Hilton Garden Inn Kraków Airport

Year-End Report 2014 Hotel Market Poland

January 2015 | Hotel Professionals Sp. z o.o.

Table of Contents

What can be said about the hotel sector's performance in 2014?

We not only noticed very resilient achievements by the hotels in most cities in Poland, we also were able to observe the positive absorption of newly activated hotel products, such as the Hampton by Hilton and Doubletree by Hilton in Warsaw.
Poland's hospitality investors keep us busy with further expansion of new hotel projects in most cities in Poland.
Moving forward to 2015, I believe our industry is strong, existing branded hotel's financial performance has shown affirmative results, the banks are looking for more quality hotel projects to finance and the pipeline for the next five years is strong.
To this, I would like to quote Arnold Palmer, the famous American professional golfer who adeptly said:
„The road to success is always under construction."

Have a Hospitable year!

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Polish Hospitality Sector 2014

The year 2014 turned out to be a relatively good one for hotel operators in Poland. We continued to see growth in the corporate or business room-nights segments in most major cities in the country. These positive trading results were due to the continuous economic growth of Poland, which in 2014, its GDP growth is projected at 3.1%.

The Business Process Outsourcing (BPO) business has grown in medium-sized cities such as Łódź, Kraków, Wrocław, Szczecin, and Poznań. Over 100 new service centre projects are being developed in Poland. The BPO sector will add approximately 25,000 new jobs per year for the rest of this decade.

As in 2013, the positive impact and halo of the EURO 2012 Championships contributed to the positive results attained by hotel operators in 2014. The Warsaw Chopin Airport serviced a historic 13.4 million passengers. We noticed more leisure visitors during the summer months in most tourist cities.

Warsaw's 5-star hotels reported stable results with Average Daily Rates (ADR) registering at the level of ca. €94 – which is lower than figures achieved in 2013 (-1%). The hotel occupancies in this market sector were essentially unchanged from last year at around 79%.

These results actually show the resilience of the hotel sector in the capital of Poland. Warsaw's hotels performed well and were able to absorb two new global branded entrants to the market: the DoubleTree by Hilton Conference Centre (comparable to 5-star products) as well as the Hampton by Hilton, with its 300 hotel rooms in the city centre (in close proximity to other 5-star hotels).

In 2014, Poland experienced a strong economy, just as economists predicted last year. The positive outcomes are to be greatly celebrated, since the undeclared war between Russia and Ukraine interrupted the normal trade of both countries. Economists predict that Poland's 3.1% GDP growth for 2014 will be followed by a 3.3% to 3.5% GDP growth in 2015. Most of the growth will be related to the European Union's budget for Poland for the years 2014–2020. These will be the largest such contributions of any country in the EU. €82.5 billion will be available for Poland's continued integration into the EU.

There were two prominent ownership transactions in the Polish hotel market that took place in 2014. The first of these was the takeover of five hotels from Style Hotels by Hotele Diament.

At the beginning of the new year, Orbis bought 46 hotel properties located in Central Europe from Accor. Orbis also signed a 20 year license to run these hotels under the Accor family of brands.

Hotel Sector Performance in Major Cities in Poland 2013

Warsaw

The hotel sector enjoyed a stable year in the capital. The strong demand for room nights in the business and small conference segments was noticed throughout the year.

There was a lack of major congresses such as the United Nations Climate Change conference in 2013; however, more small to medium meetings, incentives, conferencing and exhibition sector (MICE) events were held in the city in this time.

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The hotel occupancies in this market sector were essentially unchanged from last year at around 79%.

The 4-star hotel's trading year was under pressure, occupancies were reported at the level of 75%, however, ADRs of only €80 were achieved – 6% lower than 2013 figures.

Recent Market Developments and Pipeline

In terms of major hotel deliveries, both the 4-star, 367-room DoubleTree by Hilton in Wawer and the 3-star, 300-room Hampton by Hilton City Center, which was developed by S+B Gruppe, were officially opened in June 2014.

Also in 2014, the Airport Hotel Okęcie was enlarged, increasing its existing 170 hotel rooms so that the hotel now offers 264 rooms.

At the beginning of 2014 the Hyatt Hotels Corporation withdrew from its Warsaw property on Belwederska Street. The hotel is now managed by the ownership under a new name – Regent Warsaw. In the last quarter of the year, the hotel upgraded its official classification and is now operating as a 5-star facility.

