



Horwath HTLTM

Hotel, Tourism and Leisure Celebrating 100 years

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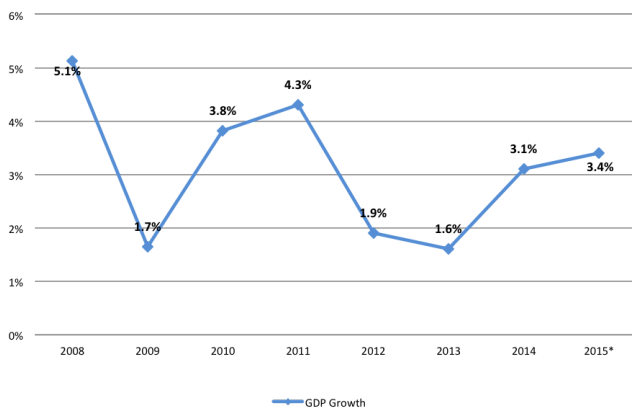
January 2016

Economic situation and development

The dynamic increase of investments value – Poland – the most attractive country in Central and Eastern Europe region for foreign investors

The Polish economy is in for a solid and increasingly balanced expansion and has been surprisingly resilient to tensions and crisis in the neighborhood of Ukraine. In the region and among 28 European Union countries Poland still records one of the highest gross-domestic-product (GDP) growth. GDP rose in 2014 by 3.1% year over year. For the III Q 2015 GDP stands at 3.4% and a further pick-up in growth is expected in 2016 and 2017. International Monetary Fund (IMF) predict economic growth at the level of 3.5% and 3.6% respectively.

GDP Growth in Poland in 2008 - 2015



Source: General Statistic Office, 2015

* III Q 2015

According to Brand Finance, the brand "Poland" holds 20 place in world rank. It means that the value of national brand is built on such information as positive political transformation in 1989, stable economic situation during the world financial crisis. This rapid development and positive changes encourages many foreign investors. In the rank 2013 - 2015 prepared by UNCTAD (United Nations Conference on Trade and Development) assessing attractiveness of countries for investments, Poland hold fourth place among other European countries and thirteen place worldwide.

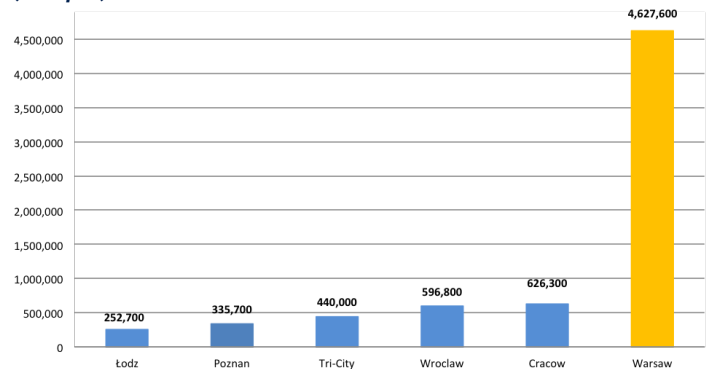
Poland has achieved foreign direct investment total value of more than €171,7 billion, according to the Polish

Information and Foreign Investment Agency. Poland has become the key destination for many investment portfolios.

As a result, there is an active office supply market, led by Warsaw as well as other major Polish cities such as Cracow, Poznan, Wroclaw, Gdansk and Lodz. According to DTZ & Cushman & Wakefield the office market in Poland continued to progress in 4 Q 2015 and is still dominated by Warsaw, which holds a 63% market share of the total modern office stock. However, the disparity between rapidly growing supply and demand on Warsaw office market cause falling rents and upward tendency in vacancy and falling prime rents. Therefore the investment activity on office market in regional cities, mainly Cracow, Wroclaw but also Gdansk and Lodz, Katowice, Poznan.

There is a constantly growing liquidity for best-in-class properties as investors found high quality assets. Those cities are experiencing their strongest year for leasing and investments. In I Q 2015 for the first time the value of transactions was higher in Cracow than in Warsaw. Two of the biggest office deals concluded lately were the sale of the Enterprise Park complex in Cracow, Green Horizon in Lodz. Many more are expected to close by the end of the year.

