

Market Analysis of the Hotel Investments in the Eastern Adriatic Region – The focus on Slovenia, Croatia and Montenegro

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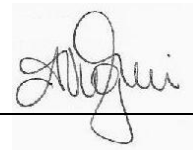
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ABSTRACT

Why is tourism so important to the Eastern Adriatic region? Tourism is identified as a vast driver of the economic growth, including development and environmental sustainability (UNWTO, 2017). Moreover, in the last decades, tourism has been recognized as one of the highest contributors to the local economies. In the period of the global economic and financial crisis, tourism sector shows a resilience and straightness to the economic contribution of the overall economic activities in the Eastern Adriatic.

The study includes the common market of the Eastern Adriatic region, which combines the destinations on the eastern side of the Adriatic coast (i.e. Slovenia, Croatia, Montenegro, Bosnia and Herzegovina, and Albania). Tourism creates a significant influx to the total economic activity of the market, whose unique variable presents the Adriatic Sea and the previously established foundations of the political-economic system. Only in Croatia and Montenegro, tourism contributes to the local GDP almost one fourth of the overall economic activity. Moreover, the unemployment rate and the share of job creation strongly correlates with the tourism performance in the market.

The research focuses on the correlation between destination performance and hotel investments in the Eastern Adriatic. The objective of the research is to identify the market sentiment of the potential hotel investors in the market. Furthermore, the study discusses the interconnection between tourism destination and hotel performance, and indicates the level of the investment market attractiveness. The market analysis brings the overall picture of the Eastern Adriatic market but the research is primarily focused on the tourism most developed submarkets, i.e. Slovenia, Croatia and Montenegro.

The research shows that there is no rule that hotel performance follows the trend of a certain destination, if this one performs positive. However, the market indicates a positive destination performance trend in the last decade. It is difficult to create a trend for hotel performance as there is not many properties who are reporting results and their data performance to the respective bodies. Nevertheless, the research shows a positive sentiment potential investors in the Eastern Adriatic market, but with a caution and selectively depending on the destination. The highest interest towards investments is in the coastal resorts. As the market is challenging with the high seasonality over the year, the most profitable type of properties are mixed-use resorts, such as in Montenegro. Additionally, the study also identifies the investments potential in the Eastern Adriatic region, investors' interests and expectations and on the other hand, key destination stakeholders' expectations.

The study presents a unique benchmark of the destination and hotel performance of the five submarkets with the analysis of key drivers and barriers of the potential possibilities for the hotel investments in the market.

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TABLE OF CONTENTS

Affidavit.....	I
Abstract	III
Acknowledgements.....	V
List of Figures	X
List of Abbreviations.....	XI
1. Introduction and Problem Definition	1
2. Introduction to the Hotel Market Analysis	3
2.1 Market Analysis.....	3
2.2 Hotel Real Estate Market	3
2.2.1 Real Estate Definition	4
2.2.2 Hotel Investment Market	4
2.3 The Market Area of the Study	5
3. Economic Performance	7
3.1 Slovenia	7
3.2 Croatia	9
3.3 Montenegro	11
3.4 Bosnia and Herzegovina.....	13
3.5 Albania.....	14
3.6 Overview of the Economic Performance of the Eastern Adriatic Region.....	16
4. Tourism Performance in the Eastern Adriatic Region.....	18
4.1 Slovenia	19
4.1.1 Destination performance	19
4.1.2 Hotel performance	22
4.2 Croatia	23
4.2.1 Destination Performance	23
4.2.2 Hotel Performance	26
4.3 Montenegro	29
4.3.1 Destination Performance	29
4.3.2 Hotel Performance	33
4.4 Bosnia and Herzegovina.....	35
4.4.1 Destination Performance	35
4.5 Albania.....	37
4.5.1 Destination Performance	37

4.6	Overview of the Tourism Performance in the Eastern Adriatic Region	40
	Section Summary	43
5.	Methodology	45
5.1	Introduction	45
5.2	Selection of Methodology	45
5.3	Research Instrument.....	46
5.4	Data Analysis.....	47
5.5	Conclusion.....	48
6.	Research Findings and Discussion	49
6.1	Interconnection between Tourism Destination Performance and Hotel Performance	49
6.2	Market Attractiveness	50
6.2.1	Current Investment Satisfaction and Prospects	51
6.3	Market Analysis of the Eastern Adriatic Region.....	54
6.3.1	Hotel Market Analysis in the Eastern Adriatic region	54
6.3.2	Actions for Increasing the Market Investment Interest	57
6.4	Discussion	59
7.	Conclusion	62
7.1	Summary.....	62
7.2	Contribution to knowledge	64
7.3	Implications for relevant stakeholders	65
7.4	Future research	65
8.	Bibliography	66
	Appendix 1: Tables and Figures	70
	Appendix 2: Market Profiles.....	73
	Appendix 3: Interview Guidelines for Tourism and Hotel Experts	81
	Appendix 4: Interview Guidelines for Tourism Authorities	82
	Appendix 5: Transcripts	85

LIST OF TABLES

Table 1: Economic Performance in Slovenia, in US\$, 2010 – 2014	8
Table 2: Economic Contribution of Travel and Tourism in Slovenia, Nominal Prices, 2010 – 2016	9
Table 3: Economic Performance in Croatia, in US\$, 2010 – 2014	10
Table 4: Economic Contribution of Travel and Tourism in Croatia, Nominal Prices, 2010 – 2016	11
Table 5: Economic Performance in Montenegro, in US\$, 2010 – 2016	11
Table 6: Economic Contribution of Travel and Tourism in Montenegro, Nominal Prices, 2010 – 2016	12
Table 7: Economic Performance in Bosnia and Herzegovina, US\$, 2010 – 2016	13
Table 8: Economic Contribution of Travel and Tourism in Bosnia and Herzegovina, Nominal Prices, 2010 – 2016	14
Table 9: Economic Contribution of Travel and Tourism in Albania, Nominal Prices (US\$), 2010 – 2016	15
Table 10: Economic Contribution of Travel and Tourism in Albania, Nominal Prices, 2010 – 2016	15
Table 11: Overnights in Slovenia by Type of Municipality, 2005-2014	21
Table 12: Tourist Overnights by Types of Tourist Accommodation	22
Table 13: Overnights by Type of Resorts in Croatia, 2008-2014	25
Table 14: Accommodation Capacities in Hotels, 2014	27
Table 15: Permanent Beds in Hotels and Similar Establishments and Occupancy Rate	

by Months, 2014.....	28
Table 16: Overnights in Montenegro by Type of Resorts, 2008-2014	31
Table 17: Summarized Performance Indicators for the EAR, 2014.....	44

LIST OF FIGURES

Figure-1 Map of the Eastern Adriatic Region	6
Figure 2: Arrivals in Slovenia, 2005-2014	19
Figure 3: Overnights in Slovenia, 2005-2014.....	20
Figure 4: Overnights by Type of Accommodation	21
Figure 5: Tourism Arrivals in Croatia, 2005-2014.....	23
Figure 6: Overnights in Croatia, 2005-2014	24
Figure 7: Share of Overnights in Private and Collective Accommodation Establishments, 2014.....	25
Figure 8: Share of Overnights by Type of Accommodation Establishments, 2014	26
Figure 9: Arrivals in Montenegro, 2006-2014	30
Figure 10: Overnights in Montenegro, 2006-2014.....	31
Figure 11: Share of Overnights in Private and Collective Accommodation Establishments, 2014.....	32
Figure 12: Share of Overnights by Type of Accommodation Establishments, 2014	33
Figure 13: Arrivals in Bosnia and Herzegovina, 2007-2014.....	36
Figure 14: Overnights in Bosnia and Herzegovina, 2007-2014	37
Figure 15: Arrivals in Albania, 2005-2014	38
Figure 16: Overnights in Albania, 2005-2014	39
Figure 17: Arrivals in the Eastern Adriatic Region, 2010-2014.....	40
Figure 18: Overnights in the Eastern Adriatic Region, 2010-2014	41
Figure 19: Overnights in Albania, Bosnia and Herzegovina, Montenegro and Slovenia.....	41

LIST OF ABBREVIATIONS

ALL – Albanian Lek

ARR – Average room rate

ADR – Average daily rate

BAM – Bosnian Convertible Marka

EAR – Eastern Adriatic region

GDP – Gross domestic product

HRK – Croatian kuna

RevPAR – Revenue per available room

SME – Small and medium enterprises

TRevPAR – Total revenue per available room

TRevPN – Total revenue per night

UNWTO – United Nations World Tourism Organization

USP – Unique selling point/product

WTTC – World Tourism and Travel Council

1. INTRODUCTION AND PROBLEM DEFINITION

The Eastern Adriatic region is a geographical territory on the eastern part of the Adriatic Sea. It consists of the following submarkets (from the North to the South): Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania. The market has a unique variable, i.e. the Adriatic Sea. All the submarket areas relate to the same coastline. The major unique selling products in Croatia, Montenegro and Albania are sun and sea product, while Slovenia, and Bosnia and Herzegovina focus on spa and health resorts, and mountain resorts. Moreover, the submarkets derive from the similar historic background and are based on the same political-economic system, which can certainly be one of the reasons for the connection in the new-age economic and tourist development.

As Europe remains leading tourist destination, tourism is a very important sector in the Eastern Adriatic region. Europe's tourism market share reached 51.4 % (UNWTO, 2016). Tourism represents an important share of the entire European economy. However, tourism contribution to GDP in the Eastern Adriatic economy is at utmost importance. European tourism directly contributes 3.5 % to the European gross domestic product and 9.1 % indirectly. In addition, it employs 3.6 % of the workforce, directly creating almost 14,229,000 jobs, and indirectly 9.1 %, which makes a total of 35,848,000 jobs (WTTC, 2016).

The Eastern Adriatic economy strongly depends on its tourism performance. Compared with European contribution of 3% to the total European GDP (9.8 %), Croatian tourism contributes to the national overall economic activity with 10.1 % directly (23.2 % total contribution), Montenegrin tourism with 11.3 % (22.1 % total contribution) and Albanian tourism 6 % (21.1 % total contribution) (WTTC, 2016).

The research identifies, develops and tests correlation between the performance of hotel investments and destination performance in the Eastern Adriatic region. The research shows there is no rule, when certain destination performs positive, that hotels performance also follows the trend. In the market, there are several key barriers for entering the new hotel business to the market (e.g. vast regulations, taxation system, land plot ownership, un-structured hotel ownership, etc.) The study is focused on the most tourism developed submarkets; Slovenia, Croatia and Montenegro, with the overall picture of the Eastern Adriatic.

In the past five years, even during the period of the financial and economic crisis, all the submarket areas recorded a positive trend of tourism arrivals, with Croatia's outstanding performance that reached more than 10 million tourists. Moreover, the most developed submarkets in terms of tourism, Slovenia, Croatia and Montenegro, performed with a growth with regards to overnight stays. Investments in destination marketing and branding activities are indicating positive return on investments. Furthermore, they are showing a growing trend of destination performance indicators.

Based on the literature review, there are only few studies analysing submarkets' hotel performance, even though nowadays, the interest in tourism business on the market is high. Furthermore, only few hotels are reporting their performance data to respected bodies, therefore, it is difficult to analyse hotel submarkets and create an overall picture of the market.

The market offers a limited number of researches and studies on the topic of the hotel investments in the Eastern Adriatic region. The available literature identified a sentiment of a poor international interest in the hotel real estate in the Eastern Adriatic, which compared to the region's positive development trends comes in as a surprise and certainly need updated review and further elaboration. Furthermore, current hotel company's ownership on the market is a consequence of unstructured post-transition period.

The objective of the study is to define whether the potential hotel investors find the Eastern Adriatic market appealing for their capital investments. The study also discusses the interconnection between tourism destination and hotel performance, market attractiveness and, finally, creation of recommendations for actions, which can boost the investment interest of the market.

Tourism and hotel analysis of the market area is appealing to anyone who is involved in tourism business in the Eastern Adriatic. Based on my professional background and passion for tourism statistics and analysis, I find the topic interesting because the market analysis presents a benchmark of five destinations in the Adriatic region. I have not come across any study, which would specifically refer to Eastern Adriatic region during the research I have conducted for this study.

The value of the research is high for tourism stakeholders and potential investors in hotel business in Eastern Adriatic region. This research contributes to the overall picture of tourism, destination and hotel performance, and market attractiveness. Market analysis offers valuable comparative data which were not available to tourism authorities, national tourism organizations, hotel owners, potential investors, tourism and hotel consultants, ...

2. INTRODUCTION TO THE HOTEL MARKET ANALYSIS

This chapter clarifies and defines the basic terms, i.e. what is **market analysis**, **hotel real estate market** and the **market area** of the study.

Market analysis is a market research that presents a current situation on the market in the defined market area. The **hotel real estate market** is presented and analysed through current hotel market in the market area. The **Eastern Adriatic region** is the market area of the study. The market area defines location or range of the observed market.

2.1 Market Analysis

“The market analysis forms a basis for assessing market area boundaries, supply and demand factors, and indications of the subject’s position within the market” (Herr Valuation Advisors, Inc., 2016). An investor who considers a new investment in real estate project first should do a market research, which will indicate if a project development concept plan is reasonable (Lefenfeld, 2001).

The most common studies focusing on the research of a market include; analysis of local economies, market analysis, marketability analysis. Furthermore, studies that focus on individual decisions include feasibility analysis and investment analysis (Thomsett & Kahr, 2005).

The market analysis “studies the demand for and supply of a particular property type market”. The market analysis should start with defining the market area. The market area is the location or the range where the supply and the demand operates. Additionally, a market analysis is a crucial part for a feasibility study for a real estate project investment (Thomsett & Kahr, 2005).

To sum up: the market analysis presents dynamism and attractiveness of real estate(s) on the market. The analysis consists of data collection, analysis, conclusion and recommendations. Data is usually collected on two sides, on the side of demand and on the side of supply.

2.2 Hotel Real Estate Market

Investing in hotel assets represents an alternative to investing in traditional real estate markets (Paris Inn Group, 2017). Changes in supply and demand lead to increased investments in commercial real estate. The subject to shifts in supply and demand usually have a notable impact on net operating income, profitability and yield. The hotel real estate market is one of the few property types where such shifts are felt almost immediately. Other types of property, such as office or retail, “utilize medium to long term leases that seek to deliver stable and targetable income streams. Tenants commit to occupy a space and pay a set rate for five, ten or even fifteen years. Even apartment renters sign leases for a year at a time. Hotels have no such lease agreements. At most, hotel guests may be subject to a non-refundable period as the booking date approaches” (Formigle, 2016).

2.2.1 Real Estate Definition

The real estate market is “the interaction of individuals who exchange real property rights for other assets such as money. Specific real estate markets are based on property type, location, income-producing potential, typical investor characteristics, typical tenant characteristics, or other attributes recognised by those participating in the exchange of real property” (Appraisal Institute, 1992, cited by Thomsett & Kahr, 2005;).

Commercial real estate is defined as any property owned to generate income. The five largest commercial real estate categories are retail, hotels, office buildings, apartment buildings and industrial properties (Amadeo, 2016).

From an investment point of view, commercial real estate includes any property (including land) which generates income. From a business point of view, commercial real estate is any commercial space (offering offices, retail, industrial, medical, hospitality, etc.) that can be leased or bought for the use of business with a goal of generating income (Hamson, 2016).

According to Wing and Lee (1992) the main factors that affect the property market are:

- the economy and political stability;
- population growth;
- finance;
- speculation;
- government land policies;
- activities of government development agencies.

There are hundreds of classifications systems worldwide about hotels, which are usually operated by governmental or other agencies. On the most general basis, a hotel can be defined as “a public establishment offering travellers and temporary visitors, against payment, two basic services; accommodation and meals”. (Lawson, 1995)

2.2.2 Hotel Investment Market

Fundamentally, the term investment describes the procedure when the cash flow is somewhere placed to either protect the invested capital or to earn a return on this investment. Investing in property can provide the income (rent received) as well as capital growth. The less risky the investment, the lower the returns received by the investor. Investing in properties has been a trend for a long time as the general conception has been that the long-term capital values should rise due to the limitations on supply and perceived long-term in demand (Harper, 2008).

According to Harper (2008), the range of hotel operators who are willing to offer lease has increased over the last decade. The increase in demand has led to a wide variety of hotel investments structures from EBITDA leases, turnover leases, fix RPI investment leases and management contract investments.

Hotel investors by corporate type can be grouped in private companies, public companies (pension, investment and insurance funds; government and local bodies; financial institutions), partnerships and private funds. The investors search hotel investments with a goal of capital growth and income. Rarely, hotels can achieve both investment goals (Harper, 2008).

Hotels represent an attractive investing opportunity for potential investors and offer many advantages over other commercial types of properties. Investing in hotel real estate allows investors to diversify property portfolios. One of the major advantages of investing in hotel properties is long-term secure income from a single tenant and showing a track record of high returns (BNP Paribas, 2017).

Investing in hotels, which is a combination of real estate and business, is one of the fastest growing forms of investments in the real estate market. The hospitality industry is built on solid fundamentals and returns can be predictable. Investing in hotel assets represents an alternative to investing in traditional real estate markets (Paris Inn Group, 2017).

The demand cycle in travel business, even within the recession period, is constant. When demand in accommodations increases in volume and spending, there is a reason to invest. On the other hand, like on every other market, hotel values fluctuate and may affect hotel investor opportunities (Perry Group International, 2015)

For a hotel investment profitability, it is important to bring together the right actors at the right time with operators, investors and developers. “Money is not a problem because the capital is on the market. The challenge is to find the right deals and the right partners. Real estate investors are increasingly interested in hotels and the sector is renewing itself, which is good for us”, said Eric Belluardo, Development Manager NH Hotel Group France UK (Belluardo, 2016).

2.3 The Market Area of the Study

According to Thomsett & Kahr (2005), defining the market area should be one of the first steps in the market study. It is argued that the market analysis may contain, next to geographical identification terms, terms of identification where the market exists. By defining the market area, differences between artificial boundaries and built boundaries need to be considered. Additionally, historical patterns on ethnic or cultural ties have to be taken into consideration.

The market area of this study is identified as the Eastern Adriatic region (EAR). The Adriatic region covers the countries, which are located on the cost of the Adriatic Sea; Italy, Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania. The research focuses on the area of the eastern cost of the Adriatic Sea, which means that the **market area** observed in the research is the **Eastern Adriatic**

region with its submarket areas (countries): Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania.

The market area and its submarket areas analysed in the study were all part of the same public system before 1990s. All the countries from this market area focus on different tourism products or USPs. For example, Slovenia is positioning itself as a green, active and healthy destination with its USPs on spa and health resorts, hiking, skiing and other active products. On the other hand, Croatia and Montenegro position themselves mainly as sun and sea destinations. Submarket areas, which are based on different products, can in terms of the hotel real estate market and factors that influence on the properties be observed as a unique market area.



FIGURE-1 MAP OF THE EASTERN ADRIATIC REGION

Source: Google Maps, 2016

3. ECONOMIC PERFORMANCE

For 2016, world economic outlook predicts the global growth to slow down to 3.1% before recovering to 3.4 % in 2017. The forecast reflects the outlook for advanced economies following the UK current policy, leaving the European Union, and weaker growth in the United States. These two issues put downward pressure on global interest rates and affecting advanced, emerging, and developing economies. The monetary policy is expected to remain accommodative on the longer term. Both, economic and non-economic factors threaten to the predictions being realised as on the further economic growth. The major risk to the world economy are political risks, stagnation of advanced economies, financial conditions in emerging markets and various non-economic factors (International Monetary Fund, 2016).

Positive results of the tourism sector contribute to the economic growth and job creation in Europe as in many other regions. Tourism represents an extremely important share of the entire European economy and directly contributes 3.5 % to the European gross domestic product and 9.6 % indirectly. In addition, it employs 3.6 % of the workforce, directly creating almost 14,229,000 jobs, and indirectly 9.1 %, which makes a total of 35,848,000 jobs (WTTC, 2016).

Additionally, in 2015, visitors' exports generated 5.7 % of total exports, which presented 456.7 billion euro. In the same year, the share of the travel and tourism investment was 4.8% of total investment or 168.2 billion euro. The travel and tourism investment is expected to grow by 4.1 % in 2016, and additionally by 3.1 % annually by 2026 (WTTC, 2016; WTTC, 2016; WTTC, 2016).

In the following chapters the economic performance of each submarket of the Eastern Adriatic region is presented. The economic overview of the submarkets is indicated by the major economic indicators; GDP, GDP per capita, inflation, unemployment rate and foreign direct investment for 2010 – 2014. Data of the economic performance is retrieved from World Bank official reports.

Additionally, the contribution of the travel and tourism sector to the total economic activity for each submarket 2010 – 2015, with estimates for 2016, is given. The contribution refers to the direct and indirect contribution of travel and tourism to GDP, visitor exports, investments and the contribution of the travel and tourism to employment. Data of travel and tourism contribution to the economic activity is retrieved from World Tourism and Travel official reports.

3.1 Slovenia

The total economic activity of a country may be measured in three concepts; gross domestic product (GDP), gross national product (GNI) and net national product (NNI). GDP is the total of all economic activities in one country (The Economist, 2010).

Economic indicators for Slovenia, for 2010 – 2014, show a growth of GDP 2012 – 2014. In 2011, the results show the highest growth of GDP and subsequently GDP per capita. In contrast, 2012 recorded the strongest drop of GDP, followed by GDP per capita.

Inflation or inflation rate is the percentage of the annual increase in the general level of prices of goods and services. Hyperinflation is a high rate of inflation, above 1000 percentage p.a. Galloping inflation implies to the rate between 50 and 100 or 200 % p.a. Finally, moderate inflation defines the rise of the price level that does not have an influence on the relative prices and incomes (Samuelson & Nordhaus, 2000). When inflation rate rises, the purchasing power of currency falls. Central banks attempt to limit inflation and avoid deflation. In this case, the economy runs smoothly (Investopedia, 2016). According to the data of the World Bank (2016), the lowest inflation rate, or the rate at which the general level of prices for goods and services rises, was in 2012. In 2010, the inflation rate was -0.99 %. After 0.26 % in 2012, the inflation rate in Slovenia continues to rise, in 2013 up to 0.85 % and in 2014 up to 0.81 %.

The International Labour Organization (2016) defines the unemployment rate as a measurement that “unutilized the labour supply and provides a broad indicator of the labour market situation and of the general performance of the economy as a whole”. From 2010 to 2014, the unemployment rate in Slovenia mainly grew, with a slight decline in 2014, to 9.5 %.

According to the World Bank, the foreign direct investment to Slovenia was booming between 2010 and 2014. In 2014, the foreign direct investment was over a billion of USD.

	2010	2011	2012	2013	2014
Population	2,048,583	2,052,843	2,057,159	2,059,953	2,062,218
GDP (current US\$)	48,016,463,576	51,287,600,778	46,239,992,125	47,675,804,618	49,491,440,620
GDP per capita	23,438.9	24,983.7	22,477.6	23,144.1	23,999.1
Inflation (annual %)	-0.9871	1.1194	0.2645	0.8421	0.8139
Exports of goods and services (% of GDP)	64.3	70.4	73.3	75.2	76.5
Unemployment rate	7.2	8.2	8.8	10.2	9.5
Gini*	24.9	24.9	25.6		
Foreign direct investment, net inflows (BoP, current US\$)	319,054,952.7	875,544,802.3	33,548,087.6	103,977,238.6	1,030,082,473.1

Table 1: Economic Performance in Slovenia, in US\$, 2010 – 2014

Source: World Bank, 2016

In 2015, the total contribution¹ of travel and tourism to Slovenian GDP was 4,921.5 million euro, of which 1,400.1 million euro directly². The WTTC estimation forecasts the growth of the contribution to 5,047.5 million euro to GDP. In national accounts, tourism contributes to export accounts. Visitor exports in 2015 were 2,374.9 million euro and are predicted to grow by 2,482.7 million euro in 2016 (WTTC, 2016).

(EURmn, Nominal prices)	2010	2011	2012	2013	2014	2015	2016e
Direct contribution of travel & tourism to GDP (in mn)	1,191.5	1,257.9	1,236.0	1,266.0	1,268.1	1,359.8	1,400.1
Total contribution of travel & tourism to GDP (in mn)	4,395.7	4,671.5	4,497.9	4,625.5	4,633.5	4,921.4	5,047.5
Visitor exports (in mn)	2,021.1	2,090.8	2,097.1	2,146.0	2,177.9	2,374.9	2,482.7
Investment (in mn)	628.0	677.4	686.5	687.0	670.9	692.2	704.3
Direct contribution of travel & tourism to employment (in 1000)	31.4	31.9	31.4	31.0	30.4	32.4	32.6
Total contribution of travel & tourism to employment (in 1000)	106.1	108.6	104.8	103.9	101.7	106.9	107.1

Table 2: Economic Contribution of Travel and Tourism in Slovenia, Nominal Prices, 2010 – 2016

Source: WTTC, 2016

The trend of investments of travel and tourism shows growth with slight decline in 2014. In 2015, travel and tourism investment was 692.2 million euro. For 2016, the growth by 704.3 million euro is predicted (WTTC, 2016).

For Slovenia, direct contribution of travel and tourism to the employment, which represents the number of direct jobs within travel and tourism, was the highest in 2015, with 32.4 thousand euro. This brings the total contribution of travel and tourism to 106.9 thousand euro (WTTC, 2016).

3.2 Croatia

From 2010 to 2014, the highest total in Croatia was 62 billion US dollars in 2011. After that, the Croatian GDP declined to 56.5 billion US dollars and in 2014 went back to 57 billion. The same trend was followed by GDP per capita.

¹ Total contribution to GDP presents the amount generated directly by the travel and tourism sector adding all its indirect and induced impacts (WTTC, 2016).

² Direct spending impacts to the travel and tourism sector are visitor exports, domestic travel and tourism spending, government individual spending, internal tourism consumption, business travel and tourism spending, and leisure travel and tourism spending (WTTC, 2016).

Inflation rate in 2014 was estimated to 0.014 %. This was the lowest rate in this period. The highest inflation rate was 1.67% in 2011. In 2012, the rate fell to 1.58 %. The rate continued to fall to 0,80% in 2013.

Employment rate went from 11.8 % in 2010 to 16.7 with the highest rate in 2013 (17,3%). For the Croatian unemployment, it is characteristics that the unemployment rate is the lowest in the high tourism season and the highest in the off-season (winter) period. Data shows that tourism sector is one of the major generators of jobs in Croatia.

