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IN FOCUS:

CORFU, 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 November 2013, Greek tourism receipts remained almost unchanged compared to November 2012. This brought total tourism receipts in the first 11 months of the year to €11.8 billion, representing an increase of 14.9% compared to the same period last year. In 2013 at least 17.8 million international tourists arrived in the country (an all-time record), spending around €12.0 billion, up from €10.0 billion in 2012;
- International tourism arrivals in Corfu have recorded noteworthy growth rates over the last three years after a period of fluctuation with a negative trend. Airport arrivals from abroad recorded a 29.4% growth rate during 2011-13 revealing the potential of the destination;
- The hotel market in Corfu is currently heavily dependent on mass tourism partly due to the relative lack of upscale internationally branded properties. The existing luxury hotels on the island have a weak market positioning. Thus, there are no significant differentiating factors amongst the key players in the market despite the fact that the destination itself features many physical advantages enhancing its tourism attractiveness;
- Corfu's upscale hotel market showed a relative resilience to the economic-political turmoil in Greece, with increasing occupancy levels during 2010-12 but with discounting average room charges. These two basic hotel indices led to a decrease in RevPAR close to €50, down from €57;
- Over the last seven years upscale hotel room supply in Corfu remained rather unchanged most probably due to the stagnated growth of accommodated room nights; however, the island is scheduled to experience some limited hotel construction activity in the near future with two hotel renovation projects underway in their initial stages and one more major tourism development that includes extensive lodging, residential and other tourism facilities.

Region Overview

The region of the Ionian Islands consists of the islands located in the Ionian Sea along the western coast of Greece. The region is divided administratively into four prefectures (Corfu, Lefkada, Kefallinia and Zakinthos) and comprises the islands of Corfu (or Kerkira), Zakinthos, Cephalonia (Kefallinia), Lefkada, Ithaca (Ithaki), Paxi, and a number of smaller islands. The Ionian Islands are the sunniest part of Greece, but the southerly winds bring abundant rainfall.

Corfu is the seventh largest island in Greece and is the largest prefecture in terms of population in the Ionian Islands. Corfu has approximately 113,000 inhabitants (2011 census) and boasts a particularly high population density as 36% of them live in the town of Corfu. Approximately 65% of Corfu is lowland. By virtue of its geographical position, its international airport and its ferry connections, the island is one of the main western gateways to Greece. These factors have favoured the continuous development of tourism, which has become the most dynamic branch of the region's economy.

The climate of Corfu is Mediterranean with mild winters and warm but comfortable summers. The economy of the prefecture has grown up around tourism. The development of tourism-related businesses coincided with the gradual shutdown of the traditional industries and the decrease in the number of small businesses in the production of traditional products, such as cheese, sausages, gold and silver jewellery, and so forth. A favourite with the British since Victorian times, Corfu is a lush mix of cypresses and olive trees with some of the finest landscapes in the Mediterranean region.

INDICATIVE MAP OF CORFU

Major Tourist Attractions in Corfu

Corfu, unlike most of the rest of Greece, never fell under the Ottoman oppression. Due to the successive dominations of the Venetians, the French and the British over the centuries, the island forms a different historic and cultural unit than that of continental Greece. Their culture wielded strong influence in the city since the first Greek University (the *Ionian Academy*), the first *Philharmonic* Orchestra and the *First School of Fine Arts* were founded on the island while the preserved **Old Town of Corfu** is characterised as a World Heritage Site by UNESCO due to its Renaissance, Baroque and Classical architectural style.

The city also includes other prominent spots like **Spianáda** (the largest square in the Balkans in the centre of a city), **Listón** (the city's trademark promenade), the 15th century **Old Fortress**, as well as the **New Fortress**, the **Saint Michael and George Palace** and a considerable number of churches. The most imposing one is the city's Cathedral, the Church of **St. Spyridon**, the island's patron Saint, whose relics are kept here.

