



## Awaiting the Gold Rush

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“Exploring the Opportunities in Tehran’s Hotel Market”

May 2015

## Introduction

The completion of the framework agreement on the nuclear deal between Iran and the P5+1 nations on 2<sup>nd</sup> April, was the latest indication of thawing relations between Iran and the international community. Since the signing of the initial deal in November 2013, Iran has witnessed a wave of trade missions from key European countries and scouting trips by global companies as they try to position themselves before the June 30 deadline. This recent influx of international visitors has highlighted a key challenge in the country's capital Tehran, there are simply not enough hotel rooms.

With Tehran's hotel market offering a minimal 96 hotels (compared to Dubai's 657 hotels), of which only 16 are classified as four and five star, the potential opening of Iran's economy presents enormous opportunities in the city's untapped hotel market.

During a recent visit to Tehran, TRI Consulting met with hotel owners, operators and government officials who confirmed the enormous opportunities available in one of the Middle East's largest cities. The signing of the initial agreement in November 2013 resulted in a surge in hotel occupancy levels which increased from 58 percent in 2013 to 79 percent in 2014.

However, the industry's isolation from the global hospitality and tourism market over the past 30 years has left most of Tehran's hotels old, outdated and in desperate need of improvement, not only in terms of refurbishments and renovation, but also for the knowledge and expertise of international hotel developers and operators.

This presents an immediate opportunity for international hotel operators through the rebranding of existing properties in the city, particularly the four and five star hotels. The rebranding of existing hotels has a number of advantages including immediate penetration, market leader positioning and direct cash flows from an existing hotel asset. However, uncertainty remains on Iran's reintegration into the global banking system (SWIFT) after the lifting of sanctions, which raises concerns over the ability of hotel operators to repatriate funds out of the country.

Although, the signs point towards a successful signing of the agreement on June 30, the removal of sanctions could take some time, with European operators expecting to have the advantage over their American counterparts due in part to the need for congressional approval before any US sanctions are lifted.

The future opportunities within Iran's hotel and tourism industry are substantial, however with a limited supply of hotels operating in key cities, particularly Tehran, the lifting of sanctions is expected to set off a modern day 'Gold Rush' as developers and operators race to secure their position in one of the world's largest untapped markets.

## Profile

Between 1990 and 2010, Iran's economy witnessed marginal growth driven by trade, a relatively diversified economy and a vast hydrocarbon sector. However, the economy took a turn in 2010 as it suffered from crippling economic sanctions imposed by the US and a number of European countries over its nuclear program. This resulted in a significant fall of revenues from oil sales, extensive trade restrictions, reduced foreign cash reserves and stalled capital flows due to its isolation from the international banking network.

As a result, the country's economy became heavily reliant on the public sector which, by some estimates, contributed to over 80 percent of total economic activity. This, coupled with the limited exposure to trade with western countries, resulted in hyperinflation, with levels reaching over 40 percent in 2013, eroding the value of Iranian Rial.

With a large and young population, relatively high GDP per capita, extensive hydrocarbon reserves and a strategic location, Iran has strong potential to become a leading economic and tourism market globally.



