



JONES LANG
LASALLE HOTELS®

Real value in a changing world

Hotel Investment Outlook

2011



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Table of contents

Global overview	2	Asia Pacific	20
Fortune favours the bold	2	At odds with the global market	20
The rebound gains pace	2	An opportunistic ring	20
Banks to drive hotel sales	3	Return to normalcy	21
Cross-regional activity expected to notch up	4	Markets heading back to peak	21
Still short on debt, but outlook improving	4	Downside risk from new supply has eased	22
Mature markets: second-tier assets to win more favour	5	The big thaw	22
Emerging markets: acquisition opportunities grow	5	The currency factor	22
Back to basics	5	Dominant but moderating: Australasia	23
Americas	7	Liquid and poised to buy: Southeast Asia	24
Revitalisation	7	Lacklustre but improving: Japan	25
Hotel sale volume to notch another 20% increase in 2011	7	Momentum is building: China	26
Increased bifurcation of product	8	Revival and rejuvenation: India	27
Pricing swings up	8	Sources and methodology	28
More bank-driven sales	8	Jones Lang LaSalle Hotels' research	29
Lots of equity	8		
Debt markets	9		
Back to rate growth in 2011	9		
Development stall-out	10		
Capital markets activity in Canada on the rise	10		
Mexico: evolving toward domestic consumption	11		
Caribbean finds it tough to compete for buyers	11		
Panama offers compelling fundamentals	12		
South America: The next development frontier	12		
Brazil: One of the world's big growth markets	12		
Other South American growth centres	13		
EMEA	14		
Back in action	14		
Small deals; steady market	14		
Banking on future growth	14		
Banks will drive bulk of activity	15		
Focus on solid lease investments across the continent	16		
Expanding weight of capital	17		
Capital will look further afield	17		
Pricing double dip threat is real	18		
Sports drives development	18		
Finding the right mix	19		
En vogue: budget hotels	19		

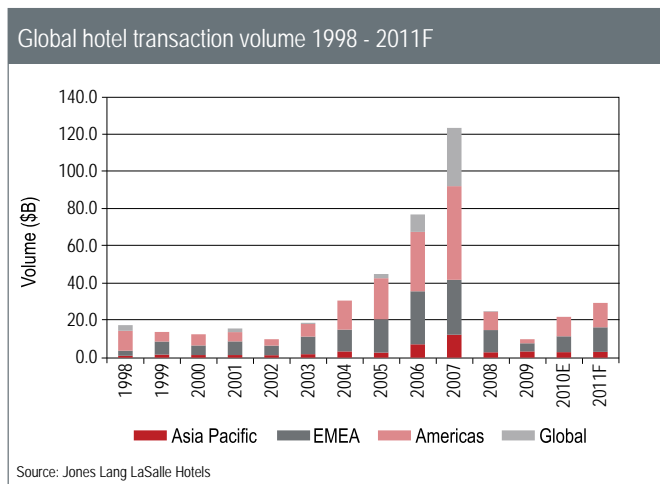
Global overview

Fortune favours the bold

With a gridlocked market and fall-out from the global economic downturn, 2009 marked the floor of the hotel investment market. The haze of inactivity cleared in 2010, giving way to a 140% surge in hotel real estate sales, totalling \$24.3 billion. Investors made their way back to the game and moved the ball – making plays for assets as many major markets outperformed the predicted recovery.

The Americas registered the most dramatic rise in 2010, with transaction volumes increasing nearly five-fold to \$11.1 billion, driven by acquisitive REITs and the \$3.9 billion purchase of Extended Stay Hotels. Europe, Middle East and Africa (EMEA) was the second most liquid region, experiencing a more than 110% jump in volumes to \$9.3 billion. Activity across Asia Pacific edged upwards at a more moderated pace with total sales of \$3.9 billion, reflecting lower levels of leverage in the market and hence fewer distressed sales, along with a slowdown in deal pace in Japan.

The rebound of operating fundamentals is a motivating tonic for both buyers and sellers, as is the broad cross-section of equity capital in the market. We expect volumes to ratchet up another 15-25% in 2011, reaching \$28-30 billion globally. Going forward, investors continue to weigh the value versus growth equation as banks contemplate workouts, write-downs and loan-to-value requirements.



Hotel real estate sales in the Americas are expected to total up to \$13 billion in 2011, driven by an increased number of bank-forced sales and easing levels of leverage, with the bulk of the activity taking place in the U.S. This will represent an increase of 80% on 2010 levels when excluding the \$3.9 billion Extended Stay Hotels transaction.

Hotel investment volumes across EMEA are projected to increase to \$13.1 billion, with bank-driven sales accounting for a significant portion of this figure. Activity will be greatest in the highly leveraged markets such as the U.K., Ireland and Spain. Strong transaction activity should also remain in other key Western European markets such as France and Germany while developers could selectively start to divest assets in the Middle East.

Asia Pacific sales, which saw only modest declines in 2008 and 2009, are forecast to total \$3.5 billion in 2011. Japan will likely be at the forefront of the rise in disposals as banks take a view on initiating structured sales. Australia, which dominated activity across the region in 2010, is expected to see volumes moderate as market conditions have stabilised. Transaction volumes in tightly-held markets across Southeast Asia will remain fairly steady and activity in China and India may start to increase, albeit from a very low base.

Dominant acquirers of hotel assets in 2011 will be REITs, institutional investors, and private and high net worth investors (HNWIs) with opportunistic capital. Private equity buyers will also feature in 2011 but will not represent the lion's share of acquisitions as in 2007.

The rebound gains pace

Trading fundamentals have bottomed out in most global markets and investor confidence is on a robust rebound. Due to the nightly nature of leases for hotels, lodging real estate more immediately reacts to economic growth as compared to other real estate asset classes.



Markets are expected to continue to recover through 2011 as the economic upturn solidifies. Naturally, the extent and pace of improvements in trading performance will be dictated by local market dynamics and the favourability of the supply/demand balance. On the whole, emerging markets will offer the best opportunities for growth, but investors will be weighing these assets against distressed offerings in more established markets.

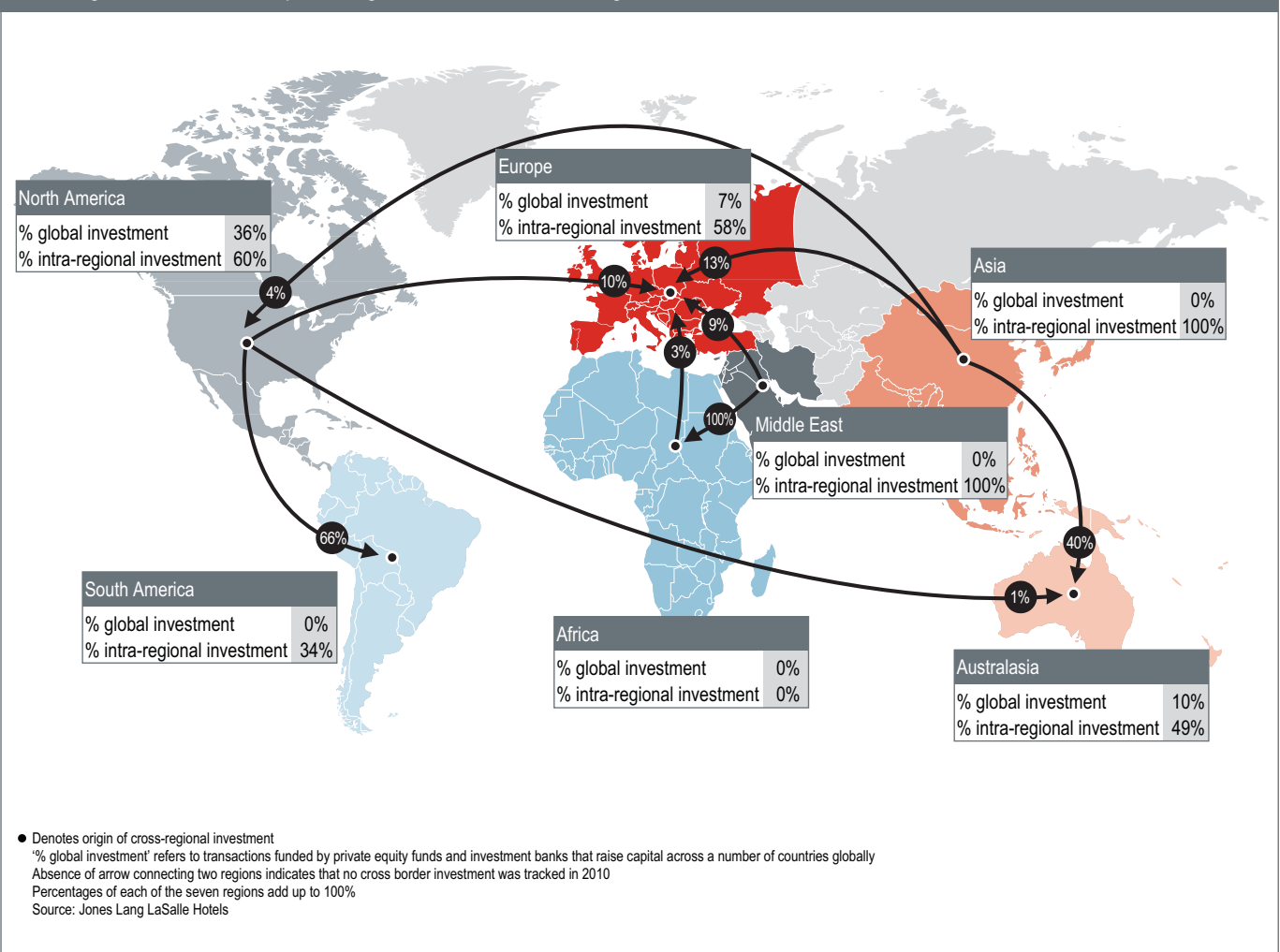
Banks to drive hotel sales

More hotels are expected to come to market because of debt maturities which cannot be refinanced at current loan-to-value ratios. Banks, lenders, and special servicers will be the most motivated sellers in 2011, in an attempt to clean up balance sheets. Countries where bank-led sales will be highest include the U.S., U.K., Ireland, Spain, Japan, and Mexico.

Most of the stock that has wound up in banks' hands is located in weaker secondary and tertiary locations. Some of these assets may sell at significantly discounted prices, putting pressure on the industry-wide recovery of asset values. However, this is unlikely to derail investor demand for trophy and prime assets and these hotels will continue to attract competitive bidding and high pricing.

While banks will dominate the disposition landscape in 2011, private equity funds will also begin to emerge as more dominant sellers across the globe as funds reach their liquidation dates. Owners and operators will continue to focus on select disposals of cash-flowing assets which can achieve attractive bids. Following their 2010 buying spree, especially in the Americas, REITs will not likely be dominant sellers, but will rather divest only select non-core assets.

Cross-regional investment as percentage of total investment in region in 2010



Cross-regional activity expected to notch up

As the economic rhetoric switched from recession to recovery, cross-regional capital flows increased to 41% of total transaction volume in 2010 compared to 15% in 2009 as well-capitalised investors acquired assets in displaced markets across the globe. Global capital was most active with a share of 53% of cross-regional investments. Asian, Middle Eastern and U.S. investors were keen to secure prime acquisition opportunities outside of their region, particularly in Europe.

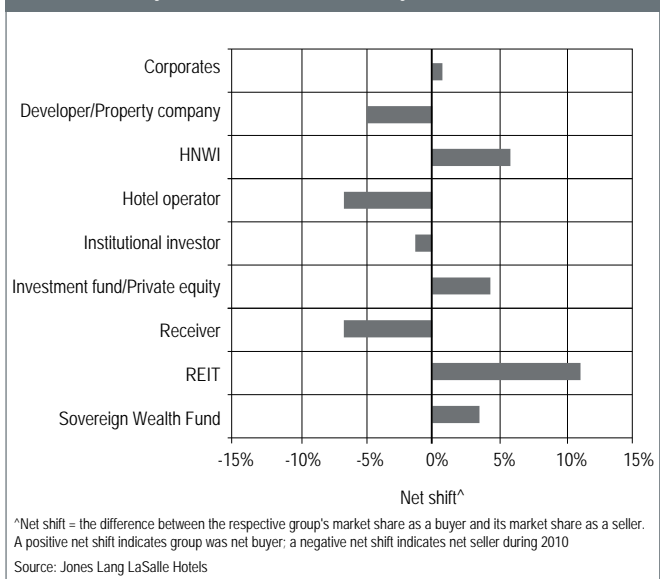
There is no doubt that cross-border investments will notch up further in 2011. With more clarity on operating fundamentals, continued breadth of equity capital in the market, and generally reduced risk perceptions, investors will be more open to opportunities beyond their home markets.

Foreign buyers typically have to deliver higher returns to account for the increased risk associated with investing offshore. Asian HNWI or family owned companies are expected to be attracted to markets where currencies have depreciated or where hotels are available at considerable discounts. The key targets will be assets in major cities and some resort markets, ranging from three to five-star. These buyers are conservatively geared, potentially very long-term hold, but completely opportunistic.

After a quiet 18 months, due in part to dislocation at home, Middle Eastern investors are also expected to consummate several large single-asset transactions outside of their region in 2011 where currency differentials are favourable.

Other groups that may emerge as offshore investors include private capital based in Russia, India and South America. U.S.-based REITs are also likely to target select hotels in Europe and South America in 2011. Foreign capital will continue to be highly selective and often driven by non-economic factors such as familiarity with markets, language and geography. As most offshore investors will focus on prime, centrally located assets, they will increase the number of groups that are bidding for these assets. This could lead to more aggressive bidding and higher prices.

Global 2010 buyer and seller net shift analysis



Still short on debt, but outlook improving

Debt remains relatively constrained in the markets which relied heavily on leverage in the lead-up to the global recession, but it is easing. New lending will remain fairly limited until lenders fully rebuild their balance sheets and write down asset values.

Securitised debt originations will also increasingly surface in some markets during the course of 2011. U.S. hotel commercial mortgage backed securities (CMBS) issuance topped \$4.7 billion in 2010 and comprised two major offerings which mark the first in over two years.

