CHAPTER 22

International Markets

¶ 22.01 DEVELOPED VS. DEVELOPING COUNTRIES

Countries with rapid development offer more opportunities to the investor than those with slower growing economies. At the same time, there is a great deal more risk—political and financial—associated with a rapidly expanding economy. One way of overcoming this risk is to deal in assets that are easily salable, thus allowing the rapid conversion to currency that can be withdrawn from the market. Such investments also allow a level of hedging to be used as a fallback against risk in the marketplace.

Unfortunately, hotels are large static assets with high capital costs and poor conversion abilities. In addition, hotels are not easily transferred among investors, which means that the hotel owner is exposed to risk on an ongoing basis; every time the operation is exposed to market uncertainty, the capital value of the operation is affected. For these reasons, an investor should be very careful about entering a developing market.

Return, however, is a function of risk; while a hotel in a developed market is a more stable investment, it will not yield the return that is possible in a developing marketplace.

¶ 22.02 BACKGROUND FOR EUROPEAN COUNTRIES

If a firm is to control its development and grow in international markets, it is important that it pay attention to what are known as "environmental factors." These are as follows:

- *The economy.* The overall strength of a country's economy affects the availability of credit, the willingness of people to borrow, and, ultimately, the level of demand. Interest rates and currency fluctuations affect both the cost of and the demand for imports and exports.
- *Capital markets.* The state of capital markets in the country invested in has a direct bearing on the cost and availability of loan capital. It also reflects and influences the willingness of investors within the country to invest in internal markets rather than overseas. Capital markets have been shown to have a great effect on the economy as a whole.
- *Government.* The governments of many countries seek to encourage foreign investment through the allocation of grants and industry initiatives. Also crucial is the degree of government regulation of the economy. Political decisions made either internally or on an international scale can have devastating effects within the hotel industry.
- *Labor markets.* The availability of labor and skill bases is crucial and must be investigated.
- *Suppliers.* In third world and developing countries, maintaining the supply of raw materials for construction, refurbishment, and everyday running stock is an enormous challenge, one that is to a large extent nonexistent in a developed country.
- *Markets.* The influence of local and international tourism markets and the presence of competitors must be taken into account.

This chapter will begin with a discussion of the markets of Europe.

[1] Europe's Legal Framework

International legal practice in Europe is mostly carried out through branch offices, alliances, informal associations, referral relationships, and foreign lawyer employment. On the whole, lawyers are a vital part of European real property transactions as technical facilitators. In the United Kingdom, for example the solicitors' profession still has a statutory monopoly on conveyance work. This has been challenged in recent years and will change, albeit slowly. The legal framework in Europe has been complicated somewhat in recent years by the application of European Community (EC) laws and directives, which have challenged bodies of law in individual countries.

Because there is nothing in the EC treaty that creates any EC function or power relating to the ownership or transfer of land, the national laws of each member state govern those matters. However, certain aspects of real property transactions may be affected incidentally by provisions of the EC treaty.

The major common-law jurisdictions of Europe are England, Wales, Scotland, Northern Ireland and the republic of Ireland, while the remaining jurisdictions are essentially civil law systems. The systems vary principally in their approach to case law. In both groups legislation plays an increasing role in the regulation of real estate matters, both in the private aspects of ownership and transfer and in the public aspects of planning, building controls, and more general environmental concerns. However, the traditions of statutory interpretation also vary considerably between the two regimes.

The land tenure system originated in private law, according to the doctrine of binding precedent and with substantial contribution from professional practice. Legislation has introduced important measures such as registration of title and reform of old case law. It has also intervened to provide important rights (e.g., rent control for residential tenants and lease renewal rights for business tenants) and to impose planning and environmental controls of increasing complexity.

The status of court decisions in relation to civil law is quite different than under common law. Legislation has increasingly replaced or reformed original code provisions or enacted controls not included in the original codes. The planning, building, and development policies of individual European countries are discussed subsequently in this chapter.

The EC has an increasingly positive attitude towards foreign investment. Most countries make no distinction between foreign and domestic investors, though in certain sectors and in certain countries restrictions remain. For example, foreign investment in France is restricted in banking and insurance. In Spain it is restricted in the gas, water, electric, and railway industries. The state-controlled industries of Italy are restricted. For the most part, however, countries use attractive incentive packages to encourage investment.

[2] Cultural Differences

The following section offers generalizations about some of the cultural differences found in the international markets as an aid to understanding how to conduct business there. The categorizations outlined are the product of the research of Fons Trompenaars of the Centre for International Business Studies (CIBS).

[a] Universalism vs. Particularism

This is essentially the difference between rules and relationships. Universalist behavior or rule-based behavior focuses on the rules governing the conduct of areas of behavior. The belief of people in a universalist society is that all should be treated equally under the law and that people should adhere to the regulations and rules laid out by the society they live in. Particularists, in contrast, see rules as applying in certain circumstances and not in others. Particularists will choose whether to adhere to the rules or not depending on the situation they find themselves in. Universalist countries include the USA, Switzerland, Sweden, Norway, Germany, Britain, the Netherlands, Denmark, Finland, and Austria. Particularist societies include Russia, Hungary, Bulgaria, Romania, Greece, Spain, France, Portugal, Oman, and Egypt.

Particularist countries put more faith in personal relationships, and as a result, more time is often needed to conduct business; they also see the universalist need for contracts and high powered negotiations as suspect. Universalists, on the other hand, might see the time it takes to establish these relationships as a waste of time and a sign of a lack of commitment. For this reason, this cultural difference can lead to misunderstandings. The following lists summarize the differences between the two categories.

For universalists:

1. Focus is more on rules than on relationships;
2. Legal contracts are not subject to easy change;
3. Trust is based on the honoring of a contract; and
4. A deal is a deal.

For particularists:

1. Focus is more on relationships more than on rules;
2. Legal contracts can be readily modified;
3. Trust comes from establishing worthiness over time; and
4. Relationships evolve.

[b] Affective vs. Neutral

Affective cultures are those that show their emotions, whereas neutral societies are those that do not willingly show their emotions. This does not mean, of course, that those cultures that do not seek outlets for their emotions are devoid of emotion; in most cases, it is simply a matter of social convention. There are considerable differences in this regard among European countries, with Germany being the most neutral and Italy and France being the most affective. The differences have a great influence on the way relationships are formed and communication occurs within these different cultures.

Neutral and affective cultures often find each other immensely confusing in a business context. This confusion can lead to difficult problems in negotiations.

[c] Sequential vs. Synchronic Time Orientation

How different cultures view time is a very important aspect to doing business. In hotel development terms, it becomes all the more crucial, because the development process is a lengthy one that requires a great deal of coordination of resources. Sequential cultures such as the United Kingdom and the United States of America tend to run "on time" with attention paid to appointment times. In such cultures, people set specific goals and wish to complete one task before embarking on the next.

Synchronic cultures, such as the southern European countries, often prefer to do more than one thing at a time. They are less goal-specific and see time as an indicator of direction and not a controller of action.

¶ 22.03 THE EUROPEAN COUNTRIES

[1] United Kingdom

The United Kingdom hotel market remains strong with operating performances for both London and the provinces continuing to lead their European counterparts. Average occupancy levels declined slightly in the capital but the Provinces enjoyed a marginal increase, while average room rates for the United Kingdom increased by approximately 9% across the board. The branded budget sector continues to grow throughout the country, especially in city center locations, causing increasing concern from independent hotel owners. The strength of the market has continued to motivate sales activity and development from both domestic and foreign investors.

Some felt at the beginning of 1998 that London in particular was nearing the peak in the cycle, and yet transaction activity continued steadily throughout the year. Exhibit 22-1 shows that London hotels still lead Europe in Value per room.

Exhibit 22-1 Hotel Values Per Room in Euro 1993–1998

Source: HVS International

	1993	1994	1995	1996	1997	1998
London	245,617	276,810	293,330	358,743	496,007	504,990
Paris	360,262	352,336	340,709	316,953	389,947	433,515
Geneva	234,149	250,549	272,657	265,541	267,766	279,867
Zurich	204,242	220,064	221,492	211,042	236,044	267,574
Rome	155,319	170,562	160,459	205,974	238,614	264,487
Amsterdam	122,574	130,897	145,949	170,177	192,981	213,762
Madrid	149,874	142,183	142,416	161,663	188,540	209,076
Europe	**145,812**	**147,066**	**149,256**	**162,042**	**190,528**	**204,202**
Barcelona	85,399	78, 074	84,504	110,015	141,299	172,308
Istanbul	100,258	100,896	96,454	123,435	165,709	165,276
Vienna	153,557	144,497	150,496	145,934	141,970	157,959
Brussels	121,886	115,376	120,223	127,017	143,492	155,594
Stockholm	87,589	94,355	103,986	136,182	150,744	153,216
Copenhagen	97,643	105,259	109,116	124,337	144,450	150,920
Budapest	86,012	91,683	82,204	97,733	143,425	147,349
Warsaw	121,855	108,790	108,499	124,157	144,352	147,349
Frankfurt	136,758	134,160	137,916	130,606	137,920	141,829
Prague	129,487	110,150	104,350	111,747	134,533	136,485
Lisbon	102,966	98,029	95,877	108,879	112,256	127,098
Athens	86,393	84,405	84,627	96,554	113,645	126,896
Berlin	134,394	132,243	129,863	114,150	126,866	126,796

[2] Belgium

The recovery of the Belgium hotel market, in terms of occupancy and average room rates, has led to increased interest from investors. Brussels still lags the European average for hotel valuation (Exhibit 22-1), despite improved hotel conditions.

