



MAY 2012 | PRICE £75

MARKET SNAPSHOT PRAGUE, CZECH REPUBLIC

Lucy Payne
Market Intelligence Analyst



This market snapshot is part of a series of articles that HVS produces on key hotel sectors across Europe. In writing these articles we combine the expertise of HVS with STR Global data for each market. Our analysis is based on data for a sample of 74 mainly branded properties as provided by STR Global.

Highlights

- Following a dip in economic growth in 2009, the Czech Republic's economy showed modest signs of recovery in 2010 with GDP growth of 2.7%. According to the Economic Intelligence Unit's April 2012 forecast, GDP is expected to have grown by 1.7% in 2011 and will continue to grow into 2012 and 2013 by 0.2% and 1.9%, respectively;
- Prague, the capital of the Czech Republic, attracted more than 5.1 million visitor arrivals and 13.2 million bednights in 2011, representing an 8% (visitor arrivals) and 9% (bednights) increase on 2010. The majority of these were generated from international visitors, which accounted for 86% of total arrivals and 90% of total bednights;
- The main international source markets for Prague in terms of arrivals are Germany (15% of international arrivals in 2011), Russia (9%) and the UK (6%);
- Prague Ruzyně International Airport has recorded significant increases in passenger numbers over the past ten years with a compound annual growth rate of 6.2%; the majority of demand is generated by international arrivals;
- The meeting, incentive, conference and exhibition (MICE) sector was impacted by the economic crisis, with the number of meetings and events held in the city declining in 2010. Figures for 2011 are unavailable at present, but as tourism has increased it is likely that the number of meetings and events has followed suit;
- The hotel performance figures for the 12 months to February 2012 show Prague's hotel market is recovering from the economic crisis, with occupancy and average rate both growing. As a result, revenue per available rooms (RevPAR) saw growth in both euro and Czech koruna terms; growth was largely led by increases in occupancy;
- Prague has seen a number of hotels enter the market over recent years, leading to a large growth in hotel rooms. Development has now slowed, giving the city a chance to absorb the new additions to supply;
- Prague's hotel investment market has been significantly impacted by the economic crisis and has remained generally unremarkable over the past few years. Only two transactions have taken place since 2010: the InterContinental Prague and the ibis Praha Karlin;
- As per the annual HVS Hotel Valuation Index (HVI), Prague ended 2011 with values of around €166,000 or CZK4,100,000 per room for an internationally branded, four-star, city centre property representing increases of 4% and 1% in euro and Czech koruna respectively.

Hotel Demand Patterns

Prague Ruzyně International Airport, the largest airport in the Czech Republic, was impacted by the economic crisis with arrivals declining by 7.8% in 2009 and 0.7% in 2010. In 2011, the airport carried almost 11.8 million passengers, a 2.3% increase on the previous year and a sign that tourism is returning to Prague. The airport has shown significant growth over the past ten years, with arrivals growing from 6 million in 2001 to almost 11.8 million in 2011, a compound annual growth of 6.2%.

Visitor arrivals have also increased steadily over the last ten years, with compound annual growth rates of 6.7% (international) and 5.0% (domestic). Visitor arrivals were impacted as the economic crisis took hold in 2009, with international arrivals declining by 6% and domestic arrivals remaining static. Since then, as conditions improved, both international and domestic arrivals have witnessed growth (at 8% and 12% respectively), and in 2011 total visitor arrivals peaked at 5.1 million. Visitor arrivals are dominated by international demand, which accounted for 86% of total arrivals in 2011. More than 22% of total arrivals travelled with a budget airline, such as easyJet and WizzAir.

Bednights have also witnessed growth, driven by international demand, which accounts for 90%. Total bednights declined in 2008 and 2009 as a result of the economic crisis, before showing growth of 8% in 2010 and a further 9% in 2011. International bednights achieved 5% compound annual growth over the last ten years, while domestic bednights grew at a slower rate of 1.1% over the same period.

The main international source markets for Prague in terms of arrivals are Germany, Russia and the UK. In 2011, Germany accounted for 15% of total international arrivals in Prague while Russia and the UK accounted for 9% and 6%, respectively. Arrivals from the majority of markets showed growth in 2011 compared to the previous year, with the exception of the UK where arrivals declined by 12% as economic conditions remain challenging. Other important international markets include Italy, the USA, France and Spain.

