



Horwath HTL

Hotel, Tourism and Leisure

SENTIMENT SURVEY

Croatia
Hotel Industry
Covid-19 Impact

AUGUST 2020



Introduction

COVID-19 has highlighted the fact that the travel and tourism industry is exposed to a global crisis of confidence and immediate industry response is necessary to adjust the business to new circumstances.

Tourism in Croatia is one of the key drivers of the economy, generating around 20% of national GDP (income of around 12 billion EUR; wherein hotel industry accounts for 60-70% of income).

The COVID-19 pandemic appeared in late February in Croatia. From a medical perspective, the country managed to control the first wave of pandemic successfully. However, tourism and hotel industry were highly affected in first few months. On the other hand, pandemic impacts slowed down before the summer season which captures the majority of the tourism demand (cca. 65% of overnights) - hoteliers expected lower but still satisfying business performance in 2020.

As time is passing and the number of COVID-19 cases is increasing (mostly on the mainland and in a manageable volume), expectations are becoming more pessimistic, encouraged by constant travel regulation changes and negative media coverage on Croatia's largest source markets.

The Survey

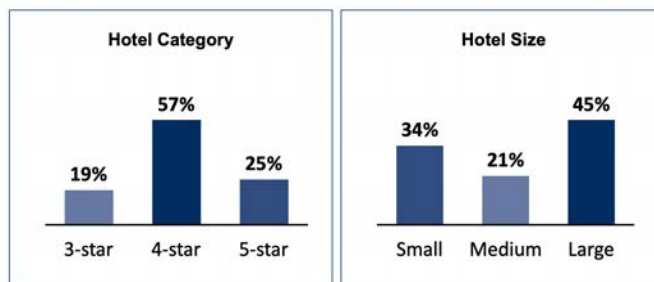
As part of the Horwath HTL global research, Horwath HTL Croatia undertook a sentiment survey for the local hotel market comprising the following:

- Industry response through mitigating measures applied to limit the fallout
- Expected depth of the impact of COVID-19 crisis on the industry
- Industry recovery expectations

Key Findings

- Soon after COVID-19 appeared in Croatia, hoteliers promptly introduced strict cost control, primarily through reducing the cost of employees, closing the hotels and/or postponing the capital investments. The initial focus was on introducing the number of internal measures as well as refraining from significant changes which could have had strong impact on the business, such as entering the new partnerships, outsourcing certain activities and similar.
- Government also acted promptly and supported the industry by offering number of incentives with the main goal of ensuring liquidity and saving jobs. Therefore, use of the government support was a key risk mitigation measure during the past few months. It has significantly influenced liquidity and reduced the need for additional loans.
- As a result of pandemic, hoteliers expect significant drop in overall performance. In 2020 hotel revenues are expected to decrease by almost 60% on average, mainly due to the very low occupancy (average decrease of -55.7%). On the other hand, a significant reduction of room rates is not expected (expected decrease for -25%).
- As a highly affected industry, hoteliers consider government should further support business through tax rebates (77% of respondents), wage support (74%), loan moratoriums (66%) and lower interest rates (53%). They suggest a longer period of support, up to the end of 2020, or for a duration of one full year.
- Full business recovery is expected in a mid-term period.

