Horwath HTL

HOTEL Yearbook 2015

FORESIGHT AND INNOVATION IN THE GLOBAL HOTEL INDUSTRY

A special excerpt from The Hotel Yearbook 2015

The 2015 outlook for key geographic markets in Europe

Exclusive country reports from Horwath HTL

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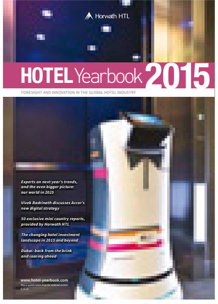

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2015 COUNTRY REPORT

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We offer a broad range of advisory solutions that covers the whole cycle of the hotel product, starting with planning and development, on to asset management and operational advice, to transactional and financial restructuring. At any stage, Horwath HTL will add value to your project and ensure that you receive the very best support every step of the way.

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AUSTRIA

by ***Gerald Kroell***

2014 SNAPSHOT

- Austria's GDP increased by 0.6% in the first half of 2014 vs. 2013, with the travel and tourism sector revenue index for Q2 2014 increasing by 3.2% compared to last year's results. The country's unemployment rate was 5.0% at the end of Q3, the second "best" performer in the EU28. However, this was a slight increase (0.2%) compared to 2013.
- Austria was ranked 6th in the Europe 2020 Competitiveness Report 2014 by the World Economic Forum.
- Total arrivals YTD were 32.6 million, with a 1.8% increase YoY, while a 0.8% decrease in overnights indicates shorter stays, a trend which has consistently increased over the last few years.
- YTD total decrease of -0.8% in overnights (-1% for international guests, -0.4% for domestic guests).
- Especially the European inbound markets are showing a trend towards a shorter length of stay compared to last year, at an equal number of arrivals.
- City tourism is booming (Vienna +5.9%, Salzburg +3%).
- Positive OCC performance in comparison to Europe (+3.29% YoY). Austria traditionally lags behind in ADR and RevPAR. For example, ADR is behind Europe by EUR 15.60, even widening the gap by 1% YoY. RevPAR is behind European averages by EUR 9.13.
- Winner of Horwath HTL Austria's Investment Ranking 2014 was Motel One with an AAA rating. Steigenberger is seen as preferred investment partner.

Snapshot	Vienna	Austria	Europe
GDP per capita (EUR) 2013		37,000	28,600
GDP growth		0.8%	0.8%
Unemployment rate		5.0%	11.6%
Fiscal deficit of GDP		-2.8%	-2.6%
Inflation		1.7%	1.4%
Occupancy*	71.50%	70.8%	69.55%
ADR (EUR)*	94.41	94.23	106.64
RevPAR (EUR)*	67.52	66.71	74.07

*KPI's stated are YTD of Spt 2014 as provided by STR Global

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Niche segments like serviced apartments (aparthotels) will play an increasing role. For example, Wienwert Serviced Apartments Vienna is a concept offering places to stay in traditional and historic buildings with an anonymous 24-hour self-check-in and decent service.

The BRIC markets are developing at different paces: China continues to grow (+17.95% YoY). On the other hand, in the summer season Russia (one of Austria's hope markets) declined 11.3% in overnight stays YoY. Due to the positive development of the US currency and economy, the USA may be considered such a market in the near future. Increasing numbers from Eastern European countries like Poland and the Czech Republic show great potential. The main markets – Germany, Netherlands and Italy – will decline slightly in 2015.

The impact of climate change will influence tourism in Austria. Depending on weather conditions, for example, ski areas cannot open on time, and temperatures are too high for artificial snow production. There is growing demand for activities and products that are independent of weather conditions.

__Gerald Kroell__ is Managing Director of Horwath HTL Austria. He graduated from the University of Applied Sciences in Krems in the program "Tourism Management & Leisure Industries", upon which he gained over 15 years' experience in the national and international hospitality industry, holding various positions up to General Manager. Within Horwath, he is a specialist in the business lines Hotel Asset Management, Valuation and Tourism Development.

With 15% in total overnights, the health and wellness sector is an important future market. The overall goal is to reach 140 million overnight stays through 2018. Demographic changes, which means a more elderly, but also more agile population, are drivers for demand.

The demand for investment opportunities in Austria's touristic regions increased tremendously in 2014. There is growing interest from Asia, especially in the Viennese hotel real estate market. Investors are looking for AAA locations and properties, especially in Vienna, Innsbruck and Salzburg. Hotel groups Will be riding this trend and looking for locations in destinations with more than one million overnight stays.

As an effect of the Sharing Economy, AirBnB and private apartment homes /residences are challenging the traditional hospitality

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**KPI's stated are forecasts based on the Horwath HTL forecasting model

*As senior consultant with Horwath HTL, **Marco van Bruggen** has carried out over 150 market analyses, feasibility studies and valuations for stand-alone and mixed-use projects including hotels, meeting centres, golf courses and leisure facilities in The Netherlands, Belgium and Luxembourg, in addition to coordinating the annual Hotel Statistics (HOSTA) for the Benelux.*

BELGIUM

by ***Marco van Bruggen***

2014 SNAPSHOT

- The political situation in Belgium remains uneasy, with a new center-right coalition taking office in October 2014, dominated by Flemish parties.
- The economy in Belgium improved in 2014, with the economic growth rate increasing from 0.2% in 2013 to 1.4% in 2014. The Flanders region can be considered the main engine for economic growth, posting a 1.5% increase.
- Paralleling the economic development, hotel occupancy levels have increased by 2 percentage points in 2014. In the capital city of Brussels, the average occupancies increased by 2.5 percentage points.
- With increased occupancy, Belgian hotels were also able to increase the average room rate by approximately 1%, resulting in a 4% increase in RevPAR. In Brussels, the increase in the average room rate was slightly lower at 0.5%, but due to the higher occupancies, the increase in RevPAR also came in at 4%.

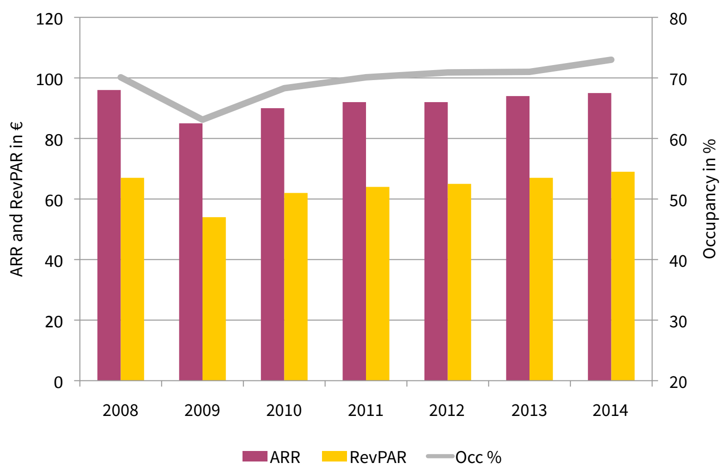
BUSINESS SCENARIOS FOR 2015 AND BEYOND

Following the improved economic growth of 2014, the economy is projected to continue to increase, by 1.8% in 2015 and by an average of 1.6% per annum in the following years.

The projected economic growth is expected to be visible in the development of the demand for hotel rooms in Belgium as well. As a result, both occupancies and average room rates are expected to continue to increase, both in Brussels and in the rest of the country.

New hotel developments continue in most of the main hotel regions in Belgium, including Brussels, causing uncertainty for the existing hotel market. Research by Horwath HTL shows that more than half of the hoteliers in Belgium expect the local hotel market to be impacted negatively by new hotel developments. In Brussels, this is true for two thirds of the hoteliers. Meanwhile, a positive impact is expected from not only local economic growth, but also from local tourism developments.

Occupancy, Average Room Rate and RevPAR 2008-2014

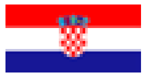


Source: Horwath HTL **) Preliminary figures*

__Kristina Milin__ (MA) is a consultant at Horwath HTL Croatia. She finished her MA degree at the University of Zagreb in the Faculty of Economics and Professional Development Program and the School of Hotel Administration at Cornell. She joined Horwath HTL in 2012 and has been involved in over 30 hotel and tourism development projects in SEE Europe. Her main areas of expertise are hotel developments & concepts and market analysis.

