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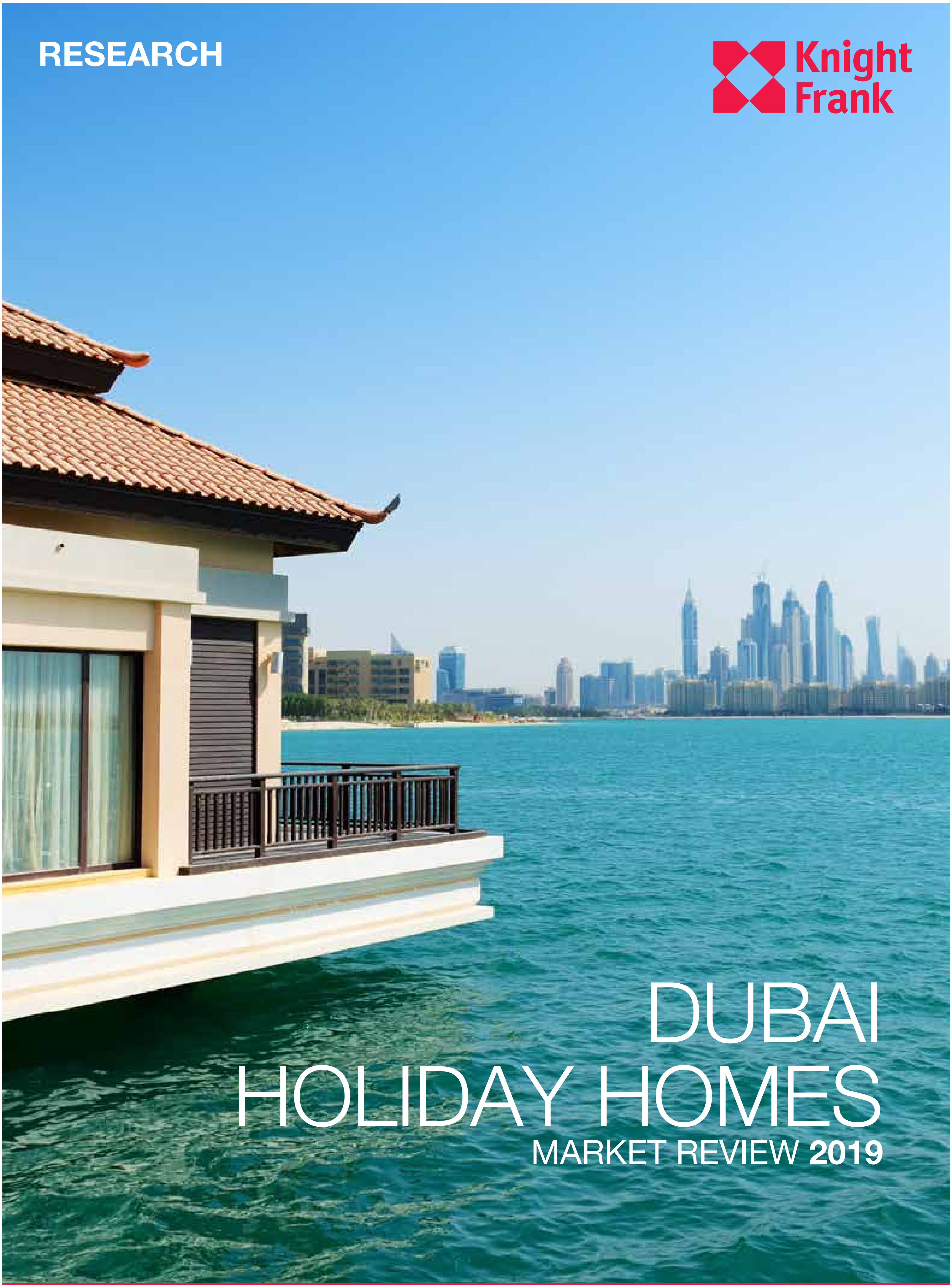


DUBAI HOLIDAY HOMES

MARKET REVIEW **2019**

AN ANALYSIS ON THE IMPACT OF HOLIDAY HOMES ON DUBAI'S HOSPITALITY MARKET

RESEARCH

DUBAI HOLIDAY HOMES MARKET REVIEW 2019

Key findings

In Dubai's holiday home market there are currently 10,766 active* listings out of a total of 20,395 properties which have been registered on the Airbnb platform.

Dubai's holiday home market accounts for 2.0% of Dubai's total households, the highest proportion of all other key global hub cities.

Of the 10,766 active listings in 2018, 61% were entire homes or apartments, 31% were private rooms and the remaining 8% were shared rooms.

From late 2017 we have seen a divergence in achievable RevPAR in the holiday homes and hotel market.

