CEE Hotel Market Snapshot III

Zagreb, Ljubljana, Sarajevo, Podgorica

May 2016

Introduction

Dear Readers,

While some of you might remember our first and second edition of our *CEE Hotel Market Snapshot* collection we published last year, we are now happy to present our latest report on the hotel trends of four other CEE capitals: Zagreb, Ljubljana, Sarajevo and Podgorica.

Zagreb, Ljubljana, Sarajevo and Podgorica might be among the smaller – and often overlooked – capitals in the CEE region, attracting little attention from investors, developers and tourists; but they hold some interesting surprises at closer inspection.

In the aftermath of the financial crisis, the tourism numbers of the cities under review had collapsed, with the capitals recording decreasing numbers in the following years. But since 2010, all four markets have been on the upswing, witnessing positive growth.

Overheated competition in some Western European markets has led investors to look for opportunities in markets where they face less competition for opportunities they are interested in, and thus are able to negotiate attractive prices on assets.

The third edition of our *CEE Hotel Market Snapshot* gives an overview of the market trends and looks at challenges and opportunities for hotel investments in the respective cities. The report is based on industry research and Christie & Co's viewpoints from working with our clients.

We hope you will enjoy reading our report.

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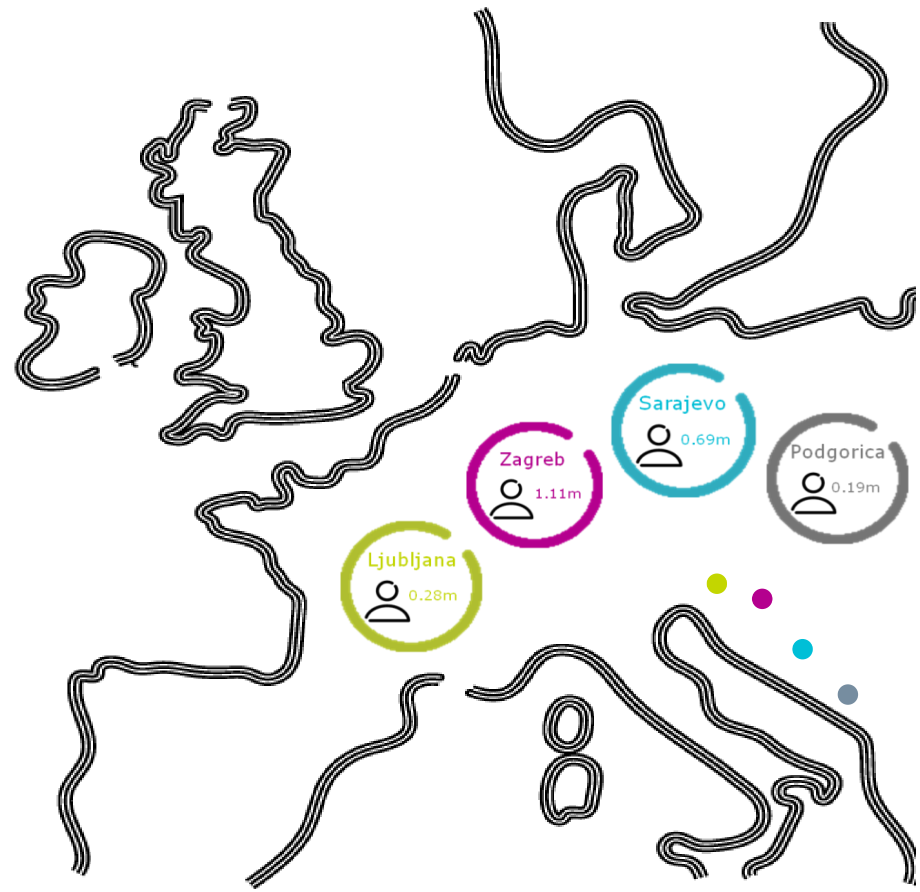