CROATIA

by ***Kristina Milin***



2014 SNAPSHOT

- In 2014, Croatia continued to record positive growth rates of the physical indicators of tourism activity – growth of arrivals amounted to around 5%, while overnights recorded a 2.5% increase compared to year 2013.

- Unlike the tourism sector, Croatia's economic sector continued its further deterioration, with 2014 the sixth year in a row to see a GDP decrease (YoY -0.6%). The year 2015 is forecasted to be a year of positive shift where GDP should rise a modest 0.2%.

- In April 2013, the Croatian Parliament adopted the Tourism Development Strategy for 2020. The ultimate goal set by the strategy is to enter the top 20 countries in tourism competitiveness. Other strategic goals include improving the accommodation structure (more hotels, less private accommodation), 20,000 new jobs in the tourism sector, EUR 7 billion in new investments and EUR 14.3 billion in yearly income from tourism in 2020.

- European Coastal Airlines (ECA) started operations in 2014 with seaplanes – the first in Europe to offer scheduled service. Initial destinations include Split, Split Airport, Hvar, Rab, Zagreb and Pula. Further plans include introduction of new destinations, including Dubrovnik, Ancona, Zadar, Korčula, Lastovo and Vis.

- Istraturist Hotel Company (9 hotels and 7 apartment villages), holding assets in Umag, Istria, was sold to Luksic Group. Previously, in 2011, Luksic Group purchased Adriatic Luxury Hotels in Dubrovnik.

- Several new hotels were (re)introduced on market, including the Valamar President in Dubrovnik, Hotel Royal in Opatija, Hotel Bellevue in Lošinj and others. Construction of the Sheraton Župa Dubrovačka was launched in 2014. Construction of the nautical marina Slano, near Dubrovnik, began in October 2014. The marina will have a capacity of 200 berths for vessels ranging from 11 up to 25 meters.

- Value added tax on hospitality services, previously set at 10%, increased to 13% starting in January 2014, raising concerns about price competitiveness of the Croatian tourism sector.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Croatia is expected to present a new tourism communication concept ("Big Idea") that will become a focal communication and marketing toolkit. In addition, a shoulder season program (Croatia365) has been launched, aiming to attract more business in the shoulder season period. An initial list of 22 destinations included in the program will be further enlarged in 2015 – providing a rising number of destinations with a full range of services and products available not only within the main season, but also in the shoulder season periods. The Croatian Tourism Board expects visible results from the programme within a few years.

Croatia still has numerous attractive tourism assets that are currently out of use (due to war damage, unfinished privatization, restructuring, etc.) The Croatian government is expected to offer various assets to the private sector, whether via selling them or through a concession model. Some of the most interesting projects include Kupari, Plat and Brijuni Islands.

There are several big development projects planned to be intensified during 2015, including the Dubrovnik Golf Resort and Cres Golf Resort. Several hotel projects will be also opened in the following years, including a Sheraton near Dubrovnik – becoming the biggest Sheraton hotel in the region.

The growth of the Croatian tourism sector in 2015 is forecasted between 3% and 5%, while the Croatia365 and "Big Idea" efforts would probably generate more impact in the mid-term.

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CYPRUS

by ***Christos Michaelides***

2014 SNAPSHOT

- Cyprus as a tourism destination attracted a satisfactory number and increase of visitors compared to previous year.
- The island attracted 1.73 million visitors between January and August 2014. Compared to 2013 figures for the corresponding period, this amounted to an increase of 5.9%; however, tourist arrivals for August 2014 alone reached an increase of 5.6% and revenue generated from the busy holiday month of July reached EUR 321.2 million.
- The British holidaymaker continues to play a vital role in Cypriot tourism. However, only a slight increase of 1.5% in tourist arrivals was recorded from the United Kingdom this past year.
- A newly emerging Russian market, from which arrivals rose 17% on an annual basis, appears to be upholding Cypriot tourism.
- The government completed the first phase of the procedure for granting a license for a resort casino with specifications of the same standards as those of the biggest casinos around the world.
- Airlines from United Emirates offer daily flights to Cyprus, liberalizing the air routes between the two countries, while Cyprus Airlines is in the process of selecting strategic partners.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Despite all the negative economic predictions, Cyprus insists on not letting this crisis go to waste and is determined to turn it into an opportunity to become a more competitive international business center.

Investment in multipurpose developments such as casinos, luxury marinas and theme parks are part of a wider project to upgrade Cypriot tourism. There is a clear scope to extend the tourist season beyond the popular summer months, focusing on special interest areas such as environment, sports, nautical and agriculture, conferences, and theme parks developing alternative tourism.

A major luxury marina project is being developed in Cyprus' coastal city of Limassol, with thousands of visitors this season, and more marinas are planned for Paphos, Ayia Napa and Larnaca, providing residential and retail investment opportunities. The Cypriot government is also encouraging the development of a Scientific Technological Park, and the Ministry of Energy, Commerce, Industry and Tourism has already put together a proposal for its construction and operation. This strategy aims at decreasing seasonality, and it is expected to contribute to the decrease of unemployment during the winter period.

During the 2014-2020 period, Cyprus will be granted EUR 955 million from the Structural and Cohesion Funds in the context of the EU Cohesion Policy. It is expected that the tourism sector will benefit from this funding in order to encourage actions for strengthening competitiveness, supporting investments and encouraging synergies for upgrading and promoting Cypriot tourism.

Philippe Doizelet is Managing Partner of Horwath HTL based in Paris. Before joining Horwath HTL, he was Corporate Head of Research at Accor. Philippe's business skills include market and feasibility studies, due diligence services, appraisals and hospitality strategy. Philippe held positions as senior consultant with KPMG Leisure and Tourism and was Strategic Project Manager with Europcar International car rental, and has over 25 years of international experience in the hospitality, tourism & leisure sector.

FRANCE

*by **Philippe Doizelet***

2014 SNAPSHOT

- The economy of France has been at a standstill for a few years now, and as analysts look back on 2014, the country expects to have recorded a growth of its economy of less than 0.5%, for the third year in a row.

- Still, tourism remains one of the bright spots of the French economy. Tourism spending grew by 1.4% in 2013 and is expected to grow by 2.2% in 2014 according to the WTTC. It is observed that the drop in French domestic travel is offset by the growth of high-spending foreign visitors. For hotels, it means an overall stable climate, in which upscale and luxury hotels in key tourist areas keep growing, whereas the hotel climate is more challenging in the rest of the country.

- As per STR Global data, French RevPAR growth as of YTD September 2014 remains moderate at EUR 115 (or -1.3%) versus 2013. Prospects for full-year 2014 confirm a RevPAR decrease in the range of -0.5% to -1.5%. This performance in RevPAR is driven mainly by a drop in ADR combined with a slight decrease in occupancy.

- Paris is still one of the leading hotel markets in Europe, as the shortage of supply and the continuing growth in arrivals sustain high occupancy and RevPAR, most perceptibly in the upscale and luxury market.

- Paris and key regional cities remains attractive for hotel investors.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Historically, French RevPAR has been driven by the growth of GDP and boosted by major events like the soccer World Cup in 1998 or the rugby World Cup in 2007. Unfortunately, no such major event is scheduled in France until the soccer Euro in 2016 and the Ryder Cup in 2018. Consequently, the outlook for 2015 is at par with 2014.

OECD forecasts a growth in French GDP of 0.9% in 2015, comparing favorably with the 0.4% growth rate in 2014. In this context, RevPAR growth for 2015 could be in the range of 0% to 2%, depending on the price sensitivity of demand. The current ADR and RevPAR growth in luxury hotels in Paris will be further put to the test with the recent opening of the Peninsula in August 2014 and the forthcoming re-opening of two iconic properties, the Hôtel de Crillon under the Rosewood flag in 2015 and the Ritz later that same year.

France's economic and political environment should remain stable in 2015. The need to improve the appeal of France as a destination has been emphasized again by the current Minister of Foreign Affairs. Nevertheless, labor costs remain very high with a shortage of qualified hotel staff, and recently increased taxes will further impact the profitability of hotels. It is anticipated however that public reforms should accelerate in 2015 and beyond.

