



November 2021

EMEA Hotels & Hospitality

Hotel destinations: Mediterranean resorts

Mediterranean resorts rebound strongly in a post-pandemic world

Upscale and luxury resorts lead the way

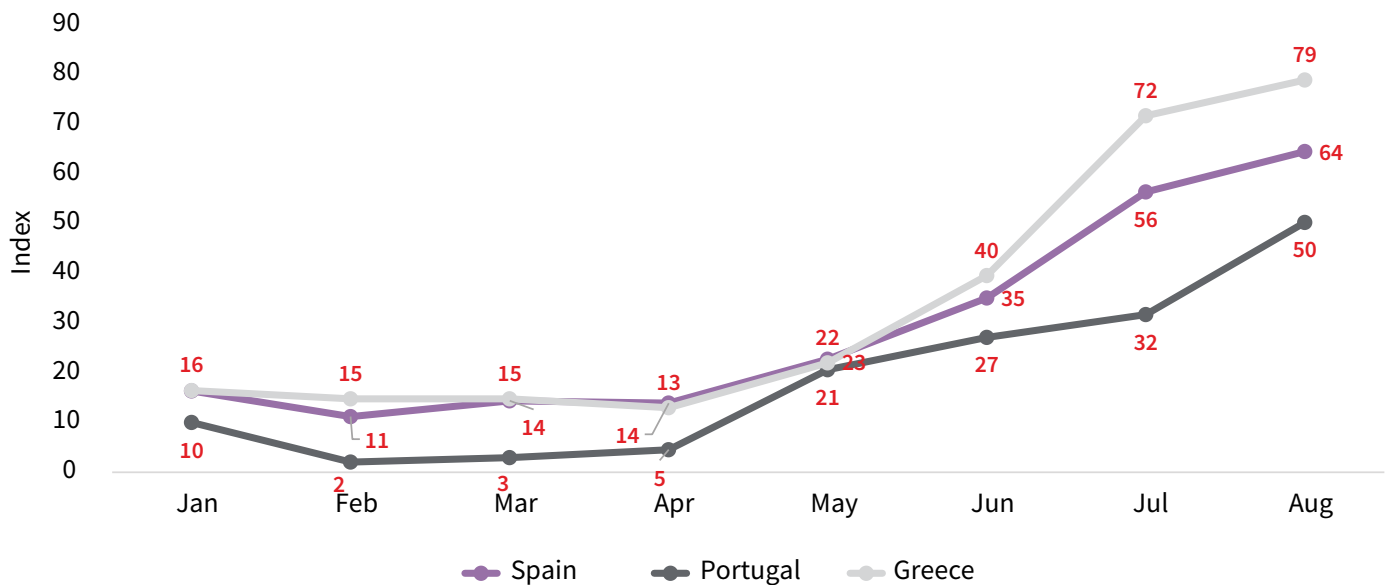
In 2019, Spain, Portugal and Greece welcomed c. 177 million international arrivals, according to the World Bank, positioning the region as one of the world's most popular resort destinations. For all three countries, the travel sector is a critical economic driver representing between c. 14% and 20% of country's GDP, according to the World Travel & Tourism Council, 2019. During the summer of 2020, tourists largely preferred to stay within their home country and avoided travelling abroad due to the strict travel restrictions and fear of the unknown.

The successful vaccination rollout in most EU countries, in combination with the pent-up demand has led to a far more positive trend during the summer season of 2021, despite the spread of the more contagious Delta variant.

During the months of July, Spanish, Portuguese, and Greek key resort airports welcomed c. 10 million passenger arrivals in total, representing c. 60% of the 2019 traffic during the same months.

The inconvenience of travelling to more established long-haul destinations, combined with greater indifference of luxury travellers to higher costs of covid tests and travel insurance and are all factors that have led to luxury resorts in the Mediterranean having a particularly fruitful summer. A lack of cruises and pent-up holiday demand from 2020 have increased the average length of stay on an already compressed supply, further contributing to a higher performance in Mediterranean resorts.

