

# Hotel & High-End Resort Outlook



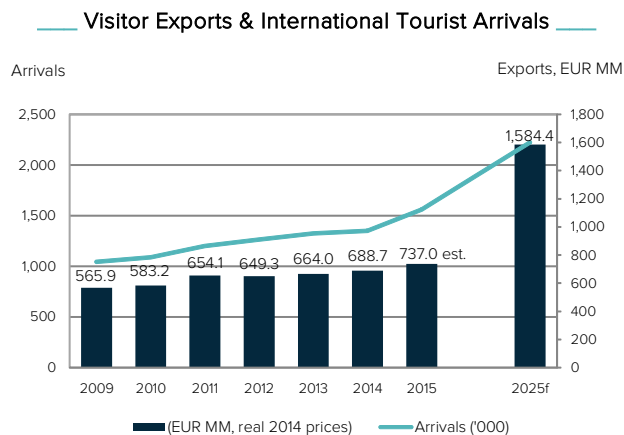
# TOURISM & HOTEL OUTLOOK

As newly uncovered Mediterranean destination, the World Travel and Tourism Council (WTTC) envisages for Montenegro the fastest annual growth of 11.8% over the 2012-2022 decade, when it comes to direct contribution of travel and tourism to GDP.

Montenegrin hotels have, in the previous period (2013-2015), shown stable operating performances expressed by the higher revenue per hotel room and better operating profitability, while long term development strategy emphasizes more intense hospitality industry investments.

Tourism and competitiveness also indicate growing figures. From 2010 to 2015, Montenegro's international arrivals increased by 7% per annum, on average, and overnights were up by 7.6% in the same period. In the first 6 months of 2016, both international tourist arrivals and overnights increased by 7.4%, compared to the same period last year.

Money spent by foreign visitors to a country (or visitor exports) is the key component of direct contribution of Travel & Tourism. Government's policy focus is on controlled, sustainable development of tourism, with constant increase of visitor exports, which marked average growth of 4.6% in last 5 years (2010-2015), together with average growth of tourist arrivals of 7% in the same period.



Sources: WTTC/Oxford Economics/MONSTAT

In 2014, Montenegro generated EUR 688.7 MM in visitor exports. In 2015, this is expected to grow by 7.0%, with more than 1,500,000 international tourist arrivals. By 2025, international tourist arrivals are forecast to total of 2,223,000, generating expenditure of EUR 1,584.4 MM, an increase of 8.0% pa.

New high-end resort developments together with announced entry of international hotel brands and management companies will significantly change the tourist

landscape and visitor experience thus enhancing the image, attractiveness and market positioning of the country.

## Lack of branded accommodation

Despite some new hotel developments there has been no significant growth of brand hotels in Montenegro. A greater number of global brands would help increase room occupancy from international markets, which is the key issue for further internationalization of Montenegrin tourist offer.

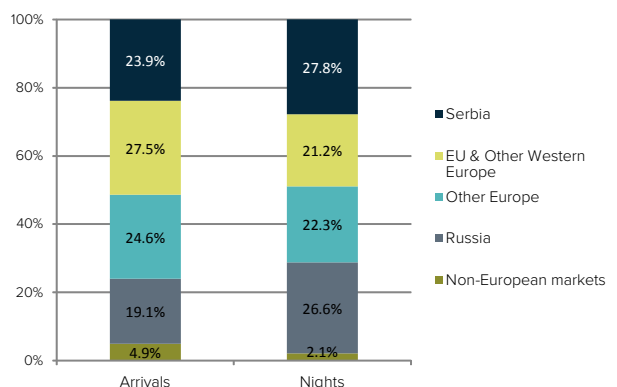
With new arrivals, such as Regent hotel in "Porto Montenegro" resort and the imminent opening of Hilton Hotel in Podgorica, these trends should be changed in the upcoming years. Other hotel brands present in Montenegro market are: Iberostar, Aman resort, Best Western, Sentido. Hotel brand One & Only will be a part of "Portonovi" resort in Kumbor, currently under construction. Four Seasons, Kempinski, W Hotels and Radisson are in negotiations and are planning to enter the market.

All these projects should improve overall performance of Montenegrin tourism through the development of alternative tourism products, such as health and wellness tourism, golf and other sporting facilities. These value added services are a strategic goal that should enable better multi-season offer, reducing seasonality and better addressing challenges of limited efficiency, low growth rates of the operating revenues and room occupancy.

## Russia and regional markets dominate tourism demand

Serbia, Russia and Bosnia & Herzegovina are dominant international markets, generating more than 48% of all arrivals and nearly 60% of all overnight volume in 2015. The structure of tourist arrivals and overnights in Montenegro indicates a strong tourism focus on the coastal region, which generates 90% of all arrivals and 97% of all overnights. According to the Ministry of Sustainable Development and Tourism, majority of accommodation supply, in terms of beds capacity, is located in the seaside (96%).

