

HotelBenchmarkTM

Global Performance Review

Crowning glory



Introduction

More than 842m people packed their bags and set off to see another part of the world in 2006 – making it another record year for international tourism.

The total number of travellers was up 36m on the year before, confirming an appetite for adventure and an unstoppable desire for new experiences. This yearning for travel, especially to some of the world's emerging destinations, is undoubtedly being helped by robust global economies and plenty of disposable income.

Excellent marketing, such as the Australian 'Where in the bloody hell are you?' campaign – is generating demand. Australia, for instance, claimed five places in the top 20 occupancy Global Ranking Index (GRI) in 2006 – more than any other country, showing its increasing popularity as a holiday destination.

In many cases, governments are ploughing additional billions into tourism. There is a US\$29 billion, four-year programme underway, for example, in Seoul, which aims to make it a 'top 10 world city'. Singapore and Macau are betting on travellers' love of gaming to drive up visitor numbers, while Egypt is focusing on Middle East travellers as well as its international appeal.

Out of last year's extra 36m travellers, an extra 17m arrived in Europe – pushing the number arriving in the region to 458m. Europe enjoyed a bumper year for incoming tourism during 2006 as the region saw improved economic performance and hosted a number of major sporting and cultural events. Top sports, including the Winter Olympics in Turin and the World Cup in Germany gave the region an 8.6% increase in revenue per available room (revPAR) – double the growth seen in 2005.

With average room rates here continuing to be among the highest in the world, it is not surprising that twelve European cities – with Venice and Paris leading the way – are in the top 20 revPAR GRI. Paris, still the romantic capital of the world, saw growth of 12%, knocking Dubai into third place.

Even so, the love affair with the Middle East continues to deepen. The region now attracts more than 5% of the world's tourists, and massive investment in hotels, resorts, air travel and sports facilities put other regions in the shade.

Looking at hotel performance across the world, all regions tracked by the HotelBenchmark™ Survey by Deloitte showed strong revPAR growth in 2006, with many achieving double-digit increases for the second or third consecutive year.

However, the results throw up some interesting pointers on how the global hotel market is shifting. Mumbai, for instance entered the top 20 revPAR GRI for the first time this year.

In this, the fourth edition of the HotelBenchmark™ Global Ranking Index we compare the performance of 165 cities outside North America and consider what's on the cards for the year ahead.

“This yearning for travel, especially to some of the world's emerging destinations, is undoubtedly being helped by robust global economies and plenty of disposable income.”

“Out of last year's extra 36m travellers, around 17m were from Europe...”

Table 1 – RevPAR Global Ranking Index 2006

City	RevPAR GRI		RevPAR results – US\$			RevPAR results – euros		
	Ranking	Change to 2000	2006 absolute	% change to 2005	% change to 2000	2006 absolute	% change to 2005	% change to 2000
Venice	1	+0	211	10.5	24.0	167	7.2	-10.8
Paris	2	+2	199	14.7	41.2	157	11.7	1.9
Dubai	3	+28	196	14.4	124.4	155	12.3	62.9
Rome	4	+2	185	13.2	49.9	146	10.2	8.0
Doha	5	+65	179	20.0	174.0	141	17.0	97.2
London	6	-3	179	19.1	27.5	141	15.9	-7.9
Moscow	7	+78	176	15.0	188.1	139	12.0	108.6
Geneva	8	+7	166	8.6	56.7	131	6.6	14.1
Hong Kong SAR	9	+5	164	20.5	54.0	129	17.5	11.3
Tokyo	10	+8	161	-1.3	-15.9	127	-3.6	-39.0
Amsterdam	11	-2	157	15.6	35.7	124	12.4	-2.1
Florence	12	-6	142	9.0	21.5	112	6.0	-12.5
Mumbai	13	+23	141	41.2	67.8	111	36.7	21.1
Milan	14	+10	136	13.6	50.9	108	11.7	9.6
Seoul	15	-10	134	1.4	1.5	106	-1.1	-26.6
Dublin	16	+19	132	15.7	54.0	104	12.6	11.0
Abu Dhabi	17	+77	129	41.5	131.3	101	-5.9	67.6
Kuwait City	18	+18	128	-4.0	62.9	101	38.4	18.3
Zurich	19	-3	126	13.4	23.1	100	10.8	-10.7
Edinburgh	20	+21	124	11.0	59.6	98	7.8	15.0

Source: HotelBenchmark™ Survey by Deloitte.

Table 2 – Occupancy Global Ranking Index 2006

City	Occupancy GRI		Occupancy results		
	Ranking	Change to 2000	2006 absolute	% change to 2005	% change to 2000
Brisbane	1	+68	84.6	2.4	18.6
Melbourne	2	+24	83.4	5.4	10.1
Dubai	3	+27	83.3	-1.0	9.6
Heathrow	4	+4	83.2	4.4	3.5
Abu Dhabi	5	+44	83.1	-2.6	14.0
Hong Kong SAR	6	+3	83.0	1.9	3.6
Perth	7	+25	83.0	3.0	8.3
London	8	-2	82.9	7.1	1.7
Gatwick	9	-8	82.4	-0.2	-5.1
Singapore	10	+8	82.3	0.9	5.1
Amsterdam	11	-9	81.5	2.0	-4.7
Hanoi	12	+147	80.4	-0.0	109.6
Zurich	13	-3	79.6	7.3	-2.6
Cairns	14	+6	79.5	1.3	9.8
Adelaide	15	+2	79.3	10.5	5.6
Edinburgh	16	+38	79.2	2.5	9.4
Osaka	17	-8	78.7	1.0	-1.7
Dublin	18	+19	78.4	3.3	-0.2
Rome	19	+2	78.3	5.2	0.9
Sydney Central	20	+6	77.7	1.2	6.1

Source: HotelBenchmark™ Survey by Deloitte.

Table 3 – International tourist arrivals by sub region (millions)

	2006	2005	2000	% vs 2005	% vs 2000	2006 marketshare %
Asia Pacific	167	155	111	8	50	20
North East Asia	94	88	58	7	62	11
South East Asia	54	49	38	9	42	6
Oceania	11	11	9	0	22	1
South Asia	9	8	6	10	50	1
Europe	458	441	396	4	16	54
Northern Europe	56	53	45	7	24	7
Western Europe	149	143	140	4	6	18
Central/Eastern Europe	88	87	71	1	24	10
Southern/Mediterranean Europe	165	158	141	4	17	20
Middle East	41	39	25	4	64	5
Africa	40	37	28	8	43	5
North Africa	15	14	10	6	50	2
SubSahara Africa	26	23	18	9	44	3
Americas	136	134	128	2	6	16
Central America	7	7	4	6	75	1
South America	20	18	15	7	33	2
North America	90	90	92	1	-2	11
Caribbean	20	19	17	3	18	2

Source: World Tourism Organization (UNWTO).

Asia Pacific

Asia Pacific is in fast forward mode. Boasting the title of the fastest growing economy in the world, it is anticipated that over the next four years, gross domestic product (GDP) will rise by an average of 6.2% per annum. This pace is being forced by China and India, as well as other emerging economies, such as Vietnam.

