



Cavendish
Maxwell

Dubai's Hospitality Sector in a Post-Pandemic World

*A swift recovery and return to
sustainable growth*





Skyrocketing tourism and robust economic growth

What's behind the remarkable post-pandemic performance of Dubai's hospitality industry?

Dubai's tourism triumphs in 2023

Despite the curveballs thrown by COVID-19 and recent global conflicts that disrupted travel worldwide, Dubai is defying the odds and emerging as the superstar of the tourism world.

In the first half of this year, a staggering 8.5 million globetrotters chose Dubai as their destination, breaking the city's record for number of visitors. Fast forward to July 2023, and that number has surged to a jaw-dropping 9.83 million. Freshly released data by Dubai's Department of Economy and Tourism also reveals that in 2022, Dubai hosted 14.36 million international overnight visitors. By comparison, in 2021, just 7.26 million stayed overnight.

The city hasn't just bounced back, it has soared past regional and global expectations. In fact, during 2022, Dubai reached 86% of its pre-pandemic visitor levels, beating even the most optimistic projections by the United Nations World Tourism Organisation for international tourist arrivals in 2023.

Fueled by country-wide economic growth

One of the key drivers behind Dubai's success as a tourist and business destination is the UAE's strong economic performance. While the rest of the world has been grappling with soaring inflation rates, the UAE has managed to keep things in check. In 2022, inflation in the UAE stayed at a modest 4.8%, thanks in part to generous government subsidies, particularly for essentials like food and fuel. In comparison, the rest of the world experienced much higher inflation at 8.7%, according to the International Monetary Fund. Looking ahead, the UAE is on track to lower inflation to 3.1% in 2023 and return to a stable 2.6% rate in 2024.

Alongside keeping inflation in check, the UAE has also exceeded expectations in economic growth, despite increasing concerns about a global recession. In 2022, the UAE saw an economic growth rate of 7.6%, the highest in over a decade. Although experts at Fitch foresee a slight dip to 3.3% for the UAE in 2023 due to oil production cuts, the country's economy has been recognised globally for its impressive post-pandemic recovery. The tourism sector is a clear reflection of the UAE's wider economic successes. The sector's GDP growth is set to nearly double from 2021 to a remarkable 36.1%, and by 2024, it's predicted to reach levels we haven't seen since 2019. Back then, travel and tourism contributed a substantial 11.6% to the country's GDP, raking in AED 180.4 billion.

Did you know that the World Travel and Tourism Council crowned Dubai as the spending capital of 2022, with international tourists splurging an incredible USD 29.4 billion in the ultra-modern metropolis?

Dubai – the shining star

Dubai is the clear economic driver and tourist magnet for the UAE. This year, the Emirate took its ambitions to a whole new level with the launch of the Dubai Economic Agenda – D33. The aim is to double the city's economy within the next decade by boosting foreign trade and foreign direct investment to solidify Dubai's spot among the top three global cities for both travel and business.

In 2022, Dubai also added some new attractions, such as Expo 2020 (October 2021 to March 2022), which drew a whopping 24 million visitors. The city also unveiled captivating wonders like the Museum of the Future, The Club at Palm West Beach in Palm Jumeirah, Terra Solis by Tomorrowland, and Dubai Hills Mall. But Dubai isn't resting on its laurels. It's gearing up for even greater heights with plans for more attractions, additional hotel rooms, tourist-friendly policies, and a laser focus on sustainable tourism, especially with COP 28 set to take place in Dubai this year.

