Deloitte.

Summer 2008

Hospitality Vision

Middle East Performance Review

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Hospitality Vision
Middle East Performance Review

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Content

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Designed and produced by The Creative Studio at Deloitte, London.

Standing fit

While the US and Europe shiver through the credit crunch, and many countries face the prospect of falling asset prices but rising commodity costs including energy and food, the sun is still shining on the world's travel and tourism industry.

Despite the financial turmoil of the past months, tourism is thriving and – according to the World Travel & Tourism Council (WTTC) – is expected to generate some US$8 trillion during 2008. There will be years of growth ahead in the emerging markets of India and China, but the big success story today remains in the Middle East.

In 2007, the region had the largest increase in visitor numbers in the world – up 13% – with Saudi Arabia enjoying one of the best growth rates across the Middle East, at almost 51%.

The region had the largest rise in air passengers in 2007, and is spending around US$43 billion improving its airports. Its hotel business grew faster than any other region, apart from Central and South America, with revenue per available room (revPAR) up 17%.

There has been exceptionally strong growth in markets like Egypt and Jordan, which have lagged behind in recent years; while Oman, offering a more cultured experience than the year-round 'suntan with shopping' of some destinations in the Gulf, saw a massive rise in revPAR, up by more than 50%.

Rob O'Hanlon, Tourism, Hospitality and Leisure Partner for Deloitte Middle East, reports on the latest conditions and challenges in a special feature on Oman on page 12.

Across the region, cranes still dominate the skyline, with hotel brands expanding their property portfolios at a ferocious speed. In Dubai, around US$14.3 billion will be spent in the next five years on tourism infrastructure, such as roads, a metro system and a water taxi scheme, while the tallest building on earth – the Burj Dubai – just gets taller.

So far in 2008, the region's hotels are enjoying some of the world's highest occupancy figures, strongest revPAR and best average room rates, and with predictions that international visitor numbers here will grow between 6–10% in 2008, compared to a global rate of 3-4%, there seem to be few clouds to spoil the region's sunny outlook.

In this edition of Hospitality Vision – the Middle East Performance Review – we look at the numbers in detail and consider the challenges facing hoteliers in this transformed region.

Rose Rotana, Dubai
The world's tallest all-suites hotel

Source: Rotana Hotel Management Corporation Ltd.

Highlights...

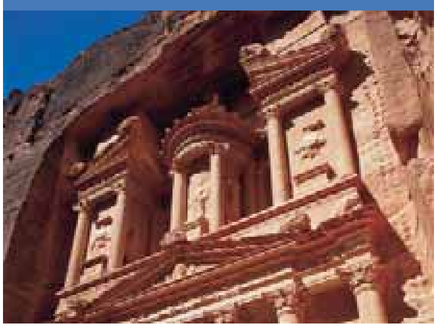
Most economic and tourism indicators are showing that 2008 will be a slower year but the Middle East is demonstrating incredible resilience to world-wide market conditions.

Central and South America continues to achieve the fastest growing revPAR at 20.6% but the Middle East is closing in on their lead achieving 19.4% growth, during the first quarter of 2008.

Dubai hangs onto its title as top revPAR earner at US$315. Both occupancy and average room rates were impressive in absolute terms, at 88.6% and US$356 respectively.

The Airbus A380 will arrive in the Middle East in the autumn of 2008 when Emirates flies the super-jumbo aircraft to New York.

Exceptionally strong revPAR growth is being witnessed in markets that traditionally achieved much lower absolute levels of revPAR such as Egypt and Jordan.



Airport expansion and development worth US$43 billion is now underway in the Gulf. Tourism infrastructure and hotels continue to be built at a ferocious speed and a growing number of hotel brands are making their mark throughout the region.

The WTTC reports that despite the US credit crisis and higher fuel costs, the tourism industry will experience healthy growth rates and generate US$8 trillion worth of economic activity in 2008 driven by strong increases in the Middle East, India and China.

2008 will see the completion of several projects that have been in the pipeline for years such as the world's tallest building – the Burj Dubai.

The Middle East now has the highest absolute occupancy and average room rates in the world at 74.3% and US$181.

In 2007 the Middle East had the world's fastest growing air traffic – up more than 18% and the world's fastest growing tourist arrivals – up 13%, knocking Asia Pacific into second place.

Destinations that have experienced a recent increase in room supply such as Dubai and Doha have generally experienced small drops in occupancy during the first quarter of 2008 while average room rates drive revPAR growth into positive territory.

"The aviation industry is responding to the surge in tourist arrivals by strengthening existing connections and introducing new routes, giving access to an increasing number of source markets. Several low cost carriers have recently expanded and entered into the market making it easier to travel locally."

Escaping the

Leading economic indicators suggest that the Middle East will be largely unharmed by one of most dramatic economic downturns since the dot-com bubble burst.

In 2008, the credit crisis that began in the US has extended across Europe, and many global economies are now sharing the same financial instability.

According to the Economist Intelligence Unit (EIU), world gross domestic product (GDP) growth is expected to slow to 2.6%, down from 3.7% in 2007.

However, in the Middle East and North Africa (MENA), GDP is forecast to grow by 6.1% during the same time frame, suggesting that the Middle East will be largely unharmed by one of most dramatic economic downturns since the dot-com bubble burst.

As seen in table 1, the EIU predicts that economies across the Middle East – with the exception of Lebanon – will grow much faster than the rest of the world. Oil and gas-rich Qatar will see the best figures – up 11.7% in 2008 and 13.3% in 2009.

Last year, tourism contributed 2.4% to the Middle East's GDP. This will strengthen as many countries, particularly Bahrain and Saudi Arabia, reduce their dependency on revenue from oil. Bahrain, for example, has a target for tourism to increase to 10% of GDP by 2014, up from around 7% a couple of years ago.

