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Luxury Hotel Market's Investment Opportunities

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The Middle East's successful efforts to carve a niche as a global hub for business and leisure tourism are creating significant openings for investors in the luxury segment. **Hala Matar Choufany**, president of **HVS Middle East and Africa**, dissects the MENA luxury hotel market by destination, sharing insights spanning performance and prospects.

The luxury hotel market in the Middle East is expanding rapidly, driven by economic diversification, tourism development and the region's growing reputation as a global hub for business and leisure. Large-scale developments, often supported by sovereign wealth funds, are creating new opportunities for luxury hotels. Additionally, the region's substantial population of high-net-worth individuals (HNWIs) is further boosting demand for ultra-luxury accommodations.

Destination drilldown

The UAE: the UAE – notably Dubai and Abu Dhabi – is a leader in the luxury hotel market. Combined, the two emirates are home to 98 luxury hotels and will see the opening of an additional 22 hotels, bringing total room inventory to 35,860. Dubai continues to lead the region with 76 properties and 22,979 keys, further supported by a pipeline of 22 properties adding 5,230 keys. Abu Dhabi will see a modest expansion, with three new properties contributing 546 keys to its existing 22 properties and 7,108 keys.

Saudi Arabia: the Kingdom is rapidly expanding its tourism infrastructure, with mega-projects like Neom, the Red Sea Project and Qiddiya boosting luxury hospitality investments. Currently, 23 hotels across Saudi Arabia fall into the luxury segment, with a proposed pipeline of 46 hotels, marking a staggering 200-percent increase in luxury hotels. Riyadh's current supply of 10 luxury properties and 2,713 keys will see the addition of 34 properties and 6,550 keys. Jeddah will also experience significant growth, with 10 new properties adding 2,437 keys to its current stock of eight properties and 1,426 keys.

Qatar: Qatar's luxury hotel market has been growing, supported by global events like the FIFA World Cup 2022. A total of 33 luxury hotels were added between 2014 and 2020, primarily within the ultra-luxury segment. Qatar plans to add seven more properties and 1,642 keys to its current supply of 33 properties and 8,822 keys.

Oman: Oman's market is characterized by a focus on eco-tourism and high-end resorts that blend luxury with natural beauty. Muscat will see the addition of just one new property, with 200 keys, to its existing 12 properties and 3,088 keys.

Bahrain: this smaller market is also investing in luxury hospitality. Two new properties are earmarked for the kingdom, adding 148 new keys to its current total of eight properties and 1,583 keys.

Egypt: the current supply of luxury properties stands at 108, with a pipeline of 29 additional properties, indicating a strong growth trajectory. The total number of keys in Egypt's luxury segment stands at 37,172, with a planned additional 7,480 keys in the pipeline. This reflects the significant investment in the high-end hospitality sector, ongoing tourism development projects and increasing demand for premium accommodation.

Morocco: while smaller in scale, Morocco's luxury hotel market is also growing steadily. Currently, Morocco has 66 luxury properties, with a pipeline of 13 new properties. The current supply includes 6,859 keys, with 1,444

Summary

The Middle East's luxury hotel market is expanding, fueled by economic diversification and a growing population of high-net-worth individuals. Key destinations like the UAE, Saudi Arabia, and Qatar are experiencing significant development in luxury accommodations. However, potential oversupply in major cities could affect room rates and occupancy. The outlook remains positive, supported by continued investment in unique, high-end experiences.

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more in the pipeline. Morocco's luxury segment maintains strong occupancy rates, with a current occupancy of 62 percent, suggesting a stable demand for luxury accommodation.

Varied market dynamics, recovery rates

Data for 2019-2023 across the luxury segments suggests an aggregate occupancy of 55 percent, with Revenue per Available Room (RevPAR) at USD 140. When excluding the 2020 and 2021 performance, which was impacted significantly by Covid travel restrictions, the averages rise to 60 percent and USD 160, respectively.

