



Cairo Market Snapshot

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INTRODUCTION

In this article, we present an overview of the Cairo hotel market; a commercial-focused market with ever increasing investment opportunities. The following points will be discussed.

- Economics and politics;
- Development and initiatives;
- Tourism, visitation and the hotel market;
- Outlook and opportunities.

The tourism industry is Egypt's leading foreign exchange earner and its most dynamic industry. Cairo, the country's capital, is in northeast Egypt. Cairo is the main commercial centre of Egypt and it has grown rapidly over the last decade. With an estimated population of around 17 million, it is by far the largest city in the Arab world. Standing at the crossroads of Africa and the Middle East, Cairo has long been an important commercial and cultural centre, dominating the region. Cairo is a city rich in historical, cultural and religious inspiration. The ancient metropolis has grown rapidly eastwards in recent years, into Heliopolis and past the international airport, stretching out to become Greater, or 'modern', Cairo.

ECONOMICS AND POLITICS

Egypt's economy depends on agriculture, media, petroleum exports and above all tourism and the traffic going through the Suez Canal. The IMF has rated Egypt as one of the top countries in the world for undertaking economic reforms, which include a dramatic slashing of customs and tariffs and also a new taxation law which in 2005 decreased corporate taxes from 42% to the current 20%.

Despite several aspects of Egypt's economy (such as the country's robust external position, its high growth rate, the government's commitment to much needed economic reforms and liberalisation and the consolidation of the banking sector by improving finance for the private sector and overhauling commercial legislation) the high degree of social vulnerability and high inflation can be important in making decisions to invest in the country. However, the National Development Plan, which

covers the next five years, includes an ambitious target for average annual real GDP growth of 8.8%.

Foreign direct investment (FDI) in Egypt has increased considerably in the past few years owing to the recent economic liberalisation measures taken by the government. The tourism sector is a big FDI earner for Egypt, bringing in 19.3% of foreign investments. The government expects this figure to rise by 26% to US\$12 billion by 2011.

The government has taken steps to cut bureaucracy and create a more favourable climate for foreign investment. The country's stock market is performing well and GDP growth rates are healthy. Banks have started providing access to long-term credit. Continued economic reforms should ensure sustained foreign investment despite the impact of the credit crunch.

DEVELOPMENT AND INITIATIVES

Egypt is in the midst of a tourism boom with developers busy planning major resorts along the Mediterranean and Red Sea coastlines. In addition, with the announcements of megaprojects, such as New Cairo City (NCC) and Al Rehab, Cairo is seeing a shift from downtown Cairo to eastern areas of the city. As Cairo is considered more of a commercial destination, with short-term leisure demand stemming from cultural tourism, many of the proposed developments focus on commercial demand and they are aimed at enticing more international companies to do business in Cairo.

The following paragraphs summarise some of the major developments currently under way in the Cairo area.

NCC: this megaproject covers an area of approximately 281 million m² and was established under the New Urban Communities Authority in 2000. It is currently expected to be able to accommodate a population of roughly 2.5 million upon its completion.

The vision of NCC, according to authorities, is as follows.

- To be the new commercial hub of Cairo;
- To alleviate the pressure on existing infrastructure and expand the size of the Greater Cairo area;
- To potentially be the most up-market residential district in the area.

The NCC is expected to be developed as a city within a city and offer all of the services that a major metropolitan city would offer. The project's site has been distributed into parcels of land and each parcel has been allocated a zoning regulation. The entire development is expected to house the following.

- The Mubarak Police Academy;
- Katameya Golf Course;

- Luxury residential developments;
- Hotels and serviced apartments;
- An industrial zone;
- A commercial zone (business park);
- A government ministry zone;
- The American University campus;
- An educational zone.

Barwa New Cairo: an 8.4 million m² mixed-use development in NCC seven kilometres from the new American University in Cairo. The project will comprise 40,000 residential apartments, 2,000 villas, a business park, a medical centre, education facilities, hotels and a retail complex. The first phase of the project is expected to be completed in 2014 with full completion envisaged for 2023.

