



Dubai Market Snapshot

Michael Schwarz, Associate
Hala Matar Choufany, Director

HVS - Dubai Office

Dubai Silicon Oasis Headquarter Building, 4th Floor
PO Box 341041, Dubai, UAE
+971 4501 5586
+971 4501 5777 (Fax)
Email: hchoufany@hvs.com

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Economics and Politics

Dubai's tourism industry has enjoyed significant growth in recent years supported by a large number of public and private investments as well as major infrastructure improvements. The government of Dubai pursues aggressive plans to further grow and diversify the emirate's economy and to transform Dubai into the business and leisure centre of the Middle East. Dubai's Ministry of Planning predicts the emirate's population to increase to more than 2 million people by 2010.

2007 was another strong year for Dubai. Heavy public spending combined with sustained high energy prices and liquid local markets continued to fuel economic growth.

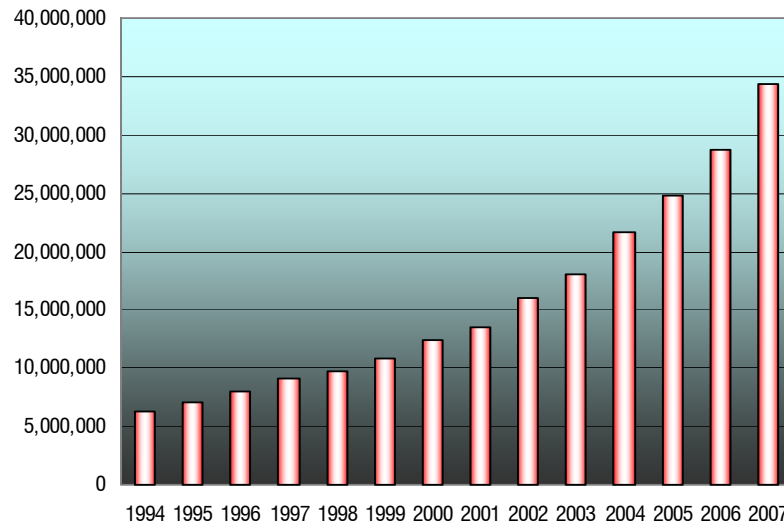
Inflation saw a slight decrease over the past 12 months and is expected to further ease in 2008. However, experts predict that consumer price inflation will stay above the country's forecasted GDP growth of 8.3% during 2008.

Visitation and the Hotel Market

Passenger movements at Dubai International Airport grew by 19% to over 34 million in 2007. The airport is currently undergoing a multibillion-dollar expansion. In response to new infrastructure projects, passenger movements at the airport are expected to increase to 70 million by 2010, double the volume in 2007.



Table 1 Passenger Movements at Dubai International Airport 1994-07



Source: Department of Tourism and Commerce Marketing, Government of Dubai

In addition to the expansion of Dubai International Airport, the construction of Dubai World Central International Airport is underway. Upon completion, in late 2010, the airport will span over 140 km² and will be the world's largest in terms of size, with an annual capacity of 120 million passengers.

Operated by the Dubai Department of Tourism and Commerce Marketing (DTCM), Dubai's cruise terminal plays an increasingly important role in the overall development of the emirate's tourism industry. With an estimated 115,000 arrivals this facility enjoyed a staggering 258% growth in 2007. Dubai's Government predicts cruise arrivals to exceed 200,000 in 2008.

We consider the development of Dubai's airport and cruise terminal infrastructure to be a major catalyst of tourism growth in the area.

Approximately 1.5 billion people live within a two-hour flight of Dubai.

Europe (with 35% of the market) continued to be the largest source market for the emirate while GCC and non-GCC Arab countries accounted for approximately 26% of accommodated hotel visitation. Asian countries on the other hand represented the third-largest source of demand. The UK, Saudi Arabia and Iran served as the strongest national feeder markets.



With an increase of 11%, Dubai's hotel sector has enjoyed exceptional revenue per available room (RevPAR) growth in 2007. This strong result is largely explained by an 9% growth in average rate to AED 711. Marketwide occupancy on the other hand was up by two percentage points on 2006 to 84%.

Hotel supply and demand for hotel accommodation in Dubai have historically increased in line with each other.

While Dubai's hotel room supply grew at a compound annual rate of approximately 9% between 1994 and 2007, the overall number of hotel guests increased from 1.2 million in 1994 to 5.9 million in 2007, a compound annual growth rate of 12.7%.

While business and conferencing activities attracted significant demand, government spending and new infrastructure projects continued to be the main drivers of hotel demand in the area, underlining the supply-led nature of the market.

At the time of writing, Dubai featured a total of 318 hotels and 111 complementary accommodation facilities with 42,827 rooms. With 12,665 rooms, five-star properties accounted for almost 39% of the emirate's room supply.

Four-star hotel rooms on the other hand amounted to 23% of the emirate's aggregate room supply and much of the emirate's recent supply growth was recorded in this category.

Development and Initiatives

While a considerable number of projects which had previously been expected to open in 2007 had to be delayed, the DTCM estimates that over 3,000 hotel rooms and apartments were injected into the market in 2007. New supply included landmark properties such as the Raffles Dubai and the InterContinental Dubai Festival City.

An additional 13,000 new hotel rooms are scheduled for completion in 2008. While DTCM projections expect the emirate's room supply to grow by 56% between 2008 and 2010, a massive 89% surge in supply is expected between 2010 and 2016 when major developments such as Dubailand and Bawadi come on stream.

Hotel openings scheduled for 2008 include properties such as a 2,100-room Bavaria Executive Suites Hotel along Sheikh Zayed Road, a 1,050-room convention hotel at Dubailand and a 350-room W hotel at Dubai Festival City.

