Arbitrage
Real Estate Advisors

# GREECE
# HOSPITALITY MARKET
## DECEMBER 2018


# HOSPITALITY MARKET

Over the past three years, the hospitality market in Greece has witnessed substantial business growth. Aside from the recognition that Greece is one of Europe's leading and safest tourism destination, the other main contributing factors related to the new entry of internationally recognized operators and the sustained retrofitting and upgrading of existing hospitality assets, coupled with investments in the improvement of specific transport infrastructure. The renewed efforts in the active management of the sector's non-performing loans (NPLs) also contributed to the movement in the hospitality property sector.

At the same time, the hospitality sector continues to be affected by domestic challenges and international macroeconomic developments. In Greece, such challenges refer to the economic stability and growth prospects, the outstanding high ratio of the sector's NPLs, the immigration issue in certain islands and the volatile tax framework. We also expect certain international developments to affect arrivals and related income from tourism. The Brexit negotiations outcome is one of them, whilst any further devaluation of Turkish lira could intensify competition. Other non-European markets (like Egypt, Morocco and Tunisia) in the Mediterranean market could also attract tourists and related investment capital as their situation stabilizes further and new hotel projects come to the market.

## MARKET DETERMINANTS FOR 2019

A possible downturn in the current tourism cycle is expected to be mild and rather expressed as a reduction in the demand growth rate of the Greek hospitality sector.

International financial uncertainty, combined with the newly-grown competition from neighboring markets, may lead to a possible reduction in the estimated revenue from international tourists. Given also the oversupply of 5 star hotels in popular Greek destinations, we expect the developing of more competitive and quality hotel establishments as well as 3 and 4 star boutique hotels.

International Tour Operators, such as TUI, Thomas Cook and Alltours, are expected to strengthen their presence in the Greek hospitality market, acquiring or managing new hotels and resorts as a way to control a larger number of rooms in the coming years.

The more active management of corporate non-performing loan portfolios, with hotel assets as collaterals, could be an opportunity for change of ownership, reinvestment and repositioning.

The lack of good quality serviced apartments in the city of Athens and in other destinations, will probably lead to a shift in the interest of investors and managers, towards the acquisition and operation of new assets in the city, and probably, in the regional market, where associated tourism demand is sizable.

Progress is also expected in the branded residences sector, which until recently was mainly represented by individual family businesses. New development projects are currently focusing on resort destinations and we expect them to expand into central Athens, mostly via conversions of existing and fitting out semi-completed residential buildings.

The yachting and cruise sectors in Greece are expected to expand, as sailing boat chartering and general demand for sea tourism continue to soar. At the same time, there are ongoing tenders for new marina and port projects, or for refurbishments, extensions and management of existing ones, with certain ones aiming to host cruise ships.

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# CURRENT TRENDS AND HOTEL SUPPLY

## CURRENT TRENDS

- The positive developments in the hospitality sector exceeded the 2017 forecasts of the Greek National Tourism Organization, a trend maintained also during 2018. In 2017, the international passenger arrivals reached a record number of 32 million, while the total recorded revenues summed up to 14.7 billion. During the first 9 months of 2018, the international arrivals rose by 12.4%, compared to the equivalent months in 2017. The overall annual arrivals in 2018 are expected to be greater by 2.5 million than in 2017.

- The prospects for Greek tourism are positive, despite the structural constraints of the sector. The arrivals are increasing, the average daily expenditure is constant, and the number of significant tourist destinations is increasing. On the other hand, arrivals remain seasonal, daily spending remains limited and certain destinations attract most of the demand.

- After almost two decades of inactivity, Athens is actively re-emerging with tourist demand and overnight stays on the rise. Athens is promoted as a city break destination for cultural and culinary experiences. International hotel chains and investors are entering or coming back to the Athenian hotel market, renovating and upgrading existing large hotel units, as well as looking for new 5 star hotel developments.

- The trend of developing boutique hotels in Athens has continued. Considering the Athenian building typology, this specific hotel type has significant growth prospects, either through the creation of new hotel units or through the conversion of the existing commercial and residential stock.

- The Piraeus hotel market is experiencing a growing interest, triggered by the lack of existing hotel stock and the forthcoming infrastructure project aiming to transform the port, among other things into a cruise home port. Growth in interest is also observed across the Athenian Riviera, along the Saronic Gulf coastline from Faliro to Cape Sounio.

- Increased activity is observed in Northern Greece and more specifically in Thessaloniki, Chalkidiki peninsula, Thasos island and along the coastal line of Kavala. Local and regional investors are focusing on small hotel units and modern 'rooms to let' developments, with preference to developing new than purchasing existing related building stock.

- Following a recent international trend, the adult-only resorts are increasing their presence in the Greek hotel market. These hotels have high levels of occupancy during May - October period. This hospitality product has also increasingly started to attract domestic tourists on top of the international guests, who still lead this market.

1. The beginning of crisis in Athens hotel sector had preceded the economic crisis. According to data available by Athens Attica & Argosaronic Hotel Association, the hotel market downturn in Athens started upon the end of 2004 Olympic Games.

# HOTEL SUPPLY

Investments in hotel assets in 2017 and 2018, mainly related to 4 and 5 star units. Following the past few years trend, interest has turned to more luxurious units, shifting the overall country's capacity. More specifically, according to the Hellenic Chamber of Hotels, 101 5 star and 171 4 star units were added in 2017 to the available hotel stock, resulting to an increase of approximately 26% and 13% respectively, when compared to 2016.


## GEOGRAPHIES

**01** Eastern Macedonia & Thrace
**02** Central Macedonia
**03** Western Macedonia & Epirus
**04** Thessaly & Central Greece
**05** Ionian Islands
**06** Western Greece & Peloponese
**07** Attica
**08** Crete
**09** South Aegean
**10** North Aegean

**5** star Hotels
**4** star Hotels

Low Tourism Activity
Medium Tourism Activity
High Tourism Activity
Very High Tourism Activity

Source: ARBITRAGE RE

During the 7-year period between 2010 and 2017, according to the Hellenic Chamber of Hotels, the increase in 5 star hotel beds reached 30%, more than in any other hotel category, while in the same period, the number of 1-star and 2 star hotel beds fell by 5% and 11%, respectively. The 5 star hotels (74,884 beds in 2017) are located mainly in the country's popular tourist destinations.

In general, the average hotel unit in Greece consists of 40 rooms and 80 beds, while in the Ionian Islands, the South Aegean and Crete, the average unit has more than 50 rooms and around 100 beds. 77% of the country's total stock, is located in the five (5) major tourism destinations (South Aegean, Crete, Ionian, Attica and Central Macedonia), which, according to INSETE[2] survey, account for more than 80% of the hotel industry's economic activity.

2. Institute of Greek Tourism Confederation

According to a recent survey[3], 8% of hotels and 27% of rooms in the Greek market are managed by, or belong to, international or domestic (national or local) hotel brands. This is the case for 60% of 5 star hotels, 40% of 4 star and only 4% of 3 star. Presently, there are 30 international brands operating in Greece, representing about 250 hotels, with an average size of 170 rooms. In addition, about 45 national chains have been recorded, representing more than 240 hotels and 60 local chains managing or owning over 260 hotels.

## GREEK HOTEL MARKET - AVAILABLE STOCK & CAPACITY IN 4* - 5* HOTELS

| GEOGRAPHIES | HOTELS 2017 | | | YoY HOTEL CHANGE (2017-2016) | | ROOMS 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Available Stock | 5 ★ | 4 ★ | 5 ★ | 4 ★ | Available Stock | 5 ★ | 4 ★ |
| Eastern Macedonia & Thrace | 382 | 12 | 30 | 20% | 4% | 11.111 | 1.197 | 1.955 |
| Attica | 648 | 35 | 109 | 17% | 11% | 31.894 | 6.758 | 8.627 |
| North Aegean | 391 | 8 | 34 | 33% | 6% | 11.777 | 939 | 1.567 |
| Western Greece | 270 | 4 | 41 | 0% | 11% | 9.708 | 1.444 | 2.293 |
| Western Macedonia | 127 | 3 | 17 | 0% | 0% | 2.953 | 61 | 448 |
| Epirus | 413 | 11 | 96 | 22% | 28% | 8.528 | 836 | 2.030 |
| Thessaly | 570 | 28 | 119 | 0% | 12% | 14.928 | 1.335 | 3.482 |
| Ionian Islands | 933 | 39 | 126 | 56% | 25% | 48.121 | 6.003 | 11.737 |
| Cental Macedonia | 1.192 | 47 | 108 | 15% | 20% | 45.825 | 8.560 | 8.731 |
| Crete | 1.577 | 104 | 270 | 18% | 14% | 90.889 | 19.568 | 26.914 |
| South Aegean | 2.097 | 174 | 368 | 44% | 4% | 104.053 | 24.631 | 33.138 |
| Peloponnese | 659 | 22 | 122 | 10% | 16% | 19.128 | 2.906 | 4.080 |
| Central Greece | 524 | 9 | 45 | -10% | 22% | 15.212 | 646 | 2.803 |
| **Total** | **9.783** | **496** | **1.485** | **26%** | **13%** | **414.127** | **74.884** | **107.805** |

Source: Hellenic Chamber of Hotelliers - Edit: ARBITRAGE RE

According to the above data, SETE[4] estimates that existing hotel capacity meets demand sufficiently, apart from some minor deficiencies that may be recorded, at peak times, in some destinations in the South Aegean, the Ionian and Crete. However, there is a shortage in new and modern hotels in Greece, as several hotels are over 25 years old, with specific features, that do not always meet the latest trends in tourism. For this reason, many new investments mainly concern refurbishments or even rebuilding of existing units.

In Athens, the noticeable increase in tourism during recent years has triggered the interest of large groups, both international and local, for the acquisition, refurbishment and/or operation management of luxury hotels, mainly in the city center and the southern suburbs. This interest, as in the rest of Greece, was mainly concentrated in existing 5 star and 4 star hotels, targeting upgrades of infrastructure and services. There is also interest in developing new facilities. The associated investment interest comes from both domestic players, such as real estate investment companies (REICs), as well as from international funds, mainly from the U.S., the Middle East, Russia and Turkey.

High-end boutique hotels enriched the available stock increasing their share in the domestic market. Both local and international interest was attracted, the latter mainly from the U.S., Israeli, Turkish, Gulf and Chinese (including Hong Kong) investors.

3. GBR Consulting

4. Greek Tourism Confederation

A lot of these investors have acquired standalone commercial buildings or portfolios of residential apartment units predominantly in the centre of Athens but also in Thessaloniki, for redevelopment and operation as boutique hotels or serviced apartments. As an example, more than 20 units have started operating in the last 4 to 5 months. For instance, among others, the following units have started operating in Athens: "AD Athens Luxury Rooms & Suites", "Athens Mosaico Suites & Apartments", "Athenians Modern Apartments", "5inAthens Apartments", "Thiseio 1915 Syntagma Square Modern Apartments", "Acropolian Spirit Boutique Hotel "and" NLH FIX ", while the "Niche Hotel" is expected shortly. The same applies to Thessaloniki, where more than 10 new small hotels are expected to be launched in the coming months.

Generally, although there is a notable hotel supply, Athens, like the rest of Greece, has some gaps in quality hotels, particularly in luxury units, compared to competitive cities in the rest of Europe. The Athenian Riviera, the coastal line which extends from Faliro to Sounio, has a great potential and it could attract leisure tourism, especially if works kick start in the former Hellinikon Airport redevelopment project. New luxury hotels in the Athenian Riviera could possibly attract visitors, not only from Europe but also from the Middle East and Asia, who require specific amenities. This would help to prolong both guests' stay and the duration of the tourism season.

The large islands, with high tourism activity, such as Crete, Rhodes, Kos and Corfu are attracting the interest of international hospitality and real estate funds, mainly originating from the U.S., the U.K., Germany, Russia and the Middle East. The investors are mainly targeting resorts and larger hotel assets i.e. units with more than 200 rooms. In Santorini, investors are seeking small boutique hotels with caldera view or thematic hotels in traditional villages. A change, however, on the island's tourism map is likely to be observed after the construction of the new road linking Santorini airport with Oia, as there will be an opportunity for develoment of major hotel units alongside.

Mykonos has welcomed also investors searching for private-villa complexes, for seasonal rentals. There is, of course, notable activity and interest in luxury villas and boutique hotels in other Aegean and Ionian islands, as well as in the mainland, especially in mixed-use resort developments.