Overview of Supply

Development pipelines run dry

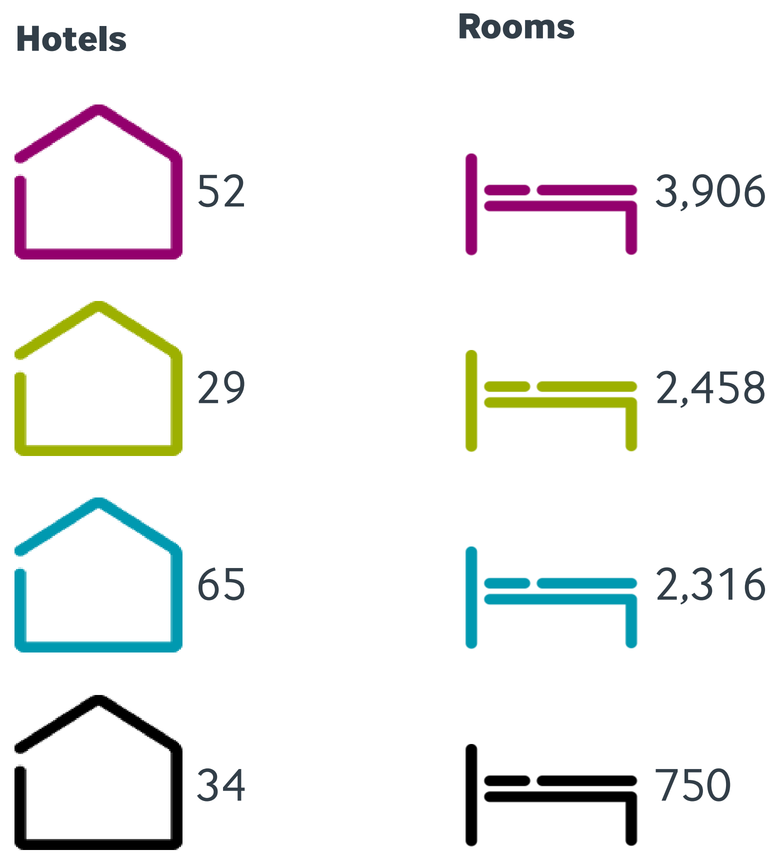
All four capitals under review witnessed years of limited hotel supply growth after the financial crisis. Only a few hotels opened or were developed since then. Very slowly these cities are attracting more attention from investors, developers and tourists.

With 52 hotels and almost 4,000 hotel rooms, **Zagreb** is the biggest market in this CEE comparison. Over 40% of total hotel supply is categorised as upscale, almost 30% are midscale, more than 22% are 5-star hotels, and the remainder are positioned in the budget and economy segment. The average capacity of rooms per property is 75.

Ljubljana has 29 categorised hotels, totalling just under 2,500 bedrooms. Of the identified room supply, over 85% can be allocated to the up- and midscale market. Over 7% of the hotel supply is luxury. The remaining rooms are equally spread in the economy and budget segments. The average capacity of 84 rooms per hotel is higher than in Zagreb.

With 65 categorised hotels **Sarajevo** has the largest number of accommodation establishments, but only 2,300 rooms. Hence, average room capacity is only 36 rooms per property. The 4-star hotels account for the majority of rooms at just below 45%, followed by the 3-star with almost 40%, luxury with 12% and the budget segment (1 and 2-star) contains the lowest proportion.

Podgorica has by far the smallest capacity of the four hotel markets with 34 categorised hotels and 750 rooms. The 4-star sector accounts for the majority of rooms at just above 65%, followed by the 3-star segment at 17%. The remaining rooms are distributed across luxury and budget. With an average hotel capacity of 22 rooms per property, Podgorica's hotels has on average the smallest hotels.



Branded Hotel Supply

Where are the brands?