[3] France

The market recovery enjoyed by the French hotel market in 1997 was sustained in 1998. Continued growth in occupancy levels was enjoyed, in paritcular, in provincial cities, such as Marseilles and Paris, which hosted some of the 1998 football World Cup games. The month of June saw occupancy levels soar to new heights in certain cities due to the estimated half a million visitors for the games. There were concerns that the World Cup events would deter traditional demand from the leisure and commercial sectors and that this would have a negative impact on occupancy levels. These concerns proved to be unfounded in cities situated in the north of France; however, particularly in the southern regions, others did report a decrease in domestic leisure and commercial demand. The strengthening of the French economy and the strong US dollar, British pound and Italian lira have also contributed to some of the growth in demand for hotel accommodation. Paris was the principal beneficiary of the strengthening of the French market, enjoying strong growth in both rooms occupancy and average room rate. Paris hotel values remain strong and are second only to London (see Exhibit 22-1).

[4] Germany

The German hotel market still seems to be suffering from the economic recession of the early 1990s. The hotel construction boom continues in Germany between May 1997 and April 1998, 80 new hotels with almost 14,000 rooms were constructed throughout the country. A further 140 hotels with over 37,000 rooms are planned over the next three years. New hotels are particularly prevalent in Berlin, with fewer than 64 hotels planned or under construction. Berlin is the only major European city to actually have its value decrease between the years 1993-1998 (See Exhibit 22-2, Average Annual Compounded Growth Rate 1993-1998). Although performance has been low in 1998, hopes are high for the future. For Berlin, in particular, an increase in demand is expected with the relocation of the German government from Bonn to Berlin and the arrival of 12,000 civil servants. Frankfurt is also one to watch as it capitalizes on being home to the Euro.

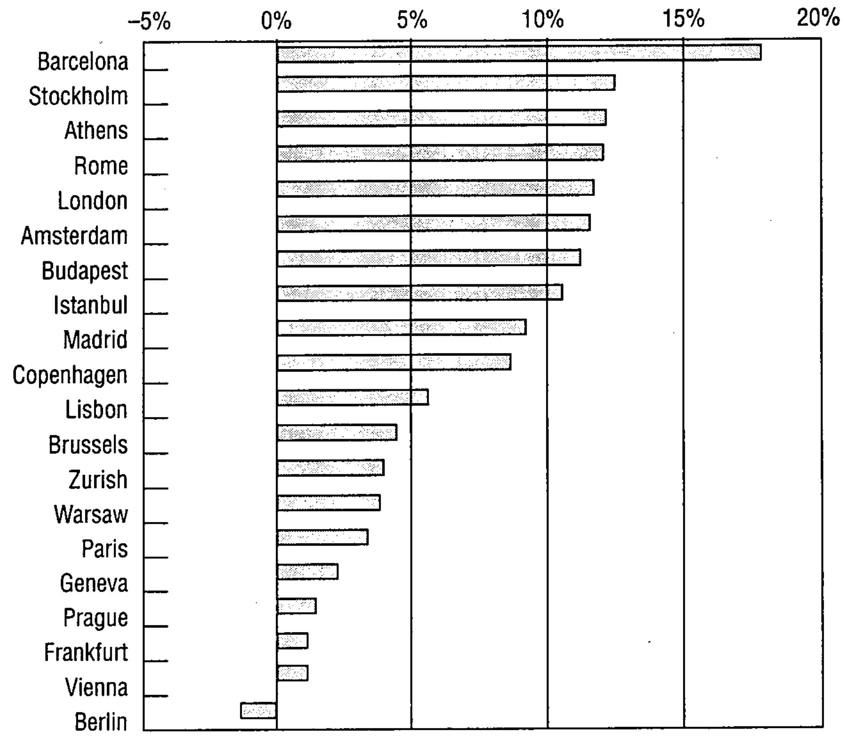
[5] Italy

The Italian hotel market is the largest in Europe in terms of the number of hotel rooms; Italian tourism is second in the world (behind the USA) in terms of receipts. It is also the fastest growing in terms of foreign tourist visits between the years 1994–1998 (see Exhibit 22-3).

In the last 24 months, the national government appears to have achieved notable success in stabilizing Italy's economy and developing a level of confidence among domestic and foreign investors. The current Ulizo coalition has continued to work off its most recent predecessors, to drive Italy into the European Market Union, although this has been at the cost of stern monetary and fiscal control of the economy.

Exhibit 22-2 Average Annual Compounded Growth Rate 1993–1998 (Local Currencies)

Source: HVS International



[6] The Netherlands

The Netherlands has suffered for years from an abundant supply of hotel rooms for several years. It has finally worked off this excess room supply and values have increased dramatically in the few years (See Exhibit 22-4). The average has increased from below the European average in 1993 to well above average by 1998.

[7] Portugal

After suffering from a prolonged recession in recent years, the Lisbon hotel market enjoyed buoyant performance during 1998, largely due to the hosting of Expo '98. RevPar in five-star hotels improved by up to 40% compared with the 1997 performance, which was mainly driven by average rate growth. Occupancy grew by approximately 10%, despite Lisbon's hotel market being subject to a huge increase in supply in all categories compared to 1997.

It is envisaged that the hotel supply in and around Lisbon will increase by 12% in 1999, which includes a 150-room Marriott golf resort hotel situated one hour's drive of the city. Demand for new hotels in other regions of Portugal such as the Algarve is also set to increase in 1999. This is partly as a result of improved infrastructure, a prime example being the recently modernized and enlarged Lisbon Portela Airport, but also as a result of key European source markets that are benefiting from favorable economic conditions.

Exhibit 22-3 Foreign Tourist Arrivals to Italy and Other Key European Countries (1994–98)

Source: WTO

Rank	Foreign Tourist Arrivals to:	1994	1995	1996	1997	1998	1998 as a % of Total	% Growth 1994–98
1	France	61,312,000	60,033,000	62,406,000	66,864,000	70,000,000	32%	14%
2	Spain	43,232,000	39,324,000	40,541,000	43,403,000	47,743,000	22	10
3	Italy	27,480,000	31,052,000	32,853,000	34,087,000	34,829,000	16	27
4	UK	20,794,000	23,537,000	25,163,000	25,515,000	25,475,000	12	23
5	Germany	14,494,000	14,847,000	15,205,000	15,837,000	16,504,000	8	14
6	Switzerland	12,200,000	11,500,000	10,600,000	10,600,000	11,025,000	5	–10
7	Netherlands	6,178,000	6,574,000	6,580,000	6,674,000	6,170,000	3	0
8	Belgium	5,309,000	5,560,000	5,829,000	6,037,000	6,152,000	3	16
	Total Foreign Tourist Arrivals	**190,999,000**	**192,427,000**	**199,177,000**	**209,017,000**	**217,898,000**	**100%**	**9%**

Exhibit 22-4 Hotel Values—% Change in local currency

Source: HVS International

	1994	1995	1996	1997	1998	1994–1998
Barcelona	–1.8%	14.0%	25.7%	29.4%	22.6%	123.2%
Athens	5.6	8.3	13.6	17.7	16.6	78.3
Zurich	1.6	–1.5	–5.1	10.8	14.8	20.8
Lisbon	0.2	0.1	11.5	2.6	13.4	30.2
Stockholm	9.1	15.3	17.4	9.0	12.5	81.1
Vienna	–5.9	4.3	–3.0	–3.3	11.8	2.9
Rome	14.9	7.8	15.0	11.6	11.6	77.5
Madrid	1.9	5.5	9.6	17.5	11.5	54.3
Amsterdam	6.6	11.4	16.6	13.4	11.4	75.0
Paris	–2.2	–3.3	–8.6	22.3	11.3	17.7
Europe	**1.5**	**6.2**	**7.7**	**12.0**	**9.1**	**41.8**
Brussels	–6.7	4.1	5.6	13.3	8.4	26.0
Budapest	8.6	1.6	13.3	27.2	8.3	72.2
Warsaw	–9.1	13.0	9.1	0.8	6.4	20.2
Geneva	0.9	6.5	–3.2	0.1	5.9	10.2
Prague	–13.4	7.3	2.1	4.4	5.7	4.8
Copenhagen	7.8	3.4	12.2	15.0	4.8	50.7
Istanbul	2.5	8.3	22.0	16.4	3.9	63.9
Frankfurt	–1.9	2.8	–5.3	5.6	2.8	3.7
Berlin	–1.6	–1.8	–12.1	11.1	–0.1	–5.7
London	12.7	16.8	16.6	15.3	–1.0	75.2

[8] Spain

Spain has shown very little growth in recent years as hotel building has slowed dramatically. However, recently international hotel operators and entrepreneurial investors alike have been talking about Spain as a likely growth area, despite its slow hotel growth rate.

[9] Central and Eastern Europe

After the collapse of communism in the period 1989-1990, investors became very interested in Central and Eastern Europe. Still, because of the recession there was not much development. Interest rates were high, and there was a squeeze on the availability of development finance. Another reason for the lack of development in these nations is their considerable political uncertainty. However, the Czech Republic, Hungry and Poland have stabilized their political structures as well their economics. With the three above mentioned counties joining NATO, the outlook for the future development of hotel projects will be carried out in a stable environment. Russia is still experiencing great difficulty economically and is still considered an extremely risky hotel development opportunity.

However, with the advent of free market economies in the Czech Republic, Hungry and Poland there has been a rush to build properties and create a short term overbuilt market. In fact the hotel valuation for the major cities in these counties has performed below the European average in 1998 compared to 1997 (See Exhibit 22-4, Hotel Values – % Change).

[a] The Czech Republic

The Czech Republic has come a long way during the past three years, with GDP growth estimated at 4.2 percent for 1995. An important reason for this growth is the entrance of the Republic into the world trade market, as reflected by a 20 percent to 30 percent increase per year during the past three years in export growth. The willingness to trade, coupled with rising consumer demand, has resulted in increased imports and, ultimately, economic expansion. In contrast to many of its neighbors, unemployment in the Czech Republic is relatively low, at 3.2 percent for 1994 and an estimated 3.5 percent in 1995. Inflation has also been kept in check, quite a feat in light of the rapid expansion of the economy and the huge capital inflows to the country. Interest rates are still high compared with the rest of Europe, but they are in line with neighboring countries and could be said to be reasonably low considering the present economic status of the country. The next few years should bring no real slowdown to the economy, and if inflation can be kept in check, the future prospect looks favorable.

