

**SPEECH BY THE PRESIDENT
OF THE CYPRUS HOTEL ASSOCIATION
THANOS MICHALIDES**

**45th CYPRUS HOTEL SUMMIT & EXHIBITION
Friday 23 February 2024**



EMBRACING THE NEW NORMAL

Esteemed Deputy Minister of Tourism,
Most Reverend Bishop of Messaoria, Gregory / Θεοφιλέστατε
Dear President of HOTREC & Hellenic Chamber of Hotels,
Dear speakers and delegates

It's a great pleasure to welcome you to the 45th Conference of the Cyprus Hotel Association. This is the industry's most significant annual meeting where we will discuss the challenges we are facing, current trends in the hospitality industry and exchange ideas for possible solutions.

This year's conference is important as we are facing continuing geopolitical unrest and uncertainty that are challenging the industry and our international markets. The crisis in the Middle East together with the continuing crisis in Ukraine are posing significant threats to the demand for tourism in Cyprus. In 2022 we lost the 2nd largest market for Cyprus - Russia - and we are now facing the possibility of losing Israel, the 2nd largest market in 2023.

In addition to external crises, we continue to face a number of challenges, such as labour force shortages, high interest rates, high energy costs, the move to a more sustainable model and the digital transformation.

While we were faced with the same challenges in the previous post Covid years, we managed, with great difficulty, to navigate through the obstacles and in 2023 we had near record levels of tourist arrivals to Cyprus. The number of tourist arrivals alone do not equate to the same number of overnight stays at our hotels. The figures for our occupancy rates show that there is a growing gap between arrivals and occupancy rates. The two main reasons for this are the increasing flow of tourists to the occupied areas of Cyprus and the increase in demand for unlicensed short term rental units.

Looking at the revenues from the tourist arrivals for 2023, we see that they have risen above those of the benchmark year of 2019 which was a record year. This was mainly due the inflationary trend and the tail end of the post Covid pent-up demand for travel. While record high top line figures are a cause for celebration, they don't tell the full story. The financial success of an industry is the growth in its bottom line. Unfortunately, due to the disproportionate increase in operating expenses and the rise in interest rates, we have seen the profitability of our sector being hit vs the profitability of 2022 and 2019.

The positive note we need to highlight from 2023 is the sector's resilience and adaptability to mitigate the impact brought by the above-mentioned challenges.

In 2024 we need to rise to the challenge of the issues we face and again find new markets and better manage existing source markets, to bring the industry forward. In our effort to manage our challenges, we are working closely together with the Deputy Ministry of Tourism and Hermes Airports to further develop new markets by launching new routes that will lead to improved connectivity with markets that have the potential to grow and increase the flow of tourist to Cyprus and minimise our dependency on our current source markets.

Dealing with geopolitical instability is one piece of the puzzle. We are continuing to face the issue of shortages in the labour force. The labour shortage is not a Cyprus specific problem, but a problem that most developed nations face. The immediate solution is the employment of people from non-EU countries. Many of our competitors have already made bilateral agreements with specific countries in an effort to find an immediate solution. In coordination with the Cyprus government, we now have improved efficiency in the way in which the applications are being processed. A move that has proven helpful and at the same time points to the need for more measures to better expedite the process of hiring labour from outside the EU.

We must constantly strive to develop the recruitment process, otherwise we run the risk of having hotels operating at a sub-optimal level by closing and or minimising the availability of facilities and in the long run resulting in degrading the position of Cyprus as a quality and value for money destination. This potential threat must be acknowledged as the key threat to our industry.

Solving the labour shortage is no easy task. We are seeking a long-term solution that allows the industry to have a stable labour force, based mostly in Cyprus. We need a strategy that will showcase the many strengths of the hospitality industry and attract Cypriots back into the industry that represents a major part of our GDP.

We recommend that together with the Ministry of Labour we conduct a study to identify the needs per skill set and in absolute numbers. The results of the study will help us to set specific and attainable goals to reach a long-term solution. We must be in a position to give the opportunity to the youth to pursue a career in hospitality – an industry with multiple skill levels and a broad spectrum of knowledge requirements. At the same time it will help our industry to optimise its operating model through upskilling and reskilling of the workforce.