Global investors and hotel operators, including Hilton, Accor, Jumeirah and Kempinski, are exploiting this growth and changing the face of the branded hotel industry in the region.

Increased intra-regional mobility is being helped by expanding low-cost airlines, while cheaper long haul travel will tempt more international visitors. Oasis Hong Kong Airlines was first into the market with a £160 ticket between London and Hong Kong, and the city will soon be linked with other European and US cities.

Air Asia and Fly Asian Express have got together to launch Air Asia X, which is now building up its fleet in preparation for flights to India, China and Europe this summer.

Given its shaky start to the new millennium – with an outbreak of SARS and then the devastating consequences of the tsunami in 2004 – this region has seen an enormous turnaround in its fortunes. Today, according to the World Tourism Organisation (UNWTO) it's attracting more tourists than ever. Around 167m people poured in during 2006, up 7.6% on the year before – surpassing growth rates in both the Middle East and Europe.

RevPAR was up 10.3% to US\$86 in 2006 – the third consecutive year of double-digit growth for Asia Pacific. Considering the earthquake in Yogyakarta and terrorist attacks – in Mumbai and Bangkok – this is an amazing achievement. As shown in table 4, revPAR growth across all regions was due to a rise in average room rates. South Asia stole the show – up 44.5% to US\$180.

In 2006, Asia Pacific took four places in the top 20 revPAR GRI and ten spots in the occupancy GRI. With airline expansion making the region more accessible and affordable, it has the potential to raise the bar still higher next year.

North-East Asia

Markets across North-East Asia had mixed fortunes, resulting in a moderate revPAR increase of 3.9%. As seen in table 4, this was driven by average room rates increasing to US\$131. Occupancy dropped slightly to 72.7%.

China

China pushed its room rates up US\$10 to US\$117 – the largest increase of any country in North-East Asia, while occupancy dipped by 1.9%. The growth in visitor arrivals settled at 6%, and although this is a slowdown from the extraordinary growth of 29% and 10% during the last two years, it is still regarded as a significant figure by the UNWTO.

Beijing fell 25 places on the occupancy GRI to 42nd position this year – overtaken by the likes of Sydney, Osaka, Adelaide and Cairns. The city saw a small drop in occupancy to 75% last year – which is perhaps not surprising given the amount of new supply coming into the market in the run up to the 2008 Olympics. Despite this, Beijing continues to perform well – overall average room rates in the city increased by US\$16 to US\$124 in 2006. And, clearly there is still scope to grow these further – with 2008 expected to be a record year.

Hong Kong is the only market in Asia Pacific to appear on both GRI's. Hotel performance remained strong in 2006 – with the city achieving the ninth highest revPAR globally at US\$164. Key marketing campaigns such as 'Discover Hong Kong Year 2006', which promoted new attractions such as Disneyland Hong Kong, lured tourists to the city – helping drive tourist arrivals up 8.1% during the year.

Although Macau did not make it into the top 20 of either GRI, it is a market to keep an eye on. Currently sitting at 64th position at US\$93 on the revPAR GRI – there is plenty of scope for future growth.

A number of high-end developments are underway along the Cotai Strip and the momentum to make Macau the global gaming capital is strengthening. In 2006, Macau's gaming revenues surpassed Las Vegas as they jumped 22% to US\$6.9 billion and according to the Macau Government Tourist Office, tourist arrivals were up 17% to reach their highest levels yet at 21.9m.

Japan

Osaka's five-year hold on the top 20 revPAR GRI ended this year as it slipped 13 places to 32nd position. Average room rates fell US\$4 in 2006 to end the year at US\$145. This decrease is mostly due to the short-term depreciation of the Japanese yen against the dollar. However, the city stays in the occupancy GRI, at 17th place.

The weakness of the Japanese yen also hit Tokyo's average room rates, which fell from US\$215 to US\$212, taking the city down a peg to 10th position on the revPAR GRI.

South Korea

Seoul added US\$2 to its revPAR during 2006, finishing the year at US\$134, however was overtaken by Mumbai and dropped two places on the revPAR GRI. Occupancy was just below 70%. However, Seoul has big plans to attract 12m tourists by 2010 – almost double the 2005 figures, and the government is investing US\$29 billion in a four-year urban development scheme. It aims to make Seoul a 'top 10 world city' with additional tourist attractions, leisure facilities and the right infrastructure to support its suitability as a convention host. Tax reductions for hotel operators are also likely.

Table 4 – Hotel performance in Asia Pacific 2006 v 2005

	Occupancy (%)			Average Room Rate (US\$)			RevPAR (US\$)		
	2006	2005	% change	2006	2005	% change	2006	2005	% change
Asia Pacific	71.6	71.6	0.0	120	108	10.4	86	78	10.3
North-East Asia	72.7	73.7	-1.4	131	124	5.3	95	91	3.9
South-East Asia	68.4	67.9	0.8	91	77	18.0	62	52	19.0
South Asia	67.7	68.2	-0.7	180	124	44.5	121	85	43.4
Oceania	75.3	74.1	1.5	124	118	4.6	93	88	6.2

Source: HotelBenchmark™ Survey by Deloitte.

South East Asia

South-East Asia was the second strongest performing region in Asia Pacific during 2006, seeing an impressive 19% growth in revPAR to US\$62. To help boost hotel performance further, the region has brushed away the visa paperwork to tempt more people to travel. Members of the Association of South East Asia Nations are allowing two weeks of visa-free travel within the ten member countries, thereby decreasing the cost and hassle of inter-regional travel. Malaysia has also extended a warmer welcome to international tourists, by introducing visas-on-arrival for people from 23 countries, including China and India. Previously, it would take months of planning to obtain a visa for travel to Malaysia. These moves should boost hotel business in region, already the leader in Asia Pacific with a 19% growth in revPAR to US\$62.

Singapore

In 2006 **Singapore** fell from 7th to 10th position in the occupancy GRI, overtaken by Gatwick, London and Perth. Although the city's ranking dropped, in absolute terms occupancy increased 0.9% to 82.3%. However, the real story was about average room rates, which soared 27.6% in 2006 to reach US\$130. These increases were among the strongest in Asia Pacific.

Singapore has set its sights on 17m visitors by 2015, a massive 75% increase on 2006 figures and is embarking on a global marketing campaign: 'Uniquely Singapore'. Gaming developments, including the massive integrated casino and hotels resort being built by the Las Vegas Sands Corporation at Marina Bay, will entice tourists, who are expected to arrive on Singapore Airlines' new fleet. The company is adding the massive 555-seat A280 aircraft to its stable over the next few years.

Vietnam

In 2005 **Hanoi** had a bumper year when it achieved 80.4% occupancy and secured third place in the occupancy GRI. However, in 2006 the Vietnamese city fell to 12th place although in absolute terms, occupancy remained unchanged. Average room rates improved dramatically this year – up 32.9% to US\$92. Tourist arrival growth to Vietnam slowed to 3% during 2006, according to the Vietnam National Administration of tourism, following double-digit increases in previous years.

