



Horwath HTL

Hotel, Tourism and Leisure

Budapest Hotel Market Overview

January 2024



Economic Snapshot

- Preliminary analysis of the Hungarian National Bank expects Hungary's GDP to have contracted by 0.4-0.6% in 2023, but experts forecast a quick recovery with a growth of 2.5-3.5% in 2024 and further growth to 3.5-4.5% in 2025. This improvement is attributed to decreasing inflation, easing of tight monetary conditions, and recovery in real income growth, which will support consumption.
- In 2023, Hungary experienced a significant increase in foreign direct investment (FDI), particularly in manufacturing and machinery sectors. The country attracted a record-breaking €13 billion in FDI, doubling the previous year's figures of €6.5 billion. Notably, China surpassed Germany as the leading investor in Hungary, as Germany's GDP contracted by 0.3% during the same period.
- This surge in FDI highlights Hungary's growing appeal as an investment destination and its potential for economic growth. According to the IMF, Hungarian GDP per capita on purchasing power parity will be US\$43.6 thousand in 2023, similar to the Polish or Czech figures and over 20% lower than the European Union average of US\$56.9 thousand.
- By December 2023, the main contributors to high inflation were food, service and fuel prices, which rose by 25.9%, 13.2% and 18.3% respectively year-on-year.
- Inflation remains a significant concern, with a decrease from 17.6% in 2023 to a forecast of 4-5.5% in 2024 and further to 2.5-3.5% in 2025. The high inflation rate in 2023 was influenced by several factors including increasing fuel prices and living costs.
- In 2023, the exchange rate between the Euro (EUR) and the Hungarian Forint (HUF) changed often, leading to a yearly average of 382 HUF for 1 EUR. It is expected that this rate will drop in the future, averaging between 393 to 403 HUF per EUR in 2024 and 406 to 419 HUF per EUR in 2025.
- The tense relationship between the European Union and the Hungarian government started to improve by the end of 2023, as the European Commission allowed the release of €10 billion in cohesion funds for Hungary in December. Hungary will also hold the rotating presidency of the Council of the EU in the second half of 2024.
- In November 2023, the unemployment rate in Hungary was 4.2%, which was 1.7% points lower when compared to the European Union average of 5.9%.
- The average gross earnings of full-time employees were HUF 564,400, while the average net earnings after discounts were HUF 389,300 in October 2023. Both gross and net average earnings increased by 14.0% and real earnings by 3.7% compared to a year earlier.

In conclusion, while Hungary faced economic challenges in 2023, including high inflation and contraction in GDP, the outlook for 2024 appears more optimistic with expected growth in GDP, a gradual decrease in inflation, and a stable labour market. However, the government will need to manage high budget deficits and public debt effectively.



