

# Turkey Hotel Market



## IN THIS ISSUE:

- Introduction
- Hotel Market Overview
- International Hotel Companies
- Professional Local Hotel Companies
- Istanbul Hotel Market
- Other Potential Cities: Kocaeli, Eskişehir, Denizli, Konya, Samsun, Trabzon, Diyarbakır
- Evaluation

## INTRODUCTION

Whereas many industries, real estate being at the fore, sustained great injuries during the global economic crisis that began to be felt in the middle of 2008, Turkey achieved great success in the tourism sector by finishing 2009 with a higher number of tourists than in 2008 and with only a marginal loss in tourism revenues compared to the rest of the world. On one hand, this can be seen as a success; however, on the other hand, not only have housing sales been in a slump during the crisis, several shopping malls have been less successful than anticipated as well. Thus, a trend has begun towards hotel investments, which were not as popular before. While investors have been preparing to enter the hotel market, international business managers are pursuing a strategy of both growing with their existing brands and expanding into Anatolia with their economical hotel brands. Additionally, many international hotel chains that

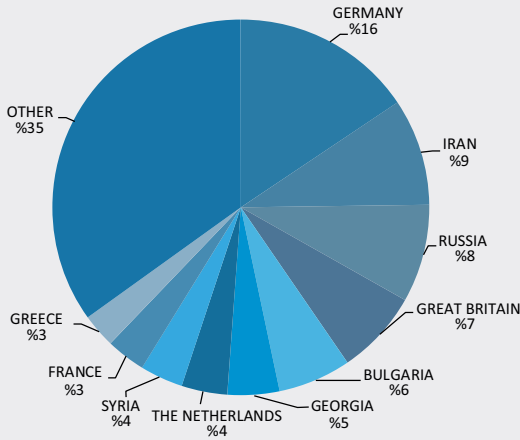
have not entered the Turkish market before have started following hotel projects in Turkey, especially in Istanbul.

The fact that the year 2010 and afterwards will be active in terms of hotel investments and competition between brands is showing itself even now.

Even though all these developments seem positive for the hotel and tourism market of Turkey, they also carry a great danger with them. The reason for this is that although the year 2009 was successful for the tourism sector in general, many hotels came to the brink of bankruptcy in this year due to faulty choice of location and concept.

One of the top ten countries in terms of number of visitors and earnings from tourism, Turkey has become a country in recent years where both hotel demand and hotel investments have gradually been increasing.

## Visitor Nationalities in the First 5 Months of 2010



Source: Ministry of Culture and Tourism

## Top 10 Most Visited Countries in 2009

Country / Continent	2009	2008	2007	2006
<b>France</b> Europe	74.2 million	79.2 million	80.9 million	77.9 million
<b>USA</b> North America	54.9 million	57.9 million	56 million	51 million
<b>Spain</b> Europe	52.2 million	57.2 million	58.7 million	58 million
<b>China</b> Asia	50.9 million	53 million	54.7 million	49.9 million
<b>Italy</b> Europe	43.2 million	42.7 million	43.7 million	41.1 million
<b>United Kingdom</b> Europe	28 million	30.1 million	30.9 million	30.7 million
<b>Turkey</b> Europe	25.5 million	25 million	22.2 million	18.9 million
<b>Germany</b> Europe	24.2 million	24.9 million	24.4 million	23.6 million
<b>Malaysia</b> Asia	23.6 million	22.1 million	21 million	17.5 million
<b>Mexico</b> North America	21.5 million	22.6 million	21.4 million	21.4 million

Source: World Tourism Organization

## Top 10 Countries' Tourism Revenues in 2009

Country	2009	2008	2007	2006
<b>USA</b>	\$94.2 billion	\$110.1 billion	\$97.1 billion	\$85.8 billion
<b>Spain</b>	\$53.2 billion	\$61.6 billion	\$57.6 billion	\$51.1 billion
<b>France</b>	\$48.7 billion	\$55.6 billion	\$54.3 billion	\$46.3 billion
<b>Italy</b>	\$40.2 billion	\$45.7 billion	\$42.7 billion	\$38.1 billion
<b>China</b>	\$39.7 billion	\$40.8 billion	\$37.2 billion	\$33.9 billion
<b>Germany</b>	\$34.7 billion	\$40 billion	\$36 billion	\$32.8 billion
<b>United Kingdom</b>	\$30.1 billion	\$36 billion	\$38.6 billion	\$34.6 billion
<b>Australia</b>	\$25.6 billion	\$24.8 billion	\$22.3 billion	\$17.8 billion
<b>Turkey</b>	\$21.3 billion	\$22 billion	\$18.5 billion	\$16.9 billion
<b>Austria</b>	N/A	\$21.8 billion	\$18.9 billion	\$16.6 billion