Sentiment Survey Sample: 10% of Total Hotel Supply

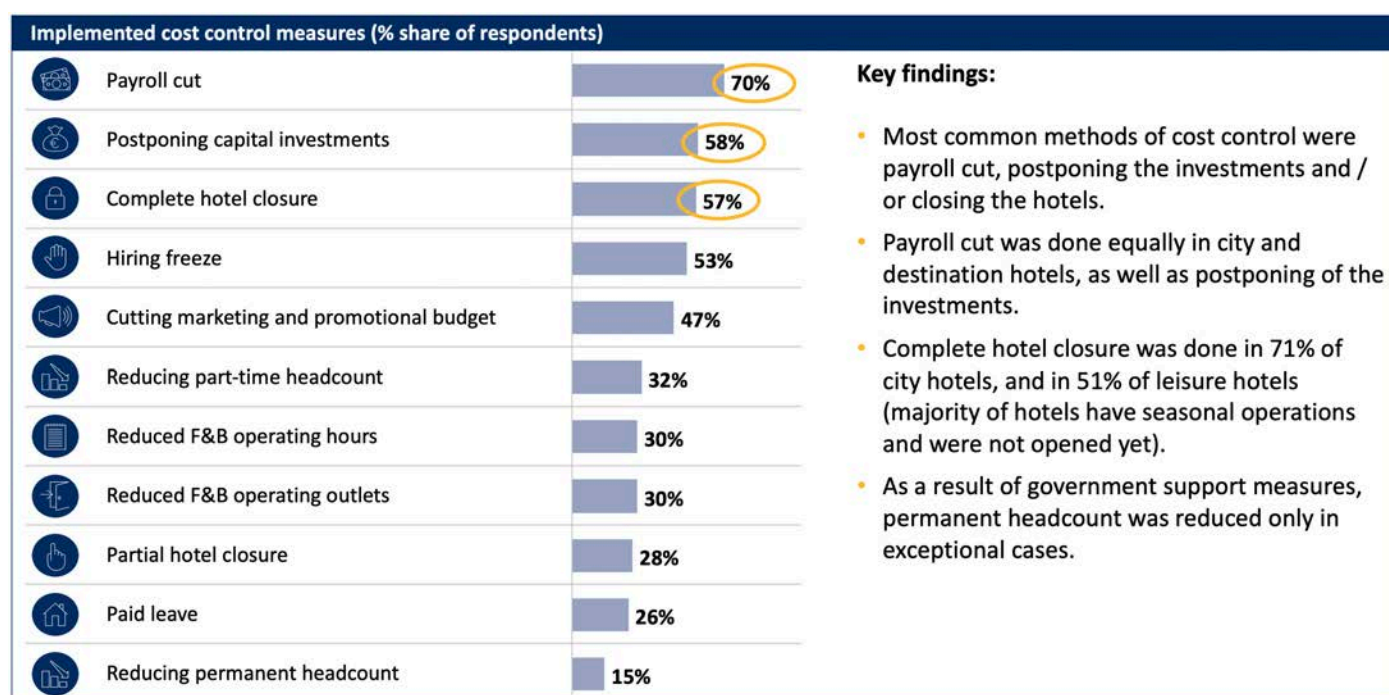


Source: Horwath HTL
 Note: 10% of total number of categorized hotel properties in Croatia

