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IN FOCUS:

# DODECANESE, GREECE

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*This market snapshot is part of a series of articles that HVS will produce on key tourism destinations across Greece. In writing these articles we utilise the expertise of HVS for each market to the full extent combining our in-house data and research together with published information regarding each of the examined destinations.*

## Highlights

- Until recently, Greece had a strong advantage in that it was considered to be a stable country showing a relative resilience as a tourist destination towards major global events. Since 2009 though, the negative publicity stemming from the rumours regarding the potential bankruptcy of Greece and the historically largest bail-out implemented by the IMF in order to avoid this situation, led to a socio-political and economic turbulence which generated significant fluctuations in tourist arrivals during 2009-12;
- According to IMF's most recent report, Greece has unquestionably made significant strides in overcoming deep-seated problems and the three most noteworthy achievements standing out are the progress on fiscal adjustment, the narrowing of the competitiveness gap and the stabilisation of the financial sector. All the aforementioned are considered major achievements for an economy undergoing such a dramatic recession and rapid rebalancing;
- Year 2012 was a rather 'slow' year for the tourism sector in Greece due to the double elections held. Tourism statistics for the period 2009-11 were also volatile. Most recent figures though show that in October 2013, tourism receipts increased by 20.2% compared to October 2012. This brought total tourism receipts in the first ten months of the year to €11.4 billion, representing an increase of 10.5% compared to the same period last year. It is expected that in 2013 at least 17.5 million international tourists arrived in the country (an all-time record), spending around €12.0 billion, up from €10.0 billion in 2012;
- In 2013 tourism in the Dodecanese, and especially in the islands of Rhodes and Kos, bounced back after a volatility recorded in tourism statistics during 2010-12. In 2013 the entire region experienced a 12.4% increase in international airport arrivals;
- The hotel markets in Rhodes and Kos, despite the existence of several luxury units, are overdependent on mass tourism and on allotment agreements with Tour Operators and Wholesalers. Tour Operator demand was severely affected by the recent economic-political turmoil in Greece mainly evident during 2010-12;
- On the other hand, upscale hotels in Rhodes recorded resilient occupancy and average room levels during 2010-12 leading to a moderate increase in RevPAR of about 6%. For the same period, performance of upscale hotels in Kos was negatively affected by the general economic turbulence in Greece but their high profit margins remained unaltered and amongst the highest in the country;
- Over the last seven years upscale (five- and four-star) hotel room supply in both Rhodes and Kos recorded momentous increase as hotel investment activity was intense and plenty of hotels entered the market in the luxury segment. No significant changes in hotel supply are expected for the near future.

## Region Overview

The area of Dodecanese is a cluster of 12 large and 150 smaller islands, of which some 26 are inhabited, located in south-eastern Greece. This cluster constitutes its own prefecture, with Rhodes being the capital and one of the most prominent leisure tourism destinations in Greece. Kos is a neighbouring island to Rhodes and is also a well-established leisure destination. The entire region covers an area of 2,714 km<sup>2</sup> and has a population of some 200,000 inhabitants (2011 census).

### Island of Rhodes

The island of Rhodes (also known as Rodos) is the largest island in the Prefecture of the Dodecanese. It lies approximately 18 kilometres west of Turkey, situated between the Greek mainland and the island of Cyprus. Its population in 2011 was about 117,000 inhabitants, of which about 53,700 reside permanently in the city of Rhodes, the main commercial and

administrative centre. Rhodes is the capital of the Prefecture of the Dodecanese and of the Province of Rhodes, which also includes the nearby islands of Simi, Tilos, Chalki, and Kastellorizo. Historically, the island was known for the Colossus of Rhodes, one of the Seven Wonders of the World whereas it features a rich cultural and historical background. The medieval city of Rhodes is a World Heritage Site protected by UNESCO.

#### INDICATIVE MAP OF RHODES



The island is shaped like a spearhead, about 80 kilometers long and 38 kilometer wide with a total area of approximately 1,400 km<sup>2</sup> and a coastline of approximately 220 kilometers. The city of Rhodes is located at the far northern end of the island, including the site of the ancient and modern commercial harbour.

