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# IN FOCUS: **CHALKIDIKI, 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;
- According to a press release of the Chalkidiki Tourism Organization, in 2013 Chalkidiki experienced a 10% increase in overnight stays, a growth of 7% in tourism revenue, and recovered to a certain extent from the setback in 2011 and 2012. Approximately half of the tourists visiting Chalkidiki are driving to the destination from the Balkans and Central and Eastern Europe;
- Germany is the most significant international feeder market. International arrivals to Chalkidiki from Russia, Ukraine, and the United Kingdom increased by 15%, 30%, and 10% respectively during the summer period of 2013, compared to that of 2012. Regarding traffic from newly targeted markets, the largest increase in air arrivals was recorded from Turkish travellers (about 40%). In general, hotel bednights in Chalkidiki recorded the highest growth rate in the country during 2003-12;
- Chalkidiki's upscale hotel market showed its resilience to the economic-political turmoil in Greece, with relatively steady occupancy levels during 2010-12, leading to a slight increase in RevPAR of nearly 5%;
- Over the last seven years, the upscale (five- and four-star) hotel room supply in Chalkidiki remained rather unchanged in total; however, the region is scheduled to experience intensive hotel construction activity in the near future with one hotel renovation already underway and development of four more major mixed-use tourism projects that include extensive lodging, residential, and other tourism facilities.

INDICATIVE MAP OF CHALKIDIKI



## Region Overview

The Prefecture of Chalkidiki is located in the southeastern portion of Central Macedonia and consists of a large peninsula in the northwestern Aegean Sea resembling a hand with three "fingers" called Kassandra, Sithonia, and Agion Oros which contains Mount Athos and its monasteries. Kassandra has popular tourist resorts with organized beaches. The second

peninsula, Sithonia, features less organized resorts and more secluded coves. The third peninsula, Mount Athos, is a closed monastic community where entrance is allowed only to men and after special permission. The prefecture occupies 2,918 km<sup>2</sup> of land and features approximately 105,000 permanent inhabitants.

Chalkidiki has been a popular summer tourist destination since the late 1950s when people from Thessaloniki started spending their summer holidays in the coastal villages. At the beginning, tourists used to rent rooms in the houses of locals. By the 1960s, international tourists, especially from Austria and Germany started to visit Chalkidiki more frequently. Since the start of the big tourist boom in the 1970s, the whole region has been attracting European tourists but also those originating from countries close to the northern borders of Greece, accessing the region by car. Chalkidiki is also a popular destination amongst Christian Orthodox populations (e.g. Serbs, Ukrainians, Russians, etc.) because of its proximity to the monastic community of Agion Oros and its monasteries that are considered to be some of the most significant religious places.

### Major Tourist Attractions in Chalkidiki

Places for sightseeing are many in the region, including caves, Byzantine towers, ancient sites, and monasteries. Very interesting is the boat trip from Ouranoupolis to Mount Athos. **Agio Oros** (Mount Athos) is a unique monastic community and one of the most important sites for the Orthodox faith. The **Cave of Petralona** is considered to be one of the most impressive caves in Europe. Tourists can also visit the nearby museum, where a large number of fossilised bones of different mammals are on display. **Ancient Olynthus** is a well-preserved Greek city aging back to the Classical Period. **Stágeira** is the homeland of Aristotle who was born here in 384 B.C. The archaeological site includes an acropolis, fortifications, an ancient temple, and Classical and Hellenistic homes.

Besides all the abovementioned archaeological sites, the region of Chalkidiki offers plenty of other choices that attract tourists. During the summer, a lot of remarkable artistic festivals take place in many parts of Chalkidiki. Music provides the main focus, but the performing arts are also prominent, and every summer the region's open-air theatres play host to some major presentations. Lastly, many areas within the region are characterised as Natura 2000 which is the centerpiece of EU nature & biodiversity policy. Chalkidiki features 12 protected areas of Natural Beauty and Biodiversity, by the Natura European Network within its boundaries.

