OMAN - MUSCAT

# ECONOMY HOTELS – MARKET GAP

NOVEMBER 2013

Accelerating success.

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# Executive Summary

## MARKET SNAPSHOT

| H1 2013 | Growth Rate H1 2012 - H1 2013 |
|---|---|
| **Oman Population** (Millions) | |
| 3.8 | ▲ 6.3% |
| **Oman Tourism GDP** (OMR Millions Current Prices) | |
| 929 | ▲ 3.1% |
| **Muscat International Passenger Arrivals** (Thousands) | |
| 2,174 | ▲ 8.0% |
| **Muscat Domestic Passenger Arrivals** (Thousands) | |
| 2,384 | ▼ 0.1% |
| **Salalah International Passenger Arrivals** (Thousands) | |
| 37 | ▲ 14.0% |
| **Salalah Domestic Passenger Arrivals** (Thousands) | |
| 156 | ▲ 7.8% |
| **Oman Hotel Room Nights** (Room Nights) | |
| 20,494 | ▲ 21.8% |
| **Oman Hotel Occupancy** (Occupancy %) | |
| 56.1% | ▲ 7.5% |
| **Oman Hotel ADR** (OMR) | |
| 48 | ▲ 6.7% |
| **Muscat Hotel Occupancy** (Occupancy %) | |
| 62.6% | ▲ 7.6% |
| **Muscat Hotel ADR** (Occupancy %) | |
| 65 | ▲ 1.6% |
| **Muscat Economy Hotel Occupancy** (Occupancy %) | |
| 78.0% | ▲ 8.5% |
| **Muscat Economy Hotel ADR** (OMR) | |
| 29.2 | ▲ 0.3% |

*Source: Oman National Center for Statistics & Information, 2013 Colliers International 2013*

### TOURISM OVERVIEW

Oman's Travel and Tourism GDP is forecasted to increase at an annual growth rate of 6-8% from 2013 to 2017 signifying the rapid anticipated development of tourism which will be underpinned by the government's commitment to the industry.

Oman continues to develop as a tourist destination by investing in large scale projects- primarily in Muscat- which contribute to building the "Oman Brand."

Primarily from India, South Asian nationals are the largest inbound source market to Oman and the ministry has made efforts to sustain this market by tying up with tour operators in India.

### HOSPITALITY MARKET

Muscat is the strongest performing hotel market in Oman, with occupancy rates exceeding 60% in H1 2013 closely followed by Musandam and Dhofar.

Corporate & MICE tourism represent the primary sources of demand for the majority of hotels in Muscat, with the exception of 5-star beach resorts which tend to cater to leisure tourists.

### OMAN ECONOMY HOTELS OVERVIEW

The majority of economy hotels in Oman are either locally branded or unbranded, many of which are not purpose built and of a limited size. Due to the fragmented nature of the market, hotel apartments and guest houses tend to compete with the economy hotel market, as there is a lack of differentiation between the two products from a consumer standpoint.

The announced forthcoming supply of hotels across Oman **only consist of 4-star and 5-star properties** which will serve to widen the existing gap in the market for branded economy hotels. The strength of an international brand is visible in the local market in which **internationally branded 3-star hotels often generate higher average rates than unbranded 4-star hotels.**

### MUSCAT ECONOMY HOTELS OUTLOOK

There are a total of 1,653 economy hotel rooms in Muscat, which have an average of 66 keys per property. The majority of supply is unbranded, of low quality and has widely varied service standards. With such characteristics, they tend to have lower profitability margins than branded 3-star hotels.

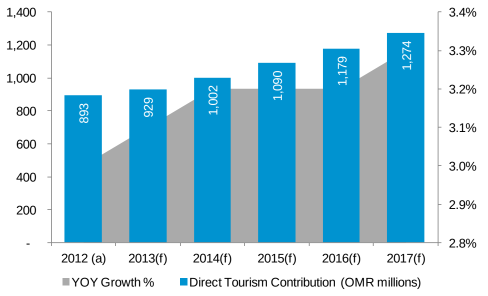
Due to the expansion of Muscat International Airport and increasing corporate demand, the need for branded economy hotels in Muscat is on the rise; and in a marketplace **with a lack of both existing and forthcoming internationally branded economy hotel stock, there exists a definitive market gap.**

Development costs of internationally branded economy hotels tend to be in line with unbranded stock, but with the ability to charge a price premium, such developments represent viable investments opportunities.

