Middle East Hotel Markets – Outlook, Trends and Opportunities

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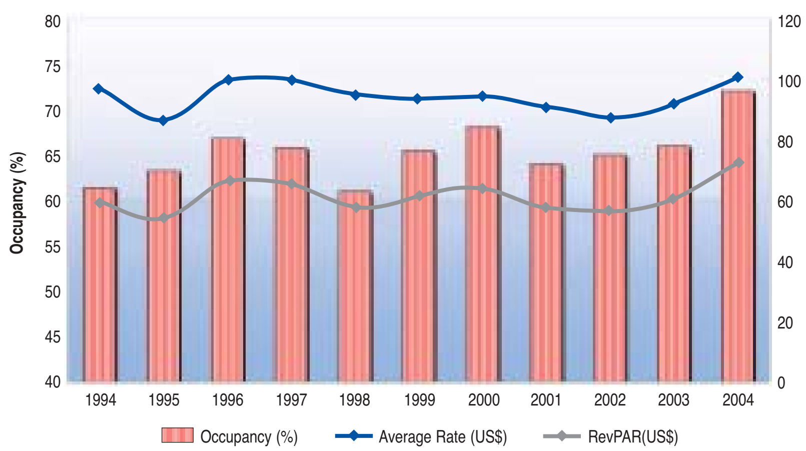
A Record Year!

INTRODUCTION AND HIGHLIGHTS

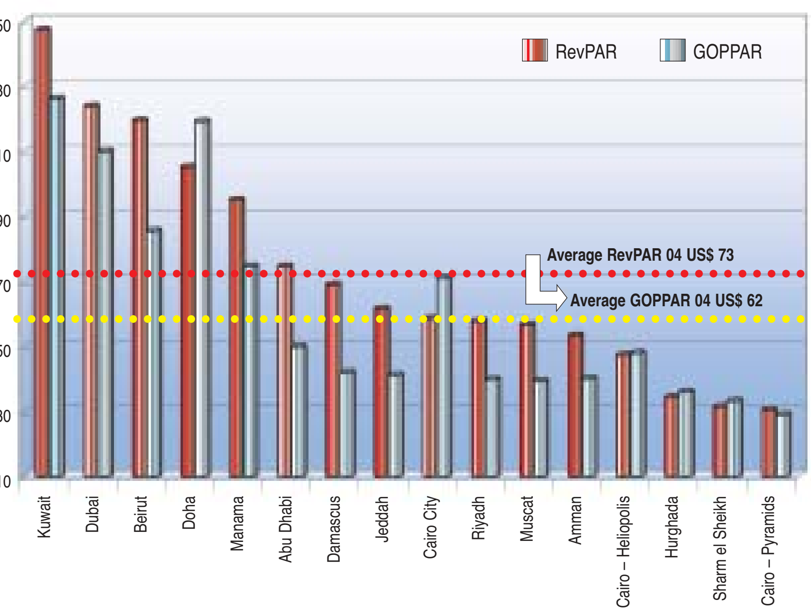
- HVS International's Middle East Hotel Survey for 2005 features 105 hotels totalling 32,000 rooms. Our sample includes branded four-star and five-star hotels, but we have excluded super-luxury hotels as these could skew the results of this survey;
- This year HVS International has pioneered a profitability assessment of the Middle East hotel industry. An assessment of GOPPAR (gross operating profit per available room; *Ref: GOPPAR a Derivative of RevPAR, Elie Younes and Russell Kett, HVS International 2003*) for each market has been conducted by HVS International's expert Middle East team. Our assessment is based on our research and HVS International's extensive expertise in the local, regional and international hotel markets worldwide;
- Despite the continued political turmoil in Iraq, the hotel industry in the Middle East had a spectacular 2004, achieving a ten-year record performance and outperforming some of the best-established international markets. Occupancy among quality hotels increased from 67% in 2003 to approximately 72% in 2004. Average daily room rate (ADR) for the region increased by approximately 10%, from US$92 in 2003 to US$101 in 2004. RevPAR as a result saw double-digit growth of approximately 18% on 2003, registering US$73, the highest since 1994;
- Hotel gross operating profits grew on average by 26%. GOPPAR improved from US$49 in 2003 to an average of US$62 in 2004. The accelerated GOPPAR growth is attributable mainly to the strong impact of the incremental income from the rooms department on departmental profit and, thus, gross operating profit (GOP);
- If we assume an average development cost of US$185,000 per room for our surveyed sample, then the total return on investment from operating cash flow is estimated to be, on average, 12% in 2004, which will undoubtedly whet the appetite of local and regional investors;
- RevPAR to GOPPAR conversion rates in the region range from 0.6 in Syria to 1.2 in Egypt. Factors that influence this conversion rate include average rate fluctuation,

Table 1 Performance of First Class Hotels in the Middle East 1994-04



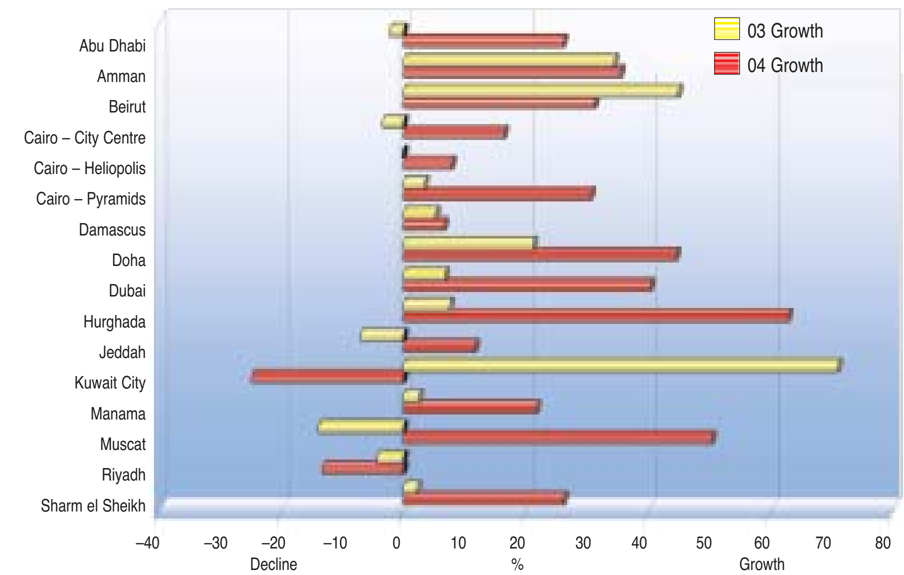
Source: HVS International Research

Table 2 RevPAR vs GOPPAR Trends 2004 (US$)



Source: HVS International Research and Analysis

Table 3 Winners and Losers – Percentage Change in RevPAR Between 2003 and 2004



Source: HVS International Research

occupancy, facilities, revenue mix and labour costs;

- Demand was boosted by an increase in regional tourism and by the improved awareness of European markets. The increase in ADR was attributable mostly to increased demand, which stimulated hoteliers into increasing room rate. This was further enhanced by the continued devaluation of the US dollar (the currency to which most currencies in the region are pegged), and hence the increased purchasing power (elastic demand) of the major non-dollar-denominated hard currencies;
- Our general outlook for the hotel industry in 2005 and 2006 remains positive in all aspects (operating performance, investment returns, and private and public capital investment in the industry).

MACROECONOMIC OVERVIEW

- In 2004 the Middle East was the second-fastest growing region after China. Spectacular economic growth in GDP of more than 5% was recorded in 2004, and this was attributable primarily to a combination of high oil prices, low interest rates and abundant liquidity within the region. Expectations are that the region's growth is likely to continue to be strong in 2005, although growth is expected to slow;
- The progress made towards the goal of fully fledged monetary union with a single currency in 2010 is remarkable; barriers to the movement of goods, services, capital and labour have largely been eliminated;
- Qatar continues to experience one of the strongest economic growth rates in the region: GDP was approximately 9% in 2004;
- GCC (Gulf Co-operation Council – predominantly oil producers) countries are pressing ahead with their economic diversification programmes, with the UAE (Dubai), Qatar, Bahrain and Oman remaining the most committed and proactive. We consider that a unified Middle East tourism strategy is vital as this will restrict intra-regional competition;
- The non-GCC countries also experienced considerable economic growth, which was driven mainly by low interest rates and an improvement in domestic and international confidence and consumption;
- The region remains highly vulnerable to political instability in Iraq, US sabre-rattling over Iran and Syria, and the continued tensions between Israel and the Palestinians. However, since the election of Mahmoud Abbas in succession to the late Yasser Arafat as the new Palestinian leader hopes for a potential peace process have been raised which, if these hopes materialise, will undoubtedly fuel economic growth and significantly improve international confidence and thus direct foreign investments on all levels.

OVERALL TRENDS

- According to the World Tourism Organisation (WTO), the growth in the number of tourist arrivals in the region in 2004 was once again staggering in comparison to 2003. The number of tourist arrivals in the Middle East in 2004 was up by 20% on 2003, and the Middle East remained the world's fastest-growing region in terms of arrivals between 1996 and 2004. This reflects both the potential of the tourism industry in the region and its resilience to political shocks;
- We consider that the growth in tourism was driven mainly by increased intra-regional visitation (an increase which has been noticeable ever since the events of 11 September 2001), increased international awareness of the region, the decline in the US dollar,

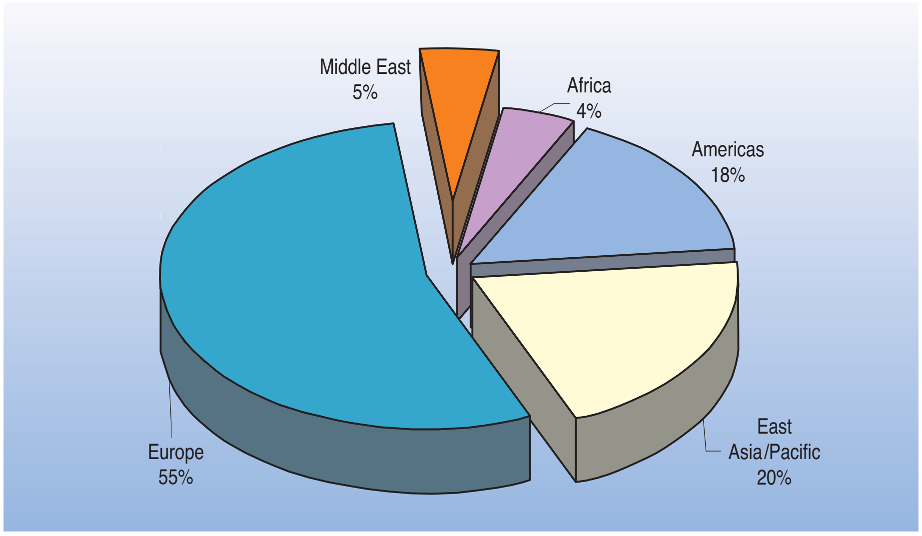
Table 4 Real Gross Domestic Product Growth (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	Forecast 2005
Bahrain	3.1%	3.1%	3.1%	1.2%	5.2%	5.0%	3.8%	4.9%	5.6%	6.4
Egypt	5.1	5.9	5.0	3.1	3.9	2.5	3.0	1.8	2.7	3.8
Jordan	0.8	2.7	2.2	1.5	2.5	2.8	3.6	3.1	6.4	6.0
Kuwait	2.9	2.5	0.0	(0.5)	4.0	0.8	(2.0)	4.6	7.2	2.6
Lebanon	4.0	3.5	3.5	4.0	0.0	0.8	0.9	2.0	4.0	4.5
Oman	3.5	3.5	2.1	1.5	4.7	5.0	2.2	1.1	1.2	1.4
Qatar	8.9	10.5	3.2	3.3	4.3	5.7	4.6	8.5	8.7	8.3
Saudi Arabia	1.4	2.5	(1.0)	1.6	4.1	1.7	0.6	3.5	5.3	4.7
Syria	5.5	4.1	3.4	4.0	1.5	1.6	2.2	0.9	2.2	1.9
United Arab Emirates	3.0	1.0	(5.0)	(1.2)	5.0	2.9	2.4	3.5	5.7	5.8

