Sun and sea tourism model needs a refresh

By Mark Mulligan

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Although vilified by rightwing Americans over her visit to Marbella in August, first lady Michelle Obama was positively feted in the southern Spanish city.

For decades the favoured summer getaway of the world's jet set, the sun-kissed resort has fallen on hard times in recent years, a victim of changing fashions, corruption, a property crash and, finally, global recession.

Coming amid a prolonged downturn in Spanish tourism, Mrs Obama's presence, with her daughters and a coterie of friends and staff, provided priceless global marketing and perked up city officials, business operators and property agents. "We had enquiries from countries that didn't even know where Marbella was before," says Inma Cañas, a sales representative with Engel & Völkers in Marbella.

Away from the glamour of celebrity visits and paparazzi flashes, however, Marbella and most of Spain's east coast continues to grapple with a general decline that began before global turmoil shook the tourism industry everywhere. Although there are signs of a slight year-on-year recovery this year, visitor numbers to the country have slipped every year since 2007, while spending per tourist is also in decline. Competitors Turkey and Croatia, meanwhile, are enjoying double-digit growth rates.

"Since about the year 2000, we have been watching the relative weight of tourist activity as a percentage of gross domestic product decline," says Philip Moscoso, professor at the IESE business school in Barcelona.

Most experts agreed years ago that the sun and sea model upon which the country's once-thriving tourism sector was built was not only tired and outdated, but unsustainable.

Large tracts of the Mediterranean coast have been ruined by residential and touristic development, while the explosion in DIY residential holidays has put privately owned hotels and small chains all along the coast out of business.

With competition building from cheaper destinations with newer hotels, better beaches and direct, low-cost flights from feeder markets such as the UK, Germany and Scandinavian countries, Spain has been under pressure to diversify is offerings and learn to compete on value for money, rather than pure pricing. Italy, with its expensive cooking classes and villa stays in Tuscany, is seen as a model.

In any case, many venture that climate change could eventually put beaches in Spain, and around the Mediterranean, under water.

Old habits, however, die hard. For every successful tourist reinvention, such as that of Bilbao, an old industrial centre now well-known as a city of culture and culinary appeal, there are scores of drab, badly-serviced beachside hotels churning out the same all-in-one packages every summer.

Tellingly, large Spanish resort hotel groups such as Riu, **Sol Meliá** and Barceló have been cutting their exposure to the domestic market – favouring expansion in the Caribbean and Latin America – for the last decade.

Despite the deterioration, and initiatives by central, regional and local governments to help inject sophistication and value-added sports, leisure and cultural pursuits into the old bucket and spade model, the pace of reform has been slow, says Prof Moscoso.

Even where it provided a further wake-up call, the global crisis and its accompanying credit crunch have starved hoteliers, airlines and travel agents of capital when they most needed it. In Spain, scores of sector operators have filed for creditor protection or been folded into competitors. Marsans, once among the country's largest travel groups, has been broken up and sold in parts.

"In the post-crisis scenario, there is a big danger that operators will resort to the old quick and dirty strategy," he says.

Part of the current crisis, say sector experts, stems from the close link between Spain's property bubble and the development of coastal and, to a lesser extent, urban tourism. New residential estates, built around golf courses or near the sea, often came with a new hotel, more as a marketing tool than a viable business venture. Even on the outskirts of Spanish cities and towns, hotels stand in newbuild areas which have been left desolate by the property crash.

"As running a five-star hotel is more status-building than running a mid-market or budget hotel, investments were often far too high for the local market, and over-dimensioned, writes Stephen J. Matlin, a Madrid-based sector consultant, in the September issue of Hotels magazine. "In some cases, hotels were not well-designed from an operational perspective, and the materials used were poorly selected for hotel operation."

The consequent oversupply of local-brand hotels of varying quality partly explains the scarcity of international chains in Spain, he argues. Madrid and Barcelona, for example, are among the only major cities in the developed world devoid of hotels managed by **Conrad**, Four Seasons, **Park Hyatt**, Sheraton, **Marriott** or Mövenpick.

Property owners' or developers' – and financiers' – preference for lease contracts on buildings rather than management deals with hotel groups also explains this anomaly, says Mr Matlin. However, he predicts that a sector shake-out, along with a sharp drop in commercial property rents and building mortgage arrears, could force change.

"Spain's tourism sector has been in recession for almost three years," he told the FT. "We believe this is a good time, then, to invest."