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IN FOCUS: THESSALONIKI, GREECE

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This market snapshot is part of a series of articles that HVS occasionally produces on key tourism destinations across Greece. In writing these articles, we utilise the expertise of HVS for each market to the full extent combining our in-house data and research together with published information regarding each of the examined destinations.

Highlights

- Since 2009 the negative publicity stemming from the rumours regarding the economic situation of Greece led to socio-political and economic turbulence which generated significant fluctuations in tourist arrivals during the period of 2009-12. Due to the double elections held in May and June of that year, 2012 was rather 'slow' for Greek tourism;
- According to one of the most recent reports of the International Monetary Fund (IMF), Greece has unquestionably made significant strides in overcoming deep-rooted problems, with the three most noteworthy achievements standing out being the progress on fiscal adjustment, the narrowing of the competitiveness gap, and the stabilisation of the banking sector;
- In 2013, 17.9 million international tourists visited Greece, spending €12.0 billion, up from €10.4 billion in 2012. Prospects for 2014 seem optimistic with a forecast for more than 19.5 million international visitors (21.5 million including cruise passengers). Greece was ranked fifth in terms of growth in foreign tourist arrivals for the first half of 2014, recording a 16.7% increase, according to the United Nations World Tourism Organisation (UNWTO);
- The Thessaloniki 'Macedonia' International Airport saw an increase of 11.9% in international passenger arrivals for the month of September 2014 over the same month in 2013. Year-to-September 2014 data show a 15.4% increase in international passenger arrivals over the same period in 2013;
- During 2010-13, revenue per available room (RevPAR) for all hotels in Thessaloniki decreased by 1.9%. For the same period, RevPAR for five-star hotels decreased by 4.8% and increased by 8.2% for four-star hotels.

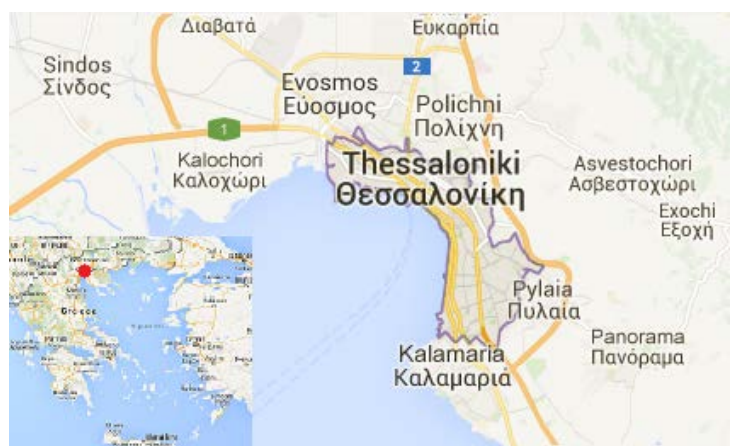
Region Overview

Thessaloniki is the second major financial, industrial, commercial and political centre of Greece, situated in the region of Macedonia in the north of the Greek mainland and is home to about 2% of total hotel room supply in Greece. The city is considered to be a major transportation hub for the rest of Southeast Europe; its commercial port is also of great importance for Greece and the Balkan hinterland. In 2011, the greater urban zone/area of Thessaloniki had an estimated 1.1 million residents.

Some of the larger firms, either national or international, have branch offices or even headquarters in the city. The manufacturing sector established Thessaloniki in the broader Balkan region and the city's industrial zone is quite vivid, hosting major export companies. Numerous administrative and government services together with three of Greece's major universities are located here. Many national and international exhibitions and fairs take place every year. Thus, the city rightfully carries the honorific title of the 'co-capital' of Greece, a reference to its historic status as the 'co-reigning' city of the Byzantine Empire, alongside Istanbul.

As with many other cities and tourism destinations in Greece, Thessaloniki has not remained unaffected by the economic crisis since 2008. A plunge in room nights was recorded in 2010. Roomnights increased once again from 2011 onwards.

INDICATIVE MAP OF THESSALONIKI



Source: Google Maps

Average Room Rate (ARR) and occupancy figures have been turbulent, but the silver lining for the city is the on-going increase in international visitation and bednights.