In brief, France remains the number one tourist destination in the world, and further growth is expected. French hotel supply has remained stable in volume for several years now, and a significant share of it is obsolete or ill-adapted. This generates opportunities in the Paris area and key regional markets where hotel investment remains most wanted among real estate asset classes.

COUNTRY REPORTS

__Marius Gomola__ is Managing Director, Horwath HTL Hungary & Horwath HTL Russia. He built his hospitality industry management and consulting experience in Canada with leading hospitality companies, and has now been involved in over 1000 projects including a wide range of feasibility assessments for hotels, resorts, serviced apartments, youth hostels, golf courses, conference centers, spas, and vacation ownership developments on four continents.

HUNGARY

by ***Marius Gomola***

2014 SNAPSHOT

- 2014 is going to be registered as the turning-point year, although the tangible evidence to support this statement is yet to demonstrate itself.
- In reality, the circumstances to push the economy to notable and sustainable growth were not ideal, to say the least, with the legislative environment giving rise to serious concerns, the continued weakening of the local currency (HUF) against the major currencies, and the serious political turmoil in neighboring Ukraine all having posed unexpected challenges.
- Nevertheless, the economy has grown faster than in most EU countries, and key economic indicators confirm a positive direction.
- Even the pessimists concerned with business risks in Hungary have remained interested as the years of inactivity in the real estate market continue to present undeniable opportunities at attractive pricing levels, despite the less than investment-friendly general business climate.
- Investor interest is also supported by a clear turnaround of the attitude of the banks, which are finally starting to provide financing.
- For the average tourist, Hungary is equated with the ever-increasing popularity of Budapest, a very attractive value-for-money destination.
- Hotel occupancies kept climbing in the capital, and a select few thermal spa destinations have continued to fare well despite the still weak domestic market.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Despite the challenges caused by the sudden economic slowdown in the key EU economies and the Russian crisis-caused sanctions, the sheer fact that the banking sector has the desire and the ability to lend under acceptable conditions is allowing the real estate market to experience an upturn. While real estate investment activity is still minimal and mostly driven by local players, international investor presence is notably expanding again.

The hotel sector is being viewed with selective and cautious interest by banks. The lending parameters limit investor extravagance and restrict development to the mid-market sector, but that is hardly surprising as ADRs have only been inching up at a snail's pace despite healthy occupancies.

The completion of high-profile hotel and real estate transactions slated for hotel developments by Middle Eastern investors with deep pockets will likely result in the start of planning, and possibly even construction activity. Nevertheless, any new addition to the supply in the upscale and luxury tier will likely be pushed to 2016 and beyond.

Greatly disappointing the tourism industry community is the apparent delay or even possible cancellation of the promised Budapest Convention Centre. The BCC would have served as the single biggest facilitator of ancillary investment in the capital's tourism industry. The much anticipated ability to take MICE and even corporate tourism to a different level in the two segments – both of which have a long way to go to recovery – will have to wait its turn.

In the absence of the ability to book citywide events throughout the year now that the convention center is out the window, the upscale hotel sector needs to fill rooms with leisure groups. These are on the rise partially due to popular luxury Danube river cruises which keep bringing volume to the capital generating pre- and post-cruise stays. Such demand segments actually hinder hotel price growth, though, and their economic impact is laughable compared to city-wide MICE events.

Spa destinations will continue to show their resilience, as demand is successfully fueled by a mix of international and domestic markets in changing proportions, reflecting the local consumers' purchasing power – or lack thereof.

Expect to see exciting investments in the hotel real estate sector, which will be the forerunners of a yet-to-be-pinpointed but anticipated game-changing activity in Hungary's hotel industry.

__Anne Walsh__ is the Director of Horwath HTL, Dublin. She provides a full range of services to the hotel and tourism sector, including business owners, operators, developers, financial institutions and government agencies. Anne specializes in the areas of business planning, strategic reviews, asset management, cash-flow management, property benchmarking and project finance.

IRELAND

*by **Anne Walsh***

2014 SNAPSHOT

- Ireland continues to see a twin-track recovery, with the Dublin market out-performing regional hotels. RevPAR performance in Dublin has experienced a 5th consecutive year of double-digit growth in 2014, and industry observers predict Dublin's RevPAR growth will be among the highest year-on-year RevPAR growth rates in Europe. This strong growth has been driven by high demand, with occupancy levels in Dublin hotels return to levels previously seen at pre-recessionary times.

- Hotels across all other regions have also been experiencing improved performance, with a recent survey reporting over 80% of hoteliers nationwide recording an increase in average room rate in 2014.

- The general economic environment has stabilized, resulting in an increase in business and consumer confidence and discretionary spending.

- The retention of the 9% VAT rate (reduced from the rate of 13.5% in 2011) has had a positive impact across all hotels, particularly regional properties. It is reported that the reduced VAT rate has supported the creation of more than 33,000 jobs since it was introduced in 2011. The 9% VAT rate will be retained for 2015.

- For the first time since 2008, overseas visitor numbers for 2014 are expected to exceed 7 million. There has been significant growth from each of the key source markets (Great Britain, North America, Germany and France), in particular Great Britain and North America.

- In February 2014, Tourism Ireland and Fáilte Ireland launched the Wild Atlantic Way, the world's longest coastal driving route stretching 2,500 km along the Irish west coast from Donegal to West Cork. The Wild Atlantic Way has been a major boost for tourism in the West, bringing new demand for hotels located along the route.

- The Irish hotel transaction market has seen considerable pace in 2014, with total hotel sales set to be close to EUR 1 billion for the year, making 2014 a record year for hotel sales. This uplift has been driven by portfolio sales of hotel assets – something that hasn't been seen in the Irish market for over a decade. Hotel values can vary greatly dependent on location, with Dublin hotels achieving values upwards from EUR 150,000 per key, while hotels in regional secondary or tertiary locations selling at prices of about EUR 20,000 to EUR 50,000 per key.

- Significant discounts to replacement costs mean international investors are currently seeking to buy existing hotel properties in Ireland. Prime properties sold this year include Doonbeg Lodge and Golf Club, the Clarion Hotel Dublin Airport and Clarion Hotel IFSC Dublin, Mount Juliet, Lough Erne Resort, The Westin Hotel and Aghadoe Heights.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Hoteliers are optimistic for further growth in 2015.

It is estimated that visitor numbers to Ireland will reach 7.9 million in 2015, a 2.8% increase over 2014.

Aer Lingus and Ryanair have both launched new and increased routes to the UK, mainland Europe and the USA.

In Dublin, visitor numbers are projected to increase by ca. 7% a year, reaching 6.2 million visitors by 2020. A key concern is that the Dublin market is now under-supplied in terms of hotel bedrooms. In order to increase hotel capacity and maintain competitive pricing, there is an estimated need for an additional 30 hotels / 5,000 bedrooms in Dublin City Centre. The Irish regional market continues to be over-supplied, however, and there is unlikely to be any significant additions outside of Dublin or prime urban centers.

The conclusion of the capital gains tax relief at year-end 2014 will lessen some of the urgency surrounding the hotel transaction market in early 2015. However, the outlook for the year ahead is that there will still be a steady pace of hotels being brought to the open market, with an estimated 200 hotels still expected to be sold. Banks will continue to consider portfolios of hotels to achieve transactions of scale that will attract international investors.

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ITALY

by ***Zoran Bačić***

2014 SNAPSHOT

- The crisis that hit Italian tourism in 2012-13, with declines in overall demand, seems to be receding, with growth of +1.2% in tourism flows in the first half of 2014 compared to the first half of 2013.

- That decline chiefly originated in smaller domestic numbers (-12.4% in 2013 versus 2011), whereas there was an increase in international demand (+2%). In 2013, international and domestic had the same weight (50-50).

- The process of upgrading of accommodation levels by category within tourism flows continues: 42% of overnight stays are registered in 5 and 4-star hotels (versus 26% in 2000), as a result of an increasingly international profile to the Italian tourist industry.

