



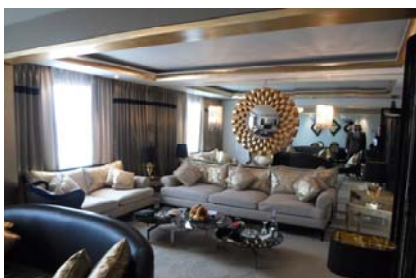
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IN FOCUS: CASABLANCA

A LOOK AT HOTEL PERFORMANCE IN THE ECONOMIC CAPITAL OF MOROCCO

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The economic, industrial and financial hub of Morocco, namely Casablanca, is a sprawling metropolis that deserves more attention than many travellers devote to it. Although it may lack some of the exotic sites that many tourists rush to see in some of the country's other cities, Casablanca is one of the more liberal places in the country with vibrant nightlife, contemporary art galleries, the awe-inspiring Hassan II Mosque and well-known venues such as the famous Rick's Café. This article provides an overview of the buoyant hotel market in Casablanca and explores the underlying dynamics that impact hotel development and growth in the city. Specific focus is geared towards comparing the midscale/budget market to the upscale/luxury hotel market.

Setting the Scene

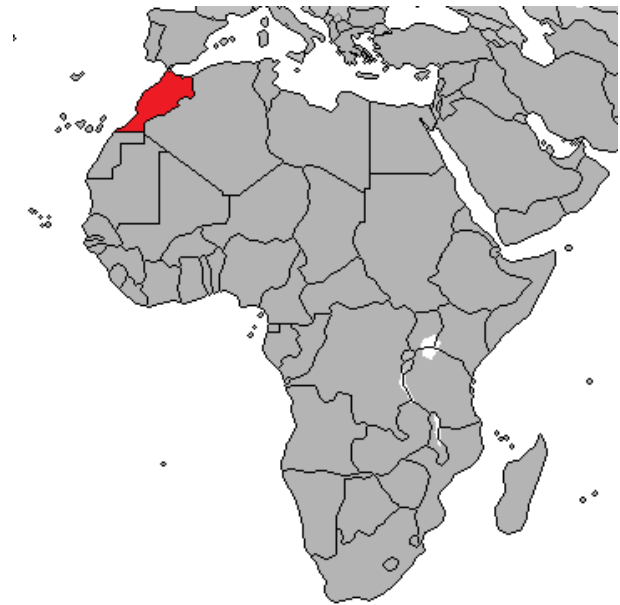
Casablanca is a city in western Morocco, on the shores of the Atlantic Ocean. The city is the capital of the Greater Casablanca region. With a population of approximately 4 million, Casablanca is Morocco's largest city and financial and economic epicentre, although it is not the political capital. It houses the largest port in Northern Africa and is home to a large number of headquarters and industrial facilities set up by leading Moroccan and international companies.

The Greater Casablanca region is considered to be the driver of development of the Moroccan economy. The region contributes 45% of the

CASABLANCA, MOROCCO



MOROCCO

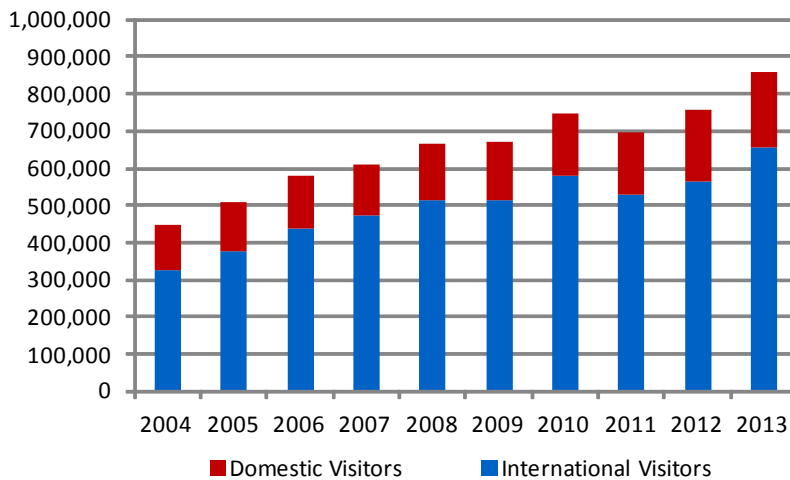


country's industrial output, 35% of its exports and attracts almost 60% of its labour force. Meanwhile, 30% of the Moroccan banking network is concentrated in Casablanca.

