Navigating Hotel Transactions and Valuations in the GCC

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The Gulf Cooperation Council region in the Middle East presents a unique and complex landscape for hotel investment.

While the hospitality sector offers immense potential for growth and profitability, it is accompanied by risks that demand careful consideration. This **article** explores the factors influencing **hotel valuations, challenges affecting transactions and strategies for aligning investments with market realities.**

The current state of hotel supply and demand

The GCC region boasts a significant and rapidly expanding hotel supply, currently offering approximately 500,000 hotel keys. Of these, 46% are located in the United Arab Emirates and 34% in Saudi Arabia. Over the next five to seven years, the region is expected to add 300,000 keys, bringing the total to nearly 800,000.

Despite this growth, hotel transactions remain limited, with only around 5,000 keys exchanging hands in major markets such as Dubai and Riyadh over the past five years. A key barrier is the disconnect between owners' high asking prices and actual hotel values, which are typically determined by potential income and market dynamics.

Challenges in hotel valuations and transactions

Several factors complicate the hotel transaction landscape in the GCC:

Disconnect between costs and values: Development costs often exceed the income potential of hotels, making it difficult for investors to achieve healthy returns. Inefficient building designs and overspecified projects further inflate budgets, negatively affecting Internal Rates of Return (IRR).

Rising costs: Higher borrowing costs, escalating development expenses and operational challenges are eroding profit margins. Rising interest rates have also shifted investor focus toward mixed-use projects or developments that include branded residences to mitigate financial risks.

Project delays: Delays caused by early development issues, particularly around fire, life and safety (FLS) standards and furniture, fixtures and equipment (FF&E), lead to cost overruns. These delays often result in mismatches between expected and actual project timelines.

Evolving revenue models: As hybrid properties with diverse revenue streams become more prevalent, traditional valuation methods often fail to capture their full income potential. Customized approaches are necessary to accurately assess profitability.

Modern metrics for hotel valuations

Traditional hotel industry metrics such as **revenue per available room** remain important, but newer metrics are gaining traction to provide a clearer picture of operational and financial efficiency:

GOPPAR (gross operating profit per available room): Tracks operational efficiency by factoring in costs, offering a more comprehensive profitability view.

TRevPAR (total revenue per available room): Expands focus to include ancillary revenues from food and beverage, wellness and events.

Flow-through profitability: Evaluates how effectively a property converts incremental revenue into profit, a critical measure in cost-sensitive markets.

Adjusted capitalization rates: Accounts for unique attributes, location and risk profile when applying income-

Summary

The GCC region presents significant opportunities for hotel investment, driven by rapid supply growth and evolving market trends. However, challenges such as valuation mismatches, rising costs, and operational inefficiencies highlight the need for strategic approaches. Key considerations include aligning development costs with market realities, adopting modern valuation metrics, and leveraging diversified revenue streams to enhance profitability and sustain long-term growth.

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based valuation methods.

Total revenue per leasable area: Incorporates all revenue streams into the valuation process for mixed-use and hybrid properties.

These approaches highlight the growing emphasis on holistic and nuanced valuation techniques that reflect the complexity of modern hotel developments.

Bridging the disconnect: aligning costs with market realities

Achieving a balance between investment costs and realistic valuations requires strategic planning and detailed feasibility studies. These studies should analyze both inflows (EBITDA) and outflows (CapEx), ensuring that development costs align with market conditions and project potential. Key strategies include:

Optimizing development costs: Modular construction, sustainable materials and efficient design can reduce construction and operational expenses without compromising guest experiences.

Diversifying revenue streams: Incorporating food-and-beverage outlets, wellness centers, coworking spaces and event venues boosts overall revenue, making properties more attractive to investors.

Leveraging branding: Strong hotel brands command premium pricing and foster guest loyalty, stabilizing income and enhancing perceived value.

Streamlining operations: Technology-driven solutions, such as AI for personalized guest experiences and automated revenue management, improve operational efficiency and profitability.

Addressing broader market questions

Several critical questions must be addressed to ensure sustainable growth in the GCC's hospitality sector:

- Are developers making market-aligned investments? Over-specification and inefficient designs often lead to inflated costs that do not align with market demand.
- Are consultants highlighting risks effectively? Comprehensive feasibility studies must include clear financial risks and potential rewards.
- Are operators adapting their strategies? Hotel operators must streamline their operations and deliver value to investors by aligning their offerings with market realities.
- Are tourism authorities fostering balanced growth? Governments and tourism boards must ensure demand growth keeps pace with supply by creating compelling reasons for travelers to visit the region.

Key takeaways for stakeholders

To ensure the GCC remains attractive for hotel investment, stakeholders must address critical gaps:

- Investors should focus on realistic budgeting and stop over-spending on developments.
- Developers must align construction costs with expected income potential.
- Consultants must provide actionable insights to avoid financial missteps.
- Operators should adapt to leaner, value-driven operations.
- Tourism authorities need to govern supply-demand imbalances and support sustainable growth.

Conclusion

The GCC hotel investment landscape, while rife with opportunities, demands a nuanced and strategic approach to ensure long-term profitability. With rising costs, evolving market dynamics and limited transactions, aligning financial expectations with market realities is crucial. By embracing innovative valuation techniques, optimizing operations and fostering collaboration among all stakeholders, the region can sustain its position as a global hospitality hub.

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About Hala Matar Choufany

Hala is an experienced Regional President and Managing Partner, an industry expert, and is recognized as one of the most influential leaders in the hospitality industry, notably in the Middle East and Africa region.

Hala has advised on more than 5,000 hospitality and mixed-use projects in the last 20 years across Europe, the Middle East, Africa and Asia. She has advised clients in areas such as Valuations, Acquisitions, Asset Management, Strategic investments and development, Contract Negotiations, and general Real Estate Strategic Advisory.

Hala has authored more than 50 publications and speaks frequently at investment and hospitality related conferences on a range of topics including asset valuation, investments, management issues and women leadership.

In addition to being a Board Member of HVS Global, Hala sits on the Boards of Harvard Business School Club of the GCC, Hotel Investment Advisory Board, and is regularly invited to Boards as a subject matter expert in the industry. Hala is frequently invited to discuss hotel and tourism trends on major news channel including Alarabiya, Bloomberg, Abu Dhabi TV, Forbes, Breaking Travel News and CNN.

Hala is also a member of the International Society of Hospitality Consultants (ISHC).

Hala completed Executive Education at Harvard Business School. She also holds an MBA in Finance and Strategy from IMHI (Essec- Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala is fluent in English, French and Arabic.

Born in Beirut, Hala lived and worked in several cities across Europe, Asia and Middle East and is a mother of three.

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