

**CURRENT DEVELOPMENTS
AND TRENDS IN TOURISM
WITH AN EMPHASIS ON
THE HOSPITALITY INDUSTRY**

CURRENT DEVELOPMENTS AND TRENDS IN TOURISM WITH AN EMPHASIS ON THE HOSPITALITY INDUSTRY

In 2018, collective accommodation establishments recorded their most successful year once again. More than 21 million people were accommodated in the Czech Republic in 2018, which is 6% more than in 2017.

Prague has long been one of the most attractive tourist destinations in Europe, and over 9 million tourists visited it in 2018. In terms of the number of tourists, only 4 cities surpassed it – London, Paris, Istanbul and Rome, with Rome exceeding it by only approximately 700 thousand tourists.

In 2018 hotel real estate was traded for a total of 18.6 billion euros, which is a 14% decline in comparison with the previous year.

By far the largest trade in the Czech hotel market, which was also significant on a European scale, was the sale of Hotel InterContinental in Prague for 225 million euros.

In terms of hotel occupancy, Prague is already meeting its limits. In 2018 the average hotel occupancy rate in Prague was more than 80%, which is one of the highest values among European capitals.

The trends that will affect tourism in the coming years will be marked by new technologies, mainly represented by automation and efficient use of data. Customer preferences will also change, with the younger generation in particular bringing new needs and expectations to the market.

TOURISM IN THE CZECH REPUBLIC

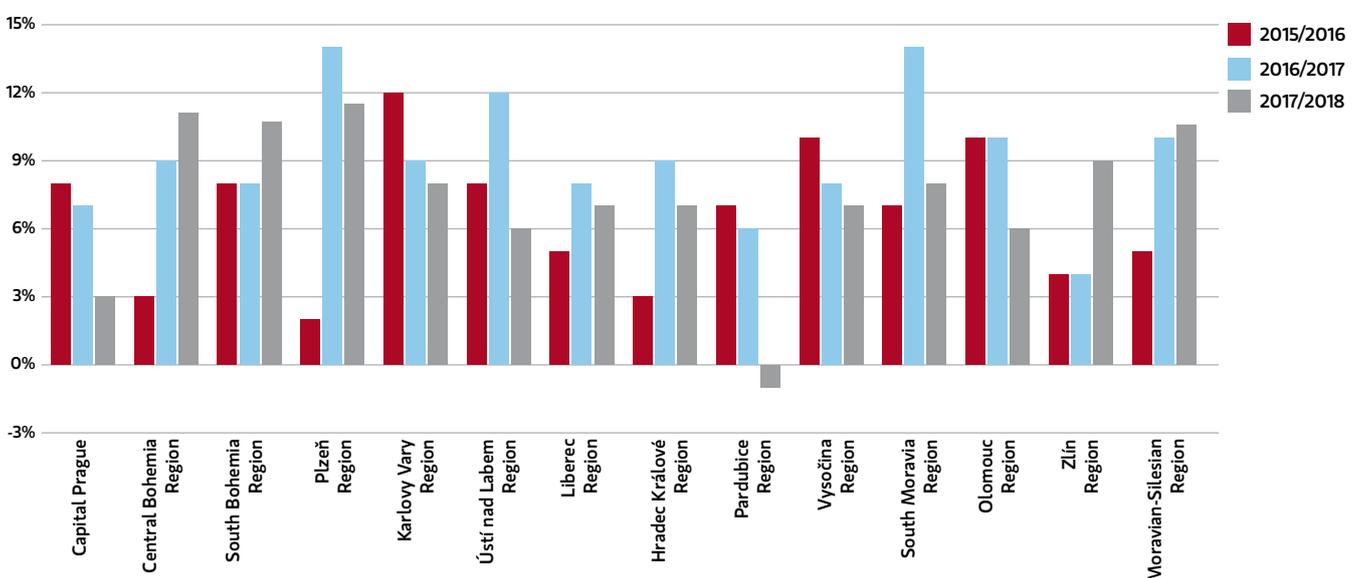
In 2018 collective accommodation establishments recorded their most successful year once again. More than 21 million people were accommodated in the Czech Republic in 2018, which is 1.27 million more than in 2017. Residents of the Czech Republic significantly contributed to this fact, with their total use of

collective accommodation establishments increasing by 8.1%. However, the year-on-year growth rate of guests in collective accommodation establishments in the Czech Republic slightly declined, from 8.8% in 2017 to 6.05% in 2018.

