JUNE 2018

TRENDS AND OPPORTUNITIES:

ISRAEL HOTEL MARKET OVERVIEW 2018

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Country Highlights

NEW RECORD!

With more than 3.6 million visitors, representing a year-on-year increase of almost 25%, 2017 was the first time in Israel's history that the 3 million mark was reached. The current stability of the geopolitical situation combined with successful marketing actions, the 50th anniversary of Jerusalem's reunification and the increasing number of air routes were the main drivers of this growth. Local hoteliers benefitted from this inflow as reflected in the solid performance of all markets under review.

In December 2017, US President Donald Trump officially recognised Jerusalem as Israel's capital and announced his intention to move the American embassy to Jerusalem, reversing decades of US policy on the issue and further complicating the peace negotiations in the long-standing Israeli-Palestinian conflict (which was evidenced when this move was enacted on 14 May 2018). At a domestic level, the right-wing coalition government is facing internal clashes and the prime minister was at the centre of a corruption scandal. A snap election was being considered; however, a compromise has been reached and the next election will take place in 2019.

Israel is known across the globe for its leading high-technology industry and for its incredible number of start-ups, rumoured to be the highest per capita in the world, which continues to flourish. Although slightly lower than in 2016, the economy recorded a healthy GDP growth of 3.4% in 2017, thanks to a strong export sector. Unemployment continued to decrease to reach its lowest point at 3.9% in December 2017. The outlook remains extremely bright for the country with projected growth above 3.0% over the next four years.

FIGURE 1: KEY ECONOMIC INDICATORS, ISRAEL

	Actual					Forecast			
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (%)	3.3	2.8	2.5	4.0	3.4	3.9	3.3	3.2	4.5
Consumer price inflation (av %)	1.5	0.5	(0.6)	(0.5)	0.2	0.9	2.1	1.2	2.4
Budget balance (% of GDP)	(3.2)	(2.8)	(2.9)	(2.2)	(2.0)	(2.4)	(2.5)	(2.3)	(1.5)
Current-account balance (% of GDP)	2.5	3.0	4.7	3.9	3.0	3.5	3.9	3.9	4.9
Short-term interest rate (av %)	4.5	3.9	3.5	3.4	3.5	3.6	4.4	4.1	3.7
Exchange rate NIS:US$	3.61	3.58	3.90	3.85	3.60	3.49	3.45	3.46	3.37

Source: Economist Intelligence Unit, May 2018

The opening of the Tel Aviv-Jerusalem high-speed train line and Ilan and Assaf Ramon, Eilat's new international airport, have been delayed by several months; operations are now scheduled to begin towards the end of 2018. The new train line will connect Jerusalem to Tel Aviv (with a stop at Ben-Gurion Airport) in 28 minutes, reducing travel time by more than half.

ISRAEL HOTEL INVESTMENT SUMMIT

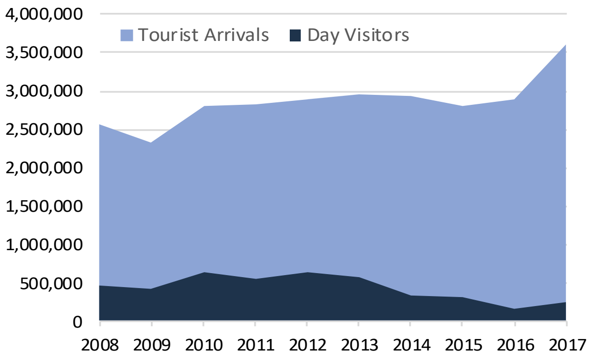
In November 2018, Tel Aviv will host the first Israel Hotel Investment Summit, which HVS is pleased to support. The conference will provide an overview of the country's investment climate and development potential, offering a chance to understand Israel's unique market conditions, considerations and opportunities. We look forward to seeing you there!

Tourism Market Overview

Visitation

2017 was, without a doubt, a record year for the tourism industry in Israel. While day visitors increased by 47%, the number of tourist arrivals in 2017 increased by approximately 25% to reach 3.6 million; the first time in the country's history that the 3 million mark was reached. The celebration of the 50th anniversary of Jerusalem's reunification in May 2017 contributed to this sharp increase. However, the geopolitical situation in the wider Mediterranean basin, especially in Turkey, led to a decrease in cruise passengers, which reached its lowest point since 2009.

FIGURE 2: TOURIST ARRIVALS AND DAY VISITORS, ISRAEL 2008-2017



Source: Central Bureau of Statistics

Air transportation remains by far the most common way of entering the country, with approximately 90% of the total share. For the second consecutive year, Ben Gurion Airport recorded double-digit growth in passenger arrivals (16%), which continues to be driven by international travellers thanks to the opening of more than 30 new direct routes. While the new extension of Terminal 3, which opened in February 2018, can accommodate up to 1,800 passengers per hour, a new US$280 million extension, including 88 new check-in counters, was recently announced and will improve the total capacity upon completion. In light of the recent and anticipated growth, Ben Gurion Airport is expected to be reclassified as a large airport once the 25 million mark is reached (forecasted for 2019).

