HVS

JULY 2016 | PRICE £350

TRENDS AND OPPORTUNITIES:

ISRAEL HOTEL MARKET OVERVIEW 2016

Jill Barthel
Associate

Russell Kett
Chairman




HVS.com

HVS London | 7-10 Chandos Street, Cavendish Square, London W1G 9DQ, UK

International interest of hotel operators and chains is continuing to be strong despite volatile visitation numbers given the prevailing geo-political instability in Israel. While domestic-driven markets are struggling the most, corporate-driven cities such as Tel Aviv are proving to be more resilient to any turmoil. The hotel room pipeline is as strong as ever, and with new laws and regulations in place facilitating hotel developments, investor interest is expected to grow even further.

European Highlights

- 2015 and the beginning of 2016 have proven to be challenging times for the Europe. Witnessing oil prices fall to unexpected levels in addition to a weakening of the euro, a slowdown from the Chinese market, the immigrant crisis affecting the majority of European countries, as well as terror attacks in both Paris and Brussels, have each had their impact on the European tourism and hotel market;
- However, it seems that these events only had a short-term impact, as the overall European area managed to record continuous growth in RevPAR (apart from declines in the Russian markets and Istanbul), as well as to achieve a record year in terms of hotel transactions (see our sister publications, *2015 European Hotel Transactions* and *2016 European Hotel Valuation Index*).

Country-Specific Highlights

- Following 2014's weak performance, Israel's hotel market has been further impacted by prevailing geo-political tensions in the country, with corporate-driven cities such as Tel Aviv proving to be more resilient than leisure-driven markets including Jerusalem and the Dead Sea area;
- Having been impacted by a number of terrorist incidents that have taken place between Palestinians and Israelis since September 2014, leisure-driven markets have been further impacted by the significant drop of Russian visitors, resulting in severe decreases in both occupancies and average rates;
- Nevertheless, the investment appetite of both domestic and international developers seems unsatiated, highlighted by a current pipeline of around 7,600 hotel rooms, each at various stages of completion. The strongest investment desire is seen in Jerusalem and Tel Aviv as well as the country's northern coastal areas. Investment interest is expected to be further stimulated by a new regulation introduced in March this year, which should enable hotel developments to take half the time for completion, as they will be classified as National Infrastructure. Furthermore, up to 20% of the hotel can be approved for residential purposes. These changes are expected to further stimulate hotel investment interest in Israel, while at the same time push up overall hotel room supply;
- Despite volatile performance recorded over the past few years, international chains are still keen on entering the market or on expanding their current limited presence. This highlights the global interest of Israel as both a business and a leisure destination;
- Israel's hotel values continued to experience decreases, following the 2014 trend. The strongest decreases have been recorded in the Dead Sea region (-15%) and Haifa (-8%), while Tel Aviv was the only region to maintain hotel values per room at the previous year's level. These trends are generally in line with the overall behaviours in performance in the respective regions.

Country Overview

Politics and Demographics

The ruling government has been in office since May 2015 and is referred to as 'the fourth Netanyahu government'. Being a multi-party coalition government, it is formed of Netanyahu's Likud party as well as the United Torah Judaism, Shas, Kulanu and Jewish Home parties, which are all known for being mainly conservative and religious parties. Holding a mere 61 of the total 120 seats at the Knesset, Netanyahu only managed to form a slim majority coalition, leaving him little room to manoeuvre in both domestic and international affairs.

While the country seemed to slowly recover from the conflict that took place in July and August 2014, a new wave of terrorism started in September 2015. The majority of the incidents have been carried out in Jerusalem; however, some casualties have also been recorded in Tel Aviv.

In recent weeks, Netanyahu came under scrutiny after his appointed Minister of Defence, Moshe Ya'alon, resigned from his duties on 20 May 2016, replaced by the ultra-nationalist politician Avigdor Lieberman. While Ya'alon was known for being a more open-minded politician with regard to peace talks between Israelis and Palestinians as well as the Pentagon, Lieberman is known for his hostile opinions towards Palestinians, Israel's Arab minority, and Egypt. Lieberman has only been in office for a few weeks; however, it is feared that prevailing peace agreements will be at stake with this new government in place.

Economy

Israel has a strong GDP growth forecast, with projected growth rates ranging between 2% and 4% over the coming years. This reflects strong and positive prospects for the country's economy. Israel is an OECD member and has the highest standard of living in the Middle East according to UN rankings. The country is ranked third in the region in the World Bank's 'Ease of Doing Business' index as well as 27th in the World Economic Forum's 'Global Competitiveness Report'. Israel's economy is characterised by its strong service and industrial sectors, which mainly focus on high-tech products, biomedical equipment, chemicals and military technology. Additionally, Israel has the second-largest number of start-up companies in the world (after the USA).

While international investment in Israel dropped by almost half in 2014, 2015 proved to show a strong recovery, with foreign investments in Israeli assets having nearly tripled since the establishment of the Boycott Divestment and Sanctions (BDS) movements in 2005. Despite strong international support for this movement, which aims at isolating Israel from international business owing to its doubtful security policies and its persistence of separating the Jewish State, foreign investors keep providing a strong interest in the country's business. Its fast economic growth, which is at a stronger pace than the USA and Europe, along with higher interest rates, make the country a sought-after investment environment.

