

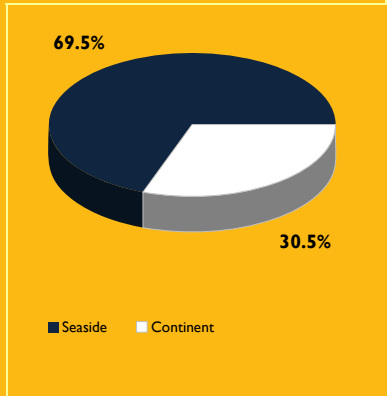


# CROATIA HOTEL MARKET SENTIMENT SURVEY

February 2009

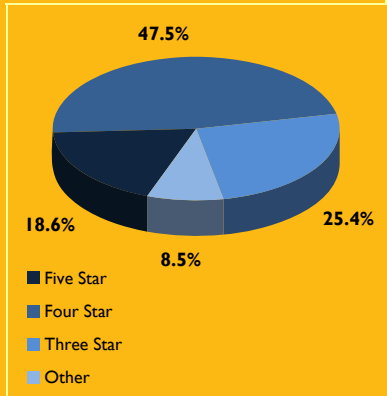
## SHARE OF RESPONDENTS

### BY REGIONS



## SHARE OF RESPONDENTS

### BY STAR CLASSIFICATION



## INTRODUCTION

The Horwath HTL Hotel Market Sentiment Survey for Croatia has been designed to provide the hotel industry in this country a quick assessment of the market outlook for the coming 12 months. The survey, as part of the global initiative, focuses on the outlook for occupancy, average room rates and total revenue.

Hoteliers have also been asked to make comments on the impact of key factors that drive room night growth as well as rate the outlook for each major demand segment.

This report summarizes the outcome of the survey, gathered from 59 respondents, which represent 37 percent of total Croatian hotel sample. 70 percent of them came from seaside destinations and the rest from continental Croatia. The majority of the contributions were from 4-star hotels (48 percent), followed by 3-star (25 percent) and 5-star (19 percent).

In the time when the crisis affects the world, it is not surprising to find most markets in South East Europe, including Croatia, having the same negative assessment of the outlook for 2009. However, the following analysis provides some useful information for the different hotel markets across Croatia.



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**SENTIMENT RANKINGS**

By Regions	Score
1. Continent	-2.7
2. Seaside	-40.0
By Star Classification	Score
1. Three Star	-17.0
2. Four Star	-17.8
3. Five Star	-44.4

*"An average sentiment score of negative 24.4 clearly indicates that hoteliers across country are expecting declines in performance in 2009."*

**RANKING SCORE KEY**

Much Worse	-150.0
Worse	-75.0
Same	0
Better	75.0
Much Better	150.0

**SENTIMENT RANKINGS**

As a way to measure and compare the results across markets, we have created an index to formulate an overall average sentiment score from all survey questions. Points were assigned to each corresponding response and compounded accordingly. The index utilized a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism; a zero score indicates unchanged expectations from the previous year whereas a positive 150 signifies a very optimistic outlook.

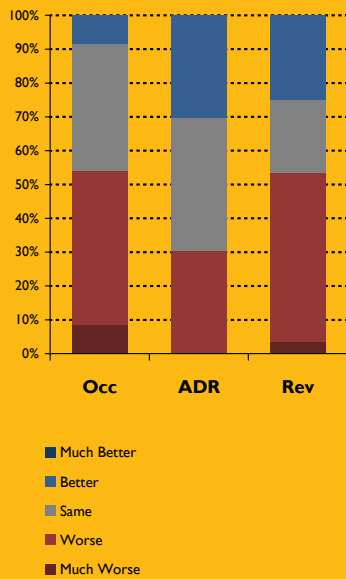
The purpose of creating a sentiment index or score is also to better track changes in market sentiment in future surveys to be conducted by Horwath HTL.

