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IN FOCUS:

MYKONOS & SANTORINI, 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 December 2013, Greek tourism receipts rose by 15.6% compared to December 2012. This brought total tourism receipts of the year to €12.0 billion, representing an increase of 14.9% compared to the same period last year. In 2013 17.9 million international tourists arrived in the country (an all-time record), up from 15.5 million in 2012;
- In 2013, inbound tourism in Mykonos and Santorini, bounced back after a steep decrease recorded in tourism statistics in 2012, as international airport arrivals recorded a total 24.0% growth rate for both airports;
- The hotel markets in Mykonos and Santorini feature several luxurious hotel units, and, in general, they both attract high-spending international visitors. The island of Mykonos has built over the years a strong profile connected with affluent hip and trendy clientele, while Santorini has successfully managed to be positioned as a primary destination for upscale weddings and romantic honeymoons. Therefore, both destination were the least affected by the recent economic-political turmoil in Greece whereas their future potential remains dynamic;
- Upscale hotels in Mykonos recorded very resilient occupancy levels and average room charges during 2010-12 leading to a slightly affected RevPAR of about €80 - 85. For the same time period, performance of upscale hotels in Santorini was negatively affected by the general turbulence in the country but their achieved average room rates and profit margins remained the highest in the country;
- Over the last seven years upscale (five- and four-star) hotel room supply in both Mykonos and Santorini recorded significant increase as hotel investment activity remained intensive and plenty of hotels entered the market especially in the high-end of the market.

Region Overview

Cyclades Islands are one of the island complexes that constitute the Aegean Archipelago. The group consists of some 220 islands of which many of the smaller ones remain uninhabited. The entire complex is an administrative prefecture of Greece whereas the major islands are: Amorgos, Andros, Ios, Kea, Kimolos, Kithnos, Milos, Mykonos, Naxos, Paros, Folegandros, Serifos, Sifnos, Sikonos, Siros, Tinos, and Santorini.

The islands are peaks of submerged mountainous terrain, with the exception of two volcanic islands, Milos and Santorini. Excluding Naxos, the soil in the Cycladic islands is not very fertile. Agricultural production includes wine, fruit, wheat, olive oil, and tobacco. The climate is generally dry and mild. Cooler temperatures are recorded in higher elevations and Cyclades generally do not receive heavy winters. All roads in the island complex are secondary or provincial.

Island of Mykonos

Mykonos is one of the most famous Greek island tourism destinations, renowned for its cosmopolitan character and intense nightlife. It spans over an area of about 85 km², its highest elevation is about 340 metres, while its coastline measures some 80 kilometres. It lies on the north-east section of Cyclades and is surrounded by the islands of Tinos, Siros, Paros, and Naxos. It has some 10,000 inhabitants (2011 census) and boasts a population density that increased by 50% in 2011 compared to 1991.

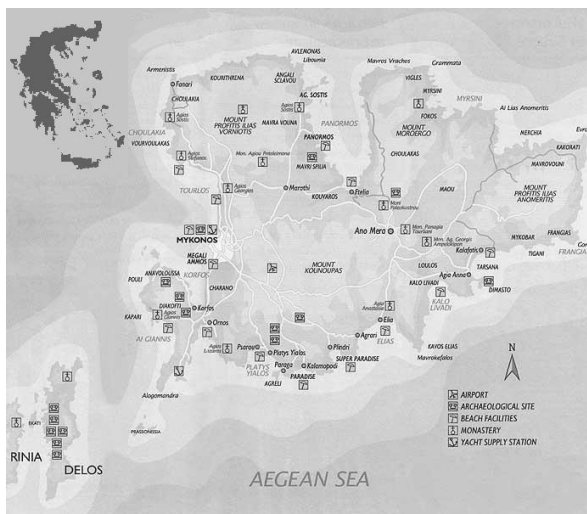
The climate of the island is Mediterranean with mild winters and warm but comfortable summers. Its economy has developed around tourism, as evidenced by the numerous hotels, bars, and clubs that operate on the island. Mykonos has progressively evolved into a very popular summer destination, especially for high-net-worth individuals, but is also very-well known for its sandy beaches. The tourism development of the island began back in the 1960s when numerous international entrepreneurs, politicians, and celebrities started visiting the island and was gradually established as a tourism destination mainly for the “rich and famous”.