Thailand

Although Thailand's resorts did not make it into either of the top 20 GRI rankings, **Phuket's** recovery must be applauded. This popular coastal resort saw revPAR jump 59.4% in 2006, only a few dollars away from pre-tsunami levels.

Occupancy rose 26.6% and is now only 9 percentage points away from pre-2004 levels, when the tsunami struck.

Further north in **Bangkok**, changes in average room rates and occupancy led to revPAR increases of 13.8% to US\$82 during 2006. However, the number of tourists dropped at the start of 2007, following the New Year's Eve bombing, and figures from the Daily HotelBenchmark™ Survey revealed a 13.8% drop in hotel occupancy in the first two weeks. Average room rates went up US\$10 during the same period as hoteliers adjusted to the drop in demand.

However the Thai government believes the attacks' impact on visitor arrivals will be short lived. As experience over the last few years shows – when tourist destinations have suffered at the hands of terrorists – markets recover quickly.

South Asia

For the second consecutive year, South Asia had the best growth in any region in Asia Pacific – with revPAR up 43.4% to US\$122. Again, following market trends, this was driven solely by average room rate.

India

India's key cities have finally arrived. For the first time **Mumbai** entered the top 20 revPAR GRI and took 13th place with pride. A 41.2% increase in revPAR took it to US\$141 and pushed this splendid city up 23 places. **Delhi**, **Kolkata** and **Chennai** are on the same path, with revPAR surges of more than 25%. With excellent prospects for 2007, we expect more Indian cities to follow Mumbai's lead.

Rising room rates, mostly due to a lack of accommodation in major cities and tourist centres, is bolstering performance. Expansion is underway, but is said to be constrained by the challenge of acquiring sites for hotels. With demand expected to grow at 18% per year for the next few years, this lack of hotel rooms could become an issue.

The country's tourism infrastructure is also in dire need of a make over. Airport upgrades at the primary gateway cities of Delhi and Mumbai have begun, while privately-owned international airports are expected to be commissioned at Hyderabad and Bangalore.

However, there is no denying India's incredible potential and with improved infrastructure, the right balance of hotel accommodation and the attraction of the 2010 Commonwealth Games in Delhi, India should continue its ascent.

Oceania

Hotels throughout Oceania saw revPAR increase 6.2% to US\$93 driven predominantly by average room rate.

Australia

Australia doesn't really need to ask 'Where in the bloody hell are you?' – with so many people already checked into hotel rooms in its key cities. The country claimed five places in the top 20 occupancy GRI – more than any other country – with Brisbane and Melbourne securing first and second place.

The much-talked about 2006 advertising campaign caused outrage in some areas, but exploited the ensuing publicity to raise Australia's profile throughout the world. Even though there was only a marginal 0.6% increase in visitor arrivals during 2006, the occupancy figures speak for themselves.

Leading the way, **Brisbane** secured the top spot in the 2006 occupancy GRI at an incredible 84.6%. The city has always been ranked in the top six over the past five years but 2006 proved to be the best year yet. In 2006 the capital of Queensland reaped the benefits of additional flight routes introduced in 2005 including Qantas flights to Los Angeles and Jetstar flights to New Zealand. More routes are expected in the near future and passengers are forecast to grow to 35m in the next 20 years – up 66% on current levels.

Melbourne climbed from 12th to second place in the occupancy GRI this year. The 83.4% achieved in 2006 is the strongest occupancy since the HotelBenchmark™ Survey began tracking the city. The Commonwealth Games in March boosted demand for rooms and gave Melbourne the chance to showcase itself to the world and potential visitors. Having begun the decade rather slowly and with an over-supply of new hotel rooms, Melbourne's hotel performance now looks assured, with plenty more visitors on the way. Hotel performance has climbed back up to 2000 levels and a re-energised, more stylish Melbourne is working hard to sustain this growth.

Perth, **Cairns** and **Adelaide** joined their Australian cousins in the hit occupancy parade. Perth moved from 8th to 7th place with 83% occupancy. Cairns, with 79.5% occupancy, climbed up one position to 14th place.

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Newcomer Adelaide, leaped from 64th position to 15th place with 79.3% occupancy, thanks largely to a surge in international and domestic flights landing at its new airport terminal. Qantas, Cathay Pacific, Air New Zealand and Jetstar have all taken advantage of the new facilities.

However, **Sydney** did not have such a good year compared to its other global counterparts. In 2006, the city fell out of the top 20 revPAR GRI into 22nd place – held back by increased competition for the Meeting, Incentives, Conventions and Exhibitions market. Despite this occupancy grew marginally to 78%, while US\$4 was added to average room rates, resulting in a revPAR increase of 4% to US\$122.

New Zealand

Christchurch fell out of the top 20, going from 14th to 53rd place in the occupancy GRI. Tourist arrivals grew by just 2% in 2006 with a drop in numbers from source markets such as Japan and the UK, according to Statistics New Zealand. Hoteliers are hoping that the '100% Pure New Zealand' marketing campaign gaining momentum across the globe will have a similar impact to that of its more robust antipodean neighbour and bring in more tourists.

Summary on Asia Pacific

Like several countries in the region investing in the gaming industry, we are prepared to bet that Asia Pacific is going to enjoy a long run of success. Development schemes, transport improvements, and extensive global advertising campaigns will build on consumer interest in the region. Having filled up so many places on the occupancy chart, we expect to see more markets move into the revPAR equivalent.



Europe

Europe has had an exceptional year. In the past year, the region has staged some of the most enticing sporting spectacles, from the Winter Olympics in Turin, the World Cup in Germany and the America's Cup in Spain. Lovers of music and art have also travelled to the continent to celebrate the work of Rembrandt, Picasso and Mozart. These events, combined with strong economic performance have helped revPAR increase 8.6% to €76 – double the growth seen in 2005. With average room rates that are still among the world's highest, it's no wonder 12 European markets made it into the top 20 revPAR GRI.

Graph 1 shows the distinct revPAR trends in the four European regions, using 12-month rolling analysis to mitigate the impact of seasonality.

Northern Europe

The most popular stopping off points were in Northern Europe, comprising the Nordic countries, the UK and Ireland. Here, visitor arrivals were up 6.6% – the best performance of any European region. With high average room rates in the UK and Nordics, Northern Europe still outperforms other European regions in terms of absolute revPAR, as highlighted in graph 1.

