



Spain's sun, sea and sand model still seems to be packing them in, but for how long? / JOSEP LLUÍS SELLART

Spain's reliable tourism miracle

Industry voices talk of a record year in 2013, although accumulated debts and the need to change model provide a cautionary note

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In 2013 we hope to leave recession behind in the tourism sector," said Juan Molas, president of the Spanish Confederation of Hotels and Tourism Accommodation (CEHAT), at an industry presentation last Thursday. The message combined gut feelings and projected hopes to conclude that the sector's future expectations are rosier following "a good month of May and a good to very good month of June."

In the last two months, industry expectations have changed radically. Until Easter the occupancy forecasts were terribly

pessimistic, but now that the high season is in full swing, hardly anybody doubts that this summer is going to be better than the last for Spanish tourism destinations.

The influx of international arrivals has had a lot to do with this attitude change; added to this are the conflicts affecting other countries that compete with Spain for sun-seeking tourists, such as Egypt or Turkey, which are causing more German and Russian nationals to choose the Iberian nation instead. Both factors (which have been recurring for the last few years) will combine to conjure a 2013 miracle for the country's

number-one industry, which has come back strongly from the initial effects of the international financial and economic crises.

Just before the global market crash, 2007 had seen Spain rack up an all-time record of 58.6 million tourists. Now, experts feel that this figure could be bested this year, considering that 57.7 million foreigners came to Spain last year and that there has already been a 7.4-percent increase in arrivals to May this year.

British, German, French and especially Russian and Scandinavian nationals (whose visits to Spain increased 30.8 percent

and 13.8 percent respectively between January and May) represent the positive side of tourism, with occupancy rates of 80 percent for July, according to Rafael Gallego, president of the Spanish Confederation of Travel Agencies (CEAV).

Yet, for the third year running, Spaniards represent the sad side of the tourism market. The crisis has bitten into families' travel budgets and a 25-percent unemployment rate has forced a lot of citizens to forgo their vacation altogether. The year 2012 ended with a 1.2-percent drop in the number of trips, and preliminary figures released by the Industry, Energy

and Tourism Ministry (which did not respond to requests for interviews by this newspaper over the course of a week) show a 3.3-percent decline to May.

"Consumers have changed their habits with the crisis," explains Gallego. "Now they go on shorter, more frequent getaways, and only 10 percent of them go abroad."

Industry professionals face an additional problem: the fact that Spaniards are increasingly delaying their vacation decisions, since they have gotten used to the last-minute deals offered by hotels, airlines and travel agencies caught up in a quasi-permanent price war. The way things stand now, those last-minute deals are more like first-minute offers, notes CEAV's president.

Experts consulted by this newspaper estimate that Spaniards' holiday trips are remaining stable, or perhaps growing at around one percent, especially for domestic travel. And this is exactly what the sector is asking of Spanish people: to please stay in Spain for their holidays. Pablo de Porcioles, director of business development at the travel website eDreams, confirms this trend, since this summer's 10 favorite destinations in terms of website bookings are all located in Spain.

Meanwhile, CEHAT believes that Spanish tourism is going to be very concentrated in the months of July and August, increasing the seasonality that affects the sector.

In the end, "Russians, Scandinavians, Germans and the British will compensate for the lack of nationals, and this season we

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will see better occupancy rates than in 2012, as well as better prices. Except for urban tourism, of course," says Gabriel Escarrer, CEO of Meliá Hotels International, Spain's number-one hotel chain. Escarrer is forecasting a good season for tourism, as is Simón Pedro Barceló, co-chairman of Grupo Barceló.

The Balearic Islands, the Canary Islands and the Mediterranean coast, from Catalonia down to Andalusia, will once again be hanging out "No Vacancy" signs this summer thanks to what José Luis Zoreda, director general of Exceltur, a tourism lobby, is calling "a flood of foreign demand."

Pablo Hurtado, a partner at Deloitte, holds that occupancy rates will be upwards of 90 percent in July and August. The areas that rely heavily on domestic tourism, such as the Cantabrian coast or inland destinations, run the risk that demand will not quite peak the way they would like to see, and this will

probably end up reducing their prices, says Zoreda, which is exactly what happened last summer. In these areas, the Deloitte specialist Hurtado estimates that summer occupancy rates will vary between 70 percent and 80 percent.

For the moment, and following a spike in sun-and-beach bookings in the last few weeks, Juan Molas of CEHAT explains that "the coasts surpassed 80-percent occupancy rates in June and are expected to overtake the 86-percent mark in July in Costa Dorada, Benidorm (which will reach 90 percent), Torremolinos-Benalmádena, the Balearics and the Canary Islands."

So far this year, according to the head of CEHAT, Catalonia, the Balearics and the Valencia region are growing between three and eight points compared with last year; there has also been a one-percent increase in air traffic and a two-percent rise in the number of available hotel beds. By cities, Barcelona, Valencia, Málaga, Bilbao and San Sebastián all have more accommodation ready and are expecting a decent take-up rate. As for other major cities, uncertainty is the keyword, especially in Madrid.

