

THE HOTEL INVESTMENT MARKET IN POLAND

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ABSTRACT The author of the article aimed to present changes in the hotel market in Poland in 2001–2014 and investment processes in the sector of accommodation services.

The article describes both the development of accommodation facilities in Poland in 2001–2014 as well as the level and structure of tourist traffic in such facilities. It also discusses the results of hotel construction and provides basic information on hotel investments in Poland as well as the main indicators characterising the investment process in the hotel sector.

The main source of market information were data collected by the Central Statistical Office (GUS) and published on an annual basis in *Turystyka* ('Tourism') and *Budownictwo – wyniki działalności* ('Construction – economic performance'). The article also draws on unpublished statistics in the possession of the Institute of Tourism, the Warsaw School of Tourism and Hospitality Management, on data from the Eurostat databases and from selected international publications by consultancy firms.

Introduction

According to Eurostat data (Number of bed-places by NACE, 2015), in 2013, with 679,500 bed places in all the accommodation establishments (2.2% of the accommodation facilities in the 28 EU Member States), Poland ranked 14th in the European Union.

It must be emphasised, however, that in 2001–2014 the number of hotels in Poland showed a steady increase. Still, given the not very high occupancy rate of bedrooms in hotels, in terms of number of bed places per 10,000 inhabitants Poland ranks very low in the European Union.

This article aims to introduce the reader to the situation in the Polish hotel market in 2001–2014, with a focus on information concerning hotel construction. Particular importance is attached to describing the development of hotel facilities in the past fifteen years.

The main source of market information are data collected by the Central Statistical Office (GUS) and published on an annual basis in *Turystyka* ('Tourism') and *Budownictwo – wyniki działalności* ('Construction – activity results'). The article also draws on unpublished statistics in the possession of the Institute of Tourism, the Warsaw School of Tourism and Hospitality Management, on data from the Eurostat databases and from selected international publications by consultancy firms.

This article mostly uses definitions and concepts applied in public statistics, based on the definitions used in studies of the statistical office of the European Union, Eurostat (*Regulation (EU) No. 692/2011 of the European Parliament and of the Council of 6 July 2011 concerning European statistics on tourism...* 2011). Therefore, it was assumed that: **tourist accommodation establishment** is a local kind-of-activity unit providing paid short-stay accommodation services including:

- 55.1. Hotels and similar accommodation,
- 55.2. Holiday and other short-stay accommodation,
- 55.3. Camping grounds, recreational vehicle parks and trailer parks.

For a more detailed analysis, tourist accommodation establishments were broken down as defined in the publication of the Central Statistical Office (GUS) (*Turystyka*, 2003–2015), distinguishing 20 types of accommodation establishments; as regards tourist accommodation establishments, the article only refers to hotels, establishments located mainly in urban areas, with at least 10 bedrooms, most of which are single or double rooms, providing a wide range of services to the guests staying at the establishment.

Different definitions of accommodation establishments are introduced by *Polska Klasyfikacja Obiektów Budowlanych* (Polish Classification of Types of Construction) (*Budownictwo*, 2015), distinguishing group 121 among construction works, *Hotels and tourist accommodation buildings*, including two classes: *hotel buildings* and *other tourist accommodation buildings*. The definitions of those classes are discussed in more detail in the chapter 'Hotel construction in Poland in 2001–2014'. The starting point for the classification definitions was the Polish Classification of Activities 2007 (*Polska Klasyfikacja Działalności – PKD 2007*). The classification was developed on the basis of the Statistical Classification of Economic Activities in the European Community NACE Rev. 2. PKD 2007 was introduced effective as of 1 January 2008 by way of the ordinance of the Council of Ministers of 24 December 2007 (*Journal of Laws* No. 251, Item 1885), as amended.

Development of accommodation facilities in Poland in 2001–2014

In 2001–2014 the total number of tourist accommodation establishments in Poland declined by 4%. The most abrupt fall, by 51%, was noted in the group of holiday centres, the most numerous category of accommodation establishments.

