



FEBRUARY 2013 | PRICE €200

KOŠICE: A HIDDEN TOURIST GEM?

PUTTING A MARK ON THE MAP

Veronica Waldthausen

Consulting and Valuation Analyst



Foreword

'I am flying to Košice,' I told my friend. 'To where?' she answered puzzled. 'To Košice - in Slovakia,' I replied. This very well summarises the lack of recognition of Slovakia's second-largest city. Despite its beauty, friendly people and relatively good weather, Košice has remained an unknown destination, almost non-existent for leisure travellers. This article highlights the potential of a relatively untapped market that is bound to see growth in the coming years.

Overview

Slovakia is a high-income economy with one of the fastest growth rates in the EU and OECD. It joined the EU and NATO in 2004 and entered the Eurozone on 1 January 2009. In the past, Slovakia has been attractive to foreign investors because of its low labour costs and well educated labour force. Additionally, in recent years, Slovakia has been pursuing a policy of encouraging foreign investment. However, in 2013, the country's flat tax of 19%, once one of Slovakia's biggest strengths in the eyes of foreign investors, will be raised to 23%, making it one of the highest in the central European region.

Setting the Scene

Košice, the second-largest city in Slovakia, yet still so small that one can easily walk through the town in an hour, can only be truly understood by those who pay it a visit. It is blessed by a mix of history and modernity and culture and business.

Košice, with a population of 250,000, is in eastern Slovakia on the Hornád River near the borders of Hungary to the south (25 km), Ukraine to the east (100 km) and Poland to the north (150 km). It is Eastern Slovakia's centre of industry, culture, commerce, administration and science.

Košice occupied a strategic position on medieval trade routes and rose to power and wealth between the 13th and 15th centuries. Over the decades, Germany and Hungary have dominated much of the city's history, resulting in an ever-present melting pot of cultures. During World War II, Košice was seized by Hungary, but was returned to Czechoslovakia afterwards. Under

the Soviets, Košice became a steel town. From 1948 until 1989, Czechoslovakia was ruled by a Soviet-style central planning regime. It wasn't until 1 January 1993 that Slovakia became independent from what is now known as the Czech Republic, in the peaceful Velvet Divorce. Slovakia was, together with the Czech Republic, the last European country to have gained independence in the twentieth century. Today, trade between the two countries remains strong and the Czech Republic is Slovakia's second-biggest foreign trade partner after Germany.

From Cultural Highlights...

As a leisure tourist, of whom there are currently not many, it is not catastrophic if you cannot spare a whole week to go sightseeing in Košice. The main sites of the city can easily be seen in two days. Most of the historic highlights are located along the main pedestrian street, Hlavná ulica, which is approximately a kilometre long. This street is adorned with restaurants, museums, bars and fashion stores. The most important historic monument, also located on this stretch, is the 14th century Gothic St. Elisabeth Cathedral, which is the easternmost cathedral of western style Gothic architecture in Central Europe. Just behind the church is the Košice State Theatre, which hosts dramas, operas, ballets and classical concerts. The city is also home to numerous museums, including The East Slovak Gallery, the Slovak Technical Museum and the Upper Hungarian Museum.

For those willing to venture out of the city centre, it is worth visiting the wooden churches from the 16th and 17th centuries that are scattered throughout the region. In 2008, they were inscribed on the UNESCO World Heritage List.

HLAVNÁ ULICA



...To Business

According to PWC, more than 20,000 businesses are operating in Košice, accounting for more than 9% of Slovakia's GDP. US Steel, the company that took over the steel plant after Soviet control ended, accounts for the majority of industrial production, producing consumer products, electronics and merchandise for the automotive industry. It is the country's largest private corporate employer with more than 11,000 employees. Some changes are currently brewing as the factory is said to be for sale. Rumour has it that it will be sold to a Ukrainian mining group, but nothing has been signed or confirmed.

