



THE BALTIC HOTEL MARKET SNAPSHOT – 2022:
OVERVIEW OF THE CAPITALS

TABLE OF CONTENT & GLOSSARY

3	Preamble
4	Hotel Market KPI Trends: 2019 YTD OCT – 2022 YTD OCT
5	Key Changes: 2019 YTD OCT vs 2022 YTD OCT
6	Recovery: Tallinn
7	Recovery: Riga
8	Recovery: Vilnius
9	Economic Outlook
10	Headwinds
11	Emerging Trends
12	Christie & Co
13	Contact Information

YTD – Year-To-Date

YOY – Year-On-Year

ADR – Average Daily Rate

KPI – Key Performance Indicators

RevPAR – Revenue Per Available Room

OCC – Occupancy Rate

pp – percentage points

CAGR – Compound Annual Growth Rate

M – Million

c. – circa

est. – estimated

MICE – Meetings, Incentives, Conferences and Events

PREAMBLE

THE GEMS OF THE BALTICS

Dear Reader,

To begin with, it is our great pleasure to wish you a happy 2023. May the new year bring you much prosperity and success in everything you embark upon!

The report provides a brief yet detailed overview of the hotel market in the Baltic capitals. Commencing with the key changes that occurred within the last four years, it follows by describing the current state of matters and finishes with highly-anticipated future market predictions.

Christie & Co Nordics team based in Helsinki is the company's dedicated branch overlooking the region. We are a trusted hospitality advisor in the Baltics with long-standing expertise and experience in conducting hotel projects of various sizes and complexity.

In case of any questions regarding the material and information provided, please feel free to reach us through the contact details provided on the last page.

Sincerely yours,

Kimmo Virtanen

Director – Christie & Co Nordics

Estonia, Latvia, and Lithuania, each with its own strong individual identity and rich cultural heritage are lands of vibrant capitals, exquisite architecture, pristine beaches and unspoilt rural landscapes.



RIGA

Population: 610,000



TALLINN

Population: 440,000

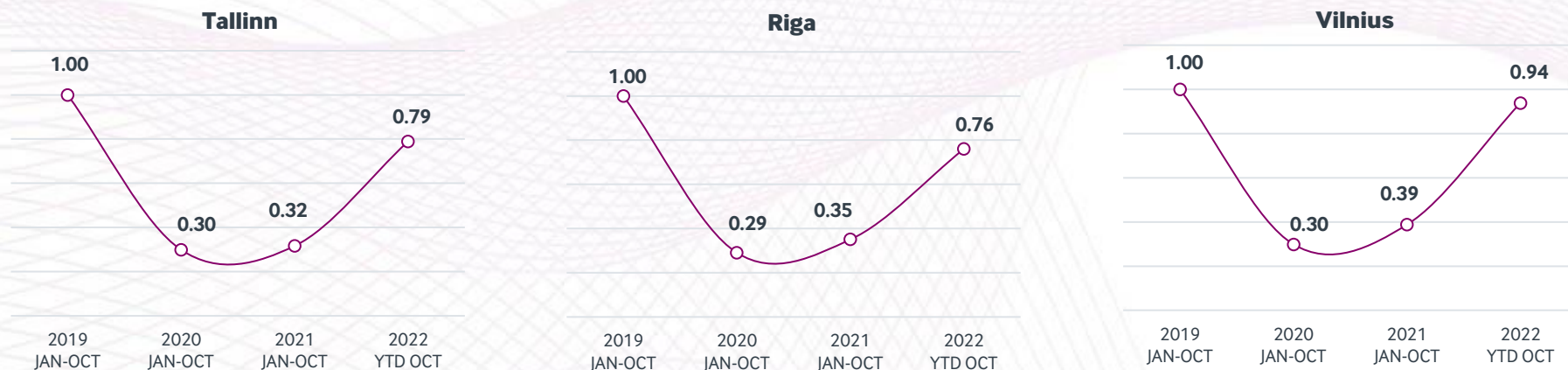


VILNIUS

Population: 590,000

HOTEL MARKET KPI TRENDS: 2019 YTD OCT – 2022 YTD OCT

RevPAR Index (2019 = 1)