**THE OPPORTUNITY QUANTIFIED**

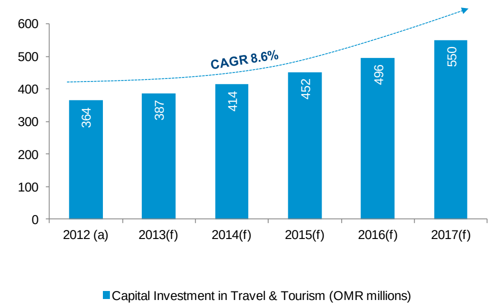
Based on the Colliers Econometric Model for the period 2013-2017, the Muscat market could potentially absorb **an additional 985 economy hotel rooms over and above forthcoming supply.**

**TOURISM CONTRIBUTION TO GDP, 2012(a) – 2017 (f)**



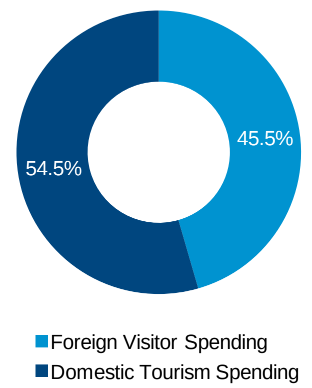

*Source: WTTC, 2013*

**CAPITAL INVESTMENT IN TRAVEL & TOURISM, 2012(a) – 2017 (f)**



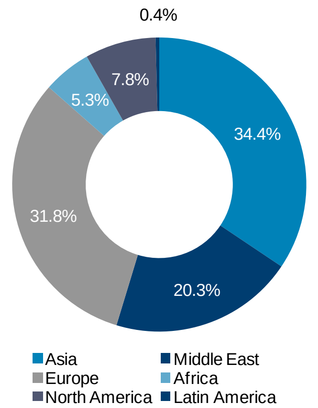

*Source: WTTC, 2013*

**DOMESTIC SPENDING VS FOREIGN SPENDING, 2012**




*Source: WTTC, 2013*

**OMAN INBOUND TOURISM BY NATIONALITY, 2012**




*Source: Business Monitor International, 2013*

# Tourism Economics

## TOURISM CONTRIBUTION TO GDP

•The direct contribution from the Travel and Tourism sector (monetary input from hotels, travel agents, airlines, restaurants, tourist leisure industries and transportation services) to Oman's GDP in 2012 was 3.1%. The World Travel & Tourism Council (WTTC) forecasts an annual growth of 6-8% until 2017.

## CAPITAL INVESTMENT

•The WTTC indicated that capital investments in Travel and Tourism amounted to OMR 364 mn in 2012. Investments are expected to grow annually by 8.6% on average until 2017, which will contribute to building the **'Oman brand'** as a destination.

•There has been a large influx of large scale projects such as The Wave, Imagine Project, Muscat Plaza and the Seeb Seafront in Muscat which will act as catalysts to stimulate inbound demand.

## DOMESTIC AND FOREIGN SPENDING

•According to the WTTC, domestic tourism spending and foreign visitor spending represent 54.5% and 45.5% of direct Travel & Tourism GDP respectively. Domestic spending is forecasted to grow by 12.2% in 2013.

•Oman's government has taken initiatives to further develop its infrastructure and simplify the visa process for inbound tourists which is expected to fuel foreign visitor spending.

## INBOUND SOURCE MARKETS

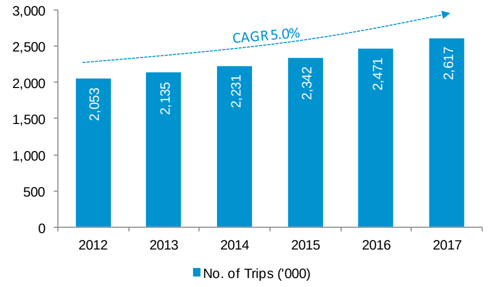
•Business Monitor International has found that the Asian market is the largest source of international arrivals in Oman, as visitation from this region accounts for 34.4% of overall visitation. Within this segment, Indian nationals account for 72.3% of Asian visitation. Visitation from Asia is forecast to rise to from 34.4.% of total visitation to 41.3% by 2017.