In close proximity to the Warsaw Chopin Airport, the Warsaw Plaza Hotel was opened in September 2014, operating as a 4-star facility and offering 146 rooms.

Hotel Europejski continued along its path to revitalisation in 2014. The investor has announced that the hotel will be operated by Raffles Hotels & Resorts, which will make this hotel the first true luxury hotel in the country. The historic building is located in close proximity to Warsaw's old town area and will be made up of 101 guest rooms, boutique retail outlets, and 6,500 m^2 of Class A office space. The estimated delivery date of this new luxury hotel product is sometime in late 2015 and early 2016.

The 250-room Renaissance by Marriott at the Chopin Airport will now be delayed for at least two more years due to the bankruptcy proceedings of the general contractor.

The Westin was sold to Skanska by its shareholder partner, EBRD. The Westin is also undergoing capital improvements; its restaurant, lobby bar, and Executive Club are being refurbished.

The Sheraton in Warsaw was also placed on the market for acquisition. The hotel has not been sold due to a lack of favourable acquisition bids.
Puro, Moxy, Autograph, Park Inn, and Aloft are in the planning stages to enter the capital city.

2015 Forecast

Warsaw should again experience a good trading year in 2015. Hotels may see a minor downturn in Average Daily Rates (ADR) and Revenue per Available Room (RevPAR); however, occupancies should remain unchanged.

Some of this will be related to the forecast economic upturn, but it is also due to the EU Structural and Cohesion funding budgeted through the years 2014–2020 as well as the continuous Foreign Direct Investment (FDI) influx to Poland and the favourable investment climate in the country's private sector.

These factors will have a positive influence on the overall trading of the existing hotels in Warsaw. We envision a further growth of the leisure segment this time; it will be related to the now-open Museum of the History of Polish Jews. This is a one-of-a-kind historical and cultural venue, which will attract thousands of foreign visits.

The MICE segment will experience a similar year in 2015 than it did in 2014. The National Stadium operating company will host over 500 events, mega concerts, exhibits, and internationally branded spectacles.

In terms of major changes to the hotel products, the ex-Hyatt, we believe, will remain as The Regent for some time; owned and operated by the investor without an international flag. This lack of branding will positively affect the ADRs in the remaining 5-star hotels in the city. The Marriott hotel will complete its total-room refurbishment in the first quarter. The Westin will finalise the renovation of its public areas, including the restaurant and lobby bar.

Kraków

The branded hotels as well as the non-flagged products had a good year. The number of leisure stay-overs, as well as the BPO-driven corporate room nights, make Kraków one of the most visited cities in Poland year-round.

Occupancy levels in the 4-star segment was circa 74% at an ADR of around € 73. 5-star hotels fared well with occupancies reported at the level of around 76% with a year-end ADR of €96.

The city enjoys a rich offering of cultural events such as the Jewish Cultural Festival and plenty of low-cost carrier services from the Kraków Airport. The Kraków Airport continues to increase its passenger arrivals, which in 2014 amounted to 3.82 million passengers. There are also plans for an additional expansion of the airport's facilities within the next three years.

The BPO business continues to create corporate room nights for the city. Kraków is quietly becoming the most popular destination for BPO activities. Some global companies such as IBM, Shell, Hitachi, Google, Bayer, Lufthansa, Electrolux, General Electric, Motorola, and Hewlett Packard have established their operations in the city.

Recent Market Developments and Pipeline

The Hilton Garden Inn at the John Paul II International Airport opened in November 2014. The hotel has 155 rooms and conferencing facilities for up to 350 people.

Kraków EXPO opened for business in May of 2014 and the ICE Kraków Congress Centre celebrated its opening in the last quarter of 2014. These MICE venues will further positively impact the hotel's trading capacity in the coming years.

The existing Holiday Inn added 95 rooms to its available room inventory. The expansion includes more conferencing and banquet space as well.

The construction of the dual-branded DoubleTree by Hilton and Hampton by Hilton hotels is progressing, albeit at a slower pace than previously anticipated. The Hampton is scheduled for delivery in the first quarter of 2015 and the DoubleTree in the second. These hotels will have significant congress and conference centres, making them powerful players in the MICE market segment.

