



Belgrade I 2017

Tourism & Hotel Outlook



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The growth of travel & tourism industry considerably outperforms that of the local economy in the last 5 years and the outlook for this year remains upbeat with a robust rise over the current year.

The turnover of accommodation and catering services indicates a rapid acceleration following the ongoing economic recovery in both the Eurozone and the local market. International market seems more resilient to all turnarounds and offers an untapped potential, with an average annual growth of 10.9% over the last 5 years.

The evolution of the market has been seen through a systemic prioritization of tourism, promotional efforts, international openness and better air connectivity, which was further resulted in visitor exports growth over this time period. Likewise, this sector was one of the best performing in terms of the growth of its key indicators, relative to insignificant GDP growth rates.

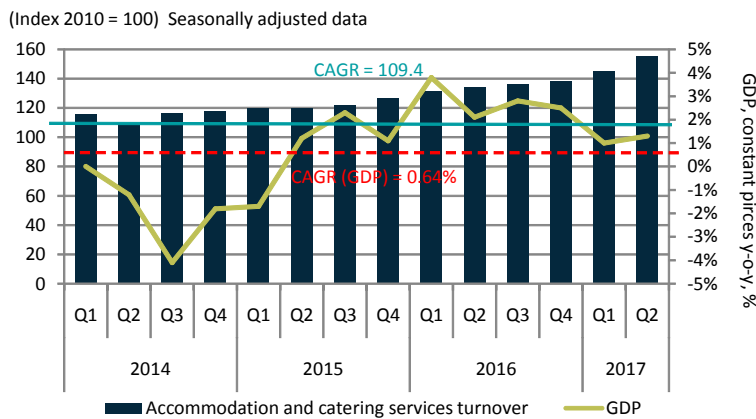
The trend of an increasing share of international visitors, coming from and travelling to emerging and developing countries, is a key driver for improving the competitiveness index based on which Serbia is ranked as 95th out of 136 countries. As a result of all these positive trends, there is an evident growth in supply, with more international hotel chains entering the market.

Acceleration of tourism

The growth of the foreign exchange inflow from tourism is expected to step up, reaching 12-13% this year, which is far more than the 7.9% compound annual growth rate (CAGR) in the previous five-year period. International tourist arrivals grew at a pace of 18.7% in the first 7 months of 2017, thus indicating to a considerable acceleration compared to an annual growth of 10.9% in the preceding five-year period.

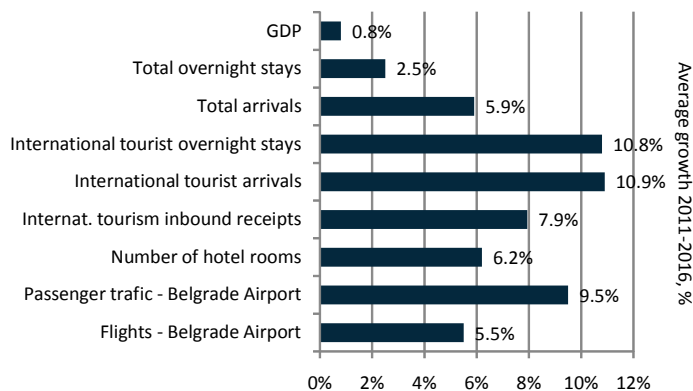
Economic upswing, cheaper airfares and the improvement of trading fundamentals encourage higher confidence in the hospitality industry. These figures bring optimism in the short-term market outlook, considering the present competition, while the industry’s resilience to economic volatility and uncertainty gives an incitement to new market entrants and new investors in the hotel segment.

