

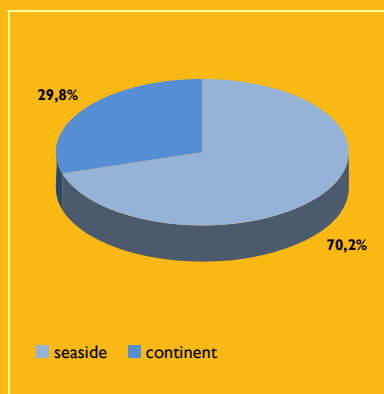


CROATIA HOTEL MARKET SENTIMENT SURVEY

July 2009

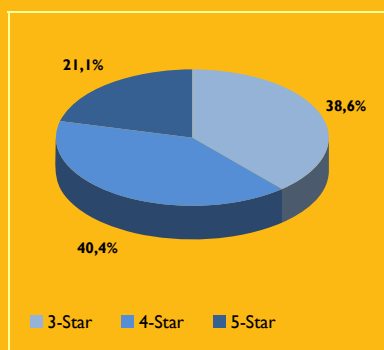
SHARE OF RESPONDENTS

BY REGION



SHARE OF RESPONDENTS

BY STAR CLASSIFICATION



INTRODUCTION

The Horwath HTL Hotel Market Sentiment Survey for Croatia has been designed to provide the hotel industry in this country a quick assessment of the future market outlook. The survey, as part of the global initiative, focuses on the outlook for occupancy, average room rates and total revenue.

In this mid year survey, hoteliers have also been asked to make comments on their expectations for the coming semester in comparison to the second half of last year, as well as comment on the impact the crisis has had on room night demand.

This report summarizes the outcome of the survey, gathered from more than 80 Croatian hotels. More than 70 percent of them came from seaside destinations and the rest from continental Croatia. The majority of the contributions were from 4-star hotels (40 percent), followed by 3-star (39 percent) and 5-star (21 percent).

In the time when the financial crisis is still affecting all over the world, it is not surprising to get the negative assessment of the outlook for 2009. On the other side, this being the second Horwath HTL survey this year, we have been able to compare results with the previous sentiment scores in order to give a more in depth analysis of national and regional future hotel performance.



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SENTIMENT RANKINGS

By Region	Score	
	July	Feb
1. Continent	-39.4	-2.7
2. Seaside	-50.0	-40.0
By Star Classification	Score	
	July	Feb
1. Three Star	-36.9	-17.0
2. Four Star	-44.6	-17.8
3. Five Star	-69.3	-44.4

"Croatian hoteliers are now more pessimistic about the outcome of 2009. The average level of expectations has drop down for almost 100 percent."

RANKING SCORE KEY

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

SENTIMENT RANKINGS

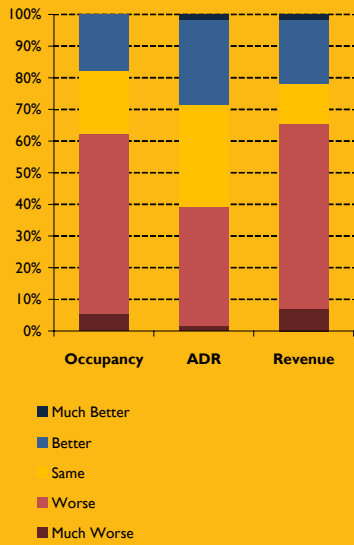
As a way to measure and compare the results across regions and countries, we have created an index to formulate an overall average sentiment score from all survey questions. Points are assigned to each corresponding response and compounded accordingly. The index utilized a scale of negative 150 to positive 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 purpose of creating a sentiment index or score is also to better track changes in market sentiment in future surveys to be conducted by Horwath HTL.

From the results of the global survey, it is visible that the sentiments of hoteliers across all countries have been clearly affected by the global economic crisis. Croatian market sentiment for the second half of the year was more pessimistic than the outlook at the beginning of this year. The average sentiment score drop down for almost 100 percent (from -24 down to -47). This shows that the current crisis has much stronger impact on the local hotel market outlook. The average national score is 10.5 percent lower than the regional average (-42.5), but it is for 15 percent higher than the European average score (-55).

Continental hoteliers have shown more negative sentiment for the second half of 2009 than at the beginning of this year. Both Croatian regions are now more pessimistic being more realistic in their opinion than in the last survey.

Again, the most pessimistic were the hoteliers from 5-star hotels with the lowest score. The rank of score by different category is the same as in February but the highest change from previous survey is visible among the 4-star hoteliers where the average score is lower for 150 percent.

RATIO OF RESPONSES



“66 percent of hoteliers replied that the revenue performance in the first half of the year was worse or much worse than what had been expected in February.”

