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Middle East
Real Estate Predictions
KSA Hospitality Market

2019

#RealEstatePredictions

Contents

The KSA hospitality market performance

The KSA hospitality market experienced a challenging year in 2019 compared to previous years. Increasing supply and competition continued to put pressure on Average Daily Rates and occupancy levels across key cities.

Riyadh market performance

Average occupancy levels in Riyadh saw a 5% increase in the first half of 2019 compared to the same period last year. However, increasing supply and competition led to a reduction in Average Daily Rates (ADR) by 10% over the same period, which resulted in a decline in Revenue Per Available Room (RevPAR) by 6%.

The hotel market in Riyadh saw the delivery of approximately 850 new keys in the first half of 2019, raising the existing stock to 14,874 keys. This included major openings such as Marriott Hotel and Marriott Executive Apartments Riyadh Diplomatic Quarter.

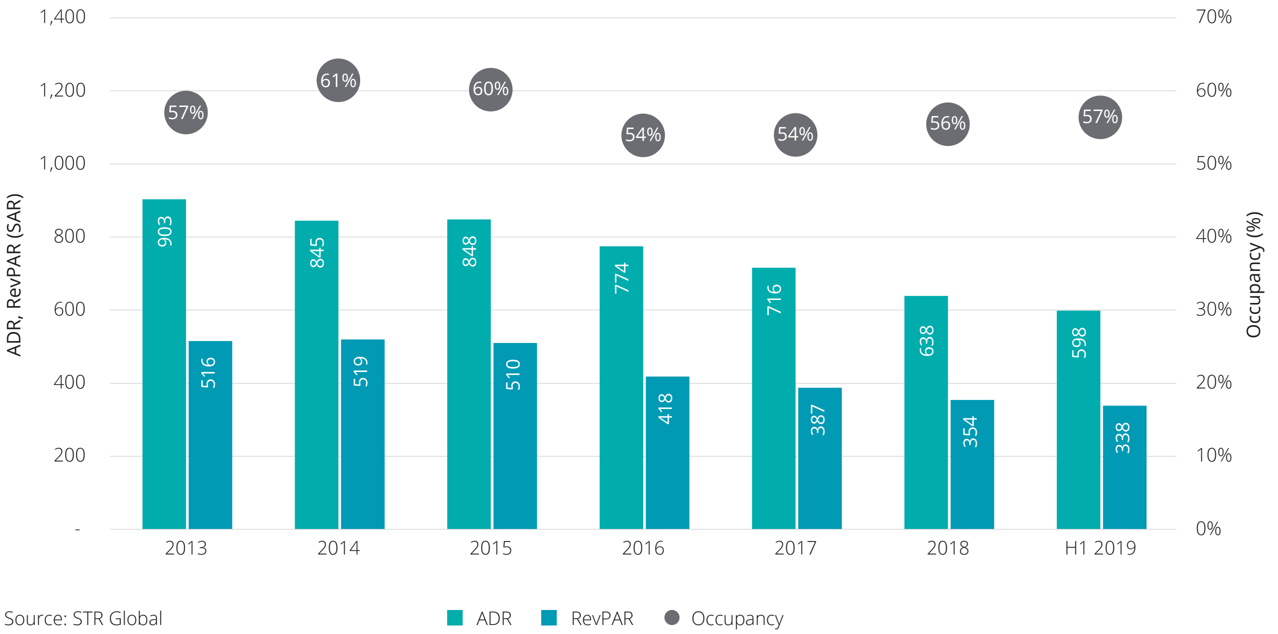
Approximately 4,500 additional keys are expected to be delivered by 2021, assuming all projects are completed within the announced timeframe. Incoming supply is expected to create further downward pressure to both occupancy rates and ADR as supply continues to outstrip demand. The new infrastructure developments and the dramatic transformation in the entertainment and leisure sectors are expected to help diversify the city's tourist base and increase demand in these sectors.

Riyadh hotel performance percentage change, H1 2018 to H1 2019

Classification	Occupancy	ADR (SAR)	RevPAR (SAR)
H1 2018	54%	664	359
Trend	↑	↓	↓
H1 2019	57%	598	338

Source: STR Global

Riyadh market performance, 2013 to H1 2019



Source: STR Global

Jeddah market performance

Jeddah's hospitality market experienced a challenging year in 2019 compared to previous years. While occupancy levels remained stable, increasing supply and competition continued to drive reductions in ADR and consequently RevPAR which saw a reduction of approximately 11% in the first half of 2019, compared to the same period last year.