Source: World Tourism Organization

With 25.5 million people visiting the country and a share of 2.9% out of the total global number of tourists (880 million), Turkey ranked 7th, right after Italy and the UK. By increasing its visitors by 2% when the number of visitors throughout the world fell by 4% in 2009, Turkey showed how strong a market it is. In terms of tourism revenues, having a 2.36% share with 21.3 million dollars in a total market of 900 million dollars, Turkey had the 9th largest market share after Australia.

Despite the crisis, Turkey surpassed 2008 with regard to visitor numbers in 2009; when it comes to the period of the first 5 months of 2010, Turkey was visited by 8,070,558 people with an increase of

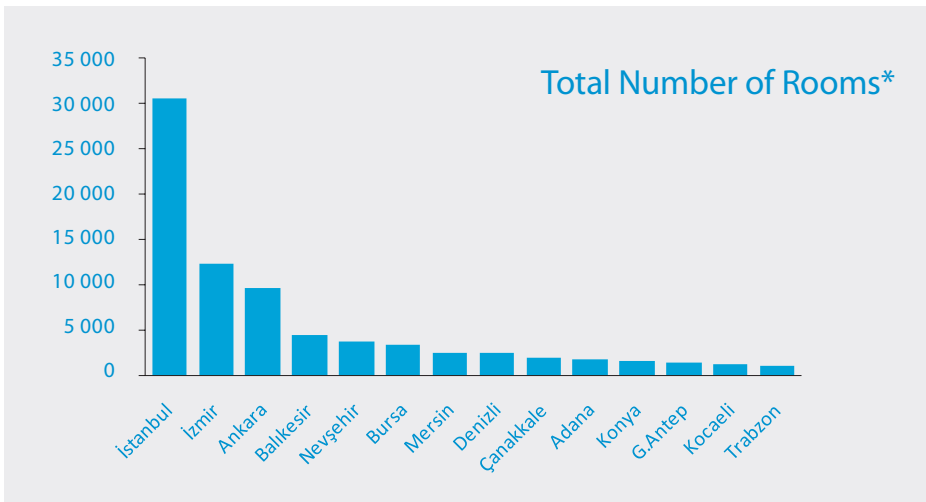
10.14% compared to the same period in 2009. The fact that this increase took place outside of the summer season points out that Turkey's strategy of positioning itself as an important global finance and cultural center is continuing successfully.

When we look at the nationalities of the visitors who came to Turkey in the first 5-month period, we see a great increase in the number of visitors from Iran and Syria, whose visa requirements have recently been bilaterally lifted. An explosion in the number of Russian tourists is also expected when the agreement which sets forth the bilateral lifting of visas with Russia, one of the countries to send the most visitors to Turkey in 2009 as well as in

## Annual and Monthly Distribution of Foreign Visitors to Turkey

Months	Years		Difference 2010/2009 (%)
	2009	2010	
January	751 817	809 974	7.74
February	898 927	953 848	6.11
March	1 207 729	1 414 616	17.13
April	1 750 281	1 744 628	-0.32
May	2 718 788	3 147 492	15.77
<b>5 Month Total</b>	<b>7 327 542</b>	<b>8 070 558</b>	<b>10.14</b>

Source: Ministry of Culture and Tourism



Source: Ministry of Culture and Tourism

\* Antalya, Mugla and Aydin were not taken into account in the table.

previous years, is put into effect. Although the political tension between Israel and Turkey didn't affect the visitor numbers in first 5 months of 2010, it is expected to show a decrease at the end of year. But this decrease will have no serious effect on Turkey's tourism because the share of visitors from Israel was less than 1% in 2009.

It would be fitting to divide the Turkish hotel market into two parts: resort hotels and city hotels. While the cities of Antalya, Mugla and Aydin have the largest stock of resort hotels, Istanbul, Ankara and Izmir have the largest stock of city hotels.