Services Turnover Index & GDP in Serbia



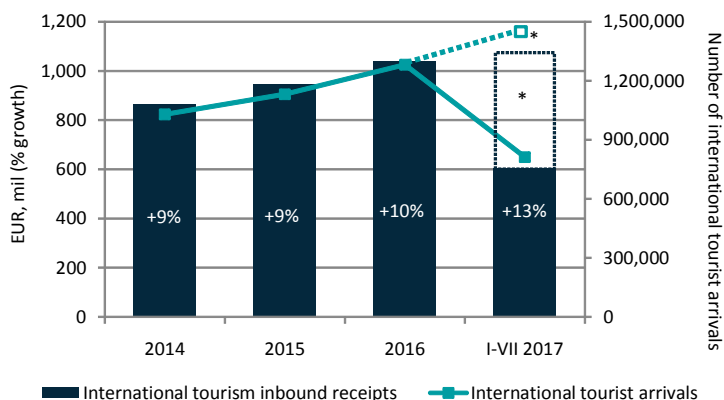
Source: Statistical Office of the Republic of Serbia

Economy & Tourism indicators in Serbia, 2011-2016



Source: Statistical Office of the Republic of Serbia, compiled by LeRoy

Tourism performances in Serbia



Source: Statistical Office of the Republic of Serbia, Ministry of Tourism

*Estimate 2017

The inbound growth as a major driver

Belgrade market is highly dependent on the foreign tourist demand as they account for 81% of all arrivals starting from 2014 onward. The year-on-year increase in visitor arrivals is evident, at a compound annual growth rate of 10.1% over the 2014-2016 period. This is expected to accelerate to 11.5% in 2017, thanks to the strong growth of international tourist arrivals, which amounted to 19.9% in the first seven months of 2017. The domestic demand is still fragile and we expect to recoup in the coming period, with the gradual strengthening of the local economy. A total number of overnight stays had a similar growth dynamic, with a 10.3% annual increase over the 2014-2016 period and is expected to grow further by about 19% in 2017, thus increasing a CAGR at a 12.7%, during 2014-2017.

The majority of the demand is focused on hotels, which generate 82.7% of all overnight stays, followed by hostels (6.0%) and spas (5.3%). Private apartments make up a negligible competition of only 1.8% of all overnights, but it should be noted that this segment of the market has a certain share of unregistered accommodation. This can also be explained by a relatively affordable pricing of Belgrade hotels as well as the demand structure in which business travellers prevails.

Timid levels of the supply growth

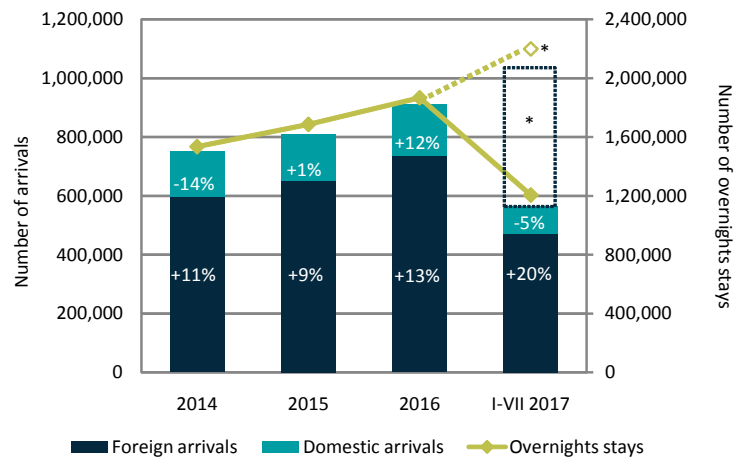
During 2014-2016, the tourist demand (rooms sold) has increased at a CAGR of 16.9%, while supply growth (new hotel rooms) saw only a 3.6% gain and this imbalance is expected to continue, despite an increasing pipeline. A double-digit growth of rooms sold, between 10-11%, is projected for 2017, with nearly zero room supply.

This trend of demand, which outstrips new supply growth, is helping to boost hotel performances. The new supply that appeared in the period of 2012-2015 has lowered already fragile performances of Belgrade hotel market, resulting in below average occupancy rates and further on the average daily rate (ADR) decrease. Since 2016, the market is on its reversal path and hotel trading fundamentals have entered on an upward growth trajectory, further speeding up in the first 7 months of 2017.

Two-thirds of available rooms in Belgrade hotels belong to the upscale market segment (4-star and 5-star). 4-star hotels dominate the supply with 56.2% share of all rooms available in the market.

