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# Hospitality in GCC- HVS Hotel Owner and Investor Sentiment - COVID-19

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



With all the uncertainty that remains around the duration and outcome of this pandemic and its' prolonged impact on the hospitality industry in particular; we are pleased to share the findings of the "**HVS Hotel Owner and Investor Survey**". The goal of the survey was to understand the hotel's operational status and challenges since the outbreak of COVID-19 as well as hotel owners' ability to survive in the hope that there will be some easing of restrictions and return to some normalcy and activity in the tourism sector. We also evaluate further the impact that the recent events have on the investment appetite of hotel investors.

The survey sample, which counts key developers and investors in this region, represents 206 branded hotels and approximately 65,000 hotel rooms across the following countries: Bahrain, Qatar, UAE, Saudi Arabia, Kuwait and Oman. The survey was completed by HVS Middle East clients between 13 and 21 May. As always, we are grateful to the trust and relationship we have built with our clients over the years and we make this information available to further support our partners in the industry.

The findings, which have been presented in two sections- **Hotel Owner and Hotel Investor**- are quite telling and paint a true picture of the current status of hotels and the owners and investors sentiment.

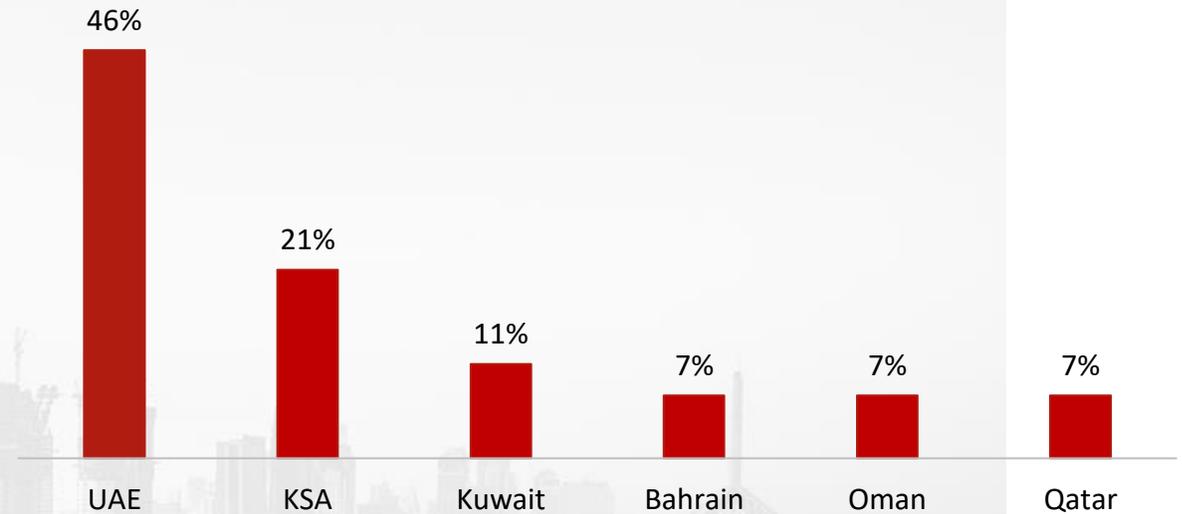
We continue to believe in the tourism potential in the region and we strongly encourage further support from governments and brand managers to allow owners to minimize further losses and support the recovery.

At the time of analysing the survey results, all countries considered for our analysis, with the exception of Qatar and Bahrain, were still experiencing strict curfews, increasing number of COVID-19 patients, and operational limitations. Currently, none of the regional airports have resumed normal commercial flights.

The background of the slide is a faded, grayscale aerial photograph of a city skyline. In the center, a complex multi-level highway interchange with several overpasses and ramps is visible. To the left and right of the interchange are numerous skyscrapers of varying heights and architectural styles. Some buildings appear to be under construction, with cranes visible on their upper floors. The overall scene is a dense urban environment.

## **HOTEL OWNER**

## Q1: Where is your firm based in?



The majority of hotel owners in our survey are based in the same country where their hotels are located. Few owners have properties outside of their home country, reflective of the owning structure in this region as well as GCC regulations pertaining to foreign ownership. This is important to consider when reviewing these findings and the responses that characterize the owning/investment profile of respondents.

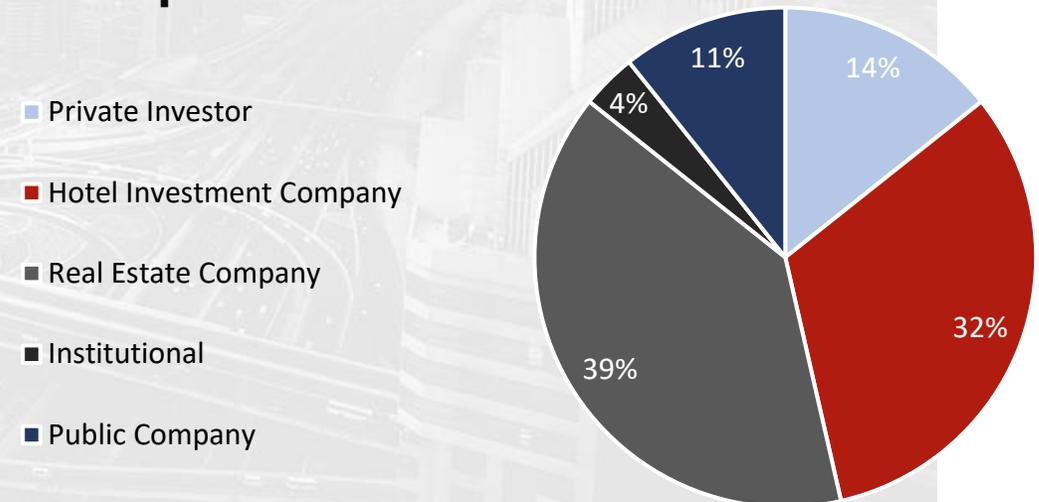
Of the 65,000 rooms included in this survey, 49% of the hotel rooms are located in Saudi Arabia and 42% are across the UAE.

The survey includes existing hotels that are either under a franchise or management agreement with an international or regional operator.

The sample size is considered to provide a fair representation of the hotel market in those respective cities.

Real Estate and Hotel Investment Company own 71% of the hotels in our sample while 14% is owned by Private Investors/Owners.

