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# Warsaw, Poland *Market Snapshot*

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## Warsaw, Poland – Market Snapshot

This market snapshot is part of a series of articles that HVS is producing every month on a series of key markets. In writing these articles we aim to combine the market expertise of HVS with STR Global data for each key market. Our analysis for this market is based on data for a sample of more than 7,500 rooms, as provided by STR Global.

### *Highlights*

- In 2009, like many other countries, Poland experienced an economic slowdown as a result of the global financial crisis. However, Poland has been one of the most stable economies within the Central and Eastern European countries, having been able to avoid the recession with a GDP growth estimated to be at 1.7% in 2009, and forecast to be over 2.5% in 2010, according to the Economist Intelligence Unit (EIU);
- As a result of the global economic downturn, the decrease in overall tourism demand, especially from business travellers, resulted in a year-end hotel occupancy decline in Warsaw, from 66% in 2008 to 60% in 2009. Year-to-March figures in 2010, on the other hand, have shown an improvement on the previous year, with occupancy increasing by nearly 9%, while RevPAR showed a decrease of only 1% in zloty terms, from PLN168 in 2009 to PLN167 in 2010, in contrast to a 9% drop from 2008 to 2009;
- As co-host of the European Football Championships in 2012 ('Euro 2012'), together with the Ukraine, there has been increased interest in hotel investments in Poland. Since Central and Eastern European countries have been perceived as 'risky' environments during the recent recession, however, a number of developments in the region, including Warsaw, have been halted or even suspended, thus leading to very few confirmed future developments in the city.



## **Hotel Demand Patterns**

Passenger movements at Warsaw's international airport have increased at a compound annual growth rate (CAGR) of 8.3% in nearly 20 years, with peak growth being seen after Poland's entry into the European Union when it became more exposed to international markets. The recent financial crisis, however, impacted passenger movements, with fewer international travellers leading to a decrease of 12% in total arrivals in 2009. The airport opened a second terminal in 2008, and the new Southern Pier, for the Terminal 1 and 2 complex, is currently under construction.

In 2008, the number of room nights spent in Warsaw hotels was 3.2 million, showing a 2% increase on the previous year. However, for the year-to-March 2009 the country experienced a drop in overall demand with a decrease in both domestic and international travellers of 20% and 11%, respectively.

The main international source markets for Warsaw are Germany, the UK, Russia and the USA. However, with the effects of the economic crisis influencing these countries and their businesses, travel from these markets decreased during 2009. On the other hand, international demand has once again started to grow in 2010, with overnight stays in the Mazovian region, which includes Warsaw, increasing by 24% year-on-year in January and 5% in February.

## **Hotel Performance 2008-10**

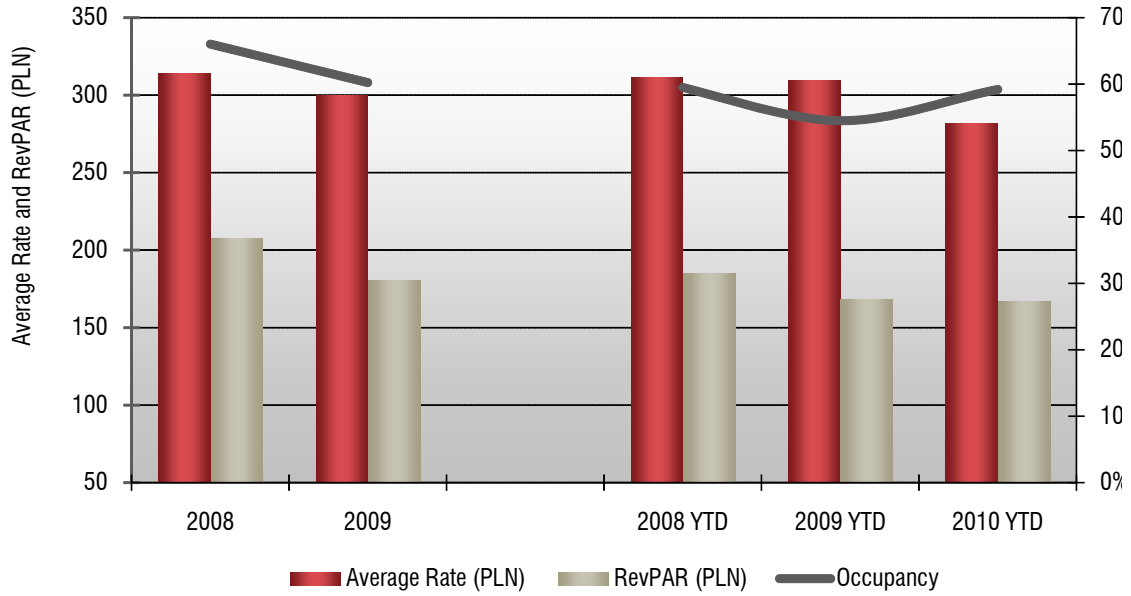
The analysis in this market snapshot is based on a sample of mostly branded hotels within the Warsaw hotel market. The sample includes over 7,500 rooms. Charts 1 and 2 show the hotel performance for the hotel market in Warsaw from 2008 to March 2010, in both zloty and euro terms.

