What is the HVI?

The Hotel Valuation Index is a hotel valuation benchmark developed by HVS. It monitors annual percentage changes in the values of typical four-star and five-star hotels. The HVI combines the various factors affecting the economy and region at large with hotel-market specific demand and supply dynamics to derive indicative values and future growth trends. For this first edition of the HVI Middle East, we have analyzed 14 key hotel markets in the Middle East with a total inventory of approximately 175,000 rooms in the four-star and five-star market. Additionally, our index allows us to rank each market relative to the Middle East average as well as Asia and Europe averages.

Understanding the HVI

Due diligence pertaining to demand and supply dynamics was carried out while analyzing each market for its existing performance and forecasting future potential. For the analysis, we not only utilized our extensive in-house database, but also the intellectual capital that our associates have developed over the years and our experience of real-life hotel financing structure gained from valuing hundreds of hotels each year. Having covered these markets for well over a decade, we have observed and analyzed various cycles (economic and industry specific), which puts us in a position to understand fundamental changes better than most.

We have assumed a notional 200-key hotel and benchmarked its performance to market wide occupancy and average rate levels (Historical and Forecasted). We then used actual operating P&Ls (market wide average) to further comment on its performance, deriving the net operating profit. We have determined valuation parameters for each market that reflect both short and longer-term sustainable financing models (loan to value ratios, debt coverage ratios, real estate interest rates, and equity return expectations). Investor appetite for each city at the end of 2018 is therefore reflected in the capitalization rates and investment yields assumed. Post this, the Income Capitalization Approach was used to calculate the economic value of the hotel in 2018 and the years ahead.

We chose the year 2015 as our base year with intent to create a starting point for our Hotel Valuation Index Middle East. Given their market specific performance parameters, the average base year value for a notional 200-room hotel across the selected markets in year 2015 was about USD373,000. This value was assigned an index of 1. The Per Available Room (PAR) value (historical & forecasted) for each market was then divided by the USD373,000 to derive the index number. For e.g. Abu Dhabi's value per room in 2018 was derived to be US$204,000, when divided by the average base year value (US$204,000/373,000) gives an index number of 0.55. This simply means that the value of Abu Dhabi in 2018 was 55% that of the average base year value across the selected markets in 2015.

HVI assumes a date of 31st December for each calendar year. Capitalization rate reflects the expected future trends in performance, competitive environment, and cost of debt and cost of equity. The parameters adopted also assume reasonable level of debt and rational equity expectations (investor sentiment). The indicative values which remain an opinion of Market Values, may not therefore bear comparison with actual transactions in the market place. However, this is the best approach to retain the integrity of HVI as a rolling annual index.