

Underwater Hotels – Unique Concept, But Are They Profitable?

Tea Ros, managing director at Strategic Hotel Consulting, examines the challenges developers face in underwater construction.

Underwater hotels have fascinated people for some time, with research indicating tremendous interest towards such hotels. Given this strong demand and upside potential, there have been several attempts on a global scale to develop underwater hotels, the latest being the Water Discus Underwater Hotel.

However, the apparent lack of such hotels highlights the challenges in executing these ambitious developments and turning them into a commercial reality.

Long Road of Planning

The most prominent development plans for underwater hotels include the Hydropolis Hotel in Dubai and the Poseidon Resort in Fiji. While these developments reached advanced stages of planning, the projects have not materialised. Key reasons include lack of financing and exorbitant development costs relating to technical design and construction of the facilities.

The Poseidon Undersea Resorts was launched in 2001, being one of the pioneering companies with ambition to develop underwater hotels. This concept was conceived and developed by Bruce Jones, the President of US Submarines Inc, and the plan was to open a chain of underwater five-star resorts, the first of them to be located near a private island in Fiji.



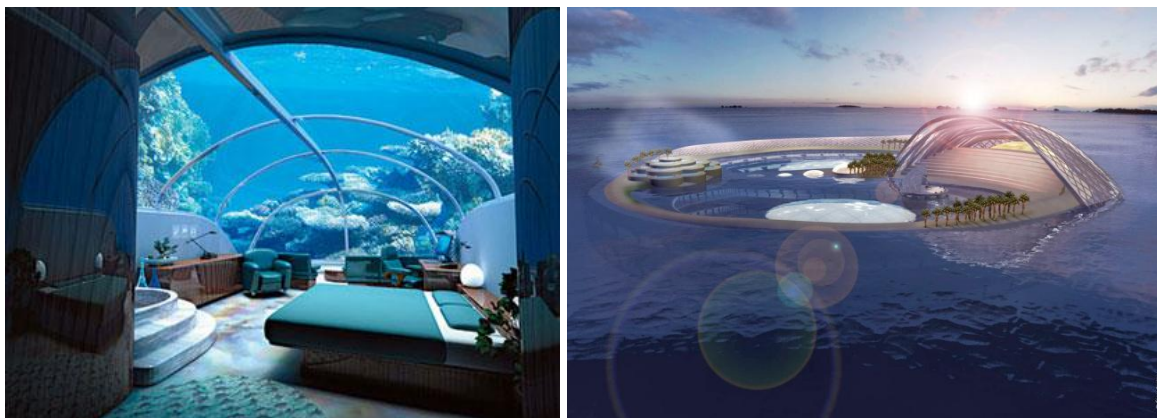
The plans for the Poseidon resort featured 22 guest rooms with size of 51 square metres together with an underwater restaurant, bar, library, conference room, spa and even a wedding chapel. The estimated development cost was in the range of \$250 million, converting to an exorbitant development cost of \$11.4 million per guest room (for comparison, most luxury hotel rooms are constructed at below \$1 million).

The anticipated average room rates were projected to be approximately \$5,000 per night. Despite the promising plans, the Poseidon faced difficulties in raising finance, a challenge which was further amplified by the financial crisis. The project has now been on hold for several years.

Another infamous underwater hotel concept, the Hydropolis, was launched in Dubai in 2006 by Crescent Hydropolis. The owning group claimed to be developing the first underwater hotel in the world, at that time racing against the Poseidon in Fiji.

The Hydropolis was to be situated 20 metres below the surface of the Persian Gulf, just off-shore Dubai. The hotel was supposed to have 220 suites, as well as food and beverage outlets, a spa and a cinema. The estimated cost was in the range of \$550 million, converting to approximately \$2.5 million per guest room.

While the cost per unit was significantly lower than that of the Poseidon, it was still three to five times more than the cost of developing high-end rooms in on-shore Dubai. The envisaged room rates of the hotel were in the range of \$4,000 to \$5,000 per night. Similar to the Poseidon, the financing dried up and the project has been on hold since 2008.



The latest underwater hotel project is the Water Discus Hotel, being developed by Deep Ocean Technology and BIG INVEST Group. The current prototype of the Water Discus Hotel comprises a total of 44 accommodation units, 22 of which will be submerged and located below the surface of the water.

