



Damascus Market

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Economics and Politics

Tourism in the Syrian Arab Republic has been underdeveloped for a long time. In fact, tourism was not even considered a major industry by the Syrian government until President Bashar al Assad declared it as one. Some efforts were made before by the government of former president Hafez al Assad, father of Bashar al Assad and ruler for almost 30 years, but without much success due to difficult political circumstances. Bashar al Assad, who was elected president in July 2000 after the passing of his father, has realised the strategic importance of tourism for Syria's future and progress has been made with varying success. In Damascus, various internationally branded hotel operators have already realised the potential. The Four Seasons Damascus opened in early 2006 and others, such as Kempinski, InterContinental and Mövenpick, are following suit.

With 22 different civilisations leaving their mark over thousands of years, Syria is a historic treasure chest that is waiting to be unlocked.

Map of Syria



Key indicators of future hotel demand are those trends that reflect the relative health of the economy and the spending power of individuals.



Table 1 contains a summary of the primary domestic economic factors that are likely to have the greatest influence on Syria's hotel demand.

Table 1 Key Economic Indicators – Syria

	Actual							Forecast		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP growth (%)	0.6	5.1	5.9	1.1	6.7	4.5	5.1	4.2	4.1	4.8
Consumer price inflation (av %)	-3.8	3.0	-0.1	5.8	4.4	7.2	10.0	7.4	8.7	5.9
Budget balance (% of GDP)	0.6	3.1	-1.8	-3.6	-5.0	-5.0	-5.9	-6.9	-5.5	-5.5
Current-account balance (% of GDP)	5.4	5.8	6.6	4.1	2.3	1.1	2.7	2.1	2.2	0.8
Lending interest rate (av %)	9.0	9.0	9.0	8.0	8.0	8.0	7.5	7.0	7.0	7.0
Exchange rate US\$:SYP (av)	46.00	46.00	46.00	46.00	49.00	53.00	52.00	50.00	49.00	49.00

Source: Economist Intelligence Unit, November 2007

Syria's economy should be viewed against the backdrop of regional geopolitics and internal political events that have occurred since the Ba'ath party assumed power in 1963. As a 'confrontation' state, with a portion of land (the Golan Heights) that has been under Israeli occupation since 1967, Syria has borne the burden of heavy defence expenditure that has consumed over 50% of its annual budget.

The economy was partially liberalised in the early 1970s after President Hafez al Assad came to power. In the 1970s and 1980s Syria's economy felt the repercussions of war with Israel and the country's military involvement in Lebanon. By the late 1980s, Syria faced serious economic difficulties. Syria's participation in the US-led coalition against Iraq in 1990-91 allowed the country to reap economic benefits. Bolstered by higher oil prices and a large infusion of Arab, Western and Japanese aid, Syria embarked upon an economic liberalisation programme which strengthened its economic performance. Syria's economic outlook was further bolstered by the momentum of the Middle East peace process. Since 1996, however, the Syrian-Israeli track of the peace process has not progressed significantly.

In January 2001, the government began a gradual process of exchange liberalisation aimed at eliminating the black market premium for hard currency. Instead of having a fixed Syrian pound to US dollar exchange rate, the government allows it to fluctuate but intervenes when necessary. This system decreases the likelihood of an unexpected fluctuation in the exchange rate in the short term.

The Syrian economy is dominated by the oil industry, which accounts for US\$3 billion in revenues a year. The manufacturing and agricultural sectors account for nearly 50% of GDP. In this respect, domestic demand and expenditures are directly affected by oil prices, especially since



domestic credit facilities are poor. Despite reforms since the early 1990s, Syria remains a largely centralised economy with the government playing a large role in both production and services.

According to the Economist Intelligence Unit's (EIU) November 2007 report, Syrian oil output is expected to fall over the next few years and increased domestic consumption will likely make Syria a net oil importer in 2008, which is expected to curb economic growth and limit government spending. Growth in non-oil exports is not expected to offset import growth and oil export declines, resulting in a fall in current account surplus. Despite all of these fluctuations, real GDP is expected to grow by 4.1% in 2008 and 4.8% in 2009.

