



# The Hotel Sector in Israel

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## Summary

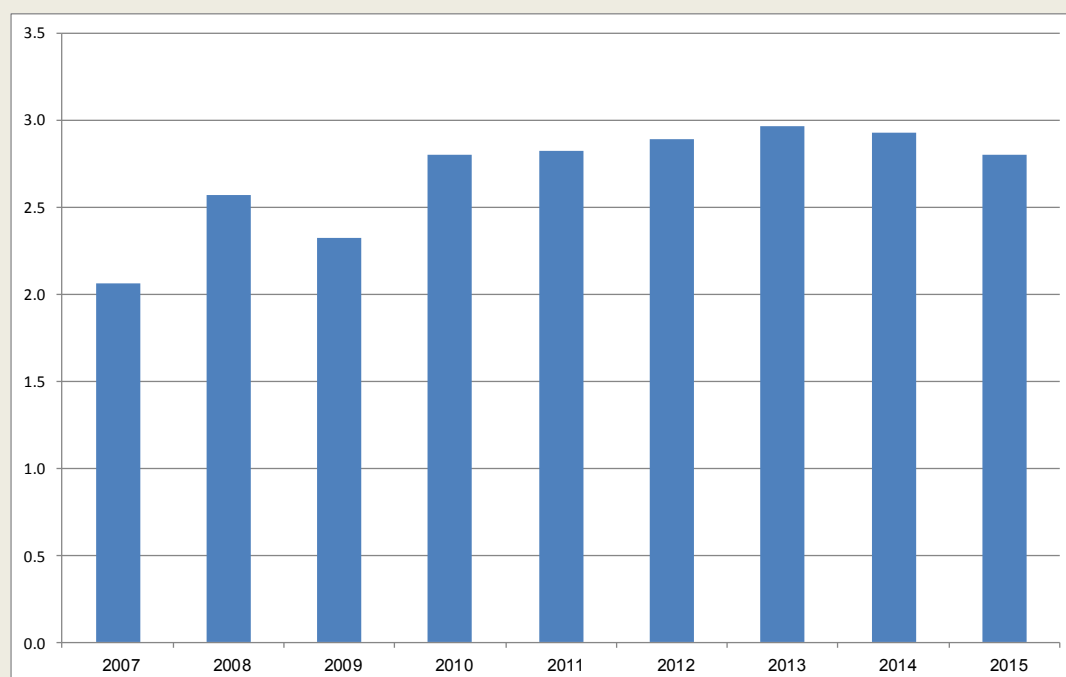
- The number of monthly tourist entries into the country continues to be substantially below that from before Operation Protective Edge (July-August 2014), due to the current security situation in Israel and the economic crisis prevailing in Russia.
- The number of overnight hotel stays by Israelis continues to climb, thus helping local hotels to offset the decline in foreign tourists. However, there is a large potential for incoming tourists from China in the coming years.
- Most of the hotel revenues in Tel Aviv and Jerusalem stem from foreign tourists, this in contrast to the hotels in Eilat and the Dead Sea, which are benefitting from strong internal tourism.
- The revenue per overnight stay in 2015 averaged NIS 459, representing a 7.3% increase compared to 2014.
- New hotel and tourism platforms, such as AirBnB, are increasing rapidly in Israel and around the world, thus representing a formidable challenge to the traditional hotel industry. The trend of renting rooms via such services has been in a continuous upward climb over recent years.
- The 2015 financial reports of *Dan Hotels* and *Hachsharat Hayishuv Hotels* show that despite the difficult year, the companies succeeded to increase their revenues and also net profits compared to 2014.

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## Macro-economic analysis

In 2015 there were 2.8m foreign tourist entries into Israel, representing a 4.3% decline compared to 2014. The weakness in incoming tourism continued also in the first two months of 2016, when only 452,000 tourists entered the country, representing a 2.0% decline compared to the first two months of 2015. It should be remembered that the beginning of 2015 was also a slow period for tourism as a result of Operation Protective Edge, which occurred in the second half of 2014.

