



Kingdom of Saudi Arabia

ECONOMY HOTELS MARKET GAP

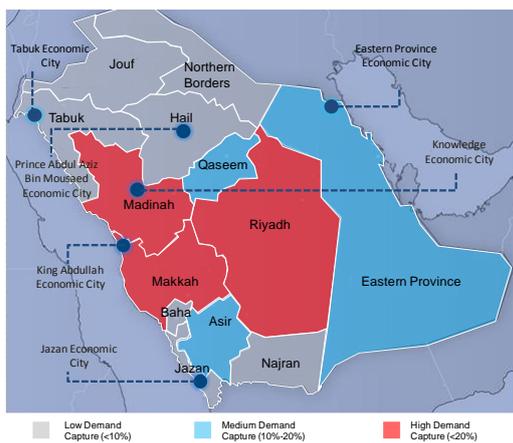
KSA HOTEL MARKET INDICATORS OCT 2012

	REVPAR*	ADR*	OCC*
RIYADH LUXURY	↓ -52%	↓ -17%	↓ -42%
RIYADH OTHER	↓ -34%	↓ -8%	↓ -28%
JEDDAH LUXURY	↑ 29%	↑ 21%	↑ 7%
JEDDAH OTHER	↑ 19%	↑ 27%	↓ -6%
AL KHOBAR LUXURY	↑ 16%	↑ 5%	↑ 10%
AL KHOBAR OTHER	↑ 32%	↑ 11%	↑ 19%
MADINAH	↑ 57%	↑ 26%	↑ 24%
MAKKAH	↑ 38%	↑ 4%	↑ 33%

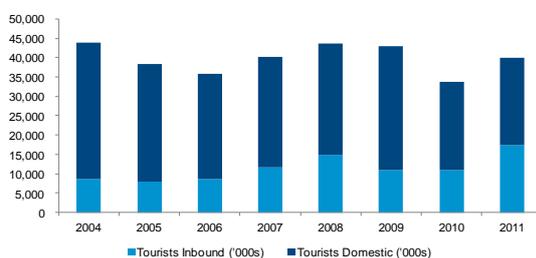
* % CHANGE FROM OCT 2011

Source: STR Global, 2012; Colliers Research, 2012

TOURISM DEMAND CAPTURE



HISTORICAL TOURISM DEMAND



Source: Colliers International Research, 2012

EXECUTIVE SUMMARY

- There is a limited supply of quality internationally branded economy hotels in the Kingdom of Saudi Arabia. Findings from Colliers International research shows that there are currently 7 notable cities without any such hotel stock, representing a significant gap in the market.
- The forthcoming supply of internationally branded economy hotels is strong, with 1,182 rooms expected to be delivered to the market across KSA by 2015. These rooms will include well established brands such as Ibis, Centro, Premier Inn and Holiday Inn Express.
- Colliers International investigation found evidence that the market could potentially absorb an additional 34,882 economy hotel rooms over and above forthcoming supply over the next five years, spread across major and secondary cities.
- Attractive investment opportunities lie in wait as economy hotels operate with a very cost-efficient structure characterized by a less volatile and sustainable pricing strategy. Based on the current profitability ratios of existing economy hotels, new developments prove to be a lucrative investment, with potential IRR ranges between 18% and 21%.

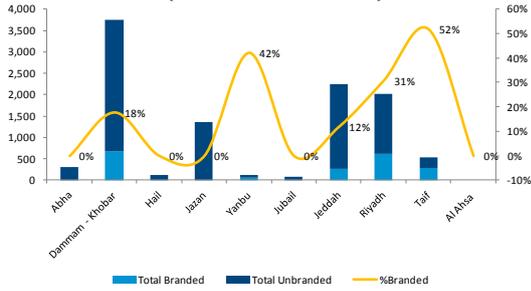
TOURISM DEMAND

- Hotels in mature markets such as Riyadh, Makkah and Madinah capture considerable inbound demand which primarily stems from the corporate and religious segments - in these regions hotels capture from 27% to 53% of total demand. In regions with less demand capture, the shortage of branded hotel stock contributes to the strength of other accommodation types such as serviced apartments and private residences.
- The gap between domestic and inbound visitation has historically been falling in KSA - while inbound visitation constituted 20% of overall visitation in 2004, this figure rose to 44% in 2011. This trend is likely a result of a revision of the religious quotas, growth of the real estate sector, an increased supply of global hotel brands, and induced electronic demand.
- An analysis of the intra-generational composition of Saudi Arabia population indicates that 85% of the population is within Generation X, Y or Z, and therefore under the age of 45. Given the limited disposable income available to these segments, and economy hotel can capture a significant portion of this demand if positioned as a moderately priced entertainment opportunity.

