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IMPACT OF COVID-19 ON GREEK TOURISM: INDUSTRY EXPERTS' OPINION

Introduction

The Greek hotel industry is bruising, as it has been forced to a grinding halt. However, even on a dauntless note during such times, the hospitality industry is characterized by its resilience to perform and navigate itself through enhanced novel strategies. Finding itself in an advantageous position compared to other European destinations, Greece has gained positive momentum considering the proactiveness it showed in keeping the virus spread under control. Now this might give a sense of gloom and doom, but it all depends on the spectrum of external factors influencing travel down the road.

After the first signs of return to normalcy, countries around the world have started to cutback on lockdown restrictions and enter the next phase of the COVID-19 outbreak. Do we finally see light at the end of the tunnel as we overcome the darkness? As market activity commences prematurely, hotel industry experts anticipate an array of changes across the board.



In our previous article, we analyzed the impact of COVID-19 on hotel occupancy in Athens and Thessaloniki. Having established a base case scenario, the extent of decline of domestic and international clientele was considered, where the overall downturn by the end of the year was more than 50% compared to 2019. Predicting what the future holds implies a great knowledge of the ongoing impact and complications that we find ourselves fighting against.

Therefore, in an attempt to interpret the different perspectives of industry experts, we conducted targeted interviews with 17 Greek hotel owners, three tour-operators, two local hotel management companies, two industry bankers, along with SETE and Marketing Greece specialists through open questions. We believe that the insights of these highly influential professionals give a good representation of what our sector is going through and, therefore, we invited them to evaluate how the outbreak will influence operations in the short-term. The daisy-chain effect between these stakeholders compels our attention to the decisions taken as a means of the industry to bounce back.

Greece Has Been Heavily Hit

At this point it is imperative that we point out the two main parameters to take into consideration. The outbreak will have a different effect on city and resort hotels, and as Greece is highly dependent on international tourism, the sector is strongly hoping for a comeback of inbound holidaymakers in the near future. Travelling back in time to the very beginning of the outbreak and given the extreme uncertainty that dominated, the sector experienced many and sudden large-scale cancellations across all travel segments, expanding through the entire summer season.

Primarily visible, the extent of this lost business has been felt across the Greek resorts, where only a part of the inbound travelers has altered and rebooked their holiday plans, with optimism to travel again between the months of August to October. On the other hand, we found out through our interviews that a number of city hotels has witnessed only a small erosion in their summer business, mainly due to the fact that the flexible policies allow guests to only cancel at the very last minute, if necessary.

Nevertheless, Greek hoteliers have been waiting with bated breath for governmental instructions on the re-launching framework that will allow them to operate under specific standards. The recent announcements declared that incoming tourists will be allowed in the country from 15 June from selected eligible countries based on “epidemiological criteria”. The nations’ airports are authorized to allow incoming flights from 1 July onwards, allowing entrance from the Greece’s feeder markets.



Operating under Restrictions or Not at All?

According to the recent decisions released, year-round hotels will open on 1 June, whereas seasonal hotels and resorts on 15 June. However, a few important questions arise. Are hoteliers able to bear the weight of operating in relatively low occupancies? Can they perform while taking all the necessary health and safety precautions, or do they rather remain closed for the season? As experts keep repeating, the emergence of the ‘cautious’ traveler will require the industry to develop and adapt to the new norm of a great feeling of safety and security overall. However, a common view across all industry professionals was that the hospitality business, being a very complex sector and determined by many different stakeholders, such as hotels, airlines, travel agencies, etc., will need time to organize and implement such measures.

Evaluating the situation, to what extent are these going to affect hotel operations? Will hoteliers be able to finance extra operating expenses, or even, are the provided health supplies going to be enough for the entire season? The hoteliers interviewed support that only 4-star and 5-star hotels will be capable of accommodating those needs, while others mentioned that not operating at all is always in the back of their minds. Big hotel groups highlight that it is vital to check the supply of beds so that it does not exceed demand. From this perspective, they need to evaluate the possibility of not opening all of their hotels, but rather operate a limited number of resorts appropriately to offer quality and safe vacation time to visitors. On the same note, and in accordance with governmental efforts to ensure health and safety, visitors will not need a coronavirus test prior to travel, nor will they be quarantined after arrival. But they ought to undergo sample tests when necessary.

