

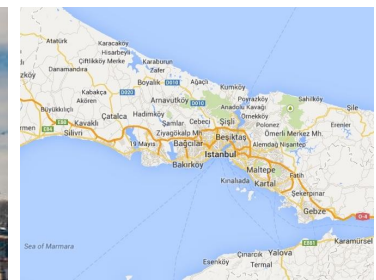
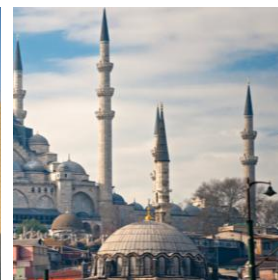
HVS

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IN FOCUS: ISTANBUL, TURKEY

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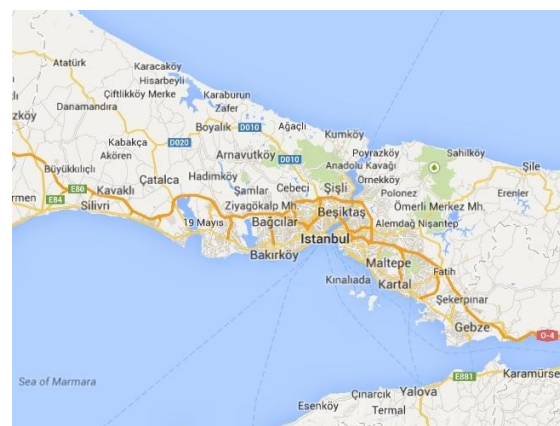


This market snapshot is part of a series of articles that HVS produces on key hotel sectors across Europe. In writing these articles we combine the expertise of HVS with STR Global data for each market.

Highlights

- Istanbul is a unique destination. Spanning two continents, the city is a meeting point between east and west and offers a mix of modern skyscrapers and shopping centres and historic sites. It is the cultural and financial centre of Turkey and attracts a good mix of leisure and business demand;
- According to the Economist Intelligence Unit, in 2014, Turkey's Real GDP growth is expected to drop to 2% from 3.9% in 2013, owing to Turkey's current political and economic climate. This uncertainty is not expected to last long, however, as growth is then forecast to pick up, reaching 4% in 2015 and averaging 5% from 2016 to 2018;
- The international markets make up a large proportion of both visitation and bednights to Istanbul, highlighting the city's international reputation and standing as both a leisure and business destination. Total visitation and bednights increased over the past decade to reach new records in 2012, of 10.2 million and 13.9 million, respectively. Growth is forecast to be conservative in 2013, on account of the civil unrest in Turkey, but a recovery is expected;
- In 2012, the main feeder markets for Istanbul were Germany, making up 11% of total visitation; Russia; with 6% of total arrivals; and the USA, the UK, France and Italy, each representing 5% of total arrivals;
- Airport arrivals have increased consistently over the past decade. The latest data shows that growth at the airport is continuing, with an increase in total passenger movements of 14.8% in January 2014 on the same period in 2013;
- On a compound annual growth rate basis (CAGR), hotel supply has grown slightly faster than demand over the last five years, with demand falling in 2013 in particular owing to the demonstrations and civil unrest in Turkey. Average rate and RevPAR levels have increased at a CAGR of 5.2% and 4.6%, respectively, whilst occupancy fell slightly by 0.6%;
- There are currently more than 380 hotels (more than 40,000 rooms) under contract in Turkey's supply pipeline, almost 50% of which is in Istanbul;
- The hotel investment market is illiquid. We are not aware of any transactions having taken place in Istanbul in the past couple of years;
- As per the annual HVS Hotel Valuation Index (HVI), Istanbul ended 2013 with values of €305,320 per room for a typical internationally branded four-star, city centre property.