The foreign direct investment of almost 4 billion US dollar in 2014 was tripled compared to 2010 (1.4 billion US dollars). Table 3 shows a strong fall in the foreign investment in 2013, down to 927 million US dollar.

	2010	2011	2012	2013	2014
Population	4,417,781	4,280,622	4,267,558	4,255,689	4,238,389
GDP (current US\$)	59,680,624,422	62,249,565,359	56,485,301,967	57,770,884,729	57,113,389,357
GDP per capita (current US\$)	13,509.2	14,542.2	13,236.0	13,575.0	13,475.3
Inflation	0.83155	1.67191	1.58128	0.80479	0.01434
Exports of goods and services (% of GDP)	37.7	40.4	41.6	43.0	46.3
Unemployment rate	11.8	13.4	15.8	17.3	16.7
Gini*	27.4	32.0			
Foreign Direct Investment, net inflows (BoP, current US\$)	1,424,108,328	1,414,918,619	1,453,728,212	927,860,092	3,936,910,853

TABLE 3: ECONOMIC PERFORMANCE IN CROATIA, IN US\$, 2010 – 2014

Source: World Bank, 2016

According to the World Travel and Tourism Council (2016), the direct contribution of travel and tourism to GDP in 2015 was 33,896.7 million HRK, which presents 10.1 % of the total GDP. The forecast for 2016 predicts the rise by 2.6 % in 2016. The forecast reflects the economic activity generated by tourism industries, i.e. hotels, travel agents, airlines and other passenger transportation services. Furthermore, this also includes the activities of the restaurants and leisure industries directly supported (WTTC, 2016)

Visitor exports, i.e. money spent by foreigners in Croatia, is a key component of the direct contribution of travel and tourism. In 2015, Croatia generated 61,066 million HRK in visitor export, which is predicted to rise in 2016 (WTTC, 2016). The same research implies that international tourist arrivals are forecasted to reach 24,020,000, generating the expenditure of 95,260 million HRK.

In Croatia, trends of appealing destination for capital investors will continue. For 2015 the expected capital investment is 6,836.2 million HRK, rising by 0.9 % in 2016 and by 2.3% each year to 2026, reaching to 8,682.7 million HRK (WTTC, 2016).

	2010	2011	2012	2013	2014	2015	2016e
Direct contribution of Travel & Tourism to GDP (in mn)	27,592	30,376	29,113	31,263	32,520	33,897	35,534
Total contribution of Travel & Tourism to GDP (in mn)	66,817	72,217	68,546	73,075	75,120	77,918	81,161
Visitor exports (in mn)	45,625	51,289	52,135	55,422	57,939	61,066	64,107
Investment (in mn)	7,203	6,972	6,659	6,706	6,422	6,836	7,048
Direct contribution of Travel & Tourism to employment (in 000)	122	130.5	121.6	127.8	129.7	130.5	131.8
Total contribution of Travel & Tourism to employment (in 000)	294.2	309.6	286.2	299.1	400.6	301.6	303.2

TABLE 4: ECONOMIC CONTRIBUTION OF TRAVEL AND TOURISM IN CROATIA, NOMINAL PRICES, 2010 – 2016

Source: WTTC, 2016

In 2015, travel and tourism sector directly generated 130,500 jobs, which was 9.8 % of the total employment. The contribution of the sector is forecasted to grow to by 1 % in 2016. By 2026, the contribution will account for 155,000 jobs directly. The direct contribution includes employment by hotels, travel agents, airlines and other passenger transportation services (WTTC, 2016).

3.3 Montenegro

The highest economic performance of the total economic activity (GDP) was reached in 2014, with 4.59 billion US dollars. From 2010 to 2014, the same trend was seen in GDP per capita, reaching the peak in 2014 with 7,378.50 US dollars per capita with a growth of 2.3 % relating to the previous year.

Since 2010 from 2013, a declining trend was recorded, when the inflation rose to 2,07 %. In 2014, the inflation rate was estimated to 1.03 %, which was the second lowest rate from 2010. In 2010, the inflation rate was 2.31%.

	2010	2011	2012	2013	2014
Population	619,428	620,079	620,601	621,207	621,800
GDP (current US\$)	4,139,192,053	4,538,199,889	4,087,725,813	4,464,260,489	4,587,928,884
GDP per capita (current US\$)	6,682.3	7,318.7	6,586.7	7,186.4	7,378.5
Inflation (annual %)	2.3140	1.2027	0.1770	2.0670	1.0362
Export of goods and services (% of GDP)	37.0	42.3	43.7	41.3	40.1
Unemployment rate	19.7	19.7	19.6	19.5	19.1
Gini*	28.6	30.6	32.2	33.2	
Foreign direct investment, net flows (current US\$)	758,407,500	556,257,883	618,367,296	446,490,330	496,835,255

TABLE 5: ECONOMIC PERFORMANCE IN MONTENEGRO, IN US\$, 2010 – 2016

Source: World Bank, 2016

From 2010 to 2014, the unemployment rate in Montenegro was stagnating at 19 %. The lowest rate was in 2014 with 19.1 % and the highest in 2010 and 2011 with 19.7 %.

The foreign direct investment in Montenegro fell strongly, i.e. for 34.5 % from 758.4 million US dollars (2010) to 496.8 million US dollars (2014). The strongest decline in the foreign investment was in 2011 (-26.7 %) and 2013 (-27.8 %).

In 2015, travel and tourism with 405.8 million euro contributed to 11.3 % to Montenegrin GDP. It is foreseen that the contribution will rise by 6.9 % in 2016. The direct contribution is expected to grow by 5.6 % each year, reaching 746.3 million euro (14.6% of GDP) by 2026. The total contribution of travel and tourism to GDP, which includes wider effects from investment, the supply chain and induced income impacts, was 794.8 million euro or 22 % of GDP and is expected to grow by 6.6 % in 2016. By 2026, the expected growth is 6.0 %, making the total of 1,521.9 million euro (WTTC, 2016).

The travel and tourism sector has strong impact on employment rate in Montenegro. In 2015, the sector generated 18,500 jobs directly (10.3 % of total employment). The growth by 6.5 % in 2016 is forecasted, generating 20,000 jobs (10.7 % share of total employment). The total contribution of travel and tourism in 2015 was 37,000 jobs, which makes 20.5 % of the total employment. Prospects show growth in job creation, reaching 54,000 jobs or 27.7 % of total employment by 2026 (WTTC, 2016).

(EURmn, Nominal prices)	2010	2011	2012	2013	2014	2015	2016e
Direct contribution of Travel & Tourism to GDP (in mn)	277.0	300.8	316.1	345.3	350.8	405.8	442.6
Total contribution of Travel & Tourism to GDP (in mn)	570.3	574.8	606.8	680.7	698.5	794.8	864.1
Visitor Exports (in mn)	577.2	665.2	669.3	699.9	721.0	844.7	919.8
Investment (in mn)	194.9	149.7	156.0	182.6	197.5	224.5	247.1
Direct contribution of Travel & Tourism to Employment (in 1000)	12.5	13.1	14.7	15.9	16.1	18.5	19.8
Total contribution of Travel & Tourism to Employment (in 1000)	26.4	25.7	28.8	31.9	32.5	36.8	39.1

TABLE 6: ECONOMIC CONTRIBUTION OF TRAVEL AND TOURISM IN MONTENEGRO, NOMINAL PRICES, 2010 – 2016

Source: WTTC, 2016

In 2015, foreign visitors spent 844.7 million euro in Montenegro. For 2016, WTTC predicts a growth reaching to 6.7 % and the country is expected to attract 1,491,000 international tourist arrivals. In the upcoming decade, the visitor exports are forecasted to increase by 5.0 % (WTTC, 2016).

According to WTTC (2016), in 2015, the travel and tourism capital investments are expected to reach 224.5 million euro. In 2016, continuous growth of 7.9 % pa is expected. In the upcoming decade, the capital investment will rise by 7.2 % pa, and in 2026 are expected to touch 487.5 million euro.

The share of the total national investment is expected to rise to 33.9 % in 2016. In the upcoming decade, the strong growth will result with 50.1 % of travel and tourism share in the total national investment.

3.4 Bosnia and Herzegovina

Since 2012, the total economic performance (GDP) in Bosnia and Herzegovina recorded a positive trend. In 2014, GDP reached 18.29 billion US dollars, which is the highest since 2011, when the GDP was 18.32 billion US dollars. GDP per capita followed the same trend as GDP with the strongest result in 2011 (4,860 US dollars) followed by 2014 with 4,851 US dollars per inhabitant.

Fluctuating inflation rate causes economic uncertainty. The inflation rate in Bosnia and Herzegovina strongly fluctuates on a yearly basis. The highest estimated rate was 2.61 % in 2011. In 2012, the inflation rate fell first to 1.07 % and then even to -0.34 % in 2013. In 2014, the rate again rose to 1.77 %.

The strongest unemployment rate of 28.1% was in 2012. In the next two years, the rate was stable with 27.4 in 2013 and 27.9 in 2014.

The foreign direct investment recorded the strongest result in 2014, when it reached 496.76 million dollars, i.e. a growth of 32.2 % relating to 2013, and 10.65 % concerning the foreign investment in 2010.

	2010	2011	2012	2013	2014
Population	3,835,258	3,832,310	3,828,419	3,823,533	3,817,554
GDP (current US\$)	16,846,352,248	18,317,137,171	16,906,005,781	17,841,444,573	18,286,273,233
GDP per capita (current US\$)	4,475.1	4,860.8	4,494.6	4,748.0	4,851.7
Inflation, GDP deflator (annual %)	1.4963	2.6088	1.0729	-0.3424	1.7733
Exports of goods and services (% of GDP)	30.3	32.6	32.8	34.2	34.3
Unemployment rate	27.2	27.6	28.1	27.4	27.9
Gini	n/a	n/a	n/a	n/a	n/a
Foreign direct investment, net inflows (BoP, current US\$)	443,840,207.1	471,610,992.2	391,976,946.4	336,758,905.6	496,764,251.3

TABLE 7: ECONOMIC PERFORMANCE IN BOSNIA AND HERZEGOVINA, US\$, 2010 – 2016

Source: World Bank

The direct contribution of travel and tourism in Bosnian GDP was in 2015, with 707.5 million BAM, with a share of 2.7 % of total GDP. In 2016, the contribution of travel and tourism was forecasted to rise by 5.8 % to 748.6 million BAM. By 2026, the contribution to grow is expected to reach 4.8% p.a. to 1.194.2 million BAM (3.2 % of GDP). In 2015, tourism and travel sector directly, in addition, with its indirect and induced impacts generated to GDP 2,544.1 million BAM (9.5% of GDP) and is expected to grow by 6.0% in 2016. In the upcoming decade, the total contribution is expected to reach 4,361.5 million BAM (WTTC, 2016).

In 2015, travel and tourism in Bosnia and Herzegovina created 22,000 jobs with direct contribution (3.2 % of the total employment). The growth by 5.3 % is forecasted in 2016, generating 23,000 jobs (3.3 % of the total employment). By 2026, travel and tourism will create 28,000 jobs. In 2015, the total

contribution of travel and tourism to employment was 75,500 jobs (11.0 % of total employment). By 2026, the sector is predicted to support 95,000 jobs (14.1% of the total employment) (WTTC, 2016).

(BAM, nominal prices)	2010	2011	2012	2013	2014	2015	2016e
Direct contribution of travel & tourism to GDP (in mn)	615.1	621.2	610.5	656.9	674.1	707.5	766.5
Total contribution of travel & tourism to GDP (in mn)	2,305.4	2,285.0	2,234.0	2,368.5	2,428.9	2,544.1	2,761.7
Visitor exports (in mn)	974.3	1,012.6	1,041.6	1,105.1	1,145.3	1,260.7	1,386.3
Investment (in mn)	250.4	228.5	217.5	199.2	216.9	230.6	269.0
Direct contribution of travel & tourism to employment (in 1000)	15.4	19.7	18	20.1	21.6	21.9	23.1
Total contribution of travel & tourism to employment (in 1000)	57.6	69.2	63.3	69.5	74.4	75.4	79.4

TABLE 8: ECONOMIC CONTRIBUTION OF TRAVEL AND TOURISM IN BOSNIA AND HERZEGOVINA, NOMINAL PRICES, 2010 – 2016

Source: WTTC, 2016

In 2015, foreign visitors spent 1.260.7 million BAM in Bosnia and Herzegovina for tourism and travel purposes (directly). In 2016, this is expected to grow by 7.4 %. Additionally, by 2026, international tourist arrivals are expected to rise to 837,000, which will generate 2,240.5 million BAM (WTTC, 2016).

Capital investment in travel and tourism in 2015 is expected to reach 230.6 million BAM. For 2016, WTTC has foreseen that investments will rise by 13.9 % and reach 425.3 million BAM by 2026. Travel and tourism's share of the total national investment is expected to reach 5.9 % in 2016 (WTTC, 2016).

3.5 Albania

In 2014, GDP in Albania was 13.2 billion US dollars with the GDP per capita of 4,564.4 US dollars. In the observed period this was the highest performance of the Albanian economy.

According to the World Bank (2016) data, the inflation rate in Albania in 2010 was 4.49 %. This was the highest inflation rate in Albania 2010 – 2014. Since 2010 to 2013, the rate continued to fall, from 4.49 % to 0.22 %. In 2014, the estimated inflation rate rose to 0.99 %.

The lowest unemployment rate in Albania was in 2012 with 13.9 %. In 2014, the rate grew by 2.2 % to 16.1 %.

	2010	2011	2012	2013	2014
Population	4,417,781	4,280,622	4,267,558	4,255,689	4,238,389
GDP (current US\$)	59,680,624,422	62,249,565,359	56,485,301,967	57,770,884,729	57,113,389,357
GDP per capita (current US\$)	13,509.2	14,542.2	13,236.0	13,575.0	13,475.3
Inflation	0.83155	1.67191	1.58128	0.80479	0.01434
Exports of goods and services (% of GDP)	37.7	40.4	41.6	43.0	46.3
Unemployment rate	11.8	13.4	15.8	17.3	16.7
Gini*	27.4	32.0			
Foreign Direct Investment, net inflows (BoP, current US\$)	1,424,108,328	1,414,918,619	1,453,728,212	927,860,092	3,936,910,853

TABLE 9: ECONOMIC CONTRIBUTION OF TRAVEL AND TOURISM IN ALBANIA, NOMINAL PRICES (US\$), 2010 – 2016

Source: World Bank, 2016

The foreign direct investment to Albania reached 1.5 billion US dollars in 2014, with 9% growth compared with 2013. The lowest foreign investment was in 2012, with 920.08 million US dollars, declining for 12.3 %.

The direct contribution of travel and tourism to the total economic activity in 2015 was 87.6 billion ALL, which represents 6 % of GDP. The contribution is forecasted to rise by 5.7 % in 2016. The same goes for the growth by 2026, it is expected to grow to 156.5 billion ALL. According to the WTTC predictions, the contribution of travel and tourism to GDP should be 7.9 % in 2026. The total contribution to GDP was 306.2 billion ALL in total in 2015. The expectations show the continuous growth in 2016, by 5.4 % to 322.7 billion ALL. Finally, by 2026 the total contribution of travel and tourism to Albanian GDP is forecasted to 540.3 billion ALL or 27.2 % of GDP (WTTC, 2016).

In 2015, travel and tourism generated 51,000 jobs in Albania directly, reaching 5.5% share of total employment. It is predicted to grow by 3.4 % in 2016. Additionally, by 2026 the sector will create 77,000 jobs directly, an increase of 3.8 % pa over the next ten years. Furthermore, the travel and tourism in total contributed 180,000 jobs in 2015 (19.3% of total employment). WTTC forecasts that travel and tourism will support 265,000 jobs by 2026, with a 25.4% share of total employment in Albania (WTTC, 2016).

(ALL, nominal prices)	2010	2011	2012	2013	2014	2015	2016e
Direct contribution of travel & tourism to GDP (in bn)	78.8	77.8	75.3	76.0	82.7	87.6	95.3
Total contribution of travel & tourism to GDP (in bn)	281.8	274.9	268.0	271.4	293.7	306.2	332.3
Visitor exports (in bn)	183.9	182.6	174.1	175.2	193.1	204.2	222.4
Investment (in bn)	19.9	17.9	17.8	19.1	19.4	19.9	20.8
Direct contribution of travel & tourism to employment (in 000)	51.3	48.9	46.6	48.8	49.6	51	52.8
Total contribution of travel & tourism to employment (in 000)	186.5	175.6	169.4	175	178.3	180.1	185.6

TABLE 10: ECONOMIC CONTRIBUTION OF TRAVEL AND TOURISM IN ALBANIA, NOMINAL PRICES, 2010 – 2016

Source: WTTC, 2016

In 2015, foreign visitors spent 204.2 billion ALL. Visitor exports is a key component of the direct contribution of travel and tourism to Albanian GDP. In 2016, they are expected to grow by 5.7 % and Albania is expected to be visited by 3,809,000 international tourists. Furthermore, by 2026, international tourist arrivals are forecasted to the total of 5,789,000, generating the expenditure of 369.2 billion ALL. In the upcoming decade, WTTC expects a growth on annual basis of 5.5 % (WTTC, 2016).

In 2015, tourism and travel is expected to have attracted capital investment of 19.9 billion ALL. By 2016, it is expected to rise by 1.4 % and additionally in the upcoming decade by 4.5 % on annual basis, reaching 31.4 billion ALL. The sector's share of the total national investment will rise from 5.6 % (in 2016) to 6.5 % (in 2026) (WTTC, 2016).

3.6 Overview of the Economic Performance of the Eastern Adriatic Region

In terms of overall economic performance in the Eastern Adriatic region, **Slovenia shows the best result from the economic perspective**. Slovenian gross domestic product is slightly lower than Croatian but on the other hand, GDP per capita is much higher than Croatian. In 2014, GDP in Slovenia was 49.5 billion US dollars and in Croatia 57.1 billion US dollars. Furthermore, in the same year, the Slovenian GDP per capita was 1.8 times higher than Croatian GDP per capita.

The Slovenian and Croatian GDP per capita is followed by Montenegrin with 7,378.50 US dollars. Performance of the Bosnian and Albanian GDP per capita is below other submarkets performance. In 2014, GDP per capita in Bosnia and Herzegovina was 4,851.7 US dollars and in Albania 4,564.4 US dollars.

When the inflation rate is on the rise, the purchasing power of currency falls. Central banks attempt to limit inflation and avoid deflation. In this case, the economy can run smoothly (Investopedia, 2016). According to the World Bank data, in 2014, the highest inflation rate of 1.77 % was in Bosnia and Herzegovina and 1.04 % in Montenegro. The lowest rate was in Croatia with 0.01 % and 0.81 % in Slovenia.

2010 – 2014, unemployment rate has been under 10 % only in Slovenia. In 2013, the unemployment rate in Slovenia was slightly above that, 10.2%, declining to 9.5 % in 2014. The lowest unemployment rate in the EAR in 2010 was 7.2 % in Slovenia. In the same year, the unemployment rate in Croatia was 11.8 %, in Montenegro 19.7 % in Bosnia and Herzegovina 27.2 % and finally in Albania 14.2 %. In 2014, the unemployment rate was the lowest in Slovenia (9.5 %) and the highest in Bosnia and Herzegovina (27.9 %). The rate has slightly fallen since 2013 in Slovenia, Croatia and Montenegro. On the other hand, the unemployment rate has been slightly on the rise in Bosnia and Herzegovina and Albania.

The largest foreign direct investments are in Croatia, surprisingly followed by Albania and Slovenia. In 2014 in Croatia, foreigners invested 3.9 billion US dollars. In the same year, the foreign direct investment in Albania reached 1.1 billion US dollars and in Slovenia 1.0 billion US dollars.

World Bank data shows that the largest total foreign direct investment in 2014 was in Croatia, with 3.9 billion US dollars. A year earlier, the highest annual decline (-36.2 %) of the investment in the observed period was recorded.

In 2013, the largest impact of the foreign direct investment in Albania was 1.3 billion US dollars. Since 2010, the foreign direct investment was falling, from 1.1 billion US dollars to 920.1 million US dollars in 2012. In 2012, the investment rose for 36.3% in 2013, to 1.3 billion US dollars.

In 2010, Slovenia recorded 319.1 million US dollars of the foreign direct investment. Moreover, the investment in 2011 rose to 875,5 million US dollars. In 2012, Slovenia reported the strongest decline of the foreign investment, to 33.5 million US dollars. 2014 was the first year when Slovenia reached over one billion US dollars of the foreign direct investment.

The largest investment in Bosnia and Herzegovina was 496.8 million USD in 2014 and the lowest flow of the foreign capital in the country in 2013 with 336.8 million US dollars.

Montenegro has annual ups and downs in the foreign direct investment. 2010 was the best year for Montenegrin related to the foreign direct investment. In 2010, foreign capital invested in Montenegro was 758,4 million US dollars. The lowest foreign direct investment was in 2013 with 446.5 million US dollars. The investment rose for 11.3 % in 2014 to 496.8 million US dollars.

Croatian and Montenegrin economies are highly dependent on tourism sector. In Croatia, 23.2 % of GDP (in total) contributes tourism sector, generating 22.7 % of total jobs creation (WTTC, 2016). In Montenegro, tourism sector creates 20.5 % of total employment and contributes to overall economy with 22.1 % (WTTC, 2016). Based on the high reliant on tourism for GDP, the employment rate by months varies within seasons.

4. TOURISM PERFORMANCE IN THE EASTERN ADRIATIC REGION

The chapter presents European and regional tourism results, trends and prospects in the region. Furthermore, the analyses cover the key tourism indicators, showcasing the tourism performance of each submarket area.

The indicators for **destination performance** are the following:

- arrivals;
- overnights;
- length of stay;
- international expenditure;
- overnight by type of accommodation;
- type of destination.

Additionally, these are the **hotel performance indicators**:

- occupancy;
- average room rate (ARR);
- revenue per available room (RevPAR);
- total revenue per available room (TRevPAR).

Europe is the world's number one tourist destination. In 2015, according to the UNWTO World Tourism Barometer (2016), with 1,184 million (+4.4 %) international arrivals annually, Europe's tourism market share reached 51.4 %. In 2015, Europe was visited by 609 million visitors, i.e. 5 % more than in the previous year. The positive performance in international tourism arrivals was recorded in all European regions. The highest results were in the emerging European markets in Central and Eastern Europe (+6 %) and Northern Europe (+6 %), followed by mature destinations, Southern Mediterranean Europe (+5 %) and Western Europe (+4 %) (UNWTO, 2016).

Results from the UNWTO Confidence Index show a positive trend for 2016, with a slightly lower growth than the previous two years. According to the trend, UNWTO expects international tourist arrivals to grow by 4 % worldwide in 2016. The growth in Europe (+3.5 % to +4.5 %) is expected to slightly lower in comparison to 2015. The highest growth is forecasted in Asia and the Pacific (+4 % to +5 %) and the Americas (+4 % to +5 %). On the other hand, the growth with a higher uncertainty and volatility is expected for Africa (+2 % to 5 %) and the Middle East (+2 % to +5 %) (UNWTO, 2016).

The Eastern Adriatic Region has a unique "variable", the Adriatic Sea. All submarket areas (destinations/countries) relate to the same coastline from Slovenia in the north, to Albania in the south. The major unique selling products (USPs) in Croatia, Montenegro and Albania are sun and sea product, while in Slovenia higher focus is given on spa and health resorts, and mountain resorts.

The tourism performance section presents destination performance indicators for all the submarkets, while the hotel performance focuses only the submarkets in the study, i.e. Slovenia, Croatia and Montenegro.

4.1 Slovenia

4.1.1 Destination performance

The main tourism indicators show an annual growth of the tourism performance on the annual basis in 2005–2014. In this period, tourism arrivals grew for 47 % and overnights for 27 %. Overnights are following the growth trend of the arrivals in the period. In 2009, the results show slight decrease in the performance. Both, arrivals and overnights, decreased for 3 % from 2008 to 2009, although domestic arrivals and overnights slightly increased (+3 %), international arrivals and overnights decreased (-7 %, -8 %).

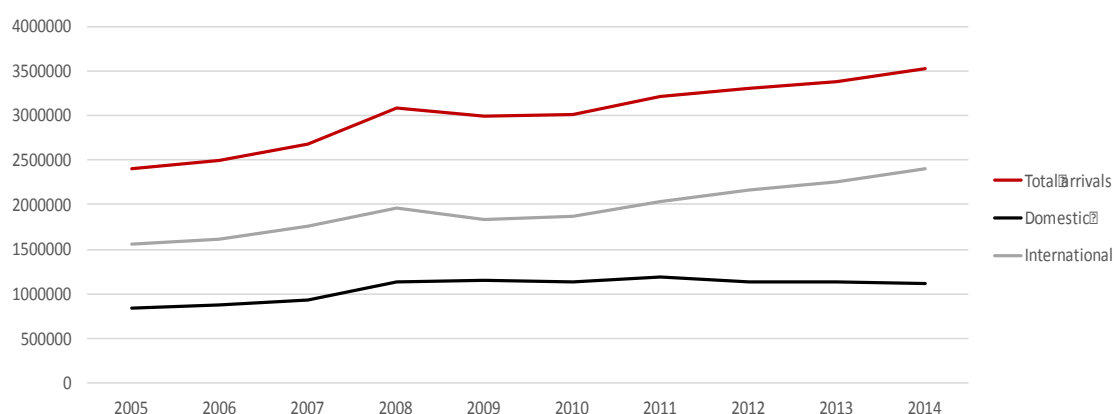


FIGURE 2: ARRIVALS IN SLOVENIA, 2005-2014

Source: Slovenian Tourist Board, 2016

In 2014, 3,524,020 arrivals were recorded, i.e. an increase of 4 % compared to the previous year. On the other hand, 9,590,642 overnight stays were recorded in the same period, i.e. 0.12 % more than the previous year. Figure 3 shows the growing trend in overnights from 2005 to 2009. International overnights follow the same trend as arrivals, with a slight fall in 2009.

Domestic overnights show growing trend in the period from 2005 to 2009. In 2010, a slight decrease in overnights (5 %) was recorded. From 2012 to 2014, domestic overnights recorded negative performance. Overnights have fallen for 6 % from 2012 to 2014 in two years' period.

