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Hotel Investment scene in CEE

New hotel concepts, the Millennial generation, and the new wish list

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Source: Marriott International

Introduction

Welcome to the first edition of the joint Cushman & Wakefield – CMS report on the *Hotel Investment scene in CEE: New hotel concepts, the Millennial generation, and the new wish list*.

Due to the region's turbulent history and post-war communist regime, CEE markets have been faced with an almost 30-year catch up in order to draw level with the rest of the Western world, and this pace of change has been reflected in the region's hotel development and investment market.

The hotel market in the CEE-6 region* has experienced increasing transaction activity in terms of number and diversity of investors. In the past we saw a relatively high volatility of hotel performance and investment returns due to rapid supply growth colluding with economic downturns. In more recent years, the markets have entered a more mature stage and are attracting growing interest from international investors and operators. This, combined with the changing needs of travellers, continues to drive further evolution of the hospitality sector across the region, with all its opportunities and challenges.

In this report we explore the underlying investment trends in the region, and how innovation is shaping the hotel industry. We also discuss issues associated with shared-accommodation platforms such as Airbnb. On top of that, we have asked selected international players active in the region, as well as those keen to enter the CEE market, for a short commentary.

We do hope you find the report interesting, and please do not hesitate to contact us to discuss any of these issues further.

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How much and where?

While the total cumulative transaction volume was in excess of EUR 7bn over the 17-year period 2000-2017, the last five years accounted for nearly 42%, totalling almost EUR 3bn of investment (2013-2017). The Czech Republic (with Prague already boasting the 10th largest hotel market in Europe), attracted the highest number of investment (38%), followed by Poland (28%) and Hungary (12%).

78% of transactions in CEE are in capital cities

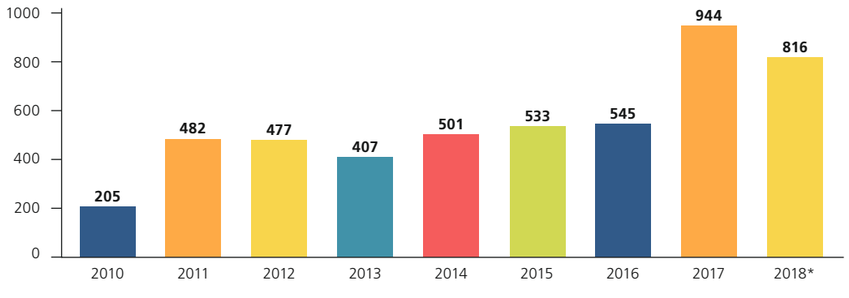
Transaction activity was especially strong in 2017, totalling a record EUR 944m of investment. This relatively robust volume (73% higher than in 2016), was driven by several major deals such as the Vienna House portfolio (8 properties in Poland, Czech Republic and Romania), the sale of Radisson Blu Complex in Bucharest (EUR 169m), Marriott Prague (EUR 87m), Sheraton Krakow (EUR 70m) or the closure of the 5-hotel portfolio transaction in Budapest by Orbis for EUR 65.9m (Mercure & Ibis hotels). Overall, Poland was the most popular hotel investment market in 2017, followed by the Czech Republic and Romania, which overtook Hungary for third position.

During the Q1-Q3 of 2018, there were fewer major transactions compared to the same period last year. One of the largest was the closing of the Sofitel Budapest Chain Bridge (EUR 75m) acquisition by Starwood Capital and the purchase of Sheraton Prague (EUR 42.5m) by Norwegian company Wenaasgruppen. The acquisition of Sugar Palace in Prague (adaptive re-use project into a luxury lifestyle hotel) by UBM was also a notable deal (price confidential). With about EUR 412m already having been transacted during the first three quarters of 2018, and very strong last quarter ahead, with several major deals in advanced stages across the region, the total volume of hotel investment could overpass EUR 800m by year end 2018. While this is a decline compared to a strong 2017, it is notably above 2015 and 2016.

Unsatisfied Appetite

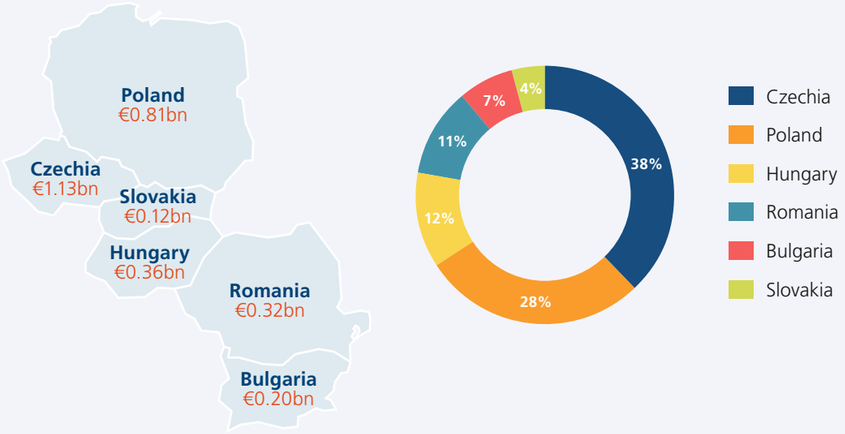
The moderation of hotel RevPAR growth and macroeconomic factors, such as the receding momentum of Europe's economic expansion and an outlook of rising interest rates, have likely contributed somewhat to the slowdown in transaction activity across the continent (hotel investment volume in Europe down by 35% YTD Q3 2018). However, the primary reason behind reduced investment volume in the CEE region is the lack of hotel assets on the market as investors continue to actively scout for deals. There are still large amounts of capital in search for healthy returns, and attention has therefore turned to hotels in CEE that frequently offer superior yields compared to many other regions in Europe and/or other asset classes. This is not just wishful thinking: there are several deals in various stages of progress across the region, promising a strong end of 2018 and start to 2019.

