



The Changing Face of the Greek Hospitality Market

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Introduction

Greece, with a long history, famous natural beauty, and an excellent climate, is one of the safest countries in the Mediterranean region with a homogenous population and a stable economy directly linked with Europe. Although Greek tourism is still regarded as a “Sea and Sun” concept, significant efforts are made by the Greek government to offer incentives and new legislation in order to materialise a number of landmark projects in the near future at various destinations. These efforts will support foreign and local investors to reposition the country’s tourism industry towards a more up-market product.

Setting the benchmark of a new tourism era, the 2004 Olympic Games attracted significant international attention to Athens and Greece as a whole. The amount of investment channelled towards infrastructural improvements and development and the efforts made in upgrading several official Olympic cities, and particularly Athens, were highly publicised and resulted in a greater international awareness of the city and the country.

Currently, tourism in Greece is over-dependant on tour operators for the majority of holiday-makers, particularly at the lower end of the market. Nevertheless, over the past few years there is an upcoming market niche geared towards the higher end of the tourism industry, which has been particularly promising. This upcoming demand for quality accommodation is reflected by the particularly high occupancy (especially during the summer season) and average room rate results achieved by some high-end hotels, which have been able to attract clientele from differentiated distribution channels and therefore lessen their dependence on tour operators.

Country Snapshot

Greece, officially known as the Hellenic Republic, is a country in the southeast part of Europe, situated on the southern end of the Balkan Peninsula, and is considered a strategic crossroad between the Old Continent, Asia, and Africa. It borders with Albania, Bulgaria, and the Former Yugoslav Republic of Macedonia to the north, and Turkey to the east. The Aegean Sea lies to the east and south of mainland Greece, while the Ionian Sea lies to the west. Both Seas of the Eastern Mediterranean basin feature a vast number of islands.

Indicative Map of Greece



Heir to the rich heritage of ancient Greece, the Roman and Byzantine Empires, and nearly four centuries of Ottoman rule, which have left their mark engraved on the country's culture, Greece is considered to be the birthplace of democracy, western philosophy, the Olympic Games, political science, major scientific and mathematical principles, and western drama including both tragedy and comedy.

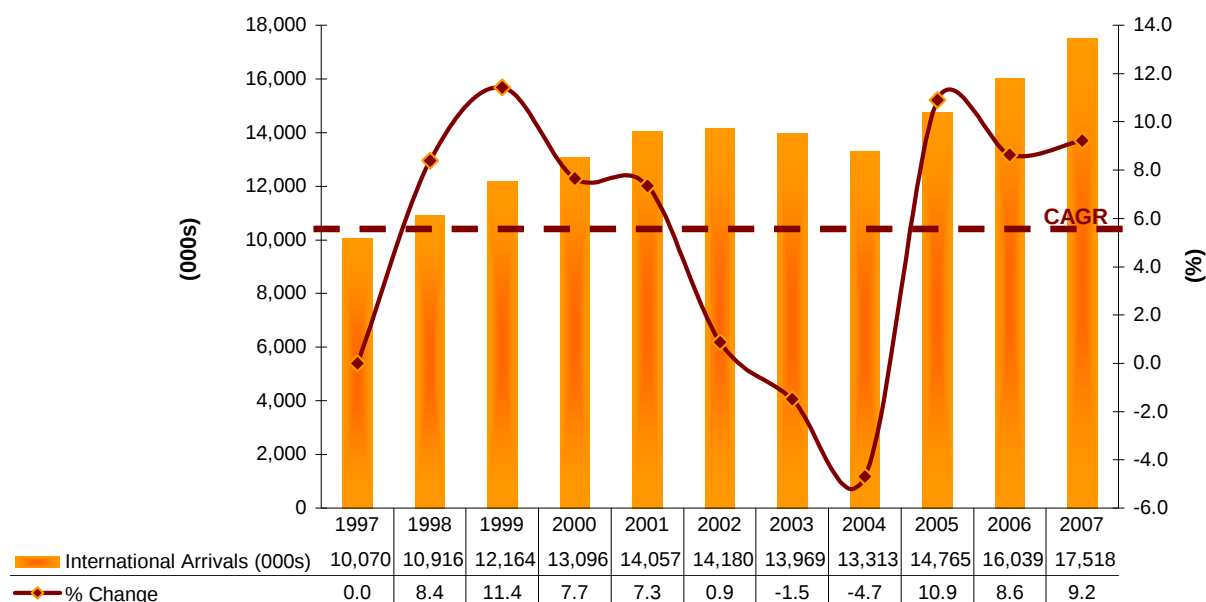
Today, Greece is a developed country, a full member of the European Union since 1981, a member of the European Economic and Monetary Union since 2001, and an official member of several other international organisations. Athens is the capital; Thessaloniki, Patra, Heraklio, Volos, Ioannina, and Larissa are some of the country's other major cities. The

