

News release

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Hospitality and real estate CEOs optimistic about economic recovery

Nearly half say they are focused firmly on either raising or investing capital.

NEW YORK, NY – 6 July 2011 – Senior executives of hospitality and real estate companies are far more optimistic than their counterparts in other industries about the prospects for the economy, according to the results of a survey released today by Ernst & Young.

Seventy-nine percent of hospitality and real estate executives polled by Ernst & Young and the Economist Intelligence Unit (EIU) for the latest *Capital Confidence Barometer* said they were optimistic about the prospects for the economy, compared to just 66% among executives of more than 1,000 global firms polled.

The heightened optimism among executives in the hospitality and real estate sectors is also an improvement within their industry sectors. Just six months ago, only 57% of hospitality and real estate executives claimed optimism about the economy with a quarter of those polled saying they felt less optimistic.

Not surprisingly, given the heightened sense of optimism among hospitality and real estate executives, a significant proportion are gearing up for what is expected to be an extended period of growth and transactional activity in the real estate and hospitality sectors. In fact, 42% say they are focused firmly on either raising or investing capital.

“The outlook for M&A activity in the hospitality and real estate sectors seems to be brightening. In October 2010, only 20% of executives polled expected to execute a

transaction in the next six months, but that figure more than doubled in our April 2011 survey,” said Michael Fishbin, Global Hospitality Leader at Ernst & Young.

Among transaction types, interest in emerging market and non-distressed asset acquisitions seems to be showing the greatest velocity with interest in emerging markets 50% higher than it was last October, and interest in non-distressed assets 75% higher than the previous survey findings. “For many potential buyers, distressed buys either did not materialize or appeared on less than attractive terms, so we see more companies focused on seeking yield through emerging markets or even more traditional purchases,” Fishbin added.

Companies looking to improve cash flow and M&A opportunities

Of the top five areas of focus for hospitality and real estate companies in the next 12 months, cash flow preservation and liquidity are the prime concern, followed closely by cost reduction and operational efficiencies, according to the survey. Fishbin explains, “Companies in the hospitality and real estate sectors are clearly positioning themselves for the next phase of growth by focusing on ways they can stabilize and maintain cash flow and also preserve capital and reduce costs by instituting operational efficiencies in their company operations.”

Part of this focus on cash flow and costs may be due to companies expecting to pursue new acquisitions in the next six months. Many plan to execute deals with significant cash in addition to modest bank financing. “More companies are moving toward merger and acquisition activity, and we expect deal activity to increase in the next 6 to 12 months,” Fishbin said.

Debt levels don’t seem to be a problem for most companies in the sector – 70% report debt to capital ratios below 50%; and two-thirds of those surveyed claim that access to funding is not a problem for them. However, 42% of firms that are looking to grow plan to fund deals through cash compared to 32% who will tap bank loans,” he added.

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For more on the *Capital Confidence Barometer*, go to www.ey.com/realestate.

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