

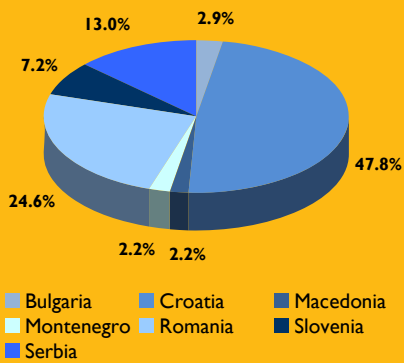


# SOUTH EAST EUROPE HOTEL MARKET SENTIMENT SURVEY

February 2010

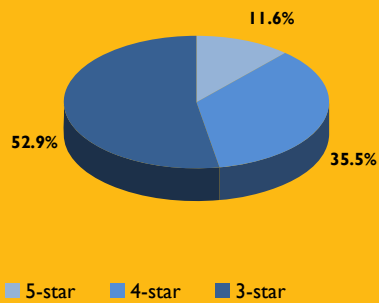
## SHARE OF RESPONDENTS

### BY REGION



## SHARE OF RESPONDENTS

### BY STAR CLASSIFICATION



## INTRODUCTION

The Horwath HTL Hotel Market Sentiment Survey for South East Europe gives a quick assessment of the market outlook for the regional hotel industry, by the people on the ground, running the hotels. 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 7 countries. Of the 140 respondents, the majority came from Croatia (48 percent), followed by Romania (25 percent). Again the most of the respondents were from 3-star hotels (53 percent) followed by 4-star hoteliers (36 percent) and the rest from 5-star properties.

Having been through one of the worst years in recent history, it is not surprising to find most markets across the world have a vastly improved outlook for 2010. However, the average outlook among the hoteliers of SE Europe gives less optimism. We hope that the following analysis provides some useful insight as to the expectations for different hotel markets across this region.

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 Region	Score		
	Feb '09	Jul '09	Feb '10
1. Slovenia	-40	-67	20
2. Serbia	-21	-16	8
3. Montenegro	-40	-59	1
4. Croatia	-24	-47	-6
5. Macedonia	-3	-4	-6
6. Bulgaria	-32	-74	-6
7. Romania	-25	-46	-10
By Star Classification	Score		
	Feb '09	Jul '09	Feb '10
1. Five star	-33	-42	8
2. Four star	-25	-47	2
3. Three star	-24	-39	-9

*"The average regional level of expectations went up from negative 43 on negative 2.9 giving the general regional opinion of 2010 performance just a little bit lower than in 2009"*

**RANKING SCORE KEY**

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

**SENTIMENT RANKINGS**

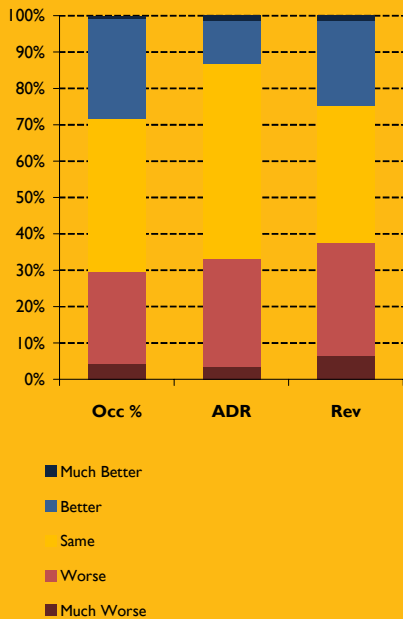
As a way to measure and compare the results across regions and countries, we have created an index to formulate an overall average sentiment score from all survey questions. Points are assigned to each corresponding response and compounded accordingly. The index utilizes a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism; a zero score indicates unchanged expectations from the previous year, and positive 150 signifies a very optimistic outlook. The index also allows us to track changes in market sentiment over time.

After a deterioration of the market sentiment in the July 2009, hoteliers have returned to some positive frame of mind in 2010. Naturally the slightly positive outlook for 2010 is relative to the poor performances recorded across the globe in 2009 and should be viewed in that context. Regional market sentiment for the beginning of this year was much less pessimistic than the outlook from last survey.

The average sentiment score went up for more than 90 percent (from -43 up to -2.9). The regional score is much lower than European average score (9) and world-wide average (27). Some of the national opinions went high up, like for Serbian hoteliers where the growth rate was more than 150 percent, for Slovenians the increase was more than 130 percent and for Montenegrin hoteliers the growth rate was 101 percent.

Looking to the outlook among different hotel categories, 3-star hoteliers are still the most pessimist but with the expectations of some declines in 2010. On the other side, the hotels with higher categories are more optimistic having in mind some growth of hotel market performances in 2010.

## RATIO OF RESPONSES



*"Almost 45 percent of respondents stated that 2010 market-wide performance will be on the level of 2009"*

## EXPECTATION FOR 2010

	Avg	Occ	ARR	Rev
1. Slovenia	22	45	-8	30
2. Serbia	3	4	8	-4
3. Montenegro	0	0	-25	25
4. Croatia	-15	-9	-17	-18
5. Macedonia	-17	0	-25	-25
6. Romania	-21	-11	-29	-24
7. Bulgaria	-25	-19	-38	-19

## 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 (ARR) 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, almost 45 percent of the respondents expected no change in market performance, while only 22 percent had some positive expectations for 2010 compared to 2009.

