Middle East: H1 2008 Hotel Pipeline Report

Construction Pipeline & Three-Year Forecast for New Hotel Openings

Pipeline Highlights at Q2

• The Total Construction Pipeline for the Middle East reached a new record high of 556 projects/164,259 guest rooms as of the end of Q2. Pipeline counts have seen moderate incremental growth over the last four quarters, indicating that the Pipeline is not yet as seriously impacted by the lending crisis and global economic slowdown as it is in other regions.

• Both Under Construction, at 246 projects/71,240 rooms, and Scheduled Starts in the Next 12 Months, at 181 projects/50,555 rooms, hit new highs in Q2. Early Planning totals saw a minimal decrease from Q1's peak to 129 projects/42,464 rooms in Q2.

• With 53% of the region's Pipeline projects and 61% of rooms, the United Arab Emirates (UAE) is entrenched in a once-in-a-lifetime, development surge that will double Current Hotel Supply through 2010. Over 80% of this UAE development is centered in Dubai and Abu Dhabi.

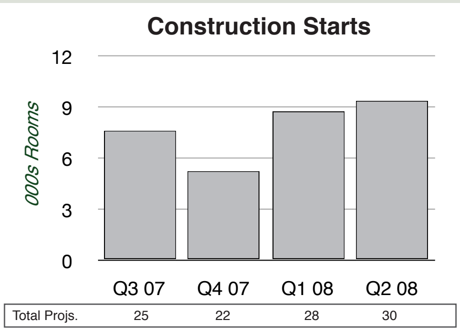
• At 162 projects/59,950 rooms, Dubai has 36% of all rooms in the Middle East Pipeline. Dubai's Pipeline is larger than any other global metropolitan city, including New York, Las Vegas, London, and Shanghai.

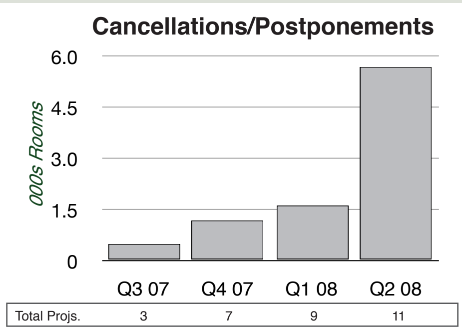
Construction Pipeline Totals	Q2 2008		Q1 2008		Variance QoQ	
	Total Projs	Total Rms	Total Projs	Total Rms	Projs	Rms
Under Construction	246	71,240	233	66,775	13	4,465
Scheduled Starts Next 12 Mos	181	50,555	159	45,529	22	5,026
Early Planning	129	42,464	135	43,685	-6	-1,221
Total Pipeline	**556**	**164,259**	**527**	**155,989**	**29**	**8,270**

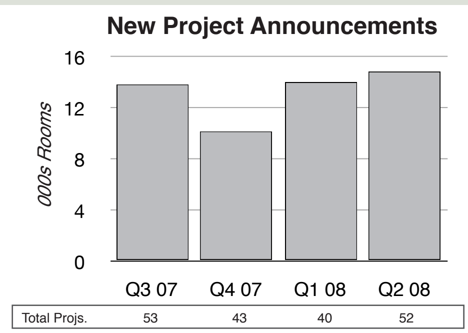
Pipeline Overview

At 556 projects/164,259 rooms at Q2's end, the Total Middle East Construction Pipeline continued its modestly upward trend seen over the last four quarters. Unlike in most regions, the worldwide lending crisis and resulting economic declines have not seriously affected the Middle East yet, but concerns are growing that there could be a greater impact seen in H2. The big question is if there will be any fall-off in room demand due to the economic slowdown just when the Pipeline begins to unfold and New Supply comes online at a quickened pace. If so, this could lead to a change in developer sentiment.

More immediate concerns are impacting developer sentiment, specifically skyrocketing construction costs and critical shortages of building materials and skilled labor seen in the last year. Because of this, key Development Metrics have fluctuated within a narrow holding pattern for a fourth consecutive quarter. As the Total Pipeline reaches new highs, Construction Starts, which rose just slightly to 30 projects/9,412 rooms, show forward project migration towards construction to still be sluggish, with projects idling in Scheduled Starts and Early Planning. Cancellations/Postponements held steady at 11 projects, but with a total of 5,700 rooms, including one 3,000-room project and another with 1,000 rooms. There were 52 New Project Announcements into the Pipeline, with a total of 14,916 rooms, a moderate increase over Q1.







LE's Three-Year Forecast for New Hotel Openings

The pace of New Hotel Openings will increase through 2010, as 44% of the Middle East Pipeline is already Under Construction. Because of increased construction delays, LE has adjusted its Forecast for New Hotel Openings for 2008 down slightly to 80 hotels/18,629 rooms, with 27 hotels/6,632 rooms having opened thus far in H1. LE has also revised its 2009 Forecast downward to 121 new hotels/33,478 rooms. In its first projection for 2010, LE is calling for 148 hotels/39,445 rooms to open. LE's Forecasts for New Hotel Openings are based on current Pipeline totals and development trends as of the end of Q2 2008. The Forecast does not account for any unforeseen changes in economic or lodging operation fundamentals that would alter these trends going forward.

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