United Arab Emirates, Saudi Arabia and Qatar

# SERVICED APARTMENTS – Fostering High Returns

DECEMBER 2013

Accelerating success.

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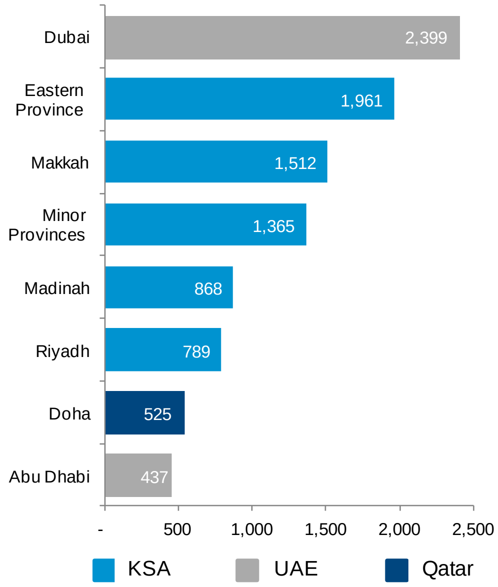
## MARKET POTENTIAL (2013-2017) SUPPORTABLE UNITS




*Source: Colliers International, 2013*

## KEY PERFORMANCE INDICATORS – SERVICED APARTMENT MARKET

| UAE | H1 2013 | % Change from H1 2012 |
|---|---|---|
| ***Dubai*** | | |
| Occupancy | 85.8% | ↑ 8.2% |
| ADR (AED) | 437 | ↑ 3.8% |
| RevPAR (AED) | 375 | ↑ 12.3% |
| ***Abu Dhabi*** | | |
| Occupancy | 80.0% | ↑ 5.5% |
| ADR (AED) | 384 | ↑ 6.0% |
| RevPAR (AED) | 307 | ↑ 11.9% |
| ***Sharjah*** | | |
| Occupancy | 66.8% | ↑ 20.3% |
| ADR (AED) | 163 | ↓ 16.2% |
| RevPAR (AED) | 109 | ↑ 0.8% |

| KSA | H1 2013 | % Change from H1 2012 |
|---|---|---|
| ***Riyadh*** | | |
| Occupancy | 74.6% | ↓ 3.4% |
| ADR (SAR) | 366 | ↓ 1.5% |
| RevPAR (SAR) | 273 | ↓ 4.8% |
| ***Jeddah*** | | |
| Occupancy | 70.9% | ↓ 2.1% |
| ADR (SAR) | 379 | ↑ 11.0% |
| RevPAR (SAR) | 269 | ↑ 8.7% |
| ***Dammam-Khobar*** | | |
| Occupancy | 68.1% | ↑ 4.6% |
| ADR (SAR) | 386 | ↑ 2.7% |
| RevPAR (SAR) | 262 | ↑ 7.5% |

| QATAR | H1 2013 | % Change from H1 2012 |
|---|---|---|
| ***Doha*** | | |
| Occupancy | 71.0% | ↑ 1.4% |
| ADR (QAR) | 543 | ↑ 1.7% |
| RevPAR (QAR) | 386 | ↑ 3.1% |

*Source: Colliers International, 2013*

# Executive Summary

## SERVICED APARTMENT BUSINESS MODEL

One of the key strengths of the Serviced Apartment Business Model is being able to change the target market profile between long and short stay to suit market conditions in order to achieve revenue maximization.

Brand Strength is a strong driver of serviced apartment demand with GDS, Direct Bookings, and Hotel Website bookings accounting for 40% of total bookings. A strong brand with a regional presence and strong online capabilities is essential to help and drive sales in all three markets.

## UAE SERVICED APARTMENT MARKET

As the most established emirate in terms of a leisure destination, Dubai has the largest concentration of serviced apartments in the UAE, which currently account for 66% of the total serviced apartment supply. The majority of forthcoming serviced apartment supply in the UAE is expected to come to market in Dubai, in which there will be a 23% expansion of serviced apartment supply over the next five years.

Other than Dubai and Abu Dhabi, there is no forthcoming serviced apartment supply amongst the other emirates with the exception of Fujairah, in which an Adagio is scheduled to open in 2014.

H1 2013 has seen positive growth for serviced apartment occupancy levels in the UAE. During this period, occupancy levels have increased by 8.2% in Dubai, 5.5% in Abu Dhabi, and 20.3% in Sharjah. This sharp increase in Sharjah is indicative of an improving market after years of stagnation, although this has come at the cost of the average rate.

## KSA SERVICED APARTMENT MARKET

There is a definitive gap between locally branded furnished apartment supply and internationally branded serviced apartments stemming from inconsistent service standards, poor construction standards, and a lack of ancillary facilities.

While some markets have a large amount of forthcoming stock, other markets including Makkah and Madinah have limited stock in the pipeline.

2014 will see the introduction of many new internationally branded serviced apartments concepts such as Fraser Place and Fraser Suites in Riyadh, two Citadines properties in Jeddah and a Residence Inn in Jazan.

## QATAR SERVICED APARTMENT MARKET

The vast majority of serviced apartments in Qatar are located in Doha, of which 79% of the total unit stock is currently classified in the 'Deluxe' category and 21% is classified in the standard category.

