

# CROATIA HOSPITALITY MARKET INSIGHT

2022

## MARKET SUMMARY & OUTLOOK

### Market Performance

After two years since the COVID-19 pandemic started, the tourism market in Croatia has almost completely recovered in 2022, with only 2% fewer overnight stays than in 2019. Hotels achieved 5% higher revenues in the summer season than in 2019, primarily due to higher ADR. Occupancy reached 79%, 25% above the 2021 season but still 9% below 2019.

### Supply

The hotel supply in Croatia recorded a modest increase during 2022. According to the Croatian Tourist Board, the total number of hotel accommodation units recorded an overall increase of 1.7% compared to the 2019 season, while the total number of private accommodation units decreased by 1.4% compared to the same period. Despite the lack of supply in Croatia, the annual growth of hotel accommodation units is expected to remain limited, estimated at 1.5–2.0% for the next 2 to 3 years.

### Demand

The travel demand recorded a steady recovery, particularly in the second and third quarters of 2022. Overall, Croatia received 19 million arrivals with 105 million overnight stays in 2022. Leisure-driven markets have especially exhibited significant growth compared to 2021. While demand is projected to continue its recovery in the short term, the growth rate may slow down due to the rising cost of living and overall economic and geopolitical uncertainty. On the other hand, it is expected that Croatia's entry into the Schengen area and the introduction of the Euro as the official national currency will positively affect the demand from the key inbound markets (e.g. Germany, Slovenia and Austria).

### Investment Trends

Interest rates remain at higher levels, and debt is less available than in early 2022 due to more stringent underwriting, including lower loan-to-value ratios. These circumstances have directly impacted the transaction market, which slowed significantly in Q4 2022, with some under-contract deals being re-traded or abandoned in the face of rising capital costs.

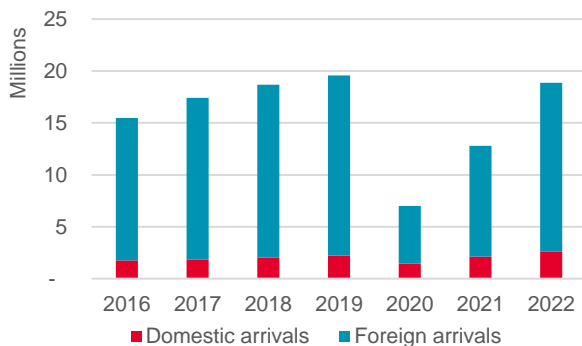
### Prime yields

A limited number of transactions were conducted during the 2nd half of the year, with little change in yields for hotels in prime locations. It is anticipated that yields for properties outside the core locations may soften, reflecting the additional risk factors due to the increasing debt costs, economic slowdown and overall market uncertainty. However, these yield changes may be challenging to observe.

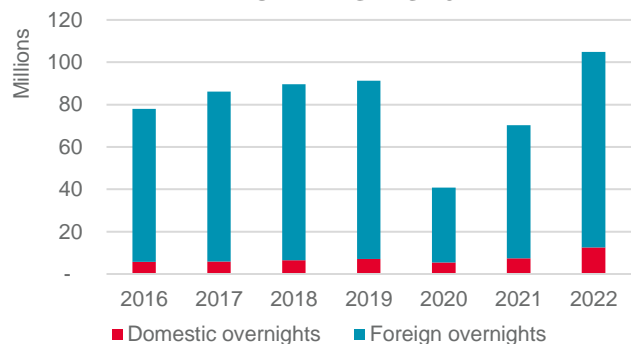
## CROATIA HOTEL MARKET

Croatia's hotel industry recorded a positive trend in 2022 after two challenging years due to the Covid-19 pandemic. The results of the 2022 tourist season were close to the 2019 results. There was a 37% increase in arrivals (18.9 million) and a 25% increase in overnight stays (104.8 million) compared to 2021. Foreign tourists generated a total of 92.3 million overnight stays, while domestic travellers spent 12.5 million overnight stays in Croatia.

ARRIVALS 2022



OVERNIGHTS 2022



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During the first nine months of 2022, the income generated from foreign tourists was approx. EUR 11.6 billion. This is estimated to reach EUR 13 billion for full year.

In 2022, for the first time, the number of beds in hotel accommodation has increased compared to the number of beds in private accommodation. This is a positive result of the overall national strategy that includes a plan for further tourism development. Namely, the prime focus is on upgrading existing hotel properties and developing new upper-scale and luxury greenfield investments.

With this positive trend, annual growth in total hotel accommodation units is expected to be on a level between 1.5 – 2.0% for the period of the next 2 to 3 years. Approximately 50% of the total new supply relates to the premium segment.

Hotel supply (179,545 beds) represents 15% of total accommodation supply in Croatia, while private units remain the prevailing accommodation type, accounting for almost 51% (611,525 beds). It is expected that the total share of private accommodation units will record a slight decrease as compared to the previous period.