CHART 1: REAL GDP GROWTH, INFLATION & EXCHANGE RATE COMPARISON, ISRAEL

	Actual					Forecast			
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth (%)	4.8	3.4	3.3	2.8	2.5	2.5	3.2	3.6	3.2
Consumer price inflation (av %)	3.4	1.7	1.5	0.5	(0.6)	(0.1)	1.5	2.6	1.6
Budget balance (% of GDP)	(3.3)	(3.9)	(3.2)	(2.8)	(2.9)	(2.6)	(2.0)	(1.6)	(0.4)
Current-account balance (% of GDP)	0.1	0.3	2.5	3.0	4.7	5.0	4.5	4.7	4.6
Short-term interest rate (av %)	5.5	5.6	4.5	3.9	3.5	3.4	4.8	5.7	5.9
Exchange rate NLS:US$	3.58	3.86	3.61	3.58	3.90	3.90	3.87	3.79	3.69

Source: Economist Intelligence Unit, June 2016

Tourism Demand

Visitation to Israel again saw decreases in 2015. While 2014 was impacted by the extended conflict with the Palestinians, influencing visitation numbers for more than six months, the tourism industry was yet again hit by the consequences of the wave of incidents that started in September 2015. Where visitation declined by nearly 4%, less impact was recorded in total accommodated bednights. Nevertheless, although there was an increase of nearly 4% in accommodated bednights from the domestic market, bednights from international visitors declined by 10.5%. Given the prevailing political turmoil in the key business cities in Israel (Tel Aviv and Jerusalem), a high share of international business people decided to shorten their stays to the absolute minimum.

CHART 2: ACCOMMODATED BEDNIGHTS ISRAEL 2005-15

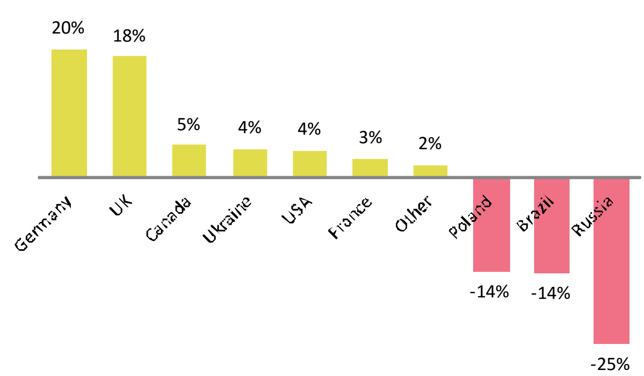
Year	Total	% Change	International	% Change	Domestic	% Change
2005	19,087,000	—	6,783,100	—	12,303,900	—
2006	19,307,700	1.2 %	6,854,100	1.0 %	12,453,600	1.2 %
2007	20,478,600	6.1	8,405,900	22.6	12,072,700	(3.1)
2008	21,595,500	5.5	10,187,500	21.2	11,408,000	(5.5)
2009	19,904,800	(7.8)	8,108,900	(20.4)	11,795,900	3.4
2010	21,863,800	9.8	9,933,100	22.5	11,930,700	1.1
2011	21,860,000	(0.0)	9,949,100	0.2	11,910,900	(0.2)
2012	22,137,800	1.3	9,750,400	(2.0)	12,387,400	4.0
2013	22,474,000	1.5	9,747,200	(0.0)	12,726,800	2.7
2014	22,152,900	(1.4)	9,190,400	(5.7)	12,962,500	1.9
2015	21,686,200	(2.1)	8,223,300	(10.5)	13,462,900	3.9
Compound Annual Growth Rate 2005-15		1.3 %		1.9 %		0.9 %

Source: European Cities Tourism

Another potential explanation for decreases noted in accommodated bednights, is the increased competition seen from the 'sharing economy' platform Airbnb. From data published by the 'TheMarker', around 115,000 people sought accommodation at Airbnb properties in 2014. Considering the average tourist spends around four nights in Israel, this accounts for approximately 5% of total tourist accommodation demand that shifted from regular hotels to Airbnb. Given the overall struggling hotel environment in Israel, hoteliers see the platform as unfair competition. Whereas hotels, regardless of their scale, need to conform to numerous building and planning regulations, health and safety laws and are required to pay high income taxes, private individuals are exempt from these burdens and are free to offer their properties as frequently as desired. The Israel Hotel Association is thus fiercly fighting for the implementation of tax laws and a stricter regulation of the overall Airbnb supply.

