

Resilience is Again Demonstrated as the Middle East Hotel Market Bounces Back

Highlights

- HVS International's Middle East Hotel Survey for 2004 features 120 hotels totalling 33,000 rooms. Our sample includes branded four-star and five-star hotels;
- While hotel markets in Europe experienced another dip in performance in 2003, those in the Middle East followed the opposite trend, registering 10% growth in RevPAR on 2002 levels, and this despite the conflict in Iraq. The region continues to show tremendous resilience to economic and political turmoil;
- Overall occupancy levels in the region increased by two percentage points, to 67%. Average room rate grew by 6%, from US\$81 in 2002 to US\$86 in 2003;
- Overall demand declined during the first half of 2003, due mainly to the war in Iraq, but recovered strongly during the second half of the year. Markets such as Kuwait and Doha benefited from the increased visitation levels provided by the coalition forces and commercial visitors during and after the war;
- The strong growth in arrivals has continued during the first half of 2004, and it is expected to be sustained throughout the year;
- Based on our research and analysis, we expect that the average return on equity for a typical hotel in the region will be around 10% (from operating cash flow) for the calendar year 2003;
- The hotel market in Kuwait City experienced the highest growth in RevPAR in 2003 (65%). On the other hand, the hotel market in Muscat experienced the strongest decline, approximately 7% on 2002 levels;
- While the strong operating performance in some markets, most notably Kuwait, is not fully sustainable, we expect that it is likely to encourage hotel investment. However, investors should be careful not to base their investment decisions

solely on 2003 performances, which in some markets were abnormally high and boosted by war-related demand;

- Overall, we expect another strong year in 2004, given the outstanding growth that was experienced during the first half of 2004.

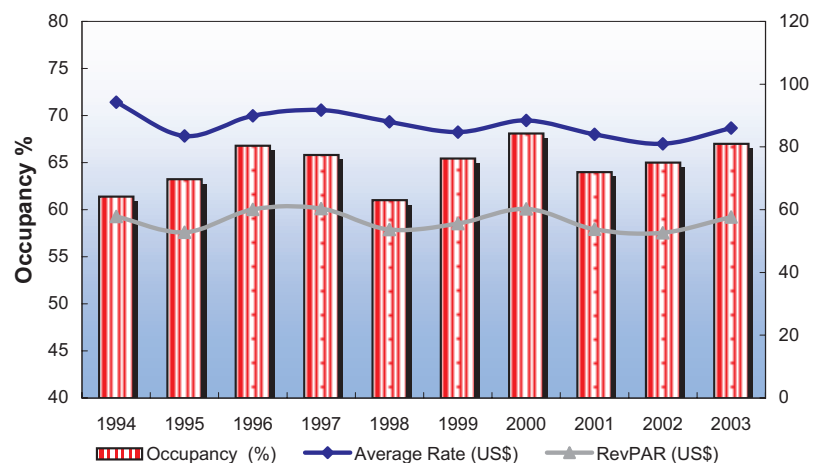
Economic Overview

- GCC countries are pressing ahead with their economic diversification programmes, with Dubai, Qatar,

Bahrain and Oman being the most committed and proactive;

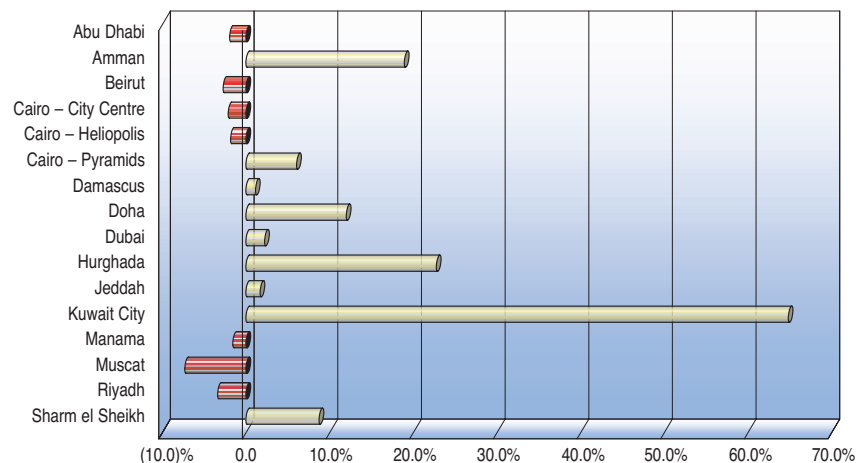
- Most countries in the region experienced economic growth during 2003, led mainly by an increase in oil output and revenues. Qatar achieved phenomenal GDP growth of approximately 8%, which was attributable to increased exploitation of gas;
- Public spending remains the major driver of economic and tourism developments in most Middle Eastern countries. Yet, governments are

Table 1 Performance of First Class Hotels in the Middle East 1994-2003



Source: HVS International Research

Table 2 Winners and Losers – Percentage Change in RevPAR Between 2002 and 2003



Source: HVS International Research

increasingly planning to privatise this sector and its development;

- According to the WTO, tourist arrivals in the Middle East experienced growth of 10% during 2003, whereas overall worldwide arrivals dropped by 1% on 2002 levels. This growth was driven mainly by an increased level of intra-regional (and war-related) visitation during the year, more especially during the second half of the year;
- Despite the low base levels of arrivals in the Middle East, the region has, by far, experienced the highest growth rates in arrivals over the last decade when compared to other regions in the world;
- Most countries and destinations in our survey experienced positive growth in arrivals, with Kuwait (albeit in our view unsustainable), Dubai, Qatar and Egypt at the forefront.

Trends

- Five-star hotels continue to represent the vast majority of the hotels developed throughout the region;
- The construction of mixed-use developments remains attractive for regional investors, as it reduces the risk involved in the investment and can potentially provide more robust (and less volatile) operating cash flows;

Table 3 Real Gross Domestic Product Growth (%)

	1996	1997	1998	1999	2000	2001	2002	2003	Forecast 2004
Bahrain	3.1%	3.1%	3.1%	1.2%	5.2%	5.0%	3.8%	4.9%	5.6%
Egypt	5.1	5.9	5.0	3.1	3.9	2.5	3.0	1.8	2.8
Jordan	0.8	2.7	2.2	1.5	2.5	2.8	3.6	3.1	6.0
Kuwait	2.9	2.5	0.0	-0.5	4.0	0.8	-2.0	4.6	3.5
Lebanon	4.0	3.5	3.5	4.0	0.0	0.8	0.9	2.0	2.4
Oman	3.5	3.5	2.1	1.5	4.7	5.0	2.2	1.1	3.0
Qatar	8.9	10.5	3.2	3.3	4.3	5.7	4.6	8.5	6.0
Saudi Arabia	1.4	2.5	-1.0	1.6	4.1	1.7	0.6	3.5	3.1
Syria	5.5	4.1	3.4	4.0	1.5	1.6	2.2	0.9	3.4
United Arab Emirates	3.0	1.0	-5.0	-1.2	5.0	2.9	2.4	3.5	2.5

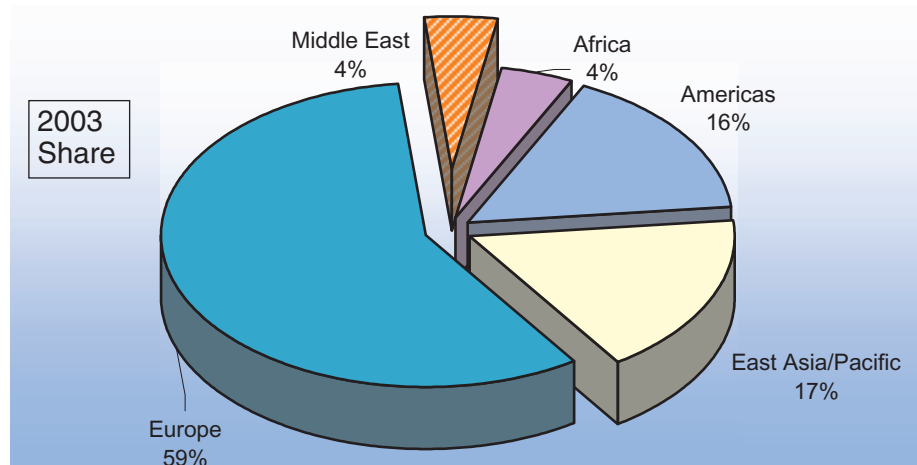
Source: Economist Intelligence Unit

- Investors are increasingly considering the development of branded limited-service hotels within the region, with the major expansion planned being that of Express by Holiday Inn (via a private equity fund). Transient demand for such hotel assets will be further stimulated as new regional budget airlines (Air Arabia, MenaJet, and TransGulf Express) enter the market. We note that the first Ibis hotel in the Middle East opened in Dubai in 2003;

- An increased level of investment in serviced apartments is noteworthy. Such properties are being developed either as stand-alone operations or to form part of mixed-use developments featuring an integral or adjacent hotel and thus provide the whole development with cost and revenue synergies. Due to the nature and characteristics of transient demand for accommodation in Dubai, the emirate remains the major market for the development of such asset classes in the region;

Table 4 Worldwide Tourism Trends and Distribution 2002-03

	Tourist Arrivals		% Change	
	2002	2003 ¹	2002/03	1996/03
World	702.6	692.4	-1.3%	16.1%
Africa	29.0	30.0	3.4	37.5
Americas	115.0	112.0	-2.6	-4.2
East Asia/Pacific	131.0	119.0	-9.2	27.3
Europe	400.0	401.0	0.2	14.5
Middle East	27.6	30.4	10.1	115.8

