KPMG

Cyprus hospitality sector update

KPMG Cyprus' Hospitality newsletter

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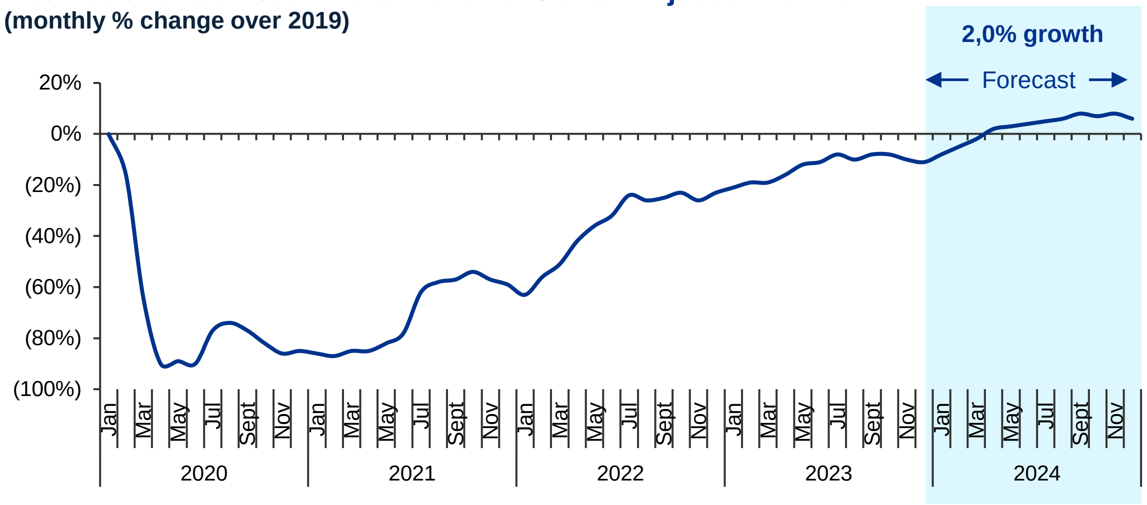
June 2024 issue

Supported by pent-up demand, improved connectivity, and a strong recovery of the European markets, UNWTO expects international arrivals to fully recover in 2024.

International tourist arrivals: 2020-2023 and Projection for 2024
(monthly % change over 2019)

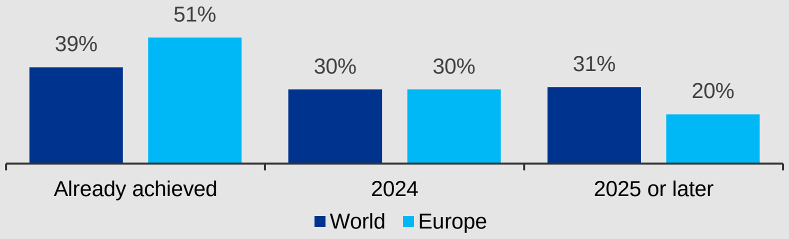


Source: UNWTO

- As per the data obtained by the UN World Tourism Organization ("**UNWTO**"), an estimated 1.286 million international tourists were recorded around the world in 2023, an increase of 34% over 2022.
- International tourism is expected to fully recover in 2024, climbing 2% above pre-pandemic levels to 1,5 billion arrivals as a result of unbundling of remaining pent-up demand, an increase in air connectivity and a stronger recovery of European destinations.
- According to UNWTO's Panel of Experts, the challenging economic environment continues to pose an important risk to the sustained recovery of international tourism.
- Against this backdrop, tourists are expected to increasingly seek value for money and travel closer to home, in a context of rising costs of living and disposable incomes under pressure.
- Continued uncertainty derived from mounting geopolitical tensions also represents a downside risk. As per UNWTO, in a context of geopolitical volatility, some respondents mentioned that destinations perceived as safe could benefit from increased demand.

