DoubleTree & Hampton by Hilton Kraków

Year-End Report 2015
Hotel Market Poland

February 2016 | Hotel Professionals Sp. z o.o.

Table of Contents

Building On Growth

2015 saw world travel growing by 4.0%, as over 1.2 Billion people traveled throughout the world. The China tourism export is now closing in on 100 million increasing on average at a rate of ca. 12% per year.
Europe continues to be an attractive destination for Chinese leisure visitors, however, their MICE segments are also growing throughout the European Union.
Poland is also experiencing growth in domestic travel, with over 2 million people per month visiting other cities in Poland on business and leisure. These travelers, spend on average, 0.78 days during their domestic journeys, which means that a considerable portion of these tourists require a place to sleep away from home. This trend has grown steadily in the past 7 years. Back in 2009 for example, the number of journeys amounted to ca. 500,000 trips per month.
The strong BPO business has been an influencer in domestic travel growth. During the leisure months, Polish families and individuals are choosing to stay closer to home within the country due to unrest in the traditional tourism destinations of Egypt and Turkey.
Poland's hospitality sector has a very bright future ahead.

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Polish Hospitality Sector 2015

The Polish hospitality sector experienced another record breaking year. According to our sources, out of Poland's major cities, only Wroclaw and Poznań struggled to surpass last year's hotel performance indicators. We are seeing a growth in appetite in Poland's hotel market from major real estate developers. Large hotel real estate transactions are becoming more frequent and investors who typically shied away from hotel investments are starting to take notice of increasing yields in our sector. We estimate that a total of 3,500 new hotel rooms were built throughout Poland in 2015, which accounts for just over 3% of the total hotel room supply.

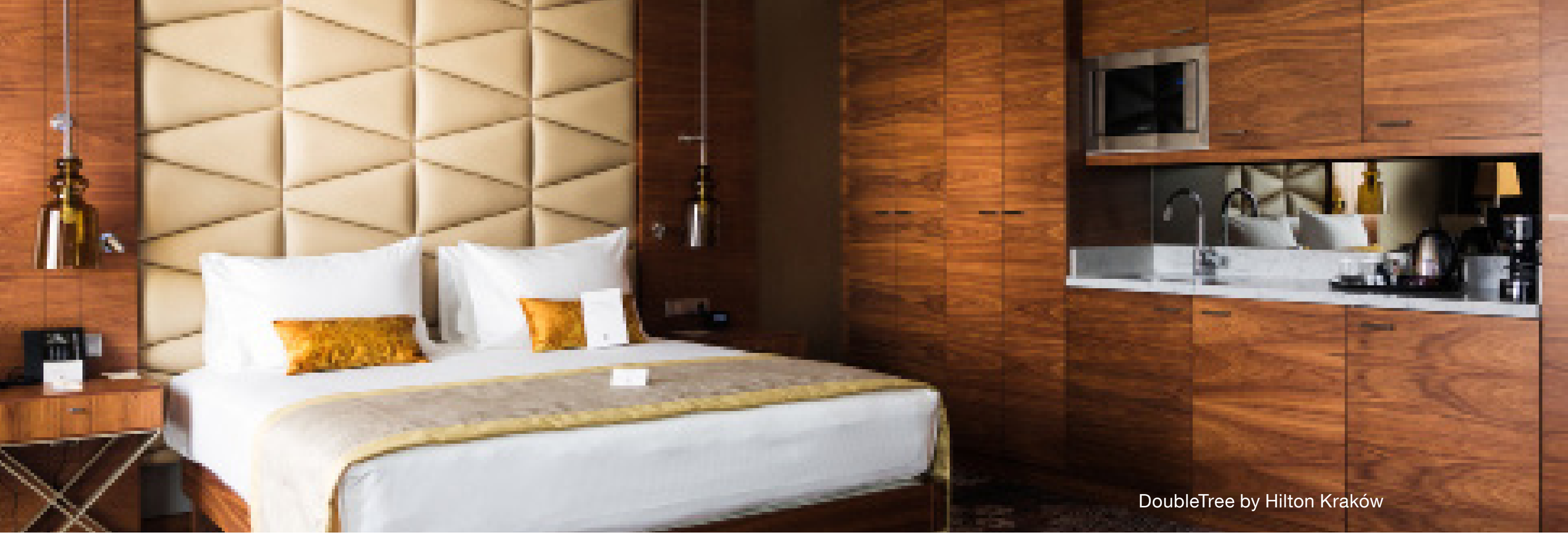
We continue to see growth in the corporate or business room night segments in most major cities in the country due to the BPO and Service Centers growth in our country.

