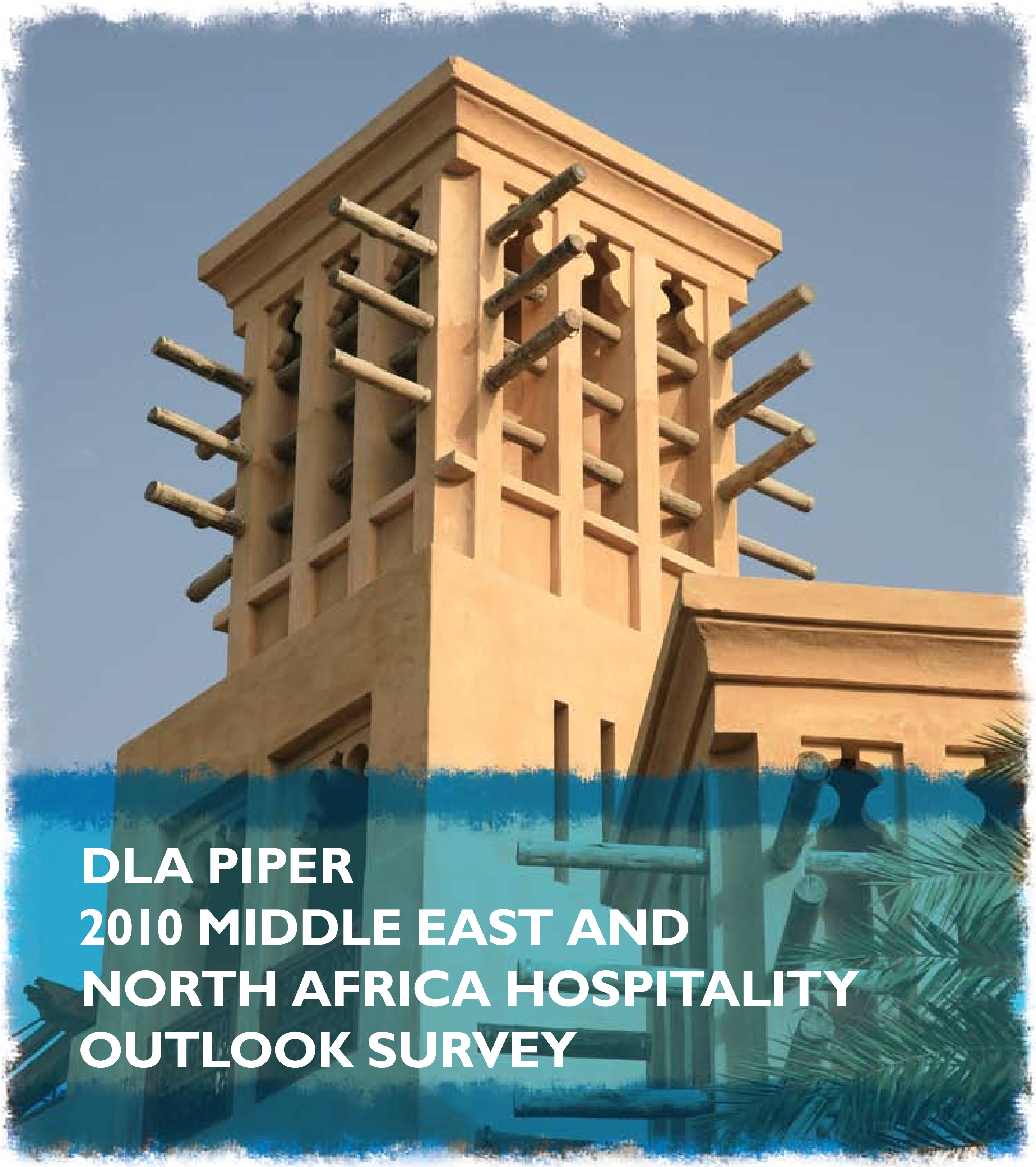

DLA PIPER
2010 MIDDLE EAST AND NORTH AFRICA HOSPITALITY OUTLOOK SURVEY

DLA PIPER

EVERYTHING MATTERS

FOREWORD

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Welcome to the first edition of our 2010 Middle East & North Africa Hospitality Outlook Report which has been derived from a survey which we conducted to over 120 top executives within the hospitality industry. Our report comes at a turning point for the industry, with the key question on everyone's minds being, 'Is the worst behind us?'.