In 2006 Syria experienced 10% inflation, primarily due to increases in world petrol and food prices, but inflation is expected to drop to 8.7% in 2008 and 5.9% in 2009. Inflation should ease with the new exchange rate regime and a significant move of Iraqi nationals back to Iraq. However, should the Syrian government decide to cut fuel subsidies, inflation may adjust further upwards.

Although economic reform measures have been implemented slowly, earlier reforms have stimulated the private sector. The simplification of trading procedures, the expansion of a wider range of industry projects available to private companies, the easing of foreign exchange dealings and the reduction of state intervention have helped to encourage private sector development. Historically, there have been complex foreign exchange regulations, resulting in a variety of exchange rates for different functions. Over the past two years these rates have been gradually reduced. The official rates have been unified and are closer to the market exchange rates.

Development and Initiatives

Syria has initiated several economic reforms including the official approval of a law for establishing private banks and tax incentives for investors in the tourism sector and is expected to continue the (at times) slow but steady reforms. Some of the tourism-specific initiatives include the following.

- Changing restaurant taxation from progressive (up to 35%) to a flat 2.5%. This new tax regime is also to include hotels and tourism agents;
- Seven-year tax exemptions for tourism sites, including hotels;
- 50% import tax breaks for tourism-related projects;
- New employment law allowing for three-month trial periods and a right to terminate employees for economic reasons.



According to the Ministry of Tourism, tourism accounted for 7.0% of Syria's gross domestic product in 2006 and is targeted to rise to 9.0% by 2010.

Although the Syrian government has undertaken major infrastructure projects over the last few years, there is a strong need for investment in many infrastructure projects such as public transportation, airports and telecommunications. The future growth of tourism will be dependent on the quality of the infrastructure developed and expanded in the country.

City Overview

Damascus (or Sham or Dimashq, as it is also known) is the capital of Syria and is the world's oldest inhabited city. It is set at an altitude of 690 m and has a population of over 3 million. The major industries in the city are textiles and food processing. Damascus is considered to be the chief manufacturing and trading centre in Syria.

Distances from Damascus to other major Syrian cities or destinations are reasonable: 355 km from Aleppo, 209 km from Palmyra, 30 km from Seydneya, 258 km from Tartus and 162 km from Homs.

There are many sites of historic interest in Damascus, including the Souq Hamidiye, the Citadel, Nur al-Din Hospital and Museum, the Tomb of Salah Al-Din, Omayad Mosque, Azem Palace and the Souq Assagha (the gold market). In addition, there are many traditional al hamams (Ottoman baths), mosques and khans, which are the oldest traditional hotels built to accommodate the travelling traders visiting the city.

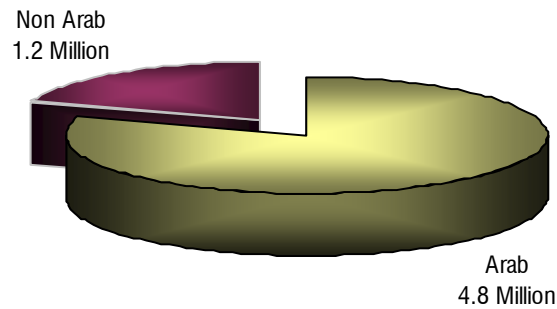
Today, Damascus is going through visible changes. Internationally branded stores and cafés are appearing throughout the city, and the historic Old Town is full of restoration projects, including the excavation of Straight Street (Madhat Basha) to uncover an old Roman road underneath it. Another project involves a new taxi service with upgraded vehicles and drivers guaranteed to speak English. However, with these changes, the government will have to continue its infrastructure improvements, as traffic congestion is already a frequent occurrence.

