



MAY 2013 | US\$500

DUBAI

UNDER THE MICROSCOPE

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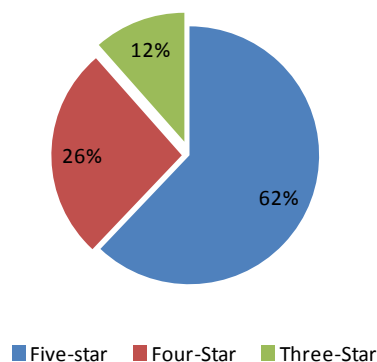
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OVERALL HOTEL PERFORMANCE: DUBAI

After the slump witnessed in 2009 and 2010, the Dubai hotel market has resumed growth in terms of occupancy and average rate under all submarkets. This can be primarily attributed to the resumption of travel from main feeder markets such as European countries, combined with the redirection of demand from neighbouring countries due to unstable political conditions. Furthermore, Emirates Airlines bolstered growth, increased frequency of flights to feeder markets and introduced new routes, which has led to the influx of additional feeder markets and has encouraged visitation to Dubai.

FIGURE 1: CITY-WIDE ROOM INVENTORY BY CATEGORY



Five-star hotels in the market still account for the majority of the total room inventory. Approximately 62% of the total branded room inventory is under the five-star category while the four-star category accounts for 26%. While four-star and three-star hotel products are widely accepted and have substantially increased in number over preceding years, approximately 76% of Dubai's hotel pipeline comprises of five-star hotel rooms.

The five-star hotel market in Dubai has witnessed a three percentage point rise from 2011 to 2012 in terms of occupancy and a 6.0% increase in average rate. Despite the large number of five-star rooms in the market, operators have managed to increase both occupancy and average rate owing to the shortage of rooms in prime districts during peak seasons, particularly the first and last quarters of the calendar year. The second most abundant hotel category in terms of number of rooms is the four-star hotel category. In 2012, the four-star hotel market witnessed an increase in occupancy of one percentage point and an average rate increase of 8.0% when compared to 2011. Four-star hotels are pervasive in corporate-oriented submarkets such as Sheikh Zayed Road and Old Dubai (Bur Dubai/Deira) due to the price sensitivity of small local businesses. One reason for the strength of the four-star sector is a reflection of the quality of certain four-star hotels in Dubai, which in comparison are superior to dated five-star hotels. The amount of rooms under the three-star category is sparse. The appetite for three-star hotels among investors is certainly growing; however, this appetite remains insubstantial for various reasons. Several hotel projects are passion-driven and investors perceive five- and four-star hotels as prestigious assets to have in their portfolio. Furthermore, the demand for five- and four-star products is currently booming and investors prefer high-tier, high-rate products to justify the high cost of land. In 2012, the three-star hotel market witnessed a seven percentage point increase in occupancy and a 12.0% increase in average rate, thereby indicating the increased demand for lower-tier products as well.

FIGURE 2: FIVE-STAR DUBAI

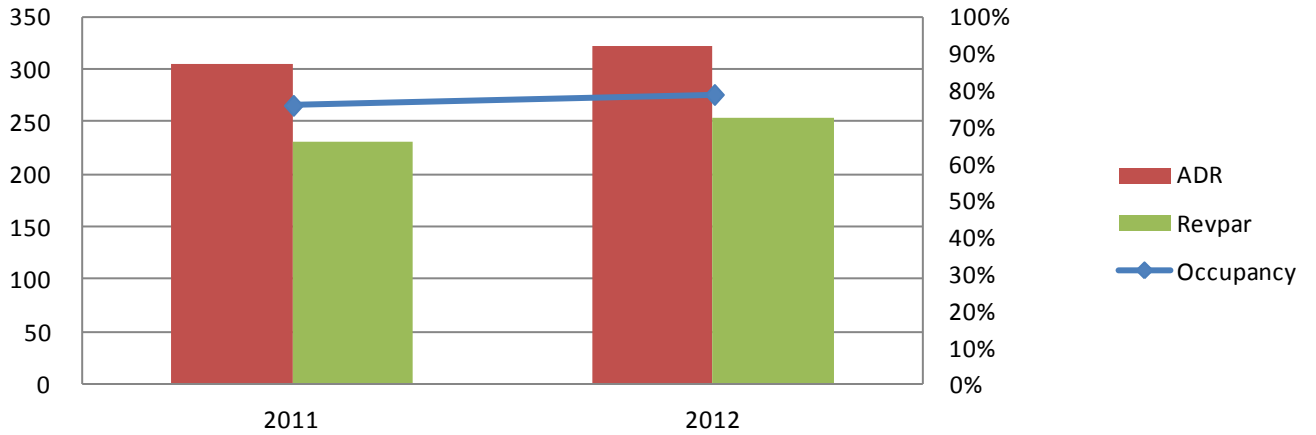


FIGURE 3: FOUR-STAR DUBAI

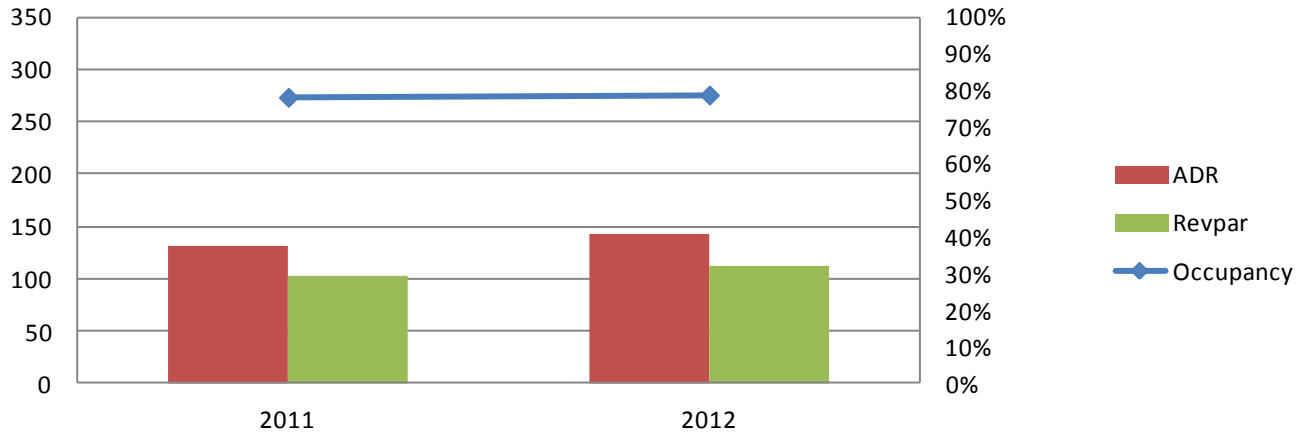
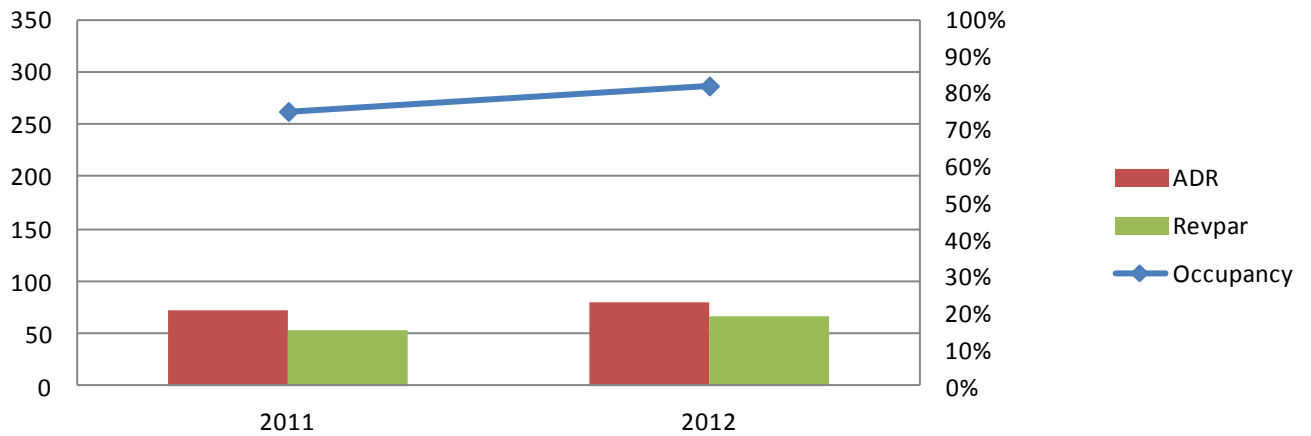


