



Abu Dhabi Market Snapshot

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Introduction

During a period in which one prestigious hotel real estate development after another is being constructed in Dubai, Abu Dhabi's hotel market is starting to silently catch up with its neighbour in terms of overall performance and the upgrading of its hotel supply. The announcement of various prestigious development projects such as those on Saadiyat and Yas Island has put Abu Dhabi more visibly on the map as a destination of unlimited opportunities.

Compared to the year-on-year sky-rocketing hotel performances in Dubai, Abu Dhabi quietly followed in the footsteps of its 'big brother' (in hospitality terms) with more modest growth rates.

What are the hotel investment opportunities and what performance can Abu Dhabi hotels expect in the years to come?

In this article, we present an overview of the Abu Dhabi hotel market, an emerging market with numerous investment opportunities. We will comment on the future hotel market performance of Abu Dhabi hotels. The following points will be discussed.

- Economics and politics;
- Development and initiatives;
- Tourism, visitation and the hotel market;
- Conclusion and synthesis.

Abu Dhabi has the largest population of all the emirates, totalling 1.6 million. The sharp increase in oil prices in the past seven years led to a strong increase in demand for foreign labour in the city of Abu Dhabi, the capital of the UAE. With 80% of the population being expatriates, Abu Dhabi is considered to be the commercial and diplomatic heart of the country.



Economics and Politics

After a quiet start on the international stage, the UAE has taken an active role in Middle Eastern politics, both as a member of the Gulf Cooperation Council (GCC), of which it was a founder, and by offering itself, successfully on several occasions, as a mediator in disputes between Israel and the Palestinians; between Morocco and Algeria; between Iran and Iraq; and between Oman and Yemen. In terms of international political relations, the UAE has strong ties with the USA and these are likely to remain strong for the foreseeable future.

Despite the government's substantial efforts to diversify the economy, oil revenues remain the major economic driver of GDP in the UAE, accounting for roughly a third. According to the Economist Intelligence Unit (EIU), the country's economy experienced a strong growth of 8.1% in 2007, which was driven mainly by the increase in oil output, combined with increasing prices. GDP growth is expected to remain strong in 2008 but will slow down to 6.5%.

Abu Dhabi's main source of revenue is likely to continue to be the mainstay of the UAE economy, although the country will press ahead with efforts to diversify its economic base, and is expected to continue to seek new foreign currency inflows. The UAE dirham is pegged to the US dollar. However, rumours are that this could change by 2010.

Development and Initiatives

Currently, the majority of the UAE government's impressive plans to further improve the economic wealth of the country are taking place in Dubai. Some of the major developments currently underway in Abu Dhabi are described below.

Initiatives

- The Abu Dhabi Tourism Authority (ADTA) has participated in a number of major international tourism exhibitions in 2007 as part of its campaign to promote the emirate in Europe;
- The successful creation of the Development and Tourism Investment Company will further aid in promoting the emirate's tourism strategy. The company is an independent corporate body and it is assigned to run tourism investment areas.

Infrastructure

- The department of municipalities and agriculture – Abu Dhabi Municipality – plans to integrate the city's transportation network into all future developments in order to prevent the kind of traffic congestion that is occurring in Dubai;
- Overall, the Abu Dhabi government seems to take a more careful approach to urban development than that shown in Dubai.



Abu Dhabi 2030 Urban Planning

Abu Dhabi's government announced the 'Plan Abu Dhabi 2030' in 2007, an urban development plan that will transform the city into a global capital in less than 25 years. Combined, all currently announced projects in relation to the urban plan amount to AED600 billion (US\$163 billion).

The aim of the urban plan is to develop a consistent and sustainable environment for the inhabitants of the city. A key feature of the plan is the separation of the city into districts dedicated to various uses, such as commercial, residential and entertainment. The plan is backed by the emirate's ruler, Sheikh Khalifa Bin Zayed Al Nahyan.

The plan has been developed by a multitude of international experts and consultants in order to achieve a synergistic overall urban plan. In order to ensure the coherence of the plan, strict rules and regulations such as maximum building height have been imposed by city officials. Such regulations are in place to ensure that the surrounding coastal and desert ecologies remain unharmed. Great importance will be put on achieving a measured growth rate, supported by a sustainable economy in the UAE's capital city.