The sentiments of hoteliers across all markets have been clearly affected by the global economic crisis, visible from the results. The market sentiment in Croatia was rather pessimistic with an average score of negative 24.4. The average national score is only by 5 percent higher than the regional average (-25.8) but, it is for 28 percent higher than average global score. The reasoning for this difference between global and regional score is in more optimism and the affects of crisis that are not yet completely visible in the region.

The hoteliers from continental Croatia were less pessimistic since their average score is almost zero. This means that some of the hoteliers from continental destinations do not expect major declines in 2009.

Looking to the level of optimism among the hotels of different category, the three star hotels had the highest sentiment score. On the other side, the hoteliers from five star hotels were more pessimistic, with the score bellow national and global average.

## RATIO OF RESPONSES



*"54 percent of the respondents stated that market-wide occupancy performance is going to be worse than 2008, only 9 percent said it would be better."*

## MARKET PERFORMANCE RANKING

	Occ	ADR	Rev.
1. Continent	-41.7	13.2	-17.6
2. Seaside	-40.2	-5.8	-26.9

## MARKET PERFORMANCE

The first survey question dealt with the contributors' outlook on their markets' performance in 2009 compared to 2008. The index was used to gauge the average scores.

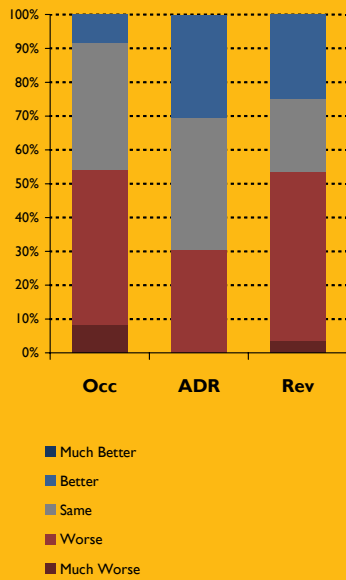
In response to expectations on market-wide occupancy performance, 54 percent of the hoteliers replied that matters will get worse, while only 9 percent stated that things will get better. The most pessimistic were the hoteliers from five star hotels since 73 percent of them thought that the market-wide occupancy will be worse than in previous year. The average market-wide occupancy ranking score for continental destinations was negative 15 while, being more pessimistic, the average occupancy score for seaside destinations was lower (-24.3).

Most of the hoteliers in Croatia were more optimistic in terms of ADR than in market-wide occupancy performance. The opinion of the hoteliers is divided between those who expect worse and better ADR in 2009 (the same ratio of 30 percent). However, the majority of the hoteliers believed that the situation with ADR will be the same as in 2008 (40 percent). Again, the major negative changes in ADR performance were expected in five star hotels since 70 percent of them expect generally worse ADR in 2009 compared to 2008. The most of the 4-star hoteliers believed that the ADR performance in 2009 will be the same as in 2008. The expectations about ADR in 2009, by the opinion of 3-star hoteliers, were equally divided between better and worse cases. Continental hoteliers were more optimistic since their average ADR score was positive.

The majority or 54 percent of the respondents had bleak sentiments about the market's future revenue performance while merely 21 percent stated that revenue will follow last year's trend and 25 percent who were optimistic about 2009's performance. The most pessimistic hoteliers were from five star hotels again, since 90 percent of them responded that the revenue situation will be worse. Both Croatian regions get negative revenue score for 2009 where the continental hoteliers were less pessimistic again.

The average market performance sentiment score, by the opinion of the respondents from Croatia, is -21.6.

## RATIO OF RESPONSES



*"Based on the averages of three performance indicators measured for 2009, the hotel performance in the country will decline by only 2.3 percent."*

## HOTEL PERFORMANCE RANKING

	Occ	ADR	Rev.
1. Seaside	2.4	16.7	6.4
2. Continent	-13.9	23.5	-2.9

## HOTEL PERFORMANCE

The second question asked respondents to estimate the growth or decline in the performance of their hotel for 2009 compared with 2008.