MARKET PERFORMANCE RANKING

	Occ	ADR	Rev.	Avg
1. Continent	-28	0	-28	-19
2. Seaside	-41	-11	-40	-31

FIRST HALF MARKET PERFORMANCE

The first survey question dealt with the contributors’ actual performance in the first half of the year compared to their expectations at the beginning of the year.

In response to expectations on market-wide occupancy performance, 63 percent of hoteliers replied that performance in the first half of the year was worse or much worse than what had been expected, while just 18 percent stated that the performance is better or much better. This shows the full effect the crisis had on demand in an industry which was already expecting a harsh impact; 54 percent of hoteliers expected a decrease in occupancy in our February survey.

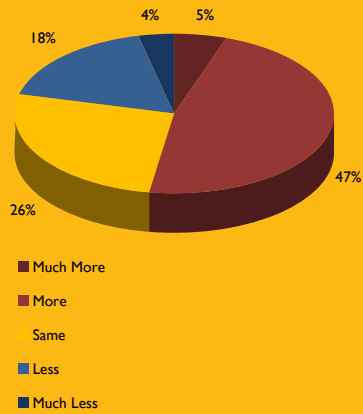
In February, continental hoteliers expected higher decrease of 2009 occupancy than those from seaside destinations. That is obviously the reason why coastal hoteliers see now the higher decrease of performance than they have expected (for 65 percent of them the situation is worse). Only 45 percent of Croatian 3-star hoteliers stated that the occupancy is worse than the expectations, while, on the other side, the crisis affected mostly 5-star hoteliers among which 92 percent see worse occupancy than expected.

The ADR situation among Croatian hoteliers was more optimistic than the occupancy performance. Only 40 percent experienced lower ADR than expected. The majority of negative responses came from seaside destinations and 5-star hotels. The best ADR situation, without major decreases, happened within 4-star hotels where only 26 percent see that the ADR is worse than expected.

Revenue followed a similar trend like occupancy, wherein the majority, 66 percent, of hoteliers revealed that revenue was worse or much worse than what had been expected at the beginning of the year. Higher revenues’ decreases than expected were in seaside destinations (70 percent of them) and 5-star hotels (91 percent of them).

The average first half market performance score for Croatia is -27.5.

RATIO OF RESPONSES



“More than half of Croatian respondents were less pessimistic in February. After first half of 2009 they have experienced more negative impact on demand.”

IMPACT OF FINANCIAL CRISIS

1. Continent	-8.8
2. Seaside	-31.9

THE IMPACT OF THE FINANCIAL CRISIS

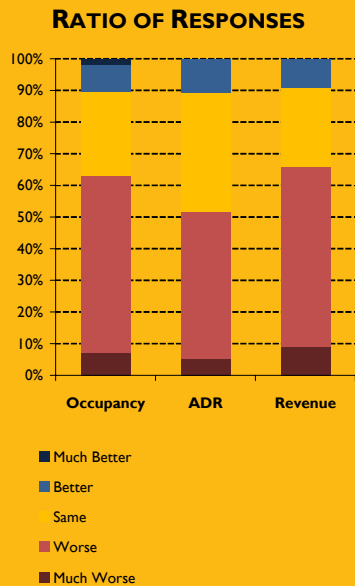
The second question asked respondents if the current crisis has impacted demand to the extent which was expected.

When hoteliers were asked if the crisis had impacted their demand as expected, 53 percent responded that demand had been affected more or much more than expected and 26 percent that the impact on demand was like expected. The rest proclaimed that the crisis has impacted demand less or much less than had been expected.

More affected were hoteliers from seaside destinations since 83 percent responded that the impact was the same or worse than expected.

Beside expected decreases of demand, the hoteliers from 5-star hotels did not foresee the real extent of the financial crisis. 83 percent of them stated that the crisis affected demand more than expected. On the other side, the 3-star hoteliers had better view on the impact in February since one third of them had been affected more.

The average score of financial crisis impact on demand for Croatia is -25.



"Only 10 percent of Croatian hoteliers expect higher market-wide revenues in the second half of 2009 compared with second half of 2008."

EXPECTATION FOR THE SECOND HALF OF THE YEAR

	Avg	Occ	ADR	Rev
1. Continent	-38	-40	-28	-47
2. Seaside	-44	-45	-38	-51

SECOND HALF MARKET OUTLOOK

Hoteliers were asked their expectation for the second half of the year compared to the second half of last year, in relation to market-wide hotel occupancy, average room rate and hotel revenues.

Over 60 percent of respondents stated that they expect all performance measures to perform worse or much worse in the second half of the year in comparison to the second half of last year.