Developments such as the Dusit Residence & Suites, the Tuscan & Monaco Residences by Rotana, the Hilton Residence, Doubletree Suites and Adagio will increase the total serviced apartment supply by 36% by 2017.

Whereas serviced apartments in the UAE mainly target **short stay** guests as a means to maximize revenue, this is not the case in Doha, in which the long stay segment represents 74% of total demand.

High rental rates in the residential market further gives strength to the serviced apartment market, as many expatriate workers are seeing serviced apartments as a legitimate alternative to residential accommodation.

## GLOBAL BUSINESS MODELS

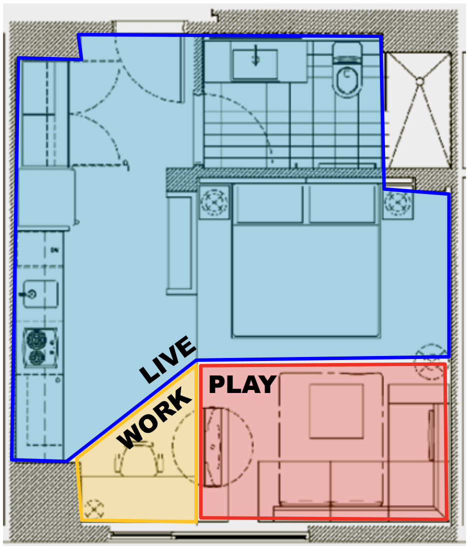
| Extended Stay Hotels |
|---|
| •**Apartment alternative to hotel accommodation** |
| •Mainly studios and 1-bedroom, some 2-bedroom. |
| •Full kitchen or kitchenette. |
| •Range of categories: economy to upscale. |
| •**Services similar to hotels, but more limited**. |
| •Short-stay and long-stay guests. |

| Corporate Housing |
|---|
| •Found mostly in North America. |
| •**Residential units** with limited service. |
| •Typical services: maintenance, weekly cleaning. |
| •Typical minimum length of stay 30 nights. |
| •**20% lower rates** than Extended Stay Hotels. |
| •Offers **more space**. |

| Hotel Suites |
|---|
| *•**A hotel concept** (often competing against extended stay).* |
| *•Hotel services.* |
| *•Studios and 1-bedroom.* |
| *•Includes living-room.* |
| *•No kitchen or small kitchenette.* |

*Source: Colliers International, 2013*

## TYPICAL SERVICED APARTMENT LAYOUT




*Source: Colliers International, 2013*

# Serviced Apartment Business Model

## INTRODUCTION

Globally, serviced apartments are a versatile concept that can be categorised into three main categories :**Extended Stay Hotels, Corporate Housing** and **Suite Hotels.**

Extended stay hotels are the most common concept seen in the Middle East, with only a limited amount of corporate housing. Many serviced apartments in the GCC operate as hotels, with certain differences such as larger rooms and kitchens in each room.

Additionally, 'hotel suites' or 'all-suite hotels' are partially competitive with serviced apartments due to product similarities.

Various levels of standard, business models, quality and brands have created confusion among customers, and a multitude of terms such as "**aparthotels**", "**extended-stay hotels**", "**all-suite hotels**", "**serviced apartments**", "**furnished apartments**", "**hotel apartments**", "**hotel suites**", etc. There is currently no official distinction between the various concepts, and often the terms are used interchangeably by customers, operators and owners.

Essentially there are only two types of extended stay properties: **Branded Serviced Apartments** and **Unbranded Serviced Apartments**.

## REGIONAL LANDSCAPE

The serviced apartment market in the GCC is still immature, with little consistency in product and services which largely arises from four key issues:

1. A large amount of hotel apartments have been converted from residential buildings, because owners see stronger potential returns.
2. A fair amount of properties were developed attached to hotels, with tenants benefiting from hotel services and facilities.
3. The regional hotel apartment classifications criteria are very broad, leaving developers relatively free to develop unit sizes far too small to align with global benchmarks and operator brand standards. Furthermore most properties lack adequate front and back of house areas.
4. The majority of Serviced Apartments are unbranded.

## SERVICED APARTMENT CONCEPT

Regional Serviced Apartments have a large share of studios and one-bedroom units which suggest that they target mostly individual travelers and young couples.

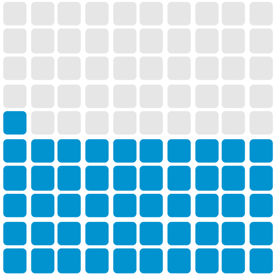
The layout is typically designed in a 'live-work-play' concept, with defined areas that have distinct purposes.

The unit configuration, similarity with residential apartments, render the asset highly versatile that in case of a market shift can be **converted from a serviced apartment building to a residential building, either on a lease model or completely disposing the asset.**

**Kitchen usage:** The standard of kitchen facilities have a tangible impact on consumer behaviour, particularly in the medium and long stay segments, as such guests tend to have high utilization of kitchen facilities.