•As India is one of the leading sources of arrivals into Muscat, IndiGo Airlines has launched a 4-time a week schedule from Mumbai to Oman's capital. BMI forecasts the number of Indian inbound tourists to grow from 232,000 in 2012 to 384,000 in 2017, representing an annual growth of 10.6%

•After Asia, the European market represents the next largest source market, followed by the Middle East, Egypt and North Americans respectively. Low cost carriers within the region such as FlyDubai and Air Arabia increase the accessibility of Oman for neighboring GCC countries.

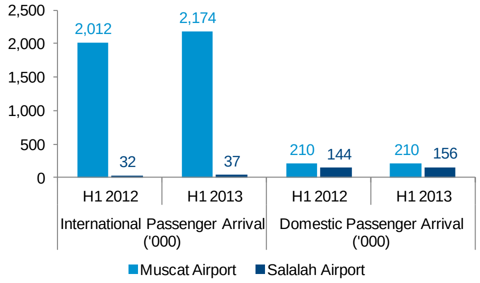
•Oman Air has launched direct services to numerous European cities in 2012, as arrivals from Europe are expected to increase by 4.3% between 2013 and 2017, during which total visitation is expected to increase by 18%.

## OMAN INBOUND TOURISM GROWTH FORECAST



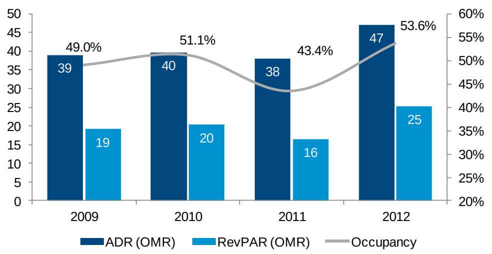

*Source: Business Monitor International, 2013*

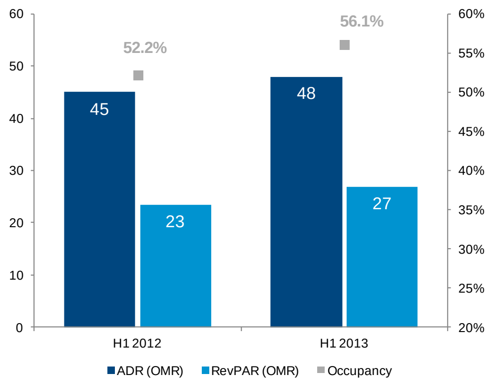
## OMAN PASSENGER ARRIVALS, H1 2012 - H1 2013




*Source: Oman National Center for Statistics & Information, 2013*

## OMAN HOTEL PERFORMANCE 2009 – H1 2013




*Source: Colliers International, 2013; Ministry of Tourism, 2013*

## INBOUND ARRIVALS

•In 2011, Oman received 220 cruise visits and over 200,000 cruise passenger arrivals to the three main ports: Muscat, Dhofar and Musandam. Oman's reputation as a cruise destination is growing and expansions are being made to convert the Sultan Qaboos port of Muscat into a cruise passenger terminal, resulting in increased leisure tourism in the abovementioned cities.

•Inbound tourists grew at a steady pace of 6.2% annually, from 2007 to 2012, with projected annual growth rates of 5.0% until 2017. Going forward, demand growth is primarily expected to stem from the Asian submarket, which is anticipated to achieve 9.0% annual growth.

•The Muscat and Salalah International airports are under expansion to accommodate growing passengers arrivals. By the end of July 2013, Salalah International Airport witnessed annual international tourist increases of 14% and domestic arrivals growth of 7.8%. Euromonitor forecasts passenger movements in Salalah to reach 1 million by 2014.

•The international passenger arrivals at Muscat International Airport increased by 8.1% by July 2013 while domestic remained constant compared to the same time last year. The overall annual capacity of Oman's airports will reach 12 million passengers after completion.

# Hospitality Market Overview

## OMAN HOTELS KEY PERFORMANCE INDICATORS

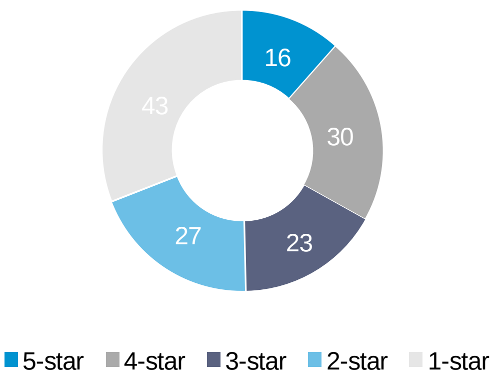
Muscat is the strongest performing hotel market in Oman, with occupancy rates exceeding 60% in H1 2013, closely followed by Musandam and Dhofar. Occupancy rates show significant growth in H1 2013 as compared to the same time last year.

