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17

HOTEL MARKET IN POLAND



EMMERSON
EVALUATION

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INTRODUCTION

Dear Sirs,

We are presenting you our report on the hotel market in Poland. In the recent years this is one of the most dynamically developing segments of the Polish real estate market. Continuously growing demand for hotel services driven by tourists and corporate clients, both Polish and foreign, has translated into a considerable growth in the number of new hotel investments. Hotels are becoming a more popular investment option among individual and chain investors alike as well as developers. Being a part of investment processes while estimating the value of this kind of investment allowed us to gain experience and broad knowledge about this particular segment of the real estate market.

Today we would like to share our knowledge with you by providing you with an aggregated report, including various graphs and charts. We have outlined the most important information that summarizes the current situation on the hotel market.

To start with, we carefully examine the current supply of hotels and hotel rooms in the particular voivodeships and the selected Polish cities. Due to the growing interest of international hotel chains, we analyze the proportions between the number of operating chain and private hotels. We outline the most important executed and planned hotel investments divided into business and tourist hotels as well as hotels in regional cities. We provide information about the hotel room occupancy rate and the current key financial indicators for this sector.

What sets our report apart from similar publications is a vast collection of standardized information about the major hotel transactions, which have taken place over the last two years.

Let us not forget about the supplementary condo hotels market, which – over the last years – has gained a lot of popularity both among developers as well as individual investors.

Based on the conducted analysis of the situation on the hotel market, the current trends and conditions, we attempt to foresee the future development options for this real estate segment in Poland.

We hope you will enjoy reading our report. If you have any questions or you would like to obtain an even more detailed analysis or another set of data, contact us.

Dariusz Książak,
Chairman of Emmerson Evaluation Sp. z o.o.

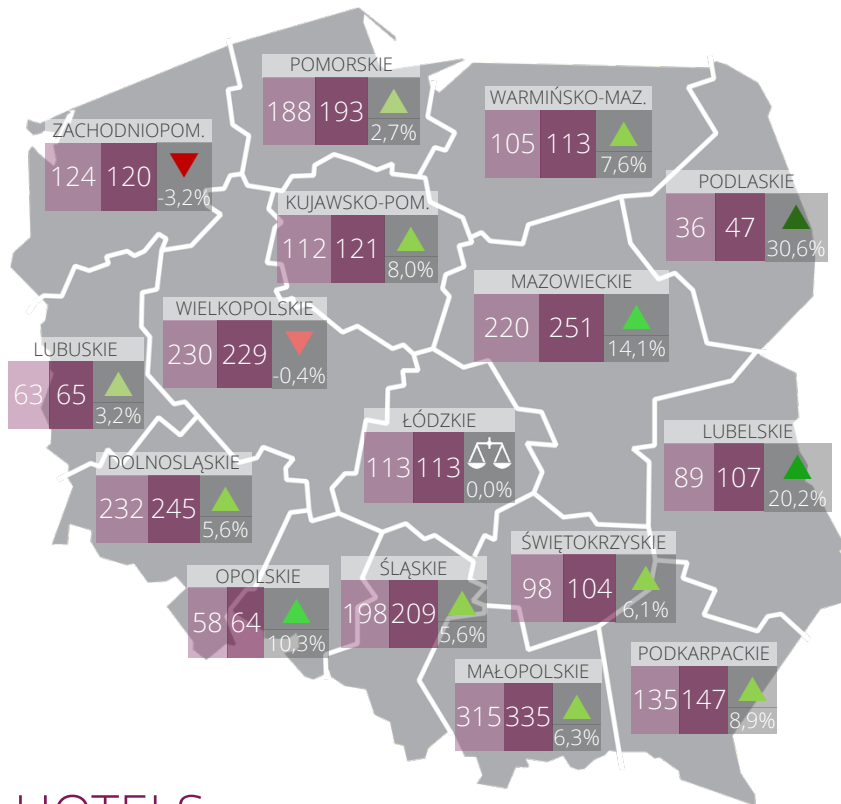
Supply of hotels and accommodation places

2015 
2016 

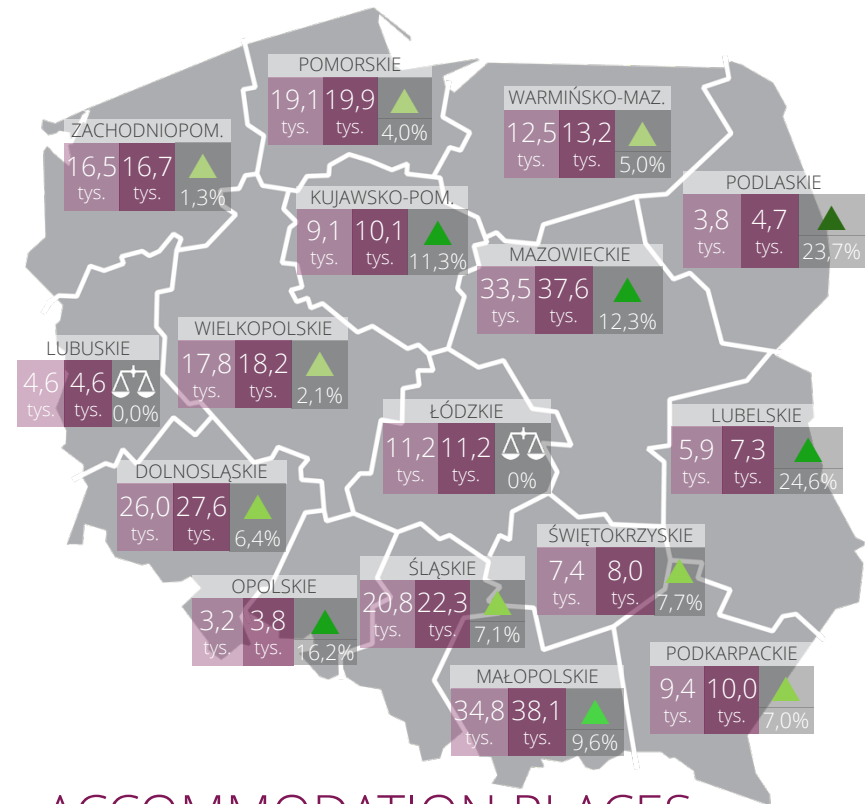
IN 2015 AND 2016 AND THE CHANGE 2016/2015

For a few years now, the Polish hotel market has been growing considerably both in terms of the number of tourists, the number of facilities, the occupancy rate as well as the sector's financial results. Increased tourist traffic is related, among other things, to security concerns in other regions of Europe and the generally good financial situation of Polish households. Every year Poland is visited by a growing number of foreign tourists. The number of national tourists is growing even faster than that. These positive factors boost investment in the sector. The number of modern facilities built both by private investors as well as chain hotels, including international ones, is growing. One can notice a considerable growth in the number of hotels, including

the number of accommodation places offered across Poland. Last year such situation was recorded in over 80% of voivodeships. The largest number of new accommodation places in 2016 appeared in the mazowieckie and małopolskie voivodeships (respectively 4.1 and 3.3 thousand) where Warsaw and Krakow generated, respectively over 1/3 and 2/3 of fresh demand. A considerable number of accommodation places appeared also in dolnośląskie voivodeship (1.6 thousand), śląskie voivodeship (1.5 thousand) and lubelskie voivodeship (1.4 thousand). The remaining regions recorded a less dynamic growth. In 2016, in łódzkie and lubuskie voivodeships the number of accommodation places did not change compared to 2015.





HOTELS



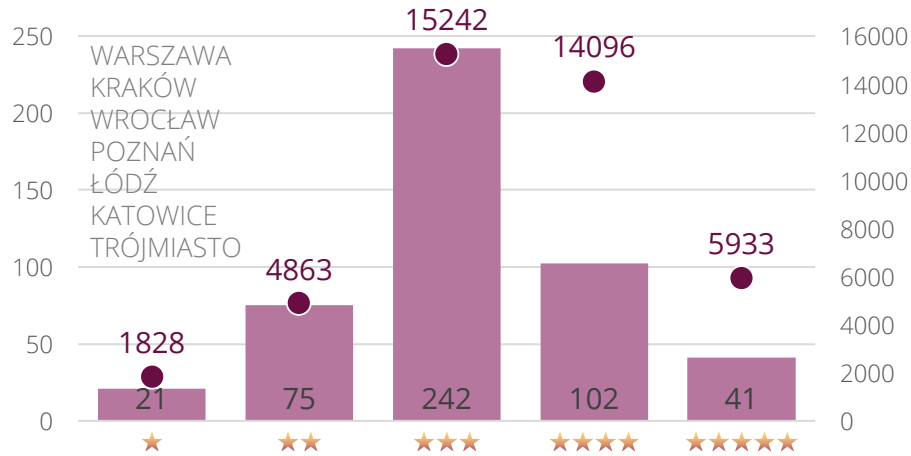
ACCOMMODATION PLACES

Supply of hotels and hotel rooms

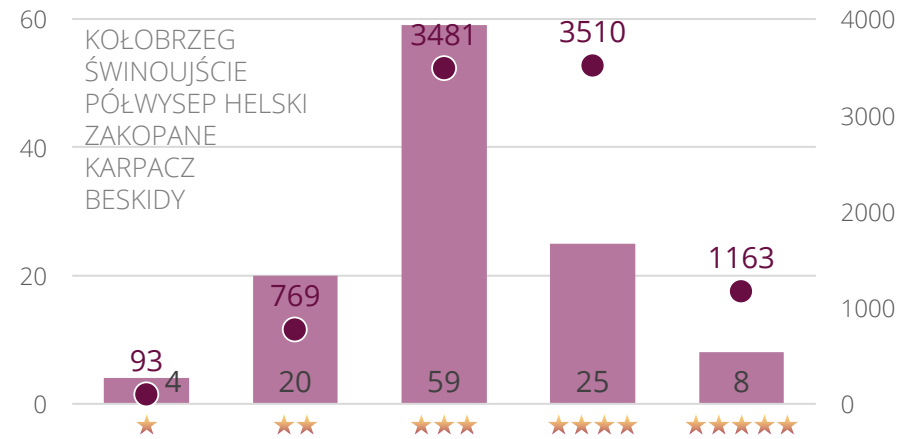
IN SELECTED CITIES

number of hotels 
number of hotel rooms 



BUSINESS HOTELS



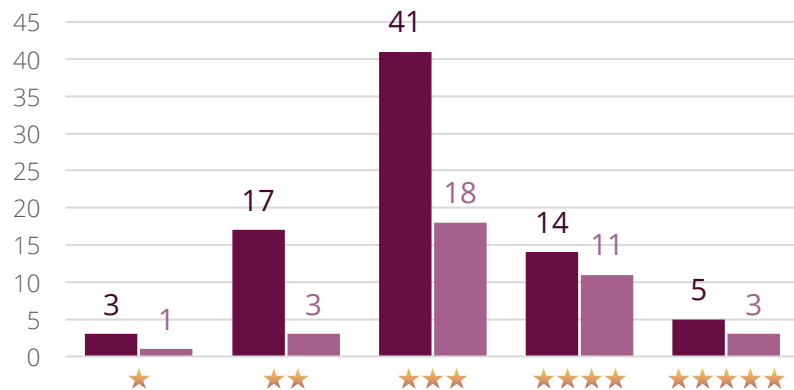
TOURIST HOTELS



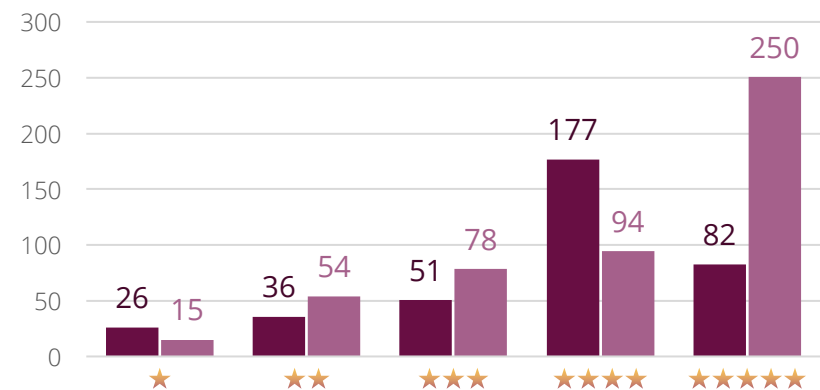
MOUNTAIN AND SEASIDE REGION

mountain region (Zakopane, Karpacz, Beskidy) 
seaside region (Kołobrzeg, Świnoujście, Półwysep Helski) 



NUMBER OF HOTELS



NUMBER OF HOTEL ROOMS PER HOTEL

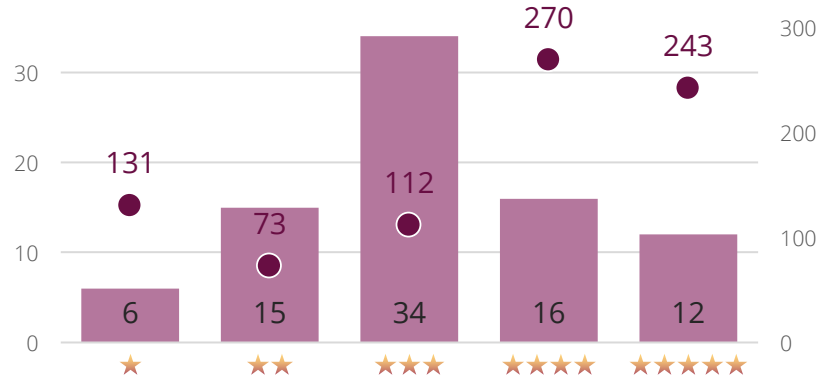


Supply of hotels and hotel rooms

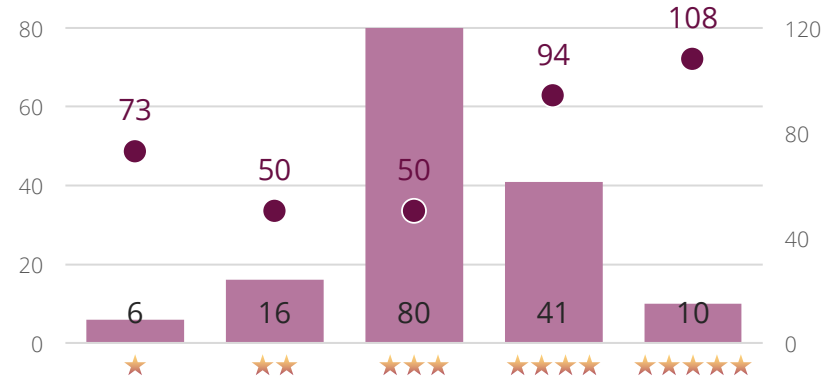
number of hotels 
 number of rooms per hotel 

ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES

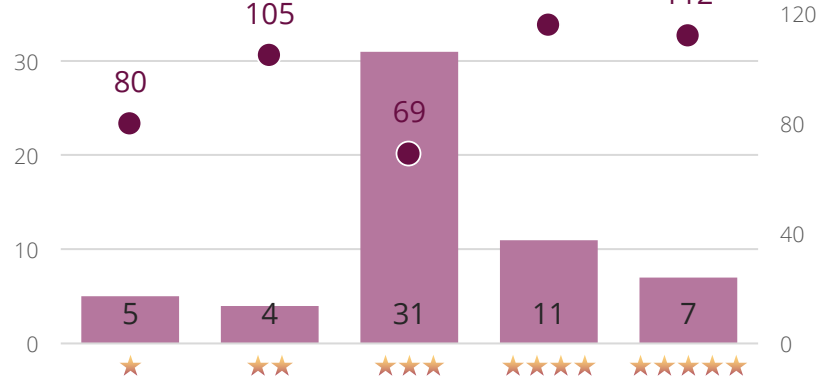
WARSZAWA



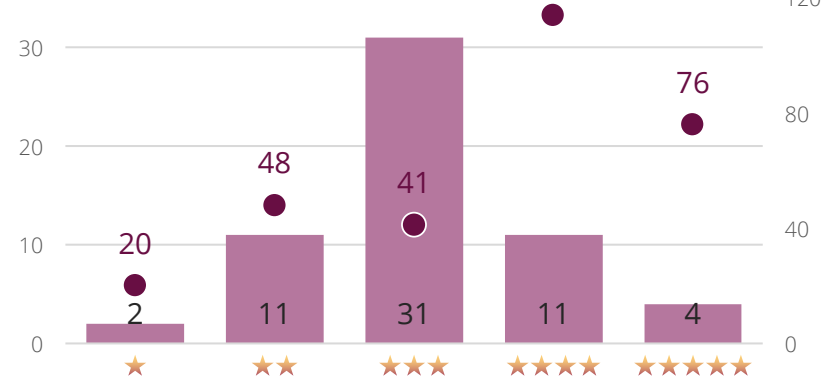
KRAKÓW



WROCLAW





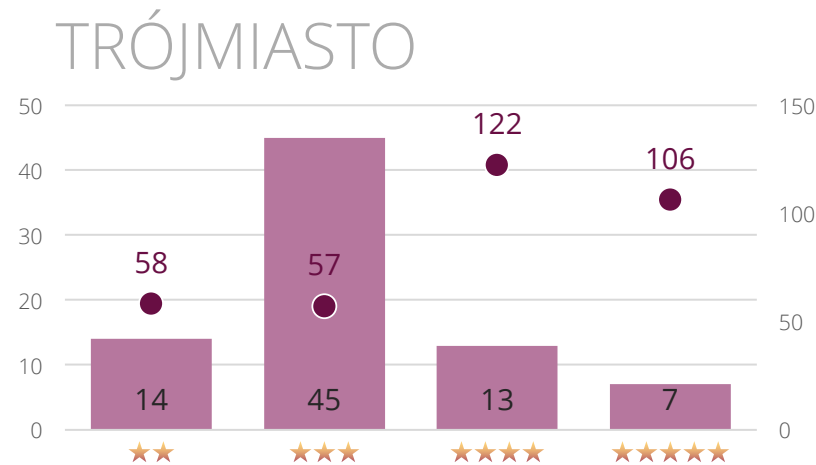
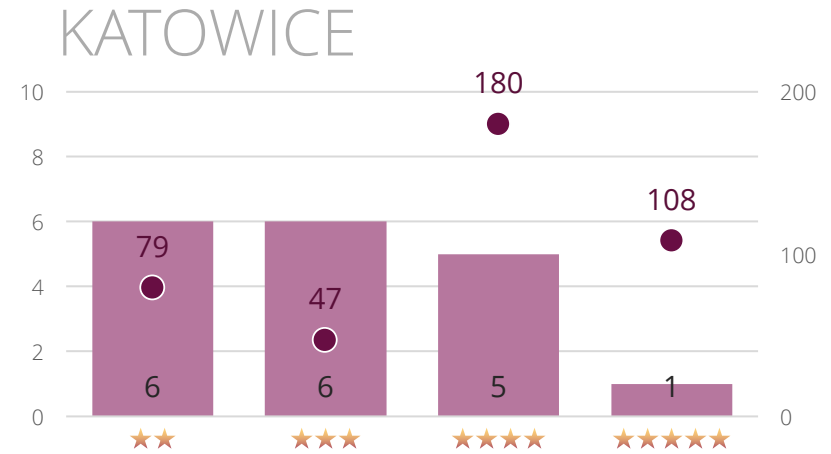
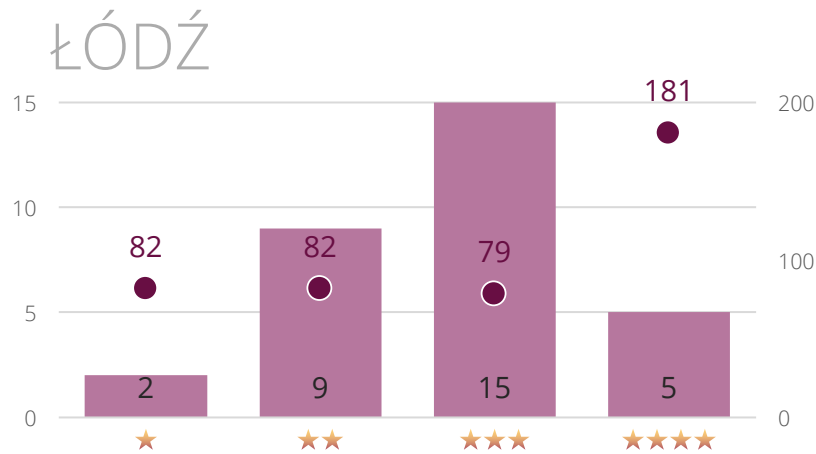
POZNAŃ



Supply of hotels and hotel rooms



ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES

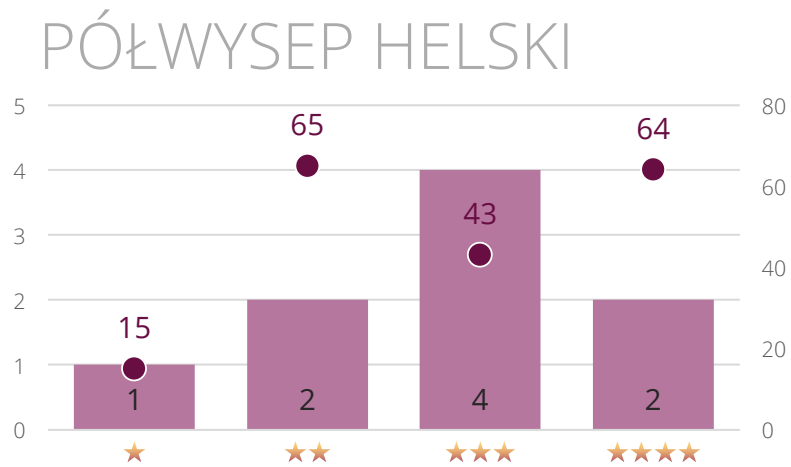
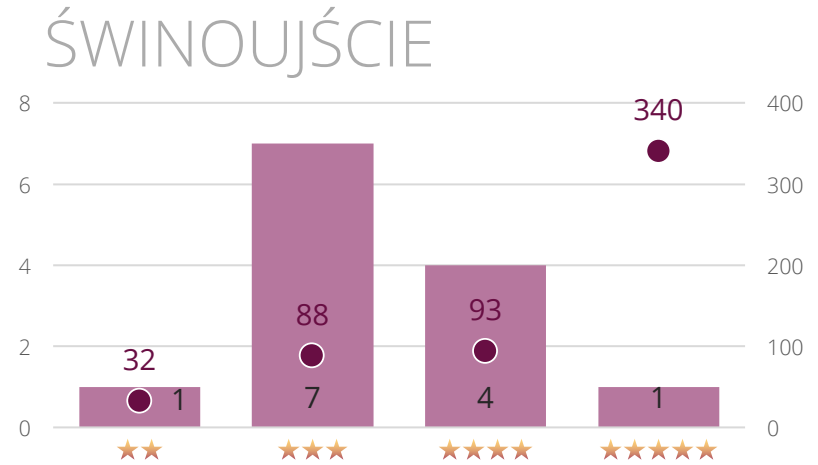
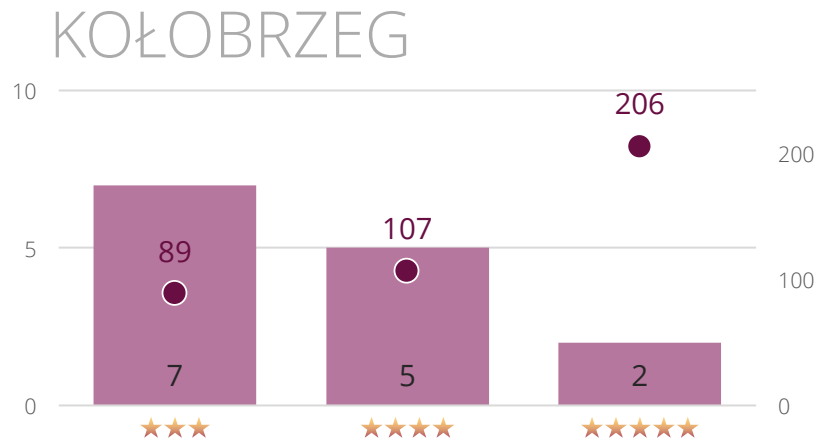
number of hotels 
number of rooms per hotel 



Supply of hotels and hotel rooms

ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES



number of hotels 
 number of rooms per hotel 

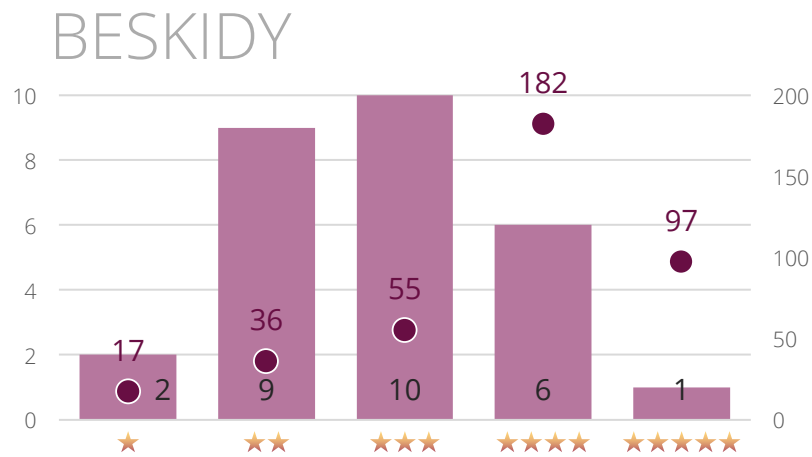
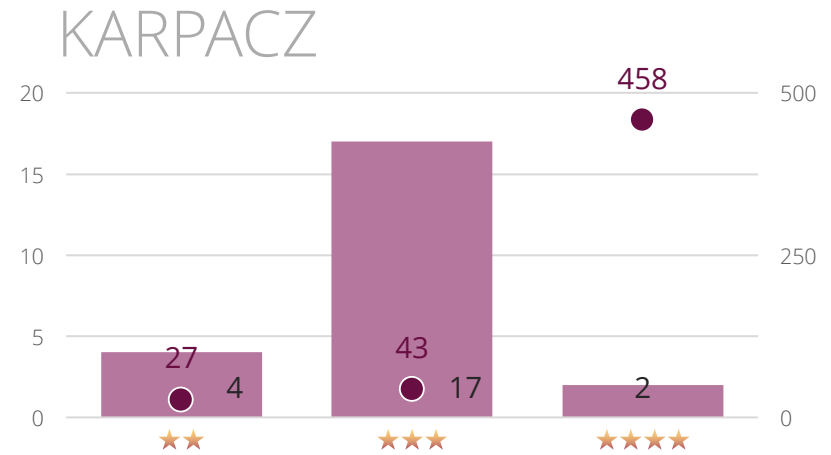
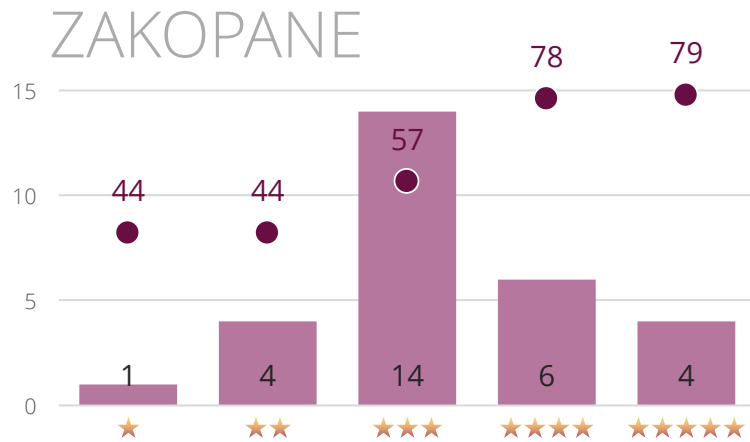


JASTARNIA
 JURATA
 CHAŁUPY

Supply of hotels and hotel rooms

ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES

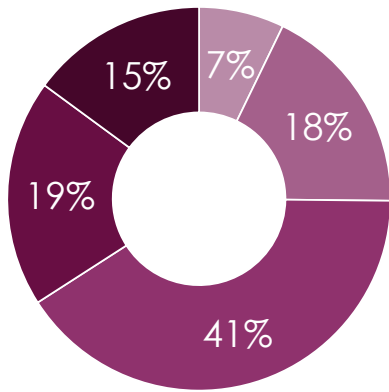
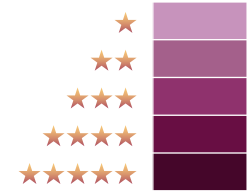
number of hotels 
number of rooms per hotel 



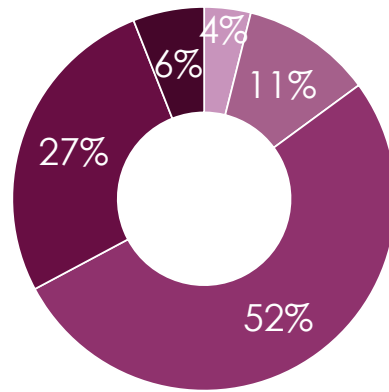
SZCZYRK
WISŁA
USTROŃ

Percentage of hotels

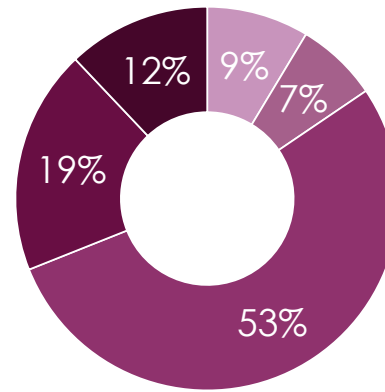
ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES



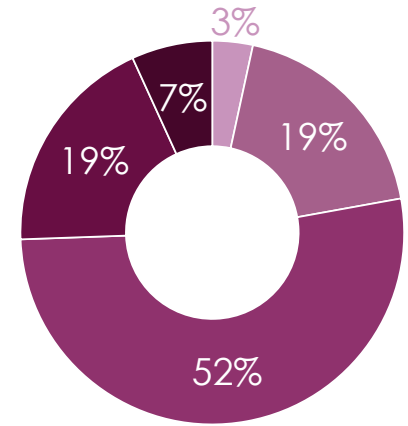
WARSZAWA



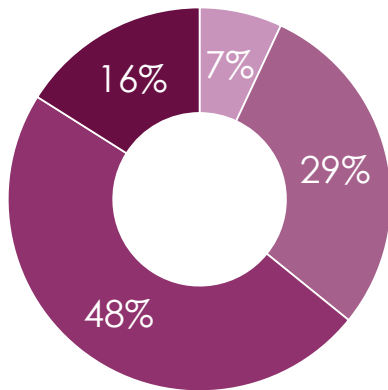
KRAKÓW



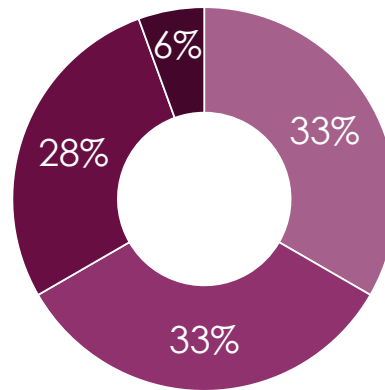
WROCŁAW



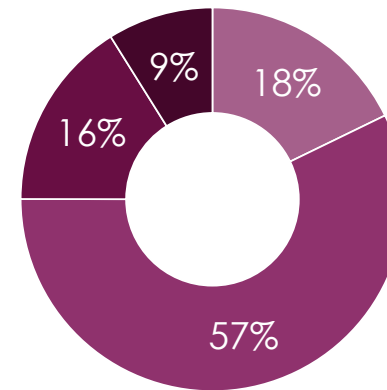
POZNAŃ



ŁÓDŹ



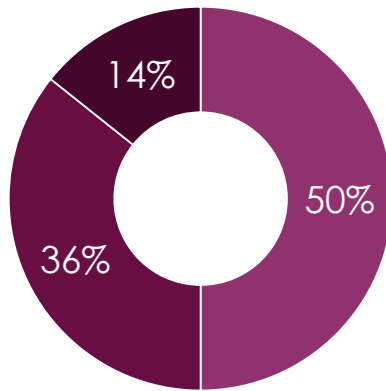
KATOWICE



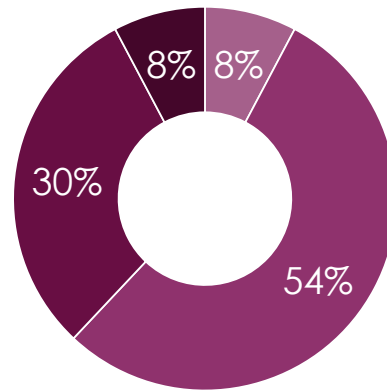
TRÓJMIASTO

Percentage of hotels

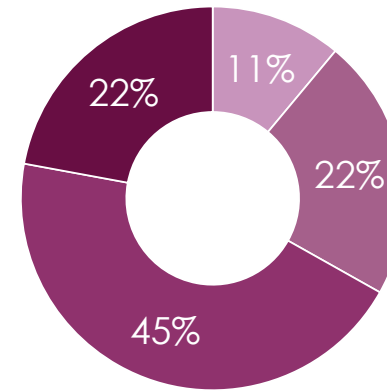
ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES



KOŁOBRZEG

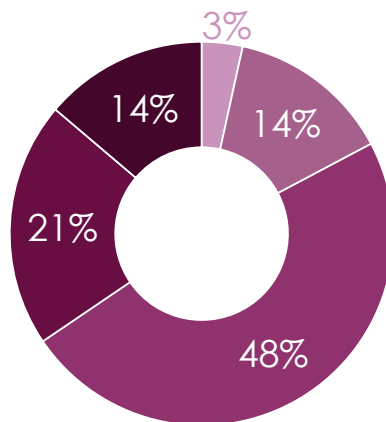


ŚWINOUJŚCIE

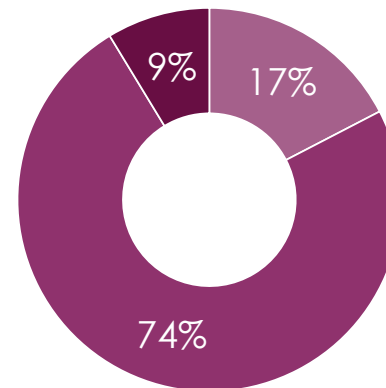


PÓŁWYSEP HELSKI

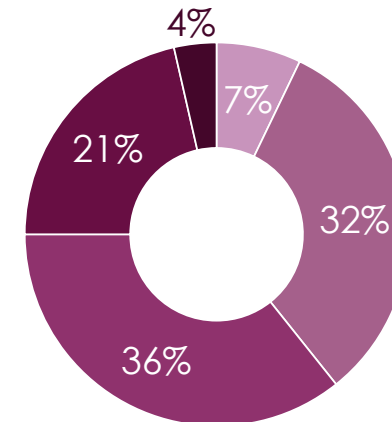
JASTARNIA
JURATA
CHAŁUPY



ZAKOPANE



KARPACZ

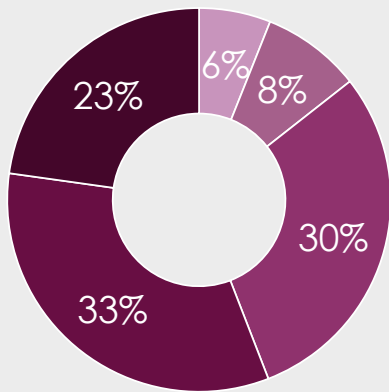


BESKIDY

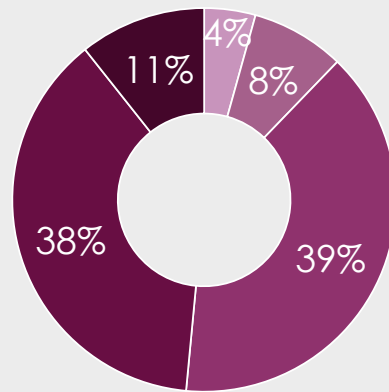
SZCZYRK
WISŁA
USTROŃ

Percentage of hotel rooms

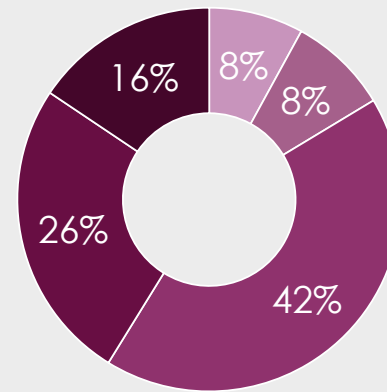
ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES



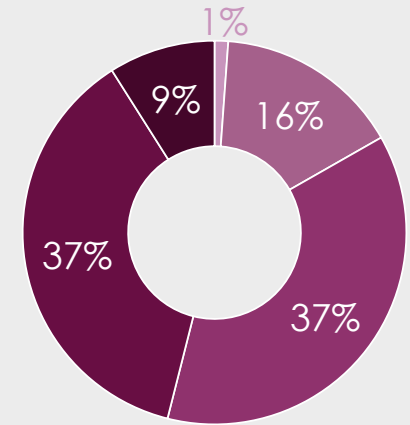
WARSZAWA



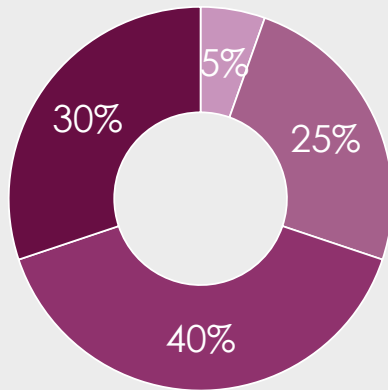
KRAKÓW



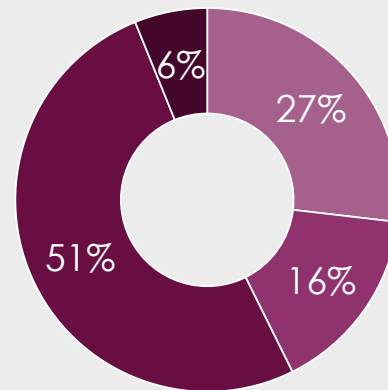
WROCŁAW



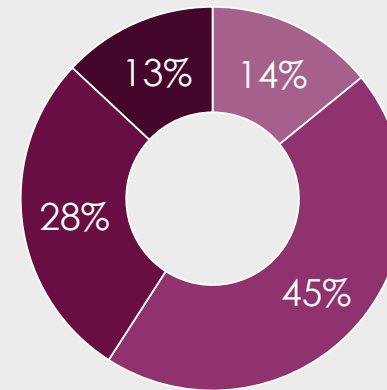
POZNAŃ



ŁÓDŹ



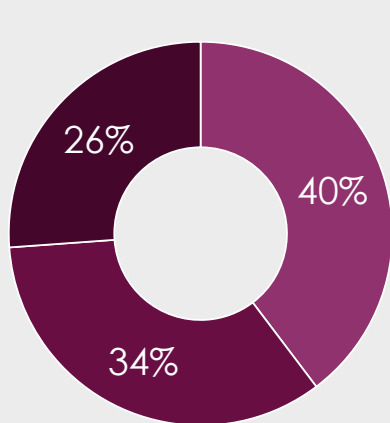
KATOWICE



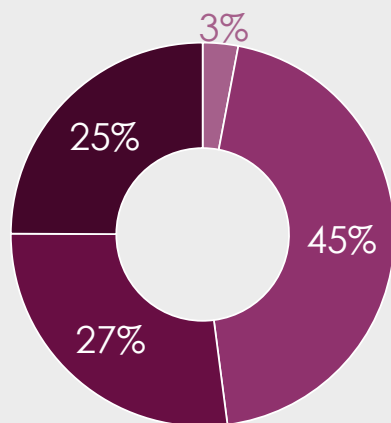
TRÓJMIASTO

Percentage of hotel rooms

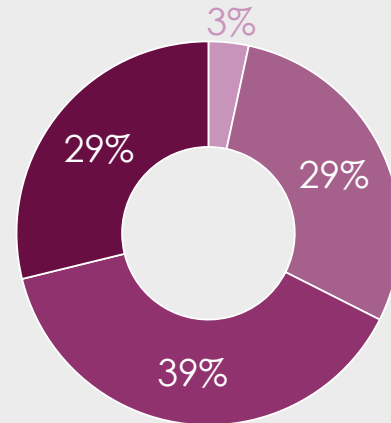
ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES



KOŁOBRZEG

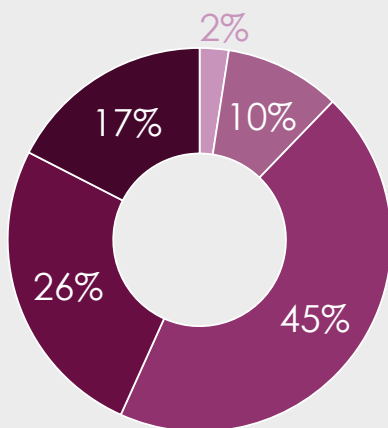


ŚWINOUJŚCIE

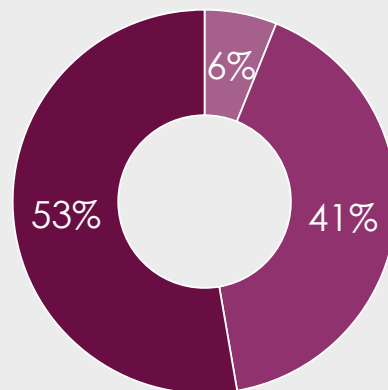


PÓŁWYSEP HELSKI

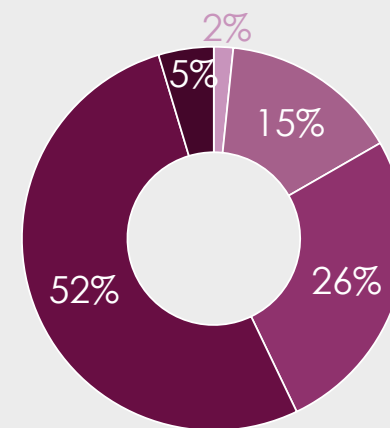
JASTARNIA
JURATA
CHAŁUPY



ZAKOPANE



KARPACZ



BESKIDY

SZCZYRK
WISŁA
USTROŃ

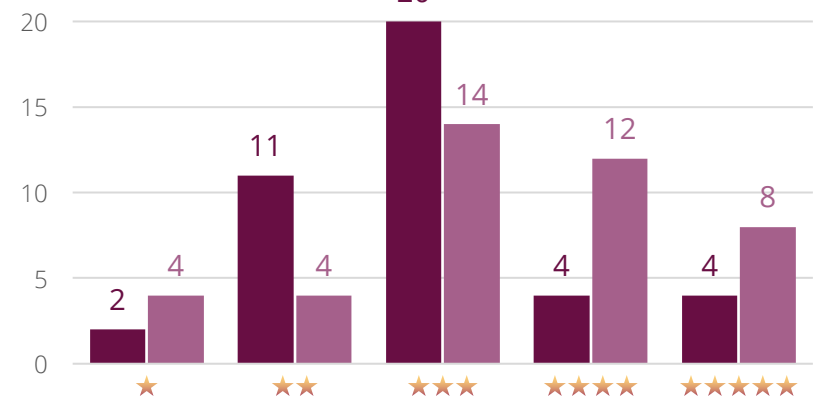
Number of chain and private hotels

private hotels
chain hotels

ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES

Despite the growing interest in the Polish market among international hotel networks, in Poland there is a large fragmentation in terms of the ownership structure. In Poland there are still more individual facilities run directly by property owners. A large part of such facilities operate in the tourist hotel segment and are located in tourist resorts. In such locations there are more Polish network facilities, as for instance Gołębiewski or Zdrojowa Invest than foreign hotels. International networks usually manage business hotels in large cities. They operate predominantly on the markets in the largest agglomerations where they are able to achieve the most certain return on investment, even in case of 4- and 5-star hotels, the management of which is much more difficult than that of 3-star hotels. Despite it, for some time now, there has been a trend of locating more and more hotels of foreign networks in towns situated in the mountains and at the seaside. In the coming years a few such investments will be completed, as for instance Hilton Garden Inn in Kołobrzeg or Radisson Blu in Zakopane. Local brands with a portfolio of business hotels that have been active on the market in the last years include Q Hotel, which in May last year opened a 4-star hotel in Katowice (and is already planning another hotel in Warsaw) or Chopin Airport Development, investor of the Moxy hotel at the airport in Katowice-Pyrzowice, which is planning to open Renaissance Warsaw Airport Hotel at the Chopin Airport.