Other sites located around the city of Corfu are also some of the most visited on the island like **Mon Repos Palace** with colonial elements which today operates as a museum, **Kanoni** offering amazing views from its circular terrace across the island of Pontikoníssi one of the most photographed spots of Corfu, **Paleopolis** (at Mono Repos estate) standing where the Agora of the ancient city of Corfu was located, and **Achilleion** that is a summer palace built in the 1890s for the Empress Elisabeth of Austria, but is currently operating as one of Corfu's most popular museum and tourist attractions.

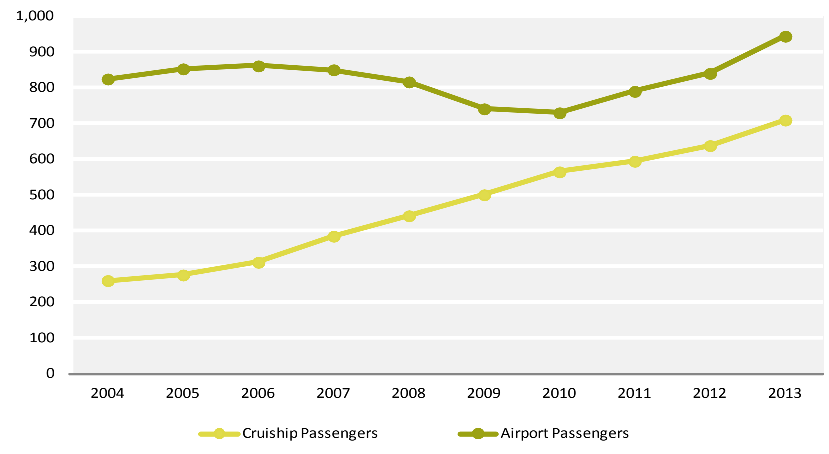
Besides all the abovementioned historical sites, the island of Corfu offers plenty of other choices that attract tourists. Ipsos beach has calm waters and a curved bay, a tiny harbour and views of the Greek mainland, Albania, Mount Pandokrator, and green inland hills. Ipsos beach offers water taxis to nearby beaches and boat trips are a popular way to admire the dramatic coastline or to reach Paxos, Antipaxos, Erikoussa, Kassiopi, and Corfu Town. The entire region boasts numerous kilometres of coastline and plenty of beaches, 29 of them awarded with the "Blue Flag". Furthermore, in the area of Gouvia the largest marina in Greece, also awarded with the "Blue Flag", is located featuring 1,235 berths, as well as a recently restructured 18-hole golf course in Ropa Valley.

Tourism and Visitation

Airport and Seaport Traffic

Corfu International Airport is one of the busiest airports in the broader region of the Ionian Islands providing direct flights to and from all major European cities, as well as most of the major Greek cities. The port of Corfu accepts not only scheduled

CHART 1: ARRIVALS BY MEANS OF TRANSPORT - CORFU 2003-13 (000s)



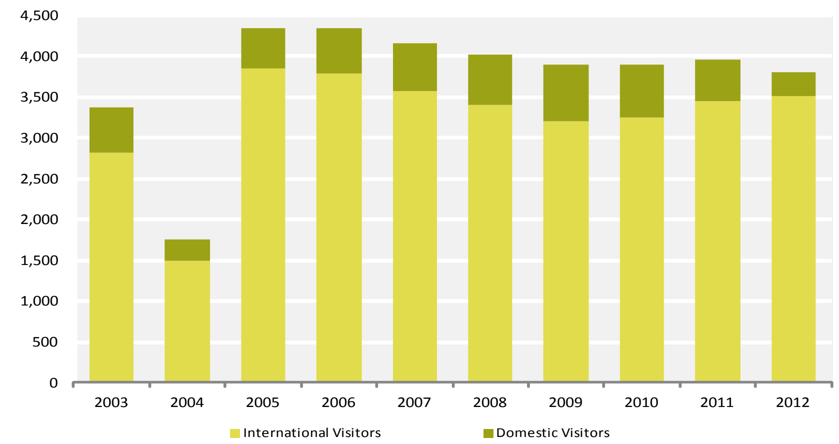
Source: Civil Aviation Authority, Port of Corfu

ferry connections to and from Italian destinations, but also ferries connecting the island with domestic harbours like the one in Patra and Igoumenitsa. Corfu harbour also accepts an increasing number of transient cruise ship passengers during the summer season.

