced mix between business and leisure, Barcelona enjoys a stable hotel trading environment, supported by the strength of the domestic economy.

Berlin

Berlin is one of the most visited cities in Europe, and the World Cup finals in 2006 will help to boost tourism further. In 2003, Berlin will play host to two major events – the biennial IFA (International Radio Exhibition) and the annual ITB (International Tourism Exhibition) – both expected to attract significant numbers of visitors and exhibitors. The city is also likely to emerge as Germany’s premier media centre, which should help it to broaden hotel demand.

Following a period of growth between 1997 and 2000, Berlin quality hotel occupancies have fallen for the second consecutive year, largely as a result of a marked increase in supply. This supply situation is made worse by the restricted numbers of arrivals to a wholly inadequate airport. Significantly improved international access will be provided by the new airport, which is expected to be completed in 2007-08.

Although room rates fell slightly in 2002, Berlin’s quality hotels displayed the highest average room rate of the six German markets monitored. The market was protected to some extent by the strong performance of the Berlin Messe and Berlin Congress centre in 2002. Berlin also showed a lower decrease in room yield than most other German cities in 2002. In the face of significant increases in supply, this represents a strong performance. However, while both the domestic and global economies remain depressed and supply continues to grow, occupancy levels and room rates are unlikely to improve.

Birmingham

Birmingham received a strong boost from hosting the Ryder Cup in 2002, which resulted in a high comparative percentage increase in occupancy levels in September. Strong trading was supported by high levels of business and conference demand generated by the NEC and the ICC, particularly in the last quarter of 2002. As a result there was a significant increase in room yields, supported by strong average room rates and higher occupancy levels.

The city has undergone several major regeneration projects, the latest including the largest retail development in Europe – the Bull Ring. These developments have gone some way to redressing the balance between Birmingham’s weekday and weekend visitor demand.

Although trading levels in 2003 are not expected to be as good as 2002, a strong book of conference and sporting events should support hotel performance. The outlook for the future of the city is also positive.



Hyatt Regency, Birmingham

European Hotel Trading (continued)

Brussels

Having shown some resilience to the effects of 9/11 in 2001, the Brussels market failed to show any signs of recovery in 2002. Low corporate and conference demand resulted in a series of dramatic drops in occupancy throughout the year, although these were less severe than the drop in airport arrivals. This can largely be attributed to the ongoing plight of Sabena Airlines, which has resulted in a 20%-25% fall in passenger movements. Domestic visitors account for a mere 9% of arrivals and bed nights, and the city has therefore been unable to compensate for the drop in international visitors. As a result, both occupancy and average room rates fell.

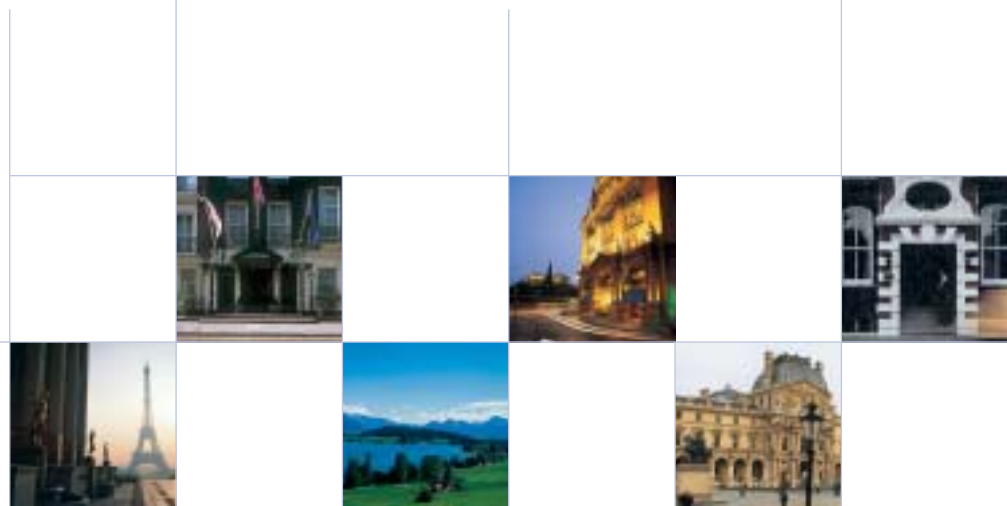
Much of Brussels' demand comes from its major trading partner, Germany, and little improvement in hotel trading is therefore expected until economic conditions improve. Nevertheless, the strategic location of Brussels and its inherent importance as a centre of European government should guarantee a healthy medium term outlook.

There was a modest increase in hotel supply in Brussels in 2002, and a similar increase is expected in 2003. However, there has not been a great rush to build following the abolition in 2000 of the moratorium on new construction imposed by the Brussels Municipality in 1995. This will also help support trading.

Budapest

Trading in Budapest declined dramatically in 2002, showing the largest drop in room yield of all European cities monitored. Occupancy rates remained steady, but there was a significant drop in room rates following the disappearance of the premium segments of demand. The city has suffered from over-supply of hotel rooms and the slowdown in the US and EU economies – particularly that of Germany, its main source market. Unlike Prague, Budapest has not managed to position itself as both a business and leisure destination; its conference facilities are poor and it has done little to promote itself as a weekend break destination. Until the city addresses its supply and demand issues, the adverse affect on hotel trading will continue in the short term.

Unlike recent years, the majority of new supply additions in 2002 and the coming years will be in the four- and five-star categories. These new additions are replacing the former state-owned stock, much of which is in need of refurbishment, and as a consequence the profile of Budapest's hotel market is changing. The refurbishment of these properties should increase higher-rated demand and drive improvement in room rates.



Budapest's accession to the EU in 2004 should bring financial benefits, and future improvements to the city's conference facilities will enable the city to position itself as a conference venue, attracting greater levels of business demand. This should feed into improving trading performance in the hotel market.

Cardiff

Cardiff continues to benefit from an extensive redevelopment programme, as well as from major sporting events now held in its new Millennium Stadium because of the continued closure of England's national stadium (Wembley). As a consequence the city enjoys a healthy balance between business and leisure travellers. In 2002 there was increased demand from domestic visitors, but international visitor numbers have declined since 2000, when Wales hosted the Rugby World Cup.

Trading in Cardiff in 2002 showed a slight decline in occupancy accompanied by a greater increase in room rates, resulting in a respectable rise in room yields. Average room rates remain noticeably lower than other regional UK cities.

However, trading levels are not likely to grow in the future at the same rate as they have in the past, and although new supply has been curbed, trading in 2003 is expected to remain at a similar level to 2002. Future demand is likely to be generated by the development of an International Sports Village in Cardiff Bay, and from events held at the Millennium Stadium.

Cologne

Although quality hotels in Cologne are heavily reliant on the corporate business generated by various trade-fair events, visitor numbers to the museums and cathedral are thriving, and leisure tourism to the city is becoming an increasingly important room-night generator. In contrast, the trade-fair sector has been affected by the weak economy and its impact on major industries, notably media, and the outlook remains challenging.

After years of sustained supply growth, the development situation in Cologne seems to be easing, with the number of hotels in the planning stage over the next three years diminishing slightly. However, the extensive increase in hotel rooms in Cologne has put the market under severe pressure, with supply significantly outstripping demand. Although tourism numbers grew in 2002, both average room rates and occupancies declined. Room yields showed the most severe drop experienced in the last seven years and the second greatest of all German cities in 2002, after Munich.

Trading in the city in the next few years is likely to continue to suffer from the recent supply growth, exacerbated by the depressed economic situation.

Düsseldorf

Hotel trading in Düsseldorf is largely dictated by the level of activity at the city's trade-fair venues. In 2002, a relatively strong year, trade fairs and events showed a healthy increase in visitor and exhibitor numbers. In 2003 there is likely to be a dip

European Hotel Trading (continued)

in hotel trading as the trade-fair cycle dips, but 2004 is expected to be an important peak year, when two major events – DRUPA and “K” – will be held. DRUPA, which takes place every four years, attracts a high percentage of international visitors and is expected to boost hotel performance significantly.

Because of its strong trade-fair activity in 2002, Düsseldorf was one of only two German markets where room yields increased – but here only in the first half of 2002. By the year end, room yields showed a decline, putting Düsseldorf in third place among the German cities, after Hamburg and Berlin. The city is not a major tourist destination and achieves low occupancy at the weekends.

Although the majority of demand in Düsseldorf is domestic, a significant number of visitors come from the USA, Japan and the UK. However, these segments – US and Japanese demand in particular – are threatened by the current uncertain international environment and economic slowdown.

Edinburgh

Edinburgh remains a strategically important city for investment, and a key financial centre. Its hotel market has continued to recover from over-supply, with an 11% increase in demand from domestic visitors returning in high numbers after the foot-and-mouth epidemic. The city has benefited significantly from being on Scotland's first low-cost carrier route – Air Scotland – which will fly to six European destinations. This has helped to offset the drop in demand from some international markets, especially the USA.

These combined factors resulted in a good trading year in 2002, when room yields increased slightly. Following significant supply increases in previous years, there is only limited new supply expected in 2003 and the years following, and this will continue to aid the trading recovery.

Frankfurt

Frankfurt's profile as Germany's financial centre, commercial and industrial powerhouse and pre-eminent trade fair location has given the city a strong European business profile, which has been a huge advantage to the hotel market in recent years. However, its exposure to declining international demand affected visitor numbers in 2002, which was also a weak trade-fair year. With very limited tourism demand to balance the market, hotel trading suffered significant falls in occupancy, rate and room yield in 2002. However, 2003 is expected to be a much better trade-fair year, with some venues registering an increase in demand from international exhibitors.

Supply growth in Frankfurt has been restricted in recent years, particularly in city-centre locations, but the number of developments and projects has now greatly increased, especially around the airport. Even with the return of demand growth in the corporate sector, this level of supply will almost certainly outgrow demand. Given the lack of weekend demand, this is likely to result in stagnating occupancy levels.

Nevertheless Frankfurt will remain one of Europe's most important business destinations, and research suggests that investor interest in the city remains strong in the medium term.

Hamburg

Hamburg's hotel market has a well-diversified demand base, supported by its large port and the media industry, which attracts high levels of corporate demand. Weekend demand is generated by musicals regularly on offer in the city.

