



JANUARY, 2011

QATAR

THE RACE FOR 2022

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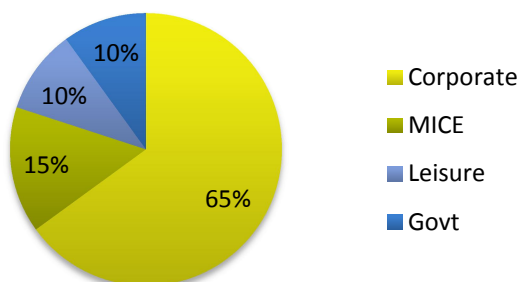


In this article, we present a brief overview of the hotel market in Doha, Qatar. We address key factors that impact the demand for transient accommodation, expected changes in supply, and specific challenges related to Qatar’s successful bid to host the 2022 World Cup.

Hotel Demand

Qatar remains a predominantly corporate destination, with leisure guests accounting for only 10% of total demand. The remaining 90% consists of a mix of corporate and government demand that is difficult to tell apart, given the strong overlap between the public and private sectors in Qatar. A growing segment, meeting, incentive, conference and exhibition (MICE) demand averages about 15% of total demand for transient accommodation in Doha.

FIGURE 1: DOHA HOTEL MARKET SEGMENTATION



Similar to other markets in the region, Qatar suffered during the global economic downturn and experienced a soft recovery during 2010, particularly in the second half of the year. Portions of corporate demand exhibited a ‘flight to value’ trend, as price-sensitive guests migrated to lower-priced properties in an attempt to cut costs. The main beneficiaries of this trend were high quality, four-star hotels: in addition to capturing demand from thrifty five-star guests, these properties continued to enjoy the patronage of guests that had migrated to three-star hotels only to discover these properties could not satisfy their food, beverage and meeting space demands.

Demand for transient accommodation in Qatar is expected to grow significantly in the coming decade.

We identify some of the key demand drivers, per market segment.

Corporate Demand Growth

Corporate demand growth will be highly correlated with strong economic growth, increased diversification of the economy, timely completion of mega projects (infrastructure and real estate), and population increase.

Strong Economic Growth: Qatar remains the region’s leader in GDP per capita, with 2010 real GDP growth (~14%) driven by a significant expansion in LNG production. The high rate of expansion is expected to continue in 2011 (~16%), as remaining gas-related projects are completed, then slow to single-figure percentages over the medium to long term¹. A similar future boost in GDP could be achieved only by eliminating the existing moratorium on gas capacity expansion. The oil and gas sector, however, has traditionally employed fewer people and has generated lower demand for accommodation than other industries.

Increased Diversification of Economy: A more relevant source of hotel corporate demand growth is related to the economic diversification efforts of the government, driven by the Qatar National Vision 2030 (QNV), and aimed at ensuring the country will continue to enjoy its high standard of living even when its vast natural resources are depleted. The current reliance on the oil & gas sector (~75% of revenues) makes Qatar vulnerable to outside shocks related to sudden shifts in demand, supply and global prices. The success of economic diversification will depend to a great degree on priority investment in education and infrastructure. One of the benefits of the World Cup in 2022 is the provision of a strict timeline for the finalisation of such projects.

Commitment to Infrastructure Development: The 2011 budget is the largest in Qatar’s history (US\$32.4bn), with more than 30% earmarked for infrastructure spending and roughly 15% for education projects. Investment in infrastructure through to 2014 will reach a total of US\$140bn (>40% of the budget during that period). The most relevant for hotel demand are the infrastructural projects that

¹ EIU Country Report November 2010

will allow more visitors to travel to Qatar more often and with less effort. Causeways and high-speed rail networks will provide direct links to Bahrain (2018) and the UAE (2022). The New Doha International Airport will provide airlift capacities for 24 million passengers by mid-2011 and 50 million passengers by 2050. Ease of movement within traffic congested Doha will improve owing to the planned Doha Metro and several light rail systems within specific developments (such as Education City and Lusail). Infrastructure improvements such as the Doha Expressway Project will allow the benefits of economic development to spill over to other regions in Qatar more readily.