ALI MANZOOR
Partner, Hospitality & Leisure

"As is now generally accepted, holiday homes have had a discernible impact on the hospitality market; however these affects are not felt universally within Dubai."

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

Almost five years have passed since the introduction of Decree Number 41 (2013) which regulated the leasing of vacation homes in the Emirate of Dubai. The Decree aimed to provide a framework within which the short-term rental sector could operate and was one that was beneficial to both operators and to end users. Easing of regulations in April 2016 opened the market further to individual operators, which allowed homeowners to rent residential homes on a short term, straightforward and low cost basis.

Whilst there are many platforms for short term rentals, Airbnb is viewed by many as an instrumental enabler of the peer-to-peer short term letting boom particularly in major tourism hubs such as Paris, London and New York, to name a few.

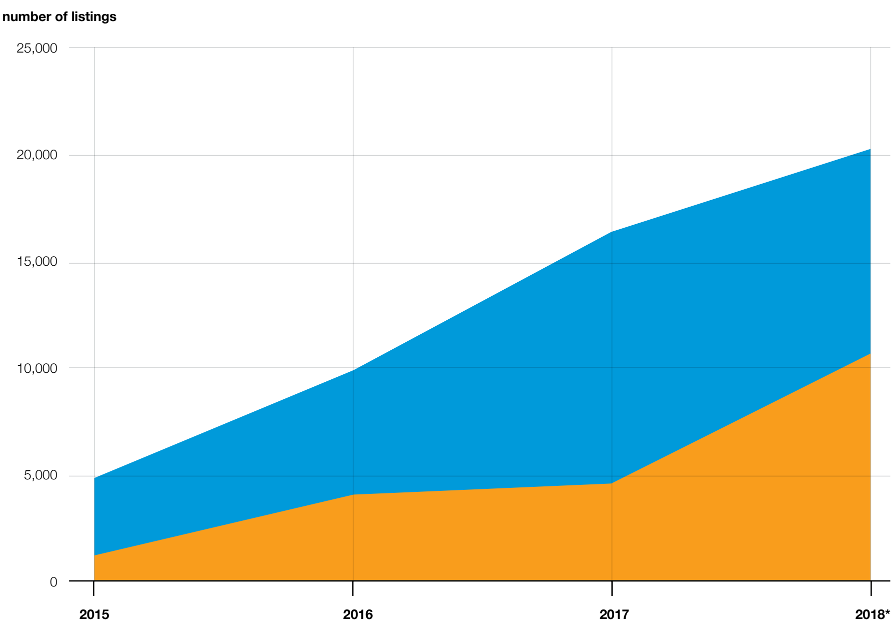
In Knight Frank's 2016 Holiday Homes report we noted that the market size of peer-to-peer short term rentals in Dubai was fairly limited, and had considerable ground to cover in terms of user base and geographic coverage when compared to more mature markets. This report analyses the state of the market to date, as well as the underlying impact that the short term rentals have had on Dubai's hospitality market.

Holiday home supply

In Dubai's holiday home market there are currently 10,766 active* listings out of a total of 20,395 properties which have been registered on the Airbnb platform since 2010 *(Figure 1)*. The total number of listings has increased substantially in recent years, with total active listings recording a growth rate of 161% since 2016.

As the number of property listings created on the Airbnb platform has increased, we have also seen a corresponding increase in the proportion of active listings from 32% Q2 2016 to 37% Q2 2018.

FIGURE 1
Dubai Airbnb listings and active listings



**Note: Active properties are those which have an achieved rate in 2018. Year to June 2018*
Source: Knight Frank Research, Airdna

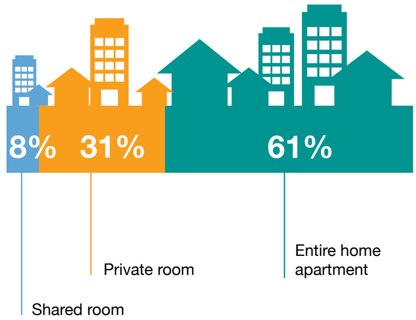
Dubai's holiday home market accounts for 2.0% of Dubai's total households, the highest proportion of all other key global hub cities *(Figure 2)*. More so, these active listings account for 12.5% of the total number of hotel keys in Dubai, and while the number may appear low in relation to other key global cities, it is important to note that Dubai has a far larger concentration of keys per household in relation to comparable destinations.

Of the 10,766 active listings in 2018, 61% were entire homes or apartments, 31% were private rooms and the remaining 8% were shared rooms. While individual rooms in an apartment and shared rooms are widely marketed through Airbnb on a global basis, from a legal perspective this is not permissible in Dubai, with those who choose to do so risk facing hefty fines.