In terms of supply, the first half of 2019 saw the completion of 556 keys in Jeddah. Major openings include Adagio Aparthotel Jeddah Malik Road and Ibis Jeddah Malik Road.

Jeddah hotel performance percentage change, H1 2018 to H1 2019

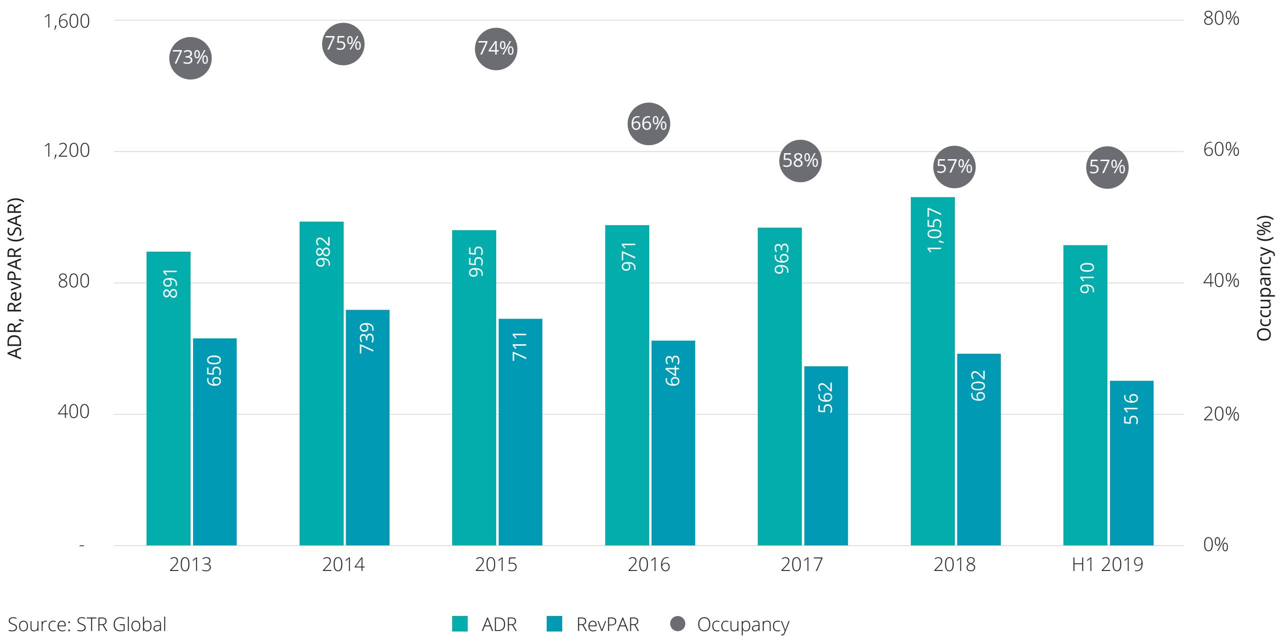
Classification	Occupancy	ADR (SAR)	RevPAR (SAR)
H1 2018	57%	1,025	580
Trend	←	↓	↓
H1 2019	57%	910	516

Source: STR Global

A significant number of hotel keys and hotel apartments are forecast to enter the market by the end of 2023. Approximately 7,600 keys are expected to be completed by 2021, representing a 60% increase to existing supply. Although, a number of projects are likely to be delayed or put on hold given the quantum of future supply.

The recent launch of major tourism projects on the western coast and the launch of the tourist visas positions Jeddah as a gateway city. These changes are expected to attract investments and boost demand in the local hospitality market. These investments are likely to drive a mix of business and leisure visitors, in addition to the key driver of religious tourism, which is forecast to grow significantly.

Jeddah market performance, 2013 to H1 2019



Source: STR Global

Makkah market performance

Overall performance in Makkah improved compared to the same period last year. Occupancy rates saw a 10% increase reaching 68% in the first half of 2019, however the increase in supply continued to put pressure on ADRs which witnessed an 8% decline over the same period. The combined effect resulted in an increase in RevPAR by 1%.

The first half of 2019 saw the delivery of 1,489 keys with the recent opening of the Millennium Makkah Al Naseem and the Doubletree By Hilton Makkah Jabal Omar. In addition, approximately 20,100 keys are expected to be delivered between 2019 and 2021, mainly located in proximity to Al Masjid Al Haram.

