

# Tourism 2020: Beyond the Expo

Hosting for Expo is just one more step along the way in Dubai's overall tourism strategy, writes Philip Shepherd, PwC Middle East Partner and Hospitality & Leisure Leader



Dubai is 5 years away to fulfilling its tourism 2020 strategy designed to reduce the Emirates' dependence on oil, and turn Dubai into a world-leading leisure and entertainment destination. And it's working.

At around a third of GDP, Dubai's indirect and direct revenue related to tourism now dwarfs revenue from oil, which is down to around 5%. Likewise, tourist numbers have already boomed from 8 million in 2010 to an expected 16.5 million by the end of 2015, and that number could top 22 million by 2020, supported by huge investment in airports, hotels, transport infrastructure, new attractions, and theme parks.

Attracting major sports and entertainment events is another key element in the strategy, and there's a significant one on the horizon now – the Dubai Expo, which will run from October 2020 to April 2021, could draw as many as 25 million visits. So how does that fit into the overall picture? What should the Dubai government be doing to plan for it, and how should the hospitality sector respond?

As with most large one-off events, the key will be to ensure and maintain a positive legacy. Host cities need to ensure that the money spent to accommodate the event is an investment for the future, as well as ensuring the immediate success of the event itself.

Both the facilities and the visitor accommodation need to be in the right place, and of the right type and scale.

In terms of facilities, the Dubai Expo certainly ticks the boxes: it will help further develop the Jebel Ali area of the city, near the new airport, which will include a new world-class venue for the Dubai World Trade Centre, a national museum and a university. The question of visitor accommodation, however, is rather more complex.

There are three main factors here: supply and demand, the hotel mix, and occupancy levels.

Starting with supply, the Middle East as a whole is witnessing the biggest percentage increase in new hotel rooms when compared to other regions globally, and the hotel room supply in the UAE is set to double by 2020. The question is whether this growth in supply will meet demand, or actually outstrip it.

The first quarter of 2015 saw a softening in ADRs for the first time since the global economic crisis, driven largely by weakness of the Euro and Russian Rouble, which deterred the all-important Russian and European tourist.

It could be some time before this trend reverses, but in the meantime building continues apace, with as many as 15,000 rooms under construction. So on the face of it, Dubai should have the rooms it needs for the Expo, even allowing for a fairly significant spike in demand during that period.

However, it's important to look more closely at the type of rooms within the development pipeline. The Middle East is unique among key world tourist destinations in its mix of hotel accommodation. Most cities have a standard pyramid pattern, with a small number of ultra-luxury hotels and a much bigger mid-range and economy sector. In the Middle East in general, and Dubai in particular, this pyramid is inverted, with a vast preponderance of 5-star rooms.

More importantly, as many as 75% of the new rooms under construction are in this luxury and upscale segment, mainly because accessible land is so expensive that building cheaper hotels just doesn't seem financially viable for the developers.

But looking long term, Dubai needs a better balance, and the authorities understand that with recent introduction of an incentive scheme. The Expo could have a positive legacy here, too, by making it financially viable for developers to build budget and mid-market hotels in Jebel Ali, which will continue to be attractive to visitors after the Expo closes.

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And finally, occupancy. In the last few years Dubai has achieved occupancy levels that far exceed anything that key cities in Europe and North America enjoy – typically over 80% compared with the mid-60s. But is this sustainable? As Dubai matures as a destination, will it have to accept the sort of occupancy levels that other mature destinations have been living with for years? Adjusting down to those levels of occupancy could well be bumpy, at least in the short term, but again, this is where the Expo could come into its own.

Assuming occupancy rates remain where they are now, the traffic generated by the Expo could lead to levels as high as 90+%. But if occupancy rates are actually starting to decline by 2020, the pressure would be much less – in other words, something closer the high 70s.

Additionally, any overspill demand could be absorbed within new ventures like the Department of Tourism and Commerce Marketing's Holiday Homes, or within neighbouring Emirates, such as Abu Dhabi or Sharjah.

Some have assumed that hotels are being built to accommodate demand for the Expo and thus whether this is wise.

However, according to DTCM, hotels are being developed to serve the long term tourism vision for 2020 and beyond.

In our view this is both the best and most practical approach.

The authorities should be focusing on the long-term journey to make Dubai a world-class leisure and entertainment destination to rival the likes of Orlando. The Expo is just one more stop along the way.

**This article first appeared in Gulf Business in November 2015.**

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