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# Israel

## Hospitality Struggles and Opportunities

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## Israel – Hospitality Struggles and Opportunities

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Israel, a country rich in history and culture, is unlike any other destination in the world. Virtually every global citizen has a connection to Israel whether it is of religious significance or historic relevance. Measuring only 29,000 km<sup>2</sup>, Israel's diverse landscape is impressive for such a small country. Israel bridges the continents of Africa, Asia, and Europe, and features beaches, a desert, mountains, lakes, rivers, forests, and a wine country. In addition to myriad religious attractions, there is an abundance of historic sites, some dating back over five thousand years. These unique attributes would certainly make Israel a premier tourist destination; however, throughout its history the country has been plagued by political conflict. The primary research for this article was done prior to the 2008/09 Israeli-Palestinian conflict in the Gaza Strip. This conflict is an example of instability that is referenced throughout the article. It is important to note the difficulty of assessing adverse effects of such an event on the hotel industry, therefore market interpretations and forecasts should be viewed in context.

The Israeli government has recognised the importance of tourism to its economy and in 2006 hired Ernst & Young to prepare a detailed study on the state of Israel's tourism industry. Ernst & Young concluded that the potential for increased tourism to Israel is massive, with an estimated 'interest potential' of 18 million visitors over the next several years from Israel's top eight countries of origin. In 2006, those same top eight countries supplied only 1.2 million visitors. In order to achieve this visitor potential, it was recommended that Israel make improvements to its hotel infrastructure and increase the number of flights to the country. Ernst & Young concluded that regional instability was only partly to blame for the suppression of tourism, and that outright peace, could even double or triple the 18-million-visitor figure. This article will highlight the ways Israel continues to emerge as a tourist destination despite the shadow of political conflict.



## Challenges of Perception

Growth of Israel's tourism industry has historically been hindered by political conflicts such as the Second Intifada, which began in September 2000, and the short-lived Second Lebanon War in July 2006. Table 1 highlights tourist arrivals from 2001 to 2007 and forecasts arrivals from 2008 to 2010.

**Table 1 Tourist Arrivals in Israel 2001-10 (Forecast)**

Year	Tourist Arrivals	% Change
2001	1,195,000	—
2002	862,000	(27.9) %
2003	1,063,000	23.3
2004	1,506,000	41.7
2005	1,903,000	26.4
2006	1,768,000	(7.1)
2007	2,300,000	30.1
2008 F	2,500,000	8.7
2009 F	2,500,000	0.0
2010 F	2,720,000	8.8
<b>Compounded Annual Growth Rate 2001-07</b>		<b>11.5 %</b>
<b>Compounded Annual Growth Rate 2001-10 (Forecast)</b>		<b>9.6 %</b>

Source: Euromonitor, April 2008, Oafer Pops

International and domestic political conflicts correlate with a decrease in tourist arrivals. The market saw a 27.9% decline in 2002 most likely due to the aftermath of 11 September 2001. The decrease in arrivals can also be attributed to the highly publicised suicide bombings and conflicts of the Second Intifada. It is important to note that in 2003, 2004, and 2005 the market saw significant increases in tourist arrivals demonstrating the resilience of Israel's tourism industry in spite of the ongoing Intifada. In 2006, Israel experienced another temporary decrease in arrivals due to the Second Lebanon War. Despite this conflict, the market rebounded in 2007 by 30.1% and Israel had more tourist arrivals than any other time in its history. Growth in the near-term is expected to continue through 2008 while levelling off in 2009 due to a lagging global economy.

Perception (and the reality) of safety while travelling has had a profound effect on tourism in Israel. The primary feeder markets to Israel (The USA and



Western Europe) struggle with safety concerns over Israel, largely owing to news coverage of the suicide bombing attacks that occurred in the Second Intifada. Clearly, any threat of terrorism has an immediate effect on the tourist community. To illustrate this trend, we have compared the occupancies of West Jerusalem and New York City from 1999 to 2007.

**Table 2 Occupancy for West Jerusalem and New York City 1999-07**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
West Jerusalem Occupancy	63.7 %	61.0 %	27.6 %	23.4 %	29.6 %	37.3 %	52.2 %	55.2 %	61.7 %
Change	—	(4.2) %	(54.8) %	(15.2) %	26.5 %	26.0 %	39.9 %	5.7 %	11.8 %
New York City Occupancy	81.3 %	82.9 %	73.6 %	73.7 %	74.7 %	84.3 %	83.2 %	84.2 %	85.4 %
Change	—	2.0 %	(11.2) %	0.1 %	1.4 %	12.9 %	(1.3) %	1.2 %	1.4 %

Sources: STR Global; The Jerusalem Hotel Association

Due to the Second Intifada and the events of 11 September 2001, the West Jerusalem market saw sharp decreases in occupancy of 4.2%, 54.8%, and 15.2% in 2000, 2001, and 2002, respectively. As reported by STR Global, occupancy in the New York City market decreased by 11.2% in 2001 due to the events of 11 September 2001. Both the New York City and West Jerusalem markets began to recover in 2003. However, the New York City market was able to fully recover its lost occupancy from 11 September by 2004. Although West Jerusalem's occupancy increased by a staggering 26.5% in 2003 and 26.0% in 2004, it only reached operating levels well below historical norms. This trend is further evidence that due to the continued political instabilities, the potential growth of occupancy in the West Jerusalem market was suppressed. While the West Jerusalem market continued to see dramatic increases in occupancy in 2004 and 2005 by 26.0% and 39.9%, respectively, it was not able to return to previous operating levels until 2007 owing to the ebbing violence from the Second Intifada.