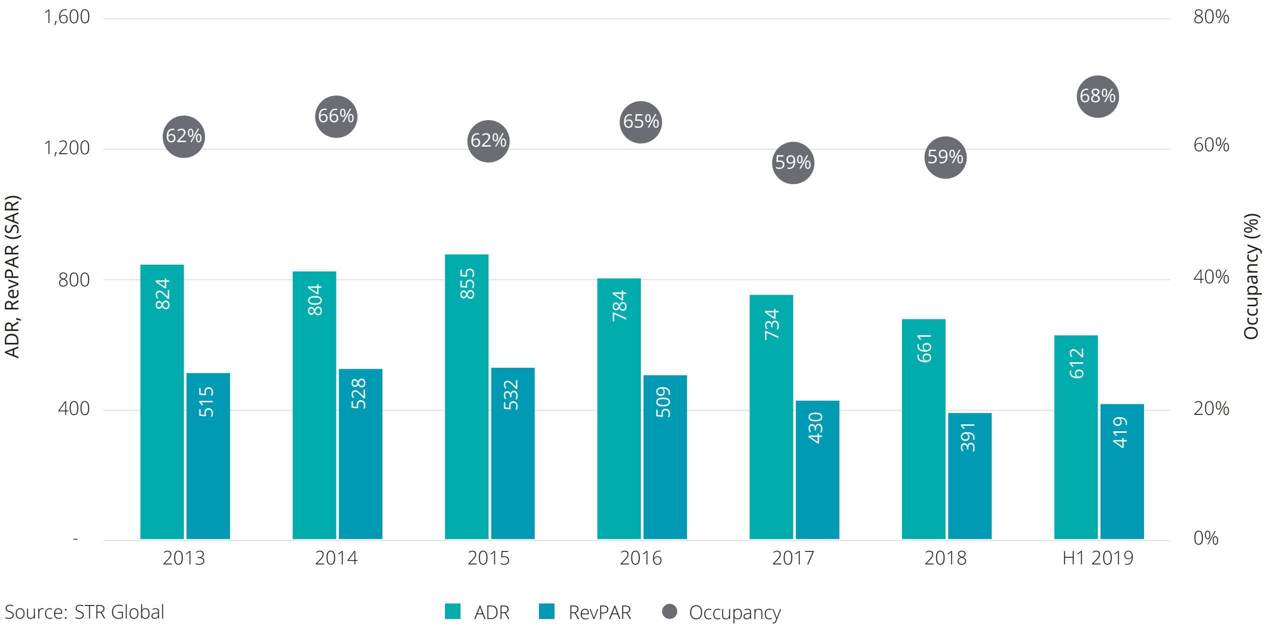
Makkah hotel performance percentage change, H1 2018 to H1 2019

Classification	Occupancy	ADR (SAR)	RevPAR (SAR)
H1 2018	62%	667	414
Trend	↑	↓	↑
H1 2019	68%	612	419

Source: STR Global

Despite the quantum of anticipated supply, the outlook for Makkah's hotel market remains positive. This is supported by the substantial investments to increase the Masjid Al Haram's capacity and improve the city's infrastructure in the coming years. As per the Saudi Vision 2030, the projected capacity for Umrah visitors is anticipated to reach 30 million by 2030, which is expected to have a significant impact on demand for hotel keys.

Makkah market performance, 2013 to H1 2019



Source: STR Global

Dammam / Al Khobar market performance

The hotel market in the Dammam / Al Khobar region saw a 10% increase in occupancy in the first half of 2019 compared to the same period last year. This is partially driven by returning demand from the recovering oil industry as well as a number of events promoting the region's tourism and entertainment sectors.

However, ADRs continued to soften by registering a 17% decline over the same period, which resulted in an overall decline in RevPAR by 8%.

