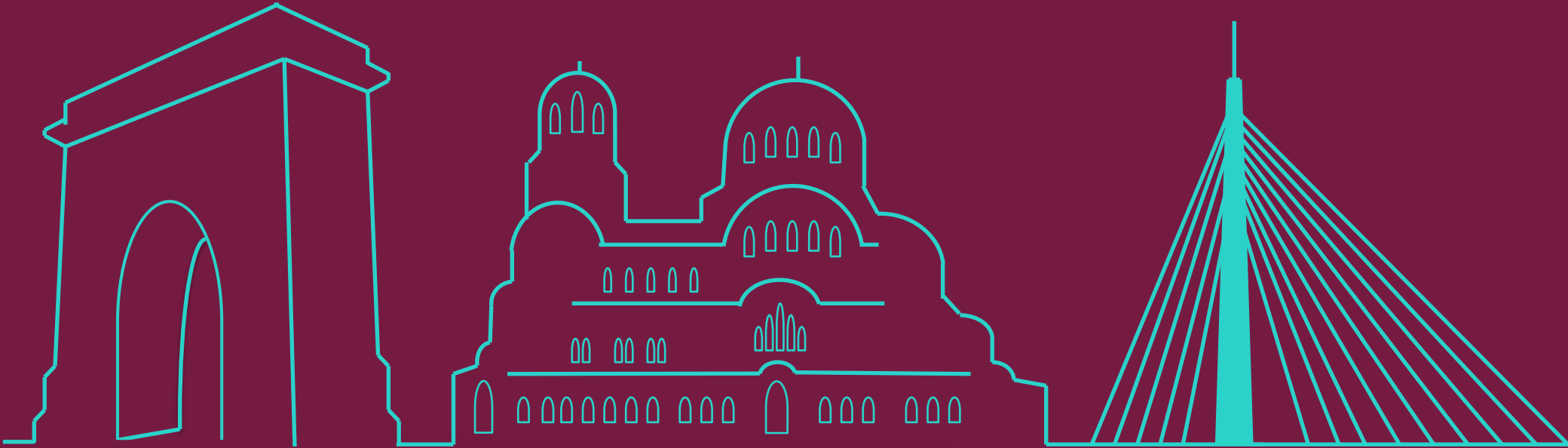


+CEE hotel market snapshot II

Bucharest, Sofia and Belgrade

August 2015



Christie+Co



+ Introduction

Dear Readers,

Hot on the heels of our hotel report *CEE Hotel Market Snapshot: Prague, Bratislava and Budapest*, Christie + Co has once again teamed up with STR Global to report on the hotel trends of three other major CEE cities: Bucharest, Sofia and Belgrade.

Bucharest, Sofia and Belgrade are among the largest cities in the CEE region, yet their respective hotel markets are considered immature compared to other European cities.

That being said, through our day-to-day conversations with our clients it is apparent that investors are keeping an eye on these peripheral markets. Overheated competition in some Western markets has led to investors searching for opportunities in markets where they will face less competition for deals they are interested in, and thus are able to negotiate attractive prices on assets.

Western European investors in particular are attracted by the cities' strategic geographical position, Western style cultures and their highly educated yet affordable workforce.