Košice is also becoming a centre for telecommunication and information technology. Many IT firms have opened offices in the city as well as support centres, such as T-Systems (Deutsche Telekom's corporate customer arm), Ness Slovensk (a technology service provider) and Siemens PSE. This 'IT Valley' just outside the centre city has become known as 'Kechnec Industrial Park' and is attracting more foreign investors to the city. Owing to the presence of three universities in the area, highly skilled labour is readily available. These new developments in the city and surrounding neighbourhood have made the city primarily a business destination.

2013 – A Year of Culture

Since 2011, the city has tried to attract large events with the aim of drawing more leisure tourists. In 2011, Košice, along with Bratislava, hosted the International Ice Hockey Federation (IIHF) World Championship. As a result, there was a significant increase in inbound tourism. However, owing to relatively uncoordinated marketing activities and problems with ticket

distribution, the full potential of the event was not realised. Tourists often came for short, one-day trips from Vienna or Budapest, rather than staying the night.

In 2013, Košice has been nominated as the European Capital of Culture, a one-year designation whereby the city will organise numerous cultural events promoting the diversity and richness of Europe. With an initial injection of €63 million, the EU and Slovakia hope to put Košice on the map for leisure tourists. It is a fantastic opportunity for Košice to create an international profile, while simultaneously highlighting the culture of the local area.

Košice has begun to reconstruct and revitalise many buildings and monuments following its nomination as European City of Culture. Dilapidated communist-era housing, for example, has been transformed into SPOTs, community cultural hubs, where neighbourhood projects, educational lectures and small theatrical performances are taking place. Museums have also been whipped into shape by updating their information and extending their exhibitions.

However, as in many up-and-coming cities, not all plans that were so eagerly created and drafted have become a reality. An old communist swimming pool, for example, was planned to be reconstructed into a new 'Kunsthalle' (art gallery) where water-related performances would be held. Signs of construction are currently non-existent, but the city is hoping to complete the project before 2013 is over.

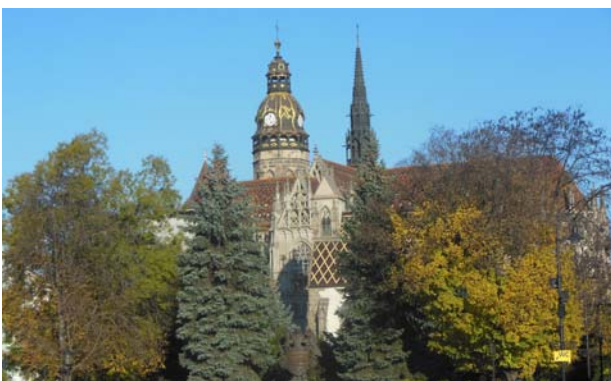
Despite some hurdles, the city has managed to meet the expectations of the EU and has therefore been granted some bonus money. As a result, continued optimism and new developments will lead the city into 2013.

Getting to Košice

Access to Košice is probably the greatest hurdle the city faces. From the capital of Slovakia, Bratislava, it takes around six hours to get to Košice by car and perhaps a bit longer by train. The train station, a decrepit communist-era building, is currently undergoing a much needed 26-month refurbishment.

Košice also has the country's second largest airport, Košice International Airport, just eight kilometres south of the city. It serves both scheduled and chartered flights. KSC Holding became the majority

ST. ELISABETH CATHEDRAL



shareholder of the airport in 2006 and the Republic of Slovakia owns the other 40%.

Over the past five years, a substantial €14.6 million has been invested in the airport's infrastructure and equipment. The capacity of the airport is 800,000 passengers a year with a three-kilometre runway, allowing much leeway for growth.

As can be seen in Figure 1, passenger numbers grew steadily from 2001 to 2008 at a compound annual rate of 22.4%. The decrease in passenger numbers in 2009 and 2010 can be attributed mainly to the global economic downturn, which severely affected the country as the domestic airline, SkyEurope, collapsed. Many other airlines cancelled their routes to the city, and Košice has since had a difficult time attracting new carriers. In 2012, there were regular flights to and from Vienna with Austrian Airlines, Prague with Czech Airlines and Bratislava with Danube Wings.

