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Mood upbeat for Middle East hospitality industry in 2010

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Yazz and The Plastic Population have no idea that their 1988 hit single, The Only Way Is Up, is about to get back into the groove as the world's hospitality industry reflects upon its 2009 balance sheets in a haze of gloom.

Kempinski Middle East and Africa President, Ulrich Eckhardt, did not mince words when he told Emirates Business: "The economic downturn has been bad for the hospitality industry as a whole, and anyone saying otherwise is living in 'LaLa' land."

He admitted their property was not immune to the downturn, which saw the hotel's RevPAR (revenue per available room) for Kempinski Mall of the Emirates drop by more than 12 per cent in 2009 over last year, while the GoPAR (gross operating profit per available room) for its Ajman property fell by 40 per cent.

However, despite the dismissal figures that included double-digit declines in RevPAR for most of the Western world too, overall, the UAE still managed to sail through these rocky seas with the prize of holding one of the highest RevPARs in the world.

Big names face challenges

This year started with all previous estimates on the hospitality industry biting the dust, as the true depth of the global recession saw major names in the business declare bankruptcy.

The most notable mention, of course, goes to real estate and hospitality tycoon, Donald Trump, whose Trump Entertainment Resorts filed for bankruptcy in February this year.

And what happened of his Dubai property, The Palm Trump International Hotel and Tower Well, the company announced an indefinite delay of the project. The original proposal of the project was for a 62-storey, stainless steel and glass Tower with 300 rooms at an estimated cost of $600 million (Dh2.2 billion).

By the end of second quarter, international chains such as Extended Stay and budget hotel chain Red Roof Inn also filed for bankruptcy, with the latter company, which owns 210 hotels, defaulting on $367 million (Dh1.34 billion) of mortgage debt and a total of $1.2bn in total debt.

Closer to home was Dutch hospitality operator Golden Tulip, which has eight properties in the UAE, announcing bankruptcy for 13 of its Netherlands operations. However, the company immediately announced this would not affect franchised or affiliated hotels around the world.

While no major upheaval faced the UAE and the Middle East as a whole, the hospitality industry did witness announcements over delayed projects in the country, including some of the most highly anticipated properties on The Palm Jumeirah.

Delayed earnings

Moevenpick's Oceana Hotel and Spa announced a delay from its original opening in 2009, with the hotel now targeting to open in the second quarter of 2010, according to Guy Epsom, Business Development Director, Moevenpick Hotel Deira.

He told this newspaper earlier: "Yes, Oceana Hotel and Spa was delayed from its original opening in 2009 as have many other projects in Dubai. We have great confidence, though, that the revised project completion dates are achievable."

Attributing the delay to the economic slump, Epsom said: "Well before the credit crisis, it was not uncommon for construction of hotels to overshoot their planned opening dates due to the speed of construction and delays in the delivery of materials. Oceana Hotel & Spa and other hotels are still recovering from these difficulties."

IFA Hotels & Resorts' two projects on Palm Jumeirah '?? Kingdom of Sheba and the Fairmont Palm Jumeirah '?? were also scheduled for a 2011, according to Patrick Smith, Vice-President, Development, IFA Hotels & Resorts. While the first phase of Kingdom of Sheba was originally scheduled to open for business in 2010, and Fairmont was to open in 2009/2010, the former would now open sometime in 2011 and the latter in the first quarter of 2011.

"We are proceeding with all our projects in Dubai and elsewhere. The Fairmont Palm Jumeirah hotel is under construction as planned with the hotel opening during the first quarter of 2011, including the new products within the property," said Smith.

Kempinski Hotel Emerald Palace's opening is now scheduled for 2010. "The Kempinski Hotel Emerald Palace Residences will open in March 2010 and the hotel will open in the fourth quarter of 2010. While the residences were supposed to open earlier in 2009, the hotel is scheduled for opening in 2010. Both projects have been delayed due to the downturn," Doaa Amin, Kempinski's Regional Director of PR Area Middle East and Africa, said earlier.

Positive Q3

According to Lodging Econometrics, a global firm tracking hotel real estate, including the development pipeline and the sale and transfer of lodging real estate.

