

# Executive Summary

## Egypt Market Overview

Egypt is currently going through a period of economic recovery, with tourism and hospitality at the forefront. The country's economic status witnessed a downturn in the recent past due to market instability. Although this has had a downward impact on the country's tourism sector, the state of the economy is expected to return to pre-2011 levels in the mid-term.

Egypt's inbound tourist visitation decreased by -17.9% in 2013, largely attributed to security measures and certain travel restrictions which impacted major cities. Conversely, domestic tourism within Egypt has increased in the same year as the local populace participated in greater travel activity.

The domestic market has occupied a larger share of tourism spending in the last three years. On the international front, Europe is Egypt's primary market feeder, accounting for 70% of international arrivals in 2013 (8.2 million tourists).

Global hotel operators have maintained their development plans for Egypt, with a number of high-profile hotel openings expected from 2014 to 2019.

Egypt saw an increase in demand during the first half of 2013, leading to higher occupancy and average rates. Hotel performance took a hit in the second half of 2013 due to a change in government – this resulted in countrywide occupancies of 47% for FY 2013.

Government initiatives are currently underway, with the intent to ultimately grow inbound visitor demand to pre-2011 levels and reaffirm the strength of Egypt's tourism industry.

A solid indicator of confidence in Egypt's tourism sector is the planned expansion of airports and the quality of confirmed forthcoming hotel openings, which includes capital-intensive luxury properties such as the Kempinski Royal Maxim, the Raffles Citistars Sharm El Sheikh and the St. Regis Cairo.

A positive future outlook is expected for Egypt's hospitality real estate market. Tourism and hospitality investors are aware that Egypt bears strong tourism fundamentals which greatly influence the state of the economy.

## Egypt Market Overview

2013	Y-O-Y Growth 2012-2013	2013	Y-O-Y Growth 2012-2013
<b>Population</b> (Millions) 84.5	↑ 2.4%	<b>Total Domestic Tourists</b> (Millions) 15.9	↑ 8.8%
<b>GDP</b> (EGP Billions) 1.8	↑ 12.0%	<b>Total Overnight Stays</b> (Millions) 53.9	↑ 1.6%
<b>Tourism GDP</b> (EGP Billions; Real Growth %) 217	↓ -2.0%	<b>Hotel Occupancy %</b> (Occupancy %) 43.4%	↓ -14.3%
<b>Capital Investment</b> (EGP Millions) 31	↑ 4.0%	<b>Hotel ADR</b> (EGP) 519	↓ -8.6%
<b>Total Inbound Tourists</b> (Millions) 9.4	↓ -17.9%	<b>Hotel RevPAR</b> (EGP) 203	↓ -9.0%

Source: WTTC; World Population; Colliers International

# Egypt Tourism Economics

## Tourism Contribution to GDP

Travel and tourism's total contribution to GDP reached EGP 217 billion in 2013 accounting for 12.6% of total Country GDP. Egypt has always relied heavily on its tourism sector and has developed strong tourism fundamentals through its irreplaceable demand anchors.

The challenges faced in the last three years are expected to subside in the mid-term, with the tourism industry forecasted to strive in an improving economic environment. Tourism GDP is expected to grow to EGP 368 billion, accounting for a 12.0% share of total GDP.

## Domestic and International Visitor Spending

According to the World Travel & Tourism Council, domestic tourism generated 66.5% of total spending in 2013, with 33.5% generated by international visitors.

Spending by international visitors used to represent a larger share of overall spending pre-2011, but this trend has shifted towards the domestic market in recent years. Recapturing this international spending will be an important goal for the Egyptian tourism industry in the years to come.

## Leisure and Business Spending

Leisure tourism has always been the main driver in terms of volume and value of tourism. In 2013, leisure accounted for 69.7% of total spending while business tourism spending stood for 30.3% of the total value of tourism.