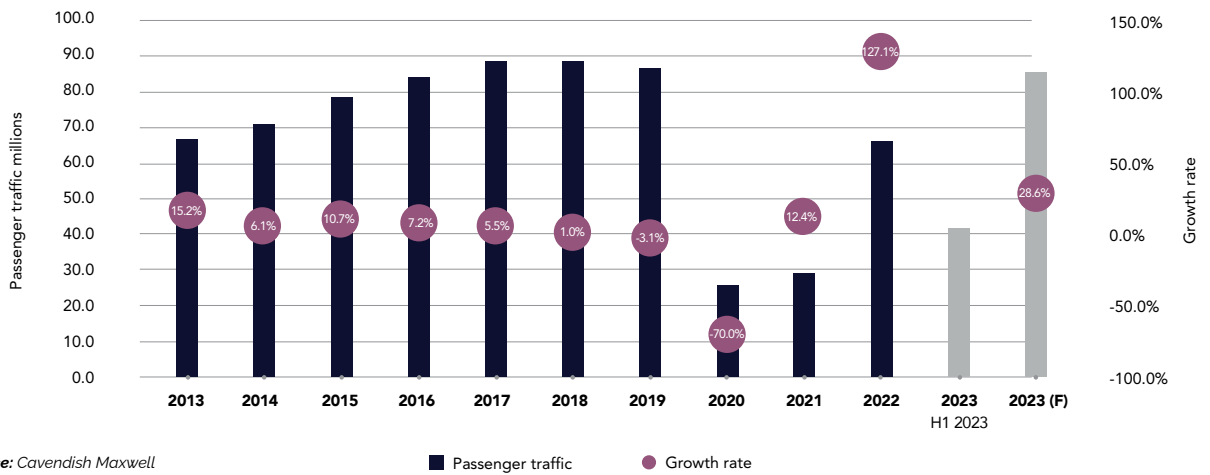


Inside Dubai's airports – what do the numbers say?

Every family vacation, solo adventure, and business trip to Dubai starts at one of Dubai's two international airports: Dubai International Airport (DXB) and Al Maktoum International Airport (DWC).

In 2022, DXB experienced a 127% surge in annual passenger traffic, welcoming 66.1 million travelers, exceeding the airport's own ambitious forecast of 64.3 million. This year, DXB beat all expectations again, welcoming 41.6 million passengers to Dubai in the first half alone. As a result, the total 2023 estimate has been revised upwards from 78 million to 85 million passengers.

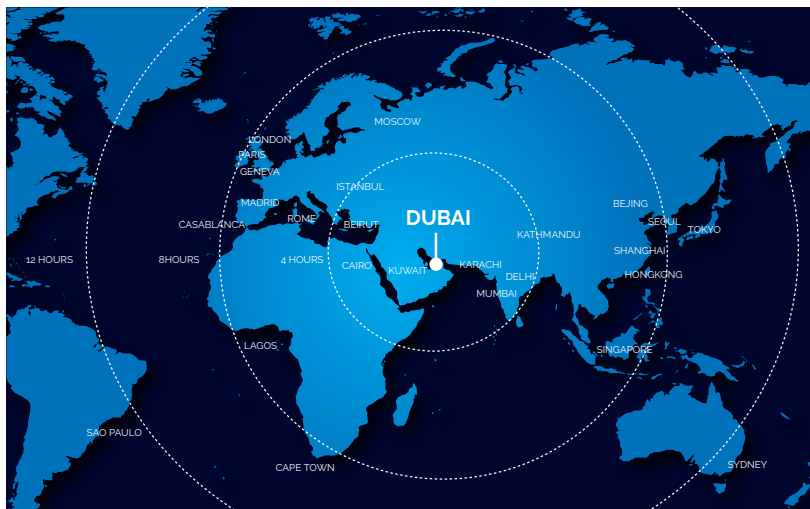
Airport arrivals - dubai international airport



Source: Cavendish Maxwell

While DXB continued its role as Dubai's primary international airport, Al Maktoum International Airport (DWC) made a grand reopening in June 2022. Remember, these two airports aren't just regional hubs – they're global connectors, bridging East and West. In fact, during the 2022 World Cup, they played a crucial role by offering numerous shuttle flights to Qatar.

Take a look at this graphic to get a sense of how well-connected Dubai is to major cities worldwide, all within a mere four-hour flight.



Source: Cavendish Maxwell

Dubai's tourism outlook

Forecasts suggest Dubai is on track to welcome more than the 16.7 million visitors it saw in 2019. One of the secrets to this success has been Dubai's welcoming embrace of Eastern European nations, which have become a major source market for the Emirate.

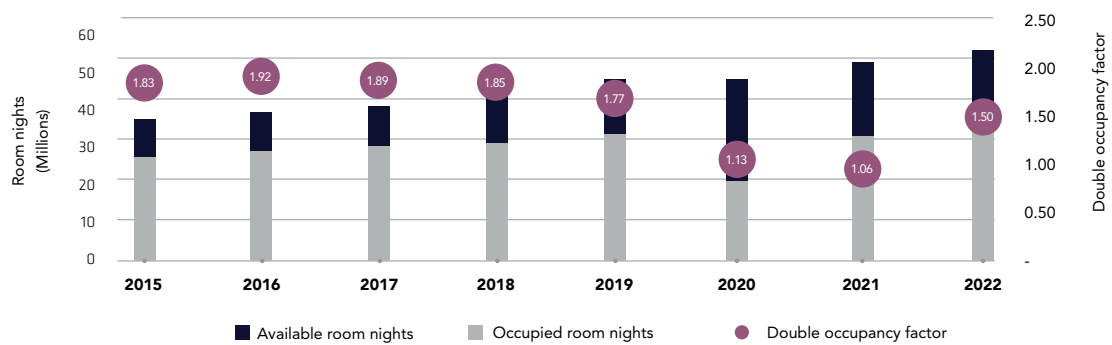
However, Western European nations still contribute substantially to tourism in Dubai. In fact, in the first half of 2023, Western European arrivals made up a significant 20% of total international visits.

