



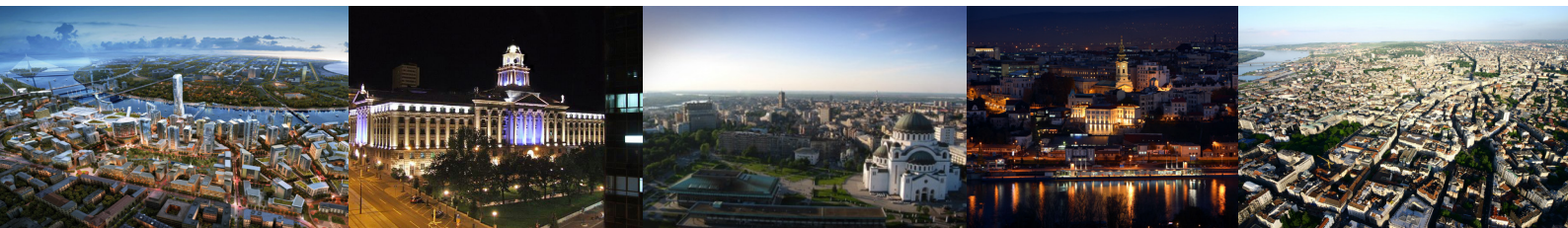
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IN FOCUS:

BELGRADE, SERBIA

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This article provides an overview of recent trends in the hospitality market of Belgrade. In writing such articles, we utilise the expertise of HVS for each market to the full extent combining our in-house data and research together with published information regarding each of the examined destinations.

Highlights

- In March 2012, the European Union granted formal EU candidate status to Serbia. Previously, during meetings held in February 2012 between the IMF and Serbian representatives, it was agreed that the status of the arrangement – worth €1.1 billion – with Serbia would remain unchanged.
- Accession talks with the EU began in January 2014, but membership is not expected before 2020.
- The Serbian Progressive Party of Aleksandar Vucic, the Prime Minister, won nearly 50% of the vote in an early parliamentary poll in 2014.
- According to the World Travel and Tourism Council (WTTC), the Capital Investment in Travel & Tourism in Serbia was approximately €250 million in 2014 and is projected to rise to over €310 million by 2025 (in 2014 prices).
- In 2014, approximately one million international tourists visited Serbia, spending roughly €1.0 billion, up from €0.9 billion in 2013 (a 9.9% increase). The WTTC predicts that by 2025 the direct contribution of tourism to the country's Gross Domestic Product (GDP) will be 2.5%, up from 2.1% in 2014.
- Belgrade's "Nikola Tesla" Airport saw an increase of 5.5% in passenger traffic year-to-August for 2015 over the same period in 2014.

City Overview

Belgrade is the capital and largest city of Serbia, with a population of approximately 1.7 million residing in the City of Belgrade District. The Belgrade metropolitan surface area covered is approximately 3,220 km². The city itself has a population of approximately 1.2 million. Belgrade is home to the majority of companies in the country. It is the undeniable business centre of Serbia and plays an important role for business in the Central/South-Eastern Balkans.

Belgrade is located at the confluence of the Sava and Danube rivers, where the Pannonian Plain meets the Balkans. Its name translates to White City. In 1521, Belgrade was conquered by the Ottoman Empire and became the seat of the Sanjak of Smederevo. It frequently passed from Ottoman to Habsburg rule, which saw the destruction of most of the city during the Austro-Ottoman wars. Belgrade was named the capital of Serbia in 1841. As a strategic location, the city was battled over in 115 wars and destroyed to the ground 44 times. Belgrade was the capital of Yugoslavia from the state's creation in 1918 to its final dissolution in 2006.

INDICATIVE MAP OF BELGRADE



Novi Beograd (New Belgrade), located on the left bank of the Sava river, is the main and fastest-developing business district in the country – with hotels, congress halls, class A and class B office buildings, sports facilities, shopping centres, and business parks. The Belgrade Stock Exchange is also located in the new city. The historical core of Belgrade, Kalemegdan, lies on the right banks of both the Sava and Danube rivers.

