

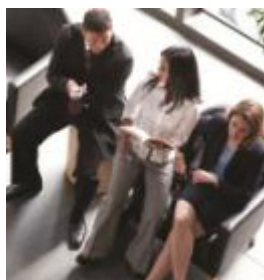


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SPOTLIGHT ON MOROCCO: MARRAKECH'S LUXURY HOTEL MARKET

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Summary

Marrakech is a city that shows significant potential for tourism: the number of airport passengers and hotel overnights grew considerably year-on-year from 2004 to 2008, and rebounded in 2010 after the global slowdown caused falls in visitation. This demand for the city came from all market segments, in particular leisure and MICE visitation. Over recent years, the market has experienced vast interest from investors in luxury hotel developments and Marrakech has a substantial pipeline of internationally branded hotels due to enter the market in the near future. In this article, we will explore what effect this is likely to have on the demand/supply balance in the luxury sector, concluding with a performance forecast up to 2016.

Setting the Scene

The Kingdom of Morocco encompasses the northwestern tip of North Africa, with the ‘red city’ of Marrakech in the mid southwestern region. Marrakech is one of four imperial cities in Morocco, as well as being an important ‘meeting point’ between the north and south of the country. Morocco has traditionally been a constitutional monarchy and since 1999 King Mohamed VI has been at the forefront of new democratic reforms. Morocco has also largely remained unaffected by the ‘Arab Spring’, which caused political and local unrest in the region.

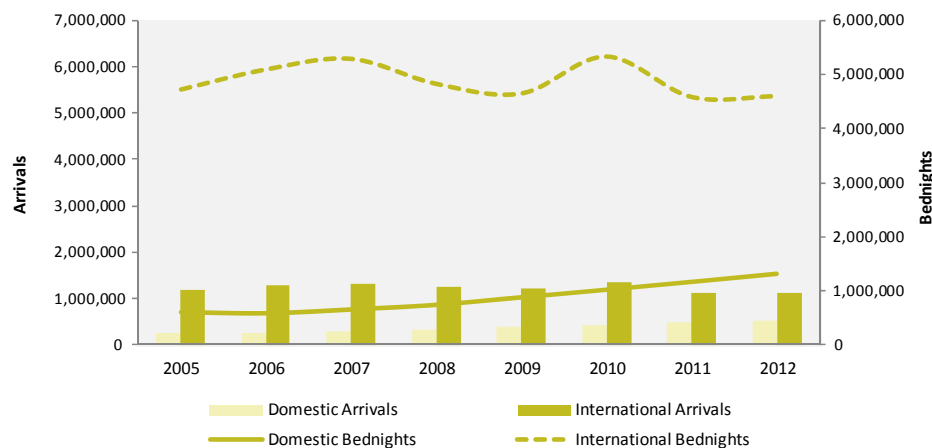
In 2012, the travel and tourism contribution to GDP was 18.7% (MAD158.2 billion), according to WTTC, and this figure is forecast to rise by 5.5% per annum until 2023. The goal of the Moroccan government’s original Vision 2010 plan was to welcome 10 million visitors a year by 2010; this strategy yielded great results and led to the creation of Vision 2020 in December 2010. Vision 2020 comprises ambitious targets, with an anticipated 200,000 further tourist beds to be created throughout the country, as well as doubling tourist numbers and tripling the number of domestic travellers.

Demand

Marrakech has similar demand patterns to traditional resort destinations, with leisure demand prevalent during the high season, with extended demand for long weekends, and increased MICE demand during the shoulder and low seasons.

Arrivals grew at a compound annual rate of 2.0% between 2005 and 2012. However, the bomb attack on Jemaa el Fna in April 2011 and the Arab Spring in other North African countries led to a stark decrease of 11% in 2011, with only a minor recovery of 2% in 2012. Year-to-May 2013 data show further

FIGURE 1: ARRIVALS AND BEDNIGHTS – MARRAKECH

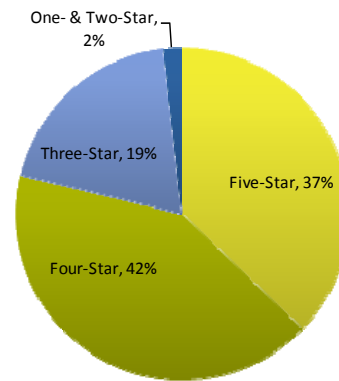


Source: Moroccan Ministry of Tourism

improvements to arrivals with an increase of 11.1% on the same period in 2012. This change was mainly led by a 16.2% increase in international arrivals, which shows a promising trend for year-end and the recovery of Marrakech as a destination.

