



OCTOBER 2014 | US\$850

IN FOCUS: MUSCAT

SLOWLY BUT SURELY

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Introduction

Named by few as “the most spectacular destination on the Arabian Peninsula”, the Sultanate of Oman offers a rare combination of geographical variety including mountains and breathtaking coastal areas. Located on northeastern coast of Oman, in proximity to the strategic Strait of Hormuz, Muscat is the capital and largest city in Oman, with a population estimated at 1.2 million. The economy is dominated by trade, with Mina Sultan Qaboos Port being a large hub between the Persian Gulf, the Indian subcontinent and the Far East. The main pillar of the economy is the Petroleum Development Oman (PDO), the country’s second largest employer after the government. With the current strategy aiming to diversify the economy, the tourism sector is growing its importance to the national economy, which accounted for 6.4% of GDP in 2013. According to the World Travel and Tourism Council’s forecast, this is expected to increase by 9.4% in 2014 and is expected to reach a total contribution to GDP of 8.2% by 2024. Driven by the country’s 2020 Vision, considerable growth in arrivals is projected over the next years, leaving Oman in preparation to accommodate the increased demand by launching new hospitality developments.



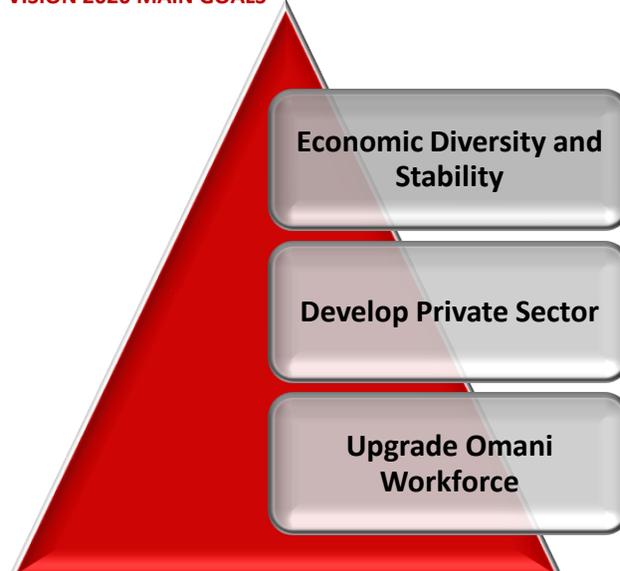
Oman in Figures

- **309,500** square kilometers land area
- **3.83 million** population, including 1.68 million expatriates
- **US\$50 billion** worth of development projects planned for the next few years.
- **US\$15 billion** estimated cost for the 2,250 km of railway network in Oman
- **945,000** barrels per day oil production in 2014
- **37.2 billion cubic meters** gas production in 2013
- **US\$41,853** GDP per capita in 2013
- **US\$79,656 million** Nominal GDP in 2013
- **US\$1.5 billion** foreign direct investments
- **A and A1** Oman credit rating by Standard&Poor and Moody’s, evidence of a stable economy
- **116** branded and unbranded hotels in Muscat, totaling 7,633 available rooms
- **7** five-star branded hotels in Muscat
- **5** four-star branded hotels in Muscat
- **8.3 million** passenger movements at Muscat International Airport in 2013
- **12 million** visitors targeted by 2020, up from 2.1 million visitors in 2013
- **45** destinations worldwide serviced by Oman Air
- **US\$388 million** hotel revenue generated during 2013, representing 11% year-on-year growth
- **US\$662 million** investment in tourism in 2013 with an 11.7% growth forecast for 2014

Economic Overview

Oman's economy shows steady GDP growth over the next four years, with average GDP growth forecast at 3.9% between 2014 and 2018. With the authorities actively pursuing a strategy aimed to diversify the economy, which is primarily dependent on oil and gas (accounting for 72% of GDP in 2013), the government policy is geared towards developing non-oil sectors, along with the country's infrastructure such as railways and ports. Oman's economic future is steadily leading to growth by the 2020 Vision and subsequent Five-Year Plans, of which the first was launched in 1976. The reform based on the aforementioned plans promotes a diversified economy through development and increased competitiveness, on the back of the authorities investing in key sectors, while attempting to attract private and foreign investments. Within this well-defined strategy, tourism constitutes a key component, with firm measures being taken in order to develop its importance to the national economy. According to the World Travel and Tourism Council's forecast, this is expected to increase by 9.4% in 2014 and is expected to reach a total contribution to GDP of 8.2% by 2024.