Visitation and the Hotel Market

Foreign arrivals in Syria are affected by day trips from neighbouring countries. For example, in 2006 the Ministry of Tourism reported a total of over 6 million foreign arrivals compared to 3 million in 2000 in spite of the war in 2006. However, the four neighbouring countries, Jordan, Lebanon, Turkey and Iraq, accounted for 74% of these arrivals. Many of these visitors either return to their source country on the same day or, alternatively, stay in accommodation other than hotels. The Ministry of Tourism collects statistics on the number of tourist arrivals who, by the Ministry's definition, stay longer than 24 hours. These arrival statistics are detailed in Table 2.

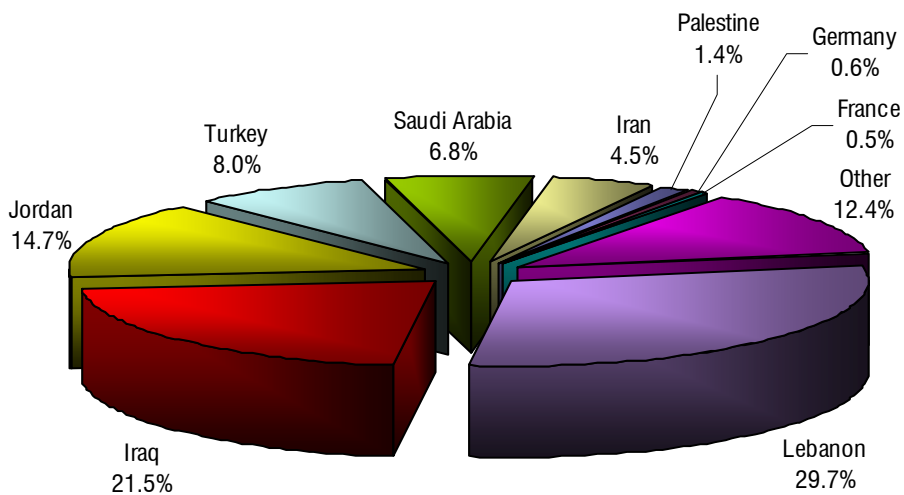


Table 2 Total Annual Tourist Arrivals in Syria – Arab and Non Arab 2006



Source: Syrian Ministry of Tourism

Table 3 Annual Tourist Arrivals in Syria – Top 10 Source Countries 2006



Source: Syrian Ministry of Tourism

The three largest providers of tourist arrivals are Lebanon, Iraq and Jordan. Both Arab and non-Arab arrivals have experienced strong growth from 2000 to 2006 (a compound annual rate of 12.2%). This growth trend is in line with strong growth rates registered at Damascus and Aleppo airports. Table 4 shows that annual passenger arrivals and



traffic at Damascus airport have grown at a compound annual rate of approximately 10% since 2001. Aleppo airport has experienced similar strong growth.

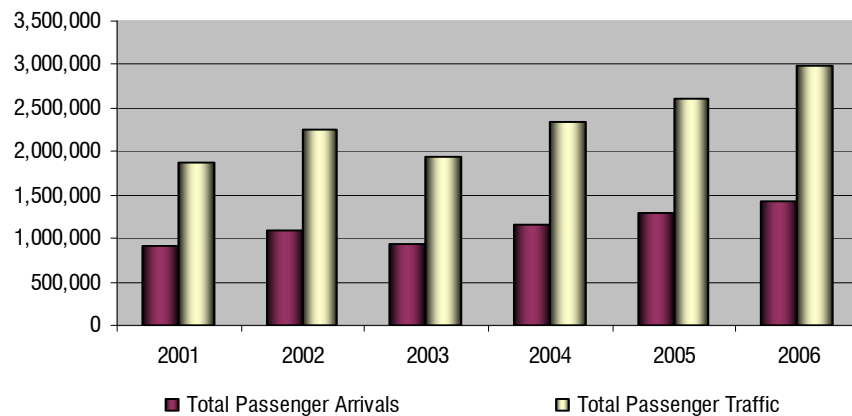
Table 4 Airport Statistics – Damascus Airport 2001-06

