Dubai’s tourism and hospitality sector overview

- The hospitality sector accounted for 5% of total GDP in 2013. However, the GDP breakdown for the hospitality sector measures only restaurants and hotels. Tourism in the broader sense is a much bigger driver of economic growth in Dubai; some officials have indicated 20-30% of Dubai’s GDP is tourism related.

- The latest data from the transport and hospitality sector indicate that Dubai is on its way to achieving the ambitious travel and tourism strategy which aims to attract 20 million visitors to the emirate by the end of the decade – approximately double the number in 2012.

- There is a high degree of concentration of hotel and hotel room supply within a few key segments, shifting the focus of the government to the upper middscale and upscale (that is 3* and 4* hotels) range as the market is top heavy at the luxury end.

- The substantial growth in the supply of accommodation is already being reflected in slightly lower hotel occupancy rates. With the supply of hotel rooms in Dubai expected to increase substantially over the next few years, we expect occupancy rates to remain stable or ease slightly until demand catches up.

- Data from the transport sector also shows growth in capacity and visitor numbers. Passenger traffic in Dubai rose to 46.5 million in the period of Jan-Aug 2014, up by 5.7% y/y. Passenger traffic is expected to reach almost 100 million at Dubai International by the end of 2020, according to Dubai Airports.

- Dubai’s ambitious plan to become one of the leading global medical tourism hubs is expected to attract 170,000 medical tourists (AED 1.1bn in revenues) by 2016 and 500,000 tourists (AED 2.6bn in revenues) by 2020, according to DTCM.

- Capacity is also being added at Dubai’s second airport, Al Maktoum International at Dubai World Central. Earlier this month, a USD 32bn airport expansion plan was announced that would ultimately allow the airport to accommodate more than 200 million passengers per year.

- Bank credit to the transport sector jumped to 36.5% y/y in H1 2014 from 34.5% y/y in H1 2013, according to the UAE Central Bank. Loans to this sector accounted for 4.1% of total bank loans in H1 2014.

### Top 10 Dubai’s tourism related projects to be awarded in 2014, % of total USD 9.95bn, as of H1 2014

- **Palm Mall Hotel**, 4.1%
- **Jewel of Creek Development**, 3%
- **Dubai Theme Park, 27.4%**
- **Water Discus Hotel**, 15.1%
- **The Taj Arabia**, 11.1%
- **Deira Souq**, 8.2%
- **Madinat Jumeirah expansion**, 6.8%
- **Nakheel Mall**, 6.8%
- **Phoenix Mall**, 5.5%
- **The Address Residence Views**, 12.1%
Dubai’s tourism sector overview

The hospitality sector accounted for 5% of total GDP in 2013 compared to 4.6% in 2012. However, the GDP breakdown for the hospitality sector measures only restaurants and hotels. Tourism in the broader sense is a much bigger driver of economic growth in Dubai; some officials have indicated 20-30% of Dubai’s GDP is tourism related. This would include transport, impact on retail and other associated industries and services.

According to the Dubai Statistics Centre (DSC), between 2010 and 2012, the total number of workers in the tourism sector increased at an average of roughly 13% per year to 435,595 workers representing 18.4% of Dubai’s total workforce. According to the 2020 Expo’s strategic objectives, an estimated 277,000 new jobs will be created over the next six years with 40% of this (or 110,800 jobs) directed to the tourism sector.

Dubai’s hospitality sector, % GDP, Q1 2014

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Q1</td>
<td>4.3</td>
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<tr>
<td>Q4</td>
<td>4.1</td>
<td>5.0</td>
<td>5.4</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Dubai Statistics Center (DSC), Emirates NBD Research

Tourism license issuance

The net number of tourism licenses issued in Dubai increased by 12.2% y/y in H1 2014, accounting for 1.6% of total business licenses. According to the Department of Economic Development (DED), between H1 2010 and H1 2014 the net number of tourism licenses issued increased at an average of roughly 7% annually indicating an improvement in the business environment. By the end of H1 2014, 1,248 tourism licenses have been circulating in Dubai. As the chart shows, there has been a steady increase in tourism licenses since H1 2010.