Emaar New Cairo: the EGP5.75 billion (AED3.7 billion/US\$1 billion) residential community in the fifth district of NCC is close to the new campus of the American University, and it will be spread over 3.8 million m². It will be an upscale residential community with approximately 5,000 residential units and amenities such as private clubs, restaurants, cafes, schools, hotels, swimming pools, healthcare facilities, shopping centres and places of worship.

Al Rehab: this project is the first city to be built by the private sector in Egypt and it will have comprehensive services to cater for all of the needs of its residents. It covers an area of ten million square metres in NCC and will accommodate 200,000 inhabitants. Upon its completion, the city will comprise ten sections, each built on an area of approximately 250 acres. The city will have five language schools, clinics and medical Centres (with a varied range of specialist doctors in diverse disciplines), a commercial area and a large sports and social club.

Palm Hills: Palm Hills is one of Egypt's prime real estate developers and it is currently working on a number of projects. The high profile Palm Hills in 6 of October city is completing its expansion phase which will include luxury villas, townhouses and apartments, a 27-hole professional golf course, a hotel, a tennis club, restaurants and a spa. This project is expected to be completed by the middle of 2012. Palm Hills' second development is in NCC, within Katameya. Palm Hills Katameya is residents a fully equipped community away from the bustle of the city. The development will offer tailor-made villas and townhouses, and a fully equipped clubhouse with swimming pools, tennis courts, a spa, and restaurant outlets. This development is expected to be finished by 2012.

Citystars New Cairo: Citystars has already completed their first development in Cairo in the Heliopolis area and the NCC project is expected to be a smaller version of the existing Citystars, albeit offering all the amenities which have become synonymous with the Citystars brand. It is expected that the development will include residential apartments, a large retail complex, a business park and educational facilities. It has also recently been announced that there will be two hotels within the development: a Staybridge Suites and a Crowne Plaza.

Cairo Festival City: drawing on the success of Dubai Festival City, Al Futtain group is developing a mixed-use development at the entrance of NCC. The development will be built on approximately three million square metres over four phases. Construction of the first phase has already begun. The development will consist of residential districts (481 villas), a retail district, three business districts, a hospital, educational buildings, two hotels and a festival centre and festival village, which will be indoor and outdoor shopping and entertainment facilities. There development also contains an existing 60,000 m² auto mall.

Madinaty: built over 33.6 million m² in the farthest corner of NCC, Madinaty boasts secluded luxury living and promises to provide residents with all of the amenities offered within the city. Madinaty is expected to comprise apartments and villas, hospitals, a championship golf course, hotels, entertainment facilities, educational facilities, a business park and lush landscaped areas for the enjoyment of the inhabitants. It has recently been announced that a Four Seasons hotel will be located within the development. Madinaty is not expected to be fully completed until 2026.

Damac Hyde Park: also known as Garden Heights, Damac is a proposed a centred around green living. Completion was expected for 2011; however, the project has been delayed indefinitely owing to the worldwide economic situation and Damac's current financial situation. The project is envisaged to have 3,000 villas, a one million m² landscaped park, a country club, swimming pools, squash courts, football and retail zones.

Nile Corniche Towers: on the Nile's east bank, 45 minutes from Cairo International Airport, Qatari Diar aims to develop these iconic towers which are expected to become the most exclusive address in downtown Cairo. The towers will offer luxury apartments, penthouses, serviced apartments, offices, retail facilities, restaurants and a five-star hotel. The project will offer the sophistication of modern design mingled with traditional Egyptian architecture.

Cairo Financial Centre (CFC): The Cairo Financial Centre Company plans to develop the CFC, a real estate development in Cairo. The project will cover an area of 750,000 m² and it will overlook the Citadel fortress.