Major Tourist Attractions in Thessaloniki

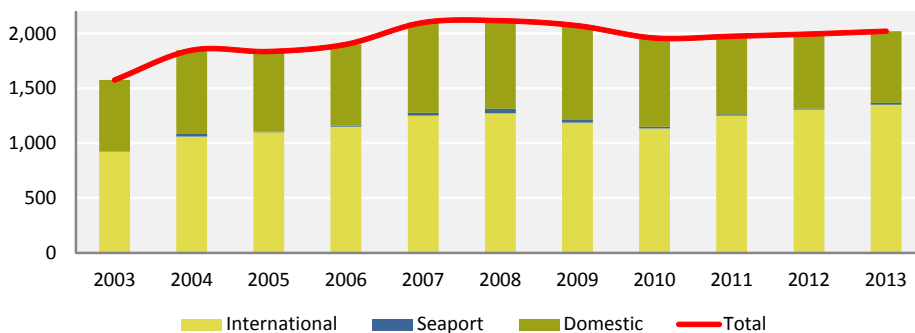
Thessaloniki is a city dating back to 315 BC that became an important trade hub under the Roman Empire. After the Fall of Rome, it became the second largest city in the Byzantine Empire and throughout the years maintained a significant Jewish population and played a major role as part of the Ottoman Empire. The city changed hands once again on 8 November 1912 when the Greek army ousted the Ottoman garrison. Thessaloniki benefited greatly from its multicultural society through the centuries, but was one of the Greek cities that suffered greatly by World War II and Hitler's purges. During the 1950s significant amounts were invested in the city's infrastructure and Thessaloniki has become the major hub connecting Greece with the rest of Europe by land.

The most notable museums of Thessaloniki are the following: the **Archaeological Museum**, housing some of the most important Macedonian artefacts; the **Museum of Byzantine Culture**, displaying artefacts from the city's Byzantine past; the **Science Centre and Technology Museum**, one of the most high-tech museums in Greece and south-eastern Europe in general; the **Ataturk Museum**, located in the house in which Mustafa Kemal Ataturk, the creator of the modern Turkish state, was allegedly born; and the **Jewish Museum**, showcasing the history of the city's community.

Other key sights in the city include: **Aristotelous Square**, the city's largest square – situated right on the sea-side promenade; the **White Tower**, a former Ottoman prison; the **Arch of Galerius** and the **Rotunda**, surviving from the Roman era; the **Roman Forum**; the **Hagia Sophia**, an 8th century A.D. church modelled after its namesake in Istanbul; and **Yad Lazikaron**, the last working synagogue in the city.

Tourism and Visitation

CHART 1: ARRIVALS BY AIR AND SEA - THESSALONIKI 2003-13 (000s)



Source: Hellenic Civil Aviation Authority, Thessaloniki Port Authority

Airport and Seaport Traffic

Thessaloniki is serviced by one airport, 'Macedonia' International Airport, and one seaport – the second largest in Greece, mainly used for cargo transportation, or ferry routes to the Greek islands; cruise traffic is very limited. The main port facilities are located along the west entryway to the city. Seaport passenger traffic is generally negligible, especially in recent years, but there is great

potential to be exploited. There have been concentrated efforts to attract more cruise routes to the city and there was an 87.5% increase of cruise passenger traffic in 2013 over 2012, with 2014 anticipated to continue this upward trend.

Airport arrivals to Thessaloniki over the past 11 years are summarised in chart 1. It should be mentioned that a significant proportion of airport arrivals comprises tourists having Halkidiki as their final destination – a very popular resort destination for both domestic and international visitors. Until now the city's hotels have not been able to capture a considerable share of these travellers and there is an untapped opportunity in enticing these travellers to spend at least one stop-over night in Thessaloniki.

Total airport arrivals in Thessaloniki grew at a moderate compound annual rate of 1.3% during the past 11 years, primarily attributed to the increase in international passenger arrivals that peaked in 2008 at 1.27 million, declined slightly over

2009-10 before reaching an all-time record of 1.35 million in 2013, following two consecutive years of growth as a result of the general increase in tourism in Greece.