What are the main factors weighing on the recovery of international tourism?
(% of experts mentioning each factor)

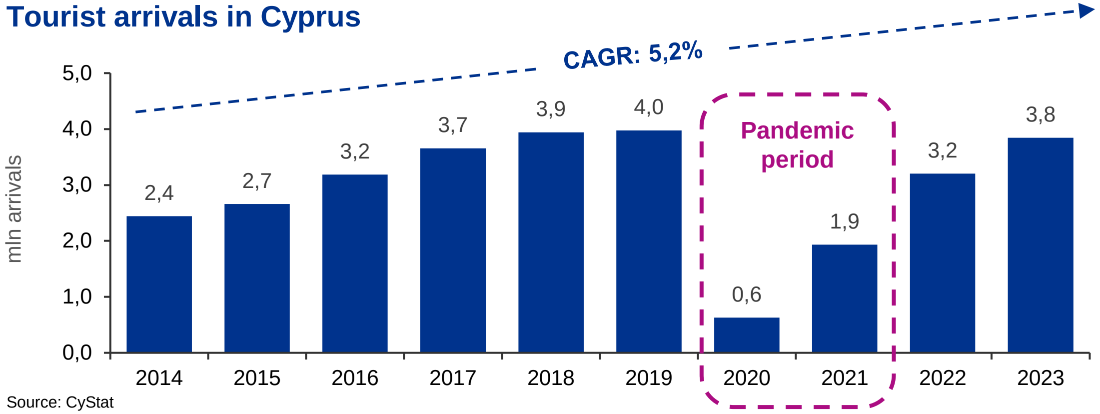
When do you expect international tourism to return to 2019 levels in your country?



Source: UNWTO Panel of Experts Survey (January 2024)

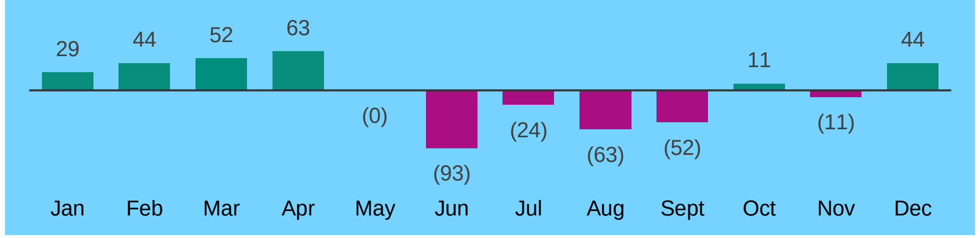
Q1 2024 tourist arrival results hint at not only the potential for a full recovery to pre-pandemic levels by the end of 2024 but also the possibility of exceeding 2019 record performance.

Tourist arrivals in Cyprus



Source: CyStat

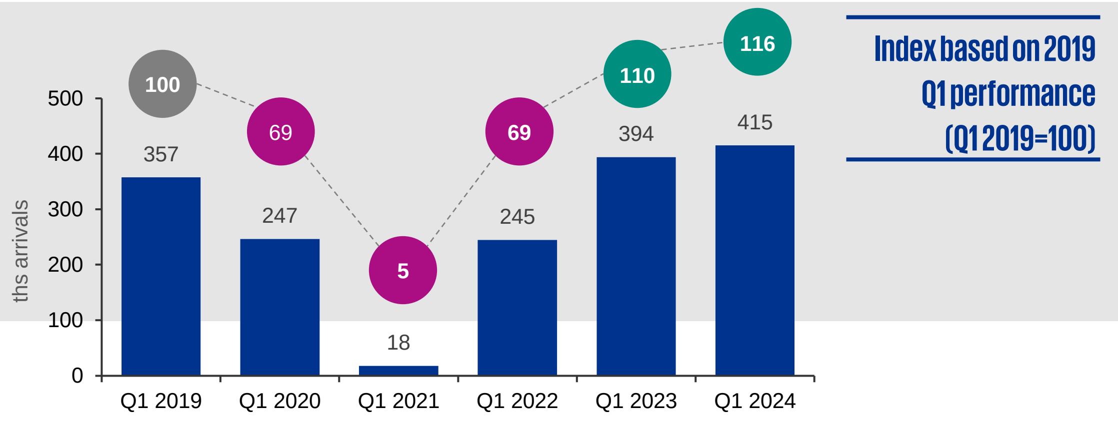
Seasonality spread between 2019 and 2023 (bps)