primary tourism destinations in Greece are Athens, Crete, the area of the South Aegean Sea, and the Ionian Islands. Whilst beach resort visitation is widespread among the islands and other coastal areas, Rhodes, Corfu, Crete, and Chalkidiki are more easily accessible and developed and therefore attract the largest share of annual tourist arrivals. Tourists typically fly either directly to these destinations or stop over in Athens for one or two nights as part of a package holiday.

Tourism Economy and Statistics

According to the World Travel and Tourism Council, the Travel and Tourism contribution to the Gross Domestic Product (GDP) of Greece is expected to rise from 17.2% (€37.3 billion) in 2008 to 18.0% (€69.6 billion) by 2018. The contribution of the Travel and Tourism Economy to employment is expected to rise from 963,000 jobs (20.9% of total employment, or 1 in every 4.8 jobs) in 2008 to 1,349,000 jobs (21.9% of total employment or 1 in every 4.6 jobs) by 2018. The Greek Travel and Tourism Economy is currently ranked 25th in absolute terms and 39th according to its relative contribution to the country's GDP amongst 176 countries. Graph 1 outlines the growth in total international arrivals in Greece from 1997 to 2007.

Graph 1 International Visitation to Greece 1997 – 2007



Source: National Statistical Service of Greece, HVS Analysis

Total tourist arrivals have increased from approximately 10 million in 1997 to more than 17 million in 2007, achieving a Compound Annual Growth Rate (CAGR) of 5.7%.



In 2003 and 2004, total tourist arrivals in Greece declined due to the build-up towards the Athens Olympic Games. However, tourist arrivals recorded continuous increases from 2005 through 2007.

Since 2004, there is a newly established Ministry of Tourism that has taken various actions in order to promote the country, such as: (1) the creation of a new tourism strategic plan, (2) an integrated promotion campaign of Greece, (3) the increase of the country's available promotion budget, and (4) an increasing participation at international tourism exhibitions.

Greece has an added advantage in that it is considered to be a stable country and has not been sensitive to major global events, showing remarkable resilience as a tourist destination. As such, fluctuations in tourist arrivals are not as great as in other, more vulnerable countries.

Seasonality

One of the biggest issues facing Greek tourism is its highly seasonal nature. Most tourists visit Greece during the summer months, leaving the rest of the year with lower visitation rates. Two of the main limiting factors that impede a change in this pattern are:

- The lack of charter flights from major source countries towards various Greek destinations during the winter months that greatly limits the number of visitors travelling to and within Greece during that time, with the exception of Athens, and
- The lack of appropriate infrastructure throughout the country, capable of attracting visitors during the off-peak tourism period, beyond Athens. Not only are many shops, bars, and restaurants closed over the winter months, particularly on the islands, but the lack of alternative products such as golf, conference or thalasso/spa tourism during that time further limits the tourism potential.

