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HOTEL VALUATION INDEX MIDDLE EAST & AFRICA

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Introduction

While the hospitality industry is incredibly robust and regularly adapts to changing market conditions, the 2020 global pandemic had a significant impact on travel and tourism globally and resultant hotel values. Arguably, **hotel ownership and hotel investments** are considered as a long-term investment as the value is based on the future income that the asset is likely to generate with valuers adopting the discounted cashflow method of valuation. As such, one year of minimal income does not mean the value of the asset has disappeared completely. This index uses a base year to compare the change in hotel values based on future income generating potential assuming the hotel is operated by a reasonably efficient operator and transacts in an orderly arm's length transaction where the parties are not acting under any compulsion. Hence, the key consideration for the valuation will be the length of time it will take for the hotels/markets to recover and whether the recovery will surpass the previous levels of operation.

Although there was a limited number of hotel transactions that took place in the **Middle East and Africa (MEA)** region during the last 18 months, the trading performance of hotels that remained opened or re-opened suggests that leisure and resort hotels have performed better than the corporate and commercial hotels. Specifically, cities that have better managed the pandemic and gradually re-opened its borders have registered lower decline in hotel values when compared to the others. In **value terms**, there has been a significant immediate impact resulting in 18% decline in regional values between 2019 and 2021.

Most markets in the MEA region are forecasted to recover in the next three to four years and hotel values are forecasted to grow by a CAGR of 1.1% between 2019 and 2025 and a CAGR of 6.7% between 2021 and 2025.

Details about the methodology applied in this publication is available in the last section "**What is the HVI?**".

What the COVID-19 pandemic has shown is the importance of sensible development costs, the need to appoint an experienced operator and brand that delivers as well as the importance of decreasing operational costs and increasing efficiencies. With the continued uncertainty, it is more important than ever that owners take the opportunity to regularly review the performance of their hotels as the cashflows will impact the financial risk associated with their investment perhaps now more than ever.

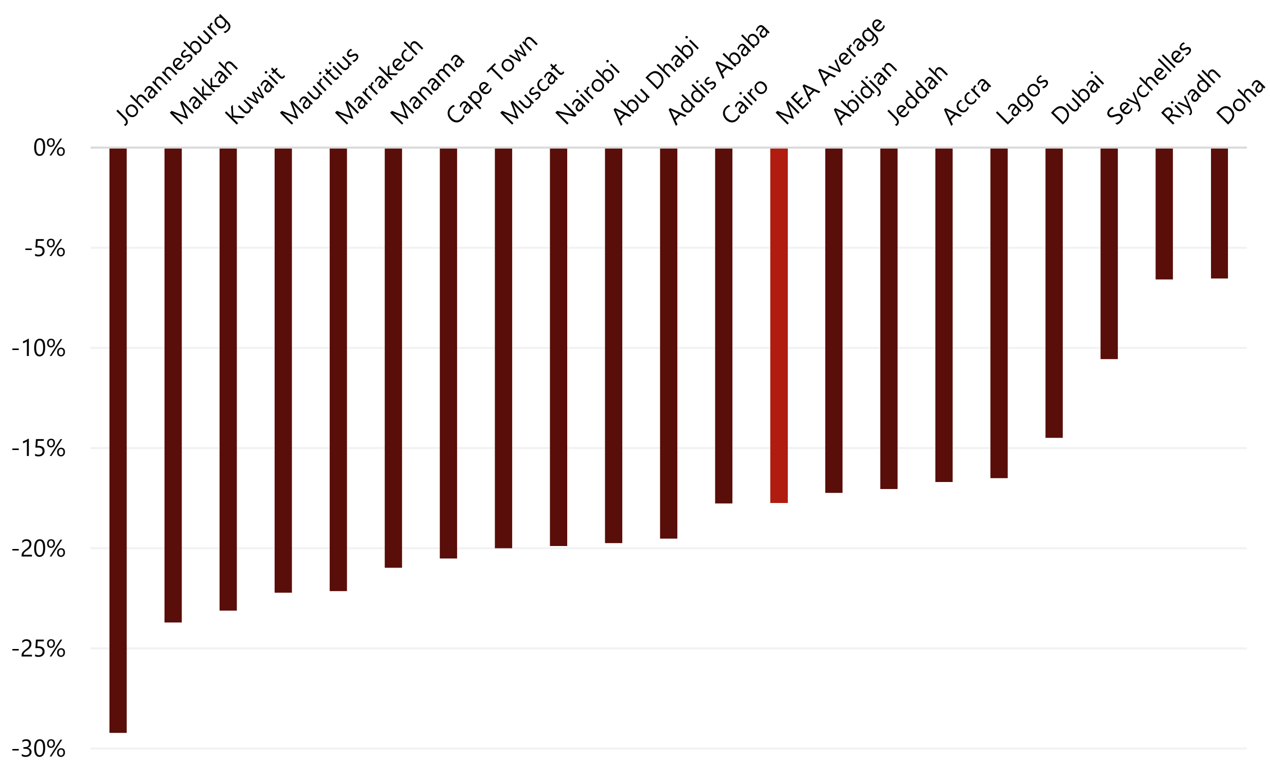
Figure 1 illustrates the index for each market relative to the 2019 base year and the respective changes in 2021 and 2025. Value index is presented by % value change.

Figure 1 - Index Values by City 2019, 2021 & 2025

City	2019	2021	2025	% Change 2021/2019	% Change 2025/2019	CAGR 2019 - 2025	CAGR 2021 - 2025
Dubai	1.37	1.17	1.50	-14.5%	8.8%	1.4%	6.2%
Abu Dhabi	1.20	0.96	1.24	-19.7%	3.4%	0.6%	6.5%
Jeddah	1.44	1.20	1.48	-17.0%	2.6%	0.4%	5.5%
Riyadh	0.73	0.68	0.95	-6.6%	29.9%	4.5%	8.6%
Makkah	1.16	0.89	1.20	-23.7%	2.8%	0.5%	7.7%
Muscat	0.55	0.44	0.56	-20.0%	1.8%	0.3%	6.2%
Manama	0.87	0.69	0.86	-21.0%	-1.8%	-0.3%	5.6%
Doha	0.64	0.60	0.82	-6.5%	28.0%	4.2%	8.2%
Kuwait	1.03	0.79	0.93	-23.1%	-9.4%	-1.6%	4.2%
Middle East Index	**1.00**	**0.82**	**1.06**	**-17.5%**	**5.8%**	**1.0%**	**6.4%**
Seychelles	2.73	2.44	3.05	-10.6%	11.5%	1.8%	5.7%
Mauritius	1.49	1.16	1.53	-22.2%	2.2%	0.4%	7.1%
Addis Ababa	0.88	0.71	0.94	-19.5%	7.2%	1.2%	7.4%
Accra	0.88	0.73	0.94	-16.7%	6.5%	1.1%	6.3%
Marrakech	0.84	0.66	0.84	-22.1%	0.2%	0.0%	6.5%
Lagos	0.74	0.62	0.76	-16.5%	1.9%	0.3%	5.1%
Cape Town	0.94	0.75	1.06	-20.5%	12.1%	1.9%	9.0%
Johannesburg	0.72	0.51	0.72	-29.2%	-0.1%	0.0%	9.0%
Abidjan	0.63	0.52	0.70	-17.2%	12.1%	1.9%	7.9%
Nairobi	0.51	0.41	0.56	-19.9%	11.5%	1.8%	8.6%
Cairo	0.63	0.52	0.69	-17.8%	9.7%	1.5%	7.5%
Africa Index	**1.00**	**0.82**	**1.07**	**-17.9%**	**7.2%**	**1.2%**	**6.9%**

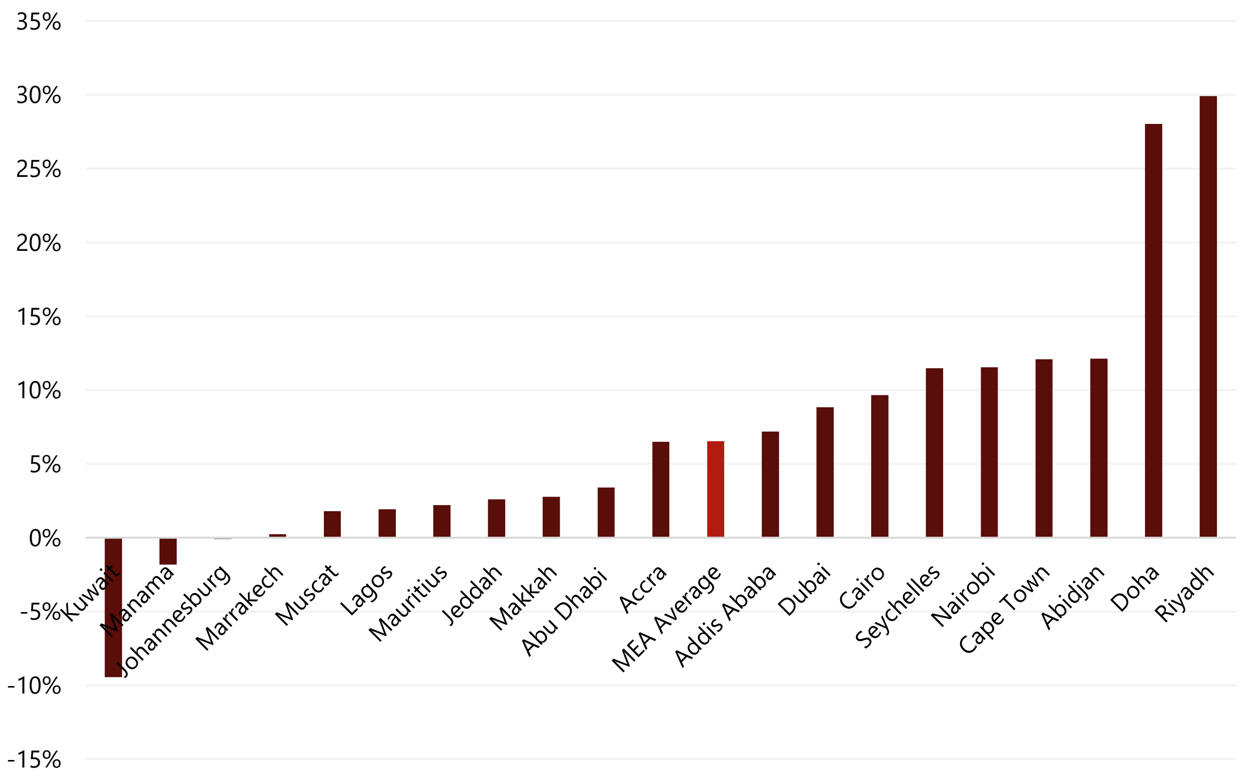
Source: HVS

Figure 2 - Leading and Trailing Markets in Middle East & Africa Cities (% Value Change in 2021 Over 2019)