Antalya, Mugla and Aydin alone constitute approximately 65% of the total hotel supply in Turkey.

Istanbul, the largest city in Turkey and deemed to be one of the foremost metropolises of the world, has 10.7% of the total room stock; Izmir, another major port city, has 4.6%. The total of other cities' stocks constitute less than 20 percent of Turkey's room stock.

Within the context of this report, we will be writing about the city hotel investments with high development potential and a lack of supply.



When we look at the total hotel stock in Turkey, it is seen that there is adequate hotel stock in many cities; however, a majority of this stock is comprised of old and no-brand hotels with very low service quality, incapable of meeting the demand. Most of the supply in Izmir, Balıkesir, Mersin, Denizli and Canakkale, where the hotel supply seems somewhat high, is constituted of resort hotels. With the development and professionalization of the tourism sector all over the world today and the change of customers' expectations into a high quality service rather than a room in which to stay; the demand has shifted towards professional management companies built according to international standards and hotels which are managed by international brands. When we look at the international hotel brands operating in Turkey and the hotel stock managed by these brands, we see a great deficiency except for in Istanbul, Izmir and Ankara.

### INTERNATIONAL HOTEL COMPANIES

Turkey's being introduced to international hotel chains began with the opening of the Harbiye Hilton Hotel in 1955. Following several local investments and the entrance of a few

## International Hotel Companies and Brands in Turkey

Hotel Company	Brands				Existing	Under Construction
	Luxury	Upper Class	Mid-Market	Economy		
<b>IHG</b>	Intercontinental	Crown Plaza	Holiday Inn	Holiday Inn Express	10	1
<b>Wyndham Worldwide</b>	-	-	Ramada	-	7	0
<b>Hilton Hotels</b>	Waldorf Astoria Conrad	Hilton	Double Tree Hilton Garden Inn	Hampton by Hilton	9	4
<b>Marriott International</b>	Ritz Carlton	Marriott Renaissance	Courtyard	-	6	3
<b>Accor</b>	-	-	Novotel	Ibis	8	1
<b>Best Western</b>	-	-	Best Western	-	15	0
<b>Starwood</b>	W Hotels	Sheraton	-	-	6	1
<b>Carlson</b>	-	Radisson	-	-	3	0
<b>Hyatt Hotels Group</b>	Park Hyatt	Hyatt Regency Grand Hyatt	-	-	2	0
<b>Mövenpick</b>	-	Mövenpick	-	-	2	1
<b>Four Seasons</b>	Four Seasons	-	-	-	2	0
<b>Barcelo Hotels</b>	-	-	Barcelo	-	4	0
<b>Fairmont Hotels</b>	Swissotel	-	-	-	4	1

Source: Colliers International Turkey

international hotel companies into the market between 1955 and 1985, along with the incentives provided for tourism investments and land allocations in 1985, both hotel investments and the entrance of international brands in the Turkish market gained speed. Today, while the greatest hotel chains of the world have taken their place in the Turkish market and are competing against each other, many international boutique hotel operators are looking for hotel projects as they see Turkey as an appropriate market for growth.

### PROFESSIONAL LOCAL HOTEL COMPANIES

In addition to the international hotel companies and local individual hotel investors operating in Turkey, there exist a few professional local hotel companies which provide services of such quality that they can compete with international brands thanks to the management experience of many years and a hotel portfolio which has spread to many locations. These national hotel brands and their growth strategies are shown in the table on the right.

## Professional Local Hotel Companies

Hotel Company	Existing	Under Construction	Planned
<b>Dedeman</b>	14	1	2
<b>Anemon</b>	14	0	2
<b>Divan</b>	6	2	0
<b>The Marmara</b>	5	0	0
<b>Rixos</b>	7	0	0
<b>IC Hotels</b>	3	0	N/A
<b>Green Park</b>	5	2	0
<b>Aksoy Grup</b>	5	0	0
<b>Öztanık Grup</b>	7	0	0
<b>Limak</b>	6	2	0

Source: Colliers International Turkey

### ISTANBUL HOTEL MARKET

With a population of 16 million, Istanbul is the most developed city in Turkey and has been protecting its position as a commercial and economic center. In addition to being one of the largest hotel markets in