As the four cities in this snapshot appear not to be high on the priority lists of international hotel groups, branded hotels are scarce. While big players such as Accor, Choice and IHG are not yet present in these markets, Starwood Hotels & Resorts is the leading brand.

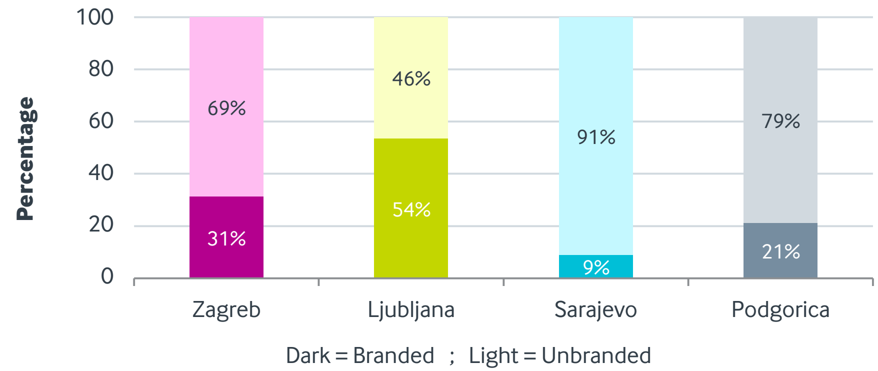
Zagreb is characterised by a majority of unbranded hotel rooms. Only 31% of all hotel rooms are branded, totalling about 1,200 rooms. The average capacity of branded hotels in Zagreb is 174 rooms, more than double the size of the overall market average. The Westin Zagreb is the largest branded hotel with a capacity of almost 350 rooms followed by the Hotel Sheraton Zagreb with 306 rooms, making Starwood the biggest player in the city.

Among the analysed cities, **Ljubljana** has the largest cluster of branded hotels, with 54% of all rooms, totalling approximately 1,300 bedrooms. Most of these rooms are operated under the Slovenian hotel group "Union Hotels". The average capacity of branded hotels is 132 rooms.

With a percentage of 9% of all hotel rooms being branded – equalling 200 rooms and two hotels in total – the presence of international hotel chains is the lowest in **Sarajevo**. Both hotels are branded by Marriott. The average capacity of branded hotels in Sarajevo is 104 rooms per property, with the largest hotel being the 132-bedroom Courtyard by Marriott Sarajevo.

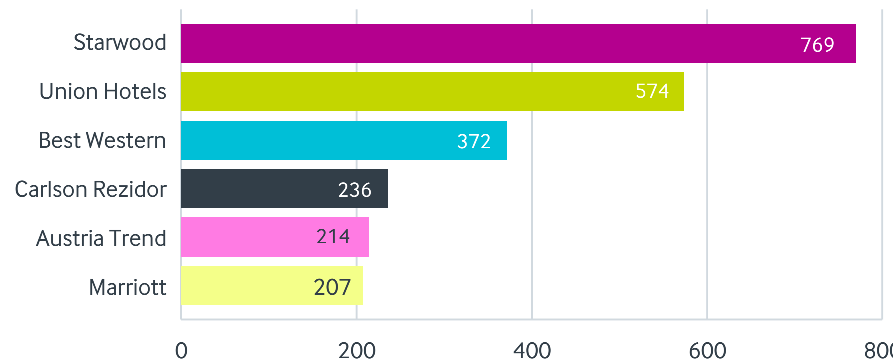
Similar to Sarajevo, only two of **Podgorica's** hotels are branded, equalling 21% of the total hotel supply and almost 160 rooms in total. The average capacity of branded hotels is 80, with the largest branded hotel being the 111-bedroom Ramada Podgorica. With 200 rooms, however, the Hilton Podgorica, which is set to open in the second half of 2016, will soon be stealing its spotlight.