Total **bednights** grew by 1.8% between 2005 and 2012, mainly driven by double-figure growth in the domestic market, as international bednights remained largely unchanged, closely mirroring the trend in arrivals. This trend had somewhat reversed by year-to-May 2013, when international bednights recorded an increase of 14.2% on the same period in 2012 and domestic demand remained stable. The **average length of stay** remained largely unchanged over the period under review, with an average of 2.4 nights for the domestic segment and 4.0 nights for international travellers.

FIGURE 2: BEDNIGHTS BY HOTEL CATEGORY 2012

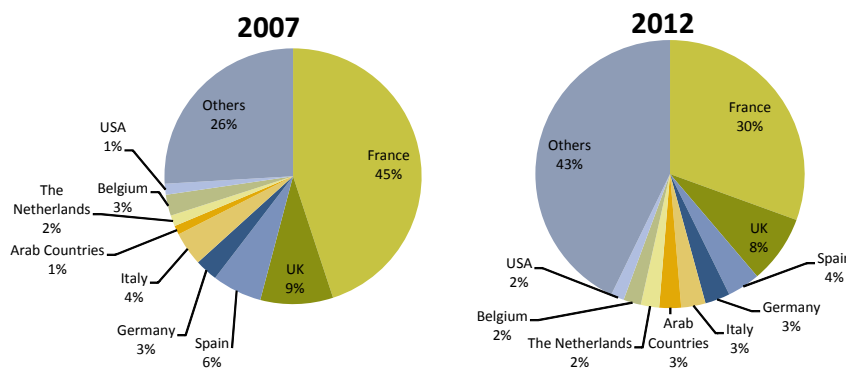


Source: Moroccan Ministry of Tourism

Figure 2 shows the breakdown of bednights by hotel category (excluding pensions, tourist residences and villages and so forth), highlighting the importance of the four- and five-star markets in Marrakech, which represent nearly 80% of total bednights.

In 2012, visitation from the three **main feeder markets** (France, the UK and Spain) decreased severely compared to the boom in 2007, whilst arrivals from Germany, the Netherlands and the USA increased and visitation from the Arab Countries more than doubled. However, France and the UK still make up 40% of total visitation, albeit this is somewhat lower than the 54% in 2007. Marrakech has experienced growing popularity with other nations such as Brazil, and therefore we expect further increases from the BRIC countries.

FIGURE 3: MAIN FEEDER COUNTRIES 2007 AND 2012



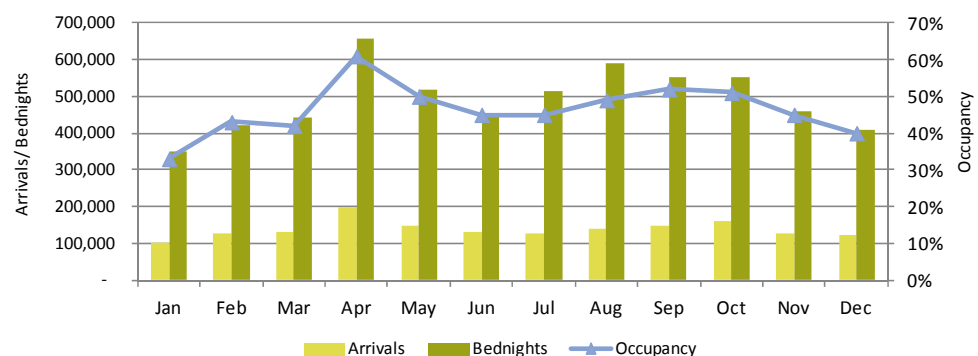
Source: Moroccan Ministry of Tourism

Figure 3 highlights the key changes in the source markets from 2007 and 2012.

The **seasonality** of demand, shown in Figure 4, indicates a strong seasonality pattern, similar to that of a resort destination.

Marrakech's high season is from March to May, as well as August, September and October. Other peak periods in the year are Easter and New Year. Low seasons are defined by very hot summers and cooler winters. Marrakech has, however, managed to establish itself as a good alternative MICE destination to Europe, and puts special focus on this business during the quieter months.

