

**CURRENT TRENDS  
IN TOURISM WITH  
AN EMPHASIS  
ON HOSPITALITY**

# CURRENT TRENDS IN TOURISM WITH AN EMPHASIS ON HOSPITALITY

The tourism market experienced a record-breaking growth in 2017, which is mainly driven by domestic demand.

Income is increasing in the whole sector, but costs are also increasing considerably.

Companies in this sector report a critical shortage of staff.

The competitiveness of tourism in the Czech Republic is stagnating.

Tourism, including the hotel industry, continued to grow significantly in 2017, which corresponded to the economic development in the Czech Republic and the world. The number of guests in accommodation facilities has exceeded 20 million for the first time, and there were more than 53 million overnight stays. Since 2012 when the economic crisis in the Czech Republic reached its peak, the number of guests has increased by more than 30%, and the number of overnight stays has increased by 23% in the same period. Even though these numbers are great, the trend of shorter holidays is confirmed. The length of stay has shortened by almost half a day in the last five years.

The growing economy and increasing domestic demand are mostly reflected in the growth of the number of domestic visitors. There were 5% more domestic visitors than foreign visitors. Some of the reasons behind the growth in demand of domestic visitors for holidays in the Czech Republic include fear of an unstable security situation abroad, better offers and quality of provided services.

The data from the analysis of regional visitors show that the biggest growth in the number of overnight stays was recorded in the Southern Moravia Region, followed by Ústí nad Labem Region and Prague.

When we have a look at the growth in the number of overnight stays of foreign visitors, it is surprising that the biggest growth was recorded by Ústí nad Labem and Pardubice Region, followed by the Southern Moravia Region.

It is also interesting to have a look at the change in the structure of source foreign markets. There have been quite significant changes. The number of visitors from Germany, Poland, the USA or the Great Britain has only increased insignificantly. The most significant growth was recorded for the Slovak market, and there are record-breaking numbers for Chinese and South Korean markets. The number of visitors from these two countries has almost tripled in the last five years.

The growth of Chinese and South Korean markets is driven by their strong domestic demand. The key point for the growth of these markets was commencing the new air routes from Beijing, Shanghai, Chengdu and Xi'an. The CzechTourism agency appropriately adjusted its marketing activities according to the increasing demand.

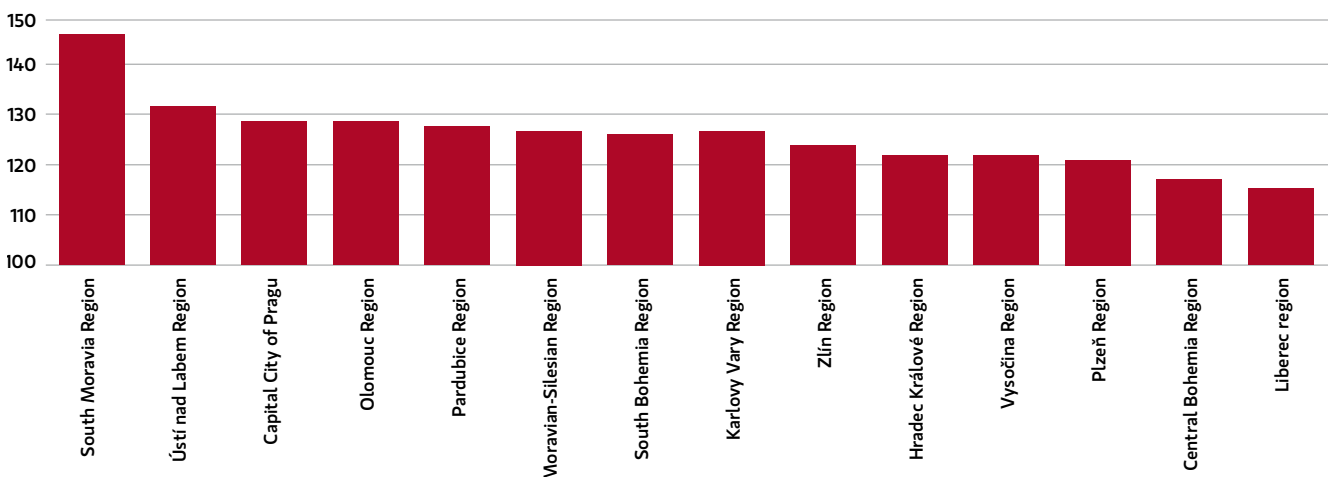
Contrary to traditional source markets, tourism from these destinations is organized, and it also contributes to the reduction in the average length of stay. Tour operators mainly put Prague, Český Krumlov and only a few other Czech and Moravian destinations on the list of visited places. Therefore, visitors usually have only a couple of hours for the Czech Republic. They cannot fit more into their schedule for travelling across central Europe.