The BPO business growth was primarily noted in Łódź, Kraków, Wrocław, Szczecin and Poznań. Over 100 new Service Center projects are being developed in Poland. The BPO sector is now 150,000 jobs strong. Over the next five years, it is estimated that the number will grow to 200,000 in employment.

The Warsaw Chopin Airport serviced a record breaking 11.2 million passengers, an increase of almost 6% from the previous year. As in 2014, we noticed more leisure visitors in the summer months in most tourism-based cities. The favorable weather, the unrest in some typical vacation spots such as Egypt and Turkey, kept Polish summer travelers in Poland. 11.6 million Polish nationals vacationed in Poland in 2015 which is the second year in a row that growth has been seen.

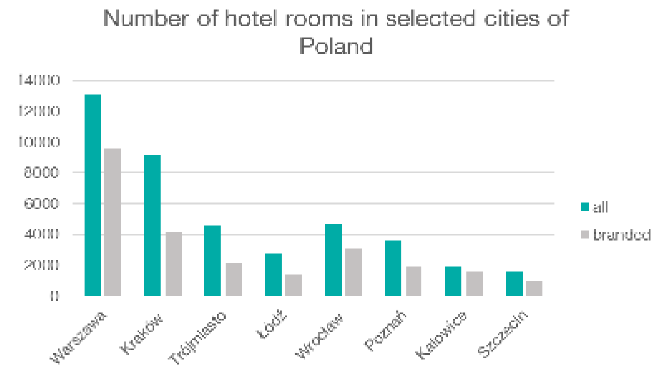
Poland in 2015 experienced strong economic growth at ca. 3.2% GDP, in line with what economists predicted last year. The Exports and Manufacturing sectors kept up the momentum. Economists predict that the country's GDP will continue to grow at a rate between 3.5 and 3.7% in 2016, where most of the growth will be related to EU 2014-2020 contributions for Poland. These will be the largest such contributions of any country in the EU, as a total of €77.6 billion will be available for Poland's continuation of its EU integration. The PMI for Poland is over 52.2% which is a clear indication that the Manufacturing, Industrial and Export sectors will grow effectively in 2016.

We forecast that Poland's hotel market will grow in line with its economic development. We are experiencing, first-hand, the growing interest in the hotel real estate market from the major real estate investors active in Poland.



DoubleTree by Hilton Kraków

Hotel Sector Performance in Major Cities in Poland 2015



Warsaw

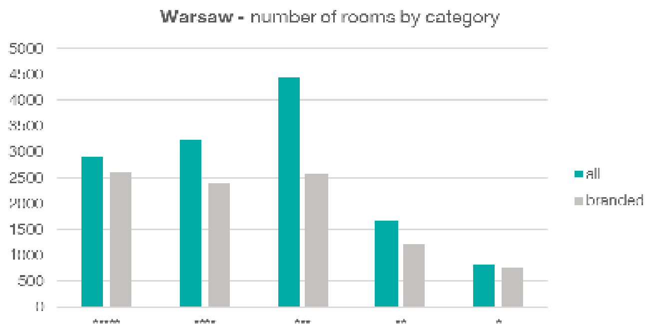
As in 2014, the hotel sector in the capital enjoyed another record breaking year in 2015. The strong demand for room-nights in the business and small conference segments were noticed throughout the year.

There was a lack of major congresses, however more small to medium MICE events were held in the city.

Warsaw's 5 star hotels reported healthy results, with ADRs registering at a level of ca. €98 which is just over 4% higher than in 2014. The hotel occupancies in this market sector were essentially even to last year, reported at 79.8% with hotel RevPAR levels growing by ca. 5%.

The 4 star hotels' trading year showed growth as well: occupancies were reported at the level of 84.5% and ADRs of €76.5 were achieved.

The 3 star hotels showed occupancies reported at 77.5% and ADRs of €49.50 throughout 2015.



Recent Market Developments and Pipeline

The investor of the Hotel Europejski has announced that the hotel will be operated by Raffles Hotels & Resorts (now Accor) 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 square meters of class A office space. The estimated delivery date of this new luxury hotel product is Q3 of 2017.

The 250-room Renaissance by Marriott at the Chopin Airport is being completed and will open in September 2016.

The Sheraton Warszawa was sold to a joint venture consisting of Algonquin, Benson & Elliot and Walton Street Capital in October of 2015 for an estimated €60 million. The Westin was placed on sale again, but is not yet sold. Both Starwood hotels are now under the Marriott International Chain.

The first Moxy and Residence by Marriott dual branded hotel in Poland was announced for Warsaw's Mokotów district. PHN is the developer and will be the operator for these hotels. The dual-branded hotels will have a total of 300 rooms, and will be opened in Q1 of 2018.