In conclusion, it is important to upgrade existing hotel stock and develop new units, where demand can not be met currently, to attract higher income tourists and expand choices even to secondary destinations. It would also be beneficial, to extend the tourism season and to introduce complementary tourism products, as there is a relative lack of (and also relate to) the following:

- Sea and cruise tourism
- Student accommodation
- Sports (including golf, hiking) and recreation tourism
- Gastronomy and rural tourism
- Health, wellness and wellbeing services
- Luxury services in residential complexes under the umbrella of well-known brands

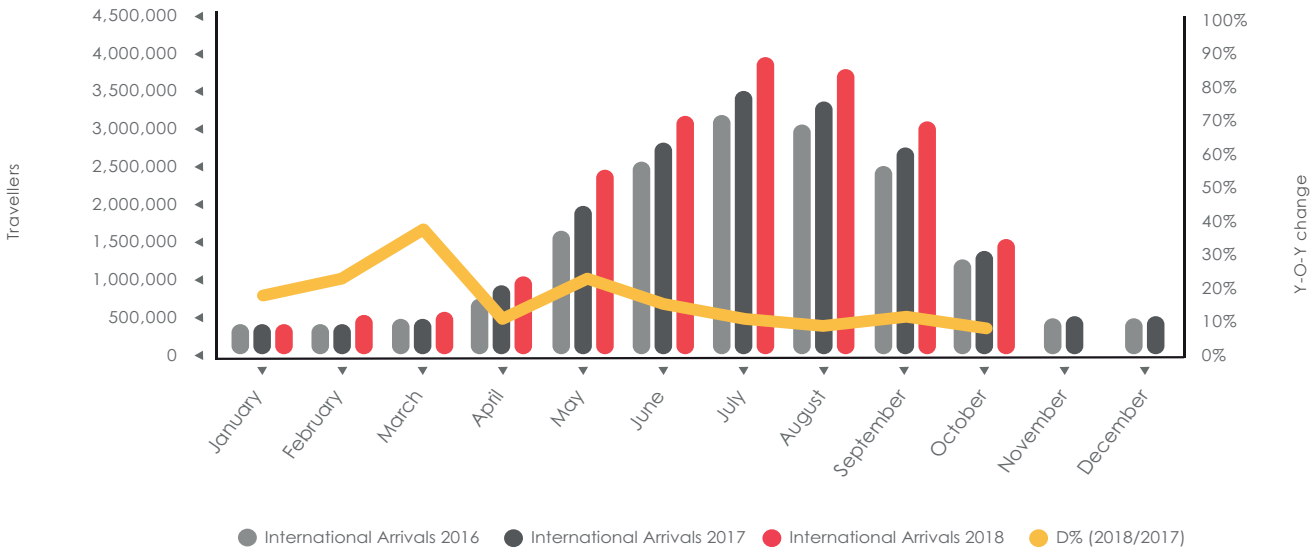
# TOURISM INDUSTRY, ARRIVALS AND TURNOVER

According to a survey conducted by the Bank of Greece, the incoming tourist flows for the period from January till September 2018 reached 25.9 million visitors[5], a 10.3% rise from the corresponding period of 2017, which was already higher by around 10% compared to 2016.

The international arrivals for the year 2018 are expected to reach 32.5 million. In 2017, about 30 million of international arrivals by air and land were recorded. In addition, cruise passengers in 2018 are expected to reach 4.5 million, as in 2017.

The important operating privatization deal by Fraport Hellas of 14 regional airports includes extensive upgrading of current infrastructure and other capital projects. Among the regional airports, there are several well-known destinations, such as Mykonos, Santorini, Corfu, Rhodes, Kos, Skiathos, Zakynthos, Chania and Thessaloniki. For this reason, we believe that the deal will strengthen Greece's strategic importance as a tourism destination and the upgrading of the relevant airports infrastructure and services is expected to improve and increase air links with key European and other international tourist markets.

**International Arrivals - Main Airports**

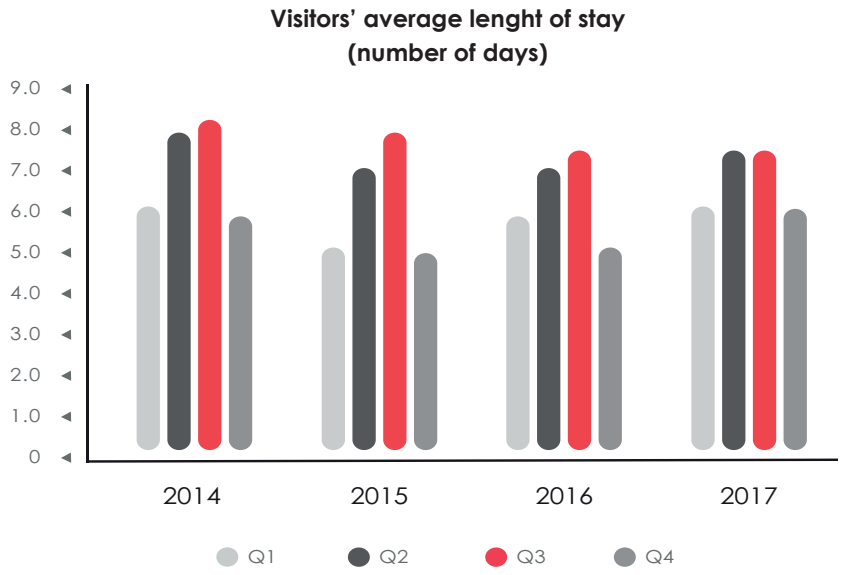



Source: Greek Tourism Confederation – Edit: ARBITRAGE RE

5. Not including figures other than those recorded in the survey of the boarders, conducted by the bank of Greece

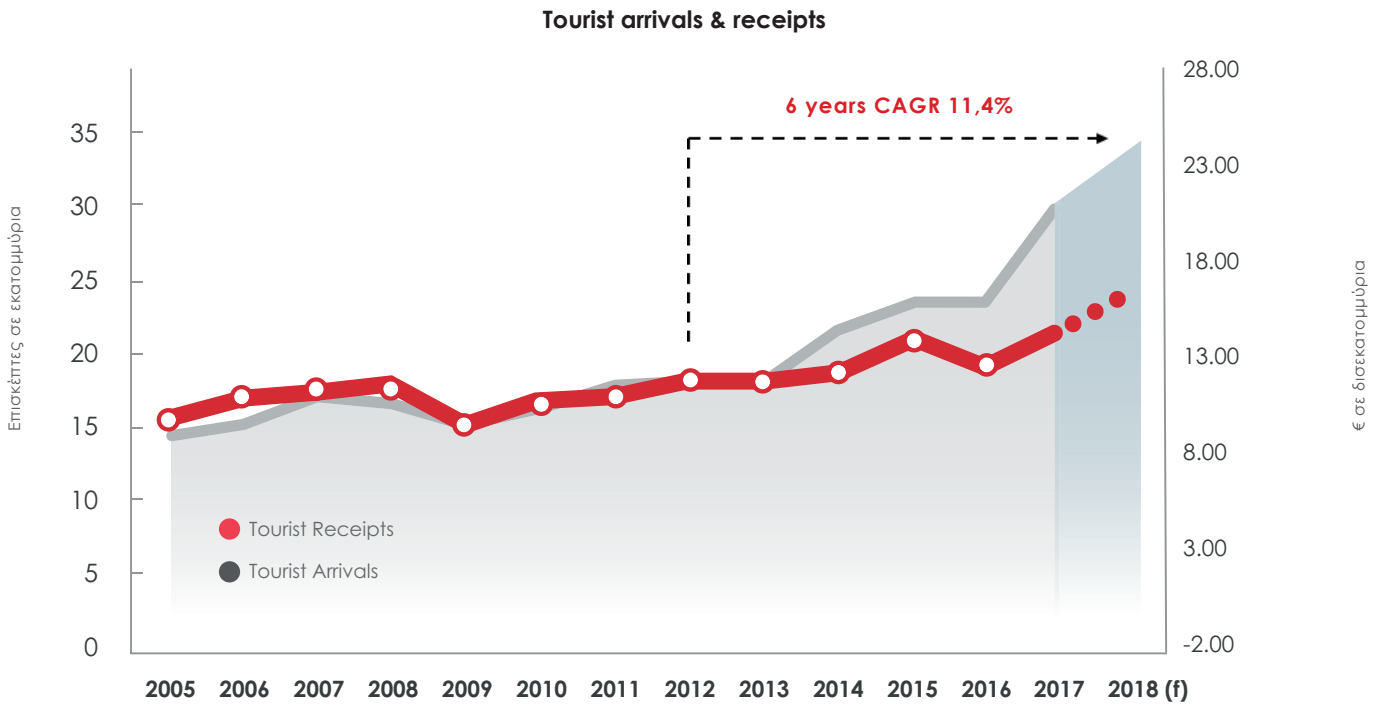
In general, Greece is in the middle of the global tourism competitiveness ranking, almost at the same level with its direct competitors. Arrivals are rising steadily since 2012 and the length of stay is not particularly decreasing.

On the other hand, arrivals remain seasonal, mainly on a 5 month period basis, with main demand (35% of the total) coming from 4 EU countries (Germany, United Kingdom, France and Italy).




Source: Bank of Greece – Edit: ARBITRAGE RE

Turnover figures from tourism remain strong with tourist expenditure and occupancy rates being higher in the main destinations. In 2017, tourist receipts amounted to €14,63 billion[6], an increase of 10,8% compared to 2016, while in the period between January and September 2018, travel receipts increased by 9,1% compared to the corresponding period in 2017. Despite their increase, receipts are not proportional to the large increase in tourist arrivals. This could be partially attributed to serviced apartment sector (like Airbnb), where visitors expenditure is not officially recorded.




Source: Bank of Greece – Edit: ARBITRAGE RE

CAGR: Compound Annual Growth Rate

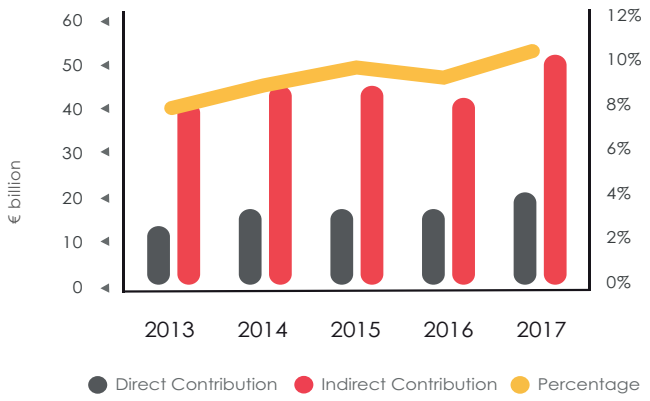
6. Plus approx. €0,43billion receipts from cruise recorded by adjunctive public research

The increase in tourist demand and receipts may lead to a more active search for existing hospitality real estate assets or investments in new hotel developments as well as to the expansion and growth of businesses associated with tourism, leading to futher capital inflows and investments.

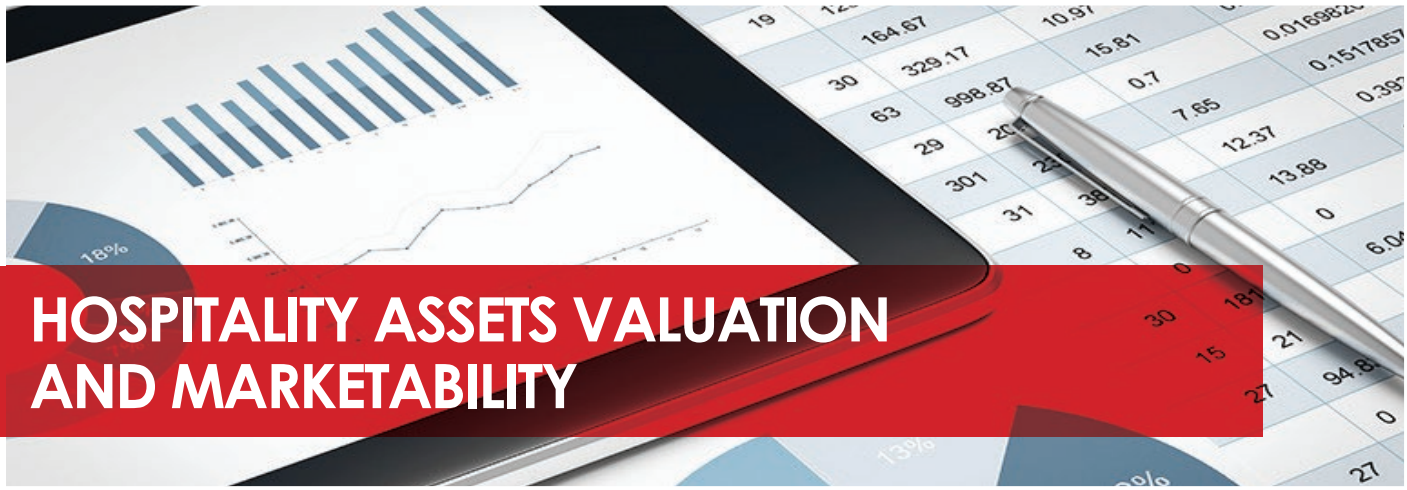
As expected, tourism adds significantly to the growth of the economy, with a total contribution close to 10% of GDP. For example, the hotel sector, with a turnover of €5.7 billion, according to a recent INSETE study, contributes more than 3.5% of GDP annually. The main product supporting tourism is still "Sun & Beach", followed by "City Break" despite the strong international competition.