UK

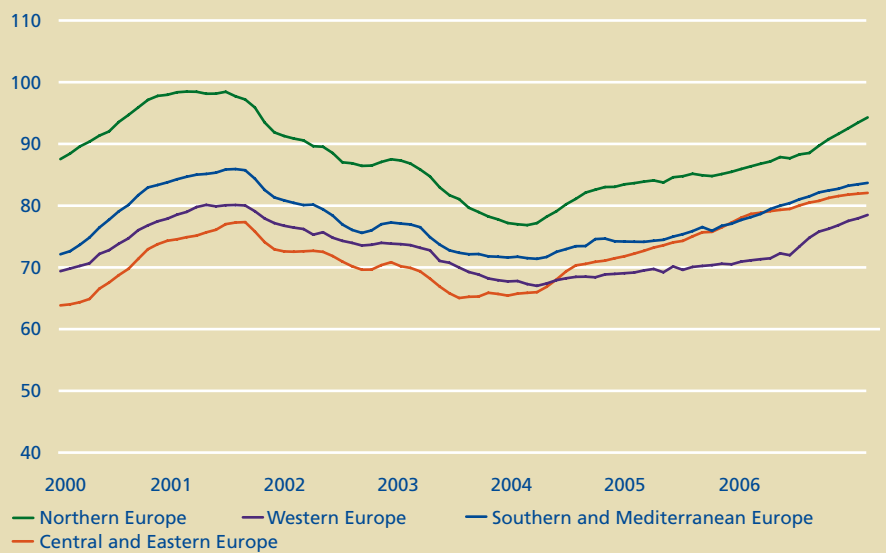
In the UK, four cities appeared in the top 20 occupancy GRI. **London** still has a good hold on the business market, and after its traumatic brush with terrorists in the 7/7 bombings, quickly recovered confidence. A 15.9% growth in revPAR to €141 and good occupancy rates, pushed the capital up to 6th place on the revPAR GRI and to 8th place in the occupancy GRI. Domestic leisure travel is not as upbeat as the corporate market and has been declining recently, mostly due to low-cost carriers offering cheaper and more enticing breaks to other European cities. The challenge, therefore, is to bring the British traveller back to London, especially as the capital prepares for the 2012 Olympics.

Hotel rooms at London's key airports, **Heathrow** and **Gatwick**, filled up quickly when the foiled terrorist attack in the summer turned flight schedules on their heads. Severe fog in December was bad news for travellers, but good news for hotel desks, and helped hotels score highly in the occupancy GRI. Heathrow took 4th place and Gatwick, 9th.

Graph 1 – European revPAR by sub-region

Rolling-12 analysis (2000 – 2006)

RevPAR (Euro)



Source: HotelBenchmark™ Survey by Deloitte.

Finland

The Finnish capital **Helsinki** has been on an upward journey since 2000, moving up the revPAR GRI 44 places to 47th position in 2006. Last year was also a good one in terms of occupancy, and the city has galloped 44 places up the table during the last 12 months to reach 25th position. Being host for the European Union presidency added to visitor numbers and Finland as a whole basked in the renewed interest from one of its main source markets – Russia. Finland had become a popular holiday destination for Russians, keen to travel once the Soviet Union had collapsed and the barriers came down, with numbers peaking in 1997. The 1998 financial crisis stemmed the flow, but numbers are now rising steeply again. Russian's perception of Finland as a stable, clean country offering them the ideal vacation is a welcome shot to the Finnish tourism industry.

Western Europe

Sport, culture and plenty of corporate demand brought 4.3% more tourists to Western Europe during 2006. Three Western European cities – Paris, Geneva and Amsterdam – made it into the 20 revPAR GRI and others are pushing upwards, but this region didn't quite reach the same heights as other European regions, as shown in graph 1.

France

Although the number of tourist arrivals to France has remained relatively stable over the past few years, the country remains one of the world's favourite destinations. Its capital city **Paris**, still commands one of the highest revPAR's in the world – at €157. The ever popular city saw revPAR grow 11.7% during 2006; moving up one spot to second position in the revPAR GRI and knocking Dubai into third place.

Switzerland

Across the Alps, **Geneva** saw revPAR grow 6.6% in 2006. Its constant high average room rates – at €201 – keeps it in the top 10 revPAR GRI, but last year it dropped to 8th place and was overtaken by London, Moscow and Rome.

The Netherlands

Amsterdam, with the second highest occupancy levels of any European city at 81.5%, was steady in 11th place in both the occupancy and revPAR GRI. It was popular with both leisure and business travellers last year, staging a programme of events to mark the work of Rembrandt as well as several major conferences and trade fairs.

Germany

Germany did a great job hosting the World Cup but didn't manage to achieve the ultimate goal – a place in the top 20 revPAR GRI. Berlin scored well during the Cup when average room rates increased to €140 – a surge of 41%; but average room rates in Germany are still quite low compared to many of its neighbours. Last year, they averaged €89. There was some movement up the table though, with **Berlin** climbing 21 places, to 73rd position. **Hamburg** was in 53rd position and it boasts the highest occupancy of any German city, at 74%. According to the Hamburg Tourist Board, overnight stays from January to September 2006 increased by 12.4% year on year.

Austria

Austria was in the mood for music and celebrated the 250th anniversary of Mozart. According to the **Salzburg** Tourist Board, overnight stays here – the home of the great composer – increased by 18.4% in 2006. This helped Salzburg to leapfrog an impressive 61 places in the occupancy GRI, to 49th position. The Austrian capital **Vienna** moved up 21 places to 40th on the occupancy GRI.

Southern and Mediterranean Europe

Visitor arrivals to Southern and Mediterranean Europe slowed slightly during 2006 to 4.2% – and overall the region saw very mixed performance. Turkey and Israel struggled as a result of the Israel-Lebanon conflict – visitor arrivals to these markets fell by 6.7% and 4.2% respectively. This however was counter balanced by stronger growth in the likes of Italy and Spain. Italy saw the strongest growth of all with visitor arrivals up 11% on the prior year as sporting enthusiasts flocked to Turin in February to take in the Winter Olympics.

Italy

Venice, a perennial favourite, took the number one spot in the revPAR GRI, for the fourth successive year. Three other Italian cities joined Venice in the top 20 revPAR GRI, with **Rome** snapping at its heels. Here, revPAR was up 10.2% to €146 – moving Rome up two places to 4th position. Interestingly though, although high average room rates of €247 keep Venice afloat, there are plenty of unfilled rooms. The city recorded a 67.4% occupancy for 2006, enabling the city to secure only 105th position on the occupancy GRI.

Milan celebrated the opening of the new exhibition centre Fiera Milano in late 2005 and the subsequent boost in corporate demand shunted the city up a notch on the revPAR GRI to 14th position.

Spain

The Spanish economy has enjoyed its eleventh consecutive year of GDP growth, which, at 3.4% last year, was streets ahead of its Euro zone neighbours. It also celebrated a record high of 58.5m visitors in 2006 – a 4.5% increase on the previous year. Naturally this had a positive impact on hotel performance in two of Spain's largest cities – Madrid and Barcelona. While both cities saw revPAR increases of 9.5% and 6.6% respectively, it was not enough for either city to secure a place in the top 20 revPAR GRI. With a revPAR of €95, Madrid moved up five places to 25th, however Barcelona fell three places to 30th position at €88. Barcelona is looking forward to a brighter future though. It has absorbed much of its over-supply of rooms, and its inclusion in the low-cost airline schedules is making it a more accessible destination.

Greece

Having gone into deep depression after its success as Olympic Games host, **Athens** had a miserable 2005. However, in 2006 things started to improve and the city took one step up the revPAR GRI to 51st position. Occupancy and room rates are now responding to the rise in visitor numbers, and as Athens didn't go overboard with new hotels for the Olympic it does not have to manage a glut of spare rooms.