Source: Economist Intelligence Unit, February 2005

Table 5 Worldwide Tourism Trends and Distribution 2003-04

	Tourist Arrivals			
	Millions		% Change	
	2003	2004[1]	2003/04	1996/04
World	**691.0**	**759.0**	**9.8%**	**27.2%**
Africa	31.0	33.0	6.5	51.2
Americas	113.0	124.0	9.7	6.0
East Asia/Pacific	119.0	153.0	28.6	67.3
Europe	399.0	414.0	3.8	18.2
Middle East	**29.0**	**35.0**	20.7	**148.5**



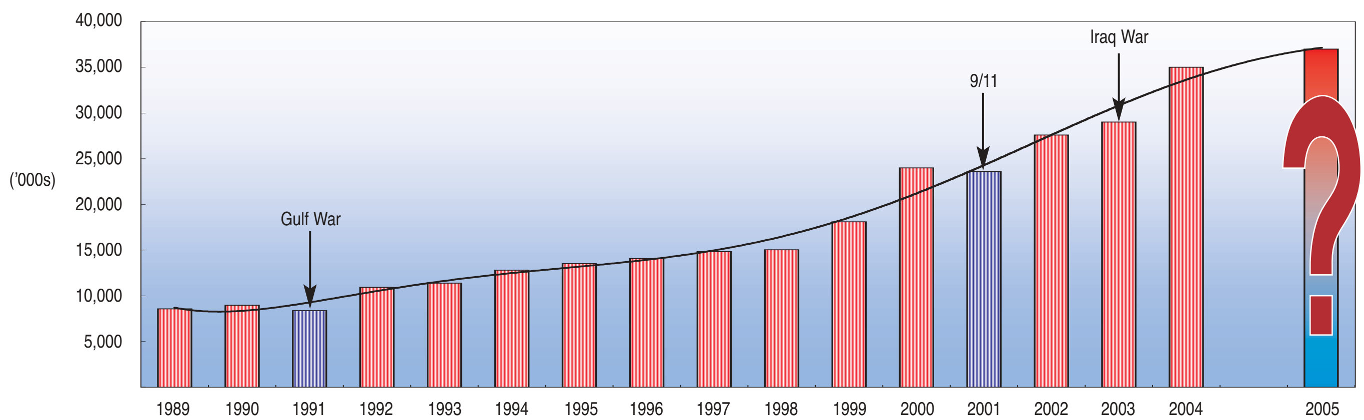
[1] Preliminary estimates

Source: World Tourism Organisation

and an improvement in global economies. All of these factors have stimulated international leisure and corporate visitation;

- Tourist arrivals in the Middle East continue to account for less than 5% of the total number of arrivals worldwide. This clearly reflects the potential of the region to experience strong growth in the future and further improve its market share when compared to other destinations worldwide;
- We expect the region to experience further considerable growth over the next five to ten years. However, the annual growth rate is likely to slow over the next decade. We note that the WTO expects the region to experience an average annual growth of approximately 7% over the next 15 years;
- Most currencies in the region are pegged to the US dollar and, given the recent appreciation of the euro, the region will become increasingly attractive, in terms of purchasing power, to the European leisure markets;
- The significant number of large-scale developments underway throughout the region (in Qatar, Bahrain, Oman, Dubai and Lebanon, for example) is likely to stimulate both the level of visitation and private investment. The latter will be further fuelled by the gradual relaxation of freehold legislation, which will allow regional (and, occasionally, international) investors to take full ownership of commercial and residential real estate;
- Public spending continues to drive most of the economic and tourism development in the GCC, whereas non-GCC countries rely on private spending and investment. However, the increased liquidity of the private equity markets in the region will in all likelihood improve the private sector's role in the investment in and the development of the hotel and tourism industries over the next five to ten years;
- While hotel financing in the region has in the past been conservative, recent indications show a trend towards more aggressive hotel debt financing in aspects including mortgage lending ratios, mortgage amortisation period and debt servicing structure;
- An increased level of development in 'hotel derivatives' is noticeable. Such asset classes include timeshare, serviced apartments and limited service hotels. Although opportunities for investment in

Table 6 Middle East Tourism Arrivals 1989-04



Source: WTO estimates

Table 7 Average Annual Room Occupancy 1994–04

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Bahrain	Manama	65 %	58 %	53 %	63 %	58 %	56 %	59 %	62 %	64 %	64 %	72 %
Egypt	Cairo – City Centre	n/a	67	73	75	69	79	78	66	68	67	78
	Cairo – Pyramids	n/a	58	66	66	47	70	76	61	62	61	73
	Cairo – Heliopolis	n/a	65	79	72	70	83	83	75	75	73	75
	Hurghada	48	63	70	63	50	80	77	65	66	66	86
	Sharm el Sheikh	79	73	72	66	68	79	63	61	66	64	75
Jordan	Amman	61	74	71	61	56	56	59	44	45	57	72
Kuwait	Kuwait City	44	41	44	46	46	47	46	49	53	84	64
Lebanon	Beirut	n/a	n/a	45	61	61	58	61	55	55	59	71
Oman	Muscat	67	66	64	71	56	57	55	62	59	57	69
Qatar	Doha	61	75	80	78	72	61	58	56	60	72	72
Saudi Arabia	Jeddah	68	64	61	58	60	59	63	59	57	53	54
	Riyadh	66	62	61	62	63	62	60	61	65	64	55
Syria	Damascus	70	73	68	70	69	69	66	65	67	65	69
UAE	Abu Dhabi	65	58	66	65	66	64	67	67	68	68	82
	Dubai	74	69	74	73	70	70	74	71	76	79	86
	Average	**61 %**	**63 %**	**67 %**	**66 %**	**61 %**	**65 %**	**68 %**	**64 %**	**66 %**	**66 %**	**72 %**

Source: HVS International Research

Table 8 Average Room Rates Achieved 1994–04 (US$)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	% Change 2003–04
Bahrain	Manama	86	87	92	90	93	102	105	103	119	122	132	8.2
Egypt	Cairo – City Centre	n/a	73	72	78	78	80	86	85	77	75	75	0.0
	Cairo – Pyramids	n/a	38	42	46	44	47	59	60	36	38	42	10.5
	Cairo – Heliopolis	n/a	59	62	61	62	62	68	65	59	60	63	5.0
	Hurghada	67	39	41	44	30	34	41	35	30	32	40	25.0
	Sharm el Sheikh [1]	51	49	53	52	35	44	45	41	37	39	42	7.7
Jordan	Amman	67	75	83	83	81	71	68	68	65	69	74	7.2
Kuwait	Kuwait City [2]	209	205	213	201	204	203	214	218	216	233	230	(1.3)
Lebanon	Beirut [2]	n/a	n/a	166	173	143	129	135	138	150	154	168	9.1
Oman	Muscat	103	103	112	101	95	91	86	80	74	66	82	24.2
Qatar	Doha	65	68	77	101	116	112	115	105	100	101	146	44.6
Saudi Arabia	Jeddah	99	103	117	115	113	111	119	110	104	104	114	9.6
	Riyadh	98	105	106	110	113	116	115	110	107	104	105	1.0
Syria	Damascus	102	73	124	118	111	104	97	94	94	102	100	(2.0)
UAE	Abu Dhabi	108	114	129	111	101	99	88	89	89	87	91	4.6
	Dubai [3]	117	119	120	126	107	104	105	100	110	113	144	27.4
	Average	**98**	**87**	**101**	**101**	**95**	**94**	**95**	**92**	**89**	**94**	**103**	**9.9 %**

[1] Our sample changed in 2004: various five-star and five-star de luxe hotels were removed from the sample

[2] We have adjusted our sample for the entire period shown

[3] Excludes five-star luxury hotels

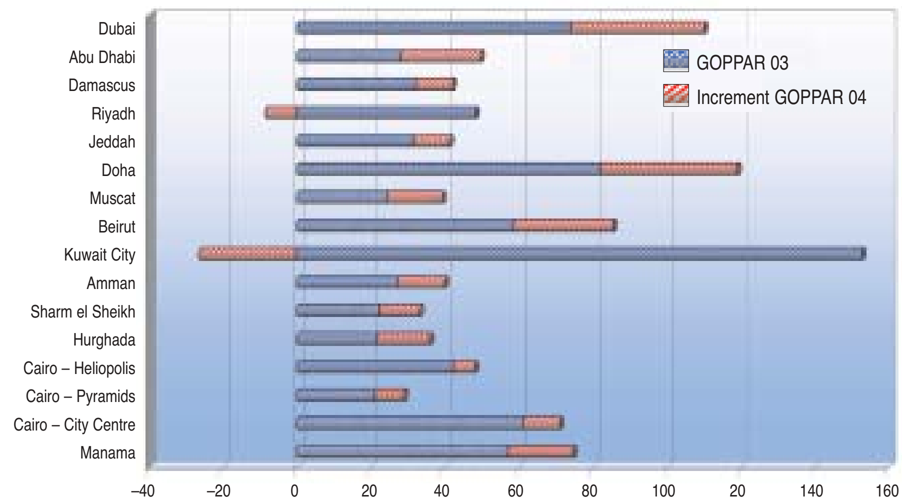
Source: HVS International Research

Table 9 RevPAR Performance 1994–04 (US$)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	% Change 2003–04
Bahrain	Manama	56	51	49	56	54	57	62	64	76	78	95	21.7
Egypt	Cairo – City Centre	n/a	49	53	58	60	62	67	56	52	50	59	16.4
	Cairo – Pyramids	n/a	20	37	29	31	35	50	40	23	23	30	30.6
	Cairo – Heliopolis	n/a	38	49	44	52	52	57	49	44	44	47	7.9
	Hurghada	32	25	29	28	24	27	31	23	20	21	34	62.9
	Sharm el Sheikh	48	43	46	41	36	43	35	31	24	25	32	26.2
Jordan	Amman	41	55	59	50	46	40	40	30	29	39	53	35.5
Kuwait	Kuwait City	77	70	78	77	79	79	82	89	114	196	147	(24.8)
Lebanon	Beirut	n/a	n/a	57	81	81	75	82	76	83	91	119	31.3
Oman	Muscat	69	68	71	72	54	52	47	50	44	38	57	50.4
Qatar	Doha	39	51	62	79	71	69	67	59	60	73	105	44.6
Saudi Arabia	Jeddah	69	68	73	70	69	68	77	67	59	55	62	11.7
	Riyadh	65	66	64	69	70	72	69	67	70	67	58	(13.2)
Syria	Damascus	71	53	84	82	77	72	65	61	63	66	69	4.1
UAE	Abu Dhabi	70	66	85	72	64	63	60	60	61	59	75	26.1
	Dubai	86	82	89	92	75	73	78	73	84	89	124	38.7
	Average	**58**	**53**	**60**	**60**	**58**	**56**	**60**	**59**	**59**	**62**	**73**	**18.1 %**

Source: HVS International Research

Table 10 GOPPAR Performance 2003–04 (US$)



Source: HVS International Research and Analysis

such asset classes exist in some parts of the region, we recommend that investors fully understand the market opportunities and investment characteristics of each type of asset class before setting their investment strategies;

- As anticipated in last year's report, an increasing number of specialist hotel investment funds are being created for and within the region. The source of such capital emanates mostly from the GCC countries;
- InterContinental Hotels Group, Mövenpick, Rotana and Rezidor SAS appear to be the most prolific hotel operators in the region, in terms of new developments.