UBM has announced that it will be developing a Holiday Inn in the city center of Warsaw, the hotel will have 254 rooms and is scheduled to open in Q4 of 2017.

Motel One, Four Points and B&B were also announced for the future.

2016 Forecast

Poland has a new government, with the PiS Party holding a majority of seats in the Sejm. This is the first time this has happened since Poland became a democracy. In our opinion, this will have a very positive effect on the hotel sector. The government will attempt to process many changes, and many projects that were previously not possible will be revived. All these activities and changes in all the Ministries and Administrative Departments will positively impact new room sales in hotels as a result of foreign government visits, as well as national room-nights for the different parties coming to the capital.

Warsaw should again experience a good trading year in 2016. Hotels will be very busy with the NATO Summit to be held July 8-9th. The taking on of 65 countries' delegates and pre-summit set-up crews will deliver over 10,000 room bookings to the hotels in the capital.

Warsaw's leisure and cultural segment should continue to grow in line with its economic development. The Museum of the History of Polish Jews attracted a record breaking 350,000 visitors in 2015 and the Uprising Museum also had a record number of visitors: 600,000 national and foreign visits were registered. The operating company of the National Stadium hosted over 500 events, mega concerts, exhibits and international spectacles.

Due to the fact that no new supply will enter Warsaw's hotel market, the existing hotel should experience a jump in hotel performance.

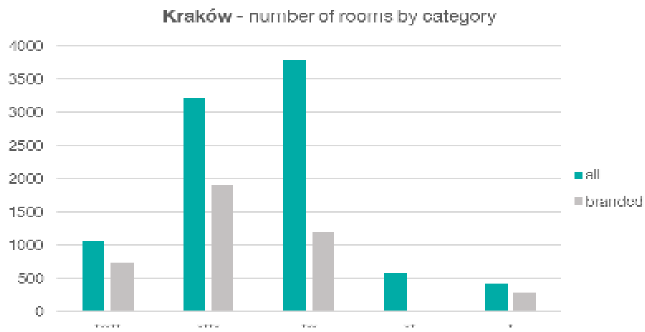
Kraków

The branded hotels as well as the non-flagged products had a good year. The number of leisure stayovers as well as BPO-driven corporate room-nights are making Kraków one of the most visited cities in Poland year round. According to the latest figures published by the Małopolska Tourist Organization, the number of tourists visiting Kraków in 2015 hit a record level of 10,050,000, 150,000 more than in 2014. Occupancy levels in the 3 star segment were ca. 82% at an ADR of €73.5.

4 and 5 star hotels fared well, with occupancies reported at the level of ca. 88.0% with a year-end ADR of €86. The city enjoys a rich offering of cultural events, such as the Jewish Cultural Festival and the commemorative World Youth Day which will take place in Kraków in 2016. The numerous amount of Low Cost Carrier services to and from other prevalent European Cities positively impact the attractiveness of the city. The number of passengers served through the Kraków Airport continues to grow and in 2015 reached more than 4.2 million (11% higher than 2014). There are also plans for an expansion of the airport facilities in the next three years which includes the development of offices, logistics areas and retail elements.

As we mentioned last year, the BPO business continues to generate a significant amount of corporate room-nights for the city. Kraków is on the right path to becoming one the most popular destinations for BPO activities in the country.

Over 160,000 square meters of new office space is currently under construction. Most of these projects will come to the market at the end of 2016 and the beginning of 2017.



Recent Market Developments and Pipeline

The DoubleTree and Hampton by Hilton, built as part of a confress and conference center was opened as scheduled in 2015. As we forecast last year, the opening of the Kraków Congress Centre, Kraków EXPO and Tauron Arena positively impacted hotel trading in 2015 and should do so for the foreseeable future. These venues combined have scheduled over 400 events for the new year. These hotels should directly impact demand for hotel rooms in the city, boosting hotel performance levels in the near-term.

One of the newest hotels to open in Kraków is the 4-star, Best Western Plus Q hotel facility with 154 rooms and 3 conference rooms for up to 240 people was opened in 2015.

Other projects announced in Kraków were the 60 room Ibis Styles at Żółkiewskiego Street and a Mercure with 200 rooms which is planned to be delivered at the end of 2016.

Other Hotels currently under construction are the 53 room Indigo boutique hotel on 18 Filipa Street (first Indigo in Poland - part of InterContinental Hotels Group) which is due for opening in the third quarter of 2016, a ca. 60 room unbranded hotel on Bożego Ciala Street, the ca. 130 room IndexMedica hotel in the Kazimierz district, as well as the 219

room Gromada hotel. We have obtained information that the Gromada hotel may be acquired by a new investor - the hotel could potentially open by the end of 2016.