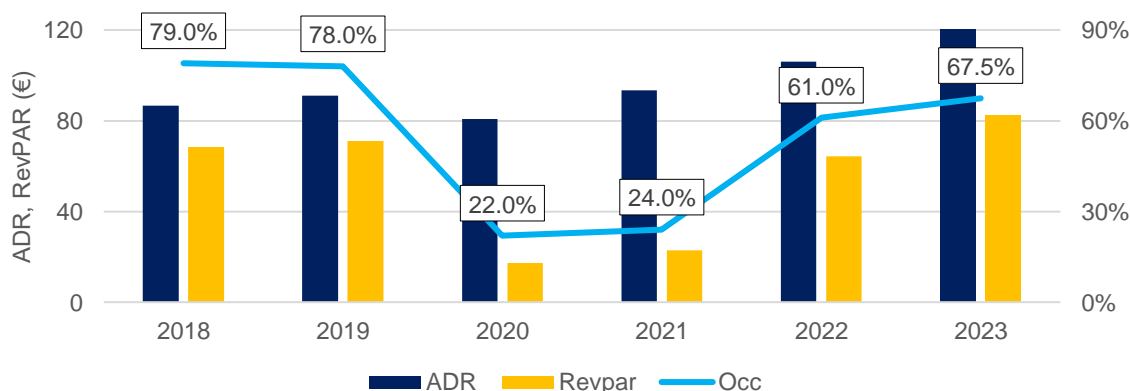
Regional Outlook – Hotel KPIs

	2019			2023			Year-on-Year Change in %		
	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR
Vienna	78.6%	109.3	85.9	70.5%	131.6	92.8	-8.1%	20.4%	8.0%
Budapest	78.3%	90.9	71.2	67.5%	121.9	82.3	-10.8%	34.1%	15.6%
Prague	79.3%	93.3	73.9	70.9%	110.4	78.3	-8.4%	18.3%	6.0%
Warsaw	72.6%	74.5	54.1	72.9%	93.6	68.2	0.3%	25.6%	26.1%
Bratislava	67.4%	79.6	53.7	62.9%	96.4	60.6	-4.5%	21.1%	12.8%
Bucharest	73.3%	86.1	63.2	66.3%	96.0	63.7	-7.0%	11.5%	0.8%
Belgrade	65.7%	82.8	54.4	65.7%	112.4	73.9	0.0%	35.7%	35.8%

Source: STR Global, December 2023

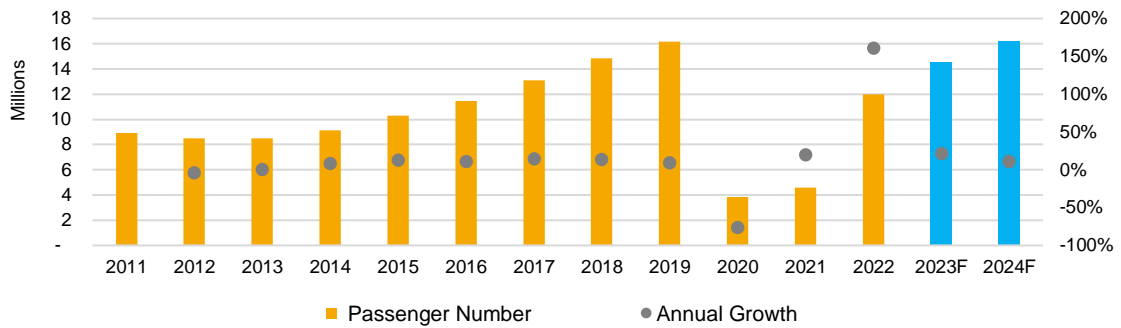
- According to the latest YTD statistics published by STR Global, Budapest managed to improve its position among its regional competitors in 2023 as well.
- In 2023, Budapest registered the second-highest ADR and RevPAR after Vienna, the second-highest percentage growth rate in terms of ADR and the third-highest percentage increase in terms of RevPAR year-on-year among other CEE capitals.
- However, Budapest had a head start in the recovery compared to Prague, its main regional competitor, with approximately half the number of hotel rooms and less exposure to Asian source markets, which are yet to be recovered.
- Budapest is expected to remain one of the leading tourist destinations in the region, reinforced by its safe and value-for-money destination image, maintained even despite the war in the neighbouring Ukraine.

Evolution of the Main KPIs in the Budapest Hotel Market (2018-2023)



Source: STR Global

Budapest Airport Passenger Volume (2011-2024F)



Source: Budapest Airport

Hotel Market Trends Budapest

- The Budapest hotel supply reached a record 224 properties in October 2023 with a total capacity of almost 23 thousand rooms and over 50 thousand beds. Overall, the new hotel supply exceeded 1,200 rooms last year.
- In 2023, several new openings were linked to renowned global hotel brands such as W Hotel, Hampton by Hilton, Radisson, Accor's Ibis-Tribe combo and Dorothea Hotel, Autograph Collection.
- Number of tourism nights spent in hotels in Budapest between January and November 2023 reached over 7 million, exceeding 2022 levels by ca. 10%. Although figures for December are not yet available, feedbacks suggest that the last month of the year brought exceptionally high tourism demand.
- Important to note, that Budapest hosted the Harley Davidson motorcycle parade and the World Athletic Championships in the summer, the latter of which has attracted approximately 190 thousand visitors and generated over 460 thousand guest nights in the capital.
- Seasonality returned with a trend similar to that of 2019, the number of guest nights steadily increased towards the summer months. Despite the total restoration of the leisure market, 25.8% fewer hotel nights were registered in the first eleven months of 2023 than in 2019, as corporate and group travel have still not recovered.
- According to STR, Budapest hotel ADR increased by 34% in 2023 when compared to 2019. As a result, even despite lower occupancy rates, average RevPAR of last year was 15.6% above compared to 2019.
- RevPAR levels in Budapest reached an all-time record of €111.2 in August, boosted by large-scale events in the capital. This result is not only 23% higher than the 2019 level, but also 21% above the Vienna RevPAR level in August 2023.
- The top three source markets remained to be the UK, Germany and the USA in 2023. Israel's importance has multiplied after the pandemic, but their visits to Hungary have rapidly halted due to the conflict in Gaza. Due to the ongoing turmoil Israel's recovery as a key source market is yet to be seen. Contrary to 2019, no Asian country is in the top 10 source markets this year.
- Air passenger traffic at Budapest Airport in 2023 has reached approximately 90% of the 2019 level, with full recovery expected in 2024. From 2025, an annual growth of 5-10% is anticipated.
- Challenges in long-haul direct connectivity persist, with no significant improvements expected in 2024, leaving Budapest without direct connections to the US. China and especially South Korea are notable exceptions, maintaining daily flights between Seoul and Budapest.
- Market sentiment for 2024 points towards stagnant bottom-line expectations. Rising costs and a temporary oversupply of 5-star hotels are anticipated to outpace any realistic increases in rates, in the short term. However, with the exponential increase of HNWI's and "dollar millionaires" projected by a number of financial institutions and research organisations, we believe that the new luxury hotel brands, such as W, Autograph Collection, Kimpton, St. Regis, Radisson Collection, Mandarin Oriental, to name a few, will only benefit the destination in the long term.