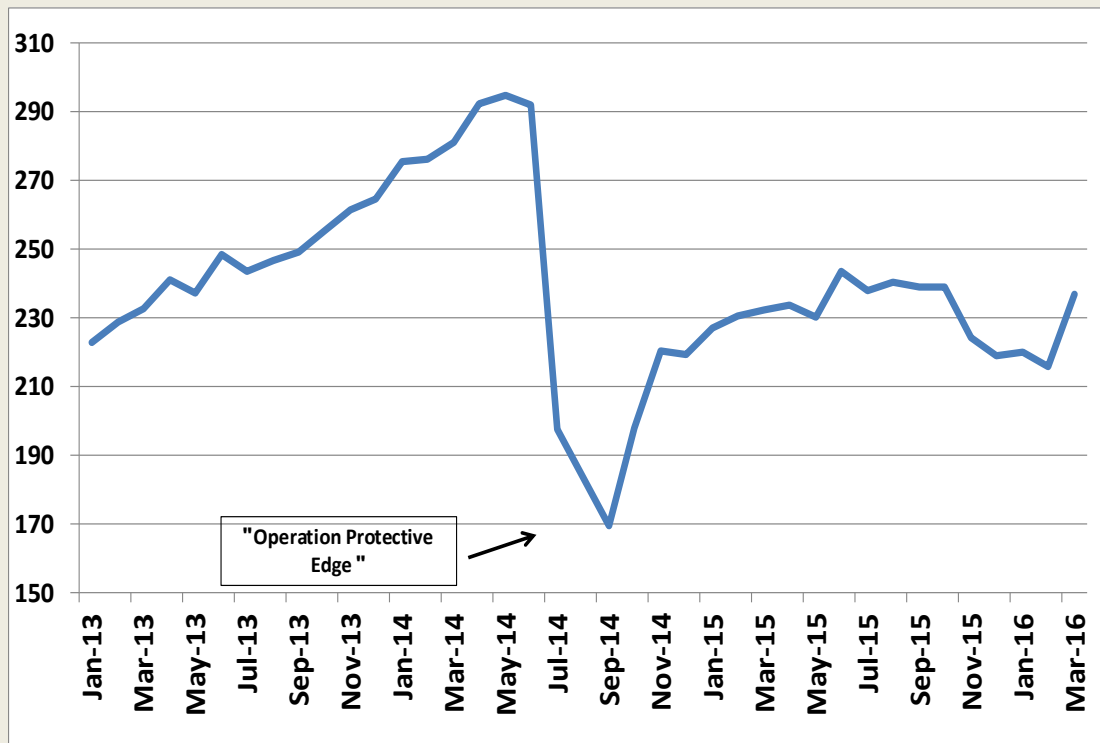
**Diagram 1: Incoming Tourists to Israel (millions)**



The decline in the number of incoming tourists to Israel stems from a number of factors, with the primary explanation being **the deterioration in the domestic security situation**, which began with the outbreak of Operation Protective Edge in July – August 2014 and continued also during most of 2015 with acts of terrorism in Jerusalem, Tel Aviv, and other cities. Additional developments that contributed to the slowdown in incoming tourism in 2015 include **the economic crisis in Russia**, which caused, together with the security situation, a sharp decline of 30% in incoming tourism from Russia, which represents a substantial source of incoming tourists. **The geo-political situation in the region**, with an emphasis on the fighting in Syria and the instability in the Sinai Peninsula (for example, the downing of the Russian chartered passenger flight on October 31, 2015), has contributed to the overall environment that leads tourists to be concerned about coming to the Middle East region.

As can be seen in Diagram 2, the number of incoming tourists is still substantially below the figure from before the beginning of Operation Protective Edge. Furthermore, it is worthwhile to note that compared to previous security incidents, such as the Second Lebanon War or Operation Cast Lead, this time the recovery from the military operation is taking substantially longer, and this is weighing on sector activity.

**DIAGRAM 2: Incoming Tourists to Israel (in thousands, seasonally adjusted data)**



The number of overnight hotel stays in 2015 equaled 21.7m, with foreign tourists accounting for 38% of the total. Analysis of the data shows that the number of overnight stays by foreigners declined 11% in 2015 compared to 2014, while the number of overnight stays by Israelis increased 4% during this period. Thus, the overall number of overnight hotel stays (Israelis plus foreigners) declined by only a moderate rate of 2%.