Sources: Benchmarking Alliance; Christie & Co Research

Pre-pandemic, the hotel sector in the Baltic region was performing strongly with continuous annual growth in the number of overnight stays. Heavily reliant on foreign visitation, 60-80% of all hotel stays were contributed by non-resident tourists in 2019, so the region’s tourism evidently dampened amid the global lockdown. At the beginning of 2022, when coronavirus seemed to be fading in the background, the escalation of the war in Ukraine had an immediate and direct impact on all scenes of life in the region.

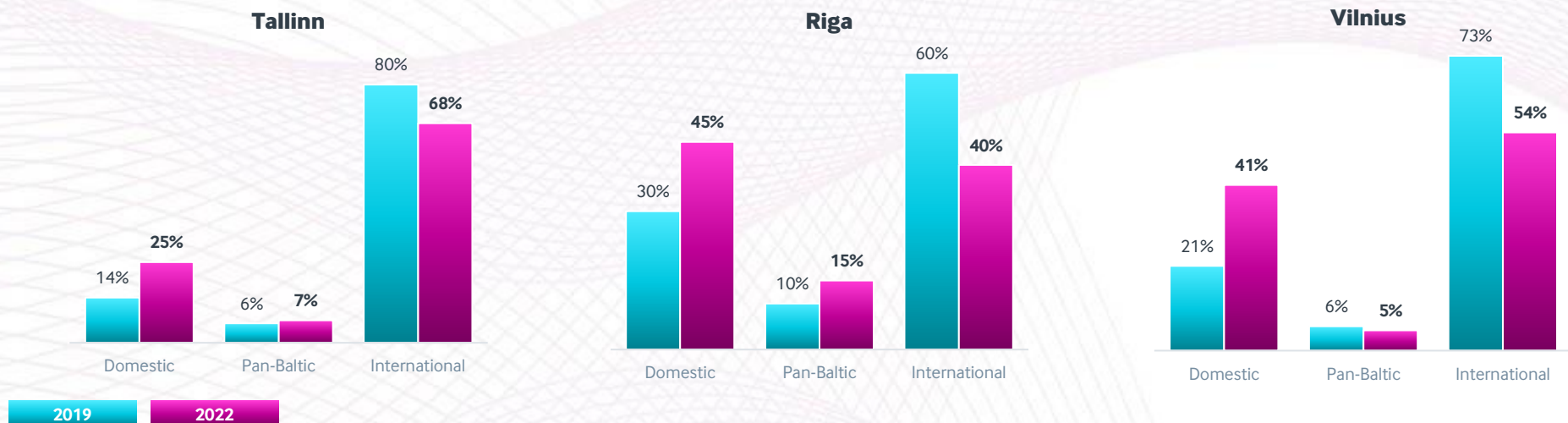
Occ: After two years of record-low hotel occupancy rates, when the figures hovered around 25-35%, 2022, however, witnessed occupancy levels notably bouncing back. Among three Baltic gems, Vilnius is the closest to reaching 2019 levels: with occupancy now around 60%, only 4-5 percentage points behind. Tallinn follows suit, with hotels performing at a nearly similar level as Vilnius in terms of occupancy (62-63%) but still ten percentage points below 2019 figures. The Latvian capital, Riga, is the farthest from reaching its pre-pandemic highs – 15-20 percentage points short – and currently running at an average occupancy of 55%.

ADR levels nevertheless, recovered fully in Riga and Vilnius, where they are currently on par with 2019 levels (Vilnius: 60-65 EUR; Riga: 65-70 EUR). While Tallinn, which historically has higher hotel rates among the three capitals (80-85 EUR in 2019), has recovered by c. 90% thus far. A slight shortage in supply and more robust demand from local residents, coupled with rising inflation, contributed to the ADR’s relatively quicker rebound.