The platforms of shared accommodation are increasingly contributing to the total performance of the accommodation market, especially in Prague. According to the information of a dominant player, Airbnb, there were more than 900 thousand visitors accommodated in the Czech



**GRAPH 1 The percentage change of the number of overnight stays of residents in accommodation facilities in 2012/2017 in regions**

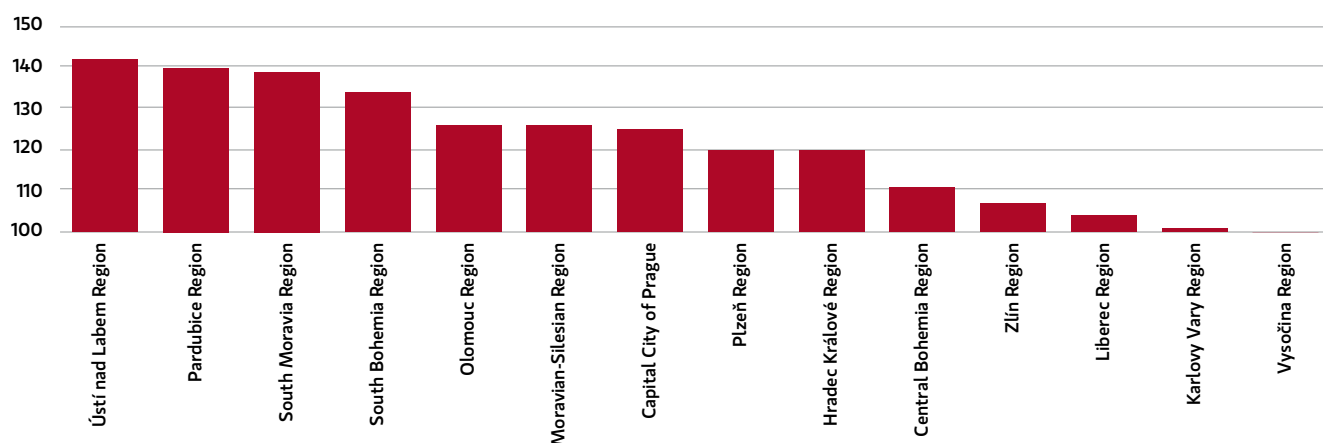
Source: KPMG on the basis of the data acquired by the Czech Statistical Office





**GRAPH 2 The percentage change of the number of overnight stays of non-residents in accommodation facilities in 2012/2017 in regions**

Source: KPMG on the basis of the data acquired by the Czech Statistical Office



Republic through platforms, which means a year-on-year increase by 64%. A property is occupied for 38 nights a year on average.

A total of 10,400 hosts offer accommodation, and they earned 1.7 billion crowns. In Prague alone, more than 800 thousand guests used this type of accommodation. This is more than 10% of the total number of visitors there. A broad offer of shared accommodation in Prague attracted new customers that do not belong to the target group of traditional accommodation.

However, the need for regulations of the shared accommodation market, or at least the consistent application of the same rules for these and traditional accommodation providers, are often discussed. Cities such as Berlin, Paris, London, Barcelona or Amsterdam already regulate the market, or they are preparing the regulations for shared accommodation. Mass tourism pushes everyday life out of city centres and other locations crowded with tourists.