2016 Forecast

As we did last year, we believe Kraków will experience a growth in occupancy as well as RevPar in 2016. This city is still the number one destination for national and international leisure visitors in Poland. With its unique blend of historic buildings, universities, state of the art MICE venues, restaurants and bars, together with its numerous events and conferences, Kraków is one of the most attractive cities in Poland to visit. This, together with the rapidly developing BPO sector, makes Kraków the place to be for hotel investors and for operators looking to invest in Poland.

2016 will be the most important year ever for the travel and tourism industry. The 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. We expect this event to sell out the city for 12 days (including organization phase), and increase ADRs during this time.

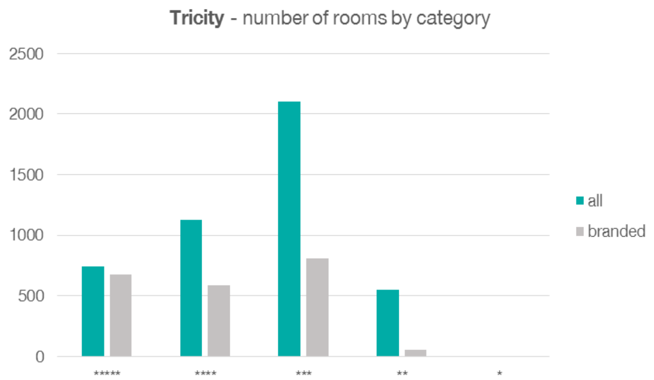
Tri-City (Gdańsk, Gdynia, Sopot)

Tricity had a record breaking year. The continuing BPO development, the NATO training activities in the region, and an unusually long summer season, made 2015 an excellent year for the hoteliers in this region.

Gdańsk's occupancy reached 77% in all categories of hotels. The ADR in the 5 star hotels ended at an estimated €89, and the 4 star hotels ended at an occupancy of 79% on an ADR of €78. The BPO sector produces corporate room-nights and now the NATO Rapid Response Force Fast Reaction scheme in the region, will also contribute to the good performance of the hotels.

Gdynia had an unusually strong year as well. The hotels there finished with a reported 67% in occupancy and an ADR of €76. This includes the Courtyard by Marriott which opened in May with a large NATO regional meeting in the hotel.

Sopot repeated its good performance in 2015. The hotels reported 68% in occupancy and an estimated Average Daily Rate of €114 for the 5 star hotels.



Recent Market Developments and Pipeline

The 201 room Gdynia Courtyard by Marriott opened its doors in Q2 of 2015 and the refurbishment of the historical Mercure Gdynia Centrum (previously named Orbis Gdynia) should help Gdynia strengthen its tourism market and make the city more marketable. According to our market intelligence, we have already noted a boost in hotel performance in Gdynia.

Puro hotels have continued their expansion with the opening of their property in Gdańsk in Q1 2015. The Puro Gdańsk has 93 rooms and is the chain's fourth hotel in the country. The Gdańsk property will undergo its second stage of development in Q2 of 2016 which will supplement the property with an additional 100 rooms.

There are four significant branded hotel projects in Tricity currently in the pipeline: The 122 room Focus hotel in Gdańsk which is scheduled to open in 2016, the 120 room Ibis Gdańsk Stare Miasto which is due for opening in Q4 of 2016, the 156 room Hampton by Hilton hotel in Gdańsk which should open in 2017 as well as the 88 room IBB Blue in Gdańsk which should also open its doors in 2017.

DoubleTree by Hilton Kraków

Significant non-branded hotels in the plans include: the Almond hotel in Gdańsk with 110 rooms which is due for completion in 2016, the 164 room Sadova hotel in Gdańsk due to open in Q3 of 2016 and the 374 room Dobry Hotel in Gdańsk's Wyspa Spichrzów which should open in Q1 of 2018. Grupa Inwestycyjna Hossa also announced a hotel project in Sopot in the last quarter of 2015, all we know for now is that the investment will include ca. 230 rooms and take place on Bitwy pod Plowcami Street in the direct vicinity of the Mera&Spa Hotel.

2016 Forecast

The City of Gdańsk together with the Ministry of Treasury will continue with the re-development of the Gdańsk Port with their 2027 strategy. This revitalization project will add over 3,000 jobs, and have a significant economic impact to the city.