The hospitality sector remains one of the major growth contributing factors of the Greek economy, as data also proves. Nevertheless, strategic adjustments are needed to increase its value and to help the country gain more share and increase its competitiveness in the global tourism market. The biggest challenge is to transform Greece from a popular seasonal destination to an all year round one, offering a plethora of experiences for the visitor and highlighting the uniqueness of its tourism product. Additionally, the aim should be to attract higher-income tourists, more guests outside the European Union and also to expand demand to secondary destinations.

**Tourism contributions in GDP**




Πηγή: World Travel & Tourism Council - Επεξεργασία: ARBITRAGE RE



# HOSPITALITY ASSETS VALUATION AND MARKETABILITY

**In general**

The performance and estimated values recorded for Greek hotel assets in recent years show that the sector moves at two speeds, with the main tourism destinations (South Aegean, Crete, Ionian, Attica, Thessaloniki and Chalkidiki) playing a dominant role. This indicates that destination is a determining factor in the financial performance of a hotel, followed by its size and category (star rating). It is no coincidence that 5 star units in established popular destinations are seen as more profitable.

A recent hotel survey of INSETE also confirms the above fact, highlighting that the destinations with the most tourist arrivals play the leading part whereas the internationally lesser known ones fall behind. The research also states that the second most important criterion to destination is the availability of good accommodation, as it represents almost 50% of the overall tourist expenses.

The hotel industry has generally remained resilient during the crisis years (2008-2016), although the average estimated prices have been affected, as it has happened in other competing international destinations, they have recovered significantly since 2014. This is evident in Athens hotels, where investment activity has placed emphasis on the 5 star category.

Specifically, the general stabilization of the Greek economy has led to a reduction in the country's risk premium and, in conjunction with the industry's most favourable prospects, has reduced the relative cost of borrowing and investment risk perception of tourism development. This has resulted in an increase in the estimated market value of the hotel assets and their corresponding enterprise value.

## ANNUAL CHANGE IN VALUES (%)

| CITIES | 2014 | 2015 | 2016 | 2017 | CAGR 2008-2017 |
|---|---|---|---|---|---|
| Barcelona | 6,3% | 10,9% | 13,8% | 7,1% | 3,6% |
| Lisbon | 10,3% | 11,1% | 10,2% | 14,7% | 3,6% |
| Madrid | 14,3% | 14,2% | 11,0% | 14,1% | 1,4% |
| Rome | 3,7% | 4,5% | 0,5% | 2,3% | 0,9% |
| Europe | 3,2% | 5,2% | 0,2% | 3,9% | 0,8% |
| Milan | 5,7% | 10,1% | (3,7%) | 4,4% | (0,9%) |
| Sophia | 7,1% | 7,5% | 16,0% | 9,9% | (1,0%) |
| Athena | 5,9% | 12,6% | 10,6% | 11,0% | (2,8%) |
| Istanbul | (9,9%) | (8,9%) | (23,7%) | (3,4%) | (6,7%) |

Source: HVS Hotel Valuation Index 2018 - Edit: ARBITRAGE RE
CAGR: Compound Annual Growth Rate

**Valuations**

Due to the favourable conditions in the valuation of hotel properties in recent years, there was a reduction of the discount rate (WACC) as well as an increase in the multiplier of earnings before interest taxes, depreciation and amortization (EBITDA multiplier). This was also related to the increase of the average daily rate (ADR), the marginal increase in occupancy, mainly in the resort and boutique hotels, but also, as said before, with the overall improvement of the economic environment.

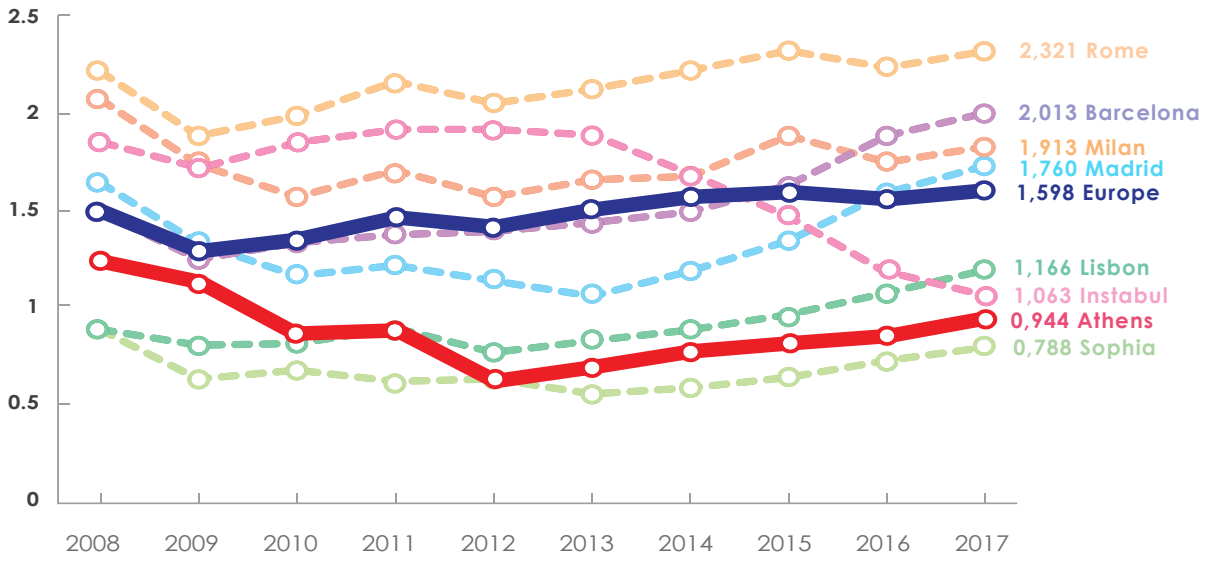
This estimated trend clearly demonstrates some variability depending on the area, size, star rating and the way the hotel business operates. The market value of a particular hospitality unit is also impacted by other intangible factors (soft aspects) related to the professional management, the branding, the customers' loyalty and its acceptance by the local community. These intangible factors cannot be quantified, and empirical rules are used in the valuations.

Generally, international investors take also into account in the commercial assessment of Greek hotels their relative international competitiveness, which is broader than any single financial measure. As a result, there have been substantial differences between the asking price and the estimated value in financially sound hotel assets or businesses during sale negotiations between the local owner and an international investment fund. This explains the relatively small number of completed transactions in comparison with the recorded investment interest.

Based on internationally reliable studies, estimated market values are usually lower from those in competitive markets. A typical example is Athens, where average hotel valuations are lower compared to competitive European cities such as Barcelona, Rome or Madrid.

In general, Athens has the potential to become a destination for major tour operators and to systematically welcome visitors for over 10 months. As mentioned above, the Athenian Riviera has also one of the greatest growth opportunities in Europe and therefore Athens is probably the only European city that could compete Barcelona.

**Hotel valuation index - Athens and peer cities**




Source: HVS Hotel Valuation Index 2018 – Edit: ARBITRAGE RE

**Profitability**

Based on recent hotel research, the 5 star hotels in the Cyclades seem to be the most profitable, since they are championing revenues per available room (RevPAR) and pre-tax profits against the 5 star hotels in Attica and the rest of Greece. For example, the RevPAR of a 5 star well performing hotel in Mykonos could surpass €55,000 and an equivalent in Santorini with a view of the caldera could reach €80,000. Respectively, the RevPAR of a 5 star hotel in Rhodes is around €35,000 and in Corfu, due to lower seasonality, closer to €30,000.

In 4 star hotels, the estimated RevPAR prices are lower, with those of the Cyclades also showing the highest turnover. For example, in a 4 star hotel in Mykonos, RevPAR can reach €40,000 and in Santorini €45,000, while in Rhodes €25,000 and Corfu €20,000 respectively.

In many cases 4 star hotels have demonstrated better profitability indexes compared to 5 star. This is because profitability is not only determined by the amount of the average daily room charge, the size and luxury of the hotel, but mainly by the occupancy rate, the value-add services, the optimal operating cost and of course the tourist demand of the destination. It is no coincidence that hotel assets in the less popular destinations have a lower turnover in relation to their working capital and correspondingly lower profitability in EBITDA terms or even negative earnings before tax (EBT).

**Conclusion**

The economic outcome of a hotel business operation in Greece depends, to a large extent, on the development of the destination. For this reason, a significant risk for the hospitality asset returns related to a possible decline in its occupancy , as a result of a weak tourism demand. Greece is currently at the top of the current tourism cycle, which lasts on average five years. Thus, to also deal with any slowdown in tourism activity, the hotel industry should direct its investments in the creation of tourism products that offer additional travel experiences beyond the prevailing and simplified offerings.

This would also help extend the seasonality of the bookings. The investments should obviously include the improvement of hospitality assets infrastructure and their respective hotel business operations. Importance should also be placed on the intangible factors affecting the commercial hotel valuations. Lastly, a similar emphasis should be placed on strengthening their competitiveness in relation to adjacent and comparable international destinations.

# SHORT-TERM LEASES AND BRANDED RESIDENCES

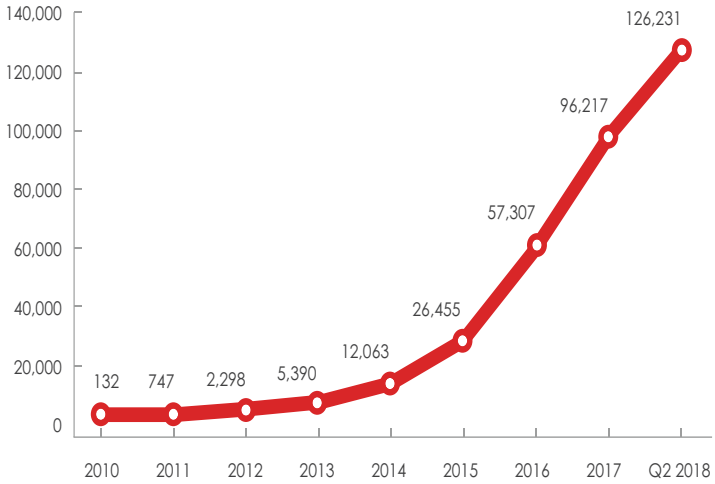
## SHORT-TERM LEASES (PLATFORMS)

### In general

In recent years, the sector of short-term leases for serviced apartments and furnished residences has been exponentially growing in Greece, both in number of units and in terms of revenues.

More specifically, there is a tremendous increase in the number of such accommodation properties, with 120,000 having entered the market in the last five years. As a result of this rapidly expanding trend, especially during 2016 and 2017, the sector's annual accommodation turnover is now estimated close to €1 billion according to a recent study carried out on behalf of the Hellenic Chamber of Hotels. In addition, the study shows that the total income is over €1,7 billion, when including other visitors' expenses. The trend in Athens is showing that the above figures are constantly increasing.

**Total number of short term lease properties 2010-2018**




Source: AirDNA & Centre of Planning and Economic Research
Edit: ARBITRAGE RE

In the prefecture of Attica, it is estimated that there are 48,000 beds for short-term lease use, while hotel beds are 28,000. According to official data from Airbnb platform, the number of short stays in Athens are around 500,000 per annum.
In their present form, the short stay platforms manage around 10% of the total accommodation supply in the hospitality market. This supply is mainly concentrated in Athens, Crete and South Aegean with the rest of the island regions showing big increases. 87.5% of the properties used for tourists short-stays are found in the 6 prefectures with high tourist activity.

### Investment interest and professional management

The surge in short-term leases, especially for accommodation of international guests, via digital platforms such as Airbnb, HomeAway, Booking and Trivago, has evolved into a promising industry for entrepreneurship and investment in domestic properties. Transparency, availability of information and access to financial data have given the opportunity to compare and assess figures.

The trend has led to renovations, adopting technologically advanced interior design and more luxurious decoration. The development of the short-term lease market has attracted interest from both domestic and international investors, expecting also future capital gains through the resale of the acquired properties.

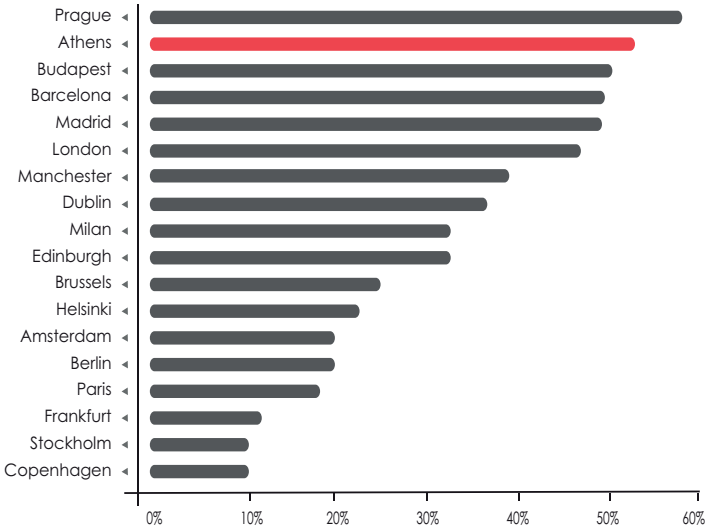
This development has also resulted in new needs. In this context, the industry has now begun to move in a more professional context, as it has happened in several other countries, with many businesses and owner-investors now managing more than three properties. As the competition is increasing so does the importance of a professional approach in the management and the quality of services provided.