The majority of supply in the market is composed of one bedroom units, which account for 61% of total listings. Studios and two bedroom units account for 17% and 13% respectively. Three and four bedroom units which are traditionally more difficult to lease under the short term rental model account for just 5% apiece.

FIGURE 3

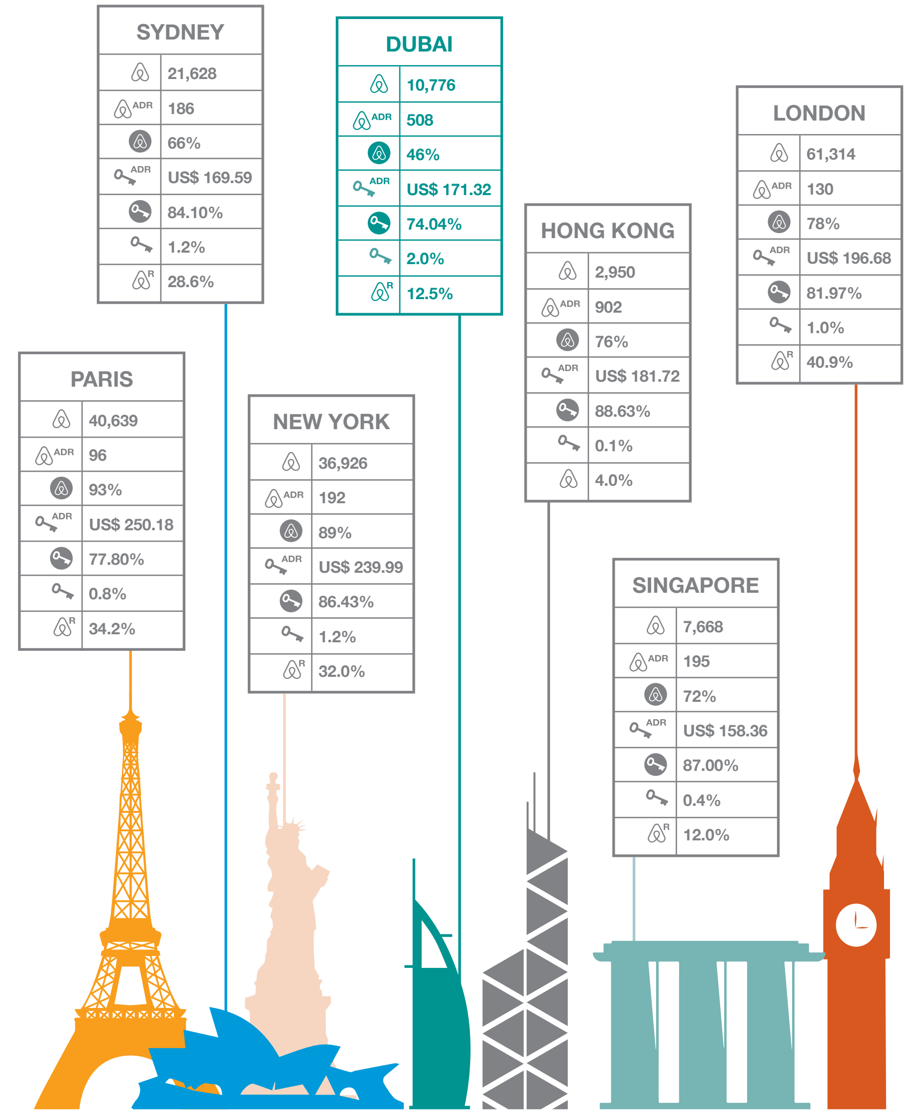
Active listings composition by unit type



Source: Knight Frank Research

FIGURE 2

Dubai Airbnb listings and active listings

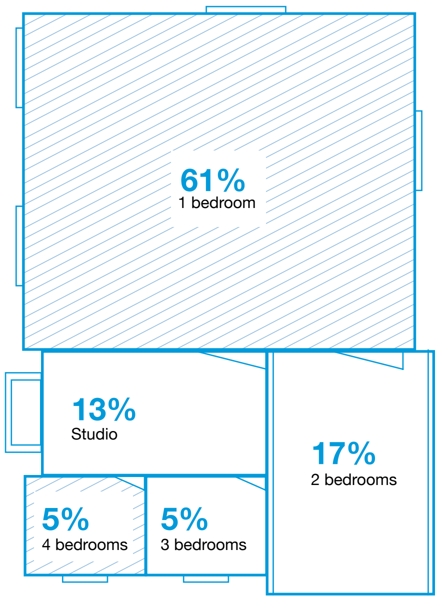


Source: Knight Frank Research

number of active listings
Airbnb ADR (LCU)
Airbnb occupancy
hotel ADR
hotel occupancy
listings as % of households
active Airbnb rentals as % of hotel rooms

