



HUNGARY HOTEL MARKET SENTIMENT SURVEY

February 2009

INTRODUCTION

The Horwath HTL Hungary Hotel Market Sentiment Survey, part of a global initiative, has been designed to provide the Hungarian hotel industry a quick assessment of the market outlook for the coming 12 months. The survey focuses on the outlook for occupancy, average room rates and total revenue.

Hoteliers have also been asked to make comments on the impact of key factors that drive room night demand growth as well as rate the outlook for each major demand segment.

This report summarizes the outcome of the survey, gathered from responses across hotels in different categories located in Budapest and in the countryside. Of the 71 respondents, 37% percent came from Budapest and 63% from the countryside.

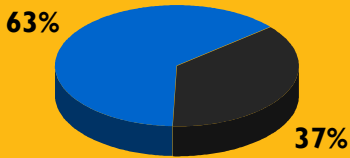
The majority of the respondents were 4-star hoteliers (50 percent), followed by 5-star (39 percent) and 3-star (12 percent) hotel managers.

At the current point in time, with the financial crisis affecting all corners of the world including Hungary, it is not surprising to find most markets across Hungary having the same negative assessment of the outlook for 2009. However, we hope that the following analysis provides some useful insight as to the expectations for different hotel sectors in Hungary.

Editor's note: At the time of preparing this survey, neither the editor nor the hoteliers were in possession of any information related to the Hungarian government's proposed increase of VAT on hotel services (from 20% to 23%) or the intention of abolishing the non-taxable status of holiday coupons as popular employee benefits. Traditionally, holiday coupons have been a substantial source of domestic demand for hotels in Hungary.

SHARE OF RESPONDENTS

BY REGION

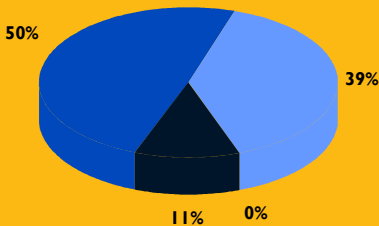


■ Budapest

■ Countryside

SHARE OF RESPONDENTS

BY STAR CLASSIFICATION



■ Five Star

■ Four Star

■ Three Star

■ Others



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SENTIMENT RANKINGS

By Region	Score
1. Budapest	-37.0
2. Countryside	-23.3

“Hungarian hoteliers appear to be less pessimistic achieving a national market sentiment score of negative 28.3, slightly above the global and European market sentiment”

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 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.

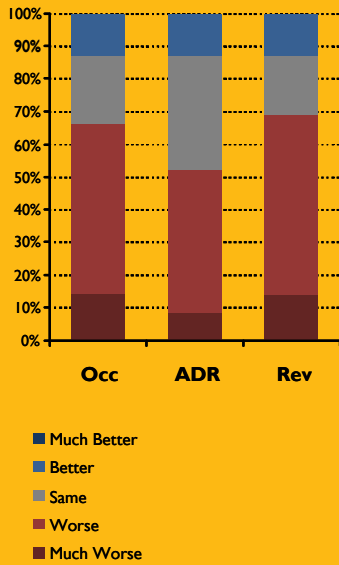
The purpose of creating a sentiment index or score is to better track changes in market sentiment in future surveys to be conducted by Horwath HTL.

The sentiments of the hotel industry across Hungary have been clearly affected by the global economic crisis, visible from the results. However, compared to the global and European market sentiment (average score of negative 34.2 and 36.0 respectively), general market sentiment of the Hungarian hotel industry was less pessimistic with an average score of negative 28.2.

Budapest hoteliers, compared to the countryside, anticipate a poorer outlook in 2009, as the capital registered a significantly lower sentiment score of negative 37.0. Market sentiment of hoteliers based in the provinces was more positive but generally still below the neutral grounds, registering an average score of negative 23.3.

Hoteliers in the 4-star category based in Budapest held the most pessimistic outlook in general with an overall average score of negative 38.7 and the most optimistic attitude came from 5-star hoteliers in the countryside, scoring a remarkable average of positive 30.6.

RATIO OF RESPONSES



"66.2 percent of the respondents stated that market-wide occupancy performance is going to be worse than 2008, only 12.7 percent said it would be better."

MARKET PERFORMANCE RANKING	
1. Budapest	-64.4
2. Countryside	-36.0

MARKET PERFORMANCE RANKING			
	Occ.	ADR	Rev.
1. Budapest	-69.2	-54.8	-69.2
2. Countryside	-40.0	-25.0	-43.0

MARKET PERFORMANCE

The first survey question dealt with the contributors' outlook on their market's performance in 2009 as opposed to 2008.

In response to expectations on market-wide occupancy performance, 66.2 percent of the hoteliers replied that matters will get worse, 21.1 percent said that things will remain the same while 12.7 percent stated that things will get better. Clearly the global financial crisis is expected to impact demand in all regions of the world, Hungary being no exception.