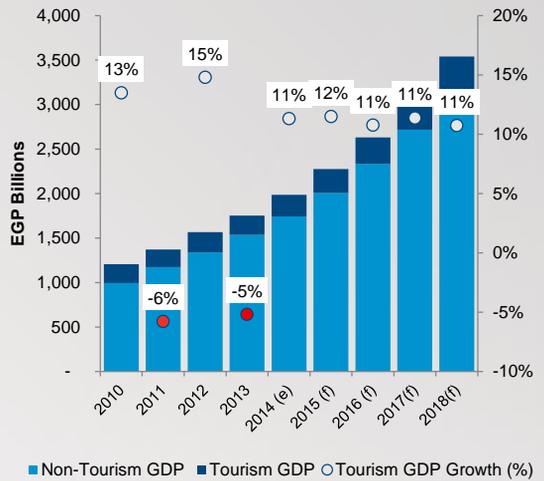
Business spending has seen an average annual increase of 11% from 2008 to 2013. Despite recent economic downturns, business spending increased by 5% in 2011 and 4% in 2013. This trend is expected to continue in the coming years as stability is currently returning to the overall market.

## Tourism Capital Investment

Capital investments in tourism assets saw a decrease of -10.5% in 2011. In 2012, this figure reached EGP 30 million – a moderate growth of 1% from the previous year. WTTC forecasts capital investment growth of 5% per annum from 2014 to 2018.

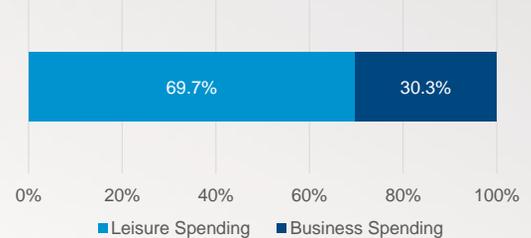
Terminal 2 at Cairo International Airport has been under renovation and expansion since 2010, with capacity expected to double to 24 million passengers per annum upon completion.

Travel & Tourism Total Contribution to GDP (EGP billions) 2010-2018(f)



Source: IMF; WTTC

Leisure vs. Business Spending 2013



Source: WTTC

Travel & Tourism Capital Investment 2010-2018(f)



Source: WTTC

Airport Capacity Increase

	Annual Passenger Capacity	
	Original	After Expansion
Cairo Int'l Airport	12 Million	24 Million
Hurghada Airport	5.6 Million	13 Million

Source: Colliers International

## Inbound Tourism Arrival

Back in 2011, tourist arrivals to Egypt decreased by -33.2% as a result of the regional unrest. Inbound tourism picked up in 2012 by 17.1% as normality returned to the market.

The number of visitors to Cairo increased by 8% in 2012, while Sharm El Sheikh and Hurghada saw respective increases of 10% and 6%, as these cities were perceived to be safer.

Successive drops in tourism visitation to Egypt were witnessed in 2011 (-33%) and in 2013 (-17%), however the future outlook is that of market recovery, with demand expected to increase by 4% per annum. Optimistic growth in this sector is to spur hotel demand as inbound tourists would be attracted by the prospect of a stable market.

Cruise ship tourism is expected to play an increasingly important role within Egypt's tourism industry and in the country's greater economic recovery.

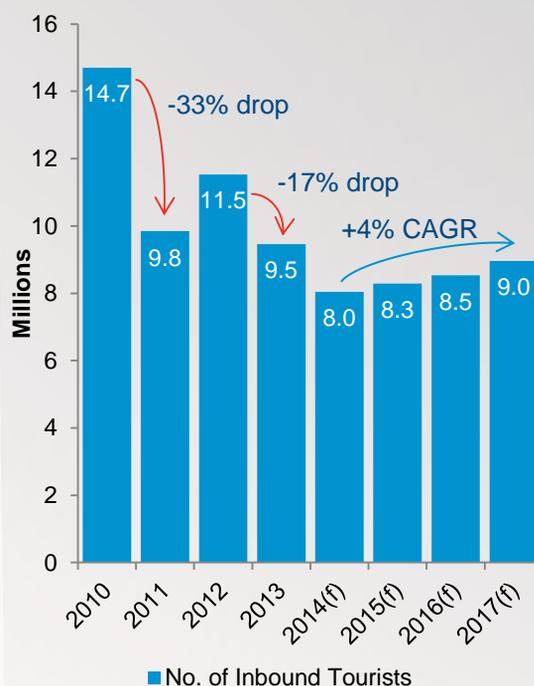
## Domestic Tourism

The year 2013 witnessed an 8.9% increase in the domestic tourism movement within Egypt to 15.9 million trips, as heavy promotions and low price policies in hotels have been implemented to attract domestic visitors.