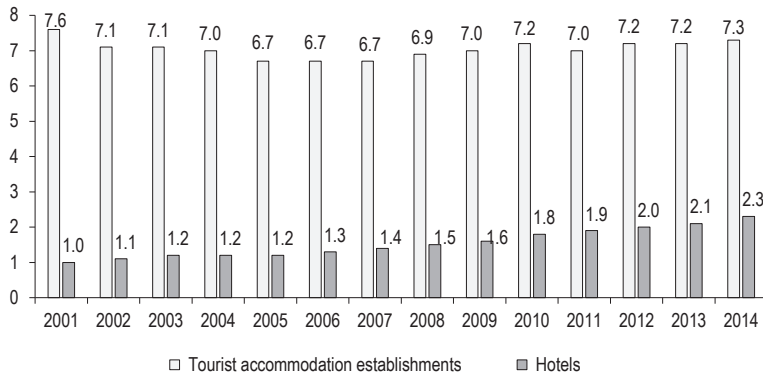


Figure 1. Tourist accommodation establishments and hotels in Poland in 2001–2014 (thousand)

Source: *Turystyka*, 2002–2015, GUS (2015).

With regard to the analysis of investment processes, the most important factor was the steadily growing group of hotels. In the last fifteen years, the number of hotels went up from 966 in 2001 (*Turystyka*, 2002) to 2,250 in 2014 (*Turystyka*, 2015), i.e. by 133%. Therefore, the annual average growth rate was ca. 9.5%. This buoyant growth was fuelled not only by the construction of new hotels, but also by investment processes aimed at adapting other types of tourist accommodation establishments to categorisation requirements for hotels imposed by the Polish legislation introducing five categories of hotels.

In its hotel statistics the Central Statistical Office distinguishes five hotel categories, from one- to five-star hotels, as well as hotels during categorisation.

The period under analysis witnessed not only a rapid increase in the number of hotels, but also significant change in their structure. Whereas in 2001 the number of bed places in the 45 four- and five-star hotels represented 12.8% of the total number of bed places in hotels, in 2014 the 358 hotels accounted for 33.0%. The change was due not only to the construction of new hotels, but largely to the upgrading of the standard of existing hotels.

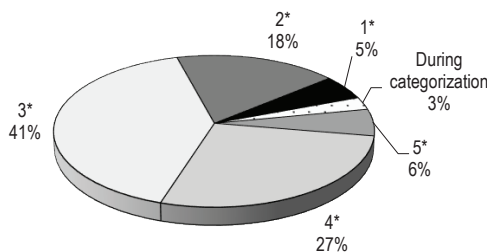


Figure 2. Hotels in Poland by category in 2014

Source: *Turystyka* (2015).

In 2001–2014, with a stagnant number of bed places in all the accommodation facilities, the number of bed places in hotels jumped by 132% in the last fifteen years. It also means that the average size of a hotel in Poland has remained unchanged at approx. 100 bed places (99 bed places in 2014).

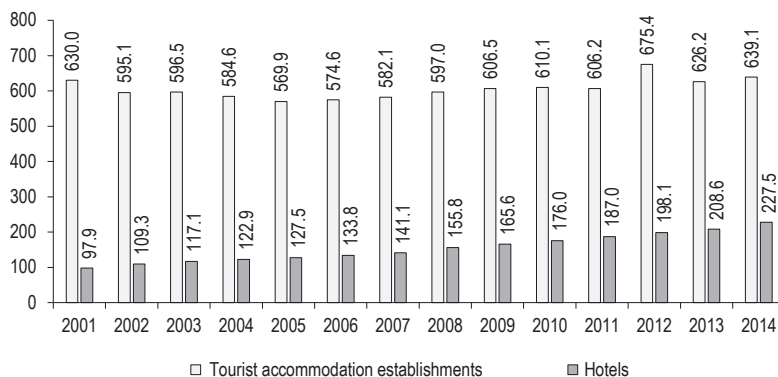


Figure 3. Bed places in tourist accommodation establishments and hotels in 2001–2014 (thousand)

Source: *Turystyka* (2015).

In 2001–2014 the number of nights spent in Polish hotels increased by 167%, i.e. it went up at a much higher rate than the number of bed places. It pushed up the main indicator: the occupancy rate of bedrooms. In the period in question it rose from 37.9% to 44.4%.