The airport manager informed us that the outlook for 2013 is expected to improve as negotiations with two different flight companies are currently in progress, which should add connections to and from London and Düsseldorf.

Staying in Košice

Hotel supply in Košice is characterised by a number of small, independent, privately owned hotels, each with no more than 40 rooms. Some of these local hotels are in great condition, offering 'boutique' style rooms at around €70.

In 2009, the market changed as two large branded hotels opened: the DoubleTree by Hilton opened in February 2009 with 170 rooms and the 166-room Hotel Yasmin (a Czech brand) opened in March 2009. These two hotels currently make up around 50% of the rooms in the city.

Two new hotels are rumoured to be entering the market in 2015 and 2016, adding approximately 190 rooms. From our research, we understand that the Falkensteiner Hotel Group, a family run hotel company, has bought a property in the city and was given a building permit in 2009. However, as it did not pursue construction in the following two years, the building permit was revoked. We consider, however, that it will not be difficult for Falkensteiner to regain the building permit should it wish to begin construction on the site. The hotel is understood to have 150 rooms.

The second development in the city is rumoured to occur in the City Park. The proposed hotel is thought to have 40 rooms; however, nobody in the market could confirm the exact details of this development.

Hotel Performance

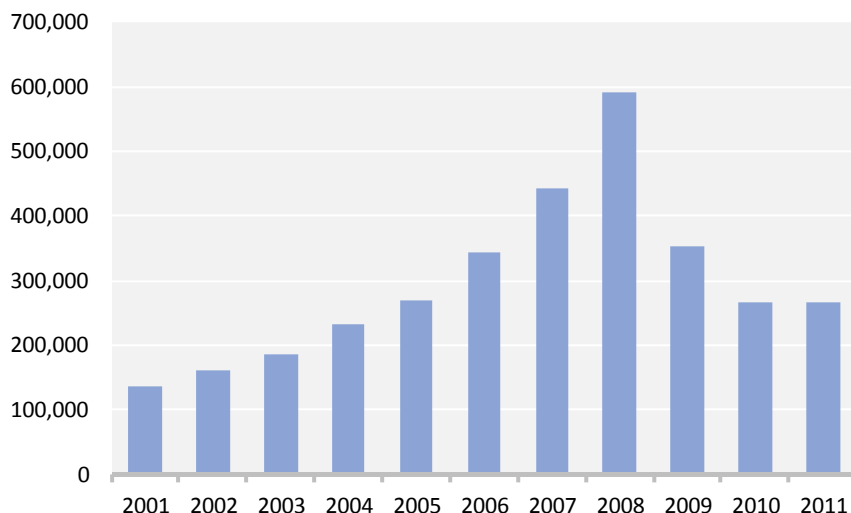
Košice is a relatively unknown gem, and thus marketwide occupancy and average rate are relatively low. Hotel performances have, however, shown growth since 2009. Occupancy in 2010 was up over 50%. This large increase, however, needs to be put into context; the market more or less collapsed in 2009, not only due to the economic crisis which was particularly perilous in Košice due to its dependence on the

business market, but also owing to the relatively huge increase in supply. Average rate in 2010, on the other hand, barely budged. 2011 saw growth in both occupancy and average rate owing in part to the IIHF World Championship. Average rate currently reaches around €70, while occupancy hovers below 50%, resulting in RevPAR growth of around 3% for 2012. We expect further slow and steady growth in 2013.

Visitors

The primary source countries for visitation to Slovakia are the Czech

FIGURE 1: ARRIVALS – KOŠICE INTERNATIONAL AIRPORT 2001-11



Source: TourMIS

Republic, Poland, Germany and Hungary. The Czech Republic has remained the most important feeder country over the years, accounting for 12.8% of total visitation to the country in 2010. Visitation from the Czech Republic has grown every year, with 2009 the exception due to the global economic crisis. This strong relationship can be explained by the historic connections that exist between the two countries, as many Czechs still have family in Slovakia whom they visit frequently.