Tourism is an important element of the island's economy. The overall tourism season is limited to only six months (April to September) with peak visitation occurring in August. The main attractions of the island, other than the vivid night life and the unique beaches, include: the small island of **Dilos** which is one of Greece's most famous archaeological sites, located to the south-west of Mykonos; **Little Venice**, a section of the main town of Mykonos famous for its colourful balconies resembling the homonymous city; The **Archaeological Museum** featuring a large number of vases, grave statues, and funerary urns; **Paraportiani**, one of the most famous architectural structures in Greece, referring to an inner or secondary door towards the Medieval stone walls that encircled the area; The **Aegean Maritime Museum**, displaying models of a collection of ships from the pre-Minoan period through the 19th century as well as nautical and ancient artefacts relating to the history of shipping on the island; and the **windmills**, a local landmark.

INDICATIVE MAP OF SANTORINI



INDICATIVE MAP OF MYKONOS



Island of Santorini

Santorini is a small, circular archipelago of volcanic islands located in the south Aegean Sea, about 200 kilometres south-east from Greece's mainland. It is also known as Thera (or Thira), forming the southernmost member of the Cyclades group of islands, with an area of approximately 73 km² and a population of 13,670 (2011 census). It has a total land area of more than 90 km² including the uninhabited islands of Nea Kameni, Palaia Kameni, Aspronisi, and Christiani.

Santorini is essentially what remained from an enormous volcanic explosion, destroying the earliest settlements on what was formerly a single island, and leading to the creation of the current geological caldera. The island is a popular island destination around the globe that offers several attractions to tourists, such as the **volcano** and the **archipelago** views, the **Ancient City of Thira**, the boat trip

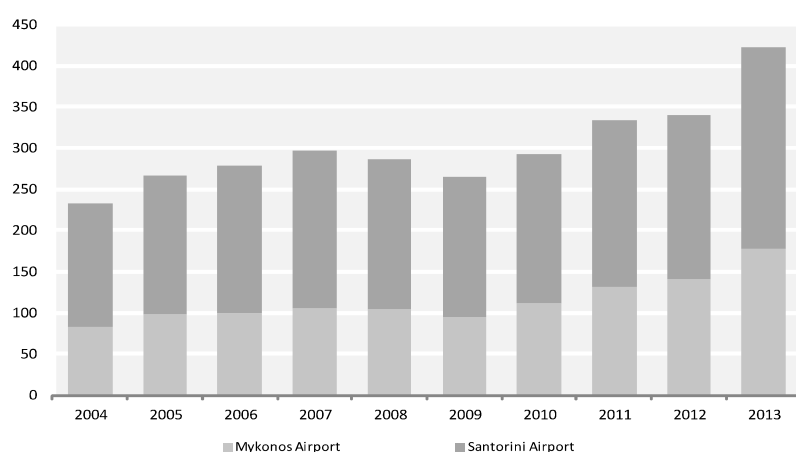
around the **volcano**, the archaeological site of **Akrotiri**, (functional again since October 2012 after the restoration of the collapsed roof of the archaeological site), and numerous beaches, three of which are awarded with the Blue Flag. Santorini also features several museums, most popular being the **Prehistoric** and the **Archaeological** one. Due to its unique beauty enhanced by the volcano and the breathtaking views to the Aegean Sea, and its famous sunset, the island is well-positioned towards the niche market of weddings and honeymooners as an ideal destination.

Tourism and Visitation

Airport Traffic

Mykonos International Airport offers regular flights from Athens and Thessaloniki by Olympic Airways and Aegean Airlines throughout the year and from select Greek cities during the summer season (Iraklio, Chios, Corfu, Rhodes, Santorini, Samos, Mitilini, Kos, and Alexandroupoli).