Note: (a) Analysis is based by comparing the month-to-month distribution of tourist arrivals between the two periods (e.g. the proportion of total arrivals in January 2023 versus the equivalent month in 2019 increased by 29 bps)

Source: CyStat

Tourist arrivals in Cyprus - Q1 benchmarking

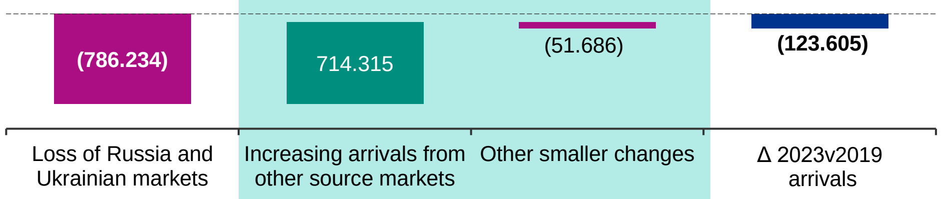


Source: CyStat

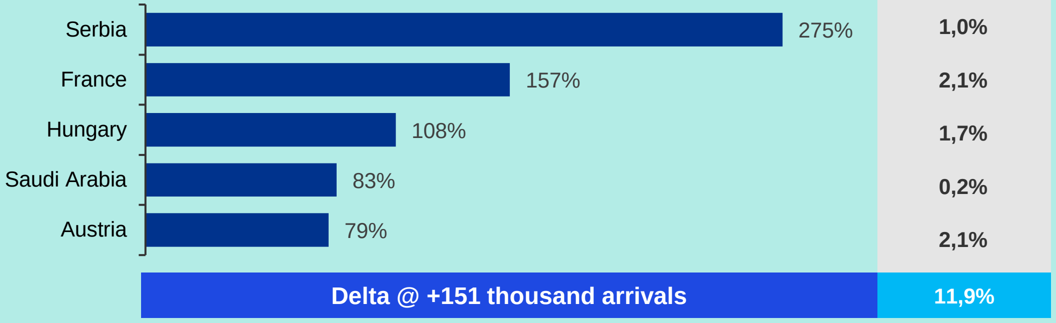
- Entering 2020, the imposition of travel restrictions and the closing down of international borders due to Covid-19 led to arrivals reaching an all-time low with just 630 thousand arrivals.
- Tourist arrivals rebounded in 2022 with 3,2 million arrivals (20% lower compared to 2019 results), despite the Russia-Ukraine conflict in early 2022 impacting the Cypriot tourism market, given that Russia was the second-largest source market.
- Due to a campaign by the Deputy Ministry of Tourism, as well as local enterprises and the hospitality community, to attract new source markets and improve the island's connectivity, arrivals in 2023 reached 3,8 million, close to pre-pandemic levels.
- Based on the latest available data for Q1 2024, arrivals were 16% higher compared to 2019, indicating a positive outlook for another improved year for the Cypriot hospitality industry, with a target to at least meet the 2023 levels.
- The Cypriot tourism continues to be highly seasonal with over 83% of total tourists arriving between April and early October of each year between 2019 and 2023.
- By comparing the monthly distribution of tourist arrivals to total arrivals in 2023 versus 2019, the seasonality effect between the periods of November to April appears to be marginally subdued.

Non-traditional tourist source markets emerged to offset the loss of Russian travellers, who were the second-largest source market in 2019

Changes in the composition of tourist arrivals between 2019 and 2023 (Δ# arrivals)