- Italy has every chance to maintain its status as a "big star" in the context of international tourism (in both outgoing and incoming travellers):
  - 33,700 hotels and similar accommodation establishments with 2,251,000 beds (the 3rd largest in the world) with a further 2,500,000 beds in other collective accommodation establishments;
  - Revenues from international tourism: EUR 33 billion (5th in the world);
  - 355 million overnight stays in all tourist accommodations, which becomes 831 million, if we include second homes and facilities not included in the survey.

- All key indicators (source: STR Global) registered growth as of June 2014 YTD:
  - Occupancy was exceeding 61.3% (58.7% in 2013);
  - ADR had increased to EUR 124.69 (EUR 123.15 in 2013);
  - RevPAR had increased from EUR 72.31 to EUR 76.40.

- Rome (source: STR Global), as with the major European capitals such as Madrid and Paris, registered increases in the OR (from 64.4% to 67.2%), at the expense of lower ADR (from EUR 148.40 to EUR 146.55). RevPAR in Rome increased from EUR 95.54 to EUR 98.50.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Forecasts for 2015 remain uncertain, due to international economic difficulties, but with expectations of slightly positive growth of the domestic market; the increases in car registrations and real estate transactions in Italy suggest a growth also in the tourism sector.

There will possibly be a slight slowdown from European markets, primarily Russian, but also French and German, compared to positive results expected from Middle Eastern markets and those in the Far East and North America.

A significant impact is expected from Expo in Milan in 2015: 20 million visitors will boost hospitality in Milan, in its hinterland of Lombardy, and also in other Italian cities preparing special events.

Horwath HTL's "Hotel Market Sentiment Survey 2014" on the short-term expectations of Italian hoteliers underlined the tendency in supporting OR at the expense of ADR.

The Italian transactions market is becoming more vibrant, after two good years which saw the sale of the St. Regis Grand Hotel Rome (161 keys) in 2014, and the sales of Hotel Eden in Rome (121 keys), St. Regis San Clemente in Venice (200 keys) and Bellevue in Cortina (66 keys), in 2013.

Further growth in the presence of hotel chains in Italy is expected as well, totaling about 140,000 rooms, which is the result of an improved willingness on the part of domestic owners to employ specialized organizations that can assure lower volatility in performance and profits.

__Branko Bogunović__ is a partner in the Zagreb office of Horwath HTL. Branko gained his MBA degree from Staffordshire University (UK) in 2004 and has 10 years' experience in project management. He joined Horwath HTL in 2007 and has so far managed or been involved in nearly 100 hotel and tourism development projects in SEE Europe. His main areas of expertise are tourism development strategies, growth models and destination management.

MACEDONIA

by ***Branko Bogunović***

2014 SNAPSHOT

- In the spring of 2014, the incumbent coalition led by VMRO-DPMNE won the elections, ensuring another 4-year term of political continuity (in power since 2006).
- Expected GDP growth in Macedonia in 2014 is 3.5%, while the country records continuous improvement in overall competitiveness.
- The number of tourist arrivals and overnights is on a stable long-term increase and is expected to have reached 740,000 arrivals and 2.3 million overnights in 2014.
- Tourism has been recognized as one of the most attractive development sectors; however, the current impact of tourism on the overall economy is significantly below the global average, making just a 1.5% direct contribution to total GDP and accounting for 3% of direct employment (5% total contribution to GDP and 6% to employment).
- Out of the approximately 70,000 beds available, only 25% are in hotel accommodation (mostly concentrated in Skopje), while the majority of those remaining are in private accommodation.
- Current 4 and 5-star hotels in Skopje operate within an ADR range of EUR 70-110, with average occupancy around 50%, while hotels in other destinations have significantly lower average quality and average ADR, not exceeding 40 EUR.
- In terms of global hotel brands, Ramada and Holiday Inn in Skopje will be joined by a 165-room Marriott on Skopje's main square in Q1/2015.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Macedonia has achieved significant improvements in overall competitiveness, but in a tourism sense it still isn't recognized as a global destination. The key issues are in product quality (especially outside of Skopje) and tourism management, and the marketing system of Macedonia isn't set up in a way to be able to put Macedonia on the global tourism map.

In that sense, the transformation of Macedonia into a global tourism destination, with tourism having a much greater impact on GDP and employment, needs an initial push by the government in terms of initiating capital projects and improving the management/marketing system.

Current governmental efforts are primarily concentrated on the following:
- New tourism development of Popova Šapka mountain, involving structuring a package that would be attractive for the international investment market.
- Ohrid area (as the region with largest share in overnights), through a number of project initiatives stemming from the large public projects included in the Galičica Master plan. Here, lakeside resort developments are mostly aiming to fill the current gap in the area in the 4 and 5-star hotel segment.

To underpin these investments, the government is offering attractive deals on publicly owned land through purchase or long term lease (typically 1 Euro per sq.m.).

The introduction of Marriott (which will almost certainly gain the position of Skopje's market leader in terms of quality and performance very quickly) will most likely cause some changes in the market, especially for the smaller independent hotels in the 4 and 5-star segment that have so far survived due to the undersupply of internationally branded quality hotels.

ADRs and occupancies are more likely to see a substantial increase in the next three years in other parts of Macedonia, particularly the Ohrid area, since the introduction of each of the resorts in the pipeline will have a significant effect on the current performance average, which for the moment is very modest.

__Sanja Cizmar__ Ph.D. is a Senior Partner of Horwath HTL Croatia. Sanja has built her hospitality industry consulting experience in Southeast Europe working on consulting projects with leading regional hospitality companies for over 25 years. She has been involved in 500+ projects including a wide range of project development assignments, strategic planning and asset management, coaching of top management and change management projects, valuations and management contracting projects.

MONTENEGRO

by ***Sanja Cizmar***

2014 SNAPSHOT

- Montenegro is a small open economy highly dependent on tourism. Total contribution of Travel and Tourism Industry to country's GDP is 20%.
- Over the past several years, the government has intensified its efforts to improve competitiveness and deepen social sector reforms. According to the World Bank's Doing Business 2015 Index, Montenegro is ranked 36th out of 189 economies, and has improved its position by 6 places from the previous year. The main improvement has been made in issuing construction permits, based on decreased utility and other fees.
- Forecasted GDP growth for 2014 is 2.8%.
- Despite a drop in the ruble value and Montenegro's support of sanctions against Russia, Russia remains the country's major generator of tourism demand with 28% share of the overall tourism overnights. During 2014, Russian overnights increased by 7% compared to last year, double the average growth rate of total overnights. Efforts are being made to open new markets, especially Central and Northern European markets.
- The Montenegro hotel market predominantly consists of non-branded midscale hotels.
- A number of upper upscale hotel and resort developments on the coast are underway, introducing international hotel brands to Montenegro. Aman Resort is operating St. Stefan resort, and The Regent has been opened in Porto Montenegro in Tivat, while Hilton, Kempinski, One&Only and Four Seasons have been announced. After a few years' setback following the global economic crisis, 2014 brought a revival of investors' interest in developing real estate in Montenegro.
- EU accession negotiations are underway, while NATO membership has been put on hold.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

According to the WTTC, Montenegro is ranked as the 1st country in the world in terms of short-term and long-term tourism growth potential.

With completion of several high-end resort projects along the coast in the near term future, the structure of the country's hotel supply will be improved, enabling Montenegro to compete globally with a quality offering and branded hotels.

The government is making efforts to create an intelligent business environment, aiming to further attract direct foreign investment in tourism and ensure sustainable development. The regulations for incentivizing hotel developments are underway. They will include the land use plans completion for the coastal region in order to optimize carrying capacity, development of general and tourist infrastructure, as well as product development strategy and tourism marketing planning. Since a lot of real estate projects have been developed in coastal region, the intention of the government is to introduce new regulations in order to enable the projects' commercial viability though the implementation of mixed-use business models such as sale and lease back, fractional ownership and others. In order to improve the business environment, the optimization of tax and land use policies is expected.

Incentive measures for tourism development in the northern mountainous region are in a preparation phase, aiming to develop year-round tourism in this part of the country with its abundant natural resources.

In the mid-term, in parallel with the process of Montenegro's accession to EU, a repositioning of Montenegro toward a lifestyle destination is expected.

Air accessibility on a year-round basis should be resolved, in parallel with the completion of several big high-end destination projects along the coast.

