



Horwath HTL™

Hotel, Tourism and Leisure Celebrated 100 years in 2015

Special Market Reports

Issue 78 - ZAGREB AND BELGRADE

November 2016

ZAGREB AND BELGRADE, UGLY DUCKLINGS NO MORE?

Positive changes in macroeconomic environment and increased business activity in Croatia and Serbia, pushed Zagreb and Belgrade to become visible and more interesting to tourists and investors. A notable, double-digit annual growth in number of overnights in both Zagreb and Belgrade over the past couple of years, together with constantly improving air accessibility, indicate the cities have potential to become new hot spots in this part of Europe. Existing gaps in specific accommodation types open space for smart investments, that will capitalize on new markets that show interest for both cities and further support their increasing market performance.

Introduction

Despite challenging external environment, with political, institutional and policy uncertainty in advanced economies, economic situation in Western Balkan countries has recovered. Croatia returned to positive growth in 2015, after more than five years of recession. Croatia has seen particularly strong recovery of tourism related investments over last two years coupled with revival of industrial and trade activity followed by decreasing unemployment rate. As a result of structural reforms and consolidation measures, growth is projected to rebound in Serbia in 2016, supported with new investments, leading the way to new employment and increased consumption. In addition, Serbia has made some remarkable improvements in the overall business environment and earned its position among global top 10 performers in this year's edition of the World Bank's Doing Business Report.

Zagreb and Belgrade have been considered for a long time as second tier European cities from tourism perspective. Considerably, there has not been significant nor intensive project development pipeline related to new hotels. However, it seems that long-time status quo has started to change on both markets. Recovery of macroeconomic indicators, together with growing economic activity as well as EU integration effects have slowly started positive processes in both cities.

Zagreb Tourism and Hotel Market Overview

With the population of 800,000, capital of Croatia is the major economic centre of the Republic of Croatia. It generates roughly one third of the national income and is therefore very important for the overall economic strength and development of the country. Zagreb is an important traffic point at an intersection of the traffic networks connecting Western Europe and the Balkans. While rail access is still insufficient due to years of under-investments, road and air accessibility are up to date and continuously improving. Zagreb will see an introduction of new airport terminal in spring 2017 that will have total capacity of 5 million passengers annually (compared to near 2.6 million passengers in 2015).

Despite the strong dominance of the coast in Croatian tourism, Zagreb has been one of the strongest growing destinations over the last five years. With significant overnight growth of over 12% on average annually, Zagreb has reached 1.1 million arrivals and over 1.8 million overnights. In accommodation structure hotels dominate with 44% in total beds, followed by private accommodation with 21% and hostels with 13%. There has been recorded a notable growth of private accommodation capacities over last five years.

Currently Zagreb disposes with 52 hotels with around 4,000 rooms. During last 10 years hotel supply increased for approximately 30%. As far as Zagreb's hotel accommodation structure by category is concerned, the majority of hotels are 4 star (44%) while 3 star and 5 star hotels hold share of 21% and 31% respectively.

Hotels make up more than 70% of all overnights in Zagreb while room occupancy is widely ranging between 40% and 80%, heavily depending on the hotel category and micro location. It is interesting to highlight that the occupancy levels in 2015 compared to 2011 in 5* and 4* properties have increased by 30% and 15% respectively.

While in general hotel ADR's have decreased by roughly 6% in 2015 compared to 2011, some hotel categories have recorded significant increase of rates. Depending on the accommodation category, Zagreb ADR's are lower from 5% to 30% compared to Central European competing destinations.

However, Zagreb has one of the most diversified geo market structures of all destinations in Croatia, with guest from USA, South Korea and Germany being top 3 markets and making up around 25% of all foreign overnights, while top 10 foreign markets make up around 50% of all foreign overnights.

In short to medium term, Zagreb has a project pipeline of between 600 and 900 new hotel rooms, dominantly in 4* and 5* segments, with some of well-known hotel brands entering the market. However, there are still missing some of key touristic infrastructure investments, being predominantly new convention and exhibition centre, which would additionally underpin city's touristic potential and appeal.