Renewed Impetus to Finalise Real Estate Projects:

Winning the 2022 World Cup bid is not the main driving force behind the massive developments planned in Qatar; the political will of the ruling family and Qatar's sovereign wealth would have delivered these projects anyway. However, winning the bid has undoubtedly increased the business appeal of Qatar by reducing uncertainty related to development timelines.

Massive mixed-use developments will benefit from renewed support. The Pearl Qatar will likely be the first prestigious project to be fully completed, alongside Education City, Barwa Financial District, and Musheireb (a.k.a. Heart of Doha). Developments outside of Doha, such as Al Waab City (US\$3.2billion/1.2 km²/2014) and Barwa Al Khor (US\$10 billion/5.5 km²/2020) will be completed before the World Cup to host some of the additional planned modular stadiums. Lusail (37 km²/200,000 residents), previously subject to much speculation related to development timelines, will be less vulnerable to delays and liquidity issues – the government is expected to draw on its sovereign wealth fund to ensure projects proceed as planned. With 2022 as a target date, some projects will even launch ahead of schedule: the proposed railway project in Qatar will be completed ten years earlier than originally planned.

Improving Business Environment? A decision to cut the corporate tax rate to a flat 10% in 2010 will likely benefit large investors at the expense of small and medium businesses. Going forward, it will be interesting to see if the government will encourage private sector growth by taking steps to improve the business environment, or if it will attempt to exploit the renewed interest in Qatar by increasing minimum

capital requirements, hiking up licensing fees, and possibly restricting certain economic activities to companies with 100% Qatari ownership.

Strong Population Growth: Finally, given Qatar's dependence on imported skills, the planned economic growth will require an influx of additional expatriates. A boost in residential demand will accelerate the absorption of oversupply that had contributed to the previous two years of depression in the real estate market. The resulting population increase will strengthen the country's consumer base and will drive the growth of extended-stay corporate demand for hotels and serviced apartments.

MICE Demand Growth

MICE demand growth in the short to medium term will be highly correlated with the evolution of corporate demand and the success of Qatar's high-profile international relations policy. In the long term, the hoped-for success of events such as the World Cup 2022 will increase the country's recognition as a MICE destination by providing tangible proof that Qatar can successfully host large-scale international events. The prestige associated with Qatar being the first Middle Eastern nation to win a World Cup bid will increase international awareness in the meantime. The massive financial commitment to the Qatar National Convention Centre (2011) and The Doha Exhibition Centre and Tower (tbd) is testament to the positive outlook held by Qatar authorities regarding the future of the country's appeal as a MICE destination.

Leisure Demand Growth

Leisure demand growth will be driven by government spending to develop an inventory of entertainment venues and supported by increased international recognition of Qatar as a potential tourist destination. Visa requirements and cultural restrictions that limit entertainment options will make it difficult to achieve the ambitious government target of expanding the leisure segment to 30% of total hotel guests (currently estimated at 5%). The short-term target is to attract 1.4 million international tourists to Qatar by 2012.

Government initiatives to increase tourism include special packaged offers, such as *Qatar 48*, a tourism scheme intended to persuade passengers in transit through New Doha International Airport to extend

their layover in Doha to a 48-hour stay filled with special offers and activities. Pillars of leisure tourism in Qatar include education, sports and culture.

Education visitors will be attracted by an impressive portfolio of prestigious universities hosted in Education City, such as Texas A & M University, Georgetown University School of Foreign Service and Northwestern University, while sports visitors will be attracted by year-round events hosted in Sports City or in some of the new mixed-use developments (such as the Tennis Open, Lusail Moto Grand Prix, Qatar Masters Golf Tournament, and the upcoming Asian Cup in 2011).

Cultural tourists will be attracted by existing attractions such as the Museum of Islamic Art, or developments that blend traditional architecture and cultural markers with modern entertainment and innovative restaurants. An addition to Souq Waqif, the Qatar Cultural Village – a US\$82 million project in West Bay – has already opened phase one, consisting of international restaurants, an amphitheatre, and two indoor theatres. When finished, the village is intended to be a focal point for international musical, arts and cultural festivals throughout the year.

We expect visitation to Qatar to increase in the medium to long term in response to the aforementioned inventory of leisure developments and initiatives intended to drive leisure demand to Qatar.