CEE-6: Total hotel transaction volume

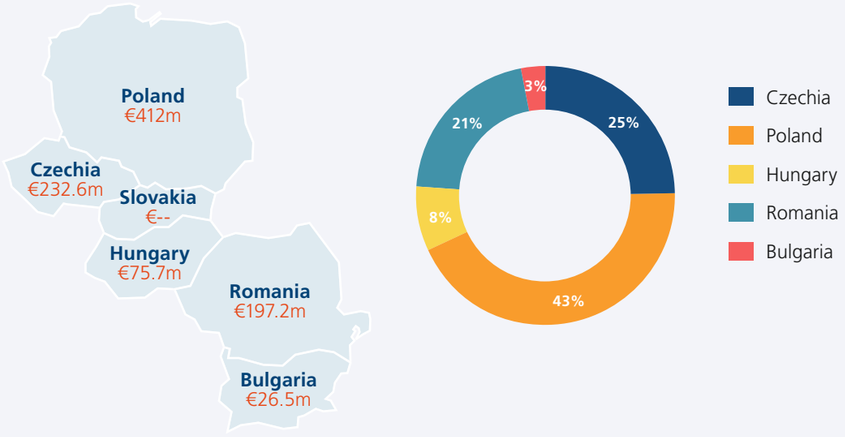


*Source: RCA and Cushman & Wakefield Research (*forecast)*

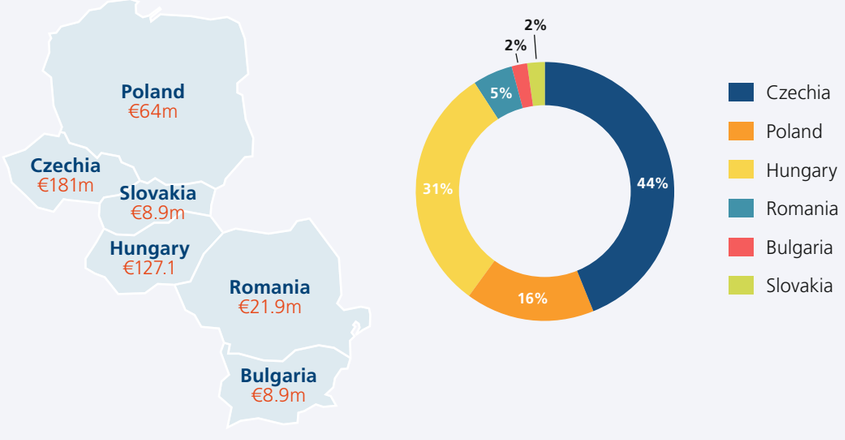
Hotel transactions 2013-2017



Hotel transactions 2017



Hotel transactions Q1-Q3 2018



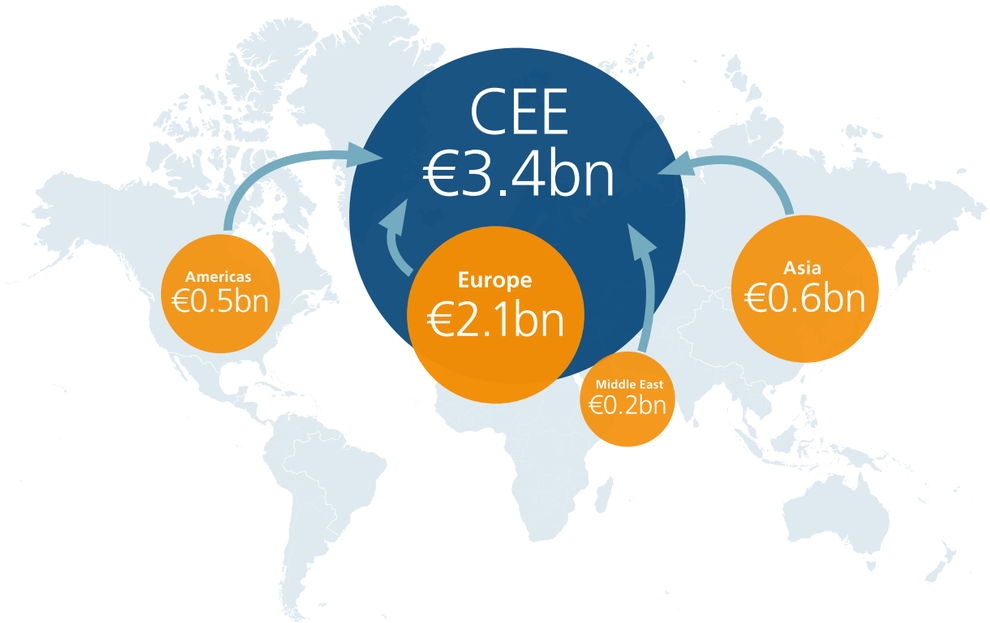
Where is the money coming from?

Growing diversity of buyers

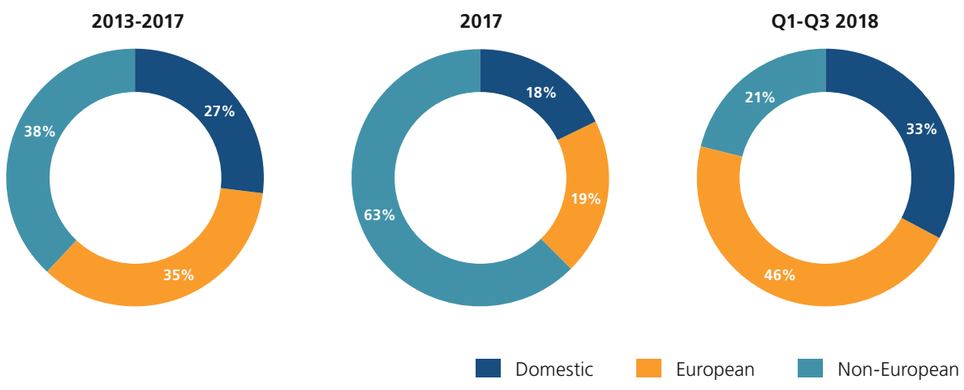
The increasing volumes of transaction across the CEE-6 region have also been accompanied by a growing diversity of buyers in terms of origin and type. **Historically, domestic players were the most dominant owners and investors**, complemented to some extent by investors from other European countries. For example, in 2013, only 6% of the total hotel investment was from non-European players. During the recent years however, the share of cross-border investment has been increasing, reaching 82% in 2017, with investment coming from outside Europe accounting for 63%.

During the first three quarters of 2018, the overall cross-border investment still reached relatively healthy levels, accounting for 67% of total volume. However, there was a notable decline of investment from non-European countries, especially Middle Eastern and Asian investors.

Total transaction volume invested into CEE hotels: 2013 – YTD Q3 2018 (in EUR, cumulative)
(includes hotel acquisitions in Bulgaria, Czechia, Hungary, Poland, Romania and Slovakia).



Origin of Capital



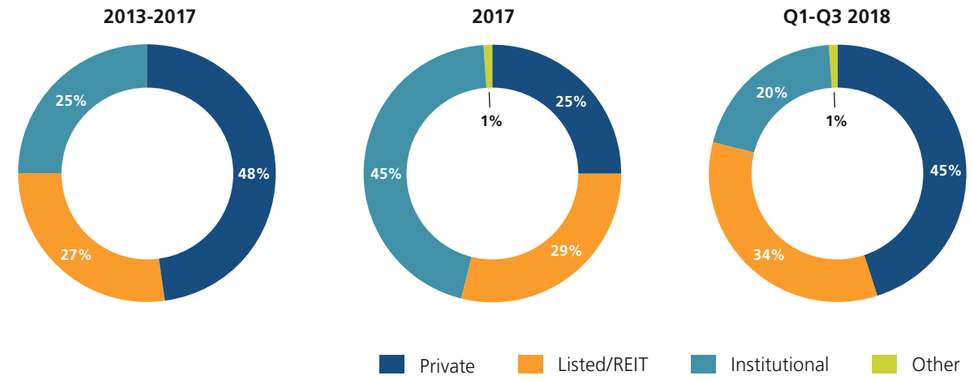
Source: Cushman & Wakefield and RCA

The rise of institutional investors

Similarly, as with the origin of investors, there has been a growing variety of investor-type acquiring assets across the CEE-6 region. While historically, private investors dominated the market (accounting for 72% of hotel investment in 2012), in recent years institutional and listed investors have been increasingly more active across the region. Examples of key players in the CEE region include Union Investment, Deka Immobilien or U-City.