Industry Response to COVID-19

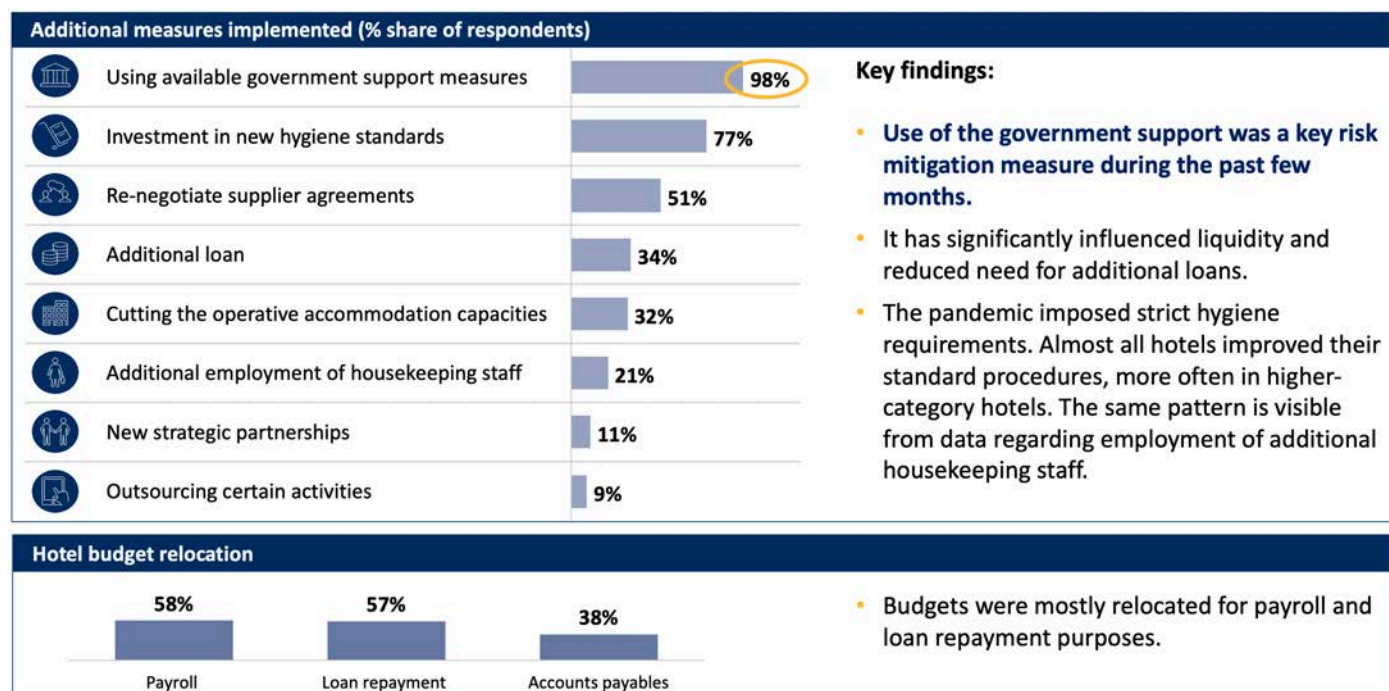
- CLOSING THE PROPERTIES** - In the period of country lockdown hotels were advised to close during the pandemic, as the majority has done (57% fully closed, and 28% partially closed). Only a few properties were fully opened, mostly one per each major destination on the coast.
- COST CONTROL MEASURES** - Hotel managers introduced multiple cost control measures as the immediate response to the crisis. This was done primarily through cutting the employees costs, but with avoiding the cut off of permanent headcount. Postpone of capital investments was also a very common measure, mostly related to regular property refurbishment and product upgrade which are financed from operative income. Cost control will continue to be the main focus of hoteliers after the COVID-19 health crisis is over.
- USE OF GOVERNMENT SUPPORT MEASURES** - Government issued support measures for business liquidity and keeping the current level of headcount which were used by almost all hotel companies (98%). The support represented a significant financial boost so only a third of respondents had to take additional loans.
- IMPROVEMENT OF HYGIENE AND PROPERTY CLEANLINESS STANDARDS** - The virus imposed an improvement of hygiene and property cleanliness, so hotels had to take an extra effort to increase the hygiene standard which also represented additional cost.

