



HOTEL MARKET SNAPSHOT: THE BALTIC CAPITALS 2022

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THE GEMS OF THE BALTICS

Dear reader,

The report provides a brief yet detailed overview on the hotel market performance of Baltic capitals. It commences with the fundamental changes that occurred within the last four years, i.e. 2019-2022, and follows by describing the current state of matters and concludes with anticipated future market predictions.

Christie & Co Nordics team based in Helsinki is the company's dedicated branch overlooking the region. We are a trusted hospitality advisor in the Baltics with long-standing expertise and experience in conducting hotel projects of various sizes and complexity.

In case of any questions regarding the material and information provided, please feel free to reach us through the contact details provided on the last page.

Sincerely yours,



Kimmo Virtanen
Director – Christie & Co Nordics

Estonia, Latvia, and Lithuania, each with its own strong individual identity and rich cultural heritage are lands of **vibrant capitals**, exquisite architecture, pristine beaches and unspoilt rural landscapes.



RIGA

Population: 610,000



TALLINN

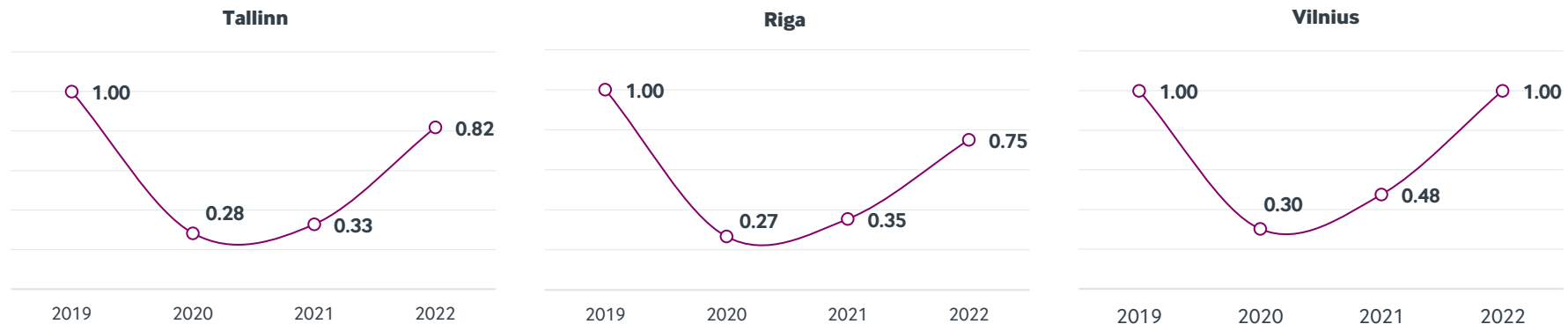
Population: 440,000



VILNIUS

Population: 590,000

RevPAR Index (2019 = 1)



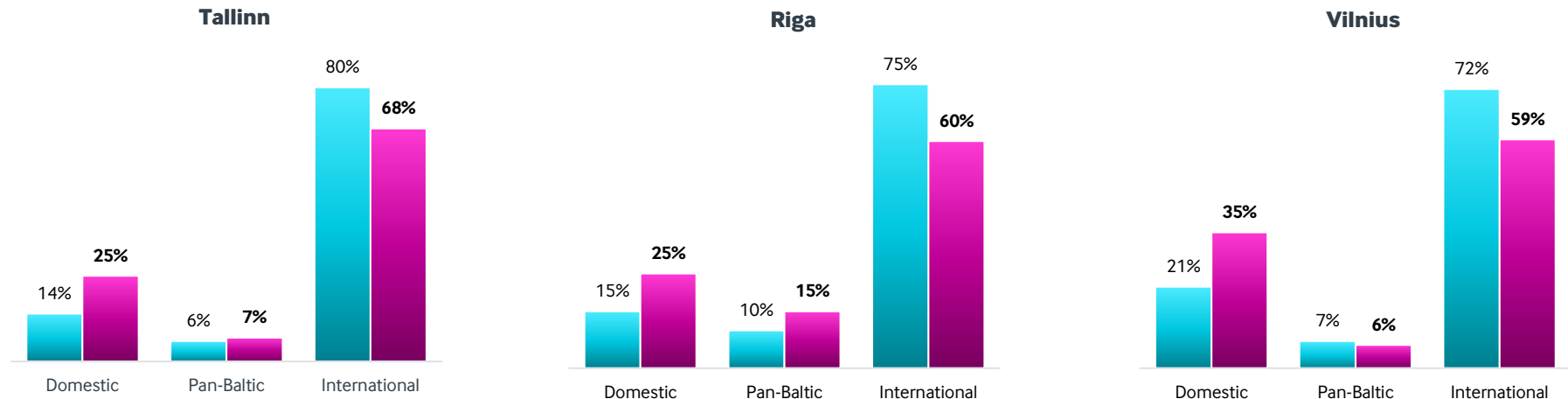
Pre-pandemic, the hotel sector in the Baltic region was performing strongly, with continuous annual growth in the number of overnight stays. The Baltic capitals are heavily reliant on foreign visitation; 60-80% of all hotel stays were contributed by non-resident tourists in 2019; thus, the region’s tourism was evidently dampened amid the global lockdown. At the beginning of 2022, when coronavirus seemed to be fading in the background, the escalation of the war in Ukraine had an immediate and direct impact on all scenes of life in the region.

