



JANUARY 2013 | US\$250

GCC 2012

A REGION IN REVIEW

Rico Piconi
Associate

Hala Matar Choufany, MRICS
Managing Director



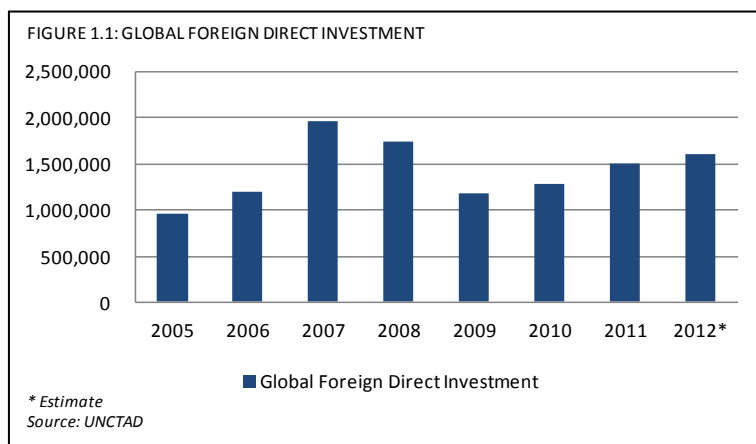
A Global Overview

Following the impact of the relapsing global economy in 2011, European economic woes persisted related to difficulties of weaker members such as Spain, Greece, and Italy. Output in the second half of 2011 was particularly weak, exacerbated by natural disasters such as the floods in Thailand. Contrarily, 2012 began on a positive note in terms of market sentiment and easing monetary policy in developing countries; this was reflected in the rebound of economic activity in both developing and advanced countries. Towards the end of May, however, negative sentiment in the Euro Zone re-ignited behind a silhouette of market tension, fiscal slippage, banking downgrades and political uncertainty. With further deterioration, the increase in tension subtracted from Euro Zone growth in 2012, which registered a contraction of 0.3%. With this in mind, and on account of market volatility, global GDP increased by an estimated 3.3% in 2012 according to the International Monetary Fund (IMF), aided by the limited contagion effect the Euro Zone had on developing countries. Growth, hereafter, is expected to accelerate in 2013 and 2014 by 3.6% and 4.1%, respectively.

2012 was a year of change in the global political arena. In the United States, President Barack Obama was re-elected after facing off with Mitt Romney from the Republican party. In Europe, the economic crisis plaguing the region continued to be addressed by the respective politicians. Following a credit-rating downgrade in France, former President Nicolas Sarkozy attempted to stimulate the economy, which was not received well. In April, the country voted for socialist nominee François Hollande to take the role of leading the country. On a similar note, after austerity talks collapsed, Dutch Prime Minister Mark Rutte resigned from his post while at the same time, the two main political parties in Greece continued facing financial crises. Include herein the ongoing battles between Iran, Israel and the United States and the general overview was in a similar condition as the global economy; uncertain and unstable.

Slowing global output growth resulted in the World Trade Organisation downgrading the 2012 forecast for international trade growth to 2.5% from 3.7% in the third quarter. Moreover, the 2013 estimate for trade growth was scaled back to 4.5% from 5.6%. Output and employment data in the United States continued to provide disappointing results, while purchasing managers' indices and industrial production figures in China indicated slower growth in the world's largest exporter. Additionally, and more importantly, the sovereign debt crisis in Europe did not subside, resulting in painful and volatile fiscal adjustments. Generally, world trade figures include trade between EU countries, making them particularly sensitive to developments in that region.

The prospect for foreign direct investment (FDI) continued with the burden of risk and uncertainty. With global FDI exceeding pre crisis levels in 2011 with a total of US\$1.5 trillion, a recovery was expected to bring 2012 FDI to US\$1.6 trillion. Essentially, foreign direct investment flows have picked up slightly in the two recent years as investors re-enter the markets; however, the optimism



conveyed in these years has changed direction as investors weigh the potential upside opportunities against the downside risks of the current economy. Longer term projections show a moderate, albeit steady rise, with 2013 expected to reach 2007 levels again nearing the US\$1.8 trillion mark and 2014 forecast with US\$1.9 trillion.

International tourism in all regions was up by the end of H2 2012. Asia Pacific led international growth by 8% following a recovery of Japanese inbound and outbound tourism. With some of the most visited global destinations, Europe lagged behind the majority of regions with 4% annual growth. This growth was led by Central and Eastern Europe, with the Mediterranean experiencing a meagre 1% growth, and was likely restrained by a recovery of the destinations in North Africa and the Middle East. Central and South America took the helm in the western hemisphere, with average growth in the Americas reaching

FIGURE 1.2: INTERNATIONAL TOURISM 2005 - 2012 (000s)

	2005	2006	2007	2008	2009	2010	2011	2012*	% Change	
									2011-12	% of Total
World	814,047	851,321	901,366	921,355	879,885	938,518	980,000	1,029,000	5%	100%
Africa	36,374	39,626	42,635	44,763	46,998	50,002	50,000	53,500	7%	5%
Americas	132,165	134,685	140,694	146,326	139,008	149,710	156,000	163,800	5%	16%
Asia Pacific	151,212	162,779	179,788	185,297	181,608	204,509	216,000	233,280	8%	22%
Europe	450,831	468,991	488,000	489,186	459,830	474,539	503,000	523,120	4%	51%
Middle East	43,465	45,240	50,249	55,783	52,441	59,758	55,000	55,385	1%	6%

* Estimate
Source: UNWTO

5%. With the rebound of Egypt and Tunisia, growth in the Middle East and Africa reached roughly 1% and 7%, respectively.