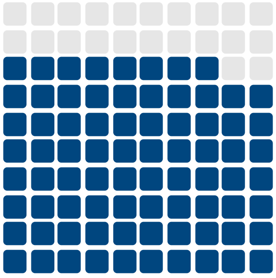
## TYPICAL STAFFING RATIOS

### Standard (All)



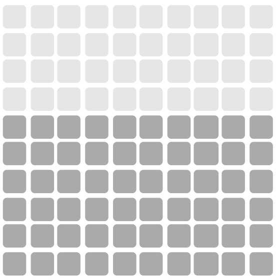
**0.51 Staff**
*per unit*

### Deluxe (All)



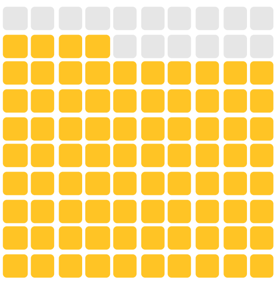
**0.78 Staff**
*per unit*

### Deluxe (Branded)



**0.60 Staff**
*per unit*

### Deluxe (Unbranded)



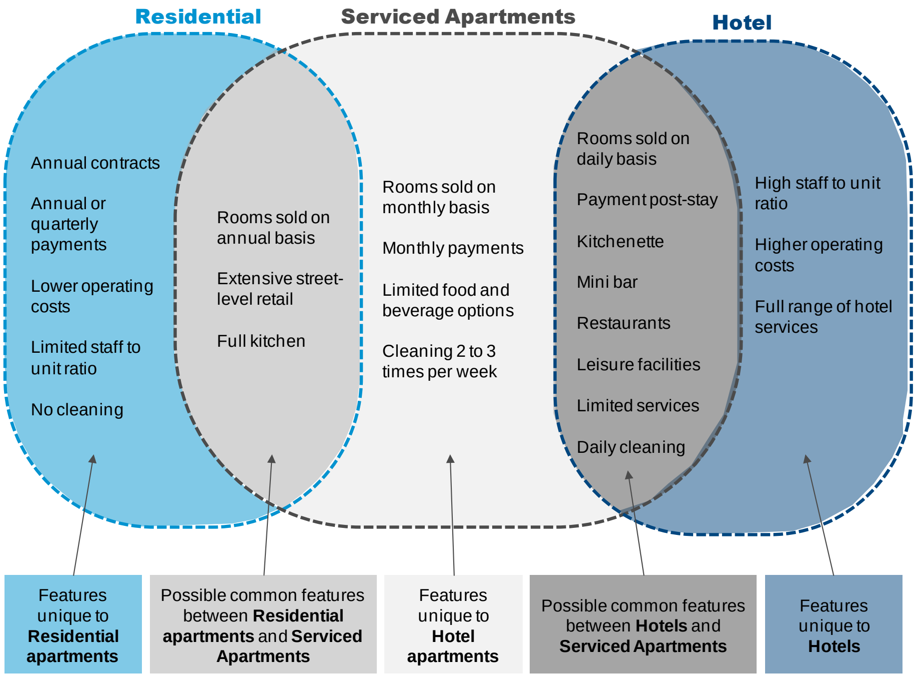
**0.84 Staff**
*per unit*

*Source: Colliers International, 2013*

**Food and beverage facilities**: Serviced Apartments in the GCC see limited demand from in-house guests for F&B facilities, as kitchens are provided in the rooms. For typical developments, the main meal period is breakfast, which tends to capture between 20% to 65% of in-house guests.

## OPERATING MODEL

The Serviced Apartment business model has similarities with both the hotel and residential business models, however there are key differentiating features between the three operating models as shown below:




•Serviced Apartments typically benefit from a superior product to residential apartments, while benefiting from lower operating costs than hotels.

•Serviced Apartments are able to offer guests larger rooms than hotels, while saving operating costs due to their limited service models.

•The Serviced Apartment business model is characterized by a lean operating structure, with limited amount of staff compared to hotels. The lower staff ratio in branded properties translates into lower operating costs.

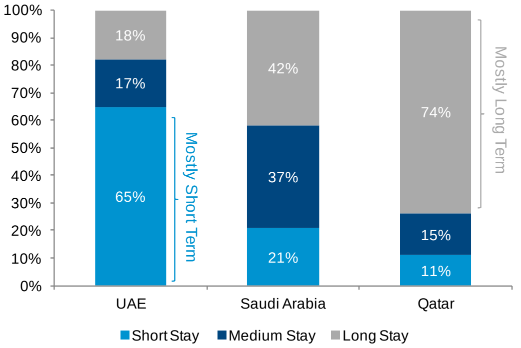
•Branded Serviced Apartments have on average 29% fewer staff than unbranded ones, as they benefit from **standardized lean operations** and **centralized clustered services.**

## DEMAND SEGMENTATION FOR SERVICED APARTMENTS

Unlike hotel segmentation, the serviced apartment segmentation is based on length of stay:

1. **Short Stay Guests** – Guests with a length of stay of less than 1 month.
2. **Medium Stay Guests** – Guests with a length of stay of between 1 and 6 months.
3. **Long Stay Guests** – Guests with a length of stay of over 6 months.