Although Alexandria had previously endured travel restrictions, it is the most popular destination for domestic tourists having received 7.6 million individuals in 2012, a 12% increase over 2011.

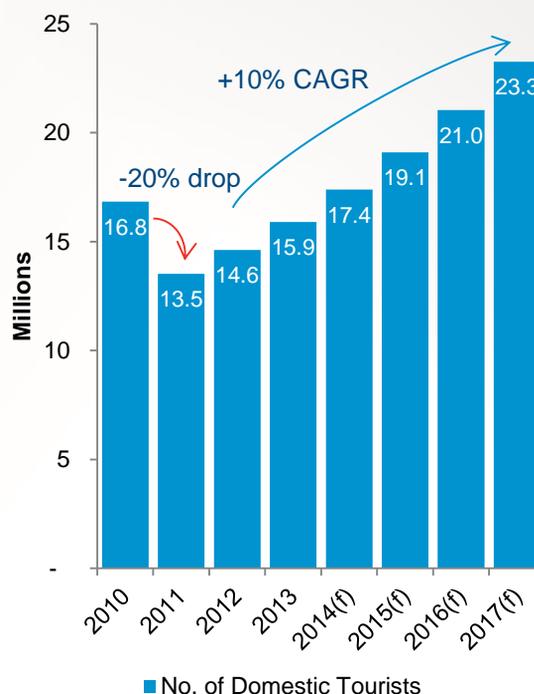
South Sinai (which includes Dahab, Nweiba and Sharm El Sheikh), was the second strongest region for domestic tourism, attracting 3.9 million individuals in 2012, followed by Hurghada, (which includes Hurghada City, Marsa Alam and Sahl Hashish), with 1.9 million domestic tourists in the same year. Cairo received only 0.6 million domestic tourists in 2012, a decline of -21% since 2010. The majority of visits were for business purposes.

Inbound Tourism 2010-2017(f)



Source: CAPMAS; Colliers International

Domestic Tourism 2010-2017(f)



Source: CAPMAS; Colliers International

# Egypt's Hotel Market

## Egypt's Market Feeders

Europe is and has always been Egypt's primary market feeder. In 2013, 8.2 million Europeans visited Egypt, accounting for 70% of total inbound tourists. This is followed by visitors from the Middle East (17%), while Africa, Asia and North America accounted for around 3-4% each.

With an estimated 2.8 million tourists recorded in 2013, Russia is Egypt's primary source country, the majority of which head to Sharm El Sheikh's all-inclusive resorts. The Russian market is expected to see a cumulative increase of 38% from 2014 to 2018.

All-inclusive Red Sea resorts tend to attract European travellers while Luxury hotels cater for domestic market and tourists from the Gulf Cooperation Council.

## Hotel Current Supply

Hilton Worldwide has the highest presence in the country, with 7,000 keys and additional 2,100 in the pipeline. Starwood's presence is the second largest, with a total of 4,400 existing keys and an additional 794 keys in the pipeline. Iberhotel, Accor and Marriott International are also well represented in Egypt. The cities with the highest hotel brand penetration are Cairo, Sharm El Sheikh and Hurghada - given the large influx of international visits to these cities.

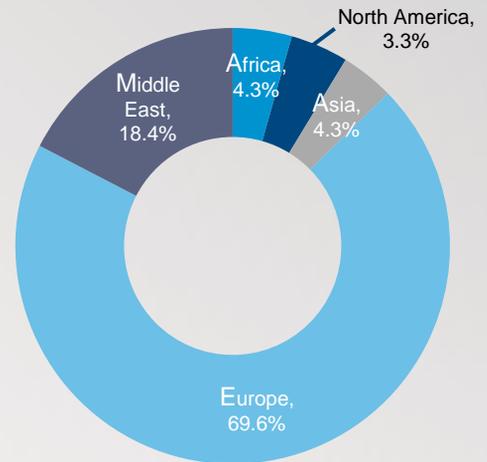
Red Sea destinations benefit from direct European flights. Sharm El Sheikh and Hurghada enjoyed booming pre-2011 demand, thereby appealing to investors. Economic instability has affected the Red Sea markets to a lesser extent than it has in Cairo and Alexandria, and as such these markets are expected to experience a quicker recovery.

## Hotel Future Supply

Between Q3 2014 and 2019, hotel supply is expected to increase by 11,618 rooms across 34 properties, the majority of which have been planned for Sharm El Sheikh.