VISION 2020 MAIN GOALS

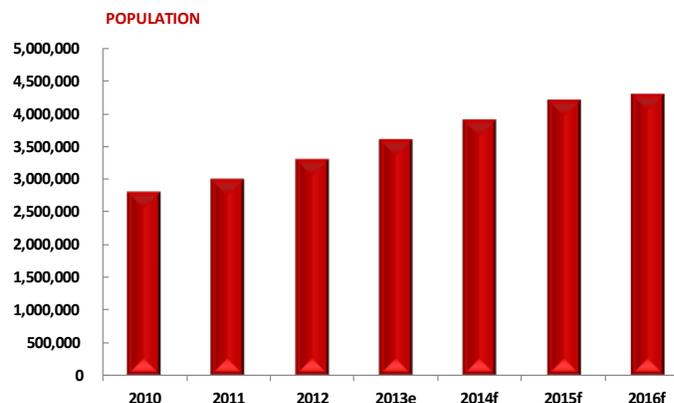


	Actual					Forecast				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (%)	3.30	5.60	0.30	8.30	4.20	4.20	3.90	3.80	3.80	4.00
Consumer price inflation (av %)	3.6	3.2	4.0	2.9	2.1	1.5	2.6	3.5	3.8	3.7
Budget balance (% of GDP)	0.80	7.40	16.70	10.70	(1.00)	(1.30)	(3.00)	(3.80)	(5.10)	(6.50)
Current-account balance (% of GDP)	(1.2)	10.0	14.7	11.8	6.4	6.9	5.2	5.2	3.0	2.4
Short-term interest rate (av %)	7.40	6.80	6.20	5.90	5.40	5.50	5.80	6.10	6.10	6.20
Exchange rate AED:US\$	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385
Population	3.17	3.20	3.42	3.62	3.83	3.96	4.08	-	-	-

Source: Economist Intelligence Unit, September 2014

Demographics

As a consequence of the development of the country, the ongoing mega-projects and Oman's dependence on imported skills, the country is witnessing an influx of expatriates. The population is currently estimated at over 3.8 million as of February 2013, of which 1.7 million represent expatriates. This is expected to increase by 19%, reaching 4.3 million by 2016. The forecast growth will represent mainly additional expatriate arrivals in the country, on the back of ongoing mega-projects especially in the infrastructure and hospitality sector.



Source: Business Monitor International

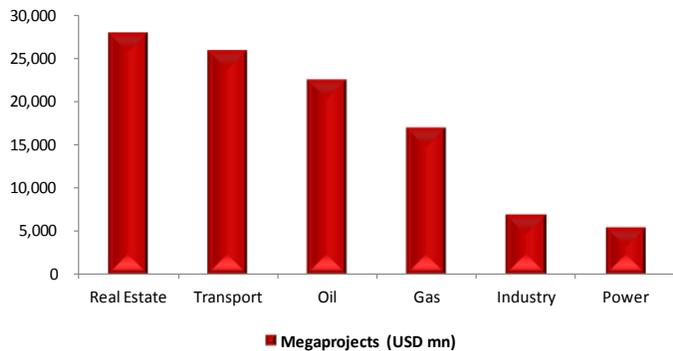
Major Projects and Developments

Driven by the goals set in the 2020 Vision, the country is witnessing a transformation with major mixed-used developments currently in planning or under construction. The real estate and infrastructure projects in Oman scheduled to be completed by 2022 are estimated to be worth in excess of US\$112 billion.

Omagine

Following the development agreement signed on October 2nd 2014 with the government of the Sultanate of Oman, Omagine LLC will design, develop and operate the mixed-use Omagine Project. The project is located approximately six kilometers from Muscat International Airport and spreads over one million square meters of beachfront land including cultural, entertainment, residential, retail, commercial and hospitality components. The estimated cost of the project is approximately USD\$2.5 billion. The construction schedule is yet to be released.

MEGA PROJECTS BY SECTOR



Source: MEED, 2013

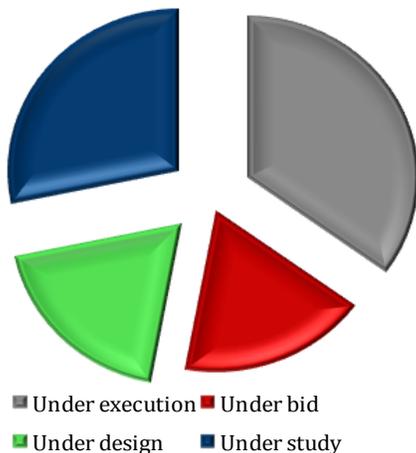
Al Nakheel City

The recently announced “Al Nakheel City” project is being developed by Alargan International Real Estate and is estimated to cost approximately USD\$500 million. The project is located in the Abu Al Nakheel Area, behind Al-Naseem Park and will be developed as an Integrated Tourism Complex (ITC), featuring residential and hospitality components, as well as a manmade lagoon.

Saraya Bandar Jissah

Spreading over 2.2 square kilometer, the USD\$600 million project represents the first integrated tourism complex launched in the sultanate after seven years. The unique mixed-use development is located in eastern Muscat, nestled in a valley surrounded by the Al Hajar Mountains. Promoted as “Oman’s newest luxury address”, the development will offer 398 residential units, two beachfront, five-star hotels and recreational facilities. We note that construction is currently ongoing and the first phase is set for completion by 2017.

CONSTRUCTION PROJECT MARKET



Source: MEED, 2013

GCC Railway

The GCC Railway is an initiative of the all Gulf Cooperative Council nations and is meant to link the six states together. The railway will be 2,200 kilometers long and will span from Oman to Kuwait, passing through the Kingdom of Saudi Arabia, the UAE and Qatar. With each of the GCC countries developing their own sections of the railway, the project is expected to be completed by 2017.

Oman Railway

The Oman Railway company is currently developing a local transport system spanning over 2,235 kilometers. The Oman Railway project is part of the plan to connect Oman to other GCC countries with the local project consisting of three packages. Phase 1 comprises of the

railway connecting Sohar Port to the UAE border, phase 2 will include a 139 km link between Sohar and Salalah, while phase 3 includes the construction of a railway between Thumrait and the Yemeni border. The project is expected to be completed by 2018.