Occupancy Rates: After two years of record-low hotel occupancy rates, when the figures hovered around 25-35%, 2022, however, witnessed occupancy levels notably bouncing back. Among three Baltic gems, **Vilnius was the closest to reaching 2019 levels:** its yearly average occupancy constituted 62%, which reflects only a three percentage points lower figure than in 2019. **Tallinn follows suit**, with hotels in there performing at an exactly similar level as Vilnius (62%) but nine percentage points below when compared to its 2019 figures. The Latvian capital, **Riga, is the farthest from reaching its pre-pandemic level** – 17 percentage points short – where hotels ran at an average occupancy of 53% in 2022.

ADR levels nevertheless, **recovered fully** in Riga and **arrived on par** with 2019 levels (€68) while **even surpassing** by 3% in Vilnius (€67 in 2022 vs €65 in 2019). Tallinn, which historically has higher hotel rates among the three capitals (€78 in 2019), has recovered by 94% so far. A slight shortage in supply and more robust demand from local residents, coupled with rising inflation, contributed to the ADR’s relatively quicker rebound.

RevPAR levels recovered by 75% and 82% in Riga and Tallinn, respectively. Vilnius, celebrating its 700th anniversary in 2023, has shown signs of quick recovery since early 2021, and has continued **a stellar performance** throughout last year, eventually becoming the first of Baltic capitals to **break even** to 2019 RevPar levels. With economies gradually rising from stagnation, tourism and hospitality industry performance improving, and the war in Ukraine hopefully contained soon, our outlook for 2023 and the years onward remains optimistic.

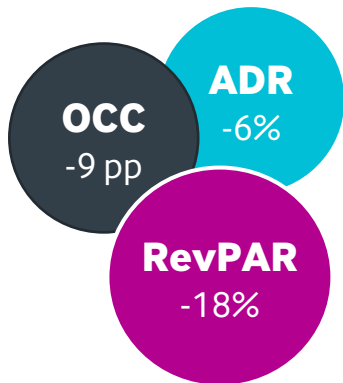
Share of hotel overnight stays by origin:



Hotel Overnight Stays, 2022, M Nights				
Capital	Total	Domestic	International	Total CAGR 2015-2019
Tallinn	2.65 (-20%)	0.65 (+45%)	2.00 (-30%)	+3.2%
Riga	2.05 (-35%)	0.50 (+15%)	1.55 (-45%)	+5.7%
Vilnius	1.85 (-30%)	0.65(+50%)	1.20 (-15%)	+6.0%

Airports Performance, 2022				
Airport	Passengers, M	% change YOY	% change vs 2019	CAGR 2015-2019
TLL – Tallinn	2.75	+110%	-16%	+8.6%
RIX – Riga	5.40	+130%	-31%	+8.6%
VNO – Vilnius	3.92	+105%	-22%	+8.5%