RevPAR levels recovered by 75%, 80% and 95% in Riga, Tallinn and Vilnius, respectively. Whilst the pandemic is mainly behind us, and airline capacity is returning gradually, and with the war hopefully contained in Ukraine, we would expect 2023 to start showing some signs of continued recovery.

KEY CHANGES: 2019 YTD OCT VS YTD OCT 2022

Share of hotel overnight stays by origin



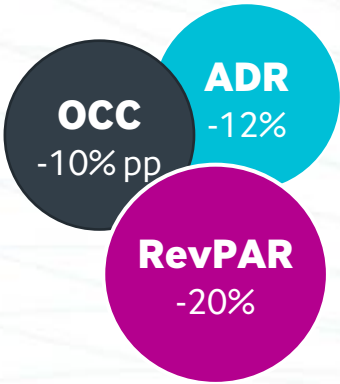
Hotel Overnight Stays (M nights)				
Capital	Total	Domestic	International	Overnight Stays CAGR 2015-2019
Tallinn	2.3 (-20%)	0.6 (+45%)	1.7 (-30%)	+3.2%
Riga	1.6 (-35%)	0.4 (+20%)	1.2 (-40%)	+5.7%
Vilnius	1.4 (-35%)	0.3 (+10%)	1.1 (-40%)	+6.0%

Source: Statistics Estonia; Statistics Lithuania; Central Statistical Bureau of Latvia; Go Vilnius

Airports Performance				
Airport	Passengers, M	% Change YOY	% Change vs 2019 YTD	CAGR 2015-2019
TLL – Tallinn	2.7	+105%	-15%	+8.6%
RIX – Riga	4.5	+150%	-40%	+8.6%
VNO – Vilnius	3.7	+115%	-20%	+8.5%

Source: Traffic Reports of Airports of Tallinn, Riga and Vilnius

RECOVERY: TALLINN



ADR	RevPAR	OCC
70-75€	45-50€	c. 62-63%
2022 January - October		
80-85€	60-65€	c. 72-73%
2019 January - October		

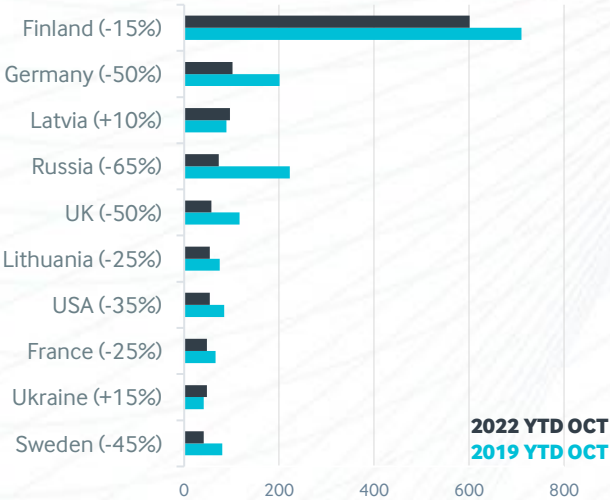
Sources: Benchmark Alliance; Christie & Co Research

Estonia's capital and its largest city, this high-tech hub with an enchanting Old Town, is a major centre for developing artificial intelligence and software programming. A major international port at the same time, Tallinn attracts both antique admirers and corporate clientele alike with an exceptionally harmonious mix of the old and the modern.

Demand

In 2022, Tallinn was the leading market in terms of total hotel overnight stays among Baltic capitals. This despite larger dependency on foreign travellers: pre-pandemic, every four in five hotel nights were contributed by non-resident visitors. Due to the proximity to Helsinki with a convenient ferry connection (two hours), Finnish tourists have the lion's share of hotel stays and constitute one-third of the total amount. Russian visitation, which was gradually contracting even before the pandemic exacerbated even further amid Russia's invasion of Ukraine. Worth also highlighting that Tallinn is the leading MICE destination in the Baltics, having hosted 60 congresses in 2019 and leaving behind such destinations as Istanbul, Geneva, and Moscow.