CHART 2: TOURISM STATISTICS – THESSALONIKI 2003-13

Year	Arrivals at Hotels (000s)	Accommodated Bednights (000s)	Average Length of Stay (Days)
2003	742	1,507	2.0
2004	654	1,336	2.0
2005	798	1,596	2.0
2006	867	1,721	2.0
2007	943	1,904	2.0
2008	933	1,880	2.0
2009	955	1,953	2.0
2010	891	1,800	2.0
2011	929	1,903	2.0
2012	891	1,940	2.2
2013*	946	2,078	2.2

* Estimate

Source: Hellenic Statistical Authority

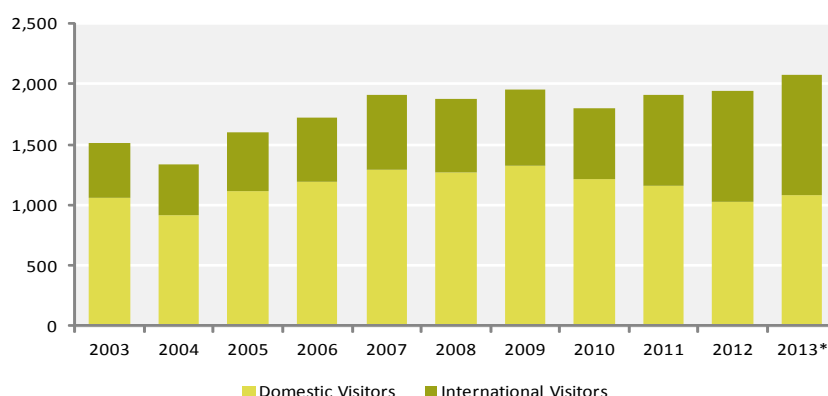
tourism destination in Greece primarily for travellers from the Balkans and the Middle-East, owing to its rich historical connection with the broader area as one of the major urban centres of the Ottoman Empire but also due to the city's rich connection with the Jewish Diaspora.

From 2003 to 2013 the number of total bednights at hotels in Thessaloniki increased by 37.9%. The overseas tourist segment has shown increased resilience over the last decade, reaching a peak in 2013 when it accounted for 48.0% of total bednights in the city. Domestic tourism to the city has recorded shrinkage from 2009 onwards, mainly on account of the decrease of local business activity and the consequent reduction in disposable income. The period 2003-13 saw a 3.3% compound annual increase in total hotel bednights. Total bednights for 2013 saw a 7.1% increase from their 2012 levels.

Visitation

Visitation at hotels has been mainly of domestic nature; foreign bednights accounted for less than 40.0% almost every year for the last decade, with the exception of the period 2012-13 when foreign bednights exceeded that limit. Thessaloniki is becoming a popular

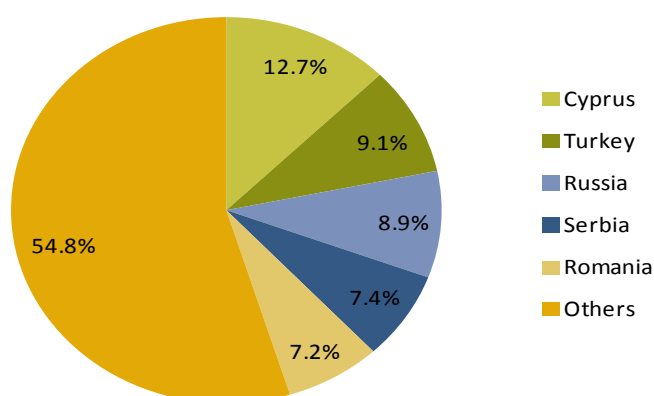
CHART 3: HOTEL BEDNIGHTS – THESSALONIKI 2003-13 (000s)



