HVS

MARKET REPORT

# Kuwait Market Snapshot

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An overview of the Kuwait hotel market

In this article, we present an overview of the Kuwait hotel market. We address changes in macroeconomic factors, tourism visitation and hotel performance. From historical trends and our understanding of current developments and government initiatives, we present our opinions on the Kuwait market's outlook and opportunities.

The State of Kuwait (whose name is an Arabic diminutive for 'fortress built near water') is a sovereign Arab emirate covering an area of 17,818 km$^2$ on the coast of the Persian Gulf. Neighbouring countries include Saudi Arabia to the south and Iraq to the north and west. In 2007, Kuwait had approximately 3,400,000 inhabitants. Most of the country's population is concentrated around the capital, Kuwait City, and in 2008 roughly 60% of the population were expatriates. The population is expected to exceed 4 million by 2010 and to double to roughly 7 million by 2030.

**Politics and Economics**

A former British protectorate, Kuwait earned independence in 1961 and became a hereditary constitutional monarchy under the rule of the Al Sabah family. It has the oldest parliamentary system of government in the Persian Gulf and the head of state is the emir. Kuwait City is its only political and economic capital. Kuwait's long-standing executive-legislative political crisis intensified at the beginning of 2009, an omen of a possible dissolution of the parliament, followed by early elections. Nevertheless, domestic politics are expected to remain relatively stable for as long as the emir remains the ultimate executive authority. External politics are shaped by the need to balance increased GCC political integration with a long-standing strategic alliance with the US.

Kuwait, the fourth richest country in the world, depends heavily on oil revenues, as oil accounts for roughly half of its nominal GDP and more than 80% of government revenues. Holding roughly 10% of the world's oil reserves, Kuwait has recently increased its oil investment budget by about 10% to US$40 billion. The 2009 oil production cuts dictated by an OPEC agreement, coupled with the modest growth expected from other economic sectors will likely result in a sharp GDP slowdown in the near future. While Kuwait's 2009-14 strategic plan aims to diversify the economy away from oil dependence by means of privatisation, we note that such a change is likely to happen very slowly owing to a lack of widespread political support.

While Kuwait aims to join a currency union with four other GCC states (Saudi Arabia, Bahrain, Qatar and the UAE), the current economic conditions have shifted priorities away from monetary negotiations and towards managing the effects of the global slowdown. Being strongly dependant on the international economic system, Kuwait was among the most negatively impacted economies in the Gulf; the Kuwaiti bourse lost US$10 billion in February 2009 and the Kuwait Investment Authority (KIA) – one of the oldest regional sovereign funds – reportedly diminished by US$31 billion by the end of 2008.

Kuwait's vulnerability stems from the state's heavy reliance on oil, the strong government involvement in the private

sector and the high concentration of the national workforce in the public sector. In March 2009 Moody announced that Kuwait is under review for downgrading because the recent resignation of the government and the dissolution of parliament reflect an erosion of institutional strength that is worrisome in the context of the global economic and financial crisis.

On the positive side, as a virtue of being one of the oldest economic systems in the Gulf, Kuwait has an excellent government balance sheet, a strong net external position, access to significant fiscal and current account surpluses, a high level of GDP per capita and extensive oil reserves. The fiscal environment was improved in 2008 with the reduction of corporate tax on foreign businesses to a flat 15% and the abolition of capital gains tax on stock market holdings.

These strengths should ensure that Kuwait not only endures a prolonged economic downturn, but also capitalise on opportunities related to cheaper construction materials and an increased availability of skilled labour. We note that the government plans to implement a US$5.1 billion economic stimulus package, including state guarantees of 50% of fresh bank loans to local companies. However, the ongoing political crisis could result in a veto from the parliament.

**Development and Initiatives**

At the end of 2008, the Kuwaiti government reiterated plans for major development projects as part of efforts to turn the country into a key international financial and commercial hub. We note, however, that major government projects and initiatives are threatened to reach a standstill owing to the ongoing political strife. The private sector, which consists mainly of family businesses, does not have the resources or the authority to compensate for the slowdown in government development. Low investor confidence and changing market conditions have even led to previously awarded contracts being recalled for review (such as, Jaber al-Ahmed al Sabah hospital).