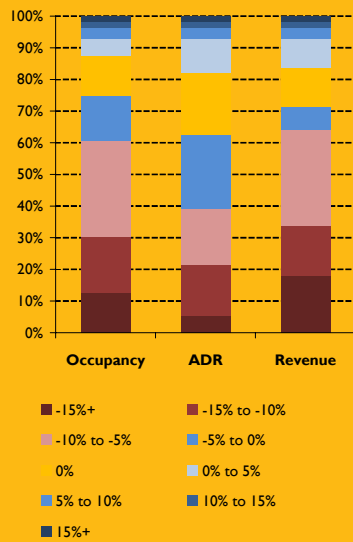
Occupancy scored an average sentiment score of negative 43 wherein 63 percent of respondents expect declines in occupancy levels vis a vis the second half of 2008. Again, more pessimistic were seaside hoteliers where 65 percent of respondents expect major declines in occupancy. 10 percent of Croatian hoteliers expect some growth of occupancy until the end of the year whereas the most optimistic were hoteliers from 3-star hotels.

The national average sentiment with regard to ADR expectations in second half of the year scored negative 35. The hoteliers were more positive in the case of ADR growth since 48 percent of them expect the same or better ADR in second half of 2009, than it was realised in last year. The optimism is again higher in continental Croatia and in 3-star hotels where it is mostly (48 percent) expected to achieve the same ADR as in second half of 2008.

Revenues recorded the lowest sentiment score of all the performance gauges, recording a global score of negative 50, with 66 percent of Croatian hoteliers expecting lower revenues in the second half of 2009 compared with the second half of 2008. Again, the level of pessimism was higher in coastal region and 5-star hotels where more than 70 percent of hoteliers expect lower revenues in 2009 than in 2008.

The average Croatian score for performance comparison of second half of 2009 to 2008 is -43.

RATIO OF RESPONSES



"The average change in particular hotels' performance expected in the second half of 2009 compared to 2008, is -6.7%. This is more than double decline than it was expected in February, when it was only -2.7%."

SECOND HALF HOTEL PERFORMANCE EXPECTATION

	Avg	Occ	ADR	Rev
1. Continent	-41	-47	-31	-45
2. Seaside	-56	-62	-40	-66

HOTEL PERFORMANCE EXPECTATION

The last survey question asked was for hoteliers to give their expectation of how their respective hotels will fare in the second half of 2009 with respect to the second half of 2008, in percentage terms.

More than 40 percent of Croatian hoteliers expect to see a drop down in hotel performance for up to 10 percent and 29 percent of Croatian hoteliers expect to see even higher decrease compared to last year.

More than 60 percent of hoteliers expect occupancy to decrease in their hotels by at least 5 percent. The average occupancy change for all Croatian respondents was -7.7%, lower in continental destinations (-6.3%) but higher decreases in seaside destinations (-8.3%). The most pessimistic were 5-star hoteliers who expect occupancy declines in their hotels for more than 10 percent (-11.3%). 4-star hoteliers expect occupancy change of -7.4% while in 3-star hotels there is less pessimism (change in occupancy of -6%).

The national sentiment score for ADR was less pessimistic since the hotel rates are not so much decreased (score of -37 or average ADR change of -4.9%). Expected average changes of ADR compared to last year, are as follows. By region: in continental hotels ADR change of -4.1% and in seaside hotels -5.3%. By category: in 5-star hotels ADR is expected to change for -7.5%, in 4-star hotels for -4.8% and in 3-star hotels -3.6%.

Regarding hotel revenues, the average change is expected to be by -8% meaning that some of the hotels expect to be less or not affected in other revenues beside rooms. Average score for revenue changes in Croatian hotels is -60. More pessimism, again, there is in seaside destinations (hotels' revenue change of -8.8%) and 5-star hotels (change of -12.5%). 4-star hotels expect revenues change by -7% and 3-star by -6.4%.

The average Croatian score for hotel performance comparison of second half 2009 to 2008 is -51.

CONCLUSIONS

The impact of the current financial crisis is seen to have affected all corners of the world, and Europe has scored the lowest sentiment score in expectation to see continued strong declines in performance in the second half of the year.

Hoteliers in Croatia are now more aware of crisis and its impact on market-wide outcome of this year. After first half of 2009 they have experienced more negative impact on demand so their average level of expectations drop down for almost 100 percent (from -24 down to -47). Among all 47 countries participating in this survey, Croatian sentiment ranking is on the 19th place, somewhere in the middle among rather pessimistic countries but not the most negative ones.

The majority of the contributors projected that performance in all three measures, room occupancy, average room rates and total revenue, will decline in the second half of the year. The average change in particular hotels' performance expected in the second half of 2009 compared to 2008, is -6.7%. This is more than double decline than it was expected in February, when it was only -2.7%. Higher declines are expected in room occupancy (for -7.7%) than in ADR (-4.9%). By the opinion of Croatian hoteliers, total revenues in their hotels will change for average -8% meaning that in some hotels there is less pessimism regarding the performance of other hotel services beside rooms. The most pessimistic Croatian hoteliers are those from 5-star hotels in seaside destinations which expect to realise until the end of 2009 decrease of 10% compared to last year.

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