Prague probably will become one of the main centers for hotel development in Central Europe. There are numerous hotel projects under construction in the capital, and there is interest from other major international chains. The following hotels can now be found in the Republic: the Ramada Renaissance, the Grand Hotel Bohemia, and the Savoy, with Hilton taking over the management of the Atrium hotel in 1995. However, the current climate is one of rising costs and low average rates, which are not the best conditions for new hotels. Still, those hotels already in place will achieve good returns when this trend reverses in the near future. The country still has many interesting investment opportunities, which will no doubt be enhanced by the AAA rating given by Standard and Poor's. Investment in development projects has continued to be led by Austrian banks such as Raiffeisen and Girocredit, and Munich-based Hypobank has also become involved in the development of some prime real estate sites. The French institution Caisse des Depots has also been heavily involved in the market. ING has announced plans to become involved in the development of various large-scale projects in the area. On the whole, European investors have lower yield expectations than those of their U.S. counterparts; considering the state of the economy and the length of time it will take to mature, companies accepting lower yields in the interim will be in a better strategic position than the late entrants.

[b] Hungary

The Hungarian economy has slowed slightly, down from 2.9 percent GDP growth in 1994 to close to 2.0 percent growth in 1995. The reason for this was the government's austerity package, designed to implement needed economic reform. The reform dampened the still buoyant export performance as well as the country's relatively strong internal consumer demand. Meanwhile, privatization is making slow but steady progress, with small to medium-sized companies being established in all market sectors. Inflation remains high at 28.3 percent for 1995, despite the monetary controls imposed by the government. This figure appears ready to drop in 1996 and 1997, however, as the economy absorbs the impact of the economic reform. Employment is still high, at 10.3 percent, but it is forecast to stabilize at about 10 percent. The effects of the increase have been offset in part by the high level of imports and inward capital flows required by the restructuring process.

Strong performance in the Budapest market between 1989 and 1992 was followed by poor market performance in 1993, as the initial "novelty travel" declined. In 1994, the market sector picked up again, as a result of increased political and economic stability and the implementation of the government's privatization program. In 1995, occupancy levels were stable, and there was moderate growth in average rates. There has been little new development in the marketplace recently, and the cancellation of the 1996 World EXPO will dampen prospects in the market. The Austrian bank Girocredit has been heavily involved in the marketplace, with German, Dutch, and French banks also entering the market on a lesser scale. The problems facing prospective investors in the Hungarian market are many and mainly bureaucratic. Another major obstacle seems to be the lack of suitable investment property—many of the prime locations are already owned by investors who are seeing a good return and therefore are under no pressure to sell. Another problem is that the values of much of the real estate are based on an "initial yield attainable" basis, which does not help those who would choose to value on a revisionary basis. Yields in other industrial sectors are currently running from 12 percent to 14 percent, though this should increase in 1996 as the first round of rent reviews take place. In January 1996, the Hungarian Insurance law was revised, bringing the regulatory environment closer to EU thinking on issues such as minimum capital requirements. This should increase the stability of the financial markets.

[c] Poland

The Polish economy recorded yet another year of impressive economic expansion in 1995, with GDP growth of close to 5.7 percent, up from 5 percent the previous year. This was by far the best performing economy of the former Eastern bloc countries. There has been increased foreign direct investment in the country. The government is committed to a structural reform of the economy and is pursuing an almost egalitarian transition to free market economics. While unemployment is high, the economy on the whole is on sound footing.

Another reason for the lack of development in these nations is their considerable political uncertainty and lack of basic infrastructure. Warsaw hotels have declined markedly in performance since 1991, as the market has struggled to absorb the plethora of new hotel developments in the city. Occupancy rates, which stood at 70 percent in 1991, fell to 50 percent in 1993. In 1995, the occupancy rates improved, but average rates suffered. While there are a number of proposed new hotels, it is doubtful that they will be built until there is an increase in demand.

[d] Russia

Russia has had perhaps the hardest time of the previously communist countries in developing a free market economy. This can be explained to an extent by its sheer size, which has led to a much greater level of economic mobilization. It has suffered countless setbacks in the last few years from political instability and large-scale upheaval. Despite all this, Russia has moved steadily toward attaining a market economy; in 1995, it reduced the contraction of the economy to –4 percent GDP growth—a large improvement on the previous year's –15 percent. Exports increased in 1995, helped in part by progress made with the government's privatization program. There has been a large decrease in the rate of inflation in the country, from 843 percent in 1993 to 131 percent in 1995 to a projected 25 percent in 1996. Although this will undoubtedly help the economy, it is a long way from offering the security needed by investors, especially when the currency continues to devalue. The restructuring in the economy has had the unfortunate effect of increasing unemployment, which has contributed to the general feeling of unrest in the country. In the key cites in Russia, areas in which the first major investments are being made, there is increasing concern about the rise in Mafia-style business tactics and profiteering, which is making the country a high-risk area for new business ventures.

Most of the major development taking place in Russia at present is taking place in Moscow or St Petersburg. In Moscow, the major hotel developments have occurred after 1990, with the notable exceptions of the Savoy, the Metropole, and the National. There is huge potential for development in these two markets, and this has been supported by the rapid absorption of all the new hotels to have opened in the last few years. Between 1991 and 1993, the number of rooms in Moscow increased by 150 percent, with little effect on either occupancy or average rate. In 1995, four- and five-star hotels sustained an average rate in excess of $230 (U.S. dollars) and an occupancy rate of close to 68 percent. There are a large number of projects on the drawing board at the moment, and the marketplace looks set for a great deal of development during the next few years.

The investment market in Russia is still relatively underdeveloped. It is still very difficult to purchase property in Russia except through the vehicle of a Russian-owned company, and there is extensive and unclear legislation concerning the transfer of title over land. There is also the continuing risk of reappropriation of property, as the nation's commitment to capitalism is far from secure. The financial sector is still in disarray, suffering from both a lack of knowledge and high local financing costs. The number of banks being created is only just capable of keeping up with the number that are going into liquidation. It is almost impossible to ascertain the current yields being achieved by property investments in Moscow and St Petersburg—as there is little if no information available—some estimates put the range between 13 percent and 20 percent.

¶ 22.04 MIDDLE EAST AND NORTH AFRICA

[1] Overview

Prior to the 1970s, tourism demand in the Middle East was virtually nonexistent. The development of tourism facilities, primarily hotels, occurred in the late 1970s and the early 1980s, partly in response to demand from international travelers looking to capitalize on the wealth generated from oil production. Today, tourism in the region is a small but rapidly growing industry.

Regional tourism trends show that the Middle East and Africa have experienced above average growth rates compared to the rest of the world (see Exhibit 22-5, Regional Tourism Trends). However, the total increase in the number of visitors to the Middle East and Africa is only 18 million or 9 % of the total tourist increase in the years 1989-1998. In fact, of the top destinations in the world only Tunisia, Egypt, and Saudi Arabia rank in the top 35 (see Exhibit 22-6, Top Destinations World Wide).

[2] Obstacles to Increased Tourism

Political instability in the Middle East and North Africa is the major obstacle to increased tourism. Tensions between the State of Israel and its Arab neighbors alone have resulted in numerous conflicts since 1948. Difficulties have arisen between Arab countries—for example, the Iran/Iraq war and Iraq's invasion of Kuwait in 1990. In almost all Middle Eastern countries there is some type of conflict either above or just below the surface. It will not be until these tensions are finally eradicated that the industry will flourish.

Exhibit 22-5 Regional Tourism Trends 1989–1998

Source: WTO

Region	Increase in arrivals 1989–1998 (millions)	Average Annual Growth Rate 1989–93	1994–98	1989–98
Africa	11.1	7.6%	6.9%	6.8%
Americas	33.2	4.5%	3.1%	3.7%
East Asia/Pacific	39.2	10.5%	3.1%	6.9%
Europe	106.2	3.9%	3.0%	3.8%
South Asia	2.0	3.7%	7.0%	5.9%
Middle East	**7.1**	**7.4%**	**5.1%**	**6.9%**
WORLD	**198.8**	**5.0%**	**3.2%**	**4.3%**

Exhibit 22-6 Top Destinations World-Wide

Source: HVS International

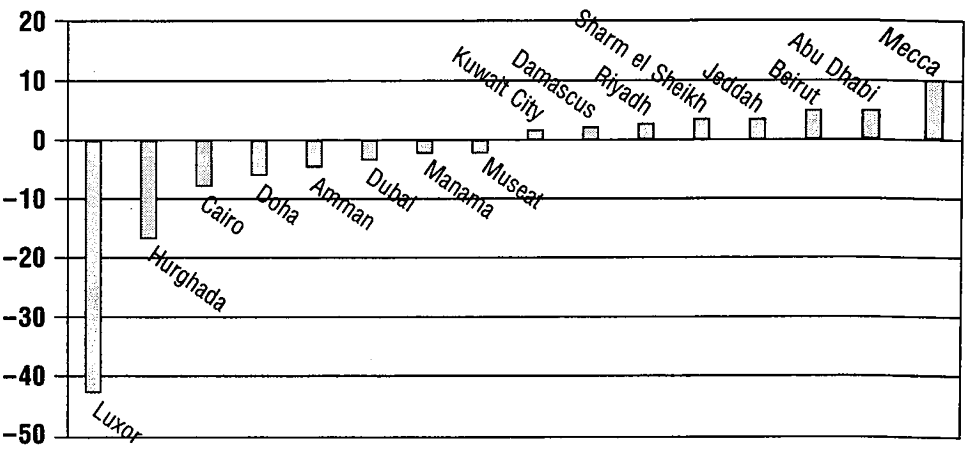
Rank Country	Arrivals (000s)	% of Total	Rank Country	Arrivals (000s)	% of Total
1 France	70,000	11.2%	11 Germany	16,504	2.6%
2 Spain	47,743	7.6%	12 Czech Republic	16,325	2.6%
3 United States	47,127	7.5%	13 Russian Federation	15,810	2.5%
4 Italy	34,829	5.6%	14 Hundary	14,660	2.3%
5 United Kingdom	25,475	4.1%	15 Portugal	11,800	1.9%
6 China	24,000	3.8%	16 Greece	11,077	1.8%
7 Mexico	19,300	3.1%	17 Switzerland	11,025	1.8%
8 Poland	18,820	3.0%	18 Hong Kong	9,600	1.5%
9 Canada	18,659	3.0%	19 Turkey	9,200	1.5%
10 Austria	17,282	2.8%	20 Thailand	7,720	1.2%

