

RESEARCH



DUBAI'S HOLIDAY HOME MARKET

SEPTEMBER 2016

HOW THE PEER-TO-PEER SHARING ECONOMY IS SHAPING THE HOSPITALITY SECTOR

KEY TAKEAWAYS

The peer-to-peer market is disrupting traditional business models within the hospitality sector



1 bedroom units are in highest demand from holiday homes guests.

100%

Growth in number of holiday homes in H1 2016



Localisation & personalisation are key factors in today's choice of accommodation when travelling

Dubai is different to other markets as:



Holiday homes are concentrated in hotel districts



Holiday homes target long stay guests



Holiday homes have many of the facilities seen in hotels

29%

average premium in holiday homes ADR over hotel ADR in H1 2016

948 AED

Holiday homes ADR H1 2016

4,200

number of active listings on Airbnb in Dubai YT July 2016

Hotels that are most vulnerable to holiday homes are:

- * more affordable hotels
- * leisure-oriented hotels
- * hotels with few facilities
- * unbranded hotels

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

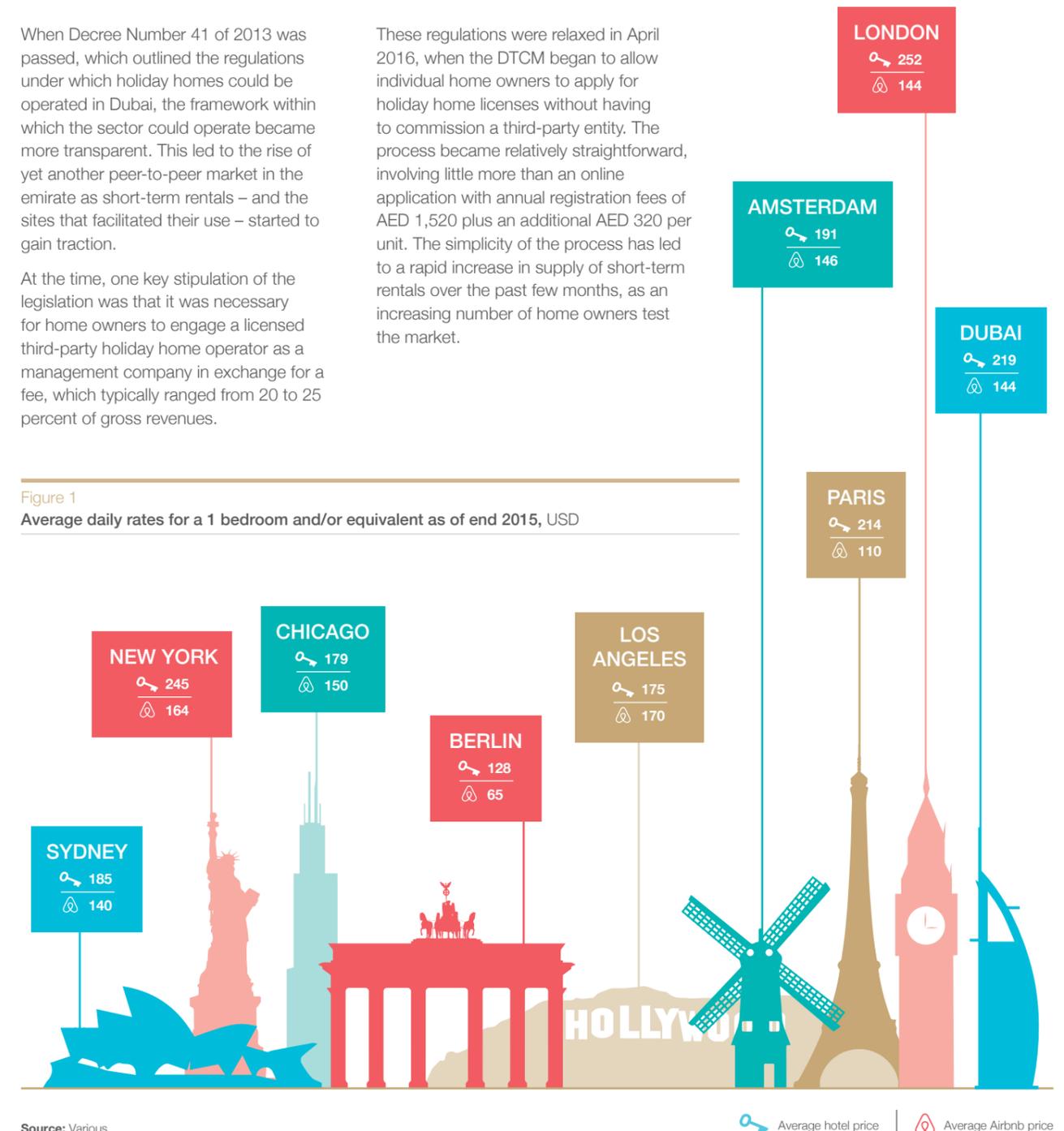
While peer-to-peer markets have been operational in more mature markets for quite some time, they have a less storied history in Dubai. Well-established platforms such as Uber, Zopa and Craigslist have been replicated in the emirate to some degree (i.e. Careem, Beehive and Dubizzle), however there is still ground to cover in terms of user base and geographical reach before they can be considered to be fully comparable to their global counterparts.