Top-10 international source markets by hotel overnight stays, in 000's



Source: Statistics Estonia

Hotels and similar lodging establishments	Number of Bedrooms	
n/a	2022	n/a
120	2021	7,700
130	2020	8,200
140	2019	8,800

Source: Statistics Estonia

Supply: Selected Hotel Openings & Renovations

- Radisson Collection: upscale, 289 rooms, opened in 2022 Q2, reconstruction of former Radisson Blu Sky.
- Go Hotel Shnelli: midscale, 126 rooms, underwent a complete renovation in 2022.
- Mogotel Hotel Group: expanded with four acquisitions, Rixwell Viru Square (former Vana-Viru Hotel), Rixwell Collection Savoy, Rija Old Town and Rija Fonntental Design Hotel.
- Hotel Tallinn by Mercure: upper-midscale, 132 rooms, former Ulemiste Hotel near the Tallinn International Airport.

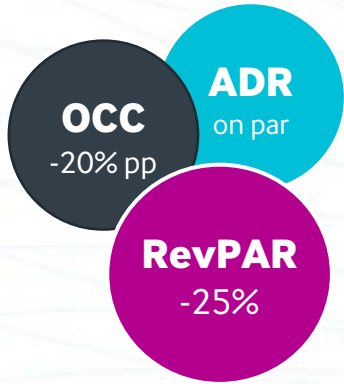
Future Hotel Pipeline

- Hyatt Place: upscale, c. 168 rooms, est. 2023
- Radisson Red: upscale, c. 150 rooms, est. 2023
- Hampton by Hilton: upper-midscale, c. 175 rooms, est. 2024

Sources: Christie & Co Research; ICCA



RECOVERY: RIGA



ADR	RevPAR	OCC
65-70€ 2022 January - October	35-40€	c. 53-55%
65-70€ 2019 January - October	50-52€	c. 70-72%

Sources: Benchmark Alliance; Christie & Co Research

Situated right in the region's centre, Riga is the largest of the three capitals and the most cosmopolitan one. Almost one-third of the Latvian population live in Riga, which is strikingly set beside the wide River Daugava, has a UNESCO-acclaimed downtown, myriad Art Nouveau buildings and an enormous Central Market.

Demand

In the pre-pandemic period, Riga benefited from the highest share of German and Russian tourists. The visitors from these two nations contributed almost to 25% (c. 0.6 M) of all hotel overnight stays in 2019. The dramatic decrease in their visitation (Germans by 55% and Russians by 85%), left a mark of great magnitude.

Except for the capital's own architectural and historic marvels, Jurmala is another fortune near Riga. Located just a half-hour drive away, this collection of spectacular residential towns keeps attracting foreign visitors for long-summer holidays.

Supply: Selected Hotel Openings & Renovations

- Hampton by Hilton Riga Airport: upper-midscale, 189 rooms, opened in Q2 2022.
- Hotel Amella: aparthotel inside a historic building, upscale, 39 rooms, opened in Q2 2022.

