



Tourism and Hospitality sector in Azerbaijan

Market Research on Hotel Investment

Tourism Development in Azerbaijan

For its geographical location, evergreen exquisite nature, Caspian waves, hospitable and kind citizens, delicious cuisine and heartwarming traditions coming from centuries, Azerbaijan is opening its arms to tourists all around the world. Tourism has now become a rapidly developing sector of the country and a main sphere contributing in national economy. This development has proved itself in the official reports and ranking of international organizations.

According to the Travel and Tourism Competitiveness report 2017 by World Economic Forum, Azerbaijan is one of the most improved economies, taking 71st place in Global rankings in the Most-Improved countries in the Travel and Tourism Competitiveness Index 2017, with 5.98 score increase since 2015.

Country/Economy	Global rank	Change in performance score (%) since 2015	Change in rank since 2015
Japan	4	6.18	+5
Azerbaijan	71	5.98	+13
Tajikistan	107	5.01	+12
Vietnam	67	4.80	+8
Israel	61	4.79	+11

Source: T&T Competitiveness Report 2017

The same report states that liberalization of visa regime had a contribution in improvement of Azerbaijani nation's openness (77th place). In addition, in terms of the total size of protected areas the country rakes 83rd place, for the policies taken place to enhance its natural and cultural resources; and 14th place for actively promoting its oral and intangible cultural expressions.

In comparison with the world prices, hotel prices are cheaper (31st place) alongside the general prices of goods and services, which makes the country a favorable destination for international tourists. Azerbaijan is also a famous destination for its safety (35th), flexible labour market (20th) and positive health conditions (37th).

Alongside the abovementioned developments, the country is full of natural and cultural recourses to improve the eco-tourism, entertainment and leisure attractions; such as snow sports activities Shahdag Mountain Resort area, in Tufandag; also the mountains and green forests, natural reserves attract the attention of nature lovers and hikers.

Azerbaijan Tourism Board recently has been implementing projects to boost eco-tourism and sustainable tourism, such as the renovation works at Yanardag State Historical Cultural Natural Reserve, which now includes a museum, 500-seat amphitheater for outdoor concerts,

workshops, shops, and a parking lot. They offer tour packages to the Mud Volcanos, Ateshgah temples, after the overhaul to improve eco-tourism in these historical areas.

As well as the capital, there are tourism development campaigns that organized in the regions. Regional food festivals, Milli Yaylaq Festivali (National Pasture Festival) to display Turkic roots and traditions, numerous camping events in the nature of various regions are organized to improve local tourism.

Alongside the local tourism improvement related policies, international events taken place in the county (F1 Grand Prix, Islamic Games, European Games, UEFA Cup finale etc.) have had a huge impact in increasing the flow of tourists and arrivals in the country.

In 2017, in total 2.7 million people and in 2018, 2.8 million people arrived in Azerbaijan according to the figures of the State Statistics Committee.

Top 10 countries that are out of these arrivals come from Russia (880 029), Georgia (610 556), Iran (241 124), Turkey (291 499), Great Britain (29 417), Ukraine (57 707), Kazakhstan (37 824), USA (17 516), Germany (17 200), Uzbekistan (18 306).

However, not all of them are tourists, since a majority part of these arrivals, especially the ones from the first three countries are Azerbaijanis living abroad and visiting home.

In terms of the tourism flow, from 2016, the country experienced 15% increase; in 2017, there was 20% increase; in 2018, it was 22%, which contained, mostly the tourists from Iran coming during March during Nowruz break. In 2019, however, the increase of tourists flow was experienced 7% so far.

According to the recent survey by the Azerbaijan Tourism Board¹, in 2018, most of these figures increased and the order of some countries changed in top 10 list. Such as, number of arrivals from Russia was 878 39, Georgia - 610 124, Turkey- 291 259, Iran- 240 483, United Arab Emirates- 93 835, Saudi Arabia- 72 935, Iraq- 67 469, Ukraine- 57 640 and Kazakhstan- 37 679 people.

