

MENA's rapid economic growth attracts midscale hotel demand

by *Victoria Rosenthal* |

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The Hilton Garden Inn Dubai Al Mina is one of Hilton's first forays into MENA's mid-scale hotel market.

Thanks to economic growth and the changing tastes of young travelers, demand for three- and four-star hotels in Saudi Arabia, the UAE and Egypt **has surged**.

According to Carlos Khneisser, VP for development in the Middle East, North Africa and Turkey at **Hilton Worldwide**, the hotel operator has several properties in its pipeline for the region, most of which are three- and four-star hotels. Hilton has seven new hotels in the pipeline in Egypt that will increase its 17-hotel portfolio in the country. Meanwhile, the group has planned new hotels in Makkah and Jeddah, Saudi Arabia and in Dubai, UAE. "We are moving into new types of hotels that attract the demands of new clients and the younger generation. Makkah, Jeddah and Dubai are the top three hub areas in terms of developments (in the GCC). Maybe they are saturated in the high-scale segment, but there is still an appetite for the mid-scale segment," Khneisser said.

The GCC's two largest economies in Saudi Arabia and the UAE have been hit hard by plunging oil prices, which began in 2014. This led to an economic slump across the region. Meanwhile, Egypt, the most populous Arab nation, has been facing political

turmoil following the Arab Spring uprisings, which began in 2011. The country has recently begun a complete economic overhaul that has included free trade of the Egyptian pound. The free float has slashed its comparative value by almost half, allowing foreign investors to acquire land at cheaper prices and invest in the country more easily. "There are new leads, especially in Cairo, in the new administrative city... there is activity," Khneisser said. These new investment opportunities now include the country's plans to develop a new city to hold more government office functions outside of its capital city.

In 2015, Hilton took on Dubai's mid-scale market with the launch of three Hilton Garden Inns. Now, the hotel group is set to launch mid-scale brand Hampton Inn by Hilton in 2018.

Hilton has also included Makkah's growing mid-scale hotel market in its expansion plans. "In Makkah, for the last maybe 30 years, most of the hotels there were five stars, international brands. Mid-scale operations did not exist," he said. However, to meet the rising demand for the holy city, Hilton signed its first Hampton Inn in Makkah last year and has planned to develop two other large, mid-scale hotels in the city.

Khneisser stated that the increase in mid-scale hotel stock is a sign of economic maturity. "The more those cities mature, the more you see the midscale segment entering the market," he said. He added that the increasing number of Egypt's hotel investment opportunities is a result of the government's economic reforms, especially in under-represented secondary cities. In Damietta, for example, Hilton signed a new Hilton Garden Inn along the Egyptian Nile delta. "In the Middle East, investors and owners are now starting to understand the values of those (mid-scale) hotels...that they are low-risk, you can build them in one and-a-half years, and the return on investment is quite appealing," Khneisser said.

Colliers reported that the hotel markets in Saudi Arabia and Egypt have been achieving strong growth. The Kingdom specifically has seen new hotels being constructed on a rapid scale. For example, Makkah's guestroom stock is set to increase at a compound rate of 37 percent per year from 15,420 by the end of June to 39,898 by the end of 2019. Jeddah's guestroom numbers are expected to increase by 33 percent a year from 6,009 by the end of June to 12,866 by the end of 2019. However, Egypt is expected to experience a more modest growth rate. Cairo's guestrooms are set to increase by 5.2 percent from 15,900 in June to 18,524 by the end of 2019.