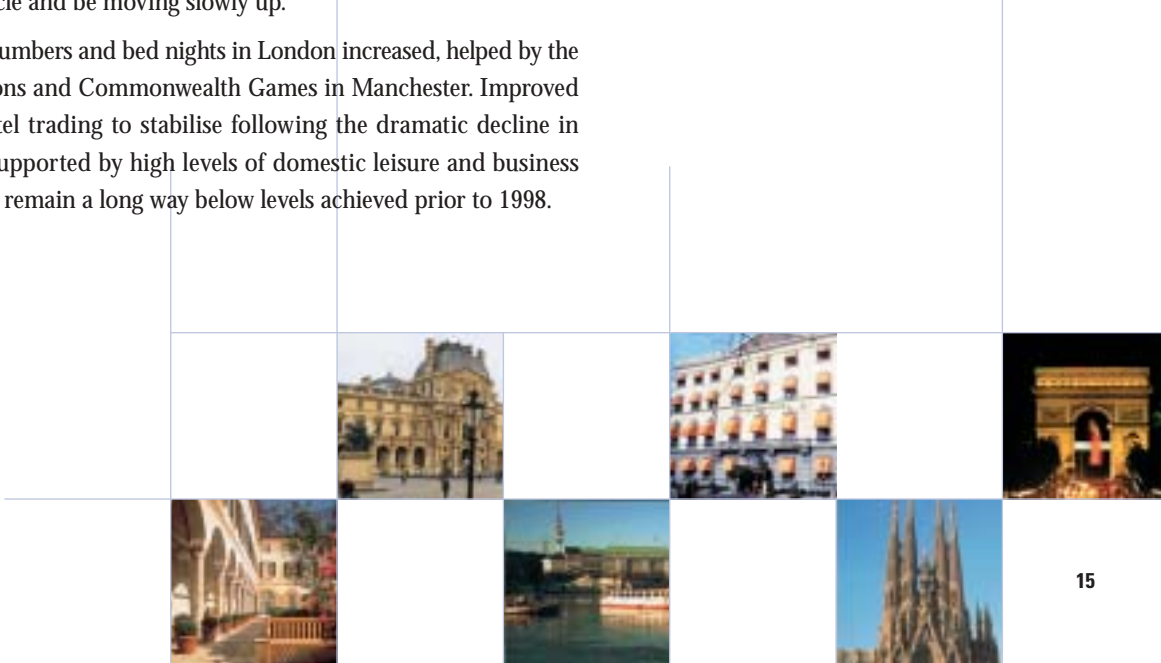
Hamburg has therefore enjoyed a steady increase in occupancy in recent years, and although it suffered from the effects of 9/11 and the ensuing economic slowdown, the impact on trading has been less severe than on other German cities because of the balanced, predominantly domestic demand. In 2002 occupancy grew slightly and room rates remained stable, making Hamburg the only German city of those monitored to achieve an increase in room yield. This again underlines the importance of a mixed demand base.

Hotel supply has been restricted recently, but a number of projects are now proposed. These are mainly in the two- and three-star categories, so their impact on the quality hotel sector should be fairly minimal. Trading in 2003 and 2004 should be supported by the strong book of events at Hamburg's congress centre, which is ranked among the top venues in the world. The city's airport expansion should also help to increase international visitor numbers.

London

The London market appeared to be fulfilling the 'first to fall, first to bounce back' mantra, although the bounce back has been slower and less steady than originally expected. Among the worst hit of all European capitals by the effects of 9/11 and subsequent terrorist attacks, as well as by the global economic downturn, a fledgling recovery began in 2002-03 but has since been affected not only by the conflict in Iraq but also by the epidemic of pneumonia (SARS) in Hong Kong and China. The city is heavily reliant upon overseas visitors and factors such as these tend to have an immediate impact on demand. Nevertheless, London appears to have reached the bottom of the trading cycle and be moving slowly up.

In 2002 overseas visitor numbers and bed nights in London increased, helped by the Golden Jubilee celebrations and Commonwealth Games in Manchester. Improved occupancies allowed hotel trading to stabilise following the dramatic decline in 2001. Trading was also supported by high levels of domestic leisure and business demand. However, yields remain a long way below levels achieved prior to 1998.



European Hotel Trading (continued)

The majority of expected new supply is not in Central London and should therefore have a fairly minimal effect on trading in the city centre, enabling it to maintain a balance between supply and slowly returning demand. For this reason, sentiment in 2003 is that trading will be marginally stronger than in 2002, with more sustainable growth seen in 2004. However, any prolongation of conflict in the Gulf will have an impact on the market, as will an extended downturn in the global economy.

Madrid

Up until 2001 Madrid was one of Europe's most dynamic markets, but growth was halted by the events of September 11 and the global economic slowdown. Nevertheless, the Spanish economy has performed reasonably well in 2002 and continues to grow faster than the European average. The healthy economy supported increased business demand, which has benefited city-centre hotels, while the opening of the Warner Brother's Theme Park and Faunia in 2001 has improved weekend demand levels. As a result, there was strong growth in domestic room-night demand in 2002, which more than compensated for the drop in international demand.

Nevertheless, quality hotel occupancy levels did not improve in 2002, neither did room rates, and yields were down over 2001. This fall can largely be attributed to the extensive increase in supply in city which will continue to affect Madrid's hotel market in the short term. While much of this growth is within the three-star sector and involving domestic operators, it will have a knock-on affect in the luxury sectors as corporate and domestic travel budgets are cut back in line with respective economies.

In the light of the current international environment, the supply-and-demand imbalances are expected to continue throughout 2003 and into 2004, despite the extension of Madrid's infrastructure and its repositioning as a short-break destination.

Manchester

Manchester has benefited from major city-centre redevelopment in the aftermath of the IRA bombings in 1996, and from infrastructure developments prior to the Commonwealth Games held in the city in July 2002. These improvements have been accompanied by strong corporate demand and, as a result, Manchester experiences a relatively good balance between weekday and weekend demand.

However, demand during the Commonwealth Games in 2002 came largely from domestic markets, with overseas visitor numbers dropping substantially. This suggests that Manchester will have to work on promoting itself as an international tourist destination. Trading for the whole of 2002 was relatively flat, with a small decline in room yields due largely to declining room rates, and this result was well below expectations.

Limited new supply is expected in 2003 following years of hefty increases, but more hotel openings are planned for 2004. These are likely to have an impact on Manchester's delicate balance of supply and demand, resulting in lower levels of

trading. Trading will also be highly dependent on the domestic economy – any further slump will have an effect on corporate demand, as well as in leisure demand if consumer spending falls substantially.

Milan

Since the Giubileo in 2000, when Milan attracted an influx of international tourists, the city has improved its profile as an international leisure destination, supplementing its strong corporate and domestic demand. In the first six months of 2002 there was a 20% increase in tourism arrivals to the city.

Although Milan's quality hotels have been hit by the economic slowdown, resulting in a fall in occupancy in 2002, occupancy rates remain above the historic average recorded over the last decade. Falls in occupancy were counteracted by an increase in the number of full-rate guests, which resulted in a rise in average room rate on 2001 figures and a slight increase in room yield over the previous year. The historic city centre also benefits from restrictions to new supply, which has helped to stabilise trading in 2002.

The city authorities are keen to encourage further tourism demand to compensate for the fall in hotel occupancy in the summer months following the extremely busy spring season, when a succession of high-profile fashion shows are held. Hotel trading should remain stable, but a return to growth will depend on the timing of a recovery in the European and US economies and a resolution to the conflict in the Gulf.

Munich

With the third largest fall in room yield of all European cities monitored in 2002, Munich's glory days appear to be in decline for the present. This followed a slowing market in 2001 and is in sharp contrast to its previously strong performance based on a more balanced business mix, with good leisure and international business compared to many German cities.

The absence of American visitors was felt particularly in 2002, as they usually generate the highest percentage of room nights in the city, followed closely by the Japanese – who also stayed away. Trade-fair visitor volume also declined significantly in 2002 following an exceptional year in 2001. Together these factors resulted in a significant decline in occupancy levels, although room rates were not hit as badly.

Munich is potentially in a better position for recovery than many other German cities because of its relatively stable supply situation in 2002-03. Some growth is expected in 2004, but this will be largely in the three-star sector. Munich remains a strategically important city and the quality hotel market should bounce back as soon as the international situation eases and visitors start to return. The city will be looking forward to 2006, when it will play a lead role during Germany's hosting of the Football World Cup.



Four Seasons, Milan

**European
Hotel Trading**
(continued)

Paris

Hotel trading in Paris was hit hard in the early part of 2002, but an influx of Middle Eastern business in the summer months aided a recovery in the second half of the year. As a result, room yields showed clear growth over 2002. There was a minimal increase in supply in the four-star market in central Paris in 2002, and the only additional supply expected in 2003 is the re-opening of the 514-room Grand Hôtel InterContinental. Paris remains an attractive city for hotel operators who seek flagship properties in continental Europe. However, developing a hotel is costly and difficult due to planning restrictions and the lack of available sites. Potential hotel investors often opt for the less capital-intensive office schemes as a safer alternative.

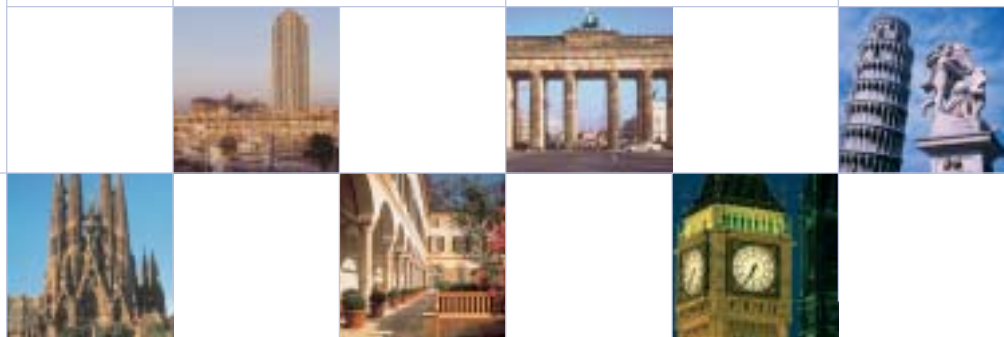
Paris remains one of Europe's most important centres of international business and commerce, as well as being one of its most popular tourist destinations. As a result, it has for years been one of Europe's better performers and, despite feeling the effects of September 11 acutely, it has been one of the first European cities to turn the corner.

Both Roissy and Orly reported a slight increase in air passenger movements in 2002, although there was increased competition from the TGV between Paris and Marseilles, and the French carrier Air Lib collapsed. Paris has a large and diversified economy, with strong employment prospects, and is expected to be one of the strongest performing cities in 2003.

Prague

The global economic slowdown and disruption in international travel have together halted Prague's exceptional progress in its tracks. The city was again hit hard in August 2002 – one of its strongest trading months – by freak flooding that brought the city to a complete standstill, causing substantial amounts of damage to hotels and to hotel trading. The Four Seasons, situated on the riverfront, is not expected to reopen before the summer of 2003.