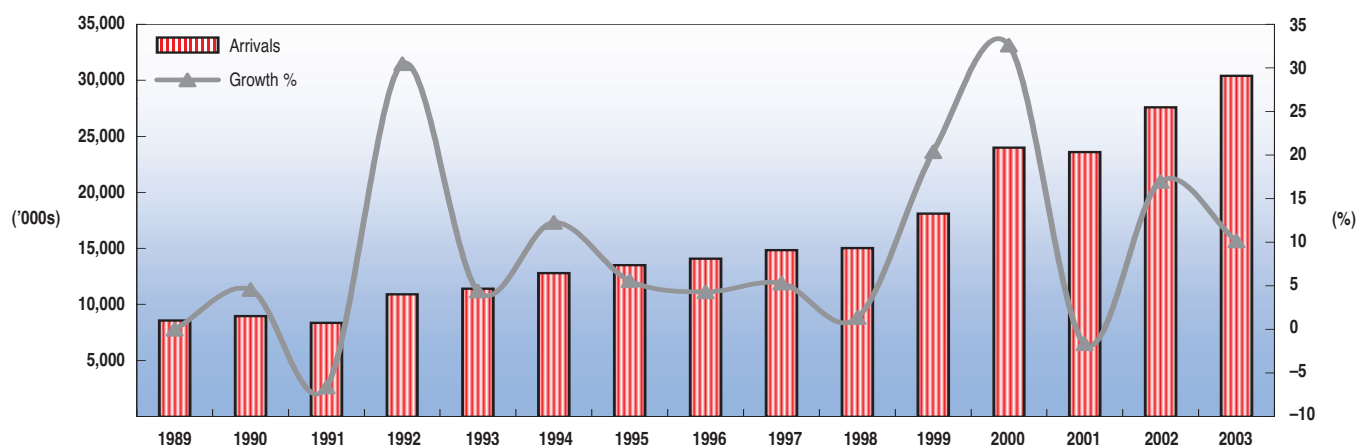


- Timeshare is gradually becoming more appealing to investors, due to the lower operating risks and potentially high returns of such operations. We consider that a limited number of (mainly) resort areas throughout the region currently offer sufficiently lucrative investment opportunities for such developments;
- The hotel investment arena remains characterised by a local (or regional) pool of investors. While most European operators continue to decline to provide any equity stake in hotel assets, some Asian and regional operators are increasingly willing to offer equity in order to boost their presence and brand awareness within the region;
- Hotel funding and financial structuring continue to be geared towards medium to low financial leverage. Some loan syndication deals have recently been noteworthy for hotel financing. Junior debt or mezzanine hotel financing is still not available 'publicly' but is often provided by equity shareholders to allow 'bridge financing';
- InterContinental Hotels Group continues to remain the most prolific hotel operator in the region. Other operators, such as Mövenpick and Rotana, are aggressively expanding their hotel portfolios.

¹ Preliminary estimates

Source: World Tourism Organisation

Table 5 Middle East Tourism Arrivals 1989-03



Source: HVS International Research, WTO

Country Analysis

BAHRAIN

Economics and Politics

- The island remains the most diversified and open economy in the GCC region, initiating innovative projects and embracing long-term approaches towards the development of its economy;
- The country's ruler is increasingly making democratic and structural reforms designed to ensure greater political stability and sustainable prosperity. These reforms will in turn enhance the country's international image and attract foreign investment;

Bahrain Financial Harbour



- The Economist Intelligence Unit (EIU) forecasts that real GDP growth could rise to 5.6% in 2004, from 4.9% in 2003, an increase driven mainly by government spending.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- A second international airport is being considered, and a feasibility study has been conducted. The development time-frame for the new airport is currently unclear;
- The development of the friendly bridge between Bahrain and Qatar is back on track after being on hold for a while. It is rumoured that the bridge will be completed by 2008;
- The Bahrain International Circuit (BIC) was completed in time for the 2004 Formula 1 Grand Prix, which attracted a significant number of visitors;
- The Bahrain Financial Harbour (BFH) in Manama is currently in the early stages of construction and will be developed over 200,000 m². The project aims to attract regional and multinational financial institutions and is due for completion by 2008. Once this development is operational, Bahrain can aim to position itself as one of the main financial hubs of the region;
- The al Marsa project is planned for development by 2008 and is located on the 3 million m² Amwaj Island. The island is situated at the north-eastern edge of Muharraq, Bahrain's second-largest city;
- The US\$1 billion Durrat Al Bahrain Island is located in the south of Bahrain, and is one of the most ambitious projects in the country, featuring luxurious villas and chalets, hotels, beaches, a shopping mall and a theme park. The project is due for completion by 2008;
- The Dream Island resort is planned along the north-east coast of Manama and is likely to include a hotel, a spa, beach villas, marina residences, and other leisure and entertainment facilities;
- It is rumoured that a ski centre is to be developed in Bahrain on the eastern shores of Manama, and is due for completion by 2009;
- Al Areen Desert and Spa Resort is planned for development south of Manama and aims to attract the health tourist market. The development will include the Oasis Spa resort, themed resorts, a residential village and an aqua park, and is due to be completed by 2007;
- The Bahraini government is offering permanent residence to expatriates who buy real estate in one of the new development projects (Durrat Al Bahrain and/or the Al Marsa Floating City).

Visitation and the Hotel Market

- The country experienced 4% growth in visitation in 2003, which was driven mainly by increased intra-regional visitation and induced demand related to pre- and post-war activity;
- Leisure visitation to the country continues to emanate mostly from the GCC countries, with Saudi Arabia accounting for the majority of visitor arrivals;
- While demand for hotel accommodation increased slightly during 2003, occupancy levels at quality hotels in Manama dropped by one percentage point on 2002 levels, to 63%. This was partly attributable to the new supply, in particular the opening of the 172-room Novotel Al Dana Resort, which entered the market in mid-2003. Average rate in the market remained stable at US\$119 in 2003, and this resulted in a slight decline in RevPAR of 2% for 2003 compared to 2002;
- The Le Meridien hotel in the Seef district has been rebranded to Ritz-Carlton and is currently undergoing major renovation work;
- Proposed and rumoured new supply in the market is illustrated in Table 9.

Table 6 Average Annual Room Occupancy 1994–03

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bahrain	Manama	65 %	58 %	53 %	63 %	58 %	56 %	59 %	62 %	64 %	63 %
Egypt	Cairo - City Centre	n/a	67	73	75	69	78	78	66	68	67
	Cairo - Pyramids	n/a	58	66	66	47	70	76	61	62	62
	Cairo - Heliopolis	n/a	65	79	72	70	83	83	75	75	73
	Hurghada	48	63	70	63	50	80	77	65	69	70
	Sharm el Sheikh	79	73	72	66	68	79	63	61	66	65
Jordan	Amman	61	74	71	61	56	56	59	44	45	49
Kuwait	Kuwait City	44	41	44	46	46	47	46	49	53	85
Lebanon	Beirut	n/a	n/a	45	61	61	56	57	55	57	57
Oman	Muscat	67	66	64	71	56	57	55	62	59	57
Qatar	Doha	61	75	80	78	72	61	58	56	60	70
Saudi Arabia	Jeddah	70	66	63	60	62	61	65	61	59	60
	Riyadh	66	62	61	62	63	62	60	61	65	64
Syria	Damascus	70	73	68	70	69	69	66	65	67	65
UAE	Abu Dhabi	65	58	66	65	66	64	67	67	68	69
	Dubai	74	69	74	73	70	70	74	71	76	74
Average		61%	63 %	67 %	66 %	61 %	65 %	68 %	64 %	66 %	67 %

Source: HVS International Research

Table 7 Average Achieved Room Rates 1994–03 (US\$)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	% Change 2002–03
Bahrain	Manama	86	87	92	90	93	102	105	103	119	119	0.0
Egypt	Cairo – City Centre	n/a	73	72	78	78	80	86	85	77	76	(0.7)
	Cairo – Pyramids	n/a	35	56	44	44	50	66	66	53	56	6.1
	Cairo – Heliopolis	n/a	59	62	61	62	62	68	65	59	59	0.9
	Hurghada	67	39	41	44	30	34	41	35	30	36	21.0
	Sharm el Sheikh	61	59	63	62	45	54	55	51	48	53	10.4
Jordan	Amman	67	75	83	83	81	71	68	68	65	71	9.2
Kuwait	Kuwait City	174	171	178	168	170	169	178	182	180	185	2.8
Lebanon	Beirut	n/a	n/a	128	133	143	129	110	101	110	107	(2.7)
Oman	Muscat	103	103	112	101	95	91	86	80	74	71	(4.1)
Qatar	Doha	65	68	77	101	116	112	115	105	100	96	(4.0)
Saudi Arabia	Jeddah	99	103	117	115	113	111	119	110	104	104	0.0
	Riyadh	98	105	106	110	113	116	115	110	107	105	(1.9)
Syria	Damascus	102	73	124	118	111	104	97	94	94	98	4.3
UAE	Abu Dhabi	108	114	129	111	101	99	88	89	89	86	(3.4)
	Dubai	117	119	120	126	107	104	105	103	100	105	5.0
Average		94	84	90	92	88	85	88	84	81	86	5.9 %