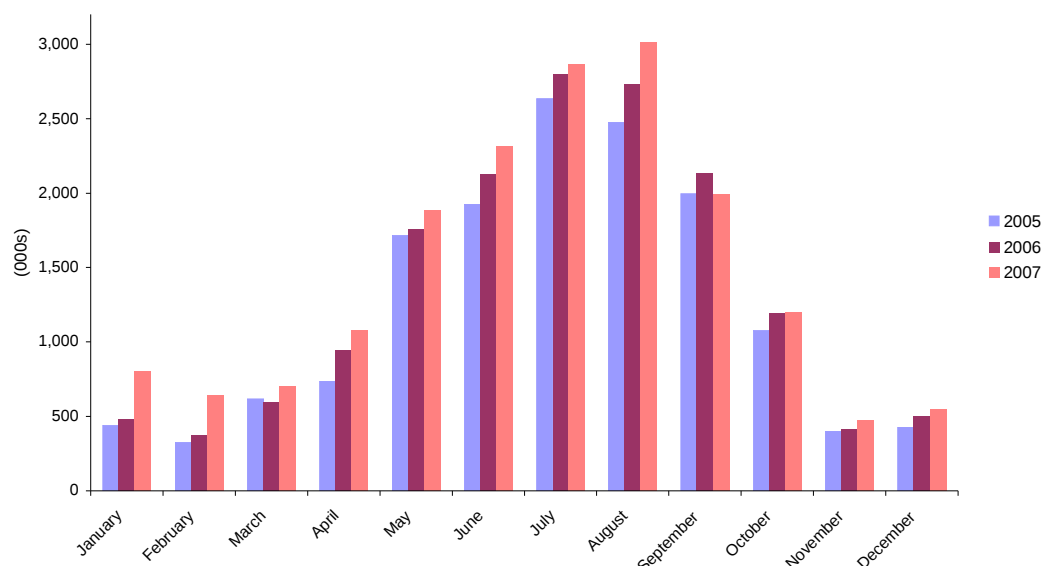
Table 2 outlines monthly tourist arrivals to Greece over the period 1997-2007 whereas Graph 3 highlights the rather highly seasonal pattern of visitation to Greece for the last three years.

**Table 2 Foreign Visitor Arrivals to Greece by Month 1997-2007 (000s)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	CAGR 1997-2007	% Share of Total (2007)
January	166	162	182	199	294	401	276	317	440	480	804	17.1 %	4.6 %
February	156	144	177	186	286	336	321	363	326	373	638	15.1	3.6
March	269	240	347	344	327	448	432	465	618	596	700	10.0	4.0
April	526	580	638	731	742	686	761	812	736	941	1,080	7.5	6.2
May	1,139	1,183	1,348	1,465	1,571	1,582	1,546	1,603	1,715	1,757	1,884	5.2	10.8
June	1,401	1,504	1,669	1,816	1,913	1,871	1,949	1,758	1,926	2,126	2,312	5.1	13.2
July	1,850	2,101	2,270	2,439	2,516	2,407	2,461	2,281	2,635	2,796	2,866	4.5	16.4
August	1,870	2,059	2,288	2,340	2,443	2,479	2,458	2,300	2,474	2,733	3,015	4.9	17.2
September	1,451	1,595	1,711	1,924	2,025	2,012	1,902	1,744	1,995	2,130	1,991	3.2	11.4
October	834	919	1,031	1,067	1,086	1,113	1,092	945	1,077	1,192	1,203	3.7	6.9
November	233	233	263	323	479	389	371	350	399	417	477	7.4	2.7
December	175	197	239	262	376	455	400	376	425	500	547	12.1	3.1
Total	10,070	10,916	12,164	13,096	14,057	14,180	13,969	13,313	14,765	16,039	17,518	5.7 %	100.0 %

Source: National Statistical Service of Greece

Greece experiences very high numbers of arrivals from May to September, the period when approximately 70% of the visitors arrive, and very low numbers of tourist arrivals between October and April. This pattern is mainly attributed to the fact that up to the present the country is lacking in basic infrastructure suitable for winter and off-peak tourism such as golf courses and organized holiday home establishments. Nevertheless, during the period 1997-2007, international arrivals recorded significant annual changes in the winter months, reflecting a slow but steady transformation of Greece into a year-round destination.