MAP OF ISTANBUL



Source: Google Maps

Hotel Demand Patterns

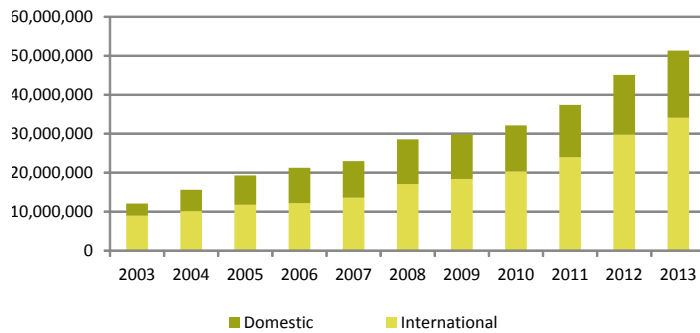
Airport Arrivals

Atatürk International Airport is the main airport serving Istanbul, and it is also the largest airport in Turkey in terms of passenger numbers.

The number of passenger movements at the airport has grown consistently from 2003 to 2013, with high compound annual growth in both domestic and international passengers of 18.6% and 14.3%, respectively. Overall, total passenger traffic at the airport grew from approximately 12 million in 2003 to 51 million in 2013.

There was a slight dip in growth levels from 2009 to 2010, due to the worldwide economic situation, but interestingly the only decrease recorded was a small dip of -0.6% in domestic travellers in 2009. Although growth in international passengers slowed, a healthy increase of 7.8% was recorded on 2008, highlighting the appeal of Istanbul to the international markets.

FIGURE 1: AIRPORT ARRIVALS AT ATATÜRK INTERNATIONAL AIRPORT



Compound Annual Growth Rate 2003-13	
Total	15.5%
International	14.3%
Domestic	18.6%

Source: Airports Council International

In March 2014, according to the Airports Council International, the airport was ranked third in Europe in terms of passenger numbers after London Heathrow and Paris Charles de Gaulle, with an increase in total passenger movements of 14.8% in January 2014 on the same period in 2013 (on average, passenger traffic in Europe in January 2014 increased by 6.3%.) With the addition of 20 new direct destinations from August 2013 to April 2014, Atatürk International Airport was named the 'Airport with the Most New Routes' at the Euro Annies 2014 Awards. New services include the recent launch of flights between Kiev and Istanbul from Ukraine Airlines in April 2014.

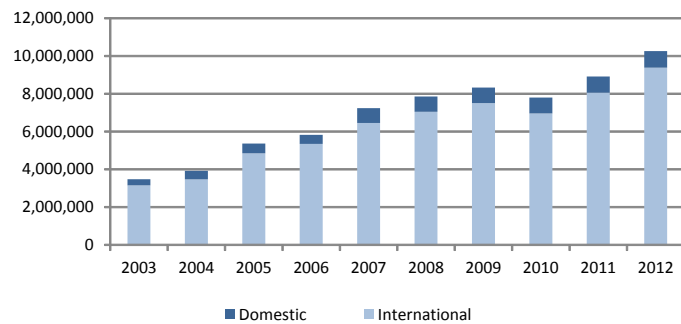
Sabiha Gökçen International Airport is the city's secondary gateway. It is approximately 20 miles southeast of central Istanbul, on the Asian side of the city. This airport was constructed to ease pressure on Atatürk as it struggled to meet booming passenger demands. It started as a hub for domestic arrivals but now attracts increasing international demand owing to its status as a budget airline destination. Over the past decade passenger arrivals to Sabiha Gökçen have increased an incredible 47%.

Strong increases in passenger traffic have continued to cause capacity issues at Atatürk International Airport. There is limited opportunity to expand the airport, as the ever-growing city surrounds it. However, an ambitious alternative solution seems to have been found. Work is underway on a third Istanbul airport, in the northern part of the city, despite a court order imposed to halt the destruction of Sulukule, a Roma neighbourhood on Istanbul's historic peninsula. This new airport is envisaged to be the largest airport in the world with an annual passenger capacity of 150 million. It will be built over four construction stages with the first commencing in 2017.