The CFC will be developed in two phases. Phase one will include the construction of a 16-screen theatre complex, 56,000 m² of office space, an 88,000 m² retail area and 3,000 parking spaces. Phase two will consist of 74,000 m² of retail space, a 9,000 m² exhibition and conference centre, a health club, a 450-room hotel and 3,000 parking spaces. The project will surround a 15,000 m² open plaza. The project has been in the planning stage since 1995. It has faced delays owing to concerns regarding its impact on the 12th century Citadel.

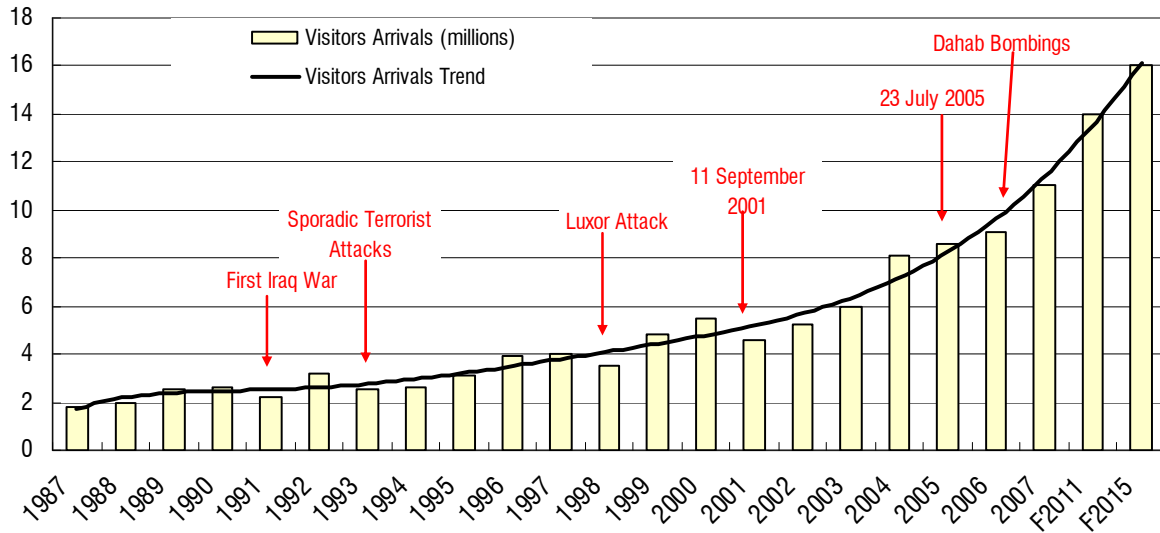
TOURISM, VISITATION AND THE HOTEL MARKET

The tourism industry has been Egypt's leading foreign exchange earner and its most dynamic industry; however, it is vulnerable to the effects of terrorism and political instability.