•Unbranded 4-star hotels in Muscat attain lower average rates than branded 3-star hotels, due to service inconsistency and perceived low quality. In 2012, the branded three star hotels were able to achieve a 15% premium in average rate on unbranded 4 star hotels.

•Oman experienced a sharp downturn in hotel occupancy rates between 2010 and 2011 due to the Arab Spring. However, hotel performance recovered in 2012 with occupancy rates increasing by 10.2% from the previous year, resulting in higher room rates and overall RevPAR.

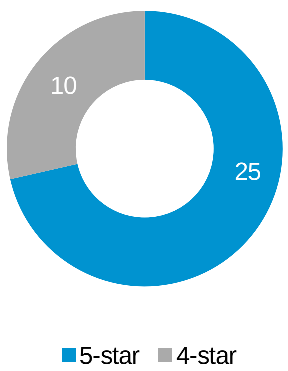
•Occupancy performance H1 2013 shows significant growth when compared to the rates at the same time the previous year, indicating higher Travel & Tourism contribution to GDP

CURRENT HOTEL SUPPLY
OMAN Q3 2013



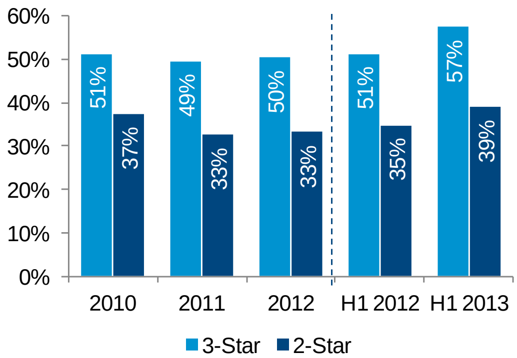

Source: *Colliers International, 2013*

ANNOUNCED FORTHCOMING HOTEL SUPPLY IN OMAN, 2013-2017




Source: *Colliers International, 2013*

OMAN ECONOMY HOTEL OCCUPANCY, 2010 – H1 2013




*Source: Ministry of Tourism, 2012; Colliers International, 2013*

# Oman Economy Hotels

## DEVELOPMENT OF ECONOMY HOTELS

•The Economy Hotels business model typically tends to maximize room stock, which is the main income-generating asset with the largest operating profit percentage, and minimize areas that are less profitable (i.e. gyms, lobbies, non-essential seating areas etc.)

•Economy hotels are categorized by room standardization and a consistent pricing strategy. They are generally limited to one room category, thereby allowing a maximum room capacity given limited Gross Floor Area (GFA) due to the absence of suites. This type of hotel typically offers standardized bedroom layout and facilities

## ECONOMY HOTEL SUPPLY

•Colliers research indicates that 25 economy hotels currently operate in Muscat, of which only 3 are internationally branded (Ramee Dream & Al Bhajah, Ibis and Tulip Inn). This segment of 2- and 3-star hotels have an average of 66 keys, limiting the potential economies of scale achieved in larger properties.

•At 175 keys, the Ibis Muscat has the highest key count in the economy hotel market and as such is able to achieve operational efficiencies not seen in smaller hotels.

•The Dhofar region, in which Salalah captures most of the tourist market, is dominated by one star hotels and hotel apartments which do not offer the same services or product offering as internationally branded economy hotels. Although six economy hotels exist in the local market, they are all unbranded properties.

•Oman has a combined total of 50 economy hotels which does not included Guesthouses and Serviced Apartments. Currently both lodging options compete against unbranded economy hotels as there is a lack of differentiation between the three products from a consumer standpoint. The majority of unbranded local supply is of relatively low quality, which presents an opportunity for internationally branded economy to drive high average rates through product leadership.