Industry Response to COVID-19: Cost Control Measures



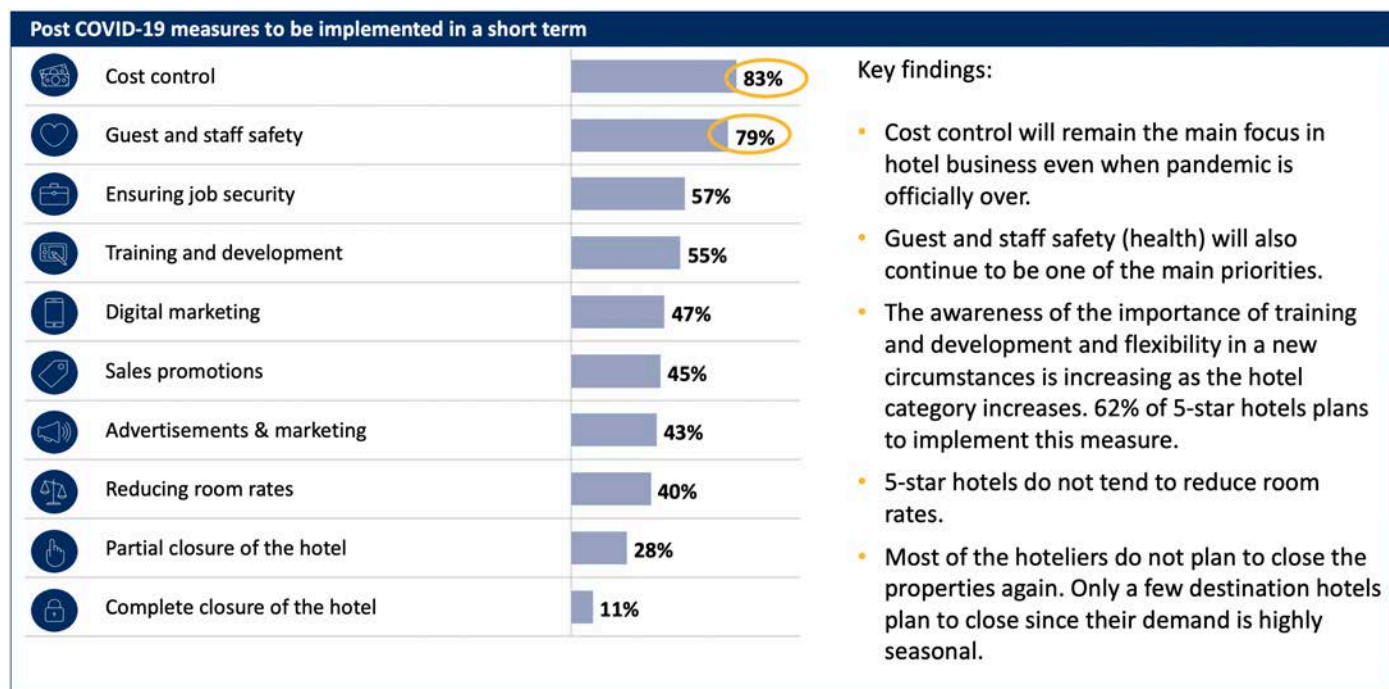
Source: Horwath HTL

Industry Response to COVID-19: Additional Measures



Source: Horwath HTL

Industry Response to COVID-19: Post COVID-19 Measures



Source: Horwath HTL

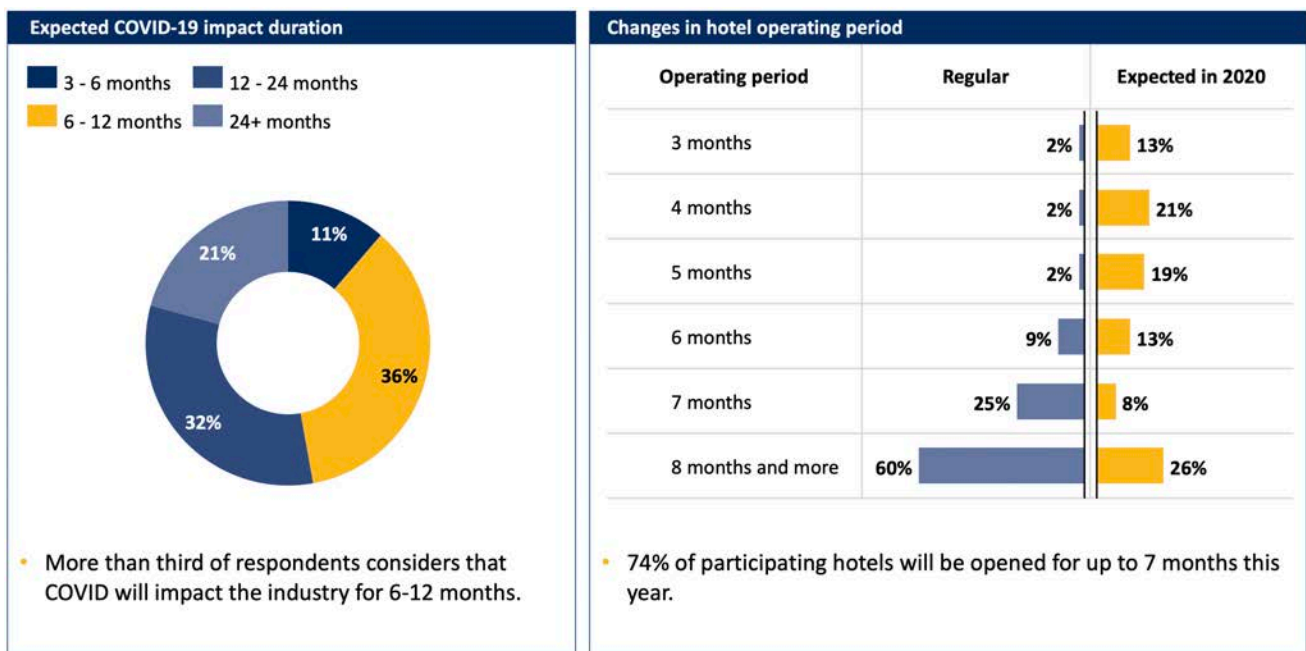
Expected Impact of COVID-19

- The sentiment on COVID-19 impact duration is diversified. 36% of respondents consider negative impact will last 6 to 12 months, 32% that it will last for 12 to 24 months, and 21% believes it will last for +24 months.
