April 2019

HOTEL VALUATION INDEX MIDDLE EAST 2019

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President, HVS Middle East, Africa and South Asia

Author's Note

HVS Dubai is pleased to release its first issue of the Hotel Valuation Index (HVI) for select markets in the Middle East (ME). The HVS Hotel Valuation Index has established itself as a leading publication in the US, Europe, Africa and Asia for over a decade and we are thrilled to share the regional HVI which provides further insight on regional values and investment opportunities.

It is amidst a turbulent economic outlook and political instability that the region continues to diversify its economic reliance on oil production and to commit large investments on tourism and non-oil related sectors. 2013 international arrivals into the region were circa 46 million and increased by approximately 35% to 62 million in 2018. Accommodated room nights grew by 40% in 2018 when compared to 2013, yet the overall hospitality outlook remains cautious and the declining performance of hotels calls for immediate corrective measures in order to sustain and grow hotel values.

The Middle East region continues to face distraught on the back of ongoing political conflicts and a fragile energy sector. The region has undergone a range of socio-political and economic shifts that have undoubtedly continued to impose ramifications pertaining to the ME hotel industry. Atop the macroeconomic and socio-political landscape, HVS data suggests that the Middle East Hotel market performed at an average occupancy of 68% and an average rate of USD188 for the period 2013-2018, while Revenue Per Available Room (RevPAR) dropped by 21% when compared to the year 2013.

While the region's key performance indicators reflect a slowdown and a correction in the respective markets, hotel supply in the region continued to grow registering a 42% increase in 2018 when compared to 2013. It is also estimated that the total number of rooms will grow by 59% by 2022.
Declining RevPAR's coupled with increasing operating costs resulted in 13 percentage points decrease in Hotel Net Operating Income across the region, from 40% in 2013 to 27% in 2018. Consequently, the changes in operating performance impacted the Hotel values which experienced significant drops of 20% and 27% in 2016 and 2017, recording an all time-low in 2018, with a regional average value per key of USD208,000 (four-star and five-star).

A limited number of hotel transactions took place in the region in the last five years, with most transacted hotels being well established hotels in Dubai. Although there continues to be keen investors looking for suitable hotel acquisition opportunities, owners' expectations and the asking price remains far above the actual value of the hotels based on the potential income and the future market dynamics.

Who is responsible for the value decline? Are developers making investments that are aligned with market dynamics and conditions? Are consultants recommending the right development schemes and highlighting the financial risks? Are operators aligning their brands with the market dynamics and conditions? Are tourism authorities doing enough to create demand, support developers/investors and govern the imbalances in supply and demand? Is the region attractive enough for future investments and development?

There is no simple answer to the above critical and valid questions and there is no doubt that the region will continue to grow its hospitality offering and attract larger share of the international tourism arrivals… BUT it is time for Investors to stop Overspending, Hotel operators to streamline their operations and create value, Consultants to flag the serious financial risks and potential rewards, and Tourism authorities and related government entities to support a balanced growth.

It is Time to Rethink how we build and operate hotels… It is Time to Pause and Reflect … It is Time to scrutinize the traditional hotel model and operations and understand the real income potential which underlines Hotel Valuations.

Hala Matar Choufany
President, HVS
Middle East, Africa and South Asia

What is the HVI?

The Hotel Valuation Index is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typical four-star and five-star hotels. The HVI combines the various factors affecting the economy and region at large with hotel-market specific demand and supply dynamics to derive indicative values and future growth trends. For this first edition of the HVI Middle East, we have analyzed 14 key hotel markets in the Middle East with a total inventory of approximately 175,000 rooms in the four-star and five-star market. Additionally, our index allows us to rank each market relative to the Middle East average as well as Asia and Europe averages.

Understanding the HVI

Due diligence pertaining to demand and supply dynamics was carried out while analyzing each market for its existing performance and forecasting future potential. For the analysis, we not only utilized our extensive in-house database, but also the intellectual capital that our associates have developed over the years and our experience of real-life hotel financing structure gained from valuing hundreds of hotels each year. Having covered these markets for well over a decade, we have observed and analyzed various cycles (economic and industry specific), which puts us in a position to understand fundamental changes better than most.

We have assumed a notional 200-key hotel and benchmarked its performance to market wide occupancy and average rate levels (Historical and Forecasted). We then used actual operating P&Ls (market wide average) to further comment on its performance, deriving the net operating profit. We have determined valuation parameters for each market that reflect both short and longer-term sustainable financing models (loan to value ratios, debt coverage ratios, real estate interest rates, and equity return expectations). Investor appetite for each city at the end of 2018 is therefore reflected in the capitalization rates and investment yields assumed. Post this, the Income Capitalization Approach was used to calculate the economic value of the hotel in 2018 and the years ahead.

We chose the year 2015 as our base year with intent to create a starting point for our Hotel Valuation Index Middle East. Given their market specific performance parameters, the average base year value for a notional 200-room hotel across the selected markets in year 2015 was about USD373,000. This value was assigned an index of 1. The Per Available Room (PAR) value (historical & forecasted) for each market was then divided by the USD373,000 to derive the index number. For e.g. Abu Dhabi's value per room in 2018 was derived to be US$204,000, when divided by the average base year value (US$204,000/373,000) gives an index number of 0.55. This simply means that the value of Abu Dhabi in 2018 was 55% that of the average base year value across the selected markets in 2015.

HVI assumes a date of 31st December for each calendar year. Capitalization rate reflects the expected future trends in performance, competitive environment, and cost of debt and cost of equity. The parameters adopted also assume reasonable level of debt and rational equity expectations (investor sentiment). The indicative values which remain an opinion of Market Values, may not therefore bear comparison with actual transactions in the market place. However, this is the best approach to retain the integrity of HVI as a rolling annual index.

What Not To Take Out Of It !

•*The HVI intends to create a platform where trends in hotel values are captured on an ongoing basis. We understand and appreciate the individual characteristics pertaining to each hotel asset. Therefore, it would be misrepresentative to look at a trend from the HVI and apply it to a specific asset. While this might give an indication of directional movement, for an investor or an owner, it is critical to capture hotel specific trends and factors in order to comment on its open market value.*

•*The HVI does not consider appreciation or depreciation of real estate in a particular market neither does it account for changes in construction prices/indices. We have worked off a premise that a hotel asset's value is derived from the income it can generate.*

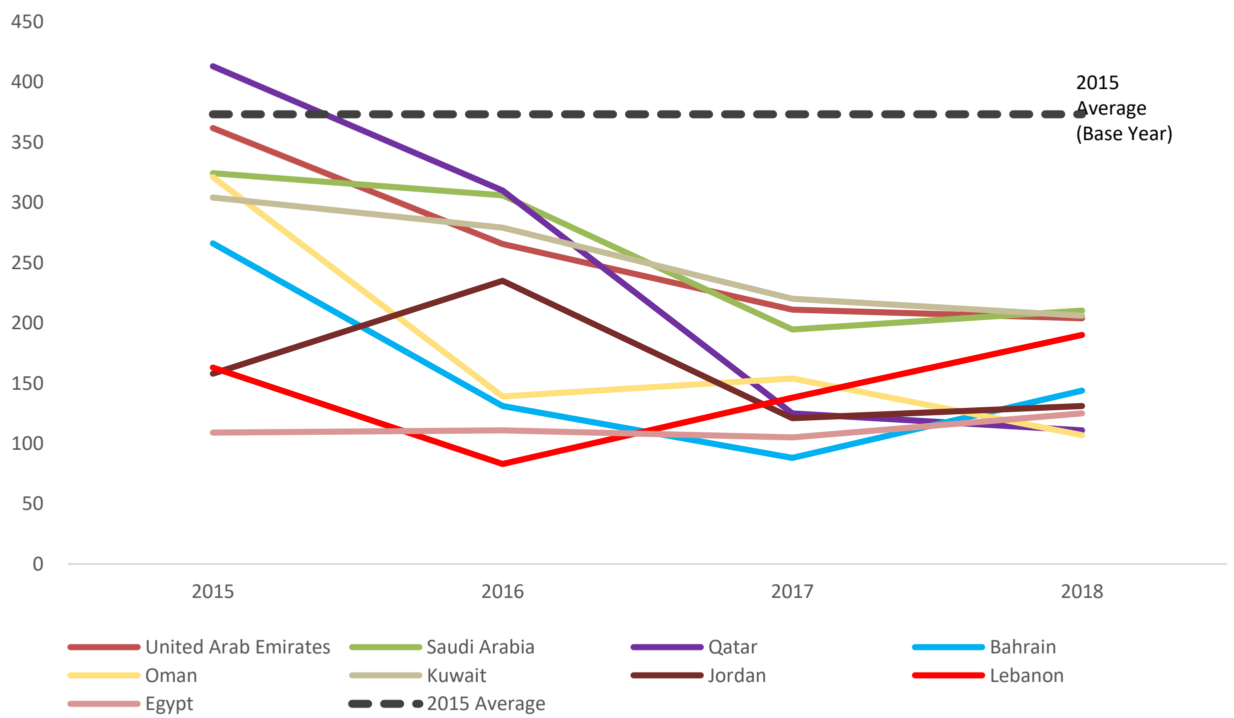
•*The index value is the relative value of the individual markets to that of the average base year value across the selected markets in 2015.*

