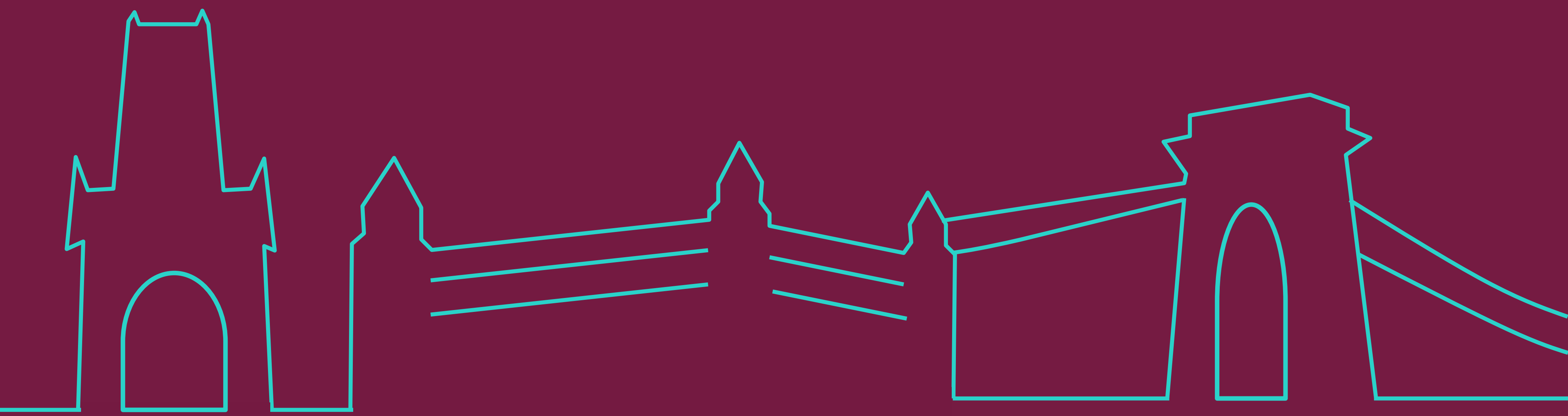
+CEE hotel market snapshot

Prague, Bratislava and Budapest back on track?

April 2015



Christie + Co

STR GLOBAL

Introduction

Dear Readers,

Dear Friends of Christie + Co,

Central and Eastern Europe was called Europe's growth engine and most promising market at one point and regarded as the continent's least attractive place for hotel investments at a later stage. What holds true about CEE hotel markets is that they have all undergone a volatile development over the last ten years, bearing risks but, more importantly, also opportunities.

Prague, Bratislava and Budapest are considered to be among the most developed hotel markets in CEE. All three cities were able to register stronger demand in 2014 than 10 years ago and Budapest even witnessed annual growth figures close to 10 per cent in overnight stays over the last five years. As a result, international investors are starting to give these markets consideration again. However, care should be taken as the fundamentals in the individual markets are not the same throughout.

Christie + Co, Europe's no. 1 broker and advisor for hotel properties, in co-operation with STR Global, the leading provider of market information to the global hotel industry, provides a snapshot of these three markets, focusing on historical trends and future outlook.

We hope that you enjoy reading this statement and that we will be able to give you new insights into a thrilling market segment.