Saudi Arabia's GDP is expected to rise 6.0% in 2008 – almost double the previous year's figures – and according to the WTTC, Tourism Satellite Accounting (TSA) Research 2007, tourism contributes over 8% to the economy. Massive investment in tourism development and infrastructure here could create around 2m jobs by 2020.

Jordan, where oil reserves are low and unemployment is at more than 13%, is increasingly reliant on tourism, which is already the country's largest export earner.

> "Massive investment in tourism development and infrastructure in Saudi Arabia could create around 2m jobs by 2020."

It is the second-largest private sector employer and second highest producer of foreign exchange and already contributes 10% to the country's GDP.

chill

Table 1 – GDP Growth 2007 – 2009

	2007	2008(f)	2009(f)
World	3.7	2.6	2.9
MENA	5.4	6.1	6.0
Bahrain	7.0	6.8	6.3
Egypt	7.1	7.0	6.8
Iran	5.4	5.2	4.9
Iraq	5.9	6.2	6.5
Israel	5.3	3.5	3.9
Jordan	5.7	4.8	5.1
Kuwait	6.9	8.3	5.7
Lebanon	3.6	2.1	2.8
Morocco	2.0	5.3	5.5
Oman	5.3	5.1	5.2
Qatar	8.4	11.7	13.3
Saudi Arabia	3.5	6.0	5.6
Sudan	11.8	7.5	8.8
Syria	6.0	4.1	4.1
Tunisia	6.3	5.2	5.6
United Arab Emirates	7.5	8.2	8.3
Yemen	2.8	2.7	5.8

Source: Economist Intelligence Unit 2008
(f) forecast

"The initial attraction for many expatriate workers from South Asia was the amount of cash they could send back to their families, but this is diminishing as the dollar weakens."

"Middle East and North Africa's GDP is forecast to grow by 6.1%."

There are, however, several obstacles that need to be overcome, such as inflation, pressures on wages and shortage of resources, including people and building materials. With so much construction underway, materials are more in demand and becoming more expensive, which is driving up overall building costs. These are estimated by the EIU to have risen by around 30% in the past 12 months.

It's also becoming harder to find workers – for two reasons. First, many of the Gulf's currencies are pegged against the US dollar, and the exchange rates are now less favourable against the Indian rupee, for instance, as India is a signficant source of migrant workers. The initial attraction for many expatriate workers from South Asia was the amount of cash they could send back to their families, but this is diminishing as the dollar weakens. Second, there is the pull of construction jobs nearer to home, especially India, which has its own ambitious hotel development plans.

Even with these pressures though, the WTTC still expects revenue from worldwide tourism to almost double in ten years to US$15 trillion.

The figures that count

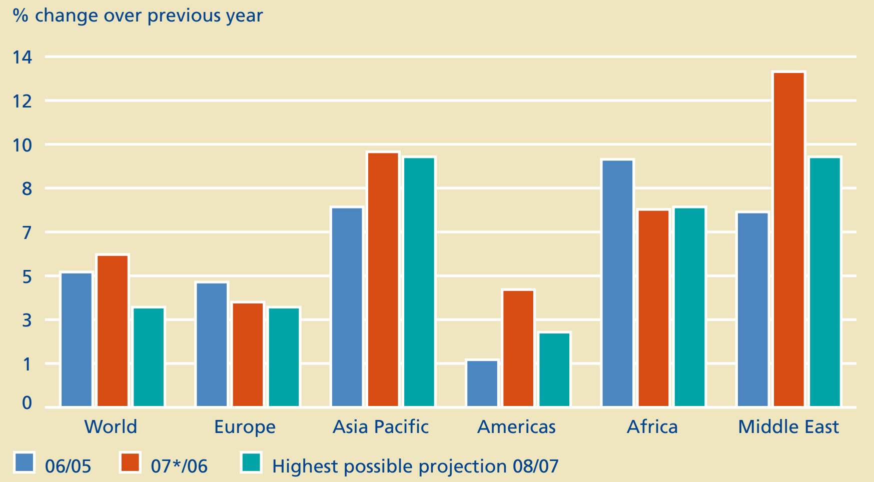
More people than ever are travelling to the Middle East – the region is enjoying the fastest growing air traffic and tourist arrivals in the world.

According to the World Tourism Organisation (UNWTO) a record number of tourists – almost 900m – crossed international borders last year, up 52m year-on-year. Around 5m more people visited the Middle East, up 13% from the 46m who travelled to the region in 2006.

As seen in graph 1, the Middle East took the top spot from Asia Pacific, which had 185m visitors, up 10%. Africa's tourist arrivals were up 8% to 44m, while the more mature markets of the Americas and Europe grew 5% and 4% respectively.

As noted in the introduction to this review, while the UNWTO expects international tourist numbers to slow to around 3-4% worldwide this year, due to a harsher economy, the Middle East is looking at around 6-10%.

Graph 1 – Percentage change in international tourist arrivals 2006 and 2007



* provisional
Source: World Tourism Organisation

Fastest growing air traffic

Most international tourists arrive by air, so the region's airlines are doing great business. According to the International Air Transport Association (IATA), air traffic here was up by more than 18% in 2007. This was the fourth year of double-digit growth and makes the Middle East the fastest growing region in the world for air travel. In the first three months of 2008, passenger traffic was up 14.3%; more than double the industry average of 6.6%.

The Middle East is becoming an increasingly attractive choice of destination, not just for tourists, but also to big business. For instance, more than a quarter of Fortune 500 firms now have a base in Dubai, leading to a strong demand for hotel rooms from the corporate sector.

> "More world-class sports fixtures are being held in the region, including the Formula 1™ Etihad Airways Abu Dhabi Grand Prix, starting in 2009."