* Estimate

Source: Hellenic Statistical Authority

CHART 4: INTERNATIONAL VISITATION – THESSALONIKI YTD AUGUST 2014



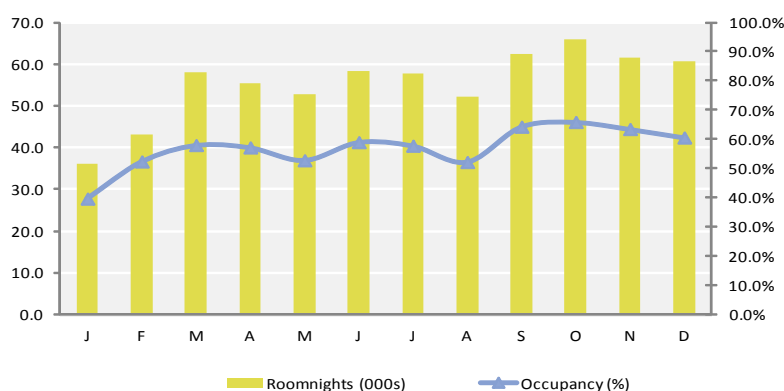
Source: Thessaloniki Hotels Association

The 2010-13 period saw a 19.2% compound annual growth of international bednights and a compound annual decline of 3.7% in domestic bednights, resulting in a 4.9% compound annual growth for total bednights in the city. It is worth noting that international bednights have increased by 69.2% in 2013 over the same number in 2010, while this increase is 125.2% when comparing 2013 with 2003. It is therefore prudent to say that Thessaloniki experienced a boom in international visitation over the last decade, fuelled both by the business and leisure segments, and this boom can be partly attributed to the increasing living standards in neighbouring countries of the Balkan Peninsula.

There is evidently an increasing trend that could be further exploited to the benefit of the hospitality and tourism industry of the city. This extroversion of Thessaloniki was one of the main reasons the city's Mayor has been nominated for the 2014 World Mayor Prize, an international competition that honours the world's most outstanding mayors. Year-to-August data for 2014 reveal a 17.9% increase in total hotel bednights over the same period in 2013, attributed both to a 21.2% increase in international bednights and a 14.7% increase in domestic ones, with bednights for either segment equally accounting for approximately 50.0%.

The vast majority of international visitors to Thessaloniki originate from the Balkan and South-Eastern European countries. The top individual feeder countries are Cyprus, Turkey, Russia, Serbia, and Romania. Visitors from these five countries amount for 45.0% of international visitors to the city. Visitors from Serbia and Romania choose the city as a destination because of its close proximity opting to drive the short distance to Thessaloniki. Russians have been specifically targeted by the Greek tourism industry; the result is an increased presence of Russians in popular Greek tourist destinations, among which is Thessaloniki (which mostly benefits from transient overnights from tourists with Halkidiki as their final destination).

CHART 5: SEASONALITY – THESSALONIKI 2013



Source: Thessaloniki Hotels Association

Seasonality

Similar to Athens, the city has a rather typical seasonality pattern for a city destination. Thessaloniki is an established destination for hosting conferences, meetings, and events. MICE clientele comprises a relatively large proportion of total hotel guests in the city. According to industry experts, these last about three to four days. Nonetheless, the main proportion of hotel business stems from corporate travellers staying in the city for one to two days. The overall average length of stay in Thessaloniki is two nights, mainly driven by the corporate character of travel and the lack of more extended leisure demand.

The particular data for 2013 reveal that October was the top performing month of the year, while even in the slow months occupancy was well above 35.0%. July and August are traditionally vacation months in Greece and general business in the country during those two months is very slow; thus the slight decrease of occupancies over the months of July and, especially, August. Occupancy and room nights display three peaks throughout the year (March, June, and October); during those months a number of public holidays occur each year.

Hotel Supply

The Hellenic Chamber of Hotels follows a comprehensive system of hotel classifications in five major categories ranging from five- to one-star properties. The majority of hotels

CHART 6: HOTEL SUPPLY – THESSALONIKI 2003-13 (TWO YEAR INTERVALS)