The supply of office space in major Polish cities in 3Q 2015 (in sq m)



Source: Colliers International, November 2015

The above are the cities with a significant boost in the economic market of the country. Warsaw has over 4 million square meters of office space supply, according to Colliers International. There is 1,2 million square meters of modern office space under construction in Poland. The new supply planned for completion in this year is estimated at approximately 613,800 square meters. The fastest

developing areas in Warsaw are Sluzewiec and Wola. The stable demand for the office spaces and commercial real estates is driven by extraordinarily intensive development of Business Process Outsourcing (BPO) sector developing 10 years in Poland. The real boom for this services began in 2010. Poland accounts now for 3.4% of all jobs in the outsourcing sector in the world and the level of employment increase 20% per year (Jones Lang La Salle). Due to the Polish Information and Foreign Investment Agency, one-third of all investments operated by the agency are connected with BPO sector.

The Polish economy in recent years has revived large investments in infrastructure: construction of national and local roads; expansion of airports, including Gdansk, Poznan, Wroclaw, Rzeszow, Katowice, Szczecin, Lodz. The current number of airports in Poland grew to 13 during few last years and in 1 Q 2015 is planned opening the airport in Szymany near Olsztyn, Mazuria region; modernization of railway stations and railway lines. In December 2014, thanks to the launch of Pendolino trains, the travel time between Warsaw - Cracow was shortened to 2.2 hours, from Warsaw - Gdansk to 2.5 hours; expansion of the energy sector;

Major investments have been made in road development. According to The Chancellery of the Prime Minister in 2007 through 2014, almost 2,500 kilometers of motorways were constructed and further 775 national roads were built or rebuilt. In total, this gives Poland more than 3,000 kilometers of new roads and highways. For the following years 4,300 kilometers is planned. The value of the structural funds in Poland in the years 2007 through 2013 amounted to €67.3 billion (\$91.6 billion). In 2014 through 2020, Poland will invest €82,5 billion (\$112.3 billion) from the EU cohesion policy, which means a stable and further development of the infrastructure of the country.

An upward tourism trend in Poland

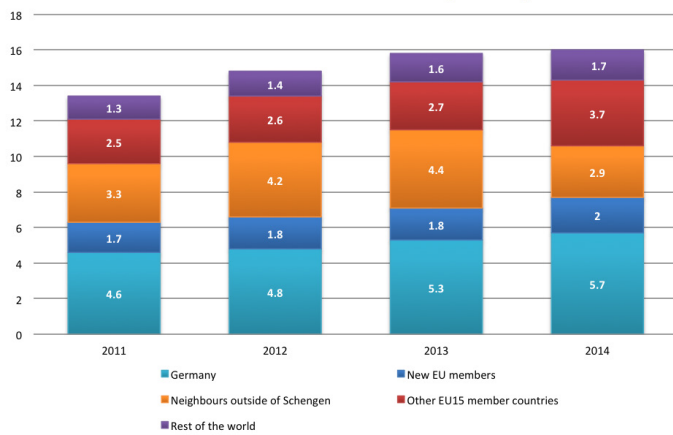
After many events of worldwide recognition Poland became an attractively perceived place on the map of Europe. Thanks to all infrastructure investments it might become one of the leading tourism destinations in the future. One of the more important becoming event in Poland will be the NATO summit in 2016. Wroclaw will hold the title of European Capital of Culture in 2016 and Cracow will be a host city of The World Youth Days in November 2016. It presents a great opportunity to improve results for this cities and regions in Poland.

In August and September 2014 Poland was a host of the FIVB Volleyball Men's World Championship organized in seven different cities. After a great success of this sports event, Poland has been chosen as a host of the 30th edition of tournament Men's European Volleyball Championship in 2017. One of the biggest and most prestigious cyclic sport international event is the Tour de Pologne organized since 1928 in August. In 2016 Poland will be also a host of Men's European Handball Championship (in Gdansk, Cracow, Wroclaw, Katowice)

There has been a sustainable increase in the number of people coming to Poland. The statistics of Ministry of Sport and Tourism in Poland cite about 16 million tourists (each person that stayed overnight in Poland) traveling to Poland in 2014, which represents a 9,9% increase in comparison to 2013. Warsaw Chopin Airport exceeded in 2014 the number of 10,6 million passengers per annum, which shows increase tendency comparing to previous years.