In terms of the development of the number of guests in accommodation establishments in individual regions of the Czech

GRAPH Number of guests in collective accommodation establishments according to region, year-on-year in %

Source: Deloitte based on ČSÚ (Czech Statistical Office) data



Republic, in 2018 the number of visitors increased in all regions, with the exception of the Pardubice Region. The Central Bohemian, Plzeň, South Bohemian and Moravian-Silesian regions even experienced double-digit growth.

The total number of foreign tourists increased again in 2018, this time by 5%. A similar growth rate is expected in 2019. The most important country is still Germany, where 23% of guests in the Czech Republic came from. The year-on-year growth in the number of accommodated guests from Germany remained stable at 4% compared to 2017. Slovakia (735 thousand) and Poland (620 thousand) remained second and third in the absolute number of guests. China (27%) and Ukraine (43%) had the highest recorded year-on-year growth in the number of guests.

TOURISM IN PRAGUE

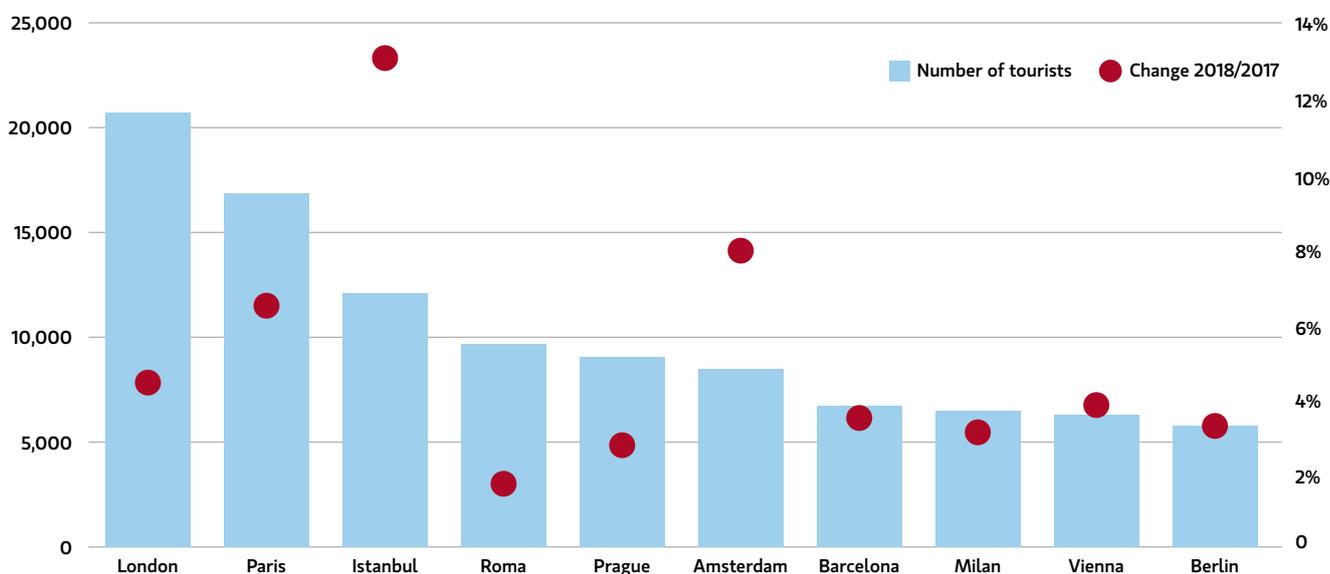
Prague has long been one of the most attractive tourist destinations in Europe. In terms of the number of tourists, only

4 cities surpassed it - London, Paris, Istanbul and Rome, with Rome exceeding it by only about 700 thousand tourists. 9 million tourists visited Prague in 2018, which is a record result. However, in a year-on-year comparison the number of tourists only increased by 2.6%. With regard to the development in other European capitals, this was relatively minor growth. The most dynamic year-on-year growth was recorded by Istanbul, at 13%. London still holds the first position in Europe, welcoming more than 20 million tourists in 2018.

It is evident from the current development of tourism in Prague that the market is gradually becoming saturated and vacant accommodation capacities are decreasing. On the other hand, alternative accommodation services like Airbnb are developing, creating new competition for traditional accommodation. The real threat to tourism, however, may be the arrival of a recession that would significantly dampen the demand for travel. Prague should also be prepared for this scenario.

