

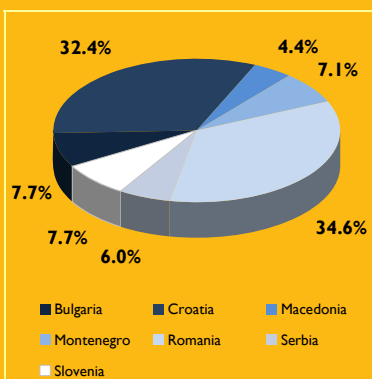


SOUTH EAST EUROPE HOTEL MARKET SENTIMENT SURVEY

February 2009

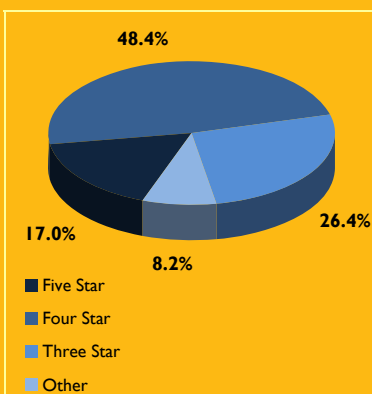
SHARE OF RESPONDENTS

BY COUNTRIES



SHARE OF RESPONDENTS

BY STAR CLASSIFICATION



INTRODUCTION

The Horwath HTL Hotel Market Sentiment Survey for South East Europe has been designed to provide the hotel industry in this European region a quick assessment of the market outlook for the coming 12 months. The survey, as part of the global initiative, 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 growth as well as rate the outlook for each major demand segment.

This report summarizes the outcome of the survey, gathered from responses across 7 countries. Of the 182 respondents, which represent 22 percent of total regional hotel sample, 35 percent of them came from Romania followed by Croatia (32 percent). The majority of the contributions were from 4-star hotels (48 percent), followed by 3-star (26 percent) and 5-star (17 percent).

In the time when the crisis affects the world, it is not surprising to find most markets in South East Europe having the same negative assessment of the outlook for 2009. However, the following analysis provides some useful information about the differences in the hotel market expectations across the region.



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SENTIMENT RANKINGS

As a way to measure and compare the results across 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 also to better track changes in market sentiment in future surveys to be conducted by Horwath HTL.

The sentiments of hoteliers across all countries have been clearly affected by the global economic crisis, visible from the results. The market sentiment in South East Europe was rather pessimistic with an average score of negative 25.8. The average regional score, compared to the global average (-34.1) is higher for 24 percent because of the more optimism and the affects of crisis that are not yet completely visible in this region. However, all of the countries registered negative sentiment scores while the hoteliers in Macedonia were the most optimistic among them.

Looking to the level of optimism among the hotels of different category, the three star hotels had the highest sentiment score. On the other side, the hoteliers from five star hotels were more pessimistic than the others with the score bellow the regional average.

SENTIMENT RANKINGS

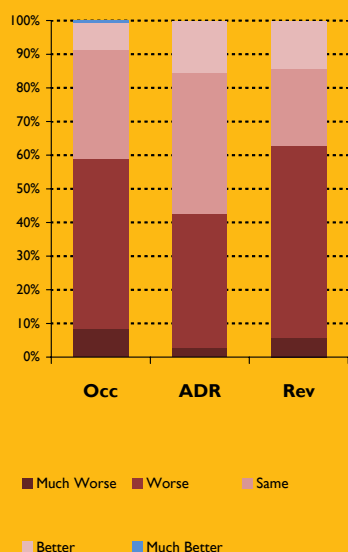
By Countries	Score
1. Macedonia	-2.7
2. Serbia	-21.1
3. Croatia	-24.4
4. Romania	-24.9
5. Bulgaria	-31.5
6. Montenegro	-39.5
7. Slovenia	-40.0
By Star Classification	Score
1. Three Star	-24.3
2. Four Star	-24.7
3. Five Star	-32.5

"An average sentiment score of negative 25.8 clearly indicates that hoteliers across the region are expecting declines in performance in 2009."