## Q2: Which of the following best describes your investor profile?



Source: HVS

### Q3: What is the current operational status of your hotel(s)?

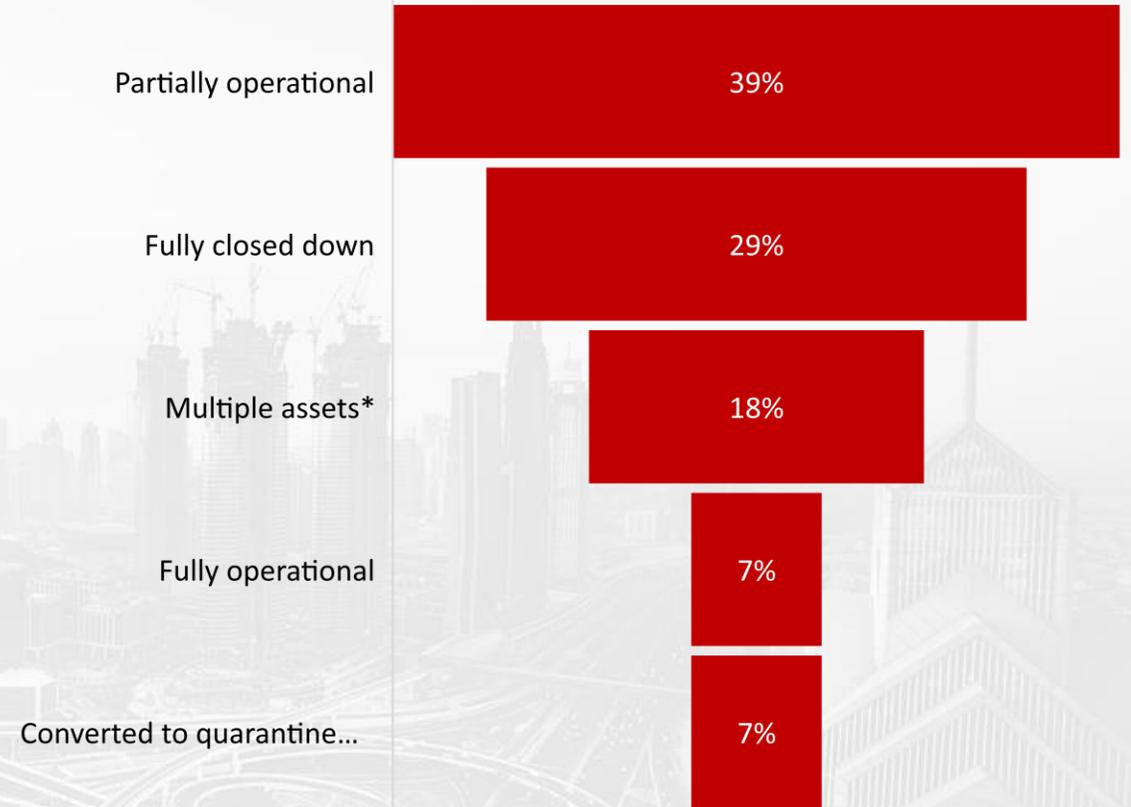
Approximately 7%, or 4,000 hotel rooms are fully operational while other hotels are starting to consider re-opening due to the current easing of restrictions in certain markets.

7% of hotels were converted to quarantine facilities during the months of March and April while a number of other hotels opted not to convert their facilities based on an income-cost analysis and the overall associated risks.

While 29% of hotels are fully closed, it is reasonable to assume that the total number of rooms may have exceeded 30,000 rooms, when considering the partially operational hotels.

Currently, hotels that are operational have restricted the number of available rooms in order to comply with the health and safety regulations and most of the partially operational hotels have limited service offerings. Meeting space and spa facilities at hotels remain closed.

The actual number of hotels that will re-open is yet to be assessed as the cost of reopening coupled with expected low number of guests until the end of 2020 may deter many owners from re-opening immediately.



18% of “multiple asset” owners indicated a similar trend amongst their properties. Only a few properties continued to be fully operational while the remaining were partially operational or converted to a quarantine facility.

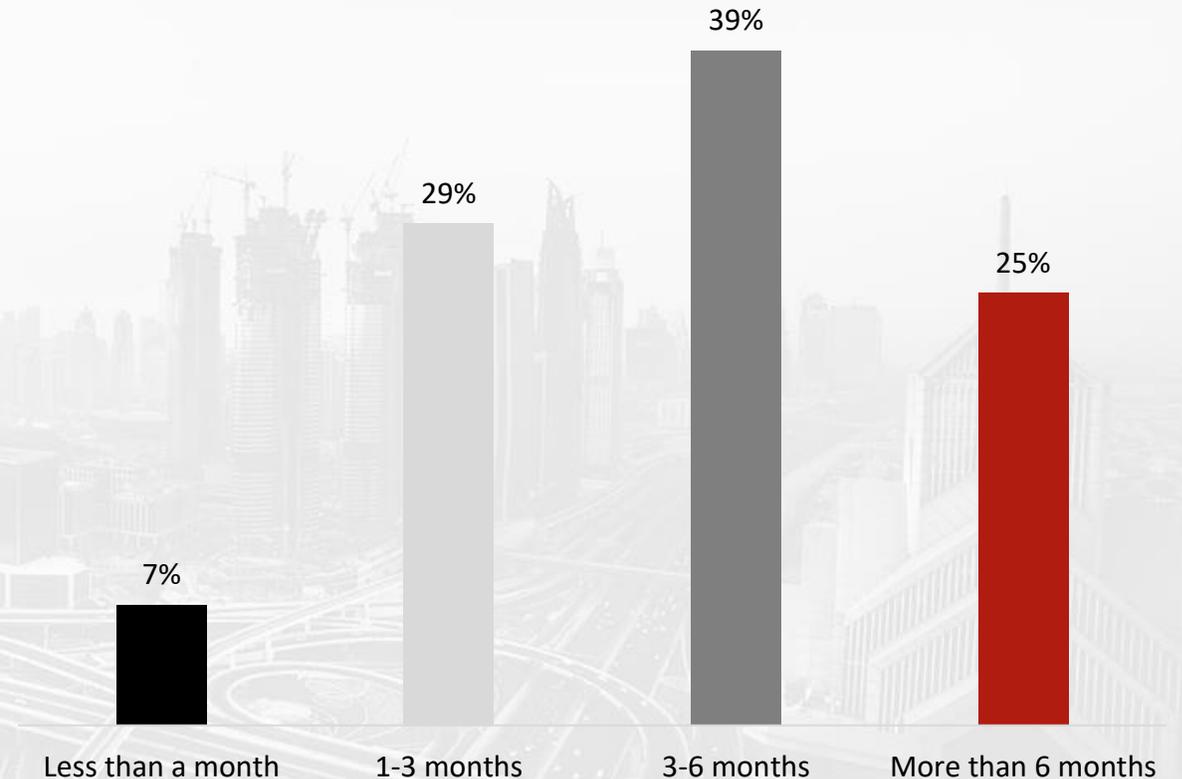
Source: HVS

68% of owners have the ability to meet their liabilities up to 6 months, while only 7% are unable to meet their liabilities beyond 1 month. Considering the owning structure of hotels in this region in particular, it is also worth noting that approximately 25% of respondents will be able to meet their liabilities beyond six months.

