

RESEARCH



ABU DHABI HOSPITALITY REPORT

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JOSTLING FOR POSITION IN THE LUXURY SECTOR



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While Abu Dhabi's hospitality market saw subdued performance in the years leading up to 2013, the market has since gone from strength to strength, with three consecutive years of RevPAR growth. Growth in 2015 was particularly impressive not only in light of global economic factors, but also relative to other hospitality markets in the GCC, in which many markets experienced declining performance.

ABU DHABI HOTEL MARKET OVERVIEW

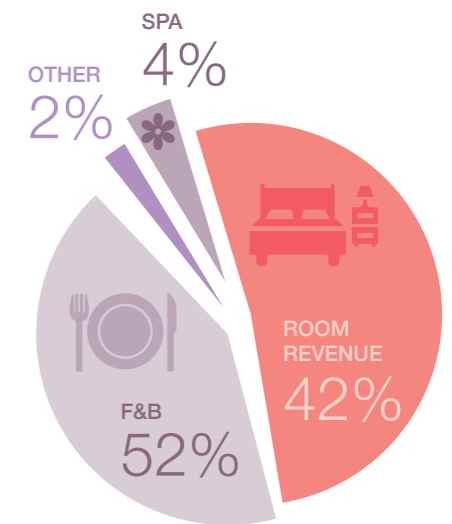
Market Characteristics

- While Abu Dhabi has historically been driven by corporate and MICE visitation, leisure tourism has seen a boost over the past few years supported by the development of leisure demand generators including Saadiyat Island, Yas Waterworld, Yas Mall, and the Du Arena. This trend is expected to continue as future demand generators such as the upcoming Cultural District are completed. As a result, the more diversified demand base should be less susceptible to external forces.
- Passenger traffic at Abu Dhabi Airport was up from approximately 20 million in 2014 to over 23 million in 2015. Also, the planned delivery of the Midfield Terminal in 2017 is a sign that the necessary infrastructure to support further tourism growth will be in place as the market develops.
- The declining oil price has had an impact on visitation in the capital, with many hotel operators indicating that there was a softening of corporate demand particularly in terms of oil and government related visitation. With oil prices forecast to fall further in 2016, this trend is likely to continue—
- however this is anticipated to be counterbalanced to some degree by increasing leisure demand.
- There is a concerted effort from the Abu Dhabi Convention Bureau to increase Abu Dhabi's profile as a MICE destination and ADNEC and the Al Ain Convention Centre certainly lie at the center of this strategy. That said, the stringent visa process in Abu Dhabi – particularly when compared to Dubai – is often challenging for event organizers with delegates of many different nationalities, which sometimes means that major events have to be relocated away from the capital.
- Of the ten largest source markets to Abu Dhabi, six have experienced a weakening currency in relation to the UAE Dirham between January 2015 and January 2016, with relative values declining between four and nine percent. The relative strength of the dollar throughout 2016 will continue to have an impact on Abu Dhabi's key source markets—however conflicting dollar forecasts over the next twelve months mean that how this will play out is as yet uncertain.

The Luxury Sector

- The luxury hotel sector in Abu Dhabi has undergone rapid transformation since 2011. With a compound annual growth rate of 16 percent in luxury hotel rooms between 2011 and 2015, the market has seen the introduction of several luxury hotel developments including two St. Regis properties, the Sofitel, the Ritz Carlton, the Anantara and the Rosewood, which has made the luxury sector a fiercely competitive one. Luxury hotels which do not have clear differentiators are finding themselves in an increasingly precarious position, and the anticipated future supply poses a further risk.
- The delivery of the Grand Hyatt, Four Seasons, Edition, Fairmont, Biltmore and Hard Rock Hotel over the next 24 months, will have direct implications for the future performance of Abu Dhabi's luxury sector—however this will only be an issue if the projects are delivered on schedule. The hotel supply in Abu Dhabi is often delayed, and as such, it is unlikely that the pipeline in its current state will materialise in its entirety as anticipated.
- Unlike midscale hotels, which have 'rooms driven' business models, luxury hotels tend to have more seasonal demand, and rely heavily on ancillary revenue which is primarily driven by F&B spending. For this reason, they are more severely impacted during times of low occupancy as owners lose out not only on potential rooms revenue, but also the associated revenue. This is negated however to some degree by the fact that luxury hotels have the ability to attract walk in demand to their various F&B outlets in a way that midscale hotels do not.
- Opportunities for further hotel development still exist in the capital—however they are not necessarily in the luxury segment but rather in the development of midscale hotels and internationally branded serviced apartments. These two asset classes are underrepresented in the market to date, and may be a safer bet than further iconic flagship developments in the years to come.