In addition to more than 300 events yearly, in 2015 Zagreb won „Best European Christmas Market“ title, announcing even better and surprising Christmas Market season of 2016. One of most recent addition to Zagreb cultural offer was Museum of Broken Relationship, turning to be one of the most innovative global museum ideas recently. As such, earlier in 2016 first franchise was opened in Los Angeles, USA.

Belgrade Tourism and Hotel Market Overview

With 1.8 million inhabitants, Belgrade is the capital city and economically the most developed in Serbia, outperforming the rest of the country in almost all macroeconomic parameters. Belgrade contributed to nearly 40% of the Serbian GDP, with 36% of total employees in Serbia.

Belgrade is the main transport hub of Serbia and the region since all important highways and main roads of Serbia, pass through Belgrade. Nikola Tesla Airport served more than 4,7 million passengers in 2015 and has entered in a stable phase of operations, after a notable growth in 2014 of nearly 31% compared to the previous year. Good results are due to launching of national airline – Air Serbia, which is 49% owned by Etihad Airways. The airline is gaining regional importance, especially after the introduction of regular flights from Belgrade to New York earlier this year.

A pipeline of projects worth more than 4 billion EUR is currently being prepared and implemented in Belgrade,

supporting its leading role in the region. The flagship project, supported by the Government of the Republic of Serbia, is Belgrade Waterfront – urban renewal of the Sava riverfront, with estimated investment of more than 3 billion EUR in the next 20 years.

Tourism in Belgrade today primarily refers to business guests and lower-budget leisure tourists. However, the city has not yet capitalized on its tourism potential, bearing in mind the modest budget for city tourism marketing and rather “old-fashioned” destination management model.

Increasing business activities in Belgrade are bringing more visitors to the city. According to the official statistics data, a total of 808 thousand tourists visited Belgrade in 2015, with 1.7 million overnights. Increase in demand was fuelled by foreign tourists, with achieved 10% of annual growth over the last five years (both arrivals and overnights).

A total of 15,541 beds are officially registered in accommodation facilities in Belgrade, although the number is probably much higher, since there is a significant number of unregistered private accommodations. Hotels have a dominant share of 65% in total beds, while hostels and private accommodation (including apartments) have 24% and 7% share respectively.

There are 90 hotel establishments currently operating in Belgrade. Four-star hotels dominate the market with more than half of share in the total number of hotel rooms (53%), followed by three-star hotels (25%), whereas the five-star hotels account for 9%. Two-star and One-star hotels account for 13% in total room count. Stable and strong growth in hotel demand contributed to opening of new hotels, especially in four-star and lately in three-star segment (in 2014 and 2015). However, new properties are dominantly smaller in size (up to 50 rooms).

Until a couple of years ago Belgrade was one of the few capital cities in Europe with a very limited supply of internationally branded hotels. However, this situation drastically changed when brands such as Crowne Plaza, Radisson Blu, Luxury Collection by Starwood, Falkensteiner, Courtyard by Marriott and Holiday Inn Express entered the market. This caused a “shock” to the city hotel market taking into account the simultaneous increase in the number of hotel rooms. Currently, the number of keys associated with international brands is 34% share in total hotel rooms.

Almost 90% of total overnights were registered in hotels. According to STR data, room occupancy has notably increased in 2016 compared to previous years, ranging from 42% to 60% on average (compared to previous range 27% - 55%). However, ADRs dropped by approximately 20% - 25% (depending on category) in the past five years and are at the level of ADRs in main cities in the surrounding countries (Budapest, Bucharest and Sofia).

Belgrade's traditional geo markets include: Germany, Russian Federation, Bulgaria, Croatia, Slovenia, and Greece. Turkey has become the most important market in 2016, with the strongest growth of 50% of increase annually in the past three years, due to flight connections and no visa requirements. These geo markets account for nearly 1/3 of market share.