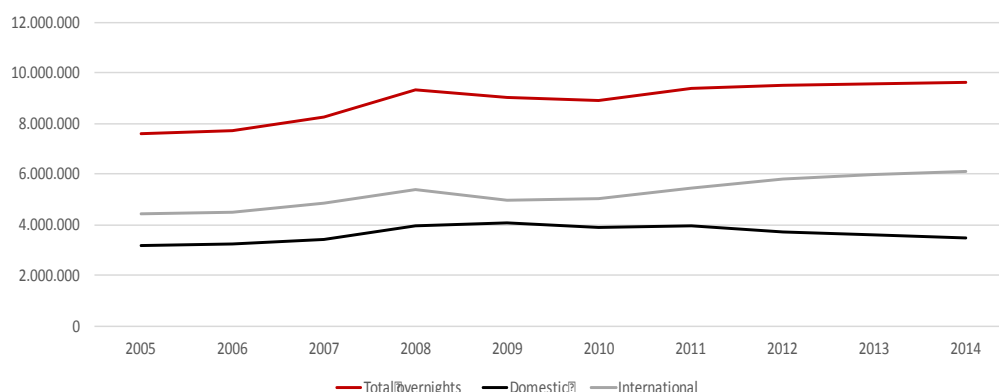


FIGURE 3: OVERNIGHTS IN SLOVENIA, 2005-2014

Source: Slovenian Tourist Board, 2016

According to the UNWTO reporting (UNWTO, 2016), the average length of stays in hotels and similar establishments of international tourists has slightly decreased from 2012. In 2014, a foreign tourist in Slovenia on average stayed 2.44 nights in Slovenia, while domestic tourists spent 3.13 nights.

In this period, international tourism expenditure was the highest in 2011 with 2,754 million US dollars. In 2012, the expenditures fell for 7 % and since then continued to grow to 2,719 million US dollars by 2014 (UNWTO, 2016).

In Slovenia overnights are classified by types of municipalities. The classification differs between the following (Statistical Office RS, 2016):

- health (spa) resorts;
- mountain resorts;
- seaside resorts;
- Ljubljana, the capital;
- urban municipalities;
- other municipalities.

Table 11 shows that the vast volume of overnights is recorded in health resorts, mountain resorts and seaside resorts. In 2014, 31 % of all overnights were recorded in health resorts and 23 %, mountain resorts and 22 % in seaside resorts.

	2008	2009	2010	2011	2012	2013	2014
Total							
overnights	9,314,038	9,013,773	8,906,399	9,388,095	9,510,663	9,579,033	9,590,642
Health (spa)							
resorts	3,010,999	3,003,653	2,987,643	3,085,952	3,090,904	3,018,115	2,998,959
Mountain							
resorts	2,172,899	2,067,917	2,090,410	2,219,798	2,277,358	2,359,599	2,246,033
Seaside resorts	2,155,631	2,153,294	1,981,141	2,105,392	2,051,095	2,032,265	2,068,761
Ljubljana	777,247	687,605	739,453	794,646	856,695	948,771	1,021,929
Urban							
municipalities	565,258	535,139	514,457	580,546	623,747	604,191	620,599
Other							
municipalities	632,004	566,165	593,295	601,761	610,864	616,092	634,361

TABLE 11: OVERNIGHTS IN SLOVENIA BY TYPE OF MUNICIPALITY, 2005-2014

Source: Statistical Office RS, 2016

The highest growth in overnights, by type of municipality, was recorded in the capital city, Ljubljana. **Ljubljana recorded a strong growth** of 31 % in the six-year period, from 777,247 overnights in 2008, to 1,021,929 overnights in 2014. Health resorts (0.4 %) and seaside (4 %) resorts in the same period recorded a slight decline (Statistical Office RS, 2016).

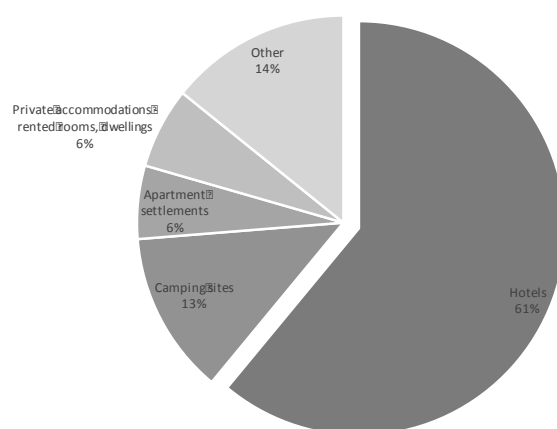


FIGURE 4: OVERNIGHTS BY TYPE OF ACCOMMODATION

Source: Statistical Office RS, 2016

In Slovenia, tourists in most cases opt for hotels, camping sites, apartment settlements. On the other hand, the lease likely opts for motels, tourist farms and mountain huts. The highest number of overnight stays is made in hotels. Data shows that more than 50 % of total overnights in Slovenia is made in hotels. In 2014, hotels presented 61 % (5,852,499 overnights) of the total tourist accommodation, followed by camping sites (13 %) and apartment settlements (6 %). According to the Statistical Office, 297 hotels were in Slovenia in 2014.

	2008	2009	2010	2011	2012	2013	2014
Total - all type of accommodation establishments	9.314.038	9.013.773	8.906.399	9.388.095	9.510.663	9.579.033	9.590.642
Hotels	5.671.134	5.404.819	5.491.176	5.811.531	5.822.392	5.801.482	5.852.499
Motels	56.406	27.111	24.147	16.066	8.931	10.758	10.194
Boarding houses	210.765	197.175	157.406	163.221	161.780	156.731	159.919
Inns	176.383	145.331	116.851	124.323	127.452	119.174	119.913
Overnight accommodations	111.191	143.941	63.749	69.457	75.021	86.593	96.677
Apartment settlements	613.833	615.449	572.224	583.685	619.485	573.576	548.352
Camping sites	1.287.583	1.268.620	1.170.610	1.273.658	1.297.196	1.303.825	1.218.949
Tourist farms with accommodation	71.314	81.309	83.143	94.719	109.973	125.401	124.086
Youth hostels	-	-	88.901	108.864	140.270	177.662	201.134
Private accommodations - rented rooms, dwellings	372.576	376.342	398.515	433.048	488.425	565.516	606.094
Mountain huts	98.503	95.089	85.724	89.573	85.629	85.438	76.954
Company vacation facilities and vacation facilities for youth	492.335	522.823	530.286	497.396	462.076	457.809	445.983
Other accommodation facilities	15.260	16.639	10.617	8.906	7.379	7.606	9.698
Temporary accommodation facilities and marinas	136.755	119.125	113.050	113.648	104.654	107.462	120.190

TABLE 12: TOURIST OVERNIGHTS BY TYPES OF TOURIST ACCOMMODATION

Source: Statistical Office RS, 2016

4.1.2 Hotel performance

In 2014, were on the market 297 hotels with 18,719 rooms and 41,208 total beds (Statistical Office RS, 2016).

Based on the continuous research of the Slovenian hotel industry, RevPAR is continuously decreasing in the last four years. In 2015, RevPAR on the national level reached the result from 2010 (31.82 euro). The highest RevPAR was recorded in 2007 (36.71 euro) (Slovenian Tourist Board & Hosting , 2016).

The same scenario happened with TRevPAR. Since 2012, TRevPAR in the Slovenian hotel market has been declining. In the period from 2007 to 2011, a slight growth on a yearly basis has been spotted and the total revenue reached 67.30 euro. By 2015, the TRevPAR in Slovene hotels fell for 10 % (Slovenian Tourist Board & Hosting , 2016).

In 2015, the average price of a room (ARR/ADR) reached the lowest performance (68.98 euro) since 2007. The performance trend of ARR in Slovenia was positive in the period 2007– 2011. Since 2012,

the trend has intensively been negative. By 2015, the ARR in Slovene hotels fell for 10 % compared to 2012 (Slovenian Tourist Board & Hosting , 2016).

The hotel performance indicators in Slovenia show the continuous negative performance trend in the period 2012 - 2015.

4.2 Croatia

4.2.1 Destination Performance

Croatia experienced a positive trend of tourism performance in the observed period. From 2005 to 2014, tourism arrivals grew for 31 % and overnights for 30 %. Data shows a positive trend for arrivals and overnights until 2009, when a slight stagnation or decrease in performance occurred. In 2009 and 2010 results show a slight fall of roughly 3 % p.a. Since 2011 the trend has again been growing. The trend of domestic arrivals is weaker than international. In 2010, a 13% decline of domestic arrivals in comparison to 2009 was recorded. Results for 2014 again show a positive signal for domestic (+1 %) and international (6 %) arrivals.

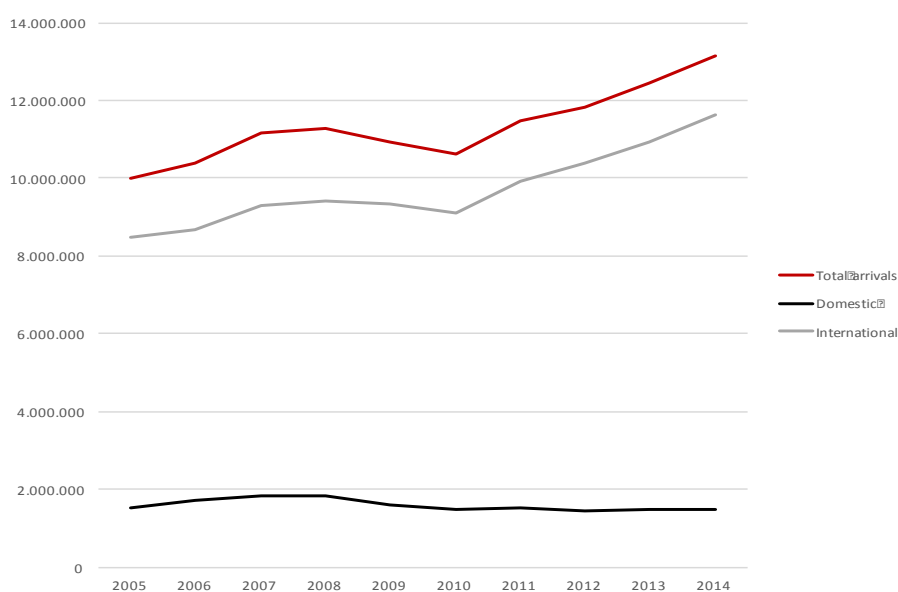


FIGURE 5: TOURISM ARRIVALS IN CROATIA, 2005-2014

Source: Croatian Bureau of Statistics, 2015

In the same period, the trend of overnights followed the growth of arrivals. Domestic overnights were in a slight decline and international overnights recorded a robust growth. In 2014, 5,160,000 (+0.43%) domestic and 61,324,000 (+3 %) international overnights were recorded. The same held true for overnights and arrivals in 2009 and 2010. Domestic overnights that slightly increased in 2011 (+3 %) showed a negative trend since then. On the other hand, international overnights followed the trend of arrivals and have since a slight crisis in 2009 and 2010 showed a positive trend.

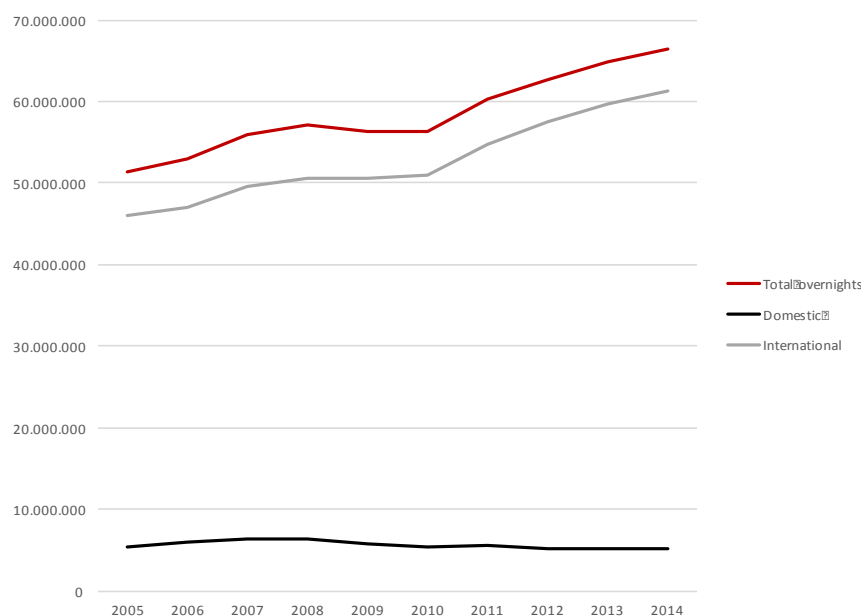


FIGURE 6: OVERNIGHTS IN CROATIA, 2005-2014

Source: Croatian Bureau of Statistics, 2015

According to the UNWTO (UNWTO, 2016), an average length of stay in hotels and similar establishments of international tourists has slightly been decreasing since 2010. In 2014, a foreign tourist in Croatia spent 2.42 nights on average and domestic tourist 3.58 nights.

2010 – 2014, the international tourism expenditure reached the peak in 2014 with 9,864 million US dollars. In 2012, the expenditures fell for 7 %. Since then, a continuous growth has been recorded (UNWTO, 2016).

	2008	2009	2010	2011	2012	2013	2014
Total overnights	56,729,000	55,949,000	56,417,000	60,355,000	62,375,000	64,808,000	66,484,000
Seaside destinations	53,573,000	52,911,000	52,869,000	56,439,000	58,098,000	61,287,000	62,565,000
Spa destinations	443,000	383,000	363,000	366,000	356,000	358,000	397,000
Mountain destinations	444,000	430,000	430,000	448,000	469,000	428,000	433,000
Zagreb	1,102,000	969,000	1,007,000	1,092,000	1,157,000	1,324,000	1,488,000
Other destinations	1,167,000	1,256,000	1,748,000	2,010,000	2,295,000	1,411,000	1,601,000

TABLE 13: OVERNIGHTS BY TYPE OF RESORTS IN CROATIA, 2008-2014

Source: Croatian Bureau of Statistics, 2015

A tourist resort is an attractive place with ease of access and transport connections and with reception establishments (Croatian Bureau of Statistics, 2015). Croatia achieves the highest volume of overnights at seaside resorts. According to the Croatian Statistical Office, seaside resorts are “places located along the sea coast and on the islands”. Based on results presented in Table 13, the Croatia’s USP is see-sand-see product. With this product, Croatia records the highest number of tourism arrivals and overnights in the Eastern Adriatic region. The volume of overnights in the capital of Zagreb boosted for 35 % since 2008.

Accommodation establishments in Croatia are differentiated between collective accommodation establishments and private accommodation establishments. Collective accommodation establishments consider hotels and similar establishments, holiday and short stay accommodation, such as mountain huts, overnight establishments, inns, guest houses, camping sites, mountain and hunting huts, spas, hostels and others. On the other hand, private accommodation establishments consider rooms to let, apartments and summer houses, camping site in households and rural houses. In 2014, **64 % of all overnights were made in collective accommodation establishments** and **36 % of overnights in private accommodation establishments**. Overnights in hotels presents 39 % of all collective accommodation establishments overnights. Overnights in hotels and camping sites present 78 % of the total collective accommodation establishments.

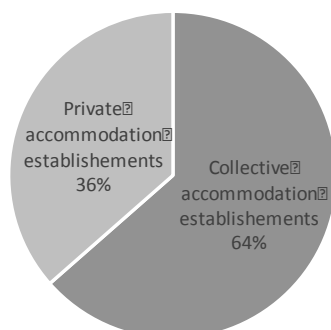


FIGURE 7: SHARE OF OVERNIGHTS IN PRIVATE AND COLLECTIVE ACCOMMODATION ESTABLISHMENTS, 2014

Source: Croatian Bureau of Statistics, 2015

In 2014, overnights in hotels presented 25 % of total overnights in all types of accommodation establishments. The highest number of overnights was recorded in private accommodation establishment, which includes rooms to let, apartments, summer houses, camping sites in households and rural houses. Following private accommodation establishments, the volume of overnights is made in hotels and in camping sites. Figure 8 shows detailed share of overnights by type of accommodation establishments compared with the total number of overnights by the type of accommodation establishments.

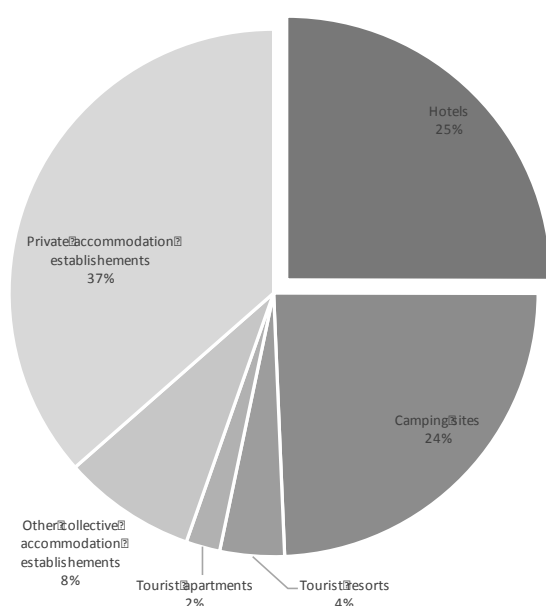


FIGURE 8: SHARE OF OVERNIGHTS BY TYPE OF ACCOMMODATION ESTABLISHMENTS, 2014

Source: Croatian Bureau of Statistics, 2015

In six years, the growth of private accommodation establishments (+31 %) has grown more significantly than the collective accommodation establishments (+10 %). In the same period, the growth of overnights in hotels was 9 %.

4.2.2 Hotel Performance

According to the report conducted by the Croatian Bureau of Statistics (2015), 336,000 rooms in total and 1,002 thousand beds were on the market in Croatia in 2014. Almost 55 % (185,000) rooms were

in the collective accommodation³ and 45 % in the private accommodation⁴. In 2014, the number of the total rooms on the market reached the number of rooms in the end of 1908s. In 1991, the number of bed rooms fell to 200,000. It is important to note that before 1991 almost one third of beds were in collective accommodation and after 1998 the number of rooms in private accommodation was boosting for a decade. In 2005, the almost equal share of rooms on the market in collective and in private accommodation was recorded.

In 2014, the category of hotels and similar establishments included 909 units, of which 657 were hotels. If compared to 2013, Croatia got five new hotels in 2014. Many hotels are categorized with three stars (48 % of the total hotels in 2014), followed by four star hotels (almost 35 % of the total in 2014), two star hotels (12 % of the total in 2014) and finally five star hotels (5 % of the total in 2014). 2013 – 2014, the number of two star hotels was booming (Croatian Bureau of Statistics, 2015).

Hotels	Number of establishments	Accommodation units		Beds		
		Number of rooms	Suits	Total	Permanent	Extra
**	79	7,282	206	16,847	14,909	1,938
***	317	22,349	1,075	52,651	46,411	6,240
****	227	21,747	1,417	52,450	45,140	7,310
*****	34	5,247	357	11,100	10,430	670
Total	657	56,625	3,055	133,048	116,890	16,158

TABLE 14: ACCOMMODATION CAPACITIES IN HOTELS, 2014

Source: Croatian Bureau of Statistics, 2015

Data for 2014 shows that hotels and similar establishments in Croatia are very close to full occupancy in the peak season. The monthly occupancy rate shows the strong seasonal structure of the Croatian tourism. In the peak season hotels and similar establishments reach almost full occupancy, while the occupancy of the first three months and the last two in the year is below 30 %.

³ Collective accommodation establishments are those providing overnight accommodation to tourists in a room or another unit, but the number of places it provides must be greater than a specified minimum for groups of persons exceeding a single-family unit, that is, more than 20 beds, and all the places in the establishment must come under a common commercial-type management, even if it does not make a profit (Croatian Bureau of Statistics, 2015).

⁴ Private accommodation establishments, according to the Act on Hotel and Restaurant Activity (NN, No. 49/03), provide a limited number of places that does not exceed a specified national minimum regarding its capacity (up to 8 rooms, that is, up to 16 beds, in rooms, apartments and summer houses in households and up to 10 accommodation units, that is, up to 30 guests at the same time, in camping sites in households) (Croatian Bureau of Statistics, 2015).

Month	Permanent beds in hotels and similar establishments	Overnights	Occupancy rate of permanent beds (in %)
I	51,115	202,668	12.8
II	41,196	215,532	18.7
III	64,038	407,940	20.5
IV	133,667	1,176,388	29.3
V	151,250	1,961,703	41.8
VI	159,267	3,089,935	64.7
VII	159,728	4,189,832	84.6
VIII	160,486	4,734,970	95.2
IX	159,065	3,099,028	64.9
X	129,394	1,302,922	32.5
XI	62,899	332,528	17.6
XII	54,558	290,616	17.2

TABLE 15: PERMANENT BEDS IN HOTELS AND SIMILAR ESTABLISHMENTS AND OCCUPANCY RATE BY MONTHS, 2014

Source: Croatian Bureau of Statistics, 2015

Operational revenue in the hotel industry, i.e. a success of selling the right product to the right buyer at the right time, with adequate price management, is measured with three indicators: occupancy rate, average room rates (ARR) and revenue per available room (RevPAR).

The study of the Benchmarking of the Croatian hotel industry calculated the occupancy based on the number of operating days (operating occupancy) and the number of days based on the calendar days (total occupancy).

In 2015, the average operating occupancy⁵ rate in Croatia was 69 %: in Istria 73 %, Kvarner 58 %, Dalmatia 79 % and in the continental Croatia 59 %. Additionally, the highest average operating occupancy was in three star hotels (74 %), followed by four star hotels (70 %) and five star hotels (58 %). ARR in destination was 83 euro (Faculty of Tourism and Hospitality Management, 2015).

The highest operating occupancy was recorded in Dalmatia (79 %), three star hotels (74 %), and hotels with the capacity between 151 and 200 rooms (81 %). On the other hand, the highest total occupancy in 2015 was in the continental Croatia (59 %), four and five star hotels (45 %), with the capacity between 201 and 250 rooms (50 %) (Faculty of Tourism and Hospitality Management, 2015).

ARR for the sample of hotels was 83 euro. The highest ARR was in Istria with 92 euro, 86 euro in Kvarner, 75 euro in Dalmatia and 64 euro in the continental Croatia. It is expected that the highest room rate value was in five star hotels, where ARR was around 140 euro (Istria). Hotels up to 75 rooms generated the highest room rate, around 106 euro (Faculty of Tourism and Hospitality Management, 2015).

⁵ Occupancy based on the number of operating days in 2015

Average RevPAR on the destination was the highest in five star hotels (79 euro, with up to 160 euro), followed by four star hotels (54 euro, with up to 86 euro) and finally three star hotels (47 euro, with up to 69 euro). Istria is still the leading one with the highest RevPAR of 67 euro (min 44 euro, max 142 euro) than Dalmatia with 59 euro (min 28 euro, max 123 euro), Kvarner 47 euro (min 13 euro, max 106 euro) and the continental Croatia 41 euro (min 19 euro, max 76 euro). The highest average RevPAR of 75 euro was generated in hotels with 75 to 150 rooms (Faculty of Tourism and Hospitality Management, 2015).

The average TRevPAR in Croatia was 86 euro, with the highest generated in Istria (104 euro) in five star hotels (122 euro) with the room capacity between 75-150 rooms (114 euro). The average total revenue per night (TRevPN) on the destination was 66 euros, with the highest in the continental Croatia (83 euro) in five star hotels (122 euro) with the capacity up to 75 rooms (81 euro) (Faculty of Tourism and Hospitality Management, 2015).

The most significant share of the overall revenue structure consists of the revenue from the accommodation (65 %), F&B (30 %), other operating revenue (2 %), rent and other revenues (1 %), wellness (1 %), sport and recreation (1 %) (Faculty of Tourism and Hospitality Management, 2015).

4.3 Montenegro

4.3.1 Destination Performance

In the summer of 2006, Montenegro declared the independence from the former Republic of Serbia and Montenegro. The analysed data on tourism performance is used from 2006 on. In 2005, Montenegro considered Serbs and Montenegrins as domestic tourists.

Tourism arrivals in Montenegro show growth in the last decade. The trend of domestic arrivals was slightly stagnating, whereas international arrivals were booming. With 69 %, international tourism arrivals boomed between 2006 and 2014. The strongest growth of international arrivals was 2010 – 2011. Arrivals increased for 10 %, which is 113,305. In 2014, Montenegro was visited by 1,350,297 foreign tourist and 167,079 Montenegrins.

Figures 9 and 10 show trends in domestic and international arrivals and overnights in the period of 2006 – 2014. In 2006, Montenegro declared independence.

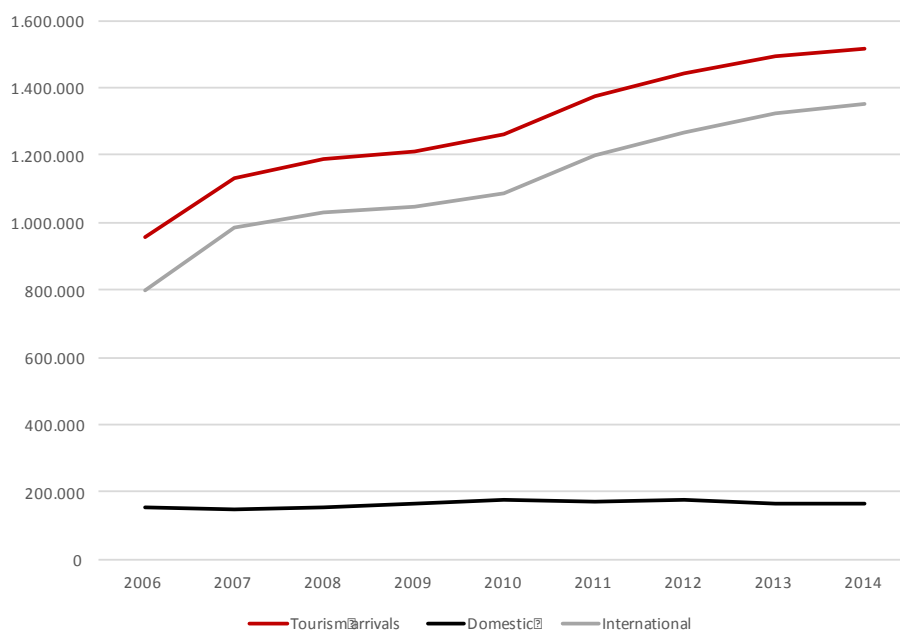


FIGURE 9: ARRIVALS IN MONTENEGRO, 2006-2014

Source: Statistical Office of Montenegro, 2011

In the same decade, overnights followed the growth of arrivals. International tourism arrivals show a positive trend with slight fall in 2009 (-4 %). Since 2012, domestic overnights stagnated with a slight decrease. In 2014, 8,596,656 (+2 % p.a.) international overnights and 957,127 (-4 % p.a.) domestic overnights were recorded. In 2014, only a tenth of overnights was made by domestic tourists. International overnights presented 90 % of all overnights in 2014.

