Horwath HTL

Hotel, Tourism and Leisure

Budapest Hotel Market Overview

November 2022

Introduction

Economy

- While 2020, 2021 were very good for business in CEE despite the pandemic, the geopolitical circumstances changed radically and growth in 2022 has slowed down.

- Clogged supply chains and demand exceeding supply caused soaring inflation globally, while consumer confidence is hit along with real wages.

- According to CEER, producer/input costs in the EU were rising at 37% in May, the highest number ever recorded and 4 times higher than any other recorded number.

- Economic activity has slowed sharply as inflation has eroded income. However, according to Oxford Economics, the rate of inflation on average has peaked already and Europe is expecting to see consolidating rates from 2023 onwards.

- Companies are responding with solid price increases from 5-15% or even higher 25%+ in some B2B sectors among the highest increases in decades. Cost of food increased on average by close to 35% in Hungary between August 2022 and 2021.

- The EUR/HUF exchange rate is at a record high 427 HUF/EUR, a staggering 49.5% increase within 6 months, as a direct consequence of the war in Ukraine.

- Energy prices, be it gas or electricity have skyrocketed during the last 6 months, showing a 5-6 times increase compared to 2021 levels, with no signs of moving back to historic levels.

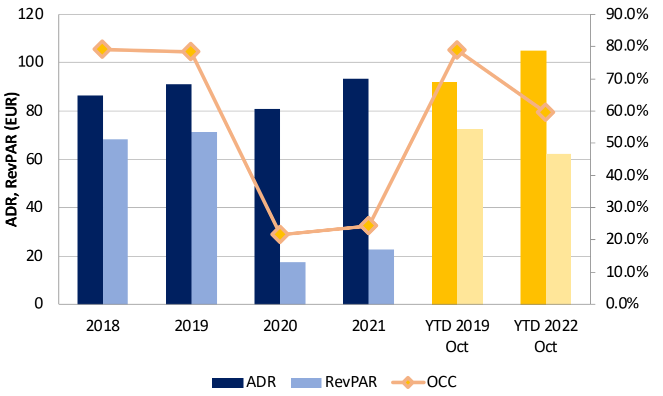
- Labour shortage in Budapest was at a critical stage in Q1-Q2 2022, however by Q3 the situation has improved considerably, mostly due to the double-digit salary increases in the sector. On average there was a 40% increase in salaries in Hungary between H1 2019 and H1 2022.

Regional Outlook – Hotel KPIs

Cities	Year to Date - October 2019			Year to Date - October 2022			Year on Year Change in %		
	OCC	ADR	REV PAR	OCC	ADR	REV PAR	OCC	ADR	REV PAR
Vienna	77.9%	107.5	83.7	58.1%	115.1	66.9	-19.8%	7.1%	-20.2%
Budapest	78.8%	92.2	72.6	59.4%	105.0	62.4	-19.4%	13.9%	-14.1%
Prague	79.4%	94.1	74.7	56.5%	97.1	54.9	-22.9%	3.2%	-26.5%
Warsaw	73.6%	75.3	55.4	72.4%	76.2	55.2	-1.2%	1.3%	-0.4%
Bratislava	67.6%	81.8	55.3	52.5%	83.2	43.7	-15.1%	1.7%	-20.9%

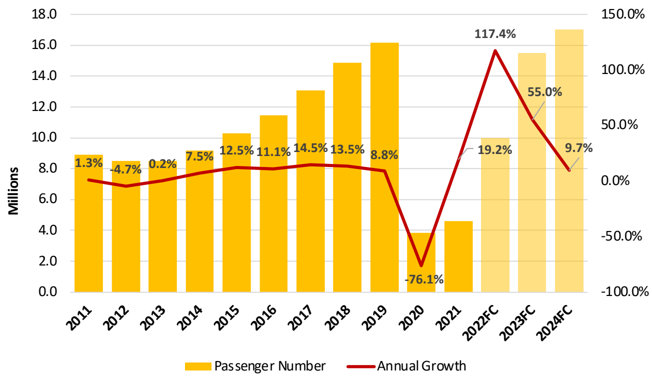
- According to the latest YTD statistics published by STR Global, Budapest managed to improve its position among its regional competitors.
- Budapest ranked number two in occupancy with 59% outperformed only by Warsaws' striking 72%, and achieved the same second position in ADR and RevPAR just one EUR behind Vienna.
- However, the cities compared to themselves only Budapest could boast with a double-digit increase in ADR compared to the same period in 2019, showing a shift in pricing strategy in the entire market.

Budapest Hotel Demand (2018 - OCT 2022)



Source: STR Global

Budapest Airport Passenger Volume (2011-2024FC)



Source: STR Global

Hotel Market Trends Budapest

- The recovery of the tourism industry in Budapest shows a positive picture in 2022 despite the many challenges in the aftermath of the Coronavirus Pandemic.