This rise of institutional investors, typically requiring lease structure, has led to a growing number of so-called sandwich deals with third-party operators as a tenant and franchise with a hotel brand, particularly in Poland where there are several of these "white-label" operators willing to enter lease contracts; examples include Focus and VHM Hotel Management or Apex Alliance in Romania and Baltics. The sign of maturing CEE markets is the fact that in recent years there were also deals where major brands would sign leases directly such as Motel One, Radisson Blu, Leonardo, Barceló, Hotusa, B&B or Louvre Hotels. The market has also seen sale-and-lease-back or sale-and-manage-back deals, with UBM and Orbis being examples of the key players utilising these transaction structures.

Structure of CEE-6 Hotel Investment by Investor Type



Source: Cushman & Wakefield and RCA

Institutional and listed investors captured **74%** of total transaction volume in 2017

Looking more closely into the last 21 months, 2017 was the peak period, when institutional and listed investors captured 74% of total transaction volume. However, during the first three quarters of 2018, investment volume by these conventional investors declined substantially (down by 66% YTD Q3 2018 vs YTD Q3 2017). Rising economic and geopolitical concerns, and uncertainty as to how close we are to the end of the cycle, might lead to the conclusion that investors are running back to the safety of the core investment markets. While this might be the case for some of the more precautious players, the institutional and listed investors still generated nearly 54% of total transaction volume in YTD Q3 2018, showing that they are still keen to invest in the CEE region. **The key challenge is the lack of assets in prime locations** coming onto the market, especially of larger size (i.e. portfolios) favoured by these types of investors. Combined with the late-cycle hunger for healthy yields, this dilemma is pushing investors towards deals with higher risk profiles, development projects through direct acquisition or forward commitment/funding structures, such as Union Investment which secured the future Holiday Inn Gdansk City Centre hotel by way of a forward purchase agreement.

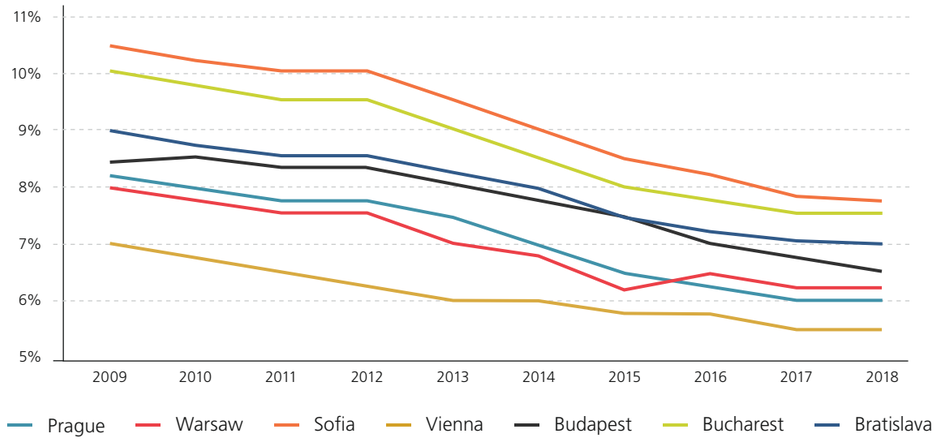
Where are the yields?

The growing interest of investors and the rise of institutional and listed players shows the growing maturity of the markets. This contributed to the compressing transaction yield-levels across the region.

Since the global financial crisis, the hotel yields for typical deal with a management contract structure across the capital cities in the CEE-6 region compressed and narrowed from 8-11% range depending on the market, down to 6-8% range with hotels in Prague, Budapest and Warsaw being transacted with the lowest yields. In terms of lease structures, the yields are typically between 75 and 150 basis points lower.

Yields are getting closer to those seen in Western Europe. However, there is still gap of about 50 to 100 basis points between the top cities within the CEE countries and their close western neighbours, such as Vienna or Berlin.

Yield trends 2009-2018: CEE-6 capitals and Vienna



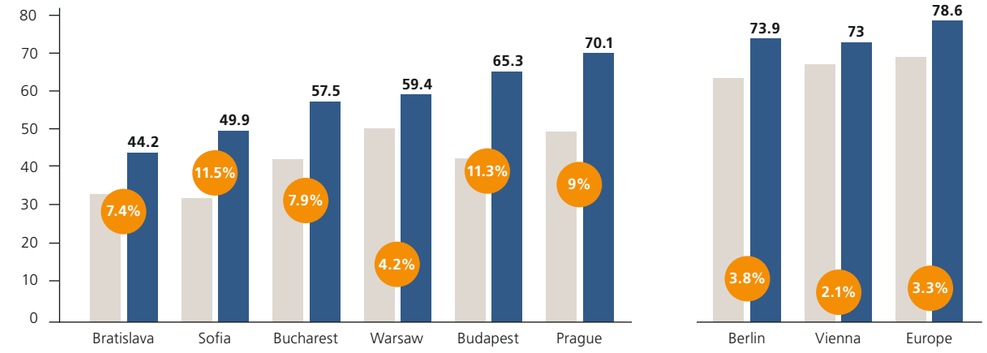
Note: The yields are based on the actual transactions where available as well as the sentiment indicated by the investors. The initial yield may vary widely in the region depending on the location, hotel quality/type, deal type, operating structure and upside potential. (applicable for Managed Contract operating structure) Source: Cushman & Wakefield

The large amount of "dry powder" looking for placement combined with the lack of assets as discussed earlier, should keep the yields low in the near future. However, it might be challenging for yields to compress further, due to a slowing RevPAR growth combined with economic and geopolitical uncertainty and an outlook of rising interest rates.

What are the key investment drivers in CEE?

