



LONDON
AND PARIS
LUXURY HOTELS

MARKET REPORT **2014**

A TALE OF TWO CITIES – THE LUXURY HOTEL MARKET IN LONDON AND PARIS

Our report covers the London and Paris luxury hotel markets over the last seven years. As we review in detail later, within our chosen luxury competitive sets, both markets have shown significant growth during this period, with the average room rate (ARR) for 2013 in Paris now in excess of €960. Whilst London trails behind with an ARR of 'only' £603 (€725), this, nonetheless, represents an increase of over 35% over the last seven years.

Demand drivers

Paris and London are world renowned luxury hotel markets synonymous with a top class hospitality experience. These cities have always been considered attractive to investors. However, their relative economic and political stability has boosted their appeal, with luxury trophy hotels seemingly commanding a significant premium over drier commercial investments.

Strong investment demand for these locations is not without good reason as, according to the 2014 Top 100 Cities Destination ranking by Euromonitor International, these two capitals were the first and second most visited cities in Europe last year, with circa 15.5 million visitors to London (+2.3% compared to 2012) and approximately 9.8 million to Paris (+3.3%).

London and Paris are also considered key high-end shopping locations. According to Knight Frank, the Champs-Élysées in Paris and Bond Street in London are both amongst the top ten most expensive shopping destinations in the world.

Although both cities have traditionally been associated with luxury tourism and high-class hospitality, it has been the rapid increase in global wealth that has boosted demand for luxury hotel accommodation in London and Paris.

Research by Knight Frank (2014 Wealth Report) suggests that in 2013 approximately 4,224 High Net Worth Individuals (HNWIs)* lived in London and the city has become a magnet for the world's super wealthy and a safe haven for investing. Paris, on the other hand, with 1,500 HNWIs, has established itself as a major cosmopolitan destination

and caters to the global lifestyles of the super wealthy. In the first six months of 2012 Paris saw a significant increase in visitors from the Middle East (up 19.6%), China (up 14.7%), Asia Pacific (up 11.7%) and Latin America (up 7.2%) over the same period of 2011.

In 2012, London and Paris were respectively ranked second (after New York) and third in the Global Cities Survey by Citi Private Bank which identified destinations that matter to the wealthy and influential. The ranking was based on cities' economic activity, political power, quality of life, knowledge and influence.

Characteristics

Prime locations associated with luxury hotels include the 1st and 8th arrondissements in Paris (Right Bank of the River Seine including the Opéra, Louvre and Notre Dame) and Mayfair and Knightsbridge in London.

Although typically located in period buildings, both cities have recently seen new build hotel developments such as the Bulgari Hotel in London and the Mandarin Oriental in Paris.

The market is dominated by companies exclusively associated with the luxury sector (Mandarin Oriental, Dorchester and Four Seasons), although there are also brands only discretely affiliated to larger groups or collections and these hotels operate under individual names.

Many of these properties are destination hotels and are considered by the super wealthy as the places to be and to be seen.



Shangri-La Hotel, Paris

*HNWI is defined as someone with US\$30m or more in net assets.



The Bulgari Hotel, London

TOURISM

Paris

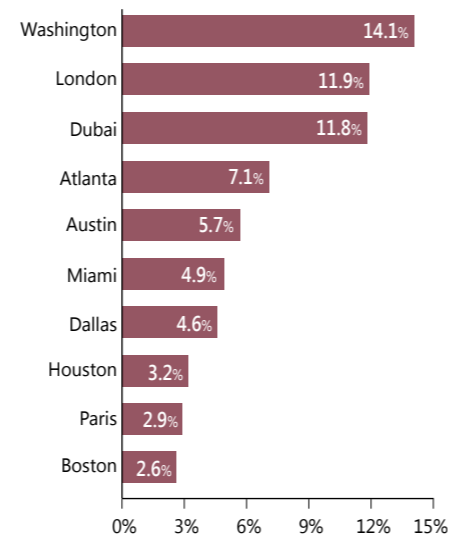
Paris, in particular, has seen a boom in the number of tourists from the Far East.

According to The Guardian, Paris is the destination of choice for the increasingly affluent Chinese tourists. Unlike Britain, France is part of the Schengen area, the bloc of 26 European countries that require only a single visa.

The French authorities have also recently established a joint visa office in Beijing with the German authorities to help facilitate Chinese visitors obtaining visas.

In an effort to maintain its position as one of the world's top destinations, the Paris Chamber of Commerce and Industry (CCI) and the regional tourism committee (CRT), have also recently launched the 'Do you speak touriste?' campaign which provides local businesses in popular tourist districts with a manual detailing cultural differences, spending habits and behavioural traits of visiting nationalities and aims to improve the quality of experience that international visitors receive whilst in Paris.

FIGURE 1
Top 10 fastest growing hotel destinations in the world, 2012



Source: The World Luxury Index™ Hotels
Growth in guest demand for luxury hotels in 2012

London

According to the World Luxury Index released at the first Luxury Hospitality summit held in Switzerland in June 2013, London is one of the world's fastest-growing destinations for consumers seeking a luxury hotel experience.

According to the London Evening Standard, almost eight million overseas visitors, equivalent to the entire resident population, stayed in the city during the first half of 2013 – 8% up on 2012 and an all-time high. Mayor Boris Johnson said the tourism record was a direct "legacy" of the extraordinary image of London seen by billions of viewers during what were