Rank Country	Arrivals (000s)	% of Total
29 Tunisia	4,700	0.8%
34 Egypt	3,766	0.6%
35 Saudi Arabia	3,700	0.6%

Religious fundamentalism still represents a major problem for the political and economic stability of the region and for the tourism industry in particular. The threat of fundamentalism is most acute in Egypt and Algeria. The terrorist attack at Luxor in the 1990s has devastated the tourism industry in Egypt, with occupancy at Luxor dropping over 40% between 1997 and 1998 (see Exhibit 2-7, Occupancy % Change).

Exhibit 22-7 Occupancy %—Point Change 1997–1998

Source: HVS International



[3] Hotel Data

After significant growth after 1994, tourism receipts have leveled off until 1998 (see Exhibit 22-8, Regional Tourism Trends). However, as previously noted the increase has not been even across the board, with the Luxor and Cairo showing large decline in occupancy percent and Mecca showing the largest increase occupancy as a result of decreased tensions with its Arab neighbors.

Exhibit 22-8 Regional Tourism Trends 1989–1998

Source: WTO

	Increase in receipts		Average Annual Growth Rate	
Region	1989–1998 (US$ bn)	1989–93	1994–98	1989–98
Africa	5.1	8.8%	8.5%	8.7%
Americas	61.1	10.9%	6.2%	8.1%
East Asia/Pacific	39.5	12.0%	3.8%	8.9%
Europe	110.2	9.2%	6.0%	7.7%
South Asia	2.4	7.9%	9.4%	9.3%
Middle East	**5.2**	**6.1%**	**11.0%**	**8.9%**
WORLD	**223.5**	**10.0%**	**5.9%**	**8.1%**

1998 has shown that most cities in the Middle East have had a significant drop in Average Room Rates due to overbuilding in Sharm el Sheikh and Hurghada. Cairo, despite a decline in occupancy, has been able to raise its average room rate between 1997 and 1998 (See Exhibit 22-9, Average Room Rate % Change). The better measure of hotel performance is RevPar and Mecca has seen the largest increase as pilgrims return to the holy city in large numbers. The Luxor area is still devastated from terrorist attacks and has seen its RevPar drop over 75% in 1998 from 1997 (see Exhibit 22-10).

Exhibit 22-9 Average Room Rate—% Change 1997–1998

Source: HVS International

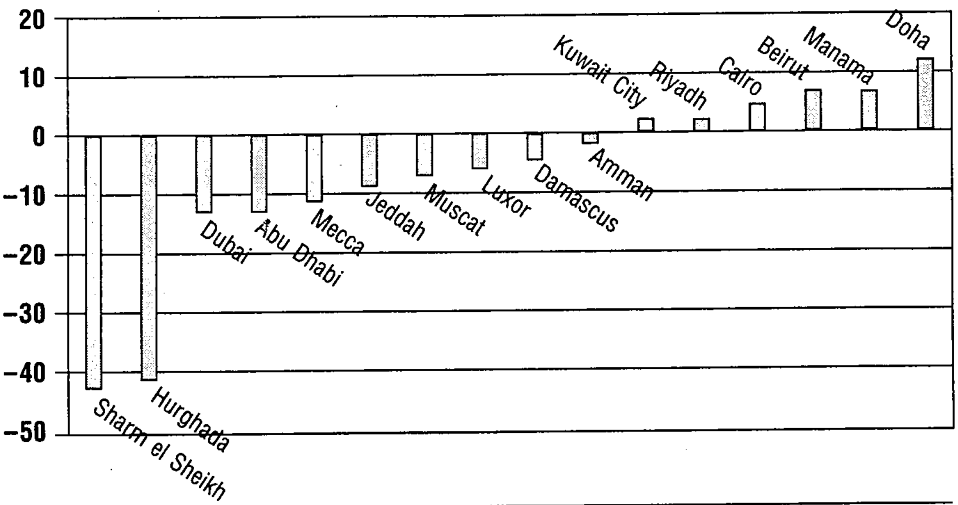
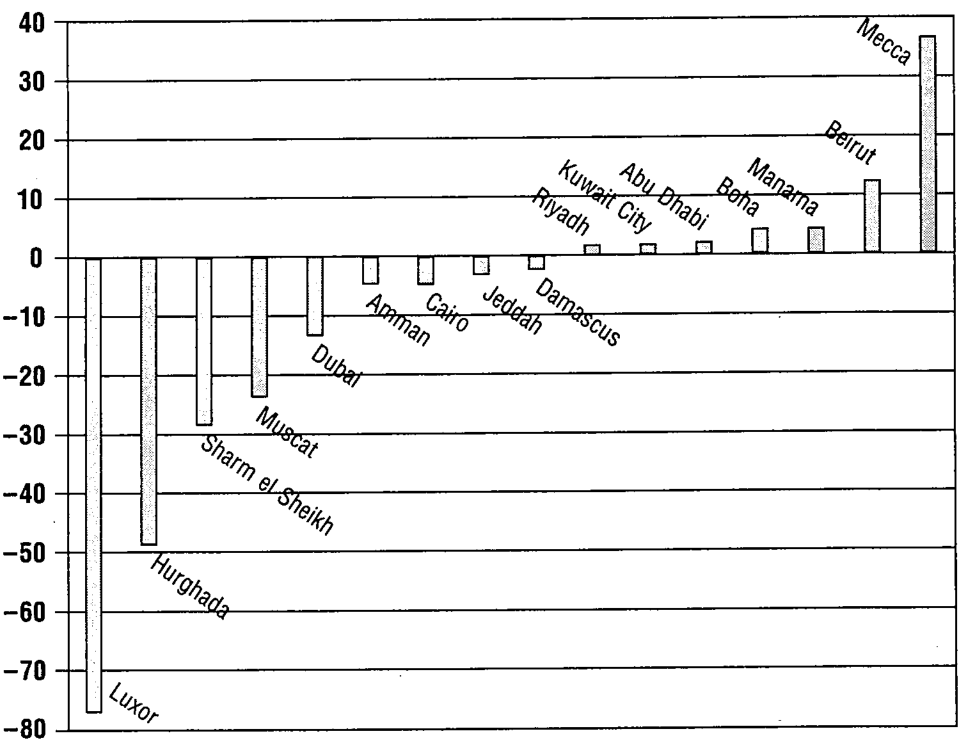


Exhibit 22-10 RevPAR—% Change 1997–1998

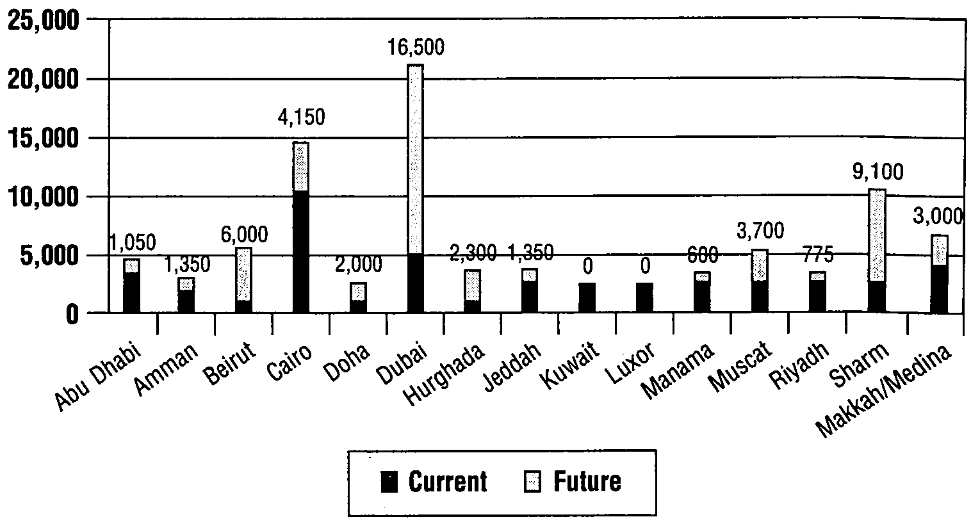
Source: HVS International



As the area tries to develop its tourist base, a large number of new hotel projects are planned for the future (see Exhibit 22-11, Current and Future Supply). Dubai plans to add over 16,500 rooms in the future in an attempt to become a major tourist destination. It currently has 5,000 rooms and so this would represent a three-fold increase in rooms for an unproven market. Sharm and Makkah/Medina are also planning on an increase in tourist and business travel by planning for 9,100 and 3,000 room increases, respectfully. Beirut, after years of being devastated by civil war is counting on political stability to once again develop its tourism industry that was so important before the civil war by adding over 6,000 rooms in the future. Cairo is also planning to add over 4,000 rooms as it seeks peace with its fundamentalist minority.