Country Analysis

BAHRAIN

Economics and Politics

- Bahrain has a small but reasonably prosperous and diversified economy and one that is less dependent on oil than most other Gulf States;
- Economic growth for Bahrain is forecast to rise from an estimated 5.6% in 2004 to 6.4% in 2005, triggered by increased government spending, the development of large-scale state-backed projects and foreign investment;
- Following the escalation of violence by militant Islamists in Saudi Arabia in late 2003 and early 2004 and the relocation of some expatriates to Bahrain, concerns have mounted that Bahrain itself may be the target of an attack. However, the country has so far successfully overcome such concerns;
- Ties with the USA have further strengthened recently, with the conclusion in 2004 of a bilateral free-trade agreement between the two countries. However, this agreement might have an impact on Bahrain's relations with neighbouring Saudi Arabia;
- The long-term prospects for the economy of Bahrain are tied to those of the wider Gulf region, particularly the Saudi market. Bahrain already has a large offshore financial sector, which serves mainly Saudi needs; however, due to Saudi restrictions, so far it has not become a base for investment serving the Saudi market. Recent Saudi moves towards economic liberalisation could make it easier for Bahrain-based firms to do business in Saudi Arabia.

Developments and Initiatives

Private and public projects and initiatives in the country include the following.

- The government is expected to press ahead with the liberalisation of utilities, which should promote a more rapid inflow of foreign investment and stimulate growth and confidence;
- Private sector development is being encouraged more broadly, as investment processes are streamlined and tax incentives introduced;
- The development of the Friendly Bridge between Bahrain and Qatar is back on track after being on hold for a while. Construction is due to commence in 2007 with completion due by 2010;
- Plans have been announced for a major programme of expansion at Bahrain International Airport with an estimated cost of US$170 million. Once the expansion is complete, in 2010, the airport's capacity is likely to increase from the current capacity of around 7 million passengers to 12 million passengers per year;
- The US$1.3 billion Bahrain Financial Harbour (BFH) is under construction. The BFH is a major

Table 11 Proposed Hotels – Bahrain

Hotel Name	Number of Rooms	Opening Date	Location	Status
Mercure Grand All-suite Hotel	120	2005	Manama	Under Construction
Radisson SAS Diplomat [1]	130	2006	Manama	Under Construction
Marriott Executive Apartments	190	2007	Manama	Under Construction
Bahrain Cty Centre Hotels	500	2007	Manama	Under Construction
Amwaj Island Hotels	750	2007	Muharraq	Under Construction
Novotel	200	2007	Manama	Under Construction
Durrat al Bahrain Resort	100	2008	Durrat al Bahrain	Under Construction
Proposed Hotels – (BFH)	400	2008	Manama	Planned
Zallak Resort	300	2008	Zallak	Planned
Bahrain Equestrian Club	200	2008	Manama	Planned
Luxury Resort Hotel	165	2008	Jasra	Planned
Other Rumoured Projects	500	2008	Manama	Rumoured

[1] Serviced Apartments

Sources: HVS International Research and Hotel Operators

Durrat al Bahrain

project that aims to consolidate Bahrain's leading position as the international financial centre of the Middle East, thereby creating a financial hub in the region and providing the necessary infrastructure and facilities for the full range of requirements of the financial services sector. Some 350 national, regional and multinational financial institutions and companies are expected to take up residence in the BFH upon its completion, which is scheduled for 2009. In addition, the BFH will contain a wide range of leisure and retail outlets, key entertainment facilities and residential premises;

- The Bahrain International Circuit was successfully completed in time for the 2004 Formula One Grand Prix, and, according to local estimates, the event attracted more than 40,000 foreign visitors. This annual event is likely to stimulate additional organic growth in visitation to Bahrain for at least the next four years;
- The construction of the US$1 billion Amwaj Islands project is underway and most elements of this city development are expected to be completed by 2007. The project comprises a group of man-made islands, covering approximately 279 hectares (2.8 km^2), located on the north coast of Muharraq Island, near to Bahrain International Airport. The project will include a 9.5 km beachfront, 1,048 residential units (available for freehold purchase), private marinas, hotels, commercial and entertainment centres, restaurants and malls;
- The US$1 billion Durrat Al Bahrain project is a 20 km^2 seaside city resort located 25 km from the capital Manama, in the south of Bahrain, near to the planned Bahrain/Qatar causeway. The project (due for completion in 2008) is one of the most ambitious in the country, featuring 13 islands with over 2,000 villas, 3,000 apartments and townhouses, a 60-room, five-star hotel, an 18-hole golf course, an aqua park and various other leisure and retail facilities;
- The US$750 million Al Areen Desert Spa and Resort is to be located on the eastern boundary of the Al Areen Wildlife Sanctuary, close to the Bahrain International Circuit (BIC); the resort will be approximately 25 minutes' drive from Manama and will cover an area of some 200 hectares (2.0 km^2). It will incorporate extensive spa facilities and themed hotel accommodation, residential villas and low-rise apartments, commercial and entertainment facilities, and a water park, which will face the BIC and overlook the Al Areen Wildlife Sanctuary. The resort is expected to attract the health tourist market and is scheduled for completion by 2008;
- The Dream Island resort, a Venice-style island, is being developed along the northeast coast of Manama and is likely to include a hotel, a spa, beach villas, marina residences and other leisure and entertainment facilities. The project is due for completion in 2006/07;
- Plans have been announced for the development of a desert ski centre, at a cost of some US$500 million. The attraction will cover an area of 25 hectares near Al Jazira Beach. The centre will offer outdoor sand skiing and snowboarding facilities as well as an indoor ice rink that will be suitable for a variety of sports. A hotel is also planned within the complex, along with a convention hall and retail facilities. Completion of the project is scheduled for 2008.

Visitation and the Hotel Market

- Bahrain saw visitation grow strongly in 2004. The main impetus behind this growth was the Formula One Grand Prix in April (which drew more than 40,000 foreign visitors). This was the first time that Bahrain had hosted such an event (and it was the first country in the Middle East to do so). Growth in visitation was boosted too by events such as the GCC Summit in December 2004;
- The main source market for Bahrain remains the Arab world, which accounted for more than 75% of the total number of arrivals. Asia is the second main source market, accounting for approximately 15% of total visitation;
- In 2004 aggregate occupancy in the market increased to 72%, and average achieved room rate for the quality hotel market increased by 8% on 2003, to US$132. This resulted in 22% growth in RevPAR, to US$95;
- Our research and analysis suggests that the quality hotel market in Manama registered an average GOPPAR of approximately US$75, a 30% rise on 2003;
- New openings in 2004 included the 110-room Mövenpick and the 120-unit Ritz-Carlton apartments;
- Proposed and rumoured new supply in the market is illustrated in Table 11.

Outlook and Opportunities

- Bahrain 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;
- Unlike other GCC countries, Bahrain benefits from cultural and natural resources that could be capitalised on when it comes to designing the country's tourism product. We still consider that Bahrain must carefully define its tourism strategy in order to differentiate itself from other destinations in the region, notably Dubai;
- A considerable level of new hotel supply is likely to enter the market over the next few years. This could potentially have a significant impact on the performance of quality hotels. However, various innovative projects are being developed, and these are likely to establish the country more firmly on the global tourist map, and hence induce a considerable level of hotel demand that should in turn absorb the new supply;
- 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 Economist Intelligence Unit (EIU), economic growth is forecast to rise to 3.8% in fiscal year 2005 from an estimated 2.7% in fiscal year 2004, as cuts in customs duties and taxes stimulate economic activity. The growth is also attributable to the inflow of

Table 12 Proposed Hotels – Egypt

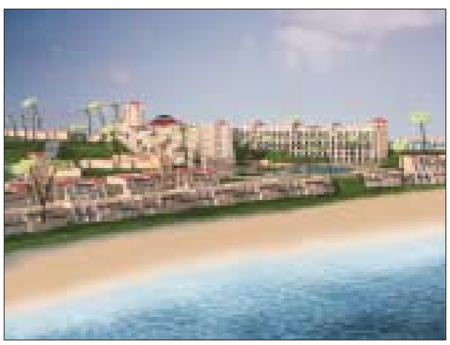
Hotel Name	Number of Rooms	Opening Date	Location	Status
Former Nile Plaza	211	2006	Cairo City Centre	Under Construction
Park Hyatt [1]	250	2007	Cairo City Centre	Under Construction
Novotel	400	2007	Cairo City Centre	Rumoured
Fairmont	400	2007	Cairo City Centre	Planned
Holiday Inn – City Stars	340	2005	Heliopolis	Under Construction
Serviced apartments – City Stars	200	2005	Heliopolis	Awaiting Approval
Westin	250	2007	Heliopolis	Under Construction
Proposed Branded Hotel	500	2007	Heliopolis	Planned
Airport Hotel	350	2007	Heliopolis	Under Construction
Mövenpick/Greater Cairo	280	2006	Al Obour	Rumoured
Hilton	485	2008	Heliopolis	Rumoured
Kempinski	230	2005	Hurghada/Sahel Hashish	Under Construction
Other Hotels (two or three)	750	2008	Hurghada/Sahel Hashish	Rumoured
Grand Rotana Hotel and Spa	600	2006	Sharm El Sheikh	Under Construction
Proposed Regent Hotel	300	2007	Sharm El Sheikh	Planned
Holiday Inn	176	2005	Taba	Opened
Millennium	120	2005	Port Ghalib	Under Construction
Mövenpick Resort	434	2005	Taba	Under Construction
Mövenpick Resort [2]	138	2005	El Gouna	Under Construction
Proposed Hotel	330	2006	Soma Bay	Awaiting Approval
Radisson SAS	250	2006	El Quseir	Early Construction

[1] Taken over from Le Meridien
[2] Extension
Sources: HVS International Research; Hotel Operators

hard currency from tourism, non-oil exports and the Suez Canal;

- The president, Mr Hosni Mubarak, has recently addressed the long-standing popular unrest by reshuffling the cabinet. The new government faces a number of economic challenges such as preventing further deterioration of public funds, tackling strong inflation and raising low business confidence;
- For the first time since 2000, the Egyptian pound has appreciated over hard currencies, notably the US dollar. According to the EIU, the Egyptian pound is expected to appreciate to approximately E£5.77:US$1 in 2005 compared to E£6.2:US$1 in 2004;
- Personal and corporate income tax rates have been lowered, and this will strengthen private investment;
- Foreign direct investment (FDI) in Egypt reached only US$600 million in 2004, a significant decline on the US$1.2 billion of 2000. However, we note that FDI in the Middle East as a whole has grown considerably over the last few years.

Proposed Grand Rotana – Sharm El Sheikh Egypt



Developments and Initiatives

Private and public projects in the country include the following.