Turkey with its room capacity of more than 30 thousand, almost all of which is comprised of city hotels, Istanbul is also one of the most important and most successful cities in the world in terms of the hotel industry. With its being the heart of the

## 2009/2008 Istanbul Occupancy Rates & ADR

Occupancy Rate %		Average Daily Rate (ADR)		ADR Change
2009	2008	2009	2008	%
70	76	€ 155	€ 160	-3.12

Source: Colliers International Turkey

## 2009 Hotel Value per Room Ranking

City	2006	2007	2008	2009
Paris	2	2	1	1
London	1	1	2	2
Geneva	8	8	3	3
Zürich	6	6	5	4
Rome	3	4	7	5
Istanbul	13	12	9	6
Milan	5	5	8	7
Moscow	4	3	4	8
Amsterdam	9	9	10	9
Madrid	10	10	11	10

Source: HVS

business world in Turkey, its being full of history and culture, as well as its unique position located on 2 continents, Istanbul is a significant point both for local and international visitors. Istanbul reinforced its position in global lists with its performance in the last 6 years; even though it finished the last quarter of 2008 with an occupancy rate of 78% and €160 ADR[1], with the effect of the

global crisis, Istanbul finished 2009 with an occupancy rate of 70% and €150 ADR.

In the list of the most visited cities of the world in 2009, Istanbul ranked 9th, just before Hong Kong, with 7.51 million visitors.

At the same time, in ranking 6th, right below Rome, in the list of hotel values per room in 2009, Istanbul has risen by 7 levels in the last 4 years and proven how strong a hotel market it has.

Even though it is the city with the largest hotel stock in Turkey, Istanbul will still continue offering great opportunities for hotel investors as it continues to attract international attention. In the last term, all the large international hotel chains across the world have been aggressively working to add another link to their chains in the Turkish market, and those chains which are yet to enter the Turkish market are striving to open their first hotels. Without a doubt, the best way to enter the Turkish market is through Istanbul, which has captured the eyes of the whole world. Operators of luxury boutique hotels are especially in competition

with each other to run a hotel in Istanbul that will abundantly reflect the prestige of their brands. The establishment of Europe's first W-Hotel in Turkey and Four Seasons' opening its 2nd hotel in Turkey are an outcome of this effort.

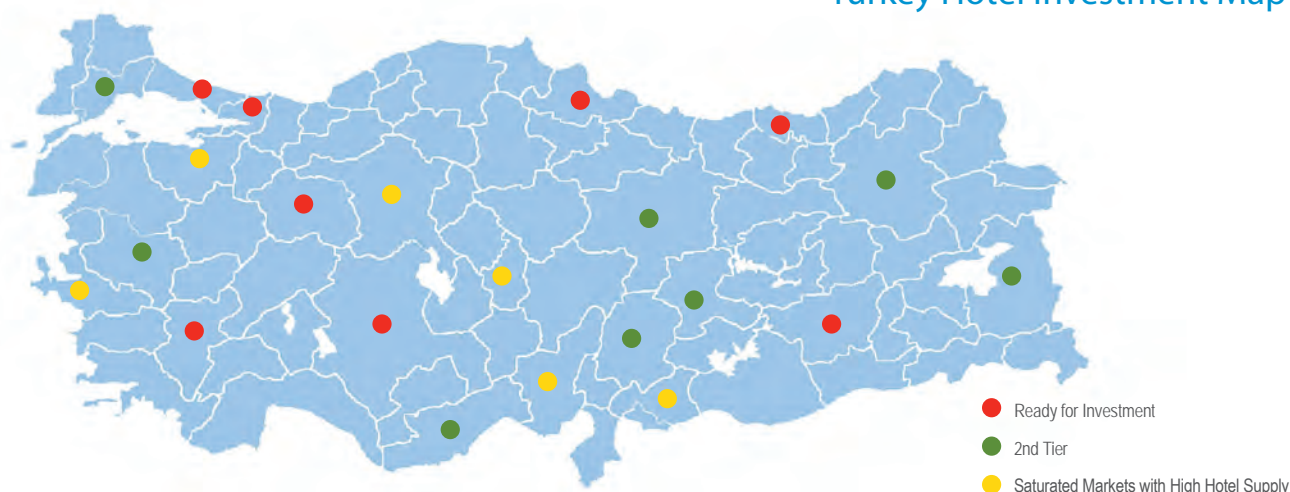
### OTHER POTENTIAL CITIES

In addition to being an important tourism market, Turkey is a country that is growing very rapidly. Whereas the only city in Turkey with a population of more than 1 million in 1955 was Istanbul, the populations of 20 different Turkish cities are about 1 million today. Even though Turkish cities have been the destination of travelers of countless nationalities for hundreds of years, they currently cannot live up to their potential, as there is little to no hotel stock in many cities, or what is there is comprised of buildings which are incapable of meeting guests' needs and not in compliance with international standards. Many cities carry a great potential for such hotel projects carried out at the right location with the right features.