GRAPH Number of tourists in selected cities in 2018 and year-on-year change in %

Source: Deloitte based on Euromonitor International data



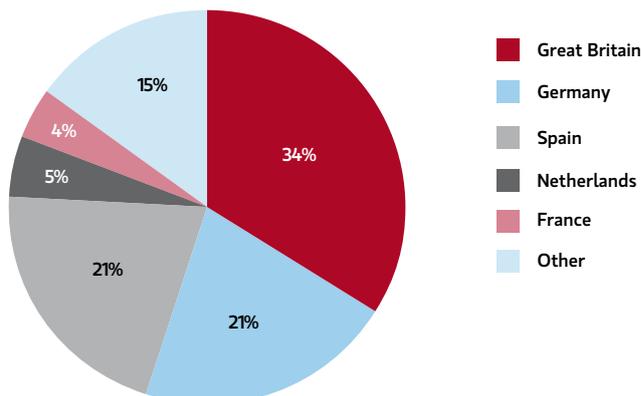
EUROPEAN HOTEL TRANSACTION MARKET

The transaction volume in the European hotel market declined by 14% compared to the previous year. In 2018, hotel real estate was traded for a total of 18.6 billion euros. Nevertheless,

this was only the 5th highest value ever recorded in the hotel transaction volume. Despite the threat of Brexit, the UK was clearly still the largest market, with 6.2 billion euros in transactions. In the case of Great Britain, there was even a significant year-on-year growth of 14% compared to the previous year,

GRAPH Share of selected countries and regions in the transaction volume in 2018

Source: Deloitte based on HVS Europe data



with half of British transactions in London. Significant transaction activity continued in the hotel market in Germany, where the investment volume exceeded 3.8 billion euros. Spain became the third strongest market in terms of hotel transactions in 2018.

One of the largest price-per-room transactions was executed in London, where the Beaumont hotel was sold for 146 million euros, or about 2 million euros per room. The most expensive trade in absolute terms in 2018 was the sale of the Hilton Berlin for 297 million euros, which was bought by investment company Aroundtown.

HOTEL MARKET IN PRAGUE

Although the hotel market has recently been facing new trends and challenges in the form of alternative accommodation services, it continues to grow despite all these barriers. However, in terms of hotel occupancy, Prague is meeting its limits. In 2018 the average hotel occupancy rate in Prague was more than 80%, which is one of the highest values among European capitals. The supply is therefore sufficiently saturated, which creates space for the construction or opening of new accommodation facilities. On the contrary, in terms of the ADR indicator, i.e. the average room rate, Prague still has space to move compared to other European cities. The average ADR value in Prague in 2018 was 90 euros, with Geneva or Paris having ADR values well above 200 euros per room. The cities of Berlin and Frankfurt showed comparable levels of the ADR indicator as Prague. On the other hand, Prague recorded a relatively dynamic year-on-year increase in the ADR indicator by 5%, while for traditional tourist cities such as London, Paris or Rome, the growth was moderate at around 2%.

Hotel transactions for almost 400 million euros were executed in 2018 in the Czech Republic. This continued the positive trend of recent years, with the hotel market becoming an increasingly popular destination for both domestic and foreign investors.

By far the largest trade in the hotel market has been the sale of Hotel InterContinental in Prague for 225 million euros, which was more than half of the entire market in terms of transactional volume. Even in a European context it was a very capital-intensive transaction. Czech investment company R2G owned by Oldřich Šlemr became the new owner in cooperation with the co-founders of Avast Pavel Baudiš and Eduard Kučera. In a comparison using the transaction price indicator per hotel room, it was one of the most expensive hotel trades in the Czech Republic, with the price exceeding 600 thousand euros per room. Only the sale of the Mandarin Oriental Hotel to Chinese investment group CEFC, which took place in 2016, reached a similar price level per room. At the beginning of 2019, another major hotel transaction took place when Mornington Capital sold the hotel Don Giovanni to Norwegian family fund Wenaasgruppen. The sale price was not publicized in this case.