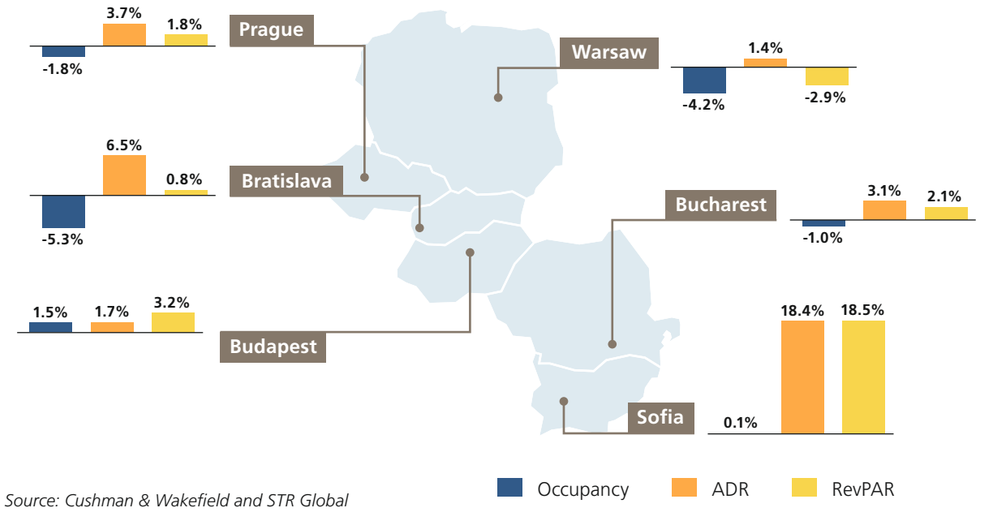
- Healthy demand and supply fundamentals across the key markets in the CEE-6 region, with limited or moderate pipeline in most key cities.
- Strong performance growth with RevPAR increasing by nearly 40% in CEE-6 capitals over the past five years, driving attractive profitability levels.
- Relatively low prices of hotel assets, compared to other markets in Western Europe, combined with their long-term growth potential.
- Expansion of global branded operators, professional third-party management companies and specialist hotel asset managers across the region allowing institutional investors to enter the sector, thus increasing overall transaction activity and liquidity.

Performance trends in key CEE-6 markets vs. Vienna and Berlin (RevPAR in EUR)



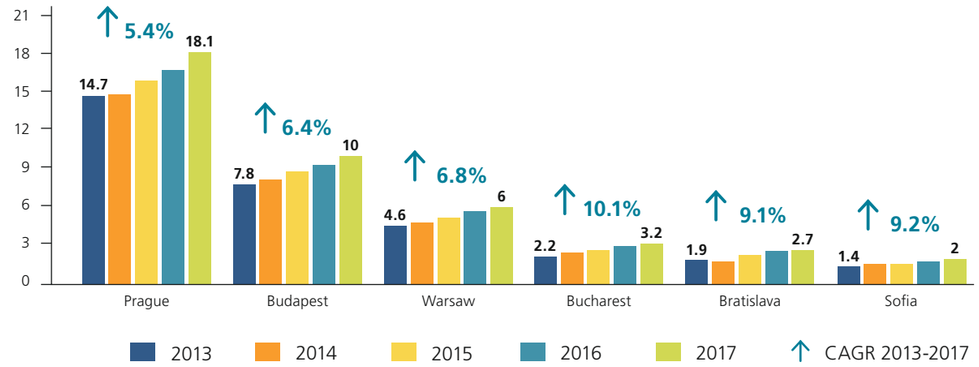
Source: STR Global

Performance Trends: YTD Q3 2018 (% change vs YTD Q3 2017)



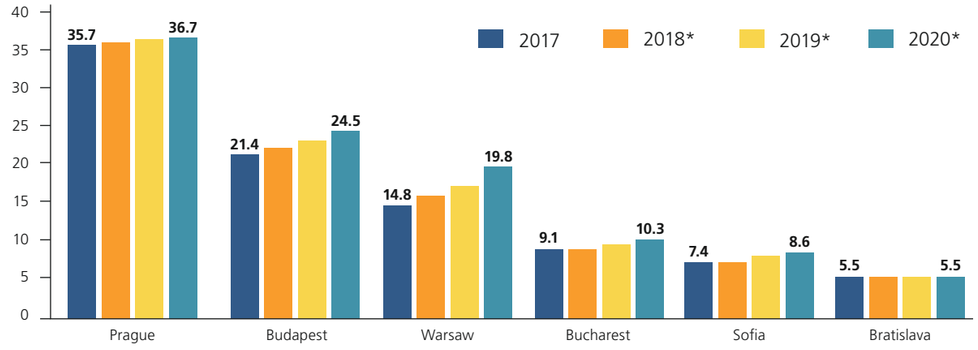
Source: Cushman & Wakefield and STR Global

Overnight Stays (millions) – CEE-6 Capitals (2013-2017)



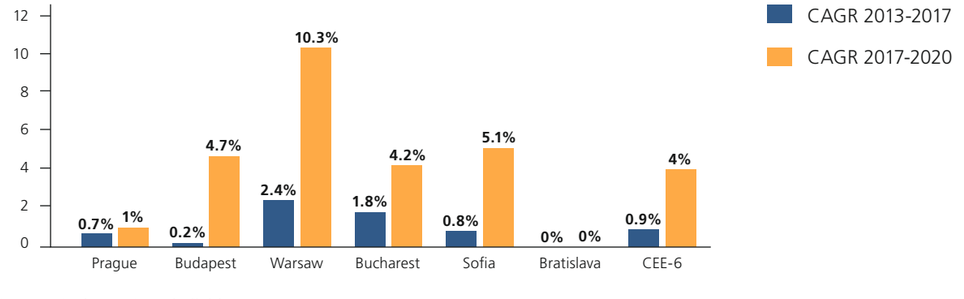
Source: Respective statistical offices

CEE6-Capitals – Supply Growth Forecast (000's rooms available)



Source: Cushman & Wakefield

CEE6-Capitals – Supply Growth Forecast (% change)



Source: Cushman & Wakefield

Evolving nature of hospitality sector

The fast growth of the hospitality sector has been accompanied by an increasing proliferation of brands and concepts. This trend has been seen across the CEE region too, although it is still less advanced than in Western Europe.

Currently, only approximately 42% of room stock within the CEE-6 capitals is branded, compared to 57% in Vienna and 62% in Berlin. One of the challenges for further brand penetration is the relatively high number of small independent hotels (75% below 100 rooms), especially in Prague and Sofia, which are less attractive for major hotel operators seeking economies of scale. While the lack of larger hotels and new developments has been constraining the penetration by international brands, the share is increasing with most of the pipeline projects in the CEE-6 capitals being branded hotels (90%).

New trends and blurring lines

The changing consumer trends and evolution of accommodation concepts over recent years has resulted in a blurring of the lines between traditional hotel classes. While historically ample public spaces, multiple Food&Beverage (F&B) outlets and trendy designs featured primarily in Luxury and Upper-Upscale hotels, these features are now more commonly seen across a wider range of the accommodation spectrum. There are also blurred boundaries between short-term and long-stay accommodation.

