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2006 Edition

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### Improved Pricing Drives Growth, and Market Liquidity Continues to Compress Yields...

### Introduction and Highlights

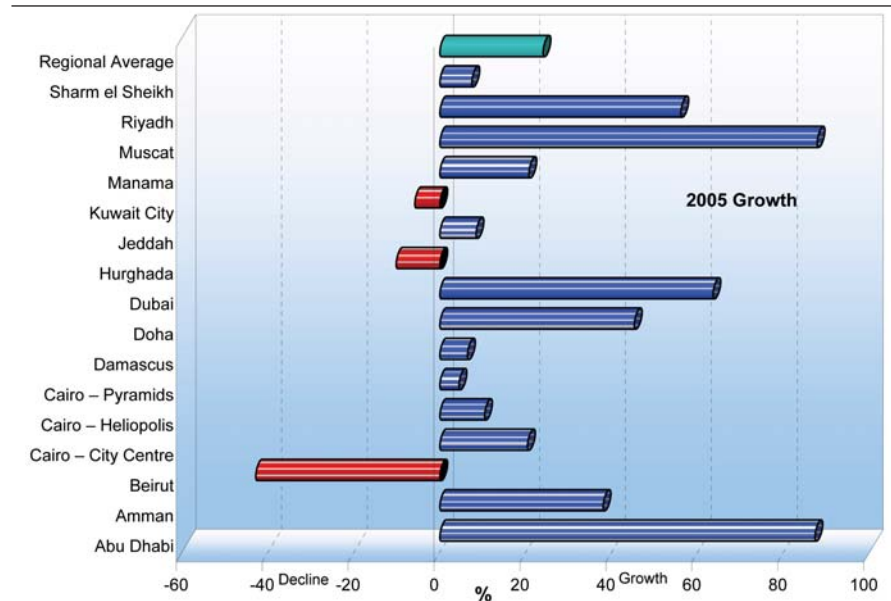
The strong trading performance of hotel markets in the Middle East in 2004 was followed in 2005 by skyrocketing double-digit growth. This was driven predominantly by growth in average room rate, in line with HVS International's projections in last year's survey. We estimate that in 2005 occupancy declined slightly on 2004, from 72% to approximately 71%. We estimate that average room rate grew by approximately 17-20%.

The hotel markets in the region have historically been underpriced in comparison to other international markets (mainly those in the West). However, such a situation is coming to an end. A rigid pricing strategy was implemented simultaneously across the region in 2005, a move triggered by increased liquidity in the region and sustainable levels of demand. The strong purchasing power of the GCC consumers (driven by staggering economic growth and liquidity), together with the sustained levels of corporate and leisure demand in the region, successfully absorbed the rise in room rate. The price elasticity of the hotel markets was further facilitated by the steady appreciation of the euro against the US dollar (Europe is the main non-Arab source market for the region).

We estimate that hotel gross operating profit (GOP) grew on average by 24% in 2005. Regional GOPPAR (GOP per available room) improved from US\$62 in 2004 to US\$76 in 2005. The acceleration in GOPPAR growth is attributable mainly to the strong growth in average room rate, which resulted in an improved RevPAR to GOPPAR conversion across the region (see Table 2).

This year HVS International has produced the first hotel valuation index (HVI) for the main hotel markets in the Middle East. The methodology we have

**Table 1 Winners vs Losers – GOPPAR**



Source: HVS International Research

used to prepare our HVI is based on a representative sample of operating data from four-star and five-star hotels (collected by HVS International and complemented by other regional benchmarks such as those of Deloitte & Touche). Based on our research and assessment, and starting with the occupancy and average room rate achieved in each market, we computed the GOPPAR and the level of net operating income for a typical hotel in each market. Based upon our experience of real-life hotel financing structures gained from our valuing hundreds of hotels each year, we have determined appropriate valuation parameters for each market, including loan to value ratios, interest rates and equity return expectations. Our capitalisation rates reflect the current trading performance of each market as well as the anticipated future trends (growth in and impact of new supply) in each market. The rates also take into account the current appetite for investment in each market and the characteristics of the local pool of investors in terms of risk and return requirements. Given the nature of the Middle East markets and the lack of transaction data in the region, this year's survey features a range of values for each market (Table 3).