In its lodging forecast report and construction pipeline report on Europe, Middle East and Africa (Emea), Lodging Econometrics said in the first quarter of 2009, a total of 68 new hotels with 11,924 guest rooms opened in the Emea region, with about 60 per cent of these new guest rooms in Europe and 28 per cent in the Middle East.

The UAE is becoming more vocal in its plans to introduce 3,000 new rooms by the fourth quarter, taking the emirate's inventory to 17,000 by the end of the year. No less than seven hotels opened in the second half of October, in time for the capital's first Formula one Grand Prix on Yas Island.

Dubai-based market research firm Proleads reported the UAE hotel sector will see about $20bn of cash flow into hotel projects under execution in the UAE in 2009.

Deloitte's analysis of STR Global data of hotel performances in the Middle East was yet another positive indicator, which revealed that Dubai hotels' average RevPAR rested at $155.36 (Dh570.17) in the first 10 months of this year as against the same period a year earlier.

"The revenue per available room for the 10 months period ended October 2009 is a reflection of fall in demand," Rob O'Hanlon, Tourism, Hospitality and Leisure Partner at Deloitte in the Middle East, told this newspaper earlier.

He added: "It is important to recognise that the RevPAR of hotels in Dubai, recorded at $155.36 during the period, remains amongst the highest in the world."

For the Middle East, however, the average RevPAR for the year was recorded at $123.33 in the January-October period, marking a decline of 18.1 per cent from the corresponding period in 2008.

Abu Dhabi, meanwhile, showed only a slight drop in RevPAR, which was down by 1.7 per cent in the 10 months of this year over the same period last year, to rest at an average $214.62.

Yet, despite the declines, RevPAR in the Middle East, estimated at $122.33 during the first 10 months of this year, ranked "significantly higher" when compared to other world regions, Deloitte and STR global said in the report.

Comparatively, hotels in Dubai posted a 4.09 percentage points higher average growth in RevPar in the July to September 2009 quarter compared to the corresponding period in the previous year.

When comparing occupancy ratios, UAE hotels recorded the highest occupancy levels in the region for the period January-September 2009, according to an earlier Ernst and Young Middle East Hotel Benchmark Survey.

While Dubai hotels (overall) recorded year-to-date (period ended September 2009) occupancy of 71 per cent, Abu Dhabi was at a slightly higher mark at 75 per cent occupancy levels.

However, Dubai beach hotels topped the charts for occupancy throughout the region with year-to-date occupancy of 83 per cent, followed by Dubai city hotels' occupancy of 66 per cent and that of hotel apartments at 76 per cent. At the same time, for the period September 2008-September 2009, Dubai hotels maintained average occupancy levels in the region of 60-65 per cent.

Hotels in Dubai posted the largest average daily rate (ADR) decrease in the Middle East and Africa in September, according to data from STR Global.

The ADR fell 8.3 per cent to $175.62 (Dh644), and the next largest decrease '?? a drop of 6.8 per cent to $200.50 '?? was in Abu Dhabi.

In comparison though, according to the Hotels.com Hotel Price Index, by end of Q2, Abu Dhabi had become the most expensive destination of the year, with an average nightly rate of £173 (Dh 1,014.55).

Rate card

This occurred even as hotel prices around the world fell by 17 per cent in the same period, when compared to the same period in 2008.

In Europe, the United States and Latin America, hotel prices in the second quarter of 2009 had fallen to levels well below those in 2004, according to the survey, the lowest in five years.

One of the key reasons for the drop in the ADR in the Mideast was an increase in the supply of hotel rooms. Almost half the 120,589 hotel rooms under construction in the Middle East and Africa are being built in the UAE, according to STR Global. The UAE is building 57,126 rooms, while Saudi Arabia is second with 10,986 rooms.

Positive ending

Last week's opening of the world's tallest hotel in Dubai, the 333-metre tall Rose Rayhaan by Rotana, has ended 2009 on a high note for the country's hospitality industry.

Industry insiders agree that the 57,126 hotel rooms in the pipeline for the UAE will see next year as a toss up between excessive supply and limited demand. However, others believe the competitive pricing can only help the economy.

"Dubai has become less expensive in 2009 compared to last year, and is once again an affordable destination for families," said Karan Anand, Head of Relationships and Supplier Management for tour operators at Cox and Kings India. He added: "Demand has already picked up, with the industry buzz for the upcoming festive season pointing towards a sellout destination in 2010."

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