**Occupancy**

Occupancy scored an average sentiment score of negative 4 wherein 28 percent of respondents expect growth in occupancy levels and 42 percent expected 2010 occupancy to stay in line with 2009. The most optimistic were the hoteliers from 5-star hotels among which 38 percent expect higher occupancy. The most of the 3-star hoteliers expected the same or lower occupancy levels (78 percent).

**Average Room Rate**

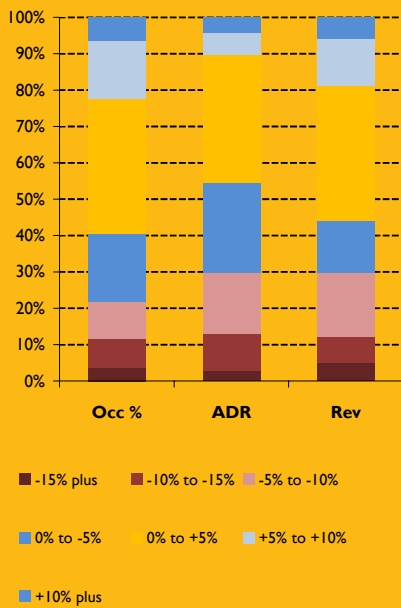
The regional average score of -17 with regard to ARR expectations was more negative than occupancy. The only positive outlook had the Serbian hoteliers. Only 13 percent of all respondents stated that the ARR will grow in 2010 and more than 50 percent did not expect any changes compared to 2009. The most pessimistic were the 5-star hoteliers since 38 percent of them believe in ARR declines.

**Revenues**

Revenues recorded a sentiment score of negative 14, with 25 percent of hoteliers around the region expecting higher revenues in 2010 compared with 2009. The highest expectations about the revenues in 2010 had the 5-star hoteliers since 31 percent of them expect growth.

The average 2010 market outlook score for SE Europe is -11.4 meaning stability in general with just small declines mainly because of lower average room rate.

## RATIO OF RESPONSES



*"The average change of 2010 hotel performance in SE Europe will be minor (compared to 2009, decline of only 0.7%)."*

## EXPECTATION FOR 2010

	Avg	Occ	ARR	Rev
1. Serbia	44	47	39	44
2. Macedonia	39	50	33	33
3. Slovenia	33	55	15	30
4. Croatia	20	27	11	22
5. Bulgaria	0	13	0	-13
6. Montenegro	-6	0	-17	0
7. Romania	-7	6	-18	-9

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

The second survey question asked hoteliers to give their expectation of how their respective hotels will fare in 2010 in comparison to 2009, in percentage terms.

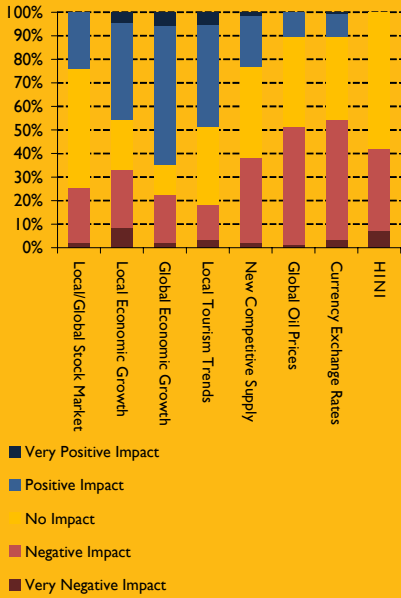
The majority of the respondents (56 percent) stated that the occupancy in their hotels will change in 2010 for +/- 5 percent. Another 60 percent believed that ADR will experience the same fate while 51 percent expect the same situation with revenues. However, 22 percent of the hoteliers expect major declines in occupancy. Even more (30 percent) expect the declines of ADR and total revenues for 10 percent or more compared to 2009.

Based on the regional averages, the hotel occupancy will grow in 2010 for only 0.5 percent, ADR will drop for around 2 percent and finally, the revenue will drop for 0.5 percent.

The most optimistic of all respondents from region were those from 5-star hotels that expected small growth of all performance indicators in 2010 (occupancy for 3.4%, ADR for 0.3% and revenue for 2.8%). This gives the average growth of 5-star hotel performance for 2.2 percent. On the other side, the hoteliers from 4-star hotels expect small decline of all three indicators for average 0.5 percent. Similar expectations had the hoteliers from 3-star hotels whose average expectation of change in performance was decline of 1.4 percent compared to 2009.

The average hotel performance sentiment score, by the opinion of the respondents from SE Europe, is positive (16.5).