Exhibit 22-11 Current and Future Supply

Source: HVS International



¶ 22.05 COUNTRIES OF THE MIDDLE EAST AND NORTH AFRICA

[1] Bahrain

Tourism continues to be seen as one of the sectors of the economy that will help the island become less dependent on oil revenues. Tourism revenues reached $213 million in 1993, up 20 percent from 1992, while the number of tourist arrivals stabilized at around 1.5 million. Despite the lack of archaeological attractions and the small size of the island, Bahrain was the fifth most popular tourist destination in the Middle East and North Africa in terms of total number of tourists in 1993, capturing 8.4 percent of total arrivals. The popularity of Bahrain is the result of improved road communication with Saudi Arabia via the King Fahad Causeway. Arrivals from Saudi Arabia and other Middle Eastern countries accounted for more than 80 percent of total arrivals in 1993.

Currently, the government's effort to promote tourism-related projects relies essentially on private initiative, rather than public-sector finance. Such projects include the construction of two golf courses and two conference centers as well as the recent completion of the airport extension, which enables the airport to handle up to 10 million passengers per year.

The up-market hotels in Manama City are all operated by international hotel companies, such as Sheraton, Inter-Continental, Hilton International, Forte, Holiday Inn and, more recently, Meridien (1994). Marriott and Oberoi hotels are expected to enter the market in the future.

Commercial business accounts for 65 percent of the up-market room nights in Manama City, while 25 percent is generated by government-related travelers and meeting attendees. The remaining 10 percent consists of individual leisure tourists, primarily from Saudi Arabia.

The government is actively promoting tourism to attract a larger share of tourists from other Middle Eastern countries (particularly Saudi Arabia) as well as Europe and the Far East. Provided that public funding is available to finance the necessary tourist infrastructure, Bahrain should be well positioned to capture more international visitors in the future.

[2] Egypt

Future economic policy will be influenced by Egypt's commitments under the IMF Extended Fund Facility (EFF) accorded in September, 1993. A positive review by the Fund will allow a debt write-off of $4 billion. The government wants to maintain a strong pound in order to prevent capital flight and preserve business confidence. The economic reforms implemented so far should pay off in the form of strong and sustainable growth and declines in consumer prices, which in turn should provide real benefit to Egypt's impoverished population. This should also help to reduce support among the population for the religious fundamentalists. Privatization of state-owned assets is continuing, through limited-share floatations of the 300 or so public enterprises. The government is attempting to tap small investors' savings rather than attract large private investors and thereby maintain control of the public companies while strengthening the sector with private capital.

Despite continuing terrorist activity, Egypt remains one of the leading tourist destinations in the Middle East and North Africa. Egypt captured 2.3 million, or 13 percent, of the total tourist arrivals in the region in 1994; only Morocco and Tunisia attracted more tourists in the same year. The annual compound growth rate of tourist arrivals to Egypt from 1984 to 1994 was 4.2 percent. Preliminary figures for 1995 indicate an increase in the number of tourists by some 21 percent over 1994 figures. Tourism revenue in 1993 was only $1.3 billion (3.6 percent of GDP), down from the record level of $2.7 billion (7.7 percent of GDP) in 1992. Europe (primarily the U.K., Germany, France, and Italy) continues to be the principal feeder market with 48 percent of total arrivals, followed by other Middle Eastern countries with 30 percent of total arrivals. The supply of hotels in Egypt has increased by 8.7 percent between 1989 and 1993, with the development activity concentrated in the new tourist destinations along the Red Sea.

The presence of international hotel companies in the up-market category of the four major markets in Egypt—Cairo, Hurghada, Luxor, and Sharm el Sheikh—is well established. Cairo continues to be one of the main financial and commercial centers in the Middle East and attracts an even mixture of business and leisure travelers. Luxor, with its numerous Pharaonic artifacts, has always been a primary destination for tourists. Egypt's popularity as a winter sun destination is increasing every year.

The most significant factor affecting the economic future of Egypt is the return of international tourism demand, once the threat posed by religious fundamentalists is perceived to have lessened. While prospects for growth in business travel to Egypt are good, the confidence of international investors in the country's economy is closely linked to the future development of tourism. The current development of hotels along the Red Sea is likely to attract a large and previously untapped tourist market to Egypt.

[3] Israel

The majority of tourists to Israel originate from Europe (approximately 60 percent) and North America (25 percent). Beside the negative impact of regional instability, Israel's penetration of source markets around the world has also been limited in the past by Israel's restricted global access and the relatively high cost of travel to and from the country. However, Israel's accessibility has improved significantly in the past two years, following El Al's inauguration of several Far Eastern routes—including Beijing, Bangkok (via Bombay) and Hong Kong—and the Israeli government's implementation of a new "open skies" policy in March 1994, which has brought about a widespread deregulation of the industry. Another important event was the June 1994 agreement between Israel and the Vatican to establish full diplomatic relations. This has resulted in a rapid increase in the number of Christian travelers visiting the numerous religious sites in Israel.

Jerusalem has always been the focal point of tourism in Israel. A recent Ministry of Tourism survey estimates that 91 percent of all tourists who come to Israel visit Jerusalem during the course of their stay. In order to meet the growing commercial and leisure demand, the local municipal and tourism authorities have plans to build an additional 10,000 hotel rooms in the city by the end of the decade.

Tel Aviv is the commercial and industrial heart of Israel. Today, the Tel Aviv "hotel strip" is a row of dated concrete high-rise properties that blight the scenic Mediterranean coastline. However, with several new international hotels in the planning and construction stages, existing hotels are preparing for the new competition. The new 550-room Inter-Continental Hotel, currently under construction and scheduled to open in 1997, represents the first new-build hotel in the city since 1981. Although there are several projects, including a Hyatt, in the planning stages, further additions to supply are likely to be constrained by the lack of available land and spiraling real estate values, which favor non-hotel development.

Eilat has been the site of most of the new hotel construction in Israel in recent years. Today, the resort has more than 5,500 hotel rooms, with a further 5,000 to 6,000 in the planning or construction stage. Eilat's real strengths as a resort are its short-haul proximity (a four- to five-hour flight) from the main tourism-generating countries in Europe and its guaranteed year-round sunshine.

Despite impressive growth in international visitors to Eilat in 1994, market occupancies have been hurt by the opening of several new hotels and an exodus of Israeli vacationers to Turkey, where prices are considerably cheaper. Although Eilat is presently the most developed resort on the Red Sea, it faces stiff competition from the rapidly growing and substantially cheaper Egyptian resorts of Sharm el Sheikh and Hurghada.

The increased interest in Israel as a tourist destination, coupled with the prospect of a lasting peace agreement, could significantly increase the number of leisure, religious, convention, and commercial visitors to the country.

[4] Jordan

The dramatic improvement in Jordanian-Israeli relations has already brought Amman economic dividends in the form of debt relief of approximately $900 million. The mini-boom that Jordan experienced after the Gulf crisis continued in 1994. However, the economy has more recently been constrained by the embargo on Iraq, which is one of Jordan's largest trading partners. The government has announced 121 infrastructure projects aimed at developing the domestic economy and fostering economic cooperation in the region. Special attention has been given to the development of the

Jordan Rift Valley, the creation of a free trade zone in Aqaba and Eilat, and the joint promotion of tourism in the region.

Political instability in the Middle East has historically denied the Jordanian tourism industry the chance to develop to its full potential. Since 1992, however, the number of tourist arrivals has grown rapidly, recording an increase of 15.4 percent in 1993 and 11.6 percent in 1994. Much of this has come from cross-border tourism with Israel. Tourism receipts accounted for $563 million in 1993, representing an 11 percent contribution to GDP. Visitors from Middle Eastern countries dominate the total number of international arrivals. However, when only leisure travelers are considered, tourists from Europe represent the largest market. For the past three years, Italy (28 percent) has been the largest feeder market, followed by the U.K. (17 percent) and Germany (16 percent).

Recently, plans for several hotels in Amman have been announced. Also, the city of Petra has drawn substantial interest from both local investors and international hotel companies and it is expected that, in the next two to three years, between 800 and 1,000 rooms will be added to the existing supply. Several other hotel projects at various planning stages are currently rumored along the Dead Sea and in Aqaba.

[5] Kuwait

Kuwait continues to attract a small number of commercial travelers and almost no leisure tourists. According to the WTO, there were only 73,000 arrivals in 1993. Kuwait has not actively encouraged tourism, although some hotels are attempting to promote weekend/short-break packages targeted at guests from neighboring Middle Eastern countries. In addition, commercial demand has not reached pre-invasion levels because of the continuing threat posed by Iraq. Nearly all visitors (81 percent) to Kuwait are from Middle Eastern countries. Despite the lack of new additions to the current stock of up-market hotels, the Kuwaiti hoteliers do not envisage growth in demand in the short-term.

ADRs in Kuwait City continue to be among the highest in the Middle East and North Africa and reached $175 in 1994 as a direct result of actions taken by the Kuwaiti Hotel Owners Association, which has set a minimum charge for up-market hotels. In 1995, this rate was reduced as the market was forced to become more competitive in order to attract business. However the results of such high average rates can be clearly seen in the occupancy levels. Business and government travelers represent more than 95 percent of total room night demand in the up-market hotels; the remaining 2 percent is generated from individual leisure travelers.

Despite the promotion of short breaks and weekend packages, the tourism segment is not expected to become a major source of demand for hotels in Kuwait City. Hotels are expected to continue to depend largely on government and business travelers for the vast majority of their business. Given the current low occupancy levels, no new up-market hotels are expected to enter the market.