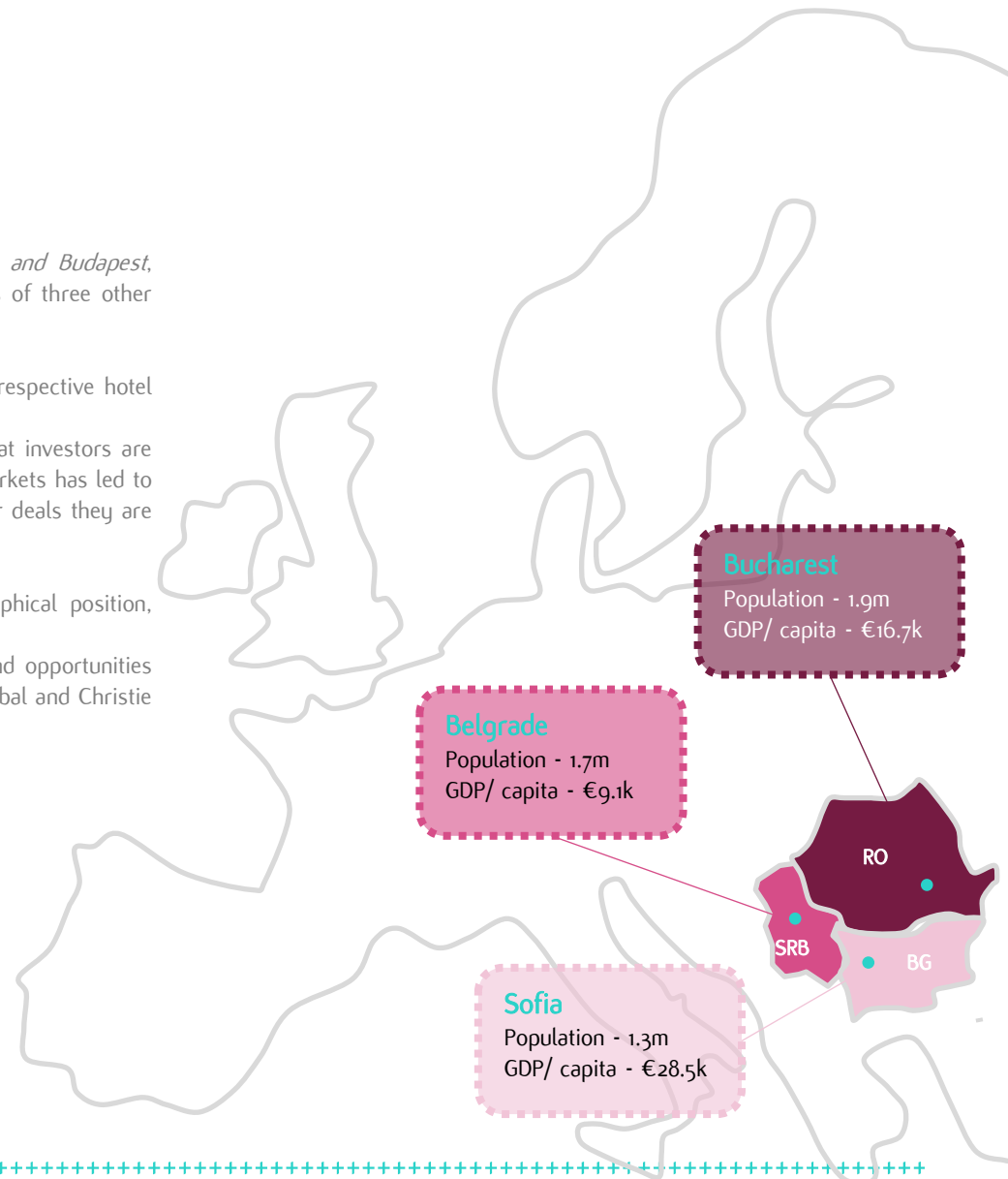
CEE Hotel Market Snapshot II: Bucharest, Sofia and Belgrade looks at the challenges and opportunities for hotel investment in these regions, based on industry research as provided by STR Global and Christie + Co's viewpoints from working with our clients.

We hope you will enjoy reading our report.