Hotel Markets Covered

United Arab Emirates	Qatar	Saudi Arabia	Kuwait	Oman	Bahrain	Jordan	Lebanon	Egypt
Dubai Abu Dhabi Ras Al Khaimah	Doha	Jeddah Riyadh Makkah Madinah	Kuwait City	Muscat	Manama	Amman	Beirut	Cairo

Valuation Trends – Historical

FIGURE 1: VALUATION TRENDS BY COUNTRY, VALUES PER KEY IN 000's USD (2015-2018)



Valuation Trends – Historical

FIGURE 2: VALUE PER KEY PER CITY IN USD (2015-2018)

City	Value per Key in USD 2015	2016	2017	2018	USD % Change: % Change 2016	% Change 2017	% Change 2018	4 -year Historical Compound Growth (2015 - 2018)
Abu Dhabi	327,000	228,000	259,000	204,000	-30.3%	13.6%	-21.2%	-15%
Dubai	523,000	399,000	298,000	269,000	-23.7%	-25.3%	-9.7%	-20%
Ras Al Khaimah	235,000	170,000	76,000	139,000	-27.7%	-55.3%	82.9%	-16%
Jeddah	437,000	322,000	200,000	316,000	-26.3%	-37.9%	58.0%	-10%
Riyadh	256,000	120,000	95,000	120,000	-53.1%	-20.8%	26.3%	-22%
Makkah	365,000	506,000	253,000	238,000	38.6%	-50.0%	-5.9%	-13%
Madinah	239,000	276,000	230,000	167,000	15.5%	-16.7%	-27.4%	-11%
Doha	413,000	310,000	125,000	111,000	-24.9%	-59.7%	-11.2%	-35%
Manama	266,000	131,000	88,000	144,000	-50.8%	-32.8%	63.6%	-18%
Muscat	321,000	139,000	154,000	107,000	-56.7%	10.8%	-30.5%	-31%
Kuwait City	304,000	279,000	220,000	206,000	-8.2%	-21.1%	-6.4%	-12%
Amman	158,000	235,000	121,000	131,000	48.7%	-48.5%	8.3%	-6%
Beirut	163,000	83,000	138,000	190,000	-49.1%	66.3%	37.7%	5%
Cairo	109,000	111,000	105,000	125,000	1.8%	-5.4%	19.0%	5%
Average	**373,076**	**298,104**	**218,274**	**207,532**	**-20.1%**	**-26.8%**	**-4.9%**	-18%

Except for Cairo and Beirut, the remaining 12 cities registered a decline in hotel values between 2015 and 2018.

The four-year historical average compound growth for the region was a negative 18% due to several reasons: supply and demand imbalances, political and economic unrest, currency devaluation in the key source markets, increased competition, and an increase in operating costs. In 2018, net operating profit declined between four and seven percentage points across cities covered in this publication.

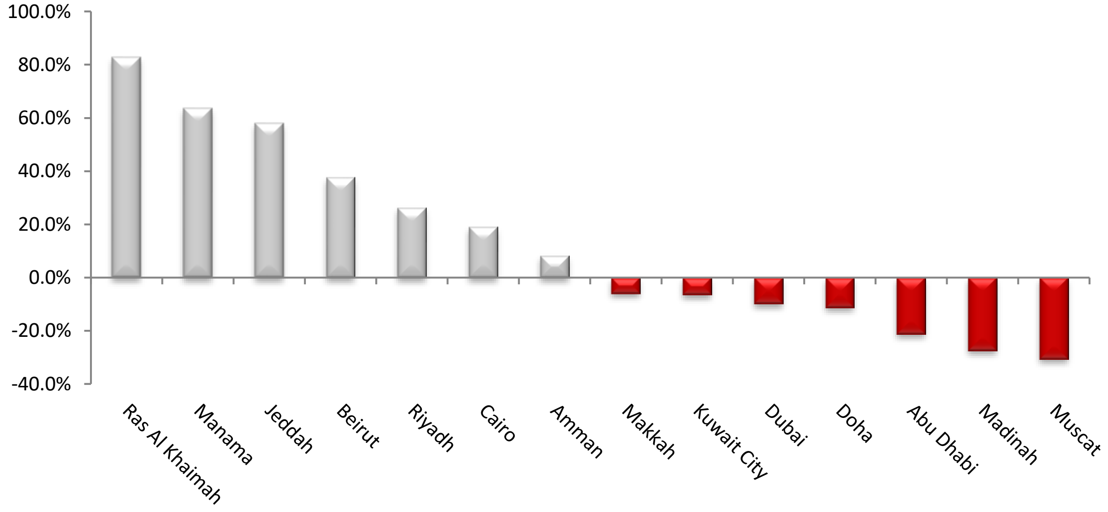
Valuation Trends Index – Historical

FIGURE 3: INDEX VALUES BY CITY 2015-2018

City	INDEX 2016	INDEX 2017	INDEX 2018	% Change 2017	% Change 2018	3 -year Historical Compound Growth (2016 - 2018)
Ras Al Khaimah	0.46	0.20	0.37	-55.3%	82.9%	-9.6%
Manama	0.35	0.24	0.39	-32.8%	63.6%	4.8%
Jeddah	0.86	0.54	0.85	-37.9%	58.0%	-0.9%
Beirut	0.22	0.37	0.51	66.3%	37.7%	51.3%
Riyadh	0.32	0.25	0.32	-20.8%	26.3%	0.0%
Cairo	0.30	0.28	0.34	-5.4%	19.0%	6.1%
Amman	0.63	0.32	0.35	-48.5%	8.3%	-25.3%
Average	0.80	0.59	0.56	-26.8%	-4.9%	-16.6%
Makkah	1.36	0.68	0.64	-50.0%	-5.9%	-31.4%
Kuwait City	0.75	0.59	0.55	-21.1%	-6.4%	-14.1%
Dubai	1.07	0.80	0.72	-25.3%	-9.7%	-17.9%
Doha	0.83	0.34	0.30	-59.7%	-11.2%	-40.2%
Abu Dhabi	0.61	0.69	0.55	13.6%	-21.2%	-5.4%
Madinah	0.74	0.62	0.45	-16.7%	-27.4%	-22.2%
Muscat	0.37	0.41	0.29	10.8%	-30.5%	-12.3%

Figure 3 illustrates the index for each market relative to the 2015 base year and the respective changes in 2017 and 2018. Value index is presented by % value change in 2018 over 2017 in USD terms, from highest positive to lowest.