Tourist Arrivals and Bednights

Domestic visitation to Istanbul displayed strong growth levels from 2003 to 2007, apart from a fall of 6.3% in 2006. Owing to a lack of accurate data, we have been unable to show specific figures for 2008-12 and have instead maintained the same growth rate for this period, with a compound annual growth rate of 11.6%. Domestic visitation is estimated to have reached approximately 880,000 in 2012. If anything, this estimate is expected to be conservative; the number of domestic companies in Istanbul has risen in line with the expansion of industrial areas of the city in recent years. In addition, strong growth in domestic arrivals at Istanbul's major airports has also been recorded which will have a positive effect on arrivals numbers and bednights in the city.

FIGURE 2: TOURIST ARRIVALS IN ISTANBUL



Compound Annual Growth Rate 2003-13

Total Visitors	11.7%
International	12.9%
Domestic	11.6%

*2008-2012 Domestic data calculated to maintain the 2003-2007 CAGR of 11.6%
Source: Ministry of Tourism

International visitation increased threefold over the period under review, from almost 3.1 million in 2003 to 9.4 million in 2012, compound annual growth of 12.9%. International visitors to the city make up 91% of total visitation, highlighting the importance of overseas demand to Istanbul's hotel market. The increasing demand for the city has led major international hotel chains to enter the market. Just last month (June 2014) Wyndham Worldwide opened a new hotel in Istanbul and Rezidor and InterContinental Hotels Group announced new additions to their pipeline in the city. The Asian side of the city is attracting an increasing amount of investment from international chains, in response to the growth in visitation from the Anatolian side of Turkey. There is no break down available for 2013 domestic and international visitation statistics; however, overall visitation grew by 2.2% to 10.4 million. Overall foreign arrivals to the city have fallen slightly for the first quarter of 2014 – by 1.9% on the same period in 2013.

According to the Ministry of Culture and Tourism, accommodated bednights in Istanbul grew at a compound annual rate of 6.9% between 2001 and 2012. Figure 3 shows that bednights numbers have fluctuated over the period under review with falls in bednights correlating to the economic downturn in 2008 and 2009 and the ensuing reluctance to travel from both the international and domestic business and leisure segments. The Istanbul market made a strong comeback, however, as double-figure growth in both domestic and international bednights was recorded from 2010 to 2012, and total bednight numbers reached a new peak in 2012, at 13.9 million. Data for 2013 are not yet available but bednight growth is expected to be conservative, on account of the political unrest during this year. However, the Istanbul hotel market has already proven its resilience to set backs and demand is expected to recover.

FIGURE 3: BEDNIGHTS IN ISTANBUL



Compound Annual Growth Rate 2001-12

Total	6.9%
International	7.8%
Domestic	4.0%

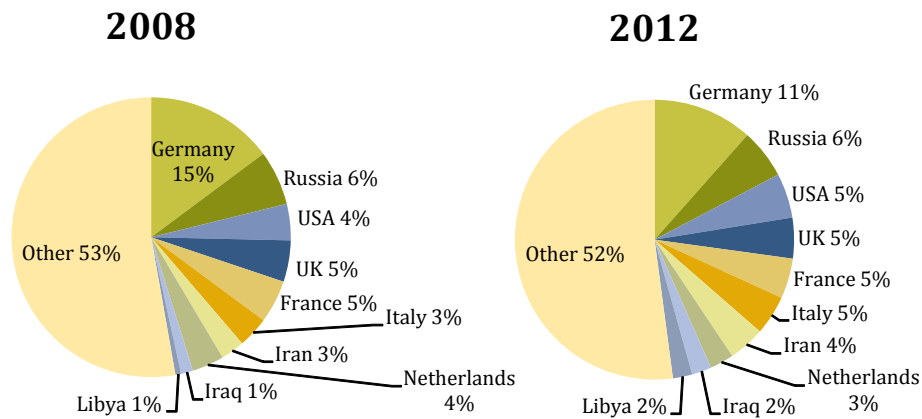
Source: Ministry of Culture and Tourism

International Feeder Markets

The primary international source countries for visitation to Istanbul have remained relatively unchanged over the past five years. Germany is the city's biggest feeder market, making up 11% of total visitation in 2012, although this figure fell from 15% in 2008 owing to increases in visitation from Italy, the Netherlands and Iraq. Russia (with 6% of total arrivals) and the USA, the UK, France and Italy (all with 5% of total arrivals) are also important source markets for the city.

