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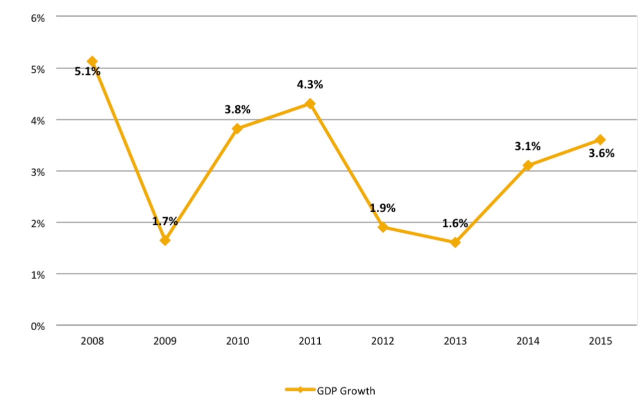
POLISH HOTEL MARKET CONTINUES TO GROW

Both the favorable macroeconomic environment and the increased visibility of Poland in international markets brings hope to the country becoming a leading tourism destination in the future. In 2015, the total number of foreign tourists amounted 16,7 million tourists, which represents a 4,5% increase in comparison to 2014. According to the forecast of Ministry of Sport and Tourism, the number of foreign tourists will exceed 18,7 million in 2020. The gradual increase in occupancy and average rates may result in an increased interest in the Polish hotel market by Polish and foreign investors. Compared to other Central European countries, Poland is an attractive alternative for investors looking for new, stable markets.

Economic situation and development

With a population of about 38 million and GDP per capita of EUR11,250 (2015), Poland has the largest economy in Central Europe. Since joining the European Union (EU) in 2004, the country's ambitions have been marked by the desire to rapidly catch up with the core of the EU in terms of economic growth and living standards. In the region and among 28 European Union countries Poland still records one of the highest gross-domestic-product (GDP) growth.

GDP Growth in Poland in 2009- 2015



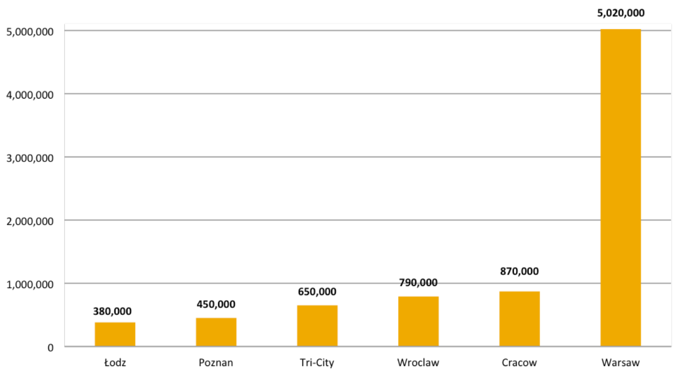
Source: General Statistic Office, 2016

According to OECD GDP growth is projected to strengthen to around 3% annually in 2017-18, thanks to higher social transfers, low interest rates and rising disbursements of EU funds. Increasing disposable income and consumption, the switchover to the new budgetary period for EU funds and diminishing spare capacity should lead to an acceleration in investment.

As a result, there is an active office supply market, led by Warsaw as well as other major Polish cities such as Cracow, Poznan, Wroclaw, Gdansk and Lodz.

According to Jones Lang La Salle office market in Poland continue to progress and it is still dominated by Warsaw with 56% share of the market. In Q1-Q3 2016, approximately 691,300 m2 of modern office space entered the market in Poland, almost 350,750 m2 of which came in Q2 alone. The largest openings in Q1-Q3 2016 included: Warsaw Spire (59,100 m2), Q22 (46,400 m2), Gdański Business Center D (29,300 m2), Proximo I (28,700 m2) and Eurocentrum Office Complex Delta (25,000 m2) all in Warsaw, Tryton Business House (21,300 m2), in the Tri-City; O3 Business Campus I (19,200 m2), in Kraków; and University Business Park B (18,700 m2), in Łódź. Development activity remains strong in Poland, with more than 1,430,000 m2 under construction.

The supply of office space in major Polish cities in 3Q 2016 (sq m)



Source: JLL, November 2016

The above are the cities with a significant boost in the economic market of the country. According to Jones Lang La Salle the positive market sentiment has been further enhanced by Warsaw being one of the possible beneficiaries of the Brexit vote, which may influence take-up levels. Again, Central districts have proved to be the crucial locations with 182,500 m2 transacted on. Such robust demand, coupled with the limited completions volume in Q3, has resulted in a decrease in vacancy rates and gradual absorption of the new office space within the city. The positive trend in the leasing market is set to continue in into 2017.