While governments have supported this sector by using hotels for quarantine purposes or provided some stimulus relief packages; it is our view that more tangible and drastic measures are required in order to minimize the financial burden and support hotels to remain open. Some immediate relief measures would include but not limited to:

- Waiving off utility charges and employee related visa expenses;
- Subsidizing employee related costs, notably accommodation and related expenses;
- Deferring and rescheduling debt payments;
- Refinancing loans at preferred borrowing rates that will substantially improve owner's ability to meet their debt obligations;
- Deferring or waiving off VAT and Municipality fees and other tourism related charges.

#### Q4: Should the current pandemic persist, how long will your hotel(s) be able to meet its liabilities (i.e. operational expenses, debt obligations, operator fees, retain talent etc.)?



Source: HVS

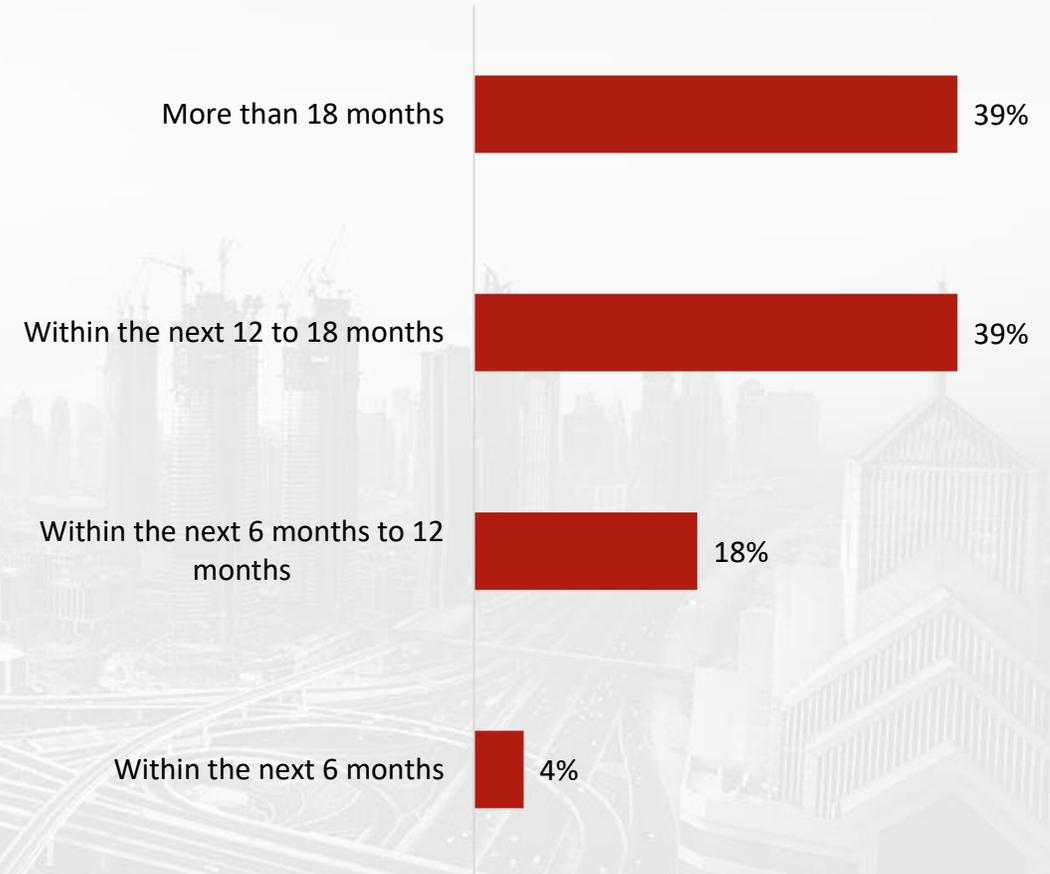
## Q5: How long is it likely to take for the hotel asset net operating income (EBITDA) to rebound to pre-pandemic performance levels?

There is an overall agreement that recovery will take time even though some of the operational hotels have enjoyed relatively better performance and in certain instances exceptional performance due to the following:

- Converted to quarantine;
- Been utilized by guests for self quarantine; mostly resorts;
- Occupied by guests that were stranded and awaiting to return back to their home country.

78% of respondents consider that it will take more than 12 months for EBITDA to recover to pre-pandemic levels while 18% consider it likely to be between 6 and 12 months.

We take the view that while these hotels may experience high demand in the next couple of months on the back of revenge hotel bookings or taking advantage of the summer break, hotels' EBITDA will require at least 24 months to stabilize at pre-pandemic levels or potentially longer depending on the recovery of the source markets, type of visitation and air travel regulations and policies.



Source: HVS

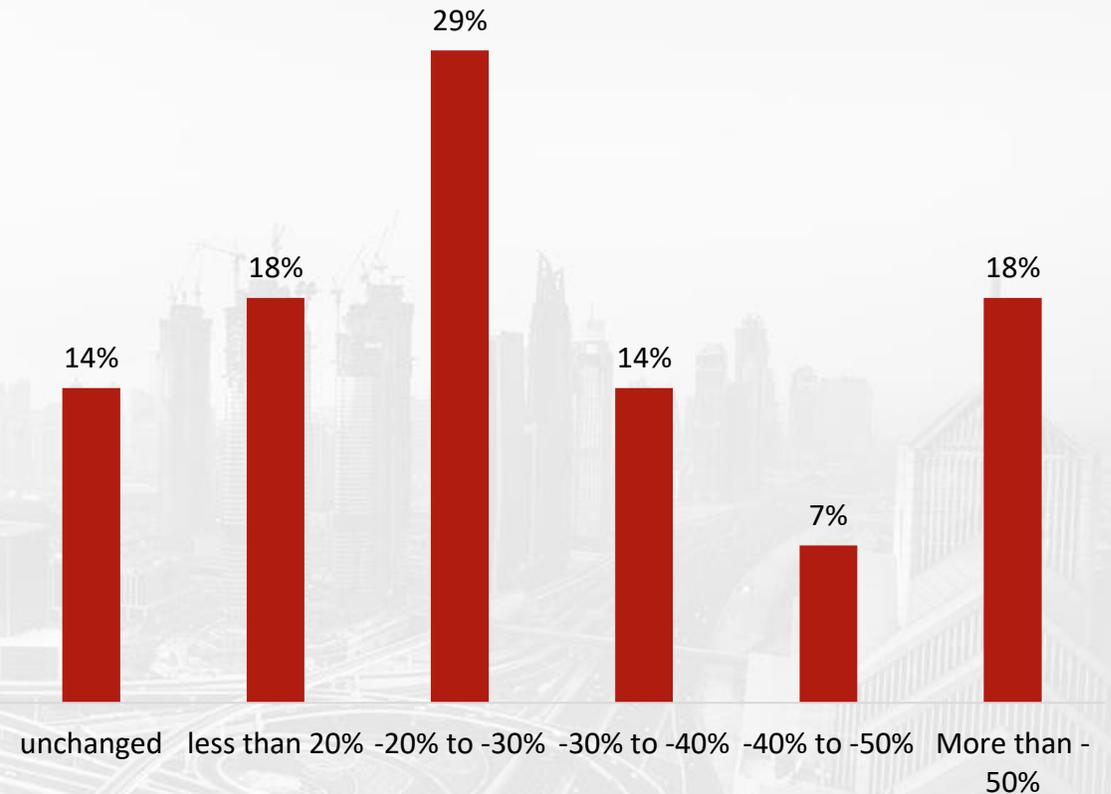
## Q6: What is the current drop in hotel values?