The Jerusalem district suffered the sharpest drop in the number of overall overnight hotel stays (-9.1%) compared to 2014. This figure is consistent with the fact that Jerusalem was the focus of many security incidences over the last year. On the other hand, the Tel Aviv district was the sole district in which an increase in the number of overnight hotel stays was registered, this despite the decline in the number of foreign tourists. This can possibly be explained by the belief that tourists preferred to spend more days in Tel Aviv, at the expense of Jerusalem, in light of the security situation.

*In the months January – February 2016 a 1% increase was registered in total overnight hotel stays compared to the same period in the preceding year, whereas*

compared to the preceding two months there was a 3.7% increase. In both of these comparisons the increase in the number of overnight hotel stays stemmed primarily from an increase in the number of overnight stays by foreign tourists (seasonally adjusted data), this alongside moderate increases in the number of overnight stays by Israelis.

Revenues at tourist hotels amounted to NIS 9.9bn in 2015 (in current prices), with revenues from foreign tourists accounting for 38% of the total. In real terms (in fixed prices), revenues increased 5.7% during 2015, as an impressive increase of 10% was registered in revenues from Israelis, while revenues from foreign tourists declined 0.6% compared to the preceding year. Analysis of the revenues data according to city shows that approximately one-half of revenues from Israelis occurred in Eilat and the Dead Sea. Regarding foreign tourists, 35% of revenues occurred in Tel Aviv and 30% were in Jerusalem hotels. In addition, *it can be seen that most of the revenues of the Tel Aviv and Jerusalem hotels derived from foreign tourists and not from Israelis; therefore, hotels in these cities are more sensitive to foreign tourism.*

TABLE 1 – Percentage change in revenues at tourist hotels in select cities  
(2015 compared to 2014)

Percentages			
	2014/2015		
	Total	Foreign tourists	Israelis
	Fixed prices		
<b>Total</b>	5.7	-0.6	9.9
<b>Jerusalem – total</b>	-3.4	-8.2	6.7
Of this: W. Jerusalem	-2.5	-7.5	7.6
<b>Tel Aviv – Jaffa</b>	17.2	12.5	27.7
<b>Eilat</b>	4.5	-20.8	8.1
<b>Tiberias</b>	-1.0	-12.6	5.7
<b>Netanya</b>	1.3	-4.1	7.2
<b>Dead Sea shoreline</b>	-2.9	-22.2	2.9

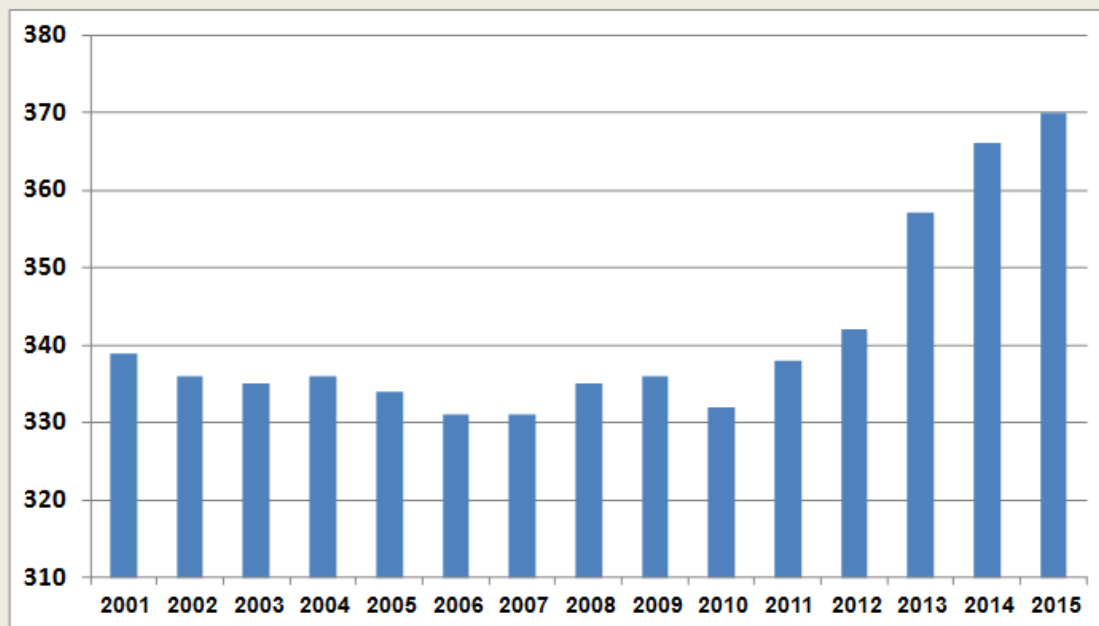
Source: Central Bureau of Statistics (CBS)