Oman Convention and Exhibition Center

Announced in 2009, the project spreads over 2 million square meters and consists of four phases. Phase 1 is further divided into five packages including the convention center, exhibition halls, two hotels and part 1 of the Business District. Phase 2 includes part 2 of the Business District, a hotel and serviced apartments. Phase 3 will include a hotel and serviced apartments and part 3 of the Business District, while phase 4 will include the remaining portion of the Business District and a mosque. The project is expected to be completed by the end of 2016.

Sultan Qaboos Sports Academy

Located in Muscat and estimated to cost approximately USD\$81 million, the Sports Academy is designed to house a 60 m and 200 m indoor running track, an indoor aquatic training center with Olympic-size swimming and diving pools, including spectator stands for 1,000 people, a 3,000-seat outdoor tennis stadium with a roof structure, football fields, a 400 m athletics track, a tennis stadium, beach volleyball courts, a gymnasium, a sports medicine center, a sports science facility and laboratories. The project is expected to be completed by the end of 2017.

Muscat International Airport

Muscat International Airport is undergoing extensive renovations and expansion work, which are expected to be completed by the end of 2014 and will increase the handling capacity to 12 million passengers annually. Further expansions are planned in three subsequent phases that will ultimately boost the airport's annual capacity to 24 million, 36 million and 48 million passengers, respectively.

The Wave

Spread along a stunning 6 km stretch of Muscat's coastline, this world-class Integrated Tourism Complex comprises a group of luxury residential properties including villas, townhouses and apartments, commercial units, retail and dining facilities and Oman's only signature designed PGA-standard 18-hole golf course, designed by Greg Norman. The Wave, Muscat is also home to the 400 berth Almouj Marina, Oman's largest private yachting hub. The next phase of development will see four luxury hotels and a 50-unit retail area at the marina villagethat will form the commercial and leisure hub of the community. The completion date for the entire development is expected by the end of 2015.

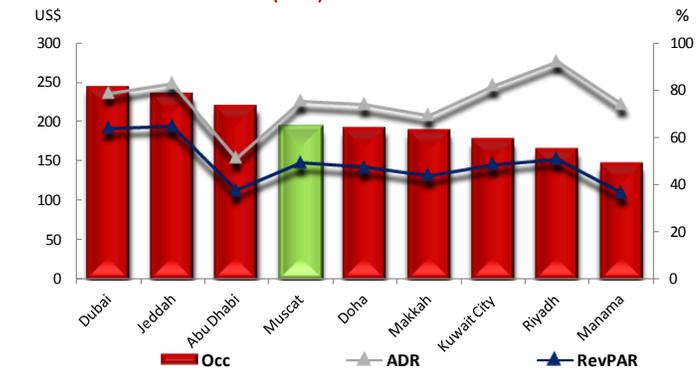
MAP OF MAJOR DEVELOPMENTS IN MUSCAT



The Tourism Sector in Regional Context

Testament to the constantly increasing importance, according to the 2013-2014 World Economic Forum index on travel, Oman’s tourism competitiveness ranked 33 out of 148 participant countries. This positions the Sultanate’s tourism competitiveness fourth in the MENA region, after the UAE, Qatar and Saudi Arabia and ahead of other well-established tourist destinations such as Turkey, Thailand or Italy. The growing tourism sector benefits from a sum of strengths including a safe and secure environment, good tourism infrastructure, unique geographical offerings and good transportation infrastructure. Capitalizing on its unique offerings, Muscat manages to successfully compete with well-established destinations within regions, achieving the highest regional RevPAR after Dubai, Jeddah and Riyadh.

MUSCAT MARKET PERFORMANCE (2013)



Source: HVS Research

MUSCAT HOTEL MARKET vs REGIONAL MARKETS

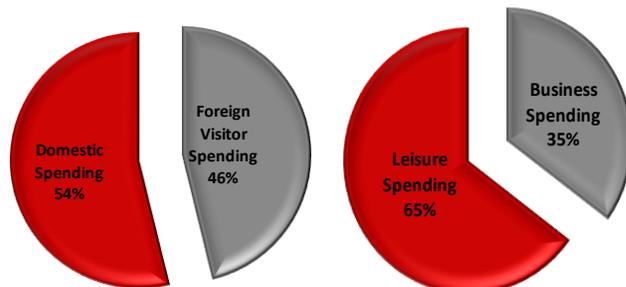
City	Occupancy (%)						Average Rate in US\$						RevPAR in US\$					
	2008	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012	2013
Doha	70	58	66	59	63	64	304	261	230	231	232	197	213	151	151	136	146	126
Manama	75	68	66	34	64	49	262	205	209	204	197	222	197	135	138	69	126	109
Kuwait City	66	59	54	58	58	59	260	257	241	244	237	246	160	139	130	142	138	145
Makkah	60	55	54	55	67	63	182	228	202	238	235	208	109	125	109	131	157	131
Jeddah	77	73	72	72	73	78	208	205	181	176	223	249	161	148	130	127	163	194
Riyadh	74	67	63	63	65	55	236	297	261	264	257	277	174	187	164	166	167	152
Abu Dhabi	81	73	64	70	70	73	309	294	210	176	186	154	252	188	134	123	130	112
Dubai	81	69	72	72	82	81	261	184	167	191	211	236	210	132	120	138	173	191
Muscat	69	54	58	53	60	65	329	244	210	245	219	226	227	132	122	130	131	147

