

BUDAPEST ON THE UP MARKET PULSE

SEPTEMBER 2018

TOURIST ARRIVALS – 2017



▲ 4.6% YOY
4.3 MILLION

AIRPORT PASSENGERS – 2017



▲ 14.5% YOY
13.1 MILLION

EXCHANGE RATE – AUG 2018

5.8% YOY ▲
€1:HUF320



CONFERENCE MARKET – 2017

18.5% YOY ▲
128 MEETINGS



MARKET PROFILE

Budapest is the capital of Hungary and the ninth-largest city in the EU, with close to 1.7 million inhabitants in 2018. Budapest traditionally had a strong industrial focus, but has since shifted to the service industries including banking, finance and real estate. The city is also a cultural and historic centre, with several renowned monuments including UNESCO World Heritage sites such as the Buda Castle district and the banks of the Danube. The city is also filled with various museums, parks, squares and a variety of restaurants and bars, making it the perfect weekend destination.

POLITICAL AND ECONOMIC BACKGROUND

Hungary has been a member of the European Union since 2004, and a democratic parliamentary republic since 1989. Economic recovery following the global economic crisis was relatively slow; however, the Hungarian economy has been growing steadily since 2013, with GDP growth reaching 4% in 2017, one of the highest in the EU and ahead of countries such as the UK, France and Germany. Unemployment is low (3.8% at the end of 2017), which, combined with a steady decrease in the debt-to-GDP ratio of the country, has resulted in increased interest from international investors over recent years. With the corporate tax rate lowered to 9% in 2017 (the third lowest in the EU after Malta and Monaco), this international interest is set to grow further.

TOURISM DEMAND

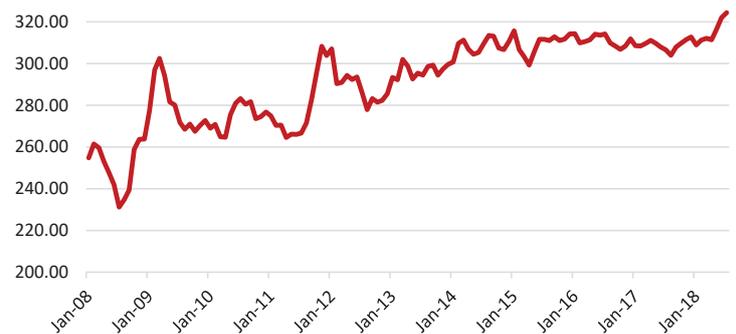
Visitation to Budapest has in the past been made up of international travellers primarily; this category accounted for more than 85% of the total number of visitors in 2017. 2009 marked an 8.8% drop in visitation due to the global financial crisis and decrease in tourism. Since then, total visitation has shown signs of continuous recovery. In the last three years, Budapest has seen a significant 12% growth in visitation, far surpassing pre-crisis levels.

ECONOMIC INDICATORS – HUNGARY

	2017A	2018F	24-MONTH FORECAST
GDP GROWTH (%)	+4.2	+4.0	▲
CPI (%)	+2.3	+2.5	▲
UNEMPLOYMENT (%)	4.2	3.8	▼

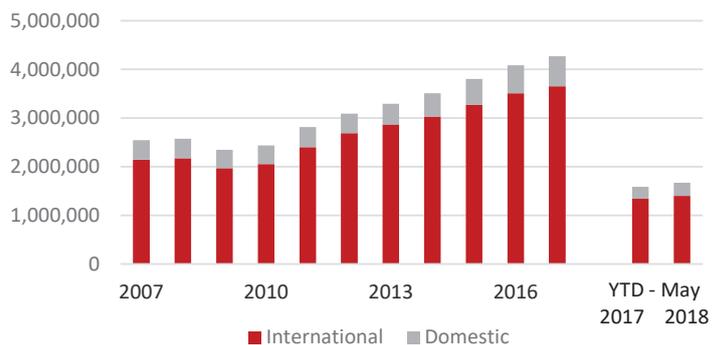
Sources: Economist Intelligence Unit; IMF

EXCHANGE RATE €:HUF



Source: Oanda

VISITATION



Source: Tourmis

HOTEL PERFORMANCE

During the economic crisis (2008-10), hotels experienced drops in visitation. To remain competitive they reduced rates, resulting in price wars. However, the market has recovered strongly, with hotel performance continuously improving, making Budapest one of the fastest-growing hotel markets in Central Europe. The increased arrivals to the city provide a positive outlook for average rate and occupancy growth, already evident in 2016 and 2017, with above-average RevPAR growth in the market.

