CEE HOSPITALITY SNAPSHOT

2018

Key Performance Trends in CEE
2017

ADR

Record year in majority of CEE capital cities. ADR has been a primary driver of the growth that should positively impact the bottom line.

Occupancy

Continuous increase in most of CEE cities, especially Warsaw, Sofia and Budapest. Prague hotels are reaching full capacity.

RevPAR

Very strong increase in most of CEE cities, especially Budapest, Warsaw and Sofia.

Source: Cushman & Wakefield 2018

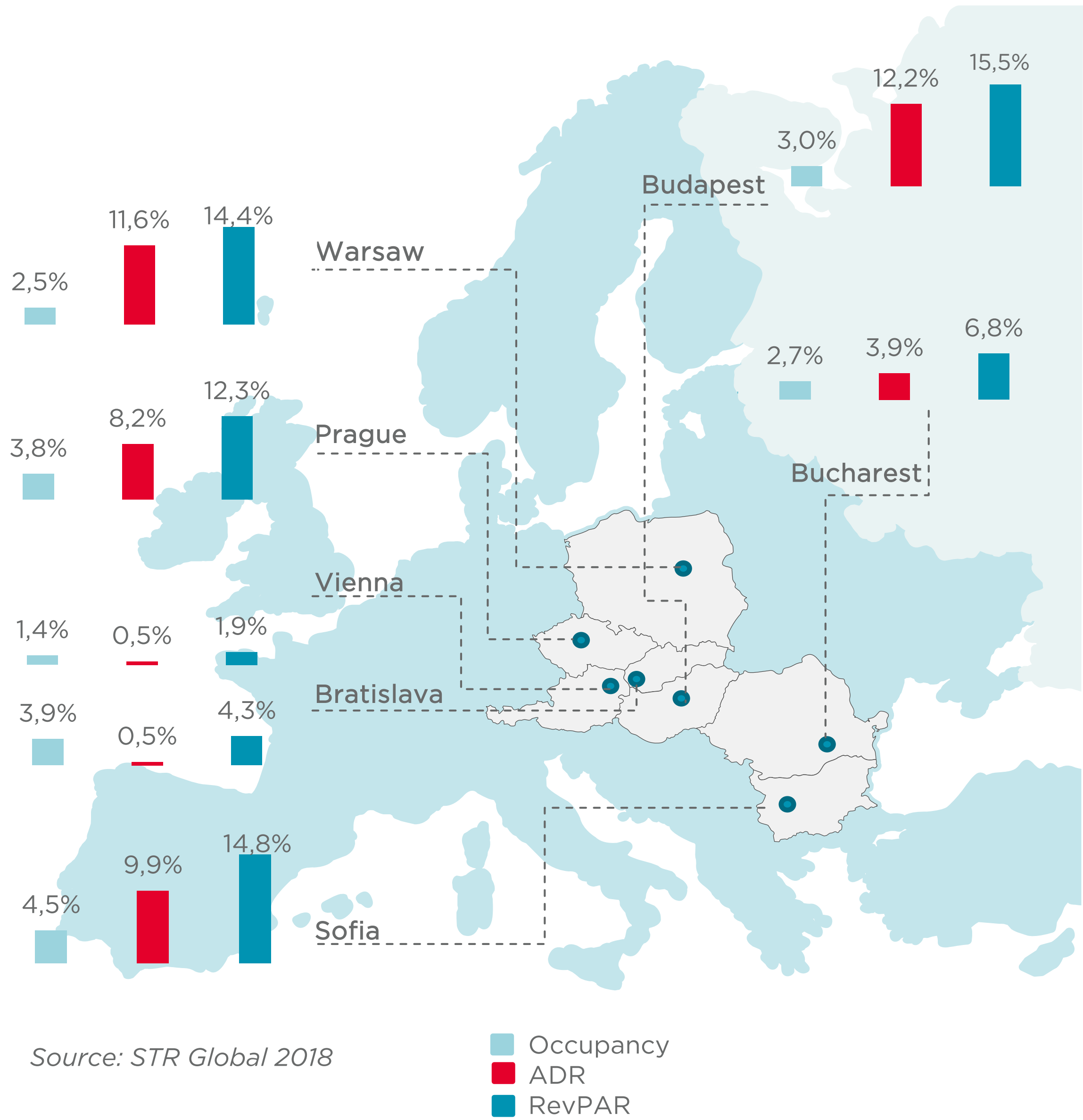
Hotel Market Performance

CEE hotel markets continued to lead the Europe's growth story in 2017. The majority of the hotel markets in this dynamic region achieved continued performance gains in 2017, as they had over the past three years. Central cities including Warsaw, Prague and Budapest recorded double digit RevPAR growth, primarily driven by ADR increases. This is expected to flow through to the bottom-line and translate in solid improvements of profitability. Hotels in Sofia should also see better margins, thanks to the double digit growth in both ADR and RevPAR indicators. While Bratislava and Bucharest experienced softer improvements in hotel KPIs compared to 2016, the RevPAR growth was still very healthy relative to the majority of markets in western Europe. While Vienna saw only a mild increase in Occupancy and ADR, it was still a positive trend, having recorded a drop in 2016.
Even though in some markets the occupancy was still a notable growth factor, it is expected that this will continue shifting towards ADR gains going forward. Indeed, most of the markets are now trading at occupancy rates at or above pre-crisis levels. As the demand continues to grow and the development pipeline remains limited in most markets (except for Warsaw and Vienna), income returns are expected to be strong in the coming years.

Change in KPIs 2016-2017