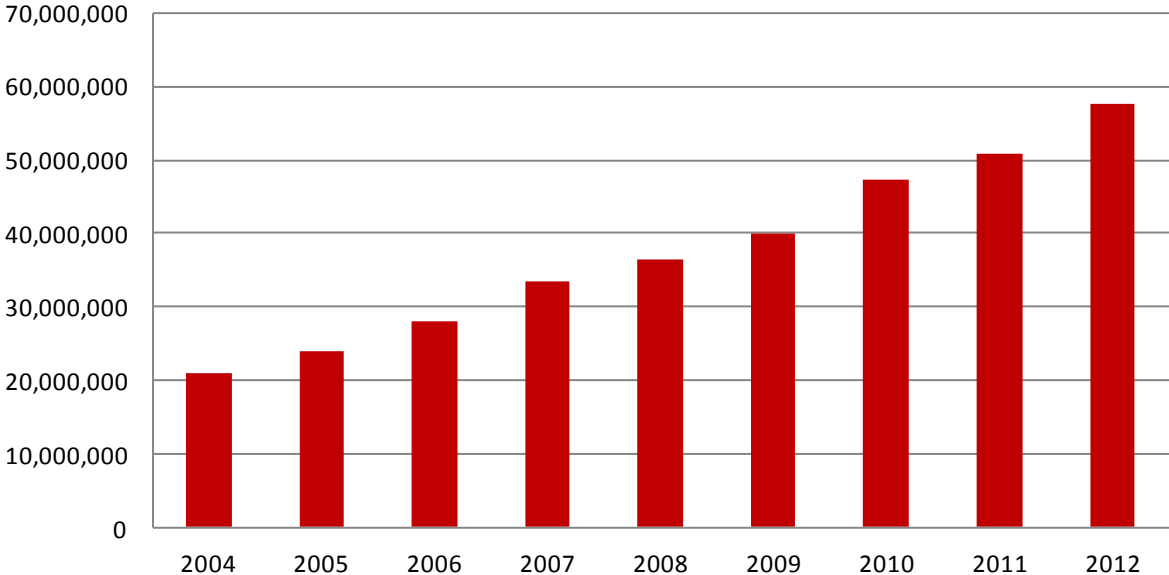
FIGURE 4: THREE-STAR DUBAI



DUBAI AIRPORT PASSENGER MOVEMENTS

The aforementioned key performance indicators reflect the overall healthy condition of the Dubai hotel market. While Dubai’s geographical location plays a key role in the success of the city, the government’s ongoing efforts to constantly improve the airport facilities have made it easier for airlines to facilitate their routes through Dubai, allowing additional transient visitors. The table below highlights Dubai Airport’s passenger movements over the last nine years.

FIGURE 5: DUBAI AIRPORT PASSENGER MOVEMENTS



Dubai passenger traffic at Dubai International Airport showed a steady increase between 2004 and 2012, registering a healthy compound annual growth over this period of 13.2%. In 2011, total passenger movements were reported to have increased by approximately 8.0% when compared to 2010, surpassing New York’s John F. Kennedy International Airport. Dubai International Airport authorities reported roughly 57 million total passenger movements in 2012, a feat that had not been accomplished since the airport’s inception. In January 2013, Dubai Airport authorities indicate that Dubai International Airport welcomed more than 5.5 million passengers, up 15.0% from January 2012, solidifying the airport’s position as a major player in the global air traffic arena.

The challenge with Dubai lies in understanding the differentiating characteristics of the submarkets. Each submarket possesses distinct clientele, demand generators, seasonality and segmentation, resulting in varied average rate and occupancy positioning throughout the year. In this article, we have grouped all the internationally branded hotels in Dubai under their respective submarkets and explored the performance of each submarket.

DEIRA/AIRPORT

The Deira/Airport submarket stretches from the Deira Creek to the Dubai International Airport; linked via Al Maktoum Bridge, Al Garhoud Bridge and the Floating Bridge. Hotels in this submarket experience a balance between corporate and leisure guests allowing for week long demand. Deira is renowned for hosting several banking institutions, pearl and gold trading corporations as well as numerous small and local businesses. Leisure guests in this submarket tend to be in the middle income bracket due to the high prices of hotel rooms in prime leisure areas such as Dubai Marina and Downtown Dubai. Furthermore, the majority of the hotels in this market are exhausted and cannot command higher rates, therefore appealing to price-sensitive travellers.

In addition to financial and trading institutions, the Deira submarket hosts other demand generators such as the City Centre Shopping Mall, Al Ghurair Shopping Mall, the Gold Souk and the Dubai Creek. The Deira market is moreover fuelled by passenger movements at the Dubai International Airport. Properties such as Le Mèridien Dubai, Bustan Rotana, Premier Inn, Holiday Inn Express and Millennium Airport Hotel are located nearest to the Airport.