CHART 1: INTERNATIONAL AIRPORT ARRIVALS – MYKONOS & SANTORINI 2004-13 (000s)



Source: Civil Aviation Authority

Santorini is served by one airport, the Santorini National Airport, that accommodates, in addition to the regular national flights, international charter flights during summer when tourist visitation usually peaks.

During the off-peak tourist season, both airports have limited flight connections and operating hours. During the busy summer tourism season, the airports also receive charter flights from many major feeder markets.

Total airport arrivals in Cyclades grew at a healthy Compound Annual Growth Rate (CAGR) of 4.2% during the past ten years,

primarily attributed to the increase rate in passenger arrivals at Mykonos Airport. Santorini accepts almost 100,000 more airport passengers than Mykonos each year showing the difference in the dynamics of the market but also the fact that access to Santorini by boat is less convenient due to its far distance from the main Greek seaports. Total airport arrivals in Cyclades (including all airports) recorded a decrease in 2008 and 2009 due to the global economic recession, but bounced back in 2010 and even exceeded 600,000 passengers in 2011. In 2013, arrivals at both airports recorded a significant increase of 24.0% as a result of the general improvement of the tourism sector in Greece. International arrivals at Mykonos and Santorini airports account for approximately 60% of total arrivals, whereas total arrivals at both airports make up over 90% of the total airport arrivals at Cyclades.

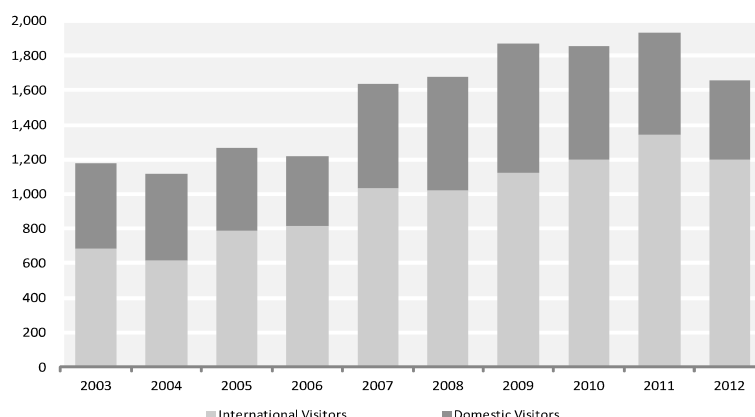
Both islands of Mykonos and Santorini also accept numerous tourists by sea, since many tourists prefer to visit various Cycladic islands following the trend of “island-hopping”, while they are both prominent destinations for cruisers especially originating from the U.S.A.

Demand for Transient Accommodation

Visitation to Cyclades from 2003 to 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 the hotels of the Cyclades complex. Even so, the hotel properties on the islands of Mykonos and Santorini absorb the vast majority of the demand for lodging facilities (calculated to be more than 70%) and therefore the statistics provided below are considered to be indicative of the tourism pattern in the examined two markets. However, the market share captured by each market cannot be precisely calculated.

An average between 60% and 70% of the total accommodated bednights in Cyclades has been of international nature. The total number of accommodated bednights has experienced a vigorous growth over the past ten years with a recorded growth rate of 40.7%, primarily driven by growth in the international bednights, at 74.6%. The achieved CAGR of 3.9% of total hotel bednights demonstrates that the destinations despite being internationally well known still enjoy a high future potential. While domestic tourism in Cyclades recorded a positive trend from 2007 until 2009, it decreased by 39.2% during 2010-12 mainly owing to the general economic distress in Greece. The cost of transportation 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 – CYCLADES 2003-12 (000s)



Source: Hellenic Statistical Authority

Chart 3 illustrates the evolution of the average length of stay in Cyclades, as well as the hotel bed occupancies in the region. Bed occupancy was intensively fluctuating from 2003 to 2008 recording a maximum of about 58% and a minimum of approximately 43%. During 2009-12 about 16 percentage points were lost, as a result of the financial crisis that affected leisure travel but also due to the introduction of new hotel units in the market. Nevertheless, 2013 was a very busy season for all the islands and hotel occupancies ended up at higher levels.

