MARMORE
MENA INTELLIGENCE
A المركز MARKAZ Subsidiary

June 2019

UAE Hospitality

Research Highlights

The report provides a detailed analysis on the hospitality industry in the region, and looks at various factors and metrics affecting the current and future potential of the sector in the coming years. The report primarily focuses on the Emirates of Dubai and Abu Dhabi highlighting the key features and characteristics of the regional industry.

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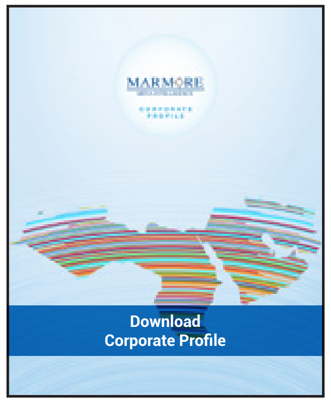
About Marmore



Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/ demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please *click here*)

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, *click here*)

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company.** To learn more, visit www.e-marmore.com

Experience/Qualifications

Marmore is the only regional firm providing niche research based on strong analytics in areas that are less researched. Marmore provides full range of financial market, sector specific and economic and policy researches, as well. The different types of researches are availed based on the client's requirements. It is notable that Marmore research reports have regularly been used by various renowned institutions to better understand the MENA region.

Marmore's strengths can be summarized as follows:

» Consistent track record of quality, in-depth research offerings;

» Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;

» Deep understanding of MENA market and access to wide-ranging database

» Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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Chapter 1

Executive Summary

The hospitality industry is one of the key industries, which helps boost the economy of a nation by generating income, employment and investment thereby stimulating economic growth. The economic reach of the hospitality sector is uniquely broad as its supply chain generates business activity for several sectors of the economy, in particular, for the retail, recreation, transport and restaurant sectors. The United Arab Emirates has long been recognized as a leading tourism destination for people all across the globe. According to the World Travel and trade Council, the direct contribution of Travel & Tourism to UAE's GDP was AED 69.1Billion (USD 18.82 Billion), representing 5.1% of its total GDP in 2017. It is forecasted to rise by 5.0% in 2018, and further rise at a CAGR of 4.1% pa, between 2018-2028. This would take the market up to AED108.4Billion (USD 29.53 Billion), representing 4.9% of total GDP in 2028.

Hospitality sector is largely occupancy driven, and it can be challenging to improve occupancy rates without compromising on price (which is measured by the hotel's Average Daily Rate or ADR). Increasing competition and ever-increasing supply in the upper upscale segments of the market have put considerable pressure on the ADRs. UAE has historically had an imbalance in its hotel supply with a disproportionate number of four- and five-star hotels. However, changing demographic trends offer an insight into the future product requirements and revenue generating capacity of the industry. Over the last few years an amalgamation of factors and circumstances have led to a change in the nature of demand dynamics, which has resulted in a demand base from all stratus of income profiles and a wide range of countries. Falling airline costs with a combination of an expanding middle class in major tourist source markets have resulted in a growing visitor base from emerging markets like India and China.

UAE is known to be at the forefront of technological revolution for decades. Major technological advancements in restaurant and hotel technology are expected out of UAE's hospitality industry. Moreover, the upcoming World Expo 2020, scheduled to be conducted in Dubai, has been discussed in detail in this report as it has garnered worldwide tourist and investor attention. By analysing the industrial impact of previous World Expo's, we can identify the plethora of opportunities for the industry it offers as well as the structural challenges it brings along with it. This has been analysed in detail with plans of the UAE government to deal with these challenges also highlighted.

With the adoption of a new economic policy in 2014, UAE has given a higher priority to the tourism and hospitality sector. Authorities in UAE have made significant advancements by implementing progressive policy changes namely, easier visa clearance process, promotional packages for individuals and families, and so on, to make the country more attractive to international travelers. The most recent regulatory changes made by the UAE government comes in the form of eased transit visa regulations and VAT refund. Experts believe that the introduction of a VAT system in the GCC region will lead to increased transparency in the hospitality sector. Virtually all areas of the industry are anticipated be affected by the introduction of VAT with fears of additional operational costs overhang among the various participants in the sector.

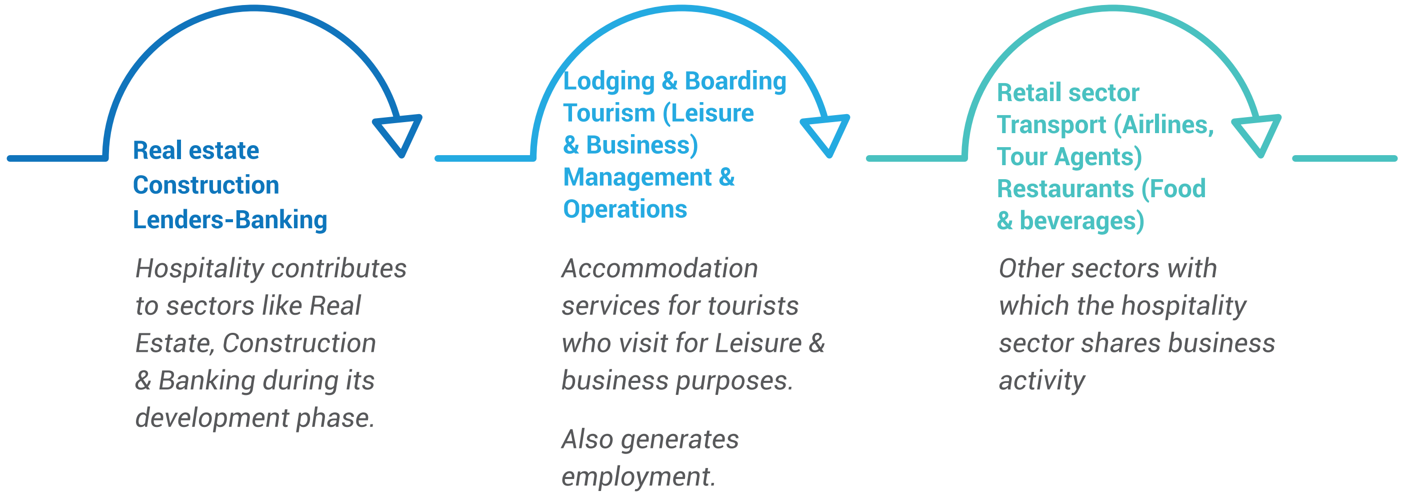
UAE is progressing well with its diversification plan and is attracting tourists from all over the world. With several development projects already in place, the trends that are guiding the hospitality sector are coming into full force. The challenge facing the hospitality, leisure and retail sectors is how to sustain business beyond Expo 2020. Careful planning is needed to avoid over-shooting the required development and for UAE to build and maintain attractions and events that will encourage future visitors to the destination in the generations to come.

This report provides a detailed analysis on the hospitality industry in the region, and looks at various factors and metrics affecting the current and future potential of the sector. A detailed analysis of the comparison with other GCC countries is provided, along with an in depth study of the factors driving the hospitality industry in the emirates of Dubai and Abu Dhabi. Quantitative factors like Occupancy Rate, Average Daily Revenue (ADR), and Revenue per Available Room (RevPAR), as well as qualitative factors like the impact of major upcoming events, major policy changes, and trends on the future performance of the industry have been discussed in this report.

Industry Overview

The hospitality industry is one of the key industries which boost economy of a nation by generating income, employment and investment thereby stimulating economic growth. The economic reach of the hospitality sector is uniquely broad as its supply chain generates business activity for many other sectors of the economy, in particular, for the retail, recreation, transport and restaurant sectors.

Figure 2.1: Hospitality industry basic supply chain



Hotels also provide a forum for business meetings, trade shows and conventions that are important catalysts for economic growth. Thus, it is an auxiliary industry and catalyst for the travel and tourism industry and its existence also contribute to other related/unrelated industries. Some of the key features of the hospitality industry are listed below:

- **High correlation with tourism:** The travel and tourism industry is a major driver for the Hotels. Higher international arrivals and domestic demand for both business and leisure purposes drive the hospitality industry.
- **Classification of Hotels:** Hotels are classified into different categories based on the standards of facilities and services at hotels. Some common classifications are Star category, Luxury, Mid-scale, Economy etc.
- **Labor intensive:** The industry is a labor intensive one which provides employment to skilled, semi-skilled and unskilled labor directly or indirectly. Higher graded hotels in general have stringent manpower requirements.
- **Capital Intensive:** The industry involves higher development costs initially. With rising construction costs and maintenance overheads, the industry tends to be capital intensive upfront.

- **Real-estate factor:** Hotel industry is also in a way a real estate business. The hospitality industry tends to focus in fast growing markets where real estate comes at a premium. It is important to look for opportunities where real estate deals can be conducted at a good price.
- **Seasonality:** Traditionally this industry was seen as seasonal, where the hotels experience high demand for some time of the year and the rest of the year entails low demand. However, this trend is seeing a change over the recent few years. Hotels have introduced various offerings to improve performance (occupancy) during the lean months

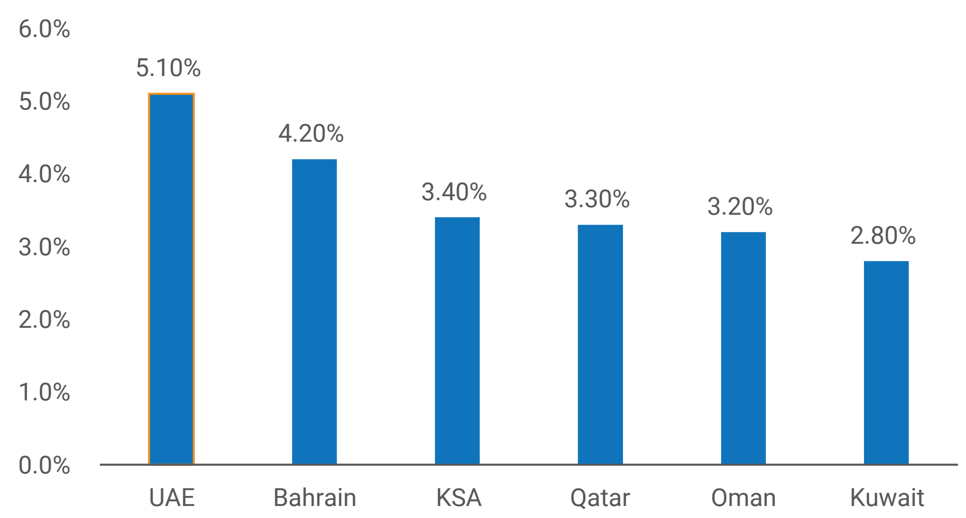
Regional hospitality industry overview

The GCC countries are rich in hydrocarbons and their economies are heavily invested and dependent on oil and gas industry. They face a particularly challenging task to diversify their economy and grow non-oil GDP. In this context, the GCC nations have adopted a strategic goal of economic diversification which helps them reduce their dependency on oil and gas. The region views travel and tourism (which covers the hospitality, transport, restaurant and others) as a potential sector which aligned with this goal of economic diversification.

Recovery in oil prices, increased tourism, regulatory changes, higher government investments and major upcoming events, is expected boost GCC hospitality industry, which has been under stress in recent years. Further, in anticipation of increased inflow of visitors handling capacity of airports are being enhanced. This reflects the emphasis GCC countries are providing to hospitality sector in order to develop themselves as the preferred travel destination.

As of 2017, UAE tops the list of contribution of the Travel and Tourism industry to GDP of the country in the GCC region at 5.1%. The need for diversification away from oil has resulted in a high growth in UAE travel and tourism industry, especially in Dubai and Abu Dhabi who have been on the forefront of this growth.

Figure 2.2: Direct Contribution of Travel and Tourism to GDP (2017)

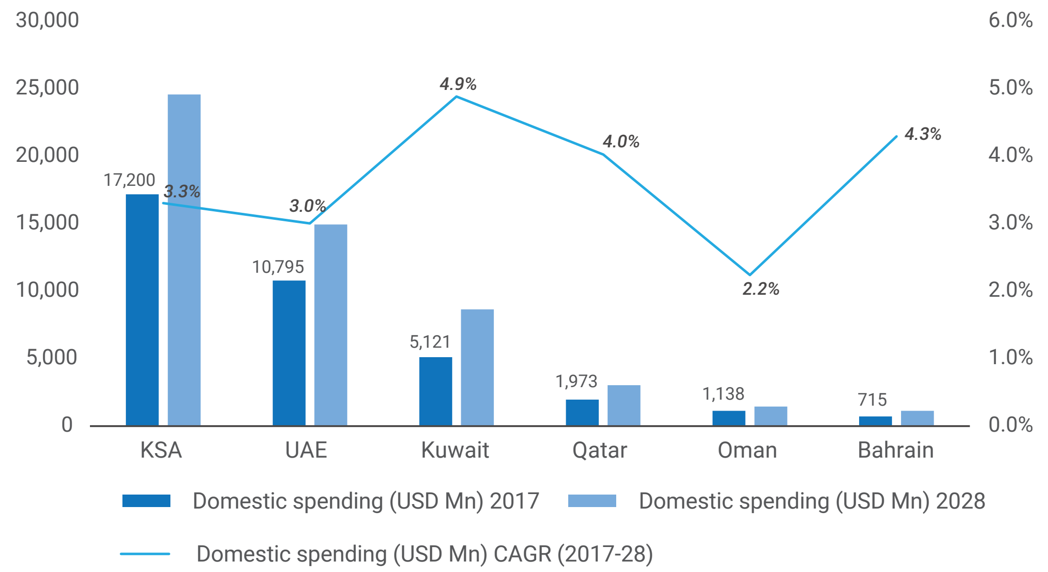


Source: World Travel and Tourism Council

Tourist spending on the rise

UAE and Saudi Arabia continue to remain the top contributors in travel and tourist spending at USD 17.2 Billion and USD 10.8 Billion, respectively in 2017. Kuwait is expected to witness the fastest growth in domestic spending on travel and tourism between 2017-28 at a CAGR of 4.9%.