Graph 3 Seasonality of Foreign Visitation to Greece 2005 – 2007

Source: National Statistical Service of Greece

Overview of the Existing Hospitality Market

The lack of a reliable classification system for Greek hotels, coupled with the rather limited existence of international hotel operators and the bell-shaped seasonality pattern, set the Greek hospitality market as problematic to a number of potential investors. However, many international hotel brands are currently interested in entering the Greek hotel market, especially at its high-end spectrum. This is a clear sign that the upscale market is expected to significantly improve over the next years, especially in conjunction with the numerous incentives currently available to investors in the Greek tourism industry. Table 4 shows the evolution of the hotel and room supply in Greece between 2000 and 2007.

Table 4 Evolution of Hotel Supply in Greece 2000 – 2007

	2000		2005		2006		2007		Change 2000-2007	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
5-star	83	18,686	155	29,140	176	33,130	199	35,782	140%	91%
4-star	792	78,816	944	90,975	994	92,372	1,048	94,737	32%	20%
3-star	1,499	76,207	1,712	83,632	1,804	85,547	1,900	85,920	27%	13%
2-star	4,027	111,501	4,496	124,106	4,460	123,151	4,403	121,589	9%	9%
1-star	1,672	27,783	1,729	30,868	1,677	29,979	1,657	29,964	-1%	8%
Total	8,073	312,993	9,036	358,721	9,111	364,179	9,207	367,992	14%	18%

Source: Hellenic Chamber of Hotels



Greece is evidently lacking in upscale properties since they represent only 2.2% of the total number of hotels and 9.7% of the total number of rooms and beds. Currently, there are over 9,200 hotels throughout Greece. Nearly 65.0% of that supply is in the one- and two-star category, with the remaining 35.0% in the other categories. The majority of hotels are independently or family-run, with just about 4.0% affiliated with a local or international brand.

Greotel, *Best Western*, Cyprus-based *Louis*, *Mitsis*, and *Iberostar* are the only companies active in Greece that have built significant portfolios of branded hotels with 33, 23, 11, 16, and 12 units, respectively. Greotel, the country's largest hotel company, controls 5,938 rooms, or 1.6% of the total room capacity, operating under the brands of Greotel or Classical Hotels.

Second to Greotel is *Mitsis* with a capacity of 5,120 rooms in 16 hotels. Other national brands include *Aldemar*, *Helios*, *Divanis*, *Capsis*, *Electra*, *Amalia*, *Chandris*, and *AKS*. There are also several strong local brands in the country's main resort areas, such as *Maris* on Crete, *Esperia* on Rhodes, and *Kipriotis* on Kos.

International brands, such as IHG's *InterContinental*, *Holiday Inn*, and *Crowne Plaza*, Accor's *Club Med*, *Sofitel* and *Novotel*, Starwood's *Luxury Collection* and *Westin*, as well as *Marriott*, *Hilton*, and *Hyatt*, have established a limited presence, with each one of these companies operating up to four hotels in Greece. A relatively large share of hotels has been secured by brands directly managed by or affiliated with some major European tour operators such as the predominantly all-inclusive resort hotels of *Robinson Club*, *Magic Life*, *Club Alltoura*, *Calimera*, *LTi*, and *Iberostar*.

A growing number of Greek hotels are opting for consortium membership with many of them having joined international networks such as the Leading Hotels of the World, Great Hotels Organisation, and Small Luxury Hotels.

Over the past five years, an average of about 55.0% of the total hotel arrivals in Greece has been of international nature as illustrated in Table 5. International arrivals reach a peak during the summer season, whereas domestic tourism (both business and leisure) is dynamic throughout the year. In addition, the lack of specialized tourism products such as golf courses, large convention centres, and marinas that can absorb the potential demand from larger number of tourists creates a burden on the destination by virtue of not being able to attract

business from niche markets that could boost international arrivals, especially during the shoulder months.

