JULY 2017

TRENDS AND OPPORTUNITIES:

ISRAEL HOTEL MARKET OVERVIEW 2017

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Highlights

In June 2016, Avigdor Liberman, an ultra-nationalist politician known for his hostile opinions towards a two-state solution, was appointed as Minister of Defence. In December 2016, an approved UN resolution aimed at ceasing settlement activities made the headlines as the US refrained from using its veto right; although, following the election of Donald Trump, peace negotiations in the long-standing Israeli-Palestinian conflict are likely to make a fresh start after several years of somewhat tense relationships under the Obama administration, notwithstanding Trump's more forthright approach to politics.

Israel continued to record strong GDP growth with a 4% increase in 2016, driven mainly by private consumption. Forecasts remain encouraging with projected growth for the next five years ranging between 2.8% and 4.5%. According to a report published by the World Economic Forum, Israel ranked number two, just behind Switzerland, as the most innovative country in the world, owing to its extremely large number of start-ups and booming high-tech sector.

FIGURE 1: KEY ECOMONIC INDICATORS, ISRAEL

	Actual					Forecast			
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real GDP growth (%)	3.4	3.3	2.8	2.5	4.0	3.6	4.1	2.8	3.1
Consumer price inflation (av %)	1.7	1.5	0.5	(0.6)	(0.5)	1.0	2.5	1.6	1.9
Budget balance (% of GDP)	(3.9)	(3.2)	(2.8)	(2.9)	(2.2)	(2.5)	(2.3)	(2.4)	(2.0)
Current-account balance (% of GDP)	0.3	2.5	3.0	4.7	3.9	4.2	4.8	4.7	4.5
Short-term interest rate (av %)	5.6	4.5	3.9	3.5	3.4	4.4	4.9	4.8	4.8
Exchange rate NIS:US$	3.86	3.61	3.58	3.90	3.85	3.60	3.58	3.55	3.46

Source: Economist Intelligence Unit, July 2017

There are various large-scale projects under construction throughout the country, including the high-speed train linking Tel Aviv to Jerusalem via Ben Gurion Airport, which will allow travellers to commute between the two main cities in under 30 minutes upon completion in the beginning of 2018, and the construction of a new airport in Eilat, which is due to open in the next few months with capacity to handle up to 2 million passengers a year.

Since Israel signed the Open Skies agreement with the European Union in 2012, the price of flights to and from European countries has decreased sharply and flight numbers have increased significantly, resulting in growth in passengers at Ben Gurion Airport of just under 30% between 2013 and 2016. Airlines from all around the world continue to announce new routes to Ben Gurion and Eilat airports.

Hotel performance continues to vary from one region to another, although the overall performance of Israeli hotels in 2016 remained in line with 2015 levels. Average rates for the whole country are still above US$200, making Israel rather expensive compared to other Mediterranean destinations such Malta, Greece or Cyprus, and the prevailing geo-political situation around the Middle East continues to put pressure on visitation and occupancy levels.

BREAKING NEWS!

The Dayan family has acquired full ownership of Africa-Israel Hotels, which owns the master franchise rights for the Crowne Plaza and Holiday Inn brands in Israel, for US$116 million.

Tourism Market Overview

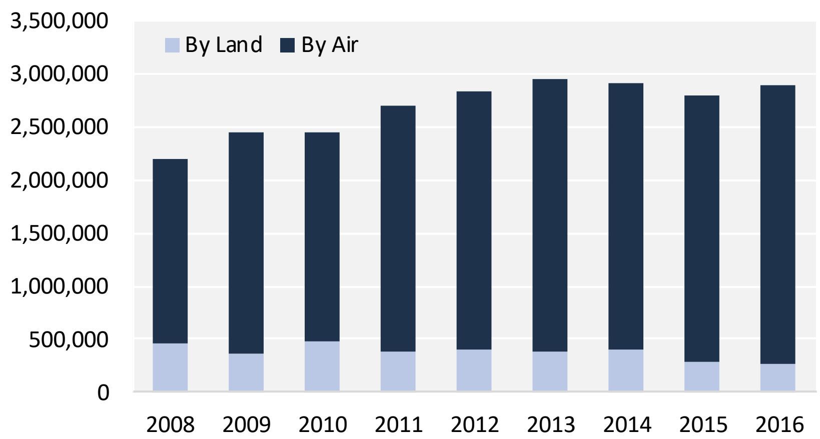
Visitation

Following a decrease in visitation in 2015, a result of the so-called 'Wave of Terror' that started in September 2015, the total number of tourist arrivals in 2016 increased by 3.5% to reach 2.9 million, broadly in line with historical levels. On the other hand, day trips decreased for the fourth consecutive year. After a slight rebound in 2015, cruise passengers decreased by 20% as several cruise operators cancelled their routes to this part of the Mediterranean, owing to the political situation in the wider area.

2016 was another strong year for Ben Gurion International Airport, Israel's main international and busiest airport, with a 10% increase in passengers, entirely driven by international travellers, due to the opening of several new routes including Amsterdam (easyJet), Beijing (Hainan Airlines), Bratislava (Ryanair), San Francisco (United Airlines) and Warsaw (Wizzair).

The outlook for air travel is very positive with Ryanair opening 15 new routes, seven to Tel Aviv and eight to Eilat; Cathay Pacific launching a direct flight from Hong Kong to Tel Aviv; and Air Canada beginning services between Montreal and Tel Aviv. In addition, Ramon International Airport is expected to open in the coming months and will replace the existing Ovda Airport in Eilat. Airport fees will be waived for the first three years of operations in order to attract foreign airlines.