RANKING SCORE KEY

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

RATIO OF RESPONSES



"59 percent of the respondents stated that market-wide occupancy performance is going to be worse than 2008, only 8 percent said it would be better."

MARKET PERFORMANCE RANKING

	Occ	ADR	Rev.
1. Macedonia	0.0	10.7	21.4
2. Serbia	-13.6	0.0	-6.8
3. Croatia	-40.7	0.0	-24.1
4. Bulgaria	-32.1	-28.8	-51.9
5. Montenegro	-57.7	-23.1	-63.5
6. Romania	-54.8	-46.0	-59.3
7. Slovenia	-64.3	-53.6	-64.3

MARKET PERFORMANCE

The first survey question dealt with the contributors' outlook on their markets' performance in 2009 compared to 2008. The index was used to gauge the average scores.

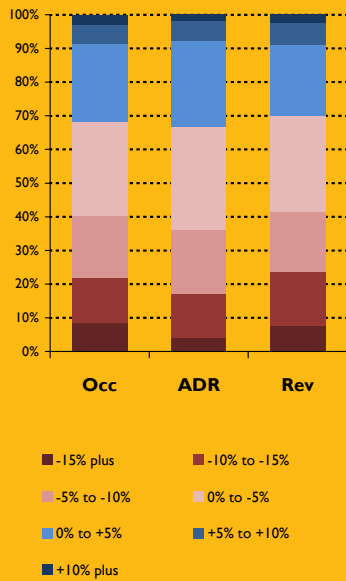
In response to expectations on market-wide occupancy performance, 59 percent of the hoteliers replied that matters will get worse, while only 8 percent stated that things will get better. The most pessimistic were the hoteliers from five star hotels since 65 percent of them think that the market-wide occupancy will be worse than in previous year. The hoteliers from Macedonia were the only ones with the neutral market-wide occupancy ranking score.

Most of the hoteliers in SE Europe were more optimistic in terms of ADR than in market-wide occupancy performance. Almost similar number of hoteliers expected worse (43 percent) and not changed (42 percent) ADR in 2009. Only 15 percent of hoteliers believed that the situation with ADR will be better than in 2008. Again, the major negative changes in ADR performance were expected in five star hotels since 50 percent of them expect generally worse ADR in 2009 compared to 2008. The most optimistic country is Macedonia with the positive score for ADR general performance while no changes in ADR market-wide were expected in Serbia and Croatia.

Having in mind the negative sentiment for market-wide occupancy and ADR, the revenue followed the same trend. The majority or 63 percent of the respondents had bleak sentiments about the market's future revenue performance while merely 23 percent stated that revenue will follow last year's trend and 14 percent who were optimistic about 2009's performance. The most pessimistic hoteliers were from five star hotels again, since 83 percent of them responded that the revenue situation will be worse. The only positive average sentiment ranking for revenue changes came from Macedonian respondents (21.4).

The average market performance sentiment score, by the opinion of the respondents from SE Europe, is -35.7.

RATIO OF RESPONSES



"Based on the regional averages of three performance indicators measured for 2009, the hotel performance in the region will decline by 4.7 percent."

HOTEL PERFORMANCE RANKING

	Occ	ADR	Rev.
1. Macedonia	25.0	28.6	28.6
2. Croatia	-2.5	18.8	3.6
3. Serbia	0.0	-18.2	-13.6
4. Romania	-21.8	-20.2	-23.8
5. Slovenia	-28.6	-21.4	-28.6
6. Bulgaria	-32.1	-30.8	-38.5
7. Montenegro	-34.6	-38.5	-61.5

HOTEL PERFORMANCE

The second question asked respondents to estimate the growth or decline in the performance of their hotel for 2009 compared with 2008.