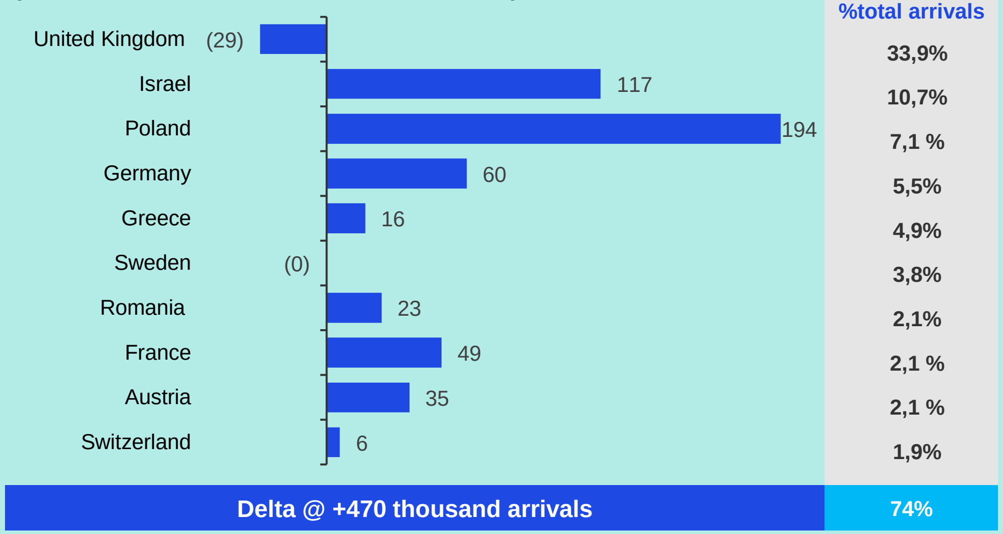


High growth source markets in 2023 (% growth)



Source: CyStat

Top ten source market analysis
(Δthousand arrivals between 2019 and 2023)

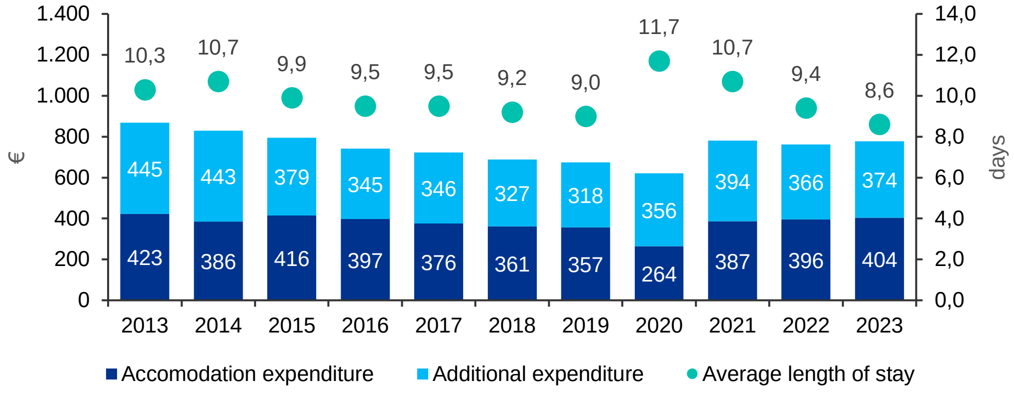


Source: CyStat

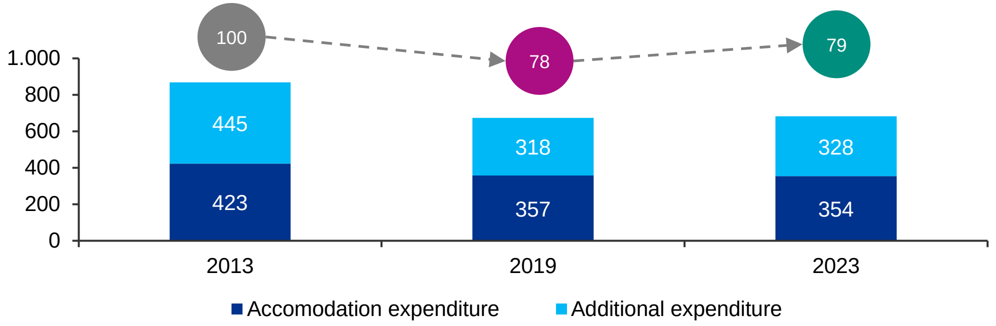
- After the start of the Russian-Ukrainian war, the composition of key source markets altered, with Poland, Romania, France, and other smaller markets gaining ground to offset the adverse impact of the loss of Russian travellers to Cyprus, which was approximately 800 thousand arrivals.
- While historically the top 10 source markets accounted for over 80% of total arrivals, 2022 and 2023 saw a notable declining trend in the size of the top 10 source markets, reducing to 74% of total arrivals by 2023 versus 80% in 2019.
- The change in the composition of the source markets showcases a gradual diversification to additional non-traditional source markets and a reduction of reliance on historically traditional source markets.
- Other smaller changes included fewer arrivals from the United Kingdom, Lebanon, and Belarus compared to 2019, largely resulting from the reduction in travellers from the United Kingdom by approximately 29 thousand.