As in most leisure tourism destinations in Greece, the highest bed occupancy figures in Cyclades occur in July and August with numbers reaching or sometimes exceeding 90%. The tourism product in the examined islands of Mykonos and Santorini is partly driven by individual tourists, (accommodated in luxurious hotel units) but partly also by massive tourism. Upscale tourists in Mykonos prefer various locations within the island where luxury properties are located, whereas the minor market of group tourists is primarily driven to specific locations such as Kalafati or the town of Mykonos.

CHART 3: TOURISM STATISTICS – CYCLADES 2003-12

Year	Arrivals at Hotels (000s)	Accommodated Bednights (000s)	Average Length of Stay (Days)	Bed Occupancy
2003	318	1,176	3.7	51.6 %
2004	321	1,118	3.5	42.8
2005	338	1,269	3.8	55.7
2006	327	1,216	3.7	57.8
2007	447	1,635	3.7	52.5
2008	462	1,680	3.6	50.1
2009	511	1,871	3.7	46.3
2010	518	1,856	3.6	42.5
2011	537	1,928	3.6	41.0
2012	453	1,655	3.7	33.7

Source: Hellenic Statistical Authority, HVS Analysis

Santorini's market is divided in two distinguished parts: the cliffs to the west of the island, that are dominated by small ultra-luxury hotels and villa complexes offering unobstructed views towards the famous volcanic Caldera, and the east beaches that are preferred by groups of tourists and lower-spending travellers. During the winter months, only a few hotels in the cities of Mykonos and Santorini operate in order to accommodate the needs of visitors who travel to the island primarily for business purposes.

Hotel Supply

The evolution of supply of hotel accommodation in the islands of Mykonos and Santorini 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 Mykonos

The majority of hotels are classified as one- and two-star, while the absence of five-star units is very evident at about 7% of the total hotel supply. Nevertheless, five- and four-star hotel units together represent about 50% of the total number of available rooms and beds demonstrating the relevant adequacy of upscale hotel properties in Mykonos in comparison with the incoming tourist arrivals and bednights. The total hotel room supply of 5,385 in Mykonos is equivalent to the 20% of all hotel rooms in Cyclades. In 2012, the average five-star hotel in Mykonos featured 85 rooms and 171 beds, a size somewhat higher compared with the average size in 2006 (78 rooms and 156 beds) but indicative of the small units in Cyclades due to various limitations such as building coefficient, and architectural restrictions. The average size of four-star properties was 36 rooms for 2012 corresponding to 71 beds. Also remarkable is the relative investment activity recorded in the luxury hotel sector during 2006-11, during which the number of upscale hotel properties grew by 12 units, and consequently, rooms and beds supply increased by approximately 30%. Hotel unit supply in other categories remained relatively unchanged for the entire examined period.

CHART 4: HOTEL SUPPLY – MYKONOS 2006-12

No of Hotels:	2006	2007	2008	2009	2010	2011	2012	2013	% Share (2013)
5* Hotels	9	9	9	10	11	12	12	12	7%
4* Hotels	38	39	39	37	44	46	47	51	30%
3* Hotels	30	31	32	31	30	28	29	30	18%
Other	83	83	82	82	79	78	79	77	45%
Total:	160	162	162	160	164	164	167	170	100%
No of Rooms:	2006	2007	2008	2009	2010	2011	2012	2013	% Share (2013)
5* Rooms	698	749	749	814	899	973	1,017	1,023	19%
4* Rooms	1,402	1,416	1,416	1,348	1,625	1,647	1,701	1,823	33%
3* Rooms	998	1,027	1,027	1,027	1,082	1,088	1,126	1,166	21%
Other	1,645	1,639	1,617	1,621	1,572	1,540	1,541	1,462	27%
Total:	4,743	4,831	4,809	4,810	5,178	5,248	5,385	5,474	100%
No. of Beds:	2006	2007	2008	2009	2010	2011	2012	2013	% Share (2013)
5* Beds	1,406	1,508	1,508	1,640	1,800	1,959	2,052	2,070	19%
4* Beds	2,718	2,757	2,757	2,618	3,199	3,245	3,359	3,583	33%
3* Beds	1,932	1,993	1,993	1,993	2,119	2,128	2,199	2,295	21%
Other	3,218	3,230	3,184	3,194	3,083	3,054	3,073	2,904	27%
Total:	9,274	9,488	9,442	9,445	10,201	10,386	10,683	10,852	100%
Hotel Supply Increase	—	1.3%	0.0%	-1.2%	2.5%	0.0%	1.8%	1.8%	
Room Supply Increase	—	1.9%	-0.5%	0.0%	7.7%	1.4%	2.6%	1.7%	
Bed Supply Increase	—	2.3%	-0.5%	0.0%	8.0%	1.8%	2.9%	1.6%	