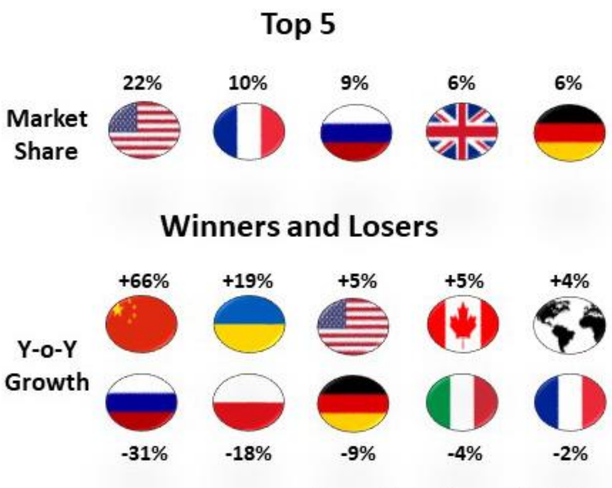
FIGURE 2: TOURIST ARRIVALS BY MODE OF TRANSPORT, ISRAEL 2008-16



Source: Central Bureau of Statistics

International Market Share

FIGURE 3: INTERNATIONAL ARRIVALS – MARKET SHARE AND YEAR-ON-YEAR GROWTH, ISRAEL 2016



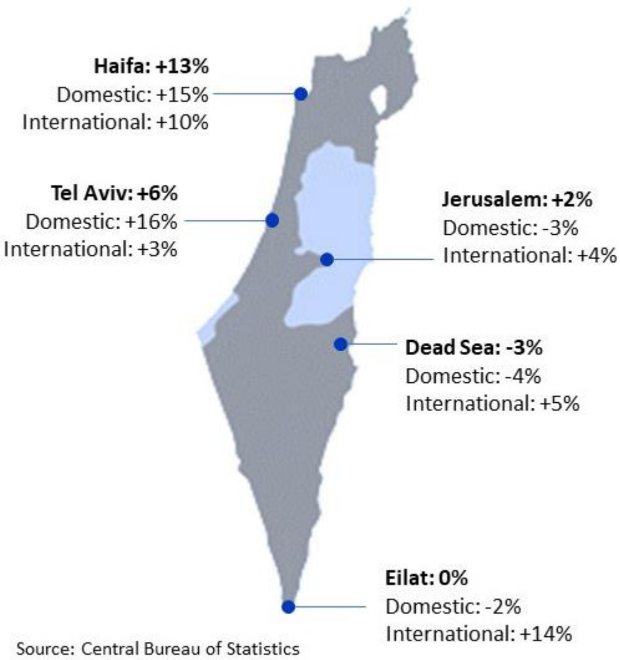
Source: Central Bureau of Statistics

While the USA remains the largest feeder market with 670,000 visitors in 2016, roughly 22% of total international visitation, Russian visitation continues to drop with a decrease of 30% in 2016 to 284,000 visitors. Although visitation from France decreased, a trend observed for several other countries, French visitation overtook Russian to become the second-largest feeder market (10%). Despite the devaluation of the pound against the Israeli shekel, visitation from the United Kingdom, Israel's fourth-largest feeder market (6%), remained stable in 2016. After a remarkable 20% growth in 2015, the German market dropped by 9% in 2016, mainly driven by security concerns. Owing to an impressive 66% increase in 2016, as a result of a marketing campaign and a new air route, China is now one of the top-ten source countries (eighth position). Between 2009 and 2016, Chinese visitation increased at a compound annual rate of 36% and now stands at 85,900 visitors.

Hotel Occupancy

Mirroring the positive trend in visitation, the total number of accommodated bednights increased by 2% in 2016, primarily driven by the international market. Overall, all areas under review recorded an increase with the exception of the Dead Sea. However, as illustrated in the following figure, growth patterns between domestic and international markets differ.

FIGURE 4: BEDNIGHTS TREND, ISRAEL 2016



Source: Central Bureau of Statistics

With more than 6.8 million bednights recorded in 2016, Eilat accounts for approximately 30% of total bednights in Israel. Jerusalem and Tel Aviv come second and third, with 3.5 million (16% of total) and 3 million (14% of total), respectively. Resort destinations like Eilat and the Dead Sea are more heavily reliant on the domestic market, which represents 90% and 80% of total bednights in these locations, respectively. The international market shows a clear preference for Jerusalem and Tel Aviv as both cities accommodate more than 55% of the total international bednights.

Hotel Classification & Supply

The European Hotelstars classification was introduced in 2012 and is optional, with around 100 hotels so far having signed up. In the meantime, the Ministry of Tourism uses its existing classification, which is divided into four ‘levels’. The classification is based on the type of property and the average room size of a double bedroom. Level I corresponds to the highest standard and is equivalent to a five-star hotel.

