Tourism Key Highlights 2015

- Spain has set a new record for tourists, with 68.1 million visitors in 2015, a 4.7% increase from 2014 according to the National Institute of Statistics.

- The year 2014 has been a second consecutive record year for Spain, with 65 million international arrivals, an increased 7.1% over 2013, the highest result in 14 years. Tourism contributes roughly to 11% of the country GDP and created 25% of the new jobs registered in Spain last year.

- Spain, 2nd country in the world for UNESCO Heritage, in 2014 is again the 3rd most visited country in the world and the 2nd in term of international tourism spending.

- Tourism is considered a strategic sector by the Government that recently adopted new rules to boost growth through the Integral Plan for Tourism and the Law regulating Costal areas.

- Andalusia has received a total of almost 26 million tourists in 2015, 8.4% higher than in 2014.

- The province of Malaga, where the Costa del Sol is located, accounts for almost 33% of the regional tourism, far before Granada (16%) and Seville (12%).

- The International Monetary Fund (IMF), forecasts for Spain a growth in GDP of 2.6% and 2.3%, respectively in 2016 and 2017, following a growth of 3.2% in 2015, making Spain the country with the highest GDP growth within the largest countries in Eurozone.

- The forecasts for the tourism sector for the next years are very positive, with expected consistent recovery of the internal demand (thanks to improving economic conditions) and continuing increase in international visitors, due to consolidated image of Spain brand, focused political actions and arrival of international operators.

Region Overview

With an area of 87,597 km2 and a population of 8.5 million, Andalusia is the most populated and the second largest in area of the autonomous communities in Spain. The Andalusian territory is divided into eight provinces: Almería, Cádiz, Córdoba, Granada, Huelva, Jaén, Málaga and Seville and the main cities are Seville (1.7 million inhabitants), Malaga (1.3 million inhabitants) and Cadiz (1.1 million inhabitants). Very attractive for its climate, beaches and culture, Andalusia received 9.4 million international tourists in 2015, which is 11% up on 2014, which was already 8% up on 2013. The broader region hosts five international airports: Malaga Airport, Seville Airport, Jerez Airport, Jaén Airport and Almeria Airport but the one in Malaga is by far the prominent one with around 14.4 million passenger movements in 2015 of which more than 85% is international. The airport in Gibraltar is also convenient for travellers arriving in the region.

The specific area of Costa del Sol belongs to the province of Malaga, in the south of the Mediterranean cost,
between the provinces of Granada and Cadiz, washed by the Mediterranean Sea. The area constitutes of 15
towns forming a marine littoral of more than 300 kilometres, between the Costa de la Luz and the Costa Tropical.
The Costa del Sol offers a wide variety of landscapes but became over the years a world renown beach and
sports destination.

Demand for Transient Accommodation

In 2014, about 70% of the total accommodated bednights in Costa del Sol has been of international nature. The total
number of accommodated bednights has experienced moderate increase over the 2011-15 period with a recorded
Compounded Annual Growth Rate (CAGR) of 3.8%, primarily driven by the increase in the international bednights. Factors
such as economic stabilization in the European markets, the turmoil in emerging markets and the political instability nearby
famous leisure destinations on the other side of the Mediterranean Sea explain partially this phenomenon. Also,
the strength of the ‘Marbella’ brand, the improvement in the management of visa and air transportation, the
several tax incentives and the promotion policy implemented individually by tourism destinations such as Costa
del Sol, has basically assisted in those positive results in international visitation.

Regarding the percent share of total accommodated bednights in Spain by region, the region of Andalusia arrives 4th with 15%
after the Canary Islands (21%), the Balearic Islands (18%) and Catalonia (17%). Those 15% represent a total amount of 47.8
million accommodated bednights over a total of 308.2 million for the entire country, domestic and international bednights
confounded.

In 2015, 53% of the inbound tourism in Andalusia (expressed in the number of hotel overnights) was located in Costa del Sol out of which 70% where international visitors as
previously mentioned. Domestic tourism on the other hand is challenged by the prevailing economic turbulence
in the country and the general decrease in the disposable income of Spanish citizens showing however signs of
significant resilience.