Revenue per overnight stay (in current prices) in 2015 equaled NIS 459. For foreign tourists this figure stood at NIS 462, while for Israelis it equaled NIS 457. This is the first time in the last six years that the revenue per overnight stay for foreign tourists was higher than that for Israelis. It appears that the revenues per overnight stay of hotels are in a sharp upward trend. During the years 2010 – 2015 revenues per overnight stay spiked 17% upwards. It appears that **the increase in revenues per overnight stay that the hotels succeeded to earn minimized the damage from the decline in the number of tourists and the number of overnight hotel stays over the past year.**

The number of employment positions at tourist hotels equaled 37,000 in 2015, representing a 5% increase, this despite the decline in the number of foreign tourists and the number of overnight stays. It appears that the increase in the number of employment positions can be attributed to the increase in the number of hotels last year. As can be seen in Diagram 3, in recent years there has been a substantial 8% increase in the number of hotels (2013 – 2015), thus requiring the recruitment of employees.

The average salary in the hotel sector increased 3% during 2015 to NIS 7,200 per month for a hotel employee. Hotel workers employed via manpower agencies earned an average salary of NIS 5,600 per month, representing an increase of 10% compared to 2014. It is worthwhile to note that this salary level is substantially below the average salary in Israel's economy, which equaled NIS 9,889 per month in December 2015.