In the south of the country, Ovda Airport also witnessed a record year with more than 200,000 passengers, which represents a year-on-year increase of more than 60%. The opening of Eilat's new international airport has been postponed to this autumn and an increasing number of low-cost and charter companies, including Ryanair, WizzAir, easyJet, SAS and Edelweiss have announced new routes. The airport will replace the existing Eilat City Airport (domestic flights only) and Ovda Airport, and will have a capacity of 2 million passengers per year.

International Market Share

The top three feeder market remained unchanged in 2017, with the USA in pole position with more than 800,000 visitors, followed by Russia which gained back its second place, conceded to France in 2016, thanks to a 40% increase in visitors. These three markets together account for approximately 40% of total visitation to the country. Following a slight drop in 2016, German visitation bounced back in 2017 and is now the fourth largest feeder market, overtaking the UK, which recorded a more modest growth, partly as a result of the devaluation of the pound.

Thanks to the Ministry of Tourism's strategy to increase the number of direct flights from China and its cooperation with Ctrip, China's largest online agency, there was a 44% increase in tourism from China over 2016 and a 139% increase over 2015. Although starting from a lower base, 2017 visitation from Poland and Romania increased by 93% and 61%, respectively, thanks to the increasing number of air routes and strong Jewish ties. Out of the 72 countries under review, Georgia, Jordan, Egypt and Ireland were the only markets to record a decrease in 2017; however, their contribution to the total share is small.

Traveller Profile

The age profile of tourists visiting Israel has remained broadly stable in recent years with people aged 45+ accounting for almost half of total visitation. Figures for 2017 indicate that almost 60% of inbound tourists were first time visitors and that approximately a third came via organised trips. In terms of purpose of visit, religious, touring and hiking, and visiting friends and relatives accounted for almost a quarter, while business represented only 11%.

In light of the significant reduction of day-visitors, which decreased from 468,000 in 2008 to 250,000 in 2017, the share of total visitation entering the country by land dropped from 26% to 13% over the same period. The Open Skies agreement signed with the European Union in 2012 was another key driver of the recent boom in the aviation industry.

FIGURE 3: TRAVELLER PROFILE, ISRAEL 2017

Sex
Male| 48%
Female | 52%

Age
Under 25 | 19%
25-34 | 17%
35-44 | 15%
45-59 | 27%
60+ | 22%

Mode of Arrival
Air | 86%
Land | 13%
Cruise | 1%

Length of Stay
Day Trip | 5%
1-4 Days | 26%
5-9 Days | 38%
10-29 Days | 22%
30+ Days | 9%

Purpose of Visit
Religious | 25%
VFR | 24%
Touring | 23%
Business | 11%
Entertainment | 10%
Other | 7%

Source: Central Bureau of Statistics

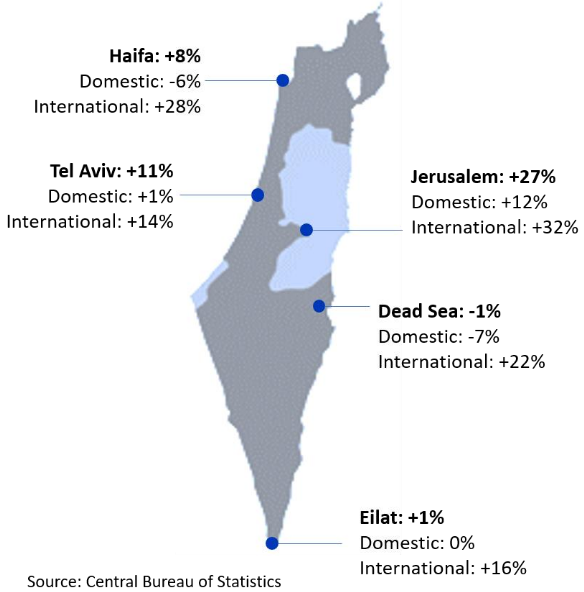
Hotel Occupancy

According to the Israel Hotel Association, approximately two thirds of tourists visiting Israel stayed in a hotel, some 20% stayed with relatives and friends while the remainder stayed in hostels or in a holiday rental.

In 2017, local hoteliers managed to capture some of the impressive growth in visitation as illustrated by the 10% increase in the total number of accommodated bednights across the country. This figure was once again essentially driven by the international market, which hit the 10 million mark for the first time since 2008.

