

## TOURISM INFRASTRUCTURE

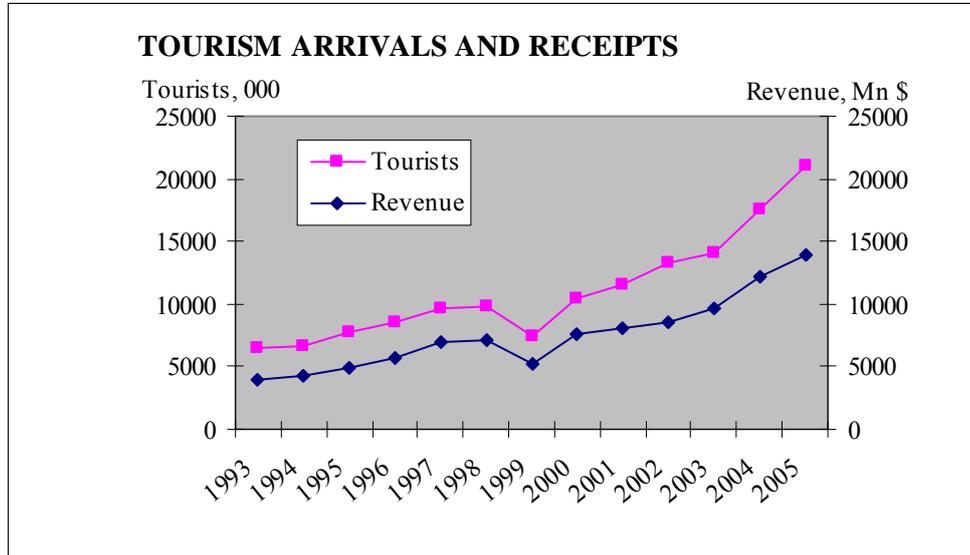
Turkey has a share of 2.5% in the world tourism market. The country, which registered tourism revenue of \$15.9 billion in 2004, ranked the eighth country in the world in terms of biggest tourism revenue after China.

### Sector Overview and Trends

The tourism has enjoyed rapid growth for most of the past two decades. The number of tourists who visited Turkey increased to 14 million from a mere 1.6 million during 1983-93, while the direct tourism revenues increased to \$9.7 billion from \$411 million during the same period.

The sector reached new heights during the last few years. Turkish tourism revenues in 2005 realized as about \$18.2 billion, an increase of 118% over the past three years.

It ranks among the world's most visited countries, with a record breaking 21.1 million in 2005 (20.4% growth) and 17.5 million in 2004 (24.9% growth). In 2005, the growth ratio of Israel and Croatia in terms of arrivals was 7%, and in Spain 6%. The number of tourists worldwide increased 5.5% last year. The World Tourism Organization Turkey set the target of 30 million tourists for Turkey in 2010. However, with its performance in 2005, Turkey has already exceeded this target and unofficial target is currently 50 million tourists by 2010.



Around 32,000 bed capacity is being added annually in recent years. An estimated \$700 million was expected to be invested in the sector during 2005, but more new bed capacity is needed both in Istanbul and Central Anatolia and Black Sea, while Antalya region desperately needs investments to lengthen the tourism season, such as golf, health, shopping and entertainment facilities. An emerging trend in the past few years is the boutique hotels. Their number has reached 500, of which 150 being in Istanbul. And 60 more are expected to be opened by end-2006. However, the chairman of the Turkish Hotel Owners Association said that a small portion of these are boutique hotel

in reality and tourists coming for Istanbul and other historical places would expand to a great extent if their number increases.

Over 60% of the tourists come from OECD countries, and average date of accommodation is 10.5 days. In 2004, visitors from the OECD and EU countries comprised 61.7%, and those from Asian countries 9.3% of the total arrivals. Germany continued at the top of the visitors with 3.98 million visitors. Second came the Russian Federation and CIS with 2.79 million arrivals, followed by the United Kingdom with 1.38 million. The top tourism markets also included Bulgaria and the Netherlands, with 1.31 and 1.19 million visitors, respectively.