Abu Dhabi's Tourism Plan

In addition to the urban development plan, the government of Abu Dhabi has also developed a tourism strategy comprising its goals and growth assumptions until 2015. Overall, the ADTA expects arrivals to more than triple within the next eight years. In addition, the ADTA predicts a shift in market characteristics. The leisure segment is expected to increase tenfold, whereas the business segment and meeting, incentive, conference and exhibition (MICE) segment are expected to double and triple in size, respectively. Even though Abu Dhabi has a very ambitious development plan, and demand will certainly grow significantly over the coming years, we consider these growth estimates to be somewhat optimistic. Nevertheless, Abu Dhabi will definitely increase its global footprint, and grow into an even more important hub for the Middle East in future years.

Abu Dhabi Overview

Abu Dhabi is served by its international airport, which is located on the mainland some 30 km from the city centre. A modern motorway system connects Abu Dhabi city to the mainland and to destinations beyond, such as Dubai (170 km away). Major ports include Port Zayed, which is predominantly a commercial facility for freight and cargo transport.

In recent years, government efforts have focused on ways to improve the emirate's infrastructure, further develop its economy and commerce and develop its tourism offering. Currently, the government of Abu



Tourism, Visitation and the Hotel Market

Dhabi and investors are planning a series of projects that are intended to transform the emirate into 'the' business and leisure centre of the Middle East. The authorities are seeking to develop Abu Dhabi into a niche tourism destination, steering clear of the mass tourism and development approach seen in Dubai.

Total passenger arrivals have grown fivefold in the past 15 years to 6.9 million passengers by year-end 2007. More than 90% of passengers are foreign travellers and they have registered a compound annual growth rate from 1993-07 of almost 11%.

Dubai's strong economy and tourist appeal has also facilitated some of the growth of Abu Dhabi International Airport, as the proximity of Dubai to Abu Dhabi means that during periods of strong demand the airport also serves passengers whose final destination is Dubai. Abu Dhabi also benefits from some of the demand overflow from Dubai.

The limited supply of hotels and the lack of tourism and conference infrastructure have hampered the historically buoyant growth in incoming travel. However, the ongoing construction of state-of-the-art conference centres, as well as the impressive amount of future hotel development should remedy the drawbacks of the past. According to Etihad Airways, double-figure growth is likely as soon as new hotel supply comes on stream. We would caution against this view somewhat, as a significant number of passengers use the airport as a transit airport already, as can be seen from the statistics provided. The total number of transit passengers accounts for some 1 million arrivals in Abu Dhabi.

Nonetheless, the airport has already been supplemented with a second terminal, which has brought its handling capacity to more than 5 million passengers a year. This terminal was opened at a cost of AED21 billion (US\$6.8 billion) in August 2005. Despite the recent opening of the airport's second terminal, Etihad's rapid expansion means that further expansion has become necessary.

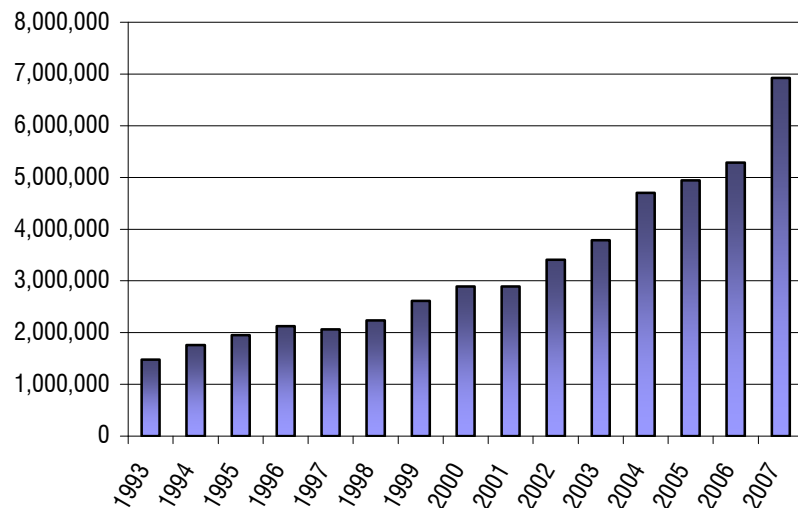
Abu Dhabi airport officials expect total annual passenger movements to increase to approximately 17 million by 2009: a compound annual growth rate of approximately 21% over the next three years. Some of this growth will be driven by 'transit' passenger movements en route to non-UAE destinations and some by passengers travelling on to Dubai. We consider such projections to be somewhat optimistic.