RECOVERY OF TALLINN



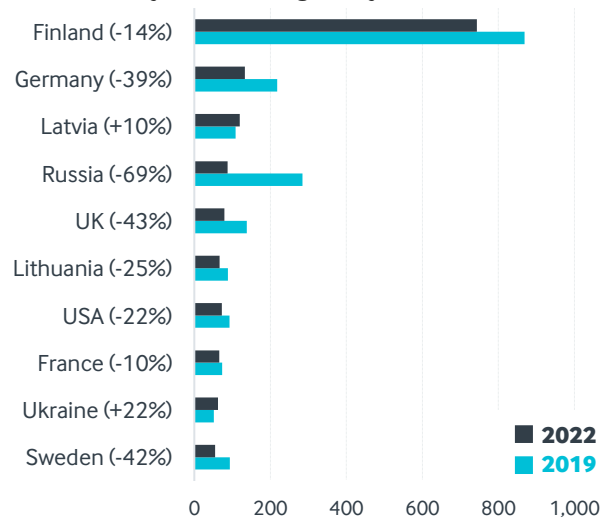
ADR	RevPAR	OCC
€ 73	€ 45	62%
FY 2022		
€ 78	€ 55	71%
FY 2019		

Estonia’s capital and its largest city, this high-tech hub with an enchanting Old Town, is a major centre for developing artificial intelligence and software programming. A major international port at the same time, Tallinn attracts both antique admirers and corporate clientele alike with an exceptionally harmonious mix of the old and the modern.

Demand

In 2022, Tallinn was the leading market in terms of total hotel overnight stays among Baltic capitals. This despite more considerable dependency on foreign travellers: pre-pandemic, every four in five hotel nights were contributed by non-resident visitors. Due to the proximity to Helsinki with a convenient ferry connection (two hours), Finnish tourists have the lion’s share of hotel stays and constitute one-third of the total amount. Russian visitation, which was gradually contracting even before the pandemic exacerbated even further amid Russia’s invasion of Ukraine. It is worth highlighting that Tallinn is also the leading MICE destination in the Baltics, having hosted 60 congresses in 2019 and leaving behind such destinations as Istanbul, Geneva, and Moscow.

Top-10 international source markets by hotel overnight stays, in 000’s



Hotels and similar lodging establishments		Number of Bedrooms
110	2022	7,950
106	2021	7,150
110	2020	7,450
148	2019	8,000

Supply: Recent Hotel Openings & Renovations

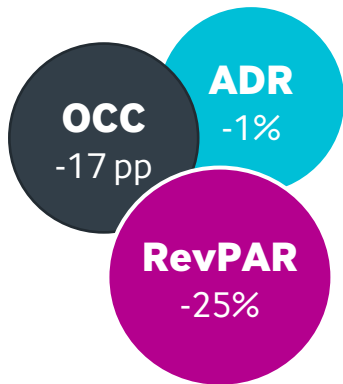
- Radisson Collection: upscale, 289 rooms, opened in 2022 Q2, reconstruction of former Radisson Blu Sky.
- Go Hotel Shnelli: midscale, 126 rooms, underwent a complete renovation in 2022.
- Mogotel Hotel Group: expanded with four acquisitions, Rixwell Viru Square (former Vana-Viru Hotel), Rixwell Collection Savoy, Rija Old Town and Rija Fonnental Design Hotel.
- Hotel Tallinn by Mercure: upper-midscale, 132 rooms, former Ulemiste Hotel near the Tallinn International Airport.

Future Hotel Pipeline

- Hyatt Place: upscale, c. 170 rooms, est. 2023-2024
- Radisson Red: upscale, c. 150 rooms, est. 2023-2024
- Hampton by Hilton: upper-midscale, c. 175 rooms, est. 2024
- Novotel Living: upper-midscale, c. 125 rooms, est. 2024-2025

Sources: Benchmarking Alliance; Statistics Estonia; ICCA; Christie & Co Research

RECOVERY OF RIGA



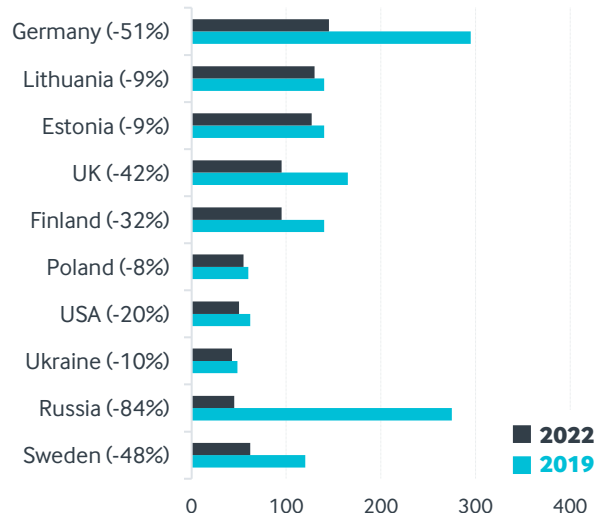
ADR	RevPAR	OCC
€ 67	€ 36	53%
FY 2022		
€ 68	€ 48	70%
FY 2019		