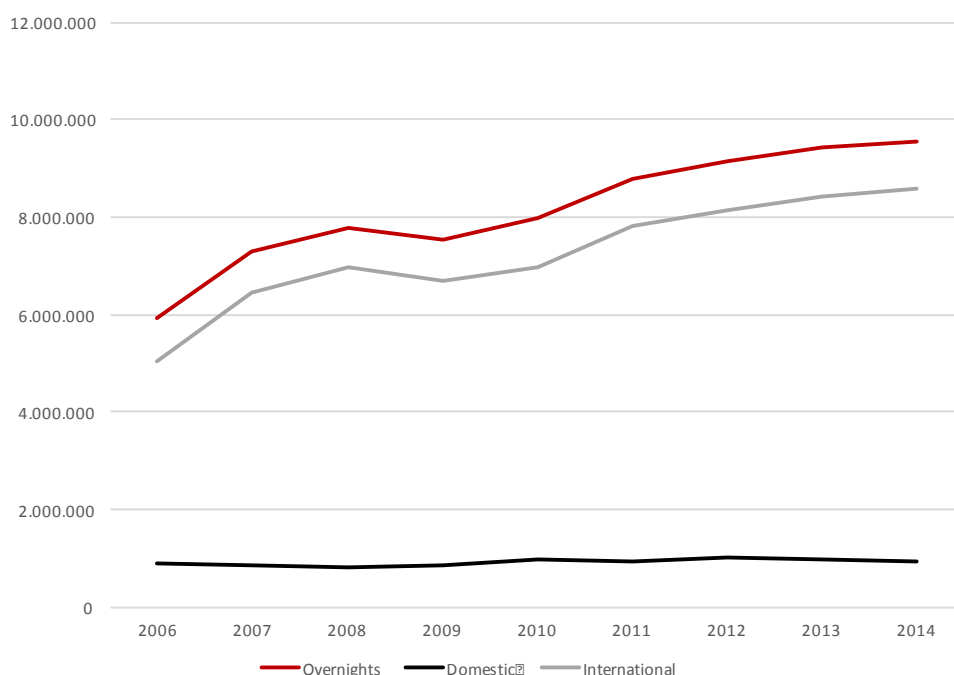


FIGURE 10: OVERNIGHTS IN MONTENEGRO, 2006-2014

Source: Statistical Office of Montenegro, 2011

According to the UNWTO reporting (UNWTO, 2016), the average length of stay in hotels and similar establishments of international tourists has slightly decreased since 2010. In 2014, an average foreign tourist spent 4,28 nights and domestic tourist 3,25 nights.

With 959 million US dollars, international tourism expenditure in the period between 2010 to 2014, was the highest in 2014. In 2012, the expenditures fell for 7 % and have since then continued to grow (UNWTO, 2016). In 2014, the international tourism expenditure experienced an increase of 25 %, if compared to 2010.

	2008	2009	2010	2011	2012	2013	2014
Total Overnights	7,794,741	8,447,506	7,963,993	8,775,171	9,151,236	9,411,943	9,553,783
Seaside Resorts	7,459,794	7,244,830	7,643,320	8,493,955	8,858,226	9,128,809	9,258,017
Mountain Resorts	102,560	995,000	123,151	107,506	110,172	107,548	90,341
Podgorica	111,271	103,464	112,569	103,636	102,875	116,532	128,115
Other Tourist Resorts	120,682	102,208	83,896	68,249	76,002	56,136	75,154
Other places	434	2,004	1,057	1,825	3,961	2,918	2,156

TABLE 16: OVERNIGHTS IN MONTENEGRO BY TYPE OF RESORTS, 2008-2014

Source: Statistical Office of Montenegro, 2011

The highest number of overnights in Montenegro was recorded at seaside resort. Roughly 97 % of total overnights in 2014 were recorded at seaside resorts. The capital city of Podgorica recorded only 128,115 overnights, i.e. only 1 % of the total overnights. Additionally, mountain resorts recorded 90,341 overnights, which is less than 1 % of the total overnights in Montenegro. Between 2008 and 2014, the results show the 24% growth at the seaside resorts and 23 % growth of the total overnights. The growth in the same period in the capital of Podgorica was only 15 %.

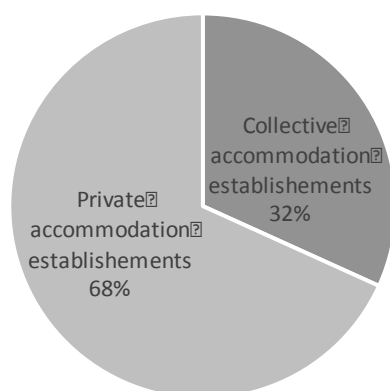


FIGURE 11: SHARE OF OVERNIGHTS IN PRIVATE AND COLLECTIVE ACCOMMODATION ESTABLISHMENTS, 2014

Source: MONSTAT, 2008-2014

In Montenegro, accommodation establishments are divided into private and collective accommodation. Private accommodation establishments include private rooms to let, apartments and houses. The collective accommodation establishments combine hotels and other similar establishments, spas, camping sites, and others. Figure 12 shows the share of overnights by type of accommodation establishments in the selected accommodation establishments.

In 2014, the highest share of overnights was at private accommodation establishments (68 %), which combine rooms to let, apartments and houses. Only 24 % of the total overnights recorded in Montenegro were in hotels. Minor share was realised in tourist resorts (4 %) and spas (2 %). Camping sites recorded less than 1 % of total overnights in 2014.

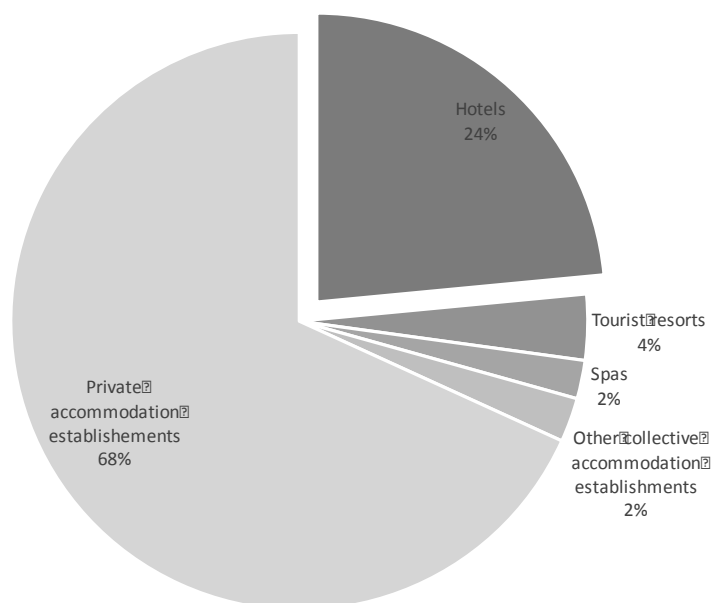


FIGURE 12: SHARE OF OVERNIGHTS BY TYPE OF ACCOMMODATION ESTABLISHMENTS, 2014

Source: MONSTAT, 2008-2014

According to the Statistical Office of Montenegro (2011), a certain number of tourist arrivals and overnights in private accommodation establishments, rooms, houses, camping sites and apartments, were not covered since the guests were not registered. Consequently, overnights the share of private accommodation establishments would have even been higher.

4.3.2 Hotel Performance

In 2014⁶, 261 hotels were registered in Montenegro, with most of three (36 %) and four (37 %) stars, followed by two and one star hotels. There were only six five (2 %) stars hotels. 68 % of the beds in the total hotel market were part of three, four of five star hotels. In 1989, 33.375 beds⁷ (98.537 beds in other establishments) were on the market. In 2014, the market consists of 38,208 hotel and similar establishment beds (121,139 beds in other establishments). Data show that Montenegro has followed

⁶ All data in this chapter refer on forecast for 2014, which is based on the 2013 financial year

⁷ Beds in hotels and similar establishments

the typical historic development in the region. Since the beginning of 1990s a higher increase in number of capacities in private rooms' accommodation establishments than in hotel rooms was marked (Horwath Consulting Zagreb, 2014).

The major distribution of accommodation capacities (beds) is in the seaside area (96%). The central and mountain areas present only 4 % of the total available beds in Montenegro. The same regional distribution of accommodation capacities was noted back in 1989 (Horwath Consulting Zagreb, 2014).

According to the Horwath Hotel Industry Survey (2014), the average size of property was 142 rooms with the average annual room occupancy of 35.9 % and ARR of 69.69 euro. Daily RevPAR in 2009 was 19.6 euro (TRevPAR 15,129 euro), having risen to 25.1 euro by 2014 (TRevPAR 22,677 euro). By 2016, the growing trend is forecasted, with expected 29.9 euro in 2015 and 32.7 euro in 2016 (Horwath Consulting Zagreb, 2014).

The average room occupancy in 2014 was 35.9 %, which was in line with 2013. In the last decade, the hotel industry in the **Seaside area** was booming. 2005 – 2014, the operating revenue of the surveyed hotels⁸ increased by 146 % (to an average of 21,000 euro/room). The survey suggests that the main reason for the growth is 2.5 times increased ARR. The average annual occupancy rate in 2014 was 35.6 % (37.2 % in 2013) with whit retained ARR of about 70 euro. The average annual occupancy and ARR at the hotels in the Seaside area is in line with the average recorded results in Montenegro (Horwath Consulting Zagreb, 2014).

The highest room occupancy (41.2 % in 2013, **43.6 %** in 2014) in the hotel industry was in the **Mountain area**. Important to mention for this area is the fact that the hotel industry in the area covers part of the business in the highly attractive mountain destinations where the market potential has not yet fully been exploited. The Mountain Area occupancy rate is higher than the average for Montenegro. ARR increased to 72 euro in 2014. Hoteliers participating in the study by the Hotel Industry Survey suggested a moderate growth of 75 euro (ARR) and average occupancy of 46 % in the mountain area by 2016. For the financial year of 2014, experts forecasted that the hotels at the Seaside region would realize losses caused by the high costs of depreciation and interests as a result of investments. This should increase the quality of the properties (Horwath Consulting Zagreb, 2014).

Hotels in the **Central area** operate all-year-round, which is why the operating revue (about 34,000 euro in 2013 and 2014) is much higher than at the Seaside and Mountain areas. Based on the number of operating days, the annual average occupancy rate (about 40 %) is higher than the national average with ARR 84 euro. In the period between 2005 and 2014, hotels increased the average annual operating revenue per room for 4.3 times. The operating revenue in the Central area was 1.5 times higher

⁸ According to the Horwath Hotel Industry Survey Montenegro 2014

than the national average. It is interesting that the hotels increased operating revenues in the observed period, but in the same time room revenues did not increase. By 2016, a strong growth in the occupancy is expected, which significantly reduces the ARR. Hotels in the Central region reached the highest profitability on the national level and made significant profit, an average of 17.6 % of the total revenue (Horwath Consulting Zagreb, 2014).

Results **by hotel category** show that the highest operating RevPAR by hotel category is in five and four plus star hotels. In 2014, RevPAR in 5* and 4+* rose for 5 % (to 77,539 euro on average per room) compared with 2013. There is a clear difference between high class hotels and other Montenegrin hotels in operating RevPAR. In 2014, 4* hotels reached 21,021 euro, while 3* hotels earned 7,088 euro and 1* hotels 4,406 euro per room. 2005 – 2014⁹, the average room rate per room in 4* hotels increased by 71 % and in 3* hotels for 28 %. The highest profitability reached four star hotels. Three star hotels were profitable, but they generated an insufficient level of operating profitability (Horwath Consulting Zagreb, 2014).

In 2013, ARR in high class hotels (4*+ and 5*) were 53 % higher than in 4* hotels in Montenegro. Basically, only ARR in high class hotels was above national average. Two to four-star hotels were performing under the national average (70.45 euros in 2013)¹⁰ (Horwath Consulting Zagreb, 2014).

4.4 Bosnia and Herzegovina¹¹

4.4.1 Destination Performance

In Bosnia and Herzegovina, the official national statistical office was established in 2006. Therefore, the data for arrivals and overnights has been available since 2007. The following analysis for destination Bosnia and Herzegovina uses data for the period 2007 – 2014.

Results in the observed period show a positive trend with a slight fall in 2009. Since 2009, the arrivals have been growing on annual basis. In 2009, a decline of domestic (-9.5 %) and international (-3.3 %) arrivals was recorded. In 2014, 846,581 tourists visited Bosnia and Herzegovina, of which 310,227 were domestic and 536,354 international. Arrivals have been stagnating since 2013, what is more, in 2014 a slight decline in domestic arrivals for 2 % and a growth of international arrivals for 1 % was marked.

⁹ In 2005, five star hotels were not included in the Horwath Hotel Industry Survey

¹⁰ 69.96 euro were forecasted for 2014

¹¹ Methodology note: The national statistical office of Bosnia and Herzegovina does not collect the data for overnights by resorts and type of accommodation establishments.

In the past seven years, since the national statistical office has been established, arrivals decreased for 45% in Bosnia and Herzegovina. Slightly more than one third of total visits in 2014, were made by domestic tourists. Since 2009, a trend of strong increase of international visits has started, with its stagnation since 2013. In the observed period, international arrivals boosted stronger than domestic.

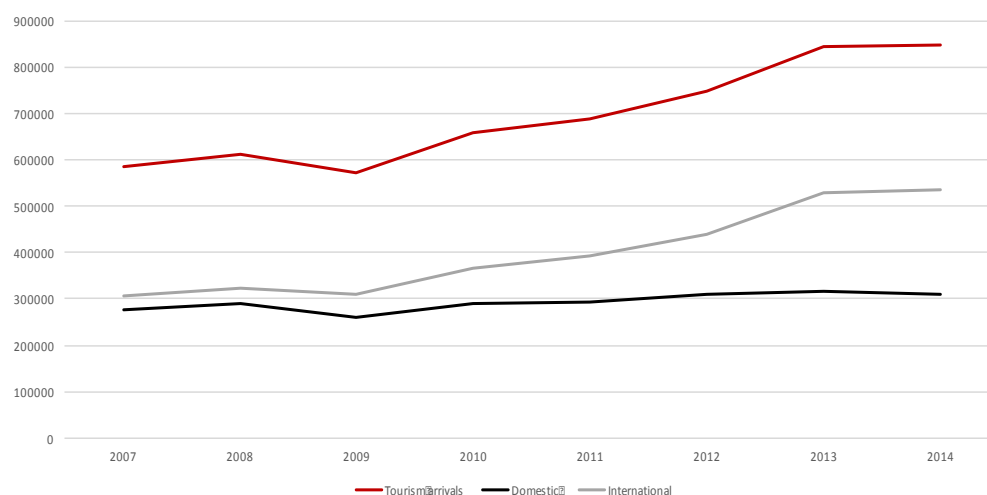


FIGURE 13: ARRIVALS IN BOSNIA AND HERZEGOVINA, 2007-2014

Source: Agency for Statistics of Bosnia and Herzegovina, 2016

In 2014, Bosnia and Herzegovina marked 1,711,480 overnights, of which 623,008 (36.4 %) were domestic and 1,088,472 (63.6 %) international. Overnights followed the trend of arrivals, with a decline in 2009. International overnights were stronger than domestic, which hold the same with arrivals. Results show a strong growth of international overnights in the period 2009 – 2013.

International overnights have grown in line with international arrivals. The strongest annual growth was recorded in 2010 (+12 %) and 2013 (+11 %). Furthermore, the same scenario occurred with the volume of visitors in Bosnia and Herzegovina, with the strongest annual growth in 2010 (+15 %) and 2013 (+13 %).

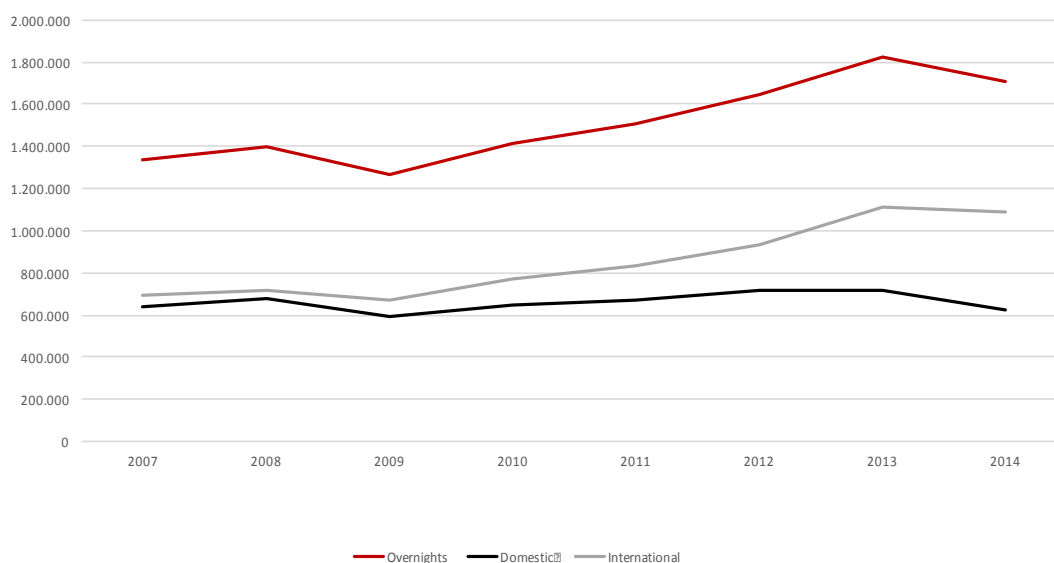


FIGURE 14: OVERNIGHTS IN BOSNIA AND HERZEGOVINA, 2007-2014

Source: Agency for Statistics of Bosnia and Herzegovina, 2016

According to the UNWTO (UNWTO, 2016), an average length of stay in hotels and similar establishments of international tourists has slightly been decreasing since 2011. In 2013, a foreign and domestic visitor spent 2.10 nights on average in Bosnia and Herzegovina.

International tourism expenditure in the period 2010 – 2014, reached the peak in 2014, with 779 million US dollars (UNWTO, 2016). In 2012, the expenditures fell for 5 % and have since then continued to grow. Comparing international tourism expenditure of 2014 with 2010, 2014 marked the 18% higher expenditure.

4.5 Albania

4.5.1 Destination Performance

Since 2005, tourism arrivals in Albania recorded significant growth. In 2005, 2,666,953 tourists visited Albania and in 2014 7,544,601. The major growth of 183 % in this decade was in line with domestic and international arrivals. According to the Statistical office of the Republic of Albania, the strongest growth was marked in the period 2005 – 2006 (+29 %). International arrivals showed growing trend for the period 2005 – 2012, with a slight fall in 2012, which was followed by a growth of 13 % in 2014. On the other hand, domestic arrivals were growing by 2009. In 2010, a slight decline of 4% followed and continued with waves of growth and decline per annum. In 2014, Albania was visited by 7,544,601 tourists, of which 51 % were domestic and 49 % international.

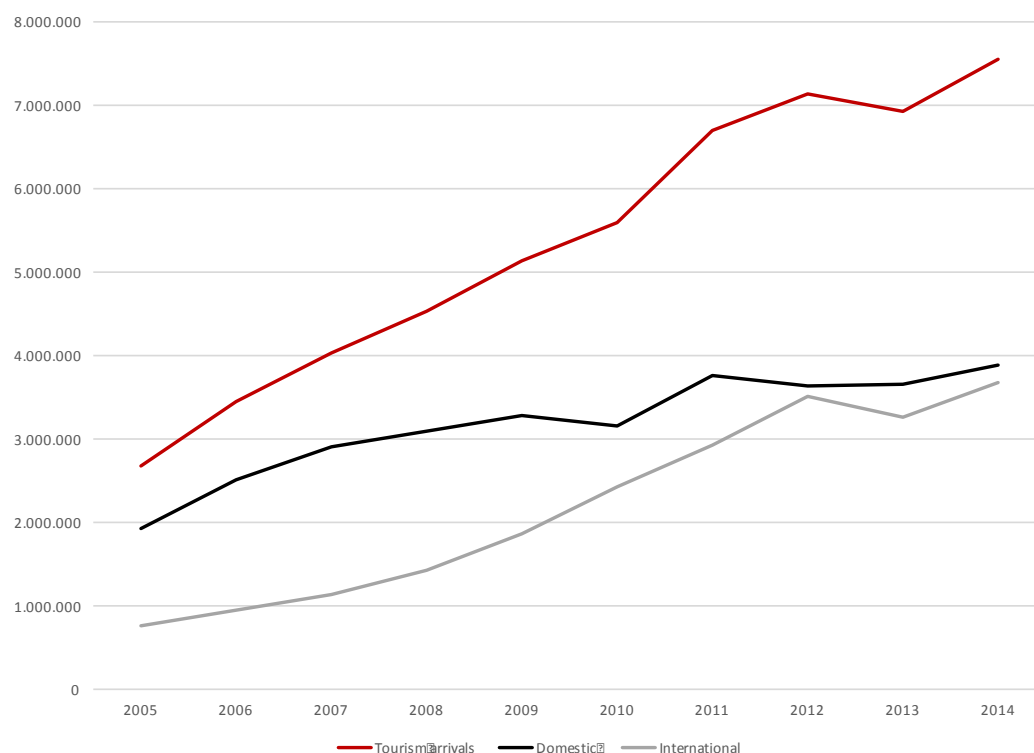


FIGURE 15: ARRIVALS IN ALBANIA, 2005-2014

Source: INSTAT, 2016

In the period 2005 – 2011, Albania recorded extreme growth in the number of overnights, reaching its pick in 2011, with 801,000 overnights and the growth of 133 %. 2011 – 2013 Albania recorded a negative trend of overnights and growth in 2013. Without any doubt, 2011 was the most successful in terms of number of overnight stays in Albania. According to the Statistical office of the Republic of Albania for 2014, 459,000 overnight stays were recorded, which is 43 % less than in 2011, the most successful year.

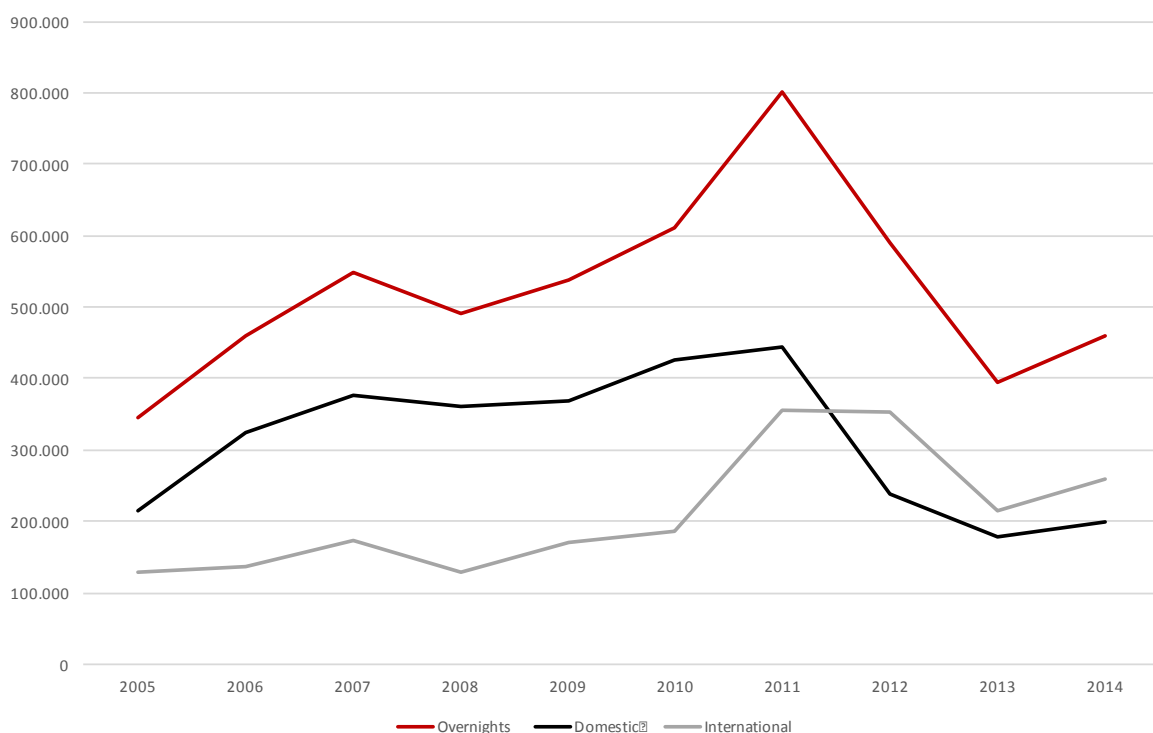


FIGURE 16: OVERNIGHTS IN ALBANIA, 2005-2014

Source: INSTAT, 2016

From 2005 to 2011, the volume of domestic overnights was larger than of the international ones. In 2012, after a drastic fall of domestic overnights, the number of international surpassed domestic. Since 2011, domestic overnights recorded a negative trend with a slight increase in 2014. International overnights recorded a decline of 39 % from 2012 to 2013.

According to the UNWTO (UNWTO, 2016), the average length of stay in hotels and similar establishments of international tourists has slightly been decreasing from 2011. In 2014, a foreign tourist to Albania spent on average 1.6 nights and a domestic tourist 1.4 nights.

For the period 2010 – 2014, international tourism expenditure reached the peak in 2014, with 1,849 million US dollars. In 2011, the expenditures fell for 12 % and since then continued to grow (UNWTO, 2016).