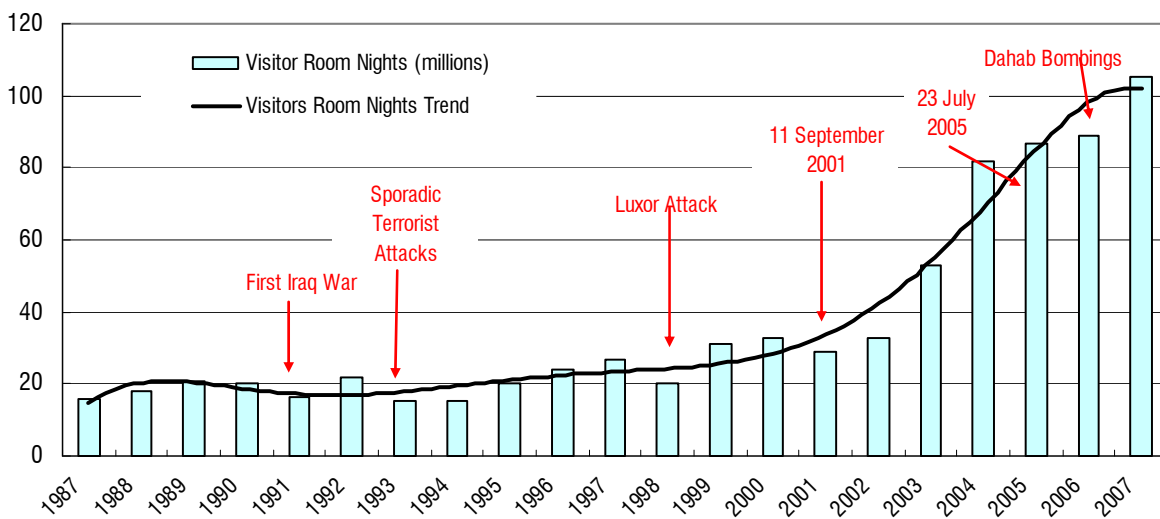
The compound annual growth in the number of visitor arrivals has averaged 9.5% over the last 20 years and 13.6% over the last nine years, despite the regional and global events that have had a negative impact on travel patterns. Furthermore, tourism demand to Egypt has proven resilient to force majeure and, despite setbacks, the recovery in demand has remained strong over the last ten years, as shown in Table 1.

Table 1 outlines the growth in visitor arrivals and room nights between 1987 and 2007 and indicates the Government's forecast of arrivals in 2011 and 2015. We note that at the date of writing this article, the Egyptian Ministry of Tourism had not released the figures for 2008.

Table 1 Annual Visitor Arrivals and Room Nights – Egypt 1987-07



Source: Egyptian Ministry of Tourism



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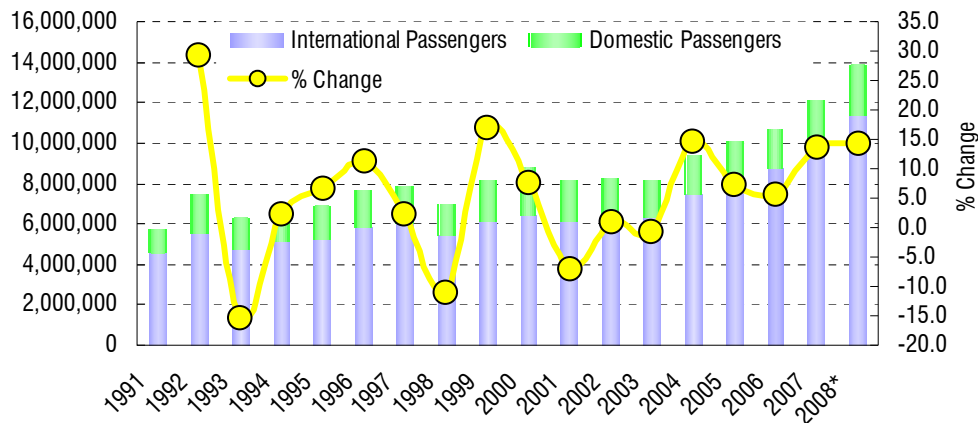
In 2007, Russia overtook the UK as the top country of origin for visitation to Egypt, followed by Germany, Italy and France. Although China is not yet in the top ten, visitation from this country increased by almost 57% on 2006. India also recorded a sharp increase, of 35%, and European countries such as Denmark (42.3%), Norway (32.5%), the Czech Republic and Austria (both 26%) also recorded a high growth in visitors to Egypt. Although European countries still take two-thirds of the market, the number of visitors from other Arab countries and Asia is growing and these regions are taking a greater market shares than they used to. Demand for Egypt is generally on the rise. No official data for 2008 were

available at the time of writing this article; however, hotel occupancy in the first and second quarters of 2008 indirectly proves this trend in rising demand. The terrorist attacks in July 2005 certainly slowed the growth in visitor numbers, more so than the incidents at the Red Sea resorts in early 2006. Nevertheless, the sentiment from industry professionals and tourism leaders is that the recovery in tourism growth will continue and that further growth is possible in the coming years.

