What current market investment trends should the industry follow ?

Hospitality industry key investment consultants gave advice on where and how investers should be spending their money and energy

What is the current market trend for Middle East hospitality projects?

Peter Goddard: Focus is shifting away from 5 star deluxe projects and freehold properties to budget to mid-market hotels, serviced hotel apartments and mixed-use developments. Although there is concern of an oversupply in the deluxe hotel market particularly in Abu Dhabi, Dubai and Doha, it is likely that many suspended projects will be reactivated in 2011 albeit owners will focus on value engineering in order to reduce development costs.

Karim Asmar: The general trend has been towards mixed-use developments often combining hotel, residential, retail and commercial components within the same project. In Syria, the trend is for boutique and 5-star hotel chains.

Serge Nader: In Lebanon, the trend, as a response to market demand, is investment in hotels inside the city of Beirut, because the occupancy has been, is, and always will remain, the highest in Lebanon.

Cynthia Raphael: Today, consumers are, mainly, seeking whole-body health and wellness, as well as fun and relaxation on their vacations. The spa-travel trend is shifting to prevention instead of mere pampering and the wellness trend has piggybacked onto medical tourism.

Hala Choufany: The resort market is well represented by Dubai, whereas Beirut, Damascus, and Morocco present great opportunities for both resorts and hotels. Cities such as Doha and Bahrain are predominantly perceived as corporate destinations and a diverse offer of hotels (such as budget and mid-scale) will further enhance product offering. Development in KSA is growing and the different cities offer different investment opportunities ranging across various assets, such as resorts and extended stay.

Raja Nasri: The whole region is continuously building and developing projects and mega projects, but with no master plan for proper infrastructure except in the Emirates, and specifically Dubai. There is also a lack of qualified new blood for human capital in the Levant or the Gulf regions, as the habit is not to serve but to be served.

Guy Wilkinson: A survey of some 80 hotel-chains active in the GCC showed that the 2010 pipeline of confirmed new hotel rooms was the second largest on record. 55 of the 80 chains confirmed future projects. The survey showed that 283 hotels with 83,604 rooms were officially planned as of May 2010, compared with 325 properties and 92,026 rooms at the same time in 2009. However, back in May 2008, at the peak of the real estate boom, 82,357 rooms in 295 hotels were recorded a ten-year record. In other words, recession or no recession, the pipeline is still as strong as ever.

Where would you advise a client to invest and why?

PG: Focus on hospitality projects in Dubai that are in distress and close to completion. It is likely such projects could be acquired at below cost. There are investment opportunities in Saudi Arabia, Oman and Syria, which have to some extent been insulated from the global economic crisis. Africa will also see much growth over the next decade and solid opportunities exist in Angola, Algeria, Angola, Kenya, Morocco and Nigeria. Lebanon appears overheated at the moment.

KA: The Middle East still holds many opportunities. Tourism opportunities are very diverse, from business to leisure, to cultural and religious. Saudi Arabia today holds a great growth potential and there are numerous opportunities in both Syria and Lebanon.

SN: Syria is the wisest destination for investment in tourist projects, especially that the number of tourists has grown rapidly. The foreign promotion and advertising budget allocated by Syria's Ministry of Tourism has increased in last year from 1.5 million to 6 million dollars and is expected to increase even more in 2011. Tourism in Syria is expected to flourish in the coming years.

CR: Despite notoriously unstable national and regional politics, the Middle East does have its share of success stories. Developments in the external environment for the region have been generally favorable over the second half of 2009 and into the first months of 2010, as the financial crisis and global recession have given way to hopes of stronger recovery.
At least 84,432 rooms are being expected through 2010 till 2014 in the Middle & North Africa region. The Middle East is in the middle of

momentous political change, and for most, its economic future will be little better than a guesstimate - but for a well-informed, risk-lusting few, it will be the opportunity of a lifetime. Nothing can best determine the 'where is best to invest' other than investors themselves through the challenge and the risk they would are willing to take.

HC: Various cities present appropriate and attractive investment opportunities as the Middle East is still considered to be developing. The question should rather be what type of product to develop and why. While some markets such as Dubai are saturated with the 5 star and luxury market, there is a growing demand for mid-scale and budget hotels.

RN: The equation of the political and economical situation, the access to land and the tourism flow makes some countries better than others. This is why the UAE, mainly Abu Dhabi, has high potential from the political and economical point of view but access to land is very tough. The same applies to Kuwait and Qatar.
Syria has a huge potential but the perception of the international community about the destination is still closing down the possibilities for the flow of tourism. Iraq is another example of a huge potential but the situation needs to stabilize.

GW: In the GCC, the UAE remains the epicenter of hotel development with 57% of the total planned GCC hotels and 60% of the rooms. Oversupply can soon be expected. Many investors are now looking to Saudi Arabia where cities such as Makkah, Madinah and Riyadh still offer good potential for demand growth. Egypt continues to offer excellent growth potential, in Cairo and Alexandria, as well as many locations along the Red Sea, Gulf of Aqaba, and the northern Mediterranean coast.

At this time should a client buy, rent or lease?

PG: Now is the time to buy albeit financial institutions are still reluctant to provide debt for much of the hospitality industry. Owners with equity are well placed to pick up good deals.
On the leasing side, opportunities exist and focus should be placed on long-term leases with low rent escalation clauses.