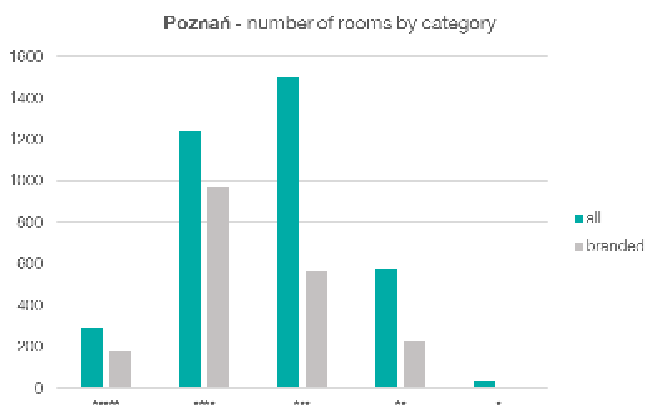
The PGE Gdańsk Stadium, in conjunction with the newly opened AmberExpo, are the best examples of a city readying itself for the MICE segment with proper and efficient promotional marketing.

100,000 new square meters of office space are being built in the Tricity region which should further propel the development of the hotel market in these cities.

Poznań

Poznań also had a relatively better year compared to 2014. The overall occupancy in the city grew by ca. 2 percentage points to 58.5%. The improvements were mostly associated with the BPO development in this city and the corporate rooms derived from these activities. The market ADR was €64 for all segments.

The Sheraton, IBB Andersia, City Park Hotel, Ibis and Campanile hotels were again the city's best performers. The best performing hotel had around 70% occupancy, at an ADR of €87. The runner up was a 5-star hotel with 61% occupancy, at an ADR of €82.



Recent Market Developments and Pipeline

A DeSilva hotel with 60 rooms will be opened in 2016, as well as a new Ibis Styles with 100 rooms. 51,000 square meters of office space is being built in the city. These new spaces are mostly to service the strong demand in the BPO/SSC sector. Poznań continues its dominance in the industrial sector in Poland, with an existing 1.4 million square meters of industrial space and an additional 80,000 square meters presently being built.

2016 Forecast

With the new local government in place, we see the city moving forward with some of the previously planned Public Private Projects (PPP). These as well as the growth of the BPOs and manufacturing will spike the business room-night segment.

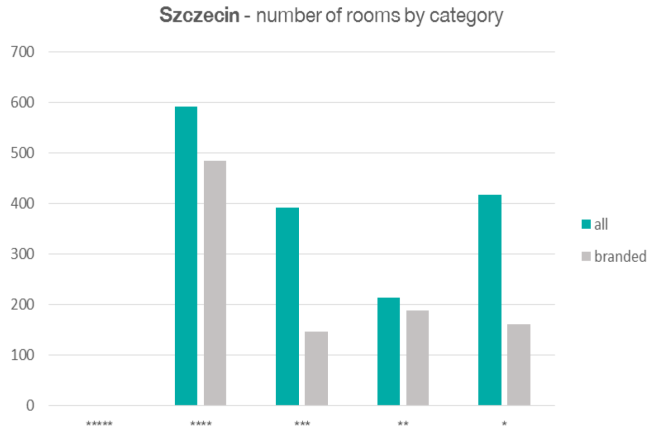
There will be more corporate room-nights in 2016. The Volkswagen factory will fill over 3,000 new positions and is scheduled to open in Q3 of this year. This investment will generate a considerable amount of room-nights in Poznań in the coming months, as LG did in Wrocław in 2007 and 2008.

Szczecin

The city performed well compared to 2014. Occupancies finished at 78.5%, with an overall ADR of €56. The ADRs in this city will start to grow in the coming months due to demand factors.

The highest occupancy of any branded hotel in the city finished at 84.3%. The city continues to see healthy results in the hotel sector.

As in 2015, we will see increased activity in BPO startups. A record amount of new office space was taken up last year. The fact that two significant hotels were closed – the Neptun and Arkona – and low levels of new significant inventory, caused a very positive performance boost for hotels operating in the city.



Recent Market Developments and Pipeline

J.W. Construction's 102 room Dana Hotel was opened in 2015. The hotel is located within the mixed-use Hanza Tower development which is currently under construction.

A 102 room Hilton Garden Inn is scheduled to open at the end of 2016. Orbis S.A announced the construction of a 150 ibis Styles hotel which will take the place of the former Arkona hotel and should open its doors sometime in 2017.

2016 Forecast

The occupancies for 2016 will show considerable improvement. This will be mostly due to the new NATO Rapid Response mandate. 3,700 NATO soldiers will be stationed in the city, for year-round training and simulations. The city also solidified the 2017-2020 Port Szczecin revitalization efforts as over 150 million Euros will be invested in the modernization and new adaptations for the port.