Also currently under construction in Kraków is the Best Western Plus Q which will be a 4-star hotel offering 154 rooms and 3 conference rooms for up to 240 people – the delivery date of this hotel is scheduled for April 2015.

There are plans to build another hotel under the Best Western brand near the Balice Airport. The hotel will offer 150 hotel rooms; delivery of the hotel is planned for the first half of 2016.

Other projects announced in Kraków were the 60 room Ibis Styles at Żółkiewskiego Street and the 200 room Mercure, which is planned to be delivered no later than April 2018 across the street from the Galeria Krakowska shopping center.

The unfinished Gromada Hotel is still placed for sale on the market.

2015 Forecast

We believe Kraków will also experience a growth in occupancy as well as RevPAR in 2015. This city is still the number-one destination for national and international leisure visitors in Poland. A cosmopolitan university city with an abundance of venues, theatres, clubs, and historic buildings, Krakow's numerous festivals attract major international stars from the worlds of cinema, music, and drama, drawing audiences from around the globe. This, together with the effervescent BPO service provider's expansion in the city, makes Krakow the "place to be" for hotel investors and operators looking to invest in Poland. The local elections have also been favourable for this city. Jacek Machrowski won his next term. He has been in office since 2002. His aggressive infrastructure development plans will constitute part of this city's GDP growth in 2015.

At the beginning of February 2015, Kraków will host the MPI European Meetings & Events Conference, providing a great opportunity for the city to further promote its newly launched MICE venues.

The year 2016 will be the most important one for the travel and tourism industry. World Youth Day with Pope Francis will bring over 1.5 million pilgrims in July and August. The local city council is working diligently to make this event a global marketing success. Some of the room nights in 2015 will, in fact, be related to the preparations for this mega event.

Tri-City (Gdańsk, Gdynia, Sopot)

Tri-City also had a good year with continuing BPO sector growth.

The BPO business in Tri-City is 12% of all serviced offices in Poland, with 32 centres presently operating. More are scheduled to be opened in 2015.

The summer season in Tri-City was extended due to the longer than usual favourable climate, making this year one of the best in terms of trading in most of the branded hotels.

In the local elections, all existing presidents also remained in these cities, which is a very good sign that the cities will continue with their private sector developments and infrastructural improvements.

Recent Market Developments and Pipeline

The Gdynia Courtyard by Marriott with 201 rooms is being built by the Inter IKEA group. This hotel will be part of the Gdynia Waterfront mixed-use project which will be opened in mid-2015.

The Puro hotel in Gdańsk, which will have 95 rooms, should be opened in the second quarter of 2015.
The Almond hotel development in the former confectionery factory at Toruńska Street in Gdańsk is planned to be delivered in May 2015.

According to press releases, a new hotel with an indoor swimming pool will be delivered in place of the former military barracks on Sadowa Street in Gdańsk. This hotel will offer 164 rooms oat a 4-star standard. No further details about this development are known

2015 Forecast

The PGE Gdańsk Stadium, in conjunction with the newly opened AmberExpo, is the best example of a city readying itself for the lucrative MICE segment, and with proper and efficient promotions and marketing, we are confident Gdańsk will evolve into a year-round destination, with the newly found BPO businesses joining the wave of outsourcing services. Both Gdańsk and Gdynia will benefit from this trend.

Wrocław

Wrocław enjoyed a good year, the branded hotels reached a ca. 67% occupancy with an estimated ADR of €66. The uptick in corporate rooms' contribution was caused by the BPOs coming to the city as new service ventures.

Radisson Blu, Sofitel, Granary, Monopol, and Platinum Palace together managed to deliver around €89 in ADR and a ca. 66% occupancy.

Wrocław will be the European Capital of Culture in 2016 which is not only an incredible achievement for the city, but will also be a monumental opportunity for Wrocław to become a top cultural tourist city in the EU.

The municipal elections were again won by President Rafal Dutkiewicz, who has been in office since 2002. This is also good news for the city, as it provides continuity and forward-thinking plans for business development.

In the last year, access to Wrocław was significantly improved with the opening of the S8 expressway, enabling a fast connection to Warsaw (approximately a 4-hour drive) and the Pendolino fast train (3 h 40 min to Warsaw).

Recent Market Developments and Pipeline

The newest hotel development in Wrocław is the Ibis Styles Wrocław Centrum hotel, delivered in 2014. This hotel is located in the immediate proximity of the main railway station and offers 133 rooms.