It is clear from the responses to our survey that, cautious optimism is the principal theme for 2010 in the Middle East and that, hoteliers will need to work harder than ever to secure market share. Consumers have never had more choice across a wide range of sectors, from budget to luxury. Hotel guests now expect a memorable experience from their stay. Pricing packages need to be innovative, and having the right brand in the right location remains vital for medium to long term success, for owner and operator alike.

Tourism has acted as a driver for, and has been a beneficiary of, economic growth in the Middle East and North Africa over the last decade. This gave rise to an initial resilience in the region to the global economic downturn, although there was clear evidence of its impact during 2009. Room rates appear to have been hit hardest by the downturn, with major discounting taking place across the region during 2009. More than three quarters of the respondents to our survey cited this as having the single most significant impact on their business.

It is interesting to note that the attitudes of our respondents towards the hospitality industry in the region remain positive, with 76% describing their 12 month view as "bullish". In stark contrast, only 27% of respondents to our 2010 European Hospitality Outlook Survey and 32% of respondents to our US Hospitality Outlook Survey expressed bullish sentiment.

Notwithstanding this apparently bullish outlook, the respondents to our survey in the Middle East and North Africa, are not as optimistic about a full recovery until 2012 or later, a sentiment similar to that expressed by respondents to our European Hospitality Outlook 2010 report.

One thing is apparent – the road ahead will remain bumpy for the short term to medium and there are likely to be further changes to the hospitality landscape in the region. Continuous assessment of business plans should remain a top priority, in order to identify and capitalise on potential opportunities that the current market has to offer. Surviving, adapting and overcoming the difficulties presented by the global recession are key watchwords for 2010.

HIGHLIGHTS

MIDDLE EAST HOTELIERS PROVE TO BE THE STRONGEST

76% of respondents describe their 12-month outlook on the Middle East and North African hospitality industry as "bullish". This contrasts with the results of DLA Piper's equivalent 2010 surveys of the European and US hospitality sectors, in which only 27% (Europe) and 32% (US) of respondents expressed bullish sentiment.

THE HOT SPOTS FOR INVESTMENT OPPORTUNITIES

Focus stayed close to home, with the Middle East selected as offering the best opportunities, followed by North Africa and the UK in joint second place. The lack of interest in India and China is in marked contrast to the results of DLA Piper's US and European hospitality surveys, in which these two countries were amongst the top choices.

ROOM RATES FEEL THE PAIN

A decline in average room rates came across as the single most significant impact on business, selected by 87% of respondents. This impact seems to have been felt more keenly in the Middle East and North Africa than in Europe, where, although it was also identified as the most significant factor, it was only selected by 45% of respondents.

IS RECOVERY AROUND THE CORNER?

A sustained recovery is not expected until 2012 or later by 82% of participants. This sheds an interesting light on the bullish sentiment expressed in response to question 1, and indicates that such optimism may be mixed with caution.

BUDGET HOTELS SEE OPPORTUNITY IN THE MIDDLE EAST AND NORTH AFRICA

In common with the results of DLA Piper's European hospitality survey, the economy and mid-market sectors were identified as representing the most attractive opportunity for investors, by 63% of respondents. Of the Middle East-based respondents to the European survey, however, fewer than 50% concurred with this, which perhaps indicates that these opportunities are more attractive to the North African market.

LEISURE AND BUSINESS TRAVEL ON THE UP

Respondents tended to note a rise in both business travel (82%) and leisure travel (76%) over the last three months, which offers one explanation for the "bullish" attitude of the majority of respondents.

JOINT VENTURES – SOUND BUSINESS DECISION IN THE CURRENT MARKET?

An overwhelming majority of respondents (91%) consider that there will be increased opportunity for joint ventures in the Middle East and North African hospitality sectors. It appears from this that in an uncertain market investors are keen to spread the risk of new investments. Sharing of risks with a venture partner could be favourable for the "cautious" investor.