Situated right in the region's centre, Riga is the largest of the three capitals and the most cosmopolitan one. Almost one-third of the Latvian population live in Riga, which is strikingly set beside the wide River Daugava, has a UNESCO-acclaimed downtown, myriad Art Nouveau buildings and an enormous Central Market.

Demand

Riga benefited from the highest share of German and Russian tourists in the pre-pandemic period. The visitors from these two nations contributed almost 25% of all hotel overnight stays in 2019. The dramatic decrease in their visitation (Germans by 50% and Russians by 85%) left a mark of great magnitude. Except for the capital's own architectural and historical marvels, proclaimed coastal town of Jurmala is located just a half-hour drive away from Riga. This collection of spectacular residential towns keeps attracting foreign visitors for long-summer holidays.

Top-10 international source markets by hotel overnight stays, in 000's



Hotels and similar lodging establishments		Number of Bedrooms
100	2022	6,800
80	2021	5,900
80	2020	7,300
130	2019	8,400

Supply: Recent Hotel Openings & Renovations

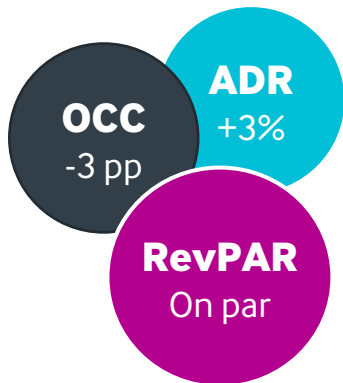
- A22 Hotel: upper-upscale, 20 rooms, opened in Q2 2021.
- Hampton by Hilton Riga Airport: upper-midscale, 189 rooms, opened in Q2 2022.
- Aparthotel Amella: upscale, 39 rooms, opened in Q2 2022.

Future Hotel Pipeline

- Holiday Inn at the Press House Quarter: upper-midscale, c. 317 rooms, est. 2024-2025
- Audēju Street Hotel: upper-midscale, c. 215 rooms, est. 2024
- Kalēju Street Hotel: upscale, c. 125 rooms, est. 2024
- Radisson Red: upscale, c. 220 rooms, est. 2024-2025

Sources: Benchmarking Alliance; Central Statistical Bureau of Latvia; Christie & Co Research

RECOVERY OF VILNIUS



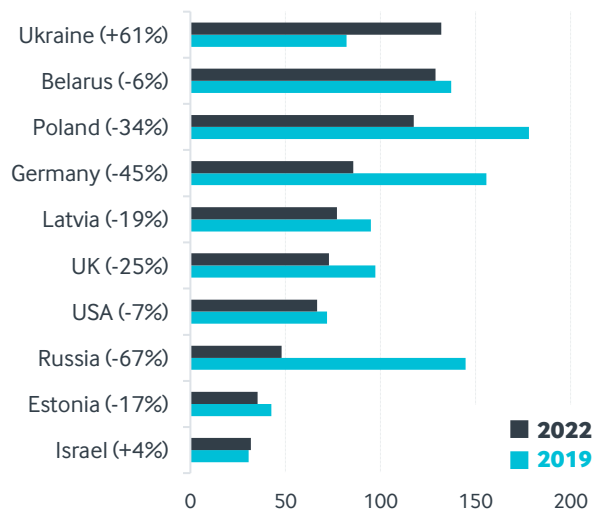
ADR	RevPAR	OCC
€ 67	€ 42	62%
FY 2022		
€ 65	€ 42	65%
FY 2019		

Unlike Tallinn and Riga which enjoy the convenient location on the Baltic Sea shore, Vilnius is landlocked in the far south-eastern corner of the country. Nevertheless, this city with a fascinatingly rich history, previously also known as the Jerusalem of the North, is one of the most forward-thinking destinations with great potential, especially in the field of tech and IT advancements.