The emirate is also becoming a magnet for the lucrative Meetings, Incentives, Conference and Exhibitions (MICE) market, with more than 100 major international exhibitions being staged here.

More world-class sports fixtures are also being held in the region, including the Formula 1™ Etihad Airways Abu Dhabi Grand Prix, starting in 2009, with a contract that is renewable for seven years. The race will be staged on Abu Dhabi's Yas Island – a mixed use development of hotels, theme parks, retail, restaurants, residential space, a polo club and marinas. If it replicates the same success as the Bahrain Grand Prix, which attracted over 90,000 last year, it will become a major draw in the Middle East.

Low cost – high growth

Low cost carriers are contributing substantially to the amount of travel in the region. Air Arabia, one of the original players, passed the 5m passenger mark last August, having only launched the airline four years ago. With high demand from both tourists and expatriate workers and a shortage of low cost seats, the market is an attractive one, and we expect more low cost carriers to move in.

Bahrain Air's inaugural flight took off in February 2008 and routes to Amman, Damascus, Beirut, Dubai, Doha and Mashad followed. There are also plans to expand to Kuwait, Alexandria and Dhaka. Emirates Group is also setting up a low cost carrier based in Dubai within a year, reportedly covering destinations that can be reached within four and-a-half hours.

As new airlines enter the market, existing carriers have been extending their international reach. Late last year, Saudi Arabia's Sama airline, which previously flew only within Saudi Arabia, launched charter flights to Abu Dhabi, Sharjah, Damascus, Latakia and Amman. Kuwait-based Jazeera Airways also expanded its route map and will add Kuwait to Istanbul flights this year. The airline signalled its strategy for growth by placing an order for 30 Airbus A320 aircraft at the 2007 Paris Air show.

Collaborative strategies

The Middle East's major airlines have also been expanding, with Etihad Airways introducing nine routes in 2007, and then adding Beijing, Calicut, Moscow, Almaty and Minsk to its destination list. The airline is also increasing flight frequency this summer – up 47% year-on-year.

The company, owned by the Abu Dhabi government, is also entering strategic agreements with other airlines. In late 2007, it agreed to permit Australia's Virgin Blue passengers travel on Etihad to Sydney or Brisbane and connect to 22 Australian cities via Virgin Blue.

Emirates, meanwhile, celebrated its 100th destination when it touched down in Cape Town in March. It plans to fly to Calicut, Los Angeles, San Francisco, Durban and Guangzhou later this year, while increasing capacity on several other routes, including New Delhi, Ahmedabad, Milan, Rome, Tunis, Tripoli, Houston and Nice.

With 58 A380s on order, Emirates will have the largest fleet of this jumbo airliner. The A380 will be used for flights to the UK, Asia-Pacific and the Americas, carrying between 489 and 644 passengers, depending on the cabin configuration. Five aircraft are due to be delivered this year, with the first A380 flight planned for October 1, from Dubai to New York.

Last year, UK-based bmi launched flights to Amman, which are doing well in terms of passenger numbers and revenue. Recently, the CEO of bmi, his counterpart in Royal Jordanian Airlines, Jordan's Minister of Tourism and its Minister of Transport met to discuss ways to work together to strengthen the country's tourism business.

Airport investments

With all this extra air traffic, new routes and the double-decker A380 coming on the scene, airports throughout the region needed to expand rapidly – which is exactly what they have been doing. As noted at the start of this review, according to analyst reports, more than US$43 billion is being spent on airport developments in the region.

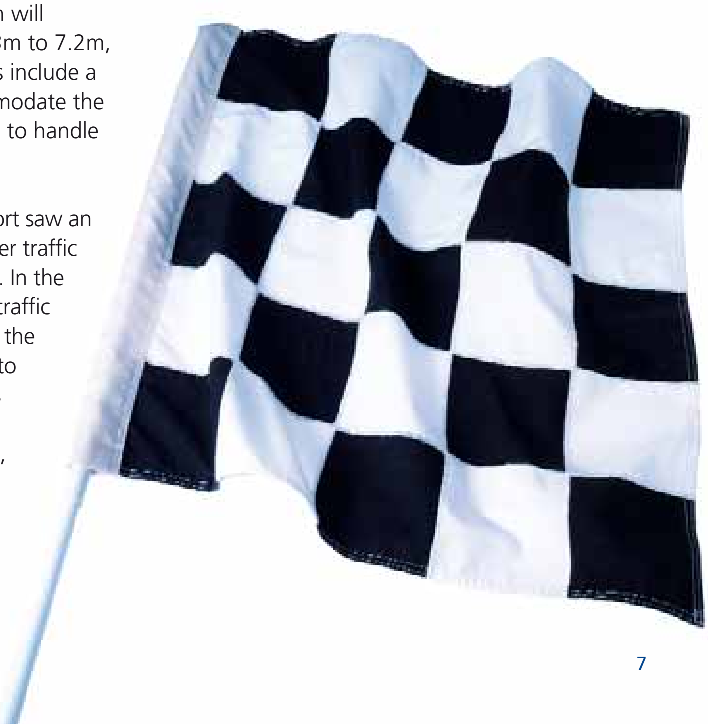
For instance, Abu Dhabi International Airport's expansion, which will increase capacity from 4.3m to 7.2m, is costing US$254m. Plans include a second runway to accommodate the A380 and a third terminal to handle 5m passengers a year.

Bahrain International Airport saw an increase of 9% in passenger traffic last year, to just over 7.3m. In the first four months of 2008 traffic was up 26% and work on the passenger terminal is said to cost US$815m. Capacity is expected to reach 15m passengers a year by 2010, and 22m five years later.