In 2005, the strong liquidity and

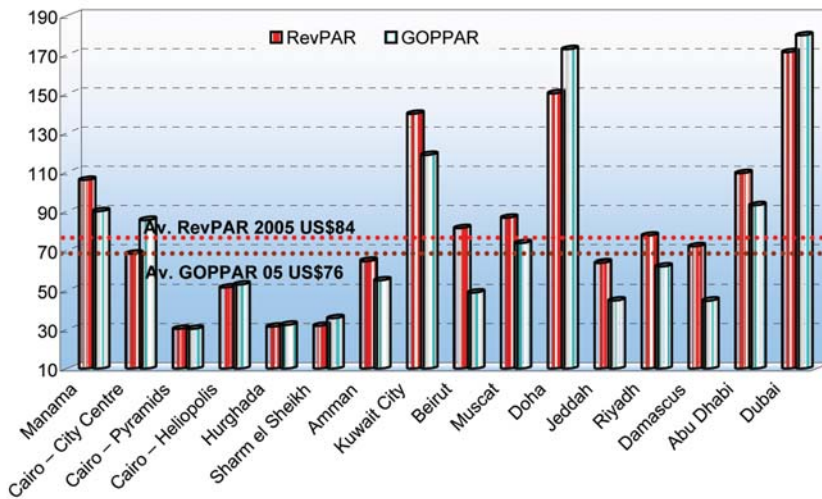
appetite for investment were reflected in a yield compression in the hotel real estate equity markets in the region (in line with Europe generally). This spread to the lending markets, which, as anticipated in our last survey, are steadily becoming more aggressive in terms of senior debt structuring (longer terms, longer amortisation periods, higher loan to value ratios, and so forth).

Our valuation shows that the average regional hotel value per room stood at around US\$230,000 as of January 2006. Overall, the region has good potential to experience an uplift in values over the next few years, which will help to further stimulate the transaction and lending markets.

Given the emerging nature of the hotel markets in the region, the investment arena continues to be geared towards new development rather than acquisition. Despite the limited number of transactions (of existing assets) in the region, the level of liquidity for and the appetite for investment in new developments are strong. There is no doubt that liquidity in the region is driven predominantly by record oil prices and revenues across the GCC.

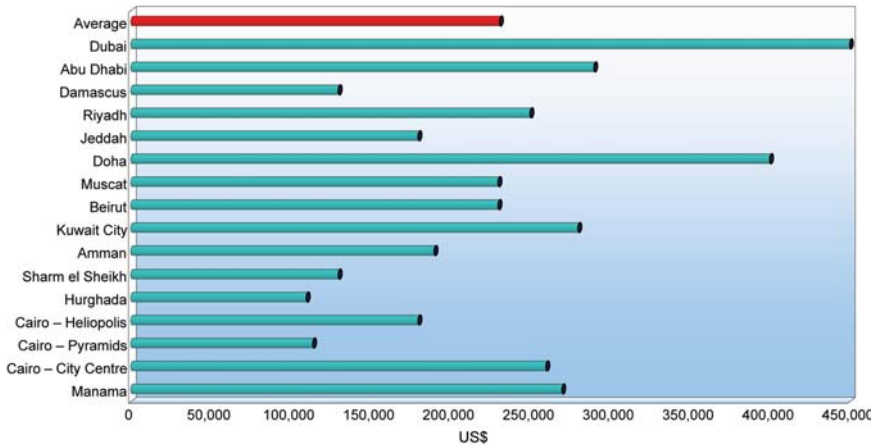
We expect the current volume of investment in proposed hotel assets to be approximately US\$15 billion. More than 60,000 hotel rooms are currently under

**Table 2 RevPAR and GOPPAR Trends 2005 (US\$)**



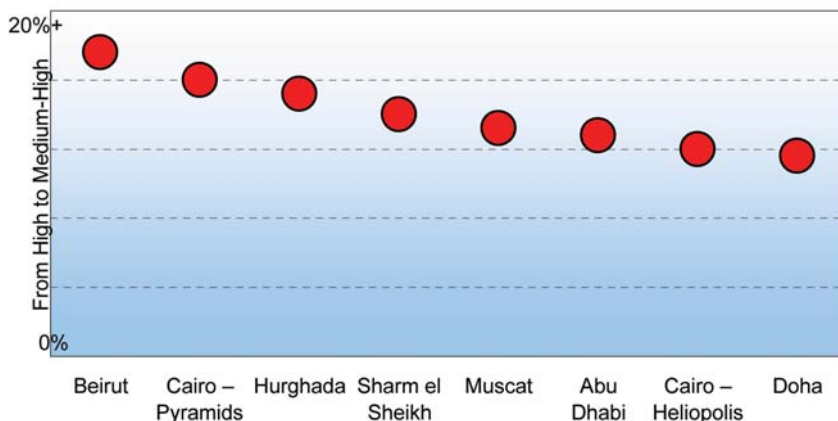
Source: HVS International Research

**Table 3 2006 Hotel Valuation Index – Values per Room (US\$)**



Source: HVS International Research

**Table 4 HVS's Forecast of Those Markets Showing Double-Digit Growth in RevPAR and GOPPAR in 2006**



Source: HVS International

construction in the region.

Our general outlook for the hotel industry in the Middle East for 2006 and 2007 remains positive in all aspects (operating performance, investment returns, and private and public capital investment in the industry). Some markets are, however, likely to experience a correction (simple economic gravity) in their trading performance over the next three years; notably, markets such as Dubai. In Table 4, we forecast those markets which we consider will experience double-digit growth in both RevPAR and GOPPAR over the next 18 months.

## Tourism Developments and Investment Trends

In terms of the development of infrastructure, more than US\$40 billion worth of airport development work is currently taking place across the region; this will undoubtedly have a positive impact on the number of international arrivals in the Middle East.