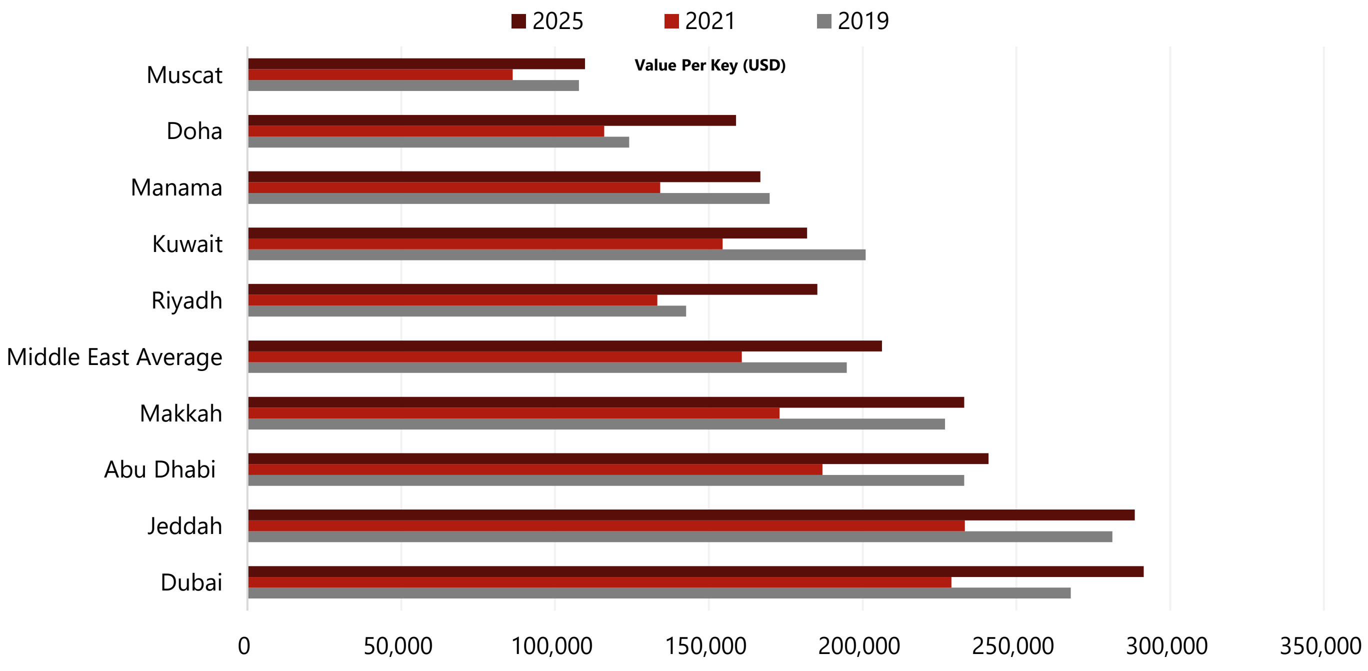
Source: HVS

Figure 3 - Leading and Trailing Markets in Middle East & Africa Cities (% Value Change in 2025 Over 2019)



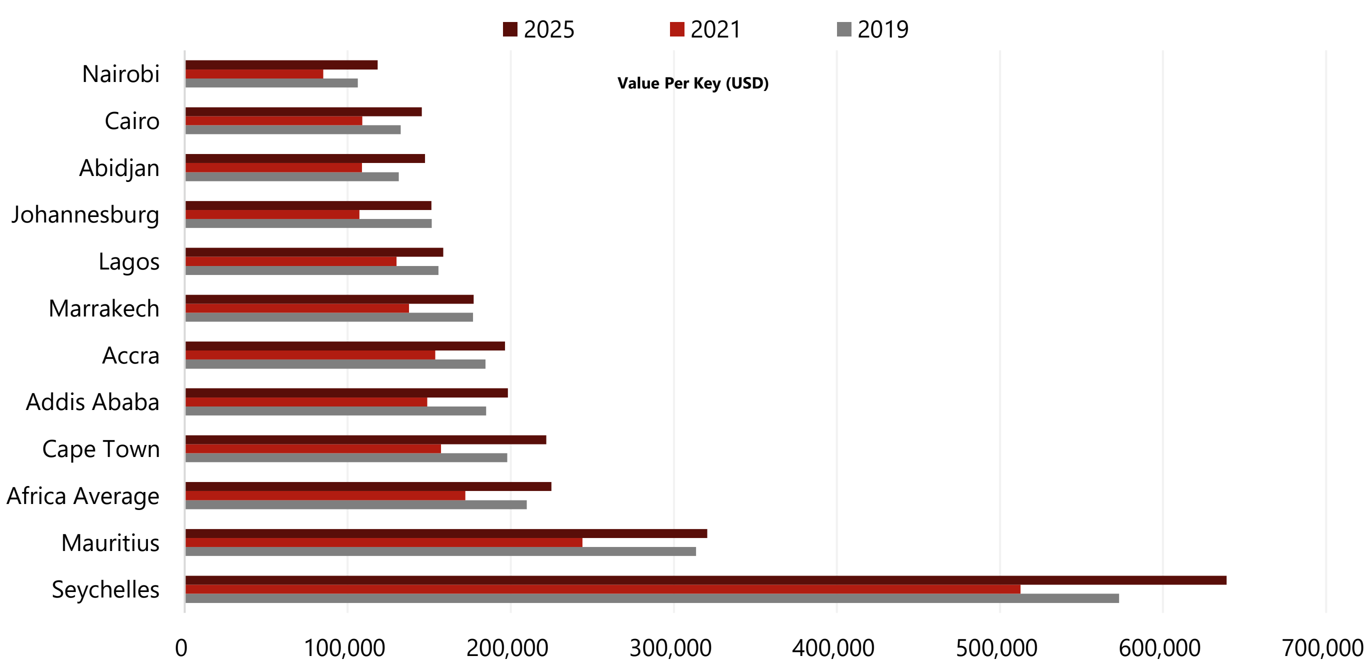
Source: HVS

Figure 4 - Leading and Trailing Markets in Middle East (USD Value Per Key in 2019,2021 & 2025)



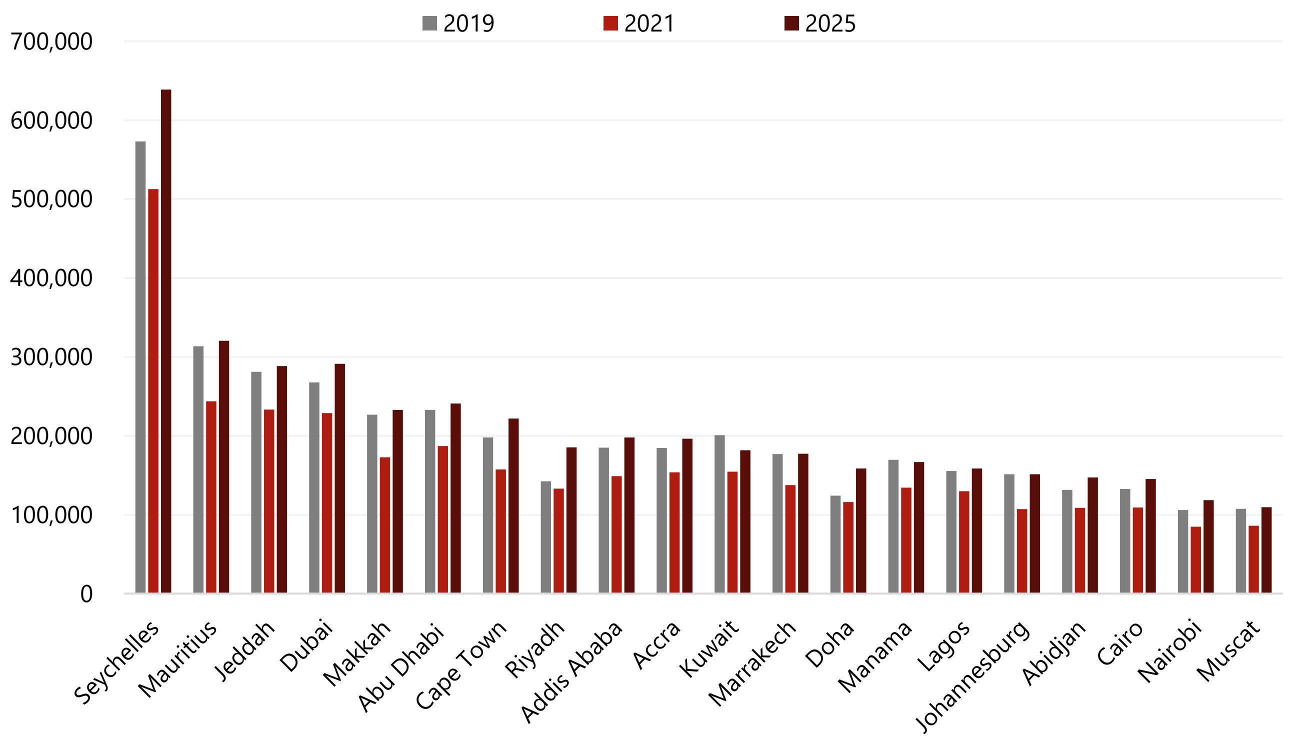
Source: HVS

Figure 5 - Leading and Trailing Markets in Africa (USD Value Per Key in 2019,2021 & 2025)



Source: HVS

Figure 6 - Leading and Trailing Markets in Middle East & Africa (USD Value Per Key In 2019,2021 & 2025)



Source: HVS

Key Highlights - Middle East

•The Middle East consists of a diverse range of hotel markets that are stimulated by varied segments of demand and investment sphere. Despite our previous experience with the performance of hotel markets during a recession or after a health outbreak or terrorist acts, we take the view that the traditional forecast models are less relevant as recovery remains largely contingent on government regulations, travel requirements, the guest sentiment, and travelers' future behavior. As such, we have made several assumptions which govern our projections of occupancy and average rate for each specific market from 2021 up to 2025 and the resultant values.

