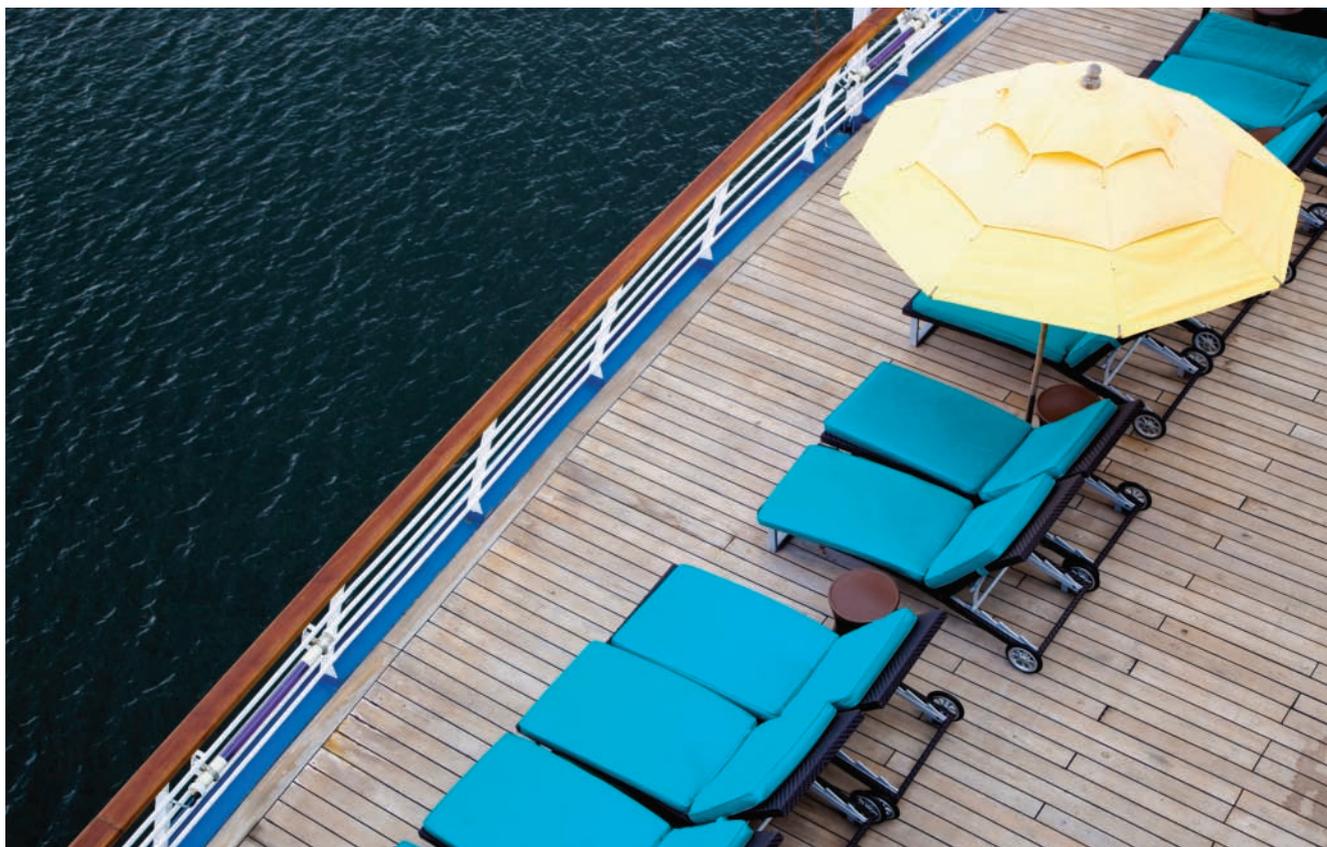


Middle East Hotel  
Market Insight Report  
Dubai, UAE

Issue 1 - April 2014



**Dubai has established itself as a leading global hospitality destination**

Dubai attracted 7.8 million hotel guests and 2.1 million serviced apartment guests in 2012, representing a total of 9.9 million guests over the 12 month period. As set out in Figure 1, this translated into demand for 26.0 million hotel guest nights and 11.4 million serviced apartment guest nights in Dubai in 2012. Total guest night demand in Dubai in 2012 was thus 37.4 million, up 64% from 22.8 million in 2008.