### International Arrivals & Overnights from International Source Markets, 2015

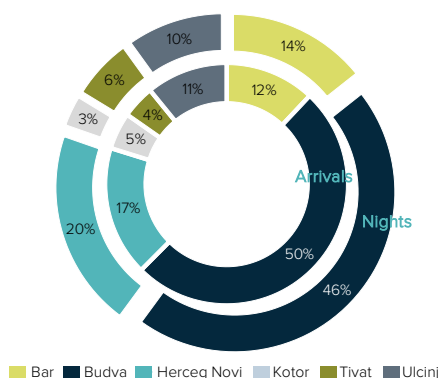


Sources: Ministry of Sustainable Development and Tourism & MONSTAT, compiled by LeRoy

## Budva distinguished itself as the go-to destination

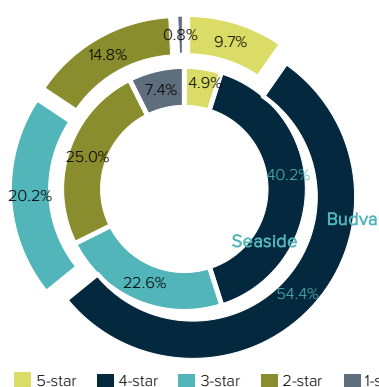
The municipality of Budva is the most attractive tourist destination in Montenegro and favourite seaside resort along the coastline, which attracts 50% of all visitors to the country, mostly due to well developed existing infrastructure, construction of new hotels and refurbishment and upgrading of the existing ones. Therefore 64% of all hotel capacities (bed capacity) are within 4\* and 5\* categories, while only 16% of hotel capacities belong to 1\* and 2\* accommodation.

Arrivals & Overnights in Coastal Towns, 2015



Source: MONSTAT, compiled by LeRoy

Bed Capacity in Budva & Seaside Municipalities by Hotel Category, August 2014



Source: MONSTAT, compiled by LeRoy

## Operating performance improves with seizing new experiences while high seasonality prevails

Hotel operating performances have achieved relatively high growth rates over previous years. In the period from 2005 to the end of 2014, surveyed hotels have realized an average annual growth rate of operating revenue per room of 12% (Survey undertaken by the Ministry of Sustainable Development and Tourism of Montenegro in cooperation with Horwath Consulting company). Growth of revenues of the surveyed hotels is based on the increase of room rates while retaining the average occupancy above 35%.

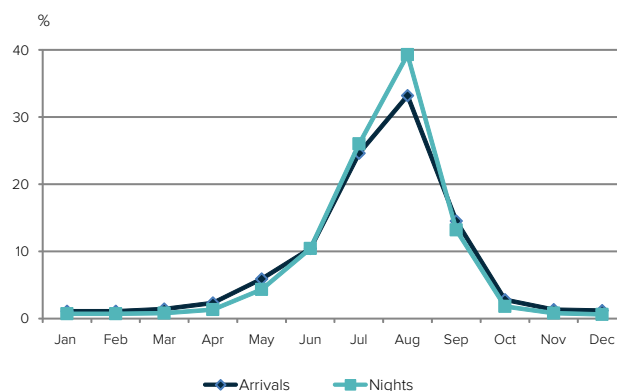
Average daily room rate (ADR) rose in the past 10 years by an

average of 11%, influenced by the supply of high quality new hotels, which achieve the utmost market performance.

High seasonality of demand is challenging issue for Montenegro hotels, while the average (room) occupancy in seaside areas varies between 36 - 38%. In terms of occupancy, 4\* and 5\* hotels achieve above average results. Average occupancy of 4\* hotels is 42 - 44%, while 5\* and 4+\* hotels achieve occupancy of 49 - 51% on average.

In order to alleviate distortions of unbalanced seasonal flows, 4\* & 5\* coastal hotels have increased focus on MICE segment of guests, as a part of industry and government efforts to stretch the season. Since the MICE demand exists in the market, majority of new hotel projects already have or plan on having conference facilities in their product mix.

