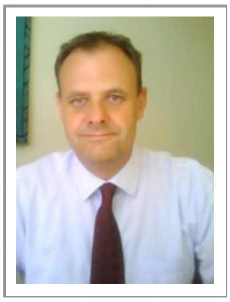
GlobalHotelNetwork.com
Market intelligence for the World of Global Hospitality®

GHN MARKET REPORT

GREECE 2011

Dr. Aris Ikkos, ISHC, MAE
Managing Partner
GBR Consulting

gbr consulting



Stefan Merkenhof
GBR Consulting

Strong Recovery of Greek Hospitality Sector in a Difficult Economic Climate

The Greek economy was one of the fastest growing economies of the Euro zone in the period 2000 – 2007 with annual growth rates of 4.2%. A strong economy and falling bond yields allowed the government after 2007 to run large structural deficits to finance of among other public sector jobs, pensions and other social benefits. These runaway deficits in combination with a debt to GDP ratio that had remained near or above 100% since 1993, coupled with the 2009 financial crunch and the recession, led to an explosive debt / GDP ratio situation. This led to the downgrading of Greek sovereign debt to 'junk' and yields started their steep upward climb.

In April 2010 the country turned for financial aid to the IMF and the European Union. A bailout package of € 110 bn was constructed by the European Commission, the IMF and the ECB (known as the Troika) in exchange for a full package of austerity and restructuring measures. After partial implementation of these measures, and after the crisis had developed into a Euro crisis, in July of this year a new bail out plan was agreed in an attempt to avoid contagion throughout the Mediterranean region. This last package contained easier lending terms (also for

Ireland and Portugal) as well as private involvement through swapping of Greek bonds for longer maturities at lower interest rates, backed by guarantees from the AAA countries. However, as many economists had pointed from the start, it did not have a lasting effect on the markets and it was mainly about buying some time to come to a final solution. This will probably be in the form of writing off and / or reprofiling substantial parts of the € 350 bn debt of Greece; unless the EU radically changes the structure of the Euro area, including measures for the Greek debt.

Forecast summary	2010	2011*	2012*	2013*	2014*	2015*
Real GDP growth (%)	-4.4	-4.0	-1.4	0.1	1.5	1.7
Gross fixed investment growth (%)	-16.5	-11.4	-1.3	0.2	1.4	2.0
Unemployment rate (%)	12.5	16.4	16.8	15.9	15.2	14.5
Consumer price inflation (%)	4.7	3.2	0.5	0.5	1.0	1.2
Government balance (% of GDP)	-10.4	-9.4	-7.7	-3.4	-0.5	0

** forecasts, source: Economic Intelligence Unit, June 2011*

Tourism Economy

The tourism industry is of vital importance for the country as it contributes more than 15% to the GDP and almost 18% to employment.

Key figures	2010
Contribution to GDP	15.3%
Contribution to employment	17.9%
International tourism receipts	€ 9,611.3 mn
International tourist arrivals	15,007,490
Average per capita tourism expenditure	€ 640

Source: Economic Intelligence Unit, June 2011

After a sharp drop in arrivals in 2009 (-6.4%) and stabilisation in 2010 (+0.6%), YTD data for 2011 point to a record year regarding arrivals, which are expected to exceed 16.5 mn. Furthermore, Jan – June 2011 data by the Bank of Greece show an increase in tourism revenue of 12.6% ; but only +1.6% compared to 2009. In addition, tourism revenues have remained more or less stable over the last ten years.

In 2010, 44% of arrivals came from 5 source countries: Germany, United Kingdom, FYROM, France and Italy. The biggest source market for Greece is Germany, but comparing statistics of 2000 with 2010 it appears that Greece is losing market share, which is also applicable for the British market and to a lesser extent for the Italian market. On the other hand it has seen a strong growth in arrivals from France, Israel, Turkey, Russia and other Eastern European countries.

It appears therefore that the shift in the market mix of nationalities, has also been accompanied by a shift to lower spending tourists, as revenues have remained stable. This can also be seen as a huge opportunity for quick results, if the trend is reversed with effective marketing and targeted investment in infrastructure (e.g. airports, road signage, training, waste management etc.).

Major Source countries	Arrivals by country of origin		Market share	
	2010	2000	2010	2000
Germany	2,038,871	2,395,185	13.6%	19.4%
United Kingdom	1,802,203	2,772,256	12.0%	22.4%
FYROM	1,104,576	234,464	7.4%	1.9%
France	868,346	602,353	5.8%	4.9%
Italy	843,613	823,245	5.6%	6.7%
Total	**6,657,609**	**6,827,503**	**44.4%**	**55.3%**

Source: SETE, based on data provided by the Hellenic Statistical Authority and the Bank of Greece

Greece has 9,732 registered hotels on the basis of data supplied by the Hellenic Chamber of Hotels. In the period of 2006 - 2010, 621 hotels were added (+6.8%) of which 136 in the 5 star category, which showed the biggest increase: 77.3% (see table below). The 1 and 2 star categories are marginally shrinking, but they still represent 61% of the total number of hotels and 37% of bed capacity in 2010.