Total arrivals in Corfu grew at a Compound Annual Growth Rate (CAGR) of 4.8% during the past ten years, primarily attributed to the high increase in cruise ship passenger arrivals at Corfu Seaport. Cruise passenger arrivals, although most of them being transient, have almost doubled their share in total arrivals to the island during the examined period accounting for 42.9% of total arrivals in 2013 from 21.3% in 2004. International airport arrivals peaked in 2007, at 850,000; they declined between 2008-10 to levels below 800,000 while they reached an all-time record of 944,000 in 2013 after a significant increase of 12.4%, as a result of the general increase of tourism sector in Greece.

An average of about 85% of the total accommodated bednights in Corfu has been of international nature. The total number of accommodated bednights has experienced moderate growth over the past ten years with a recorded CAGR of 1.3%, primarily driven by growth in the international bednights. While hotel bednights spent at hotels in Corfu by domestic travellers have been increasing every year between 2005 and 2009, bednights generated by international travellers have been gradually lessening every year during the same period. During 2010-12 this phenomenon was reversed due to the deterioration of the domestic disposable income and the increasing attractiveness of the island to tourism from overseas.

CHART 2: HOTEL BEDNIGHTS - CORFU 2003-12 (000s)



Source: Hellenic Statistical Authority

Bed occupancy deteriorated from 2005 to 2010 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 units in the market. Since then, it has stabilised approximately around 60%, with 2013 having been a very busy season for the island and hoteliers reporting occupancies to end up at about 67%.

The highest bed occupancy figures on Corfu occur in July and August with numbers reaching or sometimes exceeding 90%. The tourist product is primarily driven by mass tourism, with families usually booking week-

CHART 3: TOURISM STATISTICS - CORFU 2003-12

Year	Arrivals at Hotels (000s)	Accommodated Bednights (000s)	Average Length of Stay (Days)	Bed Occupancy
2003	440	3,372	7.7	79.2 %
2004	246	1,754	7.1	78.1
2005	563	4,341	7.7	87.1
2006	565	4,340	7.7	80.5
2007	556	4,159	7.5	72.0
2008	555	4,020	7.2	71.8
2009	567	3,906	6.9	64.5
2010	603	3,905	6.5	61.3
2011	606	4,043	6.7	61.7
2012	558	3,804	6.8	56.6

Source: Hellenic Statistical Authority, HVS Analysis long holidays to visit the island as shown by the high average length of stay. During the winter months, there are only two major hotels operating on the island, offering a total of about 370 rooms and accommodating the needs of visitors who travel to the island primarily for business purposes. Within the city of Corfu there are also plenty of other hotels of lower classification that remain open during winter.

Hotel Supply

The majority of the hotels on Corfu underwent major refurbishment prior to 1994 in preparation for hosting the 1994 European Summit. The tourism industry on the island is seasonal, with the majority of hotels operating for six months from mid-April to mid-October.

The greater part of hotels are classified as one- and two-stars, while the absence of five-star units is very evident, being at only 4% of the total hotel supply in 2012. Nevertheless, five- and four-star hotel units together represent 40% of the total number of available rooms and beds.

In 2012, the average five-star hotel in Corfu featured 202 rooms and 393 beds, a size rather unchanged compared with the average size in 2006. In general, the average hotel size is only 59 rooms since the region is dominated by small family-run establishments. Also remarkable is the fact that although there was a relative investment activity recorded in the luxury hotel sector during 2006-09, the number of five-star hotel properties, and consequently, rooms and beds supply remained unchanged. Hotel supply in other categories remains unchanged for the entire examined period.