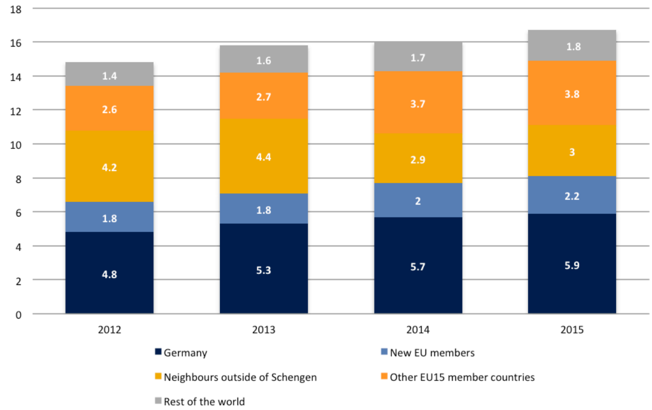
An upward tourism trend in Poland

Poland's tourism sector witnessed a good year in 2015. Inbound tourism has flourished in recent years as Poland increased its visibility in international markets by hosting events such as FIVB Volleyball Men's World Championship (2014), improvement in aviation infrastructure, and expanding presence of low cost airlines. Events which took place in 2016 such as the Men's European Handball Championship 2016, the World Youth Day 2016, Wroclaw city being designated as the European Capital of Culture in 2016, the NATO summit in 2016, and the future Men's European Volleyball Championship in 2017 are expected to drive the growth of inbound tourism over the next two years.

There has been a sustainable increase in the number of people coming to Poland. The statistics of Ministry of Sport and Tourism in Poland cite about 16,7 million tourists (each person that stayed overnight in Poland) traveling to Poland in 2015, which represents a 4,5% increase in comparison to 2014. According to the forecast of Ministry of Sport and Tourism the number of foreign tourists will exceed 18,7 million in 2020.

Warsaw Chopin Airport exceeded in 2015 the number of 10,6 million passengers per annum, which shows an upward trend comparing to previous years. According to the forecasts of the Civil Aviation Authority in Poland the demand for passenger traffic on polish airports will be increasing in the next 15 years. In 2015 the total number of tourists amounted 30,58 million people what is an increase of 12% in comparison to 2014.

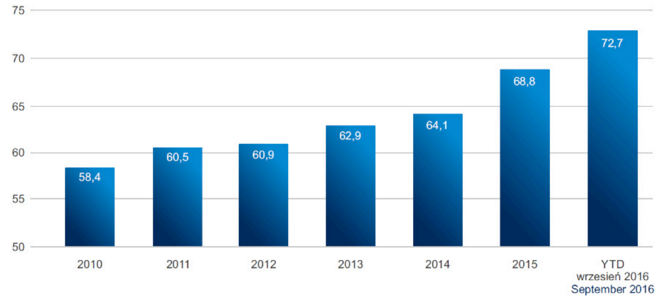
Estimated number of tourist arrivals (in million)



Source: Ministry of Sport and Tourism, 2016

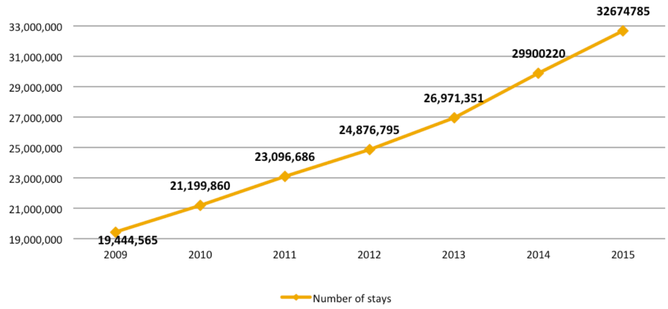
German tourists play a dominant role in the Polish tourism market. They contribute to 35.3% of all tourist arrivals to the country. Another important group for Poland are EU15 countries (15 Member States of the European Union as of December 31, 2003). They contribute to 22,7% of all tourist arrivals. According to the Polish Tourist Organization, Poland notes also increasing number of tourists from Asian countries such as: India, China, Japan, and an increase is predicted in following years. Moreover, the current situation in the countries of Maghreb has caused an intense traffic on the local tourist market. According to STR data the initial eight months of 2016 show that the industry is experiencing a very favorable hotel's arrivals trend. Occupancy results can certainly be said to be very good, if not excellent. Average occupancy at a level of 72.7% during the January-September period will probably improve even further by the end of the year as autumn is
a very good period for the hotel sector in Poland. The favorable occupancy situation was partially affected by the high holiday interest in Polish tourist destinations. Rising terrorist attack risk in popular resorts abroad had an impact on Poles' holiday destination decisions.
The 2016 holidays are termed „record-breaking" for entities operating on the Polish Baltic coast.