According to the World Tourism Organisation (WTO), the number of tourist arrivals in the region in 2005 grew by 7% on 2004 (Table 5). The deceleration in growth – compared to the double-digit growth of the previous year – is attributable in part to terrorist attacks in Egypt and Amman in 2005.

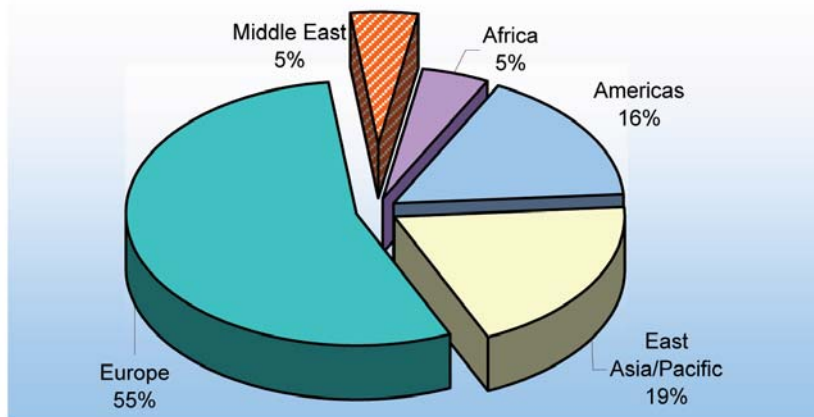
The number of up-market, boutique and lifestyle brands entering the markets has increased. Brands such as W, Banyan Tree, Mandarin Oriental, and Trump, and The Stein Group have entered (or are in the process of entering) the market. The level of investment in 'trophy' assets (the Trump Hotel Palm Jumeirah, the Emirates Palace Abu Dhabi, the Philippe Starck Design Hotel in Beirut, and various properties in Saudi Arabia) is increasing. The development of limited service hotels and serviced apartments continues to be noticeable across the region, as is the formation of specialist local operators/brands or hotel business lines such as Shaza, Refad, and Centro by Rotana.

The strong trading performance of the hotel markets, together with increased liquidity in the region, has triggered the creation of various, specialised hotel investment vehicles. We estimate that more than US\$1.4 billion worth of capital was being raised in 2005 by newly established specialised hotel investment funds/vehicles. Such vehicles specialise in investing in specific asset classes within the hotel industry in the Middle East and North Africa (the remainder of the investment arena is dominated by high-net-worth individuals and institutional investors, which are on a par in terms of distribution).

Some of the main transactions and large developments that took place in the region in 2005 and early 2006 include the

**Table 5 Worldwide Tourism Trends and Distribution 2004-05**

	Tourist Arrivals			
	Number (Millions)		% Change	
	2004	2005 <sup>1</sup>	2004/05	1999/05
<b>World</b>	<b>766</b>	<b>808</b>	<b>5.5 %</b>	<b>35.4 %</b>
Africa	33	39	18.2	78.7
Americas	125	133	6.4	13.7
East Asia/Pacific	145	158	9.0	69.1
Europe	425	444	4.5	26.7
<b>Middle East</b>	<b>36</b>	<b>38</b>	<b>6.7</b>	<b>172.6</b>

