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Excellence in Hospitality Consulting
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Marrakech – A city of cultural tourism

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HALFWAY THROUGH THE VISION 2010 PLAN TIME-FRAME – WHAT HAS BEEN ACHIEVED SO FAR AND WHAT OF THE FUTURE?

Morocco

As has been much documented already, Morocco has immense plans and ambitions to become a tourist destination to enable it to compete effectively alongside other Mediterranean countries such as Spain, Italy and Greece.

To briefly recap, the king of Morocco announced in January 2001 that tourism had been identified as a national priority; the government's 'Vision 2010' (or 'Plan Azur') strategy embodied this strategy. From the outset the key objectives of Vision 2010 were as follows.

- To increase tourist numbers to 10 million per annum by 2010;
- The development of six new coastal resorts;
- The construction of 80,000 new hotel bedrooms, with two-thirds to be in seaside destinations;
- 600,000 New jobs to be created in the hotel and tourism industry.

Alongside these objectives, which were essentially focused on the mass tourism sector, cities such as Marrakech and Casablanca also set out their own strategies to develop their share of the tourism market.

These plans were launched at a time when the world economy was continuing to grow; however, this situation very quickly changed in 2001. The global economic slowdown that began in the spring of 2001 and the events of 11 September 2001, together with subsequent terrorist attacks, including those in Casablanca on 16 May 2003, have hampered the progress of Morocco's vision.

However, major investments and projects are underway in various parts of the country and tourism is already the country's second-largest source of foreign currency, directly employing 600,000 people. The record 5.52 million tourists in 2004 (an increase of more than 16% on 2003) generated travel receipts of MAD34.1 billion (€3.1 billion) in 2004 (10% higher than 2003). The figure for visitor numbers, though, did include more than 2 million Moroccans living abroad who visited the country.

In terms of the source countries for visitors to Morocco, France generated the highest number of foreign visitor arrivals: 1.16 million in 2004. European tourists increased in total by 27% in 2004, with key countries being Spain (333,000), the UK (169,000), Germany (146,000), Italy (112,000) and Belgium (106,000). Year-to-date tourist numbers for 2005 are also up dramatically on 2004, with the first six months showing an increase of 8%; the total number of bednights increased by 19%. The

imperial city of Marrakech holds the first rank in terms of visitors, followed by Fez, Agadir, Ouarzazat and Casablanca.

In a series of three related articles, HVS International will present its own analysis of market trends in Morocco and opine on future potential for investors. The first of these articles follows this introduction, with the other two to be published at a later date.

Part 1: *Marrakech – A city of cultural tourism*

Part 2: *Casablanca and Rabat – The commercial and government cities of Morocco*

Part 3: *Agadir and the Plan Azur – The future of mass tourism in Morocco*

Introduction

Marrakech, a former French colony and a popular leisure tourism destination in the heart of Morocco, has ambitious plans to develop tourism: plans triggered by the national Vision 2010. Due to strong seasonality and recent increases in supply, most properties are achieving moderate occupancy and the leisure demand driven destination faces increasingly price-sensitive customers. The majority of the room supply is in local 'Riads' or other operations of the maison d'hôtes type, but international hotel groups are showing increasing interest in Marrakech. The local tourism strategy aims to benefit the national Vision 2010 and has a specific plan for tourism development in Marrakech that is expected to increase the room supply by approximately 7,000 by 2010. This further increase in room supply is expected to dilute demand in the short to medium term, although the planned open skies policy, if launched as planned, is foreseen as having a positive impact on both airport arrivals and bednights. In addition to traditional hotel supply, investors are increasingly looking for opportunities in the secondary home market through fractional ownership or timeshare developments. We discuss opportunities in these areas later in this article.