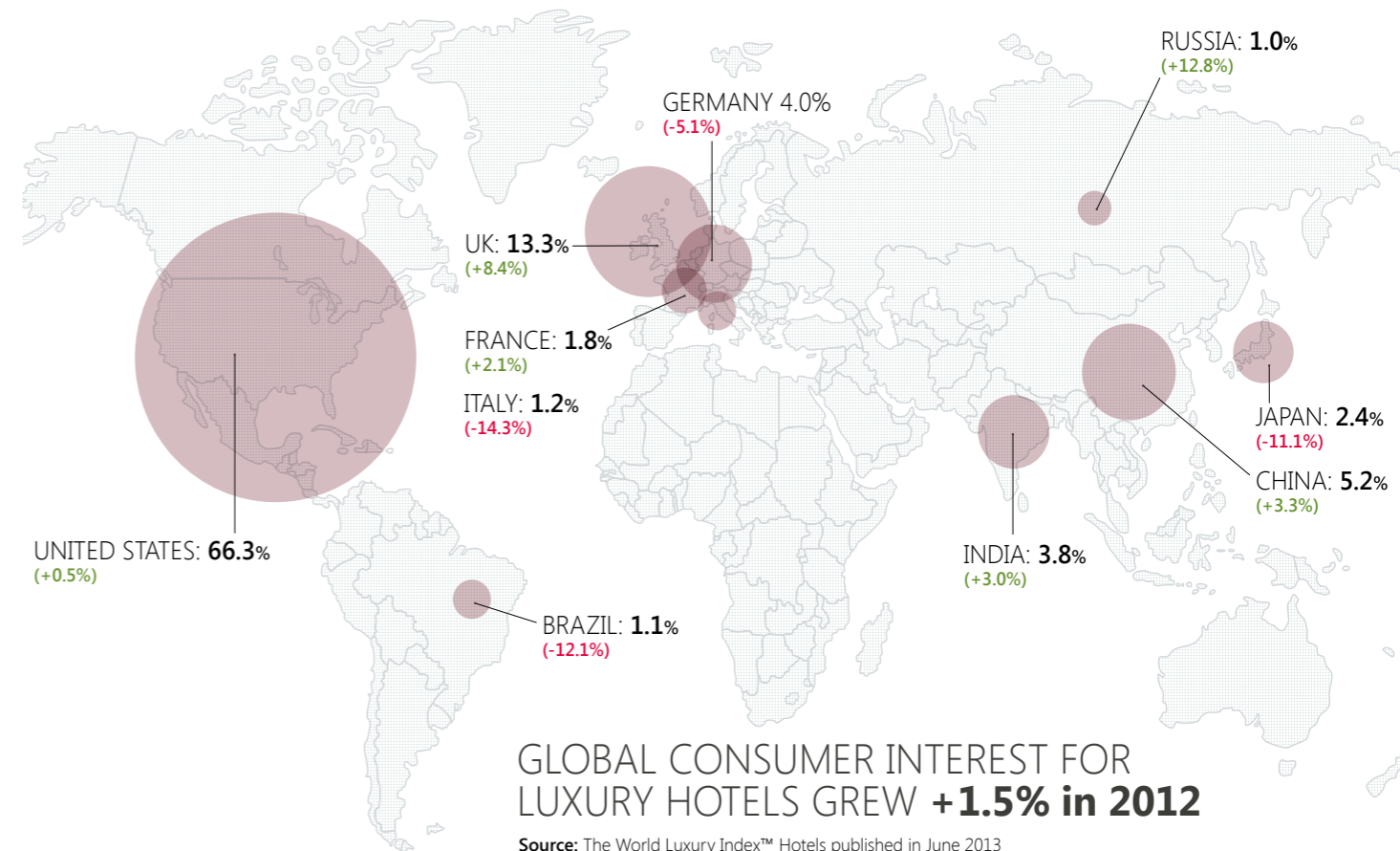
hailed as the most successful Olympics and Paralympics ever.

Like Paris, London has also become more proactive in attracting Chinese visitors and it was recently announced that visa applications for Chinese visitors entering the UK will be simplified. As part of the review, Chinese nationals visiting the EU will not need to submit separate UK visa applications if they book with selected travel agents. VisitBritain spent £1 billion in 2012/2013 to promote the UK in China.

The Financial Times states, "In China there are two 'Golden Weeks' – Spring Festival Week and National Day Week. During these

two weeks, most people go out and enjoy themselves which boosts the economy, hence the nickname 'Golden Week'. Increasingly Chinese people travel abroad and spend about £2.4 billion on luxury goods such as watches, perfume, handbags, designer clothes, fine wines and cigars. Retailers in the UK would like them to spend more of their money here. Selfridges for example employ Mandarin speaking staff and accept China's main credit card which is China Union Pay. The last two weeks of July is also a period of high spend here as families and students prepare for graduation ceremonies."

FIGURE 2
The source of global consumer demand for luxury hotels 2012



GLOBAL CONSUMER INTEREST FOR LUXURY HOTELS GREW +1.5% in 2012

Source: The World Luxury Index™ Hotels published in June 2013
*The pink circle represents the source of global market demand and the figure in the bracket refers to the change in the market share between 2011 and 2012.

LUXURY HOTEL MARKET IN PARIS

New rating system

Since 2009, the French Government has gradually introduced a new hotel rating system which now recognises a 5-star category.

Previously, the top star rating category was 'four-star luxe' and there was an informal 'Palace' category to recognise outstanding hotels.

The 'Palace' category has now been formalised and is awarded by Atout France, the French Agency for Tourism Development that considers the aesthetic quality of aspiring palace hotels, their environmental and social policies, financial performance and contribution 'to the spread of French culture'.

As a result of this new classification, France now has 130 five-star hotels but there are

only thirteen French palaces. Six of these are located in Paris and comprise:

- ◆ Le Bristol
- ◆ Le Meurice
- ◆ Plaza Athénée
- ◆ Four Seasons' George V
- ◆ Le Royal Monceau – Raffles Paris
- ◆ Park Hyatt Paris – Vendôme

Initially, the judging caused controversy as it omitted the Ritz Paris, The Hôtel de Crillon and the Four Seasons Hotel George V, but promoted the Park Hyatt Paris – Vendôme, which was less than a decade old. Four months later, the judging was

revised and the Four Seasons was awarded Palace status.

The Ritz Paris and The Hôtel de Crillon are currently under refurbishment so it remains to be seen whether they are awarded with Palace status. Rosewood Hotels & Resorts, has been recently appointed to manage Hôtel de Crillon which is due to open in the summer 2015.

The newest addition to the collection is Le Royal Monceau – Raffles Paris, which sits on Avenue Hoche and is owned by Qatari investors Katara Hospitality and managed by the Asian group Raffles – it opened in 2010 following a two year transformation by Philippe Starck.

What is a Palace?

Established by the French Minister of Tourism in November 2010, the Palace distinction is designed to award official recognition to the finest 5-star hotels. They must have exceptional qualities that embody French standards of excellence and contribute to enhancing the image of France throughout the world.

Criteria include:

- ◆ Location
- ◆ Appearance
- ◆ History of the site
- ◆ Character of the establishment
- ◆ Multilingual team
- ◆ Involvement of staff in seeking excellence
- ◆ Fitness area
- ◆ Spa
- ◆ Gourmet restaurants

Source: French Tourism Office

Parisian Palace Hotels:

1835 – Le Meurice

The hotel is today owned and managed by the Brunei Investment Agency's Dorchester Collection, which includes The Beverly Hills Hotel and Hotel Bel-Air in Los Angeles, The Dorchester and 45 Park Lane in London, Coworth Park in Ascot, the Hôtel Plaza Athénée in Paris, and the Principe di Savoia in Milan.

1911 – Hôtel Plaza Athénée

The hotel is located near the Champs-Élysées and the Eiffel Tower. It is also part of the Dorchester Collection. Famous guests who have stayed at the Athénée over the years include Mata Hari (who was arrested here), Oprah Winfrey and Johnny Depp.

1925 – Le Bristol, Paris

Hôtel Le Bristol is famous for its historic architecture and luxurious interior. The hotel is owned by the Oetker Collection, a food company established by August Oetker who invented baking powder.

1928 – Four Seasons Hotel George V

This historic art deco hotel was converted into a Four Seasons hotel in 1999 following a two-year renovation. The Hotel is decorated with 9,000 flowers delivered weekly from The Netherlands.