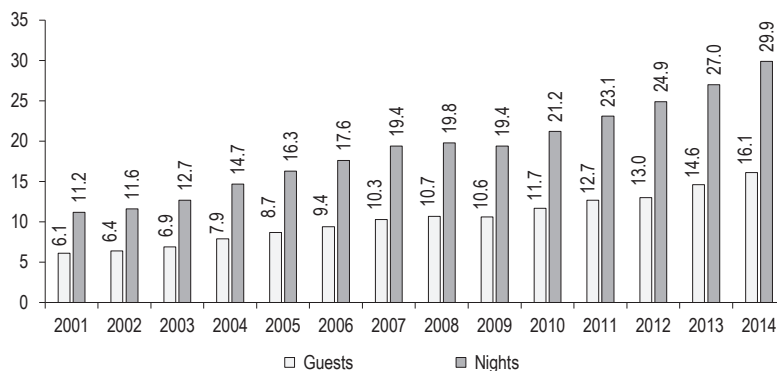


Figure 4. Guests and nights spent in hotels (million)

Source: *Turystyka* (2002–2015).

In 2001 the hotels in Poland were visited by 2.4 million foreign nationals, accounting for 39.5% of all the hotel guests. Despite a rise in the number of foreign nationals to 4.5 million in 2014, the share of foreign nationals in the number of hotel guests declined to 18.4%.

The highest occupancy rate of bedrooms still (2014) characterised 5-star hotels (65.0%), whereas the lowest was noted by 2-star hotels (39.0%).

According to the research by STR Global (*Europe results for December, '14, 2015*), in 2014 the average daily rate (ADR) was PLN 252.70, lower than the best rate of PLN 290.00 PLN in 2012.

Due to the lack of a commonly accepted concept of a chain hotel, the definition contained in the report (*Hotel Guidebook 2014/2015, 2015*) prepared by the Polish branch of *Horwath Hotel, Tourism and Leisure*, was adopted for the purposes of this article.

A hotel chain is an organization having its own brand or brands, which can be managed by the same owner or corporation. It is a group of associated hotels.

An associated hotel is a facility which is a member of a hotel chain, belonging to a franchise chain or another system associating hotels, with specific benefits of such membership, in particular access to a common booking system.

According to the report referred to above, the percentage of chain hotels in the structure of all hotels in Poland can be estimated at around 12% and has remained unchanged in the past years. This stagnation in the development of Polish hotel chains has had an adverse effect on the pace of hotel chain proliferation in Poland, at a level similar to the growth rate of the market as a whole.

The largest percentage of chain establishments, in terms of both the number of hotels and bedrooms in hotels, was noted in 5-star establishments. Polish 4* chain hotels account for slightly over 25% of all the establishments in the category concerned. Very low chain proliferation, below 10%, characterises 1* to 3*hotels.

According to calculations of Horwath HTL (*Hotel Guidebook, 2015*), in 2015 the group of 145 Polish chain hotels with more than 25,000 bedrooms was dominated by the following chains: Gołębiewski (2,331), Qubus (1,465), Gromada (1,287) and WAM (1,113). At the same time, in the group of 158 establishments belonging to international hotel chains the most bedrooms were found in the following: Orbis/Accor (11,400), Hilton Hotels & Resorts (2,463), Best Western (2,294), Louvre Hotels Group (1,903), Rezidor (1,823), Starwood Hotels & Resorts (1,518), Inter Continental Hotels Group (1,182) and Viena International (1,052).

As regards the international hotel chains present in the Polish market, the following chains have been developing particularly rapidly in the past years: Orbis/Accor, Best Western, Hilton Hotels & Resorts, Marriott Hotels & Resorts as well as B&B.

According to Eurostat data (*Number of bed-places, 2015*), in 2013, with 72 bed places in hotel establishments per 10,000 inhabitants, Poland continued to rank the lowest among the 28 European Union Member States, as compared to the average of 268 bed places.

At the same time, according to the same source (*Number of bed-places, 2015*), in 2014, with the occupancy rate of hotel facilities at 42.7%, Poland ranked next to last among the 28 European Union Member States.

