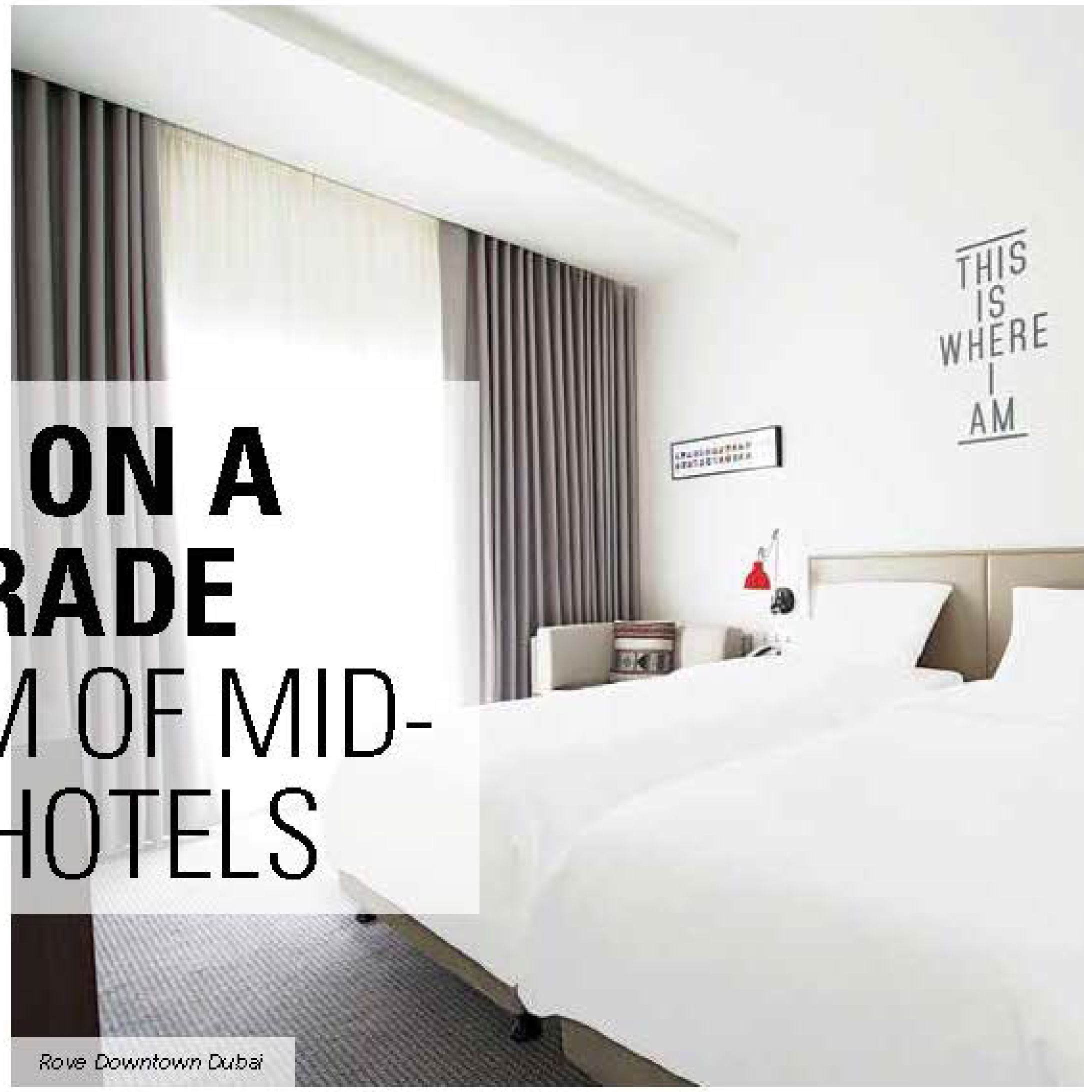
BETTING ON A DOWNGRADE

THE BOOM OF MID-MARKET HOTELS



Rove Downtown Dubai

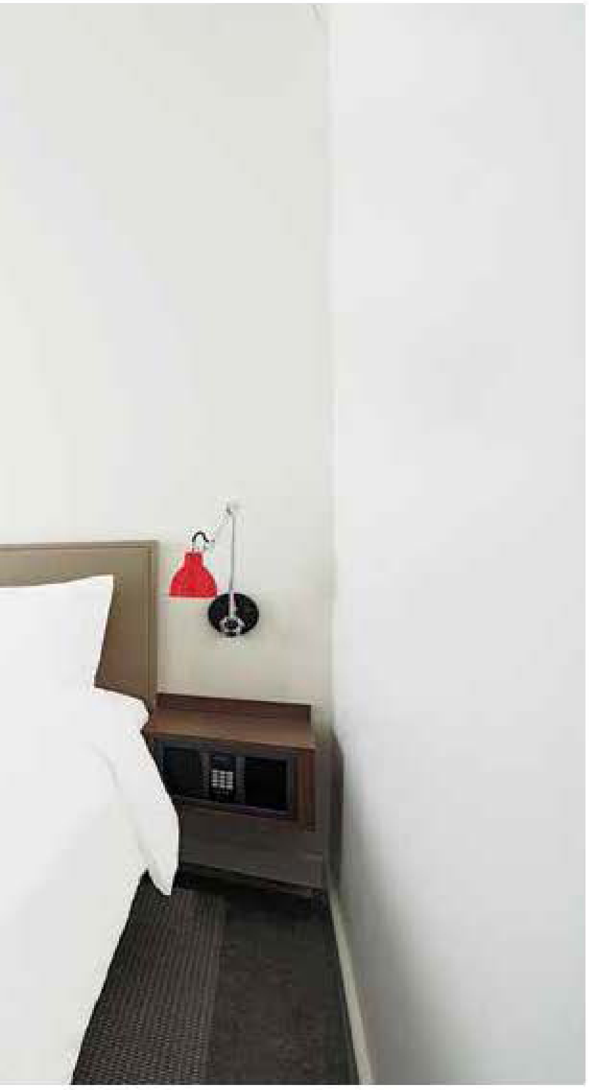
For most travelers, holidaying in Middle-Eastern countries means glitz and glamour, luxurious hotels and high-end entertainment. But this could change soon, as the hospitality business is shifting towards a more mid-market offer. **Nada Alameddine**, partner handling business development for Hodema consulting services, tells us why the region's historically upscale industry is downgrading its standards, along with the global trend for a more cash savvy way of traveling

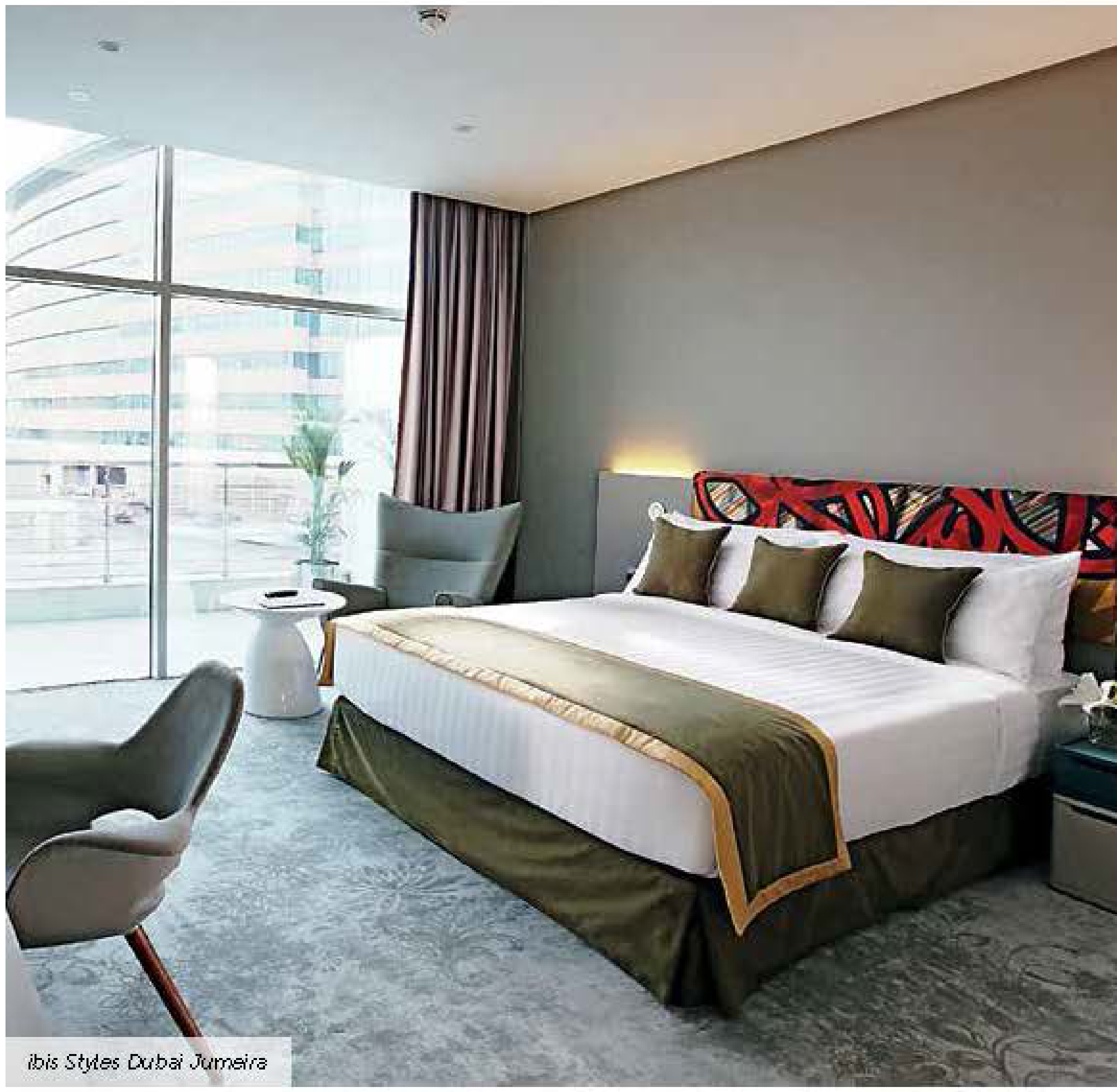
The struggling world economy hitting both tourists and corporate budgets, has forced the sector to adapt in the last few years. Dubai's hospitality market illustrates the trend: the city has always branded itself as a luxurious destination, and is still ranked fourth on the world's most expensive cities list. But its tourism industry has been suffering recently from the economic slowdown, with the revenue per available room (RevPAR) dropping in 2015, according to a PwC annual report. Dipping oil prices, a struggling Russian ruble and a strong US dollar are having a negative impact on the emirate's usually high-spending visitors. Not to worry though, recent figures from DTCM show that Dubai remains a hotspot, with a 7.5 percent year-on-year rise in 2015 to reach 14.2 million visitors.

