



Bodrum – The St Tropez of Turkey?

A Market Study



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Market Analysis – Bodrum, Turkey

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INTRODUCTION

Once an ancient city, which still bears traces of its archaic past, Bodrum has quickly and quietly become one of the premier leisure destinations in Turkey. With the scent of exclusivity in the air, Bodrum entices the rich and famous as an upscale alternative to its popular neighbours, Istanbul and Izmir.

Although a seasonal market, the city's occupancy has increased over the years and many businesses and hotels are pushing for more flights to the area. Furthermore, despite the looming impact of the credit crunch and the current world economic climate, the bulk of Bodrum's business, much of which originates from domestic tourism, may not be impacted as much as other leisure destinations such as the USA and Western Europe.

The city's weakness is its lack of international hotel brands and true five-star offerings. However, many brands and hoteliers have recognised this opportunity for growth in the upscale segment and have begun planning their developments. This article analyses Bodrum's visitation pattern and takes a closer look at the local hotel market's performance and future development opportunities.



Source: Lonely Planet



NATIONAL ECONOMIC OVERVIEW – TURKEY

Key indicators of future hotel demand are those trends that reflect the relative health of the economy and the spending power of individuals.

GDP growth was robust in 2005, at about 7.4%; however, the small scale terrorist-related events in May and June 2006 contributed to a slight slowdown and GDP grew by only 6.1% in this year, albeit still above historical trends. In 2007, GDP experienced another slowdown to approximately 4.5%. The reforms implemented over the last few years, combined with the economic recovery that started in 2002, have led to a decrease in inflation, from 45.0% in 2002 to 8.2% in 2005. A slight increase was experienced in 2006, on account of a softer Turkish lira. One of the main risks associated with the future of the Turkish economy is the large current-account deficit (8.0% of GDP in 2006 and 5.7% in 2007). The Economist Intelligence Unit (EIU) February 2009 forecasts a gradual adjustment, but significant deficits are likely to be experienced in the near future. High inflation, interest rate increases and weaker external demand will limit GDP growth to around 1.4% in 2008. Growth is forecast to decrease to about -2.0% in 2009, followed by a recovery to 1.5% in 2010 and 3.4% in 2011.

AREA OVERVIEW

Muğla is a province in southwest Turkey that lies along the Aegean Sea. Its capital is Muğla, which is about 20 km inland. Some of Turkey's largest holiday resorts, such as Bodrum, Marmaris and Fethiye, can be found on the coastline of this province. Muğla has the longest coastline of all the provinces in Turkey, even without taking the numerous small islands into account. The Muğla region is famous for its 'Blue Cruises' along the Aegean coast in a traditionally built, handmade wooden boat called a 'gullet'. Cruises normally start in Bodrum, pass the islands along the coast and finish in Fethiye.

Muğla enjoys a Mediterranean climate and is very rich in endemic vegetation. Within Muğla's borders are areas of natural beauty, coves and wetlands, such as the Fethiye-Göcek Region, the Köycegiz-Dalyan Region, the Gökova Region and the Datca-Bozburun Region; these have been declared Special Environmental Protected Regions. The province also boasts a Unesco World Heritage Site in Letoon, near Fethiye.

Muğla's economy relies mainly on tourism, agriculture, forestry and marble quarries. The province is the second most important centre of the Turkish marble industry in terms of quantity, variety and quality.