The majority of 68 percent of the hoteliers stated that their hotels will likely suffer a decline in occupancy. Another 67 percent believed that ADR will experience the same fate while 70 percent replied that revenues will follow the same trend. Around 20 percent of the respondents believed that performance will stay the same or improve for not more than 5 percent. The others were more optimistic.

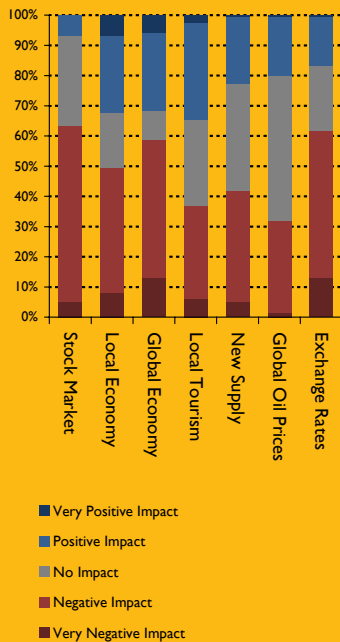
Based on the regional averages, the hotel occupancy will decline in 2009 compared to 2008, by 4.8 percent, ADR by 4.1 percent and revenue by 5.1 percent.

Utilizing the average index score, amongst the countries, Macedonia with a score of 27.4 and Croatia with 6.6, managed to achieve a positive result. While the Macedonian hoteliers expect growth of all three hotel performance indicators, in Croatia the revenues will grow much slower which will be the result of price increase and relatively small decrease of demand. The most pessimistic hoteliers were from Montenegro (score of -44.9) where the important hotel performance growth already happened in 2008.

According to star classification, the major changes are expected in 5- star hotels where the occupancy will decline by 4.8 percent, ADR by 6.2 percent and revenues by 5.8 percent. This gives the average decline of 5- star hotels performance by 5.6 percent. For the same period, 3- star hotels have forecasted the average decline of all three indicators by 5.4 percent while the 4- star hotels predicted average decrease for 4 percent.

The average hotel performance sentiment score, by the opinion of the respondents from SE Europe, is -12.4.

RATIO OF RESPONSES



"Stock market performance and changes in exchange rates, already influenced by the global economic crisis, are the primary concerns for the hoteliers from SE Europe in 2009."

FACTORS AFFECTING PERFORMANCE RANKING

1. Local Tourism Trends	-4.7
2. Global Oil Prices	-9.9
3. Local Economic Trends	-13.8
4. New Competitive Supply	-17.9
5. Global Economic Growth Trends	-25.9
6. Currency Exchange Rates	-43.3
7. Local/Global Stock Market	-46.3

FACTORS AFFECTING PERFORMANCE

Hoteliers were also asked to gauge their attitude towards seven factors and their influence on the hotels' performance in 2009.

Based on the opinion of hoteliers from SE Europe, the most negative impact on hotel performance have the stock market and exchange rates, since more than 60 percent responses indicate their negative influence in 2009. The second of which the hoteliers were concerned, is the global economy, which had a negative response rate of 59 percent. On the other hand, almost 35 percent of hoteliers foresee the local tourism conditions as the most positive factor for hotel performance' growth trend. The most irrelevant factor for the hoteliers in SE Europe is the change in global oil prices.

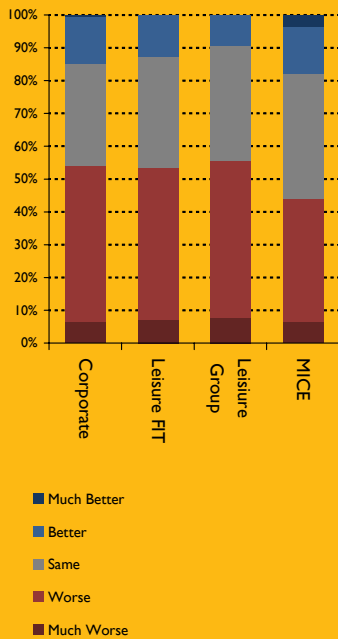
Utilizing the index, all choices registered negative results, indicating that all factors will negatively affect performance. The contributors perceived that the worsening of local/global stock market will likely have the most harmful impact on hotel performance (the lowest score of negative 46 points).