Approximately 43% of respondents consider that since the start of the pandemic, hotel values have declined between 20% and 40% while 25% believe this drop exceeds 40%.

14% consider there to be no change to hotel values and on the other end of the spectrum 18% consider that hotel values have dropped by more than 50%.

Between 2008 and 2018, we have observed approximately 30% decline in the hotel values in the key GCC markets and anticipated a further decline in 2020 due to lower Gross Operating Profit margins (GOP) and additional new supply, which in the last few years was not sufficiently offset by demand growth.

With the current pandemic forcing hotels to close and travel to stop, we take the view that if travel and tourism resume before end of the year, current hotel values will remain approximately 25%-30% lower than 2019 until a recovery is established. Any further worsening of the situation will impact further hotel values.



Source: HVS

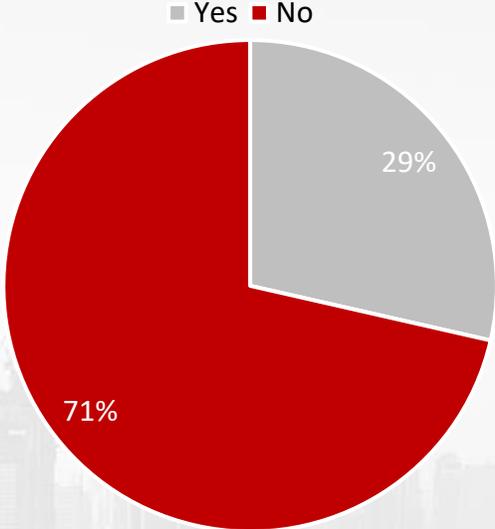
## Q7: Are you planning to do refinancing?

Approximately 29% of the respondents are looking to obtain refinancing. 54% of those planning to do refinancing have received an offer.

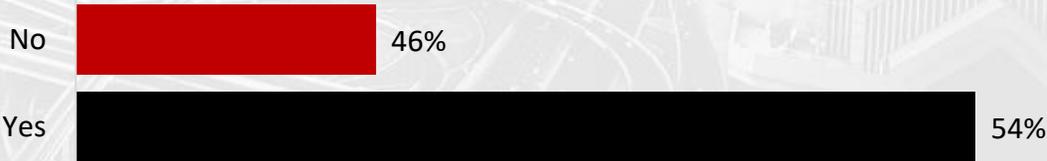
When considering the hotel owning structure in graph 2, 14% of respondents were individual hotel owners which may represent the majority of those that have considered refinancing in order to meet their obligations.

71% of respondents do not intend to do refinancing, which could be explained by the ownership structure of these hotels which benefit from owning multiple assets.

This may likely change if the situation persists and the cash reserves are exhausted. On the other hand, it is also likely that some owners may not have large debts on their assets or are holding back until there is more clarity on the complexity and longevity of the current events.



## Q8: If you already opted for refinancing, were you able to get a refinancing offer?





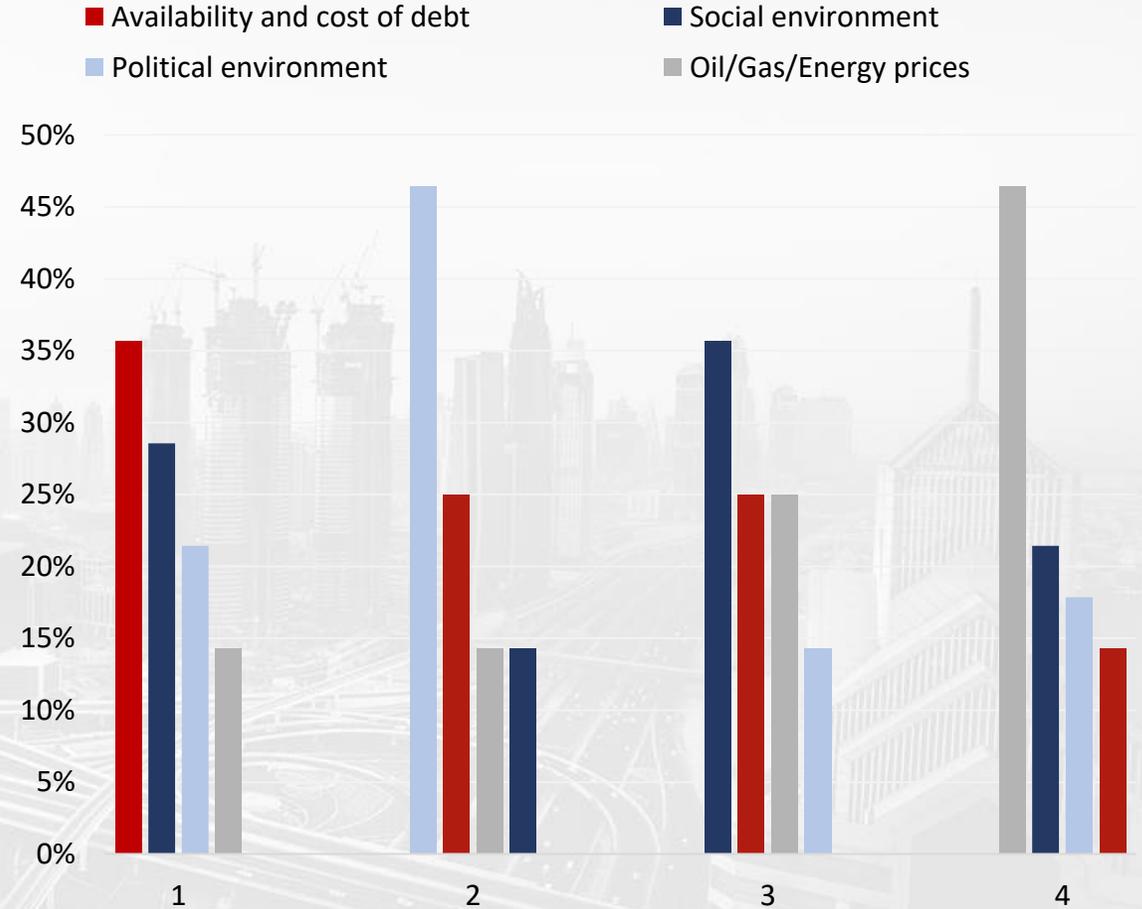
# HOTEL INVESTOR

While approximately 36% of respondents consider the availability and cost of debt to be of prime influence on their investment decision, 46% consider oil, gas, and energy prices to be the least influential factors.