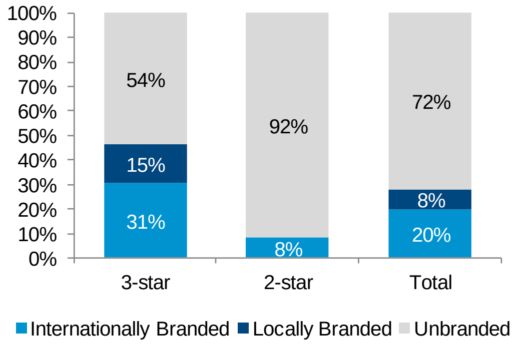
•Of the 35 new hotels scheduled to open in the next five years throughout Oman, **not one of them will be an economy hotel**. This represents a clear market gap for a quality internationally branded economy hotel offering.

## ECONOMY HOTELS KEY PERFORMANCE INDICATORS

•The occupancy rate of Oman's economy hotels (3-star and 2-star) was 44% in 2010, which declined to 41% in 2011 due regional unrest. However, the rate escalated to 47% in the first quarter of 2013.

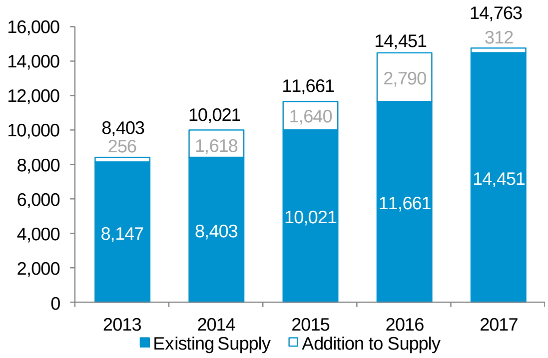
•Colliers' International forecasts the occupancy rate is likely to reach 48% in 2013 owing to increasing visitation and strong oil and non-oil based economic activity in the region.

### BRANDED VS UNBRANDED, MUSCAT



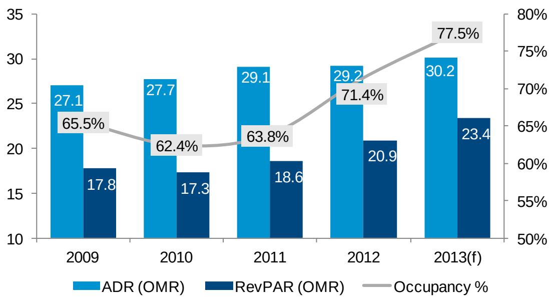

*Source: Colliers International, 2013*

### ANNOUNCED UPCOMING SUPPLY, 2013



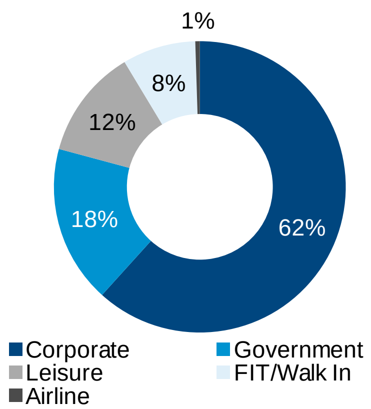

*Source: Colliers International, 2013*

### MUSCAT ECONOMY HOTEL PERFORMANCE, 2009 – 2013(F)




*Source: Colliers International, 2013*

### MUSCAT MARKET SEGMENTATION, 2013




*Source: Colliers International, 2013*

# Market Focus: Muscat

## ECONOMY HOTELS SUPPLY

•Muscat has 25 economy hotels, which are composed of thirteen 3-star and twelve 2-star hotels, with a combined count of 1,653 rooms.

•20% of all economy hotels in Muscat are branded, 8% locally branded and 72% are unbranded.

•Only 8% of 2 Star, and 31% of three star properties in Muscat are internationally branded which represents a supply gap in the market for **internationally branded** economy hotels.

•Unbranded properties in Muscat offer more facilities and F&B outlets than internationally branded ones, which has downward pressure on profitability, as there are far smaller margins to be found ancillary revenue streams (such as F&B revenue) than in rooms revenue.

## UPCOMING ECONOMY HOTELS SUPPLY

•As of November 2013, 6,616 hotel rooms and service apartments are currently in the pipeline for Muscat in the next five years as confirmed by hotel developers. All of forthcoming hotel supply is in the 4 and 5 stars segments.

**•No internationally branded economy hotels have been announced to open in the coming years, representing a clear supply gap in the market.**

## MUSCAT ECONOMY HOTELS KEY PERFORMANCE INDICATORS

•The Occupancy of Muscat's economy hotels grew at an annual growth rate of 5.9% from 2009 to 2012, along with the rise of average rate of these properties at 2.8% for the same period.