The majority of 68 percent of the hoteliers stated that their hotels will likely suffer a decline in occupancy. Another 48 percent believed that ADR will experience the same fate while 61 percent replied that revenues will follow the same trend. However, 27 percent of the respondents believed that the occupancy in their hotels will stay the same or improve for not more than 5 percent. Croatian hoteliers were more optimistic about ADR since 52 percent of them expect better ADR in 2009 than in 2008. Because of this optimism, 30 percent of the respondents believed that the revenues in their hotels will increase for almost 5 percent in 2009.

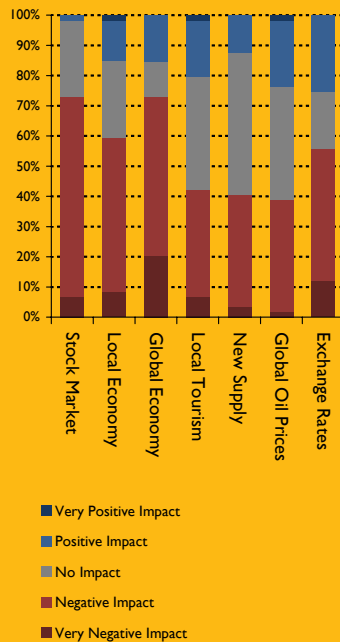
Based on the Croatian averages, the hotel occupancy will decline in 2009 compared to 2008, by 3.6 percent, ADR by 0.5 percent and revenue by 2.7 percent.

Utilizing the average index score, both Croatian regions managed to achieve a slightly positive result mainly because of the hoteliers' opinion about better ADR performance in 2009. The hoteliers from continental destinations were more concerned about the occupancy (-13.9 score) while their optimism about the ADR in 2009 was higher than in seaside destinations. The hoteliers from seaside destinations expect growth of all three hotel performance indicators in 2009, while in the continental destinations a slight decrease of revenues is expected.

According to star classification, the most concerned of their performance in 2009 were the hoteliers from 5- star hotels where the occupancy will decline by 8.2 percent, ADR by 7 percent and revenues by 5.5 percent. This gives the average decline of 5-star hotels performance by 6.7 percent. For the same period, 3-star hotels have forecasted the average decline of all three indicators by 0.7 percent while the 4-star hotels predicted average decrease for 0.4 percent.

The average hotel performance sentiment score, by the opinion of the respondents from Croatia, is slightly positive (6.6).

## RATIO OF RESPONSES



*"Global economic growth trends and stock market performance are the primary concerns for the hoteliers from Croatia in 2009."*

## FACTORS AFFECTING PERFORMANCE RANKING

1. Global Oil Prices	-11.4
2. Local Tourism Trends	-20.3
3. New Competitive Supply	-23.7
4. Currency Exchange Rates	-31.8
5. Local Economic Trends	-38.1
6. Global Economic Growth Trends	-58.5
7. Local/Global Stock Market	-58.5

## FACTORS AFFECTING PERFORMANCE

Hoteliers were also asked to gauge their attitude towards seven factors and their influence on the hotels' performance in 2009.

Based on the opinion of hoteliers from Croatia, the most negative impact on hotel performance have global economic trends and the stock market performance, since 73 percent responses indicate their negative influence in 2009. The second of which the hoteliers were concerned, is the local economy, which had a negative response rate of 59 percent. On the other hand, more than 25 percent of hoteliers foresee the currency exchange rates' trend as the most positive factor for the growth of hotel performance. The most irrelevant factor for the hoteliers in Croatia is the new competitive supply.