However, enough of the damage was rectified in time to allow the city to host the high-profile NATO summit, which created significant demand and provided a boost to Prague's international standing. It is estimated that the hosting of the summit will generate an additional 20%-30% foreign visitors over the next two to three years. The summit resulted in international visitor demand increasing by 3% in 2002, which was in contrast to the falls in this segment experienced by most other European cities. This compensated for a drop in domestic demand and demand from significant feeder markets such as Germany.



Even prior to the summer floods, 2002 was expected to be a difficult trading year for Prague, and trading was particularly slow in the months up until Easter, and then again in December following the NATO summit. Over the year, occupancy rates dropped marginally, but both room rates and yields dropped more significantly.

Four- and five-star hotel supply remains restricted and will continue to do so in the short term. Prague is seen as the most established Central European market, ahead of Budapest and Warsaw, and its accession to the EU in 2004 will undoubtedly boost demand further, helped by projected strong economic growth and a stable currency.

Rome

Hotel trading was supported during most of 2002 by established leisure demand, with European visitors replacing to some extent the declining number of American and Japanese tourists. After two years of sustained growth, however, the number of visitors to Rome dropped significantly in 2002, although this was offset to some extent by an increase in the average length of stay.

Hotel occupancy levels also fell, dropping to the lowest level in the last eight years, but there was modest growth in room rates, assisted by restricted supply in the historic centre, and this reduced the decline in room yields. Following high levels of supply growth between 1998 and 2000, only two upscale hotels entered the market in 2002, and a further two are expected in 2003.

Despite a stable supply-and-demand scenario, room yields are likely to decrease in 2003. Rome’s cultural and tourism attractions, supported by new feeder markets in Europe, will help it to ride the storm, as should structural growth in the media, IT and telecoms industries. A more positive outlook for the city is projected from 2004 onwards.

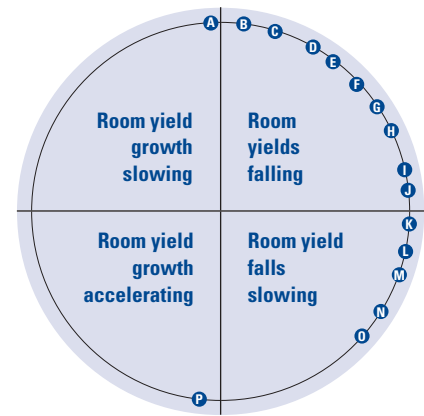
Stockholm

Following three years of sustained growth, visitor demand to Stockholm in the past two years has remained stable. Despite a slowdown in the TMT sector, Stockholm remains a favoured business destination, with a number of companies choosing the city as their European base. Growth in domestic demand has gone some way to compensating for the severe drop in international demand, with arrivals at the city’s two main airports reaching a four-year low.

However, occupancy rates continued to fall in 2002 due to the continuing economic slowdown. Hardest hit were the upscale hotels, which suffer from the lack of both domestic and international corporate demand. Average room rates also fell, resulting in a decline in room yields. Room yields were supported to some extent by a greater number of Scandinavians taking holidays closer to home.

Following years of stable supply growth, some significant increases are expected in the next three years. If they are accompanied by economic recovery, it is possible that the new supply will be absorbed by growing demand, encouraged by the new demand generators currently under construction. If the global slowdown is prolonged, these supply increases will have a detrimental effect on hotel trading performance within the city.

Hotel Room Yield Cycle – as at end March 2003



- | | |
|----------------------------|---------------------------------------|
| A. Barcelona | I. Munich |
| B. Madrid | J. Rome |
| C. Düsseldorf | K. Milan |
| D. Budapest, Berlin | L. Prague |
| E. Cologne | M. London |
| F. Warsaw, Brussels | N. Paris |
| G. Stockholm | O. Amsterdam (city-centre) |
| H. Frankfurt | P. UK Regions, Hamburg, Vienna |

Source: Jones Lang LaSalle Hotels

**European
Hotel Trading**
(continued)

ANA Grand, Vienna



Vienna

The hotel market in Vienna benefits from a well-diversified demand base. The city is one of Europe's most popular tourist destinations, with tourism generating about 5% of Vienna's total GDP, while corporate and congress business generates a high percentage of weekday demand.

As is the case in many historical city centres, hotel performance in Vienna has been assisted by restricted supply growth. Yet despite this restriction and the city's good demand base, hotel trading has not shown significant growth. Instead it has remained steady, with very few fluctuations in performance compared with other European cities. In 2002 occupancy and room rates both fell slightly, but in real terms room yields have remained relatively stable, showing a marginal increase since 1995.

An increase in demand from European source markets is expected in 2003, which should encourage stable room rates. The balance between corporate and leisure business, both national and international, will remain, although demand volumes are difficult to predict. Future OPEC meetings should have a positive impact on hotel performance.

Warsaw

Demand in Warsaw is heavily weighted towards the corporate, weekday sector. The lack of cultural and tourist attractions within the city makes it difficult to generate weekend demand. Such weekend demand as is generated is divided equally between domestic and international visitors, so it is safe to say that the global and economic uncertainties will have had an impact on tourism levels in the city. While it is likely that demand from the city's main source market, Germany, has decreased significantly, there may have been opportunities to capture demand from the increasingly mobile eastern bloc.

In 2002 Warsaw's hotel market suffered from a combination of over-supply of rooms and a lack of high-spending US business. Although the rate of hotel supply increases slowed in 2001 and 2002, a significant supply-and-demand imbalance continues to exist. As a result, occupancy levels fell for the fourth consecutive year, and room rates also continued their downward trend. As a result yields showed a double-digit drop in value, following another steep fall in 2001.

In the short term, trading is unlikely to improve as problems with over-supply will continue throughout 2003, exacerbating an already precarious position further. However, in the medium term it is hoped that the city will be able to capitalise on membership of the EU from 2004, as well as benefiting from its extended conference facilities. These should stimulate demand during shoulder periods and increase occupancy during off-peaks.

European Investment Overview

Total investment volume in European hotel real estate in 2002 was €5.2 billion, 69% of which originated from portfolio transactions and 31% from single-asset transactions. This represented a fall of almost 53% in total transaction volume compared with 2001 – a record year – and can mainly be attributed to a reduced number of portfolio deals.

Further analysis shows that in 2001 the vast majority of sales occurred during the first six months of the year. In the 12 months to June 2002, only €2.9 billion of sales took place, reflecting the lack of investment after the September 11 terrorist attacks. By contrast, in the last six months of 2002 there was €3.4 billion of sales; a volume similar to that achieved in the same periods of 1999 and 2000.

Total recorded single-asset transaction volume in 2002 was €1.6 billion (excluding apart-hotels), a drop of 29% from 2001 (€1.9 billion). Nearly two-thirds of all single-asset sales (about €1 billion) took place in the second half of 2002, reflecting the ‘wait and see’ attitude adopted by vendors at the beginning of the year. High levels of available equity and/or favourable debt financing terms combined with limited alternative investment opportunities should ensure that investor interest in quality hotel assets in prime locations remains strong.

Unfortunately, the decline in trading performance, combined with uncertainty about the timing and strength of likely recovery, especially in light of the conflict in the Gulf, has led to a divergence between the pricing expectations of buyers and sellers, and some owners have chosen to hold on to their assets and wait for market conditions to improve. What is interesting is that others have come to the market in spite of trading being at a low point in the cycle, perhaps because low interest rates have caused yields to hold firm, helping to check the erosion of capital value.

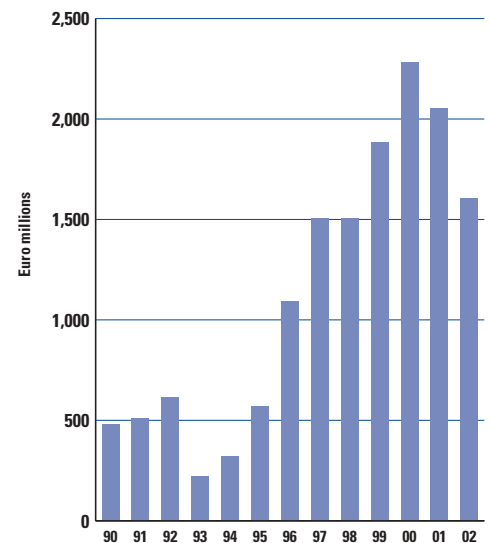
Hotel Property Investment Markets

TOP EUROPEAN SINGLE-ASSET INVESTMENT DEALS, 2002#						
HOTEL	LOCATION	ROOMS	PRICE (€M)	PRICE PER ROOM (€)	BUYER	BUYER ORIGIN
Four Seasons Milan	Milan	118	confidential	confidential	Private investment group	Europe
Kensington Posthouse	London	550	confidential	confidential	Cola Holdings	Domestic
Hyatt Regency Birmingham	Birmingham	319	confidential	confidential	London Plaza Hotels	Domestic
Hilton Park Lane (majority stake)	London	450	248.6	522,000*	London & Regional Properties	Domestic
ANA Grand	Vienna	205	87.7	428,000	JJW Hotels & Resorts	Middle East
Atrium Hyatt Regency (50% stake)	Budapest	351	50.0	284,900*	Hypo Vereinsbank	Europe
Nevskij Palace	St Petersburg	282	44.7	159,000	International Hotel Investments	Europe
Crowne Plaza Birmingham	Birmingham	242	40.9	169,000	Six Continents Hotels & Resorts	Domestic
Scandic Anglais (part of mixed-use property)	Stockholm	212	n/a	n/a	AFA Sjukforsakrings AB	Domestic
Sofitel Cannes	Cannes	149	40.0	268,000	Jacques Esnay	Domestic
Renaissance	Cologne	236	40.0	169,000	Medico Fonds 48 (Gebau)	Domestic
Radisson SAS Amsterdam City	Amsterdam	243	40.0	165,000	Private investment group	Europe

#excluding apart-hotels *reflecting stake sold >100%

Source: Jones Lang LaSalle Hotels

Europe: Reported Single-Asset Transactions (over €10m) 1990-2002



Source: Jones Lang LaSalle Hotels

Hotel Property Investment Markets (continued)

Country Reviews

Austria

Vienna is strategically a very important market, both domestically and internationally. It has established itself as a strong conference and incentive destination as well as a hub to major eastern European destinations such as Prague and Budapest – a unique role that it will retain as these markets continue to develop. Due to the overall market conditions, most hotel properties are only available subject to long-term operating leases.

Vienna was the location for one of the most significant single-asset hotel transactions to have taken place in Europe in 2002. The five-star deluxe ANA Grand Hotel in Vienna was sold by All Nippon Airways Co, Ltd (ANA) to JW Hotels & Resorts. The property, which will be known as Grand Hotel Wien, is recognised as being among the most luxurious hotels not only in Vienna, but the whole of Europe. The sale attracted strong interest from investors and operators who recognised the opportunity to buy a prime piece of Viennese real estate, whilst securing a foothold in a market with strong prospects.

