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Hotel, Tourism and Leisure

MARKET REPORT

***ALBANIA: The (last)
undiscovered pearl
of the Mediterranean***

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Albania: *The (last) undiscovered pearl of the Mediterranean*

When it comes to travel, one can argue that there are few stones that have been left unturned in Europe, but one of those is certainly Albania. In many ways Albania is the missing part of the Mediterranean tourism puzzle.

Why Albania is yet ‘undiscovered’?

For 50 years or so Albania was under a repressive communist regime, that isolated the country and excluded it from international tourism. Whilst making the transition from a classic ‘eastern bloc’ centrally planned economy, to a modern market economy, Albania has struggled with its image and found it hard to achieve an appealing market positioning.

Concrete steps are being taken, however, to address this. The growth in international tourism, specifically the development of the Croatian and Montenegro coastal areas has shown the potential that the Albanian market has. The Government started implementing active policy measures to stimulate the sector.

The most recent being the changes to tourism law as of December 2017 (Law No. 114/2017) enabling a set of fiscal incentives for new 4 and 5-star accommodation facilities. In a final state of adoption, there is also a new tourism development strategy for next 5 years. This measure, along with other initiatives, looks to boost the sector and incentivise investment.

Tourism of Albania today

As of today, Albanian tourism is characterized by complicated layers of administrative and legislation framework, lack of reinforced state level co-ordination and poor statistical data. Any one of these is challenging, but combined represent real obstacles to potential growth.

The newly formed Ministry of Tourism and Environmental protection, and the National Tourism Organization clearly show that the Government is determined to develop tourism professionally and create a clear path to investment and growth.

In spite of the lack of credible data and professional management to date, it seems that Albania has already organically created significant tourism business which is currently catering for domestic and nearby regional markets.

According to the WTTC, in 2017, direct contribution of tourism to GDP is estimated at 971 million EUR, or approximately 8.8% of direct share in GDP. It is estimated that capital investments reached 228 million EUR in 2017, and will continue to grow.

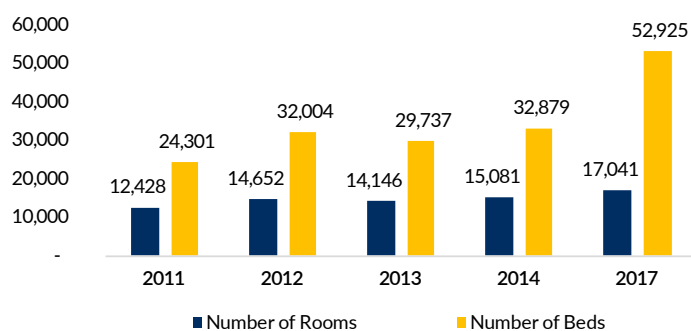
In 2016, travel and tourism in Albania generated 85,500 jobs directly (7.7% of total employment) while total tourism expenditures, both foreign and domestic, reached 1,861 million EUR, out of which 73.7% were foreign tourist spending and 26.3% of domestic tourist expenditures.



Supply

According to the United Nations World Tourism Organization's (UNWTO) last available data, (2014) there were 15,081 rooms in Albania, and its number increased by the rate of 6.7% annually from 2011 to 2014. In the same year, the number of bed-places was 32,879 with the annual growth rate of 10.6%.

Graph 1: Accommodation supply in hotels and similar 2011-2017



Source: World Tourism Organization (2017), *Compendium of Tourism Statistics dataset [Electronic]*, UNWTO, Madrid, data updated on 25/09/2017; Ministry of Tourism and Environmental Protection.

Note: Data for 2015 and 2016 is missing.

According to the latest statistics from the Ministry of Tourism and Environmental protection, in 2017 there were 17,041 rooms and 52,925 beds in registered accommodation establishments, with 68% of total supply concentrated in most important tourism hubs - Vlore, Tirana and Shkoder.

Compared to 2012, the registered number of beds in 2017 has grown by 91%, while the number of rooms increased by 38.4%. However, such growth cannot be unilaterally distinguished between the real growth of capacities and improving tourism statistics.

Nevertheless, we assume that this capacity is still strongly underestimated due to a large portion of non-registered (private) accommodation capacities.

