

Dubai fever: EXPO 2020



Chadi Chidiac, managing partner of **PROTOCOL** hospitality management and consultancy explores the opportunities, risks and effects of EXPO 2020 on the hospitality industry

On Wednesday, November 27, 2013 after a vote by members of the World Fair body, the dynamic city of Dubai erupted in celebration as it won its bid to host the World Expo 2020, beating off competition from the Brazilian city of Sao Paulo, Yekaterinburg in Russia and Izmir in Turkey. The event is held every five years, over six months, attracting millions of visitors to explore new innovations and technological advances. Dubai lobbied hard to host the 2020

fair as a catalyst to transform the emirate of 2.2 million people into a top global destination for tourism, trade and finance.

Risk ratios

But the win also carries risks. Some property developers warn it could trigger another speculative bubble similar to the one that burst in 2008-2010, when the global financial crisis caused Dubai property prices to crash by more than 50 percent, shaking financial markets around the world.

China reported an expenditure of USD 4.2 billion in 2010; double what it spent at the Beijing Olympics. The USD 164 million profit it reportedly made, was mainly due to ticket sales and corporate sponsorship deals. The number of visitors to the 2000 fair in Hannover was less than half the 40 million expected, leaving, a financial shortfall of over a billion euros.

Business opportunities

Dubai's bid is an occasion to show the world that Dubai and the UAE are shifting from "hard" to "soft" projects. Small and medium-sized businesses in Dubai stand on the cusp of a USD 25 billion windfall from Expo 2020. Dubai is targeting a five percent growth rate over the next five years with more than six percent between 2014 and 2017, in addition to macro

stability the government is spending USD 8 billion on infrastructure before 2020.

Capture rate

Dubai is a city with a high mobility rate with more than 66 million passengers going through Dubai International airport in 2013 with 15 percent increase year on year (YOY). Dubai is currently building the International Al Makhtoum. Once completed, it will be able to handle 160 million passengers. Dubai's solid connection to the rest of the world allows Expo organizers to predict that 70 percent of Expo visitors will be foreigners. Expo 2020 will be a crowning event hosted on a custom-built site; the event will attract in excess of 25 million people influx of global visitors over a six month period.

Legal easing

Dubai has introduced a series of reforms aimed at speeding the delivery of new hotels. The emirate has cut the duration of the pre-approval process by two-thirds for private developers to build hotels; it used to take up to six months, but now has been reduced to two months. Fees levied for change-of-use of land for hotel usage have also been scrapped. An exemption to the 10 percent Dubai Municipality fee was also given to any new three and four-Star hotels that begin >

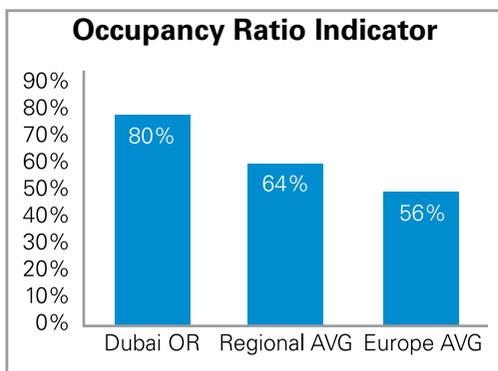
OUR EXPERTS



Ali Rashid Lootah, Nakheel
chairman



Christophe Landais,
managing director
of **Accor Middle East**



Selected Top Hotel Projects in Dubai

Project	Number of keys	O/D
The Cube at Sports City	561	2014
Sheraton Dubai Tower Sheikh Zayed Road Hotel	640	2014
Dream Dubai Marina	720	2014
Bespoke Hotel Dubai	1,400	2014
The Address Residence Sky View	712	2016
Damac Towers by Paramount	1,540	2016
Whyndham Dubai Marina	497	2016
Habtoor Palace Hotels	7,678	2016
Sky Central Hotel	672	2016
	8,420	

operating before June 2017. The statement said government land will be allocated and additional incentives will be provided for the development of three and four-star hotels that Dubai will need by 2020, to meet the expected surge in tourists and visitors. Recent regulations introduced the streamlining of pre-approval processes of hotel construction by Dubai Municipality. Approvals for hotels in Dubai's free zones will also be transferred to the municipality. A one-stop-shop for all sector approvals is to be created – a single streamlined system will be managed by Dubai Municipality to help reduce red tape for businesses and ensure the new reduced approval time frames are met.

Hospitality concerns

Rising visitor numbers and improving room rates have encouraged the resumption of hotel construction throughout the emirate, with more than 1,000 new rooms delivered in the last quarter of 2013. Openings included the Mövenpick Hotel Jumeirah Lakes Towers, Novotel Al Barsha and the expansion of the Millennium Airport Hotel. Some 5,500

considering other major developments. These include Mohammed Bin Rashid City, which was announced as a master development with some 100 hotels, and Dubai World Central where the new airport is based and wherein Emirates Airline will likely shift. The dynamics of the hotel space are different to commercial real estate. Dubai's current high office vacancy is also as much a consequence of the way office space was sold off in small chunks to investors as it is to over-zealous developers.