There are several reasons for the low occupancy rate of hotel facilities in Poland. Firstly, the occupancy rate of hotels is characterised by significant seasonality, ranging from 33.0% in January to 54.5% in September 2014. The majority of hotels located in urban areas are mostly visited by guests travelling on business, which markedly

pushes down the occupancy rates of bedrooms at weekends. The occupancy rates of bedrooms in hotels are also largely decreased by hotels of lower categories, having achieved rates of 39.0% to 43.2% in 2014.

Hotel construction in Poland in 2001–2014

In accordance with the Polish Classification of Types of Construction introduced by way of the ordinance of the Council of Ministers of 30 December 1999 (*Journal of Laws* No. 112, Item 1316), as amended (*Budownictwo – wyniki działalności w 2014 r.*, 2015, Annex), construction works include group 121: *Hotels and tourist accommodation buildings*, comprising two classes:

1211. *Hotel buildings*. The class encompasses: Hotels, motels, inns, boarding houses and similar accommodation buildings, whether or not with restaurants. Independent restaurants and bars.

1212. *Other tourist accommodation buildings*. The class encompasses: Youth hostels, mountain shelters, tourist cottages, recreational centres and other tourist accommodation buildings.

The adopted classification of construction works, including restaurants and bars situated in independent buildings in the class of hotel buildings, makes it impossible to accurately analyse the number of hotels built in Poland, it merely allows to examine changes in subsequent years.

According to data of the Central Statistical Office (*Budownictwo – wyniki działalności, 2002–2015*), 1,075 tourist accommodation buildings with an area of 621,800 m², including 357 hotel buildings with an area of 550,900 m², were put into use in 2014.

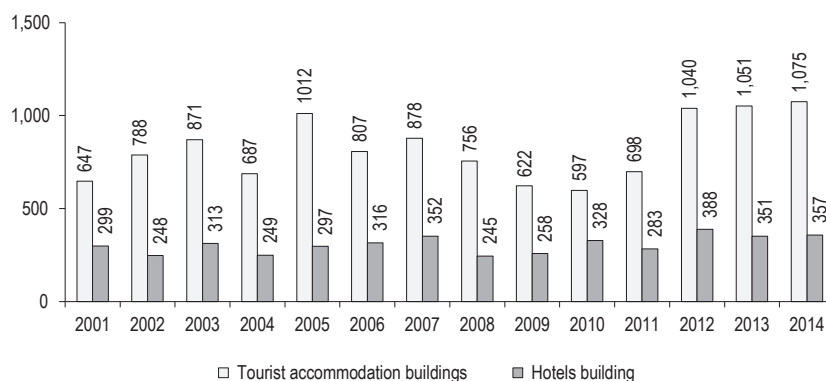


Figure 5. Hotel buildings and tourist accommodation buildings put into use in 2001–2014

Source: *Budownictwo – wyniki działalności...* (2002–2015).

On the basis of GUS data, in 2014 the construction cost of one square metre of the usable floor space of tourist accommodation buildings can be estimated at PLN 1,192 and it was more than 40% lower than the highest cost (in 2011).

In 2001 the share of the construction and installation output of hotels and tourist accommodation buildings in the total output of construction entities was 1.6% and by 2014 it fell to 0.8%.

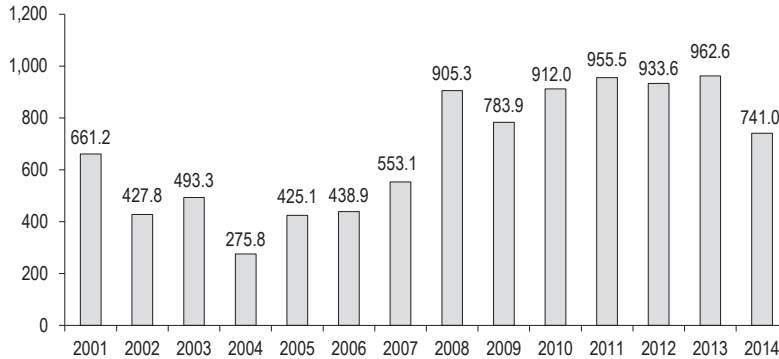


Figure 6. Construction and installation output of hotels and tourist accommodation buildings in PLN million (current prices)

Source: *Budownictwo – wyniki działalności...* (2002–2015).