KA: There is no ready-made recommendation. Such a decision is often related to the strategic choice and objectives of the investor. Depending on the nature, means and size of the investment, its mechanism may combine all three.

SN: Clients are often obliged to rent or lease if they don't posses a sufficient budget to buy. In the Middle East in general real estate has continuously grown in value, thus a brought property will have a much higher evaluation the day it's owner wants to sell it.

CR: There are neither rules nor regulations to choose between buying, renting and leasing. Only by doing a proper feasibility study with a coherent profit and loss analysis will investors be able to define what best suits them.

HC: It depends on the location and the risk factor for each project. Buying remains an attractive option as the various cities are set to witness further growth in the long run.

RN: Buying is recommended, especially for investors who want to start a network of hospitality projects. Buy in regions where there is no real estate speculation, as the prices will not decrease.

GW: There are signs that franchises are beginning to become a viable alternative at the luxury level (they were previously only seen in mid-market hotels), and in some locations, owners are terminating their management agreements in favor of operating their own hotels directly. Leasing hotels is generally not a viable prospect. And as for buying completed or operational hotels, vendors are in many cases holding out for unreasonably high prices, and true 'distressed assets' are easier to find in the West.

What are the missing concepts in the region?

PG: Concepts that are currently lacking are family oriented developments such as Club Med and mid-market all-inclusive resort concepts. In addition, an opportunity exists for small upscale accommodation like that typically found in Marrakech, a secluded haven that has preserved the local ambiance while offering lavish service and facilities. Opportunities for such concepts exist in Dubai, Muscat and Damascus.

KA: There is a clear need for budget hotels especially in UAE, Lebanon, Syria and Jordan. In addition, archeological sites and historical destinations have weak infrastructures and

hotel supply. Lifestyle hotels, depending on the destination, are another opportunity and destination spas are missing.

SN: New concepts invented anywhere in the world enter the Middle East through Lebanon. In Syria and Jordan recreation concepts are still missing; mainly a winter sport resort and luxurious beach resorts in Syria.

CR: To determine what's missing we should determine what are the upcoming projects in the region. The Middle East and North Africa are expecting a large number of hospitality projects to open through 2010 to 2014, from deluxe to middle and limited scales. This sector in the hospitality industry will continue to grow as long as there is demand and opportunities. The Middle East tourism sector is missing out on targeting Muslims, by promoting halal tourism, a form of religious tourism defined as activities permitted under Islamic law.

HC: Shared ownership (timeshare, fractional, extended stay) is not common in this part of the world, partly due to legislative issues as well as the lack of appropriate understanding. In any case, it is important to determine whether a concept would be considered lucrative based on market demands.

RN: Boutique or even heritage hotels, although individual attempts have been made but not coordinated within a country, as is the case in Lebanon, Syria, and Egypt. Even hotel chains are now offering a boutique brand within their portfolio.

GW: The Middle East is still an immature market in terms of addressing the needs of budget travelers and in general, nominally 2- or 3-star products like Ibis or Holiday Inn Express are the lowest the international chains will go. The opening of the EasyHotel in Dubai's Jebel Ali free zone will test the market for a truly no-frills, rooms-only product.

Why should a client hire a consultant if they wish to invest in the hospitality sector?

PG: The main reason to hire a consultant is to reduce risk. Many investors and developers spend millions on projects and the cost of consultancy is often negligible. A good consultant can advise clients on market supportability, economic viability, the most appropriate hotel operator and generally whether the project is heading in the right direction.

KA: Some investors seek a consultant's professional advice to build their case with financial institutions, while others need support on the project feasibility and implementation whether in the mix of the property, the type of services, the architecture, interior design and the operation. Also, a growing number of clients are looking for professional assistance in the franchising of their hospitality brand.

SN: The first person contacted by more than 99% of investors is the engineer. The investor requests the engineer design a tourist project decided by the investor himself. In other words, the investor considers that he has the adequate ability to play the role of a consultant. From here, it is very easy to guess the reasons why many projects do not succeed as planned. Engineers are not consultants. It is not the role of the engineer to conduct a feasibility study. Nor is it the job of an investor. It is the role of the consultant.

CR: Because of their know-how, market knowledge, experience, and ability to supplement staff time and expertise, to ensure objectivity and credibility, to obtain a variety of skills and to deal with legal requirements.

HC: Hospitality assets and operations require very specialized understanding of the functionality and success factors assets. Hotels offer an intangible service/product, which is key to successful positioning. Hospitality projects are income-generating assets – determining the right size, positioning, operator, target market, etc. is crucial for future success.

RN: For many specialists in finance, real estate, architecture, and design, hospitality is a fantasy. They focus on marvelous resorts, lavish hotels, breathtaking spas, and well-known executive chefs without the infrastructure needed to make these dreams come true. Egos take over and become more important than the end result. Here a consultant becomes a must to bring together all the components needed for a successful development.

GW: In this financial climate, it is more important than ever for investors to do their diligence process properly. Accurate and detailed market research, combined with realistic financial projections based on deep knowledge of the way hotels actually operate, can help avoid costly mistakes and result in a hotel that is conceived and positioned so that it is as close as possible to what the market really needs. ■

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