

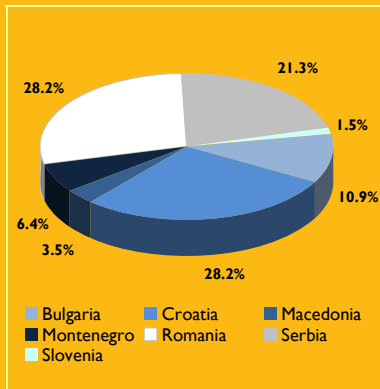


SOUTH EAST EUROPE HOTEL MARKET SENTIMENT SURVEY

July 2009

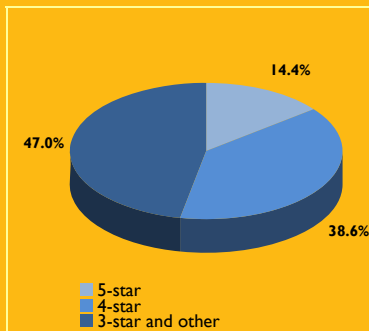
SHARE OF RESPONDENTS

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 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 responses across 7 countries. Of the 202 respondents, which represent 24 percent of total regional hotel sample, the majority came from Croatia and Romania (together 56 percent), followed by Serbia (21 percent). The majority of the contributions were from 3-star and lower category hotels (47 percent), followed by 4-star (39 percent) and 5-star (14 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 regional future hotel performance.



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SENTIMENT RANKINGS

By Countries	Score	
	July	Feb
1. Macedonia	-3.6	-2.7
2. Serbia	-16.0	-21.1
3. Romania	-45.8	-24.9
4. Croatia	-47.0	-24.4
5. Montenegro	-59.1	-39.5
6. Slovenia	-64.6	-40.0
7. Bulgaria	-74.0	-31.5

By Star Classification	Score	
	July	Feb
1. Three Star and other	-39.2	-24.3
2. Five Star	-42.0	-32.5
3. Four Star	-46.7	-24.7

"Now there is more pessimism in the SE Europe than in February. The average level of expectations drops down for 65 percent to negative 43."

RANKING SCORE KEY

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

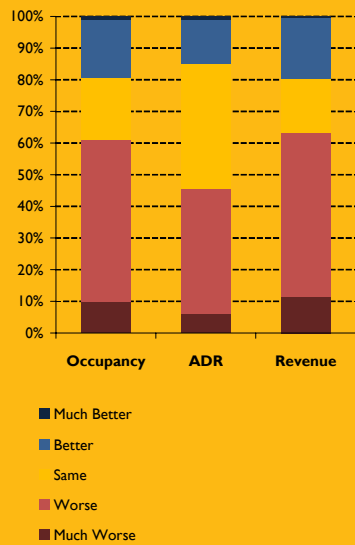
SENTIMENT RANKINGS

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. Regional 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 65 percent (from -26 down to -43). The average regional score is 6.3 percent lower than the world-wide average (-40), but it is for 23 percent higher than the European average score (-55). The most optimistic outlook was scored again in Macedonia, while the major change in sentiment was scored in Bulgaria where the change from February is more than doubled in negative sense. Only Serbian hoteliers are now little bit less negative than in February but still with pessimistic thought about market outlook of 2009.

Looking to the level of optimism among the hotels of different category, lower category hotels had the highest, but still negative score. The rank of score by different category has changed from February since now the 4-star hoteliers are more pessimistic than those from 5-star hotels. The sentiment score from previous survey among the 4-star hoteliers is lower for 90 percent.

RATIO OF RESPONSES



"63 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. Serbia	-12	-17	-12	-14
2. Croatia	-38	-8	-37	-28
3. Montenegro	-35	-35	-27	-33
4. Macedonia	-54	0	-75	-43
5. Romania	-51	-42	-54	-49
6. Slovenia	-25	-50	-75	-50
7. Bulgaria	-55	-62	-75	-64

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, 61 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 19 percent stated that the performance is better or much better. Macedonian hoteliers were the most optimistic in February since they did not expect any changes on demand and now their score is negative 54. Similar situation is with Bulgaria where the changes in occupancy are much higher than expected. In February, the most pessimistic were 5-star hoteliers and now, 73 percent of them see the market-wide demand situation even worse than expected.