- New laws are being established to remove any tax differentiation between joint venture and private sector companies, and to reduce corporate profit taxes to approximately 20%;
- The government is now pressing ahead with the privatisation of some of its assets in Cairo. Some of the companies that should be included in the process are the Misr Hotels Company, The 'Thomas Cook "Boulak" Land' and other hotels in downtown Cairo;
- The government has recently further facilitated entry procedures for visitors from EU countries. Citizens of Italy and Germany can now travel to Egypt with an ID card only;
- Arab visitors now have easier procedures for entry into Egypt;
- The development of a 'metro' line in Cairo city centre, work which would involve the construction/rehabilitation of a 4.5 km underground railway between Ataba and Abbasiya, appears to be on the government's agenda;
- In terms of infrastructure, work has started on the improvement of the airport in Cairo at an estimated cost of US$400 million. This will include the development of a third international terminal, including the construction of a concourse, three skyways and ancillary buildings with a total built-up area of 164,000 m^2. The expansion will increase the handling capacity of the airport from 9 million passengers to 11 million passengers per annum by mid 2008;
- The development of a second terminal building at Sharm El Sheikh Airport is likely to start in mid 2005. The total built-up area of the expansion is estimated to be around 44,000 m^2;
- The Grand Museum of Egypt is planned in Cairo, near Giza. This project aims to establish a state-of-the-art complex of museums and facilities that will provide access to a broad range of information and antiquities. The total estimated cost of the museum is US$350 million, but the project is still awaiting funding;
- Rumours suggest that Saudi Arabia and Egypt are seriously considering the development of a new causeway across the Red Sea in order to link the port of Diba in Saudi Arabia with the Egyptian port of Sharm El Sheikh. This US$3.0 billion project is currently awaiting the outcome of various technical studies;
- Major tourist and infrastructural projects are underway in Taba, Marsa Alam and El Alamein.

Visitation and the Hotel Market

- Despite the terrorist attacks in Taba during the third quarter of 2004, total visitation to Egypt in 2004 increased by some 34% on 2003, to 8.1 million visitors. This growth is in addition to the considerable 15% growth that was experienced in 2003;

- Europe remains the main feeder market in terms of demand. However, the country has been experiencing strong growth in demand from GCC countries since the events of 11 September 2001.

Cairo City Centre

- In 2004, marketwide occupancy for Cairo City Centre hotels rose by 11 percentage points on 2003, to 78%. This increase was driven by the initiatives undertaken by the Egyptian government to promote tourism to Egypt, an increased level of GCC tourist visitation, an improvement in global economies, which in turn stimulated worldwide travel, and the strength of the euro, which stimulated further demand from European countries;
- Despite the depreciation of the local currency, average room rate in US dollar terms remained unchanged at US$75. The recent opening of the 136-room Four Seasons Nile Plaza is likely to have an impact on future average room rate performance on account of the firm pricing policy of this operator;
- In 2004, RevPAR across the downtown hotel market increased by approximately 16% on 2003, from US$50 to US$59. Similarly, GOPPAR grew by 16%, to US$71;
- We highlight that the conversion factor between RevPAR and GOPPAR in Cairo City Centre is the highest in our survey, at 1.2 in 2004 (*that is, in 2004, each US$1.0 of RevPAR yielded GOPPAR of US$1.2*). The high conversion factor is driven primarily by the strong level of non-rooms revenues (notably food and beverage and casino income) and low labour costs in the market;
- The Cairo Marriott Hotel & Omar Khayyam Casino will undergo a complete renovation of its rooms that will start in August 2005 and last two years. It is now confirmed that the Helnan Shepheard and the Nile Hilton are likely to undergo some major renovation work over the next two years. Furthermore, the El Gezirah hotel (previously managed by Starwood Hotels & Resorts under the Sheraton brand, and operated by Accor since January 2005) is currently in the process of a complete renovation totalling approximately US$45 million prior to the hotel's rebranding as a Sofitel by the end of 2005.

Cairo Heliopolis

- Hotels in Cairo Heliopolis experienced a moderate increase in occupancy, from 73% in 2003 to 75% in 2004. This growth came in spite of the opening of the 346-room JW Marriott Mirage Hotel in August 2003 and the opening of the 790-room InterContinental in late 2004;
- In 2004, average rate in US dollar terms increased by 5% to US$63;
- In 2004, RevPAR across the Heliopolis hotel market increased by approximately 8% on 2003, from US$44 to US$47. This increase was reflected in accelerated growth in GOPPAR of 14%, to approximately US$48.

Cairo Pyramids

- Quality hotels at the Pyramids achieved 73% occupancy in 2004, an increase of 12 percentage points on 2003. This was only the second time since 1992 that marketwide annual occupancy had exceeded 70%. Average rate in the Pyramids market increased by 11%, from US$38 to US$42;
- The resultant RevPAR increased by approximately 31% on 2003, from US$23 to US$30, which was reflected in a 38% growth in GOPPAR, to US$29.

Sharm El Sheikh

- Hotel occupancy in Sharm El Sheikh in 2004 grew significantly on 2003, from 64% to 75%. Average rate in US dollar terms experienced a moderate increase, from US$39 in 2003 to US$42 in 2004;
- The resultant RevPAR of US$32 was up 26% on 2003, causing hotel profitability to improve significantly. GOPPAR increased from US$33 in 2003 to US$49 in 2004.

Hurghada

- The hotel market in Hurghada achieved the highest growth in our survey in every aspect. Occupancy for quality hotels in the market increased by approximately 20 percentage points on 2003, to 86%, while average room rate of US$40 was a 25% rise on 2003;
- The resultant RevPAR of US$34 compared to RevPAR of US$21 in 2003. This was reflected in a phenomenal growth in GOPPAR of 67%, to approximately US$36;
- Table 12 illustrates the new supply in Egypt.

Outlook and Opportunities

- We consider that Egypt has not yet achieved its full potential in terms of tourist visitation. The country has unique natural resources that, if capitalised on further, should stimulate additional growth;
- The upscale hotel market in Cairo is reaching stability in terms of occupancy. However, some markets have in the past achieved relatively low average room rates. It is our opinion that the hotel market in Egypt could potentially experience significant growth in average room rate over the next few years. This will undoubtedly have a significant impact on GOPPAR and investment returns;
- With the exception of Heliopolis, we expect the hotel market in the Cairo area to experience moderate growth (or stable performance) in occupancy in 2005. Depending on the operational (revenue management) policies of hotel managers, the market could also potentially experience significant growth in average room rate;
- We expect the hotel transaction market in Egypt, and, specifically, the market in Cairo, to be more active in the short to medium term. We have identified three potential hotel acquisitions in the market that are likely to take place in 2005 or 2006;
- We consider that hotel investment opportunities exist for the development of full service hotels in Egypt as well as branded limited service hotels (in Cairo only).

JORDAN

Economics and Politics

- Jordan's economic health has improved considerably following the war in Iraq. This improvement was driven mainly by the considerable increase in exports, an improvement in domestic confidence and growth of the tourism sector, all of which led to GDP growth of approximately 6% in 2004;
- Growth in private consumption should gradually accelerate and GDP growth is expected to register 6% in 2005 as capital investment picks up;

Table 13 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	Dead Sea	Under Construction
Five-Star Hotel	250	2008	Dead Sea	Rumoured
Cristal City	600	2008	Dead Sea	Planned

Sources: HVS International Research; Hotel Operators

- The economy is highly vulnerable to any political upheaval in Iraq, a very lucrative market for Jordan.

Developments and Initiatives

Private and public projects in the country include the following.

- In 2004, the government approved many structural reforms, including tax and expenditure restructuring, and an accelerated plan aimed at privatisation, which will hopefully attract an increased level of foreign direct investment;
- The government recently revealed its national tourism strategy, which aims to attract 12 million visitors by 2010; however, we consider this to be somewhat optimistic;
- The government has increased the budget of Jordan's Tourism Board by approximately 30% on 2003;
- A US$1 billion project (Royal Neighbourhoods) is planned in Amman, including residential towers, hotels, commercial buildings and leisure components. No time-frame currently exists for the development;
- The Zarqa New Garden City development is planned northeast of Amman. This large-scale development will include an extensive entertainment complex, a hotel and residential properties;
- ASEZA (Aqaba Special Economic Zone) is pressing ahead with the development of the tourism infrastructure of Aqaba and inviting private investors to invest in the industry within the area. Various residential and leisure developments are due for completion in 2005.

Visitation and the Hotel Market

- The country experienced approximately 10% growth in visitation in 2004 that was driven mainly by an improvement in the world economies, which triggered international visitation and further increased intra-Arab visitation;
- Occupancy across quality hotels in Amman increased from 57% in 2003 to 72% in 2004, and average rate increased by approximately 7% on 2003, to US$74. Consequently, the resultant RevPAR was approximately US$53;
- The 35% growth in RevPAR was reflected in an accelerated growth in GOPPAR of 47% on 2003, driven mainly by the strong impact of rooms revenue on departmental profits and thus gross operating profit (GOP). GOPPAR for the quality hotel market in Amman was US$40 in 2004;
- Proposed and rumoured supply in the country is illustrated in Table 13.

Outlook and Opportunities

- We expect further growth in marketwide hotel performance in Amman in 2005, which will be driven in all probability by an increase in average daily rate. Successful implementation of the national tourism strategy is likely to stimulate sustainable growth in tourism over the next five to seven years;
- We remain of the opinion that Jordan has significant potential to develop its tourism industry, due to its unmatched natural resources. However, the country is highly vulnerable to regional instability and to any global economic downturn.

KUWAIT

Economics and Politics

- The phenomenal increase in oil prices in 2004 was the main contributor to the impressive 7.2% economic growth in Kuwait. However, in 2005 oil output is forecast to rise only moderately, which will cause Kuwait's economic growth to slow. Consequently, GDP growth is expected to be 2.6% in 2005;
- The country's economy remains heavily dependent on oil revenues. This situation is unlikely to change substantially over the next five years;
- Various economic reforms are underway and these are aimed primarily at increasing foreign investment and privatisation.

Developments and Initiatives

Private and public sector projects in the country include the following.

- The government has recently facilitated visa procedures for 34 nations, allowing their citizens to obtain visas immediately at the airport;
- The government is currently relaxing foreign investment regulations and tax laws in an attempt to establish Kuwait as a regional financial and trade centre;
- Kuwait will soon allow more international players to enter its banking sector after last year granting France's BNP Paribas a licence to operate in the country;
- A new terminal is likely to be developed at Kuwait International Airport, which will allow for a flow of 5 million passengers a year. We

Proposed Cerruti Hotel – Kuwait

Table 14 Proposed Hotels – Kuwait

Hotel Name	Number of Rooms	Opening Date	Location	Status
Holiday Inn Salmiyye	155	2005	Kuwait City	Under Construction
Kuwait Rotana Hotel	190	2006	Kuwait City	Early Construction
Cerruti Hotel	350	2006	Kuwait City	Under Construction
Safir Marina	100	2005	Kuwait City	Under Construction
Mövenpick Hotel	200	2006	Kuwait City	Under Construction
Refad Monarch	300	2006	Kuwait City	Under Construction
Four Seasons	225	2007	Kuwait City	Planned
Ibis	175	2007	Kuwait City	Planned
Ibis	200	2007	Kuwait City	Planned

Sources: HVS International Research; Hotel Operators

understand that this project is still awaiting final approval from the Kuwaiti cabinet;

- Failaka Island is one of the largest tourism developments in Kuwait and it aims to attract local, regional and international visitation. The project lies 20 km east of Kuwait City, and is expected to cover approximately 43 km^2. The land is currently owned by the local government and is likely to be leased on a Build-Operate-Transfer (BOT) basis. The development includes various leisure and residential components;
- A major tourism project is now confirmed on Bubiyan Island that will include hotels, chalets and recreational facilities, and will cover 530 km^2. As yet, there is no firm development time-frame for this project.