Vienna continues to lead the region with the highest RevPAR. In 2017, the city reached a RevPAR of EUR 73.0, a marginal increase from 2016. Prague is catching up, seeing a significant increase in 2017 and achieving the second highest RevPAR at the level of EUR 70.1. Budapest followed behind at a level of EUR 65.3. Warsaw is in fourth position at the level of EUR 59.4, trailed by Bucharest with EUR 57.5. Sofia and Bratislava are smaller markets, and their performances are comparable. Sofia achieved a RevPAR of EUR 49.9 in 2017 shadowed by Bratislava with RevPAR of EUR 44.2. It should be noted that all of these markets are polarized with prime 5-star hotels in excellent locations achieving high premiums relative to the average market performance. Whereas a number of large hotels located on the outskirts of the city centers or hotels that are undermaintained are skewing the average KPIs downwards.

To compare the KPIs‘ growth for the first half of 2018 (YTD June 2018) with the same period in 2017, a positive growth can be seen throughout the whole region, except Warsaw. The leading position in terms of the RevPAR growth is held by Sofia with 19.0%, followed by Budapest and Bucharest with 5.5% and 4.7% growth respectively. It might be challenging to maintain such high growth levels in the following months, given the capacity constrains during the peak season and some of the new supply starting to make impact. Nevertheless, 2018 is expected to be the record year in the last decade.



Source: STR Global 2018

Hotel Performance KPIs

	2017				H1 2018
	ADR	Occupancy	RevPAR	RevPAR Growth (in EUR)	RevPAR Growth (in EUR)
Vienna	€ 96.9	75.3%	€ 73.0	+ 1.9%	+ 2.3%
Prague	€ 87.5	80.1%	€ 70.1	+12.3%	+ 2.1%
Budapest	€ 84.3	77.5%	€ 65.3	+15.5%	+ 5.5%
Warsaw	€ 75.4	78.8%	€ 59.4	+14.4%	− 1.9%
Bucharest	€ 78.1	73.6%	€ 57.5	+ 6.8%	+ 4.7%
Sofia	€ 76.1	65.5%	€ 49.9	+ 14.8%	+ 19.0%
Bratislava	€ 63.6	69.5%	€ 44.2	+ 4.3%	+ 4.6%