In an order of influence on investment decisions, availability and cost of debt was the most influential factor followed by the political environment.

Oil, gas and energy prices were considered to be the least influencer in the investment decision process while the social environment carried slightly more of an influence ranking 3<sup>rd</sup>.

### Q9: Please rank in order how the following factors influence your investment decisions? (1=most influential 4=less influential)



Source: HVS

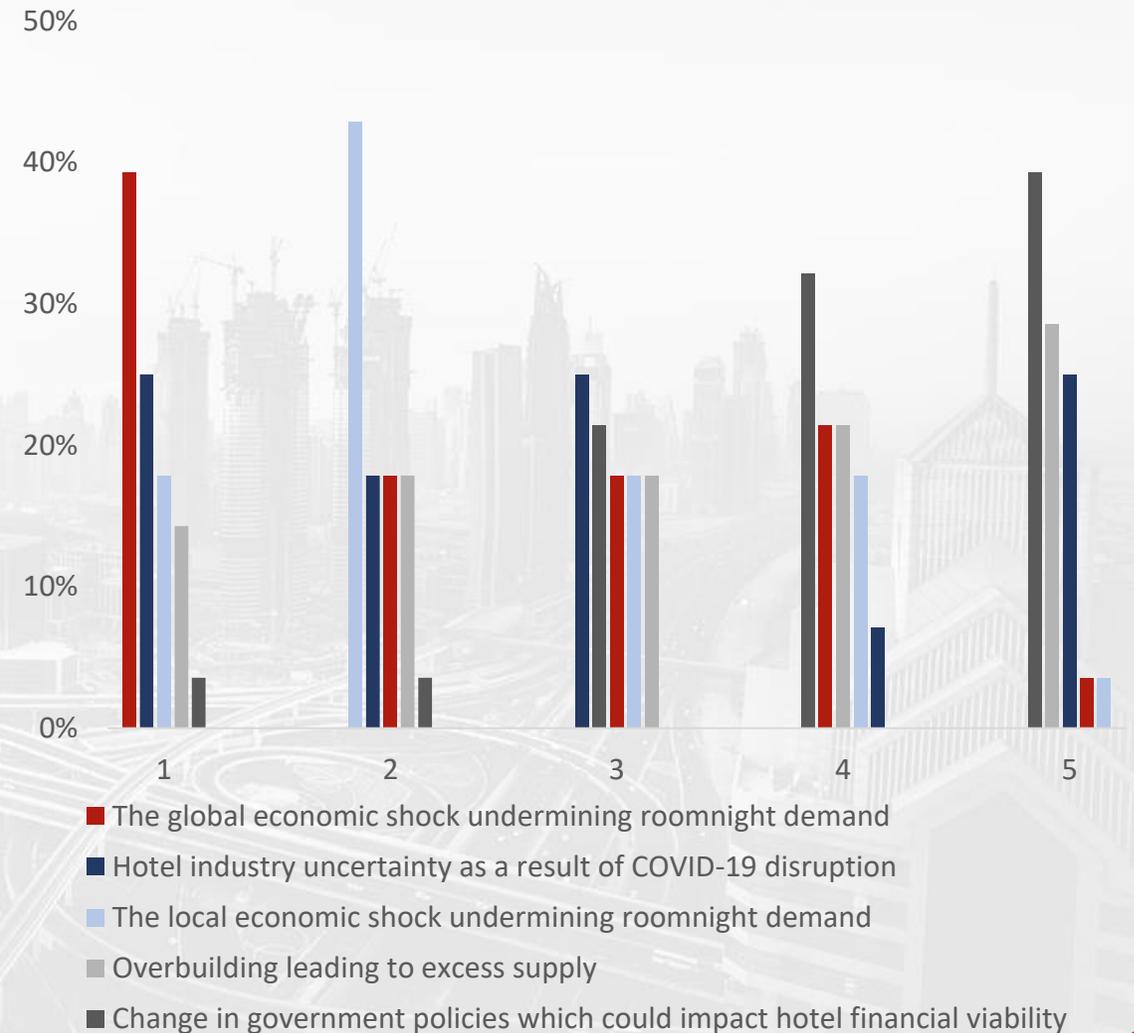
The findings suggest the following factors ranking in terms of most concerned to least concerned: Global Economic Shock, Local Economic Shock, Hotel Industry Uncertainty, Overbuilding and Change in Government Policies.

39% of respondents have ranked the global economic shock undermining room-night demand to be the most concerning factor pertaining to future hotel investments and an additional 43% of respondents have weighed the local economic shock undermining room-night hotel to be the second most concerning factor.

Also, 39% of respondents consider a change in government policies to be the least concerning factor in future.

25% consider the hotel industry uncertainty to be a concerning factor and 29% of respondents consider overbuilding leading to excess supply to be also a concern for future hotel investments, though to a lower extent.

## Q10: Please rank the following factors in order of concern relating to future hotel investments? (1=Most concerned 5=Least concerned)



Source: HVS

# Q11: What is your hotel investment strategy over the next 12 months?

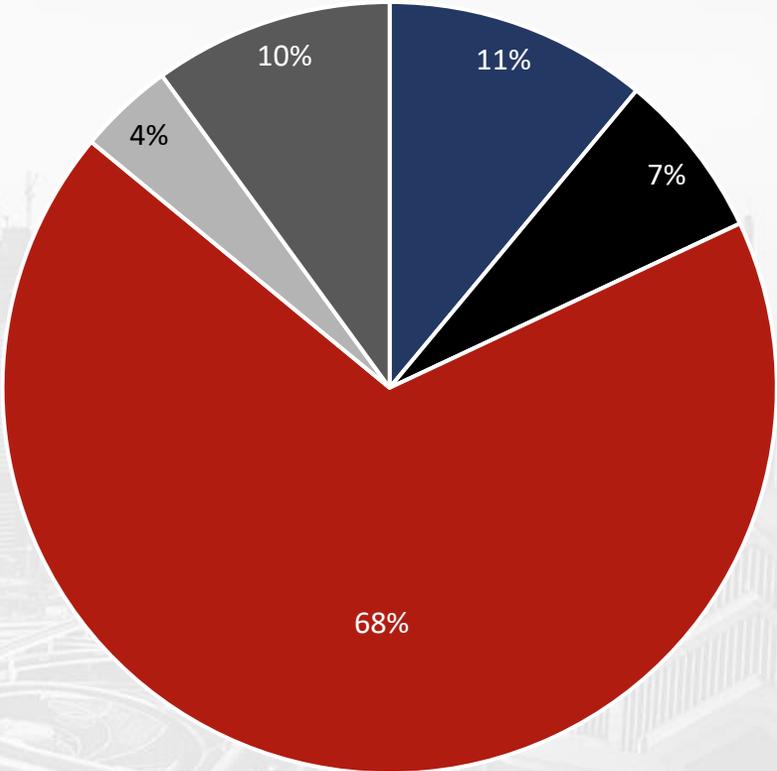
While 11% of investors will continue to develop hotels, 7% of investors are currently looking to buy hotels. It is our view that the next 12 to 18 months will present opportunities for acquisitions as some hotel owners will look to exit their investments and minimize their losses.