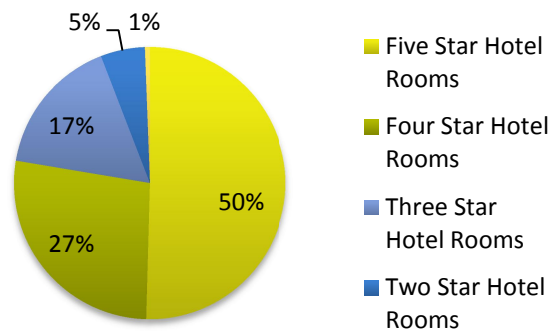
Hotel Supply

The Doha hotel market has grown significantly during the past decade, partly a result of tourism strategies implemented by the Qatar Tourism Authority, mostly as a natural consequence of a booming economy.

Current Supply

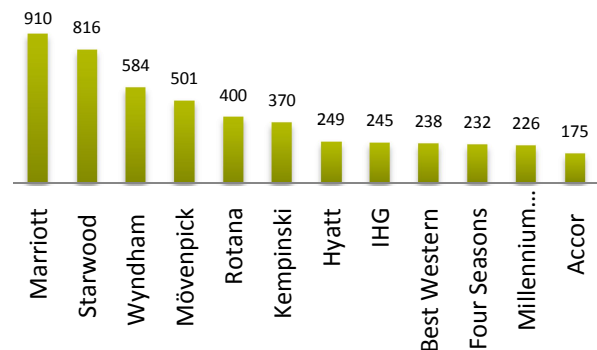
Rooms supply outside of Doha consists mainly of unbranded properties in Al Wakrah – these properties are not included in the scope of this report. Within Doha, as at the end of 2010, branded and unbranded properties amounted to 9,574 rooms, as reported by the *Qatar Tourism Authority, 2010*. The market is dominated by upscale properties.

FIGURE 2: UPSCALE HOTELS DOMINATE THE DOHA HOTEL MARKET



During 2010, two notable international operators entered the market: Kempinski with the Kempinski Residences and Suites (370 serviced apartments and suites) and Rotana with Oryx Rotana (400 rooms). As at the end of the year, 12 international operators were present in Doha: Accor, Best Western, Four Seasons, Hyatt, IHG, Kempinski, Marriott, Millennium & Copthorne, Mövenpick, Rotana, Starwood and Wyndham.

FIGURE 3: OPERATOR PRESENCE IN DOHA BY HOTEL ROOMS



Future Supply

In a market already dominated by upscale properties, as much as 90% of future supply will consist of four-star and five-star properties. The table below is not comprehensive – properties with uncertain status and development timelines have been excluded.

FIGURE 4: FUTURE SUPPLY

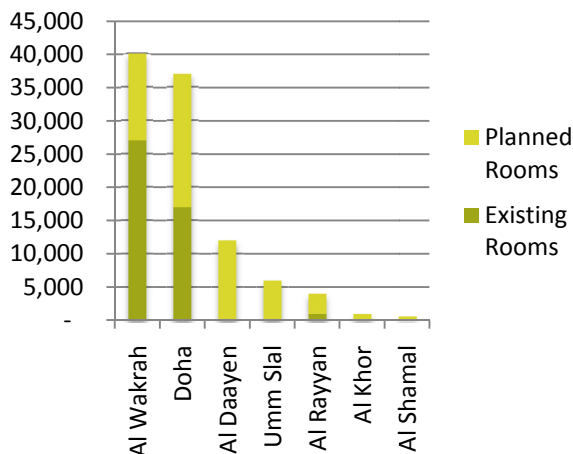
Hotel	No. of Rooms	Proposed Opening Date
Crowne Plaza Doha Business Park	365	Sep-11
Hilton Doha	324	Jan-11
InterContinental Doha West Bay	540	Sep-11
Renaissance Doha City Centre	257	Jan-11
St. Regis Doha	340	Jun-11
Wyndham Grand Regency Doha	251	Jan-11
Courtyard by Marriott	204	Jan-11
Marriott Executive Apartments	123	Jan-11
Hilton Doha Residence	288	Jan-12
Le Méridien Doha	330	Dec-12
Kempinski Hotel Marsa Malaz – The Pearl	250	Jun-13
The Regent Doha	365	Jan-13
Nikki Beach Resort and Spa @ The Pearl	69	Jan-13
Total	3,706	

Source: HVS Research

Five-star inventory will, in the most conservative of scenarios, increase by 77% in the next five years. A significant portion of the new supply will be located in West Bay, creating significant downward pressure on rates commanded by hotels in that area.