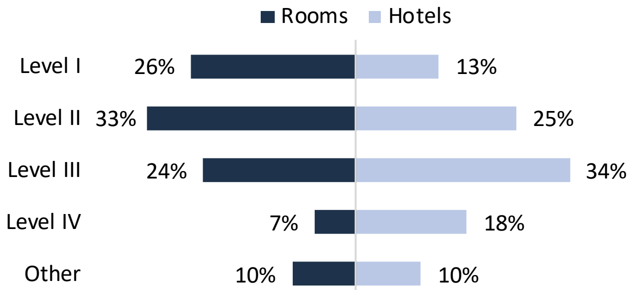
FIGURE 5: HOTEL CLASSIFICATION SYSTEM, ISRAEL

Type of Hotel	Average Size of a Double Room in m^2			
Recreational	Over 28	23.5-28	20.5-23.4	Up to 20.4
Urban	Over 26	21.5-26	16.7-21.4	Up to 16.6
Level	Level I	Level II	Level III	Level IV

Source: Central Bureau of Statistics

The average hotel size in terms of room count has decreased slightly from approximately 140 in 2012 to 134 in 2016. Significant differences exist throughout the country, depending on the level and the location. Hotels in resort destinations like Eilat and the Dead Sea are much larger with an average room count of 220 and 270, respectively, while properties in cities like Jerusalem and Tel Aviv are smaller with an average room count of 124 and 107, respectively. In terms of classification, Level I properties appear to be the largest with 264 rooms, compared to Level IV hotels, which average 50 rooms per property.

FIGURE 6: PERCENTAGE SHARE OF HOTELS AND ROOMS BY LEVEL IN ISRAEL, 2016



Source: Central Bureau of Statistics

Level III hotels make up approximately a third of all hotels in the country. Level II and IV properties represent the second- and third-largest inventories at 25% and 18% of total hotels, respectively. However, in terms of number of rooms, Level II hotels are prominent accounting for a third of all hotel rooms in Israel, owing to some larger establishments. It is worth highlighting the lack of budget options in the country. Indeed, Level IV properties represent only 7% of the total room inventory, suggesting that there is potential for growth in the budget segment, which could ultimately allow Israel to attract different types of travellers who can already benefit from low air fares, thanks to the arrival of low-cost carriers. In the long-term, an improved and larger budget offer is likely to decrease overall average rate in the country, making the destination more affordable.

FIGURE 7: NUMBER OF HOTELS IN ISRAEL, 2012-16

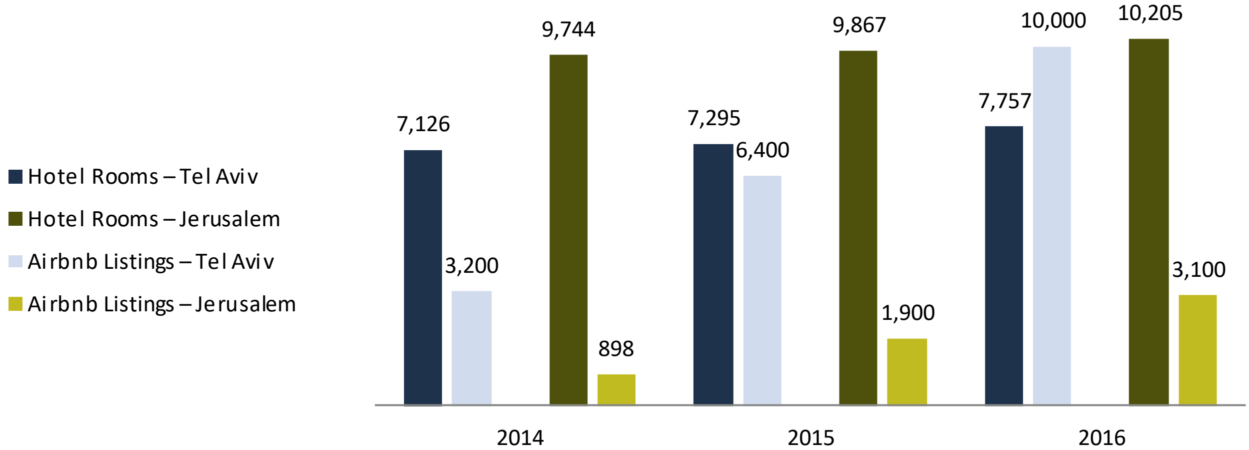
	2012		2013		2014		2015		2016		CAGR 2012-16	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Level I	42	11,842	45	12,444	48	12,900	49	13,152	51	13,485	5.0%	3.3%
Level II	80	15,788	84	16,037	88	16,451	93	16,624	98	17,183	5.2%	2.1%
Level III	111	11,499	118	11,927	122	12,157	126	12,303	131	12,491	4.2%	2.1%
Level IV	70	3,529	70	3,541	69	3,450	67	3,362	68	3,411	-0.7%	-0.8%
Other	39	5,199	40	5,254	39	5,158	39	5,166	40	5,239	0.6%	0.2%
Total	**342**	**47,857**	**357**	**49,203**	**366**	**50,116**	**374**	**50,607**	**388**	**51,809**	**3.2%**	**2.0%**

Source: Central Bureau of Statistics

Accommodation Sector

While overall hotel supply has grown moderately in recent years with 46 hotels and almost 4,000 new rooms entering the market since 2012, the concept of the sharing economy has been gaining in popularity and has led to the emergence of alternative types of accommodation, and distribution channels such as Airbnb have become a game-changer for both locals and travellers. Despite significant efforts from the Israel Hotel Association, legislation around this type of rental in Israel remains almost non-existent, while cities like New York, London or Berlin have implemented stricter regulations. The number of listings increase year-on-year at a much higher pace than hotels, although it is important to note that Airbnb started from a much lower base. Tel Aviv and Jerusalem are by far the cities with the largest Airbnb offer with more than 10,000 and 3,000 active listings, respectively, compared to 800 in locations such as Eilat or Haifa.