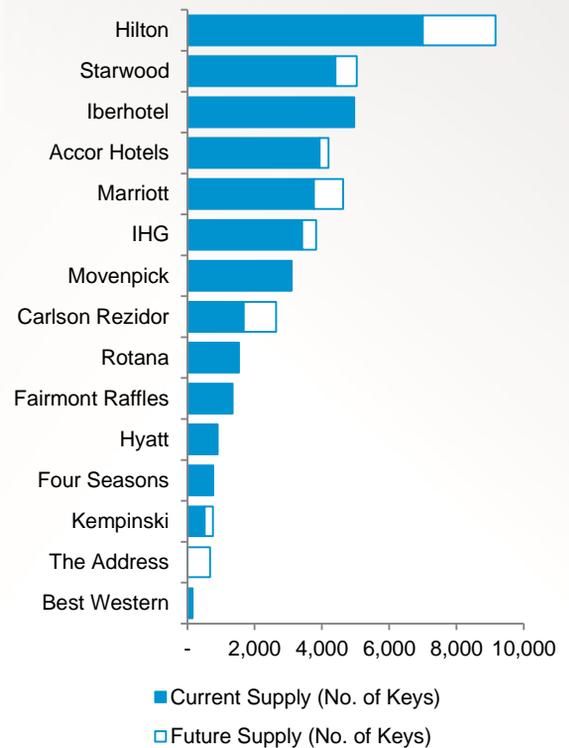
Forthcoming supply is expected to introduce renowned regional and international brands to Egypt, with brands such as The Address (Emaar), Raffles (FRHI) and Westin (Starwood Hotels & Resorts) to make their debut in the country between 2014 and 2018.

Source Markets by Region 2013



Source: Colliers International

Major Hotel Operator Presence in Egypt 2014



Source: Colliers International

## Hotel Demand

In 2013, approximately 54 million overnight stays were recorded by Egyptian hotels, an increase of 1.6% from 2012. The positive performance is attributed to the period of relative calm in H1 2013, which witnessed higher levels of security and stability as efforts to redirect tourism back to Egypt were implemented. According to BMI forecasts, tourist nights in Egypt are expected to small decreases over the coming years, reaching 54 million overnight stays in 2018.

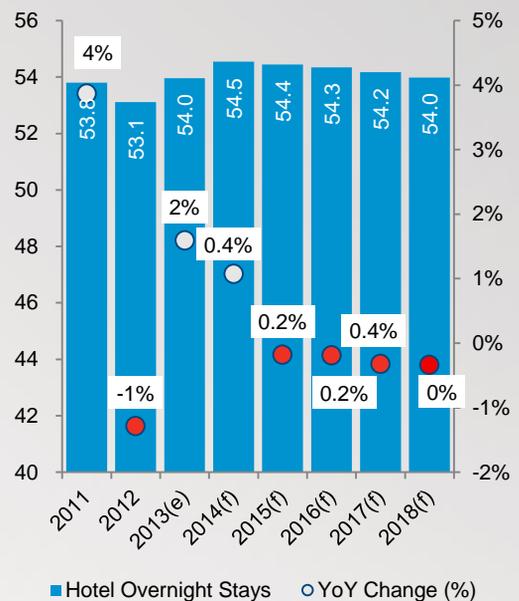
## Key Cities' Performance Indicators

In 2013, the majority of Egyptian key markets saw declines in occupancy rates – a direct result of limited tourism demand.

In contrast, all markets saw year-on-year growth in 2013 average daily rate (ADR).