Recovery index of passenger arrivals 2021 vs 2019



Sources: AENA, INE, Civil Aviation Authority



National demand dominated Spain in July, while August bounced back strongly with influx of international visitors

The volatility of changes in travel restrictions imposed by the UK and Spanish governments during the summer of 2021 have led to Spanish resorts relying on domestic demand more than in previous years. According to INE, local demand contributed to 14.9 million overnight hotel stays in July 2021, compared to 14.8 million in the same month of 2019. While July 2021 recorded a decrease of c. 44% in airport activity compared to the same month in 2019, an ease in restrictions and a larger influx of UK and German travellers in August have improved this to c. 7.4 million travellers, compared to c. 11.5 million in August 2019. During the month of August, Ibiza recorded 74% of passenger arrival volume from August 2019, followed by Malaga and Palma de Mallorca at 64%.

Luxury resorts in the Balearic Islands and Costa del Sol have reported a 5% decrease in RevPAR as of August YTD 2021 (based on a customised sample of hotels from STR), solely driven by lower occupancy and the late opening of hotels caused by major lockdowns in Europe during Q1 / Q2.

Average rate has consistently outperformed 2019 levels with, on average a c. 14% increase during the months of July and August. Due to the lack of skilled workforce, a challenge the hospitality industry is facing as a result of Covid-19, certain hoteliers had to limit releasing inventory in high occupancy months. A strategy to release the highest room categories first has further contributed to the growth in average rates.

Average rates are c. 14% higher in Spanish luxury resorts during the months of July and August



Greece capitalises on strong response to Covid-19

Despite the added challenges of Greek hoteliers related to the wildfires that distressed parts of the country, Greece has experienced a strong rebound in international travel with c. 6.8 million passenger arrivals during the months of July and August, according to the Hellenic Civil Aviation Authority. A few islands excluding, this remains below the pre-pandemic levels of 9 million; equally it shows solid signs of recovery considering various islands were marked “dark red” on the Covid-19 map throughout the key summer months.

The late opening in combination with restrictions from key markets such as Russia and the UK led to a sluggish May and June however lifting of such restrictions brought strong performance in July and August (11% growth in RevPAR in August 2021 compared to the same period of 2019, based on a customised sample of luxury hotels from STR).

The increase in average rates is also associated with the improvement in the quality of hotel stock, with several refurbishments and new openings recently added to supply. The positive sentiment of consumer spending was similarly reflected on non-rooms revenue with a c. 9% increase in total revenue during the months of July and August, compared to 2019, according to STR.

Greek hoteliers saw 11% growth in RevPAR in August 2021



UK market commands pace of recovery in Portugal

British demand is of critical significance to the Algarve region, historically representing c. 25% of total overnights in the region, according to INE. As such, the UK's decision from 19th July 2021 to allow travellers to return home from Portugal without needing to quarantine has had a huge impact on the tourist season. While the beginning of summer was predominantly led by domestic tourism (2.7 million overnights in July 2021 compared to 2.5 million in July 2019), occupancy of luxury hotels in the Algarve region picked up significantly from August 2021. An influx of international travellers due to the easing of restrictions and a continuation of strong domestic demand were the two contributing factors.

The positive trend has allowed hoteliers to grow average rates, resulting in a c. 15% growth of average rates during the month of August (based on a customised set of luxury hotels from STR), compared to the same period in 2019. Good weather conditions and the availability of flights during shoulder months is expected to translate into strong performance from September onwards, compensating for the loss from the beginning of summer.

Strong performance continues after peak summer months in Portugal



Resorts enter institutional investor landscape

Strong fundamentals of the leisure segment and a successful summer season have resulted in an increased interest for this asset class from the investor universe. The more risk averse institutional investors as well as private equity firms that have access to core capital, who have traditionally shied away from resorts, are shifting their strategy and engaging in selective sale and leaseback acquisitions. Several traditional hotel investors are raising leisure specific funds, resulting in more capital than ever before seeking opportunities in the resort segment. Total investment volume into resorts in these three markets as of YTD September 2021 was c. 17% lower than during the same period of 2019 (EUR 1.2 billion in 2021 vs. c. EUR 1.6 billion in 2019) – the slowdown is on the back of limited availability of product as opposed to investors' interest.

The extent to which this successful summer season was an outcome of pent-up demand and not an indicator of a general trend that will be mirrored into next year, is unknown. The relatively high vaccination rates in most Mediterranean countries however, combined with the gradual overall recovery of the tourism sector looks promising for the years ahead.





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