



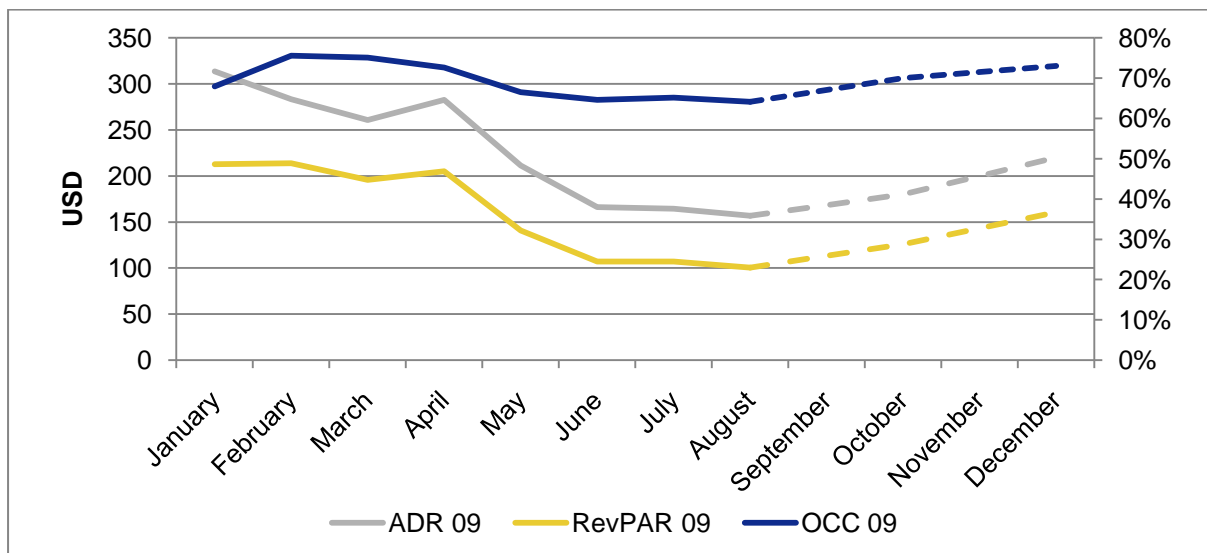
Dubai Hospitality and Tourism Industry Outlook

Sound Fundamentals Promise Growth in Tourism and Hospitality for Years to Come

According to the latest STR Global benchmark report, the hospitality industry in Dubai has weathered the traditional summer (and Ramadan) dip better than could have been possibly expected by the doomsayers. While RevPAR for hotels in Dubai for the month of August dropped 33.6% over the same month last year (compared to a decline of 21% for hotels across MENA), a closer inspection of the numbers reveals that occupancies at hotels in Dubai are still significantly higher than average for the region; Dubai hotel occupancy for the month of August stood at 64.1% compared to the MENA average hotel occupancy of 59.2%. To put this into perspective, hotel occupancy in Muscat stood at 38.2% while hotels in Riyadh achieved 38.8% occupancy (Source: STR Global). Let's not forget that in mature hospitality markets such as the US, Europe and the Asia- Pacific occupancies of 65% are the norm.



The figure below presents monthly RevPAR, ADR, and occupancy indicators for hotels in Dubai for 2009 year to date.



It is clear that hotels in Dubai have been able to stabilise occupancy levels at 64 - 66% over the summer at the expense of ADR which continued to decline 4 - 6% month on month. However, PKF The Consulting House are of the opinion that ADRs are at or close to a bottom and that both ADR and occupancy should grow through December. It is too early to predict whether RevPAR will break USD 200 by the year's end but this is likely during Q1 2010 boosted by Dubai Shopping Festival and events such as Gulfood Exhibition and the Dubai International Arabian Horse Championship. Overall, the fact that RevPAR for Dubai's hotels has declined only 35% over record 2008 figures is remarkable considering that an additional 24 - 25% of hotel and hotel apartment room supply was added over the same period (Q1 2009 vs. Q1 2008).

Looking forward to 2010 and beyond, the outlook for recovery and growth in arrivals and guest nights is positive. The twin engines of Dubai's tourism industry, Dubai Department of Tourism and Commerce Marketing (DTCM) and Emirates Airlines, will help ensure growth in the short term (2010); DTCM continues to aggressively market Dubai in key generator markets (evidence: DTCM hosted the annual conference of the Travel Agents Association of India, India's largest and oldest travel industry group, this September) while Emirates Airlines continues to grow its fleet and add destinations (evidence: Tim Clark, President of Emirates Airline, estimates that the number of airplanes operated by Emirates will grow 25% over the next 3 years). Dubai Airports itself has predicted that total passenger traffic is expected to grow by an additional 5.5 million (representing 13.5% growth) to a staggering 46 million by 2010. Growth in arrivals takes into consideration the additional arrivals expected due to the growth of the Dubai's new budget carrier FlyDubai and the opening of Dubai World Central - Al Maktoum International Airport in H2 2010. To put this into perspective, industry experts predict that in the long term, Dubai will become the fourth largest aviation hub (from its current rank of sixth) after Hong Kong, London Heathrow and Beijing. Of course, arrivals do not necessarily translate to increased room nights but promotions such as that between Emirates and The Address which gave Emirates' First and Business Class passengers one free night stay in Dubai are helping to convert passenger traffic into overnights.

