



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Poland *Market Update*

AUGUST 2020



Krakow from Wawel Castle, Poland

Economic situation & development

As a newcomer to the group of developed markets (promotion in 2018), Poland fared well in comparison to the rest of the world economy elite countries.

The Polish economy is considered steady with GDP during the second decade of 2000s consistently growing. In the region and amongst the 28 EU countries, Poland recorded one of the highest GDP growth. In 2019 GDP rose by 4.1% year over year, which was the fifth result in EU-28. In the meantime in EU-28 the GDP growth was 1.5 percent, in the euro area – 1.3 percent.

GDP Growth in Poland in 2015 - 2019



Source: Eurostat, August 2020

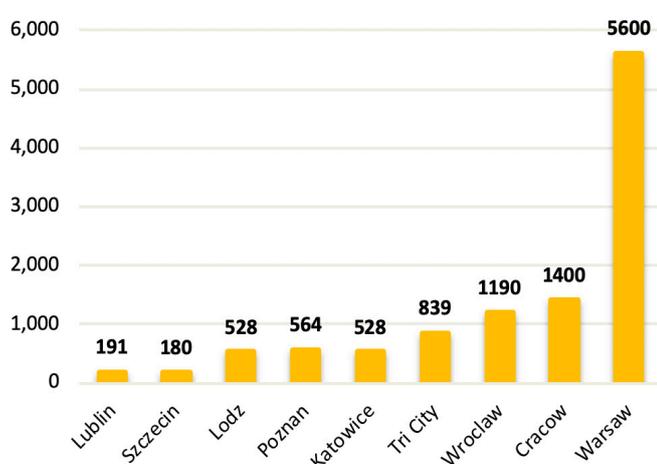
The value of the national brand ‘Poland’, is built on positive political transformation in 1989 and a steady economic situation during the world financial crisis. This rapid development and positive change has encouraged many foreign investors.

Higher than market expectations growth of foreign direct investments (FDI) can be a clear proof of Poland’s attractiveness for international capital. Due to a large domestic market, favorable economic conditions, well-educated and a ‘still cheap’ workforce, Poland can be one of the most attractive locations to invest in Europe. Since integration with the EU, the Polish market became much more open for international investors. The inflow of foreign direct investment has significantly increased over recent years.

The office supply market has been very active lately. In Warsaw, plenty of major infrastructure investments are being carried out simultaneously: housing investments, expansion of the II metro line, several tram lines and works on the southern bypass and the southern bridge. The Warsaw office market is now one of the largest construction fields in Europe. Over 798.6 thous. sqm of office space is in the pipeline for 2020/22. One of the most prestigious project is Varso Place - the highest office building in Europe (310m high).

Warsaw is followed by other major cities such as Krakow, Wroclaw, Gdansk, Poznan and Katowice. According to Colliers, the office market in Poland continued to progress in 2019 and is still dominated by Warsaw, which holds a 50,8% market share of the total modern office stock. The highest investment activity in the office market is recorded in Warsaw. However, the market share of Warsaw is decreasing for the fast development of regional markets. The investment activity in regional cities, mainly Krakow, Gdansk, and Katowice is high in recent years.

Supply of office space in major Polish cities in 2019 (in thousands sq m)



Source: Colliers International, August 2020

The chart above shows the cities with a significant boost in the economic market of the country. Warsaw is the largest office market in Poland, offering almost 5.6 million sqm of modern office space. Followed by Krakow and Wroclaw together have almost 75% of total office space in the whole country. There is 1,6 million sqm of modern office space under construction in Poland. The share of these three cities in the future office space supply is 70%. The new supply completed in 2019 accounts for 710,000 sqm.

The demand for office space and commercial real estate in Warsaw and regional cities is driven by extraordinarily intensive development of the Business Process Outsourcing (BPO) sector, which has developed over the last 15 years. The vast majority are entities with foreign capital.

The Polish economy in recent years has revived large investments in infrastructure: construction of highways, national and local roads; expansion and construction of new airports, including Gdansk, Poznan, Wroclaw, Rzeszow, Katowice, Warsaw- Modlin, Szczecin, Lodz, Olsztyn-Mazury, Lublin and Radom. The current number of airports in Poland grew to 14 over the last few years. The Polish government is currently performing the strategic project of a new airport with connection to railway hub in central Poland (Baranowo).

Major investments have been made in road development. In total, this resulted in around 4,200 kilometers of new express roads and highways. For the following years, 1,200 kilometers of new fast roads are under construction, and another 2,700 kilometers are planned or yet in tender stage.