Source: HVS Research

The Tourism Sector in National Economy Context

With sustained growth reported over preceding years, according to the World Travel and Tourism Council (WTTC), the direct contribution of travel and tourism to the GDP in 2013 was roughly US\$2,555 million, representing 3% of the total GDP. This achievement is expected to be outperformed in 2014, with forecast growth of 10.2%, equal to US\$2,816 million. This will trend upwards on average by 5.4% per annum to

TRAVEL & TOURISM SPENDING



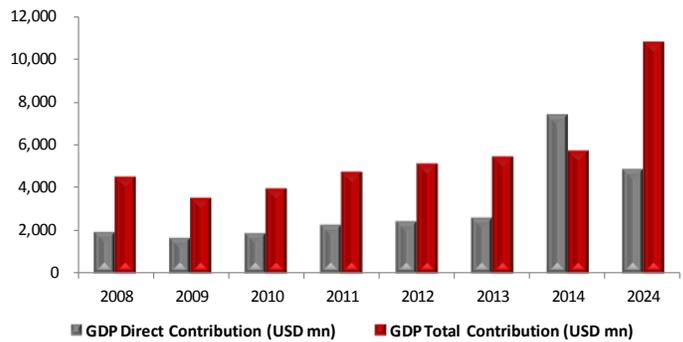
Source: WTTC 2014

US\$4,768 million by 2024 and will account for 3.9% of the total GDP. In terms of total contribution of travel and tourism, a growth of 9.4% is forecast in 2014 equal to US\$5,651 million. Similar to the direct contribution, however more than double, the total tourism contribution to GDP is estimated to ramp up at a rate of 5.5% per annum, accounting for US\$10,760 million by 2024, equaling 8.2% of GDP.

On the back of the economic development and the uniqueness of Oman's landscape and culture, the country manages to attract both corporate and leisure visitation. In 2013, business spending accounted for 35% out of the travel and tourism contribution to GDP, while the remaining balance was attributed to leisure spending. What remains a particular characteristic of the country's tourism sector is the relatively high domestic spending, which accounted for 54% of tourism spending in 2013.

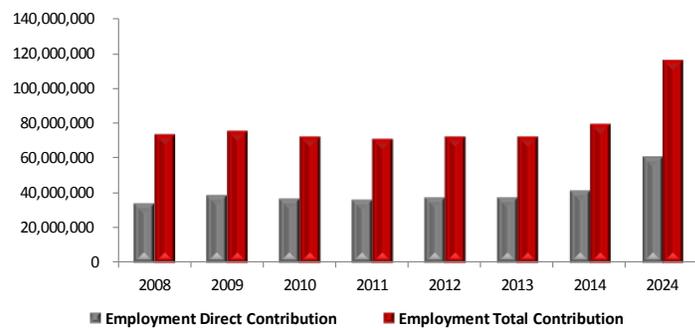
Analytically, the sustained growth in GDP contribution is an indication of the continuous health of the overall economy in Oman. While the direct contribution reflects performance levels and revenues generated by the hospitality sector, the total contribution represents the auxiliary industries and sectors that benefit from the tourism sector. As demand increases, additional hotels will need to be designed, constructed, and operated, resulting in increased employment, a robust construction industry, and an increased need for residential communities to support the expatriate growth necessary to operate these hotels. Evidently, growth in one sector transcends into additional sectors.

TRAVEL & TOURISM CONTRIBUTION TO GDP



Source: WTTC 2014

TRAVEL & TOURISM CONTRIBUTION TO EMPLOYMENT

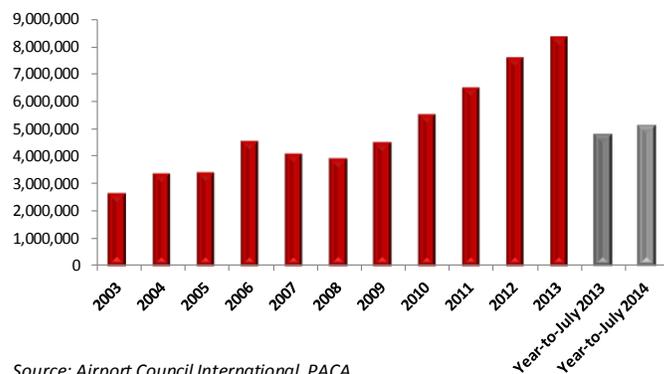


Source: WTTC 2014

Airport Statistics

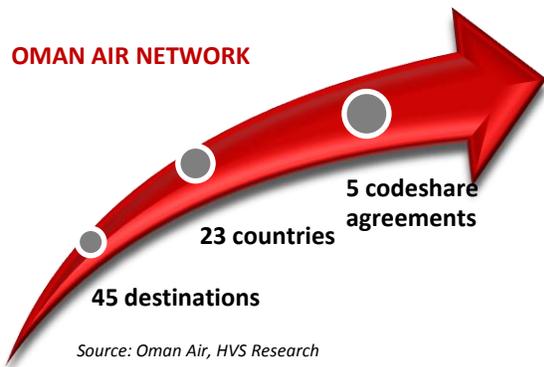
As with the majority of international airports in the region, passenger movements declined in 2008 as a result of the global economic recession. Following the regional trend, Muscat rebounded rapidly, with passenger movements growing by 9.6% in 2013. Year-to-July 2014 data indicates that passenger traffic increased further by 7% in the first seven months when compared to the same period last year.