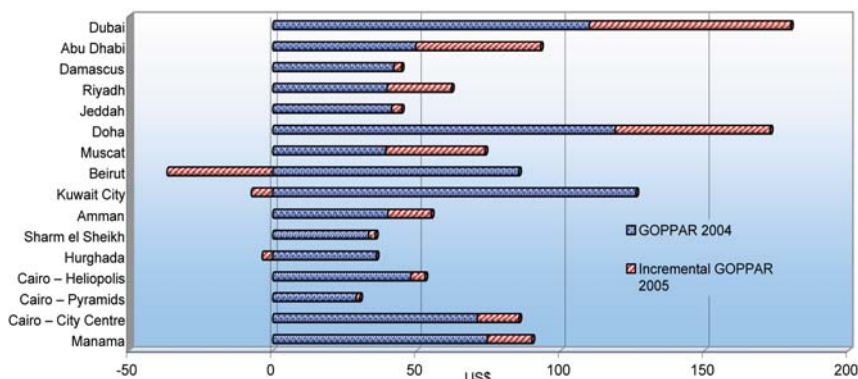


<sup>1</sup> Preliminary estimates

Source: World Tourism Organisation

**Table 6 RevPAR vs GOPPAR Performance 2004-05 (US\$)**

Country	Market	2004			2005			RevPAR Growth (%) 2004-	GOPPAR Growth (%) 2004-05
		RevPAR	GOPPAR	Conversion	RevPAR	GOPPAR	Conversion	2004-05	
Bahrain	Manama	95	75	0.8	106	90	0.85	11.5	20.7
Egypt	Cairo – City Centre	59	71	1.2	68	86	1.25	17.0	20.4
	Cairo – Pyramids	30	29	1.0	30	30	1.00	(0.5)	4.5
	Cairo – Heliopolis	47	48	1.0	51	53	1.03	8.8	10.4
	Hurghada	34	36	1.0	31	32	1.03	(8.7)	(10.2)
	Sharm el Sheikh	32	33	1.1	32	36	1.12	1.2	7.4
Jordan	Amman	53	40	0.7	65	55	0.85	21.7	38.0
Kuwait	Kuwait City	147	126	0.9	140	119	0.85	(5.0)	(5.8)
Lebanon	Beirut	119	85	0.7	81	49	0.60	(31.8)	(42.9)
Oman	Muscat	57	39	0.7	87	74	0.85	53.4	87.8
Qatar	Doha	105	119	1.1	150	173	1.15	43.0	45.3
Saudi Arabia	Jeddah	62	41	0.7	64	45	0.70	3.8	8.4
	Riyadh	58	40	0.7	78	62	0.80	34.4	56.1
Syria	Damascus	69	42	0.6	72	45	0.62	4.5	6.4
UAE	Abu Dhabi	75	50	0.7	110	93	0.85	46.8	87.3
	Dubai	124	110	0.9	171	180	1.05	38.4	63.6
<b>Average</b>			<b>62</b>		<b>76</b>				



Source: HVS International Research and Analysis

acquisition of Yotel (the design-led budget brand) by IFA Hotels and Resorts, the Initial Public Offering of Kingdom Hotel Investments (KHI), the establishment of the Armani brand (and fund) as well as the inauguration of Nakheel Hotels and Resorts. 2006 will be the year of creative branding and developments in the region!

HVS International's recommended investment targets for 2006 and 2007 across the region include the following asset classes.

- Luxury hotels in AAA locations;
- Limited service hotels;
- Serviced apartments;
- Condo hotels and hybrid assets.

## Analysis of Selected Countries

For this year's edition we have assessed only those markets that we consider will experience strong fluctuations in trading performance and value over the next 18 months. For information on the remainder of the markets, please contact the authors.

### BAHRAIN

According to the Economist Intelligence Unit (EIU), Bahrain's economic growth is likely to decelerate as domestic demand eases, and be 5.6% in 2006. However, in 2007 the country will start to benefit from the completion of various projects that are currently in the pipeline.

A wide variety of economic, demographic and leisure projects is being undertaken in the market.

Demand for hotel accommodation experienced moderate growth in 2005, with occupancy increasing to 73%. The sustained level of demand enabled hoteliers to boost average room rate by 10%, to US\$145, resulting in RevPAR growth of 11%, to US\$106.

The growth in RevPAR had an impact on hotel profits. Our research suggests that GOPPAR in Manama grew by 20% on 2004, to finish on US\$90.

The amount of proposed and rumoured new supply in the market is illustrated in Table 7. Our research indicates that a total of approximately 3,000 rooms is likely to enter the market over the next four years. New developments are geared mainly towards five-star hotel properties, with serviced apartments and condo hotels becoming increasingly attractive to investors.

According to our Middle East HVI, the investment value of hotel assets in Manama is currently around US\$270,000 per quality hotel room. Our assessments and going-in yields take into account the current market characteristics of operational and market dynamics, investor appetite and lending parameters. Manama's penetration of the regional HVI is 1.2 (120%).

Our outlook for Bahrain remains positive, despite the new supply coming on-stream; this will have a short-term impact on the trading performance of the hotel market. The significant amount of new supply is likely to be absorbed over time by the new commercial, residential, leisure and infrastructure projects that are currently being developed in the market.

Investment opportunities remain in limited service hotels and serviced apartments. The strength of the residential market, combined with the improved trading performance of hotels and increased consumer liquidity, provides opportunities for the development of condo properties.

We project that in 2006 hotels will experience a strong trading performance in terms of occupancy, with a moderate increase in average room rate seen.

## EGYPT

Despite the government's intention of reforming the economy and stimulating foreign direct investment, those wishing to will find that conducting business in Egypt remains very hard. This has a significant impact on barriers to entry of the hotel market for new investors. In 2005, the Egyptian currency continued to appreciate, which had a negative impact on the attractiveness of the country to leisure tourists (mainly tourists from Europe, the main feeder market).

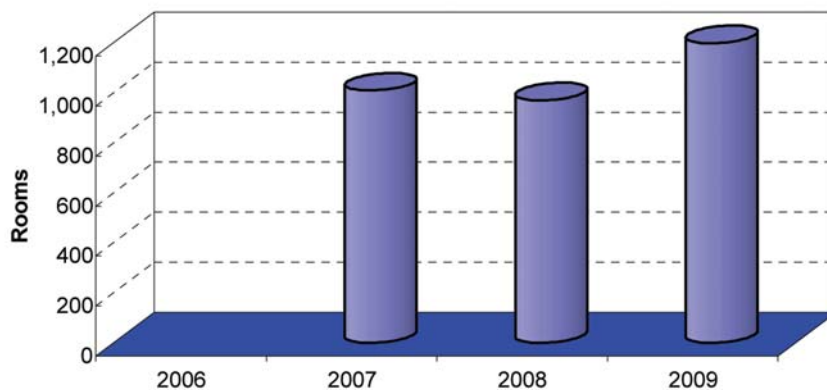
The terrorist attacks of 23 July in Sharm el Sheikh resulted in a significant number of cancellations in Red Sea resorts during the summer of 2005. However, Egypt is (sadly) becoming resilient to such attacks and the market recovered more quickly than was anticipated in late 2005 and early 2006. Nevertheless, Red Sea destinations remain highly vulnerable to further attack. According to the WTO, the number of tourist arrivals in Egypt was 6% up in 2005 (despite the terrorist attacks).