•Since the start of the pandemic, most of the Gulf Cooperation Council (GCC) governments have generously stepped in to provide support through various financial initiatives, incentives, loan facilities, preferable repayment terms, and economic stimulus packages. Equally, travel restrictions between the GCC countries and the rest of the Middle East stimulated domestic demand and staycations which has impacted favorably the leisure hotels/resorts.

•Declining RevPAR's over the last couple of years in the GCC region because of oversupply and changing market dynamics, coupled with increasing operating costs, resulted in significant drops in hotel values between 2010 and 2019, suggesting a correction in the market and a loud call for owners to stop overspending, hotel operators to streamline their operations and create value, and for the tourism authorities and related government entities to support a balanced growth.

•All nine markets in the Middle East that are presented in this publication experienced significant RevPAR decline averaging 47% in 2020 due to the sudden impact of the pandemic. However, based on our review of the 2021 August year-to-date data and the significant momentum that is expected to continue in Q4, we forecast that the regional marketwide RevPAR will register a 27% growth by the end of 2021.

•Markets that were able to capitalize domestic leisure demand such as Jeddah, Riyadh, and Dubai have seen softer decline in average rate and stronger demand recovery in 2021. Apart from Doha, all the other markets that are predominately reliant on corporate and international visitation recorded significant drops in performance and hotel values between 2019 and 2021.

•With the current performance indicators as a result of travel restrictions and the softening of demand, the pandemic has provided hotel operators and owners the opportunity to relook at some the industry best practices and cost structures, adopt a more flexible approach to reduce the payroll cost, improve efficiencies, and shift the focus from RevPAR to GOPPAR. It remains to be seen how the policy on labor costs will impact the business as the travel sector recovers from the pandemic and the temporary schemes are withdrawn, but the focus on reducing fixed costs is likely to lead the industry towards higher profit margins in the long run. We anticipate that the region's hotels' GOP margins will improve by couple percentage points in the assumed stabilized year (2025) when compared to the base year (2019).

•As primary markets continue to mature and saturate with four- and five-star hotels and secondary markets begin to develop supported by improved modes of accessibility and infrastructure development, the Middle East will witness a healthy influx of economy and midscale hotels. As this mid-market expands with contemporary, yet affordable branded hotel product, the primary and secondary markets will be susceptible to significant average rate pressure. However, our outlook remains optimistic considering the region's tourism potential which will ultimately support high levels of accommodated demand and the government support with maintaining healthy supply and demand balance.

United Arab Emirates

•Air traffic in **Dubai** International Airport decreased drastically with approximately 70% drop in number of passengers in 2020, which equates to approximately 60 million less travelers when compared to the previous year. As a direct consequence of the sudden drop in international arrivals, marketwide RevPAR in Dubai declined by 57% in 2020. As travel restrictions into Dubai were eased, marketwide RevPAR performance exhibited a gradual recovery mainly on the back of strong average rate performance of the beachfront resorts and significant increase in demand from the domestic market. International travel into **Dubai** in the last quarter of 2020 and throughout 2021 has resulted in a solid improvement in hotels' performance and we forecast marketwide average rate to increase by 61% by the end of 2021 when compared to 2020.

•The **Dubai** hotel market will see the addition of approximately 31,000 hotel rooms over the next four years and whilst soft recovery is expected in RevPAR, the cost measures and efficiencies put in place over the last 20 months are expected to continue and result in improved EBITDA margins, registering three percentage points increase in 2025 when compared to 2019.

•In 2021, hotel values in **Dubai** are estimated to be 15% lower than 2019. We expect hotel values to recover in the short-term given the ease in international and regional travel restrictions, government support, and EXPO 2020 which is scheduled from October 2021 to March 2022. Dubai's hotel values are anticipated to exceed pre-COVID levels by 2025 given the anticipated economic recovery, lifting of the Qatar blockade, normalization of the relations with Israel, and recent government initiatives such as the Dubai Vision 2040 and UAE Projects of the 50. Consequently, the hotel values in Dubai are forecasted to grow by a CAGR of 1.4% between 2019 and 2025.

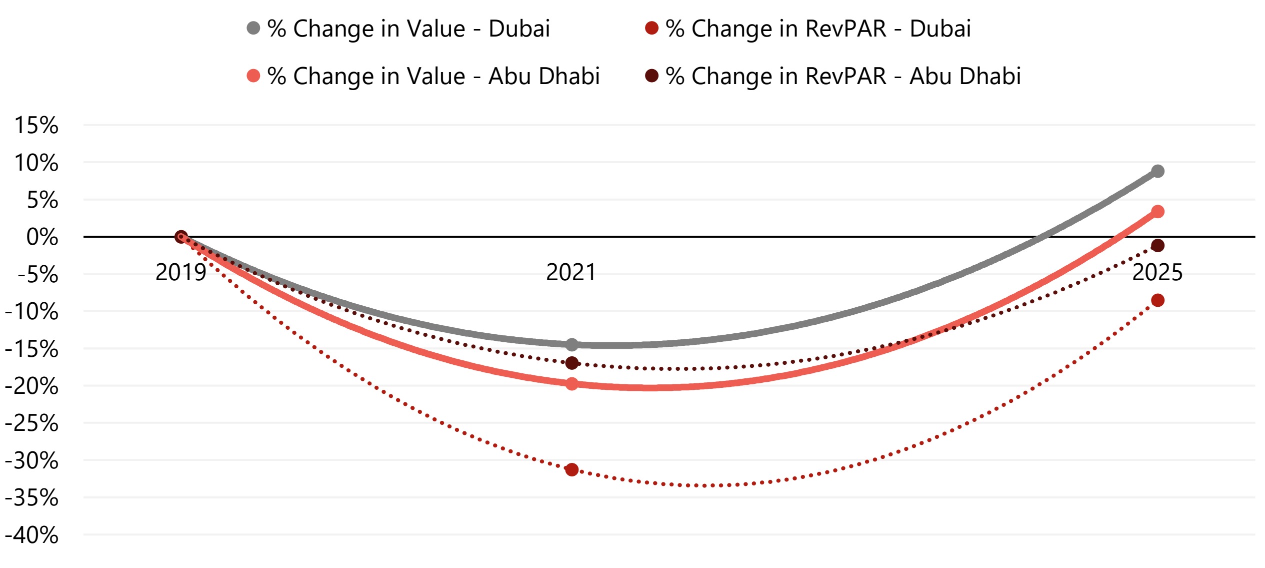
•There were only two hotel transactions that took place in **Dubai** in the last 18 months; The Address Sky View Hotel which transacted at US$ 204 million and the proposed FIVE JBR Hotel at an undisclosed price.

•In **Abu Dhabi**, marketwide RevPAR declined by 29% in 2020 as a result of the pandemic and subsequent travel restrictions. Notwithstanding, Abu Dhabi hospitality market remained somewhat resilient when compared to other cities in the region given the high-profile events such as UFC, the prevalence of the extended-stay demand, the local demand from Abu Dhabi residents and quarantine business in hotels.

•While August year-to-date visitation in **Abu Dhabi** remains significantly below the pre-pandemic levels, we expect marketwide RevPAR to register 18% increase in 2021 on account of Expo 2020 related demand and the ease of restrictions to enter the Emirate which was recently announced by the government.

•Only 2,500 hotel rooms are expected to be added to the market in the next three to four years. While hotel values in **Abu Dhabi** are estimated to have declined by 20% in 2021 in comparison with 2019, the recovery in both domestic and international demand along with the cost measures that have been implemented will favorably impact hotel values which are forecasted to grow by a CAGR of 0.6% between 2019 and 2025.

Figure 7 - % Change in Value & RevPAR – Dubai & Abu Dhabi



Source: HVS

Kingdom of Saudi Arabia

•**Saudi Arabia** has experienced slower inbound demand recovery compared to its neighbors in the region due to the extended closure of borders to international tourists up until May 2021, which had a significant impact on religious and corporate travel demand. On the other hand, the closure of borders and restrictions on travel for Saudi nationals fueled significant increase in domestic demand. Domestic leisure tourism in the Kingdom will persist throughout the remainder of 2021 and will increase drastically in the next three to five years on account of the major developments planned for the Kingdom.

•In 2020, despite the effects of COVID-19 travel restrictions and impact on city hotels which are predominantly reliant on corporate demand, the hospitality market in **Riyadh** has shown a certain level of resilience on the back of the strong growth in domestic tourism. Nevertheless, marketwide RevPAR declined by 26% in 2020 and is forecasted to remain stagnant in 2021.

•With the completion of mega-developments, the introduction of 30-day tourist visa to boost leisure demand, and increased efforts in attracting foreign investment to **Riyadh**, our outlook for the market remains positive, with moderate to strong growth expected to continue within all segments. The launch of Summer of **Saudi Arabia** 2021 and the return of Saudi Entertainment Seasons in Q4 2021 are expected to impact the hotel performance in Riyadh positively. Riyadh market will see the addition of approximately 9,800 hotel rooms in the next three to four years which will put pressure on the achievable average rate in the market. Notwithstanding, marketwide occupancy is forecasted to grow by approximately five percentage points between 2019 and 2025.

•Hotel values in **Riyadh** are forecasted to grow by a CAGR of 4.5% between 2019 and 2025.