4.6 Overview of the Tourism Performance in the Eastern Adriatic Region

In 2014, the highest volume of arrivals was recorded in Croatia, followed by Albania, Slovenia, Montenegro, and Bosnia and Herzegovina. In 2014, Croatia recorded roughly 13 million arrivals, which is almost four times more than Slovenia and twelve times than Montenegro. In the past 5 years, all the submarket areas recorded a positive trend of arrivals. Croatia is the only submarket area, where above ten million arrivals were recorded in the past five years.

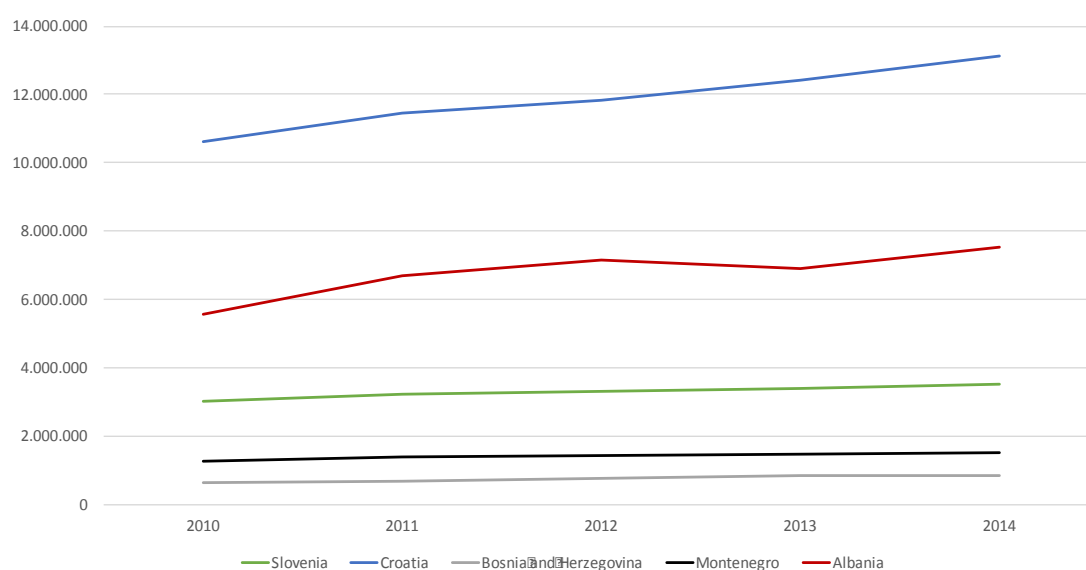


FIGURE 17: ARRIVALS IN THE EASTERN ADRIATIC REGION, 2010-2014

Source: Agency for Statistics of Bosnia and Herzegovina, INSTA, Statistical Office RS, Statistical Office of Montenegro, 2016

From 2010 to 2014, Croatia, Slovenia and Montenegro showed a positive trend in overnights during the whole period. In Bosnia and Herzegovina results show a slight decline in overnights for 6 %, following a positive trend in the past four years. In 2011, overnights in Albania fell for 26 % and continued to fall until 2013. Overnights in Albania recovered in 2014. In 2014, overnights in all submarket areas showed a growth in comparison to 2014 except in Bosnia and Herzegovina.

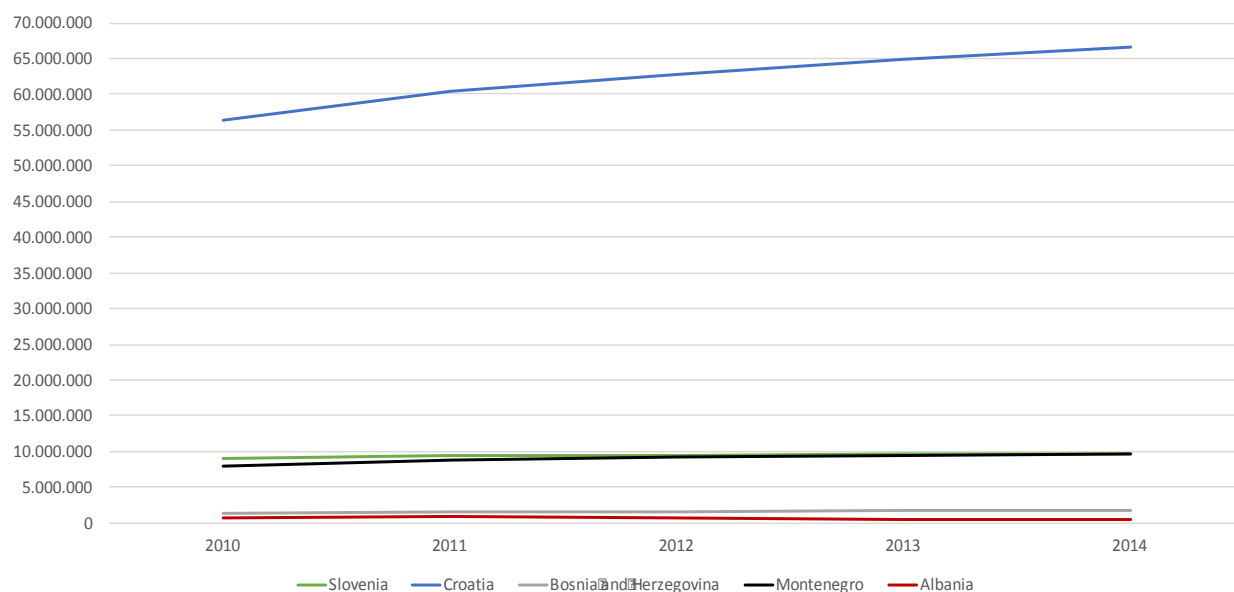


FIGURE 18: OVERNIGHTS IN THE EASTERN ADRIATIC REGION, 2010-2014

Source: Agency for Statistics of Bosnia and Herzegovina, Croatian Bureau of Statistics, INSTA, Statistical Office RS, Statistical Office of Montenegro, 2016

Volume of the Croatian submarket area is higher than in the other destinations, which means that it cannot be compared with other destinations. Only in Croatia, overnights reached over 55 million in the five-year period, while the rest of destinations were in the interval up to ten million overnights per annum. Figure 19 shows overnights in destinations, where the volume of overnights reached up to ten million annually.

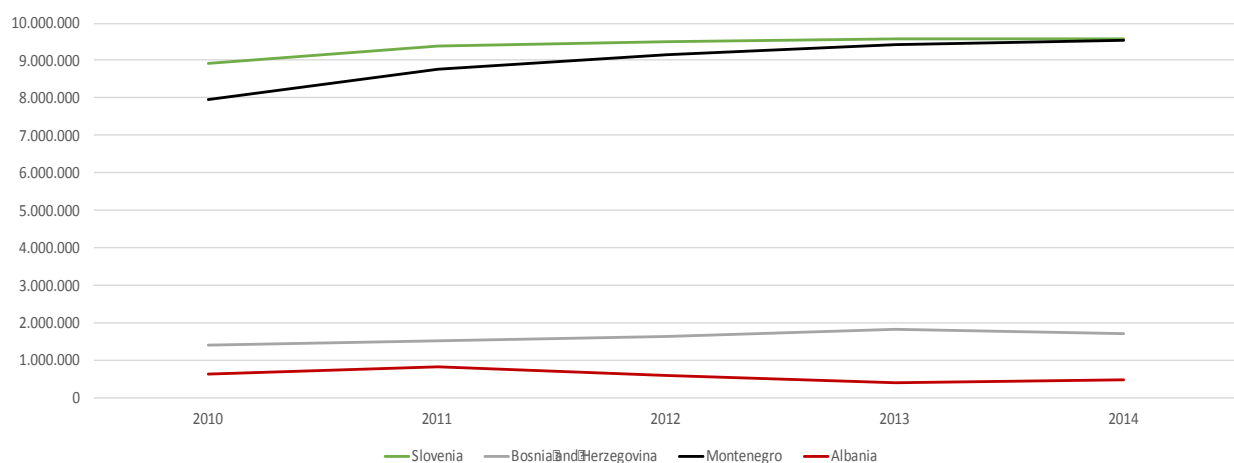


FIGURE 19: OVERNIGHTS IN ALBANIA, BOSNIA AND HERZEGOVINA, MONTENEGRO AND SLOVENIA

Source: Agency for Statistics of Bosnia and Herzegovina, INSTA, Statistical Office RS, Statistical Office of Montenegro, 2016

Since 2011, overnights in Slovenia have slightly stagnated, while Montenegro had a constant growth from 2010 and in 2014 caught up with the Slovenian volume. On the other hand, Bosnia and Herzegovina and Albania experienced a rage with two million overnights. Figure 19 shows a slight fall for Albania in 2011 and in Bosnia in 2013. To conclude, Croatia is a leader in the EAR, followed by Slovenia and Montenegro.

In terms of hotel and accommodation volume, the leader in the EAR is Croatia with 657 hotels (Croatian Bureau of Statistics, 2015). Slovenia offers 297 hotels (Statistical Office RS, 2016) and Montenegro 261 (Horwath Consulting Zagreb, 2014). The main issue in the Slovenian hotel market is that hotel performance indicators show continuous negative performance trend in the past four years. Croatian capacities are in the peak season close to the full occupancy. The monthly occupancy rate shows the strong seasonality of the Croatian tourism. The major distribution of accommodation capacities is at the sea-side areas, i.e. almost 96 %. The Montenegrin hotel market has similar Mediterranean issues as the Croatian market.¹²

Croatia and Montenegro mark a huge gap between the share of overnight stays in private and collective accommodation. One of the key issues in the market is a huge number of private rooms in comparison with hotel establishments. In Croatia, the share of hotel overnights presents 25 % (Croatian Bureau of Statistics, 2015) and in Montenegro 24 % (Statistical Office of Montenegro, 2011). On the other hand, Slovenia marks 61 % of the total overnights at the hotel establishments (Statistical Office RS, 2016).

¹² Data for 2014

SECTION SUMMARY

This section summarizes the literature review with the selected key economic and tourism performance indicators in the Eastern Adriatic and discusses the research questions, which are the main research guidelines for resolving the research problem, following by the research methodology presented in the next chapter. Based on the literature review, the market analysis presents dynamism and attractiveness of the market. According to Herr Valuation Advisors (2016), the analysis of the market forms an overview of the market area, supply and demand factors and shows subjects' positions within the market.

With no doubts, the best economic performance in the region have Slovenia and Croatia. Based on the selected economic indicators Slovenia shows the best economic performance in the EAR, with the highest GDP per capita. The unemployment rate was in the observed period under 10 % only in Slovenia. On the other hand, Croatia has the best results in direct foreign investments and the total GDP. Croatian and Montenegrin economies are highly dependent on tourism sector. Based on the high dependency of national GDPs on tourism, monthly employment rate varies during the year. Even though tourism creates about 20% of total job creation, especially in Croatia, there is still a lack of tourism workforce during the high season.

The best tourism results were in Croatia. Although, all the submarkets show a positive trend in tourism performance indicators, Croatia is the only submarket with the above ten million arrivals within the destination and above fifty million overnight stays. Furthermore, Croatia is the leader with 657 hotels, followed by 308 hotels in Slovenia and 261 hotels in Montenegro. Croatia and Montenegro mark a huge gap between overnight stays in private accommodation and hotels. Additionally, based on the registered volume of arrivals in Montenegro and, on the other hand, other sources, which can count into track of the volume of the foreigners in the country, it is quite unusual that almost 50% of the guests are not registered in the destination. The key economic and tourism performance indicators for the submarkets are summarized for 2014 in the table 17. The table 17 presents the economic and tourism volume of every submarket in the Eastern Adriatic.

	2014				
	Slovenia	Croatia	Montenegro	Bosnia and Herzegovina	Albania
Population	2.062.218	4.238.389	621.800	3.817.554	2.894.475
GDP in EUR	44.205.754.762	51.013.679.374	4.097.938.079	16.333.299.252	11.800.524.060
GDP per capita in EUR	21.436	12.036	6.590	4.334	4.077
Total contribution of Travel and Tourism to GDP in EUR	4.633.500.000	10.321.488.000	689.500.000	1.241.895.899	2.173.380.000
Arrivals	3.524.020	13.128.000	1.517.376	846.581	7.544.601
Overnights	9.590.642	66.484.000	9.553.783	1.711.480	459.000
Share of overnights in hotels	61%	25%	24%	n/a	n/a
Number of hotels	297	657	261	n/a	n/a
Number of total beds	41.208	133.048	38.208	n/a	n/a

Currency exchange rate on 27 May 2017, European Central Bank, 1 USD=0.8932 EUR, 1 HRK=0.1347 EUR; Central Bank of Bosnia and Herzegovina, 1 BAM= 1.9558 EUR; Bank of Albania, 1 EUR=0.0074 ALL

TABLE 17: SUMMARIZED PERFORMANCE INDICATORS FOR THE EAR, 2014

Source: World Bank, WTTC, Croatian Bureau of Statistics, Slovenian Statistical Office, Statistical Office of Montenegro, Instat, 2016

Investing in hotel properties, which is a combination of real estate and business, is according to Paris Inn Group (2017), one of the fastest growing forms of investment in the real estate market. They argue, that the hospitality industry is built on solid fundamentals and that returns can be predictable. However, based on the Development Manager NH Hotel Group France UK, Eric Belluardo (2017), the capital is available on the market. The main challenge in hotel business is to find the right deals and the right partners.

The following chapter will describe the selected methodology of the research. The objective of the study is to define whether the potential hotel investors find the Eastern Adriatic market appealing for their capital investments.

The main research question is “*Why is the international interest for the hotel real estate in the Eastern Adriatic Region low*”. This is followed by further four research question:

- RQ1: Is there any connection in the trend between the tourism destination performance and hotel performance in the Eastern Adriatic region?
- RQ2: Who is investing in the market (type of investors) and what are they looking for (type of properties)?
- RQ3: Are the historic background of the hotel industry and ownership changes (transition period) the main factors for the lack of interest of the foreign investors into the market?
- RQ4: Do investors consider the market attractive for the hotel real estate investments?

The research results, according to data collected based on the methodology framework discussed in the next chapter will address the research problem and give answers to the four research questions.

5. METHODOLOGY

5.1 Introduction

The crucial point of the analysis is defining a methodology for the market analysis. Defining appropriate methodology means to select the mean of achievement of the research objective. Findings based on the literature review, show the need for continuous further research in the hotel performance and hotel market analysis in the each of the submarkets as the overall market area. Furthermore, the defined market area of the study indicates a common variable, i.e. the economic and political system, which defines the area as the common market area. Based on the lack of research of the subject in the market, there is a need for an overall hotel market analysis in the Eastern Adriatic.

The research combines secondary and primary data. The primary data is analysed with two models and the secondary data is framed based on the selected performance indicators. The final objective of the research is to get the overall picture of the destination and hotel performance in the market as the correlation between the both. Finally, the research indicates the level of the market attractiveness for the potential hotel investors to the market.

5.2 Selection of Methodology

In general, there is a poor number of research papers about the hotel business in the Eastern Adriatic. Also, the number of analyses of the carrying capacities of the environment for tourism activities in the market is low. The research strategy of the study is to combine the expert interviews with the desk research. Based on the research status of the topic, the only reasonable research instrument for primary data collection is the selected expert interview. The expert interviews are divided in two groups; interviews with consultants in hotel and tourism business, and interviews with representatives of national tourism authorities.

The interviews with experts in hotel and tourism industry give key insights into the overall hotel investments in the current situation in the Eastern Adriatic market. Additionally, consultants can indicate the sentiment of the potential hotel investors in the real estate market in the EAR. The selection of consultants was made by the criteria of their business presence in the EAR. The main criteria is that the selected consultant companies are having or had their business activities in the EAR. Based on that, four consultant companies have been selected. One of them is strongly present with their business activities in the South-Eastern Europe.

Additionally, there were selected three tourism authority bodies for the expert interviews. Each one is from the selected submarkets, which is the focus of the research. The respective tourism authorities

summarize the overall picture of the tourism submarket with key barriers and drivers of the destinations. Additionally, they give insights of the current tourism investment policy with focus on taxation and regulations.

The secondary data is collected by desk research. Based on the data availability, a trend of five to seven years for the secondary data collection was selected, for the economic and tourism performance indicators. The secondary data gives a basis for the primary data collection and the general overview of the market. Economic and tourism performance indicators are collected from respectable data bases and dashboards of various institutions, i.e. World Tourism and Travel Council (WTTC), World Tourism Organization (UNWTO), European Central Bank, national statistical offices, and many others. It is collected data for economic, destination and hotel performance indicators. The data for economic and destination indicators is collected for the overall Eastern Adriatic market. The data for hotel performance indicators is collected only for the submarkets, which is the focus of the research.

5.3 Research Instrument

The research instrument in the market analysis is semi-structured interview with tourism experts. The semi-structured interview method combines structured topics with the open-ended exploration of an unstructured interview. The topic of the study and the market area is complex, therefore, the selected type of the interview is appropriate as it may uncover previously unknown issues, address complex topics, allows interviewer to raise additional concerns and issues with the structured topics and provides flexibility for the interviewer (Wilson, 2014).

On the other hand, the interviewer must be strict, consistent and very well prepared not to influence the interviewee. Additionally, the research instrument is appropriate for the selected research subject because of the complexity of the subject. With the selected research instrument, it is possible to use probes and spontaneous questions to explore and deepen understanding of the subject (Wilson, 2014).

The research combines two different interview guidelines, one for tourism and hotel experts, and another for representatives of tourism authorities. First, the interview guide for tourism experts includes an introduction to the structured topics, 2 structured topics and closing comments. The interview guidelines for tourism and hotel experts was the same for all interviewees. Before the interview, every consultant received market profiles for Slovenia, Croatia and Montenegro. The profiles have been created based on the secondary data analysis. The profiles are part of the Appendix 2. Second, the interview guidelines for tourism authorities includes the same introduction and closing comments but a differently structured topic part. The interview guidelines for the national authorities varies for each interviewee. Both interview guidelines are part of the Appendix 4.

The interviews are conducted within the group of tourism and hotel experts, and the group of representatives of tourism authorities. Tourism and hotel experts represent world reputational consulting

companies in Europe with business activities in the Eastern Adriatic market. The consulting companies are MRP Hotels, Horwath HTL, Michaeler & Partner and Christie & Co.

Most of the interviews were conducted via Skype. The interviews took place in the period from December 2016 to January 2017. Three interviews were taken in December 2016 and one in the Q1 of the January 2017.

Representatives of tourism authorities are high respectable decision makers from the bodies from the three most developed submarkets; Ministry of Economic Development and Internationalization of the Republic of Slovenia, Ministry of Tourism of the Republic of Croatia and Ministry of Sustainable Development and Tourism of the Republic of Montenegro.

All the interviews were conducted in the period from December 2016 to March 2017. Based on the availability of the representatives, this type of conducting interviews took more time than the interviews with tourism and hotel consultants. One interview with the representative of the Slovenian national authority was conducted in person, other interviews were conducted via Skype.

Both sets of the collected interviews were recorded and after each interview transcripts were incorporated into the selected data framework.

5.4 Data Analysis

Data collected with seven expert interviews is framed into two different models. Both models systematically cluster collected data. The framework approach meets best the research needs because the data analysis framework is created based on the research of the problem, objective and outcome of previously reviewed literature.

The model “consultants” summarizes collected data from the expert interviews with tourism and hotel experts. The model is divided into three topics, market profiles and investment suggestions, hotel investments in the EAR with focus on Slovenia, Croatia and Montenegro, and finally, hotel investments in the EAR with the focus on Bosnia and Herzegovina, and Albania. The model is an integral of the study and is presented in the Appendix 5.

Base on the model, the research will show a snapshot of the current investors’ sentiment towards the Eastern Adriatic market and the potential of the market for the international hotel investments.

The model “tourism authorities” summarizes collected data conducted by expert interviews with representatives of high level tourism policy decision-maker authorities. The model is an integral part of the study and is presented in the Appendix 5.

Based on the model, this part of the research will indicate the current tourism investment policy and upcoming activities of the national tourism authorities towards overcoming the barriers and enabling new entry of international investors to the submarkets of the Eastern Adriatic.

Data collected through both models is summarized and analysed based on the four research questions discussed in the previous section.

5.5 Conclusion

The methodology selection and research plan is crucial for the research outline. Data is collected by two research instruments; desk research of secondary data and expert (semi-structured) interview for primary data. Secondary data is analysed by using the selected performance indicators. Primary data is collected with expert interviews and summarized through two models. The main aim of the research of the market analysis is to cross-reference data results of primary and secondary data and to create the overall picture of the current market attractiveness in the Eastern Adriatic region.

Literature review indicated some of the possible potential problems, which may affect secondary data collection. Hotel performance data for the whole market on the national levels is poor. The limitation of the study can be the availability of the hotel performance data on creation of the mid-term trend for the all submarkets. In case of unavailability of hotel data, the risk will be minimized in approach, to collect data from the research and studies of the respective national authorities as independent tourism and hotel consultant firms.

Primary data risk is identified as less serious than the previously stated one. The potential problem can be that experts are not available in the selected period and are not willing to participate in the research.

6. RESEARCH FINDINGS AND DISCUSSION

This chapter analyses primary data collected with expert interviews and secondary data collected with desk research. Based on the cross-referencing of data results and literature review, the analysis clearly shows the picture of the tourism market in the Eastern Adriatic region. The market analysis of the Eastern Adriatic defines interconnection of the performance of destination versus hotel market and the level of the investment attractiveness of the market. Moreover, the analysis indicates to investment potential, investors' interest and expectations, and stakeholders' expectations.

6.1 Interconnection between Tourism Destination Performance and Hotel Performance

Based on the research, it can be argued that tourism sector is one of the highest contributors to the economic growth and job creation in the market. Additionally, Croatian and Montenegrin economies highly depend on the performance of tourism sector. In the last decade, the overall market has witnessed a positive destination supply growth. Based on their tourism development and marketing strategies, the most developed tourism destinations' in the market, i.e. Slovenia, Croatia and Montenegro, built their destination brand awareness. Slovenia as a green boutique destination, Croatia as a diversified Mediterranean country with thousands of islands and Montenegro as a destination for a luxury branded properties.

Bosnia and Herzegovina and Albania are recognized as destinations with high tourism potential and attractiveness. Based on current political situation and economic performance, these destinations have a long way to go in terms of tourism development and in raising interest of potential investors in tourism sector. Even though, based mainly on destination performance data, Albania has a huge tourism potential. Already at the very first step of the tourism development, the destination has a great volume of destination performance.

Destination benchmark data for the market is collected by national statistical offices in accordance with international methodology, and reported to the European tourism authorities and world tourism authorities. Because of the size of the market, respective hotel benchmark data providers do not have sufficient data for the trend hotel performance assessment for each submarket.

The Eastern Adriatic region can be considered from the common perspective when presenting destination performance. On the other hand, in comparison to Europe's leading hotel markets, the Eastern Adriatic submarkets still have room to develop. All submarkets have witnessed fair positive supply growth in arrivals and overnights since 2008. Based on the presented results and research, there is no rule that the growth of destination performance is followed by the growth of the hotel performance.

This means that trends in tourism destination performance and trends in the hotel performance are not necessarily directly related.

Since 2012, the hotel performance on the national level in Slovenia has shown a negative trend. In the same period, arrivals have boosted but the hotel performance has decreased. This is a consequence of investment cycle in hotels, which was financed by the EU grants before 2012. Furthermore, this is a clear sign that Slovenian hotel industry did not have an appropriate yield management. In Slovenia, but equally on the overall market, there are consequences in hotel market performance based on a changing hotel ownership in the period of so-called transition.

Even though Montenegro is positioning itself as a destination available for luxury investments and facilities, the highest hotel performance and volume of rooms is on Croatian hotel market. In terms of size, the major hotel submarket is in Croatia, although the overall market sentiment is growing. Based on the research, the highest penetration of branded hotels belongs to the Croatian submarket. Montenegro is strong with luxury brands but the problem for hotel industry is a low ADR in luxury segment (Versteeg, 2017).

6.2 Market Attractiveness

The Eastern Adriatic region as a tourism investment market is appealing for various investor types. Tourism demand is extremely weak and vulnerable. Success of every tourism destination is to provide and clearly communicate safe and secure environment. Based on the political and economic climate and environment in the Mediterranean and North Africa, the respected is one of the major drivers of the investor's positive sentiment to the market.

Based on the research, an interest of investors in the EAR was marked, but with a caution and selectively depending on the destination. With the strong certain interest, there are challenges, which must be considered. The number of expressed interests and the execution is in a huge disparity. The main drivers of foreign hotel investments in the overall market are tourism offer diversification, geographical location and resource – attractions basis, but for sure it is necessary to have a clear picture of each submarket separately.

Slovenia has built a reputation as a green, boutique destination with clear defined USPs; Alpine Slovenia, Ljubljana & Central Slovenia, Mediterranean Slovenia and Pannonia Slovenia. The major barrier in Slovenian hotel market is the existing hotel companies' ownership and lack of, or better to say no, external know-how (knowledge) and investments. The submarket is still at the very first stage of restructuring and at the beginning of the new investment cycle. There is a very small and cautious in investor's interest. The highest interest comes from the region, mainly Serbia, and Russia (Štravs Podlogar, 2017).

Croatia is a destination with a clear perspective of the sea-sun destination. The clear USP of destination Croatia is the sun and sea holiday destination. One of the main objectives of the Croatian tourism is to prolong the peak season, to extend the shoulder season and to decrease seasonality. If compared with Slovenia, Croatia has taken a different path of the transition period. Croatia immediately opened for foreign capital inflows. This is one of the reasons for higher interest and higher presence of the foreign capital in Croatia (Ilišković Balagović, 2016). The main challenges for the investors in Croatia are bureaucracy and administration, including unresolved land ownership, sluggish administration, insufficient analysis of carrying capacities of the environment and tourism activities from the national perspective. Croatia is missing, from the highest (national) level to the lowest local level, a clear strategy and a stronger will for executing a stronger and clearer vision and a plan with a clear vision and path to the defined objective, without taking into consideration and permitting an influence of various interest groups.

Montenegro positioned the destination as an up-scale, luxury holiday destination. Based on some luxury property investments, Montenegro has successfully positioned itself on the world's tourism map. One of the major drivers are clear vision and execution of the objective to become a high-purchasing destination, mainly on the national level, to attract foreign investors. Consequently, Montenegro is building awareness of a stable investment destination, where potential investors can rely on all pillars of society. Montenegro has the most competitive tax system in the region. For investors, Montenegro is recognized as a new major tourism investment area. One of the barriers or challenges for the investors is accessibility all year around. Potential investors seek for scheduled flights to destination. Charters are available mainly the peak season and this is not the solution for all year around return.