Best regards

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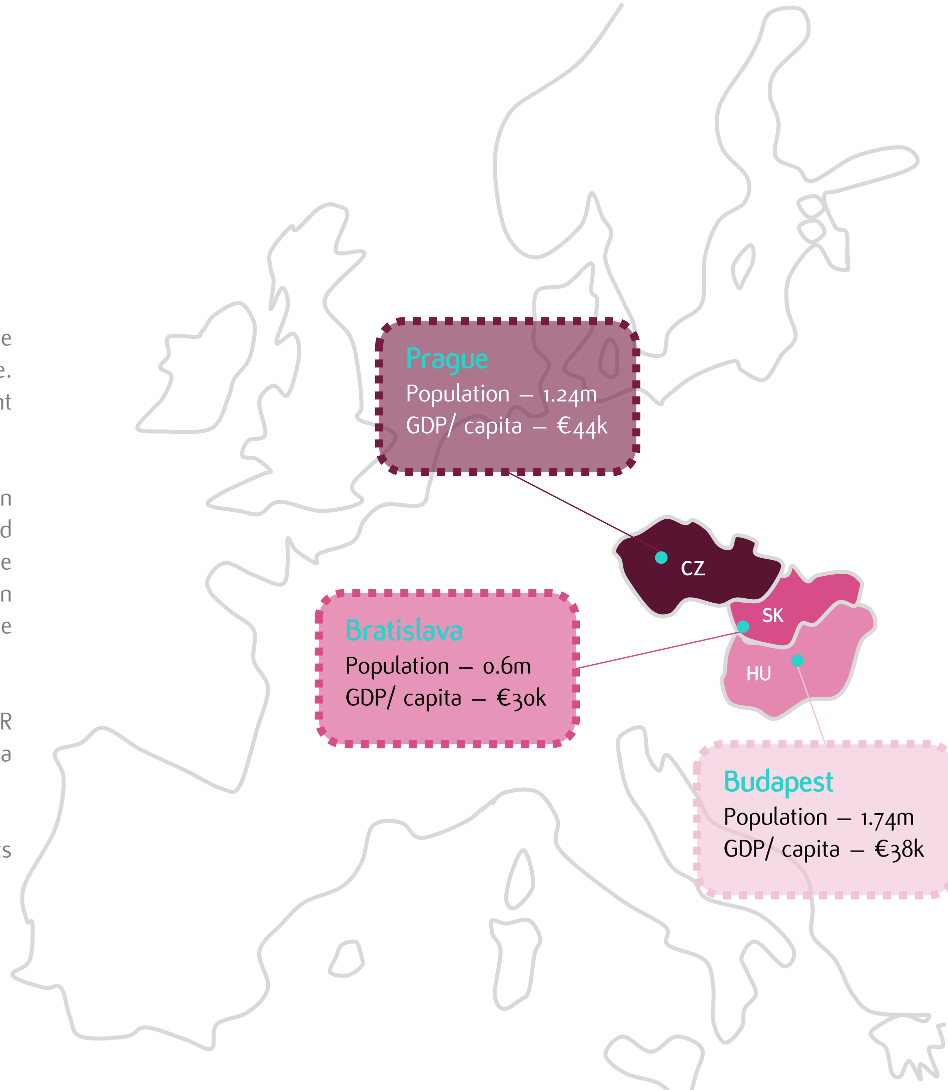
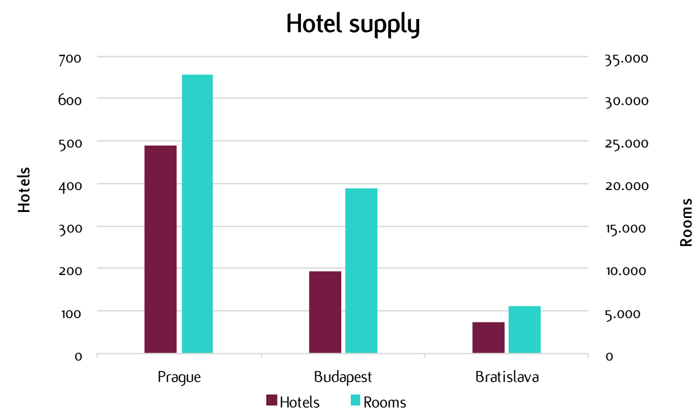


