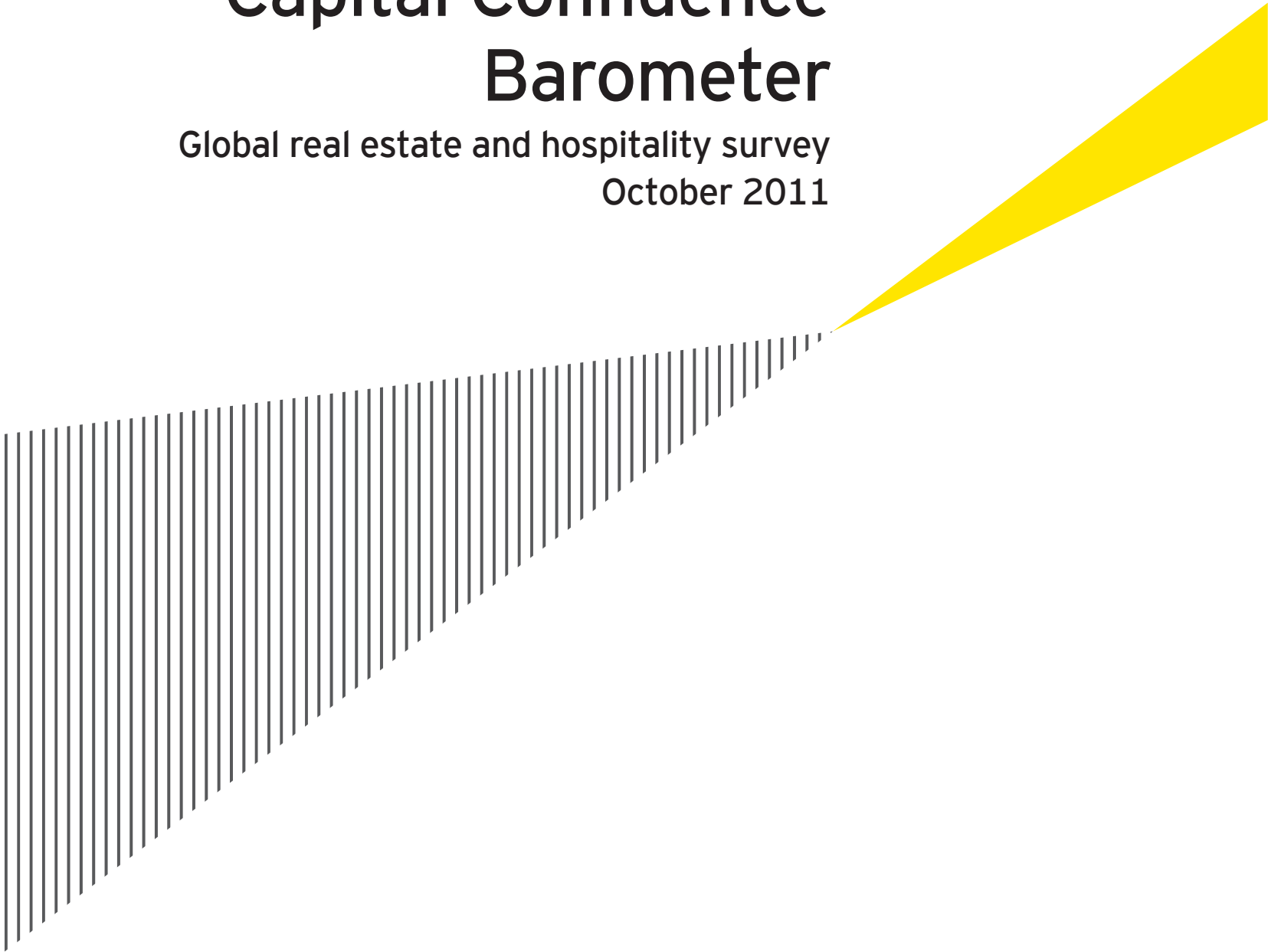


Capital Confidence Barometer

Global real estate and hospitality survey
October 2011



Capital Confidence Barometer

Global real estate and hospitality survey 2011

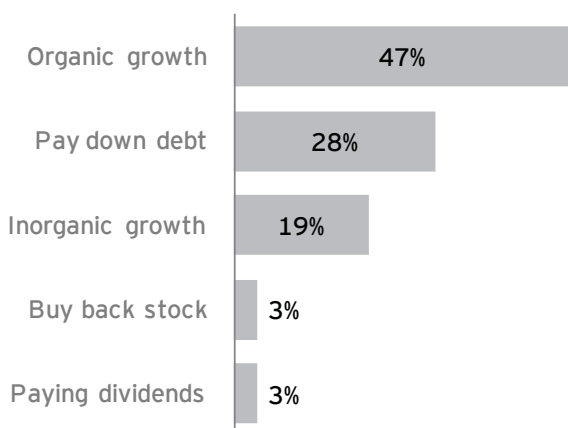
In October 2011, Ernst & Young, in conjunction with the Economist Intelligence Unit (EIU), conducted the fifth semiannual Capital Confidence Barometer survey of senior executives from large companies around the world. Our panel, the “Ernst & Young 1,000” comprises selected Ernst & Young clients and contacts. This survey gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their capital agendas.

Ernst & Young's Real Estate and Hospitality group analyzed the survey results, specifically focusing on responses from real estate and hospitality (REH) companies. Below are some of the key findings:

- ▶ Real estate transaction levels severely declined in the late summer of 2011; the increasing inability to acquire capital and the effective shutdown of the CMBS market limited the number of transactions to levels not seen since 2009. However, despite the slowdown, 72% of REH companies surveyed said they felt the global economy was either stable or improving and were positioning their companies for growth.

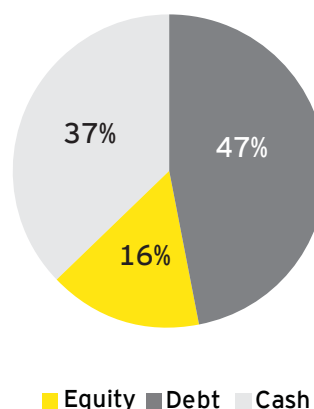
- ▶ Approximately 66% of REH companies with excess cash will focus their efforts on growth, both organic and inorganic, while 28% are focused on deleveraging their balance sheets by paying down debt. (See Chart 1.)