FIGURE 4: LEADING AND TRAILING MARKETS IN MIDDLE EAST CITIES (% VALUE CHANGE IN USD IN 2018 OVER 2017)

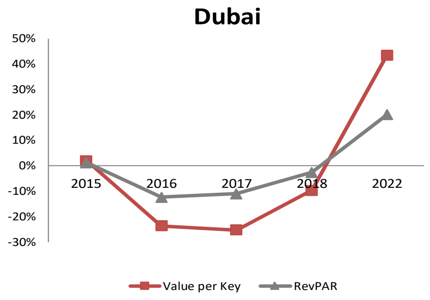


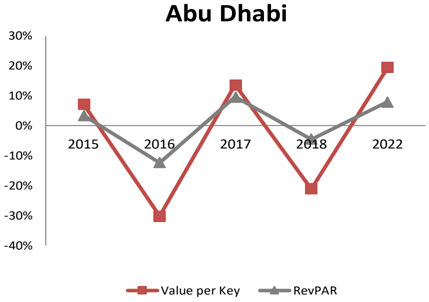
IN FOCUS – United Arab Emirates

Dubai – United Arab Emirates

Dubai, positioned as the city of international travel hub, exhibited a decline of 9.7% in hotel values in 2018 and a CAGR of -18% for the period 2015-2018. The change in hotel values comes as a result of four consecutive years of RevPAR decline and lower Gross Operating Profit per Available Room. Fierce competition in the market is anticipated to continue in 2019 and onwards with the growth in new supply entering the market, which is likely to put further pressure on achievable rates and operating margins.

Despite the anticipated increase in supply over the next three years, accommodated room nights in the city is expected to grow on the back of an increase in tourist arrivals from Expo 2020 and new tourism developments. In line with Dubai Tourism Vision 2020, Dubai set another ambitious tourism strategy to attract 25 million visitors by 2025. Effective operating and cost management strategies supported by an increase in accommodated room nights will allow hotel values to recover by 2022.





Abu Dhabi – United Arab Emirates

Abu Dhabi, the capital city of United Arab Emirates, has observed an increase in hotel value of 13.6% in 2017 due to improved RevPAR. However, an increase in operating costs and lower RevPAR resulted in a 21% drop in hotel values in 2018.

The hotel market in Abu Dhabi is forecasted to register an increase in market wide occupancy and a potential increase in market wide average rate once all the cultural and leisure tourism projects are completed. Hotel values are forecasted to register a CAGR of 10% by 2022.

IN FOCUS – United Arab Emirates

Ras Al Khaimah – United Arab Emirates

Ras Al Khaimah, one of the emerging leisure destinations in the Northern Emirates, registered a RevPAR growth of 24% in 2018 attributable to the Emirate's repositioning strategy as a cultural and adventure tourism destination. Ras Al Khaimah achieved its goal of attracting one million visitors to the Emirates in 2018, a 10% growth in visitor arrivals over 2017.In addition to the launch of Jebel Jais Flight, the world's longest zipline, Ras Al Khaimah Tourism Development Authority is planning to develop various adventure experiences including luxury mountain camp, hiking trails, and viewing deck, which is likely to benefit the hotel market further. Destination Strategy 2019-2021, which is the new government initiative to attract tourism investment is expected to have a positive impact on hotel values.

Hotel values grew by 83% in 2018, a positive correction following a sharp decline in 2017.

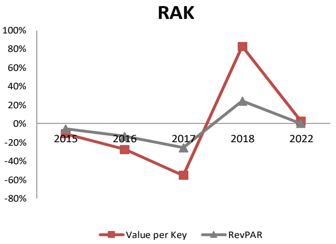


FIGURE 5: LEADING AND TRAILING MARKETS IN UNITED ARAB EMIRATES (% VALUE CHANGE IN USD IN 2018 OVER 2017)

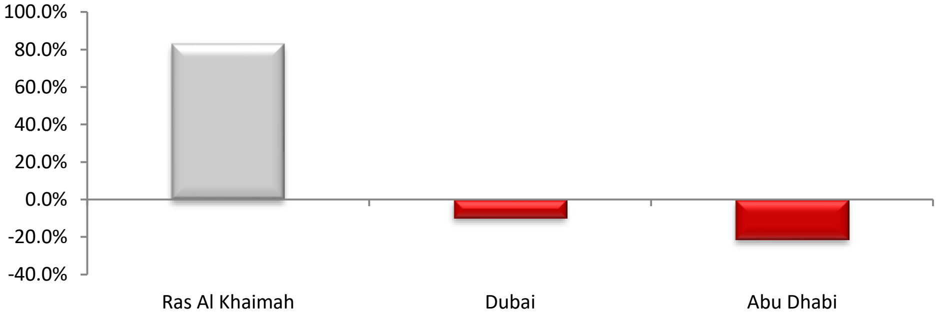


FIGURE 6: INDEX VALUES IN UNITED ARAB EMIRATES (IN ORDER OF 2018 % VALUE CHANGE IN USD)

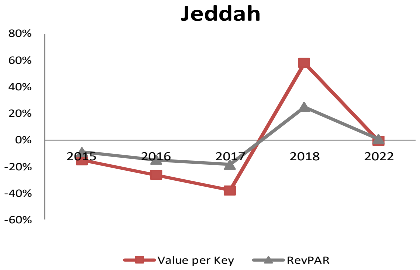
	INDEX			% Change	% Change	3 -year Historical Compound Growth
City	**2016**	**2017**	**2018**	**2017**	**2018**	**(2016 - 2018)**
Ras Al Khaimah	0.46	0.20	0.37	-55.3%	82.9%	-9.6%
Dubai	1.07	0.80	0.72	-25.3%	-9.7%	-17.9%
Abu Dhabi	0.61	0.69	0.55	13.6%	-21.2%	-5.4%

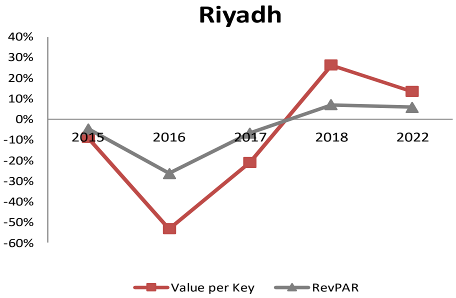
IN FOCUS – Saudi Arabia

Jeddah – Saudi Arabia

Jeddah is positioned as a gateway for Muslim pilgrims traveling to the holy cities, as well as a leisure destination for domestic tourists. Benefitting from its strategic location, Jeddah airport's passengers traffic recorded a 20% growth in 2018 and reached 41.2 million passengers.

In 2018, hotel values in Jeddah grew by 58% on account of the recovery in average rates and gross operating profit, unlike other cities in the Middle East. Despite the planned 10,000 new rooms to enter into the market by 2022, the new tourist visa regulation and the planned developments in Jeddah and its neighboring cities will induce additional demand into the city.





Riyadh – Saudi Arabia

Riyadh, the capital of Saudi Arabia, registered a RevPAR growth of 7% in 2018, primarily due to an increase in average rates. Following a 21% drop in hotel value in 2017, improved market performance resulted in a 26% growth in hotel values in 2018.

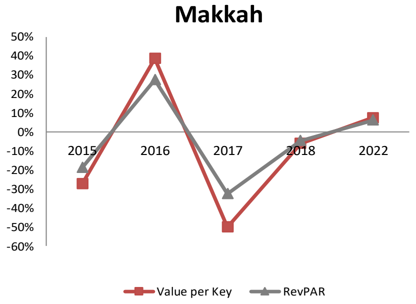
Riyadh, traditionally reputed as a destination for Corporate and MICE business, is also diversifying its tourism offering to attract leisure demand with new recreational and entertainment projects. Major development such as Entertainment City and Mall of Saudi are anticipated to attract Saudi families and high-paying leisure tourists and likely to support supply growth which is anticipated to reach 15,000 rooms in 2022, a 40% increase on 2018.

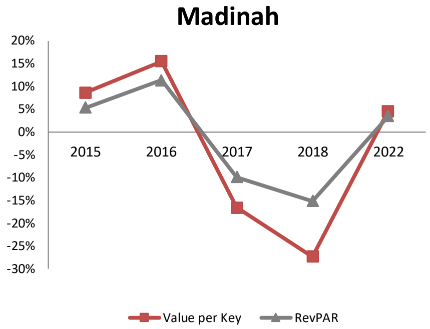
IN FOCUS – Saudi Arabia

Makkah – Saudi Arabia

Makkah, the Holy city for millions of Muslims to perform Hajj, experienced a 5% decline in RevPAR in 2018. Since 2015, the additional rooms in the market continue to put pressure on the achievable average rates. In the last five years, operating expenses have also increased leading to lower GOP levels, demonstrated in the decline in hotel values of 50% in 2017. A further 5% drop in hotel value was registered in 2018.