Benelux

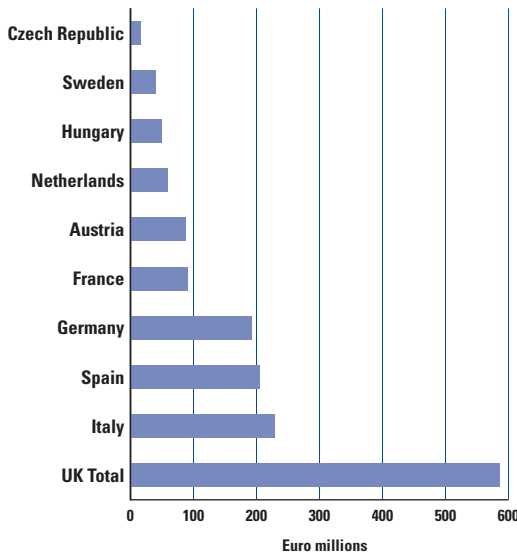
Following an illiquid hotel investment year in 2001, activity picked up again in 2002 with three transactions completed in Amsterdam during the year. Extensive development continues around Schiphol airport, but development opportunities within the city remain restricted.

The Canal Crown Hotel was sold by a private investor to the operator Carlton Hotel Collection in April 2002. This was followed by the sale of the Radisson SAS in September to Capital Income Trust Consortium, a UK property company. The transaction value was €40 million, which is the largest single-asset sale in recent years. In October, Blakes Hotel in Amsterdam was sold for €18.5 million to a private hotel company, backed by Apollo Real Estate.

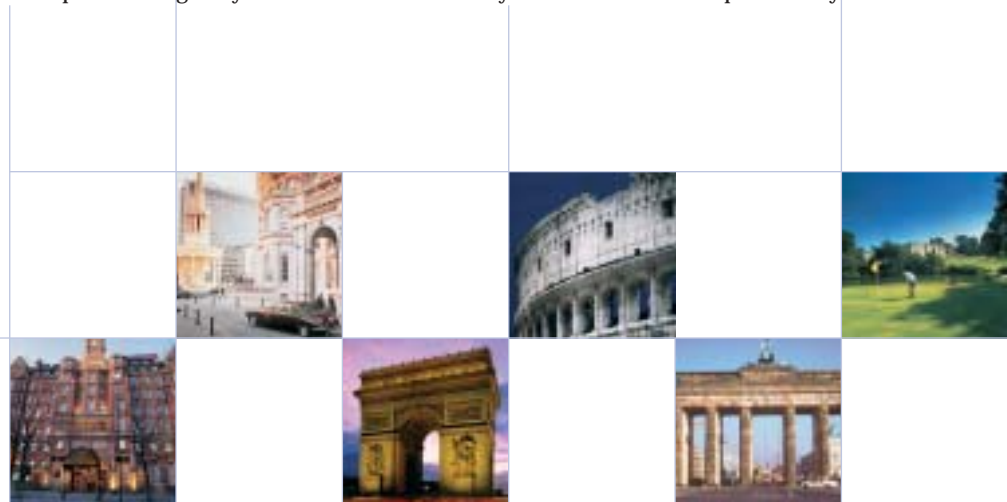
Amsterdam appears to be one of the first European cities to enter the early upturn stage of the hotel trading cycle. It is likely to be one of Europe's top performing cities in the medium term (2004-2006) and will continue to attract strong investor interest, which has persisted despite the low liquidity. However, interest will be concentrated on the historic centre, where supply growth is restricted.

Although there has been some investor interest in Belgium, particularly in Brussels, vendor and buyer expectations began to diverge and no quality hotel transactions took place during the year. This stalemate is likely to continue in 2003, particularly

Europe: Reported Single-Asset Transactions (over €10m) in 2002



Source: Jones Lang LaSalle Hotels



as the short-term trading outlook deteriorates following the opening of the Marriott in the city centre and NH Hotel at the airport. This will almost certainly deter both vendors and buyers.

Central and Eastern Europe

With relatively strong GDP growth projected in 2003 and accession to the European Union early in 2004, investor sentiment towards the Czech Republic is likely to be very positive. It is certainly one of the markets to watch in coming years.

“Expansion of the EU will broaden the potential Eurozone investment territory”

The expansion of the EU will broaden the potential Eurozone investment territory, and this is likely to lead to a general eastward focus on opportunistic hotel investment in the medium term. In Budapest and Warsaw in particular, some investment opportunities are expected to emerge against a backdrop of improving trading performance.

France

Paris

Like many of the major investment markets, transaction activity in Paris was sluggish in 2002. While the capital remains highly attractive for both hotel operators and investors, the lack of available sites, combined with a strict regulatory framework for new developments, restricts the number of new projects reaching the marketplace. In 2002 the shortage of new hotel product was exacerbated by the limited number of existing assets available as many hotel owners were unwilling to sell at a low point in the cycle.

Investors, hotel operators and banks have all preferred to adopt a wait-and-see policy. As a result, transaction volumes (properties over €15 million) fell by 90% to €19 million, which was the combined acquisition price of JJW Hotels and Resorts' purchase of 64 rooms in Central Paris (Beau Manoir and Lido).

French Riviera

Investment activity on the French Riviera has been greater than anywhere else in France, and this is likely to remain the case in coming years. Corporate business at Riviera hotels is increasing and congress facilities are improving, which is redressing the balance between weekday and weekend demand, improving operating statistics and making hotel property a more attractive investment option. Significant transactions included the purchase of the Sofitel, Cannes, by a private investor and the Center Parc resort in Chaumont by Jesta Capital du Quebec.

Germany

Having slowed considerably in 2001, investment activity in Germany slowed even further in 2002, with only one minor transaction recorded in the first half of the year. The situation improved slightly in the second half of the year, when five single-



Cannes Beach Residence

Hotel Property Investment Markets (continued)

asset transactions took place. The most significant deal of the year took place in Berlin and involved the acquisition of the Mövenpick Project by WestInvest from GBI GmbH & Co. KG.

Investment activity in Germany continues to be dominated by domestic investors, with all single-asset sales (over €10 million) involving German investors. However, despite the depressed markets and weak economic environment, international investor appetite remains keen, but the product being offered often does not meet the requirements of international investors. Moreover, the market is dominated by lease contracts, which fulfil the requirements of the German funds but do not attract investors requiring higher yields achieved through management contracts or hotels with vacant possession.

“German funds are increasingly cash-rich as a result of the poor performance of equity markets worldwide”

German funds are increasingly cash-rich as a result of the poor performance of equity markets worldwide, and particularly in Germany. Following the fourth financial market promotion act in July 2002, German open-ended funds are able to invest unlimited funds outside of the European Economic Area (EEA), whereas they had previously been restricted to 20% of their total investment volume. This relaxation has come at a time when there is a severe lack of available product in Germany, and has resulted in an increased amount of cross-border investment in the commercial property market, although not yet in hotels.

Further consolidation of the German hotel market continued in 2002 with some significant portfolio acquisitions. The Spanish hotel operator NH Hoteles continued its strategy to become a pan-European hotel business by purchasing 80% of Astron Hotels for €130 million, with an option of acquiring the remaining 20% over the next seven years. Accor was also active in the German market, entering a joint venture with Rema hotels on 15 of its 27 properties. All have have been rebranded Mercure, Accor’s largest brand, and are either operated under franchise or lease contracts. Later in the year the French company continued its expansion into the German market by purchasing a 30% stake in the German hotel operator Dorint AG.

Italy

In 2002 Italy achieved the second highest volume of single-asset sales of all European countries monitored, after the UK. This is despite the inherent illiquidity of the Italian hotel investment market, with few reported single-asset transactions exceeding €10 million taking place in any year of the last decade.

Of the four transactions that took place in 2002, three involved UNA Hotels and Resorts, a national chain that is expanding rapidly. The other sale, of the Four Seasons Hotel in Milan, was completed by a European private investment group, which paid a record price per key reflecting the exceptional quality of the asset, despite the prevailing economic climate. This transaction highlights the growing

interest of private investors in the hotel sector in Italy, although it is still limited compared to other countries such as Germany, France and the UK.

Most transactions taking place in Italy tend to involve local players, both individual and institutional investors, who are mostly interested in small lot sizes, ranging between €10 million and €30 million. International investment is inhibited by many barriers, including the limited range of investment vehicles and the nature of a market that is dominated by family-run businesses, resulting in a dearth of suitable hotels for sale. However, as international activity in Italian office and retail markets brings about a greater understanding of local property markets, and as debt financing from international banks becomes more readily available, investment activity should increase significantly. There is no lack of keen international investor and operator interest in the market, as demonstrated by market activity in 2002, and further transactions may be expected in 2003 with the availability of more high quality assets from the CIGA and Le Méridien portfolios.

Spain

Like the Italian market, the Spanish hotel investment market is relatively opaque and is dominated by domestic banks and investors. However, the strong trading performance of Spanish hotels over the past few years has resulted in substantial interest from foreign investors, banks and operators looking to expand their southern European representation. This interest is likely to increase in 2003.

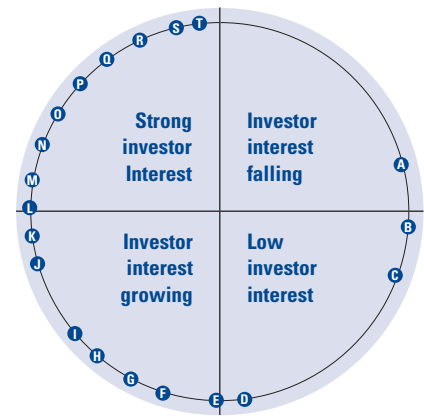
In view of the amount of hotel development that has been taking place in both Madrid and Barcelona, which is likely to have an impact on the trading market, investors are preferring to buy assets with a strong track record in prime locations, where keen interest remains. However, few properties have been made available by owners, and sale-and-leaseback opportunities are scarce. One notable exception in early 2003 was the sale of Le Méridien Barcelona to the German open-ended fund DEKA Immobilien, subject to a 40-year lease back to Le Méridien.

As a consequence of the lack of product, in 2002 there were no single-asset transactions of any significance, although the volume of single-asset transactions valued at below €10 million has remained high. These sales of one-, two- and three-star properties with under 100 rooms, most of which were in need of renovation, have taken place in resort markets or secondary cities, where independent sellers or small groups sold to mid-size operators seeking to expand their representation. Spanish investors dominated the market and were involved in all transactions except for the sale of La Residencia in Majorca, which was acquired by Orient Express.