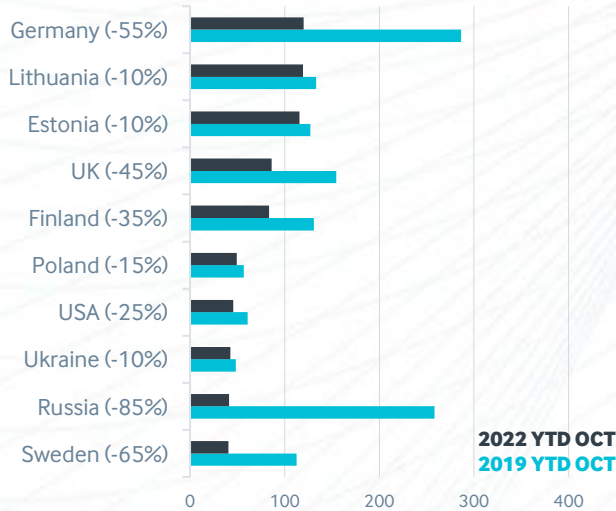
Future Hotel Pipeline

- Holiday Inn: upper-midscale, c. 315 rooms, est. 2023
- Audēju Street Hotel: upper-midscale, c. 215 rooms, est. 2024
- Kalēju Street Hotel: upscale, c. 125 rooms, est. 2024
- Radisson Red: upscale, c. 220 rooms, est. 2024-2025

Source: Christie & Co Research



Top-10 international source markets by hotel overnight stays, in 000's

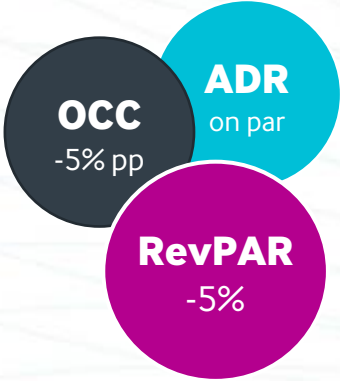


Source: Central Statistical Bureau of Latvia

Hotels and similar lodging establishments	Number of Bedrooms
100 2022	6,800
80 2021	5,900
80 2020	5,500
130 2019	8,400

Source: Central Statistical Bureau of Latvia

RECOVERY: VILNIUS



ADR	RevPAR	OCC
60-65€	38-41€	c. 58-63%
2022 January - October		
60-65€	40-45€	c. 63-65%
2019 January - October		

Sources: Benchmark Alliance; Christie & Co Research

Unlike Tallinn and Riga which enjoy the convenient location on the Baltic Sea shore, Vilnius is landlocked in the far south-eastern corner of the country. Nevertheless, this city with a fascinatingly rich history, previously also known as the Jerusalem of the North, is one of the most forward-thinking destinations with great potential, especially in the field of tech and IT advancements.

Demand

Geographically closest to Ukraine, Lithuania has done a stellar job not only in warmly welcoming the war refugees but also in closing the gap in hotel market performance between 2019 and 2022.

Vilnius is also renowned for its wealth of exciting events, festivals, and concerts. Next year marks the 700th anniversary of the capital and the abundance of programs prepared for the event will accelerate the recovery even further. Moreover, Vilnius is chosen as a host city for NATO's Summit, taking place on July 11-12, 2023.

Supply: Selected Hotel Openings & Renovations

Despite the pandemic, Vilnius witnessed some growth in hospitality offerings and lodging establishments, particularly in apartment-style hotels.

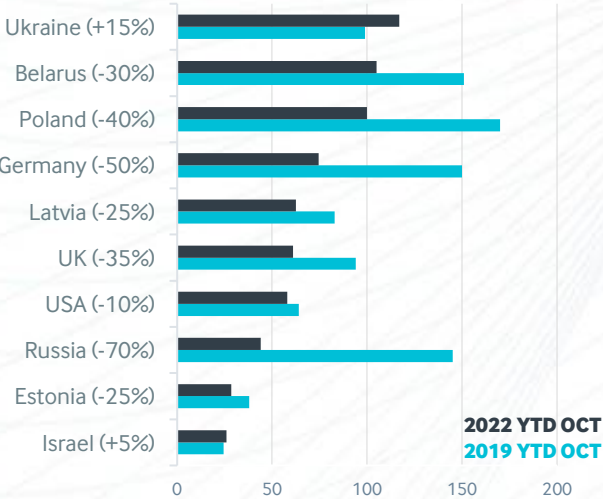
- Kestminta Old Town Hotel & Apartments: upscale, 45 rooms, opened in 2021 Q2.
- Radisson Blu Royal Astorija will close in January 2023 for a large-scale renovation and will re-open as Radisson Collection later that year.