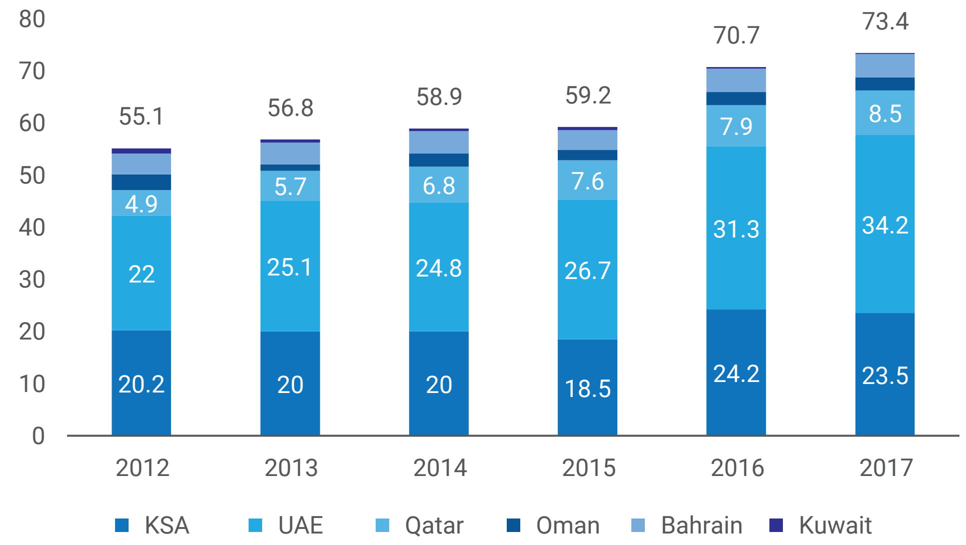
Figure 2.3: Domestic Spending on Travel & Tourism Spending in the GCC



Source: World Travel and Tourism Council

Leisure spending has seen a significant growth over the years registering a CAGR of 6% between 2012 and 2017, with the highest spending registered in UAE where it has grown at a CAGR of 9% over the same period.

Figure 2.4: Leisure spending in GCC (USD Billion)



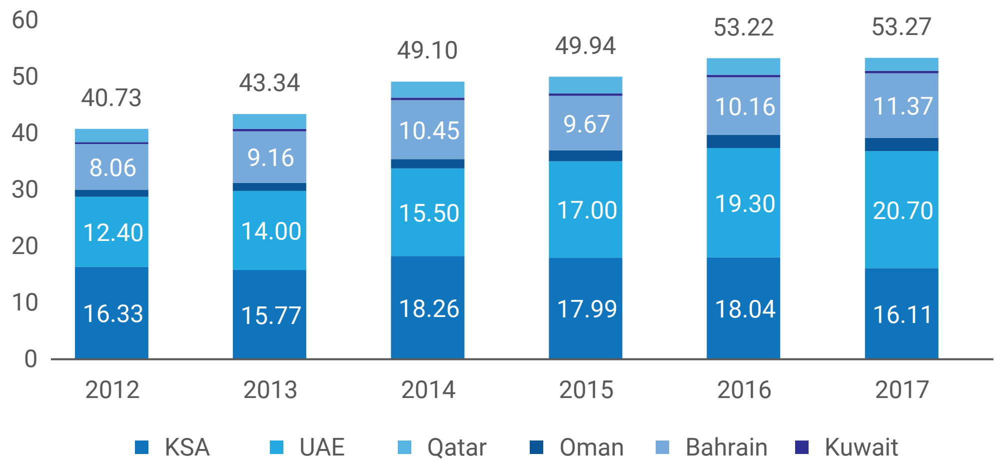
Source: World Travel and Tourism Council

Tourist Arrivals

Over the past decade, the GCC region has evolved into a global travel and tourism hub by attracting visitors from all over the globe. The increase in supply witnessed in 2017 helped in the overall performance of the GCC hospitality sector. Dubai saw an increase in 3 and 4 star properties which helped attract travelers with a constrained budget, whereas cities such as Muscat and Amman have seen an influx of higher international hotel brands helping to draw attention and bring loyal clientele from around the globe.

In 2017, Bahrain and UAE witnessed the highest YoY growth in International tourist arrivals in the GCC region at 11.9% and 7.3% respectively.

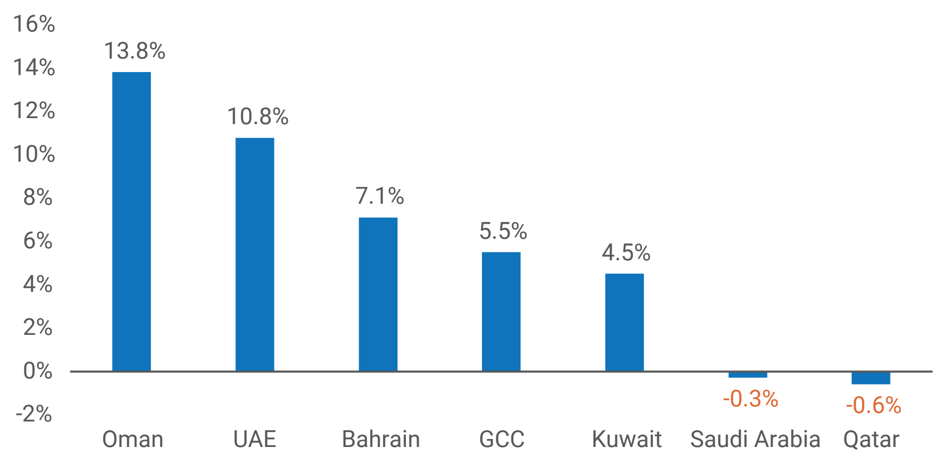
Figure 2.5: International tourist arrivals (in Million) to GCC



Source: Department of Culture and Tourism – Abu Dhabi, Department of Tourism and Commerce Marketing (Dubai Tourism), World Bank, CEIC, Statista

In the period between 2012 and 2017, Oman has seen the highest compounded annual growth rate (CAGR) of 13.8% in international tourist arrivals, followed by the UAE at 10.8%. Qatar and Saudi Arabia saw negative growth at a CAGR of -0.6% and 0.3% respectively.

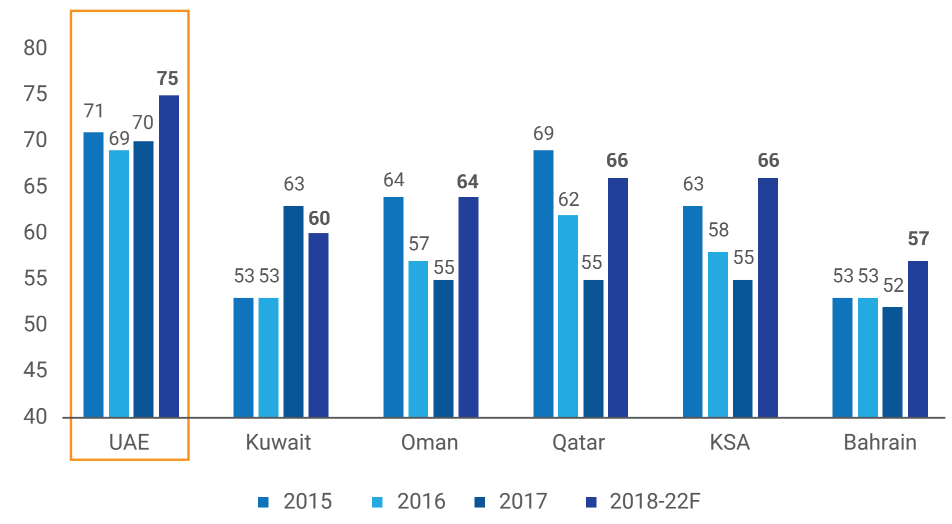
Figure 2.6: International Tourist Arrivals Growth CAGR % (2012 - 2017)



Source: Gulf News, Trade Arabia, Qatar Tourism Annual Report, Trading Economics, World Travel and Tourism Council

In 2017, UAE had the highest occupancy rate of 70% followed by Kuwait at 63%. Over the years we have seen occupancy rate slowing down for almost all the GCC countries. This decline can be attributed to an increase in hotel room supplies which has outpaced the demand in the market. However, occupancy rates are expected to improve over the coming years on the back of increased government spending in an effort to diversify away from hydrocarbon dependency.

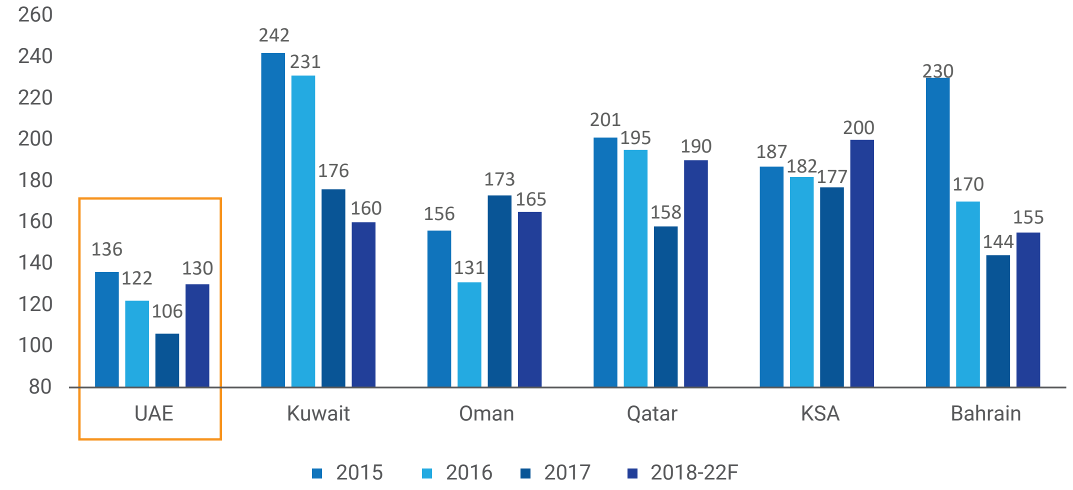
Figure 2.7: Trend in Occupancy Rate (%)



Source: HVS – Hotel Performance Indicators

Average Daily Rates (ADRs) have historically been the highest in Kuwait (USD 242 in 2015) but has declined at an accelerated pace in subsequent years (USD 176 in 2017). A Similar trend can be observed in almost all of the other GCC countries as well. Changing demographics of source market and increased competition has forced hoteliers to charge lower prices to remain competitive. However, moving forward it is expected that this fall in ADR will stabilize and trend upwards for countries like UAE, Qatar, KSA and Bahrain.

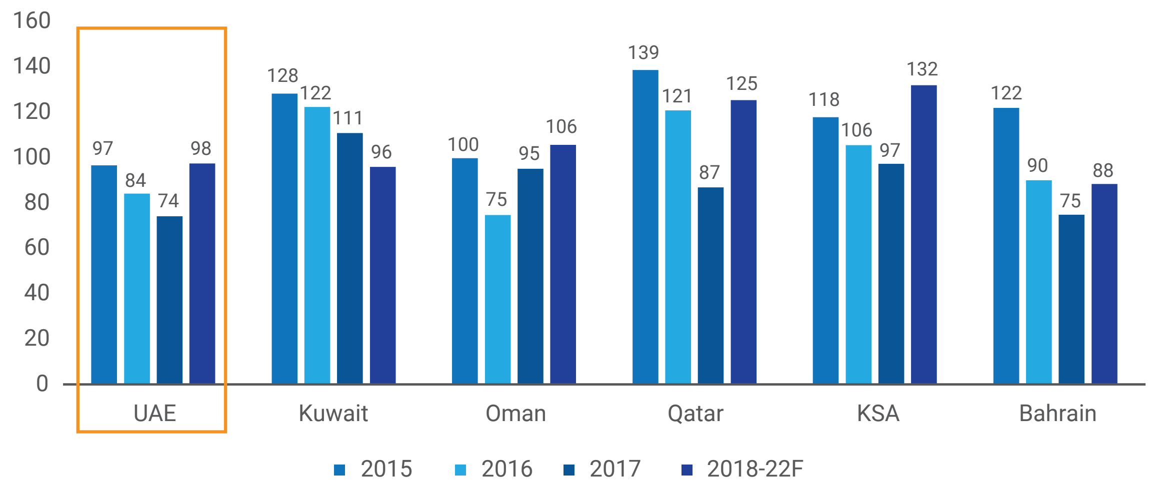
Figure 2.8: Trend in ADR (USD)



Source: HVS – Hotel Performance Indicators

Therefore, Revenue per Available Room (RePAR) has witnessed a decline across the board as Occupancy rate have slowed down with additional pressure from falling ADRs. But, revenue for the hospitality industry is expected to improve with mega events like the FIFA World cup in Qatar and the World Expo in Dubai leading the charge in attracting tourists from all across the world.