Central and Eastern Europe

Following the heady days of 2004, when eight countries joined the EU and traffic flows increased into the region, Central and Eastern Europe saw hardly any growth in visitor arrivals in 2006 – up just 1%. Out of the seven Central and Eastern European cities tracked by the HotelBenchmark™ Survey by Deloitte, six saw a decline in occupancy in 2006.

Poland

Warsaw was the only Central and Eastern European city to witness an increase in occupancy during 2006 and saw the strongest revPAR growth of any market outside the Euro zone. Despite revPAR increasing 7.4% to €68, the city fell one place since last year, to 87th position on the revPAR GRI. However, with the Polish economy growing strongly and an increasing number of businesses establishing themselves in the Polish capital – there is an opportunity for Warsaw to climb the ranks in the coming year.

Russia

Moscow has been on a roll since 2000 and has shot up the revPAR index to seventh position. The booming Russian economy is bringing in more business travellers, and with demand outstripping supply, hoteliers were able to push average room rates up by more than 16% in 2006 to US\$242. Business travellers still outnumber tourists as the country is an expensive choice for a vacation and visas can be difficult to obtain. The cost of getting there is dropping though, with the introduction of flights to Moscow from two German low cost carriers, Germanwings and Air Berlin.

Turkey

Istanbul's appearance in the top 20 revPAR GRI in 2005 was short-lived, as the city dropped into 21st place in 2006. Hotels did a roaring trade during the Formula 1 Grand Prix, which the city hosted for the first time in August 2005, seeing revPAR increase by 43.1% in 2005. However, during 2006, this good fortune was not duplicated as tourist arrivals fell, impacting hotel performance on its way. Although occupancy declined by 5.3%, the city was able to raise average room rates €16 to €137, resulting in a 7% growth in revPAR.

Summary on Europe

Most European countries are looking optimistically at 2007, although they can't expect to repeat the highs of last year. Predictions are that Europe, like the rest of the world, will see a slowing down of both the economy and tourism. However, three sporting highlights expected to have an impact include the Rugby World Cup in France, the Tour de France, which begins in London for the first time ever and the America's Cup in Valencia will surely draw in the crowds.

Middle East & Africa

The Middle East – with the ongoing situation in Iraq, the stand off with Iran and the continuing conflicts between Israel and its neighbours – is enough to keep any politician awake at night. But the region's hoteliers can sleep soundly. Hotels across the Middle East posted their third year of double-digit revPAR growth in 2006. RevPAR was up 16.7% last year, thanks to a 17.8% hike in average room rates – to US\$143. Although last year's growth didn't match that achieved in 2005 – it is still impressive, given the backdrop of political unrest and the continuing threat of terrorism.

During 2006, travel and tourism in the Middle East is expected to have generated US\$148 billion, a figure that could double in the next ten years. Destinations across the region continue to develop at a phenomenal rate and now attract 5% of the world's tourists, making it the fourth most visited destination in the world.

Massive investment in hotels, resorts, air travel and sports facilities have put other regions in the shade, and there is no shortage of funds as the Gulf States continue to diversify their economies. Tourism now rivals traditional industries of oil and gas, and many countries are pursuing aggressive growth strategies.

Despite rapid growth, it still faces tough competition for inclusion in our top 20. Just four Middle East markets made it.

United Arab Emirates

Dubai, the undisputed powerhouse of the Middle East and home to some of the world's tallest, largest and most opulent developments secured third place on the revPAR GRI. Its revPAR of \$196, though, couldn't match Paris, which overtook Dubai to take second place. Dubai also fell one place on the occupancy GRI to third position, but with an excellent 83.3%, it's still doing remarkably well as a relative newcomer.

It may look like one big construction site, but Dubai's popularity is outstanding. The Dubai Department of Tourism and Commerce recently reported a phenomenal 228% increase in hotel guests over the last ten years – rising from 1.9m in 1996 to 6.3m in 2006 – attracted by year-round sunshine, key conferences and massive shopping malls. The UK is the largest source market for the emirate, with Europe as a whole accounting for nearly a third of all arrivals.

Table 5 – Top five Middle East cities by revPAR growth 2006

	Occupancy			Average Room Rate (US\$)			RevPAR (US\$)		
	2006	2005	% change	2006	2005	% change	2006	2005	% change
Abu Dhabi	83.1	85.3	-2.6	155	106	45.2	129	91	41.5
Riyadh	70.7	63.7	11.0	128	107	20.0	90	68	33.2
Damascus	47.3	54.1	-12.5	150	101	48.5	71	55	30.0
Muscat	74.8	76.3	-1.9	138	108	28.3	104	82	25.9
Manama	73.3	66.1	10.8	163	147	10.7	119	97	22.7

Source: HotelBenchmark™ Survey by Deloitte.

Neighbouring countries, like Qatar and Abu Dhabi are keen to emulate Dubai and multi-million dollar projects are changing the Gulf landscape forever.

The make-over of **Abu Dhabi** is moving ahead quickly. The country now has its own airline – Etihad Airways – its own tourism board and many new hotels. It is not surprising therefore that hotels in Abu Dhabi now achieve some of the highest occupancies in the world – securing fifth place on the occupancy GRI.

Abu Dhabi has also made it into the top 20 revPAR GRI this year in 17th place. Hotel performance in Abu Dhabi has been driven by mostly by a 45% rise in average room rates this year, enabling the city to climb 38 places on the revPAR GRI. Once in the shadows of dominant Dubai, Abu Dhabi now leads the Middle East in terms of revPAR growth, up 41.5%.

Qatar

Doha, a newcomer on the world's tourism map, appeared in the revPAR GRI for the first time in 2005, and took 5th place in 2006. The Qatari Government's decision to pump US\$15 billion into positioning the country as a premier tourist destination is certainly paying off. Investment in roads, hotels and leisure facilities was made to bring them up to international standards for the Asian Games in December 2006. With a number of brands, including Renaissance, Shangri-La, Hilton and Rotana opening up here over the next couple of years, plus the Asian Games effect, the country can look forward to a great future.

Qatar Airways – one of the world's fastest growing airlines – has also been busy during the last 12 months. Additional routes to Hong Kong, New York and Melbourne have been added to its schedule and the airline now serves more than 70 destinations worldwide. The airline plans to more than double its fleet size to 110 aircraft by 2015 and will be among the first to fly the innovative twin-deck A380 super jumbos in 2009.

Lebanon

Lebanon, having pulled itself together after years of civil unrest, had been making solid progress until its Prime Minister was assassinated in February 2005. That year, visitor numbers fell 10% to 1.2m. The future for the country looked more positive during 2006, with 49% more tourists arriving during the first six months of the year. However, the picture changed in mid-July, when the capture of two Israeli soldiers by Hezbollah led to a devastating response from Israel.

A review of hotel performance based on figures from the Daily HotelBenchmark™ Survey shows that during the first three weeks of the crisis, hoteliers in **Beirut** saw occupancy fall to around 33% – some 40% below the levels achieved in 2005. Average room rates remained fairly stable during the first week of the conflict; however these subsequently fell by over 30% in the second and third week, resulting in revPAR falling to just under US\$40.