Plans to build a new international airport in Abu Dhabi were approved by President Sheikh Khalifa in May 2005. The AED25 billion airport will be located to the north of the existing airport's runway. The project will include a new runway of 4.1 km, a cargo and logistics centre, a new terminal building and a commercial 'free zone'. It is envisaged that the proposed airport will be capable of handling 50 million passengers. The



first phase will be completed in 2010, and the airport is expected to be linked to Dubai by a rail system.

Table 1 Traffic at Abu Dhabi International Airport 1993-07



Source: ACI Worldwide

Since 2004 the Abu Dhabi full service, upscale hotel market has experienced an abrupt increase in leisure demand, some of which is 'overflow' demand emanating from Dubai. Leisure visitors destined for Dubai are increasingly being re-directed to Abu Dhabi, either because hotels in Dubai are full, or because Abu Dhabi hotel prices have been, and continue to be, more competitive. Etihad Airways, the national airline of Abu Dhabi, has continued to extend the number of routes serving Abu Dhabi. This development has started to contribute strongly to the growth in leisure visitors mainly from Germany and the UK. In addition, the announcement of several larger real estate projects has stimulated business activity in the city.

Visitation by Source Country in 2007

- The largest source market for Abu Dhabi hotels is the UAE itself, which accounts for 38% of the total number of hotel guests;
- Europe is the second largest source market for the region, representing 25% of the total number of hotel guests;
- The GCC and Non-GCC Arab countries (excluding the UAE), account for approximately 18% of total demand for hotel accommodation. Including the UAE, these markets comprise a significant 56% of the total number of hotel guests;



- Demand emanating from Asian and African countries represents the third-largest source market to Abu Dhabi.

We highlight that the peak season for Abu Dhabi is being extended each year and that the impact of seasonality (for example, low demand during the summer season) is becoming weaker. This is mainly a result of stronger demand occurring during the shoulder months of early summer and early winter.

Also there has been an increase in the number of events and conferences held in Abu Dhabi, such as Arab Market 2008, which will have a significant impact on the limited hotel supply in Abu Dhabi.

Hotel Operating Performance

Currently, there are a total of 11 internationally branded quality hotels in Abu Dhabi, totalling some 4,500 rooms. Main international players in the market include Starwood, InterContinental, Hilton and, more recently, Shangri-La.

Over the last few years, the hotel market in Abu Dhabi has consistently outperformed the Middle Eastern average in terms of occupancy penetration. The quality hotels in Abu Dhabi achieved an average occupancy level of 78% in 2007, an increase of two percentage points compared to 2006.

The hotel market in Abu Dhabi had consistently underperformed the Middle East average in terms of average rate until 2004. However, in the last three years, average rates in Abu Dhabi have outperformed the Middle East average rate due to the city's growing popularity and the lack of quality hotel supply allowing existing hotels to increase their rates. In 2007, the average rate for quality hotels in the city grew to AED869. The increase in average rates is most visible in internationally branded upscale hotels.

It is our opinion that the limited historical public initiatives and efforts to promote the Emirate's tourism sector, combined with the lack of modern new hotel supply, have somewhat contributed to the low average rate performance in the market. Given the high cost of living in Abu Dhabi, combined with the planned tourism public initiatives and the new, modern hotel supply that is planned for development in the imminent future, average rates in the market are likely to experience a considerable growth in the immediate future (assuming a sustainable level of growth in demand).

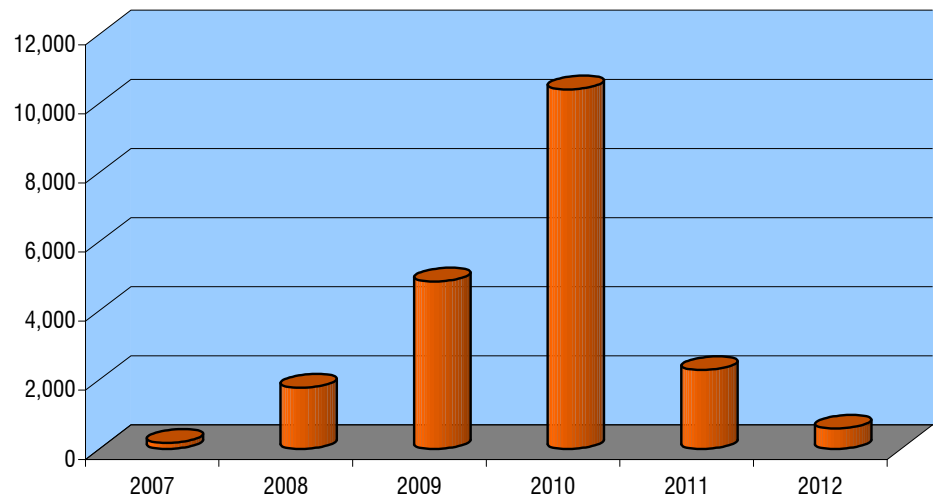
A considerable amount of new supply (especially in the resort segment) is likely to enter the market over the next few years. As the new supply comes on stream, we consider it likely that the market will experience some softening in terms of occupancy, which we consider normal in an