No of Hotels:	2003	2005	2007	2009	2011	2013	% Share (2013)
5* Hotels	7	9	11	13	13	13	9.4%
4* Hotels	12	15	17	19	20	20	14.5%
3* Hotels	24	28	35	39	40	40	29.0%
Other	74	73	69	70	68	65	47.1%
Total:	117	125	132	141	141	138	100.0%
No of Rooms:	2003	2005	2007	2009	2011	2013	% Share (2013)
5* Rooms	904	1,257	1,618	1,865	1,865	1,889	24.6%
4* Rooms	1,358	1,526	1,442	1,533	1,571	1,584	20.6%
3* Rooms	1,726	1,922	2,215	2,350	2,396	2,378	30.9%
Other	2,278	2,173	1,992	1,977	1,925	1,843	24.0%
Total:	6,266	6,878	7,267	7,725	7,757	7,694	100.0%
No. of Beds:	2003	2005	2007	2009	2011	2013	% Share (2013)
5* Beds	1,625	2,223	2,955	3,420	3,420	3,458	24.3%
4* Beds	2,339	2,688	2,523	2,679	2,762	2,773	19.5%
3* Beds	3,192	3,558	4,112	4,416	4,538	4,507	31.7%
Other	4,321	4,144	3,796	3,762	3,625	3,467	24.4%
Total:	11,477	12,613	13,386	14,277	14,345	14,205	100.0%
Hotel Supply Increase	—	6.8%	5.6%	6.8%	0.0%	-2.1%	
Room Supply Increase	—	9.8%	5.7%	6.3%	0.4%	-0.8%	
Bed Supply Increase	—	9.9%	6.1%	6.7%	0.5%	-1.0%	

Source: Hellenic Chamber of Hotels

(52.9%) in Thessaloniki belong to the three-star and above categories, representing 76.0% of total rooms supply in the city. In general, hotel room supply in Thessaloniki is quite evenly distributed with about 20.0 – 30.0% belonging in each classification with the largest amount belonging to the three-star category.

The majority of the five-star hotels are located in downtown or on the city's seaside promenade, while there is a limited number of properties in the west and east outskirts. Four- and three-star hotels are mostly located in the city centre, with only a very limited number in the eastern and western suburbs.

Branded Properties

The greater Thessaloniki metropolitan area has only a limited number of national or international brands, including **Hyatt Hotels and Resorts** (Hyatt Regency Thessaloniki Hotel and Casino) and **InterContinental Hotels Group** (Holiday Inn Thessaloniki). The leading local hotel brands that operate units are **Chandris Hotels and Resorts** (The Met Hotel), **Domotel** (Les Lazaristes), **Capsis Hotels** (Capsis Hotel Thessaloniki and Bristol), and **Electra Hotels and Resorts** (Electra Palace Hotel). Only a limited number of hotels have joined marketing consortia (e.g. Small Luxury Hotels, Design Hotels, Historic Hotels of Europe and so forth).

Thessaloniki features only a minimal presence of any type of hotel brand or affiliation. According to local hoteliers, the main reasons for this are: **(1)** the unattractiveness of the destination to foreign tourists owing to infrastructure deficiencies and low connectivity, even though this does not seem to hinder low-cost carriers from including the city in the destinations they serve; **(2)** the limited international exposure of the city to foreign tourists, other than those in neighbouring countries where there is a very well-organised and concentrated effort targeting the Balkans and Middle-East areas; **(3)** the city's lack of identity (for example, the numerous different names of the destination, such as Salonica, Thessaloniki, Thessalonica etc.) and the absence of a consistent marketing strategy to promote the city's numerous cultural assets and tourist sites. The last few years, the official administrative authorities have brought tourism issues to the foreground and have managed to make preliminary progress following a steady plan.

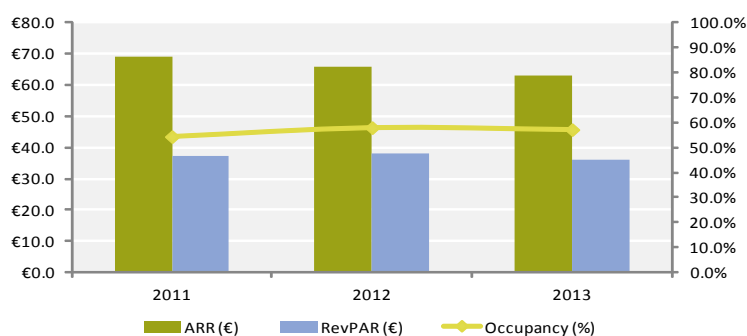
According to our interviews in the market, there is potential to attract more international hotel operators to Thessaloniki since there are several properties that are regarded as suitable (in terms of size and location, five-star properties are now twice as many compared to 2003) for rebranding, assisted by the recent change in the city's mix of visitors with international tourists recording high visitation levels. The resulting marketing of the destination is expected to trigger increasing international awareness. International brands looking to enter Greece could find synergies in developing their presence in both Athens and Thessaloniki, but the entrance of any brand is always dependent on the properties' owners' willingness to cooperate their operation with an external player.