Despite this, the net impact on the city for 2006 was negligible. Although average room rates in Beirut dropped 9.5% to US\$113 compared to 2005, occupancy remained relatively stable at 55.1% and Beirut ended the year in 127th position on the revPAR GRI. Beirut's experiences confirms the fact that tourists today are more resilient, and the impact of conflicts or attacks is increasingly becoming relatively short lived.

Egypt

Although Egypt became victim to a number of bombings at popular tourist resorts in 2006, the country maintained its 6% growth in visitor arrivals, according to the UNTWO. The country hopes to attract 16m international visitors by 2014. It is also focusing on Arab tourists and its Nawart Masr – 'You light up Egypt' – campaign is expected to drive Middle East holidaymakers numbers up by 30%.

Cairo saw revPAR increase 12.0%, driven

Global Performance Review

by a 12.5% rise in average room rates. However, at US\$79, Cairo's average room rates lag behind other world cities, putting it in 133rd position in the revPAR GRI. Other holiday destinations in Egypt, such as Hurghada, Red Sea Resorts and Sharm El-Sheikh did not do so well in 2006 – all seeing drops in revPAR.

Syria

Although **Damascus** did not feature in the top 20 revPAR GRI, it moved up a staggering 20 places in the rankings to 113th position. Despite political instability in the region and the country's proximity to Iraq, hotels in Damascus achieved a 48.5% increase in average room rates – up by more than US\$49 to US\$150. The city has seen a number of new hotels enter the market over recent years, with both Rotana and Four Seasons making a debut.

Saudi Arabia

No markets in Saudi Arabia made it into the top 20, but **Makkah** – the focus for more than 4m pilgrims each year – continues to shine. Now in the 28th slot, the city has average room rates of US\$221, an increase of more than 33%. Religious tourism has always been the big pull for Saudi, but the country is now looking at domestic travel and hoping to persuade the locals to stay at home and spend some of the US\$8 billion that usually disappears outside the Kingdom.

Riyadh is already using this tactic. It hosted its first summer festival last year – modelled on the famous Dubai Shopping Festival – encouraging locals and expatriates to spend time and money locally. Occupancy hovered around 70%, while average room rates rose 20% to US\$128, pushing Riyadh up 31 places to the 74th position on the GRI.

South Africa

Over the past decade, tourism's contribution to the country's economy has almost doubled, eclipsing gold as an earner of foreign exchange, and with a predictable knock-on impact on hotel performance. As a result, the main South African cities – **Cape Town, Durban, Johannesburg and Pretoria** have all seen phenomenal increases in revPAR. Last year, South Africa hotels increased revPAR by 7.2% to finish the year at US\$61. While a solid result for the country, this relatively low figure can't compete with the top performers in more mature destinations.

Having established its place on the destination wish list for travellers, South Africa is now focusing on the more profitable corporate market for future growth. The football World Cup in 2010 is beckoning and hotels are expected to maximise the opportunity for business growth.

Summary on Middle East and Africa

Given the current levels of investment and development in the Middle East, this dynamic region looks unstoppable. The World Travel and Tourism Council forecast that the travel and tourism industry in the Middle East will generate US\$279 billion by 2016. And with an estimated 65.8m international visitors set to travel to the region by 2020, there is no chance the builders will put away their hard hats just yet.

Hotel chains are shaping up to cater for a wider market – not just at the luxury end, which has been the traditional choice in the Middle East, but also for the budget traveller. Premier Travel Inn, easyHotel and Yotel are all moving in.

The Middle East will have to tackle the issues of sustainability and staff retention a little further down the line, and of course terrorism hasn't gone away, but for the next few years the magic of the Middle East should keep the hotel industry buoyant.



Central & South America

Will the real Latin America please step forward – in one corner, political instability, boom and bust economics and severe social problems, in the other, vibrant multi-ethnic cultures, cosmopolitan cities and unrivalled natural beauty.

In 2006 the region was finally stepping out of the shadows of 2001-02. With both the Central American (+8.7%) and South American (+8.1%) regions exceeding the global average for tourist arrivals by some distance, the hospitality industry is happy. Investors' confidence levels are also rising. South American nations are enjoying an influx of capital from Western Europe, while Central America is benefiting from its proximity to the USA, often in the form of large high-end projects such as golf resorts and residences. International hotel chains are also setting up home, with cities such as Buenos Aires, Caracas and Santiago seeing the supply of the four and five-star rooms swell.

While no Latin American city makes the top 20 of the revPAR GRI, many cities are climbing back from their post-Millennium lows – as illustrated in Graph 2 below. Only two cities – Santiago and Lima – have overtaken 2000 levels while other cities continue to move up the index. Rio de Janeiro leads the region in 61st place, followed by Buenos Aires and Mexico City, at 62nd and 70th place respectively.

Argentina

Good exchange rates and a growth in tourists balanced out Argentina's relatively minor social problems. Latest results from the UNWTO confirm that international tourist arrivals were up 7.6% last year, continuing the upward trend since the political instability of 2002 and devaluation of the Peso.

Most visitors come from the USA, Brazil or Chile, but a weak Peso is bringing in more people from the rest of Latin America and marketing aimed at China is widening Argentina's appeal.

With romantic images of Spanish colonial architecture, café culture, and street tango, the vibrant city of **Buenos Aires** is again capturing the imagination of tourists. In a response to increased demand, the hotel industry is dancing to the same tune. New developments in the four and five-star sector – including those from Hyatt, NH and Sol Melia – are boosting the city's supply. MICE tourism is seeing strong growth as the government actively promotes this sector. Both average room rates and revPAR are up – 16.2% and 15.6% respectively – although occupancy has fallen slightly.

Brazil

With so much promise, but so many problems, Brazil has yet to fulfil its massive potential as a holiday destination – but there were signs of change in 2006. Stimulated by state investment in infrastructure and incentives targeted at developers, the government tourism body, Embratur, is encouraging hotel investment along Brazil's north-eastern beach resorts.

Embratur has also opened dedicated tourism offices in the US and major European cities in an attempt to drive up international arrivals to Brazil, which has traditionally relied on domestic tourism. While around 65m Brazilians holidayed at home in 2006, just 6m international visitors joined them.