**Diagram 3: The Number of Hotels in Israel**

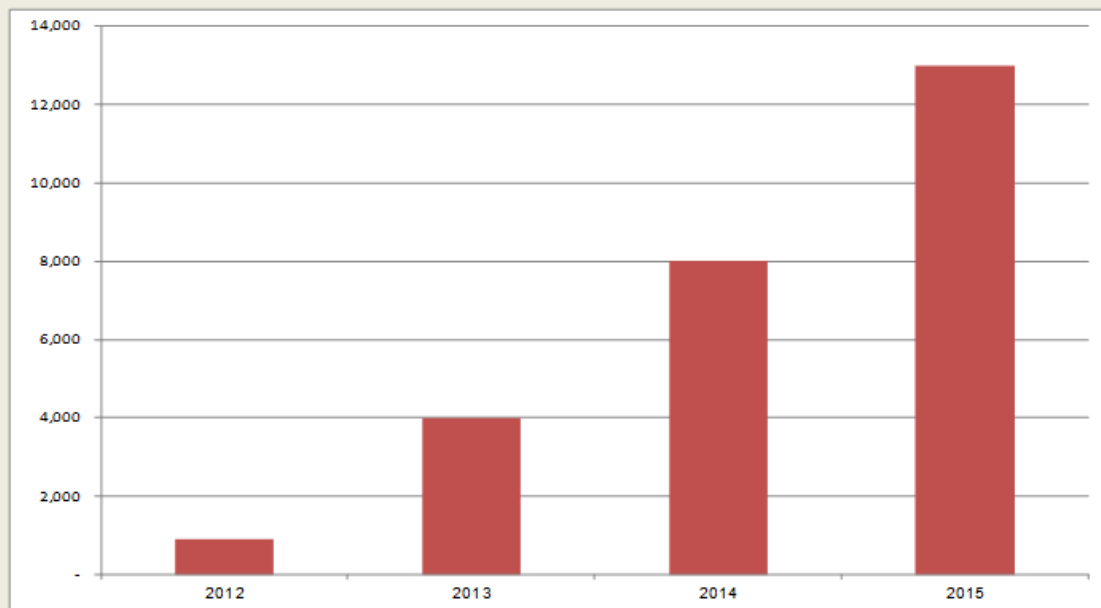


An additional phenomenon at the hotels that must be acknowledged is the decline in the average number of overnight hotel stays per foreign tourist. It is correct that during the past decade there has been an increase in the number of foreign tourists, yet when analyzing the average number of overnight stays per tourist we see that in 2007 each tourist stayed on average 4.1 nights in a hotel, whereas in 2015 the average number of overnight stays at a hotel per tourist was only 2.9. This reduces the revenues of hotels and will likely be a challenge in the coming years, especially with the development of new hosting platforms such as AirBnB and other collaboration systems that enable tourists to rent apartments instead of staying in a hotel, in most cases at a cheaper price compared to hotels in the same areas.

From data on AirBnB published in the Israeli publication “The Marker” (no official data appear in the Israel Central Bureau of Statistics) it can be seen that 115,000 foreign tourists stayed in rented apartments in 2014, and not in hotels, representing a 50% increase compared to 2013. The number of rooms (the supply) listed in Israel by AirBnB is continuously increasing and is expected to continue to increase also in the coming years.

It appears that as long as there will continue to be asymmetric competition between the hotels and AirBnB, in matters relating to taxation and maintenance costs, which are substantially lower for the room rental Internet sites, then the phenomenon will only continue to grow, and will negatively impact the number of overnight stays at hotels. It is worthwhile to note that the threat of short-term apartment rentals appears as one of the characteristics of competition of the sector in the financial reports of *Dan Hotels* and also in the financial reports of *Hachsharat Hayishuv Hotels*.