Apart from Russia, Italy and Iran, visitation from all of the main source markets fell in 2010, owing to the Eurozone crisis and the general economic difficulties faced by most economies worldwide. Libya recorded the strongest growth over the period under review with a compound annual rise of almost 49%, although this was from a low base. Iraq and Iran (which both share a land border with Turkey), Italy and the USA also achieved double-figure compound annual growth. Even with the fall in visitation in 2010, none of the markets reviewed reported a compound annual decline, highlighting the continued demand for the city, which straddles both Europe and Asia.

FIGURE 4: VISITATION SOURCE MARKETS 2005-12



Source: Ministry of Culture and Tourism

Meetings and Events

The number of events between 2003 and 2012 grew at a compound annual rate of 11.8%, with the number of participants more than trebling to 70,067 in 2012. There have been decreases in participants over the period under review but on the whole events in Istanbul have recorded year-on-year double-figure growth. Growth has stabilised somewhat in 2011 and 2012, but the city is still marketing itself strongly as a conference market and has established itself as a major MICE destination. According to the ICCA, Istanbul was the ninth most popular city in the world for meetings in 2012. Data are not yet available for 2013 but in July 2013, the Istanbul Convention & Visitors Bureau and Istanbul Chamber of Commerce launched their Leading Congress Destination Istanbul project, aimed at generating more event bookings and raising the profile of the city.

FIGURE 5: CONVENTION CENTRE STATISTICS

Year	Number of Meetings	% Change	Number of Participants	% Change
2003	47	—	19,941	—
2004	52	10.6 %	18,522	(7.1) %
2005	60	15.4	47,921	158.7
2006	80	33.3	45,342	(5.4)
2007	80	—	33,490	(26.1)
2008	92	15.0	52,899	58.0
2009	108	17.4	81,963	54.9
2010	139	28.7	70,508	(14.0)
2011	130	(6.5)	72,703	3.1
2012	128	(1.5)	70,067	(3.6)
CAGR 2003-12	11.8%		15.0%	

Source: Convention & Visitation Bureau Istanbul/ICCA

Hotel Performance

Hotel Performance 2009-13

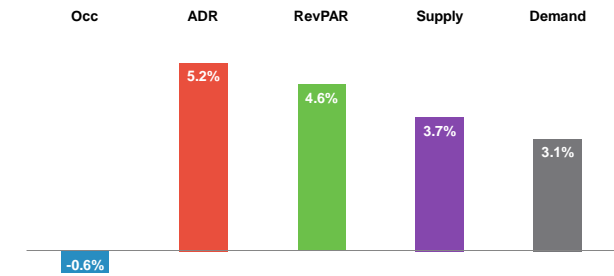
On a compound annual growth rate (CAGR) basis, supply (+3.7%) for Istanbul grew slightly faster than demand (+3.1%) in the last five years.

Demand, in particular, dropped to a record low in June and July 2013 since 2003, in the light of demonstrations and civil unrest in Turkey.

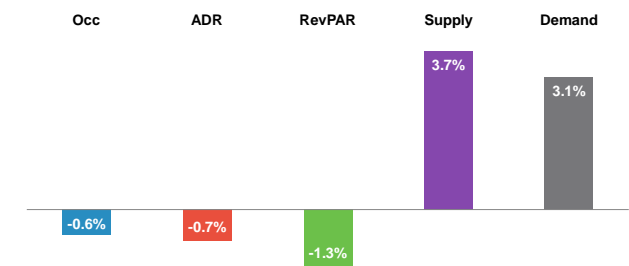
Average daily rate (ADR) (up by 5.2%) has solely driven positive hotel performance in the last five years, already pushing revenue per available room (RevPAR) levels above pre-recession figures in 2011.