6.2.1 Current Investment Satisfaction and Prospects

Before entering a market, investors do a comprehensive study on the destination. The study includes main market facts with detailed destination analysis which covers a snapshot of demand, infrastructure and land plots. The investment analysis depends of the scope of work. A key role in investors decision-making process is a macroeconomic, political and local stability, and open-mindedness for a cooperation.

In the market, it is important to differentiate between three **types of investors**:

- institutional investors;
- individual investors, who are locally attached to the region;
- small-family entrepreneurs.

In the Mediterranean hotel market, investors are looking for mixed-use resorts, portfolio transactions, bringing value to distressed assets and greenfield development projects. In 2016, Iberian markets witnessed a strong recovery, as a benefit from perception of a safe destination by tourists and investors. Despite political instability and risky environment, there is still interest in Turkey and North African

destinations. New growth markets are identified in the south-eastern Europe, such as Croatia (Čižmar, 2017).

In the EAR market investors are mainly interested in investing in existing facilities with the aim of raising quality of services and categories of accommodation facilities. Furthermore, investors are also showing a positive sentiment towards greenfield projects. Primary objective of every investor is return on investment (ROI) and making profits. Investors make decision for entering to the market if there is unrestricted capital movement and stable macroeconomic environment at the destination. Institutional investors are looking for added value to the property. The interest is to buy a low-priced property, add value, see upside and then sell it in a reasonable period. On the other hand, locally attached individual investors and small-family entrepreneurs are usually visionaries, who are emotionally connected to the destination.

In the respective market, there are three common **property types** for which investors are showing a positive sentiment:

- coastal resorts;
- city hotels;
- small upscale accommodation facilities.

Investors are willing to take a higher risk when investing in the coastal resorts. Based on the seasonal factor, the coastal resorts would have the highest potential when combining tourism facilities with residential area. In Croatia, the highest interest is in resorts on the coastal area. The major challenge of this type of projects is in sluggish administration and high level of bureaucracy.

Local population, locally attached investors, are the main driver of small upscale or even boutique accommodation facilities. Zagreb is interesting for mid to upscale products. Montenegro is luxury coastal resort destination. Podgorica has the same interest in type of properties as Zagreb. Slovenia has start opening the market to foreign capital. In Slovenia, the highest interest is in Ljubljana and the coast. The Slovenian issue, in terms of the interest of the big institutional investors, is the size of the coastal area.

National authorities and specialized agencies can help make a destination stable for investors and in that way further build their destination awareness through potential tourism investors. Destinations should put more effort into creating a pleasant and positive investment climate and conditions for raising interest of potential investors. All the submarkets have established specialized agencies for promoting foreign direct investments to the submarket. In the submarkets, no clear picture of promoting investment activities specifically in tourism has been spotted. To boost foreign capital flows in the submarkets and especially the interest of potential investors, the established investment agencies should have a special division focusing their promotion activities in investing in tourism sector. Based on the Strategy of tourism development by 2020, Croatian Government established the Agency for investments and competitiveness. In Slovenia, there is an agency, which is responsible for promoting foreign investments to Slovenia. Finally, Montenegrin Investment Promotional Agency will promote

selected industries, including tourism, in the upcoming period. Further research may show the current involvement of the specialized agencies in the tourism sector.

Slovenian hotel market

Slovenian submarket has the poorest volume of international investments in hotels in the EAR market. This is a consequence of unstructured companies and one of the major barriers of the closed market to the foreign capital. In 2017, the opening of the first five-star hotel in Ljubljana is expected. The property is invested by a foreign capital (Serbia) and will be operated under the InterContinental brand.

With the new tourism development strategy, Slovenian investment operational strategy wants to meet 600 million euro in brownfield, 1.2 billion euro in greenfield projects and 770 million euro in tourism infrastructure (ski system improvements, convention centres, visitor centres, UNESCO heritage infrastructure and bike trails). The actions to take are divided into 5 steps; restructuring of the state hotel companies, greenfield hotel investments, hotel investment incentive scheme, SME investment incentive scheme, and EU funding for improving tourism infrastructure (Počivalšek, 2017).

Based on results of the Slovenian tourism market and clear destination branding, which will bring increased reputation of the Slovenian tourism in the upcoming period, the increase in interest of potential foreign investors is expected.

Croatian hotel investment market

Since 2015, after the recovery of the real-estate sector, the foreign investments in Croatian hotel market are showing a positive trend; in 2013 250 million euro, in 2014 400 million euros, in 2015 500 million euro, in 2016 600 million euro, with clear announcement of the further growth in brownfield and greenfield projects. There are two major significant investment projects, which are defined as strategic projects by the Croatian Government; Hotel Resort Plat in Dubrovnik (57 million euro) and Hotel Park in Rovinj (80 million euro). Additionally, there are three more strategic project in the pipeline, all on the coastal area.

In 2017, the opening of four strategic projects (Hotel Resort Plat in Dubrovnik, Hotel Park in Rovinj and Valamar Hotels Resort in Rabac) is expected. Based on the announcements of investments in the tourism sector, continued growth in the upcoming short period is forecasted, which might exceed the planned investment of 7 billion euro for the period from 2013 to 2020, as defined in the Strategy for Tourism Development by 2020. The prospected positive trend is forecasted on the large number of investment projects which are already several years in the pipeline and whose opening is expected in the period between 2018 and 2025.

Montenegrin hotel investment market

In the past few years, the Montenegrin tourism has showcased a positive trend in destination performance. The trend is followed by tourism investments and all thanks to investment orientated climate in the Administration. In Montenegro, six foreign strategic capital partners, which already operate in the submarket, have been identified; Porto Montenegro, Aman Resorts, Orascom, Hilton, Starwood Hotels and Resorts, Abu Dhabi Financial Group and Abu Dhabi Capital Group.

In 2017, four transactions and new openings (Portonovi, Beyon Horizont, Plavi Horizont, Mamula Ostrovo Hotel & Spa) are expected. In the upcoming period, Montenegro will continue following three main objectives; to become a high-purchasing destination and high-quality diversified destination, to develop and improve the existing accommodation facilities with the focus on upscale hotel facilities.

6.3 Market Analysis of the Eastern Adriatic Region

In general, tourism and hotel business are very investment-intensive industries. It is crucial that hotel companies invest in the marketing, maintenance, human resources and improvements for their high business competitiveness on frequent and continuous basis investing. Hotel business in the Mediterranean and in the EAR market is highly competitive, therefore hotel companies should get out of the traditional business approach of maximizing RevPAR. They should focus on maximizing effort in TRevPAR which would generate the highest total revenue.

Thomsett & Kahr (2005) argue that every market analysis presents the demand for and supply of a market. This chapter presents insights of the hotel investments market particularly from the side of demand and supply and finalizes the chapter with the suggested actions, which are instruments for the increasing the interest of the potential market investors.

6.3.1 Hotel Market Analysis in the Eastern Adriatic region

The market research analysis is conducted in 4 main steps, which describe the region's investment potential, investors' interest towards bringing the capital in the region, investors' expectations and interests and expectations of key destination stakeholders. The four-step process is identified as it follows:

1. High investment potential in the EAR

The research identified the EAR region to be attractive for hotel investments. Foreign investors show a positive sentiment towards possible future capital flows towards the region. The region has a high investment potential based on natural resources and current political and economic environment. At this moment, the EAR region has benefited from the current political and economic situation in Europe, Mediterranean and the Middle East. Based on the current situation, the EAR submarkets can influence

on the even stronger increase of the tourism inflows, with adequate regulations, product development, improvement of the accessibility and finally by boosting prosocial activities.

2. Investors' interest in the EAR

Foreign investors have shown a positive sentiment towards the EAR region. Several upcoming hotel openings, transactions and projects in the pipeline are currently in the market. Additionally, experts confirmed the interest of the foreign tourism business for the EAR market, which is claimed to be high, but still battles with some key obstacles in the tourism development. The main challenges are the following:

- all-year round accessibility,
- seasonality,
- local administration.

3. Investors' expectations

Foreign capital investors in the hotel business show a positive sentiment towards capital investments into EAR region. Hotel consulting companies identified a vast interest into the region. On the other hand, institutional investor, who have their prerequisites and conditions regarding capacities they want to achieve, should be aware that the region is challenging. If potential investors accept the profitable capacity in the region for their investment, they expect support by destination shareholders and the strategical cooperation with destination. Expectations towards the destination stake holders support are identified as it follows:

- **Governmental support** (in terms of regulations – from the local to the national level) – investors expect a pro-business behaviour from the Government and local authorities. Bringing foreign capital to a destination directly influences job creation and tourism and business revenues on various levels. Investors expect their business proposal to be accepted on all levels of the Government. Therefore, the Government must create a proactive business environment and get rid of sluggish administration and incompatibility of legislations and laws.
- **Connectivity** (accessibility all year around) – One of the first prerequisites, when entering the new market, is connectivity of the destination. There is no tourism business without high connectivity. Hotel investors are looking for scheduled flight connection, charters are not an option. Charter flights normally boost the high season, which does not resolve the issue of the seasonality. Charters may boost the shoulder season period, but are not a prerequisite for the all-year-round accessibility. When talking about low budget carriers, they usually need three to five years to create a demand. Within the first five years, the carriers expect enormous support provided by a destination stakeholders. Based on the high seasonality in the Adriatic region, the low budget carriers are profitable only during the high sea-

son. Therefore, the carriers expect the support of airports, national tourism authorities and government to support their business and to develop tourism products, which will create demand out of the high season.

- **Developed tourism product** – the EAR market lacks low-season tourism products. The main objective of the market should not be only to extend the season, but mainly to extend tourism products. Products are the factors, which create demand on a destination. There is no destination without products and connectivity. EAR region has one core tourism product, i.e. sun-sea tourism. Although Slovenian submarket has the clearest diversified palate of tourism products in the region, the scale and the size of the market for these products is small, what is more; large scale investors do not show a positive sentiment towards mountain destination.
- **Human resources** (well-trained) – during the high season, the seaside destinations lack well-trained hospitality employees, due to high demand. Investors expect national and local government to accept educational reform and invest in promotional activities of the hospitality education.
- **Market knowledge** (local partner) – when entering a new market, investors are looking for a qualified local partner. Mainly, investors search for a local market knowledge. The investors bring the funds and the know-how about hotel business, but for the execution of the project in the new market the local partner and its knowledge are crucial. The basis for the stable long-term relationship in hotel business the match between investors and (local) operators is crucial.

4. Key destination stakeholders' expectations

Tourism and hospitality are highly capital intense sector. If a hotel wants to achieve long-term competitiveness, the owners (investors) have to regularly invest in operational improvements. The overall region should be pro-business and open for all investors with an expertise in hotel business, but also protective towards local public interests. Based on the destination and hotel performance results, an increasing tourism destination performance does not consequently influence increasing hotel performance. The EAR is an attractive market in terms of natural, social, culture and climate resources. Firstly, destination stake holders need to create an investment strategy and a clear picture of what type of investors they need and want in their submarket. Secondly, destination stake holders expect contribution to the strategic destination development from potential foreign investors.

The research identifies the following three key business approaches, which are expected by destination stakeholders from the potential investors:

- **Experts in hotel business.** Destination is welcoming towards investors who understand hospitality and possess the hotel know-how. In destination's interest is not only the financial flow to the market but, primary, the selection of an established partner with long-term human resources vision and ability to share knowledge and invest in the future education.
- **Strategic destination visionaries.** On the long term, destination stakeholders expect from the investors to have a strategic destination approach and interest for developing the destination. Hotel

companies should have an interest in participating in the creation of developing tourism products in the destination.

– **Destination sustainability approach.** Sustainability is required in terms of all three pillars of the development; social, environmental and economic. *Social* – to respect the society and to have an interest in employment and education of local human resources. Additionally, to have an ability and an interest to support local providers. *Environmental* – to respect natural and cultural resources from the very beginning of the transaction. To build in local architectural style, to respect cultural heritage at the destination and keep an eye on natural resources during the operations. *Economic* – the company has ability to create a sustainable growth model, which ensures fair distribution and efficient allocation of resources. With the economic sustainability, the hotel company ensures the economic growth balanced with destination. Hotel companies need to consider and follow the external environment.

6.3.2 Actions for Increasing the Market Investment Interest

The market analysis part describes the status of the hotel market in the Eastern Adriatic in four steps; ***investment potential in the market, interest of the potential investors, investors' expectations and key destination stakeholders' expectations***. To finalise the market analysis, actions that should be taken to increase the investors interest for the market and a positive sentiment towards investment environment in the region are presented. The key actions are:

- **Destination USPs** – The market and the submarkets should define their strong unique selling products (USPs) to increase investors awareness for potential market investments. The Eastern Adriatic clearly positions itself as a sun-sea destination - also investors show the highest interest towards sun-sea products. Additionally, investors show their interest towards investing in the capital cities, i.e. city tourism product. In terms of destination awareness and branding, Slovenia has a clear positioning as a green – sustainable destination. Montenegro, is building their path towards luxury segments. Croatia, on the other hand, does not have a clear picture of destination awareness. For Croatia, now is the opportunity to differentiate from the other Mediterranean destinations and create proper tourism products.
- **Systematic product development** – based on the destinations' USPs all the submarkets should systematically work on their key products, which are the main factor to lower the seasonality and to prolong the shoulder season. It is important to understand the products in each submarket and systematically develop them. Destinations should “generate as much demand as possible outside the peak season since the fixed cost element of any tourism operation does not change between seasons” (World Tourism Organization and European Travel Commission, 2011). Destinations should develop theme festivals or events and sport manifestations and tournaments out of the high season, since these are the favourite seasonality breaking products (World Tourism Organization and European Travel Commission, 2011).

- **All-year-round connectivity**– destination stakeholders should work on developing new routes all year around. Hotel business and property investors expect to have scheduled flights at the destination. Charter flights and low cost carriers in terms of hotel business do not guarantee all-year-round room occupancy. Destination stakeholders should work on opening new scheduled routes to the market and increase the number of low cost carrier flights and charters in the shoulder season. The Eastern Adriatic market should make a long-term strategy to develop a regional airline hub in a selected submarket.
- **Regulations and legislation** – potential investors expect a pro-business Government and Tourism authorities on all levels, when expressing an interest for an investment to a market. This means that the Government needs to intercede for decreasing a level of bureaucracy, improve the working-legal economy, and reform the tax system. When the regional Governments will create perception within the region as a positive entrepreneurial and investment climate, the capital flow interest will increase.

The research shows that investments highly depend connectivity and interactivity of various tourism and destination stakeholders. There is no destination without connectivity and product. There is no tourism destination without a systematic and long-term cooperation between tourism authorities, destination stakeholders, carriers and hotels.

6.4 Discussion

This chapter concludes the research findings and discusses the results of the market analysis of the hotel investment market in the EAR. The research identifies, develops and tests the correlation between the performance of hotel investments and destination performance in the Eastern Adriatic region. The analysis is based on the desk research, with collected secondary data for economic, destination and hotel performance, and expert interviews, collected primary data with tourism and hotel experts and national authorities.

It is not necessary that the interconnection between the performance of the tourism destination and the performance of the hotel market is directly related. More precisely, the secondary data analysis shows that there is no rule that when destination marks a growth in arrivals and overnights that the hotel market will follow the destination trend. In the case of the EAR, this was proved in the case of Slovenia.

The tourism results in Slovenia show a growth from 2005 to 2014, but the main issue in the submarket is the negative hotel performance in the past four years. Based on the collected interviews, the reason of the occurred trend on the hotel submarket was clarified. Belluardo (2017) pointed out that the capital flow on the hotel market exists, but it is a big challenge to find the right deals and the right local partners. The obstacle to overcome in the Slovenian hotel market is the current portfolio of hotel ownerships, which is one of the major barriers for the investors interest in hotel investments in Slovenia.

Interconnection between the tourism destination and hotel performance in the submarkets of Croatia and Montenegro is impossible to indicate. One of the major issues on the hotel submarkets, which was justified with the primary research is that the submarket lacks studies and research based on the analysis of the carrying capacity of the environment for tourism activities. It is not possible to indicate trends for hotel performance indicators in Croatia and Montenegro.

If compared with commercial type of properties, hotels represent an attractive investing opportunity and offer many advantages. One of the major advantages of investing in hotel properties is long-term secure income from a single tenant and showing a track record of high returns (BNP Paribas, 2017). Even though, the highest interest for properties is on the Adriatic coast. When investing in the coastal resorts, investors are willing to take a higher risk. Based on the high seasonality in the market, the coastal resorts would have the highest potential and the highest return when combining tourism facilities with residential area. One of the major challenges in the market are sluggish administration and high level of bureaucracy. We have seen some very good examples of the properties with the combining residential areas in Montenegro (for example Porto Montenegro).

Capital cities follow coastal resorts in terms of interest. From the investor's perspective, Zagreb and Podgorica would be interested in mid-to-upscale products. Ljubljana awaits a major hotel transaction with a new opening of the first five-star hotel in the Slovenian capital city in 2017.

When investing, institutional or corporate hotel investors seek capital growth and income. Investing in properties can provide the income as well as capital growth. Harper (2008) argues that investments in hotels can achieve both investors' goals. On the other hand, the research indicates that individual investors, which are classified as locally attached investors, are the main drivers of small upscale and boutique properties. This group of investors is highly needed in destinations, where a large scale of rooms is not profitable and the destination does not attract institutional investors. The locally attached investors are usually destination visionaries and are involved in destination development on a high scale.

In the EAR market, **Slovenia** has seen the poorest volume of the international investments in hotels. This is a consequence of the unstructured hotel companies, which is one of the major barriers and additionally, closed market to the foreign capital investors. Based on the literature review and the research with the tourism experts, it can be identified that the potential investors are willing to take a higher risk for the properties in the coastal resort areas. The Slovenian issue, with those institutional risk-takers, is that the coast has only 47 square kilometres and the coastal destination cannot carry high-volume capacities. In the upcoming decade, Slovenian market is worth being observed because the submarket has a strong destination management and clear destination positioning. If the tourism authorities will create a positive investment environment and restructure the hotel companies, which are now generating the growth in tourism, the market will become interested in the foreign capital investors in hotel business.

Since 2015, the **Croatian** market has recorded a positive trend in foreign hotel investments. Based on the announcement of investments in the tourism sector, an investment of 7 billion euro for the period from 2013 to 2020 is forecasted. Additionally, the prospected growth is based on the large number of investment projects, which have been in the pipeline already for several years and the opening is expected from 2018 on.

In the past few years, the Montenegrin tourism has been showing a growth in destination performance. The same trend is followed by foreign investments in hotel business. **Montenegro** positioned the destination with a few luxury hotel projects as a destination for luxury brands. In the past decade, the Montenegrin Government has created an appealing environment for foreign investments in the submarket, which was, based on the executed and ongoing investment projects, recognised by the foreign investors.

Based on the implemented and upcoming hotel transactions it can be concluded that **investors are interested in** the capital investments in the market. Furthermore, the primary research confirmed the existing interest of the foreign capital entering to the EAR and that it is high. However, the investors are challenged by some of the key obstacles in the tourism development, such as all-year-round accessibility, high level of seasonality and difficult local administration.

Foreign investors in hotel business show a positive sentiment towards the market, which they identify as an appealing and suitable for establishing and developing a hotel business. Furthermore, when investing in the market, **investors expect support** of the key destination stakeholders. Investors expect the ***strategical cooperation with destination stakeholders in form of governmental support, all-year-round connectivity, constant tourism product development, supporting educational system, promotion of the tourism educational scheme, and market knowledge from a local partner.***

In their policy, destination stakeholders should protect local public interest, but at the same time act pro-business and open minded for investors. Stakeholders in the EAR should be open for accepting the investors with a greatest know-how and successful background in hotel business. The potential owner of a hotel property must understand barriers and drivers of the sector for successful business story. **Key destination stakeholders** in the EAR expect from the potential investors that the investor is an ***expert in hotel business, on the long term would be a strategic destination visionary, and sustainable destination approach in terms of respecting all three pillars of the sustainable development.***

7. CONCLUSION

Overall, the aim of this research was to identify the Eastern Adriatic region market attractiveness for foreign hotel investors. The thesis includes a comprehensive overview of the economic and tourism performance of the submarkets of Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania. The objectives were:

- to identify a possible interconnection in performance between tourism destination and hotel performance;
- to specify type of investors who show a positive investing sentiment towards the region and identify the types of the properties they are looking for;
- to define whether historical background of the submarkets influences the potential investors' interest in the market;
- and finally to identify the market attractiveness for the hotel real estate investments.

This chapter presents the overall summary of the study incorporated into research questions, a short overview of how the research enhanced the existing knowledge, implications of relevant stakeholder and the recommendations for the further research in the hotel investment market in the Eastern Adriatic.

7.1 Summary

The study consists of the four main parts; **introduction to the market analysis, economic performance of the EAR, tourism performance of the EAR and research analysis**.

The first one explains the **theoretic concept of the study** and defines the main terms, i.e. the market analysis, real estate and hotel real estate. Furthermore, it defines the hotel investment market and explains drivers and benefits of investing in the hotel business. Finally, the market area of the study defines the clear area or market, which is considered within the study. The market area of the Eastern Adriatic region consists of the five submarkets; Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania. The part about the economic performance includes an overview of the key economic indicators for the five submarkets. Additionally, it presents the contribution of the travel and tourism sector to the total economic activity for each submarket. Tourism performance presents an overview of the key destination and hotel performance indicators. Research findings show an overview of the research based on the research questions and the research topic.

The **economic performance** outlook shows the highest economic performance in Slovenian submarket. Slovenian GDP per capita is the highest in the analysed EAR submarkets. Moreover, only Slovenia performs with the unemployment rate under 10 %. The Slovenian (and Bosnian and Herzegovinian)

submarket does not highly depend of the tourism sector, which is not the case for other submarkets. Croatian, Montenegrin and Albanian economy are highly dependent of tourism sector. The total contribution of Croatian, Montenegrin and Albanian tourism to the national GDP is more than 20 %. The economic performance indicators pinpoint the strongest economic dependency of the tourism sector. The strong dependency of the tourism is seen in the submarkets with the sun and sea product being the key USP, which is characterised with strong seasonality and typical “Mediterranean disease factors”.

The **tourism performance** outlook, which consists of the destination and hotel performance from the submarkets, indicates the highest performance volume in the Croatian submarket. Croatia is the only destination with the arrivals results above 10 million. In the past five years, all the submarket areas recorded positive trend in arrivals. This indicates that the market is strongly appealing and attractive for tourism demand. Additionally, the most developed submarket areas on the market, Slovenia, Croatia and Montenegro, recorded a growth in overnight stays in the observed period. It is no surprise that Croatia is the market leader with regards to the volume of rooms in the market. Slovenia has had a negative trend of hotel performance in the past four years, which is the result of unstructured hotel companies and inadequate yield policy. Croatian and Montenegrin hotel market struggle with high seasonality factor, which can be seen in full capacities in the peak season and empty capacities in the off season, and the gap between private and collective accommodation.

To conclude the **market analysis** of the hotel investments in the Eastern Adriatic region, the research findings are integrated with research questions. Potential international investors are highly interested in the hotel business in the EAR, but take further steps with caution and selectively because they are challenged with the key obstacles in the tourism development in the market, i.e. all-year-round accessibility, high level of seasonality and sluggish administration and bureaucracy.

There is no rule for the **interconnection of a destination and a hotel performance trend (RQ1)**. Destination results can record a growth in a selected period, while hotels perform with a negative trend. When analysing the Eastern Adriatic region, the interconnection is not proved in the Slovenian submarket. In the observed period, the destination performance was growing, while the hotel performance was declining in the past four years. Based on the lack of research and studies, as well as hotel data reporting, the trend could not be identified in Croatia and Montenegro. For the both submarkets, the lack of continuous studies for accommodation and carrying capacities that could present the hotel market performance on a scale of the selected period was identified.

The research identified **type of investors**, who show a positive investment sentiment towards the market, and the most common **property types (RQ2)**. The highest interest in investing in the market comes from *institutional investors*, who are interested in the high portfolio scale; *individual investors*, who are locally attached to the region and are usually visionaries and strongly cooperate on the destination development; and finally, *small-family entrepreneurs*. The most common property types in the EAR are *coastal resorts*, *city hotels* and *small upscale accommodation*. Investors are willing to take a higher risk

when investing in coastal resort. The greatest interest for investing in the market goes to the Adriatic coast areas. The most institutional investors are interested in the coastal area, where they can create an all-year-round product. When summarizing executed investment projects, and the current transactions and development projects on the market, the vast volume of investment projects is in the coastal area. The capital cities are interesting for mid- to upscale product investments. Small upscale accommodation facilities and boutique hotels are the result of the individual investors who are emotionally attached to micro destinations and are usually strong visionaries.

The Eastern Adriatic region consists of five submarkets; Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania. All the submarkets except Albania were part of the Socialist Federal Republic of Yugoslavia (SFRY), which existed in the period after the 2nd World War until the beginning of the 1990's. Four destinations were part of the same socialist political and economic environment (**RQ3**). Unstructured hotel companies and unresolved property ownership is still present in the EAR. Therefore, particularly in Slovenia, it can be claimed that the current lack of the foreign investors is a result of **historic background**, which strongly influences the hotel business and market attractiveness for the potential investors. Furthermore, also in Croatia, there are some highly attractive properties, which are still in the state ownership and the ownership procedures are still in the pipeline.

Finally, the last research question (**RQ4**) refers to the **market attractiveness**. The research identifies a positive sentiment of the potential investors towards the EAR, but with caution and selectively depending on the destination. The number of expressed interests for investing in the market and the executed projects is in a vast disparity. In Slovenia, the highest interest for investments is in the capital city, which is followed by health resorts, coastal resort and the Alpine region. In Croatia, investors are mostly interested in investing in the coastal resorts, Istria and Dubrovnik. With Montenegro, investors are mostly attracted by coastal destinations. The major drivers of the foreign investments are diversified products, geographical location and attraction based resources. Investors show the highest interest in investing in the coastal resorts, for which they can even compromise with the higher investment risk.