*As senior consultant with Horwath HTL, **Marco van Bruggen** has carried out over 150 market analyses, feasibility studies and valuations for stand-alone and mixed-use projects including hotels, meeting centres, golf courses and leisure facilities in The Netherlands, Belgium and Luxembourg, in addition to coordinating the annual Hotel Statistics (HOSTA) for the Benelux.*

THE NETHERLANDS

by ***Marco van Bruggen***

2014 SNAPSHOT

- The Dutch economy started a new recovery in 2014, following a downturn in 2012 and 2013. The Gross Domestic Product is estimated to have increased by 0.75%, up from a negative growth of -0.7% in 2013.

- Following the economic upturn, the demand for hotel rooms has also increased further. The number of overnight stays in Dutch hotels increased by 6.9% in the first six months, and continued to grow in the second half of the year.

- The hotel supply in the Netherlands increased by 3.0%, adding over 3,400 hotel rooms. Of these, some 1,200 were added in Amsterdam, an increase of 4.7%.

- As the increase in demand was even greater than the increase in supply, hotel occupancies in the Netherlands increased in 2014. By September, the year-to-date occupancy had increased by two full percentage points.

- As occupancies increased, so did the average room rates. Compared to 2013, the average room rate in Dutch hotels increased by approximately 2.5%. Combined with the increased occupancies, this resulted in a RevPAR increase of approximately 5%.

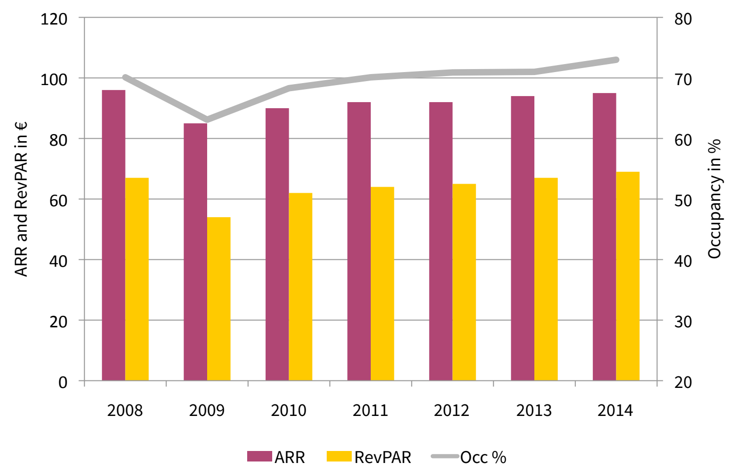
BUSINESS SCENARIOS FOR 2015 AND BEYOND

The economic recovery in the Netherlands is expected to continue, with a projected economic growth of 1.5% for 2015. Due to both a decrease of the Euro compared to the dollar and a decrease in oil prices, both exports and consumer spending are expected to improve.

As a result, the demand for hotel rooms in the Netherlands is also expected to increase further, which will result in a further increase in both occupancies and average room rates. A potential exception is MICE demand, which has been slow to recover, particularly outside the greater Amsterdam area.

The increase in the number of hotel rooms is also expected to continue between 2015 and 2020, particularly in the larger cities. In Amsterdam, another 4,000 new hotel rooms are expected, in addition to 1,100 in Rotterdam, 1,300 in Utrecht and 500 in The Hague. Of these cities, the most troublesome would be Rotterdam, as the supply threatens to outgrow the demand, potentially resulting in a new drop in occupancy rates. The other cities have a more balanced outlook, where new demand is expected to be absorbed by the market.

Occupancy, Average Room Rate and RevPAR 2008-2014



Source: Horwath HTL

**) Preliminary figures*

Janusz Mitulski *is a partner Horwath HTL in Poland and vice president of the Chamber of Commerce of the Polish Hotel Industry. He has been active in the hotel industry for over 10 years. In addition to consulting, Janusz is the co-organizer and coach of the University of Hotelier (Akademia Hotelarza), author of "Hotel Guidebook", the only Polish guide for hotel investors, co-organizer of Hotel Trends, the largest hotel conference in Poland, and a speaker at many industry conferences.*

POLAND

by ***Janusz Mitulski***

2014 SNAPSHOT

- At the end of 2014, the number of hotel facilities in Poland amounted to 2,459 with over 120,000 hotel keys.
- With a stable economic situation, the occupancy in Polish hotels in 2014 increased by 1 percentage point, to 65.9%, according to STR Global. On the other hand, the average ADR dropped by 1.5% to EUR 61.
- According to the Central Statistical Office, during the first ten months of 2014, the number of tourists in the hotel base saw a 10.7% increase comparing to the same period in 2013. Growth was generated mainly by domestic traffic.
- The largest hotel transaction in 2014 comprised the takeover of SPS Investment, the owner of the 350-key Westin Hotel, by Skanska. The investment cost amounted to EUR 80 million. Also, Orbis signed a preliminary agreement to buy Accor hotels in CEE for over EUR 140 million.
- The second half of 2014 was characterized by a lower number of tourists from the CIS countries, due to the Ukraine conflict.
- The National Bank of Poland predicts an inflation rate up to 0.2% and economic growth at the level of 3.1%.
- In November 2014, local elections took place in Poland. The pro-European ruling party, Civic Platform, gained the largest number of seats.
- In 2014, Poland was the host (and winner) of the Volleyball Men's World Championship.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

It is expected that the Polish economy will benefit from EU funds which will have a positive influence on the future infrastructure development in the country.

The banking system in Poland is strong but is very demanding when it comes to hotel investors meeting the requirements for a loan. For some time to come, the perspective of such an approach will result in a reduction of unreasonable hotel investments.

Domestic guests account for approx. 70% of hotel rooms sold. On one hand, investors perceive this as a stable base, but on the other hand, this market segment is very price sensitive. This, together with the rising number of hotels (approx. 100 hotels per year), makes it more difficult to increase incomes and profits.

The organization of the EURO 2012 had a huge influence on the promotion of Poland as a tourist destination. The number of foreign tourists increased significantly, which should allow hoteliers to raise prices and increase incomes, as well as generating increased domestic demand. Thanks to the new sport arenas and congress centers, Cracow will be the host of the World Hockey Championships for the Group A, as well as the WEC congress in 2015. In 2016, Wroclaw will become the European Capital of Culture and will be the host of the World Games in 2017. All these major events will help underscore the image of Poland as a tourist destination and should have a positive influence on the number of foreigners coming to our country.

__Ružica Herceg__ joined Horwath Consulting Zagreb in 1998, after a professional career in the banking sector, as well as in the first Croatian management company, Croatian Hotels and Resorts. She has been involved in major tourism development projects with leading hospitality companies and investors in SEE Europe. Her main areas of expertise include best use concepts, privatisations, feasibility studies, portfolio management, restructuring.

__Sorin Ionescu__ is the founder and managing director of Fivestar Hospitality tourism and leisure consulting, which has been working in cooperation with Horwath HTL since 2008. He built his expertise based on an education in engineering, followed by work for leading strategy consulting companies, a post-graduate diploma accredited by the Ecole hôtelière de Lausanne, and more than 10 years of hospitality consulting projects covering all aspects of the hotel/ tourism asset life cycle: planning and development, operation openings, valuations, transactions and finance.

ROMANIA

by ***Ružica Herceg*** *&* ***Sorin Ionescu***

2014 SNAPSHOT

- The Romanian economy continued a positive trend in 2014. Although the European Commission 2014 outlook has been reduced to 2% real growth and only 2.4% for 2015, based on the reduction of public investment, the national statistics office announced mid-November surprising 2.8% September YTD growth results.

- In terms of GDP per capita, Romania has run to catch up with Hungary and Croatia which are around EUR 3,500 ahead. The capital city, Bucharest, runs at EUR 15,650 / capita, a similar level as Budapest and Zagreb.

- The main international airport in Bucharest (OTP) will surpass 8 million passengers in 2014.

- With 1,595 officially classified hotels in Romania and 95,130 rooms, only 7% of those are branded (cf. 28% in the Eurozone). At the same time, 42% of the hotel capacity in Bucharest is affiliated to international hotel chains (153 officially classified hotels and 10,629 rooms).