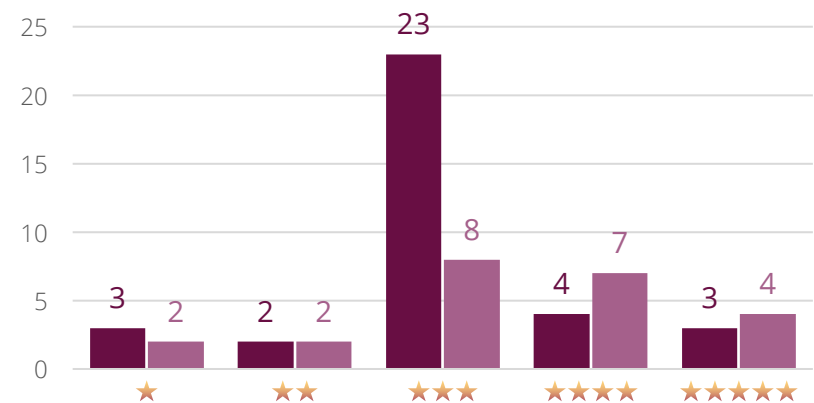
WARSZAWA



KRAKÓW



WROCŁAW

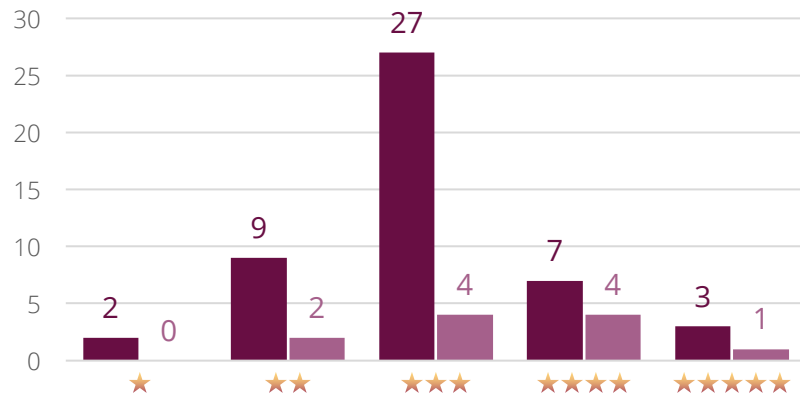


Number of chain and private hotels

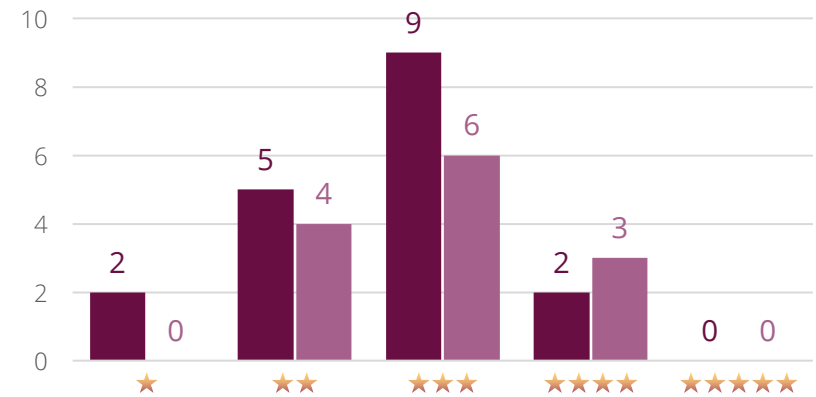
ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES

private hotels
chain hotels

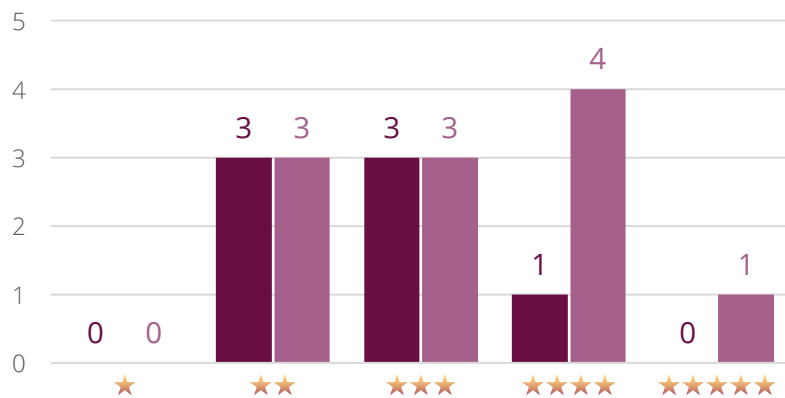
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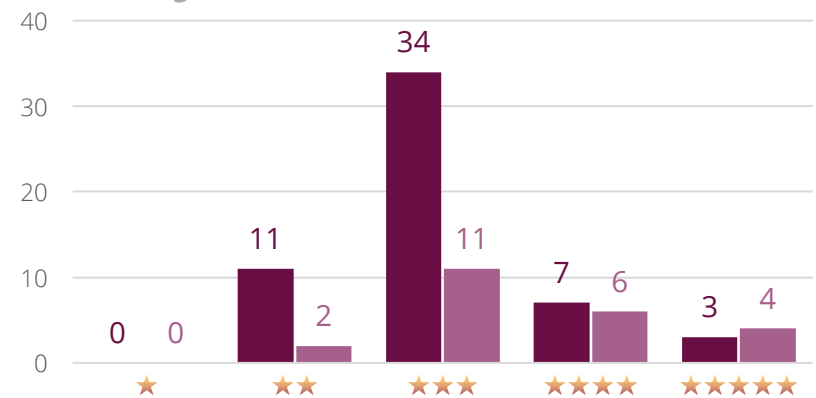
ŁÓDŹ



KATOWICE



TRÓJMIASTO

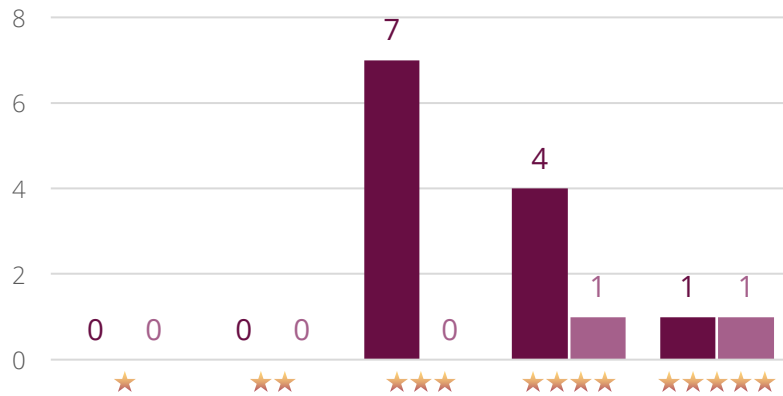


Number of chain and private hotels

ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES

private hotels
chain hotels

KOŁOBRZEG



ŚWINOUJŚCIE



PÓŁWYSEP HELSKI

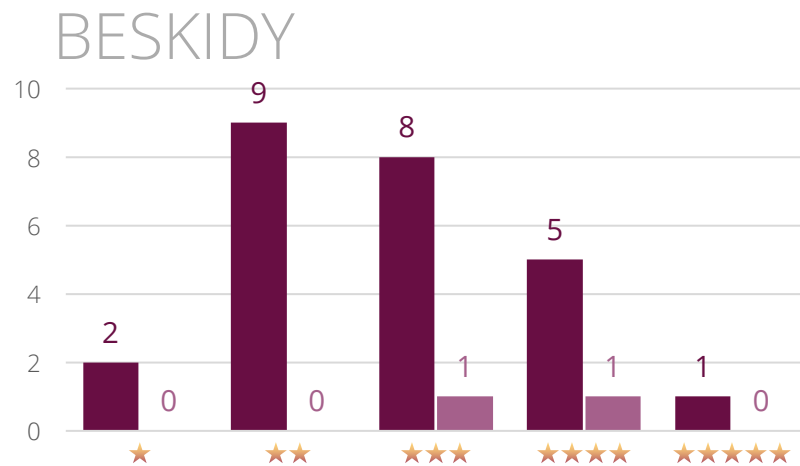
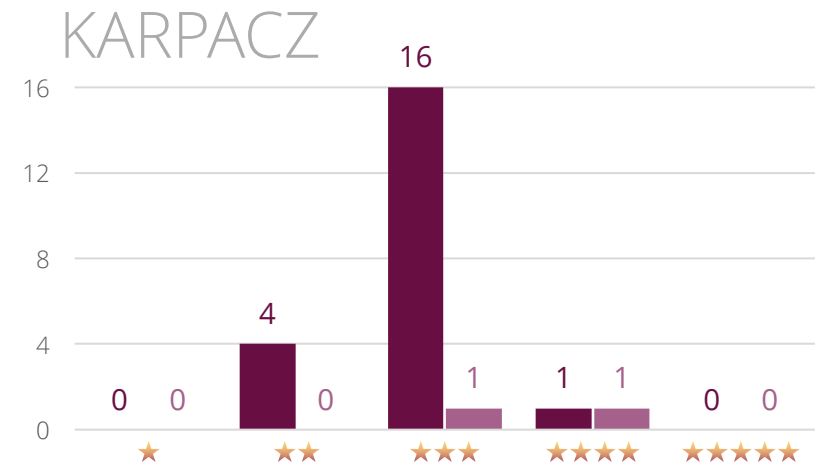
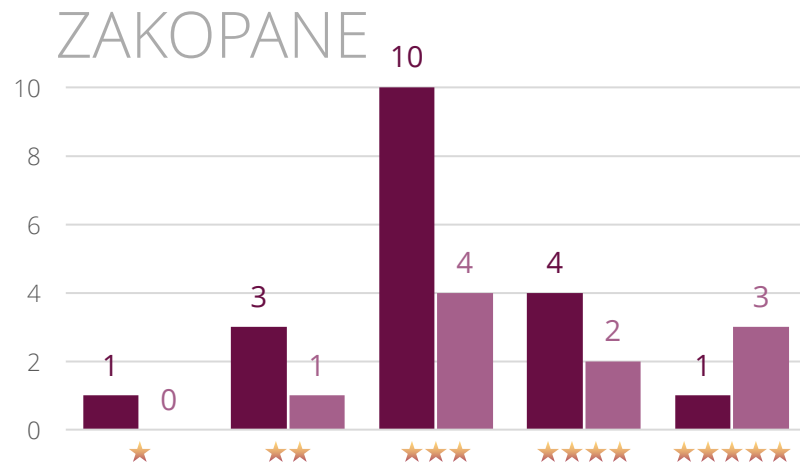


JASTARNIA
JURATA
CHAŁUPY

Number of chain and private hotels

ACCORDING TO THE HOTEL'S CATEGORY IN SELECTED CITIES

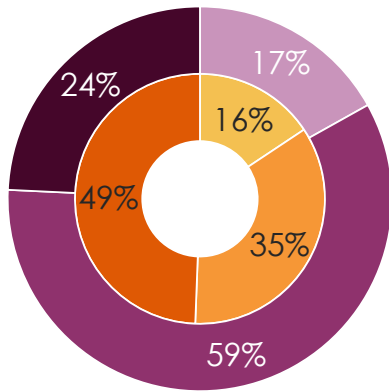
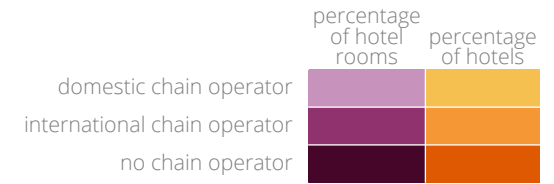
private hotels
chain hotels



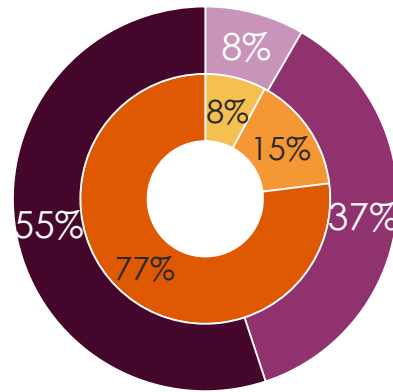
SZCZYRK
WISŁA
USTROŃ

Hotel management structure

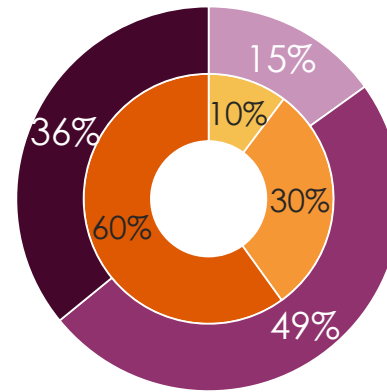
ACCORDING TO TYPE OF OPERATOR IN SELECTED CITIES



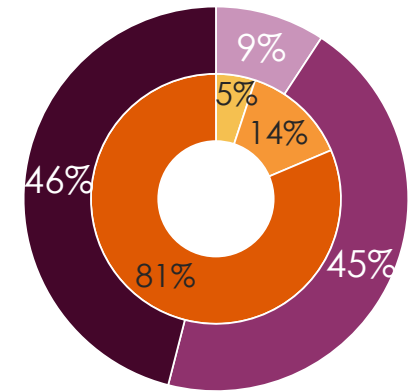
WARSZAWA



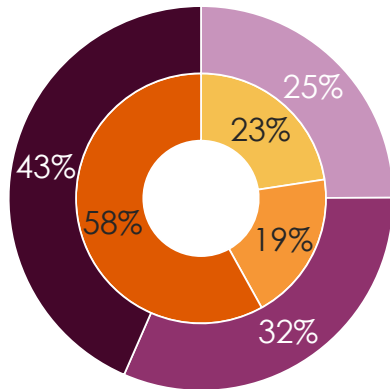
KRAKÓW



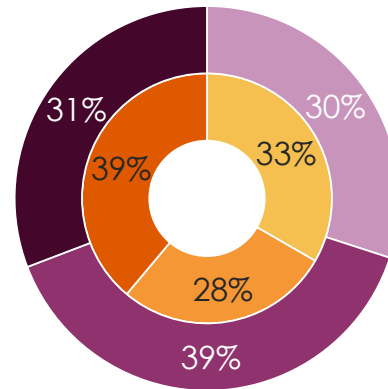
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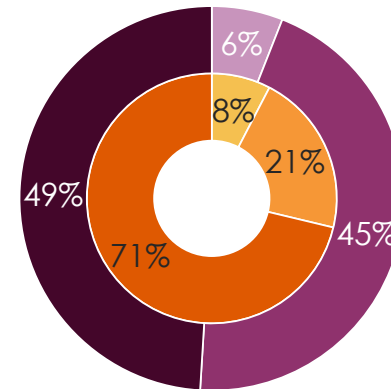
POZNAŃ