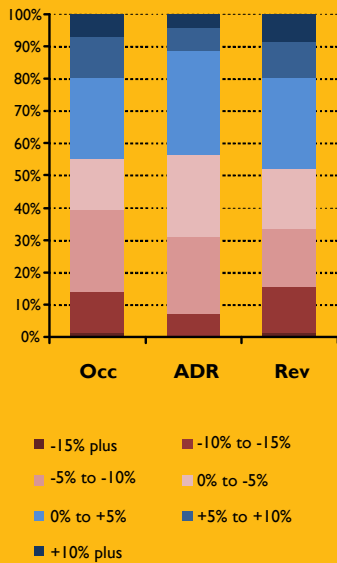
Most believed a dreary outcome in terms of ADR performance, as 52.1 percent stated that market-wide ADR performance is expected to be worse than the previous year. 35.2 percent mentioned that ADR will provide the same results as the previous year while 12.7 percent were buoyant about their markets' performance.

Revenue followed the same trend, wherein the majority or 69 percent of the respondents had bleak sentiments about the market's future revenue performance whilst 18.3 percent stated that revenue will follow last year's trend and 12.7 percent were optimistic about 2009's performance.

The index was used to gauge the average responses of the respondents with regards to their outlook on market performance. Results were then classified by region and category, to better reflect the expectations of Hungarian hoteliers across the country.

Budapest hoteliers registered low points with a negative average score of 64.4, suggesting that the hotel industry in the capital city is already largely affected by the gloomy economic situation, directly influencing global tourism, therefore the market performance in 2009. Unlike Budapest, the hotel sector in the countryside, which largely relies on domestic tourism, indicates less concern in terms of market performance, registered a negative score of 36.1.

RATIO OF RESPONSES



"57.7 percent believed that ADR is going to stagnate in 2009."

HOTEL PERFORMANCE RANKING	
1. Budapest	11.5
2. Countryside	10.0

HOTEL PERFORMANCE RANKING			
	Occ,	ADR	Rev.
1. Budapest	3.8	15.4	15.4
2. Countryside	11.1	7.8	11.1

HOTEL PERFORMANCE

The second question asked each respondent to estimate the growth or decline in hotel performance for 2009 compared with 2008.

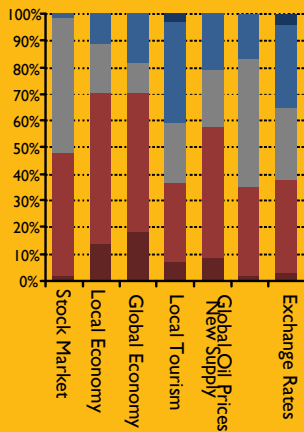
When asked if they still expect growth in their properties' performance in 2009, 40.8 percent of the hoteliers stated that their hotels will likely stagnate in terms of occupancy. Another 57.7 percent believed that ADR will experience the same fate, while 46.5 percent replied that revenues will follow the same trend. Only a few of the respondents (primarily hoteliers from 5- and 4-star hotels in the countryside) believed that performance will improve over 5%. With regards to occupancy 19.7 percent, for ADR 11.3 percent and in terms of revenues 19.7 percent forecasted improvements.

Based on the global averages of the responses, all three performance indicators measured in 2009 are expected to stagnate or slightly increase.

Similar to the general sentiment, 5-star hoteliers from the countryside are the most confident regarding their performance in 2009 with an average score of positive 88.9, followed by hoteliers in the 3-star sector in Budapest with positive 57.4.

As opposed to stagnation or slight increases in overall performances, hoteliers of the 5- and 4-star properties in Budapest are the most pessimistic reaching an average score of negative 16.7 and 11.1, which clearly indicates that the capital's hotel market, already considered to be driven by weak rates, would suffer further throughout this year.

RATIO OF RESPONSES



- Very Positive Impact
- Positive Impact
- No Impact
- Negative Impact
- Very Negative Impact

"All factors will have a negative impact on performance, with the exception of local tourism."

FACTORS AFFECTING PERFORMANCE RANKING

1. Local Tourism Trends	0,0
2. Currency Exchange Rates	-1,1
3. Global Oil Prices	-14,8
4. New Competitive supply	-33,8
5. Local/Global Stock Market	-35,9
6. Global Economic Growth Trends	-52,8
7. Local Economic Trends	-54,9

FACTORS AFFECTING PERFORMANCE

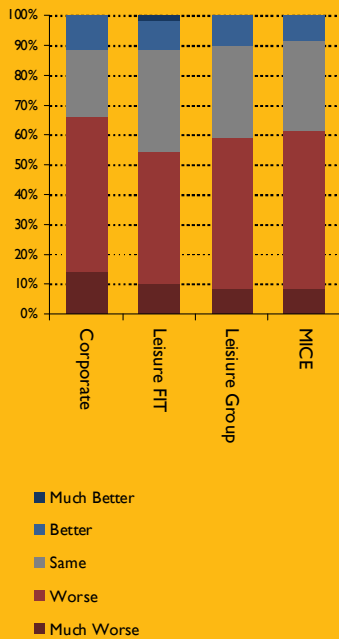
Each hotelier was also asked to gauge their attitude towards seven factors namely (1) local/global stock market, (2) local economic growth trends, (3) global economic growth trends, (4) local tourism trends, (5) new competitive supply additions, (6) global oil prices and (7) currency exchange rates and how these will impact their hotels' performance in 2009.