Year	Total Annual Passenger Arrivals	% Change	Total Annual Passenger Traffic	% Change
2001	904,625	—	1,870,567	—
2002	1,084,115	19.8	2,240,733	19.8
2003	933,415	(13.9)	1,938,603	(13.5)
2004	1,159,499	24.2	2,349,865	21.2
2005	1,284,551	10.8	2,598,868	10.6
2006	1,434,663	11.7	2,997,487	15.3

Compound Annual Growth Rate

10%

10%



Source: Federation of Syrian Chambers of Tourism

We note that the domestic Syrian market has historically been the strongest segment with regard to actual hotel visitors and hotel nights, but since 2002 both Arab and non-Arab foreign guests have outgrown the domestic market in hotel room nights. As can be seen in Table 5, the significant increase in 2002 in both hotel guests and hotel nights may be inaccurate since the 2002 figures were derived from a survey. However, we highlight the overall positive long-term trend, especially that of the last five years. Despite varying political stability in the region, especially during 2006, both hotel arrivals and hotel nights in particular experienced strong growth. From 2001 to 2006, overall hotel nights increased at a compound annual rate of 30%, reaching close to 11 million hotel nights in 2006.

**Table 5 Hotel Guests and Nights – Syrian Hotels 1996-06**

	Hotel Guests (000s)				% Share of Total			% Change			
	Syrian	Arab	Foreign	Total	Syrian	Arab	Foreign	Syrian	Arab	Foreign	Total
1996	790	382	448	1,620	48.8 %	23.6 %	27.7 %	-9.3 %	0.5 %	3.0 %	-3.9 %
1997	744	419	472	1,635	45.5	25.6	28.9	-5.8	9.7	5.4	0.9
1998	748	419	471	1,638	45.7	25.6	28.8	0.5	0.0	-0.2	0.2
1999	727	413	503	1,643	44.2	25.1	30.6	-2.8	-1.4	6.8	0.3
2000	685	390	520	1,595	42.9	24.5	32.6	-5.8	-5.6	3.4	-2.9
2001	696	452	425	1,573	44.2	28.7	27.0	1.6	15.9	-18.3	-1.4
2002*	730	482	443	1,655	44.1	29.1	26.8	4.9	6.6	4.2	5.2
2003	714	508	312	1,534	46.5	33.1	20.3	-2.2	5.4	-29.6	-7.3
2004	713	815	416	1,944	36.7	41.9	21.4	-0.1	60.4	33.3	26.7
2005	649	894	514	2,057	31.6	43.5	25.0	-9.0	9.7	23.6	5.8
2006	700	1,191	511	2,402	29.1	49.6	21.3	7.9	33.2	-0.6	16.8
Compound Annual Growth Rate 1996-06								-1.2 %	12.0 %	1.3 %	4.0 %
Compound Annual Growth Rate 2001-06								0.1 %	21.4 %	3.8 %	8.8 %
	Hotel Nights (000s)				% Share of Total			% Change			
	Syrian	Arab	Foreign	Total	Syrian	Arab	Foreign	Syrian	Arab	Foreign	Total
1996	1,247	772	1,079	3,098	40.3 %	24.9 %	34.8 %	-4.1 %	-1.3 %	3.8 %	-0.8 %
1997	1,124	758	1,079	2,961	38.0	25.6	36.4	-9.9	-1.8	0.0	-4.4
1998	1,158	807	997	2,962	39.1	27.2	33.7	3.0	6.5	-7.6	0.0
1999	1,133	804	1,040	2,977	38.1	27.0	34.9	-2.2	-0.4	4.3	0.5
2000	1,081	781	1,055	2,917	37.1	26.8	36.2	-4.6	-2.9	1.4	-2.0
2001	1,067	888	1,000	2,955	36.1	30.1	33.8	-1.3	13.7	-5.2	1.3
2002*	1,360	3,292	3,044	7,696	17.7	42.8	39.6	27.5	270.7	204.4	160.4
2003*	2,197	4,564	3,026	9,787	22.4	46.6	30.9	61.5	38.6	-0.6	27.2
2004*	1,522	4,540	2,913	8,975	17.0	50.6	32.5	-30.7	-0.5	-3.7	-8.3
2005	1,284	5,485	3,317	10,086	12.7	54.4	32.9	-15.6	20.8	13.9	12.4
2006	1,356	6,345	3,099	10,800	12.6	58.8	28.7	5.6	15.7	-6.6	7.1
Compound Annual Growth Rate 1996-06								0.8 %	3.7 %	11.1 %	13.3 %
Compound Annual Growth Rate 2001-06								4.9 %	48.2 %	25.4 %	29.6 %