For example, based on a recent survey, more than half of the available properties in AirBnB in Athens, are managed by professionals or owner-investors. Similarly high rates have also been recorded in Prague (56,6%), Budapest (50,3%) and also in other developed Mediterranean markets such as Barcelona and Madrid.

Currently, the management of these properties is happening both by real estate companies and agencies operating in the market long before the appearance of digital platforms. Residential developers have also turned to the management of short-term leases, in the absence of acquisition demand for their product.

Start-ups have also been established as a result of the rise of the short-term lease market to offer full management services to the owners, including promotion, bookings and cleaning.

**% properties run by professionals**




Source: AirDNA/ ARBITRAGE RE - Edit: ARBITRAGE RE

They are targeting mainly owners who are not in a position, or choose not to, undertake these tasks. These businesses usually collect a turnover fee, ranging from 15% to 20% of the achieved revenue.

**Tax framework and competition**

Until recently, the short-term lease digital platforms were unfair competitors to hoteliers, as no appropriate tax framework had been implemented. In the direction of the tax compliance, a tax on-line application was activated in August 2018 to register properties and their short-term leases and, as a result, income from related lease activity is now expected to be automatically accounted in the owner's tax return. This tax compliance tool was initially rolled out on a voluntary basis, since short term lettings is a new trend, not only applying to professionals but also to individual owners.

However, at this early stage, the platform operates on a registration only basis with auditing as a forthcoming step. Auditing is still a challenging procedure since different legal and tax framework could be applied according to the various types of accommodation and inclusive services. The local tax authorities aim presently to obtain the know-how and the mechanics of a proper auditing system by exchanging information with more experienced tax administrations abroad.

The tax authorities also expect that the digital platforms administrators will liaise with them and even ban from their active database those property owners and managers, who have not followed the tax registrations procedure. It is also expexted that physical, on the spot, audits will also apply, both randomly and with certain priority. In general, tax authorities expect digital platforms to be cooperative and not tolerate tax evasion from the property owners and managers. They are also expecting from the platforms to provide relevant information to tax authorities.

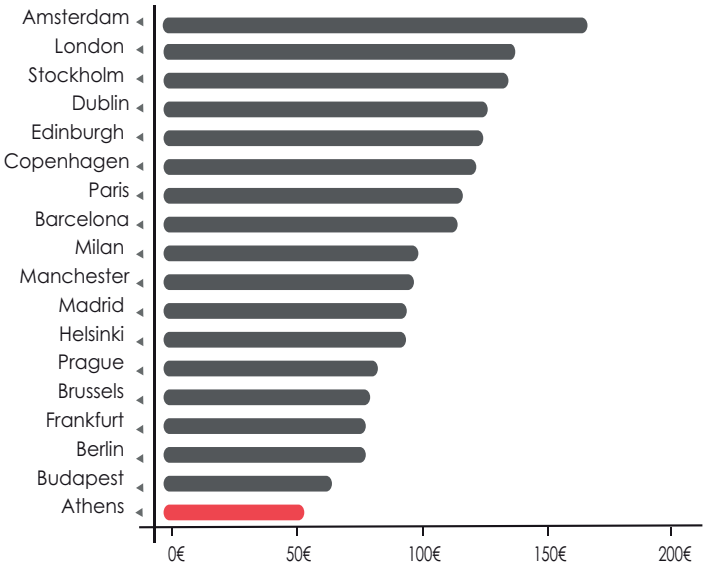
The European Commission is also preparing relevant directives and plans. For now, short stay platforms seem to be on hold on this matter. In any case, tax administrative tools are not intended to restrict activity in the market but to assist professionals and healthy investment competition through a fair and business friendly tax and fiscal framework.

## Athens

Based on recent data, Athens has over 5,200 properties listed in digital platforms, of which about 4,300 are houses or apartments. The average daily rent is €52, the average number of stays is 96 per year and owners' income per month is €380 on average. According to announced figures[7] and a relevant comparative research, Athens, is the cheapest city in terms of daily rates among 18 cities in Europe and with Budapest being the next cheaper with average daily rates of €61.

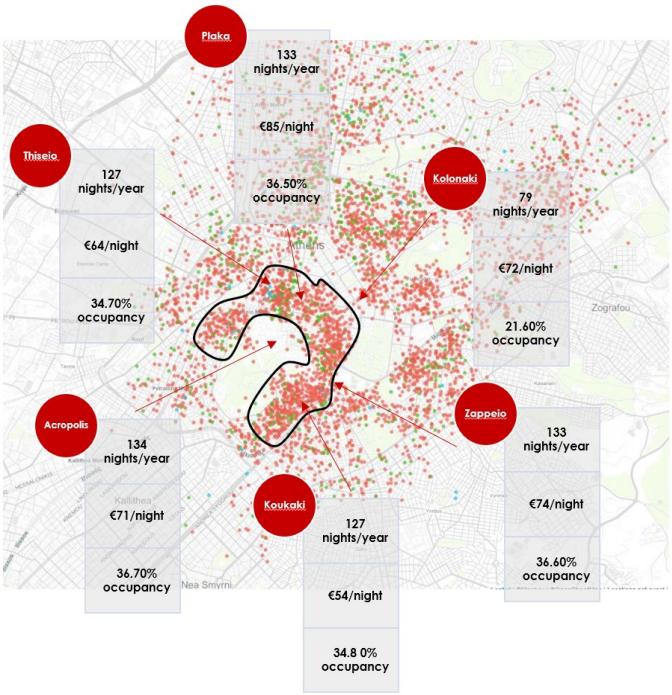
In areas where the demand is high, like the commercial city center or nothern and southern suburbs, revenues can be multiple, especially in high tourist seasons, making short-term leases more profitable, even after deducting income taxes and other expenses such as service charges and utility bills.

**Airbnb - Average daily rates**




Source: AirDNA/ ARBITRAGE RE - Edit: ARBITRAGE RE

**Average daily rates and occupancy**
short-term lease in Athens historical center




Source: insideairbnb.com/athens – Edit: Arbitrage RE

According to published data, in the historic center of Athens around 1,500 properties have been uploaded, with an average daily rate of €70 and 35% occupancy, producing incomes over than €750/month, which is considered a high figure compared to a conventional long-term lease for one or even two-bed apartment.

Such a monthly rent in traditional long-term leases could only be obtained from modern apartments over 100m$^2$, located in southern or northern suburbs and less likely in the center of Athens. This also explains the recent particularly high investment interest in the area.

The presence of short stay digital platforms has brought about notable changes in residential real estate market. One of the main changes relates to the rental market terms, since now the cost of renting an apartment in central areas that atract tourist demand, like Koukaki, which until recently was considered to be a secondary location, is higher than renting a respective apartment in a high-end residential suburbian area, like Ekali. At the same time, the demand for short-term leases can not be met by the available stock in the historic center, new neighborhood destinations are constantly emerging such as Pangrati, Ampelokipoi and the coastal front of Athens.

7. By AirDNA platform

**Hotels**

The sector of serviced apartments and furnished residences for short-term lease by tourists has become a competitor to the local hotel market, depending always on the location and visitors. For example, corporate travelers seeking short trip amenities are not so much interested in short-term leases as opposed to price sensitive travelers. The same goes for luxury tourism, where visitors tend to choose specific hotels because of the extra comforts and service offering.

In general, domestic hoteliers recognize that short-term leases through digital platforms is an overall useful hospitality product under specific conditions. They also recognize their merits since they could attract more visitors in a destination and directly benefit the local tourism economy. As it has been shown visitors spend for other services 1.5 times the amount they spend for accommodation.

The local hoteliers are also recognizing that the associated demand is significant, which has brought about opportunities. Property owners and managers of short stay apartments and houses will soon have to face competition from large hotel groups that also seek to join this profitable market.

For example, Zeus International, which manages the Wyndham brand in Greece, has already launched a complex of serviced apartments in Karaiskaki square, next to Wyndham hotel, and is planning another complex of furnished suites, around the same area, addressing higher income visitors. At the same time, at international level, hotel groups like Accor, are buying popular short-term lease platforms, entering the sector dynamically and acquiring share in the market.

# BRANDED RESIDENCES

Luxury villas and branded residences are one of the main developing and evolving sectors of the tourism economy. The North America remains the dominant market in this field while rapid growth is taking place in popular tourist destinations in the Gulf countries.

Europe also seems to be gaining ground, as a series of related projects are in the pipeline, not only in major cities, such as London or Paris, but also in other summer and winter destinations.

Luxury residences, and especially the branded residential resorts, continue to attract the interest of investors, as they have the potential to generate significant income, especially the organized and high-quality serviced branded accommodation complexes that are appealing to high net worth individuals. Some of the top brands managing luxury residences are: Four Seasons, Kempinski, Aman and Mandarin Oriental. Other prominent brands are Ritz Carlton, St.Regis και Baccarat together with Marriott International, Hyatt και Accor.

Second home market in Greece is not a very developed market yet, since until recently luxury holiday villas were linked only to few local and international businessmen and high-net worth families, without the presence of international brands. One of the main reasons was the absence of a relevant legal framework as the law for the development of appropriate tourist complexes was only established in 2011.

Lately, international brands have entered the market and luxury villas in Greece has become a constantly increasing trend. The first luxury residential complex in Greece was Amanzoe of Aman Resorts, a luxury resort complex near Porto Heli in Argolida, Peloponnese. Luxury residences also operate in Chalkidiki at Porto Carras Resort, where there is a plan for additional development in the complex.

Additionally, Costa Navarino in Peloponnese started in 2017 to sell individual luxury residences, from 400m$^2$ to 1.500m$^2$, called Navarino Residences. At the same time, Costa Navarino has started to promote The Residences at The Westin Resort - Costa Navarino, under the signature of Marriott and Westin groups. They consist of 98 apartments, of 120m$^2$ in average.

Demand for luxury residential resorts is also high in some Greek islands such as Mykonos, Santorini, Paros, Antiparos, Hydra, Spetses, Patmos and Corfu. In these locations, rent yields are often high, exceeding in some cases 7% on a net basis. These markets continue to offer opportunities, particularly in areas, where there is still room for associated developments.

In general, the sales prices of luxury residencies in well-known destinations in Greece are still relatively low compared to competing Mediterranean destinations. For example, in Mykonos the luxury houses are sold at about €7,000/m$^2$ while in Ibiza at €9,000/m$^2$ and in the seaside at € 15,000/m$^2$, while in southern France prices exceed €15,000/m$^2$ with the highest prices located in Cannes reaching €40,000/m$^2$ and in Monaco over €60,000/m$^2$.

# COASTAL AND MARITIME TOURISM

## MARINAS - SAILING

Yachting and sailing have attracted a great percentage of tourist interest internationally, given their special advantages. They allow holiday makers to define their own itinerary in island and coastal areas, following a form of holiday that economically does not exceed the cost of a very good hotel accommodation.

Greece is one of the most important destinations of coastal and maritime tourism worldwide given its geographical location and the morphology of its territory. It has 16,000 km of coastline and countless islands surrounding it and with a significant number of mooring berths.


| | MARINAS | BERTHS |
|---|---|---|
| 1 | Gouvia | 1,235 |
| 2 | Alimos | 1,000 |
| 3 | Glyfada | 810 |
| 4 | Marina Olympic | 680 |
| 5 | Zeas | 670 |
| 6 | Lefkada | 620 |
| 7 | Patra | 450 |
| 8 | Mandraki Rhodes | 400 |
| 9 | Skiathos | 350 |
| 10 | Agios Kosmas | 337 |
| 11 | Porto Karras | 315 |
| 12 | Floisvos | 303 |
| 13 | Samos | 280 |
| 14 | Kos | 258 |
| 15 | Agios Nikolaos | 250 |
| 16 | Kalamata | 250 |
| 17 | Aretsou | 242 |
| 18 | Mykonos | 240 |
| 19 | Mytilini | 222 |
| 20 | Sani Marina | 215 |

Source: ARBITRAGE RE

The total amount of mooring berths in Greece is more than 19,200[8], they correspond to 128 ports of which 60 are in-service ports (marinas), anchorages and shelters. Of the above ports, 22 are yacht marinas, gathering around 80% of all operating positions, providing a relatively satisfactory level of service while several of these marinas have received "Europe's blue flags' award. In Europe, there are 5,000 marinas for recreational yachts with 500,000 mooring berths, 60% of them located in the Mediterranean.

