

HOTEL MARKET REPORT
SOFIA 2012



KOHL & PARTNER
HOTEL & TOURISM CONSULTING

EUROPE'S LOWEST ROOM RATES AND OCCUPANCY LEVELS – IS BUSINESS STILL GOOD?

The comparisons below are based on figures from STR Global which represent the six largest international hotels in Sofia with approximately 878 rooms (11% of Sofia's hotel rooms). In the STR Global benchmark tool, the following 5 star category hotels are participating: The Radisson Blue, Sheraton, Grand Hotel Sofia, Hilton, Holiday Inn, and Kempinski.

Based on Trivago Hotel price index (August 2011), Sofia and Budapest are the cities with the lowest room rates. The average hotel price in Sofia (in all categories) is Euro 37.50. Even though Bulgaria has the lowest minimum salary in Europe, the lowest construction costs, and favorable energy costs (Eurostat 2012), it is still a fact that hotels can survive and even make a profit.

Occupancy is still lower compared to other cities around Europe; the problem is that Sofia is still focusing on business guests and the weekend/leisure business is very low.

Based on the official data published by Sofia municipality's tourism enterprise, 64% of tourist overnight stays were in 4 - 5 star hotels. The market is mainly generated by foreigners and they trust more the international brands. Furthermore, due to the low hotel prices, the international arrivals can afford to stay in a higher hotel category than usual.

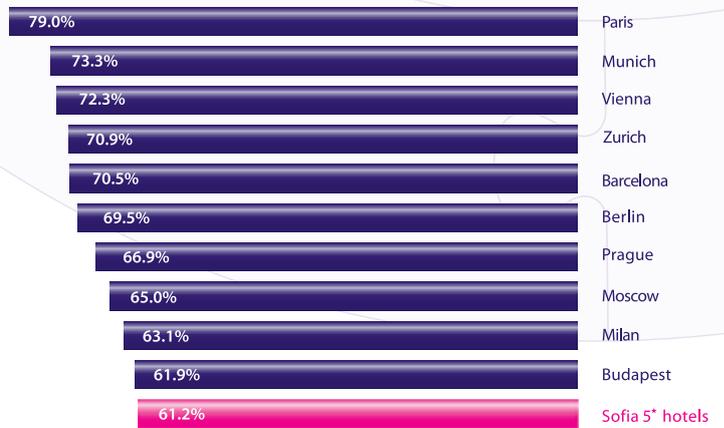
Kohl & Partner also analyzed the lower categories (1 - 3 star) and these figures revealed a negative picture. The price and occupancy levels in those segments are much lower, and their RevPAR is often too low to guarantee future business.

Average room rate (ADR) in Euro

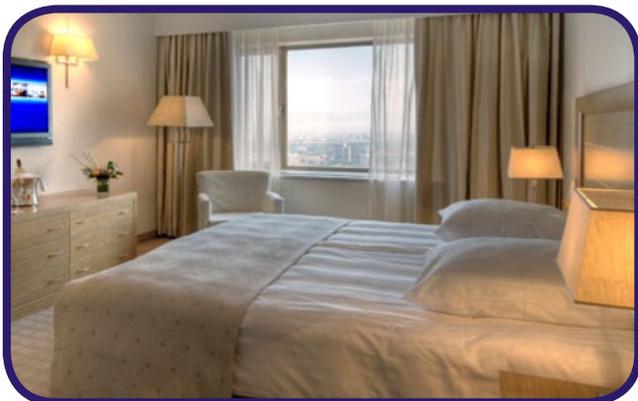


Source: STR Global, analyzed by Kohl & Partner Sofia

Occupancy (Rooms) in %



Sofia 5* hotels



Kempinski Hotel Zografski Sofia



Radisson Blu Grand Hotel, Sofia

SOFIA'S CHANGING HOTEL MARKET

There are a several new projects in the 4 and 5 star categories, which have already begun or are still at the planning stage:

- The new Novotel (Accor) with 177 rooms, is in a good location between the airport and the city centre, and is scheduled to open soon
- In April 2011, the Intercontinental announced their second hotel in Sofia (after Holiday Inn). However, based on our research, the project has now been changed into luxury residences and the Intercontinental has stepped out
- A planned skyscraper in the center, near Macedonia square, is searching for an operator for more than 200 hotel rooms
- The Millennium Center Sofia is planning to accommodate a 5-star hotel with approximately 350 rooms

Originally, investors presumed the area around the airport to be interesting for hotel business; however, this is not the case since Sofia is not a real hub. We do not expect the planned projects in this region to be developed.

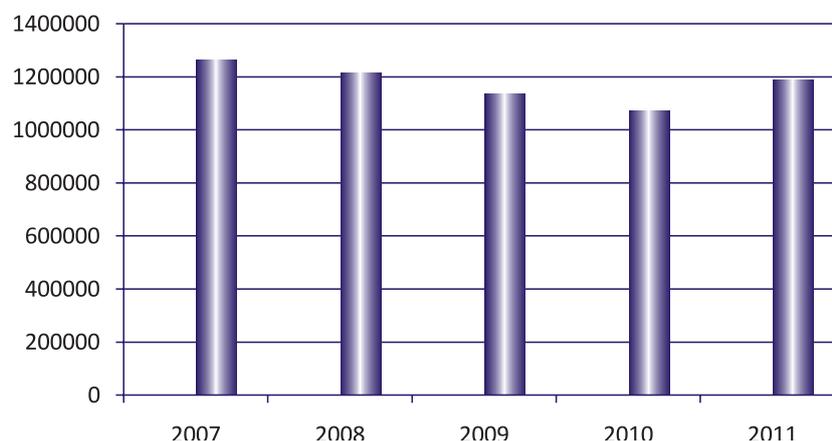
Kohl & Partner foresees branded hotels on prime locations to be a successful market in the future. The city center will still be a prime location, as well as areas with easy and fast access to the center. The newly built tube will bring interesting changes to the market once its construction is completed. In addition, when real estate prices finally start to increase, we expect that the smaller hotels will slowly close operation and be used for other purposes.