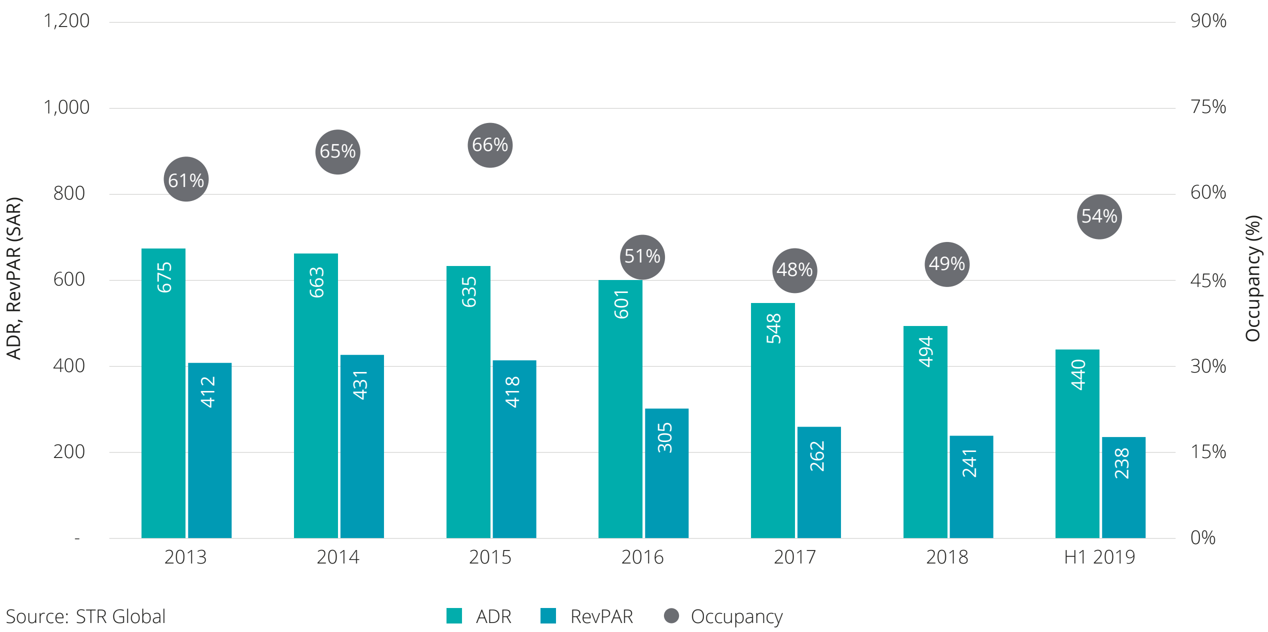
Dammam / Al Khobar market performance, 2013 to H1 2019

Classification	Occupancy	ADR (SAR)	RevPAR (SAR)
H1 2018	49%	529	259
Trend	↑	↓	↓
H1 2019	54%	440	238

Source: STR Global

Total keys within the region stood at approximately 7,844, as of July 2019. We have identified approximately 2,800 additional keys in the pipeline for delivery between 2019 and 2021, with major anticipated completions including Grand Hyatt Al Khobar, Dana Rayhaan By Rotana, Movenpick Residences Al Khobar and Holiday Inn Al Khobar.

Dammam / Al Khobar market performance, 2013 to H1 2019



Source: STR Global

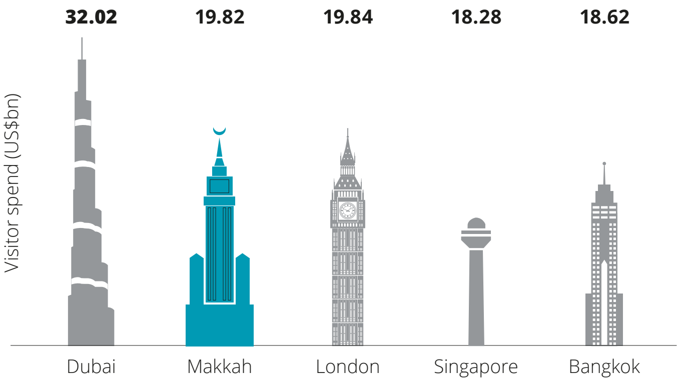
Comparison of KSA to regional and global markets

Despite the challenging market conditions, KSA remains one of the most competitive hotel markets in the world.

Despite the challenging market conditions, KSA remains one of the highest performing tourism and hospitality markets in the world. In 2018, Jeddah reported the highest ADR globally as per STR, while Makkah achieved the second highest spend per visitor globally as per the 2018 Mastercard Global Destination Cities Index.