Outlook and Conclusions

- Full recovery of the international travel is projected by Tourism Economics to occur no sooner than by the end of 2024 in Europe, with international corporate group travel to catch up the latest. The Hungarian Hotel and Restaurant Association forecasts a similar timeline for the recovery of tourism nights in Hungary.
- We estimate that up to 20 new hotels with 3.000+ rooms could open in Budapest in the next 3 to 5 years. Approximately 30% of these properties will be in the upper-upscale or luxury segment, indicating a shift to more upmarket categories, helping the repositioning of Budapest to an impressive leisure destination. This is a prerequisite to its success as the capital city is struggling to recapture and rebuild its corporate base and MICE is still slow to return.
- Limited financing availability for hotel developments, coupled with rising development costs (now nearly equivalent to Western European standards), suggests that projects not yet started are likely to be postponed or reassessed. This shift will help maintain the balance between supply and demand, avoiding market saturation.
- Transactions have slowed down and are limited to a handful of local players, however international buyers remain interested, albeit taken spectator status.
- The temporary reopening of Terminal 1 of Budapest Airport, as well as the construction and opening of the new Terminal 3 are expected in the near future. The much-anticipated and near-complete acquisition of the Budapest Airport by the government is likely to lead to further development of its facilities and accessibility.
- Despite a nearly 60% drop in natural gas prices in September 2023 compared to the previous year, experts agree that a growth trend will remain and energy prices in general will gradually increase in the long term due to a global imbalance of energy supply and demand.
- In November 2023, the average gross wage in the hotel industry was around HUF 367,000 (€ 960), a 14.4% rise from the previous year. However, attracting and retaining skilled labour remains a challenge, leading to the increasing use of import labour.
- The industry has high expectations for the recently re-launched Budapest Congress Bureau, hoping that it can successfully attract the much-needed large-scale international events. The Hungarian Tourism Agency is committed to stimulating the business tourism market, with initiatives like the Business Tourism Cooperation Program aimed at attracting international conferences and events to Hungary.
- Despite fierce competition among the market players, in addition to macroeconomic and geopolitical challenges, the Hungarian tourism and its main hot spot – Budapest – has been able to recover and enjoy double-digit revenue growth, albeit with varying degree of maintaining profit levels due to increasing operating costs.
- Hungary and especially Budapest are teeming with large-scale ongoing tourism and infrastructure developments, including the renovation of the Castle District, the Citadel or the completion of the Liget Project.



Hungarian National Museum – Visual Design



Citadel – Visual Design



Buda Castle – Visual Design

In conclusion, Horwath HTL Hungary estimates that by the end of 2025, hotel demand together with transatlantic air traffic are expected to fully recover, and all the KPI levels are to surpass the pre-pandemic levels.



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About 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 52 offices in 38 countries, who have successfully carried out over 40,000 assignments for private and public clients. We are part of the Crowe Global network, 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.

We are Horwath HTL, the global leader in hotel, tourism and leisure consulting.



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