HOSPITALITY RESEARCH

UAE HOSPITALITY MARKET REVIEW & FORECAST 2018

Headlines

The hospitality sector's direct contribution to GDP has increased by 138% in the 10 years to 2017, with employment in the sector growing by 119% over the same period. By 2026, forecasts from Oxford Economics indicate that the direct contribution will increase by an additional 72% and as a result, related employment will grow by 16% to over 659,000.

The total number of overnight stays has increased by 155% in the 10 years to 2017 to 70.9 million.

We expect the level of growth in tourism to remain strong over the next decade, with total overnight stays expected to increase by 59% to over 113 million by 2026.

The composition of the top 10 source markets to the UAE has not changed dramatically over the last decade. Nonetheless we are beginning to see a shift in key source markets which has begun to have a material impact on market dynamics.

TAIMUR KHAN
Senior Analyst

"As the source markets continue to evolve the hospitality market will have to adapt to cater for a range of demand at different price points."

Please refer to the important notice at the end of this report.

OVERVIEW

The hospitality sector in the United Arab Emirates is undergoing a range of structural changes. Knight Frank has partnered with Oxford Economics to analyse how the UAE's Hospitality and Tourism market's fundamentals will change over the next decade.

The Hospitality and Tourism sector in the United Arab Emirates (UAE) is a significant contributor to the UAE's economy and a major employer. In 2017 it is estimated that the sector contributed over AED150bn to GDP (4.6% of GDP), and provided almost 570,000 jobs which represented 4.8% of total employment.

The sector's direct contribution to GDP has increased by 138% in the 10 years to 2017 with employment in the sector growing by 119% over the same period. By 2026, forecasts from Oxford Economics indicate that the direct contribution will increase by an additional 72% and as a result, related employment will grow by 16% to over 659,000 *(Fig. 1)*.

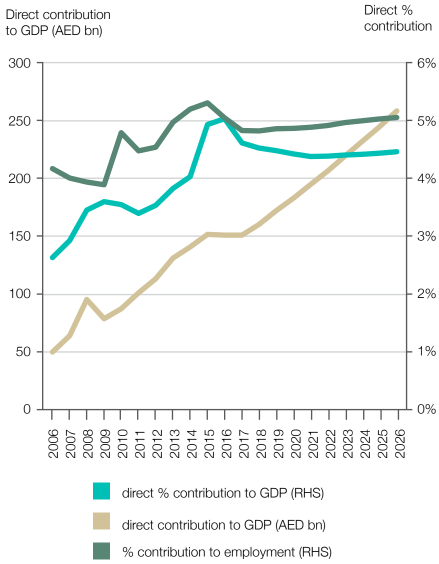
The UAE (in particular Abu Dhabi and Dubai), has established itself as one of the premier luxury destinations in the world, carving itself a reputation for attracting wealthy tourists. However, over the past few years a culmination of factors have changed the nature of demand, resulting in a demand base from a broader range of countries and income profiles *(Fig. 5)*.

The fall in the cost of air travel combined with a growing middle class in key source markets has resulted in growing visitors from emerging markets such as China and India.

Abu Dhabi International Airport has seen a 60% increase in passenger numbers in the period January to November 2017 (21.47 million passengers), compared to the same period in 2012 (13.38 million passengers). Dubai International Airport has seen passenger numbers increase from 57.68 million in 2012 to 88.24 million in 2017, a 53% increase *(Fig. 3)*.