Despite the downward trend, we anticipate continuous growth in demand due to: recovery in the economies of key source markets; completion of the Haram expansion project; introduction of post-Umrah tourist visas; completion of Haramain speed rail; completion of Makkah Metro project; induced demand generated from the completion of mega-developments; and the government initiatives to implement the Saudi Vision 2030 plan, which aims to increase the pilgrims visitation capacity to over 30 million per annum.





Madinah – Saudi Arabia

As one of the two holy cities of Islam, Madinah is a destination for millions of Muslims to perform Umrah subsequent to Hajj. The hospitality sector has always been the primary driver for the economy in Madinah, led by religious tourism which remains the main source of visitation. As such, the Saudi government is committed to significantly increase the number of Umrah pilgrims who visit the Kingdom each year in line with the Vision 2030 to enhance the non-oil economy. Madinah hotel market is expected to recover from current challenges resulting from visa related taxes and currency devaluation in the main feeder markets like Turkey, Egypt and Indonesia.

As a result of the declining hotels performance, hotel value dropped by 17% and 27% in 2017 and 2018 respectively.

IN FOCUS – Saudi Arabia

FIGURE 7: LEADING AND TRAILING MARKETS IN SAUDI ARABIA (% VALUE CHANGE IN USD IN 2018 OVER 2017)

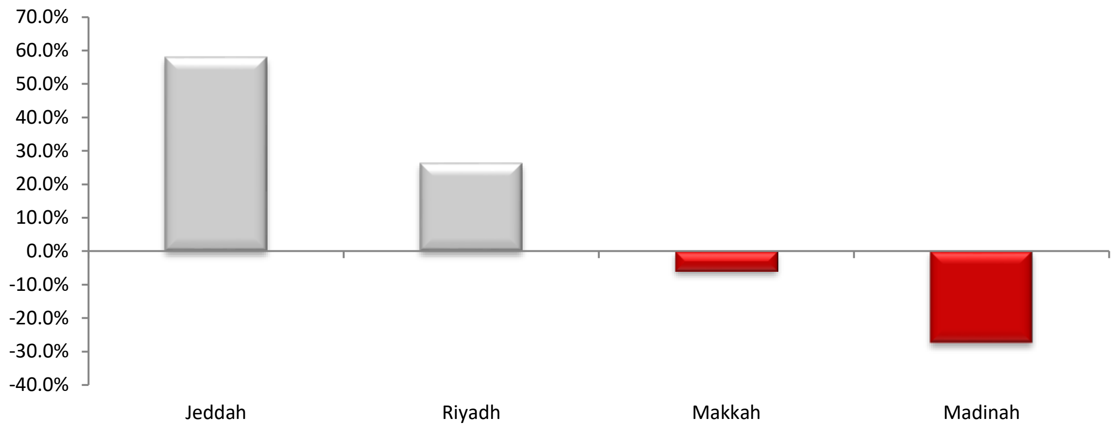
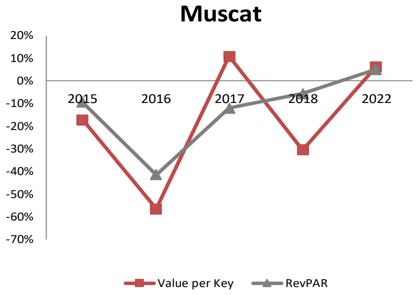


FIGURE 8: INDEX VALUES IN SAUDI ARABIA (IN ORDER OF 2018 % VALUE CHANGE IN USD)

	INDEX			% Change	% Change	3 -year Historical Compound Growth
City	2016	2017	2018	2017	2018	(2016 - 2018)
Jeddah	0.86	0.54	0.85	-37.9%	58.0%	-0.9%
Riyadh	0.32	0.25	0.32	-20.8%	26.3%	0.0%
Makkah	1.36	0.68	0.64	-50.0%	-5.9%	-31.4%
Madinah	0.74	0.62	0.45	-16.7%	-27.4%	-22.2%

IN FOCUS – Cities in GCC Countries



Muscat - Oman

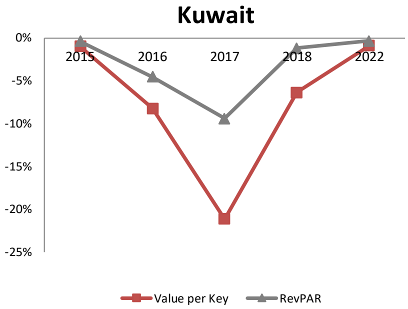
Muscat, the capital of Oman, experienced a 30% decline in hotel value in 2018, driven predominately by RevPAR decline and increase in operational costs. Despite the declining hotel performance, airport movements recorded 1.4 million passengers in 2018, with a considerable surge from Indian visitors.

The rise in visitor arrivals to Muscat is expected to further grow on account of ease of visa restrictions to visitors from China, India, Iran and Russia. An excess of 4,000 additional rooms are expected to enter the market by 2022, which is likely to increase the competition but equally support tourism growth in Muscat and allow for improved performance across the city.

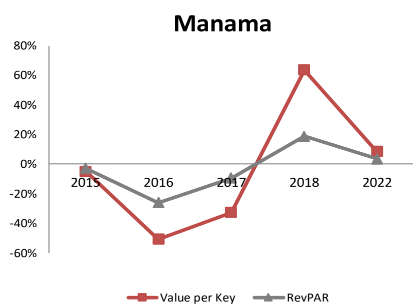
Hotel values are forecasted to improve on the back of an improvement in RevPAR and gross operating margins as well as the overall support from the government to develop further the tourism infrastructure.

Kuwait City - Kuwait

Kuwait City hotel values historically remained stagnant on account of limited new supply and the hotel rate cartel agreement. Since 2016, new hotels have entered the market and the hotel rate cartel agreement effectuated by the hotel owners' association started to phase out. This led to a drop in hotel value of 20% and 6% in 2017 and 2018 respectively.



IN FOCUS – Cities in GCC Countries



Manama - Bahrain

Manama, the capital of Bahrain, registered a 64% increase in hotel value in 2018, following a sharp decline of 33% in 2017. The increase in hotel value was driven by an increase in RevPAR and an improved Net Operating Profit of seven percentage points from 18% in 2017 to 25% in 2018.

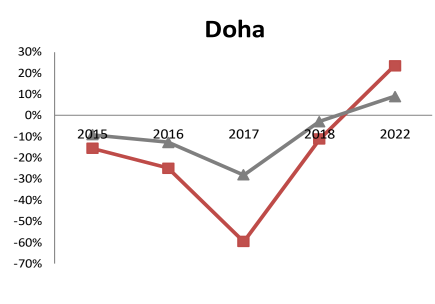
Passengers movements at Bahrain International Airport grew by 23% in 2018. An additional 3,500 rooms are expected to enter the market by 2022 which is likely to put pressure on achievable average rates. Upon the completion of major developments including the Bahrain International Airport expansion, Bahrain Marina, and other entertainment destinations, hotel values are forecasted to improve.

Doha - Qatar

Doha, historically a leader in the region in terms of RevPAR and GOPPAR, experienced a declining hotel performance as a direct result of the ongoing political instability since June 2016. This led to a severe decline in the number of visitor arrivals, particularly from GCC and Other Arab nationalities. Hotel values dropped by 60% and 11% in 2017 and 2018 respectively.

As Doha prepares to host the Qatar FIFA World Cup in 2022, visitor arrivals to Doha are expected to increase. Visitation from China and South Asia countries is expected to grow significantly and compensate for the loss of the GCC business, owing to the initiative of Qatar Tourism Authority on visa relaxation and attracting new source markets.

On the back of improved hotel performance, Doha hotel values are expected to recover and register the strongest growth amongst ME cities.