## Key Figures

77.1

Population (millions) in 2013

4.8

million visitors in 2014

96

Hotels in Tehran

17

UNESCO World heritage Sites

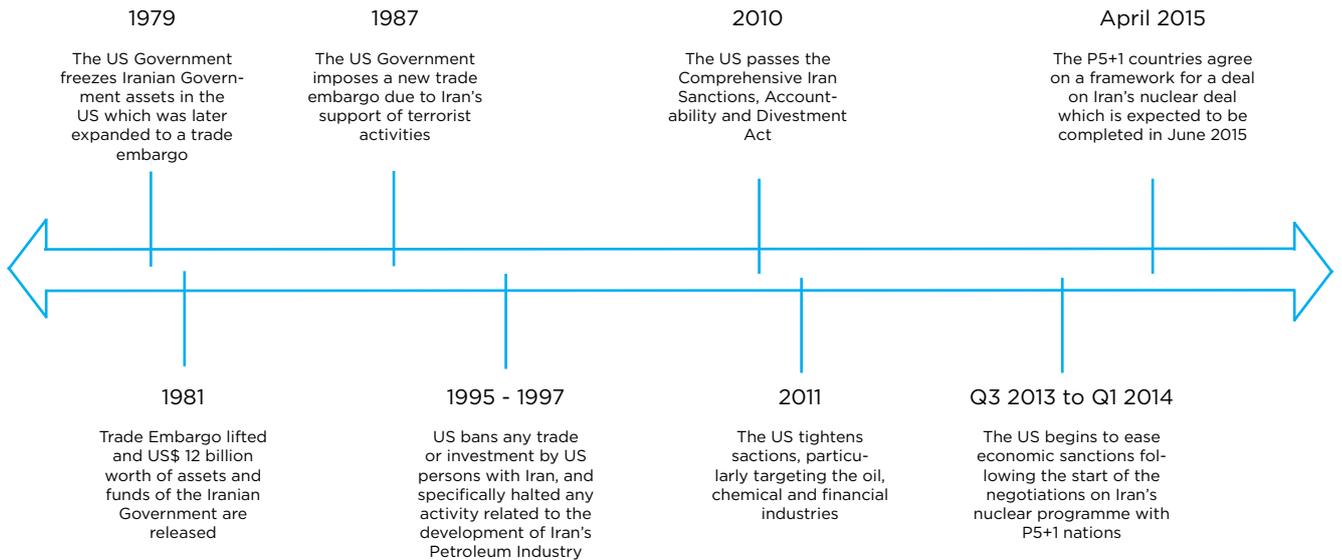
Country	Population (mn)	Regional Tourism Market Analysis		
		GDP per Capita (US\$)	International Tourists (000s)	# of Hotels
Egypt	87.8	6,600	9,400	1,307
Iran	78.1	13,200	3,300	640
Turkey	77.6	14,700	34,000	3,479
Iraq	36.5	3,900	1,500	1,611
Saudi Arabia	31.5	24,500	17,600	1,051
UAE	9.3	48,800	12,100	969

## History of Iran’s Economic Sanctions

The history of Iran’s economic sanctions date back to the 1979 Islamic Revolution following the attack on the US Embassy. With the exception of a reprieve between 1981 and 1987, sanctions have continued to impede Iran’s economic growth and development which has had a knock-on effect on the country’s tourism industry.

New sanctions imposed between 2010 and 2011 had a significant impact on the country’s economy including hyperinflation, falling currency values and extensive capital flight. However, international tourist numbers continued to grow, driven by a resurgence in visitors from China, Korea and Germany, increasing from 3.1 million in 2010 to an estimated 4.8 million in 2014.

## Sanctions Timeline



## Iran Tourism Market

Inbound tourists are vital to the country with the tourism industry playing a key role in the country’s economic activity. According to the World Travel and Tourism Council (WTTC), Iran’s tourism industry contributed 6.1% of GDP in 2013 and is expected to rise by an average annual growth rate of 5.4% by 2024. Visitor exports generated US\$ 1.6bn and is expected to grow to US\$ 2.2bn by 2024.

From a tourism perspective, Iran has an extensive range of tourism offerings including total of 17 UNESCO World Heritage Sites located in cities such as Esfahan, Tehran, Fars and Pars. In addition, Iran has expansive mountain ranges which offer various ski resorts, religious and archaeological sites, and a world renowned arts and crafts industry, including the highly sort after Persian carpets.

At present, religious tourism and corporate / government travel are the two most common reasons to travel to the country, followed by cultural, skiing, mountaineering and eco tourism.

As per latest data published by governmental agencies in Iran, the country received 4.8 million foreign tourists for the fiscal year ending 20 March, 2014, of which 2.5 million tourists visited for religious purposes.

**6.1%**

Tourism’s contribution to GDP in 2013

**414,500**

jobs created in the tourism industry in 2013

**5.2**

million international visitors expected by 2024

**2.9%**

of total investment was in the tourism industry in 2013

	International Tourists (2007 - 2013)				
	2007	2008	2009	2010	2014
Visitors	2,172	2,028	2,273	3,121	4,800
Growth	19.5%	-6.6%	12.1%	37.3%	53.8%

# Tehran Hotel Market

## INTRODUCTION

Prior to the revolution in 1979, Tehran’s hotel market had one of the highest penetrations of international hotel operators in the region, with IHG, Hyatt, Hilton and Starwood operating properties in prime locations. Following the revolution, the industry witnessed decades of stagnation, which was compounded by the onset of the Iraq-Iran war which made owners reluctant to invest in maintaining and improving the properties.

As a result, the quality of most hotels in the market remain below international standards. This is evident in the size of the bedrooms, which tend to be small (due in part to the age of the properties), and of poor quality due to lack of investment in furniture, fixtures and equipment. Furthermore, due to the age of the properties the facilities, services and amenities also tend to be limited compared to regional and international standards.

The resurgence of hotel demand in recent years, coupled with various government incentives promoting new hotel development and renovations programs, has resulted in the refurbishment and development of a number of properties. In the past, refurbishments were often superficial, but the recent re-development of properties such as the Parsian Azadi Hotel and Howeyzeh Hotel have proven that precedents exist in the marketplace.