According to the forecasts of the Civil Aviation Authority in Poland the demand for passenger traffic on polish airports will be increasing in the next 15 years. In 2015 the total number of tourists will amount 28,49 million people and in the next 15 years is expected to increase by 30,64 million annually.

Estimated number of tourist arrivals (in million)



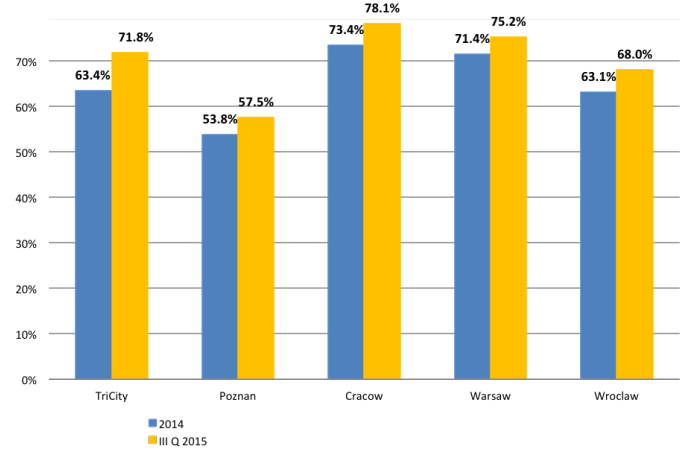
Source: Ministry of Sport and Tourism, 2015

German tourists play a dominant role in the Polish tourism market. They contribute to 35.6% of all tourist arrivals to the country. Another important group for Poland are other EU15 members. They contribute to 18,1% of all tourist arrivals. According to the Polish Tourist Organization, Poland notes also increasing number of tourists from Asian countries such as: India, China, Japan, and an increase is predicted in following years. The expenses of foreigners in Poland has increased 14,9% in 2014 (the Ministry of Sport and Tourism).

Poland has also 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 number of domestic tourists amounted to 17,2 million in 2014. Poland is recognized as a country of great development prospects, huge infrastructure investments and a various tourism destination with many attractions. Since 2012 in Poland has been a rise in the role of tourism in building the national GDP from 4,7% in 2011 by 5,1% in 2015.

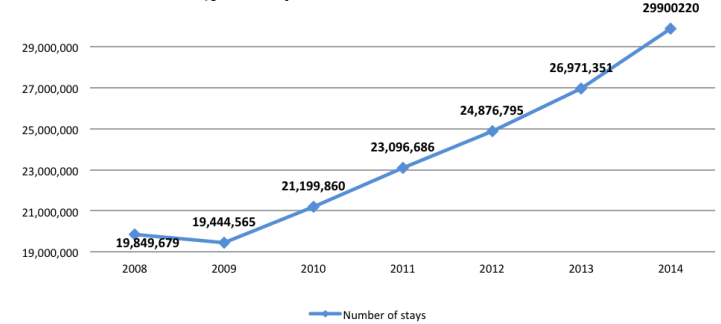
According to the World Travel & Tourism Council, leisure travel spending (inbound and domestic) generated in Poland 78.8% of direct Travel & Tourism GDP in 2014 compared with 21.2% for business travel spending. Data gathered by STR Global, shows that Warsaw and Cracow were on the leading position in terms of occupancy rate as at the December 2014. In the third quarter of 2015 the leading position belonged to Cracow, where the average occupancy rate in the city amounted to 73,4%.

The occupancy rate in main cities in Poland in 2015 and IIIQ 2015



Source: STR data - Year to date 2014 and September 2015

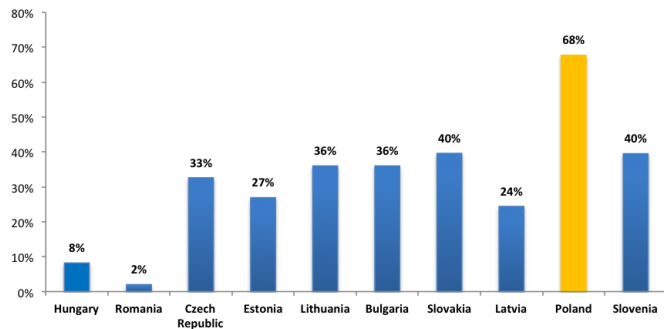
Number of overnight stays in hotels in Poland



Source: Central Statistics Office, 2015

There are currently 2,530 hotels in Poland according to the Horwath HTL. Within the last decade the number of hotels has increased by approximately 88%. It shows how important this area of investment is in Poland and how strong it continues to develop. According to EUROSTAT data, Poland has experienced the greatest increase in number of new rooms among eight other CEE countries.