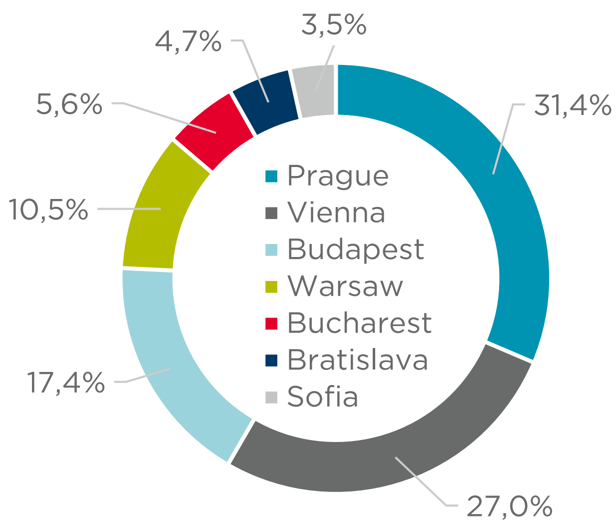
Source: STR Global 2018

Demand – Big Picture

The year 2017 saw an influx of tourists across seven key cities in the CEE region. The total number of overnight stays in Prague, Vienna, Budapest, Warsaw, Bucharest, Bratislava and Sofia reached 57.5 million, up by 6.5% compared to 2016. This represented additional 3.5 million overnight stays in the region. This was in line with the positive trend over the last 5 years. The average annual growth rate in overnight visitation across the 7 cities was 6.1% between 2013 and 2017. This represents a robust increase of more than 12.1 million overnight stays over the 5-year period.

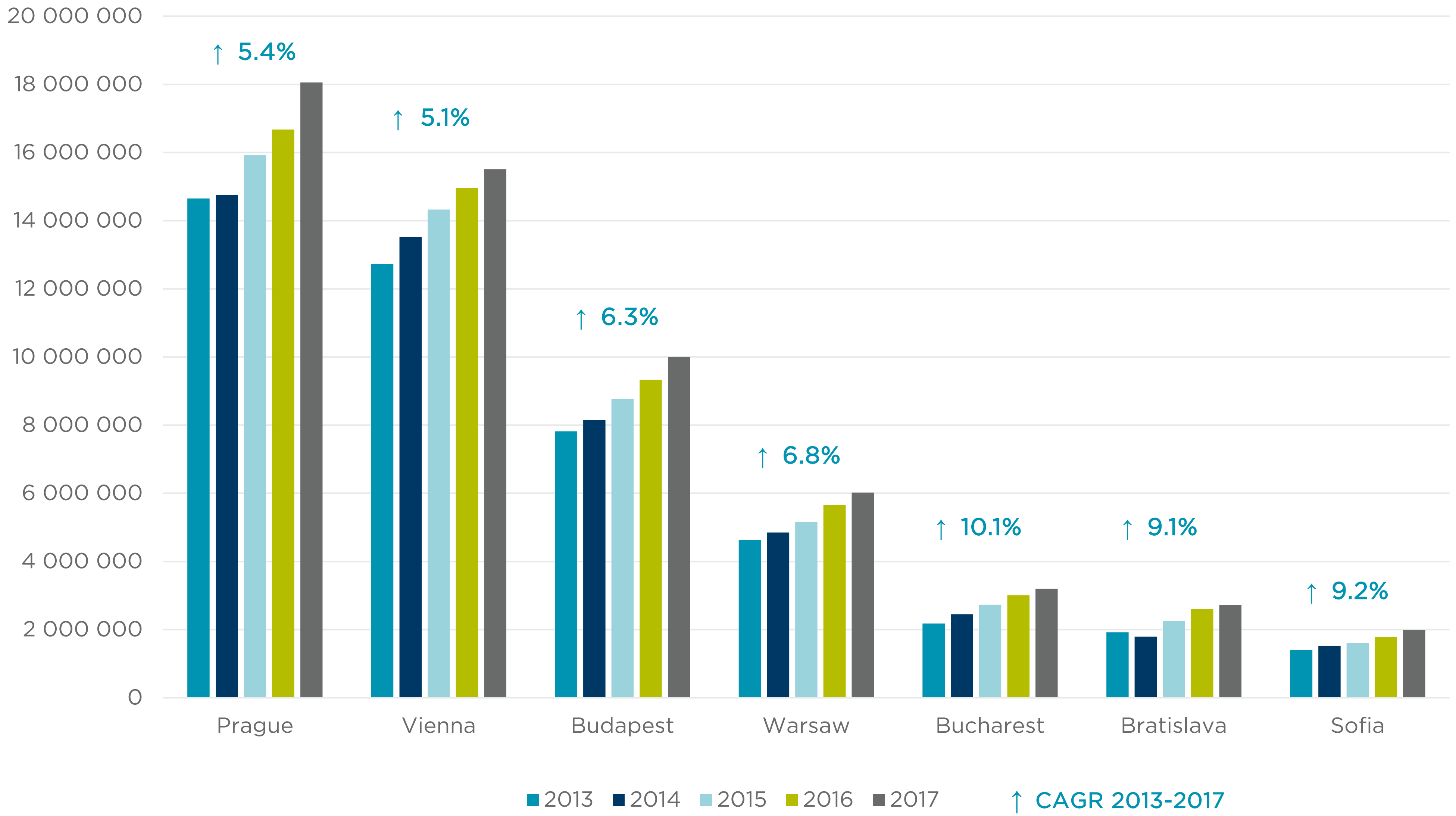
This rising demand trend is expected to continue, although some cities are likely to experience a milder growth in the following years, as they become more expensive and/or reach the full capacity during the peak season. Nevertheless, the growing trend is anticipated to continue, driven by new demand sources, particularly from Asia and Middle East.

