INTERNATIONAL
Herald Tribune

Is Dubai's hotel boom unstoppable?

By Otto Pohl International Herald Tribune
MONDAY, DECEMBER 5, 2005

No matter how you look at it - occupancy rates, average room price, revenue per available room - the Dubai hotel market ranks among the world's best, and it has for several years. The almost surreal boom is beginning to make some participants and observers nervous, however, while others feel that the time is right to invest in the city's still wide-open, mid-level hotel segment.

"No market booms for eternity," says Peter Fulton, regional director for Hyatt in Dubai. With the company's hotel revenue growing at 20 to 25 percent annually, however, he also feels compelled to continue development. His latest property, a five-star Park Hyatt, opened in August.

Given the torrid growth of the market, even a slowdown to normal levels could seem like a recession. That's what HVS International, a hotel consultancy, warns in a new report. While carefully avoiding terms like "recession" or "crash," the report warns that the market may be overheated.

"If you take today's market performance, which is abnormally positive, our projections for the future are lower than today's performance," Elie Younes, associate director at HVS and co-author of the report, qualifies carefully.

On the other hand, the Dubai government believes that the city is just getting going. It predicts that 15 million visitors will be arriving in Dubai annually by 2010, about three times the current number. If that forecast holds, room shortages will continue at all price points - and in the past, government predictions have proven accurate.

While the growth lasts, ever more outlandish definitions of luxury have become the norm.

Next spring, for example, Kempinski Hotels is opening a five-star Swiss chalet-style hotel next to five indoor ski slopes inside one of the world's largest malls, which is also new. In most markets, creating a luxury Alpine experience in what nature had relegated to featureless desert would presumably be a major civic event.

Here, it may well be drowned out by the next project of eye-popping proportions - the opening of the world's largest hotel tower, or another development nearby called Dubailand, a Disneyland style theme park that will double the entire size of Dubai.

"There's an inflation in luxury," says David Vely, director of development and strategy in the Middle East for Accor hotels, whose brands include Sofitel and Novotel. Rooms of 45 square meters, about 485 square feet, have become the minimum for five-star hotels in Dubai, he says, 50 percent more than what is accepted as five-star in cities like Paris and London. Ever fancier guest service options are on offer, from chauffered Rolls-Royces to elaborate spas.

Even the star rating system is straining from the bulge at the high end. Ever since the Burj Al Arab, which was completed in 1999, declared itself the world's first seven-star hotel, other hotels feel compelled to stretch toward those claims: properties such as the ski slope Kempinski bill themselves as "five-star deluxe," and unofficially several Dubai properties give themselves six stars.

"It's a bit of a game," Vely says. "You pile up stars like you pile up pancakes."

Despite the fact that there are now more five-star hotel rooms in Dubai than three- and four-star rooms added together, five-star properties typically maintain occupancy rates around 90 percent and average room rates above $300.

Given those kinds of returns, Accor Hotels has positioned itself as the most active player in the market, according to the Deloitte Hotel Benchmark survey. The company has more than a dozen new hotels in the works, although Vely admits the difficulty of making a reasonable forecast more than three years in the future. Calling today's stratospheric land prices "pure speculation," he fears that the risks may begin to outweigh the cost of developing new hotels. Still, the market is too good not to participate.

One of the reasons Dubai has been able to establish itself from the start as a luxury destination is because many of the market's core investors - the ruling family of Dubai as well as other sheikhs from across the United Arab Emirates - have been willing to accept lower returns on their investments. As a rule, international hotel brands in Dubai are only management companies, while most of the money invested is local.

The classic example is the Burj al Arab hotel, which was commissioned by Sheikh Mohammed bin Rashid al Maktoum, the crown prince of Dubai. Precise costs aren't public information, but it is widely assumed that the hotel was far too expensive to provide what many investors would consider an acceptable return. "But the goal was not to make a hotel, but instead an emblem for the country, like the Eiffel Tower or Statue of Liberty," Vely says. "It's more like a marketing expense."

Indeed, the hotel has achieved iconic status - it is featured on Dubai license plates and is used in Dubai imagery worldwide - and has arguably attracted enough attention to the city to have been an advantageous investment.

Given the visitor-driven ambitions of the Dubai government, it seems fitting that the government chose to build a hotel as its national icon.

New hotel projects are announced seemingly daily. "If you haven't been here in two weeks, you're out of touch," says Bernard Walsh, managing director of dmg world media Dubai Ltd. Dmg organizes the Hotel Show, the region's largest industry trade show, which is held in Dubai. The growth of that show reflects the industry's expansion. When it started in 2002, it occupied one exhibition hall. This year's show occupied seven. Walsh estimates that next year the show will be 20 percent larger. "The place in every way is a gold rush town," he says.

In the older town center of Deira as well as along the clogged Sheikh Zayed road toward Jumeira, skyscrapers hover and twist above dozens of hotel developments. Construction of the Burj Dubai, which its developer Emaar Properties hopes will become the tallest tower in the world, is nearing the 20th floor. The tower will feature the worldwide flagship of the Armani hotels as well as office, retail and residence space. Hotels by Radisson SAS, Hilton, and Shangri-La are also in the works.

Of course, no city built on luxury and self-promotion would be complete without a Trump hotel, and Dubai doesn't disappoint. Last month, the Trump Organization announced that it will build the Palm Trump International Hotel and Tower on the Palm Jumeira development. The development, which will feature approximately 500 condominiums with access to five-star hotel services and amenities, is estimated to cost $400 million and will begin pre-selling at the end of this year.

But as the race to luxury continues, some hoteliers see opportunity in the other direction. In October, InterContinental Hotels, the world's largest hotel management company by rooms, announced that it would build 20 Express by Holiday Inn hotels in the coming seven years across the Gulf, five of them in Dubai. And Accor hotels is building seven more budget-class Ibis hotels beyond the one they already have.

Given the religious inclinations of the region, several hotels have interpreted luxury to include alcohol-free premises. Al Sondos Suites by Le Meridien, an alcohol-free boutique hotel near the airport, announced occupancy rates over 95 percent for the last quarter of 2005. Coral International, a Dubai-based company that touts itself as the world's first alcohol-free hotel management company, has three hotels in Dubai and in November announced plans for three more alcohol-free hotels in neighboring emirates.

The high occupancy rates can cause headaches for those trying to juggle demands for rooms in a hotel already filled to capacity. "If I had another 50 bedrooms, I would fill them every day," says Frank Owens, resident manager of the Moscow Hotel, a 138-room hotel that opened last month to capacity bookings. The pleas for rooms he has to handle have an inverse side as well, however. "It makes me feel very popular," he says.