In 2012, the five-star Deira hotel market witnessed an increase of three percentage points in occupancy and 5.0% in average rate. The four-star market has remained fairly stagnant, with a one percentage point increase over 2011. However, average rate increased by 8.0% resulting in a 9.0% increase in RevPAR. On the other hand, the three-star market witnessed an eight percentage point growth in occupancy and 10.0% growth in average rate resulting from the price sensitivity of the submarket and the low rate positioning of three-star products.

There have been very limited increases in supply in this submarket in the preceding years. The Pullman City Centre Hotel has recently undergone renovations and the most recent introduction to the market was the 600-room Arjaan and Rayhaan Al Ghurair, which opened towards the end of December 2012.

FIGURE 6: FIVE-STAR DEIRA/AIRPORT

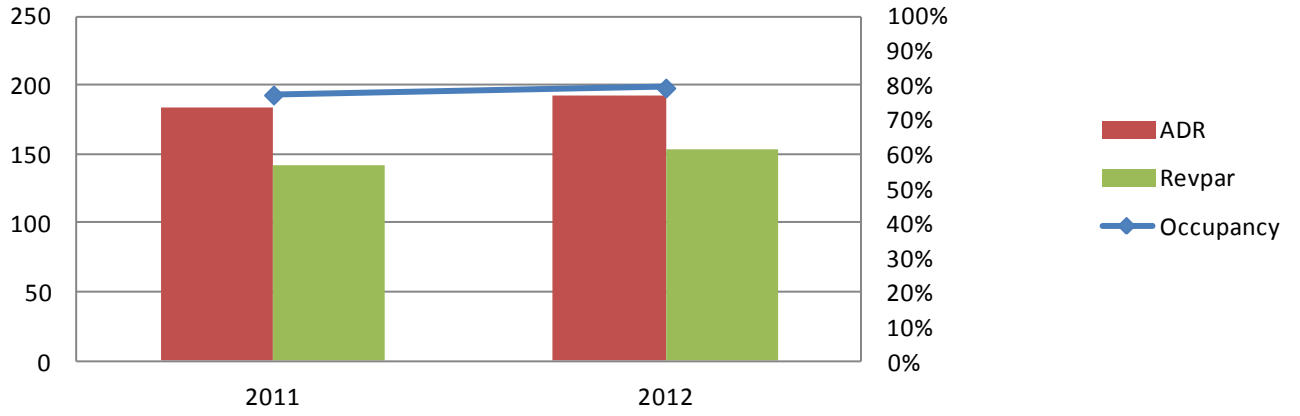


FIGURE 7: FOUR-STAR DEIRA/AIRPORT

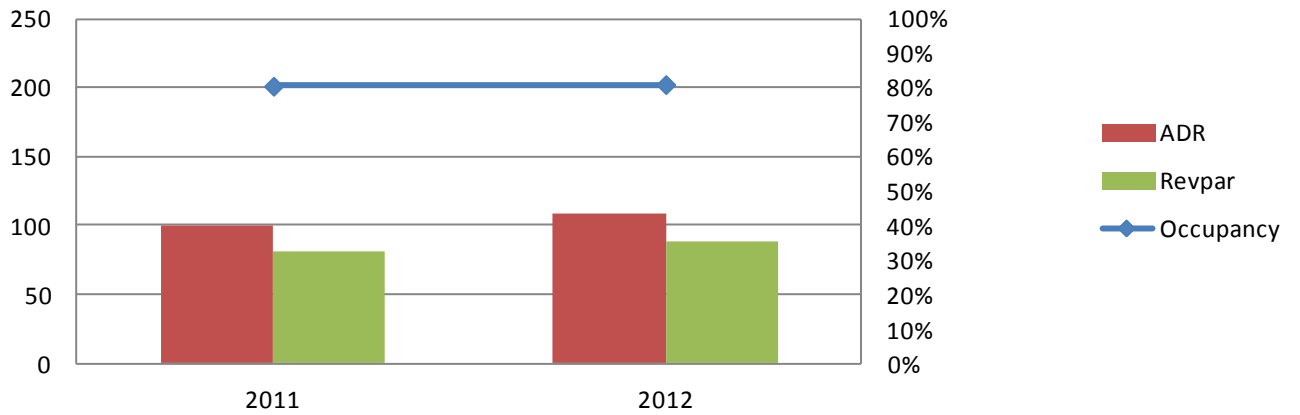
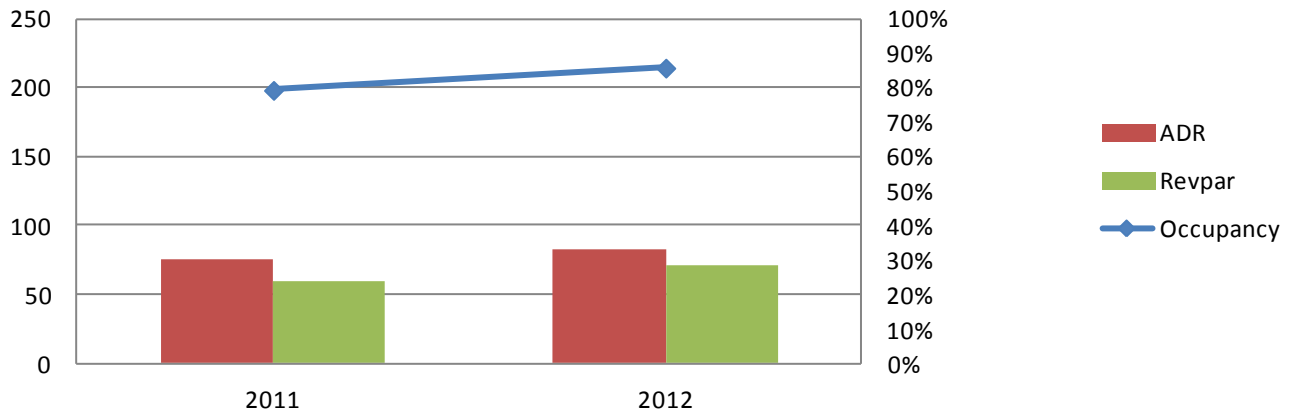


FIGURE 8: THREE-STAR DEIRA/AIRPORT



DUBAI MARINA AND WATERFRONT HOTELS

Due to similarities in product positioning, clientele and segmentation, we have grouped hotels located in Dubai Marina, the Walk at Jumeirah Beach Residence (JBR) and Jumeirah beach hotels under one category. In the tables below, we have presented resorts on the Palm Jumeirah individually; however, the nature of these resorts closely resembles the JBR and Jumeirah Beach hotels in terms of quality and target markets. The majority of the roomnights in this submarket are generated by the group leisure market and the full rate leisure market on account of the beach front nature and resort-orientation of the hotels.