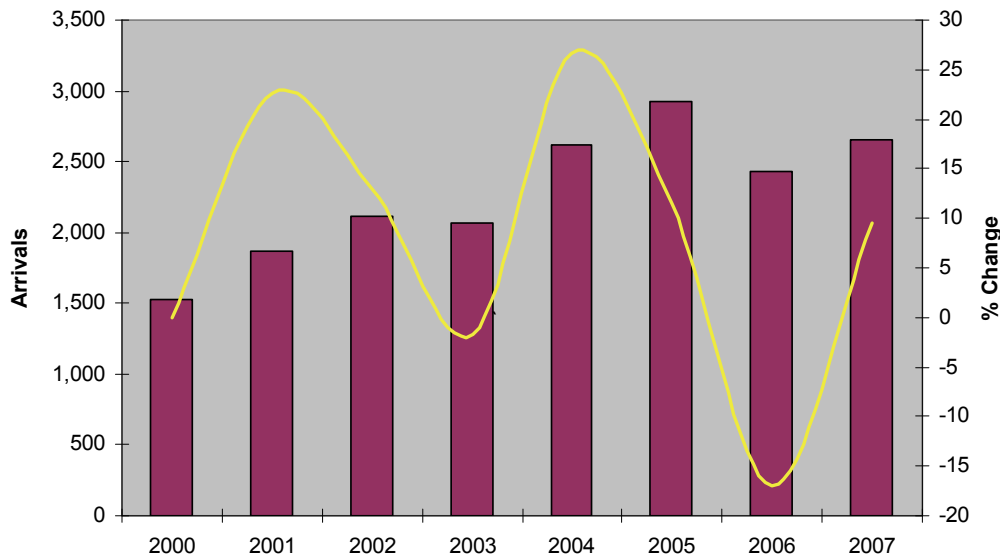
Source: Turkey Tourist Board

Bodrum

Located in the southwestern corner of the Aegean region of Turkey, Bodrum has a population of approximately 25,000 during the winter months, a figure which increases ten times during the high tourist season from June to September. Bodrum lies on the site of the ancient city of Halicarnassus, once the capital of the Kingdom of Caria. Approximately 260 km south of Izmir and 130 km west of Muğla, Bodrum is a major tourist attraction on account of its excellent climate, beautiful coastline, wide variety of historic sites and vibrant nightlife. Today Bodrum is considered to be one of Turkey's trendiest resorts.

Tourism and Visitation

Chart 2 summarises the total number of tourist arrivals to the Muğla region between 2000 and 2007.


Chart 2 Visitation – Muğla 2000-07


Source: Muğla Tourism Directorate

As illustrated in Chart 2, visitation to Muğla from 2000 to 2007 increased by more than one million visitors, which represents a compound annual growth of about 8%. Chart 2 shows steady growth year to year with the exception of a slight drop in 2003 and a significant drop in 2006. The decrease in 2003 can be explained by an economic slowdown, an outbreak of bird flu and a string of small-scale bombings carried out by Kurdish rebels in other parts of Turkey, demonstrating the threat of international terrorism on the Turkish tourism sector. The decrease in 2006 appears to be a short-term setback in a generally positive growth trend as arrivals increased by 9% in 2007.

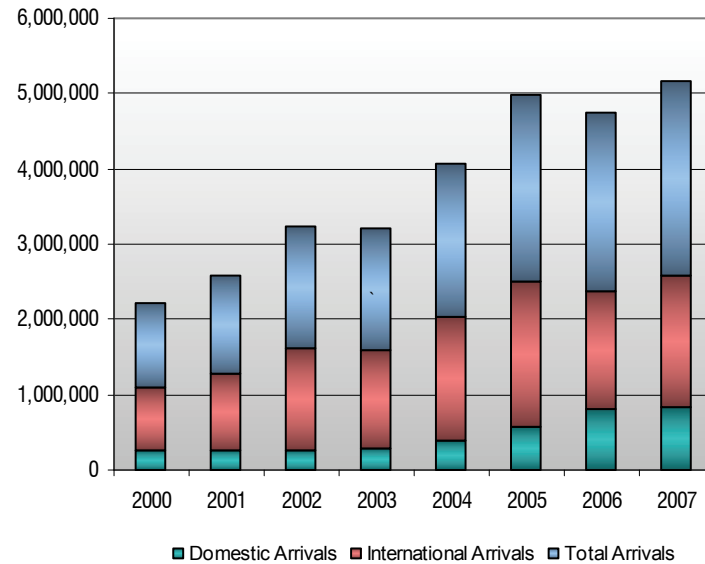
Airport Passenger Arrivals

The primary airport in the province of Muğla is Milas-Bodrum, in the north of the region. The airport was constructed in 1998 and in 2000 it was extended with a new international terminal, which currently closes during the low season. The old terminal is used for domestic flights and operates year-round, welcoming international arrivals via a stopover in Istanbul.