Figure 2.9: Trend in RevPAR (USD)

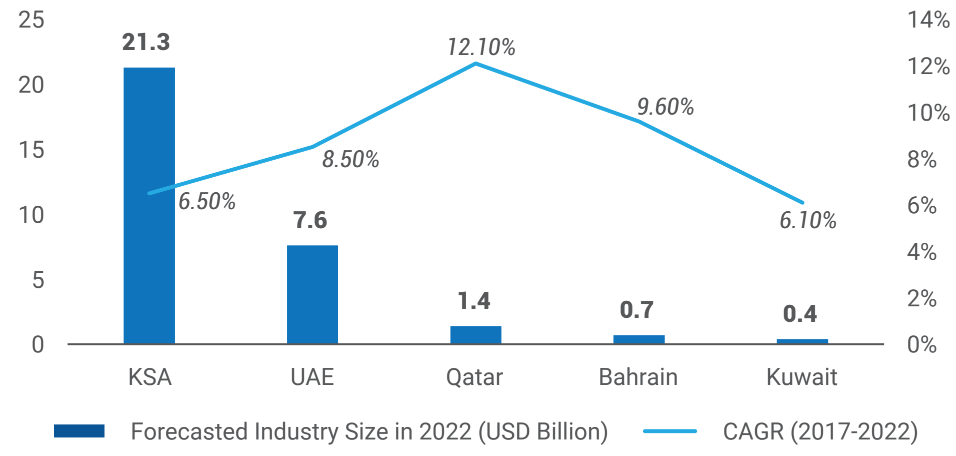


Source: HVS – Hotel Performance Indicators

Revenue of the GCC hospitality sector is expected to be over USD32 Billion by the year 2022, with a compounded growth rate of approximately 7.2% between the years 2017 and 2022, driven majorly by mega events like the Dubai's World Expo 2020 and Qatar's Fifa World Cup 2022. Moreover, the progressive initiatives by the governments of the various GCC countries with the underlying objective of diversifying away from hydrocarbon dependency will further boost tourism in the region.

Looking ahead, the hospitality sector revenue in Bahrain is expected to grow at a compounded rate of 9.6% between 2017 and 2022, backed by government-led initiatives for the leisure segment. Over the same period UAE's hospitality sector revenue growth is expected to be close to 8.5% on account of its attractive leisure and business tourism segment along with the World Expo 2020 which is expected to attract close to 25 Million tourist arrivals over the course of six months. Qatar is expected to witness the highest revenue growth among its GCC peers during the forecast period of 2017-22 on account of increased investment activities in the tourism and hospitality sector by the government for the upcoming Fifa World Cup 2022 event, which is expected to attract more than 1.5 Million tourist for the event.

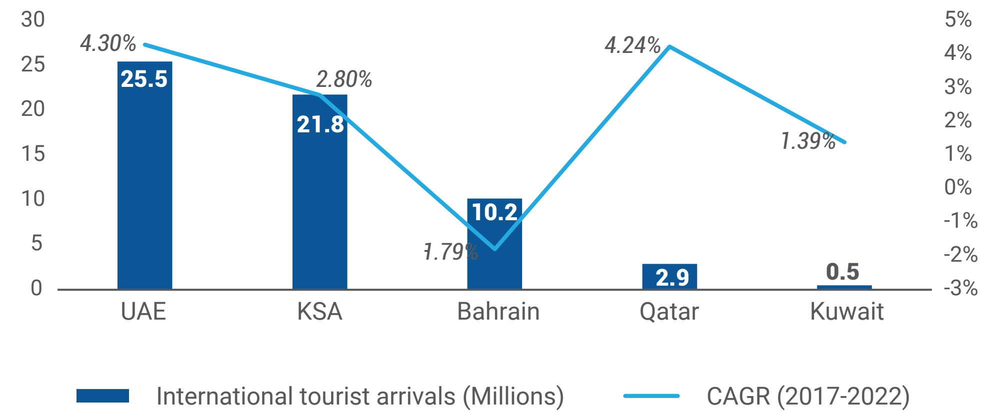
Figure 2.10: GCC Hospitality Industry Forecast



Source: Zawya, Trade Arabia News Service[1]

UAE is expected to receive the maximum number of international tourist arrivals at a compounded yearly growth rate of 4.3% between 2017 and 2022. Positive government initiatives in the form of progressive policy changes and increased investment into the industry to support the upcoming mega events will help boost tourism further in the region.

Figure 2.11: GCC International Tourist Arrivals Forecast



Source: Zawya, Trade Arabia News Service[2]

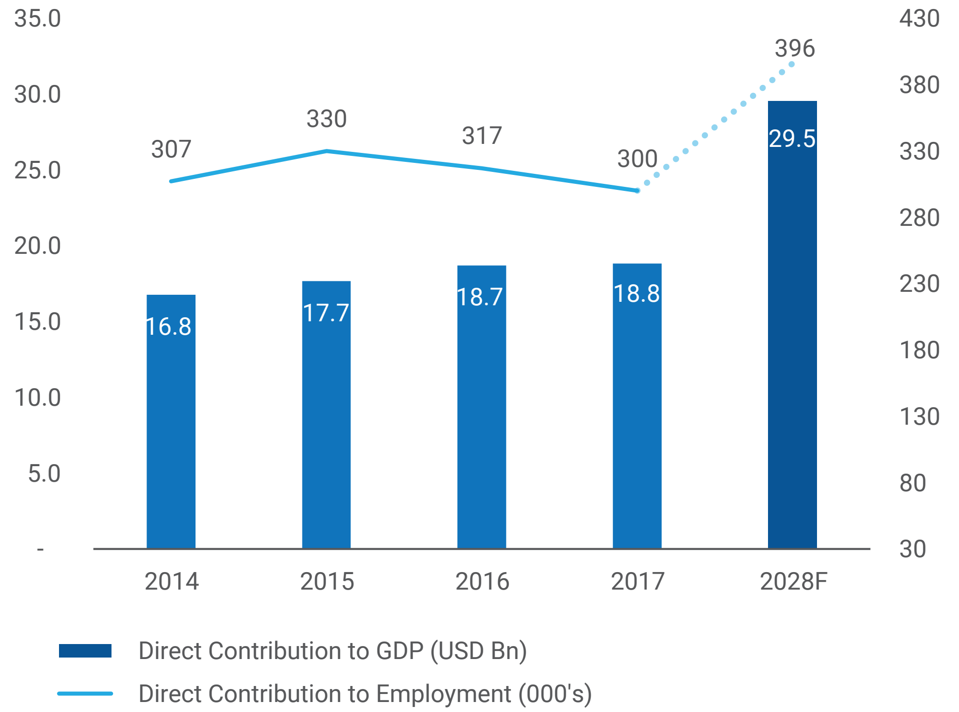
[1 2] *Zawya - GCC_hospitality_revenues_to_hit_32bln_by_2022*

UAE Hospitality Market

The United Arab Emirates has long been recognized as a leading tourism destination for people all across the globe. According to the World Travel and trade Council, the direct contribution of Travel & Tourism to UAE's GDP was AED 69.1Billion (USD 18.82 Billion), representing 5.1% of its total GDP in 2017. It is forecast to rise by 5.0% in 2018, and further rise by a CAGR of 4.1% pa, from 2018-2028. This would take the market up to AED108.4Billion (USD 29.53 Billion), representing 4.9% of total GDP in 2028.

In 2017 Travel & Tourism directly supported 300,000 jobs (4.9% of total employment). This is expected to rise by 4.1% in 2018 and further rise at a CAGR of 2.4% pa to 396,000 jobs (5.6% of total employment) in 2028[3].

Figure 3.1: Contribution and Forecast of travel and tourism to GDP and employment



Source: World Travel and Tourism Council

The aviation industry has been the backbone of the hospitality industry influencing the influx of tourists with flight costs and accessibility. UAE has planned on investing over USD 23 Billion in the aviation infrastructure which will help four of its major national carriers, with a combined fleet size of 502 aircraft, to serve an additional 75 Million passengers annually. Investments include USD 8 Billion in developing Al Maktoum International Airport, USD 7.6 Billion expansion of the Phase IV of Dubai International Airport, USD 6.8 Billion for the re-development of Abu Dhabi International Airport. In addition, Sharjah International Airport is also undergoing a USD 400 Million investment in expansion of its terminal[4]. It expects the total capacity to rise to more than 300 Million passengers per year, cementing UAE's standing as the largest investor in airlines and aviation industry in whole of the MENA region.

[3] *WTTC - economic-impact-research countries-2018*   [4] *Arabian business - uae-investing-2316 Billion in airports infrastructure*

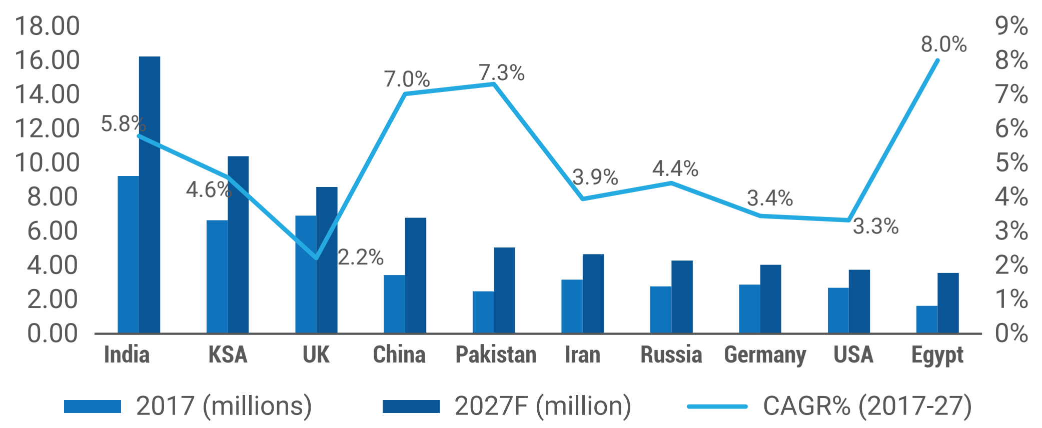
Hospitality market in the UAE is predicted to reach approximately USD 7.6 Billion by the year 2022 at an expected five-year CAGR of 8.5% between the years 2017 & 2022. International tourist visits are expected to grow at a five-year CAGR of 4.3% to 25.5 Million whereas the hotel supply is expected to grow at a five-year CAGR of 6.0% to 183,718 hotel rooms.

3.1. Change in demand dynamics

UAE, majorly Abu Dhabi and Dubai, has had a reputation of attracting wealthy individuals from all across the world and has established itself as one of the leading luxury destinations in the world.

However, over the last few years an amalgamation of factors and circumstances have led to a change in the nature of demand dynamics, which has resulted in a demand base from all stratus of income profiles and a wide range of countries. Falling airline costs with a combination of an expanding middle class in major tourist source markets have resulted in a growing visitor base from emerging markets like India and China.

Figure 3.2: Overnight stays (000's)



Source: Knight Frank Research, Oxford Economics' Global Travel Service

In 2017, India was the largest source market for the UAE with tourist arrivals of over 9.24 Million overnight stays recorded. It is expected that by the year 2027, the number overnight stays will increase to over 16 Million in a compounded growth rate of 57% between 2017 and 2022. China on the other hand is fast becoming another major source market as tourist arrivals from China has grown from 0.28 Million in 2007 to 3.44 Million in 2017 at a compounded annual growth rate of 28.5%. Among the top source markets estimated in the year 2027 China is expected to continue to register strong growth with an estimated rise to 6.8 Million overnight stays. This rise in tourist overnight stays is reinforced by the recently introduced availability of visas on arrival for Chinese tourists.