Total number of foreigners and stateless persons arrived to Azerbaijan

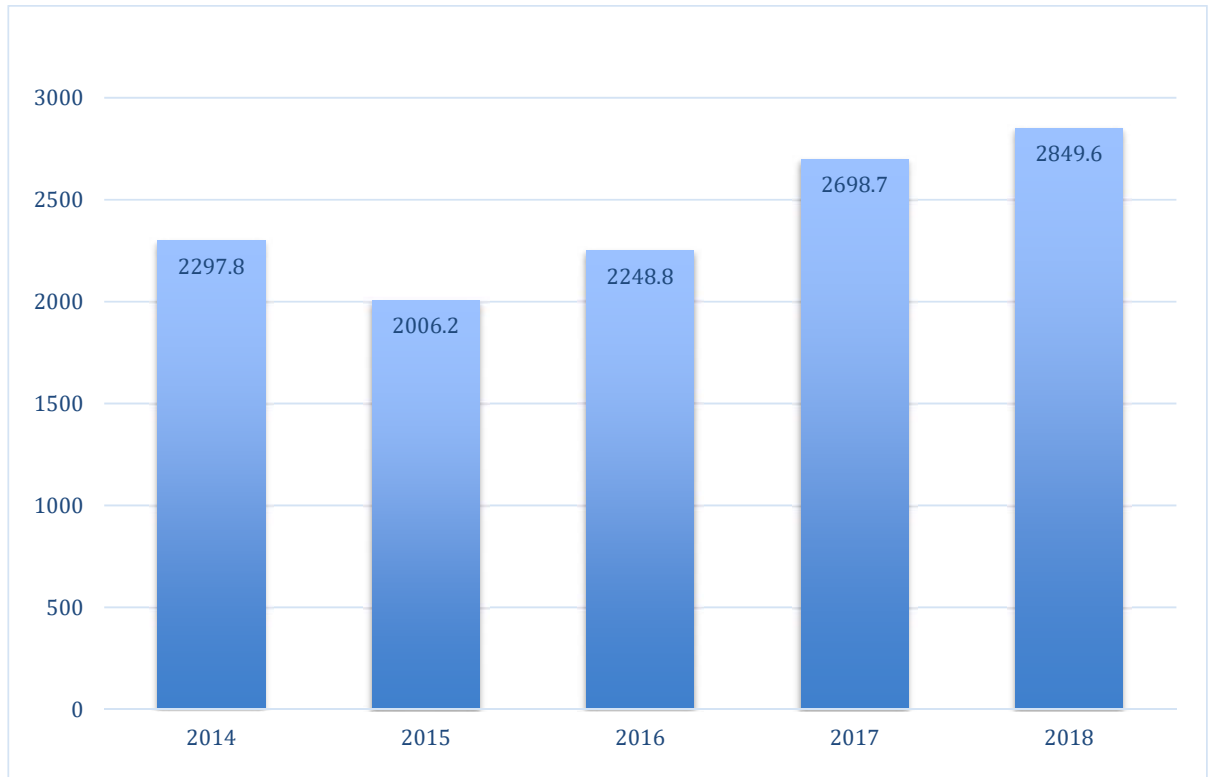
thsnd persons

	2014	2015	2016	2017	2018
Number of foreigners and stateless persons	2 297,8	2 006,2	2 248,8	2 696,7	2 849,6
Total (Azerbaijani citizens and foreigners together)	6 531,6	6 076,1	6 469,3	6 762,0	7 740,8

Source: Tourism in Azerbaijan report 2019, azstat

¹ Tourism Departure Survey 2018, p4, Azerbaijan Tourism Board.

https://azerbaijan.travel/pdf/18011_ATB_Tourism_Departure_Survey_EN.pdf



Source: *Tourism in Azerbaijan report 2019, azstat*

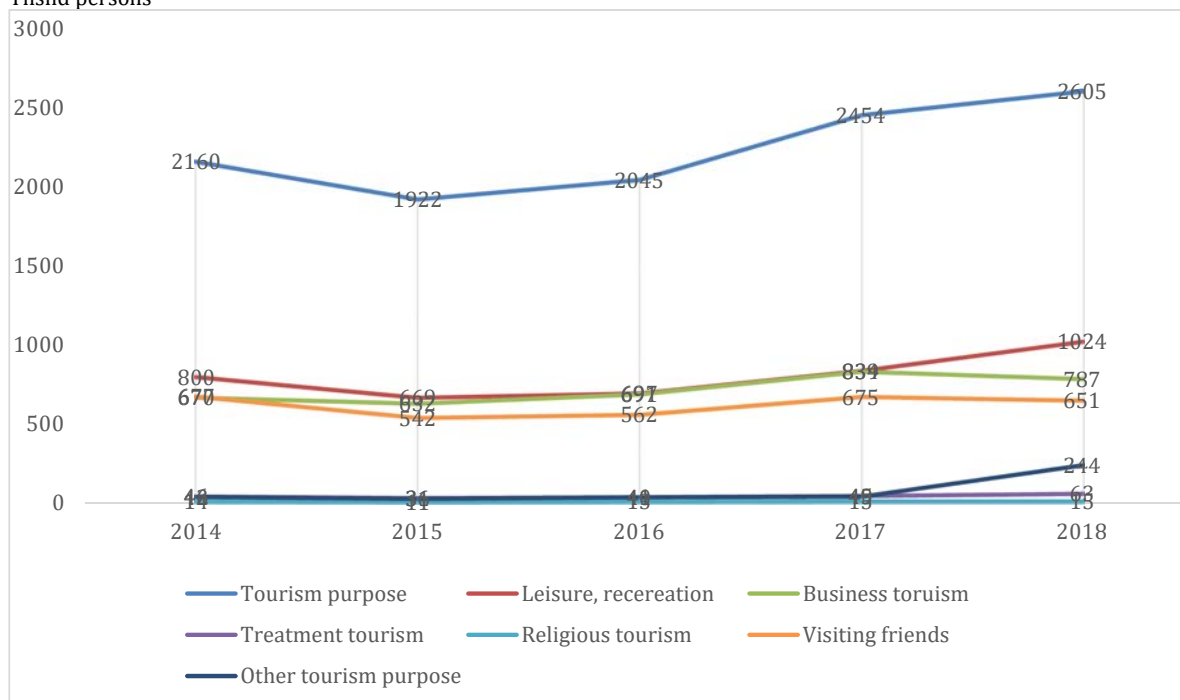
Purposes of trips

Travel purposes / year)	Thsnd persons (with % comparison with previous				
	2014	2015	2016	2017	2018
Tourism purposes of which:	2 159,7	1 921,9	2 044,7	2 454,0	2 605,3
Leisure, recreation tourism	709,9	668,8	697,1	839,3	1 042,4
Business tourism	670,5	632,3	691,7	834,4	787,4
Treatment tourism	46,3	36,5	41,5	49,1	63,1
Religious tourism	13,7	11,5	12,6	14,7	15,3
Visiting friends and relatives	677,1	542,0	562,0	674,9	651,6
Other tourism purpose	42,2	30,8	39,8	41,6	45,5
Other purpose	138,1	84,3	204,1	242,7	244,3