The increase in number of rooms in CEE countries in 2005 - 2014

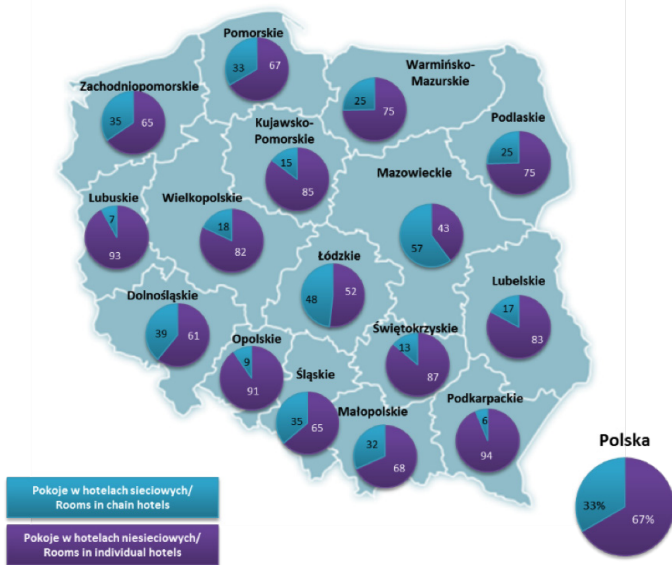


Source: EUROSTAT, 2015

Hotel development

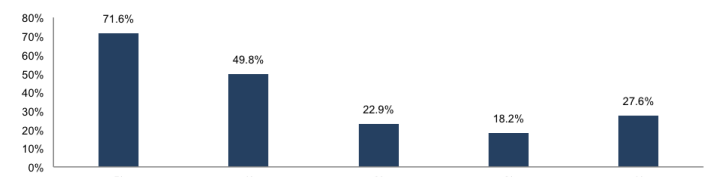
Domestic and foreign hotel chains operate across Poland. According to the Horwath HTL in 2015, 24 Polish hotel chains operate across Poland, jointly offering 132 hotels with more than 14,500 rooms. 15 global hotel chains with 158 hotels with more than 25,500 hotel rooms are also present. Chain hotels, in every category, have on average more hotel rooms than independent facilities.

The ratio of hotel rooms at chain and independent facilities according to province (%) in 2014



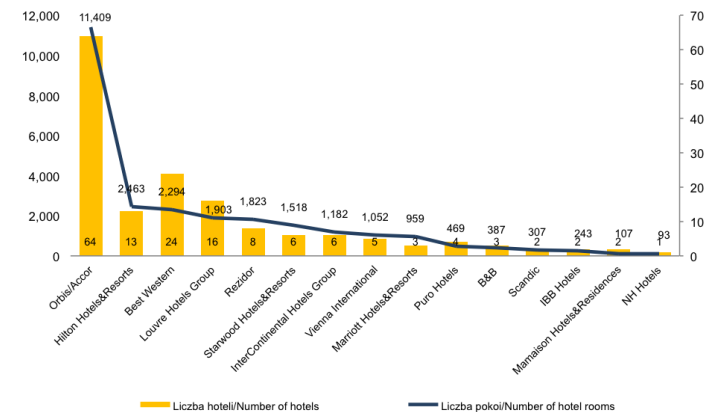
Source: Horwath HTL, Hotel Guide Book 2015

Chain proliferation among hotel rooms in Poland according to category in 2014



Source: Horwath HTL, Hotel Guide Book 2015

International hotel chains in Poland in 2014



Source: Horwath HTL, Hotel Guide Book 2015

Amongst the international hotel chains on the Polish market, the following have reported growth: Accor, Best Western International, Hilton Hotels & Resorts, Marriott Hotels & Resorts.

Accor is a franchise partner of ORBIS, which is a Polish hotel group, and amounts currently to 64 hotels all over the country. The chain develops in Poland mostly economic brands, such as: Ibis, Ibis Styles, Novotel and Mercure. Two openings took place in 2014 (hotels in Bydgoszcz and Wrocław). For the 2016 - 2017 Accor/Orbis is planning to open nine new hotels: Ibis Budget, Ibis and Ibis Styles brands.