TOTAL PASSENGER MOVEMENTS



Source: Airport Council International, PACA

OMAN AIR NETWORK



Source: Oman Air, HVS Research

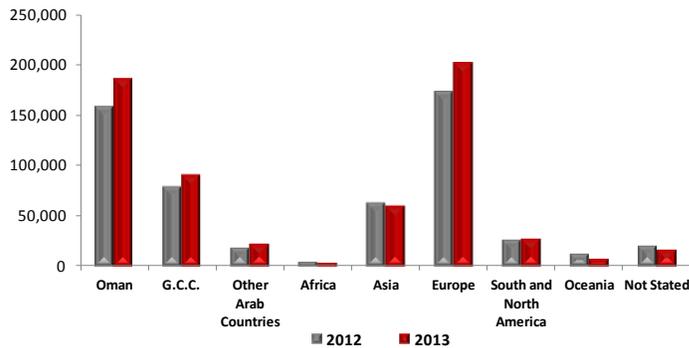
Muscat

Muscat International Airport is undergoing extensive renovations and expansion work, which are expected to be completed by the end of 2014 and will increase the handling capacity to 12 million passengers annually. Further expansions are planned in three subsequent phases that will ultimately boost the airport's annual capacity to 24 million, 36 million and 48 million passengers, respectively.

Visitation by Source Country

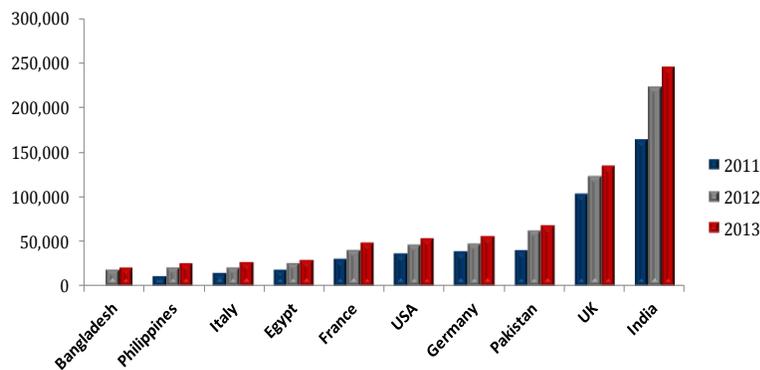
The primary source of visitation to Muscat originates from Europe, followed by Oman and the GCC, which together constitute roughly 44% of the total visitation. A significant portion of GCC demand originates from the United Arab Emirates, with visitation facilitated by travel over land to Muscat, often perceived as a weekend destination.

VISITATION BY SOURCE COUNTRIES (2012-2013)



Source: Ministry of Tourism

VISITATION BY VISAS ISSUED (2011-2013)



Source: Ministry of Tourism

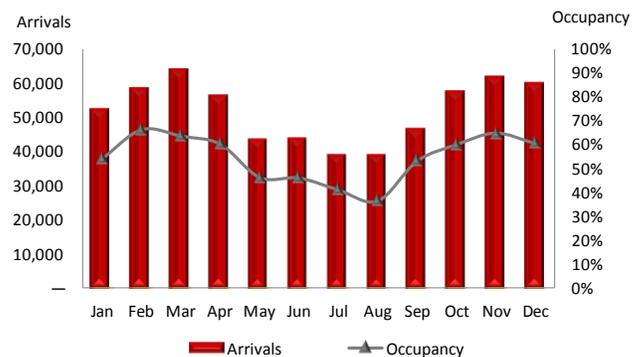
Among the European source markets, the United Kingdom continues to deliver the highest number of visitors to Muscat, reflecting an increased relevance of this market, especially to hospitality-related projects. In 2013, 133,529 visas were issued to British nationals, representing a 10% increase year-on-year. Following authorities' efforts to promote the Sultanate as an Indian wedding destination, backed by the possibility for Indian nationals investing in ITC projects to obtain permanent residency in the country, India holds the highest number of visas issued in 2013, at almost double the UK visas. This represents a 10% year-on-year increase.

Total visitation to Oman increased at a 5.2% compound annual rate between 2010 and 2013, while similar growth is forecast for subsequent years. With Omani authorities focusing on developing further demand, efforts have been intensified and geared towards achieving the 12 million tourist goal set in the national 2020 Vision.

Seasonality

With the hotel market generally benefiting from stronger occupancy during the first, second and fourth quarter, Muscat exhibits a rather typical seasonality, following the structure pervasive throughout the Middle East and determined primarily by weather conditions. The highest level of occupancy is observed from November to March, with occupancy traditionally exhibiting a trough between July and September due to the extreme heat and weaker demand during the Holy Month of Ramadan. Nonetheless, the moving impact of Ramadan will gradually observe trough periods shift into previous peak periods, thereby impacting trough periods in the near- to mid-term.