In an effort to maintain demand growth, we have seen a broader range of demand generators either under construction or

FIGURE 1
The contribution of hospitality and tourism to GDP and employment



Sources: Oxford Economics and the World Travel & Tourism Council

FIGURE 2
UAE market performance snapshot year-to-date, 2017

	Percent change, 2017					
	Occ	**ADR**	**RevPAR**	**Room Rev**	**Room Avail**	**Room Sold**
UAE	0.2%	-4.1%	-3.9%	0.8%	4.9%	5.1%
Abu Dhabi	0.3%	-6.2%	-5.8%	-3.2%	2.8%	3.1%
Dubai	0.2%	-4.2%	-3.9%	1.5%	5.6%	5.9%
Ras Al-Khaimah	-0.3%	-4.6%	-4.9%	3.7%	9.0%	8.7%
Sharjah	1.4%	-2.0%	-0.6%	1.2%	1.9%	3.3%
Fujairah	1.2%	-1.7%	-0.5%	3.6%	4.2%	5.4%

Source: Knight Frank Research, STR Global under planning which are targeted at various income levels, tastes and cultures.

A similar trend is also occurring with the type of hotels on offer, albeit at a much slower pace. Historically the UAE had a ‘top heavy’ supply with a disproportionate number of four and five star hotels accounting for 66% and 57% of total available rooms in Abu Dhabi and Dubai respectively. This has made the sector fiercely competitive which has had implications on profitability.

UAE source markets

The composition of the top 10 source markets to the UAE has not changed dramatically over the last decade. Nonetheless we are beginning to see a shift in key source markets which has begun to have a material impact on market dynamics. In this section we analyse the changes in these rankings since 2007 and outline the future trends that we expect to come to fruition.

Overall, the total number of overnight stays has increased by 155% in the 10 years to 2017 to 70.9 million. We expect the level of growth in tourism to remain strong over the next decade, with total overnight stays expected to increase by 59% to over 113 million by 2026 *(Fig. 4).*

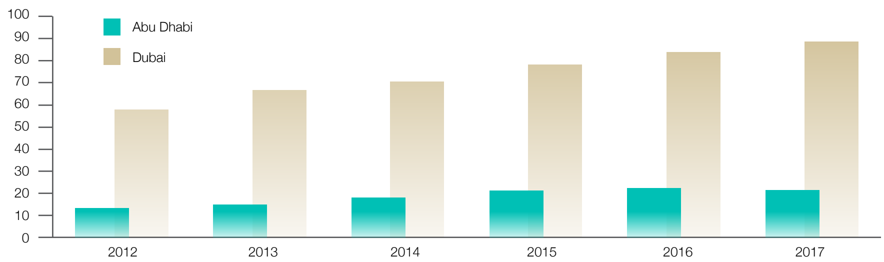
On a regional basis in 2017 European and Middle Eastern and African counties accounted for 29% of total overnight stays each. South Asia accounted for 17% of total overnight stays, up from 11% in 2007.

Forecasts from Oxford Economics to 2026 indicate that North and South East Asia are expected to deliver the strongest growth rates of 92% and 118% respectively. Additionally demand from core markets is expected to remain strong with Europe, Middle East, Africa and South Asia forecast to demand an additional 30.37 million overnight stays by 2026. These regions in total are set to account for 74% of total overnight stays in 2026 *(Fig. 4).*

In 2007, the United Kingdom was the largest source market to the UAE, by number of overnight stays, however over the course of the following decade it has slipped to second place, despite a 62% increase. Furthermore, despite projected growth of 25% to 2026 to over 8.60 million nights, forecasts from Oxford Economics show the UK will be displaced to third place by 2026.

FIGURE 3

Total number of passengers*, Abu Dhabi and Dubai airports (in millions)



Source: Knight Frank Research, Macrobond

**Note: Data shows aggregated data in each year (Abu Dhabi Jan to Nov aggregate for each year, Dubai data is full year. Data includes transit passenger as well as destination passengers.*

FIGURE 4

Total nights by region (thousands)

