

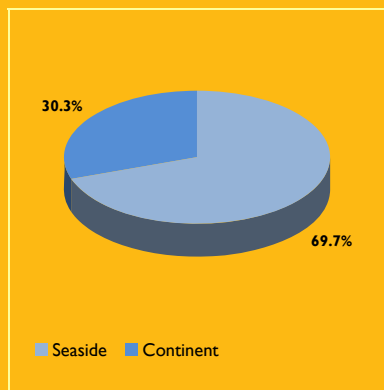


CROATIA HOTEL MARKET SENTIMENT SURVEY

February 2010

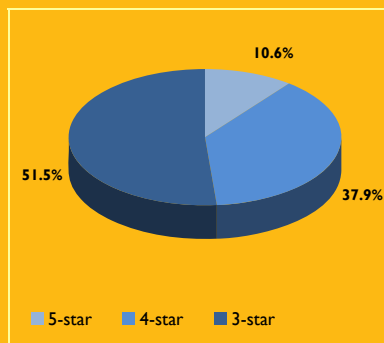
SHARE OF RESPONDENTS

BY REGIONS



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 market outlook for the coming 12 months. The survey focuses on the current outlook for occupancy, average room rates and total revenue and what the operators feel is going to happen based on their experience.

This report summarizes the outcome of the survey gathered from 66 respondents out of around 90 Croatian hotels. 70 percent of them came from seaside destinations and the rest from continental Croatia. The majority of the contributions were from 3-star hotels (52 percent), followed by 4-star (38 percent) and the rest from 5-star properties.

Since 2009 was one of the worst years in recent history, it is not surprising to find most markets across the world with improved outlook for 2010. However, when looking to the average outlook among Croatian hoteliers, hotel market performance in 2010 will be on the level of 2009 or less. Anyway, the following analysis provides some useful information for the different hotel markets across Croatia.

This is the third global survey by Horwath HTL, and we have analyzed previous sentiment scores in order to provide some context to the sentiment scores recorded.



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SENTIMENT RANKINGS			
By Regions		Score	
	Feb '09	Jul '09	Feb '10
1. Seaside	-40.0	-50.0	0.2
2. Continent	-2.7	-39.4	-18.5
By Star Classification		Score	
	Feb '09	Jul '09	Feb '10
1. Five Star	-44.4	-69.3	18.8
2. Four Star	-17.8	-44.6	-1.8
3. Three Star	-17.0	-36.9	-13.2

"An average sentiment score of negative 5.5 indicates that hoteliers across country are expecting only small declines in performance in 2010 compared to 2009."

RANKING SCORE KEY	
Much Worse	-150.0
Worse	-75.0
Same	0
Better	75.0
Much Better	150.0

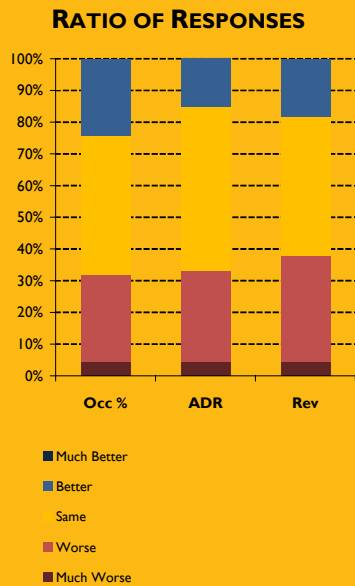
SENTIMENT RANKINGS

As a way to measure and compare the results across markets, we have created an index to formulate an overall average sentiment score from all survey questions. Points were 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 index also allows us to track changes in market sentiment over time.

Compared to the results of Global Survey from July 2009, it is visible that the hoteliers across the world are more optimistic. The average market sentiment of this year's first survey in Croatia was less pessimistic than before but still among the countries with the negative average scores. The average national score (-5.5) is very close to but again lower than the regional average (-2.9). Croatian average score is much lower than European average (+9) and the average global score (+27). The reasoning for this difference between local and global score is in less optimism on the local market since the local market was less affected with global crisis than it was expected in 2009. That is why Croatian hoteliers do not expect major changes in 2010 performance compared to the last year.