Chart 3 highlights international and domestic passenger arrivals at Milas-Bodrum Airport between 2000 and 2007.



Chart 3 Passenger Arrivals – Milas-Bodrum Airport 2000-07



Source: Airports Council International

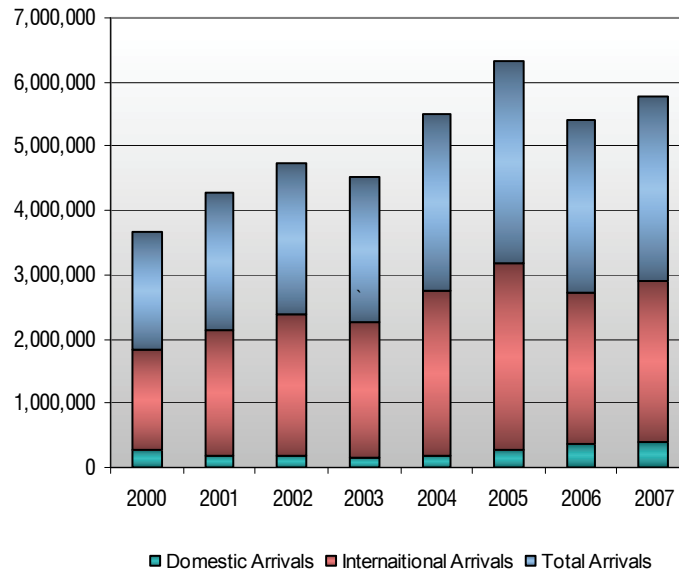
The total number of passengers at Milas-Bodrum Airport grew at a compound annual rate of 8.7% from 2000 to 2007. As shown in Chart 2, the share of international visitors has increased over the period under review, following the construction of a new international terminal in 2000.

Despite hotels in the market pushing for more international flights, most of the international airlines operating at Milas-Bodrum Airport are charter companies operating flights in the high season only.

Chart 4 illustrates passenger movements at Dalaman Airport, Bodrum's secondary airport, from 2000 to 2007. Dalaman Airport is one of the three airports that serve southwest Turkey and it has one of the largest terminals in the country. The airport has two terminals; the older serves domestic flights, the new terminal serves international flights. Dalaman Airport is approximately 220 km from Bodrum.



Chart 4 Passenger Arrivals – Dalaman Airport 2000-07



Source: Airports Council International

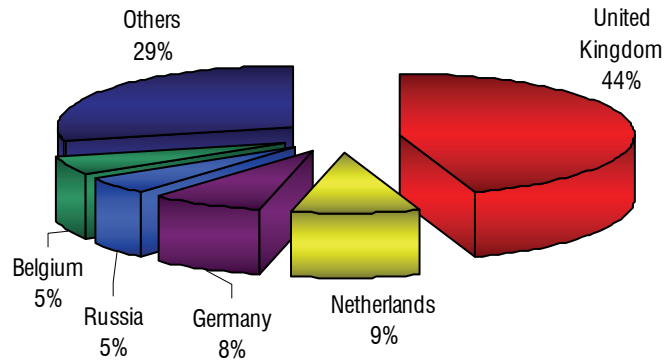
Dalaman Airport experienced a similar pattern to Bodrum-Milas Airport in terms of airport arrivals. Total arrivals grew at a compound annual rate of 6.7% from 2000 to 2007. International arrivals represented 86% of total arrivals in 2007 and domestic arrivals accounted for 14%.

Domestic and International Feeder Markets

The majority of arrivals to Bodrum and the Muğla region are domestic visitors. Data reflecting the accurate volume of total domestic visitation is not available owing to the limitations of the methodology in recording domestic statistics. Chart 5, therefore, only focuses on the percentage of visitation by the top-five international source countries to Muğla.