“The fragmented nature of the Spanish hotel market suggests that there may be further opportunities for brand consolidation and investment ”

The only portfolio sale recorded in Spain in 2002 took place in February when NH Hoteles sold a portfolio of four hotels including the flagship NH Abascal in

**Investor Interest –
as at end March 2003**



- | | |
|---------------|--------------|
| A. Cologne | K. Vienna |
| B. Warsaw | L. Munich |
| C. Budapest | M. Amsterdam |
| D. Stockholm | N. Milan |
| E. Brussels | O. Rome |
| F. Düsseldorf | P. London |
| G. Hamburg | Q. Paris |
| H. Berlin | R. Frankfurt |
| I. UK Regions | S. Barcelona |
| J. Prague | T. Madrid |

Source: Jones Lang LaSalle Hotels

Hotel Property Investment Markets (continued)

Madrid to Ponte Gadea, an investment vehicle of Amancio Ortega, the owner of Zara clothes stores. The transaction was a sale-and-leaseback structure, with Amancio Ortega acquiring the assets, then leasing back to NH Hotels for 20 years.

Once the markets recover, the high levels of competition among operators and the pressure to expand brands is likely to ensure that hotel chains are more willing to enter into lease agreements, so providing more opportunities for investors to enter the market. The fragmented nature of the Spanish hotel market suggests that there may be further opportunities for brand consolidation and investment if the independent owner-operators choose to dispose of any of their assets.

The introduction of the Euro has created the perception that Spanish resorts are more expensive than their Turkish or North African counterparts. In reality this situation is likely to worsen in 2003, creating the possibility of a limited number of distressed sales and opportunities for possible consolidation by operators.

Sweden

Only one hotel transaction over €10 million took place in Sweden in 2002 due to a lack of confidence in the hotel market following weak trading performance over the last two years. The depressed nature of the economy suppressed investment in real estate in both 2001 and 2002. The acquisition of the Scandic Portfolio by Hilton International remains the most significant transaction of the past decade.

Investor sentiment towards the hotel sector is linked to general economic performance. If there is a recovery during 2004-05 as has been predicted, the hotel sector is likely once again to attract the interest of international investors.

In Sweden, lack of available sites is not a barrier to entry as it is in many other European cities, so the development option is as viable as the acquisition of an existing hotel. The traditional timing for hotel development is while there is a downturn in other real estate markets, which normally occurs during economic slowdowns. According to Business Arena Stockholm, the official inward investment agency for the Stockholm region, the capital will need about 4,000 extra beds by 2008 if the demand for hotel accommodation grows at the same pace it has for the last 20 years.

United Kingdom

London

After a quiet 2001, transactional activity in the London market intensified in 2002. The majority of deals took place in the second half of the year, with vendors returning to the market after the events of 2001. Nevertheless, although total sales volume was slightly higher than in 2001, it remained well below the record year of 2000.

Single-asset transaction volumes overall were considerably higher than 2001 and also up on 2000 levels. The largest single-asset transaction in London was the sale of the Hilton Park Lane in August 2002: a majority stake in this hotel was sold by Land Securities to the property company London & Regional. The next largest deal

was the sale of the 550-room Kensington Posthouse to Cola Holdings with some potential for conversion to residential use subject to planning.

“Investor interest in hotels remained strong in London and in the UK generally”

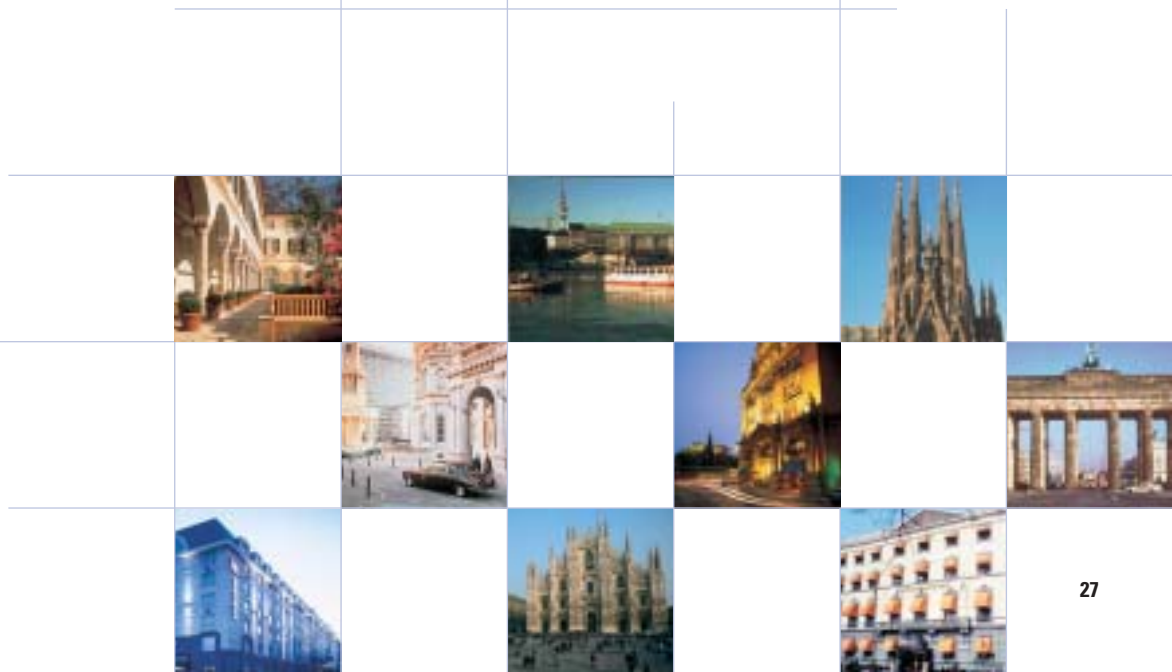
Despite a difficult economic climate, investor interest in hotels remained strong in London and in the UK generally. However, challenging trading conditions have presented many buyers with difficulties in forecasting future income, and generally the investment climate in 2002 led to a mismatch between buyer and seller expectations. Buyers have inevitably demonstrated caution in preparing their estimates of short-term operating performance, and consequently many sellers have been tempted to wait for operating conditions to improve. Nevertheless the increase in transactional volume in 2002 bears witness to the successful conclusion of deals involving motivated buyers and sellers.

Regional UK

Trading in the regional markets was generally better than London, with representation in the key cities remaining important for the major UK operators. A growing level of interest in the regional UK markets from international investors remains confined to large, branded hotels, mostly in major regional centres. However, the sales that took place were mainly dominated by domestic purchasers.

The largest single-asset sale involved the Hyatt Regency Birmingham, followed by the Crowne Plaza Birmingham. The sale of the Holiday Inn Manchester, at the airport, represented the only significant transaction recorded in the city last year.

A number of regional hotels (and some London assets) changed hands during the year in various portfolio sale-and-leaseback deals. These included Hilton’s sale of 11 hotels, Jarvis’s sale of 9 hotels, and Thistle’s sale of 37 hotels (subject to a management contract). Details are discussed below under Corporate and Portfolio Activity.



Hotel Property Investment Markets (continued)

Corporate and Portfolio Activity

The drop in total hotel investment volume in Europe in 2002 can mainly be attributed to a fall in the number of portfolio transactions, which reduced in value to €3.4 billion from €8.9 billion in 2001. However, 2001 was an exceptional year, which included the Compass sale as well as 12 Le Méridien Hotels changing hands twice; once when the Le Méridien chain was sold by Compass to Terra Firma, and subsequently as part of a sale-and-leaseback deal with the Royal Bank of Scotland.

A closer examination indicates a return to the long-term trend for the second half of the year, when the majority of portfolio sales occurred. These included the sale of 220 Travelodge hotels by Compass to Permira, the venture capitalists, for £712 million, the largest portfolio deal in Europe. This made Permira the second largest budget hotel operator in the UK after Travel Inn (Whitbread).

TOP TEN EUROPEAN PORTFOLIO/CORPORATE DEALS, 2002

HOTEL	LOCATION	ROOMS	PRICE (€M)	PRICE PER ROOM (€)	BUYER
Travelodge	UK	23,800	1,106.4	46,000	Permira
Thistle Hotels sale subject to management contract	UK	5,454	966.8	177,000	Orb Estates
Hilton sale & leaseback	UK	2,043	526.7	258,000	Rotch Group / Farnsworth Group/ HBOS
Jarvis sale & leaseback	UK	1,341	238.4	178,000	Lioncourt Capital
Radisson SAS	Denmark	999	161.2	161,000	Wenaas Hotels
Astron (80% stake)	Germany	8,396	130.0	19,000*	NH Hotels
NH sale & leaseback	Spain	643	91.4	142,000	Pontegadea Inmobiliaria
Dorint Hotels (30% stake)	Germany	13,227	50.0	13,000*	Accor SA
Virgin Hotels	UK / Spain	95	45.8	483,000	Orient Express Hotels
Citadines (Apart Hotel Chain) (50% stake)	France	5,100	Undisclosed	Undisclosed	The Ascott Group

* reflecting stake sold

Source: Jones Lang LaSalle Hotels

There was also continued interest in sale-and-leaseback type of portfolio deals, with the Jarvis, Thistle and Hilton portfolios all securing buyers. Jarvis sold nine hotels to a consortium of investors in a £150 million sale-and-leaseback deal, returning £85 million to shareholders via a share buy-back and using the remainder to cut debt, while Thistle completed a sale-and-'management back' deal with property company Orb Estates on 37 of its hotels (including London assets) for £600 million, the second largest deal of 2002 in terms of volume. Hilton sold 10 hotels for a total of £335.7 million to Rotch Group, Farnsworth Group and the Bank of Scotland. Three of the assets formed part of the former Stakis portfolio, originally purchased by Hilton in 1999.

A potentially depressed investment climate may be buoyed by the demerger of the hotels and pubs division of Six Continents (to be known as the InterContinental Hotels Group). A number of assets within the group may have considerable attraction for other hotel groups and real estate opportunity funds. However, the health of the geopolitical environment will determine the ease with which the company is able to raise finance. Any takeover of the hotels group (which remains a possibility) may lead to an outright sale or sale and leaseback of some key assets in order to return cash to shareholders, thereby boosting market activity not only in Europe, but worldwide.

Source of Investment Capital

Domestic buyers continue to dominate

With a few exceptions, domestic and European investors dominated transaction activity in Europe again in 2002, the former accounting for 66% of all transactions – even more than the previous year. Even German open-ended funds, which enjoyed record levels of liquidity in 2002 as investors shied away from falling equity markets, limited their hotel acquisitions largely to the domestic market, unlike their commercial acquisitions. In the second half of the year, for example, DB Real Estate acquired two hotel properties: the Four Points Olympia Park, Munich, and the Novotel Düsseldorf.