FIGURE 4

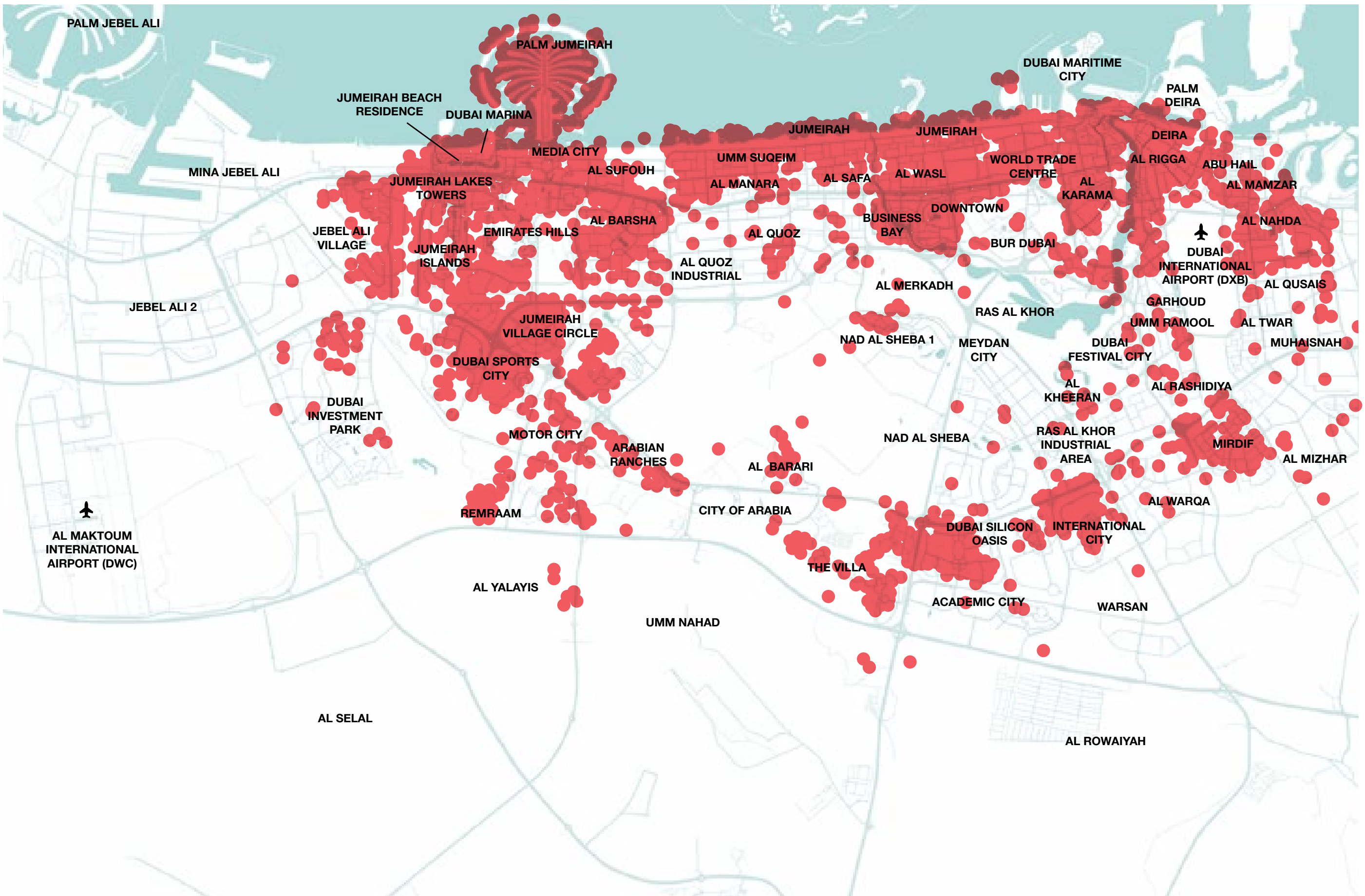
Composition of supply, active listings 2018



Source: Airdna

Over the last three years we have seen a substantial increase in residential supply in Dubai. This has been the case in both high density areas such as the Palm Jumeirah, Marina and Downtown Dubai and also within newer parts of the city such as the Arabian Ranches and Barsha South districts. In Knight Frank's Holiday Homes 2016 report we noted that the vast majority of holiday home supply was located in Dubai Marina, the Palm Jumeirah, Jumeirah Beach Residence (JBR), DIFC and Downtown Dubai. As of 2018, these submarkets have a far higher density of holiday home units compared to 2016, and we have now started to see short term rental accommodation appearing in new districts east of Sheikh Zayed Road and in the more historic parts of Dubai north of Za'abeel Park *(Figure 5)*.