- As a result of hotel closures during the country lockdown which lasted around two months, a standard operating period of the hotels has changed. In addition, hotels also plan to close the properties earlier than in previous years having on mind the potential infections

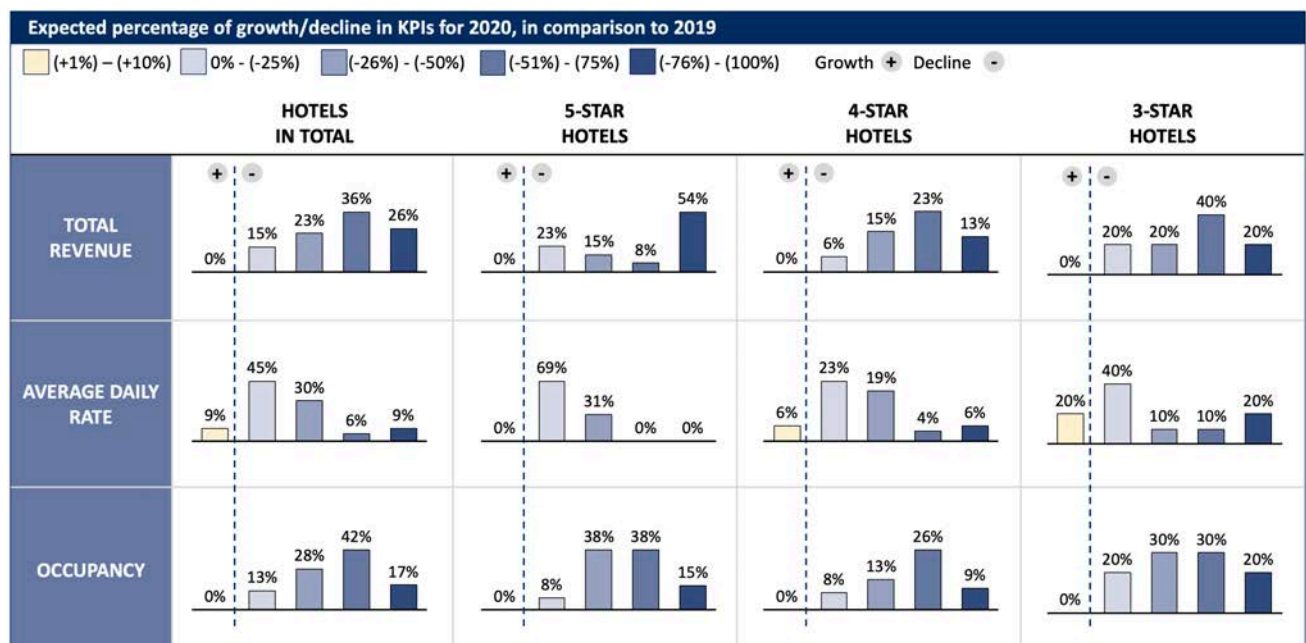
increase in autumn and much lower demand. 60% of respondents usually operate more than 8 months per year, while this year their share will decrease to 26%.