Nevertheless, the great majority of projects are still going ahead. Kuwait boasts current projects amounting to US$300 billion and the Kuwaiti Ministry of Public Works has announced the intention to spend a further US$51 billion on construction by the end of the decade. It is worth mentioning that any development plans in the near future are uncertain and will be impacted significantly by the dynamic of crude oil prices, which are expected to vary anywhere between US$40 to US$70 for 2009. The ongoing projects which appear to be the focus of investment consist mainly of significant urban expansions and major infrastructure improvements.

**Urban Expansions**

Some of the most significant urban expansions planned in Kuwait are listed below.

- **City of Silk** – also known as Madinat Al Hareer, is US$130 billion real estate development that will be in Subbiya, northern Kuwait. The city will span 250 $km^2$ and will include 30 communities grouped into four main districts: Finance City, Leisure City, Ecological City, and Culture City. The most iconic development within Finance city will be the 250-storey Burj Mubarak Al Kabir, which is intended to become the tallest structure on earth. Once completed in 2023, Silk City will be home for 750,000 residents in over 175,000 residential units.

- **Failaka Island Development** – this US$3.3 billion real estate development will span 26 $km^2$ on Failaka Island, 20 km east of Kuwait City. The project includes the construction of 20 hotels and recreational facilities, chalets, a golf course, housing units, a marine park and four jetties. After being put on hold in 2008 because of changes in legislature, the project will be re-tendered and will be developed on a BOT basis; the initial completion deadline set for 2013 is unlikely to be met.

- **Khairan Residential City** – this US$ 20 billion residential development will span 40 million $m^2$ in Al Zour, Kuwait. The city will comprise 30,000 residential units, a commercial complex, a ministerial complex, universities, schools, mosques, hospitals, sport and entertainment areas and amenities. The city will be built in five stages, each adding between 4500 to 8500 units. The project is currently under study and the last official completion date announced was the last quarter of 2015. However, the project has already suffered delays in its planning stages.

- **Saad Al Abdullah Residential City** – The Public Authority for Housing Welfare (PAHW) plans to develop 3576 residential units (1320 villas and 2257 houses). This city is currently under construction with an expected completion date at the end of 2010.

- **Sabah Al Ahmad Future City** – this US$27 billion real estate community will be located 50 km south of Kuwait City. The city will be developed over an area of 35 million $m^2$ and will have 9,000 housing units for Kuwaitis entitled to housing welfare. The city will offer commercial, health, sports, educational (universities and schools) and other private residential areas. It also includes shopping malls, hotels, mosques and touristic areas. Once completed in 2015, the city will house up to 110,000 residents.

- **Kuwait University City** – The Kuwait University plans to develop the Kuwait University City (KU City), a US$5.2 billion educational complex in Shadidiyah, 20 km west of Kuwait City. KU City will spread over a 4.9 million $m^2$ area. It will consist of three campuses including faculties, a hospital, a hotel, a housing complex, sports facilities, auditoriums and so forth. Upon its completion in 2014, the city will have the capacity to accommodate up to 40,000 students. The project is currently under design.

**Infrastructure Improvements**

- **Ground access** will be improved by infrastructure projects that include the expansion of highways and road networks (including the ring roads), the implementation of a mass transport system, and the implementation of a smart parking system. An underground network and a railway system will link Kuwait to the other members of the GCC, Central Asia, Europe, India Subcontinent and the Middle East. The railway project is planned to be 265 km long and will cover almost all parts of Kuwait. Also, the Jaber Al-Ahmad expressway will link the Silk City and the satellite cities to be built in the northern area of Kuwait city.