Major Tourist Attractions in Belgrade

Belgrade’s historic areas and buildings are among the city's premier attractions. They include Skadarlija (a bohemian quarter in Old Town, similar to Montmartre in Paris), the National Museum and adjacent National Theatre, Zemun (one of Belgrade’s 17 municipalities), Nikola Pašić Square, Terazije (the central square of the city), the Kalemegdan Fortress, Knez Mihailova Street (the main pedestrian and shopping zone in the city), the Parliament, the Church of Saint Sava, and the Old Palace. The Beli Dvor (White Palace), house of the royal family Karađorđević, is also open to visitors. The palace has many valuable artworks. Nearby, one will find Josip Broz Tito's mausoleum, The House of Flowers, which documents the life of the former Yugoslav president and leading figure of the Non-Alligned Movement.

There are also many parks, monuments, museums, cafés, restaurants, and shops on both sides of the river. The hilltop Avala Monument and Avala Tower offer views over the city. The upper-class neighbourhood of Dedinje is situated near the Topčider and Košutnjak parks. Ada Ciganlija is a former island on the Sava River and Belgrade's biggest sports and recreational complex. Today it is connected with the right bank of the Sava via two causeways, creating an artificial lake. It is the most popular destination for locals during the city's hot summers. There are 7 kilometres of long beaches and various sports facilities.

Tourism and Visitation

CHART 1: ARRIVALS BY AIR - BELGRADE 2007-14



Source: Statistical Office of the Republic of Serbia, Belgrade Nikola Tesla Airport

striking fact regarding Belgrade’s airport arrivals is the extremely small number of domestic passengers. This is explained by the fact that there is very little domestic air-traffic in the country and the majority of domestic travel is conducted via other means. Overall, arrivals achieved a Compound Annual Growth Rate of 9.1% in the eight-year period studied. The absolute number of arrivals nearly doubled from 1,255,635 in 2007 to 2,316,834 in 2014 (an 85% increase). The generally-increasing trend of inbound traffic points and underlines the fact that Serbia, and the City of Belgrade, have been recently gathering more attention, with growing levels of business interests. Year-to-August passenger traffic for 2015 increased by 5.5% over the same period in 2014.

Visitation & Seasonality

Belgrade is an important business destination, but still with a good amount of leisure business.

Airport Traffic

The region is serviced by “Nikola Tesla” Airport, located 18 km west of Belgrade’s centre in the municipality of Surčin.

Air arrivals to the city over the past 8 years are summarised in chart 1. As illustrated, the total number of passenger arrivals increased between 2007 and 2008; recorded a decrease in 2009, and entered a period of steady growth from 2010 onwards. The

CHART 2: TOURISM STATISTICS - BELGRADE 2007-14

Year	Arrivals at Hotels	Accommodated Roomnights	Average Length of Stay
2007	542,310	1,341,120	2.5
2008	480,311	1,206,065	2.5
2009	468,852	1,235,660	2.6
2010	502,875	1,204,050	2.4
2011	539,222	1,257,297	2.3
2012	566,934	1,337,644	2.4
2013	638,179	1,409,037	2.2
2014	716,534	1,498,133	2.1

Source: City of Belgrade, Institute of Informatics and Statistics

CHART 3: MICE STATISTICS - BELGRADE 2005-14

Year	Conferences Held	% Change
2005	11	—
2006	9	-18%
2007	12	33%
2008	17	42%
2009	25	47%
2010	33	32%
2011	42	27%
2012	38	-10%
2013	52	37%
2014	50	-4%
Average/CAGR	29	18%

Source: ICCA

The city is becoming a destination for hosting conferences and events which, according to industry experts, last about three to four days. The number of conferences in Belgrade increased at a compound average growth rate of 18% between 2005 and 2014. The average number of conference participants for the examined period was 251, with average duration at around 3.6 days.