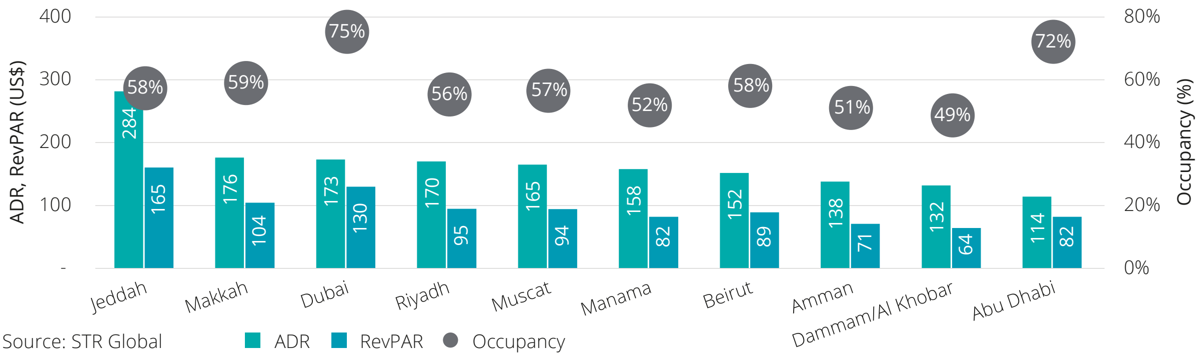
Overall the long term outlook for the key hospitality markets in KSA remain positive as diversification efforts, social reforms and government led investments in infrastructure, entertainment and the tourism sector come online.

International overnight visitor spending, global top five destinations, 2018



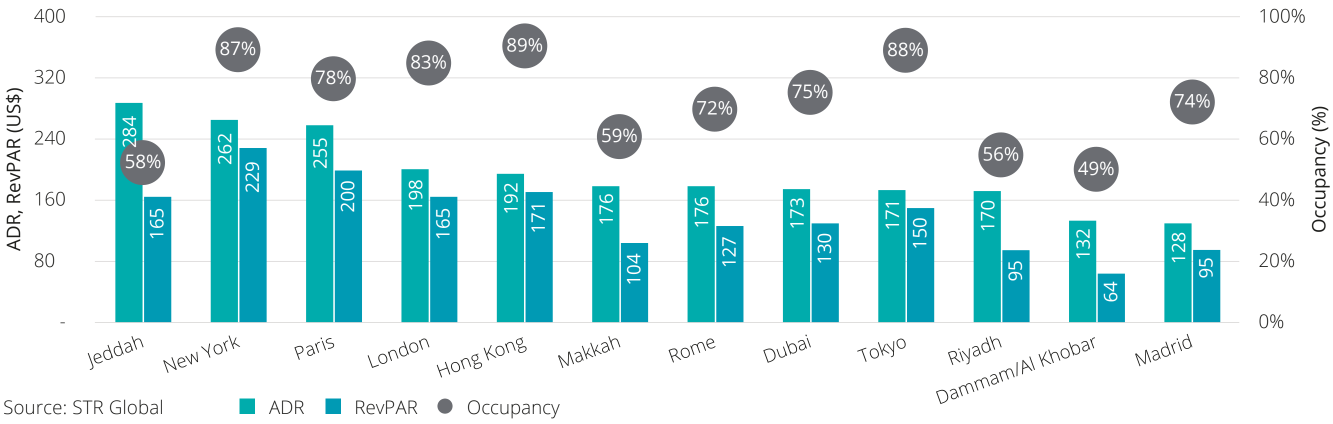
Source: Mastercard Global Destination Cities Index

Regional market performance full year 2018



Source: STR Global

Global market performance full year 2018



Source: STR Global

The evolution of the KSA tourism industry

In 2018, the Public Investment Fund of Saudi Arabia launched several GIGA tourism and hospitality projects including NEOM, The Red Sea Development, Amaala, Al Ula, Wadi Al Disah Development and Qiddiya.

These projects, combined with the recent issue of tourist visas, form an integral part of Vision 2030's economic diversification agenda and aim to position the Kingdom as a leading global leisure and cultural tourism destination. Each project is focused on capitalising on the unique characteristics of their location and focuses on the diversity of landscape, ecology and cultural history of the Kingdom.