Table 5 Domestic and Overseas Arrivals at Hotels in Greece 2003 – 2007 (000s)



Source: National Statistical Service of Greece

Table 6 illustrates that the average length of stay in Greece is about four nights, a trend that has been maintained over the last five years. During the period 2003 – 2007, the number of total arrivals has experienced growth of about 28.0%, resulting in a CAGR for total arrivals and overnights of 6.4% and 4.6%, respectively. Bed occupancy in Greece has been moderately stable between 2003 and 2007. In 2007, the recorded deterioration in bed occupancy can only be attributed to the room supply increase since both arrivals and overnights at the country's hotels recorded a healthy increase over 2006.

Table 6 Tourist Visitation to Greece 2003 – 2007

Year	Arrivals at		Accommodated		Average Length	
	Hotels (000s)	% Change	Bed Nights (000s)	% Change	of Stay (Days)	Bed Occupancy
2003	12,224	—	53,476	—	4.4	58.0 %
2004	11,880	-2.8 %	51,590	-3.5 %	4.3	55.9
2005	13,076	10.1	54,017	4.7	4.1	58.6
2006	13,675	4.6	56,708	5.0	4.1	59.8
2007	15,696	14.8	64,086	13.0	4.1	57.0
Compound Annual Growth Rate 2003-07		6.4 %		4.6 %		

Source: National Statistical Service of Greece

There are currently several competitive markets to the existing hospitality industry in Greece. The medium to lower end of the market is losing ground to upcoming competitive tourist destinations, such as Northern Africa, Turkey, and Croatia, markets that are growing at a rapid pace and are very competitive in terms of room rates. The higher-end resort market competes with some of the more mature destinations such as Italy, Spain, Cyprus, and France. Finally, city break tourism is competitive with the destinations of South and Central Europe such as Barcelona, Malta, Nice, and Istanbul.

Greece seems to move away from the “sea and sun” formula that worked well in the past but which is also provided today by cheaper competitors. There is a clear shift towards the higher end of the hotel market, making luxury hotels less vulnerable to the tourism industry’s current limitations and at the same time more profitable due to better operational performance. The new upcoming source markets for European destinations of Russia and China, as well as affluent European citizens and residents of the Gulf region, are mainly interested in upscale hotel accommodation. As long as quality and value for money are realised, tourists from these source markets are prepared to pay high room rates.

Second Holiday Home Market

In the last few years, as the market for residential housing in Greece seems to have flattened as a result of various factors, attention has turned to holiday housing. Leisure estate developments have played an important role in spurring interest and, more importantly, investment from domestic and foreign business entities. Currently, there is a lack of large-scale holiday home projects in Greece. The property market is dominated by local developers who construct a small number of units and sell them either directly or through the internet. However, this is about to change since many large-scale projects have attracted capital



with plans to create sprawling landscaped resort estates. The trend has been further enhanced by a series of laws encouraging such investments. These laws are frequently tied to the development of resort complexes attached to golf courses and hotels.

Greek islands are well renowned for their sunshine, laid back lifestyle, great food, and folk songs. While other European markets approach a stand-still, there appears to be an increasing number of well-off Europeans buying luxury properties on the Greek islands. The country has a lively residential property market primarily driven by two major buyer groups besides the Greek citizens; the British and the Germans. International buyers mainly use their property as a place to retire and live permanently since it is generally acknowledged that the cost of living in Greece is rather lower than in their home countries. There are also many examples of foreign buyers buying a plot of land in order to build a new house themselves. According to reports by real estate agents, there are currently about 70,000 foreign owners of real estate property in Greece.

On the other hand, Greece – referred by many as “one of the most attractive tourism destinations” – is the only European country without a land registry, making it difficult to identify the property owners. However, a new national zoning law and a new land registry are expected to take effect in early 2009.

The natural beauty of the country and the relatively short travelling time from all major source markets have increased the demand for serviced and/or branded holiday villas in Greece, while the supply of such units is still very limited. The very few organized developments of that kind are achieving particularly high selling rates per square metre and are primarily located in areas such as Crete, the Aegean Sea islands, the Ionian Islands, Chalkidiki, and eastern Peloponnese.