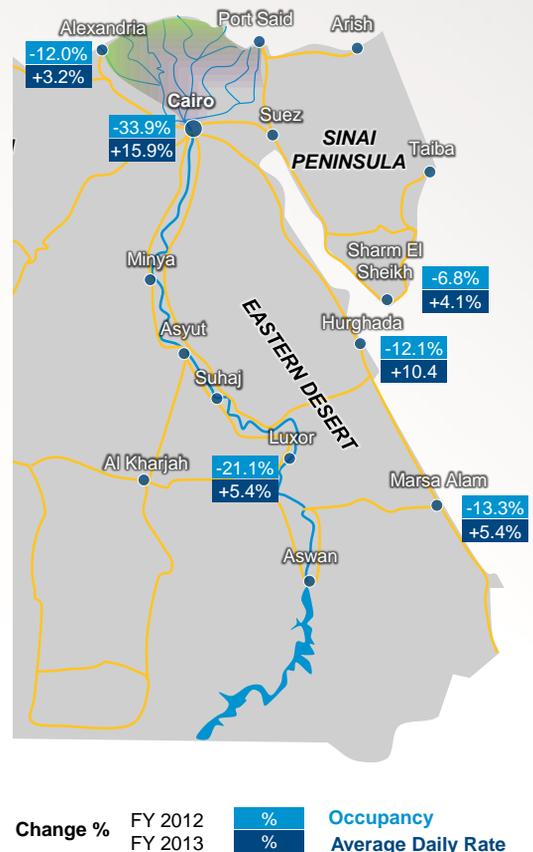
- Hurghada** achieved the highest occupancy rates (58.1%) in 2013, however, this marked a -12% decrease over the previous year. In contrast, occupancy increased by +2.8% in July 2014 YTD when compared with the same period a year before. This however, was off the back of a -8.7% decrease in ADR levels in 2013.
- Sharm El Sheikh** showed signs of growth in 2013, and despite occupancy faltering to 57.9%, ADR increased by +4.1%. This trend did not carry through to YTD July 2014 as the coastal city saw a -7.8% decrease in occupancy levels and a -10% drop in ADR levels, indicating that the market is relatively slow to enter the recovery phase.
- Cairo's** attempt to discount rates post 2011 in an attempt to reignite demand was unsuccessful. As a result, hoteliers opted for higher ADR levels in order to salvage RevPAR, a strategy which resulted in growing revenues. Despite faltering occupancy levels (reaching 40% in 2013), ADR increased by +15.9% in 2013 and a further +1% in YTD July 2014 when compared with the same period a year before.
- Alexandria's** occupancy levels saw a -12% drop in 2013, however the city's hotels were able to maintain a healthy occupancy of 61% during YTD July 2014.
- Luxor** mainly caters to religious tourists, largely attracting domestic market along with GCC and Arab nationals. Lower demand resulted in YTD July 2014 YTD decreases in occupancy (-23.5%) and ADR (-18.6%).
- Marsa Alam's** occupancy declined -13.3% in 2013 and remained stable in July 2014 YTD. This market mostly attracts domestic tourism, and is growing as a popular sea resort destination.

## Hotel Overnight Stays 2010-2017



Source: Business Monitor International

## Hotel Performance Movements in Key Cities FY 2012 - FY 2013



Source: STR Global; Colliers International

# Cairo In Focus

## Cairo's Hotel Market

Prior to 2012, the hospitality market received a large scale of corporate tourists and visitors for meetings, incentives, conferences and events (MICE). This is one of the primary segments on which hoteliers are currently focusing as they work to regrow their base of demand – as a demand-driven strategy is implemented in hotels across Cairo. In 2013, MICE demand represented 54% of inbound business arrivals, or a total of 1.1 million visitors.

In FY 2013, hotels in Downtown Cairo witnessed muted average occupancy rates – a year-on-year decrease of -34% – the largest drop amongst all main Egypt cities. Meanwhile, Giza and Heliopolis saw the average occupancy drop by -17.6% and -10.7% respectively.

Egypt's tourism board is currently revamping its efforts in building the medical tourism sector in Cairo, touting the capital's quality hospitals and availability of medical professionals.

## Cairo's Hotel Landscape

Recent political stability and tightened security measures are likely to have a positive impact on Cairo's hotel market. Despite a decrease in all sub-markets' hotel performance, Downtown Cairo recorded positive growth, a result signalling the beginning of a recovery.