1928 – Le Royal Monceau – Raffles

This luxury hotel is located at 37 Avenue Hoche and from the day of opening became the meeting point of many artists and celebrities, such as Coco Chanel, Hemingway and Josephine Baker.

2002 – Park Hyatt Paris – Vendôme

Opened in 2002, and recently awarded the prestigious Palace category, this hotel represents a contemporary-yet-timeless example of a luxury hotel and recalibrates the concept of the Palace hotel. Park Hyatt Paris is owned by the French entrepreneur, Alexandre Allard.



Le Meurice, Paris

LUXURY HOTEL MARKET IN LONDON

Knightsbridge and Mayfair supremacy

The history of luxury hotels in London starts somewhere in the late 19th century coinciding with the start of social scene change, the popularity of trans-Atlantic travel (ocean liners) and the spate of new luxury shopping experiences.

Traditionally, the British elite would spend several months of the year in the capital to socialise and to engage in politics. After the First World War, however, landowning aristocratic families started to replace their London mansions with luxury rented accommodation during the London social season. Social gatherings in exclusive public venues started to outclass those held at the mansions of leading members of the aristocracy. One of the largest privately owned mansions in London during that time was the Duke of Westminster's Grosvenor House (now the Grosvenor House Hotel) and the Holford family's Dorchester House (converted in 1931 to The Dorchester Hotel).

The opening of Harrods in 1905 and Selfridges in 1907 gave the city additional appeal. London flourished with the development of luxury hotels. Park Lane, a fashionable residential address, was quickly joined by Knightsbridge and Mayfair in becoming synonymous for prestige

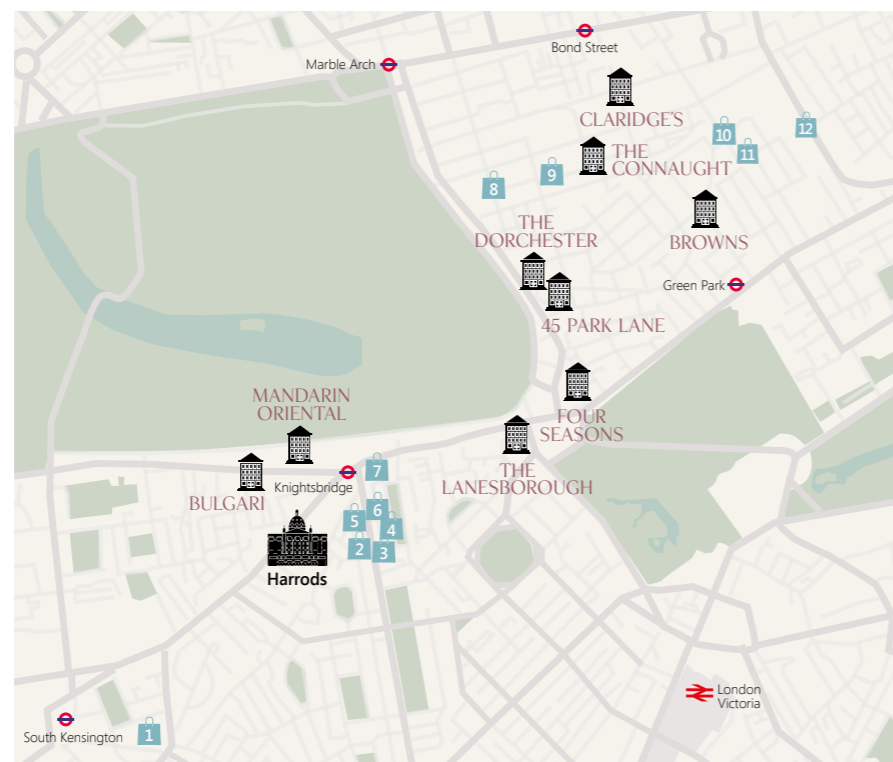
and esteem and over the centuries have remained one of the most exclusive hotel addresses in the world.

Remarkable examples of luxury hotels outside of these clusters include the Ritz in Piccadilly, and the Savoy on the Strand.

Today, Knightsbridge and Mayfair continue to dominate the luxury scene in London where famous hotels are surrounded by high-end retail and super prime residential.

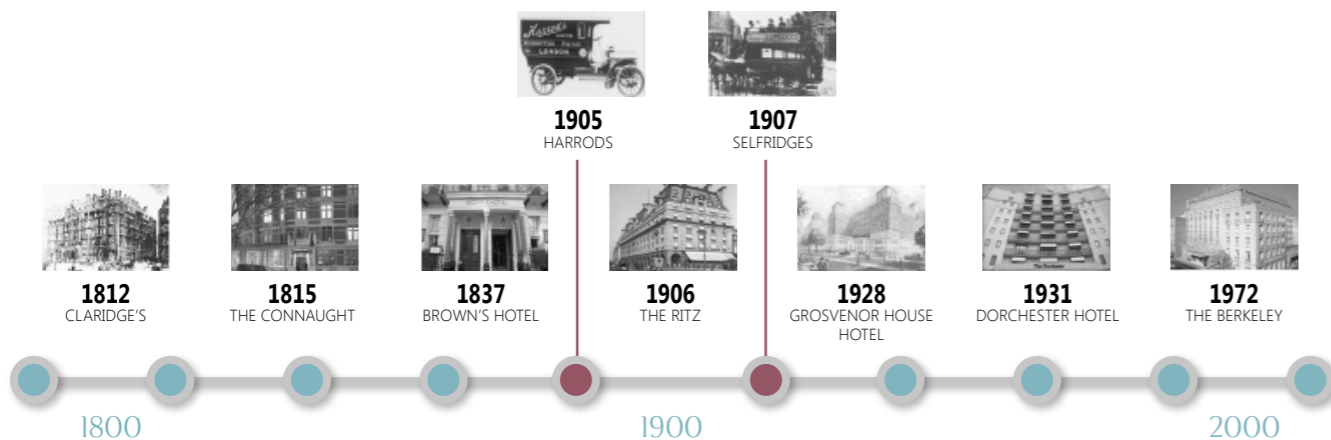
KEY TO SHOPS

1 CHANEL	7 BURBERRY
2 Dior	8 MARC JACOBS
3 JIMMY CHOO	9 BALENCIAGA
4 HERMÈS	10 CHANEL
5 GUCCI	11 HERMÈS
6 LOUIS VUITTON	12 BURBERRY



The Bulgari Hotel, London

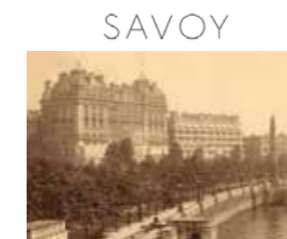
Establishment of luxury hotels in London



DID YOU KNOW?



1876
Alexander Graham Bell stayed at the hotel to demonstrate his new invention – the telephone – the first successful telephone call in Great Britain was made from Brown's.