Marrakech

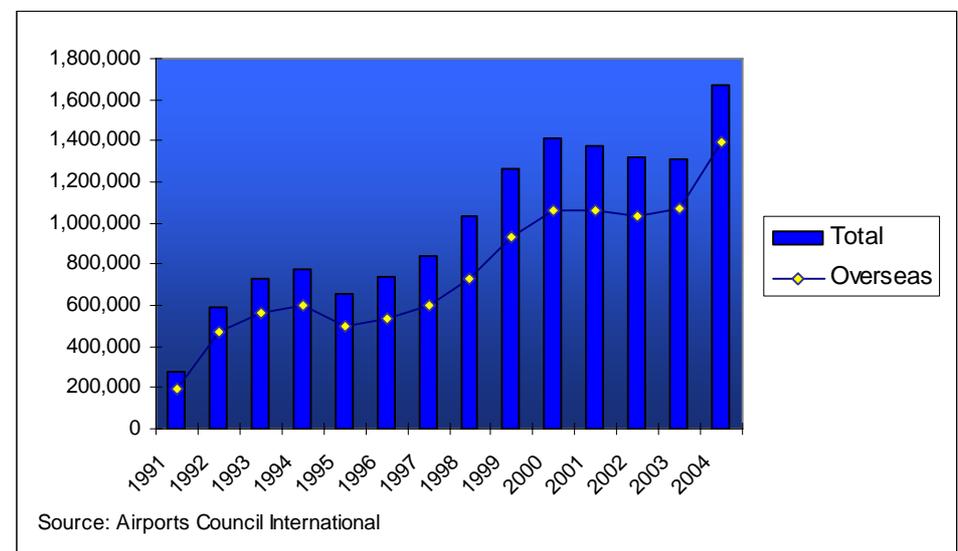
Marrakech is just north of the Atlas Mountains in central Morocco. The city is important because of its geographical location; it is the place where the north and south of the country meet, and a number of major highways intersect. It is the capital of the Marrakech-Tensift-El-Haouz region, has 840,000 inhabitants, is a former capital of the country and is one of four imperial cities in Morocco. Marrakech is a commercial and tourist centre and the main industries are agriculture and food processing, wool and leather goods such as carpets, and mining. Marrakech is a Berber city with some Arabian influences.

The vision of the Moroccan government is to have 10 million visitors by 2010 – currently the number stands at approximately 5 million – and it has developed ‘Plan Azur’ as a framework to achieve this. Part of this plan involves the development of six new tourist resorts – five on the Atlantic coast and one on the Mediterranean coast.

In Marrakech, Vision 2010 has led to the establishment of a project known as Aguedal, which is located to the south of the city on the edge of the urban perimeter bordered to the east by the road to Ourika, to the south by wasteland and to the west by the projected extension of France Avenue. The site is approximately one kilometre from the existing La Mamounia Hotel.

Tourism to Morocco increased year on year until 2001, when the events of 11 September had a significant effect on visitor numbers, especially as Morocco is a Muslim country. The figures for 2003 show that the war in Iraq and the bombings in Casablanca on 16 May 2003 in particular had a further effect on demand for accommodation in Marrakech. Demand picked up strongly in 2004, helped by new ‘no-frills’ direct flights by Atlas Blue from ten major European cities, including London, Amsterdam, Brussels, Geneva, Milan and Zürich.

Marrakech-Ménara Airport – Total Arrivals and Overseas Arrivals 1991-04



Marrakech-Ménara Airport is dominated by charter flights. Some 52% of the arrivals at the airport come from France. Currently, 19 airlines operate to and from Marrakech-Ménara Airport, with few direct flights to main European cities. Most international flights touch down at Casablanca.

Marrakech is predominantly a leisure destination, and it receives a large number of charter flights from various, mainly European, destinations

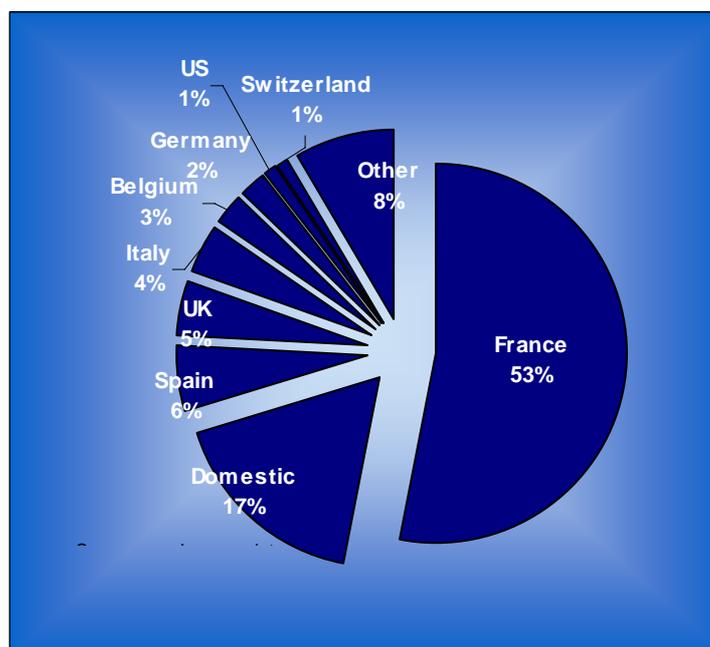
throughout the year, with the exception of the warmest summer months. The Casablanca bombings in 2003 affected leisure demand, although this demand is already starting to recover.