Shifting our focus on individual countries, all countries are mostly concerned with the conditions on the stock market and in the exchange rates that are both influenced by global economic trends. Only Romanian hoteliers see the global economic trends as the positive ones. New competitive supply and local tourism trends are very positive factors for the hoteliers in Macedonia and Serbia. In Romania, local economy and local tourism trends will have the positive impact on hotel performance in 2009.

The hoteliers from 5-star hotels see the new competitive supply as the positive factor while the 3-star hotels believe in the positive impact of local tourism trends. Four star hoteliers are concerned about all of the listed factors but, by their opinion, exchange rates' trends will be of major importance.

The average score for all listed factors, by the opinion of the respondents from SE Europe, is -23.1.

RATIO OF RESPONSES



"More than 50 percent stated that performance of all segments will get worse, mainly because of the lesser demand from leisure guests"

MARKET SEGMENT PERFORMANCE

1. MICE	-21.8
2. Corporate	-34.0
3. Leisure FIT	-35.9
4. Leisure Group	-40.6

MARKET SEGMENT PERFORMANCE

The last question dealt with each participant's opinion with regard to primary market demand segments and their expected performance in 2009.

The majority of the respondents had negative opinions about the future performance of all segments. 55 percent stated that the performance of both leisure segments will get worse, while 44 percent of the hoteliers stated that the demand from MICE segment will be lesser. On the other side, only 14 percent of the hoteliers believe that the demand from all primary segments will get better.

Employing the scoring system to obtain an average score, all segments yielded negative results, indicating that respondents generally think performance across all segments will suffer this year. The participants believe that the leisure segments will be more affected this year as they scored the lowest points. This is not surprising given the current impact of the financial crisis on this most important segment for this region.

None of the market segments achieved a positive score in any of the individual countries. MICE segment attained the highest (zero) score in Macedonia and Montenegro while the Corporate segment achieved the second best score (-6.8) in Serbia. On the other hand, these two segments scored the lowest points in Slovenia. In all other countries, the hoteliers are more pessimistic regarding the demand from leisure segments.

Almost 60 percent of the hoteliers from 5-star hotels believe that the demand from all primary segments will get worse. MICE segment got the highest, but still negative score from 3-star hoteliers (-17.2). The Leisure Groups achieved the lowest score from 5-star hoteliers (-50.8). Corporate and MICE segments will get better for more than 17 percent of hoteliers from 3- and 4-star hotels. The hoteliers from 5-star hotels believe that the better demand will come from Leisure FIT (16% of responses) and MICE Segment (13%).

The average score for the performance of primary segments, by the opinion of the respondents from SE Europe, is -33.1.

CONCLUSIONS

Hoteliers in the South East Europe generally expect a tough year with respect to overall hotel market situation. However, the expectations of the hoteliers from this region are slightly less pessimistic than the expectations of an average global hotelier questioned in this survey.

Market-wide and individual property performance will get worse and the majority of the contributors projected that performance in all three measures, room occupancy, average room rates and total revenue will decline in 2009 for around 5 percent. However, hoteliers in Macedonia on average had a more positive outlook than most other countries across the region and actually anticipated the increase in performance in 2009.

Although all of the seven factors were estimated to have a negative effect on performance, stock market performance and changes in exchange rates were perceived to have the most severe effect.

The most concerns of the hoteliers from this region are related with the decline of demand from leisure segment, especially groups in 2009. The most pessimistic were the hoteliers from five star hotels that foreseen the majority of declines. Among all primary demand segments heavily affected in 2009, MICE segment had the lowest degree of decrease in 2009.

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