HOTEL SUPPLY

Hungary has seen continued growth in hotel supply since 2010. As of December 2017, the country had 1,094 hotels providing some 151,000 beds, approximately 35% of which are in Budapest.

Owing to the positive trend in visitor arrivals and the strong trading performance of hotels, there has been increased interest in the city from developers and operators. Several of the world's leading hotel brands, including Four Seasons, Ritz-Carlton, Kempinski, InterContinental, Hilton, Marriott and Sofitel, are already represented in Budapest. Within the next three years, Hyatt, as well as Marriott's W and Luxury Collection brands, are also due to open, which will further boost the draw of the Budapest market. Several other proposed new hotels are also in the pipeline; however, we would also note that construction costs have risen sharply and hence some of these projects might not materialise.

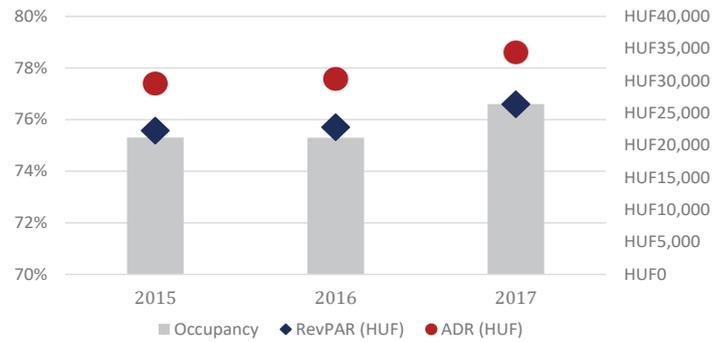
INVESTMENT MARKET

Budapest's tourism boom and improved hotel market performance have drawn significant attention from investors, who now see the city as a good long-term investment opportunity. The number of hotel transactions and deals in recent years has increased, as illustrated in the adjacent table; however, in the past two years this has been dominated by Orbis acquiring seven ibis and Mercure hotels that they previously leased. The most recent hotel transaction, in May 2018, was Orbis's sale-and-manage-back of the Sofitel Chain Bridge, after Orbis had acquired the freehold interest in the same property a year earlier from UniCredit Austria. The new owner is Starwood Capital, which will reportedly now undertake a €16 million renovation of the hotel. For the latest value trends, please refer to our *European Hotel Valuation Index*.

OUTLOOK

The outlook for visitation to Budapest remains positive, with an expected continued increase in arrivals to the city. The recent boost in hotel performance is one of the main reasons behind the growing interest from investors, developers and operators in the market. Although RevPAR levels remain somewhat lower compared to other European cities, the development and increased offer of five-star properties is expected to help increase average rates in the market.

KEY METRICS



Source: HVS Research

HOTEL PIPELINE – CITY CENTRE

Property	Rooms	Rating	Opening
MEININGER Hotel Budapest Great Market Hall	184	Budget	Winter 2018
Hyatt Unbound Collection – Párisi Udvar Hotel	110	Upper upscale	Winter 2018
Hotel Four Elements	92	Upscale	2019
Matild Palace, a Luxury Collection Hotel	130	Luxury	2019
Hilton Garden Inn Budapest City Centre	214	Midscale	2019
Hard Rock Budapest	133	Upper upscale	2019
H2 Hotels Budapest	158	Midscale	2020
Autograph Collection Hotel	180	Upper upscale	2020
Hyatt Regency Budapest (Private Palace Hotel)	231	Upper upscale	2020
W Budapest Hotel	162	Luxury	2021

Source: HVS Research

HOTEL TRANSACTIONS

Property	Sale Date	Rooms	Estimated Price (HUF 000s)	Per Room (HUF 000s)
Sofitel Chain Bridge	May 2018	357	23,492,000	70,000
Mercure Budapest Korona	Jan 2017	420	8,526,000	20,000
ibis Styles Budapest Center	Jan 2017	130	1,322,000	10,000
ibis Budapest City	Jan 2017	84	854,000	10,000
ibis Budapest Centrum	Jan 2017	126	1,281,000	10,000
Mercure Budapest Buda	Jan 2017	390	7,917,000	20,000
EXE Danube Budapest	Dec 2016	101	4,495,000	40,000
Mercure Budapest City Center	Feb 2016	227	6,506,000	30,000
ibis Budapest Heroes Square	Feb 2016	139	2,055,000	10,000

Source: HVS Research

VALUE TREND

REVPAR

CAPITALISATION RATES

HOTEL VALUES



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