Hotelier MIDDLE EAST

HOSPITALITY PROCUREMENT **REPORT 2016**

1. Abstract

Against a backdrop of tumbling occupancy rates and subsequent drops in average daily room rates, ITP Business Publishing presents the first *Hotelier Middle East Hospitality Procurement Report*. More than 45 hotel procurement managers and directors completed the *Hotelier Middle East Procurement Survey* between December 2015 and March 2016, and during March 2016, eight global, regional and hotel-based procurement directors spoke at length about the opportunities for their business and analysed the results.

Of the 45 respondents to the *Hotelier Middle East Procurement Survey*, 38 hold manager, head of department or director level roles. Thirty-one work for international hotel chains, and 14 are employed by regional or UAE-based hotel operators. Eighty percent of respondents work for companies with hotels in Dubai, with Abu Dhabi, Qatar, Saudi Arabia and Oman the next principal locations. Between them, they are responsible for procurement for more than 360 hotels, with two respondents each representing portfolios of over 50 properties. This equates to, in total based on the lowest estimate, more than 72,000 rooms in the Middle East. In financial terms, collectively the respondents are responsible for business worth in excess of US$157.6 million annually.

In this report, we present the key figures from the survey, the trends dominating hospitality procurement, and an analysis of the results against the market outlook, alongside a commentary from experts in the field. *The Hotelier Middle East Hospitality Procurement Report* provides essential business insight into this critical hotel function, revealing a move towards an increasingly operations-oriented approach, technology-driven online purchasing and a commitment to transparency, underpinned by a value-led decision making process and an investment in analytics.

2. Market dynamics

In the context of the global tourism, the Middle East hospitality market is relatively robust, performing strongly and still growing. Nowhere is this truer than in Dubai, where the market fundamentals are secure, with the growth in tourist numbers on track to meet the emirate's target of 20 million visitors by 2020. Dubai International Airport has retained its position as the world's busiest airport for international passenger traffic, up 12% in 2015 over 2014, while the total visitor number to Dubai last year was 14.2 million, an increase of 7.8% over the previous year. Looking at this in relation to the economy, the direct contribution of travel and tourism to the UAE's GDP was AED61.6bn (4.1%) in 2014, according to the World Travel and Tourism Council, with this forecast to rise by 4.9% in 2015.

Indeed, as an industry, hospitality and tourism is a key component of the strategic development of most GCC states and in some, like Dubai, critical to the economy. Deloitte reports total development activity within the hospitality and leisure sector to be estimated at US$24.1bn. This means that, despite the staggering growth in visitor numbers, an increase in hotel inventory in 2014 and 2015, coupled with an opening up of the holiday home rental market and the prevailing 'sharing economy', has started to have an impact on hotel performance. Eleven hotels opened in Dubai in 2015, adding 2,800 keys. In the same year, Dubai saw average occupancy decline -1.4% to 77.5% compared to the previous 12 months, according to STR, and average daily rate (ADR) fall by approximately-7.4% to AED797 over the same period.

Latest data shows the trend continuing into 2016, as supply growth outpaces demand, affecting both occupancy and ADR. This year, 31 hotels will be completed, increasing room inventory by 14% (9,300 rooms) to total 76,500, estimates Deloitte.

In February 2016, Dubai saw a 3.5% decrease in occupancy to 82.5% as well as double-digit drops in ADR (-11.6% to AED833.78) and RevPAR (-14.7% to AED687.63). The emirate wasn't alone, and overall, as a subcontinent, Middle East hotels posted occupancy levels at 70.2% in February, representing a decline of 5.3% compared to the same period in 2015. Average daily rate for the month was down 10.5% to US$182.45, while revenue per available room dropped by 15.2% to US$128.12.

If pipeline growth happens as predicted, it's unlikely that performance declines will reverse quickly. The February 2016 Pipeline Report by STR shows 151,454 rooms in 538 hotels under contract (in the construction, final planning or planning stages) in the Middle East.

Narrowing the data down to rooms 'in construction' only, and in the Middle East there are 80,344 rooms in 252 hotels under construction as of February 2016 – a 42.5% year-over-year increase. Among the countries in the Middle East and Africa, Saudi Arabia reported the most rooms 'in construction' with 34,753 rooms in 77 hotels, and the UAE followed with 26,957 rooms in 92 hotels.

Hotel performance will also be impacted by macroeconomics, namely oil prices, commodity price movements and currency fluctuations. The Economist Intelligence Unit (EIU) forecasts real GDP growth in the UAE to average 3.6% per annum between 2015 to 2019, a declining forecast largely due to a significant fall in global oil prices, along with wider global economic factors, such as a slowing Chinese economy and sluggish growth in the Eurozone economies.

While Dubai's economy is less affected by oil revenue than other UAE and GCC states, the downturn in oil prices nonetheless is forecast to prompt fiscal reform, according to the EIU. According to Deloitte's analysis, the cumulative effective of the removal of fuel subsidies, inflation forecast at 3.4% in 2016 and generally stagnant salaries, is likely to lead to lower disposable incomes for some households. The typical result of this is reduced spend on consumables, leisure, restaurants and hotels.

As a result, Deloitte predicts that in the short-term (2016-2017), the delta between hotel demand and supply will widen, with occupancy levels of around 70-75% representing a "new normal" in Dubai. Analysts urge us not to view this negatively, as Dubai remains one of the world's best performing hospitality markets, but for those working in the industry, with pressurised budgets calling for a hike in sales and reduction in costs, the impact is real.

All of the above impacts the development, performance and strength of the Middle East hospitality market, and both directly and indirectly influences the buyer-vendor dynamic within this. The scenario in which hospitality procurement, purchasing and materials directors operate in 2016 is without doubt challenging, but at the same time, abundant with opportunity.

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