- In terms of classification, the Romanian market is dominated by 3-star hotels (38.5%) and 2-star hotels (35%). This is due to the legacy 3-star capacities located on the Black Sea shore and the 2-star capacities located in the old bathing spa destinations, while Bucharest and secondary cities are dominated by 4-star and 3-star hotels.

- Total foreign arrivals in Romania will pass 1.8 million and domestic arrivals 6.5 million. Foreign arrivals are 60% dominated by leisure, while EU is the key market (60%).

- In terms of current hotel performance, occupancy has improved significantly, backed by the return of strong demand, but ADR, after a stabilization period, has not yet started to recover.

- In terms of development, the crisis years have brought silence to the market, with a few exceptions like Doubletree by Hilton's entry in Oradea and Bucharest, Hampton by Hilton's entry in Cluj Napoca, and Ramada's expansion in Cluj Napoca and Pitesti. The only move in 2014 was Mercure's market entry in downtown Bucharest.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

The political risk associated with the Nov 2014 presidential elections has been eliminated; however, there is still a regional, Ukraine-generated instability that will probably still influence Romania's attractiveness for investment, including in the hotel and tourism sector.

Hotel supply growth in Bucharest will be driven by the Q3 2014 news that 4 matches of the UEFA Euro 2020 championship will be played at the National Arena. The committee assessing the candidature of Bucharest has indicated insufficient hotel supply in the economy segment.

On the development side, in the mid-term we can expect only timid moves, mainly focused on Bucharest and selected secondary cities. 2015 will bring only one new mid-scale brand on the Bucharest market. Branded investments in selected leisure destinations will depend on the efforts of the government to continue the strategic development path on a similar foundation as the one laid in 2010-2011.

In terms of financing, we report that ever since 2012, banks are competing for sound hospitality projects in key locations. They are looking for projects backed up by strong missing brands like Holiday Inn, Holiday Inn Express, Courtyard by Marriott, Hilton Garden Inn, Hampton by Hilton, FourPoints by Sheraton, Hyatt Place or even selected lifestyle brands.

Organic ADR growth is to be expected, while low ADR levels in Bucharest could result in more leisure guests in 2015.

__Michael O'Hare__ is Managing Director, co-founder and partner of Horwath HTL Hungary & Russia with over 25 years of UK and international hotel sector experience. Since 1989, he has specialized in CEE, Russia and CIS, and been involved in hotel projects in over 50 different cities in these markets. Michael graduated from the Shannon College of Hotel Management in Ireland in 1982.

RUSSIA

*by **Michael O'Hare** & **Ekaterina Marchenko***

2014 SNAPSHOT

- For over a decade, Russia's oil-producing economy and its high consumer activity showed great results, with a slight downturn in 2008-2009 due to the global financial crisis. However, already at the beginning of 2014 the economy continued to decline, which has been further compounded by the Ukrainian conflict and the resultant economic sanctions imposed by the EU. Now, with significant reduction of oil prices resulting in a record low RUB/USD exchange rate and an upsurge of consumer prices, an increasing number of economists speak about a mid-term recession period for Russia.

- This decline in the country's economic performance could not but have had a serious impact on the Russian tourism and hotel market. Despite many controversial issues discussed in international mass media, the Winter Olympics held in Sochi in early 2014, attracting over 1.5 million visitors, is considered by all to have been a resounding success. Leisure tourists coming to Russia for the Winter Olympics took the chance to visit not only Sochi as a final destination, but many travelled to Moscow and St. Petersburg as well, thus increasing the level of hotel occupancy in all three cities.

- Apart from leisure travellers, the growth of business travellers was remarkable as many of them visited Russia on a regular basis, being employees of large international corporations as well as sportsmen and sports-related functionaries in the process of preparing for the Winter Olympics. Therefore, the results of Q1 2014 vs. Q1 2013 showed 6% growth in the number of international business travellers and 5% growth for leisure travellers, according to the Russian Agency for Tourism.

- For political and economic reasons, the results of Q3 2014 for Russia are far from optimistic. Only 4 million foreigners visited the country (4.2 million in Q3 2013), and while the number of leisure travellers fell by 1%, only the reduction of business travellers – by a whopping 23% - had a significant impact on both the country's economy in general and the hotel market in particular. According to STR Global, occupancy for Q3 of 2014 was 53.4%, which is 12% lower than the respective period in 2013 and the lowest occupancy level among other European countries. ADR and RevPAR declined by 2% and 4% respectively in RUB, while in USD, due to the exchange rate, the reduction equated to 19.5% for ADR and 29.2% for RevPAR.

- An immediate effect has been the contraction in the level of interest from both domestic and international investors in the development of new projects, acquisitions and so on. Many hotel developments in the pipeline have been frozen due to lack of funds, a situation that is likely to remain so in the foreseeable future. A number of key Western financial institutions will not consider funding in Russia at this point in time.

__Ekaterina Marchenko__ joined Horwath HTL Russia in March 2011 as a consultant. She graduated from the Moscow State Institute of International Relations in 2011, majoring in international economics. Before joining Horwath HTL, Ekaterina spent six years in an audit and consulting company, a member of Crowe Horwath International in Russia. She joined the team as an interpreter and in four years became the Deputy Director for International Projects. During her years in the company she was in charge of project management for nearly all the international engagements.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

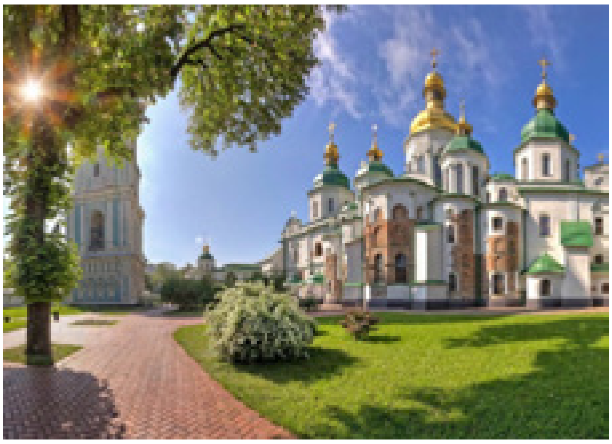
With all of the above negatively impacting the Russian hotel and tourist industry, the following trends and steps are being taken to try and counteract current trends:

Mega events and infrastructure projects.
As a rule, a recession period is the time when infrastructure projects financed by the government grow in number. Russia will be hosting the FIFA World Cup in 2018, and 11 cities involved in the event are now at the stage of active preparation, including the increase of lodging supply. One more large-scale project announced is that Sochi will become a gambling center as an attempt to attract more people to the resort. In addition to that, North Caucasus resort and Altai mountain resort are in the pipeline as well.

Finding new feeder markets.
With an almost 50% reduction in the number of Western travellers, tourism authorities are now seriously considering looking east. A no-visa regime for South Korean nationals has already resulted in a 70% upsurge from the country. The number of Chinese travellers is growing as well, with the majority coming mostly for business, and the Russian government is now considering easing the visa process for them, as well as other business and leisure tourists coming from the Asia-Pacific region.

Local-currency pricing policy at hotels.
In view of current dilution of foreign currency exchange rates, certain steps will need to be taken by hotel owners and operators to align their pricing policy to rubles. Consideration will have to be given to switching from international to local suppliers where possible in order to be able to buy locally in rubles. The issue will be whether local suppliers can provide the same quality, quantity and standard of product.

Increasing the number of budget and economy hotels.
Competition among hotel groups will definitely increase, and in view of loan financing barriers becoming harder for investors when making a decision to build a hotel, it is likely that greater preference will be given to the development of budget and economy type hotels operating under international brands.



No doubt, it is not the best time to make promising forecasts for the Russian hotel and tourist market in 2015. All over the hotel industry, the mood is clearly far from being optimistic, however, it is a long way from panic as well. With well-agreed steps to attract new feeder markets and a redefined marketing strategy, hotels can and will manage to trade through this very challenging period.

Russia still remains one of the most under-supplied hotel markets and while the attraction of investing in Russia has been stymied as a result of political and economic developments, in the longer term the hotel and tourism sector in Russia will revert to being a prime source of opportunity for domestic and international investors alike.