## DEMAND SEGMENTATION OF BRANDED SERVICED APARTMENTS




*Source: Colliers International, 2013*

## MAIN DISTRIBUTION CHANNELS FOR BRANDED SERVICED APARTMENTS

**Online Travel Agents**
Websites with booking capabilities

**Direct Bookings**
Guests which book through the property directly

**Walk-in Guests**
Guests without a prior booking

**Travel Agents and Tour Operators**
Offer accomodation/packages on behalf of operators

**Corporate Contracts**
Pre-agreed contracted rate for major accounts

**Brand Website**
Guests booking through brand website

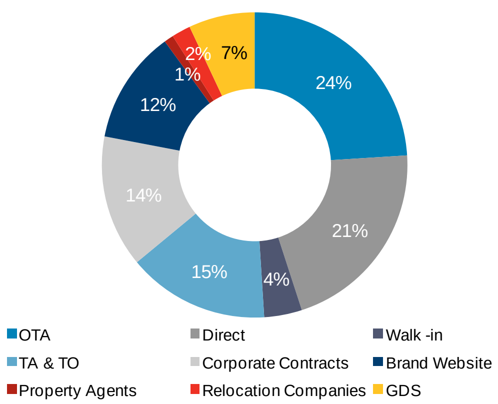
**Property Agents**
Agents leasing rooms on annual lease

**Relocation Companies**
Companies that assist in relocating expatriate workers

**Global Distribution Systems**
Centralised reservation network

*Source: Colliers International, 2013*

## DISTRIBUTION CHANNELS VOLUME CONTRIBUTION




*Source: Colliers International, 2013*

Typically guests who stay for extended periods of time receive concessions on the rate which increase as the length of stay increases. For serviced apartment operators, such guests are appealing as they are guaranteed future revenue streams, which is particularly useful during periods in which demand is subdued.

The segmentation along the average length of stay in branded serviced apartments varies greatly on a regional basis depending on the market. While the branded serviced apartment market in KSA and Qatar is aimed at the **long stay segment** which comprises between 42%-74% of total demand, the branded serviced apartment sector in the UAE is more focused on **transient demand** with the long stay segment only accounting for 18% of total demand.

This segmentation is a reflection on the market dynamics in the local markets. The market in Dubai for example has seen a shift from long-stay to short-stay guests over the last two or three years, due to strong marketwide occupancy rates in the serviced apartments sector.

With average occupancies over 85% in many parts of the city, many serviced apartments in Dubai are confident that they will be able to fill with transient demand paying strong rates and see long stay guests as an erosion of potential revenue streams.

One of the key strengths of the Serviced Apartment Business Model is being able to change the target market profile (i.e. to switch between long and short stay demand) to suit market conditions in order to achieve revenue maximization.

## BOOKING CHANNELS OF BRANDED SERVICED APARTMENTS

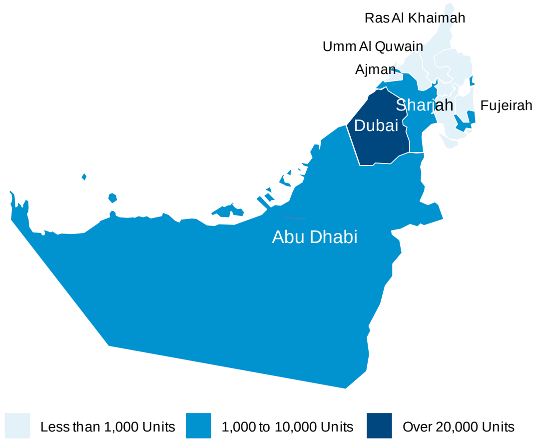
**Online Travel Agents (OTA)** are the most popular distribution channel for branded serviced apartments in the UAE, Saudi Arabia and Qatar. Such entities are able to give visibility to serviced apartment properties on proprietary online platforms, however these come at the cost of 10% to 20% of rooms revenue in terms of commission. The pricing structure varies between OTAs, with some taking a commission on room revenues payable on a monthly basis and others paying the hotel directly at the time of booking and charging a premium for guests using the booking platform.

Online booking channels are increasing in importance every year. Hotel apartments typically take an active role when managing their online rates, by analyzing competitors' rates constantly. During peak times, serviced apartments change their online rates up to 4 times in a day to capture the right amount of business at the best rates.

**Brand Strength** is also a strong driver of hotel room demand with GDS, Direct Bookings, and Hotel Website bookings accounting for 40% of total bookings for branded serviced apartments. A strong brand with a regional presence and strong online capabilities is essential to help and drive sales.

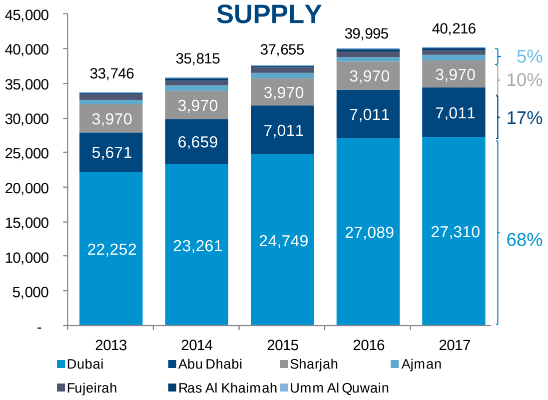
Accounting for a combined total of 3% of overall serviced apartment demand, **Property Agents** and **Relocation Companies** are relatively minor players in the UAE, Saudi Arabia and Qatar – particularly when compared to more mature markets.