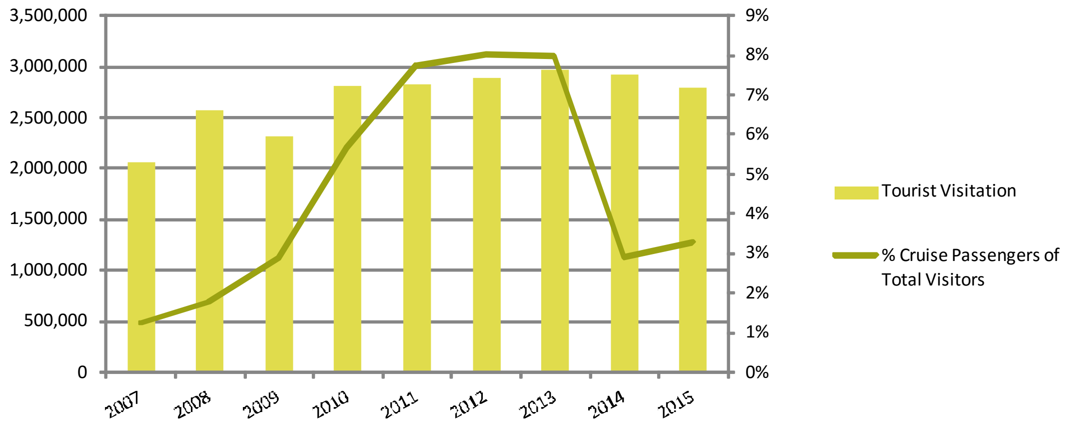
The decline in visitation to Israel in 2015 can be somewhat attributed to the prevailing geo-political environment; however, it is also a result of significant drops in visitation from Russia. Despite still being Israel's second-strongest feeder market, Russian visitation has kept declining since 2013, resulting in a 7% drop in 2014 followed by a more significant drop of 25% in 2015. The second-weakest performer in 2015 was Italy, recording a decrease of 19%. This is the second year in a row that Italy has recorded a significant decline in visitation, following a 13% drop in 2014. While Italy continues seeing declines, and with no expected growth from Russia in the short term owing to its prevailing domestic political instability and a weak Russian ruble, some other European markets seem to have been less impacted by the prevailing tensions, with visitation from Germany, the UK and France showing a recovery since the 2014 conflict. The German and UK markets seemed especially resilient, recording remarkable growth of around 20% and 18% in 2015, respectively.

CHART 3: VISITATION GROWTH TO ISRAEL BY COUNTRY 2014/15



However, despite decreasing visitation from, amongst others, Russia and Italy, the overall outlook for Israel isn't as negative as might be perceived, considering the prevailing geo-political environment. Furthermore, positive growth has been experienced by the cruise business. While the number of cruise passengers to Israel saw a severe drop in 2014 on account of numerous cruise liners cancelling their route to the country, 2015 showed a small recovery of around 9%. However, overall, cruise passengers only account for around 3% of total visitation to Israel, as shown in Chart 4.

CHART 4: VISITATION TO ISRAEL 2007-15 (000S)

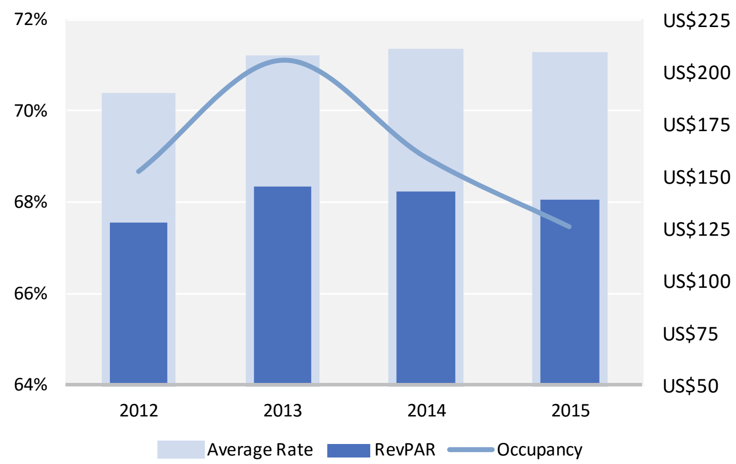


Source: Central Bureau of Statistics

City and Destination Overviews

Following a somewhat quiet first eight months in 2015, in which the tourism market attempted to recover from the impact of the conflict in July/August 2014, the series of incidents that started in September 2015 threw the country off its recovery path. While Tel Aviv's hotels seemed relatively unaffected by the events, on account of their strong corporate-driven demand, hotels in the Dead Sea region, Haifa and Jerusalem have been hit the most severely.

CHART 5: ISRAEL HOTEL PERFORMANCE



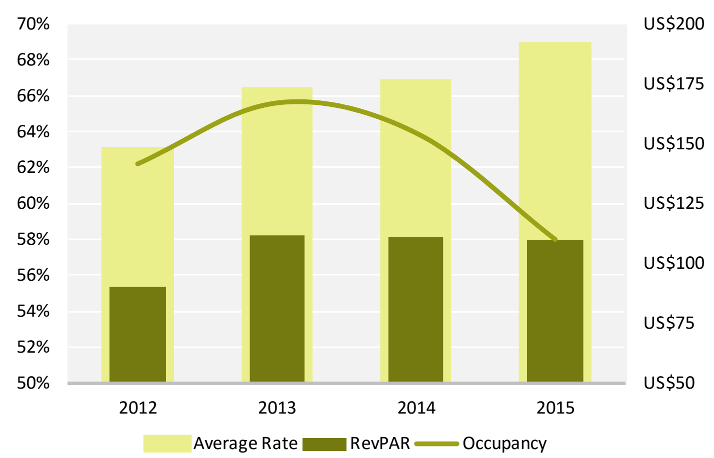
Source: HVS Research

However, despite decreases of up to 15% in RevPAR in the Dead Sea region, country-wide performance managed to limit decreases to 2% in occupancy and 1% in average rate, resulting in a 3% decline in RevPAR. While the geo-political turmoil played its part in this unfavourable evolution, some regions have been further impacted by the severe declines in visitation from the Russian market, which, while remaining Israel's second-strongest feeder market, only accounted for around 13% of total visitation in 2015 compared to a significant 18% at its peak in 2013.