**DIAGRAM 4: The Number of Apartments Registered with AirBnB in Israel**



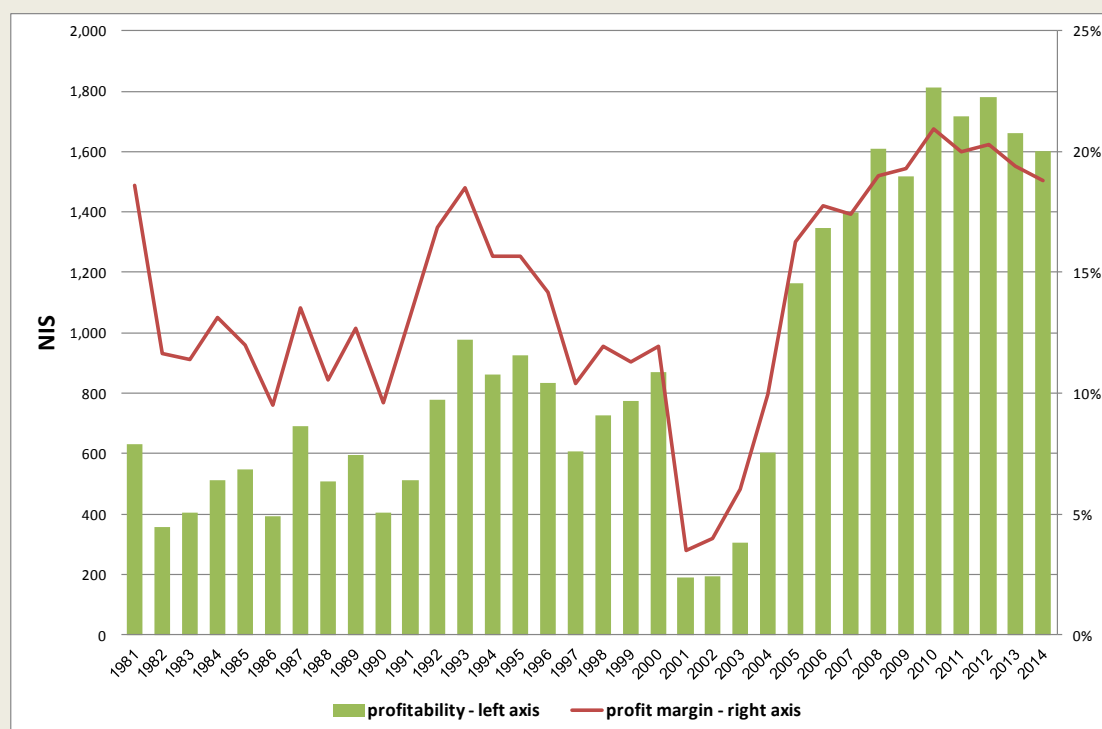
*Data source: The Marker*

## Profitability<sup>1</sup> of the Hotels<sup>2</sup>

Data from the Central Bureau of Statistics (CBS) regarding the profitability of Israeli hotels are updated only up to 2014. Despite this, a lot can be learned about the state of the sector from long-term trends. The profits of the tourist hotels amounted to NIS 1.6bn in 2014<sup>3</sup>, representing no significant change from 2013. It is important to remember that the results of the second half of 2014 were negatively affected by Operation Protective Edge.

When looking over the long-term it can be seen in Diagram 5 that starting from 2010 there has been a stable trend of profitability of around NIS 1.5bn. Furthermore, the profit margin fell in 2013 – 2014 to 19% compared to 21% in the preceding years. From the various data on overnight stays by tourists and revenues during 2015, it can be assumed that also in 2015 there were no substantial shocks to the aggregate profitability and revenues of the hotels.

**DIAGRAM 5: The Profit Margins and Aggregate Profits (NIS millions, in 2014 prices) of Israeli Hotels**



The data from the publicly traded companies from 2015 are consistent with this assessment. The profit margin of *Dan Hotels* equaled 21% in 2015, while *Hachsharat*

<sup>1</sup> Before depreciation and finance costs.

<sup>2</sup> Based on an announcement from the Israel Central Bureau of Statistics on July 6, 2015.  
[http://www.cbs.gov.il/reader/newhodaot/hodaa\\_template.html?hodaa=201528175](http://www.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201528175).



*Hayishuv Hotels* registered a 19% profit margin. Both these figures are not so far off from the data in preceding years. It is worthwhile to note that the revenues of the two companies were higher in 2015 than they were in 2014, which supports the idea that despite the slowdown in incoming tourism and despite the prevailing security situation in Israel, 2015 was not a crisis year for the hotel sector.

### **Summary: 2015 was a relatively difficult year for Israeli hotels, but definitely not a crisis year**

The Israeli hotel sector is experiencing a challenging period that is characterized on one side by an increase in the number of hotels, but on the other side by a slowdown in incoming tourism, which has not returned to its levels from before Operation Protective Edge. Due to the decline in incoming tourism, overnight hotel stays by Israelis continue to be the chief growth engine of the sector. It is reasonable to assume that also during the coming period we will see an additional increase in the demand for tourism services by Israelis, due to the recent terror events in Europe and Turkey.

Incoming tourism from Russia also continues to display low numbers compared to previous years, primarily due to the economic crisis in that country and the sharp depreciation of the ruble vis-à-vis the shekel. On the other hand, in the coming years a substantial increase in incoming tourism from China is expected, against the backdrop of, among other things, a special agreement signed between the Chinese and the Israelis recently on the granting of visas for a period of ten years, and an expected drop in prices on direct flights between Beijing and Israel (due to the entrance of a Chinese airline starting from April 28<sup>th</sup> that will compete with El Al).

Analysis of the different districts in Israel shows that the Jerusalem district suffered the most damage over the past year, as the district was the focus of a wave of security incidences during the last half-year. Another challenge facing Israeli hotels involves the apartment sharing Internet websites, such as AirBnB, which enable tourists to rent apartments on a short-term basis, instead of staying at hotels. This phenomenon of renting apartments has grown rapidly in Israel and around the world, and it appears that the most efficient way to “deal” with this issue is by means of applying pressure on decision makers to impose regulation on such activities. Steps that could be taken involve, for example, taxation, industry standards, and more. As long as this activity remains widespread, the traditional hotels will lose an increasing portion of the number of overnight hotel stays by foreign tourists.

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