PERCENTAGE SHARE OF OVERNIGHT STAYS IN CEE REGION 2017



Source: Relevant statistical offices

Demand – Overnight Stays



Source: Relevant statistical offices

Demand – Key Cities

The demand in the region is dominated by Prague which captured over 18 million overnight stays in 2017. This represented nearly one third of the total overnight stays in the seven selected cities. Vienna continues to be the second largest market in the region, attracting over 15.5 million overnight stays in 2017. Both cities have been experiencing healthy visitation growth in recent years, taking advantage of the rising leisure tourism across the globe.

Budapest is also a popular tourism destination, taking third place within the CEE region. The profile of the city is similar to Prague, although it is less developed in terms of a hotel product, which provides opportunities for further expansion.

Warsaw has also potential for growth in visitation, as it currently captures relatively less overnight stays, despite being the capital city of a much larger country. The Polish capital needs to increase its awareness as a tourism destination in order to tap into the fast growing international leisure demand. Nevertheless, the strong domestic market helps Warsaw to be less sensitive to the turbulences in international tourism and faces lower risk in case of global economic downturns (as proven during the economic recession in 2008 and following years).

Similarly, demand in Bucharest is dominated by the corporate segment and lacks stronger leisure demand. Despite this, the average market occupancy is relatively high (73.6% in 2017) with leading international hotels running at annual occupancy levels of over 80%, reaching full capacity 6 months of the year.

Bratislava and Sofia have seen an encouraging increase in tourism visitation in recent years. However, both cities remain to be relatively small hotel markets primarily driven by the corporate demand with average annual occupancy levels currently below 70%, but rising.

All CEE markets have been experiencing an economic upturn which attracts interest from investors seeking higher income growth opportunities relative to sluggish economies in western Europe.

Supply

Overall, the supply in the selected cities has been growing by c. 1-2 % annually over the past 5 years. This limited development has helped to recover from the last downturn and let to high performance growth. This is expected to continue in 2018 across most markets albeit at a slower pace.

In terms of the pipeline in the key CEE markets, 2018 is expected to be relatively moderate with some 3,500 additional rooms. The key openings include Renaissance Airport and Raffles in Warsaw, Mama Shelter in Prague and Parisi Udvar Hotel - The Unbound Collection by Hyatt in Budapest. Although the latter might spill into the next year.

