



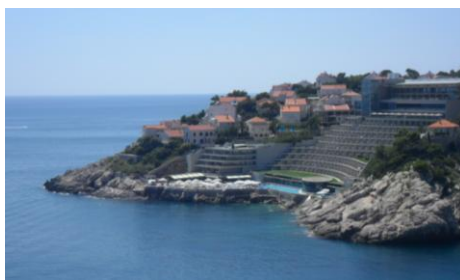
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# IN FOCUS: DUBROVNIK

## CROATIA'S HOTTEST MARKET

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*Dubrovnik is hot – not only is the weather comforting, with tourism arrival numbers demonstrating strong year-on-year growth the stunning coastal town has been reaching new popularity heights. It is said that Dubrovnik enjoys stronger brand recognition than Croatia's tourism industry as a whole and, unsurprisingly, with its UNESCO Heritage-protected old town, crystal clear waters and good accessibility, Dubrovnik is clearly Croatia's darling.*

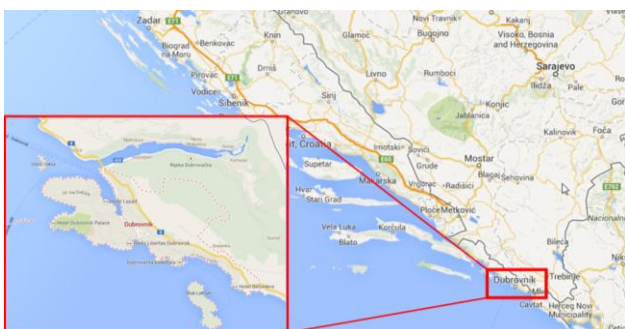
*Dubrovnik's tourism industry is well recovered from the challenges of the financial crisis with only a minor decline during 2009 and strong year-on-year growth in tourism arrivals and bednights in the years after. The market is dominated by local players with the Adriatic Luxury Hotels, Valamar Hotels, Hoteli Maestral and Importanne Resort accounting for the majority of available room inventory. The absence of international hotel brands (with the exception of Hilton and Rixos) points at opportunities for international hotel development.*

*Discussing the various dynamics of Dubrovnik's tourism industry, this article provides an overview of current trends, opportunities as well as limitations of the local hotel market.*

## Setting the Scene

Dubrovnik is a city, port and tourist centre on the southern Croatian coast with a population of approximately 42,000. It is one of the most famous cities of the Mediterranean and well-known for its rich cultural heritage. In 1979, the city of Dubrovnik joined the UNESCO list of World Heritage Sites. Its old town, in particular, enjoys high popularity and is well frequented by tourists.

### LOCATION ON THE SOUTHERN CROATIAN COAST



The climate of Dubrovnik is characterised by warm and dry summers and mild winters. The average temperature during peak summer months is generally around 28°C, whilst in winter months the temperature is around 7-9°C on average.

Average Temperature

Average Rainfall



Main access to Dubrovnik is via motorcar as there are limited public transport options. International tourists generally fly to Dubrovnik airport which is around 20 km (or half-an-hour drive) from the city.

## Strong Demand Growth

Dubrovnik's popularity is growing with airport arrivals and bednights reaching new heights year-on-year.

Airport arrivals have steadily increased over the past ten years with a compound annual growth rate of 8.0%. International arrivals account for the majority with approximately 84% of total arrivals.

FIGURE1: AIRPORT ARRIVALS 2003-13



New flights that were added to the 2014 high-season and shoulder-season calendar include Wings of Lebanon to Beirut (twice per week from July to September, with 22 flights in total) and Vueling to Rome. The outlook for 2015 is good as additional growth in passenger arrivals is expected.

However, the airport is operating close to capacity limits during high-season but there are plans for expansion which is expected to further boost tourism arrivals further.