	Europe	Americas	Middle East & Africa	Other	South Asia	Southeast Asia	Northeast Asia	Oceania	Total nights
2007	10,007	1,720	6,741	3,880	3,195	763	851	699	**27,856**
2012	13,684	2,648	11,764	6,256	5,736	1,093	1,425	702	**43,407**
2017	20,729	3,640	20,648	6,066	12,108	2,227	4,162	1,188	**70,968**
2026	28,396	4,955	33,639	9,640	21,820	4,863	7,979	1,687	**113,188**
% Proportion in 2007	36%	6%	24%	14%	11%	3%	3%	3%	**100%**
% Proportion 2017	29%	5%	29%	9%	17%	3%	6%	2%	**100%**
% Proportion in 2026	25%	4%	30%	9%	19%	4%	7%	1%	**100%**
% Change 2007 - 2017	107%	112%	206%	56%	279%	192%	389%	70%	**155%**
% Change 2017 - 2026	37%	36%	63%	59%	80%	118%	92%	42%	**59%**

Source: Oxford Economics’ Global Travel Service

The only other European Union nation to feature in the top 10 source markets in 2017 was Germany, registering 2.87 million overnight stays, up 87% from 2007 and forecast to increase to over four million by 2026.

India, as at 2017, was ranked as the largest source market with over 9.24 million overnight stays. By 2026 the number of annual overnight stays from India is expected to increase by 76% to over 16.22 million, a sum equivalent to 14.3% of total overnight stays.

It has been well documented that Russian visitation has been growing at a slower rate than other key source markets and as at 2017 Russia was the seventh largest source market to the UAE, down from fourth in 2007. Russia has faced a difficult domestic economic climate over this time period, as a result of economic sanctions and the collapse of the oil price, which led to the Ruble depreciating in value by almost 60% over this time period against the Emirati Dirham. As the economic recovery ensued in 2016 we have seen the Ruble appreciate around 26% from this date. As a result in 2017 Dubai Corporation of Tourism & Commerce Marketing reported that the number of Russian visitors had increased by 121% year-on-year. Oxford Economics expect growth to continue, albeit at a more moderate rate on average in coming years, and by 2026 expect overnight stays by Russian tourists to be in the region of 4.29 million, an increase of 54% from 2017. This trend has also been driven by the UAE Government’s decision to offer visas on arrival for Russian tourists as of January 2017.

The United States (US) and China, the world’s two largest economies, have developed strong trade relations over the years with the UAE. The UAE ranks as the largest market for US exports in the Middle East and North Africa and, China is the UAE’s largest non-oil trading partner. This, combined with the expansion of direct flight connectivity between these locations has also led to an increase in tourism to the UAE - Emirates Airline alone operates direct flights to 10 cities in the US and 13 cities in China. Overnight stays from US visitors have increased by 104% in the 10 years to 2017 and are forecast by Oxford Economics to increase by 39% to over 3.74 million by 2026.

China's growth in overnight stays started from a low base in 2007, therefore it is no surprise that that growth to 2017 registered a 1,135% increase. In the top source markets anticipated in 2026 China is expected to once again register strong growth with an anticipated increase of 97% (6.79 million overnight stays). This increase in overnight stays is underpinned by the recently introduced availability of visas on arrival for Chinese tourists.

Finally an important source market for the UAE has been from within the Middle East. In 2017 of the top 10 source market overnight stays, 16% were from Middle Eastern countries consisting of Saudi Arabia, Iran and Oman. However by 2026 Oxford Economics expect that Oman will fall out of the top 10 rankings largely due to the increased tourism from countries where the population is significantly larger. One such country is Saudi Arabia where the current population of almost 33 million is expected to swell to 37.7 million by 2026. The Kingdom is the largest Middle Eastern source market to the UAE, accounting for 6.64 million overnight stays in 2017, up 495% from 2007. The UAE is set to remain a popular destination for Saudi tourists with 10.4 million overnight stays forecast by 2026.

Implications

As the source markets continue to evolve the hospitality market will have to adapt to cater for a range of demand at different price points. As *figure 6* shows, currently the supply of hotel stock by the number of keys is very much skewed towards high end properties. As a benchmark, in Abu Dhabi and Dubai currently four and five star hotels account for 66% and 57% of total available rooms respectively.