Silvija Lovreta is a Managing Partner at the Belgrade office of Horwath HTL, dedicated to unlocking the potential in the region for HTL business growth. She has an affinity towards hotel finance and dealing with the numbers to structure financially viable hotel projects. Silvija is a member of the Cornell Hotel Society.

SERBIA

by ***Silvija Lovreta***

2014 SNAPSHOT

- Etihad Airways' acquisition of a 49% stake in the newly established national air carrier Air Serbia significantly improved the country's tourism development outlook;
- Serbia remains firmly dedicated to the EU integration process – accession negotiations with the EU have started, with the first chapters opening soon;
- International tourist overnights are steadily keeping on the upward trend, achieving a notable 11% year-on-year growth rate;
- The "Belgrade Waterfront" project has begun, converting Belgrade's waterfront to a modern, high-quality mixed-use real estate open to investors market;
- The presence of global hotel brands in the capital city increased considerably: the Crowne Plaza Belgrade opened (Hotel Kontinental conversion) and the Metropol Palace opened (Luxury Collection by Starwood; Hotel Metropol conversion), in addition to the dynamic hotel development pipeline in Belgrade (Radisson Blu, Courtyard by Marriott, Hilton).

BUSINESS SCENARIOS FOR 2015 AND BEYOND

The vital event shaping the business environment in Serbia is the Etihad Airways–Air Serbia strategic agreement. Going through an extensive restructuring process and rebranding, the national airline has already achieved remarkable results, with a 32% passenger traffic growth rate YTD, as reported by ACI Europe. Belgrade airport is the second fastest growing capital city airport in Europe.

The "Belgrade Waterfront" project, developed by Eagle Hills Abu Dhabi, a UAE-based private investment and real estate development company, refers to the construction of 1.8 million square meters of office, residential and commercial space, including 2,200 new hotel rooms. The project is expected to give Belgrade a new landmark and boost business, setting the stage for a new image of the capital city to be built.

The momentum is here. Foreign hotel investors are showing increased interest in Serbia, primarily for the capital city and mountain resorts (Kopaonik and Stara Planina). Still, Serbia has to set up a competitive business playground and introduce extensive reforms to further strengthen investor confidence, one of the fundamental ones being the reform of real estate and construction legislation.

Crowne Plaza Belgrade and Metropol Palace, the Luxury Collection by Starwood, with fresh product and competitive pricing policies, have shaken the upscale hotel market segment in Belgrade, resulting in the overall drop of ADRs in a majority of upscale hotels in the range of 4-6% year-to-date. Nevertheless, coupled with growing demand, occupancies have grown considerably in the same period, resulting in overall RevPAR growth in the range of 8-12% year-to-date.

A vibrant business environment and growing market are giving Serbian hoteliers greater confidence. Belgrade hotels, relying on higher yielding international business travellers, are optimistically looking at their business plans for the years to come. The Serbian capital city has a vast upside potential to take hold of in the future, depending on the pace of the overall economy recovery and the introduction of a contemporary city marketing and management engine.

However, the potential for growth in Serbian regional hotel markets remains undiscovered, with increasing disparity in performance indicators compared to the Belgrade hotel market. Primarily relying on declining domestic leisure demand and suffering from the general lack of destination management, hotels in the rest of Serbia still need to undergo comprehensive product restructuring and repositioning to succeed in today's competitive market.

Silvija Ilišković Balagović has been a Project Manager at Horwath HTL Croatia since 2011, bringing over 13 years of professional experience in the tourism and hospitality industry consulting in Croatia and the region. She is engaged in consulting activities within the areas of hotel concept development, performance, feasibility and asset management as well as valuation of hotel properties, marinas and other related businesses. She is an active member of Cornell Hotel Society.

SLOVENIA

by Silvija Ilišković Balagović

2014 SNAPSHOT

- Slovenia continues to experience excessive macroeconomic imbalances, with a major issue being the increase in government as well as corporate debt. Nevertheless, Slovenia's recession weakened in 2014, with a positive estimated GDP growth of 0.8%.
- After a period of political instability, in 2014 the new government was formed, led by center-left political novice Miro Cerar. His strong position could contribute to restoring political stability after years of turbulence.
- The year 2013 was a record year for Slovenian tourism, with 3.4 million tourist arrivals (+2.6%) and 9.6 million overnights stays (+0.7%). Modest growth in 2014 was generated, mainly by international visitors. Hotel demand is stabilizing at around 2 million visitors and 5.8 million overnight stays.
- With regard to hotel market performance, in 2013 average hotel ADR declined by 4.2% and RevPAR by 5.3%. However 2014 brought a slight recovery.
- The most dynamic hotel market is Ljubljana, the capital, with 25% growth in room stock in the last 5 years. Its average RevPAR ranges from EUR 50 to 60 (4 and 5-star properties).
- The renovated Hotel Mons (114 rooms) re-opened in 2014 under the Four Points by Sheraton flag, representing the first global brand in the Slovenian capital city in more than ten years.
- Sophos Hotels recently signed a management agreement for a mountain resort in Kranjska Gora, including two Ramada properties. Another highly ranked second-tier management company entered the market – Hamilton Hotel Partners took over the management of Rogaška hotels.
- During the last quarter 2014, two major transactions were announced: Croatian hotel company Liburnia Riviera Hotels was selected as highest bidder for Hotels Bernardin in Portorož, while Russian Gazprom was in the final phase of completing the acquisition of Terme Maribor and ski center Pohorje.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Tourism and hospitality is an important revenue and employment generator for Slovenia, especially the segment of health & spa tourism, which captures the majority of business and is recognized as the main strategic direction for the positioning of Slovenia tourism in the future.

Following a phase in the investment cycle where the hotel supply reached significantly higher quality levels (and was supported by EU funding), the market has been in stagnation in terms of new investments. Lack of investment potential by current major hotel companies is due to the large proportion of state ownership (nearly 40% of the largest hotel companies) and high level of non-performing loans.

The Slovenian hotel market has entered a restructuring phase where the large hotel companies are disposing of their assets, consolidating business and introducing new management models. This is supposed to (re)activate the hotel transaction market and bring regional as well as international players into the game. Consequently, the development of new products, an increase in supply and more international hotel brands entering the market could be expected.

Based on the historic stagnation of hotel key performance indicators, it is expected that a continuation of the trend is to be expected in 2015, unless there are major changes in the current stakeholders' strategies. Along with the recovery of domestic tourism and the opening of the Slovenian hospitality and tourism industry to the international market, in 2015 Slovenia will get on track to further improve its competitive position in the tourism and hospitality business.

__Philip Bacon__ has comprehensive experience over more than 30 years in all aspects of hotel and branded residential development and operations, including 10 years' hospitality consulting experience in valuations, feasibility studies, operator search, asset management and strategic business planning to owners, lenders and operators across Europe, Africa, the Middle East and the Caribbean.

SPAIN

by ***Philip Bacon***

2014 SNAPSHOT

- 2014 was a record year for Spanish tourism, driven by the international inbound segment.
- Political uncertainty in competing destinations is working in Spain's favor.
- Spain's financial and real estate sectors continue to undergo "Operation Clean Up", which extends beyond the hospitality industry into almost all walks of life and business.
- The banking sector is finally a major protagonist in hospitality transactions.
- Large debt deals are now filtering through to the hotel sector.
- International brand interest in Spain remains high, still focused on Madrid and Barcelona, Upscale and Luxury segments.
- Investor yields are under pressure as seller price expectations are still high.
- Outside major cities, the Balearic Islands (especially Ibiza) and the Canary Islands are the investor hotspots.
- Secondary cities are still suffering from over-supply.
- Refurbishment and repositioning are the key drivers, combined with re-negotiation of unrealistic fixed rent contracts.
- Franchising is becoming increasingly popular, with the rise of the independent management company.
- Asset Management remains a key priority to improve net income performance in the face of slow RevPAR growth.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

The great bank sell-off is expected to continue, including some asset-based portfolio deals, provoking a flow-through into the single asset transaction market as properties are subjected to more focused asset management policies to support investor exit strategies and required returns.