While the ongoing innovation and proliferation in the hospitality sectors make it increasingly difficult to establish clear categories, there are trends that are also relevant to the CEE region. These include:

Emergence of soft brands

Also referred to as “collections”, soft-brands allow hotels to retain their unique identity while taking advantage of chain systems and support. These brands, launched by major international hotel chains, have been expanding at a fast rate across Western Europe. Despite this, the number of soft-branded hotels currently present in the CEE-6 region is relatively small, primarily from Marriott International (4x Luxury Collection & 2x Autograph Collection) and Best Western Collection (2x). Other brands are in the pipeline, such as Curio Collection by Hilton in Krakow or Unbound Collection by Hyatt and Radisson Collection in Budapest.

Rise of affordable lifestyle brands

In recent years there has been an increasing number of trendy hotel brands. Many of those have a below luxury price range and are frequently referred to as affordable lifestyle hotels. Typical features of these hotels are design-led but relatively small rooms combined with ample public space, open animated lobbies merging with vibrant F&B outlets and facilities attracting not only visitors but also locals to play, work and mingle (i.e. co-working spaces).

This trend is only emerging in CEE-6 region with a few internationally branded properties. Examples include Mama Shelter, NYX and Motel One in Prague, Indigo in Warsaw and Krakow or Moxy in Katowice. Further pipeline is foreseen primarily in the capitals, namely Warsaw, Prague, Budapest and Bucharest, but there is also a growing interest in second-tier cities, especially in Poland.

There are also domestic players in the region; one of the most successful companies expanding fast across Poland is Puro Hotels with five properties and two in the pipeline. Other examples include the Czech based Pytloun Hotels Group (which opened their first lifestyle hotel in Prague city centre) or KViHotel in Budapest.

Source: Marriott International

Canopy by Hilton, Zagreb

Hilton

Magdalena Sułkowska
Development Director,
Eastern Europe

Hilton has been very active in the Central & Eastern Europe (CEE) region since 2009 and we now have more than 100 hotels trading or under development. The region forms a significant part of Europe, and is strategically important for international growth, so we are constantly reviewing opportunities to bring new hotels to the region.

In recent years, Hilton's focused service brands have witnessed rapid expansion in the region, with strong growth in Poland, Germany and Russia in particular. New low cost international air routes have opened up destinations, and we are seeing more appetite than ever for our brands. As a result of this demand, we now have dedicated development offices in Warsaw, Frankfurt and Moscow, working closely with our global development network.

Our aim is to cater to every guest, wherever in the world they want to travel, for any travel needs they have. In order to achieve this goal, we are continually evolving our existing brands, and introducing new brands when appropriate. An example of this evolution is our recent launch of the refreshed interior design of our key focused serviced brands: Hilton Garden Inn and Hampton by Hilton. They now feature public spaces with a greater focus on the community experience and light and airy modern guest rooms.

In recent years, we have launched two lifestyle brands to cater to guests looking for unique experiences: Canopy by Hilton and Motto by Hilton.

Canopy by Hilton redefines the lifestyle hotel category. It is characterised by its deep connection to the local neighbourhood, brought to life by the properties' Team Members, known as Enthusiasts. We have just opened our first Canopy hotel in continental Europe – Canopy by Hilton Zagreb. The property provides a comfortable stay for guests in search of thoughtfully local experiences in Zagreb's vibrant downtown neighbourhood.

Motto by Hilton is our new urban lifestyle brand. Launched last month, it is designed to empower guests by giving them the freedom to create their own experiences in the world's most sought-after cities, which include the largest cities in CEE. Motto's competitive advantage includes efficient build costs, highly engineered, flexible guest rooms, and multiple revenue opportunities in the public spaces – making it a compelling brand for owners seeking premium returns.

Its prime feature is flexibility – small but highly efficient rooms will include space-saving features such as wall-beds, lofted beds, segmented shower and toilet stalls, and multi-functional furniture that can be discreetly stowed when not in use. Linking rooms eliminates the hassle of coordinating travel for larger groups as Motto by Hilton hotels will have the option for guests to book multiple connecting rooms in advance, allowing for split payments at time of booking. Motto by Hilton will feature Hilton's Connected Room technology – offering mobile control of the guest room. Finally, Motto by Hilton is sleep-obsessed and prioritises quality sleep for every traveller – whether it is a premium mattress; a Sleep Kit with eye masks, essential oils or vitamin bars; a white noise app; blackout window shades; or sound absorbing materials throughout the room.

Our first Motto by Hilton is under construction in London's Marylebone and scheduled to open in 2020. We are actively looking at opportunities in the CEE's main cities.

Motto by Hilton is our new urban lifestyle brand. Launched last month, it is designed to empower guests by giving them the freedom to create their own experiences in the world's most sought-after cities, which include the largest cities in CEE.

Source: Marriott International

Marriott International

Janusz Mitulski,
Director International Hotel Development for Central & Eastern Europe

Short interview with Janusz Mitulski on Marriott's lifestyle brand Moxy and entering the CEE.

What sets Moxy apart from the competition?
Today's consumer is less desirous of a "cookie cutter" experience and in fact wants to discover something new, take in the city, the food, the local scene, whether he/she is there for a day or a week. We see them wanting to hang out in the living room to work or play, or both. Moxy has been designed to give Millennials everything they want and nothing that they don't. The brand offers a new way of travelling which is smaller in concentration not a reduction. Premium in every way but price – its affordability is not a sacrifice of style, nor a loss of comfort. The Moxy brand is designing its spaces to focus on communal environments with a DIY approach. For example, check-in at Moxy Hotels is at the bar (where guests are greeted with a complimentary cocktail!). The public space in the Moxy lobbies are broken up by zones – from very active at the bar to a more calm library area – giving travellers a choice for work or play.

Every Moxy hotel is equipped with furiously fast and free Wi-Fi and abundant plug ins to recharge no matter where you are in the hotel. Moxy is proud to be the first Marriott brand to feature Keyless entry across its entire portfolio. Keyless entry is available on smartphones for all Marriott Rewards members. Next-generation travellers are moving away from traditional cable/satellite TV and choosing to stream media from the Internet – Moxy offers Internet TV with partners like Netflix, YouTube, Hulu and Pandora. Additionally Moxy guests can stream content directly from their mobile, tablet or notebook to watch their personal content on their bedroom's big screen TV, an extension of their tech enabled lifestyle.

Why is there such a need to target Millennials?
Generations X and Y are expected to account for 90% of the working-age population within a decade; the upcoming generation is gradually transforming leisure, work, and communities as a whole. Next generation travellers, who prize nonconformity, open-mindedness and originality above all, are expected to account for more than 60% of Marriott International's business within the next four years. The company's commitment to creativity, innovation and technology allows us to anticipate the precise needs of its guests of all ages, to stay relevant and connect with them directly.

Moxy appeals to the young and the young at heart, Moxy calls its target guests Fun Hunters – they don't take themselves too seriously, they live in the moment and they want to experience life to the fullest. Most grew up in a DIY world – they are used to checking themselves in at the airport, they like the independence of being in control and believe self-service is the best service. Today's free-spirited traveller is looking for a hotel with an environment that allows them to have an experience on their terms.