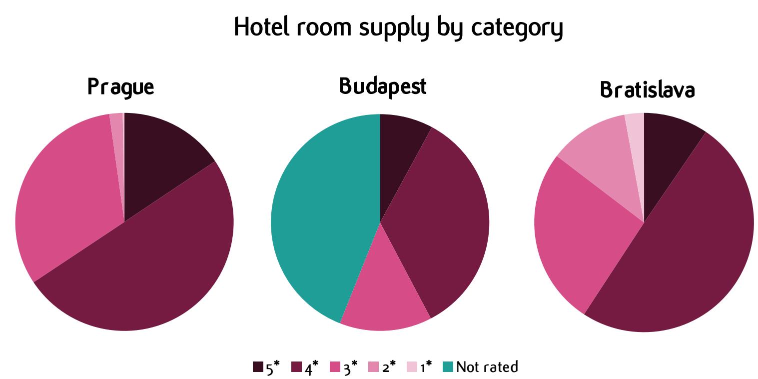
Overview of supply

Development pipelines have run dry

- Prague, Bratislava and Budapest witnessed strong growth rates in hotel supply up to the financial crisis. After 2009, hotel openings declined and only few new developments were initiated since then and some hotels even closed, partially helping the markets to recover.
- With 489 hotels and almost 33,000 bedrooms, **Prague** has the most hotel rooms in CEE and is also one of the largest hotel markets in Europe. Just over 50 per cent of the hotel supply is categorised as 4-star hotels, followed by one third being rated as 3-star hotels. The average capacity of hotels in Prague is at 88 rooms per property, corresponding with a healthy mix of larger chain hotels and many smaller privately run hotels. On top there are about 3,500 guest rooms in 212 B&Bs, pensions and hostels, targeting budget travellers.
- **Budapest** has 193 categorised hotels totalling over 19,000 bedrooms, hence being a much smaller market than Prague. Since Hungary joined the Hotel Stars Union in 2013, many hotels have opted to not be categorised, making official statistics look somewhat distorted. From the categorised properties, the majority with 34 per cent are rated as 4-star hotels, followed by 3-star (14 per cent) and 5-star hotels (8 per cent). The average capacity of 99 rooms per hotel is higher than in Prague and reflective of more corporate hotels.
- **Bratislava** has by far the smallest capacity of the three hotel markets with 76 categorised hotels and about 6,000 rooms. The majority of the market are 4-star hotels with 50 per cent and one quarter are 3-star hotels. 5- and 2-star hotels each account for around 10 per cent of the market. With an average hotel capacity of 78 rooms per property, Bratislava's hotels are on average smaller than hotels in Budapest and Prague.



Source: National Statistical Offices



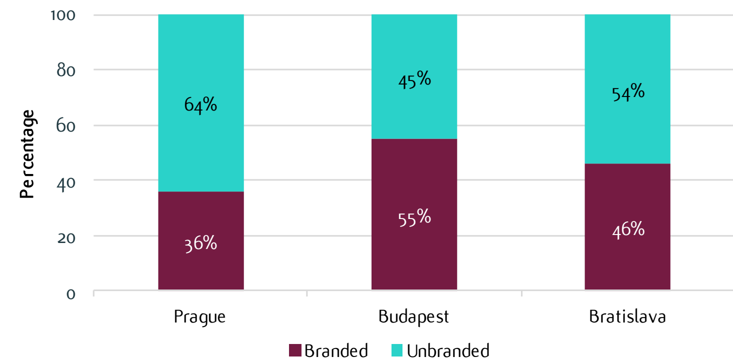
Source: National Statistical Offices

Branded hotel supply

Opportunities still exist in some markets

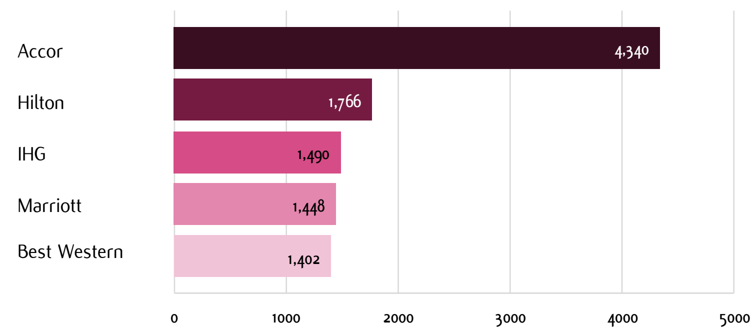
- With fewer developments and higher volatility in the analysed CEE capitals, many international hotel operators have amended their growth strategies, focusing on rebranding and expansion via franchise and management agreements. An assessment of the brand penetration of the individual markets reveals there is still potential in all three cities, particularly in Prague. It also shows that Accor has by far the largest overall share of branded hotel rooms in these three cities.
- **Prague** is characterised by a majority of unbranded hotel rooms. Only 36 per cent of all hotel rooms are branded, totalling about 12,000 rooms. The average capacity of branded hotels in Prague is 166 rooms, about double compared to the overall market's average. The Hilton Prague is the largest branded hotel with a capacity of almost 800 rooms. The Czech hotel company EuroAgentur operates most branded hotel properties in the city, however, with smaller capacities.
- Brand penetration is significantly higher in **Budapest** with more than half of all hotel rooms (55 per cent) being branded, equaling 11,000 rooms. While the average capacity of branded hotels in Budapest is 202 bedrooms per property, the largest hotel is the Best Western Hotel Hungaria with almost 500 rooms. The two strongest brands by number of hotels are Accor's brand Mercure (6) and the Hungarian hotel company Danubius Hotels Group (5).
- In **Bratislava** about 46 per cent of the total hotel supply is branded, totalling almost 3,000 hotel rooms. The average capacity of branded hotels is 145, with the largest branded hotel being the Park Inn Danube with 261 rooms. In contrast to the other two capitals, no brand has a particularly strong presence in the Slovak capital.