The regulations are therefore not primarily aimed against the platforms of shared economy, the aim is to reduce tourism mainly with regard to place and time. Restrictive measures are not only targeted at shared accommodation, strict rules are also applied for the construction of new hotels or for the reconstruction of existing hotels. The individual platforms very often actively cooperate with city administration on suitable measures, because they are interested in the long-term sustainability of their businesses. It is therefore important that a similar discussion among traditional hoteliers, the platforms of

the "new economy" and the representatives of the administration is started, particularly in Prague.

### THE INCOMES OF SERVICE PROVIDERS ARE FINALLY INCREASING AFTER SEVERAL TOUGH YEARS

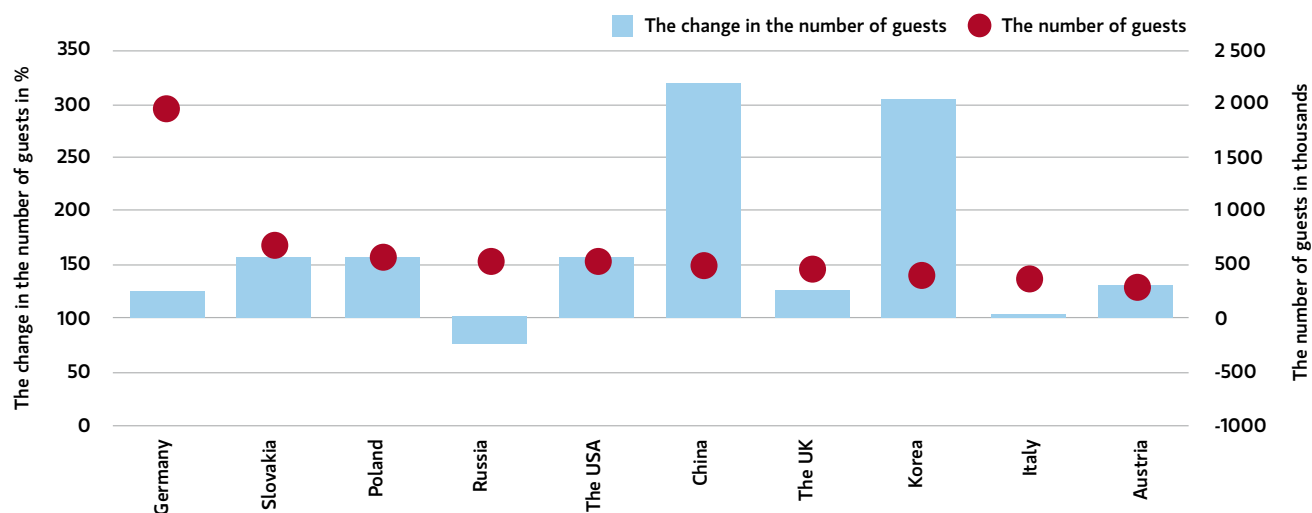
Proof that hoteliers are currently doing good is the increasing occupancy rate of accommodation facilities. On average, the utilization of beds in the Czech Republic reached 50% in 2017, and in Prague it was even close to 70%. With regard to the seasonality of tourism, accommodation facilities fully use their capacities in some periods. This is reflected in a gradual increase in accommodation prices, which were on a very low level compared to similar destinations due to the crisis in the Czech Republic and especially in Prague.

According to the information of STR Global, the average price for a room in Prague increased by 12% to 2,200 CZK only between 2016 and 2017, but the price is still about a quarter lower than in other large European cities. Prague is therefore still a cheap European destination.

There is still some space for price increase. The prices in Prague should get closer to the European average in the mid-term. After years of investment downturn in the field of building new accommodation capacities, new investment opportunities are starting to occur. Hotels are therefore becoming a desired investment commodity.

**GRAPH 3 The change of the structure of TOP 10 source markets in the Czech Republic 2012/2017**

Source: KPMG on the basis of the data acquired by the Czech Statistical Office



However, the situation is different than it was before the crisis. Investments must be well planned, and it is not true that any investment in accommodation guarantees future profits. It is appropriate to consider the location, focus on customers and the overall concept of the accommodation facility very well. An interesting investment opportunity is in the Czech regions, mainly in the developing mountain resorts or some regional cities (Brno, Ostrava, Plzeň, Olomouc, etc.).

