



Horwath HTL™

Hotel, Tourism and Leisure

Special Market Reports

Issue 4 - Croatia

COUNTRY / FACTS & FIGURES - 2010

Population	4,290,612
GDP (Gross Domestic Product)	USD 60.8 billion
GDP Growth	-1.2%
FDI (Foreign Direct Investment)	USD 583 million
CPI (Consumer Price Index)	1.1%
Major Cities	
Zagreb	792,875
Split	178,192
Rijeka	128,735
Osijek	107,784
Zadar	75,082

HOTEL / FACTS & FIGURES - 2010

Total number of hotels	591
Total number of rooms	52,700
% of upscale rooms in total	42%
Average occupancy rate	42.4%
Average daily rate	USD 93.40
RevPAR	USD 39.60

CROATIA

As a service-based economy that was hit hard by the global financial crisis, Croatia has recovered more slowly than other countries in the South East Europe region. While macroeconomic stability of the country has largely been achieved, structural reforms lag because of lack of strong governmental support. While the worst of the recession is over, Croatia is yet to see signs of a sustained economic recovery. Parliament elections at the end of 2011 and Croatia's full EU membership as of 2013 are expected to accelerate fiscal and structural reforms.

One of major challenge of Croatian economy is its competitiveness level. According to the World Economic Forum's Global Competitiveness Report, Croatia has registered a real advancement from 2005 to 2007, and then continual decline from 2008 to 2011. Today Croatia according to country competitiveness level holds 76th place among 142 countries, where it recorded a significant decline in macroeconomic environment, innovation, labor market efficiency and goods market efficiency.

On the other hand, technological readiness, infrastructure, health and primary education, and higher education underline the potential of Croatian competitiveness.

Doing business in Croatia could be challenging for the developers persisting on projects which do not have all the ownership and spatial planning issues resolved at the very beginning of the project development. Most barriers for developers are in the area of administration and bureaucracy is the major impediment to investments.

Croatia is ranked as 80th out of 183 economies according to World Bank's Doing Business 2012 Index. Key challenges in the ease of doing business in Croatia are dealing with construction permits, protecting investors and registering property. On the other hand, Croatia is ranked well in infrastructural availability, possibility to getting credit, paying taxes and enforcing contracts.



DESTINATION CROATIA: HOT SPOT

Croatia has become a hot spot on the world travel map. Croatian Istria is ranked among the best travel destinations in 2011 according to Lonely Planet. A place where the Adriatic Sea meets the diversity of southern European continent, has abundant virgin nature and represents a paradise for a sailing along the shore and between the many Croatian islands. Famous international chefs predict Croatia is a future European culinary star, due to its rich nature gastronomy based on olive oil, fish and a high quality wine.

“Is Croatia a world of opportunities for developers where the first mover advantage could bring substantial gain?”

Croatia is one of the last undiscovered parts of Mediterranean. Due to its rich natural and historic resources and traditional way of life, its tourism positioning justifiably relies on „Mediterranean as it once was“, but at the same time, it strives to become a lifestyle destination. Such a positioning offers plenty of opportunities to developers in tourism and real estate. However, a developer should choose carefully a viable project that could bring profitable operation and return on investment as a competitive business climate for hospitality investment is yet to be created.

Entrepreneurs in hospitality strive for regulatory framework, especially VAT and investment incentives that would be comparable to those in other European countries.

Tourism is one of the main driving forces of the Croatian economy, generating 13% of the country's GDP. The main issue is how to increase competitiveness of Croatian tourism on the international market. According to World Economic Forum, and its Travel & Tourism Competitiveness Report, Croatia is ranked in 34th place out of 139 countries.

The key challenges are connected with the price competitiveness of the Croatian travel and tourism sector, which is a reflection of the high tax burden, airline ticket taxes and airport charges. Low ranks are given to the quality of human capital in Croatia, especially education, the extent of staff training and the availability of professional staff, as well as regulations related to the labor market, such as hiring and firing practices and the ease of hiring foreign labor.