The second most important feeder country is Poland. In 2010, the country accounted for 4.8% of total visitation. Polish people have tended to visit bordering countries over the past few years and enjoy coming to Slovakia for hiking and skiing trips.

Germany ranked third in terms of visitation, accounting for 3.9% of total visitation, on account of strong business connections with Slovakia. Most of the inbound trips were business related as large German companies such as ThyssenKrupp and Volkswagen have offices in the country.

Similarly to Czech visitors, Hungarians come to Slovakia primarily to visit family and friends. Hungarians in Slovakia make up the largest ethnic

minority in the country and account for 1.5% of the total share of international visitors.

As shown in Figure 2, all of the main feeder markets are expected to see GDP growth from 2013 onwards. GDP generally reflects a strong correlation with international travel.

The Big Picture

Despite its relative secrecy and anonymity as a destination, Košice is a city with a lot of potential. It is not only a growing business district, where large international companies have affiliates, especially in the automobile and telecommunications sectors, but also boasts a rich and scenic cultural offer for leisure visitors. With new flights projected for 2013, the city will make a perfect weekend break destination as it is relatively cheap, has plenty to offer and is a new and exciting destination. As the 2013 European City of Culture, demand is expected to increase by around 10%. However, more importantly, despite the forecast increase in corporate and income tax for 2013, Slovakia hopes to put a pin on the map for both investors and leisure visitors.

FIGURE 2: ECONOMIC INDICATORS OF THE MAIN SOURCE COUNTRIES

	Actual			Forecast				
	2009	2010	2011	2012	2013	2014	2015	2016
Czech Republic								
Population (in millions)	10	10	10	11	11	11	11	11
Real GDP Growth (%)	(4.9)	4.2	3.3	(1.0)	0.6	1.7	2.7	3.2
Unemployment (%)	6.7	7.3	6.7	6.9	7.4	6.9	6.1	5.5
Exchange Rate – CZK:€	26.50	25.30	24.60	25.00	24.70	23.90	22.90	21.90
Poland								
Population (in millions)	38	38	38	38	38	38	38	38
Real GDP Growth (%)	1.6	3.9	4.3	2.4	2.1	3.2	3.4	3.9
Unemployment (%)	8.2	9.7	9.7	10.1	10.6	10.3	10.0	9.6
Exchange Rate – PLN:€	4.30	4.00	4.10	4.20	4.05	3.95	3.75	3.60
Germany								
Population (in millions)	82	82	82	82	82	82	82	82
Real GDP Growth (%)	(5.1)	4.2	3.0	0.9	0.8	1.6	1.2	1.3
Unemployment (%)	7.8	7.1	6.0	5.5	5.4	5.3	5.2	5.2
Hungary								
Population (in millions)	10	10	10	10	10	10	10	10
Real GDP Growth (%)	(6.8)	1.3	1.6	(1.3)	0.7	2.7	1.3	2.2
Unemployment (%)	10.0	11.2	11.0	10.8	10.5	9.5	8.6	7.6
Exchange Rate – HUF:€	281.20	275.40	279.70	290.30	267.00	266.50	265.00	264.40

Source: Economist Intelligence Unit, November 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 per year and clients include 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 more than 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.

With offices in London since 1990, HVS London serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks which finance hotels and portfolios.

About the Author



Veronica Waldthausen is a Consulting and Valuation Analyst with HVS's London office. She joined HVS in 2012 after completing her Bachelor of Science in International Hospitality Management at École hôtelière de Lausanne,

Switzerland. Since joining HVS, Veronica has conducted hotel valuations in Slovakia, as well as in the Netherlands, Germany, Croatia and the UK.

For further information, please contact:
vwaldthausen@hvs.com or +44(0) 20 7878 7721