- Expectations on business performance for 2020 are very pessimistic.
- Total revenue is expected to decrease by half compared to the previous year, or even more, mainly due to the very low occupancy (average decrease of -55.7%). On the other hand, a significant reduction of room rates is not expected (expected decrease for -25%).

Expected Impact of COVID-19: Duration and Operating Period



Expected Impact of COVID-19: Key Performance Indicators



Source: Horwath HTL

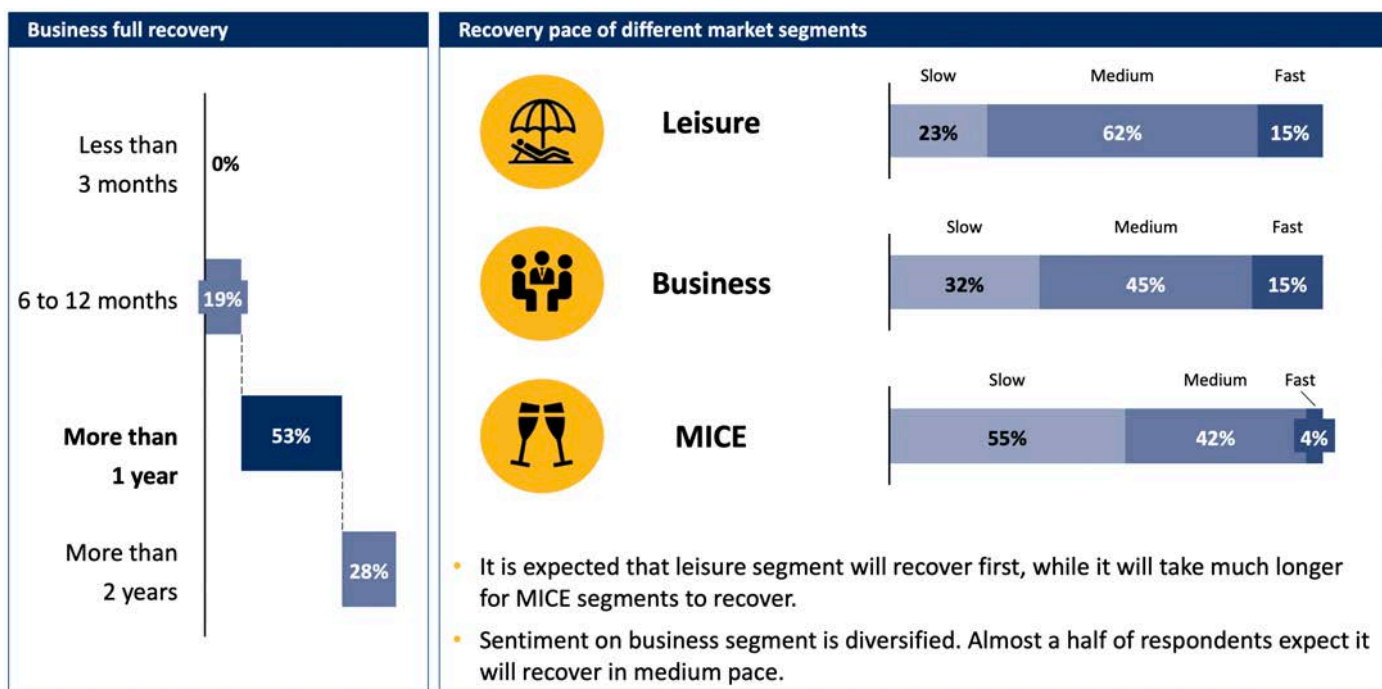
Industry Recovery

- **MID-TERM RECOVERY** - The industry sentiment on full business recovery leans in direction of mid-term recovery. 53% of respondents believe they will need a year to two years to come back where they were before the COVID-19 crisis.
- **LEISURE SEGMENT WILL RECOVER FIRST** - As other global experts stated, Croatian hoteliers agree that leisure segment will recover first, followed by the business segment and MICE.