1 Neom

Size: 26,500 sqkm

Uses: Residential, commercial, hospitality, industrial as well as an airport, royal palaces, ports and leisure facilities

Note:

- US$500 billion project
- Will operate as an independent economic zone
- Autonomous judicial system
- Aims to develop 16 key economic sectors
- NEOM's contribution to the KSA's GDP is projected to reach US$100 billion by 2030

2 The Red Sea Development

Size: 28,000 sqkm

Uses: Hotels, luxury residential, a marina, a port, commercial and entertainment amenities and supporting infrastructure

Note:

- Semi-autonomous area, governed by independent laws on par with international standards
- Relaxed social norms, business regulations and visa-free access for most nationalities

3 Amaala

Size: 3,800 sqkm

Uses: 2,500 luxury hotel keys, 700 residences, 200 retail outlets as well as an airport, marinas, a yacht club and various sports facilities and art galleries

Note:

- US$1 billion project
- Ultra-luxury beachfront tourist destination
- A focus on wellness, healthy living and meditation targeting the world's top 2.5 million leisure travelers

4 Al Ula

Size: 925 sqkm

Uses: Hospitality, residential, F&B, a luxury spa and a convention centre

Note:

- Home to Mada'in Saleh, KSA's first UNESCO heritage site
- Expected to attract 250,000 visitors per annum by 2020-2021 and over two million by 2035

5 Wadi Al Disah Development

Uses: Located within the Prince Mohammed bin Salman Natural Reserve, southwest of Tabuk and is planned as an eco-tourism project

Note:

- Includes several archaeological sites
- The area is characterized by mountain forms and tall rocky columns as well as fresh water springs
- Aims to become a major sustainable tourism location, preserving the local environment and wildlife

6 Qiddiya

Size: 334 sqkm

Uses: Six Flags branded theme park, water park, sports arenas, retail, hotels, resorts and a safari park

Note:

- Set to become KSA's largest entertainment, sports and cultural destination
- Expected to attract 17 million visitors per annum by 2030

The development of KSA's government-led **GIGA tourism projects** will undoubtedly contribute to the growth and evolution of a unique tourism industry in the Kingdom. However, there are a number of challenges including competition from established neighbouring tourism destinations, implementation of regulatory and social reforms, safety and security, hotel staffing challenges (in light of a recent announcement by the Ministry of Labour that certain hospitality jobs will be limited to Saudi nationals) and private sector investment. These challenges need to be addressed to ensure sustainable growth in the tourism and entertainment sectors.

According to the World Travel and Tourism Council, international tourist arrivals in KSA are estimated to have reached **17.7 million in 2018** while the total contribution of the travel and tourism sectors to GDP was estimated at SAR251 billion. With government investment fueling growth in the industry, international arrivals are forecast to reach **30 m by 2028**. The sector's GDP contribution is also forecast to reach **SAR400 billion by 2028**. These developments are also expected to create a number of economic spillover effects by retaining tourism spend in the Kingdom, generating employment opportunities and encouraging foreign investment.

Hospitality industry trends and disruptors

A regional view on global trends

Data protection and cyber security: a new approach to risk management

Following a number of high profile system breaches involving customer personal data in the hospitality industry, it has become imperative for the industry to adopt and implement a new strategy towards cyber security.

The hospitality industry is particularly vulnerable to cyber-attacks and data theft. This is due to old legacy systems, a high level of dependence on third parties and external vendors, and the nature of industry partnership structures, with each brand having multiple digital and service partners. Hotels also have an extensive network of endpoints through which security breaches can occur. Point-of-sale (POS) systems in particular have been the focus of several hotel breaches.

The EU implemented General Data Protection Regulation (GDPR), effective 25 May 2018, in addition to other national regulation, threatens large fines, as well as reputational impact and business losses that typically occur in the event of large data or system breaches.

Existing cyber security frameworks are mostly responsive instead of proactive. The looming threat of further cyber attacks calls for new approaches to cyber security and data protection.

New approaches will need to consider updated digital and infrastructure strategies, proactive systems, employee training and re-vamped response protocols.

New approaches should be able to proactively prevent breaches, report in real time and leverage AI to build self-repairing functionalities.

Big data and Artificial Intelligence: the potential of small changes for big rewards

Big data and artificial intelligence (AI) are no longer simply buzz words but are increasingly becoming ingrained in our everyday lives.

From online chatbots to virtual assistants like Alexa and Siri, AI continues to be leveraged in new products and service delivery techniques.

With the vast amount of customer and transaction data available in the hospitality and travel industries, early adopters have benefited from various applications of data mining and AI. Uses include:

- natural language processing to monitor online reviews for actionable feedback and real-time property management
- micro-marketing for new promotions and testing pricing sensitivity
- offer promotions based on current events, weather and flight cancellations
- enhanced revenue management through dynamic competitor pricing analytics

As AI techniques and technology become more commercialised, expect to see the broader rollout of virtual hosts and concierge systems, as well as targeted micro-marketing campaigns. It is expected that new and existing brands will become increasingly technology dependent, specifically for brands targeting the generations who grew using digital technology.

