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# IN FOCUS: TENERIFE, CANARY ISLANDS

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*Tenerife – located 100 km off the northwest coast of Morocco – is the biggest island of the Canary Islands. With tourism playing a key role to Tenerife's economy, the island has seen volatile markets ever since the start of the European financial crisis. Nevertheless, the market has experienced significant growth in five-star hotel supply and, in terms of visitation, the island remains the most popular amongst all seven of the Canary Islands. This article provides an overview of the current hotel market in Tenerife and discusses current upcoming trends within the high-end hotel sector.*

## Setting the Scene

The Canary Islands lie off the northwest coast of the African mainland, around 100 km west of the south coast of Morocco. They comprise seven islands: Tenerife, Fuerteventura, Gran Canaria, Lanzarote, La Palma, El Hierro and La Gomera, which are subdivided into the two provinces of Santa Cruz de Tenerife and Las Palmas.

The Canary Islands have a total of 2.1 million inhabitants and count as one of the 17 autonomous communities of Spain. Known for their subtropical climate, volcanic landscape, and numerous natural sites, such as, Maspalomas in Gran Canaria and the natural parks in both Tenerife and Lanzarote, the Canary Islands offer an interesting destination for tourists year-round.

### TENERIFE, CANARY ISLANDS



Tourism plays an important role for the economy of the majority of the Canary Islands, especially to Tenerife, Gran Canaria, Lanzarote and Fuerteventura,

as it contributes on average around 30% of the overall GDP of the seven islands. However, although the islands are very popular amongst western Europeans in terms of preferred location to acquire second homes or even as a winter retreat to escape the cold, wet weather of western Europe, the local economy has been severely hit by the financial crisis. This has led to an unemployment rate of 33% (2014), the second-highest level amongst all the autonomous communities in Spain.

Tenerife is the biggest and most populated island amongst the Canaries, counting a total of 910,000 inhabitants. Neighboured by Gran Canaria to the east and La Gomera to the west, Tenerife is the most popular of the Canary Islands with tourists, accounting for nearly 65% of total visitors arriving to the Canary Islands in 2013.

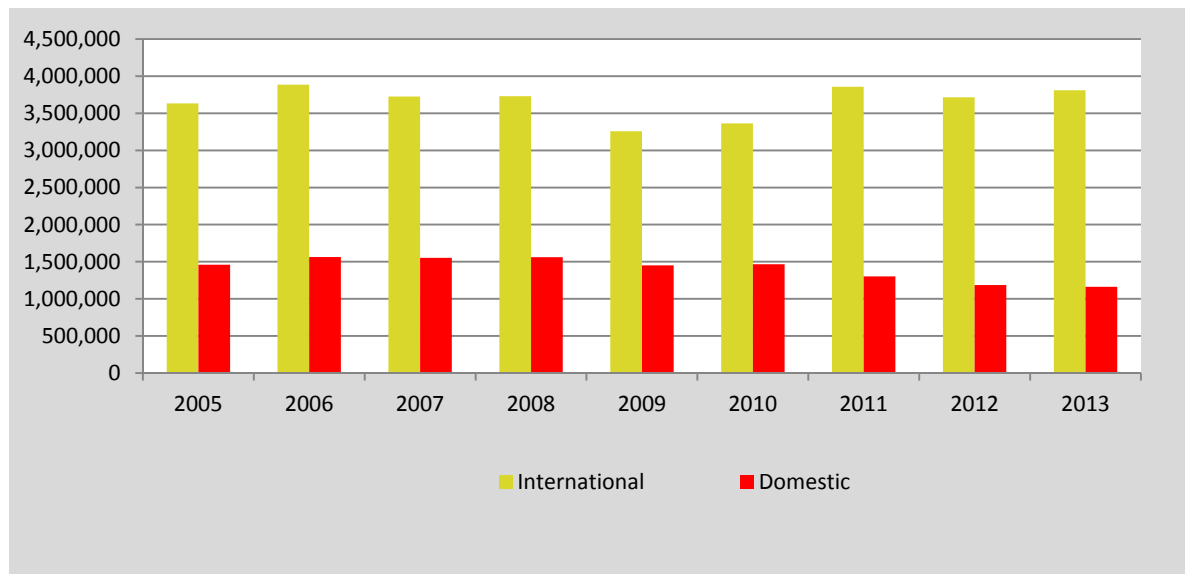
Santa Cruz de Tenerife is the capital of Tenerife and is located on the northeast side of the island. It is also the capital of the autonomous community of the Canary Islands. Tenerife is home to the highest point in Spain: El Teide, the world's third-largest volcano with a height of 3,718 m. Still an active volcano, the site, together with the surrounding Teide National Park, was proclaimed a UNESCO World Heritage Site in 2007.