When Decree Number 41 of 2013 was passed, which outlined the regulations under which holiday homes could be operated in Dubai, the framework within which the sector could operate became more transparent. This led to the rise of yet another peer-to-peer market in the emirate as short-term rentals – and the sites that facilitated their use – started to gain traction.

At the time, one key stipulation of the legislation was that it was necessary for home owners to engage a licensed third-party holiday home operator as a management company in exchange for a fee, which typically ranged from 20 to 25 percent of gross revenues.

These regulations were relaxed in April 2016, when the DTCM began to allow individual home owners to apply for holiday home licenses without having to commission a third-party entity. The process became relatively straightforward, involving little more than an online application with annual registration fees of AED 1,520 plus an additional AED 320 per unit. The simplicity of the process has led to a rapid increase in supply of short-term rentals over the past few months, as an increasing number of home owners test the market.

Figure 1
Average daily rates for a 1 bedroom and/or equivalent as of end 2015, USD



Source: Various

Key icon: Average hotel price | Airbnb icon: Average Airbnb price

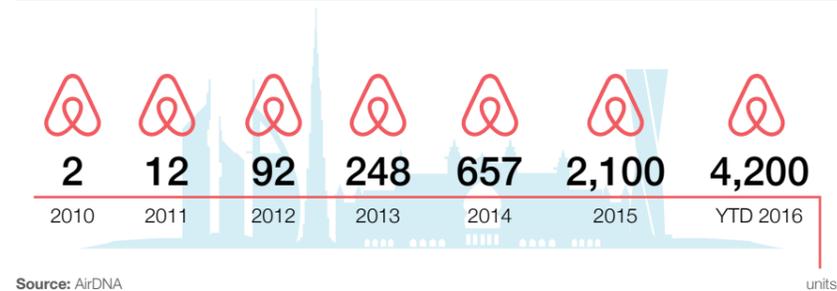
Holiday home supply

While units are typically marketed through multiple platforms such as Dubizzle and Booking.com, Airbnb is generally viewed as the market leader for short-term rentals. A look at 'active listings' on Airbnb (i.e. listings which have been live in the last thirty days) indicate that there are currently 4,200 units available in Dubai, of which 24 percent are private rooms, 6 percent are shared rooms and the remaining are entire units (Fig. 2). Although shared hosting has long since been a hallmark of the Airbnb experience, it technically is not permissible under current legislation and the authorities have actively engaged in putting a stop to this practice.

On a Dubai-wide basis, the unit mix has a large proportion of one-bedroom units, accounting for 44 percent of total supply (Fig. 3). Primary interviews with operators indicate that such units see strong levels of demand as they are able to accommodate between one and four individuals, if a sofa bed is provided. Two and three-bedroom units are relatively difficult to lease, not only because they are more expensive, but also because demand for these types of unit is highly seasonal, peaking during public holidays.