Based on the current hotel structure, 3-star and 4-stars hotel still dominate, but with a trend of new investments and reconstruction of older hotel properties it is expected that this structure will be changed in the following 5 years.

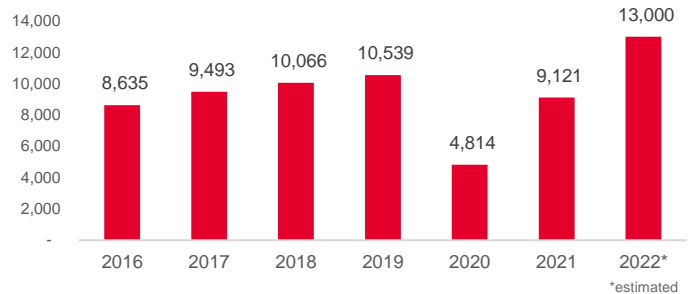
## Transactions

The hotel investment market in Croatia is limited, as reflected in the low volume of transactions. Most 2022 transactions include properties requiring further investment and market repositioning.

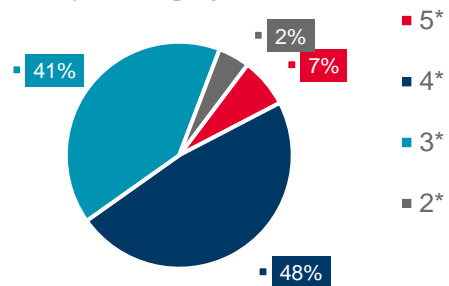
An example of a significant transaction was the sale of the Jadran Hoteli portfolio in Rijeka to Brown Hotel Group. This deal included more than 1,200 beds in 5 hotels in Rijeka, 1 apartment complex and 1 campsite. It is expected that this will bring the necessary investments into a full reconstruction and market repositioning.

The largest single-hotel transaction was the sale of a newly built 230 keys Grand Hotel View on Brac Island. The seller and the buyer are Croatian companies – Adria Coast Turizam and Jadran Crikvenica.

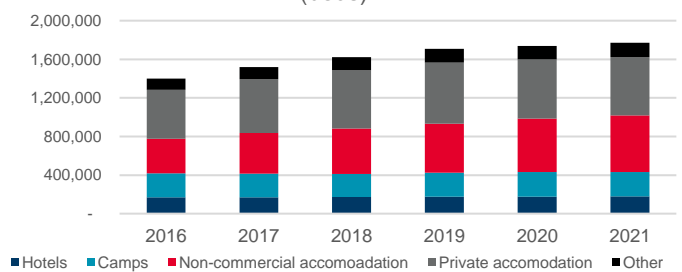
## Tourism Revenue (mil. EUR)



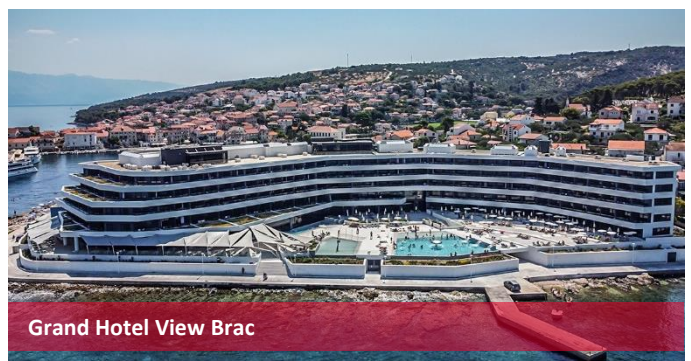
## Total hotel share per category



## Accommodation supply in Croatia by type (beds)



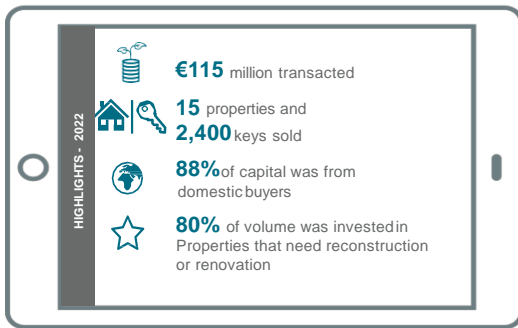
Source: Croatian National Tourist Board, eVisitor, compiled by CBS International