Dubai Marina is a canal city consisting of approximately 260 residential, commercial, hotel and mixed-use towers. It is one of the largest man-made marinas in the world and is in close proximity to popular golf courses, a university and mega commercial developments. Situated within the Dubai Marina development is 'The Walk' at JBR. The development is a waterfront community located adjacent to the Persian Gulf in Dubai. The development contains 40 towers and can accommodate up to 15,000 people. There are approximately 6,900 apartment units and it is rumoured that 80% of all the units are occupied. The Walk at JBR is a 1.7 kilometre stretch with approximately 300 retail and dining outlets.

In 2012, hotel occupancy marginally increased by two percentage points while average rate increased by 9.0%, resulting in an 11.0% increase in RevPAR. This is attributable to the resumption of travel by visitors from feeder markets such as the UK and Germany who prefer vacationing in Dubai due to the quality resort facilities, short travel times and sunny weather conditions.

Located in close proximity to Dubai Marina and JBR is the Palm Jumeirah, an artificial island in the shape of a palm tree and that consists of a trunk, a crown with 16 fronds and a surrounding crescent island that forms an 11 kilometre breakwater. The Palm Jumeirah has been touted as one of the world's premier resort destinations. In 2012, resorts on the Palm Jumeirah reported a six percentage point increase in occupancy and healthy, double-digit growth in average rate of 10.0%.

FIGURE 9: FIVE-STAR DUBAI MARINA AND JUMEIRAH BEACH

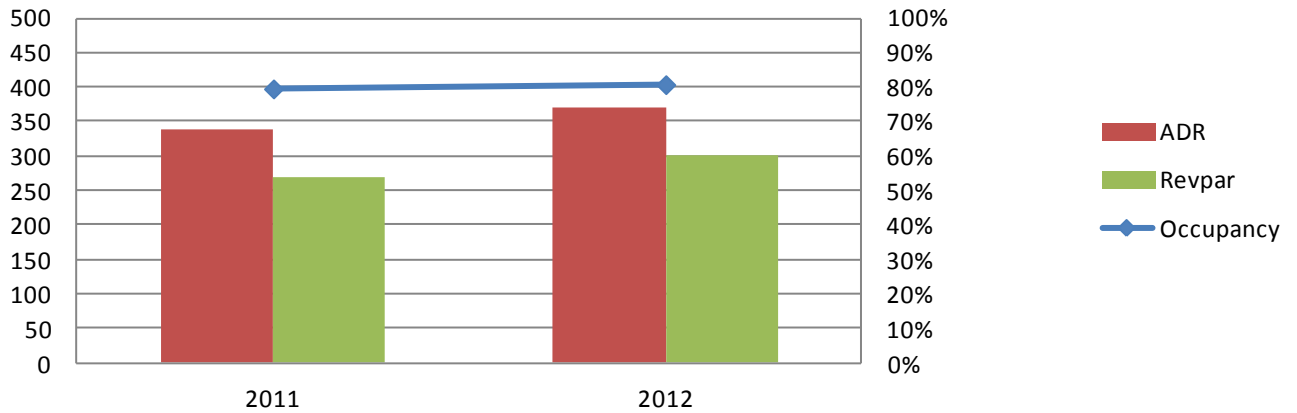
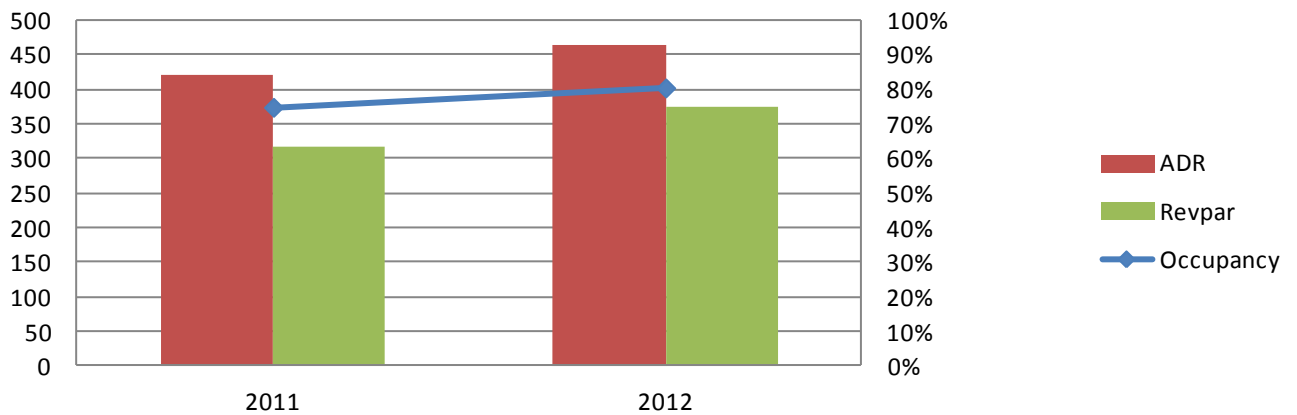


FIGURE 10: FIVE-STAR PALM JUMEIRAH



BUR DUBAI/SATWA

The Bur Dubai/Satwa submarket forms part of old Dubai and includes vibrant districts such as Al Karama and Satwa. The submarket initiates from the bustling bank street which contains in close proximity the textile market, old town Bastakiya and Port Rashid, and stretches to Healthcare City, which hosts several medical-related corporations, as well as the Citibank Headquarters and Wafi Shopping Mall. The majority of demand in this segment is driven by smaller businesses such as jewellers and textile merchants, petro-chemical companies, hospitals such as American Hospital, trading activity at Port Rashid and the Healthcare City. Phase two of the Healthcare City is currently

underway with several hotel projects planned and under construction including the Marriott Hotel and Marriott Executive Apartments, Swissôtel Jadaf and Park Inn Jadaf.

Demand in this segment is also fuelled by the other submarkets due to its central location. The Bur Dubai submarket is a short distance away from Sheikh Zayed Road, Deira, Dubai International Airport and Jumeirah Beach via Satwa. This allows for spill over at Bur Dubai/Satwa hotels during peak seasons. This submarket consists primarily of four-star hotels due to the price-sensitive nature of the smaller businesses in the vicinity.

Demand at five-star hotels is driven by the utilisation of meeting and banqueting space and appeals to the executive personnel of financial institutions in the submarket. In 2012, occupancy at five-star hotels remained relatively stagnant; however, average rate increased by 6.0% allowing for an overall increase in RevPAR. The four-star hotel market witnessed an increase of eight percentage points in occupancy and 4.0% in average rate in 2012, indicating the increasing demand for quality four-star hotels. Established hotels in this submarket benefit from solid presence offering them the advantage of long-term contracts that were secured well before the more recent hotels entered the market. In 2012, occupancy in the three-star market decreased by five percentage points due to increased supply; however, this supply increased the overall standard of product quality resulting in an average rate increase of 84% and an increase in RevPAR of 72.0%.