## Demand

While Tenerife has been struggling in terms of demand over the past few years owing to the impact of the European financial crisis, as of 2013 visitor numbers have once again seen growth. This trend seems to continue as shown by year-to-June 2014 visitor numbers which show a growth of 4.7% over the same period in 2013, benefitting from growing confidence within the major key markets.

Tenerife is easily accessible by cruises as well as flights; it is accommodated by two airports on the island. While Tenerife North Airport is today mainly serviced by low-cost carriers, such as Ryanair, it is also used as an inter-island hub offering flights to and from various Canary Islands and to the Spanish mainland. Tenerife South Airport is known for its good connections to Europe, North America and Spain. Both airports registered declining growth in arrivals from its domestic market, while international arrivals have been growing since 2010.

FIGURE 1: VISITATION TO TENERIFE



However, given the island's strong reliance on domestic tourism, accounting for around 23% of overall visitation to Tenerife in 2013, domestic tourism has declined by 25.5% since 2010, with the exception of some growth in 2010 (Figure 1). While overall visitation numbers in 2013 and year-to-date 2014 show a growth trend again, the total visitation numbers still do not achieve pre-crisis peaks. Although, with overall recovery from the financial crisis noted in most European countries, the current growth trend is expected to continue.

The key feeder markets for Tenerife, apart from the Spanish market, are the UK (31.8% of total visitors in 2013), Germany (11.2%), Sweden (3.7%) and the Netherlands (3.0%). While the UK and Germany have shown some decline over the past few years, as a result of the financial crisis, a market that has shown a growing importance to the island is Russia, which has grown at a compound annual growth rate of 15.7% since 2006, and which is expected to grow into Tenerife's third-largest source country within the next four to five years (Figure 2). However, it should be noted that the ongoing political instability between Russia and Ukraine, and the visa sanctions imposed on Russia by the EU, have already had some impact on visitor numbers in 2014. It remains to be seen how the following months and years will be affected by these threats.

Tenerife, although considered to be a year-round destination, does show some ups and downs in terms

of occupancy. May, June and September are shoulder periods, recording drops in occupancy. The strongest months tend to be February, March, October and November. This reflects the trend for travellers from the European feeder markets to stay in Tenerife during summer holidays and the winter months as the climate in Tenerife is much milder and warmer during the winter compared to western and northern Europe.

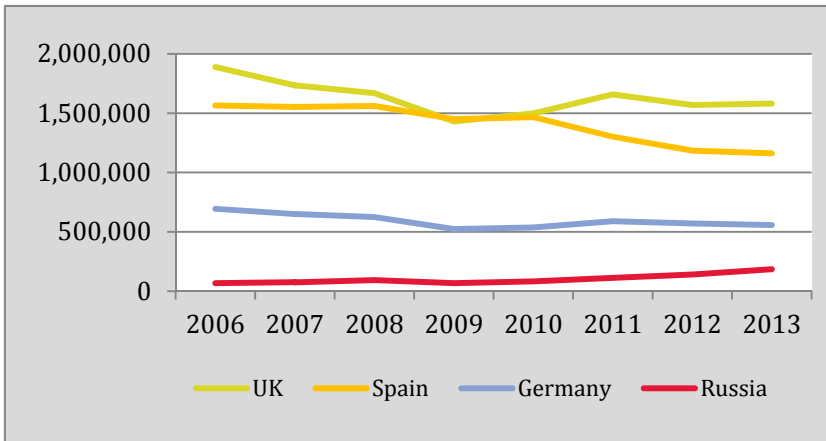
Given the resort-like nature of the destination, average lengths of stay are much higher in comparison to hotel stays in big cities. Average lengths of stay tend to be slightly higher during the winter months. However, all-year-round they range from seven to 8.5 nights.

### Supply

Total hotel supply and demand both grew at a compound annual rate of 1.2% between 2006 and 2013. However, while the amount of lower-rated supply remained relatively unchanged and demand for this type of supply slightly declined, growth was noted in both five-star hotel supply and five-star demand.

Five-star demand in Tenerife quickly recovered from a one-year decrease in 2009 in the aftermath of the financial crisis. Most of the five-star properties in Tenerife have undergone major renovations and enhancements over the past few years. These hotels are mainly targeting luxury tourism and have enticed demand from emerging markets, such as Russia. Tenerife accounts for 60% of all of the five-star resorts

FIGURE 2: VISITATION BY SOURCE COUNTRY



in the Canary Islands and attracts 98% of all Russian visitors to the Canary Islands.