Owing to the current ownership structure, the number of distressed assets may not be excessive as only 4% of the investors are considering to sell and 68% are looking to hold their assets.

There will be however a few opportunities for those that are eyeing further developments in the GCC region, and possibly Saudi Arabia in particular.

As these times are unprecedented, it is reasonable to assume that a more cautious approach will be taken by hotel owners and investors in evaluating their investment strategy.

■ Build ■ Buy ■ Hold ■ Sell ■ Other



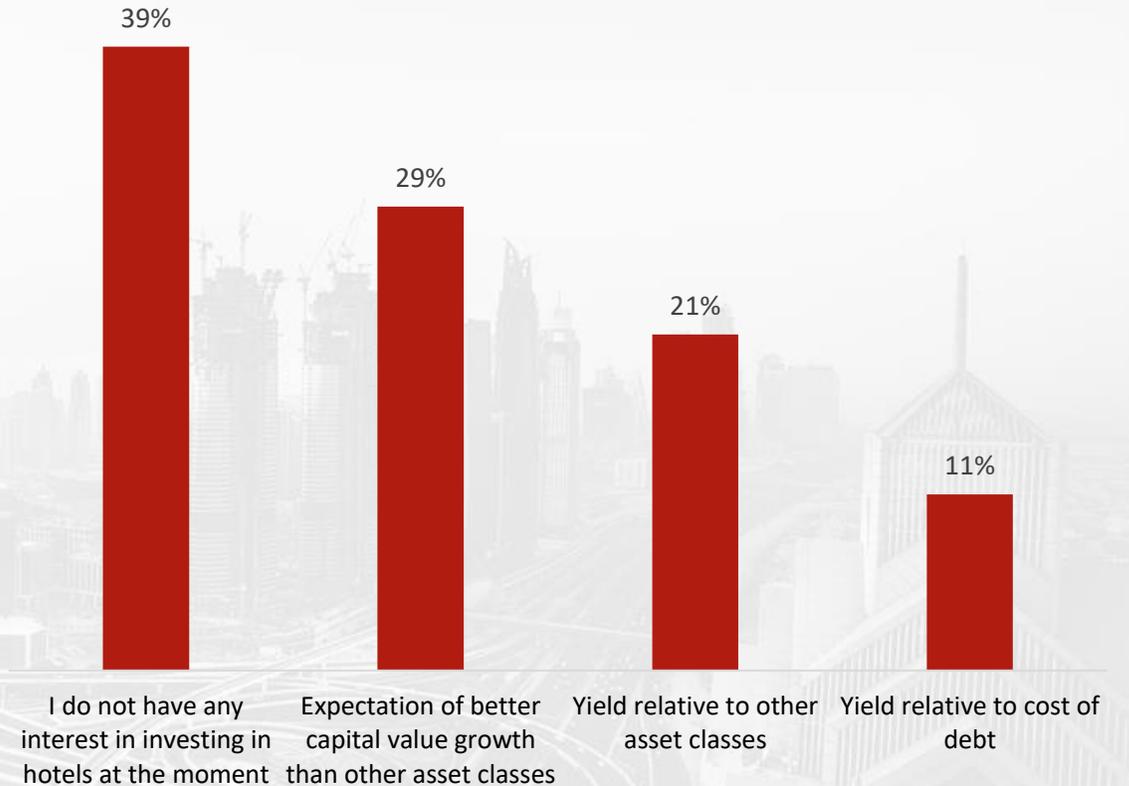
Source: HVS

## Q12: What is your main motivation for investing in hotels in the future?

39% of respondents expressed no immediate interest in investing in hotels. This cautious approach will allow existing hotels to recover as supply and demand imbalances are experienced in a number of key markets resulting in less attractive returns than typically observed in the past.

29% of respondents considered that hotel assets value appreciate better than other assets, especially as both the retail and office developments have recently become less attractive and many of those new developments struggled to find tenants and attract the necessary footfall to secure attractive returns.

In line with the capital growth being a key motivation for investment, 21% of investors considered that hotel developments yield better returns than other real estate assets.



Source: HVS

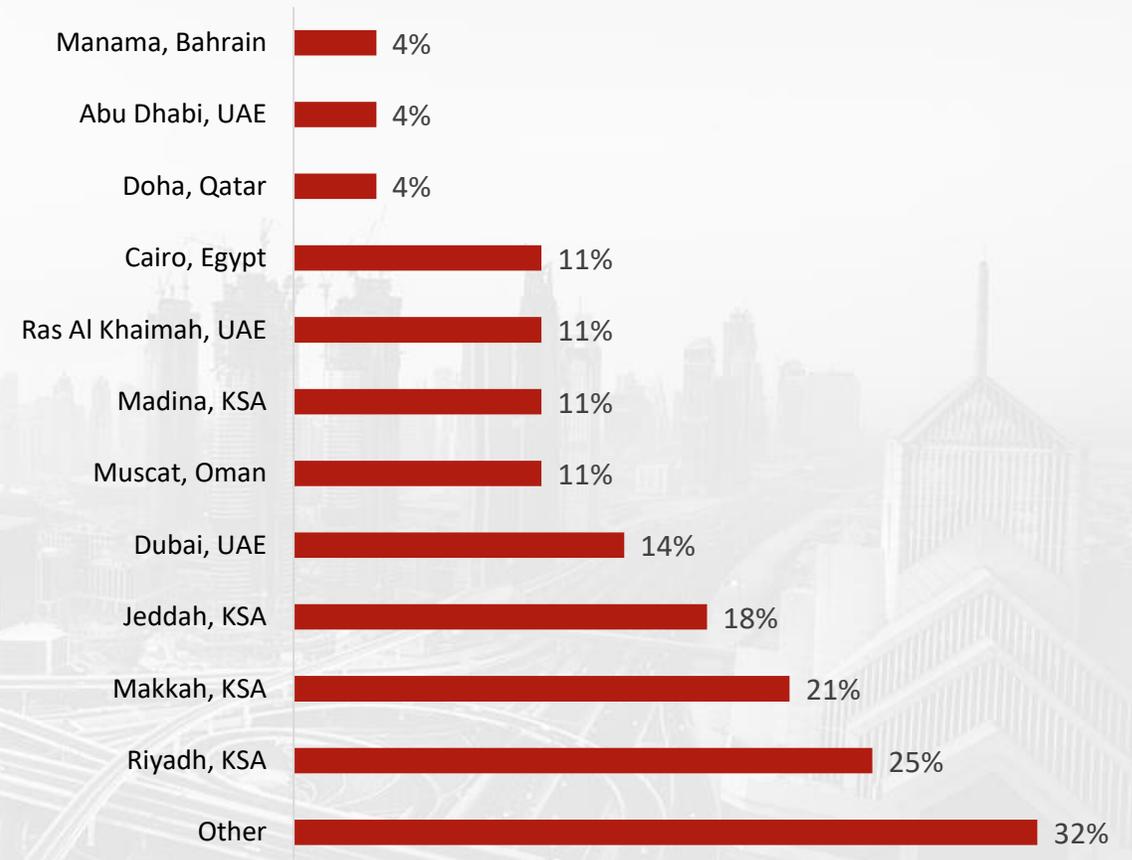
## Q13: Which market(s) are you most likely to invest in ?