With the mining of big data comes the responsibility to protect personal privacy and maintain data security. Large budgets will likely be allocated to cybersecurity to protect valuable customer data and company systems.

Global cruise sector: a sea of opportunities

The global cruise sector is currently one of the most dynamic sectors of the travel industry. In the last 10 years, the industry has evolved from its previous perception as a 'silver generation' travel experience to a holiday option for all, and in particular multi-generational groups.

Demand for cruises has grown at a consistent pace of approximately 5% a year since 2009, with a slight uptick in pace over the last two years. Global cruising is expected to attract 30 million passengers in 2019, up from 17.8 million passengers 10 years ago.

Following a period where demand exceeded supply, the sector has invested heavily in expanding capacity to serve its increasing customer base. The Cruise Lines International Association (CLIA) reports that their members will jointly launch 18 new ocean ships in 2019 alone, with additional ships due to launch in the coming years.

In light of the increasing investment and expanding capacity, the sector is likely approaching a tipping point where supply might exceed demand, leading to excess capacity, unless cruise operators are able to increase the growth rate of new demand.

While some growth could be achieved by enticing current customers to go on more trips, filling the capacity will undoubtedly require cultivating a new generation of cruise costumers in both established and new source markets.

New waters: the Arabian Gulf and Red Sea

The Middle East was the fourth fastest growing source region for the cruise sector in 2018 according to the CLIA, with a growth rate of 6.6%. However, the opportunities for the cruise industry in the Middle East expand beyond being a growing source market; as the region also offers new winter destinations and cruise trade routes for the sector.

For many travellers, cruises in the Middle East offer an intriguing experience to discover less known locations and a chance to explore several bucket-list locations such as the Pyramids and the Dead Sea in one trip.

For the cruise lines, developing port capacity in the region presents an excellent winter destination for their European ships and potential departure points for their repositioning trips.

We expect to see an increase in the number of cruise lines making stops and home-porting in Middle Eastern ports, as well an increasing number of short and longer itineraries in the region.

Globally, the sector will continue to invest in tailoring the cruise product to a wider range of segments, including an increased focus on Middle Eastern experiences and customers.

18 new ocean ships
in 2019 alone

The Middle East was the fourth fastest growing source region for the cruise sector in 2018 according to the CLIA, with a **growth rate of 6.6%**

Global cruising is expected to attract **30 million** passengers in 2019

Demand for cruises has grown at a consistent pace of approximately **5% a year** since 2009

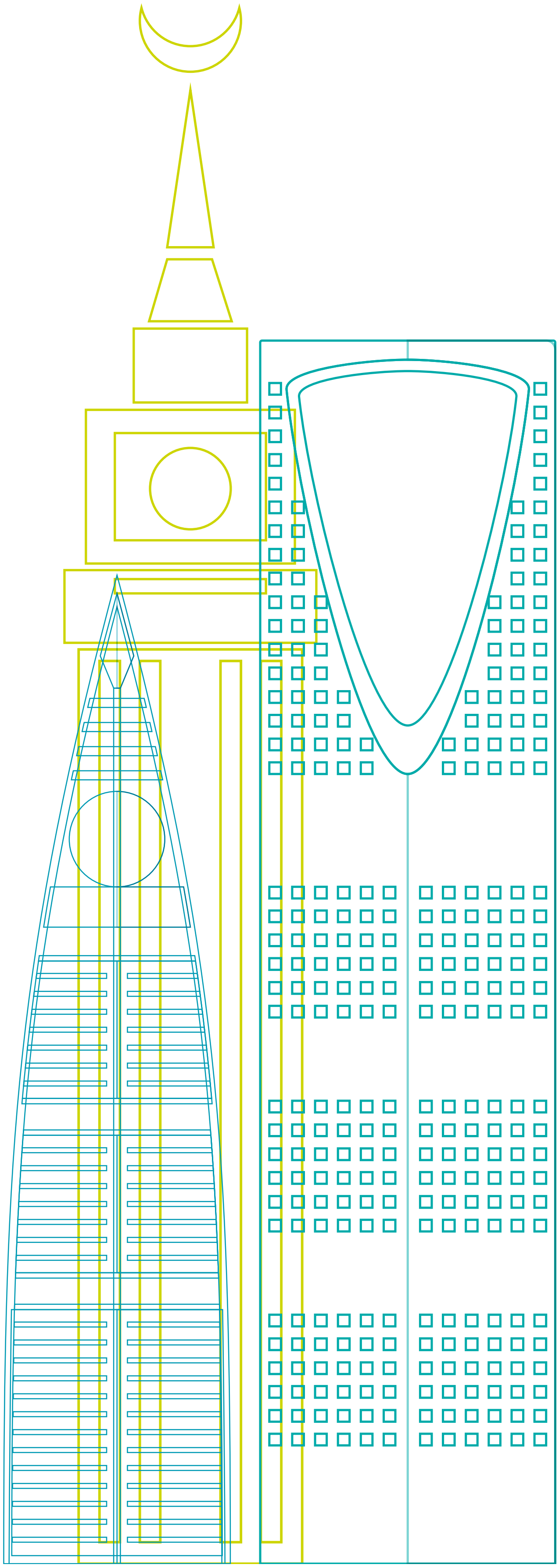
Hotel investment market: continuing consolidation