LARGE HOTEL CHAINS STILL MAKE THEIR MARK

Almost all participants (91%) predict that large hotel chains in the Middle East and North Africa will increase their market share in 2010. Large chains are also predicted to take a larger market share in Europe, according to the results of DLA Piper's European hospitality survey. It is worth noting in relation to this trend that commentators have identified branding as one of the key factors influencing consumer preference.

PROFESSIONAL ADVICE ON THE DECLINE

Industry associations appear to have fared the worst, with a slight majority of 48% indicating that they are now seeking considerably less advice from this source. Lawyers were the only group to emerge relatively unscathed, with 90% of respondents taking either about the same level of or considerably more legal advice than 12 months ago.

MIDDLE EAST HOTELIERS PROVE TO BE THE STRONGEST

76% of respondents describe their 12-month outlook on the Middle East and North African hospitality industry as "bullish".

1. HOW WOULD YOU DESCRIBE YOUR 12-MONTH OUTLOOK ON THE MIDDLE EAST AND NORTH AFRICA HOSPITALITY INDUSTRY?

76% of respondents describe their 12-month outlook on the Middle East and North African hospitality industry as "bullish". This contrasts markedly with the results of DLA Piper's equivalent 2010 surveys of the European and US hospitality sectors, in which only 27% (Europe) and 32% (US) of respondents expressed bullish sentiment.

Since 2000, the Middle East has been recognised as one of the fastest growing travel and tourist destinations in the world, particularly Dubai. The growth in tourism in recent years saw the hotel and hospitality industry enjoying a booming business as hoteliers and restaurateurs capitalised on this expansion.

The accelerated transformation, since 2000, of the Middle East could be a key reason for the bullish sentiment currently expressed by respondents. There has been massive investment over recent years in hotels, tourist attractions, infrastructure and market image. Commentator's have suggested that the pace of this relatively recent development could result in the downturn in the Middle East and North Africa being relatively short-lived, particularly as a result of continued investment by governments and private investors in the region.

Other fundamentals that could have a positive impact on the Middle East market over those of European countries and the US could be linked to the regions geographical positioning. Its location between Europe and Asia gives it a competitive advantage when it comes to attracting travellers, appealing to a wide variety of visitors (both holidaymakers and corporate visitors).

Response per cent

	Middle East/North Africa	US	European
Bearish	24%	68%	54%
Bullish	76%	32%	27%
None of the above/Do not know			19%

20% 40% 60% 80% 100%

2. IF YOU RESPONDED "BULLISH" TO Q1, WHAT IS THE PRIMARY REASON FOR YOUR CONFIDENCE?

The recovery of Middle East and North African economies was the reason selected by the majority of "bullish" respondents (40%) as being the primary cause for optimism. This was closely followed by foreign investment in Middle East and North African markets (32%). Notably, only 11% see investment opportunities created by the financial crisis as their primary reason for confidence, unlike their European counterparts, for whom this was the most frequently cited response.

3. IF YOU RESPONDED "BEARISH" TO Q1, WHAT IS THE PRIMARY REASON FOR YOUR LACK OF CONFIDENCE?

The repercussions of the 2008 banking crisis are clearly being felt amongst those participants describing their outlook as "bearish", with 24% citing lack of liquidity as the primary reason for their lack of confidence. Despite the confidence of "bullish" respondents that the recovery of the Middle East and North African economies will result in a favourable outlook, there is clearly also concern about the impact of economic conditions outside the region, with struggling European economies selected as the primary cause for pessimism by 18% of those with a bearish view.

A review of the last two years clearly indicates that, by the middle of 2008, the global economic downturn was well underway, holding annual economic growth at 3% in the Middle East. This dropped further to below 2% during 2009 and the United Nations World Tourism Organisation (UNWTO) expects a further drop during 2010. Although, the Middle East countries were able to repel the difficulties experienced initially by European countries, the effect of the global economic downturn soon took hold resulting in some heavy discounting of room rates, particularly in Dubai during 2009.

The consequences of the 2008 banking crisis are clearly being felt amongst those participants describing their outlook as "bearish".