### KOCAELI

With its population of 1,437,926 and its location with Sakarya to its east, Istanbul to its west, the Black Sea to its north and the Marmara Sea to its south, Kocaeli can be considered the most important city of the region after Istanbul. Kocaeli is the no. 1 city in Turkey's manufacturing industry with the industrial facilities operating mostly in

## Turkey Hotel Investment Map



Gebze. Apart from Gebze, the Dilovası and Cayirova regions are industrial zones in their own right. Thanks to its proximity to Istanbul and the busy traffic of its ports, Kocaeli is home to countless domestic and international companies and it mainly hosts business visitors. Its provinces such as Kandira and Karamursel are favorite locations of holiday makers due to their beautiful natural settings. Kocaeli also hosts many national fairs every year with its fair area of 35,000 square meters of closed land established on 150,000 square meters. The demand towards business hotels created by this economic and commercial activity poses a great potential for investors.

### ESKISEHIR

Although the official population of Eskisehir is 724,849, thanks to 2 major universities, the real population of the city is considered to be over 1 million. Anadolu University in particular, one of Turkey's largest and oldest universities, ensures that the city hosts many national and international academic organizations. The city is located directly between Ankara and Istanbul and is at the center of both land and railway transportation networks; its airport is also actively working. The highly-developed industrial zone of the city is home to many large industrial corporations that operate on a national scale such as Arcelik, Eti, Sarar, Pasabahce, Pinar and Reysas. Additionally, with the Porsuk River passing through the city, the historical Odunpazari Houses, its natural hot water springs and thermal baths, its having hosted national personages such as Yunus Emre and Nasreddin Hodja and with its many historical and cultural projects, Eskisehir also hosts many tourists with travel and holiday purposes.

### DENIZLI

Denizli's population is 907,325. The city has transportation links that include land, railway and an airport that has annual passenger traffic of 600 thousand. It is located between two large cities - Izmir and Antalya - with easy access to these cities. Being the heart of the Turkish textile industry, Denizli is also quite developed in many other

industries such as bricks and roof tiles, leather and feed. In addition to the business hotel demand created in the city by this developed industry, Denizli has fairs for the textile sector and many thermal regions, Pamukkale being at the front with its world-famous travertines. These thermal regions, as well as the many historical and cultural heritages it has thanks to its having hosted many civilizations throughout history, create a great holiday and health tourism potential for both domestic and foreign visitors. In light of all these indicators, with its multi-directional tourism potential, Denizli would be a wise market for hotel investors.

### KONYA

Konya is the largest city in Turkey in terms of area; it is also the 6th most populous city. Its northern neighbor Ankara and southern neighbor Antalya are only 3 hours away by land. Daily transportation to Istanbul is also available via the airport. Konya has hosted countless civilizations since 7000 BC; with its cultural heritages that carry the signs of this history, with its historical sites, caves and examples of urban architecture, it resembles an open-air museum. Konya has been the center of cultural and religious tourism for many years with its many historical areas, Mevlana Museum being at the fore, and it increased its popularity even further thanks to UNESCO's declaring 2007 as the Mevlana Year and with the many activities carried out throughout the world in this context. As a true example of planned urbanism in terms of architecture and settlement, Konya is also a favorite spot of many business trips with its developed industry.

### SAMSUN

With a population of 1,228,959, Samsun is the largest city in Turkey's Black Sea region. As the largest and most developed of all its neighboring cities, Samsun is a central axis that should be passed through while going to the Eastern Black Sea or Central Anatolia. Therefore, many sales and marketing employees, medicine representatives and distribution companies choose Samsun as their central location and spread to the nearby cities. Similarly, it also hosts many regional meetings and

organizations thanks to its proximity to the surrounding cities. As per transportation, in addition to land roads, it carries great advantages thanks to having one of the 2 airports in Turkey's Black Sea region, being located on a railway line and possessing ports which are used actively for goods transportation, although not for passenger transportation. Just like all Black Sea cities, it hosts unrivalled natural beauties due to the the Black Sea as well as its greenery and plateaus. This is one of the reasons that create hotel demand for those who travel for business purposes.