ŁÓDŹ



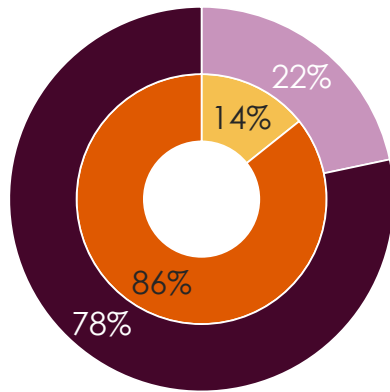
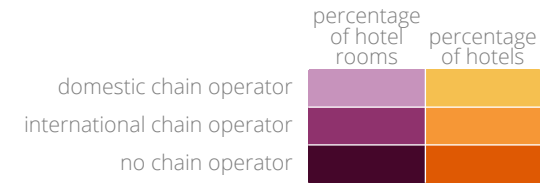
KATOWICE



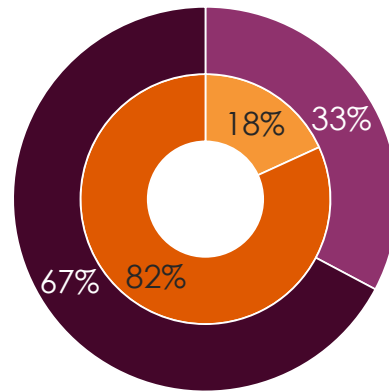
TRÓJMIASTO

Hotel management structure

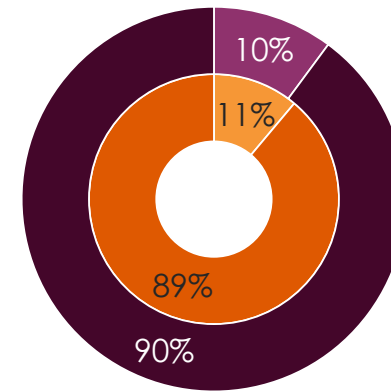
ACCORDING TO TYPE OF OPERATOR IN SELECTED CITIES



KOŁOBRZEG

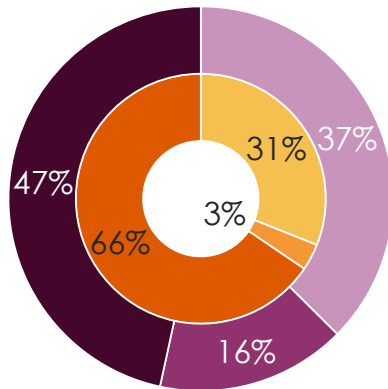


ŚWINOUJŚCIE

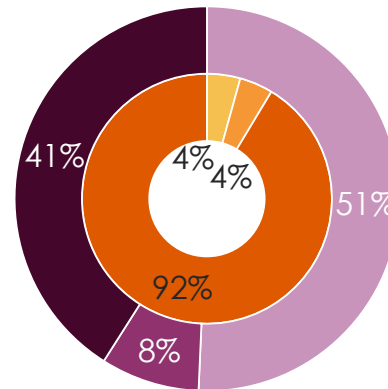


PÓŁWYSEP HELSKI

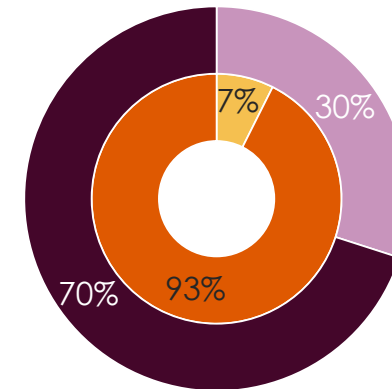
JASTARNIA
JURATA
CHAŁUPY



ZAKOPANE





KARPACZ



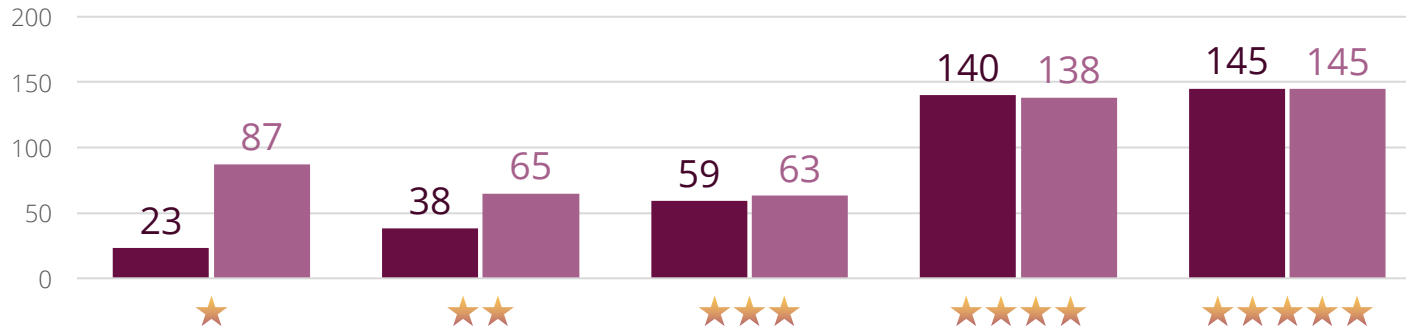
BESKIDY

SZCZYRK
WISŁA
USTROŃ



Tourist and business hotels

tourist hotels 
business hotels 

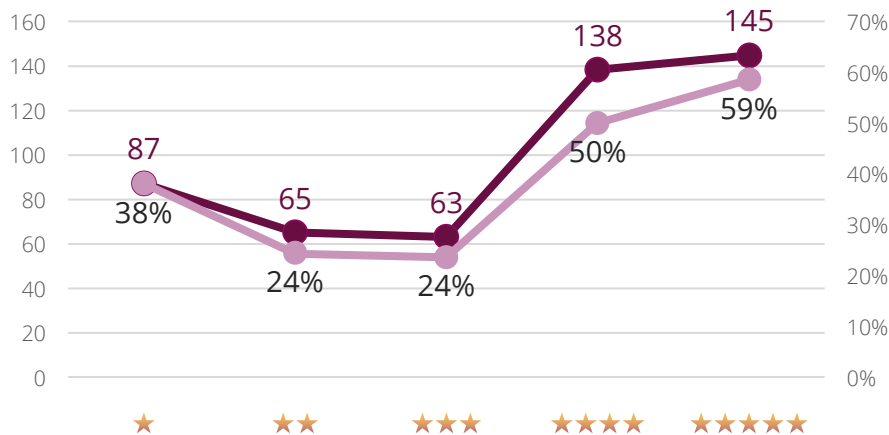
NUMBER OF ROOMS PER HOTEL



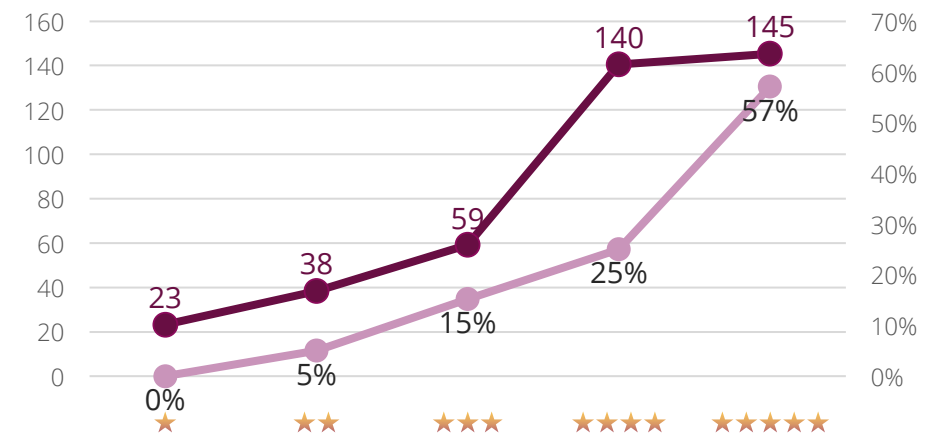
Average number of rooms per hotel and percentage of chain hotels

avg. number of hotel rooms per hotel 
percentage of chain hotels 

BUSINESS HOTELS



TOURIST HOTELS



PLANNED HOTEL INVESTMENTS

Watching the future supply of hotels in Poland, one can say with certainty that interest of international hotel networks is still growing. Over the next few years we may see many new hotels built by foreign brands both in large cities as well as on regional markets, where 3- and 4-star hotels are going to be opened. Still this year a 4-star Hilton Garden Hotel is to be opened in Szczecin whereas Ibis- and Ibis Styles- brand hotels belonging to the Accor/Orbis group are to be opened in Lublin, Rzeszów, Tomaszów Lubelski and Bolesławiec. In some cities popular hotel networks will also start building their first facilities. Expansion onto new markets may suggest a gradual saturation of large cities with chain hotels and the necessity to look for new places to conduct business operations. Interesting facilities are also to be built in Pomerania, where, even though the potential of many places has already been depleted, investors are still searching for attractive locations for their investment. The most important projects carried out on the coast of the Baltic Sea include the hotel in Spichrzów Island in Gdańsk built by Deo Plaza, the hotel close to the Southern Pier – Nowa Marina in Gdynia and Seaside Park in Kołobrzeg built right along the coastline.

A few new hotels are also to be built in business center regions, as for instance Hotel Four Points by Sheraton Warsaw in Konstruktorska street, Vienna House Mokotów Warsaw in Postępu street. Some hotels are also to be built in conference-exhibition areas, as for instance Ibis Styles Expo Warsaw or close to airports as the above-mentioned Moxy Hotel by Marriott erected at the International Airport Katowice-Pyrzowice or Best Western Hotel at the airport in Katowice-Balice.

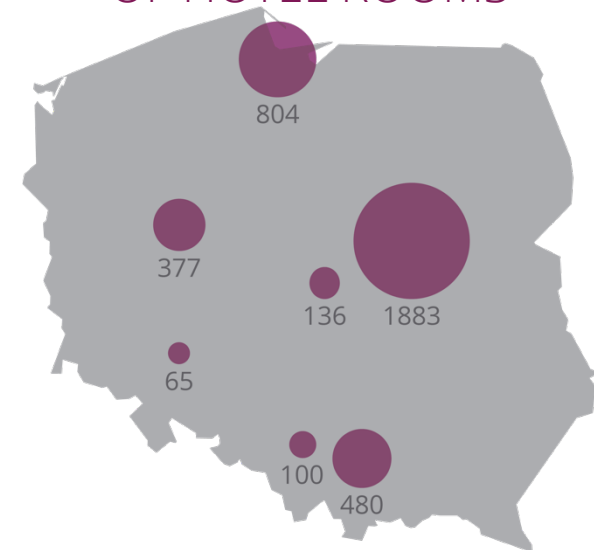
Another market trend is the implementation of economy hotels. This trend is driven by the growing interest among the younger generation looking for cheaper alternatives to hotels, yet still situated in attractive locations. Moxy Hotel, built in Praga district in Warsaw, fits perfectly well into this category. It will be the first hotel of this brand in Poland, belonging to the Marriott International network whose the investor is the Polish Chopin Airport Development network. The Marriott network has recently been one of the most active networks in this market segment – in August this year it launched another facility classified as the lifestyle segment – AC Hotel by Marriott located in a 19th century tenement house right next to National Forum of Music in Wrocław.

Selected, planned and executed hotel investments

BUSINESS HOTELS

	hotel	planned number of hotel rooms	category	planned opening date
WARSZAWA	Marriott Renaissance, ul. Żwirki i Wigury	225	★★★★★	IV Q 2017
	Europejski (Raffles Hotels & Resorts)	103	★★★★★	IV Q 2017
	Arche Krakowska Residence	356	★★★★	II Q 2018
	Holiday Inn InterContinental Hotels Group, ul. Twarda/Zelazna	254	★★★★	II Q 2018
	Hotel Four Points by Sheraton Warsaw, ul. Konstruktorska	192	★★★	II Q 2018
	Puro, ul. Widok	150	★★★★	II Q 2018
	MOXY by Marriott ul. Ząbkowska	141	★★★	III Q 2018
	Ibis Styles Warszawa Expo	120	★★★	III Q 2018
	Ibis Styles Warszawa Centrum	179	★★★	IV Q 2018
	Hampton by Hilton Służewiec	163	★★★	IV Q 2018
	KRAKÓW	B&B Kraków	130	★★
Puro Kazimierz		200	★★★★★	II Q 2018
KRAKÓW-BALICE	Best Western	150	★★★	I Q 2019
GDAŃSK	Hampton by Hilton Gdańsk Old Town	156	★★★	IV Q 2017
	IBB Hotel Długi Targ	90	★★★	IV Q 2017
	Deo Plaza on the Granary Island (Dobry Hotel)	150	★★★★★	III Q 2018
	Granaria Park Holiday Inn	236	★★★★★	IV Q 2018
	Ibis Budget (investment of the New Granary)	172	★	IV Q 2018
POZNAŃ	Park Inn by Radisson	166	★★★★★	IV Q 2017
	Hampton by Hilton	117	★★★	I Q 2018
	Focus Hotel	94	★★★	II Q 2018
WROCLAW	Hotel Best Western Premier	65	★★★★★	I Q 2018
ŁÓDŹ	Hotel Puro	136	★★★/★★★★	IV Q 2018
KATOWICE	Hotel Moxy by Marriott MPL Katowice - Pyrzowice	100	★★★	IV Q 2018