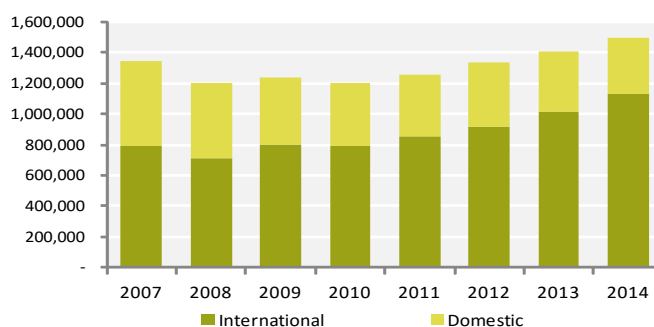
Visitation at hotels in Belgrade has been mainly of international nature; foreign arrivals accounted for approximately 82.0% in 2014 and ranged from 67.1% to 81.1% from 2007 through 2013.

In 2014, the number of total roomnights at hotels in Belgrade increased by 11.7% compared to 2007. Domestic tourism has recorded shrinkage over the eight-year period studied, mainly on account of the decrease in local business activity and the consequent reduction in disposable income.

The period 2007-14 saw a compound decrease in domestic hotel roomnights of 5.7%. Total roomnights for the same period saw a compound annual growth of 1.6% due to the larger volume of international business. Chart 4 summarises roomnights at all types of accommodation facilities in Belgrade.

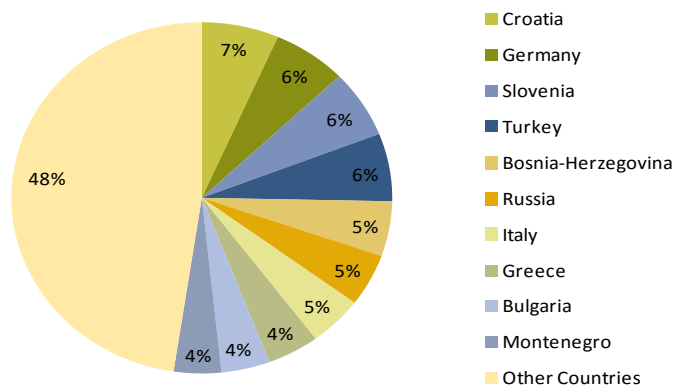
Year-to-July 2015 data indicate a 6.8% increase in arrivals and a 10.8% increase in accommodated bednights over the same period in 2014

CHART 4: HOTEL ROOMNIGHTS – BELGRADE 2007-14



Source: City of Belgrade, Institute of Informatics and Statistics

CHART 5: INTERNATIONAL VISITATION – BELGRADE 2014



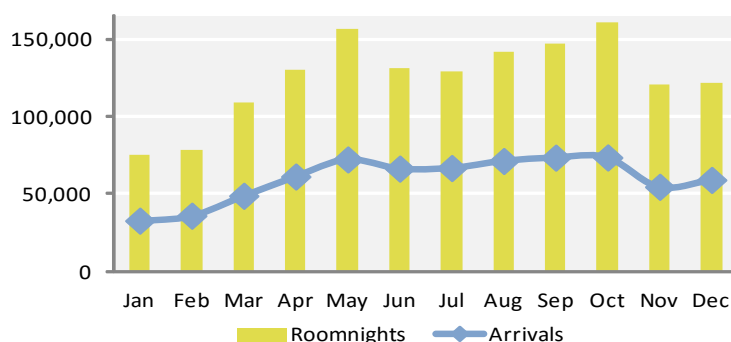
Source: City of Belgrade, Institute of Informatics and Statistics

again in October (popular months for conferences/congresses); and drops again towards the Christmas period. Data for 2014 reveal that October was the top performing month of the year, while even in the slow months, occupancy was around 35.0%. Chart 6 outlines the seasonality in Belgrade in terms of roomnights and arrivals at all types of accommodation facilities for 2014.