The revenue proceeds of Greek marinas amount to €50 million, while an income benefit of about €300 million is spread over the professionals who are active in the sector.

According to the Ministry of Shipping, the amount of the VAT attributed to the Greek State by the provision of services to recreational boats is estimated to exceed €100 million. Indicatively, there are about 750 businesses in Alimos Marina with their turnover reaching €100 million.

As reported, the chartering of Greek boats is increasing, and a two-digit growth in turnover is expected from the possible expansion of the season to 6 months.

## MARINAS IN OPERATION

| | MARINE | LOCATION | MOORING BERTHS | OWNERSHIP AND/OR MANAGEMENT |
|---|---|---|---|---|
| 1 | Gouvia | Gouvia, Corfu | 1.235 | D-Marine Investments Holdings |
| 2 | Alimos | Alimos, Attica | 1.000 | Public Properties Company S.A. |
| 3 | Glyfada | Glyfada, Attica | 810 | Municipality of Glyfada |
| 4 | Marine Olympic | Sounio/ Lavrio, Attica | 680 | Olympic Marine S.A. |
| 5 | Zea | Piraeus, Attica | 670 | D-Marine Investments Holdings |
| 6 | Lefkada | Lefkada | 620 | D-Marine Investments Holdings |
| 7 | Patra | Patra | 450 | Municipality of Patra |
| 8 | Mandraki Rhodes | Sfagia, Rhodes | 400 | Marines of Rhodes SA |
| 9 | Skiathos | Skiathos | 350 | Marines of Samos SA – Texniki Olympiaki Group S.A. |
| 10 | Agios Kosmas | Agios Kosmas, Attica | 337 | Elliniko SA |
| 11 | Porto karras | Sithonia, Chalkidiki | 315 | Techniki Olympiaki Group S.A. |
| 12 | Flisvos | Palaio Faliro, Attica | 303 | LAMDA Flisvos Holding 77,23%, ETAD S.A. 22,77% |
| 13 | Samos | Pythagorio, Samos | 280 | Marines of Samos S.A. – Techniki Olympiaki Group S.A. |
| 14 | Kos | Kos | 258 | Kos Investment S.A. (Municipality of Kos) |
| 15 | Agios Nikolaos | Agios Nikolaos, Crete | 250 | Municipality of Agios Nikolaos |
| 16 | Kalamata | Kalamata | 250 | D-Marine Investments Holdings |
| 17 | Aretsou | Kalamaria, Thessaloniki | 242 | Public Properties Company S.A. |
| 18 | Mykonos | Agios Charalampos | 240 | Port authorities of Mykonos S.A. |
| 19 | Mytilini | Mytilini | 222 | Folli Follie Group και Setur (coach) |
| 20 | Sani Marina | Kasandra, Chalkidiki | 215 | Sani Goup S.A. |
| 21 | Heraklion | Heraklion, Crete | 200 | Heraklion Port Authority S.A. |
| 22 | Chios | Kastelo, Chios | 200 | Hellenic Republic Asset Development Fund |
| 23 | Katakolo | Ileia | 150 | Municipal Port of Pyrgos |
| 24 | Itea | Itea | 146 | Municipal Port of Fokida |
| 25 | Cleopatra | Aktio | 100 | Marine Industrial & Commercial S.A. |

Source: ARBITRAGE RE

8. According to the Ministry of Development and Tourist Portals Directorate, based on the data of recent years, the number refers to all mooring berths of all categories at national level (excluding berths in commercial ports, fishing shelters and portfolios of nautical sport clubs)

New modern marinas, hotel ports and anchorages for the safe docking of boats have started to become gradually operational to cover, in a more satisfactory way and under safer conditions, the needs of maritime tourists.

A recent major development for the industry was the adoption of the two Presidential Decrees (PD) for the approval of a large-scale marina placement and marinas in area under special territorial protection regime. These were the first such decrees issued and relate to the marinas of Alimos and Chios respectively, for which there is an ongoing tender by HRADF[9] to attract investment development.

Greece could benefit from the example of Croatia, which has a fairly developed infrastructure, with over 50[10] recreational marinas and has become a popular destination for maritime tourism, boats and yachts. Croatia's tourist ports have annual revenues of about €95 million of which 70% comes from mooring berths, accommodates over 50,000 sailing boats and yachts and attracts more than 300,000 active maritime holidaymakers[11].

## MARINAS UNDER CONSTRUCTION

| | MARINE | REGION | MOORING BERTHS | ADMINISTRATOR | STATUS |
|---|---|---|---|---|---|
| 1 | Messolonghi | Aetolia - Acarnania | 250 | Marina Messolonghi S.A. | Temporarily closed, new operating license is expected |
| 2 | Preveza | Preveza | 150 | Preveza Port Authority | Operating with expansion projects in progress |
| 3 | Palaiochora | Chania | 140 | Chania Port Auhtority | Not yet delivered |
| 4 | Pylos | Messinia | 129 | HRADF | In operation without services |
| 5 | Vrachati | Korinthia | - | Corinth Port Authority | Under construction |

Source: ARBITRAGE RE

9. Hellenic Republic Asset Development Fund (HRADF)
10. According to the Croatian Bureau of Statistics (CBS)
11. According to the Scientific Journal of Maritime Research 2018, University of Rijeka.

# CRUISE

According to the International Cruise Association[12], a 20.5% increase in the number of cruise passengers was recorded during 2011-2016, while in 2017 the sector continued to grow strongly reaching 26.7 million passengers on ocean and sea cruises worldwide. Based on a recent report, passengers on cruise travel are expected to reach 27.2 million in 2018.

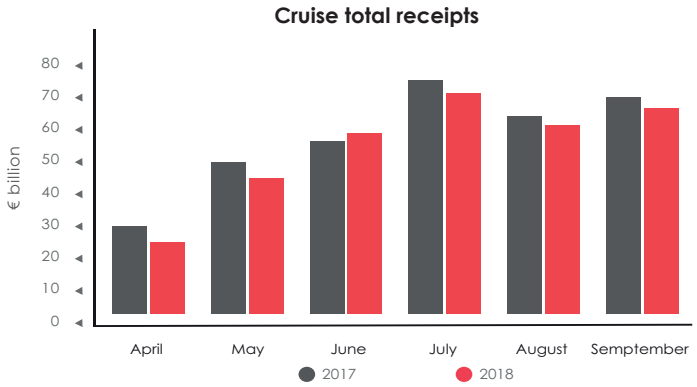
The International Cruise Association predicts that the relative growth in Europe is expected to be maintained as it is supported by the following key fundamentals:

- Europe is the second largest source of passengers on the world cruise market.
- Europe is the world's 2nd most popular cruise destination, with the 1st one being the Caribbean.

Greece is the 4th most popular cruise destination in the Mediterranean and 8th in revenue. It is also a fact that cruise in Greece, despite the continuous increase of the incoming tourism, has not had the corresponding rise. As an example in 2017 the cruise activity was decreased compared to 2016 (3,271 cruise ships compared to 4,093 respectively). This fall is directly linked to:

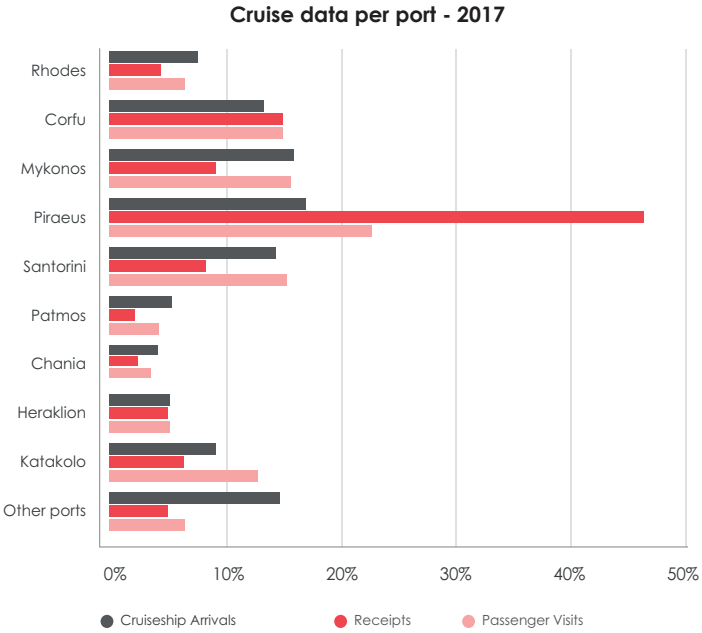
- the geopolitical situation in the eastern Mediterranean, which has altered the map of the Mediterranean cruise
- the competition from Asian and other non-European destinations
- the absence of shipyards in the sector and sufficient homeporting
- the lack of development of cruise as a domestic tourism habit
- the lack of development of a sophisticated tourism service offering around cruise passengers

According to Bank of Greece based on data collected from 16 Greek ports, 2017 total passenger visits amounted to 4.6 million compared to 5.05 million in 2016, a drop of about 9%. At the same time, by the 3rd quarter of 2018 the total revenues from cruise passengers amounted to €343 million, a decrease of 3.1% compared to 2017, which amounted in the corresponding period to €353 million and overall for the whole year to €425 million. The following graph shows the comparative distribution of cruise revenues per month during the season with higher tourist traffic (April - September) for 2018 and 2017 respectively.




Source: Bank of Greece - Edit : ARBITRAGE RE

Based on 2017 data, the main port in terms of cruise revenues is Piraeus, with more than 45% of the total. The following ports are Corfu and Mykonos, with 14.7% and 8.8% of the revenues respectively. The 7 most important cruise ports in cruiseship arrivals cover more than 90% of total revenues and 88% of total passenger visits.




Source: Bank of Greeceç - Edit : ARBITRAGE RE

One of the main goals in Greece is to increase its market share through the improvement of port infrastructures, based on international practice and their conversion into strategic home ports, which will also benefit the development of new hotel infrastructure. Of the 42 ports of the country only 6 operate or operated in the recent past as home ports. In general, reconfigurations are also needed in ports other than Piraeus or Mykonos, so that they can receive new and modern cruise ships.

The privatisation of the operations and the upgrading of 14 regional airports by Fraport Hellas may enhance the strategic importance of Greece as a cruise destination. In addition, Fraport's commitment to increase aviation connections with key European tourist markets might also mean that some of the respective regional ports will also gain prospect for homeporting cruise ships.

12. Cruise Lines International Association (CLIA)

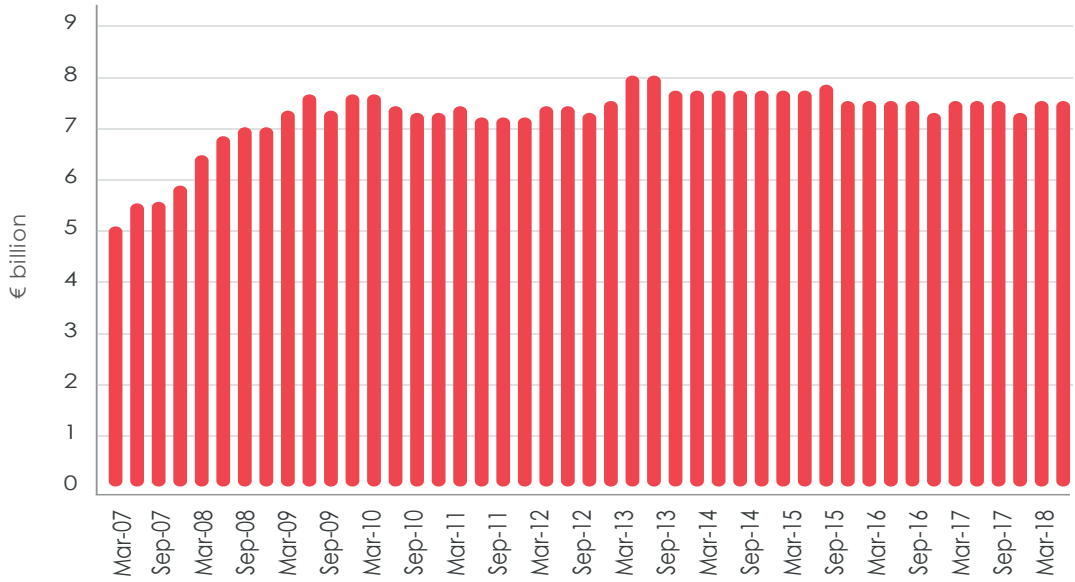
# FUNDING AND NON PERFORMING LOANS

## FUNDING

**In general**

Tourism is a very important sector of the economy and it is a strategic choice of the domestic banking system to support it. This is confirmed by the exposure of the banking system in the sector, which amounts to €7.43 billion and in contrast to other sectors of the economy (such as processing, trade, transport and construction) its exposure has not substantially changed since 2009, when the domestic financial crisis erupted. This financial support is not only focused on the funding of major tourism infrastructure projects but also on viable and cost-effective hotel business plans that generate appropriate operating cash flows and have enough equity participation and suitable collaterals.