### Overall Performance in the Five-Star Hotel Segment

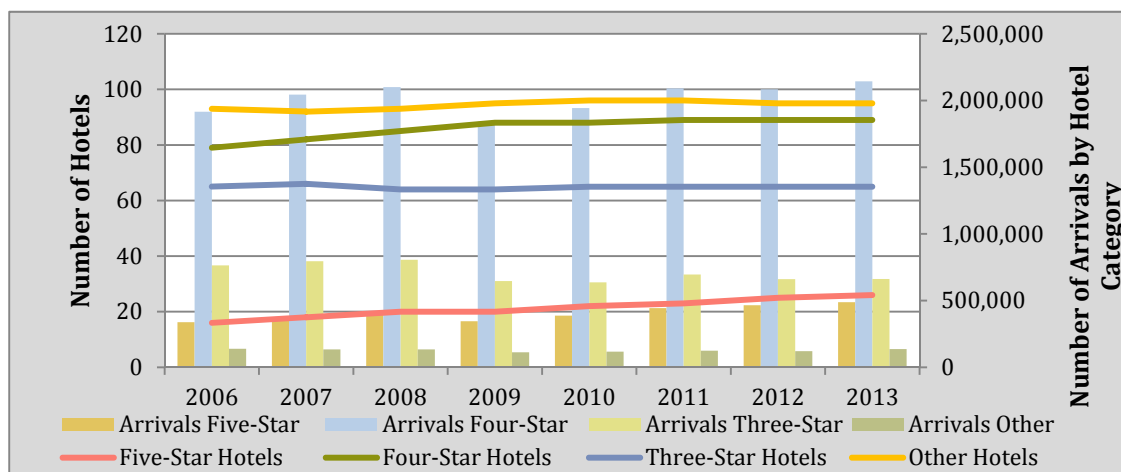
In 2013, Tenerife counted a total of 26 five-star hotels, accounting for 9.5% of all registered hotels on the island. The majority of the hotels are located in the south and southwest of the island. However, one of the oldest five-star properties is located in the northwest in Puerto de la Cruz, namely the Hotel Botánico & The Oriental Spa Garden, which opened 20 years ago. This hotel, as well as the Gran Hotel Bahia del Duque, are part of *The Leading Hotels of the World*. The Gran Hotel Bahia opened in 1994 and is located in Costa Adeje in the south of the island.

While Tenerife has a vast choice of resorts, we have noted that there is an increasing demand for more exclusive products to differentiate the island from the regular full-board or all-inclusive types of resort. In order to cater for this demand, a selection of five-star

resorts are incorporating high-end services, such as, private butler concepts and adults-only sections. A range of existing hotels have changed their set-ups accordingly by subdividing their resort into adults-only and family sections, offering more exclusive and high-end services to the guests staying in their adults-only rooms, suites and villas. As well as private butlers, services may include, separate reception areas, adults-only restaurants and swimming pools, amongst others. Hotels that have accustomed to these demands, as per our findings, include the following properties:

- Gran Hotel Bahia del Duque – the 'Las Villas' area comprises 40 villas on an adults-only basis that were added to the resort in 2008. The villas offer private plunge pools, separate lounge and reception areas;
- Gran Meliá Palacio de Isora – their Red Level component that is adults-only units offering exclusive services currently comprises 90 units out of a total of 609 rooms and suites;
- The Ritz-Carlton Abama Golf & Spa Resort – 36 Tagor villas offer adults-only areas, access to separate breakfast restaurants as well as private butler services;
- Iberostar Grand Hotel Salomé – as part of the Iberostar Anthelia, the Grand Hotel Salomé is a 24-suite product for adults only.

FIGURE 3: HOTEL SUPPLY AND NUMBER OF ARRIVALS BY CATEGORY



It has been noted that in regards to demand, these products are highly sought-after by the increasing visitation particularly from the Russian market and is a successful tool for most of the hotels to push overall average rates achieved.

## Conclusion

Both the Canary Islands and Tenerife displayed unsteady growth patterns after the financial crisis in 2008. However, as can be drawn from year-to-date visitor statistics, recovery started in 2013 with year-to-June 2014 growth of 9.0% for the Canary Islands and 3.7% for Tenerife.

New emerging markets show strong growth in visitation to Tenerife and are of crucial importance to five-star properties. While lower-rated hotels and resorts have recorded declines in business over the past few years, the four- and five-star sectors have been able to recover to pre-crisis peaks.

As the Russian market is gaining in momentum and importance within the hotel market in Tenerife, the current political instabilities between Russia and Ukraine will have to be closely monitored in order to be able to evaluate the impact a potential war might have on the overall performance of the market.

While the domestic market (both visitation and passenger movements) is struggling, strong growth has been noted from the international market.

As international business accounts for around 77% of overall tourism in Tenerife and considering the fact that western European markets are now thought to be in recovery from the financial crisis, the outlook for tourism in Tenerife is promising.



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## About the Authors



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