Jerusalem

Despite a 9% decrease in occupancy in 2015, Jerusalem only experienced a 1% drop in RevPAR, owing to significant average rate growth of 9%. However, it is worth noting that with the Waldorf Astoria opening in April 2014, its performance data has only been included from 2015. Being the most luxurious property in the market, the addition of the Waldorf has notably pushed overall average rates. Excluding the hotel from our sample, the picture would look somewhat different, resulting in a 7% decrease in RevPAR in 2015, with an 8% drop in occupancy and a city-wide increase of only 1.5% in average rate.

CHART 6: JERUSALEM HOTEL PERFORMANCE



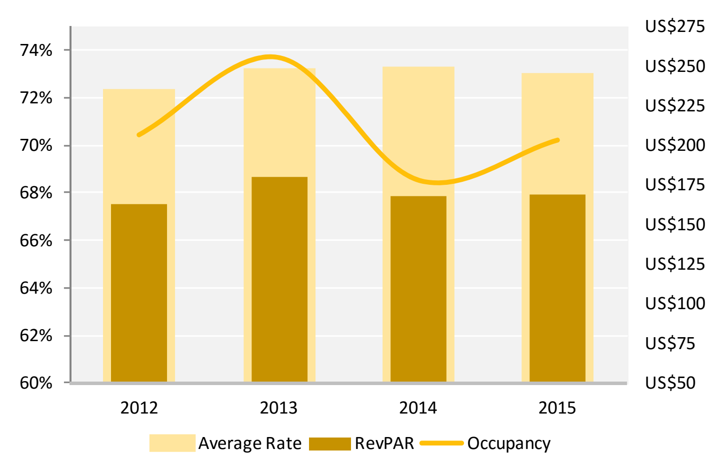
Source: HVS Research

However, regardless of the Waldorf being included or not, the overall image is the same; Jerusalem has seen continuous decreases in occupancy since 2014, further enforced by the incidents taking place since September 2015, which predominantly took place in Jerusalem. With Jerusalem's key demand coming from the leisure sector, many visitors decided against a stay in the city. Nevertheless, it is remarkable to see the continuing investment appetite of hotel developers, with currently around 1,800 rooms in the pipeline.

Tel Aviv

Tel Aviv has proven to be the most resilient hotel market in Israel, showing the least vulnerability to prevailing geo-political turmoil and tensions. Albeit recording a 7% decrease in RevPAR between 2013 and 2014, the market has been able to remain steady ever since, recording almost flat RevPAR growth of 0.5% in 2015, despite increases in supply as shown in Chart 8. This is a result of the strong corporate nature of Tel Aviv's demand, which has proven more resilient to political concerns than leisure demand.

CHART 7: TEL AVIV HOTEL PERFORMANCE



Source: HVS Research

Furthermore, despite recent new openings in the city, Tel Aviv proves to be of further interest to hotel investors and developers. As per the Israel Hotel Association, there is currently a total pipeline of around 2,150 new hotel rooms, each at different stages of completion. Chart 8 provides an overview of confirmed hotel openings as per our research.

CHART 8: TEL AVIV HOTEL PIPELINE

Properties	Hotel Group	Location	Number of Rooms	Opening Date[1]
Recently Opened				
Brown Beach House	Brown Hotels - Urban Collection	Tel Aviv	40	June 2015
Hotel Rothschild 22	Fattal Hotels	Tel Aviv	156	October 2015
Pipeline				
Sir Benjamin Hotel	Sir Hotels	Tel Aviv	40	Q3 2016
Leonardo (Rakevet)	Fattal Hotels	Tel Aviv	190	Q4 2016
W Tel Aviv – Jaffa	Starwood	Tel Aviv	125	Q4 2016
Setai Jaffa Hotel	Independent	Tel Aviv	115	Q2 2017
MGallery Alkunin	Accor	Tel Aviv	46	Q4 2017
Kempinski David Hotel	Kempinski	Tel Aviv	220	Q4 2018
Azrieli II	Independent	Tel Aviv	160	Q1 2019
Isrotel 'Little Tel Aviv' (Urban Hotel)	Isrotel	Tel Aviv	120	Q1 2019
Proposed Development (Luxury, Upscale & Boutique Hotel)	TBC	Tel Aviv North	160, 310, 90 respectively	Q1 2021
Proposed Luxury Hotel	TBC	Tel Aviv South	250	Q1 2022

