Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

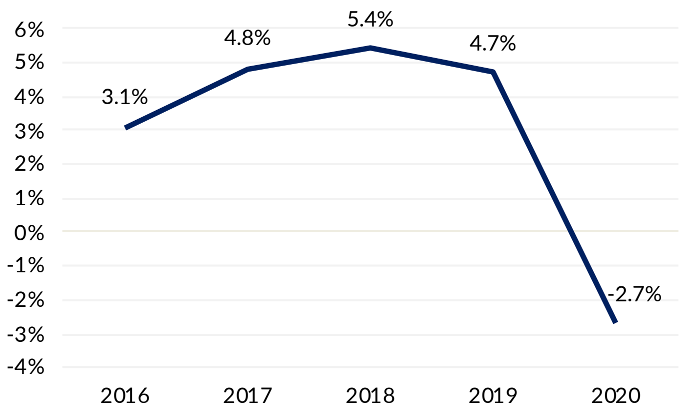
Poland Hotel Market

AUGUST 2021

Economic situation and development

Polish gross-domestic- product (GDP) during the second decade of 2000s was consistently growing. For this reason Polish economy was considered as steady and promisingly developing. In the year before the pandemic started Poland recorded one of the highest GDP growth in the region and among 28 European Union countries. In 2019 Polish GDP rose by 4.7 percent year over year which was the fourth result in EU-28. In the meantime in EU-28 the GDP growth was 1.6 percent, in the euro area – 1.3 percent. This recent rapid development and positive changes since Polish transformation still encourage many foreign investors.

GDP Growth in Poland in 2016 - 2020



Source: Eurostat, August 2021

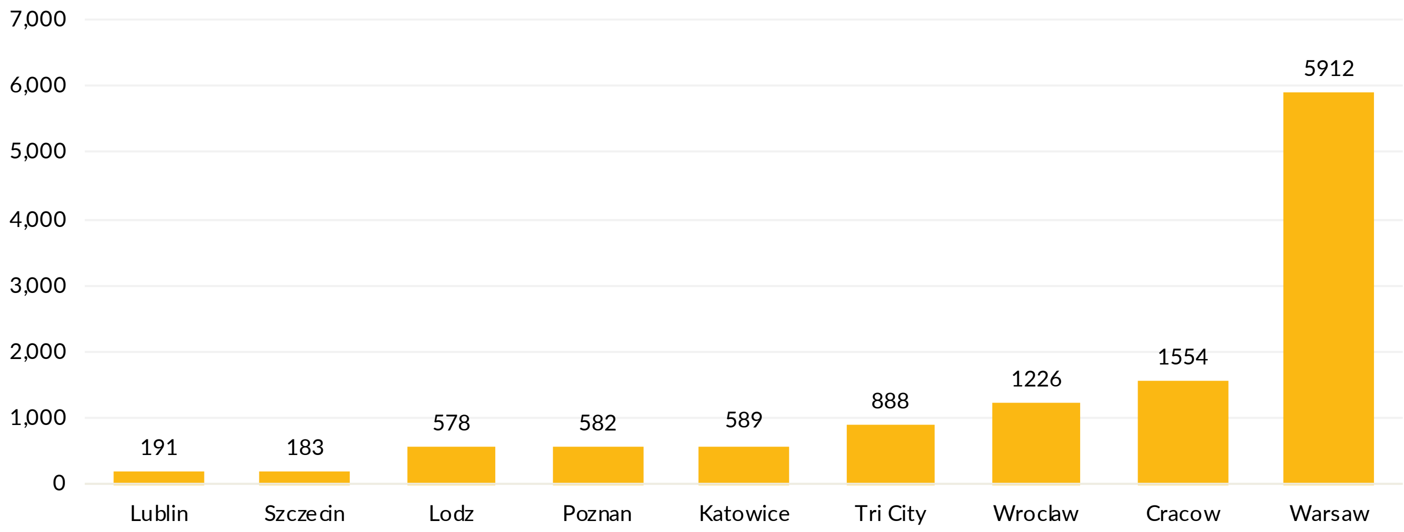
The beginning of 2020 pointed to relatively low but stable economic growth. COVID-19 pandemic and its repercussions caused a severe collapse of many economies worldwide. The Polish GDP growth became negative and amounted -2,7 percent year over year. This was a surprisingly good result, the fifth one in EU-27. The average for EU-27 was -6,1 percent. Therefore Poland was experiencing one of the shallowest recessions in Europe.

