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IN FOCUS:  
**CRETE, GREECE**

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*This market snapshot is part of a series of articles that HVS will produce 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

- Until recently, Greece had a strong advantage in that it was considered to be a stable country showing a relative resilience as a tourist destination towards major global events. Since 2009 though, the negative publicity stemming from the rumours regarding the potential bankruptcy of Greece and the historically largest bail-out implemented by the IMF in order to avoid this situation, led to a socio-political and economic turbulence which generated significant fluctuations in tourist arrivals during 2009-12;
- According to IMF's most recent report, Greece has unquestionably made significant strides in overcoming deep-seated problems and the three most noteworthy achievements standing out are the progress on fiscal adjustment, the narrowing of the competitiveness gap, and the stabilisation of the financial sector. All the aforementioned are considered major achievements for an economy undergoing such a dramatic recession and rapid rebalancing;
- Year 2012 was a rather 'slow' year for the tourism sector in Greece due to the double elections held. Tourism statistics for the period 2009-11 were also volatile. Most recent figures though show that in October 2013, tourism receipts increased by 20.2% compared to October 2012. This brought total tourism receipts in the first ten months of the year to €11.4 billion, representing an increase of 10.5% compared to the same period last year. It is expected that in 2013 at least 17.5 million international tourists arrived in the country (an all-time record), spending around €12.0 billion, up from €10.0 billion in 2012;
- In 2013 Crete recovered dynamically after the setback recorded in tourism statistics during 2010-12, as the destination experienced an 18% increase in international airport arrivals and an estimated growth of 15% in tourism revenue;
- Crete's hotel market showed relative resilience to the economic-political turmoil in Greece, with relatively steady occupancy levels and average room charges during 2010-12, leading to a moderate increase in RevPAR of slightly over 1%;
- Over the last seven years upscale (five- and four-star) hotel room supply in Crete recorded significant increase as hotel investment activity remained intensive. In the future, the area of Lassithi is scheduled to experience additional hotel construction activity with two major tourism developments that include mixed-use properties and extensive lodging and other tourism facilities.

## Region Overview

The island of Crete lies on the southern part of Greece. It is the largest island in Greece and the second largest (after Cyprus) in the Eastern Mediterranean Sea. It lies approximately 160 kilometers south of the Greek mainland. Crete has an elongated shape – 260 kilometers from east to west and 60 kilometers at its widest – whereas it covers an area of 8,336 km<sup>2</sup> and has a coastline of 1,046 kilometers. Crete straddles two climatic zones, the Mediterranean and the North African, mainly falling within the former. As such, the climate in Crete is primarily temperate. The aforementioned climate combined with its natural beauty and the existing historical monuments made Crete a highly recognised tourism destination during the past decades. The island is currently the most popular destination in Greece in terms of international visitation. Administratively, the island is divided into four prefectures (namely Chania, Rethymno, Heraklio, and Lassithi) while major cities and tourism destinations are Heraklio, Chania, Agios Nikolaos, Rethymno, Sitia, Ierapetra, Malia, Hersonissos, Elounda, and Kissamos.

### Major Tourist Attractions in Crete

The entire island of Crete is full of many significant and well-known archaeological sites, whereas all four capital cities host archaeological museums, the most important one being that in Heraklio.

**Knossos**, referring to the largest Bronze Age archaeological site on Crete, is located close to Heraklio featuring the world known Palace. The site is the second most visited archaeological site in Greece after the Acropolis. The ruins of the city of **Phaistos** (or Festos) lie on a hill west of Mires on the way to Timbaki, Heraklio. Archaeological findings from the palace are

#### INDICATIVE MAP OF CRETE



exhibited at the Museum of Heraklio, such as the prominent **Disc of Phaistos**. The **Samaria Gorge**, located 43 kilometres south of Chania, is the longest gorge in Europe and belongs to the Samaria National Park. Northward of the city of

Rethymno stands a Venetian fortress known as **Fortezza** which is the city's landmark and its most important monument, built in the late 16th century. **Spinalonga** is an arid and barren rocky islet lying opposite Elounda in Lassithi. The islet was stigmatised since it functioned as the place where lepers from Crete and the rest of Greece had been kept in isolation until 1957. Today, thousands of tourists visit Spinalonga by boat from Agios Nikolaos, Elounda, and Plaka each summer as it is the most popular archaeological site in Crete after Knossos. Plaka is a small fishing village that became worldwide known from the best seller book 'The Island' and is part of the wider Elounda area, which is home to some of the world's finest luxury hotels and villas.