## SERVICED APARTMENT DISTRIBUTION




*Source: Colliers International, 2013*

## SERVICED APARTMENT PROJECTED SUPPLY




Source: *Colliers International, DTCM, ADTA, SCTDA, 2013*

## UAE SERVICED APARTMENT DEMAND SEASONALITY (2012)


Source: *Colliers International, DTCM, ADTA, SCTDA, 2013*
*Note: Percentages above indicate variation from the mean*

## KEY PERFORMANCE INDICATORS – SERVICED APARTMENT MARKET

| | H1 2013 | % Change from H1 2012 |
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| ***Dubai*** | | |
| Occupancy | 85.8% | ↑ 8.2% |
| ADR (AED) | 437 | ↑ 3.8% |
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| ADR (AED) | 163 | ↓ 16.2% |
| RevPAR (AED) | 109 | ↑ 0.8% |

Source: *Colliers International, DTCM, ADTA, SCTDA, 2013*

# Market Focus: United Arab Emirates

## EXISTING SERVICED APARTMENT SUPPLY

As the most established emirate in terms of a leisure destination, the largest concentration of serviced apartments in the UAE is in Dubai, which currently accounts for 66% of the total serviced apartment supply.

At 5,869 and 3,970 units respectively, Abu Dhabi and Sharjah have the second and third largest stock of serviced apartment units, followed by Ajman, Fujairah, Ras Al Khaimah, and Umm Al Quwain.

Although Fujairah and Ajman have a limited stock of serviced apartments units in relation to other emirates, this is a reflection of the limited size of the overall hospitality market rather than an indication that serviced apartments are not represented in the market. Serviced apartments represent 25% and 27% of the total accommodation stock respectively for the two emirates.

## FORTHCOMING SERVICED APARTMENT SUPPLY

The majority of forthcoming serviced apartment supply in the UAE is expected to come to market in Dubai, in which there will be **a 23% expansion of serviced apartment supply** over the next five years. Major openings in 2014 include the Adagio – Al Barsha, Marriott Executive Apartments – Healthcare City and the Sheraton – Sheikh Zayed Road.

Abu Dhabi will also see a strong increase in serviced apartment supply, with developments such as The Millennium Executive Apartments and Adagio Abu Dhabi Al Bustan scheduled to open in early 2014.

Other than Dubai and Abu Dhabi, there is no forthcoming serviced apartment supply amongst the other emirates, with the exception of Fujairah, in which an Adagio is scheduled to open in 2014.

## DEMAND TRENDS

The seasonality in demand of serviced apartments in most emirates tends to follow a similar trend as hotels, with strong demand between January and March and between October and December. Typically demand for serviced apartment accommodation tends to be subdued during the summer months.

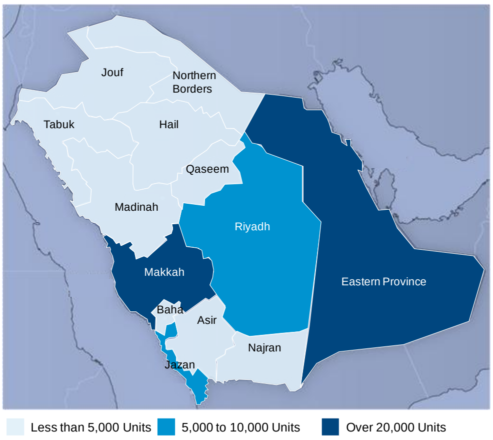
Demand typically tends to stem from the GCC market, within which the Saudi Arabian market is the largest market segment. Guests generally tend to chose serviced apartments over hotels as they are more **cost effective** for families, they have **kitchen facilities** allowing guests to self cater, and they **do not provide alcohol**.

H1 2013 has seen positive growth for serviced apartment occupancy levels in the UAE. During this period, occupancy levels have increased by 8.2% in Dubai, 5.5% in Abu Dhabi, and 20.3% in Sharjah. This sharp increase in Sharjah is indicative of an improving market after years of stagnation, although this has come at the cost of the average rate.

RevPAR levels of Serviced Apartments in Dubai remained strong in H1 2013 and was the strongest among other Emirates. While Abu Dhabi has shown a strong RevPAR increase in H1 2013 Sharjah has stayed relatively constant despite strong increased occupancy due to a fall in Average Rate.

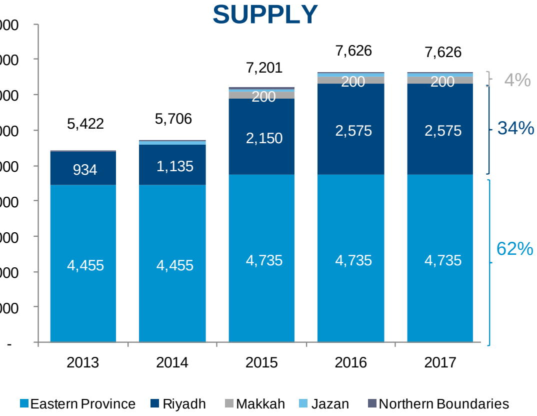
Given existing market conditions and forthcoming supply, Colliers' econometric model has indicated that there is scope for a further 2,836 units over and above the forthcoming supply in the UAE across Dubai and Abu Dhabi between 2013 and 2017.