Good times for Dubai's hospitality industry



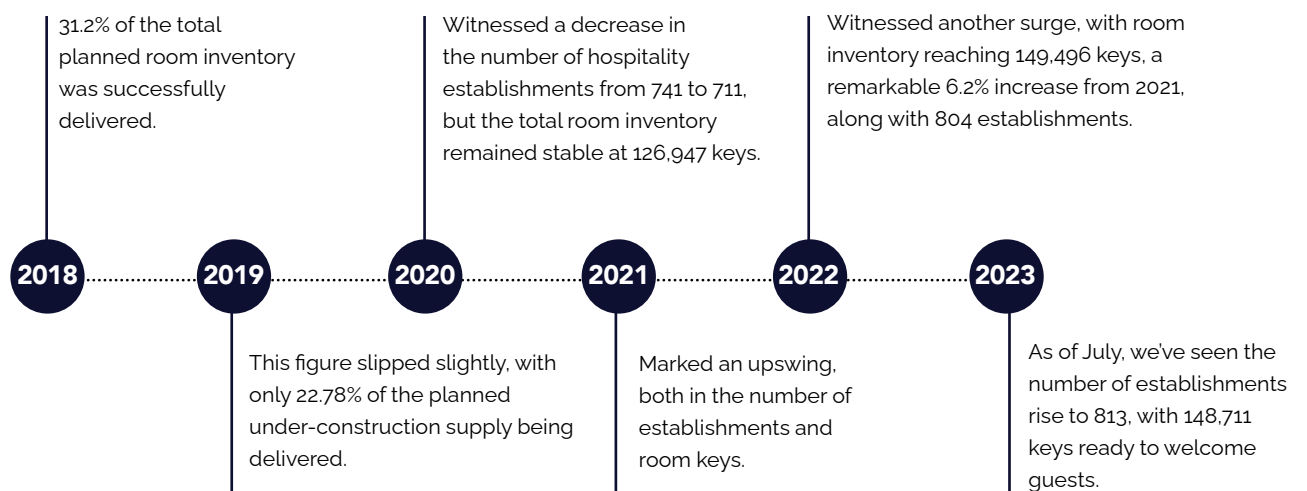
Before the pandemic, Dubai had been on an unstoppable year-on-year growth trajectory in terms of guest numbers. Take a look at this table showcasing the total available room nights and occupied room nights:

Dubai hospitality market - demand and supply



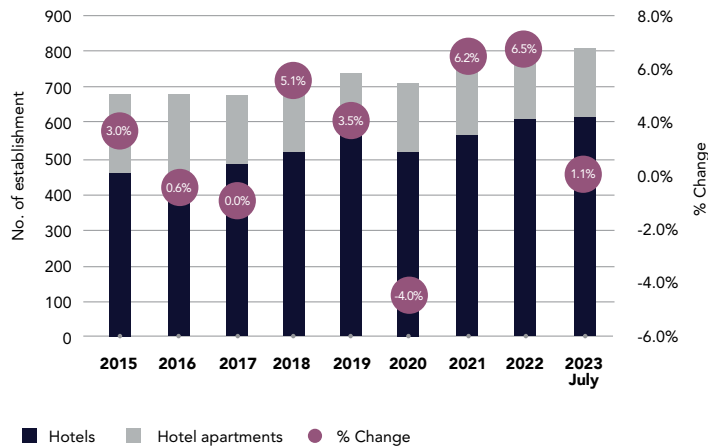
The supply side of the picture

The hospitality industry has been keeping up with tourism levels in Dubai, adjusting supply to meet demand. Our insights reveal that:



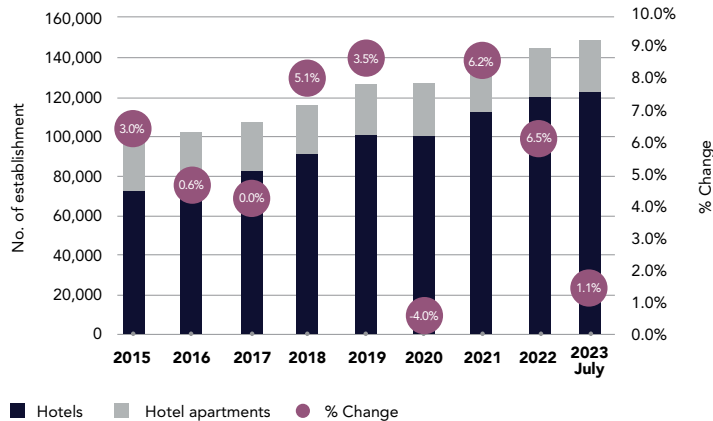
Historical trends & statistics

Dubai hospitality building supply - 2015 to 2022



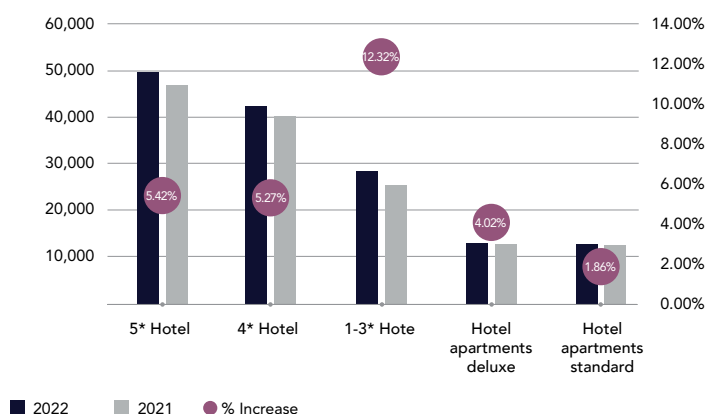
- According to the latest figures from Dubai Tourism, the city currently boasts a total of 813 hospitality establishments, comprising 620 hotels and 193 hotel apartments.
- Impact of Covid-19 seen in the closure of 30 operations (24 hotels and 6 hotel apartments), resulting in a net reduction of 4.0%.
- 2021 saw a net increase of 6.2%, with hotel establishments increasing by 47 while hotel apartments decreased by 3.
- In 2022, there was a 6.5% boost, welcoming an additional 43 hotels and 6 hotel apartments compared to the previous year.

Dubai hospitality room supply - 2015 to 2022



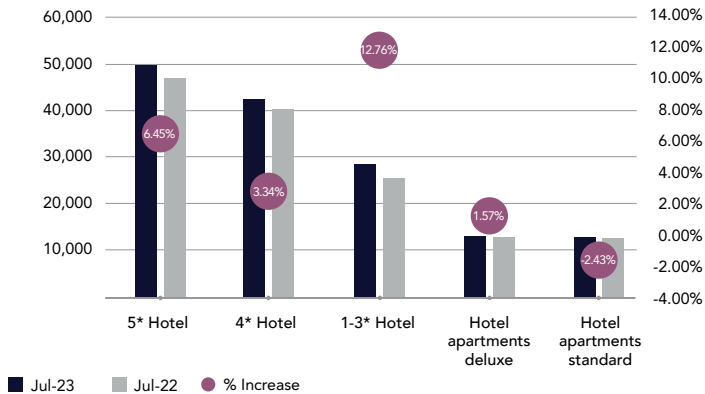
- As for the number of hotel rooms and hotel apartment rooms, 2021 was a standout year with the largest net increase during the recovery period at 8.7%, resulting in a total inventory of 137,950 new rooms.
- 2022 kept the momentum going with a 6.2% increase, boasting 146,996 net rooms.

Dubai hospitality room growth by type - 2022 vs 2021



- In 2022, the 1-3 Star Hotels category stole the show with the most substantial room supply increase, soaring by an impressive 12.32%.
- Meanwhile, 5 Star Hotels experienced 5.42% growth, and Hotel Apartments clocked in with a respectable 4.02% increase.

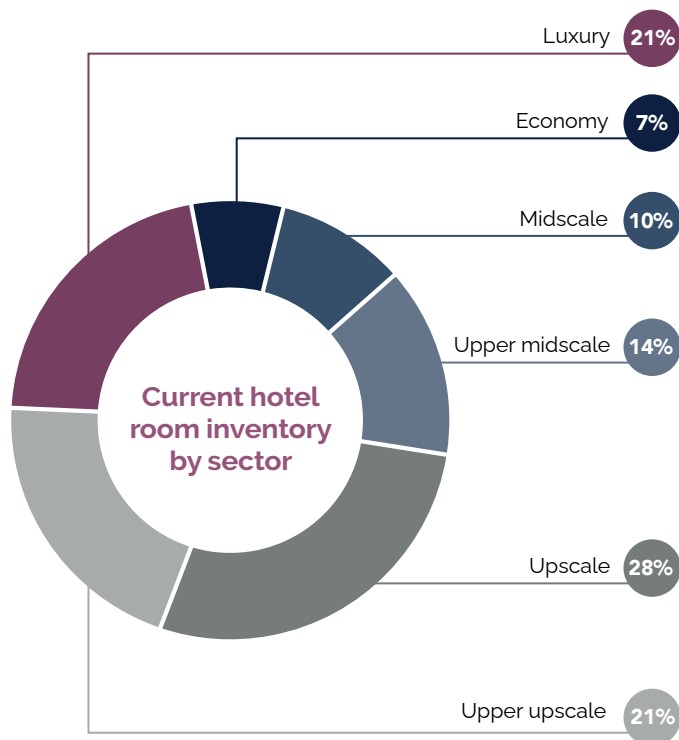
Dubai hospitality room growth by type -July 2023 vs 2022