Hotel Performance

Chart 7 summarises the important operating characteristics of primary hotels in Thessaloniki. The chart sets out the average occupancy, average rate, and RevPAR for a sample of 32 hotel properties of various categories, representing 2,946 hotel rooms (or 38.3% of the total hotel room supply). It should also be noted that all occupancy percentages refer to 365 days of operation for consistency reasons.

Examined hotels in Thessaloniki recorded good levels of occupancy, higher than other city destinations in Greece and slightly lower than Athens – though the two markets cannot be compared in terms of size and dynamics. Hotel properties in the city achieve

CHART 7: HOTEL PERFORMANCE – THESSALONIKI 2011-13



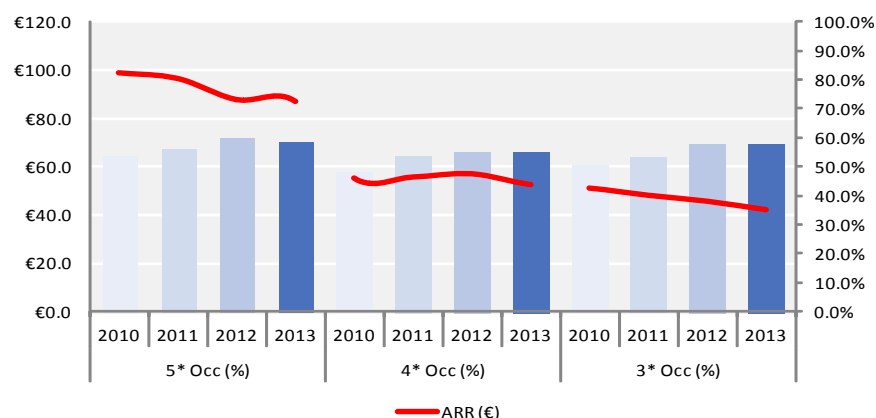
Source: Thessaloniki Hotels Association

occupancy rates of over 50.0% on an annual basis, by attracting individual leisure travellers during the summer and corporate clientele during the other months of the year. RevPAR figures saw a miniscule increase from 2011 to 2012 (€37 to €38), resulting from a decline in average rates (ARR) and increased occupancy percentages. Hotel occupancy saw a slight decrease in 2013, coupled with another reduction of year-over-year ARR (€66 to €63). Provisional data for 2014 show a year-to-September average increase in achieved occupancies of 14.7%.

Performance by Class

According to data on hand, hotel performance over the past four years has varied among the different hotel classes in the market. Hotels in the three-star category have recorded an increase of 14.7% in terms of occupancy from 2010 to 2013 and a decrease of 17.6% in terms of ARR for the same period. Four- and five-star hotels show similar trends, with an increase of 13.7% and 8.2%, respectively, in terms of occupancy and a decrease of 4.9% and 12.0%, respectively, in terms of ARR from 2010 to 2013.

CHART 8: HOTEL PERFORMANCE BY CLASS – THESSALONIKI 2010-13



Source: Thessaloniki Hotels Association

Chart 8 shows that 2010 was the worst year for hotels in Thessaloniki, regardless of which class they belong to. Hotels of all classifications recorded an increase in their occupancy metrics from 2010 to 2011 and from 2011 into 2012, with a slight decrease in 2013. All hotels recorded decreasing trends in ARR and thus, the RevPAR metric, which combines both occupancy and ARR data, also shows a decreasing trend in all but the four-star category, where there was an 8.2% increase.

