Colliers INTERNATIONAL

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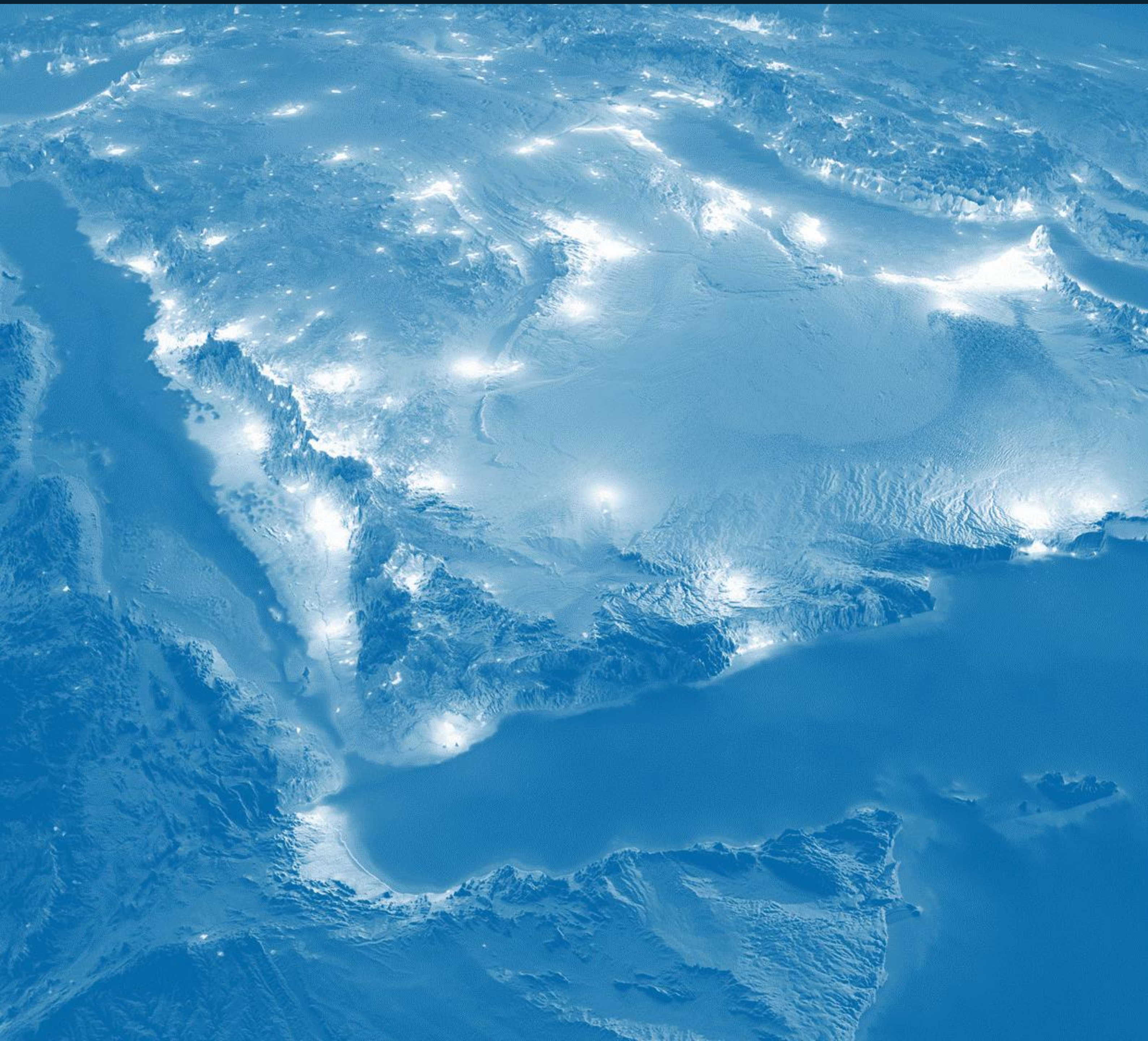
Transformation
Redefining Real Estate in KSA
Part 2
Focus: Hospitality



In this paper, the second in our series, we examine factors influencing change in the hospitality real estate sector in Saudi Arabia.

