Global Futures and Foresight

The Future of Travel and Tourism in the Middle East – A Vision to 2020

Project Update - Hotel Outlook 2020

June 3rd 2007

Project Overview
This is the first update from the groundbreaking Global Futures and Foresight (GFF) Study on the Future of Travel and Tourism in the Middle East covering 13 countries. The study is taking a 'futures' perspective on the trends and drivers shaping travel and tourism in the region to 2020 and beyond. The research draws on a range of methods to explore potential scenarios, challenges and opportunities for travel and tourism in the region and provide practical advice on how players in the sector can factor these insights into their planning.

The study has three main deliverables – the Pathfinder Report launched on May 1st 2007, a full study report to be launched in November 2007 and a response from the region to be launched in summer 2008. This update analyses some of the most recent key hotel project developments announced since completing the research for the Pathfinder Report. On the following pages we explore some of the most significant developments, examine variations in construction cost per hotel room, discuss the emerging challenges of overcapacity and resourcing and highlight key environmental developments and challenges for the region. Finally, we present five key strategic challenges for the sector.

Key Findings of the Pathfinder Report
The May 2007 report looked at travel and tourism plans in Bahrain, Egypt, Iran, Jordan Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, the UAE and Yemen. The report identified that, in the period to 2020, based on GFF's analysis of current developments, announcements and official estimates (1):

- Upwards of US$3 trillion is to be invested in leisure and tourism and the supporting infrastructure.
- By 2020 the Region planned to build over 200 new hotels
- Those hotels would add 100,000 additional rooms
- Visitor numbers are forecast to grow to 150M
- The World Travel and Tourism Council had estimated that the region would need an additional 1.5 million jobs in the sector over the next ten years
- Airport capacity would be added for 300M extra passengers
- The Region's aircraft fleet would increase by over 150% by 2025
- In the next ten years:
    - All of the countries in the study are expected to see at least a small rise in the tourism revenue per national citizen. Lebanon's was forecast to almost double from US$1,130 to US$2,120, Bahrain was forecast to rise from US$5,900 to US$9,300 and Qatar was expecting the highest absolute revenues with a rise from US$6,320 to US$11,300.
    - All except Yemen were also expecting at least a small rise in the ratio of visitors to national citizens. The highest ratios are expected in Qatar - forecast to rise from 1.35 to 2.43, the UAE – rising from 1.94 to 3.28 and Bahrain – increasing from 10.02 to 14.55.
    - While most countries were forecast to have relatively small improvements on their return on investment (ROI) in the sector and Bahrain, Egypt, Oman and Yemen were all forecast to experience slight declines

New Announcements
Since completing the research for the GFF Pathfinder report, several announcements have been made which highlight the accelerating ambition of players across the region, key amongst these being:

- ***Projects*** - Plans to construct an additional 600 new hotels were announced
- ***Capacity*** - Those new hotels will provide over 650,000 extra hotel rooms
- ***Investment*** - New US$390Bn+ of new investment is planned in these hotels and the developments they form part of. This includes US$11Bn for the Samamous 7 star development in Iran.
- ***Resources*** - Between 500,000 and 1 million extra staff will be required just for these new projects – suggesting the WTTC estimates of 1.5 Million extra staff may need to be increased
- ***Participants*** - Over 30 different developers, investors and operators have announced plans for new projects in the last month
- ***Construction Costs*** - Average construction costs vary from US$100,000 per room for the Al Qasimi and Orient Towers developments in Dubai through to US$2.3M per room at the Ayla Oasis in Jordan
- ***Environment and Resources*** - Concerns about the environmental impact are rising – particularly over the level of construction waste, pollution and energy and water efficiency and availability.

Major Developments
Perhaps the most striking factor is the sheer scale, ambition and planned speed of construction for these new developments. Key examples include:

- The announcement from the Saudi Supreme Commission for Tourism that planned developments on the Red Sea will add a staggering 557,000 rooms, creating 413,000 jobs, of which 165,000 direct jobs are expected in the first five years. The projects are expected to attract US$40Bn in investment and generate US$2.6Bn annual revenue. (2)
- Tatweer's extension of the Bawadi development in Dubai from 31 hotels with 29,000 rooms to 51 hotels offering 60,000 rooms. This brings the total project value to over US$54Bn. (3)
- The construction of three 7 star hotels in Iran including the Samamous in Ramsar's Sefid Tameshk region which will have an in-room simultaneous language interpretation system for officials and political figures so that "the entire world's heads of state can reside at the hotel at the same time". The private sector is investing US$11Bn (100 trillion Rials) to develop the hotel which will take five years to build and a further year to equip.(4)
- Emaar's US$1.74Bn Marassi tourist resort development with 3000 rooms on a site spanning 1,544 acres at Sidi Abdel Rahman in Egypt. (5)
- The 9.5million square metre Salalah leisure complex in Dhofar Oman, which will complete by 2010 and include an 18-hole golf course, a marina, several hotels, restaurants, 550 villas and 600 apartments as well as retail outlets. (6)
- The US$3Bn Desert Islands eco-tourism complex in Abu Dhabi consisting of eight islands and an onshore 'gate'. The complex is expected to generate over US$320M annual tourism revenues and create around 6500 jobs. (7)
- The launch of a range of budget hotels from operators such as Coral's 'Ecos', Istithmar and easyHotel.