Year / number of hotels	Total	5*	4*	3*	2*	1*
2006	9,111	176	994	1,804	4,460	1,677
2007	9,207	199	1,048	1,900	4,403	1,657
2008	9,385	230	1,102	2,058	4,387	1,608
2009	9,559	280	1,164	2,179	4,368	1,568
2010	9,732	312	1,234	2,268	4,349	1,569
% change 2010 - 2006	*6.8%*	***77.3%***	*24.1%*	*25.7%*	*-2.5%*	*-6.4%*
Year / number of rooms	**Total**	**5***	**4***	**3***	**2***	**1***
2006	364,179	33,130	92,372	85,547	123,151	29,979
2007	367,992	35,782	94,737	85,920	121,589	29,964
2008	375,067	39,614	95,790	89,142	120,935	29,586
2009	383,005	46,183	97,432	89,749	120,733	28,908
2010	397,660	51,100	101,837	92,847	122,645	29,231
% change 2010 - 2006	*9.2%*	***54.2%***	*10.2%*	*8.5%*	*-0.4%*	*-2.5%*
Year / number of beds	**Total**	**5***	**4***	**3***	**2***	**1***
2006	693,252	64,913	176,631	163,077	231,333	57,298
2007	700,933	70,198	181,476	163,729	228,404	57,126
2008	715,857	78,464	183,900	169,941	227,146	56,406
2009	732,279	91,770	187,494	171,202	226,707	55,106
2010	763,407	102,429	196,862	177,923	230,358	55,835
% change 2010 - 2006	*10.1%*	***57.8%***	*11.5%*	*9.1%*	*-0.4%*	*-2.6%*

Source: Hellenic Chamber of Hotels

Performance of the Greek tourism industry

After the difficult year of 2010 and the continuing recession in 2011, the tourism sector is picking up as the latest data of international arrivals at main airports in Greece (see table below) shows an increase of 9.4% comparing YTD June 2011 / 2010, representing an increase of 360,623 international arrivals. Also, as already mentioned above, 2011 is expected to be a record year of arrivals at 16.5 mn and tourism income has shown a strong increase (+12.6% for the first half of 2011).

International arrivals at main airports Jan – Jun 2011 / 2010	2011	2010	% change
Athens	1,259,860	1,304,843	-3.5%
Thessaloniki	532,684	477,450	11.6%
Rhodes	590,927	443,456	33.3%
Kos	268,383	204,766	31.1%
Corfu	240,879	223,290	7.9%
Irakleio	719,920	625,672	15.1%
Chania	225,933	209,543	7.8%
Zakynthos	139,515	132,408	5.4%
Other airports	230,589	226,638	1.7%
Total	**4,208,690**	**3,848,067**	**9.4%**

Source: SETE, based on data of Athens Airport and the Civil Aviation Authority

According to a report of the Hellenic Statistical Authority of July 2011, there was a spectacular increase comparing foreign arrivals of Q1 2011 with 2010 from France (+70.5%), Russia (+79.8%) and Turkey (+97.8%), while arrivals from Britain rose by 32.4% and from the US by 16.6%. On the other hand there was a decline of 19.5% in arrivals from Germany and 15.9% from Cyprus.

Besides the increased number of arrivals so far in 2011, one can say that the tourism industry as a whole strengthened in 2011. Drivers for this recovery have beena) the reduction of VAT for hotels, enhancing their competitiveness, b) the social unrest in N. Africa, c) simplified procedures for travel documents, particularly boosting Russian arrivals, d) partial lifting of restrictions for the cruise industry (albeit, still much needs to be done) and e) the attraction of LCCs in many areas.

Finally, the BoD of the newly-formed Privatisation Fund of Greece has been appointed. It plans to privatise ~ € 50 billion of publicly owned assets in the next 5 years, the vast majority of which will be real estate assets, many of them of a predominantly tourism character. Among them is the site of the old international Athens airport at Elliniko, plots at Anavyssos in south-eastern Attika, Mesolongi in western Greece, Vathy on the island of Samos, the Kaiafas Springs in the Peloponnese, Prasonisi island just south of Rhodes etc.

Performance and outlook of the Greek hospitality sector

Resort hotels, as shown in the table below are recovering very well showing increases in RevPAR of 11.2%, where the resort hotels in Crete are doing even better and hotels in Chalkidiki and Rhodes / Kos slightly less than the overall resort average.