Chart 5 International Visitation to Muğla by Source Country 2007

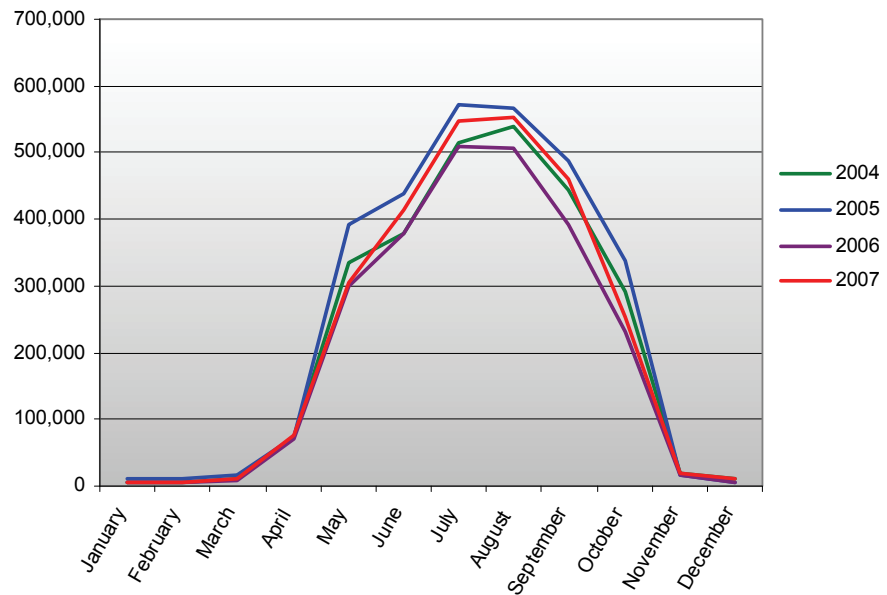


Source: Muğla Tourism Directorate

Chart 5 illustrates that the primary source market for the Muğla region is the United Kingdom, with a market share of 44%. This contrasts with the Antalya region and Turkey in general, for which Germany is the main international source market. Other important international source markets are the Netherlands, Germany, Russia and Belgium.

Seasonality

Tourism to Muğla follows a rather distinct seasonality pattern, which is illustrated in Chart 6.