FIGURE 5
Dubai's Airbnb listings

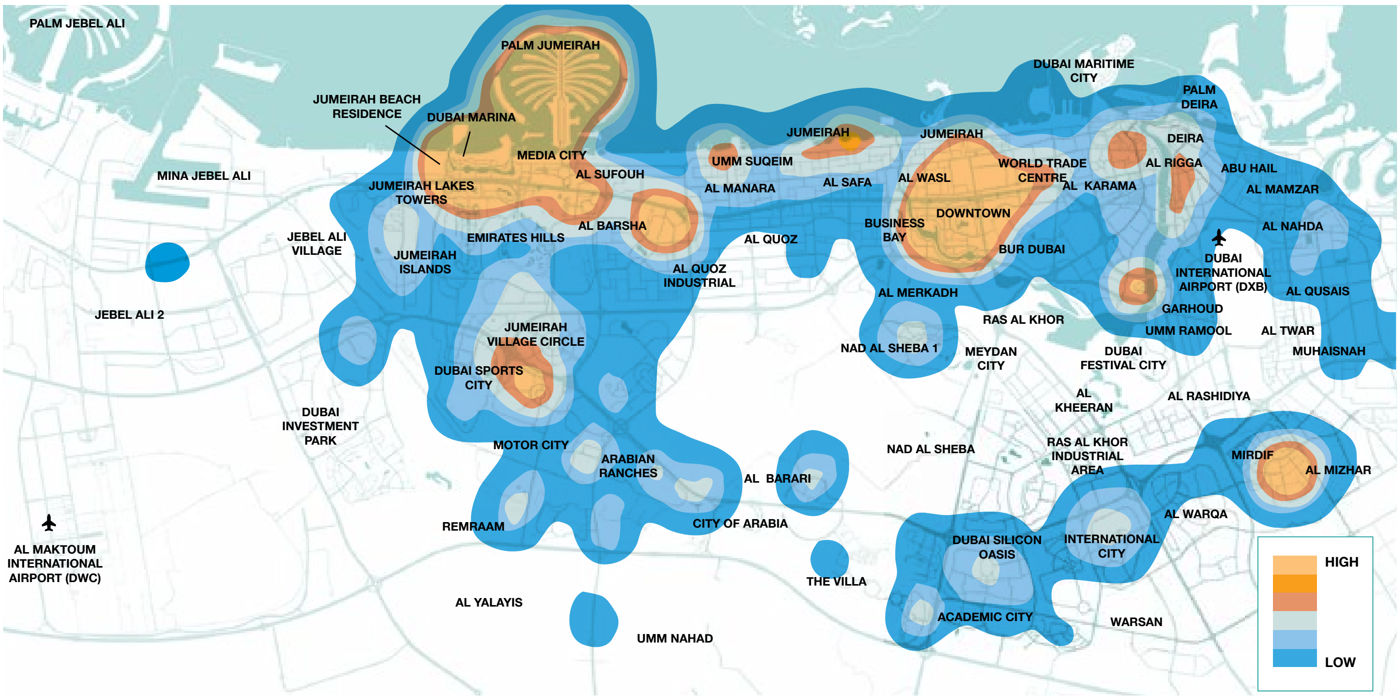


Source: Knight Frank Research

"From the perspective of annual seasonality the holiday home market is somewhat in-line with the Dubai-wide hotel market where demand tends to be strong at both the start and end of the year, and dips during the summer months. Where the figures differ however is within the magnitude of change, as monthly holiday home performance tends to exhibit greater seasonal variance than traditional hotels."