In 2001 investment works represented 81.7% of the output value, whereas refurbishment works accounted for 18.3%. In 2014 the respective shares were 72.9% and 27.1%. The figures clearly indicate greater importance of refurbishment and modernisation works in the total volume of construction works.

A building permit is an administrative decision issued by the architectural and building authorities pursuant to the *Construction Law Act*, allowing to commence and carry out construction, or building works other than the construction of a work. The data presented concern final decisions.

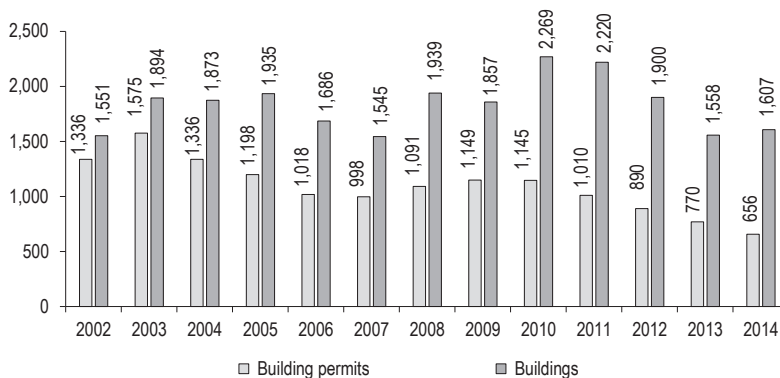


Figure 7. Building permits issued for new hotels and tourist accommodation buildings

Source: *Budownictwo – wyniki działalności...* (2002–2015).

Selected investment indicators

According to the research by STR Global (*Europe results for December, '14, 2015*), in 2014 the **occupancy rate of bedrooms in hotels** (Occ) in Poland was 64.1%, a record-high figure. In the same year, the **average daily**

rate (ADR) was PLN 252.70 and it was lower than the best rate of PLN 290.00 in 2012. Similarly, in 2014 **revenue per bedroom** (RevPAR) was PLN 162.00 and it was also lower than the highest revenue of PLN 176.50 in 2012.

According to the research firm Turner & Townsend (*International construction cost survey. Global rebalancing: a changing landscape*, 2015), in 2013–2015 the construction cost per square metre of a five-star hotel in Poland was ca. PLN 6,500 (USD 1,760), whereas that of a three-star hotel was around PLN 4,000 (approx. USD 1,080).

In the past years the construction cost per square metre of a hotel building in Poland has shown no major changes. Comparative surveys by Gardiner & Theobald (*International construction cost survey, 2005–2013*) on a somewhat different sample in 2004–2012 demonstrate that changes in construction costs expressed in EUR were not significantly different and that the differences observed were mostly connected with fluctuations in the PLN exchange rate against EUR.

Table 1. Construction cost per square metre in selected groups of hotels in EUR

Year	Costs in euro per m ² (exclude FF&E)	
	High quality capital city hotel	Medium-sized hotel
2012	1,093 to 1,408	838 to 1,117
2011	1,018 to 1,312	780 to 1,041
2010	1,180 to 1,492	924 to 1,198
2009	1,447 to 1,871	1,046 to 1,373
2008	1,494 to 2,037	1,086 to 1,494
2007	1,363 to 1,835	983 to 1,363
2006	1,031 to 1,458	779 to 1,080
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2004	1,031 to 1,458	779 to 1,080

Source: Gardiner & Theobald (2005–2013).

Summary

For more than a decade Poland has experienced a rapid growth, at a rate of nearly 10%, in the number of hotel establishments. Since 2008 construction and installation output has also been high. In addition, the number of construction permits issued for new establishments allows to suppose that also in the coming years the process of expanding hotel facilities will continue. When assessing the situation in the hotel investment market, particular importance must be attached to the steady and faster growth in the number of hotels of higher categories and to increased interest from new international hotel chains in investing in Poland or in introducing new brands in the Polish market by the international hotel chains already operating in Poland.

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