

Hotel Refurbishment





Introduction

Tourism has been a key growth sector for the Middle East and North Africa in its drive towards a diversified and sustainable economy.

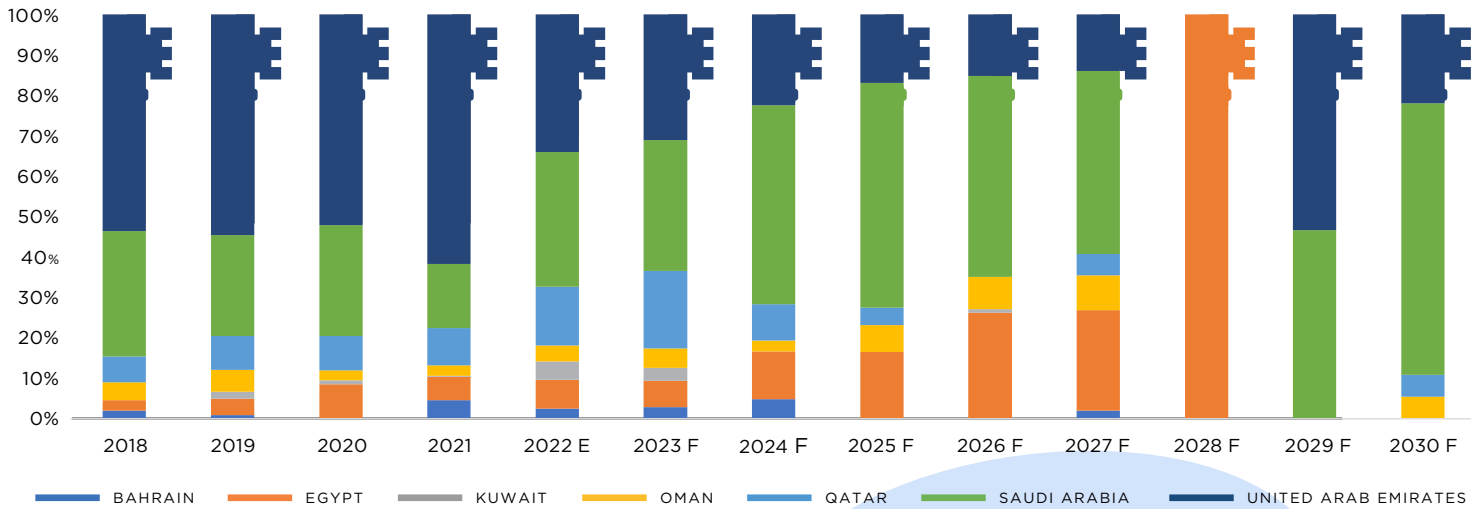
The UAE has led this trend, with the development of experiential tourism in the region and product offerings across various segments. Currently, the country constitutes close to 34% of the roughly 600,000 room keys¹ that are available in the Middle East and North Africa². It has made significant strides in its product offerings and the development of tourism-related infrastructure. As a result, the country ranks 1st in the region and 25th globally on the Travel and Tourism Development Index-2021 published by the World Economic Forum.

Another standout hotel and tourism hotspot has been Egypt with 30% of the total available room keys in the region. Drivers for hotel demand in both markets are very different with tourism in Egypt driven by the appeal of its cultural and natural attractions whilst hotel occupancy in the UAE is largely driven by ‘bleisure’ (business and leisure) travel across its numerous purpose-built developments supported by excellent tourism-

related infrastructure. Both these countries will continue to grow with the addition of more than 87,500 new hotel keys combined by 2030. Whilst Saudi Arabia by no means is new on the regional tourism landscape, its hospitality offering is undergoing a shift from focusing purely on religious tourism, to showcase its fascinating natural landscapes and state-of-the-art developments. The country attracted close to 20.3 million (mn) international visitors in 2019, compared to 25.3 mn in the UAE. As the country embarks on an ambitious target of attracting 55 mn international tourists by 2030, we are likely to witness an additional circa 105,300 room keys across the Kingdom, which is 44% of the total new supply in the region till 2030 and 20% more than UAE and Egypt combined.

The travel and tourism sector is at the heart of the ambitious Vision 2030 plan which aims to increase the contribution of the sector to the country’s economy from 5.3% in 2022 to more than 10% by 2030, whilst creating more than 1 million new jobs. It has already made significant gains and improved its position from 43rd in 2020 to 33rd in the 2021 Travel and Tourism Development Index.