Tourism is also a major contributor to both the economic output and the current account balance, as well as being a main job provider. After the country's plan to attract 10 million tourists by 2010, which was just barely not attained due to the Arab Spring, Morocco is raising the challenge to almost double this number by 2020. Vision 2020 includes projects aimed to improve the infrastructure of the country, build new roads and airports to facilitate access to touristic attractions, and construct more hotels and resorts to cover the expected increase in the number of tourists, which is anticipated to exceed 16 million by 2020 and, in a best case scenario, hopefully reach 20 million. The main challenge, if not a constraint, is the fact that Moroccan banks are suffering from a lack of liquidity, although there are many foreign investors from the Gulf countries like the United Arab Emirates, Kuwait and Saudi Arabia, who have started contributing and investing in building new tourist attractions.

Over the past few years, Casablanca has seen avid development with myriads of projects currently under construction. Casanearshore, by the Sidi Maarouf district, is just one of many development areas that upon completion will provide

FIGURE 1: ARRIVALS



Source: Ministry of Tourism

300,000 m² of office space, a hotel and is expected to house 100 multinational companies. Over MAD3.4 billion (approximately US\$500 million) was invested into this project that is expected to contribute MAD5 billion (approximately US\$600 million) to GDP by 2015.

Casablanca will also see the completion of a high-speed rail line from Casablanca to Tangier (350 km) in 2015. It will be the first high-speed rail line in Africa when finished. The project is expected to carry ten million passengers a year and cost approximately US\$4 billion.

Morocco's flagship 'mega project', however, is the US\$500 million development of Casablanca's waterfront into the luxurious, mixed-use Casa Marina. Stretching 450,000 m², the complex will include high-end retail spaces, an integrated business centre, hotels and luxury apartments targeted at the upper class.

Another commercial demand generator is the recently built Palais des Congres, which can accommodate up to 5,000 delegates and provides parking as well as food and beverage facilities. The city is also working to improve the Centre de l'Office des Changes and add an additional 1,600 conference seats.

In terms of business, the city has been generating significant interest from around the globe and is currently developing dedicated districts, such as Sidi Marouf, to attract further investment.

Casablanca plans to become one of the key business destinations in the whole of Africa.

Demand

Mohammed V International Airport is the busiest gateway to the country and the fourth busiest airport in Africa. The airport is well connected to Europe and the Middle East but also offers over a dozen flights to the USA, serving approximately 40 airlines. The airport is currently undergoing an expansion phase, which started in 2009 and has yet to be completed.

It comprises, amongst other renovations, rehabilitating Terminal 1, reshaping the aprons, extending Terminal 2 and constructing a third runway.

All of these ongoing projects have led the airport to realise a compound annual growth rate in passenger numbers of just under 9% over the past ten years. (Airport statistics until 2012 were available at the time of our writing.) Given Casablanca's increasing importance as an international business hub, international arrivals have, not surprisingly, driven this growth, while domestic growth has fallen. Although business travel is expected to increase alongside the generally positive economic development of the country, the current evolution in the railway system, with its links to secondary business cities,