Source: Hellenic Chamber of Hotels

CHART 5: HOTEL SUPPLY – SANTORINI 2006-12

No of Hotels:	2006	2007	2008	2009	2010	2011	2012	2013	% Share (2013)
5* Hotels	7	8	11	12	12	15	16	16	6%
4* Hotels	65	63	69	69	74	81	81	83	29%
3* Hotels	54	54	53	55	56	58	64	63	22%
Other	126	129	127	123	127	123	126	123	43%
Total:	252	254	260	259	269	277	287	285	100%
No of Rooms:	2006	2007	2008	2009	2010	2011	2012	2013	% Share (2013)
5* Rooms	173	200	270	332	341	450	561	566	9%
4* Rooms	1,449	1,384	1,512	1,482	1,865	2,009	2,024	2,053	32%
3* Rooms	882	882	876	897	1,001	1,073	1,230	1,233	19%
Other	2,615	2,692	2,651	2,612	2,677	2,627	2,675	2,654	41%
Total:	5,119	5,158	5,309	5,323	5,884	6,159	6,490	6,506	100%
No. of Beds:	2006	2007	2008	2009	2010	2011	2012	2013	% Share (2013)
5* Beds	330	381	521	649	668	897	1,142	1,155	9%
4* Beds	2,694	2,564	2,840	2,772	3,516	3,807	3,835	3,892	31%
3* Beds	1,691	1,691	1,675	1,713	1,905	2,042	2,386	2,387	19%
Other	5,074	5,219	5,133	5,050	5,207	5,092	5,185	5,128	41%
Total:	9,789	9,855	10,169	10,184	11,296	11,838	12,548	12,562	100%
Hotel Supply Increase	—	0.8%	2.4%	-0.4%	3.9%	3.0%	3.6%	-0.7%	
Room Supply Increase	—	0.8%	2.9%	0.3%	10.5%	4.7%	5.4%	0.2%	
Bed Supply Increase	—	0.7%	3.2%	0.1%	10.9%	4.8%	6.0%	0.1%	

Source: Hellenic Chamber of Hotels

Island of Santorini

As in the case of Mykonos, the majority of hotels in Santorini are classified as one- and two-star, while five-star units account for only 6% 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. The total hotel supply of 6,490 rooms in Santorini is equivalent to the 26% of all hotel rooms in Cyclades and thus, both islands host 46% of the total hotel room capacity in the region.

In 2012, the average five-star hotel in Santorini featured 35 rooms, almost 10 rooms more than the average size in 2006. During 2006-12 hotel investment activity on the island was intense since the number of five-star units almost doubled to reach

16, while the number of four-star units also increased by 16 to reach 81 in comparison with the 65 four-star units in 2006. Hotel unit supply in other categories remained relatively unchanged for the entire examined period showing that investors

on the island favored the construction of luxurious properties. In general, upscale room inventory on the island increased by 59% during 2006-12 totaling 2,585 rooms.

Branded Properties

A very limited number of international and local hotel operators have presence in Mykonos and Santorini since most of the hotels are owned and/or operated by local hoteliers while the most popular marketing tactic is joining a hotel consortium or affiliation.

Despite the fact that Mykonos and Santorini are two of the most upscale destinations within Greece, very few international hotel brands have a presence in the market. Starwood Hotels & Resorts is the only international brand on both islands having a franchise agreement with three units (two in Santorini and one in Mykonos). Other local operators include Grecotel and Louis, which both have a presence in Mykonos, whereas Rocabella and Grace Hotels are two small hotel groups with presence on both islands.