Source: Tourism in Azerbaijan report 2019, azstat

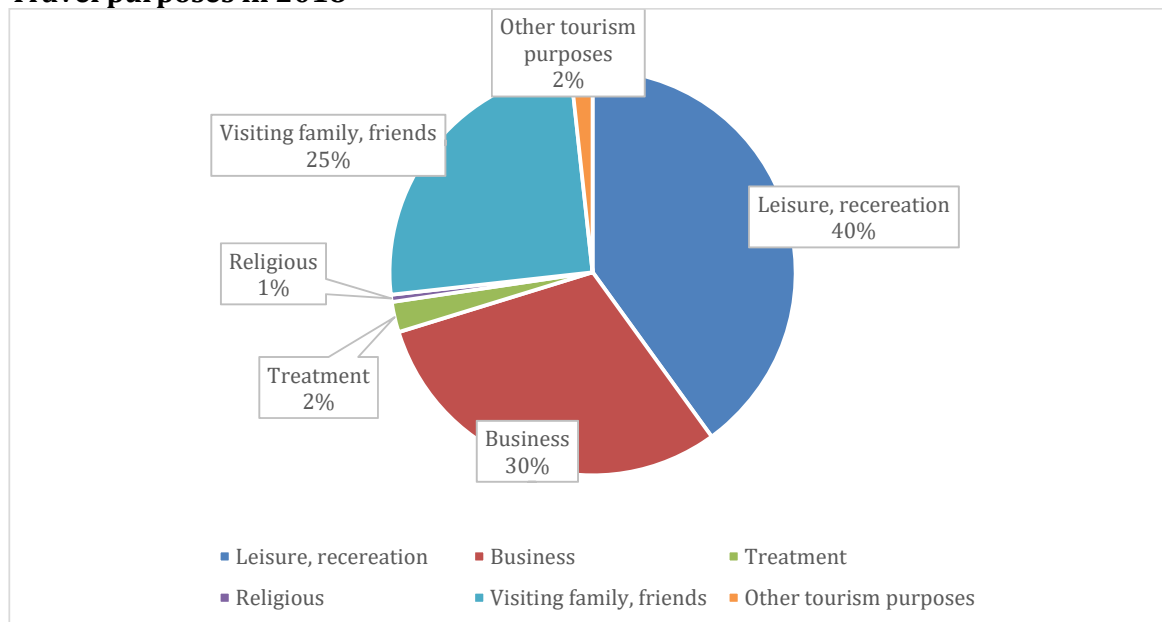
Travel purposes throughout the years, 2014-2018

Thsnd persons



Source: Tourism in Azerbaijan report 2018 by azstat

Travel purposes in 2018



When it comes to business tourism, arrivals from Arab countries are increasing in number. This is mostly for the government’s visa on arrival regime applied to the citizens of UAE that made it easier to get visa. Accordingly, it attracted the attention of them and increased the number of Arab tourists and investors. In 2015 only, tourists from Arabic-speaking countries constituted 0.5 per-cent of all visitors (9,020 total), by 2017 their numbers had risen to 259,299 (Sahib Jafarov, 2019). However, as the flow of Arab tourists increased, there was an unrest between local citizens for some cultural clashes, even if those cultures have a lot of similarities (Especially considering that majority of Azerbaijani people identify themselves with Islam, Arab tourists feel more comfortable here). Researcher Sahib Jafarov offered some recommendations in his article regarding this matter, such as- stimulation of investors, including Arab investors, by the government, developing their businesses in various regions of the country, where there are recreational capacities out of town environment and that the nature offers. Also, one of the recommendations is providing tax incentives on renting of lands in the regions. Another recommendation is organizing cultural exchange programs, enhance media awareness to avoid cultural clashes and increase acceptance of newcomers. These policies and processes would be a good push for development of tourism and economy in general.

Numbers show that tourists mostly arrive in the country by airway and then motor transport. According to the latest press release (July 9, 2019) by the Heydar Aliyev International Airport, Azerbaijani international airports’ passenger traffic reached up to 2.4 million people in the first half of 2019. 2 million persons out of this number are accounted for the Heydar Aliyev International Airport, which is 73,000 passengers more than the same period of last year. The second busiest airport is Nakhchivan Airport with 284 thousand-passenger flow, and the third is Ganja Airport with 70 thousand people passenger flow for the first six months of 2019².