- **Air access** has recently been improved by the opening for commercial services of the Royal Terminal at the Kuwait International Airport (also known as Sheikh Saad Terminal). Additional improvements relate to geographic reach and carrier capacities, with the introduction of Kuwait's new Wataniya Airlines services twice daily to Dubai in late January 2009 and the plan to serve other destinations in the MENA region, including Beirut and Bahrain. The most significant development consists of the ongoing estimated US$21 billion expansion of the Kuwait International Airport. The expansion project involves the construction of a new terminal building that will be connected to the existing terminal building via a tunnel, the two existing runways will be extended up to 600 meters and a third runway will be constructed. The airport capacity will be increased to 20 million passengers upon the project's completion in 2013.

- **Water access** – the Kuwait Mega Projects Agency plans to build Bubiyan Island Port to serve the export and import requirements for the reconstruction of Iraq for 20 years. Upon its completion in 2010, the port will have a total handling capacity of 2.5 million containers per year. Bubiyan Island is a 530 $km^2$ island on the Gulf, close to the southern Iraq port of Umm Qaser. The development of Bubiyan Island aims to turn the island into a naval facade of the country, a centre of shipping activities and a multi-media transport network. It also includes launching a natural reserve and harbour and development of Bubiyan Lake, the resort area and the residential area along the coastline.

**BOT Contracts**

We note that a significant number of the projects detailed above are guided by BOT contracts as defined by the Kuwaiti Law no7/2008, which governs the building, operation and transfer of structures that require granting of rights to state-owned properties. Under a BOT contract, a private company constructs and manages a facility and transfers the project to the government with no obligations after a given timeframe. In Kuwait, the typical term spans 30 years (up to 40 years in the case of special projects, approved on a case-by-case basis and not exceeding KD250 million in value), after which time, the project must be handed over to the government "without any consideration or compensation." The private company benefits from revenue streams during the period of operation. The government benefits from not having to incur additional spending on its balance sheet, as well as from employing the arguably better honed skills of the private sector in identifying, planning and delivering profitable projects. As a form of private-public cooperation that differs from

either full privatisation or full nationalisation, BOT contracts ensure that the Kuwaiti government retains long-term strategic control of large projects.

**Visitation and the Hotel Market**

Both the government and private sector have taken important strides to improve the country's tourism infrastructure, with the expansion of Kuwait International Airport and the planned addition of 3,500 new hotel rooms by 2011. The Kuwaiti government launched a 20-year tourism plan in 2005 to allow for the development of the travel and tourism sector, with a key focus on business tourism growth, so as to diversify Kuwait's national income. This plan was developed together with the World Tourism Organization and includes the development of new hotels and resorts.

Kuwait's tourism relies on regional visitation, specifically on Saudi tourists, which accounted for almost 40% of arrivals in 2007 and are expected to constitute almost 50% of arrivals by 2012. Other important source markets of visitation are Egypt (roughly 12%) and India (roughly 14%, but a source of cheap leisure rather than tourists). In 2008, the main mode of travel to Kuwait remained land travel (56%), followed closely by air travel (44%). We note that air travel is predominantly international in nature. The hotel demand in Kuwait City is generated primarily by Commercial sources.

Tourism seasonality in Kuwait is determined primarily by the local climate (in July and August), Ramadan (which changes from year to year as it is based on the lunar calendar) and the timing of significant local events and exhibitions. February is one of the busiest months because of events such as the Hala festival (celebrating spring), the Kuwaiti National Day (25 February) and Liberation Day (26 February) and a Jazz Festival. Other events that take place throughout the year in the Kuwait International Fairground and various other venues include, the French Cheese Festival, the Ramadan Food Exhibition, Gift Exhibition, International Perfumes and Cosmetics Exhibition, Gold and Jewellery Exhibition, and the International Trade Fair. The low season generally falls in the summer months.

In 2008, five-star hotels operated by international hotel chains dominated the market supply. However, it is worth noting the recent opening of the Ibis Salmiya (2008) as a portent of an emerging trend. Investors appear to divert their focus away from luxury properties in recognition of the potential of alternative asset types in Kuwait City, such as lower priced hotels and extended-stay properties. We note that InterContinental Hotels and Resorts appear to lead by example in this respect.