Brand 'Poland' recognized worldwide

Over the last ten years, Poland hosted many important events, such as; United Nations Climate Change Conference, UEFA European Championship in football, World Cup in volleyball, World Cup in handball, Eurobasket, World Youth Days, NATO summit, European Economic Congress and Intel Extreme Masters. Poland is now recognized as a country of great development prospects, big infrastructure investments and a various tourism destination with many attractions.

In 2019, Poland was visited by 21.1 million foreign tourists, which is 7.8% more than in the previous year when there were 19.6 million tourists (each person that stayed overnight in Poland). 14.3 million are citizens of EU countries (in 2018 they amounted to 13.6 million). According to the statistics of the Tourism Department of the Ministry of Development the number of all foreigners who crossed Polish borders, including one-day visitors, amounted to 88.5 million and was 3% higher than in 2018.

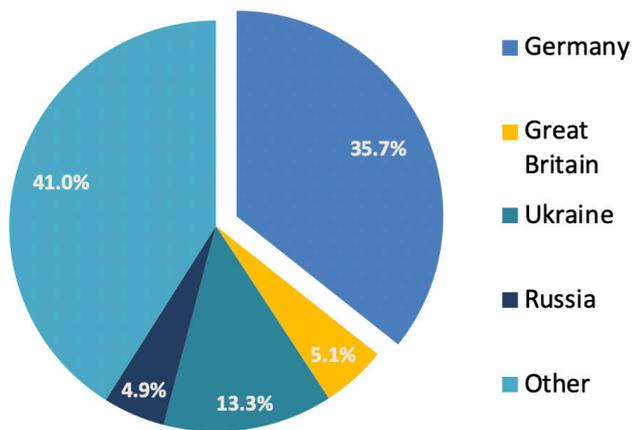
The traffic at 14 Polish airports in 2019 was higher by 7.1% in comparison to 2018 and amounted to 49 million passengers. Both Warsaw's airports: Warsaw Chopin Airport and Warsaw Modlin were close to exceed the number of 22 million passengers per year, which shows increasing trend comparing to previous years.



Gdansk Old Town, Poland

This sustainable growth performed over the recent years is strongly threatened by Covid-19 crisis and possibly would not be repeated in the near future.

Nationality of foreign visitors to Poland (2019)



Source: Central Statistical Office, August 2020

German tourists play a dominant role in the Polish tourism market. They contribute to 35.7% of all tourist arrivals to the country. The second largest group are Ukrainians. They contribute to 13.3% of all tourist arrivals. According to the Polish Tourist Organization, there are an increasing number of tourists from overseas countries such as: United States, Canada, South Korea, Japan and Australia (over 10% growth year over year).

Foreign tourists spent in Poland USD 9.8 billion, or PLN 37.7 billion, more by 2.1% in USD and 7.8% in PLN compared to 2018. The total foreign expense receipts from foreign incoming tourism amounted to USD 18.6 billion, or PLN 71.5 billion, and were higher than in 2018 by 10.7 and 17.1% respectively. One-day visitors left in Poland USD 8.8 billion, or PLN 33.8 billion (an increase of 22.2 and 29.7%).

During the last few years, Poland has also developed a strong domestic tourism market because there is a solid leisure base in holiday resorts, as well as the business areas developed in the city. The motivation of the Poles to travel has been recently stimulated by the development of governmental social policies specifically the “500+” program (a monthly transfer of PLN 500 for every child in the family). Poles made 50 million trips around the country in 2019 (an increase by 4.8%), including almost 30 million weekend trips (an increase by 3.6%) and slightly over 20 million longer holiday trips (an increase by 6.5%). The total expenditure on domestic travel amounted to PLN 30.8 billion and was higher by 11.3% than in 2018.

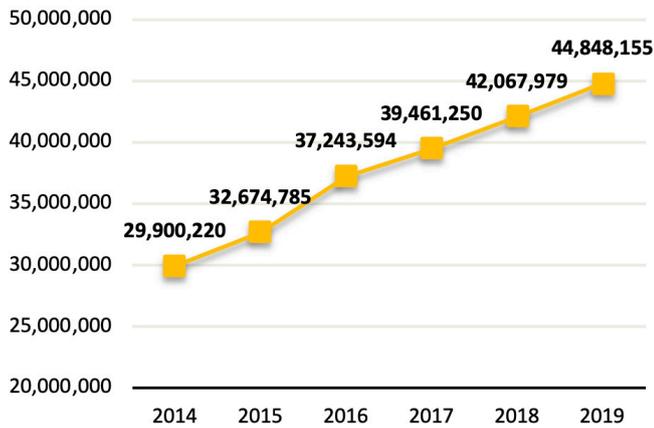
Cultural tourism dominates as the most represented segment of activity among the visitors. Nevertheless other segments, including health and activity tourism, are developing very quickly. Poland’s offer is characterized by relatively low prices in relation to the high quality of services offered.