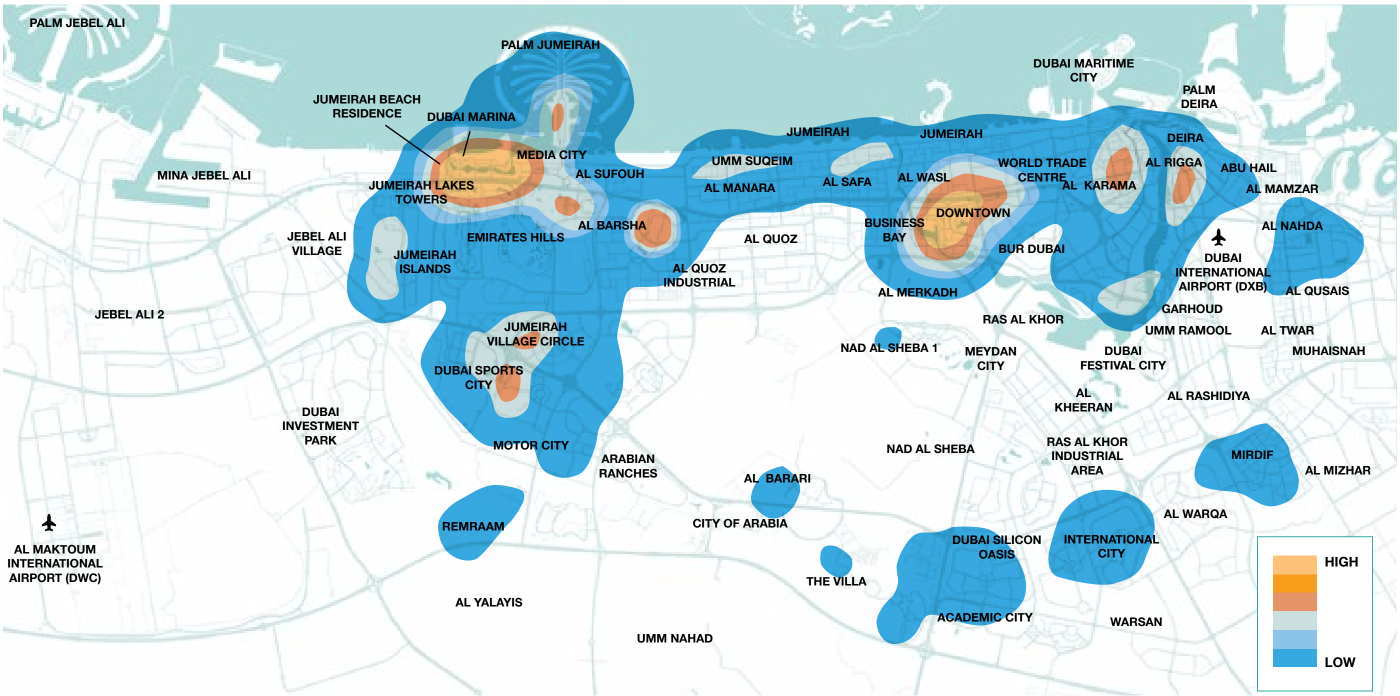
TAIMUR KHAN
Research Manager

FIGURE 6
Holiday homes ADR heat map



Source: Knight Frank Research

FIGURE 7
Occupancy heat map



Source: Knight Frank Research

One of the major appeals of short term rentals in relation to hotels specific to Dubai is the widespread availability of ancillary amenities such as swimming pools and gyms in residential buildings. Unlike other cities where such amenities are not commonplace in residential buildings, their widespread availability narrows the gap in product offering between the two product types.

Figure 8 below shows that the vast majority of buildings in Dubai have features such as Wi-Fi, kitchen, washing machines, pools and gyms which aligns the value proposition between the two options to some degree.

However, the data also shows that there are some areas where hotels in Dubai still maintain a clear advantage over the holiday home market.

First, the data indicates that there currently are very few holiday homes which classed as 'Business ready', only 55% offer instant booking *(Figure 8)* and not one property offers 24 hour check-in. This, combined with the relatively rigid cancellation policies, average response time of six hours, deposits requirements, cleaning fees and Airbnb booking fees *(Figure 9)* mean that holiday homes often have drawbacks not seen in the hotel sector. These limiting factors help to create differentiation factors from a service perspective even if there is less of an amenity gap in Dubai in relation to other markets. These factors are particularly important amongst corporate guests and more affluent leisure guests.

Additionally, due to the spate of mergers and acquisitions which have taken place within the hospitality sector since 2016, we are likely to see greater consistency in product offering globally and an increasing importance of loyalty programs.

Key Performance Indicators (KPIs)

From the perspective of annual seasonality the holiday home market is somewhat in-line with the Dubai-wide hotel market where demand tends to be strong at both the start and end of the year, and dips during the summer months. Where the figures differ however is within the magnitude of change, as monthly holiday home performance tends to exhibit greater seasonal variance than traditional hotels.

When comparing achievable rates between Dubai's holiday homes and hotels we continue to witness the holiday home market outperform the hotel market by 64% year-to-date June 2018. Some of the variation can be explained by the fact that the holiday home supply is still very much skewed towards Dubai's upmarket areas such as Dubai Marina, JBR, the Palm Jumeirah and Downtown Dubai *(Figure 5)*. In contrast, Dubai's hotels are spread across the city, with secondary locations forming the vast majority of hotel supply in the market in aggregate. As a result, we will continue to see this premium achieved in the holiday home market, however as we continue to see residential development in secondary locations we expect that this premium is likely to start to reduce on average. Another key point of differentiation is the product offering – given that holiday homes can range from one to four bedrooms, many of these unit types are far larger than traditional hotel units and therefore can accommodate larger families or multiple households.