There is a particularly generous choice of must-see attractions and sights all over the island of Rhodes such as the **Medieval Town of Rhodes** (a functional part of the modern city of Rhodes, which was inscribed on the UNESCO World Heritage List in 1988), the ancient city-state of **Lindos**, the ancient city of **Kamiros**, the **Thermal Springs** in Kallithea, and the **Valley of the Butterflies**. Each of the aforementioned places is very popular among thousands of holidaymakers on the island of Rhodes.

The island boasts numerous kilometres of coastline and plenty of beaches, 20 of them being awarded with the “Blue Flag”. Rhodes also hosts an 18-hole golf course in the area of Afandou, built in 1973 that hosts international tournaments.

#### Island of Kos

The island of Kos is the third largest island in the prefecture of the Dodecanese after Rhodes and Karpathos. It covers an area of 290 km<sup>2</sup>, being 40 kilometers long and at most eight kilometers wide. Its coastline is 112 kilometers long and boasts long sandy beaches in the northern part and sandy or rocky seashores in the southern part.

Kos' economy relies heavily on tourism with about 80% of local industries related to this sector. Nevertheless, farming is the primary occupation of many of the island's inhabitants, with the main products being grapes, almonds, figs, olives, and tomatoes, along with wheat and corn. The main villages of the island of Kos are Kardamena, Kefalos, Tingaki, Antimahia, Mastihari, Marmari, and Pyli.

In general, the scenery is more mountainous in the southern part of the island whereas flat plains characterise the northern part. The island is green and the lack of hills has helped make cycling a uniquely popular holiday activity on the island. Kos enjoys an excellent climate for tourism and offers sunshine most days of the year. The island has long been established as a major tourist destination in Greece constituting one of the most popular package holiday destinations for many years.

#### INDICATIVE MAP OF KOS



The combination of sand and sightseeing gives Kos a uniquely broad appeal. The primary leisure demand generators are the **town of Kos**, the **Castle of the Knights of St. John**, the **Plane Tree** and the **Asklepieion of Hippocrates**, the **Volcano Domes**, the **Prehistoric Cave of Aspri Petra**, and the **Hot Springs** in Agios Fokas on the eastern part of the island.

Besides all the aforementioned archaeological and historical sites, the island of Kos offers other activities that attract tourists. Excursions to neighbouring islands and the sea crossings to nearby Turkey are taking place on a daily basis whereas local festivals are also a tourist attraction, including the Hippocratea Festival in July and August and Saint George day on April 23<sup>rd</sup> and the Fish, Honey, and Wine Festivals throughout the summer. The island boasts numerous kilometres of coastline and plenty of beaches, five of them being awarded with the “Blue Flag”. Kos also hosts a Blue-Flag awarded marina very close to the city and the main harbour of the island.

## Tourism and Visitation

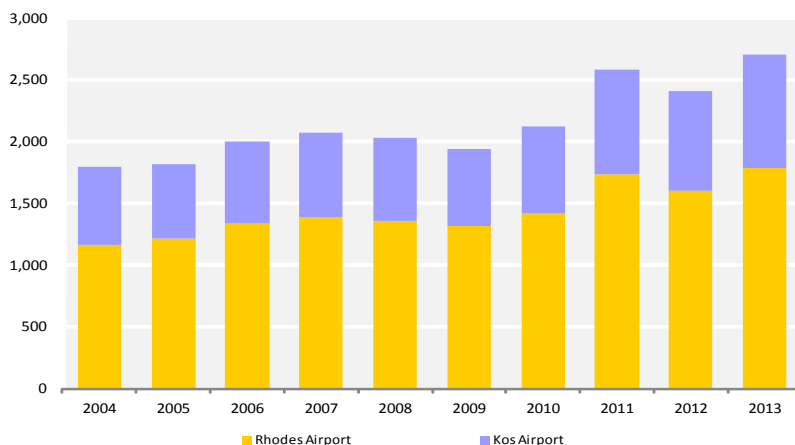
### Airport and Seaport Traffic

Dodecanese features two of the busiest airports in Greece in terms of international passenger volume, namely Rhodes ‘Diagoras’ and Kos ‘Hippocrates’ airports.