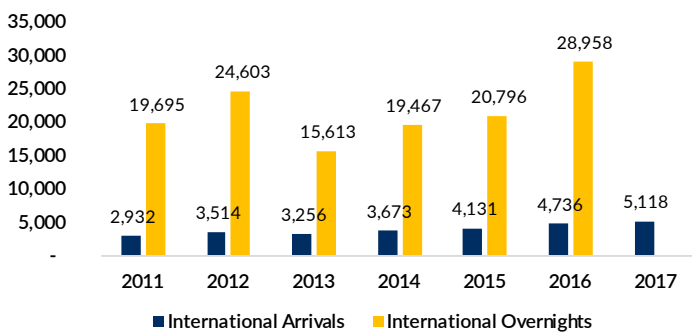
In terms of foreign hotel operators present in Albania, there are currently only two - Best Western Premier Ark Hotel and Rogner Tirana hotel. In 2017, Sheraton exited the Albanian market. Expected additions at the moment include Hilton Garden Inn Tirana, due to open in 2018 as well as Melia, with ongoing investment in the coastal resort development.



Demand

In the period 2007-2017, the number of foreign arrivals showed strong and consistent growth of 16.6% on average annually.

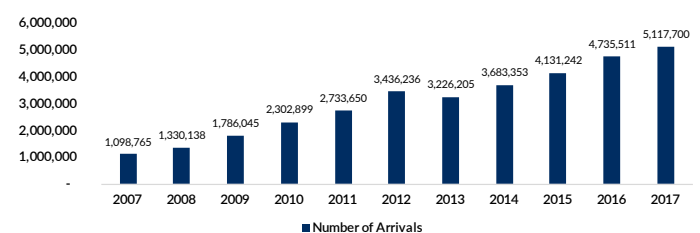
Graph 2: International arrivals at the Albanian borders (2007-2017)



Source: INSTAT

Based on UNWTO data, in 2015, foreign arrivals accounted for 60% of total arrivals. In 2017, around 46% of foreigners visited Albania for a holiday, while there is a strong share of Albanian diaspora that increasingly visits the country during the summer season that accounts for 43% of total foreign arrivals.

Graph 3: International tourist arrivals and overnights 2011-2017 (in '000)



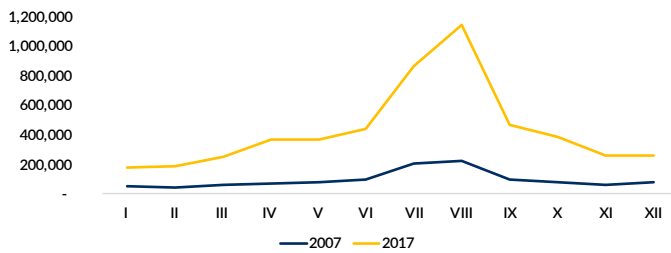
Source: Draft Albania Tourism Strategy 2018 – 2022, INSTAT;

Note: Data for overnights in 2017 is missing.

While overnights of domestic guests are not registered, number of overnights by international tourists is being part of national tourism statistics. Based on these indicators, it can be noted that a number of foreign overnights has been increasing by 6.6% on average yearly between 2011-2016, reaching almost 29 million foreign overnights.

Average length of stay is comparable to those of Adriatic competitors (4.95 days), showing a strong influence of the sun and beach product, which is also visible in the seasonality curve. In 2017, July and August account for 39% of total international arrivals, while in the period from June to September 57% of total international arrivals was achieved.

Graph 4: International visitor arrivals at the Albania borders (2007-2017)



Source: INSTAT

Over a longer period of time, an encouraging trend has been noticed, of increased international arrivals in the early shoulder season (April, May and October), suggesting increased interest for non-beach related products like culture- and nature-based activities.

Around 71% of all international arrivals are from four neighbouring countries (Kosovo, Macedonia, Greece and Montenegro) and Italy suggesting strong dependency on regional visitors.

Due to low starting values, growth of other foreign markets is very strong in the analysed period from 2010 to 2017: (Germany +120%, UK +104%, USA +98%, Turkey +140%, Poland +570%, France +108%, Sweden +325%, The Netherlands +220%, Bosnia and Herzegovina +263%) suggesting that some market differentiation has started occurring.



So, why Albania now?

- ***Strategic geographical position***

Situated between Montenegro and Greece, on the meeting place of Adriatic and Ionian Sea, Albania is less than 100 km from Italy and easily accessible from Europe. With 29 direct flights, the capital city, Tirana, is less than 2-3 hours away from Europe's most important centres.