7.2 Contribution to knowledge

The research enhanced the existing knowledge of the hotel and tourism industry by analysing the rarely researched market area as a one destination/market. There is a poor number of the hotel performance studies in the submarkets. Additionally, there were no identified studies or researches in the Eastern Adriatic territory. To all tourism stakeholders interested in the region, the study offers an overview and compete analysis of the economic and tourism performance with the overview on foreign investment and interconnections with the submarkets.

7.3 Implications for relevant stakeholders

The market analysis of the hotel investments in the EAR contributes to the market overview and benchmarking of the destination and hotel performance to the key tourism stakeholder in the Eastern Adriatic territory, such as tourism authorities, national tourism organizations, hotel owners and potential investors, tourism and hotel consultants. Additionally, the market analysis is intended for any tourism and hotel professional or student, who is investigating hotel real estate market, key economic, tourism and hotel performance indicators and generally analysing investment flows in a market.

7.4 Future research

Further research should be first focus on the continuous research of the hotel market in the EAR. Within few years, continuous hotel performance data collection, the analyst could create time series and analyse hotel performance trends in the EAR and their interconnection with destination performances. With a long-term hotel market performance observation, the analysis would contribute to existing hotel companies in the market, potential investors, tourism and hotel consultants, tourism authorities and all other tourism stakeholders.

The interviews with tourism authorities on the market showed that each submarket has established an agency responsible for promoting foreign investments to the submarket. The recommendation for further research is to identify the scope of work of the investment agencies. Furthermore, it needs to be identified, if their promotional activities include the promotion of tourism investments in the country. Finally, further research can identify the contribution of the investment promotional activities of the agencies to the tourism sector.

The research showed that Bosnia and Herzegovina and Albania are undeveloped tourism markets. It is very interesting that Albania recorded a higher volume of tourism arrivals than Slovenia and Montenegro, which are part of the most developed tourist destination in the region. Further research could thus analyse the existing tourism infrastructure and identify tourism potential of both destinations.

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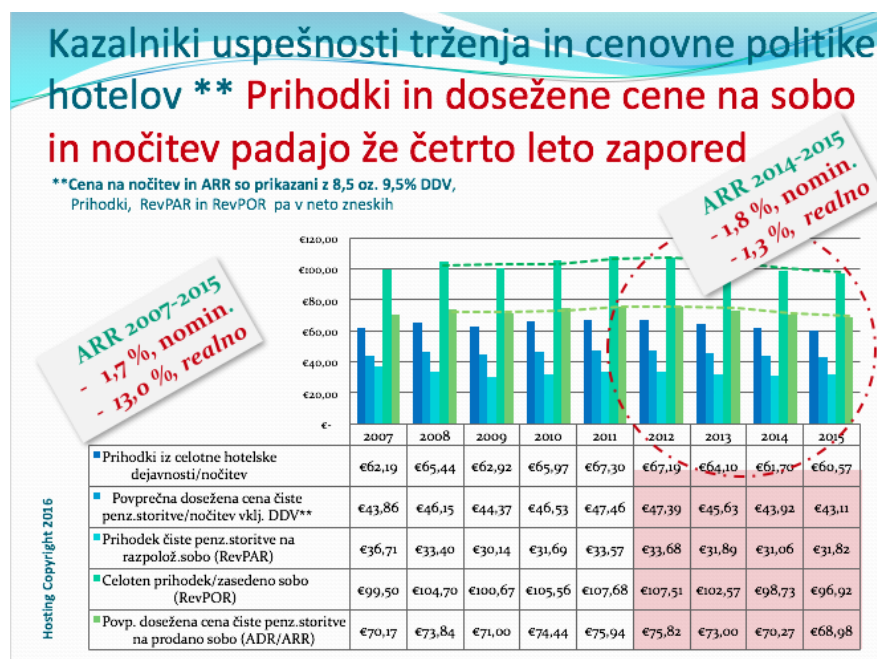
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Appendix 1: Tables and Figures



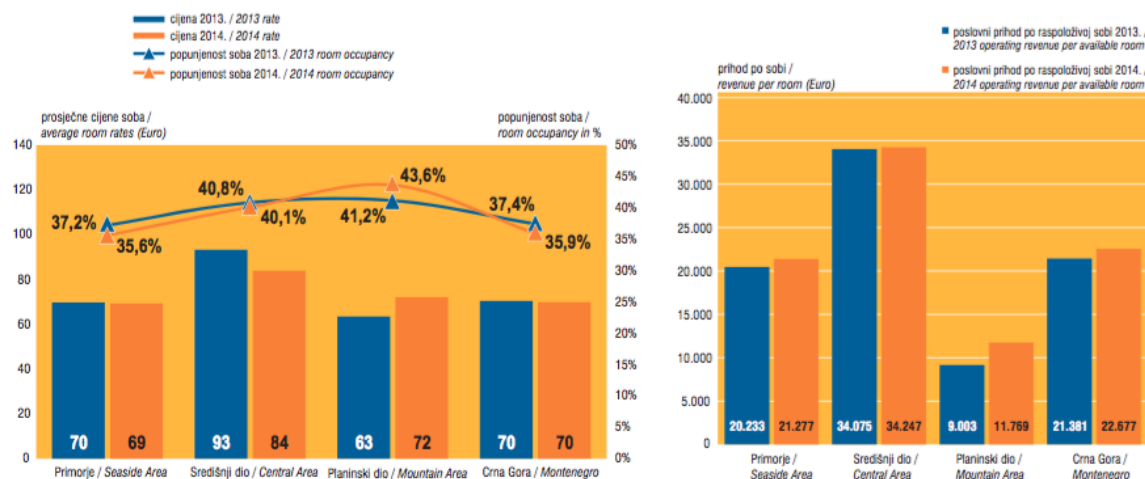
App. Table 1: Hotel Performance in Slovenia, 2007-2015

Source: Slovenian Tourist Board & Hosting d.o.o., 2016

UKUPNO	ISKORIŠTENOST - RADNI KAPACITET (%)			ISKORIŠTENOST - PUNI KAPACITET (%)			PROSJEČNA CIJENA SOBE (u €)		
	MIN	PROS.	MAX	MIN	PROS.	MAX	MIN	PROS.	MAX
Hrvatska	33%	69%	87%	20%	44%	78%	37	83	269
Regije									
Istra	51%	73%	83%	35%	47%	65%	55	92	193
Kvarner	33%	58%	79%	20%	38%	68%	37	86	229
Dalmacija	68%	79%	87%	24%	40%	55%	40	75	157
Kontinent	44%	59%	78%	44%	59%	78%	44	64	104
UKUPNO	RevPAR (u €)			TRevPAR (u €)			UKUPNI PRIHOD PO NOĆENJU (u €)		
	MIN	PROS.	MAX	MIN	PROS.	MAX	MIN	PROS.	MAX
Hrvatska	13	56	198	18	86	292	24	66	217
Regije									
Istra	44	67	142	59	104	209	37	67	144
Kvarner	13	47	106	18	73	142	24	69	217
Dalmacija	28	59	123	37	84	176	24	53	118
Kontinent	19	41	76	49	82	143	40	83	129

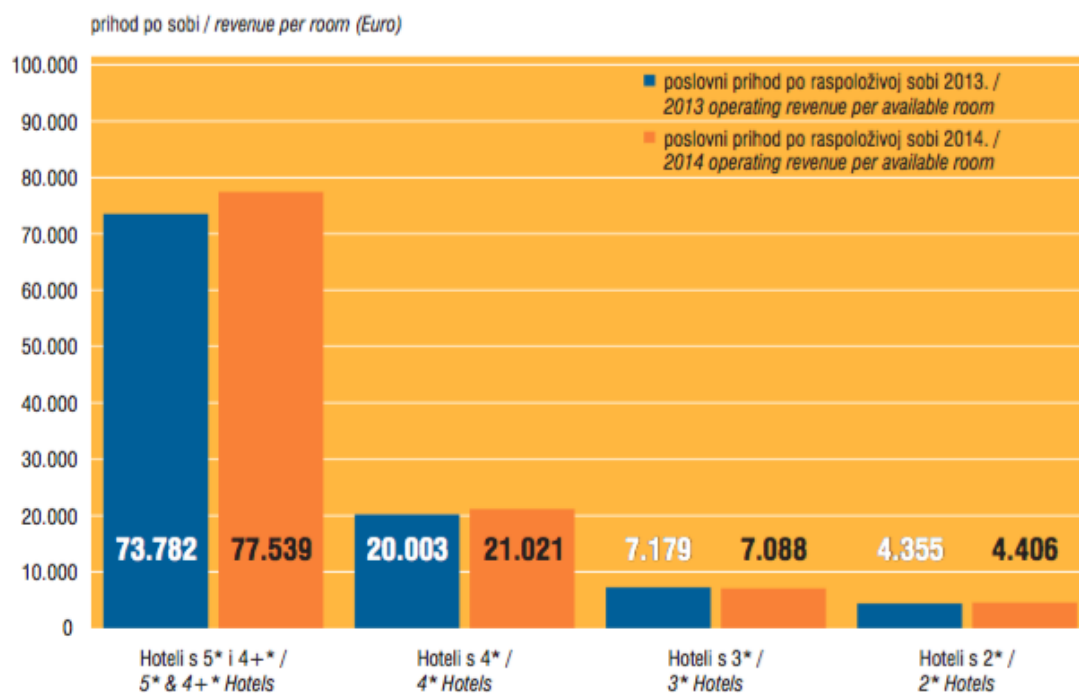
App. Table 2: Benchmarking Croatian Hotel Industry report; Operating occupancy, occupancy, ARR, RevPAR, TRevPAR, TRevPN

Source: Faculty of Tourism and Hospitality Management, 2015



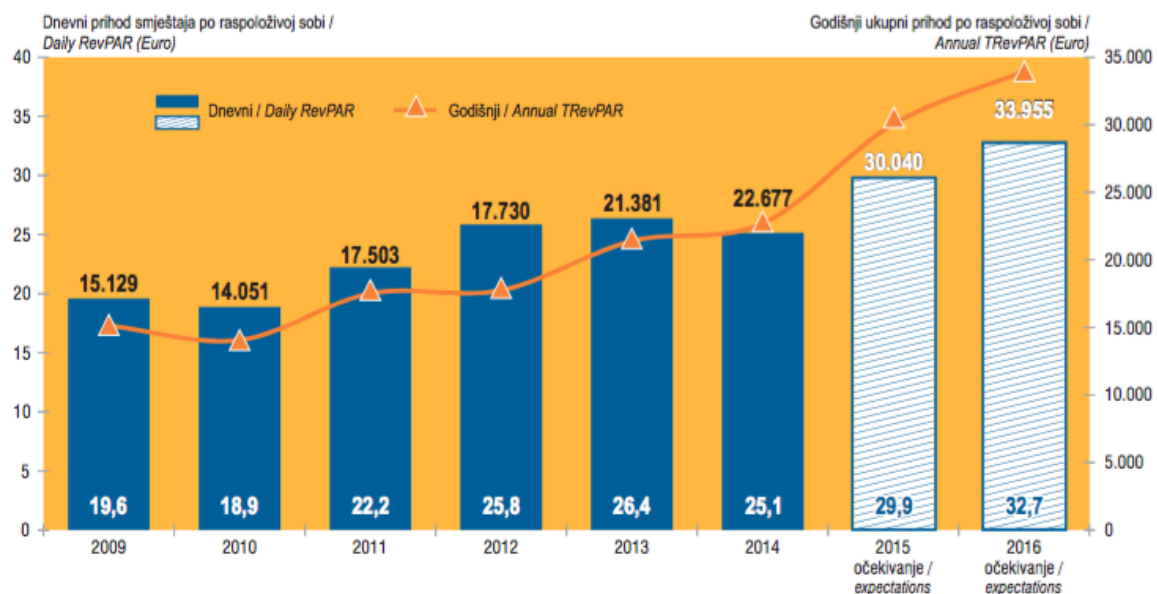
App. Figure 1: Horwath Hotel Industry Survey Montenegro 2014. ARR and RevPAR in Montenegro

Source: Horwath Consulting Zagreb, 2014



App. Figure 2: Horwath Hotel Industry Survey Montenegro 2014, RevPAR

Source: Horwath Consulting Zagreb, 2014



App. Figure 3: Horwath Hotel Industry Survey Montenegro 2014, Daily and annual RevPAR

Source: Horwath Consulting Zagreb, 2014

Appendix 2: Market Profiles

Market Profile and Investment Suggestions – Slovenia

This analysis is based on the economic and tourism performance indicators and functions as a base for expert interviews with the selected consultants.

MARKET FACTS

GDP: Total Contribution

- The total contribution of travel and tourism to GDP is **13.0 %** (9.6 % in Europe);
- By 2026, the total contribution is expected to rise to 14.1% of the Slovenian GDP.

EMPLOYMENT: Total Contribution

- The total contribution of the travel and tourism sector to employment, including jobs directly supported by the industry, was 13.3 % of the total employment in Slovenia (9.1% in Europe).

INVESTMENT:

- The travel and tourism investment was **9.0 %** of the total investments in Slovenia (4.8 % in Europe).
- The major economic growth performance indicates a potential positive trend in the overall economy and tourism sector in Slovenia. Since 2010, tourism performance has shown a positive trend in Slovenia.
- Compared with the gross domestic product, which is usually in line with the tourism performance, a slight decline of GDP in 2012 can be seen in Slovenia. Despite this fact, tourism performance shows a continuing positive trend of arrivals and overnights.
- The **highest number of overnights is recorded at the health & spa resorts** (31 % of the total overnights), mountain resorts (23 % of the total overnights) and seaside resorts (22 % of the total overnights).



Weaknesses of the destination Slovenia:

- **An average length of tourist stays** is less than 4 days;
- **Poor direct international airline connections** with Ljubljana airport;
- **Lack of international hotel chains** and private types of accommodation;
- lack of tourist attractions and the lack of clear strategy for **tourism development in cities** (with the exception of Ljubljana).

Strengths for the growth potential:

- **The highest growth of overnights** in the time frame from 2005 to 2010 was recorded **in the capital city of Ljubljana**
- Focus on **sustainable tourism development** with a clear country positioning;
- Positive trend in the tourism performance in the last decade and stable political climate.

I. HOTEL PERFORMANCE

Tourists mostly decide for hotels, camping sites and apartment settlements. **More than 50 % of the total overnights in Slovenia are made in the hotels. The largest hotel in Slovenia is based on the Adriatic coast with 482 beds.**

in EUR	2007	2008	2009	2010	2011	2012	2013	2014	2015
TRev per night	62,19	65,44	62,92	65,97	67,30	67,19	64,10	61,70	60,57
RevPAR	36,71	33,40	30,14	31,69	33,57	33,68	31,89	31,06	31,82
RevPOR	99,50	104,70	100,67	105,56	107,68	107,51	102,57	98,73	96,92
ADR/ARR	70,17	73,84	71,00	74,44	75,94	75,82	73,00	70,27	68,98

Source: Hosting d.o.o./Slovenian Tourist Board, 2016

- In the last four years, the average **revenue per occupied room**¹³ (RevPAR) on the national level declined p.a. Furthermore, TRevPOR and ARR/ADR followed the trend of RevPOR.
- In 2015, the **average price for room** (ARR/ADR) on the national level reached the lowest performance (68,98 euros) since 2007.
- Since 2012, the trend has been intensively negative and it has fallen for 10 % by 2015.
- In the past four years, the hotel performance indicators in Slovenia show a continuous negative performance trend.

II. NATIONAL TOURISM STRATEGY

Slovenia wants to position itself as a **sustainable destination** with two key tourism products; **active holidays and health & spa tourism**.

- Slovenia is not a mass all-inclusive resort destination. On the contrary; it is positioned as a boutique sustainable destination for active holidays and health & spa tourism.
- In Slovenia, the following international hotel chains are present: Sheraton, Ramada, Best Western, Radisson Blue, Kempinski, Austria trend, Small luxury hotels of the world, Design hotels and Bio hotels. For 2017, the opening of the Intercontinental Hotel in Ljubljana is planned. In terms of new investments, the hotel market in Slovenia has been in stagnation. The lack of investments may be the result of the high share of the state ownership and non-performing loans of the companies, which have diversified their business portfolio to hotel business (Sava, Istrabenz).

III. SUGGESTION TO POTENTIAL HOTELS INVESTORS:

Based on the detailed insight into the Slovenian market, it can be defined that Slovenia has a politically stable economy. Prospects and trends of the economic growth and future performance in the national economy show a positive trend. Based on the trend, the national economy shows stability for attracting foreign investments. In terms of tourism and hotel industry, it is suggested to go for individual

¹³ In 2015, RevPAR was 31.82i€; RevPOR 96.92 €

investments in boutique and sustainable properties, which are in line with the national strategy. Slovenia is not a destination for massive tourism, therefore, these types of investments are not appropriate for the submarket. Portfolio investments could be considered for the health and spa hotels (municipalities). The major competitive player in the hotel portfolio will be the national hotel company Sava Hotels & Resorts.

The summary of suggestions for potential investors in Slovenia:

1. Individual investments to boutique sustainable hotels following the national branding strategy;
2. Portfolio investments in the health & spa municipalities;
3. Midscale hotels in the capital of Ljubljana;
4. Small family hotels and other types of accommodation in mountain region.

Market Profile and Investment Suggestions – Croatia

This analysis is based on the economic and tourism performance indicators and functions as a base for expert interviews with the selected consultants.

MARKET FACTS

GDP: Total Contribution

- The total contribution of travel and tourism to GDP is **23.2 %** (9.6 % in Europe)
- By 2026, the total contribution is expected to rise to 29.7 % of the Croatian GDP

EMPLOYMENT: Total Contribution

- The total contribution of travel and tourism sector to employment, including jobs directly supported by the industry, was 22.7 % of total employment in Croatia (9.1 % in Europe)

INVESTMENT:

- The travel and tourism investment was **10.8 %** of the total investments in Croatia (4.8 % in Europe)
- The major economic growth performance indicates a potential positive trend in the overall economy and tourism sector in Croatia. Since 2010, tourism performance has shown a positive trend in Croatia.
- GDP and the tourism performance trend are not correlated. Since 2010, Croatia has seen “ups and downs” in the performance of the GDP. On the contrary, the tourism contribution to the total of the economic activity has performed with a positive trend since 2013.

Weaknesses of the destination Croatia:

- **High seasonality** - Croatia achieves the highest volume of overnights (94 % of the total overnights¹⁴) at the Seaside resorts (Sea-sun-sand product). With the SSS product, Croatia records the highest number of tourism arrivals and overnights.
- **The share of overnights in the private accommodation** - Only 25 % of the total overnight stays were made in hotels. Additionally, 36 % of all overnights was recorded in *rooms to let, apartments, studio apartments, summer houses* (private accommodation establishments)¹⁵.

¹⁴ Croatian Bureau of Statistics, 2015. Data for 2014.

¹⁵ Croatian Bureau of Statistics, 2015. Data for 2014.

- In the six-year period¹⁶, the growth of private accommodation establishment (+31 %) was significantly higher than the growth of the collective accommodation establishments (+10 %). The growth of overnights in hotels was 9 %, in the same observed period.
- The monthly occupancy rate shows the strong seasonal structure of the Croatian tourism. Occupancy rate in the high season (July, August) is very close to full occupancy.

Strengths for growth potentials:

- The volume of overnights in the capital of Zagreb increased for 35 % (from 2008 to 2014).
- Only 0.6 % of the total overnights was recorded at spa destinations. Croatian national tourism development and marketing strategy considers health and spa tourism one of the key tourism products, as it could prolong the off-season period.
- Focus on sustainable hotel property investments.

HOTEL PERFORMANCE

	Operating OCC%			Full OCC%			ARR (in €)		
	MIN	AVG	MAX	MIN	AVG	MAX	MIN	AVG	MAX
Croatia Cluster	31	66	85	16	42	79	7	72	155
Istria	42	71	83	20	43	65	53	81	104
Kvarner	31	61	78	16	38	62	7	65	113
Dalmatia	47	71	85	25	40	58	41	77	155
Continental Croatia	40	55	79	40	55	79	40	56	77
	RevPAR (in €)			TRevPAR (in €)			Total Revenue per night (in €)		
	MIN	AVG	MAX	MIN	AVG	MAX	MIN	AVG	MAX
Croatia Cluster	4	48	123	7	72	158	7	56	124
Istria	31	58	82	41	87	121	35	58	84
Kvarner	4	38	72	7	60	123	7	51	124
Dalmatia	19	55	123	26	76	158	4	53	106
Continental Croatia	18	31	42	49	59	75	39	72	106

▪ The highest average ARR in Croatia is in five star hotels (102 €).

▪ The best performance in average RevPAR have five- (57 €; TRevPAR 90 €) and four- (50 €, TRevPAR 77€) star hotels.

NATIONAL TOURISM STRATEGY

The three main goals of tourism development and destination positioning are:

- The rising of awareness and understanding of Croatia as a tourist destination;
- Prolongation of the off-season period (the so called period of the pre- and the post-season);
- The incising of the tourism expenditure.

Suggestion to potential hotels investors:

1. The summary of the suggestions for potential investors in Croatia:

Month	Permanent beds in hotels and similar establishments	Overnights	Occupancy rate of permanent beds (in %)
I	51.115	202.668	12,8
II	41.196	215.532	18,7
III	64.038	407.940	20,5
IV	133.667	1.176.388	29,3
V	151.250	1.961.703	41,8
VI	159.267	3.089.935	64,7
VII	159.728	4.189.832	84,6
VIII	160.486	4.734.970	95,2
IX	159.065	3.099.028	64,9
X	129.394	1.302.922	32,5
XI	62.899	332.528	17,6
XII	54.558	290.616	17,2

2. Individual investments to boutique hotels with special interest (gastronomy and active holidays) in Istria, Kvarner and the continental Croatia

3. Portfolio/individual investments in the coastal regions (Istria, Kvarner, Dalmatia) with a focus on high quality level and special targeting products in the off-season period (cycling, health & spa, meeting & conference facilities). The investors should be aware of the high and strong seasonality cycles.

4. Midscale (thematic) hotels in the capital of Zagreb.

5. Investments in spa & health resorts with the high participation of the local community and local destination management.

6. Focus on sustainable hotel investments.

¹⁶ From 2008 to 2014

Market Profile and Investment Suggestions – Montenegro

This analysis is based on the economic and tourism performance indicators and functions as a base for expert interviews with the selected consultants.

I. MARKET FACTS

GDP: Total Contribution¹⁷

- The total contribution of travel and tourism to GDP is **22.1%** (9.6% in Europe)
- By 2026, the total contribution is expected to rise to 29.9 % of the Montenegrin GDP

EMPLOYMENT: Total Contribution¹⁸

- The total contribution of the travel and tourism sector to employment, including jobs directly supported by the industry, was 20.5 % of the total employment in Montenegro (9.1 % in Europe)

INVESTMENT¹⁹:

- The travel and tourism investment was **32.6 %** of the total investments in Montenegro (4.8 % in Europe)
 - The expectation is that tourism investments will present **50.1 % of the total investments** in Montenegro by 2026.
-
- Montenegrin economy is strongly dependent of the performance of the tourism sector. Almost one third of the total investments in the country present the investments in tourism sector.
 - The major economic growth performance indicates a potential positive trend in the overall economy and tourism sector. Since the independence in 2006, tourism performance shows a positive trend in Montenegro. International tourist arrivals grew for 69 % from 2006 to 2014. 90 % of all overnights in 2014²⁰ were international.
 - GDP and the tourism performance trend are not correlated. Since 2010, a growing trend of the GDP has been interrupted by a slight decline in 2012. On the contrary, the tourism contribution to the total of all economic activity has performed with a positive trend.

Weaknesses of the destination Montenegro:

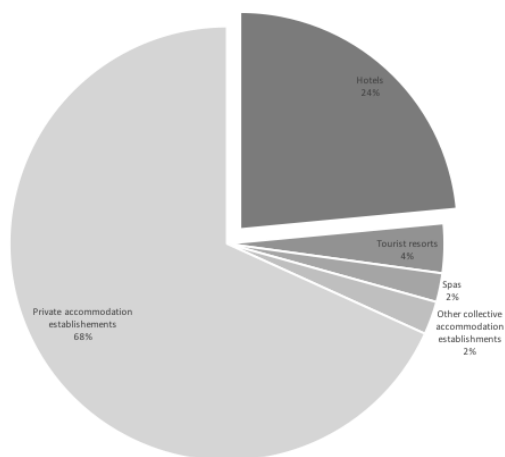
- **Seasonality** – seaside resorts contribute the highest volume of overnights in Montenegro (97 % of the total overnights). The capital Podgorica contributes only approx. 1 % and the mountain resorts below 1 %.

¹⁷ WTTC, Travel & Tourism, Economic impact 2016, Montenegro. Data for 2015.

¹⁸ WTTC, Travel & Tourism, Economic impact 2016, Montenegro. Data for 2015.

¹⁹ WTTC, Travel & Tourism, Economic impact 2016, Montenegro. Data for 2015.

²⁰ Data reported from Statistical Office in Montenegro, 2014



▪ **The share of overnights in private accommodation** - Only 24 % of the total overnight stays were made in the hotels (32 % in total in collective accommodation establishments). Additionally, 68 % of all overnights were recorded in private accommodation establishments²¹.

▪ **Distribution of accommodation capacities** – the major number of accommodation establishments is concentrated in the seaside resorts (96 %).

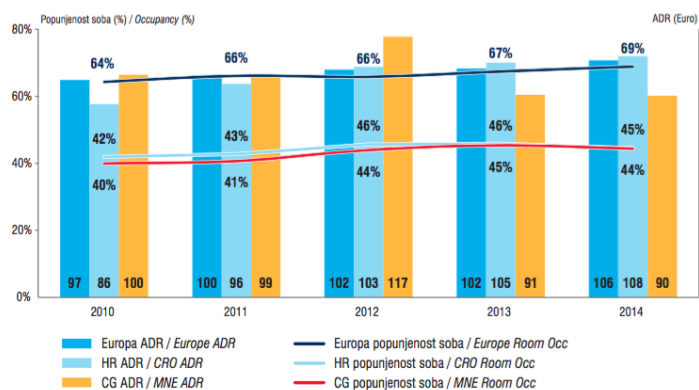
▪ In the six-year period²², the growth of the overnight stays at the seaside resorts was 24 %. In the same period the growth in the capital Podgorica was 15 %. In the same pe-

riod, strong decline was recorded in the overnight stays in mountain resorts (-11.9 %).