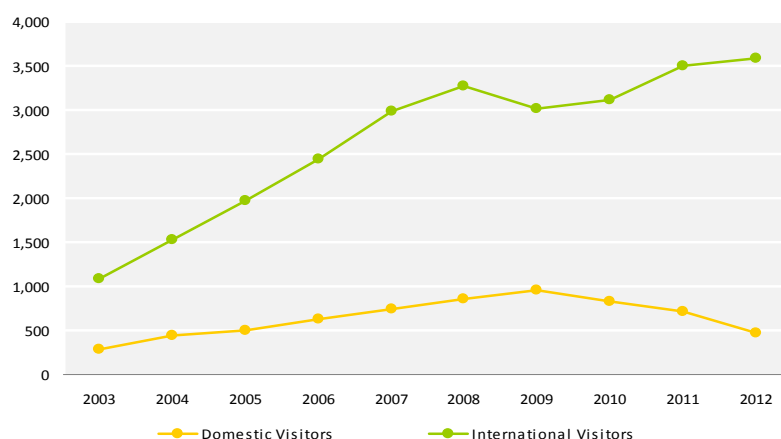
The entire region boasts numerous kilometres of coastline and plenty of beaches, 35 of them awarded with the "Blue Flag". Furthermore, the region hosts two of the largest marinas in Northern Greece that are part of bigger integrated hotel resorts and are also awarded with the "Blue Flag".

## Tourism and Visitation

Visitation to Chalkidiki from 2003 until 2012, expressed in number of hotel bednights, is summarised in Chart 1.

An average of about 80% of the total accommodated bednights in hotels in Chalkidiki has been of international nature. Chalkidiki has been traditionally a popular destination for tourists coming from countries bordering with Greece to the North. Domestic tourists that live in the northern parts of the country also find the region more easily accessible by car whereas scheduled and/or charter flights are serviced from the International

CHART 1: HOTEL BEDNIGHTS - CHALKIDIKI 2003-12 (000s)



Source: Hellenic Statistical Authority

Airport of Thessaloniki during the summer period. The number of total bednights has experienced vigorous growth of 195.2% driven mainly by the momentous growth of international tourism by 230.4%. The overseas tourist segment has shown a steadily increasing pattern over the last ten years, and especially during 2004-08 when it tripled its size, whereas domestic tourism has also recorded significant increase over the same period with an exception during the last three years when the domestic population's available income shrunk, owing to the national economic crisis. The recorded Compound Annual Growth Rate (CAGR) of hotel bednights in Chalkidiki during 2003-12 is the highest in the country, amongst many

CHART 2: TOURISM STATISTICS - CHALKIDIKI 2003-12

Year	Arrivals at Hotels (000s)	Accommodated Bednights (000s)	Average Length of Stay (Days)	Bed Occupancy
2003	183	1,375	7.5	36.1 %
2004	300	1,979	6.6	65.3
2005	417	2,465	5.9	64.7
2006	469	3,068	6.5	69.6
2007	645	3,736	5.8	62.7
2008	752	4,118	5.5	64.4
2009	743	3,966	5.3	57.9
2010	672	3,934	5.9	55.0
2011	688	4,214	6.1	56.1
2012	655	4,059	6.2	53.2

Source: Hellenic Statistical Authority, HVS Analysis

reaching a record level of 69.6% in 2006. Since hotel arrivals and bednights have shown a significant increase during the examined period, the recorded decreased occupancy levels can only be attributed to the proportionately higher number of new hotel rooms that entered the market in comparison with the demand for lodging facilities. Average length of stay has been fluctuating during the examined period from a minimum 5.3 days to a maximum of 7.5 days, stabilising at approximately six days during 2010-12.

## Hotel Supply

The majority of hotel units are of one- and two-star classification; however, five- and four-star hotel units together constitute the largest number of available rooms and beds (approximately 40% of the total market supply). In 2012, the average five-star hotel in Chalkidiki featured 185 rooms and 389 beds, slightly higher than the average size in 2006 (168 rooms and 343 beds). In general, the average hotel size is only 45 rooms since the region is dominated by small family-run properties. Also remarkable is the fact that five-star properties almost doubled their number during 2006-12 in contrast with the four-star properties that lost more than 1,500 rooms.

other prominent destinations, revealing the dynamics of this specific market and its future potential.

Chart 2 illustrates the evolution of the average length of stay in Chalkidiki as well as the hotel bed occupancies in the region. Occupancies calculated by the Hellenic Statistical Authority are based on the hotels' operating days, thus, they represent seasonal occupancies and not necessarily an annual operation.