In 2023, Dubai led the Middle East luxury hotel market, with a 73-percent occupancy rate and RevPAR of USD 306, underscoring its position as a top luxury destination. Abu Dhabi followed, with a 63-percent occupancy and an average daily rate (ADR) of USD 258, driven by business and cultural tourism. Riyadh also performed well, with a 60-percent occupancy rate and a RevPAR of USD 176.

By mid-2024, Dubai's occupancy had increased slightly to 74 percent, though its ADR dropped by 10 percent to USD 404, leading to a RevPAR of USD 298. Abu Dhabi saw growth, with a 68-percent occupancy, an ADR of USD 259 and a RevPAR of USD 177. Occupancy levels in Riyadh, meanwhile dropped to 57 percent, despite ADR rising to USD 313 and a steady RevPAR. The KSA regional market was higher, at RevPAR of USD 229, driven by an increased average ADR of USD 408, even though occupancy fell to 56 percent.

In contrast, Qatar faced challenges, with occupancy hovering at 54 percent, resulting in an ADR of USD 165 and a RevPAR of USD 88. The story was similar in Oman, where occupancy stood at 55 percent, the ADR at USD 92 ADR and RevPAR was USD 50. These figures illustrate the varied recovery and market dynamics across the region.

Egypt's luxury hotel segment reached an ADR of USD 160, slightly outperforming Morocco, where the ADR was USD 154. While both markets are expanding, the data reflects the aggressive growth strategy underway in Egypt, which is also home to a larger project pipeline.

A competitive market, with promising prospects

Despite solid growth in the luxury segment and ongoing expansion plans, some cities – particularly Dubai, Riyadh and Doha – are likely to face oversupply in the luxury hotel market. This could lead to pressure on room rates and occupancy levels over the next few years, affecting investment returns. The Middle East is also competing with other global luxury destinations, making it crucial to conduct thorough assessments of market dynamics and development opportunities to ensure long-term financial rewards and sustainability.

While the yield on luxury hotel investments varies by location and market conditions, prime assets in key cities have demonstrated strong performance, characterized by high occupancy rates and ADRs. The luxury segment has shown resilience in the face of global economic challenges and the outlook for the region remains promising. Continued investment in tourism infrastructure, the development of new destinations and a focus on offering unique, high-end experiences are key drivers of this positive outlook. However, to achieve optimal returns, investors must carefully consider market dynamics, potential risks and the evolving preferences of luxury travelers.

View the Article on **Pinpointing the regional luxury hotel market's investment** *sector. Widely regarded as a must read, the magazine has built a solid reputation as a reference for hospitality professionals in the Middle East and beyond. Daily news bulletins can be found **online**.*

About Hala Matar Choufany

Hala is an experienced Regional President and Managing Partner, an industry expert, and is recognized as one of the most influential leaders in the hospitality industry, notably in the Middle East and Africa region.

Hala has advised on more than 5,000 hospitality and mixed-use projects in the last 20 years across Europe, the Middle East, Africa and Asia. She has advised clients in areas such as Valuations, Acquisitions, Asset Management, Strategic investments and development, Contract Negotiations, and general Real Estate Strategic Advisory.

Hala has authored more than 50 publications and speaks frequently at investment and hospitality related conferences on a range of topics including asset valuation, investments, management issues and women leadership.

In addition to being a Board Member of HVS Global, Hala sits on the Boards of Harvard Business School Club of the GCC, Hotel Investment Advisory Board, and is regularly invited to Boards as a subject matter expert in the industry. Hala is frequently invited to discuss hotel and tourism trends on major news channel including Alarabiya, Bloomberg, Abu Dhabi TV, Forbes, Breaking Travel News and CNN.

Hala is also a member of the International Society of Hospitality Consultants (ISHC).

Hala completed Executive Education at Harvard Business School. She also holds an MBA in Finance and Strategy from IMHI (Essec- Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala is fluent in English, French and Arabic.

Born in Beirut, Hala lived and worked in several cities across Europe, Asia and Middle East and is a mother of three.

For more information, contact Hala at .