As far as the pipeline of hotels is concerned, the construction of the 191-room DoubleTree by Hilton finally resumed after experiencing financing issues. The DoubleTree is due for completion in the first quarter of 2016.

Hilton Garden Inn Kraków Airport – hotel room

West Real Estate S.A. is planning to deliver a Hampton by Hilton in Wrocław on the corner of Sikorskiego Street and Rybacka Street. The building's completion is scheduled for the turn of 2015/2016.

2015 Forecast

We believe that Wrocław will have a hotel trading year similar to 2014. No major changes are expected to take place.

Poznań

Poznań also had a relatively better year compared to 2013. Hotel improvements were mostly associated with the BPO development in this city and the corporate rooms derived from this activity.

The Sheraton, IBB Andersia, City Park hotel, Ibis and Campanile hotels are the city's best performers. The city in all categories managed to do ca. 57% in occupancy and achieved an ADR of around €64. The best performing hotel had a ca. 68% occupancy, at an ADR of €89 (estimate). The runner up was a 5-star hotel with a ca. 57% occupancy and RevPAR of around €55.

The local election showed that the city needed a change, and we believe the new city council, as well as the new President, will do what is right for the hotel and tourism sector. As we mentioned last year, the challenge for Poznań is in sustaining its competitive advantage as a MICE market venue.

Recent Market Developments and Pipeline

The 136 room PURO Hotel is now open.

In 2014, the former Polonez Hotel, located close to the city centre in Poznań, was transformed into students' accommodation. It can accommodate up to 560 people.

TriGranit together with PKP have been planning to develop a hotel at the former site of the PKP train station for some time now – the details of this potential hotel investment are still unknown.

2015 Forecast

There will be more corporate room nights in 2015 due to the BPO's further growth and the newly announced Volkswagen factory located in Poznań (in Września), which will create over 3,000 new jobs. This investment will generate a considerable number of room nights in Poznań in the coming 30 months, just as LG did in Wrocław in 2007 and 2008.

As mentioned last year, Centrum Kongresowe Poznań-Targi will be the key to this city's hotel occupancies. The MICE-driven business should be fomented and the city should invest in a major pan-European marketing blitz to pursue the MICE bookers for their facilities. Now that Poznań has a new government, we believe this will become a priority.

Szczecin

The city performed well versus 2014. Occupancies finished at ca. 71%, with an overall ADR of ca. €57. The ADR's in this city will start to grow in the coming months.

The occupancies for 2015 will show an improvement, with the RevPARs also being positively impacted. This will be mostly due to the NATO (North Atlantic Treaty Organization) Rapid Response's newly implemented mandate. Three thousand NATO soldiers will be stationed in the city for year-round trainings and simulations.

As in 2014, we will see increased activity in the BPO start-ups. A record amount of new office space was taken up last year.

The fact that no new hotel inventory has been added since the closing of the Orbis Neptun in 2011 has caused a very positive performance boost for hotels still operating in the city.

Recent Market Developments and Pipeline

There are a few hotel investments that are planned to take place in the near future in Szczecin. The first to mention is a hotel located in the former Dana textile factory, which will provide 102 rooms and is planned for completion in 2015.

Another hotel is located in the immediate vicinity of the planned Hanza Tower. Both of these projects are owned by J. W. Construction.

International hotel brands, such as Hilton Worldwide and InterContinental Hotels Group are planning to enter the Szczecin hotel market. A Hilton brand is rumoured to be placed in the Posejdon building in a 250-room hotel development. At the turn of 2016/2017, the BCG Szczecin company plans to deliver a 120-130 room Holiday Inn Express. Another international chain that is planning to expand further into Szczecin's hotel market is Accor with its Mercure brand, which will be located in place of the demolished Arkona hotel.

2015 Forecast

There are over 65,000 square metres of newly commercialised offices in this city, with more to be placed on the market this year. Most of the take-up will be related to the BPO/ Information Technology Outsourcing, Shared Service Centre, and Research & Development sectors. Existing service centres for companies like UniCredit, Tieto, UNIZETO, and Arvato will continue their expansions.

President Piotr Krzystek, who has been in the cabinet since 2006, was re-elected. We believe the continuation of his development ideas and plans will be a positive move for the city.