Poland can be one of the most attractive locations to invest in Europe. The inflow of foreign direct investment (FDI) has significantly increased over the recent years. This surge is a clear proof of Poland's attractiveness for international capital. This is due to favorable economic conditions, large domestic market, well-educated workforce.

At the end of 2020, the CPI in Poland amounted to 3.4 percent, which is significant increase in comparison to 2.3 percent at the end of 2019. The unemployment rate rose by 1 percentage point to 6.2 percent.

After the expected weak Q1 2021, the economy is expected to recover thanks to mass vaccinations. Consumption is to become the engine of GDP growth.

The supply of office space in major Polish cities in 2020 (in thousands sq m)



Source: Colliers International, August 2021

In terms of demand for office space last year reflected the negative impact of pandemic and a change in approach to work model. Considerations about the future of offices after the COVID-19 pandemic have resulted in many reports (including reports by Kinnarps, Skanska and InFuture Institute, Cushman & Wakefield) and statements of architects and designers about changes that should take place in offices. The main features of the future offices were: flexibility, multi-functionality / zoning, modularity and security.

According to Colliers the office market in Poland continued to progress in 2020. Total supply at the end of 2020 in nine major office space markets in Poland has reached the level of 11.7 million sq. m. The highest investment activity on the office market is being recorded in Warsaw. However, the market share of Warsaw is decreasing for the fast development of regional markets. The investment activity on office market in regional cities, mainly Cracow, Katowice Gdansk, and is high in recent years. Warsaw office market is now one of the biggest construction fields in Europe. One of the most prestigious project is Varso Place- the highest office building in European Union (310m high) is expected to be fully opened in the first half of 2022. It already hosts NYX hotel (Leonardo Hotels). Plenty of major infrastructure investments in Warsaw are being carried out simultaneously: housing investments, expansion of the II metro line, several tram lines and works on the southern bypass.

Warsaw is the largest office market in Poland, offering almost 6 million square meters of modern office space. Followed by Cracow and Wroclaw together have almost 75 percent of total office space in the whole country. There is 1,24 million square meters of modern office space under construction in Poland. The share of these three cities in the future office space supply is 71 percent. The new supply completed in 2020 accounts for 706,000 square meters, that is equal to 2019 result.

Intensive development of Business Process Outsourcing (BPO) sector developing almost 15 years in Poland is driving the stable demand for the office spaces and commercial real estates in Warsaw and regional cities. The vast majority are entities with foreign capital.

Major investments have been made in road development. In total, this resulted in around 4,300 kilometers of new express roads and highways. For the following years 1,500 kilometers of new fast roads are under construction, and another 2,000 kilometers are planned or yet in tender stage. In addition the authorities carried out expansion and construction of new airports, including Gdansk, Poznan, Wroclaw, Rzeszow, Katowice, Warsaw-Modlin, Szczecin, Lodz, Olsztyn-Mazury, Lublin. The current number of airports in Poland grew to 14 during last few years.

During recent years, Poland was gaining world recognition and became an attractively perceived place on the map of Europe. It is recognized as a country of great development prospects and a tourism destination with many attractions. The country also gained international experience hosting important events in the fields of international relations and politics such as NATO summit, United Nations Climate Change Conference; sport, e.g. UEFA European Championship in football, World Cup in volleyball, World Cup in handball, Eurobasket; religion, e.g. World Youth Days; economy, e.g. European Economic Congress and many other events of worldwide recognition.

Cultural tourism dominates as the most represented segment of activity among the visitors. Nevertheless other segments, including health and active tourism, are developing very quickly. Poland's offer is characterized by relatively low prices in relation to the high quality of services offered.