Sources: HVS Research; Israel Hotel Association

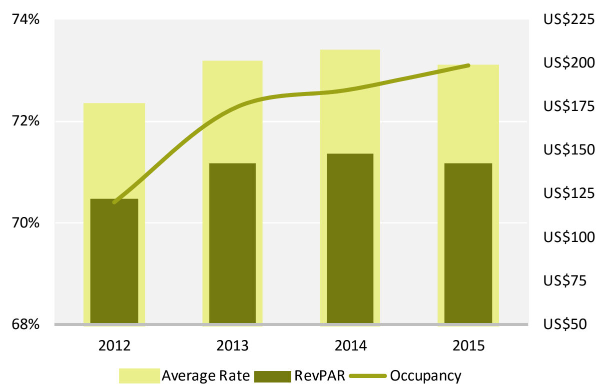
[1]Provisional

The pipeline highlights the overall interest of international hotel operators looking to enter the market or to expand their currently limited existing presence. The majority of ongoing projects are focussed on expanding the upscale and luxury hotel market, with notable new additions including the W Tel Aviv – Jaffa, the MGallery Alkunin and the Kempinski David Hotel. Furthermore, although not yet confirmed, the proposed luxury, upscale and boutique hotels, comprising one combined development, are also likely to be operated under an international brand.

Eilat & the Dead Sea

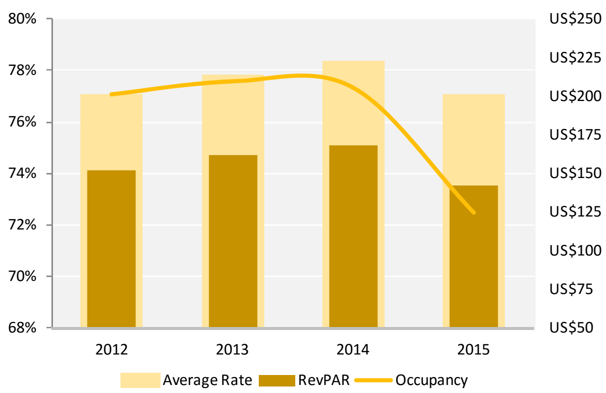
Both regions, best known for being Israel's most sought-after leisure and holiday destinations, have been struggling with decreasing visitation numbers over the past few years. Mostly leisure- and group-driven markets, both regions have been severely impacted by the declining visitation noted Russia, which used to be a key feeder for the area. Furthermore, while Eilat managed to hold on to a steady occupancy of 73% over the past two years, average rates dropped by 4% on the basis of low group rates being offered to tour operators in an attempt to stimulate demand.

CHART 9: EILAT HOTEL PERFORMANCE



Source: HVS Research

CHART 10: DEAD SEA HOTEL PERFORMANCE



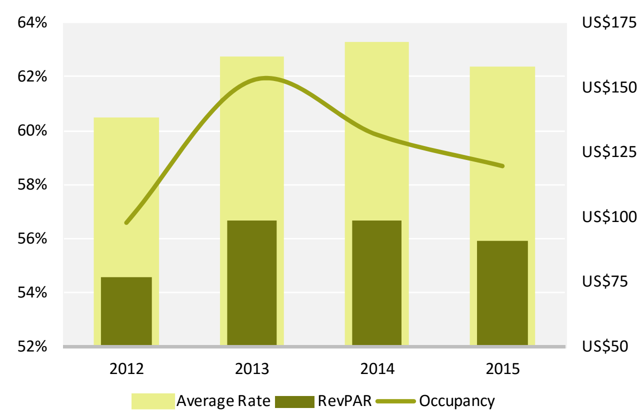
Source: HVS Research

Contrary to Eilat, the Dead Sea region did not only face significant decreases in average rates, but at the same time drops in occupancy, resulting in an overall decrease of 15% in RevPAR compared to 2014. While the region used to be on par with Tel Aviv in regard to RevPAR performance, this substantial decrease has resulted in it now being on par with Eilat, both achieving a RevPAR of US$142 compared to Tel Aviv, which again achieved the highest RevPAR in the country at US$169.

Haifa

Located in the north of Israel, the city is industrial and is home to the country's largest port, both for cargo and leisure cruises. The port is currently undergoing two substantial development projects: the new cargo gateway, due to be completed this year, and the reconstruction of the eastern container terminal, taking place over the coming three years.

CHART 11: HAIFA HOTEL PERFORMANCE



Source: HVS Research

Following a strong increase in both occupancy and average rate in 2013 (resulting in RevPAR growth of 28%), Haifa has been struggling ever since. Albeit achieving a slight increase in RevPAR in 2014, occupancy saw a steep decline, with that trend holding in 2015. With average rate experiencing a decline of 6% in 2015, total RevPAR dropped by 8%. Being located in a country known for its political unrest and surrounded by war-torn countries, including Egypt and Syria, Haifa is facing a difficult setting, especially when trying to stimulate transhipment demand. However, as passenger cruise lines experienced declining business in 2014 and only marginal growth in 2015, Haifa port is currently implementing a long-term plan to entice cruise lines back to the 'Gateway to the Holy Land'. Teaming up with Miami-based Access Cruise Inc, which specialises in sales and marketing representation to the cruise industry, Haifa port representatives met with executives of the major North American cruise lines during the recent 2016 Seatrade Convention in Fort Lauderdale, Florida, in order to boost cruise tourism.