•As a result of increasing increased visitation to Muscat, economy hotels have experienced strong key performance indicators, with RevPAR growing from OMR 17.8 in 2009 to forecasted OMR 23.4 in 2013.

•Muscat's internationally branded economy hotels capture a higher average rate in relation to the local or unbranded properties, attaining a rate premium of 15% against the unbranded 3 star properties.

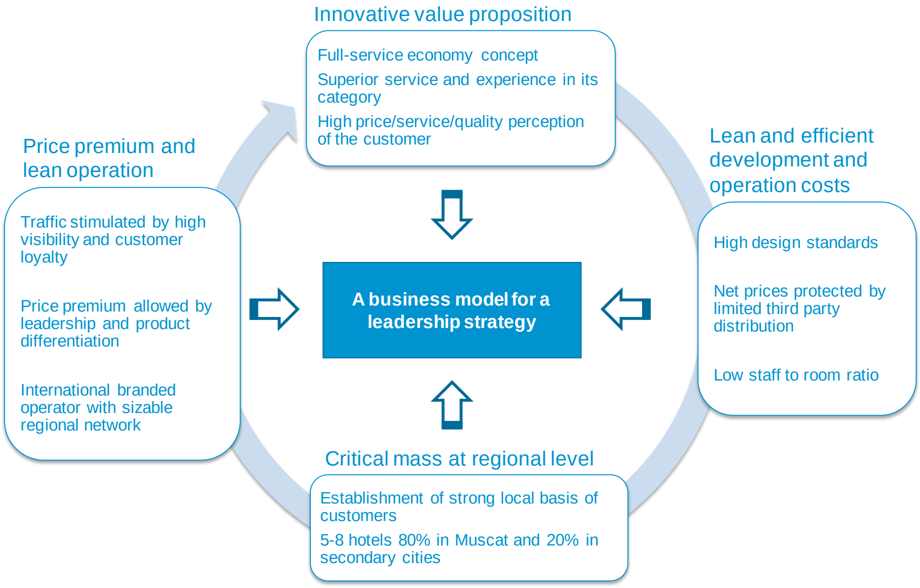
## MUSCAT ECONOMY HOTEL MARKET SEGMENTATION

•MICE tourism accounted for 8% of inbound tourism in 2011. With the development of The Oman Convention and Exhibition Centre, the MICE sector is expected to grow to 12%-15% from 2014 in cities such as Muscat, Salalah and Musandam.

•The corporate tourism captures the highest market segment for all hotels in Muscat except for 5-star resorts which attracts a larger portion of leisure tourism.

# Economy Hotel Investment Outlook

POTENTIAL MARKET ENTRY STRATEGY




## POTENTIAL RETURNS FOR ECONOMY HOTEL DEVELOPMENTS

INDICATIVE EXPECTED RETURNS

•The efficient design of purpose built economy hotel structures allow for economy hotels to be developed on limited parcels of land with restricted GFA allowances.

•An economy hotel built to international standards would cost approximately OMR 43,000 per key to develop including all soft costs and contingency. (excluding land and parking costs).

•Colliers findings suggested that it would be possible to develop a 200 key economy hotel with a GFA of 9,000 sqm on **a land plot of 2,000 sqm**. Given these assumptions, it is reasonable to target potential returns for economy hotels in Muscat to have **a Project IRR of 14%-16%**, depending on the land cost and development location.

## INVESTMENT LANDSCAPE FOR ECONOMY HOTELS

MARKET LANDSCAPE

•The Economy Hotels business model focuses on profitability by maximizing the room stock, the main income-generating asset with the largest operating profit percentage, and stripping away less profitable revenue streams.

•The current market landscape both in Muscat and Oman is dominated by locally branded supply which can easily be outperformed by international operators due to operational efficiencies, efficient design and strong GDS capabilities.

•An internationally branded economy hotel has the ability maximise their profit margin as price premiums can be charged over the local hotel supply through a high quality and consistent product offering.

•The forthcoming supply in Oman exclusively consists of four and five star properties, with **not one internationally branded economy hotel in the pipeline** which represents a clear supply gap for the market.

THE OPPORTUNITY QUANTIFIED

•Based on the Colliers Econometric Model for the period 2013-2017, the Muscat market could potentially absorb an **additional 985 economy hotel rooms** 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 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 HOTELS

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