

2007

Kuwait – Country Snapshot

Hadrien Pujol, Associate Director

Bernard Forster, Director

HVS INTERNATIONAL LONDON

7-10 Chandos Street

London W1G 9DQ

+44 20 7878 7700

+44 20 7878 7799 (Fax)

April 2007

New York San Francisco Boulder Denver Miami Dallas Chicago Washington, D.C. Weston, CT Phoenix Mt. Lakes, NJ
Vancouver Toronto London Madrid New Delhi Singapore Hong Kong Sydney São Paulo Buenos Aires Newport, RI

Kuwait Snapshot

London office of HVS International

Hadrien Pujol and Bernard Forster

Economics and Politics

Kuwait posted a strong economic performance in 2006. According to the EIU, the economy grew by 10.6% compared to 10.0% in 2005. The current high oil prices are likely to generate a budget surplus. In order to attract FDI, the government lowered the tax for foreign companies based in Kuwait from 55% to 15%.

Kuwait is also continuing its privatisation programme in the energy sector with two petrochemical projects on the agenda.

Women participated in national elections for the first time in June 2006.

Developments and Initiatives

An expansion of Kuwait International Airport is underway with a goal to increase the capacity to 20 million passengers by 2012. The cost of this programme is estimated at US\$2.1 billion.

The second phase of the Kuwait National Tourism Master Plan was officially completed in December 2005. This latest phase involved adding final details to the master plan and the preparation of a five-year action programme, setting out guidelines for the development and promotion of tourism in line with the government's goal of Kuwait becoming a leading commercial and financial centre in the Middle East.

Kuwait is pressing ahead to become a major tourist destination in the Gulf, and has recently invited 42 investors to bid for a multi-billion-dollar project that will transform one of its islands into a mega resort. The US\$5 billion project to turn Failaka Island into a tourist attraction is a major component of the 20-year Tourism Master Plan.

Bubiyah Island has been earmarked for a second mega project. Apart from the construction of a US\$1.2 billion port facility, the island also offers significant potential for eco-tourism.

Following the surge in occupancy in 2003, it is understood that the Ministry of Commerce and Industry received 128 applications for new hotels totalling more than 15,000 rooms. Out of those applications, 90 were approved but only about ten are expected to see the light of day. Most of the new developments in the sector are concentrated in the four- to five-star category in prime locations within the City such as Salmiya, Sharq and Hawally.

Visitation and the Hotel Market

Tourism visitation to Kuwait was set to grow at an estimated 6.2% in 2006. This growth is largely due to increased intra-regional visitation resulting from oil rich countries stimulating domestic demand.

In March 2007, the United Nations sent experts to Kuwait to assess the level of bird flu cases (52 to date). Although it has not made the headlines, should the situation deteriorate significantly it will certainly affect future demand for hotel accommodation in the country.

Occupancy rates for quality hotels in Kuwait City dropped to 65% in 2006 from 70% in 2005. The abnormal effect of the war in Iraq on the market observed in 2003 has now faded, although numerous organisations and contractors working in Iraq are still based in Kuwait. In terms of average rates, 2006 witnessed a modest increase of 1% to US\$239.

The decline in RevPAR from US\$165 in 2005 to US\$155 in 2006 was further reflected by a 12% drop in GOPPAR to US\$140.

Proposed new supply in Kuwait is illustrated in the following table.

Proposed Hotels – Kuwait			
Hotel Name	Number of Rooms	Opening Date	Location
Al Manshar Rotana Hotel & Suites	200	2007	Kuwait City
Moevenpick Resort & Residence Al Bidaa	308	2007	Kuwait City
Ibis Salmiya	175	2007	Kuwait City
Regent Messila Beach Hotel	394	2007	Kuwait City
Missoni Hotel	200	2007	Kuwait City
Hilton Olympia Kuwait	270	2008	Kuwait City
Tulip Inn	66	2008	Kuwait City
Tulip Inn	32	2008	Kuwait City
Tulip Inn	38	2008	Kuwait City
Four Seasons Hotel Kuwait City	330	2008	Kuwait City
Monarch Luxury Hotel & Conference Centre	350	2008	Kuwait City
2009 Openings	640	2009	

Source: HVS Research



Outlook and Opportunities

2007 will see the opening of five hotels in Kuwait City totalling approximately 1,300 rooms. We expect this new supply to have a significant effect on the marketwide occupancy in 2007 and more probably in 2008.

The hotel market is currently operated under a price regulatory system which historically maintained a high marketwide average room rate. We understand that new hotels will not necessarily be part of this system. However, we expect marketwide average rate to remain high as new owners will probably be willing to ensure minimum profits and return on their investments which can be achieved with a high average rate.

We do not recommend any new investment in hotel projects in the short-term in Kuwait until current supply growth is absorbed.

No investment decision should be made based on the information in this survey. For further advice please contact the authors.

About our Team

HVS International has a team of Middle East experts that conducts our operations in the MENA region. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the MENA region and a broad exposure to international hotel markets in Europe. Over the last 24 months, the team has advised on more than 100 hotels or projects in the region for hotel owners, lenders, investors and operators. Together, HVS has advised on more than US\$10 billion worth of hotel real estate in the region.

About the Authors



Hadrien Pujol is an Associate Director with HVS's London office. He joined HVS in 2004 and has five years' operational experience in the hospitality industry in Europe. Originally from Carcassonne, France, Hadrien holds an MBA from IMHI (Essec Business School – France and Cornell University – USA) and Diplomas in Hotel Operations from the Lycée Hotelier Savoie – Léman, Thonon Les Bains and the Lycée Hotelier Quercy – Périgord, Souillac. Hadrien is currently preparing his MSc in Corporate Real Estate Finance and Strategy at Cass Business School in London. Since joining HVS he has advised owners on many hotel and hotel-related investment projects and strategic developments in Europe, the Middle East and Africa.



Bernard Forster is a Director with HVS's London office, heading the MENA region. He joined the company in 1997 from Accor Hotels & Resorts where he focussed on property management systems, yield management and guest-history systems in Europe, the Middle East and Africa. Previously, Bernard worked in various operational management roles for the Savoy Group (now Maybourne Group) in London as well as for the Dolder Grand Hotel in Zürich. Bernard holds an MSc in Property Investment from City University, London; a BSc (Hons) in Hotel Management from Oxford Brookes University; and a diploma in Hotel Administration from Institut Hotelier 'Cesar Ritz', Le Bouveret, Switzerland.