The underwater component will also feature a bar and a diving centre. On top of the surface, there will be additional satellite discs, featuring 22 additional hotel rooms, restaurants, bars and a swimming pool.

The intention of the developer is to create a modular underwater hotel that can be adapted to various locations globally, provided that the surrounding sea conditions support the project.

The beauty of the concept is that it offers maximum flexibility with facilities, which can be adapted to each location. This is achieved with the option to add / remove sci-fi-style satellite discs functioning as modules, which can feature food and beverage outlets, recreational facilities, conference rooms and other facilities.



Since its launch approximately a year ago, there has been strong investor interest on a global level towards the concept of the Water Discus underwater hotel. The project partners have secured substantial financing as well as obtained a \$21.3 million funding from the European Union.

Consequently, construction of the prototype has commenced, the first Water Discus Hotel being planned for the Maldives. Project plans in Dubai are in advanced stages, the developer having established cooperation with Drydocks World Dubai, thereby making production of Water Discus in Dubai and other GCC markets highly likely. Future destinations could include places such as the Caribbean and French Polynesia.

Key Success Factors

What makes the Water Discus Hotel more viable than the other underwater hotel projects that were launched yet not materialised? Strategic Hotel Consulting conducted a Market and Financial Feasibility Study for the planned underwater hotel project in the Maldives and found that the project was viable due to four key reasons as outlined below:

1) The market. Maldives is renowned as a high-end leisure destination where resorts are able to achieve exceptionally high room rates. Most five star hotels achieve rates comfortably in the range of \$500 per night, the top resorts reaching average rates above \$1,400. The upscale profile of the market combined with the wow-factor of the underwater hotel, ensures that the Water Discus Hotel can achieve average room rates that support the construction costs of the hotel, which inevitably are high given the technical requirements.

2) Strategic location. The Water Discus Hotel is to be positioned in the lagoon of the Kuredhivaru island, located in the northern part of the Maldives, at the Noonu atoll. The hotel will be positioned approximately 300 metres from the island with a connection through a wooden walkway. This location is ideal for the project as it will enable the hotel to maximise the presence of the spectacular marine life and invigorating underwater views of the reef, yet the close connection to the mainland significantly facilitates the development and operational efficiency of the project. In addition, the land, which in this case comprises of sea-bed surrounding the island, is technically free from lease-payments, which is critical in the Maldives where land leases can be exorbitant, obliterating any project returns.

3) Technical expertise. The idea of the underwater hotel was developed by engineers, technical specialists and a renowned scientist Lech Rowiński, who is considered one of the top experts in ship and deep-sea technology in the world. Given this expertise, the team has been able to address and resolve technical challenges from the start and create a design that is realistic, practical and cost-efficient.

4) Construction costs. The construction costs of the project are reasonable, largely due to the cost efficient production plant in Poland, a country experienced in shipbuilding engineering with a highly skilled workforce yet with reasonable salary expenditures. The concept of the developer is to construct the hotel (and future Water Discus Hotels) in Poland, transport it by sea to a desired destination and submerge and attach the hotel to the seabed. This concept of construction is highly advantageous in the Maldives where construction costs frequently exceed the budget due to fluctuations in costs and availability of materials and labour. While the exact construction costs of the project are not revealed, they are significantly lower than the previous attempts to build underwater hotels.

Due to the above factors, the planned Water Discus Hotel in the Maldives is not only a unique and exciting concept, but a financially viable project with attractive double digit investment returns.

Whether the concept will yield such strong returns outside the Maldives is largely dependent on the market and site location, but the concept itself has potential for a profitable investment.

About Tea Ros - Strategic Hotel Consulting



Tea Ros is the Managing Director of Strategic Hotel Consulting, an international management consulting firm specialising in hotel and tourism investments. Strategic Hotel Consulting is based in Switzerland and provides advice to owners, investors, developers and operators on how to optimise project investment, enhance asset value and maximise profitability. The company has conducted extensive research on underwater hotels as an advisor of the developer of the Water Discus Underwater Hotels. For more information, please see www.strategichotelconsulting.com or contact tea@strategichotelconsulting.com.