FIGURE 4: SEASONALITY – 2012

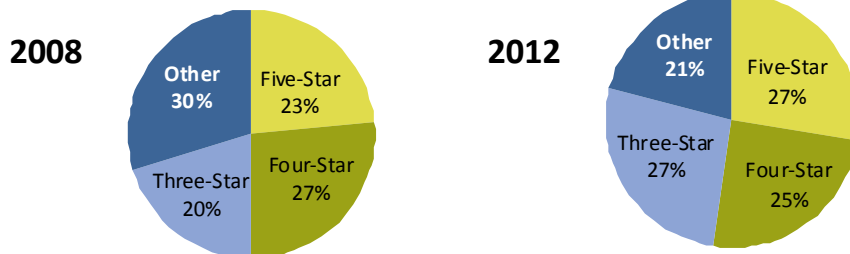


Source: Moroccan Ministry of Tourism

The main transport hub in the city, **Marrakech Menara Airport** is undergoing major refurbishment and extension work. As part of the government-backed tourism strategy, there have been many efforts to boost airport arrivals, which resulted in a three-phase transformation of the airport. Phases one and two, which have been completed, involved the extension of Terminals 1 and 2 with new passport control desks and so forth and a new cargo area. Phase 3 is currently under construction with the creation of Terminal 3, which will provide an additional space of 26,000 m², and is expected to increase the airport’s capacity by 1.5 million passengers.

The airport recorded strong growth between 2002 and 2012, with a compound annual rate of 9.8% to more than 3.3 million passengers a year, mainly driven by international travellers. The airport remains a hub for low-cost airlines, including easyJet and Ryanair. However, we note that as of October 2013 British Airways is planning to increase its flight frequency to London to ten flights a week, and Swiss will provide further flights from Geneva as of November 2013. Additionally, in 2012 Air France launched new routes from Marseille and Toulouse to Marrakech. In order for the luxury hotel market to experience bigger growth, we are of the view that more premium airlines will need to service the destination in the future.

FIGURE 5: HOTEL SUPPLY PER CATEGORY 2008 AND 2012



Source: Moroccan Ministry of Tourism

Supply

The total number of hotels in Marrakech increased by 27% to 124 between 2008 and 2012, which was mainly driven by an almost 50% increase in the five-star segment and a 65% increase in three-star hotels. Consequently, the

share of five- and three-star hotels increased to 27% each. It is worth noting that in 2012 41% of total room stock was in the five-star segment, with a total of 6,540 rooms. With steady growth in visitor numbers expected over the coming years, and the implementation of the government-backed Vision 2020, we expect the sharp increases in supply to be absorbed in the medium term.

Supply Trend – Luxury Segment

Marrakech has experienced substantial growth in luxury hotel supply over recent years, with even more in the pipeline until 2016. New openings in 2010 included the über luxurious Royal Mansour with 53 rooms. In 2011, the 141-room Four Seasons Hotel and Residences opened, and all the residences had sold out in very short time. The biggest increase took place in 2012 with three luxury hotel openings: the 41-room Palais Namaskar, which is part of the renowned Oetker Collection; the 61-room Selman hotel, which opened its doors in the southwest of the city in August; and the Delano, which followed in September in the Hivernage district of Marrakech – Morgans Hotel Group’s first venture in Morocco. The long-awaited opening of the Taj Palace took place at the beginning of 2013, with some 89 rooms, while the remaining room stock is expected to enter the market by the end of the year. New supply in the five-star and luxury market will continue with many more internationally branded hotels entering the market over the coming years.

THE ROYAL MANSOUR, MARRAKECH



SOURCE: HVS

THE TAJ PALACE, MARRAKECH



SOURCE: HVS

- The **Taj Palace**, 20 to 30 minutes' drive northwest of the city, partially opened in February 2013. The remaining rooms will be added to the market by the end of the year. When complete, the hotel will have 161 rooms;
- The **Royal Palm Beachcomber** is to be located within the Domaine Royal Palm Resort, which is currently under construction. The scheme is 12 km southwest of Marrakech city centre and faces the Atlas Mountains. The resort covers a substantial area and will include 250 villas as well as an 18-hole golf course designed by Cabell B Robinson. Construction is well underway on the 125-room hotel and it is expected to be completed within the first quarter of 2014;
- The **Mandarin Oriental** is a luxury development comprising 61 villas in the Palmeraie area of Marrakech. We understand that the hotel is currently under construction and is estimated to open in 2015;
- The **Baglioni** is within a 14-hectare resort ten minutes by car from Marrakech. We understand that the hotel will provide 72 keys and is expected to be completed in mid 2015. The hotel is said to have a 1,200 m² spa which is likely to be operated by Six Senses. We note that construction on the hotel has started, but because of slower than expected villa sales it has been delayed;
- The **Park Hyatt**, within the boundaries of the Al Maaden Golf Resort, is scheduled to open in the third quarter of 2015 and will provide 130 keys, a restaurant, a fitness centre and spa, a lounge, bars and conference rooms. We understand that construction is underway, but delays meant that the original 2014 opening date was not achieved;
- We understand that a management contract is in place with Rocco Forte for the operation of a hotel within the **Assoufid** development. We were unable to confirm the construction status at this stage, but the hotel is likely to open in 2016 and will have some 98 keys;
- The **Ritz-Carlton Resort** will be developed around the Jenan Amar Polo Fields, some 20 km outside of Marrakech. The hotel will have 60 suites and 20 villas, a number of bars and restaurants and a luxury spa. The hotel is slated to open in the third quarter of 2016 and construction is expected start in the last quarter of 2013.