SHARE OF ANNUAL NEW ROOM KEY ADDITIONS



13 Source STR Global, Savills Research



1 All branded and unbranded hotel developments by independent and organised hotel chains across different scales
2 Source: STRGlobal, Savills Research. For the purpose of the above analysis, Middle East and North Africa(MENA) region include Bahrain, Egypt, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates (UAE), only

Move towards resilience and sustainability whilst providing a unique offering



New supply addition across the MENA region by traditional hospitality operators will continue to grow with more than 240,000 new room keys likely to be added by 2030. This growth in supply is being complemented by the launch of new hospitality brands such as the Boutique Group launched by Saudi Arabia’s Public Investment Fund (PIF).

There is increasing competition to create bespoke and customised service offering to differentiate and avoid risks related to overcrowding. The sector is also moving towards sustainability and resilience to future proof itself from potential demand risk caused by climate change, whilst also promoting growth in ecotourism and domestic tourism. The halt in international travel over the last two years gave some travelers, both leisure and business, an opportunity to consider the impact of their decisions on the environment. Both the public and private sectors now have to reassess where they invest

in light of changing expectations and how they mitigate risk due to the volatility in demand.

As the sector undergoes progressive change and new concepts are launched to address shifting demand, existing hotels will have to reinvent themselves to remain competitive and relevant. This has to be balanced with sustaining the original format of the hotel whilst managing costs and delivering the desired outcome at the stipulated time. In the recent past, hotel brands such as Le Méridien have introduced Le MéridienHub –a revamped and modern hotel lobby- at their Dubai property. Meanwhile, Sheraton Jeddah Hotel, an over three-decade-old landmark property, has undergone a complete refurbishment whilst maintaining the brand’s core identity as a community hub. Going forward, refurbishment and introduction of new concepts will be critical for maintaining healthy occupancy levels and ADRs (Average Daily Rates).

🔧 New supply addition across the region by traditional hospitality operators will continue to grow with more than 240,000 new room keys likely to be added by 2030. 🏠

HOTEL REFURBISHMENTS PLAY A CRUCIAL ROLE IN OPERATION SUCCESS

The drivers for hotel refurbishment can be varied. It can be led by the need to maintain a competitive advantage or to comply with changing regulations on ESG (Environmental Social and Governance). It can also be a consequence of a change in an operator or compliance with the latest fire, health, and safety code.

