



Article Title

Towards a transaction-based hotel property price index for Europe

Citation

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Abstract

The purpose of this paper is to fill an existing gap in the field. A transaction-based hotel price index for Europe is constructed to provide a true measure for hotel real estate performance. The index will enable investors enhance investment decisions in many ways: to assess individual property performance; to make an objective decision about where to invest and in which property type; to assess the relative performance of hotel assets to all other sectors and consequently reach optimal funds allocation decisions. This will allow investors to time their acquisitions/disposals according to the hotel property cycle.

Methods

Data include 495 hotel property transactions in Europe during the period between 2004 and 2013. Transaction prices and property characteristics were collected from a variety sources published by hotel agents and consultants, property magazines, newspapers, tourist board, individual property and hotel association registers and web sites. Data include property name, sale price, size, time of sale, location, buyers and sellers. A hedonic pricing model is developed where the transaction price is regressed on the different characteristics. The index is calculated by taking the anti-logs of regression coefficients of the year index.

Results

This paper claims that the hotel property price index (HPPI) portrays a more realistic picture of what happened to hotel property prices in 2008 showing a single digit negative growth vs the hotel valuation index which reports a double digit negative growth rate in European hotel prices during the same year. The real impact of recession showed on hotel property prices in 2009. HPPI shows a crash in hotel property prices by -23.7 per cent in 2009. The year 2011 was marked by more sales transacted through administrators and a looming double-dip recession. Unlike appraisal-based indices, HPPI does not suffer from sticky valuation issues and is not desensitise from distressed properties. Therefore, it was more volatile to distressed situations throughout the period between 2011 and 2013.

Conclusion

This work has successfully developed an HPPI for hotel properties in Europe. A HPE is estimated to control for variable quality of the different hotel properties in the sample and

separate movement in hotel prices during the period between 2004 and 2013. As a transaction-based index it is more volatile than existing appraisal-based indices. It does not suffer from sticky valuation issues which are characteristic of appraisal-based indices. Further HPPI is more sensitive than HVI and IPD and appraisal-based indices in general because it includes information on distressed assets. Distressed situations are part of the market reality that could provide insight on market opportunities or threats. While HPPI represents a significant development in tracking price movements of hotel properties in Europe, there are limitations to the research due to incompleteness and potential inaccuracies in the data.