Dubai International Airport, with an average growth rate of 15% a year since 2002 is now the world's fastest growing airport. In preparation for the 60m passengers it expects to welcome by 2010 – trebling current numbers – this US$4.5 billion expansion is critical.

Just 40 kilometres down the road, work has started on the Dubai World Central – Al Maktoum International, which – with capacity for 120m passengers annually, plus 12m tonnes of cargo – will be the world's largest airport.

"As new airlines enter the market, existing carriers have been extending their international reach."



World leaders in revPAR

The Middle East is now achieving the strongest levels of occupancy and average room rates in the world and with the second fastest growth rate, a five year run of double-digit growth is now looking to be a racing certainty.

According to data by the STR Global HotelBenchmark ™ Survey, revPAR in the Middle East grew 17%, ahead of both Asia Pacific and Europe, but behind Central and South America in 2007. This was the fourth year of double-digit growth for the region, with average room rates up 11.1% to US$147 and occupancy up 5.2% to 71.2%.

As seen in table 2, the battle for the fastest growing hotel performance between the Middle East and Central and South America was a tough one during the first quarter of 2008, with the Middle East coming a close second with 19.4% revPAR growth. Asia Pacific was third and Europe fourth – reversing their end-of-2007 positions. The US was the weakest performer, with a 1.9% increase.

If the rest of the year continues at the same pace, the Middle East could continue its run of double-digit revPAR growth. It already has the highest absolute occupancy and average room rates in the world, at 74.3% and US$181.

The Middle East hotel sector can at this moment in time be split into two distinct groups. The first has achieved a strong absolute revPAR, growth in average room rates and often a drop in occupancy due to the influx of new supply. Examples are Doha and Dubai as can be pinpointed in graph 2.

The second is achieving a much lower absolute revPAR level but is experiencing exceptional revPAR growth driven by increases in both occupancy and average room rates. Amman and destinations in Egypt fit into this pattern.

Egypt Shines

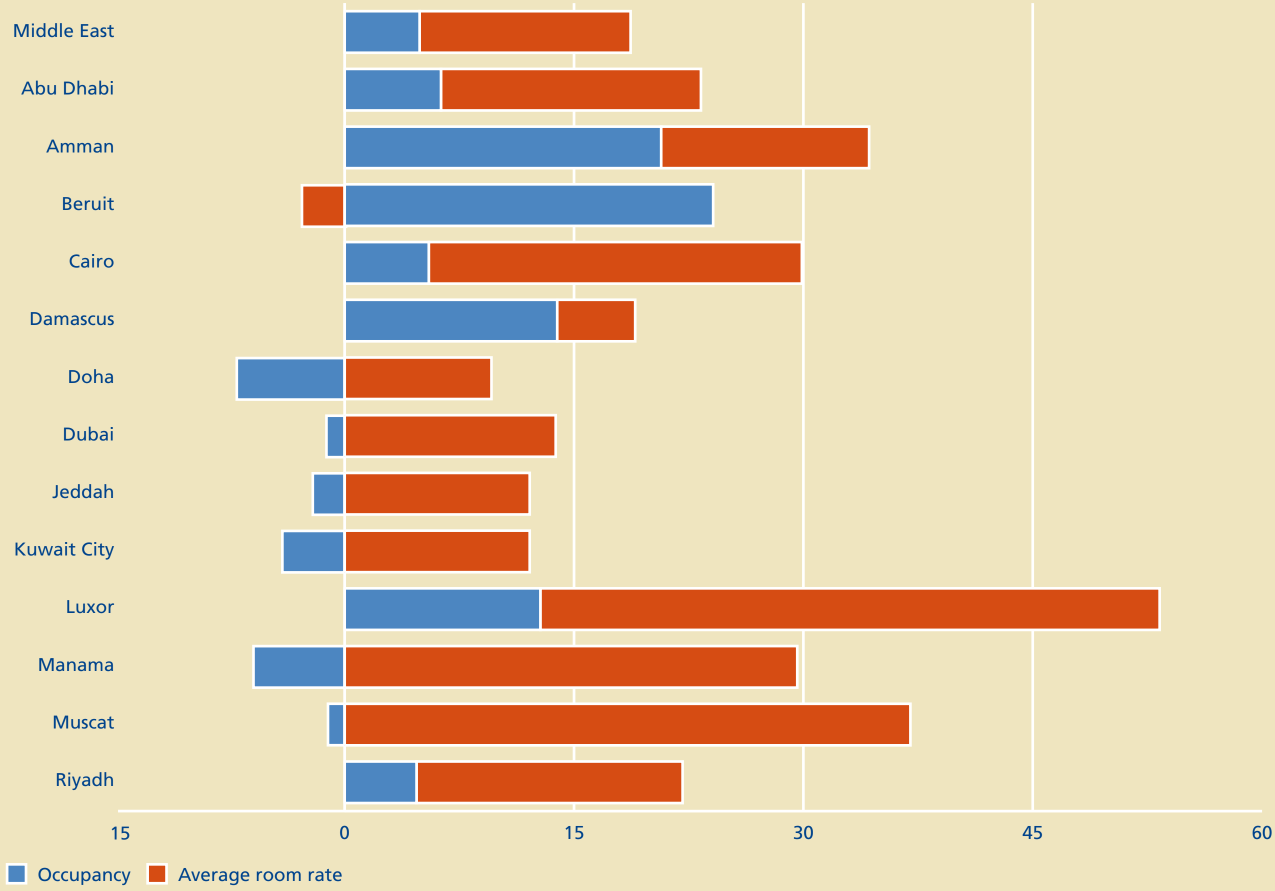
If we look at the fastest growing markets during the first quarter of 2008, destinations in Egypt are the clear winners. Egypt is becoming increasingly popular as a holiday choice, as it offers luxury at a lower price than its neighbours, but shares their good year-round weather. Tourist arrivals were up 22% last year, according to the Egyptian Tourist Authority, with Russia, Germany, France, Italy and Britain remaining key source markets. There is also strong growth from emerging source markets, such as India and China, which were up 34.6% and 56.6% respectively.