Tatra Mountains, Poland

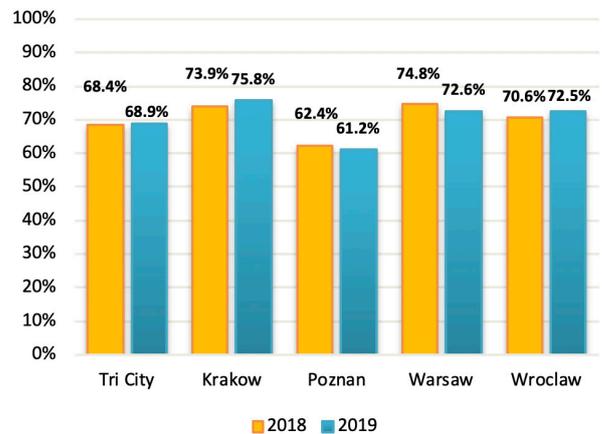
As a result of the increased tourist activity of both non-residents and residents of Poland (travels in Poland and abroad), the total expenditure in the tourism economy increased by 13.8% and the share of the tourism economy in generating GDP increased to 6.3%.

Number of overnight stays in hotels in Poland



Source: Central Statistics Office, August 2020

Occupancy rate in main cities in Poland in 2019 & 2018



Source: STR data, December YTD2019 vs. December YTD2018

According to data gathered by STR Krakow, Warsaw and Wroclaw were in the leading positions in terms of occupancy rate during the whole of 2019. However the OCC rates in the main Polish cities were slightly decreasing due to new openings and vast growth of supply of hotel beds. The only city to buck this trend, was Tricity, which despite being overwhelmed by new investments delivered growth in OCC.

Hotel Development

The Polish hotel market has experienced intensive growth for several years. Many investors were encouraged by consistent pickups of ADR and OCC levels of hotels in the major cities. As a result, new hotel brands and chains were entering the market with incredible speed.

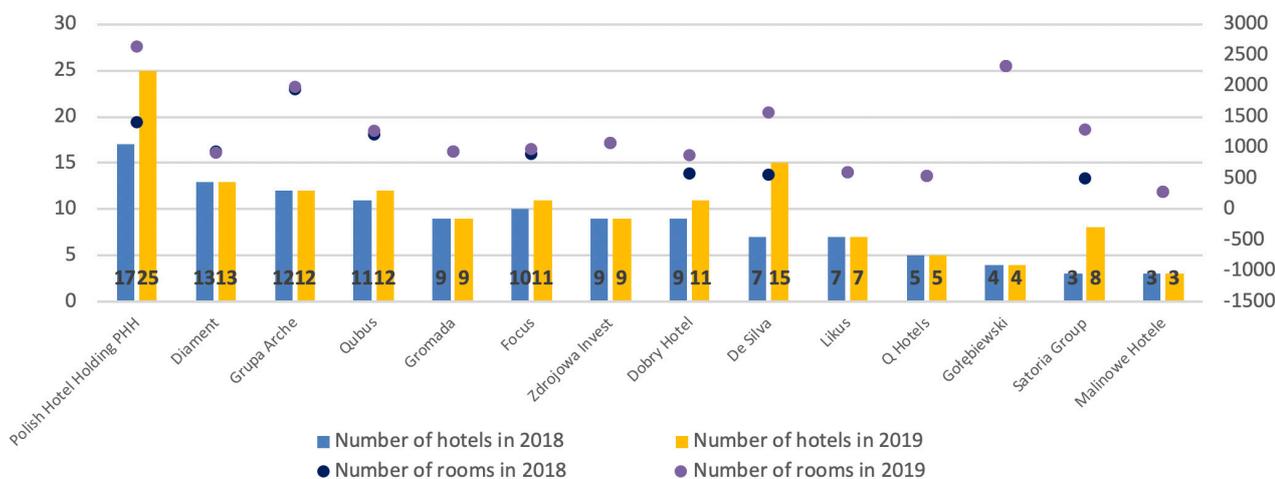
Both domestic and foreign hotel chains operate across Poland. According to the Horwath HTL in 2019, there were 374 categorized chain hotels in Poland, both domestic and international (in 2016 there were 330 chain hotels).