> Next generation travellers are expected to account for more than 60% of Marriott International's business within the next four years.

Cedar Capital Partners

Philipp Klohr
Vice President

Philipp Klohr on ACCOR's Mama Shelter brand in Prague.

Why did you choose MAMA Shelter brand and what is special about their concept?
As an investor in international hotel real estate, Cedar Capital Partners has been active in the CEE region for over a decade. Following the financial crisis, recovery in certain CEE markets might have taken a little longer than in some other Western European cities, but the region has always been of interest to us. Prague is one market that we invested in before, during and after the financial crisis. Our most recent investment was in the summer of 2016 when we acquired the Parkhotel Praha. We renovated and reopened the hotel in the summer of 2018 as the Mama Shelter Prague.

Upon acquisition of the Parkhotel Prague, we had a very clear vision for the hotel and its positioning within the local market. Prague, and most other CEE markets remain dominated by unbranded hotel stock. The few branded hotels in Prague tend to be core brands of big chains. We wanted to create a four-star lifestyle hotel with the Mama Shelter team that would offer customers a trendy and colourful lifestyle hotel with a strong emphasis on the restaurant and bar scene. A perfect night's sleep, a powerful shower and a good breakfast are still the very basic demands of most hotel guests, but providing additional memorabilia with smiling staff, exciting design-led public areas, a hip cocktail bar, or playful interiors will add to the guest's experience and can help create a better bond between customer and hotel.

Mama Shelter as a brand is entertaining and convivial; we learned that finding someone in the Mama team wearing a tie or someone being addressed by his/her last name is definitely a rarity. Linked to that, guests often ask us whether Mama Shelter is a brand for hip Millennials only. This is certainly not the case. Mama Shelter's key corporate accounts are similar to their peer hotels in their respective markets and leisure guests of all ages stay at the hotel. At the same time, it is true that the live music / DJ sessions on Thursday to Saturday night are favourable with Millennials.

How does the arrival of sharing platforms such as Airbnb affect your business?
While we cannot argue that sharing platforms such as Airbnb do not have an impact on the hotel industry by stealing market share, there is also an argument to be made that Airbnb indirectly helps to deter additional hotel supply by keeping hotel occupancy levels lower than if Airbnb wasn't there.

In addition, Airbnb offers hoteliers the opportunity to market their hotel rooms on their website at substantially lower commissions than the traditional OTAs. Mama Shelter Prague for example can be found on Airbnb.

> Following the financial crisis, recovery in certain CEE markets might have taken a little longer than in some other Western European cities, but the region has always been of interest to us.

Mama Shelter in Prague Source: Cedar Capital Partners

New generation hostels

With the Millennial generation becoming a major travel group, it is not surprising that hostels are growing in popularity and consequently getting attention from investors and major operators.

The big money pouring into the sector, combined with escalating competition, is driving the evolution of this concept. Many brands are now blending hostel and hotel concepts by combining traditional bunk-bed style accommodation with more upscale private rooms, ample trendy public spaces and premium F&B offering.

The CEE region offers attractive opportunities for these new generations of hostels, sometimes referred to as poshtels, microhotels or open-houses. According to Phocuswright report, Eastern Europe is expected to be the third fastest-growing hostel market (after South/Southeast Asia and the Middle East), with an expected double-digit revenue growth (11%). According to another report released in January 2017 by Hostelworld Group, the largest online hostel-booking platform, **Prague and Budapest were listed as 6th and 9th most popular cities in the world among hostel travellers, of whom more than 70% are Millennials**.

Despite the popularity of the CEE cities, only selected international hostel brands such as a&o, Safestay, wombat or Plus are already present in the region, primarily in Prague and Budapest. There are also several regional players such as Polish Dizzy Daisy Summer Hostels. Some international brands are partnering with local companies such as Beds & Bars Ltd with the innovative Czech company Bohemian Hostels & Hotels, which opened the first franchise operation of the St Christopher's Inns brand in Prague. Other international brands such as Meininger, Generator or Accor's Jo&Joe are yet to enter the CEE-6 region.

wombat's CITY Hostels

Gregor Kleczkowski
Head of Digital Marketing

Short interview with Gregor Kleczkowski on wombat's CITY Hostels.

Why have you decided to expand in the CEE market and what are your plans for the region going forward?
As we are an Austrian company and expanded from Vienna to Munich, Berlin, Budapest, London and Venice, CEE is our native market. Also it is where our guests and partners travel and work.

Among our younger guests we notice a tendency to explore Eastern Europe and I think we have to follow their lead.

What is unique about your concept? If possible comment on how it addresses Millennials as customers
At wombat's we managed to keep that unique atmosphere travellers love about hostels. Creating a home away from home, very much alike a shared flat in many aspects. The key factor that differentiates our hostel product from other hospitality products is the concept of shared space and common areas that facilitate socialising. It makes travelling not only more fun, but also more affordable. This concept combined with hotel-like amenities attracts young travellers and those young at heart, who want to focus their spending on the experiences in their destination and yet don't want to miss a certain standard. This is pretty much what Millennials and GenZ require.

How does technology affect your business and are there any new developments within your company?
Technology is key for us. Our guests are all digital natives and push us to stay on top of things in this field.

How does the arrival of sharing platforms such as Airbnb affect your business?
Airbnb is still a very niche platform and we would rather see it as an opportunity than a threat. We did not experience any negative effects from Airbnb spreading in our markets.

> Among our younger guests we notice a tendency to explore Eastern Europe and I think we have to follow their lead.

Source: wombat's CITY Hostels

a&o Hotels and Hostels

Henri Wilmes
Chief Investment Officer

Henri Wilmes on the a&o brand and their view on the CEE market.

Why have you decided to expand in the CEE market and what are your plans for the region going forward?
The CEE region is and will remain one of a&o´s focuses in terms of development. We completed an acquisition in Budapest in September and will have another acquisition completing this month of December in Poland. We will refurbish both assets and convert them into new a&os with an opening foreseen for next year. The CEE market is interesting to us mainly because of a) demand characteristics (high demand from school groups and young travellers), b) strong trading results achieved over the last few years and c) availability (still) of assets that fit our search criteria (mainly conversion assets) at prices that allow us to achieve our financial returns.

What is unique about your concept? If possible comment on how it addresses Millennials as customers
Our product is unique in the sense that it combines budget hotel and hostel under the same roof. True to our motto "Everyone can travel", we provide accommodation to a wide range of customer segments in central locations that are easy to reach by public transport. a&o therefore attracts single travellers, couples, families and larger groups, like school classes or sport groups with its "best value for money" proposition. Millennials and Generation Z represent a big part of our customers and we obviously try and address their needs in our assets. A few examples would be our free high-speed internet at one click, USB chargers in our new FF&E, common areas with lots of areas to hang around and connect with other people or our new "art&o" project, where we give young, local artists/performers the opportunity to use our assets as platforms to express themselves and create art.