In short term, approximately 400 rooms will enter the market in upscale segment, with additional 700 keys in the pipeline. According to the previous announcements, future entrants to the market include Hilton Belgrade, Kempinski, InterContinental and the recently announced deal with Starwood hotel group, within Belgrade Waterfront project. Other international hotel operators are exploring options to enter the market as well.

Belgrade is recognized as a growing MICE destination, achieving a significant progress in the number of international events. Number of international meetings and participants doubled in the past six years – in 2015, 52 international meetings were organized with 11,000 participants. However, resolving the issue of key convention facility - Belgrade Sava Center through energy efficiency improvements and facility modernization would certainly contribute to the stronger growth in this business segment.

Outlook

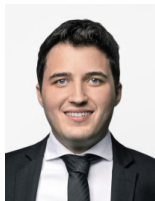
With double-digit growth of overnights over last years, Zagreb is going through its touristic renaissance. New airport terminal building that could double current passenger's traffic together with foreseeable new hotels pipeline additionally highlights the possible bright outlook of the Zagreb hotel market. However, ADR's trend over next years should be carefully observed as there is still a rather significant gap compared to ADR's of comparable Central European competitor cities. Leisure market already

proved to be a significant and growing component in business mix. However, without proper large-sized convention centre, limited air accessibility and somewhat sensitive business sector, business travel still has significant unused leverage potential in the oncoming future.

Belgrade hotel industry performance related to business and MICE market segments will predominantly depend on the expected strong growth of the Serbian economy, as well as on the capacity of the City of Belgrade to attract businesses and investments. Furthermore, it should be noted that Belgrade registers the increasing number of visitors from leisure demand segment, especially individuals. However, the City of Belgrade still hasn't capitalized on the increased interest of tourists and media in Belgrade as a tourist destination. Should the existing destination management model remain, hotel industry will follow improvements in overall business climate, with suboptimal, organic growth. However, with redevelopment of Sava waterfront coupled with expansion plans for Belgrade airport and economic development outlook, Belgrade provide strongholds for optimistic view on the future.

Therefore, it can be concluded that after a long time of being under the radar of both tourists and investor community, it might be the case that these cities come under the spotlight and start capitalizing some of underestimated touristic potentials that both cities dispose with. Since the both cities still have gaps in specific accommodation supply types, well thought-off positioning and proper market strategy turn to be essential for the successful penetration on these particular markets.

WRITTEN BY:

**SINIŠA TOPALOVIĆ****Director**

Horwath HTL Croatia

email: stopalovic@horwathhtl.com

Siniša Topalović has built his international tourism and leisure consulting expertise working on various projects related to tourism development strategies and operational plans related to national, regional, local and city level. He has been involved in more than 90 projects within Horwath HTL global network. Siniša is particularly experienced in working with international teams – coordinating and harmonising them with an ultimate goal of generating maximum synergies. He has been involved in various destination and tourism development projects, tourism value chain analyses, tourism mystery shopping procedures, stakeholder mapping, but also has strong experience in hospitality consulting and hotel/resort planning processes.

Siniša earned his MA degree on University of Zagreb, and is currently doing his PhD studies in the field of tourism. He is continuously preparing and publishing various professional articles, reports and columns relating to tourism and hospitality in domestic and international publications. He is participating in numerous international conferences related to tourism and hospitality. Siniša is managing all contacts, communications and cooperation arrangements between Horwath HTL International network and UN World Tourism Organisation (UNWTO).

HORWATH HTL CROATIA

Green Gold Tower, 14th floor, Grada Vukovara 269A

Zagreb 10 000

Croatia

+385 1 48 77 200

www.horwathhtl.hrwww.horwathhtl.com**BRANISLAV MILETIĆ****Director**

Horwath HTL Serbia

email: bmiletic@horwathhtl.com

Branislav Miletić joined Horwath HTL in 2012. Before that, he worked in the Ministry of Economy and Regional Development and National Tourism Development Corporation as a special adviser to the State Secretary for Tourism for project development and project finance, supporting tourism policy implementation, especially in tourism infrastructure and competitiveness of destinations. In addition, during his post at the Ministry he worked with UNDP, UN World Tourism Organization, UNOPS, GIZ and EU funded programmes defining and implementing various projects. With more than 100 implemented projects at international, regional, national and destination level, he gained significant experience in tourism policy, strategy and planning, destination management, destination marketing and other tourism and hospitality projects.