- According to STR Global in the first ten months of 2022 ADR increased by close to 14% based on the same period in 2019. In contrast, room occupancy lagged behind by 19% percentage points on average resulting in an 14% lower RevPAR than the record data of 2019.

- Seasonality returned with a trend similar to that of 2019, the number of guest nights steadily increased towards the summer months, with an unexpected surge in demand for a few weeks following the outbreak of the war between Russia and Ukraine. Hotel operations at the time still running with heavily reduced teams got caught off-guard by the surge of the refugees and war-related visitors. However, for those hotels who could capitalise on this unforeseen opportunity, it meant a rapid recovery from late February onwards.

- The compound annual growth rate of passenger traffic at Budapest International Airport was 7.7% between 2011 and 2019, surpassing 16 million passengers in 2019.

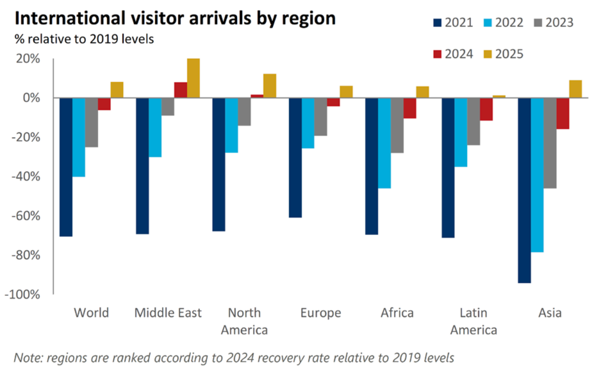
- In contrast, with the easing of pandemic related travel restrictions in the key source markets (with the exception of China) the Airport expects to generate a 160% increase over 2021 figures, targeting 12 million passengers by the end of the year.

- The Airport remains bullish on future prospects, and expects a near complete recovery by the end of 2023. Connectivity still lags behind 2019 levels, as most airlines have been focusing on restoring their primary markets, hence hubs like Vienna enjoy more attention and quicker recovery than Budapest.

- While the number of tourists traveling to Budapest increased significantly in the first ten months of 2022, a considerable transformation could be observed in the composition of source markets. Although the United States, Germany and the United Kingdom retained their leading role, the role of the Asian markets weakened significantly. Markets such as Israel or Ukraine took their place in the top five list, albeit only temporarily.

Outlook

- Most hoteliers are hopeful for 2023 as the World Athletics Championship – one of the world's top 3 most viewed sports event – will take place in Budapest and Budapest Airports projections are also reflecting near 2019 demand levels.
- Budgets are reflecting hopes for achieving 2019 top lines, while bottom lines are severely impacted by the rising costs of labour and energy.
- On the other hand, the consolidation of energy prices and the end of the war next door are far from certain prospects.
- With limited to no available financing for hotel developments combined with the continuously increasing development costs (now almost on par with Western European benchmarks) the projects not yet started will likely be postponed or reassessed altogether. This will in turn support the balance of supply and demand, preventing saturation.
- Transactions have slowed down and are limited to local players, however international buyers remain interested, albeit taken spectator status.
- Full recovery of the international travel is projected by Tourism Economics to occur no sooner than by the end of 2024 in Europe, with international corporate group travel to catch up the latest.
- China is not expected to come back as an important source market by end of 2023.
- Finally, the next two-three years will see a considerable number of new hotel openings in the 5-star segment. Out of the 3,500 new hotel rooms expected in the next 3-5 years 1,200 will be upper-upscale and luxury hotels, such as the Radisson Collection, W, St. Regis, Autograph Collection, Kimpton, fully refurbished Sofitel, and the re-branded and re-positioned Gellért Hotel, to name only the most immediate and certain projects.



Source: Tourism Economics, Oct 2022

Conclusion

- 2022 is expected to close with relatively strong revenues for the more centrally located hotels, however most hotels will still lag behind the 2019 record levels.
- Teams are almost back at full capacity but the exodus of experienced workforce to other industries will be difficult to be replaced.
- The increased inflationary environment coupled with a strong rebound in pent-up leisure demand allowed hoteliers to break the usual post crisis pattern of downward rate spirals, which was also aided by the notable 13%-point decrease in the VAT of accommodation services back in 2020 to 5%.
- Soaring energy prices, however are crippling most businesses, eating away the much-awaited profits, with little hope for any notable aid to be received by the already strained state budget.
- In 2023 source markets will be tested if there are still enough discretionary income to be spent on trips to destinations such as Budapest and the EU as a whole will have to prevail under the burdens of the self-induced energy crisis.
- In the same time 2023 is expected to be the first year since 2020 to be least impacted by the now more isolated Corona virus outbreak, posing no immediate threat to global travel.

In conclusion, we believe that competition is going to increase greatly, where competitive advantages such as location, physical condition, quality of service, distributional channels, together with the ownership's financial strength will play a crucial role in the next 12 months.

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