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Oversupply drives down profits across Middle East, North Africa

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Despite what's considered "oversaturation of the Dubai hotel market," The Me by Melia Dubai is slated to open later this year. Photo credit: Zaha Hadid Architects

January was a rough month for hotels in the Middle East and North Africa, according to the latest data from HotStats tracking full-service hotels. The analytics company blamed "oversupply and struggling oil prices" for falling profits during the month, with total gross operating profit (GOPPAR) dropping 13 percent year over year.

The decrease is part of a continuing story for the region, which saw GOPPAR decline 6 percent year over year in 2018 and marked the fifth consecutive month of such decline.

The drop in profit was led by a 7.5-percent year-over-year decrease in RevPAR and a 2.9-percent drop in non-rooms revenues, which fell to \$81.27, equivalent to 41 percent of total revenue.



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Although hotels in the region were able to maintain room occupancy at 69.5 percent, achieved average room rate fell further in January, dropping by 7.5 percent year over year to \$116.96.

Falling ancillary revenues included declines in food and beverage (down 5.5 percent) and leisure (down 6.5 percent). There was a 0.3-percent uplift in conference and banqueting revenue on a per-available-room basis.

As a result of the revenue movement across all departments, TRevPAR fell by 5.7 percent to \$198.23. While this was 1.1 percent above the TRevPAR recorded at hotels in the region in the rolling 12 months to January 2019 (at \$195.99), it was almost \$25 below this measure in January 2016 (at \$222.82), illustrating the widening gulf between historic and current performance levels, according to HotStats.

Declining total revenue was exacerbated by rising costs, including a 1.7-percentage-point increase in payroll levels as a percentage of total revenue to 27.3 percent, as well as a 1.8-percentage-point increase in overheads as a percentage of total revenue to 25.2 percent, the data showed, and profit margin was recorded at 38.5 percent in the month.

“We are now almost five years down the road from when the oil crisis began in the Middle East and there has been little respite from the resultant decline in performance for hotel owners and operators in the region,” said Michael Grove, director of hotel intelligence and customer solutions, EMEA, at HotStats. “With the oil market likely to be the dominant economic driver once again in 2019, the sharp decline in price toward the end of 2018 will undoubtedly be a cause for concern for regional hoteliers.”



Dubai's **Expo 2020** is getting closer, and the emirate is looking to have **132,000 guestrooms** by the end of 2019 and **164,000** by the time the festivities get underway. But the emirate's existing hotels have been facing low occupancy rates already (down 5 percent to 82 percent), ADR (down 10.9 percent to AED716.78) and RevPAR (down 15.3 percent to AED587.70.) According to **STR analysts**, occupancy and rate declines are to be expected for the market given a significant amount of new inventory in the pipeline ahead of the Expo.

For hotels in Dubai, the year-over-year decrease in profit per room in January represented the seventh consecutive month in which GOPPAR dropped in the UAE's most populous city.

The 13.9-percent decline in profit came despite the city hosting the 21st edition of the Intersec Security, Safety & Fire Protection conference, which attracted close to 35,000 delegates with 1,202 exhibitors from 54 countries.

Hotels suffered significant declines in top-line revenue, which included a 2.2-percentage-point drop in room occupancy to 85.2 percent, as well as a 9.4-percent decrease in achieved average room rate, which fell to \$248.48. It resulted in an 11.6-percent drop in RevPAR, according to HotStats.

Non-rooms revenue fell to \$132.20, equivalent to 38.5 percent of total revenue, and contributed to an 8.2-percent decline in TRevPAR, the analysts added.

HotStats noted the plummeting revenue levels were further exacerbated by rising costs, which included a 1-percentage-point increase in payroll levels as a percentage of total revenue to 23.3 percent.

In line with the regional market, profit conversion at hotels in Dubai is under pressure, according to the data. Having been recorded at 48.6 percent of total revenue in January 2016, it fell back to 44.5 percent this past January.

"The oversaturation of the Dubai hotel market is no more clearly illustrated than in months like this, when an additional 35,000 people in the city fail to spur an increase in top- and bottom-line performance," said Grove. "Against a backdrop of challenging economic conditions, profit decline is



likely to continue at hotels in Dubai for some months to come.”



Alexandria Rises Again

One bright spot in the region was Alexandria, where profit per room soared by 40.3 percent year over year in January to \$38.23. The city continued to benefit from the recovery in the wider Egypt economy.

Growth in profit was fueled by increases across all revenue centers, which contributed to the 27.3 percent increase in TRevPAR to \$96.63, according to HotStats.

This was the 31st consecutive month of profit growth for hotels in Alexandria and as a result of the robust increase, profit conversion in January was recorded at 39.6 percent of total revenue.

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