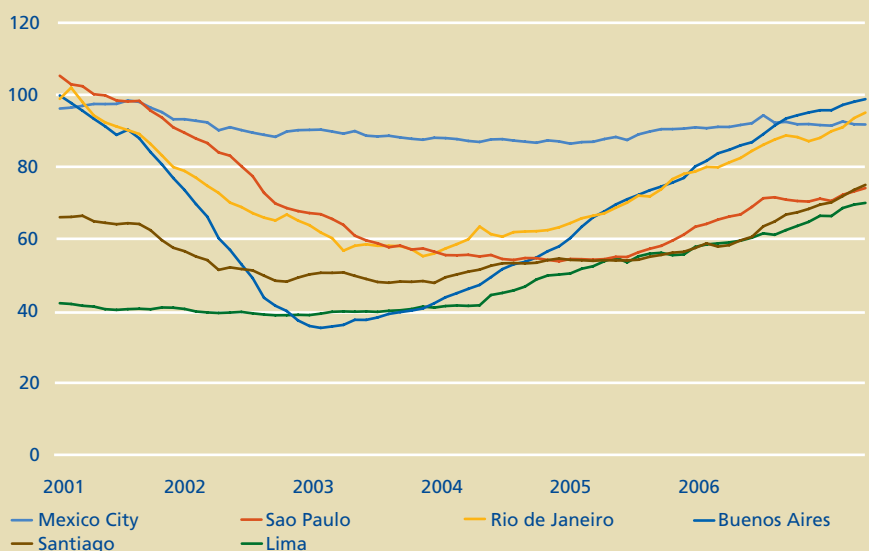
The importance of more tourists from overseas is clear – while domestic tourists embrace the low-cost culture initiated by GOL Airlines and Accor's Formula 1 brand, international visitors are prepared to spend much more. The 6m international tourists spent around US\$5 billion in Brazil – the same amount as the 65m domestic tourists. One long-term problem for Brazil has been its lack of air links with Europe, which is reflected in the low number of arrivals last year – 2.5m. However, new direct Lufthansa flights between Munich and Sao Paulo are having an impact. The airline, in combination with Swissair, now offers 19 direct flights to Brazil every week.

The carnival capital of the world, **Rio de Janeiro**, is undoubtedly one of the world's most beautiful cities. But Rio's tourism is hampered by its reputation abroad, and the events of 2006 will not have helped. In terms of supply, Rio's hotel industry remains fairly static. With the Ipanema and Copacabana districts already over-developed, there is little land left for construction. This maybe why average room rates have increased to just over US\$155 in 2006, a rise of 12.7% from 2005, in turn driving revPAR. Occupancy levels are static at a little over 60%.

Graph 2 – Central and South American cities revPAR

Rolling-12 analysis (2001 – 2006)

RevPAR (US\$)



Source: HotelBenchmark™ Survey by Deloitte.

Global Performance Review

The perennial bridesmaid in the battle with Rio for the hearts and minds of international visitors, **Sao Paulo**, performed well in 2006. Average room rates rose for the third consecutive year, to a five-year peak of US\$124. Despite a drop in occupancy, this has boosted revPAR to just over US\$74, a rise of 12%. Sao Paulo, as the main financial centre of Brazil and with excellent conference and exhibition facilities, is a magnet for MICE tourism. Although current hotel expansion and construction is dominated by the budget sector, recent openings, including the 123-room Marriott and 310-room Sonesta, have increased supply in the city's luxury market.

Chile

Chile, the long sliver of land running down South America's Pacific coast, has continued to punch well above its diminutive stature in 2006. Since the devaluation of the Argentinean Peso in 2002 – which severely dented Chile's arrival figures – the government, along with the Corporacion Promocion Turistica (CPT) has been improving facilities to attract high-spending visitors. Aided by Chile's national carrier LAN – the largest airline in Latin America – long haul arrivals from Europe, North America and, more recently, China rocketed to over 2.2m in 2006, according to the UNWTO.

Economic stability, security, and a modern tourism infrastructure have all helped, as have Chile's wide range of products – from ecotourism resorts in Patagonia, to skiing in new luxury centres close to Santiago. As the daily spend of long-haul visitor is nearly three times higher than short-haul, it is understandable that the CPT intend to expand this end of the market. The CPT expected international visitors to have generated around US\$1.75 billion last year.

As the central gateway city, **Santiago** is the hub of all Chilean tourism, and an increasingly important business centre. The boom of hotel construction in 2004 and 2005 – when five international brands were opened – created something of a price war. This calmed down in 2006, with average room rates rising to US\$104, up 15.1%. Occupancy was up to 68.7% – reflecting Chile's popularity.

Mexico

Hurricane Wilma wiped out the Gulf coast – the area that brings in 65% of the country's revenue – and so the ongoing impact is harsh. 2006 was a year of restructuring, and visitor numbers fell by 2.8%.

The Economist Intelligence Unit (EIU) estimates that some US\$2.7billion has been pledged towards repairing the damage. The bulk of this money has come from private investors, but the Mexican government is putting in \$250m. The political climate is stable, as presidential elections have come and gone without the economic shocks that have greeted previous voting, and hotel companies are delighted. Stable relationships with its US neighbour are also valued, as around 85% of visitors to Mexico cross the border from the US. New air routes between the two countries are encouraging more people to pay a visit, with low-cost airline Click Mexicana now flying direct between Cancun and Miami. Mexicana meanwhile has opened a Mexico City-Dallas route.

The high-altitude capital of **Mexico City** enjoyed steady growth throughout 2006. Due to the dominance of business travel, occupancy reached 61.5%. The 0.7% increase in revPAR to US\$92 was generated by a rise in average room rates, which now stand at US\$149. Recent openings of a Crowne Plaza, NH Hotel and Holiday Inn have brought more rooms onto the market.

Peru

There's no mystery behind the 2006 success of Peru – this intriguing land of the Incas. The Peruvian government has invested in a programme of sustained promotional activities, focusing on its nature tourism products. The country's stand at the Hong Kong Travel Expo last year for instance, and an international advertising campaign, have brought in 10.7% more international arrivals. This growth is vital for the country, where tourism is estimated to account for 7.7% of total GDP.

Peru's gateway city, **Lima**, has performed well. The city has corrected its lack of first-class hotels recently, and the city's revPAR improved accordingly. An occupancy-driven revPAR rise of 21.1% led to revPAR of US\$49.

Summary on Central and South America

The region was set back by the hurricane and ongoing social unrest in some cities can still deter tourists from visiting. But there are some very positive signs. Relative economic stability, strong support from the government, and increased air routes will work together to increase its appeal. The bonus is the fact that many Latin American countries have been added to China's list of authorised destinations, opening the region to a potentially huge flood of arrivals.

Conclusion

The fact that the average growth in international tourist arrivals – at 4.5% – is still substantially above long-term expectations, says a lot for the health of the hotel industry. With 36m more people travelling around the world last year than the one before, and hotel chains rapidly expanding in key markets, the outlook for 2007 is a good one.

However, economic and industry analysts are not expecting the growth rates we have become used to in recent years to continue at the same pace. A general slowing down in tourism will mirror the outlook for world economies, especially those in the US, Japan and Europe. Increasing interest rates in some countries, combined with excessively high levels of personal debt being built up in many western countries, are bound to impact the amount of disposable income, and therefore the amount of money that can be spent on travel.

Volatile prices in the world energy market will make their mark and there is also a growing awareness of the need to offset tourism's impact on climate change. The UK for instance, has recently imposed an environmental surcharge on all flights and other European countries are considering their options. So far though, UK-based airline operators say the additional charge is having little impact on bookings.

Staying with the possible downsides, there is still the issue of avian flu. At the start of 2006, avian flu posed a possible threat to world travel, as outbreaks started to appear in Europe. More recently, there have been cases in Hungary and the UK and while the pessimists are suggesting a pandemic is likely, the optimists don't agree.