The Global Destination Cities Index 2013 ranked Dubai as the world’s seventh most visited destination for international overnight visitors, ahead of Hong Kong, Barcelona, Milan and Rome. Dubai experienced the strongest growth in international overnight visitors of indexed cities (along with Bangkok) over the 2012 to 2013 period.

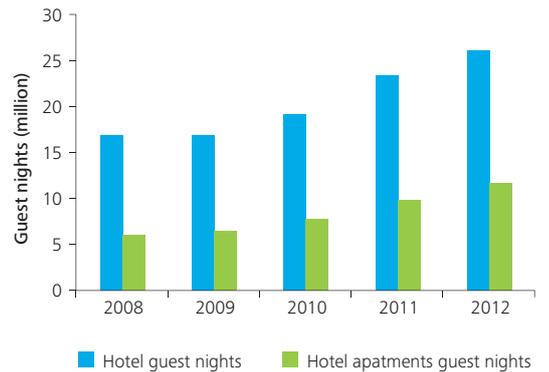
**Key source markets for Dubai’s hospitality sector include the Kingdom of Saudi Arabia (“KSA”), India and the United Kingdom (“UK”)**

KSA drove the largest number of visits to Dubai in 2013 (1.4 million visits), followed by India (0.9 million visits) and the UK (0.75 million visits). Looking to the future, key growth markets for Dubai are likely to comprise KSA, the Russian Federation, India and Iran.

**A maturing tourism offer has driven growth in the average length of stay in Dubai**

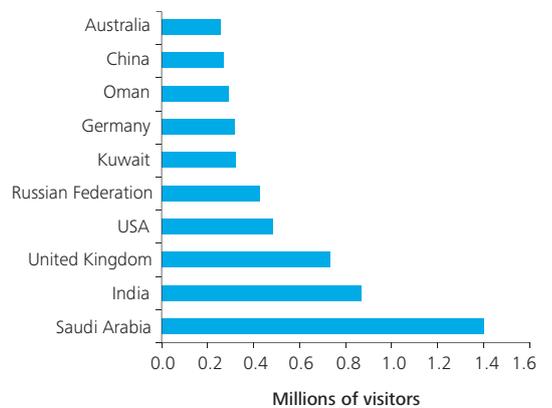
Dubai has an increasingly diverse tourism offer that includes a globally competitive entertainment and leisure, hotel and resort and retail offering. This has driven the average length of visitor stay in Dubai from 4.6 nights in 2008 to 5.4 nights in 2012 for serviced apartments. The average length of stay for hotel guests in Dubai has increased from 2.7 nights to 3.3 nights over the same time period.

**Figure 1 - Total guest nights, Dubai, 2008 to 2012**



Source: DTCM

**Figure 2 – Top ten hospitality source markets, Dubai, 2013**



Source: Tourism Economics

**Figure 3 – Average length of stay, Dubai, 2002 to 2012**



Source: DTCM

**Dubai’s hotel stock has increased significantly over the past decade**

In 2006 Dubai had a total of 233 hotels providing almost 39,000 rooms across all sectors of the market, including 152 unaffiliated or independent hotels. By Q1 2014 this total stock of hotels had grown by almost 48% with the addition of 111 new hotels. If the unaffiliated hotels are excluded, Dubai’s branded hotel market grew by over 105% from 81 hotels in 2006 to 167 in Q1 2014.

Economy and midscale hotels showed the highest proportional growth in Dubai albeit from a relatively low base. Upmarket hotels (upscale, upper-upscale and luxury) almost doubled from a total of 66 hotels in 2006 to 129 in Q1 2014.

The most significant period of supply growth occurred at the height of the global economic crisis between 2008 and 2011, when supply grew by 60%. Supply growth was minimal in 2012 and 2013 but supply for 2014 has already increased by some 6%, with further additions expected during the year.