Source: HVS International Research

Table 8 RevPAR Performance 1994–03 (US\$)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	% Change 2002–03
Bahrain	Manama	56	51	49	56	54	57	62	64	76	75	(1.6)
Egypt	Cairo – City Centre	n/a	49	53	58	60	62	67	56	52	51	(2.1)
	Cairo – Pyramids	n/a	20	37	29	31	35	50	40	33	35	6.1
	Cairo – Heliopolis	n/a	38	49	44	52	52	57	49	44	43	(1.8)
	Hurghada	32	25	29	28	24	27	31	23	21	25	22.8
	Sharm el Sheikh	48	43	46	41	36	43	35	31	32	34	8.7
Jordan	Amman	41	55	59	50	46	40	40	30	29	35	18.9
Kuwait	Kuwait City	77	70	78	77	79	79	82	89	95	157	64.8
Lebanon	Beirut	n/a	n/a	57	81	81	73	62	56	63	61	(2.7)
Oman	Muscat	69	68	71	72	54	52	47	50	44	40	(7.3)
Qatar	Doha	39	51	62	79	71	69	67	59	60	67	12.0
Saudi Arabia	Jeddah	69	68	73	70	69	68	77	67	61	62	1.7
	Riyadh	65	66	64	69	70	72	69	67	70	67	(3.4)
Syria	Damascus	71	53	84	82	77	72	65	61	63	64	1.1
UAE	Abu Dhabi	70	66	85	72	64	63	60	60	61	59	(1.9)
	Dubai	86	82	89	92	75	73	78	73	76	78	2.2
Average		58	53	60	60	58	56	60	54	54	58	7.5 %

Source: HVS International Research

Table 9 Proposed Hotels – Bahrain

Hotel Name	Number of Rooms	Opening Date	Location	Status
Mövenpick	106	2004	Manama	Open
Sail Tower Ritz-Carlton ¹	120	2004	Manama	Under Construction
Mercure Grand All-suite Hotel	120	2005	Manama	Under Construction
Radisson SAS Diplomat ²	130	2005	Manama	Under Construction
Marriott Executive Apartments	95	2006	Manama	Under Construction
Durrat al Bahrain Resort	350	2007	Durrat al Bahrain	Under Construction
Little Venice Resort	325	2007	Manama	Rumoured
Proposed Hotels – BFH	500	2008	Manama	Planned
Zallak Resort	n/a	2008	Zallak	Rumoured

¹ Apartments

² Serviced Apartments

Source: HVS International Research

Outlook and Opportunities

- Various innovative projects are being developed in Bahrain, and these are likely to put the country further on the global tourist map and enhance domestic and international confidence in investing in the country. Such projects should attract considerable investment, strengthening the economic development of the kingdom;
- As the new projects become operational, the country is likely to experience an increased level of induced demand for hotel accommodation, which will in turn help to absorb the new supply;
- The country must carefully define its tourism strategy in order to differentiate itself from other destinations in the region, most notably Dubai;
- We consider that opportunities exist in this market for the development of branded limited service hotels and serviced apartments.

EGYPT

Economics and Politics

- According to the EIU, real GDP is expected to grow at 2.8% in 2004, up from an estimated 1.8% in 2003. This growth will be led primarily by the export of goods and services;
- Egypt's economy remains vulnerable to the government's ability to maintain a stable currency exchange rate, control inflation and encourage privatisation. In addition, regional political instability is likely to have a negative impact on Egypt's prosperity;
- An escalation in regional political tensions could prompt domestic unrest and discontent over the prolonged poor performance of the economy;
- Tourism is the largest employer

in Egypt, and the industry is highly vulnerable to European perceptions of regional political instability.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- Major tourist projects are being developed by the private sector. These include Taba, Marsa Alam, and Alamein, which are becoming increasingly popular destinations for European markets;
- The Red Sea ports of Hurghada and Safaga have been expanded to serve the tourism industry better and accommodate larger ships;
- Due to oversupply in the Red Sea region, notably in Hurghada and Sharm El Sheikh, the government has taken the initiative and has stopped issuing hotel licences for an undisclosed period of time;
- Major airport expansion projects in the country are planned. New airport terminals and expansions are planned for Luxor and Sharm El Sheikh, and a new terminal is planned at Cairo International Airport. These developments will enhance the flow of visitors to the country;
- The development of a 'metro' line in Cairo city centre, work which would involve the construction of a 4.5 km underground railway between Ataba and Abbasiya, is rumoured;
- According to the Egyptian authorities, Egypt's General Organisation for International Exhibitions and Fairs is likely to develop two new exhibition halls, totalling 9,000 m²; these are likely to be completed in 2005.

Visitation and the Hotel Market

- Despite the war in Iraq, and the

government's anticipation of the tourism industry being seriously hit as a result, visitor arrivals in the country experienced growth of approximately 15% on 2002, to 6 million;

- The country continues to experience one of the highest levels of European visitation in the region, accounting for more than 50% of the total visitation. Yet, due to increased cultural friction and the necessary bureaucratic procedures for travelling between the Middle East and the West, the country benefited from an increased level of intra-regional (GCC) visitation throughout the year;
- Despite the increase in tourist arrivals, quality hotels in Cairo city centre experienced a decline in occupancy of one percentage point in 2003, to 67%. Average rate in the market remained stable throughout the year, at US\$77. Due to the 15% devaluation of the Egyptian pound during the year and rising inflation, we consider that this average rate trend might be misleading. The average RevPAR achieved in 2003 was US\$51, a decline of US\$1 on the previous year (up – % in EE);
- Occupancy in Cairo Heliopolis declined slightly in 2003, by two percentage points to 73%. This decline was attributable mainly to the opening of the 428-room JW Marriott hotel (Mirage City). Average rate in the market remained stable at US\$59 (although, due to the exchange rate devaluation). Consequently, RevPAR declined by 2% on 2002 levels, to US\$43 (up – % in EE);
- Hotels at Cairo Pyramids experienced slight growth in occupancy on 2002, to 62%, an increase driven by increased levels of visitation. Following the sharp decline in average room rate in 2002, the area experienced modest average rate growth in dollar terms of 6%, to US\$56. Overall RevPAR was US\$35, 6% up on 2002;
- Occupancy at branded hotels in Hurghada increased from 69% in 2002 to 70% in 2003, driven by a modest increase in international (mostly eastern European) and regional demand. Following the aggressive price wars in 2002, the 'all-inclusive' hotel market recorded strong average rate growth of 20% on 2002 levels, to US\$36. The resultant RevPAR was US\$25, still the lowest in our survey;
- Hotels in Sharm El Sheikh experienced a decline in occupancy of one percentage point on the previous year, to 65%. This decline was attributable in part to additional supply such as the 450-room InterContinental Hotel. On the other hand, average rate grew at 10% throughout 2003 to reach US\$53, resulting in a 4% increase in RevPAR for the year;

Table 10 Proposed Hotels – Egypt

Hotel Name	Number of Rooms	Opening Date	Location	Status
Park Hyatt ¹	220	2004	Cairo City Centre	Under Construction
Four Seasons	390	2004	Cairo City Centre	Under Construction
Kempinski	400	2006	Cairo City Centre	On Hold
Fairmont	400	2007	Cairo City Centre	Rumoured
InterContinental – City Stars	780	2005	Heliopolis	Under Construction
Holiday Inn – City Stars	330	2005	Heliopolis	Under Construction
Proposed Hotel – City Stars	240	2005	Heliopolis	Under Construction
Westin ²	250	2007	Heliopolis	Under Construction
Proposed Branded Hotel	500	2007	Heliopolis	Awaiting Approval
Hilton – Cairo Intl Airport	450	2007	Heliopolis	Rumoured
Airport Hotel	300	2007	Heliopolis	Approved
Mövenpick/Greater Cairo	300	2007	Al Obour	Rumoured
Steigenberger Fanadir Resort	400	2004	Hurghada	Uncertain
Hilton – Long Beach Hotel	450	2004	Hurghada	Re-Branding
Le Meridien	520	2005	Hurghada	Under Construction
Kempinski	230	2005	Hurghada/Sahel Hashish	Under Construction
Other Hotels (two or three)	750	2008	Hurghada/Sahel Hashish	Rumoured
Renaissance Sharm el Sheikh	168	2004	Sharm El Sheikh	Under Construction
Millennium	120	2004	Port Ghalib	Under Construction
Mövenpick Resort	456	2004	Taba	Under Construction
Holiday Inn	176	2004	Taba	Under Construction
Mövenpick Hotel – Alamein	259	2004	Alamein	Early Opening
Hyatt Regency Soma Bay	330	2006	Soma Bay	Awaiting Approval
Radisson SAS	250	2006	Marsa Alam	Early Construction

¹ Taken over from Le Meridien

² Extension of the Sheraton

Source: HVS International Research

- Proposed and rumoured supply in the country is illustrated in Table 10.