From late 2017 to early 2018 we have seen a divergence in achievable RevPAR in the holiday homes and hotel market on average where hotel RevPAR continued to increase over this period whereas holiday home RevPAR trended down. Over this time period, only the 4 bedrooms+ segment in the holiday home market has outperformed the hotel, although it seems to now be falling in-line with the hotel RevPAR.

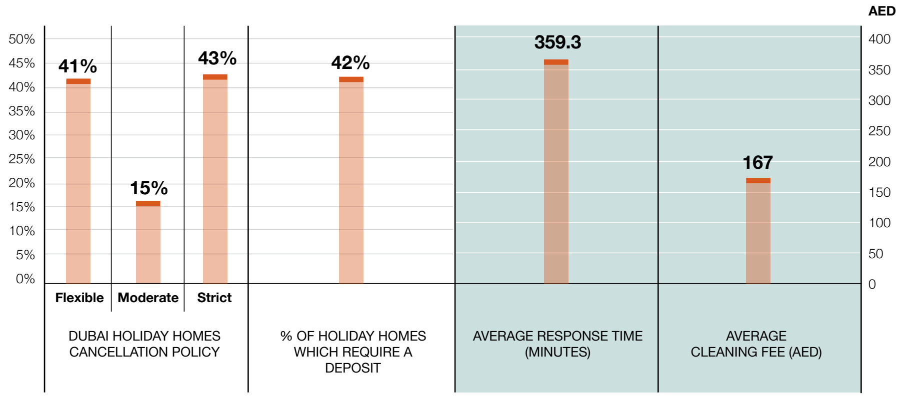
In general hotels outperform the holiday homes market with the exception being summer months during which they are either on par or holiday homes outperform.

FIGURE 8
Common facilities in Dubai's holiday homes

WiFi	95%
Kitchen	95%
Washer	90%
Pool	82%
Gym	73%
Free parking	72%
Instant booking	55%
Dryer	51%
Business ready	<1%
24-hour check-in	<1%

Source: Knight Frank Research

FIGURE 9
The Drawback of Dubai's holiday homes



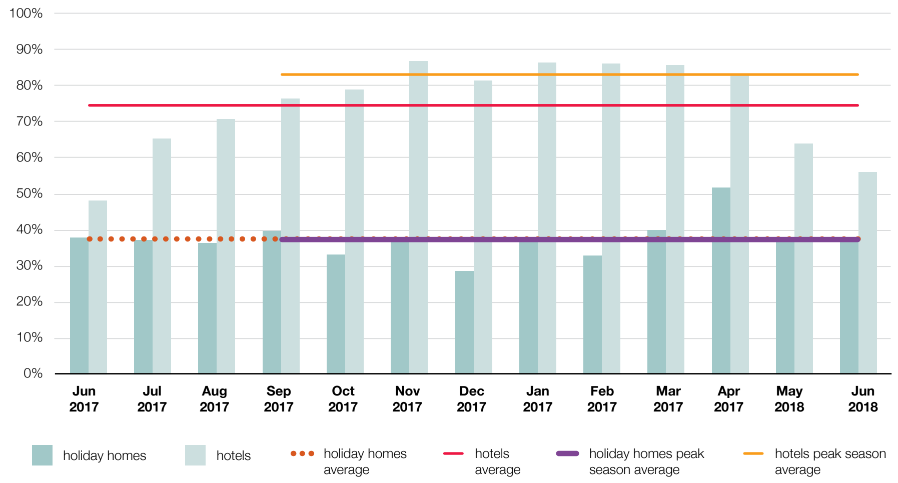
Source: Knight Frank Research

The impact of the holiday home market on Dubai's hotel market

As is now generally accepted, holiday homes have had a discernible impact on the hospitality market; however these affects are not felt universally within Dubai. As noted in our 2016 Holiday home report, unlike many other markets in which short term rentals are traditionally outside major hospitality nodes, in Dubai, short term rentals are concentrated within hotel districts. As such, from a geographical perspective, hotels in the Marina, JBR, Media City, Downtown Dubai and Sheikh Zayed Road tend to be the most severely impacted. Even if not directly competitive, holiday home supply in these locations has handicapped the ability of properties to yield during peak periods which is attributable to the fluid nature of short-term rental supply which can be taken on and off the market almost instantaneously at low marginal cost.