Currently throughout Greece, there are several holiday home developments in the pipeline, either under construction or in the design phases, as described in the next section. Most of these developments are aiming towards the higher-end of the market, marking the evolution of the second holiday home market in Greece.

Future Developments

New large-scale tourist complexes are expected to transform the image and popularity of Greece as a tourism destination. These leisure-integrated resorts are set to enter the market over the next few years and are believed to make Greece a part of the luxury hospitality market by offering a wide array of infrastructure and facilities. Once in operation, these mixed-use resorts are envisaged to create new destinations mainly



in Crete and Peloponnese. These new destinations are expected to attract more tourists and foreign individuals interested in buying or renting a holiday home, since most of these developments will combine hotel facilities and residential units.

This new trend, combined with the hotel renovations undertaken a few years ago because of the 2004 Athens Olympic Games, is expected to set Greek tourism infrastructure on a new footing. The hotel operating season of some popular Greek tourism destinations is anticipated to be extended to include the off-peak visitation periods (winter months) by virtue of the existence of upscale leisure facilities that would promote tourism during the shoulder months, namely golf and holiday villas.

Conversely, there are significant barriers-to-entry for potential hotel investors due to licensing difficulties and non-availability of large enough plots of land. In addition, successive land reforms in the 19th and 20th centuries led to the break-up of most privately-held estates, meaning that potential developers must buy properties from many small landowners in order to put together a sufficiently large plot of land for hotel development. Nonetheless, some of the most prominent international hotel operators are involved in many of the new hotel and resort developments in Greece. All major recent and future developments are presented below.

Following major renovation and extension over the last two years, the upscale **Mövenpick Resort and Thalasso Crete** (ex Candia Maris Hotel) commenced operations in May 2008. Mövenpick Hotels and Resorts entered the Greek market as part of its development strategy in South-East Europe and it was the first entry of an international hotel company in the Greek market after a long period of inactivity.

A three-year investment plan is under way at Astir Palace in Vouliagmeni just to the south of Athens, involving an extensive renovation, which will eventually lead to the creation of one of the most luxurious resorts in the Mediterranean. The plan, which is due to finish by the end of 2009, is estimated to exceed €50 million. In July 2006, Starwood Hotels & Resorts raised its Luxury Collection flag on the Arion hotel and the Westin flag on the Nafsica hotel. In 2010, the third hotel of the resort, the Aphrodite, will become a W hotel. This renovation plan also includes a new spa that started operating in late 2007, 76 bungalows with private swimming pools, and the creation of a new conference hall, covering an area of 3,000 m², which is scheduled to open in mid-2009. Starwood Hotels & Resorts aims at attracting high-profile international clientele as well as hosting a large number of conferences. It also plans to boost demand from the Greek market.



Dolphin Capital Investors (DCI) is a leading investment company focused on sophisticated residential resort developments at an early stage in South-East Europe. DCI is the largest real estate-listed fund on the AIM of the London Stock Exchange. The company typically invests in master-planned integrated resorts comprising of leisure components, such as golf, hotel, marina, spa, and residential units targeting buyers from Northern Europe and Russia. DCI is involved in several high-profile luxury projects in Greece. These include the Kilada Hills Golf Resort and Seascape Hills in Peloponnese, the Scorpio Bay Resort at Scroponeri near Chalkida, the Amanmila Resort on the island of Milos, the Lavender Bay Golf Resort near Volos, and the Sitia Bay Golf Resort and Plaka Bay Resort on Crete. All of these leisure-integrated developments are master-planned to feature branded hotel facilities combined with extensive branded or non-branded residential components, whereas most of them are planned to feature signature golf courses. Regarding hotel branding, Aman Resorts has agreed to operate the Amanmila Resort and the hotel and villas at Seascape Hills, whereas GHM Hotels (a sister brand of Aman Resorts) has agreed to manage the hotel and a number of villas at the Kilada Hills Golf Resort. Furthermore, Kempinski has agreed to take over the management of the hotel component inside the Lavender Bay Golf Resort, and Oberoi has signed its first management contract in Europe for the hotel unit at the Scorpio Bay Resort.