- ***Ongoing developing infrastructure***

The Albanian road system is fairly underdeveloped, but under substantial modernisation. Several international initiatives are being undertaken by the World Bank, the European Bank for Reconstruction and Development (EBRD) and others to improve and develop Albania's transport system. Currently, the investment projects which aim at improving the accessibility of the country include construction of highways and corridors that will connect Montenegro with Greece, the rehabilitation of the rail network and development of air transport.

- ***Unexplored and untouched natural beauty***

The country covers a total of 28,748 square kilometres, and has a coastline 362 km long with pristine water and sandy beaches. On the other hand, 2/3 of the country's surface area are mountains and some of them more than 2000 m high, providing spectacular views and opportunities for mountain tourism. Within a few minutes visitors can leave the mountains and reach the sea or a variety of lakes, rivers and natural springs.

- ***Rich cultural heritage***

Albania has a rich ancient history, from Illyrian, Greek and Roman Empires through Byzantine, Venetian and Ottoman civilisation, which can be experienced through numerous ancient monuments and ruins, archaeological parks, castles and fortresses, stone bridges, religious monuments as well as three UNESCO heritage sites of Butrint, Berat and Gjirokaster.

- ***Favourable climate conditions for year round business***

Good climate conditions, with comparably higher air and sea temperatures compared to ones in Croatia or Montenegro, enable tourism activities on the coast from April to October, which pared with winter period in mountains, offer opportunities for year round business.

- ***Comparatively lower operating costs***

At 19% of the total population, Albania has the highest percentage of 15-24-year olds in Europe. This favourable demographic structure, pared with significantly lower wage levels than those in Western Europe, create a significant upside potential for labour-intensive investments.

- ***Attractive overall and sector-specific investment incentives***

As the Albanian government recognizes the economic benefits of tourism sector and its potential for business development and job creation, they have adopted a fiscal package that was implemented for strategic investments in the tourism sector as of January 1st, 2018.

With this fiscal incentive, all new four and five-star hotels that are constructed will benefit from exemptions to tax on profits for ten years. Moreover, they will not pay infrastructure tax while the Value Added Tax (VAT) will be reduced to six percent.

- ***Ongoing international integration***

The Republic of Albania officially became a NATO member in 2009 and has been an official candidate for accession to the European Union (EU) since June 2014. Those, alongside with the membership in UN, ensure long-term stability and prove western-oriented aspirations.

- ***Donor institutions already heavily supporting Albania***

There are different ongoing projects in Albania that are funded by international donor institutions, some of them being the World Bank, Italian Development Cooperation, EBRD and European Commission.

Current ongoing and planned projects aim at develop and upgrade infrastructure and strengthen human resources within key sectors, including tourism.

Conclusion

Albanian tourism is on an upward trajectory. With the recent political leadership of Albania's Prime Minister, Edi Rama, tourism gained stronger importance and became one of the key economic priority sectors, recognising various positive social, economic and environmental benefits it could bring to young nation of Albania.

Albania is in a position to develop tourism fast - in order to grasp the opportunities of the global market and catch up with its Mediterranean peers. There is also increasing interest of international developers for dominant projects on the Albanian coast.

Moreover, Albania will need tourism as a growth and employment driver as well as a marketplace for Albanian rich agriculture, emerging industries and various service providers.

Finally, Albania is in a fast modernization process, where tourism can significantly contribute in creating a new and appealing image of an attractive, young, friendly and open country.

Authors:



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Siniša Topalovic is managing partner at Horwath HTL Croatia and Serbia. He has been involved in more than 100 projects within Horwath HTL network in over 20 geographies, working with high-profile clients and shaping today's tourism industry landscape in well-established but also emerging destinations worldwide.

His fields of expertise include strategic advisory in tourism and hospitality (strategies and master planning), tourism marketing and branding planning, product development, hotel and resort development. Siniša is particularly experienced in working with international teams - coordinating and harmonising them with an ultimate goal of generating maximum synergies.



Iva Rašica
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Iva is a consultant at Horwath HTL Croatia, having joined the team in 2015 and has been involved in projects in both private and public sector in the SEE region and CIS countries. Her specific focus is on tourism master planning, tourism development strategies and operational plans related to national, regional and city level.

Iva's business skills include developing marketing plans for destinations, branding strategies and tourism product development. She had the opportunity to work with different hotel and tourism industry actors, across different countries and in international teams.



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