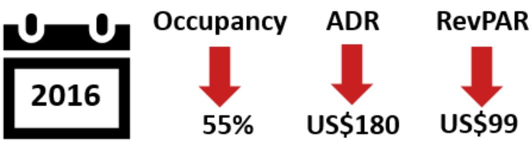
FIGURE 8: AIRBNB AND HOTEL SUPPLY IN JERUSALEM AND TEL AVIV, 2014-16



Source: Airdna

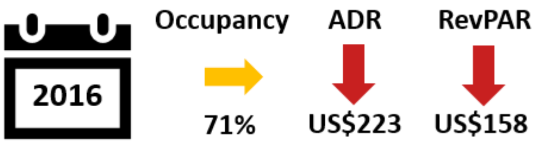
City and Destination Overviews

Jerusalem



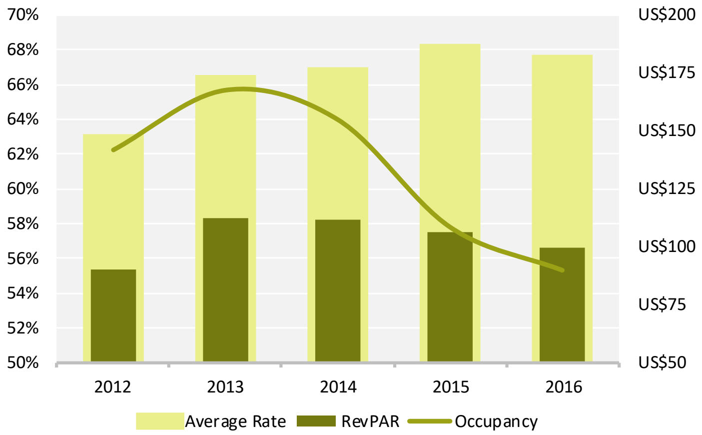
Following a sharp decrease in 2015, occupancy in Jerusalem dropped by a further 4% to reach 55% in 2016, the lowest level recorded in recent years. By the end of 2016, supply in the city grew by six properties (330 rooms), an increase of 3.5% compared to an increase in bednights of 2%. The government recently approved the construction of a cable car linking First Station (Old Jerusalem railway station) to the Dung Gate, a highly controversial project with an estimated development cost of some NIS200 million (US$56 million), which should significantly improve transport to the Western Wall area and other tourist attractions by 2021. In 2015, hotel performance in the city was affected by the opening of the Waldorf Astoria. In 2016, the picture is similar with a 4% decrease in occupancy and a 3% drop in average rate, resulting in a 7% decrease in RevPAR.

Tel Aviv



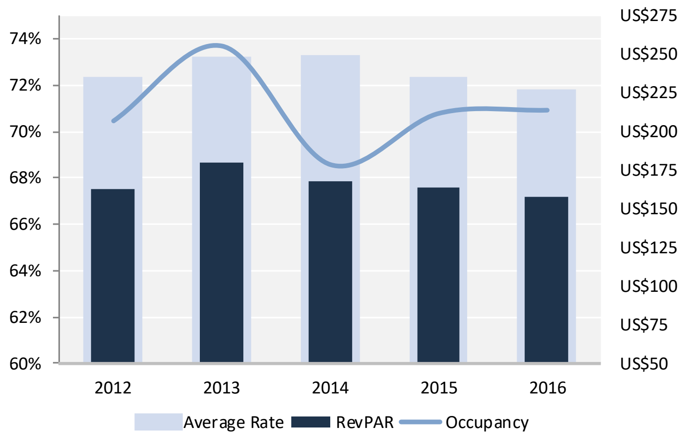
Balanced by a similar growth of 6% in bednights and rooms supply, occupancy levels in Tel Aviv remained unchanged in 2016 at 71%. Notable openings in 2016 include the 190-room NYX Tel Aviv (Fattal Hotels) and the 40-room Poli Hotel (Brown Hotels), once announced as a Sir Hotel. It is worth noting that overall room supply grew by around 3.5% a year since 2013 and is expected to continue at similar levels in the near future on account of the significant pipeline – see Figure 17. In 2017, the city will welcome, among others, the 115-room Setai and eventually the W Tel Aviv – Jaffa, which has been subject to several delays. Although difficult to quantify, the impact of alternative types of accommodation such as Airbnb appear to be somewhat limited in terms of occupancy in a city which now counts more listings than regular hotel rooms. Nevertheless, this increasing number of listings combined with additional hotel rooms continues to put pressure on average rate which decreased again in 2016 by 4%, resulting in a 3% drop in RevPAR.