Resort Hotels	**Change YTD June 2011 / 2010 Total Revenue per available room (RevPAR)**
Resort hotels	+11.2%
Resort hotels Crete	+14.9%
Resort hotels Chalkidiki	+8.4%
Resort hotels Rhodes / Kos	+8.0%

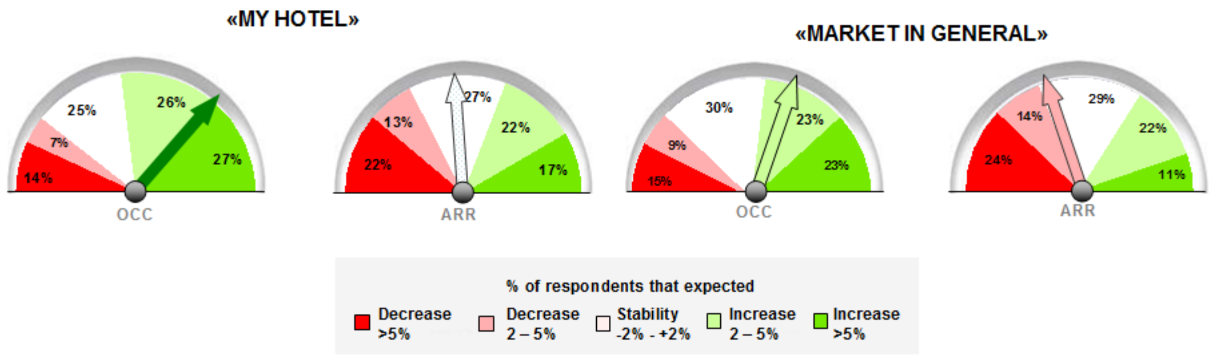
Source: GBR Consulting

City hotels on the other hand are not doing so well. Performance of Athens hotels is slightly improving comparing YTD June 2011 with 2010, showing an increase in RevPAR of 2.9%, which is solely due to increases in occupancy. Thessaloniki on the other hand showed a decline of -4.1% for same period, which is solely due to a decline in rates following a sharp increase in bed supply. Furthermore, other cities, largely catering for local business travellers, have been hard-hit by the recession of the economy.

City Hotels	**Change YTD June 2011 / 2010 Revenue per available room (RevPAR)**
Athens	+2.9%
Thessaloniki	-4.1%
Cities outside Athens & Thessaloniki	-12.3%

Source: GBR Consulting

In our Tourism Barometer survey for 2011 Q3, surveying hoteliers about their expectations, hoteliers remain bullish regarding occupancy development, while forecasts for ARR vary from slightly negative to stable. The outlook for "my hotel" is better than for the "market in general".

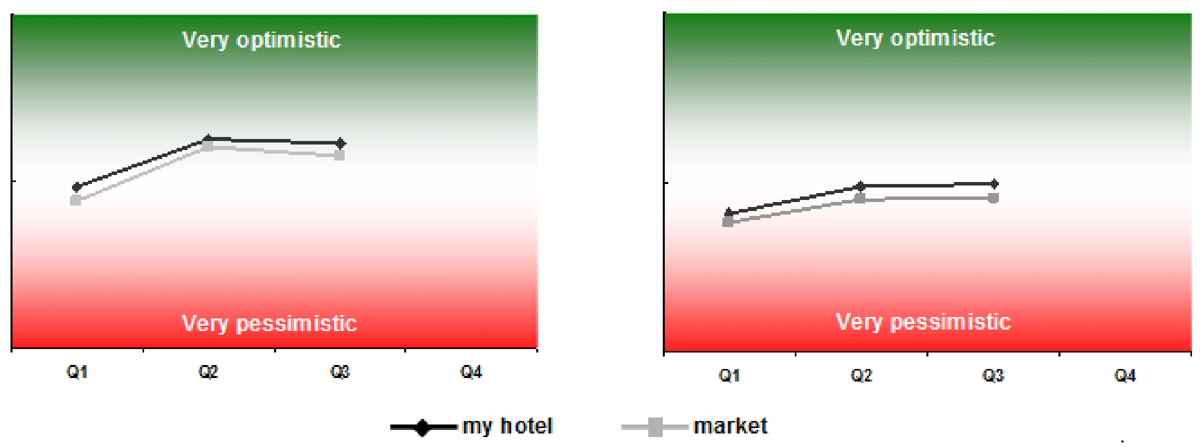


Source: GBR Consulting

The most optimistic hoteliers in Q3 are from Crete, expecting increases in occupancy levels as well as in prices. Next most optimistic group is the 5 star hoteliers. The 3 star hoteliers on the other hand are the most pessimistic of the entire Q3 survey, expecting sharp drops in occupancy as well as ARR. Hoteliers in Thessaloniki expect the biggest drop in ARR.

The graphs below show that after a sharp increase in optimism in Q2, the barometer expectations for occupancy have stabilised in Q3 at a slightly optimistic level. With respect to ARR, hoteliers remain slightly pessimistic for Q3, but at the same level as for Q2.

Occupancy **ARR**



Source: GBR Consulting

Date Published: September 2011

GHN Market Reports are housed in the GHN Market Intelligence Library at GlobalHotelNetwork.com.