One of the core appeals of the short-term rental market is not only the product offering, but also the provision of an 'authentic experience' in secondary districts which are not commonly visited by traditional tourists. This clearly does not apply to Dubai; Holiday homes in the emirate are largely located on Palm Jumeirah, Dubai Marina, Jumeirah Beach Residences, DIFC and Downtown Dubai—all areas that have high concentrations of hotel supply, which may prove to be problematic for the emirate's hospitality sector in the long-run (Fig. 4).

Figure 2
Active Airbnb listings (2010-YTD 2016), Dubai



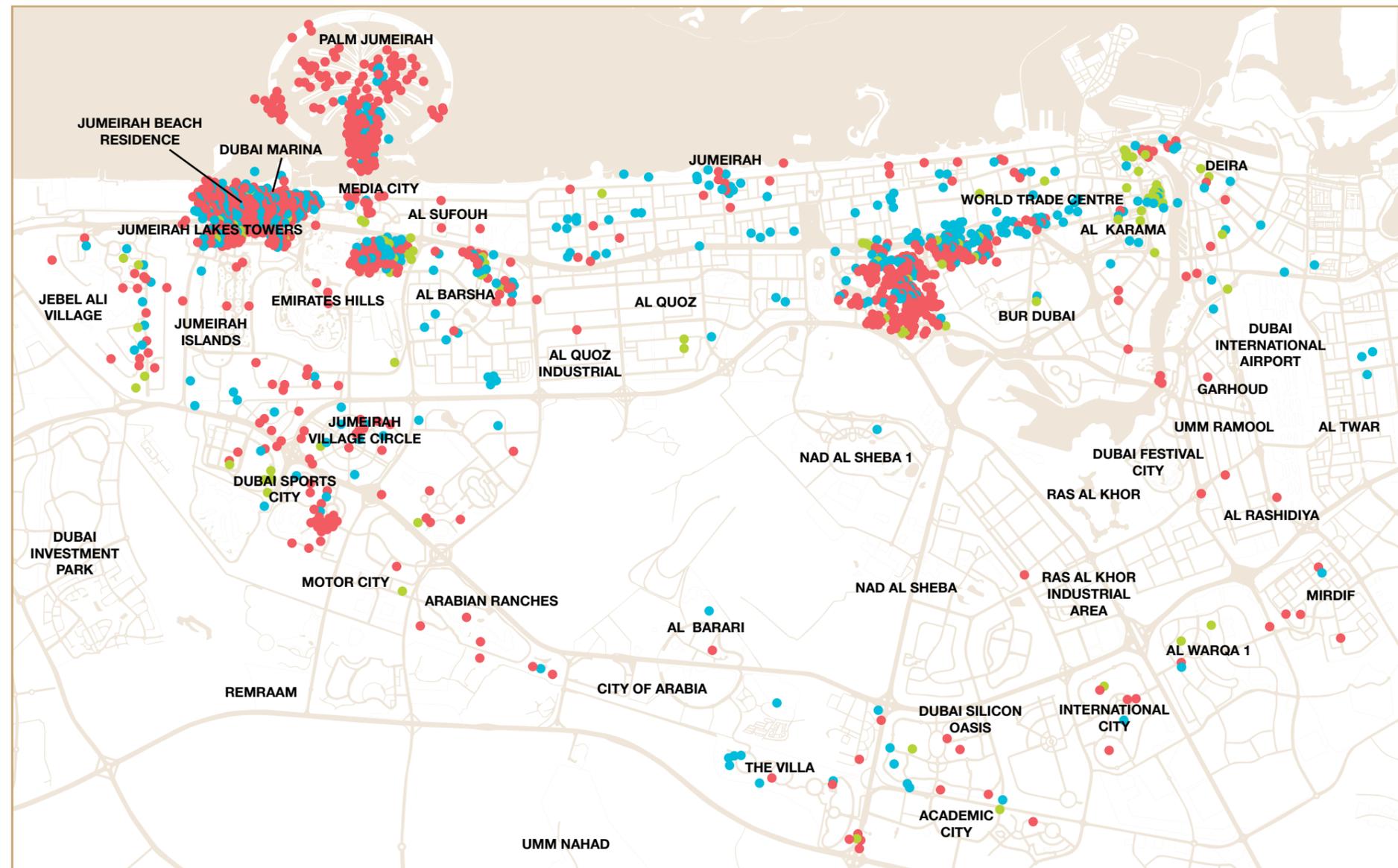
Source: AirDNA

Figure 3
Composition of supply



Source: AirDNA

Figure 4
Active Airbnb listings (2010 – YTD 2016), Dubai



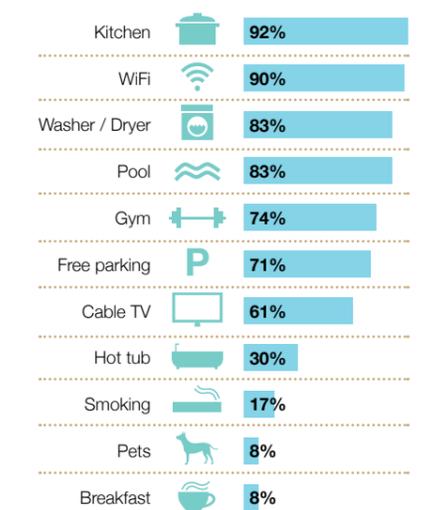
Source: AirDNA

● Entire unit ● Shared unit ● Shared room

Nevertheless in many ways the push in recent years from major hotel operators towards 'lifestyle brands' has been a means through which this differentiation has been addressed. Similar in nature to the value proposition of holiday homes, through such brands, hotel operators aim to offer guests authentic experiences and interactions which reflect the traditions of the local market. This ethos can extend through to the loyalty programs, which often offer guests 'experiences' grounded in the local culture rather than points (such as the Global Hotel Alliance). Such properties which aim to be more differentiated and integrated with the local community will likely be the front at which the battle between the hotel and the short-term rental markets will take place in the foreseeable future.

Looking at the product offering, it is worth noting that a large proportion of holiday homes in Dubai has many of the ancillary facilities that are often associated with hotels (Fig. 5). For example, unlike more mature markets, it is commonplace for residential apartment buildings in the emirate to have communal gyms and pools, which result in a narrowing of the perceived gap between the two value propositions. Additionally, conveniences such as washer/dryers and kitchens, which are not typically seen in hotel accommodation, serve to narrow the gap further.

Figure 5
Common facilities in Dubai's holiday homes



Source: AirDNA

Holiday home demand