The vast majority of international visitors to Belgrade in 2014 came from European countries. The top individual countries were Croatia, Germany, Slovenia, Turkey, Bosnia-Herzegovina, Russia, Italy, Greece, Bulgaria, and Montenegro. Visitors from these ten countries accounted for 52.0% of international visitors.

Belgrade follows a rather typical seasonality pattern of visitation for a city destination: demand starts from relatively low levels in the beginning of the year; reaches a first peak around May, mainly attributed to MICE demand arriving in the city; slows a little during June and July, starts to pick up again in August and September, peaks

CHART 6: SEASONALITY – BELGRADE 2014



Source: City of Belgrade, Institute of Informatics and Statistics

Hotel Supply

CHART 7: HOTEL SUPPLY – BELGRADE 2014

No of Hotels:	2014	% Share
5* Hotels	4	4.6%
4* Hotels	38	43.7%
3* Hotels	26	29.9%
Other	19	21.8%
Total:	87	100.0%

No of Rooms:	2014	% Share
5* Rooms	621	11.4%
4* Rooms	2,769	50.7%
3* Rooms	1,480	27.1%
Other	587	10.8%
Total:	5,457	100.0%

No. of Beds:	2014	% Share
5* Beds	758	9.2%
4* Beds	4,102	49.6%
3* Beds	2,351	28.5%
Other	1,052	12.7%
Total:	8,263	100.0%

Source: National Tourism Organisation of Serbia

The National Tourism Organisation of Serbia follows a comprehensive system of hotel classification in five major categories ranging from five- to one-star properties. Hotels that belong to the three-star category and above account for 78.2% of total hotel supply in Belgrade, representing 89.2% of the total room supply.

Most of the hotel rooms in Belgrade are located in the centre of the Old City and in the New City (Novi Grad). The only five-star hotels in the city are: Hyatt Regency; Metropol Palace; President; and Square Nine.

Branded Properties

There is still a limited presence of international hotel companies in Belgrade, including **Starwood Hotels and Resorts Worldwide** through their Luxury Collection **Metropol Palace**, **InterContinental Hotel Group (IHG)** with the Crowne Plaza and Holiday Inn, **Radisson Hotels** with Radisson Blu Old Mill, **Hyatt Hotels Corporation** with Hyatt Regency Belgrade, and **Falkensteiner Hotels and Residences** with the Falkensteiner Belgrade.

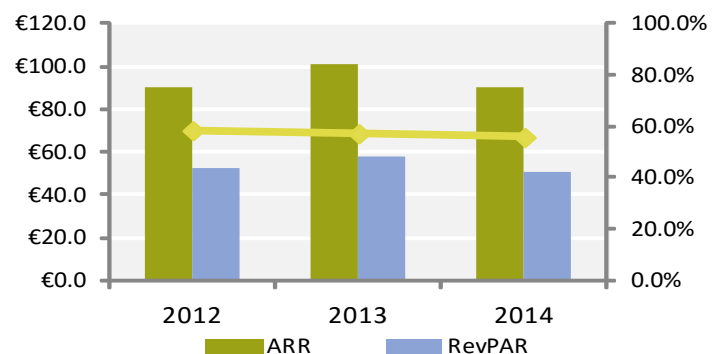
Hotel Performance

Chart 8 summarises the important operating characteristics of primary hotels in Belgrade. The chart sets out the average occupancy, average room rate, and RevPAR for a sample of 10 hotel properties representing 1,815 rooms (33.6% of the total hotel room market). It should also be noted that all occupancy percentages refer to 365 days of operation for consistency reasons.

Examined hotels in Belgrade recorded good levels of occupancy, which show a steady – and even slightly declining – pattern because of the recent addition or renovation of hotels in our sample in 2012 and 2013. Hotel properties in the city centre achieve occupancy rates of roughly 55.0% to 60.0% on an annual basis, by attracting mostly corporate and MICE clientele.