Seasonality

Compared to other touristic areas in Spain, the Costa del Sol faces a relatively moderate seasonal nature. However, it is true
that most tourists visit the area during the summer months. Costa del Sol experiences high numbers of arrivals from June to
September, when approximately 49% of the total visitors arrive, and correspondingly lower numbers of tourist arrivals between
November and March. This pattern is mainly attributed to the fact that the area is primarily a leisure destination chosen by
travelers to spend their vacation by the sea. Although the destination features alternative tourism infrastructure, such as golf courses and convention centers, that could
most possibly attract larger number of tourists during shoulder months, it has not revealed its full potential yet.
From this chart, we can also note that the domestic visitation follows a stronger seasonal pattern than the
international visitation. This may imply there is room for improvement concerning domestic attractiveness of the
region during the low season or during months approaching the high season.

Source Markets

Our research shows that the primary source countries for visitation to Andalusia are the United Kingdom, Germany and
France apart from domestic tourism that accounts for half of
the bednights spent in the hotels of the region. Generally, Europe is by far the dominant source market. The aforementioned three primary source countries together accounted for approximately 50% of the total international tourist bednights. Arrivals from France and Sweden recorded the highest CAGR during the examined period, although the latter still represent only 2.0% of the total market.

**Hotel Supply**

The majority of hotels are classified as one-, two-, and three-star, while the presence of five-star hotels is moderate at about 2.7% of the total hotel units in Costa del Sol in 2015. In this particular hotel segment, the area of Costa del Sol accounts for almost 40% of the total five-star units in Andalusia. However, we can note that at both regional and local scale, the CAGR between 2011 and 2014 is negative at respectively -4.0% and -5.2% for the five-star units.

Nevertheless, five- and four-star hotel units together represent 59% of the total number of available beds in Andalusia demonstrating the general adequacy of upscale hotel properties in Andalusia, especially in the four-star market, in comparison with the incoming tourist arrivals and bednights. In 2014, the area of Costa del Sol accounted for only 33% of the total bed capacity in Andalusia compared to its regional attractiveness mentioned above (53% of tourism in Andalusia).

In 2014, the average five-star hotel in Andalusia featured 303 beds, a size almost unaltered compared with the average size in 2011 (292 beds). The average size of four-star properties was 353 beds for 2014.

**Recent and New Developments**

The most remarkable development to room supply in the broader area is the reopening of the Westin La Quinta Golf Resort and Spa. This particular hotel was branded as a Westin in the past, changed for some years to become a Melia, and from this season onwards, after renovation works, is planned to be rebranded as a Westin again under a Starwood management. This development is assumed to be featuring 172 guestrooms and achieve a performance in line with the actual competition when entering the market.

Furthermore, Villa Padierna, a well renowned luxury five-star hotel in Marbella Golden Mile, is extending its properties through branded residences and hotel constructions. The upcoming projects include: The Residences at Villa Padierna Beach Resort, providing an additional 56 keys to the hotel supply and 45 as branded residences;
The Residences at Costalita Beach Hotel consisting of 33 hotel rooms and 35 private residences; The Residences at the Villa Padierna, featuring 35 rooms ranging in size between 94 and 168 m²; The Residences at Alferini Beach Hotel, featuring 101 units of which 41 are hotel rooms managed by Villa Padierna; Tramores Private Residence by Villa Padierna is located in the Alcuzcuz Resort next to the prominent urbanization of La Zagaleta and offers 41 luxurious apartments. **Finca Cortesin Hotel** is also building another 32 branded villas, eight of which will be added to the hotel’s inventory.

Concerning the potential hotel developments in the region, **Platinium Estates** is rumoured to have investments plans of €150 million, on top of the €50 million already spent to purchase 170,000 m² of land between Los Monteros and Don Carlos, to develop an internationally branded luxury complex comprising a five-star hotel, 120 residences, a beach club and a commercial area, located in one of the best beach spots of the city of Marbella.

**Hotel Performance**

Chart 6 summarises the important operating characteristics of primary hotels in Costa del Sol. 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 1,107 hotel rooms. It should also be noted that all occupancy percentages refer to 365 days of operation for consistency reasons. The sample of hotels experienced a large increase in occupancy between 2014 and 2015 of 10.6% while average room rates (ARR) increased steadily between 2013 and 2015, around 7% per annum. As a result of the occupancy and average rate dynamics, RevPAR increased by 17.5% between 2014 and 2015 whereas it had increased by 9% between 2013 and 2014.

However, it should also be noted that Spain is currently enjoying a resurgence of demand owing to the political instability in North Africa and the eastern Mediterranean. Any growth in these markets may affect demand in Spain.