Number of arrivals (foreigners and stateless persons) by modes of transports:

thsnd persons

Modes of transport	2014	2015	2016	2017	2018
Motor transport	748,9	660,0	701,2	1 089,6	1 130,8
Railway	293,4	230,7	256,8	306,9	361,4
Air	1 089,2	968,9	1 164,9	1 151,5	1 183,8
Water	16,1	32,1	16,8	18,9	28,3
Other	150,2	114,5	109,1	129,8	145,3

Source: *Tourism in Azerbaijan report 2018 by azstat*

² July’s press-release for more information- <http://www.airport.az/en/about-us/press-release/azerbaijans-international-airports-served-2.4-million-passengers-in-the-first-six-months-of-2019/>

According to the recent report by the Azerbaijan Tourism Board, May 2019 was one of the most successful months in terms of the flow of tourists, especially from Western Europe. 246 thousand foreign tourists visited the country, which was an 18% higher than in the same month of the last year. Biggest number of travelers were from Russia (80.1), Georgia (57.0) and Western Europe, with a two-fold increase (102%) than the last year, as a consequence of the UEFA Cup final held in Baku on May 29 this year.

Around this time, 7600 British football fans flew to Baku, which was a 230% increase. In addition, about 2700 German (with 58% increase) and 1400 Italian (37% increase) travelers made arrivals in the country during this time.

The table below reflects the figures of how many travelers from certain countries and regions visited Azerbaijan in May 2019, and in the January-May period, in comparison with the same figures for 2018.

Region	2019		2018	
	May	January-May	May	January-May
Russia	80 124	311 535	69 008	308 464
Georgia	56 975	284 208	46 333	231 619
Turkey	25 687	119 715	23 590	119 253
Western Europe	17 532	47 375	8 682	36 740
Iran	15 822	84 019	14 118	126 902
Central Asia	11 815	42 289	7 458	30 567
Eastern Europe	10 708	37 462	8 923	36 883
Middle East	9 428	97 563	15 340	111 000
Total	246 070	1 093 972	207 979	1 053 872

Designed by the author, based on the Tourism Development report by Azerbaijan Tourism Board

Visitor exports are a key component of the direct contribution of Travel & Tourism. In 2017, Azerbaijan generated AZN5,590.3 mn in visitor exports. In 2018, this is expected to grow by 9.0%, and the country is expected to attract 2,125,000 international tourist arrivals.

By 2028, international tourist arrivals are forecast to total 3,235,000, generating expenditure of AZN11,031.4mn, an increase of 6.1% pa.

In order to develop tourism in the country, the Azerbaijan Tourism Board decided to hear the opinion of tourists and conducted a Tourism Departure Survey in October 2018. The interviewees were 848 tourists from nine countries who were interviewed at the borders at Haydar Aliyev International Airport, Central Railway Station and Astara and «Siniq bridge» when leaving the country. The main information aimed to get was the demographic characteristics of the visitors (gender, age, income); main purpose of the trip, length of stay, the type of accommodation mainly used, costs and visited regions in Azerbaijan, attractions, visit frequency and about overall experience and satisfaction about their stay in Azerbaijan.

In terms of the purpose of visit, 60.7% visited for holiday and leisure, 16.4% visits were for business and professional purposes, 10.9% stated their travel purpose as visiting family and friends; and 12% incomers visited for other purposes.

In terms of their coming country, mostly Arabic visitors (Iraq – 80.9%; Saudi Arabia — 89.1%; UAE — 90.9%) come to Azerbaijan for holiday, leisure and recreation purposes. Then, Russians (75.8%) and Iranians (42.7%) follow in the list. 50.9% of Turkish visitors come for business and professional purposes. Georgians (29.7%) and Ukrainians (29.0%) stated their travel purpose most to visit friends and relatives.

Tourism companies/agencies and their roles in hospitality

Roles of tourism agencies operating in Azerbaijan are noticeable in terms of attracting tourist to the country, organizing tours and promoting hotels to foreign guests. In 2018, there were 374 *registered* tourism agencies in the country according to the Tourism Report of the State Statistics Committee.

Number of tourism companies

	2014	2015	2016	2017	2018
Number of tourism companies	218	243	272	339	374
Number of tourists visiting the country by means of tour agencies	10 657	2 009	8 849	13 455	12 777

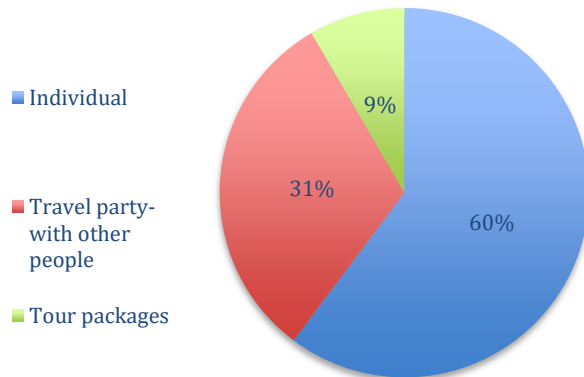
Source: State Statistics Committee

Top 10 countries that the tourists arrived in Azerbaijan from *by the tour operators* are USA, Germany, Australia, Bahrein, UAE, Great Britain, China, Czech Republic, France and Finland. However, according to the above-mentioned Tourism Departure Survey conducted by the Azerbaijan Tourism Board, majority of them (60.3%) reported that their trips were individually arranged; 31.4% persons indicated their type of trip as a travel-party with family or friends, who are mostly the visitors from UAE, Iraq, Saudi Arabia. Only 8.4% of interviewed tourists indicated their tips were organized by all-inclusive tour packages.