RevPAR figures saw an increase from 2012 to 2013 (€53 to €58), resulting mostly from the renovation of the Crowne Plaza and the Metropol Palace (267 rooms off the market that year). In 2014, RevPAR declined to €51, again attributed to the increase in supply of rooms by 659 as the renovated hotels re-entered the market and the Falkensteiner Hotel commenced operations.

CHART 8: HOTEL PERFORMANCE – BELGRADE 2012-14



Source: HVS Research

Recent and Forthcoming Developments

- Carlson Rezidor opened the **Radisson Blu Old Mill Hotel** in November 2014. The Radisson Blu Old Mill enjoys a prime location in Old Belgrade – just a short walk from the Sava River and the train station. The property features 236 fashion-inspired guest rooms including 14 suites – all designed by the prestigious Graft Architects and featuring wall paintings by Strauss & Hillegaart. There is a large conference room and six meetings rooms on a total surface of 500 m² – at maximum capacity the space can host up to 220 delegates.
- **Marriott Courtyard Belgrade:** PFB Properties, the investor in this development, signed a management agreement with Marriott Corporation. This is a four-star, 114-room property, with an approximate gross area of 7,500 m². The investment is estimated to be €25 million. The property commenced operations in early September 2015.
- Belgrade-based KMKM plans to open a **Hilton Hotel in Belgrade** by the beginning of 2018. The investment is rumoured to be about €35-40 million. The building site occupies 17,250 m² and the hotel will have 250 rooms on eight floors. The expected opening year is 2018.
- **InterContinental Belgrade:** Delta Company is planning construction of the new five-star hotel in Novi Beograd. "InterContinental Beograd" will be built in Block 20, between the buildings of "Delta Holdings" and "Hyatt". It will have 220 rooms, a luxurious spa centre, a large banquet hall, and a few smaller conference halls. The anticipated opening is 2018 and construction is expected to begin in September 2015, if all permits are in place by that time.
- The following infrastructure works have begun recently:
 - The **Belgrade Waterfront** development contract has been signed. The development cost has been estimated at approximately US\$3.9 billion. UAE-based Eagle Hills owns a 68% stake in the development which will feature more than one million m² of new residential space, approximately 750,000 m² of business and commercial space, 62,000 m² of public buildings, and 242,000 m² of green space, all on a 177-hectare site;
 - **Belgrade Nikola Tesla Airport:** the airport announced it will be spending €15 million of its own funds in expanding Terminal 2 by building 8 new gates and a new passengers' area. On completion in mid-2016, the terminal will be able to host long-haul aircraft. Another €2 million will be spent on renovating Terminal 1 and €3 million on new aircraft de-icing equipment.

Conclusion

With 82.1% of total arrivals coming from foreign countries in 2014, Belgrade is mainly an international destination. International airport arrivals show a very positive trend due in part to the efforts made by the airport to establish itself as a hub for the region. The airport improvements that were recently announced are expected to have a positive effect on international demand and increase the importance of Belgrade airport as a hub for the area.

The hotel market shows good performance metrics, considering its size, but is expected to show fluctuations in the near future as new properties enter the market and the laws of supply and demand come in play. In general, Belgrade is not an expensive city in terms of average daily rate, but this does not mean the city's hotels are cheap; rather, some of them are truly expensive to the eyes of the locals.

The country has been plagued by high inflation in recent years, and in some cases violent foreign currency exchange rates fluctuations, resulting in less buying power for the local population, but on the other hand rendering the city a far more attractive destination to international clients, as well as bringing in many foreign companies willing to invest in the country. As such, the prospects are judged to be generally positive and the government's sceptical stance towards external factors that might bring imbalances to the interior only serve to underline the country's apparent effort to maintain a steady growth in the coming years.



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrates its 35th anniversary this year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. HVS.com

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