Branislav graduated at the University of Belgrade, Faculty of Economics with major in International Economics. He was awarded with scholarships by Konrad Adenauer Stiftung and Faculty of Economics during his studies. Branislav worked as a senior strategy and project adviser for WindVision, Belgian based renewable energy developer, EXIT Festival and Brands, Public Broadcasting Network of Vojvodina, Foundation of the Faculty of Economics and was Executive Director of Transparency International Serbia.

HORWATH HTL SERBIA

18-20 Obilicev Venac

110000 Belgrade

Serbia

+381 63 498 659

www.horwathhtl.hrwww.horwathhtl.com



Hotel, Tourism and Leisure

ASIA PACIFIC

AUCKLAND, NEW ZEALAND
auckland@horwathhtl.com

BANGKOK, THAILAND
ischweder@horwathhtl.com

BEIJING, CHINA
beijing@horwathhtl.com

HONG KONG, SAR
hongkong@horwathhtl.com

JAKARTA, INDONESIA
jakarta@horwathhtl.com

KUALA LUMPUR, MALAYSIA
kl@horwathhtl.com

MUMBAI, INDIA
vthacker@horwathhtl.com

SHANGHAI, CHINA
shanghai@horwathhtl.com

SINGAPORE, SINGAPORE
singapore@horwathhtl.com

SYDNEY, AUSTRALIA
rdewit@horwathhtl.com

TOKYO, JAPAN
tokyo@horwathhtl.com

AFRICA

ABIDJAN, IVORY COAST
cspecht@horwathhtl.com

KIGALI, RWANDA
fmustaff@horwathhtl.com

CAPE TOWN, SOUTH AFRICA
capetown@horwathhtl.com

EUROPE

AMSTERDAM, NETHERLANDS
amsterdam@horwathhtl.com

ANDORRA LA VELLA, ANDORRA
vmarti@horwathhtl.com

BARCELONA, SPAIN
vmarti@horwathhtl.com

**BELGRADE, SERBIA
slovreta@horwathhtl.com**

BUDAPEST, HUNGARY
mgomola@horwathhtl.com

DUBLIN, IRELAND
ireland@horwathhtl.com

BERLIN, GERMANY
germany@horwathhtl.com

ISTANBUL, TURKEY
merdogdu@horwathhtl.com

LISBON, PORTUGAL
vmarti@horwathhtl.com

LIMASSOL, CYPRUS
cmichaelides@horwathhtl.com

LONDON, UK
eheiberg@horwathhtl.com

MADRID, SPAIN
vmarti@horwathhtl.com

OSLO, NORWAY
oslo@horwathhtl.com

PARIS, FRANCE
pdoizelet@horwathhtl.com

ROME, ITALY
zbacic@horwathhtl.com

SALZBURG, AUSTRIA
austria@horwathhtl.com

WARSAW, POLAND
dfutoma@horwathhtl.com

**ZAGREB, CROATIA
stopalovic@horwathhtl.com**

ZUG, SWITZERLAND
hwehrle@horwathhtl.com

LATIN AMERICA

BUENOS AIRES, ARGENTINA
cspinelli@horwathhtl.com

DOMINICAN REPUBLIC
speralta@horwathhtl.com

SANTIAGO, CHILE
cspinelli@horwathhtl.com

MIDDLE EAST

DUBAI, UNITED ARAB EMIRATES
kdrubbel@horwathhtl.com

NORTH AMERICA

ATLANTA, USA
pbreslin@horwathhtl.com

DENVER, USA
jmontgomery@horwathhtl.com

MIAMI, USA
acohan@horwathhtl.com

MONTREAL, CANADA
pgaudet@horwathhtl.com

NEW YORK, USA
pbreslin@horwathhtl.com

TORONTO, CANADA
pgaudet@horwathhtl.com