CHART 4: HOTEL SUPPLY - CORFU 2006-12

No of Hotels:	2006	2007	2008	2009	2010	2011	2012	% Share (2012)
5* Hotels	8	10	11	14	14	14	14	4%
4* Hotels	56	55	57	54	53	50	50	13%
3* Hotels	88	90	89	86	86	83	87	22%
Other	252	251	263	250	247	239	241	61%
Total:	**404**	**406**	**420**	**404**	**400**	**386**	**392**	**100%**
No of Rooms:	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**% Share (2012)**
5* Rooms	1,624	2,222	2,238	2,833	2,833	2,868	2,835	12%
4* Rooms	7,417	7,297	7,575	6,874	6,972	6,646	6,415	28%
3* Rooms	6,315	6,245	6,448	6,262	5,399	6,091	6,456	28%
Other	7,476	7,683	8,370	7,698	7,660	7,508	7,523	32%
Total:	**22,832**	**23,447**	**24,631**	**23,667**	**22,864**	**23,113**	**23,229**	**100%**
No. of Beds:	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**% Share (2012)**
5* Beds	3,142	4,211	4,249	5,397	5,397	5,514	5,514	13%
4* Beds	13,727	13,627	14,093	12,844	12,955	12,365	11,944	27%
3* Beds	12,073	11,970	12,246	11,890	10,234	11,609	12,304	28%
Other	14,125	14,525	15,629	14,531	14,479	14,138	14,178	32%
Total:	**43,067**	**44,333**	**46,217**	**44,662**	**43,065**	**43,626**	**43,940**	**100%**
Hotel Supply Increase	—	0.5%	3.4%	-3.8%	-1.0%	-3.5%	1.6%	
Room Supply Increase	—	2.7%	5.0%	-3.9%	-3.4%	1.1%	0.5%	
Bed Supply Increase	—	2.9%	4.2%	-3.4%	-3.6%	1.3%	0.7%	

Source: Hellenic Chamber of Hotels

Branded Properties

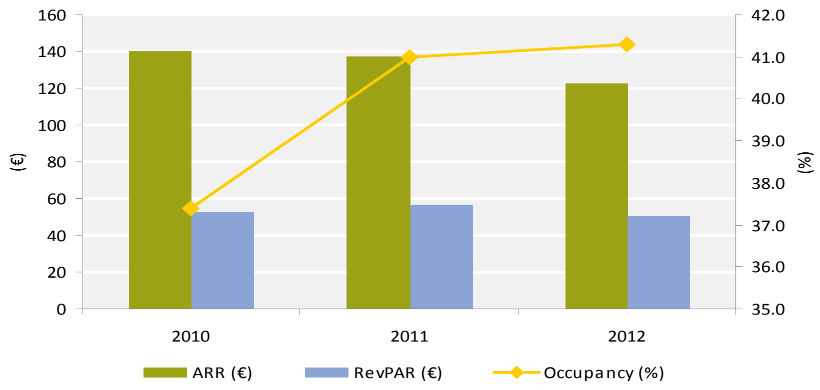
Despite the fact that Corfu is one of the most popular destinations within the Greek territory, no international hotel brand has a presence in the market apart from Sunshine Vacation Clubs. Even larger resorts that could potentially be affiliated with a brand or a consortium are currently operating under greek hotel brands. Especially the city of Corfu which, unlike other island destinations remains vivid throughout the year, could have been even more attractive to international hotel brands.

Various Greek hotel operators have a presence in Corfu though. The most notable national hotel chains on the island are Grecotel, Aquis, Chandris, and Louis Hotels. These four hotel groups manage in total 36% of the upscale rooms that exist in Corfu. Other Greek hotel groups with a presence in Corfu are Divani Collection, operating other five hotels in Greece, Mitsis Hotels that operates 19 additional hotels in various destinations in Greece, as well as the local Mareblue Hotels managing, apart from the Mareblue Beach, the three-star 355-room Aeolos Beach Hotel. The proportion of the branded five-star properties is generally low while almost 40% of the four-star room capacity features a national brand.