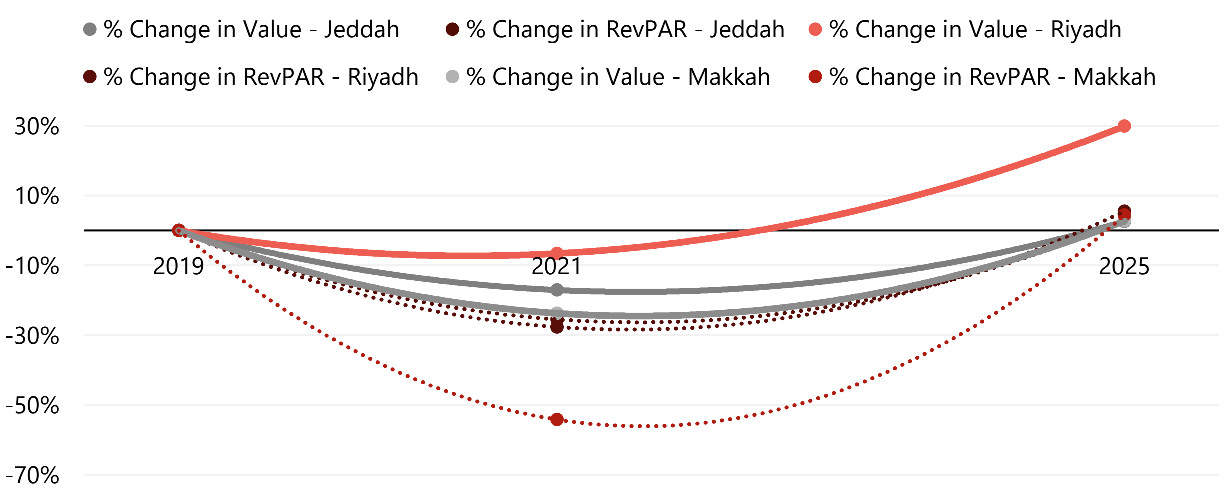
•In **Jeddah**, despite the restriction on inbound travel and notably from the religious and corporate segments, domestic tourism supported to some extent marketwide demand in 2020 and throughout the first nine months of 2021. Although marketwide RevPAR declined by 53% in 2020, year-to-date August data suggest a strong recovery in both occupancy and average rate and the Jeddah hotel market is forecasted to register a 59% RevPAR increase year-over-year.

•Like **Riyadh**, several hotel developments in **Jeddah**, notably in the resort sector, are planned to enter the market to cater to the expected increase in tourism demand. It is estimated that an additional 9,400 rooms will be introduced in the next three to five years. The outlook for the city of Jeddah, as a corporate and leisure destination as well as the main gateway for inbound international religious tourism to the holy city of **Makkah**, remains positive. We expect the hotel values in Jeddah to grow by a CAGR of 0.4% between 2019 and 2025.

•**Makkah** hotel market witnessed the most profound negative impact in the region as the visitation into the Holy City was restricted for almost eighteen months which resulted in a RevPAR decline of 80%. As a result of Saudi Arabia's recent announcement welcoming vaccinated visitors to the holy city of Makkah and increase in visa quotas for Umrah and Hajj visitors, we expect the demand for hotel accommodation in Makkah to start recovering from 2022 onwards. On the longer run, and despite the addition to supply, which is estimated to be approximately 8,300 hotel rooms, we forecast that hotel values grow by a CAGR of 0.5% between 2019 and 2025.

•The delivery of the first phases of giga-projects such as the Red Sea, Amaala, Diriyah Gate, Al Ula, and Qiddiya as well as development of new hospitality offerings in primary and secondary cities will undoubtedly support tourism growth in the Kingdom of Saudi Arabia. The hospitality demand in **Saudi Arabia** is expected to grow in the coming years with a significant rise in leisure tourism as part of Saudi Arabia's Vision 2030. Although the corporate demand is highly reliant on the oil and gas price fluctuations and government spending, the **Kingdom's** plan to attract and facilitate the set-up of business corporations is expected to induce corporate demand as well. Recent changes in regulations which include women empowerment, the easing of visa regulations, incentives for foreign investment, more cinemas and entertainment venues as well as several legislative changes that support tourism growth is expected to impact positively the profitability levels and resultant values.

Figure 8 - % Change in Value & RevPAR – Jeddah, Riyadh, & Makkah



Source: HVS

Doha & Kuwait

•As a result of the closure of its border with neighboring GCC countries in June 2017 which ended in January 2021 and the impact of COVID-19 on the hospitality market, the tourism industry in **Qatar** has been rather volatile in the last four years. Nevertheless, the fast-tracked reforms stemming from Qatar's National Tourism Sector Strategy 2030 and the stable corporate demand in the market helped mitigate the potential losses. The marketwide RevPAR in **Doha** declined by only 10% in 2020 and is forecasted to grow by 8% by the end of 2021.

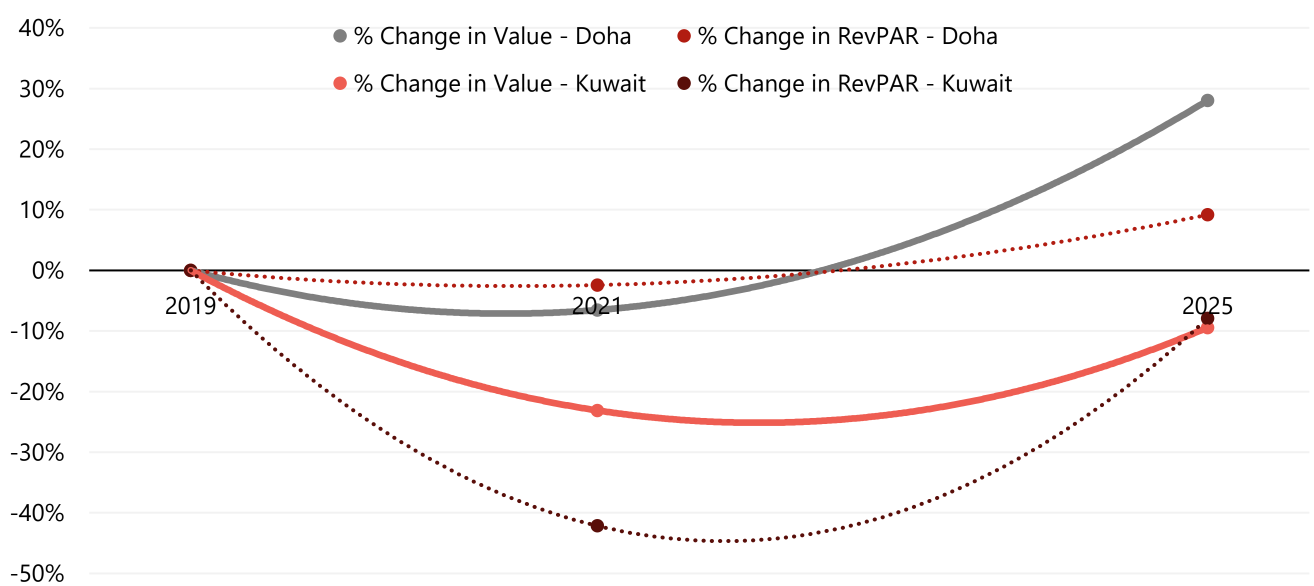
•**Doha** hospitality market is expected to witness a steady increase in demand towards the end of 2021 and into 2022 given the lifting of the blockade and induced demand ahead of and during the FIFA World Cup 2022. The hotel values in Doha are forecasted to grow by a CAGR of 4.2% between 2019 and 2025 on the back of improved profitability levels, the completion of the new mega-projects such as Lusail, regional economic recovery, and improving political and commercial ties with the neighboring GCC countries.

•**Kuwait** is predominantly a commercial destination with close to 70% of its demand generated by the corporate, government and MICE segments. As Kuwait's economy is highly reliant on the performance of the oil industry, the demand from corporate and government segments are hugely reliant on trends in the oil market and historically had to a large extent restricted demand growth in the city. The occupancy levels in Kuwait have been declining since 2017 while marketwide average rate remained stable on the back of the Kuwait Hotel Owners' Association's efforts to maintain a minimum average rate amongst its member hotels.

•In 2018 and 2019, **Kuwait** acted as a transit hub between **Qatar** and neighboring countries because of the GCC political dispute and resultant border closures. Despite the increased demand from layover travelers, marketwide occupancy declined due to increased competition from a growing number of unbranded serviced apartments, lack of destination promotion, and the fluctuating oil prices which resulted in a decline in corporate demand. Travel into Kuwait remained restricted since the start of the pandemic until August 2021 which had a significant impact on hotel demand, resulting in several properties closing down or operating as quarantine facilities. Marketwide RevPAR declined by 49% between 2019 and 2020 and is forecasted to recover by only 14% in 2021.

•In the medium-to-long term, the hospitality market in **Kuwait** is likely to be impacted by a decline in accommodated room nights emanating from Saudi guests, the largest source market for Kuwait, considering all the tourism projects under development in the Kingdom. Gradual recovery in hotel demand is expected to commence in 2022; however, we forecast the hotel values to remain below 2019 levels on account of lower RevPAR and reduced profit margins. Consequently, average hotel value in Kuwait is expected to register a CAGR of -1.6% between 2019 and 2025.

Figure 9 - % Change in Value & RevPAR – Doha & Kuwait



Source: HVS

Manama & Muscat

•Hotel demand in **Manama** is predominantly attributable to regional corporate visitation and leisure visitation from Saudi Arabia. As a result of the travel restrictions during the pandemic, marketwide RevPAR in Manama declined by 53% in 2020. With improved travel and hotel demand throughout 2021, marketwide RevPAR is forecasted to increase by 21% and to grow over the next three years albeit will remain lower than 2019 levels. Just under 1,000 hotel rooms are expected to enter the market in the next three years which could potentially allow average rate growth; however, it is forecasted that a large share of traditional Saudi weekend business may not be replaced as the Kingdom is well underway in developing local attractions.

•International visitation from outside the region to **Manama** is expected to increase as the country's national airline expands its network and the first phase of the Bahrain International Airport is completed. Upon the completion of major developments including the Bahrain Marina and other entertainment destinations, hotel values are expected to witness gradual recovery but are forecasted to remain below the 2019 levels and register a CAGR of -0.3% between 2019 and 2025.

•Unlike the significant development of the hospitality offering in the GCC in the last five years, with many cities leading this growth and attracting substantial local and foreign direct investments and high level of visitation, **Oman's** tourism development strategy focused primarily on enhancing the tourism infrastructure including roads and airport, providing local training and employment within the hospitality industry, and executing a well-defined strategy for marketing and promoting the country.

