

## **The Case for Further Hotel Development in Lapland, Finland**

Exotic destinations—including an ice cold winter wonderland—are in high demand, at least when considering the case of Lapland, which here refers to the northern parts of Finland.

The region has enjoyed growing popularity as an international tourist destination over the past decades. However, the past few years have seen its popularity skyrocket as Lapland has become an international tourism hotspot.



### **How It All Started – Santa and Snow**

Lapland has always been relatively popular for domestic travelers, who are attracted to the destination due to its wide range of recreational opportunities, such as downhill and cross-country skiing and hiking. For nature lovers, Lapland offers exceptional wilderness, being a remote area with a population of less than two people per square kilometer.

Up until the mid-1980s Lapland was largely unknown to foreign tourists. The destination received approximately 150,000 foreign overnight stays annually, which accounted for less than 8 percent of foreign overnight stays in Finland.

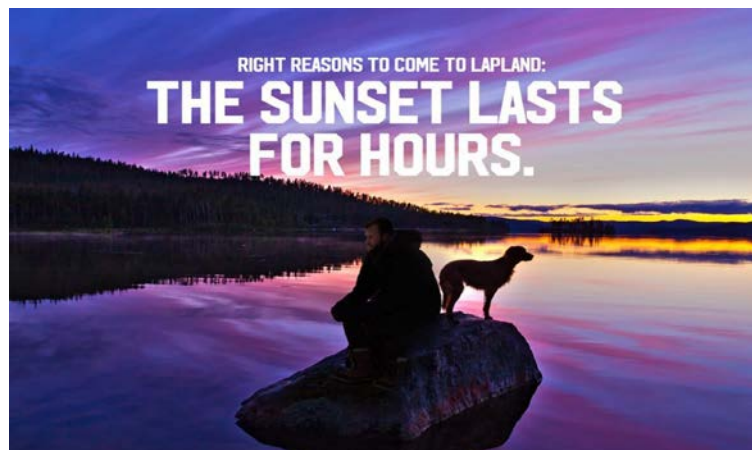
This started changing, when the tourist authorities launched a new strategy for Lapland. The destination was to be designated as “Santa Claus Land” and all marketing plans and tourist attractions were to be developed around this theme.

The first target group was the United Kingdom. The first British charter travelers, 98 of them on a Concorde flight operated by British Airways, arrived to Lapland (Rovaniemi) on Christmas Day in 1984. This inaugural flight, which was followed by major promotional efforts to market Lapland as a winter wonderland and home of Santa Claus, yielded positive results. Visitors to Lapland increased by 22 percent between 1986 and 1994, with foreign earnings up 29 percent, largely attributed to the presence of the Santa Claus Village in Rovaniemi.

### **Gradual Growth**

From year 2000 onwards, tourism to Lapland continued its gradual growth, with international overnight stays increasing from approximately 0.5 million in 2000 to over 1.1 million in 2014. The winter tourism, still dominated by the British travelers on tour packages, diversified from one-day Santa Claus visits to include other attractions such as the northern lights and reindeer and husky rides. This made tourist stays longer, often four to five days, thereby providing a much needed boost to hotels and other accommodation establishments. In addition to the British, other nationalities, such as the Japanese and Russians, were also attracted by the exotic winter wonderland.

Apart from the winter travel, Lapland started attracting an increasing number of travelers during the summer. In particular, travelers from Germany, Netherlands, Switzerland, Italy, France and neighboring Scandinavian countries were keen to explore the nature of Lapland in the summer, often combining the visit with the North Cape in Norway.



### **International Tourism Hotspot**

The past few years have seen the gradual tourism growth in Lapland gain momentum. The growing interest is highlighted by a recent Google report which reveals that Sodankylä (a town in Lapland) was the No. 2 fastest rising destination globally in 2016—behind only Havana when comparing year-on-year online searches.