While the events surrounding the 50th anniversary of Jerusalem's reunification contributed to a solid increase of 27% in Jerusalem, Eilat remains in first position with 6.9 million bednights recorded in 2017, which represents almost a third of the total bednights in Israel. The nature of the destination is likely to engender a longer average length of stay.

FIGURE 4: BEDNIGHTS TREND, ISRAEL 2017



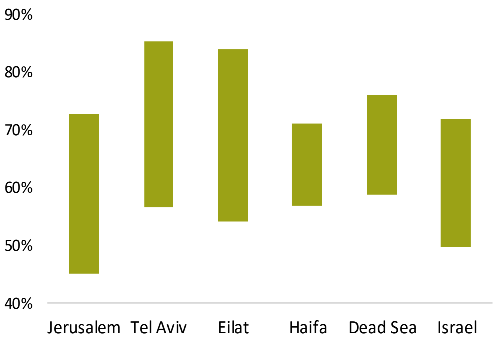
Source: Central Bureau of Statistics

Although slightly less severe than last year, the Dead Sea area is the only market under review to record a decrease in bednights, driven by the domestic market as international bednights increased by more than 20%. The profile of each market in terms of domestic and international split has not materially changed, as resort destinations like Eilat and the Dead Sea continue to be heavily reliant on domestic tourism, although the share of international bednights in the Dead Sea area increased from 20% to 25% in 2017.

Seasonality

Generally speaking, January, February and December are the least busy months in all of the cities under review. Visitor demand peaks around the Jewish festivals of Passover (which normally takes place in April or late March), Succot (usually in October, but sometimes in September) and the High Holy Days in September. The country is extremely popular for leisure tourism, especially in July and August. As illustrated in Figure 5, the magnitude of seasonality in 2017 varied from one market to another. The lowest impact was measured in Haifa, owing to the corporate nature of the market, while Tel Aviv and Eilat recorded the largest fluctuations which is somewhat surprising given the balance of leisure and business in Tel Aviv. Hoteliers in Tel Aviv could do more to sell the city in the off season.

FIGURE 5: SEASONALITY, ISRAEL 2017

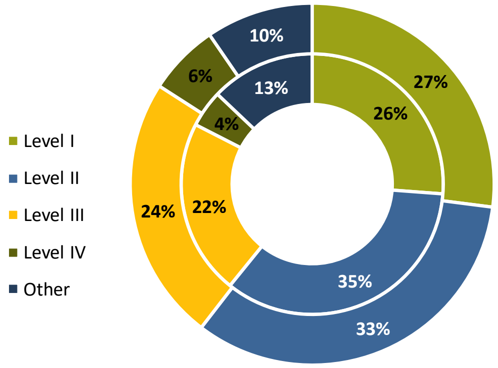


Source: Central Bureau of Statistics

Supply

The Central Bureau of Statistics does not use the Israeli star-rating system which is essentially based on the European Hotelstars criteria (adjustments were made in order to meet Israeli specifications). The classification is based on the type of property and the average size of a double bedroom. Level I corresponds to the highest standard and is equivalent to a five-star hotel. As shown in Figure 6, the distribution of bednights per level is in line with the percentage share of rooms in Israel, suggesting an equilibrium between existing hotel supply and demand.

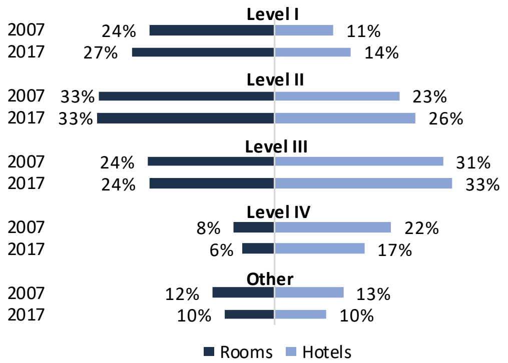
FIGURE 6: ROOM SUPPLY (OUTER CIRCLE) VS DEMAND (INNER CIRCLE), ISRAEL 2017



Source: Central Bureau of Statistics

The number of hotels and rooms has strongly increased in the last ten years, from 331 to 407 and from 46,903 to 53,827, notably by small boutique hotels, especially in markets like Tel Aviv. As illustrated in Figure 7, the percentage share of hotels and rooms by category has not materially changed in recent years. The percentage of rooms in Level I and II was broadly the same ten years ago suggesting that the market is geared towards the upper-end of the spectrum. While Level I hotels grew at a compound annual growth rate of 6.7% between 2012 and 2017, the number of hostels across the country decreased by two units. The budget and hostels segment remain untapped markets in a country where low-cost carriers have become the norm and already considerably decreased the overall price of holidays in a destination relatively expensive to visit.