Coastal destinations were less affected with last year's crisis and that is the reason why their average score is slightly positive. On the other hand, the hoteliers from continental Croatia were more pessimistic since the most of them expect worse situation in 2010 than in 2009.

Looking to the level of optimism among the hotels of different category, all average scores are increased. Among them, the five star hotels had the highest sentiment score and on the other side, the hoteliers from three star hotels were the most pessimistic.



"47 percent of the respondents stated that 2010 market-wide performance is going to be the same as in 2009."

EXPECTATION FOR 2010

	Avg	Occ	ADR	Rev
1. Seaside	-12.0	-11.4	-9.8	-14.7
2. Continent	-21.3	-3.8	-33.8	-26.3

2010 MARKET OUTLOOK - WHAT IS YOUR ASSESSMENT OF THE HOTEL MARKET FOR 2010 VS. 2009?

Hoteliers were asked their expectation for performance levels in 2010 compared to that recorded in 2009, in relation to hotel occupancy (Occ), average room rate (ADR) and hotel revenues. Over 30 percent of respondents stated that they expected all three indicators to be worse in 2010 than in 2009. On average, the majority of the respondents expected the same market performance as in 2009, while only 20 percent had some positive expectations.

Occupancy

Occupancy scored an average sentiment score of negative 9 wherein 24 percent of respondents expect growth in occupancy levels and 44 percent occupancy in line with 2009. The most optimistic were the hoteliers from 5-star hotels among which 57 percent expect higher occupancy. On the other side, the most of the 3-star hoteliers (87 percent of them) expect the same or lower occupancy levels. Seaside hoteliers were more pessimistic about 2010 occupancy than those from continental destinations.

Average Room Rate

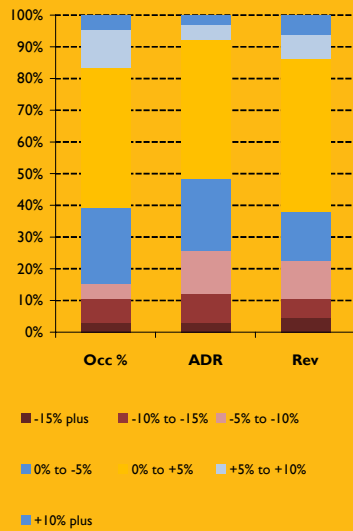
The national average sentiment with regard to ADR expectations was negative 17. The reason for more pessimism in 2010 with ADR than with occupancy is in the fact that Croatian hotel market did not experience major declines of ADR in 2009, while the situation with occupancy was opposite. The most negative hotel category was 5-star at a score of negative 43, driven by possible negative change in the market mix of their guests. The hoteliers from continental destinations were more pessimistic about 2010 ADR than the others.

Revenues

Revenues recorded the sentiment score of negative 18, with 38 percent of Croatian hoteliers expecting lower revenues in 2010 compared with 2009. Again the 5-star hoteliers were less pessimistic than the others since their opinion was divided between better and worse revenues in 2010.

The average 2010 market outlook score for Croatia is -14.8, meaning stability in overall market performance.

RATIO OF RESPONSES



"Based on the averages of three performance indicators measured for 2010, the hotel performance in the country will be on the level of 2009 (decline of only 0.13%)."

EXPECTATION FOR 2010

	Avg	Occ	ADR	Rev
1. Seaside	38.0	43.5	29.3	41.3
2. Continent	-22.5	-12.5	-32.5	-22.5

HOTEL PERFORMANCE EXPECTATION - FOR YOUR HOTEL, WHAT IS YOUR EXPECTATION FOR GROWTH/DECLINE FOR 2010 VS. 2009?

The second question asked respondents to estimate the growth or decline in the performance of their hotel for 2010 compared with 2009.