[6] Lebanon

Prior to the civil war, Lebanon was known as the "Switzerland of the Middle East," attracting large volumes of both business and leisure travelers. The country offered a diverse range of tourist attractions, from skiing in the mountains to swimming in the Mediterranean. Today, Beirut remains the capital and the main economic, political, and social center of the country. The stock of hotels in Lebanon has been drastically reduced in comparison with pre–civil war levels. Today, the entire country has some 4,000 rooms, whereas in the 1970s, Beirut alone had 7,000 rooms.

Currently, there are only a few high-standard hotels operating in Beirut and, because of this, business travelers are forced to pay room rates well in excess of $125 for standard accommodation. These hotels achieve an occupancy of between 50 percent to 60 percent. Improvements in the overall transient accommodation are expected with the addition of new up-market hotel rooms as well as the reconstruction of damaged hotel properties.

Two tourism-related projects are being sponsored by the government: one is a leisure complex including a casino, a theater, and restaurant outlets; the other is a project for a 500-room hotel with a 1,000-seat conference center, likely to be operated by an international hotel company.

[7] Morocco

The tourism industry in Morocco generates more than $1.2 billion, more than 4 percent of the country's GDP in 1993. The major locations of tourism and business interest in Morocco are Rabat, Casablanca, and Marrakech. The capital, Rabat, has only a limited supply of hotels offering international standard accommodation. Casablanca, one of the largest hotel markets in Morocco, is the commercial and financial center of the country. Marrakech is considered to be Morocco's most developed and popular tourist destination; however, its up-market hotels are suffering from a degree of oversupply.

Morocco is expected to remain the leading country in terms of volume of tourists in the region, because of its wide variety of tourist attractions and strong commitment by its government toward the sector. The current privatization program represents a good opportunity for potential investors to gain a foothold in a lucrative market. The long-term challenge for Morocco will be to maintain its unique image and ADR in the face of ever-increasing competition.

[8] Oman

Tourism continues to represent a minimal portion of the national economy, accounting for 1 percent of GNP in 1993. The number of tourist arrivals to the Sultanate was 2 percent of the total number of tourist arrivals to the region in the same year. In contrast with the majority of other Gulf states, however, the largest proportion (approximately 30 percent) of visitors to Oman were from European countries, while arrivals from other Middle Eastern countries averaged only 13 percent per annum. Most of the international arrivals in Oman were business travelers. The government is actively involved in the promotion of the Sultanate's other tourism attractions, such as Nizwa, Rustaq, Mudarib Sur and Salah. It is expected that Oman will continue to attract only a small number of international visitors in the future, both for social reasons as well as the fact that the country's infrastructure is not capable of handling mass tourism at present.

The up-market hotel sector in Muscat has experienced an increase of nearly 10 occupancy points between 1993 and 1994, and a further 2 percentage points in 1995, while ADR has increased $9 in the last two years. The local up-market hotels are expected to see more competition as a result of the addition of the 250-room, five-star Hyatt hotel in 1995. Approximately 60 percent of the room nights in Muscat are generated by corporate and government-related travelers. The remainder is made up of airline crews (27 percent), leisure travelers (10 percent), and conference attendees (3 percent).

The Sultanate is making an effort to attract more leisure visitors both from other Middle Eastern countries and from Europe. However, the limited tourism infrastructure will prevent Oman from being able to handle large volumes of leisure travelers in the short term. Business travel related to the oil and gas industries is expected to remain the largest market for the local hotel industry.

[9] Palestinian Areas

Because of political and economic problems, demand for hotel accommodation is extremely limited from the commercial sector and nonexistent from the leisure sector. The supply of hotels in the Gaza Strip is limited to small lodging facilities, which account for a total of 92 rooms. Most of the government and commercial travelers are displaced to either Tel Aviv or Jerusalem. The existing hotels are generally outdated and do not provide facilities of an international standard.

It is envisaged that hotel demand in the Palestinian Areas will be dependent almost entirely on the redevelopment efforts in the area, at least in the short term. In fact, the numerous infrastructure projects planned for the area are expected to generate a considerable flow of travelers to the Gaza Strip and the West Bank. Reported published rates for double rooms in the local hotels range from $50 to $80. Plans are currently in place to start construction on the first international standard four- to five-star hotel in Gaza City. The 275-room hotel will be located approximately 2.5 kilometers from the city center and will be managed by Marriott Hotels.

[10] Qatar

In the past, the development of the tourism sector has not been a priority for the Qatari government, and, as a result, there is little official information on the contribution of tourism to the national income.

In 1993, an estimated 160,000 tourists arrived in Qatar, an increase of more than 13 percent compared to 1992. In 1994 it is estimated that 172,000 tourists visited Qatar. This represents less than 1 percent of the total number of international travelers visiting the Middle East and North Africa as a whole. Although the Qatari government has recently started attending international travel shows to attract tour operators to the country, future growth will revolve around business travelers, particularly those involved in the oil and gas industries.

The up-market hotels in Doha registered an occupancy of 75 percent in 1995, up from 61 percent in 1994, while the ADR increased by $3. The Doha area has had an increase in business travelers since the Gulf War, largely because of increased activities in the oil and gas industries. Approximately 70 percent of room nights in the up-market hotels were bought by business and government-related travelers, 20 percent by airline crews, and 10 percent by leisure visitors and conference attendees.

Although Qatar has not actively tried to attract leisure travelers in the past, it has recently started, albeit in a limited way, to encourage international tourists to some of its beach resorts. Sporting events are also expected to generate leisure tourism, specifically from Middle Eastern countries and other Arab states.

[11] Saudi Arabia

International tourism continues to be limited in Saudi Arabia, with strict visa requirements making it virtually impossible to visit the country for leisure purposes. There are very limited tourist statistics available, and only recently has some official data been published. However, the kingdom does attract a massive annual pilgrimage, being the keeper of the Islamic holy sites Mecca and Medina. In 1993, there were an estimated two million international arrivals, of which the majority were Muslim visitors to the holy sites.

Principal destinations remain the capital city, Riyadh, the commercial city, Jeddah, and the holy cities of Mecca and Medina. Jeddah is the financial and commercial center as well as the main leisure destination. Seven hotels currently under construction will be operated by international hotel chains.

Non-pilgrimage tourist demand in Saudi Arabia will continue to be dominated by business travelers. Saudi Arabia will also follow the Middle Eastern trend of attracting more intra-regional travelers.

[12] Syria

The tourism industry offers a small contribution to GDP, accounting for an estimated 2 percent of the national wealth and only 4.1 percent of total international tourist arrivals to the Middle East and North Africa in 1993. This limited contribution can be partly attributed to the government's lack of international tourism promotion. The country's political stance has also been a strong deterrent to investments in tourism, despite the abundance of unexploited archaeological and historical sites in the country. The poor tourist-related infrastructure, the limited supply of Western-standard hotels, and the country's historic isolation from the West have disinclined international tourists from visiting Syria.

Damascus remains the focus of any future growth in tourism. Over 70 percent of the estimated 700,000 visitors to Syria arrive from other Middle Eastern countries, while Europe, the second largest geographic market, represents only 15 percent of total tourists.

The supply of up-market hotels in Damascus is very small in comparison with other capital cities in the region. Despite the drop in occupancy rates from 1993 to 1994, occupancy totals in Damascus are still among the highest in the region, primarily because of limited competition.

Syria has tremendous potential for tourism development, having a diverse geography of deserts, mountains, and seashores rich in historical significance, and there is an increased level of interest among major international hotel chains in Damascus. However, a significant influx of international tourists will not occur until Syria is perceived to be a more open and inviting destination.

[13] Tunisia

Tourism is a growing sector of the economy, accounting for more than 7 percent of total GDP in 1993, despite Tunisia's proximity to troubled Algeria and isolated Libya. The tourism industry in Tunisia is concentrated on less than 100 kilometers of the country's 1,300 kilometers of coastline, with the major share of investment concentrated in the resort areas of Hammamet/Nabuel, Sousse/Monastir, and the island of Jerba. Germany is by far the largest feeder market, followed by France, the U.K. and Italy. Europe accounted for 55 percent and Africa 23 percent of total tourist arrivals in 1993. The continuing popularity of Tunisia as a tourism destination has spurred considerable investment in new hotel development, primarily along the coast.

Tunis and Hammamet are the major locations of tourism and business interest in Tunisia. Tunis has a limited supply of hotel rooms, dominated by Hilton, Meridien, and the domestic chain, Abou Nawas. Despite being the largest resort in Tunisia, Hammamet has only one property operated by an international hotel company, Sheraton.

The low occupancy levels achieved by hotels in Tunis and Hammamet in 1990 and 1991 were a direct result of the Gulf War. The business segment is the largest demand segment in Tunis (85 percent), with the balance made up by leisure groups and airline crews. In contrast, Hammamet hotels derive 85 percent of their demand from the tour operator market, and the balance from individual leisure travelers and incentive/conference business. ADR in Tunis hotels has stabilized at close to $60 since 1992. However, in Hammamet, a price war among local hotels and an increased supply of hotels has meant that ADRs have constantly dropped since 1992.

[14] United Arab Emirates

The United Arab Emirates (UAE) has experienced a greater amount of tourism development during the past three years than any other nation in the Arabian Peninsula. Although Abu Dhabi is both the wealthiest emirate and the capital of the UAE, Dubai has the larger tourism market, with three golf courses, a race track, and a marina. Arrivals to Dubai now account for more than 6 percent of total tourists in the Middle East and North Africa. Although visitors from Middle East countries still represent the majority of visitors to Dubai (37 percent including UAE nationals), the share of Europeans increased from 20 percent in 1992 to 27 percent in 1993. An estimated 71,000 tourists from the former Soviet Union visited Dubai in 1993 and, although considered tourists, many of them visited the emirate to take advantage of Dubai's low consumer prices.

