

RESEARCH



# DUBAI HOSPITALITY REPORT

DUBAI'S MID-MARKET HOTEL SECTOR—  
STABLE PERFORMANCE IN TURBULENT WATERS  
**H1 2015**



THE STRENGTH OF THE MID-MARKET HOTEL SECTOR IN DUBAI

# DUBAI AND THE MID-MARKET HOTEL SECTOR

The increase in demand for mid-market hotels in Dubai has been driven by two main factors: a growing middle class in key source markets (e.g. GCC, China, India and Africa) and a younger guest profile with limited disposable income.

As sites for prime hospitality assets become more scarce, Dubai is seeing a shift towards the development of mid-market properties, underpinned by government incentives, a growing middle class in key source markets and the rise of a younger, more cash constrained guest profile. The advantages of developing mid-market hotels generally revolve around the notions of price stability and less volatile demand trends, which have proven to hold true at the local level.

### Market performance

In Q1 2015 the hospitality market in Dubai exhibited strong performance in relation to other major markets in the Middle East, despite a dip in key performance indicators, which were primarily attributable to global currency fluctuations and a declining Russian market. In Q1 2015, occupancy levels fell by 2.2 percent while average daily rates fell by 5 percent to AED 984 in annual terms.

Although this resulted in a year-on-year RevPAR decrease of 7 percent, Dubai remains among the leading markets in the Middle East both in terms of average rate and occupancy.

The mid-market sector has proven to be resilient, with positive performance in Q1 2015 relative to the corresponding period of the previous year. The segment saw a year-on-year RevPAR increase of 0.5 percent during this period (which was driven by an increase in average rate) at a time of declining RevPAR performance for the luxury and upper upscale sectors.

### Mid-Market Hotels

The increase in demand for mid-market hotels in Dubai has been driven by two main factors: a growing middle class in key source markets (e.g. GCC, China, India and Africa) and a younger guest profile with limited disposable income. As a result, strong demand for branded mid-market

hotels has helped to support average occupancy levels which are above market wide averages.

From an investment standpoint, mid-market hotels have significant advantages over luxury and upper upscale properties:

- Lower capital investment – Relatively smaller investment for mid-market hotels on a per key basis due to lower construction cost and higher design efficiency
- Smaller construction period – Modular construction allows for the minimisation of time between capital outlay and revenue recognition
- Lower land requirements – As a product of the comparatively high room to gross floor area ratio, mid-market hotels can be developed on smaller parcels of land

From an operational perspective, mid-market hotels have the following advantages:

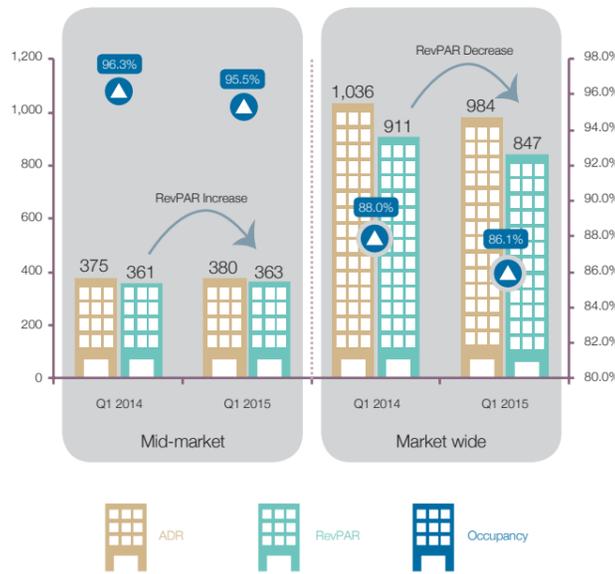
- Lean cost structure – Lower staff to room ratio results in lower operating costs
- Higher profitability ratios – Rooms driven business model, with fewer ancillary revenue generators, allowing for higher EBITDA margins
- Less revenue volatility – Demand trends are less seasonal than in the luxury and upper upscale segments which result in more predictable revenue flows as shown in Figure 3

### Outlook

The advantages of investing in mid-market properties extend from the development phase throughout operations and to the eventual disposal of the asset. Looking forward to the next five years, we can expect to see an influx of quality, internationally branded mid-market properties come to market, which will likely benefit from strong demand levels.