Rhodes has the third largest airport in Greece, whereas Kos boasts the sixth largest airport in Greece (based on the 2013 volume of international passengers). Both airports are connected with direct charter flights to and from all major European

cities during the tourist season that lasts from mid-April to mid-October.

CHART 1: INTERNATIONAL AIRPORT ARRIVALS – RHODES & KOS 2004-13 (000s)



During the busy tourist season both airports receive mostly charter flights from the major feeder markets (Monarch Airlines, MyTravel, and Virgin Express from the UK, TUIFly, Germanwings, and Air Berlin from Germany, Transavia and Martinair from the Netherlands, and Eurofly and Volare Airlines from Italy). Moreover, they are served year round by Aegean Airlines from the Athens International Airport and Sky Express Airways from Iraklio in Crete.

Total international airport arrivals grew at a moderate Compound Annual Growth Rate

(CAGR) of approximately 4.7% during the past ten years, almost equally attributed to the increase in passenger arrivals at both Rhodes and Kos airports. Both destinations are considered to go through the stage of maturity. Rhodes, compared to Kos, accepts almost double the number of airport passengers each year, showing the difference in the dynamics of the market. In 2013, arrivals at both airports recorded a significant increase of 12.4% in total as a result of the general increase of the tourism sector in Greece. Both airports follow a similar pattern year-on-year, revealing the interconnection of the two destinations. Intra-period fluctuations varied from -6.8% in 2012 over 2011 and +22.1% in 2011 over 2010. It also verifies the fact that massive tourism is predominant on both islands, which are heavily dependent on the promotion they get through large Tour Operators. International arrivals to Rhodes airport account for approximately 80% of total arrivals, while the same percentage for Kos airport reaches almost 90%.

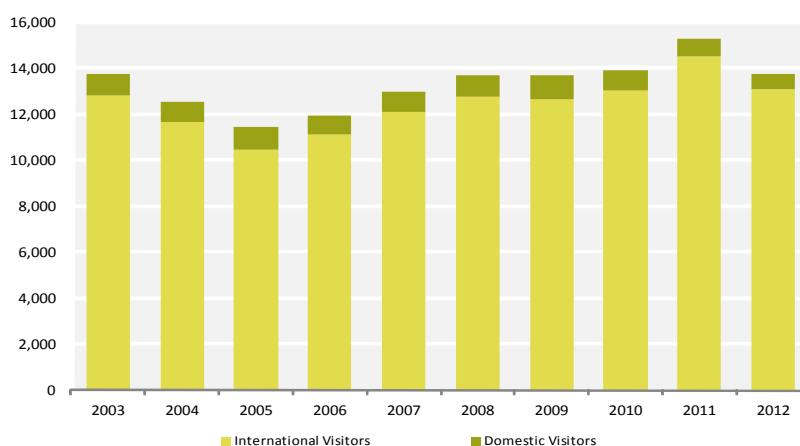
### Demand for Transient Accommodation

Visitation to the Dodecanese from 2003 until 2012, expressed in number of hotel bednights, is summarised in Chart 2. It should be noted that the Hellenic Statistical Authority does not publish nor analyse the arrivals and bednights at hotels by island, therefore the following table illustrates hotel bednights spent in all hotels of the Dodecanese complex. Even so, the

hotel properties on the islands of Rhodes and Kos absorb the vast majority of the demand for lodging facilities (calculated to more than 85%) and therefore the statistics provided below are not considered to be distorting the image of tourism for the examined two markets. However, the market share captured by each market cannot be precisely calculated.

An average of more than 92% of the total accommodated bednights in the Dodecanese has been of international nature. The total number of accommodated bednights has experienced a fluctuating trend over the past ten years with a stagnated growth rate of -0.1%, primarily driven by the decline in the international bednights, at -4.2%, demonstrating the aforementioned maturity of the destination. Domestic tourism in the Dodecanese, while recording a positive trend from 2006 until 2009, it then decreased by 37% during 2010-12 mainly due to the general economic distress in Greece. Transportation cost to the region is higher than to other destinations in the country and that obviously had a negative impact on domestic tourist behaviour.