Morocco has been assigned a €240 million loan from the African Development Bank to finance part of the country's transport system. Part of the programme is the deregulation of air traffic, and this is expected to open the aviation sector up to more foreign and new domestic operators. The 'open sky' policy is expected to be in operation by 2008.

Hotel Market

Marrakech is a strong leisure destination, capturing both the long-weekend leisure traveller and the leisure traveller touring Morocco for one to two weeks who would typically start and finish in Marrakech. Marrakech benefits from being within approximately three to four hours' flying time of most European cities, where direct flights are available. The majority of the visitors still come from France

Hotel Arrivals by Nationality January-May 2005

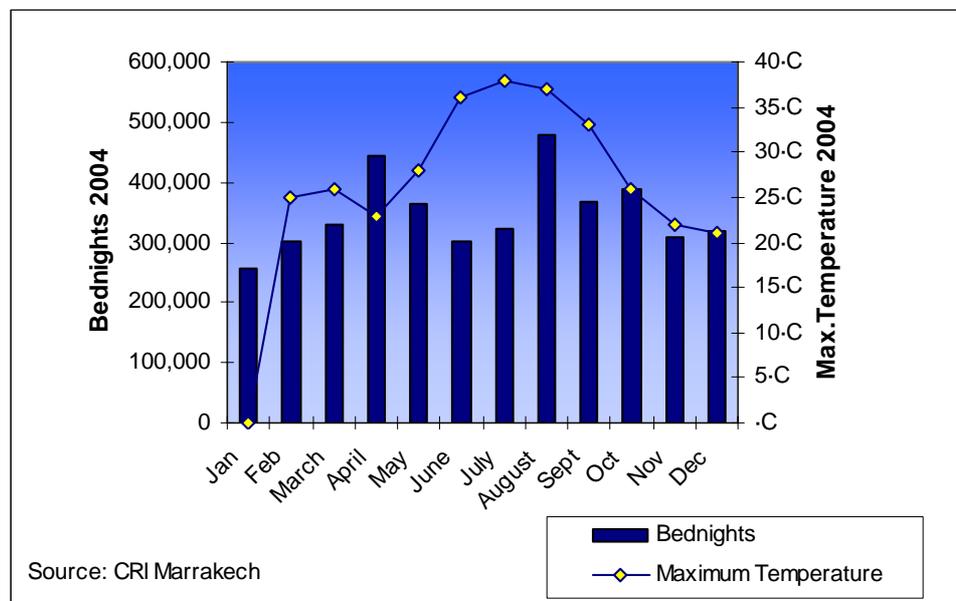


Leisure demand had been increasing year on year until 11 September 2001, and the first eight months of 2001 were stronger than the same period in 2000. Whilst Morocco was not as badly affected as Middle Eastern countries by the events of 11 September 2001, the strong growth experienced since 1996 was halted by the slowdown in the global economy and a decrease in travel following the peak in 2000. The bombings in Casablanca on 16 May 2003 had only a limited effect upon demand in 2003. However, we consider that leisure demand is likely to grow in the absence of any further incidents in Morocco or other major

terrorist attacks worldwide. A 28% increase in graded hotels was recorded over the first five months in 2005.

Marrakech experiences strong seasonality patterns resulting from the extremely high temperatures in the summer months and relatively low temperatures in winter. Historically, there has been a clear correlation between the high temperature and demand; a majority of the travel agents have not offered tours to Marrakech during the summer months. However, in recent years, hoteliers as well as travel agents have reported increased demand, particularly from countries in the Gulf, in periods that previously did not attract visitors – August and November – and most of the upscale travel agents now organise tours all year round.