The reason of their degradation is that before the devaluation of Azerbaijani manat, there were new immense number if tourism companies opened even by the non-professionals of this field one after another. However, thought-out time, especially after the devaluation, they could not survive in the market.

However, the newly founded Azerbaijan Tourism Agencies Association is working on increasing the role of tourism agencies in the development of national tourism, and their collaboration with the hotels.

Orgtaniation of trips of the interviewed visitors



Used types of accomodation:

Around 60% of the interviewed persons stated their stays in five and four star hotels around the country.

Type of used accomodation in Baku and in the regions

Type of accomodation	Baku	Regions
5-star hotel	28.3	35.9
4-star hotel	33.3	18.0
2-3- star hotel	7.6	10.2
House for rent	14.5	12.7
Relative's or friend's house	10.8	14.8
Hostel	4.6	6.0
Other (Second owned home or camping)	0.9	2.5

Source: Tourism Departure Survey 2018

The same survey reveals that in terms of the most visited regions by the tourists, Gabala is number among other regions; for 51.4% portion of the interviewed persons confirmed that, they visited Gabala. Majority of Arab visitors (87% of Iraqis, 85.5% of Saudis and 90.7% of UAE citizens) choose Gabala as their favorite destination. Then comes Guba (26.4%), which is also a favorite destination of Arab visitors, Shaki (14.1%), Naftalan 10.2%, and Ganja (9.9%), for their beautiful nature, historical sites, and cultural attractions and for medical purposes, in case of Naftalan, for example. In Baku, other than historical-cultural sites and museums, main shopping malls are also favorite attractions of tourists.

Taking a look at the Hotel Industry and Investment options

According to the report by the State Statistics Committee, for 2017, 563 hotels and similar enterprises were registered in Azerbaijan. Total number of rooms is 20 778, while the bed capacity is 41 611. Number of overnight stays in 2017 is 2 590 641.

As the tourism grows, up to 1000 rooms expected to increase for the next year in Baku, according to the Elgun Mammadli.

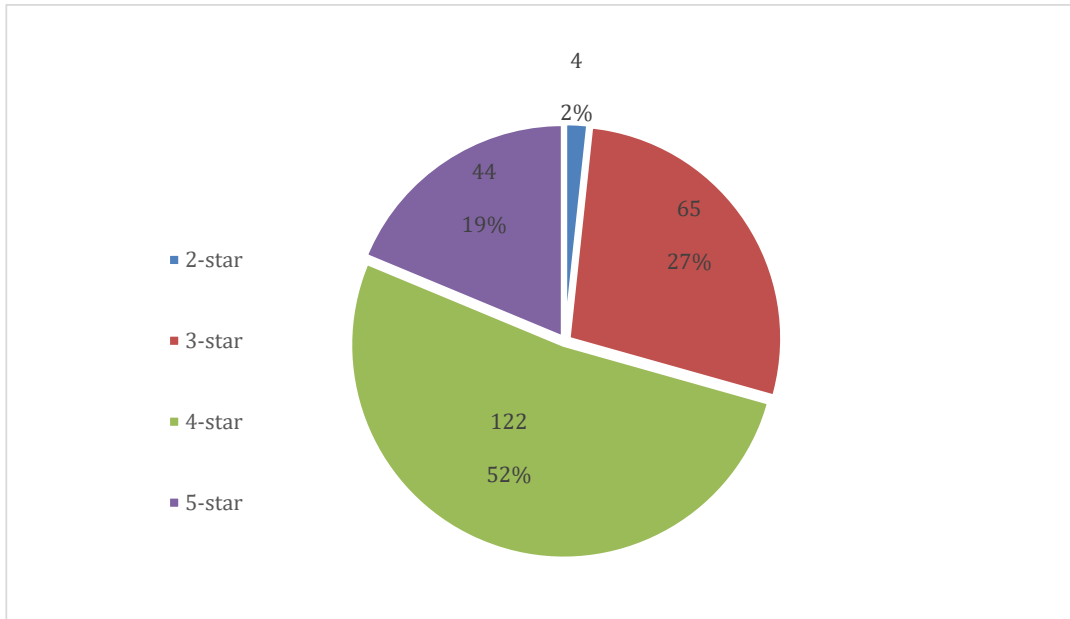
	2014	2015	2016	2017	2018
Total number of hotels and hotel type enterprises	535	536	548	563	596
Current room supply	17 363	17 953	20 330	20 778	22 192
Number of bed places	35,652	37 278	40 042	41 611	46 693
Number of overnight stays	1 687 457	1 644 056	2 125 266	2 590 641	3 002 959

Source: azstat

Total number of accommodated foreigners and stateless persons in hotels and similar establishments by countries in 2018 is **1 234 392 people**.

For the number of **overnights** by foreigners and stateless persons in 2018, top 10 countries that these tourists are coming from are Great Britain (54 161 overnights), Turkey (87 744), Russian Federation (231 767), USA (52 338), Iran (100 990), Ukraine (23 223), Georgia (15 859), Germany (24 493), France (12 113) and Norway (5 750).