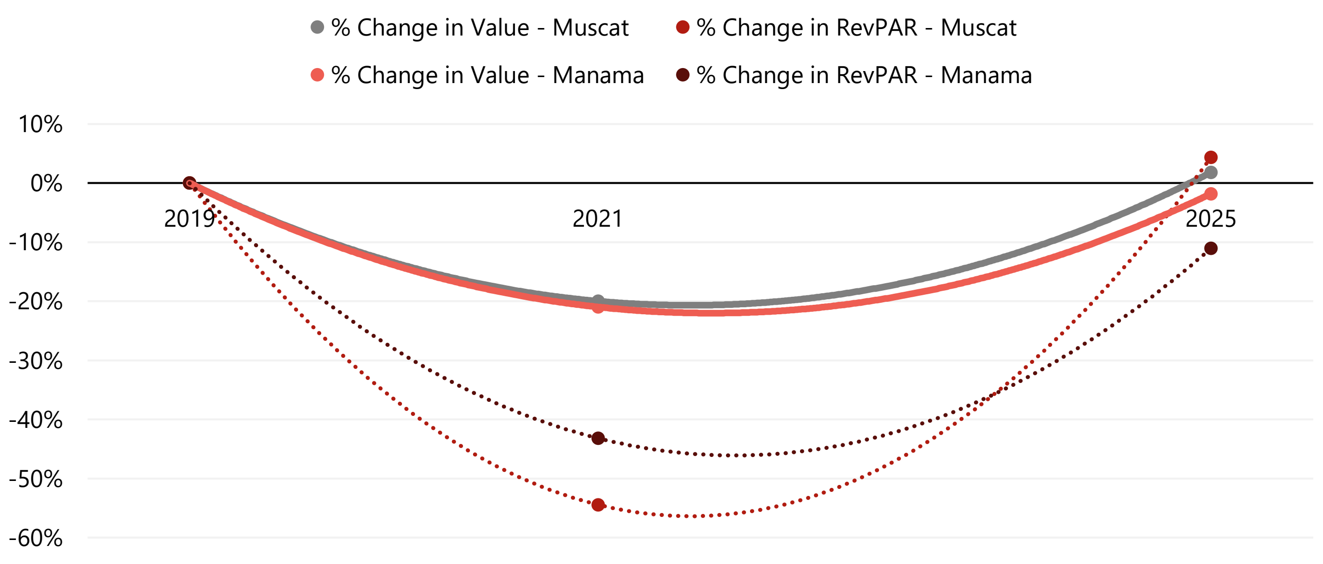
•There has been a noticeable growth in demand for hotel accommodation across **Oman** in the last decade. This was attributable to the government's marketing and promotional campaigns, the increase in visitor numbers to the Middle East as a whole, and Oman's set of unique conditions and nature that make it an attractive tourism destination. The country enjoys a stable political, economic, and social system, and offers unmatched natural resources, culture, and heritage.

•Between 2017 and 2019, **Muscat's** hotels benefited from unexpected demand from travelers on the way to and from Doha as a result of the Qatar diplomatic crisis, which sparked travel restrictions between Doha and several other countries in the region. In 2019, despite the slight correction in hotel performance, hotel values increased marginally in Muscat on the back of increased demand and decrease in operational costs which resulted in higher GOP margins.

•**Muscat** hospitality market was amongst the worst hit in 2020 registering a RevPAR decline of 62% while 2021 year-to-date August data suggest a soft recovery. We forecast RevPAR would increase by 19% in 2021.

•The outlook in the medium-to-long term for **Muscat** remains positive especially in niche segments such as wellness resorts, desert resorts, and mountain resorts due to the unique natural resources of the country. Hotel values are expected to improve on the back of an increase in marketwide RevPAR and gross operating margins as well as the overall support from the government to further develop the tourism infrastructure in line with Oman's Vision 2040. While Muscat's hotel values are estimated to have dropped by 20% in 2021 when compared to 2019, we forecast that hotel values will grow by a CAGR of 0.3% between 2019 and 2025 which points to a gradual recovery for the market.

Figure 10 - % Change in Value & RevPAR – Manama & Muscat



Source: HVS

Key Highlights - Africa

•The African continent is the youngest in the world with an estimated 60% of its total population (of approximately 1.37 billion - 17.5% of global population), aged under 25. While the continent is home to some of the fastest growing emerging markets and middle-income economies, hotel markets largely remain underdeveloped in most countries. Long term opportunities on the continent for leisure tourism, development of new destinations and value focused business hotels remains positive, however, the biggest immediate threat for Africa's recovery from the pandemic is the overall slow vaccination rate.

•COVID-19 infections in Africa have been relatively low as compared to other parts of the world (registering less than 4% of total global cases), however, the impact of lockdowns and restrictions on travel have exposed the continent's dependence on the largely inter-continental trade links. In response, the African Continental Free Trade Agreement signed by 54 countries in Africa (with trade commencing from 1 January 2021) promises to deepen the economic integration and aid movement of capital, goods, and people on the continent. In a world of growing isolationism, AFCFTA, is the largest global free trade area by participating countries and could be a game changer for Africa to achieve mutual self-sufficiency.

•HVI 2021 covers 11 key markets on the continent. These markets experienced a RevPAR decline averaging 54% in 2020. In 2021 there has been a strong trend in growth of domestic and regional tourism, a much-needed change that is hoped to be a long-term shift in bringing a balance to the mix between regional and international tourism. For now, most markets remain heavily dependent on international tourism especially for high-end leisure markets and organized full-service hotels in gateway cities (represented in this publication).

•As a response to the pandemic, countries with a high contribution of tourism to their GDP announced relief measures for businesses and people employed in the sector, however, these fiscal benefits have been limited considering prioritization of funds towards managing the pandemic. Most governments recognize the importance of tourism to employment and GDP growth, but their policy is not necessarily geared towards treating the industry as key infrastructure sector and a catalyst for growth. The pandemic has shown the lack of a strong lobby for tourism in the political system in most African countries. Except for Ethiopian Airlines, the pandemic has also exposed the vulnerability of national airlines on the continent with a need for privatization.

•There is a big opportunity for leisure tourism on the continent as it offers some of the most coveted luxury travel experiences sought by the pandemic-stricken travelers around the world. Africa boasts of some of the best island and beach destinations, world heritage sites, eco and wildlife tourism and some of these markets are expected to rebound faster, especially the well-connected luxury markets. Seychelles which is one such luxury market is an outlier among the African markets in this HVI as it is characterized by luxury hotels and a much lower decline as compared to destinations on the main continent.

•Operationally, the pandemic has provided hotel operators and owners the opportunity to relook at some the industry best practices and cost structures, adopt a more flexible approach to reduce the payroll cost, improve efficiencies, and shift the focus from RevPAR to GOPPAR. It remains to be seen how the policy on labor costs will impact the business as the travel sector recovers from the pandemic and the temporary schemes are withdrawn, but the focus on reducing fixed costs is likely to lead the industry towards higher profit margins in the long run.

•Financing remains an impediment for the sector on the continent. Even though banks had initially recognized the challenges facing the industry and granted moratoriums to operational hotels, lenders are now pushing hotel owners to de-leverage which is creating an opportunity for Private Equity and HNIs to enter the market at discounted prices.

Indian Ocean - Mauritius & Seychelles

•The republic of **Mauritius** is an island nation with a land area of 2,040 square kilometers and an exclusive economic zone covering 2.3 million square kilometers. Mauritius has developed from a low-income, agriculture-based economy (pre-independence) in 1968, to a high-income diversified economy, based on tourism, textiles, sugar, and financial services. Following the pandemic in March 2020, the Government of Mauritius quickly announced a wage assistance scheme and provisioned for tax deductible on contributions from the private sector to the COVID-19 Solidarity Fund. The economic loss from the pandemic for Mauritius was very severe as the sector contributed to 24% of the GDP of the country in 2019. The financially struggling national airline was placed into voluntary administration and is expected to resume flights only in September 2021.

•**Seychelles** is an archipelago of 115 islands and has seen an increase in tourism activity over the last two decades. The contribution of tourism to GDP is estimated at 50%, and the sector provides about 70% of total foreign exchange earnings. The hotel market which consists of about 2,000 organized rooms is characterized by luxury resorts with an average size of 70 keys. Seychelles tourism market which relies heavily on European markets (with France, Germany, Italy, and the United Kingdom accounting for nearly two thirds of total arrivals in 2019), saw a higher share of demand emanating from the already growing Middle Eastern market during the pandemic. While luxury market performance was bolstered with high spending long-stay leisure segment in Seychelles (resulting in only a 16% RevPAR decline in 2020 even as occupancy declined by 40%); **Mauritius**, on the other hand, a much larger market (greater than 10,000 organized rooms) characterized by affordable luxury and upscale hotels with relatively large average inventory (135 keys) suffered a massive 64% RevPAR decline in 2020. The market only reopened for international tourism from mid-July 2021. Both countries have adopted a risk adjusted policy on travel from source countries.

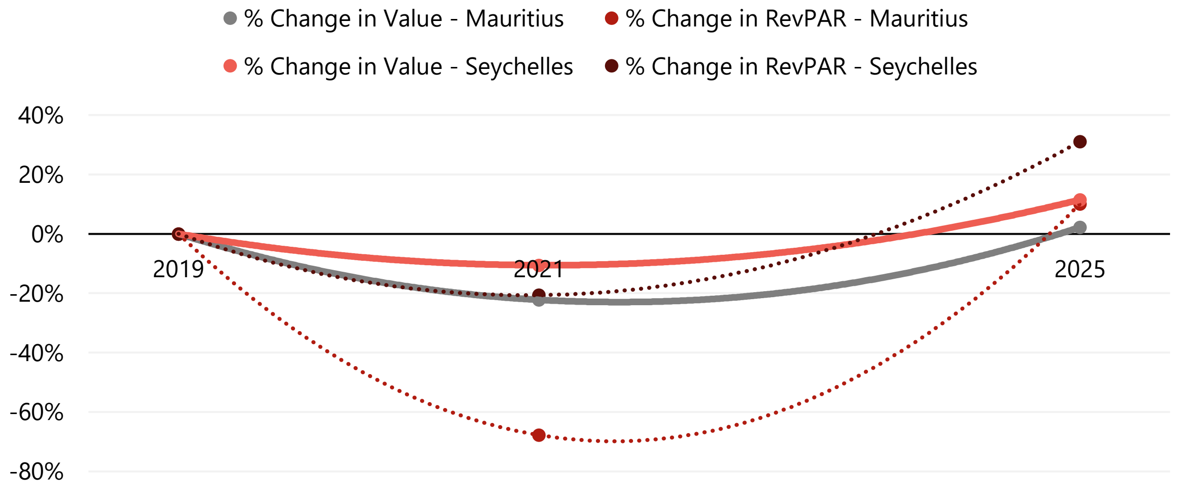
•The number of COVID-19 cases in **Seychelles** and **Mauritius** remained low in 2020, however the infection rates increased in 2021 creating a delay in recovery for the tourism sector. As of 15 August 2021, Seychelles had recorded 19,000 cases of COVID-19 with less than 100 deaths. Ironically, Mauritius had just over 6,100 recorded cases of COVID-19 with 22 deaths but saw a much severe impact on its tourism sector, highlighting the impact of this pandemic being heavily influenced by country's economic status and policy.

