

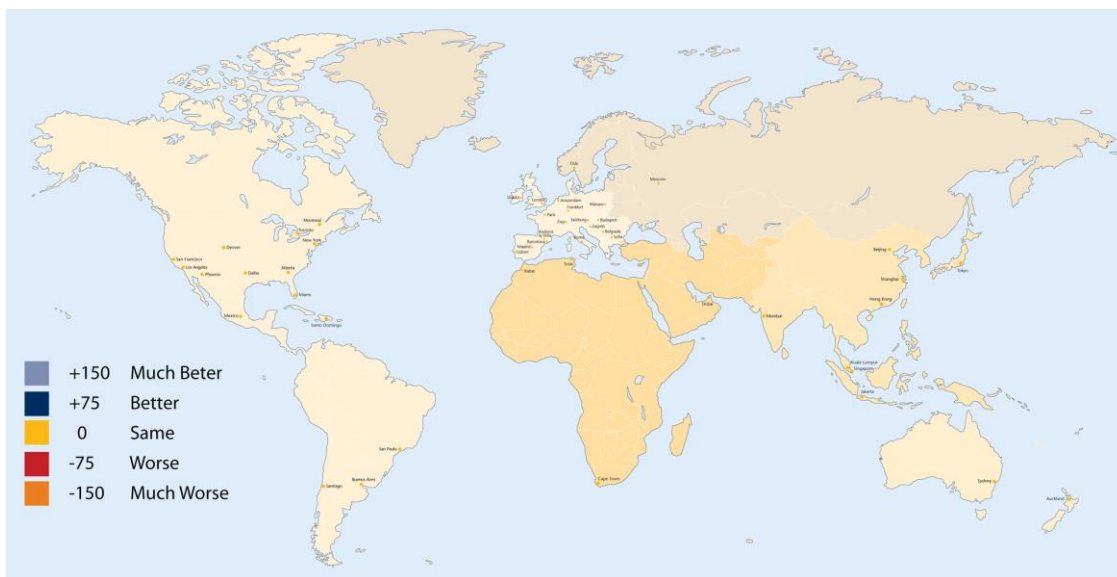


Horwath HTL™

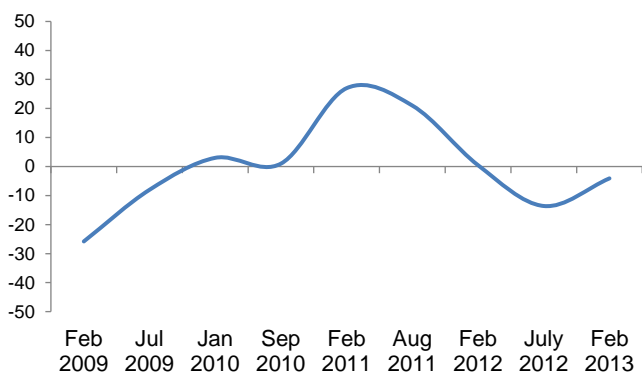
Hotel, Tourism and Leisure

The global leader in
hospitality consulting

South East Europe
Hotel Market
Sentiment Survey
2013



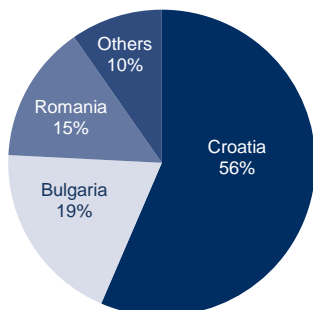
SEE SENTIMENT TREND



INTRODUCTION

The Horwath HTL Hotel Market Sentiment Survey has been designed to provide the hotel industry with a quick assessment of the future market outlook. The four-question survey focuses on the outlook for occupancy, average room rate and total revenue. Hoteliers have also been asked to make comments on their expectations for the coming year in comparison to 2012, as well as identify key factors of growth/decline, assessing the outlook for key demand segments.

SHARE OF RESPONDENTS BY COUNTRY



This report summarizes the outcome, gathered from responses across 7 countries. The majority of all respondents, 56 percent, came from Croatia followed by the respondents from Bulgaria (19 percent).

SEE sentiment has shown moderate growth in the last 6 months. Still, the average outlook is slightly negative, close to the neutral level.