Colliers discusses how these factors are expected to shape the hospitality market in the coming years across the Kingdom. Colliers expects that the hotel supply in KSA will develop and evolve to meet the preferences and tastes of modern travelers, both domestic and international.

The paper highlights specific key success factors that hotel real estate developers can implement to stay relevant in what is expected to be a competitive hospitality landscape in KSA as we enter a new and exciting decade for the country.

INTRODUCTION

The Saudi hospitality market is currently experiencing a demographic shift, which has had an influence on general consumer preferences in the market. Furthermore, the influx of international arrivals since the introduction of the Saudi tourist e-visas are also projected to have a long-term impact on general consumer preferences within the market.

This section highlights the evolving demographics in Saudi Arabia, the expected increasing international arrivals into the country and how both are influencing the overall hospitality supply in the market.

Evolving Demographics in KSA

- Young population
- Changing taste and preferences
- Changing social norms

Diversification of Supply

- Evolution towards diversification of supply
- Increased proportion of internationally branded properties

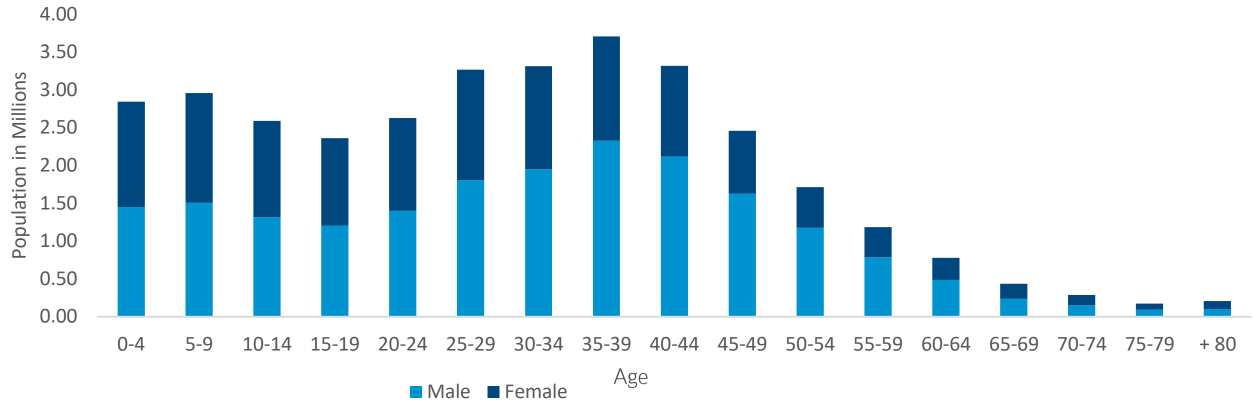
Increasing International Arrivals

- Change in top source markets
- Fueled by introduction of e-visas

Source: Colliers International, 2020

KSA HOSPITALITY NUMBERS

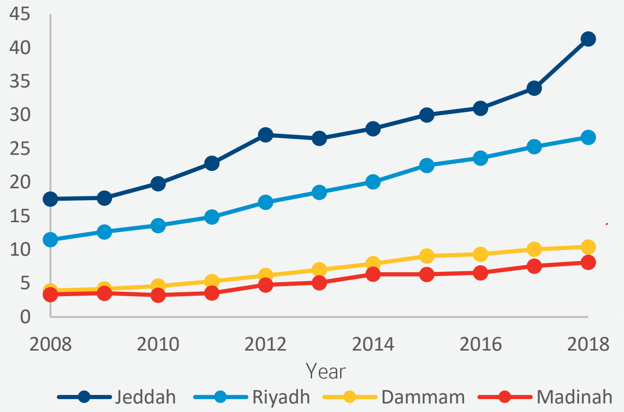
Demographic Breakdown (Age and Gender Demographic)



The Saudi Arabian population is mainly comprised of millennials and Generation Z. These younger generations value connectivity, authenticity and social engagement.