Besides all the abovementioned archaeological sites, the region of Crete offers numerous other sites and activities that attract tourists. Each of the island's four prefectures features many noteworthy caves, canyons and Byzantine churches spread in many coastal or mountainous areas. **Chania** and **Rethymno** are considered as some of the most historic capital cities in Crete with their old part made up of narrow streets with neo-classical style buildings. Both cities feature well-preserved Venetian fortresses. The **Crete Golf Club** in Hersonissos opened in 2003 and encompasses the island's first 18-hole course (par 71) which is served by well-organised facilities. The entire region boasts numerous kilometres of coastline and plenty of beaches, 84 of which having been awarded with the "Blue Flag". More awarded beaches than any other province in the country are found in Lassithi (36) whereas the region also hosts a Blue-Flag awarded marina in the city of Agios Nikolaos.

## Tourism and Visitation

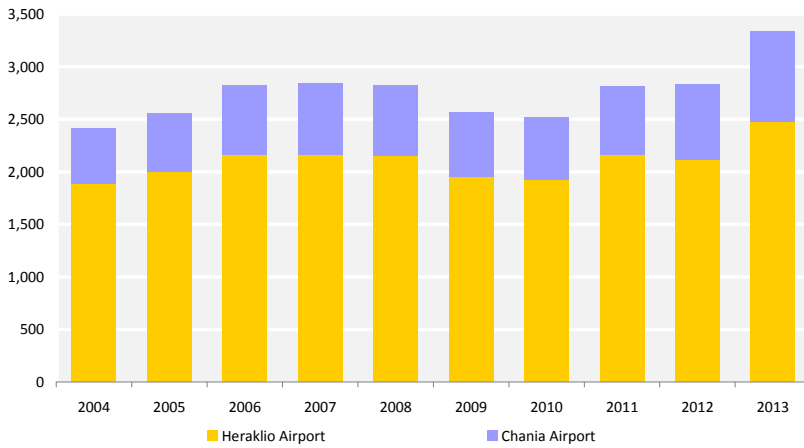
### Airport and Seaport Traffic

Crete is serviced by three airports; namely, Heraklio International Airport, Chania International Airport, and the Municipal Airport of Sitia that currently serves only local flights. The two main airports of Crete accept scheduled and charter flights during the summer months from major European cities. The airport in Heraklio is the second busiest in the country after Athens International Airport. In 2011, Ryanair commenced the first flights to/from Chania airport. In April 2013, Ryanair proceeded in opening its first Greek base (55<sup>th</sup> base) at Chania with one operating aircraft and increased its connecting routes by 10 (26 in total) to/from Billund, Bremen, Bristol, Eindhoven, Katowice, Memmingen, Thessaloniki, Venice, Vilnius, and Warsaw. Ryanair intends to invest a reported amount of over \$70 million at Chania Airport in the medium-term.

Each major city in Crete is served by a main seaport with the exception of Chania that features two, one in Chania and one in Souda. All seaports accept either cruise ships or scheduled ferries connecting Crete with the main port of Greece in Piraeus. Regarding accessibility, all areas within the northern part of Crete are conveniently accessible by automobile vehicles, while

transportation to the southern parts of the island can be tiresome or even adventurous, since the road network consists only of local roads.

**CHART 1: INTERNATIONAL AIRPORT ARRIVALS, CRETE 2004-13 (000s)**



Source: Civil Aviation Authority

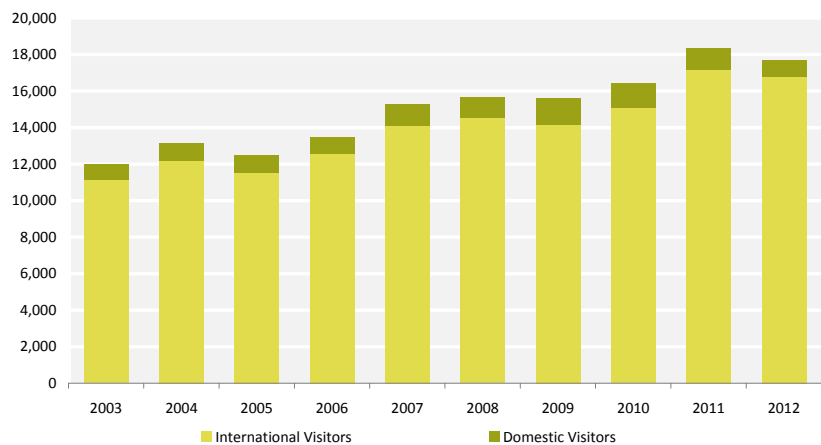
Total international airport arrivals grew at a Compound Annual Growth Rate (CAGR) of 3.6% during the past ten years, primarily attributed to the increase in international passenger arrivals at Chania Airport, owing to the utilization of the airport as a Ryanair base. Preliminary results for 2013 recorded a vigorous increase in foreign tourist arrivals by air of nearly 18% as compared to 2012, as part of the general increase of tourism inflows in Greece. Arrivals at Chania Airport mainly consist of tourists