**Residential Market**

Famous for its sunshine, laid-back lifestyle, and great food, the Spanish coast is a has a lively second-home property market primarily driven by two major buyer groups besides Spanish citizens; the British and the French. The relatively short travelling time from all major European source markets have increased the demand for serviced holiday villas in Spain. At the same time the demand for second-home ownership in residential resorts generated from northern Europe seems to have returned in Spain and Portugal due to the safety prevailing in the region when compared to other Mediterranean countries that are located closer to the turbulent areas of Middle East and North Africa. Moreover, Spain has introduced a new law that offers residency permits to non-EU nationals in return for an investment of €500,000 or more in Spanish property to benefit the spanish economy, enabling non-EU nationals to get qualified residency permits in return for their investment.

Protected by its economic microclimate, Costa del Sol has been relatively sheltered from the factors affecting Spain and Europe. Strong demand from an increasingly diversified client base of Scandinavian, Benelux, French, Arabian and Moroccan homebuyers sums up with record tourist numbers to provide certain buoyancy to the local economy. The growing number of real estate agents is an indication that enquiries and property sales are growing. The latter is empirically reflected in the official statistics released by the Ministry of Public Works, whose figures for 2015 reveal an accumulated 86.9% increase in property transactions in the municipalities of Marbella, Estepona, San Roque and Benahavis compared to 2010 and the expectations are for a positive trend to continue in 2016. The coast, which is driven by the allure of destinations such as Marbella and Banus, is now reported to have a lack of new-built properties with demand outstripping supply in certain areas.

Demand for real estate properties is expected to continue to grow over the next few years absorbing only the supply of worthwhile units though. Higher priced properties, when sold, are not always replaced with similar priced properties, indicating a potential shortfall in the higher spectrum of the market. In combination with increased demand, prices have been increased for a considerable proportion of upscale properties. Since the realization of the market recovery the pricing of luxurious properties has followed an upward direction whereas
owners of ‘defective residences’ recognize that their property is still overpriced, despite the improving market, thus discounting them even more.

**Branded Residences**

The range of interests covered by the concept of branded residence are favoured by many mixed-use resort developers, as they combine the provision of a lifestyle product with the development of real estate products for outright sale to an investor/user market. On average, branded residences have commanded an average uplift in price of about 30% as compared to equivalent non-branded residential schemes.

Currently, Spain offers an extremely abundant residential product but very few of them being part of an integrated resort development. Quite a few projects of that kind were on the pipeline all over the country, either under construction or in the design phases, but they were put on hold during 2009-14 due to shrinking demand and lack of financing. Besides, only a few well-organized developments of that kind in Costa del Sol achieve particularly high selling rates per square meter.

**Conclusion**

According to the EIU, GDP for Spain is estimated to have grown by 3.2% in 2015 and a further increase of 2.6% is expected in 2016. Thereafter, Spain’s improvement is expected to stabilise at around 2.0% as the country still faces some uncertainty owing to the economic problems at home but also in the rest of the Eurozone. Tourism in Spain is expected to grow even bigger due to the safety prevailing in the region when compared to other Mediterranean countries that are located closer to the turbulent areas of Middle East and North Africa.

The economy in the region of Costa del Sol is primarily tourism-driven while the area is a well-established destination with strong levels of occupancy and hotel performance. Due to national economic difficulties, the hotel visitations are mainly driven by international bednights from major European source countries. Despite the mentioned projects in the area and significant contribution of Costa del Sol to the regional tourism (53%), the area of Costa del Sol only offers 33% of the total capacity of the region Andalusia.

In addition to the upcoming added hotel capacity, the residential market is recovering for the same reasons mentioned: easiness to access from rich European countries, safety, climate and the natural beauty; but also the “golden visas” incentives proposed by the Spanish government to attract non-European investments. Whether it is the second-hand luxury market, new residences or the growing concept of branded residences, the region is attracting more and more international real estate investment and entrepreneurs, which allows us to have an optimistic opinion regarding the future of the hospitality and real estate markets in Costa del Sol and Andalusia.

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**About Ezio Poinelli**

Ezio Poinelli is Senior Director of HVS Southern Europe, head of HVS office in Milan and supervising HVS activities in Italy and Spain. He has more than 19 years experience in Hospitality, Real Estate, and Leisure Real Estate markets in Europe, Caribbean, Latin America, and South Africa. He joined HVS in 2010 having significant experience in executive positions at Northcourse Advisory Services (Wyndham Worldwide), Ernst & Young, and other companies in the hospitality and real estate field. He is a graduate in Economics and Business Administration and holds a M.Sc. in Tourism Economics from Bocconi University. Contact him at [email protected] or +39 02 873 43016 | +39 338 7855144 | +34 696952080