Global environment and its impact

Global tourism suffered its worst year in 2020, with international arrivals dropping by 74% according to the data from the World Tourism Organization (UNWTO). Destinations worldwide welcomed 1 billion fewer international arrivals in 2020 in comparison to 2019. The main reason was a fall in demand and travel restrictions.

Tourism and hospitality were ones of the sectors of the national economy directly affected by the COVID-19 pandemic. The values and indicators characterizing the accommodation base and its use, the number of travels of foreign and national tourists collapsed in 2020. Except the first two months of the year 2020, the size of traffic and the use of accommodation was mainly determined by mobility opportunities, the closure of borders and restrictions on the availability of accommodation for tourists. Not as in previous years when the decisive ones were seasonal factors (weather, holidays, school holidays, etc.) or simply the individual willingness to travel.

During the whole year 2020, 18.8 million tourists were accommodated in tourist accommodation facilities - 49% less than in 2019. The number of domestic tourists was reduced by 43 percent and foreign tourists by 70 percent.

The traffic at 14 Polish airports in 2020 was 70.3 percent lower in comparison to 2019 and amounted to 14.5 million passengers. This result was a big interruption in a uptrend observed during the last years in Poland (2019 to 2018 was a 7 percent growth). This sustainable growth performed over the recent years is strongly threatened by Covid-19 crisis and possibly would not be repeated in the nearest future.

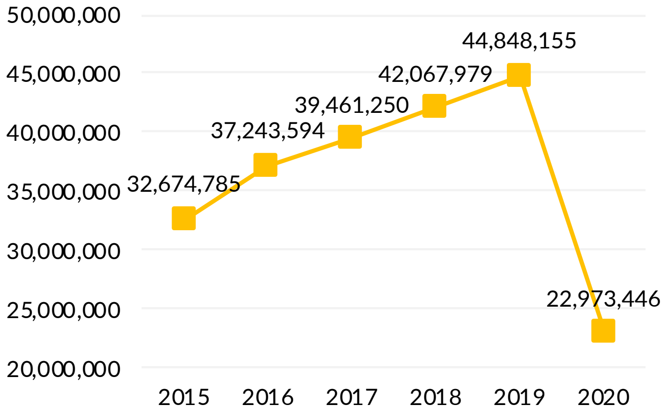
Over the last few years, Poland has developed a strong domestic tourism market because there is a solid leisure base in holiday resorts, as well as the business areas developed in the city.

The motivation of the Poles to travel has been recently stimulated by the development of governmental social policies specifically the "500+" program (a monthly transfer of PLN 500 for every child in the family). During the pandemic, the government introduced a policy promoting domestic tourism. "The Tourist Voucher" was a new form of assistance for Polish families at the time of economy weakened by the COVID-19 pandemic. It involved a one-off benefit of PLN 500 per each child under 18. The Voucher could be used to pay for hotels or tourist events organized by a tourism operator or a public benefit organization in Poland. This was a key factor to maintain the occupancy in domestic facilities.

The number of hotels and hotel rooms in Poland fell in 2020 for the first time in many years. According to data from the Central Statistical Office, in 2020 there were 137 hotels less than the year before and almost 5.4 thousand fewer hotel rooms. Between 2016 and 2019, the number of hotels increased by almost 7 percent and the total number of hotel rooms by more than 12 percent.

The number of overnight stays in Polish hotels collapsed by almost 50 percent in 2020 from 44.8 million to 23 million.

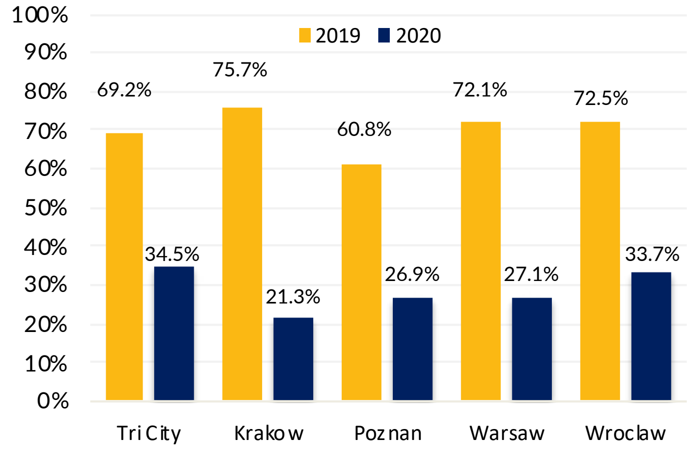
Number of overnight stays in hotels in Poland