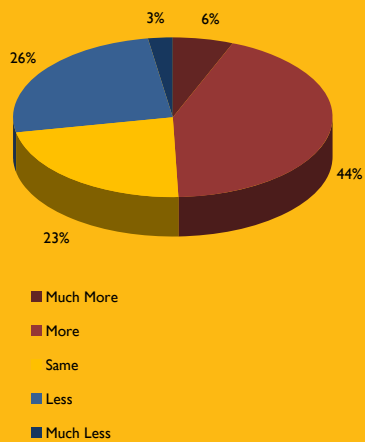
The ADR situation among the regional hoteliers was more optimistic than the occupancy performance. Only 46 percent experienced lower ADR than expected. The most negative ADR change was in Bulgaria and Slovenia while the Macedonian and Croatian hoteliers had the ADR performance similar to what has been expected.

Revenue followed a similar trend like occupancy, wherein the majority, 63 percent, of hoteliers revealed that revenue was worse or much worse than what had been expected at the beginning of the year. Much higher revenues' decreases than expected were in Macedonia, Slovenia and Bulgaria, and on the other side, looking to the different categories, in 4-star hotels (71 percent of them).

Looking to all three indicators, the most negative change in first half market performance has been experienced in Bulgaria, Slovenia, Romania and Macedonia.

The average first half market performance score for SE Europe is -35.

RATIO OF RESPONSES



"Half of the respondents from South East Europe were less pessimistic in February and after first half of 2009 they have experienced more negative impact on demand."

IMPACT OF FINANCIAL CRISIS

1. Macedonia	42.9
2. Serbia	-3.5
3. Bulgaria	-17.9
4. Croatia	-25.0
5. Romania	-28.1
6. Montenegro	-28.8
7. Slovenia	-50.0

THE IMPACT OF THE FINANCIAL CRISIS

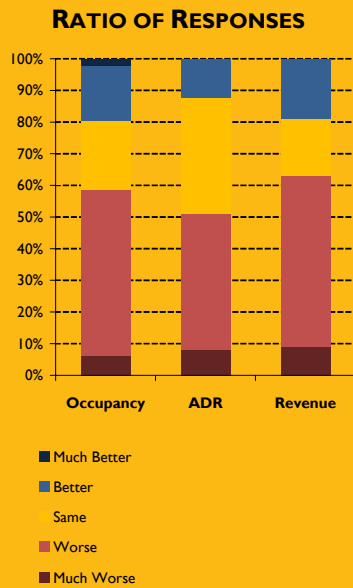
The second question asked respondents if the current crisis has impacted demand to the extent which was expected.

When hoteliers were asked if the crisis had impacted their demand as expected, 50 percent responded that demand had been affected more or much more than expected and 23 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 than expected were hoteliers from Slovenia since their score on the impact of financial crisis is the lowest. On the other side, the hoteliers from Macedonia reached the only positive score giving the conclusion that their expectations were worse than created demand in this year. Serbian outlook on crisis effect was similar to what has been realised.

Beside expected decreases of demand, the hoteliers from 5-star hotels did not foresee the real extent of the financial crisis. 69 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 only 43 percent of them had been affected more.

The average score of financial crisis impact on demand for SE Europe is -19.



"63 percent of the hoteliers from SE Europe expect declines of market-wide revenues in the second half of 2009 compared with the same period in 2008."

EXPECTATION FOR THE SECOND HALF OF THE YEAR

	Avg	Occ	ADR	Rev
1. Serbia	-16	-12	-23	-14
2. Macedonia	-20	-21	0	-38
3. Romania	-31	-22	-36	-34
4. Croatia	-43	-43	-35	-50
5. Montenegro	-44	-58	-23	-52
6. Bulgaria	-67	-57	-71	-71
7. Slovenia	-67	-50	-75	-75

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.

Almost 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.