**Debt financing analysis - tourism sector**
(End of period balances)




Source: Bank of Greece - Edit : ARBITRAGE RE

In general, the hospitality industry is in a relatively good shape, its performance is improving and remains globally competitive. Based on a recent study funded by SETE, the hotel industry generates a turnover of €5.7 billion (3.5% of GDP) and in recent years, amidst a crisis, it has received gross investments of over €2 billion. Most investments have been directed to 5 and 4 star hotels in the main destinations that absorb more than 70% of the related national economic activity. This investment trend explains the increase of the more luxurious units compared to the 3 and 2 star hotels.

In a public survey of approximately 600 hotel businesses, more than 65% showed profits in 2016, while in 2017, based on published balance sheets, 200 hotel companies increased their profits by 50%. Available data also show that hotel companies use double the equity capital (€13.3 billion) compared to long-term borrowing (€7.5 billion).

In small and medium-sized hotel enterprises that operate smaller units (up to 50 rooms), with many of them of 2 and 3 stars, the borrowing ratios seem mainly healthy since these businesses often benefit from public funding and EU subsidised programmes under ERDF[13].

For example, an EU funded programme in March 2018 had a budget close to €260 million to support up to €400,000 capital projects related to the creation of new or upgrade of existing operational hospitality units. The co-funding reached up to 50% of the total project investment including salary expenditure costs.

Overall, there is available capacity in the market and therefore Greek hotels require mainly upgrade investments. Only during peak periods, some capacity shortages might be observed in the main destinations. These shortages could become more noticeable in the coming years if the tourist demand for these destinations continues to increase with the same rate as of the previous years. In summary, based on public studies[14], the total investment needs in the hotel industry are estimated for the next 5 years to be around €6,5 billion, of which €5 billion relate to upgrading existing capacity, €1 billion to new construction or expansion projects and €500 million to maintenance of existing units.

**Barriers**

Despite the encouraging outlook, public available data and industry executives have highlighted certain market dynamics that could lead to slower growth rates or even reverse the current positive momentum if they were to be combined with a negative conjuncture. As an example, there are several overinvested hotels with underutilized potential and the industry is showing notable division in the financial results between major and secondary destinations. Despite tourism's successive record years, the hotel industry is faced with a lack of own funding and as a result in many cases there is not enough liquidity to invest in modernization upgrades.

The industry is also one of the first in non-performing loans (NPLs), a sufficient number of domestic owner-managers of hotel businesses have lost control of their property assets or in better cases they are achieving very small returns from their assets, which has consequently made them reluctant to undertake any necessary upgrade investments. On the other hand, the local lenders have recorded losses as a result of these NPLs and understandably they have redefined their underwriting method to issue new loans to hoteliers. They are now placing more focus on cash flow and co-financing and less on the estimated value of the property collateral.

The abovementioned parameters have created certain barriers to funding and as a result the banks have tighten their loan criteria and have become more selective in their support to the sector despite its positive outlook. To further develop the hospitality sector and support added value investment projects in added value hospitality projects, it is important for the sector to address any liquidity problems. It is also important for the banks to effectively manage the sector's non-performing loans (NPLs) and initiate restructures of hotel businesses with capabilities, which underperform for a variety of reasons, some of which relate to the actual commercial operation of their hospitality property assets.

**Funding criteria**

The following are the measurable technical and financial criteria currently appraised by the domestic banks when assessing if they would co-finance a hotel business plan:

- The equity participation (>30%)
- Secured building permits for new development or expansion projects
- The destination and the location
- Targeting and positioning of the hospitality product
- Competitive service and room pricing
- Proficient revenue management and efficient operating costs
- Optimal revenue combination from the various service offering[15]
- The appropriate dependency on tour operators
- Substantial and long-term investment in the asset's infrastructure

13. European Regional Development Funds
14. INSETE and PwC, November 2018
15. Accommodation, restaurants, food and beverages, conferences, events, spa, swimming pool, etc.

In general, banks are also considering additional aspects, which are not always measurable with purely financial criteria, but could form part of the hotel's investment plan. These factors relate to:

• **Stakeholders' buy-in**: sometimes, a preliminary study is required to assess positive social and environmental impact in the local community. Early consultation with local businesses and communities can often reveal opportunities for actions and adjustments that could benefit both sides. For example, if priority is given to the employment opportunities of the local population and to the local supply chain, the local community would find easier to embrace the hotel project and actively participate in its promotion.

• **Long-term planning**: each business plan should systematically assess geopolitical aspects, security parameters and other macroeconomic factors related to a destination. The aim is to assess any risks early on, so that their mitigation measures are integrated into development, expansion and/or operation plans. It must also take into account the viability and well-being of a destination. This does not derive from a charitable ambition, but from a desire to protect the hotel product, its branding and the value of the property.

• **The identification of diversification opportunities**: The proposed hotel asset needs to show authenticity and sense of destination that will enhance the customer's experience and make it unique. To this end, it is necessary to use and analyse data for the achievement of an "optimum service offering". The investor and the hotel manager should continuously assess the situation to identify any necessary adjustments, adapt to the new trends and innovate to future proof for any future negative trends in the hospitality and tourism market.

## Family businesses

In Greece and generally in the Mediterranean market, there are many family businesses that manage hotels as owner-operators. This creates sometimes certain challenges to international investors, when considering to co-invest alongside in hospitality projects. These challenges do not only relate to a potential lack of proficient commercial management similar to the one expected by international hotel operators, They also relate to their ability to adapt in the constantly evolving industry requirements and to the synergies that may arise with international investors or operators in order to reduce the repayment risk.

It has also been observed a difficulty for banks to explain to a number of family businesses new and sophisticated loan terms related to the associated collaterals. The expected collaterals relate not only to the hospitality real estate appraised value but also to the business plan's projected cash flows. However, it is also important to stress that family businesses are showing great commitment, have knowledge and carry lots of experience. Especially, the second generation in certain cases seeks for international operational support and co-investment in renovation and modernization of existing facilities as they can better analyse market data and understand emerging trends in the hospitality market.

## Conclusion

The constant increase in tourism demand leaves no room for complacency. It requires flexibility, long-term targeting and insight to shape a high-value hospitality experience that is directly linked with the creation and promotion of tourist destinations.

The necessity for bank financing support and investment partnerships is essential. The challenge is to deal with overborrowing, non-performing loans and underutilisation of invested capital that mainly concerns 4 or 5 star hotels outside core destinations in Cyclades and Attica. Increasing demand to reach commercially sustainable levels also remains a challenge for hoteliers, who have developed recently modern hotel units in less well-known tourism destinations in Greece.

At the same time, the hospitality sector is expected to face the new pragmatism of the domestic banking system, which includes a more holistic approach to borrowing.

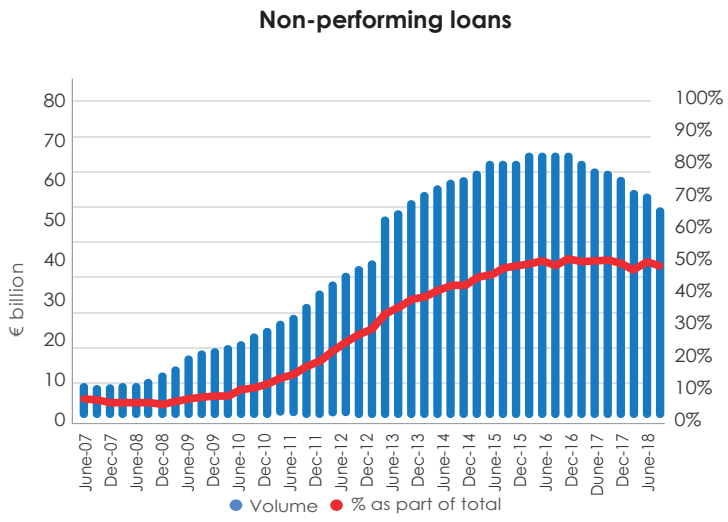
This new pragmatism requires the mapping of the sector's commercial perspectives, the identification of development opportunities, targeted financial tools and consultancy services as well as raising strategic capital and investment funds from international markets.

# NON-PERFORMING LOANS

### In general

During the period between 2007 and 2016, the amount of non-performing corporate loans increased dramatically to levels above €60 billion and remains still very high close to €50 billion according to the most recent data of the Bank of Greece. The percentage of non-performing corporate loans reached 50% in 2015 and it has not changed percentage since then, ranking Greece 1st among the eurozone countries.

The amount of non-performing loans related to hotel businesses and hospitality property portfolios is estimated at €4 billion (8% of total), with 25% of the debt coming from 5 large hotel companies. In general, there are over 400 hotels with unsustainable borrowing, which have no economic survival prospects based on their current financial performance. Most of these hotels are located in secondary destinations and consist mostly of large units. These hotels require financial restructuring before they are in a position to attract new investment capital. Some of the restructurings could lead to debt cancellations with estimated corresponding damage to local banks balance sheets worth close to €2.5 billion.




Source: Bank of Greece - Edit : ARBITRAGE RE

### Transactions of NPL Portfolios

The last two years, a systematic effort has started in the market of non-performing loans (NPLs) and the local banks are taking more active steps to manage the problem. This market dynamic has led to the entry of new internationally well-known players, like established NPL servicers and major private equity investors, who hold the necessary funds and the know-how. At the end of May 2018, Piraeus Bank sold its first corporate non-performing loan portfolio, Amoeba, against €430 million to Bain Capital, initiating the associated market. Then, Attica bank followed with the Kairos NPL portfolio, which received €47 million from Pimco for the transfer of a Junior Note bond, issued as a result of the securitisation and transaction of the portfolio. The relevant contract included the management of non-performing exposures of €700.5 million.

More recently, Alpha Bank sold to Apollo the Jupiter portfolio that contained corporate NPLs and repossessed properties (REOs). The transfer price amounted to €337.1 million for the loan portfolio and €51 million for the REOs.

In those three corporate NPL portfolios sold in 2018, there were over 140 hotels with their estimated value exceeding 35% of the total collateralised properties value. This highlights the fact that the active management of hospitality sector NPLs, through their auction to international (distress) private equity funds, may create opportunities for the entry of new local and international investment and operating platforms, which in turn will contribute to the gradual reshaping of the ownership and management of the Greek hotels sector.

| DATE | SELLER | NPL PORTFOLIOS | FUND/INVESTOR | No of COLLATERALS * | ESTIMATED VALUE OF HOTEL COLLATERALS |
|---|---|---|---|---|---|
| May 2018 | Piraeus Bank | Amoeba | Bain Capital | 32 | € 42,300,000 |
| July 2018 | Attica Bank | Kairos | Pimco | 24 | € 79,350,000 |
| November 2018 | Alpha Bank | Jupiter | Apollo | 87 | € 159,500,000 |

*Collaterlals

Source: ARBITRAGE RE

## Opportunity

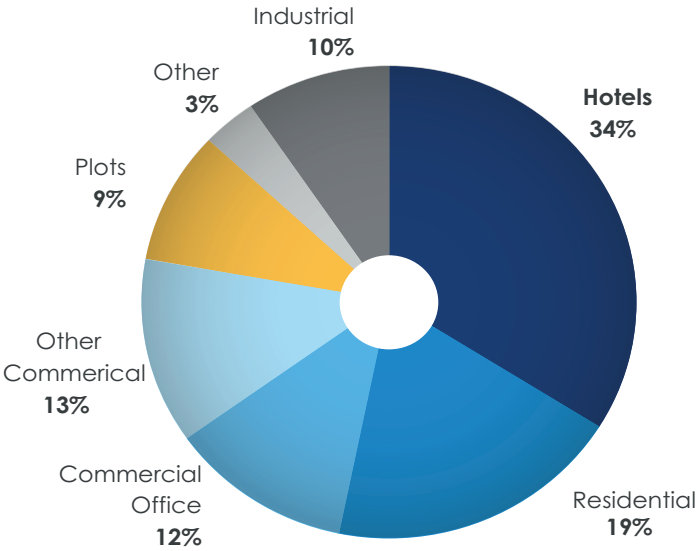
In some cases, the acquisition and skilfull management of non-performing hospitality sector loans could prove an efficient strategy to buy hotels and unveil their hidden value. In order to reveal the value, however, it may be necessary to implement a substantial change in operations or invest in extensive renovations or expansion projects that will justify their capital costs and will serve the business and asset management plan.

Based on current available data, 75% of the collateralised hotels in the sector's non-performing loan portfolios, whether due to their size and location or their poor quality and need for renovations, are not interesting enough for large global or domestic hotel chains and international investors. However, these assets could be seen as an opportunity for specific international tour operators and domestic hotel operators and managers looking for quality 3 star hotels and in general hospitality assets of relative size in popular and emerging tourism destinations.