The regulatory framework like business impact of rules on foreign direct investment, the prevalence of foreign ownership and the T&T government expenditure represents a barrier in the competitiveness of Croatian tourism. Furthermore, the quality of Croatia's air infrastructure, international air transport networks as well as the quality of port infrastructure is areas that must be improved in order to contribute to the quality of tourist services. Project of extension of Zagreb airport, a major international airport in the country, which is planned to open by 2015, will improve airport infrastructure.

On the other hand, road network is well developed in Croatia, which is important due to the fact that the tourists from key originating markets (Germany, Italy, Austria, and Eastern Europe) are travelling to Croatia mostly by car.

SUPPLY: QUALITY IMPROVEMENT

“Well structured investments in mixed-use resorts and nautical marinas could be viable developments”

Although the dominant tourism product in Croatia is sun and sea, other products are under development: nautical tourism, gastronomic tourism, diving and rural tourism etc. Nautical marinas at islands or on the seaside as well as mixed-use resorts are especially attractive for developers since they assure sound returns. Nautical tourism proved to be the most attractive product for high-end international demand due to the beauty of the Croatian rugged coastline with nearly 1,200 islands and a mild Mediterranean climate.

Hotels represent only 13% of total accommodation supply, while majority share of capacities are in camping sites and private rooms. Most of the Croatian hotels are resort hotels of medium quality level and are concentrated along Adriatic coastline.

For the most part, the hotel business is operated by local management companies, with international hotel brands operating 14% of the available hotel supply (34 properties). During the last few years, the first class international hotel brands have begun to show a greater level of interest in the Croatian market, searching for suitable resort or city hotel projects.

Latest additions to the internationally branded hotel pool are the Hilton Hotel in Split and Doubletree by Hilton Hotel in Zagreb. However, for international brands it is sometime tough to find a suitable project – as there is a relatively small number of greenfield hotel projects on the market, as investments are mostly directed in brownfield projects, oriented to reconstruction and refurbishment of economy hotels originally developed during 1970's, into upscale hotels.

There is relatively high degree of ownership consolidation in hospitality industry: a quarter of total accommodation supply is concentrated in five big local hotel groups. Still, there is low level of foreign direct investment in Croatian hotel industry.

DEMAND: INTERNATIONAL LEISURE GUESTS

Tourism demand in Croatia is internationally driven: major markets are Central and Eastern Europe. Due to the structure of its tourism products, Croatian tourism is characterized by high seasonality pattern: 87% of annual overnights are realized in the high season (June to September).

Business mix of hotel guest consists of leisure allotments and leisure groups, while business and MICE segments are rather small and concentrated in just few destinations along the seashore and a capital city Zagreb.

MARKET OUTLOOK

Due to its abundant natural resources, Croatia is often called a „national park of Europe“. Its accession into EU as a full member as of 2013 is expected to induce tourism demand of Europeans for Croatia as a holiday destination, as well as their interest for possession of properties in Croatia (second homes).

As a consequence of increased demand, we expect the real estate prices will be increased. Therefore, now would be the right time to invest in Croatia. Due to the expected positive influence of Croatia's EU accession on country's credit rating and on interests, we believe the risks of doing business in Croatia will be significantly reduced in years to come.

Croatian government had a restrictive land use policy in the past. Although this slowed down the investment process in the tourism properties during the last decade, the positive result of such policy was that the overdevelopment on the coast was stopped, so there are plenty of preserved areas available for the development. Recent changes in regulations that allow building in the coastal zone the mixed-use resorts, which include residences for free, hold sale will be encouraging for developers.

Where are the real opportunities for developers in Croatia?

First of all, selective Greenfield development of high end mixed use resorts and nautical marinas on prime locations at the Adriatic coast. In these kinds of developments, investors should pay attention on the land use planning and land ownership issues to be resolved.

Feasible developments are connected also with buy out and revival of distressed hotel properties, especially those operating in state ownership. There are still some 15-hotel companies, which are in state ownership, which will be privatized in last wave of privatization, expected in 2012. Most of these hotels are located on good locations on Adriatic coast, thus having viable market potential.



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