Little activity by investors from outside Europe

In contrast to the mid- and late 1990s, there were few major acquisitions by investors from outside Europe, although this may be about to change. JW Hotels and Resorts' acquisition of the ANA Vienna for €87.7 million was one of only few examples of foreign investment from the Middle East, although the conflict in Iraq may encourage Middle Eastern private investors and syndicates to opt for investment in Europe over the USA.

US-based buyers were largely absent from the market in 2002 as they focused on opportunities at home offering good value and a more insular approach prevailed with the Iraq war looming. A number of US-based owners instead realised profits from earlier acquisitions, such as the Four Seasons Milan and the Cannes Beach Résidence.

Investors from Asia were not active in 2002 but there is a sense that their interest in hotel investment outside their region is returning. In particular, luxury hotel operators such as Mandarin Peninsula, Shangri-La and Raffles are expected to continue seeking opportunities in key cities in Europe in order to expand their brand presence.

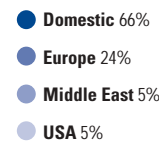
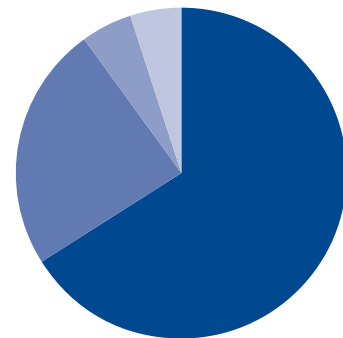
There has also been some interest in Europe from large family companies in Asia, but this is generally concentrated on the UK – especially now that the London operating market is thought to have 'bottomed out' and to have upside potential. Although the single currency is perceived as an advantage to investing in Continental Europe, Asian investors continue to regard the different legal systems and languages as a barrier to entry.

Private and institutional investment grows

The largest source of capital in 2002 came from private investors, followed by hotel operators. Operators spent slightly less than in 2001 (and considerably less than in 2000), but they remain a constant, significant presence in the market despite their ongoing disposals of assets.

Institutional investment increased over 2001, as did capital from property companies, both demonstrating widespread recognition of hotels as a mainstream investment asset class. This recognition has been led by the German funds, which

**European Single-Asset Transactions
(over €10m) Origin of Buyer 2002**



Source: Jones Lang LaSalle Hotels

Hotel Property Investment Markets (continued)

are obliged to invest more than 50% of their capital in real estate and are constantly seeking appropriate product, including quality, well-let hotels. With the relaxing of rules governing their ability to invest across border, they are likely to become a growing presence throughout Europe, as seen in DEKA Immobilien's purchase of Le Méridien Barcelona in early 2003.

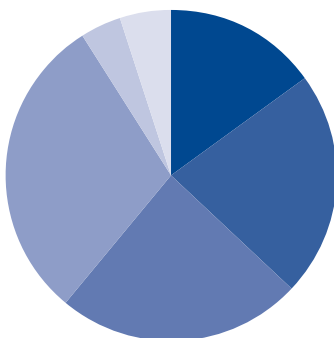
Debt Finance

In recent years low interest rates have encouraged more widespread use of debt in both direct and indirect hotel investment markets. Although lenders are becoming more cautious in the current economic climate, and traditional equity investors still have an important role to play, we believe these trends are having a significant impact on ownership structures across Europe.

“Lending by foreign banks is more common now, especially to cross-border investors”

In most European countries, local lenders still dominate the debt market. However, the introduction of the Euro has encouraged cross-border investment and lending. At the same time, consolidation in the banking industry has seen many small local banks acquired by larger, more aggressive international banks. Lenders such as Royal Bank of Scotland, Aareal Bank and Hypo Vereinsbank are implementing aggressive lending strategies to establish a foothold across Europe. While not as familiar with local markets as the local banks, international lenders will lend to cross-border investors with whom they have established relationships.

European Single-Asset Transactions
(over €10m) Type of Buyer 2002



- Property Company 15%
- Institutional 22%
- Operator 24%
- Private Investor 30%
- Private Equity 4%
- Other 5%

Source: Jones Lang LaSalle Hotels

In 2002 debt for hotel acquisitions continued to be available through both European and, to a lesser extent, American banks and this will continue in 2003. However, following three years of strong activity by debt-driven investors, the current economic climate is forcing banks to adopt a much more cautious attitude to lending.

Lending for development is extremely scarce, and there has been a shift towards higher quality, less risky investment opportunities. Quality of covenant has become increasingly important, whilst average loan-to-value ratios continue to fall. While a mezzanine financing market is beginning to develop to bridge the gap, this is likely to affect the ability of debt-driven private investors and property companies to meet sellers' expectations in the short term, reducing their ability to bid for some assets.

Another potential cloud on the horizon is the Basel II accord on bank capital adequacy levels in Europe. Although the consultation phase is still ongoing and implementation not expected until 2006, we believe under current proposals Basel II will cause banks to be even more cautious toward non-recourse lending, development financing and long-term loans, and indeed there is evidence that this is already happening.

Investment Outlook

Hotels becoming a mainstream asset class

A number of factors have now made hotel property more widely accepted as a worthwhile investment target by a much broader cross-section of investors, and all are still pertinent to the hotel investment environment. These factors include pressure on hotel operating companies to grow distribution, which has resulted in their increasing willingness to take on leases, and the emergence of a number of different ownership vehicles.

TOP EUROPEAN SINGLE-ASSET INVESTMENT DEALS, YTD 2003					
HOTEL	LOCATION	ROOMS	PRICE (€M)	PRICE PER ROOM (€)	BUYER
Principe di Savoia	Milan	404	275.0	680,693	Dorchester Hotel Group (ASIA)
Le Méridien	Barcelona	212	87.0	410,142	Deka Immobilien (EUR)
Nikko	Düsseldorf	301	54.4	181,063	Blackstone (US)
Silken	Barcelona	240	32.0	133,333	Silken Hoteles (DOM)
Angelo American Grand	Florence	115	24.5	213,043	Piramide Globale (DOM)
Golden Tulip	Manchester	160	18.1	113,281	Golden Tulip UK (DOM)
Holiday Inn	Nottingham	128	15.2	118,872	Quinn Group (EUR)
Hotel Pierre	Paris	50	11.0	220,000	JJW Hotels & Resorts (ME)

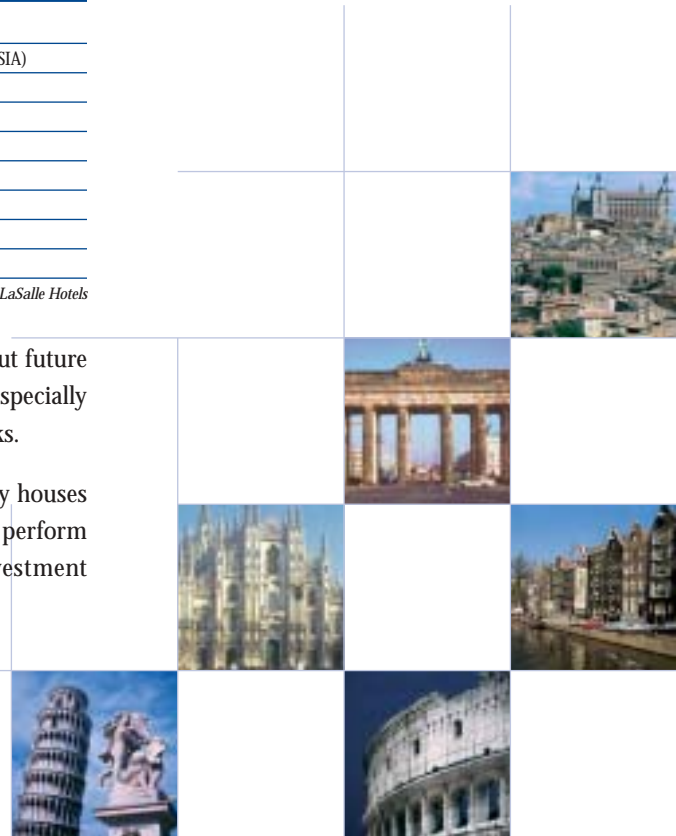
Source: Jones Lang LaSalle Hotels

The availability of capital and debt has been a key part of this process, but future activity will also depend on the availability of attractive product to buy, especially by funds and institutions that are governed by strict regulatory frameworks.

The explosion of equity available from German funds and private equity houses seen in recent years is likely to continue for as long as the stock markets perform badly. This will greatly stimulate continuing demand for hotel investment opportunities.

“German open-ended funds become major players in the European hotel investment market”

German open-ended funds exist to invest in properties that generate secure rental incomes. A lack of available commercial property leased to financially secure covenants, combined with a sharp increase in hotel trading and profitability in the late 1990s, encouraged them to look to hotels. As a result, they have become major players in the European hotel investment market, dramatically increasing the liquidity of certain gateway markets. However, the strict regulatory framework under which they operate, which prevents investment in hotels subject to management contracts, has limited the list of suitable target acquisitions. Nevertheless they continue to be a growing source of capital for hotel investment in quality leased assets with top covenants.