Future Hotel Pipeline

- Clarion by Choice: upper-midscale c. 165 rooms, est. 2023
- Hampton by Hilton: upper-midscale, c. 105 rooms, est. 2024

Source: Christie & Co Research

Top-10 international source markets by hotel overnight stays, in 000's



Source: Statistics Lithuania

Hotels and similar lodging establishments	Year	Number of Bedrooms
n/a	2022	n/a
155	2021	8,000
115	2020	7,300
125	2019	7,500

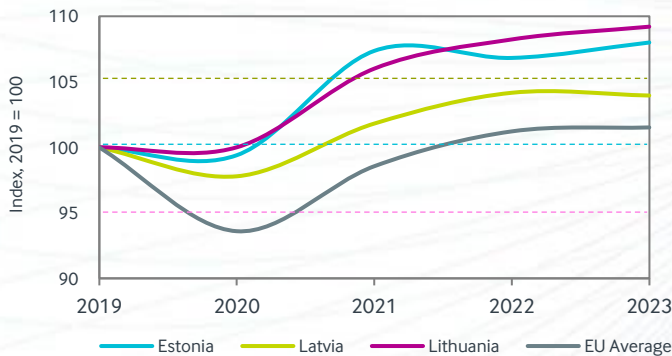
Source: Statistics Lithuania



ECONOMIC OUTLOOK

- Although COVID-19's impact on the tourism industry has been severe, the overall impact on Baltic economies has been less adverse. As the next graph indicates, the decline in GDP growth in 2020 was rather modest in comparison with the average of the EU.
- However, the pandemic has flagged the chronic issues of the local economies, especially exacerbating existing inequalities in the Baltics. The highly-skilled and more affluent part of the population has seen their wealth increase; meanwhile, the less qualified fell further behind, and risk becoming long-term unemployed.
- Lower growth predictions in 2023 are owing to higher inflation, negative confidence effects of Russia's war of aggression against Ukraine and weaker external demand. Private consumption is negatively affected by higher unemployment and a contraction of real wages.

NOMINAL GDP GROWTH, 2019-2023



- Despite the less mature hotel market and proximity to Russian borders, we notice an increasing number of regional and international investors convinced of the potential and upside of these markets.
- Apart from solid economic fundamentals, and improving performance indicators, there are a great number of large-scale developments emerging in the region, like Rail Baltica, Riga Port City and RIX Airport City to name but just a few.

Sources: Eurostat; Eesti Pank; Bank of Lithuania; Bank of Latvia

RELEVANT MACROECONOMIC PROJECTIONS

Country	Annual Inflation, %				Unemployment Rate, %				GDP Growth, %			
	2022	2023	2024	Trend	2022	2023	2024	Trend	2022	2023	2024	Trend
Estonia	19.1	6.8	2.1	▼	6.5	8.6	7.5	=	-0.5	1.1	3.7	▲
Latvia	16.9	9.2	3.4	▼	6.7	6.7	6.3	=	2.3	-0.2	2.3	▲
Lithuania	18.3	8.4	2.1	▼	6.3	7.1	7.0	=	2.1	0.9	2.4	▲

Sources: Eesti Pank; Bank of Lithuania; Bank of Latvia

Expected Major Developments

RAIL BALTICA



One of Europe's most ambitious transport projects, Rail Baltica is a high-speed railway under construction, which upon completion, will be connecting the capitals and second cities of Poland, Lithuania, Latvia, Estonia and Finland. The initial phases are projected to be completed by 2026-2027, whilst the entire route by 2030.

RIX AIRPORT CITY – Riga, Latvia



A mixed-use development in close proximity to Riga International Airport on a 24-hectare site with a 340,000 sqm targeted area. It is anticipated that the first phase will be completed in 2027 and will concur with the completion of the Rail Baltica. The area will host a four-star airport hotel, corporate district, MICE venues, retail, as well as logistics and light manufacturing facilities.