Visitation and the Hotel Market

- Visitation to Kuwait continues to be predominantly corporate. Following the extraordinary growth that was noticeable in 2003, the market experienced a slowdown, as predicted in our previous report;
- Occupancy across the quality hotel market in Kuwait dropped from 84% in 2003 to 64% in 2004. This was caused by the unsustainable demand growth (driven by the war in Iraq) in 2003, the opening of the 306-room Courtyard by Marriott and the 160-room Four Points Hotel in early 2004, and the opening of the 70-room Le Meridien Art & Tech in late 2004. Average rate for five-star hotels in the market increased in 2004. The Courtyard by Marriott and the Four Points are not part of the cartel and have achieved lower average rates than the five-star hotel market; therefore the total marketwide average room rate declined by 2% on 2003, to US$230. The resultant RevPAR of US$147 was down 25% on 2003;
- The 25% decline in RevPAR was reflected in a moderate 17% downturn in GOPPAR, to US$126. The lesser fall in GOPPAR was attributable to a non-proportionate decline in non-rooms revenue combined with the usual rigid cost-control activities undertaken by hotel managers during periods of slowing demand;
- Despite the slowdown in 2004, the Kuwait hotel market remains the top GOPPAR performer in our survey. This undoubtedly reflects the strong impact of average room rate on the profitability of hotel operations; this is illustrated by the rate of US$230, which is 40% higher than the next nearest city in our survey (except for the Jumeirah Beach market which is diluted under the Dubai overall performance);
- Proposed and rumoured supply in the country is illustrated in Table 14. We highlight that, in addition to the proposed hotels mentioned in Table 14, the government of Kuwait has granted more than 80 licences for new hotel developments in 2004, which currently have no confirmed development time-frame.

Outlook and Opportunities

- We expect hotel market performance to be stable in 2005. The pricing cartel in the market might come under increasing pressure as additional hotels come on stream, especially if such hotels elect not to join the rate cartel. This will over time have a detrimental impact on hotel profits and investment returns;
- The new supply that is likely to enter the market will have a significant effect on the operating performance of the hotel industry in Kuwait. We recommend that no new hotel development be undertaken in this market until the outlook of the tourism industry in Kuwait is more assured and the impact of the new hotels which are already under development can be monitored.

LEBANON

Economics and Politics

- In 2004 the Lebanese economy experienced one of the fastest-rising economic growth levels since 1996, registering an increase of approximately 4% on 2003. This was driven by strong growth in the tourism sector and boosted domestic confidence;
- The outlook for 2005 was very positive until the unfortunate events of 14 February 2005 (the assassination of the previous prime minister Mr Rafiq al-Hariri), which plunged Lebanon into economic and political uncertainty;
- While the short-term outlook for the country is uncertain, in the long term economic prosperity is expected across all levels.

Developments and Initiatives

Private and public sector projects in the country include the following.

- The government is making increased efforts to develop the tourism industry. Various new tourism products have been designed in order to promote rural areas of the country;
- The public sector is increasingly capitalising on the country's natural resources when marketing the tourism industry. This is proving to be increasingly successful, with international tour operators recently starting to promote Lebanon in several European markets;
- The multibillion dollar ski resort in Mount Sannine (Sannine Zenith Project) northeast of Beirut is

Table 15 Proposed Hotels – Lebanon

Hotel Name	Number of Rooms	Opening Date	Location	Status
Metropolitan Hotel [1]	150	2006	Beirut Suburb	Under Construction
Four Seasons	230	2007	Solidere	Under Construction
Grand Hyatt	300	2007	Solidere	Approved
Raouche Rotana Suites	176	2007	Beirut Central	Under Construction
Solidere Rotana Suites	150	2007	Solidere	Early Construction
Boutique Design Hotel	100	2008	Solidere	Early Construction
Old Holiday Inn	300	2008	Beirut Central	Confirmed
Landmark Hotel	300	2008	Solidere	Confirmed
Five-Star Hotel	250	2008	Raouche	Confirmed
Saint George Hotel	250	2008	Beirut Central	Under renovation
Ritz-Carlton	90	2009	Solidere	On Hold
Hilton Beirut	250	2009	Beirut Central	Confirmed

[1] Extension to the existing hotel – apartments; it will feature a park and the largest ballroom in Lebanon

Sources: HVS International Research; Hotel Operators

moving ahead. The 7,500-hectare (75 km^2) resort will be the largest natural ski resort in the Middle East and will include three villages (an international sports village, an eco-farm village and a lake view village), a ski resort, various hotels, two 18-hole golf courses, and other entertainment facilities.

Visitation and the Hotel Market

- 2004 was another record year for the tourism industry in Lebanon. It is estimated that more than 1.2 million international visitors entered the country during the year, a growth of 20% on 2003;
- The hotel market continues to rely mainly on GCC leisure visitation (which continues to grow significantly) and partially on the international corporate market. In 2004, however, an increased level of European visitation to the country was noticeable. This inspired hopes of a significant improvement for the hotel industry in Beirut;
- Beirut hotels saw occupancy grow by 12 percentage points in 2004, to 71%. Average rate increased by 9%, to US$168. RevPAR thus increased by 31%, to US$119;
- GOPPAR of US$85 was up by a staggering 46% on 2003;
- Recent openings in the market include the 135-room Four Points by Sheraton in Verdun and the 150-room Hazmieh Rotana Hotel;
- Proposed and rumoured supply in the country is illustrated in Table 15.

Outlook and Opportunities

- Due to the recent political upheaval in Lebanon, we expect the hotel market in Beirut to witness a considerable downturn in 2005. However, we remain confident that the long-term prospects for hotels in Beirut are positive. Assuming no further internal political upheavals, the hotel market should grow strongly from 2006 onwards;
- An increased level of investment in locally branded serviced apartments in Beirut has been noticeable recently. These properties target the GCC leisure demand. However, we consider it crucial for such properties to have an appropriate international brand and market positioning that would also draw the local expatriate corporate market. This will smooth the impact of the seasonality of the GCC demand over performances and returns.

OMAN

Economics and Politics

- Despite strong oil prices in 2004, GDP growth in Oman was only 1.2%, driven by the country's falling oil production;
- Economic and social accomplishments have been noticeable in Oman over the last few years. These include an improved infrastructure, better education systems and an improvement in the overall standard of living of Omanis. The country is considered to be one of the most prominent emerging markets in the GCC;
- Private investment and public sector spending are expected to strengthen during 2005, which should stimulate further economic growth regardless of the anticipated decline in oil prices;
- Despite the recent terrorist plot to attack Western targets in Oman, the country's relations with the USA remain strong and the country's political stability is unlikely to be damaged.

Developments and Initiatives

Private and public sector projects in the country include the following.

- In 2004, the government relaxed the country's property laws, allowing GCC nationals to own property in the Sultanate;
- In 2004 a Ministry of Tourism was established in Oman, and it has subsequently announced its strategic tourism master plan that aims at increasing the tourism contribution to the GDP from 1% to 10%;
- The government continues increasingly to promote Oman to European countries; nevertheless, more than 70% of the visitation to Oman still emanates from the GCC region;
- The Waves, one of Oman's largest tourism development projects, was launched in February 2004. The project involves land reclamation, infrastructure development and site improvement. It will include a golf course and a marina, leisure facilities and hotels;
- Plans exist to transform the Al Sawadi Area into a tourism destination. The master plan includes the transformation of the area into a 'city within a city', featuring extensive leisure facilities;
- The infrastructure development continues on a network of caves at Al Hota aimed at transforming these natural features into a major tourist attraction that will include hotels;
- Various tourism projects are also planned in Salahlah and Ras Al Hadd.

Visitation and the Hotel Market

- In 2004, the market experienced considerable growth in tourism demand of approximately 9%, which was driven mainly by growth

Table 16 Proposed Hotels – Oman

Hotel Name	Number of Rooms	Opening Date	Location	Status
Bar al Jissah Resort – Shangri-La	714	2005	Muscat Suburbs	Under Construction
Hilton	300	2008	Muscat	Planned
Al Sawadi Tourism Project	1,000+	2009	Al Sawadi	Planned
Al Salahlah Resort	200	2009	Salahlah	Planned
Ras Al Hadd Resort	200	2009	Ras Al Hadd	Planned
The Waves Project	750	2009	Muscat	Planned
Other confirmed Project	750	2009	Suburbs	Planned

Sources: HVS International Research and Hotel Operators

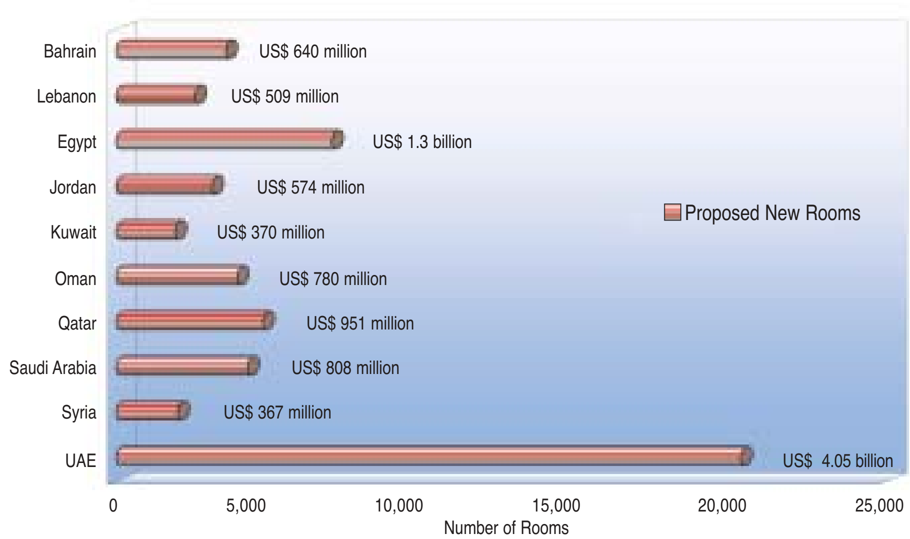
in GCC visitation;

- Occupancy at quality hotels increased by 12 percentage points in 2004, to 69%. Average rate in the market was US$82, a rise of 24% on 2003. Therefore, the resultant RevPAR was US$57, a whopping 50% up on 2003;
- Aggregate GOPPAR for the quality hotel market improved by an impressive 62%, to US$39 (albeit at a low GOPPAR conversion);
- Proposed and rumoured supply in the country is illustrated in Table 16.

Outlook and Opportunities

- Oman has unique potential to grow its tourism industry, when compared to other GCC countries. Given its natural resources and location, the country could undoubtedly experience significant growth in both GCC, European and Asian visitation;
- The country continues to lack a positive or strong image as well as a specific tourism identity. However, given the government's commitment to growing the industry, the country's tourism identity is likely to become increasingly perceptible in the medium term;
- Should there be no political upheaval in the region, we expect further growth in hotel operating performance in Muscat in 2005;
- Opportunities exist for developing various types of 'hotel derivatives' in Oman including resorts, full service hotels, limited service hotels, and, potentially, serviced apartments, assuming an improvement in the economy and tourism from 2006 onwards.

Table 17 Hotel Supply by Country – Number of Rooms and Estimated Capital Employed



Sources: HVS International Research and Estimates

QATAR

Economics and Politics

- 2004 was an exceptional year for Qatar in many ways. The biggest milestone was passed on 5 June when HH Emir Sheikh Hamad Bin Khalifa Al Thani promulgated Qatar's first written constitution, a historic step forward in achieving the promised goals of equality, freedom, peace and prosperity for his country and its people;
- Qatar is experiencing the highest economic growth in the region. The rapid expansion of the natural gas industry is driving Qatar's GDP growth, which was expected to be approximately 9% in 2004;
- In terms of international politics, the country remains largely dependent on its close ties with the USA.

Developments and Initiatives

Private and public projects in the country include the following.