Moreover, one of the most important source markets for the UAE has always been from within the Middle East with Saudi leading the charts. With an estimated current population of around 33 Million, which is expected to increase to 37.7 Million by 2027, the Kingdom of Saudi Arabia is the largest source market for UAE in the

Middle East, accounting for over 6.6 Million overnight stays in 2017, UAE is expected to remain a popular destination for Saudi citizens with overnight stays to cross 10 Million by the year 2027[5].

While high level of Saudi visitors has been a good opportunity in the past for UAE hospitality, there is an emerging threat given Saudi government's plans for expanding its domestic leisure and tourism industry. Movie theatres and musical concerts which were earlier non-existent in Saudi Arabia have now been opened by the Saudi government boosting local entertainment. Also, Saudi government is planning to promote local leisure and entertainment opportunities in a big way. In light of these developments, it remains to be seen whether UAE hospitality sector will attract Saudi tourists to the same extent as witnessed historically.

Evolution of source market

UAE has historically had an imbalance in its hotel supply with a disproportionate number of four- and five-star hotels. In Dubai and Abu Dhabi, four- and five-star hotels account for 57% and 66% of the total available room supply. The pipeline in Abu Dhabi constitutes almost entirely of upscale to luxury properties, however, in Dubai the pipeline is slightly evenly weighted, with 49% of branded hotel rooms under construction are in the upscale to luxury bracket, with 19% in the economy to upper-midscale and the remainder being unaffiliated stock[6].

Table 3.1: Hotel classification as proportion of total stock

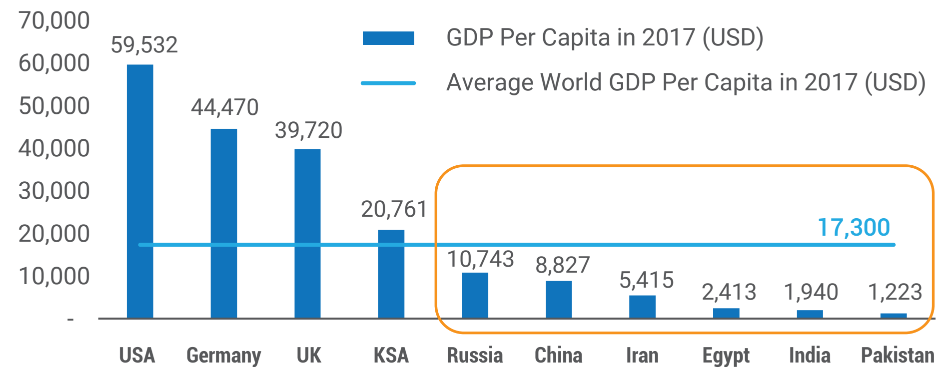
Hotel classification as a proportion of total	Dubai	Abu Dhabi
5 - Star	33%	41%
4 - Star	24%	25%
1 to 3 - Star	20%	15%
Hotel apartment (deluxe/superior)	9%	17%
Hotel apartment (standard)	14%	2%
Total	100%	100%

Source: Abu Dhabi Department of Culture & Tourism and Dubai Corporation of Tourism & Commerce Marketing, Knight Frank

Analyzing the source markets, we see that six of the top 10 forecast source markets have a relatively low per capita income and even on the face of an increasing middle class, it is unlikely that this will translate to demand for upscale or luxury hotels. Therefore, as the source markets continue to evolve, the UAE hospitality market will have no choice but to adapt so as to cater for a variety of demand from different price points. Moving forward we expect that the source markets from which incremental room night demand will be generated, will be comparatively price sensitive and will seek affordable accommodation in the region. It needs to be seen whether the shift towards budget hotels that is happening in the Dubai market is adequate since the demand is shifting more towards budget hotels.

[5] [6] *Knight Frank - UAE-hospitality-report-2018*

Figure 3.3: GDP Per Capita of the top 10 source markets



Source: World Bank

3.2. Current market conditions

Hospitality sector is largely occupancy driven, and it can be challenging to improve occupancy rates without compromising on price (which is measured by the hotel's Average Daily Rate or ADR). Increasing competition and ever increasing supply in the upper upscale segments of the market, have put considerable pressure on the ADRs. This implies as the supply of four- and five-star hotels increase, there could further be pricing pressures in the market.

Market performance has continued to deteriorate in the UAE's hospitality sector with occupancy falling by 2.0%, ADR by 5.8% and RevPAR by 7.7% respectively, in the year to date to November 2018, compared to the same period a year earlier. The fall in the ADRs point towards higher breakeven levels for the hotels, requiring higher levels of occupancy to be profitable. Therefore, either a reversal in the ADRs or the occupancy rates is crucial for the sector in the future.

Table 3.2: UAE hospitality industry market performance (% change, cumulative Nov 2018 vs Nov 2017)

	Occupancy	ADR	RevPAR	Room Rev	Room Available	Room Sold
UAE	-2.0%	-5.8%	-7.7%	-2.8%	5.3%	3.2%
Abu Dhabi	0.0%	-4.6%	-4.6%	-0.3%	4.5%	4.5%
Dubai	-2.5%	-6.4%	-8.7%	-3.1%	6.2%	3.6%
Ras Al-Khaimah	-3.4%	-0.3%	-3.7%	1.0%	4.8%	1.3%
Sharjah	-4.0%	-2.5%	-6.4%	-7.5%	-1.2%	-5.2%
Fujairah	-3.6%	0.1%	-3.5%	0.1%	3.7%	-0.1%

Source: Knight Frank

Visitors to the UAE continue to increase on a year-on-year basis, however, an increased cash-constrained visitor profile is forcing hotels to price more competitively so as to maintain market share. This indicates that the weak industry performance is not due to occupancy issues but primarily driven by the changing nature of source markets visiting the UAE.

However, even though we see falling rates, there remains sufficient opportunities to carry forward hotel development in the UAE, not necessarily in the luxury sector but rather in the mid to lower scale segment. Currently majority of the hotels below four stars are operated by the owners, which generally are poorly managed and does not appeal to international tourists. Moreover, when we compare the branded and the unbranded supply at the midscale level, we find that there are measurable differences between the two, which is indicative of the brand equity that an operator can bring, even amongst price sensitive guests. Going forward this may imply greater investment of resources in loyalty programs and a myriad of promotional activities in the print and electronic media[7].

Key Drivers of UAE Hospitality sector

The main reasons behind the robust growth of the regions hospitality sector have historically been the country's strategic location, fast-growing airlines, world-class transportation infrastructure, and government backing in policy implementation. Two-thirds of the world's population lives within an 8-hour flight distance from the UAE making it one of the most preferred locations for travel for tourists all across the world.

An underlying catalyst for the development in the Emirati hospitality industry is the upcoming 2020 World Exposition, which is an international mega event to be conducted for the first time in the Middle East in Dubai. During the Expo 2020, Dubai is anticipating approximately 25 Million visitors over the six-month long exposition from October 2020 to April 2021.

While the World Expo 2020 is identified as a primary driver for an increase in tourism to the UAE, it is just one of the numerous factors which will help expand the local tourism sector in the coming years, as UAE continues to acts as a hub for culture, sport, medical tourism, and entertainment.

Key Growth Drivers for UAE Hospitality market moving forward:

- **World Expo 2020:** The World Expo 2020 is expected to attract tourists in between October 2020 and April 2021. It is estimated to create 300,000 direct jobs and over a Million indirect jobs in the UAE.
- **Leisure Attractions & Investments:** Leisure travel accounted for 77% of UAE's total tourism spending in 2017[8]. Leisure activities such as shopping centers, cultural venues, theme parks, and amusement parks serve as major tourist attractions for travelers from all across the world.
- **Mid-Market Hotel Segment:** Analyzing the current market breakdown and the pipeline of upcoming projects we can assume that Dubai is expanding the horizon of its hospitality sector to diversify into the mid-market segment as much as possible so as to serve the cost conscious or budget restrictive travelers. Some of the existing mid-market hotels include Ibis, Park Inn, Hilton Garden Inn and Holiday Inn Express.
- **Medical tourism:** In 2016, UAE accounted for 26% of the total health-care spend by GCC governments[9]. The Dubai Medical Tourism industry received 326,649 medical tourists in 2016, representing an increase of 9.5% over the previous year[10]. Medical tourism remains yet another unexplored sector in UAE with immense potential.

3.3. Policy Changes

Since the adoption of new economic policy in 2014, UAE has given a higher priority to the tourism and hospitality sector. Authorities in UAE have made significant advancements by implementing progressive policy changes namely, easier visa process, increased activities and sightseeing, promotional packages for individuals and families, and so on, to make the country more attractive for international travelers. The most recent regulatory changes made by the UAE government comes in the form of eased transit visa regulations and VAT refund for visitors introduced.

Eased Transit Visa Regulations

In late 2018, the UAE cabinet decided to exempt transit passengers from paying a transit visa fee for the first 48 hours. Moreover, this transit visa may also be extended for up to 96 hours for a fee of Dh50. This is done so as to increase the time tourists spend during transit which would ultimately lead to higher travel & tourism (T&T) spending. It is estimated that in 2017, approximately 50 Million transit passengers went through Dubai airports of which 46 Million transit visitors did not exit the airport due to visa regulatory issues. By altering this policy, these tourists now have an opportunity to explore the city. Considering the substantial number of passengers transiting through the country, via Etihad and Emirates airlines, the visa amendment is a calculated move by the policymakers as it would increase the probability of tourists opting to enjoy the perks of the stopover experience in UAE.

Leading hoteliers like Dubai International Hotel have already started to take advantage of this policy change as they are considering to absorb the transit visa fees and offer special packages for city tours and discounted short and extended stays which is expected to lead to an increase in transit visitors opting for longer stopovers in Dubai.

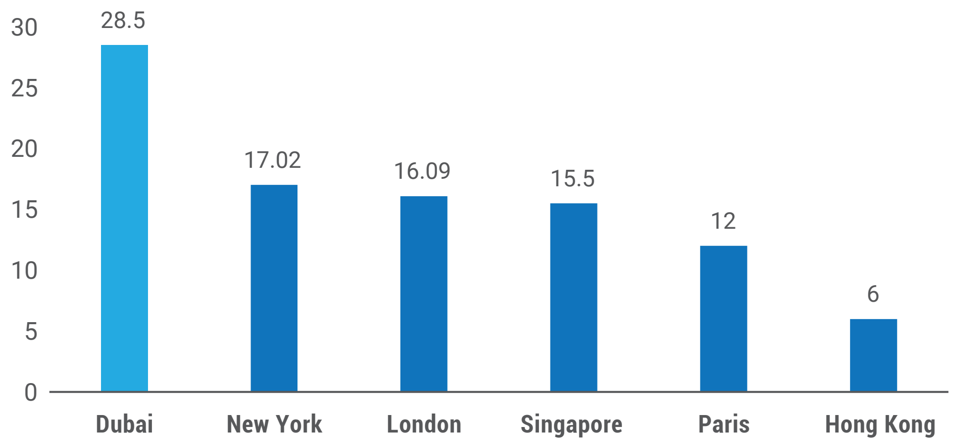
[7] *Knight Frank - UAE-hospitality-report-2018*
[8] *WTTC*
[9] *https://www.khaleejtimes.com/news/uae-health/dubai-health-facilities-received-325000-medical-tourists-in-2016*
[10] *https://gulfnews.com/opinion/op-eds/how-uae-became-a-medical-tourism-hub-1.2239792*

VAT refund for visitors

The UAE cabinet granted a plan to generate a refund system for non-resident individuals/tourists to claim back Value added tax or VAT on goods bought in UAE so as to alleviate the negative impact of taxes on tourism spending. This refund system is expected to support the growth of the tourism sector in the UAE so that UAE can maintain its position as a global spot for tourist destination. Moreover, Dubai and Abu Dhabi also announced a reduction in taxes imposed on restaurants and hotels from 10% to 7% so as to boost the economy and its competitiveness. UAE's Federal Tax Authority (FTA) is also working on an advanced integrated digital system to set up a direct connection with POS and all UAE ports of entry, allowing global operator to coordinate among retailers registered with the FTA which would enable tourists to submit refund requests for their purchases.

As tourist spending are a major economic driver in the country, these policy implementations are expected to boost the economic growth moving further. In 2017 alone, tourists from all over the world spent nearly USD 28 Billion in Dubai, which was the highest among major countries all across the globe. It is estimated that by 2021, international tourists will spend around USD 43.8 Billion at retail shops across the emirate[11].

Figure 3.4: Total International Visitor Spend in 2017 (USD Billion)



Source: Dubai Chamber based on New World wealth, MasterCard, Core Savills Research

3.4. Impact of VAT on the Hospitality Sector

At the start of 2018 Value Added Tax (VAT) was introduced in the UAE at the rate of 5% (global average: 15%). It is expected to provide UAE with an additional source of revenue and help the government move closer towards its vision of reducing its dependency on hydrocarbons as a source of revenue. The GCC VAT Framework Agreement signed by the six Gulf Cooperation Council member states, lays down a unified set of principles as a means for the individual GCC states to implement VAT legislation domestically allowing each state to exercise its discretion in various areas[12].