FIGURE 11: FIVE-STAR BUR DUBAI/SATWA:

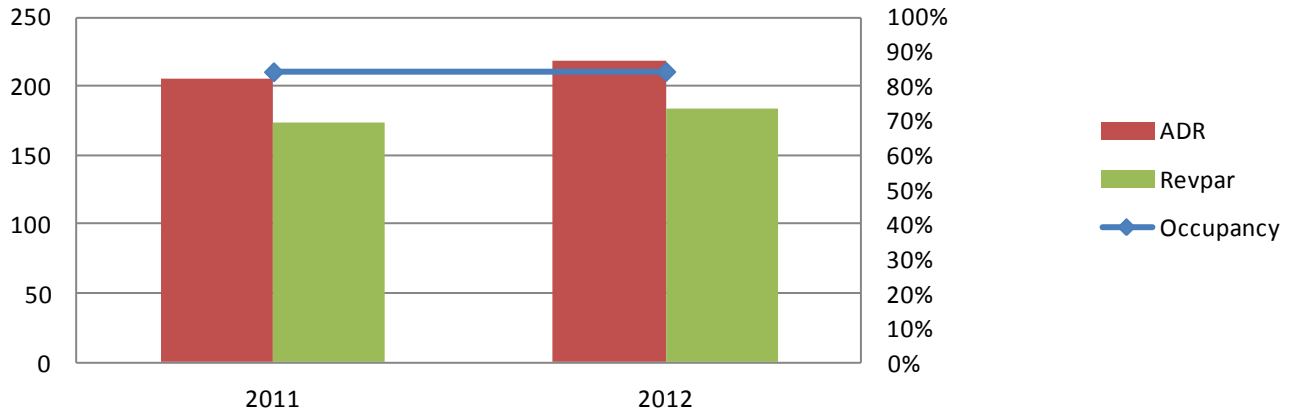


FIGURE 12: FOUR -STAR BUR DUBAI/SATWA

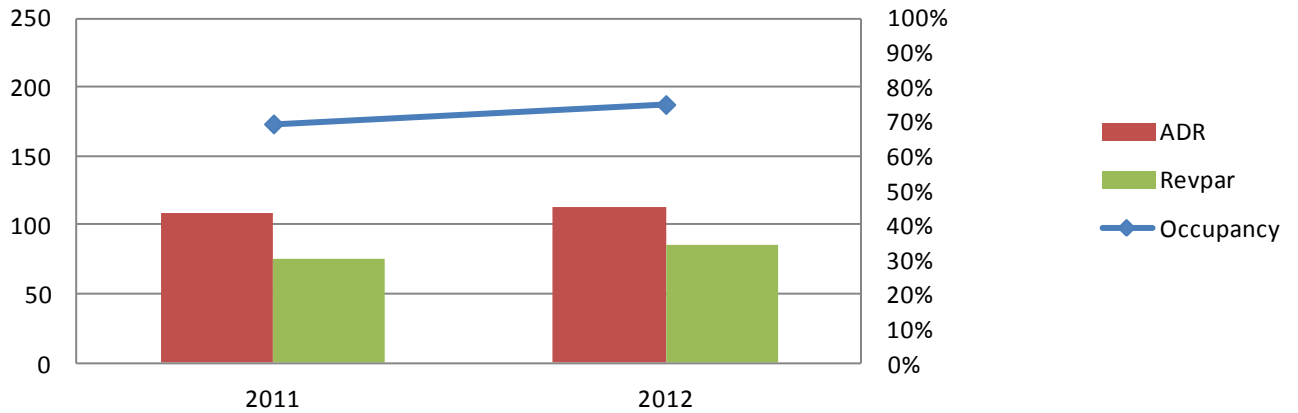
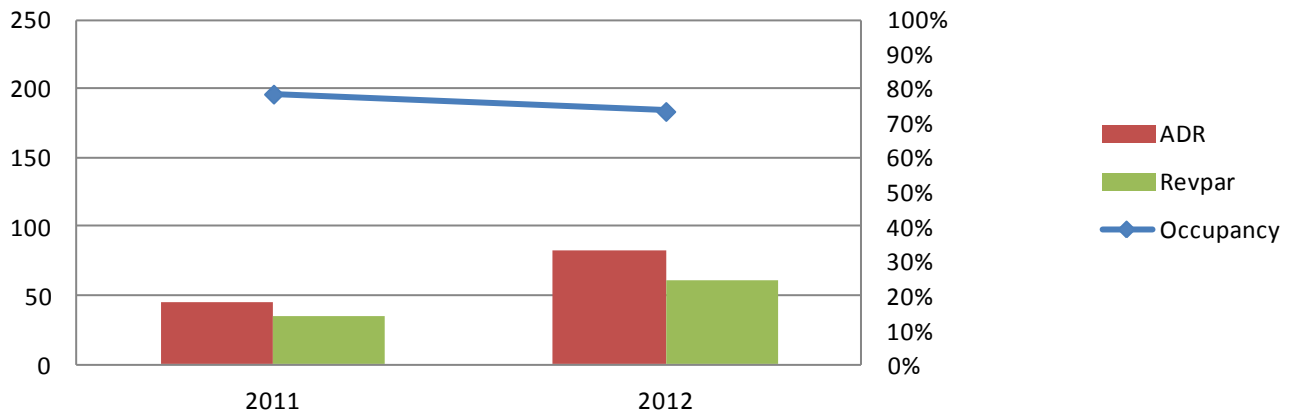


FIGURE 13: THREE-STAR BUR DUBAI/SATWA



SHEIKH ZAYED ROAD (N) & DOWNTOWN DUBAI

Sheikh Zayed Road, touted as the main artery of Dubai, hosts several developments that have placed this city on a global scale and is featured on the majority of marketing and travel brochures to attract visitors to Dubai. This submarket is associated with the vibrance and glamour Dubai is known for wherein corporate travellers are buzzing in and out of Dubai International Financial Centre, leisure visitors from all over the world flocking to one of the largest malls in the world, Dubai Mall, the tallest tower in the world, Burj Khalifa, the tallest dancing fountains in the world,

Dubai Fountains and indulging in the variety of unique retail and food and beverage outlets. Furthermore, this submarket also includes the Business Bay development which includes the tallest hotel in the world, the JW Marriott Marquis and several architecturally unique commercial buildings.

Moreover, the Dubai International Exhibition Centre is also situated on Sheikh Zayed Road, which hosts a multitude of events such as the Arabian Travel Market, the Hotel Show, Cityscape, and WETEX, all of which attract a copious amount of visitors. The hotels in this submarket are primarily four- and five-star and a cut above in terms of quality when compared to older hotels in Bur Dubai and Deira. These hotels maintain a healthy balance of corporate and leisure guests allowing for dynamic average rate structures and offers.

One of the main drivers of leisure demand in this submarket is the Dubai Mall, which attracts visitors from neighbouring countries, especially Saudi Arabia, during public holidays, school holidays and weekends. The Dubai Mall witnessed 65 million visitors in 2012, up from 54 million visitors in 2011.