Their tastes and preferences will have an impact in future hospitality supply, with a greater focus on experiences rather than traditional hotel offerings.

Growth in International Arrivals (2008 – 2018)

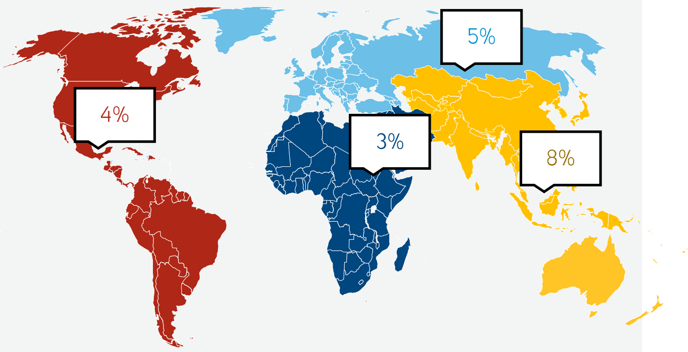


International arrivals across Saudi Arabia have seen an increase in CAGR of approximately 9.0% between 2013 and 2015.

The visa reforms have had a positive impact on the proportion of international hospitality demand to local hospitality demand; however, local tourism demand is still expected to remain a key driver of demand for hotels into the future.

The increasing international hospitality demand does however have an influence on overall consumer preferences in KSA, which can have an impact in hospitality offerings and supply.

Expected Arrivals Growth by Source Market (CAGR) from 2019-2024



The largest international source market for Saudi Arabia in 2019 was Middle East and Africa with 7.5 million tourists followed by Asia Pacific with 6.5 million.

Asia Pacific is expected to experience the highest growth between 2019 and 2024.

Pakistan, India, Indonesia, Bangladesh and Malaysian tourists account for the largest proportion of inbound arrivals from the Asia-specific countries at present. Typically these markets visit KSA for religious purposes.

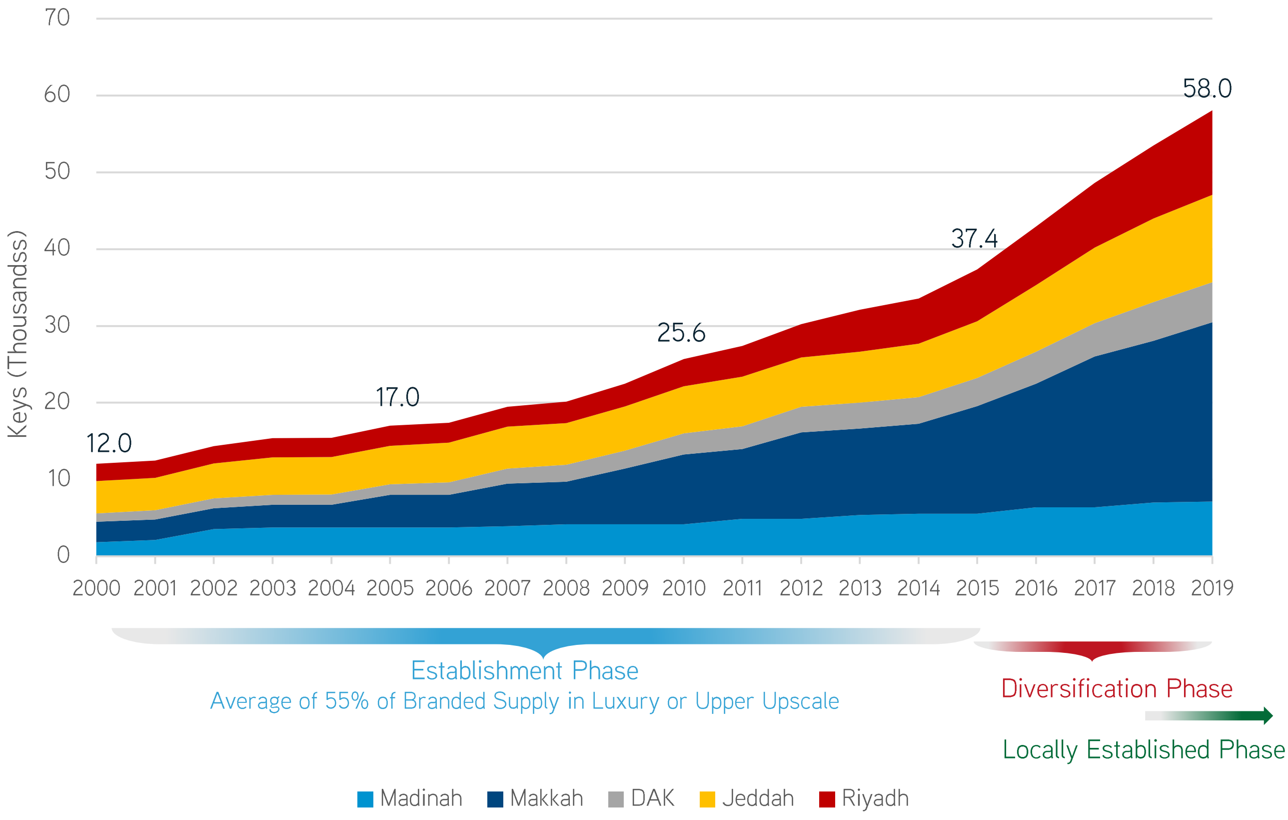
Source: STR, 2020; Euromonitor 2020; Colliers International, 2020