In 2019, Chopin Airport Development, a state-owned management company, owning 8 hotels under international brands in Poland, was transformed into Polish Hotel Holding (PHH), which took over hotel chains AMW, GAT and WPUT. The goal of PHH is to consolidate state-owned chains and adjust them to modern standards of hospitality. Horwath HTL Poland had the privilege of advising PPH in this process.

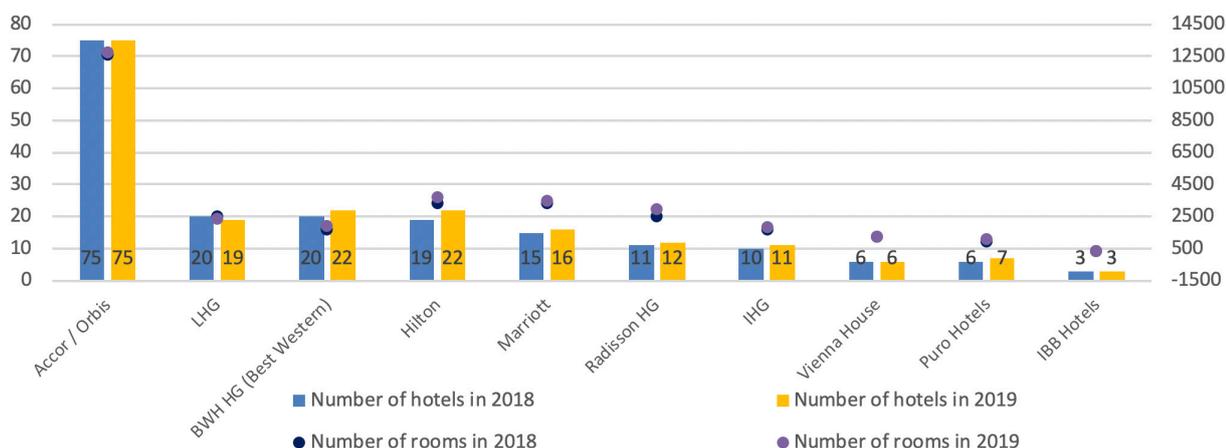
Over the last couple of years international hotel chains are intensifying development of their brands in Poland. Currently, the top three international hotel chains in terms of the number of hotel rooms in Poland are Accor/Orbis, Hilton Worldwide and Marriott International. All of them noted an intensive growth in the number of hotels and hotel rooms in the recent years, the growth primarily achieved through the application of franchise agreements.

International hotels chains are launching new hotel brands in the market. For the last 5 years we have experienced an introduction of a number of new hotel brands in major cities, such as Ibis Styles (Accor), Indigo Hotel (IHG), Moxy, Four Points by Sheraton (Marriott International), Renaissance (Marriot International), Metropolo by Golden Tulip (LHG), first Leonardo hotel and newly opened Nobu. More new brands are soon to appear: Sadie (Best Western), Occidental (Barceló Group), Residence Inn, Autograph Collection (Marriott International), NYX (Leonardo Hotels), Radisson RED, Crowne Plaza (IHG) to name only a few.

Selected domestic hotel chains in Poland in 2018 vs 2019



Selected international hotel chains in Poland in 2018 vs 2019

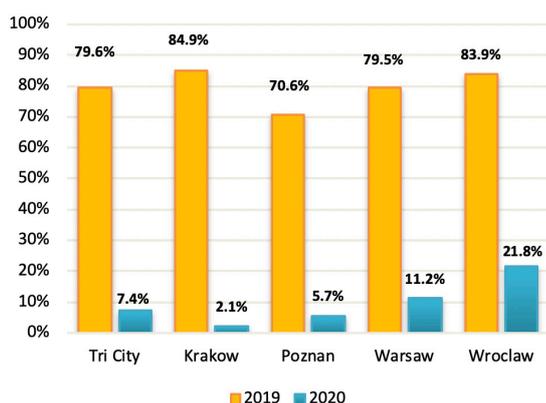


COVID-19 Challenges

According to UNWTO, due to the coronavirus pandemic, in 2020 there may be a decrease in the number of tourist trips around the world by around 60-80%. Tourism and hospitality sectors are one of the most threatened sectors, with millions of jobs at risk. Europe's dynamic tourism ecosystem, encompassing a wide range of sectors such as travel, transport, accommodation, nutrition, on-shore recreation, culture and nature, should not waste the coming months.