To a fair percentage, management companies responsible for quite some properties in the Greek hotel industry play a very important role in consulting and planning out short-term strategies in the best interest of the owners. During these sudden circumstances though, many of them are facing troubles for their own viability, with financial difficulties driving many standalone businesses to proceed towards arranging cooperation agreements with leading management companies.

Of course, loans are also considered a possible option to generate cash flow and capitalize on cost-effective investments. At the end of the day, the main considerations faced by hoteliers evolve around the devastating-to-their-brand-image effects of a potential COVID-19 case in their property and the suggested measures by the government.

Funding the Working Capital

To give an end to the dilemma of hoteliers, the Greek government has formed a set of decisive, yet effective measures that will assist hospitality businesses to stay afloat. The biggest question mark next to hoteliers' concerns is whether they will be able to fund their working capital. Amongst the most recent announcements, the government has entered upon a new employment subsidy program called 'Syn-ergasia' funded by EU's SURE scheme, an emergency support plan worth up to 100 billion euros. This initiative will ensure that employees who work reduced hours receive normal salary levels, while their social security benefits will also be covered.

Furthermore, Greece's Prime Minister announced a set of measures working as a safety net for tourism businesses. These revolve around regulations for repayable advances to relieve businesses, reduction of advance income tax payments, a framework supporting reduced lease payments by 40% until August, and the granting of working capital loans under state guarantee and at low interest rates through the 'Entrepreneurship Fund II- TEPIX II' in combination with the Guarantee Fund and the Development Bank. The last measure seems to be especially appealing to both hoteliers and bankers, as the first ones will benefit from an effective financial solution, while the latter ones will be able to offer a more attractive and competitive product to their clients with undervaluation of loans. "In order for the state-support effort to have any success, it will need to secure and strengthen the competitiveness of Greek tourism, and all these will be great tools for it to restart" mentions a hotelier. Are these actions sufficient for hoteliers, or further funding is actually needed? Conversing with them, we understand that although the government is on the right track with well-targeted actions, bigger corporations will most likely resort to financial institutions.

The Role of the Banks

Even though it is expected that many hotels will remain closed, bankers realize that such an action endangers the property's valuation and maintenance. When it comes to fund packages aimed to help hotels with their cash flow requirements, banks plan to evaluate each individual situation according to the financial credibility of the hoteliers and avoid standardized solutions.

COVID-19 has also impacted banks' existing loan agreements with hoteliers. More specifically, it is now possible to postpone interest payments and a recapitalization approach based on each individual case is followed. The repayment of the capitalized installments is ought to be paid back either at the end of the loan period or depending on the issued Legislative Act. According to our insights from bankers, they claim that they rather proceed to concessions, as "pulling the plug" from good hotels is not a viable option for neither of them.

However, bankers stress out the importance of a corporate structure to support funding agreements through equity commitment. They mention that the majority of the hotel industry consists of family businesses which unfortunately do not have sufficient reserves to meet the banks' requirements, while funds make up for an exceptional minority in the market.

The current conditions repel investors from hotel transactions. The banks' defensive mechanisms led to increased Credit Default Swaps (CDS) due to the overall inflation of interest rates, 100 business points more than the current levels, and higher perceived risk of hotels as a business nowadays. Nevertheless, banks are trying to understand and take into consideration the worst case scenario of each corporation and evaluate its needs.

Employment Conditions Shifted

Contributing to more than 16% of the country's employed labour force, Greek tourism generously provides a plethora of job opportunities to the country's citizens. It is no secret that all these employees are now summoned to face a problematic situation. On the condition that hoteliers are able to secure their positions and finance their wages, hotel service providers need to decide upon risking their health-safety and working under these unprecedented conditions. Coming along as a matter of life or death, certainly a part of the employees is not willing to work during the season under the fear of COVID-19, unless a need to earn a crust is apparent. "Unfortunately, the majority of people working in the tourism industry in Greece at this point have nowhere else to turn and, coming out of a ten-year economic breakdown, they are willing to take bigger risks when it comes to their health", as it was explicitly mentioned.