Source: Central Statistics Office, August 2021

According to data gathered by STR, hotels in Tricity and Wroclaw were on the leading positions in terms of occupancy rate in the whole 2020. The lowest average annual occupancy was recorded in hotels in Cracow 21.3 percent and Warsaw 27.1 percent. The OCC rates in main Polish cities were slightly decreasing even before the pandemic. It was due to new openings and vast growth of supply of hotel beds.

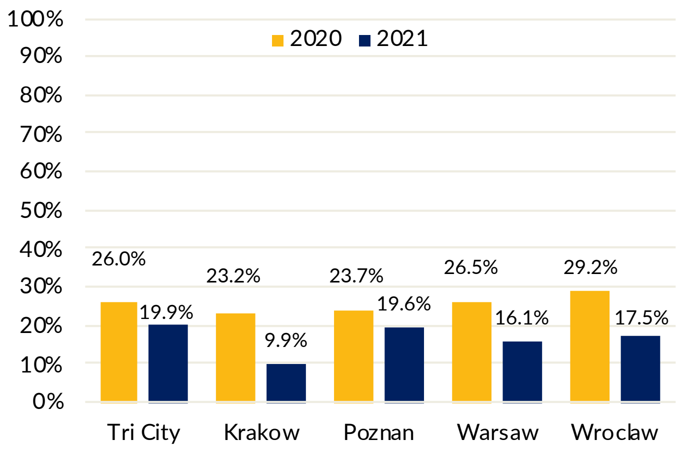
The occupancy rate in main cities in Poland in 2020 and 2019



Source: STR data , December YTD2020 vs. December YTD2019

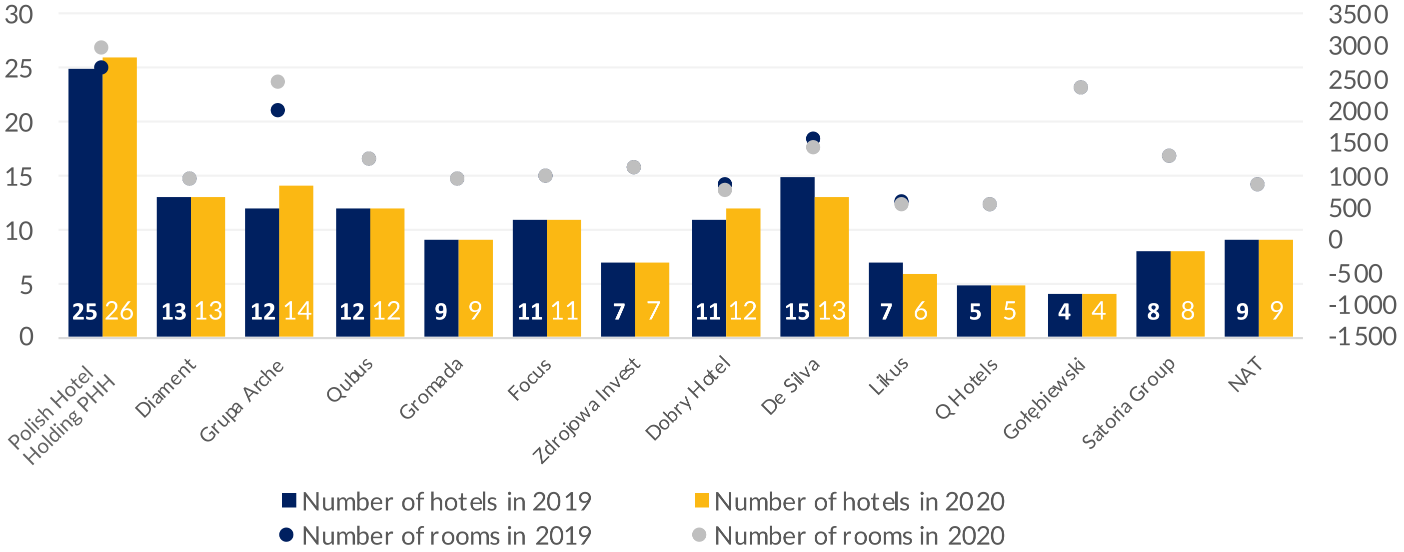
The most recent data provided by STR shows the occupancy rates in Polish hotels in the first six months of 2021. The figures are extraordinary low, nevertheless the Polish hotels could resume the operations in the beginning of May and could only use 50 percent of the beds supply. In June this restriction was changed to 75 percent.