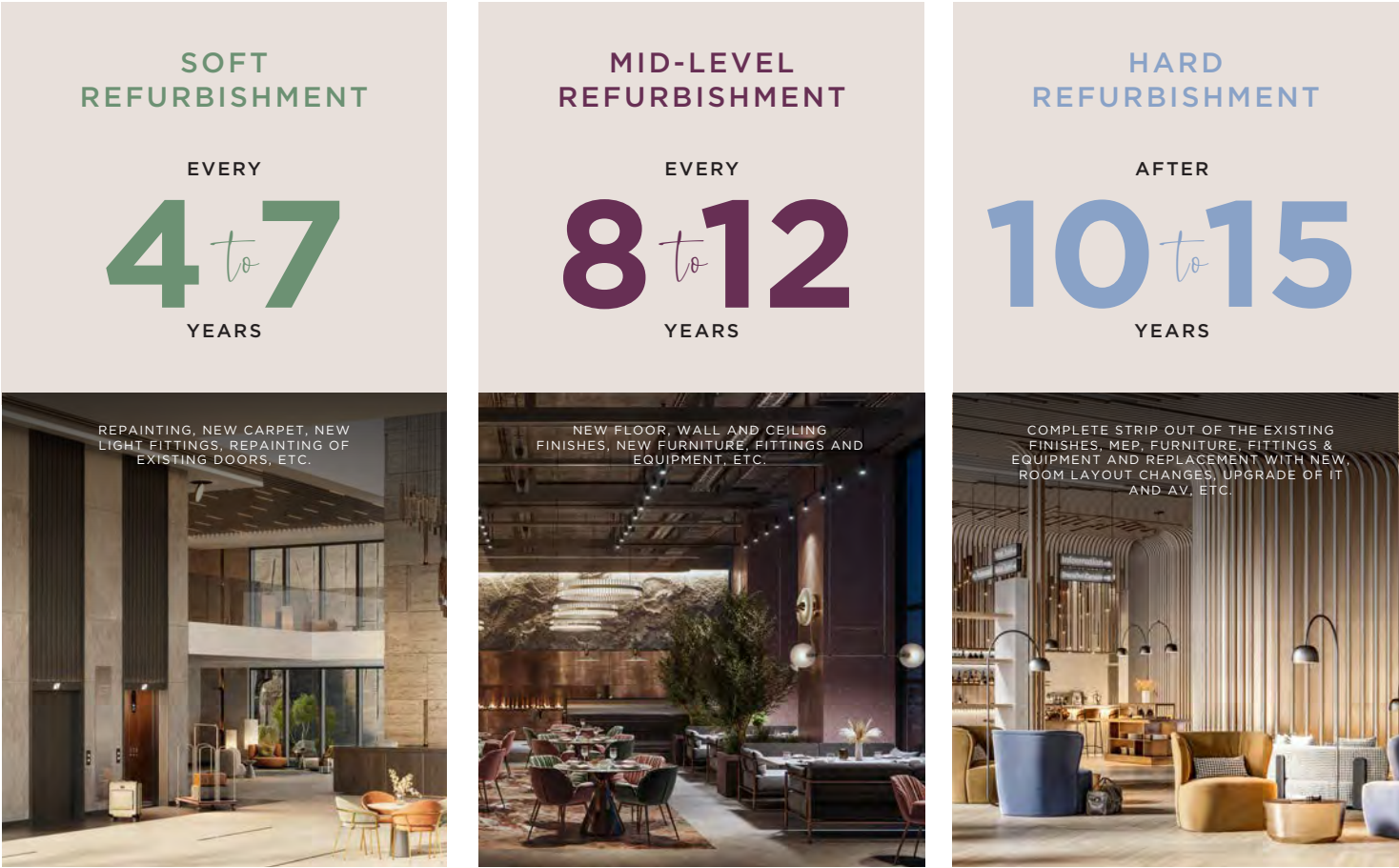
Whilst planning refurbishments, the interest of primary stakeholders namely the brand, developer, and investor needs to be balanced with proper planning and project management. It is a complex process, spread across various stages, involving different teams and numerous contractors and sub-contractors. To make it more challenging, the design aspirations and overall project outcomes have to be delivered with minimal disruption to the guest experience.

Meticulous planning of the entire refurbishment program is required along with alternative strategies and their corresponding impact on guests, the project’s cost and the timeline.

There are a few key factors when considering the extent of the refurbishment such as the budget, market position, business performance, phasing, etc. Selecting a technically qualified contractor and sub-contractor, and conducting an ongoing review and oversight of the work are also critical. This requires a thorough understanding of the available skill sets and capabilities in a given market and the appetite to undertake a particular project and deliver within a given timeline.

Attention to detail plays a huge role in enhancing the overall guest experience. Selecting appropriate material and their installation to the highest standards requires experienced craftsmanship. Future-proofing the project for compliance with local government regulations, global best practices, and a company’s internal sustainability objectives is also important. An experienced project management team, which can achieve the above, plays a crucial role in bringing together and upholding the interest of various stakeholders and driving efforts and resources to a common objective.