Hotel Performance

Chart 5 summarises the important operating characteristics of primary hotels in Corfu. 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 1,569 hotel rooms. It should also be noted that all occupancy percentages refer to 365 days of operation for consistency reasons.

CHART 5: HOTEL PERFORMANCE - CORFU 2010-12



Source: HVS Research

Examined hotels in Corfu recorded high levels of occupancy, higher than many other costal destinations in Greece, while average daily rates ranged between €90 and €250 during 2010-12. This wide variance is generally attributed to the better performance of the branded hotels of the set in comparison with the unbranded ones. The higher performing hotels achieve average daily rates of as high as €180 to €280. Hotels in the beachfront areas of Corfu rely more on massive tourism and record an average seasonal occupancy of more than 80% (or 40% on an annual basis) but their achieved room prices lie around €90. Hotel properties in the city centre that remain operational all-year-round achieve healthy occupancy rates of 60% on an annual basis, by attracting individual leisure travellers during the summer and corporate clientele during the winter months. The tourism season in Corfu lasts about 180 days for the beachfront regions, while the centre of the city keeps its liveliness for approximately 220 days.

Based on an aggregate income statement comprising seven hotel companies operating upscale hotels in Corfu and representing 2,102 rooms (or 22.7% of total upscale room supply), in 2012 total revenues per available room remained unchanged to €16,000 compared to what was recorded for the same competitive set in 2011. Despite the stagnation in the average total revenues, the average profit margin of the hotel companies recorded an increase of 3.3 percentage points, reaching a level of approximately 26%.

Recent and Forthcoming Tourism Developments

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

In January 2013, the **Hellenic Republic Asset Development Fund (HRADF)** announced the conclusion of the international bidding process for the development of the **Kassiopi** area on the island of Corfu. The Board of Directors of HRADF approved the binding financial offer by NCH Capital for the acquisition of 100% of the stake of the Special Purpose Vehicle, to which the HRADF will transfer the concession rights of the property development for a period of 99 years. This is an investment of approximately €100 million, including €23 million for the acquisition of the leasehold, €2.3 million for an earn-out clause and an estimated amount of €75 million for the development of the property. The total area of the property is 490,000 m^2, in which the investor will have the right to develop a gross buildable area of about 36,000 m^2. The coastline frontage of the property is approximately 725 metres. NCH Capital is based in New York, USA, and operates 21 investment funds totalling over $3.5 billion of capital under management, with funds across four asset classes: listed equity, real estate, agribusiness and private equity.

On the site of the former Club Mediterranee, that operated under the Club Med name until 2003, Corfu Gardens S.A., a Russian-backed hotel real estate development company, plans to develop an ultra upscale 180-room hotel under the **Fairmont** flag. The site of the proposed Fairmont Corfu Resort & Spa is located in the area of Ipsos, about 10 km north of the town of Corfu, on a peninsula that overlooks the sea and measures 265,000 m^2. The proposed hotel is planned to be constructed and positioned in the market featuring new rooms, food and beverage outlets, a spa and wellness centre, and conference facilities. The site is assumed to be further developed with a residential component featuring 40 Fairmont-branded villas and 45 apartments. The proposed hotel is anticipated to open in 2018.

Another forthcoming significant addition to the upscale room supply of Corfu that is expected to enter the market is the totally reconstructed ex-San Stefano Hotel in the area of Benitses that is intended to be branded under the **Angsana** brand of Banyan Tree Resorts. This hotel is planned to feature 199 rooms and is expected to enter the competitive market in early 2017.

Conclusion

Our review of the various tourism related data indicates that the island of Corfu benefits from good economic development, primarily driven by tourism. Most well-known tourist areas are the city of Corfu itself, Kanoni, Glyfada, Dassia, Benitses, Arahavi, and Gouvia. However, five-star hotel properties represent a small proportion of the island's total hotels, whereas there has not been any intensive hotel investment activity recorded in the recent past. As such, the island lacks modernised upscale hotel supply whereas the fact that only a few lodging facilities are branded, sets the majority of the market unable to target more profitable niche market segments or charge higher room rates.

About HVS

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