**CHART 2: HOTEL BEDNIGHTS – DODECANESE 2003-12 (000s)**



Source: Hellenic Statistical Authority

Chart 3 illustrates the evolution of the average length of stay in Dodecanese as well as the hotel bed occupancies in the region. Bed occupancy was intensively fluctuating from 2003 to 2009 and lost about 25 percentage points during this period, as a result of the financial crisis that affected leisure travel from 2008 to 2010 but also due to the introduction of new hotel

**CHART 3: TOURISM STATISTICS – DODECANESE 2003-12**

| Year | Arrivals at Hotels (000s) | Accommodated Bednights (000s) | Average Length of Stay (Days) | Bed Occupancy |
|------|---------------------------|-------------------------------|-------------------------------|---------------|
| 2003 | 1,674                     | 13,749                        | 8.2                           | 91.5 %        |
| 2004 | 1,555                     | 12,566                        | 8.1                           | 73.0          |
| 2005 | 1,497                     | 11,452                        | 7.6                           | 76.2          |
| 2006 | 1,479                     | 11,936                        | 8.1                           | 79.6          |
| 2007 | 1,680                     | 13,006                        | 7.7                           | 70.9          |
| 2008 | 1,666                     | 13,693                        | 8.2                           | 71.9          |
| 2009 | 1,670                     | 13,696                        | 8.2                           | 65.2          |
| 2010 | 1,981                     | 13,939                        | 7.0                           | 64.9          |
| 2011 | 2,215                     | 15,276                        | 6.9                           | 66.0          |
| 2012 | 2,066                     | 13,733                        | 6.6                           | 58.5          |

Source: Hellenic Statistical Authority, HVS Analysis

Greece, the highest bed occupancy figures in the Dodecanese occur in July and August with numbers reaching or sometimes exceeding 90%. The tourism product is primarily driven by mass tourism, (accommodated in big hotel complexes with an average size of more than 250 rooms) with families usually booking week-long holidays to visit the island as revealed by the high average length of stay. During the winter months, there are only a few hotels in the cities of Rhodes and Kos operating in order to accommodate the needs of visitors who travel to the island primarily for business purposes.

units in the market. This variance is also indicative of the heavy dependence of local tourism on Tour Operators handling and directing millions of travellers to preferred destinations each year. During 2009-11 bed occupancies stabilised to nearly 65%, while in 2012 they dropped for the first time below 60%. In 2013, being a very busy year for all islands in the Dodecanese and especially for Rhodes and Kos which absorb the vast majority of the demand, occupancies recouped part of the previous year's drop.

As in most leisure tourism destinations in

## Hotel Supply

The evolution of supply of hotel accommodation in the islands of Rhodes and Kos during the last seven-year period is summarized in Charts 4 and 5, respectively. As stated already, the tourism industry on both islands is seasonal and so the majority of hotels operate for six months from mid-April to mid-October, that is approximately 180 days.

### Island of Rhodes

The majority of hotels are classified as one- and two-star, while the absence of five-star units is very evident at only about 7% of the total hotel supply in 2012. Nevertheless, five- and four-star hotel units together represent 62% of the total number of available rooms and beds demonstrating the relevant adequacy of upscale hotel properties in Rhodes in comparison with the incoming tourist arrivals and bednights. The total hotel supply of 43,754 rooms in Rhodes is equivalent to 60% of all hotel rooms in the Dodecanese.

In 2012, the average five-star hotel in Rhodes featured 243 rooms and 501 beds, a size remarkably lower compared with the average size in 2006 (365 rooms and 699 beds). The average size of four-star properties in 2012 was 169 rooms

corresponding to 322 beds. Also remarkable is the intensive investment activity recorded in the luxury hotel sector during 2006-11, during which the number of five-star hotel properties grew by 20, and consequently, rooms and beds supply increased by 69% and 82%, respectively. The island of Rhodes features the highest number of five- and four-star hotel units and rooms in Greece. Hotel unit supply in other categories remains relatively unchanged for the entire examined period.