•As of 15 August 2021, 70% of the population in **Seychelles** had been fully vaccinated and 57% of the population in **Mauritius** had received at least one dose. Global tourism trends suggest a faster recover for tourism in the leisure segment, especially for nature inspired and island destinations. We expect the market performance in these markets to decline in 2021 considering the limited international arrivals, however, once air connectivity improves further, we expect tourism to these islands to recover to pre-pandemic levels faster than other markets in Africa. The recovery in Seychelles is likely to be more rapid and the market is expected to grow beyond its pre-pandemic peak, boosted by higher average rates and NOI margins. We forecast the 11% decline in value in 2021 (as compared to 2019) to recover and grow by a 1.8% CAGR between 2019 and 2025.

•The recovery in **Mauritius** is expected to be more uneven especially for hotels that rely heavily on international conference and events segment. The destination may have to reinvent its offerings as it competes with other markets in the Indian Ocean. We estimate values in the market to have declined by 22% in 2021 (as compared to 2019 levels) and expect the market to record limited growth in 2022 as COVID-19 infections continue to rise ahead of the island's tourism re-opening. The CAGR from 2019 to 2025 is forecast to be 0.4%.

•Note on **Madagascar**: While leisure tourism in Island nation of Madagascar is still developing with only a few islands serving backpackers and tour operator driven groups at a midscale level, the opening of some branded inventory (Novotel and Radisson hotels in Antananarivo) and improving air connectivity to islands such as Nosy Be, we anticipate more interest in the leisure space as the country's aims to develop its islands for tourism in the long run.

Figure 11 - % Change in Value & RevPAR – Mauritius & Seychelles



Source: HVS

North Africa - Cairo & Marrakech

•**Egypt** and **Morocco** are among the most visited international destinations on the African continent. Egypt's economic growth has been strong and resilient since the economic reforms introduced in 2016. The country recorded a positive GDP growth rate in 2020 despite the impact of the pandemic. Morocco, also progressing well in 2019, registered a record 13 million international visitors. With the sector contributing to 7% of GDP, there is a strong push by the government to revive the tourism industry from the effects of the pandemic. Strong leisure market fundamentals and good air connectivity with European source countries are expected to lead the hotel markets in these two countries into recovery in the medium term.

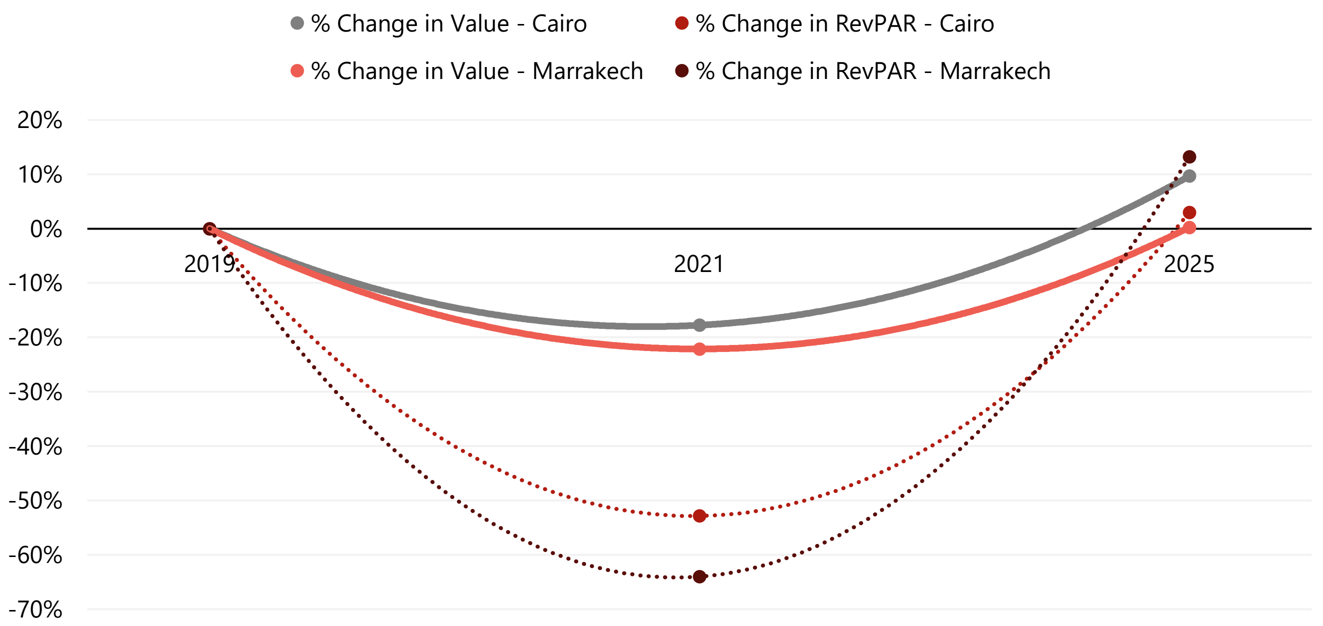
•**Egypt** which faced many hardships and economic challenges impacted by political unrest and terrorism in the past decade has come back strongly in recent years. Considering the pandemic, key sectors, such as tourism, manufacturing, the Suez Canal, oil, and gas extractives continue to be impacted by restrictions on international travel. Even though vaccination rates remain low in the country, the medium to long- term tourism outlook remains positive, with the country expected to gain pre-pandemic growth momentum in 2022.

•**Cairo**, the biggest hotel market in Africa has proved its resilience in the recent past as it recovered from the impact of the terrorist bombing of the Russian Airliner and terror-related incidents from 2015 to 2017. The recovery of the market continued in 2019 (besides a mid-year hiccup) recording a double-digit revenue growth. In 2020, the markets plunged back into a tailspin as the RevPAR dropped by 64%. While the market had started recovering in early 2021, subsequent waves of infections, low vaccination rates and an impending supply (4,500 rooms over the next five years) are likely to keep performance levels muted in the short term. In the medium- term we expect the hotel market to grow in terms of RevPAR and profitability margins and values to exceed the 2019 levels by 2025 with a CAGR growth of 1.5% between 2019 and 2025.

•**Morocco** witnessed a 78.5% decline in tourist arrivals in 2020. In response to the pandemic the government has taken various steps to support and revive the sector. Allowing the hospitality sector to retain deposits in lieu of future bookings, deferring taxes, loan moratoriums, and cash support to furloughed employees were the short-term measures adopted. In the long run, the country is trying to create an environment for investment, new businesses, and development through reform projects. The Mohammed VI Investment Fund is envisioned to support investment projects in public-private partnerships and to contribute to the growth of SMEs.

•After a steady growth in occupancy and average rate in 2019, **Marrakech** recorded a 64% decline RevPAR owing the impact of the pandemic in 2020. Marrakech's reliance on the meetings and events segment led to it recording the sharpest decline in occupancy among the North African gateway cities, though the average room rates improved by 15%. With continued interest from international operators and some luxury hotels in the pipeline we expect that Marrakech will eventually recover to pre-pandemic levels by 2025 and achieve a CAGR of 0%. With high vaccination in the country, we anticipate the market to open to travel faster than other destinations on the African mainland.

Figure 12 - % Change in Value & RevPAR – Cairo & Marrakech



Source: HVS

East Africa - Addis Ababa & Nairobi

•East African economies were projected to be some of the fastest growing economies in Africa before the pandemic. **Ethiopia** and **Kenya** have strong growth prospects supported by Kenya's emerging upper middle-income class and increasing appetite for high value goods and services. The hotel markets have a relatively lower base of quality purpose built internationally branded hotels, however, there is a large pipeline with about 13,000 branded rooms (between Uganda, Tanzania, Ethiopia, and Kenya) under various stages of development, 85% of which is concentrated in Kenya and Ethiopia. COVID-19 infections in East Africa were relatively low at the start of the pandemic, however, subsequent waves of infection and low vaccination rates have taken a toll on the economies and the hospitality sector with various restrictions in place.

•The impact of the pandemic on Ethiopia was exasperated by the conflict in Tigray which sparked political disruption and social unrest. These developments come after peace between **Ethiopia** and **Eritrea** (established in 2018) promised trade and transportation links between the countries. Prior to the pandemic, Ethiopia had seen a double-digit CAGR growth in arrivals from all major continents from 2014 to 2019. Ethiopian Airlines, which operates from the newly expanded Bole international Airport, now connects to 125 passenger and freighter destinations and is the most successful and dominant airline on the continent. Even though there is uncertainty in the short to medium-term, there is long-term optimism in the Ethiopian tourism sector.