In terms of segmentation, areas such as Palm Jumeirah and Dubai Marina are dominated by short stay visitation, whereas submarkets such as Downtown Dubai and DIFC have a much higher proportion of long stay demand. The short stay market is primarily driven by guests from GCC and Europe, within which a significant share of visitors come from Saudi Arabia and the United Kingdom. Short stay demand typically peaks during public holidays and school vacations, and during these times, Dubai Marina and JBR are typically the most sought after locations in the emirate.

Long stay guests who utilise holiday homes tend to seek out monthly arrangements and are often unwilling to commit to traditional annual rental contracts seen in

the residential sector. This is sometimes because individuals may be on probation and are uncertain about whether they will stay in the emirate on an annual basis, or because they simply do not have enough liquidity to be able to pay annual rents in advance. Other than these two examples, individuals involved in project work that take them out of the emirate for months at a time are also often attracted to the holiday home rental structure.

From the perspective of annual seasonality, the holiday homes market is in line with Dubai-wide hotel seasonality, with stronger demand trends at the beginning and end of the year. The median occupancy for holiday homes in Dubai stood at 46 percent in 2015 and while this figure may seem low; it is not the average (i.e. mean) occupancy which was likely significantly

higher according to primary research (Fig. 6). One interesting note is that amongst units specifically managed by licensed holiday home operators, occupancy levels are generally higher, falling between 70 and 80 percent on average. This suggests that such entities can still drive value despite the fact that they are no longer required to be instructed by law.

Key Performance Indicators

When examining the achievable rates of the holiday home sector in relation to the hotel sector, it is clear that the former has outperformed the latter consistently since November 2015 (Fig. 7). This can partially be explained by the fact that holiday home supply is highly concentrated in upmarket areas such as JBR and Downtown Dubai. By contrast, hotel supply is distributed more evenly throughout Dubai and is inclusive of submarkets such as Deira, where the achievable rate has historically been low. As more holiday home units come online in secondary and tertiary areas, (which will likely be driven by the development of demand generators in such locations such as the theme park complex) it is likely that this ADR premium will be eroded in the long-term.