### Island of Kos

As in the case of Rhodes, the majority of hotels in Kos are classified as one- and two-star, while five-star units account for about 8% of the total hotel supply in 2012. Nevertheless, five- and four-star hotel units together represent 60% of the total number of available rooms and beds. The

CHART 4: HOTEL SUPPLY – RHODES 2006-12

| No of Hotels: | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | % Share (2012) |
|---------------|------------|------------|------------|------------|------------|------------|------------|----------------|
| 5* Hotels     | 13         | 14         | 18         | 23         | 31         | 33         | 33         | 7%             |
| 4* Hotels     | 104        | 107        | 107        | 107        | 105        | 106        | 104        | 21%            |
| 3* Hotels     | 126        | 127        | 125        | 128        | 132        | 129        | 131        | 27%            |
| Other         | 241        | 229        | 217        | 221        | 219        | 227        | 222        | 45%            |
| <b>Total:</b> | <b>484</b> | <b>477</b> | <b>467</b> | <b>479</b> | <b>487</b> | <b>495</b> | <b>490</b> | <b>100%</b>    |

| No of Rooms:  | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | % Share (2012) |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| 5* Rooms      | 4,745         | 5,052         | 5,453         | 6,425         | 7,627         | 8,419         | 8,024         | 18%            |
| 4* Rooms      | 17,591        | 18,389        | 18,060        | 18,193        | 18,867        | 19,232        | 19,192        | 44%            |
| 3* Rooms      | 7,410         | 7,422         | 7,389         | 7,714         | 8,404         | 8,479         | 8,520         | 19%            |
| Other         | 7,856         | 7,666         | 7,454         | 7,570         | 7,788         | 8,152         | 8,018         | 18%            |
| <b>Total:</b> | <b>37,602</b> | <b>38,529</b> | <b>38,356</b> | <b>39,902</b> | <b>42,686</b> | <b>44,282</b> | <b>43,754</b> | <b>100%</b>    |

| No. of Beds:  | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | % Share (2012) |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| 5* Beds       | 9,092         | 9,782         | 10,619        | 12,743        | 15,245        | 17,071        | 16,533        | 19%            |
| 4* Beds       | 33,530        | 35,117        | 34,470        | 34,774        | 36,171        | 36,916        | 36,903        | 43%            |
| 3* Beds       | 14,132        | 14,142        | 14,076        | 14,695        | 16,102        | 16,263        | 16,347        | 19%            |
| Other         | 14,772        | 14,395        | 13,993        | 14,230        | 14,676        | 15,396        | 15,159        | 18%            |
| <b>Total:</b> | <b>71,526</b> | <b>73,436</b> | <b>73,158</b> | <b>76,442</b> | <b>82,194</b> | <b>85,646</b> | <b>84,942</b> | <b>100%</b>    |

|                              |   |       |       |      |      |      |       |  |
|------------------------------|---|-------|-------|------|------|------|-------|--|
| <b>Hotel Supply Increase</b> | — | -1.4% | -2.1% | 2.6% | 1.7% | 1.6% | -1.0% |  |
| <b>Room Supply Increase</b>  | — | 2.5%  | -0.4% | 4.0% | 7.0% | 3.7% | -1.2% |  |
| <b>Bed Supply Increase</b>   | — | 2.7%  | -0.4% | 4.5% | 7.5% | 4.2% | -0.8% |  |

Source: Hellenic Chamber of Hotels

CHART 5: HOTEL SUPPLY – KOS 2006-12

| No of Hotels: | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | % Share (2012) |
|---------------|------------|------------|------------|------------|------------|------------|------------|----------------|
| 5* Hotels     | 3          | 7          | 11         | 13         | 17         | 17         | 22         | 8%             |
| 4* Hotels     | 43         | 43         | 41         | 43         | 43         | 42         | 42         | 16%            |
| 3* Hotels     | 54         | 50         | 48         | 47         | 50         | 51         | 50         | 19%            |
| Other         | 160        | 151        | 154        | 156        | 155        | 153        | 153        | 57%            |
| <b>Total:</b> | <b>260</b> | <b>251</b> | <b>254</b> | <b>259</b> | <b>265</b> | <b>263</b> | <b>267</b> | <b>100%</b>    |