1905
American millionaire George A. Kessler hosted a "Gondola Party" where the central courtyard was flooded to recreate Venice and guests dined in an enormous gondola.
The Savoy was also the first luxury hotel in Britain to introduce electric lights throughout the building, electric lifts and en-suite bathrooms.



1905
The hotel first opened in 1815 as the Prince of Saxe Coburg Hotel.
In 1917, during World War I, the decision was made to change the name to the less-German "Connaught".
The name originates from the title of Queen Victoria's third son, Prince Arthur, the first Duke of Connaught.



1945
At the request of Winston Churchill, suite 212 was declared Yugoslavian territory so that Crown Prince Alexander II could be born on his own country's soil.



45 Park Lane, London

LONDON

THE CONNAUGHT
Hélène Darroze



MANDARIN ORIENTAL
Heston Blumenthal



45 PARK LANE
Wolfgang Puck



PARIS

SHANGRI-LA HOTEL
Philippe Labbé



LE MEURICE
Alain Ducasse



MANDARIN ORIENTAL
Thierry Marx



LUXURY FEATURES

Although there is no internationally accepted definition for a luxury hotel, it is an ultra-luxury hotel's features, facilities and service level that set it apart from the mainstream five-star market segment.

Bedrooms and Suites

Amongst the distinctive characteristics of top class hotels are larger than average bedroom sizes and high suite ratios. Although room sizes in hotels included in our study are often dictated and somewhat constrained by the historic character of the building, most guest rooms measure between 30 and 40 sq m. Junior suites are typically 45 sq m. Signature suites are of between 200 sq m and 300 sq m and typically, can be booked by appointment only. Notable examples include the 220 sq m suite located on the seventh floor of the Shangri-La hotel in Paris with a 100 sq m terrace facing the Eiffel Tower. The Royal Suite in The Mandarin Oriental London is 242 sq m and has a balcony that runs the length of the entire suite, giving ultimate views of Hyde Park.

Hotel Le Bristol and Raffles Hotel Royal Monceau have the highest suite ratio amongst all hotels included in our analysis.

London hotels have, in general, a lower suite proportion.

The distinctiveness of the letting accommodation is also reflected in the quality of design. Unique examples include the Coco Chanel suite, designed by Coco Chanel herself, in the Ritz Hotel in Paris and Diane von Furstenberg's (also known as the "Queen of prints") suites at Claridge's.

Food & Beverage

London and Paris are both world renowned dining scenes. The Michelin Guide 2014 lists 64 restaurants in London and 82 in Paris. This highly competitive environment requires special endeavours to attract guests to dine at the hotel's restaurant. When Gordon Ramsey won the Claridge's contract in 2001 it was a huge breakthrough for the young and relatively unknown chef. As Ramsey's popularity and recognition grew so did the trend for alliances between luxury hotels and

celebrity chefs to create signature destination restaurants. Amongst these, there is Alain Ducasse at The Dorchester, Dinner by Heston Blumenthal at Mandarin Oriental and Éric Frechon's Epicure at Le Bristol in Paris.

Spa

A high quality spa is now, more than ever, a prerequisite for a luxury hotel. Exceptional examples include the roof top spa at the Four Seasons on Park Lane, ESPA Life at the Corinthia Hotel and the Bulgari's spa in London, which is one of the largest and most exclusive urban retreats in the city centre. The Aman Spa at the Connaught is the first Aman Resorts-branded facility built outside the company's own hotels. Health Club at the Shangri-La Hotel in Paris made the Condé Nast Traveller list of The 35 Best New Spas in the World in 2013.

Many of these properties are destination hotels and are considered by the super wealthy as the places to be and to be seen.

HOTEL	AMENITIES			
	FACILITIES	PRODUCTS	MICHELIN STAR	FLAGSHIP RESTAURANT
Mandarin Oriental Paris	900 sq m Spa	Guerlain and MO's signature product line	✿✿	Sur Mesure par Thierry Marx
Hôtel Le Meurice Dorchester Collection	Treatment rooms	Valmont	✗	The restaurant re-opened in June 2013 under the chef Alain Ducasse after the three-star Michelin chef Yannick Alléno left the hotel to head the restaurant at Cheval Blanc in Courchevel.
Park Hyatt Paris Vendôme	250 sq m Spa	Payot	✿	Le Pur' Jean-François Rouquette
Hôtel Le Bristol	Spa	La Prairie	✿✿✿	Epicure, Éric Frechon
Four Seasons Hôtel George V Paris	740 sq m Spa	Sodashi	✿✿	Le Cinq, Eric Briffard
Raffles Hôtel Royal Monceau	1,500 sq m Spa	Clarins	✿✿	La Cuisine, Hans Zahner Il Carpaccio, Roberto Rispoli
Shangri-La Hotel Paris	1,000 sq m Spa	CARITA	✿✿✿	L'Abeille, Philippe Labbé; Shang Palace, Frank Xu
Mandarin Oriental Hyde Park London	Spa	ESPA	✿✿	Dinner by Heston Blumenthal
Bulgari Hotel & Residences London	2,000 sq m Spa	ESPA	✗	Il Ristorante, Robbie Pepin
Four Seasons Hotel London at Park Lane	800 sq m Spa	Vaishaly, ESPA Organic Pharmacy, Omorovicza	✗	Amaranto Restaurant
45 Park Lane Dorchester Collection	✗	✗	✗	CUT at 45 Park Lane, Wolfgang Puck
The Dorchester London Hotel Dorchester Collection	Treatment rooms	Valmont, Carol Joy La Prairie	✿✿✿	Alain Ducasse at The Dorchester
The Connaught Hotel	3,300 sq m Spa	AMAN	✿✿	Hélène Darroze at The Connaught
Brown's Hotel	Treatment rooms	NuBo, Carita Paris Aromatherapy Associates, Spiezia		HIX Mayfair
Claridge's Hotel	Treatment rooms	Sisley		Claridge's has recently announced that the British chef Simon Rogan, who is the holder of two Michelin stars at his restaurant L'Endume in Cartmel, Cumbria is to take the helm at the restaurant that was previously run by chef Gordon Ramsey for 12 years. The Restaurant will open in Spring 2014.
Hôtel Plaza Athénée Paris				Under refurbishment
Hôtel De Crillon				Under refurbishment
The Lanesborough, a St. Regis Hotel				Under refurbishment

Source: Knight Frank

NEW SUPPLY/UPGRADES

Paris

In recent years Paris has seen an influx of new luxury hotels. This included the re-opening of Le Royal Monceau – Raffles in 2010 under the management of the Singapore-based Raffles Group, the arrival of Shangri-La Hotel, Paris and the Mandarin Oriental, all recognised luxury Far-Eastern brands.