KSA – EVOLUTION OF HOTEL SUPPLY

The KSA hospitality market is progressing through three distinct phases: (1) Establishment Phase, (2) Diversification Phase and (3) Locally Established Phase. These phases can help describe the state of the hospitality market and its supply within the Kingdom.

Saudi Arabia's hospitality supply is currently on the "Diversification Phase"; however, the market is showing clear indications of it transitioning to the "Locally Established Phase". The following section highlights the historical state of KSA's hospitality hotel supply and its current and future transitions.

Growth in Locally and Internationally Branded Supply in Key Cities for KSA (2000 – 2019)



Phase 1: Establishment Phase

The establishment phase is the first major phase of a modernizing and developing hospitality market. During this phase, international operators enter the market to establish their position. Operators test market conditions and appetite for certain brands during this phase with a limited selection of brands. For operators to cement their position in the market, they introduce their "core brands". This limits the variety of brands that enter the market; however, during this phase it is typical for operators to enter the market aggressively with multiple properties.
For KSA, IHG led with the Intercontinental Brand, opening 10 by 2008, establishing themselves in the market, followed by the lower positioned Holiday Inn, which operated 11 properties by 2011. Other operators have followed a similar strategy, opening higher positioned properties to establish their brand credentials in the market followed by other brands in their portfolio. Between 2000 and 2020, Luxury and Upper Upscale brands have accounted for 55% of the branded supply in KSA.

Source: MAS 2020; GASTAT 2020; Colliers International 2020

Phase 2: Diversification Phase

As the end of the establishment phase, operators start to experience increasing levels of competition. Due to this change in market dynamics, a diversification of brand and subsequent product occurs. To stay competitive in the market, operators introduce a greater variety of brands in the hopes of achieving a unique selling point, giving them an advantage over the competition. The KSA market is currently on the diversification phase. During this phase, KSA is beginning to experience a wider array of brands entering the hospitality market, with almost double the number of brands available in 2019 compared to 2010 among selected brands before.

