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MARKET REPORT

Building Hotels in a Challenging Environment | FHS 2023

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Watch Hala Matar Choufany's discussion about the region's development of hotels, the existing challenges, and opportunities, at the 2023 Future Hospitality Summit

Hala Matar Choufany, President & Managing Partner, Middle East, Africa & South Asia at HVS, together with **Engr. Suwaidan Al Dhaheri**, CEO Imkan Properties, **Fahad Abdulrahim Kazim**, CEO Lakhraim Group & Millenium Hotels MEA, and **Michael McGovern**, Director Compass Project Consulting, discuss the topic of building hotels in a challenging environment within the Middle East. Hala Matar Choufany shares her view on the current and future hospitality market in the region. The main takeaways are:

- HVS advisory works cover the full cycle of a project, from project feasibility studies to operations and value optimizations, up to dispositions;
- In addition to the importance of healthy IRRs, which is undoubtedly crucial in investment decision-making, a comprehensive feasibility study should analyse project inflows (EBITDA) based on market conditions, proposed branding, type of offering as well as the outflow (CAPEX) which should be aligned with the efficiency per key, positioning; design and operators' suitability;
- Inefficiently designed buildings or over-specified schemes typically result in higher investment budgets which is commonly observed with hotel developments in the region and negatively affects the IRR of the project;
- The limited number of hotel transactions in the GCC is due in part to a disconnect between development costs and hotel actual values based on income potential;
- In the current economic conditions - rising costs and higher interest rates - hotel development/redevelopments are developed in conjunction with branded residences or part of larger schemes in order to mitigate the investment and development risk;
- The hospitality industry is currently grappling with a series of challenges stemming from a convergence of factors that have fundamentally reshaped its landscape. Among these challenges, the early stages of development, particularly regarding Fire, Life & Safety (FLS) and Furniture, Fixtures, and Equipment (FF&E), stand out as a primary cause of project delays, resulting in substantial cost escalation and reputational damage for developers. Beyond the delay in hotel and project openings, developers are confronted with issues related to product quality, failing to meet the specifications outlined in approved designs.

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