TYPES OF REFURBISHMENTS



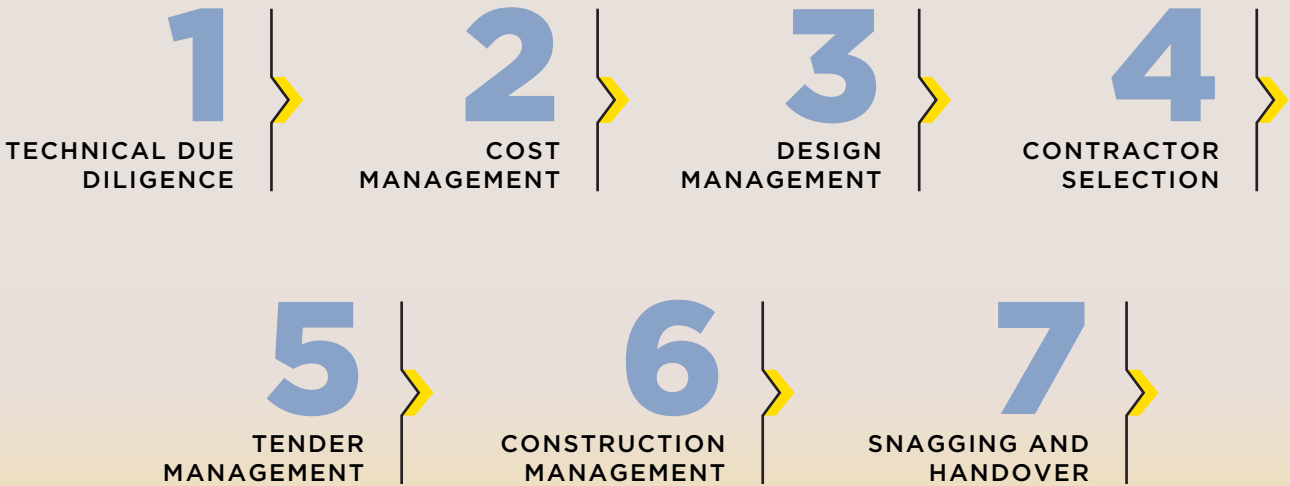
Approach to Hotel Refurbishment

When planning for a hotel refurbishment, the first step is to carry out a building condition survey to identify any potential issues. An overall structural condition survey will give the client a formal appraisal of the state of the property and whether there are any faults that could impact the refurbishments. This will help in evaluating any costs for rectification works that may have been overlooked or hidden from the outset of the project. A detailed review of the existing Mechanical Engineering and Plumbing (MEP) works is also required to identify any shortfalls that may arise due to the renovation work, which will include the existing capacity and condition of systems, waterproofing etc., as well as compliance with fire and life safety systems and location of existing services.

An experienced third-party project and cost management consultant will be required to assist the client with the structural and MEP audit to give an impartial opinion on the existing condition and benchmark it to regional and global standards. The consultant will be able to develop a project budget, even in the absence of any design information, to ensure that clients always stay in control of their costs.

WORKFLOW TOWARDS REFURBISHMENT

AN EXPERIENCED PROJECT MANAGEMENT AND COST MANAGEMENT TEAM APPOINTED BY THE DEVELOPER WILL UNDERTAKE THE BELOW TO SAFEGUARD THE INTEREST OF THE PROJECT



During the design process, the consultant will protect the client’s interest and will ensure the design and specification proposed by the design team are meeting the hotel operator’s Property Improvement Plan (PIP) and expectations. At the same time they will focus on value engineering to get the most value for the invested money.

They then proactively manage costs and cash flow throughout different phases, including, but not limited to, project brief, planning, design, construction, commissioning, pre-opening, and in-use (operations). After assessing the project objectives with the considerations of the hotel operator’s requirement, constraints of the live hotel, guest commitment, etc., the consultant will develop a procurement strategy and advise on the challenges and benefits of each method. For example, most hotels will be refurbished whilst still operational. There are many points to consider such as phasing, logistics, lay down area, noisy work restrictions, guest safety, etc., for which careful planning is essential. The consultant will also explain whether there are any significant cost implications for each option. Also, consultants help with early identification of long lead items that can be procured directly by the client, which will help avoid contractor mark-ups and high logistics cost.

The consultant plays a critical role in contractor selection for the project as each project is unique. For example, the ideal contractor for a soft refurbishment project with a large number of existing joinery or case goods requiring refurbishment should be specialty joinery contractors with fit-out capability. This will avoid a double markup, which is applied when tendering to the main contractor. During the tender process, consultants can ensure a rigorous process is in place to select the best contractor both in terms of quality and value.

It is unfortunate how many hotel refurbishment projects miss the importance of snagging and the handover process, which helps assess if the objectives of the exercise have been met. When hotel rooms are handed over and back in occupation, it can be quite difficult to get access for snagging. Consultants can help overcome this problem when they consider all the aspects of the project and take care of every detail on behalf of the client.