The existing stock of office space amounts to 110,000 square meters, with an additional 20,000 square meters currently being built.

Łódź

Again in 2015 the best performing hotel continues to be the Andel's Hotel within the Manufaktura shopping mall leading in market penetration and RevPAR.

The DoubleTree by Hilton which opened in 2013 still trails behind the Andel's, but it is very well positioned in the MICE sector due to its extended conferencing and auditorium capacitates.

The city did ca. 64% in occupancy across all branded hotels, and achieved a rate of €58.

Recent Market Developments and Pipeline

The recently announced Hampton by Hilton will offer 149 hotel rooms and is now under construction and is scheduled to open at the end of 2017. This will be the second Hilton branded hotel in this city.

The 149 room B&B hotel is also under construction.

In terms of non-branded products, the most significant is the second Ambasador hotel which is currently under construction. The hotel which will be located on the corner of Kilińskiego and Orła Streets will have 200 rooms in the 4-star category and is due for completion by the end of 2016.

2016 Forecast

The Fabryczna Lódź main train station will be completed in Q4 of 2016. The Mixed-use EC 1 project under the PPP format is slowly advancing, with the hope of making this location the new Lódź city centre. This revitalization project is budgeted at 200 million Euros, and will entail over 60 hectares of prime land-plots in the heart of the city.

The BPO sector is also booming in Lódź. Over 4,000 jobs were created in the past four years, and 17 companies are participating in the growth, including UPS, McCormick, Veolia, SAP and PGE. In 2016 TomTom will also begin its operations with 250 new jobs, and companies like Oberthur, Barry Callebaut (SSC) and Airbus Helicopters have announced their intention to set up business here.

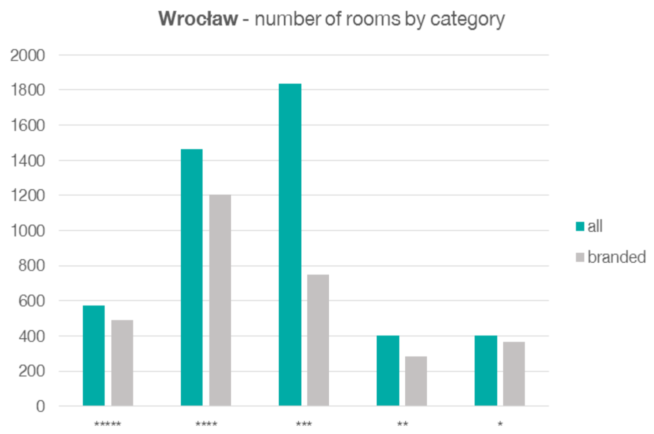
With these and other companies coming into play, we see the corporate and MICE room-nights accelerating and demand for midweek rooms will be notable. Łódź is the second largest city in Poland in terms of population. Due to the significant improvement of tits transportation infrastructure, Łódź is slowly becoming somewhat of a suburb of Warsaw.

Wrocław

Wrocław also experienced a strong 2015. The branded hotels reached 67% occupancy with a €69 ADR across all categories. 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 managed to deliver ca. €89 in ADR and 76% in occupancy.

In 2016, Wrocław will be celebrated as the European Capital of Culture. This is not only an incredible achievement for the city, but also a monumental opportunity for Wrocław to become a “must visit” cultural city within the EU. We expect the city to enjoy record leisure business, especially in the summer months. Important city-wide festivals, promotions and events are planned for this year.

As of 2015, access to Wrocław was significantly improved due to the opening of the S8 expressway, which enables fast connection with Warsaw (approximately 4 hours’ drive) and the Pendolino fast train (3h 40m to Warsaw).



Recent Market Developments and Pipeline

The 191-room DoubleTree by Hilton finally resumed construction after experiencing financing issues. The DoubleTree is due for completion by May 2016.

The Orbis is being converted into a dual branded 112 room Ibis and 192 room Novotel. According to press releases the modernization project should be completed in the first quarter of 2016.

West Real Estate S.A. is planning to deliver a Hampton by Hilton in Wrocław, on the corner of Sikorskiego and Rybacka streets. The completion of the investment is scheduled for Q4 of 2016.
A 100-room AC by Marriott was also announced. This will be a revitalization project, due to open at the end of 2016 or early 2017.

2016 Forecast

We believe Wrocław will have a record trading year for the hotel sector. Wrocław is presently also experiencing an office boom with over 170,000 square meters of offices currently under construction.

In the BPO sector, Wrocław is the most active city in which new companies such as Luxoft, Qiagen, Becton Dickinson, Company IBM, Sii and PERFORM have opened their centers during the last two years. We expect this growth to continue in 2016.

