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Highlights



Hungary's economy is currently recovering from the global economic crisis and its 2012 political challenges. The Economist Intelligence Unit's (EIU) January 2016 forecast for Hungary shows GDP growth of 2.5% in 2016, 2.4% in 2017 and 2.6% in 2018.



In the last three years, Budapest has seen a significant 13.5% growth in arrivals, far surpassing pre-crisis levels. The Leisure and MICE segments dominate the market and international markets accounted for 86.4% of total arrivals in 2014.



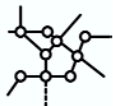
In 2014, the UK represented 7.7% of total international arrivals, Germany 7.1%, the USA 6.2% and Italy 5.6%. Other source markets include Russia, Spain and France.



In 2013 and 2014 the number of congresses hosted in Budapest rose by 8.2% and fell by 8.5%, respectively, according to the International Congress and Convention Association (ICCA). However, the city remains 17th worldwide in terms of the number of congresses hosted.



Budapest Ferenc Liszt International Airport welcomed more than nine million visitors in 2014, the highest number recorded since 2004.



Budapest scheduled a transport development strategy from 2014 to 2030. Renovations of the city's infrastructure and tourism attractions will also take place.



Hotel performance is continuously improving, making Budapest one of the fastest growing markets in Eastern Europe in the last two years. In 2014, room occupancy grew by 5.0% and average rate by 8.0% in Hungarian forint.



The Budapest hotel investment market is still relatively illiquid, with only four hotel transactions recorded since 2012. As per the annual HVS Valuation Index (HVI), Budapest ended 2014 with values of €149,404 per room (HUF46,061,315).

Hotel Demand and Supply Factors

Infrastructure Development

Around €500 million has been invested in modernising and extending the airport's infrastructure. Finished projects include an internal and external refurbishment of Terminal 2, the construction of a SkyCourt and the development of a business area. Pending projects include a new multistorey car park, new piers for 2A and 2B and a new cargo area.

In 2015, the airport welcomed Air Transat, Iberia and Air China airlines and served nine additional routes. A new €3 million hangar was handed over to Wizz Air on 1 September 2015.

To improve accessibility from the city, Budapest plans to build a high-speed railway track, with a stop at the airport, within the frame of national railway development.

VIEW OF THE DANUBE, BUDAPEST



The Balázs Mór Plan lays down the strategy for short- and medium-term transport development in Budapest between 2014 and 2030. The plan's measures include the upgrade of the city's transport network and fleet, improvement of the quality of service through the introduction of intelligent systems in public transport, harmonisation of timetables and a standardised fare system.

The fourth metro line, M4, was inaugurated in 2014 and serves a route between Kelenföld in West Buda and Keleti Station in the eastern part of the city centre.

Renovations of the city's infrastructures and tourism attractions are also scheduled, such as Kossuth Lajos square in front of the Hungarian Parliament, which was renovated in 2014.

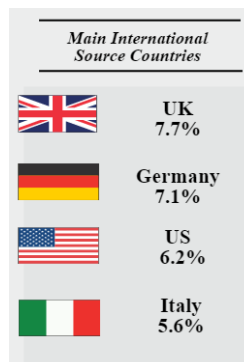
Tourism Demand

The compound average growth rate in tourist arrivals was 4.7% between 2007 and 2014, and the last three years have seen a significant 13.5% growth in arrivals, far surpassing pre-crisis levels. Year-to-October 2015 also shows a further 10.0% increase in arrivals in the city. The Budapest market is driven by the Leisure and MICE segments mainly, and tourism demand is dominated by international markets, which accounted for 86.4% of arrivals in 2014.

Bednights in Budapest have recorded a growth of 39.3% since 2010, reaching more than eight million in 2014; international bednights accounted for 88.4% of total bednights in that year. Year-to-October 2015 figures show a 3.5% increase in bednights in Budapest.

The main international source markets for Budapest in terms of arrivals are the UK, Germany, the USA and Italy. Other source markets include Russia, Spain and France. Most international markets recorded growth in arrivals from 2013 to 2014.

New source countries recorded in the city include South Korea (+40%), India (+32%), Ireland (+25%) and China (+20%).



We note that Chinese visitors are expected to see additional growth as a result of the new Beijing-Budapest route operated by Air China and inaugurated in mid-2015.

Domestic visitation to Budapest is also strong with a 13.6% share of total visitation. This is due to the local population preferring to take holidays in the Budapest area rather than abroad, mainly for cost purposes.

MICE Demand

In 2013 and 2014 a rise of 8.2% and a fall of 8.5%, respectively, was noted for congresses hosted in Budapest, according to the ICCA.

In 2014, Budapest ranked
17th
worldwide in terms of the number of congresses hosted

The outlook for the MICE segment is unclear at present, although our research shows that some growth is expected in this segment over the next few years. We are also aware that rumours of a large convention centre in Budapest are ongoing, but no plans have been communicated yet. The development of such a facility would much likely boost MICE demand in the city.