### Opportunities

- Turkey remains well placed to increase its share of a growing international tourism market. Projections made on the tourism developments point out to the need for new investments, including accommodation and infrastructure. The bed capacity is about 450,000, while the expectation of 50 million tourists by 2010 requests that the bed capacity will rise to well over 1 million. The chairman of the Tourism Investors Foundation said that they expected \$10 billion investments for hotels, marinas, golf courses and shopping centers only, disregarding infrastructure work required. He stated that Istanbul, in particular, needed to increase its current 5-star bed capacity considerably. The April 2006 report of GYODER (the Association of Real Estate Investment Companies) stated that Istanbul needed an additional 91,325 beds by 2015. Assuming that this requirement is met through five and three to four star hotels, 60 five star and 276 three star hotels are needed only in Istanbul. Istanbul topped the list of hotel occupancy rate list in 2005, a study by Deloitte Moscow stated. In income per room, Istanbul ranked second after Moscow. The government extends generous incentives for tourism investments, including allocation of land.

|      | No of<br>Beds | Foreign<br>Arrivals, Mn | Growth<br>% | Receipts<br>\$ Mn | % Share<br>in GNP |
|------|---------------|-------------------------|-------------|-------------------|-------------------|
| 1995 | 265,000       | 7.7                     | -           | 4,957             | 3.3               |
| 2000 | 322,000       | 10.4                    | 39.3        | 7,636             | 3.8               |
| 2001 | 350,000       | 11.6                    | 11.4        | 8,090             | 6.9               |
| 2002 | 393,374       | 13.2                    | 14.1        | 8,481             | 6.6               |
| 2003 | 420,697       | 14.0                    | 5.8         | 9,677             | 5.5               |
| 2004 | 430,000       | 17.5                    | 24.9        | 12,124            | 4.0               |
| 2005 | 450,000       | 21.1                    | 20.4        | 13,929            | n.a.              |

*Source:* Ministry of Tourism and Culture, SPO

- Infrastructure needs to be developed in general, and particularly in the area of transportation, including flights from the Gulf and internal flights. The state has already shifted its support from superstructure financing to the development of transportation. Transportation investments obtained the greatest share in the 2005 and 2006 consolidated budget. The recent end to the monopoly of THY, the Turkish flag carrier, allowing private airlines to operate scheduled domestic air transport, as well as government plans to privatize airports comprise steps taken in this direction.

- Cultural tourism and faith tourism is increasingly gaining recognition as an area of strong tourism potential and, presents further scope for development. But this requires improving access and infrastructure and hence considerable future investments. Meanwhile, historical sites will now be opened to investors through a build-operate-transfer (BOT) model – bringing private capital into the preservation, renovation and marketing of these attractions.
- Turkey needs to diversify alternatives in tourism, extending the triangle of sun, sand and sea to include golf, football, sports, conferences, thermal, yacht, surf and faith tourism.
  - ✓ Within the “100 golf courts in 4 years” project developed by the Turkish Golf Federation, an additional income of \$1 billion is expected to be generated, and some 100 golf courses are expected to be built in the mid-to-long term. The first golf club was founded in 1985. Currently 12 golf courses (of which three are driving range) are operating and there are projects of setting up new golf courses in various regions. Many foreign real estate and insurance companies have been looking for places in the Mediterranean and Aegean regions suitable to combine golf facilities with the residential units on one site. A sectoral expert has recently stated that 23 foreign investors have contacted him since the beginning of 2005 and he calculates that these investments represented sales of \$16 billion worth of housing units only.
  - ✓ Turkey ranks seventh in the world with its 1,300 thermal resources. Thermal water in Turkey is of a better quality than the other springs in Europe. Thermal tourism has been one of the alternative tourism branches in recent years and due to the increase in the elderly population in Europe, a new market for treating diseases connected with the old has emerged. There are 240 hot spring resorts in Turkey. The joint investment, Pamukkale Thermal Cure Center, started by Turkey and France in Denizli in 2005 at a cost of \$45 million is an important step in this field. The center will serve for 1,500 people in one day and the visitors are expected from the European countries.
  - ✓ An important new development is towards receiving incoming patients from European and Middle Eastern countries for treatment in Turkey. The country has raised its profile as a destination for health tourism. The health tourism has the potential of making important contributions to the economy.
  - ✓ Alacati in the Aegean region became a favorite place for surfers due to its calm sea and natural harbor despite the continuous wind. Interest is growing and new branches of surfing are being introduced each year.
  - ✓ Turkey is developing fast both as a yacht production and yachting centre, with 20 marinas in operation, nine under construction and four planned. However, the mooring capacity has not developed yet despite its shores of 8,500 km and Turkey enjoys a share of less than 1% of the 650-700,000 yachts traveling in the Mediterranean. Current mooring capacity is about 7,000 compared to 120,000 in France and 85,000 in Italy.