| No of Rooms:  | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | % Share (2012) |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| 5* Rooms      | 898           | 1,049         | 2,012         | 2,433         | 3,144         | 3,176         | 4,211         | 19%            |
| 4* Rooms      | 9,436         | 9,239         | 9,082         | 9,439         | 9,803         | 9,276         | 9,227         | 41%            |
| 3* Rooms      | 3,183         | 2,988         | 2,914         | 2,922         | 3,131         | 3,273         | 3,389         | 15%            |
| Other         | 5,966         | 5,596         | 5,790         | 5,760         | 5,866         | 5,896         | 5,928         | 26%            |
| <b>Total:</b> | <b>19,483</b> | <b>18,872</b> | <b>19,798</b> | <b>20,554</b> | <b>21,944</b> | <b>21,621</b> | <b>22,755</b> | <b>100%</b>    |

| No. of Beds:  | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | % Share (2012) |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| 5* Beds       | 1,968         | 2,301         | 4,285         | 5,136         | 6,679         | 6,743         | 9,046         | 20%            |
| 4* Beds       | 18,666        | 18,274        | 17,942        | 18,681        | 19,426        | 18,397        | 18,257        | 40%            |
| 3* Beds       | 6,043         | 5,683         | 5,599         | 5,624         | 6,119         | 6,410         | 6,686         | 15%            |
| Other         | 11,132        | 10,470        | 10,837        | 10,799        | 10,969        | 11,032        | 11,108        | 25%            |
| <b>Total:</b> | <b>37,809</b> | <b>36,728</b> | <b>38,663</b> | <b>40,240</b> | <b>43,193</b> | <b>42,582</b> | <b>45,097</b> | <b>100%</b>    |

|                              |   |       |      |      |      |       |      |  |
|------------------------------|---|-------|------|------|------|-------|------|--|
| <b>Hotel Supply Increase</b> | — | -3.5% | 1.2% | 2.0% | 2.3% | -0.8% | 1.5% |  |
| <b>Room Supply Increase</b>  | — | -3.1% | 4.9% | 3.8% | 6.8% | -1.5% | 5.2% |  |
| <b>Bed Supply Increase</b>   | — | -2.9% | 5.3% | 4.1% | 7.3% | -1.4% | 5.9% |  |

Source: Hellenic Chamber of Hotels

total hotel supply of 22,755 rooms in Kos is equivalent to 30% of all hotel rooms in the Dodecanese and thus, both islands host 90% of the total hotel room capacity in the region.

In 2012, the average five-star hotel in Kos featured 191 rooms, almost 100 rooms lower than the average size in 2006 when only three five-star properties existed on the island. During 2006-12 there was a tremendous hotel investment activity on the island since the number of five-star units increased by seven times to reach 22. Hotel unit supply in other categories remained relatively unchanged for the entire examined period showing that investors on the island favored the construction of luxury properties.

### Branded Properties

Various local hotel operators have a presence in Rhodes and Kos. Despite the fact that both islands are considered to be two of the most popular destinations within Greece, few international hotel brands operate in the market. The ex-Hilton Rhodes is now operating under the brand of Sheraton whereas Doubletree by Hilton together with Iberostar operate two hotels in Kos. Atlantica Hotels & Resorts has also strong presence on both islands with ten properties of various classifications in total. Robinson Club has a limited presence with one property in Kos whereas the Cyprus-based company of Amathus Hotels operates a hotel in Rhodes besides two other properties in Cyprus. Sentido Hotels, a company which is part of the Thomas Cook Group, is affiliated with five properties in Rhodes and Kos.

### Island of Rhodes

The most notable national hotel chains on the island of Rhodes are Mitsis Hotels and Aldemar Hotels. These two hotel groups manage in total 9.5% of the upscale rooms that exist in Rhodes. Other Greek hotel groups with a limited presence in Rhodes are Louis Hotels, Grecotel, BlueGR, Electra, and Sbokos Hotel Group through its 50% stake in Sheraton Rhodes. The main characteristic of the hotel market in Rhodes is that it is dominated by local hotel groups that own and/or manage various hotel properties solely on the island. Atrium Hotels, Blue Bay Group, Esperia Hotels, H Hotels Collection, Harmony Resorts, Lindos Hotels, and RHotel operate altogether 24.6% of the upscale hotel rooms on the island.