Most recently, in June 2013, and following a two-year restoration, the legendary Prince de Galles on the prestigious Avenue George V reopened its doors under The Luxury Collection Hotels & Resorts brand which is part of Starwood Hotels & Resorts Worldwide. Still to arrive this year (August 2014) is The Peninsula, Paris which is to be located on Avenue Kléber near the Arc de Triomphe. The hotel will mark the first European opening of this Hong Kong-based group, who have also announced plans to open a hotel in London overlooking Hyde Park Corner. 2016 will mark the opening of the LVMH's Cheval Blanc Hotel (72 bedrooms and suites) which is planned to be developed in La Samaritaine, a department store next to the Louvre.

In addition, a number of high-end luxury hotels in Paris are currently being upgraded. The Four Seasons Hotel George

V embarked on a programme to renovate its guestrooms over a period of three years at a cost of €200 million. The Ritz closed in August 2012 for some 27 months of renovation under the designer eye of Thierry W. Despont. Meanwhile, Hotel Plaza Athénée, which recently celebrated its centenary, closed in October 2013 with a planned reopening by May 2014. Lastly, The Hôtel de Crillon closed in February 2013 for a €100 million refit which will include the installation of an indoor swimming pool.

London

According to AM:PM Hotels, approximately 3,250 new luxury bedrooms have become available in London since 2009. Recent new supply includes the refurbished Savoy, The Bulgari Hotel, Corinthia and 45 Park Lane.

The owner of the Lanesborough Hotel, the Abu Dhabi Investment Authority (ADIA), announced that the hotel will close for an extensive renovation project on 20 December 2013, reopening in the fourth quarter of 2014. All furnishings, artefacts and decorations, with more than 3,000 lots were put to auction. The renovated Lanesborough will feature new designs by world-renowned interior designer, Alberto Pinto.

The most recent luxury hotel opening in London is The Wellesley. This hotel is located in Knightsbridge, in the former Hyde Park Corner underground station that was permanently closed in 1930. The hotel has 36 bedrooms, the UK's largest humidior, a restaurant, bar and cigar terrace.

Still awaiting its arrival to the capital is The Peninsula, which has recently secured a development site at 1-5 Grosvenor Place in Belgravia after a lengthy hunt for a suitable location. Scarcity of development sites in super prime locations have already induced Shangri-La to have selected the landmark building, The Shard, for its new London address. Launched in May 2014, Shangri-La London marked the first opening of a hotel of this class south of the River Thames.

The market is also awaiting two speculative high-end hotel developments. Admiralty Arch, the Grade I listed arch located on The Mall, which leads from Trafalgar Square to Buckingham Palace, is to be converted into a luxury hotel, serviced apartments, a spa and members club. The owners are currently in discussions with a short-list of luxury operators and the hotel is due to open in 2016/17. 10 Trinity Square, the former HQ of the Port of London Authority situated close to the Tower of London, is to be converted into 41 luxury serviced residences and a 120-bedroom hotel. The scheme is being developed by the Beijing-based Reignwood Group.

OPERATORS' PERSPECTIVE

We have interviewed key managers in top London hotels who have also had experience in running and operating luxury hotels in Paris. We asked them about their views and experiences in both markets, below is a summary of their thoughts.

Luxury

- Luxury is a concept that changes over time. A little tongue in cheek, but 25 years ago a luxury hotel was one where you had an en-suite bathroom and was, effectively, somewhere more luxurious than your own home.
- With the marked increase in residential specification it is now harder to offer quality and comfort that is better than at home, thus, it is more about offering an exceptional service. It is no longer about getting a good night's sleep, it is about creating memories that will make guests want to come back.
- As the global distribution of wealth evolves, so does the concept of luxury. In the 80's and 90's luxury was associated with owning – the best car, the most expensive watch, the most extravagant jewellery. Nowadays people want to go to the moon and have George Michael sing at their birthday party. Luxury is now associated with 'experiencing' rather than 'owning'.
- One General Manager we interviewed has defined selling luxury as selling dreams. The down side of this is that dreams are expensive to fulfil. Only a few operators understand how to realise them. You can reduce your costs by 30% and will still be able to operate a hotel but you will no longer be able to sell the dream.

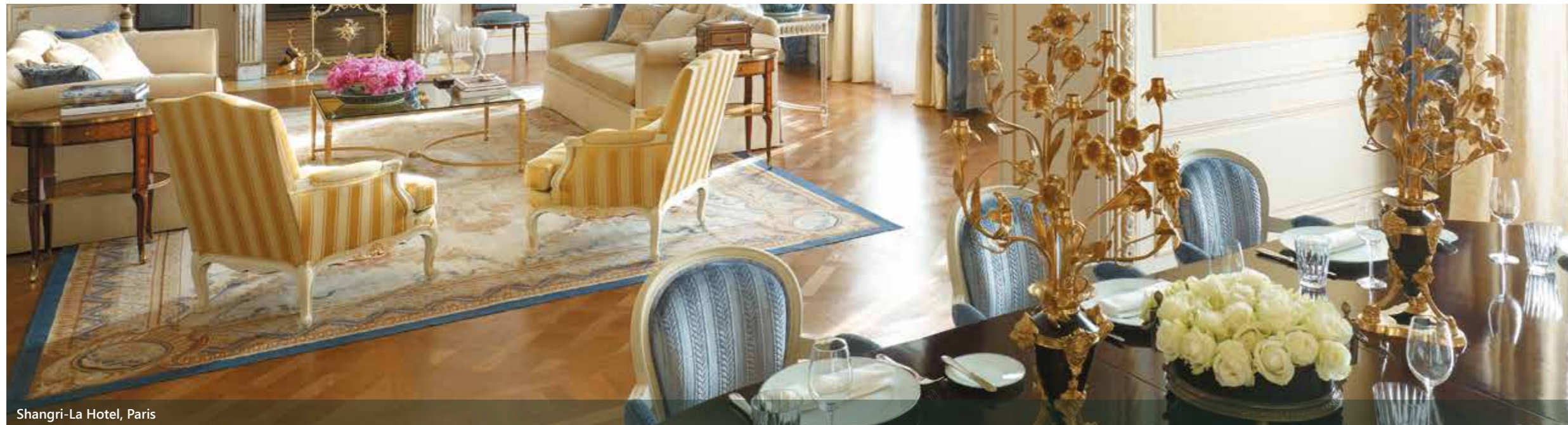
Guest demand

- Paris is the city of romance and fashion. Paris will always dominate the fashion market, not least, as it is the home of Chanel and LVMH – LVMH includes Dior, Louis Vuitton, Givenchy, Fendi, Kenzo, Céline, Donna Karan, Emilio Pucci and Marc Jacobs.
- Paris trade is much more leisure focused than London and, as a result its ARR is higher, although this is in part a function of a historically superior bedroom product, albeit the gap is narrowing with London's offer having been boosted by new openings.
- London is the financial capital of Europe and, as a consequence, enjoys higher occupancy than Paris with higher mid-week corporate demand.
- Paris has a higher ARR, however, the lower ARO goes some way to narrowing the RevPAR gap between the two capitals.
- The benefit of the higher ARR in Paris is also offset to some extent by higher payroll costs and related French employment laws, that significantly reduce profitability in Paris compared to London.