PLANNED NUMBER OF HOTEL ROOMS

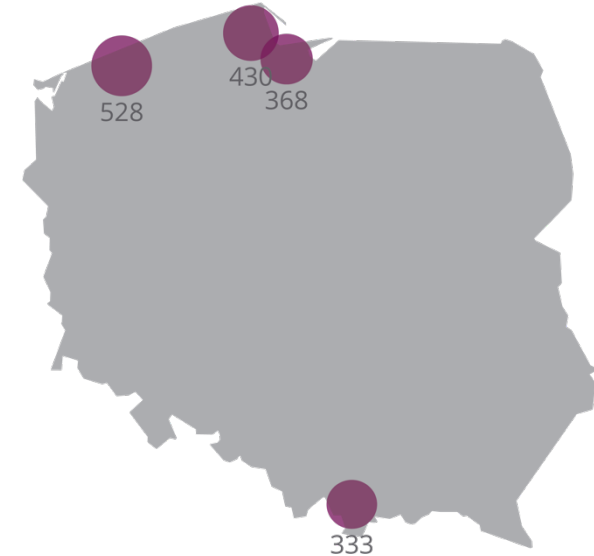


Selected, planned and executed hotel investments

TOURIST HOTELS

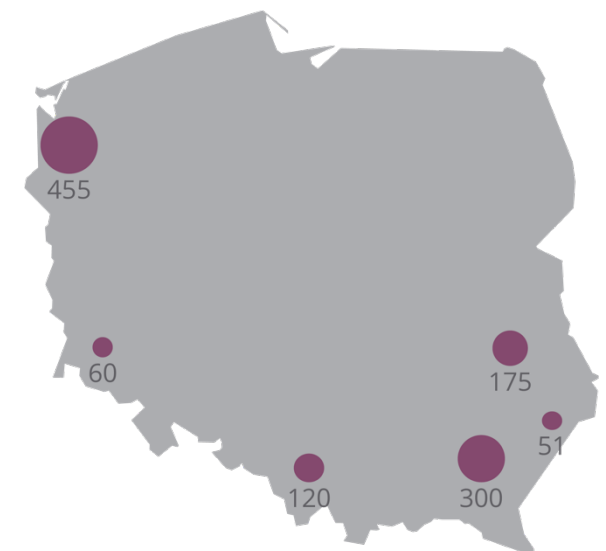
	hotel	planned number of hotel rooms	category	planned opening date
SOPOT	Focus Hotel Premium	70	★★★	IV Q 2017
	Hotel, ul. Pułaskiego	68	b.d.	IV Q 2018
	Hotel, ul. Bitwy pod Płowcami (Radisson Blu)	230	b.d.	I Q 2019
GDYNIA	Hampton by Hilton	100	★★★	IV Q 2017
	Hotel complex in Orłowo	130	b.d.	IV Q 2018
	Hotel in the investment of Nowa Marina Gdynia	200	★★★★	II Q 2019
HEL	Nadmorski Hotel	b.d.	★★★★	IV Q 2017
KOŁOBRZEG	Seaside Park	400	b.d.	III Q 2018
	Hilton Garden Inn Kołobrzeg	128	b.d.	I Q 2019
ZAKOPANE	4-star Hotel ul. Jagiellońska	50	★★★★	III Q 2017
	Radisson Blu Hotel & Residences	158	★★★★	I Q 2018
	Hotel Golden Tulip Zakopane	125	★★★★	IV Q 2018

PLANNED NUMBER OF HOTEL ROOMS

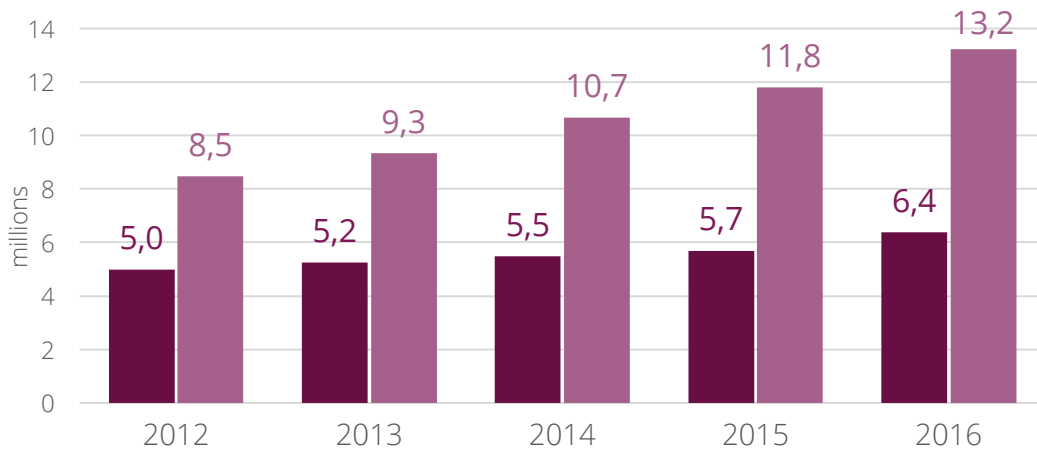


REGIONAL CITIES

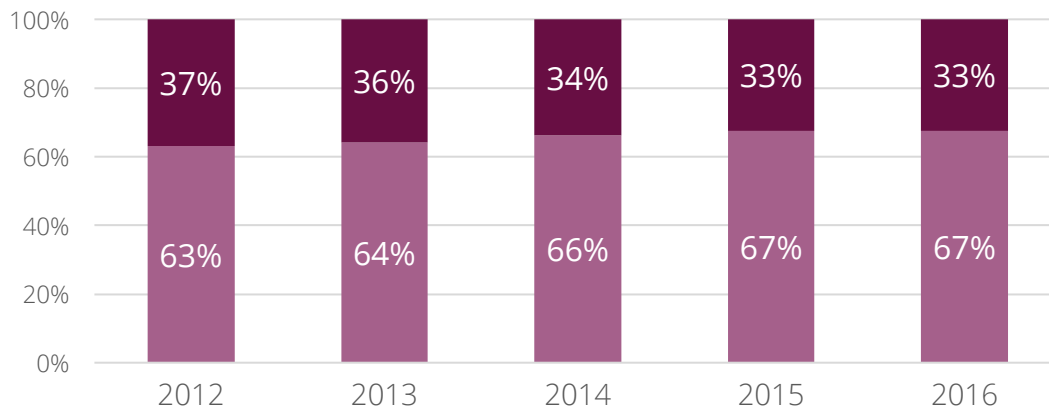
	hotel	planned number of hotel rooms	category	planned opening date
SZCZECIN	Hilton Garden Inn	100	★★★★	IV Q 2017
	Courtyard by Marriott i Moxy	250	★★★★★	IV Q 2018
	Ibis Styles	105	★★★	III Q 2019
LUBLIN	Focus Hotel Premium	75	★★★★	IV Q 2018
	Hotel Ibis Styles	100	★★★	I Q 2019
OŚWIĘCIM	Hampton by Hilton Oświęcim	120	★★★★	II Q 2018
TOMASZÓW LUB.	Hotel Ibis Styles	51	★★★	IV Q 2018
RZESZÓW	Hotel Ibis	150	★★★★	I Q 2019
JASIONKA near Rzeszów	Holiday Inn Express	150	★★★	II Q 2019
BOLESŁAWIEC	Ibis Styles	60	★★★	II Q 2019



NUMBER OF POLISH AND FOREIGN TOURISTS IN THE YEARS 2012-2016

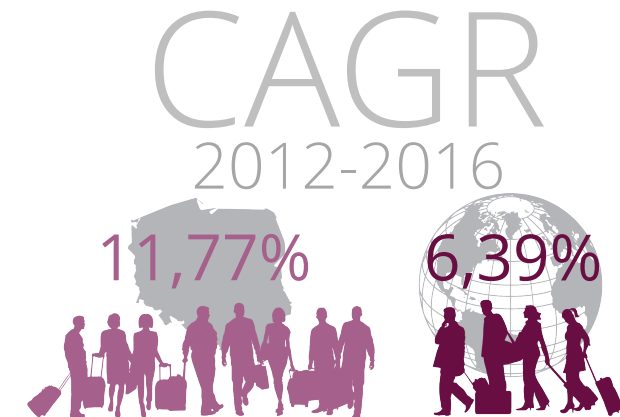


PERCENTAGE SHARE OF POLISH AND FOREIGN TOURISTS IN THE YEARS 2012-2016



foreign tourists
polish tourists

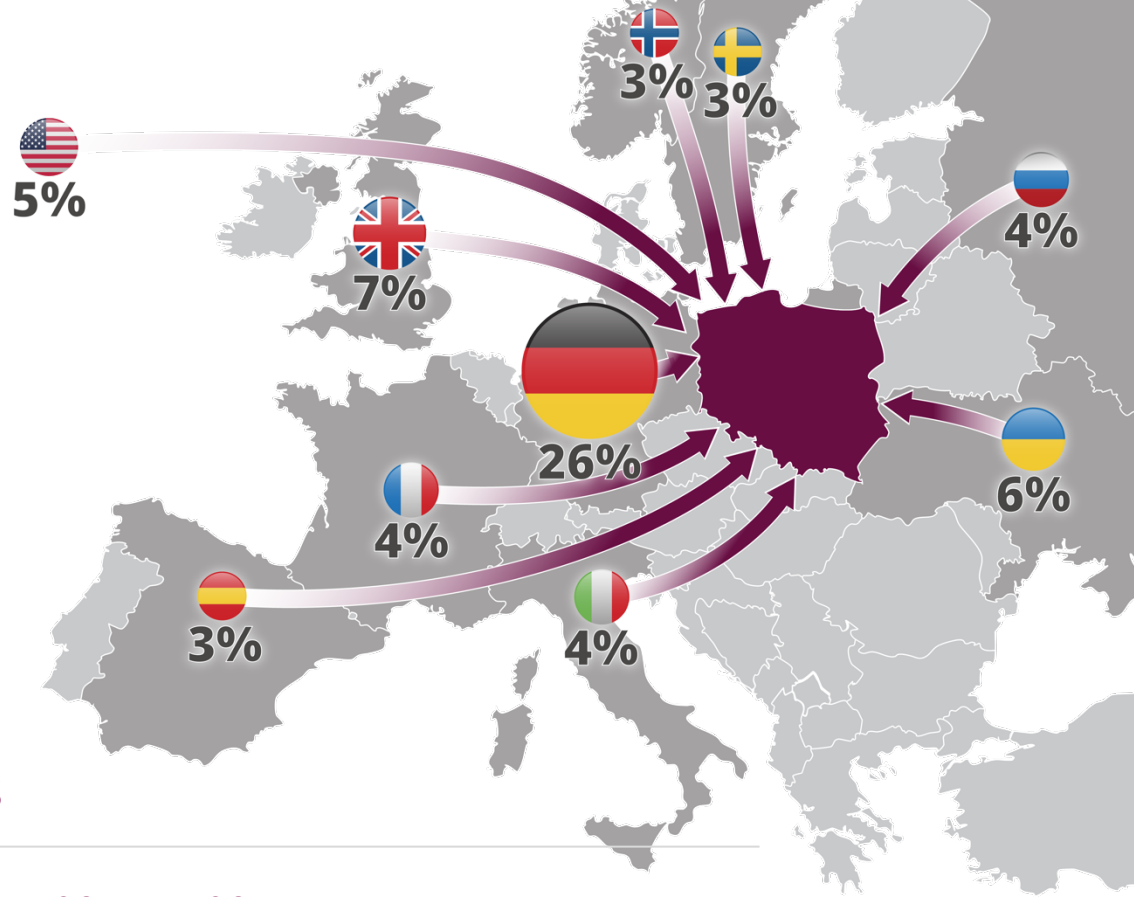
The growing supply is accompanied by a continued growth in the number of tourists who chose Polish hotels, which is due to the relative security in Poland when compared to the events in other European countries over the last years, the continuously growing wealth of the Polish society that is growing keener to spend their money on shorter and longer holiday trips. Other positive factors include ongoing growth of quality of hotel services in Poland. It turns out that the number of tourists who use hotels has been growing much faster than the number of hotels so far. The CAGR index for tourists using hotels in the years 2012-2016 was 9.87% and that for accommodation places amounted to 6.34%. This is a good sign for investors interested in investing in hotels and it seems that there's still room for new investment, however potential investors must choose new locations more and more wisely. Polish tourists have been more active than foreign tourists over the last few years (two to one ratio). The CAGR index for Polish tourists in the years 2012-2016 amounted to 11.27% whereas that for foreign tourists it amounted to 6.39%. Tourists from other countries for whom Poland is the most frequent destination come from Germany, Great Britain, Ukraine and the United States. They usually spend 2-3 days in Poland and their number has been continuously growing since 2012. Altogether, they amount for almost 50% of all the tourists visiting our country.



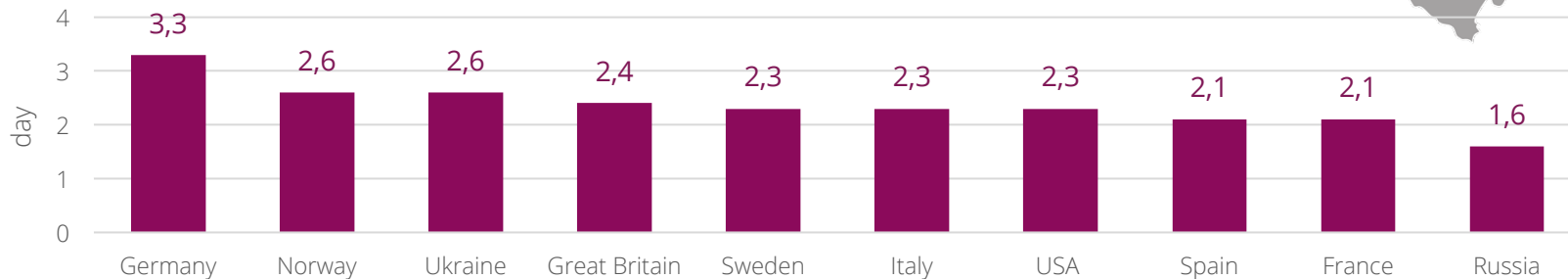
Top 10 foreign tourist nationalities in Poland

ACCORDING TO THE NUMBER OF TOURISTS IN 2016

		number of tourists	number of nights	percentage of tourists
1.	GERMANY	1 658 587	5 552 587	26%
2.	GREAT BRITAIN	476 830	1 132 359	7%
3.	UKRAINE	357 578	924 205	6%
4.	USA	301 886	686 050	5%
5.	ITALY	271 188	617 295	4%
6.	FRANCE	247 228	509 523	4%
7.	RUSSIA	227 594	370 896	4%
8.	SPAIN	212 155	437 679	3%
9.	NORWAY	199 418	523 157	3%
10.	SWEDEN	190 207	444 526	3%
	OTHER NATIONALITIES	2 236 122	4 380 948	35%