IN FOCUS – Cities in GCC Countries

FIGURE 9: LEADING AND TRAILING MARKETS IN GCC COUNTRIES (% VALUE CHANGE IN USD IN 2018 OVER 2017)

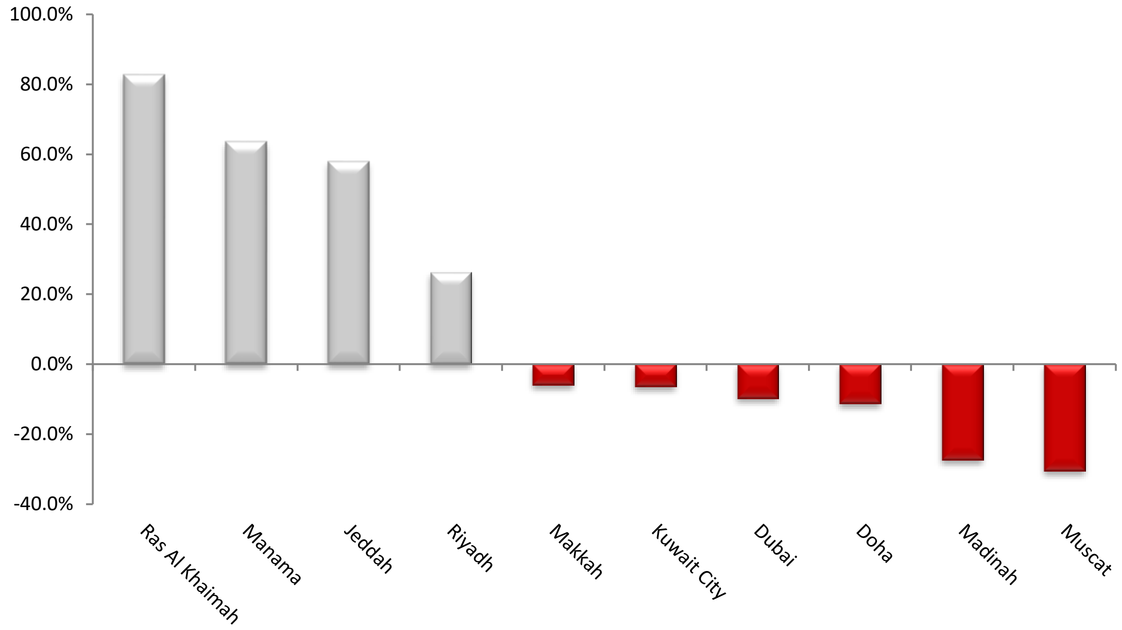


FIGURE 10: INDEX VALUES IN GCC COUNTRIES (IN ORDER OF 2018 % VALUE CHANGE IN USD)

	INDEX			% Change	% Change	3 -year Historical Compound Growth
City	**2016**	**2017**	**2018**	**2017**	**2018**	**(2016 - 2018)**
Ras Al Khaimah	0.46	0.20	0.37	-55.3%	82.9%	-9.6%
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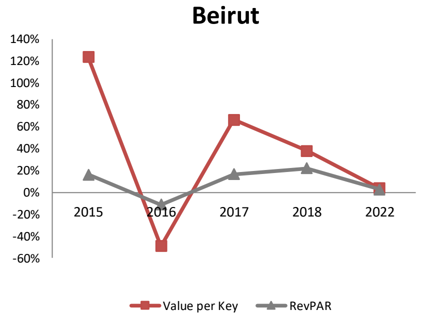
Jeddah	0.86	0.54	0.85	-37.9%	58.0%	-0.9%
Riyadh	0.32	0.25	0.32	-20.8%	26.3%	0.0%
Makkah	1.36	0.68	0.64	-50.0%	-5.9%	-31.4%
Kuwait City	0.75	0.59	0.55	-21.1%	-6.4%	-14.1%
Dubai	1.07	0.80	0.72	-25.3%	-9.7%	-17.9%
Doha	0.83	0.34	0.30	-59.7%	-11.2%	-40.2%
Abu Dhabi	0.61	0.69	0.55	13.6%	-21.2%	-5.4%
Madinah	0.74	0.62	0.45	-16.7%	-27.4%	-22.2%
Muscat	0.37	0.41	0.29	10.8%	-30.5%	-12.3%

IN FOCUS – Other Arab Cities



Beirut – Lebanon

Historically, Lebanon has been positioned as one of the strongest hospitality players in the Middle East region; nevertheless, the political and social unrest in the neighboring countries resulted in a drastic decline in the market in the last five years.

Since 2017 the market has shown recovery with a strong demand gained from European visitors. In 2018, hotel values grew by 38% on account of an improvement in RevPAR and net operating profit margin, which has increased by four percentage points.

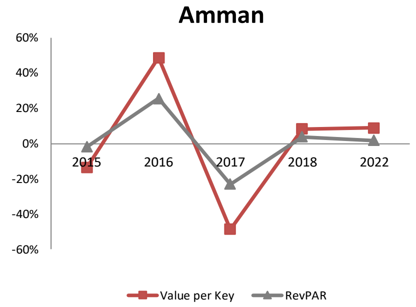
There is limited new hotel supply in the market when compared to other major cities in the Middle East. On account of the anticipated rise in tourist arrivals and the ease of GCC travel ban to Lebanon, HVS outlook remains positive and hotel values are forecasted to grow.

Amman – Jordan

Despite Jordan being renowned as one of the attractive and safe tourism destinations in the Middle East, Amman experienced a fluctuating performance in the last five to seven years due to the economic and political instability in the region, as well as the increase in hotel supply in the capital.

Both RevPAR and hotel values grew in 2018, and in line with the Jordan Economic Growth Plan 2018-2022, it is forecasted that the tourism sector will further grow supported by the government marketing efforts as well as investments in infrastructure and tourists' sites to attract international visitors.

Furthermore, airport refurbishment and new flight route connections from European low-cost carriers will aid the growth in hotel demand and ultimately result in an improvement in hotel values.



IN FOCUS –Other Arab Cities

Cairo – Egypt

Cairo exhibited a 20% surge in RevPAR supported by the growth in both occupancy and average rates. Occupancy reached 74% in 2018; the highest level since 2010. Tourism in Egypt recovered on the back of improved security perception, government initiatives and marketing campaigns to attract tourists as well as European carriers resuming flights to Cairo. Average rates increased by 17%, benefitted from the currency devaluation and growth in room night demand. HVS forecasts RevPAR to grow further in Cairo over the next three to five years which will result in hotel values stablisiling.

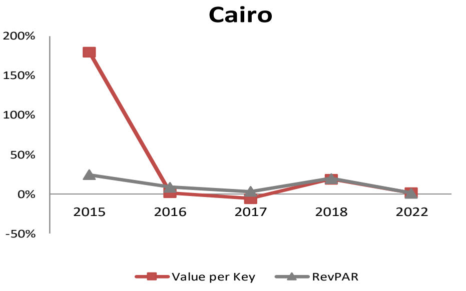


FIGURE 11: TOP LEADING AND TRAILING MARKETS IN OTHER ARAB COUNTRIES (% VALUE CHANGE IN USD IN 2018 OVER 2017)

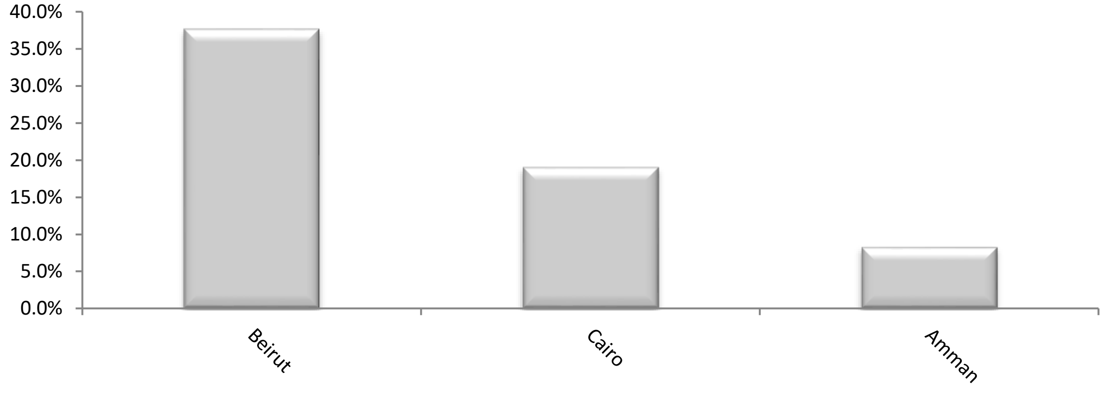


FIGURE 12: INDEX VALUES IN OTHER ARAB COUNTRIES (IN ORDER OF 2018 % VALUE CHANGE IN USD)