* Ministry of Tourism estimate from 2002 tourism survey

Source: Syrian Ministry of Tourism

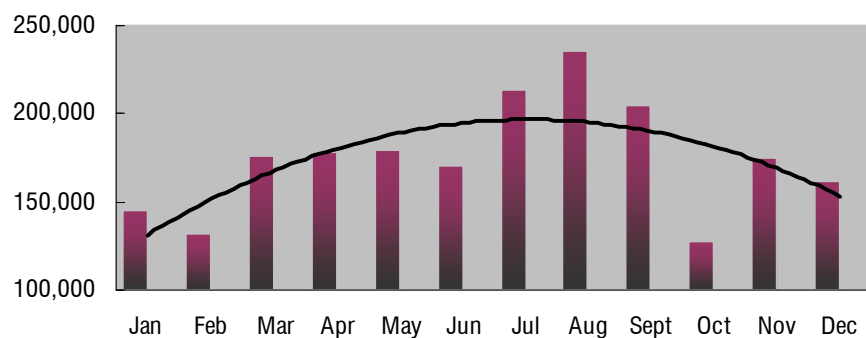
According to representatives of the Ministry of Tourism of Syria, 2007 has also been an exceptional year of growth, albeit that official data were not available at the time of writing this article.

With significant seasonal changes in the climate in Syria and many of the source markets, seasonal trends in hotel usage are an important factor. The cold winter months, when snow is common in many areas, deters many leisure travellers. Conversely, soaring temperatures in certain Arab source markets increase demand dramatically as, for example, Saudis and Kuwaitis escape the heat in their own countries to seek the relative



cool of the coastal and mountain regions in Syria. This seasonality is reflected in Table 6. The line shown in this table represents the current trend. 2005 was chosen as the most recent documented typical year. We also highlight that Ramadan took place from 2 October to 1 November in 2005 resulting in lower than average bednights during the month of October.

Table 6 Damascus Hotel Bednight Seasonality 2005



Note: Ramadan was in October

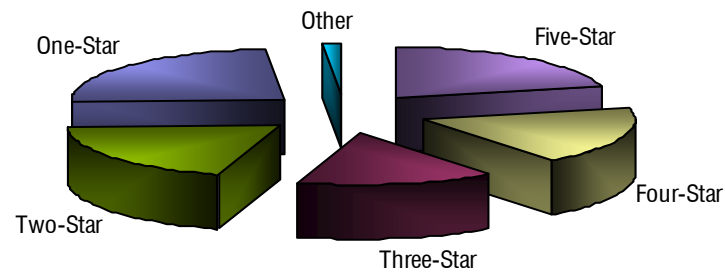
Source: Syrian Ministry of Tourism

The peaks in demand in spring and autumn are attributable to the rise in arrivals from European nations, as the mild climate is favourable for exploration of the many cultural and archaeological sites throughout the country. Thus, the winter months and the transitional months of June and November represent weak periods of demand which somewhat limit the annual performance of hotels in Syria.

In 2007 there were a total of 205 hotel facilities in Damascus offering 6,665 rooms, or 14,923 beds, as reported by the Ministry of Tourism. Even though there are only six five-star hotels, five-star room supply accounted for 21% of total room supply. Overall, room supply appears to be spread fairly evenly across the different hotel categories. Table 7 shows the breakdown of the Damascus hotel supply in more detail.