The amount of debt in the marketplace will slowly begin to increase in mature markets such as the U.S. and Western Europe in 2011. Interest rates remain low in these markets. In Asia Pacific, however, interest rates are rising, covenants are more restrictive and spreads remain wide. The net result is increased funding costs.

Globally, there remains some uncertainty around new risk and capital management requirements being imposed under Basel II and Basel III; some investors are expressing concern that the rules will tighten credit.

The lack of construction financing has virtually halted new hotel development in the U.S., Canada, Mexico, Western Europe and Japan, but the stall-out does not extend everywhere. Investors will focus on expanding their supply pipelines in South America, particularly in Brazil, North Africa, Russia, China, India and Southeast Asia, all of which have a significant opportunity for additional graded hotels.

Mature markets: second-tier assets to win more favour

Reflecting the continued flight to quality, competition for prime assets in gateway cities and some major urban centres where levels of available stock are limited has intensified. These hotels are being bought by long-term holders who perceive that the assets represent fair value, even though pricing is close to the market peak in some instances.

In 2011, investors will increasingly seek returns from assets in secondary and suburban markets where pricing has not escalated to the same extent as in prime markets. There is a huge weight of property in those locations along with assets overdue for capital expenditure that will hit the market in 2011. In the U.S., investors will look outside of dense coastal gateway cities whereas in EMEA, investors will look to secondary cities in markets such as Spain, Ireland, and provincial U.K.

On the contrary in Asia Pacific, the opportunity to capitalise on displaced markets has largely passed. On the whole, there has been an appreciation of value as trading fundamentals have improved and yields have tightened, although they remain above the 2007 low. The low levels of stock being offered for sale are likely to result in higher prices. The exception is Japan, where some genuinely interesting buying opportunities will surface, but it will be the banks who determine the pace and magnitude of activity.

Emerging markets: acquisition opportunities grow

Acquisition and investment opportunities also abound outside of mature markets. In Central Eastern Europe (CEE), characterised by an overhang of supply, weaker trading fundamentals and greater risk, select opportunities for upside will materialise. Further opportunities will break loose in the Middle East, where a number of cities will have to cope with oversupply.

In China and India, the fundamentals are compelling, but investment requires real local expertise to identify and evaluate deals. With few operating hotels having traded in India, the secondary market has been dominated by land and development deals. Pricing is high in China, due to a lack of distinction between the asset classes by domestic investors. The profile of existing owners is also such that few hotels are brought to market.

South America remains at the top of investors' radar because of robust economic performance across its resource-based economies, fast growing population, and a relative shortage of institutional-grade hotels. Brazil is in the vanguard of opportunities.

Back to basics

With more assets being brought to market in 2011, there will again be an increased depth and breadth of opportunities for investors. Until liquidity improves significantly, however, the most acquisitive hotel investors will likely be those that make all-equity purchases or structure acquisitions with low leverage levels. That said, there is a broad cross-section of equity capital pledging to be invested.

While hotels have edged toward a core positioning over the past decade, the combination of property and business risk makes them inherently complex. Early movers and risk takers will often be rewarded, and the global mantra across all markets and segments in 2011 will be the focus on hotel fundamentals.

Global real estate transparency index 2010

Transparency Level	2010 Composite Rank	Market	2010 Composite Score	2010 Composite Tier	Transparency Level	2010 Composite Rank	Market	2010 Composite Score	2010 Composite Tier
High	1	Australia	1.22	1	Semi	42	South Korea	3.11	3
	2	Canada	1.23	1		43	Russia Tier 3 Cities	3.12	3
	3	United Kingdom	1.24	1		44	Macau	3.13	3
	4	New Zealand	1.25	1		45	China Tier 1 Cities	3.14	3
	5	Sweden	1.25	1		46	Mexico	3.14	3
	6	United States	1.25	1		47	Ukraine	3.14	3
	7	Ireland	1.27	1		48	Philippines	3.15	3
	8	France	1.28	1		49	India Tier 2 Cities	3.17	3
	9	Netherlands	1.38	1		50	Bahrain	3.28	3
	10	Germany	1.38	1		51	Argentina	3.30	3
	11	Belgium	1.46	1		52	Costa Rica	3.32	3
	12	Denmark	1.50	1		53	Slovenia*	3.33	3
Transparent	13	Finland	1.53	2	54	China Tier 2 Cities	3.38	3	
	14	Spain	1.58	2	55	India Tier 3 Cities	3.39	3	
	15	Austria	1.71	2	56	UAE - Abu Dhabi	3.45	3	
	16	Singapore	1.73	2	57	Indonesia	3.46	3	
	17	Norway	1.75	2	58	Jordan*	3.46	3	
	18	Hong Kong	1.76	2	59	Oman	3.50	4	
	19	Portugal	1.82	2	60	Morocco	3.58	4	
	20	Switzerland	1.87	2	61	Croatia	3.59	4	
	21	Italy	1.89	2	62	Egypt	3.62	4	
	22	Poland	1.99	2	63	Saudi Arabia	3.66	4	
	23	South Africa	2.09	2	64	Qatar	3.70	4	
	24	Czech Republic	2.15	2	65	China Tier 3 Cities	3.73	4	
Semi	25	Malaysia	2.30	2	66	Lebanon*	3.78	4	
	26	Japan	2.30	2	67	Panama	3.85	4	
	27	Hungary	2.33	2	68	Kuwait	3.90	4	
	28	Israel	2.38	2	69	Uruguay	3.92	4	
	29	Greece	2.60	2	70	Kazakhstan	3.93	4	
	30	Slovakia	2.61	3	71	Colombia	3.96	4	
	31	Russia Tier 1 Cities	2.64	3	72	Peru	4.00	4	
	32	Romania	2.68	3	73	Pakistan	4.18	4	
	33	Taiwan	2.71	3	74	Venezuela	4.18	4	
	34	Chile	2.72	3	75	Tunisia*	4.24	4	
	35	Russia Tier 2 Cities	2.86	3	76	Vietnam	4.25	4	
	36	Turkey	2.90	3	77	Dominican Republic	4.28	4	
37	UAE - Dubai	2.93	3	78	Belarus	4.48	4		
38	Brazil	2.95	3	79	Syria	4.65	5		
39	Thailand	3.02	3	80	Sudan	4.68	5		
40	Bulgaria	3.03	3	Opaque	81	Algeria	4.74	5	
41	India Tier 1 Cities	3.11	3						

*Denotes new market added in 2010.

Note: Scores shown rounded to two decimal places; rankings are based on unrounded scores.

Sources: Jones Lang LaSalle, LaSalle Investment Management

Global Real Estate Transparency Index

Jones Lang LaSalle's Global Real Estate Transparency Index is updated every two years and quantifies real estate market transparency across 81 markets worldwide. The Index aims to help real estate investors, corporate occupiers and retailers understand important differences when transacting, owning and operating in foreign markets.

Americas

Revitalisation

After a lengthy painful period of declines, hotel real estate is shifting to revitalisation across the Americas. Operating performance posted positive growth in most major markets commencing in Q2 2010, resulting in investors calling the floor, which is leading to a more optimistic outlook and a significant increase in capital investment in the industry.

As investors unleashed pent-up demand, deal volumes racked up a dramatic pace and increased nearly five-fold in 2010, albeit off a very low base. Equity-rich buyers wasted no time getting back into the game. Transaction volumes gained momentum as the year progressed, totalling \$11.1 billion in 2010. Ninety-five percent of these deals traded in the U.S. The reported level of hotel transaction activity masks the true interest in investing in the lodging industry. In addition to the sale of hotels, a significant amount of performing and non-performing debt traded, levels which, if quantifiable, would significantly increase total transaction volume.

The 2010 volume was greatly boosted by the \$3.9 billion acquisition of the Extended Stay Hotels portfolio. But even when excluding the impact of this giant, which accounted for almost 35% of the annual total, deal volumes across the Americas still nearly tripled. REITs were another driving force behind the jump in hotel purchases, accounting for 51% of single-asset acquisitions by volume, or 40% of the number of single-asset trades completed in 2010.

Hotel sale volume to notch another 20% increase in 2011

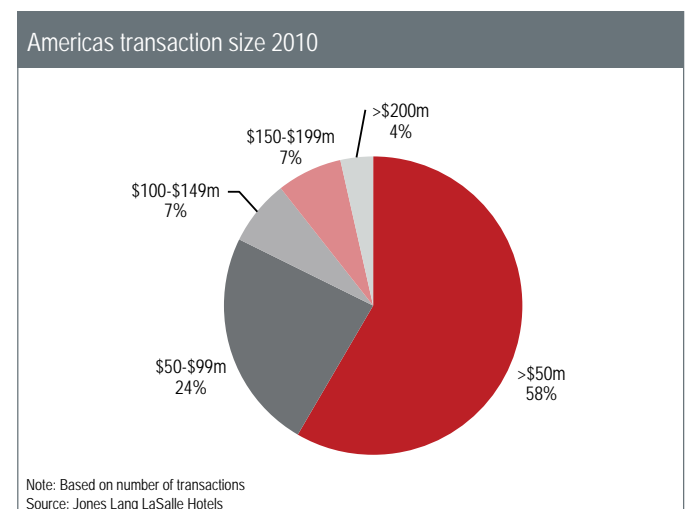
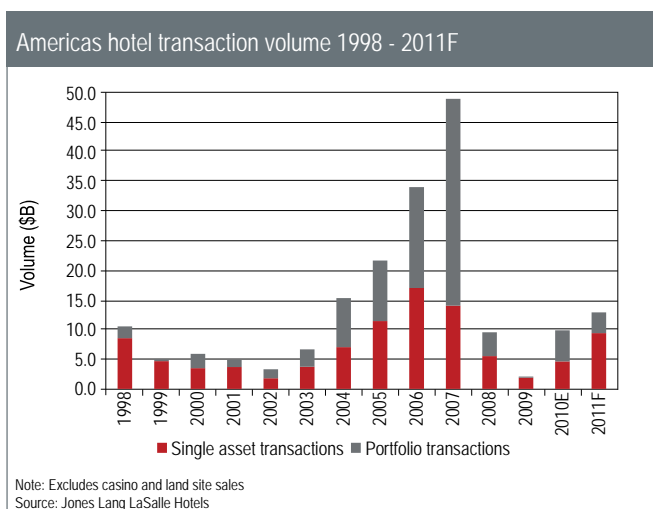
In 2011, deal pace will continue to gain momentum. Transaction volume is expected to reach up to \$13 billion in the Americas region, driven by activity in the U.S., which will be one of the dominant markets for hotel sales globally. These figures refer to asset transactions and do not count note and loan sales and deed-in-lieu transfers, etc.

More assets will come to market in 2011 due to a number of factors. First of all, lenders will take control of assets and sell them as REO, or appoint a receiver to sell the asset or restructure the debt and arrange a consensual sale with the borrower, which is in addition to the continued shedding of non-performing loans. Secondly, asset sales will increase due to the maturing debt which cannot be refinanced at current loan-to-value rates, resulting in the borrower needing to sell the asset to retire the debt. Third of all, owners who have held hotels longer than their expected hold period will exploit the high demand for hotel product. Additionally, REITs will continue to churn their portfolios, and hotel brands will continue to implement their "asset light" strategy.

Due to recent successful additional capital raises, REITs are expected to continue to be dominant buyers in 2011, and private equity groups and institutional investors will increasingly join the mix as debt markets become more liquid. The expanded depth of active buyer groups along with a greater number of bank-driven sales are the key drivers behind our increased projection for deal volume.

Big-ticket sales are back. The average single-asset deal size rose by nearly 60% in 2010. There were 13 sales of single assets in the U.S. that exceeded \$100 million, up from just three such trades in 2009. With an abundance of equity in the marketplace and slowly easing debt markets, the number of transactions above the \$100 million mark is expected to tick up further in 2011.

In addition to the U.S., Canada will see more activity in 2011, while Mexico, the Caribbean, and Central and South America will continue to be more tightly held investment markets, with the primary opportunities for investors being new hotel development.



Increased bifurcation of product

The types of assets on the market will be increasingly bifurcated in 2011, both in terms of the quality of the property, and the investor groups that will target the assets. High-quality upscale assets located in downtown urban markets will continue to come to market and will primarily be targeted by REITs, as well as by institutional investors and off-shore buyers. Buyers who rely on leverage will continue to find it difficult to compete for prime assets.

Distressed assets, on the other side of the spectrum, will largely be targeted by private equity funds and owner-operators, some of which have discretionary capital. Private equity groups are increasingly comfortable with buying distressed properties on an all-cash or low leverage basis, with an eye towards refinancing the asset during their hold period to drive IRRs as the availability and the cost of debt improves. Sifting through distressed acquisition opportunities – both for assets and notes – will require time but those that make bold moves will likely be rewarded.

Pricing swings up

Pricing for prime assets in core urban markets moved up sharply in 2010 and in some instances came within a fairly close range of peak pricing due to high bidder competition. With investors focussed on top markets, the volume of assets that traded in secondary markets was more limited in 2010.

Featuring as a significant U.S. trend in 2011, buyers will gravitate away from downtown boundaries toward assets in secondary locations to benefit from lower pricing. Pricing will not escalate to the same extent in secondary markets which have a more measured outlook for income growth and where there is more limited credit for non-prime assets.

Even though a larger amount of secondary market assets will trade in 2011, this is not expected to derail the broader recovery in pricing. Prime assets will continue to be viewed on a more favourable basis, which will result in competitive bidding due to the strength of fundamentals in these markets and the limitations on new supply for the foreseeable future.