In 2008, Warsaw started to feel the impact of the global economic crisis and the performance of its hotel market weakened. Occupancy managed to maintain similar levels to that of the previous year, reaching 66%, while average rate dropped by approximately 3%, resulting in a RevPAR decline of a similar level. This downward trend continued throughout 2009, when performance levels continued to decline, especially average rate (albeit only in euro terms). Occupancy levels reached 60% (a 9% decrease on 2008), while average rate declined by 5% to PLN300. As a result of the lower marketwide occupancy and average rate, RevPAR fell by nearly 13%, to PLN181 from PLN207 in 2008.

Average rates when shown in euro indicate a sharper decline owing to the exchange rate of the zloty against the euro, as illustrated in Chart 2.

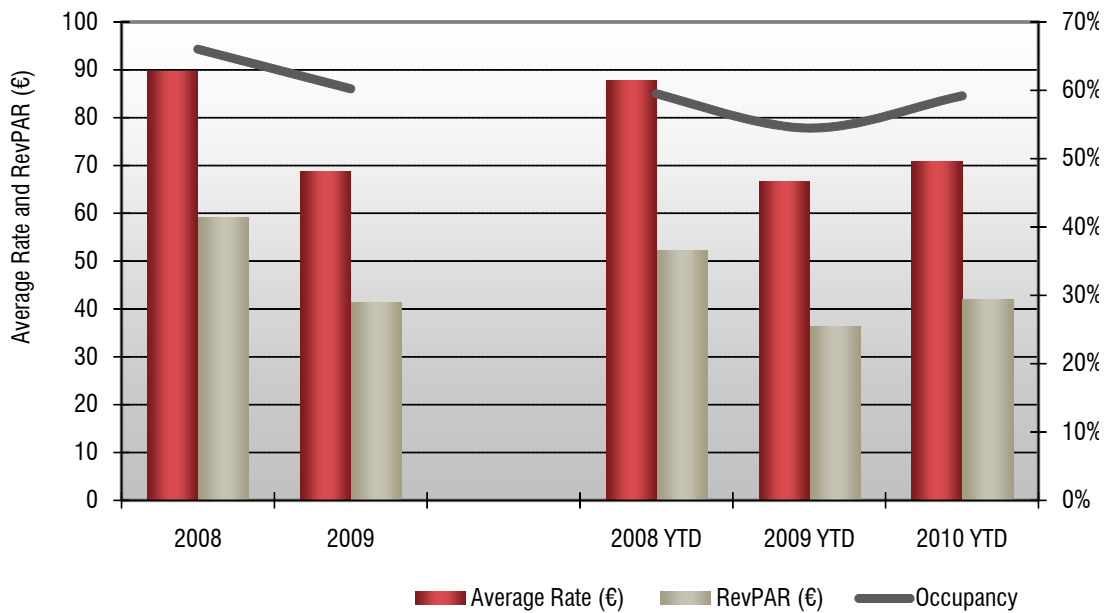


**Chart 1 Hotel Performance in Warsaw 2008-10 (PLN)**



Source: STR Global

**Chart 2 Hotel Performance in Warsaw 2008-10 (€)**



Source: STR Global



In euro terms, average rate declined by 23% in 2009, to €69 from €90 in 2008; RevPAR dropped by 31% in 2009, to €41 from €59 in 2008.

Year-to-March occupancy dropped from 60% in 2008 to 55% in 2009. Hotels, however, began seeing signs of recovery in 2010 with an occupancy increase to 59% for the same period. The drop in occupancy in 2009 is attributed primarily to the economic downturn, as hoteliers faced a significant slowdown in Western European visitation as well as domestic visitation, in addition to the notable decrease in business travel, which saw an 8% decline in foreign business travellers. As the world economy rebounds from the crisis, occupancy in Warsaw is expected to continue increasing.