64% of investors have specified three attractive investment markets in Saudi Arabia: Riyadh, Jeddah and Makkah. All three markets have achieved a higher than average performance in 2019 notably in terms of RevPAR. This was supported by the roll out of Saudi Vision 2030 and the support of the government in transforming and developing the hospitality offering in Saudi. A number of other initiatives were implemented such as the e-visa.

14% of investors continue to eye Dubai for attractive opportunities while only 4% of investors will consider Bahrain, Abu Dhabi and Doha for future investments.

In Egypt, Cairo is becoming more attractive for new investments and/or acquisition and 11% of the investors will look to invest in Cairo. Similarly, Ras AL Khaimah, Madinah and Muscat remain on the investment horizon of our respondents.

In addition to the cities in the graph, 32% of investors are looking to invest outside of the GCC, notably in Europe (Italy, France, Greece), USA, Turkey. A few investors mentioned Kuwait and Sharjah in their investment plans.



\* Totals do not add up to 100% as several markets were selected.

Source: HVS

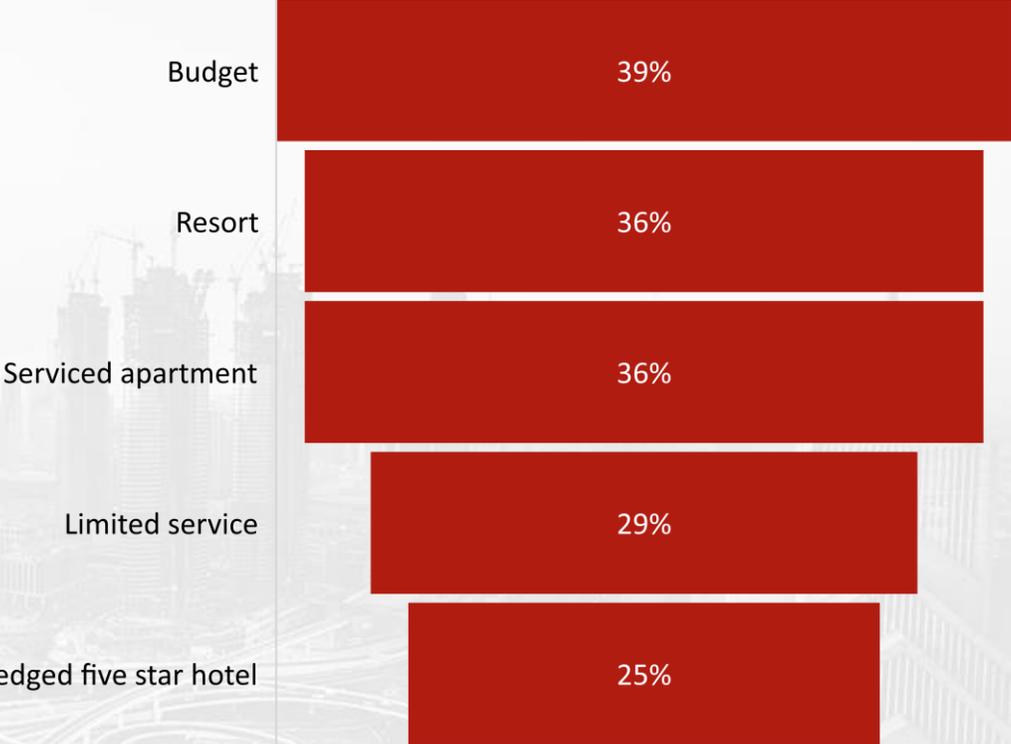
# Q14: Which asset class(es) are you likely to buy or develop?

The last few years has seen a rise in the number of budget and limited service hotels. International operators have been successful in introducing and rolling out brands that could well serve the growing price sensitive guests and extended stay demand.

We have also observed over the years that serviced apartments, budget and midscale hotels perform better than other hotel assets during a downturn/recession as well as during major growth and transformation in the tourism landscape.

39% of investors are likely to invest in budget and limited service hotels (68% combined) and 36% will invest into serviced apartments.

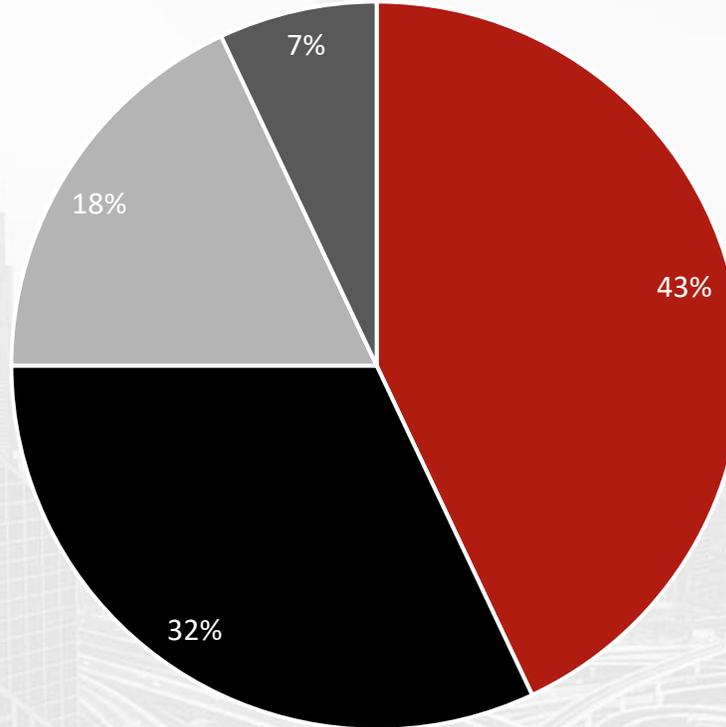
Few investors are looking to invest in five-star hotels while 36% will continue to develop resorts. With the expected shift in consumer preferences and travel purposes we consider these findings to be inline with the potential growth in demand and future returns.



\* Totals do not add up to 100% as asset classes were selected.

## Q15: What is your overall outlook for hotel investments?

■ Positive ■ Neutral ■ Negative ■ Very negative



While 32% of respondents are neutral in terms of the outlook for the industry, 43% of hotel owners/investors remain positive. Combined, 25% of respondents have a negative outlook.