HEADWINDS



(1) Rising inflation

Despite the dynamic pricing ability of hotel assets, continuously rising costs on all frontiers cannot be met adequately by an ADR increase due to deficient demand in the market. Further, higher inflation lowers the share of discretionary income. This poses to be more disadvantageous for lower-income households. Travelling, especially overseas, is a luxury more than ever.

(2) Soaring energy prices

The year 2022 has witnessed record-high prices for electricity in the utmost majority of European nations, followed by a decision to suspend deliveries of gas from Russia. On the local scene, the utility bills for gas and electricity expect to notably increase during the winter months, putting immense pressure on the profitability line. The Baltic states, however, have a long-standing action plan to disconnect from the Russian electricity grid and synchronise with the system of Continental Europe by 2026. Thus, ensuring a more reliable and stable electricity supply.

(3) Forecasting challenges

There is a shift in lending parameters as banks remain cautious about lending to transactions and developments. Regionally, we observe that it is getting tougher to obtain senior debt. The economic uncertainty is affecting LTV (Loan-To-Value) ratios and diminishing purchasing power. More pure equity buyers are anticipated in the near future.

(4) Labour shortage

The shortage is not limited to a particular department but rather widespread. The most impacted remain the rooms and F&B divisions, with a great need for housekeeping and kitchen personnel. If the gap between inflation-driven ADR and the subsequently expected increases in payroll continues widening, the sector can anticipate some of the workers to seek employment where these lines are more parallel in the near future.

EMERGING TRENDS



(1) ESG is on top of the agenda

Globally, Environmental, Social and Governance (ESG) initiatives placed themselves at a cornerstone of every decision-making process in the last few years. It has also become a prerequisite for a larger pool of hotel investors upon considering new developments or acquisitions.

(2) Extended-stay, serviced apart. hotels

While much of the lodging industry heavily struggled during COVID-19, the extended-stay segment showed resilience and strength throughout the past couple of years. With serviced apartment hotels and long-stay concepts undersupplied in the Baltics, we expect an increase in branded serviced apartment units and extended-stay hotels in the region.

(3) An emergence of modular construction

With construction and building material costs continuously soaring, additionally boosted by improved quality control, shorter construction time, lower expenses and lesser waste in production, we expect to see a rising interest in this method among developers.