Best regards,



Lukas Hochedlinger MRICS
Managing Director Germany, Austria, CEE



+ Overview of supply

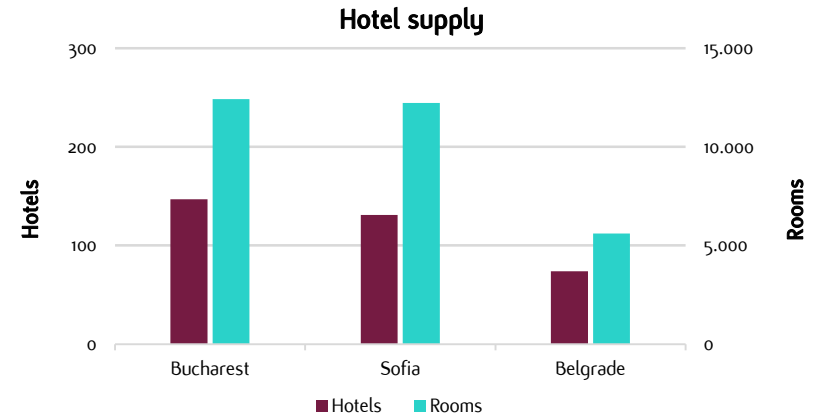
Recovery is in progress

Before the Lehman Brothers collapse and subsequent global economic crisis, the hotel markets of Bucharest, Sofia and Belgrade experienced rapid growth and an unprecedented amount of new projects were initiated. In 2008 these projects came to a grinding halt and hotels began to close down. The trickle of hotel closures became a flood and new openings were rare up until 2010, when recovery started to take place. While Bucharest, Sofia and Belgrade have taken longer than other markets elsewhere in Europe to pull out of the recession, in recent years all three cities have witnessed a generous growth in hotel supply.

With 147 hotels and more than 12,400 hotel rooms, **Bucharest** is the biggest market in this CEE comparison. Over 50% of the total hotel supply is categorised as 4-star. The second largest supply is within the 3-star sector with over 20%. The remaining rooms are equally spread in the luxury and budget segments. With an average capacity of 85 rooms per property, Bucharest ranks between Sofia and Belgrade with respect to hotel size.

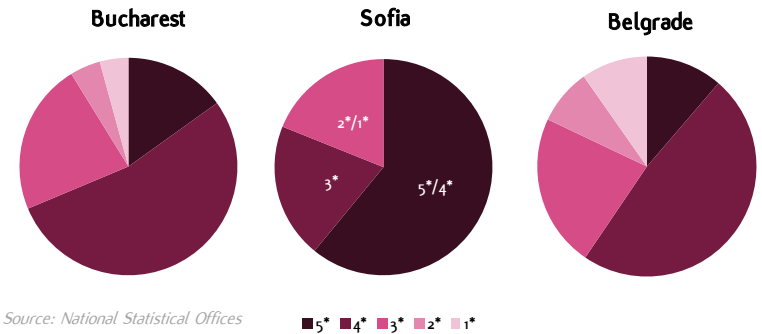
Sofia has 131 categorised hotels totalling to just over 12,200 bedrooms, hence it constitutes a slightly smaller market than Bucharest in terms of hotel supply. Of the identified room supply, over 60% is contained within the top end of the market, 20% is concentrated in the 3-star sector and the budget segment (1 and 2-star) contains the lowest proportion, providing 19% of the total room stock. The average capacity of 93 rooms per hotel is higher than in Bucharest, demonstrating a greater demand exists for larger hotels in Sofia.

With 74 categorised hotels and a total of 5,600 rooms, **Belgrade** languishes at the bottom of this comparison. The 4-star sector accounts for the majority of rooms at just below 50%, followed by the 3-star segment at just under 25%. The remaining rooms are distributed across luxury and budget hotels. With an average capacity of 76 rooms per property, Belgrade's hotels are smaller than Bucharest's and Sofia's.



Source: National Statistical Offices

Hotel room supply by category



Source: National Statistical Offices

+ Branded hotel supply

Too small for the big brands?

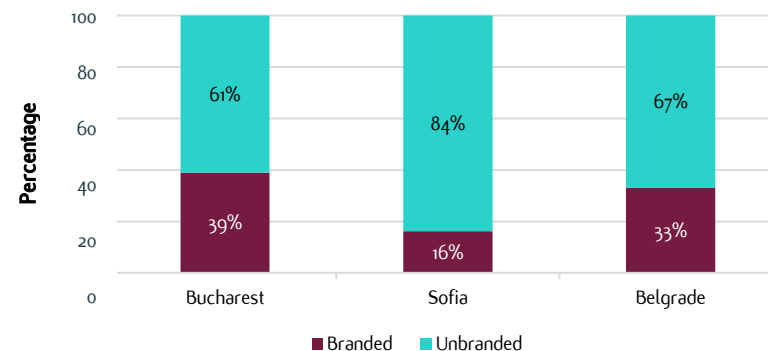
As Bucharest, Sofia and Belgrade are not considered Tier 1 cities in Europe, they are not high on the priority lists of international hotel groups and as a result, branded hotels in these cities are scarce. However, Wyndham Hotels & Resorts remains the indisputable leader in these cities with the Ramada brand.