More bank-driven sales

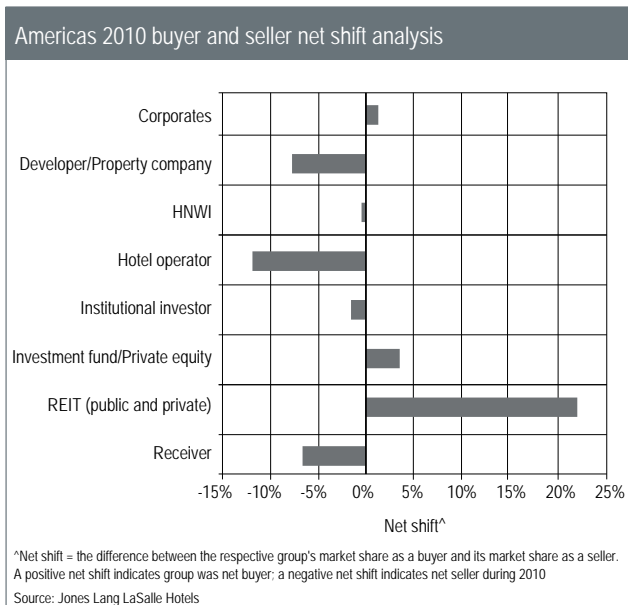
Distressed and bank-driven asset sales will be on the rise in 2011, but not in the form of a tidal wave. Special servicers will gradually force more sales, especially with matured loans because the bondholders will increasingly seek liquidity, particularly the senior bondholders who are likely “in-the-money.” Since debtors of non-performing assets will, in most cases, not be able to refinance, the assets will have to transact. But loan modifications and extensions will spread the sale of distressed assets over several years.

Sales of distressed portfolios, comprised mostly of select service assets, will be increasingly prevalent in 2011. These transactions will be pushed by special servicers, banks and lenders and will often be in form of a loan auction, such as the auction of 63 non-performing notes arranged by Jones Lang LaSalle Hotels and REDC in November 2010. These portfolios, whether they trade as a whole or are broken into smaller chunks, will present significant acquisition opportunities for buyers comfortable with a certain level of risk, and the purchasers have the potential for tremendous upside given the low basis.

Private equity groups will also progressively be active sellers in 2011 due to fund maturities. REITs will continue to review the disposition of assets requiring significant capital investment and non-core assets to raise cash to invest in assets with higher income growth prospects but will overall not be dominant sellers in 2011. Hotel management companies will also make selective disposals as long as their price thresholds can be met.

Lots of equity

There will be a broad range of capital in the market in 2011 comprised of REITs, private equity funds, institutional investors, owner/operators, HNWI and off-shore buyers. As evidenced in 2010, there is no shortage of equity in the marketplace, which is one of the primary reasons that transaction levels gained so much momentum. Until debt markets improve considerably, the most successful investors will continue to be those who make all-equity purchases.



Publicly traded REITs have raised hundreds of millions of dollars and are paying cash for properties, giving them a competitive advantage in the bidding process. REITs will continue raising money through secondary equity offerings and high-yield bond issuances.

In 2010, REITs were the largest net-buyer group across the Americas, accounting for 51% of single-asset acquisitions by volume, or 40% of the number of single-asset trades, evidencing the high quality of the assets they purchased. While the absolute volume of REIT purchases will remain strong in 2011, in terms of overall deal volume, it will likely comprise a smaller percentage due to other groups emerging as more successful bidders once leverage levels increase.

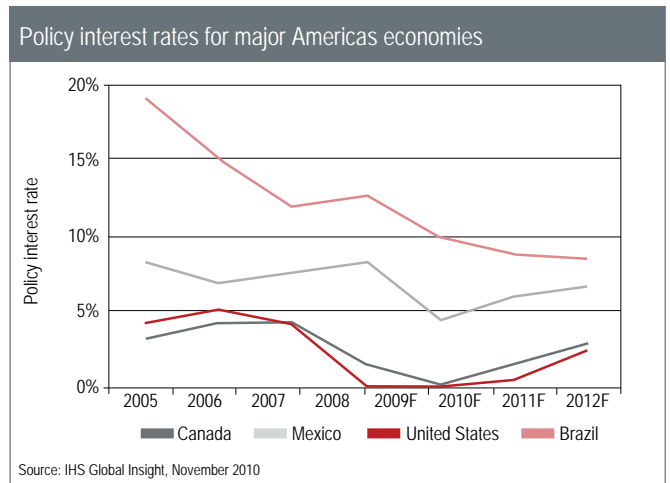
One of the re-emerging sources of capital in 2011 will be the outflow from the Middle East. Having faced dislocation at home over the past 18 months, Middle Eastern investors will again vie for prime acquisition opportunities in East Coast markets. Asian HNWI, which accounted for 4% of purchases by volume in the U.S. in 2010, are expected to continue to feature in 2011, targeting prime assets in major markets, primarily in the western U.S. South American private and HNWI may also make select investments in the U.S. in 2011 and beyond.

Debt markets

Banks need to continue shoring up their balance sheets before they can again originate significant levels of debt. Debt markets will continue to be a constraint in 2011, but liquidity both for acquisitions and re-financings will increase dramatically in 2011. Lenders are hungry for the best assets in primary markets with high-quality sponsorship. In-place cash flow is paramount; lenders will not be as receptive to distressed assets. As the number of top-quality deals is limited, competition among lenders is high.

Underwriting standards continue to be stringent, but are progressively easing. Proceeds are being sized using in-place cash flow, with an eye toward historic performance and 2011 and 2012 forecasts. Loans above \$100 million are again feasible for select lenders.

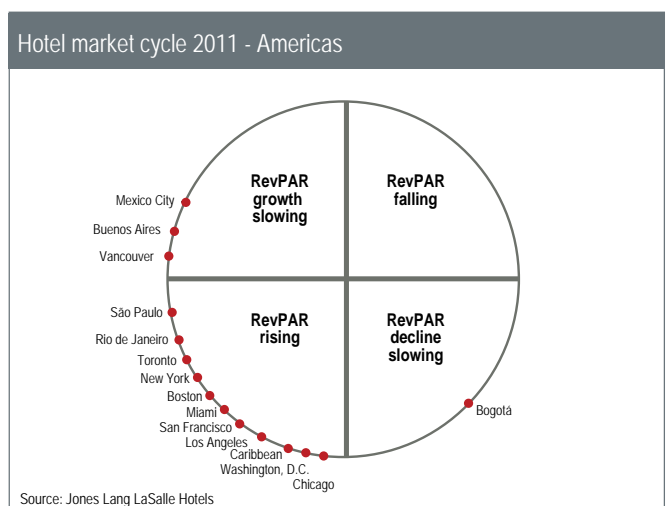
Exceptionally low base interest rates have created an attractive lending environment. With LIBOR and Treasuries at or near historic lows, all-in loan pricing can be extremely attractive.



Securitized debt originations will also likely increasingly surface in the course of 2011. U.S. hotel CMBS issuance topped \$4.7 billion in 2010 comprised of two major offerings: an issuance linked to Blackstone Group's buyout and restructuring of Hilton Worldwide and an offering backed by assets in the Extended Stay America portfolio. These issuances mark the first hotel CMBS offerings in over two years. Additionally, the \$92.5 million senior loan for the Hilton Times Square New York raised in Q4 2010 is intended to be securitized.¹

Back to rate growth in 2011

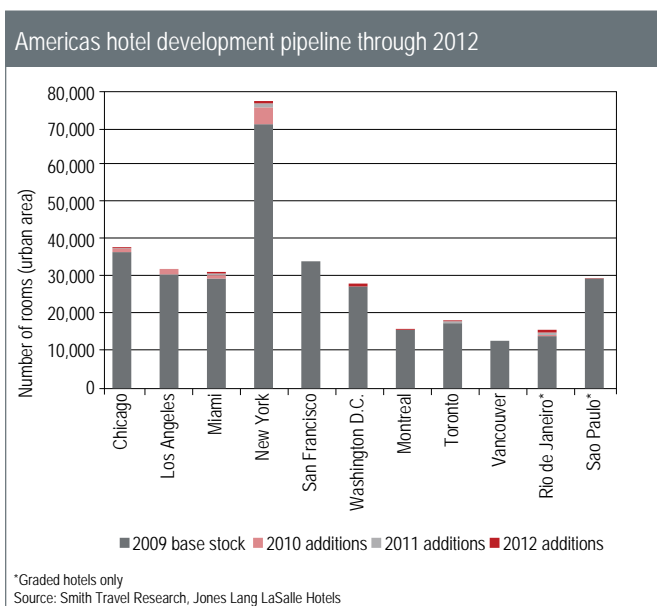
As lodging demand is strongly correlated with economic growth, hotels offer an immediate investment opportunity in recovering markets, which is not evident in other property asset classes. Gateway markets have been the winners, posting solid return to growth in 2010. Demand is back, though average daily rates remained largely flat in 2010. As further increasing occupancy rates create more compression in the market, average daily rates will start to tick up as well.



¹ Financing arranged by Jones Lang LaSalle Hotels

Development stall-out

A key trend that will feature prominently in 2011 is that new supply growth will be virtually choked off. Over the past two decades, supply levels have increased by approximately 2% per annum on average. Supply increases were above the long-term average in 2008 and 2009 as hundreds of projects conceptualised during the peak years were delivered. The increase in the number of rooms available is expected to slow to a greatly reduced 0.8% in 2011, followed by 0.3% in 2012.



The dried up pipeline in many markets across North America will be a boon to existing owners and operators, leading to a longer and more robust recovery. Even once liquidity increases, for as long as hotels are sold for below replacement cost, very little new development can be economically justified.

Capital markets activity in Canada on the rise

Canada's economic recovery is set to continue in 2011, with GDP posting 2.3% growth, driven by rising oil and natural gas prices and the boost in metal prices.² Revenue per available room (RevPAR) marked 5.3% growth in Canada in 2010. Growth was equally driven by average daily rate and occupancy increases, whereas the U.S. rebound has been driven almost exclusively by demand recovery. Montreal, Toronto and Vancouver all witnessed double-digit RevPAR increases in 2010, on par with or even exceeding growth in major U.S. gateway cities.

Canada's hotel investment market showed substantial improvement in 2010, though the increase in transaction volume was below the rise recorded in the U.S. in percentage terms. Fuelled by more buoyant investor sentiment, the high availability of equity, select potential asset sales by legacy funds that need to raise cash due to overleveraged acquisitions during the market peak, and some easing in the debt markets, 2011 will show increased improvement in hotel transaction volumes in Canada.

The country's acquisitions landscape will continue to be dominated by domestic investors with a few exceptions. Asian investors, given favourable tax treatment and Pacific Rim connectivity are actively looking at gateway markets, with Vancouver at the forefront. Additionally, prime assets coming to market in key cities may draw attention from a very select group of U.S. REITs if priced at a steep discount to replacement cost.

The high amount of investor attention that prime urban assets are expected to attract will begin to drive a price recovery. The environment for new development generally remains unfavourable both from a demand and financing perspective, so investors will focus on acquiring existing assets.

Canada's banking system is one of the most sound in the world and lender and bank-forced sales will only account for a small percentage of overall activity in 2011. Signs of revival in the debt markets will increasingly surface, though lenders will remain selective, focussing on assets in major markets.

Calgary, Edmonton, Toronto and Vancouver boast the highest gross metro product growth rate projections, all above 3% per annum through 2014³ and will thereby be favoured markets for investment. Saskatoon and Regina, Saskatchewan's largest cities, will also post above-average growth due to demand for agricultural commodities.

Exchange rates (local / USD end of period)							
	2006	2007	2008	2009	2010E	2011F	2012F
North America							
Canada	1.2	1.0	1.2	1.1	1.0	1.0	1.1
Mexico	10.9	10.9	13.5	13.1	12.2	12.1	12.4
South America							
Argentina	3.1	3.2	3.5	3.8	4.2	4.4	4.6
Brazil	2.1	1.8	2.3	1.7	1.8	1.8	1.8
Chile	2,237.5	2,016.5	2,249.3	2,039.5	1,866.4	2,003.1	2,028.1
Colombia	531.8	497.4	638.0	506.9	533.1	542.2	530.9
Peru	3.2	3.0	3.1	2.9	2.8	2.8	2.9

Source: IHS Global Insight, November 2010

²IHS Global Insight

³Conference Board of Canada

Mexico: evolving toward domestic consumption

Mexico is witnessing a strong economic rebound, with the country's GDP set to grow 4.1% in 2011.⁴ Consumers and the services sector will increasingly contribute to the recovery process. Mexico faces a long road to recovery, but investors comfortable with local market dynamics will selectively seize opportunities.

The country's international demand is dominated by the U.S., a key difference from Brazil, for example, which sees a more diversified mix of North American and European visitors. Mexico's RevPAR has returned to growth mode, rising by approximately 10% in 2010.⁵

Overall, Mexico's lodging market and tourism infrastructure is the most sophisticated in all of Latin America in terms of the proportion of international-grade hotel stock and the prevalence and distribution of hotel brands. Mexico also has a number of well-established domestic hotel companies and brands. Mexico's hotel market is evolving toward domestic consumption, and that is where the primary growth opportunity lies — in the expansion of the country's network of branded limited service hotels.

Mexico has the most developed hotel transaction market in Latin America, though it has been subject to low volumes over the past two years and U.S. investment in Mexico will continue to be tempered. Hotel transactions in the country have however begun to tick up, totalling \$103 million in 2010, a 60% increase from 2009.

Resort markets will continue to face a long road to recovery. While demand is recovering, resorts' pricing power will remain below par in 2011. Markets such as Cancun that are linked to a greater amount of international cities (including Europe) will continue to fare better than markets such as Los Cabos which rely on North American demand.

The main opportunities in resort markets will be to buy distressed properties or non-performing loans at a significant discount to replacement cost. Fortune favours the bold, and those who take on risk at this low basis may see considerable rewards. Demand fundamentals generally preclude the development of new resort properties in the country.

Mexico's long-term fundamentals are reasonably strong due to the country's emerging middle class, but key issues remain. Risks that Mexico faces include drug-related violence, for which there is no respite in sight. Though tourists and tourist areas have rarely been targeted, the negative perception surrounding potential violence is a deterrent.

Hotel investment opportunities in 2011

Strong buy	Select buy	Watch
Boston	Bogotá	Buenos Aires
Chicago	Lima	Caribbean
Los Angeles	Mexico City	Costa Rica
Miami	Montreal	Regional Mexico
New York	Panama City	
Rio de Janeiro	Santiago	
São Paulo		
San Francisco		
Toronto		
Vancouver		
Washington, DC		

Source: Jones Lang LaSalle Hotels

Caribbean finds it tough to compete for buyers

The Caribbean has not seen the depth of recovery recorded in the U.S. in terms of operating fundamentals and transaction volume. Demand levels in the Caribbean will still be below peak levels in 2011 which will lead to a sluggish recovery of average daily rates. Hotel investment activity has largely been on hold, and this will not change materially in 2011. Eventually, a sustained rebound in hotel operating fundamentals will lead to a stronger recovery in the transactions market.