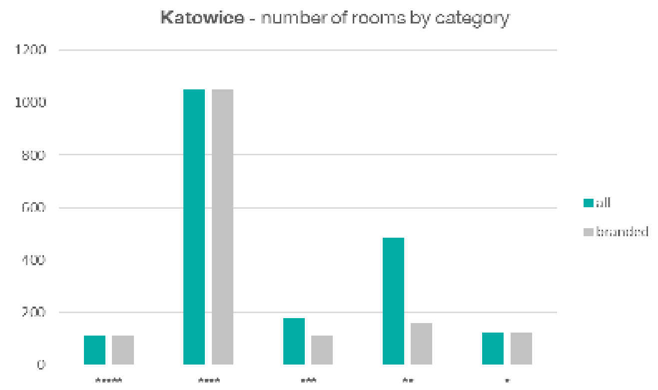
The sectors of automotive, chemicals, mechanical engineering, IT and food processing are also flourishing in the city.

Katowice

Katowice’s city-wide occupancy YoY increased by over 11.5 p.p. to 64.5% with an ADR of €54. The market leaders are the Angelo and Monopol hotels which performed above the city average.

The International Congress Center in Katowice was opened in March 2015. This is a multifunctional project that combines congress, conference and fair trade functions. The total GLA of the center will amount to ca. 35,000 square meters. We believe that this venue will have a dramatic effect on the MICE aspect of our business in the coming years. Katowice is well-placed to become a conference city in Poland.

Katowice also has a strong BPO market. Over 70,000 square meters of new offices are being built to accommodate the high demand in this sector. 16% of all BPOs in Poland reside in Katowice. Over 470 of these businesses are now active in Poland. Katowice benefits from around 80 of these centers.



Recent Market Developments and Pipeline

There are a few hotel developments planned for Katowice. Two global branded hotels are currently under construction; the 105 room B&B hotel and the 46 room Best Western hotel. A Hampton by Hilton is also in the planning stages.

Chopin Airport Development (previously named Port-Hotel) announced the development of a 106 room Moxy hote within the Katowice Airport. This hotel should begin operating in the beginning of 2018.

Another prominent hotel development in the Upper Silesia Region currently taking place is the Holiday Inn in Dąbrowa Górnicza (15 km from Katowice) which due for completion in Q2 of 2016.

2016 Forecast, guidance and trends

Last year's elections yielded a surprising result with The Law and Justice party winning 235 seats out of the possible 460-seat lower house of Poland's parliament. The outcome has been totally one-sided, and for the first time in Polish democratic history one party has the majority in the Sejm. We cannot predict how this will impact the Polish demeanor, especially since the country has turned to the Right.

There will be many changes in the ministries and state-owned companies in the months to come. This paradigm shift makes it increasingly difficult to foresee the development of the hotel industry in the country.

We do not anticipate any harm to the economy of Poland, and the IMF-predicted 3.5% GDP will most likely be achieved. The most probable scenario is that the new government will initiate new projects and new investments, creating with these more demand for mid-week corporate room-nights for the hotels. It will be a good time to work on ADRs, which could use a bump especially in Warsaw.

2016 will be a year with new trading vigor in Poland. The branded hotels will continue outperforming their individual non-branded products. The global brands can afford to spend marketing money on online travel agent (OTA) platforms as well as various social media initiatives through the main platforms such as Facebook, TripAdvisor, Pinterest and LinkedIn.

OTAs have proliferated into Poland's hotel booking arena in the past couple of years. Online bookings in Poland account for 45% of all room-nights sold.

When we talked to the OTAs this past year, we saw the growth of room-nights going through their channels. Booking.com, HRS and TripAdvisor, as well as some local booking brands such as NetMedia, remain popular. We do not believe that the Rate Parity defeat will have any significant negative impact on OTA performance.

The most dramatic change this year and for years to come was the Marriott-Starwood merger, which will have a global impact on the way the OTAs behave. Having over 30 brands and over 1 million rooms in their network will definitely cause some disruption to the other international chains.

We can observe a defensive move towards this by Accor as it assumes the management rights to Fairmont, Raffles and SwissHotels.

Taking into account Poland's strong economy, trade, exports, FDI, healthy banking sector, its geopolitical influence, EU Structural and Cohesion funding for the years 2014-2020 of €76 billion, we foresee positive changes to our industry in 2016.

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 the financing institutions are looking for quality projects to be a part of.

The lower cost of oil will help the travel market. Travel expenses for consumers will lower significantly for both air and motor. The oil barrel price of 34 USD will probably not be here for long, considering the unrest between Iran and Saudi Arabia, but certainly will not move higher than 50 USD due to weak global demand and the slowing Chinese economy.