The occupancy rate in main cities in Poland in 2021 and 2020



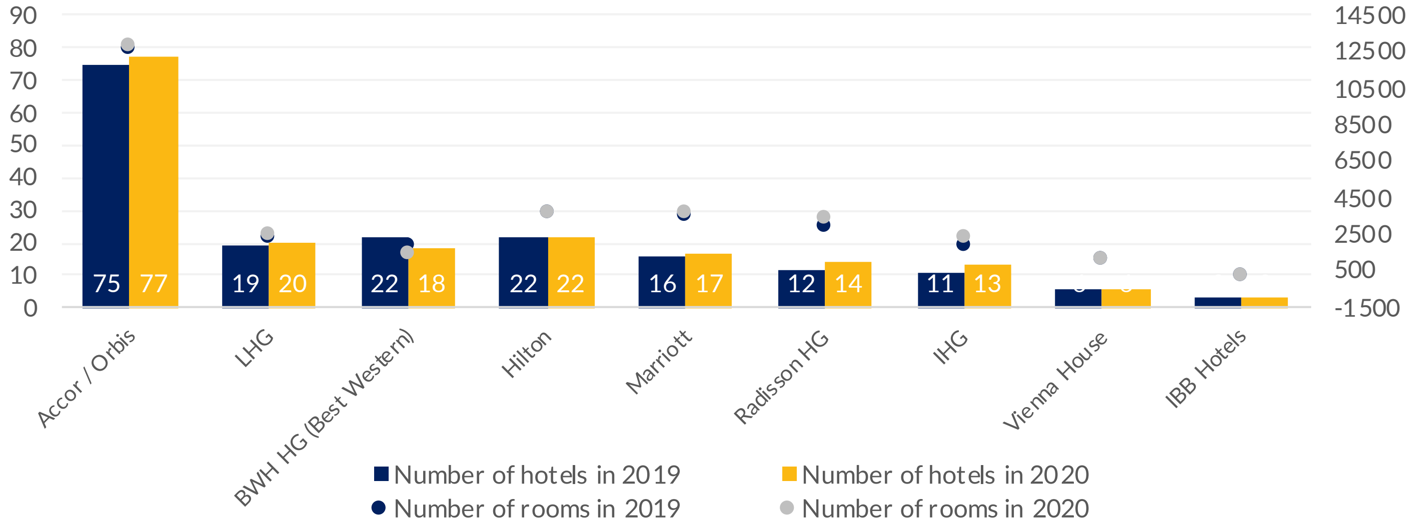
Source: STR data , June YTD2021 vs. June YTD2020

Selected domestic hotel chains in Poland in 2019 vs 2020



Source: Horwath HTL August 2021

Selected international hotel chains in Poland in 2019 vs 2020



Source: Horwath HTL August 2021

New hotel brands and chains have been entering the market with incredible speed over the last few years as investors were encouraged by consistent pickups of ADR and OCC levels in major cities, with international hotel chains intensifying development of their brands

The top three international hotel chains (by hotel rooms) are Accor/Orbis, Hilton Worldwide and Louvre Hotel Group. All of them noted an intensive growth in the number of hotels and hotel rooms in the recent years, the growth primarily achieved through the application of franchise agreements.