Lenders with exposure in the Caribbean will continue to face stress. Consequently, several asset or note sales are expected to come to fruition in 2011. Though there are numerous distressed resorts in the region, investors will usually continue to view acquisition opportunities in the U.S. as more compelling, which will keep a lid on the pool of potential buyers for Caribbean resorts.

There are a host of partially funded and partly completed resort projects across the region, many with a residential component. While some of these could be obtained at very favourable pricing, there is a limited buyer audience for partially completed deals, and banks generally will not lend on these assets as they require additional capital. The business plan for resorts that have an underperforming residential component remains challenging at best.

The Dominican Republic, Jamaica and the Cayman Islands are expected to be above-average performers over the medium-term due to their more diversified economies, stronger airlift and greater operational efficiencies.

⁴IHS Global Insight

⁵Smith Travel Research

Panama offers compelling fundamentals

Panama is the economic stand-out in Central America, with GDP growth forecast to average 7% per year through 2014.⁶ Slated for completion in 2014, the Panama Canal expansion project is one of the main drivers of the country's positive economic outlook. Panama City has emerged as a significant regional real estate investment destination.

Panama offers compelling fundamentals for new development, particularly in the less-supplied branded mid-market sector. Existing assets will only selectively, if at all, come to market in 2011 and 2012 but those that do will attract a significant amount of interest due to strong opportunity for yield. The market is very receptive to branded hotels. The bulk of the money funnelled into the country's real estate market is from the more directly surrounding countries and it is more difficult for U.S. investors to break into the market.

In Costa Rica, it's a different story. Its investment market fundamentals closely mirror those in the Caribbean. New developments are on hold or struggle to get ahead. Investors' attention is on existing assets, though few acquisition opportunities are expected to come to fruition in 2011. But the country's eco-sensitivity, stability, growing services sector and relatively strong airlift and tourism infrastructure will continue to draw investor interest in the medium-term.

South America: The next development frontier

With economic recovery in the U.S., Western Europe and Japan somewhat underwhelming, conditions in South America offer a stark contrast. South America has joined emerging Asia Pacific to lead global economic growth and embark on what appears to be a V-shaped recovery.

South America, and Brazil in particular, will offer tremendous investment opportunity over the next decade. Investors' focus will be on new development, which is accompanied by large-scale opportunity in Brazil and a number of other key countries in the region.

South America's hotel transaction market is still relatively undeveloped, though it will slowly continue to open up over the medium-term. Dominated by domestic and intra-regional investors, most of whom are long-term holders, the number of hotels that come to market in 2011 will be limited. Assets more likely to transact are those held by international investors.

Due to the restrictive local financing conditions in South America, hotel investments were financed with local capital and were not highly leveraged. Therefore, bank-forced sales will continue to be immaterial in the region.

Real GDP growth (annual %)							
	2006	2007	2008	2009	2010E	2011F	2012F
North America							
Canada	2.8	2.2	0.5	-2.5	2.9	2.3	2.9
Mexico	4.9	3.3	1.5	-6.5	5.4	4.1	3.7
United States	2.7	1.9	0.0	-2.6	2.6	2.2	3.0
South America							
Argentina	8.5	8.7	6.8	0.9	8.2	5.2	4.0
Brazil	4.0	6.1	5.1	-0.2	7.4	5.0	5.5
Chile	4.8	4.7	3.4	-1.4	4.6	5.6	4.7
Colombia	6.7	6.9	2.7	0.8	4.9	4.6	4.2
Peru	7.7	8.9	9.8	0.9	7.7	6.1	6.7

Source: IHS Global Insight, November 2010

Brazil: One of the world's big growth markets

Brazil is the most attractive hotel investment market in South America. Brazil's economy is running on all cylinders. The scale of Brazil's economic force is indisputable and the country is one of the most significant global sources of growth, which is leading to climbing hotel demand across a number of sectors. Brazilian RevPAR grew by more than 15% in 2010 and performance is expected to climb further in 2011.

Like the rest of South America, the transaction market is relatively undeveloped. South America's key hotel transaction in 2010 was Host Hotels & Resorts' acquisition of the JW Marriott Rio de Janeiro for \$47.5 million⁷, sold by Marriott International. The trade represents a threshold transaction and will be instrumental in defining parameters for future transactions.

Hotel investors are focusing on exploiting development opportunities, which are concentrated in São Paulo, Rio de Janeiro, Belo Horizonte, Salvador, Brasília and other cities with more than one million residents, of which there are some 15 in Brazil. Entering Brazil as a master developer and building up to a critical mass of 25 to 30 hotels in the branded mid-market and limited service sectors remains a huge investment opportunity.

Investors will need to mobilise capital and find suitable local partners. Just 15% of hotels in Brazil are affiliated with an international hotel brand, highlighting the opportunity for branded product. The country's development potential is underlined by the upcoming FIFA World Cup in 2014 and the Summer Olympic Games in 2016. The challenges that foreign investors face in entering the market are a complex tax regime, partnering with groups that control the land for development, and obtaining local debt financing.

⁶ IHS Global Insight

⁷ Transaction arranged by Jones Lang LaSalle Hotels

Other South American growth centres

Beyond Brazil, the four most favourable destinations for hotel investment in South America are Colombia, Chile, Peru and Argentina. Real GDP in these countries is set to increase by 4% or more per annum through 2015⁸ and the countries are experiencing increased foreign direct investment (FDI) which will lead to rising hotel demand. As in Brazil, transactions of existing hotels will be very rare in 2011 and investors will therefore focus on hotel development.

Chile has long enjoyed macroeconomic stability, an open business environment and consequently, relatively large and sophisticated capital markets. Santiago has often been the test market for the introduction of international brands to South America. With the city's luxury segment well-served, the primary opportunities in 2011 will be to develop both limited service and upscale hotels in Santiago or to make strategic acquisitions and conversions in order to gain a foothold.

Colombia's economic growth was only briefly interrupted by the global downturn, and the country's consistent economic and policy positions are expected to solidify future growth. Bogotá, the country's main gateway and distribution hub for tourism, is experiencing growing demand for hotels. The stock of institutional-grade, four- and five-star hotels is expected to grow by nearly 40% by 2012, which creates a myriad of investment opportunities, including potential conversions and management contracts.

Peru has also followed pro-growth policies which, together with its rich cultural heritage, have increased tourism appeal. Lima has seen a lesser degree of institutional-grade hotel development and the market still lacks the depth of international hotel brands seen in Buenos Aires and Santiago. Lima is expected to see the addition of just three new four- and five-star hotels through 2013 and there are compelling opportunities for the development of new hotels across all categories.

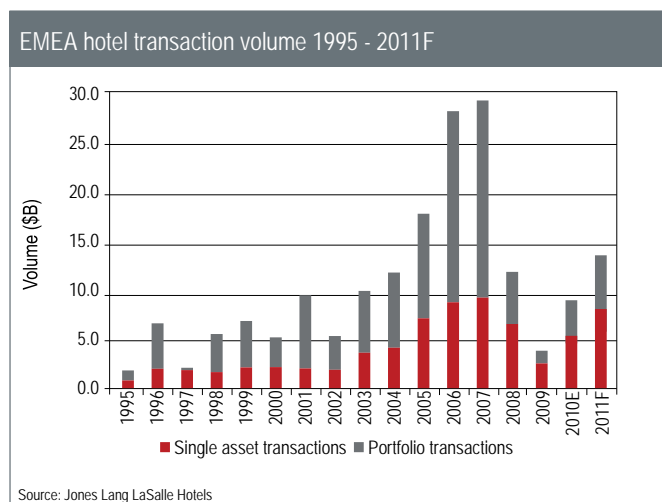
Though political instability and deteriorating public finances have caused investors to pause in Argentina, the limited proposed new supply and the continued appeal of Buenos Aires as South America's preeminent tourist destination combine to produce respectable operating performance of existing hotels. Development and redevelopment, in particular across the upscale branded select service sector, will be the primary investment opportunity as the stock of hotels in Buenos Aires is tightly held and only very few transactions are expected to materialise in the medium-term.

EMEA

Back in action

2010 saw a return to action for the hotel industry, proving to be a year of improvements in Europe, Middle East and Africa (EMEA): better than expected recovery of trading fundamentals and a rebound in investment activity.

Overall, hotel deal volume across EMEA reached \$9.3 billion in 2010, more than doubling activity in 2009. Nevertheless, the EMEA investment volume does include a few "\$1 transactions" signifying a debt transfer without equity being invested. When excluding this type of deal, EMEA hotel investment volume totalled \$8.6 billion, representing a rise of 98% on 2009. Activity improved in the first two quarters but the pace of improvement picked up significantly in the third quarter.



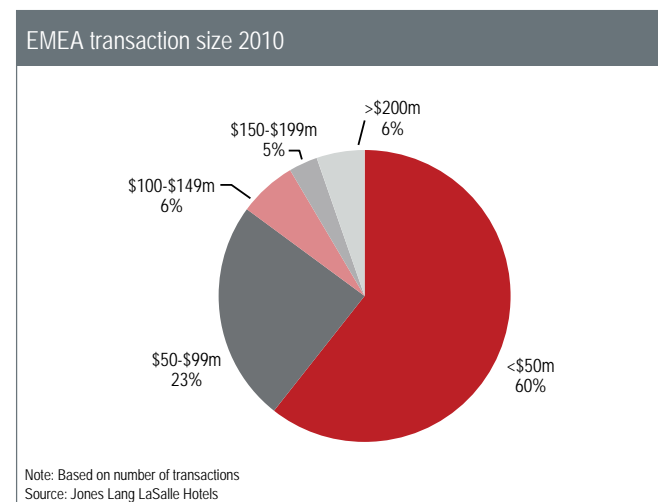
Deal pace is forecast to continue at a steady pace through 2011 to reach around \$13 billion by year-end. A small chunk of this volume will again be driven by debt restructuring transactions, which will continue to offer excellent opportunities in a market characterised by limited funding. Debt transfer deals are anticipated to account for around 6% to 7% of the total EMEA volume.

2010 saw growth in buyers' available equity, which resulted in buyer equity exceeding stock on the market. 2011 could see a turnaround of this trend as banks increasingly act on clearing their balance sheets. Not all of the assets expected to enter the market will be prime; a growing number of secondary assets and those requiring capital expenditure are likely to appear on the market.

Small deals; steady market

Continued recovery and market stabilisation are expected in 2011. The increased confidence in fundamentals sparked a renewed drive to buy and sell hotel assets across EMEA, especially in the second half of 2010. Activity during the majority of the year remained largely driven by single-asset deals; although a few large portfolio transactions did take place during the course of 2010.

Single-asset activity included some trophy assets which were placed on the market at reduced pricing well below their reinstatement value, representing unrepeatable opportunities. In addition, numerous leased investments, mainly in Western Europe, continued to attract a high level of interest, primarily from equity-rich, institutional buyers.



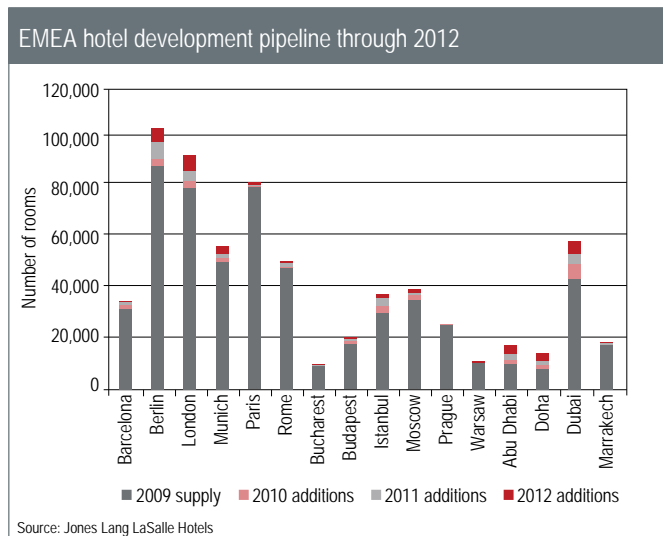
The bulk of investment activity was concentrated in the U.K., followed by France, Spain, Italy and Germany. With debt still difficult to source, the average deal size remained moderate. Approximately 60% of deals traded for less than \$50 million, and only 17% of deals comprised a price of more than \$100 million. The largest of these was the sale of 73 Norgani hotels in Scandinavia to Pandox AB for \$1.4 billion.

Banking on future growth

Investment activity in 2011 will be supported by strengthening trading fundamentals across the region. With trading performance set to remain stable or increase moderately again across all EMEA markets, investors will be increasingly willing to underwrite future growth into their pricing. Some signs of improvement, mainly in occupancy, were already apparent in 2010 as demand started to stabilise. On the other hand, rates, which remained under pressure during the first half of the year, experienced more flexibility in the second half, allowing for overall RevPAR growth in most areas within EMEA at year-end 2010.

International travel into EMEA showed robust recovery during 2010, with Africa and the Middle East recording the strongest growth. The impact of the volcanic ash in April kept growth subdued in Europe; however, overall, international travel in Europe did register an increase in absolute terms. The travel recovery in Europe has been generally broad, and gains have favoured Western Europe, while Northern Europe continues to lag behind. Regional source markets rebounded and the U.S. market strengthened as arrivals from Japan and Russia continued to surge. Tourism Economics estimates that visits to European destinations grew 2.5% in 2010 and should accelerate further to 3.7% in 2011, when 2008 peak visitor levels will finally be regained.

As corporate demand and events related business recover further, market performance will continue to strengthen and drive growth in room yield by year end 2011. Growth is set to be strongest in Western Europe, although it could be more limited for markets solely dependent on leisure travel. Performance in Eastern Europe and the Middle East is forecast to remain largely stable, although some markets, such as Abu Dhabi, Prague and Budapest, could continue to struggle under rapid supply growth.