Belgrade market is dominated by independent hotels despite the growing demand from hotel chains. During the last 4 years, global brands such as Crowne Plaza, Radisson Blu, Luxury Collection by Starwood, Falkensteiner, Courtyard by Marriott, AccorHotels and Holiday Inn Express entered the market.

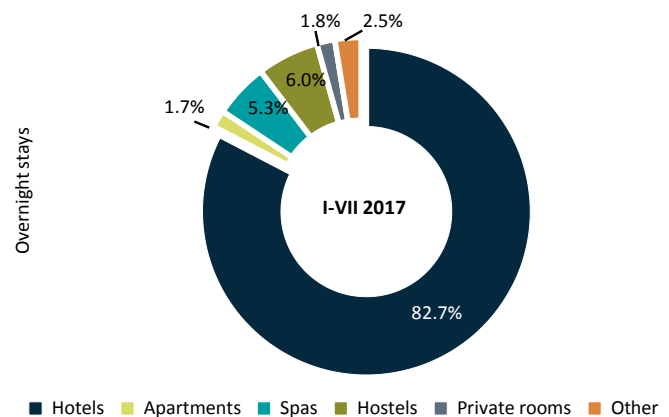
Number of tourist arrivals and overnight stays in Belgrade



Source: Statistical Office of the Republic of Serbia, compiled by LeRoy

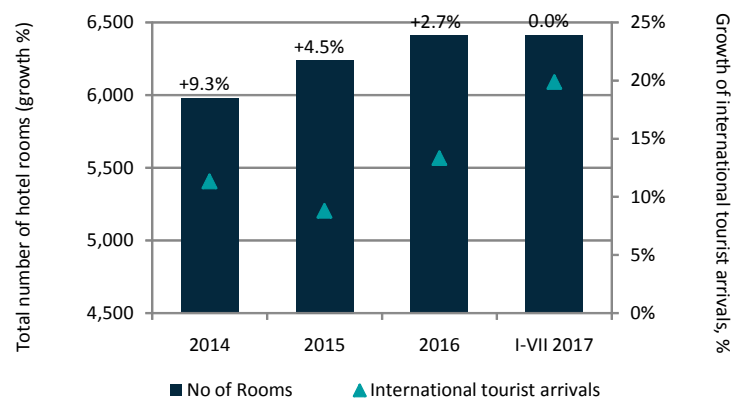
*Estimate 2017

Structure of Demand in Belgrade



Source: Statistical Office of the Republic of Serbia, compiled by LeRoy

Evolution of Hotel Supply in Belgrade



Source: Statistical Office of the Republic of Serbia, compiled by LeRoy

Double-digit growth of KPIs

A double-digit growth of key performance indicators, including the strong revenue per available room (RevPAR) growth starting in 2016, driven by a jump in occupancy, has dramatically improved the overall Belgrade's hotel performance.

Competitive pressure has led to ADR decline starting from 2015, which decreased at a CAGR of 3.2% in the last 3.5 years. On the other hand, the improved hotel performance, backed by an increasing demand and a growth in occupancy, was the main factor driving the upward trend in the observed period. RevPAR has increased at a CAGR of 6.8%, supported by rise in room occupancy of 10.4% during the 2014-2017 period. Room occupancy, in the best performing hotels, ranges between 65-72%, while the average occupancy was a slightly below 60% in the first 7 months of 2017. 3-star hotels appear to be the best-performing segment, with the highest occupancy of 65% in 2017, while 4 and 5-star hotels achieve an average occupancy of 58% in the same period. The increased absorption has pushed ADR up 8% in 2017, which also reflected in a robust RevPAR growth of 19%.