Despite the war in Iraq and recent political unrest in the Middle East, the total number of arrivals at Cairo International Airport increased by approximately 5.7% in 2006, 13.6% in 2007 and an estimated 14.2% in 2008.

Table 2 Passenger Arrival for Cairo Airport 1991-2008

Year	International		Domestic		Total	
	Passengers	% Change	Passengers	% Change	Passengers	% Change
1991	4,572,210		1,194,608		5,766,818	
1992	5,570,749	21.8 %	1,878,710	57.3 %	7,449,459	29.2 %
1993	4,771,987	-14.3	1,535,869	-18.2	6,307,856	-15.3
1994	5,102,883	6.9	1,362,158	-11.3	6,465,041	2.5
1995	5,284,520	3.6	1,620,582	19.0	6,905,102	6.8
1996	5,819,212	10.1	1,871,118	15.5	7,690,330	11.4
1997	5,977,826	2.7	1,902,642	1.7	7,880,468	2.5
1998	5,414,571	-9.4	1,587,372	-16.6	7,001,943	-11.1
1999	6,143,344	13.5	2,045,699	28.9	8,189,043	17.0
2000	6,444,772	4.9	2,363,281	15.5	8,808,053	7.6
2001	6,114,212	-5.1	2,065,836	-12.6	8,180,048	-7.1
2002	6,269,742	2.5	1,979,788	-4.2	8,249,530	0.8
2003	6,330,015	1.0	1,863,790	-5.9	8,193,805	-0.7
2004	7,486,886	18.3	1,899,821	1.9	9,386,707	14.6
2005	8,019,309	7.1	2,070,030	9.0	10,089,339	7.5
2006	8,736,630	8.9	1,929,078	-6.8	10,665,708	5.7
2007	9,912,005	13.5	2,199,195	14.0	12,111,200	13.6
2008*	11,341,412	14.4	2,489,578	13.2	13,830,990	14.2
Compound Annual Growth Rate 1991-07		5.8 %		4.7 %		5.6 %



* 2008 figures are from unconfirmed sources

Source: ACI Worldwide Airport Traffic Report 1991-07

Despite peaks and troughs over the past ten years, airport passenger arrival numbers have increased since 1991 at a compound annual rate of 5.6%. The existing airport is somewhat dated in appearance, and is restricted in terms of capacity. However, we note that under the umbrella of the Ministry of Civil Aviation, the Egyptian Holding Company for Airports and Air Navigation, and Cairo Airport Company's management team, the following projects are planned or underway to

expand and upgrade the capacity and facilities of Cairo International Airport.

- Terminal 3 was scheduled to open in the fourth quarter of 2008; however, this opening has been pushed back to the second quarter of 2009. The new terminal will be connected to Terminal 2 via a bridge. Access roads will be redesigned, and the car parks will be relocated;
- The World Bank has selected Turkish construction consortium TAV to carry out the US\$350 million expansion project. Construction started in mid December 2004. The development of Terminal 3 will increase the capacity of the airport from 9 million to 20 million passengers a year;
- The master plan includes a 164,000 m² three-level main building and two extendible piers with gates facilities serving domestic and international traffic, handled through contact and remote. The main building and the piers are connected by concourses. Two of the gates will be equipped to handle the Airbus A380 aircraft;
- Le Méridien Cairo Airport, a luxury 350-room, five-star hotel, will open at the beginning of 2011 as part of Terminal 3. A third of the rooms will be located inside the customs area, to provide accommodation to transfer passengers.

Table 3 shows future international arrivals, as forecast by Euromonitor International in their 2008 report on Egyptian Tourism.