Branded vs. unbranded hotel rooms



Source: National Statistical Offices

Top 5 hotel groups by room numbers



Source: National Statistical Offices

Demand trends

A remarkable recovery story

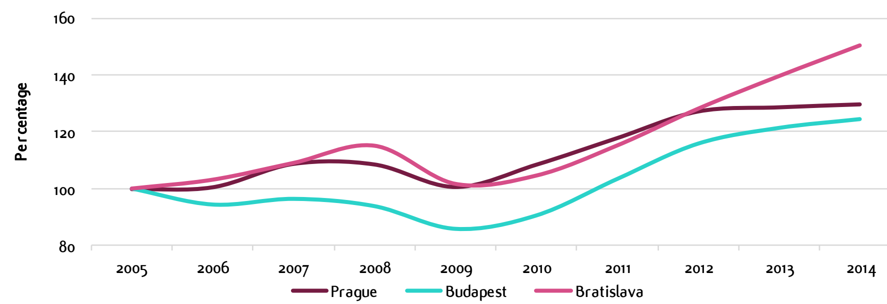
- Any positive market growth that had been recorded prior to the crisis was erased abruptly in 2009. Since then, all three markets have witnessed unprecedented growth for five consecutive years – albeit from a different starting point.

- With 14.8 million overnight stays in 2014, **Prague** reached an all time high and clearly defended its pole position as most attractive city in CEE (and beyond). The compound annual growth rate (CAGR) over the last five years was 5.7 per cent. However, growth slowed in 2013 and 2014 and with Russia being the strongest source market (12.8 per cent), followed by Germany (11.4 per cent) and Italy (5.8 per cent), 2015 could be a more challenging year.

- **Budapest** recorded the strongest decline in the five-year period to 2009 but also the sharpest CAGR since then (7.6 per cent). Hungary's capital saw 8.6 million overnight stays in 2014 and is catching up with other markets. The most important source markets are the UK with 8.3 per cent of all overnight stays, followed by Germany (7.5 per cent) and Italy (6.7 per cent).

- Slovakia's capital was probably hit hardest with a significant oversupply before and after 2009. However, since then hotel demand in **Bratislava** has grown by a remarkable 9.6 per cent per annum on average, reaching 2.1 million overnight stays in 2014. The Czech Republic and Germany were the strongest international source markets, while domestic tourists still account for an impressive 44 per cent of all overnight stays.

Overnight Stays – indexed growth since 2005



Source: National Statistical Offices

Overnight Stays 2014

Source: National Statistical Offices

Performance

The only way is up

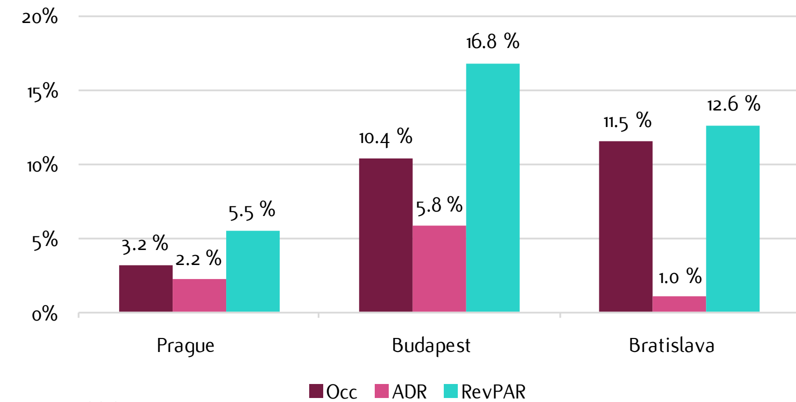
- In comparison to Europe's top hotel markets, the selected CEE capitals still have room to develop, as the figures on the right illustrate (running 12 month period from April to March of the following year).