Source: HVS

## Q16: Please share any additional thoughts/challenges/opportunities that you deem relevant and will ultimately impact the hospitality industry since the occurrence of COVID-19.

"Likely growth in North African countries"

"Government Policy Changes will have an impact; VAT and other indirect taxes".

"I think unfortunately the political risk is the biggest threat. Government actions & reactions will impact the industry.

"Regardless of when the recovery starts, the need for accommodations with reinforced health and hygiene will continue to grow on the long term and Hotels investors and owners are very well aware that they should consider the long term. Debts restructuring is the name of the game in 2020/21" .

"These are unprecedented and challenging times globally. But we will be able to get through this and see the light at the end of the tunnel. The recovery period is going to be longer & painful though any where between 12 to 18 months before we see some decent ROI".

"Impact on Port Rules as a result of COVID-19. Expected increase in Air ticket prices, Expectation of hygienic, cleanliness and safety of people will be costly.

"Hotels should be more ready to face these kind of challenges in the future. An emergency plan should be developed to ensure the continued operation with the complete safety precautions in place" .

"These findings will definitely be reevaluated according to the time of recovery of the hotel business as well as the opening of international tourism and business flights" .

Source: HVS

These are undoubtedly very unusual times that are coupled with oversupply situation in certain markets, a negative political outlook, and a global and regional economic slow down. But we equally know, that despite those challenges and the overall uncertainty that is troubling us on both personal and business levels; there will be better times and that the hospitality and travel market will eventually come out stronger and continue to grow.

The future winners are those that will create an ecosystem that is built on ethical principles and promote a behavior that reflects a good corporate citizenship. Finally, a strong risk mitigation approach, flexibility and innovation will remain key traits of successful organization.

## About HVS

**HVS** is the world's leading consulting and valuation services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe.

Our Middle East and Africa 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 1000 projects and approximately US\$120 billion worth of hotel real estate and mixed-use projects in the region for hotel/real estate owners, developers, lenders, investors and operators.

For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com).

## About the Author

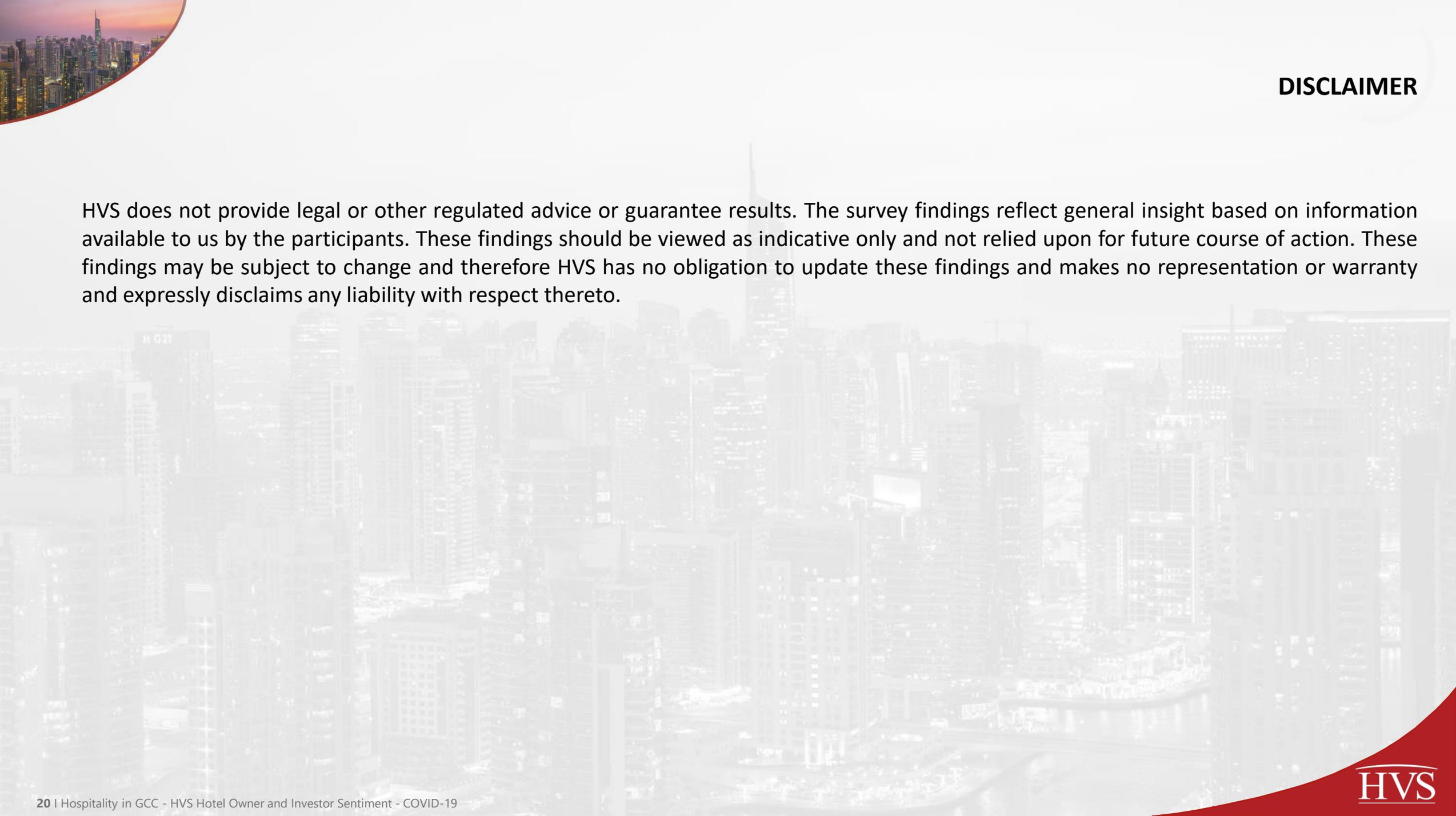
**HALA MATAR CHOUFANY** is the President for HVS Middle East, Africa & South Asia and Managing Partner of HVS Dubai.



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 3,000 hospitality and mixed-use projects in the last 17 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 the Middle East.

A background image of a city skyline at night, with numerous skyscrapers illuminated. The image is faded and serves as a backdrop for the text. In the top left corner, there is a circular inset showing a closer view of the city skyline.

## DISCLAIMER

HVS does not provide legal or other regulated advice or guarantee results. The survey findings reflect general insight based on information available to us by the participants. These findings should be viewed as indicative only and not relied upon for future course of action. These findings may be subject to change and therefore HVS has no obligation to update these findings and makes no representation or warranty and expressly disclaims any liability with respect thereto.



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HVS Dubai  
2102 North, Emirates  
Financial Towers  
Dubai International  
Financial Centre  
PO Box: 482068  
Dubai, United Arab Emirates



+971 4 354 4771



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