Average (real) daily expenditure of the top five source markets appears to have increased by 5.1% compared to 2019, while the average length of stay declined by 6,5%

Total expenditure per tourist and average length of stay



Total expenditure per tourist | Real terms (2013=100)



Note: (a) Real prices were calculated based on end of period consumer prices index. Prices were rebased using the consumer price inflation of 2013 (2015=100) of 100,80

Source: CyStat

Key source markets	Expenditure per tourist per day 2023	2019	Δ%	Average length of stay 2023	2019	Δ%
United Kingdom	85,7	73,4	*16,8%*	9,9	9,9	*0,0%*
Israel	129,8	110,1	*17,9%*	4,6	4,3	*7,0%*
Poland	78,4	n/a	*n/a*	6,4	n/a	*n/a*
Germany	95,5	86,8	*10,0%*	9,1	9,5	*(4,2%)*
Greece	42,8	41,5	*3,0%*	8,9	8,1	*9,9%*
Russia	n/a	69,8	*n/a*	n/a	9,4	*n/a*
Weighted average (nominal)	**89,9**	**75,1**	***19,8%***	**8,4**	**9,0**	***(6,5%)***
Weighted average (real)	**89,9**	**85,6**	***5,1%***			

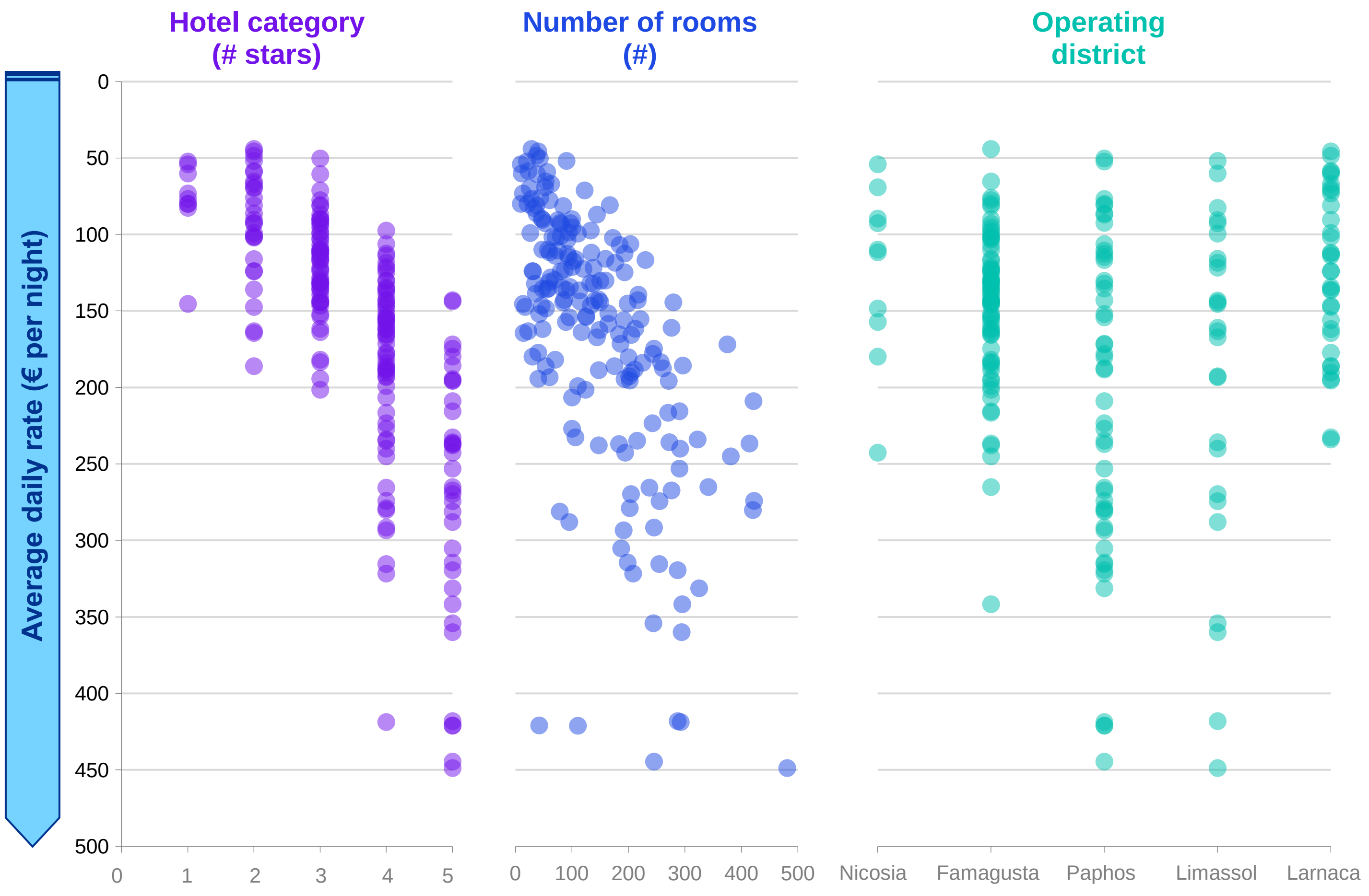
Note: (a) Real prices were calculated based on end of period consumer prices index. For 2023 and 2019, Cyprus CPI index (2015=100) was 114,99 and 100,85, respectively