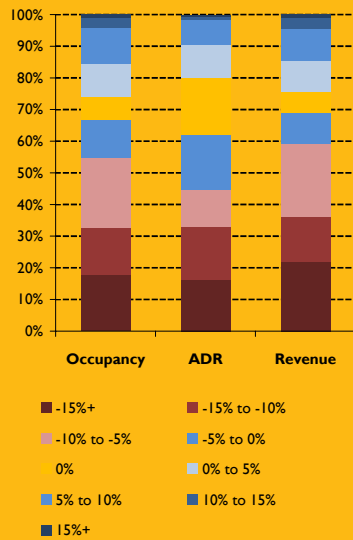
Occupancy scored an average sentiment score of negative 32 wherein 59 percent of respondents expect declines in occupancy levels vis a vis the second half of 2008. Again, there is a less pessimism in Serbia and Macedonia than in other countries. 17 percent of all hoteliers expect some growth of occupancy until the end of the year whereas the most optimistic were hoteliers from 3-star hotels.

The regional average sentiment with regard to ADR expectations in second half of the year scored negative 35. The hoteliers from Macedonia and Croatia were more positive in the case of ADR growth than in occupancy. 49 percent of the hoteliers from this region expect the same or better ADR in second half of 2009, than it was realised in last year. The most pessimistic concerning ADR were 4-star hotels where it is mostly (54 percent) expected to achieve worse or much worse ADR than in second half of 2008.

Revenues recorded the lowest sentiment score of all the performance gauges, recording a regional score of negative 40, with 63 percent of hoteliers expecting lower revenues in the second half of 2009 compared with the second half of 2008. Again, the highest level of pessimism was in Slovenia and Bulgaria where more than 70 percent of hoteliers expect lower revenues in 2009 than in 2008.

The average regional score for performance comparison of second half of 2009 to 2008 is -36.

RATIO OF RESPONSES



"The average change in particular hotels' performance expected in the second half of 2009 compared to 2008, is -6.6%. This is for 40 percent worse than expectations in February."

SECOND HALF HOTEL PERFORMANCE EXPECTATION

	Avg	Occ	ADR	Rev
1. Macedonia	13	5	11	21
2. Serbia	-16	-10	-26	-11
3. Croatia	-51	-58	-37	-60
4. Romania	-61	-57	-57	-68
5. Slovenia	-63	-63	-63	-63
6. Montenegro	-74	-72	-69	-81
7. Bulgaria	-81	-70	-85	-87

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.

32 percent of hoteliers from SE Europe expect to see a drop down in hotel performance for up to 10 percent and 34 percent of all hoteliers expect to see even higher decrease compared to last year.

More than 54 percent of hoteliers expect occupancy to decrease in their hotels by at least 5 percent. The average occupancy change for all the respondents from this region was -6.3%. The highest decline were expected in Montenegro and on the other side, there are some positive expectations in Macedonian hotels since their score was slightly positive (5.4). The most pessimistic were 4-star hoteliers who expect occupancy declines in their hotels for -7.3%.

The regional sentiment score for ADR was similar (score of -47 or average ADR change of -6.2%). Expected average changes of ADR compared to last year, are as follows. By countries: the highest decrease was expected in Bulgaria while in Macedonia, again, there is some optimism. By category: in 5-star hotels ADR is expected to change for -6%, in 4-star hotels for -6.6% and in 3-star hotels -6.1%.

Regarding hotel revenues, the average change is expected to be by -7.1% meaning that some of the hotels expect to be less or not affected in other revenues beside rooms. Average score for revenue changes in hotels of SE Europe is -53. More pessimism, again, there is in Bulgaria and 4-star hotels (change of -8.0%). 5-star hotels expect revenues change by -7.8% and 3-star by -6.2%.

The average regional score for hotel performance comparison of second half 2009 to 2008 is -49.

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 SE Europe 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 65 percent (from -26 down to -43).

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 -6.6%. This is the decline for 40 percent bigger than it was expected in February, when it was only -4.7%. Similar level of declines has been expected in room occupancy (for -6.3%) as in ADR (-6.2%). By the opinion of the hoteliers from SE Europe, total revenues in their hotels will change for average -7% meaning that in some hotels there is less pessimism regarding the performance of other hotel services beside rooms. The most pessimistic are the hoteliers from Slovenia and Bulgaria. Some level of optimism there is still only in Macedonia concerning all market outlook aspects. Looking to the category levels, the most pessimistic are 4-star hoteliers which expect to realise until the end of 2009 decrease of 7.3%.

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