- **Prague** is the best performing city in this CEE hotel market snapshot with regard to actually achieved KPIs. Latest available figures show a room occupancy of 71.2 per cent for the overall market, which is an increase of 3.2 per cent compared to the previous twelve months. In terms of ADR, Prague achieved €73.3, resulting in a RevPAR of €52.2.

- The hotel market in **Budapest** recorded a remarkable improvement over the last 12 months with two-digit growth rates in room occupancy and RevPAR, albeit from a low starting point. Room occupancy grew by 10.4 per cent year-on-year to arrive at 66 per cent. With an ADR of €60.12 (+5.8 per cent) Budapest hotels were able to increase RevPAR by phenomenal 16.8 per cent, thanks to a strong first quarter of 2015. While RevPAR was below European average with €39.7, it is still the best result since the crisis.

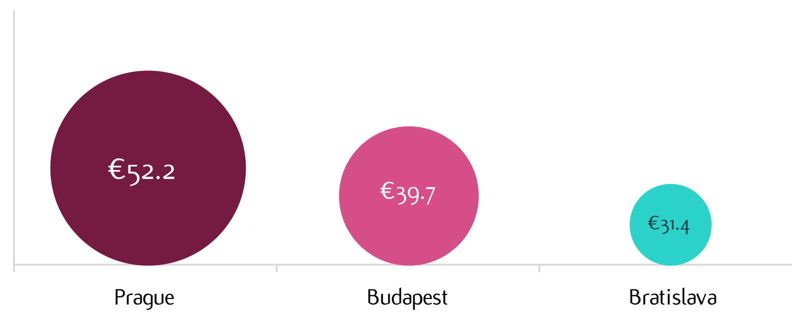
- Parallel to Budapest, **Bratislava** accounted for an impressive performance improvement over the last 12 months, following a weak year. While ADR only grew by 1.0 per cent, room occupancy increased by 11.5 per cent, leading to a growth in RevPAR of 12.6 per cent. In absolute numbers this resulted in an occupancy rate of 53.0 per cent, an ADR of of €59.3 and a RevPAR of €31.4, making the Bratislava hotel market still one of the weakest in Europe.

Running 12 month period 03/2015 vs. 03/2014



Source: STR Global

Running 12 month period RevPAR 03/2015 vs. 03/2014



Source: STR Global

Investment market

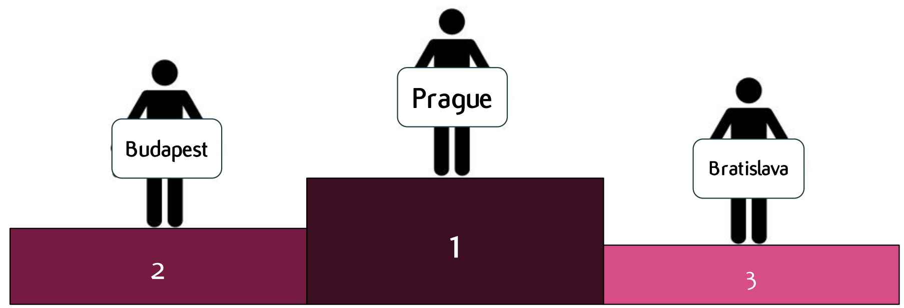
CEE is moving ahead

- 2014 recorded a jump in hotel investments across Europe with key markets such as the UK, France and Germany clearly taking the lead. However, there was also activity in CEE markets, where investors evidently focused on quality assets in capital cities, with secondary markets being mostly quiet.

- Being the strongest market in terms of trading performance it is no surprise that **Prague** is ranked first with regard to hotel investments. The city accounted for prominent deals such as the Four Seasons selling to Northwood from the US or the Augustine Hotel (ex Rocco Forte) to Russian Azimut Group, confirming Prague's appeal to international investors. With the Hilton Prague and other hotels being up for sale, we expect the positive trend to continue.