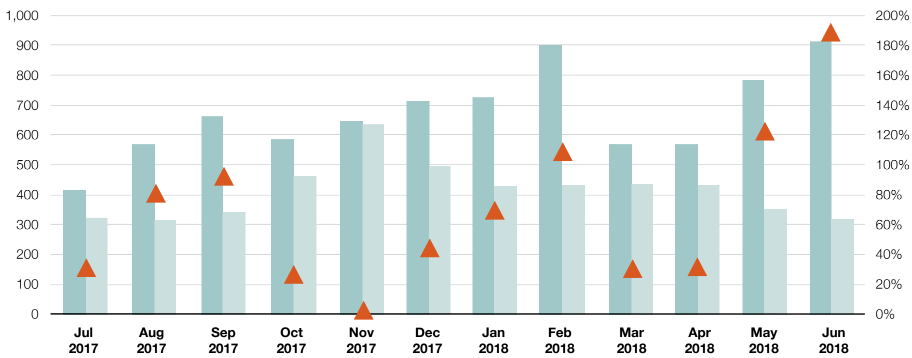
Finally, from a product perspective, locally branded hotels that have no clear points of differentiation face more direct competition from holiday home supply as these tend to be commoditised in the eyes of guests. By contrast, properties with well recognised operators, unique attributes, extensive amenities, MICE facilities, and strong loyalty programs tend to be less impacted by the holiday homes market. However, with experience-based stays being introduced and loyalty programs likely to follow, it is becoming increasingly more important for hotel owners to view the short term rental market as directly competitive to hotels rather than a business model that targets a different demand demographic. By doing this, owners and operators can formulate effective revenue management strategies and give consideration to the entire market, which in turn will protect the value of their asset.

FIGURE 10
Average occupancy rates



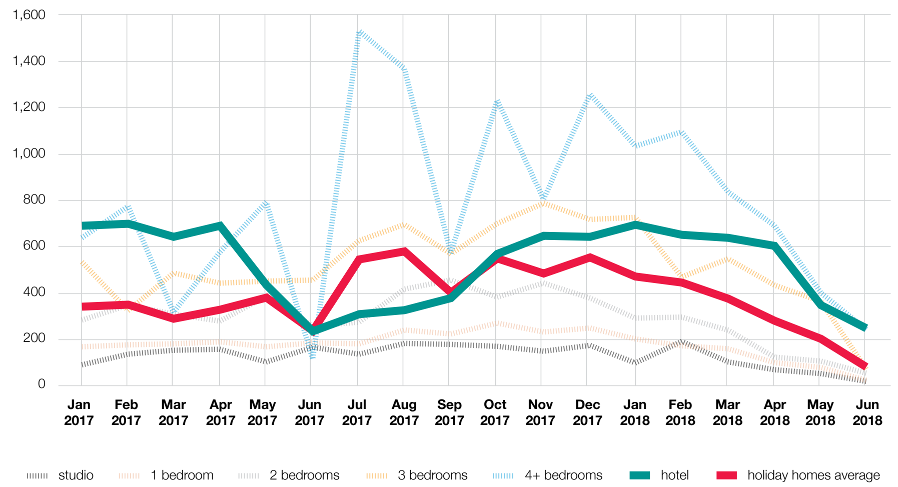
Source: Knight Frank Research, STR Global

FIGURE 11
Average Daily Rate (ADR), in AED



Source: Knight Frank Research, STR Global

FIGURE 12
Hospitality market RevPAR performance



Source: Knight Frank Research, STR Global

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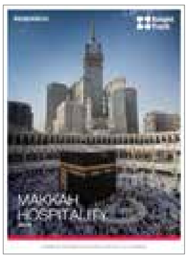

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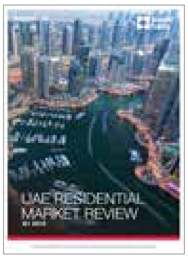

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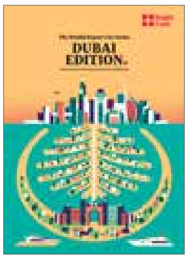

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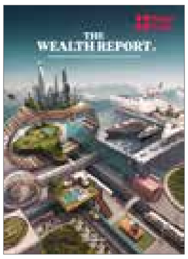

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RESEARCH
Taimur Khan
Research Manager
+971 56 4202 312
taimur.khan@knightfrank.com

HOSPITALITY & LEISURE
Ali Manzoor
Partner
+971 56 4202 314
ali.manzoor@me.knightfrank.com

VALUATION & ADVISORY SERVICES
Stephen Flanagan, *MRICS*
Partner
+971 50 8133 402
stephen.flanagan@me.knightfrank.com

CAPITAL MARKETS / INVESTMENT
Joseph Morris, *MRICS*
Partner
+971 50 5036 351
joseph.morris@me.knightfrank.com

OCCUPIER SERVICES & COMMERCIAL AGENCY
Matthew Dadd, *MRICS*
Partner
+971 56 6146 087
matthew.dadd@me.knightfrank.com

MIDDLE EAST RESIDENTIAL
Maria Morris
Partner
+971 56 4542 983
maria.morris@me.knightfrank.com

MEDIA & MARKETING
Nicola Milton
Head of Middle East Marketing
+971 56 6116 368
nicola.milton@me.knightfrank.com