Table 7 Damascus Hotel Supply Breakdown 2007

Category	Hotels	Share	Rooms	Share	Beds	Share
Five-Star	6	3%	1,401	21%	2,600	17%
Four-Star	13	6%	1,243	19%	2,308	15%
Three-Star	19	9%	1,006	15%	2,630	18%
Two-Star	52	25%	1,326	20%	3,356	22%
One-Star	104	51%	1,601	24%	3,808	26%
Other	11	5%	88	1%	221	1%
Total	205	100%	6,665	100%	14,923	100%

Damascus Room Supply Distribution by Category


Source: Syrian Ministry of Tourism

The largest hotel operator in terms of quality room supply is Cham Hotels, an established local operator of upscale hotels. At the other end of the spectrum, various 10-20 room boutique hotels have recently opened in Damascus. These are often old guest houses ('Khans') in the Old Town which were converted into hotels. The most noteworthy boutique hotels are, in order of opening date, Al Mamlouka, Art House and the Talisman. Except for the Sheraton and Le Meridien hotels, which are owned by the Ministry of Tourism, international brands have only recently entered the Damascus market, most notably the Four Seasons in 2006. Table 8 lists the internationally branded hotels in Damascus as of 2007.

Table 8 Internationally Branded Hotel Supply in Damascus 2007

Property	Number of Rooms	Year Opened	Last Renovation	Management Company
Four Seasons	297	2006	—	Four Seasons Hotels & Resorts
Le Meridien	370	1976	1996	Starwood Hotels & Resorts
Sheraton	278	1978	1996	Starwood Hotels & Resorts
Queen Centre Rotana	110	2005	—	Rotana Hotels
Total	1,055			

Source: HVS Research



In addition to the above-mentioned hotels, several other major hotel operators are planning to establish themselves in Damascus. There are several rumoured hotel projects ranging from a handful of boutique hotels to large hotel developments; Table 9 lists some of the key supply additions over the next three to four years.

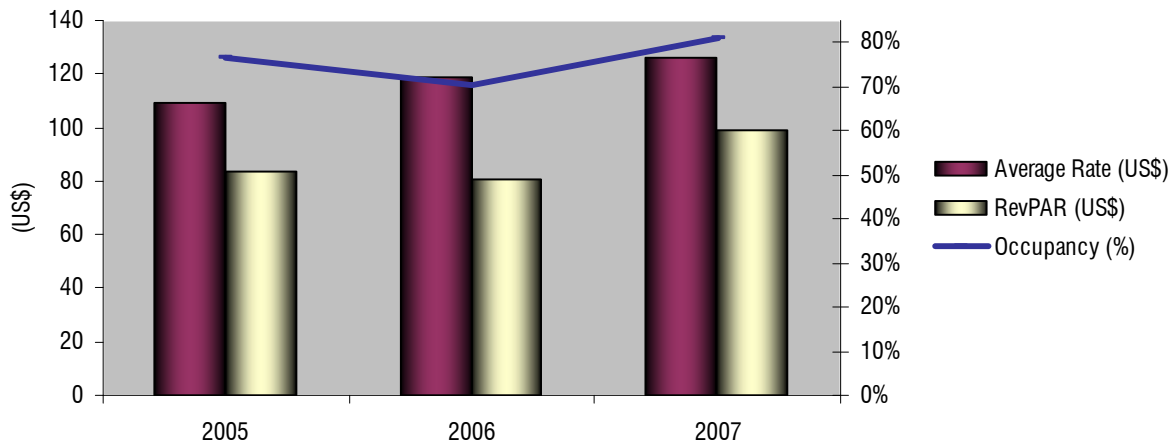
Table 9 Proposed Hotel Supply – Damascus

Proposed Property	Number of Rooms	Estimated Opening	Development Stage	Managed By
Al-Hayat Kempinski Hotel	153	End of 2009	Early Development	Kempinski Hotels
Kempinski Hotel Khan Sulaiman Pasha	30	End of 2009	Early Development	Kempinski Hotels
Kempinski Hotel Damascus	200	2010	Early Development	Kempinski Hotels
InterContinental Damascus	392	2010	Early Development	InterContinental Hotels Group
Mövenpick Hotel Damascus	268	2010	Broken Ground	Mövenpick Hotels & Resorts
Full-Service Hotel Mezzeh *	250	2011	Site being cleared for development	Undisclosed
Total	1,293			