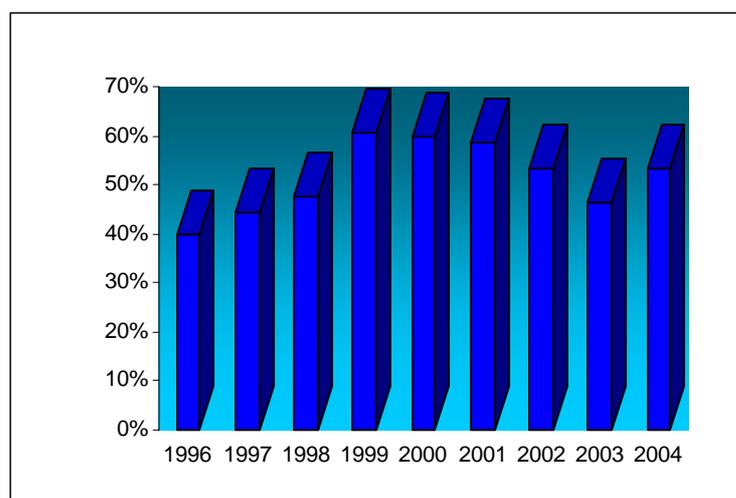
Marrakech – Seasonality of Bednights



Quality hotels in Marrakech tend to achieve annual occupancies of between 40% and 55%. The relatively low occupancies are explained by the strong seasonality and rapid increase in supply in recent years.

We understand that bednights reported for January to May 2005 showed a 31% increase year on year, continuing the positive trend experienced in 2004 when occupancy rose by seven percentage points on 2003.

Marrakech — Hotel Occupancy 1996-04



We understand that the tourism authorities and local hoteliers are investing in promotion focused on incentive meetings. They see growth potential, assuming the number of direct flights increases.

An impressive number of new hospitality projects are underway in Marrakech. Based on information from l'Association de l'industrie hôtelière (AIH) we understand that there are plans to open a total of 54 new hotel projects within the next three years. We understand that a number of these are still speculative, and we have therefore listed only those which we have been able to verify.

New Hotel Supply

Hotel	Standard	Rooms	Expected Opening date
Ryad Mogador Opéra	4-Star	244	2005
Riad Mogador Ménara	4-Star luxe	111	2005
Fram Agdal	4-Star	286	2005
Riad Mogador Agdal	5-Star	272	2006 *
Four Seasons	5-Star	140	2007
La Maison de Branitz	5-Star	134	2007 *
Green Palm Suisse	4-Star	220	2007 *
Capucines	4-Star	75	2007 *
Medina Vacance Club	4-Star	500	2008 *
Banyan Tree Hotels & Resorts	5-Star	95	2008
Ourika Resort	5-Star	—	2010

* Estimates

Source: HVS Research

Owing to strong seasonality in the market, Marrakech's hotels tend to achieve only moderate annual occupancy. Demand is driven by French

tour operators and, as a result, most hotels achieve low average rates. The top-end hotel supply is currently limited, but several new five-star properties are expected to enter the market within the next few years. If we assume that all of the proposed five-star properties shown in the table above materialise, then the upscale room supply will increase by 752 rooms. To achieve an annual average occupancy of 55%, demand for some 150,000 room nights over the year should be induced, which, assuming a length of stay of four nights and a double occupancy factor of 1.9, translates into a requirement of approximately 75,000 arrivals to fill the additional five-star room supply. This would mean that the exceptional growth recorded in airport arrivals in 2004 would have to continue at the same pace. If we take into consideration the additional four-star properties, the required demand would be approximately 207,000 room nights. It is questionable whether the expected introduction of the open-skies policy alone is enough to bring the growth required, although the Centre régional d'investissement (CRI) expects growth to continue at 15% over the next few years. Local residents have expressed their concerns about the insufficient support infrastructure and fear that Marrakech is transforming itself into a mass-tourism destination, thereby compromising the very nature of the area.

Residential Real Estate Market

Today, many hotel companies are looking for opportunities outside the traditional hotel market. Many are exploring either timeshare or fractional ownership schemes or applying their management skills to residential developments. The concept of timeshare and fractional ownership is discussed below.

Timeshare

Timeshare is a broad term used to describe the partial ownership of holiday accommodation. Each owner owns a certain period of time in the form of 'points' or 'intervals' that enables use of the property on a recurring annual basis for a fixed or variable period. A management company oversees the property for an annual fee paid by the timeshare owners.

Fractional Ownership

This type of pre-paid accommodation provides the original timeshare concept with a new model. It originated in major ski destinations in the USA where real estate was so expensive that it was not financially viable to purchase a second home. Fractional ownership offers a small number of buyers the opportunity to share ownership of a very luxurious property. Fractionals are purchased for longer periods of time, usually from one to three months, and cost between US\$150,000 and US\$500,000. The facilities, amenities and high-quality service need to justify the level of investment; for this reason, fractionals are kept exclusive and on a much smaller scale.