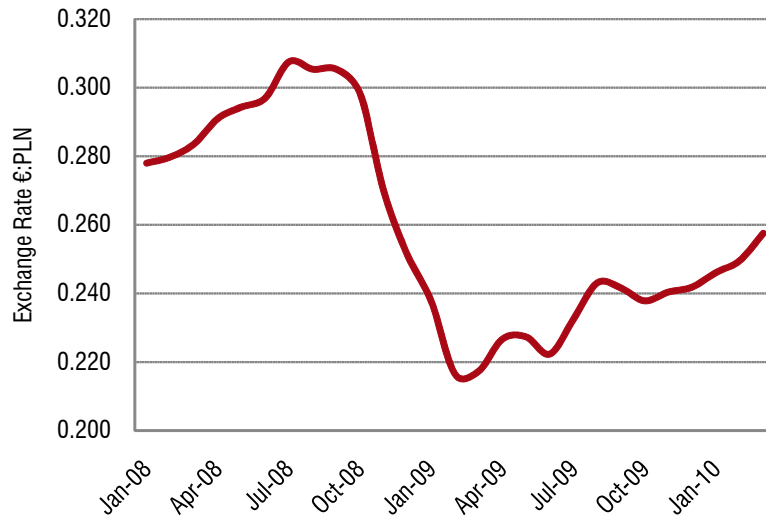
Despite having had a notable decrease in occupancy levels in year-to-March 2009, average rates managed to remain stable showing a slight decrease of just under 1% in zloty terms, from PLN311 in 2008 to PLN309 in 2009. Average rates even increased during some months in the first half of 2009, as hotels tried to maintain their rates at the expense of occupancy. During the second half of the year, however, such average rates could no longer be sustained, which then translated into average rate decreases going through into 2010, leading to year-to-March rates reaching just PLN282, a 9% decrease on the previous year.

The depreciation of the zloty against the euro translated into double-figure declines on average rates throughout 2009, with year-to-March figures reaching €67 approximately 24% lower than 2008. In 2010, however, average rates in euro terms have shown a significant increase (approximately 6%), leading to an increase of 16% in RevPAR. Chart 3 illustrates the fluctuations in the exchange rates for the period in question.

As a result of decreasing occupancy throughout 2009, RevPAR decreased by 9%, in zloty terms, for year-to-March 2009. Meanwhile, in euro terms, as a consequence of the depreciation of the zloty against the euro, RevPAR dropped an alarming 31% for the same period. This year, however, has seen RevPAR remain at similar levels, in zloty terms, to that of 2009 to achieve PLN167, while in euro terms RevPAR reached €42 in 2010 against €36 in 2009.



**Chart 3 Exchange Rate Fluctuations (€:PLN) – January 2008 to March 2010**

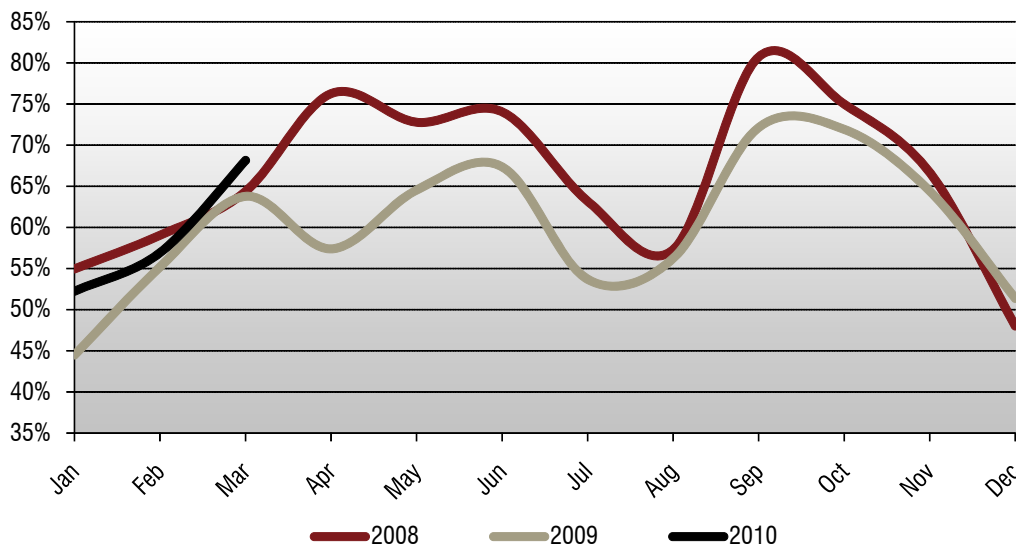


Source: OANDA

**Seasonality – 2008-10**

Warsaw is mainly a business destination with leisure demand remaining relatively weak. Chart 4 shows the seasonality of hotel occupancy in Warsaw for 2008, 2009 and Year-to-March 2010.