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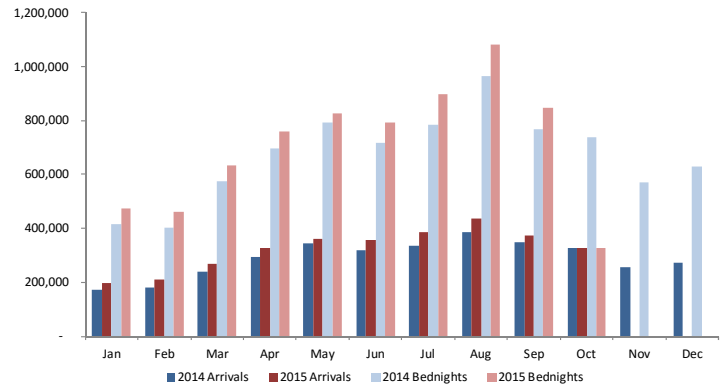


Seasonality

Historically, the busy period in Budapest has been the summer months of July, August (when demand peaks) and September; this is on account of the warm weather at that time of year.

Budapest benefits from its success as a cultural destination, especially in the summer. In 2014, the number of arrivals exceeded 380,000 in August alone, with May, July and September each accounting for more than 330,000 arrivals, according to European Cities Tourism. Figure 1 depicts the monthly seasonality of arrivals and bednights for Budapest over 2014 and year-to-October 2015.

FIGURE 1: MONTHLY SEASONALITY OF ARRIVALS AND BEDNIGHTS 2014-15



Source: European Cities Tourism, 2015

Hotel Supply

Hotel supply in Budapest currently consists of 241 hotels (19,374 rooms). The city's supply offers all categories of hotels but the majority is made up of of midscale and upscale hotels. The Hotel supply in Budapest is categorised as follows.

- ★★★★★ < 10%
- ★★★★ ~ 35%
- ★★★ ~ 15%

Hotel developments in Budapest are still relatively slow with only three scheduled hotels in the pipeline. These hotels include two five-star properties for 2016: the Private Palace (240 rooms) and a Ritz-Carlton property (192 rooms) that will be converted from the current Le Méridien hotel. The third project is an upscale airport hotel, which will have approximately 200 rooms and will open in 2017.

We also note that a majority of the hotel supply has not benefited from major renovations since opening, resulting in outdated décor and facilities. However, currently many of the hotels have plans to renovate in the next few years, which would increase the attractiveness of the market in general, and may also help average rate growth.

Hotel Performance and Investment Trends

Performance

The following section is based on our research in the economy/midscale and luxury hotel sectors in Budapest. We have analysed the performance of 11 economy/midscale hotels and 12 luxury hotels and the results are set out in Figure 2.

FIGURE 2: HOTEL PERFORMANCE (€)

		2012	2013	2014
Economy	Occupancy	60.6%	63.0%	68.9%
	Average Rate	46.01	46.90	47.65
	RevPAR	27.88	29.55	32.83
Luxury	Occupancy	68.2%	70.3%	73.6%
	Average Rate	108.11	108.45	113.42
	RevPAR	73.73	76.24	83.48

Source: HVS Research

According to our research, 2015 recorded strong growth for the city with some properties experiencing 30% average rate growth and an increase of ten-15 percentage points in occupancy up to October 2015.

We note that economy and luxury hotels have seen a compound annual growth rate in RevPAR of 5.6% and 4.2% from 2012 to 2014, respectively. However, luxury hotels record RevPAR levels close to three times higher than that of economy properties.

Year-to-June 2015 figures also show a significant 15.6% increase in RevPAR, with occupancy levels reaching 69% and average rate reaching €71 (HUF21,882).

Transactions

The economic and political challenges faced by the country in 2012, along with the global financial crisis, made it hard for Budapest to secure debt financing and hotel investments were thus impacted. However, with above average RevPAR growth in the market, it is likely that investments will increase in the future.

Very few hotels transacted in the past five years. The sales that did occur are outlined in Figure 3.

FIGURE 3: HOTEL SALES IN BUDAPEST (€)

Property	Sale Date	Number of Rooms	Estimated Price	Price Per Room
K+K Hotel	November 2015	200	N/A	N/A
InterContinental Hotel	June 2014	402	N/A	N/A
Courtyard Budapest	June 2013	235	18,000,000	77,000
Le Méridien Budapest	May 2012	218	60,000,000	275,000
Four Seasons Gresham Palace	November 2011	179	77,500,000	433,000
InterContinental Hotel	March 2011	398	64,600,000	162,000