For the overindebted hotels to survive, in addition to the required financial and loan restructuring, the hoteliers in cooperation with their creditors and advisors should choose strategic partnerships with experienced and specialised domestic and international asset managers and investors to turnaround business and find reliable solutions to their liquidity problems. The main goal is to ensure stable revenue and operational profitability with guaranteed medium-term (5 8 years) operating leases that will guarantee at least the compliance with any restructuring agreement and help meet their debt obligations.

New management models will be required, with distinct roles between ownership and management, which will ensure the required value-add renovation investments that will upgrade the hotel property based on modern specifications and reposition the operating asset in the market. The financing of these investments can be made with the financial undewriting of the new asset managers without distancing the hotelier and also to the absolute protection of the creditors. The goal for all parties involved will be common, to ensure better returns without long-term operating commitments, which often lead to a value depreciation of the underlying hotel units.

**Breakdown of the real estate collaterals**
(from the 3 corporate NPL portfolios sold in 2018)




Source : ARBITRAGE RE

## Conclusion

The 4 domestic systemic banks (Piraeus, Alpha, National and Eurobank) have already sold their first non performing loan portfolios and there is a continuous race to reduce their NPL exposures, including in the hospitality sector, with the aim of dropping them to sustainable levels. Within 2019, collateralised NPL portfolios are expected to be sold from both National Bank of Greece and Eurobank and there is an expectation that the other systemic banks will come back to the market with grouped approaches and perhaps larger portfolios.

In any case, the active management of non-performing hospitality sector loans is an opportunity to achieve economies of scale and create larger hotel units, reduce the ownership fragmentation and help achieve better results. The interest of global private equity funds, international branded hotel chains, the presence of capable domestic and international specialised managers and operators are changing the structure of the sector and are creating more favourable conditions for targeted investments in the sector in order to attract tourists and international visitors with higher income profiles. It is no coincidence that a selective number of family owned hotel businesses have already realised the upcoming changes in the domestic market and are seeking for similar partnerships with international investors and managers specialising in turnaround strategies to improve operations and reposition their assets in the market.

# INVESTMENT AND COMMERCIAL ACTIVITY

**Transactions**

In general, since 2010, investments in higher standard and luxury hotels have increased. Interest initially came from investors and international funds looking for opportunistic returns of more than 30%. In recent years, as the country's macroeconomic risk has declined and international tourism demand has increased significantly, investors have started looking for opportunities with lower returns, of around 15%.

For international investment funds, investing in Greek hospitality real estate, particularly in Athens, is more appealing, as there is a better understanding of the economic prospects from tourism, especially by Investment Committees located in remote global financial centers. It has also been noted by overseas investors that hospitality property assets, especially luxury and quality hotels in Athens, have currently better fundamentals than other commercial real estate investments (such as offices, shopping centers, etc.) in Greece.

The main factors under consideration are associated with demand for and supply of rooms in each destination, hospitality market trends and prospects, macroeconomic stability and, of course, the actual property characteristcs related to quality and microlocation. In co-investments, either as minority shareholders or through operating support, the cooperation criteria are linked with the characteristics of the owner and his overal hotel business vision, mission and strategy.

The appetite for hotel investments in Greece remains high, both in Athens and outside the capital for resort destinations with 300 beds or more. For this reason, the hotel M&A market should have been more active as several hotels are in good economic condition. Nevertheless, the main problems investors deal with relate mainly to the lack of a sufficient available number of competitive hotel stock mature enough for sale and a general mismatch between sellers' transaction price expectations and the acquisition value buyers are willing to pay. For example, the price of an operating hotel property built 20 years ago may be estimated by an interested buyer closer to 70% of the respective value of a new and modern unit.

According to available data, during the last 5 years, more than 2 billion euros of investments have materialised in the main tourism destinations (Crete, South Aegean, Ionian, Attica, Thessaloniki and Halkidiki). This interest is also evident by the investment activity and the management agreements of existing units that took place in 2017 and 2018, which mainly focused on the renovation and reopening of existing 4 and 5 star hotel units, as well as, on the conversion of existing commercial property to operating hotel assets.

Indicatively, "Four Seasons Hotels & Resorts", one of the top hotel brands globally, entered the Greek market in 2017 and took over the management operations of the hotel facilities of Asteras Vouliagmenis. Additionally, Henderson Park and Hines bought in 2017, via an auction process, for €33 million the premises of the former Athens Ledra on Syggrou Avenue and upgrade them to operate the first Grant Hyatt in Athens, a 5 star hotel unit, which opened in mid-2018. This investment signalled another new entry from an important international brand name in the Athenian hotel market. Marriott also returned in Athens during 2018 with the 5 star Athens Marriott Hotel (former Metropolitan Hotel).

Regarding the acquisitions completed in 2018, Atlantica Hotels & Resorts Group, which operates in Cyprus, Greece and Egypt, was the highest bidder with its €62.9 million bid for the Lakitira hotel complex in Kos, which has a total capacity of 603 rooms. Amanzoe in Argolida passed to Grivalia Hospitality (85%) for €5.8 million plus €76.5 million debt obligations. The seller, Dolphin Capital Partners, retained the remaining 15%.

Another important transaction in 2018, was the acquisition of Paradise Village & Amilia Mare Hotels in Kallithea, Rhodes, by the American investment fund HIG Capital, which payed more than €55 million. The two units have a total capacity of 2,300 beds and Aldemar will become the hotel manager. Refurbishment works are expected to be completed before the beginning of 2019 season.

Currently, more than 50 hotel units operating in main tourism destinations are available for sale but are being marketed at values higher than the average values of similar units. There are also over 25 non-operating hotel properties marketed at prices 30% below their average replacement cost.

The table below presents some indicative and notable hotel transactions in 2017 and 2018.

## HOTEL MARKET – RECENT SALE TRANSACTIONS 2017-2018

| HOTEL | STAR RATING | LOCATION | AVAILABLE ROOMS | BUYER | SALE PRICE (€) | YEAR |
|---|---|---|---|---|---|---|
| ex LEDRA ATHENS | 5* | ATHENS | 314 | HENDERSON PARK & HINES | 33,050,000 | 2017 |
| KING GEORGE | 5* | ATHENS | 102 | LAMPSA | 43,000,000 | 2017 |
| ASTERIA[16] | 5* | GLYFADA | plan for 400 | GRIVALIA HOSPITALITY | 29,500,000 | 2017 |
| MISTRAL | 3* | PIRAEUS | 74 | MACOFIN | 6,000,000 | 2017 |
| OLYMPOS NAOUSA | 5* | THESSALONIKI | 50 | GRIVALIA PROPERTIES (65%), TOR HOTELS (35%) | 5,460,000 | 2017 |
| LAKITIRA HOTELS | 4* & 5* | KOS | 603 | ATLANTICA HOTELS & RESORTS | 62,900,000 | 2018 |
| ARCHIPELAGOS HOTEL | 3* | KOS | 110 | BLUE LAGOON GROUP | >6,100,000 | 2018 |
| ex LES LAZARISTES[17] | 5* | THESSALONIKIH | 74 | NBG PANGAEA REIC | 7,000,000 | 2018 |
| SITIA BAY RESORT[18] | 5* | SITIA, CRETE | 177 | IKTINOS S.A. (77,8%) | 15,000,000 | 2018 |
| AMANZOE | 5* | ARGOLIDA, PELOPONNESE | 42 pavillions + 8 villas | GRIVALIA HOSPITALITY (85%), DCI (15%) | 82,300,000[19] | 2018 |
| MELI PALACE | 4* | LASITHI, CRETE | 152 | GRIVALIA HOSPITALITY | 11,000,000[20] | 2018 |
| AMILIA MARE & PARADISE VILLAGE | 5* | RHODES | 615 + 200 | HIG | >55,000,000 | 2018 |
| MR & MRS WHITE PAROS | 4* | NAOUSSA, PAROS | 49 | BRIQ PROPERTIES REIC | 3,500,000 | 2018 |
| SHERATON RHODES RESORT | 5* | RHODES | 402 | LAMPSA[21] | 7,660,000 | 2018 |
| AKTIA LOUNGE RESORT | 5* | IRAKLIO, CRETE | 212 | SKYSERV | 18,104,000 | 2018 |
| CONSTANTIN | 3* | RHODES | 141 | STAMATIADI GROUP | 8,000,000 | 2018 |
| GRAND BEACH HOTEL RHODES | 5* | RHODES | 378 | MITSI GROUP | 50,100,000 | 2018 |

Source : ARBITRAGE RE

### New hotels in operation

Based on the available market data, renovation projects in existing hotel assets was an evident trend in 2017 and 2018. As a result of some of these renovations. there was a considerable number of new hotel openings both in Athens and in major tourism destinations throughout the country.

In Athens, a notable refurbishment of an operating hotel is of Hotel Titania (385 rooms). The first phase is already completed and its cost reached €3.6 million. It included the complete refurbishment of 3 floors, the upgrade of rooms and redesign of the F&B spaces. The management is already planning the second phase of the refurbishment. In Thessaloniki, Makedonia Palace (276 rooms) completed a holistic renovation program with a cost of €14.5 million.

Ikos Resorts carried also out a major €27 million renovation of Ikos Oceania (formerly Oceania Club) in Nea Moudania, Halkidiki. Similarly, the historic Miramare hotel complex in Corfu, now owned by Al Rayyan of the former Emir of Katar, was restored with the total investment exceeding € 30 million. The 5 star hotel has 113 rooms and commenced its new operation in July 2018 as Domes Miramare Corfu, led by the Ledra Hotels & Villas, in collaboration with Marriott, under The Luxury Collection brand.

16. Refers to the acquisition of 80% of Nafsika S.A.

17. In 2018, NBG PANGAEA acquired the property with ZEUS INTERNATIONAL as the operator.

18. Including golf course, a marina of 85 berths and residential properties

19. Price breaks down to €5.800.000 plus €76.500.000 debt obligations

20. It refers to an area of 104 acres, with capacity for 100 additional rooms

21. Refers to 50%

The following table presents an indicative list of hotels that started operating in the last 18 months:

## NEW & REFURBISHED HOTELS IN OPERATION 2017-2018

| HOTEL | STAR RATING | LOCATION | AVAILABLE ROOMS | OPENING |
|---|---|---|---|---|
| ATHENIAN RIVIERA HOTELS & SUITES | 4* | VOULIAGMENI | 50 | 2017 |
| DOLCE ATTICA RIVIERA | 4* | VRAVRONA | 346 | 2017 |
| RAMADA LOUTRAKI POSEIDON RESORT | 4* | LOUTRAKI, ATTICA | 207 | 2017 |
| IKOS DASSIA | 5* | DASSIA BEACH, CORFU | 409 | 2017 |
| CASA COOK | 5* | KOS | 100 | 2017 |
| LESANTE BLU EXLCLUSIVE BEACH RESORT | 5* | ZAKYNTHOS | 93 | 2017 |
| GRAND HYATT ATHENS | 5* | ATHENS | 314 | 2018 |
| ATHENS MARRIOTT HOTEL | 5* | ATHENS | 366 | 2018 |
| DOMES MIRAMARE | 5* | CORFU | 113 | 2018 |
| MARBELLA NIDO | 5* | AGIOS IOANNIS, CORFU | 74 | 2018 |
| SUITE HOTEL & VILLAS* | 5* | TSILIVI, ZAKYNTHOS | 105 | 2018 |
| OLEA ALL SUITE HOTEL* | 5* | MANI, PELOPONNESE | 45 | 2018 |
| EUPHORIA RETREAT | 4* | LAKOPETRA, ACHAIA | 270 | 2018 |
| GRECOTEL CASA MARRON | 4* | GENNADI, RHODES | 300 | 2018 |
| SENSATORI RESORT RHODES BY ATLANTICA | 5* | GENNADI, RHODES | 266 | 2018 |
| GENNADI GRAND RESORT | 5* | KIOTARI, RHODES | 248 | 2018 |
| MAYIA EXCLUSIVE RESORT & SPA | 5* | KOLYMVARI, CHANIA, CRETE | 283 | 2018 |
| EUPHORIA RESORT | 5* | HERSONISSOS, CRETE | 152 | 2018 |
| ABATON ISLAND RESORT & SPA | 5* | HERSONISSOS, CRETE | 120 | 2018 |
| NANA PRINCESS | 4* | MARMARI, KOS | 96 | 2018 |
| VING SUNPRIME PEARL BEACH | 4* | LAMPI BEACH, KOS | 55 | 2018 |
| LANGO DESIGN HOTEL & SPA* | 5* | AGIOS IOANNIS, MYKONOS | 33 suites | 2018 |
| KATIKIES MYKONOS | 5* | PSAROU, MYKONOS | 30 + 1 villa | 2018 |
| KENSHO PSAROU MYKONOS | 5* | OIA, SANTORINI | 24 villas | 2018 |
| CANAVES OIA EPITOME | 5* | POLYGYROS, CHALKIDIKI | 92 | 2018 |
| BLUE LAGOON PALACE | 4* | KATERINI | 50 | 2018 |
| MYTHIC SUMMER HOTEL | 5* | ATHENS | 38 | 2018 |
| PERIANTH HOTEL | 4* | VOULIAGMENI | 44 | 2018 |
| AZUR HOTEL | 4* | THESSALONIKI | 40 | 2018 |
| THE MODERNIST | 5* | THESSALONIKI | 38 | 2018 |
| ANTIGON URBAN CHIC HOTEL | 5* | CORFU | 77 | 2018 |
| RODOSTAMO HOTEL & SPA | 4* | ATHENS | 72 | 2018 |
| BREEZE BOUTIQUE ATHENS | 4* | LACOPETRA, ACHAIA | >270 | 2018 |
| GRECOTEL CASA MARRON | 4* | KOLONAKI | 47 | 2018 |
| COCO-MAT ATHENS JUMELLE | 4* | IRAKLIO, CRETE | 380 | 2018 |
| SUNCONNECT MARINA BEACH | | | | |

* Adults only hotel
Source: ARBITRAGE RE

### Development investment projects

Generally, despite the substantial and continuous increase in tourism arrivals, development investments for the period 2018-2022 are expected to remain at ordinary levels. More specifically, as noted by INSETE, there is a need for 24,000 additional beds in the hotel stock until 2022, which are expected to come from planned greenfield hotel developments or renovation investments due to take place in the coming years. More than 10 big development projects in major destinations are already in the pipeline and a corresponding number of significant large-scale and complex hospitality projects are at the moment in a pre-licensing state or already included in the country's Fast-Track process.