- **INTERNATIONAL DEMAND WILL CONTINUE TO PREVAIL** - Since Croatia is traditional drive-in destination to several strong European markets (Austria, Italy, Slovenia), neighbouring countries have most

positive sentiment of recovery. Domestic market is expected to remain the same as before the crisis, mostly since majority of Croats usually tend to travel within the country and the population not big enough to have capacity to significantly change the overall demand distribution.

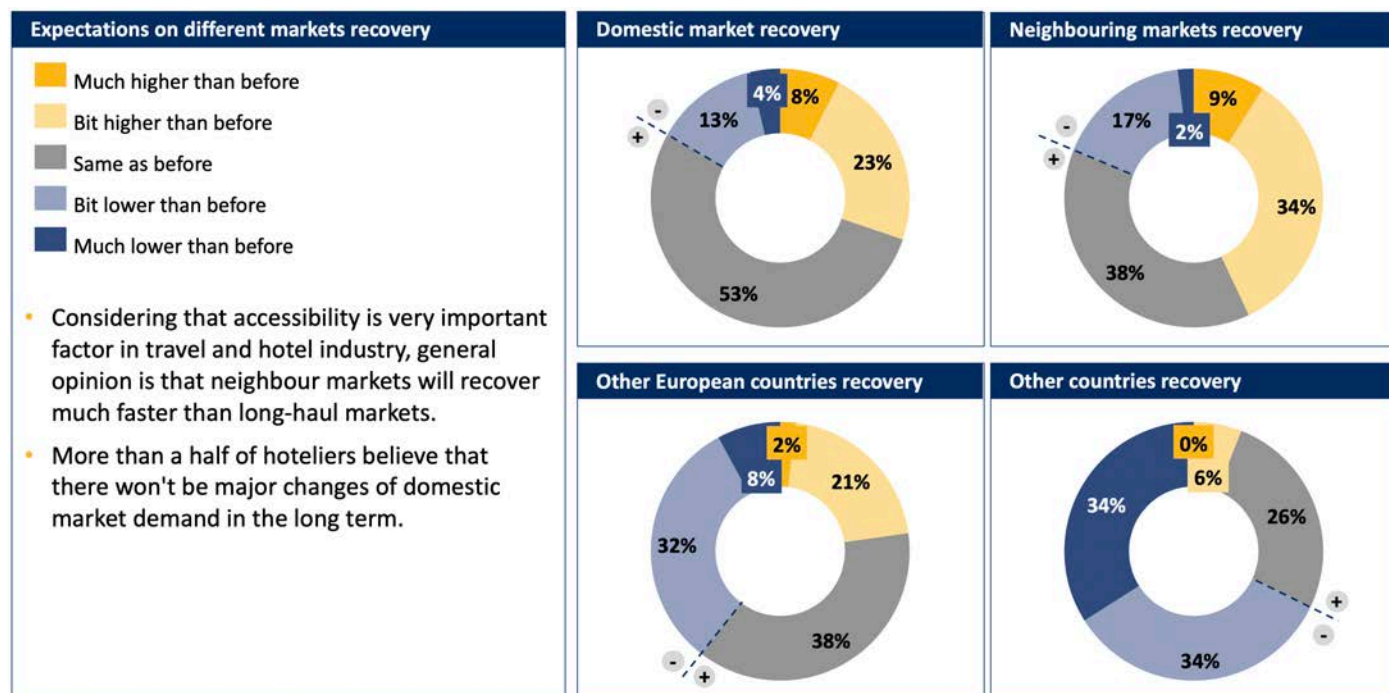
- **IMPORTANCE OF GOVERNMENT MEASURES** - Hoteliers advocate for longer term of government support since travel industry is one of the most affected industries and has high importance for the Croatian economy. Tax rebates and wage support are pointed out as most important measures for industry recovery, followed by loan moratoriums and lower interest rates.