Chart 6 Seasonality – Monthly Arrivals 2004-07


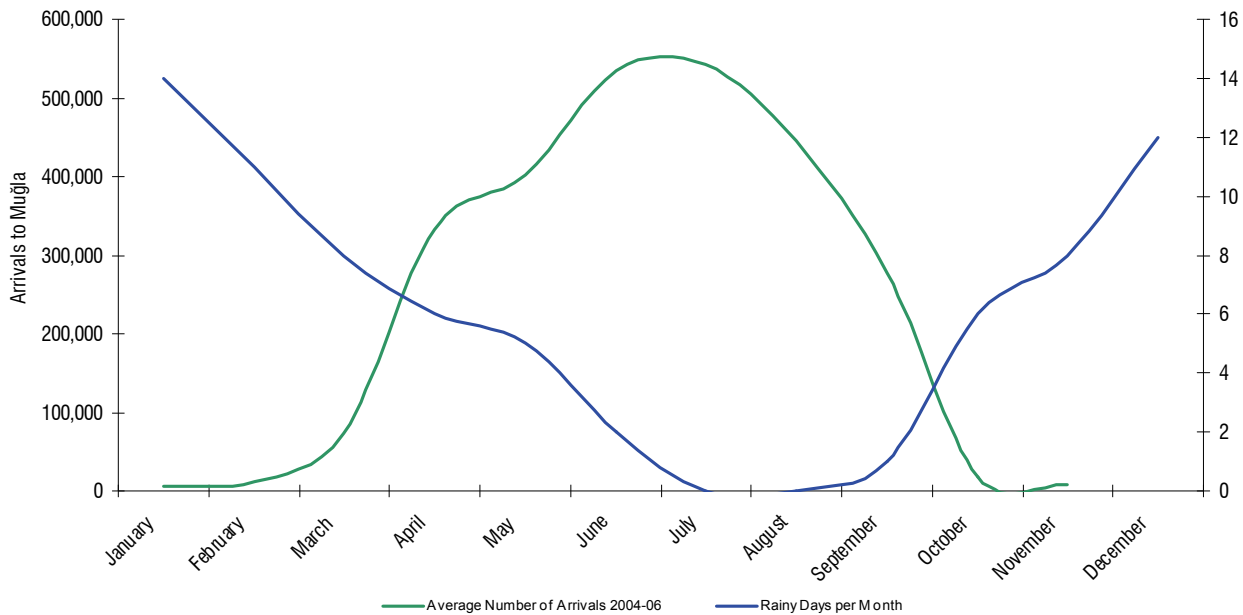
Source: Muğla Tourism Directorate

Chart 6 shows the strong seasonality pattern that Bodrum and the Muğla region experience. Muğla is distinguished from Antalya and other regions in Turkey by its shorter high season, which runs from May to the end of October. July and August are considered to be the peak months. This strong seasonality results in relatively low year-round occupancies. Hotels that are open for the summer season achieve average occupancies of approximately 80-85%, whereas hotels that are open for the whole year achieve average occupancies of between 40% and 60%.

Chart 7 illustrates the strong correlation between the number of rainy days each month and the number of arrivals, resulting in the seasonality pattern described earlier.



Chart 7 The Number of Foreign Visitors to Muğla by Month (average 2004-07) and the Average Number of Rainy Days



Source: Muğla Turizm Statistic Office

Given the varied holiday patterns of the key source markets and the Turkish weather pattern, it is envisaged that this seasonality pattern will continue to be observed in the coming years. However, the development of high-quality hotels and attractions such as golf courses, spas and meeting facilities is expected to cause a sound increase in arrivals during the low season. These types of demand generators tend to fill the gaps between seasons by offering alternatives to outdoor weather-dependent activities.

Overall, we expect the short seasonality to remain in the short term, but in the medium to long-term projects such as golf, spa and congress developments will help to extend the season in a manner similar to that seen in the Antalya region.

Supply of Hotels

The total hotel supply in the Muğla region comprises approximately 40,000 rooms. This is roughly 10% of the total hotel supply in Turkey, which is lower than the percentage of rooms in the more developed Antalya region. The aggregate room count for 2008 is approximately 900 hotels. We note that hotel supply in Muğla increased only slightly from 2000 to 2008 at a compound annual rate of around 2%. The five-star hotel sector increased from approximately 300 rooms in 2000 to approximately 900 rooms in 2008, a total increase of approximately 8%.



Five-star hotels account for only 1% of total hotel supply in Muğla. This lack of high-end supply illustrates the potential for five-star properties in the area. Furthermore, induced demand from future golf courses, spas and other upscale developments in the area will drive the need for additional five-star supply in Muğla and Bodrum specifically.

Future Developments

Future development in the Muğla region and in the Bodrum area appears to be vibrant. Over the years, the area has become a local celebrity hotspot and a playground for the Turkish rich and famous. As such, the region continues to increase in popularity and demand is rising. From official statistics for the Muğla region and our own research, many international brands have shown interest for future developments in the area. However, due to the economic slowdown some of these projects might be delayed or on hold currently.