- Low quality of the tourism infrastructure (hotels).
- Unregistered tourists in private accommodation facilities.

Strengths for growth potentials:

- The volume of the overnights in the capital of Podgorica has grown for 15 % (from 2008 to 2014).
- Huge growth potential in the mountain resorts and the capital of Podgorica (97 % of total overnights recorded at the seaside resorts)
- International tourist arrivals have been booming, from 2006 to 2014 even for 69%. 24% of international overnights in seaside resorts (above the national average growth).
- Climate and natural biodiversity.



II. HOTEL PERFORMANCE²³

▪ In the last decade, the hotel industry in the seaside area boomed. The operating revenue increased by 146 %.

▪ The highest room occupancy rate is in the mountain area (44 %), the central area operates all year round (about 40 %) and seaside area with 36 %.

▪ The highest operating RevPAR is in five and four-plus-star hotels.

- Additionally, the highest profitability is in four-star hotels.
- The lowest ARR was recorded at the seaside area (70 €), followed by the mountain area (72 €). The central area is the best in ARR performing with 84 €.

²¹ Statistical Office of Montenegro, 2014

²² From 2008 to 2014

²³ Dana compiled from Horwath HTL, Horwath Hotel Industry Survey Montenegro 2014.

NATIONAL TOURISM STRATEGY

The main strategic goal of the tourism development in Montenegro is to create a high-quality tourism offer based on the sustainable principles. Consequently, tourism will create new jobs and Montenegro will generate revenues in a stable and reliable form.

III. SUGGESTION TO POTENTIAL HOTELS INVESTORS:

Montenegro has a huge potential for new hotel investments. On the market, an enormous black market in private accommodation facilities is present. Montenegro has a mild climate and is still considered a new and undiscovered destination. The destination should provide more international flights, but this will be possible when the quality of the hotels increases.

Potential investors should focus on:

- The seaside resorts with the all-year-round offer and complement tourism attractions to sun-sea products;
- High-quality hotels and resorts on the Adriatic coast;
- International hotel chains in the capital of Podgorica;
- All-year-round working hotels;
- Sustainable development.

Appendix 3: Interview Guidelines for Tourism and Hotel Experts



MODUL University Vienna

MBA thesis

Topic: Market Analysis of the Hotel Investments in the Eastern Adriatic Region¹

Supervisor: dr. Florian Aubke

MBA student: Ana Vugrin

Company: Christie & Co

Representative: Lukas Hochedlinger, Managing Director Germany, Austria & CEE

Date and time of the interview: 4th January 2017 at 9am

Activity	Topics / Questions	Approximate time
INTRODUCTION	Brief the participant Introduce myself Goals of the interview Review interview method, use of data, confidentiality	5 min
STRUCTURED TOPICS	<p>TOPIC 1: Market Profiles and Investment Suggestions Q1: What were your first thoughts when reading the country profiles and investment decisions? Q2: What criteria do you apply for hotel investors?</p> <p>TOPIC 2a: Hotel Investments in EAR (focus on Slovenia, Croatia, Montenegro) Q1: Do you consider EAR attractive for hotel investors? Q2: Which would be main investment drivers and barriers in the overall region? Q3: What are the main reasons investors invest their capital in hotels in EAR? Q4: How do you see future trend of hotel investments in Croatia and Montenegro? Q5: In your opinion, what is the reason for the lack of international hotel investment in Slovenian market? Q6: What are typical property investment types in these markets? Q7: Which of the three submarkets has the highest penetration of the international hotel chains? Why?</p> <p>TOPIC 2b: Hotel Investments in EAR (focus on Bosnia & Herzegovina, Albania) Q1: How do you see future tourism development of Bosnia and Herzegovina and Albania? Q2: What would you suggest potential investors interesting in Bosnia and Herzegovina and Albania?</p>	40 min
CLOSING COMMENTS		5 min

¹ EAR considers the following submarkets; Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania

Appendix 4: Interview Guidelines for Tourism Authorities



MODUL University Vienna

MBA thesis

Topic: Market Analysis of the Hotel Investments in the Eastern Adriatic Region¹

Supervisor: dr. Florian Aubke

MBA student: Ana Vugrin

Company: Ministry of Economic Development and Technology

Representative: Eva Štravs Podlogar, State Secretary

Date and time of the interview: TBD

Activity	Topics / Questions	Approximate time
INTRODUCTION	Brief the participant Introduce myself Goals of the interview Review interview method, use of data, confidentiality	5 min
STRUCTURED TOPICS	Q1: Do you consider Slovenia as an attractive market for foreign hotel investors? Q2: What do you see as the main drivers and barriers of foreign hotel investments in Slovenia? Q3: How are you satisfied with foreign hotel investments in Slovenia? Q4: What do you do to attract foreign hotel investors to Slovenia? Which are those activities and where (Work of program/ Strategy) are they defined? Q5: What type of properties investors usually invest in Slovenia? Q6: Which destinations/resorts within Slovenia are the most attractive for hotel investors? Q7: Are in Slovenia present strategic hotel investors? Could you name them? Q8: Are there any expected hotel transactions and new hotel openings in the upcoming year? Q9: How do you see hotel investments in Slovenia in the next five years? Q10: According to the Analysis of Slovenian Hotel Industry Performance 2007-2015, how do you comment that in the past four years the sector recorded a decline of ARR and revenues? Q11: Do you see the results of the Hotel Performance as a consequence of a changing (hotel) ownership from public to private?	30 min
CLOSING COMMENTS		5 min

¹ EAR considers the following submarkets; Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania



MODUL University Vienna

MBA Thesis

Topic: Market Analysis of the Hotel Investments in the Eastern Adriatic Region¹

Supervisor: Dr. Florian Aubke

MBA Student: Ana Vugrin

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Company: Ministry for Tourism of the Republic of Croatia

Date and Time of the Interview: ?

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Activity	Topics/Questions	Approximate time
INTRODUCTION	Brief the participant Introduce myself Goals of the interview Review interview method, use of data, confidentiality	5 min
STRUCTURED TOPICS	<ol style="list-style-type: none"> 1. Do you consider Croatia as an attractive market for foreign hotel investors? 2. What do you see as the main drivers and barriers of foreign hotel investments in Croatia? 3. How are you satisfied with foreign hotel investments in Croatia? 4. What do you do to attract foreign hotel investors to Croatia? Which are those activities and where (Work of program/strategy) are they defined? 5. What type of properties investors usually invest in Croatia? 6. Which destinations/resorts within Croatia are the most attractive for hotel investors? 7. Are in Croatia present strategic hotel investors? Could you name them? 8. Are there any expected hotel transactions and new hotel openings in the upcoming year? 9. How do you see hotel investments in Croatia in the next five years? 	30 min
CLOSING COMMENTS		5 min

¹ EAR considers the following submarkets: Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania



MODUL University Vienna

MBA Thesis

Topic: Market Analysis of the Hotel Investments in the Eastern Adriatic Region¹

Supervisor: Dr. Florian Aubke

MBA Student: Ana Vugrin

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Company: Ministry of Sustainable Development and Tourism / National Tourism

Organisation of Montenegro

Representative: Emil Kukalj, Manager, Strategic Planning & Product Development

Date and Time of the Interview: TBD

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Activity	Topics/Questions	Approximate time
INTRODUCTION	Brief the participant Introduce myself Goals of the interview Review interview method, use of data, confidentiality	5 min
STRUCTURED TOPICS	<ol style="list-style-type: none"> 1. Do you consider Montenegro as an attractive market for foreign hotel investors? 2. What do you see as the main drivers and barriers of foreign hotel investments in Montenegro? 3. How are you satisfied with foreign hotel investments in Montenegro? 4. What do you do to attract foreign hotel investors to Montenegro? Which are those activities and where (work of program/strategy) are they defined? 5. What type of properties investors usually invest in Montenegro? 6. Which destinations/resorts within Montenegro are the most attractive for hotel investors? 7. Are in Montenegro present strategic hotel investors? Could you name them? 8. Are there any expected hotel transactions and new hotel openings in the upcoming year? 9. How do you see hotel investments in Montenegro in the next five years? 	30 min
CLOSING COMMENTS		5 min

¹ EAR considers the following submarkets: Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania

Appendix 5: Transcripts

Company Interviewee Position Date	MRP Hotels Roman Kaczenko Senior Consultant 01/12/16	Horwath HTL Silvija Škokić Bačković Project Manager 08/12/16	Michael & Partner Martina Maly Managing Director 13/12/16	Christie & Co Lukas Hochedinger Managing Director Germany Austria & EECS 04/01/17
TOPIC 1: Market Profiles and Investment Suggestions				
Q1: What were your first thoughts when reading the country profiles and investment decisions?	Good market analysis. Concerns regarding data collection aboutautical arrivals and nights. The questionnaire in which category the arrivals and nights is recorded is (specially for Croatia and Montenegro). Additionally, Montenegro and Croatia as a huge community in Europe, the questionnaire shows those guests usually with double citizenship is recorded.	A good overview of basic parameters, economic indicators, destination and hotel performance. Key investors' decision-making process in macroeconomic and political indicators (stability). Furthermore, the role of investment decision-making makes stability, political and local stability and open minded for cooperation plays a key role.	Generally the profiles show main market facts but you have to include detailed destination analysis as itself.	Agree on country profiles. Seasonality is a huge issue in the region.
Q2: What criteria do you apply for hotel investors?	Should add competition analysis in the national level of the market analysis for investment scenario.	Should add analysis in macroeconomics climate and political stability.	You have to look at demand, infrastructure and land plots.	If selling hotels in micro level analysis, if buying hotels big investors (funds) look only in luxury and big opportunities. In this case you look for hotel that are for sale --> hotel analysis, demand, source markets, impacts, infrastructure, seasonality, accessibility, year around, political and economic stability. Comparison with the other market in Mediterranean. The analysis also depends on the scope of work.
TOPIC 2: Hotel Investments in EAR (focus on Slovenia, Croatia, Montenegro)				
Q1: Do you consider EAR attractive for hotel investors?	The market is attractive for two groups of investors, institutional investors and individuals, which are locally attached to the region. Example in MNG is strategic investments (Aman Resorts), and individual and institutional (munkj CAN), (ocholding TR), (CD UAE), etc.	With caution and selectively, depending on the destination and the local administration. There are challenges but there is certain attractiveness. HR is certainly growing but interest of international investment and demand of the region. Definitely recorded a huge interest, but the problem is prerequisite and obstacles that investors want to reach.	CRO there are couple of companies which are owners and operators in the area they would be interested for capital investors. On the other hand side, institutional investors would be less interested for investing in the market. It is challenging in the leisure industry of investors and crucial what capacity you can get. MNG there are a lot of projects but they are looking for investors. MNG is a new big tourism investment area. There are a lot of acquisitions for land plots. In LO is quite stable market with short coastline. There are a lot of going to be new developments.	CRO would be most attractive, most activities in the market. In LO interesting market but there are less investors interest, small market, very little coastline (only few coastal resorts), mountaint destinations are a lot of appealing for investors. MNG luxury market, more developing investors interest.
Q2: Which would be the main investment drivers and barriers in the overall region?	D: good infrastructure facilities, which offer the property to prolong the season (conference centre, parking, wellness), Valamar is a good example. B: seasonality, mental barrier of local partners with EAR region. The need of good and stable local partner. P: Slovenia is perceived as a safe and stable market. Slovenia is in the market the biggest challenge for investors in the EAR. PPS: Golf, Casino PPS: Slovenia partly seen as transit	There are great differences in the systems. It is necessary to look separately at the destination. In LO is containment and internal problem of ownership in the companies, there was a bit of external know and investments. At the very first stages of restructuring and the beginning of the investment cycle (spa, public and costal destinations). Small and very cautious investors interest. CRO is different way of restructuring. CRO was immediately open to foreign capital. Domestic companies are the predecessors in investment wave. Foreign investors have different criteria, they are included in the company as a greenfield investment approach. Greenfield investments are based on mixed use hotels. This is the only profitable investment in CRO, specially because of high seasonality.	D: EU funds and now acquisition of cost of property; B: banks are not happy to give loans for hotel investments show therefore need of investor with a lot of equity (at least 50:50); administration and bureaucracy (multiple owners, permit for property)	D: Northern Adriatic region (terrorism and current political situation), close proximity to Austria and Germany (driving distance), tourism numbers are growing in the region (interesting for small investors and capital investors who are looking for different opportunities). B: CRO language barriers, ownership in the land plots, sometimes currency issues. MNG is a big tourism destination but with not good accessibility within the country (year around). Political and economic stability.
Q3: What are the main reasons investors invest their capital in hotels in EAR?	RO is emotional attachment to the region.	Investors are looking for long-term investments in the area, unrestricted entry of capital and a range of macroeconomic stability in the destination, the growth in value of the property.	High potential because of better yield in hotel investments than in business sector.	Bigger investors opportunity to buy land at price and add value to the property and to the season period of the property, the different reasons
Q4: How do you see future trend of hotel investments in Croatia and Montenegro?	Investments in capital cities and majorities, branded hotels in the coastal line, special segments.	HR is a cost of the most active investors are domestic companies. They are developing in destination and small family hotels. Foreign investors are in the acquisition and the benefits, greenfield investments (ranging from scratch). MNG is a big power of investors to carry out their will goals. Tourism in MNG is growing based on the hotel real estate projects, but in the other hand, the destination still has a small number of hotels. Based on the few investments MNG achieved their destination awareness globally.	Positive trend, overnight trend is developing positively as well. CRO is very developed in tourism and MNG has a high potential.	CRO: continue to positive trend easy to get to Croatia, more infrastructure. MNG: a bit of certain destination to predict the future trend. It is a mature market, there are many issues (infrastructure, independence of the source market), expensive now, dependent on the mass tourism in the months (seasonality)
Q5: In your opinion, what are the reasons for the lack of international hotel investment in the Slovenian market?	Lack of strong national partner and consequently lack of lease contracts and to convince national operator of franchise the brand.	Old infrastructure of hotel companies, drivers, which generate demand during the period of not sufficient development of the hotel sector could get growth. Slovenia must restructure existing portfolios.	The market is not interesting enough, potential is not that high, short coastline leisure industry is not interested. Very few operators and investors interest. If transit country which is gaining interest because of Croatian tourism.	Investors like to invest in Italy, Italy hotels, popular resort destination mainly in the beach resorts. Slovenia is not as well as the other both international investors are usually looking for hotels looking into resorts not boutique hotels.
Q6: What are typical property investment types in these markets?	Resorts (full facilities) and city centre business hotels.	CRO: agreed in the upscaled products (hotels), city centre and commercial zone. Factor of cost investors willing to invest in the area of investments in the coast. Local population river establishing villas, small and medium-sized enterprises, boutique hotels. Resorts in the problem in administration (town planning), infrastructure, in the time domain and the preparatory issues before you invest with construction. MNG is continuing pressure from the resorts, Podgorica is similar to Zagreb and commercial business. In LO the market began to open to foreign investments. Several transactions, shorter acquisition phase. Interest related to public and costal area (lower seasonality, year product).	Resorts, the highest potential will be in combination with residential area (hotels and residents), specially on the coast as a result of high seasonality.	CRO: MNG resort destinations. Zagreb has some activities, Podgorica only few of them.
Q7: Which of the three submarkets has the highest penetration of the international hotel chains? Why?	Depends on destination and niche. There are no target gaps in investments in Croatia and Montenegro.	The highest penetration is in Croatia (the largest range of brands and the most diversified destination). Montenegro is strong with luxury brands. Slovenia will have similar development path to Croatia (hand Montenegro).	Croatia. Some brands will be entering in MNG. In LO there will be some new openings in public area.	Croatia. When investment into city hotels, investors are looking for brands. Resorts are not so much branded hotels. With the resort hotels there is limited number of brands.
TOPIC 2: Hotel Investments in EAR (focus on Bosnia & Herzegovina, Albania)				
Q1: How do you see future tourism development in Bosnia and Herzegovina and Albania?	Potential specially in Bosnia and Herzegovina, mainly in city destinations. Opportunity for development in city and business destinations.	Sarajevo is a specific market. Investments from the Middle East. Both countries are developed to attract investments in tourism (disposition, transport, infrastructure). The urbanisation/urban platform need for tourism development. Tourism is not the generator of the general development in the country.	No interest in investments here. Undeveloped destinations. Albania would probably have more potential than Bosnia.	Albania is a coastline, sea side locations and it could be next Montenegro. Bosnia is from international perspective unknown country.
Q2: What would you suggest potential investor interesting in Bosnia and Herzegovina and Albania?	Those markets are showing opportunity for investors. They should be aware of risks, which are not only measured in ROI. Market knowledge is crucial for investment decision in the new emerging markets.	Generally low.	Look further into markets in detail, specially to look into existing infrastructure and to define potential of investments.	It will take some time for the investments in Bosnia and Albania. First, both countries have to focus on primary development.
Comments	Important to differentiate between two types of investors, locally attached investor and institution.	LO: revenue decline in Slovenia and in the restructured hotel companies. Drivers which are generated during this period are not sufficiently developed that the hotel sector could get growth. CRO is a lucky in terms of the driver due to the attractive coastline. Hotel companies need to develop destination, in order to achieve revenue.	Croatia is a very developed in tourism. Montenegro is basically becoming interesting for investments. Slovenia has a short coastline and is very transit country. It benefits from the Croatian tourism. Bosnia and Albania are the least developed countries and it would be needed first to define tourism and investment potential.	
Investment suggestions summary	Seaside resorts and full scale resorts. Upper market **** and **** in Croatia and Montenegro. Casino, seaside resorts and special interests, niche hotels in Slovenia. Potential for boutique hotels in mountain destinations.	In the region, demand is pretty higher than the number of executed projects.	Seaside resorts with residential areas. In LO budget hotels in public area, which would be only interesting destination for investors. There are no destinations in Slovenia. Only in public area.	

MARKET ANALYSIS OF THE HOTEL INVESTMENTS IN THE EASTERN ADRIATIC REGION

Institution Interviewee Position Date	Slovenia - Ministry of Economic Development and Internationalization Eva Štravs Podlogar State Secretary 1.2.2017	Croatia - Ministry of Tourism 1.3.2017	Montenegro - Ministry of Sustainable Development and Tourism 1.12.2016
Q1: Do you consider "destination" as an attractive market for foreign hotel investors?	Yes. Defined USPs; Alpine Slovenia, Ljubljana & Central Slovenia, Mediterranean Slovenia, Pannonian Slovenia.	Yes	From the economic point of view, Montenegro is on the fastest growing tourist destinations. Montenegro is building awareness of stable investment destination, where potential investor can rely on all pillars in the society. In Montenegro are present foreign investments flows from more than 107 foreign countries (Russia, Italy, Switzerland, Hungary, etc.). Montenegro is a leading country in the region, when talking about foreign investments per capita.
Q2: What do you see as the main drivers and barriers of foreign hotel investments in "destination"?	D: diversification of the tourism offer, locally attached investors to the region/destination, which are willing to improve of the quality of small individual investors, accessibility. B: size, connectivity; no possibilities for greenfield investments, high level of administration, ownership	D: 1. Resource - attractions basis (safety, hospitality, excellence, nature, socio-cultural, climatic and / or production (experiential) authentication and qualified labour force); 2. Traditional basis, which enables the development of tourism products such as nautical, health, cycling, adventure-sports, gastronomic, cultural and business tourism. B: unresolved land ownership; sluggish administration; incompatibility of legislation with frequent changes in laws; court delays, insufficient number of analysis of the carrying capacity of the environment for tourism activities; mismatch of strategic planning documents; decisions are, in the most cases, made depending on individual attitudes, municipal, city or county governments or under the influence of various interest groups.	D: good geographic location; currency Euro; competitive tax system (19% and 7% VAT, 9% income tax); free capital movement/flow; WTO agreement, free trade agreement with the EU, CEFTA, EFTA, Republic of Turkey, Ukrain and Russia.
Q3: How are you satisfied with foreign hotel investments in "destination"?		Since 2015, after recovery of the real-estate sector, the volume of investments in the tourism sector, which relate primarily to the restoration of existing hotelier capacities, recognise the following indicators: 2013 - 250 million €; 2014 - 400 million €, 2015 - 500 million €, 2016 - 600 million €, 2017 - 800 million €, with the announcement of further growth, not only brown but also greenfield investments.	In the past few years MNG is recording continued growth in tourism investments and all based on investment orientated climate supported by the administration.
Q4: What do you do to attract foreign hotel investors to "destination"? Which are those activities and where (Work of program/ Strategy) are they defined?	Agency SPIRIT is responsible to boost foreign investments to Slovenia. The law on the promotion of foreign direct investment and internationalization of enterprises"	The establishment of the Agency for investments and competitiveness, adoption of the Investment Promotion Act, the Law on strategic investments, changes to the Law on the construction, spatial planning, forests, cultural heritage, the maritime domain, tourist land, all defined by the Strategy development of tourism to 2020 g. and action plans for its implementation. Secured preferential crediting of tourist investment projects through the Croatian Bank for Reconstruction and Development (HBOR).	MIPA (Montenegrin Investment Promotion Agency) - in the upcoming period the focus will be in promoting selected industries (divisions) and selected investment projects. Main focus will be on tourism sector. MSDT in a cooperation with investors, which are executing projects in MNG, are implementing promotional activities on the key tourism real estate events/fairs. Activities as a part of economic diplomacy - included the following: promotion of selected investment projects, establishing partners network on the foreing markets, support to domestic companies abroad and defining strategic potential partners.
Q5: What type of properties investors usually invest in "destination"?		So far, mainly in the existing facilities with the aim of raising the quality of services and categories of accommodation facilities. While in the pipeline are mainly greenfield investment.	investors are usually interested in the development of new infrastructure and the reconstruction of existing tourism facilities.
Q6: Which destinations/resorts within "destination" are the most attractive for hotel investors?	Ljubljana (city product), health resorts, costal resorts, Alpine region.	Coastal resorts (destination orientated, on the first place Istria, followed by Dubrovnik).	The most attractive part is the coastal region. Especially attractive for the further investment is the northern part of the country (possibility for development of mountaneering tourism, nature product, active holidays, MICE and wellness).
Q7: Are in "destination" present strategic hotel investors? Could you name them?	Sava Hotels & Resorts. In the past few years, it is recorded high interest from the region (Croatia and Serbia) and Russia.	The implementation of two strategic investments in the tourism sector (as decided by the Government to designate the same strategic investments): Hotels Resort Plat, Dubrovnik, the value of 57 million € and Hotel Park, Rovinj, worth 80 million €. Other investments of strategic importance which are being implemented (without the decision of the Government to designate the same strategic investments): Hotel Marriott West Gate Split, value: € 67 million; Hyatt Maraska, Zadar, 100 million €, Vallmar Hotels Resort Rabac, 113 million €.	In Montenegro are present the following investors, which are recognized as strategic partners; Porto Montenegro, Aman Resorts (Sveti Stefan), Orascom (Luštica bay), Hilton (Podgorica), Starwood Hotels and Resorts (Kolašin), Abu Dhabi Financial Group and Abu Dhabi Capital Group.
Q8: Are there any expected hotel transactions and new hotel openings in the upcoming year?		In 2017, is expected to opening of (from strategic investments) Hotels Resort Plat, Dubrovnik, 57 million €; Hotel Park, Rovinj 80 million €, Vallmar Hotels Resort, Rabac € 113 mil., And renovation or construction of a number of larger and smaller facilities, with a total value of 800 million €	Expected hotel transactions and new openings; Portonovi (One & Only, 500 mn eur), Beyond Horizon (200 mn eur), Plavi horizont - Qatari Diar (250 mn eur), Mamula Ostrvo Hotel&Spa (Orascom Development Holding, 15 mn eur)
Q9: How do you see hotel investments in "destination" in the next five years?	In the five-year period the new tourism strategy will be defined. There is a lot of properties, which has to be taken into consideration.	According to announcements of investments in the tourism sector, it is forecasted the continue growth, which will most probably exceed the planned investment of 7 bn € (for the period from 2013 - 2020) defined in the Strategy for Tourism Development by 2020. This statement is based on the expectations of realization of a number of large scale (strategic) investments that have already been several years in the pipeline and whose opening is expected in time of 2018 - 2025: • Hyatt Maraska, Zadar 100 million € • Hotels Resort Aquarelixio Murter 100 million € • Golf Resort Marlera, 130 million € • Hotels Resort Four Season Brizenica, Stari Grad, Hvar 177 million € • Hotels Resort Bay Livka, Solta 143 million € • Golf Resort Prukljan / Skradin 280.7 million € • Larun Golf Resort, Istria € 137 million • Golf Srd Dubrovnik 1.1 mjd € • West Gate Hotel Marriott Split 67 million € • Hotel Belvedere Dubrovnik 150 million € • Golf Resort Matalda, Cres / Losinj 30 million € • Aman Resort Cavtat 30 million € • Hotels Resort Kupari I, Dubrovnik 100 million € • Frapa Resort Medina Rogoznica / Sibenik 138 million • Nautical Resort Sv. Katarina-Monumenti Pula 520 million € • Golf Resort Porto Maricchio & Dragonera, Istria € 840 million • Nautical Resort Velopin Mali Losinj 160 million € • Hotels Resort Hidrobaza, Pula 40-60 million € • Hotels Resort Sacorggiana Pula 80 million € • Hotels, Golf & Nautical Resort Muzil, Pula 550 million €	First, defined by the Tourism Strategy by 2020, MNG's objective is to become so called high-purchasing destination. What means that Montenegro wants to attract tourist with higher expenditure to the destination. Second, MNG's goal is to become high-quality destination with a diversified offer --> to boost an up-scale hotel accommodation (4* and 5*). Third, new development and improvement of the existing accommodation facilities with the focus on development of the model for defining and deriving upscale hotel facilities.
Additional questions			
Q1: According to the Analysis of Slovenian Hotel Industry Performance 2007-2015, how do you comment that in the past four years the sector recorded a decline of ARR and revenues?	1. In the period Slovenia has boosted arrivals. On the other hand, the tourism expenditure has decreased in the same period. Slovenian hotel industry did not follow the suitable price policy. 2. Investment cycle (EU grants)	/	/
Q2: Do you see the results of the Hotel Performance as a consequence of a changing (hotel) ownership from public to private?	yes	/	/