Banks will drive bulk of activity

Key gateway cities such as London and Paris will continue to attract the bulk of investor interest during 2011. Market dynamics will drive more prime assets on the market in London, attracting high values. These could represent great opportunities when taking a long-term view as they will offer a steady return. In addition, London is currently favoured by many international investors due to the weak GBP. Paris is bouncing back strongly, having experienced a notable decline in values during the economic downturn. Investors will still have to pay a keen yield to buy prime assets and hence might need to move beyond these key cities in search of higher yielding investments.

Hotel investment opportunities in 2011		
Strong buy	Select buy	Watch
Paris	Frankfurt	Brussels
London	Berlin	Prague
Munich	Amsterdam	Muscat
Cairo	Rome	Doha
	Barcelona	Dublin
	Madrid	Copenhagen
	Vienna	
	Stockholm	
	Dubai	
	Abu Dhabi	
	Moscow	

Source: Jones Lang LaSalle Hotels

2011 will be characterised by markets which carry significant risk but also offer real opportunities, including the U.K., Ireland and Spain. The bulk of investment activity will be driven by workout activity of financial institutions as they seek to retrieve capital to achieve regulatory targets. In some markets, it will be difficult for banks to exit assets as they will need to continue to support incoming purchasers given the absence of alternative debt, particularly for large portfolios. Hence, existing lenders will focus on reducing exposure and improving terms and conditions to avoid risk in the short-term.

A number of administration deals were recorded during 2010, the majority of which were located in the U.K. Transactions in administration held a market share of almost 14% of the invested volume in EMEA during 2010, representing a total of ten deals.

With a growing level of stock due to appear on the market, the U.K. will remain the leader in terms of hotel investment activity. During 2010, U.K. hotel investment volume reached around \$2.8 billion, more than triple the volume achieved during 2009. The majority of activity was recorded in London, accounting for 84% of the total volume. Activity in Ireland, on the other hand, remained almost non-existent during 2010, a picture which is set to change drastically.

With loan transfers and the business plan review process in full swing at the National Asset Management Agency (NAMA), the agency will start to take action on their asset portfolio during 2011, potentially generating investment opportunities. The first loan transfer took place in March 2010 at an average discount of 47%, the majority of which related to commercial property deals that collapsed in the downturn. By the end of December, NAMA had completed the acquisition of a total of 11,000 property loans, totalling €71.2 billion at an average discount of 58%. A total of 139 hotels were scheduled to transfer to NAMA, 87 of which are located in Ireland and the remainder in the UK. According to reports, NAMA is currently finalising plans to acquire further loans with a nominal value of up to €16 billion.

In Spain, a growing number of owners will be forced by banks to sell assets. Some good quality assets are set to appear on the market, ranging from three to five-star properties located in cities such as Madrid and Barcelona. Investment activity was largely frozen in Spain during 2010 as banks were focused on supporting borrowers. However, many work-out plans include the disposal of selected assets which will increase the level of stock in the market.

The large gap between outstanding debt and existing cash flows will mean that only assets under real distress will transact at buyers' pricing. Core stressed assets should attract interest from partnerships between larger international operators and equity investors in a bid to establish a foothold in Spain.

Focus on solid lease investments across the continent

Where distress or high leverage is not present, activity will be driven by selected disposals by owners/operators and private equity sales – either voluntary or “encouraged” due to maturing terms. During 2010, focus has remained on consistent fixed income, with little capital seeking variable income. In this case, the risk is carried by the operator, while investors enjoy a secure income. This has been the bulk of activity in Western European countries and is set to continue during 2011.

Countries in this group include Germany, France and Italy which largely offer a more stable, less volatile market with many assets operated subject to a lease contract. The low risk profile and general importance for hotel operators to have a presence in these markets due to their large domestic markets, great international appeal and strong outbound travel will continue to guarantee high investor appeal.

Investment activity in France is expected to remain at similar levels or show slight growth. No slowdown in stock is evident and operators continue to sell non-strategic assets. The country experienced some improvement during 2010 due to growing optimism from local and foreign investors and increasing availability of stock. A more realistic view between buyers and sellers materialised during 2010, with sellers adapting quickly to buyers' expectations, reflecting lower levels of profit.

Real GDP growth (annual %)							
	2006	2007	2008	2009	2010E	2011F	2012F
Western Europe							
France	2.4	2.3	0.1	-2.5	1.6	1.4	1.7
Germany	3.6	2.8	0.7	-4.7	3.5	2.3	2.0
Italy	2.1	1.4	-1.3	-5.1	1.0	0.8	1.1
Netherlands	3.4	3.9	1.9	-3.9	1.8	1.2	1.3
Spain	4.0	3.6	0.9	-3.7	-0.3	0.3	1.1
UK	2.8	2.7	-0.1	-5.0	1.8	1.7	2.2
Central & Eastern Europe							
Czech Republic	7.0	6.1	2.3	-4.0	2.2	2.1	3.8
Hungary	3.9	1.3	0.6	-6.3	1.0	2.3	2.5
Poland	6.3	6.8	5.1	1.7	3.5	3.7	4.6
Romania	7.9	6.2	7.1	-7.1	-1.5	2.7	4.0
Russia	7.8	8.1	5.6	-7.9	4.0	4.3	3.7
Turkey	6.9	4.7	0.7	-4.7	7.0	4.6	4.7
MENA							
Morocco	7.8	2.7	5.5	4.9	3.8	4.8	5.2
Oman	5.5	6.8	12.8	3.7	4.8	5.4	5.7
Qatar	18.6	26.8	25.4	8.6	17.2	14.3	7.0
UAE	13.0	6.2	7.4	-3.0	2.3	4.7	5.2

Source: IHS Global Insight, November 2010

Exchange rates (Local/USD, yearly average)							
	2006	2007	2008	2009	2010E	2011F	2012F
Western Europe							
Eurozone	0.8	0.7	0.7	0.7	0.8	0.7	0.8
Sweden	7.4	6.8	6.6	7.7	7.2	6.8	7.1
Switzerland	1.3	1.2	1.1	1.1	1.0	1.0	1.0
UK	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Central & Eastern Europe							
Czech Republic	22.6	20.3	17.0	19.1	18.9	17.6	18.2
Hungary	210.4	183.6	172.4	202.3	206.0	198.4	208.5
Poland	3.1	2.8	2.4	3.1	3.0	2.9	2.9
Romania	2.8	2.4	2.5	3.0	3.2	3.1	3.1
Russia	27.2	25.6	24.9	31.8	30.3	29.8	29.3
Turkey	1.4	1.3	1.3	1.6	1.5	1.5	1.6
MENA							
Morocco	8.8	8.2	7.8	8.1	8.4	8.1	8.4
Oman	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Qatar	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Saudi Arabia	3.8	3.8	3.8	3.8	3.8	3.8	3.8

Source: IHS Global Insight, November 2010

Germany, on the other hand, has been characterised by institutional buyers and property funds with long-term investment goals. Hence, it could still take several years before these assets are placed on the market. Munich continues to be an attractive and growing market with strong business and leisure demand and limited new supply. Berlin is set to experience a lot of new supply but also a solid increase in room nights which, combined with the new airport, should outpace new supply. A few assets in Germany have been bought subject to a management contract utilising high leverage and therefore could appear on the market in the coming year, but many have been restructured over the past 12 months.

Italy is also expected to see a return to more normal levels of stock with a few single assets expected to transact during 2011. The country is slowly moving out of recession, and already recorded increased investment activity during 2010. Investment volumes grew by 29% compared to the previous year and were largely driven by large lot sizes and big trophy assets. Despite a notable decline in values experienced across the country, local banks continue to support existing owners and thus avoid a long litigation process to sell assets.

Expanding weight of capital

Investment activity will be most prominent where investors understand the market and asset value. 2011 will bring a broad range of capital looking to invest in real estate and hotels, driven by the establishment of new capital funds. Invesco Real Estate, for instance, recently announced the launch of a second pan-European hotel fund, with a view to invest in leased real estate, including hotels.

The available capital will focus on fair priced assets in the right markets that offer opportunities for income growth. Demand for core assets has already started to intensify, meaning that investors might be willing to look further afield. Overall, investors are still looking to buy at a significant discount or limit risk through a fixed return. Investors will remain more cautious and closely consider asset fundamentals.

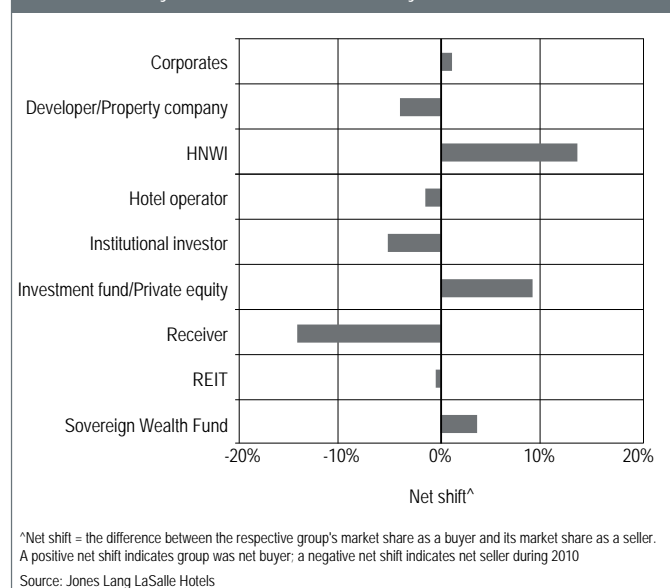
The main constraint of the market will continue to be the lack of debt. Banks will focus on selling better, higher value assets, but in contrast to 2010, they will also start to encourage the sale of secondary stock where the opportunity to recover original loan amounts is poor. Financial institutions are being encouraged by the government to lend to residential projects and those that will assist in job creation, limiting the funds directed towards hotel assets. Therefore, successful buyers will largely be those with a limited requirement for debt.

Loan-to-value and debt to EBITDA ratios will remain subdued. Loan-to-value ratios for trading assets in most countries did not exceed 60% during 2010. This will continue to be the case in 2011. For leased investments, however, loan-to-value ratios moved above 65% and even closer to 70%. The availability of financing will remain restricted by the level of pricing, asset characteristics, cash flows and client relationships. In addition, some banks (in particular German banks), are now asking for recourse or cash guarantees.

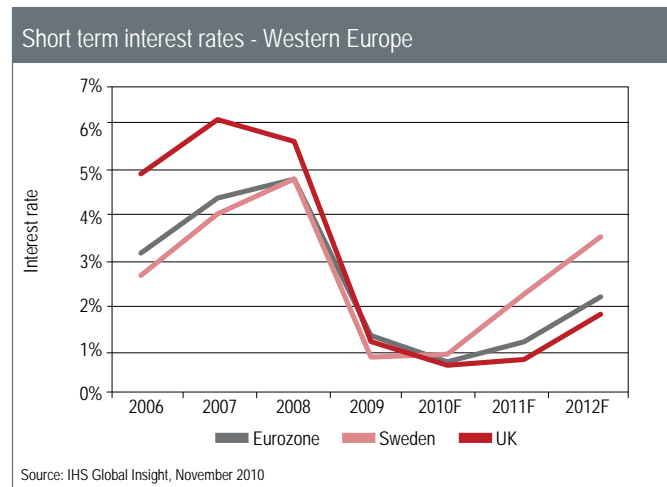
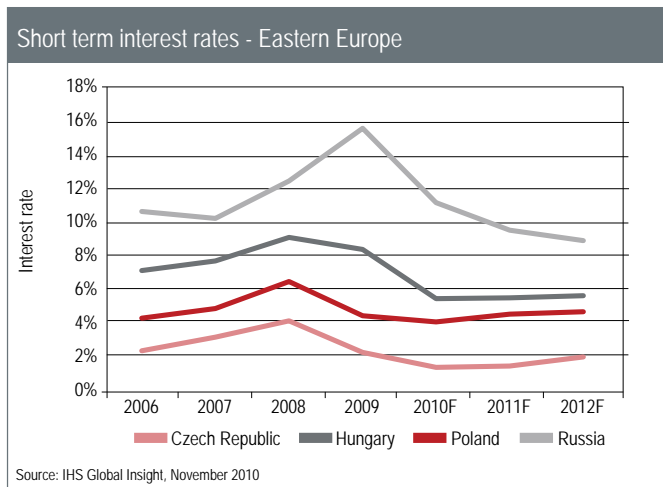
Capital will look further afield

The buyer pool is set to remain largely stable during 2011. Investment and equity funds and property companies are in search of attractive investment opportunities at a discount while the more conventional institutional investors tend to look for a secure income stream. These buyer groups were very active during 2010, although institutional investors have been more confined to the continent in search of leased opportunities. Purchasing activity by private equity funds could rise in 2011 as market conditions again fit their investment objectives. However, this will have to coincide with their acceptance of the current debt market.

EMEA 2010 buyer and seller net shift analysis



Hotel operators, which held a market share of 14% in 2010, will also remain active investors as they seek to expand in key markets. For the right markets, operators will be willing to move away from the "asset light" strategy toward an "asset right" strategy.



Where possible, operating companies will seek partnerships with investors. In the current market, operators have to take on a larger share of market risk when forming a partnership although less so in key cities. Generally, operators will need to provide some type of capital contribution, which could consist of contributions to the fixtures, fittings, and equipment (FF&E) fund, some revenue/return guarantee to investors in the first five years, or a more flexible termination clause. This will be the case especially for high barrier-to-entry markets as a result of the reduced pipeline of new developments.

While the majority of investments were inter-regional during 2010, the region is set to see a renewed appetite from cross border investors during 2011. European and domestic investment accounted for the bulk of activity during 2010, each with a market share of around 29%. Some return was, however, experienced from global funds, such as the Carlyle Group, which recorded a share of 8%. Investments from the U.S. and Middle East lingered around 10% each, while Asian spending reached a market share of 13%. This trend toward greater cross-border activity will continue in 2011.

A growing number of cross border investors will start to act during 2011, particularly those from Asia and the Middle East. While the latter group has been less active recently as some of their capital was required to solve difficulties in their home countries, these have now largely stabilised. Coupled with an increase in oil prices, this will allow for more flexibility to invest abroad once again.