Dubai’s tourism business licenses*, H1 2014

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tr>
<td>H1</td>
<td>872</td>
<td>956</td>
<td>1,103</td>
<td>1,112</td>
<td>1,248</td>
</tr>
</tbody>
</table>

*New plus renewed minus cancelled

Source: Department of Economic Development (DED), Emirates NBD Research

Tourism sector business confidence

Dubai has been recognized as one of the top global destinations for international travelers, retaining its top rank in the MENA region, according to the 2014 MasterCard Global Destination Cities Index. The index provides an overview and ranking of the 132 most important global cities. In 2014, Dubai is expected to receive roughly 12 million international visitors, up by 7.5% y/y. Dubai is in the top ten ranking in terms of visitor spending, which is estimated to reach USD 11.95bn in 2014 while it will remain the city that generates more international overnight visitor expenditure per resident than any other city (USD 3,863). Separately, it was also ranked as the third most connected air hub in the world. Dubai and Abu Dhabi are the only cities from the MENA region to be in the top most connected ten air hubs list.

2014 Global top 10 destination cities by international overnight visitors, million

<table>
<thead>
<tr>
<th>City</th>
<th>Visitors, Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>18.69</td>
</tr>
<tr>
<td>Bangkok</td>
<td>16.42</td>
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<tr>
<td>Paris</td>
<td>15.57</td>
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<tr>
<td>Singapore</td>
<td>12.47</td>
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<td>Dubai</td>
<td>11.95</td>
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<tr>
<td>New York</td>
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<td>Istanbul</td>
<td>11.60</td>
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<tr>
<td>Kuala Lumpur</td>
<td>10.81</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>8.84</td>
</tr>
<tr>
<td>Seoul</td>
<td>8.63</td>
</tr>
</tbody>
</table>

Source: MasterCard, Emirates NBD Research
Dubai’s tourism strategy on track

The latest data from the transport and hospitality sector indicate that Dubai is on its way to achieving the ambitious travel and tourism strategy which aims to attract 20 million visitors to the emirate by the end of the decade – approximately double the number in 2012. Achieving this will require substantial growth in capacity on both transport and hotel infrastructure.

There is a high degree of concentration of hotel supply (number of hotels) within a few key segments. For instance, upper upscale and luxury hotels accounted for 28.6% of Dubai’s total existing supply and 52.4% of the additional projected supply. This should perhaps shift the focus of the government to the upper midscale and upscale (that is 3* and 4* hotels) range as the market is top heavy on the luxury end. In terms of the economy hotel segment, local developers Emaar and Meraas have recently formed a new economy hotel brand in Dubai. The new concept, known as Dubai Inn, will roll out its first phase of hotels this year initiating business interest in the least favored segment of the hotel industry.

Dubai hotel occupancy rates and RevPAR, September 2014

The substantial growth in the supply of accommodation is already being reflected in slightly lower hotel occupancy rates. Dubai’s hotel occupancy averaged 77.5% in Jan-Sep, down from 79% in the same period last year. With the supply of hotel rooms in Dubai expected to increase substantially over the next few years, we expect occupancy rates to remain stable or ease slightly until demand catches up.

Meanwhile, revenue per available room (RevPAR) growth has slowed sharply. In the first 9 months of this year RevPAR growth was 3% compared with 9.5% growth in the same period last year. RevPAR stood at an average AED 669.7 (USD 182.3) in Jan-Sep 2014 compared to AED 650 (USD 176.9) the same period a year ago.

Similarly, Dubai’s hotel room supply is equally segmented with upper upscale and luxury rooms accounted for 40.6% of Dubai’s total existing supply and 52.8% of the additional projected supply as the graph below shows. Again, the focus should on the upper midscale and upscale range.