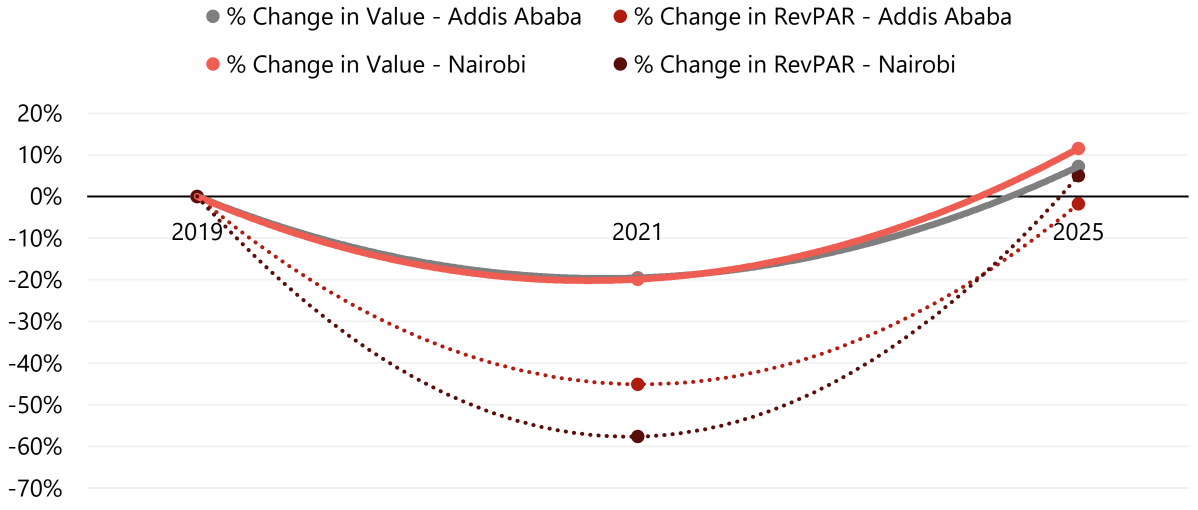
•Hotel values in **Addis Ababa** declined slightly in 2019 post a record growth in hotel performance in 2018. This corresponds to a RevPAR decline of 3% year on year in 2019. While Addis Ababa had fared better than other capital cities in East Africa (especially during the first half of 2020) recording just 51% decline in RevPAR for the year, we expect a slow recovery in RevPAR in 2021 owing to the impact of international travel restrictions and the conflicts in **Ethiopia**. We forecast a 20% decline in hotel values in 2021 (compared to 2019). The recovery is likely to be uneven in the medium-term considering the ongoing crises and new supply expected to enter the market. However, if the government can address the political and humanitarian crises, we anticipate the market and hotel values will recover and could emerge even stronger with at least 1,800 branded rooms expected to open in the next four years. Ethiopia's economy is expected to rebound in 2022, and we forecast a value growth of 1.2% CAGR between 2019 and 2025, although the risk from weak investor confidence considering domestic conflict poses a threat.

•**Kenya** in recent years has made significant political and economic reforms that have contributed to sustained economic growth in the country. Tourism saw record years in 2018 and 2019 with an increased contribution from a growing domestic market visiting the wildlife reserves and coastal destinations. Kenya continues to attract investor interest with a growing youthful population, a dynamic private sector, skilled workforce, and improving infrastructure.

•**Nairobi**, in 2019, had seen an increase in accommodated demand in the city, even as RevPAR declined by 8% as new supply put pressure on the rates. However, it is worth highlighting that the market is still recovering from the trough years of 2012 to 2016 which also saw new supply weaken the market. Market recovery in Nairobi is anticipated to be slow as the market RevPAR is estimated to recover by only 17% in 2021 following a 64% annual decline in 2020. Nairobi remains the biggest organized market in East Africa with 6,000 rooms (in the upper midscale and above space, and another 3,500 rooms in the pipeline with more than 50% under active development (deferred due to the pandemic). As such the profitability margins in hotels are also not likely to recover in the short term. Nairobi's already suppressed market values saw a 20% decline in 2021 as compared to 2019 and while we expect a recovery on back of the country's economic prospects, the market values are expected to reach 2019 levels only by 2025 recording a CAGR of 1.8% over the six-year period.

•The hotel performance and values in the leisure markets in **Kenya** are likely to see a faster recovery as demand from domestic and regional travel continues to displace international reliance even in upscale segments in destinations such as Mombasa, Masai Mara and Kisumu.

Figure 13 - % Change in Value & RevPAR – Addis Ababa & Nairobi



Source: HVS

West Africa - Lagos, Accra & Abidjan

•West Africa as a region is the most characteristic of fast developing economies in Africa. **Nigeria**, the biggest economy on the continent with a population of over 200 million, is expected to become the fourth most populous country in the world by 2050, and therefore, expected to be a major global consumer and trading market. The number of COVID-19 infections in Nigeria has remained low relative to its population size, however, the economy remains vulnerable to global economic disruption especially the fluctuating oil prices and a risk aversion strategy among global markets. Inequality and poverty, along with a high dependence on oil industries remain challenges for Nigeria. The vaccination rates have been very slow adding more uncertainly to recovery projections.

•**Lagos** remains a key hospitality market as it attracts several business travelers owing to the trade shows and conferences organized in country's commercial capital. The market saw almost a 37% RevPAR decline in 2020 and is expected to recover partially in 2021 with reopening of domestic and regional activity after the lockdowns. The current active pipeline in the city consists of more than 1,300 rooms expected to enter the market in the next four years. We forecast the hotel values to decline by 16% in 2021 as compared to 2019. The hotel values are expected to grow by a CAGR of 0.3% from 2019 to 2025 returning to pre-pandemic levels.

•**Ghana**, one of Africa's strongest brands in terms of social capital, democracy, and freedom of speech, has been expanding on the back of mining and oil sectors. The progressive economy of Ghana saw a steep decline in Q2 and Q3 of 2020 as the country entered a recession for the first-time in 38 years, however, with a strong Q1 performance, the year ended with a modest growth despite the impact of the pandemic. As with other African economies, Ghana has strong trade links with European economies and tourism is likely to recover beyond regional demand once global travel restrictions are eased.

•**Accra**, in 2020, recorded just over 60% decline in RevPAR. We expect the market to recover to mid-40s occupancy in 2021 with regional travel resuming, however, more meaningful recovery can only be expected once intercontinental travel resumes. We expect the hotel values for the relatively small (2,500 organized rooms) markets to be 17% lower than 2019 levels in the year 2021 as it remains a sought-after market. The current supply which is concentrated around the airport and connecting nodes to the city center, has been deferred by 24 months because of the pandemic. We forecast values to grow by a CAGR of 1.1% (2019 to 2025) to exceed 2019 levels.

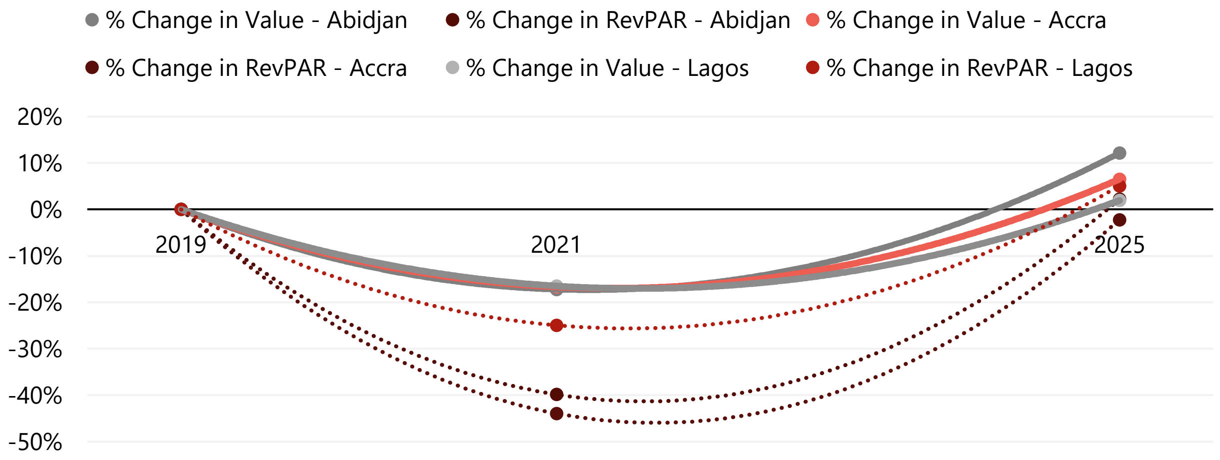
•**Abidjan** like other markets in West Africa has a smaller base of organized branded hotel rooms. The market recorded a 54% annual decline in RevPAR in 2022. Prospects of high economic growth and infrastructure development have attracted a significant pipeline in the city dominated by operators such as Radisson, Accor, and Marriott. These hotels are expected to enter the market in the next two to four years. While RevPAR growth may be slow in the short to medium-term considering the additional supply, hotel values are expected to grow by 1.9% CAGR (2019 to 2025) and exceed 2019 levels by 2025 reflecting the better product profile in the city.

•**Cote d'Ivoire** was the fastest growing economy in West Africa and the second fastest on the continent, driven mainly by construction sector and public investments. It remains francophone West Africa's economic hub and exerts significant influence in the region. The fast-growing economy slowed to a growth rate of 1.8% in 2020. Recovery is expected to be driven by domestic demand and stable exports including cocoa, petroleum, and rubber. Manufacturing and services sector are also picking up and expected to contribute to the economy's growth going forward.

•As of August 2021, the region trails vaccine administration which remains a threat for more meaningful recovery. In the medium to long term, financing and high development costs remain key challenges to development of hospitality infrastructure in West Africa.

•Kasada Capital's acquisition of the 1602-key portfolio of eight operational Accor branded hotels across **Ivory Coast**, **Senegal** and **Cameroon** was a landmark deal and one of the largest cross-border hospitality M&A transactions in Africa.

Figure 14 - % Change in Value & RevPAR – Lagos, Accra, & Abidjan



Source: HVS

Southern Africa – Cape Town & Johannesburg

•Southern African economies including Botswana, Mozambique, Namibia, South Africa, Zambia, and Zimbabwe saw a sluggish GDP growth in the second half of 2010 decade. Historic events such as the democratic elections in Zimbabwe, post war growth in Mozambique, as well as economic reforms in the region were challenged by natural disasters, inflation and challenges in governance, accountability, and management of debt.

•**South Africa**, one of the most industrialized and developed countries in Africa, entered the pandemic on the back of several years of low growth (0.2% in 2019). COVID-19 infections, especially in South Africa which remains one of the most impacted countries on the continent, have risen in waves in recent months and combined with social unrests have cause disruption to private sector, supply chains and economic activity in the region. The challenges of electricity shortages due to operational and financial difficulties at the energy utility Eskom, along with a struggling national airline that was put under bankruptcy protection, worsened the impact on the hospitality and tourism sectors. Following the announcement of lockdowns, the government had announced relief packages for furloughed employees through Unemployment Insurance Fund, and support to SMEs in the tourism sector, however, the efforts were not substantial enough to save several small and large businesses that closed. Restaurants in the country was especially impacted.