Among the three analysed cities, **Bucharest** has the largest cluster of branded hotels, with 39% of all rooms belonging to a branded chain, totalling to approximately 4,000 bedrooms. Most of these rooms operate under the Ramada brand of the Wyndham Group but the largest hotel in the city is the Radisson Blu, with almost 718 rooms (including residences). The average capacity of branded hotels in Bucharest is 186 rooms, more than double the amount of the overall market average.

The presence of international hotel chains is lowest in **Sofia** with less than 20% of all rooms falling under the branded category, equivalent to about 2,000 rooms. Similarly to Bucharest, the branded landscape is dominated by Wyndham. The average capacity of branded hotels in Sofia is 142 rooms per property, with the largest hotel being the 601 bedroom Ramada Sofia.

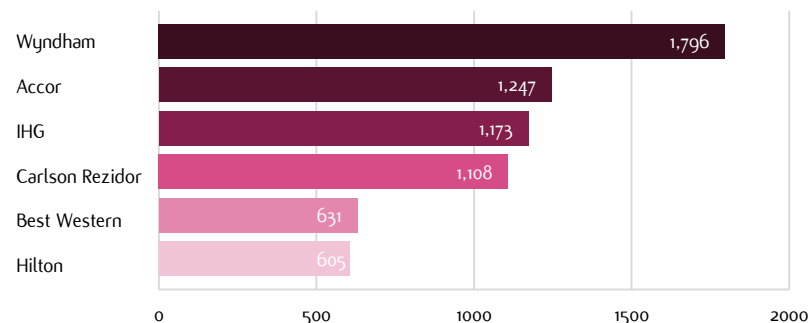
Political events delayed substantial reform in **Belgrade** until early 2001; as of then and until the financial crisis, the government made good progress allowing new entrants to the Belgrade market. Approximately 33% of the city's total hotel supply is branded, totalling to just over 1,800 bedrooms. The average capacity of branded hotels is 202, with the largest branded hotel being the 416 bedroom Crowne Plaza Belgrade. In contrast to Bucharest and Sofia, no brand has a particularly strong presence in the Serbian capital.

Branded vs. unbranded hotel rooms



Source: National Statistical Offices

Top 6 hotel groups by room numbers



Source: National Statistical Offices

+ Demand trends

The only way is up

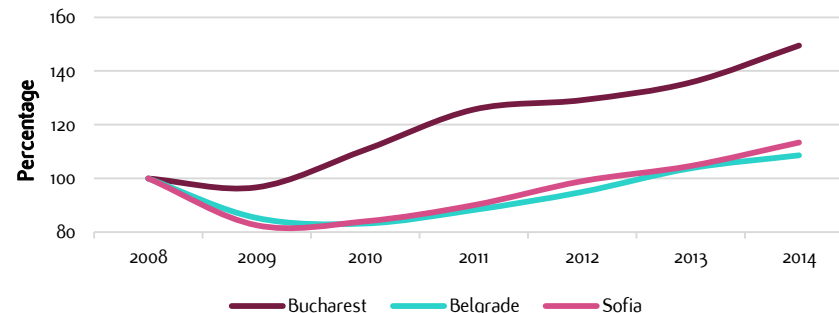
While the hotel markets of the analysed cities are yet to recover to their pre-crisis levels, all three markets have witnessed growth for five consecutive years— albeit from different starting points.

In 2014, overnight stays in Bucharest reached record levels since the financial crisis at 2.5million - and with the revival expected to continue in the same vein this year, Bucharest is a strong contender as an upcoming CEE capital. The compound annual growth rate (CAGR) over the last six years was 3.8%. The attractiveness of the capital is also mirrored in the growth in arrivals, which was 8% (CAGR) over the last 6 years, totalling 1.5 million in 2014. In addition, the increase in passenger numbers at the Henri Coandă International Airport was up by approximately 15% or 1.8 million passengers in Q1 2015, compared to Q1 2014.

The financial crisis hit Bulgaria's capital hard, with demand dropping significantly by 20% between 2008 and 2009. Recovery has been tough, with CAGR not exceeding 2% over the post crisis period. However hotel demand in **Sofia** has bounced back recently with records marking 1.5 million overnight stays in 2014. The total number of passengers handled by the airport in Q1 2015 was 860,000, an increase of 4.6% in comparison with Q1 2014.