Table 3 Forecast of International Arrivals 2006-11

Year	International	
	Arrivals	Change %
2006	9,414.50	—
2007	10,557.20	12.1 %
2008	11,370.10	7.7
2009	12,455.60	9.5
2010	13,868.50	11.3
2011	14,471.70	4.3

Source: Euromonitor International 2008

These forecasts appear to be in line with the already achieved numbers, but we note that with the existing infrastructure it will be difficult for visitor numbers to increase to the projected figures for 2010 and 2011. However, upon completion of Terminal 3, Cairo International Airport is expected to double its capacity and provide state-of-the-art services and facilities. We consider this development to significantly increase the ability of the Egyptian government to achieve the tourism growth targets that it has set for the near future.

The Cairo Hotel Market

The hotel market in Cairo is divided into three separate submarkets. Although there are similarities between all three submarkets and each is impacted on a macro scale by global events (such as the events of 11 September 2001 in the USA and the war in Iraq), each market operates on a separate micro scale and has different demand generators and characteristics.

The three key markets in Cairo are as follows.

1. City Centre.
2. Pyramids.
3. Heliopolis.

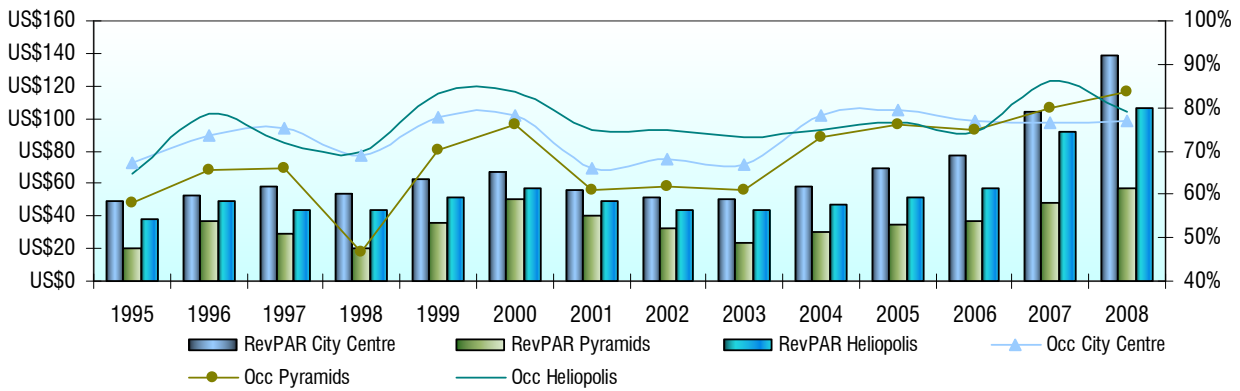
The **City Centre** market is located centrally, alongside the River Nile, and hotel demand is oriented towards both leisure and commercial concerns. The hotel market in the area is well developed, with luxury brands, including Four Seasons (two properties) and Grand Hyatt, strongly represented.

The **Pyramids** market is predominantly leisure oriented. Hotel demand is generated by the hotels' proximity to the Pyramids and the Sphinx. The Pyramids market is characterised by a steady influx of British, French, Italian and Spanish tourists. Japanese and Scandinavian tourists also stay in the area's hotels in the spring season. The average length of stay in this market tends to be shorter (one to three days) and hotel guests are typically on a regional or a domestic tour. The average length of stay for commercial demand is one to two days.

The **Heliopolis** area has a balance between commercial and leisure demand. With the development of Citystars, the commercial segment in this area has quickly expanded and is characterised by a variety of international and local companies. The market is also influenced by its proximity to Cairo International Airport. The airport itself, through airline crew and transient demand, generates significant demand for hotels in the Heliopolis area. Furthermore, this area has come to include NCC, as there have been few developments in the area as yet.

Table 4 summarises occupancy and RevPAR for the three markets from 1995 to 2008.