* Estimated room count
Source: HVS Research

In addition to hotels, several other real estate developments are taking place in Damascus and elsewhere in Syria. Some of the major projects include the US\$500 million 'Eighth Gate' mixed-use development in west Damascus; Emaar Properties' 500-hectare, US\$4 billion Damascus Digital City; Majid Al Futtain Group's US\$2 billion mixed-use shopping, entertainment and lifestyle resort outside of Damascus; and Qatari Diar's US\$200 million mixed-use development on the Mediterranean coast near Latakia, including residential, hotel and retail components.

Table 10 illustrates the performance of upscale hotels in Damascus over the last three years in US dollars. Damascus has shown steady average rate growth while occupancy levels dropped in 2006 due to the war in Lebanon. Nevertheless, 2006 marketwide occupancies were still at a very respectable level of around 70%. 2007 was a very strong year for Damascus, with occupancies passing the 80% mark and marketwide average rate close to US\$125. Damascus is hosting the Arab Summit in 2008 and with no major new supply additions until 2009, we expect 2008 to be an even better year for upscale hotels in Damascus.


Table 10 Market Performance of Quality Hotels in Damascus 2005-07


Source: HVS Research

Outlook and Opportunities

Tourism in Syria is an important sector of the country's economy. However, poor awareness of the destination in some source markets and political instability has stifled growth. Assuming a stable economic and political environment – together with the incentives provided by the government, increased quality hotel supply and international awareness of Syria as a leisure and cultural destination – tourism in Syria has the potential to grow substantially in the longer term.

Although the Syrian government has undertaken major infrastructure projects over the last few years, there is a strong need for many infrastructure projects such as public and tourist internal transport, airports and telecommunications. The future growth of tourism will be dependent on the quality of the infrastructure in the country.

With airlines increasing the number of flights and hotels continuing to perform well, we expect demand growth to stay strong in the coming years. In the short term quality hotel supply, especially internationally branded supply, is expected to grow slower than demand resulting in higher levels of room occupancy. This is based on the current development pipeline and the fact that some hotel companies may not be comfortable doing business in Syria while their government is holding sanctions against Syria.

We conclude by noting that we have witnessed increased investment and development activity by major international companies in various real estate projects ranging from hotels to large-scale, mixed-use developments in Damascus and throughout Syria. We do not expect appetite for investment opportunities in Syria to slow in the short term and expect strong growth to continue in both the short and long term.

No investment decision should be made based on the information in this survey. For further advice please contact the authors.



About our Team

HVS has a team of Middle East experts that conducts our operations in the Middle East and Egypt. The team benefits from international and local cultural 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 100 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$10 billion worth of hotel real estate in the region.

About the Authors



Tuomas Laakso is an Associate with the HVS London office and has ten years of operational experience in the hospitality industry in Europe, the USA and the Middle East. Tuomas worked in various management roles for Ritz-Carlton Hotels & Resorts and Destination Hotels & Resorts, most recently as Director of Operations and Hotel Manager at the Nine Zero Hotel, a 190-room luxury boutique hotel in Boston, Massachusetts. Tuomas holds an MBA from the Helsinki School of Economics, a BA (Hons) in Hospitality Management from Bournemouth University, an Associate Degree in Hotel Management from ICHM César Ritz, Connecticut and a Swiss Diploma in Hotel Management from Institute Hôtelier 'César Ritz', Switzerland.



Hala Matar Choufany is a Director with HVS and is responsible for the firm's valuation and consulting work in the Middle East and Egypt. She initially joined HVS London in 2005, before moving to HVS Shanghai in September 2006 where she helped grow the HVS Shanghai office and business in the Asia region. She relocated to Dubai in September 2007 and now looks after HVS's interests in the Middle East. Previously, Hala had four years of operational and managerial experience in the hotel industry. She lectured at Notre Dame University in Lebanon on International Travel and Tourism and 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.

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