[11] *Gulf news - tax-refund-scheme-for-tourists-in-uae-takes-effect-what-you-need-to-know*
[12] *Dlapiper - The-anticipated-introduction-of-vat-in-bahrain-kuwait-oman-and-qatar*

Experts believe that the introduction of a VAT system in the GCC region will lead to increased transparency in accounting in the hospitality sector. Virtually all areas of the hospitality sector are anticipated be affected by the introduction of VAT, including prices in restaurants and other ancillary spends. The new VAT laws does not simply mean adding 5% to room rates. Hoteliers need to set up a system to incorporate VAT, ensure that their Property Management System (PMS) and other Point-of-Sale (POS) systems are charging it, and make sure all suppliers are also VAT registered. Hotels that are able to get more granular in their pricing and adopt a true Revenue Strategy will have a smoother transition to a VAT-loaded pricing structure[13]. This put additional operational costs and challenges for the various participants in the sector.

It is expected that the midscale hotels, identified as having the highest potential to offer the largest growth opportunity in the UAE hospitality sector, could be the one being most affected by the introduction of VAT as margins are already narrow for this sector. Travelers are increasingly becoming most price-conscious and are opting to stay in midscale properties so as to have a higher disposable income for other activities. Hoteliers need to be more strategic with VAT implementation when it comes to these properties as they cannot simply increase room rates by 5%. This is because if their rates are 5% higher than that of their competitors, it may directly lead to loss of clientele. On the other hand, for those travelling on behalf of VAT registered businesses, the 5% charge will be of no consequence. Moreover, for group bookings, many hotels have an addendum in their contracts which covers government changes, such as the introduction of new taxes and charges.

3.5. Technological Trends Driving UAE Hospitality Industry

UAE is known to be at the forefront of technological revolution for decades. Major technological advancements in restaurant and hotel technology are expected out of UAE's hospitality industry. Here are the key technology trends that have been driving the industry:

Customer Relations Management

With the ultimate goal of economic diversification in mind, the UAE hospitality industry has expanded to a great extent. As a result, there has been a dramatic increase in the supply of restaurants and hotels, however, demand has not been able to keep up at the same pace. As competition gets fierce to attract customers, the industry is moving its focus to improve the experiences of present customers and arts of retaining them. As a result, customer relations management (CRM) technology is taking the hospitality industry forward by its reigns. The need to retain current customers is manifesting itself in technology as innovations in customer tracking and development of POS software has started including CRM tools.

[13] *Duettocloud - internet-things-set-revolutionise-hotel-industry*

Use of POS Technology

Investment in point of sales or POS software is no longer a trend followed only by the restaurants, hotels are also implementing the same so as to ease operations, by gathering customer data and using it to improve customer experience. As an example, a restaurant billing software used in various hotels, allow the tracking of food sales at every possible outlet, including room service, so that it could be billed to one room without much hassle, giving a detailed report of every sale and customer. Moreover, gathering customer feedback digitally and feeding it directly to the software can help determine customer experiences, and also help create a database of all customers and their profiles so as to design discounts and schemes that can be specifically targeted to them similar to creating loyalty programs. This form of integration of technology has been the biggest trend in the hospitality industry seen in 2018 so far.

Smooth check-ins, luggage robots, internet of things, cloud passports, virtual reality are some of the technological innovations that are predicted to reshape consumer habits and marketing strategies within the next few years.

With more and more platforms available for guests to express satisfaction and grievance, the importance of such platforms and the usage of online listening tools are expected to become standard in the future. As investment in technology improves efficiency, search engines, social media, e-commerce portals, and other online marketing channels considerably contribute to improve customer satisfaction and consumer preference of hotel brand and locational awareness within tourism.

Looking at the way the world, travel and people are constantly evolving, it is important to have a hotel brand that speaks to the needs of a modern traveler and keep adapting to the fast pace of technological advancements. As an example, environmentally conscious guests now expect energy-saving green technology like solar panel systems. Industry expert like Colliers International predict that the hospitality establishments will need to be able to predict customer behavior in the next four to five years to keep abreast with growth.

Dubai Hospitality Market

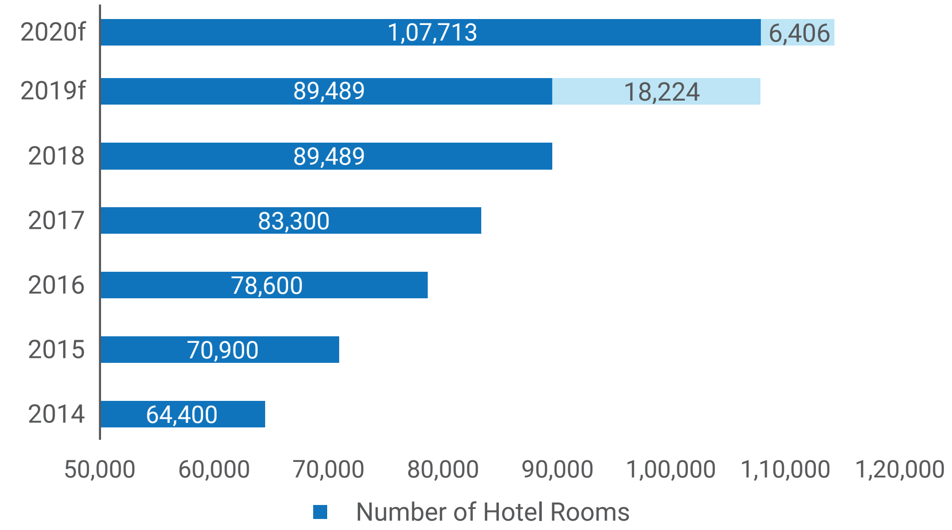
Dubai launched its Tourism strategy 2020 in May 2013, laying down a strategic roadmap so as to attract close to 25 Million visitors by the year 2020. The strategy is focused on increasing the number of repeat visitors, maintaining market share in existing source markets, and increasing market share in high potential markets. Dubai is aggressively investing in mega tourism developments which are scheduled to open before its flagship event World Expo 2020.

It is estimated that the hospitality sector contributed over Dh 150 Billion to GDP (4.6% of GDP) in 2017, and provided almost 570,000 jobs in Dubai (4.8% of total employment). The sector's direct contribution to GDP has increased by 138% in the 10 years to 2017 with employment in the sector growing by 119% over the same period[14].

4.1. Dubai Hospitality Fundamentals

Dubai has one of the highest numbers of hotel rooms in the GCC region with approximately over 89 thousand rooms as of Q4 2018. Moreover, this number is expected to cross over 107,000 rooms by the year 2020 as several new hotels are set to open in Dubai as the emirate prepares for the World Expo.

Figure 4.1: Hotel room supply to increase in the lead up to World Expo 2020

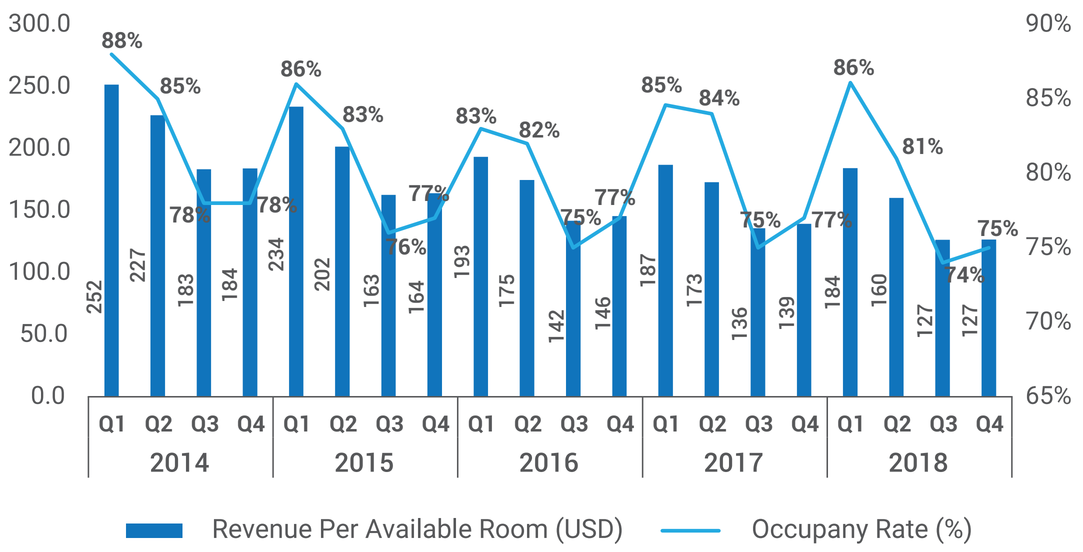


Source: JLL

Occupancy rate remained stable at a relatively healthy 75% as of Q4 2018, showing that demand for Dubai as a popular tourist destination continues. However, despite this high demand, hotels saw continued drop in revenue per available room and average daily rate. RevPAR figures in Dubai have fallen to their lowest levels in a decade at the end of 2018 at USD 127. The fall in oil prices, weak economic growth, and change in composition of visitors into the country are pushing hotel prices down. Average occupancy rate for the year 2018 is estimated to be at a healthy level of 79% as compared to 80% in 2017. Average RevPAR of USD 149.5 was recorded in 2018 as compared to USD 158.75 in 2017, a year on year drop of 6%.

[14] *Khaleej times – dubais-hospitality-sector-among-top-global-performers-*

Figure 4.2: Occupancy rates and RevPAR continue to face downward pressure



Source: JLL

A drop in RevPAR and ADR, despite running high occupancies, foreshadows a negative sentiment over the industry. For hotel owners, who own properties that are among the most expensive properties ever built, this means an even longer wait for return on their investment which does not generate positive interest. Where on one hand most of the hotels across the world operate at a breakeven occupancy rate of 60-65%, the expected cost of operating in Dubai is close to 75%. Therefore, in times where competition is high and the demand demographics are changing, many hotels find it challenging to meet owner expectations who simply compare current performance with that seen in previous years. It is important for them to realize that a small gain in the RevPAR Index may indicate that the hotel is performing ahead of the market, which is the best one can hope to achieve in the current market scenario.

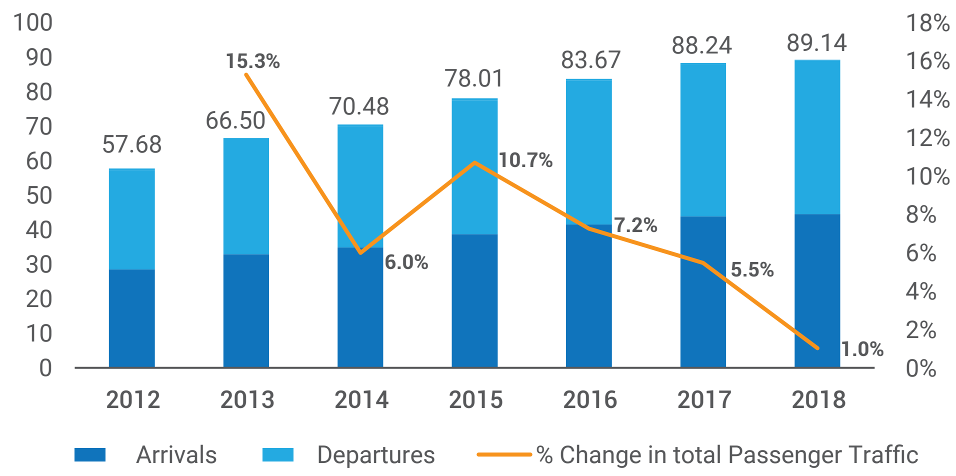
Dubai Airport

The Dubai International Airport is the primary airport serving Dubai, and is the world's busiest airport by international passenger traffic, and sixth-busiest by cargo airport in world. It is an extremely important contributor to the Dubai economy, as it directly employs approximately 90,000 people, and indirectly supports more than 400,000 jobs, while contributing close to USD 26 Billion to the Dubai economy. According to Latest Oxford Economics Report it is predicted that by the year 2020, the aviation and tourism related activities will contribute to over USD 53 Billion or 37.5% to Dubai's GDP, supporting over 754,500 jobs[15].

Dubai International Airport, has seen a consistent rise in passenger traffic over the year's crossing over 89 Million as of yearend 2018. Dubai being the most attractive business and tourist hub, continued to register the highest tourist inflows in the GCC region, due to its world class infrastructure and tourist attractions.

