

# Hotels: interest in investments exists, but...

Author: SF / Petr Bým | Published: 27.10.2009

The ambitious goals of Kings Court's management are not unrealistic, according to Stárek; he claims that only those who will offer a high quality of services and an exceptional location and will have the chance to benefit from affiliation with a renowned hotel chain (Preferred Hotel Group in case of Kings Court) will survive. In addition, the hotel wants to diversify its activities, and therefore its risks, because of the current stupor in tourism. Aside from accommodation capacities, it will also offer gastronomic services, sales areas, congress capacities and wellness facilities, and even to Prague residents. This novice on the Prague hotel battlefield might have an easier position because of smaller competition. In addition, CzechTourism is preparing a huge marketing offensive - focusing on the development of congress tourism, promotion of Czech cuisine and, last but not least, the promising wedding tourism.

## Hard times

This year's main tourist season is over and domestic hotels can start counting. And it will not be a joyful job. The Czech Republic was visited by fewer tourists this year, the semi-annual revenues of hotels dropped by 16% and the prices of accommodation declined even by 70% in some cases. That is why dozens of hotels are struggling for survival, mostly in the capital city. Even though 2009 will not be a golden bonanza for the hotel industry, investors have not lost their interest in the sector. But they are encountering „new” problems - especially the prohibitive conditions for bank loans.

Although the statistics of the domestic tourism are rather negative (e.g. fewer hotel guests, by 8.5% year-on-year) and the whole sector is fighting against lower demand (for instance, the Czech Republic more or less vanished from the holiday itineraries of the Dutch, who in the past made living for accommodation facilities of lower categories - however, camping sites recorded a 30% slump in the number of guests overall), the crisis weakened the investments in the hotel sector, yet investments have not died out.

The mentioned Kings Court constitutes an investment of CZK 1.5 billion, and the property developer and operator - HMG - already has one hotel in Prague (Tulip Terminus). The reconstruction of the Bílá Labuť department store on the Wenceslas Square into a three-star hotel is also planned, and an existing hotel establishment on the nearby Senovážné Square will be enlarged. At the beginning of September, Jurys Inn, the first „foreign“ hotel of the Irish chain Jurys Inns, will be officially opened. There is no doubt that other projects also exist, at least in the design stage, but hotel development - just like other construction segments - is running against a lack of trust and excessive caution among banks.

## High demands on own capital

According to an analysis by Labartt Investment Development, specializing in the travel industry, property development in the field of hotels and travel has slowed down, just like in case of other types of buildings. According to its Director Jan Ficko, an overwhelming majority of property developers rely on bank finance: “And it has been virtually inaccessible in the last year under the conditions to which the investors were used even in the first half of 2008. This especially involves the high demands of banks on the investor's own capital, when even 50% is not often enough.” The truth is that bank loans constitute the most frequent form of provisioning money for the construction of new hotels - according to the mentioned

analysis, up to 50% of the prepared projects count on banks. Only a smaller portion of developers use EU funds, and even fewer companies can rely on their own sources or a strong capital partner.

### **Money only for high quality**

In practice, this means that there will be fewer hotel projects than in the past. Just like projects in other segments of commercial properties. Accurate figures are not available, but according to Kamil Kosman, for example Česká spořitelna reduced the volume of developer loans in the first 6 months this year by 70%. But Jan Ficko argues that there is still a chance to succeed: "Bank loans are available for projects with a top-quality operator, an experienced investor in a good financial standing, ready to offer a higher share of its own capital than usual, and with an excellent location and positioning." Compared to the past, he says, there is a higher chance to succeed for smaller projects, which were not too popular in the banking sector in the past.

Another thing is that the centre of the Czech hotel industry - Prague - is experiencing a certain excess in capacity, after the boom of the previous years. Last year the capital city offered 656 accommodation establishments, of which 33 five-star hotels, 142 four-star hotels and 193 three-star hotels - and their utilization is very low, especially this year. But this does not mean that those newly arrived cannot find their place on the market. According to Jaromír Beránek, a travel analyst for MAG Consulting, new hotels in Prague have their place, but they have to push out some capacities offered by others. "Accommodation of a poorer quality will especially disappear from the market," Beránek said. Top-quality accommodation establishments, including new projects, will still find a place on the market - this may be even easier because 15 hotels will be closed in Prague, according to Beránek. Viliam Sivek, of Euroagentur Hotels&Travel and chairman of the Association of Travel Agencies of the Czech Republic, is more sceptical, as he counts on the bankruptcy of 70 hotels in Prague, mostly caused by the price cuts.

### **Investors emphasize return**

Real estate investors in the Czech Republic are looking for interesting investments. In spite of the rather negative financial results of hotels, they are keeping an eye on this type of real estates. But they have different preferences when it comes to the type of buildings. Two years ago, conventional buildings with the possibility of reconstruction into a four-star hotel, ideally directly in a regional city, in the place of a well-developed spa industry or recreational resorts, were the favourites in the eyes of investors. Right now, according to a survey by AAABYTY.CZ, the biggest demand is focused on untraditional buildings, such as castles and fortresses. Of course, the return on investment remains the main criterion of choice for the investors - who were waiting in the past months and are buying now, when the prices have fallen because of the economic crisis. "Compared to the past, the choice of investment is more careful and much more emphasis is given on its return within an optimum term," Aleš Budín, former director of the real estate agency AAABYTY.CZ, described. His definition of the term "optimum term" should be also added. According to Aleš Budín, this term is seven years in the European Union, while in the Czech Republic the optimum term was five to six years a short time ago. Because of the global economic problems, however, we can expect that the investors' patience will also grow in our country.