FIGURE 9: JERUSALEM HOTEL PERFORMANCE



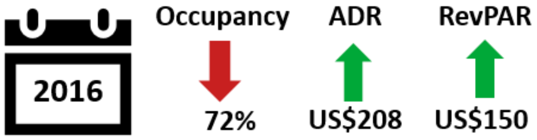
Source: HVS Research

FIGURE 10: TEL AVIV HOTEL PERFORMANCE



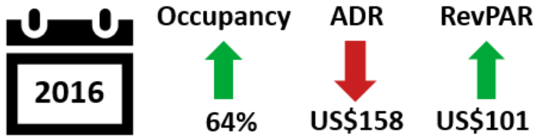
Source: HVS Research

Eilat



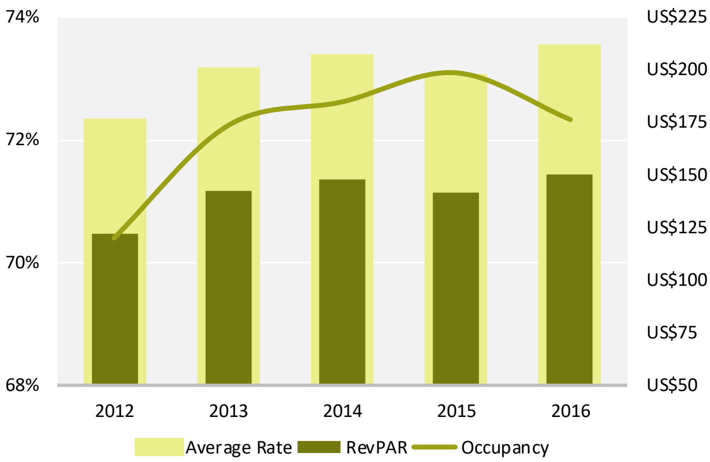
Despite double-figure growth in international bednights, due to the growing airport operations, occupancy in Eilat decreased by 1% in 2016, owing to a decrease in demand from the domestic market which accounts for approximately 90% of demand in Eilat. Hotel supply in Israel's most popular resort destination has not recorded any material change since 2012, with a total of just over 11,000 rooms spread across 50 properties. There is a new airport under construction which is due to open shortly. The site of the existing airport is expected to be redeveloped and feature some 5,000 additional hotel rooms. Following a sharp decrease in average rate in 2015, hotels in Eilat responded with the strongest growth across the cities under review, with an increase of 7%, leading to an impressive 6.2% growth in RevPAR.

Haifa



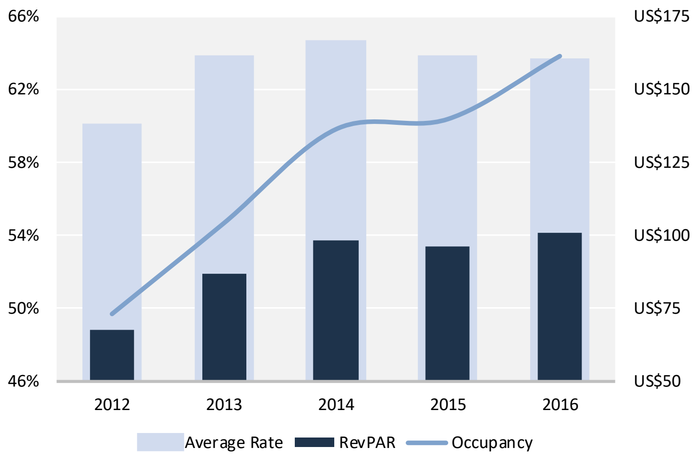
In 2016, this northern coastal city recorded the strongest increase in occupancy across the cities under review (of 6%), driven by both domestic and international markets, which account for 60% and 40% of total bednights, respectively. Development work at the port, which is the largest in the country, and government initiatives such as the creation of a ferry between Haifa and Acre in 2016 are expected to boost leisure tourism in Haifa, a destination primarily driven by corporate demand. The city has a significant, although unconfirmed, hotel pipeline. Average rate recorded a slight drop of 1% in 2016, resulting in 5% growth in RevPAR.