Branded vs. unbranded Hotel Rooms



Source: Christie & Co Research

Top 6 Hotel Groups by Room Numbers



Source: Christie & Co Research

Demand Trends

Positive growth since five consecutive years

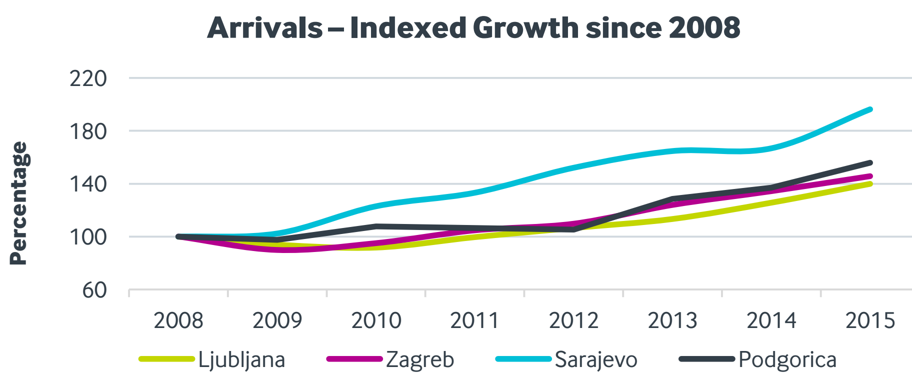
In the aftermath of the financial crisis, the tourism numbers of most of the cities under review had collapsed, with the capitals recording decreasing numbers in the following years. But since 2010, all four markets have been on the upswing, witnessing positive growth.

With 1.8 million overnight stays **Zagreb** reached record level in 2015, and the upward trend seems to continue in 2016. The importance of Zagreb as a hub connecting CEE with the Adriatic Sea is also mirrored in the increase in demand. The compound annual growth rate (CAGR) for both arrivals and overnight stays reached 5.4% over the last eight years, totalling 1.1 million arrivals and 1.8 million overnight stays in 2015.

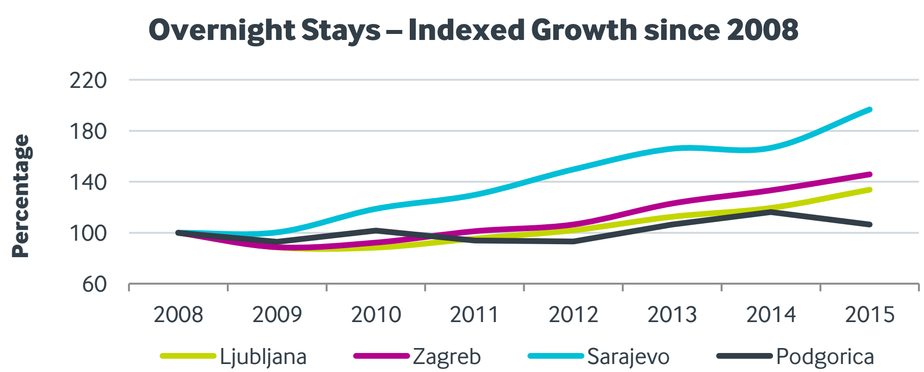
Since demand dropped by 10% between 2008 and 2010, **Ljubljana** has come a long way. Slovenia's capital has recovered well with its CAGR exceeding 5% over the last eight years and scored a record year with over 500,000 arrivals and 900,000 overnight stays in 2015.

Sarajevo never recorded a decline in hotel demand after the crisis. In 2015 the capital of Bosnia and Herzegovina reached an all time high of 400,000 arrivals, resulting in almost 800,000 overnight stays – for both numbers an increase of approximately 30% in comparison to 2014. The CAGR over the last eight years reached almost a double digit number.

Hotel demand in **Podgorica** has been mixed after the financial crisis with first significant growth levels registered in 2013. Even though in 2014 Montenegro's capital saw 84,000 arrivals and 115,000 overnight stays, Podgorica still lags behind the other markets under review. That said, the positive CAGR over the last eight years can be interpreted as a sign of a promising future.