The race to build hotel rooms for the World Cup 2022 will result in the emergence or further development of several hotel submarkets outside of Doha. The following illustration relies on information included in the World Cup bid evaluation report.

FIGURE 5: EXISTING AND PLANNED ROOMS ACCORDING TO THE BID EVALUATION REPORT



Qatar, currently reported to have about 45,000 rooms (in all categories, including a sizeable inventory outside of Doha) has plans for more than 55,000 additional rooms, intended to be operational by 2022. These hotel rooms are likely to include branded and unbranded hotels. Qatar has proposed more than 240 different properties focusing primarily on the four-star hotel classification.

Special Topic: Oversupply Risk

Will the race to build hotel capacity for 2022 result in a long period of oversupply in Qatar, prior to the event and in its aftermath? While this is a complex topic, we provide here a summary overview of the main issues.

The possibility of constant oversupply in the coming decade: 2011-2021

In the period preceding the World Cup, incentives exist for building hotel capacity at a pace that exceeds the pace of demand growth. Ideally, collaborative action between government authorities (controlling building and operational permits) and hotel stakeholders (owners and operators) will ensure a certain degree of coordination between demand-inducing developments and the increase in supply. However, a likely scenario also points to the incentive of racing to the market to establish presence. The existing pipeline, announced before winning the bid, is already sufficient to cause short to medium term oversupply. Attracted by the World Cup, additional hotel brands may target the market.

The possibility of post-2022 oversupply

Developing hotel room capacity for the World Cup in Qatar is similar to building a house large enough to host an entire wedding. Once the event is over, who will use the extra rooms? This concern is valid in a scenario in which normal demand for room nights in Qatar will not reach levels that justify the planned hotel supply increases to which the government has committed (that is, 84,000 hotel rooms).

The danger of oversupply may be reduced by (1) using existing infrastructure and accommodation available in neighbouring countries and (2) by providing creative accommodation alternatives.

A little help from the neighbours: infrastructure developments are a prerequisite to using the existing infrastructure and accommodation of the UAE, Bahrain, and possibly the Eastern Provinces of Saudi Arabia. Qatar intends to develop the causeways and railway network in time for the World Cup 2022, a direct result of which will be that the entire region will benefit to a greater degree from the spill-over of economic benefits associated with the event.

Creative accommodation alternatives may mitigate the risk of oversupply by reducing the need for traditional hotel rooms. HVS highlights just a few such concepts.

Modular Hotels – In the bid to host the World Cup, Qatar proposed the development of several modular stadiums that would be disassembled after the event and donated to developing countries. A similar approach could be adopted for hotels – modular accommodation could be developed, either as part of the modular stadiums (think of it as a Meydan-to-go) or as stand-alone properties.

Residential Projects – Qatar has plans to develop a large number of residential projects as part of developments such as Lusail, The Pearl and West Bay. Vacant residential properties may be operated as serviced apartments during the World Cup – building up temporary service capabilities is much less expensive than building permanent hotel supply, and the associate returns on investment of such an enterprise would also be considerably higher.

Cruise Ships – According to FIFA, Qatar has already planned a 6,000-room cruise ship project in Al-Wakrah. Making arrangements for cruise ships that could be chartered for the duration of the World Cup may further diminish the danger of oversupply.

Conclusion

Driven by the goal of honoring commitments towards the 2022 World Cup, significant infrastructural and real estate projects in Qatar will be completed during the coming decade, driving the growth of demand for transient accommodation in Doha. The outlook for the hotel market in Qatar is very positive, notwithstanding the high risks associated with incentives for oversupply in the coming decade.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

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Note: No investment decision should be made based on the information presented in this article. For further advice please contact the authors.

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