The concept of 'revenue management' (in which dedicated teams utilise dynamic pricing models in order to better improve profitability) has been replicated to some degree in the short term rental market. There is currently a suite of software tools – some of which are provided for free – that allow unit owners to set pricing controls that analyse trends for similar bookings and automatically adjust prices in order to match demand levels. Although the software employed may not have the same level of complexity as the methods adopted by a dedicated revenue management team, it does show that the level of sophistication of holiday home operators is on the rise.

In 2015, there was a shift in market dynamics between the hotel and short-term rental sector in terms of achievable RevPAR (Fig. 8). While in the first half of the year, hotel RevPAR performance was consistently stronger than short-term rental performance across all unit types; this was not the case in the last six months of

the year. As awareness of the short term rental business model and the available supply continues to increase, two and three-bedroom units began to consistently outperform the hotel market. However the hotel RevPAR premium seen across unit types in the first months of 2015 continued to be seen across only studio and one-bedroom units.

Another trend worth noting occurred during the summer months of 2015 and 2016, when demand for hotel accommodation was weak. In these periods there was a convergence of both hotel and holiday home RevPAR across unit types, after which RevPAR levels diverged again. These periods were reflective of the loss of bargaining power that hotels were able to exert during periods of peak demand.

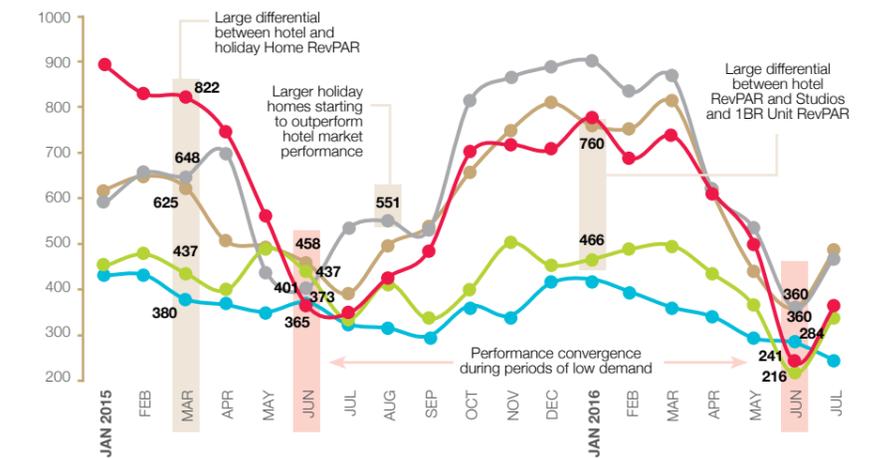
While hotel RevPAR performance in 2015 was in line with the RevPAR of three-bedroom holiday home units, H1 2016 data indicates that this is no longer the case (Fig. 9). This is attributable to a combination of an increase in holiday home RevPAR and a fall in hotel RevPAR - full year data will likely see hotel RevPAR levels sit just under the achievable RevPAR of two bedroom holiday home units.

Impact of Holiday Homes on the Hotel Market

Although hotel operators were initially dismissive of the holiday home market when it was at its nascent stages; generally citing that it either catered to a different demand base or was a different product offering, over time this view has been abandoned. Many operators have since acknowledged the impact that platforms such as Airbnb have had on the hospitality sector and in some markets have even lobbied for protective legislative measures. The most compelling study carried out on this topic was by Zervas, Proserpio and Byers of Boston University, which came to two critical conclusions:

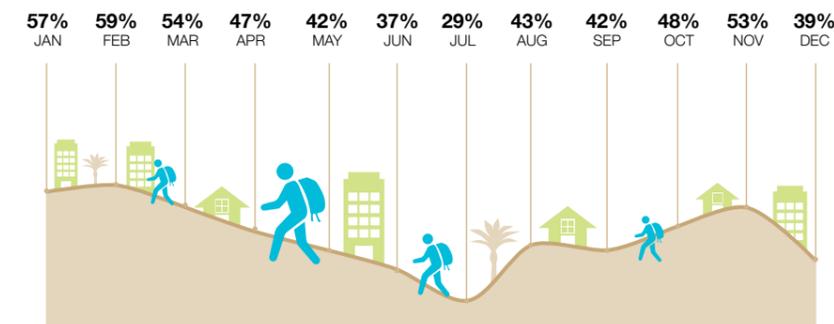
1. Not all hotels are affected equally. The impact of the holiday home market was much more severe for (i) more affordable hotels, (ii) leisure-oriented hotels, (iii) hotels with fewer facilities (iv) hotels