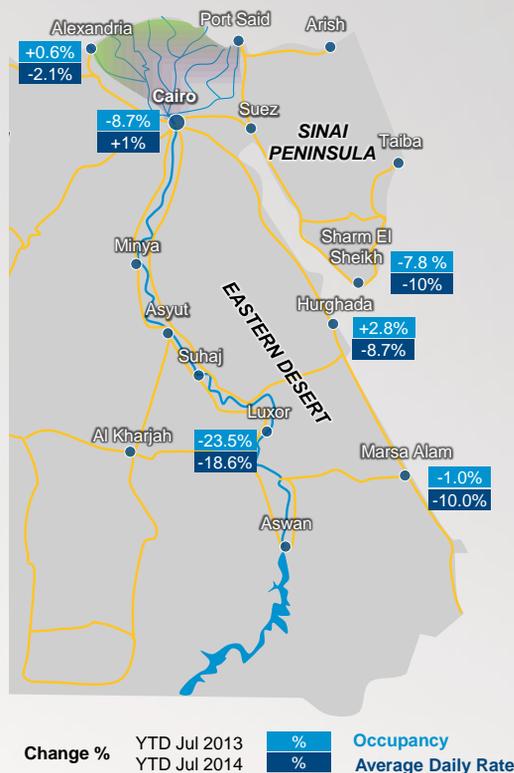
### Increased Ancillary Revenue

Upscale and luxury properties in downtown Cairo are seeing increased business from F&B and banqueting, mainly due to the hotels' increased security measures. Conferences, events and weddings make up the majority of ancillary service utilization.

### Customer Segments

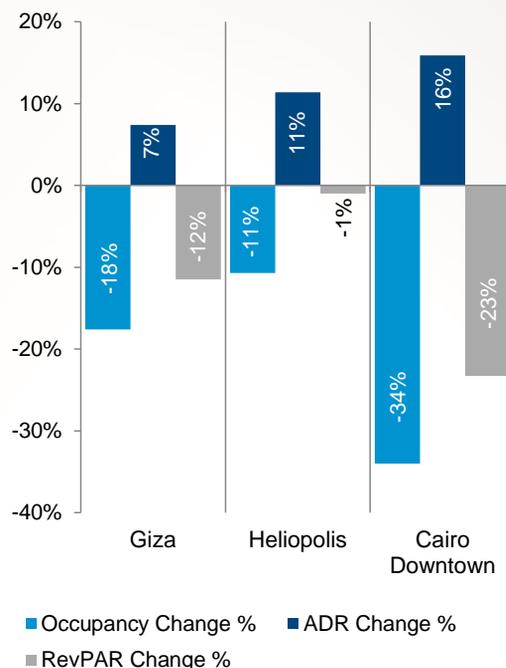
Cairo's luxury hotels are now witnessing segment diversification as hotels are heavily investing in online travel sales. This is being implemented to increase tourism and establishing online offers with heavy promotions – aiming to increase competition based on volume rather than on price.

## Hotel Performance Movements in Key Cities YTD Jul '13 – YTD Jul '14



Source: STR Global; Colliers International

## Performance Movement in Greater Cairo YTD Jul '13 – YTD Jul '14



Source: Colliers International

## Service Charge Modification

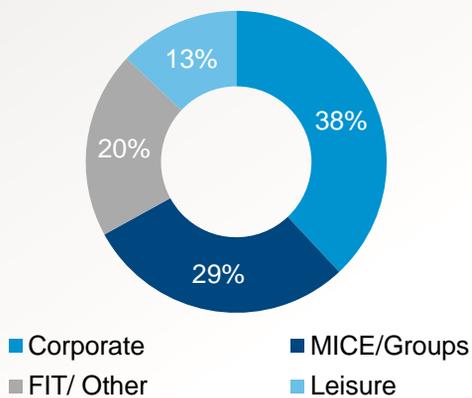
Prior to the downturn of the market, the service charge implemented at Cairo's hotels was solely used as a method of covering payroll expenses. The government has recently revised hotel profit-and-loss reporting structure and allocation of funds, thereby allowing hotels' service charge to be directly counted towards revenues.

This has resulted in increased profitability margins for concerned hospitality establishments, thereby increasing the asset value of properties in the Capital.

## New Luxury and Upper-Upscale Hotels

New Luxury and Upper-Upscale hotels are currently under development in Cairo, with a total of 2,580 keys expected to open between 2014 and 2019. High-profile forthcoming properties include the 248-key Royal Maxim Palace Hotel Kempinski, the 331-key Nile Ritz Carlton, the 292-key St. Regis and the 350-key Shaza Cairo Nile

Cairo Hotel Market Segmentation 2014



Source: Colliers International

## Conclusion

In fiscal 2013/2014, Foreign Direct Investment saw year-on-year doubling to EGP 43 billion, and the country is aiming for EGP 71 billion in fiscal 2014/2015 through means of enhancing business initiatives and eliminating bureaucracy.