**RATIO OF RESPONSES**



*"A majority of 65 percent of respondents felt that global economic growth trends would have a positive impact on performance"*

**FACTORS AFFECTING PERFORMANCE RANKING**

1. Global Economic Growth	34
2. Local Tourism Trends	24
3. Local Economic Growth	6
4. Local/Global Stock Market	-3
5. New Competitive Supply	-12
6. Global Oil Prices	-32
7. Currency Exchange Rates	-35
8. HINI	-37

**FACTORS EFFECTING PERFORMANCE – HOW EACH OF THE FACTORS BELOW ARE EXPECTED TO INFLUENCE HOTEL MARKET PERFORMANCE IN 2010?**

Each hotelier was also asked to gauge their attitude towards eight factors and how these will impact their hotels' performance in 2010.

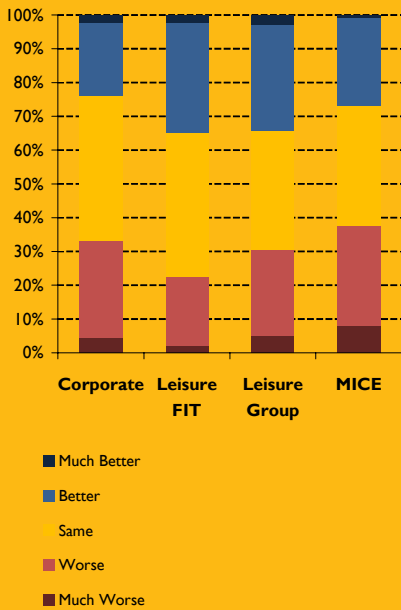
1. Local/global stock market
2. Local economic growth trends
3. Global economic growth trends
4. Local tourism trends
5. New competitive supply additions
6. Global oil prices
7. Currency exchange rates
8. HINI virus

The most negative impact on hotel performance have currency exchange rates for 54 percent of respondents, followed by global oil prices for 51 percent of hoteliers and HINI virus for 42 percent of respondents. This last factor (HINI virus) will not have any impact for the majority of respondents (58 percent). On the other side, 65 percent of respondents expect high positive impact of global economic growth and on the second place are local tourism trends with positive impact for 49 percent of surveyed hoteliers.

Shifting our focus onto individual countries, the only positive average score for all listed factors achieved Slovenian respondents. The hoteliers from all other countries were more pessimistic about the impact of listed factors since their average scores were all negative. On average, the most optimistic expectations from listed factors had 4-star hoteliers since 33 percent of them expect positive impact. On the other side, the most pessimistic opinion had 3-star hoteliers since 41 percent of them expect negative impact from these factors.

The average score for all listed factors, by the opinion of the respondents from SE Europe, is -6.9 giving the average more negative opinion on the impact of the majority of listed factors.

**RATIO OF RESPONSES**



*“Demand from primary segments in 2010, compared to last year, will stagnate with only small declines, mostly because of lower performance of business segments.”*

**MARKET SEGMENT PERFORMANCE**

1. Leisure FIT	9.2
2. Leisure Group	1.1
3. Corporate	-8.7
4. MICE	-13.6

**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 which were Corporate, Leisure FIT, Leisure Group and MICE (Meetings, Incentive, Conference, and Exhibition) and how they are expected to perform in 2010.

The majority of the respondents (39 percent) do not expect any changes in the primary demand when comparing 2010 and 2009. All the other hoteliers were divided between growth and declines in the primary segments’ demand in 2010. 34 percent of all hoteliers believe in the better performance of both leisure segments, while only 25 percent has the same opinion about both business segments.

Employing the scoring system to obtain an average score, leisure segments yielded positive results. The participants believe the MICE segment will be much worse than the others. Croatian and Romanian hoteliers were the only participants with negative scores (-4.5 and -19.9 respectively). The most positive opinion about the future performance of primary segments’ demand came from Slovenian respondents (score of 22.5).

The majority of 5-star hoteliers were optimistic since 47 percent of them believed in better demand from primary segments and 31 percent did not expect any changes from 2009 performance. On the other side, the most pessimistic were 3-star hoteliers since 34 percent of them expect worse primary demand.

The average score for the primary segments’ performance in 2010, by the opinion of the respondents from SE Europe, is -3 giving the average possibility of only small, not very important declines compared to 2009 demand.

## CONCLUSIONS

Generally, hoteliers from SE Europe have recorded significant improvement in their sentiment towards the market outlook since the last survey in July 2009. On the other side, an average sentiment across this region about the performance in 2010 is slightly negative. This gives an overall expectation of no major changes between 2010 and 2009.

The most optimistic were Slovenians while on the other pessimistic side were Romanians. Looking to the hotel categories, the respondents from 3-star hotels were more pessimistic than the others. In the region, the average change of 2010 individual hotel performance will be minor. The expected average decline, compared to 2009, is only 0.7%.

Hoteliers are mostly concerned about currency exchange rates and global oil prices while 65 percent of the respondents believe in some improvements caused by global economic growth. Primary segments' demand will not change in 2010 compared to last year since the expectations for SE Europe are: some declines from business segments and some improvements from leisure segments.

Based on the results of the survey in SE Europe, general hotel market performance of 2010 will be on the level of 2009, without major turbulences.

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