Given the developments at the port and the attempts to increase cruise visitation, the area will see further increases in hotel supply, with nearly 200 rooms in the pipeline (mainly small hotels with no operators announced to-date). However, given the already struggling occupancy levels faced by the area's hotels, these additional rooms will put further pressure on hotel performances should there be no accompanying increase in demand in the coming years.

Hotel Market Overviews

Demand

CHART 12: OCCUPANCY AND AVERAGE RATE COMPARISON (US$)

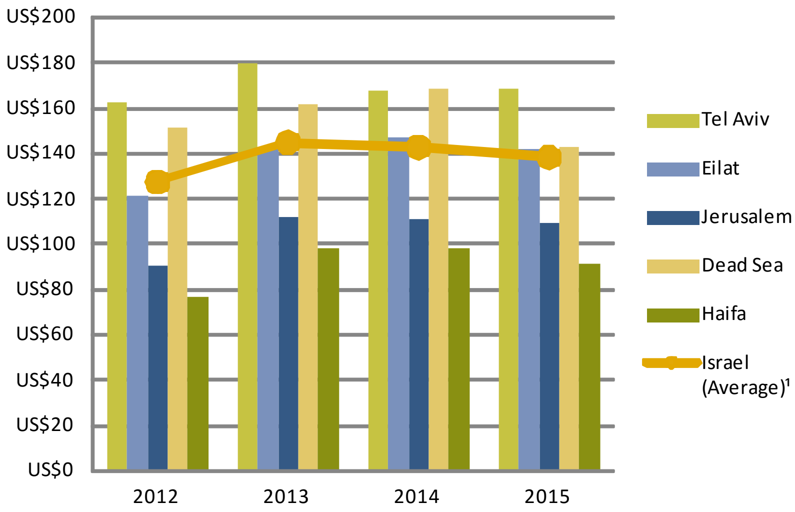
	2012			2013			2014			2015			Sample Size
	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Rooms
Tel Aviv	70%	231	162	74%	244	180	69%	245	168	70%	240	169	3,770
Eilat	70%	173	122	72%	197	142	73%	203	148	73%	195	142	4,273
Jerusalem	62%	145	90	66%	170	112	64%	173	111	58%	189	110	3,365
Dead Sea	77%	197	152	78%	209	162	77%	218	169	72%	197	142	1,594
Haifa	57%	136	77	62%	159	98	60%	165	99	59%	155	91	822
Israel (Average)[1]	**69%**	**186**	**127**	**71%**	**204**	**145**	**69%**	**207**	**143**	**67%**	**205**	**138**	**13,823**

Source: HVS Research

[1] The average of the samples of hotels in the five destinations

Despite the prevailing geo-political tensions that seem to have been haunting the tourism market for decades, some regions managed to achieve decent performances. With the conflict in July/August 2014 and the terrorist incidents as of September 2015, the overall market does not seem to have had sufficient time to fully recover. Nevertheless, the overall market seems relatively resilient, especially in regions that are of a corporate nature in comparison to the more leisure-driven markets. The loyal Jewish visitors also display a similar resilience.

CHART 13: REVPAR PERFORMANCE BY LOCATION 2012-15



Source: HVS Research
[1] The average of the samples of hotels in the five destinations

Tel Aviv, which has a relatively strong corporate demand base, managed to slightly push overall performance despite amplified pressure from increased supply in the market, deriving from the recent openings of both Brown Beach House (June 2015, 40 rooms) and Hotel Rothschild 22 (October 2015, 156 rooms). However, cities and regions such as Jerusalem, the Dead Sea and Haifa encountered substantial decreases. Given the strong decrease in Russian visitation and the fact that those markets are strongly leisure-driven, hotel performance has been impacted by the uncertainties and fear of an overall unsafe and unsecure environment. As shown in Chart 13, RevPAR performance of the whole country has seen slight declines since 2013.

Supply

In an attempt to stimulate international hotel investments and tourism in Israel, the Knesset approved an initiative launched by the Minister of Tourism, Yariv Levin, in February this year, aiming at reducing the cost of holidaying in Israel. The new regulation stipulates that hotels and new hotel developments will be classified as National Infrastructure, resulting in reduced building approval time-frames and an overall facilitation of the development bureaucracy. The overall average time to open a hotel in Israel would thus be cut by almost half to around five years. Furthermore, local committees can approve up to 20% of the hotel to be used for residential purposes. Leading to increased investor appetite, it is hoped that this new regulation will result in a 20% decrease in costs for hotel stays over the next five years. With only around 3,000 hotel rooms added to the market over the past decade, this regulation is estimated to allow for another 15,000 hotel rooms to be built over the next five years, thus boosting overall tourism in the country.

According to recent research, the current total room supply in the pipeline amounts to around 7,600 rooms, all in various stages of completion. Around 2,000 of these rooms have been confirmed to be affiliated with international hotel brands, accounting for 27% of the total pipeline. This emphasises the prevailing investment appetite of international brands to enter the market or to further expand their current limited presence in Israel. While not shown on the chart below, we note that there have also been rumours about a planned Four Seasons and a W Hotel in Jerusalem; however, neither project could be confirmed at the time of publishing this article. From feasibility work which we have been involved with in recent months, we are also aware of significant new hotel projects in Jerusalem, Tel Aviv, Herzliya and Tiberias, which should become part of this 'official' pipeline in due course.