Nevertheless, from the hoteliers' point of view and despite governmental announcements to adjust working hours until the end of October and extend the suspension of employment contracts, it is their intention to keep the organisational structure as is, as long as individual businesses have the financial capability and are supported through government subsidies to offer the same jobs. Many of the hotel groups asked have already started implementing actions to counteract the increased health measures for protecting their workforce and to train them according to the new guidelines. Considerations of reducing contracted packages are evident, especially when it comes to executive positions in seasonal hotels with a shorter operating period.



Capitalizing on New Opportunities

Frankly enough, the hotel sector of Greece has been addressed to foreign tour operators for contracts ensuring mass tourism. This strategy has proved to be successful over the past years, as Greece has been breaking records with foreign tourist arrivals growing exponentially each year to reach 37 million in 2019, an 8.4% Compound Annual Growth Rate since 2012. Forging ahead with great plans for 2020, the industry is now required to enforce alternative techniques in attracting audiences, with considerations to increase market share of domestic travelers.

To encourage Greeks to travel, the Tourism Ministry will strengthen the social tourism holiday program by the Greek Manpower Employment Organization (OAED). Furthermore, advertising campaigns along with a second Greek social tourism holiday program called "Tourism for All" will be launched and financed with 30 million euros to equip holidaymakers with e-vouchers of 120 euros for a minimum of 4-nights stay at Greek hotels. Finally, private sector employees will benefit from corporate holiday travel vouchers worth 300 euros. Through these initiatives, the Greek government is expecting to secure at least 1 million overnight stays in the country's hotels.

The experts interviewed highlight the difficulty in strengthening local tourism despite the significant efforts made by key players in the sector. Their concerns revolve around the fact that domestic tourism alone cannot support the large hotel units, nor balance foreign tourism, as it is only a fraction of what Greece gets in a typical year. An equally important parameter is that domestic tourism simply recycles existing money, whereas foreign tourism brings extra money into the country.

On the contrary, some boutique hotel owners shared with us that they are not that pessimistic about the potential of local travel, as they continue to work with Greek clientele over the past few years emphasizing on exclusivity and personalisation. For them it is a matter of now offering great discounts and all-inclusive deals that will attract Greek travelers to book through OTAs and targeted pay-per-click campaigns.

Greece's dependence on foreign tour operators for international arrivals highlights the importance of well-organized Destination Management Organizations (DMO), connected to both local and international tourist entities. A clearly-defined orientation of the local tourist destination can successfully improve the quality of services offered, as well as help pull through situations causing turbulences in the tourist environment, such as the current one.

Airbnb in Trouble

Let's go back to the emergence of the 'cautious' traveler for a moment. Entailing health and safety as their key values, today's travelers are characterised by an increased perception of risk. As motivated as one can be to travel sooner or later, future guests will need to have some kind of guarantee that the destination visited will not provoke any health issues. This requires a 180° rotation in the value proposition of accommodation facilities to develop strict operating procedures regarding professional cleaning, sanitizing, and disinfecting of all areas and garments. That being said, most hotels offer trained staff that are capable of keeping up to such protocols and guidelines, directly meeting the benefits sought by the clientele.

On the contrary, this is something that does not apply for Airbnb's business model. As controversial topic as it can be, our experts are of the opinion that we will witness a shift towards a direction of organized accommodation seen as a much safer option in the eyes of the visitor. Consider that the available properties for short-term lease in Airbnb have increased by 240% between 2016 and 2018, reaching more than 7 million listings in 2018. At the same time, the Greek Chamber of Tourism is motivating the state to proceed to incentives for owners if they choose to rent their properties for the long-term instead.

The above considerations indicate that hoteliers are expecting a relieving contribution towards the increase of occupancy levels, potentially by capitalizing on appropriate marketing activities. However, as a 'flea in their ears', others believe that the outbreak will instigate some people to choose secluded residences, shielding them from contact with the masses.