### Island of Kos

The most notable national hotel chains on the island of Kos are Mitsis Hotels and Grecotel Hotels. The only other Greek hotel group, albeit with a limited presence, in Kos is Aquis Hotels. The main characteristic of the hotel market in Kos is that many local hotel groups own and/or manage various hotel properties on the island. Lakitira Hotels, Blue Lagoon Group, Neptune Hotels, and Kypriotis Hotels operate altogether 29.8% of the upscale hotel rooms on the island. Another remarkable feature of the market is that almost every five-star hotel property (94% of total five-star room supply) belongs to a hotel group.

## Hotel Performance

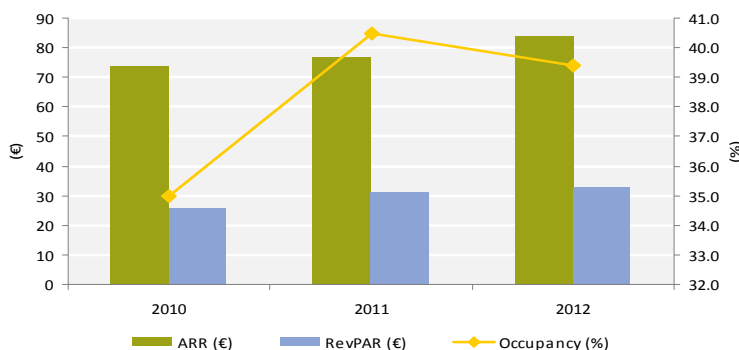
Charts 6 and 7 summarise the important operating characteristics of primary hotels in Rhodes and Kos. The charts set out the average occupancy, average room rate, and rooms revenue per available room (RevPAR) for a sample of major upscale hotel properties representing 3,863 hotel rooms in Rhodes and 13,011 in Kos. It should also be noted that all occupancy percentages refer to 365 days of operations for consistency reasons.

### Island of Rhodes

Examined hotels in Rhodes recorded average daily rates ranging between €80 and €110 and their achieved annual occupancy rate ranged between 60 and 80% on a seasonal basis or 30 – 40% if annualised. Generally, the hotel market in Rhodes has two different performances regarding average room rates. Hotels in Lindos achieve considerably higher levels of room charges than the rest of the areas on the island and might even reach €180. Hotels in other areas (like Faliraki) rely more on massive tourism and contracts with tour operators and therefore, their achieved room prices lay around €100. Tourism season in Rhodes lasts approximately 180 days and hotels operate for the same period. Occupancy-wise there are no big variances among hotels apart from the ones operating in the city of Rhodes that remain open throughout the year.

Based on an aggregate income statement comprised of 17 hotel companies operating upscale hotels in Rhodes, representing 9,170 rooms (or 33.7% of total upscale room supply), total revenues per available room averaged €15,000 in 2012 dropping down from €17,000 that was recorded for the same sample in 2011. Along with the general decrease in the average total revenues Greek hotels experienced in 2012, total revenues of hotel properties in Rhodes recorded an average decrease of 7.0%. Nonetheless, gross profit margins shrunk by only 1.3 percentage points and remained around the levels of 20%.

CHART 6: HOTEL PERFORMANCE - RHODES 2010-12

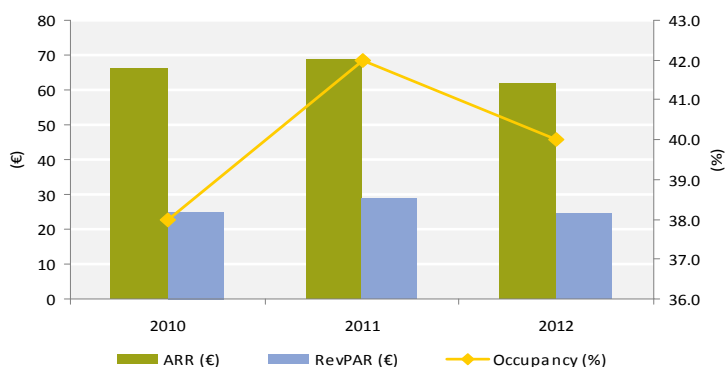


Source: HVS Research

### Island of Kos

Examined hotels in Kos recorded similar performances with very few of them performing above the examined set. Despite the difference in classification, hotels on the island do not seem to be able to be positioned as differentiated products. This is mostly attributed to the fact that all hotels rely greatly on the annual contracts with large tour operator companies that put extremely high pressure on room prices in order to launch attractive holiday packages in international markets.