SENTIMENT RANKINGS

BY COUNTRY	SCORE					
	SEP 2010	FEB 2011	JUL 2011	MAR 2012	JUL 2012	MAR 2013
Croatia	13	30	22	3	9	21
Bulgaria	16	0	-8	-13	-33	19
Romania	-18	39	42	10	11	-4
Others	0	-58	3	6	-21	-16
SEE Average	1	27	21	0	-14	-4
<i>Europe Average</i>	15	34	16	14	-8	-5

“In SEE, the majority of the markets posted declines in their sentiment scores while only Croatian score has increased showing the optimism of local hoteliers”.

RANKING SCORE KEY

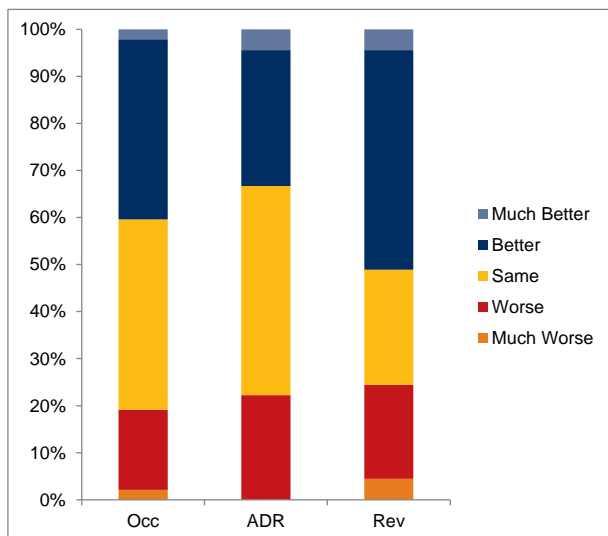
Much Worse	-150.0
Worse	-75.0
Same	0
Better	75.0
Much Better	150.0

SENTIMENT RANKINGS

As a way to measure and compare the results across regions and countries, we have created an index to formulate an overall average sentiment score from the first two questions. Points are assigned to each corresponding response and compounded accordingly. The index utilizes a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism; a zero score indicates unchanged expectations from the previous year whereas a positive 150 signifies a very optimistic outlook. The sentiment index or scores allow trends to be observed over time.

The outlook for 2013 is negative but going up. Declining sentiment is observed in the majority of SEE countries.

Looking at the SEE sentiment score within Europe, it brings similar market outlook as the average European hotelier. It is obvious that the majority of the hoteliers from SEE market foresee that the results in 2013 will be slightly lower than expected.



“Among SEE countries, the most positive outlook regarding 2013 market has been recorded in Bulgaria, followed by Croatia”.

MARKET PERFORMANCE RANKING

	Avg	Occ	ARR	Rev
Croatia	14	13	6	21
Bulgaria	23	25	30	15
Romania	-3	-8	0	0
Others	-30	-15	-38	-38
SEE Average	-12	-4	-16	-16
Europe Average	-1	4	-2	-3

2013 HOTEL MARKET OUTLOOK

Question 1: What is your assessment of the hotel market outlook for 2013 versus 2012?

Occupancy

In response to expectations on market-wide occupancy performance, 40 percent of the hoteliers replied that occupancy in 2013 should stay the same as in 2012. 40 percent of the hoteliers foresee better 2013 occupancy than in 2012 while only 19 percent of the respondents expect some declines in demand. Looking to the level of optimism, the most optimistic were Bulgarian hoteliers followed by Croatian respondents.

Average Room Rate

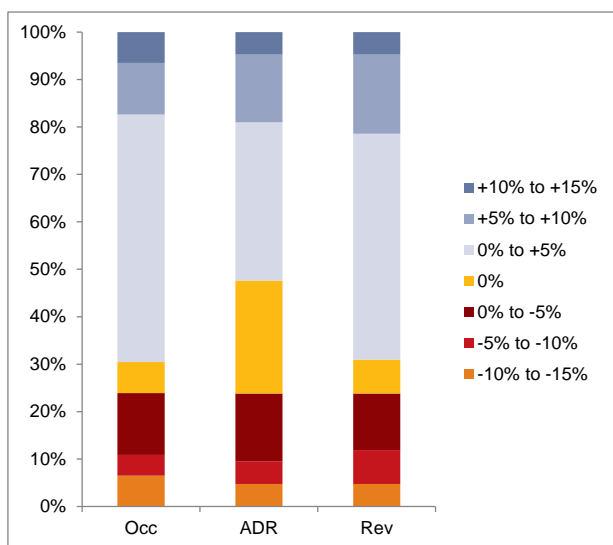
The outlook for ARR is mostly worse than the occupancy outlook, except between Bulgarian hoteliers where it is opposite. The majority of the respondents (44 percent) expect the same ARR in 2013 as it was in the last year. 22 percent of the respondents expect ARR decrease in 2013.