The MICE (meetings, incentives, conferences and exhibitions) segment has been significantly impacted by the economic crisis, with the number of events hosted at the Prague Congress Centre declining by 12% in 2010. In addition, according to the International Congress and Convention Association (ICCA), Prague hosted 85 international meetings in 2010 compared to 96 the previous year. Figures for 2011 are unavailable but, as tourism continues to grow, the MICE market is expected to pick up.

Hotel Performance

The analysis in this market snapshot is based on a sample of 74 hotels in Prague. Charts 1 and 2 show Prague's hotel market performance in both Czech koruna and euro.

In 2010, room occupancy grew by a significant 9.5% as the market began to recover from the depth of the economic crisis and the significant falls in occupancy this caused. Despite this, hoteliers were unable to increase average rate, which declined by 9% to CZK1,778 in the same period, leading to a 0.4% decline in RevPAR, in Czech koruna terms. This was a result of increased supply in the market and hoteliers reducing rates to help increase occupancy.

The growth in occupancy continued into 2011 with further growth of 7.7% witnessed; in contrast to 2010 this was accompanied by a marginal increase of 0.3% in average rate, leading to an overall increase in RevPAR of 8%.

CHART 1: HOTEL PERFORMANCE IN PRAGUE 2010-12 (CZECH KORUNA)

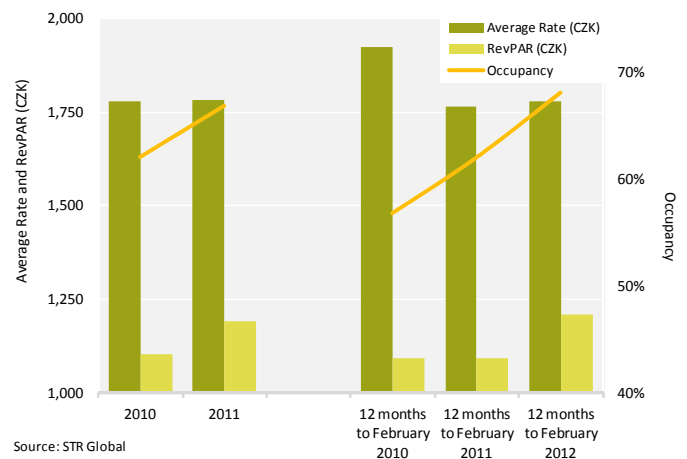
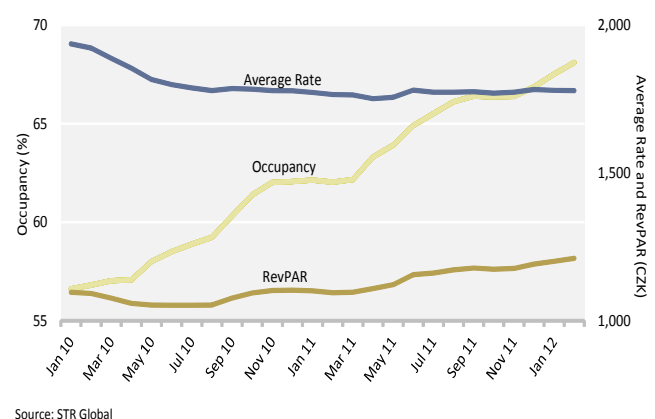


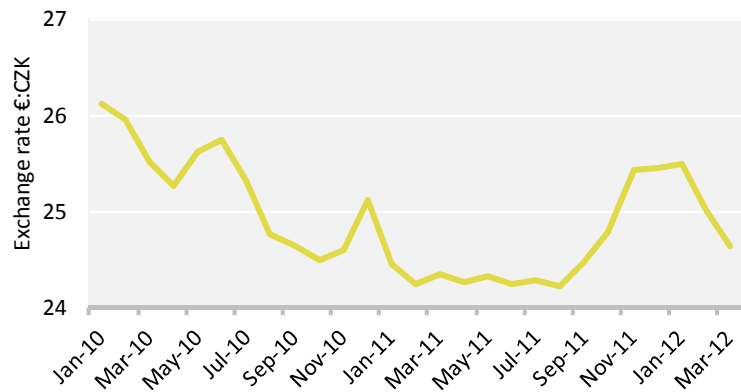
CHART 2: HOTEL PERFORMANCE IN PRAGUE 2010-12 (EURO)