FIGURE 11: EILAT HOTEL PERFORMANCE



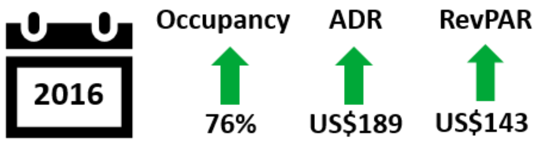
Source: HVS Research

FIGURE 12: HAIFA HOTEL PERFORMANCE



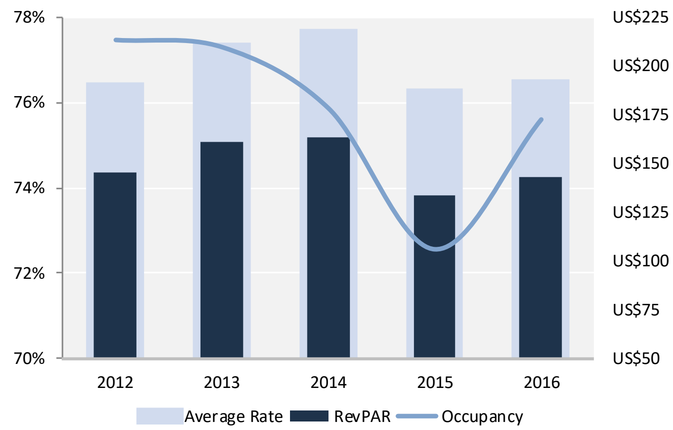
Source: HVS Research

Dead Sea



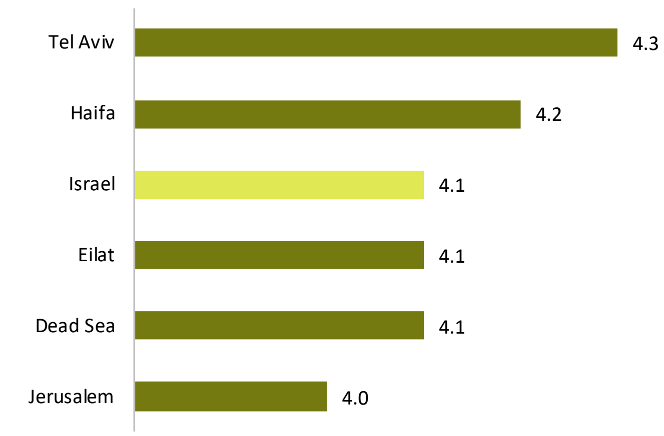
After a very difficult 2015 with a decrease of approximately 5% in occupancy, the Dead Sea market recovered in 2016 to reach 76%, a level almost in line with historical performance. While hotel supply has not materially evolved in recent years, the lowest point on earth could rejuvenate its tourism product with the Dead Sea Valley project, a proposed tourism complex in Ein Bokek, which could significantly change the image of the area. Developed by the Dead Sea Preservation Government Company (acting on behalf of the Ministry of Tourism), the proposed tourism complex is currently in the planning stage and is expected to have 3,000-5,000 hotel rooms, high-end international retail facilities, a multipurpose convention centre, a world-class spa and a visitor centre. Similar to performance trends in Eilat, average rates in the Dead Sea area have started to recover, with an increase of 3% in 2016. Overall, 2016 appears to have been a successful year for hoteliers in the region with RevPAR growth of almost 7%.

FIGURE 13: DEAD SEA HOTEL PERFORMANCE



Source: HVS Research

FIGURE 14: TRIPADVISOR GRADES



Source: HVS Research

Travellers' Perceptions

Over the last decade, the decision-making process for travellers has evolved significantly because of important technological progress. In the past, information and comparison of the different options were sought through word of mouth; however, the creation of platforms such as TripAdvisor, Yelp and Trustpilot have led to considerable changes. While it remains extremely difficult to quantify the exact percentage of people consulting reviews before booking or making a booking based on reviews, a number of studies highlight that access to previous customer experience is becoming one of the most important decision-making factors.

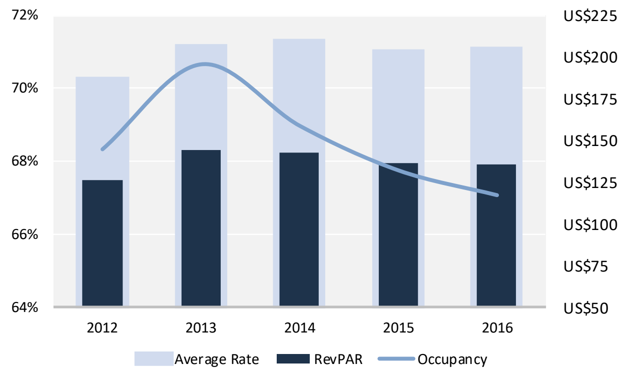
We have analysed the TripAdvisor score of those hotels in Israel with at least 100 reviews, and calculated an overall grade for the country of 4.1 out of 5. Unlike operating performance and demand patterns, we have not identified any major differences from one city to another as illustrated in Figure 14. It is disappointing to note that there is not a single property achieving the highest grade (5) in Haifa or the Dead Sea area, and that Eilat is home to the only hotel graded 2.5 across the cities under review.

Hotel Market Overview

Demand

Despite the volatile geo-political situation in Israel and its neighbouring states, occupancy levels have remained relatively stable in recent years as demand patterns vary significantly across the region. Leisure-driven markets like Jerusalem tend to be more affected by security concerns than cities like Tel Aviv and Haifa, which rely on a more solid corporate base. Domestic travellers have a preference for resort destinations like Eilat and the Dead Sea, while international visitors favour more traditional places like Jerusalem and Tel Aviv. Hotel average rates remained at just above US$200 in 2016, making the cost of holidaying in the country still relatively expensive compared to other Mediterranean destinations such as Greece, Turkey or Cyprus. Although 2016 RevPAR performance varied greatly from one market to another, the performance of the whole country remained virtually unchanged on 2015.

FIGURE 15: ISRAEL HOTEL PERFORMANCE, 2012-16



Source: HVS Research

FIGURE 16: OCCUPANCY AND AVERAGE RATE COMPARISON (US$)

	2013			2014			2015			2016			Sample Size
	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Rooms
Tel Aviv	74%	244	180	69%	245	168	71%	231	163	71%	223	158	4,160
Eilat	72%	197	142	73%	203	148	73%	194	142	72%	208	150	4,216
Jerusalem	66%	171	112	64%	174	111	58%	184	107	55%	180	99	3,524
Dead Sea	77%	208	161	76%	215	163	73%	185	134	76%	189	143	1,708
Haifa	55%	159	87	60%	165	98	60%	159	96	64%	158	101	842
Israel (Average)[1]	**71%**	**204**	**144**	**69%**	**207**	**143**	**68%**	**201**	**136**	**67%**	**202**	**136**	**14,451**

[1] The average of the samples of hotels in the five destinations

Source: HVS Research

Supply

In 2016, new regulations encouraging hotel development in Israel through process simplification and various incentives were approved by the government to help make the country a more affordable destination and to boost supply. The main aspects of these regulations are: i) national infrastructure – one hotel of at least 400 rooms, two hotels of at least 300 rooms or four hotels of at least 25 rooms may be classified as 'National Infrastructure'; ii) centralised application – hotel chains developing several properties will be able to submit their request to a single and unique entity, the National Infrastructure Committee; iii) residential use – up to 20% of the authorised hotel surface can be added for residential purposes; iv) grants – government will offer grants of 20% of the investment with an additional 13% available for low-cost hotels, as banks continue to appear unwilling to provide loans for hotel development. While these are likely to increase investors' interest, factors such as the limited land allocation for hotel use and high costs associated with Kashrut (Jewish religious dietary laws) and security might constrain the expected growth.