Table 2 – Global hotel performance for the first quarter of 2008

	Occupancy (%)	Average room rate (US$)	RevPAR (US$)	Change (%)
Asia Pacific	69.2	147	102	15.1
Central & South America	67.6	146	99	20.6
Europe	60.3	162	98	13.9
Middle East	74.3	181	134	19.4
US	57.8	108	62	1.9

Source: STR Global HotelBenchmark ™ Survey

Graph 2 – Selected Middle East markets revPAR percentage change – first quarter 2008 versus 2007 (US$)



Source: STR Global Hotelbenchmark™ Survey

"Jordan's National Tourism Strategy for 2004 – 2010 set out to increase tourism revenue to US$1.84 billion and to double tourist arrivals to 12m."

Egypt's strategy is to raise annual visitor numbers from 8m to 12m by 2012 and is moving rapidly towards that goal. These increased numbers have encouraged hoteliers in Egypt, who generally have some of the lowest revPAR levels in the region to push up their rates.

As seen in table 3, the culture-rich country took three out of the top five places for the first quarter of 2008, with the best growth in revPAR.

Taba was on top, with a staggering 107.7% increase. Occupancy was up from 43.1% to 68.1%, suggesting that the shadows cast by the 2004 terrorist attacks are disappearing. However, when considering absolute revPAR, Taba has the lowest in the Middle East, at US$25.

Luxor and Alexandria, while enjoying strong growth, achieved revPAR of US$48 and US$57 respectively.

Amman plans for the future

The impact of the Amman bombings in 2005 led to a drop in revPAR growth to 0.9% the following year, but in 2007 revPAR was up 19% to US$74. During the first quarter of 2008, hotels continued to perform well, with occupancy up 20.7% to 64.5%, and average room rates up 13.6% to US$129.

The government's National Tourism Strategy for 2004 – 2010 set out to increase tourism revenue to US$1.84 billion and to double tourist arrivals to 12m. At the half way mark, Jordan has surpassed its financial goal three years ahead of schedule, with revenue reaching US$2.11 billion during the first 11 months of 2007.

However, the country's Department of Tourism and Antiquities reported that 2007 attracted 3.4m overnight visitors which are still some way from the 2010 target.

Marketing to niche groups, including those interested in cultural heritage, religious and eco-tourism, health and wellness, cruising, adventure, MICE, scientific, academic, volunteer and educational, is the country's strategy to encourage tourists to visit their country.

Table 3 – Top five and bottom five Middle East markets by revPAR growth for the first quarter 2008

	Occupancy (%)	Average room rate (US$)	RevPAR (US$)	Change (%)
Taba	68.1	36	25	107.7
Luxor	82.9	58	48	58.5
Alexandria	71.4	80	57	44.7
Amman	64.5	129	83	37.1
Muscat	84.2	275	232	35.4
Makkah	39.0	152	59	-18.2
Medina	45.4	97	44	-11.4
Doha	77.3	274	212	1.8
Kuwait City	64.7	227	147	9.8
Jeddah	66.6	136	91	9.8

Source: STR Global HotelBenchmark ™ Survey

"With revPAR up 11.3% to US$315, Dubai has been able to hang onto its title as top revPAR earner in the region."

It therefore plans to plough 4% of revenue from tourism back into the industry, with promotional campaigns, product and human resources development – all of which will help Jordan raise its profile and attract more of its target customers.

Clearly, the country's historical treasures are already powerful magnets for tourists, with a 62% jump in visitors to the ancient stone-carved city of Petra, declared one of the "New 7 Wonders of the World" in 2007. To encourage similar trends at other historical sites including Madaba, Kerak, Salt, Jerash and Ajloun, a US$70m restoration campaign is underway.

The emirates achieve excellence

Dubai's revPAR growth was up 17.4% to US$239 at the end of 2007. A great start to 2008, with revPAR up 11.3% to US$315, has enabled Dubai to hang onto its title as top revPAR earner in the region. Even though occupancy was down marginally by 1.2%, both occupancy and average room rates reached exceptional levels, at 88.6% and US$356 respectively.

Abu Dhabi achieved 24.4% growth to US$252 during the first quarter of 2008, with occupancy increasing to 86.7%. Average room rates fuelled this growth up 17.0% to US$291 – the second highest average room rates in the Middle East after Dubai.

Abu Dhabi International Airport saw a 31% jump in passenger traffic in 2007 and, with a great deal of development underway across the emirate, its success should continue.

According to the Abu Dhabi Tourism Authority, 20,000 extra hotel rooms will be needed to meet the emirate's projected 3.5m visitors, and according to Lodging Econometrics, the global authority for hotel real estate, there are 69 hotels – or 21,203 rooms – currently in the pipeline. By 2015, the country hopes to have added 25,000 hotel rooms to its current stock.

In Bahrain, average room rates in Manama increased at an accelerated pace during the first quarter of 2008 up 29.6% to US$231, although occupancy fell to 72.1%.

The country is currently positioning itself as a luxurious, yet family-oriented, destination and opened The Lost Paradise of Dilmun at Al Areen last September, the region's largest water park. Meanwhile, existing cultural and heritage sites, such as the old city of Muharraq, are being upgraded and museums are being built.

"Like many countries in the region, Saudi Arabia wants to reduce its dependency on oil revenues and is keen to boost tourism, both domestic and international."