Post-Expo hangover

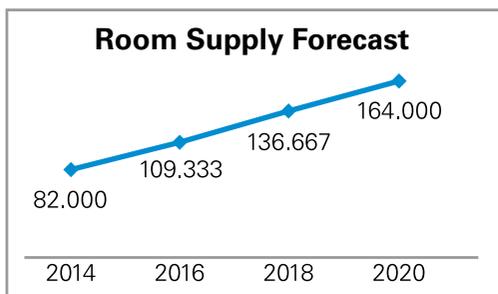
So far, **Ali Rashid Lootah, Nakheel** chairman is not too worried there will be oversupply, and is instead hoping to target a lower end of the market for which Dubai has traditionally not catered. "It's more towards the three to four star visitors," he said. But others sentiments are less bullish on the prospects post 2020. If tourist arrivals fall back following the end of the Expo, as we fear is likely, the emirate could find itself facing an over-supply of hotel rooms, office space and transport infrastructure. On the other hand an overall optimism will translate into investors eyeing long-term investments and growth in all sectors in Dubai. Acceleration in some iconic mega real estate projects had started laying foundations with estimations of total value of contracts awarded in the UAE during 2013, closing out at approximately USD 30 billion, but 2014 will see number of awards increasing to USD 35 billion. Currently over 82,000 hotel rooms and apartments are available, more than 60 new upscale and luxury hotel projects with more than 29,000 rooms under construction. Hotel investors will focus on four star and three star rated hotel projects-midscale segment-in the next phase.

Dubai plans to almost double the number of hotel rooms by 2020. The emirate that spent more than USD 110 billion to transform itself into the Middle East's commercial and entertainment hub is seeking to attract 20 million tourists annually by the end of the decade. Dubai lured 11 million tourists last year, up 11 percent from 2012, contributing to economic expansion of 4.9 percent, the fastest pace in six years. Tourism accounted for about 20 percent of gross domestic product in 2013, and is forecast to increase between seven percent and nine percent through 2020. Dubai, whose economy shrank

2.4 percent and was near default in 2009, plans to spend about USD 8 billion ahead of the Expo. To help fund the promotion of Dubai's tourism and trade industries, starting March 31, it will impose a tax as high as 20 dirhams per room for each night, depending on the hotel category.

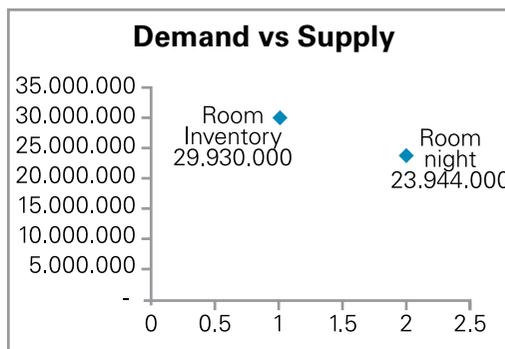
Evolving offerings

A recent study executed by PROTOCOL revealed that Dubai's hotel offering will become increasingly more specialized and separated from leisure and corporate to boutique and lifestyle brands. The increasing numbers of visitors will see a proliferation of new mid-market and budget arrivals, something that the market has been talking about for a long time now. Nearly 40 percent of the emirate's existing room supply can be found in either luxury or upper-upscale hotels. By contrast, only 10 percent of the room supply is in the upper-midscale and midscale segments. Dubai's Department of Tourism & Commerce Marketing recently pledged to scrap the 10 percent municipality fee for 3- and 4-Star hotels built between now and 2017 – a move welcomed by hotel management companies. Such a product also offers investment opportunities to investors aiming to capitalize on the large gap in the market in various locations around Dubai and the U.A.E. **Christophe Landais**, managing director of **Accor Middle East**, said "We are most evidently talking to and working with various investors to further develop our network in this strategic location to meet the expected demand of 20 million visitors by 2020."



additional rooms are planned in 2014 including Sofitel Dubai Downtown, the InterContinental Dubai Marina, the DoubleTree Hilton Al Barsha and the second phase of the JW Marriott Marquis in Business Bay. Dubai needs in excess of 45,000 new hotel rooms to meet the demands of visitor expectations to the city by 2020 and it is expected that USD 7.1 billion will be invested in new hotel projects almost immediately.

Hotels in Dubai enjoy some of the highest occupancy rates in the world with around 80 percent, compared to a region-wide average of 64 percent and a European average of 56 percent. The target of doubling the capacity is ambitious but the current pipeline should help. There are 61,150 hotel rooms in Dubai. The total pipeline includes 20,000 keys and last month Nakheel, the developer behind the man-made island of Palm Jumeirah that is home to some luxury resorts such as the Atlantis, released plots for up to 23,000 rooms to be built on its Deira Islands reclaimed land project. That's a 70 percent increase in the number of hotel rooms, before even



Consensus

Although the Tourism Vision for 2020 is separate from the Expo bid. The emirate counts 82,000 hotel and hotel apartments, which would need to roughly double by 2020 to meet the demand of 20 million visitors yearly. Current supply is close to 65,000 with an active pipeline of 17,261 rooms. Dubai predicts 277,000 jobs will be created as a result of the Expo; a big number given it equates to 20 percent of the current workforce of 1.3 million. The emirate also forecasts visitors of 20 million, an optimistic figure compared with the 10 million visitors last year, and the 16 million expected in London, the leading city worldwide for visitors, this year.

To sum up, If tourist arrivals fall back following the end of the Expo, as we fear is likely, the emirate could find itself facing an over-supply of hotel rooms, office space and transport infrastructure.

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