As well as international interest, domestic hotel brands are gaining momentum, with a key player in the market being Isrotel, which is seeking new investments and opportunities throughout the country and has numerous projects in the pipeline. Chart 14 provides an overview of new hotel rooms per city/region.

CHART 14: NEW SUPPLY

Proposed Property	Hotel Group	Location	Number of Rooms	Opening Date[1]
Isrotel – The Publica	Isrotel	Herzliya	160	Q3 2016
Dan Hotel Herzliya[2]	Dan Hotels	Herzliya	1,000	Q1 2024
Brown Hotel	Brown Hotels - Urban Collection	Jerusalem	20	Q3 2016
Isrotel The Orient – German Colony	Isrotel	Jerusalem	250	Q1 2017
The Nitzba – former Foreign Ministry	Independent	Jerusalem	600	Q1 2019
ibis Ben Jehuda Area	Accor	Jerusalem	120	TBC
ibis Kings Gardens	Accor	Jerusalem	125	TBC
MGallery	Accor	Netanya	75	Q2 2016
West Lagoon Resort Hotel	Tamares	Netanya	273	Q4 2016
The Modani Luxury Spa Resort	TBC	Netanya	134	Q2 2017
Terraces Netanya	TBC	Netanya	40	Q1 2018
Sir Benjamin Hotel	Sir Hotels	Tel Aviv	40	Q3 2016
W Tel Aviv – Jaffa	Starwood	Tel Aviv	125	Q4 2016
Leonardo (Rakevet)	Fattal Hotels	Tel Aviv	190	Q4 2016
Setai Jaffa Hotel	Independent	Tel Aviv	115	Q2 2017
MGallery Alkunin	Accor	Tel Aviv	46	Q4 2017
Kempinski David Hotel	Kempinski	Tel Aviv	220	Q4 2018
Azrieli II	Independent	Tel Aviv	160	Q1 2019
Isrotel 'Little Tel Aviv' (Urban Hotel)	Isrotel	Tel Aviv	120	Q1 2019
Proposed Development (Luxury, Upscale & Boutique Hotel)	TBC	Tel Aviv North	160, 310, 90 respectively	Q1 2021
Proposed Luxury Hotel	TBC	Tel Aviv South	250	Q1 2022
Proposed Midscale Hotel	Independent	Tiberias Area	150	Q1 2020

Source: HVS Research

[1]Provisional

[2]Rumoured extension of exisiting Dan Accadia Hotel

Strong development is being seen in both Tel Aviv and Jerusalem as well as in the coastal areas north of Tel Aviv and in the Galilee and northern areas of the country. There are currently no planned developments in the Dead Sea and Eilat regions. Rather, investment is being sought in currently under-supplied areas, which notably are Jerusalem and the northern regions in regard to leisure business, and Tel Aviv and its surrounding areas in regard to corporate demand. However, the recently completed review of tourism and hospitality in the Dead Sea envisages a further 7,800 hotel rooms in the region.

Hotel Values

The indications for changes in hotel value in Israel (Chart 15) are based on trading results from 2012 to 2015 and our view of trading prospects for the immediate future.

CHART 15: PERCENTAGE CHANGE IN HOTEL VALUE – SELECTED CITIES ISRAEL (US$)

	2013	2014	2015
Tel Aviv	10.6	-11.8	0.5
Jerusalem	23.9	-3.6	-1.1
Eilat	17.0	3.7	-3.5
Haifa	28.2	0.1	-7.6
Dead Sea	6.9	3.9	-15.4
Israel (Average)	**15.4**	**-2.6**	**-5.1**

Source: HVS Research

From the two charts reflecting value per room for hotels in selected Israeli cities as well as European cities, the overall European market saw an increase of 4% (please refer to our sister publication *2016 European Hotel Valuation Index*), compared to a decline of 5% noted from the Israeli market. The only city within the top ten European cities that experienced a decrease in value was Paris (down 0.5%), albeit holding on to the highest values per room recorded within the whole region. This is a consequence of the prevailing tense geo-political environment in the aftermath of the numerous terror attacks in 2015.

In regard to the Israeli hotel market, the country-wide average saw further decreases, continuing the trend set in 2014, resulting in a drop of 5% in 2015 compared to 2014. The Dead Sea recorded the highest loss in terms of values per hotel room (down 15% compared to the previous year), which is of no surprise considering its mediocre performance in regard to occupancies and average rates in 2015. Where the Dead Sea region recorded the second-highest values following Tel Aviv in 2014, it had to give way to Eilat which, owing to a stronger performance in 2015, managed to achieve higher values per room than those recorded in the Dead Sea region. The only city that managed to hold on to its hotel values was Tel Aviv, showing a small increase of 0.5%. This is also in line with the overall strong investment appetite prevailing for this city and its immediate surrounding area.