FIGURE 7: PERCENTAGE SHARE OF HOTELS AND ROOMS BY LEVEL IN ISRAEL, 2012 AND 2017



Source: Central Bureau of Statistics

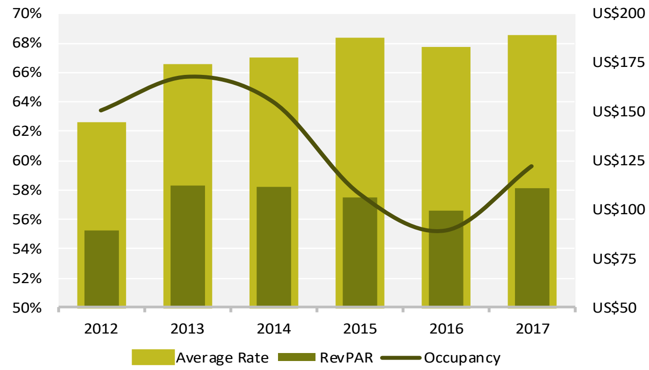
City and Destination Overviews

Jerusalem

	Occupancy	ADR	RevPAR
2017	66%	US$186	US$123
	▲	▲	▲
2016	55%	US$180	US$99

Jerusalem is the largest city in Israel and home to the country's most prominent government institutions, including the Knesset (parliament) and the Supreme Court. Following three consecutive years of RevPAR decline as a result of lower volume, Jerusalem's hotel market bounced back in 2017, thanks to the events organised around the 50th anniversary of the city's reunification. Over the course of last year, international bednights, which represent almost 80% of the total, grew by more than 30%. Part of this increase was absorbed by the opening of new properties including, the 243-room Orient Jerusalem, the 124-room ibis Jerusalem City Centre and the 74-room Leonardo Boutique Jerusalem. In recent weeks, IHG announced its second InterContinental in Israel, suggesting the growing appetite for international luxury hospitality products in Jerusalem (the Waldorf Astoria opened in 2014). In the long run, the Jerusalem 5800 masterplan, an ambitious project including thousands of hotel rooms and an airport, could dramatically transform the layout and dynamics of the city.

FIGURE 8: JERUSALEM HOTEL PERFORMANCE



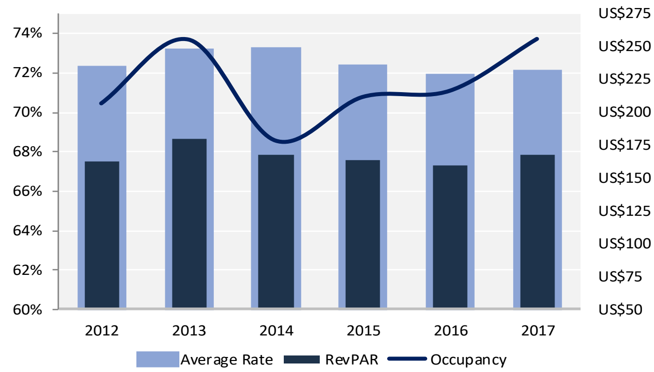
Source: HVS Research

Tel Aviv

	Occupancy	ADR	RevPAR
2017	74%	US$228	US$168
	▲	▲	▲
2016	71%	US$224	US$159

Often referred as 'The City That Never Sleeps' in light of its cosmopolitan lifestyle, bars and restaurants, Tel Aviv is also the country's financial capital. The majority of the hotel rooms inventory is located by the sea, the most sought-after location by travellers. Occupancy levels and average rate enjoyed healthy growth in 2017, mirroring the positive trends in visitation and airport arrivals, and the overall increasing popularity of the destination. Boutique hotels are being developed throughout the city as an answer to increasing demand from lifestyle travellers, and international chains are showing increasing interest in implementing their brands in Tel Aviv. The substantial hotel pipeline (see Figure 16) is expected to address the lack of international branded, select-service and ultra-luxury product. The forthcoming Light Rail, a mass transit system for the Tel Aviv Metropolitan Area, will improve access throughout the city upon completion in 2024. After years of delays and a last-minute rebranding, The Jaffa, a Luxury Collection Hotel (initially announced as a W), should open in the summer of 2018.