Table 8 shows the new hotel supply that we have identified in the greater Cairo area and on the Red Sea. Approximately 3,000 rooms are likely to enter the market in Cairo over the next three years, and approximately 3,800 rooms are planned in Red Sea destinations.

In 2005, RevPAR for quality hotels in Cairo – City Centre grew by 17% on 2004, to US\$68. This triggered a 20% rise in GOPPAR, to US\$86. Hotel investment values in Cairo – City Centre were US\$260,000 in 2005: a penetration of the regional HVI of 1.12.

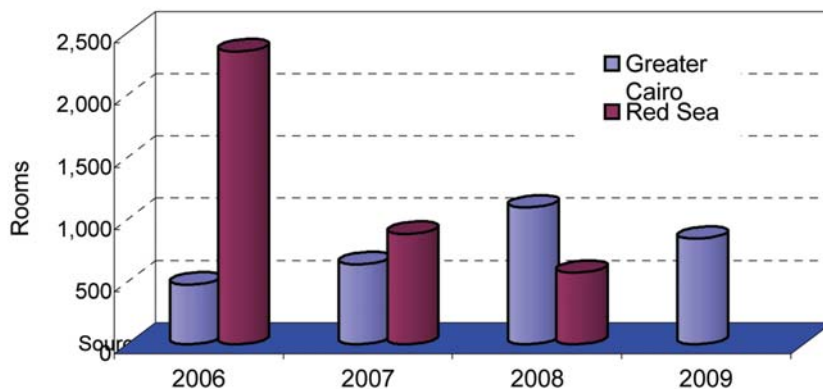
RevPAR in Cairo – Heliopolis grew by approximately 9% in 2005, growth which was attributable mainly to a 20% rise in average rate. This in turn stimulated GOPPAR to grow by 10%, to US\$53. Our HVI shows an average value per room of US\$180,000, underpenetrating the region's average by 22%. Once the impact of the new supply dissipates, we expect hotel values in Cairo – Heliopolis

**Table 7 Proposed Hotels – Bahrain**



Source: HVS International Research

**Table 8 Proposed Hotels – Egypt**



Source: HVS International Research

to rise.

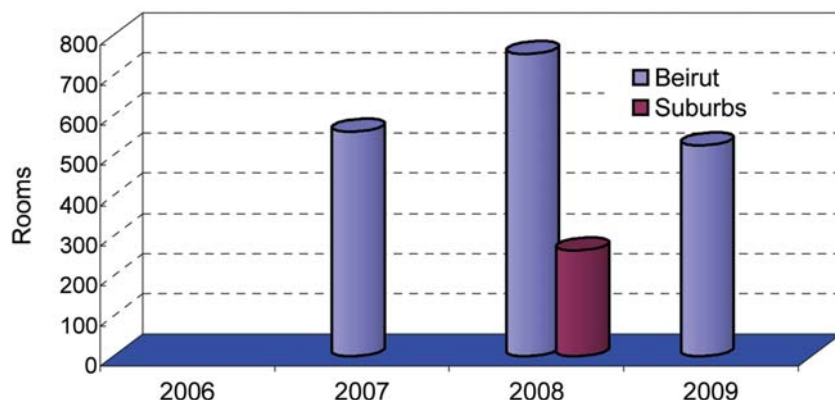
Leisure destinations in Egypt were strongly impacted by the July bombings in Sharm el Sheikh. Occupancy in Cairo – Pyramids, Hurghada and Sharm el Sheikh declined considerably. However, average room rate in all markets grew, and this offset somewhat the decline in occupancy.

RevPAR in Cairo – Pyramids remained unchanged at US\$30. This resulted in static GOPPAR performance: GOPPAR remained at US\$30 (a conversion factor of 1). Our HVI shows a low investment value for the hotel market in Cairo – Pyramids, with a hotel value per room of around US\$114,000. This reflects the poor performance of the hotel market, and in particular the historically low average room rates, which result in low profitability per room. Our assessment and yields consider the potential uplift in the market; nevertheless, hotel investment values in Cairo – Pyramids remain low and are among the lowest in our HVI survey.