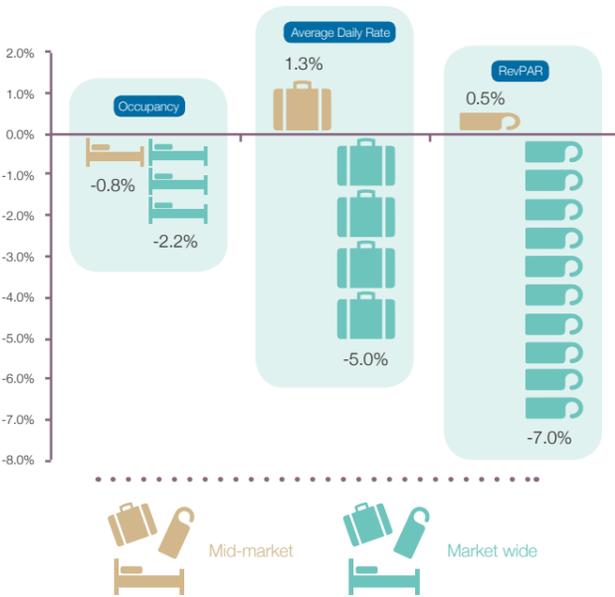
While the hotel industry in Dubai is far more developed than other Middle Eastern destinations, it still has some ground to cover before it can be considered a fully mature market. The current push towards mid-market development will reinforce Dubai's standing as an emergent hotel market through the provision of a more diverse product offering. As increasingly more internationally branded midscale hotels come to market, the next asset class to see rapid growth in the medium term is likely to be the budget sector as the hotel market matures further.

FIGURE 1 Key performance indicators Q1 2015 vs Q1 2014



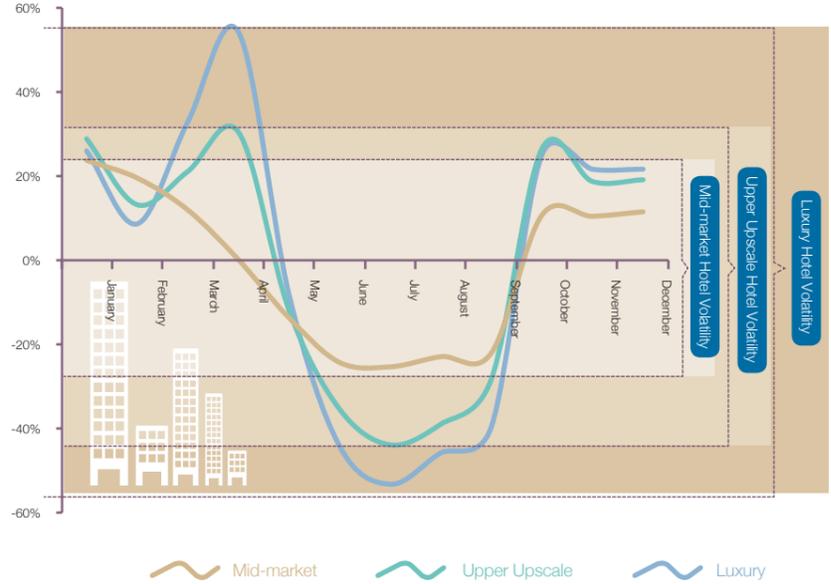
Source: STR Global, 2015

FIGURE 2 Year-on-year variance in key performance indicators Q1 2015



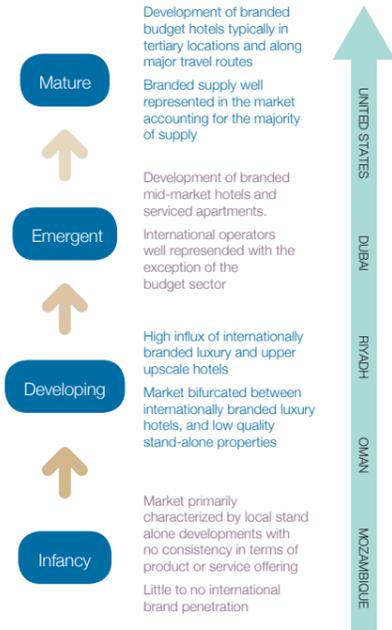
Source: STR Global, 2015

FIGURE 3 Monthly RevPAR volatility mid-scale, upper upscale and luxury markets (2014)



Source: STR Global, 2015

FIGURE 4 The hospitality market lifecycle



Source: Knight Frank Research



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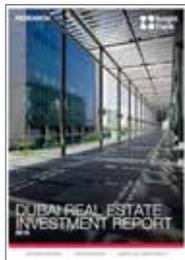
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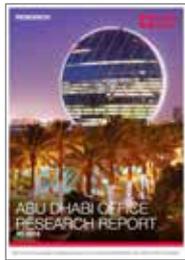
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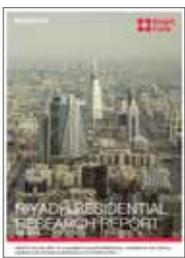
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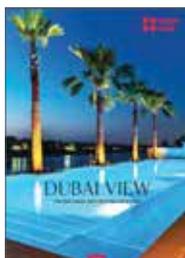
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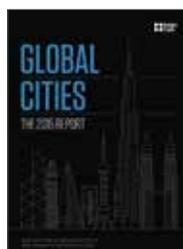
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