FIGURE 9: TEL AVIV HOTEL PERFORMANCE



Source: HVS Research

Eilat

	Occupancy	ADR	RevPAR
2017	76%	US$210	US$160
	▲	▲	▲
2016	72%	US$208	US$150

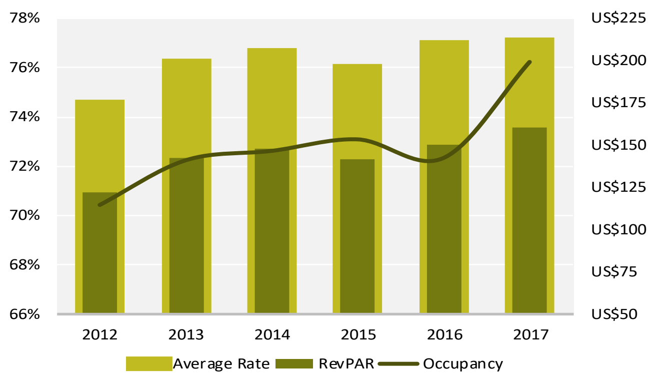
Located on the shore of the Red Sea in the south of the country, Eilat is a popular leisure destination for Israeli and tourism has become the city's main source of income. Thanks to the increasing number of air routes, for the second consecutive year hotels in Eilat recorded double-digit growth in terms of international bednights, which translates into a healthy RevPAR increase, principally driven by occupancy. While hotel supply has not changed over the last five years, Astral announced the development of the 400-room Astral Lite, one of the first few budget hotels in Eilat, and Fattal Hotels announced the construction of a 182-room hotel adjacent to the Herods Palace. The rumoured pipeline is significant, although remains highly speculative. The opening of Eilat Ilan and Assaf Ramon International Airport has been postponed to the autumn of 2018; the government plans on maintaining the incentives offered to airlines as it has proven to be extremely successful, especially during the winter season.

Haifa

	Occupancy	ADR	RevPAR
2017	65%	US$168	US$109
	▲	▲	▲
2016	64%	US$158	US$101

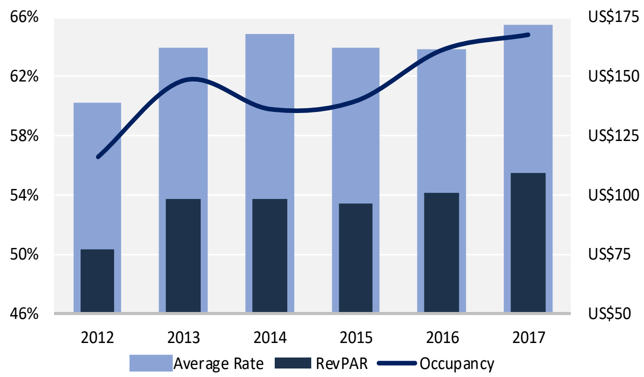
Haifa is the third largest city in Israel (after Jerusalem and Tel Aviv) and is located on the northern coastal plain, approximately 45 km from the Lebanese border. The city is industrial and home to the country's largest port. The total number of bednights increased by 8%, driven entirely by the international market which grew by an impressive 28% and accounted for almost 50% of the total demand. While the RevPAR for the market increased by 8% in US dollars, growth was considerably less spectacular in local currency with a RevPAR increase of only 2%. Hotel supply has remained flat in recent years with some 1,500 rooms but is expected to increase significantly with an additional 500 units (three hotels of 160, 84 and 234 rooms) rumoured to be entering the market in the coming years. Furthermore, the port area is likely to see some developments as a new seafront project including leisure activities, restaurants, retail areas, pedestrian areas and a beach promenade, was recently approved by the Housing Cabinet.

FIGURE 10: EILAT HOTEL PERFORMANCE



Source: HVS Research

FIGURE 11: HAIFA HOTEL PERFORMANCE



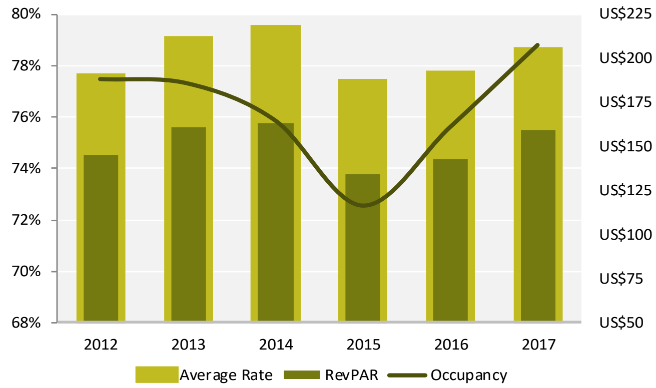
Source: HVS Research

Dead Sea

	Occupancy	ADR	RevPAR
2017	79%	US$202	US$159
	▲	▲	▲
2016	76%	US$189	US$143

Known as the lowest point on earth, the Dead Sea was among the world's first health resorts and remains a popular resort destination as approximately 10% of total bednights in Israel are spent in the area. The hotel market recorded a strong rate growth in 2017 in US dollars and was one of only two markets not to record a decrease in local currency, the other being Haifa. Increasing demand from international travellers, which are generally less price-sensitive than the domestic market, was an important driver. The pipeline is relatively dry for the time being, although the Dead Sea Valley project is still on the table. This master development which includes some 3,000-5,000 hotel rooms, high-end international facilities, a multipurpose convention centre, a world-class spa and a visitor centre will be located in Ein Bokek, covering an area from the Isrotel Dead Sea Hotel (east) to a plot of land past the Leonardo Club (west).