When looking in euro terms, ADR declined by 0.7%, resulting in a fall in RevPAR, on average, of 1.3%. Overall hotel profitability (GOPPAR -2%) declined in 2013 compared to the previous year, as departmental expenses and payroll costs increased.

FIGURE 6: CAGR OF THE ISTANBUL HOTEL MARKET 2009-13



TRY analysis



Euro analysis

Source: STR Global

FIGURE 7: RECENT HOTEL PERFORMANCE

	April 2013 YTD	April 2014 YTD	% change
Occupancy	67.6%	60.7%	-10.3%
ADR (TRY)	TRY 328.33	TRY 375.40	+14.3%
RevPAR (TRY)	TRY 222.06	TRY 227.80	+2.6%
ADR (EUR)	EUR 139.63	EUR 124.57	-10.8%
RevPAR (EUR)	EUR 94.43	EUR 75.58	-20.0%

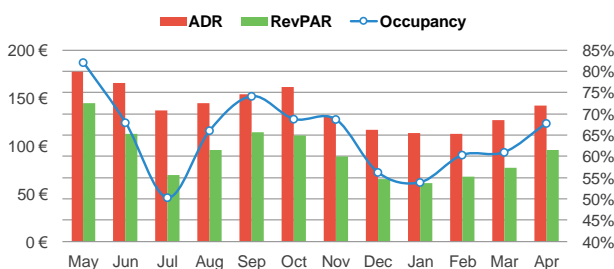
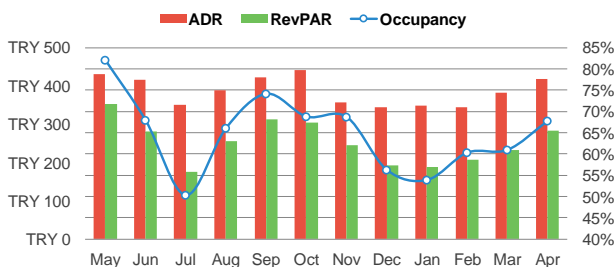
Source: STR Global

Recent Hotel Performance (Sample: 77 Hotels)

Year-to-April 2014, Istanbul reported a double-figure increase in ADR, offsetting the negative occupancy performance (-10.3%), leading to the highest RevPAR levels since 1996. ADR in euro declined by -10.8% April 2014 YTD, resulting in a significant decline in RevPAR (-20%).

Demand in April (-4.6%) dropped for the second month in a row, while supply (+8.4%) picked up.

FIGURE 8: HOTEL PERFORMANCE BY MONTH



Source: STR Global

Historical patterns for Istanbul indicate that ADR growth, measured in local currency, picks up after a longer period of positive occupancy performance, and vice versa. The increase in rate shows immediate effect on demand, which declines, while ADR continues to grow, before it slows and eventually declines again.

Hotel Performance by Class

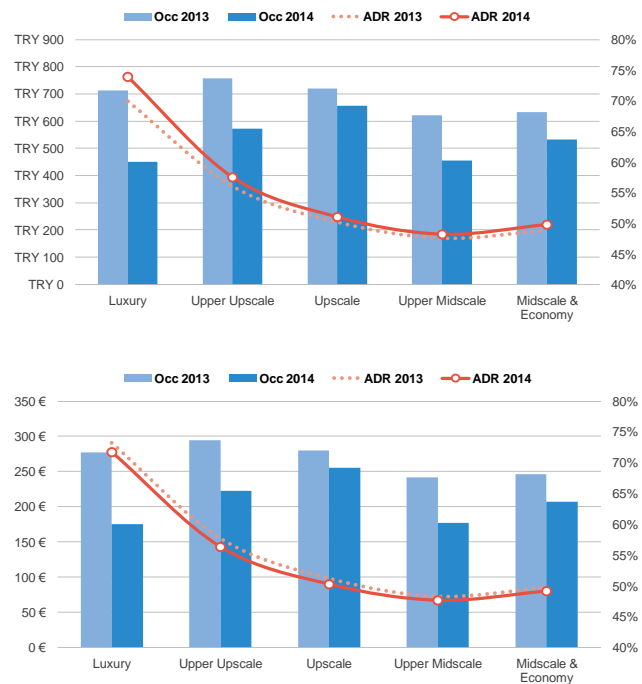
On a 12-month moving average basis, ADR in TRY (Turkish Lira) increased across all classes, while occupancy declined at the same time.