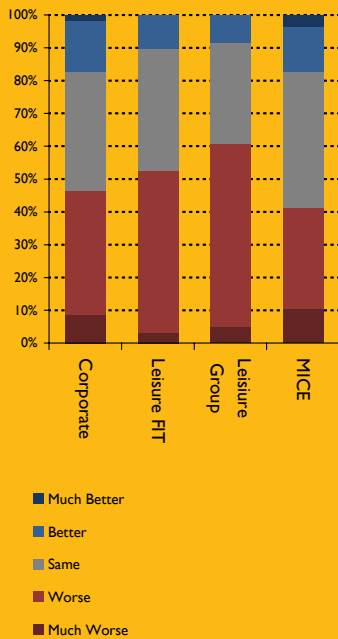
Utilizing the index, all choices registered negative results, indicating that all factors will negatively affect performance. The contributors perceived that the worsening of global economy and local/global stock market will likely have the most harmful impact on hotel performance (the lowest scores of negative 59 points).

Both Croatian regions are concerned with all listed factors. Continental hoteliers are lesser concerned with the new competitive supply and local tourism trends, while the hoteliers from seaside destinations have the lowest concern with global oil prices.

For the hoteliers from 4- and 5-star hotels, the new competitive supply is the most irrelevant factor while the hoteliers from 3-star hotels see the irrelevance of local economic trends. The most positive factors for 4- and 5-star hoteliers are the changes in exchange rates while the local tourism trend is mainly positive factor for 3-star hoteliers.

The average score for all listed factors, by the opinion of the respondents from Croatia, is -34.6.

RATIO OF RESPONSES



*"More than 50 percent stated that performance of all segments will get worse, mainly because of the lesser demand from leisure guests"*

#### MARKET SEGMENT PERFORMANCE

1. MICE	-23.3
2. Corporate	-27.2
3. Leisure FIT	-34.3
4. Leisure Group	-43.2

## MARKET SEGMENT PERFORMANCE

The last question dealt with each participant's opinion with regard to primary market demand segments and their expected performance in 2009.

The majority of the respondents (57 percent) had negative opinions about the future performance of both leisure segments. By the opinion of 41 percent of the Croatian hoteliers, the demand from MICE segment will be either negatively harmed or stay the same as in 2008. On the other side, only 13 percent of the hoteliers believe that the demand from all primary segments will get better.

Employing the scoring system to obtain an average score, all segments yielded negative results, indicating that respondents generally think performance across all segments will suffer this year. The participants believe that the leisure segments will be more affected this year as they scored the lowest points. This is not surprising given the current impact of the financial crisis on this most important segment for this country.

All market segments achieved negative scores in both regions. More than 70 percent of the hoteliers from continental destinations expect lower demand from leisure guests while 60 percent foresee the demand from MICE segment as better or the same as in 2008. Similar opinions have the hoteliers from seaside destinations, except their positive attitude is more on the side of corporate segment.

Almost 60 percent of the hoteliers from 5-star hotels believe that the demand from all primary segments will get worse. The Leisure FIT segment achieved the lowest score from 5-star hoteliers (-68). MICE and Leisure FIT segments got the highest, but still negative score from 3-star hoteliers (-5). Corporate and MICE segments will get better for more than 26 percent of hoteliers from 3-star hotels and around 20 percent of the respondents from 4-star hotels.

The average score for the performance of primary segments, by the opinion of the respondents from Croatia, is -32.

## CONCLUSIONS

Hoteliers in Croatia generally expect a tough year with respect to overall hotel market situation. However, the expectations of the hoteliers from this country are slightly less pessimistic than the expectations of a global average hotelier questioned in this survey.

Market-wide will get worse and the majority of the contributors projected that the average individual property performance in all three measures, room occupancy, average room rates and total revenue will slightly decline in 2009 (for 2.3 percent). The main reason for this is that Croatian hoteliers does not expect important decrease of ADR in 2009 but on the other side, they are more concerned about demand and overall revenue performance.

Although all of the seven factors were estimated to have a negative effect on performance, global economic trends and stock market performance were perceived to have the most severe effect.

The most concerns of the hoteliers from this region are related with the decline of demand from leisure segment, especially groups in 2009. The most pessimistic were the hoteliers from five star hotels that foreseen the majority of declines. Among all primary demand segments heavily affected in 2009, MICE segment had the lowest degree of decrease in 2009.

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