The main characteristic of both hotel markets is that they are dominated by local hotel groups that own and/or manage various hotel properties on each island solely. Resorts of Mykonos, Myconian Collection, and Petasos Hotels, operate altogether 885 of the upscale hotel rooms on the island of Mykonos (32.5% share). Upscale hotels in Mykonos belong to various marketing consortiums in order to acquire international exposure and take advantage of their distribution channels. Notably, almost all five-star properties in Mykonos are affiliated with a hotel consortium. KD Hotels, MedHotels, and Karamolegos Group of Hotels operate altogether 27.8% of the total upscale hotel rooms on the island of Santorini.

Lately, there have been two noteworthy developments regarding hotel management in Cyclades. Hotel Brain and Aqua Vista are two management companies that focus on managing small hotels in Cyclades. Hotel Brain started a decade ago with the management of a few small properties in Santorini in order to achieve synergies and economies of scale and currently manages 64 hotels (mainly in Mykonos and Santorini) of various classifications. Aqua Vista started in 2009 with its first hotels and currently manages 15 hotel properties and villas in Santorini.

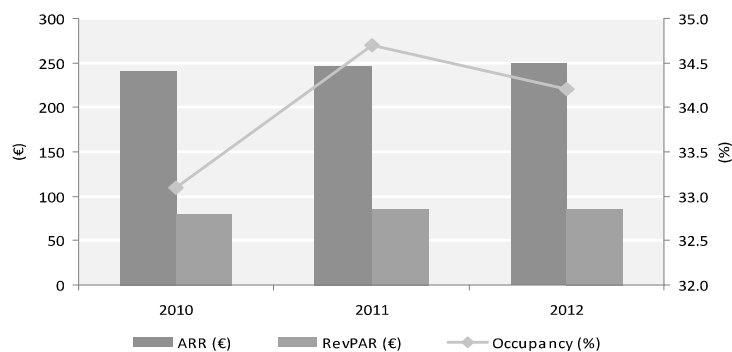
Hotel Performance

Charts 6 and 7 summarise the important operating characteristics of primary hotels in Mykonos and Santorini. 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 1,090 hotel rooms in Mykonos and 222 in Santorini. It should also be noted that all occupancy percentages refer to 365 days of operations for consistency reasons. Despite the different performance of the hotels on the two islands regarding total revenues per available room, hotel companies in Mykonos and Santorini recorded some of the highest percentages of operating profit margins in Greece. The achieved profit margins of hotels on both islands are the highest amongst all beachfront destinations in Greece.

Island of Mykonos

Examined hotels in Mykonos recorded average daily rates that range between €170 and €450, while their achieved annual occupancy rates range between 60 and 80% on a seasonal or 32 – 40% on an annual basis. Generally, the upscale hotels in Mykonos have similar behaviour regarding occupancy, with the average room rate being the differentiating factor. Hotels in Mykonos achieve considerably higher levels of room charges, sometimes exceeding €400. Generally, even hotels of

CHART 6: HOTEL PERFORMANCE - MYKONOS 2010-12



Source: HVS Research

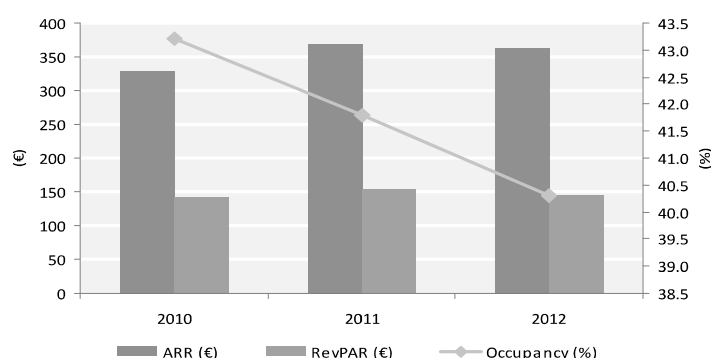
lower classification achieve higher levels of daily charges, compared to most areas within Greece, due to the positioning of the destination, connected with glamour and style. Tourism season in Mykonos lasts approximately 180 days.