[15] *Gulf news - dubais-economy-in-2020*

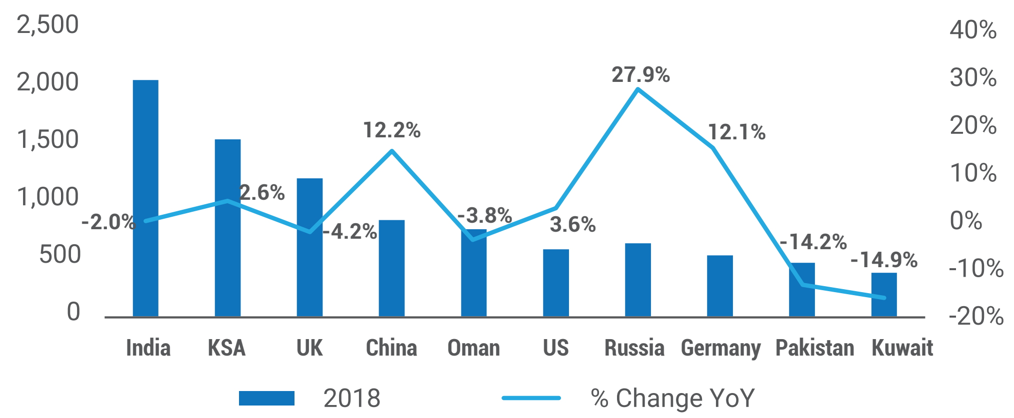
Figure 4.3: Dubai International Airport Passenger Traffic (in Millions)



Source: Dubai Airports

The number of visitors from China and Russia grew 12.2% & 27.9% to 0.86 Million & 0.68 Million respectively, as UAE eased visa requirements for Chinese and Russian travelers in the year 2016 and 2017. India continued to be the largest source market country with 2.03 Million travelers, followed by Saudi Arabia and the UK.

Figure 4.4: Visitors by Nationality



Source: Dubai Statistics Center

Changes in visa regulations has led to a rise in Dubai tourist traffic as Dubai saw a significant rise in tourist arrivals from China and Russia in 2017 following the introduction of free on-arrival visas for both of these nationalities. The free transit visa and VAT refunds for tourists introduced in 2018 will act as further boost for the airline industry moving forward. Moreover, the entertainment industry will continue to attract tourists to Dubai. One of the top tourist destinations, the Dubai Parks and Resorts attracted even more guests, with close to 2.8 Million people visiting in the fourth quarter of 2018, up 22% from the same period in 2017[16].

[16] *https://gulfnews.com/business/tourism/hotel-room-rates-across-dubai-drop-despite-surge-in-visitor-numbers-1.1547462391824*

4.2. World Expo 2020

Dubai will be the first city in the whole of MENA and South Asia to host the World Expo in the history of the event. The Expo is expected to have a significant impact on economy of Dubai and UAE as a whole. It shall encourage thousands of tourists to visit the country energizing business, hospitality, real estate, recreation, and many other tourism spots.

What is Expo?

The World Expo is a global destination for Millions of people to gather from all across the globe to showcase innovation, share ideas, encourage collaboration and celebrate human ingenuity. They are organized every five years and last for six months. The first World Expo was held in 1851 at London's Crystal Palace and was known as "The Great Exhibition of the Works of Industry of All Nations". It displayed about 100,000 objects showcasing the inventions from the industrial revolution. Some of the amazing inventions which were first brought to the world at an expo include the telegraph in London in 1851, the typewriter in Philadelphia in 1876, the diesel engine in Paris in 1900, the color TV in New York in 1964, IMAX film in Osaka in 1970, and wireless trams in Yeosu in 2012.

Similar to the Olympics, host cities are often decorated with new buildings and the governments invest heavily in infrastructure projects, like building and improving highways and public transportation systems, ahead of the show. In 2015, the most recent Expo was held in Milan, Italy, under the theme of "Feeding the Planet, Energy for Life". Inventions like the solar trees and energy saving elevators, useful for high-rise buildings were introduced to the world[17].

How did Dubai win?

Dubai became the most likely candidate for hosting Expo 2020 after Thailand withdrew its bid to stage the event. Other cities like were either thought to be too far away from majority of the world's population, or were suffering from bad press due to political instability. One of the factors which had perhaps helped Dubai more than the misfortunes of its rival bidders was that most of the new infrastructure required for the exhibition were already under planning, to deal with an expected surge in tourism. This meant that there was never a serious doubt that Dubai would be left with unused and unusable facilities after the Expo was over[18].

To understand the impact a World Expo can have on a city, we looked at a study conducted by the Bureau International des Expositions (BIE), which stated that in 2010 more than 73 Million visitors and 246 participating governments, international organizations, and Non-Governmental Organizations (NGO) attended the Shanghai Expo. For the Dubai Expo, close to USD 7 Billion has reportedly been earmarked for development and infrastructure projects, which will help build infrastructure to support approximately 25 Million visitors that are expected in the six months spanning the event. Even though we see a significant difference between the visitors in Shanghai Expo and the expected visitors for Dubai Expo, we need to keep in mind that only 5.8% or 4.2 million visitors that went to Shanghai were foreigners, according to government data. However, Expo 2020 Dubai expects 70% (approx. 17.5 Million) of visitors to come from outside the UAE, which if true will be the highest proportion of international visitors in the 168-year history of World Expos. The strategic location of Dubai, located within four hours of a third of the world's population, will act as a bridge between developed and developing nations giving the Dubai Expo an added potential for having a wider impact leading up to the event[19].

What can visitors expect?

The six-month-long exhibition will, for the first time, bring together, the best of trade, innovation and products from around the world to Dubai and other parts of the UAE. Al Wasl Plaza will be the heart of Expo 2020. It is said to bring together a physical manifestation of the main theme of the Expo, which is "**Connecting Minds, Creating the Future**".

The city is planning to roll-out the widely anticipated 5G services for the event, making it the first nation in the Middle East, Africa and South Asia to do so. The organizers expect the 5G network to be the backbone of the smart District 2020, which is an entirely new suburb development, focused primarily on sustainability and innovation. It will house the main exhibition center as well as contemporary residential developments, global retail brands and modern office space along with social and cultural amenities and more than 45,000 green spaces[20].

In addition to the District 2020 site, the government is funding new roads, rail links and an expansion of its existing international airport to cater for the influx of travelers. New high-profile developments are also aiming to attract the Expo crowds, from the waterfront complex at Deira Islands and the mammoth mixed-use Dubai Water Canal to the landmark Al Habtoor City project with its luxury hotel and residential offerings and the modern, family-orientated Bluewaters Island[21].

Potential Impact on Dubai Economy

Over the six months spanning the event, UAE is expected to earn a total revenues of approximately Dh140 billion (approx. USD 38 Billion) from Expo-related activities. Estimates also suggest that between 270,000 and 300,000 jobs will be created as part of preparations, with most jobs coming between 2018 and 2021 mainly from the construction sector[22].

In a city where hotel occupancies are already high (74% as of Q3 20118, according to JLL), Expo 2020 is estimated to require an additional 50,000 rooms in over 200 properties of all categories from budget through to luxury. This is expected to create 100,000 new jobs in tourism and hospitality sector. Such a massive impact

[17] *Thenational - dubai-expo-2020-all-you-need-to-know*
[18] *Oxfordbusinessgroup - hosting-world-world-expo-2020-set-provide-major-boost-economy*

[19] *Deloitte*
[20] *Dubai chronicle - what-will-dubai-gain-from-hosting-expo*
[21] *Arabian gazette - Expo-2020-cement-dubai-leading-global-city*
[22] *Oxford business group - hosting-world-world-expo-2020-set-provide-major-boost-economy*

is therefore bound to be felt in neighboring cities, particularly in Abu Dhabi, as will have to absorb part of this demand giving a boost to their economy as well. Industry experts are expecting a significant improvement in the growth rates of the economy reflecting on how Shanghai achieved 13% GDP growth in the five years leading up to the 2010 Expo[23].

Life after EXPO

Over 50,000 hotel rooms are expected to be delivered in Dubai from 2014 to the build up to Expo 2020, so as to provide accommodations for the 25 Million visitors anticipated to come to the region over the course of the six-month event. 50 percent of this demand has been constructed as of 2018 with a large portion of the supply to be completed during 2019. The biggest question facing the hospitality sector therefore, is what will happen to this additional infrastructure when the event is over.

An important question here is whether the market will experience an imbalance of supply and demand, or will it have matured enough and learned to survive on lower occupancy or yields. To answer such questions, we need to reflect on the economic sustainability of countries who have hosted the Expo before Dubai. The Shanghai World Expo in 2010 reportedly costed more than the 2008 Beijing Olympics but it provided returns in real estate investment and infrastructure improvements in the city. Entirely new sections of the Shanghai metro were developed to accommodate the Millions of visitors exploring the city and new buildings sprung up in a previously underdeveloped districts. The Milan World Expo in 2015 sought a more sustainable approach. Even though most of the core development build for the Expo has since been dismantled, it gave the city a much-needed platform to promote itself as an investment destination for global investors[24].

Dubai, likewise, has a legacy plan in place focusing especially on its population growth which is predicted to nearly cross five Million by the year 2030. According to officials, the site could ultimately become a conventional residential destination as Dubai population grows with an expanding demand for affordable housing with family-friendly amenities which contribute to a high quality of life. Since Dubai won the chance to host the Expo in Nov 2013, new supply has entered into the market at an accelerated pace. However, the market has been able to absorb this additional supply as seen by the change in occupancy rate over the years, which has dropped only slightly from 82% in 2014 to 78% in 2018. But in order to maintain the occupancy rate, hotels have had to compromise on their ADRs which have dropped from USD 256 to USD 188 over the same period. During the six month period of the Expo, both the occupancy rates and ADRs are expected to improve owing to demand from the estimated 25 million tourists for the event in 2020. Based on the good absorption rate of supply for the period 2014 to 2018, we expect occupancy levels to revert back to pre-Expo levels after the event concludes. Tourism industry is most certainly expected to witness a boost due to the recognition of Expo as a global event. Tourists from all over the world would be attracted to Dubai even after the event is over to experience the new attractions developed. This can help improve the overall industry fundamentals which have witnessed a deterioration. However on the other hand, with the development of the tourism industry in important source markets like Saudi Arabia, there is potential for tourist inflows to be impacted.

A joint report by KPMG and International Hospitality Consulting Group which looks at Dubai's hospitality sector beyond 2020, highlights the growth of theme park tourism, and health tourism, as key contributors to the future of the emirate's hospitality sector especially as there are currently no significant theme park destinations between Singapore and Paris. Local government has also supported the growth of medical tourism, through the launch of initiatives such as the Dubai Portal for Health Tourism website. The site allows tourists to travel to the UAE for their medical needs and choose from a wide range of specialties and services.

As the Expo installations are repurposed, it is anticipated that the number and scale of these attractions will continue to grow. Significant tourism development such as IMG World of Adventure, Dubai Parks and Resorts and cultural attractions like the Louvre in nearby Abu Dhabi, are expected to steadily attract leisure travelers for the decade beyond 2020.

[23] *Deloitte*

[24] *Gulf news - dubai-building-a-legacy*

Abu Dhabi Hospitality Market

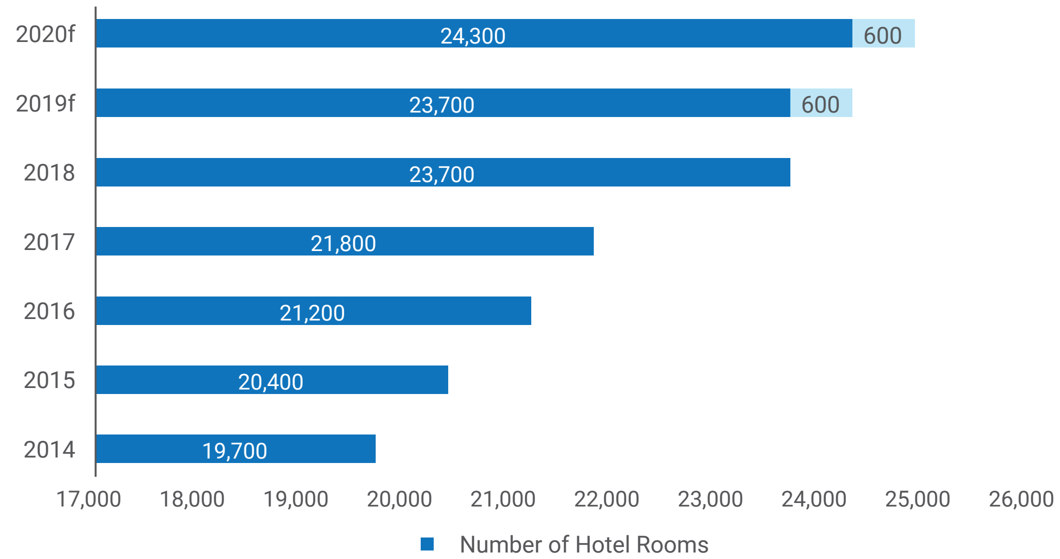
Approximately, 50% of Abu Dhabi's USD 226.88 Billion Gross Domestic Product (as of 2018), currently comes from oil industry but the government has set a target of diversifying the economy by the year 2030 and is banking on leisure industry to do so, as a diversified demand base is less susceptible to external forces. While Abu Dhabi's hospitality industry has historically been driven by corporate and MICE (meetings, incentives, conferences, and exhibitions) visitation, leisure tourism has witnessed significant growth over the past few years supported by the development of demand generators which include Saadiyat Island, Yas Waterworld, Yas Mall, and the Du Arena[25].