While the following chart provides an overview of hotel developments and recently opened properties, the hotel pipeline in Israel is expected to become much more significant with a number of additional rumoured projects in Tel Aviv, Jerusalem, Haifa and the Dead Sea, where both local and international operators are expected to strengthen their presence.

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FIGURE 17: NEW SUPPLY AND RECENTLY OPENED PROPERTIES

Proposed Property	Hotel Group/Operator	Location	Number of Rooms	Opening Date[1]
Villa Brown Jerusalem	Brown Hotels – Urban Collection	Jerusalem	20	Opened
MGallery David Tower	Accor	Netanya	75	Opened
Poli Hotel	Brown Hotels – Urban Collection	Tel Aviv	40	Opened
NYX Tel Aviv	Fattal Hotels	Tel Aviv	190	Opened
The Setai - Sea of Galilee	The Setai	Tiberias Area	110	Opened
West Lagoon Resort Hotel	Tamares	Netanya	273	Opened
The Publica - AC by Marriott	Isrotel	Herzliya	159	Q3 2017
Isrotel The Orient – German Colony	Isrotel	Jerusalem	240	Q3 2017
ibis Jerusalem City Centre	Accor	Jerusalem	124	Q3 2017
The Setai – Tel Aviv	The Setai	Tel Aviv	115	Q3 2017
W Tel Aviv – Jaffa	Marriott	Tel Aviv	125	Q4 2017
ibis Styles Jerusalem	Accor	Jerusalem	120	Q1 2018
Terraces Netanya	TBC	Netanya	40	Q1 2018
Proposed Y Gen Hotel	Dan Hotels	Tel Aviv	95	Q1 2018
Prima Millennium	Prima	Ra'anana	140	Q2 2018
MGallery Alkunin	Accor	Tel Aviv	46	Q3 2018
The Modani Luxury Spa Resort	TBC	Netanya	134	Q4 2018
Kempinski David Hotel	Kempinski	Tel Aviv	220	Q4 2018
Azrieli II	Independent	Tel Aviv	160	Q1 2019
Proposed Luxury Hotel	TBC	Mount Arbel	150	Q1 2020
Isrotel 'Little Tel Aviv' (Urban Hotel)	Isrotel	Tel Aviv	154	Q1 2020
Proposed Development (Luxury, Upscale & Boutique Hotels)	TBC	Tel Aviv North	160, 310, 90, Respectively	Q1 2021
Dan Hotel Herzliya[2]	Dan Hotels	Herzliya	1,000	Q1 2022
Proposed Luxury Hotel	TBC	Tel Aviv South	250	Q1 2022
Proposed Development (Triple branded)	TBC	Tel Aviv	900	TBC
Proposed Boutique Hotel – German Colony	TBC	Haifa	270	TBC
Proposed Hotel	TBC	Netanya	70	TBC

[1]Provisional

[2]Extension of existing Dan Accadia Hotel

Source: HVS Research

Hotel Values

The indications for changes in hotel value in Israel presented in Figure 18 are based on trading results from 2012 to 2016 and our view of trading prospects and investment appetite for the foreseeable future.

Following two consecutive years of decreases in 2014 and 2015, the Israeli hotel market showed signs of recovery with a modest growth of 1% in terms of values per hotel room in 2016, compared to a slight rise of 0.2% for the overall European market (please refer to our *2017 European Hotel Valuation Index*). While some European cities like Sofia, Bratislava and Bucharest showed impressive percentage growth, terrorist attacks combined with the effects of the UK's Brexit vote and an unknown future for the Eurozone led to a poor performance in terms of values per room in many cities within Western Europe.

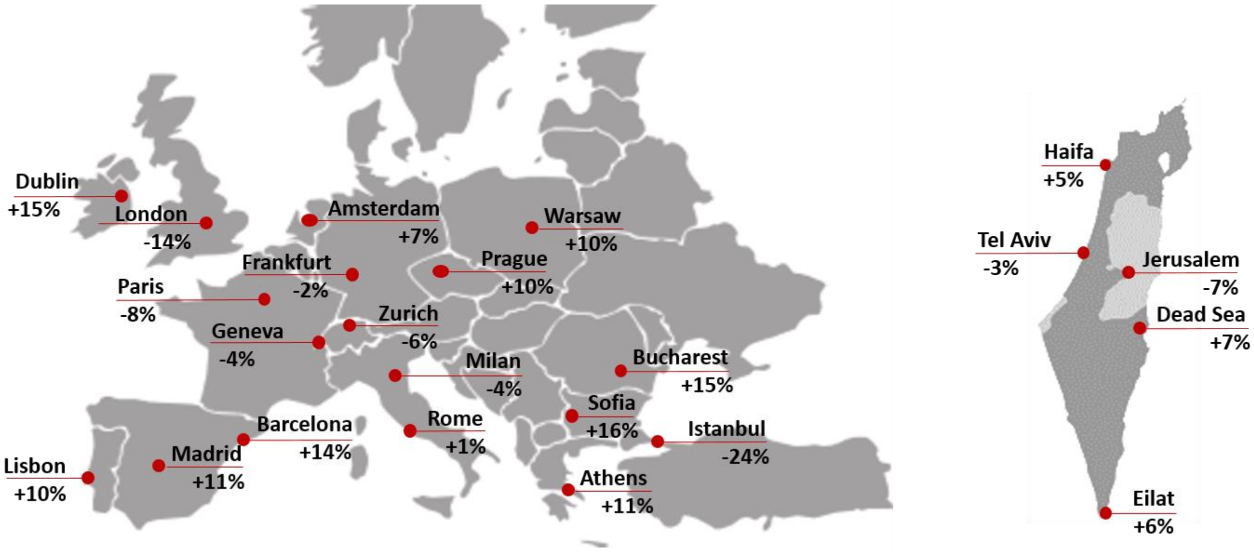
On an individual basis, 2016 was mixed, reflecting the various changes in performance recorded throughout the country, with decreases in both Jerusalem and Tel Aviv mirroring the cities' poor performance in occupancy and rate, and stronger increases in Eilat, Haifa and the Dead Sea, owing to a more solid performance in 2016. See Figure 19 for a comparison of the hotel values per room in selected European cities with those in Israel in 2016.