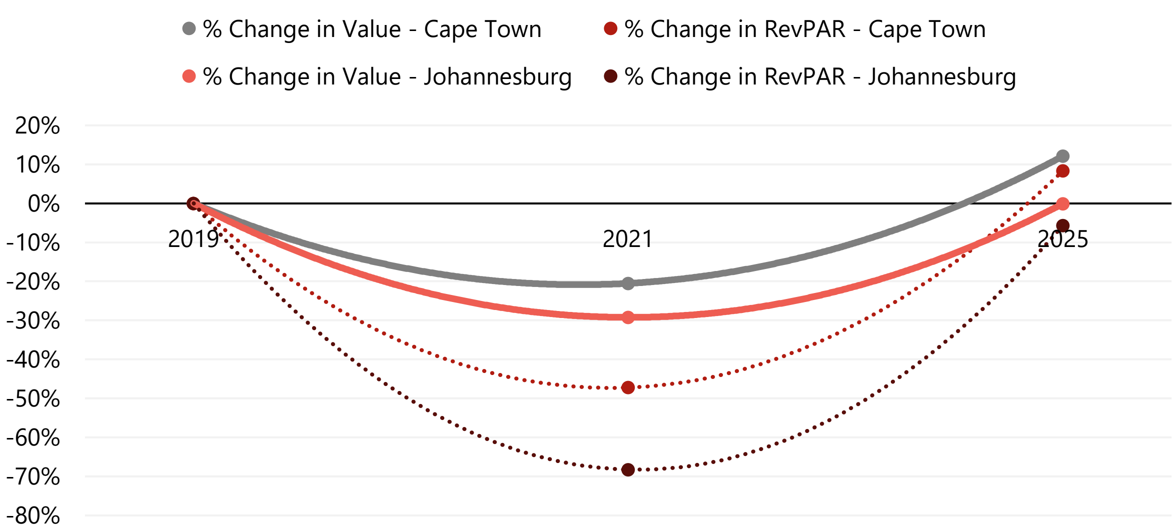
•**Cape Town** recorded a decline in hotel performance (annual RevPAR decline of 7% in 2019) due to the negative publicity around the 'Day-Zero' Water Crises. The popularity of Cape Town as an international leisure destination had started rebounding to the pre-water-crises trajectory in Q1 2020 before the pandemic's impact hit the market. Hotel occupancy dropped to an all-time low of 33% in 2020 with an estimated RevPAR decline of 54%. We expect the already discounted hotel values of 2019 to decline by a further 21% in 2021 as demand remains muted due to travel restrictions continuing from UK and other major source markets. As a destination disproportionately dependent on international tourism, the city is lobbying hard with other governments to ease the restrictions.

•On the vaccination front there has been a strong growth in vaccination rates in the country recently. Cape Town's Biovac Institute will start the production of Pfizer-BioNTech coronavirus vaccine, the first facility to manufacture the vaccines on the continent with an aim of relieving vaccine shortages. **Cape Town's** appeal as a remote working destination and its popularity among world travel surveys indicate that the recovery for the destination will be strong as international travel routes are restored and new ones including direct routes to USA take shape. Cape Town's long-term prospects and popularity as a technology hub has also been bolstered with investments by Google and Amazon during the pandemic. We forecast hotel values to recover back to pre-Covid and pre-water crises levels by 2025 recording a 1.9% CAGR over the six-year period from 2019 as demand for the destination remains strong among international source markets.

•**Johannesburg** is the commercial capital of South Africa, with the largest and busiest airport on the continent. Sandton houses the most organized supply in the market, while Rosebank Is a fast-emerging area with vibrant commercial, retail, and residential developments, including the latest new hotel - Radisson Red. Primarily a commercial center with city hotels, the hotel market witnessed a 62% annual decline in RevPAR in 2020 with average rates likely to stay under pressure in the medium-term. We expect market performance to recover only in 2022 and forecast hotel values to decline sharply by 29% in 2021 (compared to 2019 levels). Being a commercial hub with performance tied to the economic activity, and we expect the market to recover slowly to pre-pandemic levels by 2025.

•Notable transactions in the region include Capital Hotel Group's acquisition of Fairmont Zimbali Resort for R 240 million after the hotel was placed in a voluntary business rescue. Kasada's acquisition of the 414-key Safari Hotels and Conference Centre in Windhoek has been the other major deal.

Figure 15 - % Change in Value & RevPAR – Cape Town & Johannesburg



Source: HVS

What is the HVI

The **Hotel Valuation Index (HVI)** combines the various factors affecting the economy and region at large with hotel-market specific demand and supply dynamics to derive indicative hotel values and future growth trends.

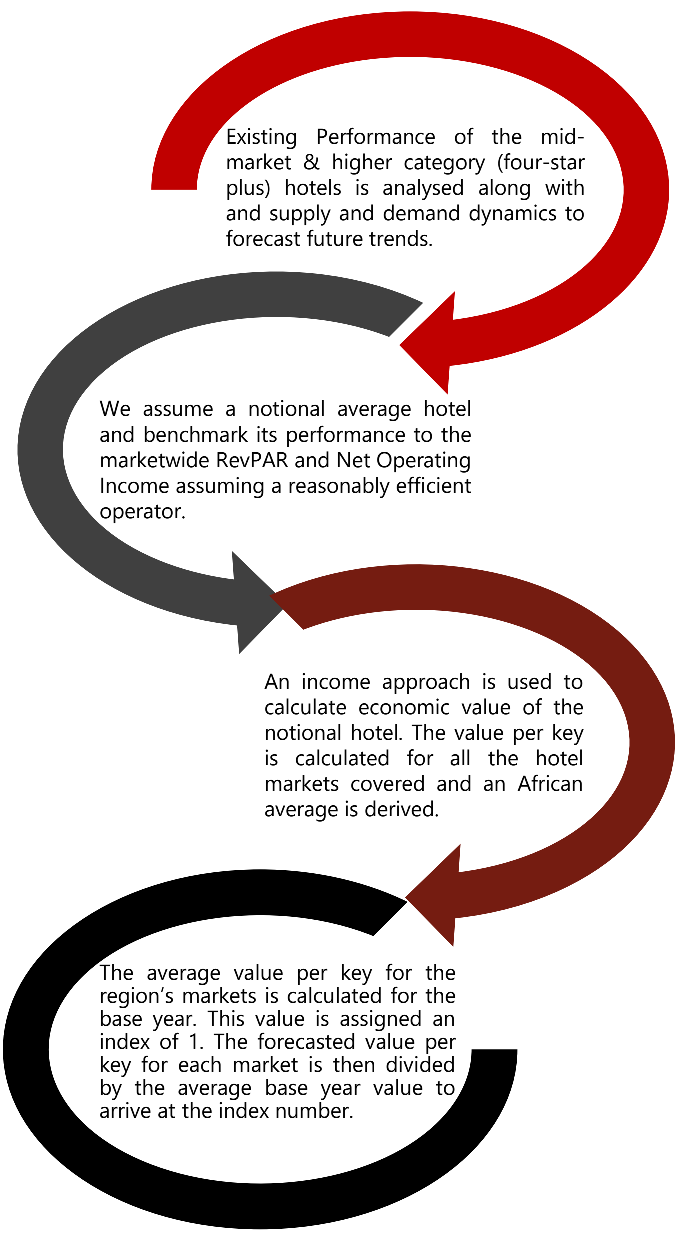
• This index provides indicative hotel values representative of the four and five- star hotels using the income capitalization approach. Recovery outlook and financing terms have been considered based on each market investment cycle and recovery trends.

• The reported values exclude luxury properties and significantly large hotels that offer numerous food and beverage outlets, extensive meeting and banqueting space, extensive wellness or other facilities with unusual dimensions.

2021 Edition

The Hotel Valuation Index for Middle East and Africa is a much-anticipated report given the challenges and uncertainty that the hospitality industry has been through in the last 18 months. This year's HVI merges Middle East and Africa as a region and covers 20 markets across 16 countries representing about 250,000 existing and over 67,000 proposed rooms in the upper mid-market and higher space (four stars plus). We have defined the markets based on our experience and information available. We have adopted 2019 as the base year with intent to create a more relevant reference point for our Hotel Valuation Index forecast which looks ahead at the recovery from the pandemic. Expecting the recovery in some of these markets to remain uneven, we have included a forecast for 2021 and 2025 to represent our opinion of the market recovery and sentiment based on macro and micro economic factors as well as supply and demand dynamics.

Methodology for HVI



What Not To Take Out Of It!

- ***The HVI*** *creates 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 Market Value.*

- ***HVI*** *is not intended to reflect liquidation value in case of distressed markets but rather focuses on the change in valuation based on present and future income generating potential for hotel operated by a reasonably efficient operator transacting in an orderly arm's length transaction where the parties are not acting under any compulsion.*

- ***HVI*** *is not a development cost index. Also, the HVI does not take into account appreciation or depreciation of real estate in a particular market neither does it account for changes in construction prices/indices. We work off the premise that a hotel asset's value is derived from the income it can generate.*

Additional Notes

- HVI assumes a date of 1 January for each calendar year.

- To facilitate comparison, we have calculated the index in USD, in order to understand the growth in a market, sans currency fluctuation. The forecasted numbers assume a constant relationship between the local currency and USD.

- For e.g., Seychelles' value per room in 2021 derived to be US$512,643 when divided by the base year Africa average value (US$512,643 / US$209,836) gives an index number of 2.44. This simply means that the value of Seychelles in 2021 was approximately 2.44 times that of the average base year value (reflective of 11 African markets) in 2019.

About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries was established in 1980. Thousands of hotel owners, developers, investors, lenders, management companies, and public agencies around the world rely on HVS to support confident, informed business decisions. The company performed 60,000+ assignments 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 50 offices and more than 250 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

For more information about the Middle East & Africa Office, please contact **Hala Matar Choufany President-Middle East, Africa and South Asia on +971 (50) 4597-930 or hchoufany@hvs.com**

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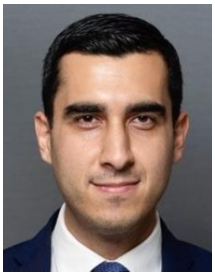

Ersin Yildirim is an Associate Director working with HVS Middle East & Africa, specializing in Strategic Advisory, Operator Search, Management Contract Negotiations, and Asset Management. Since joining HVS, Ersin has been involved in a large number of assignments, negotiated management contracts, and undertaken feasibility and valuation studies across various markets in MENA. In addition, he is responsible for the development of HVS' business in the region. Ersin holds a Master's Degree in Tourism Economics and Management from University of Bologna, Italy and an MBA from Imperial College London, UK.

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