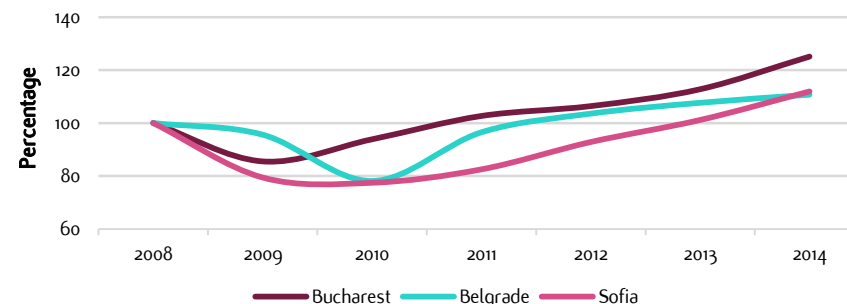
Belgrade recorded the strongest decline in hotel demand since the crisis. Even though in 2014 Serbia's capital saw 750,000 arrivals and 1.5 million overnight stays, Belgrade still lags behind the other two markets. Since the recovery period the CAGR has barely surpassed the 1% mark. On the other hand, passenger numbers at Nikola Tesla Airport witnessed a growth of 13.1% in Q1 2015 compared to the same time last year, translating to 900,000 passengers.

Arrivals - indexed growth since 2008



Source: National Statistical Offices

Overnight stays - indexed growth since 2008



Source: National Statistical Offices

+ Performance

Will Belgrade follow Sofia and Bucharest on the road to recovery?

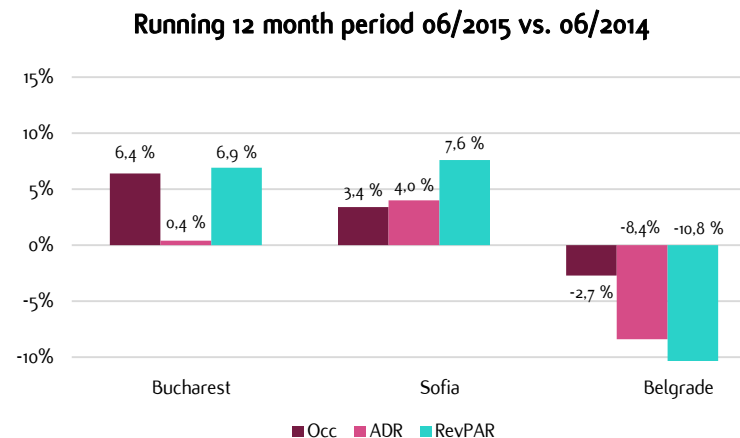
The quest to acquire assets where prices are more digestible is prompting an investor shift away from the core European markets to the smaller cities. That being said, the peripheral markets of Bucharest, Sofia and Belgrade have a long way to go to catch up with their larger cousins.

Bucharest outperforms the other analysed markets, having registered growth in room occupancy by 6.4% (June 2014 to June 2015), peaking at 64.2%. In terms of ADR, Bucharest achieved €72.8, resulting in a RevPAR of €46.79. Although these figures are still below general European markets, Bucharest hotel data continues to illustrate positive trends. The outlook from industry experts is that performance levels will rebound to pre-crisis levels as the economy stabilises in the region.

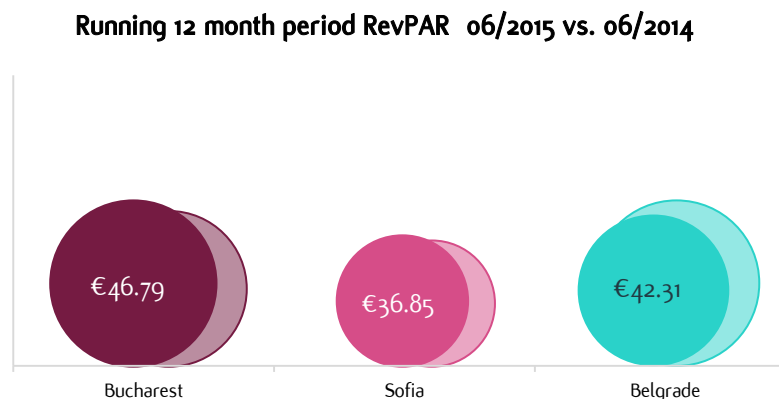
While **Sofia's** hotel industry has achieved the highest growth rates over the past twelve months to June 2015, RevPAR growth is weaker in comparison to Belgrade and Bucharest. The city's ADR increased by 4% up to €66.00 to June 2015, while room occupancy rose by 3.4% to reach 55.8%. These figures translate into a RevPAR leap of 7.6% over the past year, resulting in a RevPAR of €36.85 up until June 2015.

