



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Baku, Azerbaijan

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Baku Tourism

Baku is the capital city of Azerbaijan, which is the largest and most populated country in the South Caucasus region of Eurasia.

It has nine climate zones out of the eleven that exist in the world ranging from humid subtropical climate to semi-arctic. The capital city, which has a population of over two million, is located on the south-eastern border of Europe serving as the natural bridge between Europe and Asia on the western shore of the Caspian Sea.

Although oil refinery is still its main industry and key source of income, Baku has recently been developing into a 'must-see' tourism destination offering exotic atmosphere and historic sights, diverse gastronomy and, last but not least, excellent value-for-money services, including internationally branded hotels in each category.

The city offers a rich variety of monuments, historic buildings, museums, parks and a long stretch of seaside boulevard. Architectural monuments of Azerbaijan and Baku are included in the Golden Fund of the World Architectural Heritage, and many historic buildings in the Old City are on the UNESCO World Heritage list.

Baku has been and continues to be the host of international large-scale events, such as the 57th Eurovision Song Contest, the European Games, FIDE World Cup, the annual Formula One Grand Prix and the upcoming UEFA Europe League Final 2019.

The Government is determined to make Baku a leading travel destination in the Caucasus region, hence the priority status of tourism among other industries to diversify the city's economy.

Recent efforts have resulted in remarkable demand growth as the passenger volume at Heydar Aliyev International Airport (the key airport of Azerbaijan) increased from 3 million in 2015 to 4.3 million in 2018. The airport currently serves 35 airlines, operating over 150 international flights per week to more than 60 destinations, with additional flights and destinations expected in 2019. Arrivals fuelled hotel guest night stays in Baku, doubling to 2.2 million between 2013 and 2017.



Hotel Market Snapshot

Tourist arrivals and demand for hotels have been driven by the growth in leisure travellers. This is a stark contrast to ten years ago, when corporate travellers dominated demand for hotels. Both leisure individual and group demand has been on the rise since the early 2010s thanks primarily to the increased media coverage of the country and marketing activities made by the Tourism Agency and major local DMCs.

The main source markets in the capital city have been the GCC countries in recent years, while the dominance of key feeder markets for Azerbaijan (i.e. Russia, Georgia and Turkey) are more prevalent in the countryside hotels.

In addition to the large-scale multi-million-dollar mixed-use real estate development projects, such as Baku White City and Crescent Development, major hotel brands have already established their presence on the market. Fairmont, Four Seasons, JW Marriott, Hilton, Autograph Collection, Sheraton, Hyatt and Pullman are operating in the city serving the upper upscale and luxury segments of traveller demand.

The internationally branded upscale and midscale hotel sector currently includes Park Inn by Radisson, Holiday Inn, Ramada and Staybridge Suites. We expect to see the influx of additional international hotel brands servicing the needs of more value-minded travel segments. The development pipeline confirms future openings under diverse brands, including Hilton Garden Inn, Courtyard by Marriott, Ibis and Novotel.

The major hotel projects in the upper-upscale and luxury sectors include the proposed development of an InterContinental Hotel close to the Hilton's location, in addition to the development of an undisclosed international luxury hotel as part of the large-scale Crescent Development project under construction.

With the opening of numerous upper upscale and luxury hotels, the top-end tier of the local hotel market was nearing saturation a few years ago. The recent demand growth helped this sector enormously however, achieving record high KPIs in 2018.



The active hotel development scene has also given fertile ground for the growth of local hotel companies. Gilan Hospitality Group (Qafqaz Hotels & Resorts), Absheron Hotel Group (Intourist Hotel and Boulevard Hotel both Autograph Collection properties, etc.), and PMD Hospitality (Excelsior Hotel & SPA Baku, Shamakhi Palace Sharadil luxury resort, etc.) all created high quality assets, diverse hotel services and have operated successfully in the capital and at key destinations across the country yielding their own brands.

The continued hotel development at city and resort locations will see the growth of local brands, independent hotels and the influx of affiliations through consortia membership or international franchise brands in the years to come.



Conclusion

In summary, we believe that Baku will continue to enjoy positive recognition from major feeder markets and continue to strengthen its position in large Asian and European source markets in the long-term.

This will support further development of the local hotel market, while the constantly diversifying hotel supply will make the destination more attractive for international corporate and leisure travellers seeking quality hotel services in the capital city of the Land of Fire.

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Gergely Bálint has been acting as a Senior External Advisor on behalf of Horwath HTL Hungary since January 2017. Between 2006 and 2016 Gergely worked for Horwath HTL Hungary in various positions from Consultant to Director level before he became an external advisor.

Gergely has experience primarily in hotel and tourism markets of the CEE region and the CIS countries and conducted market and financial feasibility studies, concept development planning, single hotel and portfolio valuations, acquisition due diligence, financial and operations audit and also operator selections across Hungary, the CEE region and CIS countries.

Horwath HTL

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Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

We are a global Brand with 45 offices, who have successfully carried out over 20,000 assignments for private and public clients. We are part of Crowe Global, a top 10 accounting and financial services network. We are the number one choice for companies and financial institutions looking to invest and develop in the industry.

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