Construction Costs per Room
The table below highlights the wide variation in constructions costs per room for a selection of recently announced projects where the costs and number of rooms were published. The figures vary from US$100,000 per room for the Al Qasimi and Orient Towers developments in Dubai through to US$2M or more per room for Jordan's Ayla Oasis and Oman's Salalah. The vast majority of these projects sit in a range from US$200,000 to US$900,000.

Country/Emirate	Project	Price	No. of rooms	Price per room
Bahrain	Banyan Tree	$170M	156	$ 1.08M
Jordan	Ayla Oasis	$1.4Bn	600	$ 2.33M
Oman	Salalah	$1.4Bn	700 (+)	$ 2M
Saudi Arabia	Red Sea T.P	$40Bn	557,000	$ 0.70M
Syria	Coral Aleppo	$15M	60	$ 0.25M
Abu Dhabi	T.N.I	$19M	115	$ 0.16M
Abu Dhabi	Bridgeway	$136M	452	$ 0.30M
Abu Dhabi	Rezidor	$175M	435	$ 0.40M
Abu Dhabi	Desert Islands	$ 3Bn*	150	($ 20M)
Dubai	Bawadi	$54Bn	60,000	$0.9M
Dubai	D.I.P Zenath	$41M	150	$0.27M
Dubai	Emirates	$735.4M	1850	$ 0.39M
Dubai	Al Qasimi	$40.8M	380	$ 0.10M
Dubai	Nakheel / Bharat	$95M	234	$ 0.40M
Dubai	Orient Towers	$41M	380	$ 0.10M
Fujairah	JAL	$58M	257	$ 0.22M
Fujairah	Mina al Fayer	$163M	200	$ 0.81M
Fujairah	Iberotel	$180M	321	$ 0.56M
Ras al Khaimah	Bab al Bahr	$327M	290	$1.12M

*Includes whole Desert Islands project (hotel costs bundled with overall development)
(Information sources available on request)

Overcapacity and Resourcing
The sheer scale of the newly announced developments coupled with those already underway raises the issue of whether the region is facing the risk of overcapacity. With occupancy levels running at over 80% and record revenues of US $329 per night in the first quarter of 2007 in Dubai and a doubling in Oman (18), it is easy to see the motivation to construct further properties. However, a number of external factors could serve to depress demand - such as a possible recession in the US and Europe, concerns over climate change bringing travel restrictions in Europe, security worries and pressure on business costs driving down travel budgets. Whilst 'Plan A' is focused on an assumption of continued growth, the operators need to think clearly about 'Plan B' – e.g. what happens if they cannot attract the premium price customers at whom they are targeting the majority of developments? Would they be forced to lower prices and target a broader audience? If so, would they be able to retain the image of luxury and exclusivity so critical in attracting premium rate customers?

Another key challenge is whether the region will be able to attract and develop a sufficiently skilled pool of human resources to service these developments. WTTC had forecast the need for an additional 1.5million staff in the sector. The WTTC estimate was created prior to many of the announcements covered in the Pathfinder report and this update. We believe the WTTC estimate may not take full account of the scale and accelerated pace of development now being considered and the true figure could end up being 2 - 2.5 million. Failure to attract sufficiently qualified staff could lead to service failures which would have a detrimental impact on the brand image of those properties.

Rising Ecological and Environmental Concerns and the Growing Regional Response
Developers and operators across the region are beginning to respond to the perception that travellers are becoming more concerned about the impact their vacations and visits are having on the environments they travel to. Recent environmental issues raised in the region about waste, power, water and sustainability could have a potentially dramatic impact on the success of existing and recently announced hotel projects in the region. As travellers become more alert to these issues, they will seek 'standards' to rely on as guides to the most sustainable hotels to stay in – such as the Green Globe model (8) – a 'global benchmarking, certification and improvement system for sustainable travel and tourism' - endorsed by 182 Heads of State at the United Nations Rio de Janeiro Earth Summit in 1992. As global businesses, such as HSBC and Wal-Mart, make sustainability a key 'Corporate Social Responsibility' issue, the decision about where their staff stay on business will increasingly be influenced by the accreditation a hotel has achieved on this issue.