CHART 9: HOTEL PERFORMANCE BY CLASS – THESSALONIKI YTD SEPTEMBER 2013-14

	5* Hotels			4* Hotels			3* Hotels		
	September 2013 YTD	September 2014 YTD	% Change	September 2013 YTD	September 2014 YTD	% Change	September 2013 YTD	September 2014 YTD	% Change
Occupancy (%)	57.4	63.5	10.6%	52.4	64.4	22.9%	54.8	62.8	14.6%
ARR (€)	87.4	87.6	0.2%	52.9	51.2	-3.1%	42.0	43.1	2.6%
RevPAR (€)	50.1	55.6	10.9%	27.7	33.0	19.1%	23.0	27.1	17.6%

Source: Thessaloniki Hotels Association

Expectations for better performance in 2014 seem to be validated by year-to-September data for 2014. Market-wide RevPAR increased by 14.5%, driven primarily by a 14.7% increase in

occupancy, while ARR has decreased by 0.2%. Hotels in all three categories record an emphatic rebound with strong performance, driven primarily by occupancy, with four-star hotels recording the most significant increase in occupancy – up by 22.9%, while three-star hotels recorded the stronger increase in ARR – up by 2.6%. A detailed overview of year-to-September data for 2014 and comparison with data for the same period in 2013 are depicted in Chart 9.

Recent Tourism and Infrastructure Developments

Grecotel Hotels and Resorts ceased operating the five-star **Makedonia Palace** hotel. After winning the relevant tender process launched by the Social Insurance Institute (IKA), operations of the hotel have been undertaken by a partnership between **LLC Atlantis Pak** and **Aldemar Hotels**, with management by Aldemar. The annual lease is €1,722,000 plus an annual surcharge dependent on operating performance. The leasehold duration is 30 years, with a 10 year extension option. Ownership of the hotel remains with IKA.

Ryanair and **Swiss International Airlines (Swiss)** have announced that they will be expanding/adding routes to/from Thessaloniki. Specifically, as of 26 October, Ryanair has increased their number of flights from Chania, Crete to seven per week, from previously six. Swiss will be adding a Zurich - Thessaloniki route to its 2015 summer schedule.

The **expansion of the airport runway**, in order to service transatlantic flights and enhance the cargo transportation activity, is scheduled to be completed by 2016, with a total cost of €284.7 million.

The first phase of the under-construction **subway** (featuring 9.6 kilometres of railway and 13 stations) is scheduled to enter service by the beginning of 2018. An expansion to the east and west suburbs is planned to include additional ten kilometres of railway with ten stations and four parking centres.

The **expansion of the 6th pier** of the port of Thessaloniki, a €315 million investment, is expected to be undertaken by whoever wins the relevant tender process to be launched by the Hellenic Republic Asset Development Fund. The timetable with regards to the completion of the expansion is currently unclear.

In June 2014, the Council of Thessaloniki Public Transport has announced plans to add a public **tram line** in the city. According to the plan, the new tram line will be 24 kilometres long featuring 43 stops – five of which will be shared with the under-construction subway. The total cost of its construction is estimated at €515.76 million whereas the project is also likely to receive funds from the National Strategic Reference Framework program. A tender is expected to be launched by the end of the year for construction to begin by the end of 2016. The first phase of the tram should be completed by 2020 while the entire tram line is expected to operate by 2030.

Conclusion

Thessaloniki has always been a favourite city-break destination for the internal market of Greece and the city's northern neighbours from the Balkan markets. Moreover, it benefits from business demand, as many Greek and Balkan companies have offices in the city and quite a few are also headquartered there. On the other hand, Thessaloniki is not a destination preferred by the traditional source markets of Greek inbound tourism. Due to its great cultural heritage and importance in the Balkans-Turkey-Middle East triangle, the city can benefit by targeting those areas towards a potential hike in international visitation. In recent years steps towards this direction have yielded increased visitation from the areas mentioned previously and the city has also been able to capture transient overnights from tourists travelling to the Halkidiki area resorts. The city can benefit by an effort to attract international hospitality brands, given the exposure such a step will generate. At the same time the brands could achieve synergies if they also operate other hotels in Greece, or the Balkans – after all, Thessaloniki is the main seaport for the whole area of the Southern Balkan region. Finally, it is our strong belief that there is great potential to be realised if all stakeholders decide on a common cooperative route for their respective profit and take advantage of the strengths the city displays at the moment.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com

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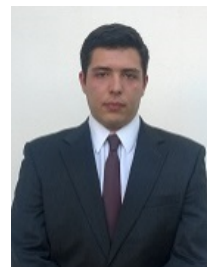
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