The source markets from which incremental room night demand will be generated are anticipated to be comparatively price sensitive and therefore will seek more affordable accommodation. Six of the top 10 forecast source markets have relatively low income per capita (*Fig. 7*), and even with a growing middle class this is unlikely to translate to demand for upscale or luxury hotels.

Abu Dhabi's current pipeline consists of almost entirely of upscale to luxury properties.

In Dubai the pipeline is slightly better weighted, with 49% of under construction branded hotel rooms in the upscale to luxury bracket, 19% in the economy to upper-midscale and the remainder being unaffiliated stock.

Increasing supply in the luxury and upper-upscale segments of the market have already put considerable pressure on rates. We can see that performance in the sector remains subdued with ADR falling by 4.1% across the UAE and RevPAR by 3.9% in 2017 (*Fig. 2*). Given the current pipeline of four and five star stock due to come to the market this could mean rates are driven down further.

Despite falling rates, there remain opportunities for further hotel development within the UAE, however they are not necessarily in the luxury sector but rather in the midscale segment. Currently the majority of the three star and below supply are owner operated properties which tend to be poorly managed and as a result do not appeal to international tourists. Operationally we have seen a measureable difference in the key performance indicators of branded and unbranded supply at the midscale level, which is indicative of the brand equity that an operator can bring, even amongst price sensitive guests.

FIGURE 5
Overnight stays, thousands

2007		2017		% change 2007-2017	2027		% change 2007-2017
UK	4,266	India	9,247	351%	India	16,229	76%
India	2,052	UK	6,908	62%	KSA	10,392	56%
Iran	1,630	KSA	6,644	495%	UK	8,601	25%
Germany	1,539	China	3,444	1,135%	China	6,787	97%
Russia	1,460	Iran	3,162	94%	Pakistan	5,049	102%
USA	1,322	Germany	2,876	87%	Iran	4,657	47%
KSA	1,117	Russia	2,783	91%	Russia	4,287	54%
Pakistan	986	USA	2,700	104%	Germany	4,036	40%
Oman	846	Pakistan	2,494	153%	USA	3,743	39%
France	690	Oman	1,873	121%	Egypt	3,557	116%

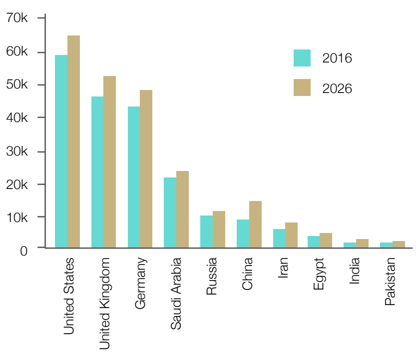
Source: Knight Frank Research, Oxford Economics' Global Travel Service

FIGURE 6
Hotel classification as proportion of total stock

Hotel classification as proportion of total	Dubai	Abu Dhabi
5-star	33%	41%
4-star	24%	25%
1 to 3-stars	20%	15%
Hotel apartment (deluxe/superior)	9%	17%
Hotel apartment (standard)	14%	2%
Total	100%	100%

Source: Abu Dhabi Department of Culture and Tourism and Dubai Corporation of Tourism & Commerce Marketing

FIGURE 7
GDP per capita (US$)



Source: Knight Frank Research, Oxford Economics

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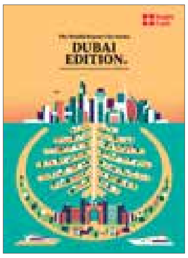

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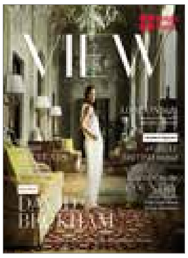

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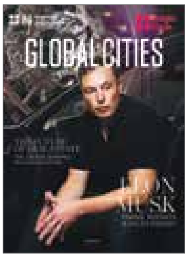

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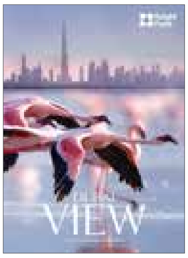

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