visiting the resorts in Chania, whereas passengers to Heraklio Airport spread among the resorts in the remaining three prefectures of the island.

### Demand for Transient Accommodation

An average of over 90% of the total accommodated bednights in hotels in Crete is of international nature. Crete has always been a popular tourism destination in Greece for European and other international travellers. The island is easily accessible by air wherefrom scheduled and charter flights can land at Heraklio and Chania Airports during the summer period. There are several destinations in Crete that are popular for leisure vacation according to each one's taste such as Malia, Hersonissos, and Elounda. In addition, the construction of many big hotel units already since the 1960s, able to absorb demand from a large number of guests, assisted in the development of the destination. During 2003-12 the number of total bednights experienced an increase of 47.3% driven by the vigorous growth of international tourism by 50.1%. The overseas tourist segment showed a steadily increasing pattern over the last ten years whereas domestic tourism recorded significant fluctuation over the same period. Especially from 2010 onwards, domestic figures have been declining due to the shrinkage of the domestic population's available income as a result of the national economic crisis.

**CHART 2: HOTEL BEDNIGHTS, CRETE 2003-12 (000s)**

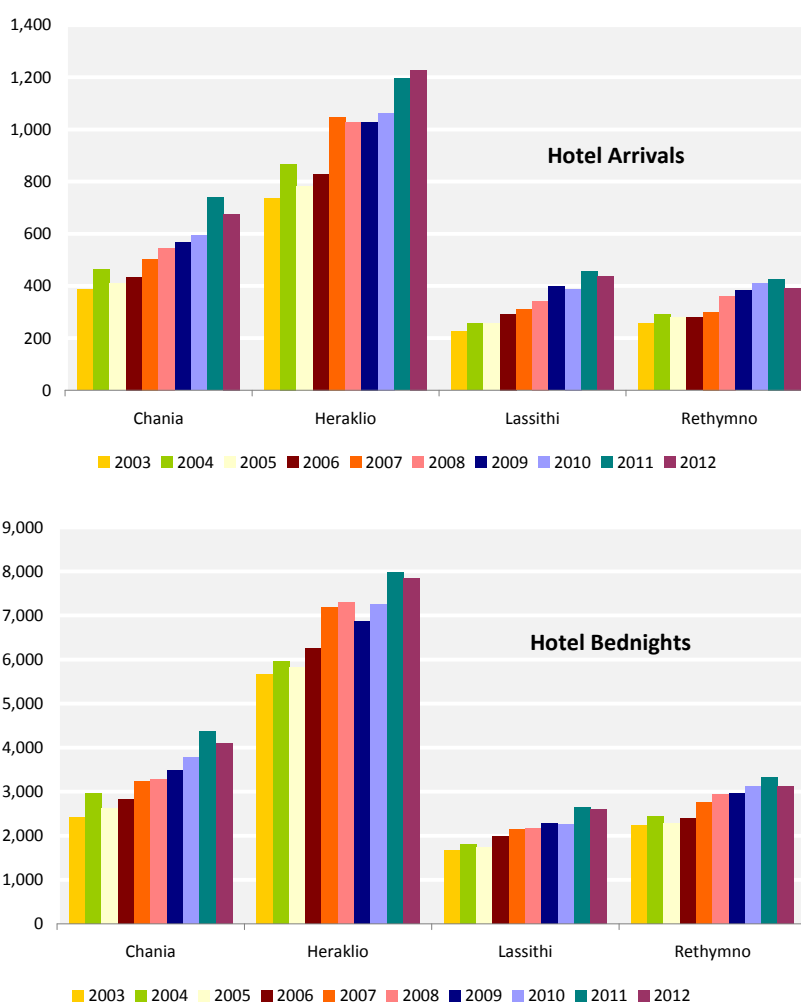


Source: Hellenic Statistical Authority

In absolute terms, the regions of Heraklio and Chania featured the highest number of bednights in 2012. Notably, during 2003-12 total bednights in the region of Chania recorded the highest CAGR, as well as the highest percentage increase (approximately 70%) in comparison with the 47% growth rate of the entire region. In general, hotel arrivals and bednights in all regions in Crete record healthy annual growth rates. Tourism statistics for Heraklio appear to trail the rest of Crete; however, this is normal since the region is more mature than the others concerning tourism development. Tourism statistics for Lassithi also show a healthy growth for this region, which might accommodate the least bednights amongst the rest of Crete's prefectures; however, it enjoys more affluent clientele since some of the best hotels on the island, and the country as a whole, are located in Agios Nikolaos and Elounda.

The average length of stay in Cretan hotels was 6.5 days in 2012 decreasing from 7.5 back in 2003, varying in each individual destination as illustrated in Chart 4. Even so, the number is one of the highest recorded in Greece. The highest length of stay throughout 2003-12 was consistently recorded by the international tourists in Rethymno, which also features the highest average length of stay in the country as well.

CHART 3: HOTEL ARRIVALS AND BEDNIGHTS BY REGION, CRETE 2003-12 (000s)



Source: Hellenic Statistical Authority

CHART 4: AVERAGE LENGTH OF STAY (DAYS), CRETE 2003-12

Year	Chania	Heraklio	Lassithi	Rethymno
2003	6.3	7.7	7.4	8.8
2004	6.4	6.9	7.0	8.4
2005	6.4	7.4	6.8	8.2
2006	6.5	7.5	6.8	8.2
2007	7.5	7.6	7.7	8.4
2008	6.8	7.9	7.1	8.9
2009	6.1	6.7	5.8	7.7
2010	6.4	6.8	5.8	7.6