Approximately 80,000 new hotel rooms – nearly double the existing stock – will need to be built by the end of the decade, according to the Department of Tourism and Commerce Marketing (DTCM). The latest data from STR Global shows that the supply of hotel rooms in Dubai increased by 7.6% y/y in September, and by 7.9% year-to-date. Data from STR Global also shows that a further 11,779 hotel room are currently under construction in Dubai, with another 13,561 in planning stages. There were 70,343 hotel rooms available (2.11mn room nights) in Dubai in September.

The pricing power enjoyed by Dubai hotels since 2011 is also likely to be eroded. Although the average daily rate (ADR) charged by hotels has risen this year, it has been at a slower pace than 2013. For the first nine months of this year, hotels in Dubai have increased their ADR by 4.3% y/y compared to 5.5% y/y the corresponding period of 2013.
Dubai’s additional drivers for tourism growth and tourism related projects

The introduction of a new system for visa issuance would further boost tourism growth. According to DTCM, a multiple entry visa scheme for Indian nationals is under consideration as well as a unified GCC visa (similar to Schengen) to allow tourists to use one visa to visit all GCC states. Separately, new visas will include multiple entry permits for visit or work, the activation of study visas, and entry permits for medical care.

Regarding the latter, Dubai’s ambitious plan to become one of the leading global medical tourism hubs will be launched this month at the first Health Regulations Conference. By 2016, DTCM estimates that medical tourists are expected to rise to 170,000 with revenues of AED 1.1bn, while by 2020 medical tourists will rise to 500,000 with AED 2.6bn of revenues.

Capacity is also being added at Dubai’s second airport, Al Maktoum International at Dubai World Central. Earlier this month, a USD 32bn airport expansion plan was announced that would ultimately allow the airport to accommodate more than 200 million passengers per year. The first phase is expected to be completed by 2020-2022, with total new capacity of 120 million passengers. The expanded airport could accommodate 100 A380 aircraft at one time.

According to MEED, the value of Dubai’s construction projects due to be awarded in 2014 recorded a significant increase at USD 22.2bn, reaching almost the 2013 level. Tourism related projects account for 44.8% of this with an estimated value of USD 9.95bn as the table below shows.

Dubai’s top 10 tourism related projects to be awarded in 2014, USDbn, as of H1 2014

- Palm Mall Hotel, 0.4bn
- The Address Residence Views, 1.2bn
- The Taj Arabia, 1.1bn
- Dubai Theme Park, 2.7bn
- Water Discus Hotel, 1.5bn
- Madinat Jumeirah expansion, 0.7bn
- Deira Souq, 0.8bn
- Nakheel Mall, 0.7bn
- Phoenix Mall, 0.5bn
- Jewel of Creek Development, 0.3bn

Source: MEED, Emirates NBD Research

Separately, Emirates Airlines CEO Tim Clark recently said that the airline is planning to expand aggressively in the US, with the aim of making it one of Emirates’ top three markets in terms of revenue. Emirates Airlines is reportedly scouting new cities to add to its network after launching service last month in Chicago, the carrier’s ninth US destination.
Bank credit to the transport sector

Bank credit to the transport sector jumped to 36.5% y/y in H1 2014 from 34.5% y/y in H1 2013, according to the UAE Central Bank. Loans to this sector accounted for 4.1% of total bank loans in H1 2014. In H1 2014, bank credit to the transport sector reached AED 48.7bn compared to AED 35.7bn for H1 2013. The transport sector continued to gain momentum in Q1 2014, with growth rising to 40.3% q/q and 5.2% y/y, down from 6.8% y/y growth in Q4 2013.

Bank credit to the transport sector, H1 2014

Looking at the breakdown of transport loans by banking institution, the National Bank of Abu Dhabi (NBAD) had the largest share with 31.3% (AED 10.1bn), followed by Emirates NBD with 15% (AED 4.8bn) and Mashreq with 7.4% (AED 2.4bn) of the total transport loans for 2013.

Bank credit by UAE banks to the transport sector, % of total, 2013


Source: 2013 Financial Results, Emirates NBD Research
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