



# HotelBeat

Destination: CYPRUS

November 2014

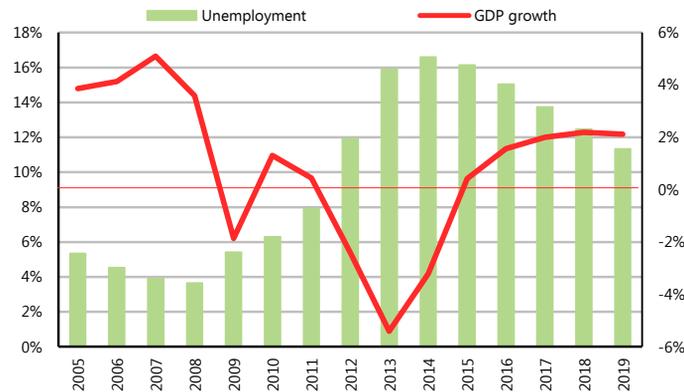


## DESTINATION OVERVIEW

Cyprus is an island nation in the eastern Mediterranean Sea, the legendary birthplace of Aphrodite and a strategic asset that has been fought over for centuries. Since 1974, when Turkey invaded the island, Cyprus has been a divided state, with Turkey continuing to occupy the northern 37% of the island, and separated by a militarised UN Green Line. This paper focuses solely on the unoccupied side of the island. The government of the Republic of Cyprus has successfully rebuilt the economy and new infrastructure, and in the last 20 years has become a leading tourist destination and financial centre. In 2004, Cyprus became a member of the EU and adopted the euro in 2008. Cyprus survived the onset of the global financial crisis in the late 2000s and early 2010s largely unscathed, but could not escape the full force of the Eurozone banking crisis of 2012. In the last two years, the government of the Republic has addressed key economic issues and the country is expected to recover relatively quickly. A possible boon for the country was the discovery of natural gas reserves in territorial waters in 2011.

## ECONOMIC TRENDS

Until 2009 and the onset of the global financial crisis, Cyprus was performing strongly, with low unemployment and high GDP growth compared to most European countries. During the global crisis, the island suffered a slowdown, but not as dramatic as its Eurozone siblings. The effect of 2012 is clear to see: steep and persistent declines in GDP and rapidly increasing unemployment levels. Although IMF data does not show it and our research in the country does not indicate it, the risk of population decline could be a real one if more people leave the country to find employment.



Source: IMF

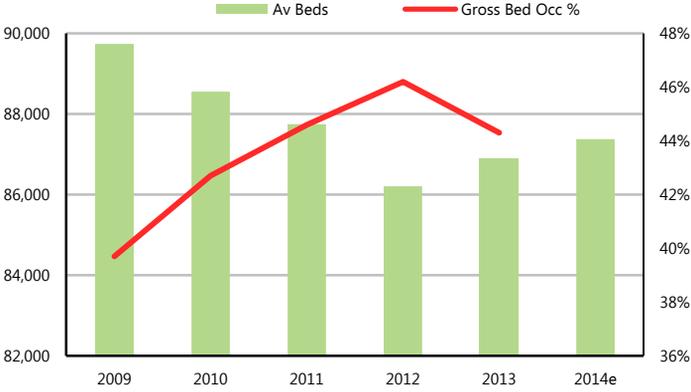
## CHANGES AFOOT

As a result of the seismic tremors to hit the Cypriot economy in recent years, a number of major changes have been made and are being implemented:

- **Citizenship-by-Investment Program (CIP)** – introduced in 2011 as a way of stimulating sales of unsold residential stock by the country's big developers (particularly around Paphos). Typical level of investment required is at least €2.5m. Buyers from the Middle East, Russia and China (in particular) have acquired real estate using this CIP.
- **Casino Licence** – the Republic has historically resisted the call for casino licences, unlike the authorities in the occupied area, which have issued licences for most of their leading hotels. In 2014, it was announced that the new *National Gaming & Casino Regulatory Authority* of the Republic will issue a major casino licence to one investor. The licence will be valid for 30 years and the investor will have the right to an exclusivity period of 15 years. The casino will be permitted to operate 24/7 and the investor can select the location, provided it is within a "resort" setting.
- **Cyprus Airways** – after decades of mismanagement and publicly funded underpinning, in 2014 the Republic was finally forced into privatising the national carrier. Two bidders (Ryanair and Aegean Airlines) were short listed, but very recent events suggest the state is still negotiating with the EU to find a state-sponsored solution. Ryanair has also indicated it would like to establish its new Middle East hub on the island.
- **China** – said to be targeting Cyprus, although material action outside private CIP purchases is still limited to date. In 2013, China Glory National Investment announced that it had bought the Venus Rock Golf Resort near Aphrodite's birthplace. However, we understand this deal never closed and that a major corporate investment in Cyprus is still to be announced.