SEASONALITY

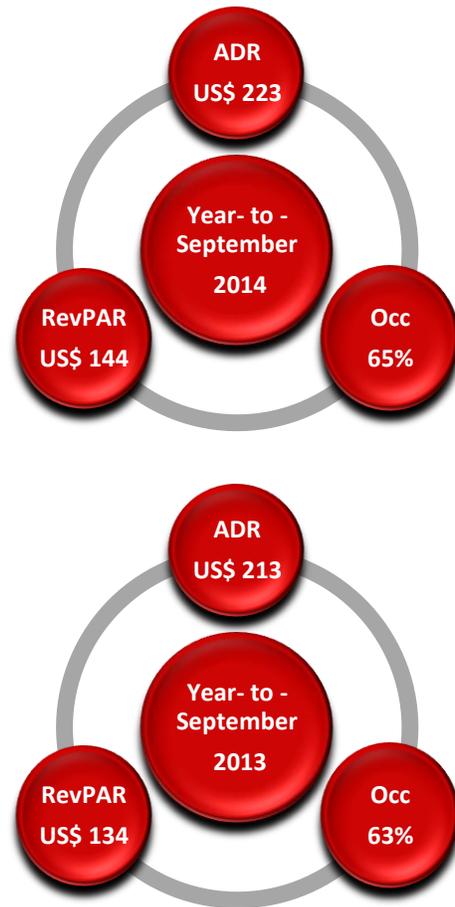


Source: Ministry of Tourism

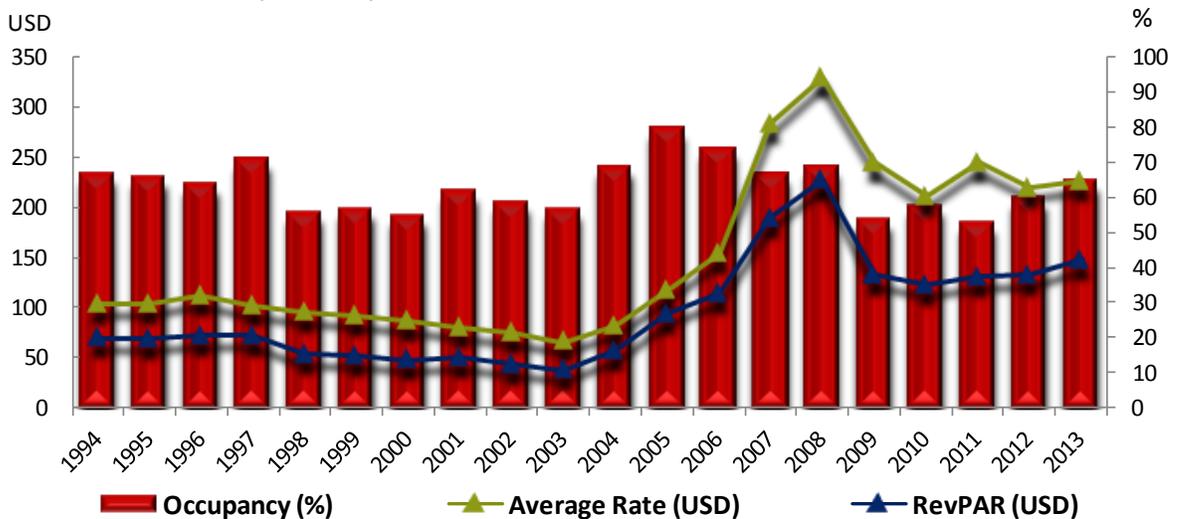
Key Performance Indicators

The hotel sector in Muscat has recorded positive performance over the last three years, with a visible impact on the economy. As a consequence, aside from travel & tourism accounting for 6.4% of GDP, it has also provided 72,000 jobs in 2013, with a growth forecast of up to 116,000 jobs by 2024. Year-to-date figures for September 2014 reveal a similar positive trend, with market wide branded hotels occupancy within the range of approximately 65%, two percentage points above same time last year performance. In terms of average rate, the branded hotel market is witnessing a 4% year-on-year growth, reaching US\$223, evidence that demand growth in 2014 is not slowing down when compared to 2013. Given that four months of low season are included in this partial results, the performance indicators are not entirely indicative of the year-end performance, as occupancy and ADR are expected to trend upwards driven by the upcoming high season. Furthermore, the delay in opening hotels initially scheduled to open by the end of 2014 will serve to further improve market performance indicators.

With over 5,000 new branded rooms scheduled to enter the market in the next years, the operators prefer to act cautiously and closely monitor market dynamics. Enhanced government efforts to achieve the 2020 Vision goals, backed by the completion of major demand generators such as the Convention Centre, should relieve somewhat the pressure generated by supply growth overpowering the demand growth.



KEY PERFORMANCE INDICATORS (1994-2013)



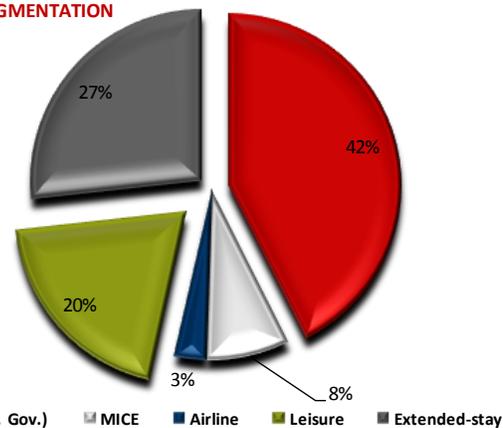
Source : HVS Research

Hotel Market Demand

Currently perceived as an undersupplied market, especially considering limited international branded hotels, Muscat is underway to implement a strategy meant to ensure a sustainable hotel sector, addressing both the supply challenge, as well as creating the infrastructure and demand generators required by a healthy tourism industry. Intensified authority efforts to strengthen and diversify the demand generators are vital, especially when considering the approximately 5,000 branded hotel rooms scheduled to enter the market in the next four years.