Dining

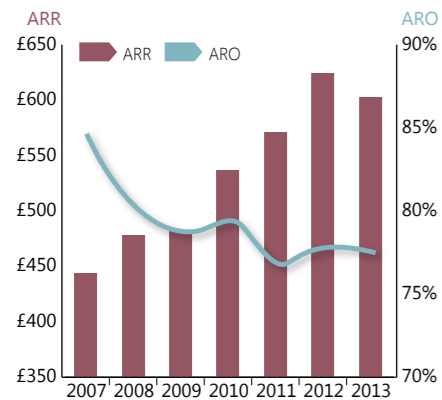
- For some, the concept of fine dining is arguably now a little passé. This is not immediately obvious when one considers that there are nearly 150 Michelin starred restaurants in Paris and London (82 in Paris vs. 64 in London) however the offer in both cities is a little different.
- In Paris it doesn't matter if it is a Bistro or a Michelin-starred restaurant, the most important aspect is the quality of the food.
- In London, it is equally important that the restaurant has a 'buzzy' and 'hip' atmosphere. The food quality is a given, rather it is the promise of a remarkable experience that differentiates and, in the instance of hotels, can draw external guests.
- Mark Sargeant, former General Manager of the restaurant at Claridge's made the following remarks in an article published in The Times on 13 January 2014:

“ I don't really know what the phrase 'fine dining' means now. You can fine dine in a burger joint... People have woken up to the fact that you can't afford to make customers wait to get a table, and when you get there you can't even talk because you're not allowed to speak above a whisper and then have to spend half the evening with a sommelier you can't understand because he's mumbling about the wine... High end restaurants are now schooling their staff to adapt to the world of 'fine dining in trainers' ”



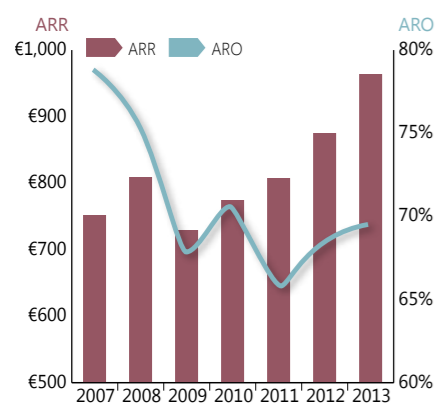
Shangri-La Hotel, Paris

FIGURE 3
London key performance indicators



Source: STR Global / Knight Frank

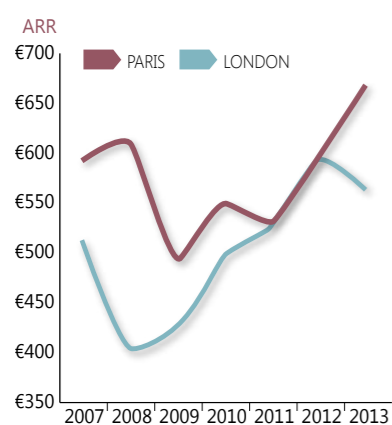
FIGURE 4
Paris key performance indicators



Source: STR Global / Knight Frank

1 GBP = 1.1684 EUR

FIGURE 5
RevPAR comparison in London and Paris 2007-2013



Source: STR Global / Knight Frank

Conversion Rates as at 31 December each year



The Dorchester, London

OPERATIONAL PERFORMANCE

We have reviewed the trading performance of a defined set of luxury hotels in Paris and London over the last seven years.

In our London set, we have included top-end hotels including The Mandarin Oriental Hyde Park, Bulgari Hotel and The Lanesborough in Knightsbridge, 45 Park Lane, Four Seasons Hotel and The Dorchester on Park Lane as well as The Connaught, Claridge's and Brown's in Mayfair.

In the Paris set, we have included The Mandarin Oriental Paris, Four Seasons Hotel George V, and the hotels that form the Dorchester Collection – Hôtel Plaza Athénée and Le Meurice. We have also selected Le Bristol, The Hôtel de Crillon, Le Royal Monceau – Raffles, Shangri-La Hotel, as well as Park Hyatt Paris – Vendôme which has recently been awarded 'Palace' status. The sample excludes the Ritz which closed its doors in August 2012 for major renovation. Also, it should be noted that Hôtel Plaza Athénée closed its doors in October 2013 for redevelopment works and The Hôtel de Crillon is in the process of being completely refurbished and no trading data is available from February 2013.

With 10,534 bedrooms within 62 hotels, the provision of luxury hotels in London is greater than Paris. The French capital has approximately 2,288 bedrooms within 16 hotels which makes the Paris market approximately a quarter of that in London.

Paris

Our Paris luxury hotels have experienced significant growth in ARR since 2009 and reported a historic high of €963.51 in 2013, 10.1% up on the previous year. This followed three years of consecutive ARR growth between 2009 and 2012. Equally, Average Room Occupancy (ARO) has been on the rise in the last three years showing 65.7% in 2011, 68.6% in 2012 and 69.50% in 2013. The positive results in Key Performance Indicators (KPIs) translated into Revenue per Available Room (RevPAR) growth over the course of the last three years. The 2013 RevPAR stood at €669.33, 11.5% above the 2012 result and represented a second

consecutive year of RevPAR growth of above 10%. Overall, Paris hoteliers saw an impressive 26.1% growth in RevPAR between 2011 and 2013 which, in nominal terms, represented an increase of approximately €138.50.

London

Our hotels in London achieved an ARR of £602.94 (€724.61) during the course of 2013, which was 3.4% below the £623.93 (€767.87) achieved in the previous year but circa 5.5% above the £571.36 (€685.86) recorded in 2011. London operational performance, especially in terms of ARR, was lifted during the course of 2012 due to the Olympics, the Queen's Jubilee and the Farnborough Air Show all taking place. Hence, the 2012 vs. 2013 comparison is somewhat distorted. The impact of the Olympics was particularly apparent in August when the 64.3% boost in ARR and an 31.0 percentage point uplift in

ARO resulted in an overall 115.2% increase in RevPAR from £266.98 in 2012 to £574.48 in 2013. The months of September and October 2012 also saw significant improvement in headline performance, with RevPAR growth of 15.7% and 18.3% respectively.

Our luxury set's ARO stood at 77.7% in 2013, largely on a par with the previous year, and 90 basis points above the 2011 performance. RevPAR in 2013 was £468.47 (€563.00) in 2013. This was circa £17.65 (€21.2) or 3.6% below the 2012 result, however, circa 6.8% above the 2011 figure.