OVERNIGHT STAYS REFLECT THE BULGARIAN BUSINESS CLIMATE

The total number of overnight stays in 2011 was still lower than in 2007 and the trend shows an increase; however, this reflects the business environment. In 2011 six of the hotels reporting to STR Global reached an increase of more than 28%, compared to the previous year, which is the same number of the overnight stays registered in 2007.

Even if there were new openings in the 4 star category, there is still a strong decrease in the lower hotel categories and budget hotels; especially if they are not part of an international reservation system.

Overnights in Sofia a year



Source: Sofia Municipal Enterprise Tourist Service

ARE ALL BRANDS STAYING IN SOFIA?

In Sofia, the Kempinski Hotel Zografski has been a prestigious and a very popular hotel for many years. The Kempinski contract is under negotiation and the hotel management will have to make a difficult decision.

The other strong and well operating hotels in Sofia are, the Radisson Blu which is currently expanding and investing in additional rooms, and the Hilton which has been in Sofia for 12 years.

Kohl & Partner does not expect the top brands to leave Sofia. On the contrary, in order to become more independent from the real estate owners, the brands are looking to operate a second hotel property (in a different star level). With the economic development, we also see the possibility that new brands will enter the market.



POSITIVE KEY FIGURES FOR 2011

When compared to the previous year, the increase of overnight stays in Sofia, the ADR, and especially the occupancy, resulted in a much better REVPAR; even if it was still on a low international level.

Key Performance Indicators Sofia	2011	% Change to last year
Overnights	1.188.471	6,0%
ADR	€ 84.38	7,0%
Occupancy	61,20%	28.7%
REVPAR	€ 51.80	40.1%

Source: Overnights = Sofia municipal enterprise tourist service, all others: STR Global

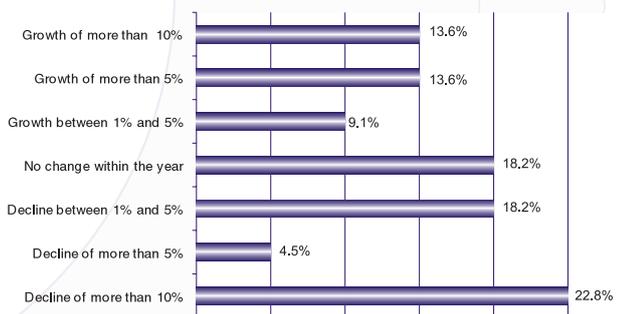


ESTIMATES ON FUTURE TRENDS

A survey by Kohl & Partner concluded that, most of the 4 and 5 star hotels still expect a growth and the lower categories are much more negative in their forecast.

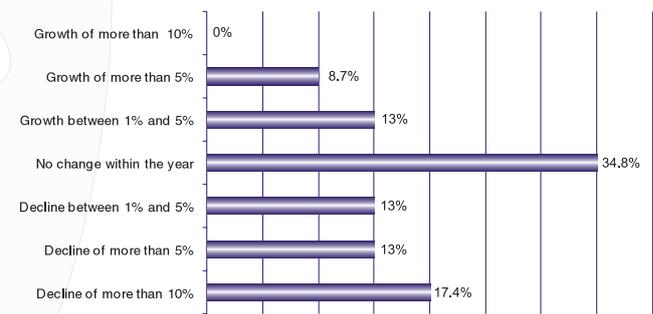
Similar results can be seen in the hotelier's trend estimation for ADR (Average Daily Rate). The upscale categories expect a small increase in ADR (perhaps as a result of their yield management).

Estimates on the change of OCCUPANCY 2012 (Single- and Enterprise-/chain companies)



Source: Kohl and Partner Survey

Estimation of the change in ADR 2012 (Single- and Enterprise-/chain companies)



Source: Kohl and Partner Survey

HIGHER GROWTH FOR UPSCALE AND LUXURY HOTELS

Foreign business clients will mostly trust the international brands and will choose hotels located in the city center with quality rooms and adequate services. Overall, there is an oversupply of hotel beds and the difference of quality between hotels can vary strongly. Kohl & Partner expects further recovery in the higher star categories; however, hotels in the lower segments that are badly managed and

have an out-dated infrastructure should expect tough times ahead. As already mentioned, the branding and brand related services are of great importance.

Kohl & Partner also believes that a trendy 3 star hotel concept in the center would have a good chance.

Segment	Past	Future
Budget	↘	↘
Midscale	→	→
Upscale	↗	→
Luxury	↑	↗

CHALLENGES FOR THE HOTEL INDUSTRY

Kohl & Partner envisages the following main challenges for the hotel industry in Sofia:

- Presenting Sofia as a destination: there would be a more positive impact on the market if key players worked more efficiently together (hotels, airlines, municipality, tourism organizations ...).
- Attracting convention business is a very important factor and more effort is required in order to attract this business. Sofia is not tapping the full potential in this sector!
- Sofia is interesting for many international companies in terms of; the EU membership, location, prices, technical environment but also to their employees for an attractive night life, and the rich and pleasant culture.
- Sofia should attract more weekend guests. The weekend prices are extremely decreasing the ADR (Average Daily Rate) and there are not enough products and distributors on the market.
- Smaller hotels have to focus on a clear positioning concept. It is more important to limit the products and to focus on returning clients, than trying to impress the guests with interesting brochures showing non-existing or unusual infrastructures.
- The industry must constantly work on improving services and more respect between employers and employees is greatly required.



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