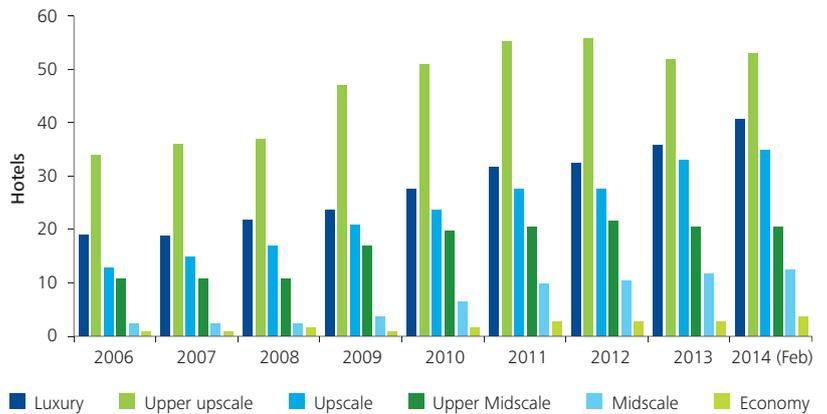
**Dubai hotel occupancy, ADR and RevPar trends**

Performance in 2013 has shown that Dubai’s hotel market is back to its past performance, despite significant additions to the supply. By the end of 2013 the luxury sector regained occupancy levels only last experienced during the 2006 and 2007 peak. Average Daily Rates (“ADR”) for luxury hotels in Dubai rose 3.5% in 2013 with additional supply and subdued economic conditions in Dubai’s luxury source markets keeping growth in check. The resultant Revenue Per Available Room (“RevPAR”) escalation was restricted to 4.5% growth over the previous period.

Occupancy in the Dubai upscale and upper-upscale sectors has recovered at a slower pace compared to the luxury sector yet performance is nevertheless exceptional in the global context at 80% for the year. ADR growth in these sectors was more robust with an 8% average growth and RevPAR rose by over 10% as a result.

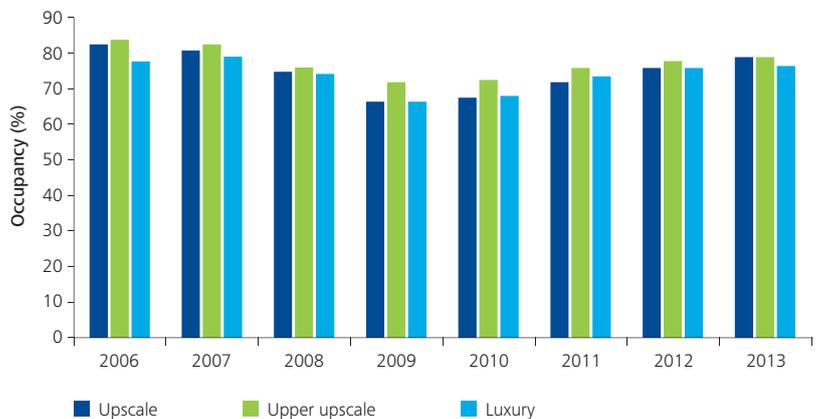
Dubai has established itself as one of the leading global tourism hotspots. With significant ongoing investment in tourism infrastructure, we expect Dubai to continue to climb the global tourism rankings.

**Figure 4 – Hotel inventory, Dubai, 2006 to Q1 2014**



Source: STR Global

**Figure 5 – Hotel occupancy, Dubai, 2006 to 2013**



Source: STR Global

### Demand for hotel accommodation in Dubai continues to grow

The demand for hotel accommodation in Dubai has grown significantly in the last 7 years. Across the upmarket sectors, demand measured in rooms sold has risen by almost 79% between 2006 and 2013. The number of rooms available in the market has risen at a slightly higher rate of 86% in the same period. In 2008 and 2009 there was a lag in the timing of the growth in demand versus the growth in supply, as indicated in Figure 6. This resulted in a decline in market wide occupancy.

**Figure 6 – Hotel supply growth and demand growth, Dubai, 2007 to 2013**

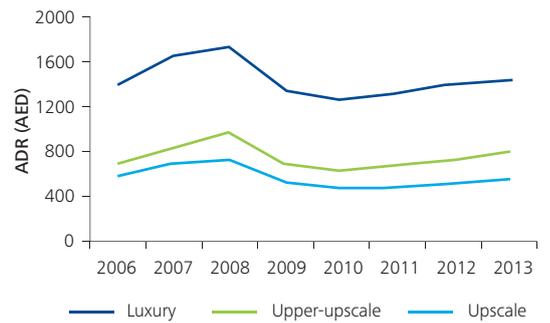


Source: STR Global

The growth in Dubai's hotel supply in 2013 was more than matched by the growth in demand as evidenced by the rise in occupancy in 2013.