Total Revenue

Within SEE countries, the average outlook for total revenue in 2013 is the same as for the ARR. 24 percent of respondents expect total revenue to be the same in 2013 as it was in 2012. Only Croatian hoteliers were more optimistic regarding 2013 revenues, whereas more than 77 percent of the respondents expect the same or better revenues in 2013 than in the last year.

Index Score

On average, Bulgaria and Croatia hold the only positive sentiment for general market performance in 2013. Compared to the average European expectations, the hoteliers from SEE region are more pessimistic.



“The hoteliers from SEE region expect better performance in 2013 than in 2012 but with the less optimism than the average European hotelier. The most optimistic are Montenegrin and Croatian hoteliers”.

HOTEL PERFORMANCE RANKING

	Avg	Occ	ARR	Rev
Croatia	28	29	17	36
Bulgaria	14	17	25	0
Romania	-6	-6	-13	0
Others	-2	-5	0	0
SEE Average	4	3	4	5
<i>Europe Average</i>	8	9	5	10

2012 HOTEL PERFORMANCE EXPECTATION

Question 2: For your hotel, what is your expectation for growth/decline in 2013 versus 2012?

Occupancy

About 70 percent of hoteliers expect growth in occupancy in 2013 with around 52 percent expecting growth up to 5 percent. About 13 percent expect occupancy to decline by up to 5 percent and 11 percent expect it will decline by more than 5 percent. The most optimistic hoteliers within SEE region are Montenegrin hoteliers expecting significant growth of demand in their properties.

Average Room Rate

Hoteliers’ assessment of their respective property ARR performance levels is still positive. About 52 percent expect some growth in ARR with almost 20 percent expecting that to be in excess of 5 percent. However, 24 percent expect ARR to decline in 2013, with 10 percent expecting the decline to be in excess of 5 percent.

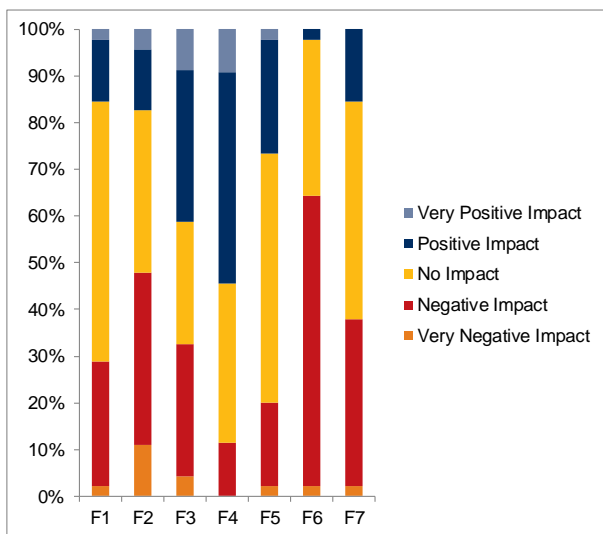
Total Revenue

With a generally positive outlook for both occupancy and average room rate, the outlook for total revenue growth in 2013 is positive with 69 percent of hoteliers expecting growth, 21 percent of which expect this to be in excess of 5 percent.

Index Score

On average, Montenegrin hoteliers had the highest positive expectations for individual property market performance in 2013 compared to 2012 (average score 83). The second place by the level of optimism has been recorded within the Croatian hoteliers.

The average sentiment for the SEE hoteliers regarding this question is less optimistic than the average expectation of the European hoteliers.



“SEE markets are clearly looking towards local tourism growth to keep the hotel market moving in the coming year and are pessimistic in regards to local economic growth trends”.

DEMAND DRIVER RANKING

	Score
Local/global stock market	0
Local economic growth trends	(6)
Global economic growth trends	1
Local tourism trends	13
New competitive supply additions	3
Global oil prices	(14)
Currency exchange rates	(5)

FACTORS AFFECTING PERFORMANCE

Question 3: How are each of the factors below expected to influence hotel market performance in 2013?