Beirut struggles

The Lebanese capital, Beirut, still suffering from political instability, is struggling to attract tourists and a number of hotel developments have been postponed. During the first quarter of 2008, hotel performance here achieved a 20.5% increase in revPAR. Absolute hotel performance results tell a different story though, with occupancy of 36.8% and average room rates of US$115.

Many more rooms at the inn

Doha's hotels enjoyed double-digit revPAR growth for four consecutive years leading up to 2006, when the country hosted the Asian Games. This excellent revPAR growth could not be maintained in 2007 and revPAR dropped 12.0%. During the first quarter of this year, the country seems to have halted the declines and achieved a slight 1.8% increase in revPAR. With Doha's average room rates at US$274 these are some of the most expensive in the region and the outlook for 2008 does not appear to suggest that there will be significant revPAR gains this year.

Occupancy in the city is down, due to several hotels opening and, according to Lodging Econometrics, 33 hotels equating to 10,403 rooms are now in the pipeline. Doha is therefore investing in developments and tourist attractions that will bring in more visitors to fill up its spare rooms. These include the Pearl Qatar – a 985-acre man-made island east of the West Bay shoreline, which is due to complete in 2011. In addition, there are a host of other attractions including the Museum of Islamic Arts, Hamad Medical City, Qatar Science & Technology Park, Sl Khor Area Development, and Al Waab City which will help to drive performance forward in the medium term.

In addition, the new Doha International Airport should open next year and the country plans to raise visitor arrivals substantially, from 900,000 in 2006 to 1.5m by 2010.

Tourism diversifies economy

Year-on-year analysis across Saudi Arabia was complicated by the timing of the annual pilgrimage Hajj, which took place over two months at the end of 2006 and the start of 2007, whereas in 2007, it only covered December. This made it difficult to compare annual hotel business and meant that Makkah and Medina – the two most important places in Islam – were at the bottom of the revPAR growth table.

So far in 2008, hotels in the capital, Riyadh, are achieving some of the highest revPAR levels in the Middle East – at US$206. Like many countries in the region, Saudi Arabia wants to reduce its dependency on oil revenues and is keen to boost tourism, both domestic and international. The Saudi Arabian Monetary Agency suggests domestic tourism will reach US$19.5 billion by 2010 and US$27 billion ten years later. International tourism is also expanding rapidly and, according to the UNWTO, international tourist arrivals to Saudi Arabia were up by almost 51% in 2007, one of the best growth rates in the Middle East.

So far in 2008, the Middle East has the best hotel occupancy and average room rates in the world, and the second highest growth rates. If this pattern continues, the year will be another excellent one for the region.

Oman's challenge

Rob O'Hanlon, Tourism, Hospitality and Leisure Partner for Deloitte Middle East, shares his view on Oman's future. Oman is a country of outstanding natural beauty and unique heritage and is often described as the jewel of the Gulf. It offers much more than just an up-market beach holiday, and appeals to eco-tourists, adventure trekkers, water-sports enthusiasts, and those wanting to explore its rich cultural history.

Oman's Ministry of Tourism, established just four years ago, is positioning the country as a niche, high-end destination, with considerable success. Until recently, Oman was a quiet contender for tourists visiting the Middle East, but its potential was confirmed when its capital, Muscat, had the best revPAR growth in the region during 2007.

Releasing the handbrake

In January 2006, Shangri-La's Barr Al Jissah Resort & Spa in Muscat opened, marking the important first step for Oman on its journey towards becoming a tourist rival for its neighbours in the Gulf. Since then many other hotels and tourism complexes have opened up, or are being developed, including The Wave, which will be a mix of residential units with shopping centres and hotels onsite. These waterfront communities will have access to both marinas and golf courses.

A 6,000 seat convention centre is also planned for Muscat, which will encourage more corporate business, and when the expansion of Muscat International Airport is completed, it will release the handbrake that has been holding up air travel to the country. Passenger numbers are expected to more than double – from 4.8m a year to 12m by 2012.

"A 6,000 seat convention centre is also planned for Muscat, which will encourage more corporate business."

Protecting the past

Oman markets itself as a country with a "rich heritage, kept alive and unchanged for generations". With its ancient forts, castles and archaeological sites, the country holds considerable appeal for culture-seekers and historians. However, the paradox is that Oman's unique offering – its nature, heritage and culture – is at risk if there is over-development.