Outlook and Opportunities

- Egypt has the potential for further strong growth in its tourism industry, due to its unmatched cultural and natural resources. However, the growth could be dampened by regional political instability and internal economic unrest;
- As the new supply becomes operational, we expect that some hotel markets in Egypt – notably Heliopolis – will experience a considerable decline in operating performance until demand levels rise to sufficient levels;
- Stricter pricing policies should be adopted in Red Sea destinations in order to avoid dilution of cash flow and investment return. The moratorium on new hotel development should help to push prices up in the medium term;
- Potential investors should be cautious about new hotel projects in the region over the next few years, particularly those in Heliopolis and Hurghada, which are now becoming oversupplied;

- Opportunities exist for the development of branded limited-service hotels in Cairo city centre and other major cities in the country;
- In 2004, we expect a growth in hotel performance in Cairo city centre, at Cairo Pyramids and in Red Sea destinations. Our forecasts assume a stable political environment in the region.

JORDAN

Economics and Politics

- According to the EIU, Jordan has coped better than expected with the war in Iraq, and real GDP growth registered 3.1% in 2003. The economy should accelerate sharply over the next two years, reaching 6% annual growth in 2005. Growth will be driven principally by exports (mainly of textiles to the USA). Import growth will also be strong, although much of this will be converted into re-exports to Iraq;
- The challenges facing Jordan include continuing large debt-service, growing pension liabilities for the public sector, a high tax burden,

paying for oil imports at market prices, the pressure for increased government spending on social services, the need to address rising unemployment and high population growth. There is also the possible impact of adverse developments in the region, which are beyond the government's control;

- The country historically had a trade agreement with Iraq on oil, which was subsequently lost due to the war. Oil supply and pricing represent the major short-term risk to Jordan's fiscal position.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- The Aqaba Special Economic Zone is committed to growing the tourism industry in the area, yet the promotional strategy of this region is currently unclear. Some of the rumoured infrastructure plans in the area include the expansion of the airport and the relocation of the existing port;
- Preliminary plans exist for promoting the 'Golden Triangle' of Aqaba, Petra and Wadi Rum as a single package for holiday-makers; there is no time-frame for the plan, however;
- Jordan and Singapore signed a Memorandum of Understanding on tourism co-operation as part of an effort to strengthen economic ties and help boost levels of Asian visitation to the country;
- A new sea link between Aqaba and Sharm El Sheikh was launched in late 2003 and is likely to be plied by the US\$18 million cruise ship 'Princess', which has the capacity to carry 710 passengers across the Red Sea;
- A US\$150 million project (Cristal City) is planned on the eastern coast of the Dead Sea and is likely to feature a 600-room hotel, a conference centre and other leisure facilities. The development is due to be completed by 2008.

Visitation and the Hotel Market

- Overall, the country experienced a slight decline of 3% in visitation throughout in 2003, due mainly to the impact of the war in Iraq on European leisure visitation. On the other hand, intra-regional visitation continued to grow, and Jordan experienced increased levels of visitation due to the pre- and post-war activity;
- Despite the additions to supply in mid to late 2002, occupancy at quality hotels in Amman was 49%, an increase of four percentage points on

Table 11 Proposed Hotels – Jordan

Hotel Name	Number of Rooms	Opening Date	Location	Status
InterContinental Hotel	450	2005	Aqaba	Redevelopment
Marriott Aqaba	300	2005	Aqaba	Under Construction
Lagoon Project Hotels	750	2008	Aqaba	Early Development
Proposed Hotels	500	2008	Aqaba	Early Development
Kempinski	250	2005	Amman	Under Construction
Dead Sea Spa ¹	26	2005	Dead Sea	Under Construction
Holiday Inn	420	2006	Dead Sea	Early Construction
Five-Star Hotel	250	2008	Dead Sea	Rumoured
Cristal City	600	2008	Dead Sea	Planned
Sun Days Hotel	80	N/A	Dead Sea	Under Construction

¹ Extension

Source: HVS International Research

2002. This increase was driven mainly by increased war-related and GCC visitation throughout the year. Average rate increased to US\$71, a 10% rise on 2002. Consequently, the resultant RevPAR averaged US\$35, compared to US\$29 in 2002, a healthy 20% increase;

- There has been no increase in the supply in the market in 2003 (the Four Seasons and Le Royal hotels opened in mid to late 2002);
- Proposed and rumoured supply in the country is illustrated in Table 11.

Outlook and Opportunities

- We expect that hotel operating performances in Amman will remain stable in 2004;
- Overall the country has great potential to develop its tourism industry, but this is highly vulnerable to regional instability, the availability of public capital and, most notably, the Israeli/Palestinian conflict.

KUWAIT

Economics and Politics

- The war in Iraq had a positive impact on both the country's political stability and its economic wealth;
- According to the EIU, Kuwait

experienced a strong GDP growth of 4.6% in 2003, driven mainly by the positive economic impact of the war in Iraq;

- In 2003, Kuwait also experienced strong levels of economic activity in its non-oil sectors. As the regional political unrest caused by the war is overcome, the country is likely to benefit from increased levels of foreign investment, leading to some organic growth in the economy.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- The government recently offered a ten-year tax exemption to foreign investors in an attempt to stimulate international investment. In addition, Kuwait's parliament recently agreed to let foreign banks enter its banking industry;
- Currently, an action plan for the tourism industry is being drafted and its implementation is likely to take place from 2005 or 2006. A special council for tourism has been formed and, for the first time since the 1990s, the government appears to be committed to improving the sector;
- A new terminal is likely to be developed at Kuwait International

Airport that will allow a total of 5 million passengers a year. At the time of writing (July 2004), this project is currently awaiting final approval from the Kuwaiti cabinet;

- The development of a tourism project on Bubiyan Island is planned to include hotels, chalets and recreational facilities;
- The development of a port on Bubiyan Island is also being considered; it would help serve business opportunities in Iraq.

Visitation and the Hotel Market

- In 2003, the country experienced 'extraordinary' growth in visitation, driven (induced) mainly by the war in Iraq. The war-related induced demand can be divided into four segments: military related; press/journalists; Iraq – or conflict-related – conferences; and corporate visitation exploring business opportunities in Iraq, using Kuwait as a gateway;

Proposed Kuwait Rotana Hotel



- Occupancy at quality hotels in Kuwait City soared to approximately 85% in 2003, a growth of 32 percentage points or up by 60% on 2002 levels. Buoyant occupancy, combined with a solidly strong average rate of approximately US\$185, resulted in RevPAR of US\$157, a rise of approximately 65% on 2002. For the first time ever, the Kuwait market outperformed all other markets in the region;
- Newly opened supply in the market includes a 305-room Courtyard by Marriott, a 100-room Four Points (annexed to the existing Sheraton Hotel) and a 30-room St Regis (the first in the Middle East) hotel, also as part of the Sheraton;
- Proposed and rumoured supply in the country is illustrated in Table 1.

Outlook and Opportunities

- A considerable proportion of the war-related induced demand is likely to be sustained in 2004, although it should decline significantly from 2005 onwards. A small proportion of this demand (notably corporate demand) is likely to be sustainable in the longer term. We nevertheless expect a considerable drop in hotel operating performances in 2004;

Table 12 Proposed Hotels – Kuwait

Hotel Name	Number of Rooms	Opening Date	Location	Status
Le Meridien – Art and Tech	70	2005	Kuwait City	Under Construction
Holiday Inn Salmiyye	155	2005	Kuwait City	Under Construction
Kuwait Rotana Hotel	190	2006	Kuwait City	Early Construction
Marina Hotel	100	2006	Kuwait City	Under Construction
Cerruti Hotel	350	2006	Kuwait City	Under Construction

Source: HVS International Research

- As Kuwait experiences a more stable political environment, we expect that the hotel market will grow organically at moderate levels from 2005 onwards;
- Due to the conservative culture of the country, and the lack of cultural resources and attractions, Kuwait can only really attract intra-regional family tourism, as well as 'shopping and family'-related tourism;
- Investors should be cautious about further hotel development in Kuwait. The anticipated effects of new supply, combined with the uncertain stability of the strong average rate performance and the expected receding levels of visitation in the aftermath of the war in Iraq, represent the major components of the additional investment risk;
- We, nevertheless, consider that opportunities exist for the development of branded limited-service hotels in the city.

LEBANON

Economics and Politics

- According to the EIU, Lebanon recorded GDP growth of 2.0% in 2003, compared to 0.9% in 2002. The country's exports were negatively affected by the US-led war in Iraq, and this impeded a more aggressive GDP growth;
- The government was able to avoid debt default and financial meltdown thanks to the Paris 2 donor conference held in late 2002, which provided long-term loans and enabled lower interest rates to be maintained;
- Overall, economic activity remains

relatively low due to internal political instability. The presidential elections, which will take place in late 2004, are likely to delay any major decisions and thus more significant growth.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- Beirut City Centre Beautification Project – aims to renovate more than 200 buildings across Beirut, reflecting its traditional and attractive lifestyle;
- Beirut Street Drainage Project – a four-year plan to improve Greater Beirut's road drainage infrastructure. Major roads and pavements will be repaved, streetlights will be installed and thousands of trees will be planted;
- A new joint Lebanese-Jordanian council was formed in an attempt to boost tourism and economic co-operation between the two countries;
- A group of Lebanese and Saudi investors plans to develop a US\$1.4 billion tourism complex in Mount Sannine (Sannine Zenith Project), north-east of Beirut. The complex will include three villages (an international sports village, an eco-farm village and a lake view village), a ski resort, two 18-hole golf courses, and other entertainment facilities. Plans exist to develop three to five hotels within the development. This in turn is likely to impact positively the levels of leisure tourism to the country, and could potentially have a positive impact on the seasonality patterns of visitation;

Proposed Four Seasons, Beirut



- Al Habtoor Group is expanding the Metropolitan Palace Hotel to form part of Metropolitan City, which will feature a souk, restaurants, and a 1,200-seat amphitheatre.