FIGURE 2: BEDNIGHTS 2003-2014 YEAR TO JULY

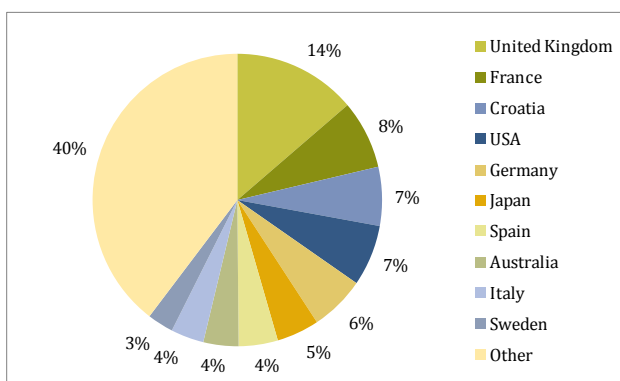
Year	Total	% Change	International	% Change	Domestic	% Change
2003	1,344,916	—	1,171,577	—	173,339	—
2004	1,600,280	19.0 %	1,465,516	25.1 %	134,764	(22.3) %
2005	1,887,619	18.0	1,737,608	18.6	150,011	11.3
2006	1,797,000	(4.8)	1,637,735	(5.7)	159,265	6.2
2007	1,815,956	1.1	1,641,906	0.3	174,050	9.3
2008	1,793,681	(1.2)	1,641,811	(0.0)	151,870	(12.7)
2009	1,939,368	8.1	1,787,426	8.9	151,942	0.0
2010	2,198,725	13.4	2,064,965	15.5	133,760	(12.0)
2011	2,344,714	6.6	2,195,149	6.3	149,565	11.8
2012	2,635,333	12.4	2,493,387	13.6	141,946	(5.1)
2013	2,865,376	8.7	2,716,350	8.9	149,026	5.0
<b>Year-to-July</b>						
2013	1,154,321	—	1,080,640	—	73,681	—
2014	1,259,563	9.1 %	1,175,372	8.8 %	84,191	14.3 %
<b>Compound Annual Growth Rate 2003-13</b>		<b>7.9 %</b>		<b>8.8 %</b>		<b>(1.5) %</b>

Source: Dubrovnik Tourist Board

Bednights in Dubrovnik followed a similar pattern as airport demand with strong year-on-year growth rates. Dubrovnik is primarily an international destination and the most important source countries include the UK, France, the USA, Germany and Spain.

Croatia joining the EU had a severe impact on Russian and Turkish travellers which now require special visas to enter the country. There are, however, new processes being discussed which are aiming at simplifying the visa application for travellers from Russia and Turkey.

FIGURE 3: MAIN SOURCE MARKETS



### Seasonality – A Summer Destination

As Dubrovnik is very much dependent on leisure tourism, it has a clear seasonality. The favourable climate and the meeting and events business help with prolonging the season, but generally from December to the end of March the city remains calm with few visitors. This illustrates a certain limitation for the

hotel market. Due to the lack of demand during the winter months, many hotels are closed.

### Cruise Ship Dynamics

Dubrovnik is a well-known port of call (as well as a home port) for several cruise ships. In 2013 alone, there were more than 700 calls in Dubrovnik port with more than one million passengers visiting Dubrovnik. However, this had some negative impact on the old town as the city became

overcrowded on the days when many cruise ships passengers were visiting Dubrovnik.

### PORT DUBROVNIK (SOURCE PORT DUBROVNIK AUTHORITY)



The cruise schedule has been revised for 2014, aiming at better allocating the calls at Dubrovnik port during the year and reducing the number of passengers visiting to 800,000 per year. The tourist board's overall strategy aims at raising the profile of the cruise ships (smaller ships, higher spending power of the visitors).

Notably, Thomson Cruises has announced that Dubrovnik will become its new home port for its Platinum cruise ship 'Thomson Celebration' in May 2015 and there will be three new flights to Dubrovnik on top of the three existing ones with Thomson Airways.

### Importance of Meeting and Events

Although many exhibitions are held in Dubrovnik, the city currently lacks conference and exhibition venues. According to the Dubrovnik Convention and Incentive Bureau, there are around 400 events held annually in

Dubrovnik, all taking place in hotels. The meeting and events business generally occurs during the shoulder-season. Most of the bigger hotels have extensive meeting facilities.