Currently the hotel market demand emanates primarily from commercial and government segments, accounting for 42% of the overall demand. Extended-stay demand follows suit at 27%, on the back of a lack of high quality residential accommodation available in the market. This translates further into a particular characteristic of the Muscat hotel market, currently severely undersupplied with serviced apartments. As such, hotels tend to capture a considerable amount of extended-stay demand.

HOTEL MARKET SEGMENTATION

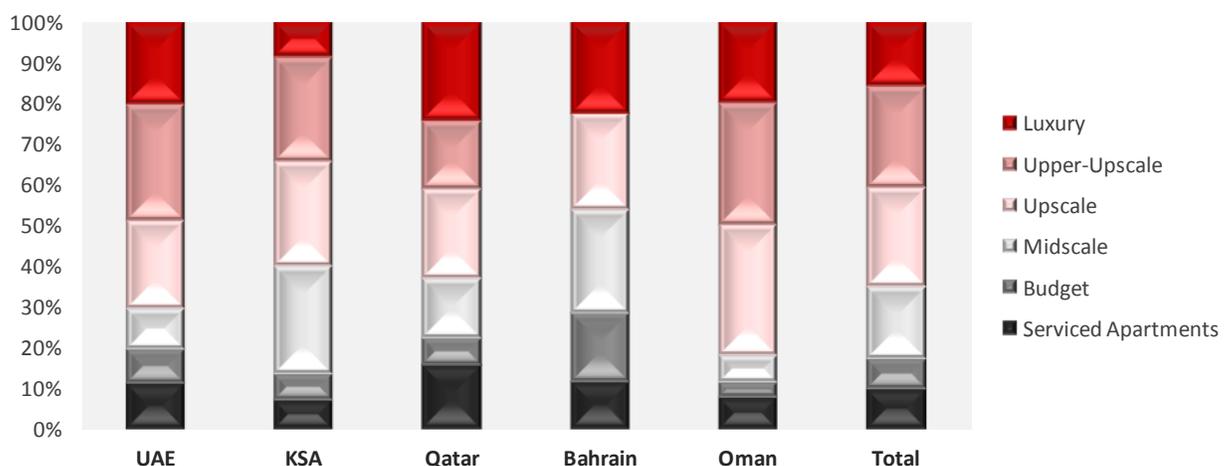


Source: HVS Research

With Muscat International Airport continuing to undergo extensive renovations and expansion work. According to Oman Airport Management Company S.A.O.C. (OAMC), the new terminal at Muscat International Airport is scheduled to be completed by the end of 2014 (although our research indicates that as of October 2014 the work is 70% complete) and will have the capacity to handle 12 million passengers annually. Further expansions planned in three subsequent phases will ultimately boost the airport’s annual capacity to 24, 36 and 48 million passengers when the demand is required. Such initiatives, complemented by efforts from the Ministry of Tourism, are expected to boost corporate and leisure visitation to Muscat year-on-year.

Similarly, the much awaited completion of the Oman Convention and Exhibition Centre by the the end of 2016 is expected to boost MICE demand, currently accounting for a mere 8% of overall demand.

% OF SUPPLY CLASIFICATION

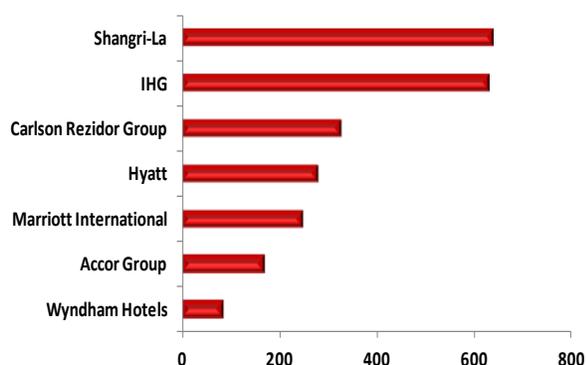


Source: HVS Research

Supply and Pipeline

As a result of the growing economy, paired with goals set in the 2020 Vision, the tourism sector is about to witness a major transformation. In order to become a key economic sector, the authorities are targeting major investments in hotel industry. The travel and tourism investment in 2013 alone was USD\$662 million and is expected to rise by 6.7% per annum over the next ten years to USD\$1,420 million by 2024. Much of this investment has been geared towards developing new hospitality projects.

OPERATOR PRESENCE IN MUSCAT BY NUMBER OF ROOMS

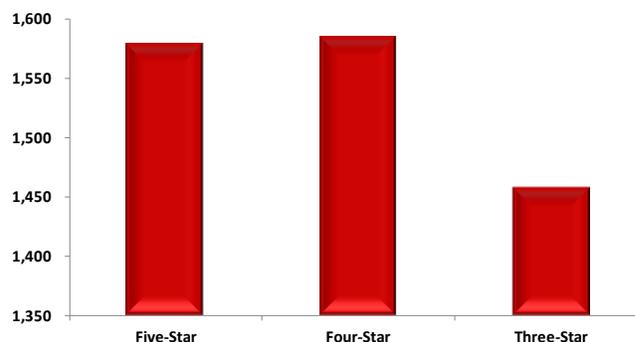


Source: HVS Research

Over the last two years minimal new supply has been introduced into the market. In 2013 alone, only the Holiday Inn Muscat brought 174 new rooms, increasing the branded supply from 2,994 rooms to 3,168. The overall supply available in Muscat counts approximately 7,600 rooms, which is expected to increase by 100% in the coming four-to-five years, provided that no further delays occur.

