

CROATIA HOSPITALITY MARKET INSIGHT

2022

MARKET SUMMARY & OUTLOOK

Market Performance

After two COVID-19 seasons, 2022 saw an almost complete recovery of tourism with only 2% fewer overnight stays than in 2019. Hotels were almost at full capacity (98% open). In the summer season, hotels achieved 5% higher revenues than in 2019, primarily due to higher ADR. Occupancy increased by 25% (to 79%) compared to the 2021 season, which means a 9% gap compared to the occupancy of 2019.

Supply

The overall supply increased compared to the 2021 season. According to the Croatian Tourist Board, the total number of hotel accommodation units recorded an overall increase of 1,7% compared to the 2019 season while the total number of private accommodation units decreased by 1,4% compared to the same period. Despite the limited supply, annual growth in total hotel accommodation units is expected to be between 1.5–2.0% for the next 2 to 3 years.

Demand

The touristic demand recorded a steady recovery, particularly in the second and third quarters of 2022. In 2022, Croatia received 19 million arrivals with 105 million overnight stays. Leisure-focused markets have exhibited significant growth compared to 2021. While it is projected that demand will continue to recover in the short term, the recovery rate may slow due to the rising cost of living and overall market uncertainty. On the other hand, it is expected that Croatia's entry into the Schengen area and the introduction of the Euro as the official national currency will have a positive effect on the demand for Croatia from its key and already traditional inbound markets (Germany, Slovenia, Austria).

Investment Trends

Interest rates remain at higher levels and mortgage capital is less available than in early 2022 due to more stringent underwriting, including lower loan-to-value ratios. These circumstances have had a direct impact on the transaction market, which slowed significantly in Q4 2022, with some under-contract deals being re-traded or abandoned in the face of rising capital costs.

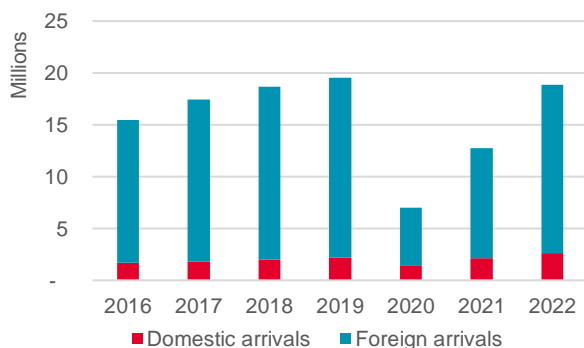
Prime yields

A limited number of prime transactions were conducted during the 2nd half of the year, with little change in yields. It is anticipated that yields for properties outside prime locations will include additional risk factors due to the increasing debt costs, economic downturns, and overall market uncertainty. However, these yield changes may be difficult to observe.

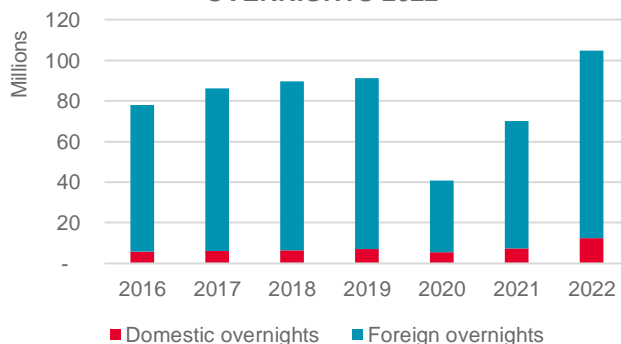
CROATIA HOTEL MARKET

Croatia's hotel industry recorded a positive recovery trend after 2 years of the Covid-19 pandemic. The results of the 2022 tourist season were close to the 2019 results. There was a 37% increase in arrivals (18.9 million) and a 25% increase in overnight stays (104.8 million) compared to 2019. A total of 92.3 million overnight stays refer to foreign tourists, while 12.5 million refer to domestic tourists.

ARRIVALS 2022



OVERNIGHTS 2022



CROATIA HOSPITALITY MARKET INSIGHT

2022

During the first nine months of 2022, the income generated from foreign tourists was approx. at the level of EUR 11.6 billion. An estimation for the whole year is that the total revenue from tourism in 2022 will reach EUR 13 billion.

