EMEA Commercial – 2019

SPOTLIGHT
Savills Research

Egypt Hotel Market Spotlight

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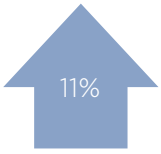
A bounce-back in tourism has sparked significant growth to the hotel market across Egypt

Forecast GDP growth per annum to 2023.



Year-on-year occupancy growth for hotels in the Cairo and Giza submarket in 2018, reaching 72.5% (its highest level since 2008).


Image courtesy **IHG**

Significant recovery to Egypt hotels

A strong bounce-back in tourism across Egypt in 2018 has provided significant growth opportunities in the country's hotel market.

A recent pick-up in both tourism and trade has driven significant recovery to Egypt's wider economy, with GDP now forecast to grow by 5.35% per annum on average over the five years to 2023. Government-led marketing schemes, new infrastructure and improved security measures have provided a boost to tourism in Egypt, resulting in a 16.5% growth to the country's tourism market in 2018, according to the World Travel and Tourism Council.

Government-led schemes point to further investment in Egypt's tourism sector

A liberalization of the local currency in November 2016 resulted in a strong devaluation in the Egyptian Pound, opening attractive opportunities in terms of overseas travellers seeking relatively cheaper holidays to Egypt.

This, coupled with strengthening security for major tourism hotspots in the country, has resulted in a significant uplift in overseas visitors - reaching 11.6 million arrivals in 2018 (up 40% from the 8.3 million seen the year before).

The Egyptian government has implemented a new strategy to boost tourism, including new security protocols. This has resulted in a number of source markets and airlines re-opening flight connections to and from Egypt, including Russia. This, along with a devaluation to local currency, has sparked a resurgence in tourists from traditional major source markets. For example, British bookings to Egypt jumped 89% in 2018, compared to the year prior, according to Thomas Cook.

Additionally, government-led marketing campaigns have begun to target new source markets with the aim of widening the demand pool across Europe. This has included a particular focus on Eastern and Southern European nations, resulting in more regular connections to and from markets including Poland, Lithuania and Spain, to name a few.

With connectivity being strongly linked to tourist arrivals and subsequently hotel performance, the Egyptian government has focused attention on increasing airport capacity, particularly in the Cairo-Giza region. Two new airports are due to open over the next two years, with Giza's new Sphinx International Airport due to open fully in 2020, after a period of solely internal flights - and EgyptAir launching roughly 15 flights per week as of January 2019, serving major destinations including Sharm El Sheikh, Luxor, Aswan and Hurghada. The other side of Cairo will introduce the new Katamaya International Airport, serving the new capital towards the East of Cairo.

A number of government-led tourism schemes have widened the offer available for international tourists. This includes two key museum openings - the National Museum of Egyptian Civilization in Old Cairo along with the new $1.1 billion Grand Egyptian Museum due to open near the pyramids of Giza.

While Egypt has a well-documented overseas appeal for leisure tourists, it's worth noting the extent to which the domestic tourism can impact the hotel market. A bulk of tourism spend in Cairo comes from domestic visitors, with key tourism drivers including corporate events, weddings and staycations. Indicators including rapid population growth across the country (which is due to increase by 8.8% between 2018 and 2023, reaching over 108 million) will continue to boost domestic tourism demand looking ahead.

Strong market fundamentals are driving growth in corporate travel across Egypt

While leisure tourism continues to drive a large proportion of Egypt's economic growth, other emerging sectors are beginning to entice a number of international companies subsequently boosting corporate visitation to Egypt.

This is particularly the case for Cairo, with corporate travel now accounting for 67% of the city's hospitality market demand.

Interest levels from large international corporates has heightened. For example, both Nissan and Canon are rumoured to be extensively expanding their presence in the country, given strong market fundamentals including a large young population and positive GDP outlook. Nissan have outlined projections to increase their market share in the Gulf (including Egypt) by more than 20% by 2022 (up from their current share of 15%).

In addition, Egypt has implemented a new investment framework, aimed at boosting Foreign Direct Investment through softening the administrative burden with state agencies and therefore improving the investment procedure as well as offering attractive tax incentives to potential investors.

> **Political stability, robust economic outlook and continued visitor arrival growth will continue to provide a boost to Cairo and Giza's hotel market.**

International brands look to Cairo

Strong market fundamentals are boosting operational performance across the capital, enticing a number of large international hotel groups.

A bounce-back in Egypt's tourism market has provided significant improvement to hotel operational performance

The recent surge in tourism has provided a substantial uplift to the hotel market in Egypt. In 2018, the Cairo and Giza submarket significantly outpaced the wider Africa and Middle East and Northern Africa (MENA) regions in terms of occupancy and average daily rate. The graph below highlights the extent to which this submarket has grown over 2018, with RevPAR increasing by 23.1% compared to the year before.