- As a result of Hungary's political and economic parameters, **Budapest** has seen less activity than the city would have deserved in our view. The most recent example is the sale of InterContinental (again) to UAE Al Habtoor Group, who already acquired the Le Meridien Budapest in 2012. With demand and performance growing above the European average, we expect investors to take a closer look at Budapest opportunities in the near future.

- **Bratislava** remains less attractive for international investors compared to Prague or Budapest. Those transactions that take place are mainly driven by Slovak investors, such as the acquisition of the Sheraton or the Park Inn Danube. While demand is growing, we see comparatively low KPIs and hence expect limited international investment activity in the near future.



Source: Christie+Co Research

Selected hotel transactions 2012 - 2015

Year	Country	City	Property	Category	Capacity
2015	CZ	Prague	Courtyard Marriott Prague	Midscale	235
2014	CZ	Prague	Augustine Hotel	Luxury	101
2014	HU	Budapest	InterContinental Budapest	Luxury	402
2014	SK	Bratislava	Sheraton Bratislava Hotel	Luxury	209
2014	CZ	Prague	Four Season Prague	Luxury	161
2014	CZ	Prague	Hotel Savoy	Luxury	61
2013	CZ	Prague	InterContinental Prague	Luxury	372
2013	SK	Bratislava	Park Inn Danube	Midscale	261
2012	HU	Budapest	Le Meridien	Luxury	218

Source: Christie+Co Research

Outlook

Buy, sell or hold?

- More than five years after the financial crisis it appears the CEE hotel markets are on the way to recovery – with some of them recovering more quickly than others.
- **Prague** reported a continuous increase in overnight stays over the last years, with growth rates somewhat slowing in 2013 and 2014. Still the overall market was able to increase its RevPAR, mainly thanks to an increase in room occupancy. With demand and performance improving, hotel investors are positive about the market's future outlook. Parallel with international investors being more active in the Czech capital, the market is expected to improve further, offering interesting opportunities for the investment community.
- The highest growth rates with regard to demand and RevPAR were witnessed in **Budapest** over the last years, however, starting from a low base. Despite the political and economic situation in Hungary, the capital's hotel market developed above average and is expected to grow further in the next years. It is assumed that investors' attention will be drawn to Budapest in the mid term as the market shows more positive signs.
- Last but not least, **Bratislava** – the smallest of the three analysed markets – is facing a somewhat more difficult environment. Although demand is growing, hotels are still suffering from the strong oversupply and hence are not able to improve performance significantly. Most international hotel owners in Bratislava would either like to sell their assets or wait and hope for a recovery in the medium term. Those investors active in the market are predominantly local.

	Prague	Budapest	Bratislava
Supply	→	→	↘
Demand	↗	↗	↗
Performance	↗	↗	→
Investment	↗	→	→
Outlook	**Buy**	**Buy**	**Hold/Sell**

Source: Christie+Co Research

+Christie + Co – the overview

About Christie + Co

- A member of **Christie Group plc**:
  - Partnership founded in 1935
  - Publicly listed on Alternative Investment Market (AIM)
- **14 international offices**
  - Aix-en-Provence, Barcelona, Berlin, Bordeaux, Dublin, Frankfurt, Helsinki, London, Lyon, Munich, Paris, Rennes, Vienna and Warsaw
- 16 offices across the UK
- Across our large and comprehensive network and international offices we have extensive relationships with owners, operators, investors and lenders throughout Europe.
- Our unparalleled office network also enables us to provide maximum exposure to every instruction we undertake.

Our Services

- Hotel and leisure property agents, advisers and valuers for almost 80 years
- We are the **most active hotel broker in Europe** with more than 500 current hotel sale instructions
- Christie + Co is the only agent to have a dedicated hotel specialist in every office location
- Some 300 hotel sales per year
- Specialist **brokers and advisers** acting for
  - major hotel operators
  - international investors and developers
  - local and regional owners and investors
  - Austrian and European lending banks
- Dedicated consultancy and valuation teams in Austria, Germany, France, Scandinavia, Spain, Poland, Ireland and UK
- Our advisory, valuations and brokerage teams work across all sectors and services throughout Europe.

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