As a result of only moderate growth in demand and some oversupply, hotels in **Belgrade** face more challenges. There has been a slump in both occupancy levels and ADR, with occupancy dropping by 2.7% and ADR declining by 8.4%, ultimately leading to a drop in RevPAR of 10.8%. However, with an ADR €89.82, hotels in Belgrade are able to achieve higher prices than their counterparts in Bucharest or Sofia. Even though room occupancy is the lowest in this set, Belgrade ranks second with regards to RevPAR.

The figures below show the direct comparison in performance of Sofia, Bucharest and Belgrade in 12 months running (incl. June 2015).



Source: STR Global



Source: STR Global

+ Investment Market

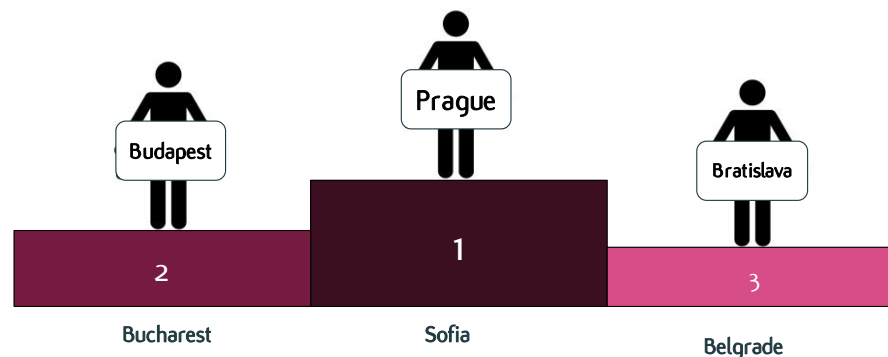
CEE is struggling

The hotel investment market in Europe has been robust so far in 2015 with the key markets – UK, France and Germany being the big winners. While investors are exploring further opportunities to enter the CEE markets, Bucharest, Sofia and Belgrade have been relatively quiet with no major transactions.

In the last few years, **Bucharest** has seen almost no activity. The most recent notable transaction is the sale of the JW Marriott Bucharest Grand Hotel by the Bank of Cyprus to STRABAG SE. With the first transaction completed and demand and performance growing in recent years, we expect domestic and many international players will be keeping a close eye for investment opportunities in Bucharest.

Irrespective of **Sofia’s** weak hotel performance, the Bulgarian capital has enjoyed the most activity in this market comparison. The prominent sales of the 5-Star Kempinski Hotel Zografski to Victoria Group, and the Hilton Sofia to a local HNWI by the Quinn Group, confirm Sofia’s appeal to domestic investors who are willing to invest where there is stable return – a trend we expect to continue.

Despite its strategic geographic location between South-East and West, **Belgrade** is the lowest ranked city in this comparison. While demand is slowly growing, we see comparatively low KPIs and expect investment activity only to pick up when Serbia is able to report considerable economic growth, and once intense discussions with the EU are held.



Source: Christie+Co Research

Selected Hotel Transactions 2012 - 2015

Year	Country	City	Property	Category	Capacity
2014	RO	Bucharest	JW Marriott Bucharest Grand Hotel	Luxury	402
2014	BG	Sofia	Hotel Kempinski Zografski (93% stake)	Luxury	345
2013	BG	Sofia	Hotel Kempinski Zografski	Luxury	421
2013	BG	Sofia	Hilton Sofia	Luxury	245
2012	BG	Sofia	Radisson Blu Grand Hotel Sofia	Luxury	142
2009	RO	Bucharest	Hello Hotel	Budget	150
2008	SRB	Belgrade	Hotel Continental	Luxury	415
2008	SRB	Belgrade	Hotel Splendid	Midscale	50
2007	RO	Bucharest	Golden Tulip Skygate	Midscale	108

Source: Christie+Co Research

+ Outlook

Buy, sell, hold?