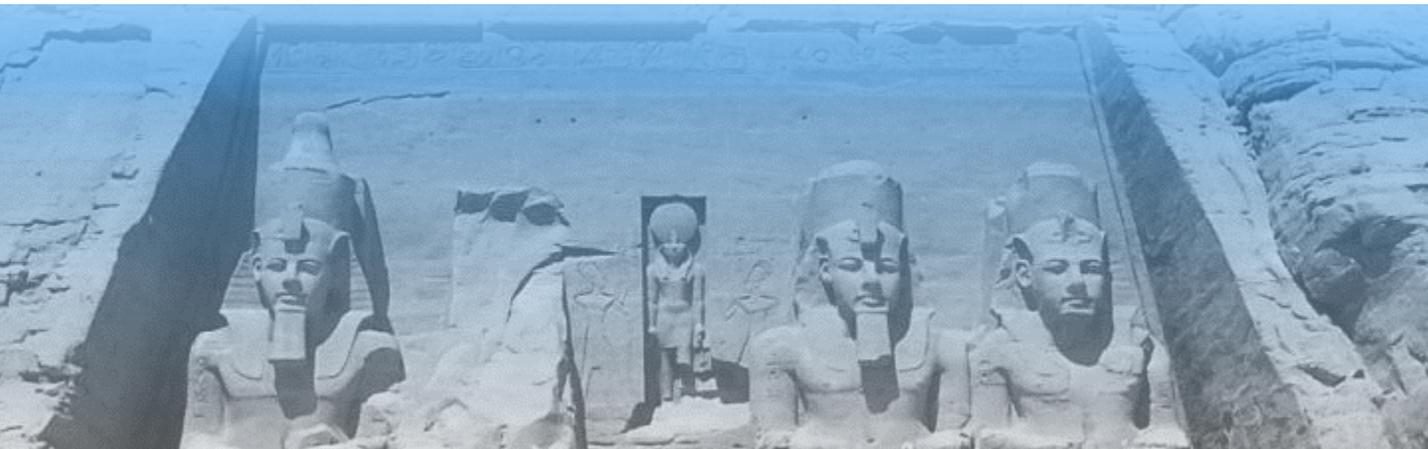
Despite the economic decline affecting the tourism sector, recent socio-political stability in the region is strongly believed to signal future growth in Cairo's high-end hotel sector.

Promising indicators for Egypt's tourism industry are the airport expansions and the optimistic pipeline of 10 capital-intensive Luxury hotel developments representing 2,653 keys to open between 2014-2019.

The most successful markets of the past year was Sharm El Sheikh and Hurghada. A greater volume of domestic tourism and attractive room rates play a major part in keeping Red Sea market occupancies above the national average.

Egypt's economy has traditionally been reliant on its tourism industry, and the long standing, strong market fundamentals represent a solid investment opportunity for the tourism industry in the long term.

An important aspect of the economic recovery will undoubtedly be drawn out from the tourism industry. Positive forecasts of increasing tourist numbers and increased capital expenditure provide an optimistic outlook on what has been a challenging past three years.



# Colliers International Hotels

Colliers International Hotels division is a global network of specialist consultants in hotel, resort, marina, golf, leisure and spa sectors, dedicated to providing strategic advisory services to owners, developers and government institutions to extract best values from projects and assets. The foundation of our service is the hands-on experience of our team combined with the intelligence and resources of global practice. Through effective management of the hospitality process, Colliers delivers tangible financial benefits to clients. With offices in Dubai, Abu Dhabi, Jeddah, Riyadh and Cairo, Colliers International Hotels combines global expertise with local market knowledge.

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The team can advise throughout the key phases and lifecycle of projects

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- Market and Financial Feasibility Study
- Development Consultancy & Highest and Best Use Analysis
- Operator Search, Selection and Contract Negotiation
- Pre-Opening Budget Analysis and Operational Business Plan
- Owner Representative / Asset Management / Lenders Asset Monitoring
- Site and Asset Investment Sale and Acquisition/Due Diligence
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# 485 offices in 63 countries on 6 continents

United States: **146**

Canada: **44**

Latin America: **25**

Asia Pacific: **186**

EMEA: **84**

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**\$2.1**

billion in  
annual revenue

**1.46**

billion square feet  
under management

**15,800**

professionals  
and staff

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