## HOTEL MARKET SNAPSHOT

Graph below tracks performance across Cyprus in terms of bed occupancy and supply of beds in all licenced accommodation. The total number of arrivals declined in both 2008 and 2009, which together with the increase in supply had a dramatic effect on occupancy. Subsequently, as supply declined and arrivals recovered, occupancy levels were recovering until 2013, when the collapse of the Cypriot economy saw arrivals fall by a very material 5.6%. Supply growth has occurred in 2014 (0.6%), but demand growth YTD June 2014 did not keep pace (0.4%), resulting in further occupancy declines.



Source: CTO

## FUTURE PROJECTS

The most notable new opening in 2014 was perhaps the new King Evelthon Hotel in Paphos – a modern, contemporary-design property, offering a large pool complex, multiple outlets, a waterfront setting (but no sandy beach) and 250 rooms. Other new developments on the island which will add to its appeal and drive future demand growth include:

- **Limni Project** – situated near Polis (see overleaf), a 290ha site is being remediated to incorporate Jack Niklaus and Gary Player designed courses. At least one new hotel is proposed, together with extensive residential.
- **Elea Estate** – the very successful new golf course (designed by Nick Faldo) is to be complemented by a small boutique hotel in time. Residential sales have begun.
- **Limassol Marina** – luxury dining, shopping, yachting, residential complex on a large reclaimed peninsula and island. Phase 1 open and residential units are for sale. No hotel proposed at this stage.
- **Larnaca** – a number of sites have been bought by international investors, with plans to develop high end boutique hotels along the waterfront.
- **Venus Rock Resort** – the original master plan for this landmark development included a Nikki Beach Hotel on a hilltop overlooking the sea, and branded residential.
- **Additional Golf Developments** – despite historic water issues, new desalination facilities are addressing the issue and Cyprus is determined to become a golfing destination. A number of additional golf projects recently opened or are underway: Minthis Hills (Paphos), Limassol Greens Golf Resort, St Elisabeth Golf Resort (Limassol, to include a boutique hotel) and a possible standalone course between Agia Napa and Paralimni.



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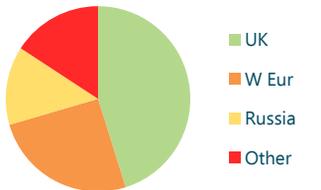


## DISTINCT HOTEL MARKETS

Cyprus is an island with a rich and diverse history and since 1974 it has developed rapidly to stimulate economic growth and tourism. Although Cyprus is only the third largest island in the Mediterranean, its national hotel market is highly varied and is typically divided into eight distinct sub-markets. These are reviewed in brief below using national statistics obtained from the Cyprus Tourism Organisation (CTO). When planning a new hotel in Cyprus in future, one must ensure that the target market and their requirements are understood, as each location on the island has very specific demand characteristics and any new hotel concept should be tailored accordingly. Some developers in the past have not been cognisant of these subtleties and such hotels have tended to underperform. The nationality statistics shown below are based on 2013 trends and supply is based on 2014 data.

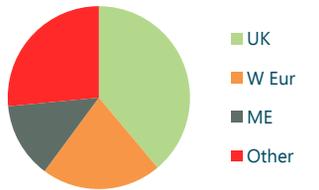
### Polis

The 3<sup>rd</sup> smallest market, but home to arguably its most expensive resort, Anassa. The UK is by far the largest source market, followed by Western Europe and Russia. A number of small new hotels are planned, but largest project is the Limni Project.



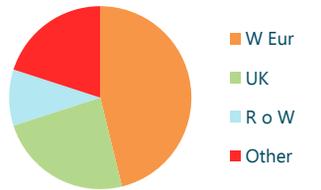
### Hills

With an estimated 1,145 rooms, the smallest market in Cyprus, in which there are no 5\* hotels and the majority are 3\*. Very popular with Cypriots, but UK is top international market. Visitors from the Middle East are an important segment, as they seek to escape summer heat.