It's been more than five years since the onset of the crisis and the overall climate in the CEE continues to remain varied as each of the individual countries are at different phases of development, both in economic and political spheres. The CEE hotel markets still have a long journey to recovery, and even its more developed markets have quite some way to catch up with the front-runner markets of Western Europe. However, the remarkable growth that these markets achieved in the years prior to the financial crisis demonstrates their fundamental and enduring strengths.

In recent years, **Bucharest** has made tremendous progress in its hotel sector, reporting upward trends in overnight stays and improved hotel performance, backed by increasing demand. The overall economic growth of the country will continue to draw opportunistic foreign investors, attracted by the growing potential of both the business and leisure segments.

Since 2010, **Sofia** has recorded healthy growth rates with respect to overnight stays and RevPAR, albeit from a low starting point. In recent years, its government has taken concrete steps to develop legislation, agencies and procedures designed to attract foreign investment and promote tourism. While it is too early to pronounce these steps a definite success, there are a lot more international players who wouldn't have looked two years ago – eager to capitalise on the improved economic climate and the opportunities presented due to the city's lack of quality hospitality groups.

Last but not least, **Belgrade**, the smallest of the three analysed markets, is facing a somewhat more difficult environment. Although demand is slowly increasing, we expect investment activity in the hotel market will remain at a low level in the foreseeable future as the sector is still suffering from oversupply. Depending on economic and political reforms, we can see Belgrade taking on a role as a hub between Eastern and Western Europe, however, the speed of this transition remains unclear.

	Bucharest	Sofia	Belgrade
Supply			
Demand			
Performance			
Investment			
Outlook	Buy	Buy	Hold

Source: Christie+Co Research

+ Brief Introduction to Christie + Co

We are the leading hotel and leisure advisors in Europe

About Christie + Co	Our Services	Christie + Co international Network
<ul style="list-style-type: none"> - A Member of Christie Group Plc: <ul style="list-style-type: none"> - Partnership founded in 1935 - Publicly listed on Alternative Investment Market (AIM) - Specialists in the Leisure and Licensed Sectors: <ul style="list-style-type: none"> - Hotels, hostels, leisure properties - Restaurants, public houses, bars - Retail, care and nursing homes - 16 Offices across the UK <ul style="list-style-type: none"> - Birmingham, Bristol, Cardiff, Edinburgh, Exeter, Glasgow, Ipswich, Leeds, London, Maidstone, Manchester, Milton Keynes, Newcastle, Nottingham, Reading and Winchester - 15 International Offices <ul style="list-style-type: none"> - Aix-en-Provence, Barcelona, Berlin, Bordeaux, Dublin, Frankfurt, Helsinki, London, Lyon, Munich, Paris, Rennes, Stockholm, Vienna and Warsaw 	<ul style="list-style-type: none"> - Hotel and leisure property agents, valuers and advisors for 80 years - We are the most active hotel agent in Europe with more than 400 current hotel sale instructions - Christie + Co is the only agent to have a dedicated hotel specialist in every office location - 515 hotel valuations each year - All types of hotel and leisure properties in all locations - Specialist valuers, consultants and property advisors acting for: <ul style="list-style-type: none"> - Major hotel operators - International developers and investors - Local and regional owners and investors - UK and European lending banks - International lending and investment banks - Dedicated consultancy and valuation teams in the UK, Austria, France, Germany, Ireland, Scandinavia, Spain and Poland - Fully integrated with hotel agency and hotel investment & development teams 	

+ Contact

Christie + Co Austria GmbH

Stallburggasse 2/3a

A – 1010 Vienna

T +43 1 890 53 57 – 0

vienna@christie.com

christiecorporate.com

Lukas Hochedlinger MRICS

Managing Director Austria, Business Development CEE

M +43 699 1997 1365

E lukas.hochedlinger@christie.com

Marvin Kaiser

Consultant Investment & Letting Austria & CEE

M +43 699 1997 1334

E marvin.kaiser@christie.com

Simon Kronberger

Consultant Investment & Letting Austria & CEE

M +43 699 1997 1333

E simon.kronberger@christie.com

Christie + Co