The departure of international hotel operators had a profound impact on the management of the hotels in Tehran, which tends to be old-fashioned and lacking in key techniques such as yield management. Furthermore, service levels in the hotels are generally poor, due in part to a shortage of suitably skilled talent and a lack of quality hospitality and tourism training facilities in the country. Iran’s over reliance on the public sector in recent years, has also created challenges for hotels in attracting quality talent as the overall pay scales and benefits are below those provided within government organisations.

## HOTEL MARKET PERFORMANCE

The four and five star hotel market in Tehran is limited, represented by only 13 properties with 3,089 rooms, serving a population of approximately 12 million residents. Although occupancy levels in recent years have remained stable, the market witnessed a significant increase in demand in 2014 on the back of thawing international relations and renewed tourist growth.

The sudden increase in demand resulted in market wide occupancy levels increasing from 58 percent in 2013 to 79 percent in 2014. As a result of the strong demand, hoteliers were able to yield significantly higher rates which rose 56 percent from US\$69 to US\$108 over the same period.

Tehran Hotel Market - Key Performance Indicators		
Key Indicator	2013	2014
Occupancy (%)	58.0	79.0
Average Daily Rate (US\$)	69.0	108.0
RevPAR (US\$)	40.0	85.0

Source: TRI Consulting 2015

Although average room rates remain well below comparable regional destinations, the limited supply and growing demand is expected to drive rates significantly higher over the next 12 months, even without the removal of sanctions. However, if sanctions are removed, the expected wave of corporate travelers could create a market where rates could increase exponentially on the back of the limited supply of quality hotel rooms.

Potential competition for hotels could arise mainly from the privately owned hotel apartment market in Tehran. This sub-market is comprised of 33 small properties, primarily driven by long term visitors who are on assignment for fixed periods of time, however the strong demand witnessed over the past 12 months, has resulted in a shift towards short stay offerings.

With hotel apartments offering ease and convenience of access, greater privacy, larger room offerings and higher quality of service, this sub market has potential to have greater role in Tehran’s accommodation market. Furthermore, with the potential entry of online travel agents including booking.com, Agoda and TripAdvisor as well as Airbnb, the hotel apartments could offer some relief during periods of strong demand and help offset the potential exponential rise in room rates.

## MARKET SEGMENTATION

The corporate and government sectors are the primary sources of demand in Tehran. Despite the volatile political environment and poor relations with USA and UK, Iran has maintained good relations with many foreign countries including Germany, South Korea, Japan and France. In recent years, commercial cooperation has also been established with China and there are indications that business is also growing strongly with other Asian countries.

The corporate segment is the primary demand driver for the majority of four and five star hotels in Tehran, with hotels reporting that the segment accounts for over half of their total room nights of demand.

The negative image of Iran portrayed by the media over the past decade has had a corresponding impact on tourist demand from key international source markets.

In response, Iran recently launched a number of marketing and promotional initiatives in order to revive its international tourism market and offset its heavy reliance on domestic and religious tourists. Based upon comments and feedback from industry professionals, Iran has managed to increase leisure demand by targeting key markets in the region including the GCC, Caucasian countries and the Indian Sub-continent.

Additionally, leisure groups from tour operators and leisure FIT's have significantly increased in the past year following extensive coverage of Iran's tourism sector from international media groups including CNN and the Financial Times which included Iran as one of the top destinations in 2014.

Historically, the leisure segment was known to represent no more than 10-15 percent of total demand, however the market has significant traction over the years and now attracts between 20-40 percent of total demand from this segment.

## FUTURE SUPPLY

Although the entry of new hotels into the Tehran market has been limited in recent years, the city is expected to witness four new properties enter the market between 2015 and 2017. The lack of quality hotels coupled with increasing performance levels and the recent easing of sanctions are all catalysts in the potential for new hotel development in Tehran.