Visitation and the Hotel Market

- In 2003, and for the first time since the outbreak of the civil war in 1976, the total number of international visitors to Lebanon surpassed the 1 million mark, a 7% increase on 2002. This growth was driven mainly by the increased level of intra-regional visitation during the summer season (20% growth on 2002);
- Mount Lebanon (Aley and Bhamdoun) continues to regain popularity with Kuwaiti and Saudi visitors during the summer season, with many hotels experiencing occupancy levels of approximately 95% from mid-June to September;
- Despite the considerable increase in supply in late 2002 and early 2003, aggregate occupancy levels for quality hotels in Beirut remained stable, at 57%. Average rate for quality hotels in the market experienced a slight decline, to approximately US\$107. RevPAR of US\$61 was down 2% on 2002;
- New supply in the market includes the 250-room Le Royal hotel in Dbaye, which is a member of the Leading Hotels of the World consortium, the 145-room Safir Heliopolitan hotel, and a 33-suite extension to the Phoenicia InterContinental;
- Proposed and rumoured supply in the country is illustrated in Table 13.

Table 13 Proposed Hotels – Lebanon

Hotel Name	Number of Rooms	Opening Date	Location	Status
Hazmieh Rotana	150	2004	Beirut Suburbs	Soft Opening
Four Points	135	2005	Verdun	Under Construction
Four Seasons	230	2006	Solidere	Under Construction
Gefinor Rotana ¹	36	2006	Beirut Central	Early Construction
Raouche Rotana Suites	170	2006	Beirut Central	Early Construction
Metropolitan Hotel ²	150	2006	Beirut Suburb	Under Construction
Philippe Stark designed Hotel	100	2007	Solidere	Approved
Grand Hyatt	300	2007	Solidere	Approved
Holiday Inn Former	300	2008	Minit el Hosn	Confirmed
Four-Star Hotel	300	2008	Solidere	Confirmed
Four-Star Hotel	250	2008	Raouche	Rumoured
Ritz-Carlton	90	2009	Solidere	Awaiting Approval
Hilton Beirut	250	2009	Beirut Central	Confirmed

¹ Extension

² Extension of the existing hotel with 150 apartments; it will feature a park and the largest ballroom in Lebanon

Source: HVS International Research

Outlook and Opportunities

- Assuming intra-regional visitation remains sustainable, Lebanon is likely to benefit from further growth in visitor numbers;
- The country is increasingly (and successfully) positioning itself as an up-market leisure destination for most GCC markets;
- The seasonality of demand remains one of the major hurdles regarding hotel operating performance and profitability. A major (public, private, or joint) plan needs to be implemented to reduce the effect of seasonality on the industry and private hotel investors;
- The government needs to capitalise on its demographic and natural resources in order to overcome tough competition from neighbouring, wealthier countries. A public tourism strategy should be established to help attract European visitation and sustain growth. Opportunities also exist for attracting the cruise market to the country;
- New supply in the market is likely to induce a considerable level of demand, notably in the Meeting and Conference, Leisure, and FIT segments. Yet, as new supply enters the market, the operating performance of quality hotels is likely to experience some pressure until demand levels have caught up;
- Hotel developments continue to be concentrated in Beirut with little or no branded hotel development in the suburbs or on the coastline. Investment opportunities exist for the development of also branded limited-service hotels and timeshare properties;
- We expect hotel operating performance to receive a boost in 2004 in terms of both occupancy and average room rate.

OMAN

Economics and Politics

- According to the EIU, the country experienced a further contraction in its economic activities in 2003, registering GDP growth of 1.1%, compared to 2.2% in 2002. This was driven largely by technical problems within the oil sector, which led to a drop in export volumes for a second successive year;
- The country will continue to exploit its Liquefied Natural Gas (LNG) resources. If the increased oil prices do not offset any potential decline in output, this will further impede growth in 2004 and 2005, which will have some effect on government expenditure on non-oil industries, notably tourism;
- The probable downturn comes after several years of strong oil earnings, which allowed the government to increase its reserves, and thus better withstand the fall in oil earnings over the near term. This, however, stimulates

Table 14 Proposed Hotels – Oman

Hotel Name	Number of Rooms	Opening Date	Location	Status
Bar al Jissah Resort – Shangri-La	714	2006	Muscat Suburbs	Under Construction
Hilton	300	2006	Muscat	Rumoured
Al Sawadi Tourism Project ¹	1,000+	2006	Al Sawadi	Under Construction
Mirbat Tourism Resort	200	n/a	Southern Oman	Under Construction

¹ Features six hotels

Source: HVS International Research

the urgency for the economic reform programme (Omanisation, economic diversification, and the expansion of the private sector);

- Ties between the sultanate and the USA have been unaffected by the US-led war in Iraq. However, the war has led to some domestic unrest.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- The government is increasingly committed to growing the tourism industry and plans to have spent US\$100 million by the end of 2005 on promoting tourism. Representative offices are being set up in the UK, France and Germany to promote the sultanate's tourist attractions;
- A new terminal is due to be constructed at Oman International Airport by 2006;
- The infrastructure development has started on a network of caves at Al Hota aimed at transforming these natural resources into a major tourist attraction. This project is due for completion by 2006;
- Plans exist for the development of eight adventure trails stretching from Muscat to the interior, including Jebel Shams and Jebel Akhtar to the south;
- The development of an US\$800 million resort (Seeb seafront project – 'the Wave') is planned on reclaimed land; it will stretch along 7.3 km of unspoiled beachfront, west of Muscat. The development will include three hotels, a golf course, a marina with a yacht club, luxurious villas and upscale apartments;

Wave Project, Oman



- Preliminary development work has begun on a US\$150 million tourist village, including two hotels, a recreation centre, a park and a diving centre, aimed at generating demand during the Khareef (monsoon) season;
- Other world class eco-tourism projects are being developed in Salalah and on the eastern coast, capitalising on the ecological resources in the country. Some of these projects include Ras Al Hadd, located 300 km east of the capital, and featuring the development of a nearby airport.

Visitation and the Hotel Market

- The slight growth in demand for hotel accommodation that was noticeable in the second half of 2003 could not offset the decline in transient demand in the first two quarters that was attributable to the effect of the war in Iraq;
- Occupancy at quality hotels in Muscat experienced a decline of two percentage points in 2003, to 57%, a fall which was attributable in part to the opening of the new 161-room Chedi, the Middle East's first design-led "boutique/lifestyle" hotel. Average rates followed the trend and declined by 5% on 2002, to US\$71. This resulted in RevPAR of US\$40 compared to US\$44 in 2002;
- It is rumoured that some hotel owners are considering forming a cartel for the market (as is the case in Kuwait) in order to maintain higher average room rates;
- Other new hotel supply in the area includes the 60-room Khasab hotel;
- Proposed and rumoured supply in the country is illustrated in Table 14 above.

Outlook and Opportunities

- Due to the increased efforts by the government to improve the tourism industry, and the proposed tourism projects in the area, we consider that Oman is likely to experience some growth in leisure visitation (and potentially eco-tourism) in the near future;

- Currently, the country lacks a specifically positive or strong image and a tourism identity. A macro plan would help to position the country on the international tourism map;
- Should no political upheaval materialise in the region, then we expect growth in hotel operating performance in Muscat in 2004.

QATAR

Economics and Politics

- According to the EIU, Qatar experienced strong economic growth in 2003, driven mainly by the increased levels of gas exploitation and oil exports. GDP growth was an impressive 8.5% in 2003, compared to 4.6% in 2002. On the other hand, the debt burden remains one of the country's major economic challenges;
- Boasting the world's third-largest reserves of natural gas, Qatar continues to pursue its ambitious plans for the development of its gas reserves (mainly by exporting liquefied natural gas), which will help boost the economy over the next few years;
- The appointment of the new crown prince, Sheikh Tamim bin Hamad bin Khalifa al-Thani, has so far had no adverse effect on political stability in the country.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- The government plans to develop an economic free zone in Doha as part of its diversification programme; this in turn should boost the level of business activity in the area;

- A US\$5 billion project for upgrading Doha International Airport is planned, increasing its capacity from 3 million passengers per year to 6 million. This state-of-the-art airport will be partially operational by 2008 and will be fully completed by 2015;
- Construction of the North Beach project is due to start in 2005 and will include ten resort hotels, two golf courses, 3,000 villas, 12,000 apartments, a retail centre, and extensive commercial space;
- The Pearl Island project consists of an island of four square kilometres containing 7,600 residential units, three luxury hotels, four marinas, and other leisure and entertainment facilities. The development is due for completion in 2007;
- The 45,000 m² Museum of Islamic Arts will be developed on the edge of Doha Harbour, and will contain exhibitions, a study and library, galleries, gardens and a restaurant; it is due to be completed by 2007;

Qatar – Four Seasons, Doha



- A National Library is planned on Doha's Corniche; it is likely to open in 2006;
- A Photography Museum on Doha's Corniche will be developed by 2007

and will include 11,000 m² of photographic galleries, camera galleries, temporary galleries, workshops, a conference hall and restaurants;

- Al Fareej Resort, a family-oriented resort village with residential units, is planned for development in Al Khor. Construction is due to start in 2005;
- Reports suggest that the development of the 'friendly' bridge between Bahrain and Qatar is back on after being put on hold for a while. It is suggested that this crucial infrastructure development is due for completion by 2008;
- Plans exist to press ahead with various local infrastructure projects in 2004 and 2005, including a US\$275 million road improvement project;
- The 2006 Doha Asian Games will be a flagship event for Qatar. The event is likely to attract up to 20,000 athletes and a considerable number of spectators and press, providing the country with a unique opportunity to market itself to Asian and international markets. Qatar is investing US\$700 million in an Olympic-standard sports city, and is expected to spend anywhere between US\$1 billion and US\$1.8 billion on preparations for the event;
- The government plans to position the country as a major meeting and incentive destination, and the Qatar Tourism Authority is currently developing this sector. Doha was recently host to the World Travel and Tourism Council Summit, at which many seemingly ambitious – but by no means unachievable – projects were showcased;
- A major global campaign (rumoured to cost around US\$2.7 billion) is being implemented to promote and develop the country as a tourist destination;
- Plans are in place that will allow international investors to acquire a full equity interest in various industries in the country such as health, education, tourism and agriculture.