EVOLUTION OF ECONOMY HOTELS

- Hotel classification criteria in Saudi Arabia is fragmented and misaligned with international hotel standards and tend to misrepresent the different hotel categories.
- The Eastern Province, Jeddah and Riyadh have the largest amount of internationally branded economy hotels, closely followed by Jazan. There are no quality internationally branded economy hotels in Abha, Jazan, Hail, Jubail, Buraydah, Yanbu or Al Ahsa, which are markets dominated by full service hotels and locally branded serviced apartments.
- Early entrants to the economy hotel market in KSA include Tulip Inn and Best Western. Tulip Inn is considered to be the most established with 9 hotels throughout the country. Best Western currently has 3 hotels, but it is worth noting that it is a marketing consortium rather than a hotel management company.

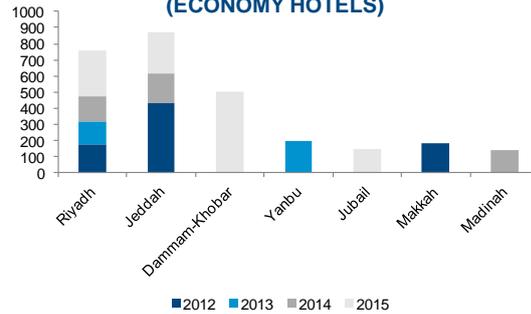
BRANDED VS UNBRANDED STOCK (ECONOMY HOTELS)



ECONOMY HOTELS SUPPLY

- The total hotel supply in 2011 was estimated at 157,430 rooms, of which only 22% was classified under the 'three star' categorization. Of these hotels, approximately 70% of the rooms can be found in the Makkah region, with the remaining 30% primarily spread over Riyadh, Madinah, Eastern Province, Asir, Tabuk, Jazan and Al Baha.
- Research conducted by Colliers International indicates that 19% of economy hotels across KSA are branded. The level of branded economy hotels can range from 52% in Taif, to 12% in Jeddah to 0% in Jazan.
- Confirmed forthcoming supply of internationally branded economy hotels include approximately 336 rooms by 2013, 484 by 2014 and 1,182 by 2015 across KSA. Key players involved include Ibis, Centro, Premier Inn and Holiday Inn Express with the majority of these rooms located in cities such as Riyadh, Jeddah, Dammam and Khobar. In addition to this, Wyndham Worldwide have signed an agreement with the Saudi Automotive Services Company to develop 20 hotels under the Super 8 brand.

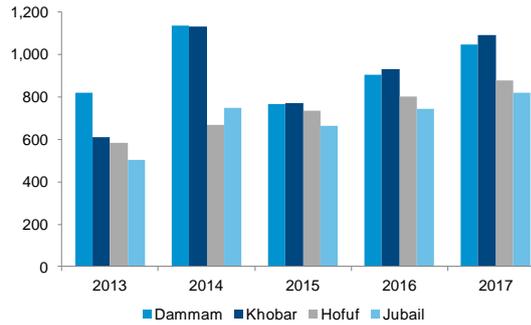
FORTHCOMING SUPPLY (ECONOMY HOTELS)



ECONOMY HOTELS KEY PERFORMANCE INDICATORS

- Colliers research into 15 cities across the Kingdom, indicated that economy hotel occupancy levels range from 61% to 80% in major cities and 51% to 68% in secondary cities. As economy hotels are volume driven they tend to operate 5% to 10% above the marketwide occupancy levels with average room rates between SAR 354 and SAR 400. In some secondary cities economy hotels command a higher ADR than in major cities due to a lack of hotel supply resulting in rate compression. In major cities, economy hotels are characterized by aging stock despite competitive markets.