An April 2007 TripAdvisor survey (9) of over 1,000 travellers worldwide found 40% consider environmentally-friendly tourism when making travel plans. 66% say environment friendly measures in travel are making a difference. Nearly 25% believe that air travel should be avoided, whenever possible, to help preserve the environment, while 38% said would pay more to take an eco-friendly flight and 26% would pay a 5-10% premium.

34% said they would pay more to stay at an environmentally-friendly hotel, while 38% said they had already stayed at an environmentally-friendly property, and 9% would specifically seek out environmentally-friendly establishments. When asked to specify how much they extra they would be prepared to pay for 'green' accommodation, 25% said they would pay a 5-10% premium, and 12% would pay a 10-20% premium. "This survey shows that far from being irresponsible, planet polluting energy wastrels that they are often portrayed, many travellers do care about the environment and are willing to pay for it," said Ian Rumgay, European communications manager for TripAdvisor. "It is a wake-up call for all sectors of the travel industry to provide more green options".

Increasingly broad assessments will be made of the 'whole life environmental footprint' of the sector – for example considering every aspect of a hotel's construction, resource usage, waste and emissions. A number of encouraging developments are now underway suggesting the region is paying more attention to environmental concerns, for example:

- An eight million tonne capacity construction waste recycling plant has been launched by the Al Rostamani Group to help recover and recycle Dubai's construction and demolition waste. Costing around US$18M it will operate at full capacity by September. According to Dubai Municipality, 10.5 million tonnes of construction and demolition waste was handled in 2006 – representing 75% of Dubai's total annual waste. (10)
- Jordan's Najwa Wadi Rum ecologically and socially conscious development is expected to reach Green Globe accreditation. (11)
- The Fairmont Dubai has established a number of green initiatives in partnership with the Emirates Environment Group (EEG) – a UAE NGO focused on the environment. (12)
- Masdar – a new 6 sq km zero waste, zero carbon energy, science and technology community in Abu Dhabi will open in late 2009. (13)

While these and other similar developments are encouraging, significant environmental and resource challenges also exist:

- The UAE Minister of Environment has said that Arab cities will face a water shortage of 100 to 133 billion cubic meters per year by 2030 - presenting "the biggest economic, social and environmental challenge faced by Arab countries". (14)

- A survey by facilities management company Farnek Avireal found that Dubai's five star hotels consume up to 250% more water and 225% more energy than their European counterparts. Dubai's Hotels average 650 to 1,250 litres of water per guest and consume 2,750-3,250 KW of power per square foot. By comparison, hotels in Germany were said to be using 350 litres and 1,000 KW per square foot. (15)
- Kuwait's electricity and water minister has stated that it needs to spend $27 billion on water and power projects over the next eight years to meet growing demand (16)
- An Apicorp study estimates that the Arab world needs capital investment of around $345bn in its energy sector from 2007-2011 (17).

Conclusions – 5 Strategic Challenges for the Hotel Sector

One cannot help but be impressed by the ambition, vision, energy and speed of delivery for players in the region's hotel sector. However, we believe there are five key challenges the sector must now face up to if it is to reap the desired returns its extensive investments:

1. ***Reduce Environmental Footprints***. A concerted effort is required to drive down the consumption of resource and the generation of waste and emissions throughout the lifecycle of a hotel from construction to operation. With so many new developments underway, the region is in a position to leapfrog existing standards and establish global environmental best practices in the construction and operation of these new hotels.
2. ***Analyse Capacity***. Both at the national level and for individual operators, it is essential to start modelling different possible future scenarios to understand the levels of demand required to meet target occupancy rates and to help develop strategies for overcoming any weakness in demand or significant overcapacity. In our experience, such scenarios help an organisation 'rehearse the future' and prepare for a range of possibilities.
3. ***Invest in Human Resources***. Given the scale of likely human resource demand and the competition from around the world for the best service talent, hotel owners and operators need to take a long term perspective and think strategically about how as an industry we will educate sufficient staff around the world to meet future demand. This may be an opportunity for collective action by the industry to invest in primary, secondary and tertiary education of future hotel staff in different locations around the world from which we wish to recruit future staff.
4. ***Differentiation***. With so many high end properties coming onto the market, customers and their travel agents will have a wide range of options to select from. The challenge for operators will be to differentiate their proposition to stand out both in their brand positioning and in their service delivery so as to maximise on 'word of mouth' promotion by their visitors.
5. ***Innovation***. The region is setting standards for innovation in the new developments planned and already underway. The challenge will be to keep innovating to ensure a continuous high profile and encourage repeat visits from past customers.

This is an exciting time for the region's hotel sector, with new announcements being made on a weekly basis. The challenge for the industry is to ensure that it pursues an economically, socially and environmentally sustainable growth strategy.

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