How does technology affect your business and are there any new developments within your company?
As is for most hospitality companies, technology is nowadays omnipresent throughout the whole customer journey as well as on a corporate level. a&o always strives to be an early adaptor of new technologies: an example could be our mobile check-in process which we are currently testing in our Prague asset with a rollout foreseen for next year throughout the portfolio. In general terms, a&o means mobile already today, i.e., two out of three direct online bookings are made via mobile devices.

How does the arrival of sharing platforms such as Airbnb affect your business?
We are obviously following the development of sharing platforms closely, critically but positively until now. From our point of view, new competitors like Airbnb are pushing all industry participants to become better at what they do and they have been able to create additional travel demand in many markets rather than take away existing business. We therefore see Airbnb not as a direct threat but more as an overall benefit to the industry. A recent example would be that Airbnb is now moving into the online travel and hotel distribution with a more cost-effective product than the traditional OTAs, helping companies like us to (hopefully) bring overall distribution costs down in the future.

> The CEE region is and will remain one of a&o´s focuses in terms of development.

What do Millennials in CEE expect from hotels?

Millennial 'wish list'*

- **90%** expect free high-speed Wi-Fi in their room
- **78%** look to the hotel for recommendations on local activities, restaurants and bars
- **69%** would like to have health & fitness functions (e.g. sleep pattern monitoring)
- **67%** would like to interact with staff and other guests in public areas
- **60%** will likely tag a hotel in a social media post when on a leisure holiday
- **60%** would like a way to set their preferences via technology and hotels to remember them
- **59%** prefer to check in and check out without having to deal with anybody
- **53%** are booking hotels via desktop computer and **36%** via mobile
- **Cost** is still a deciding factor, followed by location, quality of service and reviews when choosing accommodation for leisure holidays
- They travel for **leisure** to **relax**, **have new experiences** and **see new places**.

** During the first half of 2018, CMS, in conjunction with FTI Consulting, created and ran a business to consumer poll that was responded to by 5,275 Millennials (aged 18-35) in 18 countries across the world. Over 800 Millennials from the Czech Republic, Hungary and Poland took part in the survey. Full report can be found here: http://www.cms-lawnow.com/-/media/lawnow/pdfs/roaq/finding-the-balance-human-touch-vs-high-tech.pdf*

Innovative serviced apartment concepts

The extended-stay sector has been expanding rapidly in recent years, fuelled by the increased interest of investors and new innovative concepts responding to growing demand from travellers. The evolution is around providing more efficient room configuration using smart furniture and technology, trendy interiors and public spaces, which encourage socialising, with additional facilities such co-working hubs, informal lounges or shared kitchens. The line between residential, extended-stay and hotels is blurring, with new concepts including features from some or all these sectors.

The presence of extended-stay international brands in the CEE region is still limited, with only a few brands present such as Adina Apartment Hotel, Marriott Executive Apartments and Fraser Residence in Budapest. Future pipeline includes Adagio in Krakow or Residence Inn and Staybridge Suites in Warsaw.

In terms of domestic players, the market in CEE-6 region is fragmented, with the Czech based Malmaison Hotels & Residences being the major brand, with nine properties across multiple countries in the region as well as in Russia.

Zoku International

Christoph Hager
Rollout Lead Europe

Christoph Hager on how Zoku is designing urban living for tomorrow.

By 2050, 70% of the world will live in urban areas – and cities must get inventive and maximise space to prepare for these growing populations. Millennials, meanwhile, are already demanding more flexibility and mobility, blurring the lines between work and leisure. These trends highlight the need for innovative and ambitious real estate solutions that deliver true value.

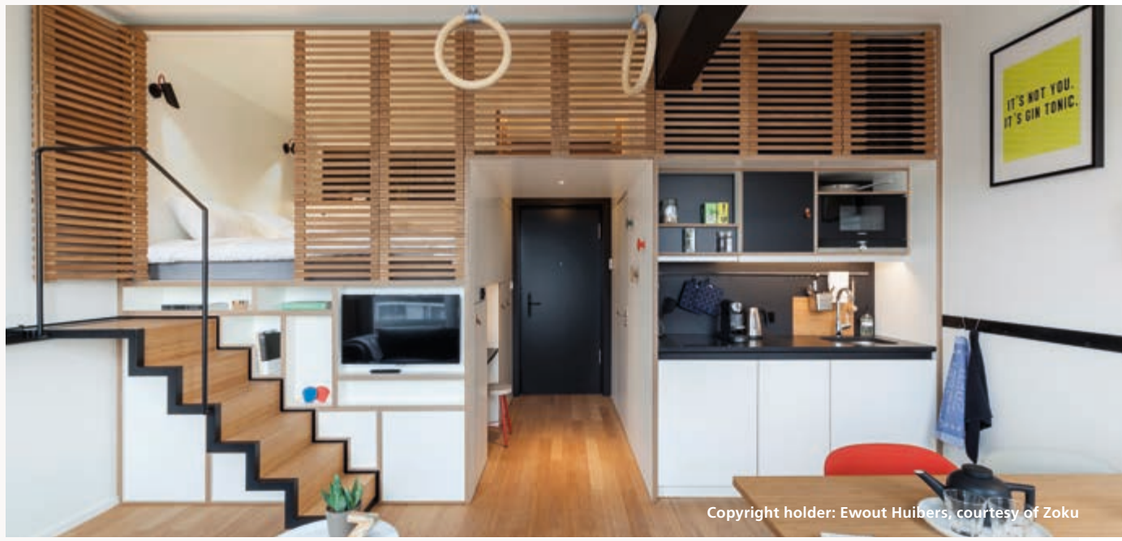
Zoku has created a completely new category in the hotel industry: a home-office hybrid topped with hotel services and a lively community. Its key feature is the award-winning Zoku Loft, created in collaboration with 290 members of our target audience. Each unit is 25 square metres yet has a kitchen, living area, two-person bed, and bathroom. The focal point is a 4-person table to work, dine, entertain or relax, with an elevated sleeping space that is accessed using retractable stairs and screened off during the day.

Airbnb has grown increasingly popular in demand for guests seeking the feel of an apartment over a hotel room. Zoku does not only list its Zoku Lofts on the platform, it goes further than the offerings of Airbnb by providing the services of a hotel alongside a community structure and dedicated Social Spaces. By fostering connections between locals and visitors, we create a vibrant neighbourhood in a single building – somewhere travellers can live, work and socialise among like-minded people.

After the success of Zoku Amsterdam, Zoku will soon begin a global roll-out with the goal of operating in 50 locations over the next decade. The CEE market has rapidly evolved in recent years, with strong performance in hospitality and increased prominence as a business destination. Zoku is actively seeking partnerships with local developers and new opportunities across the region's creative and business hubs.

Zoku´s vision is simple: to create the most desired home base where people and ideas can connect and grow; a place where smart design facilitates interactions and sparks creativity, and where residents can instantly get rooted in the local scene. Zoku believes that the world needs smarter solutions instead of more stuff and that – through collaboration – Zoku can set new standards for 21st-century living.