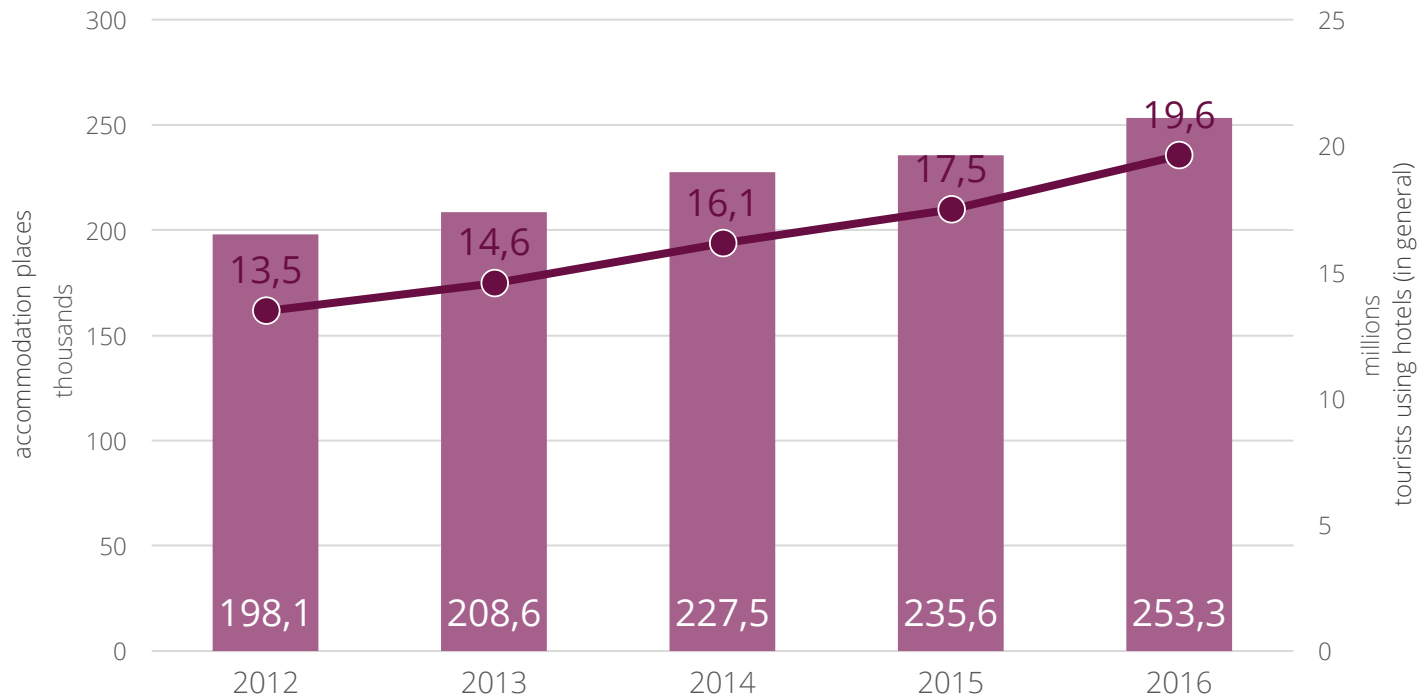


AVERAGE LENGTH OF STAY OF FOREIGN TOURISTS

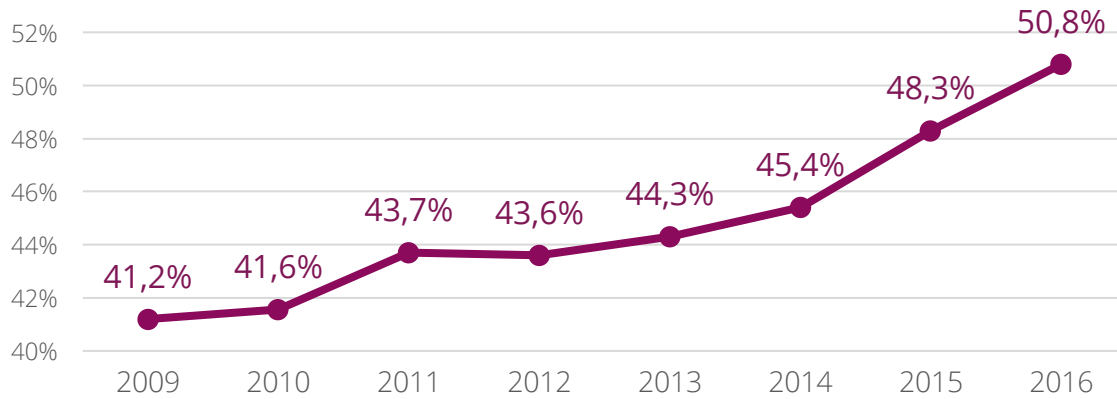


Number of accommodation places and number of tourists

USING HOTELS IN THE YEARS 2012-2016

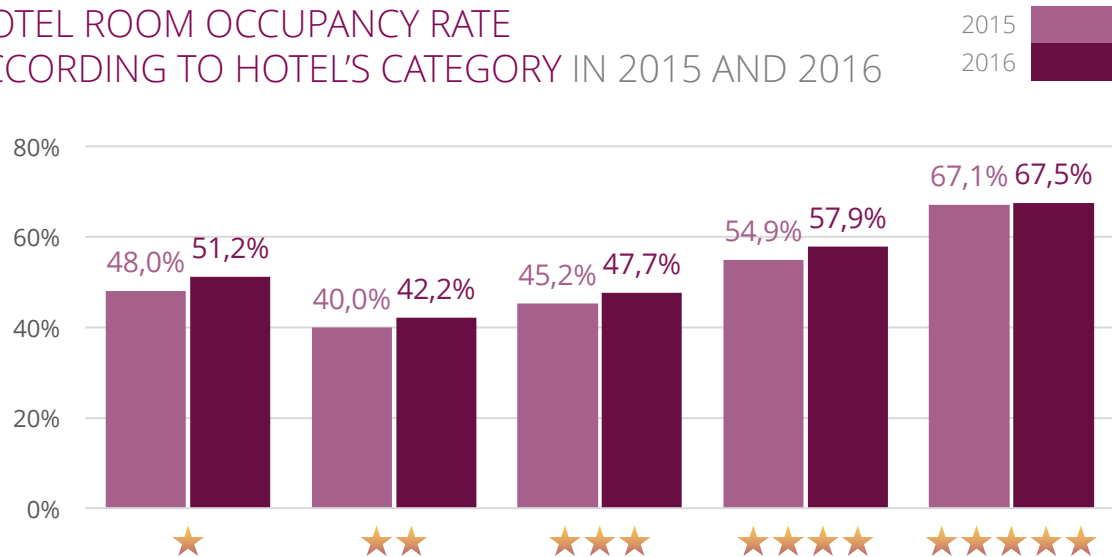


HOTEL ROOM OCCUPANCY RATE IN THE YEARS 2009-2016

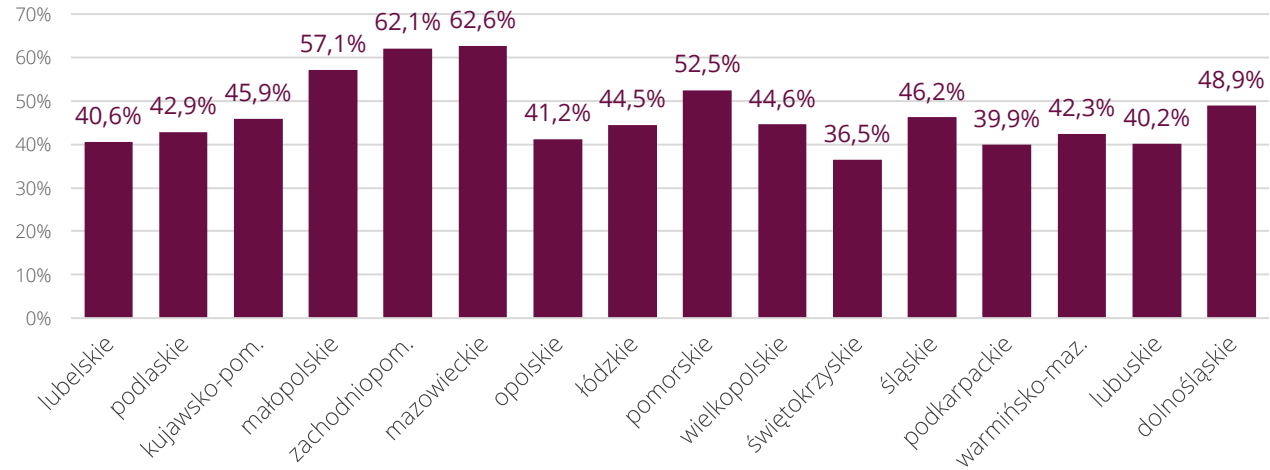


Since 2009 the hotel room occupancy rate has been growing gradually across all the hotel categories. The highest room occupancy rate is in 5-star hotels, which confirms the stable demand for high-standard hotels offering a broad scope of services which – compared to other countries – are relatively cheap in Poland. Top standard hotels are very often chosen by wealthy tourists from abroad. The good situation on the hotel market was also confirmed by the increase in the hotel room occupancy rate in the particular voivodeships in 2016. The highest growth was recorded in the dolnośląski region (12.7%), lubuski region (8.4%) and warmińsko-mazurski region (7.9%). Only in two voivodeships: lubelskie and podlaskie the hotel room occupancy rate dropped slightly compared to 2015 (by 1.2% in podlaskie and by 1.5% in lubelskie voivodeship), which was due to a fresh hotel supply, after new facilities were built in 2016, which had not yet been absorbed by the market.

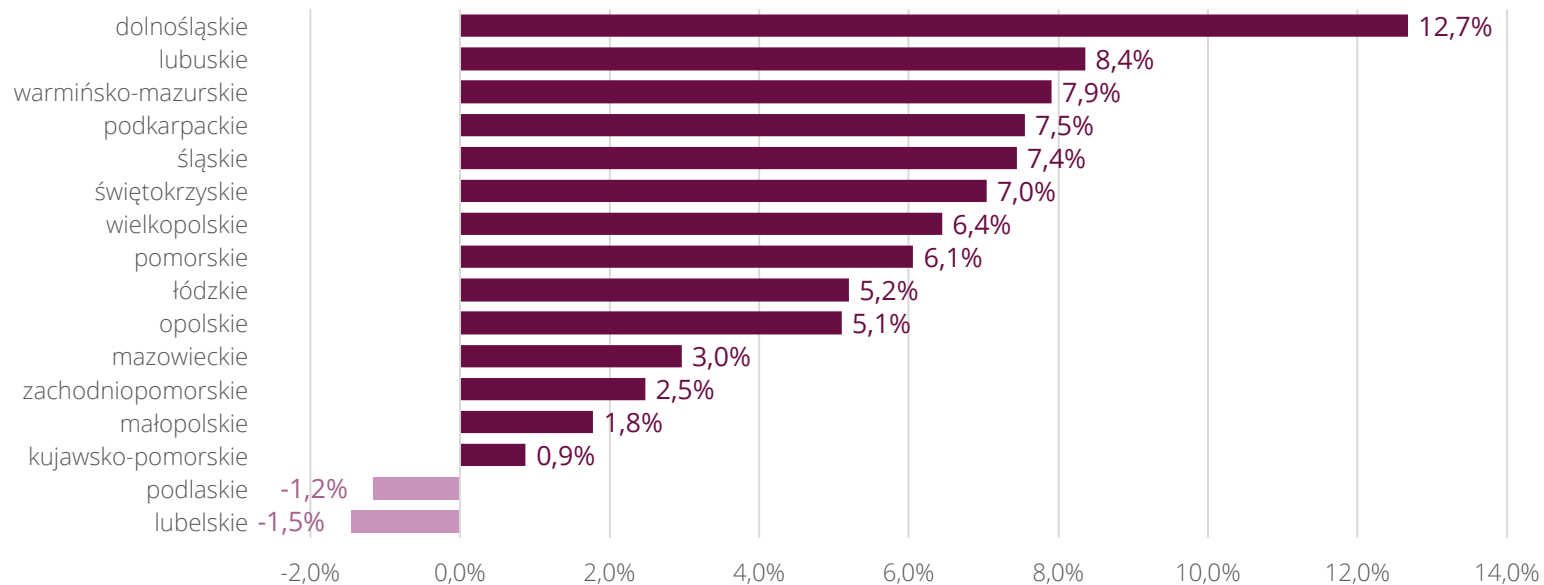
HOTEL ROOM OCCUPANCY RATE ACCORDING TO HOTEL'S CATEGORY IN 2015 AND 2016



AVERAGE HOTEL ROOMS OCCUPANCY IN PARTICULAR VOIVODESHIPS IN 2016





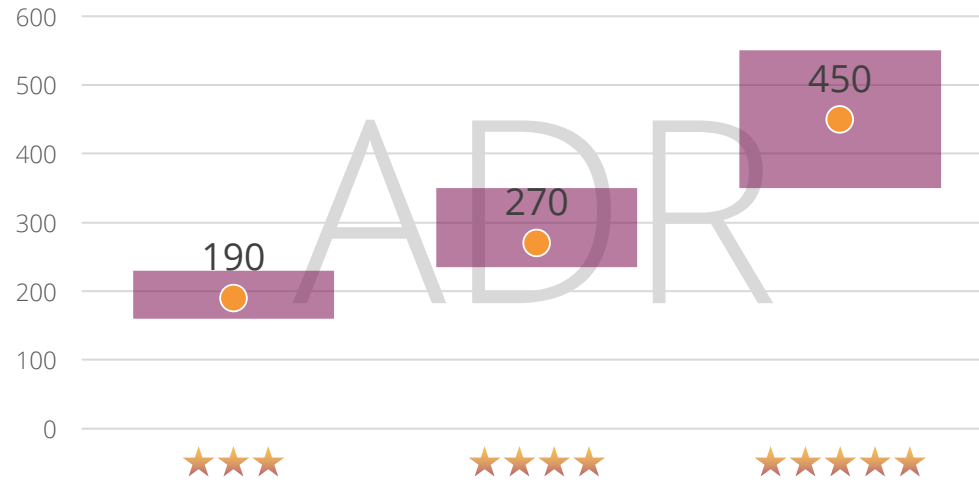
CHANGE IN THE OCCUPANCY RATE IN PARTICULAR VOIVODESHIPS (2016/2015)



ADR and REVPAR INDICES

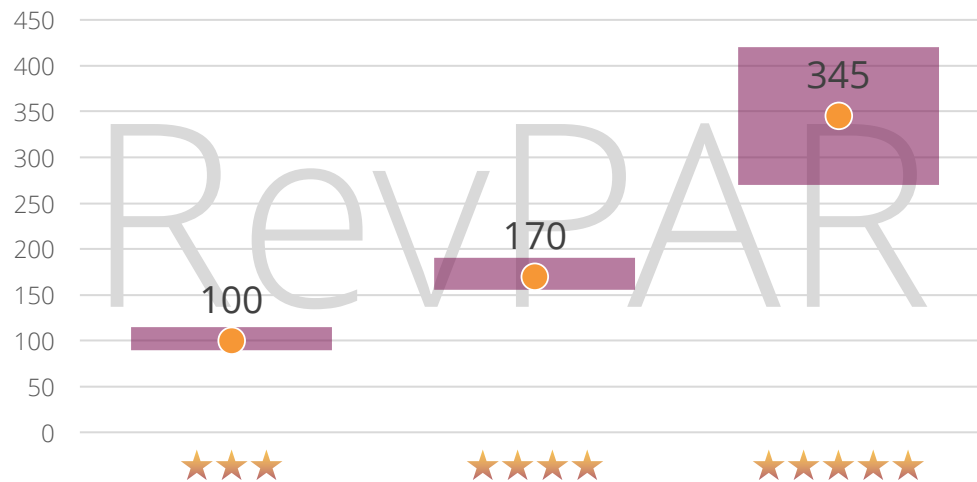
FOR HOTELS IN THE 3-,4- AND 5-STAR CATEGORY

range (min-max) 
average 



Over the last months the ADR and RevPAR indices for hotels have been as follows:

- 3★ from 160 to 230 zł
- 4★ from 235 to 350 zł
- 5★ from 350 to 550 zł



- 3★ from 90 to 115 zł
- 4★ from 155 to 190 zł
- 5★ from 270 to 420 zł

Major hotel transactions

IN THE YEAR 2015-2017

transaction date	voivodeship	city	transaction price [euro]	type of hotel	hotel	category	number of rooms	transaction price per hotel room [euro]
2015	MAŁOPOLSKIE	KRAKÓW	15,2 mln	private hotel	Hotel Stary	★★★★★	53	286 792
2015	MAŁOPOLSKIE	KRAKÓW	1 mln	private hotel	hotel Major	★★★	45	22 222
2015	MAZOWIECKIE	WARSZAWA	20,8 mln	chain hotel	Radisson Blu Centrum Hotel	★★★★	311	66 881
2015	DOLNOŚLĄSKIE	WROCLAW	50 mln	chain hotel	Radisson Blu Wrocław	★★★★★	162	308 642
2015	LUBELSKIE	LUBLIN, ZAMOŚĆ	5,3 mln	chain hotel	Orbis/Mercure	★★★	158 (w 2 hotelach)	33 544
2016	MAZOWIECKIE	WARSZAWA	6,8 mln	private hotel	Hotel Partner	★★★	103	66 019
2016	WARMIŃSKO-MAZURSKIE	MRĄGOWO	4,5 mln	chain hotel	Mercure Mrągowo Resort & SPA	★★★★	214	21 028
2016	OPOLSKIE	OPOLE	2,3 mln	chain hotel	Mercure	★★★	103	22 330
2017	MAZOWIECKIE	WARSZAWA	56 mln	chain hotel	Westin	★★★★★	361	155 125
2017	MAŁOPOLSKIE	KARKÓW	6,4 mln	private hotel	Cracovia	★★★	314	20 382
2017	DOLNOŚLĄSKIE	JELEŃ G., KARPACZ	6,2 mln	chain hotel	Mercure Jelenia Góra, Mercure Karpacz Resort	★★★	188 (Jelenia G.) 146 (Karpacz)	32 979
2017	MAŁOPOLSKIE	KRAKÓW	70 mln	chain hotel	Sheaton Grand Kraków	★★★★★	232	301 724
2017	LUBUSKIE	ZIELONA GÓRA	3,4 mln	private hotel	Grape Town Hotel	★★★★	62	54 839
2017	MAZOWIECKIE	WARSZAWA	22 mln	chain hotel	Hotel Gromada	★★★	354	62 147
2017	MAZOWIECKIE	WARSZAWA	60 mln	chain hotel	Radisson Blu Centrum Hotel	★★★★	311	192 926

INVESTMENTS

In the last two years 3- to 5-star hotels were most often sold. There were few transactions involving 1- and 2-star hotels. Until now, in 2017 several hotel sales agreements have been signed. The largest transactions certainly include the sale of the 5-star Sheraton hotel in Krakow, the 5-star Westin hotel or the 4-star Radisson Blu hotel in Warsaw. The Orbis network has been very active too. Over the last several months it has sold a few hotels across Poland, among others in Karpacz, Jelenia Góra, Opole or Toruń. It might be expected that these won't be the only large transactions on the hotel market this year.

CAPITALIZATION RATES

The capitalization rates for hotel facilities differ depending on the formula in which the given facility operates. For hotels managed using the formula of long-term lease agreements the capitalization rates are on average 0.5-1 percentage point higher than in case of "prime" office properties located in city centers. In case of the office facilities the capitalization rates amount to 5.25-5.5%. Slightly worse capitalization rates are achieved by facilities operating based on management agreements (management contracts) or franchise agreements. In this case the facility owner bears a higher risk of business operations.

CONDOHOTELS IN POLAND

Over the last few years condo-hotels have appeared on the Polish market. Such facilities are usually classified as the “premium” segment. They have condominium units which belong to particular investors, who receive a defined rate of return from renting the property. For some time they can also use the condo by themselves, for instance during the holiday time. Each condo is fully furnished and fitted and the profit from its rental is most frequently guaranteed in the contract. The profit depends on the unit's location, its functionality and standard. Another model in which condo-hotels operate is based on the owner's share in revenues or profits from rental. This model is not as safe as the first one as it depends on such variables as the occupancy ratio or the demand for a given location. The owner of a particular condo in a condo-hotel bears costs related to maintaining the unit, just as it is the case with traditional apartments. This means he has to pay the rent, insurance or property tax. However, most frequently, a professional operator is responsible for rental issues, which makes remote management of the condo possible.

Condo-hotels first appeared in the United States in the middle of the 20th century. In Poland the first facilities became available around 2007-2008. The largest players on the Polish condo-hotel market include the following investors: Zdrojowa Invest, Condohotels Group and Qualia Development that were the first in Poland to launch facilities operating in the condo-hotel formula. Other Polish developers are Sabe Investments which operates mainly on the Warsaw housing market, however it has also invested in the “condo” system in Międzyzdroje and Świnoujście, and Inpro Gdańsk which has a luxurious 5-star Mikołajki hotel located on Ptasia Island.

The first condo-hotels that appeared in Poland were addressed typically to tourists and located at the seaside, later also in the mountains and around the Mazurian Lakes. The most attractive locations and the most famous facilities include: Kołobrzeg with the 5-star Marine Hotel and 4-star Sand Hotel, Świnoujście with the modern Baltic Park Molo facility or Międzyzdroje with the Golden Tulip condo-ho-

tel. In the mountains in Karpacz there is a condo-hotel in the vicinity of the Śnieżka Mountain called Green Mountain Resort and in Szklarska Poręba there is, among others, the Sun&Snow Resorts facility and Cristal Resort Szklarska Poręba with a panoramic view of the Karkonosze Mountains. In the Mazurian region the above mentioned 5-star hotel in Mikołajki is especially worth mentioning.

New investments are executed for instance in Świnoujście as for example the Baltic Park Fort, which is to be opened in the second quarter of 2018, the Baltic Park Molo (stage II), which is to be opened in the first quarter of 2019 and Kudowa Towers in Kudowa-Zdrój, which is in the preparatory phase.

Units' prices in condo-hotels vary and depend mostly on the location of the given facility and its set up. The more attractive the location the more one has to pay for a single unit. For instance a unit located in Świnoujście costs from approx. 5.8 to 12 thousand zloties per square meter whereas a unit located very close to the beach in Kołobrzeg costs from 8.5 thousand to 16 thousand zloties per square meter. Prices for units in the best locations may reach even 35 thousand zloties per square meter. One must also take into consideration the scope of the investment, the category of the condo-hotel and the standard of furnishing and fitting of the apartments.

The condo-hotel segment has so far included only a few facilities managed by international hotel networks which operated under their brand, such as the investments of Qualia Development in Międzyzdroje and Gdańsk (Golden Tulip-brand condo-hotels managed by the Louvre Hotels Group network). At present we can see a trend of complementing the portfolio of global networks with facilities operating in the condo formula, a good example of which is Radisson Blu in Świnoujście, opened this year, which offers over 60 condo units and also Hotel Ibis Styles, which is to be opened in 2018 and which is managed by the Orbis network as well as the 4-star Best Western Premier Wrocław City Center.

The development of the condo-hotel market is accompanied by blurring of the boundaries and at present not only hotel buildings but also residential buildings are sold in the condo formula. This is particularly visible in markets in large agglomerations, such as Warsaw, Wrocław, Krakow or Tricity, where the segment of the above mentioned luxurious facilities started developing a few years ago. Housing developers spotted an alternative method of selling residential apartments and encourage potential buyers with frequently lower prices than those of a standard apartment and with a guaranteed profit. The available units are usually fully fitted and furnished micro-apartments, from 15 square meters in size, where the operator guarantees full service throughout the duration of the agreement. At present several buildings, which will provide approx. 2,500 apartments, are under construction in large Polish cities.

Condo-hotels seem to be an interesting solution, in particular from private investors' point of view, also the less wealthy ones, as buildings with the so-called low threshold price ranging from below PLN 100 thousand are also available. A rental agreement is most often signed for the period of 5 to 15 years and the currently offered profits reach from 4.5 to 9% net a year. Moreover, the falling attractiveness

of other forms of capital investments, such as bank deposits or the stock market additionally contributes to the development of condo-hotel market. Apart from the economic aspects, it is worth mentioning that having a luxurious apartment in an attractive coastal or mountain town is associated with prestige that's highly appreciated especially by individual investors. Therefore it is not surprising that developers have introduced plenty of investments onto the market in a relatively short time. It seems that the boom for condo-hotel continues. Developers no longer promise such high rates of return as still a few years ago, but that proves that the market is maturing and investors, both corporate as well as private, feel more and more secure and perceive this market as a safe form of investment.

Nevertheless, this does not change the fact that the condo-hotel market in Poland is still relatively young and just forming. Therefore we may suspect that in the nearest future it won't replace the traditional hotel segment. However, we do think that it will continue to develop strongly, yet both supply and demand will intensify in the segment of luxurious apartments, mostly in large cities. In particular private investors, who have so far focused on buying rental apartments, may become interested in the condo-hotel market.

FORECAST

It is difficult to predict the situation on the hotel market in Poland in the next few years. Despite the fact that the year 2016 was highly successful in the hotel industry and the year 2017 can also be considered as a good year, one may wonder how much longer this trend is going to last. The very large planned supply may cause that the market won't be able to cope with it so effectively, which will contribute to a slowdown in the future.

At present we can see a continued high level of activity among investors who are introducing more facilities onto the market, which may lead one to believe that they are optimistic about the future. New investments abound and feature an increasingly broad offering both in terms of luxury hotels (as for instance Raffles Europejski hotel in Warsaw) as well as lifestyle segment hotels (for instance Moxy by Marriott hotels). Moreover, the brands that have already been present on the Polish market for some time, are still increasing the number of facilities in their portfolio by acquiring hotels from private investors (still this year Gubałówka Residence in Zakopane will become one of the facilities under the brand BW Premier Collection). Another factor driving the hotel market are the very low rates of return in the sectors, which were traditionally the first choice for foreign institutional investors on the Polish real estate market, i.e. the office and commercial sector. The good situation of the hotel industry offers a relatively high investment security coupled with higher rates of return. Well managed hotels prove to be a good method of investment.

Older facilities with worse localization or less effective management may fear fast growing competition. They may fail in their efforts to remain competitive, especially with the continued expansion of strong network operators with qualified managers and globally recognizable brands that guarantee a certain level of hotel services. Additionally, the trend of chain hotels appearing on regional markets may pose a threat to private hotel investors, who have dominated these markets so far.

The situation on the markets in large agglomerations is varied. Warsaw, as usual, is no. 1 in terms of the most dynamic development. Only by the end of 2018 almost 2 thousand of new hotels rooms will become available here. However, it seems that the growing supply in Warsaw meets the large demand, both from the side of business clients as well as tourists. In Krakow there is the largest number of hotel facilities among all the Polish cities (over 150), however – as a rule – these are usually hotels offering a much smaller number of accommodation places than the hotels in Warsaw. The number of new hotels to be built in Krakow is not much different compared to other markets, which – in our opinion- means that the market balance between supply and demand should not be disturbed in the nearest years. A completely different situation is taking place in Tricity, where – taking into consideration the market scale – the future supply combined with the already existing facilities may prove excessive and lead to lower hotel room occupancy ratio and weaker financial results of some older and worse operating facilities. On the other hand, on the Wrocław and Poznań market the situation is rather stable. Investors are planning to build some new facilities, which, however, should not weaken the position of the already existing ones. The market, which – to our mind – still has untapped potential and a lot of room for new hotel investments is the Silesian agglomeration.

GLOSSARY OF TERMS

THE ADR INDEX defines the average net daily rate per hotel room. It is achieved by dividing net revenues from sale of hotel rooms by the number of hotel rooms sold.

THE REVPAR INDEX defines revenue per available room. It is achieved as the product of the average revenue generated by one available hotel room and the average occupancy rate or as the quotient of the revenues from sale of hotel rooms and the number of hotel rooms available in the given period of time.

CAGR MEANS COMPOUND ANNUAL GROWTH RATE. This is an average index of annual growth in the examined period of time. The CAGR index is defined by taking into account the final and starting value of the given phenomenon, and also the number of years between the starting and final year.

A HOTEL NETWORK – an organization with its own brand or hotel brands that manages facilities which are a part of the hotel network. A hotel network applies its own, uniform standards to the scope of the provided services, the type of organization, equipment or location of the hotels operating under its brand.

HOTEL MANAGEMENT STRUCTURE ACCORDING TO THE TYPE OF OPERATOR PRESENTS the structure of entities that manage hotels is divided into network operators (Polish or global) and private operators who do not form networks, whereas a network operator may also be a hotel owner or solely a hotel manager based on a relevant agreement (for instance franchise agreement).

FRANCHISE – an agreement concluded by the property owner and the hotel brand owner, under the framework of which the property owner is allowed to use the brand, know-how and distribution channels in return for respective fees (entrance and cyclical). Franchise is usually granted by international hotel networks. Signing a franchise agreement means a large risk for the hotel brand owner who risks deterioration of its image if inappropriate actions are undertaken by the facility owner or manager.

A MANAGEMENT CONTRACT is an agreement under the framework of which the given hotel network grants permission to use its brand and also manages the facility's operations on behalf of its owner. Fees depend on the sales revenues (3-6%) and the operational profit (max. 15%). An individual entity may also act as an operator managing hotel – then the facility operates under its own brand.

LEASE – an agreement concluded by the owner and managing operator. The managing operator conducts business activities related to the property for his own account and the owner receives a fixed rent. This contract is not popular due to the high risk borne by the operator. It is most often used by popular Polish hotel

THE LIFESTYLE SEGMENT – a hotel segment addressed to the young people, i.e. the so-called Millennials who expect a reasonable price, good location and good standard of hotel services.

HOTEL ROOM OCCUPANCY RATIO – the relation of the number of rented rooms to the nominal number of rooms (the total number of rooms prepared for tourists on every day of the hotel's operations). It is expressed as percentage. It is defined as hotel room occupancy ratio or hotel occupancy.

AVERAGE LENGTH OF STAY – the average number of days (nights) a tourist spends at a hotel, calculated using the quotient of the number of overnight stays at the hotel and the number of tourists using hotels in the given (identical) period of time.

NUMBER OF OVERNIGHT STAYS – the product of the number of hotel guests and the number of days/nights of their stay at the given hotel in the given (identical) period of time.

THE DESCRIPTION OF EMMERSON EVALUATION'S ACTIVITIES

Emmerson Evaluation Sp. z o.o. was established in 2008 and provides services involving the appraisal of residential, commercial (offices, retail facilities, warehouse, development investments, hotels). The Company makes all-purpose valuations, including to secure debts, for financial statements and profit evaluation in regard of purchases or sales. It has broad experience in valuing large packages of real property, tangible assets and market analyses.

Emmerson Evaluation's studies comply with Polish and international standards. Emmerson Evaluation also has its own data base of transaction prices on the real property market, E-VALUER, which now comprises nearly 1 000 000 transactional data described in great detail.

The Company has regional offices in 7 largest cities in Poland, employs more than 50 real property market experts, including 35 property valuers. Emmerson Evaluation's services are targeted mostly at banks, residential and commercial developers, investment funds and quoted companies



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