In 2022, for the first time, the number of beds in hotel accommodation has increased compared to the number of beds in private accommodation. This is a positive result of the overall national strategy that includes a plan for further tourism development. Namely, the prime focus is on upgrading existing hotel properties and developing new upper-scale and luxury greenfield investments.

With this positive trend, annual growth in total hotel accommodation units is expected to be on a level between 1.5 – 2.0% for the period of the next 2 to 3 years. Approximately 50% of the total new supply relates to the premium segment.

Private accommodation units with a share of almost 51% (611,525 beds) as compared to hotel accommodation with a share of 15% (179,545 beds) still prevail in the total supply of accommodation units in Croatia. It is expected that the total share of private accommodation units will record a slight decrease as compared to the previous period.

Based on the current hotel structure, 3-star and 4stars hotel still dominate, but with a trend of new investments and reconstruction of older hotel properties it is expected that this structure will be changed in the following 5 years.

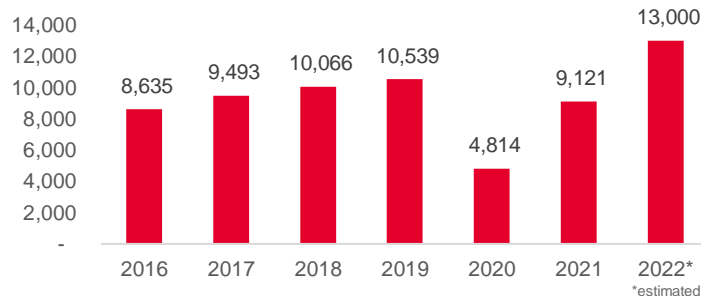
Transactions

The hotel market is limited in numbers, as shown by the low volume of transactions. Most 2022 transactions include properties requiring further investment and market repositioning.

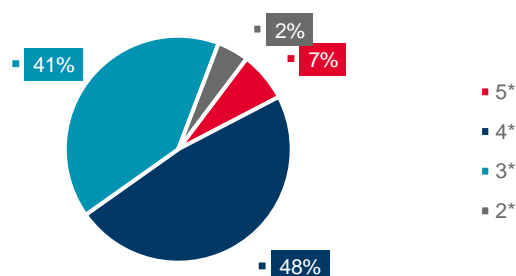
One of the significant transactions is the sale of the Jadran Hoteli portfolio in Rijeka to Brown Hotel Group. This deal includes more than 1,200 beds in 5 hotels in Rijeka, 1 apartment complex and 1 campsite. It is expected that this will bring the necessary investments into a full reconstruction and market repositioning.

The largest single transaction relates to the sale of a newly built 230 keys Grand Hotel View on Brac Island. Both, the seller and the buyer are Croatian companies – Adria Coast Turizam and Jadran Crikvenica.

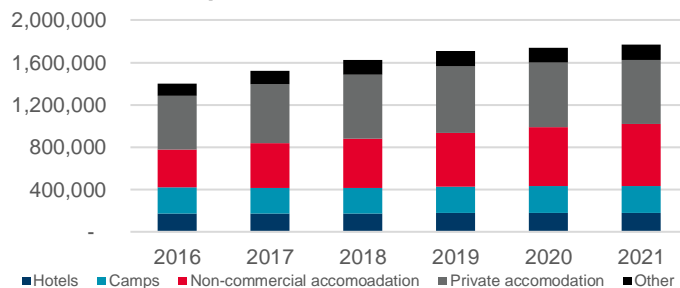
Touristic Revenue (mil. EUR)



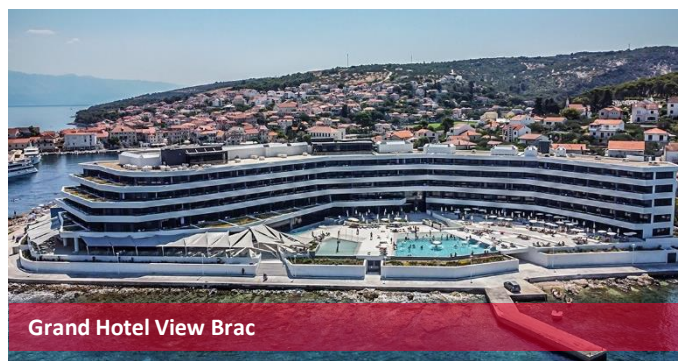
Total hotel share per category



Accommodation portfolio in Croatia



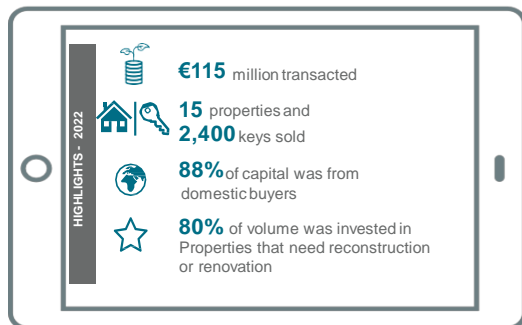
Source: Croatian National Tourist Board, eVisitor, compiled by CBS International