Table 15 Proposed Hotels – Qatar

Hotel Name	Number of Rooms	Opening Date	Location	Status
Four Seasons	235	2005	Doha	Under Construction
Doha Rotana Hotel	365	2006	Doha	Under Construction
Pearl Island Hotels ²	900+	2006	Doha	Planned
Renaissance ¹	250	2007	Doha	Under Construction
Courtyard by Marriott ¹	200	2007	Doha	Under Construction
Marriott Executive Apartments ¹	120	2007	Doha	Under Construction
Shangri-La	250	2007	Doha	Under Construction
Five-Star Hotel	300	2007	Doha	Planned
North Beach development ³	1,000	2008	Doha	Planned
Hilton	320	2008	Doha	Under Construction

¹ All three hotels form part of one development

² Three hotels

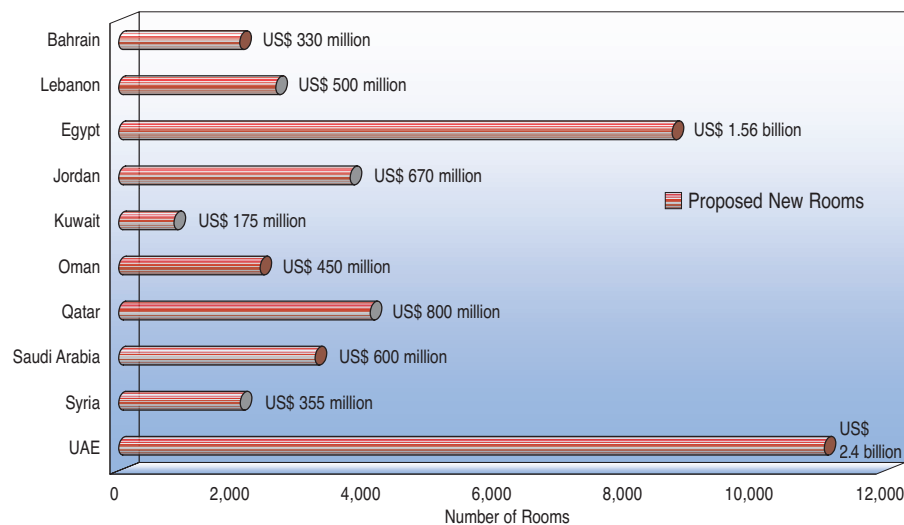
³ Rumoured to have ten hotel properties

Source: HVS International Research

Visitation and the Hotel Market

- Demand for hotel accommodation in Doha experienced strong growth during 2003. This was attributable in part to the US-led war in Iraq, which induced a considerable level of military and media-related demand into the market;
- Occupancy at quality hotels in Doha experienced impressive growth of ten percentage points, to 70% in 2003. Average rate declined by 4% on 2002, to US\$96. This was attributable in part to the inclusion of the Grand Mercure Palace in our survey. The resultant RevPAR was US\$67, compared to US\$60 in 2002;

Table 16 Hotel Supply by Country – Number of Rooms and Estimated Capital Employed



Source: HVS International Research

- Proposed and rumoured supply in the country is illustrated in Table 15.

Outlook and Opportunities

- Qatar does not have the major natural resources needed to attract significant quantities of leisure visitation. However, we consider that the government's aggressive plans and dedication, infrastructure developments and the various tourism projects within the country are likely to fuel demand for hotel accommodation in the near future;
- Care must be taken when positioning the country on the tourism map. It would be beneficial if Qatar were to differentiate itself from other destinations such as Dubai, given the

similar core attributes of each destination;

- We consider that opportunities exist for hotel development and acquisition in the market. Investment opportunities remain in branded limited-service hotels, serviced apartments and timeshare (for speculative investors).

SAUDI ARABIA

Economics and Politics

- According to the EIU, Saudi Arabia experienced strong economic growth during 2003, driven mainly by increased oil revenue;
- The country remains committed to

diversifying its economy away from its heavy dependence on oil; various programmes of reform are planned;

- Internally, the country might face some social and political pressure. Externally, its relations with the USA are currently unclear;
- Recent terrorist attacks on the country have had a negative impact on perceptions of the country's safety.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- As part of its economic diversification programme Saudi Arabia is increasingly capitalising on religious tourism. In mid-2003 the government relaxed its rules governing religious tourism to allow pilgrim visas to be issued for seven-and-a-half months of the year;
- The country is increasingly aiming to attract internal tourism as a first step in its tourism strategy. However, there has been no major public effort to implement this strategy;
- The Supreme Commission for Tourism is working towards removing the obstacles facing foreign tourists wanting to visit Saudi Arabia. A major tourism plan is currently being drafted;
- A tourist complex on the Red Sea coast is planned for development near Jeddah, western Saudi Arabia, which aims to attract individuals and families on low incomes;
- A number of tourism projects are planned within the region, specifically in Mecca, Madinah, Yanbu and Al Khobar. Some of the major projects include a proposed 5,000-room hotel and timeshare complex in Mecca.

Table 17 Proposed Hotels – Saudi Arabia

Hotel Name	Number of Rooms	Opening Date	Location	Status
Mövenpick	210	2004	Jeddah	Soft Opening
Le Meridien Medina	189	2004	Medina	Soft Opening
Le Meridien Al Hada	111	2004	Taif	Soft Opening
Le Meridien Makkah	231	2004	Makkah	Under Construction
Mercure Makkah	120	2005	Makkah	Under Construction
Mercure Jeddah	88	2005	Jeddah	Under Construction
Park Hyatt	150	2006	Jeddah	Under Construction
Novotel Riyadh	206	2007	Riyadh	Under Construction
Sofitel	220	2007	Al Khobar	Under Construction
Twin Tower Hotel	n/a	2007	Jeddah	Under Construction
King Faisal Hospital Hotel	150	2007	Riyadh	Planned
Five-Star Hotel	1250	2007	Mecca	Planned

Source: HVS International Research

Visitation and the Hotel Market

- Visitation to Saudi Arabia continues to be dominated by corporate and religious tourism. Due to the conservative culture of the country, it is unlikely that Saudi Arabia will attract any considerable level of international leisure tourism in the near future;
- Occupancy at quality hotels in Riyadh declined slightly from 65% in 2002 to 64% in 2003. Average rate in the market followed a similar trend, registering US\$105, compared to US\$107 in 2002. This resulted in a 4% decline in RevPAR on 2002, to US\$67;
- In 2003, quality hotels in Jeddah experienced an increase in occupancy of one percentage point, to 60%. Average rate in the market remained stable at US\$104;

Table 18 Proposed Hotels – Syria

Hotel Name	Number of Rooms	Opening Date	Location	Status
Rotana Suites	110	2004	Damascus	Under Construction
Four Seasons	297	2005	Damascus	Under Construction
Hilton	120	2005	Damascus	Rumoured
Afamia Tourist Resort Hotel	290	2005	Latakia	Early Development
Sheraton	230	2005	Aleppo	Early Development
Sheraton Sednaya	107	2005	Sednaya	Under Construction
Proposed Hotel	250	2006	Damascus	Rumoured
Proposed Five-Star Hotel	200	2007	Tartous	Planned
Proposed Four-Star Hotel	300	2007	Tartous	Planned

Source: HVS International Research

- Proposed and rumoured supply in the country is illustrated in Table 17.

Outlook and Opportunities

- The government needs to invest heavily in the tourism industry in order to successfully compete with other destinations in the region, even in terms of internal tourism. However, the country is unlikely to attract leisure tourism in the foreseeable future;
- Saudi Arabia is losing out on the foreign and domestic investment front because of its relatively poor regulatory environment in comparison to its Gulf Cooperation Council (GCC) neighbours.

SYRIA

Economics and Politics

- According to the EIU, 2003 was not a good year for Syria, with GDP growth registering only 0.9%. The economic slowdown was attributable mainly to weak domestic demand and the loss of banned Iraqi oil and other economic trade with Iraq;
- The government's political and economic reform programmes were inconsistent and the relationship with the USA is worsening. This might result in US economic sanctions, which will in turn have a negative impact on Syria's economic wealth;
- Economic growth is likely to pick up in 2004 and 2005, due to a decline in interest rates and the strong revenues expected from the agricultural industry.

Developments and Initiatives

Some of the private and public projects in the country include the following.