The figures for the rolling 12 months to February paint a similar picture, with occupancy growing a significant 9.2% in 2010/11 and a further 9.8% in 2011/12. In Czech koruna terms, average rate fell 8.2% in the 12 months to February 2011, before showing limited growth of 0.7% in 2011/12, illustrating that hoteliers are still struggling to grow average rate, despite the significant increases in occupancy. In terms of RevPAR, 2010/11 showed limited growth but 2011/12 showed a noteworthy 10.6% increase, fuelled by the large increases in occupancy and the static average rate.

In euro terms, the decline in average rate was not as strong owing to currency fluctuations (see Chart 3). In 2010, average rate declined just 4.6%, leading to a 4.4% increase in RevPAR, and in 2011 average rate grew 3%, leading to a significant 10.9% increase in RevPAR. The figures for 12 months to February show a decline in average rate for 2010/11 of 3.9%, not as significant as in Czech koruna terms, leading to a larger increase in RevPAR of 4.9%. Figures for 2011/12 show growth of 2.6% in average rate and 12.6% in RevPAR.

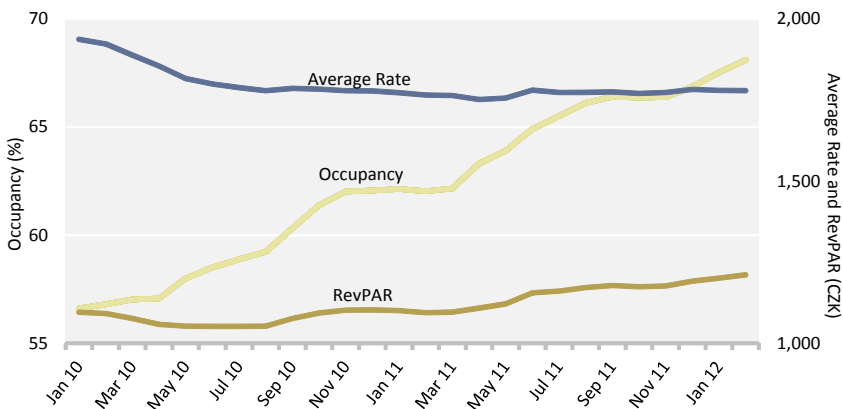
CHART 3: EXCHANGE RATE FLUCTUATION, JANUARY 2010 TO MARCH 2012 (€:CZK)



Source: OANDA

Chart 4 shows the monthly moving annual average of hotel occupancy, average rate and RevPAR in Czech koruna from January 2010 to February 2012.

CHART 4: TWELVE MONTH MOVING AVERAGE – OCCUPANCY, AVERAGE RATE AND REVPAR JANUARY 2010 TO FEBRUARY 2012



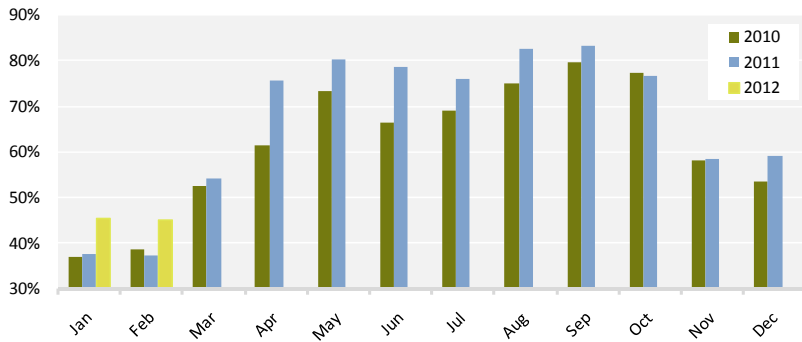
Source: STR Global

In terms of average rate and RevPAR, Chart 4 shows a relatively flat performance, but it is interesting to see the significant growth in occupancy over the same period. Average rate struggled to grow owing to the strong competition in the market, as a number of hotels have opened in recent years. Despite this, as long as occupancy continues to grow hoteliers should be able to slowly increase average rate, leading to continued increases in RevPAR. Over the same period room nights have continued to increase, on average growing 0.8% per month.