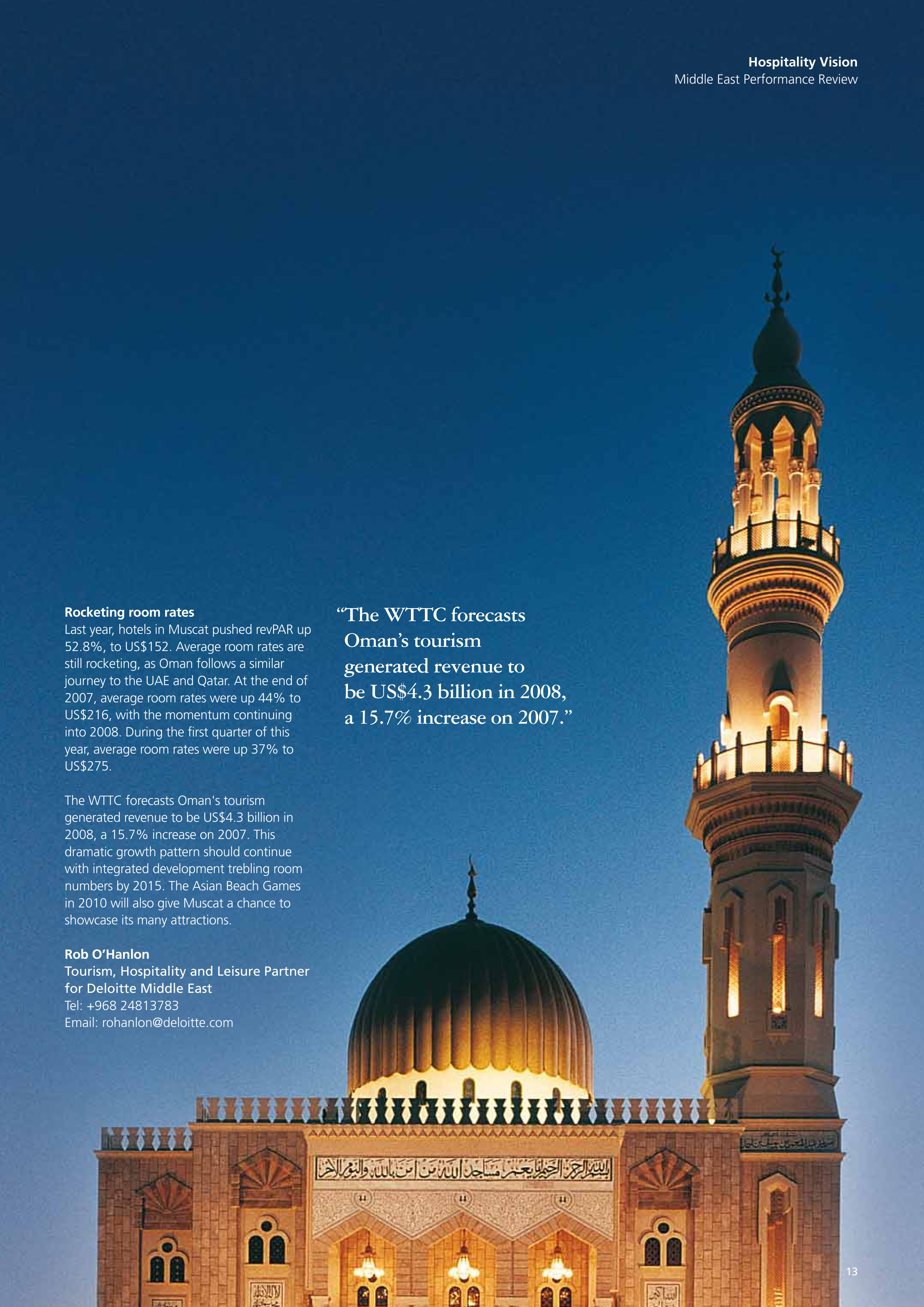
Visits to secluded beaches to see turtles lay their eggs or trips to isolated mountain villages need to be managed correctly if the past is to be preserved.

"With its ancient forts, castles and archeological sites, the country holds considerable appeal for culture-seekers and historians."

The Ministry of Tourism, acutely aware of this dilemma has developed a responsible strategy that both safeguards the country's heritage while encouraging tourism, providing jobs and driving economic growth. New Zealand offers an excellent working model that can be emulated.

High-end competition

Oman has plenty of rivals for the high-end of the tourism market. Mauritius, for instance, wants to significantly increase its 1m tourists a year by 2015, and is targeting the same European source markets as Oman. Competition is likely to become more intense, as the economic slowdown keeps more travellers from Europe and the US at home.



Rocketing room rates

Last year, hotels in Muscat pushed revPAR up 52.8%, to US$152. Average room rates are still rocketing, as Oman follows a similar journey to the UAE and Qatar. At the end of 2007, average room rates were up 44% to US$216, with the momentum continuing into 2008. During the first quarter of this year, average room rates were up 37% to US$275.

The WTTC forecasts Oman's tourism generated revenue to be US$4.3 billion in 2008, a 15.7% increase on 2007. This dramatic growth pattern should continue with integrated development trebling room numbers by 2015. The Asian Beach Games in 2010 will also give Muscat a chance to showcase its many attractions.

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> "The WTTC forecasts Oman's tourism generated revenue to be US$4.3 billion in 2008, a 15.7% increase on 2007."

Global players enlarge portfolios

New and existing brands are making their mark on the Middle East. Dubai being the workhorse of the region is continually re-inventing the rules for successful tourism.

With such good business in the Middle East, hotel companies continue to invest in new properties, with global giants such as InterContinental Hotels Group PLC (IHG), Hilton Hotels Corporation, Hyatt Hotels and Resorts, and Jumeirah Hotels & Resorts Worldwide all making their mark.

For example, IHG had 62 hotels in its worldwide development pipeline in 2007 – with 11 of them in the Middle East and Africa. In March 2007, the InterContinental Al Khobar opened and marked IHG's 20th property in Saudi Arabia. Further expansion throughout the Kingdom is underway, with 12 Holiday Inn Express properties to be developed as part of a franchise deal with Siraj Capital. Elsewhere in the Middle East, IHG plans to open its third Crowne Plaza in Dubai in 2010, which will add 67 rooms to Dubai's new business district, Business Bay.

Hilton Hotels Corporation, developing its brand across Europe and Asia, has targeted the region as one of its top ten markets for development, and plans to double its portfolio here within five years. There are already 43 properties flying the Hilton flag in the region, and the company's goal is to have a Hilton hotel in every capital. In 2008 Hilton plans to open properties in Dubai, Ras Al Khaimah, Doha, Taba, Beirut and Malabo in central Africa.

Hyatt Hotels and Resorts currently have nine hotels in the Middle East, and will open five more during the next two years.

These include three Grand Hyatt hotels in Doha, Beirut and Abu Dhabi, and two Park Hyatt hotels in Jeddah and Cairo. First to open for business will be the 125-room Park Hyatt Jeddah in the middle of 2008, followed by the 249-room Grand Hyatt Doha in the autumn.