FIGURE 12: DEAD SEA HOTEL PERFORMANCE



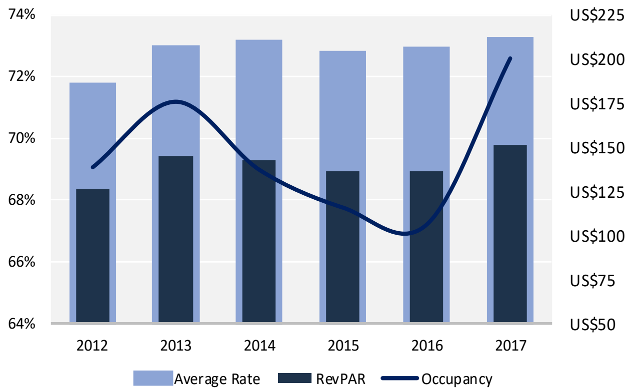
Source: HVS Research

Israel

	Occupancy	ADR	RevPAR
2017	73%	US$209	US$151
	▲	▲	▲
2016	67%	US$203	US$136

The political situation in the region has a crucial impact on inbound and outbound tourism flows. The lull in the geopolitical situation in 2017 combined with targeted marketing actions and the easing of regulations for visa applications, has allowed Israel to attract an increasing number of international tourists over the years and to establish a new record in 2017. Occupancy levels grew in all of the markets under review for the first time in the history of our publication, highlighting the increasing popularity of the destination and the need for additional infrastructure in order to cope with the growing inflow of tourists. While average rate in local currency recorded a decrease, the devaluation of the US dollar against the Israeli shekel had a positive impact on average rate when expressed in US dollars. Driven by an improvement in all of the markets under review, RevPAR for the whole country increased by almost 11% in 2017, on the back of improved volumes and positive currency fluctuation.

FIGURE 13: ISRAEL HOTEL PERFORMANCE



Source: HVS Research

FIGURE 14: OCCUPANCY AND AVERAGE RATE COMPARISON (US$)

	2014			2015			2016			2017			Sample Size
	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Rooms
Tel Aviv	69%	245	168	71%	231	163	71%	224	159	74%	228	168	4,399
Eilat	73%	203	148	73%	194	142	72%	208	150	76%	210	160	3,945
Jerusalem	64%	174	111	58%	184	107	55%	180	99	66%	186	123	3,507
Dead Sea	76%	215	163	73%	185	134	76%	189	143	79%	202	159	1,677
Haifa	60%	165	98	60%	159	96	64%	158	101	65%	168	109	836
Israel (Average)[1]	**69%**	**207**	**143**	**68%**	**201**	**136**	**67%**	**203**	**136**	**73%**	**209**	**151**	**14,364**

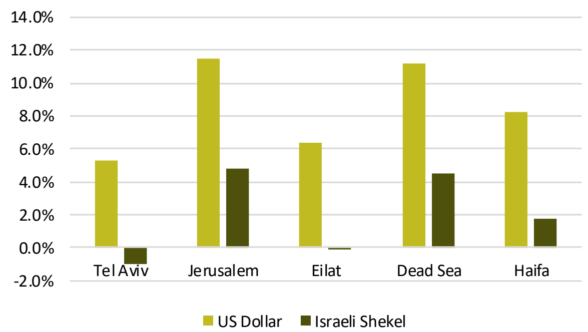
[1] The average of the samples of hotels in the five destinations

Source: HVS Research

Local Currency Analysis

The shekel gradually strengthened against the dollar throughout 2017, making the country more expensive for foreigners. Following President Trump's announcement in December to recognise Jerusalem as Israel's capital and to move the US embassy from Tel Aviv to Jerusalem, the dollar hit its lowest point in over 40 months. It is therefore essential to also consider the hotel market's rate performance for 2017 in local currency. Indeed, while the country as a whole still recorded a healthy RevPAR growth of approximately 4.5%, it was only driven by occupancy as average rates in shekels decreased by approximately 3.5%.

FIGURE 15: REVPAR GROWTH, US DOLLAR VS ISRAELI SHEKEL, 2017



Source: HVS Research

Hotel Development

In an attempt to boost hotel investment and to make the country a more affordable destination, the Minister of Tourism launched a new initiative in 2016. One of the main pillars of the new regulations was the creation of a governmental grant scheme in order to provide additional support to developers in a country where banks are generally hesitant to lend for hotel purposes. In 2017, the Minister of Tourism approved grants for 35 projects throughout the country for a total sum equal to almost US$50 million. In total, requests for some 2,570 rooms were approved in 2017, which represents an increase of 33% on the previous year, suggesting investors are showing a growing interest and more confidence in the strength and potential of the Israeli market. While Tel Aviv was initially not considered as a national priority area for tourism and therefore not part of the grant scheme, the government recently decided to extend its programme and offer developers looking for conversion opportunities grants of up to 10% of their investment. The conversion of office space in a city like Tel Aviv is likely to address the main issues, which are the lack of available land and lengthy development times.