At the end of November 2018 Zoku announced two new locations in Vienna and Copenhagen.



Expansion of shared accommodation platforms

Fast-growing industries typically attract new entrants and disruptors. The hospitality sector is no exception, with shared-accommodation platforms such as Airbnb entering the short-term accommodation market.

According to a recent report issued by Airbnb[1], there are 36,400 active hosts in Visegrad Group of CEE countries accommodating around 2.7 million travellers in 2017, primarily in tourism hubs such as Prague and Budapest.

While this sector has been expanding rapidly across the region, without much regulation, this might change going forward.

[1] Visegrad Insights Report by Airbnb (Visegrad Group – Czech Republic, Hungary, Poland, Slovakia)

Tightening regulation in CEE

Shared-accommodation platforms such as Airbnb provide an online marketplace which allows hosts to offer accommodation, homestays or tourist experiences via its website and mobile app. As with the majority of shared economy products, there is a blurred line between which commercial opportunities may be self-regulated and which ones fall within the scope of regulation by the state. Following the trend in Western Europe, Airbnb's presence in CEE involved a number of controversies which are making local authorities rethink the regulation of short-term accommodation.

Everyone loves Airbnb

Based on statistics provided by Airbnb in respect of the Visegrad countries, 80% of guests who chose Airbnb did so in order to "live like a local" with 29% of guests stating they would not have travelled or not have stayed as long without Airbnb. According to the same Airbnb statistics, the average host within the Visegrad countries generates annual earnings of EUR 1,850 from hosting and 43% of hosts say hosting helps them to afford to stay in their home. This suggests that the travellers as well as the locals, the cities and the entire local economies benefit from Airbnb's presence on the market. But is this really the case?

Airbnb controversies

Despite the undeniable benefits Airbnb has brought to travellers' experience, it has also created a number of controversies along the way. We list a few of the most discussed topics below.

— **Original Idea Disappearing** – A recent study by Prague's Institute of Planning and Development found that eight out of ten accommodations offered through Airbnb in Prague are offered as whole apartments rather than accommodation shared with the host. This suggests that the original Airbnb idea of sharing the apartment with the host is disappearing in Prague and Airbnb is becoming a regular business. This is also supported by the fact that there are a few Airbnb hosts in Prague who are offering around one hundred flats each. In the centre of Prague, one out of every five apartments serves as Airbnb accommodation and Airbnb covers in excess of one third of the overall tourist accommodation capacity. This indicates that, at least in the centre of Prague, Airbnb is a regular competitor to traditional accommodation providers.

— **Trade Licences** – If Airbnb hosts are considered to be providing accommodation services rather than the letting of properties in exchange for rent, a trade licence will usually be required. All hoteliers and other providers of accommodation must obtain this trade licence before conducting any business activity. However, Airbnb hosts often do not meet this obligation, resulting in the suggestion from traditional accommodation providers that an unfair double standard may exist.

— **Taxes and Fees** – The question of trade licences is closely linked to the questions of taxation, payment of health and social insurance as well as various local accommodation fees. Similarly, as in the case of the trade licences, Airbnb hosts often do not pay these fees, which can again be interpreted as an unfair disadvantage for the traditional accommodation providers.

— **Problematic Coexistence** – Airbnb has also faced criticism for reasons arising from the impact on the local communities where Airbnb accommodation is situated. Where Airbnb accommodation is situated in buildings with multiple flats, the occupants of neighbouring flats must often deal with heightened noise levels, increased energy costs and the "touristy" behaviour of the temporary occupants.

— **Rent Rises** – In bigger picture terms, the platform has the potential to distort the real estate market resulting in locals being forced out of the city centre, a decline in the availability of flats and subsequently an increase in market rental rates and purchase prices of real estate.

Motto by Hilton / Photo source: Hilton

Regulation in Western Europe

In light of the above challenges, European cities have generally come to a conclusion that additional regulation of short-term accommodation services is needed to establish a balance between the various interested groups. Airbnb itself usually helps enforce the imposed restrictions by not allowing the hosts to take further bookings through its platform once respective limits are reached, or by paying certain fees directly to the local authorities on the hosts' behalf. A few examples of the Western regulations can be found below.

— **Barcelona** allows an Airbnb host to offer not more than two rooms while having to stay in the apartment with the guests. The length of one stay may not be longer than thirty-one days and the overall length of letting the apartment through Airbnb may not exceed four months in a one-year period.

— **Amsterdam** has implemented a maximum period of sixty days per year during which a host can offer their whole property as short-term accommodation. From 2019, this limit will be further lowered to thirty days. Also, the number of guests is limited to four per apartment and the host must inform its neighbours about the short-term letting.

— Interesting developments can be observed in **Berlin** where following the lifting of an outright ban from 2016 which was confirmed by the German Constitutional Court, Airbnb businesses remain strongly regulated: only up to 50% of the area of a host's primary home can be offered without a special permit, second or weekend homes can be offered only with a special permit and only for a maximum of ninety days within a year.

— Another example of effective regulation of Airbnb businesses can be viewed in some cities in **France** where, after strong regulatory pressure, fees are paid directly by Airbnb, although Airbnb is not a legal party of the actual accommodation contract. This allows for easier control and enforcement rather than collecting the relevant fees from each host separately.

CEE approach

The impacts on local economies and communities which have been observed in Western Europe over the previous few years can now be seen in the CEE region, particularly so in the Czech and Hungarian markets. The Airbnb business model is currently experiencing a much faster pace of growth in the CEE countries than anywhere else.

Despite this rapid growth, CEE seems to have been hesitant thus far to impose additional regulations on short- term accommodation services. In most cases, the regulation is limited to a stronger enforcement of tax obligations. Further regulation is still rare and fragmented even within individual CEE countries. A few CEE local insights on Airbnb regulations and their enforcement can be found below.

— An interesting example of regulations imposed is a decree introduced in 2017 by one of the **Budapest** districts. Under this decree a change of function of a residential unit in a condominium for non-residential purposes can be permitted only if the operational rules of the condominium allow for it.

— In **Prague**, a new leading coalition assembled following the recent municipal elections is now considering limiting the number of days that a property can be offered as short-term accommodation. The exact number of days is still being discussed, but the idea is apparently influenced by examples of regulation found in Western Europe.

— It is alleged that the reason Airbnb closed its subsidiary in **Russia**, and now operates the business through an Irish entity, was due to the demand from the Russian tax authorities to disclose information on the apartment owners so payment of income tax on profits generated through Airbnb could be enforced.

What's next?

Airbnb is a growing phenomenon which remains relatively new to the CEE region. In light of the above, and as the number of hosts and guests increases, we assume further regulations will be imposed in CEE in order to protect the existing markets and to enforce adherence to public obligations, similar to patterns which can be observed in the West.

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