establishing market such as Abu Dhabi. However, it is our opinion that the new supply is likely to be absorbed by the induced demand generated by new projects and initiatives within the emirate that will stimulate considerable levels of organic growth in demand.

Table 2 illustrates the future supply growth in the market.

Table 2 Existing and Future Room Supply Growth, Abu Dhabi 2007-12



Source: HVS Research

Approximately 20,000 hotel rooms are expected to enter the market over the next five years. Between 30% and 40% of the new supply is likely to have a five-star luxury standard. Hotel supply is likely to grow by approximately 27% in 2009 and 2010. Owing to rising construction cost prices, a shortage of construction workers like in Dubai, and the unfavourable exchange rates with non-US-dollar currencies, we expect several of those projects to experience delays.

Lulu Island, Saadiyat Island, Yas Island and Al Mina (Zayed) will be primarily leisure oriented. Saadiyat Island will be the cultural heart of Abu Dhabi with branches of several high-profile museums such as the Louvre. Yas Island will host the Ferrari Park amongst other leisure attractions. Lulu Island will host a number of resort hotels and residential developments.

Al Raha Beach Development, Al Reem Island and the current main part of the city will host a number of residential-oriented developments. The new commercial centre of the city will be located on Al Sowa Island around the Abu Dhabi Financial Centre (ADFC) stock exchange, as well as parts of Al Reem Island.



Conclusion and Synthesis

Investment opportunities still exist in various hotel assets in this market, notably in the following.

- Branded full service luxury (urban) resort hotels;
- Branded limited service hotels;
- Branded serviced apartments.
- Abu Dhabi benefits from a stable economy and a stable political environment. The government has undertaken several initiatives and offered incentives to encourage private investment and improve the tourism industry;
- Given the significant rate growth potential of the market, and the government's commitment to growing the tourism industry, we expect the emirate to experience strong growth in demand for hotel (and hotel derivative) accommodation;
- While Abu Dhabi is increasingly establishing itself on the international tourism map, we expect the market dynamics to undergo significant, encouraging changes in the short to medium term, during which double-figure growth in demand can be expected;
- We expect the hotel market in Abu Dhabi to experience substantial growth in 2008 in terms of average rate, until the new supply enters the market in 2009-10. The lack of high quality new supply in the next two years will positively affect average rates in Abu Dhabi;
- Over the next ten years, the supply and demand dynamics might result in a short-term 'market correction', a natural occurrence in establishing markets when a significant level of new supply enters the market within a short period of time.

No investment decision should be made based on the information in this survey. For further advice please contact the authors.



About our Team

HVS has a team of Middle East experts that conducts our operations in the Middle East and Egypt. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last three years, the team has advised on more than 100 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$10 billion worth of hotel real estate in the region.

About the Authors



Patrick de Nooijer is an Associate with HVS's London office. He joined the company in 2006 after graduating from the Ecole Hôtelière de Lausanne, Switzerland with a BSc in Hotel Management and completing a successful internship with HVS New York and Hotel Widder (Design Hotels) in Zürich. During his time with HVS, Patrick has conducted many valuation and feasibility studies, primarily in the Middle East.



Hala Matar Choufany is a Director with HVS and is responsible for the firm's valuation and consulting work in the Middle East and Egypt. She initially joined HVS London in 2005, before moving to HVS Shanghai in September 2006 where she helped grow the HVS Shanghai office and business in the Asia region. She relocated to Dubai in September 2007 and now looks after HVS's interests in the Middle East. Previously, Hala had four years of operational and managerial experience in the hotel industry. She lectured at Notre Dame University in Lebanon on International Travel and Tourism and holds an MPhil from Leeds University, UK, an MBA from IMHI (Essec-Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon.

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