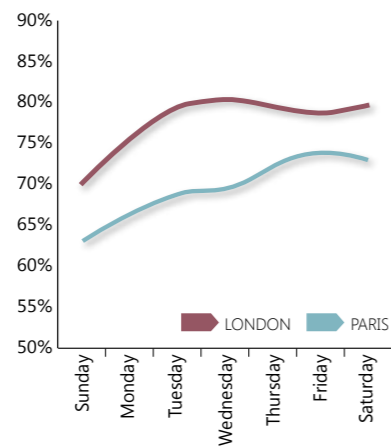
As can be seen in Figure 5, although the Paris set has historically out-traded London hotels in terms of RevPAR, the challenging trading environment in Paris and the positive impact of the Olympics in London saw that operational gap narrow during the course of 2011 and 2012. The return to "normal" trading conditions has, however, seen London RevPAR weaken.

SEASONALITY

As can be seen in Figures 6 & 7, luxury hotels in Paris are particularly well-exposed to the leisure segment and generate significant weekend occupancy levels, peaking on Friday and Saturday nights. London, on the other hand, primarily capitalises on its status as the European capital of business and attracts high-end business travellers on weekdays (particularly between Tuesday and Thursday). The British capital also has strong leisure demand which helps to generate average weekend room occupancy of approximately 80%.

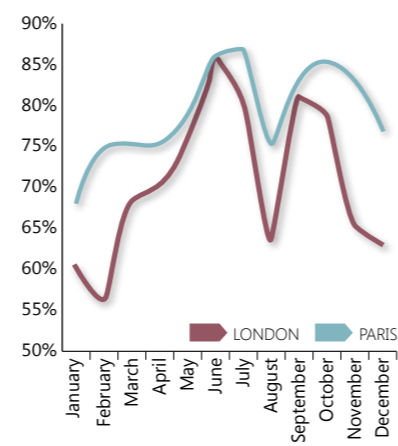
Overall, however, the high-end hotel markets in both capitals are particularly buoyant in the period between June and July (influx of the Middle-Eastern guest demand) and September (business related demand), with the first quarter of the year being relatively quiet. The major events that influence the capitals throughout the year are shown on the timeline below.

FIGURE 6
Paris & London
Weekly seasonality of guest demand



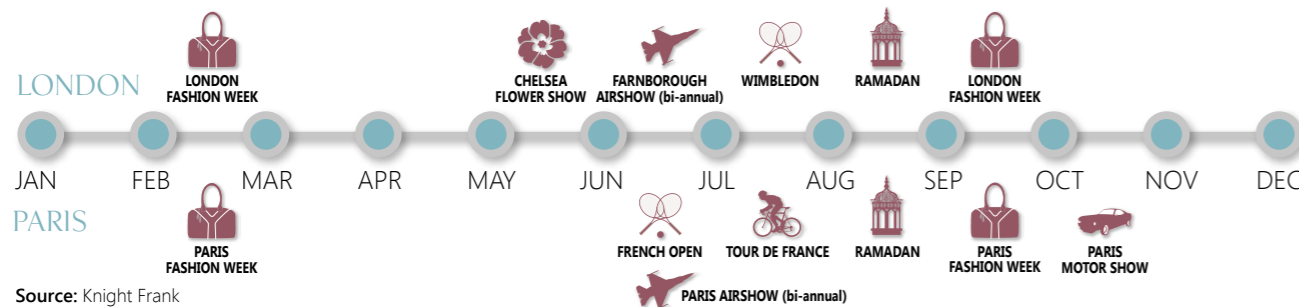
Source: STR Global / Knight Frank

FIGURE 7
Paris & London
Monthly seasonality of guest demand



Source: STR Global / Knight Frank

FIGURE 8 **Key drivers for hotel demand in London and Paris**



Source: Knight Frank

PROFITABILITY

FIGURE 9
Paris & London RevPAR annual % change

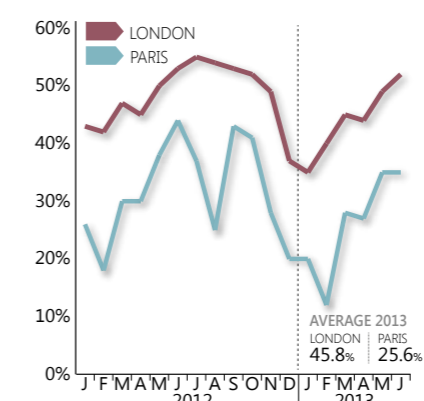


Source: STR Global / Knight Frank

As can be seen in figure 9, the London hotels delivered a more consistent performance in the last five years and proved to be more resilient to recession than the Paris hotels.

As Figure 9 shows, following a steady growth during 2007 and 2008, 2009 was challenging for both capitals. London, however, saw only a marginal drop in RevPAR of 0.5%. Paris, on the other hand, was hugely affected by the global downturn and reported an 18.9% fall in RevPAR that year. Both markets recovered in 2010 and recorded double-digit growth in RevPAR.

FIGURE 10
Gross operating profit per available room (GOP PAR) (%)

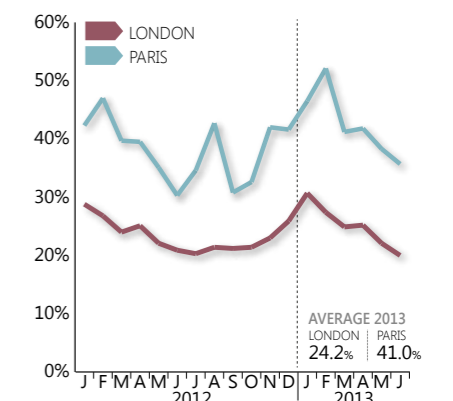


Source: STR Global / Knight Frank

Since then, London has continued to flourish and grew RevPAR by nearly 22% between 2009 and 2012. The trend evolution was, however, somewhat distorted by the exceptionally strong trading year in 2012. The Paris hotel market, on the other hand, experienced a slight dip in 2011 when the "burka ban" made the Middle Eastern market boycott Paris in favour of London.

It remains to be seen whether the luxury hotel market in Paris will absorb the reopening of the refurbished hotels. London hoteliers, on the other hand, will potentially

FIGURE 11
Payroll costs (%)



Source: STR Global / Knight Frank

be challenged by three, high-profile new hotel openings, namely Shangri-La, The Peninsula and Admiralty Arch, as well as the re-opening of the refurbished Lanesborough.

Whilst the Paris luxury set is now showing a RevPAR premium over London of approximately 19%, the impact of higher payroll costs cannot be ignored. Paris payroll costs on occasions are nearly double those in London with a resultant impact on profitability.



The Lanesborough, London



INVESTMENT MARKET

According to Real Capital Analytics, London was again the most preferred hotel investment market in Europe.

In 2013, London again saw the highest volume of hotel transactions in Europe at circa £1.4 billion (€1.7 billion). Paris investment activity was circa €1.1 billion (£0.94 billion). The overall transaction volume in London increased by over 80% compared to 2012 whilst Paris was up by 41%.