- Preparation work has started on the site for the US$5.5 billion New Doha International Airport. It will be the first airport to be designed and built specifically to handle the new Airbus A380-800, and will be able to handle 50 million passengers a year by 2015;
- Construction of the Asian Games City is well underway. Once the development is completed – in time for the games, which are to be held in Doha – over 30 sports facilities will be in place;
- Doha Golf Club is undergoing renovation and expansion after a customer survey revealed the need for increased amenities to attract the family market. The expansion programme is likely to include a swimming pool with a Jacuzzi, a fitness centre, a function hall, two residential buildings for staff, a new academy building, a television building and an additional nine-hole golf course;
- The Pearl of the Gulf development is underway. Apart from having over 7,500 high-quality dwelling units, the island development will also have three luxury hotels, retail units covering approximately 60,000 m^2, and community infrastructure such as entertainment centres, restaurants and parks;
- The construction of the 32 km^2 North Beach Development started

Table 18 Proposed Hotels – Qatar

Hotel Name	Number of Rooms	Opening Date	Location	Status
Four Seasons	232	2005	Doha	Under Construction
Five-Star Hotel and Apartments	245	2005	Doha	Under Construction
Doha Rotana Hotel	385	2006	Doha	Under Construction
Al Fareej Resort	250	2006	Doha	Under Construction
Sofitel	300	2006	Doha	Under Construction
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
Hyatt	245	2007	Doha	Rumoured
Pearl of Gulf Hotels	1,000	2008	Doha	Planned
North Beach development [2]	1,000	2008	Doha	Planned
Hilton	277	2008	Doha	Under Construction

[1] All three hotels form part of one development
[2] Rumoured to have ten hotel properties
Sources: HVS International Research; Hotel Operators

in early 2005. This project will include various resort hotels, two golf courses, 3,000 lifestyle villas, 12,000 apartments, 300,000 m^2 of retail outlets and extensive commercial space;

- A recent technical and engineering feasibility study has been completed in connection with the 'Friendship Bridge', the world's longest fixed link, which will link Qatar and Bahrain via a 45-km causeway;
- The Museum of Islamic Arts, due for completion by 2006 in time for the Asian Games, will be a notable landmark for the city of Doha and will provide the highest standards in technology. The Islamic Museum will display the Qatar National Collection of Islamic Art – a world class collection of ceramics, metalwork, jewellery, woodwork, glass and other items made in countries all over the Islamic world from medieval Spain to Central Asia and India;
- Designed by the famous architect Arata Isozaki, Qatar National Library, the major repository for bibliographic references on the country, will be a landmark and a 'minaret of knowledge'. The library will include the National History Museum, galleries, a children's centre, enclosed book stacks, reading rooms, a restaurant, a lecture room and a conference hall. Construction will be completed by 2006 in time for the Asian Games.

Proposed Qatar Olympic City

Visitation and the Hotel Market

- International leisure visitation to Doha continues to emanate from GCC countries; the government anticipates a further improvement in this source market over the next five years, as well as in European visitation;
- The US army base in Qatar continues to drive a large proportion of demand for hotel accommodation in the market;
- In 2004, occupancy for quality hotels in Doha was 72%, unchanged on 2003. Average daily rate in the market grew significantly, by approximately 40% on 2003, to US$146; this resulted in 45% growth in RevPAR;
- The quality hotels in the market achieved an average GOPPAR of approximately US$119, up by an impressive 45% on 2003 levels;
- Table 18 illustrates the proposed hotel supply in Qatar.

Outlook and Opportunities

- The economic outlook for Qatar is very positive in the short to medium term. In terms of tourism, the country is increasingly positioning itself as a meeting and conference, sport, educational and health tourism destination and is becoming established as the sporting capital of the region;
- Occupancy in the market is likely to decline slightly in 2005, once the new supply enters the market. However, we anticipate a recovery in 2006, despite the new supply that will enter the market during that year;
- The tourism identity of Qatar is slowly taking shape. This will be more noticeable from 2006 onwards, once the Asian Games and public promotional activities have taken place.

SAUDI ARABIA

Economics and Politics

- According to the EIU, economic growth in 2004 reached 5.3%, which was driven mainly by strong oil prices and a growth in the country's oil output. In 2005 growth will be triggered by rising oil output and still-firm prices, as well as by a rise in government consumption;
- The private equity markets are becoming increasingly liquid, which will undoubtedly improve the level of non-public capital investment in the country;
- Despite the efforts made to eliminate domestic Islamic terror attacks, a number of attacks on Western targets and on symbols of Al Saud authority continued to occur in 2004, which undoubtedly had a negative impact on perceptions of the country's safety. A number of expatriate professionals living in the country have relocated their families to neighbouring countries, notably Bahrain and Dubai.

Developments and Initiatives

Private and public projects in the country include the following.

- The supreme council of tourism continues to aim at attracting internal tourism as a first step. The country's tourism strategy is now

Proposed Sofitel Zamzam – Makkah Saudi Arabia

Table 19 Proposed Hotels – Saudi Arabia

Hotel Name	Number of Rooms	Opening Date	Location	Status
Mövenpick	138	2005	Jeddah	Soft Opening
Radisson SAS Royal Suite	57	2005	Jeddah	Under Construction
Mercure Jeddah	88	2005	Jeddah	Under Construction
Park Hyatt	142	2006	Jeddah	Under Construction
Mövenpick	131	2006	Al Khobar	Under Construction
Sofitel	200	2007	Al Khobar	Under Construction
Novotel	200	2007	Riyadh	Under Construction
Novotel Riyadh	206	2007	Riyadh	Under Construction
Express by Holiday Inn [1]	500	2007	Various	Planned
Sofitel	220	2007	Al Khobar	Under Construction
Twin Tower Hotel	200	2007	Jeddah	Under Construction
King Faisal Hospital Hotel	150	2007	Riyadh	Planned
Sofitel Zamzam	1,200	2007	Makkah	Under Construction
Proposed Five-star Hotel	200	2007	Dammam	Planned
Suite Palace Hotel	50	2006	Jeddah	Under Construction
Radisson SAS	212	2007	Madinah	Under Construction
Park Inn	210	2007	Riyadh	Under Construction
Park Inn	148	2007	Al Khobar	Under Construction

[1] Various properties within the country

Sources: HVS International Research; Hotel Operators

defined and its implementation has already started;

- A multimillion project has been unveiled in Al Khobar: the City Fanar project, which is a waterfront 'Future City' destination built around a 300,000 m^2 man-made lagoon. Located on the Al-Khobar-Dammam Corniche, the 3.3 million m^2 City Fanar will feature a mixed-use environment offering residential, commercial and leisure facilities, including a blend of entertainment, dining, shopping, marinas and hotels;
- Plans exist to expand the Hajj terminal at the King Abdulaziz International Airport in Jeddah. The terminal currently lacks capacity to serve the needs of the growing number of pilgrims who now use the facility.

Proposed Park Inn Hotel – Al Khobar Saudi Arabia

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 leisure tourism in the near future;
- The terrorist activities in Saudi Arabia in 2003 and 2004 had a detrimental impact on the occupancy of quality hotels in **Riyadh**, occupancy declining from 64% in 2003 to 55% in 2004. Average room rates in the market remained stable in 2004, at US$105. This resulted in a 13% decline in RevPAR on 2003, to US$58, and a 17% fall in GOPPAR on 2003, to US$40;
- Despite the overall slowdown in visitation, occupancy across quality hotels in **Jeddah** increased to 54%, one percentage point up on 2003. This could be attributable to the sustained levels of domestic leisure demand for hotel accommodation in this market. Average rates in the market climbed to US$114 compared to US$104 in 2003. This growth was reflected in a 31% rise in GOPPAR on 2003, to US$41;
- Proposed and rumoured supply in the country is illustrated in Table 19.

Outlook and Opportunities

- Leisure tourism to Saudi Arabia is unlikely to experience significant growth in the foreseeable future. However, we anticipate some growth in domestic leisure demand in some areas of the kingdom, notably Jeddah, Al Khobar and Dammam;
- We anticipate a recovery in the level of demand for hotel accommodation in Riyadh in 2005.

SYRIA

Economics and Politics

- Syria's economic growth was 2.2% in 2004, as a result of the domestic sector picking up, increased demand for non-oil goods and, notably, improvements in agriculture;
- Further economic growth was anticipated for 2005, triggered by a number of investments in the oil and gas sector and an improvement in the private sector. However, Syria's economic and political outlook has deteriorated substantially following the assassination of Lebanon's former prime minister, Rafiq al-Hariri, in mid February; this led to increased tensions with the USA;
- The country's short-term economic outlook is uncertain.

Table 20 Proposed Hotels – Syria

Hotel Name	Number of Rooms	Opening Date	Location	Status
Rotana Suites	110	2005	Damascus	Under Construction
Sheraton Sednaya	107	2005	Sednaya	Under Construction
Afamia Tourist Resort Hotel	290	2005	Latakia	Early Development
Four Seasons	297	2006	Damascus	Under Construction
Sheraton	200	2006	Aleppo	Early Development
Proposed Hotel	250	2006	Damascus	Rumoured
Sofitel	231	2006	Lattakia	Early Development
Proposed Five-Star Hotel	200	2008	Tartous	Planned
Proposed Four-Star Hotel	300	2008	Tartous	Planned

Source: HVS International Research

Developments and Initiatives

Private and public projects in the country include the following.

- The government has supported the establishment of six regional Chambers of Tourism in an attempt to grow the tourism industry. The Damascus and Countryside and Aleppo Chambers are already up and running and should give the private sector chance to come up with its own ideas on developing the industry;
- The Antaradus coastal resort at Tartous will be Syria's first fully integrated resort and will feature two hotels and various leisure facilities. Construction is expected to start in mid 2005;
- The Syrian government seems to be increasingly committed to developing its tourism industry. Various legislative and incentive programmes are being set up in an attempt to boost the industry. However, the recent clash between Syria and the USA is likely to diminish the country's prominence on the global tourism map.

Visitation and the Hotel Market

- Tourism arrivals in Syria experienced considerable growth in 2004, compared to 2003, growth which was triggered mainly by an increase in intra-Arab visitation;
- In 2004 occupancy for quality hotels in Damascus grew by approximately four percentage points, to 69%. Average rate, however, declined by approximately 2% on 2003, to US$100;
- The resultant RevPAR increased from US$66 in 2003 to US$69 in 2004. This led to significant growth in GOPPAR of approximately 40%, to US$31;
- Table 20 illustrates the proposed hotel supply in Syria.

Outlook and Opportunities

- The recent political rift between Syria and the USA is likely to have a considerable impact on the hotel industry in Syria in 2005;
- Syria benefits from attractive natural and cultural resources, and we remain in no doubt that, if capitalised on, these would considerably boost the tourism industry in the country.

UNITED ARAB EMIRATES

Economics and Politics

We note that most of our research and analysis is focused on the emirate of Dubai.

- The relatively liberal social and economic policies are likely to be maintained by Sheikh Khalifa bin Zayed al-Nahyan who took over as president of the United Arab Emirates (UAE) and ruler of Abu Dhabi from his father, Sheikh Zayed bin Sultan al-Nayan, who passed away in November 2004. It can be reasonably expected that he will accelerate the economic liberalisation initiated by his father;
- New regulations likely to be implemented include foreign ownership of property and a majority share in locally incorporated firms. World Trade Organisation requirements will also lead to a reform of a number of corporate rules that are currently disadvantageous to foreign firms. These changes are likely to be implemented by mid 2006;
- According to the EIU, although real GDP growth will slow it will also remain strong, averaging around 6.0% over the next few years. The non-oil sector, which contributes more than 90% to the total GDP, will remain strong too, led by the services industry with the tourism sector contributing 10% of GDP. The economy is set to expand and investment in more heavy industry, such as petrochemicals and metals, is expected to continue;
- Travel and tourism contributed approximately 10% to the economy in 2004, and this is expected to rise to 10.5% in 2005. Capital invested in this sector enjoyed a share of about 28.5% of total investment in 2004, and this is expected to rise above 29% in 2005.

Dubai Waterfront

Developments and Initiatives

Private and public sector projects in the market include the following.