2011	5.9	6.7	5.8	7.8
2012	6.1	6.4	6.0	8.0

Source: Hellenic Statistical Authority, HVS Analysis

The seasonality pattern at the island of Crete is smoother than in other parts of Greece, with the majority of hotels operating for about 180-200 days (mid-April to mid-October). The highest bed occupancy figures occur in July and August with numbers reaching or sometimes exceeding 95%. The tourism product is primarily driven by mass tourism, with tourists usually booking week-long vacation periods to visit the region. Due to this phenomenon, which has consequently led to a great dependency of the hotels on tour operators, room prices are under heavy pressure. Nevertheless, the demand for hotel

accommodation is evident and in case a hotel property succeeds to differentiate itself from the crowd, then it could attract an increased number of visitors and charge a premium compared to other hotels in the market.

## Hotel Supply

As illustrated in Chart 5, all regions of Crete are dominated by two- and one-star hotels. Most of the hotel rooms are located in the prefectures of Chania and Heraklio. We note that slightly over 70% of the five-star resort hotel rooms in Crete are located in the prefectures of Heraklio and Lassithi, whereas the remaining

30% of the luxury room supply is located in Chania and Rethymno. In the four-star hotel market, Heraklio and Rethymno host more than 70% of the room supply leaving a 30% to Chania and Lassithi. **Hersonissos, Elounda, Sissi, Agios Nikolaos, and Platanias** are the predominant areas in all four of the abovementioned prefectures. We highlight the significant excess of five- and four- star hotel room supply in Heraklio and Lassithi in comparison with the three-star and other properties but also in comparison with the rest of the island. In general, upscale hotel rooms account for 48% of the island's total room supply, in comparison with the entire country, where upscale hotel rooms represent 39% of total hotel inventory.

The average five-star hotel in Crete features 202 rooms with the largest found in Heraklio (average of 264 rooms) followed by Lassithi (average of 189 rooms). In general, the average hotel size is only 57 rooms since the region hosts a great proportion of small family-run hotel units.

### Branded Properties

Various international and local hotel operators have presence in Crete. The international companies of Iberostar Hotels and Resorts, Sentido Hotels and Resorts, Atlantica Hotels and Resorts, Robinson Club, and Starwood Hotels and Resorts own and/or operate under various agreements 7.5% of all upscale hotel rooms in the region of Crete. Local hotel management companies appear to have a very strong presence in Crete with Grecotel, Aldemar, Helios Hotels, Aquis, Aquila, BlueGR, AKS Hotels, Cyan Group, Elounda Hotels and Resorts, Giannoulis Hotels and Resorts, Hersotels, Mitsis, and Sbokos Hotel Group being the main ones. These hotel groups own and/or operate under various agreements 27% of all upscale hotel rooms on the entire island. There are also several hotels that have joined international hotel marketing consortiums (e.g. The Leading Hotels of the World, Relais & Chateaux, etc.).