There are plans for a new exhibition, concert and congress centre development at the Lazareti complex just outside of the old town towards the eastern part of the city. Lazareti aims at becoming the largest exhibition-concert-congress centre of the city. According to 'Kongress Magazine', the city has invested HRK 34 million (US\$5.7 million) in the renovation of the 5,000 m<sup>2</sup> of the complex.

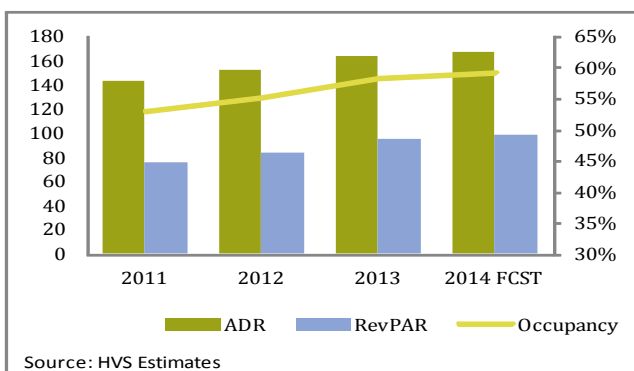
#### DUBROVNIK'S OLD TOWN



### Hotel Occupancy and Rate

There is limited publicly available trading evidence of occupancy and rate (only two hotels subscribe to STR). The following estimations are based on primary research as well as HVS's database.

**FIGURE 4: AVERAGE RATE AND OCCUPANCY ESTIMATION FIVE-STAR HOTELS DUBROVNIK**



The five-star hotel market in Dubrovnik has experienced steady increases in both rate and occupancy over the years. It should be noted that these figures represent annual occupancy. Rates are generally highest during the summer months and most hotels reach occupancy levels of above 90% in July and August.

Average rate and occupancy are expected to grow further in the coming years on the basis of the continuing strong demand as well as the general trend of upgrading and renovation projects in many hotels.

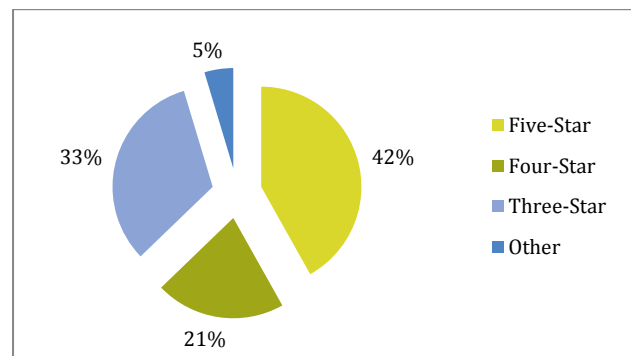
### Supply

The majority of the hotels in Dubrovnik are categorised as five-star. However, the hotels' qualities, standards, sizes and positioning vary between the different assets and brands. Whilst some large five-star hotels cater to a middle-class leisure and tour group travellers, other smaller hotels with a more 'boutique' and secluded offer target individual leisure guests and consequently achieve higher rates.

Traditional luxury hotels with international brands known in European gateway cities are not present, both the Hilton and Rixos, the only international brands in Dubrovnik, qualify as five-star hotels but would generally not be perceived as luxury properties.

Luxury travellers sometimes opt for private villas or houses, such as, the Villa Sheherezade, a villa managed by the Hotel Villa Argentina with five guest rooms, private dining and its own swimming pool and private beach area.

**FIGURE 5: HOTEL SUPPLY BY STAR CATEGORY**



The hotel market is dominated by the local players: Adriatic Luxury Hotels, Valamar Hotels and Hoteli Maestral. The Adriatic Luxury Hotels Group dominates the five-star segment with six hotels. The Adriatic Luxury Hotels are owned by Luksic Group.