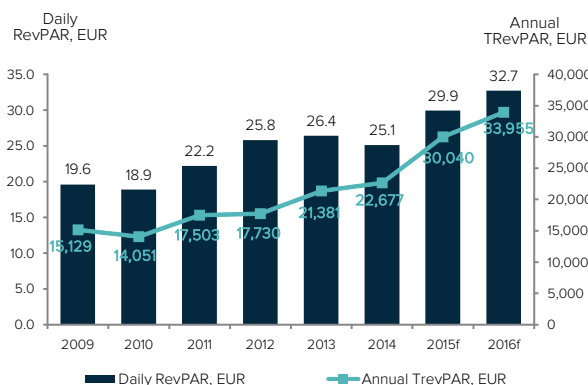
Seasonality of Tourist Arrivals & Overnights, % by month in 2015



Source: MONSTAT, compiled by LeRoy

In the high season period (July 1 to September 15) rack rates of overnight accommodation with breakfast in upscale segment vary between EUR 200 – 250 per room in brand new 4\* hotels, while rack rates in 5\* hotels are between EUR 350 – 550 per room. Rack rates of 3\* hotel accommodation, during high season period, range EUR 60 – 90 per room. Prices in mid season (Jun, September) are discounted around 30%, while low season prices are usually 40 – 50% of the comparable high season prices. Average room rates for hotels in Montenegro are between 45 – 50% of rack rates.

Daily RevPAR & Annual Total RevPAR in surveyed Montenegrin hotels



Source: Horwath HTL



# HIGH-END RESORT OUTLOOK

Since global hospitality industry entered an upward growth trajectory, we expect favourable supply and demand balance, backing the markets in the Adriatic region in the medium run.

Ongoing new projects and announced developments, with renewed investor appetites, are expected to fuel new investments and higher transaction volumes, as well as strengthen lodging fundamentals.

Montenegro's high-end real estate / resort market has experienced slowdown since 2014, particularly in the prime segment of international buyers. The first foreign purchasers came mainly from Russia, Great Britain, and Ireland. However, Russian buyers are those who were mainly driving almost all segments of the market, given that they generated more than 80% of the total demand. In the last 2 years, their retreating from Montenegro is an apparent trend that affects the entire market absorption of luxury apartments. Average annual sales dynamics of apartments in high-end projects is between 10 – 20 apartments.

## High-end projects upgrade destination branding of Montenegro

Few large scale projects are currently ongoing in Montenegro, while the first high-end resort "Porto Montenegro" was a breakthrough project. New luxury developments that followed are "Lustica Bay", "Dukley Gardens" and "Portonovi". Many large-scale development projects have been announced in previous years, but their realization has not commenced.

One of the most notable projects publicly announced is "Plavi Horizonti" resort, which should be developed by the company "Qatari Diar". According to the latest government officials' statements, construction should commence during 2016.



### Porto Montenegro



Developed on the location of the former military shipyard in Tivat, a luxury yacht marina and resort, has introduced a new standard of offer, a world-class style and amenities.

The project has started in 2007 and opened its first phase in 2009 with an impressive modern 450-berth marina. The entire complex is being developed in phases, on 28 hectares of land and currently consists of:

- 176 residential units;
- Hotel with 30 residences and 57 double rooms;
- 450 marina berths.

The project specific is a marina, unique in Mediterranean, which can host mega-yachts with all supporting facilities and 450 berths, ranging from 12m to 250m. Total capacity of the complex, upon completion, will include 850 berths, a hotel and 750 residential units.

Porto Montenegro Marina and Resort has been sold in 2016 to the Investment Corporation of Dubai (ICD).

### Lustica Bay



Lustica Bay is another prominent and very ambitious resort development in Montenegro, whose construction has been initiated in 2013. Investor of this project is Egyptian-Swiss consortium "Orascom Development". The entire complex will be built on 690 hectares of land on the location in Lustica peninsula and upon completion will consist of 7 hotels, 2 marinas, professional 18-hole golf course, more than 1,000 residential units, 500 villas and townhouses, sport facilities, retail units, conference centre and other amenities.

Currently complex consists:

- 75 finished residential units;
- 88 residential units (delivery period – 2017/18);
- Marina (delivery period - 2017)

## Dukley Gardens



Dukley Gardens is a new residential project, located on the Zavala peninsula in Budva Riviera. The complex consists 202 contemporary apartments within 36 high-end coastal residences, offering panoramic sea view, private beach and surrounded by a forest of cedar, palm and olive trees. Dukley also features a full service marina, located in Budva. With 300 berths for yachts up to 70m in length, Dukley Marina is a member of Camper & Nicholsons '1782 Club'.

The project is in the ownership of the "Stratex group".

Currently complex consists:

- 202 residential units;
- 300 marina berths in Budva.

## Portonovi

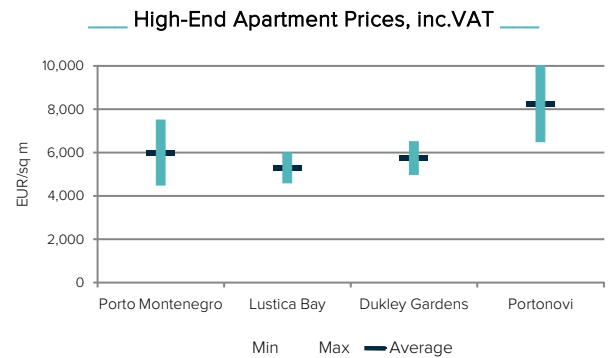


Portonovi is another large-scale resort project, located in the Boka Kotorska Bay in Kumbor. Construction of the resort has commenced recently with the announced opening for 2018. The complex is envisioned to become one of the most luxurious resort projects in Montenegro, operated by 5\* hotel operator "One & Only".