Hotel bed occupancies in the prefecture of Chalkidiki record healthy rates of more than 55% throughout the 2003-12 period,

CHART 3: HOTEL SUPPLY - CHALKIDIKI 2006-12

No of Hotels:	2006	2007	2008	2009	2010	2011	2012	% Share (2012)
5* Hotels	12	12	16	19	19	22	23	4%
4* Hotels	40	43	41	41	44	40	40	8%
3* Hotels	84	86	89	89	90	90	89	17%
Other	379	380	372	374	373	365	365	71%
<b>Total:</b>	<b>515</b>	<b>521</b>	<b>518</b>	<b>523</b>	<b>526</b>	<b>517</b>	<b>517</b>	<b>100%</b>

No of Rooms:	2006	2007	2008	2009	2010	2011	2012	% Share (2012)
5* Rooms	2,021	2,021	2,757	3,137	3,213	3,899	4,247	18%
4* Rooms	6,365	6,552	6,037	5,687	5,946	5,073	4,752	20%
3* Rooms	5,487	5,508	5,535	5,484	5,525	5,573	5,483	23%
Other	9,256	9,207	8,997	9,000	8,983	8,934	8,931	38%
<b>Total:</b>	<b>23,129</b>	<b>23,288</b>	<b>23,326</b>	<b>23,308</b>	<b>23,667</b>	<b>23,479</b>	<b>23,413</b>	<b>100%</b>

No. of Beds:	2006	2007	2008	2009	2010	2011	2012	% Share (2012)
5* Beds	4,112	4,112	5,818	6,657	6,852	8,268	8,957	19%
4* Beds	12,248	12,614	11,552	10,988	11,666	9,900	9,340	20%
3* Beds	10,553	10,603	10,626	10,530	10,806	10,900	10,727	23%
Other	17,504	17,435	17,129	17,134	17,202	17,125	17,114	37%
<b>Total:</b>	<b>44,417</b>	<b>44,764</b>	<b>45,125</b>	<b>45,309</b>	<b>46,526</b>	<b>46,193</b>	<b>46,138</b>	<b>100%</b>

<b>Hotel Supply Increase</b>	—	1.2%	-0.6%	1.0%	0.6%	-1.7%	0.0%	
<b>Room Supply Increase</b>	—	0.7%	0.2%	-0.1%	1.5%	-0.8%	-0.3%	
<b>Bed Supply Increase</b>	—	0.8%	0.8%	0.4%	2.7%	-0.7%	-0.1%	

Source: Hellenic Chamber of Hotels

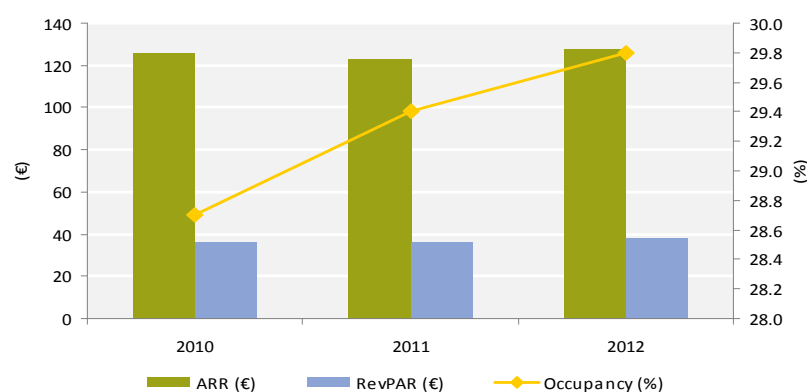
## Branded Properties

Despite the fact that Chalkidiki is one of the most popular destinations within the Greek territory, no international hotel brand has a presence in the market apart from Neilson Resorts. The most notable hotel chains (companies that operate more than two units) in the region are local operators (e.g. G Hotels), whereas there are a few national hotel groups (e.g. Grecotel, Macedonian Hotels) with a presence in the market area. Only 28% of the total upscale room supply (five- and four-star properties) is affiliated with a local/international brand or a consortium.

## Hotel Performance

Chart 4 summarises the important operating characteristics of primary hotels in the region of Chalkidiki. 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 2,742 hotel rooms. It should also be noted that all occupancy percentages refer to 365 days of operation for consistency reasons.

CHART 4: HOTEL PERFORMANCE – CHALKIDIKI 2010-12



Source: HVS Research

Examined hotels in Chalkidiki are divided into two groups regarding average daily room rates. Hotels, that are highly dependent on mass tourism and are slightly outdated as physical products that achieve room rates that range between €70 and €90, and those upscale properties that have managed to differentiate their market positioning and are able to charge higher rates that exceed €150 and go as high as €200. The majority of hotels in Chalkidiki operate on a seasonal basis that fluctuates between 160 and 180 days per year and record almost similar occupancy rates, between 60 – 75% on a seasonal basis.