Łódź

In 2014, one of the best-performing hotels has continued to be the Andel's Hotel within the Manufaktura shopping mall. The leader in market penetration and RevPAR was also the Andel's.

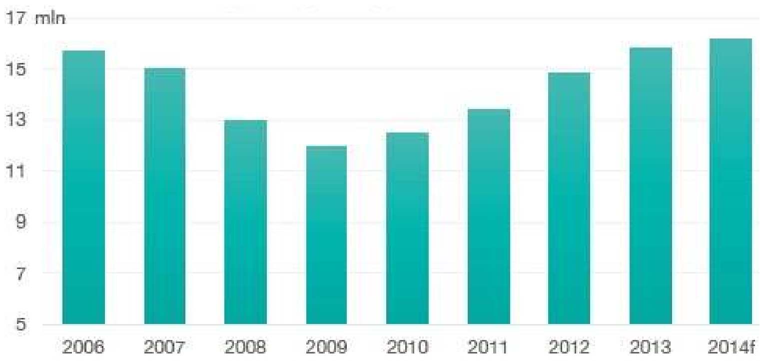
The DoubleTree by Hilton, which opened in March of 2013, is the second runner-up; it is on the way to make a significant mark in the MICE sector due to its extensive conferencing and auditorium capacities.

The city did circa 60% in occupancy across all branded hotels, and an average rate of around €62 (ADR).

We believe that the future for this city is bright. The re-elected president, Ms. Hanna Zdanowska, has done a great job with infrastructure improvements in the past couple of years. She will, no doubt, continue with some of her plans for Łódź, one of which is for it to become a Smart City by 2020. Due to the opening and further development of the A1 motorway, which links the north and south parts of Poland, as well as expressway S8, which runs directly to Wrocław, Łódź has a chance to enlarge its position in terms of its status as a logistics centre.

Among the foreign investors interested in Łódź is Airbus, which is planning to open its construction office in the city.

FOREIGN TOURIST ARRIVALS TO POLAND



Source: Ministry of Sports & Tourism

Within the Łódź Special Economic Zone, in the first half of 2014, there were 36 permits issued, which are intended to create 2,378 jobs in the zone.

If it is not too late, the City Council and President of Łódź should make a concentrated effort to move forward with the planned Culture, Film, and Arts Centre, designed by David Lynch and Frank Gehry, in the EC 1 section next to the Fabryczna railway station, which is now being built.

Recent Market Developments and Pipeline

At the beginning of 2014, the demolition of the 3-star Centrum Hotel started.

PTAK Outlet SA's newly opened 35,000 square metre Exhibit Centre (Centrum Targowe) near Łódź (in Rzgów) will add more capabilities to the city for MICE related events.

There is also a ca. 150 room Hampton by Hilton hotel in the plans. This will be the second Hilton-branded hotel in this city.

2015 Forecast

The newly established Łódź Convention Bureau and the additional marketing and promotion funds will help the city move hotel occupancies forward.

There are no additional hotel projects in the pipeline, which is a good situation as the newly opened hotels in the past two years need to be fully absorbed and economically integrated.

Katowice

Katowice city wide occupancy was ca. 53% with an ADR of around €57, the market leader is the Angelo hotel which performed above the city average achieved results. The Upper Silesia Region is developing fast in terms of the BPO sector. According to a report prepared by Pricewaterhouse-Coopers, HAYS Poland, and JKK in 2013, there were 12,000 BPO employees in the region and in 2014 alone, 3,000 additional positions were added to this sector.

Currently, the International Congress Centre in Katowice is under construction. This will be a multifunctional project, combining congress, conference, and exhibition space.


Hilton Garden Inn Kraków Airport – restaurant

The total gross leasable area (GLA) of the centre will amount to ca. 35,000 m^2.
This, combined with favourable socio – economic indicators, should make Katowice one of the fastest developing cities in the country.

Recent Market Developments and Pipeline

There are a few hotel developments planned for Katowice, three of which will be running under international chains, namely: Best Western, B&B Hotels, and Hilton Worldwide. None of these, however, were under construction as of the writing of this report.

The most prominent hotel development currently taking place in the Upper Silesia Region is the Holiday Inn in Dąbrowa Górnicza (with a completion date of Q1 2016).