The entire complex will be built on 26 hectares of land located at the most narrow part of the entrance of the Bay of Boka Kotorska, with 3 km of coastline and 6.5 ha of aqua area suitable for construction of a 220-berth marina. Investor of this project is Azerbaijani "Azmont Investments".

Portonovi resort will deliver luxury mixed-use scheme including the exclusive One & Only Portonovi and Espace Chenot Health Wellness Spa, a tennis centre and a collection of 270 luxurious Apartments, Residences and Villas.

Currently 122 apartments are in offer that will be delivered by the end of 2017 & 2018.



### Tax Card:

VAT: 19%  
 Property Tax: 0.25 - 1%  
 Personal Income Tax: 9 - 13%  
 Corporate Income Tax: 9%  
 Real Estate Transfer Tax: 3%

## About Us



LeRoy is a real estate company specialized in providing high quality consulting services. Our company's focus is to enable value-added and high integrity services to the each Client through a client oriented approach and deep knowledge of the local market. LeRoy's business practices are developed to reflect service excellence, transparency, integrity and ethical conduct.

Our services are tailored to provide you with appropriate real estate solutions and expertise in residential, office, retail, industrial, logistics, hotel and mixed used development schemes.

LeRoy team is headed by leading professionals with more than 10 years of industry experience. Our team consists of highly qualified professionals from different backgrounds (BSc Economics, B.Eng Construction Engineering, MSc of Applied Mathematics in Finance, BA of International Business from Regent's University London, B.Eng Industrial Engineering) with proven problem solving, consulting and analytical skills.

We are dedicated to providing our clients with professional, unbiased research and guidance on markets and properties, together with in-depth appraisal and consulting services for all property-related matters.

Our base service lines include:

- ✓ Real estate consulting
- ✓ Valuations
- ✓ Market research
- ✓ Tenant representation
- ✓ Landlord representation
- ✓ Investment sales & acquisition
- ✓ Construction & project management

### Real Estate Consulting

We apply our experience and local market knowledge to assist and guide our Clients in their investment decisions. Our main task is to establish, maintain and develop the capital and rental value of your property. Consistency, objectivity and transparency are the basis of our work. The advisory services we typically offer include:

**Business Plan / Strategy Development** – Our diverse experience in different real estate sectors means we can deliver valuable perspective that helps Clients to set their goals and create a plan to achieve them.

**Market Feasibility** – We help our Clients to address specific acquisition and investment needs in order to determine the best alternative for the planned development. In addition to market feasibility, we provide financial projections and project valuations.

**Highest and Best Use Analysis** – We offer expert advice on the best use of the property in order to maximize the property value and overall marketability with respect to legally allowable and physically possible solutions.

**Market Analysis** – LeRoy has committed an in-house team focused entirely on ongoing market research. This approach ensures continuity and coherence of market data, and allows us to provide up-to-date analysis of real estate trends, project specific analysis, as well as strategic investment advice. Our market analysis helps investors to determine opportunities and threats of the specific real estate segment and offers key assistance in trend forecasting. We offer independent and customized research in accordance with specific client's need.

**Performance Improvement** – We apply our experience and market knowledge to help clients identify ways to improve a project in order to make more money or reduce risk through advice on product positioning, phase by phase pricing, thorough project improvement, etc.

### Valuations

Our property valuation services offer accurate advice on market value of various real estate assets. Our professionals will help you to understand the value in a changing market and maximize efficiency of your real estate through utilizing local market knowledge.

Our independent advice with utilization of strong methodology approach and compliance with the RICS Valuation – Professional Standards 2014 and International Valuation Standards (IVS) will provide you with comprehensive valuation of different property assets such as residential, office, retail, hotel, industrial and logistic properties.

Our team consists of individuals with local knowledge and international experience, appropriately qualified and competent to undertake different valuation assignments. The company has a RICS\*-qualified valuer.

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*\*The Royal Institution of Chartered Surveyors (RICS) is world's leading professional body with headquarters in London and tradition lasting more than 140 years that accredits professionals within the land, property and construction sectors worldwide.*

*RICS regulates and promotes the profession; maintains the highest educational and professional standards; protects clients and consumers via a strict code of ethics; and provides impartial advice and guidance.*

*RICS promotes and supports the highest standards in valuation services worldwide.*

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