Albeit not classifying as top-level luxury, the Radisson Blu Marrakech Eden and a Mövenpick hotel (part of the Menara Mall development) are expected to open in 2014. We note that there are many other rumoured developments at very early stages, but at the time of writing this article we have not been able to verify the exact details.

We expect the vast amount of new supply to be absorbed over the medium to long term, as the market continues to mature, with increased airlift from the main source countries, and increased marketing efforts as part of Vision 2020.

The new supply includes the following developments, some of which have been in planning for quite some time but were delayed because of the worldwide financial crisis. We note that we consider it likely that a number of these projects will be (further) delayed and might not enter the market in the near future.

AMANJENA, MARRAKECH

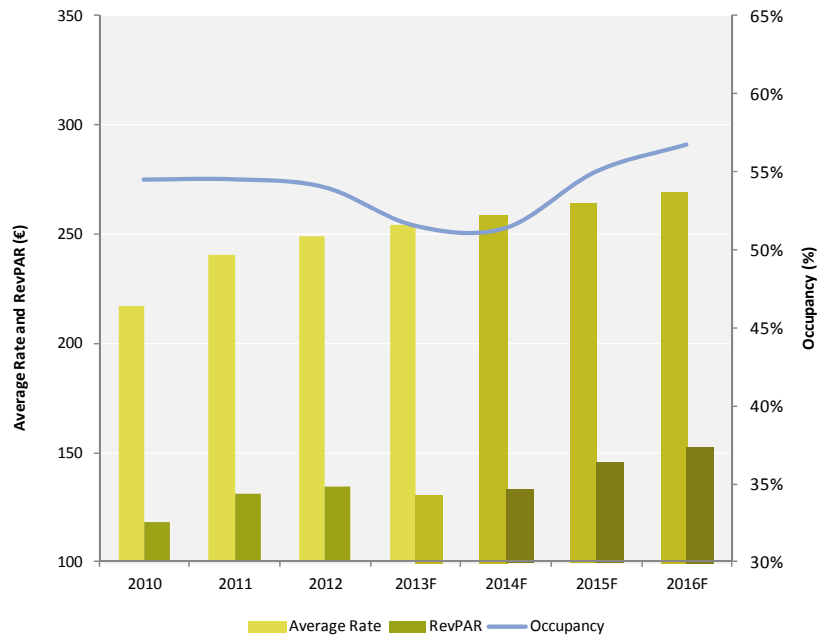


SOURCE: HVS

Recent and Forecast Hotel Performance

Our analysis takes into account the historical performance of a sample of upscale/luxury hotels in Marrakech totalling 5,593 rooms. We have analysed occupancy and average rate performance between 2010 and 2012, which at around 54% annually already present a relatively challenging environment. The additions to the room inventory and increases in demand have been considered in our forecast and are expected to have an impact on occupancy levels and average rate growth. We expect the new internationally branded hotels to also induce some demand into the destination, with a strong brand following. Figure 6 illustrates the historical and forecast projections for the defined competitive market.

FIGURE 6: USPCALE/LUXURY HOTEL PERFORMANCE 2010-16



Source: Moroccan Ministry of Tourism

Albeit there has been improved average rate performance between 2010 and 2012, occupancy has experienced slight drops due to increased supply, as well as decreased demand immediately after the 2011 bombings. Average rate has mainly increased owing to the new luxury hotels entering the market, and therefore slightly skewing the results achieved. We forecast occupancy to experience a slight decrease before picking up again, owing to the increased supply in the luxury segment over the coming years. We note that we have assumed further recovery of the economy, increased airlift into Marrakech and further efforts to achieve the Vision 2020 goals.

Conclusion

Marrakech is a high-end seasonal resort destination and mainly attracts leisure travellers, albeit in recent years the city has been able to establish itself somewhat as a MICE destination, or a more affordable option to Europe during months of lower demand. Although the pipeline of new supply, with 800 rooms in the five-star segment, is forecast to have an impact on performance in the short term, we expect the market performance to remain stable in the medium term and to absorb this new supply after 2016. We also note that it is not uncommon for projects to be delayed so the increase in supply might not be as severe over the next three to five years, which would have a positive effect on the supply/demand balance. With the Moroccan government finally putting tourism to the forefront of its economic growth, we believe that tourism infrastructure will be further enhanced and this in turn will boost tourism arrivals and bednights. © HVS September 2013



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