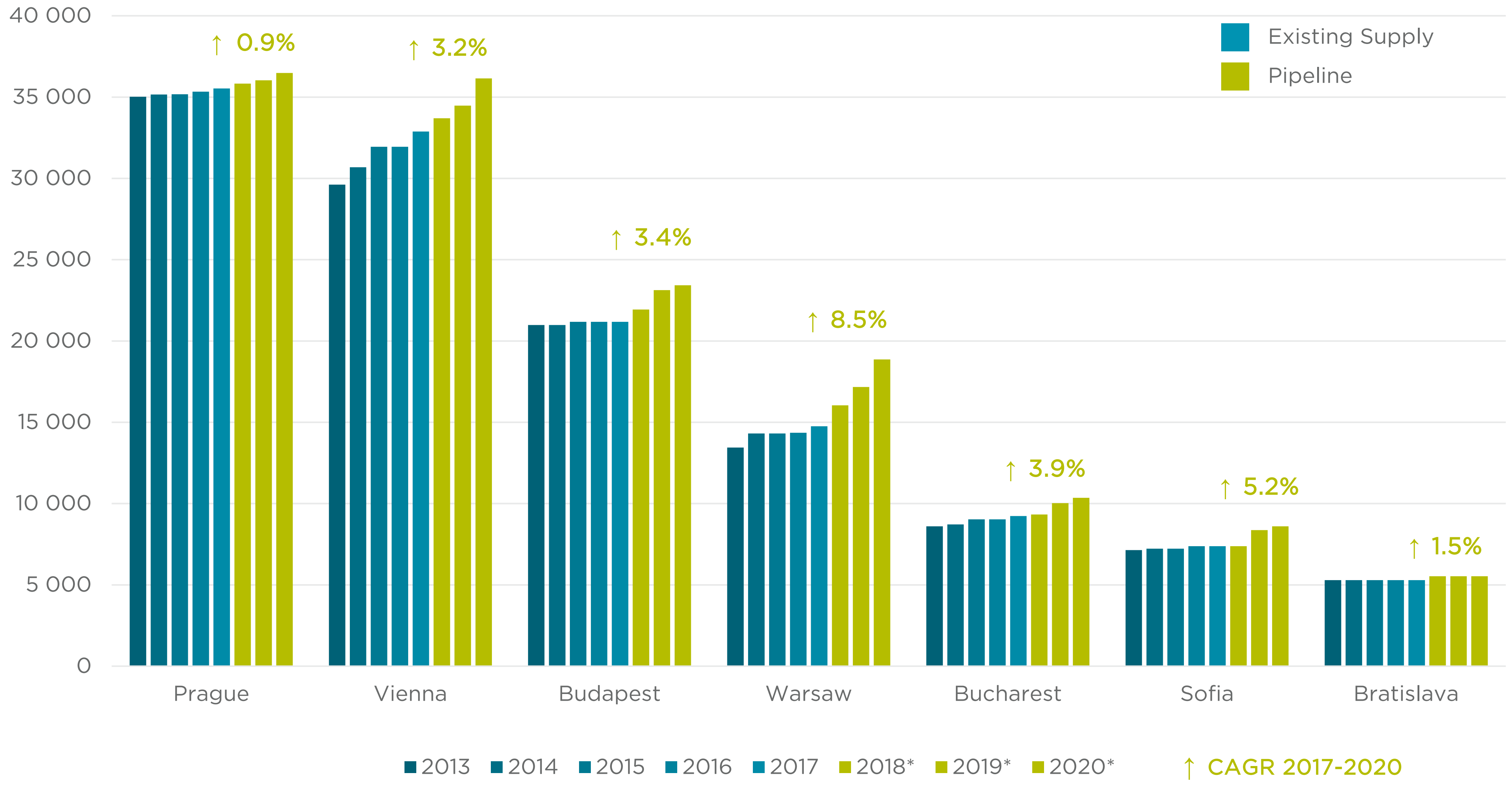
2019 is expected to be the most active year of the forecast with almost 5,000 rooms to be added to the core markets. The openings will for example include 7 Ibis hotels in Poland.

Overall, there are more than 13,000 rooms that are expected to be added within next three years, in the categories ranging from midscale to luxury. The development pipeline is especially strong in Vienna and Warsaw.

As the markets continue to recover and finance becomes more available in some of the markets, it is expected that the hotel development activity will grow further. However, in Prague, Budapest and Vienna it is relatively difficult to find available land or vacant properties in central locations that would allow for large hotel development or conversions. These cities are therefore more protected than Warsaw, Sofia and Bratislava.

At this stage, the demand is still outpacing supply, and we do not expect to get to an oversupply situation in any of the markets in the near future, except for Warsaw with a strong pipeline in the coming years.