A Regional Overview

From a more local perspective, the *Arab Awakening* that was spurred towards the beginning of 2011 has largely faltered, with the exception of Syria, where the situation remains a humanitarian disaster. The uprisings in Egypt, Bahrain and Oman are in the past, with growth returning to their respective tourism industries on the wave of improved traveller confidence. During the periods of violence and clashes, neighbouring United Arab Emirates benefitted largely from a shift in demand, as did domestic travel in the Kingdom of Saudi Arabia. Syria and its neighbours, on the other hand, have been gravely affected by the ongoing violence as a result of travel bans and warnings made to GCC residents. Egypt, following more recent media coverage, experienced a relapse in its stability in December 2012 as protestors took to the street once more as the country reforms. In 2012, as evident in Figure 1.3, all major cities have returned to growth, particularly Bahrain and Cairo, which witnessed significant contractions in year-on-year airport passenger movements in 2011. Figure 1.3 provides an indication of the growth exhibited between 2010 and 2011, as well as the growth estimates for 2012.

GCC countries continue spending exorbitant amounts of money, with earlier figures of US\$44 billion on airport developments, increasing passenger footfall to 260 million per annum in the anticipation of tourist growth. In the third quarter, Abu Dhabi announced the launch of a US\$3 billion project to develop a new terminal, capable of increasing Abu Dhabi International Airport's annual capacity to 40 million passengers.

FIGURE 1.3: REGIONAL AIRPORT PASSENGER MOVEMENTS

City	2010	2011	2012	Annual Growth	
				2010-11	2011-12***
Abu Dhabi	10,496,300	12,400,000	13,400,000*	18.1%	19.3%
Amman	5,430,000	5,467,726	5,808,760*	0.7%	15.3%
Bahrain	8,598,069	7,568,200	7,741,557*	-12.0%	9.0%
Beirut	5,512,435	5,596,034	5,418,828*	1.5%	5.1%
Cairo	16,052,619	12,847,398	N/A	-20.0%	N/A
Dammam	4,568,715	5,268,073	3,300,000**	15.3%	16.2%
Doha	15,863,292	18,202,489	21,412,730	14.7%	18.3%
Dubai	47,200,000	50,980,000	52,363,589*	8.0%	13.1%
Erbil	435,469	621,870	932,805***	42.8%	50.0%
Jeddah	17,839,544	20,892,590	N/A	17.1%	N/A
Kuwait	8,332,857	8,466,737	9,084,809***	1.6%	7.3%
Muscat	5,521,802	6,479,860	6,898,000*	17.4%	17.0%
Riyadh	12,635,739	14,836,305	N/A	17.4%	N/A

* January - November 2012
** January - June 2012
*** Estimate
Source: HVS Research

Middle East countries expect an aggregate growth of 5.2% in 2012, with several mega developments coming online between 2014 and 2016. Despite a handful of mega developments in the UAE being halted in 2011, many have since then been reinstated, while Saudi Arabia ploughs ahead with financial and technology cities. The most recent mega development to be announced in the region is Dubai's Mohammed Bin Rashid City, which is expected to cost nearly US\$3 billion and will feature the world's largest shopping mall, five distinct theme parks, as well as an astounding 100 additional hotels.

Intra-regional travel stagnated with the dawn of the Arab Spring; Qataris chose Germany over Egypt and Saudis chose London over gulf destinations. This is not aided when reviewing emerging destinations for the top regional airlines; focus is geared towards Europe with major airlines adding flights and opening new spokes. However, a significant portion of regional travel is domestic, via road, and it does continue to produce figures. According to figures prepared by the respective government ministries, 75% of travel to Bahrain continues to originate from the GCC, 50% of travel to the UAE continues to originate from the GCC, and Arab countries remain roughly 40% of Lebanon's source markets. As a result of the Arab Spring, nonetheless, GCC nationals opt to travel to Europe, or remain domestic tourists. In the short-term, slow improvement is forecast, whilst in the medium- to long-term, dependent on the stability of the region, positive growth is forecast in regional tourism.



About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

HVS has a team of Middle East experts that conducts its operations in the Middle East and North Africa. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last four years, the team has advised on more than 300 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$48 billion worth of hotel real estate in the region.

About the Authors



Rico Picenoni is an Associate working with the HVS Dubai office, specialising in hotel valuation and consultancy. Rico holds a BSc from l'Ecole Hôtelière de Lausanne, Switzerland. Providing over six years of operational experience in various management positions, Rico has performed consulting and valuation assignments in multiple markets, across various asset classes in the Middle East.

rpicenoni@hvs.com



Hala Matar Choufany, MRICS is the Managing Director of HVS Dubai and is responsible for the firm's valuation and consulting work in the Middle East and North Africa.

Since joining HVS, she has worked on several mid and large scale mixed use developments and conducted numerous valuations, feasibility studies, operator search, strategy advice, return on investment and market studies in Europe, MENA and Asia. Hala has in-depth expertise in regional hotel markets and a broad exposure to international markets and maintains excellent contacts with developers, owners, operators, investment institutions and government entities.

Hala holds an MPhil from Leeds University, U.K., an MBA in Finance and Strategy from IMHI (Essec-Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala is fluent in English, French and Arabic.

hchoufany@hvs.com