	INDEX			% Change	% Change	3 -year Historical Compound Growth
City	2016	2017	2018	2017	2018	(2016 - 2018)
Beirut	0.22	0.37	0.51	66.3%	37.7%	51.3%
Cairo	0.30	0.28	0.34	-5.4%	19.0%	6.1%
Amman	0.63	0.32	0.35	-48.5%	8.3%	-25.3%

Forecasts

FIGURE 13: HOTEL VALUATION INDEX FORECAST BY CITY (2019-2022)

City	2018	2019	2020	2021	2022	4 -year Forecasted Compounded Growth (2019 - 2022)
Doha	0.3	0.4	0.5	0.6	0.8	23.6%
Muscat	0.3	0.3	0.4	0.5	0.5	21.9%
Riyadh	0.3	0.4	0.5	0.6	0.6	14.9%
Abu Dhabi	0.5	0.6	0.7	0.7	0.8	10.3%
Dubai	0.7	0.8	0.9	0.8	1.1	9.9%
Madinah	0.4	0.5	0.6	0.6	0.6	9.4%
Makkah	0.6	0.7	0.8	0.9	1.0	8.9%
Manama	0.4	0.4	0.4	0.4	0.5	7.7%
Amman	0.4	0.4	0.4	0.4	0.4	6.6%
Ras Al Khaimah	0.4	0.4	0.5	0.4	0.4	4.6%
Beirut	0.5	0.5	0.6	0.6	0.6	3.2%
Jeddah	0.8	0.9	0.9	1.0	1.0	2.7%
Cairo	0.3	0.3	0.4	0.4	0.4	2.3%
Kuwait City	0.6	0.5	0.6	0.6	0.6	1.8%
Average	0.6	0.6	0.7	0.7	0.8	15.1%

Figure 13 captures the index for 2018 actual and 2019-2022 forecast. The four-year forecasted compounded growth in USD illustrates how the hotel values are likely to grow over the next four years.

Doha hotel value is forecasted to achieve the highest growth among the 14 key cities in the Middle East.

In 2022, Dubai, Makkah and Jeddah are anticipated to exceed the average value per key in 2015, owing to infrastructure developments and government initiatives to promote tourism and improved economic conditions.

As the economy and socio political situations stabilise, HVS forecasts hotel value for all markets will improve from 2017 and 2018 levels albeit some will remain lower than the 2015 hotel values for the respective cities.

2022 Value per Key by City- Forecasts

FIGURE 14: HOTEL VALUES 2015-2018-2022F (IN 000's USD)

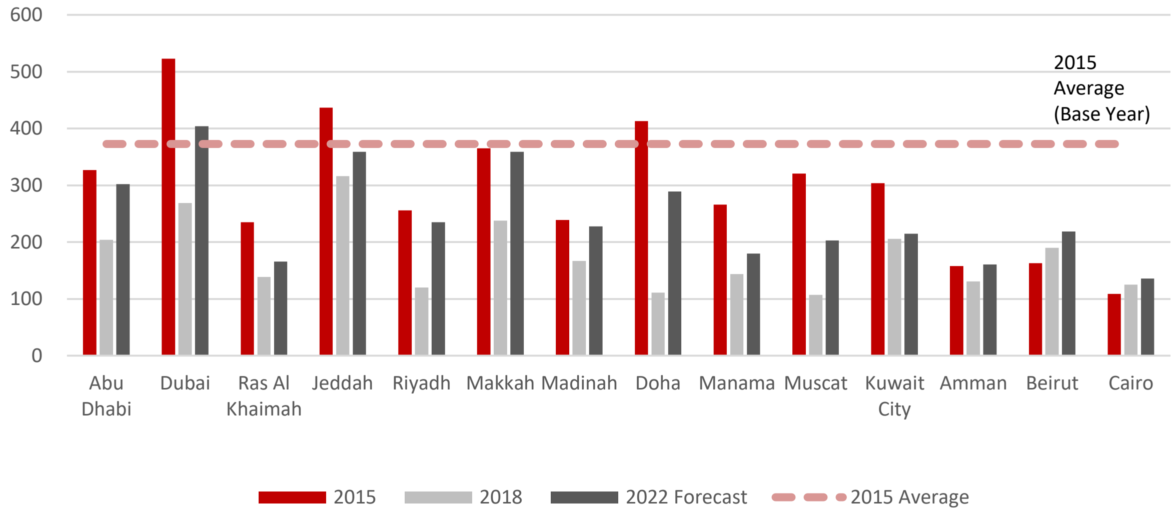
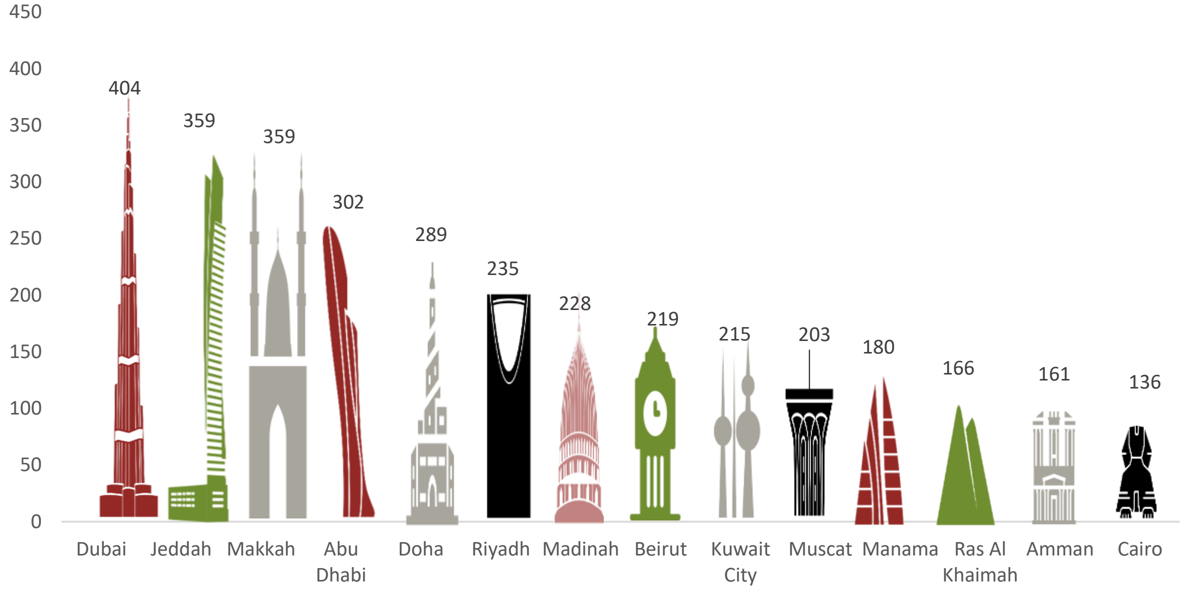


FIGURE 15: HOTEL VALUES FORECAST 2022 (IN 000's USD)



Value per Key in the Middle East Region and Global Cities

FIGURE 16: HOTEL VALUE PER KEY 2018 -SELECT CITIES IN THE MIDDLE EAST AND EUROPE- (IN 000's USD)-

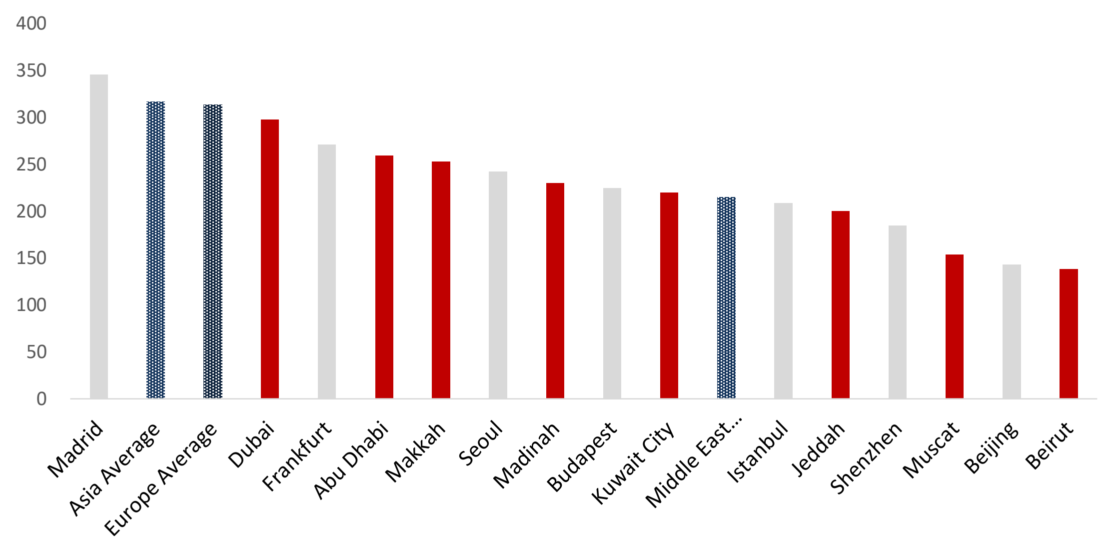


FIGURE 17: HOTEL VALUE PER KEY 2017- SELECT CITIES IN THE MIDDLE EAST, EUROPE AND ASIA (IN 000's USD)