The majority of 68 percent of the hoteliers stated that their hotels will have the maximum +/- 5 percent change in the occupancy level from 2009. Another 67 percent believed that ADR will experience the same fate while 64 percent replied that revenues will follow the same trend. However, 15 percent of the respondents believed that the occupancy in their hotels will decline for more than 10 percent. Croatian hoteliers were more pessimistic about ADR since 26 percent of them expect much lower ADR in 2010 than in 2009. Because of this, only 14 percent of the respondents believed that the revenues in their hotels will increase for more than 10 percent in 2010.

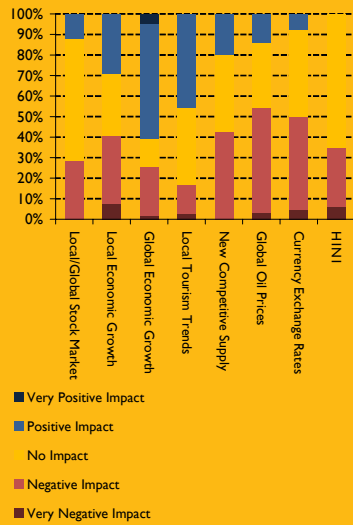
Based on the Croatian averages, the hotel occupancy will slightly grow in 2010 compared to 2009, by 0.7 percent, ADR will decline for 1.4 percent and the resulting total revenue will grow by 0.3 percent.

Utilizing the average index score, seaside destinations managed to achieve positive result mainly because of the hoteliers' opinion about higher occupancy in 2010. The hoteliers from continental destinations were much more concerned in general, especially about the ADR performance (-32.5 score). The hoteliers from seaside destinations expect growth of all three hotel performance indicators in 2010 for around 2 percent, while in the continental destinations a decrease of more than 5 percent is expected.

The most concerned of their performance in 2010 were the hoteliers from 3-star hotels where the occupancy will stay the same, ADR will decline by 2 percent and revenues by 0.3 percent. This gives the average decline of 3-star hotels performance by 0.8 percent. For the same period, 4-star hotels have forecasted the average decline of all three indicators by 0.2 percent. Only 5-star hotels predicted an increase for 3.3 percent mainly because of predicted growth of occupancy in 2010.

The average hotel performance sentiment score, by the opinion of the respondents from Croatia, is positive (19.7).

RATIO OF RESPONSES



“Currency exchange rates and global oil prices are the primary concerns for the hoteliers from Croatia in 2010.”

FACTORS AFFECTING PERFORMANCE RANKING

1. Global Economic Growth	28.4
2. Local Tourism Trends	19.3
3. Local/Global Stock Market	-12.5
4. Local Economic Growth	-14.8
5. New Competitive Supply	-17.1
6. HINI	-30.7
7. Global Oil Prices	-33.0
8. Currency Exchange Rates	-35.2

FACTORS AFFECTING PERFORMANCE - How EACH OF THE FACTORS BELOW ARE EXPECTED TO INFLUENCE HOTEL MARKET PERFORMANCE IN 2010?

Hoteliers were also asked to gauge their attitude towards eight factors and their influence on the hotels’ performance in 2010.

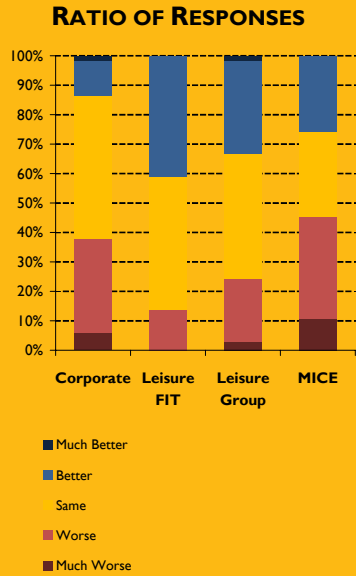
Based on the opinion of hoteliers from Croatia, the most negative impact on hotel performance have global oil prices and exchange rates, since more than 50 percent responses indicate their negative influence in 2010. On the other hand, more than 60 percent of hoteliers foresee the global economic growth as the most positive factor for the growth of hotel performance. The most irrelevant factor for the hoteliers in Croatia is HINI virus and on the second place of irrelevancy, the local/global stock market.