## Hotel Performance

Chart 6 illustrates that bed occupancies in the region have recorded a declining trend between 2003 and 2012 with the largest fluctuation verified in Chania and the smallest in Rethymno. Since hotel arrivals and bednights have shown a significant increase during the examined period this decrease in occupancy can only be attributed to the proportionately higher number of new hotel rooms entering the market in

CHART 5: HOTEL SUPPLY BY REGION AND CLASSIFICATION, CRETE 2012

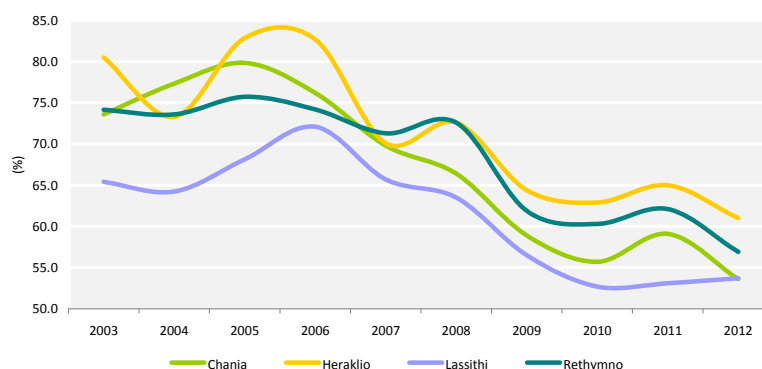
Prefecture	Hotels					% Total Share	% 5* Market Share	% 4* Market Share
	5*	4*	3*	Other	Total			
Chania	19	51	110	353	533	35 %	23 %	22 %
Heraklio	30	100	94	265	489	32	36	43
Lassithi	23	34	32	109	198	13	27	15
Rethymno	12	48	93	156	309	20	14	21
<b>Total:</b>	<b>84</b>	<b>233</b>	<b>329</b>	<b>883</b>	<b>1529</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

Prefecture	Rooms					% Total Share	% 5* Market Share	% 4* Market Share
	5*	4*	3*	Other	Total			
Chania	2,455	3,815	4,604	12,301	23,175	27 %	14 %	15 %
Heraklio	7,919	12,982	4,882	9,546	35,329	41	47	53
Lassithi	4,344	3,279	1,662	2,960	12,245	14	26	13
Rethymno	2,232	4,625	4,338	5,159	16,354	19	13	19
<b>Total:</b>	<b>16,950</b>	<b>24,701</b>	<b>15,486</b>	<b>29,966</b>	<b>87,103</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

Source: Hellenic Chamber of Hotels, HVS Analysis

CHART 6: BED OCCUPANCIES BY REGION, CRETE 2003-12



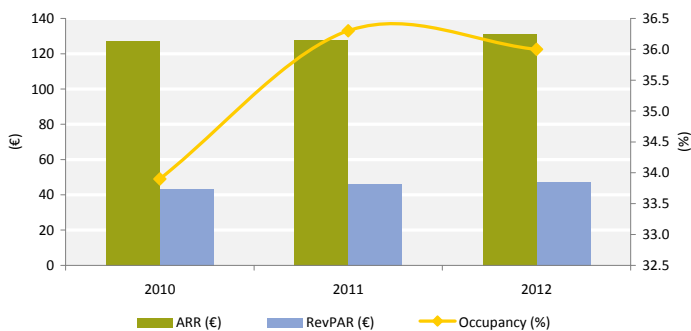
Source: Hellenic Statistical Authority

comparison with the incoming tourist waves.

Chart 7 summarises the important operating characteristics of primary hotels in Crete. The chart sets out the average occupancy, average room rate, and rooms revenue per available room (RevPAR) for a sample of major upscale hotel properties representing 4,974 hotel rooms. It should also be noted that all occupancy percentages refer to 365 days of operation for consistency reasons.

Examined hotels in Elounda recorded high levels of average daily rates ranging between €200 and €500 but their achieved annual occupancy rate is lower than that of other resorts ranging between 40 – 60% on a seasonal basis. Generally, the market in Elounda records the highest RevPAR in Greece since there are many upscale properties concentrated in the area,

**CHART 7: HOTEL PERFORMANCE, CRETE 2010-12**



Source: HVS Research

and local hoteliers have managed to position the destination in the high-end spectrum of the market. Hotels in the rest of Crete that rely more on mass tourism and contract with tour operators record an average seasonal occupancy of approximately 80% and achieve room prices lying around €100. The tourism season in Crete is slightly longer than other leisure destinations in Greece and hotels are able to operate for about 200 days.