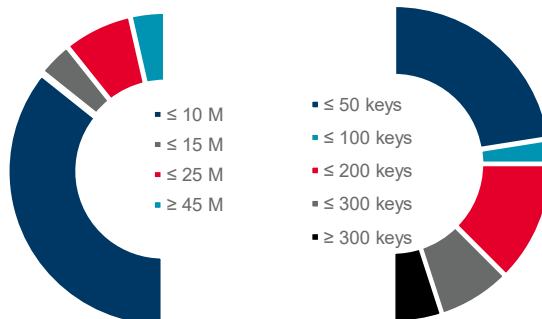
CROATIA HOSPITALITY MARKET INSIGHT

2022

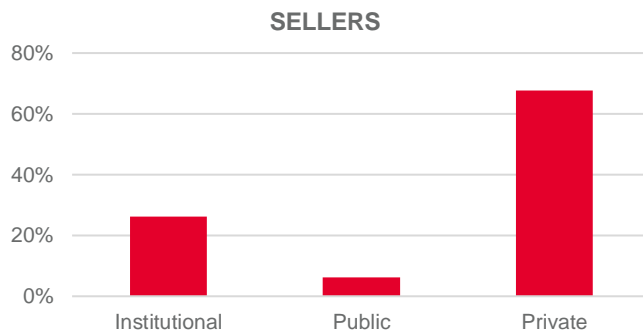
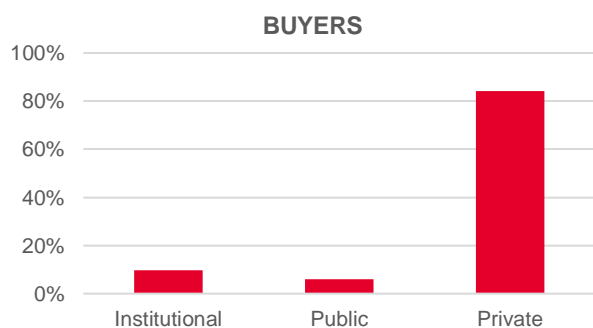
Hotel Investment market in key numbers



Breakdown by number of Keys Sold & Deal Size (2022, % Share of Deals)



Transaction Volume by type of Investor



Source: CBS International

Openings

There were some significant new openings in 2022. In most cases, these are converted old hotels.

These are hotels of a higher category (upscale and premium), and most of them are located on the Adriatic coast. Luxury rooms, outdoor swimming pools, wellness and spa centres and top restaurants and bars are just some of the features of the new hotel properties.

In addition to modernization and category expansion, branding by large domestic hotel companies as well as the arrival of international hotel brands is noticeable.

PROPERTY	LOCATION	KEYS	INVESTOR	OPERATOR	CLASS
Hotel Ambasador	Split	101	Birkenstock	Hotel Ambasador	Premium Leisure
Hvar Places	Stari Grad, Hvar	179	Valamar	Valamar	Upscale Lifestyle
MOEESY Blue & Green Oasi	Hvar	42	Croatia Hvar d.o.o.	Moeesy Hotel	Premium Lifestyle
Grand Hotel View	Brač	230	Adria Coast Turizam	Jadran Crikvenica	Premium leisure
Aminess Khalani Beach Hotel	Makarska	299	Aminess	Aminess	Premium Lifestyle
Mövenpick Zagreb	Zagreb	104	MPPD d.o.o.	Accor	Premium Business
Dalmacija Places	Makarska	190	Valamar	Valamar	Upscale Lifestyle
Grand Hotel Brioni	Pula	227	Arena Hospitality	Arena Hospitality	Premium leisure