Cross border investors will be very selective and focus on key markets (London and Paris) which they are familiar with. Part of these are set to be Asian and Middle Eastern operators, often in a joint venture with an equity partner, searching to establish themselves in Europe and cater to the growing influx of Asian outbound travellers. Others will include sovereign wealth funds and HNWIs, both of which will focus on prime or trophy assets in key locations. Emerging sources of capital are expected from China, India, Russia and South America.

Pricing double dip threat is real

The gap between core and weaker assets will widen during 2011 as more stock in secondary markets becomes available. This could adversely affect cap rates and drive yields into double digit figures for poorly located, underinvested hotels. The high quality and limited amount of stock available on the market in 2010 led to favourable pricing and initial yields. Financial institutions which placed assets in administration and onto the market during 2010 were often able to achieve a sale price close to or higher than the outstanding loan. This could be an additional driver to put assets on the market during 2011.

There is insufficient capital in the market to absorb all the secondary stock that may appear on the market over the next 24 months, which will favour those buyers active in this segment. Many of the properties in secondary locations require capital expenditure, and if they appear on the market in large numbers, they could derail overall market recovery. This would translate into a double dip in terms of pricing. This will not be the case for core assets in prime locations. London has bounced back very quickly and is now almost back to peak levels in nominal terms.

Sport drives development

Although investment activity in some areas in EMEA, mainly Eastern Europe and Middle East and North Africa (MENA), has largely been dominated by development projects in recent years, investors have proven less willing to participate during 2010. These investors have increasingly reported interest in trading assets, partly influenced by the lack of debt that has been available for development.

Developments will remain attractive to operators, but will be difficult to achieve due to the low availability of debt. A lot of projects have been proposed or are on the drawing board, but only a fraction of them are likely to happen. Some investors have started to look for development opportunities in Eastern Europe, driven by various sporting events, including the 2012 UEFA European Football Championship, which is due to be held in Poland and Ukraine.

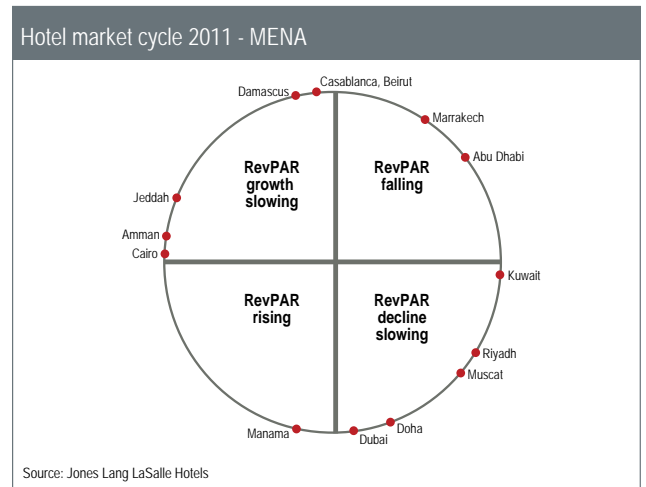
Finding the right mix

Driven by weak performance and falling cash flows, a large number of assets in Eastern Europe have been available on the market during 2010. However, due to weak investor interest in a higher risk market environment, only a limited number have transacted. As owners are increasingly forced by banks to sell their assets and lower pricing expectations, a larger number of hotel assets will trade during 2011.

Also in MENA, hotel offerings are expected to become more apparent during 2011. Many cities in the region are overhung with supply or getting there, but leverage tends to be low, limiting opportunities. Hotel stock is largely concentrated in Dubai and Abu Dhabi limiting the possibility to invest in trading assets across the rest of the region. Capital investment in Dubai and Abu Dhabi will mainly be driven by Russian, Asian and Middle Eastern investors looking for opportunistic deals.

In North Africa, Morocco is taking the lead in terms of investment activity and interest. However, the recent economic crisis has resulted in the abandonment of many development projects, with the local government lacking the funds to complete them. In the last five to seven years, Middle Eastern investors have been the most prominent in the country, looking to replicate the Dubai, Qatar, and Abu Dhabi models. The Moroccan government has launched a study on how to attract foreign investment in hotels and tourism to develop the market. As economies across Europe recover, capital investments into North Africa and Morocco will increase.

The experience of the recent downturn in markets such as Dubai has drastically changed investors' philosophy of 'build it and they will come.' Investors in MENA will now invest more time and importance into finding the right asset, the right operator, the right brand and the right asset manager, with a primary focus on quality rather than speed.



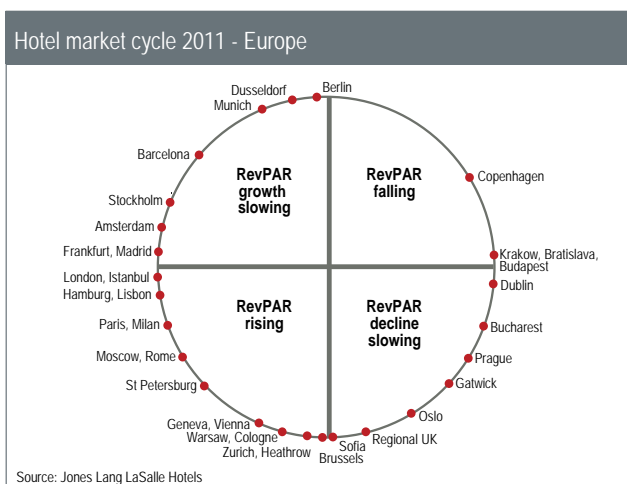
En vogue: budget hotels

While the majority of investment activity will remain concentrated around upscale hotels, the budget hotel sector will attract increasing attention. Strong development across Western and Eastern Europe in recent years could ignite the trend of budget hotel investment activity in the rest of the region from 2011 onward.

Budget hotels are attractive in many ways. Generally operated subject to lease contracts, they offer a fixed income stream, and tend to report less volatile performance results. Development for budget hotels also tends to be easier to fund given the lower risk of default. On the other hand, the level of possible upside is also capped. The sector doesn't offer the most dramatic investment proposition, but given current market uncertainty, investors may favour less risk.

In the last three years, Germany and France have swung to the budget sector, focussing on growing the number of rooms in both the city centres and the outskirts. This has required large amounts of investment and has started to attract interest from large investment funds. Developers have been active in establishing a budget hotel market in the Middle East, in particular Dubai and Abu Dhabi, with brands such as Premier Inn and Ibis having opened assets during 2010. In addition, Dubai-based Layia Hospitality has announced plans to set up a new brand called Day & Night Hotels, with plans for 15 properties in the Middle East within the next five to seven years.

The budget segment has done well through the downturn, but is on the verge of looking a bit overheated with yields close to those for four and five-star hotels. Focus remains strongly on development and expansion to new cities and countries. However, sales activity on this type of asset could see a notable surge in the short-term.



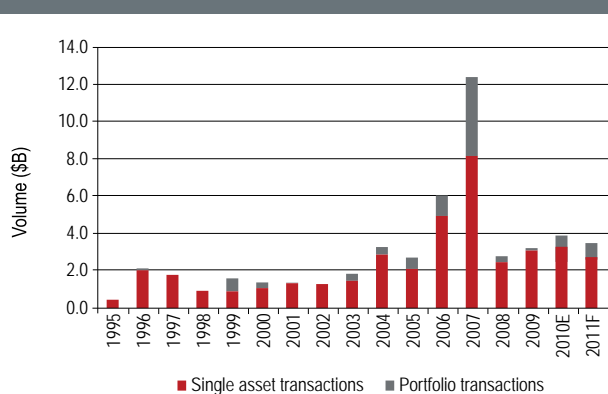
Asia Pacific

At odds with the global market

As the green shoots of economic recovery became evident, savvy investors wasted no time proclaiming their re-ignited passion for the hotel sector. Reminiscent of the late 1980s and early 1990s, the state of debt, equity, hotel property and capital markets were such that investors with cash and the ability to move efficiently were able to capitalise on the changed global environment.

Asia Pacific led the global recovery in transaction volumes; originally and almost entirely by Australia, due in part to a short-term currency weakness, as well as a sharp contraction in interest rates. However, in contrast with the other two regions, Asia Pacific hotel transaction volume increased marginally in 2010 to total \$3.9 billion, up 17% on 2009. The slower pace of activity in Japan, with a focus on work out solutions rather than structured sales, accounts for the lower than expected volume.

Asia Pacific hotel transaction volume 1995 - 2011F



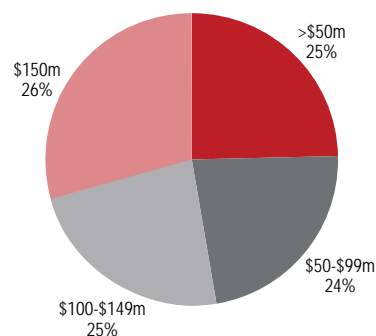
Source: Jones Lang LaSalle Hotels

Characterised by well-capitalised, long-term holders, availability of product continues to be the major impediment to higher levels of activity across the region, particularly in Southeast Asia. Volumes are expected to total \$3.5 billion in 2011, in line with the long-term average for the region; however, they will remain low by global standards.

Japan is expected to emerge as the investment hot spot in 2011, being the only country in Asia Pacific where leverage was extensively utilised. Offsetting this will be a moderation in volumes in the region's other major player, Australia, as market conditions have stabilised. While the outlook for investment activity in the emerging markets of China and India has improved, it is coming from a very low base. Deals require intricate local knowledge and still take considerable time to complete.

Australia (\$1.2 billion), Japan (\$600 million), China (\$533 million), Hong Kong (\$397 million), India (\$325 million), Singapore (\$323 million), New Zealand (\$218 million) and Thailand (\$164 million) dominated activity in 2010 with all eight countries recording multiple sales. Single transactions also occurred in Vietnam, Seychelles, Philippines and the Maldives.

Asia Pacific transaction size 2010



Note: Based on number of transactions
Source: Jones Lang LaSalle Hotels

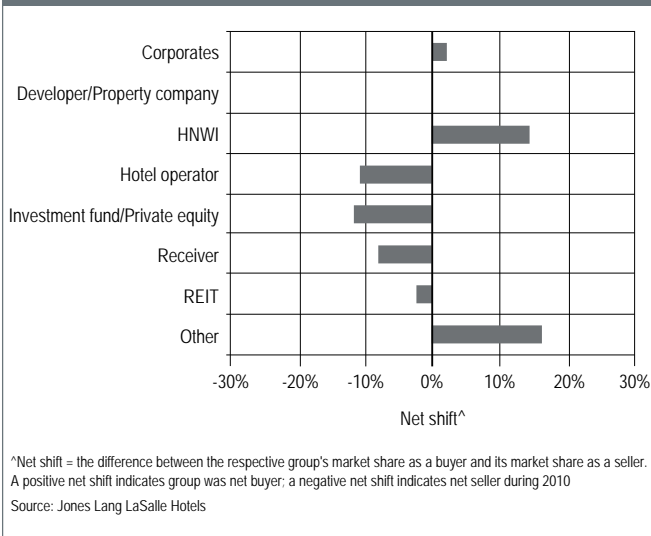
An opportunistic ring

Opportunistic disposals and purchases will dominate activity across the region in 2011. In Japan, disposals will be driven by opportunity funds unable to refinance, and the banks taking a view on a structured sale. On the contrary, assets in Southeast Asia will continue to be tightly held, whereas strategic dispositions by most major Australian owners are now underway or complete, though some responsible selling may continue through 2011. With limited product being offered, some long-term owners may take this opportunity to sell assets and deploy capital elsewhere.

Groups who have access to capital and local knowledge and are prepared to manage the currency risk are likely to remain active. However, offshore markets, notably the U.K. and U.S., have corrected downwards much more aggressively than Asia Pacific and this is likely to sway attentions. There is a lot of equity available for the right opportunity, namely quality assets in tier one cities, but appetite for secondary markets is considerably reduced.

The re-emergence of Southeast Asian private HNWI and Asian family controlled companies has been a dominant theme in 2010. Cross-border investments by Asians accounted for \$2.8 billion or 11.5% of global transaction volume. Investments outside the region totalled \$1.5 billion and with a further \$1.3 billion invested across Asia Pacific. Cross-border investments were made in Australia, China, Hong Kong, India, Japan, Maldives, New Zealand, Philippines, Thailand and Vietnam. These buyers are conservatively geared, have a potentially very long-term hold and are completely opportunistic.

Asia Pacific 2010 buyer and seller net shift analysis



Return to normalcy

Asia Pacific entered the global crisis on a strong footing and is continuing to lead the global recovery. In a number of Asia Pacific countries, notably India, China and Indonesia, there was no real contraction in GDP. Growth momentum remains quite strong in many of these economies and some will see very little softening even as the developed world suffers through its 'soft patch.'

Real GDP growth (annual %)							
	2006	2007	2008	2009	2010E	2011F	2012F
North Asia and India							
China PRC	12.7	14.2	9.6	9.1	10.1	9.2	8.7
Hong Kong	7.0	6.4	2.2	-2.8	6.6	4.7	5.6
India	9.4	9.6	5.1	6.8	8.5	8.1	8.5
Japan	2.0	2.3	-1.2	-6.3	4.4	1.1	1.4
Taiwan	5.4	6.0	0.7	-1.9	10.0	4.5	5.9
South Korea	5.2	5.1	2.3	0.2	6.1	3.2	4.7
Southeast Asia							
Indonesia	5.5	6.3	6.1	4.5	6.0	5.9	6.1
Malaysia	5.8	6.3	4.6	-1.7	6.8	3.9	5.9
Philippines	5.3	7.1	3.7	1.1	6.7	4.4	4.7
Singapore	8.6	8.5	1.8	-1.3	14.5	4.2	4.6
Thailand	5.1	4.9	2.5	-2.3	7.5	3.7	5.3
Vietnam	8.2	8.5	6.2	5.5	6.7	6.9	7.3
Pacific							
Australia	2.6	4.6	2.6	1.3	2.7	2.5	3.4
New Zealand	2.3	3.3	-0.6	-0.5	2.3	2.5	3.1

Source: IHS Global Insight, December 2010

In most parts of the region, resilience in domestic demand – thanks in part to proactive policy stimulus – has offset the drag from net exports. The handoff from public-sector-driven growth to private-sector-driven growth is well underway in most Asian economies.