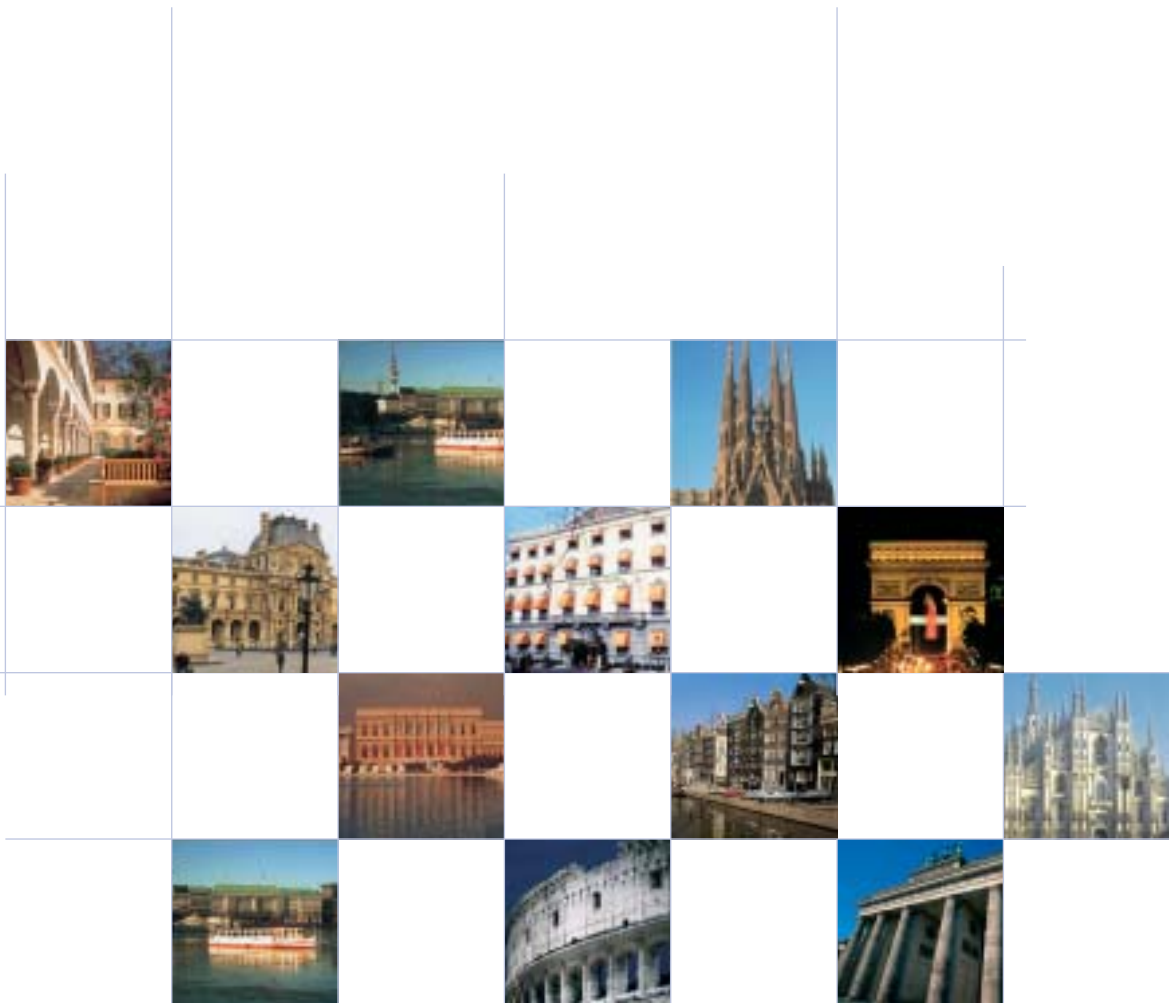
**Hotel Property
Investment
Markets**
(continued)

Hotel operators becoming net sellers

Many hotel operating companies have now become net sellers of real estate and are only likely to be future investors for compelling strategic reasons. This particularly applies to larger publicly quoted companies, such as Hilton and Starwood, and has been evidenced in the growing number of sale-and-leaseback deals taking place recently. Private hotel companies have more flexibility and will continue to be opportunistic buyers. Moreover, hotel companies not represented in Europe at all (e.g. Fairmont) or not widely represented in Europe (e.g. Hyatt) may be willing to become minority equity investors.

Winning cities

Given forecast demand and supply dynamics, coupled with the anticipated capital market environment, the risk-return profile of hotels in 2003 is compelling, but the most successful acquisitions will be carefully researched to ensure compatibility with different investors' requirements. Growth markets will offer the highest returns, while investment yields will be under downward pressure on top quality unencumbered properties in the largest and most liquid markets. In Europe, growth markets include the larger EU candidate countries. Other strong markets with sound fundamentals but still reasonable prices include Amsterdam (city centre), Barcelona, Rome, Milan and regional UK markets.



Top Ten European Operators

Shown below is the updated table of the top ten hotel operators in Europe, as surveyed by Jones Lang LaSalle Hotels.

TOP 10 EUROPEAN HOTEL OPERATING COMPANIES*		
(AS AT DECEMBER 2002)		
	HOTELS	ROOMS
Accor	2,092	225,284
Six Continents	454	72,720
Hilton	287	60,424
Sol Melià	243	55,053
Société du Louvre / Envergyre	840	50,000
Choice International	509	42,506
NH Hoteles	210	29,225
Whitbread	367	27,357
Starwood	121	26,705
Rezidor SAS	108	24,310

*excludes pure franchising companies

Source: Jones Lang LaSalle Hotels

Accor

Accor remains Europe's largest operating company. It dominates its home market – France – is the market leader in Germany and has a sizeable presence in other key European hotel markets.

In 2002 Accor continued its ambitious expansion plans, which aim for a significant increase in its global room count, primarily through expansion in Germany, Spain, Italy and the UK. It went some way to achieving this aim in Germany through its participation in the restructuring of Dorint, gaining co-branding rights on over 70 Dorint hotels and giving it the opportunity to increase mid- and upscale representation.

Accor's dominance of the German market was further enhanced following its signing of a partnership agreement with Rema Hotels for its portfolio of 15 German hotels (1,320 rooms). Accor now has over 270 hotels operated under the Sofitel, Novotel, Mercure, Ibis, Etap Hotel and Formule 1 brands in Germany.

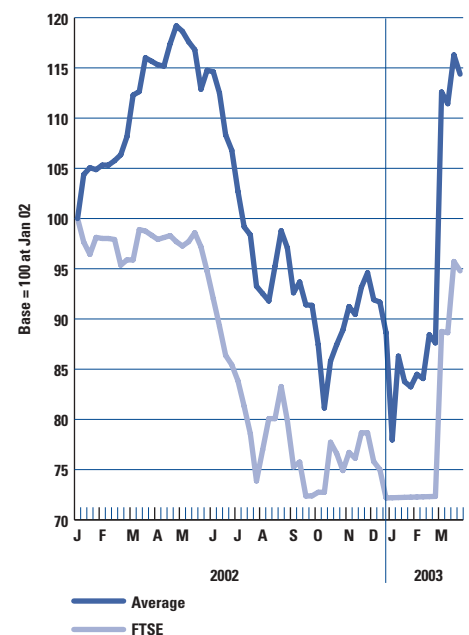
Following Accor's acquisition of an initial 5% stake in Polish operator Orbis in 2001, a merger was announced in 2002. This gives Accor the opportunity to dominate the Polish budget market, which remains underdeveloped and is viewed as having considerable growth potential in the medium to long term given the changing socio-economic fundamentals of the country. Ultimately, Accor's flexibility and capital resources make the company a key predator in the European hotel market.

Six Continents Plc

The past two years have been something of a watershed for Six Continents. For much of the period there has been shareholder pressure on the company to realise the proceeds dating back to the sale of its brewing and unbranded pubs businesses in 2000. In October 2002 the company announced that its two divisions – hotels and retail – would be demerged in April 2003, creating a separate hotel company known as InterContinental Hotels Group. This would be combined with a return of £700 million to shareholders.

Hotel Operators

Average Stockprice Movements



Hotel Operators (continued)

This will inevitably reduce the capital base of the hotel company, raising speculation that after many years of seeking merger and acquisition targets, it would itself become a target. However, the demerger will allow the new hotel company to focus on its core business, and should help to reverse perceptions that it performed less dynamically than its key global competitors.

Meanwhile Six Continents has been actively expanding, and its Express by Holiday Inn brand has become one of the success stories of the lodging industry, growing by more than 1,000 rooms in the EMEA region in 2002.

Both the investment community and Six Continents's competitors will be tracking the company closely over the course of 2003, as speculation will undoubtedly continue over its future. Once the demerged companies are listed, the InterContinental Hotels Group is expected to attract a range of offers from hotel chains and venture capitalist firms.

Hilton International

Following its previous acquisition of Stakis and Scandic, Hilton continues to move further up the table as a result of active expansion in 2002. The group is aiming to become the leader in the four- and five-star market in the UK through its powerful global hotel brand recognition.

From a strategic perspective, Hilton continues to target sale-and-leaseback opportunities, having raised a further £350 million through a sale and leaseback of ten UK hotels. The capital raised through these deals puts Hilton in a good position to pursue further expansion through planned organic growth and meaningful acquisitions, possibly with another portfolio deal in 2003.

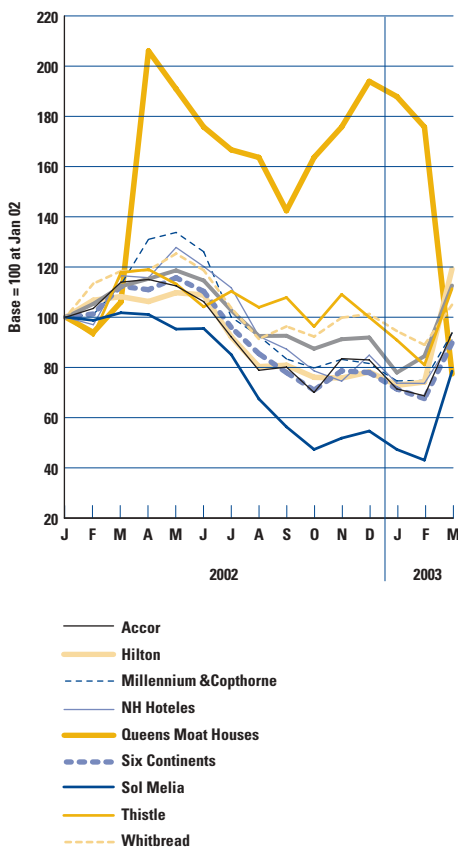
Ultimately, this approach should extend the reach of the brand and improve the return on capital within the overall business. Hilton has been identified as a possible Six Continents bidder, if there is a chance for them to deal without significant outlay – this would be an ideal opportunity for them to achieve a huge boost to their expansion plans.

Sol Meliá

With 243 hotels and 55,053 rooms across Europe, Sol Meliá is Spain's leading hotel management company. It has grown rapidly, doubling its portfolio in the EMEA region between 1997 and 2002, to become the fourth largest operating company in Europe and a top ten global operator. It recently acquired the Madrid-based Tryp hotel chain for about €360 million, thus consolidating its prime position in Spain, where most of Tryp's hotels are located.

Having invested in expanding its portfolio in London and Paris in the last few years, Sol Meliá is now looking to grow its presence in the UK, Germany and France. It has a stated willingness to commit significant investment to landmark acquisitions, which suggests the possibility of outright asset acquisition. However, it is also known to

Stockprice Movements



favour leasing in less prominent target cities outside of Spain. With a real-estate portfolio that is largely leased, managed and franchised, or otherwise comprises non-prime stock, the company may not have much opportunity to raise sale-and-leaseback finance, hence financing for acquisitions may need to be raised from more conventional means.

Société du Louvre (Envergure)

Despite the uncertain international environment and generally depressed hotel industry, the Société du Louvre group has continued to benefit from the growth of its budget hotel activities, which in 2002 generated half of consolidated EBITDA.