Ancillary Service Providers Hand-in-Hand with Hoteliers

In an effort of mutual aid, it is time for hoteliers and tour operators to work together towards covering collective needs. Through our insights from tour operators we identified that most of the hoteliers have already proceeded to allotments for 2021 at the same price range of 2020. The point of these allotments is to facilitate the transfer of this year's bookings to a later date in 2021 and therefore avoid cancellations and refunds. Instead, special vouchers will be issued to customers allowing an 18-month reimbursement according to the new regulation of the Greek Tourism Ministry. By keeping the wheel turning, both hoteliers and tour operators benefit from a sense of security against the uncertainty of 2021, ease their liquidity issues, and maintain strong bonds. Nevertheless, very few contracts will be signed until the end of 'force majeure' and the subsidence of the situation.

Experts' estimates about the tourism season of 2021 reveal that the year will range at similar levels as 2018, depending of course on the progress of research on the vaccine and anti-COVID-19 medication. Some of the urgent matters tour operators are facing are the initiation of flights and which feeder markets Greece will be able to target. With ambiguity regarding the ability of tourists to travel, tour operators are left with their hands tied, only looking out to take advantage of other feeder markets approaching year-round hotels. At this point of course, setting out for an extension of the 2020 summer season is meaningless, considering the unknown development of the outbreak.

For now, tour operators are trying to improve their online presence. Their strategic goals involve safely bringing as many travelers as possible into the country and creating the conditions for aid from financial institutions and the European Union.



Initial Steps to Consider and Take Forward

While we want to evaluate the challenges, it is equally important to spare some thinking on future recommendations that will help reboot the industry in the coming months. The outbreak of COVID-19 might have caused extreme alterations on our social and economic fabric; however, it is unlikely to change human nature. According to Ancient Greeks, hospitality is an act of virtue, and our industry is now impelled to demonstrate this more than ever. Amongst all these humanitarian actions taken, health and safety are in the core of everything. The need for involvement of all stakeholders is evident and Destination Management Organisations play an important role in coordinating the initiatives between local organisations and the travelling public.

Marketing Greece suggests that plans for crisis communication are essential both on a B2B (TOs, TAs, etc.) and B2C (travelling public) level in order to transmit real-time, clear guidelines and practical directions for all stakeholders. From our interviews with the Greek Tourism Confederations, we derived that changes need to be realized in the country on a destination management level as the world economy recovers from COVID-19. Amongst their recommendations, tourism crisis management and communication together with visitor flow management are the two key aspects to examine in order to realize those changes. Although it is too early to consider the emerging travel behaviors, our tourist infrastructure should prepare itself to reshape and meet the new trends that will be defined. Reinvention of business and operating models is highlighted, as increased health risks will not deliver anything close to 100% occupancies, at least during the first stages of the recovery period.

From our perspective, and claiming a business point of view, DMOs can highly contribute to the flourishing of a destination and consequently corporations can blossom, too. We invoke authorities to recognize the need for the creation of independent and organized networks between different stakeholders, involving beneficiaries across each stage of the tourist experience (transportation, accommodation, attractions, etc.) and let such entities respond to the diverse local needs through certified power to act. It is about time for DMOs to step up, take matters in their own hands, and create a setting where the hospitality businesses will be able to exploit the country's beauty to its greatest potential; an enhanced tourism environment that does not simply content itself to the natural beauty of our land but strives to bring out our culture through practical efforts. The consequence of such an initiative will be the provision of more expensive and quality tourism, higher returns to hospitality businesses with increased hotel asset values and most importantly, greater resilience of our industry during such times of uncertainty.

How We Can Help

As an after effect of the COVID-19 impact in combination to the initial actions taken by different stakeholders, our sector is going to experience a crucial change in its working system. We are going to see a need for aggressive working capital management, renegotiation of financial structures, loan and leasehold agreement modifications, development of cost-effective funding packages, restructurizing based on new norms, and overall operational modifications.

HVS has supported the industry through questionable times facing the impact of cyclicity and is here to further engage and act as a relief for every hotel company.



About the Athens Office Team



Demetris Spanos is the Managing Director of HVS Athens office. Demetris has had significant involvement in a number of new Hotel and Resort major developments, in countries like Greece, Cyprus, Malta, Israel, Turkey, Morocco, the Caribbean region, Mauritius, and the Balkans for a variety of operators including Marriott/Starwood, Mandarin Oriental, Hyatt, Kempinski, Accor, Mövenpick, InterContinental, Hilton Group, Ramada, Fairmont, Banyan Tree, Oberoi. Contact him at dspanos@hvs.com



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