The uplift in occupancy in up-market hotels in Abu Dhabi was moderated by recent supply increases. Despite an increase in room supply, Dubai hotels achieved one of the highest occupancies in the Middle East and North Africa in 1994, with 74 percent, up from just 70 percent in 1993. It is expected, however, that occupancy will remain relatively flat or decline slightly in both Dubai and Abu Dhabi during the next few years to absorb the new supply. In addition, increased competition will be generated by small residence hotels (sixty to eighty rooms) catering to extended-stay guests who normally stay in up-market full service hotels.

While the UAE will capture more visitors in the future, Dubai will continue to be the dominant market, attracting both business travelers and an increasing number of leisure tourists traveling on package holidays. Given the significant level of recent hotel construction, as well as the development of more hotels in both Dubai and Abu Dhabi, it remains to be seen whether demand will be able to keep up with supply.

[15] Yemen

The tourism contribution to the national economy in Yemen accounts for less than 0.3 percent of GDP. The number of visitor arrivals has remained stable between 1992 and 1993 and dropped in 1994 as a result of a civil war. European nationals are by far the largest portion of visitor arrivals, accounting for 64 percent of the total. With the government's recent focus on oil exploration, the vast majority of European travelers in Yemen are business travelers to Sana'a or Aden. The lack of tourism infrastructure and the unstable political environment means that significant volumes of leisure travelers are unlikely to visit the country in the near future. The presence of international hotel chains is very limited, with only Sheraton, Taj, and Movenpick currently represented. Holiday Inn will soon manage a 200-room hotel in Aden.

The lack of leisure tourist infrastructure, combined with the unstable political environment, will prevent Yemen from attracting many leisure tourists in the foreseeable future. Any growth in the number of visitors will continue to be generated primarily from commercial business travelers seeking opportunities in the country's growing oil and gas explorations.

¶ 22.06 ASIAN MARKETS VALUES

[1] Hotel Values 1993 to 1997

In general, the strong growth of the economies in Asia, prior to 1997, had a positive impact on the performance of hotels throughout the region. In many instances, occupancy levels continued to grow as demand outpaced new supply. At the same time, hotels are able to increase their rates, overall profitability and, subsequently, their asset values. This upward trend in most markets is clearly demonstrated by the increases in hotel values from 1993 to 1996 (see Exhibit 22-12 and Exhibit 22-13).

Exhibit 22-12 Asian HVI in US$ Ranked by Index in 1997

Source: HVS International

	1993	1994	1995	1996	1997
Hong Kong	1.620	1.989	2.616	2.861	2.221
Tokyo	2.769	2.484	2.603	2.300	1.984
Average	**1.000**	**1.114**	**1.265**	**1.298**	**1.158**
Singapore	1.113	1.298	1.626	1.463	1.134
Seoul	0.912	1.230	2.009	1.492	1.119
Mumbai	0.872	1.077	1.484	1.319	1.004
Shanghai	0.667	0.884	1.215	1.096	0.947
Beijing	0.599	0.816	1.142	0.973	0.789
Jakarta	0.912	0.880	1.009	0.973	0.778
Manila	0.482	0.530	0.644	0.890	0.778
Bali	0.434	0.539	0.612	0.655	0.599
Bangkok	.0792	0.892	1.174	0.960	0.578
Kuala Lumpur	0.828	0.743	1.119	0.989	0.477

Between 1993 and 1996, values throughout the region increased by 30% on average. Manila recorded the strongest increase at 80%, closely followed by Hong Kong at 72%. During the period, the only city to show a value decline was Tokyo (at minus 19%), reflecting Japan's prolonged recession.

In the middle of 1997, this strong performance was interrupted by the onset of turmoil in the Asian economies. Sharply declining occupancy levels and room rates caused hotel values to decline by 11% on average in 1997, Kuala Lumpur experienced the most significant drop of almost 45%, followed by Bangkok at 31%. With the exception of Bali and Manila, all other markets saw a decrease in hotel values during 1997.

By the end of 1997, only hotel values in Hong Kong, Tokyo, Singapore, and Seoul continued to remain above the Asian Average of around US$288,250 per room. This figure is only slightly above the Asian-wide average of US$277,0000 achieved in 1994, and is significantly below the Asian-wide average of US$314,000 achieved in 1995, indicating the severe impact of the economic turmoil on hotel values in Asia in 1997.

Exhibit 22-13 Hotel Values per Room in US$ Ranked by Value in 1997

Source: HVS International

	1993	1994	% Change	1995	% Change	1996	% Change	1997	% Change
Hong Kong	403,000	495,000	22.8%	573,000	15.8%	694,000	21.1%	619,000	−10.8%
Tokyo	689,000	618,000	−10.3	570,000	−7.8	558,000	−2.1	553,000	−0.9
Singapore	277,000	323,000	16.6	356,000	10.2	355,000	−0.3	316,000	−11.0
Seoul	227,000	306,000	34.8	440,000	43.8	362,000	−17.7	312,000	−13.8
Mumbai	217,000	268,000	23.5	325,000	21.3	320,000	−1.5	280,000	−12.5
Shanghai	166,000	220,000	32.5	266,000	20.9	266,000	0.0	264,000	−0.8
Beijing	149,000	203,000	36.2	250,000	23.2	236,000	−5.6	220,000	−6.8
Jakarta	227,000	219,000	−3.5	221,000	0.9	236,000	6.8	217,000	−8.1
Manila	120,000	132,000	10.0	141,000	6.8	216,000	53.2	217,000	0.5
Bali	108,000	134,000	24.1	134,000	0.0	159,000	18.7	167,000	5.0
Bangkok	197,000	222,000	12.7	257,000	15.8	233,000	−9.3	161,000	−30.9
Kuala Lumpur	206,000	185,000	−10.2	245,000	32.4	240,000	−2.0	133,000	−44.6

[2] Hotel Values 1998

More recent statistics show a further and more dramatic decrease in hotel values throughout the region during the first half of 1998. On average, values have declined by approximately 20%. All markets—with the exception of Seoul, Shanghai, Singapore, Manila, Mumbai, and Tokyo—have shown a decline in excess of 20 percent, with Hong Kong and Jakarta experiencing a decrease of greater than 40%. Bangkok is the only market in which hotel values have increased in 1998 (see Exhibit 22-14).

On average, hotel values have declined by approximately 27% since their peak (see Exhibit 22-15). Interestingly, in most markets, values peaked at the end of 1995 and started to decline before the economic crisis, primarily as a consequence of rising supply. The markets that have witnessed the greatest value declines are Kuala Lumpur (58%), Jakarta (48%), and Hong Kong (47%). Manila has only seen a decline of 7%.

While values have shown dramatic declines, to-date there is little or no evidence of sales occurring at these levels. Even prior to the economic crisis, very few significant sales of hotels occurred. Most activity was focused on new developments rather than the acquisition of existing properties. Partly as a consequence of ineffective bankruptcy laws, as well as the long-term view taken by most Asian investors, so far very few hotels have been offered for sale at realistic current values. HVS's analysis has shown that Asian hotels are currently trading at historically low values, but there are few true opportunities to actually capitalize on these depressed levels.

Exhibit 22-14 Value per Room Comparison in US$ (December 1997 and July 1998)