- The UAE was recently voted among the world's top five aviation markets by IATA. Further expansion work in Dubai to the tune of US$4 billion, of which US$1 billion will be spent on the creation of a third terminal and a second concourse (able to accommodate the Airbus A380), will also result in the opening up of the airport to budget airlines and an increase in the airport's capacity to 70 million passengers per year in 2006. Further growth is expected;
- In addition, cargo-handling capacity at the airport is being gradually extended to meet ever

Kempinski Emirates Palace Abu Dhabi

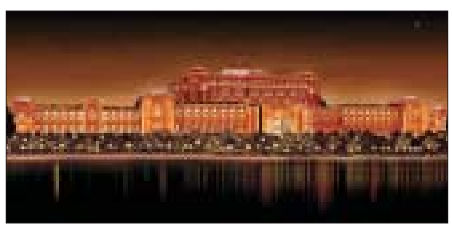


Table 21 Proposed Hotels – UAE

Hotel Name	Number of Rooms	Opening Date	Location	Status
Marriott Executive Apartments	43	2005	Dubai – Green Community	Open
Arabian Court Hotel	172	2005	Dubai	Open
Al Jaddaf Hotel	330	2005	Dubai	Under Construction
Metropolitan Extension	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 Emirates	400	2005	Dubai	Under Construction
Le Meridien Grosvenor House	217	2005	Dubai Marina	Under Construction
Cerruti Hotel	137	2005	Dubai	Under Construction
Radisson SAS Hotel	252	2005	Dubai	Under Construction
Park Hyatt Hotel	225	2005	Dubai	Under Construction
Capital Towers Hotel	160	2005	Dubai	Under Construction
Capital Towers Apartments	40	2005	Dubai	Under Construction
Amwaj Rotana Resort	300	2006	Dubai – Jumeirah	Under Construction
Rose Tower Rotana Suites	482	2006	Dubai	Under Construction
Sofitel	450	2006	Dubai	Under Construction
Sofitel	245	2007	Dubai	Under Construction
Conrad Dubai Hotel	350	2007	Dubai	Early Development
Ibis Hotel	396	2007	Dubai	Early Development
Hydropolis Hotel	220	2007	Dubai – Offshore	Rumoured
Hilton Executive Apartments	290	2007	Dubai – Jumeirah	Early Development
Mövenpick Pearl Dubai	620	2007	Dubai – Media City	Under Construction
Mövenpick Resort	298	2007	Dubai – Jumeirah	Early Development
Four Seasons Hotel	250	2007	Dubai – Festival City	Early Development
InterContinental	430	2007	Dubai – Festival City	Early Construction
InterContinental Apartments	70	2007	Dubai – Festival City	Early Construction
Crowne Plaza	330	2007	Dubai – Festival City	Early Construction
Banyan Tree Resort & Spa	50	2007	Dubai – Jumeirah	Early Development
Banyan Tree Hotel	150	2007	Dubai	Early Development
Express by Holiday Inn	400	2007	Various locations	Planned
Radisson SAS (Crescent)	200	2008	Dubai – Palm	Site Development
Radisson SAS (Trunk)	400	2008	Dubai – Palm	Early Development
Atlantis Palm Resort Phase 1	1,200	2008	Dubai – Palm	Early Development
Thalasso Resort	400	2008	Dubai – Palm	Site Development
Innpro Development	400	2008	Dubai – Palm	Site Development
Metropolitan Hotel	250	2008	Dubai – Palm	Site Development
Al Seef Resort and Spa	220	2008	Dubai – Palm	Site Development
Iberotel	300	2008	Dubai – Palm	Site Development
Robinson Select	300	2008	Dubai – Palm	Site Development
Fairmont Hotel	375	2008	Dubai – Palm	Site Development
Al Fattan Hotel	122	2008	Dubai – Palm	Site Development
Taj Palace	250	2008	Dubai – Palm	Site Development
Other Hotels (Estimate)	3,400	2008	Dubai – Palm	Site Development
Ascott Apartments	150	2008	Dubai – Burj Dubai	Approved
Armani Hotel	250	2008	Dubai – Burj Dubai	Approved
Forex Rotana Suites	450	2008	Dubai	Early Construction
Atlantis Palm Resort Phase 2	800	2009	Dubai – Palm	Site Development
Kempinski	340	2005	Abu Dhabi	Open
Al Futaisi Resort	200	2005	Abu Dhabi	Open
Fairmont	265	2007	Abu Dhabi	Under Construction
Khalidiya Rotana Suites	444	2007	Abu Dhabi	Under Construction
Sofitel	370	2007	Abu Dhabi	Under Construction
Aldar Properties Development	400	2008	Abu Dhabi	Planned
Kempinski Fujairah Resort	tba	tba	Fujairah	Planned
Robinson Club	tba	tba	Fujairah	Planned
Fujairah Rotana Resort	240	2006	Fujairah	Under Construction

Sources: HVS International Research; Hotel Operators

increasing demand. Throughput in capacity is expected to increase from 600,000 tonnes to 2.7 million tonnes by 2018;

- The first phase of a 77-km metro line network, including the construction of the first 35 km, is expected to start in October 2005, with completion expected in September 2009. One line will run from Al Ittihad Square to Rashidiya bus station via the airport and Deira city centre, while the second line will be built between Salahuddin Road and the American university in Dubai, via Sheikh Zayed Road. The second stage is due for completion in 2012, and studies are already underway into the further extension of the network to Wafi, the proposed Festival City development and the new Jebel Ali International Airport. The total cost of the project is estimated to be US$3.9 billion;
- The development of Ras Al Khor Bridge over Dubai Creek, which will provide direct access to Dubai Festival City, is still on track to be completed by 2007. The bridge has become necessary to ease congestion as more traffic will be produced by those using Terminal 3 at Dubai Airport and the Festival City development;
- The world's largest maritime development, which consists of a 2.3 km^2 man-made peninsula, will focus on marine services, management, ship design and manufacturing. The maritime city is being built between Port Rashid and Dubai Dry Docks, and the project is due for completion in 2006;
- Dubai Properties, part of Dubai Holding, has sold the first phase of Business Bay, dubbed a 'city within a city', which covers a total area of 64 km^2 between Ras al Khor Bridge (under construction) and Sheikh Zayed Road, including extending and widening the popular Dubai Creek. The total investment is expected to be well over US$8 billion;
- Dubai Waterfront (DWC) is being developed as a new gateway to the emirate of Dubai. Destined to become an international landmark, Dubai Waterfront will be the world's largest waterfront offering, and is located 35 km southwest of Dubai, bordering Abu Dhabi, on the last remaining undeveloped coastal waterfront of the emirate. The first phase of DWC will focus mainly on the development of Madinat Al Arab, which will be the heart of a vibrant new city. The centrepiece of

Proposed Mövenpick Resort – Ajman UAE

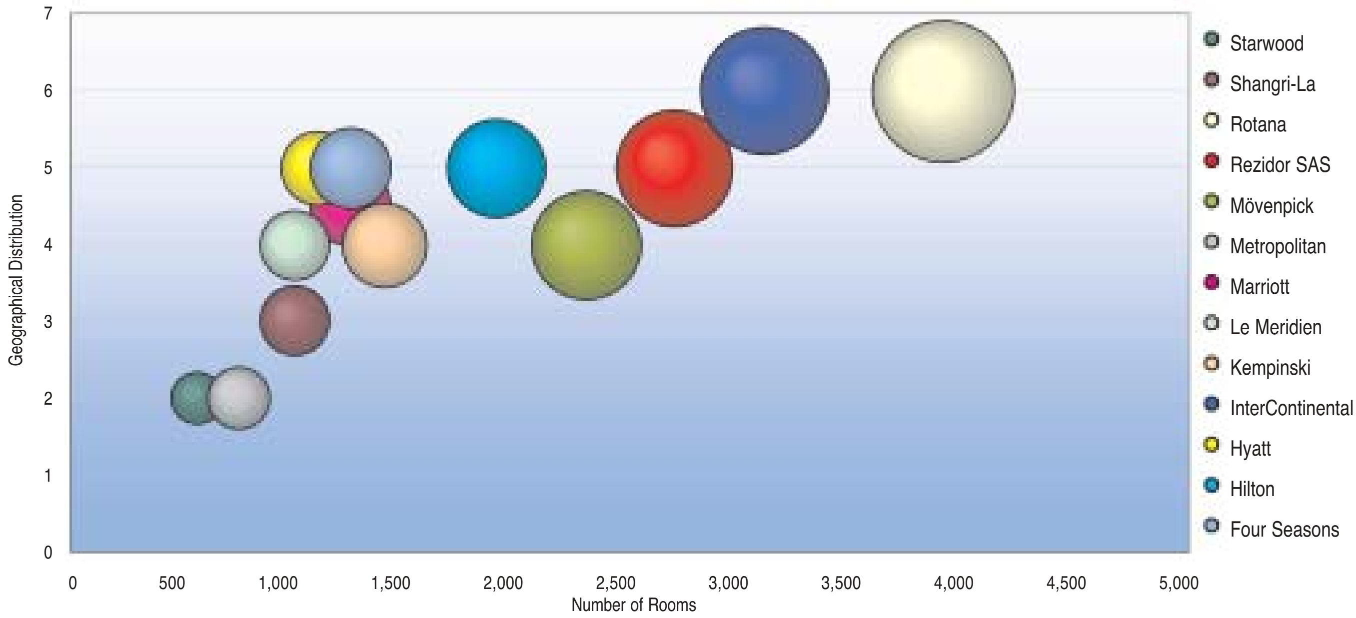
the project will be Al Burj, one of the tallest buildings in the world. The DWC forms part of the Arabian Canal, which will be 75 km long;

- The construction of The Palm, Jumeirah is progressing smoothly. Nakheel began work in 2001 and the infrastructure on the first island is targeted for completion in 2005. We understand that the island will feature approximately 2,400 villas, two marinas, theme parks and approximately 25 hotels (40 hotel plots are available). Based on our research, the majority of resorts on The Palm, Jumeirah are expected to be completed in 2008 and 2009;
- The Palm, Jebel Ali is a project similar to The Palm, Jumeirah and will be built off the Jebel Ali coast. This second island will be approximately 50% larger than The Palm, Jumeirah and is scheduled for completion around 2008;
- The third and final development by Nakheel in The Palm series, The Palm, Deira, will merge Dubai's oldest district with the new iconic image of The Palm. Similar in features to The Palm, Jebel Ali and The Palm, Jumeirah, this development will be the largest, at 80 km^2. The Palm, Deira is larger than Manhattan Island or Paris, and is roughly comparable in size to the area of Greater London;
- Nakheel's 'The World' is envisaged to be reclaimed by 2008. We understand that about a third of all the islands have been sold, but the company has been coy about releasing details of which particular countries might still be available, with asking prices ranging from US$10 million to US$36 million;
- One of the biggest tourism projects in the region, Dubai Land, with an estimated investment of more than US$5 billion, will be located inland, along Emirates Road, facing The Palm, Jumeirah. Dubai Land will be built on an area of 185 km^2 and will have about 45 themed developments. The first phase is due to open in 2007 while the whole development is expected to be completed in 2016; Dubai Land is expected to attract some 200,000 visitors daily;
- Dubai Health Care City (DHCC) is progressing well, with the total site comprising two phases, including disease treatment and its prevention, and wellness facilities. The first phase, located behind Wafi City, Dubai, is approximately 380,000 m^2 in area. Several major companies have already signed up for space in the free zone, including Johnson & Johnson and Astra Zeneca, which has moved its Gulf regional office from the UK to DHCC;
- The 6.5 km^2 Dubai Festival City development is on track to open in September 2006. The development by the Al Futtaim Group will consist of a large retail and entertainment area, and will be home to Four Seasons Hotels and Resorts' first hotel in Dubai. Other hotels will also feature. The estimated cost of this project is around US$2 billion;
- At the Dubai Marina, the first phase of Emaar's development is nearing completion. The 2.4 km^2 development, of which only approximately 40% will be available for construction, includes six apartment towers and 64 villas, and the official word is that all of the apartments have been sold. Some 700 apartments, more than half of the total, have been bought in bulk by local businessmen. Ultimately the intention is that there will be a further 170 to 200 towers in the marina development, with a total development cost of around US$6.2 billion. The Jumeirah Beach Residence project, being built on the coastal side of the marina, is at an earlier stage than the first part of Emaar's project. 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 whole project is due for completion in 2008;
- The transformation of Old Dubai is in full swing. It includes the restoration of old buildings and the construction of new ones. This project stretches from the Amiri Diwan area on the creek to the Al Seef Road and encompasses the construction of additional leisure attractions;
- Several major retail malls are planned or under construction in Dubai, putting Dubai firmly on course to become the city with the greatest concentration of shopping facilities in the world, according to Retail International, a London-based shopping centre specialist. Industry experts expect investment in shopping malls and related infrastructure in the emirate to have exceeded US$6.8 billion by 2006. An additional ten shopping malls are under construction, such as Dubai Mall, with over 450,000 m^2 of retail space and scheduled for 2006; the Mall of Arabia at Dubai Land, which is scheduled to open in 2007 and on course to become the largest in the world; and Al Futtaim Group's US$800 million Mall of Emirates on Sheikh Zayed Road;
- The US$800 million Dubai Pearl development opposite The Palm, Jumeirah (land side) encompasses several towers for office, residential and hotel use and includes a theatre and an opera house. The development is on schedule to open in 2007.