## FURNISHED APARTMENT DISTRIBUTION



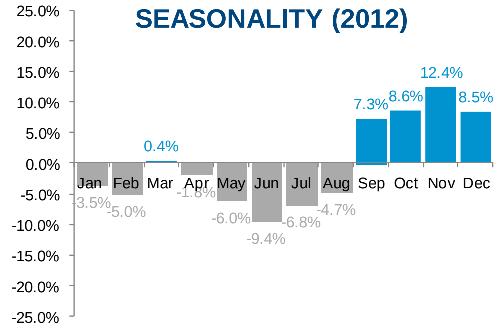

*Source: Colliers International, 2013*

## SERVICED APARTMENT PROJECTED SUPPLY




*Source: Colliers International, 2013*
*Note: Only "First Class" Furnished Apartments were considered to be competitive with Serviced Apartments*

## KSA SERVICED APARTMENT SEASONALITY (2012)




Source: *Colliers International, SCTA, 2013*
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## KEY PERFORMANCE INDICATORS – SERVICED APARTMENT MARKET

| | H1 2013 | % Change from H1 2012 |
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| ***Riyadh*** | | |
| **Occupancy** | **74.6%** | **3.4%** |
| **ADR (SAR)** | **366** | **1.5%** |
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| **Occupancy** | **68.1%** | **4.6%** |
| **ADR (SAR)** | **386** | **2.7%** |
| **RevPAR (SAR)** | **262** | **7.5%** |

*Source: Colliers International, 2013*

# Market Focus: Saudi Arabia

## EXISTING SERVICED APARTMENT SUPPLY

Unlike in the UAE where Serviced Apartments are labeled 'hotel apartments', in Saudi Arabia, the SCTA classifies them as 'furnished apartments'. The majority of furnished apartments in Saudi Arabia are aging, low quality properties with limited facilities – many of which have been converted from residential buildings. The vast majority of this supply consists of locally branded or stand alone developments, without an international brand affiliation.

There is a considerable gap between the locally branded furnished apartment supply and internationally branded serviced apartments such as inconsistent service standards, poor construction standards, and a lack of ancillary facilities. As such only 'first class' furnished apartments can be considered to be competitive with internationally branded serviced apartments.

The market leader in the KSA, extended stay market, is Boudl which is well established throughout the Kingdom. There are currently 22 Boudl properties in the Kingdom, however with an inconsistent business model, these properties are a mix of serviced apartments and hotels.

Given the standard of the furnished apartment sector in Saudi Arabia, only 'first class' furnished apartments are in line with the international concept of a serviced apartment. Many cities such as Jeddah Makkah and Madinah **do not have any 'first class' serviced apartments** as per the SCTA.

2012 saw the introduction of the first true internationally branded serviced apartment offering in Saudi Arabia with the opening of the Marriott Executive Apartments in Riyadh.

## FORTHCOMING SERVICED APARTMENT SUPPLY

Although there is significant forthcoming serviced apartment supply for Riyadh and Jeddah, other markets such as Makkah have limited forthcoming supply while others such as Madinah have neither existing first class furnished apartments nor forthcoming internationally branded serviced apartments.

2014 will see the introduction of many new internationally branded serviced apartments concepts such as a Fraser Place and Fraser Suites in Riyadh, two Citadines properties in Jeddah and a Residence Inn in Jazan.

## DEMAND TRENDS

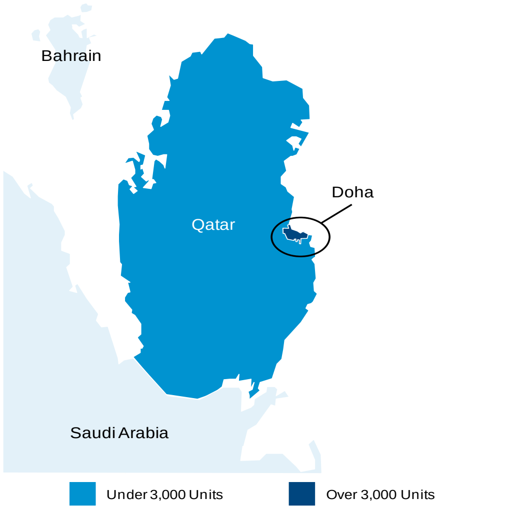
The current demand for furnished apartments stems almost exclusively from Saudi Nationals. The SCTA has estimated that approximately 89% of overall demand in KSA for furnished apartment units stems from the local market, which is a direct consequence of the lack of internationally branded supply.

Inbound guests in need of extended stay accommodation tend to stay in **hotel suites** rather than furnished apartments, as they are hesitant to use locally branded properties given the perception of local service standards.

In the current market trend, of increasing international visitation, the need for internationally branded serviced apartments will increase in the coming years – a need which is only partially met by the forthcoming supply.

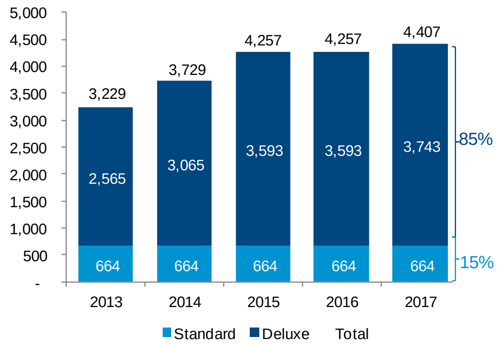
Given existing market conditions and forthcoming supply, Colliers' econometric model has indicated that there is scope for a further 6,495 units over and above the forthcoming supply across the Kingdom of Saudi Arabia between 2013 and 2017. The primary scope for development of these units are in the Province of Makkah, which contains the two key cities of Makkah and Jeddah.