Marrakech has always been a popular tourist destination, and until recently only limited foreign investment in real estate had been made. But thanks to King Mohammed VI's modernisation programme, which has encouraged foreign investment, restrictions and bureaucracy have been overcome. Marrakech is becoming an increasingly popular destination for second-home buyers due to its favourable climate, location, history and still reasonably priced luxurious new or thoroughly refurbished real estate.

The Marrakech economy has been booming in recent years. This growth is closely linked to the recent rapid growth in the tourism and real estate sectors. Wealthy foreigners are increasingly keen on buying second homes or permanent residences. The potential buyers originate from Europe, the USA, the Gulf countries and China.

Our research among local real estate agents shows that house prices in Marrakech have increased twofold or even threefold in certain parts of the city over the past few years. The same trend has been noticeable even among council dwellings that are increasingly being sold as secondary homes to middle-class Moroccans from other cities. Sales prices have reached MAD6,000 (approximately US\$680) per m² in many parts of the city. King Mohammed VI last year launched a new initiative that aims to build 30,000 apartments and houses, creating accommodation for 165,000 people, by 2007. The investment is expected to exceed MAD7.8 billion (approximately US\$880 million).

The local authorities are worried about the lack of a support infrastructure; for example, there is only one hospital in Marrakech equipped for surgical procedures. Another danger is related to the insufficient airport capacity; at the time of this study, no confirmed plans exist to extend the existing facilities.

As a result of booming demand from foreign buyers, the construction of new residential homes and the refurbishment of old Riads is very active. From our interviews with local real estate agents, we found a number of upscale residential developments targeting foreign investors. These developments are concentrated in the area assigned for the Plan Azur and on La Palmeraie, north of Marrakech.

New Supply – Residential

Development	Villas	Villa Sizes	Expected Opening date
Domaine D'Abraj	19 Villas	200-260m ²	2006
Les Parcs d'Agdal	138 Apartments and 18 Villas	from 350m ²	2006
L'Eden Palm	100 Riads	120-500m ²	First 40 Riads completed by 2005
River Palm	344 Villas	Not available	not yet confirmed
Hamptons International ¹	41 Villas	Not available	early 2007
Amanjena Villas	16 Villas	800-1,000m ²	15 months from beginning of the construction

¹ part of Four Seasons development
Source: HVS Research

To the best of our knowledge the fractional ownership market is not yet developed in Morocco. This is likely to be due to the relatively recent demand from foreign sources and partly to restrictions on property ownership in Morocco that were lifted only recently. We consider, however, that this segment is likely to increase strongly over the coming years.

There are only a few timeshare resorts in Marrakech and they operate mostly as traditional hotels. The timeshare component is used to complement demand rather than exist as the only demand generator for the properties. Demand for different types of residential developments remains high and the supply is not enough to meet the current levels of demand. As the example of the Four Seasons shows, a new kind of cooperation between a real estate developer and an established hotel brand is being introduced into the Moroccan market. Four Seasons provides the management skills acquired from luxury hotel operation and the brand name in itself is a guarantee of quality. This helps to sell the real estate component of a development at a higher price with the additional facilities and services provided by the hotel operator. The brand affiliation and distribution channels also help to promote the area and to induce demand.

We consider this an increasingly interesting segment both for investors and for hotel companies. Accessibility is improving with the open skies policy and the new residential developments currently under construction appear to be of good quality. Marrakech has a number of draws: culture, nature, history, magical surroundings, shopping and people, all of which will continue to attract foreigners either for shorter stays or relocation. The challenge will be to keep growth under control. At the moment, not even the planning authorities themselves are able to tell how many developments are currently under construction. We are aware that several upscale hotel chains are actively looking for opportunities for a combined hotel/residential development in Marrakech.

Conclusion

- Marrakech is a city that has significant potential for tourism – both leisure and meeting and conference – and the vision of Plan Azur is for visitor numbers to treble from their current level. Current world events are likely to put constraints on this vision in the short to medium term. The current level of demand for accommodation in Marrakech does not yet justify the full amount of new accommodation planned;
- However, demand for holiday homes and second homes has increased drastically in recent years. Historically, the opportunities lay in traditional Riads that needed extensive refurbishment; but today new residential developments targeted at foreign buyers are under construction all over Marrakech;
- Although prices have increased many times over in recent years, they remain competitive to an overseas buyer. A number of local hotel owners and international hotel companies are exploring opportunities to apply their management skills to the residential market and considering fractional ownership and timeshare options.

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