(b) Weighted average was calculated based on the tourist arrivals from each source market for the respective year

Source: CyStat

- In real terms, total expenditure per tourist in 2023 increased by 1,0% compared to 2019.
- The Israeli and German markets have been the biggest spenders among other key source tourist markets.
- The average (real) daily expenditure of the top five source markets appears to have increased by 5,1%, considering the rise in arrivals from the Israeli market, which has been the biggest spender. The Polish market also spends a similar amount in real terms as the previous Russian travellers.
- Given the change in the composition of the key source markets, the average length of stay of foreign travellers on the island declined by 6,5% compared to pre-pandemic levels.

Average daily rates of hotels across Cyprus are estimated at €167 per night, with Limassol and Paphos estimated to be the most expensive destinations on the island



Source: KPMG market research

ADR | Benchmark analysis

	Nicosia	Famagusta	Limassol	Paphos	Larnaca
Median	**111**	**141**	**163**	**188**	**124**
Mean	125	147	208	211	126
Min	54	44	52	50	46
Max	242	342	576	445	234

- Our benchmarks are based on approximately 200 hotels across all districts and categories.
- Average daily rates exclude VAT (9%) and additional charges upon booking the hotel.
- These rates relate to bed and breakfast and therefore exclude any additional charges for half-board, full-board services, or all-inclusive services.
- When compared to other districts, Larnaca and Nicosia may be considered low-cost destinations for visitors.
- While the average daily rates of hotels in Famagusta appear to be higher than those in Larnaca and Nicosia, the majority of hotels are seasonal, which may skew prices towards the peak season period.