The performance of quality hotels in Kuwait in 2008 surpassed the results of 2007 as the economic downturn only started to have an impact on Kuwait in December 2008. We estimate that five-star hotels have achieved occupancy levels of roughly 62% and average daily rates of about US$260. We note that year-on-year average occupancy levels reflect double-digit growth for new entries in the market, partly compensated by moderate occupancy decreases for older properties. Average daily rates have increased by roughly 5%. We highlight that these statistics apply to the high-end hotels only; there is anecdotal evidence that the overall hotel market in Kuwait has suffered from lower occupancy levels and average daily rate decreases.

According to Kuwait's Hotel Owner Association, more than 3,000 are planned to enter the market in the next five years. However, owing to the intensified uncertainties created by the current downturn, we only present the supply that we consider most likely to materialise in the near future; we include the opening dates for illustrative purposes only.

**Table 1 New Hotel Supply – Kuwait**

| Proposed Property | Number of Rooms | Estimated Opening Date | Development Stage |
|---|---|---|---|
| Golden Tulip Kuwait | 165 | 2009 | Under Construction |
| Hilton Olympia Kuwait | 214 | 2009 | Under Construction |
| Hotel Missoni Kuwait City | 207 | 2009 | Under Construction |

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|---|---|---|---|
| Swiss-Belhotel Plaza Kuwait | 156 | 2009 | Under Construction |
| Ibis Sharq | 160 | 2009 | Under construction |
| **Total 2009** | **902** | | |
| | | | |
| InterContinental Kuwait Downtow | 200 | 2010 | Under Construction |
| Staybridge Suites, Kuwait | 120 | 2010 | Under Construction |
| Staybridge Suites, Kuwait | 193 | 2010 | Under Construction |
| **Total 2010** | **513** | | |
| | | | |
| Four Seasons Hotel Kuwait City | 225 | 2011 | Under Construction |
| Jumeirah Messilah Beach Hotel | 307 | 2011 | Under Construction |
| The Square Capital Tower | 233 | 2011 | Under Construction |
| The Ritz-Carlton Kuwait | 350 | 2011 | On hold |
| **Total 2011** | **1,115** | | |
| | | | |
| **Total 2009-11** | **2,530** | | |

We note that the list above does not include hotels that are planned to open later than three years from now (that is, the 160-room Novotel Mina Abdullah Resort opening in 2013) or properties for which there was no sufficient recent evidence at the date of our report (that is, Monarch Luxury and Conference Centre, The Regent Messilah Beach Resort & Spa, a Best Western and three Tulip Inn properties).

**Outlook and Opportunities**

Tourism in Kuwait faces challenges related to a very strong local currency that makes it less attractive as a business or leisure destination. Anecdotal evidence suggests that even Kuwaiti investors invest in tourism overseas more than inside their country. The relatively high cost of vacationing in Kuwait makes it unlikely to become a mass-tourism destination. Strong Islamic traditions make this country a very attractive destination to Arab heritage tourists, despite intense competition from other states in the Gulf.

In future, Kuwait needs to implement new tourism strategies to increase its appeal as an international destination and expand its demand base beyond the Arab world. While business tourism remains the most attractive segment to pursue, Kuwait's tourism potential could only be achieved by a better definition of the country's tourism profile and by developing the necessary leisure tourism attractions. The country could capitalise on the strength of its culture and heritage tourism but also increase focus on spa tourism, and sea and sun activities such as yachting, diving and trips to the islands.

*No investment decision should be made based on the information presented in this article. For further advice please contract the authors.*

**About the Team**

HVS has a team of experts that conducts our operations in the Middle East and North Africa. The team benefits from international and local backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last three years, the team has advised on more than 150 projects in the region for hotel owners, developers, lenders, investors and operators. HVS has advised on more than US$25 billion worth of hotel real estate in the region.