Source: National Statistical Offices



Source: National Statistical Offices

Performance

Will individual markets pick up?

In comparison to Europe's top hotel markets, the selected CEE capitals still have room to develop. Because of the size of the hotel markets, benchmark data providers such as STR Global do not have sufficient data, making trend assessments difficult. The charts below illustrate the view of Christie & Co as to the performance of the respective hotel markets.

Investment Market

When will major investors enter the market?

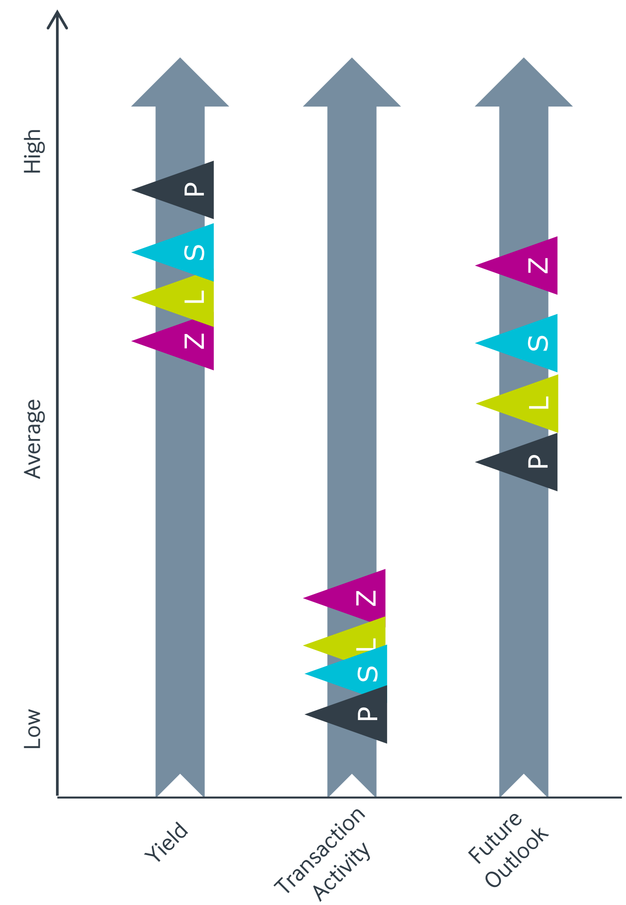
With more and more international investors looking for hotel assets in European capitals, the European hotel investment market is in high spirits, recording a year-on-year increase in total hotel transaction volume of 65% in 2015. But besides the key markets – such as UK, France and Germany – significantly less activity is noted in CEE, more particularly in Zagreb, Podgorica, Ljubljana and Sarajevo.

Despite its strategic geographic location, **Zagreb** has not been Croatia's most active market. Although hotel transactions were scarce in Croatia's capital, growing demand coupled with the lack of branded hotels in recent years provides a great opportunity for investors. Hence, we expect domestic and international players to keep an eye on new opportunities in Zagreb.

Ljubljana is still suffering from low demand levels. Although market sentiment is growing, the capital of Slovenia has not recorded any considerable hotel transaction in recent years. Yet, falling property prices and no restrictions on buyers will hopefully also boost Ljubljana's hotel transaction activity.

With only two branded hotels, **Sarajevo** is the city with the lowest share of branded hotel rooms among the cities under review. Despite growing demand, the city has not record any sizeable hotel transaction over the last decade. With overall investment from the Gulf region to Bosnia and Herzegovina growing, we also expect more international investment activity in the hotel sector.

While tourism demand in **Podgorica** was mixed over the last decade, Montenegro's capital recorded the major transaction of the Delta City Shopping Mall this year. The last hotel transaction dates back over 10 years; but with the Euro as (un) official national currency and advancing EU-accession talks, we are expecting Podgorica to attract the attention of further investors.