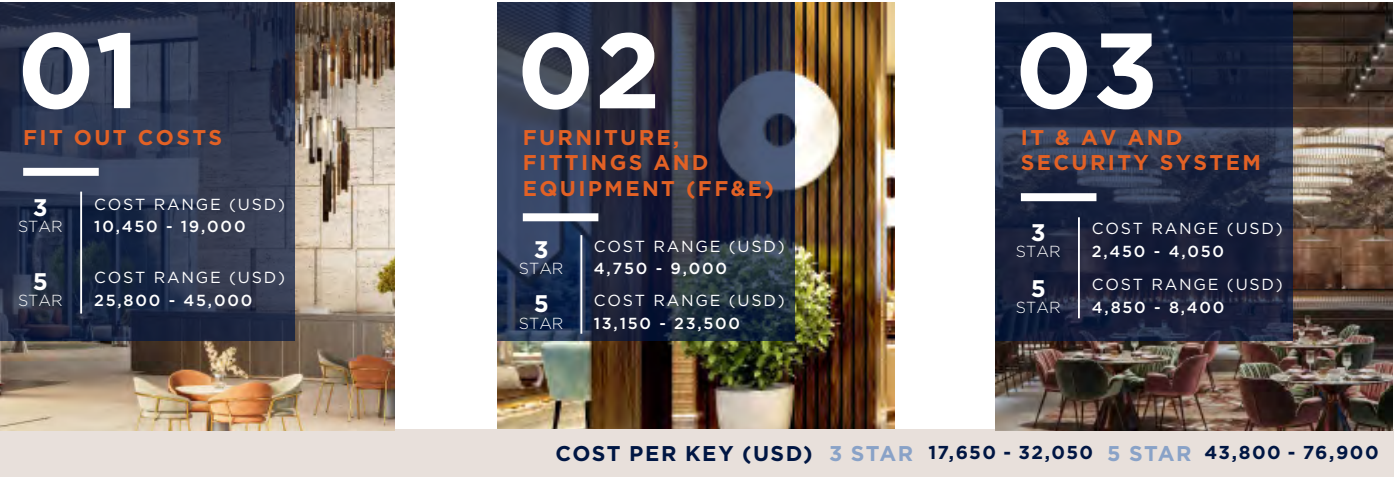


UAE Cost Benchmarking - Hotel Refurbishment

STANDARD GUESTROOM - SOFT REFURBISHMENT



STANDARD GUESTROOM- HARD REFURBISHMENT



F&B, LOBBY, SPA AND MEETING AND CONFERENCE ROOMS

SOFT REFURBISHMENT	3 STAR COST PER SQM(USD)	5 STAR COST PER SQM(USD)
F&B	245 - 555	265 - 760
MAIN LOBBY	250 - 515	325 - 700
SPA	215 - 500	405 - 680
MEETING & CONFERENCE ROOM	135 - 330	225 - 485

HARD REFURBISHMENT	3 STAR COST PER SQM(USD)	5 STAR COST PER SQM(USD)
F&B	1,455 - 2,150	2,430 - 4,485
MAIN LOBBY	1,085 - 1,750	1,950 - 3,250
SPA	1,090 - 1,650	2,450 - 4,050
MEETING & CONFERENCE ROOM	815 - 1,350	1,750 - 2,600

NOTES	EXCLUSIONS
- The above cost benchmarkings are for the hotels located in Dubai and Abu Dhabi - Adjustments to the cost range should be made to account for site conditions, programme and procurement route - The cost range is based on a project in Dubai and Abu Dhabi, figures should be adjusted by the location factors for schemes in other regions	- Professional and design fees - Value Added Tax - Soft costs (marketing, pre-opening, etc)

Building & Project Consultancy

Our building and project consultancy service provides bespoke specialist solutions that can be applied across all technical aspects of acquisitions, development, ownership, occupation and disposal of property assets.

OUR SERVICES





Savills Middle East

Working alongside investors, developers, operators and owners, we inject market insight and provide evidence-based advice at every stage of an asset's lifecycle. We have unrivalled reach across the Middle East with extensive market experience in UAE, Bahrain, Oman, Egypt and KSA.

Savills Market Research

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Simon Denham

Head of Building & Project
Consultancy
+971 4 365 7700
simon.denham@savills.me

Stuart Healey

Head of Cost Management
+971 4 365 7700
stuart.healey@savills.me

Justin Ng

Director, Cost Management
+971 4 365 7700
justin.ng@savills.me

Richard Paul

Head of Professional
Services & Consultancy
+971 4 365 7700
richard.paul@savills.me

Swapnil Pillai

Associate Director
Research
+971 4 365 7700
swapnil.pillai@savills.me