CASA MARINA

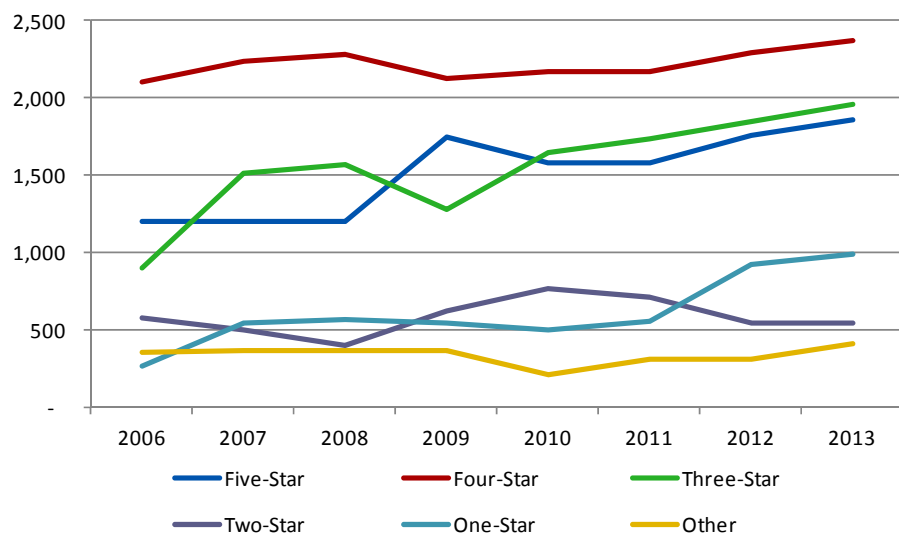


makes air transport less attractive to the domestic traveller.

Mirroring the strong trend in airport arrivals, visitation to Casablanca has also grown at a compound annual rate of 7.6% from 2004 to 2013. After particularly strong growth was recorded in 2010, 2011 was impacted by the Arab Spring, which negatively affected the image of Northern Africa. Nonetheless, Casablanca benefited from being a financial and economic hub rather than a prime leisure destination, which allowed it to recover at a faster pace than other vacation destinations in Morocco. Despite slightly slower growth from the international scene, due in part to the ongoing Eurozone crisis, which impacted Casablanca's main feeder markets, domestic demand increased significantly in 2012 and hit a new record. Growth continued into 2013 owing to the return of the international traveller.

Nowadays, Morocco is well placed against its competitors in North Africa, especially Tunisia and Egypt, since the latter countries still remain politically unstable. This should allow Morocco to become a prime visitor destination in the region and gain more loyal tourists over previously competitive destinations.

FIGURE 2: ROOM CAPACITY BY SEGMENT



Source: Ministry of Tourism

Supply

Hotel supply in Casablanca grew at a compound rate of 6.6% between 2006 and 2013, with both room and bed capacity growing at a similar pace. Independent hotels continue to lead in terms of both outlet numbers and sales. On a branded scale, Accor dominates the scene with six existing hotels in the city, ranging from ibis to Sofitel.

While four-star and five-star hotels make up over 50% of the total room capacity in Casablanca, the economy segment, especially on a branded level, is significantly undersupplied. The upscale, branded segment in Casablanca is well represented by many of the international players, such as Hyatt, Le Méridien, Sheraton, Pestana,

