



Horwath HTL™

Hotel, Tourism and Leisure **Celebrating 100 years**

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Budapest hotels go full speed ahead

The general sentiment and year-to-date figures indicate a successful 2015 for Budapest hotels, both in terms of demand and supply growth.

Horwath HTL Hungary is constantly monitoring the Hungarian hotel market. We finally see that Budapest — Hungary's most indicative market — shows supply and demand growing hand in hand with average daily rate.

In 2014, Horwath HTL witnessed the first cautiously optimistic steps market-wide with occupancy levels at 5-star hotels averaging in the low 70s, while most downtown 3- and 4-star properties reached a market average of 80% room occupancy. Both midscale and upscale properties in general achieved pre-crisis occupancy rates by the end of 2014 and most players planned to focus on increasing room rates while maintaining or further increasing occupancy levels in 2015.

In terms of ADR trends, 2014 was not the breakthrough year, but gave the market an opportunity to test market tolerance to room rate increases. This resulted in approximately a 4.5% year-over-year increase in ADR in Budapest from 2013 to 2014, exceeding European average growth rate trends, but absolute values remained below pre-crisis levels.

At the beginning of 2015, Horwath HTL conducted its yearly "Hungarian hotel market sentiment survey" to assess how local hoteliers see the hotel market for 2015. Among its findings, the survey showed nearly 70% of the respondents in Budapest expected continued growth in ADR for 2015. Recent interviews with Budapest hotel managers across the board confirmed confidence that long-awaited ADR increase expectations can finally be realized. On average, 10% year-over-year ADR growth is expected in the 5-star hotel segment in 2015, which naturally induces the growth of ADR in the 4- and 3-star properties, where rate increases are expected to show even higher growth than 10%.

What's behind the seemingly sudden surge in the market?

Firstly, the Budapest hotel market recovery has been long overdue to follow such European capitals as Prague and Vienna.

Secondly, the much-criticized, nevertheless continuous, promotional efforts of the Hungarian National Tourist Office, the constant infrastructure improvements in the city center and the advent of private-sector initiatives establishing quality attractions and entertainment hubs all have contributed to Budapest becoming a better overall tourism product.

However, without the priceless international media coverage based on travelers' reviews and feedback, Budapest would have hardly made it back on the world tourist map. The exciting yet affordable nature of the capital has been largely to thank for these stellar reviews, which drew satisfaction from leisure and business travelers alike and helped Budapest become a "must see destination."

To name but a few, Budapest has been nominated the second best city in the world by CNN and third by the Huffington Post in 2014. Moreover, The Daily Telegraph reported that the Hungarian capital is the most affordable destination of the 25 leading cities in Europe.

With increasing visitation comes word-of-mouth, which has been positive and attracts not only a large amount of leisure tourists but has a positive impact on corporate group business, too, drawing increasing number of conferences to the city.

Global interest to visit Budapest has increased demand, not only during the typical peak periods (i.e. May to October) but also in off season and shoulder periods, making November, December, March and April busy months too. January and February also have witnessed a significant year-over-year increase this year.

Horwath HTL believes that, by the end of 2015, Budapest's 5-star hotels will be able to achieve and even exceed pre-crisis (2007) revenue-per-available-room figures due to a combination of high occupancy and increased ADRs. In the 4- and 3-star categories, especially, the downtown boutique hotels will hit occupancies well above 80% and start pushing rates up by 10% to 15% year over year.

With high demand comes an increase in hotel supply, introducing some new blood to the upscale boutique sector (i.e. Prestige Hotel and Aria Hotel). One could argue whether new supply is a cause or a result of increased demand. Horwath HTL believes it is a bit of both. Nevertheless, without available and affordable local bank financing, new supply will only enter the market if backed by cash-rich developers.

What is certain, however, is that hotelier and investor confidence has been restored in the Budapest hotel market, proven by the mushrooming hotel projects seen across downtown Budapest and which are likely to add more than 1,000 new rooms by the end of 2019.

The downtown mid-market and 4-star market has seen sizeable and continuous supply expansion primarily due to the increased amount of leisure travelers and available financing from local banks and financial institutions.

It is important to highlight that capital-intensive 5-star hotel developments will be completed despite local banks' reluctance to finance such projects, as foreign investors will likely secure necessary financing from abroad or build by initially using their own funds.

Despite all the above, it is imperative to highlight that Budapest as a destination needs focused efforts by all tourism stakeholders to be able to maintain sustainable growth. Poor accessibility needs to be addressed, and the poor sense of arrival from Budapest Airport is an ever-returning weakness, as is the lack of the long-promised completion of a proper congress center.

The general sentiment and year-to-date figures indicate a successful 2015 both in terms of demand and supply growth. Strategy and focus is needed to fuel momentum and slowly shift the city's positioning from a hip and cheap weekend getaway to an exciting and quality year-round destination, maintaining a healthy value-for-money proposition.

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Attila Radvánszki joined Horwath HTL in 2012 August. Since his arrival he has taken part in the concept development of various tourist attractions and hotels, and assisted in the preparation of market and financial feasibility studies in Hungary, Russia and numerous CIS countries.

He graduated from the International Business School, Budapest – fully accredited by Oxford Brookes University – with First Class Honours in Travel & Tourism Management in 2011. As part of the academic programme Attila completed several modules, such as: Strategic Planning, Marketing Communications, Tourism Destination Management, Management and Financial Accounting, Research Methodology, Corporate Governance, Human Resource Management, etc.

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