Based on an aggregate income statement comprising of 14 hotel companies operating upscale hotels in Crete and representing 6,585

rooms (approximately 16% of total upscale room supply), in 2012 total revenues per available room averaged €20,000 compared to €21,000 for the same sample set in 2011, which represents an average decrease of 4.7%. According to local experts, total hotel revenues are expected to record a 20% increase in 2013 that proved to be a record year for Crete but also the entire country regarding incoming tourist arrivals and expenditure. Despite the decrease in the average total revenues in 2012, profit margins of the hotel companies included in the sample remained nearly unchanged at €6,000 per available room and recorded an increase of 4.6 percentage points, exceeding the level of 30%.

## Recent and Forthcoming Tourism Developments

The following projects represent future changes in supply of hotels and integrated resorts on the island of Crete.

In October 2012, **Diamond Resorts International**, a global leader in the hospitality and vacation ownership industries, announced that it has concluded, through its subsidiary Diamond Resorts AB Acquisition Company Ltd, the acquisition of all issued and outstanding shares of Aegean Blue Holdings Plc for a non-disclosed amount. This transaction added five resorts located on the Greek islands of Rhodes and Crete, as well as approximately 7,400 owners to Diamond Resorts International. **Aegean Blue** resorts are located in the following locations: (1) Village Heights Golf Resort, Hersonissos, Heraklio, (2) Sun Beach Holiday Club, Ialyssos, Rhodes, (3) Leoniki Residence, Rethymno, (4) Grand Leoniki, Rethymno, and (5) The Village Holiday Club, Koutouloufari, Heraklio.

The proposed **Sitia Bay Golf Resort** developed by Dolphin Capital Investors is planned to be positioned in the market as a luxury golf resort operated under a management contract with Hilton Hotels and its luxurious sub-brand Waldorf Astoria. The proposed investment is envisaged to be developed on a 280-hectare land plot featuring a hotel unit offering 177 guestrooms and a residential component comprising of 620 (150 branded and 470 non-branded) villas by the beach and on the plateau measuring 80,000 m<sup>2</sup> of buildable space. In addition to guestrooms and villas, the resort will contain a spa/wellness centre of 2,500 m<sup>2</sup>, conference facilities, an 85-berth marina, an 18-hole championship golf course, extensive food and beverage outlets, and other facilities typically found in a resort hotel. According to the owning company, the final construction permits for Phase 1 were issued on 14 October 2009; however, the project is still on hold.

Since 2005, **Minoan Group Plc** has put serious efforts in developing the **Cavo Sidero** Project. The project has evolved out of the old Cavo Sidero Project which included about 7,000 beds. The old project, approved in 2007, was annulled by the Conseil d' Etat on planning grounds in December 2010. The new project is designed to be in line with the ruling of the Court and with the subsequent changes in Greek planning Laws. This meant that the final design had to undergo a number of iterations as new laws were introduced piecemeal during 2011. The construction cost of the new project is estimated at over €250 million and, according to the company, will be undertaken through one or more joint ventures with appropriate partners. The site, in the locality of Itanos, Lassithi, is planned to be held on a long lease granted by the Ecclesiastical Foundation Panagia Akrotiriani and comprises over 6,000 acres. About 2,000 beds will be divided between 650 rooms, suites and studios within the hotels, all in the form of small clusters spread around the subject area. The company plans to make use of the Spatial Development Plans for Strategic Investments (ESCHASE in Greek) that allows the State to intervene in cases of strategic investments with regards to spatial identification, land use, identification and assignment of the seashore and beach, e.t.c.

## Conclusion

Our review of the various relevant data indicates that the island of Crete benefits from healthy economic development, driven on a large scale by tourism in connection to the convenient accessibility of the destination with numerous domestic and international flights. The island has managed to maintain its brand name as a tourist destination and many sub-markets within Crete have managed to keep healthy growth rates of inbound tourism, and position themselves effectively in various markets. Specific regions in Heraklio and Lassithi appear to be congested with upscale hotels whereas the lack of internationally branded upscale properties in Rethymno and Chania looks rather promising for hotel investors in combination with the nearby airport and its impending development.

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## About HVS

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