Many countries conduct their anti-crisis policies to prevent or minimize the negative effects of the pandemic. After the complete lockdown of almost every European country in the early beginning of Q2, the governments keep introducing measures to fight against the virus and its negative impact. There are plenty of different strategies, however it was the European Commission that provided guidelines and recommendations to help member states gradually lift travel restrictions, taking all necessary safety and precautionary measures, and safely re-establish unrestricted freedom of movement and re-open internal borders. Another goal is to safely restore transport and communications, safe resumption of tourism services, particularly in the hospitality sector and rebuild consumer confidence.

Occupancy rate in main cities in May 2020 and May 2019



Source: STR data, May 2020 vs. May 2019

From May 4th, accommodation services restarted in hotels. In the first month after the complete lockdown the results of hotels in major Polish cities were very low. The biggest drop in OCC 82.8 p.p. was observed in Krakow from 84.9% in May 2019 to 2.1% in May 2020. In other cities the situation was not much better.

Many properties remained closed even after removing restrictions due to the lack on international inflow of tourists. The national tourism demand as the only fuel cannot satisfy any hotelier and maintain the business effectively.

At the beginning of the summer the situation was a bit better, however the progress was visible mainly in properties in vacational locations, not city hotels. The guests choose "dispersed lodging properties" such as vacational houses for rent, apartments or bungalows in the countryside or small lodging complexes rather than big properties.

The interest in dispersed hospitality is also visible among investors and producers. Separate, small, detached buildings without the need to obtain a building permit became a niche that can have a positive outlook on business. The Polish industry offers such solutions not only for domestic but also for foreign markets.

In the survey taken by IGHP in July, it was reported that at the beginning of July, every second hotel in Poland recorded an occupancy rate of less than 30%.

According to the survey, 60% of the hotels have lower room rates than last year's season. Unsatisfactory results from the beginning of the summer holidays mean that more than half of hoteliers expect profit not earlier than 2022. The survey shows that the vast majority of hotels (93%) have already resumed operations. Although the number of hotel guests increased in June compared to May this year, the average occupancy rate in hotels still remains low.

The government, jointly with industry business organizations started to promote Poland within their domestic market, as a desirable destination for the holidays. The government recently introduced a "tourist voucher" financed from the country budget. The tourist voucher supports Polish families and, at the same time, the tourism industry during the crisis caused by the COVID-19 pandemic. This is an electronic voucher to the value of PLN 500 for each child, which can be used until the end of March 2022.

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Dariusz Futoma's association with the hotel industry stretches back almost 20 years. His extensive strategic and operational experience comes from the Polish hotel market as well as those further to the east. Prior to finding his way to consulting, he worked as a sales and marketing director at the Jan III Sobieski hotel, simultaneously coordinating the Polish Prestige Hotels & Resorts in Poland marketing programme. During the course of his five year stint at the Rezidor Group, he was the sales and marketing director at the Radisson SAS in Kiev, Ukraine (the first international hotel in Ukraine), and then worked at one of the largest hotels in Europe, the 1200 room Park Inn by Radisson Pribaltiyskaya in Saint Petersburg, Russia. Upon his return to Poland in 2009, he assumed the General Manager's position at the Scandic Gdańsk hotel and then became president of the board at the Ideal Hotels chain in Poland. In recent years responsible for the outsourcing boom in the hotel industry, amongst others in Russia and during the Olympics.



Andrzej Jankowski
Associate
Horwath HTL Poland

Andrzej has been involved in many projects of Horwath HTL in Poland and has a practical knowledge in the field of hotel market research and analyses. He is responsible for analytical and descriptive parts of the reports for the clients. He worked in various companies from tourism and hospitality market. He gained experience in the biggest Polish incoming tour operator and one of the biggest international hotel chains present on Polish market. He graduated from the University of Warsaw. He also completed post-graduate studies in Tourism Management and Marketing at the Warsaw School of Economics.

Horwath HTL

At Horwath HTL, our focus is one hundred percent on hotel, tourism and leisure consulting. Our services cover every aspect of hotel real estate, tourism and leisure development.

Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global brand with 47 offices, who have successfully carried out over 30,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

We are Horwath HTL, the global leader in hotel, tourism and leisure consulting

Our Expertise:

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- Hotel Valuation
- Health & Wellness
- Transactional Advisory
- Expert Witness & Litigation
- Leisure
- Tourism
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