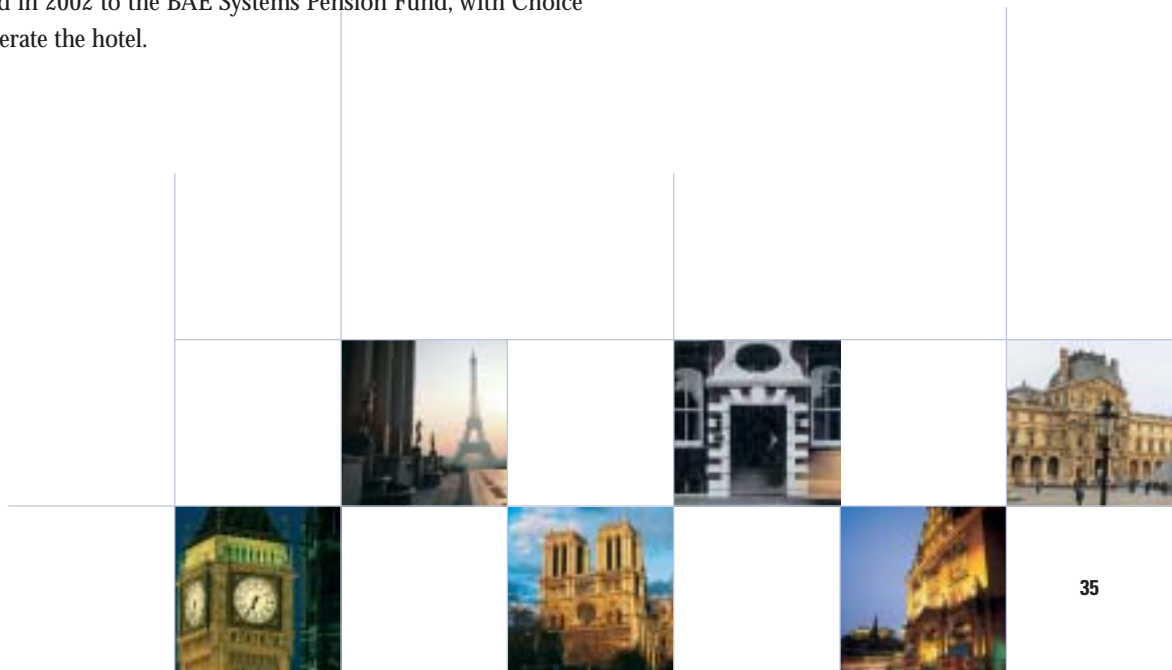
For 2003, the group's priorities will be the improvement of operating margins, increased proforma turnover and the development of its hotel activities in Europe. Trading for the first nine months of the year was extremely difficult but improved substantially in the final quarter.

Choice Hotels

Choice Hotels International is a US-based chain that has continued to grow, moving from seventh to sixth in the survey. It is about to make its debut in Spain by franchising eight hotels in Barcelona, one in Madrid and one in Las Palmas in the Canary Islands. Aiming to have 20 hotels in Spain by the end of the year, it will operate through the Spanish hotelier Hoteles On-line.

Choice began its rapid expansion in 1981 with the introduction of segmentation to the hotel industry through the development and launch of Comfort Inns. This first-ever franchised 'luxury-budget' limited-service hotel is now one of the fastest growing brands in the lodging industry.

Meanwhile, Choice Hotels Scandinavia, through its subsidiary Choice Hotels Denmark, is to acquire three hotels and an office building in Denmark, relinquishing ownership of the properties to the newly formed company Aabenraa Holding in return for 48.7% of the company's share capital. In the UK, a Quality hotel in Welwyn was sold in 2002 to the BAE Systems Pension Fund, with Choice taking a lease back to operate the hotel.



Hotel Operators

(continued)

N H Hoteles

After acquiring the Dutch chain Krasnapolsky in July 2000 and the German chain Astron Hotels in February 2002, NH Hoteles is now Europe's third ranking business hotel company. The acquisition of Astron hotels, the third leading city hotel chain in Germany, has consolidated NH's presence in Central Europe.

In addition, NH Hoteles has 37 new projects currently under construction that will add close to 6,300 rooms. The group also has a 20% stake in the Italian chain Jolly Hotels. Eight hotels were sold in 2002, but most of these were sale-and-leaseback transactions that took debt off the balance sheet.

Whitbread

Whitbread has the master franchise for Marriott hotels in the UK outside London and currently has 45 properties under this brand. The company has focused much of its capital expenditure on its pub restaurants and Travel Inn budget hotels, which continue to make significant contributions to the group's total turnover. A total of 1,738 new rooms and 20 new hotels were added to Travel Inn during the year, making it one of the UK's leading branded hotel networks.

Unlike Hilton and Thistle, Whitbread has no stated intention of going down the sale-and-leaseback route for its properties, according to Harry Turner, Whitbread's head of operations. Instead it is seeking to dispose of properties that no longer fit the company's brand standards, concentrating instead on the brands – especially the budget brand – that can help the company achieve above-average earnings growth in difficult economic conditions.

Starwood

With its six distinct brands, Starwood has maintained a relatively even split between owned, managed and franchised assets, balancing risk across its portfolios. In 2002 the company added more than 1,000 rooms, including the Sheraton Kraków (238 rooms), Poland and the Lanesborough (95 rooms) in London. It proposes to continue this expansion in 2003 through 50 new destinations worldwide, totalling some 15,000 rooms. Whilst Starwood has not released details, it is assumed that most of these assets will be operated under management contract or franchise, in line with directors' growth strategy.

Starwood will continue to review the remaining properties in its Ciga portfolio in 2003, with the Principe di Savoia in Milan and its Sardinian properties scheduled to be sold in June. While Starwood will relinquish management control of the Principe, they will continue to manage the Sardinian hotels. Any further outright disposals are unlikely for the time being.

Rezidor SAS

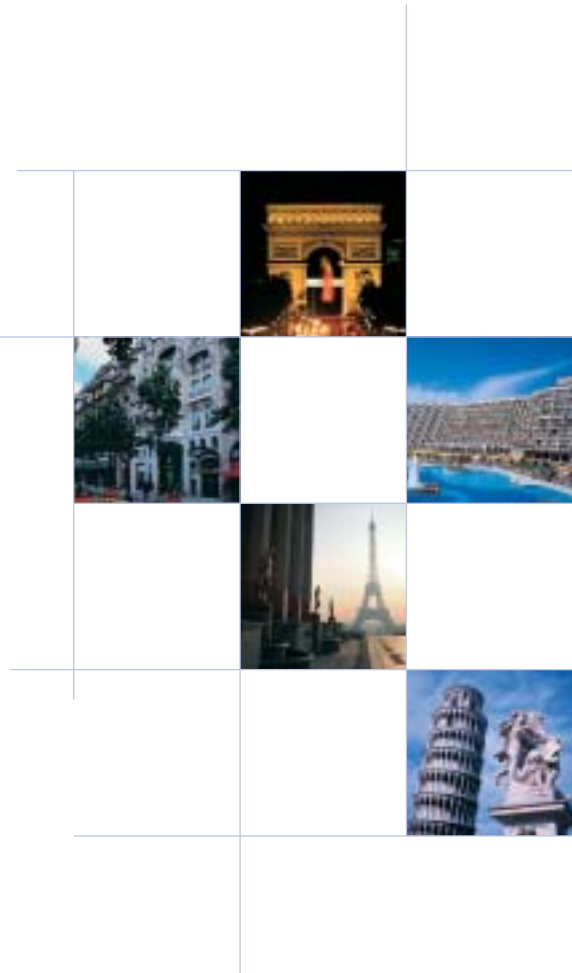
Rezidor SAS Hospitality is a wholly owned subsidiary of SAS Group's hotel business. SAS International Hotels (SIH), the parent company and operator of

Radisson SAS Hotels & Resorts, changed its name to Rezidor SAS Hospitality in October 2001. Rezidor SAS is the sole franchisee in Europe (with the exception of Edwardian Hotels in the UK), the Middle East and North Africa for Radisson Hotels & Resorts Worldwide.

Having grown organically over a number of years, Rezidor SAS initially took the decision to position itself as a multi-brand organisation in 2000 when it acquired the Malmaison portfolio in a joint venture with Marylebone Warwick Balfour (MWB). However, in September 2002 Rezidor announced the sale of its interest in Malmaison to MWB and, later that month, a franchise agreement with Carlson to operate the Regent, Country Inn and Park Inn brands across Europe for a 30 year period.

Rezidor SAS has identified France as a country for substantial expansion, seeing it as an emerging core market. A number of new hotels have been opened there, and the company is negotiating for several others. The company is also developing its representation in the UK, Scandinavia and northern Europe, and representation in key southern European markets is also likely to be a priority.

The company is already known to be seeking conversion and development opportunities in key EMEA target markets. If successful, Rezidor SAS will become a major EMEA operator, with a multiple brand portfolio to compare favourably with the sizeable presence of Europe's current market leaders.



All material in this publication is the property of Jones Lang LaSalle Hotels. No part of this publication may be reproduced or copied without written permission. The information in this publication should be regarded solely as a general guide and should not be relied upon. While care has been taken in its preparation no representation is made nor responsibility accepted for the accuracy of the whole or any part. This publication is not part of any contract and parties seeking further details should contact the author.

Trading data sourced to Deloitte & Touche is based on the HotelBenchmark Survey by Deloitte & Touche © 2003.



JONES LANG LASALLE HOTELS™

22 Hanover Square
London W1A 2BN
UK
tel +44 20 7493 6040
fax +44 20 7399 5694

Maximilianstrasse 52
80538 Munich
Germany
tel +49 89 212 680-0
fax +49 89 212 680-10

Platz der Einheit 2
60327 Frankfurt am Main
Germany
tel +49 69 7543 1041
fax +49 69 7543 1040

58/60 avenue de la Grand Armée
75017 Paris
France
tel +33 1 40 55 15 15
fax +33 1 40 55 18 68

Passeig de Gràcia 11
4ª Pl, Esc. A
08007 Barcelona
Spain
tel +34 93 318 53 53
fax +34 93 301 29 99

Paseo de la Castellana 33
Edificio Fenix Planta 14
28046 Madrid
Spain
tel +34 91 789 11 00
fax +34 91 789 12 00

9 Raffles Place
#38-01 Republic Plaza
Singapore 048619
tel +65 6536 0606
fax +65 6533 2107

400 George Street
Sydney NSW 2000
Australia
tel +612 9220 8777
fax +612 9220 8765

153E 53rd Street
33rd Floor
New York
NY 10022
USA
tel +1 212 812 5700
fax +1 212 421 5640

Also in Chicago, Los Angeles, Miami,
Auckland, Brisbane, Melbourne,
Adelaide, Perth, Jakarta, Mumbai,
Tokyo

©2003 Jones Lang LaSalle Hotels. All rights reserved.