### TRABZON

Trabzon's population is 765,127. Among the 14 cities in Turkey's Black Sea region, it ranks 2nd after Samsun in terms of population. Located in Turkey's Eastern Black Sea region, Trabzon is at the beginning of the Caucasus and Iranian transit way. One of the largest ports in Turkey, the port of Trabzon is connected to the ports of all the other countries along the shores of the Black Sea. The goods that will be sent to any part of Turkey from these countries are first dispatched to the port of Trabzon with affordable and safe naval transportation and then distributed to the rest of the country via land. Trabzon airport, which along with the one in Samsun is one of the 2 airports in the region, has passenger traffic of over 1.5 million annually and there are 63 direct flights to Istanbul and 21 direct flights to Ankara every week. Trabzon also attracts visitors with many historical and natural beauties such as the Soumela Monastery, Hagia Sophia Museum and Uzungol. The only 5-star hotel in the region, Grand Zorlu Hotel in the city center, achieved a success above the Turkish average with an occupancy rate of 80%. A short while ago, the French Accor Group and Akfen Group opened up Novotel and introduced the city to its first hotel with an international brand.

### DIYARBAKIR

Having a population of 1,460,714, Diyarbakir has hosted many civilizations throughout the centuries. Thanks to being founded upon the historical Silk Road, the region's character of being the center of

culture, art, science and trade is still continuing today. The old stone houses of the city, its unique cuisine, museums, Malabadi Bridge, Ulu Cami, the Tigris River and the city walls which surround the city and are the 2nd longest and the best preserved walls in the world, after the Great Wall of China, attract both domestic and foreign visitors. Diyarbakir Airport is also one of the most active airports of the region and there are 7 direct flights to Istanbul and 3 direct flights to Ankara every day. Since it is better in terms of development in the region and its

The main economic indicators also point out that the effects of the crisis are gradually wearing off. The government revised its 2010 economic growth forecast as 4% which it had previously declared as 3.5% based on the first half data of 2010.

UNESCO's declaring Istanbul as "2010 European Capital of Culture" and the activities carried out in this context reinforce Istanbul's important place as a cultural center of Europe even further and their lending Istanbul additional attraction power is expected to increase both the number of visitors

## Turkey Hotel Investment Potential

City	Investment Potential			
	Luxury	Upper Class	Mid-Market	Economy
Istanbul	✓	✓	✓	✓
Kocaeli	-	-	✓	✓
Eskişehir	-	-	✓	✓
Denizli	-	-	✓	✓
Konya	-	-	✓	✓
Samsun	-	-	✓	✓
Trabzon	-	-	✓	✓
Diyarbakır	-	-	✓	✓

Source: Colliers International Turkey

shopping opportunities, the city attracts many visitors from the surrounding cities. Again, large and specialized hospitals are among its features that attract people from the entire region. In addition to Diyarbakir's tourism potential, with the new incentive law put into effect in 2009, countless incentives such as VAT exception, customs duty exemption, corporate tax reduction, insurance premium support and the State's paying some of the loan interest for tourism investments are making hotel investments even more attractive.

### EVALUATION

In spite of the crisis, in 2009 Turkey was one of the most successful countries in the world in the tourism sector. The multiple tourism opportunities it offers, in addition to a hotel supply that can address all economic levels, insures that Turkey is able to host visitors of many different profiles.

and to extend their average staying duration in the city.

Similarly, agreements to bilaterally lift visa requirements with many countries such as Iran, Syria, Serbia, Portugal, Albania, Indonesia and Lebanon in 2010 are also expected to make great contributions to Turkish tourism in 2010 and afterwards. The Ministry of Tourism is expecting to attain 30 million visitors at the end of 2010.

With the unique tourism potential it has, Turkey will continue attracting the attention of investors and hotel operators in the coming years. Especially when the lack of 4-star hotel stock starts to be felt, we will see many new hotel investments in potential Anatolian cities.

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