Due to the worsening of the global economy and the tenuous status of Hungary's economy 70.4 percent of hoteliers believes that local and global economic growth trends will have the most harmful effects on the hotel sector in 2009, followed by concerns regarding new competitive supply yielding a response rate of 57.7 percent. Currency exchange rates have the least negative effects according to 62 percent of hoteliers (most of these respondents were hoteliers from the provinces where domestic demand plays a major role in the general market-mix and revenues are generated in local currency). Moreover, 40.8 percent of hoteliers believe that local tourism trends will have a positive impact on their hotel's performances in 2009.

Utilizing the index, all choices registered negative results with the exception of local tourism trends, indicating that all factors were believed to negatively affect performance. The contributors perceived that local/global economic trends will have considerable negative impacts on hotel performance whilst global oil prices and currency exchange rates achieved a modest negative score of 14.8 and 1.1 points respectively.

Shifting our focus on regions, 88.5 percent of hoteliers in Budapest are concerned about global economic trends. With regards to new supply 84.6 percent of them were afraid of the impacts of new entrants leading to saturation. In terms of currency exchange rates, 61.8 percent expressed their confidence, considering a relatively weak Hungarian Forint as a positive factor affecting their hotel's performance. Concerns in the countryside were mostly related to local economic trends (64.4 percent), followed by local/global stock market, currency exchange rates and global oil prices (44.4 percent), while local tourism trends are considered to have the most positive impacts in 2009 representing a 55.6 percent share of total respondents.

RATIO OF RESPONSES



"Approximately 60 percent stated that performance across all segments will get worse"

MARKET SEGMENT PERFORMANCE

1. Leisure FIT	-38,6
2. Leisure Group	-43,3
3. MICE	-46,1
4. Corporate	-51,8

MARKET SEGMENT PERFORMANCE

The last question dealt with each participant's opinion with regard to market segments which were Corporate, Leisure FIT, Leisure Group and MICE and how they are expected to perform in 2009.

The majority of the respondents had negative opinions about the future performance of all segments as more than 50 percent stated that performance across the four segments will get worse.

Employing the scoring system, all segments are expected to perform worse than the previous year as they all yielded negative results.

Amongst the four main market segments, majority of the contributors believe that the corporate segment will be the most affected as it scored the lowest point total with negative 51.8. This sector was followed by the MICE with negative 46.1, Leisure Group with negative 43.3 and Leisure FIT with negative 38.6. None of the market segments achieved a positive score either in Budapest and or in the countryside.

Based on our findings in Budapest, the corporate segment will see dramatic decline especially in the 5- and 4-star categories whilst the leisure group demand is expected to decrease the most drastically in the 3-star category hotels. The 4-star hotels in Budapest have also expressed negative outlook for their MICE guests, whereby the 5-star properties, both in Budapest and the countryside have indicated that this segment will not face as deep drop in their hotels.

With regards to the leisure sector, provincial hotels, though expecting decline were a bit more optimistic and expressed hopes that to an extent this segment of domestic holidaymakers will be able to generate demand to survive the difficult period ahead.

CONCLUSIONS

Hoteliers across Hungary expected an overall negative outlook for 2009. However, compared to the global and European market sentiment, general market sentiment of the Hungarian hoteliers was less pessimistic, which is primarily due to the relatively more confident outlook of the respondents from the countryside. The majority of the contributors projected that global market performance in all three measures, room occupancy, average room rates and total revenue will likely decline this year.

Although every trading performance indicator is expected to under perform 2008 averages in 2009, hoteliers seem to be less worried about ADR than occupancy and expect stagnation.

Global and local economic growth trends were perceived to have the most harmful impact on performance. Exchange rate is anticipated to affect positively the Budapest hotels whilst local tourism trends will have the same impact on properties in the countryside.

The corporate segment is anticipated to be the most heavily impacted of the main demand segments, with severe drops in demand volume and a driver to decrease in rates. At the same time, survey respondents anticipated that the leisure segment will be the least vulnerable in 2009.

Other remarks: Soon after the collection of the responses, the Hungarian government announced that they intend to increase the current VAT rates from 20% to 23% and consider applying personal income taxes to non-taxable income sources such as the holiday coupon – this tool was an important demand and revenue contributor for the provincial hotels – and a combination of these two in our view will impact hotelier expectations negatively and may require revisiting these questions in the near future.

Other Market Sentiment Reports

BY REGION

ASEAN Benelux Europe Northeast Asia South East Europe

BY COUNTRY

Australia Austria Belgium Bulgaria Canada China
 Croatia Czech Republic France Hungary India Indonesia
 Italy Japan Macedonia Montenegro Mexico Netherlands
 Norway Romania Serbia Singapore Slovenia South Africa
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BY CITY/ DESTINATION

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