Markets heading back to peak

Investor sentiment for Asia Pacific hotel real estate has improved considerably and prime assets brought to market have attracted strong interest. The inflection point was a clear indication that trading markets have bottomed. As lodging demand is strongly correlated with economic growth, hotels offer an immediacy of improving returns in recovering markets which is not evident in other property asset classes. However, with hotel trading in some local markets nearing 2008 peak RevPAR levels, the opportunity to capitalise on displaced markets may now have passed.

By the end of 2010, markets where trading performance was only 0-5% below the previous RevPAR peak on a moving annual average nominal basis included Sydney, Brisbane, Hong Kong four-star, Jakarta, Bali and Singapore five-star.

On the whole, values have appreciated and yields have tightened, although they remain higher than the 2007 low. Improving income is making valuations and pricing difficult, widening the gap between buyer and seller expectations. Assets are being bought on the basis of forward incomes, but determining at what point income might stabilise is critical to determining price.

Add to this the weight of opportunities arising in Europe and the U.S. and investors are left with a series of quandaries; whether to target value or growth, regional or international markets and on what basis should opportunities be evaluated – yield or price per key and having regard to replacement costs or depressed value compared to the market peak. While intra-regional investments across Asia Pacific have been mostly strategic, other regions offer the opportunity for countercyclical investments.

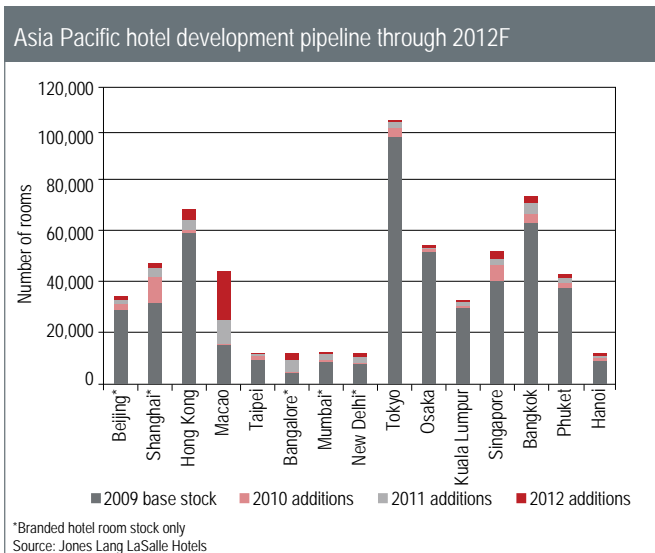
With limited transaction activity across the region, further sales evidence is required to better reflect the new level of risk-adjusted capital values. In markets where activity has been higher – Australia, Japan, Thailand and until recently China – a high proportion of sales have been driven by factors outside of what is regarded the normal transactional environment.

Hotel investment opportunities in 2011		
Strong buy	Select buy	Watch
Bali	Auckland	Adelaide
Beijing	Bangalore	Hanoi
Brisbane	Darwin	Ho Chi Minh City
New Delhi	Okinawa	Jakarta
Hangzhou	Perth	Tokyo Disney Resort area
Kyoto	Phuket	
Melbourne	Singapore	
Mumbai		
Sanya		
Shanghai		
Sydney		
Tokyo		

Source: Jones Lang LaSalle Hotels

Downside risk from new supply has eased

Supply increases across Asia Pacific are projected to peak in 2011 with the addition of 45,177 new rooms across the 24 major markets which equates to an increase of 6.6%. This is expected to moderate slightly through 2012 with a further 44,556 new rooms coming on line. Supply hot spots in 2011 include Macao (+9,117 rooms or 56.6%), Bangalore (4,700 rooms or 98.0%), Mumbai (2,500 rooms or 26.4%), New Delhi (2,000 rooms or 23.1%) and Ho Chi Minh City (1,006 rooms or 11.9%).



For operators, Asia clearly offers the opportunity for growth. Development pipelines remain strong, but have moderated compared to a few years ago. In many markets, it's about adding representation when opportunities present themselves. However, operators will need to be more selective as to where they put their brands or face being conflicted out of other opportunities which may arise. The focus continues to be China and India — China is a real growth market, whereas India presents more challenges. Finding sufficient quality staff to operate hotels continues to be a concern, especially with the growth in branded room supply across the world over the past decade.

The big thaw

Over the past two years, the hotel real estate sector has faced financing challenges on multiple fronts as devaluations pushed up loan-to-value ratios, income declined, and banks reviewed their maximum exposure to real estate and hotels. The reduction in global capital sources also put additional pressure on domestic banks to refinance upcoming maturities, but with banks requiring higher margins and covenants.

While credit markets have experienced a rally since early 2009, the contraction of credit and re-pricing of risk has resulted in increased funding costs for hotel investors. Debt availability has improved across the region, but it is still challenging. New lending is more conservatively geared and largely restricted to clients with whom banks have a pre-existing relationship and an exemplary track record.

The currency factor

In simplistic terms, the countries hit hardest by the financial crisis and those with high debt levels are characterised by weak growth, low inflation, rock bottom interest rates and depreciating currencies. Meanwhile, the high growth countries are seeing higher inflation and interest rates, and upward pressures on their exchange rates. Accordingly, across Asia Pacific we have witnessed the steady appreciation of many local currencies, particularly when compared to the USD and GBP.

For many Southeast Asian investors, particularly Malaysia, Singapore and Thailand, where currencies have appreciated sharply, this is likely to result in some attractive counter cyclical opportunities. The concern is the other countries with surpluses are reluctant to let their currencies rise much. The risk now is that currency manipulation has become a contentious political issue which could lead to dangerous protectionism.

Exchange rates (local / USD, end of period)							
	2006	2007	2008	2009	2010E	2011F	2012F
North Asia and India							
China PRC	7.8	7.3	6.8	6.8	6.6	6.3	6.0
Hong Kong	7.8	7.8	7.8	7.8	7.8	7.8	7.8
India	44.2	39.4	48.5	46.7	45.6	44.1	43.7
Japan	119.0	111.9	90.7	93.1	84.1	82.1	83.9
Taiwan	32.6	32.4	32.8	32.0	30.3	29.8	28.5
South Korea	931.0	935.9	1,263.1	1,165.9	1,147.2	1,051.3	1,001.3
Southeast Asia							
Indonesia	9,020.0	9,419.0	10,950.0	9,400.0	9,051.1	9,183.6	9,322.6
Malaysia	3.5	3.3	3.5	3.4	3.2	3.1	3.1
Philippines	49.1	41.4	47.5	46.4	43.9	43.3	42.9
Singapore	1.5	1.4	1.4	1.4	1.3	1.3	1.3
Thailand	36.1	33.7	34.9	33.3	30.1	30.3	30.0
Vietnam	16,054.0	16,010.0	17,468.0	18,461.0	19,515.5	20,820.2	21,612.6
Pacific							
Australia	1.3	1.1	1.4	1.1	1.1	1.1	1.1
New Zealand	1.4	1.3	1.7	1.4	1.4	1.5	1.4

Source: IHS Global Insight, December 2010

Dominant but moderating: Australasia

Having recorded strong growth over the past 18 months, Australasia transaction volume is projected to moderate through 2011 to around \$750 million (-45% compared to 2010) as market conditions stabilise. While representing a significant reduction, it is in line with the long-term average and indicates a return to normalcy. Two sellers accounted for \$700 million in transactions in 2010 and this is unlikely to be repeated.

Australia dominated the Asia Pacific hotel investment landscape in 2010, recording its fifth most active year on record with transactions surging to A\$1.3 billion or 31% of the Asia Pacific total. New Zealand also recorded its first transactions since 2007 with the sale of the TAHL portfolio at NZ\$149 million, Hyatt Regency Auckland at NZ\$50-60 million, and Hotel So at NZ\$19 million, providing a sign that the local hotel capital market is functioning again.

Volume in Australia was boosted by some of the region's largest sales — Ayers Rock Resort (A\$300 million), the TAHL portfolio (A\$175 million), and Sofitel Sydney Wentworth (A\$130 million).

Australia offers the opportunity for steady returns and there will be few instances of distress over the coming year. Trading in the capital cities has recorded strong growth through 2010 with most markets within 5% of the 2008 RevPAR peak. Recovery is being driven by the domestic corporate and MICE segment, but with positive signs for domestic leisure and inbound markets.

Lack of investment stock will become an issue and prices are expected to rise. Yield compression has already become evident in transactions occurring through 2010. Investment in Australian hotels over the past two years has been dominated by Asian private investors or family owned companies. However, this is expected to moderate as yields firm and interest rates rise, reversing the positive yield spread. Investors targeting growth will continue to acquire assets, but others — more opportunistic in nature — will regard the timing as having now passed.

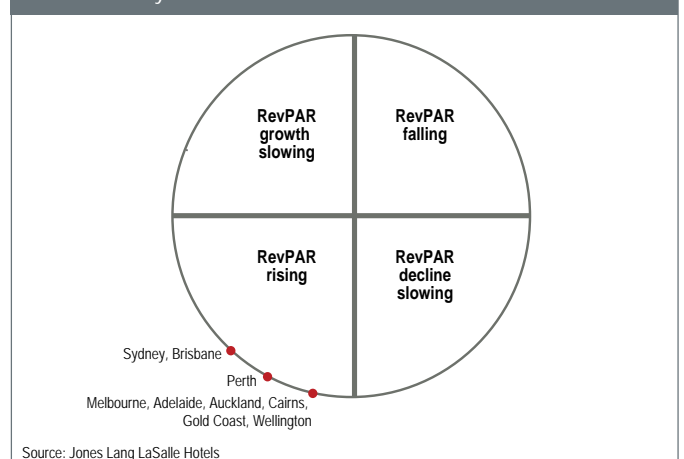
Policy interest rates - Australia and New Zealand



Source: IHS Global Insight, December 2010

The appreciation of the Australian dollar – having reached parity with the USD in October 2010 and again at the end of the year – may deter some offshore investors, although some Asian currencies have appreciated to a similar extent and investors from these countries are expected to remain active. Currency swings may dampen activity by global funds who are considering Australia following a recent favourable change to the tax legislation.

Hotel market cycle 2011 - Australia and New Zealand



Source: Jones Lang LaSalle Hotels

Subsequent to the Henry Tax Review, the Australian federal government has published a discussion paper on how the income tax system for managed investment trusts (MITs) will operate under its new framework. While becoming effective in mid-2011, one element of new tax system has already been introduced, improving Australia's competitiveness for offshore funds. Foreign investors in an MIT will now be charged a lower final withholding tax rate of 7.5% on the fund payments they receive, subject to a number of minimum member requirements. Australia's appeal to offshore funds has historically been low given the requirement to pay 30% capital gains tax.

While we do not expect this to result in a flood of buyers, it will increase competition in the market. Australian funds are also expected to return. Not as highly geared as their offshore counterparts, funds have continued to grow despite two years of negative performance. While no acquisitions have been made to date, their return is imminent although the magnitude of activity is likely to be modest compared to previous years.

For existing owners, the next four years are highlighted as a potential sweet spot. The economy is sound, demand has rebounded strongly and the supply outlook is benign in most markets. Accordingly, room rates are expected to rise considerably. Cost containment — in the wake of higher staffing and energy costs — as well as timing major capital works and exit will be critical to maximising returns.

Liquid and poised to buy: Southeast Asia

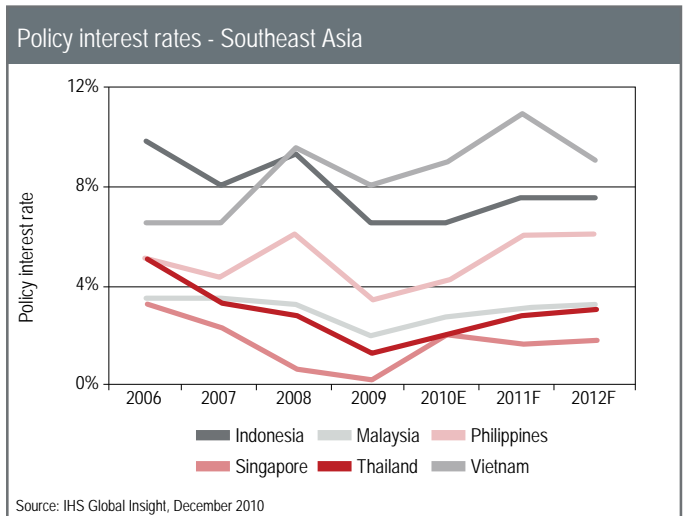
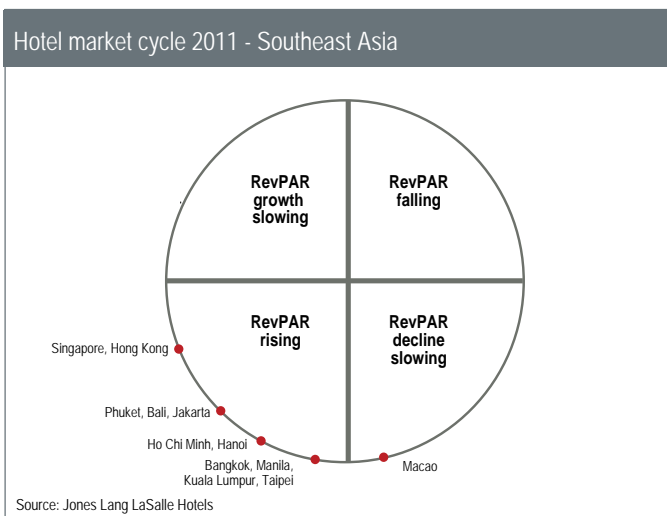
Private HNWIs and family controlled companies have re-emerged from the sidelines, poised with equity and ready for the action that this time in the cycle brings. There is a lot of money available for the right opportunity, namely quality assets in top tier cities.

A region characterised by well-capitalised, long-term holders, Southeast Asia experienced virtually no distress. Traditionally, Southeast Asian owners will hold assets for 30-50 years and it is their investment decisions which drive the cycle. Portfolio rebalancing by public companies, where it has occurred, has been on a one-off basis and is largely complete. Sellers have primarily been the investment funds with maturing debt or funds coming to an end.