Seasonality

Chart 5 shows the seasonality for the hotel market in Prague for 2010, 2011 and year-to-February 2012. It is evident that the hotel market is recovering; 2011 occupancy levels exceeded those reached in 2010 and this positive trend is clearly continuing into 2012 as January and February were reportedly exceptional months.

CHART 5: SEASONALITY – PRAGUE MONTHLY OCCUPANCY 2010, 2011 AND YEAR-TO-FEBRUARY 2012



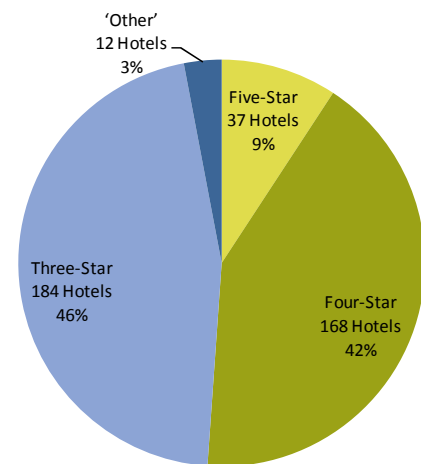
Source: STR Global

October, with occupancy remaining above 75% for these months. The dip in occupancy experienced between November and February is typical of most markets owing to Christmas holidays and the winter season.

Supply

According to the Czech Statistical Office, hotel supply in Prague consists of 401 economy to five-star hotels. The city's hotel supply covers all categories, although the majority are three-star and four-star hotels, which together account for 88% of the total supply. There are 37 five-star hotels in the market accounting for 9% of Prague's current hotel stock, including a number of internationally branded hotels. Chart 6 shows the makeup of the current supply in Prague.

CHART 6: HOTEL SUPPLY IN PRAGUE



Source: Czech Statistical Office

New Supply

As previously discussed, Prague has seen a number of hotels enter the market over the past few years, notably before the economic crisis took hold. Three hotels, of which two are internationally branded, opened in 2010, while none opened in 2011. March 2012 saw the opening of the 88-bedroom boutique Fusion Hotel; this independently branded hotel, located on Panska 9, offers a mix of apartments, studios, standard rooms and shared rooms (see Chart 7).

CHART 7: RECENT HOTEL OPENINGS

Future Openings	Category	Number of Rooms	Opening Date	Status
Fusion Hotel	Midscale	88	Mar-12	Recently Opened
Moods Hotel	Upscale	51	May-10	Recently Opened
NH Praha Radlická	Upscale	137	May-10	Recently Opened
Clarion Hotel Prague City	Upscale	64	Apr-10	Recently Opened
Total		340		

Source: HVS Research

For now, it seems hotel development has slowed, with many hotel projects on hold and no major projects in the pipeline, largely due to the effects of the economic crisis and the difficulty of securing debt finance. Between 2000 and 2010, a remarkable number of hotels entered the market, leading to tougher trading conditions and higher levels of competition.

Hotel Investment and Values

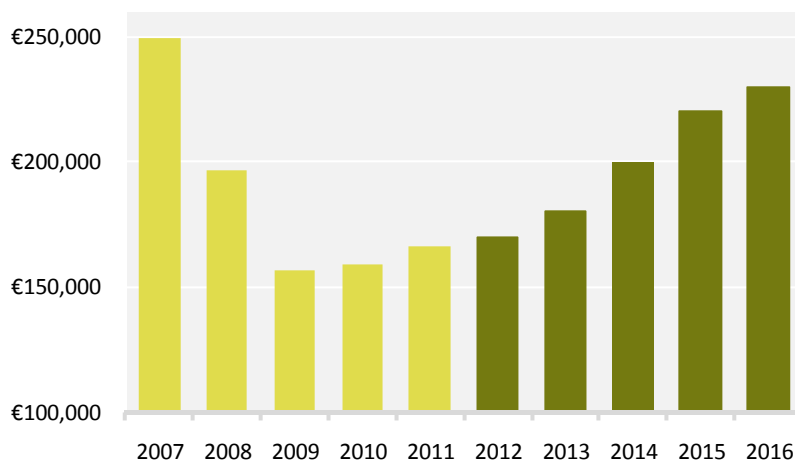
Prague’s hotel investment market has been significantly impacted by the economic crisis and, as a result, has remained generally unremarkable over the past few years, with just two reported hotel transactions of more than €7.5 million.