The increased interest online has translated into growth on-ground. Year 2016 broke the record when the six airports in Lapland welcomed a total of more than 1 million visitors. The two largest airports, Rovaniemi and Kittilä, registered an impressive growth of 22.3 percent and 27.1 percent, respectively. Overnight stays by foreign travelers increased by an equally impressive 18 percent, to a total of 2.6 million.

The increase in demand has been largely driven by the growth of Asian and British travelers. Overnight stays by Asian tourists grew by nearly 50 percent, driven by demand from China (including Hong Kong) and Singapore. The overnight stays of Chinese travelers doubled compared to the previous year.

The amount of British travelers also registered strong growth, especially during the Christmas period when a growth of 25 percent increase in overnight stays was registered.

The pace of tourism growth has only accelerated during the first quarter of 2017. Kittilä Airport, which is the access point to Lapland's No. 1 ski resort, Levi, showed heady 24.4-percent growth in arrivals during Q1, with international arrivals increasing by 45.6 percent. More growth is on horizon in Levi, given that Finnair, the domestic airline, has launched new direct routes from Paris, Zürich and Frankfurt for winter 2017/2018, while British airline Monarch will double its flight service from the UK.

## Why Lapland?



Given the exceptional growth rates, the question then is, what exactly is driving this interest towards Lapland? Key factors are strong promotional and marketing efforts, international media coverage, social media exposure and improved flight connectivity with direct international flights. In addition, the worsening global security situation has diverted traveler interest to Lapland, which is perceived as a safe haven.

This trend is likely to only strengthen, given that Finland was recently ranked the safest travel destination in the world, according to World Economic Forum's 2017 Travel & Tourism Competitiveness Report.

## Investor Interest

Strong interest in tourism has fueled interest from investors. Lapland has had limited investments into its tourism infrastructure and accommodation offering since the financial crisis almost 10 years ago. The current accommodation offering is limited and does not have sufficient capacity to accommodate tourist demand currently seen during the high season. This combined with the strong growth trend, presents excellent investment opportunities.

There is a clear need for capacity but also for diversification as market gaps exist in relation to niche concepts. Many of the existing unique accommodation developments have been enormously successful. As one example, some of the high-end igloo projects are sold out one year in advance with rates exceeding of €500 per night.

So far, the investment interest has been largely driven by domestic investors, many of whom are already active in Lapland. However, there is increasing interest internationally to be part of a booming destination. Chinese investors have already invested in hotel developments and parties from central Europe are co-financing new development plans.

International hotel operators have also shown an interest to enter into Lapland. The market is currently dominated by independent hotels, with only a few domestic chains, such as Sokos and Lapland Hotels, having a presence. The market is attractive, not least because of the price premium of the destination. According to Statistics Finland, overnight stays in Lapland reach an average rate of €130 compared to €100 elsewhere in the country. This combined with the strong tourism growth prospects and the wow-factor of the destination, it is likely to be a question of when, not if, Lapland will have its first internationally branded hotel.

### **Key challenges**

Despite recent successes, Lapland faces challenges that need to be tackled if the destination is to grow in a sustainable manner. The key issue is seasonality, given that tourism is heavily focused on the winter months. To increase tourism in the summer, aggressive promotion is needed together with improved flight connections. At the moment, this is a chicken-and-egg situation and all the parties involved—tourism authorities, airlines, hotels, attractions, restaurants, shops, etc.—need to work together to tackle the issue. If this can be solved, Lapland is likely to witness some spectacular northern lights and heights in the years ahead.

#### **About Tea Ros - Strategic Hotel Consulting**



Tea Ros is the Managing Director of Strategic Hotel Consulting, an international management consulting firm specialising in hotel and tourism investments. Strategic Hotel Consulting provides advice to owners, investors, developers and operators on how to optimise project investment, enhance asset value and maximise profitability. The company has carried out destination studies in Lapland to advice on hotel and tourism related investments. For more information, please see [www.strategichotelconsulting.com](http://www.strategichotelconsulting.com) or contact [tea@strategichotelconsulting.com](mailto:tea@strategichotelconsulting.com).