- Banyan Tree plans to open a boutique resort hotel on Bodrum's northeastern coast. The 84-room hotel is expected to open in 2010; however, this development appears to be on hold for the moment, pending further negotiations on the timing and structure of the project;
- Global Architecture Development (GAD), famous for its unique architectural designs, recently opened The Kuum Hotel and Residences. The hotel's guest rooms opened at the beginning of July 2008, but they have since closed temporarily until April 2009 so that construction work can be finished. The resort is located in Bodrum's Türkbükü district and includes a 66-room hotel and 39 residential apartments. The resort will also include a spa of approximately 2,200 m² to be operated by the global brand M-SPA;
- In August 2008, Hilton Hotels Corporation announced the signing of a franchise agreement with Gocay Tourism, Management, Investment, Transportation & Trade Inc. for the Hilton Dalaman Golf Resort & Spa on Dalaman's Sarigerme beach. The resort is expected to have 384 rooms, including 52 suites, year-round flexible meeting and conference space, seven different restaurants and bars, a 3,000 m² spa and health club, beachfront swimming pools and outdoor terraces, a private beach and pier, an 18-hole championship golf course and a nine-hole golf academy. The resort is scheduled to open at the end of 2009;
- Net Holding and Ağaoğlu Companies Group are planning to build two 18-hole golf courses, 2,500 villas, five luxury hotels and conference and sports facilities in Milas, Bodrum, with an investment of €4 billion. The Bodrum-Milas Real Estate and Tourism Development Project is expected to open in 2014;
- The Vita Park Golf Resort is a mixed-use development focusing on golf and sports. Following its recently opened 18-hole golf course, (Milas) in November 2008, the resort organised its first tournament



attracting about 130 golfers on the first day and 80 golfers on the second day. The second 18-hole golf course (Halikarnas) is expected to open in spring 2009. The mixed-use development also includes a 2,500 m² clubhouse, tennis courts, a swimming pool, a fitness centre and dining facilities. Vita Park is expected to have residences, such as villas and condominiums, a hotel and possibly retail space. A management or franchise agreement has not yet been confirmed.

We consider that these new upscale developments will enhance tourism and hotel performance in the region, as they will induce airlines to provide more frequent flights and help establish Bodrum and the Muğla region as a consolidated golf destination. However, owing to the current economic situation and the tightening of lending conditions, many of these projects may be delayed by a number years.

Hotel Performance

Owing to the seasonality of the Bodrum market, occupancy rates are lower than those in less seasonal markets. An increase in flights to the region and more upscale supply has helped to increase year-round occupancy rates over the last few years. Year-round occupancy rates in the five-star sector increased from approximately 30% in 2006 to approximately 40% in 2008, a compound annual growth rate of approximately 18%. Average rate has also shown strong growth with the increase of five-star supply in the market and, therefore, more upscale clientele to Bodrum. Average rate increased from about €150 in 2006 to approximately €175 in 2008. RevPar growth, as a result, showed a compound annual growth of 25% to 30% during the period under review. We note that some hotels in this sample have recently opened and have not yet reached a stabilised performance. Therefore, the five-star market performance is expected to further increase in the mid- to long term after a rebound of the global economic climate.

CONCLUSION

In recent years, Turkey has offered a stable economic climate that has a history of recovering quickly from any political turmoil. Furthermore, the tension that has, at times, impacted other areas of Turkey has less of a direct effect on Bodrum. In addition, the world's economic recession may impact Bodrum less than other leisure destinations as visitation to the area is largely dependent on domestic arrivals and not as reliant on western visitation from Europe, the US or elsewhere.

International tourist arrivals to Turkey have grown substantially with increased arrivals in the Muğla region and Bodrum specifically. Despite Antalya's current position as the favoured destination for international arrivals, Bodrum has a greater potential to stand out as a more attractive upscale destination. This is particularly the case for the domestic market which already demonstrates a preference for Bodrum as a destination over Antalya. Total arrivals, both domestic and international, are forecast to increase from approximately 40 million in 2005 to approximately 130



million by 2025. This large increase will require further development and increased supply in the future.

Despite the current heavy seasonality of the Bodrum market, more flights coupled with a wider array of demand generators, are expected to broaden the season which should result in higher year-round hotel occupancies. Such demand generators include a variety of golf courses and hotel developments that are expected to open in the coming years.

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About the Authors



Mara Eisenbaum is an Associate with the HVS London office. She joined HVS in mid 2007 after several years of operational and consulting experience in Boston, New York, San Francisco and Atlanta. An American native who grew up in the Boston area, Mara benefits from a diverse cultural background, having had the opportunity to travel to many parts of the world. She obtained her BS at Cornell University School of Hotel Administration in Ithaca, New York. Mara has worked on assignments including hotel feasibility studies, single and portfolio hotel valuations and market studies.



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