- As part of the economic reform programme, foreign banks will be able to operate in the country from 2004, potentially allowing a better

flow and availability of capital within the country;

- A US\$280 million purpose-built tourist resort is being developed in Tartous (Antaradus development). The resort stretches for 1.5 km along the sea wall on the Corniche, and is due to be completed in 2008;
- Despite the latest political problems, the government remains committed to boosting the tourism industry.

Visitation and the Hotel Market

- The total number of visitors to Syria increased by 5% in 2003, compared to 2002;
- Demand for hotel accommodation in Damascus has experienced a decline in the first two quarters of 2004 (due mainly to the war in Iraq and a slight recovery in the last two quarters of 2003). Occupancy at quality hotels in the market was 65% compared to 67% in 2002. On the other hand, average room rate of US\$98 was up 5% on 2002. The resultant RevPAR increased by 1%, to US\$64;
- Proposed and rumoured supply in the region is illustrated in Table 18.

Outlook and Opportunities

- The regional and international political situation will have a major role in determining the country's economic wealth and growth;

Antaradus development, Tartous



- Syria benefits from attractive natural and cultural resources, which, if capitalised on, would considerably boost the tourism industry in the country;
- Various speculative hotel investments could potentially be considered within the country, and more specifically on its 'unexploited' Mediterranean coast.

UNITED ARAB EMIRATES

Economics and Politics

Readers will note that most of our research and analysis has been focused on the emirate of Dubai. This is because of the enormous prominence of Dubai within the UAE hotel markets.

- Despite the government's substantial efforts to diversify the economy, oil revenues remain the major economic driver of GDP in the United Arab Emirates, accounting for roughly one third;
- The country continues to lead the region in terms of economic reform and diversification, with Dubai at the forefront of most economic activity;
- In recent years, significant investment and efforts by the government have been made towards improving Dubai's infrastructure, commerce and tourism. The government's proactive approach continues and aggressive plans and investments aimed at transforming the emirate into the business and leisure hub of the Middle East continue to be implemented. Impressive infrastructure, commercial and leisure projects are being undertaken.

Developments and Initiatives

Some of the major private and public projects in the area include the following.

- Airport expansion in Dubai is under development and aims to increase the airport's capacity to 70 million passengers per year by 2006 (currently million);
- The government of Dubai is planning to develop a public railway system, which is likely to include two rail lines in the emirate of Dubai. It is planned that the main stations will be located near the Municipality and Al Nahda roundabout. The development is scheduled for completion in 2006;
- A third bridge (2005) over Dubai Creek is expected to reduce traffic congestion and will include a corridor road leading from the Dubai World Trade Centre to Dubai International Airport;
- Dubai International Financial Centre: this is a global jurisdiction of choice for financial institutions and brings world class regulatory processes and

market mechanisms to the region. The centre lies in close proximity to the WTC and is expected to be completed in 2005;

Proposed InterContinental, Dubai Festival City



- Palm Island: this project includes two of the world's largest man-made islands, to be built off the Jumeirah and Jebel Ali coasts, adding 120 km of coastline and two new communities. The first island is currently under construction and is scheduled for completion in 2005;
- Dubai will build one of the most innovative and exclusive residential developments ever – 'The World'. The construction of this project started in early 2004 and will be completed by 2008. The project consists of a group of 200 man-made islands built to form the shape of the world. It is located two kilometres inside the Arabian Gulf, facing Burj Al Arab;
- Dubai Land: this project is one of the biggest tourism projects in the region, with an estimated investment of approximately US\$5 billion. The project will be located inland along Emirates Road facing Palm Island. Dubai Land will be built over an area of 2 billion ft² and will include an Adventure World, a Sports World, an Eco Tourism World, a Shopping World (including the largest shopping mall in the world), a Family City World, a Kids' World, and many others;
- International City (2006): features the development of another 'city within a city' on the north side of Dubai on 800 hectares of land. It has six components: the central district, Dubai gates, the Dragon Mart, the residential district, the lakes district, and the forbidden city;
- Dubai Health Care City (2010): this US\$500 million development is aimed at transforming Dubai into a global hub for specialised healthcare and a centre for medical education and research;
- Dubai Maritime City: the world's largest maritime development, which consists of 25 million ft² of man-made peninsula providing world class maritime services and catering to maritime industries. The project is due for completion in 2006;

- Dubai Pearl Development: will feature an upscale township between the Dubai Technology Free Zone and Palm Island. The development will feature three hotels, 2,000 residential units, a theatre and a 1,800-seat opera house (the largest in the region);
- Cargo Village expansion: this US\$2.2 million project is expected to increase cargo-handling capacity by almost 3 million tonnes by 2018. The development started in 1998 and is due for completion in 2010;
- Dubai Festival City: this is a multiphase project that will transform the creek waterfront in Al Garhoud into a world class destination for dining, shopping, family entertainment and conventions. The estimated cost of this project is around US\$1.6 billion;
- Dubai Marina: this is also expected to be a 'city within a city', accommodating more than 150,000 people. The mini city will be located in Jumeirah and the marina is likely to stretch from the Dubai International Marine Club to Sheikh Zayed Road. The project is due for completion in 2008;

Le Meridien, Al Aqqah Beach resort



- Madinat Jumeirah: will offer the ultimate Arabian experience and will be located adjacent to Burj Al Arab and the Jumeirah Beach Hotel. The 40-hectare development will feature two hotels and 340 villas in a traditional setting. In addition, the project will have a meeting and convention centre of over 9,000 m² with a 2,000 m² ballroom that will reflect the architecture of the region;
- Aqua Dubai: will feature the largest water resort in the Middle East encompassing 60 water-based leisure activities, and will be developed within the Dubai Land project. The Aqua Dubai project will also feature a resort, stunning water shows, an aquarium, a dolphinarium, a museum, and a submarine ride facility. The project is due for completion in 2006;
- Dubai Mall: the world's largest retail

development covering more than 5 million ft² and accommodating more than 1,000 shops. The development will be located between Sheikh Zayed Road and Doha Road and is due for completion in 2006;

- Burj Dubai: the world's tallest tower, on Sheikh Zayed Road, and housing 612 luxury apartments, penthouses, shops, restaurants, leisure facilities and a hotel.

Visitation and the Hotel Market

- According to the Airport Authorities, the total number of arrivals in Dubai increased by 15% in 2003, compared to 2002, which was attributable mainly to increased awareness of the emirate as both a business hub and a leisure destination. In addition, the aggressive marketing expenditures on promoting the emirate contributed to this growth considerably;

Club House, Dubai Festival City



- Despite the war in Iraq, which resulted in a slight decline in demand for hotel accommodation during the first two quarters of 2003, the market experienced a strong recovery during the second half of the year. Occupancy at quality hotels in Dubai experienced a slight decline of two percentage points, to 74%. This fall was driven mainly by the additional supply in the market in 2002 and in 2003 (Shangri-La, Sheraton Jumeirah, Arabian Court, Grand Hyatt, Dusit), which was almost fully absorbed by the additional demand in the market. Occupancy at city centre hotels outperformed that at hotels located on Jumeirah Beach. Average rate in Dubai increased by approximately 5% in 2003, to US\$105. Consequently, RevPAR was US\$78, 2% higher than it was in 2002;
- Quality hotels in Abu Dhabi increased their occupancy from 68% in 2002 to 69% in 2003, whereas their average rate declined to US\$86, compared to US\$89 in 2002. The resultant RevPAR of US\$59 was down 3% on 2002;
- Proposed and rumoured supply in the region is illustrated in Table 19.

Table 19 Proposed Hotels – UAE

Hotel Name	Number of Rooms	Opening Date	Location	Status
Traders Hotel	250	2004	Dubai	Early Opening
Courtyard by Marriott ¹	164	2004	Dubai	Under Construction
Marriott Executive Apartments ¹	43	2004	Dubai	Under Construction
Le Meridien Fairway	58	2004	Dubai Creek	Takeover
Al Qasr	300	2005	Dubai – Jumeirah	Under Construction
Al Jaddaf Hotel	330	2005	Dubai	Under Construction
Metropolitan	342	2005	Dubai – Jumeirah	Under Construction
Al Murooj Rotana Hotel	400	2005	Dubai	Under Construction
Villa Rotana Suites	130	2005	Dubai	Under Construction
Kempinski – Mall of the Emirate	400	2005	Dubai	Under Construction
Le Meridien Grosvenor House	400	2005	Dubai Marina	Under Construction
Cerruti Hotel	137	2005	Dubai	Under Construction
Hydropolis Hotel	200	2006	Dubai – Jumeirah	Early Development
Mövenpick Pearl Dubai	450	2006	Dubai	Under Construction
Amwaj Rotana Hotel	350	2006	Dubai – Jumeirah	Under Construction
Hydropolis Hotel	250	2006	Dubai – Jumeirah	Early Construction
Park Hyatt	240	2006	Dubai	Under Construction
Rose Rotana Suites	526	2007	Dubai	Under Construction
Health resort	300	2008	Dubai – Palm	Site Development
Innpro development	300	2008	Dubai – Palm	Site Development
Radisson SAS Palm Island	350	2008	Dubai – Palm	Site Development
Hilton	200	2008	Dubai – Palm	Rumoured
Proposed Swiss Chain Hotel	200	2008	Dubai – Palm	Site Development
Metropolitan Hotel	250	2008	Dubai – Palm	Site Development
Atlantis	1,500	2008	Dubai – Palm	Site Development
Tui Hotel	250	2008	Dubai – Palm	Site Development
Fairmont ²	760	2008	Dubai – Plam	Site Development
Other Hotel – Palm Trunk	600	2008	Dubai – Plam	Site Development
Other Hotels – Palm Crescent	1,000	2008	Dubai – Plam	Site Development
Al Seef Resort and Spa	200	2008	Dubai – Palm	Site Development
Proposed Luxury Hotel	400	2008	Dubai – Palm	Site Development
Al Fardan Hotel	200	2008	Dubai – Palm	Site Development
Armani Hotel	250	2008	Dubai	Approved
InterContinental – DFC	450	2008	Dubai	Early Construction
Luxury Hotel(s) – DFC	250	2008	Dubai	Early Construction
Forex Rotana Suites	450	2008	Dubai	Early Construction
Oberoi Jumeirah	n/a	n/a	Dubai	Rumoured
Kempinski	390	2005	Abu Dhabi	Under Construction
Fairmont	265	2007	Abu Dhabi	Under Construction
Other Proposed Hotels	900	n/a	Abu Dhabi	Planned
Fujeirah Rotana Resort	180	2006	Fujeirah	Under Construction