## SERVICED APARTMENT DISTRIBUTION



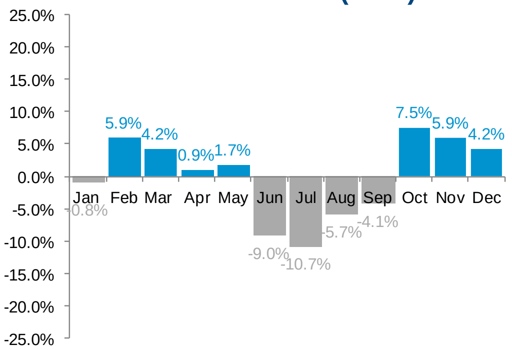

*Source: Colliers International, 2013*

## SERVICED APARTMENT PROJECTED SUPPLY




*Source: Colliers International, 2013*

## QATAR SERVICED APARTMENT SEASONALITY (2012)




Source: *Colliers International, 2013*
*Note: Percentages above indicate variation from the mean*

## KEY PERFORMANCE INDICATORS – SERVICED APARTMENT MARKET

| | H1 2013 | % Change from H1 2012 |
|---|---|---|
| ***Doha*** | | |
| **Occupancy** | **71.0%** | **1.4%** |
| **ADR (QAR)** | **543** | **1.7%** |
| **RevPAR (QAR)** | **386** | **3.1%** |

*Source: Colliers International, 2013*

# Market Focus: Qatar

## EXISTING SERVICED APARTMENT SUPPLY

The vast majority of serviced apartments in Qatar are located in Doha, of which 79% of the total unit stock is currently classified in the 'Deluxe' category and 21% is classified in the 'Standard' category.

Much of the serviced apartment supply in Doha is composed of locally branded or stand alone properties. Although 28% of the total supply is internationally branded there is a sharp contrast in this figure between the 'deluxe' and 'standard' serviced apartments. While 34% of the deluxe standard apartment stock is under an international operator, there are no internationally branded standard serviced apartments in Doha.

The primary international player in the Doha Serviced Apartment market is Ascott, which operates both Somerset West Bay Doha and The Ascott Doha which combined account for approximately 429 units or 14% of the total serviced apartment supply.

Other major international players include Marriott Executive Apartments and Fraser Suites which combined constitute approximately 258 units or 8.5% of the total Serviced Apartment supply. The most established local operator is Retaj Hotels & Hospitality which operates 4 serviced apartment properties totaling 311 units.

## FORTHCOMING SERVICED APARTMENT SUPPLY

Several major operators have seen the potential of the serviced apartment sector and are poised to enter the market in the coming years. Rotana and Dusit will be the first to market with the Dusit Residence & Suites and the Tuscan & Monaco Residences by Rotana which will have 192 and 500 units respectively.

Other projects such as the Hilton Residence, Doubletree Suites and Adagio Doha will increase the total serviced apartment supply by 36% by 2017.

## DEMAND TRENDS

Whereas serviced apartments in the UAE mainly target **short stay** guests as a means to maximize revenue, this is not the case in Doha, in which the long stay segment represents 74% of total demand.

High rental rates in the residential market further gives strength to the serviced apartment market in Doha, as many expatriate workers are seeing serviced apartments as a legitimate alternative to residential accommodation.

The demand trends of the serviced apartment market in Qatar follows the hotel market, but with less volatility of demand. As with most other markets in the GCC, there is a dip in demand during the summer months, with strong demand periods between October and December.

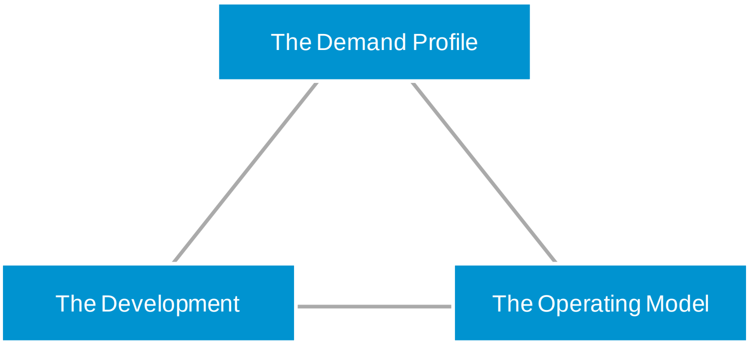
The market has seen increasing demand in recent years, with average occupancies in the serviced apartment market increasing year on year since 2010. H1 2013 continued this trend with average occupancies increasing 1.4% from H1 2012.

The average rate has also increased 1.7% during this period, which combined with the occupancy increase resulted in a 3.1% increase in RevPAR.

Given existing market conditions and forthcoming supply, Colliers' econometric model has indicated that there is scope for a further 525 serviced apartment units over and above the forthcoming supply in Qatar between 2013 and 2017.

# DNA of the Serviced Apartment Investment

There are three main considerations for the success of Serviced Apartment Developments : **the Demand Profile** (i.e. targeting the right clientele) , **the Development** (i.e. building to optimal specifications), and **the Operating Model** (i.e. how the development is managed on a day-to-day basis)




•Serviced Apartment developments take into consideration the changing demand profile of guests starting to emerge in the GCC of individuals who want **more control** of their accommodation experience.