The members of the Cyprus Hotel Association are actively investing in the Cyprus hospitality workforce through continuous training and programmes to attract people to join our industry. Through our collaboration with the Ministry of Education, Sport and Youth, we want to show that tourism is an industry that encompasses a very broad spectrum of professions offering excellent career opportunities.

To this end, we have introduced the programme Filoxenia or Hospitality in primary education. This initiative aims to introduce primary level schoolchildren to the meaning and importance of hospitality, raising both the awareness and acceptance of a career in our industry. This innovative and pioneering programme was developed by the Hellenic Chamber of Hotels, who generously shared it with us. I would like to take this opportunity to extend our gratitude to the Hellenic Chamber of Hotels and its President Alexandros Vasilikos for their continuous support and our long-term close cooperation.

Ladies and Gentlemen, I would like to raise an important issue, which is the increase in the number of tourists that stay in the occupied part of the island. Previous estimates in 2019 showed that 4% of the total tourist arrivals were going to the occupied areas and now the estimate is for double the number of 2019. This is primarily a moral issue as assets belonging to Cypriots are being unlawfully exploited. Beyond the moral issue, we have unfair competition to our hotels since these hotels operate with a completely different regulatory framework and lower operating cost. The lost business is a loss for the Republic of Cyprus as well as the Cyprus Economy.

Another activity which is detrimental to the hospitality industry and the economy is the unlicensed short term rental business. This segment of the economy operates outside any regulatory framework, avoiding taxes and levies, creating significant instability in the rental market. We have seen the rents in the popular resorts increase to the point that young couples are unable to find affordable housing, creating a social problem. This issue is common to many tourist hotspots and we have examples of legislation that has been introduced to resolve the matter. An example of these new measures is the legislation that was recently introduced in New York. We will be hearing about this later from Troy Flanagan, who is the Executive Vice-President of the American Hotel & Lodging Association.

We are confident that these challenges can be overcome with the right actions and allow the industry to move forward towards a more efficient and fair operating environment.

The hospitality space is moving at a rapid pace towards a more technologically advanced model with new consumer trends pointing to a greater interest in sustainability. We recognise that we need to navigate this new environment as an industry and adapt to move with the times. We cannot afford to be left behind and at the same time we need to evaluate what can we afford to invest in the new world towards which we are moving.

Our timely and financially viable transition towards a digital and sustainable world needs to be planned carefully in order to secure our future. It is imperative we set attainable goals that make financial sense and that lead us in a gradual yet surefooted path to our ultimate goal: a sustainable tourist model that continues to grow in the segment of quality tourism based on the values of Cyprus hospitality.

We must acknowledge that most of the tourist infrastructure in Cyprus was built in the 1980's. The investment needed to modernize these real estate assets to meet EU environmental requirements is massive.

The investment required is beyond the reach of our industry and it cannot be passed on to our consumers. Cyprus is the most southeastern island of the EU, and as such we are at a disadvantage in terms of our accessibility vis-à-vis our competitors. The cost of air travel to Cyprus will always be higher from the key markets and this makes the cost of a holiday in Cyprus more expensive. The industry needs support both in technical assistance and financial incentives to facilitate the transition to a sustainable model in time.

The hoteliers are ready to commit to the transition to a future proof model and we recommend that the government commissions a study to examine the state of our hospitality assets and evaluate the cost and time needed to upgrade them to the new standards.

We will continue to make strides towards the transition, and at the same time we will take all necessary steps towards our collaboration between the public and the private sector to reach our goals in the best possible way for our industry and the economy of Cyprus.

As the oldest association of Cyprus, established in 1936, we are confident that we shall overcome the challenges we face now and those we are bound to face in the future. I hope the conference will be a source of information and inspiration to all of you here today to reach a brighter future.

In conclusion, we extend our gratitude to our sponsors and supporters, Ecommbx, Hellenic Bank, CSC Christodoulou, Hermes Airport, IMR, UIBS Hospitality and Aegean.

I would also like to extend our thanks to all the exhibitors for participating in the Exhibition of Products & Services. Our appreciation goes out to IMH for organising today's Conference.
