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CYPRUS'S SUPPLY OF BEDS IS OVERWHELMED BY DEMAND

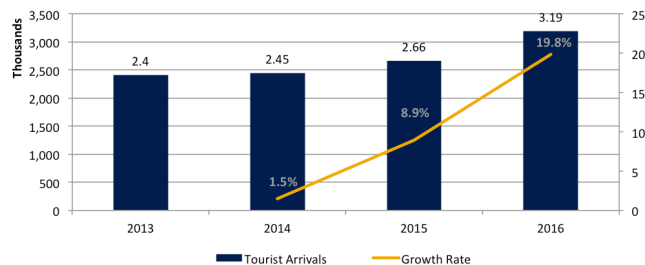
Tourism is and will be growing exponentially in Cyprus in the next few year and the current number of beds is already reaching its limit.

The Supply - Demand Tug of War

Tourism has always been one of Cyprus's key products contributing up to 10.9% of our island nation's GDP in 2015. In the past few years tourism in Cyprus has been growing and in 2016 it has witnessed a huge spike from 2015's 8.9% growth to 19.8%, and it is predicted to carry on with these rates.

However, even though tourism has been growing, the recent economic crisis has caused the total bed supply on the island to decrease with many establishments being unable to maintain or develop, with an average of 221,000 visitors monthly (including domestic tourism and not accounting seasonality) in 2015 and a total bed supply of 84.5k across the island, down 1.7% from 2014. That is a 2.5/1 ratio, and given that the average length of stay tourists reaches c.10 days, undersupply is apparent.

Tourist Arrivals



The Role of Average Spend

Quality is also important, beyond the exponential growth of Tourist arrivals, there is also the matter of the monetary value that each tourist leaves behind when visiting Cyprus. The table below takes July as an example for comparing the changes from year to year.

| | Arrivals | Average Length of Stay | Expenditure (€) | |
|--------|----------|------------------------|-----------------|---------|
| | | | Per Person | Per Day |
| Jul-14 | 381,955 | 10.7 | 840.97 | 78.27 |
| Jul-15 | 414,527 | 10.2 | 825.37 | 80.92 |
| Jul-16 | 482,132 | 9.7 | 834.25 | 86.01 |

It is obvious that the average expenses per day of tourists has been growing year on year, and even the per person indications have returned to growth in 2016. Considering that the Average Length of stay has marked a slight decline (the two are directly related) the €834 per person in growth is a very positive indication.

What was the Driver of this growth?

The upward spike in tourism has been driven by the following factors:

- The political unrest in the surrounding countries (especially Turkey, Syria, Tunisia and Egypt) has dramatically reduced their tourism and driven switching in favor of Cyprus. This was especially apparent in the second half of 2016 and it is predicted to continue to be a catalyst tourism growth for next few years to come.
- The Cyprus Tourism Organization has had some major changes including a new board and management, a brand new strategy, new and increased budgets for branding and advertising, new measures for fighting seasonality, new subsidies for international operators and Hotels and other.
- After the crisis and with the support of CTO international operators are returning to the country, showing much more willingness to increase pre-booked beds and commit to long-term contracts.
- Limassol, the largest city on the island and the most popular has been developing in great strides over the last 4 years. With the new Limassol Marina finished in 2013, the Hard Rock - Melco Integrated Casino Resort being licensed to be build in Limassol, more than 10 other large scale projects being currently developed, a 14 mile coastline and many other going for it, Limassol has attracted many visitors as well as investors.

What does the near future hold?

All of the above have incrementally contributed to the growth of tourism, but their effect is long lasting and will continue to contribute. Further that that:

- Since the closing of Cyprus Airways in 2015, the island has taken a big blow when it comes to its accessibility. In 2017 3 new airlines will initiate operations: Blue Air, Cobalt and TUS, offering multiple new direct and affordable links to Cyprus, whilst Charlie Airlines and Fly Orion are in the licensing process.
- Large number of companies have moved in to the tourism sector in 2016 greatly increasing the number of tourist agencies, vehicle rentals, activity providers, theme parks and springing an online phenomenon of multiple websites and platforms promoting and assisting tourists in visiting Cyprus, and especially the city of Limassol.
- There has been a significant increase in domestic tourism from Cypriots as well as a significant increase in international relocations to Cyprus, primarily driven by the sharp increase of offshore companies. And although the numbers are not huge in comparison to larger countries, they have a significant impact on little Cyprus.
- Cyprus has consistently been showing up in top 10 and top 20 lists of best places to live/relocate in the world, including the Telegraph and Knight Frank Global Lifestyle Review.

What does all this mean for the Hotel Market?

The issue is quite straight forward. Cyprus needs many more beds right now, and the private sector is onto it. As you are reading this existing establishments across the island are extending the bed capacity by c. 5,500 rooms, whilst at least 4 new hotels are expected to operate within 2017. There has been an uproar of investors, both individual and institutional flocking to Cyprus to evaluate and invest. The Cyprus Investment Promotion Agency has characteristically commented on how the vast majority of interested parties are looking into Tourism. However, even with all this going on, since CTO is targeting and forecasting to double the Islands tourism by 2015, we amongst others are afraid that supply is going to be playing catch-up with demand over the next few years.

We remain optimistic about the future of tourism in Cyprus and are delighted to be a part of it.

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Pambos Michaelides is a Business Consultant who specializes in the hotel and tourism sector. After a 3 years of practicing consulting for Nielsen in the UK he has returned to the Horwath HTL Cyprus office of which he is a founding member of. Today he serves as an executive director, responsible for Horwath's operations in Cyprus as well as other neighbouring markets.

During his career, amongst other, Pambos has led projects such as regional tourism development plans, Casino market assessments and has contributed to the Strategic planning of Hotels, resorts etc. Pambos Michaelides has studied in the University of Brighton for a degree in Management with Marketing and has a Masters degree in HR.

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