These conflicting figures, showing a decrease in the average rate rather than a fall in occupancy, highlight the fact that most cash-constrained tourists travel on a lighter budget. In the longer term, emerging middle classes, especially in Asia, are also a source of mid-market opportunities for the industry. Chinese and Indian visitors show a growing interest in the region. They have a diverse profile, which requires a larger, more varied offer. Other important deadlines are the Expo 2020 in Dubai and the FIFA World Cup 2022 in Qatar, which are set to bring thousands of visitors to the region, which needs to get ready to accommodate them.

But before that, Dubai needs to work on its ambitious target of reaching 20 million visitors by 2020, which requires an aggressive strategy aiming at mass markets. The emirate's Department of Tourism and Commerce Marketing (DTCM) estimates that the offer needs to reach up to 160,000 hotel rooms by 2020 to accommodate everyone. Many international brands are jumping on the bandwagon. Ibis, Holiday Inn Express and Premier Inn are already operating across the GCC countries. Hilton is also opening mid-market and lifestyle boutique hotels.

The same phenomenon can be witnessed in Saudi Arabia, where the industry is dominated by five-star establishments. According to the new "TOPHOTELPROJECTS" report, commissioned by The Hotel Show Saudi Arabia 2016, six out of the top ten brands with the most development currently underway throughout KSA are classed as mid-market, with top international groups involved (Radisson, Hilton, Sheraton and Accor).





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Old-fashioned services such as business centers are becoming outdated, with customers traveling with their own electronic devices to work and stay connected. Even high-end restaurants and gigantic buffets are starting to lose their charm for healthier and socially conscious choices. But for the customers, it's a win-win. The bill goes down, but the standards remain high, set according to upscale full-service hotels with larger rooms with all facilities at a discounted price.

A safer bet for developers

This shift towards an emerging budget-friendly offer is attracting business savvy investors, who rush to get their share while the trend is booming. The main reason is that these projects are cheaper to build, from the down payment, to the construction schedule but also provide higher profitability ratios and less revenue volatility. They are overall a safer and sounder bet than high-end products. And now that international brands are involved in the sector, the region's mid-market segment appears more credible to its international customers, opening the door to more creative projects such as themed hotels.

But, it is not all a bed of roses: Renting or buying land usually comes at prohibitive prices, which prevent developers and operators from picking prime locations, forcing them to build their projects in second-tier areas which are not always attractive and easily accessible via public transportation. It shows the segregated face of the hotel market and can be a major deterrent for visitors. In Europe and the US, it is the contrary. The hospitality offer displays more diversity within the same neighborhood.

Another challenge is facing competition from upscale establishments. Mid-range hotels will likely be more vulnerable to rate fluctuations in the five and four-star market, although their size makes them more flexible in the event of recession. Lower barriers to entry can also have a down side, enticing more investors but then creating a more competitive market. Finally the last challenge is more of a psychological one. Most developers in the region dream of 'trophy' investments in top locations and tend to look down on budget opportunities. This opinion is gradually vanishing though, with the arrival of prominent hotel brands on the mid-market segment.

So many investors are calling for lending, infrastructure and construction support from the authorities to boost the industry. Dubai's government has heard their call, announcing in 2013 a list of incentives to encourage investments in three and four-star hotels and quicken the delivery of accommodations in the run-up to their 2020 target: Less red tape for construction approvals, allocation of public land to build new projects and a 10 percent discount on municipality fees on rooms for establishments that begin operating in 2017. These measures were met with an overwhelming response from local and international developers, dozens applying to build new projects.

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