In 2012, occupancy of the five-star hotel market increased by six percentage points despite the influx of over 1,000 hotel rooms. Furthermore, the average rate increased by 4.0% resulting in double-digit growth of 11.0% in terms of RevPAR. On the other hand, the four-star hotel market witnessed a five percentage point increase in occupancy and a 12.0% increase in average rate.

FIGURE 14: FIVE-STAR SHEIKH ZAYED ROAD (N) & DOWNTOWN DUBAI

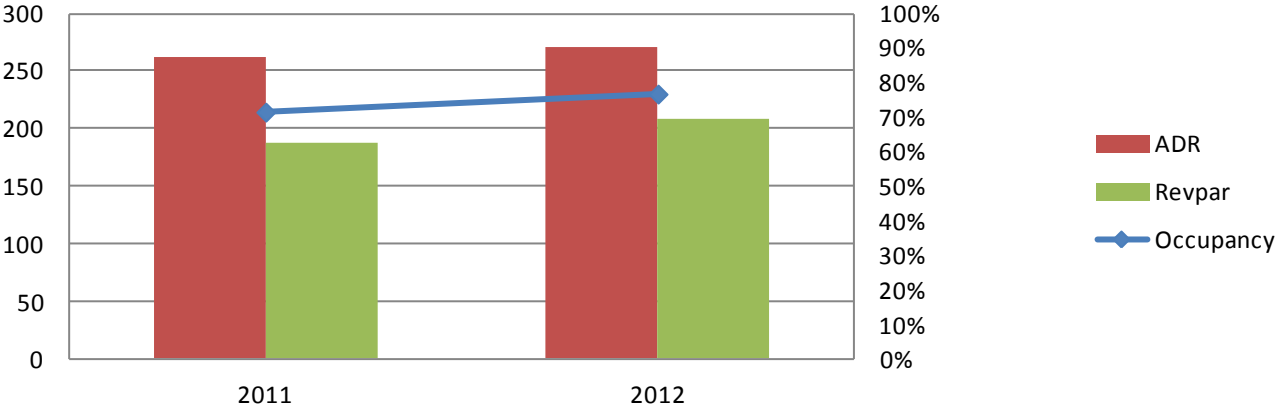
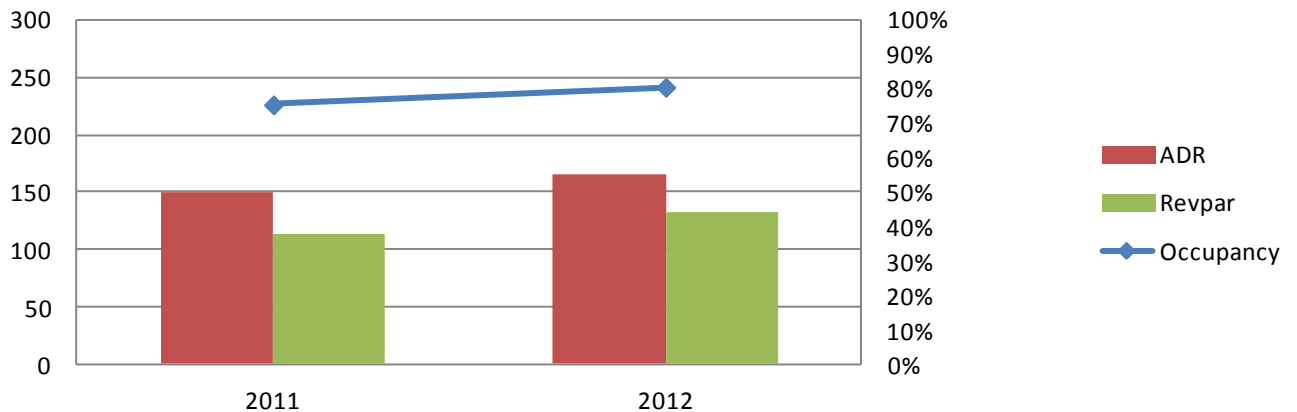


FIGURE 15: FOUR-STAR SHEIKH ZAYED ROAD (N) & DOWNTOWN DUBAI



SHEIKH ZAYED ROAD (S) & DUBAI MEDIA CITY

Sheikh Zayed Road (SZR) is the main highway running through Dubai to the capital city, Abu Dhabi. Developments such as Dubai Media City, Dubai Internet City, Jumeirah Lake Towers, TECOM, Al Barsha and Ibn Battuta are located towards the southern end of SZR. Apart from Dubai Media City and Internet City, the rest of the developments primarily host residential buildings and developments such as the Greens and Discovery Gardens. Dubai Media City and Internet City host the offices and headquarters of large multinational organisations and institutions such as Bloomberg, CNN, The Economist, Sony, Visa, Leo Burnett, Microsoft, Siemens, Oracle, Cisco and Nokia.

Like the rest of Dubai, this submarket also holds a balance of corporate and leisure visitors. However, hotels situated closer to Dubai Media City and Internet City are deemed corporate-oriented. Primary leisure attractions include Mall of the Emirates, which hosts the famous indoor ski slope and several dining options, and Ibn Battuta Mall, a shopping mall designed to reflect the voyage of the adventurer, Ibn Battuta.

Hotels in this submarket also benefit from spill over demand from neighbouring submarkets such as Dubai Marina and Palm Jumeirah during peak seasons as travel time is minimal and average rates are typically lower when compared to waterfront hotels and resorts. In 2012, the five-star hotel market witnessed a six percentage point increase in occupancy and a 17.0% increase in average rate, which resulted in an impressive 27.0% growth in RevPAR. Occupancy and average rate within the four-star hotel market increased by five percentage points and 11.0%, respectively. Limited increases in supply in the submarket and neighbouring submarkets resulted in double-digit RevPAR growth, wherein the three-star hotel market also witnessed RevPAR growth of 27.0%.

