

## **Dubai and Budget Hotels – a contradiction?**

A hot topic hotel discussion amongst real estate, tourism and hotel experts seems to be: Does Dubai need budget hotels? Whether referred to as mid-market or budget hotels is difficult to separate – the segment under discussion is best defined as 2 to 3 star plus.

Dubai has low cost airlines, increasing attention from tour operators, a target of 15m tourists to meet and several budget brands that are already secured by the big players – so why ask whether budget hotels are necessary? Should the question not be: how does a mid market hotel in Dubai succeed? PKF sees much opportunity for this segment in Dubai without a doubt but here are some messages for those wanting to benefit from it.

Whether 12, 15 or 20 million tourists in Dubai - and when - is almost an idle question; past and present growth proves that there is tremendous momentum in Dubai's accommodation market for years to come. Tourist number growth only slowed recently because of insufficient supply to accommodate demand. That is great news on one hand, but bad news given that competitive destinations don't sleep. So Dubai needs hotels fast? Mid-level hotels are fast to build, flexible to adapt and have a shorter payback time which is one good argument for the product.

Another argument is that growing to 15m or more tourists per annum requires the destination to tap into new markets – the number of high spend travelers in the world has a ceiling and is more competed for than the mid-segments. Thus, Dubai turns to wider generator markets such as Eastern Europe, Asia and the European mid market segment which makes sense to get volume. However, the product for such tourists is about value for lower budgets which is another argument for mid-market hotels or we have to dilute luxury hotels' target segments.

And it is not only the leisure tourism segment which grows. Significant growth in business travel, MICE and VFR is projected but the budgets of the future volume will not all be high expense accounts – on the contrary, to these target segments affordable value for money with quality is more important than to leisure travelers and the repeat potential is high!

Yet, the majority of the future underway is positioned in the luxury segment which opens up a gap in the 2-3 plus segments and only few developers are filling that niche: another opportunity! The calculations on budget hotels are simple: lower construction cost, good GOP (especially in Dubai), high volumes lead to good returns and shorter payback periods compared to deluxe properties. High numbers of units in this type of operation also makes for good site utilization.

Not least, it is comparatively easy to reposition such properties upwards, downwards or sideways should future demand require that. The only obstruction – again especially in Dubai – is that high land prices are an issue which is why these hotels tend to not occupy prime sites.

So all factors point in favor - add to that the fact that several existing brands have been snapped up by big players Premier/Travel Inn (Emirates Group), Easy Hotels (Istithmaar), Yotel (IFA) - it is evident that they see the opportunity too. As do the operating companies: global operators such as Hyatt, Starwood, Marriott, M&C et al have developed mid-market brands to satisfy perceived future product demand. The same goes for local chains like Rotana (Centro) and some of the new Islamic Hotel brands which have added a 2-3 star string to their bow.

So what does a smaller developer with one, two or three properties do? To sign up a global partner is not easy, many of them are under exclusivity already and/or very prescriptive in their product standards.

This is it helps to consider the specifics of Dubai: hotels here have a high F&B component – which is relatively independent from the standard of the hotel - because local residents frequent the outlets with gusto. Dubai is also known for innovation and concept development and adding that little extra to what’s “normal” elsewhere – visitors expect to get more. And there is probably no other destination in the world where “tradition meets glitz” to the extent we see here, so bringing together opposites into one product or one destination is a specialty and a part of Dubai’s vision.

So when planning to develop a smaller number of mid-market hotels to benefit from a real opportunity, why not consider

- add more outlets than the standard would require – that is unusual for budget hotels
- give the hotel “a twist” – make it unique through products, services and facilities because Dubai GOPs allow that and guest’s expect it from Dubai
- Allow the best of both worlds to meet in the design to avoid the standardization but remember that taste is always in the eye of the beholder...

And there is no need to hesitate in setting up a new brand – the UAE has already produced a number of well known brands (Jumeirah, Rotana, Coral, etc.). Demand is ample to act as a platform for a successful undertaking and the region around Dubai offers plenty of space for extension.

After all, this is the City of Entrepreneurialism – but it is important to ensure that

- The concept is well defined, tested and
- Has access to good staff and experts to ensure it will be a success!

PKF currently estimate that Dubai will need more than 100 hotels and hotel apartment units in the 2-3 star plus segments as and when the 15 million tourists arrive in town and that is more than twice of what we have now. What a huge opportunity to explore! Go grab it – but ensure differentiation!