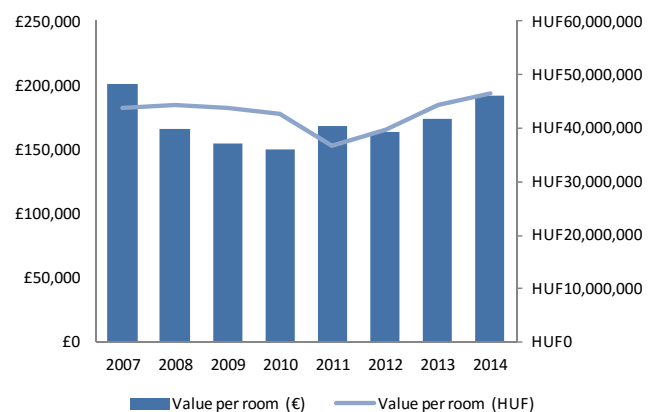
Source: HVS Research

Hotel Values in Budapest

From our valuation experience and knowledge of the market, we estimate that although hotel values per room in Budapest have fluctuated since 2007, due to the financial crisis and the political and economical turmoil experienced by the country, there have been strong signs of recovery in the past two years and growth has reached new peaks.

In 2014, we estimate average values to have reached €193,737 per room (HUF46,061,315), an increase of 4.8% on 2013. This growth was the result of increased leisure visitation mainly. As per our annual European Hotel Valuation Index (HVI), Budapest was ranked 25th in hotel values per room in 2014 with values being 27.3% lower than the average of the 33 European cities monitored.

FIGURE 4: EVOLUTION OF HOTEL VALUES PER ROOM 2007-14



It is however safe to say that the recent and continuous above average RevPAR growth at Budapest hotels should result in further growth in room values in the future.

Hotel Values in Europe

In absolute values per room, Budapest ranks in the middle of its CEE competitors. However, Budapest has shown the highest growth in value amongst the same comparables – and above the European average – from 2013 to 2014. This clearly indicates an upturn cycle.

FIGURE 5: HOTEL VALUES PER ROOM (HVI)

	2012	2013	2014
EUROPE average	237,931.4	239,257.2	246,640.7
Vienna	189,399.8	180,368.8	193,623.5
Prague	173,280.8	173,287.4	183,156.0
Warsaw	198,249.8	185,645.4	172,710.4
Budapest	135,592.3	138,955.5	149,404.2
Bucharest	111,184.3	111,629.0	118,233.9
Tallinn	97,890.7	102,733.0	109,272.9
Bratislava	111,144.2	111,111.4	104,160.6
Sofia	100,164.8	93,314.3	99,902.1

FIGURE 6: HOTEL VALUES – PERCENTAGE CHANGE (HVI)

	2012	2013	2014
Budapest	-0.5	2.5	7.5
Vienna	2.6	-4.8	7.3
Sofia	0.3	-6.8	7.1
Tallinn	7.7	4.9	6.4
Bucharest	-6.6	0.4	5.9
Prague	4.7	0.0	5.7
Bratislava	-6.2	0.0	-6.3
Warsaw	5.7	-6.4	-7.0
EUROPE average	0.6	0.6	3.1

With the average change in hotel values per room for Europe overall 3.1% in 2014, Budapest managed to rank within the top-ten strongest markets, ranked immediately after Munich and London. In 2014, room values in Budapest were close to €150,000 according to our Hotel Valuation Index.

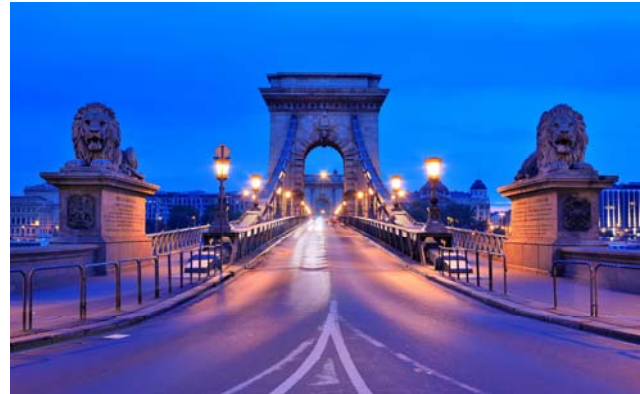
Conclusion

With continuous increases in demand and visitation to Budapest, hotel performance has been consistently improving since 2012, and 2015 was no exception to this trend. Despite the rising demand having significantly boosted occupancy and average rate, RevPAR levels remain low comparably to other European cities. The main beneficiaries of the recent growth in performance (driven by average rate) have been the luxury hotels in the market.

Owing to the political conditions in 2012 and the global financial crisis, investments and transactions were limited in the market. However, the recent boost in hotel performance has

translated into an increase in values per room. The current outlook for Budapest predicts further improvement in performance and increased investments and room values in the city.

THE CHAIN BRIDGE, BUDAPEST





About HVS

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With an office in London since 1990, **HVS London** serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 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 Authors



Constance Biria is a Consulting & Valuation Analyst with the HVS London office. Before graduating with an MSc in Management from London Business School, Constance received a double BSc (Hons) in International Hospitality Management and Finance from Glion Institute of Higher Education. Prior to joining HVS in 2015, she gained exposure in European luxury hotel operations and also worked in commercial banking and consulting. Recent assignments at HVS include hotel feasibility studies, valuations and market overviews for European and African markets.

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