FIGURE 18: PERCENTAGE CHANGE IN HOTEL VALUES (US$)

	2013	2014	2015	2016
Tel Aviv	10.6 %	-11.8 %	-2.6 %	-3.3 %
Jerusalem	24.5	-3.6	-4.4	-6.8
Eilat	17.0	3.7	-4.0	6.2
Haifa	28.9	13.2	-2.4	5.1
Dead Sea	10.7	1.3	-18.0	6.9
Israel (Average)	**16.3 %**	**-1.6 %**	**-6.3 %**	**1.1 %**

Source: HVS Research

FIGURE 19: PERCENTAGE CHANGE IN HOTEL VALUE IN LOCAL CURRENCY FOR EUROPE AND US$ FOR ISRAEL – 2016



Source: HVS Research

Hotel Investment

Although hotel pipeline and development interest continue to be strong for both domestic and international players, the hotel transaction market still lacks transparency with only a handful transactions reported in recent years, as indicated in the following table. We would appreciate receiving details of any transactions in Israel that our readers are familiar with.

FIGURE 20: TRANSACTIONS (US$)

Date of Sale	Property	Number of Rooms	Price (US$)	Price per Room (US$)	Buyer	Seller
Mar-16	Mitzpe Hotel & Spa Hayamim	97	26,400,000	272,000	Isrotel	Sami Hazan
Oct-14	Rimonim Hotel Eilat	278	27,200,000*	98,000	Sella Capital Real Estate	Rimonim
Aug-12	Leonardo Inn Hotel Jerusalem	185	17,500,000	95,000	Kevin Bermeister and partners	Kedem Hotel Jerusalem Ltd
May-10	Regency Jerusalem Hotel	505	47,000,000	93,000	Dan Hotels	Promotora Dinamo
Jul-09	Portfolio of 11 Hotels in Israel	2,980	247,300,000	83,000	Fattal Hotels	Azorim Investment
Jul-09	Golden Tulip	250	25,500,000	102,000	Fattal Hotels	Eldan Properties Ltd
Mar-08	Golden Tulip Club & Golden Tulip Privilege	282 & 247	60,000,000	113,000	Fattal Hotels	Yitzhak Tshuva
Mar-08	Mercure B and P Tel-Aviv	103	16,600,000	161,000	Gertler Familly	Avner Levy
Apr-07	Sheraton Moriah Israel (56.5% stake)	88	23,800,000	272,000	Azorim Development and Construction	Koor Industries

*estimated

Source: HVS Research

Conclusion

Mirroring the differences in demand patterns from one market to another, the 2016 performance was once again a mixed bag, although resulting in a relatively stable performance for the country overall. While the Israeli tourism industry will continue to remain somewhat volatile and dependent on the overall geo-political situation in the Middle East, numerous airlines are adding new routes to the country and the hotel pipeline remains strong, highlighting the significant potential for substantial tourism growth, which could become even greater, once security concerns in the area are overcome. The first half of 2017 was a record in terms of tourist arrivals, with more than 1.7 million between January and June, which represents an increase of 26% over the same period last year; the 3 million mark could conceivably be reached for the first time in the country's history by the end of the year.

About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming and leisure industries, was established in 1980. The company performs 4,500+ assignments each year for hotel and real estate owners, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 40 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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With offices in London since 1990, **HVS London** serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuation and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks, which finance hotels and portfolios.

In Israel, HVS has worked on hotel valuations and feasibility studies throughout the country, in Jerusalem, Tel Aviv, Herzliya, Netanya, Akko, the Dead Sea, Mitzpe Ramon, the Galilee area and Eilat. Russell Kett has been a regular speaker at the annual conferences of the Israel Hotel Association and other events.

We are grateful to the many hoteliers in Israel who provided operating data and other information for this report. We would welcome the participation of even more hoteliers to enable greater representation of the country's hotel sector.

About the Authors

Lionel Schauder is an analyst with the HVS London office. He holds a BSc (Hons) in International Hospitality Management from Ecole hôtelière de Lausanne, with a focus on hotel development and real estate. Lionel gained valuable operational experience in Switzerland, Australia and Chile. Recent assignments at HVS include hotel feasibility studies and valuations in Belgium, France, Portugal, Romania and Morocco.

Russell Kett is chairman of the London office of HVS. He has 40 years' specialist hotel consultancy, investment and real estate experience, focused on providing valuation, feasibility, shared ownership, property, brokerage, investment, asset management, strategy and related consultancy services, advising hotel companies, banks, developers and investors on all aspects of their hospitality industry related interests, throughout the EMEA region. Russell is a frequent writer, moderator and speaker on the international hotel industry, especially topics relating to hotel valuation, investment, marketing and finance. He is a frequent visitor to Israel and maintains a home there.

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