**Chart 4 Seasonality – Warsaw Monthly Occupancy 2008, 2009 and Year-To-March 2010**



Source: STR Global

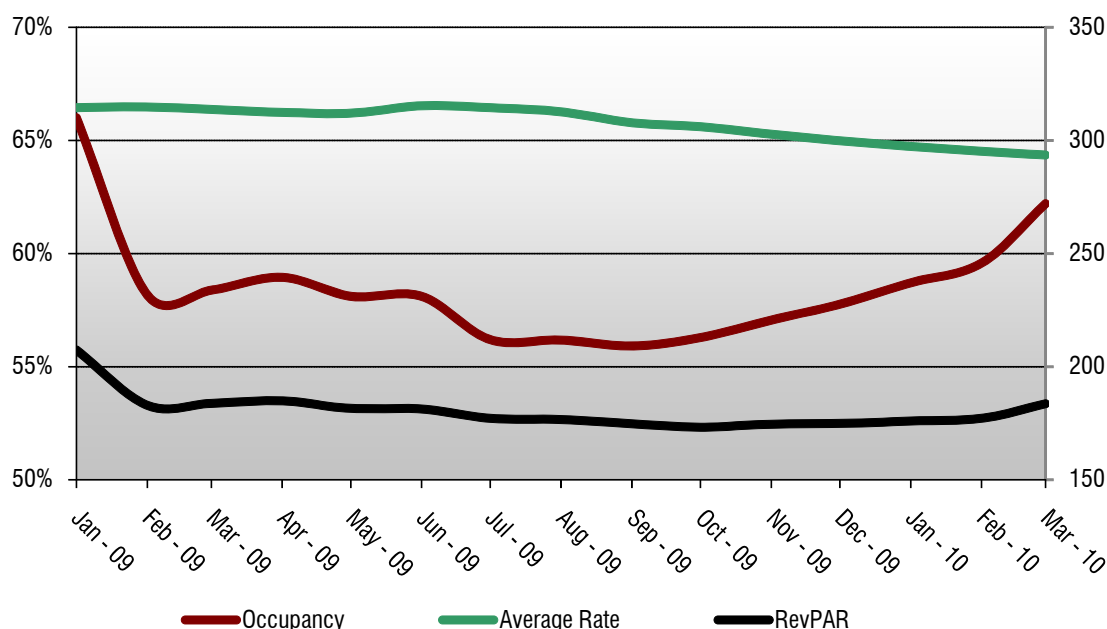
Chart 4 indicates that the high season for tourism arrivals was typically April, May, June, September and October. The trough is typically from



November to March, on account primarily of the year-end holidays, and around the months of July and August, owing to the summer holidays, when business demand is much weaker in the city.

Chart 5 shows the monthly moving annual average of hotel occupancy, average rate and RevPAR (in zloty terms) in Warsaw from January 2009 to March 2010.

**Chart 5 Monthly Moving Annual Average – Occupancy, Average Rate and RevPAR January 2009-March 2010 (PLN)**



Source: STR Global

Chart 5 shows a relatively flat average rate curve for the period under study; RevPAR started showing modest signs of recovery in the first three months of the year, as occupancy levels started to increase and demand began to pick up once again.

## Supply

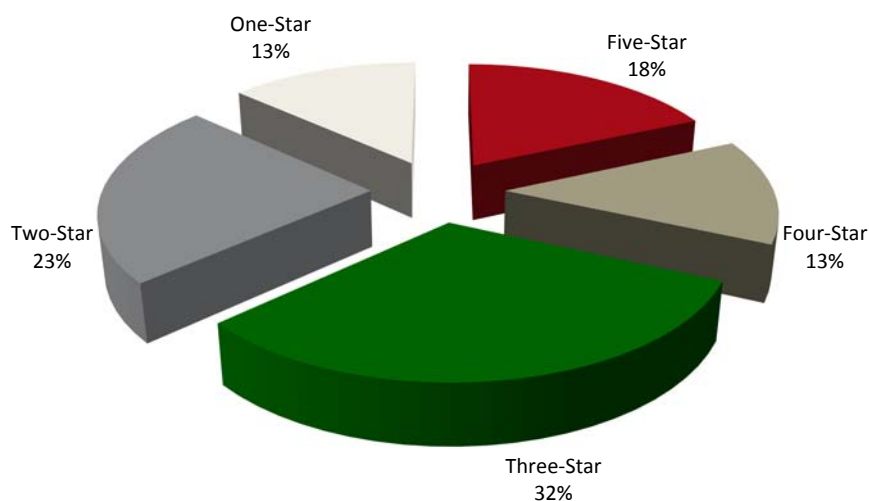
According to the Polish Institute of Tourism, there are nearly 1,800 categorised hotels in Poland accounting for over 88,000 rooms. Warsaw's current hotel stock contains more than 60 categorised hotels and includes a number of internationally branded hotels many of which opened in 2002, 2003 and 2004 in anticipation of the country's accession to the European Union. Hotels in the lower categories are the most predominant in the city, accounting for 70% of its quality supply. Additionally, there are over 100 uncategorised hotels in the city. Chart 6 shows the makeup of the current supply in the city of Warsaw.