Transactions in Southeast Asia totalled \$949 million during 2010. This represents an increase of 66% compared to the \$571 million recorded in 2009 with transactions occurring in Hong Kong, Philippines, Singapore, Thailand and Vietnam.

Availability of debt is also less of a concern in Southeast Asia. Lessons learned from the Asian Financial Crisis, some ten years ago, proved sufficient. Accordingly, banks were more cautious and better prepared during this crisis. Debt has continued to be available in most countries, particularly for established players with a good track record. In Singapore for example, loan-to-value ratios are around 55-60% and banks are prepared to fund acquisitions.

Going forward, buying opportunities in Southeast Asia will remain limited. Any assets which do come to market over the coming year are likely to be hotly contested as investors continue to weigh the value versus growth equation. Markets have recovered well from the trading slump of 2009. In most markets, occupancy levels have increased and room rates are starting to trend upwards.



Growth has been strongest in Singapore and Hong Kong with both markets registering double digit rate increases. Investors in Southeast Asia are once again taking a cautious look at development, particularly in Singapore and Hong Kong. With more than \$9 billion invested in infrastructure, the two new integrated resorts in Singapore have provided a significant boost to the market. Overall, the outlook for the next couple of years is very strong as tourism is expected to increase across the region.

As the trading market stabilises, we are likely to see some yield compression, although to date this has been limited. On the whole, positive yield spreads are evident across much of the region and interest rates remain low.

Lacklustre but improving: Japan

With few opportunities arising elsewhere in Asia Pacific, Japan is expected to be the rising star of the region in terms of transaction activity in 2011. While the fundamentals of the Japanese economy rank behind other Asian countries, it is still a market of interest to intra-regional and global investors. Hotel markets are still at the bottom of the cycle, and offer the opportunity for long-term growth. The amount of stressed or distressed product is also likely to be greatest.

We estimate that transaction volumes in Japan have averaged around \$800 million over the past three years with 30-40 sales occurring each year. Transaction volumes reached \$600 million in 2010, a reduction of 5% compared to 2009. Activity was lower than expected despite Japan being the only country in Asia Pacific where leverage was extensively utilised.

Japanese hotel capital market activity can be segmented into two tiers: Under \$1 billion Yen (\$12 million) – smaller lot size and regional bank financing, mainly corporate finance and non-recourse lending and; above \$1 billion Yen – a lot of CMBS debt which will require refinancing, but only a handful of buyers, most of whom are Asian corporate family companies.

Special servicers in Japan have limited capacity to initiate the sale of distressed product as they require prior approval from the CMBS interest holder(s), typically the financial institutions. To date, the focus has been on workout solutions, improving the cash flow and value, while getting consensus on the next steps. In many instances, the opportunity funds who own these assets are not in the position to refinance with an alternate lender should debt be accessible. So it's the bank's decision whether to refinance or exit the asset and if so at what time.

As these challenges are worked through, there will be some genuinely interesting buying opportunities, but banks will determine the pace and magnitude of activity. The Chapter 11 filing by JAL (Japan Airlines) in February 2010 affected most of the major Japanese banks, forcing them to recognise huge losses.

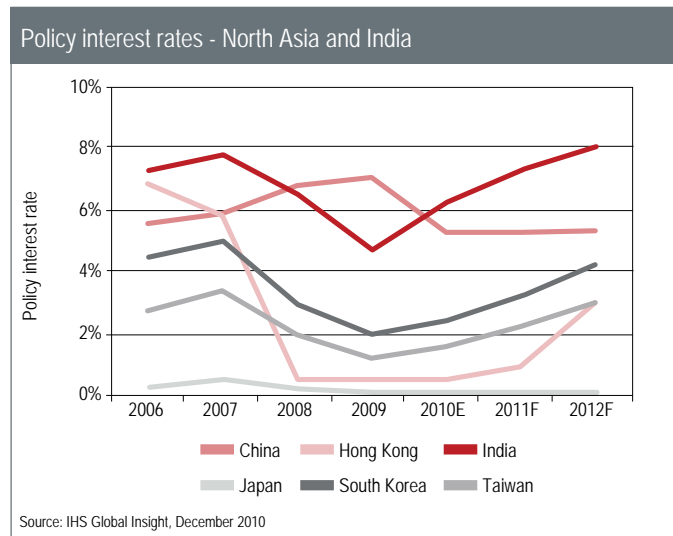
Banks are expected to have made allowances in their budgets to write-down hotel asset values and commence strategic dispositions through 2011. In the interim, banks are imposing penalty rates as they look recoup as much of their losses as possible. While dependent on the type and origination of the loan, typically penalty rates can increase to up to 14%, representing the greatest stress.

Investment funds and banks which bought the non-recourse loans are likely to emerge as the greatest disposers of hotel assets in 2011. Buyers are likely to be dominated by Asian HNWIs or family controlled companies and Japanese corporates, for example railway companies. These companies view hotels as a core part of their business and are likely to make purchases where they can own and operate the hotel. Opportunity funds are also expected to return to the market, although availability of debt remains a challenge.

Non-recourse lending is not readily available and CMBS markets have effectively shutdown. Hypothetically, banks are open to lending with loan-to-value ratios around 50-60% and spreads of around 200-300 basis points, but relationships continue to be very important and the lack of liquidity persists. The accelerated appreciation of the YEN, particularly compared to the USD, will mean that offshore investors will also need to think carefully about how to structure deals so as to hedge any future foreign currency risk.

Of all the markets, Tokyo is the most advanced on the trading cycle having started on the early upturn phase. Performance in other cities has lagged and will remain lacklustre unless the economy recovers overall. In Japan, a high proportion of hotel revenue comes from food and beverage and is therefore dictated by the general wealth and spending of local communities.

For international operators, the lack of transactions and dearth of new hotel developments makes the environment very challenging. While many are interested in the budget and economy sectors, owners prefer long-term leases which is challenging for international operators to accept. One potential opportunity was the sale of JAL Hotels which was sold to Okura at the end of September 2010. This transaction included the management of around 60 full service hotels, 35-40 of which are located in Japan.



Momentum is building: China

With the economy having barely skipped a beat, China is a land of unrivalled opportunity. While topping every operator’s expansion plans over the past few years, the investment market has not grown at a similar rate. The uplift in activity recorded in 2009 was largely attributable to one major domestic player and transaction volumes have moderated again through 2010 with only \$533 million (-49%) of hotels changing hands in disclosed arms length transactions. This represents the lowest level of activity since 2005 and highlights how liquidity shortfalls have impacted the market, particularly foreign investment.

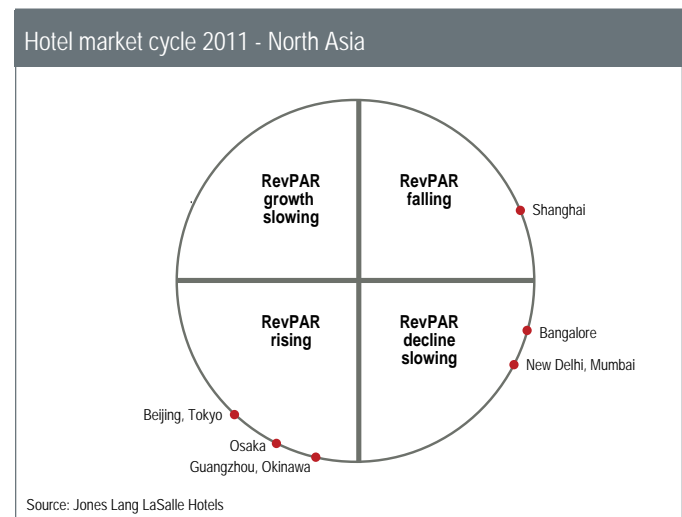
Financing for Chinese hotels remains difficult. While they offer long-term growth, near-term stability is a concern. Performance has improved substantially in 2010, but hotels offer low returns on a stand-alone basis. Development activity has continued unabated, driven by the strong growth story and liquidity surge following the government stimulus in 2008. This has resulted in a supply/demand imbalance in some markets where performance, margins and profits are all coming under pressure. Hotel pricing, however, is still at the same level as at the market peak, making hotels expensive when compared to Europe or the U.S.

Development activity has been skewed with additions in the five-star and budget segments, but with very little mid-scale product. While budget hotels continue to trade at high occupancy levels circa 85%, performance at the upper end of the market is considerably softer with product built on the basis of flawed feasibilities, i.e. driven by ego or government policy. The greatest opportunity is therefore in the mid market. The development of franchise models is a popular strategy, but finding the right partners – who will adhere to benchmarks and standards – is critical, yet challenging.

On the whole, China’s hotel industry – both existing hotels and product which is being developed – is controlled by state-owned enterprises (SOEs), either publicly listed or privately held. Hotels are not always core to these businesses and many of these enterprises lack the knowledge and infrastructure to manage them efficiently. A review undertaken in 2010 highlighted the need to streamline the ownership and management of hotels, but any sales are likely to occur off market.

We do not expect to see a material increase in transaction activity until the current ownership profile shifts. The introduction of Chinese REIT legislation over the medium term could boost volumes, but guidelines and restrictions are awaited. Legislation introduced in September 2009 permitting Chinese insurance companies to invest in real estate is impacting the broader market but to date no hotel acquisitions have been made.

We are also starting to see the early onset of capital outflows from China, although still restricted by the government. In 2010, Shenzhen New World bought Marriott Los Angeles Downtown for \$63 million, representing the first deal by a Chinese company outside of the Asia Pacific region. There are also considerable cultural and knowledge gaps for Chinese investors heading offshore.



Revival and rejuvenation: India

Characterised by strong fundamentals, one-of-a-kind market nuances and compelling economics, India is a land of opportunity for the right investor. 2010 was unequivocal in establishing the country's secondary hotel investment market. Previously, deals had focussed on land sales, whereas two part equity transactions in 2010 (\$325 million) were completed with regard to both the buy and sell side of the equation. Both transactions were development stakes involving investment funds and provided an early indication that the market is picking up.

The ownership profile of Indian hotels and therefore potential characteristics of the investment market is fourfold. Traditional built product is owned by large conglomerates who are long-term holders and unlikely to sell. Development projects, on the other hand, are owned by developers who will exit once product is built, or those who have failed to get projects started and are looking for equity partners. There are also a number of closed end funds who invested in the sector prior to the global recession and need to make the decision whether on exit timing.

Equity looking to invest in the Indian hotel sector has increased, but only for the right opportunities at an appropriate price. Historically, price discovery has been hard as few operating hotels have traded, but this is expected to change over the coming year as new players bring discipline, depth and comparables to the market.

The fundamentals are very compelling. India is a populous country with strong economic growth and disposable incomes are increasing. Trading performance has stabilised, despite multiple new branded projects coming online, increasing the supply of quality product in the market. Market transparency has improved, but the Indian investment market will continue to be characterised by its own idiosyncrasies. Successful investment will require real, local expertise and on the ground guidance to identify opportunities – be that built product, incomplete shells or partially complete hotels with distressed land around them.

Sources and methodology

Sources

This report includes hotel transactions tracked by Jones Lang LaSalle Hotels valued at \$10 million and above in the Americas; €10 million and above in EMEA; and \$5 million and above in Asia Pacific. The sale price is not necessarily the actual contract price, but rather that reported in the press, the confirmed price, or amount apportioned to hotel component. This information is publicly available and Jones Lang LaSalle Hotels provides no warranty for accuracy. All dollars are U.S. dollars unless otherwise indicated. Local currencies have been converted to U.S. dollars using monthly average exchange rates. All economic forecasts, unless otherwise noted, have been obtained from IHS Global Insight and are as of Q4 2010.

Hotel market cycle

The hotel market cycle is a proprietary graphic of Jones Lang LaSalle Hotels, used to provide a snapshot of the state of the hotel property market. Each quadrant describes our observation of the state of the market as indicated by current RevPAR movements and annual outlook at a particular point in time. The cycle clock uses RevPAR as a proxy for the market as a whole. The clock is a simple tool and should only be used in a broad impressionistic way. The property clock is not intended to depict precise forecasts or property market cycles, and does not suggest that markets will move in a clockwise direction. The references to movement in RevPAR are in local currency.

Definition of buyer and seller types

Corporates: Public and private companies for whom hotel investment is not their primary business activity and who do not operate hotels. This includes large Asian family conglomerates

Developer/Property company: Property developers who buy with the intent of redevelopment

HNWI: High net worth individual

Hotel/SA operator: Listed or unlisted companies that operate hotels or serviced apartments as their core business

Institutional investor: Direct investment by pension funds, banks and insurance companies

Investment fund/Private equity: Companies, including investment banks, which invest on behalf of other investors

Receiver: Court appointed third party that acts on behalf of bond holder or share holder

REIT: Real Estate Investment Trust or Property Trust. Includes Listed Property Trusts (LPTs) in Australia

Sovereign wealth fund: Funds owned by a state composed of various financial assets

Jones Lang LaSalle Hotels' research

Jones Lang LaSalle Hotels has made an extensive commitment to industry research, integrating it into all services and providing clients with a clear competitive advantage, based on tracking and analysing the hotel investment market for over a decade.

Hotel Investment Outlook (Global)

An in-depth forward looking analysis, which tracks global hotel investment trends. The key investment drivers are assessed at a global and regional level.

Hotel Investor Sentiment Survey (Global)

Our unique survey identifies the weight of opinion of future trends and establishes a benchmark position on key issues, covering almost 100 major hotel and resort markets worldwide.

Hotel Investment Highlights (Regional)

This concise newsletter identifies regional investment trends, hot markets and provides an analysis of the hotel investment market.

FocusOn (Global and regional)

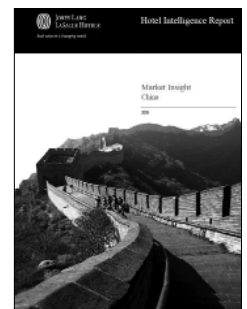
An in-depth look into significant topics of interest for the hotel investment market.

Hotel Intelligence (Local)

Comprehensive market reports, specifically assessing the hotel investment market and the key drivers for future developments.

Client research services

Our team is dedicated to providing a seamless research service from local data sourcing and single assignment analysis through to the construction of global investment, development and locational strategies.





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