The tourism investment by *TEMES S.A.* in the Messinian Peninsula, in southwest Peloponnese, is set to create the first fully-integrated resort community in Greece. The Navarino Resorts, the largest tourism development currently under construction in Greece, represent a total investment of reportedly €1.2 billion. The entire project will be built on a land in excess of 1,000 hectares and will eventually feature seven hotels, at least three golf courses, several conference centres, numerous athletic and recreational areas, and holiday villas. More specifically, by the summer of 2009, two five-star hotels featuring 321 and 445 rooms are expected to open in the Romanos region. These hotels are expected to be managed by Starwood and the development is to be known as the “Navarino Dunes”. In 2010, two five-star hotels featuring 119 and 226 rooms, one of which will be managed by Banyan Tree Hotels and Resorts, are expected to open near Pylos. This development is to be known as the “Navarino Bay”. In 2012, three additional hotels are set to become operational near Kalamata. A total of four residential resort communities will enjoy more than five kilometres of seaside frontage. The development has been planned with a building footprint measuring only up to 8% of the total land area, ensuring the protection and preservation of the region’s natural beauty.



The *Olympia Resort* project will be located on the west coast of Peloponnese in the prefecture of Ilia. The site covers an area of 370,000 m² in a beachfront location at the mouth of the Alfios River in Pyrgos. The project consists of a five-star, all-suite luxury hotel, a residential component of approximately 250 condominiums, a spa facility, and two Nick Faldo designed and managed golf courses. The owner has proceeded into the final stage of negotiations with an ultra luxury international hotel chain for the management agreement of the hotel operations. Construction is due to begin in the very near future.

The *Minoan Cavo Sidero Resort* is a development by Minoan Ltd., a UK-based company. Minoan Ltd. plans to develop a 26 km² site in northeast Crete. The proposed resort includes six holiday villages with a total capacity of 7,000 beds. Each holiday village is expected to focus on a different activity (golf, theatre and entertainment, tennis and athletics, sailing and water sports, and exclusive luxury village). A luxury village will be set apart as an exclusive luxury hotel with a private beach. Kempinski has already signed a management contract with Minoan Ltd. for the first hotel that is expected to commence operations sometime in 2011.

A Russian fund has acquired the site of the former Club Med in Corfu – that had ceased operations since 2003 – and plans to develop a luxury resort featuring extensive spa facilities and a residential community with branded and non-branded units. The fund has already signed a memorandum of understanding with a high-end international hotel chain for the management of the resort.

Conclusion

For Greece, the repositioning of its hospitality industry towards the high end of the market is a one-way street. Greece cannot compete on a price basis with new destinations under its current hospitality cost structure. On the other hand, Greece has all the necessary elements to reinvent itself, reshape its product, and market itself efficiently in order to maintain the positive publicity and the momentum gained by the successful 2004 Olympic Games.

The Greek government has realised the potential of tourism as well as the stagnancy problems of the country's tourism product, which has resulted in a problematic seasonality pattern and reduced its attractiveness compared to other destinations in the Mediterranean. As such, it is promoting incentives for boosting investment activity to shift the current tourism concept towards a more versatile and sophisticated one, exemplified by the government support of investments in golf, conference facilities, and thalasso/spa tourism.



Moreover, given that many of the major new developments include real estate elements, it is expected that visitation during the off-peak months will be enhanced due to the usage of the properties by the owners. There has long been talk of Greece becoming a destination for wealthy and retired Europeans seeking escape from the cold winter. This requires the development of such integrated resorts and residences and the Greek tourism product is aiming towards that direction.

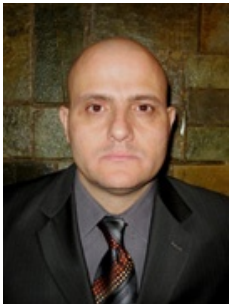
The expansion of existing upscale international brands and the introduction of new ones in the Greek market can only beacon the transformation of the country into a major competitive player in the global hospitality market. The changing face of the Greek hospitality market, although delayed, is a fact and it will hopefully last for a long time.



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