This rise in room supply and the ongoing growth in demand, when seen in the context of the wider global economic challenges, points to a very robust hotel market.

**Figure 7 – Hotel ADR, Dubai, 2006 to 2013**



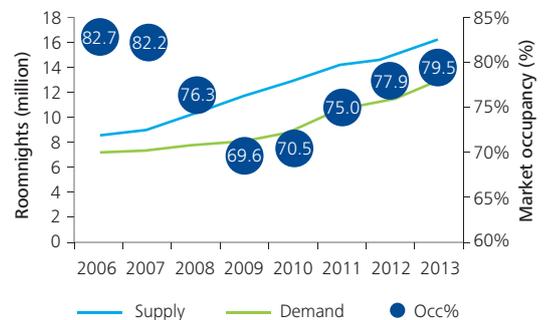
Source: STR Global

**Figure 8 – Hotel RevPAR, Dubai, 2006 to 2013**



Source: STR Global

**Figure 9 – Hotel supply vs demand, Dubai, 2006 to 2013**

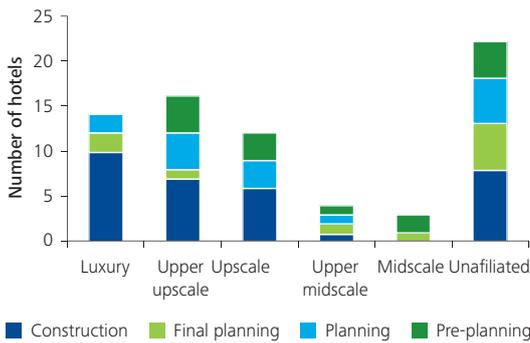


Source: STR Global

### Investment continues in Dubai's hotel pipeline

The supply pipeline for Dubai reflects a substantial rise in market confidence. Recent announcements by the Dubai Tourism and Commerce Marketing Department ("DTCM") targeting a dramatic rise in the number of hotels will further fuel the medium to long term hotel pipeline. A range of incentives has also been announced to stimulate development of new hotels in the mid-market sector which is targeted to more than double Dubai's current inventory.

**Figure 10 – Hotel development pipeline, Dubai, as at Q1 2014**



Source: STR Global

In total there are currently 71 known hotels across all market sectors in varying stages of planning or construction in Dubai which are estimated to provide over 22,000 additional rooms.

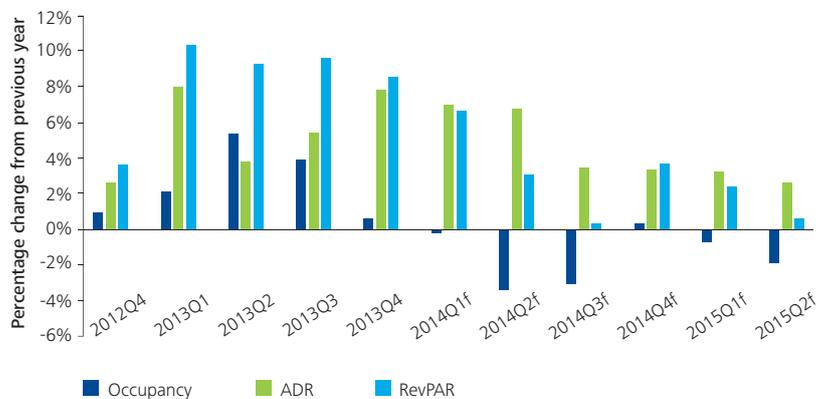
The upper-upscale sector in Dubai will see the highest volume of development with 16 hotels and 6,200 rooms. The luxury sector has the most hotels presently under active construction (14 hotels with 4,200 rooms) with more investors continuing to seek opportunities in this sector. Mid-market hotels (upscale and upper-midscale) are expected to add 16 new hotels with 4,400 rooms in the coming years.