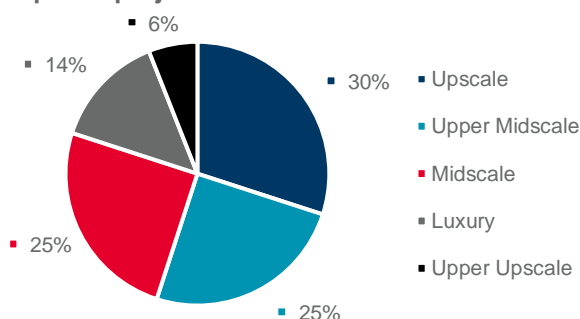
Source: CBS International

CROATIA HOSPITALITY MARKET INSIGHT

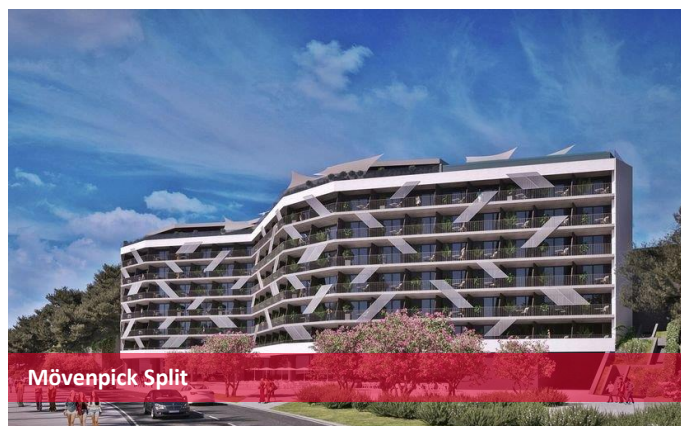
2022

In addition to individual projects, large hotel companies have restarted the cycle of investments encouraged by the good results of the tourist season. However, some investments have slowed down due to uncertainties related to increased financing costs, energy prices and labour costs. There are more than 2,500 keys in the pipeline mostly in the upscale categories.

Pipeline projects



Source: CBS International



Transactions

The capital market changes that occurred during the latter half of 2022 are still affecting the market. Interest rates are still high, and mortgage capital is less available than it was in early 2022 due to stricter underwriting standards, such as lower loan-to-value ratios. These conditions have directly impacted the transaction market, which slowed significantly in 2nd half of 2022, with some deals being re-negotiated or abandoned due to rising capital costs.

Additionally, there is a disconnect between buyer and seller expectations, as sellers are still influenced by the strong metrics of the first half of 2022, while buyers are facing the harsher realities of the current debt market. However, there is still a strong demand for high-quality deals, and hotels continue to be a popular investment asset class in the current inflationary environment.

As challenges in 2023, we can also mention the uncertainty of rent for tourist land, which should be regulated by new regulation, then in connection with maritime rights, i.e. beach concessions, and further uncertainty in connection with the price of energy after March 31.

On the other hand, it is expected that Croatia's entry into a Schengen area and the introduction of the Euro as the official national currency will positively affect the investments, as well as the growing tourist demand from the most important European markets.

Predrag Tutić MRICS

Country Manager
predrag.tutic@cw-cbs.hr

Robert Brgić

Senior Consultant Hospitality
robert.brgic@cw-cbs.hr

Andrea Popović Karlović

Head of Valuation and Development Advisory
andrea.popovic@cw-cbs.hr

CBS International, part of Cushman & Wakefield Group

6A Slavenska Avenue, City Plaza Zagreb
 10000 Zagreb, Croatia
 Tel: +385 1 22 3884 728
office@cw-cbs.hr

[cushmanwakefield.com / cw-cbs.hr](https://cushmanwakefield.com/cw-cbs.hr)

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.

©2023 All rights reserved. Please note that the data contained within this report found through market research have been processed from multiple sources believed to be reliable, no warranty expressed or implied is made regarding accuracy, adequacy, completeness, reliability or usefulness of any information. This disclaimer applies to both isolated and aggregate uses of the information. Changes may be periodically added to the information herein; these changes may or may not be incorporated in any new version of the publication.

Users may make free use of the information obtained directly from report subject to the following conditions:

1. When such information is distributed or reproduced, it must appear accurately and the CBS International must be cited as the source; 2. If the information is modified by the user this must be stated explicitly. Copying and/or transmitting information from this report without indicated source may be a violation of applicable law.