Hotel ownership is essentially in Israelis' hands; owners seem to have a preference for leases as returns are easier to predict and operating risks are transferred to the lessee. In the short term, such a structure may prevent international players from entering the country; however, the improving market conditions may give more comfort and provide new opportunities. While the following chart provides an overview of hotel developments and recently opened properties, the hotel pipeline in Israel is expected to become much more significant with a number of additional rumoured projects, with both local and international operators expected to strengthen their presence.

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FIGURE 16: NEW SUPPLY AND RECENTLY OPENED PROPERTIES

Proposed Property	Hotel Group/Operator	Location	Number of Rooms	Opening Date[1]
Publica Isrotel, Autograph Collection	Isrotel	Herzliya	159	Opened
The Orient Jerusalem	Isrotel	Jerusalem	243	Opened
ibis Jerusalem City Centre	AccorHotels	Jerusalem	124	Opened
The Setai – Tel Aviv	The Setai	Tel Aviv	113	Opened
Prima Millennium	Prima	Ra'anana	140	Opened
The Vera Tel Aviv	Independent	Tel Aviv	39	Opened
Leonardo Boutique Jerusalem	Fattal Hotels	Jerusalem	74	Opened
The Dave West	Brown Hotels	Tel Aviv	35	Opened
TRYP by Wyndham Jerusalem	Wyndham	Jerusalem	79	Opened
Ramada Nazareth	Wyndham	Nazareth	195	Opened
Ramada Resort Hadera Beach	Wyndham	Hadera	173	Opened
Medi Terre Hotel	Independent	Netanya	60	Opened
The Jaffa, a Luxury Collection Hotel	Marriott	Tel Aviv	125	Q3 2018
ibis Styles Jerusalem	AccorHotels	Jerusalem	110	Q3 2018
Link Hotel & Hub	Dan Hotels	Tel Aviv	95	Q3 2018
The Drisco Tel Aviv	Independent	Tel Aviv	44	Q3 2018
Green Place Hotel	Independent	Rosh Pina	60	Q3 2018
The Lighthouse	Brown Hotels	Tel Aviv	103	Q3 2018
The Dave South	Brown Hotels	Tel Aviv	33	Q3 2018
NYX Herzliya	Fattal Hotels	Herzliya	179	Q4 2018
Restal Migdal	Restal	Migdal	200	Q4 2018
Atlas Hotel	Atlas	Tel Aviv	40	Q4 2018
Galei Sanz Hotel	Independent	Netanya	81	Q4 2018
Kedma	Rimonim	Sde Boker	137	Q1 2019
Azrieli II	Independent	Tel Aviv	160	Q1 2019
Six Senses Shaharut	Six Senses	Shaharut	58	Q1 2019
The Moshava Gardens Hotel	TBC	Haifa	160	Q1 2019
Swissôtel Sun Bat Yam	AccorHotels	Bat Yam	276	Q1 2019
Alkunin MGallery by Sofitel	AccorHotels	Tel Aviv	45	Q2 2019
Moshava Germanit Hotel (Nitsba)	NIP	Haifa	250	Q3 2019
Kempinski David Hotel	Kempinski	Tel Aviv	250	Q4 2019
The Nitzba – former Foreign Ministry	TBC	Jerusalem	360	Q4 2019
Isrotel Hayarkon Area	Isrotel	Tel Aviv	154	Q1 2020
Proposed Lifestyle Hotel	TBC	Tel Aviv	110	Q1 2020
Proposed Upscale Hotel	TBC	Tel Aviv	200	Q1 2020
InterContinental Jerusalem	IHG	Jerusalem	229	Q2 2020
The Modani Luxury Spa Resort	TBC	Netanya	134	Q3 2020
Proposed Upscale Hotel	TBC	Tel Aviv	250	Q1 2021
NYX Jerusalem	Fattal Hotels	Jerusalem	168	Q1 2021
Isrotel Leon Towers	Isrotel	Tel Aviv	234	Q1 2021
Isrotel Jerusalem Boulevard	Isrotel	Tel Aviv	125	Q1 2021
Proposed Luxury Hotel	TBC	Tel Aviv	416	Q1 2022
Proposed Development (Luxury, Upscale & Boutique Hotels)	TBC	Tel Aviv	160, 310, 90, Respectively	Q3 2022
Proposed Luxury Hotel, Golf & Spa	TBC	Mount Arbel	150	Q1 2023
Proposed Luxury Hotel	TBC	Tel Aviv	225	Q1 2023
Proposed Luxury Hotel	TBC	Tel Aviv	135	Q1 2023
Isrotel Jerusalem	Isrotel	Jerusalem	250	Q1 2023
Proposed Development (Luxury and Upscale)	TBC	Tel Aviv	165,220	Q1 2025
Sea Gate Hotel (Nitsba)	TBC	Netanya	70	TBC
Sarona Hotel (Nitsba)	TBC	Tel Aviv	880	TBC
Nobu Tel Aviv	Nobu	Tel Aviv	38	TBC
Astral Lite Hotel	Astral Hotels	Eilat	400	TBC
The Villa Forest Hotel	TBC	Haifa	84	TBC
Proposed Hotel Haifa	TBC	Haifa	234	TBC
Proposed Luxury Hotel	TBC	Herzliya	50	TBC
Proposed Hotel Ben Gurion Airport	TBC	Airport City	250	TBC
Proposed Hotel	Fattal Hotels	Eilat	182	TBC