SUPPORTABLE ROOMS – EAST KSA

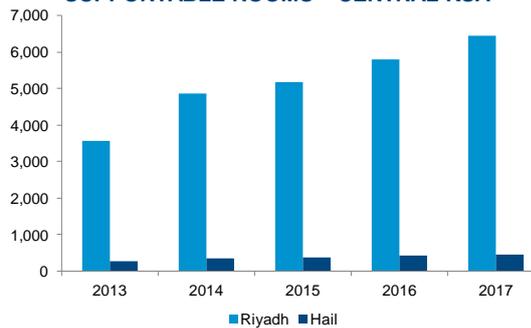


- It is noteworthy that markets such as Jazan, Hail and Tabuk are near upcoming economic cities which are either being planned or are under development. Colliers International expect to see them benefit drastically from their proximity to these demand generators.
- Based on the Colliers Econometric Model for the period 2013-2017, the KSA market could potentially absorb an additional **34,882** economy hotel rooms over and above forthcoming supply, spread over primary and secondary cities. The adjacent graphs provide an indication of regions and cities and their respective supportable room levels.

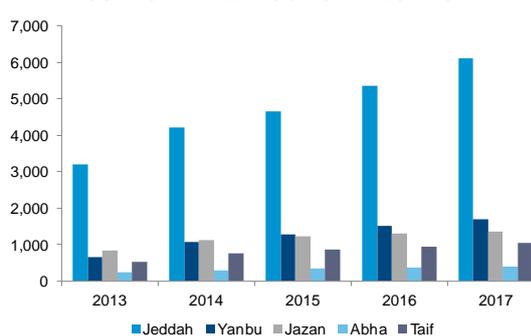
THE INVESTMENT

- Internationally branded economy hotels match the market's demographic profile well, providing a modern product that is appropriate for families and travelers alike. Furthermore, the affordable nature of the product appeals well to the price sensitive audience.
- Branded economy hotels contribute to the micro-economies of secondary cities by creating employment opportunities and enhancing global reach through the use of international distribution systems.
- Land plot requirements for these hotels range from 1,800 sqm to 2,500 sqm depending on building height and location. The cost-efficient operating model generates high net operating profits .
- From an investor perspective, good opportunities can be developed in areas where land costs range from SAR 6,000 to SAR 20,000/sqm. Based on the current profitability ratios of such hotels, economy hotels prove to be a lucrative investment, with potential IRR ranges between 18% and 21%. Such projects typically exhibit a leveraged IRR between 25% and 27% depending on the financing structure available.
- Given that only 19% of all economy hotels across KSA are branded, it is Colliers view that there is a market gap for this asset class. Further to this Colliers analysis for the period between 2013 and 2017 concluded that the market can potentially absorb 34,882 rooms over and above forthcoming supply in the coming 5 years.
- An attractive investment, economy hotels yield high profits on their small plot sizes. Their operating models are cost-efficient and their prices consistent, resulting in a recession-proof investment with health potential returns.

SUPPORTABLE ROOMS – CENTRAL KSA



SUPPORTABLE ROOMS – WEST KSA



Source: Colliers International Analysis

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.

COLLIERS INTERNATIONAL HOSPITALITY

Colliers International Hospitality division is a global network of specialist consultants in [hotel](#), [resort](#), [marina](#), [golf](#), [leisure](#) and [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, we deliver tangible financial benefits to our clients. With offices in Dubai, Abu Dhabi, Jeddah, Riyadh and Cairo, Colliers International Hospitality 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 22,653 keys with a total asset value in excess of SAR19.4 Billion
- Hotel Operator Search, Selection and Contract Negotiation in excess of 4,100 keys with client savings averaging SAR10.4 million
- In excess of 7,258 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 SAR 26.2 Billion
- In Excess of 921 Hotel Keys under Asset Management as Owner's Representative

522 offices in
62 countries on
6 continents

- \$1.8 billion in annual revenue
- 1.25 billion square feet under management
- 12,300 employees
- \$68 billion total transaction value

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Colliers International
Ranked No. 1 in the MENA Region by Euromoney 2012



Colliers International takes the top position in Real Estate Advisory and Valuations category for the MENA Region by Euromoney in the Eighth Annual Real Estate Survey