Summary and Outlook

Buy, sell, hold?

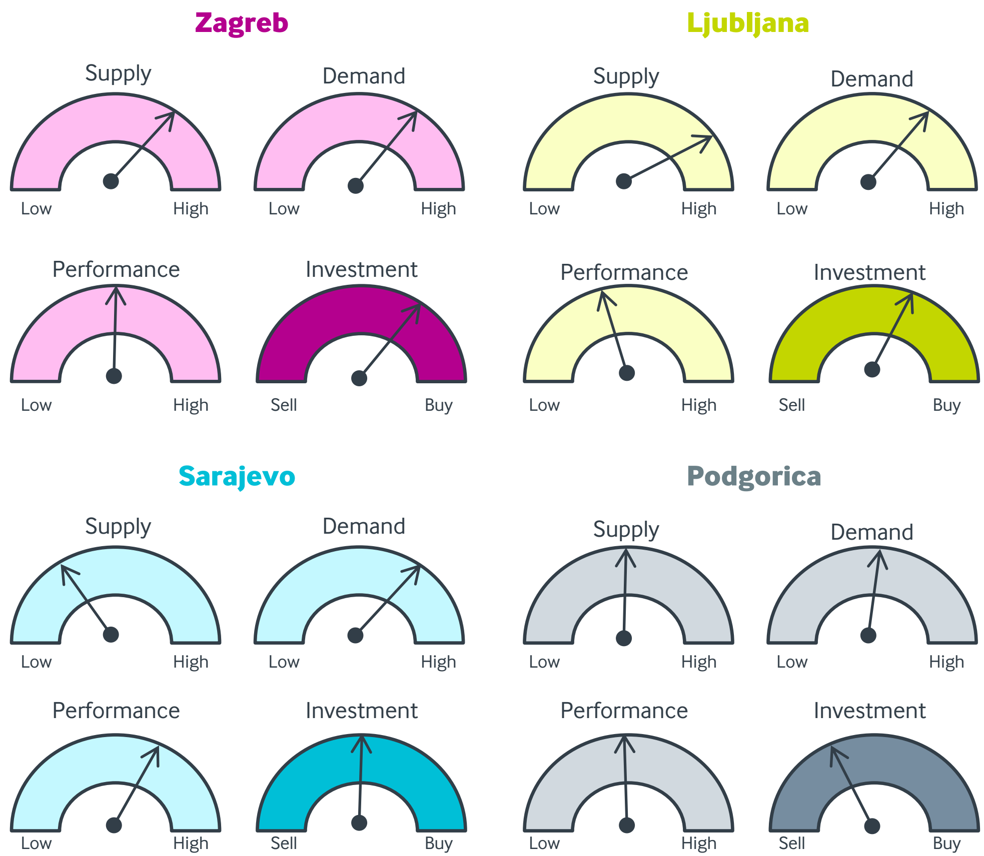
More than 30 years after the fall of the Iron Curtain, some CEE capitals are still lagging behind others. Whereas key cities such as Budapest, Prague or Warsaw recorded strong growth and high investment activities, the smaller capitals in this comparison are facing a somewhat more difficult situation.

Zagreb reported a continuous increase in overnight stays over the last years, with double-digit growth rates in the last three years. As it is becoming a more important transportation hub, Zagreb's hotel industry will profit from the increasing demand. The overall economic growth of Croatia will be a magnet for opportunistic foreign investors, attracted by the growing potential of both business and leisure segments.

Ljubljana recorded healthy growth rates with respect to tourism demand. Although demand is on the rise, we expect low investment activity in the foreseeable future as the market is still suffering from brand oversupply. However, with its strategic location and property transactions increasing, Ljubljana seems to be an emerging market for investment.