Out of overall enlisted hotels countrywide, 235 hotels are accounted for Baku with different categories.



Source: Azerbaijan Hotels Association

Azerbaijan Hotels Association (AHA)³ is the organization representing hospitality sector in Azerbaijan with 102 member hotels of different classifications. 60 hotels of them are located in Baku while others are in different cities; and there are 7(seven) 3-star, 45 (forty-five) 4-star, 43 (forty-three) 5-star hotels and 6(six) hotels with no star from the member hotels. Since AHA is now a member of HOTRIC- the Association for Hotels, Restaurants, Bars and Cafes and similar establishments in Europe- they are working on applying European hotel standards in Azerbaijani hotels, which will play contribute to the promotion of our hotels internationally. From next year, all the hotels around the country will be registered on AHA database and will be classified according to certain criteria following HOTRIC standards.

Alternative options

In terms of attracting tourists on budgets, home-sharing experiences such as Airbnb, Couchsurfing are also used in Azerbaijan. As the individual tourism grew, people have been prone to share their homes for a certain amount to get some additional income, or even free of charge, welcoming foreigners and meeting new people. Showing their cultures to the guests- such as in Couchsurfing service. Even if Couchsurfing is popular in mostly western countries than in this region, it became famous here around 6 years ago⁴.

Mostly private houses are used for daily rents. However, if affordable 2-3 star hotels were available in the regions, this would increase the hospitality service and make it easier to register those properties and monitor their activities. In addition, tourist flow from neighbor

³ AHA website- <http://hotelassociation.az/>

⁴ Couchsurfers from Azerbaijan sharing their experiences: <https://jam-news.net/couchsurfing-parties-breaking-cliches/>

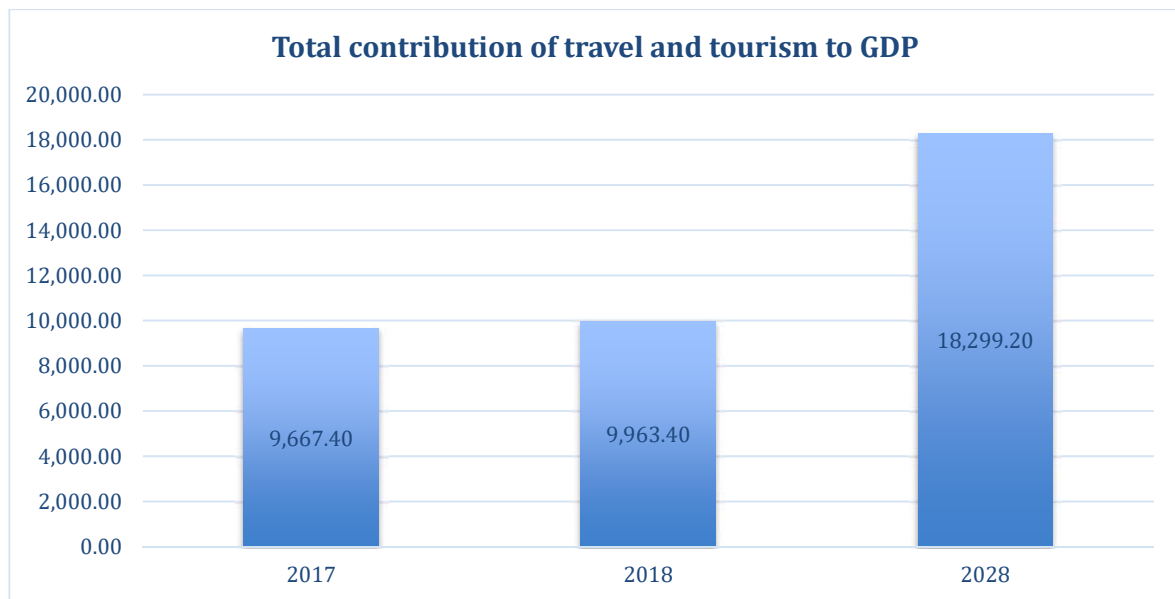
countries would increase in case of 2-3 star hotels' availability in different cities. In order to achieve that, infrastructure and tourism activities should be developed in certain regions, such as in Gax-Zagatala region, or in the Southern regions, since investors expect to put their investments on touristic-hot-spot and get at least 10-15% return on investment.

In terms of other hotel type enterprises, guesthouses also offer their services around the country. There 5 enlisted guesthouses in Baku. Also, there are 8 leisure-centers and cottage type small enterprises in different cities around the country.