Demand

Geographically closest to Ukraine, Lithuania has done a stellar job not only in warmly welcoming the war refugees but also in zeroing the gap in all three key hotel performance indicators in 2022. Also renowned for its wealth of exciting events, festivals, and concerts, Vilnius is celebrating its 700th anniversary this year. The abundance of programs prepared for the event will accelerate the recovery even further. Moreover, Vilnius is chosen as a host city for NATO's Summit, taking place on July 11-12, 2023.

Top-10 international source markets by hotel overnight stays, in 000's



Hotels and similar lodging establishments		Number of Bedrooms
n/a	2022	n/a
155	2021	8,000
115	2020	7,300
125	2019	7,500

Supply: Selected Hotel Openings & Renovations

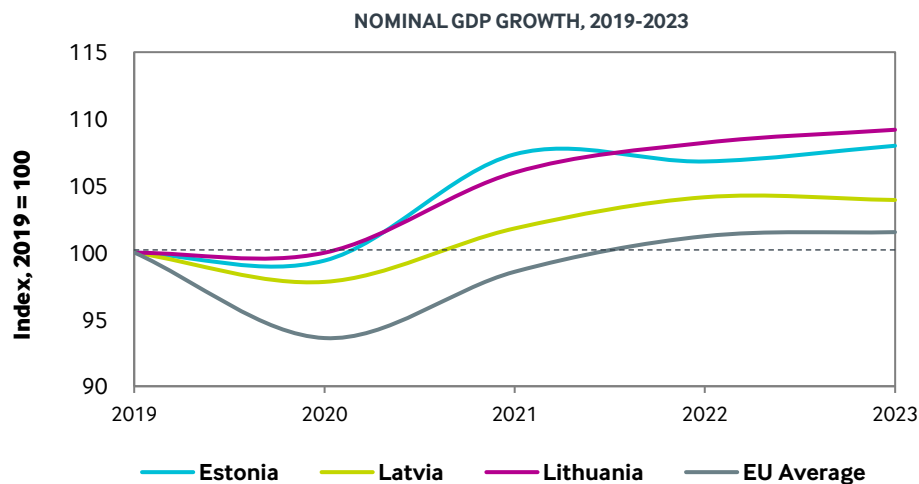
Despite the pandemic, Vilnius witnessed some growth in hospitality offerings and lodging establishments, particularly in apartment-style hotels.

- Kestminta Old Town Hotel & Apartments: upscale, 45 rooms, opened in 2021 Q2.
- Radisson Blu Royal Astorija closed in January 2023 for a large-scale renovation and will re-open as Radisson Collection later that year.

Future Hotel Pipeline

- Planned Airport Hotel: midscale, est. 2024-2025
- Several planned hotel developments around Central Railway Station, as the whole area is expected to be revitalised amid much-promising Rail Baltica development (see page #12).

- Although COVID-19's impact on the tourism industry has been severe, the overall impact on Baltic economies has been less adverse. As the next graph indicates, the decline in GDP growth in 2020 was rather modest in comparison with the average of the EU.
- However, the pandemic has flagged the chronic issues of the local economies, especially exacerbating existing inequalities in the Baltics. The highly-skilled and more affluent part of the population has seen their wealth increase; meanwhile, the less qualified fell further behind, and risk becoming long-term unemployed.
- Lower growth predictions in 2023 are owing to higher inflation, negative confidence effects of Russia's war of aggression against Ukraine and weaker external demand. Private consumption is negatively affected by higher unemployment and a contraction of real wages.
- Despite the less mature hotel market and proximity to Russian borders, we notice an increasing number of regional and international investors convinced of the potential and upside of these markets.
- Apart from solid economic fundamentals, and improving performance indicators, there are a great number of large-scale developments emerging in the region, like Rail Baltica, Riga Port City and RIX Airport City to name but just a few.



