Opinions

The evolving investment climate in southeast Europe

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For many years, low levels of activity meant it was not worth examining the hotel transaction market in southeastern Europe. Circumstances are changing, however, as more hotels are being bought and sold than ever before.

By Siniša Topalović

Southeast Europe is considered one of most diverse regions of Europe.

The region is characterized by dramatic landscapes, attractive coastlines with hundreds of islands, healing thermal water springs, impressive cultural diversity and rich gastronomy. After the end of the war following the collapse of Yugoslavia and communist regimes, the region has stabilized, and over last 20 years tourism activity has been steadily increasing. For a variety of structural issues, this increase in tourists had not yet translated to the transactional market, but this is slowly beginning to change.

For this article, we examined the hotel transactions market for the following countries: Albania, Austria, Bosnia and Herzegovina, Bulgaria, Montenegro, Hungary, Macedonia, Croatia, Romania, Serbia and Slovenia.

Figure 1: Number of transactions in southeast Europe, 2008-2017
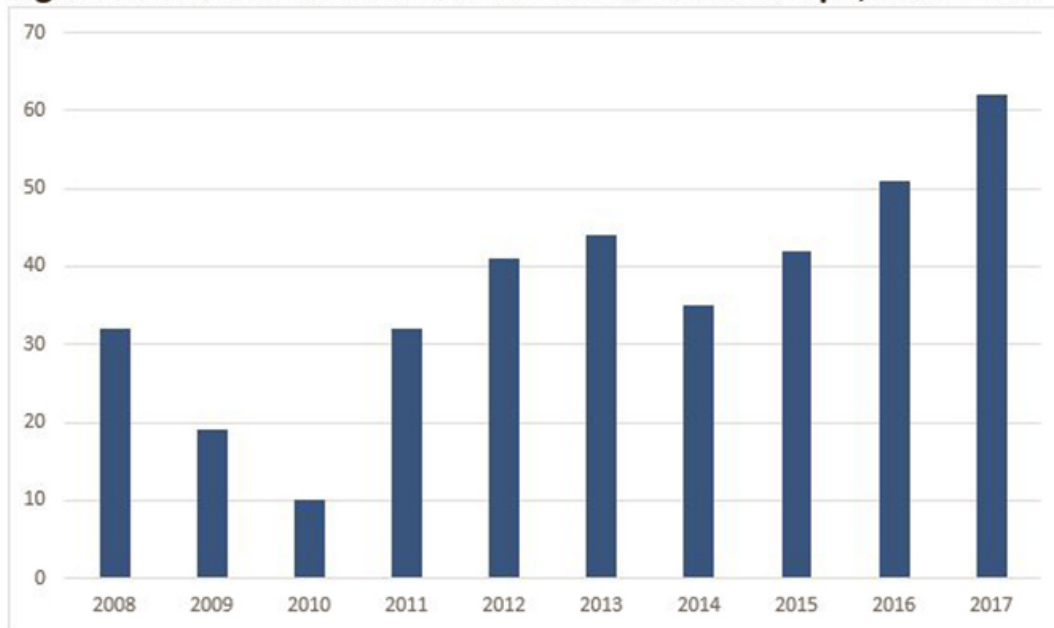
Source: RCA, Horwath HTL analysis, 2018

It is important to note that out of a total of 368 hotel transactions over the period we examined, almost half of them were in Austria. The remaining 10 countries accounted for 188, including 56 in Croatia, 30 in Hungary, 23 in Bulgaria and 20 in both Romania and Montenegro.

The total value of disclosed transactions in the region amounted to $5.7 billion, which includes $2.5 billion in Austria, $900 million in Croatia and $600 million in Hungary. The average value per key involved in transactions amounted to around $171,000.

As the average value per hotel key significantly varies from country to country, depending on the life cycle of tourism sector in each of involved geographies, we are focusing on key highlights for each market.

Austria, Albania and Croatia
The average value per key in Austria amounted to $188,000, while the range in value of the top five transactions was between $800,000 and $1.5 million per key. The overall trend of Austrian hotel values has been downward.

Albania recorded an average value per key of more than $400,000, but since this was a single transaction with a disclosed value, it cannot be representative for the overall country average, which is significantly lower than the regional average.

The Croatian average value per key amounted to $128,000, with values per key of the top five hotel transactions ranging from $157,000 to $426,000. Over the analyzed period, the average value per key has been increasing.

Hungary, Romania and Bulgaria
In Hungary, the average value per hotel key amounted to $148,000, with a notable downward trend. The top five hotel transactions ranged between $164,000 and $600,000 per key.

The Romanian average value per key amounted to $138,000 with a positive trend over the last 10 years. The country's top five transactions ranged between $122,000 and $310,000 per hotel key.

The average value per key in Bulgaria amounted to $104,000 with a positive trend of price per hotel key. The top five hotel transactions ranged between $132,000 and $300,000 per hotel key.

Montenegro, Serbia and Slovenia
In Montenegro, the average price per key amounted to $88,000 with values of the top five hotel transaction ranging from $100,000 and $229,000 per key, with a negative long-term trend of achieved price per hotel room.

Serbian average value per key amounted to $87,000, with the value of the top five hotel transactions ranging from $43,000 and $478,000, with a negative trend of transactional value per hotel key.

The average value per key in Slovenian transactions amounted to $92,000, with negative trend of achieved price per key involved in transaction. Slovenia's top five transactions ranged between $79,000 and $281,000.

Regional outlook
It should be noted that Austria and Croatia are the liveliest transactional markets in the region, while the highest average prices per hotel key have been in Austria and Hungary—excluding the Albanian average based on a single transaction. Moreover, it is obvious the transactional market is picking up, with increasing interest from local and international buyers, specifically from 2014 onward.

However, due to a significant share of state-owned assets or devastated and neglected assets among registered transactions, values per key among countries are not stabilized nor are competitive compared to values achieved in matured western European markets, reflecting strong upside potential in oncoming years.

Interested investors should keep an eye on the number of state-owned assets that are at the moment being prepared or already being offered to the investment market. But at the same time, they should be very cautious while preparing objective business plans as market transparency is not high, and information availability on industry key performance indicators differs significantly between destinations even within same region.

In conclusion, the time to enter the region is now, especially for buying state-owned assets and distressed assets, based on a thorough understanding of the local market and each destination's specifics as well as a realistically assessed upside potential.

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