Figure 8
Holiday home RevPAR performance (January 2015 to June 2016), AED



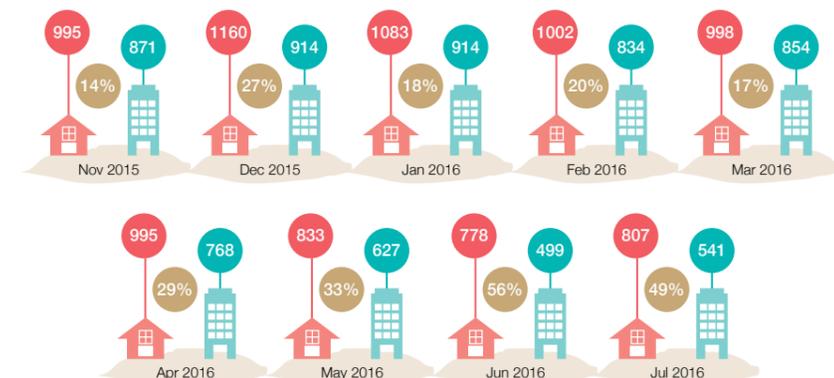
Source: AirDNA, STR Global, Knight Frank Research

Figure 6
Holiday home median occupancy levels, 2015



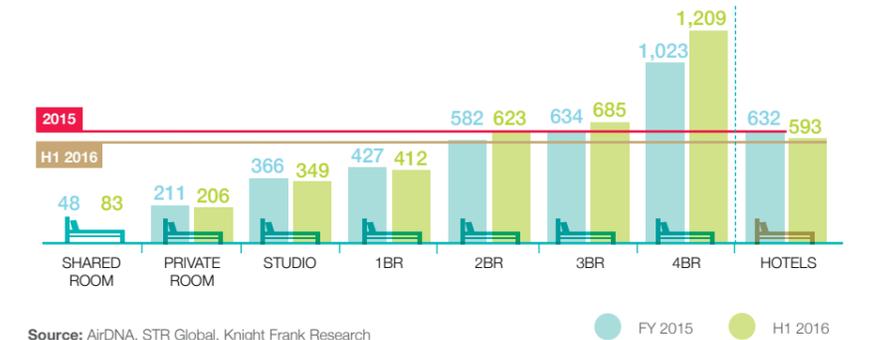
Source: AirDNA

Figure 7
Average Daily Rate (ADR), AED



Source: AirDNA, STR Global

Figure 9
RevPAR performance by accommodation type, AED



Source: AirDNA, STR Global, Knight Frank Research

2. Holiday homes dilute the ability of hotels to yield during periods of peak demand. Whereas hotel room supply is fixed and the incremental cost of developing supply is very high, the holiday home market can scale appropriately to demand with negligible marginal costs for additional supply. For this reason they restrict the ability of hotels to price aggressively during periods of peak demand and have the highest impact in markets that are heavily seasonal.

From a supply perspective, hotels in Dubai are insulated to some degree from the effects of the holiday home market as supply is largely 'top heavy' and internationally branded. Where potential weaknesses lie are in the ability of hotels to price during peak periods - this will become an issue in submarkets such as the Palm and Dubai Marina, which not only have volatile demand patterns but also high volumes of holiday home supply.



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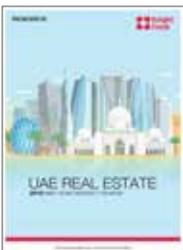
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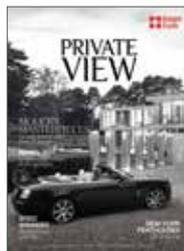
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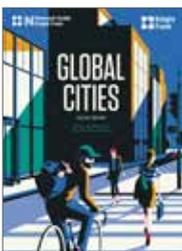
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