Sources: Eesti Pank; Bank of Lithuania; Bank of Latvia; Christie & Co Research

Macroeconomic projections				
Country	Annual Inflation, %			
	2022	2023	2024	Trend
Estonia	19.1	6.8	2.1	▼
Latvia	16.9	9.2	3.4	▼
Lithuania	18.3	8.4	2.1	▼

Country	Unemployment Rate, %			
	2022	2023	2024	Trend
Estonia	6.5	8.6	7.5	=
Latvia	6.7	6.7	6.3	=
Lithuania	6.3	7.1	7.0	=

Country	GDP Growth, %			
	2022	2023	2024	Trend
Estonia	-0.5	1.1	3.7	▲
Latvia	2.3	-0.2	2.3	▲
Lithuania	2.1	0.9	2.4	▲



EXPECTED MAJOR DEVELOPMENTS



Rail Baltica, Regional



RIX Airport City, Riga



Akropolis Vingis, Vilnius



Porto Franco, Tallinn

(1) One of Europe's most ambitious transport projects, Rail Baltica is a high-speed railway under construction, which upon completion, will be connecting the capitals and second cities of Poland, Lithuania, Latvia, Estonia and Finland. The initial phases are projected to be completed by 2026-2027, whilst the entire route by 2030.

(2) A mixed-use development in close proximity to Riga International Airport on a 24-hectare site with a 340,000 sqm targeted area. It is anticipated that the first phase will be completed in 2027 and will concur with the completion of the Rail Baltica. The area will host a four-star airport hotel, corporate district, MICE venues, retail, as well as logistics and light manufacturing facilities.

(3) The Baltic's largest shopping centre developer and operator is planning to convert former industrial area into a new mixed-use urban quarter with corporate offices, residences, food & concert hall, conference centre, underground parking lots and etc. The project is in Vilkipėdė district of Vilnius, located 5 km away from the Old Town. The construction is planned to start in 2023 and estimated to end in 2027.

(4) Covering a total floor area of 150,000 sqm., this mixed-use project is located in the heart of Tallinn and includes office, retail spaces, apartments, a hotel, and a large underground parking. Started in 2018, the development is expected to be finished completely in 2023.



1

Rising inflation



2

Soaring energy prices



3

Forecasting challenges



4

Labour shortage

(1) Despite the dynamic pricing ability of hotel assets, continuously rising costs on all frontiers cannot be met adequately by an ADR increase due to deficient demand in the market. Further, higher inflation lowers the share of discretionary income. This poses to be more disadvantageous for lower-income households. Travelling, especially overseas, is a luxury more than ever.

(2) The year 2022 has witnessed record-high prices for electricity in the utmost majority of European nations, followed by a decision to suspend deliveries of gas from Russia. On the local scene, the utility bills for gas and electricity notably increased during the winter months, putting pressure on the profitability line. The Baltic states, however, have a long-standing action plan to disconnect from the Russian electricity grid and synchronise with the system of Continental Europe by 2026, ensuring a more reliable and stable electricity supply.

(3) There is a shift in lending parameters as banks remain cautious about lending to transactions and developments, as it is getting tougher to obtain senior debt. The economic uncertainty is affecting LTV (Loan-To-Value) ratios and diminishing purchasing power. More pure equity buyers are expected in the near future.

(4) The staff shortage is not limited to a particular department but rather widespread. The most impacted remain the rooms and F&B divisions, with a significant need for housekeeping and kitchen personnel. If the gap between inflation-driven ADR and the subsequently expected increases in payroll continues widening, the sector can anticipate some of the workers to seek employment where these lines are more parallel in the near future.



1

Environmental, Social and Governance



2

Extended-stay



3

An emergence of modular construction



4

Decentralised working models

(1) Globally, Environmental, Social and Governance (ESG) initiatives placed themselves at a cornerstone of every decision-making process in the last few years. It has also become a prerequisite for a larger pool of hotel investors upon considering new developments or acquisitions.

(2) While much of the lodging industry heavily struggled during COVID-19, the extended-stay segment showed the best resilience and strength throughout the past couple of years. With serviced apartment hotels and long-stay concepts undersupplied in the Baltics, we expect an increase in such products in the region.

(3) With construction and building material costs continuously soaring, additionally boosted by improved quality control, shorter construction time, lower expenses and lesser waste in production, we expect to see a rising interest in this method among developers.

(4) A partial transformation of most occupations to smart-working and work-from-home modalities continues to evolve new developments for simultaneous-use concepts. New developments will allocate a more significant weight to this trend, for instance, by creating spaces for co-working and co-living on the premises.

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