The occupancy rate in Poland since 2010 – 2016 (September)



Source: STR data - Year to date 2010 and September 2016

Number of overnight stays in hotels in Poland



Source: Central Statistics Office, 2016

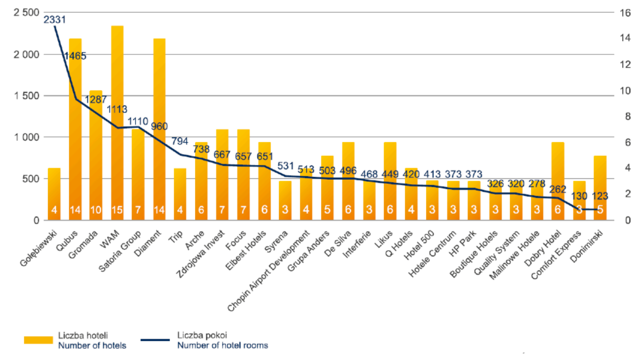
Hotel Development

At the beginning of 2016 there were 2 607 hotels in Poland with a total capacity of 128 159 rooms. The majority of these constituted 3* facilities (51% market share considering numbers of facilities and 45% market share considering the number of hotel rooms).
Still, 5* hotels represent the smallest group, only 67 such hotels operating in Poland.

Both domestic and foreign hotel chains operate across Poland. According to the Horwath HTL in 2016, 27 Polish hotel chains operated across Poland, jointly offering 157 hotels with more than 17.5 thousand rooms and 14 international hotel chains with 173 hotels and 27.5 thousand hotel rooms. Three Polish hotel chains operate facilities which perform under brand names of Best Western, such as: Satoria Group, Dobry Hotel, Q Hotels. Additionally, the Chopin Airport Development chain operates hotels under the Hilton Hotels&Resorts, Marriott International and Best Western brands. In such cases these hotels appear in Polish as well as international hotel chains statistics. The list of Polish hotel chains enlarged by two new chains: Arche and Q Hotels.

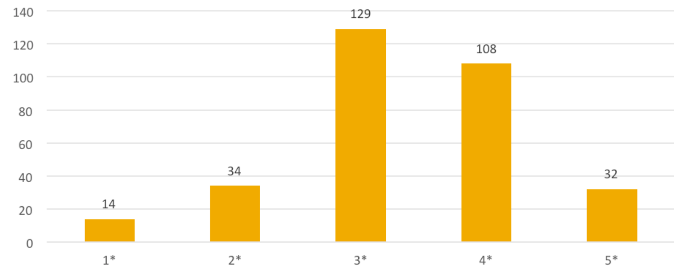
Only two Polish chains, Focus and Zdrojowa Invest, increased the number of hotels in their portfolio. The Focus chain opened its seventh hotel in June 2016, Focus Premium Hotel in Wrzeszcz, whereas the Jantar hotel in Kołobrzeg was the new asset to Zdrojowa Invest portfolio.

Polish hotel chains in Poland in 2016



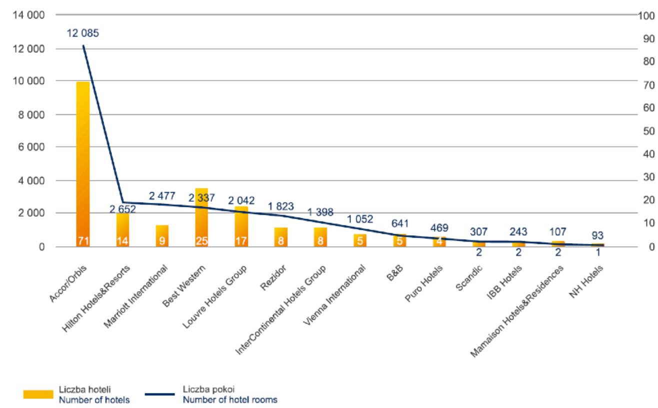
Source: Horwath HTL, Hotel Guide Book 2016