A breakdown of the expected inventory growth by geographic sub-market is provided below.


Table 2 Expected New Hotel Supply by Sub-Market – Dubai

Location/Sub-Market	Hotels	Rooms
Barsha	6	1,830
Bur Dubai	8	1,500
Deira	10	2,950
Dubai Festival City	2	750
Dubai International Financial Centre	4	1,500
Burj Dubai	10	2,000
Dubailand	20	17,000
Dubai Marina	6	1,500
Dubai Pearl	5	2,000
Dubai Health Care City	5	1,600
Dubai Internet City	6	1,200
Jebel Ali	5	1,300
Jumeirah and Lake Towers	12	4,500
Dubai Knowledge Village	2	500
Dubai Media City	4	3,000
Sheikh Zayed Road	7	5,200
The Palm Jumeirah	24	10,000
Total (approx.)	136	58,330

Source: Department of Tourism and Commerce Marketing, Government of Dubai

The vast majority of new supply will be managed by prominent international hotel operators. An indication of expected brand affiliation is provided in Table 3.

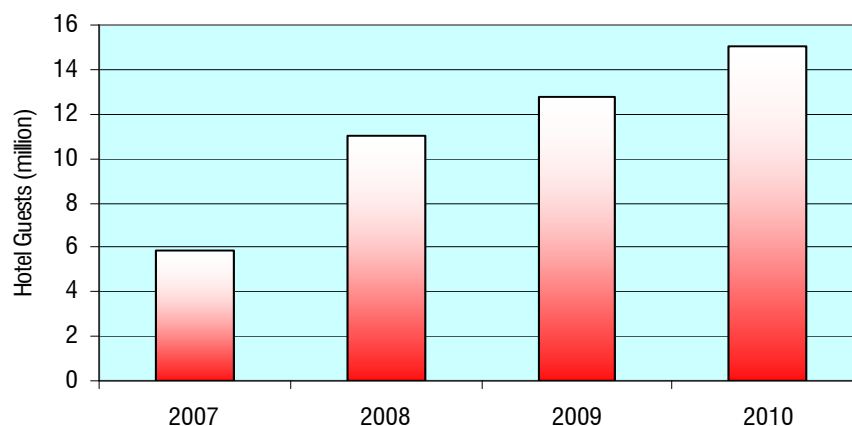

Table 3 Future Rooms Supply by Brand

Operator	Rooms
Accor	4,500
Jumeirah Group	4,500
Mövenpick Hotels & Resorts	3,000
InterContinental Hotels Group	2,500
Kerzner International	2,500
Marriott Hotels & Resorts	2,500
Rotana	2,300
Bavaria Hotels International	2,100
Starwood Hotels & Resorts	1,600
Hilton Hotels Corporation	1,500
Fairmont Hotels	1,500
Millennium Hotels & Resorts	1,500
Emirates Hotels & Resorts	1,300
Banyan Tree Hotels & Resorts	1,000
Tiara Hotels & Resorts	700
Anantara Hotel Group	265
Taj Hotels & Resorts	232
Total (approx.)	33,500

Sources: Government of Dubai; HVS Research

The bulk of Dubai's new supply will continue to enter the market within the four-star and five-star segments which are expected to absorb some 15% and 75% of the city's supply growth, respectively.

However, notwithstanding the emirate's massive development pipeline, the DTCM predicts demand evolution will outpace inventory growth in the near future. Hotel arrivals are expected to grow to 15 million (an increase of 156%) by 2010.

Table 4 Forecast of Hotel Guests – Dubai 2007-10


Source: Department of Tourism and Commerce Marketing, Government of Dubai



Outlook and Opportunities

Strong occupancies and average rates have been common over the last five years in Dubai. While average rate stabilisation is unlikely to occur in the immediate future, we expect hotel occupancies to experience a slight decline following the sheer scale of new supply entering the market by 2010. As Dubai's four-star and five-star markets move closer to saturation, we consider it likely that brand innovation will concentrate on lower-graded segments and timeshare opportunities.

While the development of branded limited service hotels in Dubai is taking shape with Ibis, Express by Holiday Inn, Premier Inn, easyHotel and Centro by Rotana at the forefront, developers and owners must be aware of the general shortage of brand availability in the emirate. With most of the hotel companies already present in Dubai, it is likely to become more difficult to find the right brand for a project, especially in the upscale and luxury market.

Major infrastructure improvements as well as the Dubai World Central International Airport development will considerably enhance access to the emirate and serve as major catalysts of tourism growth. We expect 'mega' projects such as the Palm and Dubailand to spur the emergence of micro markets and to induce significant demand into the local area.

Owing to soaring housing prices and living costs, operators are expected to face increased challenges in attracting and retaining qualified labour.

The introduction of green building standards and sustained high energy prices will mean that development costs are likely to further increase in the short term.

We expect transaction and debt financing activities to remain low due to the availability of land and high liquidity levels.

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



Michael Schwarz is an Associate with the London office of HVS. He joined the firm in May 2007 from Le Royal Meridien Hamburg where he was Sales Manager. His industry experience includes various sales and operational roles with Hyatt, Hilton and the Rocco Forte Collection in Europe and the Middle East. Originally from Austria, Michael holds a BA in Hospitality Management from IMI Switzerland/Manchester Metropolitan University and a Diploma from the International Institute of Tourism and Management, Semmering, Austria. Michael is fluent in German, English and Italian. Since joining HVS Michael has advised on and valued several hotels throughout Europe and 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.

For further information, please contact one of the authors.

Michael Schwarz – Associate, London

Email: mschwarz@hvs.com

Direct Line: +44 20 7878 7738

Hala Matar Choufany – Director, Dubai

Email: hchoufany@hvs.com

Direct Line: +971 50 4597930

Or visit our website at www.hvs.com