#### COMPANIES IN TOURISM REPORT A CRITICAL SHORTAGE OF STAFF

However, the price increase will be accompanied by a strong pressure on the costs of service providers and gradual appreciation of the exchange rate of the Czech crown. The darker side of economic prosperity lies in the shortage of staff and the related increase in labour costs. The labour costs are currently mostly increasing in sectors with long-term low incomes. Since 2012, the average wage in the Czech economy has increased by more than 20% to almost 29 thousand CZK; in the field of accommodation and the hospitality industry, there was an increase by more than 30%. Wages in 2017 were still below the average at 18,000 CZK in this field, but the dynamics of their growth significantly influence the management of business entities.

The introduction of the Registration of sales that partially reduced shadow economy, which is estimated to be at about 20% in this field, has also partially influenced the increase in average wages. However, the introduction of the Registration of sales is not reflected in the lower number of economic entities. The growth of the Czech economy contributed to the fact that the number of economic entities in the sector of accommodation, meals and hospitality has increased by 6% in the five past years. Therefore, there is a change in the structure of accommodation and meal facilities in favour of those with better quality.

The change in the structure of meal facilities was supported by the full smoking ban in 2017. Traditional facilities are on a decline primarily in smaller settlements, and more modern facilities emerge in locations with higher demand.

The shortage of staff is not only reported by hoteliers, but also by other service providers practically from the whole Czech Republic. The situation is almost hopeless in services, which are dependent on seasonal workers in mountain tourism or summer tourism near lakes, dams or ponds. During the next period, it can be expected that the sector will have to cope with another significant increase in wage costs that should very quickly exceed the limit of 20,000 CZK. This will primarily mean further an influx of cheaper manpower from abroad<sup>1</sup>.

Qualified manpower will be increasingly important. Hoteliers and other service providers will be forced to higher productivity and efficiency of selected processes by the increase of costs. Another development of digital economy and smart technologies will allow the reduction of the need of human resources in routine activities. Hoteliers can then allocate such resources to customer service where the need of quality staff is irreplaceable.

In the long-term with the development of industry 4.0, it is possible to assume that tourism as a sector providing services will gradually absorb the redundant human resources from the primary and secondary sectors, but it will be necessary for the sector to be able to offer attractive products with a higher added value.

The appreciation of the Czech crown will negatively affect the current trend. This will mean price reductions and more affordable foreign holidays for residents, but for foreign visitors it will mean higher costs when travelling to the Czech Republic. The strengthening of the Czech crown will therefore slow down the rapidly growing tourism market.

#### THE LONG-TERM COMPETITIVENESS OF TOURISM IN THE CZECH REPUBLIC IS STAGNATING.

The Czech Republic is situated in a highly competitive environment. It is a neighbouring or very close state to some states that are among world class with their tourism offers and business environment. Both in Europe and the Czech Republic, there has been a shift in the preferences of current and future consumers. The mismatch between products and services that are offered on the market and the needs and expectations of consumers is getting more obvious. This can result in the growing dissatisfaction of consumers with products and destinations they visit.

European tourist destinations as well as national and regional governments treat tourism in an increasingly sophisticated way. This is reflected in the commercially advantageous connections of entities in tourism from private entities to local self-governments, destination management organizations to national governments.

To evaluate the position of the Czech Republic, the Global Competitiveness Index of tourism by the World Economic Forum (WEF) can be used. This Index evaluates the individual tourism destinations (individual countries) according to various criteria, sets out the order of these criteria, and on the basis of the results it puts countries on some place among countries from the whole world. The results of this Index suggest that the Czech Republic was in 39th place in 2017. It is 8 places below its position from 2011, while the Czech Republic has different scores for different criteria.

Some of the worst aspects are the level of the business environment and the approach of the public sector to tourism. If the Czech Republic wants to be compared to the most developed European countries with regard to tourism in the long-term, it has to take a more active approach in supporting it and adopt appropriate systemic measures.

After many years of unsuccessful efforts to adjust the conditions for the development of tourism following the examples of Switzerland, Austria or Slovakia in a special act, it was chosen to apply the voluntarism principle in the form of the new Categorization of destination management organizations. In 2018 it is expected to finally be approved, and the first destination management organizations should be certified. These should get financial resources from the public sector to support their activities.