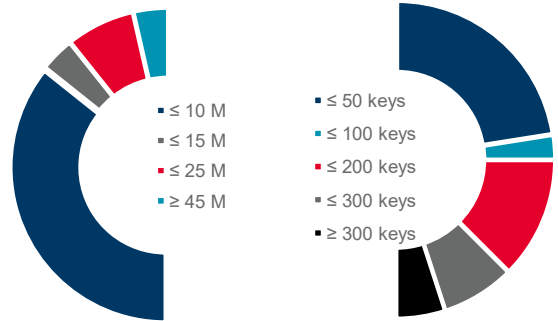
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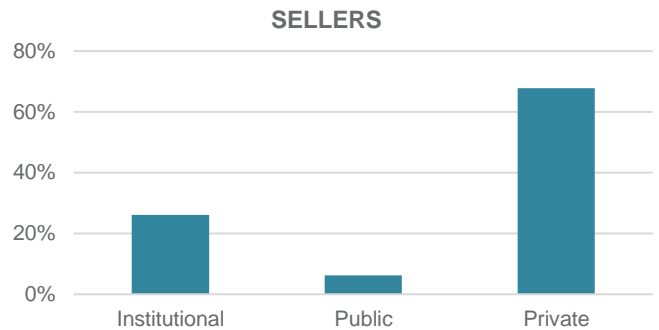
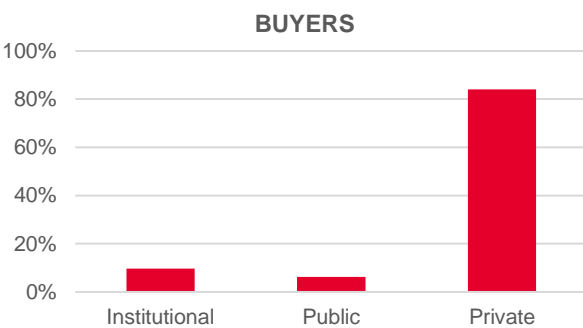
## Hotel investment market Key highlights



## Breakdown by number of rooms sold & deal size (2022, % Share of Deals)



## Transaction volume by type of investor



Source: CBS International

## Openings

There were some significant new openings in 2022. In most cases, these were hotel conversions, mostly premium classes, and located on the Adriatic coast. Luxury rooms, outdoor swimming pools, wellness and spa centres and top restaurants and bars are frequent facilities featured in the new hotel properties.

In addition to modernization and hotel class upgrades, branding by large domestic hotel companies as well as the arrival of international hotel brands, is a noticeable trend.

PROPERTY	LOCATION	ROOMS	INVESTOR	OPERATOR	CLASS
Hotel Ambasador	Split	101	Birkenstock	Hotel Ambasador	Premium Leisure
Hvar Places	Stari Grad, Hvar	179	Valamar	Valamar	Upscale Lifestyle
MOEESY Blue & Green Oasi	Hvar	42	Croatia Hvar d.o.o.	Moeesy Hotel	Premium Lifestyle
Grand Hotel View	Brač	230	Adria Coast Turizam	Jadran Crikvenica	Premium leisure
Aminess Khalani Beach Hotel	Makarska	299	Aminess	Aminess	Premium Lifestyle
Mövenpick Zagreb	Zagreb	104	MPPD d.o.o.	Accor	Premium Business
Dalmacija Places	Makarska	190	Valamar	Valamar	Upscale Lifestyle
Grand Hotel Brioni	Pula	227	Arena Hospitality	Arena Hospitality	Premium leisure

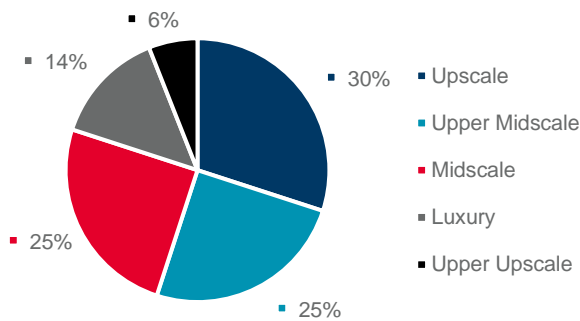
Source: CBS International

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In addition to individual projects, large hotel companies have restarted the cycle of investments, encouraged by the good results of the tourist season. However, some investments have slowed down due to uncertainties related to increased financing costs, energy prices and labour costs. There are more than 2,500 keys in the pipeline, mostly in the upscale categories.

## Pipeline projects



Source: CBS International



## Transactions outlook

Transactions outlook The capital market changes that occurred during the latter half of 2022 are still affecting the market. Interest rates are still high, and mortgage capital is less available than in early 2022 due to stricter underwriting standards, such as lower loan-to-value ratios. These conditions have directly impacted the transaction market, which slowed significantly in 2nd half of 2022, with some deals being re-negotiated or abandoned due to rising capital costs.

Additionally, there is a disconnect between buyer and seller expectations, as sellers are still influenced by the strong metrics of the first half of 2022, while buyers are facing the harsher realities of the current debt market. However, there is still a strong demand for high-quality deals, and hotels remain a popular investment asset class in the current inflationary environment. As challenges in 2023, we can also mention the uncertainty of rent for tourist land, which should be regulated by new regulation, then in connection with maritime rights, i.e. beach concessions, and further uncertainty in connection with the energy price after March 31.

On the other hand, it is expected that Croatia's entry into a Schengen area and the introduction of the Euro as the official national currency will positively affect the investments, as well as the growing tourist demand from the most important European markets.

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