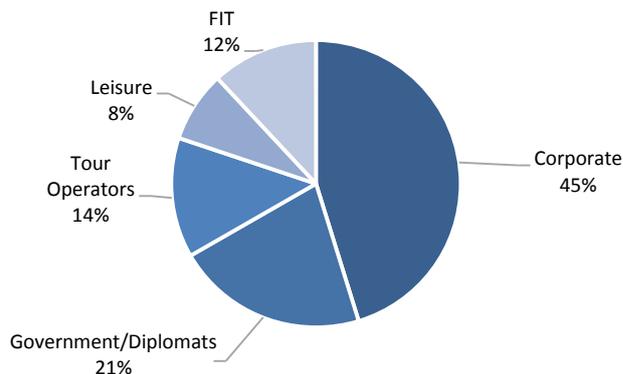
TRI have identified four key properties which are in various stages of development and are expected to change the hotel landscape in the city:

Existing Hotel Pipeline in Tehran				
Name	Location	Classification	Opening Year	Number of Keys
Espinas Behnood Hotel	North Tehran	5 Star	2015	600
Rayhaan by Rotana	-	5 Star	2017	200
Axis Hotel 1	IKIA	4 Star	2015	296
Axis Hotel 2	IKIA	3 Star	2015	196
<b>Total</b>				<b>1,292</b>

Source: TRI Consulting (2015)

Our assessment of the current market performance levels and the future supply pipeline in Tehran indicates that the overall four and five star market is expected to witness growing, albeit fluctuating, occupancy levels over the next 12-24 months.

Market Segmentation - Tehran Hotels



According to market research,  
“average room rates in Tehran’s four and  
five star hotels increased 56 percent  
between 2013 and 2014.



## Market Outlook

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The easing of economic sanctions against Iran in November 2013 resulted in a significant increase in tourism activity in the country, from both the international leisure and corporate segments, boosting hotel performance throughout Tehran.

This sudden growth highlights the fact that the Tehran hotel market is significantly under served in the four and five star segment, which has allowed even poor quality hotels to achieve strong occupancy levels whilst commanding rates which exceed their theoretical thresholds.

If the nuclear agreement is finalised on June 30, it will usher in a new age for the capital's hotel and tourism market through an explosive growth in demand, particularly from the corporate segment, as a greater number of companies try to penetrate the market and secure contracts in the country's various industries. With the existing supply of hotels already experiencing occupancy levels in excess of 80 percent, the growth in demand could push the market close to breaking point, as visitor demand could potentially exceed the total supply of rooms in the city.

**“There are significant opportunities in every sector in Iran, especially in the hospitality and tourism sectors”**

The growth and development of new hotels in Tehran has been stagnant in recent years as economic sanctions restricted foreign investment, drove hyperinflation throughout the country and limited tourism demand. With the floodgates poised to open in July, Tehran presents significant opportunities for new hotel development as well as the entry of leading international hotel operators.

We consider that the key opportunity for hotel operators in Tehran will be through the rebranding of existing four and five star hotels which not only allow for immediate market entry, but direct cash flows from management fees. With the four and five star hotel market being limited to only 16 properties, we anticipate a highly competitive environment amongst hotel operators, with owners expecting to benefit from attractive fee structures and the possibility of capital injection or key money from operators for prime properties.

Although the potential opportunities in Iran are endless, key challenges remain, including the red tape of setting up companies, the need for various licenses and most importantly, the process of repatriating funds out of the country. The government has already taken proactive steps to try and remove some of these barriers through the creation of a one stop shop for foreign investors and laws on Public-Private Partnerships (PPP).

## TRI Consulting

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TRI Consulting is one of the region's leading management consultancy firms, specialising in hotels, leisure and real estate. With over 20 years of experience in the region, TRI is regularly called upon to advise government entities, publicly listed companies, regional developers, hotel operators and high net worth individuals through their extensive range of services.

### About the Authors



**Peter Goddard**  
Managing Director

A founding partner of TRI's Dubai operation in 1995, his areas of specialisation include site analysis and planning; market analysis and demand forecasting; facilities recommendations and planning; prospective financial analysis; valuations; raising of equity and finance; management and contract negotiations; investment and sensitivity analysis; and tourism development and master planning.

Such continuous exposure to, and study of, hotel, tourism and real estate industries has provided Peter with an extensive background and understanding of the feeder markets, demand generators and other key factors affecting future demand levels and characteristics, optimal market positioning for facilities and demand capture. In his role as Managing Director of TRI, Peter has overseen more than 750 assignments across the region.

Peter is a frequent speaker at hotel, resort and tourism industry-related conferences, he is often quoted in trade magazines.



**Christopher Hewett**  
Associate Director

Christopher joined TRI in 2010 and since then has engaged in over 100 assignments throughout the MENA region encompassing market and financial feasibility studies, operational reviews, operator selection and valuations.

He has advised an extensive array of clients ranging from high net worth individuals to financial institutions and government organisations. He adopts a pragmatic and rational approach to unique hotel and real estate projects, guiding clients through the various stages of the development lifecycle.

In addition to his consulting activities, Christopher oversees the marketing and public relations activities of TRI and is a regular commentator on the regional hotel and tourism industry, frequently appearing in various media outlets as well as presenting and participating in industry conferences, exhibitions and events.

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