Based on an aggregate income statement comprising eight hotel companies operating upscale hotels in Chalkidiki and representing 4,210 rooms (slightly more than 45% of total upscale room supply), in 2012 total revenues per available room averaged €24,000 compared to €22,000 for the same sample of companies in 2011. Despite the decrease in the average total revenues in Greece for 2012, hotel properties in Chalkidiki benefited from an average increase of 11%. Nonetheless, the profit margin of the hotel companies remained almost unchanged at €4,000 per available room or a level of 16.4% in 2012.

## Recent and Forthcoming Tourism Developments

The following projects represent the most recent and future changes in supply of hotels and resorts in the entire region of Chalkidiki.

In 2011, **Cronwell Hotels & Resorts**, the 19th largest Russian hotel chain, bought one of Chalkidiki's oldest hotels, and is converting it into a five-star luxury hotel. The ex-Philippion Hotel commenced operations in 1970s and was classified as a four-star property. The hotel is announced to be renamed as Cronwell Resort Sermilia and is planned to feature more than 130 rooms. The Cronwell group is present in this region for a couple of years and in 2011 launched the first investment of the restored Rahoni Cronwell Park Hotel. The unit was radically renovated and converted into a 20-room hotel. The third member of Cronwell Hotels & Resorts is the five-star, 192-room hotel in Platamonas, Central Greece.

The 164-room formerly-named **Portes Palace Hotel** was sold in 2012. After a complete restoration, the hotel was re-launched in the market in 2013 under the name of **Pomegranate Park**.



Foreign and domestic groups have expressed their existing interest for the currently closed 503-room **Gerakina Beach Hotel**, which is about to be offered in a public tender with a minimum price of €15 - €17 million. The asset belongs to the National Bank of Greece that desires to disengage itself from this hotel complex. The unit covers a structured surface of 24,345 m<sup>2</sup> on a seaside plot of land spanning over 86,962 m<sup>2</sup>.

As part of the Hellenic Republic's privatization program, the **Hellenic Republic Asset Development Fund (HRADF)** sought to attract investments in Greek public real estate properties. Within 2013, two tender processes took place:

- In October 2013, the HRADF's Board of Directors accepted Donskoy Tabak's improved offer of €14 million regarding the greenfield development of the real estate in **Paliouri** area of Chalkidiki, concluding the respective tender process. The size of the property measures 210,742 m<sup>2</sup> and includes the tourist units of Xenia (3,658 m<sup>2</sup>) and Paliouri Camping Facilities (1,128 m<sup>2</sup>). Potential exploitation plan for the property could include up to 3,658 m<sup>2</sup> of luxury hotel (via leasehold or concession) and 19,954 m<sup>2</sup> of vacation residences (freehold). The property should be developed in accordance with the procedures for urban-planning maturity, prescribed in Law 3986/2011 and the relative Special Town Planning Development Plan (ESCHADA);
- In March 2013, the first phase of the tender process for **Agios Ioannis** begun regarding a beachfront land plot on the peninsula of Sithonia measuring 261,000 m<sup>2</sup>, featuring a seafront of 2,000 meters and a usable area of 200,000 m<sup>2</sup>. Seven domestic and international investment groups submitted expression of interest for the development of the real estate and the process is currently entering its second phase.

Finally, in October 2013 the project "**Pravita Estate**" was announced to be subject to the provisions of the "Fast Track" law that the Greek government has created in order to assist the licensing process of large strategic investments in Greece. The company Pravita Development and Holdings S.A. intends to develop an area of 3,131 acres located in the area of Taxiarchis near Polygyros, Chalkidiki and take advantage of the Spatial Development Plans of Strategic Investments (ESCHASE in Greek) that allow the State to intervene in cases where a specific land use is deemed vital for an investment to proceed. The investment plan includes four golf courses, three five-star hotels, a residential component, a conference center, a health center, rehabilitation facilities, an athletic training center, and alternative tourism facilities. The total investment for the creation of Pravita Estate is estimated at approximately €726.4 million and, in accordance with the investment schedule, is planned to be completed gradually over a five-year period.

## Conclusion

Although Chalkidiki is considered one of the most popular destinations in Greece and enjoys healthy growth rates of mainly regional (neighbouring countries and Russia) inbound tourism, the region lacks in branded upscale properties that could absorb the increasing demand of high-spending tourists but more importantly provide higher international exposure and awareness to the destination. Only limited local hotel groups have presence in the region. Therefore, due to this gap in the branded upscale hotel supply, Chalkidiki could be considered a very promising destination for investors either in the existing properties or in the development of new ones.



## About HVS

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