THE HOT SPOTS FOR INVESTMENT OPPORTUNITIES

4. WHICH GEOGRAPHIC MARKETS REPRESENT THE BEST OPPORTUNITY FOR SIGNIFICANT GROWTH FOR YOUR BUSINESS OVER THE NEXT THREE YEARS? (MULTIPLE RESPONSES PERMITTED)

Focus stayed close to home, with the Middle East selected as offering the best opportunities, followed by North Africa and the UK in joint second place. The lack of interest in India and China is in marked contrast to the results of DLA Piper's US and European hospitality surveys, in which these two countries were amongst the top choices.

This suggests that the Middle East and North Africa look to their own countries as a source of investment growth and also judge their outlook for the industry predominately on the basis of their own region rather than considering the state of the hospitality industry in European countries or the US.

Frequency

	Middle East/North Africa	European
Middle East/ Gulf States	81%	20%
North Africa	56%	0
UK	56%	40%
Southern Africa	46%	0
Germany	41%	23%
France	35%	15%
Russia	29%	27%
Spain	23%	8%
Other Western Europe	11%	16%
Central and Eastern Europe	11%	22%
South America	7%	24%
North America	3%	13%
China	3%	28%
SE Asia	3%	14%
India	3%	24%
Other Asia	1%	8%
Australasia	1%	4%
Caribbean	1%	3%

20% 40% 60% 80% 100% 20% 40% 60% 80% 100%

ROOM RATES FEEL THE PAIN

5. IN WHICH OF THE FOLLOWING WAYS HAS THE ECONOMIC DOWNTURN HAD AN IMPACT ON YOUR BUSINESS? (MULTIPLE RESPONSES PERMITTED)

A decline in average room rates came across as the single most significant impact on business, selected by 87% of respondents. This impact seems to have been felt more keenly in the Middle East and North Africa than in Europe, where, although it was also identified as the most significant factor, it was selected by only 45% of respondents.

The Middle East, particularly Dubai, has been widely recognised in recent years as one of the strongest regions for average room rates. This also coincided with occupancy levels, with statistics showing that during 2008, levels of occupancy stood at 84% on average for the year. This strong position led to a sense of confidence amongst hoteliers, many at the time feeling ideally situated in one of the most popular places for tourism in the world.

However, the landscape was soon to change and by the latter part of 2008 hoteliers were forced to consider discounted room rates in order to continue to attract travellers. In fact, 2009 statistics show that in Dubai room rates were reduced by as much as 40 to 60%.

"Price" soon became a buzzword in the consumer's decision making process with their choice of accommodation and destination based almost purely on value for money. However, general expectations in terms of service delivery and quality remained unchanged with customers still expecting the high standards experienced in previous years, but at a significantly discounted cost.

The lower room rates across the Middle East and North Africa have hit the market hard during 2009 and 2010 resulting in projects for new hotel build activity being either significantly delayed or even cancelled as finance to fund these projects is no longer available.

Despite these current conditions, optimism is still very apparent from respondents possibly due to the factors highlighted earlier. Commentators in the hospitality industry have remarked that geographic location will become increasingly important in this challenging competitive environment, and hotels with a prime location will be able to be more price-resistant.

Frequency

	Middle East/North Africa	European
A decline in average room rates	87%	45%
Debtors are taking longer to pay and/or bad debts have increased	47%	25%
The bank has reduced or re-priced its facilities	47%	20%
A decline in occupancy levels	37%	37%
We have reduced operating costs	36%	42%
Margins are being squeezed	36%	39%
We are relying on creditors to extend their terms	36%	5%
Reduced or defined capital expenditure	13%	27%
The downturn has provided my business with an opportunity to grown and expand	1%	20%
There has been no noticeable impact on my business	0	5%

20% 40% 60% 80% 100% | 20% 40% 60% 80% 100%

IS RECOVERY AROUND THE CORNER?

6. WHEN DO YOU THINK THE HOSPITALITY INDUSTRY IN THE MIDDLE EAST AND NORTH AFRICA WILL SHOW A SUSTAINED RECOVERY?

A sustained recovery is not expected until 2012 or later by 82% of participants. This sheds an interesting light on the bullish sentiment expressed in response to question 1, and indicates that such optimism may be mixed with a degree of caution.

This is very much aligned with the DLA Piper European hospitality survey, in which only 2% of respondents expect a sustained recovery this year, compared with 39% who in our 2009 European survey predicted 2010 would be a year for growth.