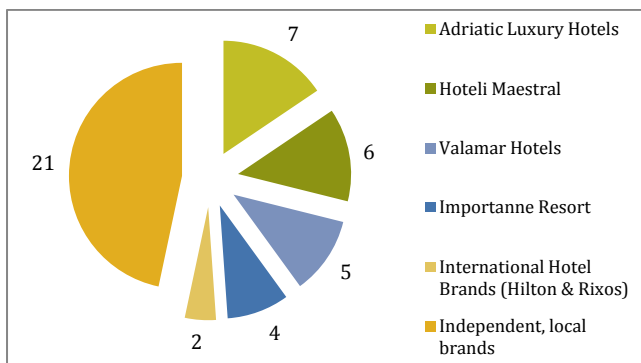
Valmar Hotels, a Croatian hotel chain, has five hotels in Dubrovnik. These include two three- and two four-star hotels as well as the Valamar Dubrovnik President Hotel which was recently renovated and upgraded to the five-star category.



Hoteli Maestral consists of one four- and several three- and two-star hotels.

Whilst the Importanne Resort is a combination of various hotels ranging from four- to five-star hotels in the western part of Dubrovnik.

FIGURE 6: MAIN HOTEL PLAYERS IN DUBROVNIK



### New Supply

There are various development projects in Dubrovnik and its immediate area. Several owners have recently renovated and upgraded their hotels whilst others are still planning to do so. This indicates that there is confidence in the local hotel market as well as the overall trend of properties shifting towards the five-star segment. As for larger scale projects, we highlight the following important developments:

- The Hotel Dubrovnik Riviera project (approximately €50 million), is scheduled to be completed by the end of 2014/early 2015. The project includes a full renovation and upgrade of the Hotel Mlini (currently a two-star hotel) as well as the demolition of the Hotel Orlando which will be converted into a new four-star hotel with 244 hotel rooms and 16 apartments. Mlini is around 15 km from Dubrovnik;
- The government has put the former military site in Kupari forward for a resort development by issuing a concession for 99 years. On 13 March 2014, six non-binding offers were submitted by the following parties: Karisma Hotels Adriatic d.o.o. (a Croatian subsidiary of TUI), Valamar poslovní razvoj d.o.o., Titan nekretnine d.o.o., Rixos Grupa, Braniteljska zadruga 'Mir' Mlini (a group of army veterans) and Avenue Group (a Russian Investment Group). The total investment in the development project is estimated to be

between €150 and €300 million. The government is likely to make a decision by the end of the current year.

- Adriatic Luxury Hotels is planning on upgrading the three-star Hotel Kompas into a four-star in order to be able to cater better to the pharmaceutical demand. The property currently features 115 rooms but will be extended to 173. Anticipated opening date is August 2015.

### Hotel Investment Market

The hotel investment market in Dubrovnik is somewhat illiquid as most hotels are owned and operated by the local hotel groups. Adriatic Luxury Hotels Group dominates the five-star segment with six hotels. The acquisition of the Adriatic Luxury Hotels in September 2011 by the Luksic Group for €129 million from GSHR Holding was the highest recent transaction.

The most current transaction concerns the Hilton Dubrovnik, where this September, Adris Group acquired an 81.6% interest stake from Atlantska Plovidba. The rumoured price of the deal was €31.5 million. Also, earlier in 2014, the abandoned former Hotel Belvedere was bought in a public auction for approximately €12 million by Vila Larus d.o.o after its previous owner had issues with financing the redevelopment.

### Outlook and Opportunities

Dubrovnik is an attractive leisure destination with strong demand during the summer months and increasing meeting and events business during the shoulder season. Its challenge remains to attract guests during the low-season which impacts the overall profitability. Due to relatively low labour costs, gross operating profits may still reach levels between 30% and 40% which is reasonably healthy for resort hotels.

The current overflow of cruise-ship tourists has somewhat halted the city's anticipated repositioning as a luxury destination. The absence of international hotel brands (amongst all segments) highlights the opportunity for international hotel brands to penetrate the market. However, due to limited space in prime areas of Dubrovnik and the dominance of the local players, barriers to entry remain high.



## About HVS

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## About the Authors



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