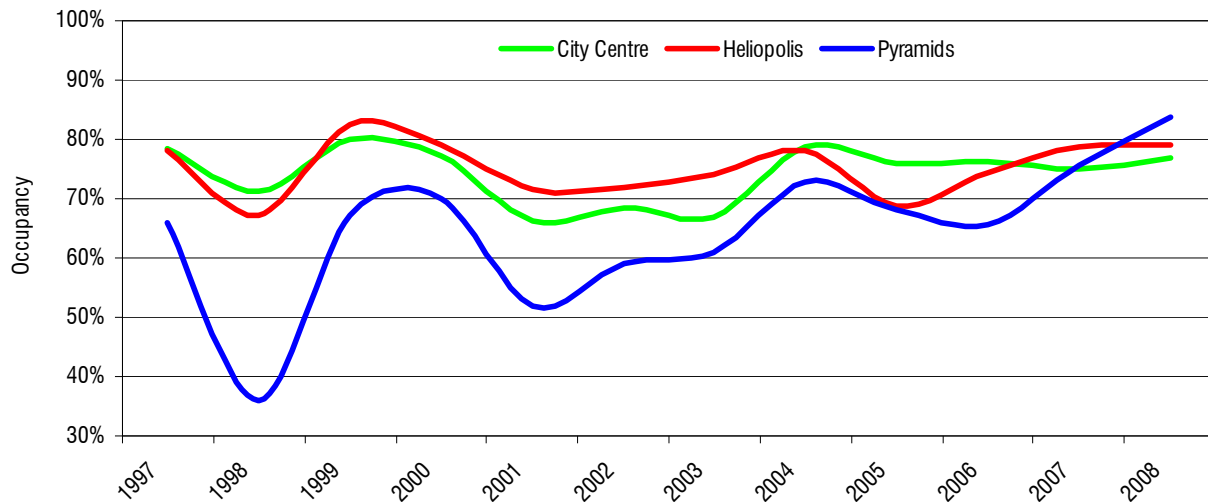
Table 4 Hotel Occupancy and RevPAR – Cairo 1995-08



Source: HVS Research

Table 4 shows that the Pyramids market is more sensitive owing to its significant orientation towards leisure demand. The City Centre and Heliopolis markets are more resilient on account of their balanced market mix; thus, occupancy in these two markets is much more stable. The Heliopolis market has been steadily able to achieve a high occupancy and average rate, with the forecast for 2008 being that the area will surpass the City Centre market in terms of average occupancy and rate.

Table 4 also illustrates that the RevPAR attained in each submarket has evolved over the years, creating a large difference between hotel performance in the Pyramids market and the City Centre and Heliopolis markets, owing mainly to an almost stagnant average daily rate in the Pyramids area as well as the dependency on leisure travel.

Table 5 Hotel Marketwide Occupancy – Cairo 1997-08

Source: HVS Research

We note that the Pyramids market remains more sensitive to disruptive world events, owing to its significant orientation towards leisure demand. The City Centre and Heliopolis markets are more resilient, owing to their balanced market mix. We note that the markets' overall sensitivity appears to be diminishing; as international acts of violence become more common in Europe and the USA, Egypt no longer stands apart, in contrast, as a dangerous destination.

Outlook and Opportunities

The future for tourism in Egypt and, specifically, Cairo looks promising. Hotel operators have been changing strategy to project Cairo as a more upscale tourism destination, by increasing rates, which until now have proven to be beneficial to the bottom lines of the hotels in the Cairo market. With a large number of five-star and four-star properties expected to enter the market in the near future, as shown in Table 6, we consider that it is important that each development has a differentiating factor to set it apart from the others.