The new rules are therefore a promise to form a stable environment for the application of destination management principles, i.e. the conditions for cooperation between the public and private sector. This is a necessary precondition for investors to be willing to invest in tourism in the long term.

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<sup>1</sup> The possibilities of employing foreigners are described in chapter "Legal aspects of employing foreigners in construction" on page 111.

# PHENOMENON OF THE COLLABORATIVE ECONOMY AND OF THE GDPR IN THE REAL ESTATE SECTOR

In terms of legislation, last year was significantly important in the area of real estate law, mainly due to the completion of a long-awaited amendment to the Building Act that could partially simplify real estate practice. In addition to legislative changes in traditional areas, it is also necessary to point out two relatively new phenomena that also affect the real estate world.

The first area is legal regulation of the collaborative (sharing) economy in the real estate sector. Although for the time being the collaborative economy in the Czech Republic is a relatively new concept, it has recently been widely discussed. What can one imagine under the term collaborative economy? In general, it is an economic model based on sharing, exchanging or lending goods or services.<sup>1</sup> This concept is mainly based on online platforms offering short- or long-term property accommodation/rentals or car-sharing services. This way of sharing or exchanging goods or services is most often ensured through electronic platforms where supply meets demand.<sup>2</sup>

## LEGAL REGULATION OF ACCOMMODATION SERVICES PROVIDED ON ONLINE PLATFORM MODEL

Currently, the most popular manifestation of the collaborative economy in the real estate sector is the use of online platforms offering or intermediating accommodation services (often referred to as short-term rentals). Their popularity is on the rise not only in the Czech Republic and Europe, but also globally. This results in the need to regulate the collaborative economy in the real estate sector not only in the Czech Republic but also in the European Union. At the EU level, the collaborative economy is currently regulated through so-called soft law<sup>3</sup>, which means that this regulation is not yet legally enforceable but serves rather as a recommendation. However, given the increasing popularity of this phenomenon and the user-friendliness of online platforms, we can expect that the European Union will prefer more binding regulation over mere recommendations for the future.

In order to regulate the collaborative economy in the real estate sector, it is necessary to clarify where the collaborative economy ends

and the real estate business begins. The functioning of platforms consists of three elements, specifically: (a) the real estate owner (the provider) provides its property for short-term accommodation through the platform, (b) the user uses the underlying accommodation service through the platform, and (c) the platform acts as an intermediary linking the owners' offers to the users' demands.<sup>4</sup> The regulation of the activities of private individuals carried on through the collaborative economy should be addressed carefully. Private individuals offering their services via online platforms only on an occasional basis and on a peer-to-peer basis should not be considered as professional providers of such services or entrepreneurs.<sup>5</sup> Conversely, those real estate owners using online collaborative platforms but carrying on their economic activities through such platforms not on an occasional but on a constant basis in order to make a profit will probably be treated as entrepreneurs within the meaning of civil law, and their activities as a business will be subject to the applicable laws, even though they are carried on through the relevant platforms.

The performance of business activities, however, entails not only significant legal (especially with respect to the Trade Licensing Act), but also tax consequences. In autumn 2017, the tax administration<sup>6</sup> published information on the tax assessment of service providers via online platforms, where it found, inter alia, that it considers in most cases intermediated accommodation services, on the basis of their nature, as accommodation services and not as rental services. Persons who provide their accommodation services through online platforms carry on economic activity and, in the opinion of the tax administration, are liable to value added tax if they meet the statutory parameters (in particular the turnover required). As their activities meet the criteria of entrepreneurship, the income of both natural and legal persons is subject to the relevant income tax.<sup>7</sup> If entities offering short-term accommodation services through online platforms were to be considered as entrepreneurs, in such a case, it would also be necessary to ensure their compliance with EU and Czech consumer protection law rules. In particular, consumers should be subject to a high degree of protection against unfair commercial practices.<sup>8</sup>

<sup>1</sup> Available online: <http://www.oecd.org/cfe/tourism/oecd-tourism-trends-and-policies-20767773.htm>

<sup>2</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 2 June 2016, COM(2016) 356 final.