Best Western International is the second largest international hotel chain on the Polish market. The chain operates 22 properties, with projects in the pipeline. Just in 2015 the chain grew by five new facilities - Best Western Plus in Brzeg, Best Western Petropol in Plock, Best Western Plus Hotel Dyplomat in Olsztyn, Best Western Q Plus and Best Western Efekt Express in Cracow. Two new hotels is planned to be open in 2015, 2016.

Hilton Hotels & Resorts, after many years of operating one property in Warsaw, entered other city markets in Cracow, Gdansk, Swinoujscie, Rzeszow and Lodz. In 2015, Hilton Hotels & Resorts chain opened doors in Hampton by Hilton hotel in Cracow which is a part of the dual branded hotel complex with DoubleTree by Hilton Hotel, opened in October 2015. There are three new projects in the pipeline.

The chain operates twelve properties, mainly Hampton by Hilton (5 hotels), Hilton Garden Inn (3 hotels) and DoubleTree by Hilton (2 hotels), Hilton (1 hotel), Hilton Convention Centre (1 hotel).

Transaction market

After a few years' slowdown of the hotel transaction market in the CEE region, there is a move toward hotel purchase and acquisitions. Among the most popular transactions in the Polish market in recent years was a sale of the 5* Radisson Blu in Wroclaw €25 million - 2015; 3* Hampton by Hilton in Warsaw €45 million (\$61 million) - 2014; the 5* European Raffles Hotel in Warsaw (unknown sale price) – 2012. Noteworthy is a peculiar transaction and novelty on Polish market, presale agreement for the Holiday Inn Warsaw City Centre (254 facilities) in the stage of the hotel project. The construction of the hotel will start in 2016 and will last till 2018. The transaction will be finalized at the moment of completion of the hotel.

Bristol Hotel is the first property that belongs to the luxury segment of global hotel chains. As the Warsaw still apply for the title of a luxury destination perception and due to high international traveler profile in the capital, the second hotel that will operate under the luxurious hotel brand will be open on Warsaw hotels market. It is The Raffles European Hotel & Resort located in the heart of historical part of Warsaw, planned to be opened in 2018.

We expect that in the next few years hotel transactions will continue. The intense growth of the Marriott Hotel & Resorts chain is reported in 2015 and following years. Among pipelines projects Marriott chain is planning to implement on Polish hotels market new economy brand Moxy, which reflects demands of domestic market. The first Moxy hotel is to be open in Katowice - Pyrzowice International Airport in 2019. However, the most recent and significant transaction that took place in November 2015, as a part of global takeover, possibly may reshape

the hotels market in Poland. In Poland it is related to six 5* Starwood's hotels of upper upscale class: four Sheraton's hotels in Cracow, Warsaw, Poznan, Sopot and The Westin hotel in Warsaw, as well as the 5* Bristol Hotel Warsaw, Luxury Collection. Benson Elliot Capital Management LLP and Walton Street Capital took over control of 8 Starwood hotels in Europe including Sheraton in Warsaw (the value of transaction 420 billion EUR). Additionally, there is another transaction in line expected – sales of 12 hotels (1000 facilities) of WAM Polish chain, belonging to the State Treasury.

In budget segment, the German hotel chain Motel One will debut in 2017 on Polish market. The first facility with 190 rooms is planned in Warsaw, opposite the Chopin's museum.

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Dariusz Futoma is a Director in HTL Horwath Poland. Dariusz's association with the hotel industry stretches back almost 15 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 chain, 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 Gdansk 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. As a hotel industry advisor Dariusz is involved in the activities aimed to the development of the hotel industry in Poland. He speaks fluently English and Russian.

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Agnieszka is a member of the Market Analyzes Department at Horwath HTL Warsaw Office, specializing in preparation of consultancy assignments such as reports of market analysis & feasibility studies and valuations of the hotels projects. She joined Horwath HTL in 2015 after over 11 years of work in audit and advisory sector for such big international audit chains such as BDO, PFK and TPA Horwath Audit, where she acquired broaden experience. At Horwath HTL she is responsible for the preparation of descriptive parts of reports related to the hotel market and location analyzes, macro-micro environment of hotel investments analyzes. She speaks fluent English.

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