Sarajevo – the twin city of Zagreb and Ljubljana – witnessed not only strong tourism demand growth but also some branded undersupply, with less than 10% of hotel rooms being affiliated. Hence, Bosnia and Herzegovina's capital has upside potential for international hotel brands to enter the market and thus attract both international and local investors.

Podgorica, the smallest of the four analysed markets, is still struggling with the after-effects of the crisis. Significant demand growth has failed to appear and the hotel industry is suffering as a result. Most hotel owners in Podgorica would either like to sell their assets or wait for an uplift of the market.



Brief Introduction to Christie & Co

We are the leading hotel and leisure advisers in Europe

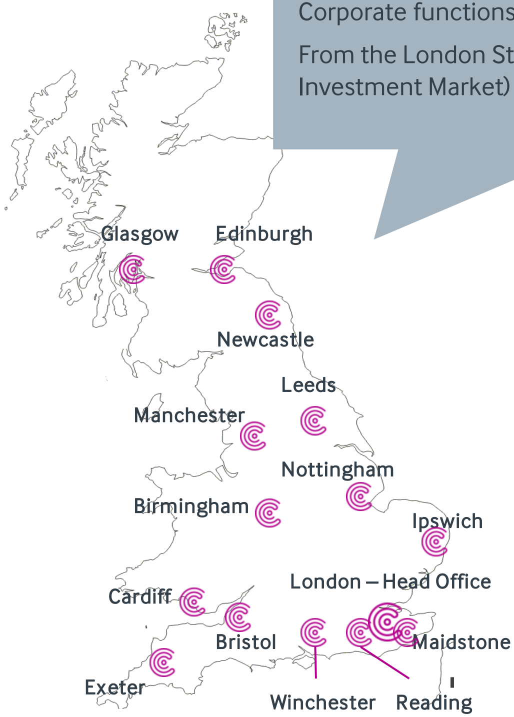
Over 80 years of progressive growth and development

Established by three partners in London's West End in 1935

First International offices opened in Frankfurt and Paris in 1998

Corporate functions added to areas of expertise

From the London Stock Exchange in 1988 to the AIM (Alternative Investment Market) in 2005



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- More than **300 professionals**
- **Leading** valuers, consultants and advisers
- **Specialists** across **9 sectors**
- Pan-European **multi-lingual** team
- **500 hotel valuations** completed yearly
- More than **400 current hotel sale instructions**
- Launch of the **Asia Desk** in 2015

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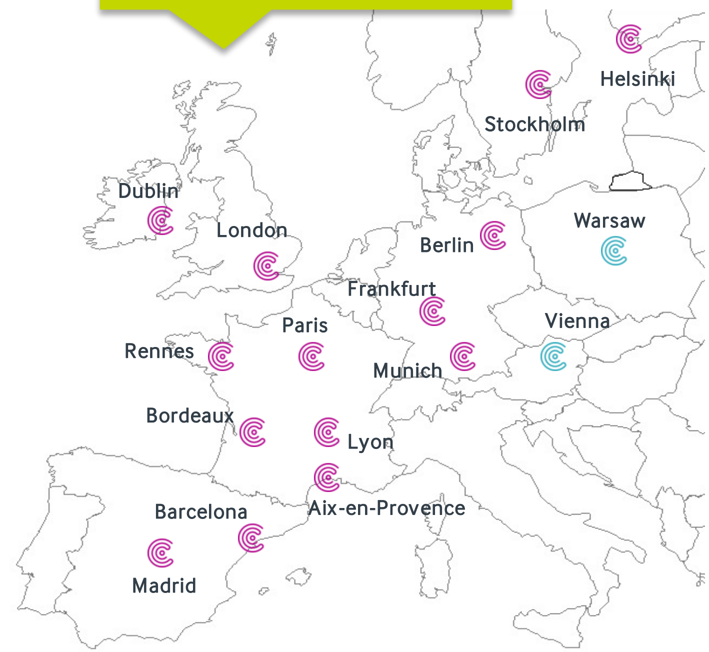

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