As recognised by the Ernst & Young study, Israel must successfully campaign to combat the perception of it being a dangerous place to visit and make first-time visitors to the country feel at ease. If this endeavour is successful, visitors become 'travel ambassadors' of Israel and are capable of dispelling preconceptions of the country while addressing safety concerns. According to



the Israeli Ministry of Tourism, 43% of the tourists who arrived in 2007 visited Israel for the first time and 46% of the tourists chose to visit Israel based on family and friends' recommendations.<sup>1</sup> It is interesting to note that over half of the visitors to Israel in 2007 had previously been to the country proving that once people experience Israel and feel safe, it is likely that they will return sometime in the future.

### **An Effort to Reposition Itself**

In an effort to reposition Israel as a tourist destination, the Israel Ministry of Tourism has launched strategic advertising campaigns to its largest feeder countries. In the USA, a US\$6.5 million campaign was launched in September 2008 targeting the cities of New York, Los Angeles and Miami. According to Arie Sommer, Israel's Tourism Commissioner for North and South America, '2007 was the best year ever for American tourism to Israel, so our advertising campaign is designed to maintain the momentum into 2009.'<sup>2</sup> The Israeli Ministry of Tourism is actively campaigning to attract a higher percentage of non-Jewish visitors to Israel while retaining the religious Jewish tourists. One campaign in the USA is targeting Christians, with the tag line, 'Visit Israel, you'll never be the same'. Evangelical Christians are quickly emerging as one of the largest non-Jewish groups travelling to Israel.<sup>3</sup> In an effort to attract leisure visitors, the ministry's campaign highlights Israel's beaches and night life, an endeavour aimed at broadening its traditional tourist base. According to the Israeli Ministry of Tourism, in 2007 the number of non-Jewish travellers increased by 4%.<sup>4</sup> In June 2008, the Israeli Finance Ministry gave the Tourism Ministry NIS10 million to fund a new campaign for Germany. The campaign highlights the Dead Sea and the beaches of Eilat. Germany is currently the

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<sup>1</sup> Israel Ministry of Tourism Annual Report 2007

<sup>2</sup> Where to go Next, *Israel Government Resumes Massive U.S. Tourism Advertising Campaign*, <http://www.wheretogonext.com/release.html?releaseID=135742> (15 September 2008).

<sup>3</sup> *ibid*

<sup>4</sup> Israel Ministry of Tourism Annual Report 2007



third-largest source of European visitors to Israel. Tourism from Germany increased by 50% since January 2008.<sup>5</sup>

Airport passenger counts are important to the tourism industry especially in Israel where in 2007 over 91% of visitors arrived to Israel via aircraft.<sup>6</sup> Table 3 details passenger traffic for Ben Gurion International Airport.

**Table 3 Passenger Traffic for Ben Gurion International Airport**

Year	Passenger Traffic	% Change	Compound Annual Growth Rate From 1998
1998	7,939,921	—	—
1999	8,916,436	12.3 %	12.3 %
2000	9,879,470	10.8	11.5
2001	8,349,667	(15.5)	1.7
2002	7,308,977	(12.5)	(2.0)
2003	10,191,989	39.4	5.1
2004	8,051,921	(21.0)	0.2
2005	8,917,531	10.8	1.7
2006	9,221,552	3.4	1.9
2007	10,526,562	14.2	3.2

Source: Ben Gurion International Airport

In 2007 passenger traffic reached a record high of over 10.5 million passengers. Decreases in passenger activity correlate with years of political conflict such as the Second Intifada and the Second Lebanon War. In 2001 and 2002, passenger traffic dropped off significantly, most likely because of the events of 11 September 2001. However, it is interesting to note the 39.4% increase in passenger activity in 2003 once again showing the resiliency of tourism to Israel. The continued strength of the tourism industry is shown by year-to-date 2008 passenger traffic, which increased 6.5% from the same time in 2007.