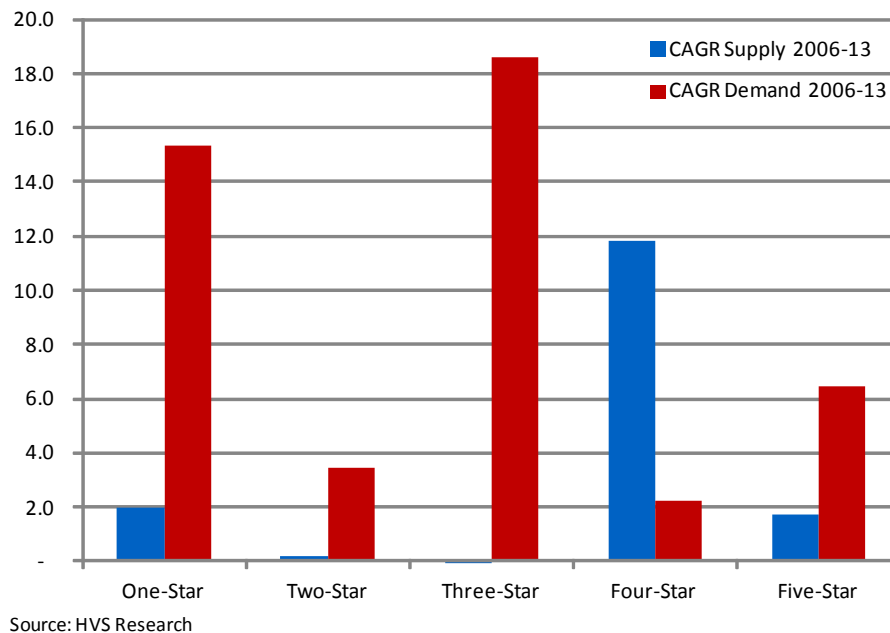
FIGURE 3: NEW SUPPLY

| Future Openings | No. Of Rooms | Category | Opening Date | Status |
|-------------------------------|--------------|----------|--------------|--------------------|
| ibis Casablanca Nearshore | 128 | Midscale | 2014 | Recently Opened |
| Ryad Mogador | 500-600 | Upscale | 2015 | Under Construction |
| Four Seasons Hotel Casablanca | 178 | Luxury | 2015 | Under Construction |
| JW Marriott | 300 | Luxury | 2016 | Early Development |
| Obero Hotel | 150 | Luxury | 2016 | Early Development |
| Two-Star Hotel* | 124 | Budget | 2017 | Early Development |
| Aparthotel* | 189 | Midscale | 2017 | Early Development |
| Three-Star Hotel* | 98 | Midscale | 2017 | Early Development |
| Two-Star Hotel Casa Port | n/a | Budget | n/a | Early Development |
| Three-Star Hotel Casa Port | n/a | Midscale | n/a | Early Development |

Source: HVS Research

* Located on the same site

FIGURE 4: COMPOUND ANNUAL GROWTH RATE BY SEGMENT



Golden Tulip, Barcelo and Sofitel. A number of these hotels, however, are not competitive on an international level as they remain significantly underinvested.

Although the upscale hotels dominate the market in Casablanca, the three-star segment has witnessed the fastest growth of all segments in terms of rooms capacity from 2006 to 2013, of almost 12%, although this was from a relatively low base. The two-star segment remains significantly undersupplied and makes up just under 7% of the total room capacity.

Over the past few months and looking into the near future, the hotel scene in Casablanca will see movement. Recently the Husa Hotel Casablanca was rebranded, and has allowed Mövenpick Hotels and Resorts to enter the market. Further additions to the upscale and luxury segments include the Four Seasons, which will open adjacent to the existing Pestana Hotel, with 178 rooms. The JW Marriott and Oberoi Hotel will open in the new Casa Marina. The JW Marriott is expected to be built over 40 floors and will have approximately 300 rooms. The Oberoi will be smaller with 150 keys. The Ryad Mogador, with between 500 and 600 rooms is currently under

construction and is expected to house some of the largest meeting facilities in the market.

The midscale and budget segments will also see some movement. Three hotels will be developed in the Commune des Roches Noires district and are set to be operated by an international hotel company. An additional two-star and a three-star hotel will be developed by the Casa Port train station, although further information on the brands has not been

released. Accor has also recently grown its portfolio with the opening of the ibis Casablanca Nearshore in May 2014.

Budget/Midscale vs. Upscale Hotel Performance

The combined dynamics of supply and demand give a clear overview of the hotel market in Casablanca. As mentioned, the midscale/budget segment remains significantly undersupplied, yet it is in this segment that demand has significantly

SUITE AT THE GOLDEN TULIP



exceeded supply growth over the past years. As illustrated in Figure 4, demand for one-star and three-star properties grew by over 15%, while supply grew at less than 5%. In the four-star market, the exact opposite was experienced, where supply grew much faster than demand. The five-star segment, especially towards the luxury end, normally operates on different dynamics in the majority of markets, as 'value-for-money' considerations become less relevant and clients seek the fulfillment of other needs, such as recognition, lifestyle and so forth. The comparison with this particular segment is therefore somewhat irrelevant.