It suggests that 2010 could be a year for caution and conservatism and that, although the Middle East and North African markets feel there will be recovery, it might not be as soon as first suggested.

Response per cent

	Middle East/North Africa	European
2010	3%	2%
2011	15%	54%
2012	51%	32%
After 2012	31%	11%
None of the above/do not know		1%

BUDGET HOTELS SEE OPPORTUNITY IN THE MIDDLE EAST AND NORTH AFRICA

7. WHICH SECTOR OF THE HOSPITALITY INDUSTRY REPRESENTS THE MOST ATTRACTIVE OPPORTUNITY FOR INVESTORS IN THE MIDDLE EAST AND NORTH AFRICA IN THE NEXT 12 MONTHS?

In common with the results of DLA Piper's European hospitality survey, the economy and mid-market sectors were identified as representing the most attractive opportunity for investors, with a total of 63% of respondents selecting these sectors. Of the Middle East-based respondents to our European survey, however, fewer than 50% agreed with this, which perhaps indicates that these opportunities are more attractive to the North African market.

As a result of the downturn, the Middle East and North African tourism industry has recognised that in order to attract more tourists to the regions, hotel operators in particular will need to diversify their offerings to appeal to a wider type of traveller.

The United Arab Emirates has set an ambitious targets of attracting 15 million tourists a year by 2015, but commentators in the industry fear that maintaining such figures in this climate will be increasingly hard unless further consideration is given to offerings in the budget and mid-market sectors. This will certainly be quite a change in approach, especially as Dubai in particular has been very well known as a glamorous holiday destination with numerous luxury five-star hotels on offer.

Certain major hotel operators have already been pushing heavily for mid-level and budget options (and some were developing these prior to the economic downturn) as they consider the potential investment opportunities this could offer them. This could be a time for operators to perhaps reassess their approach to their portfolio make-up and respond to revised customer requirements.

Response per cent

	Middle East/North Africa	European	US
Economy/Budget	37%	35%	3%
Mid-Market	27%	33%	28%
Luxury	14%	10%	19%
Upmarket	11%	8%	39%
Resorts	7%	4%	8%
Mixed-Use/Branded Residential	4%	4%	3%
Eco/Green Sector	0	6%	N/A

20% 40% 60% 80% 100% 20% 40% 60% 80% 100% 20% 40% 60% 80% 100%

LEISURE AND BUSINESS TRAVEL ON THE UP

Despite current conditions the Middle East is in a relatively strong position being very well connected to Europe and Asia.

8. IN THE LAST THREE MONTHS HAVE YOU SEEN AN INCREASE IN ANY OF THE FOLLOWING; FINANCE, BUSINESS TRAVEL, LEISURE TRAVEL?

Respondents tended to note a rise in both business travel (82%) and leisure travel (76%) over the last three months, which offers one explanation for the "bullish" attitude of the majority of respondents.

Despite current economic conditions, the Middle East is in a relatively strong position being very well connected to Europe and Asia with ever-expanding airport hubs and recent increases in flight frequencies. This factor, along with the year-round sunshine, could sustain increases in leisure demand especially with the current discounted room rates on offer.

In contrast with European countries, the Middle East and North Africa are contining to expand their flight routes, Emirates, Qatar Airways, Etihad Airways, Air Arabia and Flydubai are all offering new route options. This offers travellers greater choice, which will always intensify competition, particularly when people are travelling for business.

Frequency

		Middle East/North Africa	European
Business Travel	Significant increase	8%	2%
	Slight increase	82%	36%
	No change	8%	23%
	Slight decrease	1%	18%
	Significant decrease	1%	13%
	None of the above	0	7%
Leisure Travel	Significant increase	10%	3%
	Slight increase	76%	31%
	No change	9%	32%
	Slight decrease	3%	18%
	Significant decrease	1%	8%
	None of the above	0	8%

20% 40% 60% 80% 100% | 20% 40% 60% 80% 100%

JOINT VENTURES – SOUND BUSINESS DECISION IN THE CURRENT MARKET?

An overwhelming majority of respondents (91%) consider that there will be increased opportunity for joint ventures in the Middle East and North African hospitality sector.