The luxury segment (+13.5%) experienced the strongest ADR growth to TRY763.40, at the expense of occupancy which declined to 60% (-16.3%), the lowest level of all classes.

Upscale properties reported 69.2%, the highest occupancy across all segments, and was able to grow ADR by 8.8%.

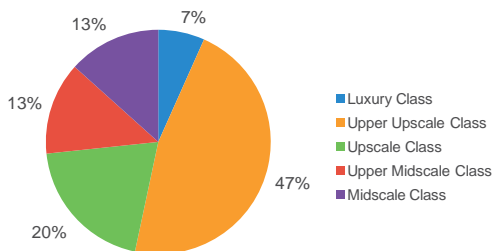
ADR in euro declined for all classes, with upscale showing the strongest fall by -8.6%, followed by upper midscale (-8%) and upper mpscale (-7.9%).

FIGURE 9: HOTEL PERFORMANCE BY CLASS



Source: STR Global

FIGURE 10: RECENT OPENINGS



Source: STR Global

Recent Openings

Since January 2013 Istanbul has seen 15 hotel openings with a total of 3,969 hotel rooms.

The majority of the new supply came online in the upper upscale segment (47%), followed by upper midscale and midscale classes (26%). The 186-room Shangri-La Bosphorus Istanbul has been the only opening in the luxury segment.

Under Contract Pipeline

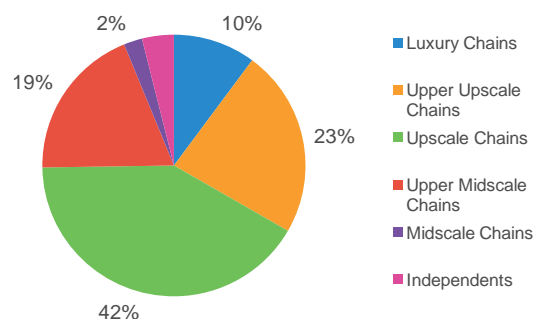
Istanbul currently has more than 380 hotels with more than 40,000 rooms and experienced an increase in supply of 7.7% in the first four months of 2014.

Nearly 50% of the total 'under contract' hotel pipeline for Turkey is planned to come online in Istanbul.

With an 'under contract' rooms pipeline of +15.3% on top of the existing supply, Istanbul has the strongest room pipeline in Turkey.

Upscale hotel room supply (+66.6%) is expected to grow the fastest within the next three years, followed by upper midscale (+50.9%) and upscale room supply (+23.1%).

FIGURE 11: UNDER CONTRACT ROOM PIPELINE BY CHAIN SCALE AND PROJECT PHASE



	IN CONSTRUCTION	FINAL PLANNING	PLANNING
TURKEY	43	10	20
ISTANBUL	21	5	10
ANKARA	3	0	0
TURKEY REGIONAL	15	3	7

Source: STR Global

SÜLEYMANIYE MOSQUE



Hotel Investment

There have been no recent hotel transactions in the Istanbul market. Three hotels changed hands in 2010 and two were sold in 2011, including the seven-storey, 115-room Pera Palace Hotel, which was purchased by the Demsa Group from Besiktas Tourism Investments for an undisclosed sum, and the eight-storey, 84-room Keban Hotel, which was acquired by Alkoclar Turizm.