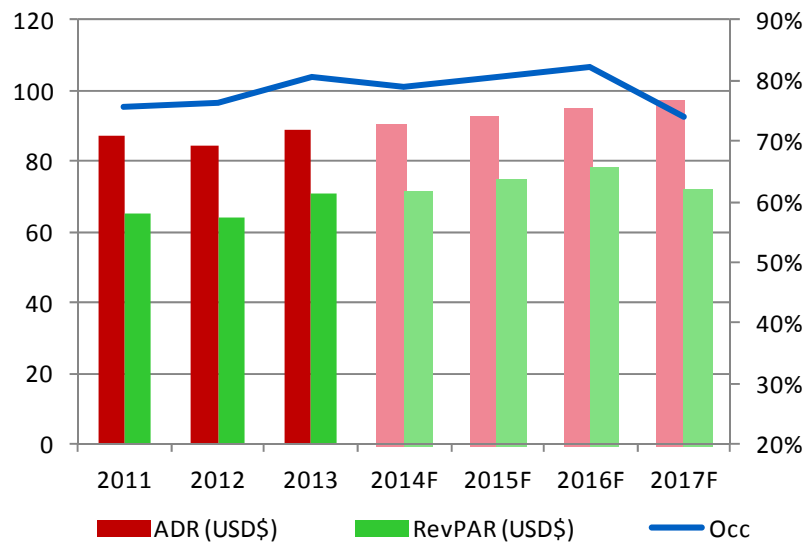
Notable is the fact that the performance of the budget segments (one- to three-stars) is significantly different from that of the upscale segment. The increase in demand for slightly more affordable hotel rooms has led to a significant increase in both occupancy and rate, leading to a RevPAR growth of almost 8% in just three years (2011 to 2013). On the other hand,

the upscale/luxury segment has suffered in the increasingly competitive market and saw RevPAR fall by 4% over the same time.

Given this imbalance in supply and demand, the midscale and budget segment has benefited from high occupancy levels, which tend to range between 75% and 85%. Average rate was approximately US\$90 in 2013, as illustrated in

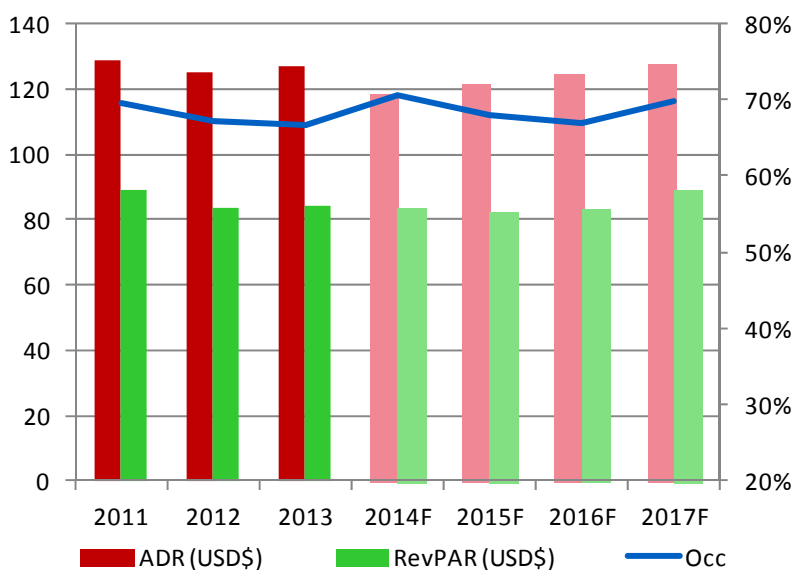
Figure 5. Given the appetite for affordable accommodation, we envisage healthy growth in this segment going forwards. Nonetheless, we have also accounted for the significant increase in supply in this segment, which will put slight pressure on both occupancy and the average daily rate and thereby counterbalance some of this growth. In 2017, we have forecast occupancy of around 74%, down slightly from the previous year given the opening of the two-star, three-star and Aparthotel in the Commune des Roches Noires district. ADR is