CHART 16: PERCENTAGE CHANGE IN HOTEL VALUE IN LOCAL CURRENCY

	2013	2014	2015
Paris (€)	1.7	4.9	-0.5
London (£)	3.4	3.2	-7.3
Zürich (SFr)	4.2	5.7	-12.1
Geneva (SFr)	-3.3	5.5	-12.1
Rome (€)	2.3	3.7	4.5
Amsterdam (€)	4.8	8.6	8.6
Milan (€)	3.6	5.7	10.1
Munich (€)	6.7	7.8	3.7
Barcelona (€)	5.0	6.3	10.9
Edinburgh (£)	6.0	2.1	-0.3
Europe Average (€)	**0.6**	**3.1**	**3.6**

Source: HVS Research

Hotel Investment

While new hotel developments attract huge interest from both domestic and international investors, hotel transactions seem to remain almost unchanged. Only one new transaction has occurred over the past year, and is currently still pending. This is the planned sale of the Mitzpe Hotel & Spa Hayamim, located in the Galilee region. A non-binding agreement was signed in February this year by Isrotel, which intends to acquire the property for US$28,200,000 (US$291,000 per room) from current owner, Sami Hazan. It is conceivable that other transactions have taken place, but have not been reported in the public domain. We would welcome receiving details of any for which information can be disclosed.

CHART 17: TRANSACTIONS (US$)

Date of Sale	Property	Number of Rooms	Price (US$)	Price per Room (US$)	Buyer	Seller
Pending	Mitzpe Hotel & Spa Hayamim	97	28,200,000	291,000	Isrotel	Sami Hazan
Pending	Rimonim Hotel Eilat	278	27,200,000*	98,000	Sella Capital Real Estate	Rimonim
Aug-12	Leonardo Inn Hotel Jerusalem	185	17,500,000	95,000	Kevin Bermeister and partners	Kedem Hotel Jerusalem Ltd
May-10	Regency Jerusalem Hotel	505	47,000,000	93,000	Dan Hotels	Promotora Dinamo
Jul-09	Portfolio of 11 Hotels in Israel	2,980	247,300,000	83,000	Fattal Hotels	Azorim Investment
Jul-09	Golden Tulip	250	25,500,000	102,000	Fattal Hotels	Eldan Properties Ltd
Mar-08	Golden Tulip Club & Golden Tulip Privilege	282 & 247	60,000,000	113,000	Fattal Hotels	Yitzhak Tshuva
Mar-08	Mercure B and P Tel-Aviv	103	16,600,000	161,000	Gertler Familly	Avner Levy
Apr-07	Sheraton Moriah Israel (56.5% stake)	88	23,800,000	272,000	Azorim Development and Construction	Koor Industries

Source: HVS Research
*estimated

Conclusion

While the hotel environment evokes a seemingly disjointed image – with corporate-driven markets such as Tel Aviv proving to be relatively resilient to geo-political impacts and leisure-driven markets such as the Dead Sea region being more heavily vulnerable – investment appetite in the country doesn't seem to have weakened in the past year. With numerous projects in the pipeline in key cities as well as more regional areas, in addition to a loosening of the development laws and regulations, the outlook for Israel's hotel market gives reason for positivity and renewed hope.

About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming and leisure industries, celebrated its 35th anniversary last year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

Superior Results through Unrivalled Hospitality Intelligence.
***Everywhere*.**

With offices in London since 1990, **HVS London** serves clients with interests in the UK, Europe, the Middle East and Africa (EMEA). We have appraised some 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuation and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS London is on the valuation panels of numerous top international banks, which finance hotels and portfolios.

In Israel, HVS has worked on hotel valuations and feasibility studies throughout the country, in Jerusalem, Tel Aviv, Herzliya, Netanya, Akko, the Dead Sea, Mitzpe Ramon, the Galilee area and Eilat. Russell Kett has been a regular speaker at the annual conferences of the Israel Hotel Association and other events.

We are grateful to the many hoteliers in Israel who provided operating data and other information for this report. We would welcome the participation of even more hoteliers to enable greater representation of the country's hotel sector.

About the Authors

Jill Barthel is an associate with HVS London. She holds a BA (Hons) in Hospitality, Finance and Revenue Management from Glion Institute of Higher Education and an ECertificate in Hotel Real Estate Investments and Asset Management from Cornell. She joined HVS in 2014 after having gained experience in both accounting and revenue management in key positions with Kempinski in Munich, Beijing and the Seychelles. Since joining HVS, she has been involved in several valuation and feasibility studies in London, Amsterdam, the Nordic countries, Israel, Ghana, Kenya, Spain, the Mediterranean regions, Mauritius and Copenhagen.

Russell Kett is chairman of the London office of HVS and also serves on the worldwide Board of HVS. He has 40 years' specialist hotel consultancy, investment and real estate experience, focused on providing valuation, feasibility, shared ownership, property, brokerage, investment, asset management, strategy and related consultancy services, advising hotel companies, banks, developers and investors on all aspects of their hospitality industry related interests, throughout the EMEA region. Russell is a frequent writer, moderator and speaker on the international hotel industry, especially topics relating to hotel valuation, investment, marketing and finance. He is a frequent visitor to Israel and maintains a home there.

For further information, please contact:
Jill Barthel – Associate, HVS
jbarthel@hvs.com +44 20 7878 7710

Russell Kett – Chairman, HVS
rkett@hvs.com +44 20 7878 7701