Utilizing the index, majority of the choices registered negative results, indicating that those will negatively affect performance. The contributors perceived two positive impacts on average: local tourism trends and global economic growth.

Both Croatian regions are seriously concerned with global oil prices. Continental hoteliers are more concerned with the local economic growth, while the hoteliers from seaside destinations have the highest concern with currency exchange rates.

The hoteliers from 5-star hotels foresee the new competitive supply as the most negative factor while the most positive one for all hoteliers is global economic growth. The most negative factor for 4-star hoteliers is the change in exchange rates while the 3-star hoteliers are mostly concerned with global oil prices.

The average score for all listed factors, by the opinion of the respondents from Croatia, is -11.9 giving the average negative opinion of the impact of the majority of listed factors.



"Majority of the respondents believe in worse performance of business segments in 2010, while their optimism is on the side of leisure segments"

MARKET SEGMENT PERFORMANCE

1. Leisure FIT	20.5
2. Leisure Group	5.7
3. Corporate	-21.6
4. MICE	-22.7

MARKET SEGMENT PERFORMANCE - HOW ARE EACH OF THE MAJOR DEMAND SEGMENTS EXPECTED TO PERFORM IN 2010 VS. 2009?

The last question dealt with each participant's opinion with regard to primary market demand segments and their expected performance in 2010.

The majority of the respondents (41 percent) had the opinion that there will be no changes in the future performance of all segments. By the opinion of 46 percent of the Croatian hoteliers, the demand from MICE segment will be negatively harmed. There was a similar negative opinion about the corporate segment (38 percent). On the other side, 28 percent of the hoteliers believe that the demand from all primary segments will get better, mainly because of the very positive opinion about the future performance of both leisure segments.

Employing the scoring system to obtain an average score, both leisure segments yielded positive results, indicating that respondents generally think performance of those segments will be better this year, especially in the case of individuals. The participants believe that the business segments will be more affected this year as they scored the lowest points.

Leisure FIT achieved the only positive score in continental destinations. In seaside destinations, almost 50 percent of the respondents believe in the same performance of both leisure segments and corporate segment, while the same share of respondents expects worse performance of MICE segment.

75 percent of the hoteliers from 5-star hotels believe that the demand from all primary segments will get better and it is the reason why their average score was very positive (54). Both business segments got the negative scores from 4-star hoteliers because 40 percent of those hoteliers believe in worse performance of these segments. The hoteliers from 3-star hotels were even more pessimistic since only 18 percent of them believe in better performance of all market segments.

The average score for the performance of primary segments, by the opinion of the respondents from Croatia, is -4.5 giving the average opinion of stagnation in primary demand.

CONCLUSIONS

Hoteliers in Croatia generally expect a year with no significant turbulences on the overall hotel market. However, the expectations of the hoteliers from this country are less optimistic than the expectations of a global average hotelier questioned in this survey.

Market-wide will be on the level of the previous year with the exception of continental destinations where the overall situation will be worse than before. The majority of the contributors projected that the average individual property performance in all three measures, room occupancy, average room rates and total revenue will slightly decline in 2010 (for only 0.13 percent). The main reason for this is that Croatian hoteliers have experienced better performance in 2009 than expected meaning that they have expected higher declines in 2009.

Although the majority of the eight factors were estimated to have a negative effect on performance, global economic growth and local tourism trends were perceived to have some positive effect.

The most concerns of the hoteliers from this region are related with the decline of demand from business segments in 2010. On the other side, domestic hoteliers believe that additional demand will be created from leisure FIT segment. The most pessimistic were the hoteliers from three star hotels that foreseen the majority of declines.

Having in mind all the results of the survey in Croatia, the general conclusion for hotel market performance in 2010 would be the stagnation in overall and individual hotel performance.

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