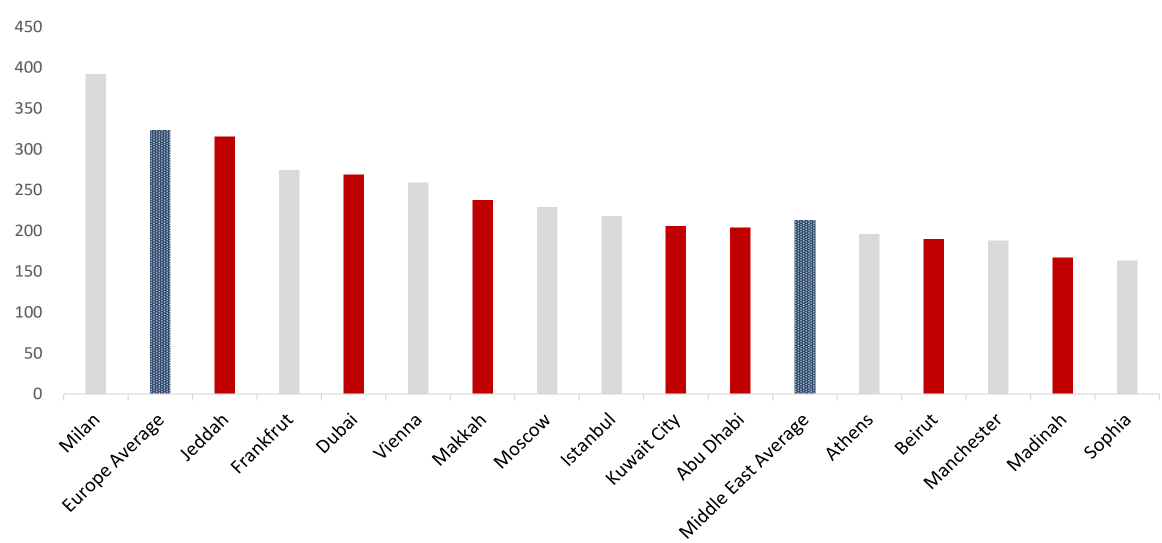


Figure 16 and 17 illustrate the value per key in USD for select cities in the Middle East, Europe and Asia.

Concluding Remarks

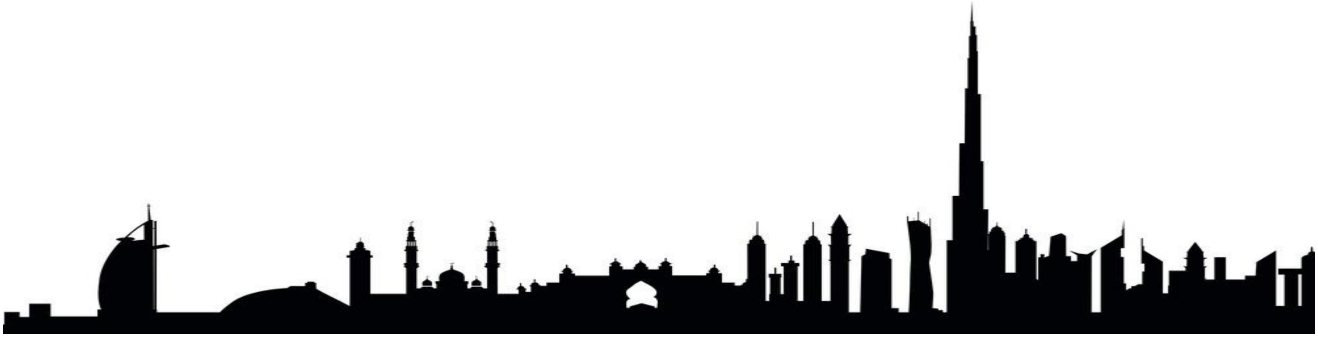
As primary markets continue to mature and saturate with four- and five-star hotels, and secondary markets begin to progress, supported by improved modes of accessibility and infrastructure development, the Middle East will continue to present attractive investment opportunities. Tourism arrivals are expected to continue to grow supported by government initiatives to facilitate and strategically promote the tourism industry in the region. All 14 markets have a vision to boost their tourism offering and future opportunities would be tied to cultural experiences, religious tourism, wellness and medical tourism.

We estimate regional hotel values to grow between 10% and 13% in 2019 and 2020 respectively in the lead up to major events such as the World Expo 2020, Qatar FIFA World Cup 2022, the ongoing economic and tourism recovery in Egypt, Lebanon and other key cities. In 2022, the average regional hotel value per key is estimated to grow to USD315,000, a significant growth on 2018 regional average, yet 15% lower than the base year average of USD373,000.

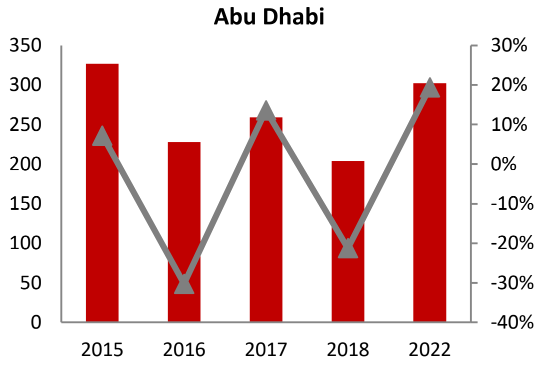
Hotel assets tend to be complex in nature: successful investment does not just come with a successful deal. Fundamental value is highly dependent on features specific to each party as well as other key market factors such as supply-demand dynamics, political climate and tourism efforts. Afterall, true value of an income producing asset is derived by both the potential for capital appreciation and the cash flows in will generate.

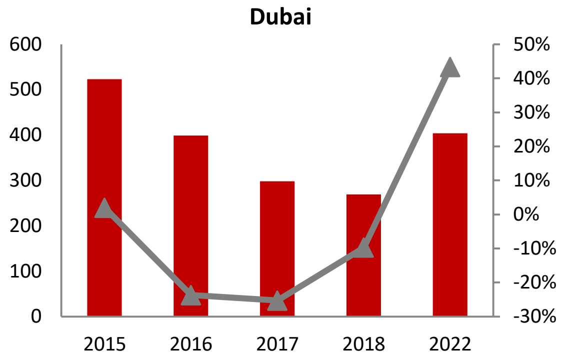
With so many questions asked and contradicting views about the future performance of the hotel industry, ongoing mergers and acquisitions, the fierce competition of the traditional hotel model with Airbnb and residential units, technology disruption, rising operating costs, declining RevPAR and changes in guests preferences to name a few, the only sure thing is that we need to become more sophisticated, innovative and realistic in the way we invest, build, partner and operate hospitality assets.

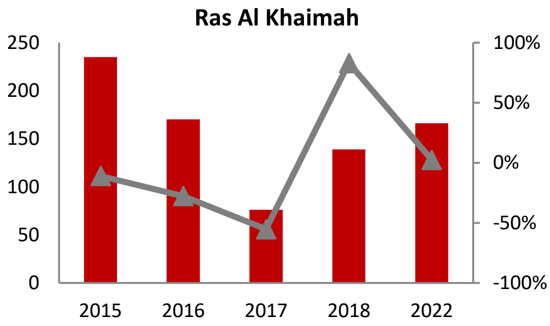
We encourage investors, operators and key stakeholders to consider the critical factors that will continue to have a detrimental impact on current and future hotel values as once the asset is built, the value is determined by its income stream potential.