There continues to be an unsurpassed appetite for luxury hotels in London and Paris from Middle Eastern investors.

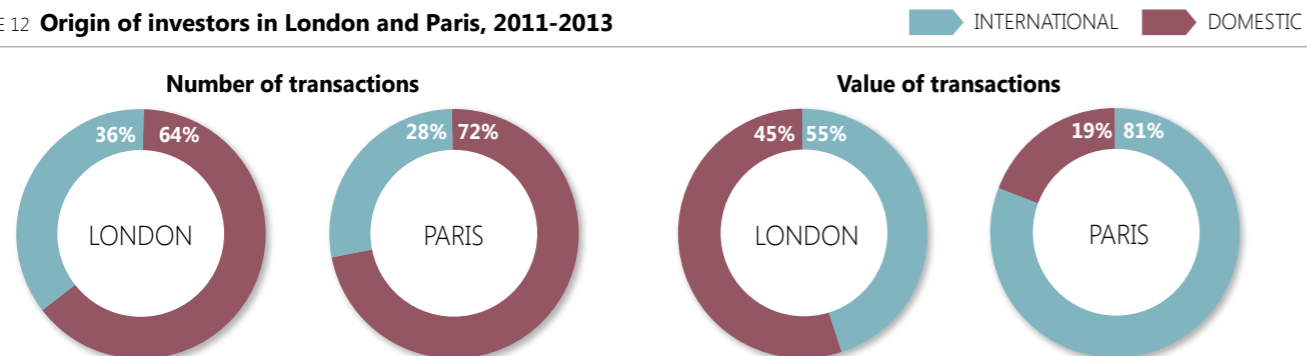
Qatar Investment Authority was the top hotel buyer in Europe in 2013 with an overall transaction volume of circa €1.5 billion (£1.2 billion), nearly half of which was in a €700 million (£580 million) deal that included four landmark hotels in France, including

the Concorde La Fayette in Paris. Last year the group also acquired the freehold and leasehold interests in InterContinental Hotel on London's Park Lane for an aggregate £400 million, at what is believed to equate to a yield of about 4% or circa £1,100 per sq ft (£11,840 per sq m) on a gross internal basis.

Abu Dhabi Investment Authority (ADIA) was the second largest hotel buyer in Europe with a total transaction volume of circa €0.7 billion (£0.6 billion). Their key deal during 2013 was the purchase of 42 UK Marriott hotels for €770 million (£640 million). This included six London hotels. At the beginning of 2014 ADIA also acquired the 173-bedroom London Edition.

Other key deals in both capitals included the disposal of the freehold investment interest Metropolitan on Park Lane in London which changed hands in August 2013 for a price in the region of £46 million (€55 million) and went to the Malaysian Genting Group. Also of Malaysian-origin, Koperasi Permodalan Felda Bhd purchased Grand Plaza Serviced Apartments in Bayswater, London for circa £98 million (€118 million). In Paris, Mandarin Oriental Hotel Group acquired the freehold interest in the building for circa €290 million (£270 million) which reflected circa €2.1 million/£1.7 million per bedroom. In September 2013, Blackstone purchased the 266-bedroom Concorde Opera Saint Lazare for circa €250 million (£208 million) which is planned to be rebranded as the Hilton Paris Opéra next year.

FIGURE 12 Origin of investors in London and Paris, 2011-2013



Source: Real Capital Analytics / Knight Frank

CONCLUSIONS

- **Within our set, London trails behind Paris in terms of ARR by approximately 33%**, albeit as a consequence, of higher occupancy, the difference in RevPAR is less at about 19%.
- **The gap in RevPAR is only likely to narrow if London sees further development of luxury hotels in prime locations.** With the notable exception of the proposed Peninsula, this is unlikely due to the lack of available sites and higher alternative use values of sites that do become available.
- **Looking forward, we remain confident that the new supply will be absorbed without any material impact on overall ARO levels,** provided the properties remain well-maintained and fit for purpose.
- **We will see more new build/re-developed hotels that will allow for greater flexibility in terms of space.** Hotels will become smaller bedroom-wise but will have larger facilities. Space will become a new luxury.
- **It is very difficult to gage the impact of new supply in these relatively small markets.** In the past, major supply changes have coincided with wider economic and geopolitical events. It is undeniable that London's luxury set outperformed Paris during 2009 (London RevPAR down 0.5% compared to circa 19% for Paris), although, a number of London hotels were off-line at this time.
- **Many of the luxury hotels in both markets are compromised by virtue of being located in historic buildings which, arguably, no longer meet the expectations of the luxury guest.** The new emerging product, which is often less compromised being new build and contemporary, may help to attract new markets that enable ARR and ARO to be driven forward to new highs. The charm and history of those hotels that are located in historic buildings is compelling but achieved rates and, ultimately, values are likely to be higher with new purpose built hotels.
- **To remain competitive with Paris, London needs to be more easily accessible** to high-spending visitors from emerging markets such as China.
- **Buyers of luxury hotel properties are generally long term holders looking to invest for the benefit of future generations.** These buyers are drawn to the very best gateway cities and to secure economic environments such as London and Paris. Therefore, the relative rarity of properties to buy in these markets and the growth of the global super-wealthy investor seeking the ultimate in wealth preservation will ensure that the values of luxury hotels will remain strong.
- **The continued demand from cash rich investors to secure assets in these prime cities,** against a backdrop of finite supply, ensures that yields remain at historically low levels of approximately 4%. Yields are likely to contract further for the very best property – on the rare occasions they change hands.



COMMERCIAL BRIEFING

For the latest news, views and analysis of the commercial property market, visit knightfrankblog.com/commercial-briefing/

LONDON



Dominic Mayes

Partner, Head of Hotels

+44 20 7861 1086

dominic.mayes@knightfrank.com



Ian Elliott MRICS

Head of Hotel Valuations & Consultancy

+44 20 7861 1082

ian.elliott@knightfrank.com



Agata Janda MRICS

Associate, Valuations

+44 20 7861 1443

agata.janda@knightfrank.com

PARIS



Philippe Perello

Partner, Office Head, Paris

+33 1 43 16 88 86

philippe.perello@fr.knightfrank.com



Luke Condon

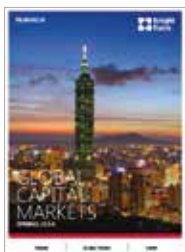
Partner, Capital Markets, France

+33 1 43 16 88 90

luke.condon@fr.knightfrank.com

Front cover image: Shangri-La, Paris

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Global Capital Markets Spring 2014



Paris Vision 2014



European Market Indicators Spring 2014



The Wealth Report 2014

Knight Frank Research Reports are available at KnightFrank.com/Research

© Knight Frank LLP June 2014

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

KnightFrank.co.uk/Hotels

@KnightFrank



Newmark
Knight Frank
Global