Jumeirah Hotels & Resorts Worldwide is rapidly increasing its regional business and plans to double its presence in Dubai to eight hotels. These four new properties will be in the Business Bay area, Dubai Creek, Dubailand and the Palm Jumeirah. The company is also opening a 400-room, 200-serviced apartments property in Abu Dhabi – the Jumeirah Etihad Towers in 2010, with international expansion covering Doha, Jordan, Mallorca, Bermuda, Phuket, Shanghai, and a third property in London.

Budding brands

Smaller regional players are using the strength of the Middle East hotel business to build their brands. For example, following massive development in the UK, budget brand Premier Inn made its Middle East debut in April 2008. In partnership with Emirates Group, it opened a 308-room hotel in Dubai. More are being built in Abu Dhabi and Oman, with further expansion under discussion.

The Rocco Forte Collection, a name synonymous with luxury in Europe, has announced it is moving into the Middle East with a 282-room hotel in Abu Dhabi in 2010. The company will also manage 154-serviced apartments in an adjacent tower. It was also recently announced that from 2010 the company will manage a 19-storey hotel in Jeddah on the Red Sea coast of Saudi Arabia.

Asian-based Swiss-Belhotel International – Hotels & Resorts has signed deals on six properties in the Middle East. With one in Kuwait and another in Sohar, Oman, the company plans to open two more in Dubai and Doha this summer. Future schemes include a property in Tabuk, Saudi Arabia, due to open in 2009, and two in Muscat and Sharjah, UAE, the following year.

Tall stories in Dubai

Dubai is reportedly spending US$14.3 billion over the next five years building roads, bridges and a metro network, while a water taxi scheme – to ferry passengers across the many creeks and waterways – opened in May. This workhorse of the region is continually re-inventing the rules for successful tourism, having brought in its own grading system for hotels and introducing the novelty of air-conditioned bus shelters.

"Smaller regional players are using the strength of the Middle East hotel business to build their brands."

Downtown Burj Dubai

Source: Emaar Hospitality Group L.L.C.

"The tower is the centrepiece of Emaar's US$20 billion development 'Downtown Burj Dubai' and is due for completion this year."

Large projects are coming to fruition such as Nakheel's Palm Jumeirah. With residents already living on the man-made island, 2008 will witness the opening of the Palm's first resorts. Kerzner International Holdings Limited will open the water-themed Atlantis The Palm in September, while Tiara Hotels and Resorts' Tiara Palm will welcome its first visitors this summer.

Dusit International has unveiled designs for the Dusit Emirates Saray, Palm Jumeirah Hotel Resorts and Residences, due to open in 2010. Incredibly, 156 hotels are in Dubai's development pipeline right now, equating to 55,568 rooms, according to Lodging Econometrics.

Rose Rotana, Dubai – is set to be the world's tallest all-suites hotel at 333 metres when it opens in June 2008. According to the Council on Tall Buildings and Urban Habitat, this was the tallest building project completed in 2007.

There are, of course, many tall buildings in Dubai. The Burj Dubai, developed by Emaar Properties already holds the title of the world's tallest building and tallest freestanding structure. Last year, it surpassed North Dakota's KVLY TV mast, and by April this year it stood at 629 metres. It is set to climb to at least 693 and there are rumours it could reach an amazing 800 metres.

The tower is the centrepiece of Emaar's US$20 billion development 'Downtown Burj Dubai' and is due for completion this year. It will have residential and commercial use, and will be home to the world's largest shopping mall, entertainment facilities and hotels. Emaar, in partnership with Giorgio Armani S.p.A., will also develop the first Armani Hotels and Resorts in the tower.

Emaar Hospitality Group has also recently launched their new five-star premium brand – The Address Hotels & Resorts. By the end of 2008, the company will open three properties in Dubai. The Address, Downtown Burj Dubai will be the brand's flagship hotel property. The customer-centric brand is set to expand over the next decade into key cities and tourist destinations across the globe.

Here comes Hollywood

Dubailand, a collective of 45 tourism, leisure and entertainment projects, should open in 2010 when its first phase will be completed. Tatweer, a member of Dubai Holdings, made a string of announcements this year related to residential and commercial developments within Dubailand. Among them are plans to pair up with Dream Works Animation and open themed hotels, resorts, restaurants and a 5m square foot theme park. It also announced a US$2 billion agreement with Universal Parks & Resorts to build Universal City Dubailand, which should open in 2010.

In Abu Dhabi, Hollywood studio MGM is joining up with local company Sorouh Real Estate to build a massive entertainment destination. Due to open in 2012, this will comprise hotels, restaurants, shops and attractions themed on some of MGM's most famous films.

Bright and sunny outlook

While some markets that have had meteoric performances over the past few years are entering a maturity phase, even at this less frenetic pace they are still achieving outstanding results.

Travel and tourism combined is expected to grow by around 4.4% a year between 2009 and 2018, when it will support 297m jobs and represent 10.5% of global GDP. In 2008, industry growth worldwide is expected to be around 3-4%.

Compare these figures with the Middle East, where the growth for 2008 is likely to be between 6-10%, and it's easy to see why the region is still the one to watch.

Governments are committed to long-term strategies to move away from reliance on oil and associated revenues and are investing substantially in tourism products and services that will appeal to different market segments, including the corporate sector.

While some markets that have had meteoric performances over the past few years are entering a maturity phase, even at this less frenetic pace they are still achieving outstanding results. And as most countries are still working towards ambitious targets for tourism numbers, the building will continue.

There are some local challenges, including the rising cost of materials and difficulty in developing a skilled workforce, but the belt-tightening that's taking place across Europe and the US seems unlikely to damage the Middle East.

If the rest of 2008 follows the pattern already set for the first quarter, hoteliers should enjoy a remarkable five-year run of double-digit growth.

> "While most countries are still working towards ambitious targets for tourism numbers, the building will continue."

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