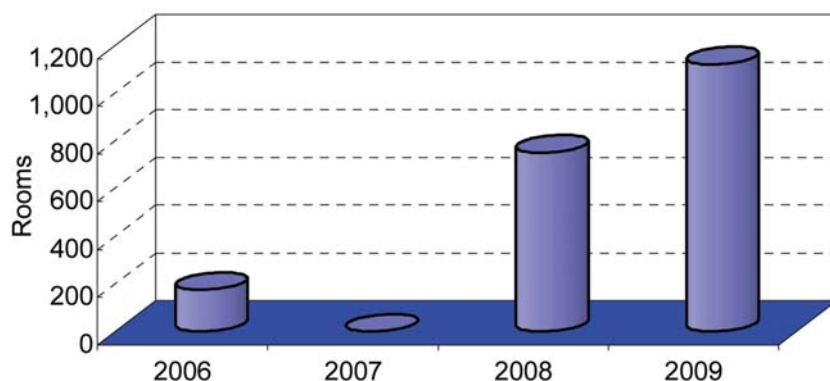
Quality hotels in Hurghada experienced 8% decline in RevPAR in 2005, to US\$31. This resulted in a contraction in GOPPAR of US\$4, from US\$36 to US\$32. Hotel investment values in Hurghada were US\$110,000 per room, somewhat lower than the development cost per room in the market; the market achieves a poor regional penetration of 47%.

A 9% increase in average room rate offset the decline in occupancy in Sharm el Sheikh. RevPAR in 2005 was almost static, at US\$32. However, we estimate that the growth in average room rate had a positive impact on profit margins, with GOPPAR achieving 7% growth on 2004, to US\$36. Our HVI shows that the investment value of quality hotels in Sharm el Sheikh was around US\$130,000 in 2005 (a figure which has considerable uplift potential).

We remain of the opinion that Egypt has not yet achieved its potential in terms of the number of arrivals it sees. The country has unique natural

**Table 9 Proposed Hotels – Beirut**

Source: HVS International Research

**Table 10 Proposed Hotels – Muscat**

Source: HVS International Research and Assessment

resources that if further capitalised on should stimulate additional growth.

The leisure markets in Egypt, notably Cairo – Pyramids, Hurgada and Sharm el Sheikh, are likely to experience a strong increase in occupancy in 2006 and an improvement in both profitability and investment values (provided that there is no reoccurrence of terrorist activity). Once the operating performance of these markets shows less volatility, yield compression is likely to move values upwards.

#### LEBANON

The Lebanese economy was recovering fast in 2004, and growth was expected to accelerate further in 2005. However, the assassination on 14 February 2005 of the former Prime Minister Mr Rafic Hariri had a severe impact on the economic growth of the country. According to the EIU, Lebanon experienced no economic growth in 2005, which was caused mainly by an uncertain political

environment; this weakened the confidence both of investors and of consumers. Growth is expected to resume in 2006 and 2007 (growth of 2-3%), assuming that the political environment does not deteriorate.

For the tourist and hotel industries, 2005 started very strongly. However, following the events of 14 February 2005 (and the subsequent political uncertainty) the demand for hotel accommodation in Beirut experienced a significant drop for the rest of the year.

Quality hotels in Beirut experienced the sharpest decline in RevPAR in our survey in 2005, registering a 31% drop compared to 2004. After the events of 14 February 2005, hotel demand in Beirut dried up. This was further exacerbated by continued political unrest in the country. Occupancy experienced a severe drop of approximately 20 percentage points, although average rate fell by only 5%. The drop in the trading performance of the hotel market had a detrimental impact on hotel profits, with

GOPPAR declining by approximately 42%, from US\$85 in 2004 to around US\$49 in 2005.

The GCC markets continue to dominate capital investment in the hotel industry in Beirut, with the main equity interest coming from Kuwait, Saudi Arabia and the UAE. We show in Table 9 the growth in the number of hotels that are currently planned in the market.

Despite our adjusting our going-in yield to account for the 'shock' factor of the events of 14 February 2005, quality hotels in Beirut registered an investment value per room of around US\$230,000 in 2005. However, the market is likely (or has the potential) to recover and return to double-digit growth in 2006.

#### OMAN

Although Oman is comparatively less prosperous than some of the other GCC countries, the country's economic environment is strong. According to the EIU, the country's GDP is likely to grow by more than 6% in 2006, the strongest growth seen since 2000. The country's inflation rate remains very low.

In 2005, Oman experienced a significant growth in its tourism industry, with the total number of arrivals at Seeb International Airport rising by approximately 10%. The government's increased marketing of the country and its spending on tourism infrastructure is putting Oman on the international tourism map.

Various public initiatives and infrastructure projects are taking place in the country, and these will undoubtedly stimulate further growth. The recently established Ministry of Tourism has drafted a strategic master plan aimed at further improving tourism demand over the next five years. However, with the Omanisation plans (at 65% local staff ratio) pressing ahead, the hotel industry may find it difficult to support extensive growth from a human resources perspective.

The hotel market in Muscat experienced a robust expansion in RevPAR, achieving a 53% improvement, from US\$57 in 2004 to US\$87 in 2005. The growth was driven mainly by an impressive 40% increase in average room rate, with sustainable hotel demand enabling occupancy to rise from 69% in 2004 to 73% in 2005. This resulted in accelerated GOPPAR growth, to US\$74, of approximately 87%.

It is remarkable that the hotel market in Muscat (including the new supply) experienced a decline in occupancy of only two percentage points during the first quarter of 2006, despite the opening in January of 550 of the 714 rooms at the Shangri-La hotel (which represents a 50% increase in quality hotel supply).