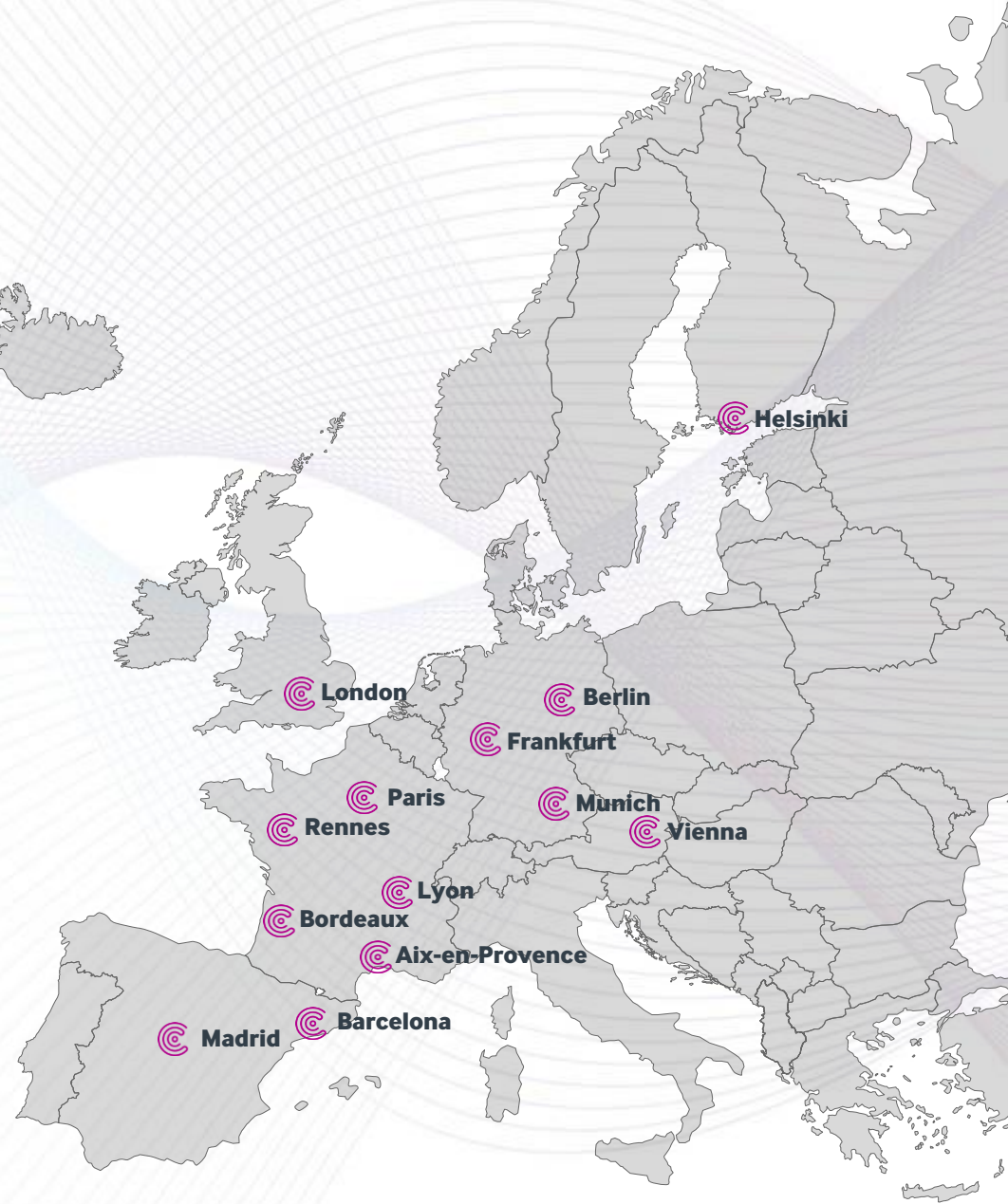
(4) Decentralised working models

A partial transformation of most occupations to smart-working and work-from-home modalities continues to evolve new developments for simultaneous-use concepts. New developments will allocate a more significant weight to this trend, for instance, by creating spaces for co-working and co-living on the premises.

We are the leading hotel and leisure advisers in Europe

Business. Built Around You.

- Established by 3 partners in London's West End in 1935
- London Stock Exchange listed in 1988
- 1st international offices opened in Paris in 1998 and in Frankfurt in 1999
- Specialists across 9 sectors
- Leading valuers, consultants and brokers
- Pan-European multi-lingual team
- Launch of the Asia Desk in 2015
- 15 offices in the UK and 12 international offices



87

Years of Expert Advice

500+

Valuations per Year

27

European Offices

400+

Live Selling Mandates

300+

Experts

1700+

Corporate Clients across Europe

**FOR MORE INFORMATION ON HOTEL MARKETS
IN THE BALTICS, AND ELSEWHERE IN EUROPE, PLEASE CONTACT:**

CHRISTIE & CO NORDICS TEAM

Kimmo Virtanen – Director

T +358 9 4137 8501
M +358 40 358 1414
E kimmo.virtanen@christie.com

Yernar Kabyl – Analyst

T +358 9 4137 8503
M +358 40 717 0224
E yernar.kabyl@christie.com

Henri Hakala – Consultant

T +358 9 4137 8502
M +358 40 767 4407
E henri.hakala@christie.com

Claudio Borromei – Team Assistant

T +358 9 4137 8504
M +358 40 717 1670
E claudio.borromei@christie.com

In cooperation with:

**BENCHMARKING
ALLIANCE**