€167 per night

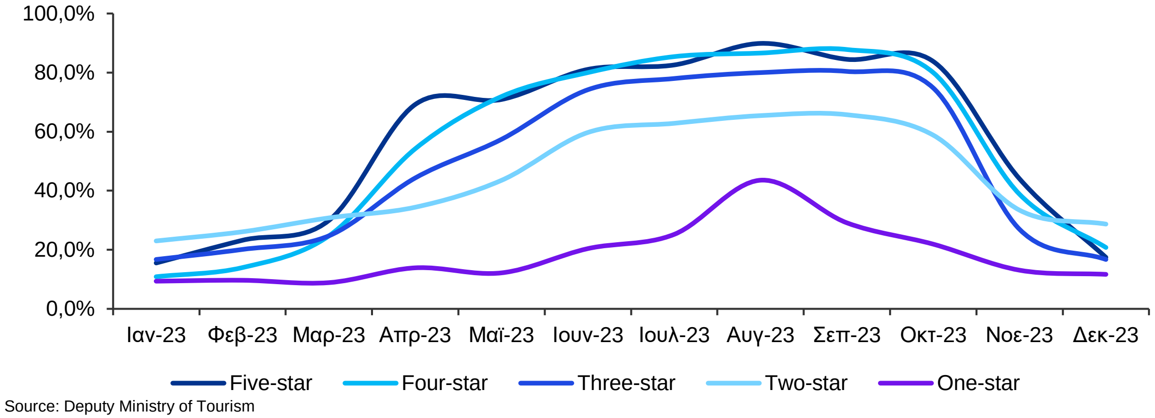
Average daily rate of hotels across all districts

€222 per night

Average daily rate of up-market seafront hotel across Cyprus

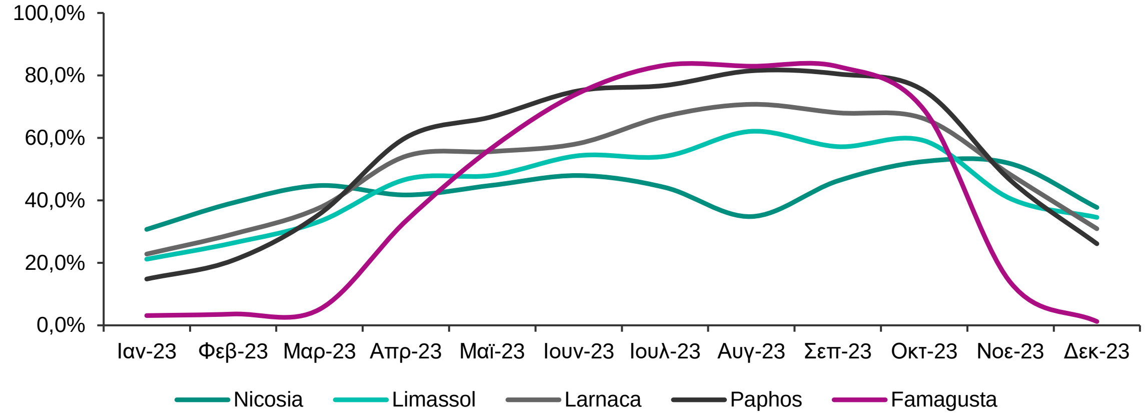
As per the latest information from DMT, gross room occupancy of hotels across Cyprus for 2023 is estimated 52,7% versus 46,7% in the previous year

Monthly gross room occupancy per hotel category



Source: Deputy Ministry of Tourism

Monthly gross room occupancy per hotel operating district



Source: Deputy Ministry of Tourism

2023 Total occupancy		2022 Total occupancy	
Gross	Net	Gross	Net
57,9%	70,1%	51,7%	64,6%
54,6%	76,8%	47,8%	72,0%
49,8%	71,2%	43,5%	65,2%
44,6%	62,7%	42,2%	57,5%
18,5%	20,6%	21,3%	23,1%
43,0%	48,5%	30,7%	45,0%
44,7%	53,9%	43,7%	52,4%
50,5%	63,1%	50,0%	61,5%
54,9%	71,1%	56,1%	69,2%
42,7%	78,5%	42,4%	79,3%

- Net occupancy rates are defined as the total number of overnight stays during a reference period divided by the total number of rooms on offer, excluding extra beds, seasonal closures and other temporary closures.
- Occupancy rates correlate with tourist arrivals on the island, with lower-star-rated hotels appearing more resilient to seasonal effects.
- This is largely due to the fact that up-market hotels, typically located coast side, remain closed during the off-season period.
- Hotels in Nicosia and Limassol appear to be the least seasonal. Aside from the leisure demand during the peak season period, hotels in Limassol and Nicosia also cater to corporate transient groups, as both cities are considered prominent business districts on the island.
- Based on the latest available public information, there appears to be reservations about expected occupancies for 2024, with some hoteliers anticipating a decline of between 5% and 10% compared to the previous year.

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