Hotel Values

From our valuation experience and knowledge of the market, we estimate that hotel values in Istanbul have

evolved and are expected to grow as shown in Figure 12. Following year-on-year growth from 2004 onwards, the value per room peaked at just over €345,600 in 2008, before falling by around 8% in 2009 to €318,100; following the onset of the economic crisis. However, the market recovered quickly and values per room then recorded three year's of solid growth (although they are still below historical peak levels).

In 2013, values per room dropped by 11% (unsurprisingly given the civil unrest that took place in Turkey that year). As per our annual HVI report, Istanbul is sixth in terms of value per room in the 33 European cities we monitor. Istanbul ended 2013 with values of €305,300 per room for a typical internationally branded four-star, city centre property. This is almost 28% above the average value per room for the 33 cities covered by the HVI, which was €239,200 in 2013.

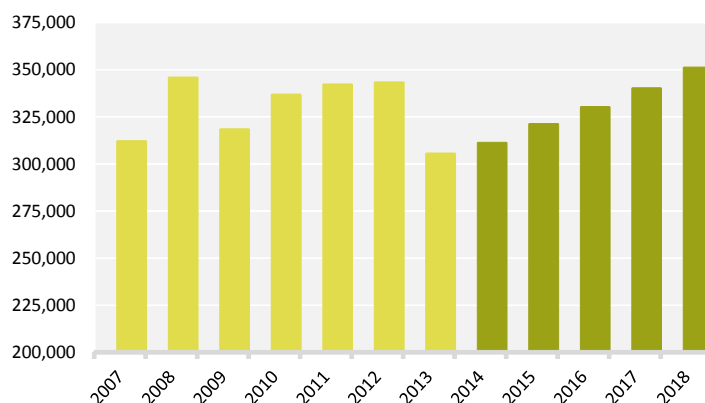
HVS forecasts that the value per room will rise to €351,000 by 2018, an increase of around 15% on 2013 values and surpassing the peak registered in 2008.

Conclusion

There is political risk in Turkey, with divisions between moderate Islamists in government and opposition secularists. Civil unrest led to public demonstrations and protests in 2013, and although most unrest is centred in the country's capital, far from its beach resorts, travellers are still put off by a perceived risk to safety. This has had a negative affect on visitation to Istanbul, and thus its hotel market.

However, the city has bounced back strongly from setbacks in the past and is expected to recover. Despite the risks many hotel groups have aggressive expansion plans for Turkey, and most of the global chains already have a strong presence in Istanbul.

FIGURE 12: EVOLUTION OF HOTEL VALUES PER ROOM – ISTANBUL 2007-18(€)



Source: HVS – London Office

Demand is growing from the European markets, as Istanbul is seen as a cheaper destination than, for example, Italy or Spain. Istanbul has a substantial supply pipeline, with upscale rooms expected to increase at the fastest pace (of 66.6%) over the next three years. There is risk that the luxury market becomes saturated whilst demand for budget or midscale hotels outstrips supply. There are many infrastructure projects underway in Istanbul, however, which will help the supply/demand balance, including a third airport, which could significantly increase capacity for visitation to the city.

Both a business and a leisure destination, Istanbul's burgeoning hotel supply pipeline shows that it remains attractive to investors. The continuing expansion of international brands in the market should drive more overseas demand. Additionally, the marketing initiatives undertaken to increase Istanbul's reputation as a MICE destination are expected to lead to increases in conference-related bednights in the city's hotels. If Turkey can stabilise its political situation, and thus allay the fears of international travellers, the only way for the city's hotels is up.

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About HVS

HVS is the world's leading consulting and services organisation 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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STR Global provides clients – including hotel operators, developers, financiers, analysts and suppliers to the hotel industry – access to hotel research with regular and custom reports covering Europe, the Middle East, Africa, Asia Pacific and South America. STR Global provides a single source of global hotel data covering daily and monthly performance data, forecasts, annual profitability, pipeline and census information. STR Global is part of the STR family of companies and is proudly associated with STR, RRC Associates, STR Analytics, and HotelNewsNow.com.

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