CHART 7: HOTEL PERFORMANCE - KOS 2010-12



Source: HVS Research

Best performers during 2010-12 in terms of RevPAR seem to be the five-star hotels located in the area of Psalidi.

Based on an aggregate income statement comprised of 16 hotel companies operating upscale hotels in Kos, representing 6,139 rooms (or 45.7% of total upscale room supply), total revenues per available room averaged €15,000 in 2012 dropping down from €16,000 that was recorded for the same sample in 2011.

Despite similar performance of the hotels on the two islands regarding total revenues per available room, hotel companies in Kos appear to be more efficiently managed and enjoy a higher percentage of operating profit margins compared with the hotels in Rhodes. In 2012, gross profit margins of the hotels in our sample ranged widely between 13.2% and 57.2% achieving an average of 30.6% up from 29.3% in 2011. The achieved profit margins of hotels in Kos are some of the highest amongst all major tourism markets in Greece.

## Recent and Forthcoming Tourism Developments

The following projects represent the future changes in supply of hotels and integrated resorts on the islands of Rhodes and Kos.

In July 2013 the **Hellenic Republic Asset Development Fund (HRADF)** launched the first phase of the tender process for the **“Afandou Property”** as part of the Hellenic Republic’s privatization program. The property consists of two neighbouring beachfront land plots located in the Afandou area of the island of Rhodes. Both plots are close located to the Rhodes-Lindos Highway, the major road artery of the island. The sites are situated in close proximity to very important tourist destinations on the island such as the famous Tsampika and Kolympia beaches. The combined surface of the land plots is 1,858,000 m<sup>2</sup>, whereas part of the property (450,000 m<sup>2</sup>) currently encompasses the only 18-hole golf course on the island. The coastline



frontage is approximately seven kilometres. The HRADF intends to proceed with the necessary steps set out in the new legal framework to enable the development of the property.

According to press releases in January 2014, the five-star **Grand Hotel** located in the city of Rhodes, featuring 405 rooms and owned by the National Bank of Greece, was sold to **Mitsis Hotels** for a reported amount of €38 million. The buying company had been leasing the hotel's premises since 1990 and plans to renovate the property in the short term.

Effective from 2014, **Aquis Hotels & Resorts** has officially announced the undertaking of three management contracts in Rhodes for Sunrise Hotel, Miraluna Village and Spa, and Miraluna Seaside Hotel.

**Iberostar Hotels and Resorts** withdrew from the management of the five-star **Astir Odysseus Hotel** in Tingaki, Kos. The hotel, which will be privately managed for this season onwards, features 267 rooms and suites and was constructed in 2009.

## Conclusion

Based on our research, the conclusions made for the islands of Rhodes and Kos are similar since both islands belong to the region of the Dodecanese and their tourism markets share analogous characteristics. The areas of Faliraki, Ixia, Kallithea, Kolimbia, Ialissos, Lindos and the city of Rhodes are the main touristic places in Rhodes, while the areas with the highest visitation in Kos are Kardamena, Lambi, Mastihari, and Psalidi. Certainly, tourism in the Dodecanese is highly related to the objectives of the major tour operators and wholesalers that put high pressure on the markets' average room charges. However, the supply of upscale lodging facilities in Rhodes and Kos is adequate to target other market segments as well, utilising the proper distribution channels and branding techniques that have been established in the market since decades now. Both islands possess the potential to be year-round destinations because of their mild climate and the diversity of tourist attractions especially in connection with their unique selling point for several tourism market segments (Rhodes with its medieval town and golf course and Kos with its Hippocratic tradition). However, they are too dependent on the massive tour operator business, whereas their upscale hotel supply has not been efficiently differentiated in order for some hotel units to distinguish themselves from the tour operator-based business model.

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