A region which has proven to outperform the MENA region as a whole is Alexandria, situated to the north-west of Cairo. The Mediterranean port-city saw RevPAR increase to $59 in January 2019. As a result, hotels in Alexandria saw profit per room soar by 40.3% year-on-year mirroring the resurgence in the wider Egypt economy. The positive growth story has not been a recent phenomenon, in-fact Alexandria has experienced 31 months of consecutive growth and this has resulted in robust profit conversion for hotels in the region. Alexandria currently has a total of 4,200 hotel rooms (as at January 2019) and this number is forecast to increase before the end of 2019.

Growth opportunities arise across Cairo's hotel market

Cairo has witnessed considerable pick-up in hotel operational performance in 2018, with occupancy figures reaching 72.5% on average for the year - the highest experienced since 2008, according to STR. While stock growth has resulted in headwinds across some of the markets within the wider MENA region, it appears that Cairo and Giza have efficiently absorbed new stock additions. This is particularly positive given the level of stock growth seen within this region last year, with the introduction of a number of large hotels. This includes the Hilton Cairo Nile Maadi Towers. The project comprises of two towers consisting of 23 floors, the first is a residential tower and the second is a 256-room five-star hotel managed by Hilton, which is under construction.

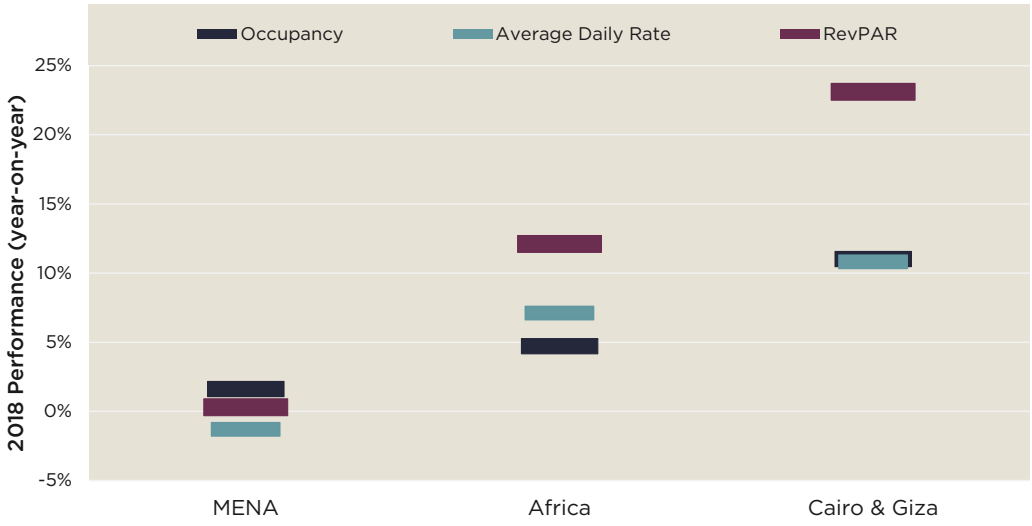
Cairo's hotel market now consists of over 18,800 rooms (as of December 2018) with major international groups accounting for the lion's share of this. For example, Marriott and Hilton groups collectively account for a 37% share of hotel supply in the capital.

Looking ahead, hotel stock growth is projected to continue, with a number of large international hotel groups due to increase their presence in the capital. For example, IHG are scheduled to introduce a 187-room Crowne Plaza hotel in Sheikh Zayed City (West Cairo), forecast to open in 2021. Likewise, Rotana Hotels and Resorts are due to increase the luxury offer available in New Cairo City, recently signing a deal to launch a 200-room five-star hotel in the area.

Furthermore, Radisson Hotels and Resorts have signed an agreement to open a further six hotels in Egypt - four of which will be located within Cairo. Radisson have also committed to capitalising on the rapidly growing appeal for serviced apartments in the region, with a 163-apartment Radisson Blu Serviced Apartments Cairo Helipolis due to open in the third quarter of this year.

While extensive stock growth could produce further headwinds in terms of operational performance within some markets in the MENA region, it is expected that Cairo's hotel sector will continue to improve given the strong market fundamentals comprising of improved connectivity, visitor arrival growth as well as a positive wider economic outlook and political stability.

Operational performance in the wider MENA region



Source STR; Savills Research

40.3% year-on-year increase in profit per room of hotels in Alexandria

72.5% average occupancy level in the Cairo & Giza submarket during 2018

16.5% growth to Egypt's tourism sector in 2018, according to WTTC

11.6 million overseas visitor arrivals in Egypt in 2018 - an increase of 40% compared to the year before

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