Hotels' performance

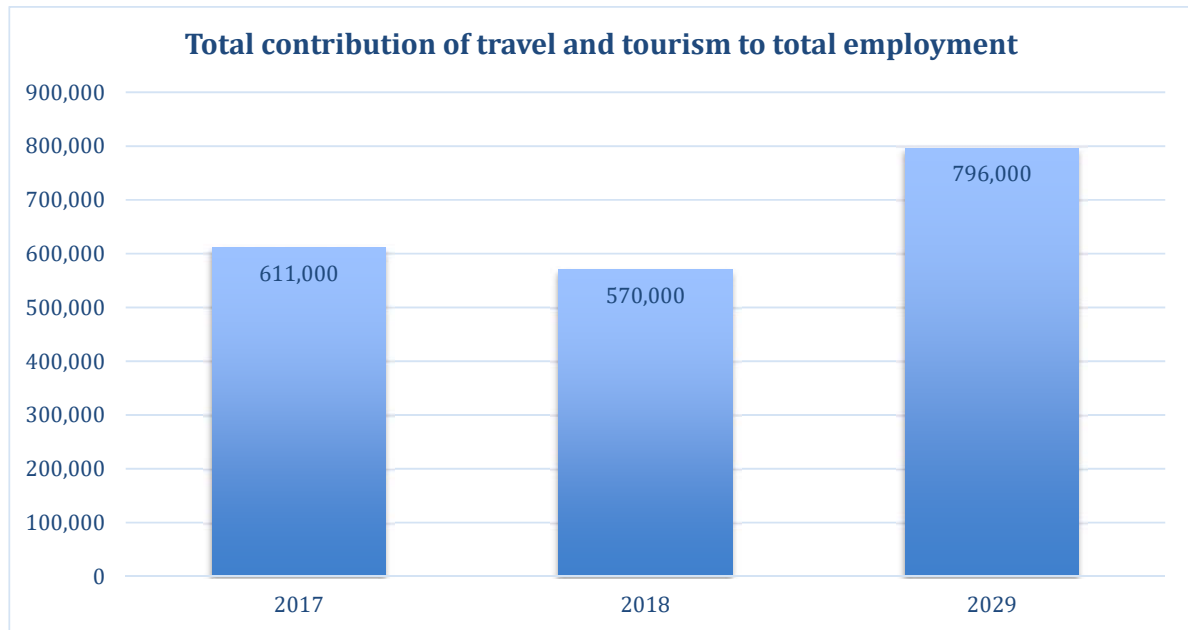
The Tourism report by the State Statistics Agency shows the income of hotels and similar enterprises is 359453 thousand manats.

According to the country report by the World Travel and Tourism Council, total contribution of travel and tourism to Azerbaijani GDP was AZN9,667.4mn (USD5,601.0mn), 14.6% of GDP in 2017, AZN 9,963.4mn (USD5.870.2mn), 13% of total economy in 2018. It is forecasted to have 6.0% pa increase, to AZN18,299.2 mn (USD10,602.1mn), 19.3% of GDP in 2028.



Source: World Travel and Tourism Council

The 2019 edition of the same report shows that total contribution of tourism and travel to employment in 2017 was 13.2% of total employment (611,000 jobs); in 2018 this number increased to 569.5 000 jobs (11.8% of total employment) and it expected to rise to 795.8 000 job in 2029.



Source: World Travel and Tourism Council

According to the information by the State Statistics Committee and local media agency Azertac, during last year (January-September of 2018), overnight stays in Baku and in the other cities and regions witnessed an increase. Thus, 57.8% of overnight stays were registered in Baku, 10.6% in Gabala, 6.6% in Khachmaz, 3.9% in Naftalan and Guba, 3.8% in Gusar, 2.7% in the Nakhchivan Autonomous Republic, 1.1% in Gakh, 0.8% in Ganja and Lankaran, and 8% in total were registered in the hotels located in other cities⁵.

For the same year, overnight stays by foreign citizens and stateless people increased 31.3% (1651,7 thousand, 67.5% of total overstays) in comparison with previous year and the top countries of visitors were UAE (13.3%), Russia(11.4%), Saudi Arabia(9.9%), Iran(5.2%), Turkey(4%), Great Britain (2.7%), USA(2.6%)⁶.

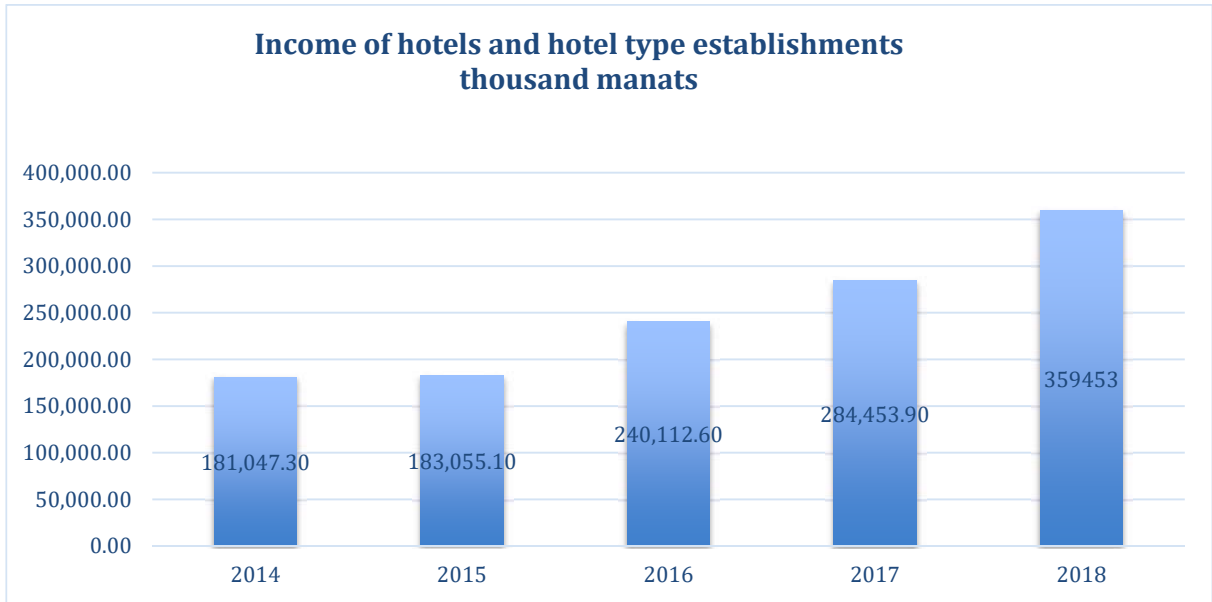
In addition, for the same year period, number of overnight stays by the Azerbaijani citizens had 12% increase to 795.1 thousand in compared to previous year.