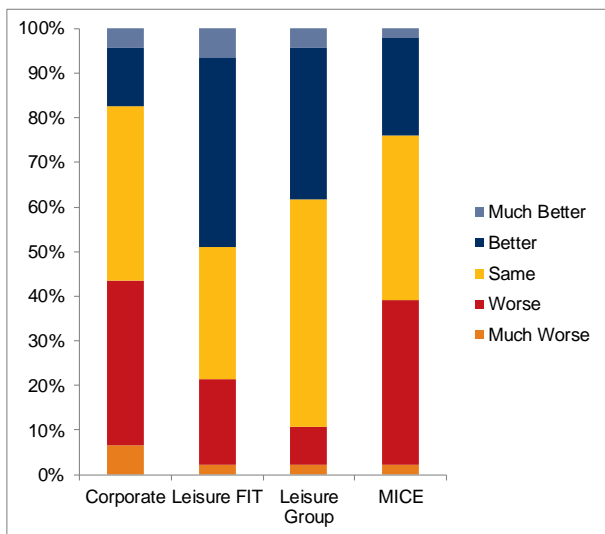
Each hotelier was asked to gauge their attitude towards seven factors and their impact.

- F1. Local/global stock market
- F2. Local economic growth trends
- F3. Global economic growth trends
- F4. Local tourism trends
- F5. New competitive supply additions
- F6. Global oil prices
- F7. Currency exchange rates

The most positive score has been recorded for local tourism trends with 55 percent of respondents expecting local tourism trends to have a positive impact. The most negative were global oil prices with 64 percent of respondents expecting this to negatively impact the market. 41 percent foresee positive global economic trends while on the other side, local economic growth will have negative impact in 2013 for the majority of the respondents (48 percent).

Compared to the rest of the Europe, the hoteliers from SEE region are more optimistic concerning the selected demand drivers. Anyway, mostly concerned with the economic trends, the European hoteliers still believe that the tourism trends on their local market will not be disturbed.

In SEE region as well as among all other world markets the main concern is the impact of global oil prices.



“On average, SEE respondents think that the market performance will not be better this year when looking to the demand of business segments. The majority believes that the leisure FIT segment will improve its performance”.

MARKET SEGMENT PERFORMANCE

Question 4: How are each of the major demand segments expected to perform in 2013 versus 2012?

The last question dealt with each participant’s opinion with regard to primary market demand segments, which were Corporate, Leisure FIT, Leisure Group and MICE (Meetings, Incentive, Conference, and Exhibition) and how they are expected to perform in 2013.

The majority of the respondents (39 percent) believe that the future performance of all market segments will stay as it was in 2012. Negative expectations were connected with both business segments for which the hoteliers expect the highest declines.

For the leisure groups, the majority of respondents (51 percent) felt performance would remain stable in 2013 and 38 percent felt that the demand from this segment will be better. For leisure FIT segment the majority (48 percent) believe in better demand while additional 30 percent think that the performance of this segment in 2013 will stay the same as in the last year.

Croatian respondents believe in the higher demand of both leisure segments while for the business segments their outlook is more pessimistic. Only Bulgarian hoteliers had a positive outlook for all market segments with the lowest expectations for MICE demand.

DEMAND SEGMENT RANKING

	Score
Corporate	-4
Leisure FIT	7
Leisure Group	6
MICE	-3

OTHER MARKET SENTIMENT REPORTS**BY REGION**

ASEAN
Benelux
Europe
South East Europe

BY COUNTRY

Australia
Austria
Canada
China
Hungary
Indonesia
Ireland
Italy
Japan
Norway
Poland
South Africa
Switzerland

BY CITY/DESTINATION

Beijing
Shanghai
Hong Kong
Québec

CONCLUSION

In conclusion, the results from the latest edition of the Survey show that the SEE sentiment is going up but remaining slightly negative.

The European crisis continues to weigh down the market. Sentiment in Europe (5) is on the thin legs and remains only slightly above neutral.

If Europe can finally settle its problem in the fifth year of the post financial crisis, we should be looking at a much better second half of 2013.

In the SEE region, the hoteliers are more concerned with the economic growth, especially those that are not from EU countries. Still all the markets within this region believe in their local tourism growth, among which the most optimistic are Croatian hoteliers with the only increased sentiment score within the SEE region.

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