Chain proliferation among hotel rooms in Poland according to category in 2016



Source: Horwath HTL, Hotel Guide Book 2016

International hotel chains in Poland in 2016



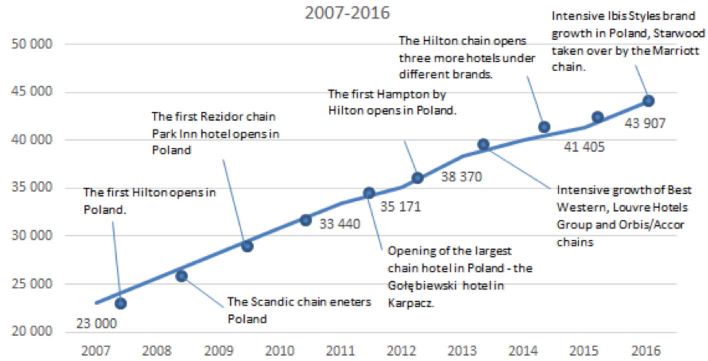
Source: Horwath HTL , Hotel Guide Book 2016

Currently, the top three international hotel chains in terms of the number of hotel rooms in Poland are Accor/Orbis, Hilton Hotels&Resorts and Marriott International. The chain operates twelve properties, mainly Hampton by Hilton (5 hotels), Hilton Garden Inn (3 hotels) and DoubleTree by Hilton (2 hotels), Hilton (1 hotel), Hilton Convention Centre (1 hotel). The biggest change which took place within the scope of international hotel chains pertained to Marriott International taking over the Starwood Hotels&Resorts chain which took place in September 2016.

During the 2015-2016 period, international hotel chains have been continuing their expansion on the Polish market. Compared with mid 2015, the Polish portfolios of international hotel chains grew by 14 facilities. Accor/Orbis reported most intensive growth, with the number of new hotels increased by 7.

Amongst the international hotel chains on the Polish market, the following also reported growth: B&B (2 facilities),Intercontinental Hotels Group (2 facilities), Best Western (1 facility), Hilton Hotels&Resorts (1 facility), Louvre Hotels Group (1 facility).The growth of Accor/Orbis is primarily achieved through the application of franchise agreements. New hotels which joined the chain in such way include: 3* Ibis Styles Siedlce, 3* Ibis Styles Nowy Sącz, 3* Ibis Styles Gniezno, 3* Ibis Styles Białystok and 3* Ibis Styles Poznań Północ. The chain also opened two own facilities, that is a 4* Mercure Kraków Stare Miasto hotel and 2* Ibis Gdańsk Stare Miasto hotel. After a few years of inactivity, InterContinental Hotels Group became active again. In 2016 the chain granted two franchises for its brands, for the 4* Holiday Inn hotel in Dąbrowa Górnicza and the 4* Indigo hotel in Kraków. 4* Indigo Florian Gate hotel in Kraków is the first in Poland to obtain a franchise for a boutique brand Indigo. A similar situation occured in 2016 in the B&B chain, which opened two new hotels in Katowice and Łódź. In Best Western 2016 added one unit to its portfolio – the Jurata hotel in Jurata, managed by Chopin Airport Development. The following chains also grew by a property each: Hilton Hotels&Resorts (a 5* DoubleTree by Hilton hotel in Wrocław opened in summer 2016), and Louvre Hotels Group (a 4* GoldenTulip Kraków Kazimierz opened in summer 2016).

Change in number of chain hotel rooms in Poland during 2007 – 2016



Source: Horwath HTL , Hotel Guide Book 2016

Transaction Market

A gradual increase in occupancy and average rates may result in an increased interest in the Polish hotel market by Polish and foreign investors. The Polish transactions market cannot be compared with developed West European markets, but the fact that Poland is a market more frequently chosen as an investment destination by international entities is significant. Investors are interested in transactions entailing large hotels, with established brands, located in the largest Polish cities. An example of such a hotel transaction was Hampton by Hilton hotel near Warsaw's Central Train Station, which was sold to a German investment fund a few months after opening. That transaction reveals the interest in appropriate hotel products. The forward purchase transaction of the designed Holiday Inn hotel at Twarda street in Warsaw is another interesting example. The Union Investment fund concluded the purchase agreement for a hotel which is to open its doors to guests in 2018. As compared to other Central European countries, Poland is an attractive alternative for investors looking for new, stable markets.