Although the hotel market was dominated by Prague in 2018, there were also transactions outside the capital. The sale of the Ibis hotel in Plzeň, as well as the sale of Lázně Bohdaneč (Bohdaneč Spa) to the Tesla Investment Fund for almost 15 million euros, are also worth mentioning. We can also observe begi-

ning development activity, when empty listed buildings are being renovated in the historic center of Prague. For example, a hotel development project is being prepared on Senovážné Square, where the Austrian UBM group bought the seat of the former IPB bank. The renovation of the former Art Nouveau Hotel Evropa on Wenceslas Square, where the Marriott hotel chain under the W Hotels is to operate, is also worth mentioning. After the renovation, Ferin Nasr, a tourism entrepreneur, will buy the hotel from Austrian developer House of Julius Meinl.

Rising interest rates and the mitigation of some macroeconomic factors are likely to contribute to a slowdown in transaction activity not only in the hotel sector, which we have already seen in 2018. However, the main reason for the shrinking investment volume is the lack of hotel assets for sale on the market. Despite this, there is still strong demand for healthy returns, especially from the West, which is gradually penetrating the markets of Central and Eastern Europe.

In recent years, we have seen a trend of the expansion of hotels offering premium services into regions and lesser known tourist destinations in the Czech Republic. This expansion is mainly due to the ever-increasing influx of tourists and economic boom in recent years. The growing standard is also reflected in the popularity of mountain apartments, where guests can enjoy the services typical of hotel facilities.

HOTELS AS DIVERSIFICATION OF THE INVESTMENT REAL ESTATE PORTFOLIO

In recent years, hotels have attracted investors due to their diversification efforts in commercial real estate investments. Diversification is highlighted in hotel investments by the fact that their customer base differs significantly from other real estate market investment segments. The required yield is an equally important aspect, which has not been compressed as much compared to segments of administrative and retail buildings.

THE RISE IN GLOBAL TRAVEL AND THE CHANGE IN CUSTOMER BEHAVIOR

Factors including low-cost carriers enabling travelling the world at a reasonable price and many countries seeing rapid GDP growth accelerated global tourism. Particularly travelers from South Korea, China, India and South America now represent a large amount of new potential customers, and their demand will also have a significant impact on the supply itself.

Another major change is the fact that economically active generations Y and Z have different requirements and needs compared to older generations. Adapting to the needs of this generation can be a competitive advantage. The trend of flexible working spaces, which will also be reflected in tourism, is related to changes in preferences of the younger generation. Hotel operators can maximize efficiency and increase revenue by creatively using existing, underused space. Many hotel brands have embraced this trend and are attracting guests with new concepts such as membership fees for workspaces that include a bar, private meeting rooms, free tea and coffee, a library, Wi-Fi and printing options. We assume that other hotel companies

will gradually join this trend, especially those targeting the younger generation and attracting more digital nomads.

TRENDS IN THE HOTEL SEGMENT CHARACTERIZED BY TECHNOLOGY

Technological progress is currently being projected across all segments. In tourism it especially affects efficiency and comfort.

The Internet of Things (IoT), which extends Internet connectivity to common items and devices, is penetrating accommodation. These devices many collect data and communicate via the Internet. "Connected" thermostats, which are used to automatically adjust room temperature at check-in and check-out times, or in response to temperature fluctuations caused by the sun or windows, are one example in tourism. The same concept is also used for lighting, which increases energy efficiency by reducing light intensity during the day.

The collection of "big data" has grown rapidly across almost all industries, and it can be used in the hotel industry to effectively utilize services to deliver a better customer experience. Data can be used by travel agencies to make recommendations for destinations based on age, gender, budget, places visited, etc. Data collection also allows for more efficient management of pricing policy based on current demand.

Besides the aforementioned innovations, biometrics identification technology, the use of robots (see robot concierge Connie from the Hilton chain), virtual reality, applications such as room service communication, the transformation of room keys into smartphones, and many others, will be disruptive. However, it must be said that most technological innovations are in their early stages and are still far from being fully used.

AUTHORS: VOJTĚCH PETRÍK, ZDENĚK VAŠATA

Sources: ČSÚ, HVS, Euromonitor International

Investice do nemovitostí vyžadují zkušenosti

**Náš multidisciplinární tým se postará
o všechny aspekty vašeho projektu.**

Propojením znalostí, dat a technologií
pomáháme přizpůsobit vaše podnikání
v oblasti nemovitostí neustálým změnám.

kpmg.cz

Anticipate tomorrow. Deliver today.