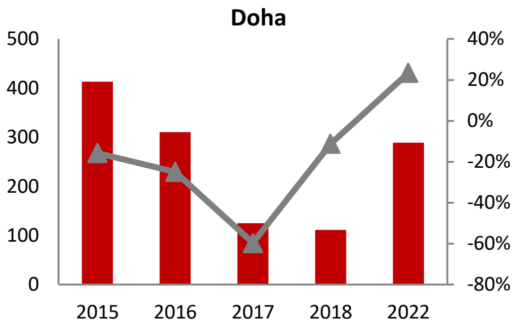


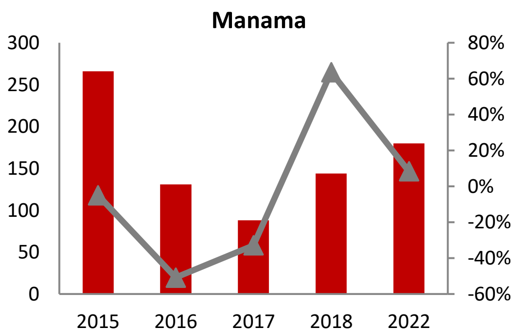
Middle East Value per Key Trend 2015-2022(f)- USD 000s

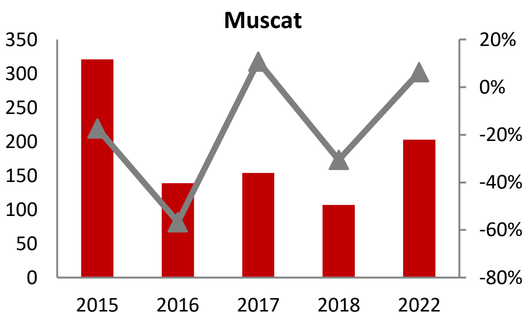


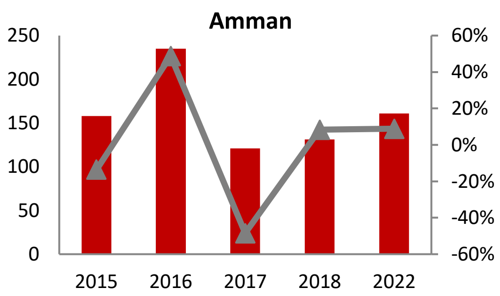




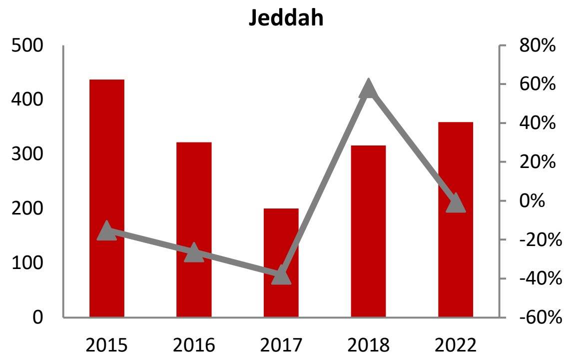


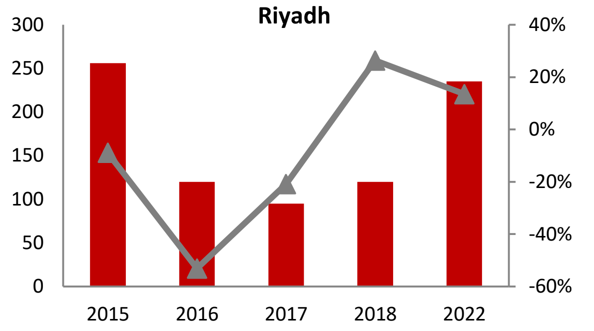


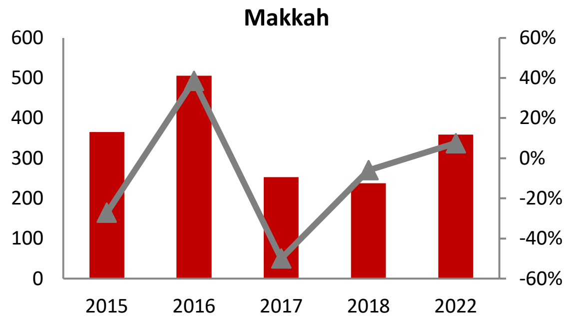


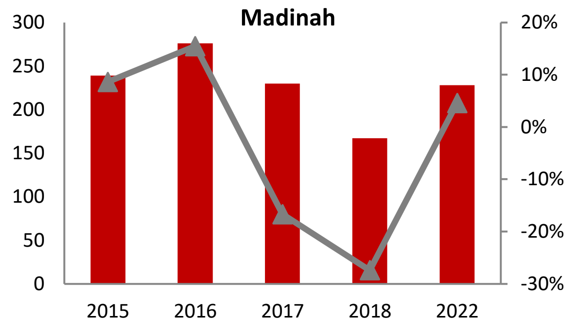


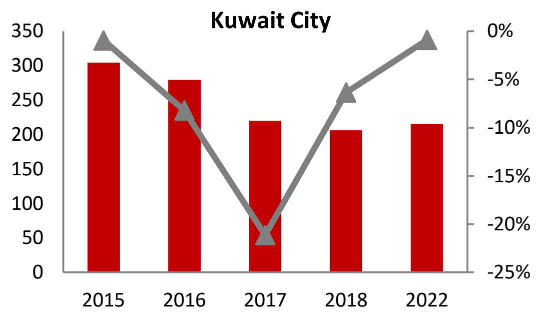
Middle East Value per Key Trend 2015-2022(f)- USD 000's

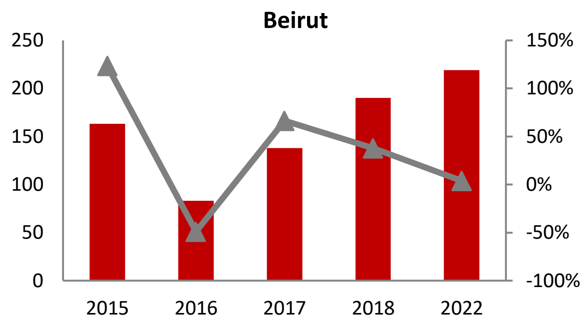


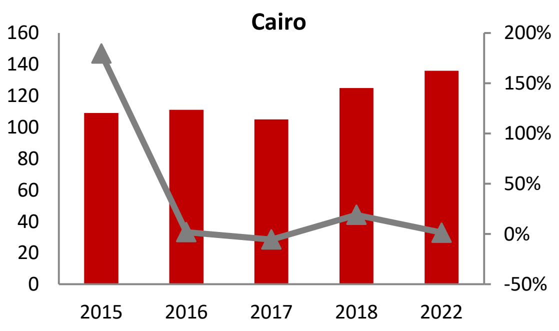












About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary in 2015. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 40 offices and more than 300 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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HVS Dubai has a team of experts that conduct our operations in the Middle East and Africa. The team benefits from international and local backgrounds as well as diverse academic and hotel/real estate-related experience. Over the last ten years, the team has advised on more than 800 projects and approximately US$80 billion worth of hotel real estate and mixed-use projects in the region for hotel/real estate owners, developers, lenders, investors and operators.

About the Author

Hala Matar Choufany is the President for HVS Middle East, Africa & South Asia and Managing Partner of HVS Dubai. Hala is an experienced Managing Partner and Hospitality Advisor with a demonstrated history of working in the hospitality industry. Skilled in Contract Negotiation, Feasibility Studies, Development Recommendation, Valuation, Asset Management, and Strategic Advisory; she has advised on more than 2,500 hospitality and mixed-use projects in the last 15 years across Europe, MEA 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 speaks frequently at investment conferences on a range of topics including asset valuation, management issues and women leadership. Hala completed Executive Education at Harvard Business School. She also holds 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. Hala is a board member of Harvard Business School club of the GCC and is a mum of three. Born in Beirut, Hala lived and worked in a number of cities across Europe, Asia and Middle East. *hchoufany@hvs.com*