As of July 2023, 1-3 Star Hotels continue to lead, with all categories experiencing expansion except for Hotel Apartments, which have witnessed a slight drop of -2.43%.

Industry growth trends

To put things into perspective, Dubai has experienced a compounded average growth rate in room inventory of 5.86% since January 2015. This growth trajectory is a testament to Dubai's resilience and appeal as a global tourist and business destination.



Focusing on the current establishment and room supply per class in Dubai, you'll notice that as of July 2023, a massive 70% of the total room supply falls within the upscale, upper upscale, and luxury classes. This marks an increase from 66% in 2021, bringing Dubai back to 2018 levels when 69% of room supply was concentrated in these sectors.

At the beginning of 2023, significant shifts towards the economy and luxury sectors were observed, with 29.8% of the tracked under-construction supply falling into the economy sector and a substantial 40.3% into the luxury sector. And the trend is set to continue with a projected 38.4% increase in luxury properties by the end of 2023.

Exciting openings in early 2023 included the Royal Atlantis, SO/Uptown Dubai, and Cheval Maison The Palm Dubai. Looking ahead, the luxury supply is expected to experience the most significant growth in 2024, with a remarkable 46.4% increase, followed by the upper upscale sector in 2025, with a 31.4% boost.

Source: Cavendish Maxwell and STR

Supply outlook – exclusive insights

At Cavendish Maxwell, along with STR, we are currently tracking a total of 84 hospitality developments across Dubai that are either under construction or in planning, set to be completed by the end of 2030. By the end of 2023, a total of 40 projects are expected to reach completion, adding an astounding 9,103 additional rooms in 2023. 3,272 additional rooms are expected to be added into inventory in 2024, and 2,289 in 2025.

According to our estimates, 2023 will see 40 new establishments, 2024 will bring 11, and 2025 will add another 11 to the mix. This translates to a cumulative total of 853 establishments by the end of 2023, 864 by the end of 2024, and 875 by the end of 2025. Keep in mind that the 2023 numbers are exclusive of the projects already opened, including 4 hotels and 2 hotel apartments with a total of 1,992 keys.

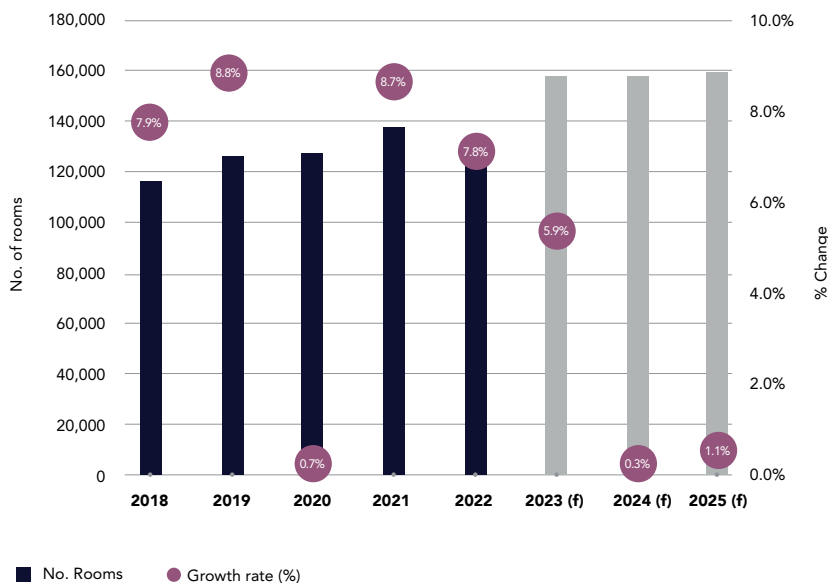
However, it's worth noting that past estimates have sometimes overestimated supply growth. For example, in 2019, only 22.87% of the planned inventory was added to the market. In 2020, supply was projected to increase by 21%, but only 827 keys were added to the inventory.