The following are among the developments in Abu Dhabi.

- Abu Dhabi International Airport is being extended, with work including a second runway and an upgrade of the main terminal building. The total cost for the project is estimated to be US$600 million;
- The government has begun work on a new 280-metre tunnel that will link Abu Dhabi International Airport with Mussafah, as part of one of its major road network projects designed to ease current and future traffic congestion. The construction of the tunnel is one of the Abu Dhabi National Consultative Council's proposed infrastructure projects for the next 20 years, and its stated aim is 'to change the city's status into a greater city';
- Lulu Island, one of the biggest tourism ventures in the world, involves the construction of hotels, restaurants, gardens, an aquarium, a museum, fun parks for children and a wildlife reserve. Work on the island, located some 600 m off the Abu Dhabi coast, has already started, with the planting of more than 600,000 palm trees. Another project located close by involves building a tourism village dotted with palm trees;
- The Abu Dhabi Municipality and Town Planning Department has

Table 22 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
The horizontal axis shows the proposed number of rooms
The width of the spheres shows the market share per brand

Source: HVS International Research

chosen Dalma Island, 180 km west of Abu Dhabi, and neighbouring settlements to be redeveloped as a tourist centre under the Regional Development Plan. The US$40 million project includes a new harbour, a shopping centre, mosques, cinemas and various entertainment and recreational facilities;

- Work is underway to expand the city's seaside Corniche Road and transform it into a major tourism and recreational centre at a cost of around US$190 million. The project aims to expand the seaside road and ensure the free flow of traffic, provide more parking spaces in the city centre and modernise the recreational areas along the Corniche with gardens and attractive recreational and entertainment facilities;
- Land reclamation, which commenced from Mina Zayed and extends to the Hilton Beach Hotel, has been completed and a realignment of the Corniche Road along the reclaimed land will have three new lanes in either direction extending for around two kilometres from Al Salam Road to Mina Zayed. Once completed, the Corniche will also have parking for 4,000 cars;
- The Abu Dhabi Municipality and Town Planning Department is currently engaged in actioning the Comprehensive Development Plan for Abu Dhabi 1990-2010, prepared by the department in cooperation with the United Nations Development Programme (UNDP). Among the proposed projects are a national museum, a zoo, a marine museum, a national public library and a public square with a landmark similar to London's Trafalgar Square. The Plan seeks to enhance the role of Abu Dhabi as a model capital city and boost its tourist attractions.

Visitation and the Hotel Market

- According to the airport authorities, the total number of arrivals in Dubai in 2004 increased by approximately 21% on 2003. The airport is now close to capacity (21.7 million passenger movements), but an extension project is well underway;
- Dubai's hotels experienced phenomenal growth in occupancy in 2004, achieving 86%, which was seven percentage points up on 2003, and likely to be one of the highest occupancy figures worldwide. Very little new supply was added to the city in 2004, and this, together with further strong demand, particularly in the Leisure and Meeting and Incentive segments, resulted in a great year for the city's hoteliers. Average rate in Dubai (including City hotels and Jumeirah Beach hotels) increased by an outstanding 27% to US$144. Consequently, RevPAR, at US$124, was 39% higher than it was in 2003;
- The 39% growth in RevPAR was reflected in accelerated growth in GOPPAR of approximately 49%, to US$110;
- Abu Dhabi's first class hotels matched their compatriots in Dubai with their impressive growth in performance. Occupancy in 2004 increased by 14 percentage points, to 82%, and average rate rose by 4% to US$91. The resultant RevPAR increased by 27% to US$75 in 2004. The resultant GOPPAR grew by a phenomenal rate of 75%, to US$75. The accelerated growth in GOPPAR could perhaps be attributable to the fixed cost structure in a hotel operation at the Abu Dhabi market;
- Proposed and rumoured supply in the region is illustrated in Table 21.

Outlook and Opportunities

- Dubai continues to impress with continued growth and occupancy in 2004 of more than 85%. We expect strong occupancy (albeit a potential decline) to continue into 2006 and 2007, if no events beyond the control of the emirate occur. However, the new supply entering the market will undoubtedly put increasing pressure on the potential performance of the market;

- Major developments, particularly those likely to fuel long-term tourism demand, such as Dubai Land, the extension of the airports in Dubai and Abu Dhabi and the new development at Jebel Ali, will facilitate this growth;
- Residential developments continue to mushroom and the impressive sales pace achieved to-date justifies further development; it also ensures that even if an unforeseen event beyond the control of the city governors occurs then visitation is likely to bounce back more rapidly;
- It is our opinion that the new hotel supply entering the market will be largely absorbed by additional induced demand;
- The announcement by InterContinental Hotels Group that it would be entering the Dubai and Abu Dhabi markets with its budget Express by Holiday Inn brand is the next step to a more balanced hotel offering in the market, especially with budget airlines slated for slots once extension work at Dubai airport is completed.

HOTEL DEVELOPMENT AND INVESTMENTS

- Hotel investment and development in the Middle East is likely to become increasingly sophisticated, as new (potential) hotel investments funds instigate activities in the region;
- This year we have identified approximately 165 proposed hotels that are likely to enter the market throughout the region in the next five years. These properties represent around 54,000 additional rooms. We estimate that the capital investment in these hotel real estate projects totals approximately US$10 billion. This clearly reflects the increased investor appetite and liquidity in the region;
- Although hotel developments continue to be geared towards five-star hotels, the appetite for branded limited service assets and serviced apartments is increasingly noticeable. We expect between 20 and 30 branded limited service hotels to be developed in the region over the next five to seven years. Brands will primarily include Express by Holiday Inn, Rotana, Ibis, and Park Inn (the limited service brand of Rezidor SAS Hospitality);
- Over the next five years, we also anticipate an increased level of development in boutique hotels in the region. These hotels will aim at attracting a niche regional and international clientele;
- The enhanced liquidity and availability of funds (debt and equity) within the Middle East, together with improved hotel operating performances, is likely to further stimulate capital employment in hotel properties. We expect that a number of public offerings will take place over the next two to three years for some real estate and hotel investment funds, as well as (potentially) for some local operators;
- We consider it likely that a number of consolidations will take place in the region over the next five years. These are likely to include acquisitions of existing hotel investment vehicles and/or operators. Potential geographical targets include Egypt, Dubai and Beirut;
- Hotel developments continue to be concentrated primarily in Dubai. We anticipate an increased appetite for Qatar, Bahrain, Oman and Beirut (assuming that a more stable political environment emerges);
- The most active operators in the region in terms of brand expansion are Rotana Hotels, InterContinental Hotels Group, Rezidor SAS Hospitality and Mövenpick Hotels and Resorts;
- It has been noticeable that various operators are increasingly planning to develop their limited service brands in the region (triggered by the increasingly perceptible opportunity for such hotel properties).

FUTURE TRENDS AND OPPORTUNITIES

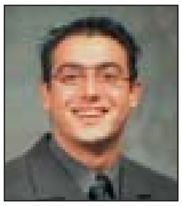
- Given the historical operating performance of the hotel industry in the Middle East and the recent boost in demand, we expect the region's hotel markets to experience considerable growth in average daily rooms rate in the foreseeable future;
- At this stage, we consider that the first international fund providers to the hotel investment arena in the Middle East will be the lending institutions, followed by the more risk-aggressive type of investor;
- We expect hotel financing to become gradually more aggressive over the medium term, caused by the improvement in hotel operating performances (GOPPAR), the increased competition within the banking sector and lenders' better understanding of hotel real estate cycles;
- HVS International is regularly approached by local or regional investors/stakeholders looking for potential hotel investment opportunities in the region. We do not expect international investors to immediately consider the region as a potential target for hotel investments. However, as signs of a Middle East peace process become more distinct, and as a more global consumer and investor confidence is perceived within the region, we expect the international investment arena to start considering the Middle East for potential investment opportunities in hotel assets;
- An assessment of the historical performances of international hotel markets would suggest that the Middle East has trends that somehow differ from those of various international markets. Therefore, in addition to the potentially lucrative investment opportunities, hotel investments in the Middle East might allow for risk diversification for any portfolio of international hotel assets;
- Opportunities in the region remain for investment in mixed-use developments, branded serviced apartments, timeshare units, branded limited service hotels and niche boutique hotels;
- We expect hotel operating performances in general to experience another good year in 2005, assuming no further political upheaval.

No investment decision should be made based on the information in this survey. For further advice please contact the authors.

About our Team

HVS International has a team of Middle East experts that heads our operations in the MEA region. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the MEA region and a broad exposure to international hotel markets in Europe. Over the last 24 months, the team has advised on more than 75 hotels or projects in the region for hotel owners, lenders, investors and operators. Together, this team has advised on more than US$7 billion of hotel real estate.

About the Authors
Offices and Services



Elie Younes is an Associate Director with HVS International's London office, heading the Middle East and Africa region together with Bernard Forster. He joined HVS International in 2001 having had four years' operational experience in the hospitality industry in the Middle East. Elie benefits from his diverse multicultural background and speaks Arabic, English, and French. He holds an A level in Mathematics and Physics, a Bachelor degree in Hospitality Management from Notre Dame University, an MBA from IMHI (Essec Business School – France – and Cornell University – USA) and is currently preparing his MSc in Real Estate Investment at Cass Business School in London. Since joining HVS International he has advised on many hotel investment projects, strategic developments and other hotels, resorts, and serviced apartments related assignments in Europe, the Middle East and Africa. Elie is our Middle East expert.

Bernard Forster is a Director with HVS International's London office, heading the Middle East and Africa region together with Elie Younes. He joined the company in 1997 from Accor Hotels & Resorts where he was working in the IT division, focussing on property management systems, yield management systems and guest history systems for Accor Hotels in Europe, the Middle East and Africa. Previously Bernard worked in various operational management roles for the Savoy Group in London (now Maybourne Group) as well as in F&B for the Dolder Grand Hotel in Zürich. Bernard holds an MSc in Property Investment from the City University, London, a BSc (Hons) in Hotel Management from Oxford Brookes University and a diploma in Hotel Administration from Institut Hotelier 'Cesar Ritz', Le Bouveret, Switzerland.

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