- ▶ With high cash balances and a growing aversion to leverage, 53% of REH companies plan to use cash or non-cash equity as their primary funding source for deals. Those planning to use debt for acquisitions are more likely to use less debt than in previous years. (See Chart 2.)

Chart 1. Distribution of excess cash



Source: EIU and Ernst & Young

Chart 2. Primary source of deal financing in the next 12 months



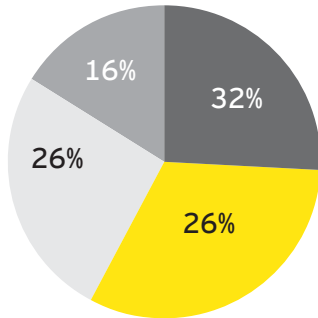
Source: EIU and Ernst & Young

- ▶ As of October 2011, the outlook for fund-raising and investment activity among REH companies is improving as compared with April 2011. The percentage of companies raising capital increased from 16% to 32%, and the percentage likely to invest capital increased from 26% to 34%. (See Charts 3 and 4.) At the same time, REH companies indicated that 66% intend on acquiring assets in the next 12 months.

72% of REH companies surveyed said they felt the global economy was either stable or improving and were positioning their companies for growth.

Charts 3 and 4. Capital management issues receiving the most attention

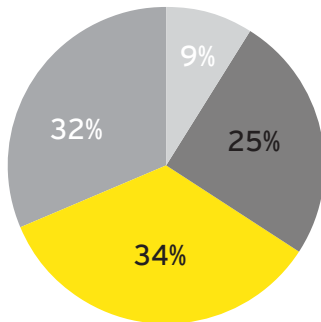
April 2011



■ Capital optimization ■ Capital investment
■ Capital raising ■ Capital preservation

Source: EIU and Ernst & Young

October 2011

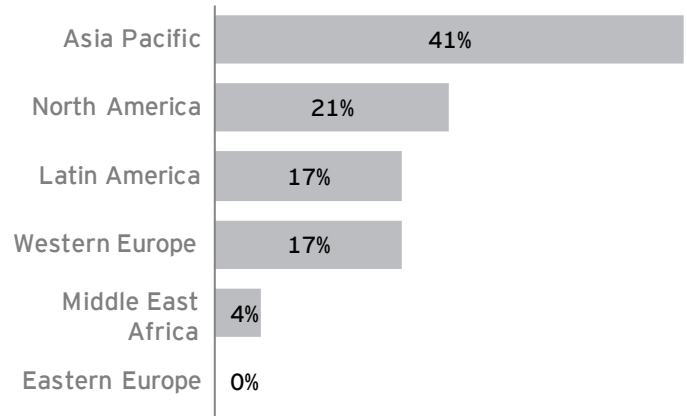


■ Capital optimization ■ Capital investment
■ Capital raising ■ Capital preservation

Source: EIU and Ernst & Young

- ▶ As emerging markets have become the clear leaders in areas of job, income and credit growth, enthusiasm for real estate investing remains strong, particularly in Asia Pacific and Latin America; North America and Western Europe remain attractive investment areas for those seeking core to value-add returns. (See Chart 5.)