<sup>5</sup> eTurboNews, *Israel Beefs up Tourism Advertising Campaign in German; New tourism campaign for Germany*, <http://www.eturbonews.com/3095/new-tourism-campaign-planned-germany>, (16 June 2008)

<sup>6</sup> Israel Ministry of Tourism Annual Report 2007



In order to increase tourism, the Israeli government had to reassess its historical aviation policies and airlift capacity while continuing its long tradition of airport security. This sentiment was recognised by the Ernst & Young study as being a crucial endeavour to a viable tourism industry. Recently, the Israeli government has made great strides in its efforts to increase airlift to Israel. In September 2008, the Transport Ministry announced that US Airways and Korean Air will begin direct flights to Israel starting in July 2009. In addition, through new aviation agreements with the Ukraine and the EU, flights will be increased over the next two years, which could facilitate the decrease of airfares by 5% to 15%.<sup>7</sup>

Perhaps the most significant event that will increase the number of visitors to Israel occurred on 17 September 2008. The Israeli Ministry of Tourism announced that through a reciprocal agreement with the Russian Federation, they are cancelling tourist visas between the two countries. This monumental declaration promises to not only strengthen relations between Israel and Russia, but also dramatically increase the number of Russian tourists coming to Israel. In 2007 an estimated 130,000 Russian tourists visited Israel. This number excludes the 60,000 travellers who entered Israel via one of its land borders to avoid the mandatory tourist visa. To accommodate the new visitors, the Transport Ministry is now deliberating on a new Russian airline to further increase flights between the two countries.<sup>8</sup>

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<sup>7</sup> Port 2 Port Israel's trade Portal Archive, *New aviation agreement signed with Ukraine*, <http://www.port2port.com/Index.asp?ArticleID=1826&CategoryID=44&Year=2008&Month=8&Page=1> (4 August 2008).

<sup>8</sup> Port 2 Port Israel's trade Portal Archive, *Transport Ministry to decide soon on new Russia designated carrier*, <http://www.port2port.com/Index.asp?ArticleID=1866&CategoryID=44&Year=2008&Month=9&Page=1> (8 September 2008).



To remain competitive with other destinations in the international market, it is imperative that Israel update its hotel infrastructure. In order to achieve this endeavour, the 2006 Ernst & Young study made the following suggestions regarding the Israeli hotel industry.

- Renovate existing hotels;
- Develop lodging products that currently are under-represented in Israel;
- Develop architecturally distinct, flagship luxury hotels, with broadly recognised international brands – Tel Aviv and Jerusalem;
- Attract well-known international hotel brands to increase awareness and visibility of Israel as an international destination.

The Israeli government offers incentives for development under the Law for the Encouragement of Capital Investment, which applies to all industrial sectors including hotels. To facilitate future industrial and hotel development, in 2008 the Israeli government amended the incentive programmes. The changes will enable easier access to the benefits while simplifying the law's provisions. The improvements will help attract foreign investment and international hotel brands to Israel. The incentive takes the form of either a direct grant (an amount up to 24% of the development cost or a maximum amount of new Israeli shekels per room, whichever is less), or a corporate tax rebate for the first ten years of profit from the project. To qualify, hotel developments must meet certain criteria including international competitiveness, high added value, and registration of the company in Israel. Priority areas for hotel development include Jerusalem, the Jordan Valley, the Galilee, and the Negev.<sup>9</sup>

Jerusalem attracts visitors from all over the world and is one of the premier destinations in Israel. The city has copious amounts historic and cultural sites while featuring some of the country's most luxurious hotels including the world famous King David Hotel. On 12 November 2008, Jerusalem elected a new secular mayor, Nir Barkat, who has pledged to revitalise the city addressing issues of poverty, congestion, and unemployment. Recognising the importance of tourism to the city's economy, Barkat stated that he would

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<sup>9</sup> Ministry of Industry, Trade and Labor:

<http://www.gov.il/FirstGov/TopNavEng/Engoffices/EngMinistries/EngIndustry/EngIndustryInvestment/>



like to increase the number of tourists visiting Israel from 2 million visitors a year to approximately 10 million.<sup>10</sup> New luxury hotel products are planned for Jerusalem including the 192-room Mamila hotel which is expected to open in March 2009. The de luxe five-star property will be in the new Mamila Alrov quarter near the Old City and will be the sister property to the David Citadel hotel. The Mamila and the David Citadel are owned and operated by the Alrov Group. Located on the former site of the Palace Hotel, opposite the David Citadel, the 220-room Waldorf Astoria is currently under construction. The Waldorf Astoria is being built within the original walls of the Palace Hotel, a historic structure in the city.

## **Conclusion**

Israel, as a destination, has struggled with political instabilities and the worldwide perception that goes along with them. Despite numerous religious, historic, and natural attractions that are unique to any part of the world, the perception of Israel as an unsafe place to visit has, at times of peak political strife, crushed visitation levels. However, the Israeli government is seeking to reverse this trend through the incentivised encouragement of hotel development and broad-based international marketing campaigns. With these efforts, coupled with a renovated hotel infrastructure, Israel is poised to emerge as a competitive international destination.

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<sup>10</sup> Isabel Kershner, 'Secular Defeats Ultra-Orthodox in Jerusalem' *The New York Times* (12 November 2008).



### About our Team

HVS is a global consulting and services organisation focused on the hotel, restaurant, timeshare, gaming, and leisure industries. Through a network of 22 offices staffed by more than 200 seasoned industry professionals, HVS offers a wide scope of services that track the development/ownership process; no other organisation offers such a broad range of complementary services. Since 1980, HVS has performed more than 15,000 assignments throughout the world for virtually every major industry participant. Its principals literally 'wrote the book' on hospitality consulting, authoring numerous authoritative texts and hundreds of articles. HVS is client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost efficient manner.



### About the Authors

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