Supply


40 000
35 000
30 000
25 000
20 000
15 000
10 000
5 000
0
↑ 0.9%
↑ 3.2%
↑ 3.4%
↑ 8.5%
↑ 3.9%
↑ 5.2%
↑ 1.5%
Existing Supply
Pipeline
Prague
Vienna
Budapest
Warsaw
Bucharest
Sofia
Bratislava
2013
2014
2015
2016
2017
2018*
2019*
2020*
↑ CAGR 2017-2020

Selected Hotel Openings in CEE 2018

PROPERTY	SUBMARKET	NUMBER OF ROOMS	CATEGORY	OPENING DATE
Renaissance Warsaw Airport Hotel	Warsaw	225	Upscale	Q2 2018
Raffles Europejski Warsaw	Warsaw	103	Luxury	Q2 2018
MOXY Warsaw Praga	Warsaw	141	Economy	Q3 2018
Mama Shelter Prague	Prague	238	Midscale	Q3 2018
Meininger Hotel Budapest	Budapest	184	Economy	Q3 2018
Ibis Styles Bucharest Erbas	Bucharest	96	Economy	Q3 2018
Ibis Styles Warsaw Centrum	Warsaw	197	Economy	Q4 2018
Niu Franz Hotel	Vienna	159	Upscale	Q4 2018
Parisi Udvar Hyatt	Budapest	108	Luxury	Q4 2018

Source: Cushman & Wakefield

Hotel Investment

The hotel investment activity in the major countries of the CEE region had been relatively quiet during the initial post crisis period, with only a few large single asset transactions. However, since 2013 the hotel investment market became more active. Especially the last three years saw a strong increase in investment activity. This improvement was a result of several trends such as the willingness of banks to finance hotel acquisitions, improvement of hotel performances and the interest of a wider group of investors (especially the opportunistic ones) in the region.

The investment volume transacted in 2015 was more than EUR 700 million. The market recorded over 40 hotel transactions in the CEE region, compared to c. 20 in 2011 and 2012.

In 2016, there was even larger volume of transactions amounting to c. EUR 1,355 million. Austria recorded a significant investment activity in 2016 with c. EUR 861 million in transactions, driven by a couple of large dispositions, namely the Hilton Vienna that was sold for EUR 200 million and the NH Vienna Airport (Portfolio sale) that transacted at approximately EUR 118 million.

In the other CEE markets investment volume was down in 2016 compared to 2015, especially in Poland which more than halved in volume despite the notable sale of the Westin Warsaw for EUR 56 million.

The Czech Republic was down only slightly, with two notable transactions including Hilton Old Town Prague and Marriott Prague that were sold for EUR 85 million and EUR 87 million respectively.

2017 saw a very healthy year in terms of transactions all over the CEE region. The leading country in 2017 in terms of hotel transaction volume was Austria with over EUR 791 million (32 transactions) followed by Poland with over EUR 402 million (15 transactions), and Czech Republic with nearly EUR 236 million (7 transactions).

The first half of 2018 have seen a slowdown in investment volumes in the CEE region with only about EUR 440M transacted. This was nearly half compared to over EUR 990M in H1 2017. The key reason was the lack of properties offered for sale, despite the growing interest from the investors. The second half of the year looks more promising with several notable deals being recently completed or under way.

The general trend is that there was a rise in portfolio deals such as Mercure and ibis portfolio in Budapest (2017). Also lease deal structures are increasingly frequent, with one of the most significant transactions being the Motel One in Prague (2017) which sold for a yield of c. 4.4%, quite an aggressive level by market standards.

Generally, both developers and investors are now considering hotels in CEE as an attractive asset class, scouting for development and acquisition opportunities. Given the strong performance of hotels and robust investment market with compressed yields, the gap between sellers and buyers expectations is narrowing. This should create more opportunities for owners of quality assets to harvest their investments by selling their properties to investors seeking stable healthy cash-flows and increasingly willing to pay the price.

Contacts

David Nath MRICS
Partner
+420 776 168 555
david.nath@cushwake.com

Alina Cazachevici
Senior Analyst V&A
+420 606 097 791
alina.cazachevici@cushwake.com

Bořivoj Vokřínek
Partner
+420 727 906 030
borivoj.vokrinek@cushwake.com

Frédéric Le Fichoux MRICS
Partner
+420 724 319 802
frederic.lefichoux@cushwake.com