On the back of limited branded supply available, the international hotel operators in Muscat are scarce, with only seven players capitalizing on their presence. The highest number of rooms in the market is managed by Shangri-La, within the well-renowned Bar Al Jissah Complex. This is followed by InterContinental Hotel Group, currently being the only operator with three different brands available in the market: InterContinental, Crowne Plaza and Holiday Inn. With the upcoming supply scheduled to be introduced into the market, major international players will establish a presence including Starwood Hotels & Resorts, Millennium and Copthorne Hotels, Kempinski Hotels, Four Seasons Hotels & Resorts and Jumeirah Group, to name only a few.

EXISTING SUPPLY MUSCAT- NUMBER OF ROOMS



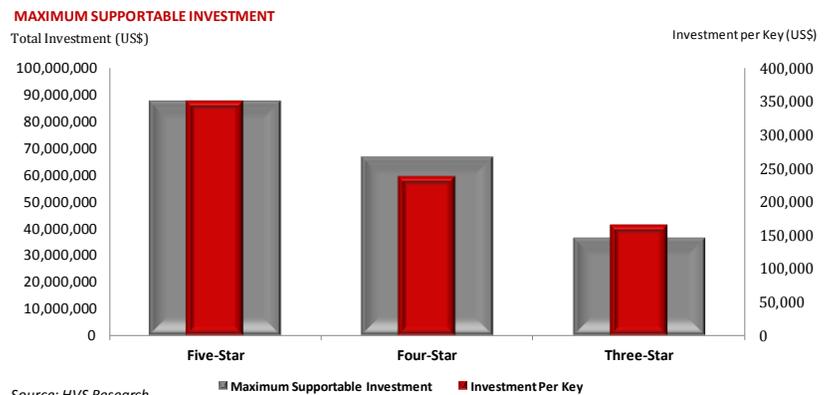
Source: Ministry of Tourism

Within this strategy, USD\$14.7 million has been allocated to Omran for further tourism development. As previously mentioned, the Muscat hotel market is currently witnessing an undersupply in terms of internationally branded hotels, with only seven five-star and five four-star branded hotels available today in Muscat. A more stringent undersupply challenge is the lack of high quality serviced-apartments in the market capable of catering to the increasing demand.

Hotel	No of Rooms	Opening
Somerset Panorama Muscat	220	2015
Copthorne Hotel Muscat	164	2015
Grand Millennium Hotel Muscat	328	2015
Millenium Executive Apartments	105	2014
Jumeirah at Saraya Bandar Jissah	316	2015
Kempinski Hotel The Wave, Muscat, Oman	309	2015
Muscat Al Qurum Beach	155	2016
Sundus Rotana Muscat 4*	245	2016
Sundus Arjaan Muscat 4*	100	2016
W Muscat	250	2017
Element Muscat	360	2018
The Westin Muscat	350	2021
Crowne Plaza Muscat	300	2016
InterContinental Muscat	250	2016
Anantara Al Madina A'Zarqa Resort & Spa	122	2014
Village Plaza Hotel The Wave	190	2015
JW Marriott	305	2017
Ghubra Golden Tulip Muscat	180	2015
Coral Plaza Qurum	88	2014
Swiss-Belhotel Muscat	95	2015
Shaza Muscat	190	2016
Four Seasons Jebel Sifah	275	TBA
Banyan Tree Jebel Sifah	316	TBA

Maximum Supportable Investments

In order to provide the maximum supportable investment for various asset classes in Muscat, several assumptions were taken into consideration. In all scenarios, the assumed opening date of the asset(s) is January 2014. Inflationary rates utilized in the various scenarios pertain to the consumer price inflation recorded in Muscat, according to the Economist Intelligence Unit as at September 2014. Ultimately, the asset(s) assume a 'wet' operation in that service of alcoholic beverages is permitted. Additional assumptions are highlighted in the Asset Class Assumption Table.



In addition to the highlighted assumptions, capitalization rates utilized in order to calculate the supportable investment figures range between 9.0% and 11.0%, whilst equity yields factored into consideration vary between 16.0% and 17.0%. In all cases, the loan to value ratio is 60%, while the holding period and the amortization assumed were 10 years and 20 years, respectively. With this in mind, presented in the adjacent tables are the maximum supportable investments for the three-star, the four-star and the five-star categories as estimated in Muscat

ASSET CLASS ASSUMPTIONS

Asset Class	No. of Rooms	No. of Restaurant	No. of Lounge/Bar	Spa	Meeting Facilities (m ²)
Three-Star	220	1	1	N	Limited
Four-Star	280	2	1	N	1,200
Five-Star	250	3	2	Y	2,000

HVS estimates of the maximum supportable investment include the cost of land in the overall development cost and the development cost per key. While it is possible that maximum supportable investments may reach these indicated levels, it is plausible that development costs may fall under these levels. With

that said, it is equally possible that development costs may exceed these estimates, and we emphasize that no investment decision ought to be made without first consulting industry specialists.

Outlook

After reaching the milestone of US\$1 billion revenue generated in 2012, Oman's tourism sector has much to look forward to in the upcoming years, particularly with the development of major projects such as the Omagine, The Wave, Jebel Sifah, Muscat Hills and Oman Convention and Exhibition Centre. Stable, long-term growth also looks particularly promising for Muscat International Airport, the regional hub for Oman Air, which is expected to expand its capacity to approximately 48 million passengers in the upcoming years.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com

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