FIGURE 16: FIVE-STAR SHEIKH ZAYED ROAD (S) & DUBAI MEDIA CITY

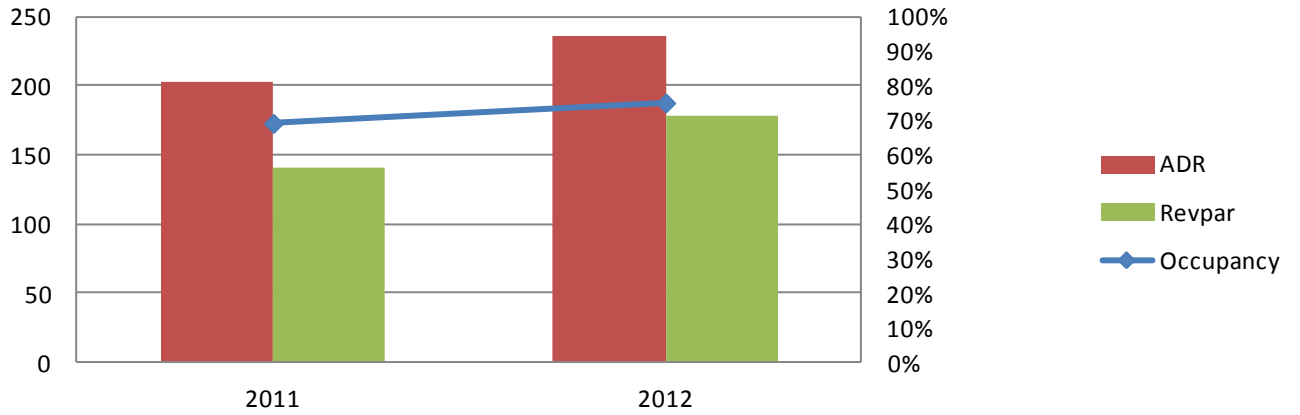


FIGURE 17: FOUR-STAR SHEIKH ZAYED ROAD (S) & DUBAI MEDIA CITY

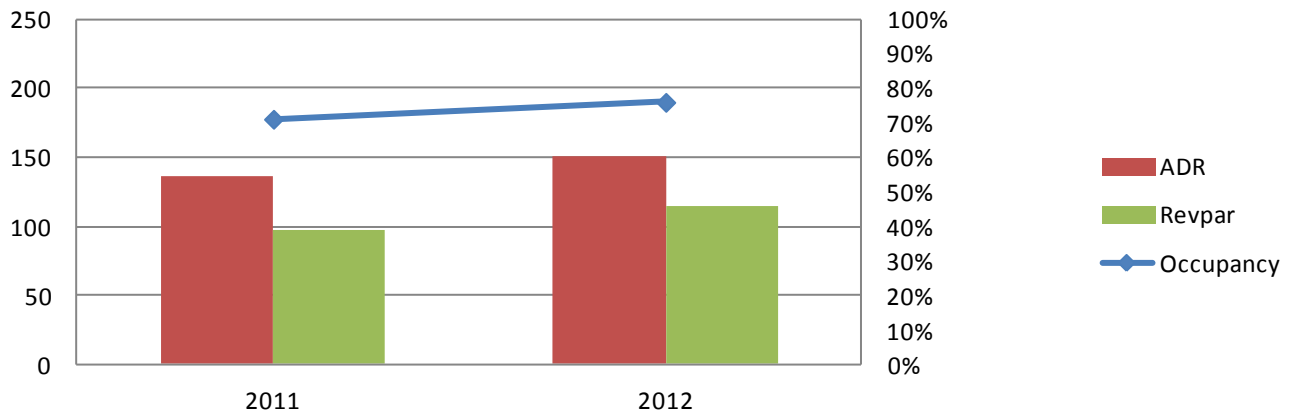
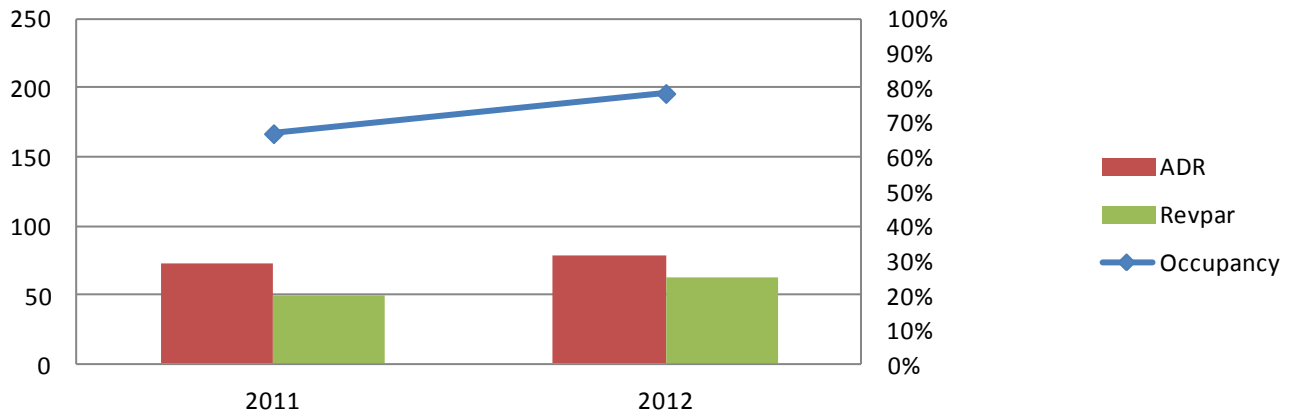


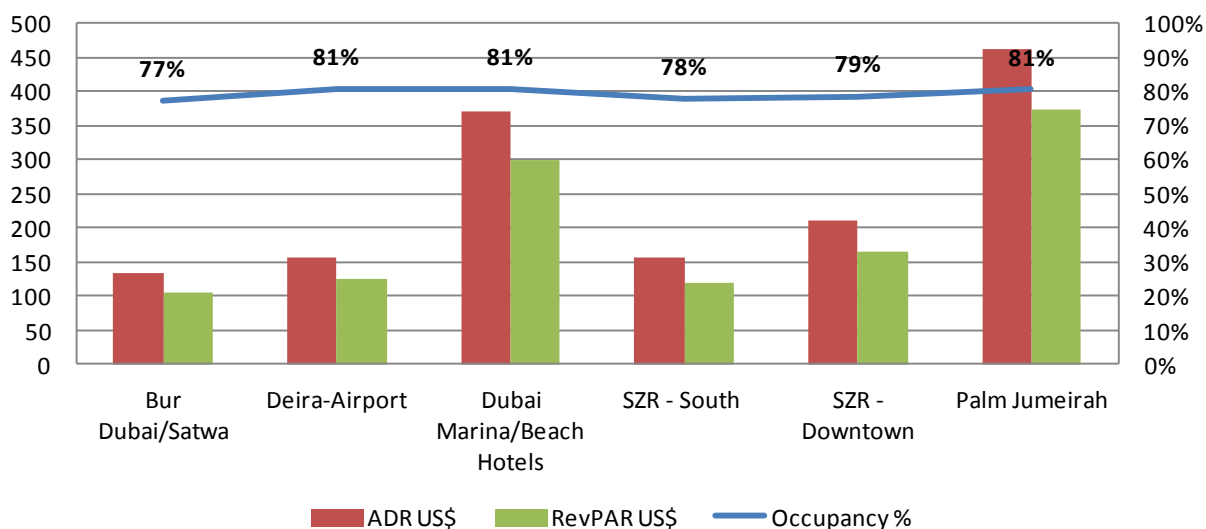
FIGURE 18: THREE-STAR SHEIKH ZAYED ROAD (S) & DUBAI MEDIA CITY



CONSOLIDATION AND CONCLUSION

Overall, the year 2012 surpassed 2011 in all key performance indicators wherein some submarkets such as Palm Jumeirah and Sheikh Zayed Road South recorded double-digit growth in average rate and RevPAR, indicative of the continuous growth in popularity of Dubai as a corporate and leisure market.