Also, the same source states that hotel income was AZN 286,1 million for the same time period.

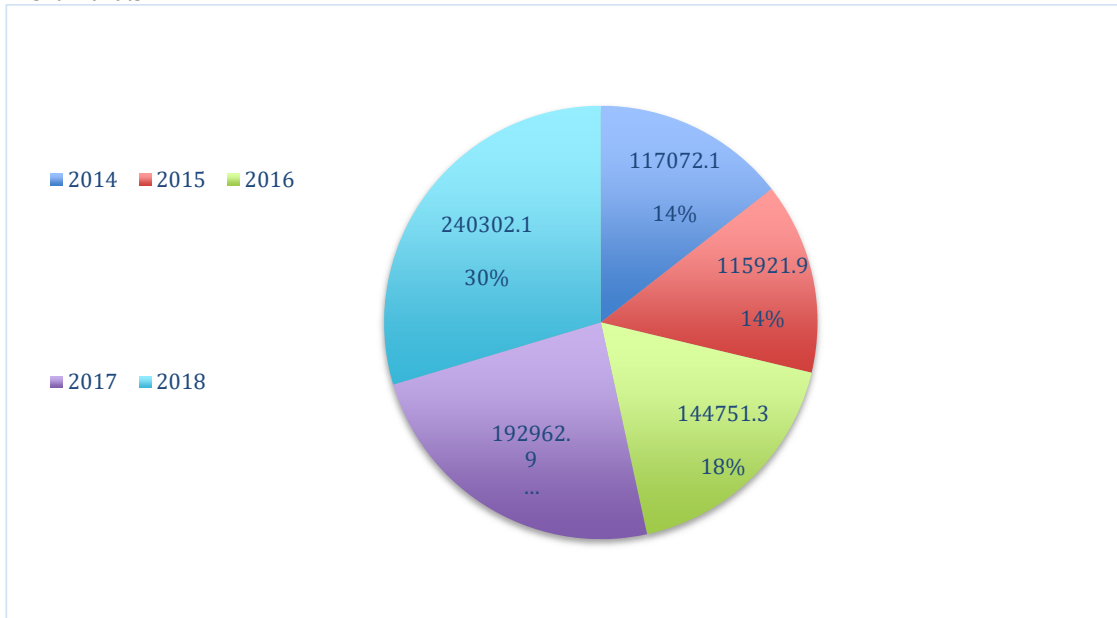
⁵ Information source for more information:

https://azertag.az/xeber/Doqquz_ayda_olkedeki_mehmanxanalarin_gelirleri_2861_milyon_manat_olub-1207768

⁶ Ibid



The income hotels get from room selling:
Thsnd manats



Tourism in Azerbaijan report 2019, azstat

Good to know for the investors: How to get license?

According to the Decree No 427 ordered by the President of the Azerbaijan Republic in 2006, operation of hotels and hotel-type enterprises must be maintained by licenses⁷. Once the necessary documents are submitted, the licenses are delivered within 15 days, with the fee of AZN1500 and are eligible for 5 years.

Recommendations

Firstly, setting affordable flight prices and other means of transport to attract more incomers to the country.

Tax reforms- Government's should support, by either decreasing or freeing hotel investors from taxes for a certain period, so they can establish their business and start paying back contributing to the hospitality sector and country economy.

Hotels should be unique in the market and be competitive with its all-inclusiveness (all kinds of entrainment activities, pool, or most needed cafes or restaurants) to keep the guests inside. Also they should be built in a place with higher tourist flow, for example in Old City tourist flow for a day is-)/ Since Sheki Khanet Palace is added to UNESCO World Heritage list, tourist flow to the area will increase and it will also affect the rental prices.

Acknowledgements

For the information support, we express our sincere gratitude to the team of Azerbaijan Tourism Board, Azerbaijan Hotel Association, especially to Mr. Elgun Mammadov, Director of Gilan Hospitality Group and Vice-President of Azerbaijan Hotels Association.

Contact with the author for any inquiries:

Turkan Devrijova
Market Research Analyst
turkandevrijova@recapital.az
+994 50 290 49 70
www.recapital.az

⁷ For more information on licenses: <https://icazeler.gov.az/az/licenses/mehmanxana-ve-mehmanxana-tipli-obyektlerin-fealiyyetine-xususi-raziliq-lisenziya/>