•Guests seek out **flexible accommodation** that **feature full kitchens**, **laundry facilities** and **the ability to work and relax**, which is typically not seen in other types of accommodation.

•Location is an important factor for serviced apartment guests, but there is more scope to develop serviced apartment units **in secondary locations** than with traditional hotels.

•**Food and beverage** and other ancillary facilities are typically **scaled back** in order to **maximize the profitability** of such developments. As a result, typically serviced apartments tend to have a **higher profitability ratio** than most hotel developments.

•The key success is understanding the **business mix** in each market in the GCC: in the UAE for example, the primary source of demand for serviced apartments are short stay guests, while in Saudi Arabia and certainly Qatar, the demand profile is primarily for long stay accommodation.

•The brand selection is a key aspect of the development and will help to shape the strategy of the property. A critical success factor is to select a brand that has a regional presence, as well as a **strong presence in the top source markets** for any destination.

## POTENTIAL RETURNS FOR SERVICED APARTMENT DEVELOPMENTS

INDICATIVE EXPECTED RETURNS

The flexible operating structure of a serviced apartment concept allows for a versatile business model to fit demand trends. When a market demand is strong, developments can focus on **short term transient demand** which allows for **high average rates.** Conversely if the market is weak, developments can target **long stay demand** which allows for **high occupancy levels.**

A quality serviced apartment built to international standards would cost approximately USD 130,000 – 220,000 per key to develop including all soft costs and contingency (excluding land and parking costs).

Colliers' findings suggest that it would be possible to develop a 200 key serviced apartment with a GFA of 19,000 sqm on **a land plot of 3,500 sqm**. Given these assumptions, it is reasonable to target potential returns for serviced apartments in the middle east to have **a Project IRR of 15%-16%**, depending on the land cost and development location.

## INVESTMENT LANDSCAPE FOR SERVICED APARTMENTS

### THE OPPORTUNITY QUANTIFIED

The Serviced Apartment business model tends to experience less seasonal volatility than other assets such as luxury and upper upscale hotels allowing for relatively constant revenue streams for owners.

The branded serviced apartment market in Saudi Arabia is the least penetrated with international operators. Although there are a handful of properties in the pipeline, they are not sufficient to meet the forthcoming demand for quality serviced apartments.

Although the branded serviced apartment market is more established in the UAE and in Qatar, there still represents a market gap in terms of concepts as there are yet to be any **'lifestyle' extended stay concepts** in these markets.

As international players enter the market, the perceived value of the local stock will drop and as such an international brand will be a critical success factor in attracting demand particularly from the inbound segment.

Based on the Colliers Econometric Model for the period 2013 – 2017, the UAE, KSA and Qatar markets could potentially absorb an **additional 9,856 serviced apartment units** over and above forthcoming supply

## 482 offices in 62 countries on 6 continents

- **$2 billion in annual revenue**
- **1.12 billion square feet under management**
- **13,505 employees**
- **$71.2 billion total transaction value**

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## COLLIERS INTERNATIONAL MIDDLE EAST

Colliers International has been providing leading advisory services in the Middle East and North Africa region since 1996, in Saudi Arabia since 2004. Regarded as the largest and most experienced firm in the region, Colliers International's expertise covers Hospitality, Residential, Commercial, Retail, Education and Healthcare sectors together with master planning solutions, serviced from the five regional offices.

Colliers Research Services Group is recognized as a knowledge leader in the real estate industry, providing clients with valuable market intelligence to support business decisions. Colliers research analysts provide multi-level support across all property types, ranging from data collection to comprehensive market analysis.

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Colliers International Hospitality division is a global network of specialist consultants in hotel, resort, marina, golf, leisure an spa sectors, dedicated to providing strategic advisory services to owners, developers and government institutions to extract best values from projects and assets. The foundation of our service is the hands-on experience of our team combined with the intelligence and resources of global practice. Through effective management of the hospitality process, Colliers delivers tangible financial benefits to clients. With offices in Dubai, Abu Dhabi, Jeddah, Riyadh and Cairo, Colliers International Hotels combines global expertise with local market knowledge.

## SERVICE AT A GLANCE

The team can advise throughout the key phases and lifecycle of project:

- Destination/Tourism/Resort/Brand Strategy
- Market and Financial Feasibility Study
- Development Consultancy & Highest and Best Use Analysis
- Operator Search, Selection and Contract Negotiation
- Pre-Opening Budget Analysis and Operational Business Plan
- Owner Representative/Asset Management/Lenders Asset Monitoring
- Site and Asset Investment Sale and Acquisition/Due Diligence
- RICS Valuations for Finance Purposes and IPOs

## OUR REGIONAL EXPERIENCE

- Strategic Advisory and Hospitality Capital Valuation for more than 32,400 keys with a total asset value in excess of AED29.4 Billion
- Hotel Operator Search, Selection and Contract Negotiation in excess of 7,200 keys with client savings averaging AED10.4 million
- In excess of 17,258 keys proposed within Highest & Best Use, Market & Financial Feasibility Studies for Hotels, Resorts & Serviced Apartments
- Highest & Best Use, Market & Financial Feasibility Studies for Hotels & Serviced Apartments with a total estimated net asset value in excess of AED 36.2 Billion
- In Excess of 921 Hotel Keys under Asset Management as Owner's Representative