Abu Dhabi has enjoyed the strongest growth in the Travel & Tourism spending in the UAE region. Tourism GDP has increased more than threefold since 2006 from USD 1.0 Billion to USD 3.2 Billion in 2016. Growth has been faster than that seen in Dubai, supported by an even greater expansion in global connectivity, however we need to acknowledge the lower base here. Moving forward we expect growth to slow down over the next ten years as compared to the past decade. Although Abu Dhabi should continue to outpace Dubai in percentage terms, spending volumes and the level of Travel & Tourism GDP are predicted to remain well below that in Dubai due to more limited overall capacity for attracting visitors[26].

5.1. Abu Dhabi Hospitality Fundamentals

The total number of hotel rooms as of Q4 2018 is estimated to by approximately 23,700, which is expected to see a boost of over 5% in by the year 2020. The most notable hotel scheduled for delivery in 2019 is The Fairmont Hotel, located in the Marina Peninsula, which will bring approximately 600 keys to the hospitality market.

Figure 5.1: Hotel room supply to experience health growth



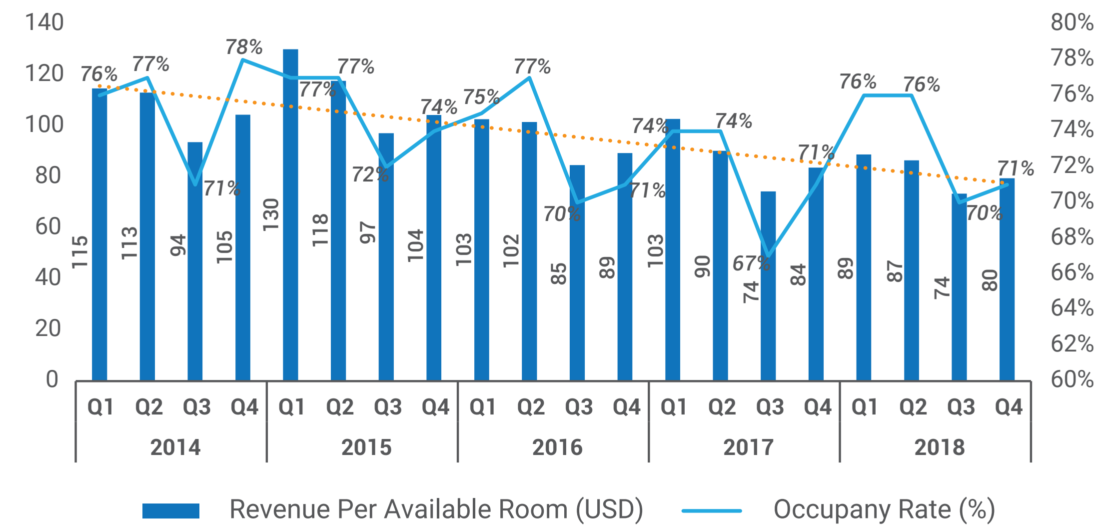
Source: JLL

[25] *Breaking travel news - abu-dhabi-tourism-sector-boosted-by-growing-leisure-segment*

[26] *WTTC - economic-impact-research cities-2017*

Abu Dhabi achieved the highest hotel occupancy figures of any GCC city, with an impressive rate of 76% in Q1 and Q2 of 2018. it is believed that Abu Dhabi will experience a similar level of occupancy rate over the coming months, thanks to world-class events that the city is set to host, such as the International Franchise Conference & Exhibition, The Arab International Dental Conference & Exhibition, the International Real Estate & Investment Show, and more[27]. Average occupancy rate for the year 2018 is estimated to be 73%, an improvement from 71.5% recorded in 2017. However, Average RevPAR dropped 6% to USD 82.5 compared to USD 87.75 in 2017.

Figure 5.2: Occupancy rates and RevPAR continue to face downward pressure



Source: JLL

In July 2018 Abu Dhabi's government slashed hospitality-related fees to help boost investments in its travel sector. Municipality fees were cut by half to 2% whilst tourism fees were slashed from 6% to 3.5%. The municipal fee for each hotel room was also reduced from AED15 (USD 4.10) to AED10 (USD 2.70). These changes are expected to encourage investments across Abu Dhabi's tourism and hospitality sector. This will help attract visitors and increase occupancy rates, revenues and the average length of stay, increasing the tourism sector's contribution to GDP in the country[28].

Abu Dhabi Airports

Abu Dhabi features the United Arab Emirates' second-largest airport, the Abu Dhabi International Airport (AUH), which provides a base for more than 30 airlines flying to over 120 destinations in more than 50 countries. The airport has the added advantage of being well-connected with the city center through public transport aiding in enhancing tourist experience in the city[29].

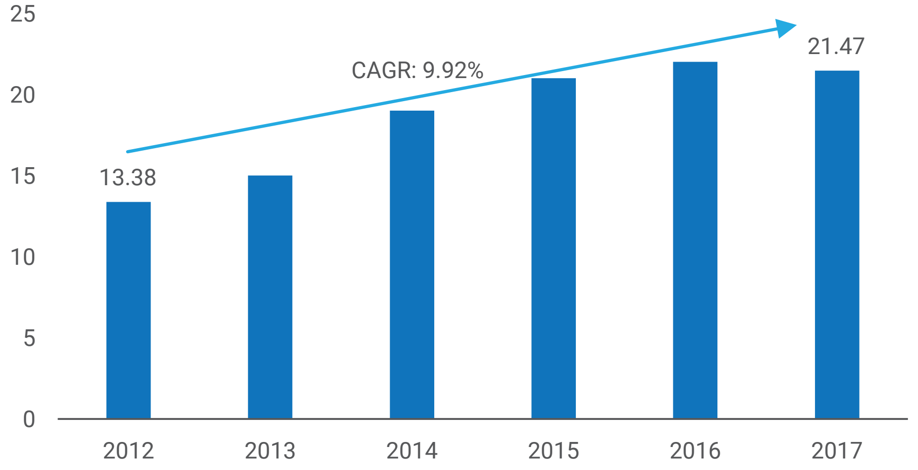
Abu Dhabi International Airport has seen a compounded growth 9.92% in passenger numbers in the period January to November 2017 (21.47 Million passengers), compared to the same period in 2012 (13.38 Million passengers).

[27] *cvent - abu-dhabi-emerging-player-mice-industry*

[28] *Reuters - us-abu-dhabi-tourism/abu-dhabi-cuts-fees-to-boost-tourism-hospitality-sectors*

[29] *cvent - abu-dhabi-emerging-player-mice-industry*

Figure 5.3: Abu Dhabi International Airport total passengers (in millions)



Source: Knight Frank

5.2. Major Tourist Attractions in Abu Dhabi

Yas Island is an island in Abu Dhabi which occupies a total land area of 25 sq. km. Development projects in the region were initiated in the year 2006 by Abu Dhabi based Aldar Properties, with the aim of turning the island into a multi-purpose leisure, shopping and entertainment center at an estimated total cost of over a Billion dollars. This investment was planned as a multi-staged project to unfold in phases until 2018, with project stakeholders foreseeing the possibility of extending development by adding new venues and upgrading existing facilities.

The added advantage to Yas Island is that it is within a flight radius of only around four hours to a population of around 1.5 Billion people from India and Russia alone. Moreover, the island is at a close driving distance from Abu Dhabi International airport enhancing the experience of tourists travelling to visit the island. In 2017, over 27 Million tourists visited Yas Island which further increased to approximately 30 Million in 2018. Authorities plan to attract around 48 Million visitors to Yas Island by the year 2022[30].

The opening of the Warner Bros. World Abu Dhabi marks the latest addition to Yas Island's offering of world-class tourism and entertainment attractions, serving to strengthen the island's position as a leading leisure and entertainment destination in Abu Dhabi. It is the biggest indoor theme park ever built where the annual attendance target is between 1.5 and 2 Million. The park features characters from Warner Bros's franchises, such as Looney Tunes, DC Comics, Hanna-Barbera, and others. The park is located on Yas Island near other famous tourist attraction points like the Ferrari World and Yas Waterpark. This park is an attempt by Abu Dhabi to get into the Themed Entertainment Association (TEA) rankings of the top 25 world most popular amusement parks which is dominated by large parks in the United States and Asia.

Moreover, in 2022, the first SeaWorld Park, outside the United States will open on Yas and is expected to be another indoor attraction point in Abu Dhabi. In addition to rides and world-class aquariums, it will feature up-close animal experiences. Crucially, it will also include the area's first dedicated marine-life research, rescue and rehabilitation center with facilities and resources for the care and conservation of local marine life[31].

[30 31] *Forbes - how-abu-dhabi-is-building-its-legacy-with-leisure*

UAE Hospitality Industry Mergers and Acquisitions

UAE companies in the hospitality sector have been actively participating in merger activities over the years so as to gain market share, streamline business operations, and expand their global footprint. There were several acquisitions from global players in 2018 as UAE continues to be an attractive location in the GCC region due to its established hospitality industry. Merger and Acquisition activities has witnessed an increase in number of deals taking place in between 2017 and 2018 with multiple transactions being cross-border nature. Based on the disclosed acquisition value, the largest deal was the acquisition of Jawad Restaurants by Aldar Properties at USD 987 Million in July 2018. The M&A activities in the hospitality sector are expected to further expand on the back of business consolidations and inorganic growth strategies implemented by companies.

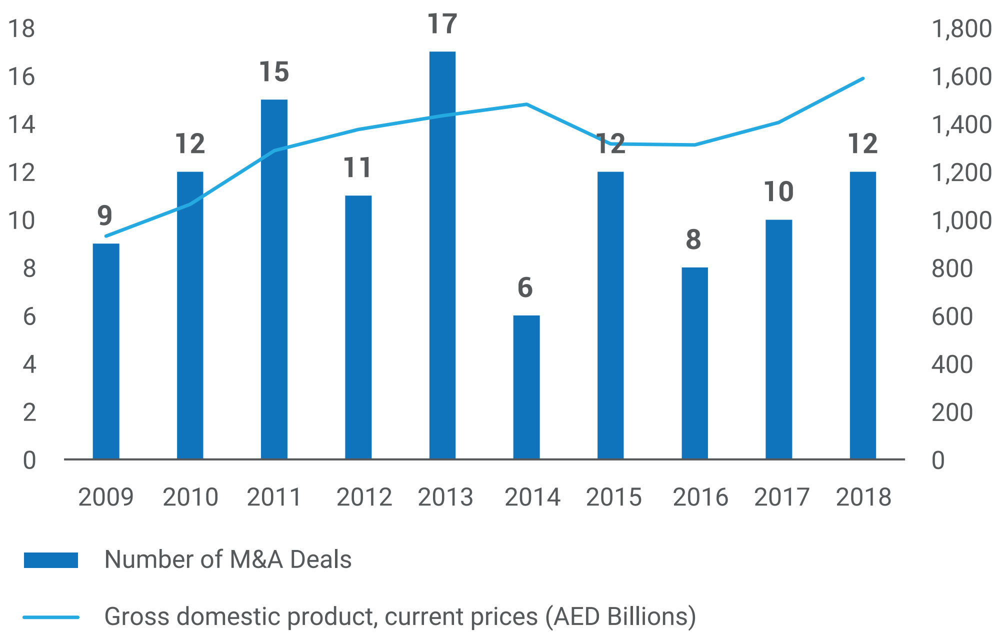
Table 6.1: Mergers and acquisitions in 2018

Target Name	Acquirer Name	Deal Status	Deal Value (USD Million)	Announcement Date	Acquirer Nation	Target Nation
Jawad Restaurants LLC	Aldar Properties PJSC	Completed	987.0	5/7/2018	UAE	UAE
Kcal Healthy Fastfood	Abu Dhabi National Hotels	Completed	598.5	10/31/2018	UAE	UAE
Tourism Development & Investment Co	Webjet Ltd	Completed	173.0	11/4/2018	Australia	UAE
Sama Dubai LLC	Simbisa Brands Ltd	Pending	66.0	2/14/2018	Zimbabwe	UAE
Action Hotels plc	Action Re Co Kscc	Completed	13.3	6/29/2018	Kuwait	UAE
Nuran Marina Hotel Apartments LLC	Carnival Group	Completed	N.A.	7/19/2018	India	UAE
Global Legends Series Ltd	Publicis Groupe Holdings BV	Completed	N.A.	4/3/2018	Netherlands	UAE
Yum Yum Tree Food Court Co	National Catering Co Ltd WLL	Completed	N.A.	10/2/2018	UAE	UAE
Shuaa Capital PSC	National Catering Co Ltd WLL	Completed	N.A.	10/2/2018	UAE	UAE
Sushi Art Group	Ehosting Datafort FZ LLC	Completed	N.A.	8/6/2018	UAE	UAE
Cravia Inc LLC	VFS GCC LLC	Completed	N.A.	3/12/2018	UAE	UAE

Source: Reuters

- Abu Dhabi National Hotels secured a Dh1.6 billion loan from First Abu Dhabi Bank to fund its acquisition of a number of Dubai hotels. ADNH has agreed to buy from Emaar Properties the Address Dubai Mall, Address Boulevard, Address Dubai Marina, Vida Downtown and Manzil Downtown. Together, they account for around 1,000 hotel rooms. ADNH is seeking to strengthen its presence in Dubai and expand its portfolio of luxury hospitality assets[32].
- Australian online travel company Webjet Limited announced that it made an agreement to acquire UAE-based hotel aggregator Tourism Development & Investment Co for USD 173 million. The transaction is expected to deliver considerable cost and revenue synergies over the short to medium term.
- Action Hotels PLC was acquired by Action Real Estate Co KSCC in a deal that values the hotel developer and owner at GBP35.4 million. At present, Action Hotels has a significant debt burden. The company recorded a 40% increase in debt to USD320 million from USD228 million in 2017. It also more than doubled its pretax loss to USD14.1 million from USD6.3 million that same year.