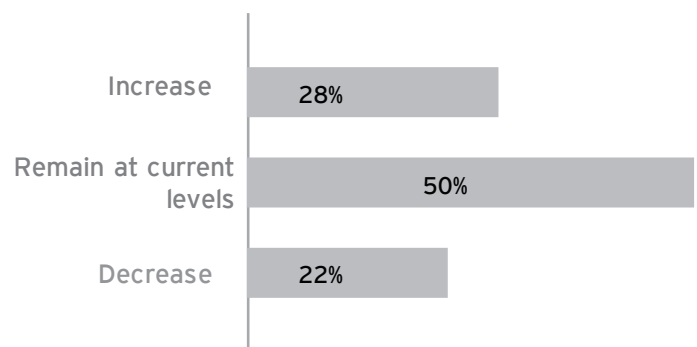
Chart 5. Top locations to invest



Source: EIU and Ernst & Young

- ▶ REH companies are trying to enhance shareholder value by refinancing and divesting underperforming assets. The cost of debt is near historic lows, yet the ability to acquire debt from lenders remains challenging. As of October 2011, 31% of REH companies want to refinance and 34% want to divest assets; however, uncertainty abounds in the likelihood of execution.
- ▶ Growth and deal volume may also benefit from valuation expectations as 78% of REH companies believe asset valuations will remain at current levels or increase in the next 12 months. (See Chart 6.)

Chart 6. Asset price and valuation expectations over the next 12 months



Source: EIU and Ernst & Young

- ▶ Finally, as companies look to invest over the next 12 months, they are performing look-back analyses on recent deals for lessons learned; risks identified that have inhibited expected returns include unforeseen liabilities, such as taxes, human resources and other contractual issues.

Our latest findings clearly show that despite the overall market remaining volatile, REH companies remain optimistic and flush with cash to grow and execute transactions; however, pricing the risk and debt financing associated with these deals will continue to present challenges.

Understanding your capital agenda

A strong capital agenda needs to be at the heart of all strategic boardroom and management decisions. Using the capital agenda will help companies consider their issues and challenges and, more importantly, understand their options to make more informed strategic capital decisions.

1. Preserving capital: reshaping the operational and capital base
2. Optimizing capital: driving cash and working capital; managing the portfolio of assets
3. Raising capital: assessing future capital requirements and evaluating funding sources
4. Investing capital: strengthening investment appraisal and transaction execution

Contacts

If you would like to discuss your company's capital agenda, please contact your usual EY advisor or any of the Global Real Estate or Transaction Real Estate contacts listed below.

Global Real Estate

Howard Roth
Global Real Estate Leader
+1 212 773 4910
howard.roth@ey.com

Rick Sinkuler
Global Real Estate Markets Leader
+1 312 879 6516
richard.sinkuler@ey.com

Ad Buisman
EMEIA Real Estate Leader
+31 88 407 9433
ad.buisman@nl.ey.com

Shohei Harada
Japan Real Estate Leader
+81 3 3503 2033
harada-shh@shinnihon.or.jp

Christopher Lawton
Asia Pac Real Estate Leader
+61 2 9248 5555
chris.lawton@au.ey.com

Michael Straneva
Americas Real Estate Leader
+1 602 322 3610
michael.straneva@ey.com

Transaction Real Estate

Michael Fishbin
Global Leader, Hospitality & Leisure
+1 212 773 4906
michael.fishbin@ey.com

Mark Lunt
Southeast Leader, Hospitality & Leisure
+1 305 415 1673
mark.lunt@ey.com

Troy Jones
West Leader, Hospitality & Leisure
+1 213 977 3338
troy.jones@ey.com

Brian Tress
Northeast Leader, Hospitality & Leisure
+1 212 773 8359
brian.tress@ey.com

Mike Magrans
Senior Manager
+1 212 773 3750
mike.magrans@ey.com

Bruce Kaminsky
Associate Director
+1 215 448 5143
bruce.kaminsky@ey.com

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