Instability in the Middle East continues to be a concern for everyone, not just those working in tourism, but as this report confirms, even a region as inflammable as the Middle East can do astoundingly well as a tourist destination.

On the upside, there is still the huge potential of China and India. The size of the Chinese market is massive and as more countries are placed on the authorised destination list, millions of first-time travellers will begin to explore the world around them.

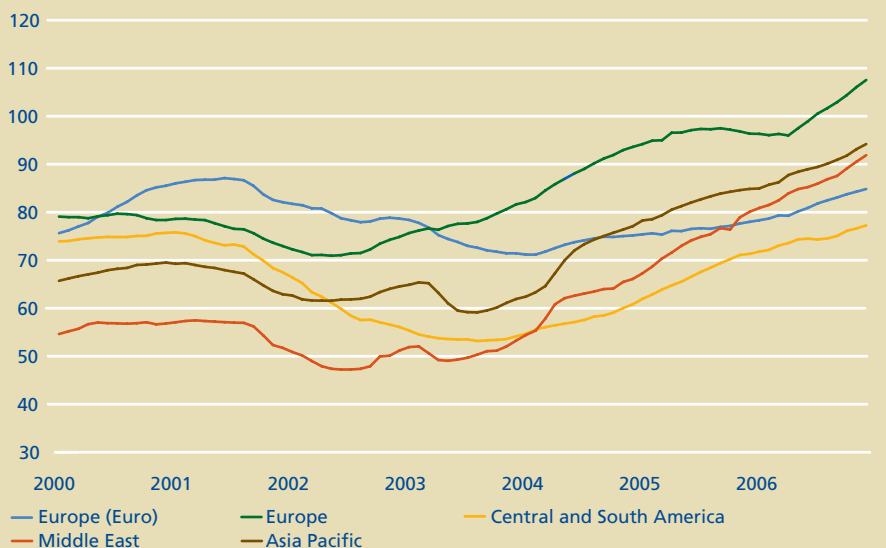
The emerging middle classes of India, with more disposable income than ever before, will compensate in some measure for the expected steadying in the number of travellers from other countries.

Meanwhile, many countries – both established favourites and newcomers – are continuing to invest in high-profile, attention-grabbing global campaigns, encouraging people to bring out the suitcases – again.

Graph 3 – Global RevPAR movements

Rolling-12 analysis (2000 – 2006)

RevPAR (US\$)



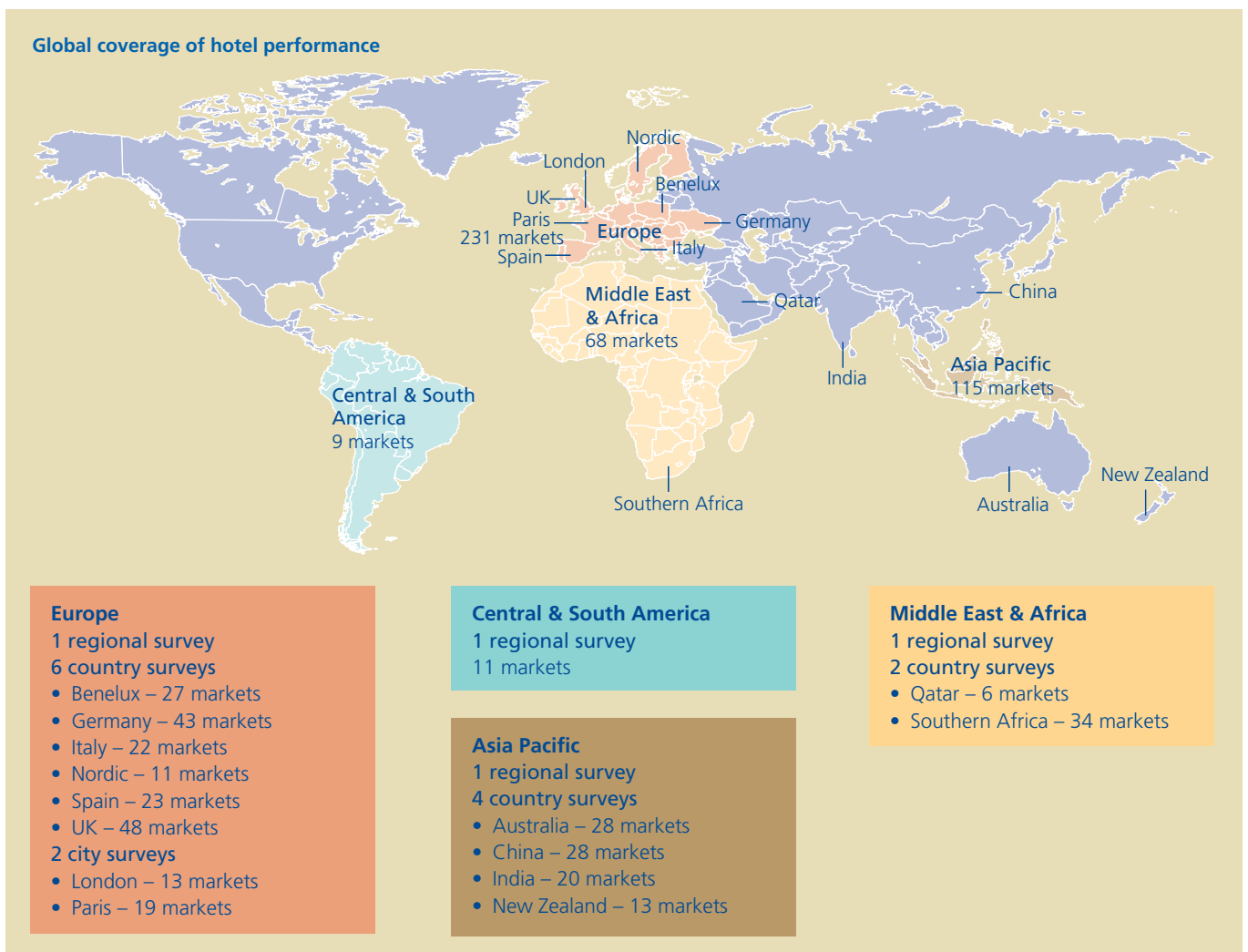
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Sample

Information to compile this report has been extracted from the HotelBenchmark™ Survey database. The database currently tracks the performance of over 7,000 hotels across the globe, excluding North America. Hotels contributing include both independent and group operated units and vary in size. The majority of the hotels participating in the survey are classified as 3 star and above. To ensure direct comparability of results, only hotels that have been able to provide data back to 2000 have been included in this analysis. Consequently the annualised results may vary significantly from those published in the HotelBenchmark™ Monthly Bulletins.

Foreign exchange rate

Exchange rate information is provided by the Financial Times Research Department and may vary from other published data on this topic. Due to the multiplicity of currencies in our database, all source data is converted and held in US dollars. This may mean there is a slight variance between a hotel's annualised average room rate in local currency and that generated by the database, when it is converted back to local currency. This variance is due entirely to the exchange rate calculations and has been proven to be insignificant in magnitude.

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