Table 6 New Hotel Supply

Property Name	Number of Rooms	Projected Opening Date	Status
Dusit Thani Lake View Cairo	210	1 January 2009	Recently Opened
Radisson SAS	427	1 September 2009	Under Construction
Total New Supply 2009	637		
Fairmont Nile City	552	1 January 2010	Under Construction
Total New Supply 2010	552		
Courtyard by Marriott Mirage City	250	1 January 2011	Early Development
Le Meridien Cairo Airport	350	1 January 2011	Early Development
Scandic Heliopolis	426	1 January 2011	Rumoured
Total New Supply 2011	1,026		
St. Regis Cairo	402	1 January 2012	Early Development
Total New Supply 2012	402		
The Address-Uptown Cairo	200	1 January 2013	Approved
Total New Supply 2013	200		
Crowne Plaza Citystars	350	1 January 2014	Approved
Staybridge Suites Citystars	150	1 January 2014	Approved
Four Seasons Madinaty	250	1 January 2014	Approved
Proposed Barwa Budget Hotel	250	1 January 2014	Speculative
Proposed Barwa Business Hotel	400	1 January 2014	Speculative
Total New Supply 2014	1,400		
Five-star Hotel Cairo Festival City	400	1 January 2015	Speculative
Four-star Hotel Cairo Festival City	350	1 January 2015	Speculative
Total New Supply 2015	750		
Proposed Four-star Hotel	300	1 January 2017	Speculative
Total New Supply 2017	300		

Conclusion

Cairo's tourism sector has much to look forward to in the next few years. However, the economy remains vulnerable to the government's ability to maintain a stable currency exchange rate and to encourage privatisation. We note that this has recently been addressed with some success. In addition, the regional political instability is likely to have a negative impact on Egypt's prosperity.

Cairo is likely to remain the key commercial and tourism hub in Egypt. With continued improvements to the city's infrastructure and with

further commercial and leisure developments, including the expansion of the airport, demand for hotel accommodation in the market area is likely to be positive in the coming years. However, we note that with the current economic situation being felt in the source markets, Cairo's hotel market is expected to experience a downturn over the next one to two years. We expect that during this time, the government will take the opportunity to market Cairo and Egypt as a tourism destination for all types of travellers.

Overall, we consider that Cairo has not yet achieved its full potential in terms of tourism demand and that the market remains unbalanced and predominated by leisure demand. We envisage that with the new developments in NCC and the focus on commercial development, the market will achieve more balance and be able to target a wider array of tourism demand.

Third-party consultants should be consulted before undertaking any investment decision. For questions or enquiries about this article please contact HVS or the authors.

About the Team

HVS has a team of experts that conducts our operations in the Middle East and North Africa. The team benefits from international and local backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last three years, the team has advised on more than 150 projects in the region for hotel owners, developers, lenders, investors and operators. HVS has advised on more than US\$25 billion worth of hotel real estate in the region.

About the Authors



Natasha Kassam is a Consulting and Valuation Analyst with HVS Dubai. Having started her career with at a young age with Sterling Group in Canada, she worked her way up the ladder learning the different aspects of the operations of a hotel. In 2006, after completing a Bachelors of Commerce she decided to pursue her career in hospitality and attended Les Roches School of Hotel Management for her MBA in International Hospitality Finance. Following her studies, Natasha reconnected with Sterling Group in the real estate and acquisitions department and travelled across Africa and the Middle East trying to establish the company's first international hotel. Natasha joined HVS in May 2008 and has since worked on numerous mid and large-scale mixed-use developments and has conducted various feasibility, return on investment and highest and best use studies across the Middle East.



Hala Matar Choufany is the Managing Director of HVS Dubai and is responsible for the firm's valuation and consulting work in the Middle East and North Africa. She initially joined HVS London in 2005, moved to HVS Shanghai in September 2006 where she helped grow HVS's Shanghai office and business in the Asia region. She relocated to Dubai in September 2007 and looks after HVS's interests in the Middle East. Before joining HVS International, Hala had four years of operational and managerial hotel industry experience. She lectured at Notre Dame University in Lebanon on International Travel and Tourism. Hala holds an MPhil from Leeds University, UK, an MBA from IMHI (Essec-Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala has worked on several mid and large-scale mixed-use developments and conducted numerous valuations, operator searches and feasibility, return on investment and market studies in Europe, the Middle East and Asia.

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