FIGURE 3
Typical luxury hotel revenue mix



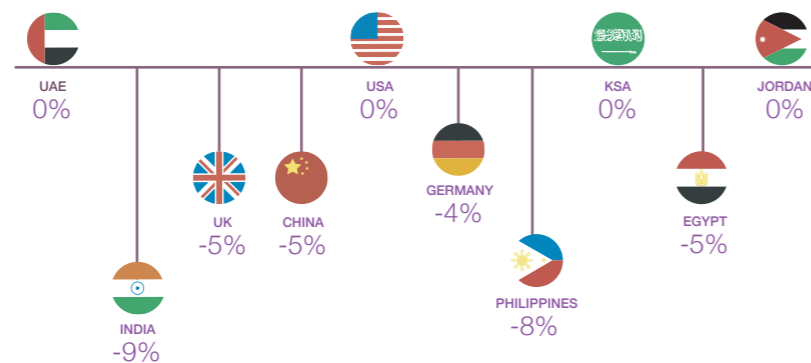
Source: Knight Frank Research

FIGURE 1
Key performance indicators, year-on-year change 2015



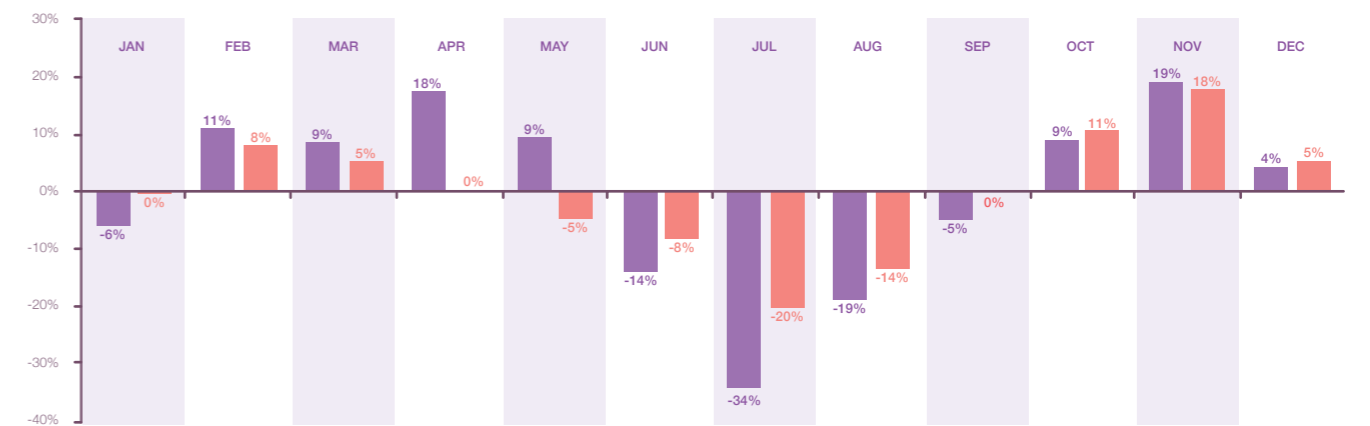
Source: STR Global

FIGURE 2
Currency change against the dirham – Top source markets Jan 2016 vs Jan 2015



Source: Xe

FIGURE 4
Abu Dhabi occupancy seasonality - luxury hotels versus market average (2 year average)



Source: STR Global, Knight Frank Research

Legend: ● Luxury Hotels ● Abu Dhabi Market



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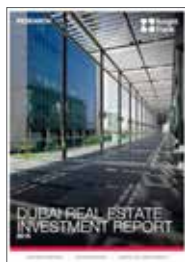
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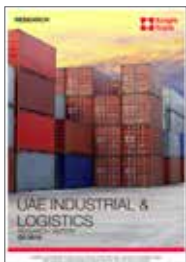
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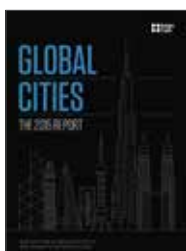
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