Other Polish cities

International hotel chains are not only interested in big metro cities in Poland. Now more than ever international hotel chains are issuing licenses in smaller cities. Examples of these types of investments are: Best Western in Brzeg (planned opening April 2015), Ibis Grudziądz (planned opening in Q4 2015). In 2014 the Carlson Rezidor Hotel Group announced two new hotels in Poland, the The Radisson Blu Resort in Świnoujście (340 rooms) and the Radisson Blu Hotel & Residences in Zakopane (158 rooms & 68 apartments).

In 2014, the SPA hotels and resorts market continued its development. The SPA hotel market is dominated by small unbranded hotels; however, Dr. Irena Eris hotels are the most recognisable in the Polish market and constitute a benchmark for other SPA hotels in Poland. A new Dr. Irena Eris Hotel SPA was opened in December 2014 in Polanica Zdrój.

Forecast, guidance and trends

The year 2015 will be one with new trading vigour in Poland. Branded hotels will continue outperforming individual non-branded products. The global brands can afford to spend their marketing budgets on OTA (Online Travel Agencies) platforms as well as various social media such as Facebook, TripAdvisor, Pinterest, and LinkedIn.

The OTAs have proliferated the booking hotel rooms' arena in Poland over the past couple of years. Online bookings in Poland account for 43% of all room nights.

When we talked to the OTAs this past year, we saw the growth of room nights going through our channels. Booking.com, HRS, and TripAdvisor as well as some local booking brands – as an example, NetMedia – and let's not forget flash sales methods via Groupon, all agree that Poland is the fastest-growing booking country in the EU.

When we take into account Poland's strong economy, trade, exports, Foreign Direct Investment, strong banks, geopolitical influence, and the EU funds contributing to the building and construction sector, we foresee all these factors positively influencing our industry.

Another bright aspect to next year, is that it will be considerably cheaper to construct hotels in Poland due to the building and construction industry contraction since mid-2012. In addition to this, banks are seeking to finance new hotel products in key markets. Money is cheap, and financing institutions are looking for quality projects to be a part of.

The United States of America's improving economy is also considered a good indication for the rest of the world. We believe this and the European Central Bank's drastic Quantitative Easing approach – to avoid deflation and to kick-start growth in the EU – will all reap positive results for Poland.

Russia–Ukraine's undeclared war will come to an uneasy end, and slowly Polish-Russian trading will start to repair itself. Russia can no longer believe that it can do well with all the sanctions, and with the ruble at a 50% discount, the oil price at 50 USD per barrel, and the country's inflation and recession, Russia will be forced to reverse its latest misguided foreign plans.

Although Poland will face both presidential and parliamentary elections, we do not foresee any substantial changes to the ruling parties. Platforma Obywatelska and Polskie Stronnictwo Ludowe should remain together.

SELECTED HOTEL OPENINGS IN 2014		
Hotel name	City	No. of rooms
DoubleTree by Hilton	Warsaw	367
Hampton by Hilton	Warsaw	300
Puro	Poznań	136
Hilton Garden Inn	Kraków	155
Dr Irena Eris	Polanica Zdrój	85

Some concerns, of course, will remain with regard to the EU and Eurozone economic issues, and with the possible departure of Greece (Grexit) from the European Club; hence, there are some uncertainties about the impact of the 269 billion Euros Bond default as a result.

We believe that austerity versus growth will be an uncomfortable push-and-pull matter for the following countries in the EU: Italy, France, and Spain, thus testing the German balanced-budget paradigm.

The lower cost of oil will help the travel market, with both air and motor travel expenses being significantly lower for the consumers. This will become the new norm, not having been seen since 2005.

Now more than ever, we support our last three years' recommendations for optimistic horizons for globally branded 1-, 2-, and 3-star economy as well as budget and mid-scale products in most regions, towns, and cities in Poland.

We believe that the following economy brands will continue their expansion in Poland: B&B, Best Western, Hampton by Hilton, and Ibis Styles, and that they will do so alongside the following new entries to the market: Moxy, Aloft, Clarion, Quality and Comfort.

In closing, history clearly shows that our industry grows successfully when there are efficient modes of transportation available, such as road, rail, and air networks; Poland has built, modernised, renovated, and continued developing this infrastructure in all its cities. The newly appropriated EU funds will accelerate this process in 2015. The € 82.5 billion 2014–2020 funds from the EU will convert Poland into the country with the best infrastructure in the CEE region.

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