New hotel brands keep coming

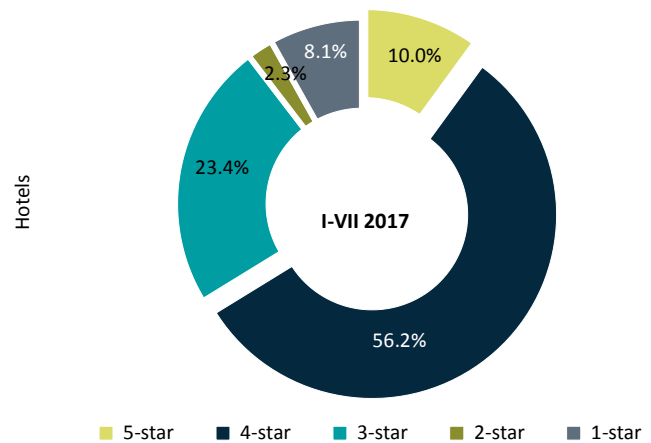
Thanks to this tremendous progress in its hotel sector, Belgrade market has attracted investors' attention that has been translated into several new developments, currently in progress, which will change the hotel market landscape considerably in the coming period. 5-star Hilton hotel with 242 guest rooms is set for opening in 2018. Also, 4-star Mama Shelter hotel with 125 rooms has announced opening in the pedestrian zone during the first half of 2018. St.Regis hotel (125 rooms) and W hotel (120 rooms) have been announced within Belgrade Waterfront project. The construction of InterContinental hotel should be commenced soon. All these new developments will reshape the market and the existing competition, bringing new quality and underpinning the city's new positioning on the tourist map.

Room for advancement

The enhancement of MICE industry, both in the number of events and the necessary infrastructure, is among the key prerequisites for sustainable growth in the hotel sector, together with better air linkages and a wide promotion towards new source markets. Thanks to the introduction of direct flights from Belgrade to Beijing, the abolition of visas for Chinese citizens starting in January 2017 and the new promotional strategy, the total Chinese tourist arrivals increased by 271.7% (y-o-y) in the first 7 months of 2017, which is the largest growth of one single source market.

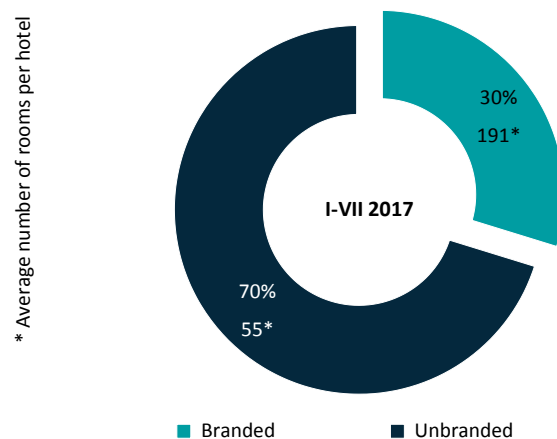
Growth in the travel and hospitality sector is expected to continue. New supply of cca 370 guest rooms in Belgrade in 2018 will temporarily inhibit RevPAR growth, but the overall industry growth and the increasing share of international visitors are expected to mitigate this short-term effect.

Structure of Room Supply in Belgrade



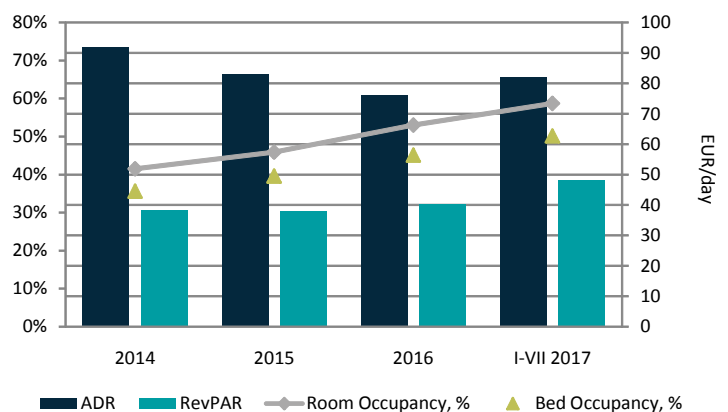
Source: Statistical Office of the Republic of Serbia, compiled by LeRoy

Branded vs. Unbranded Hotel Rooms in Belgrade



Source: Statistical Office of the Republic of Serbia, compiled by LeRoy

Belgrade Hotel Performance



Source: Statistical Office of the Republic of Serbia, LeRoy

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