In 2021, 11,003 rooms were added, accounting for 75% of the projected supply. In 2022, 7,797 rooms were added, representing 42% of the projected keys.

	2023	2024	2025
New establishments	40	11	11
Establishments - Cumulative	853	864	875
Additional rooms	9,103	3,272	2,289
Cumulative	157,814	161,086	163,375
Growth (Y-o-Y)	6%	2%	1%

Source: Dubai statistics centre, STR and Cavendish Maxwell hotel supply tracker

Dubai existing and forecasted supply



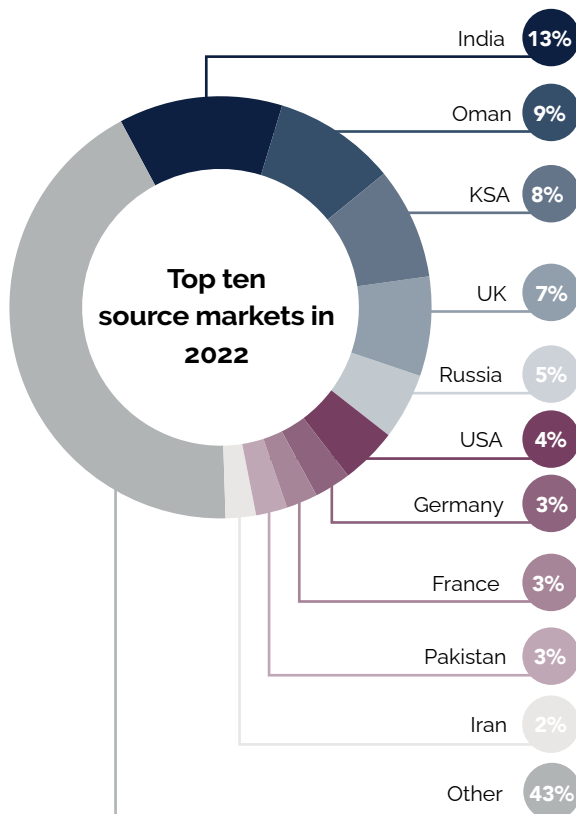
Dubai's hospitality scene is a vibrant landscape of growth and innovation, and with these developments in the pipeline, the city's future as a global destination is nothing short of extraordinary.

Keep an eye out for notable projects like Six Senses Dubai the Palm, Jumeirah Marsa Al Arab, One & Only, and One Zabeel, which promise to take Dubai's hospitality to new heights.

Evaluating hospitality demand & market performance

Source markets

India remained the top source market for overnight visitors in 2022, contributing a substantial 13%, followed closely by Oman at 9%, Saudi Arabia at 8%, and the UK at 7%. The table below paints a picture of the top ten nationalities by percentage as of 2022.



2022 was a blockbuster year for overnight visits to Dubai. During the year, total overnight visitors increased from 7,280,000 to 14,360,000— demonstrating a remarkable recovery from the pandemic. This surge was evident across all source markets, with Oman (368.2%), Saudi Arabia (147.7%), India (102.4%), the UK (148.3%), and Russia (70.6%) all making substantial contributions.

As we stepped into 2023, there was a shakeup in the source market hierarchy. Russia now holds the second-largest spot, while Western European visitors have also surged. Germany saw a whopping 52% increase, followed by a 12% boost from the United Kingdom and a solid 10% rise from Italy.

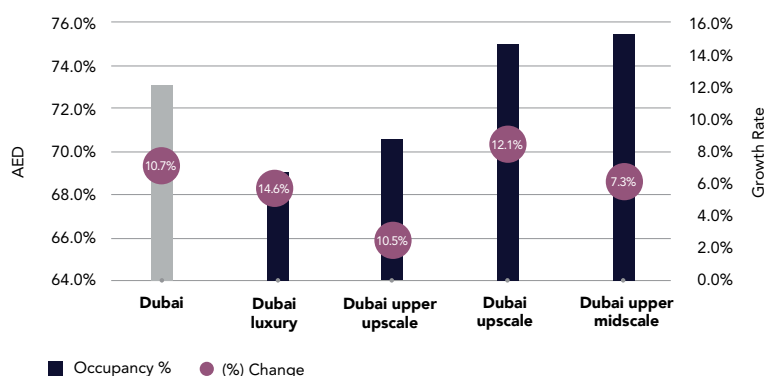
Occupancy rates

According to STR data, the Emirate witnessed a substantial increase in occupancy rates in 2022, reaching some of the highest levels seen in 15 years at 72.8%, placing it amongst the highest in the world. On average, Dubai's hotel sector enjoyed an impressive 72.8% occupancy rate in 2022, placing it among the highest in the world. It nearly reached 2019's pre-pandemic levels, which stood at 74.6% occupancy. Fast forward to August 2023, and Dubai's hospitality market has pushed the envelope further, achieving an outstanding 75.7% occupancy rate, marking a 7.0% increase year – on year.