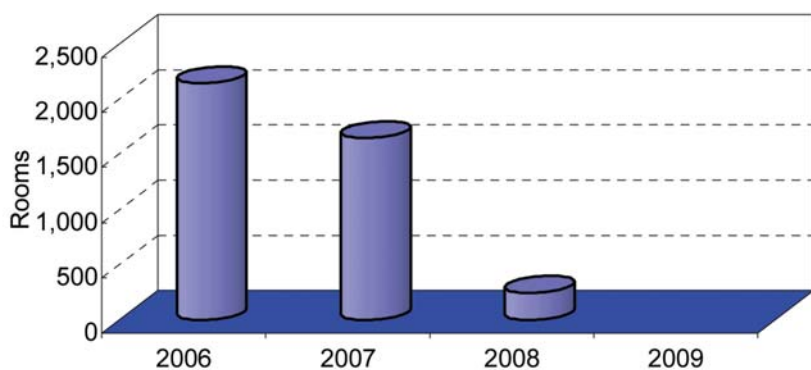
Oman is increasingly establishing itself on the map of geographical targets coveted by regional hotel investors and developers. Various projects are currently planned in Muscat and other parts of the country (Shinas, Hattat and Salalah, for

**Table 11 Middle East Hotel Valuation Index Per Room 2006 (US\$)**

Country	City	Estimate of Value	Penetration Index
Bahrain	Manama	270,000	1.17
Egypt	Cairo – City Centre	260,000	1.13
	Cairo – Pyramids	114,000	0.49
	Cairo – Heliopolis	180,000	0.78
	Hurghada	110,000	0.48
	Sharm el Sheikh	130,000	0.56
Jordan	Amman	190,000	0.82
Kuwait	Kuwait City	280,000	1.21
Lebanon	Beirut	230,000	1.00
Oman	Muscat	230,000	1.00
Qatar	Doha	400,000	1.73
Saudi Arabia	Jeddah	180,000	0.78
	Riyadh	250,000	1.08
Syria	Damascus	130,000	0.56
UAE	Abu Dhabi	290,000	1.26
	Dubai	450,000	1.95
<b>Regional</b>	<b>Average</b>	<b>230,875</b>	<b>1.00</b>

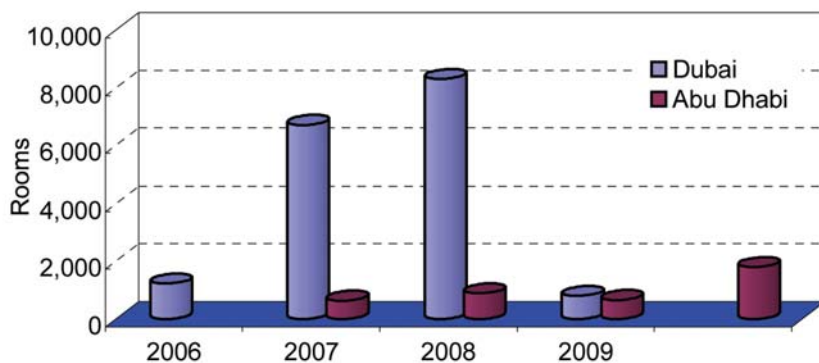
Source: HVS International Research

**Table 12 Proposed Hotels – Qatar**



Source: HVS International Research

**Table 13 Proposed Hotels – Dubai and Abu Dhabi**



Source: HVS International Research

example). Table 10 illustrates the known hotel supply that is currently planned in Muscat. An additional 3,000 hotel rooms are planned outside the capital, in various destinations across the country.

The seasonality of demand in the market (performance is poorer during the summer months) will continue to be the primary constraint on occupancy in Muscat and elsewhere. A means of smoothing out the sudden drop in demand in July and August must be on the agenda of the government in the near future.

Despite the strong growth in hotel trading performance, hotel investment values in Muscat were on a par with the regional average, with a value per room of US\$230,000 recorded. A further improvement in hotel trading performance in 2006 and 2007, together with a yield compression driven by investor appetite for the market, is likely to improve values over the next few years.

**QATAR**

Qatar continues to lead the region in terms of economic growth. According to the EIU, the country's economy is expected to remain one of the region's top performers over the next two to three years. GDP is expected to grow by 7.9% in 2006, and by 8.9% in 2007 as more gas projects come on-stream.

Inflation will remain a concern over the next few years, with consumer price growth set to average around 6% in 2006-07.

In terms of tourism and arrivals, Qatar is increasingly becoming an established destination for business, leisure and sports. This year's long-awaited Asian Games will take place in Doha and will undoubtedly induce a significant amount of demand for hotel accommodation.

RevPAR in Doha registered a 43% increase on 2004, to US\$150, an increase driven primarily by outstanding growth of 45% in average room rate (stimulated to a degree by the opening of the Four Seasons in early 2005). This growth offset the slight decline in occupancy (as anticipated in last year's survey). According to our assessment, this had an accelerated impact on marketwide GOPPAR, which increased from US\$119 in 2004 to US\$173 in 2005.