9. DO YOU THINK THAT THE HOSPITALITY SECTOR IN THE MIDDLE EAST AND NORTH AFRICA WILL OFFER INCREASED OPPORTUNITIES FOR JOINT VENTURES?

An overwhelming majority of respondents (91%) consider that there will be increased opportunity for joint ventures in the Middle East and North African hospitality sector. It appears from this that in an uncertain market investors are keen to spread the risk of new investments and, in a region where local laws often require a "local" shareholder, joint ventures, in certain circumstances, may offer an international investor a structure through which to invest. Sharing of risk with a venture partner could be favourable for the cautious investor.

Response per cent

	Middle East/North Africa	European
Yes	91%	73%
No	8%	12%
Don't know	1%	15%

LARGE HOTEL CHAINS STILL MAKE THEIR MARK

10. DO YOU THINK LARGE HOTEL CHAINS IN THE MIDDLE EAST AND NORTH AFRICA WILL INCREASE THEIR MARKET SHARE IN 2010?

Almost all participants (91%) predict that large hotel chains in the Middle East and North Africa will increase their market share in 2010. Large chains are also predicted to take a larger market share in Europe, according to the results of DLA Piper's European hospitality survey. It is worth noting in relation to this trend that commentators have identified branding as one of the key factors influencing consumer preference.

Branding has long been held as the most important value driver in consumer business, and at the present time is receiving the industry's full attention. Changes in customer lifestyle expectations, which demand "experiences" during a hotel stay, will result in brand choice being the leading factor in the future of the hotel industry.

Response per cent

	Middle East/North Africa	European
Yes	91%	73%
No	9%	12%
Don't know	0	15%

PROFESSIONAL ADVICE ON THE DECLINE

11. ARE YOU TAKING MORE OR LESS EXTERNAL ADVICE AND GUIDANCE THAN 12 MONTHS AGO FROM LAWYERS, BANKERS, NON EXECUTIVE DIRECTORS, ACCOUNTANTS OR INDUSTRY ASSOCIATES?

Responses were divided as to the levels of external advice currently taken in comparison to last year's levels, and therefore few clear trends emerge. A slight majority indicated that they were taking about the same level of advice from bankers, non-executive directors and accountants: a comparable percentage, however, indicated that they are now taking considerably less advice from these professionals. Industry associations appear to have fared the worst, with a slight majority of 48% indicating that they are now seeking considerably less advice from this source. Lawyers were the only group to emerge relatively unscathed, with 90% of respondents taking either about the same level of, or considerably more, legal advice than 12 months ago.

Frequency

		Middle East/North Africa	European
Lawyers	Noticeably more	28%	19%
	About the same	62%	45%
	Considerably less	10%	12%
	Not applicable	1%	25%
Bankers	Noticeably more	8%	20%
	About the same	46%	30%
	Considerably less	45%	33%
	Not applicable	1%	18%
Non-Executive Directors	Noticeably more	7%	24%
	About the same	49%	23%
	Considerably less	43%	12%
	Not applicable	1%	42%
Accountants	Noticeably more	7%	29%
	About the same	48%	34%
	Considerably less	44%	15%
	Not applicable	1%	22%
Industry Associations	Noticeably more	6%	16%
	About the same	46%	42%
	Considerably less	48%	14%
	Not applicable	1%	28%

20% 40% 60% 80% 100% 20% 40% 60% 80% 100%

METHODOLOGY

In April 2010, DLA Piper (in conjunction with Bench Events) distributed a survey via email to top executives within the hospitality industry, including CEOs, COOs and CFOs and other senior executives, which was completed by 120 respondents.

Question No.2 was only made available to those respondents who described themselves as “bullish” in Question No.1.

Question No.3 was only made available to those respondents who described themselves as “bearish” in Question No.1.

Owing to rounding up all percentages used in all questions may not add up to 100 per cent.

with thanks to Jonathan Worsley,
CEO of Bench Events.

bench
EVENTS

ABOUT US

From the quality of our legal advice and business insight to the efficiency of our legal teams, we believe that when it comes to the way we serve and interact with our clients, everything matters.

DLA Piper is an international legal practice with lawyers across Asia, Europe, the Middle East and the United States.

FOR MORE INFORMATION

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