Occupancy growth

Let's take a closer look at Average Daily Rates (ADRs) to assess market performance. In 2022, Dubai experienced a significant uptick in ADRs, boasting an average year-on-year increase of 17.1% compared to the previous year. The overall market's ADR stood at AED 693.

Occupancy by classification - 2022

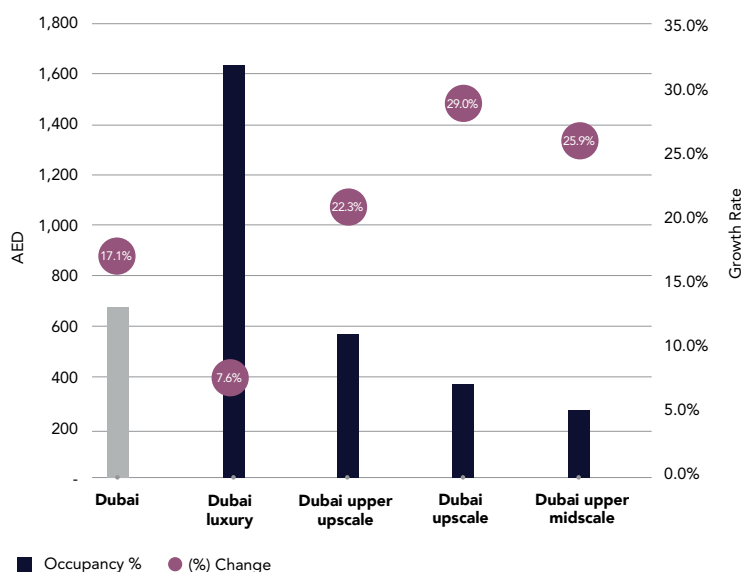




Average daily rates (ADRs)

Let's take a closer look at ADRs to assess market performance. In 2022, Dubai experienced a significant uptick in ADRs, boasting an average year-on-year increase of 17.1% compared to the previous year. The overall market's ADR stood at AED 693.

Average daily rate by classification - 2022



Breaking it down further, luxury, upper upscale, upscale, and upper midscale hotels witnessed ADRs increases of 7.6%, 22.3%, 29.0%, and 25.9%, respectively. While occupancy levels in 2022 didn't quite surpass pre-pandemic 2019 levels, ADRs in Dubai saw a remarkable surge, not only reaching 2021 levels but also exceeding 2019 figures. Dubai's ADRs across the market saw a solid 16% increase. The luxury market recorded the most significant leap, while the upper upscale market saw a 25% rise.

However, YTD August 2023, ADRs have seen a year-on-year decline, with an overall drop of -5.2% compared to YTD August 2022 levels. This trend is consistent across various positionings of establishments.

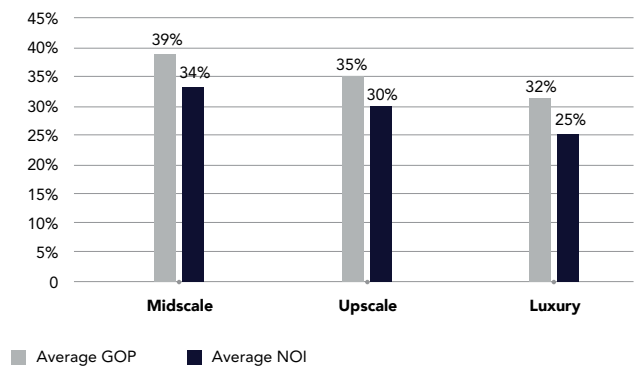


Assessing operational performance for establishments

At Cavendish Maxwell, we've harnessed an extensive database of historical trading data from Dubai's hotels to craft the three charts you see below. These charts offer our perspective on what constitutes a Reasonably Efficient Operator (REO) within current market dynamics. Please note that the figures provided are intended as indicative benchmarks.

Our database contains records of hotels performing both above and below these benchmarks, all of which are considered to operate within the realm of what can be defined as reasonably efficient. It's essential to understand that if a hotel isn't achieving the levels outlined below, it doesn't necessarily imply inefficiency on the part of the operator or property. Various factors, such as location, age, and the quality of the offering, can perfectly justify these variances.