As we stated last year, there are still some concerns of course: the EU and Eurozone economic slow growth; UK/EU negotiations regarding the possible BREXIT; the refugee phenomenon; the continuing terrorism threats in Europe; the Russian geopolitical afflictions and the Polish veering towards the Hungarian model of governing. We think that global equities will have a complicated year due to the uncertainty in China. In fact, since this report was written in January, the US stock market had its worst first week of the year in history.

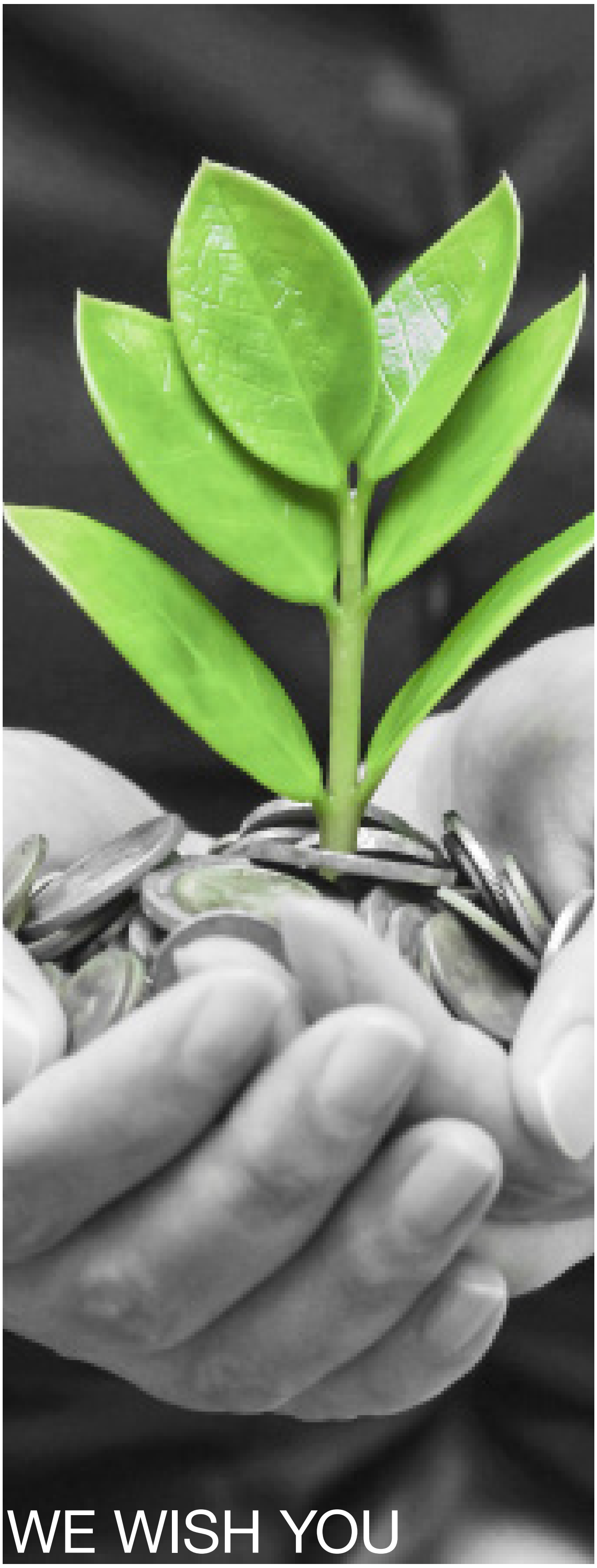
Closing Statement

Even though we are going through relatively uncertain times, we are confident about the continuation of Poland's economic success. Poland is becoming more and more appreciated in the world, and the greatest global brands are making decisions to invest in Poland's largest cities. The BPO and outsourced platforms will grow, and more companies such as Dell, Microsoft, Credit Suisse, Shell and Electrolux will continue on expanding their businesses here.

We expect optimistic horizons for globally branded 1, 2, 3 star, Economy, Budget and Midscale products in most regions, towns and cities in Poland. It is in these market sectors where we especially note increasing interest from hotel developers and operators.

We consider the following Economy brands to continue their Poland expansion: B&B, Best Western, Hampton by Hilton, Ibis Styles as well as new market entrants such as Moxy, Clarion, Quality, Comfort and Motel One.

We also predict that Meliá Hotels International, Steigenberger Hotels and Resorts and Wyndham Hotels & Resorts will find ways to place their flags in Poland.



WE WISH YOU A HOSPITABLE YEAR!

Hotel Professionals

Advisory + Management Services