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Iraq Draws U.S. Hotel Operators Banking on Business Travelers

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By Nadja Brandt

Dec. 15 (Bloomberg) -- Iraq, after eight years of occupation by American troops, is luring U.S. hotel operators and developers betting on growth from business expansion and an eventual pickup in leisure travel to the war-torn region.

Best Western International Inc. plans two hotels under its Premier brand in Erbil, Iraq's fourth-largest city and the capital of Iraqi Kurdistan in the northern part of the country. Marriott International Inc. expects to operate two properties in the city. Hilton Worldwide, owned by Blackstone Group LP, is planning a 200-room Hilton DoubleTree Suites in Erbil.

The hotel companies are following growth in Iraq by businesses including General Electric Co. and Exxon Mobil Corp. as the U.S. prepares to withdraw its remaining troops by the end of the year. The Kurdistan region, in particular, is attractive for hospitality projects because of its relative safety and decades of neglect under Saddam Hussein's regime, said Stephen Lari, principal at New York-based Claremont Group, which is spending \$32 million to develop Erbil's Hilton DoubleTree.

"We were drawn to the region due to its stable and functioning regional government, a desire for American investment, a safe security environment, strong economic growth and an ever-more sophisticated and prosperous populace," Lari said in an e-mail. It also has "a strong and favorable investment law, and an enormous pent-up demand for residential and hospitality development," he said.

'Dangerous' Area

Demand for lodging in Iraq probably will be limited to business workers as kidnapping and terrorist violence remain concerns. The U.S. Department of State warns Americans against all but essential travel to the country given "the dangerous security situation," according to its website.

"Some regions within Iraq have experienced fewer violent incidents than others in recent years, in particular the Iraqi Kurdistan region," the State Department said in a Sept. 13 statement. "However, violence and threats against U.S. citizens persist and no region should be considered safe from dangerous conditions."

A possible lack of fresh water, electricity and communications systems also can be obstacles to doing business in the country, said Jan Freitag, senior vice president at Smith Travel Research Inc. Against this backdrop, U.S. hoteliers may benefit from increased demand from workers seeking familiar brands, he said.

Safe Havens

"Western hotels are often seen as safe havens from the craziness outside their own four walls," said Freitag, based in Hendersonville, Tennessee. "Reporters, oil workers, diplomats are willing to pay extra to sleep safely, work safely and -- as importantly -- eat safe food. If the hotel can deliver, then it makes sense for them to expand into high-risk areas."

The State Department has pushed to get more U.S. businesses into Iraq. Secretary of State Hillary Clinton has mobilized her agency to help companies like Boeing Co. and PepsiCo Inc. to compete there by focusing on building economic links, Robert Hormats, the State Department's under secretary for Economic Affairs, said in a July interview.

Exxon, based in Irving, Texas, signed contracts with the Kurdistan Regional Government to explore six blocks in Iraq's north, Michael Howard, an adviser to the regional authority, said on Nov. 11. GE is helping to increase electricity production and distribution in the country, according to a Nov. 21 statement from the Fairfield, Connecticut-based company. It last month opened three offices there, including one in Erbil.

Stability in North

Stability in the northern Iraq region has created a favorable environment for foreign business, according to Michael O'Hanlon, senior fellow at the Washington-based Brookings Institution, which does public policy research and analysis.

"The area is ethnically homogeneous," O'Hanlon said in an interview. "There's no tension within the Kurdish population and it has had some autonomy. That's created a more stable environment as compared to the rest of Iraq to do business in."

Foreign investment will be limited because of Iraq's constrained natural resources, mountainous terrain and shared border with Iran, according to O'Hanlon.

"I don't think the importance of the area should be overstated," O'Hanlon said. "If you start looking at the magnitude of investments in northern Iraq and future expectations, most investors don't look at Kurdistan as a major oil producer. Being there is more like a foot in the door to the rest of Iraq."

\$400 a Night

Best Western, the biggest closely held hotel chain, expects to operate a 16-room property in the center of Erbil that will command rates at an average of \$400 a night, Chief Executive Officer David Kong said in an interview earlier this month. The Phoenix-based company also is planning an 82-room hotel near the city's airport with an average rate of \$200 per night. Both properties are expected to open in late 2013.

"Erbil is least affected by any uncertainty in Iraq and the Gulf war because it's located in northern Iraq," said Kong, who is seeking other hotel opportunities in the country. "This area has seen the biggest influx of economic activity, highest growth and has the fastest-growing real estate markets."

Marriott three years ago explored opening hotels in the country but decided against it, said Ed Fuller, president and managing director of international lodging. It is now planning a 200-room Marriott-branded hotel and a 75-unit property under its high-end, extended-stay Marriott Executive Apartment brand that are slated to open in 2014.

No Leisure Travel

The Bethesda, Maryland-based hotelier, which has about 40 hotels across the Middle East, intends to add another 50 in the region in the next four years, Fuller said. He expects almost all of the demand in Iraq to come from business travelers.

"There's no leisure travel to talk about at this point," Fuller said. "It's like Saudi Arabia -- the only leisure travel there is religious. Everything else is business."

Hilton also is looking to expand in Iraq beyond Erbil.

"It's good to be early in an area, particularly in the Middle East, as the region is one of relative underdevelopment," said Ian Carter, president of global operations and development at the McLean, Virginia-based company. "We will almost certainly do other projects in Erbil. We are in negotiations for other projects in the region."

Limited Financial Risk

None of the three hotel companies are investors in the Iraq projects, limiting their financial risk. As management companies, hoteliers are only responsible for operating a property under one of its brands, without having any costs associated with the underlying real estate acquisition. Companies in the franchise system, such as Best Western, provide access to their distribution network or the use of their brand name, while independent operators run the hotel.

Best Western teamed with Iraqi developer Golden Mountains Co. for the \$20 million airport hotel and the \$40 million city project.

"The bright future of Kurdistan's economy (oil and gas exporting) is an important reason for us to take the initiative for investing in the two properties," Handren Azzo, chairman at Golden Mountains, said in an e-mailed statement. The region is currently lacking any international high-end hotels, he said.

Claremont Group, Hilton's partner, is also building a 1,600-unit mixed-use gated community, called the Atlantic Villas & Apartments, near Erbil's business district and international airport.

Marriott partnered with local developer Empire Iraq, which will invest more than \$100 million in the two projects, according to a statement on its website.

"We believe we can make it work," Marriott's Fuller said. "But I don't really have any past comparison of a similar situation as given here in Iraq. We haven't gone into an area before where there had been an active war. We'll have to see."

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