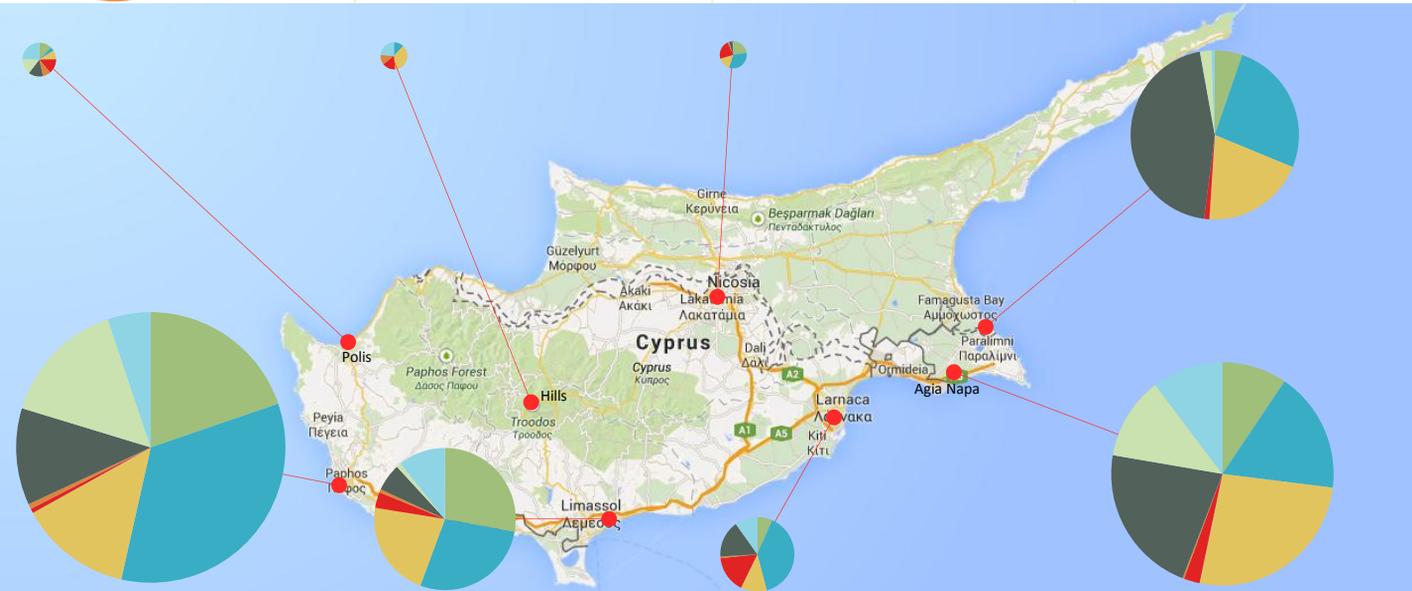
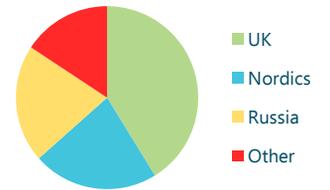
### Nicosia

The 2<sup>nd</sup> smallest market, with one 5\* hotel (Hilton Cyprus). The capital attracts few leisure tourists, with most visitors being business or government related. This shows in the nationality mix with Western Europe and Rest of the World featuring prominently.



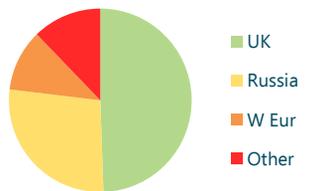
### Paralimni

A relatively small area, but home to a high concentration of serviced accommodation (very few 5\* hotels, mostly Hotel Apartments). UK dominates (together with Cypriots), but Nordic countries also count this as their 2<sup>nd</sup> favourite destination on the island.



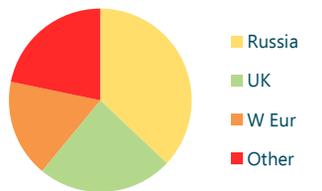
### Paphos

With over 12,000 rooms, Paphos is the largest market and enjoys the 3<sup>rd</sup> highest proportion of 5\* hotels in Cyprus. The UK is still the key source market, although the number of visitors from Russia is increasingly rapidly as they seek alternatives to their traditional favourite, Limassol.



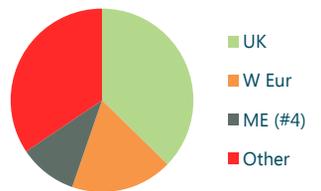
### Limassol

Smaller than both Agia Napa and Paralimni in terms of available rooms, but offers the highest proportion of 5\* hotels on the island. Very popular with the Russian market (both leisure and business), but also a good mix of different nationalities are attracted to the city.



### Larnaca

The smallest of the big beach city destinations, with the vast majority of accommodation being 4\* hotels. The UK and domestic market are strong, however, it is worth noting the city's appeal to the Middle East and to a wide variety of nationalities (including Russia in 3<sup>rd</sup> place).



### Agia Napa

The 2<sup>nd</sup> largest market in Cyprus, with a high concentration of 3\* hotels. Surprisingly, it is no longer popular with the UK market. The key markets seeking the Agia Napa experience in 2013 were Russia and the Nordics.