Based on an aggregate income statement comprising of 11 hotel companies operating upscale hotels in Mykonos, representing 1,019 rooms (or 37.5% of total upscale room supply), total revenues per available room averaged €44,000 in 2012, an amount almost unchanged from the €45,000 that was recorded for the examined companies in 2011. Gross profit margins shrunk by only 1.6 percentage points and remained above 30%.

Island of Santorini

Examined hotels in Santorini recorded average daily rates ranging between €200 and €500, while their achieved annual occupancy rates range between 70 and 85% on a seasonal or 35 – 45% on an annual basis. Generally, the hotel market in Santorini is divided in two, in terms of average room rates. Hotels lying on the Caldera achieve considerably higher levels of

CHART 7: HOTEL PERFORMANCE - SANTORINI 2010-12



Source: HVS Research

room charges than the rest of the areas (like Kamari, Perissa, or Vothonas), in most cases exceeding €400. Hotels on the east side of the island rely more on massive tourism and contracts with tour operators, and therefore, their achieved room prices lie around €120. Tourism season in Santorini lasts approximately 220 days. The tourism period is higher than many popular destinations within Greece since tourists visit the Caldera also in Spring or Autumn whereas the wedding ceremonies that take place on the island is a niche market that effectively expands tourism season. Occupancy-wise there are no big variances amongst hotels.

Based on an aggregate income statement comprised of eight hotel companies operating upscale hotels in Santorini, representing 825 rooms (or 31.9% of total upscale room supply), total revenues per available room averaged €26,000 in 2012 dropping down from €28,000 that was recorded for the examined companies in 2011. Hotel companies of our sample in Santorini appear to be more efficiently managed and enjoy the highest percentage of operating profit margins compared to all other beachfront destination in Greece, mainly due to the high average room charges achieved, averaging at close to 43% for both 2011 and 2012.

Recent and Forthcoming Tourism Developments

The following projects represent the future changes in supply of hotels on the islands of Mykonos and Santorini.

The **Myconian Collection** group of hotels inaugurated its third hotel unit in the area of Elia, Mykonos in August 2013 under the name Myconian Utopia. The hotel features approximately 60 rooms. The group has also plans to build an additional hotel in the same area capturing literally an entire hillside above the beach of Elia overlooking the south.

Petasos Hotels, that owns and operates Mykonos Grand and Petasos Beach hotels, has already begun the construction of a new five-star property counting approximately 70 rooms in the area of Tourlos, Mykonos between the island's harbour and the new marina that is about to be completed by 2016.

The **Proposed Akrotiri Hotel** is a project developed by a local, renowned hotelier on the island of Santorini on a land plot overlooking the archipelago on the south part of the island just before the village of Akrotiri. The project is currently on hold even though the building cold shells are ready. Upon its completion, the hotel is set to feature 42 suites almost all of which are planned to have their own pool whereas some rooms are located below ground with external gateways to private

gardens and pools. However, the completion date of the resort is still unknown. It is assumed that the hotel will feature at least one restaurant and bar and probably some spa facilities.

The owning company of **Santorini Image Hotel** has made plans in order to totally renovate the hotel and reposition it to be a luxury-class, five-star lodging facility with 116 rooms, an all-day dining restaurant, a specialty a la carte restaurant (indoor and outdoor service), two bars located in the lounge and by the pool, a lobby lounge, a gym and spa facilities, meeting space, a business centre, outdoor pool, a kids' pool. The proposed development is planned to also include the construction of villas on an adjacent landplot.

Conclusion

Mykonos and Santorini are two islands within the complex of Cyclades that enjoy very high levels of international awareness within Greece and are distinguished tourism destinations of world fame. Both islands target upscale tourist markets since they are both positioned as luxurious destinations that offer hotel units of high quality. This international awareness and the existence of luxury hotels are not connected with the presence of international hotel operators but local hoteliers rather prefer to run their hotels on their own. The hotels in both destinations are of small size due to various limitations and barriers to entry; however, their achieved performance is the best in Greece in terms of profitability.

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About HVS

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