<sup>3</sup> For instance, Opinion of the European Economic and Social Committee on the 'Sharing economy and self-regulation' (2016/C 303/05), Opinion of the European Economic and Social Committee on 'The functional economy' (own-initiative opinion) (OJ C 75, 10.3.2017), or Discussion Draft of a Directive on Online Intermediary Platforms (EuCML, 2016, No. 4, p. 164).

<sup>4</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 2 June 2016, COM(2016) 356 final.

<sup>5</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of 2 June 2016, COM(2016) 356 final.

<sup>6</sup> Available online: <http://www.financnisprava.cz/cs/financni-sprava/pro-media/tiskove-zpravy/2017/FS-vydala-informaci-o-povinnostech-subjektu-poskytujicich-ubytovani-pres-internet-8799>

<sup>7</sup> Available online: <http://www.financnisprava.cz/cs/financni-sprava/pro-media/tiskove-zpravy/2017/FS-vydala-informaci-o-povinnostech-subjektu-poskytujicich-ubytovani-pres-internet-8799>

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However, the difficult task of regulating collaborative economy platforms across Europe will be to strike a balance between the interest in maintaining uniform standards across EU Member States and the interest in protecting and taking into account the specific nature of a respective location. An emerging trend that could help solve this issue is the attempt by individual European cities to locally regulate the parameters of the provision of accommodation services through these online platforms. Especially Prague, where the growth of accommodation capacities offered through the platforms is the most significant, could be inspired by some restrictions that have been adopted abroad in this respect (e.g. in London or Paris<sup>9</sup>) that limit the number of days during which real estate owners can offer their properties for short-term accommodation.

#### GDPR ALSO RELATES TO THE REAL ESTATE SECTOR

Another issue currently being discussed is the impact of Regulation (EC) No 2016/679 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Personal Data Protection Regulation), ("GDPR") on development and real estate. The GDPR brings about a change in the regulation of personal data and will enter into effect on 25 May 2018; it will also significantly affect real estate service providers dealing with personal data. The GDPR entails more rights for individuals, with an increase in rights necessarily corresponding to an increase in the scope of the duties of personal data processors and controllers. In some cases, there will also be an obligation to appoint a so-called 'Data Protection Officer' within the company or to outsource this position.

An important novelty is also the reporting obligation in the case of a breach of the security of personal data, both to the supervisory authority and, in serious cases, to the data subject. The intent of these provisions is that any personal data leakages should not be reported after some time has passed, as was the case in the past.

Under the GDPR, the controller will have to report a personal data breach to the Office for Personal Data Protection without undue delay and, if possible, within 72 hours of having learned of it. In some serious cases, in particular where such a case would result in a high risk to the rights and freedoms of natural persons, the controller shall notify the data subject of such a breach without undue delay, unless the conditions under which the GDPR does not require such notification to the data subject apply.

Due to the complexity of processes related to personal data protection and the amounts of penalties introduced by the GDPR for non-compliance with the personal data treatment rules, all obliged entities are recommended to prepare thoroughly. A friendly solution for some entities can be a qualified analysis of their activities and the subsequent specification of measures to be taken to ensure compliance with the GDPR, or an external Data Protection Officer may also be considered. As a result of the increased number of obligations on the part of the obliged entities, the powers of supervisory authorities are also strengthened; such authorities will be able to conduct joint procedures, including joint investigations and joint enforcement actions in several Member States, under the direction of one of the national authorities. Obligations imposed by the GDPR are more strictly secured than in the current legislation; an administrative fine of up to EUR 20,000,000.00 may be imposed for non-compliance with the GDPR obligations or, in the case of an undertaking, a fine of up to 4% of the total annual worldwide turnover for the previous financial year - the higher amount is decisive.

The concept of applying the collaborative economy in the real estate sector in the Czech market is likely to be changed in the near future, be it through changes in local regulation or changes coming from the European Union. With the effectiveness of the GDPR, real estate entrepreneurs will have new obligations that they will also have to deal with.

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<sup>9</sup> Available online: [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS\\_BRI\(2017\)595897](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2017)595897)