[1]Provisional

Source: HVS Research

Hotel Values

The indications for changes in hotel values in Israel (presented in Figure 17) are based on trading results from 2012 to 2017 and our view of trading prospects and investment appetite for the foreseeable future.

The positive trend in hotel performance across the country, and within Europe in general, combined with an increasing level of confidence among investors and developers, led Israeli hotel values to increase by more than 8% in 2017, compared to a growth of 3.9% for the overall European market (please refer to our *2018 European Hotel Valuation Index)*. Jerusalem recorded the highest gain in terms of values per hotel room, which is of no surprise considering the fantastic performance in occupancy and average rate.

The analysis in local currency, thus removing the impact of the recent currency fluctuation, also indicates value growth, although at a more modest rate.

FIGURE 17: PERCENTAGE CHANGE IN HOTEL VALUES (US$)

	2013	2014	2015	2016	2017
Tel Aviv	10.6	-11.8	-2.6	-2.5	5.3
Jerusalem	25.6	-3.6	-4.4	-6.8	11.5
Eilat	17.0	3.7	-4.0	6.2	6.3
Haifa	27.9	0.2	-2.4	5.1	8.2
Dead Sea	10.7	1.3	-18.0	6.9	11.2
Israel (Average)	**16.5**	**-3.1**	**-6.3**	**1.4**	**8.2**

Source: HVS Research

Hotel Investment

Despite the significant increase in tourism activity and the strong pipeline across the country, the hotel transaction market remains a topic with limited information in the public domain. 2017 witnessed the highest transaction per key in recent years following the sale of the Waldorf Astoria Jerusalem. We would welcome receiving details of any transactions that our readers are familiar with.

FIGURE 18: HOTEL TRANSACTIONS (US$)

Date of Sale	Property	Number of Rooms	Price (US$)	Price per Room (US$)	Buyer	Seller
Dec-17	Waldorf Astoria Jerusalem	226	130,000,000	575,000	Financiere Immo Nordelaise	Reichmann Int'l Dev Corp
Mar-16	Mitzpe Hotel & Spa Hayamim	97	26,400,000	272,000	Isrotel	Sami Hazan
Oct-15	Princess Hotel Eilat	418	64,400,000	154,000	Nitsba Holdings	Lexan Israel
Oct-14	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

*estimated

Source: HVS Research

Conclusion

Following years of geopolitical tension and disparate performance across the cities under review, 2017 was among the best years in the country's history and could conceivably be the turning point for continued growth. Low-cost carriers continue to strengthen their presence and the need for additional infrastructure has never been so strong, especially at the budget end of the spectrum, a segment which remains under-explored. While the development of a more price-sensitive offer would reduce the overall cost of holidays, it would most importantly, considerably enlarge Israel's target market and fuel the country's significant potential for further growth. In 2018, Israel celebrates the 70th anniversary of its establishment and in May hosted the first three stages of the Giro d'Italia, one of the most important cycle races in the world. Such events are expected to generate strong demand and could potentially result in another record year.

About HVS

HVS, the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming and leisure industries, was 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 40 offices and more than 300 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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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 on the hotel sector at conferences in the country.

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

About the Authors

Lionel Schauder is an associate with the HVS London office. He holds a BSc (Hons) in International Hospitality Management from Ecole hôtelière de Lausanne, with a focus on hotel development and real estate. Lionel gained valuable operational experience in Switzerland, Australia and Chile. Recent assignments at HVS include hotel feasibility studies and valuations in Israel, France, Malta, Spain, the UK and the Netherlands.

Russell Kett is chairman of the London office 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.

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