In the near future, Destination Dubai will continue to enjoy the global spotlight (for all the right reasons) which will undoubtedly boost tourism. The successful launch of Dubai metro created significant international publicity, the first of many landmark events for the city which will help mitigate the negative press Dubai has recently received due to the severe downturn in the real estate market, corporate scandals, and spiralling debt concerns (which were no different anywhere else – it's just the tallest trees that catch the wind). Other milestone events over the next year that are expected to substantially boost the image of "Destination Dubai" include the launch of Burj Dubai, the opening of Al Maktoum International Airport in June 2010 and the

opening of the Green Line of Dubai's metro in late 2010. The launch of Burj Dubai in particular, rumoured to be as early as UAE National Day (December 2, 2009), will be a major boost to tourism; tourists will flock to "At the Top", an observation deck located on level 124 of the tallest freestanding structure in the world, to get their pictures taken with a backdrop of the towers of Sheikh Zayed Road, DIFC, and the distant Burj Al Arab and the Palm Jumeirah.

Let's not forget the impact of the world class sports events hosted by Dubai on building Dubai as a destination either; the "Race to Dubai" golf competition concludes in November 2009 with The Dubai World Championship tournament at the brand new Earth course (designed by Greg Norman) at Jumeirah Golf Estates; the World's richest horse race, the Dubai World Cup will be hosted next year at the impressive new Meydan race course; even international cricket is taking off in Dubai with two Twenty20 matches slated for 2010 at the dedicated cricket stadium in Dubai Sports City opening up sports tourism from the Sub Continent. There are of course the Rugby Sevens, the Dubai Tennis Championships and down the road, we have Tiger Wood's Dubai (Al Ruwaya) to look forward to making Dubai a true golfing destination.

Apart from sports tourism, the leisure tourism segment will be boosted by the opening of attractions at Dubailand in the mid-term. While enhancements to Global Village (through Tatweer's recent partnership with HIT Entertainment which will bring Barney, Pingu, Bob the Builder and Thomas & Friends to Dubai) hardly have the critical mass to make Dubai a theme park family visit destination, consolidation between Emaar and Tatweer will increase the likelihood of some form of "Dubailand lite" being constructed in the mid-term. The acquisition of Marvel which has an existing deal in place with Tatweer by Disney is certainly an exciting prospect and one to be watched.

In conclusion, hotels in Dubai can look forward with optimism to increasing occupancies and ADR through Q4 2009 and a positive outlook for 2010 and beyond. Dubai will continue to capture the imagination and attention of the World as it continues to add world class infrastructure, develop iconic projects and host international events boosting its image and increasing tourism. Diversification into new tourism segments (sports, eco, medical, budget), increased promotion in and opening of new generator markets (India, China, US, Africa), and enhanced and diversified transportation infrastructure and channels (new cruise terminal, budget carriers) all point towards a very healthy future for the tourism and hospitality industries. Business travel is picking up again as Dubai is not only a hub destination but the main platform for conducting business in the region.

For investors desiring to enter the hospitality industry, opportunities exist for distressed acquisitions in the immediate term, with owners of hotel properties

developed at the market's peak suddenly finding their properties not able to service debt. With many proposed hotel projects being cancelled, put on hold, or delayed (e.g. Bawadi) over-supply considerations have eased allowing investors with deep pockets and/or strong relationships with banks to consider new hotel development opportunities. As always, investors should evaluate the market feasibility of each opportunity based on location, access, connectivity, and a product tailored to a clearly defined target market. Financial viability has been enhanced by declining construction costs which have helped reduce the overall investment required and shortened payback periods making hotels an increasingly attractive investment product.

The author of this article, Adrian Jonklaas is Senior Consultant at PKF – The Consulting House, a specialist Business Advisory firm to the Hotel and Property Sectors based in Dubai, U.A.E.

PKF The Consulting House are business advisors to the hospitality and property sectors based in Dubai and operate under the oldest established brand name in the industry. Their services are focused on the needs of owners, investors and developers of hotel and tourism related real estate projects. Core services cover real estate strategy, fully fledged project development management, business valuation, operator selection and feasibility & market studies. For details please refer to www.pkf-tch.com.