A notable redevelopment investment is the Four Seasons Astir Palace in Vouliagmeni (303 rooms), which is expected to open within 2019. Inestia Hospitality also secured through a competitive process the long term lease of the listed building on Kolokotroni and Voulis Streets in the centre of Athens. It will convert it into a boutique hotel. Niche Hotel is expected also to start its operation on Syggrou Avenue at the height of Acropolis Museum.

The design phase has been completed for the development of four new 4 and 5 star hotels within Piraeus port, for which the Piraeus Port Authority is currently in discussions with both Greek and international hotel brands. The first 5 star hotel is expected to be located on the south side of the port, by the cruise ship pier. The second 5 star hotel will be situated in the so called «Pagoda» building, in Miaouli coast. Its listed roof will be kept. The other two hotels, a 4 and 5 star, are planned to be developed within the old warehouse buildings, which will be converted to hotel units. Another hotel development is expected in Pireaus as a result of the major regeneration program of the former Papastratos tobacco factory. The project is led by Dimand, a major local developer, and co-funded by the European Bank for Reconstruction and Development (EBRD) and Grivallia, a major local institutional real estate investor.

Increased activity is also observed in Crete, where the 5 star Casa Cook Chania of Ledra Hotels & Villas Group is expected to operate in 2019 with 65 rooms and suites. Garden Plaza is also planning a 5 star and 790 beds hotel complex project in Elounda, Crete, on c.160 acres privately owned seaside area. The total investment cost is expected to exceed €50 million. At the same time, the Geniatakis Group, which cooperates with the Carlson Rezidor Hotel Group, is planning to build a second large unit in Lasithi, Crete, on a privately-owned plot. The new hotel unit is expected to operate as "Radisson Blu Beach Resort".

In Rhodes, there has been an oversupply of 5 star hotels in some areas, since over 3,500 rooms were added the last 2 years. This has put pressure on the prices of 5 star hotels. The same has been observed in certain destinations in Crete, too. The island of Corfu, on the other hand, is continuing to attract further development interest as there is still a gap in the luxury hotel market.

## FORTHCOMING DEVELOPMENTS & UNITS UNDER REFURBISHMENT

| HOTEL | STAR RATING | LOCATION | NUMBER OF ROOMS | WORK | LAUNCH |
|---|---|---|---|---|---|
| NICHE HOTEL | 5* | ATHENS | 50 | Refurbishment & conversion | 2019 |
| CASA COOK CHANIA | 5* | CHANIA, CRETE | 65 (initial)<br>120 (in total) | Development | 2019 (completion) |
| FOUR SEASONS ASTIR PALACE | 5* | VOULIAGMENI | 303 | Refurbishment | 2019 |
| ERGON HOUSE (ex CERVANTES INSTITUTE BUILDING) | 4* | ATHENS | 38 | Refurbishment & conversion | 2019 |
| MOXY PATRAS* (ex MOREAS)[22] | 3* | PATRA | 120 | Reconstruction | 2019 |
| MGALLERY (ex KINGS PALACE) | 5* | ATHENS | 180-200 | Refurbishment | end of 2019 |
| BUILDING AT KOLOKOTRONI & VOULIS STR. (INIESTA HOSPITALITY) | 4* or 5* | ATHENS | 45 | Lease & refurbishment | 2019 ή 2020 |
| ANGSANA CORFU | 5* | CORFU | 199 | Reconstruction | 2019 ή 2020 |
| AVRA HOTELS COLLECTION (GREEN PLAZA GROUP) | 5* | LASITHI, CRETE (ELOUNDA) | 790 | Development | 2020 |
| FAIRMONT & RAFFLES | 5* | KALAFATIS, MYKONOS | 250-300 | Development | 2021 |
| BOUTIQUE ΞΕΝΟΔΟΧΕΙΟ (ex APOGEVMATINI PRESS HEADQUARTERS) | 4* | OMONOIA SQUARE | 31 | Refurbishment & conversion | to be announced |

* Arbitrage RE is investor's technical advisor
Source: ARBITRAGE RE

22. The first foodie hotel in Greece and maybe in the world where visitors can combine overnight stays with meals and the possibility to buy fresh food ingredients

In general, as also mentioned above, around 80% of the country's hotel beds capacity is located in the major and most popular tourism destinations. This highlights an uneven distribution of tourist flows and therefore possible investment opportunities in other destinations due to this deficiency.

In the long run, the development of new hotels in secondary tourism destinations, which are now lagging behind in tourist arrivals, could become quite profitable. This could happen in combination with certain improvements in their infrastructure, through targeted and coordinated promotional activities to increase their prominence and also by diversifying their hospitality product offerings. Such opportunities could be found in parts of Peloponnese, Thessaly, North Aegean and Epirus.

In Greece, there is also a gap in the 3 star hotel market, which could be seen as an opportunity for development investments in new quality hotels (branded or not) in this category. Established domestic and international investors have already entered this market or are systematically looking for opportunities in 3 star city lifestyle hotels or other thematic targeting such as student hotels. Large tour operators are also looking for opportunities in 4 star hotels. In general, 3 or 4 star hotels could be easier managed in comparison to 5 star and therefore they could be considered in certain cases as a more attractive hotel investment product.

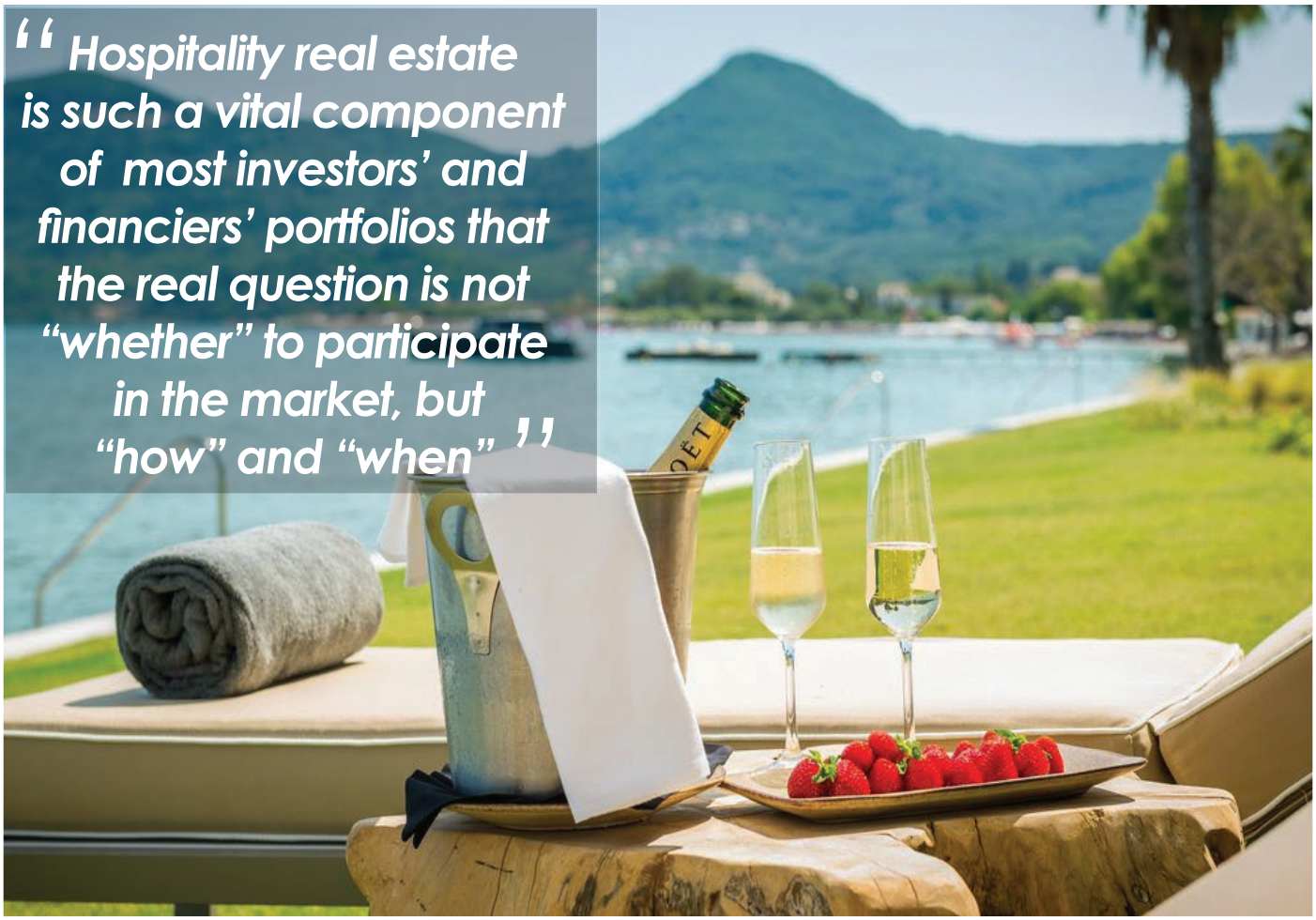
In Athens and its Riviera as well as in the south coastal Attica region, tour operators are not currently playing a major role. This could open up an opportunity to further develop and promote some of the most prominent sea fronts as holiday destinations. Athenian Riviera may have in Europe one of the greatest potentials for associated growth and therefore a development of a modern 3 or 4 star beachside hotel might seem an investment risk worth taking. If Athens succeeds in becoming a core destination for international travel agents and tour operators, it could help extend its tourism period to more than 9 months a year and significant increase the average overnight stays and corresponding income from tourism.

The general lack of quality hotel stock is another hidden opportunity. For this reason, a promising investment strategy, in terms of value, could be the addition of quality units in major destinations by upgrading existing 4 and 5 star hotels. Opportunities for further greenfield developments also exist to increase the competitiveness of the provided luxury hospitality product against rival European and adjacent destinations.

It is also important that the local hotel operator, who often owns the property, can contribute in a constructive way in the improvement of the operations. It has been observed quite a few times that a hotel with a cooperative and competent local co-owner, even as a minority shareholder, or manager can help an international investor or operator to achieve better commercial results. For this reason, international luxury brands and franchise agreements that fit better in the Greek market are usually those that provide for more freedom and independence to the local hotelier and those brands and agreements that appeal to hotel units with fewer than 100 rooms, a quite common hotel size in Greece.

Investors also need to be convinced that the public administration and local authorities are mainly supportive before they invest in new developments. There has been a lot of progress on this front lately, however, more steps are still necessary. For example, it is important to simplify the licensing process for large multipurpose hospitality developments as well as to apply policies that facilitate the hotel investment projects targeting higher income tourists.

In summary, promising investment approaches seem to be the strategic development of promising secondary tourism destinations, followed by the addition of thematic 3 star hotels in Athens and other major cities followed by the upgrade of 4 and 5 star hotel units in specific core destinations. It is also important to introduce additional tourism products that promote local competitive characteristics (e.g. gastronomy, agrotourism, culture etc.) and follow global trends (e.g. luxury accommodation, wellness and sports, student housing etc.) to expand demand for secondary destinations and prolong tourist season. Finally, synergies between public and private sector companies are also needed to promote new hotel development projects that can fill gaps in the existing hospitality market



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