Despite the mystery surrounding last-minute bookings, the fact remains that the industry has reason to be optimistic — not only did occupancy rates grow from last year, but so did spending, pulled forward by foreign customers with ever-growing purchasing power, explains Hurtado, who points chiefly at British, German, Russian and Scandinavian tourists. The two latter nationalities' spending levels are higher than those of other Europeans who have been returning to Spain year after year. To May, foreign-tourist spending grew 7.9 percent, a very high rate, which will likely go down to 2.5 percent by the end of the year, in Molas's opinion.

The chief of the hotel business association — who admits, just like other industry professionals, that their handicap lies in low profitability after years of price wars and tax hikes — believes that business could start recovering if this season brings good occupancy rates to October.

Meanwhile, tourism expenditure could end the year with five-percent growth, says Simón Pedro Barceló, which would increase profitability for tourism groups that do not live exclusively off domestic consumers. "It's an important step forward for the industry," he claims, adding that businesses that rely on Spanish tourism will "have a hard time."

In fact, **Exceltur** and Deloitte were expecting new bankruptcies following the spectacular fall of the agency Orizonia, which the sector digested in May, just in time for the beginning of high season. Debt-ridden urban hotel groups such as AC Hoteles, Silken, Husa, or those that own struggling real estate concerns such as Rafael Hoteles, were being held up as the next likely candidates to bow out of the game.

"But business owners are trying to make it through this sum-

Those going places and standing still

► **International tourists' favorite destinations** will be the ones that get filled up this summer. The Balearic Islands top the list (and not just the island of Mallorca, like last year), with the fashionable destination of Barcelona the favorite city for yet another summer. Despite the increase in available hotel beds, the Catalan capital just keeps on growing both in terms of

arrivals and prices charged.

► **Sun-and-beach destinations** represent the positive side of the coin. Cities like Madrid — which is busy losing tourists — areas far from the coast and rural tourism will take a big hit since they are more dependent on the domestic tourism market.

► **Travel agencies** are losing market share, as indeed are tour operators, since clients would rather book their trips

directly, often online.

► **Cruise ships**, the star product of the last few years because of their inexpensive, everything-included prices, will grow more slowly this year due to the extensive range of products on offer.

► **Spaniards will take shorter vacations**, mostly in national destinations, and preferably on a lower budget than last year.

► **Last-minute deals** will only

be interesting in destinations where domestic tourism is not enough to fill the vacancies. Elsewhere, sector professionals recommend not waiting too long to make a reservation.

► The homes of **friends and relatives** will be relied on less heavily than last year, according to the experts, just like tourism packages, which have been losing market share for years; nevertheless, the hotel business association says that this sector has grown three points.



The Balearic Islands continues to top the billing, attracting both foreigners and Spaniards. Here Palma de Mallorca. / TOLO RAMÓN

"Lenders are keeping the sick man in the emergency room"

Five million Russians went abroad in 2000; now it is 15 million

mer at least," says Luis Zoreda, who notes there are a great many hotels up for sale that "no-body wants."

Barceló believes that the collapse of the industry's businesses in just two years — Marsans and Orizonia — is a clear indication of the industry's troubles, although he adds that, in his opinion, these failures represent the end of the restructuring process. "With the crisis, the number of travel agencies has been halved from 14,000 to 7,000 sales points."

Although Barceló is of the opinion that hotels never disappear, Gabriel Escarrer would like to see the consolidation experienced by travel agencies extending to the hotel chains as well "to clear the market of the most inefficient operators that are being artificially held up by the banks," instead of being transferred to other groups with better management skills that could refloat them.

"Many industry businesses are in a bad situation. The banks are keeping them open, and will not let them fall as long as they manage to repay the interest on their loans. Some have already done their homework, selling assets and refinancing their credit, but a great many others have not. They depend on how long the banks decide to hold out," says Hurtado. "Lenders are keeping the sick man in the emergency room."

Consulting firms Deloitte and PwC say that there are investors out there who are interested in purchasing Spanish chains and establishments, al-

though so far no emblematic hotel has been sold.

Meanwhile, businesses with a wide range of options for domestic and foreign tourists are working hard to try to tap new markets. Russia and the former Soviet republics are their main targets, since in 70 percent of cases these visitors are in the mid-to-high spending range; stay for longer on average (between nine and 15 nights); and sleep in hotels in 84 percent of cases, explains the CEHAT chief, underscoring that only five million Russians went abroad on vacation in the year 2000, compared with 15 million today, of which 1.2 million choose Spain.

Meliá Hotels is well aware of this, and last summer it inaugurated the refurbished sun and beach resort Calvià Beach (near Palma de Mallorca) to resounding success, chiefly thanks to Russians and other foreigners with large wallets. "The project went beyond our expectations and is set to consolidate this summer," says Escarrer, who can vouch for the success of ren-

ovating an obsolete model and replacing it with a new, quality project. "We believe in supporting mature sun-and-beach destinations and we want to extend the model to Ibiza," he says.

Meliá has joined a British investor in a 50-50 partnership to reconvert one of its Ibiza hotels into a five-star affair following an investment of nine or 10 million euros, says the CEO of the chain. The agreement with the exclusive beach club Nikki Beach will have the British company running their Santa Eulària complex, due to be inaugurated next summer for the benefit of its wealthy members.

It's a recurring theme: if Spain wants to remain the world's second global destination in tourism receipts, it needs to revamp its traditional sun-and-beach model by providing attractive new experiences that will make clients come back. "The transformation model for the Spain tourism brand must necessarily include this type of conversion," concludes Escarrer.