FIGURE 19: KEY PERFORMANCE INDICATORS OF SUBMARKETS - 2012



As shown in the table above, Palm Jumeirah achieves the highest average rates and RevPAR. Moreover, occupancy in this submarket is also among the highest in Dubai and is in line with Dubai Marina and Deira/Airport hotels. Hotels on the Palm Jumeirah are able to command high rates on account of the overall attraction of the development, the high-quality luxury resorts and the waterfront access. Dubai Marina and Jumeirah Beach hotels stand second to Palm Jumeirah in terms of performance under all key performance indicators. It is evident from the table above that waterfront and/or resort-oriented hotels in Dubai outperform other submarkets.

PIPELINE

Approximately 13,000 confirmed rooms are expected to enter the Dubai hotel market in the next five years, wherein the majority of the supply is entering the SZR North/Downtown, SZR-South and Palm Jumeirah submarkets. The SZR North/Downtown supply is mainly driven by Emaar Properties' multiple hotel and branded residences developments under *The Address* brand, as well as the 1,700-room Habtoor complex, which will comprise of a W Hotel, a St. Regis and a Westin. The surge in available room inventory is expected to cause additional rate pressure, which may lead to a

decrease in marketwide average rates and RevPAR levels. However, several mega developments have recently been announced that are expected to substantially increase visitation to Dubai and demand to the hotel market.

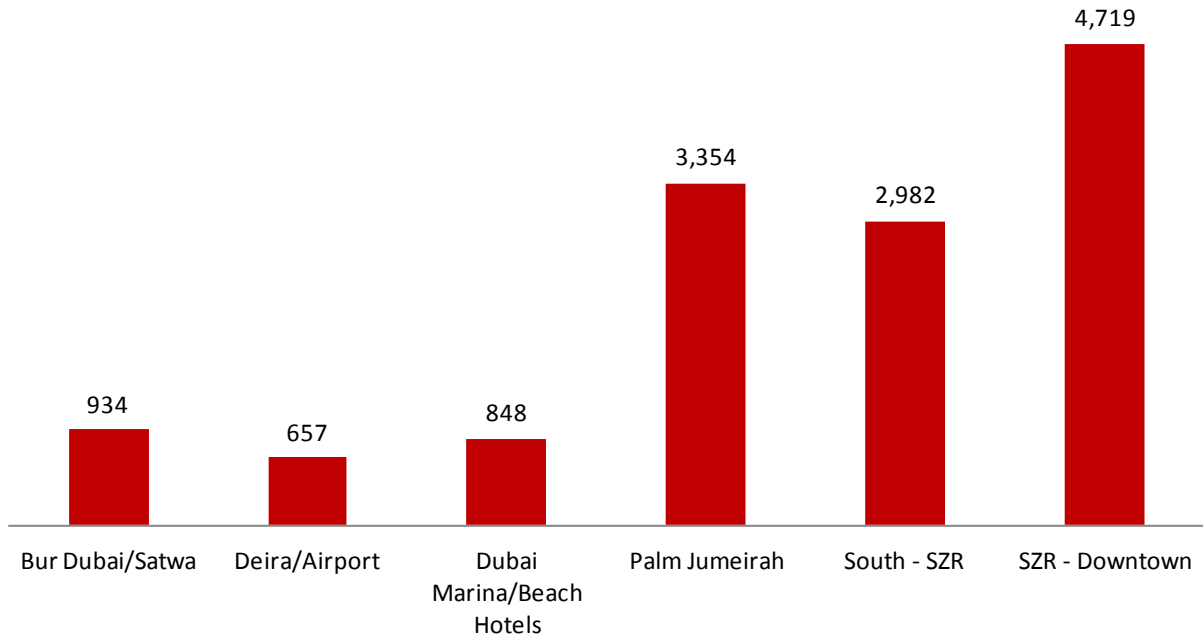
The recently announced **Mohammed Bin Rashid City** is poised to set new benchmarks in urban development in the region. The development will feature world class leisure facilities including theme parks, golfing facilities, extensive hotel accommodation, arts and cultural attractions, and the world's largest shopping mall, capable of attracting 80 million visitors annually. This development was recently approved for commencement with the first phase already expected by 2014.

The **Dubai Pearl** is a world class, 1.9 million square metre development that aims to set a new benchmark for sustainable urban communities in Dubai. The development will provide a home for 9,000 residents and a workplace for a further 12,000 people. The initial handover is scheduled for Q1 of 2015. In addition to residential and commercial space, it will include entertainment, retail and leisure facilities, as well as hotel developments.

Additional mega developments include the **Falcon City of Wonders**, which will include replicas of global iconic architecture such as the Eiffel Tower and a replica of the Taj Mahal. Moreover, as Dubai positions itself as a cultural capital, plans are under way to develop the **Dubai Modern Art Museum** and the **Dubai Opera House District**.

All of the aforementioned developments are expected to fuel demand for hotels and further increase the appetite for hotel development as many of these mega developments are opening in newer and untouched areas of Dubai. Moreover, Dubai is currently bidding to host the World Expo 2020, a six-month long exposition, occurring every five years, which attracts millions of visitors to the winning host city. Should Dubai win the bid, the government will look to commence additional infrastructural projects and construct complementary developments in order to support the World Exp 2020, which in turn will increase corporate activity in the years leading up to the event.

FIGURE 20: PIPELINE



CONCLUSION

The global economic downturn greatly impacted the UAE, but recent macroeconomic indicators have shown positive growth in GDP resulting in further strengthening of the economy. This supports the renewed interest and an increase in business activity within the country as-a-whole. As mentioned earlier, airport arrivals increased by 8.0% in 2011, and 13.2% in 2012, indicating a healthy growth in visitation to the emirate. This increase in visitation is attributed to the growth of low-cost carriers such as Fly Dubai and new routes established by other carriers, diverted traffic from neighbouring cities as well as the overall attractiveness and appeal of Dubai to the regional and international markets.

Dubai has adopted a long-term development strategy aimed at diversification of its economy and has succeeded in becoming the financial, logistical and leisure centre of the region. Dubai has always been very ambitious and has been constantly under the spotlight of the press and international interest for its improbable developments, luxury shopping, one-of-a-kind leisure facilities, good service and a safe, stable government. As a result, the outlook remains positive, given the brand name that the destination has created for itself and that it continues to promote.



About HVS

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HVS has a team of Middle East experts that conducts its operations in the Middle East and North Africa. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last six years, the team has advised on more than 400 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$55 billion worth of hotel real estate in the region.

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