¹ Same Location

² Includes 460 vacation club units

Source: HVS International Research

Outlook and Opportunities

- Dubai continues to amaze most analysts with its supply-led market dynamics, which are driven mostly by the government's aggressive efforts, investment and heavy promotion. Dubai is often referred to as the "Las

Vegas" of the Middle East; not for any correlation with gambling but for the sheer scale of the imagination required to turn the desert into gold, and to demonstrate how supply-led tourism can be successfully accomplished;

- We expect Dubai to continue

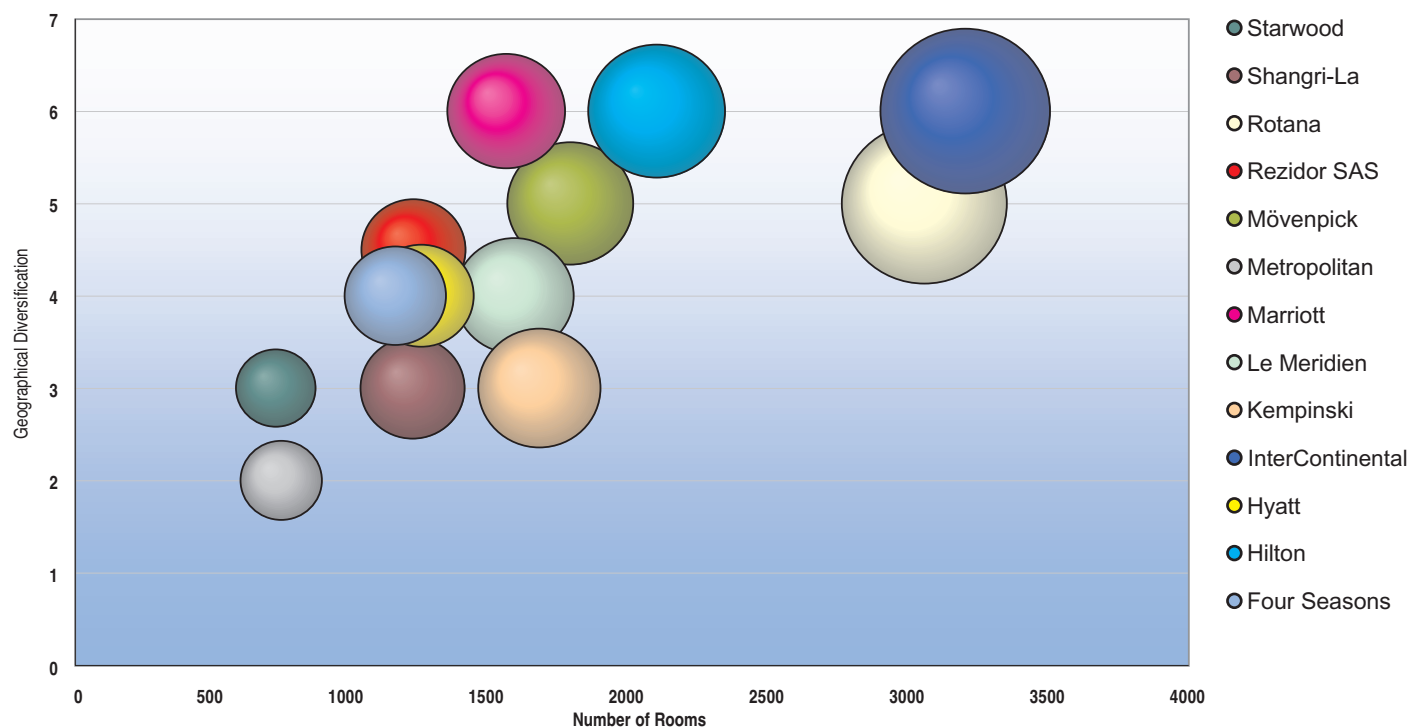
experiencing aggressive growth rates in its tourism industry, fuelled mainly by the impressive commitment to boosting the economy, as well as the magnitude and imagination of the projects and investments in the emirate;

- It is our opinion that the new hotel supply entering the market will be largely absorbed by additional induced demand, assuming an increased level of public spending on promoting the country;
- We consider that investment opportunities exist for the development and acquisition of branded limited-service hotels and serviced apartments, timeshare units and fractional ownership units within the area;
- Dubai is likely to be the first destination in the region to experience international investment in hotel real estate.

Hotel Development and Investment

- Hotel investment continues to be geared towards full service hotel properties. A number of timeshare and fractional developments (most upscale) led by Dubai are also starting to emerge;
- InterContinental Hotels Group recently granted a master franchise to a Middle East hotel investment fund to develop and manage a considerable number of Express by Holiday Inn properties throughout the region. We consider that such developments will potentially represent lucrative investment opportunities;
- We have identified approximately 125 proposed hotels that are likely to enter the market throughout the region in the next five years. These properties represent around 38,000 additional rooms. We estimate that the capital investment in these hotel real estate projects totals approximately US\$7.3 billion;
- More than half of these hotel developments are concentrated in two markets: Dubai and Egypt. We recommend investors be cautious about any investment in new developments in Heliopolis and Hurgada over the next few years. On the other hand, we expect that the additional supply in Dubai should be successfully absorbed by additional demand mostly driven by public spending and investments;
- InterContinental Hotels Group continues to lead branded hotel development in the region. Yet, as forecast in previous HVS reports, local and regional operators are growing aggressively within the region. We note that Rotana Hotels is set to aggressively grow its portfolio

Table 20 Proposed Hotels by Brand/Operator – Number of rooms

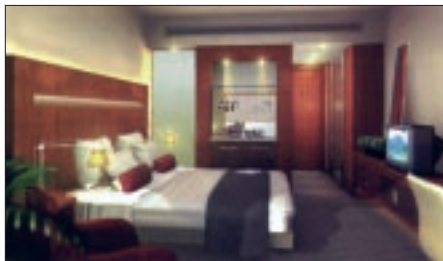


Note: The vertical axis shows the geographical diversification of the proposed supply – the higher the scale, the more diversified geographically (i.e. number of markets where there will be a presence)
 The horizontal axis shows the proposed number of rooms
 The width of the spheres shows the market share per brand

Source: HVS International Research

over the next few years by around 3,000 rooms;

First Ibis room in the ME in Dubai



- 2003 was a relatively 'slow' year for Jumeirah International's developments; yet, we understand that the company has been establishing its growth strategy during the year, and this will be extensively implemented over the next few years;
- Asian and American operators are increasingly committing themselves to entering Middle Eastern markets and some of these brands are willing to take an equity stake in hotel properties in the region. This will probably enhance the development growth of such operators (Taj, Raffles, Ascott, Fairmont, and so forth);
- Due to the impressive level of real estate developments in some GCC countries, development costs are moving upwards, which could

negatively impact the capital employed in a hotel development (and consequently the returns). This trend will lead hotel investors to either accept the incremental costs, hoping for a good operating performance and capital appreciation, or, alternatively, opt for acquisition instead of development. We anticipate an increased level of hotels changing hands over the next few years.

Future Trends and Opportunities

- A unified tourism strategy for the whole region, or at least the GCC countries, should be beneficial to all countries involved, as it would avoid intra-regional competition and improve the region's attractiveness;
- Given the tourism potential of each country within the region, and the major infrastructure, commercial and leisure projects and availability of capital, we expect the Middle East to continue experiencing strong growth in tourism in the future (assuming no major political upheaval);
- Due to the increased competitive environment within the region, we also anticipate an increased level of hotel rebranding or re-flagging in the region over the next few years;
- As the new financial hubs and institutions (in Dubai and Bahrain) come on stream and start operating, the

availability of capital to institutions and individual investors should improve. We consider that this is likely to stimulate the amount of hotel development and acquisition (either single asset or portfolio). Furthermore, we consider that this will positively impact the liquidity of the hotel real estate market in the region and, increasingly, attract regional and international hotel real estate investors;

- We foresee an increased level of hotel investment funds being developed in and for the region over the next five years;
- Opportunities exist for investing in mixed-use developments, branded serviced apartments, timeshare units and branded limited-service hotels within the region;
- Overall, we anticipate hotel operating performances to experience another good year in 2004, assuming no major political upheaval in the region.

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