WRITTEN BY:

DARIUSZ FUTOMA
Partner
Horwath HTL Poland
email: dfutoma@horwathhtl.com

Dariusz Futoma's association with the hotel industry stretches back almost 15 years. His extensive strategic and operational experience comes from the Polish hotel market as well as those further to the east. Prior to finding his way to consulting, he worked as a sales and marketing director at the Jan III Sobieski hotel, simultaneously coordinating the Polish Prestige Hotels & Resorts in Poland marketing programme. During the course of his five year stint at the Rezidor Group chain, he was the sales and marketing director at the Radisson SAS in Kiev, Ukraine (the first international hotel in Ukraine), and then worked at one of the largest hotels in Europe, the 1200 room Park Inn by Radisson Pribaltiyskaya in Saint Petersburg, Russia. Upon his return to Poland in 2009, he assumed the General Manager's position at the Scandic Gdańsk hotel and then became president of the board at the Ideal Hotels chain in Poland. In recent years responsible for the outsourcing boom in the hotel industry, amongst others in Russia and during the Olympics.

Maria Zielinska
Market Analyst
Horwath HTL Poland
email: mzielinska@horwathhtl.com

Maria holds the position of Market Analyst in hotel, tourism and leisure advisory team in Horwath HTL Poland. She is responsible for gathering hotel data and preparing market analysis Maria worked in various companies from hotel and real estate industry where she gained necessary experience. She graduated from Warsaw School of Economics with master's degree in International Economics. She speaks fluently English, Spanish and French.

HORWATH HTL POLAND
Wola Center, ul.Przyokopowa 33
01-208 Warsaw
Poland
+48 22 647 97 00

www.horwathhtl.pl
www.horwathhtl.com

Horwath HTL

Hotel, Tourism and Leisure

ASIA PACIFIC
AUCKLAND, NEW ZEALAND
auckland@horwathhtl.com

BANGKOK, THAILAND
ischweder@horwathhtl.com

BEIJING, CHINA
beijing@horwathhtl.com

HONG KONG, SAR
hongkong@horwathhtl.com

JAKARTA, INDONESIA
jakarta@horwathhtl.com

KUALA LUMPUR, MALAYSIA
kl@horwathhtl.com

MUMBAI, INDIA
vthacker@horwathhtl.com

SHANGHAI, CHINA
shanghai@horwathhtl.com

SINGAPORE, SINGAPORE
singapore@horwathhtl.com

SYDNEY, AUSTRALIA
rdewit@horwathhtl.com

TOKYO, JAPAN
tokyo@horwathhtl.com

AFRICA
ABIDJAN, IVORY COAST
cspecht@horwathhtl.com

KIGALI, RWANDA
fmustaff@horwathhtl.com

CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.com

EUROPE
AMSTERDAM, NETHERLANDS
amsterdam@horwathhtl.com

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

BELGRADE, SERBIA
slovreta@horwathhtl.com

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
ireland@horwathhtl.com

BERLIN, GERMANY
germany@horwathhtl.com

ISTANBUL, TURKEY
merdogdu@horwathhtl.com

LISBON, PORTUGAL
vmarti@horwathhtl.com

LIMASSOL, CYPRUS
cmichaelides@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

MOSCOW, RUSSIA
mohare@horwathhtl.com

OSLO, NORWAY
oslo@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.com

ROME, ITALY
zbacic@horwathhtl.com

SALZBURG, AUSTRIA
austria@horwathhtl.com

WARSAW, POLAND
dfutoma@horwathhtl.com

ZAGREB, CROATIA
zagreb@horwathhtl.com

ZUG, SWITZERLAND
hwehrle@horwathhtl.com

LATIN AMERICA
BUENOS AIRES, ARGENTINA
cspinelli@horwathhtl.com

SÃO PAULO, BRAZIL
brazil@horwathhtl.com

MEXICO CITY, MEXICO
mjgutierrez@horwathhtl.com

DOMINICAN REPUBLIC
speralta@horwathhtl.com

SANTIAGO, CHILE
cspinelli@horwathhtl.com

BOGOTA, COLOMBIA
mjgutierrez@horwathhtl.com

MIDDLE EAST
DUBAI, UNITED ARAB EMIRATES
kdrubbel@horwathhtl.com

NORTH AMERICA
ATLANTA, USA
pbreslin@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

MIAMI, USA
acohan@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

NEW YORK, USA
pbreslin@horwathhtl.com

TORONTO, CANADA
pgaudet@horwathhtl.com

www.horwathhtl.com