Figure 6.1: Total Number of M&A Deals



Source: Reuters, Marmore Analysis

[32] *The national - abu-dhabi-national-hotels-secures-dh1-6bn-loan-for-acquisitions*

Key Players Analysis

With one of the most attractive hospitality market in the world, UAE is home to several large domestic and international players competing to serve tourists from all across the world. While the U.A.E. has attracted several prominent international firms like the Marriott, Hilton, Hyatt, Emirati companies also play a key role in the country's hospitality industry. We discuss in detail two publicly listed companies in the hospitality sector, namely National Corporation for Tourism and Hotels and Abu Dhabi National Hotels Company, however, real estate players like DAMAC Properties, Emaar Properties, and Jumeirah are highly influential in the industry in attracting tourist into the region.

Table 7.1: American hospitality giants in the UAE:

Company	Locations of U.A.E. Properties	Hotels in the U.A.E.	Hotel Rooms in the U.A.E.
Marriott	Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al Khaimah, Sharjah	57	16,981
Hilton	Abu Dhabi, Dubai, Ras Al Khaimah, Sharjah	21	6,914
Hyatt	Abu Dhabi, Dubai	8	2,800

Source: US-UAE Business Council, Jan 2019 Report

National Corporation for Tourism and Hotels (NCT&H) is a public shareholding company engaged in the ownership, management and investment in hotels and leisure complexes across the United Arab Emirates.

The Company is organized into five business segments:

- Hotels segment: rooms, food and beverages;
- Retail segment: beverage sales services
- Catering segment: contract basis;
- Transport segment: operates fleet of deluxe taxis and buses, for the public and customers in Abu Dhabi and Al Ain,
- Holding company: responsible for managing investments and, development of hotels

Some of the hotels which the Company owns within the United Arab Emirates are Abu Dhabi Inter-Continental Hotel, Danat Al Ain Resort, Al Dhafra Beach Hotel and Danar Resort.

Table 7.2: Key financials - National Corp. for Tourism and Hotels

Million USD	2013	2014	2015	2016	2017	2018
Revenue	195.1	212.7	231.1	220.9	198.2	193.1
Operating Income	29.7	33.3	36.3	39.8	25.4	24.2
Net Income	33.6	43.2	45.1	46.7	28.3	27.4
Total Assets	338.2	342.4	328.9	352.7	576.2	601.5
Equity	188.5	197.2	195.4	213.8	440.1	464.2

Source: Reuters Knowledge

Table 7.3: Key Ratios - National Corp. for Tourism and Hotels

Nat. Corp. Tourism	2013	2014	2015	2016	2017	2018
Profitability						
Gross Margin	17.9 %	18.5%	19.3%	21.5%	16.9%	16.6%
EBITDA Margin	22.9%	22.9%	22.7%	22.0%	17.5 %	17.4%
Operating Margin	15.2%	15.6%	15.7%	18%	12.8%	12.5%
Net Margin	17.20%	20.3%	19.5%	21.2%	14.3%	14.2%
Liquidity						
Current Ratio	1.15	1.00	1.84	2.16	2.31	2.81
Cash Cycle (days)	97.0	27.6	30.3	26.8	10.1	0.1
Leverage						
Assets/Equity	1.79	1.74	1.68	1.65	1.31	1.30
Debt/Equity	0.53	0.44	0.39	0.39	0.18	0.16
% LT debt/Total Capital	23.3%	1.1%	21.5%	21.8%	11.6%	11.0%
Operating						
Avg A/R Days	88.7	84.7	88.2	84.3	65.7	60.7
Avg Inventory Days	8.3	8.6	8.8	9.4	10.5	12.3
Avg A/P Days	-	65.8	66.6	66.9	66.1	73.0

Source: Reuters Knowledge

The revenue has decreased by 2.6% to USD 193Mn, the net income has fallen by 3.2% to USD 27.4Mn in the full year 2018 compared to 2017. This can be attributed to the increase in amount of new hotel supply which has resulted in fall of occupancy rate & ADR. Also, the type of new hotel supply entering the market created a shift in the pricing landscape, with more offerings in the Midscale segment.

Abu Dhabi National Hotels Company is a United Arab Emirates-based company engaged in the tourism and hospitality industry sector. The Company's main activities include the ownership and management of hotels and undertaking related services.

The Company is organized, along with its subsidiaries, into five business segments:

- Hotels
- Retail services
- Catering and contract services
- Transport services
- Holding Company

The Company owns seven hotels in the United Arab Emirates, which include Hilton International Abu Dhabi, Hilton International Al Ain, Abu Dhabi Sheraton Hotel, Le Meridien Abu Dhabi, Mercure Jebel Hafeet Hotel, Sofitel Dubai and Park Hyatt Abu Dhabi, which are managed by international hotel operating companies. The Company holds 100% investments in its subsidiary, namely Al Ghazal Transport; 51% in its joint venture, namely Abu Dhabi National Hotels Compass Middle East LLC, and 38.46% in associated company, namely Overseas Tourist Investment Company Limited.

Table 7.4: Key financials – Abu Dhabi National Hotels Company

Million USD	2013	2014	2015	2016	2017	2018
Revenue	336.8	364.9	374.7	352.9	347.1	309.0
Operating Income	26.6	38.9	41.4	38.2	41.4	31.1
Net Income	58.6	54.6	64.5	66.4	67.5	65.7
Total Assets	2,684.6	1,313.1	1,311.3	2,689.0	2,652.3	2671.8
Equity	2,179.5	911.3	962.6	2,247.4	2,281.1	2312.5

Source: Reuters Knowledge

Table 7.5: Key Ratios – Abu Dhabi National Hotels Company

Abu Dhabi National Hotels Co	2013	2014	2015	2016	2017	2018
Profitability						
Gross Margin	13.9%	14.7%	14.6%	14.1%	16.9%	14.6%
EBITDA Margin	22.2%	26.3%	27.4%	27.4%	28.4%	25.8%
Operating Margin	7.9%	10.6%	11.1%	10.8%	11.9%	10.1%
Net Margin	17.4%	15.0%	17.2%	18.8%	19.4%	21.3%
Liquidity						
Current Ratio	1.32	1.15	1.26	2.47	2.70	2.34
Cash Cycle (days)	118.1	0.7	(16.5)	(15.4)	(7.0)	(28.7)
Leverage						
Assets/Equity	1.23	1.44	1.36	1.20	1.16	1.16
Debt/Equity	0.17	0.33	0.26	0.15	0.13	0.10
% LT debt to Total Capital	11.9%	20.5%	16.2%	11.3%	9.2%	7.4%
Operating						
Avg A/R Days	103.0	67.6	48.7	51.1	53.5	60.2
Avg Inventory Days	15.1	12.1	10.0	9.6	10.3	9.9
Avg A/P Days	-	79.0	75.2	76.1	70.8	98.8

Source: Reuters Knowledge

Revenue for Abu Dhabi National Hotels has seen a drop of 11% to USD 309Mn in 2018 compared to USD 347Mn in 2017. In 2018, Abu Dhabi hospitality market had seen a decline of 5.1% in ADR as compared to 2017. However, ADNH hotels managed to restrict the fall in net income to 2.7% from USD 67.5mn in 2017 to USD 65.7mn in 2018.

Jumeirah Group

Jumeirah Hotels and Resorts is a luxury hotel company which operates twenty five properties in eight countries, which includes its flagship project, The Burj Al Arab hotel in Dubai. In the UAE, Jumeirah has 15 properties with over 4,700 rooms. In November 2018, Jumeirah's Saadiyat Island resort, a 293-room beachfront property complete with seven restaurants, opened just outside downtown Abu Dhabi. In addition to developing luxury properties, in early 2018, Jumeirah launched Abeel House, a new hotel concept aimed at solo travelers, couples, and families. This is being done as part of the structural shift seen within the UAE hospitality industry with focus on three and four star hotels so as to address the increased demand and existing deficiency. Moreover, Jumeirah owns the Emirates Academy of Hospitality Management (EAHM) which is the first internationally accredited institution in the Middle East to offer undergraduate and graduate degrees in hospitality business. According to Educations.com, a global education research company, the institution has become one of the top ten hospitality schools in the world[33].

Emaar

Founded in 1997, Emaar develops commercial real estate projects all across the globe and the company is most famously known for building the tallest building in the world, the Burj Khalifa. The group owns and manages a portfolio of hospitality assets and brands including Hotels and Resorts, Vida Hotels and Resorts, and Rove Hotels. Combined, its 13 properties have over 3,100 rooms. Emaar is the official Hotel and Hospitality Partner of the World Expo 2020 to be held in Dubai. The Emaar Hospitality Group is focusing on hiring UAE nationals for jobs across the hospitality industry with plans to create over 5,300 jobs in the next five years in Dubai, Abu Dhabi, Sharjah, Ras Al Khaimah, and Fujairah[34].

DAMAC

Since 2002, DAMAC Properties has distinguished itself for delivering commercial, luxury residential, and leisure properties across the UAE. As of 2018, its portfolio includes 13,000 hotel rooms, hotel villas, and serviced hotel apartments, managed by its wholly owned subsidiary DAMAC Hotels & Resorts[35].

[33] *jumeirah-group/portfolio/the-emirates-academy-of-hospitality-management/*
[34] *Hotelier Middle East -emaar-to-create-over-5300-new-hospitality-jobs-in-the-next-five-years*
[35] *US-UAE Business - Hospitality-Tourism-Leisure-report-January-2019*

Conclusion

UAE is progressing well with its diversification plan and is attracting tourists from all over the world. With several development projects already in place, the trends that are guiding the hospitality sector are coming into full force. The challenge facing the hospitality, leisure and retail sectors is how to sustain business beyond Expo 2020. Careful planning is needed to avoid over-shooting the required development and for UAE to build and maintain attractions and events that will encourage future visitors to the destination in the generations to come.

When a market is packed with choices in the likes of the one we see in UAE, there are bound to be some drawbacks. Dubai as a market is seeing accelerated construction so as to meet the demands from the upcoming Expo, leading to a possibility of a supply overhang in the future. Since occupancy rates are already high, it can be quite difficult to attract additional guests without compromising on prices (measured by the hotel's Average Daily Rate or ADRs), especially as the source markets and visitor demographics are changing with increased demand for low to mid-range hotels. Sluggish economic conditions in the region, global currency trends and lower oil prices have contributed to falling property prices and poor market sentiment in the past. As there is a significant portion of supply coming to market in the near future, the short to medium term market outlook looks to be challenging in the UAE.

However, the long-term outlook remains positive on the back of strong economic and business fundamentals that can support the market beyond Expo. Moreover, the changing technological landscape may bring new challenges for the hospitality sector, but on the other hand, leveraging these new technologies and turning them into opportunities may result in greater cost efficiency and improved customer loyalty for hospitality operators. Nowadays, consumers are expecting greater personalization, which in turn requires hotels to collect and analyze increasing amounts of data. Therefore, hotels must now also take greater precautions in ensuring that the data is adequately protected so as to build and maintain customer trust. Going forward this may imply greater investment of resources in loyalty programs and a myriad of promotional activities in the print and electronic media. Such innovative marketing may be favorable for occupancy, however this would not be of much help to improve the pressure on hotel ADRs, especially for luxury properties.

The UAE hospitality sector is also facing competition from its other GCC peers and from established tourist destinations such as Egypt, Jordan and Turkey in Middle East and North Africa. However, increased investments by the UAE government in the tourism sectors along with additional initiatives such as easing of visa norms, and a suite of attractive tourist destinations is expected to drive the demand for tourism across the region going forward.

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