In terms of new supply, a considerable number of hotel rooms are likely to enter the market over the next few years. We anticipate a strong trading performance for the market in 2006 due to the Asian Games, although occupancy in Doha is likely to fall in 2007.

The strong trading performance of the market enabled hotel values in Doha to achieve a regional penetration of approximately 1.72. Investment value in Doha was US\$400,000 per room, as of January 2006. It is likely, however, that hotel values will drop from 2007 onwards if levels of hotel demand do not match the amount of new hotel supply entering the market.

## UNITED ARAB EMIRATES (Dubai and Abu Dhabi)

According to the EIU, real GDP growth in the UAE is forecast to be around 6% over the next two years. The booming economy is driving higher inflation (projected to be approximately 5% in 2005).

The government is pressing ahead with its reform programmes, and multibillion-dollar infrastructure, real estate and tourism projects are taking place in the country with Dubai and, now, Abu Dhabi being at the forefront.

The number of visitor arrivals in the UAE increased by approximately 8% in 2005, with Dubai and Abu Dhabi absorbing most of the growth (in actual terms). Dubai is now one of the leading destinations worldwide in terms of transient leisure and business demand, and it appears that Abu Dhabi is being carried along by this momentum.

Quality hotels in Dubai achieved staggering RevPAR growth of almost 40% in 2005: RevPAR climbed from US\$124 in 2004 to US\$171 in 2005. In spite of the aggressive pricing attitude of the hotels and the new supply that became fully operational during the year (Park Hyatt, Le Meridien Grosvenor House, Radisson SAS, Villa Rotana Suites, Al Mourooj Rotana) occupancy was 85%, compared to 86% in 2004. Moreover, average room rate grew by approximately 40% on 2004, to US\$202. GOPPAR was estimated to be US\$180, an improvement on 2004 of a phenomenal 60%.

As shown in Table 13, 17,000 rooms are likely to enter the market in Dubai over the next four years, and this will undoubtedly have an impact on the trading performance of the market, resulting in a likely correction (return to 'normality') between 2008 and 2009. We would highlight that as a considerable proportion of the new supply is located on The Palm, Jumeirah, some hotels may not enter the market in 2007 and 2008 as currently planned. This depends on the severity of the correction and on the likely completion date of Palm Island.

RevPAR in Abu Dhabi was US\$110 in 2005, an increase of 47% on 2004. Growth was driven primarily by an uplift of 40% in average rate and an increase in occupancy of one percentage point (which came despite the opening of the new Kempinski Palace Hotel in 2005). GOPPAR was US\$93, an impressive 87% higher than it was in 2004.

Due to the limited amount of new supply entering the Abu Dhabi market between 2006 and 2008, we expect the market to benefit from continued growth in trading performance over the next few years; this will undoubtedly further stimulate investor appetite.

Table 13 illustrates the new hotel supply that is likely to enter Dubai and Abu Dhabi over the next five years.

As of January 2006 hotel investment values in Dubai were US\$450,000, the highest in our Middle East HVI, reflecting a regional penetration of

approximately 200%. We would highlight that our HVI excludes the underperforming assets in the market (such as the four-star hotel properties in Deira).

According to our assessment, hotel values in Abu Dhabi were around US\$290,000, and values are likely to experience further growth by the end of 2006.

## Outlook

The region currently benefits from a favourable economic environment for any up-and-coming real estate sector, including hotels. The commitment made by most governments to diversifying their economic balance sheets and initiatives taken to stimulate the private sector are driving the proliferation of hotel markets at all levels.

The region continues to account for only 4% of the total number of tourist arrivals worldwide, which indicates strong potential for future growth in terms of arrivals and further hotel demand.

We expect the trading performance of hotel markets across the region to experience further growth in 2006, which will again be driven predominantly by an increase in average room rate, though probably at the expense of a slight decline in (or static) occupancy. Those markets that experienced the smallest growth (or a decline in growth) in 2005 are likely to recover in 2006.

Hotel investment in the region continues to be characterised by a pool of local investors. Investor appetite is reaching record levels, and this is compressing equity yields. Debt financing is likely to be increasingly available over the next few years, and this should stimulate a reduction in the cost of debt (driven mainly by more aggressive financing parameters rather than a reduction in interest rates). This, together with an anticipated improvement in hotel trading performance, is likely to result in an upward trend in hotel investment values in 2006 and 2007. By the end of 2007 some market correction is likely to be noticeable.

We expect the hotel transaction market to remain virtually motionless in 2006 and 2007. However, once markets start maturing, hotel transactions are likely to take place.

Investment opportunities remain for the following asset classes.

- Luxury hotels in AAA locations;
- Limited service hotels;
- Serviced apartments;
- Condo hotels and hybrid assets.

Our outlook and opinions are of course susceptible to any political upheaval in the region but we remain confident in the prospects for the hotel sector in the coming year.

## 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 100 hotels or projects in the region for hotel owners, lenders, investors and operators. Together, this team has advised on more than US\$10 billion worth of hotel real estate.



**Elie Younes** is a 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 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 owners, funds, operators and lenders on many hotel and hotel-related investment projects and strategic developments in Europe, the Middle East and Africa.



**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

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