The last 5 years has seen the introduction of a number of new brands: Motel One, Ibis Styles (Accor), Indigo Hotel (IHG), AC by Marriott, Moxy, Four Points by Sheraton (Marriott International), Renaissance (Marriot International), Metropolo by Golden Tulip (LHG), Leonardo Hotel and newly opened NYX (Leonardo Hotels), Crowne Plaza (IHG). Brands coming soon are: Vib, Sadie (Best Western), Occidental (Barceló Group), Residence Inn, Autograph Collection, Tribute (Marriott International), Radisson RED, Mövenpick. Despite the difficult period of the pandemic, new hotel chains consider their participation in the Polish hotel market through either acquisition or lease agreements.

Promising future?

According to the European Commission's summer forecast Europe's economy should return to pre-pandemic levels in the final quarter of the year 2021, one quarter earlier than predicted. European economies have been able to reopen faster than expected thanks to an effective containment strategy and progress with vaccinations. The growth would be supported by adding the €723.8 billion from Recovery and Resilience Facility (RRF). Poland will have €57.3 billion at its disposal. The funds are available in loans and grants to support reforms and investments undertaken by Member States. The goal is to mitigate the economic and social impact of the coronavirus pandemic. Another goal is to make European economies and societies more sustainable and better prepared for the challenges and opportunities of the green and digital transitions. The RRF is not a substitute for the Multiannual financial framework 2021-2027 going to the countries.

The RRF state implementation complement and extend the actions taken so far by Polish government and local governments which were anti-recession measures for sectors and businesses. Government-initiated financial packages (subsequent editions of the Anti-Crisis Shield, Financial Shields of the Polish Development Fund and the assistance provided by the Bank Gospodarstwa Krajowego and the Agency for Industrial Development) with a total planned value of ca. €69.3 billion and legislative action became instruments direct response of the state and provided assistance to the businesses affected by COVID-19.

Hotels are still facing obstacles and restrictions in normal functionality. Operating results are still below profitability levels. Hotels reopened in the beginning of May 2021 with some major restrictions. Now, from the beginning of the summer the main restrictions were mitigated. Hotels shall be open for all guests with a maximum of 75 percent of room availability, hotel restaurants: up to 75 percent occupancy and distance between tables, SPA areas: swimming pools with no more than 75 percent occupancy.

The COVID-19 pandemic has harmed the hotel market in Poland in terms of number of guests and employment. It influenced the hotel market environment. Hotel owners in the absence of income reduced employment. When the market returns to normal, the owners will face a challenge with a lack of right people for their hotel crews. After periods of redundancies at the initiative of the workers themselves and the restructuring of employment by hoteliers, we can assume that will suddenly face a shortage of skilled workers. Some of the people will consider not to work in such an uncertain industry.

Uncertainty about the current situation also affects future openings and decisions on the implementation of planned hotel projects. If there are further waves of COVID-19, it will be highly likely that investment deadlines will be postponed or abandoned completely. The inability to anticipate the development of the epidemic situation goes hand in hand with the inability to estimate real demand. This causes difficulties for the investors to receive bank financing and investing in hotel market.

GDP is now forecast to grow by 4.8 percent in 2021 and 4.5 percent in 2022 in both the EU and the euro area. The forecast for Poland for 2022 is more promising: a 5.2 percent growth.

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Dariusz Futoma's association with the hotel industry stretches back over 20 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.

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Associate
Horwath HTL Poland

Andrzej has been involved in many projects of Horwath HTL in Poland and has a practical knowledge in the field of hotel market research and analyses. He is responsible for analytical and descriptive parts of the reports for the clients. He worked in various companies from tourism and hospitality market. He gained experience in the biggest Polish incoming tour operator and one of the biggest international hotel chains present on Polish market.
He graduated from the University of Warsaw. He also completed post-graduate studies in Tourism Management and Marketing at the Warsaw School of Economics.

Horwath HTL

At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 45 offices, who have successfully carried out over 20,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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