Over the past five years, the hotel industry globally has witnessed major consolidation, with approximately 60 large transactions involving the sale of hotel portfolios or brand management companies. Notable amongst these transactions include Accor's acquisition of Movenpick and InterContinental Hotel Group's acquisition of Regent Hotels and Resorts.

Reduced M&A activity is expected amongst large hotel brands, as increased focus is placed on smaller and emerging hotel brands. Sovereign wealth funds, private equity firms and private investment companies are expected to continue to drive M&A activities globally. In 2018, Saudi Arabia's PIF and Singapore's GIC along with other investors acquired a 55% stake in Accor's property business for US$5.4 billion.

While the Middle East contributed approximately a third of outbound cross-border hotel investment funding in 2018, within the region, hotel investment is primarily focused on the development of new hotels and funded by regional capital. 2018 witnessed an uptick in the regional M&A market, with Abu Dhabi National Hotel's US$600 milion acquisition of five Emaar hotels, comprising approximately 1,000 keys.

With margins tightening within key markets in the Middle East, we expect to see more M&A opportunities as holding companies attempt to restructure under-performing portfolios and realise value for high-performing assets.



Over the past five years, the hotel industry globally has witnessed major consolidation, with approximately

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In 2018, Saudi Arabia's PIF and Singapore's GIC along with other investors acquired a **55%** stake in Accor's property business for

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Deloitte hospitality services

A leader in the industry

The Deloitte Travel, Hospitality and Leisure sector provides services to over 85% of the Fortune 500 and approximately 70% of the Fortune 1000 companies specifically:

Fortune 500 companies
- over 95% of Hotels and Resorts
- over 95% of Airlines
- over 95% of Food Services Companies
- over 95% of Mail Package & Freight Delivery Companies

Fortune 1000 companies
- over 75% of Hotel and Resorts
- over 65% of Airlines
- over 95% of Food Services Companies
- over 95% of Mail Package & Freight Delivery companies

What is Hospitality?
- hotels & resorts
- Online Travel Agencies/travel services/tour operators
- cruise lines
- entertainment and leisure (water parks, theme parks, etc.)
- health & wellness
- restaurants & food services

Financial Advisory
- market research
- financial feasibility
- operator selection advisory
- transaction due diligance
- restructuring services
- hotel strategy advisory
- hotel valuation
- debt advisory
- dispute and forensic investigation
- mergers and acquisitions
- tax services

Organisation
- advanced shared services centre (ssc) for back-office functions: finance, purchasing, it, revenue management, sales, etc.
- governance model definition and implementation
- human capital
  - actuarial, rewards, analytics
  - hr transformation
  - organization transformation and talent
- business model transformation

Data excellence
- design and implementation of the data management function
- design and implementation of the analytics function
- fraud prevention
- cyber risk and security

Performance enhancement
- cost:
  - flash diagnosis in order to identify cost saving opportunities
  - design, implementation and monitoring of cost saving operational and digital initiatives
  - design and implementation of department staffing guide
  - center of excellence delivery center
  - purchasing strategy: vendor, contract and product strategy
- revenue:
  - outlet contract management strategy
  - pricing strategy definition and implementation
  - revenue optimisation through project reconfiguration

Other
- tourism strategy
- strategy plan and budget construction and monitoring
- digital maturity analysis and roadmap definition
- asset management strategy

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