FIGURE 5: HISTORICAL AND FORECAST HOTEL PERFORMANCE DATA FOR CASABLANCA – BUDGET/MIDSCALE SEGMENT



Source: HVS Research

FIGURE 6: HISTORICAL AND FORECAST HOTEL PERFORMANCE DATA FOR CASABLANCA – UPSCALE SEGMENT



Source: HVS Research

anticipated to exceed US\$98 in that year.

Given the market dynamics, it is not surprising that occupancy and rate in the four-star and five-star segments has come under pressure. Hotel managers have highlighted that corporate budgets remain constrained and as more branded, midscale hotels enter the market, competition will increase and put more downward pressure on more upmarket properties. Therefore, both occupancy and average rate growth have fallen from 2011 to 2013 and currently average at around 67% and US\$127 respectively (see Figure 6). The difference in rate between the upscale and budget/midscale hotels is relatively small when compared in US dollars, illustrating the price sensitivity of the market. Given that we have analysed the upscale market only, we have not factored in the impact of any of the luxury hotels that will enter the market between 2014 and 2017, adding over 600 rooms. However, this large growth in supply is likely to represent yet another challenge for the upscale market as some of their clients are likely to be attracted to the newly opened, luxurious properties. While we have projected ADR to increase by inflationary growth, we expect to see occupancy fluctuate at around 70% over the next few years.

The marketwide average occupancy for Casablanca as a whole, averaged at approximately 73% in 2013. (We have only included branded properties in our analysis.) While weekday demand is significantly higher, demand on the weekends can drop to around 40%. The city of Casablanca, similar to many other economic and financial hubs throughout Africa and Europe, reflects the typical seasonality of a business destination. The high demand periods tend to run from February to June and from September to November. Demand falls during the summer months when commercial travellers tend to go on vacation, which is in July and August, as well as during the December and January holiday period. Given that it is a business destination, strong seasonality also exists during the week, with demand spiking from Monday to Thursday, as a result of large flows of business travellers, while a reverse trend is experienced at the weekends.

Conclusion

Casablanca is a city that shows significant growth potential. The number of airport passengers and the number of accommodated bednights showed strong increases over the period under review. Despite a glitch in demand in 2011, due in part to the Arab Spring and the ongoing global financial crisis, in Europe in particular, 2012 witnessed, for the most part, a strong recovery, which continued into 2013.

While the supply of upscale and luxury hotels is abundant, the midscale and budget segments remain significantly undersupplied and demand for this type of accommodation continues to exceed supply. Therefore, the midmarket segment is able to reach much higher occupancy levels than the upscale market and relatively high average daily rates, making this type of hotel model more lucrative than its more upscale counterpart. Additions to supply in both the upscale and midmarket segments will continue to trickle in over the next three years. We also expect the arrival of true luxury properties to continue to alter the dynamics of the Casablanca hotel market in the short and medium term.

The Vision 2020 project is expected to have a positive impact on tourism. Between 2010 and 2020, the country will try to secure as much foreign investment as possible, which will help to realise further development of tourist attractions, new accommodation outlets and the like. Investors from the rich Arab oil countries continue to be interested in investing in Morocco, yet the major challenge remains in securing these investments. However, improving economic conditions should help ease lending parameters.

Overall, the outlook for Casablanca remains positive and growth in most segments is expected. It is one of the most established countries in North Africa, and as such, should be able to reap the benefits from its stable image and close proximity to Europe.



About HVS

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