In March 2012, HPI Hotelbesitz GmbH acquired the freehold of the 226-bedroom ibis Praha Karlín for an undisclosed sum. HPI Hotelbesitz GmbH intends to renovate the hotel to bring it in line with the brand standards of its sister company, Pentahotels. The hotel will be rebranded later this year; in the meantime, the property will continue to be operated under Accor’s ibis brand.

In September 2010, an affiliate of Westmont Hospitality acquired the InterContinental Prague from Strategic Hotels & Resorts. The 372-bedroom hotel includes three restaurants, a full-service spa, 12 meeting rooms and 549 m² ballroom. The hotel was acquired for €110.6 million, or €297,000 per room.

In addition, it has recently been reported the 161-bedroom Four Seasons Prague may be put up for sale. The property, which is said to have an asking price of €80 million, is owned by Irish asset management company Avestus Capital Partners, who recently disposed of the Four Seasons in Budapest for €80 million (€447,000 per room).

CHART 8: EVOLUTION OF HOTEL VALUES PER ROOM – PRAGUE 2007-16 (€)



From our valuation experience and our knowledge of the market, we estimate that hotel values in Prague have evolved as shown in Chart 8. Following sustained growth, the value per room peaked just shy of €250,000 (CZK6,900,000) in 2007, before declining sharply by 21% in 2008 (in euro terms), and a further 20% in 2009; an obvious impact of the economic crisis. The value per room has struggled since, growing by 2% in 2010 and 4% in 2011, albeit from a low base.

As per our annual European Hotel Valuation Index report (HVI), Prague is placed 23rd in terms of value per room

(euro terms). Prague ended 2011 with values of €166,000 or CZK4,100,000 per room for a typical internationally branded, four-star, city centre property. This falls below the average value per room for the 33 cities covered by the HVI, which was €220,000.

HVS forecasts that the value per room will rise to €230,000 or CZK5,658,000 (at current exchange rates) by 2016, an increase of around 39% over 2011 prices.

Source: HVS – London Office

Conclusion

Tourism demand is recovering, with an increase in both international and domestic arrivals and bednights recorded for the past two years. The city was largely impacted by the economic crisis, but it is now evident that tourism is returning.

As a result of increased demand, hotel performance is recovering, with figures for the 12 months to February 2012 showing growth in occupancy, average rate and RevPAR. Prior to this, with new openings adding 340 rooms to competitive supply in recent years, hoteliers have struggled. Occupancy has shown great resilience and grown from 62.1% in 2010 to 66.9% in 2011. Despite this, hoteliers have struggled to push average rate, leading to only small increases in RevPAR. As hotel development slows, with little or no supply growth, hoteliers have the opportunity to attempt to grow average rate.

In addition, hotel investment is likely to remain slow as RevPAR remains low and tough economic conditions mean debt financing in central and eastern Europe remains hard to source. Although the Prague hotel market is on the path to recovery, the above, paired with the ongoing economic problems in Europe, suggest it will be some time before transactions, new development and values grow significantly.

© HVS May 2012



About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

About STR Global



STR Global provides clients – including hotel operators, developers, financiers, analysts and suppliers to the hotel industry – access to hotel research with regular and custom reports covering Europe, the Middle East, Africa, Asia Pacific and South America. STR Global provides a single source of global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information. STR Global is part of the STR family of companies and is proudly associated with STR, RRC Associates, STR Analytics, and HotelNewsNow.com.

About the Author



Lucy Payne is a Market Intelligence Analyst with HVS's London office. Lucy holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey. She worked in a number of operating roles in the hospitality industry before joining HVS in 2010. Since then she has worked on a number of research-based assignments in various European countries.

For further information, please contact:

Lucy Payne – Market Intelligence Analyst, HVS
lpayne@hvs.com +44 20 7878 7757

Konstanze Auernheimer – Director of Marketing & Analysis, STR Global
kauernheimer@strglobal.com +44 20 7922 1930