## The continued growth in demand, fueled by ongoing improvements in tourism infrastructure and strong hotel operating performance, has stimulated continued investor interest in hotel development in Dubai

### Dubai's hotel market – Looking back and looking forward

On a quarter by quarter basis it is evident that the Dubai market as a whole has seen its strongest growth between Q4 2012 and Q4 2013. Growth in occupancy peaked in Q2 and Q3 2013 before retracting to more moderate growth in Q4 2013 and is projected to continue a moderate decline in growth for the remainder of the year. Rising inventory and a slowing of global demand growth are expected to also dampen growth in rates which are however still expected to rise at moderate levels of approximately 3% per quarter.

**Figure 11 – Dubai hotel market performance, change from previous year, 2012 to 2015**



Source: STR Global, Tourism Economics

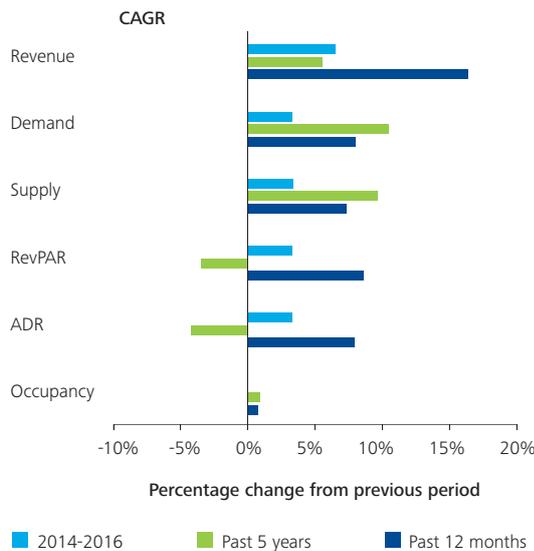
Looking at the Dubai market in 2013 and the forecast (forecasted by STR Global in conjunction with Tourism Economics) for 2014 and 2015, we can derive the following:

- Over the next 2 years occupancy growth is expected to be below the average for the last 5 years
- ADR growth in the next 2 years is expected to be higher than during the last 5 years
- RevPAR growth is expected to exceed growth during the last 5 years
- Over the past 5 years, room demand has expanded 63.4% (10.3% per annum)

### Dubai is back, but it never really left...

Dubai's hotel market continues to be driven by strong fundamentals. Total guest night demand in Dubai was 37.4 million in 2012, up from 22.8 million in 2008. The Global Destination Cities Index 2013 ranked Dubai as the world's 7<sup>th</sup> most visited destination for international overnight visitors, ahead of Hong Kong, Barcelona, Milan and Rome. Dubai's tourism market is being driven by a recovery in key source markets (KSA, India and the UK) and an increasingly diverse tourism offer that comprises a globally competitive leisure, hotel, resort and retail offering.

Figure 12 – Dubai hotel market performance summary



Source: STR Global, Tourism Economics

Driven by these strong fundamentals, Dubai's hotel market sustained a minimum of 70% market wide occupancy levels (upmarket sectors combined) over the period 2008 to 2011, a period when most markets experienced a marked decline in demand. As with all real estate investments, location plays a significant role in the performance of real estate assets. Dubai is no different and whilst the market as a whole has performed well, there are areas within the market that perform better than others. The significant growth in supply will put pressure on the performance of all hotels and further highlights the relevance of good location, quality infrastructure and sound operating fundamentals.

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From single assets to large global portfolios, our team has extensive experience in successfully advising clients on the acquisition or disposal of assets, securing or restructuring debt finance, asset management including capital investment programs and due diligence, development appraisals and feasibilities, and valuations for a wide range of purposes, carried out, where appropriate, in compliance with RICS standards.

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- Capital investment and projects
- Development appraisals
- Estate strategy
- Feasibility studies
- Finance optimisation
- Highest and best use solutions
- Market analysis
- Operator strategies

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Whether you are an owner, operator or investor, our understanding of the challenges and opportunities of the hospitality and leisure sectors will support you in reaching your goals

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We advise our clients on how to maximise value and returns through their investment in real estate.

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- Acquisition
- Finance
- Disposal
- Due diligence
- Negotiation
- Structuring
- Tax

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