Source: HVS International

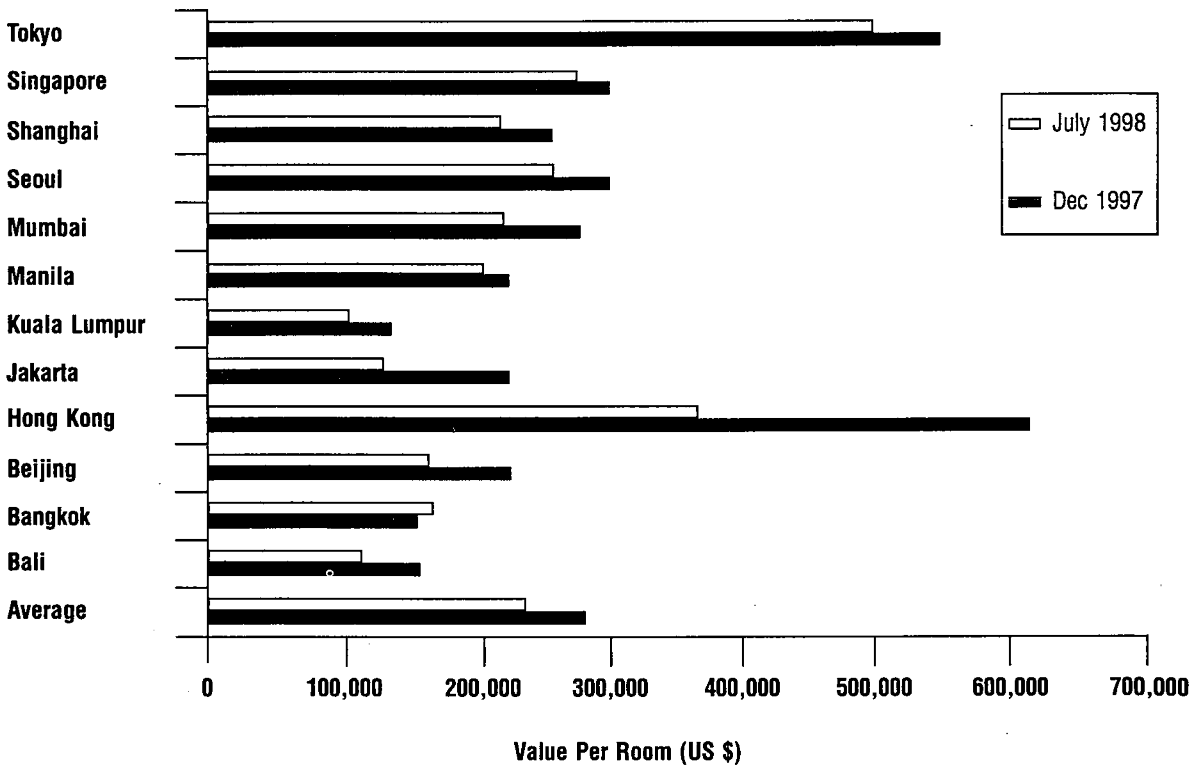
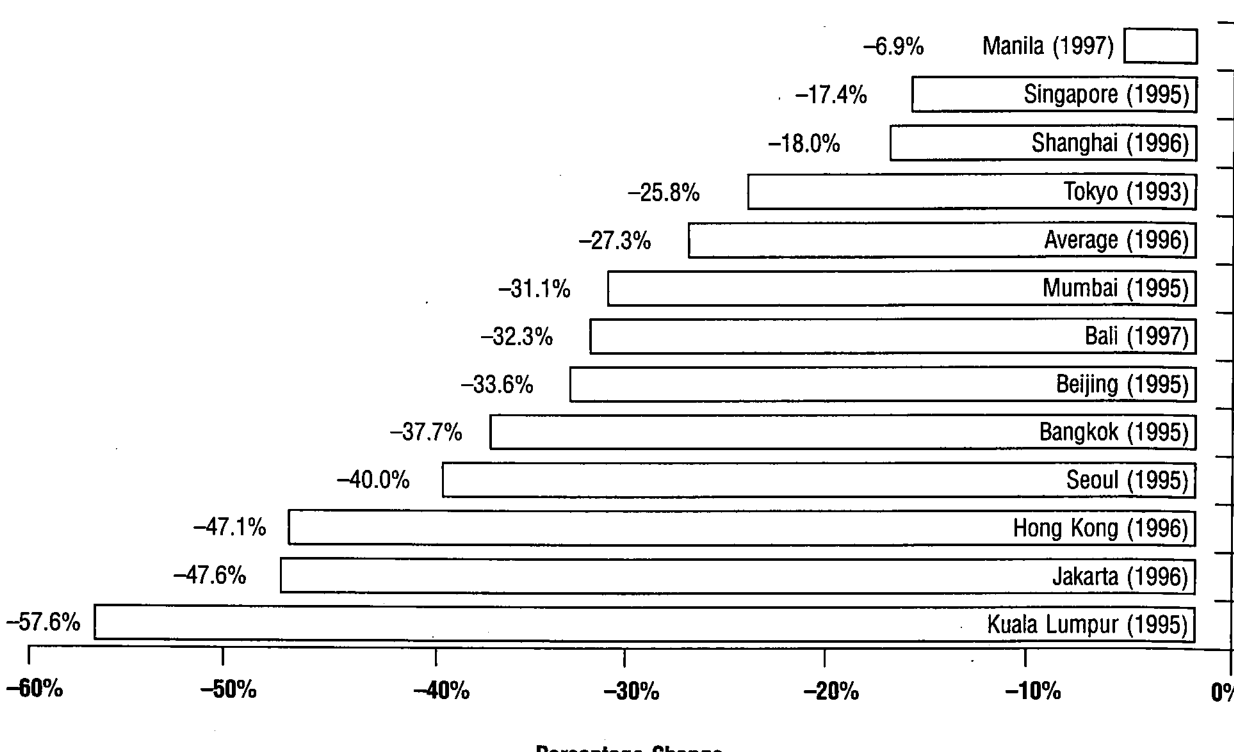


Exhibit 22-15 Percentage Change from Peak Value

Source: HVS International



¶ 22.07 THE ASIAN COUNTRIES

[1] JAKARTA AND BALI, INDONESIA

Although occupancies increased annually in Jakarta during the period 1993 to 1996, increased competition as a result of new supply limited increased in room rates, keeping room yields relatively stable. By the end of 1997, the economic crisis and the devaluation of the rupiah caused domestic social unrest and political riots in Jakarta and other parts of Indonesia, severely affecting both national and international demand. Hotel values dropped in 1997 after peaking in 1996.

As supply has remained relatively stable during the last four years, hotels in Bali have benefited from rising occupancy levels and average room rates. The combination of new supply and travelers' growing negative perceptions of Indonesia resulted in a drop in room yields during the first part of 1998.

After the stepping down of the former President Suharto in early 1998, the country accepted the IMF package to rescue the national banking system and economy. Among other plans, the government has introduced new legislation empowering banks to foreclosure more easily on defaulting borrowers, allowing transactions to take place more quickly than before.

Although the immediate economic outlook for Indonesia is improving in-line with the implementation of new laws and strengthening of the rupiah, hotel room yields are expected to increase only marginally, as new supply in both markets is likely to dilute any future demand growth. Hotel values are not expected to increase within the next 12 months.

[2] Hong Kong

Strong demand growth and significant annual occupancy and average room rate growth during 1994 to 1996. As a result, profitability increased and asset values peaked in 1996. The strong dependence of Hong Kong on travelers from other Asian countries was felt strongly as soon as the currencies of feeder markets were devalued during 1997, when hotel occupancies dropped by almost 10% and average room rates declined significantly.

Although occupancy levels have started to recover, average room rates are still far below the 1996 levels, making it unlikely that Hong Kong will see pre-crisis hotel values for some time.

[3] Beijing and Shanghai, PR of China

Although hotel values in Beijing and Shanghai peaked in 1996, average room rates and occupancy levels remained relatively stable during the period form 1995 to 1997. New supply only marginally affected occupancy and average room rate levels in both cities.

More recent statistics for both markets show a further decline in room yields, causing values to drop during the first part of 1998. The envisaged opening of new hotels, in combination with the persistent economic crisis in Asia, is expected to have a further negative effect on hotel values which are unlikely to reach 1996 levels within the foreseeable future.

[4] Kuala Lumpur, Malaysia

A two-month haze caused by the burning of land by Indonesian farmers, combined with new supply, the general economic downturn, and subsequent devaluation of the ringgit caused occupancy and average room rates to decline during the first seven months of 1998. New supply and the current political problems in Malaysia are expected to depress the performance of hotels further and a recovery of hotel values in the immediate future is unlikely.

[5] Mumbai, India

Hotel values in the five-star deluxe segment in Mumbai peaked in 1995 and have declined since. Although the average room rate continued to increase in 1996 and thereafter, as higher paying international business travelers replaced some domestic demand, hotel occupancies started to decline in 1996, mainly as a result of the slowdown in the domestic economy. With new supply envisaged to enter the market within the next five years, hotel values are not expected to reach 1995 levels within the immediate future.

[6] Seoul, South Korea

Hotel values in Seoul peaked in 1995 and fell by almost 18% in 1996, due to a substantial decline in occupancies and average room rates. This downturn was caused primarily by the instability of the Korean economy and, to some extent, by the opening of the Ritz Carlton Hotel in 1995. Although no new supply has been added to the market since 1995, domestic economic difficulties and the depreciation of the won caused a further deterioration in the performance of the local hotel market during the latter part of 1997.

Like Indonesia and Thailand, South Korea accepted a bailout program from the IMF in order to restructure the banking system and to improve the domestic economy. As no substantial new supply is envisaged to enter the market within the next 12 months, the performance of the existing hotels is expected to improve as soon as the economy starts to benefit from the IMF aid plan and the won regains strength. We expect hotel values to start to increase over the next 12 months. However, the market is vulnerable to the potential recession considering a number of previous postponed hotel projects.

[7] Tokyo, Japan

Unlike other Asian countries, Japan entered a recession in the early 1990s. Subsequently, hotel values have fluctuated in-line with the decline in room yields and net income. Tokyo hotel values achieved their highest level in the early 1990s and have declined every year since 1993.

As the Japanese economy depends on other Asian economies to a large extent, hotel values are not expected to increase within the foreseeable future. However, any improvement in the Japanese economy is likely to have a positive effect on hotel values as limited supply in envisaged to enter market.

[8] Singapore

A relatively stable supply of Singaporean hotels in the 'very large' (more than 601 rooms) hotel segment allowed occupancy and average room rate levels to increase annually during 1993 to 1996. After hotel values peaked in 1996, the 1997 general economic downturn in Asia and the dependence of Singapore on travelers from other Asian countries resulted in a decline in room yields, causing values to fall for the first time in 1997.

Although significant new supply is expected to enter the Singapore hotel market, this will be limited mainly to smaller or lower grade hotels. Nevertheless, the incidence of business travelers trading down to lower classified hotels is likely to affect the occupancy growth of the very large hotels. However, we expect the average room rate levels to be broadly maintained. Although we expect hotel values to increase slightly over the next 12 months, as more people start to travel to Singapore again, we consider that the increase will be modest.

[9] Manila, Philippines

Although occupancy levels started to fall in 1997 for the first time in several years, average room rates continued to grow as manila benefited from strong commercial demand and no new supply; hence, hotel values in greater Manila peaked in 1997

New room supply, further depreciation of the peso, together with the overall economic crisis in Asia are all expected to depress the performance of hotels in Manila further. Although we expect demand for hotel accommodation to increase, new supply is likely to dilute this demand growth. Therefore, we expect hotel values to fall slightly or to stabilize at current levels during the next 12 months.

[10] Bangkok, Thailand

Up until early 1996, little new supply allowed occupancy levels, average room rates and, subsequently, hotel values to increase year-on-year. Although average room rate levels continued to grow, the market-wide occupancy started to fall in 1996, mainly as a result of new supply, causing hotel values to drop for the first time during the 1990s.

The collapse of the Thai economy and the subsequent devaluation of the baht, together with the general downfall of Asian economies, cause occupancies and average room rates to decrease in Bangkok during the latter part of 1997 and early 1998. More recent statistics, however, show a marginal increase in visitation, hence occupancies and average room rates have increased slightly during the last few months. As only limited new supply is envisaged, and a further sterilization of the Thai economy and strengthening of the baht as a result of the IMF rescue package is anticipated, we expect hotel values to continue to increase within the next 12 months.