Industry Recovery: Business and Market Segments



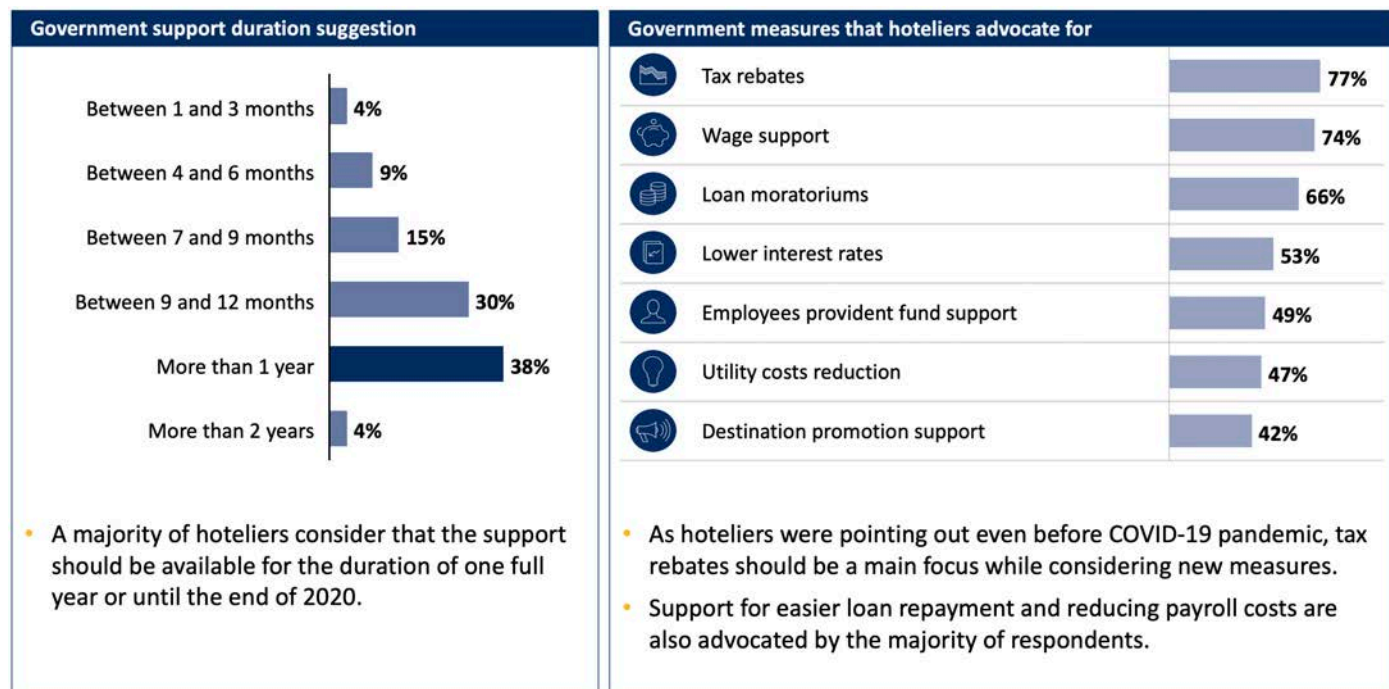
Source: Horwath HTL

Industry Recovery: Source Markets



Source: Horwath HTL

Industry Recovery: Government Support Needed



Source: Horwath HTL

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Horwath HTL

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Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 47 offices, who have successfully carried out over 30,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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