However, truly distressed assets that offer a significant upside are far less numerous than the investor market believes. This may force new development to be considered to gain market penetration. Overall confidence in the hotel market has improved, but finding bank debt is still a major challenge and the journey remains tough and filled with pitfalls for product that is not properly focused on the needs of an ever-changing market. No amount of refurbishment will save an obsolete product; if the underlying land has potential, demolition and rebuilding may be the only option.

The power of the tour operators in vacation destinations such as the Balearic Islands and the Canary Islands will continue to dominate, but only high quality products will attract the best contract terms.

The scarcity of viable properties in major cities will continue to force innovation from developers in all segments, but especially luxury/upscale boutique hotels and cutting-edge hostel/budget concepts.

The Madrid and Barcelona luxury and upscale segments will continue to be pursued by international brands, with players such as Four Seasons and Mandarin Oriental driving expectations of significant ADR increases in Madrid by finally offering a choice of world class product to the market. The political arena in Catalonia is forcing many to look to the capital with new eyes. But Barcelona remains a global phenomenon in terms of international tourism trends, both leisure and business.

All regions of Spain will be coming to terms with recent legislation controlling serviced apartment products in the face of increasing competition from the likes of AirBnB and the plethora of private holiday lettings. This will also affect the potential of the mixed-use sector, as developers attempt to realize value from residential real estate to finance hotel development.

Michaela Wehrle has been a Partner & Project Manager in Horwath HTL's Swiss office since 2010, where she focuses on project conceptualization and asset management in addition to being closely involved with transaction work. She has more than 15 years of international hospitality experience, having worked in various management positions in Austria, Germany, Spain, Switzerland and the USA.

SWITZERLAND

by ***Michaela Wehrle***

2014 SNAPSHOT:

- Arrivals recorded a marginal growth (+1.0%) while nights are static (+0.1%). The increase in arrivals can mostly be attributed to international travellers, who contributed 54% of all arrivals and 56% of nights.
- The total number of registered accommodation establishments is down by -1.9% at end of September (room count: –0.8%) compared to year-end 2013.
- The overall average room occupancy rate was stable at 53.3%
- A survey conducted among 48,000 skiers and snowboarders in 55 European ski resorts elected Zermatt the "Best Ski Resort 2014"
- According to Bloomberg's World Hotel Index, Geneva's room rates are the most expensive on the globe
- On February 9th, 2014 the Swiss electorate adopted the "Initiative Against Mass Immigration", thus undermining the existing bilateral agreements with the EU, such as that on the free movement of individuals.
- In 2012, 44% of all people employed in the tourism industry in Switzerland were foreigners.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

Horwath HTL wanted to get a notion of what Swiss hoteliers expected would impact the market in 2015. They were asked to rate three topics on whether the impact would diminish, persist, or increase over 2014. The topics surveyed were the Swiss Franc exchange rate, the Second Home Initiative, and the Initiative Against Mass Immigration.

75% of all hoteliers interviewed fear most that the adoption of the Initiative Against Mass Immigration will have an increasingly negative impact, not only on recruiting staff. The current situation stokes uncertainty throughout several industries and has CEOs considering investing abroad.

The initiative foresees limiting immigration to a certain number per annum, which contradicts Switzerland's already established bilateral agreement with the EU on the free movement of people between the two. This agreement, however, is only one of a whole package of agreements.

In the meantime, the Swiss Head of the Federal Department of Justice and Police is in a real predicament. She is a member of the initiating party and the constitution mandates the realization of the Swiss vote. The EU, however, already dismissed the request for negotiations.

In reality, there are only two options: either terminate the whole package of bilateral agreements with the EU (which by the way is Switzerland's most important trading partner), or send the initiative back to the people for another vote, because it's unfeasible.

Unfazed by the operational issues hoteliers face, on the transaction side Horwath HTL sees the demand for hotel properties in cities, especially Zurich and Geneva, significantly exceeding supply. Profitability of the hotels is not necessarily reflect in the prices paid, as investors speculate with rising property values in these overheated markets. New hotel projects compete against higher developer's profit margins in residential or office buildings and are often dropped in favor of these.

Serious hotel investors are well advised to switch to secondary cities, where – while still expensive – prices and returns are more reasonable.


LITTER

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UNITED KINGDOM

by ***Erlend Heiberg***

2014 SNAPSHOT

- UK economic growth is forecast to be around 3% in 2014, driven by the service sector. This compares to 1.8% in 2013, which showed stronger figures in the first six months but a slowdown in the second half of the year.

- After an uneven performance in 2013, the hotel market in London has improved considerably this year, despite a dip in performance in early summer, with year-to-date occupancy remaining steady at 83.3%, but ADR up 2.5%, at £140.56, resulting in RevPAR growth of 2.8% to £117.07 according to STR Global (the source for all performance data here). Growth in midscale and budget segments has been markedly stronger than in upscale and luxury.

- At the regional level, performance has strongly improved: RevPAR grew by 10.4% year-to-date to October, reaching £48.73, with outstanding results in Glasgow (up 23.9%) and Cardiff (up 15.6%), greatly outperforming English cities across the nation.

- Total transactions for the UK market are expected to top £6 billion (over 50% above 2013) with regional volume predicted to reach £4.5 billion by the end of the year, more than 250% higher than was achieved last year in the regions. As such 2014 is likely to record the second highest level of UK-wide hotel transactions ever, beaten only by 2006 (£8.1 billion); it will also be the first year since the peak period of 2005-2007 that regional transaction volume exceeds that of London. Confidence in the regional market is particularly strong, based on the continuing (if less vigorous than predicted) economic growth, the concomitant return of business travel to the regions, and improved access to equity and debt. The London investment market has experienced stock constraints and ever increasing competition for available assets.

BUSINESS SCENARIOS FOR 2015 AND BEYOND

The outlook for 2015 is one of continued strong performance for London and vigorous recovery in the provinces, with ADR likely to rise to £144 in London and to above £67 in the provinces. Occupancy is predicted to grow modestly, by 1.5% in London and 1.6% in the regions, but enough to lift RevPAR to record levels. RevPAR is expected to rise by 4% in London and 6.3% in the regions, to £121.75 and £51.80 respectively.

Room supply in the regions is set to grow moderately at 1.7% (9,000 rooms) while London is likely to increase by around 5.3% (7,200 rooms). As can be seen from the above figures, demand is expected to outgrow the increase in supply. Competition from new office and residential developments may push up costs for investors looking into the London market.

Transaction volume is expected to rise further, albeit at a lower rate, in the regions as well as in London; though on both fronts investment may be constrained by available supply. We expect to see more small portfolios and single asset transactions in the regions next year. We believe that the continued RevPAR growth will fuel investor interest in 2015, particularly in key cities outside of London.

The overall sentiment is one of confidence, generally anticipating a period of sustained, and possibly record, growth. The unexpected slowdown of the economic recovery and the uncertainties in the run-up to the May 2015 Parliamentary elections may result in slower growth in the market, and risks – the ongoing crises in Ukraine, Russia and the Middle East, as well as the possibility of a triple recession in the Eurozone, among others – are causing uncertainty in the market. Despite these factors, the sustained momentum in the UK hotel industry, a buoyant global travel market and the downwards revision of forecasts for GBP to USD and EUR are all pointing to another strong year ahead for the UK hotel sector.

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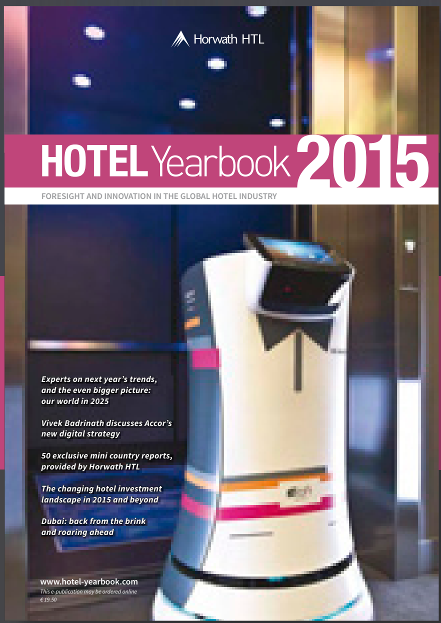
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