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**Chart 6 Hotel Supply in Warsaw (2009)**


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Source: Central Statistical Office

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## New Supply

Warsaw's hotel market has seen a lot of development within its supply over the past ten years. After most of the upscale international brands were established in the city, most of the recent new openings have been in the lower categories, with brands such as Ibis, Mercure and Etap opening in 2009. Since the announcement of Warsaw's co-hosting of Euro 2012 there has been much speculation about hotel developments in the city. Owing to the financial crisis, however, Warsaw has seen a slowdown in new projects and hotels entering the market as funding and financing for these have become more limited, leading to hotel companies reviewing their pipelines and developers cancelling a number of schemes. We have identified only one confirmed hotel project which is now 'on hold': the Hilton Garden Inn Warsaw-Mokotow, which is in the city's Mokotow district.

## Conclusion

Overall, Warsaw experienced a difficult year in 2009 with a drop in revenues, mainly caused by decreases in visitation and slightly lower occupancy levels. Also, average rates began to decrease towards the end of the year. However, in the first three months of 2010, occupancy levels and visitor numbers started showing signs of recovery, thus improving performance levels at hotels. The recession also forced the cancellation of most of the hotels in the pipeline.

The Warsaw tourism market (and the Polish tourism market as a whole) fared quite well, especially when compared to the performances of other markets in the Eastern European region, which suffered more severe declines. The drop in business demand, particularly from international markets, translated into lower occupancies during the busier months of the year while leisure demand remained at lower levels. However, it is evident that demand has started to pick up once again as occupancy levels have



increased over the first few months of the year and visitation numbers are encouraging.

With the economy managing to remain relatively stable during the economic recession and performance showing early signs of recovery in the first three months of the year, investors are being reassured of the investment potential of the city. Additionally, with major events coming to the city, including Euro 2012, further demand will be generated, attracting both domestic and international visitors to the city in the medium and longer term.



## About the Authors



**Cristina Balekjian** is a Market Intelligence Analyst with HVS's London office. Cristina holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey. She worked in a number of operational roles in the hospitality industry before joining HVS in 2007, where she has worked on a number of assignments in Europe, the Middle East and Africa.



**Saurabh Chawla** is an Associate Director with HVS's London office. He joined HVS in 2006 after seven years' operational and managerial experience in the hospitality industry. Saurabh holds an MBA from IMHI (ESSEC Business School – France), a degree in Hotel Management and a Bachelor of Commerce. Since joining HVS, he has conducted numerous valuations, feasibility studies and consulting assignments across Europe, the Middle East and Africa. Saurabh is responsible for HVS's consulting and valuation work in Russia, other CIS countries and the rest of Eastern Europe as well as for our Asset Management and Strategic Advisory Services in Europe.

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## About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980 by Steve Rushmore, the company offers a comprehensive scope of services and specialised industry expertise to help you enhance the economic returns and value of your hospitality assets.

Steve began his career in the 1970s as a consultant in the hospitality division of a prominent New York City real estate firm. Through that experience, he noted the limited body of knowledge available to assess the value of hotels and motels, taking into consideration both the business and real estate components. His first book, *The Valuation of Hotels and Motels*, quickly became the definitive work on the subject and, soon after, HVS was born. The HVS method of providing an economic study and valuation for hotels and motels immediately became, and continues to be, the industry standard.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 300 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

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Investment Banking	Interior Design
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Shared Ownership Services	Hotel Management (US Only)
Golf Services	Eco Services
Executive Search	Food & Beverage Services
Risk Management	Gaming Services

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