Key performance indicators



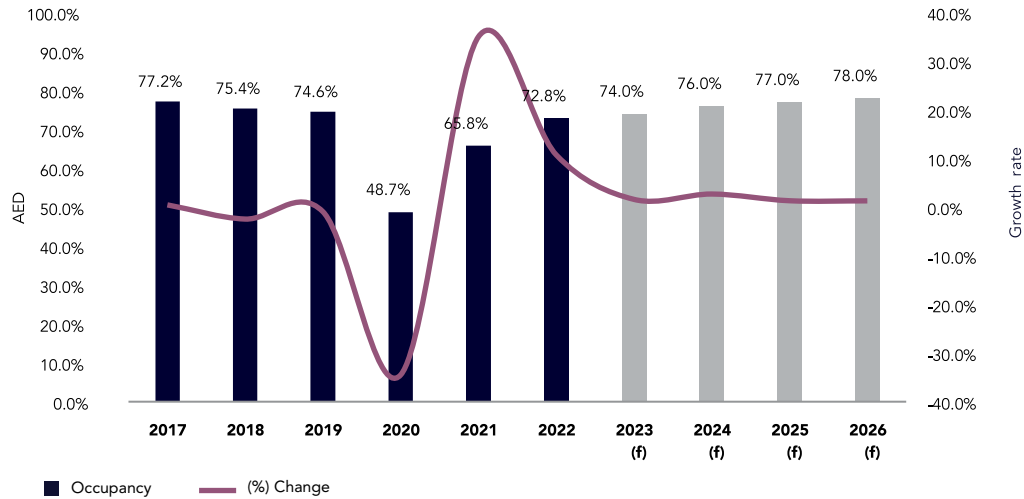
The two parameters measured are Gross Operating Profit and Net Operating Income (EBITDA).

Based on a selection of in-house data, the average achieved Gross Operating Profit levels across Dubai stand at just under 34%, down from 37% in 2018. It's essential to note that estimates can significantly vary between different hotels in the same sector due to various factors like location, age, and quality of the offering. Hotels in superior areas close to demand drivers tend to achieve premiums compared to other benchmarks in the same sector. Keep in mind that Dubai has hotels performing both above and below these benchmarks, and they are all considered to operate under the definition of a REO.

Final market forecasts

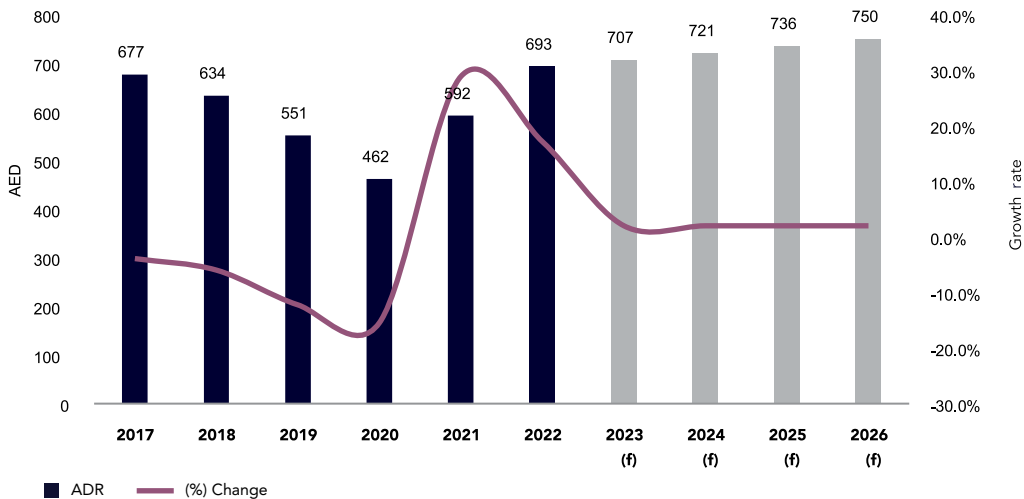
Dubai's hospitality market has been on a clear path to recovery, with an average growth of 29.7% in Revenue per Available Room (RevPAR) in 2022 compared to 2021 figures. Locations closer to demand drivers have outperformed their counterparts.

Dubai - occupancy - historic & forecast



Source: STR and Cavendish Maxwell hotel tracker

Dubai - average daily rate (ADR) - historic & forecast



Source: STR and Cavendish Maxwell hotel tracker

Afterword

Dubai's hospitality market continues to shine, with promising forecasts for occupancy and ADRs. The city's remarkable journey to recovery and growth is a testament to its resilience and appeal as a global destination. Get in touch with us to discover more exciting developments in Dubai's exhilarating hospitality sector.

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