Number of Brands Operating in KSA for Selected International Operators

ACCOR	HILTON WORLDWIDE	IHG	Marriott INTERNATIONAL	WYNDHAM HOTELS & RESORTS	
2	1*	3	3	3	2000
6	3	3	4	3	2010
12	5	5	9	6	2019

As more brands enter the market, the scope of attracting consumers narrows. Differentiation through brand offerings alone is no longer an effective competitive strategy. To have a competitive edge in a growing market, hotels should offer a greater variety in terms of hotel product offerings.

To stay competitive in during this phase, operators have identified that they should have hospitality offerings that cater to both residences and international guests. Due to this, there is a growing demand for lifestyle hotel brands in KSA. Lifestyle brands such as The House Hotel, Centro, Hyatt Centric, Canopy, Mysk by Shaza and Voco have either entered the market in KSA or in the upcoming pipeline.

Phase 3: Locally Established Phase

The locally established phase is considered to be the most developed phase of evolution for a hospitality market. During this phase, local investors/operators would have built their experience and portfolios (sometimes with the help of international operators). This allows these local operators to become more of a competitive presence in the market, especially in direct competition to international operators.

During this phase, local operators begin to diversify their product offering by evolving old brands and introducing new and modern offerings. Local operators such as Dur Hospitality, Boudl Group and Al Khozama, in particular are expected to have an influential role in helping KSA's hospitality market transition fully to the next phase.

Summary of the Three-Phases of Growth for a Developing Hospitality Market

Phase 1 (Establishment Phase): International brands enter the market with their "core brands" in an effort to consolidate their position.

Phase 2 (Diversification Phase): A greater variety of brands enter the market from both operators that have consolidated their position in the market and new operators. This strategy is applied in the hope of offering brands with Unique Selling Points as a means of differentiation and to gather a competitive advantage over the other operators.

Phase 3 (Locally Established Phase): Local brands also evolve and grow, becoming more competitive in the market versus international operators, diversifying in hospitality offerings and attracting a larger market share to their hotels.

Source: Operator Information 2020; Colliers International 2020

EXPERIENCE LED HOTELS FOR KSA

Experience led hotels are driven by the growing experience economy which has been fueled by millennials seeking "real life" experiences. While the term "experience economy" has been around for sometime, it re-emerged again more recently, with the heightened use and cultural impact of social media.

A study done by Eventbrite showed that 72% of millennials prefer to spend their money to engage in live experiences instead of on material possessions.

The idea of consumers spending more on experiences is very relevant to the hospitality industry. Consequently, we see more lifestyle and boutique hotels taking the lead on providing experiences within their properties. The World Data Lab predicts that the global millennial spending power is soon to overtake Generation X by the end of this year. Saudi Arabia demographic is largely made up of millennials who account for more than 35% of the total population. Colliers International predicts we will see a growth in experience led boutique and lifestyle hotels in the Kingdom over the next number of years.

In light of these new developments in the market, Colliers International has identified three key elements of Experience Led hotels which developers in KSA should have regard to when designing hotels of the future in KSA;.

Personalized Service

- Integration of smart technology
- Restructuring of front-facing employees' job roles
- Decreased inefficiencies

Community Hubs

- Coworking spaces
- Hotel as community anchor
- Incorporation of fee-based memberships

Efficient Designs

- Culturally inspired designs
- Adaptable public/shared spaces

Source: Eventbrite 2018; Colliers International 2020

The progressively younger Saudi demographic are looking for experience led hotel offerings, where personalized service is a key contributor to their overall experience.

PERSONALIZED SERVICE

As the increasing competitive pressures associated with KSA entering the diversification phase, the demand for unique experiences increases. The progressively younger Saudi demographic are looking for experience led hotel offerings, where personalized service is a key contributor to their overall experience.

As the Saudi demographic is getting increasingly younger, there is a big opportunity for Saudi Arabia to take a lead on adapting their current hospitality standards to the changing consumer preferences of the market. Operators can do this by implementing new technologies to help offer greater personalized services to their guests.

Globally, hotels that find the most success in today's digital-savvy climate are those that offer experiences that are equal parts high-touch service and high-tech offerings. Furthermore, Frost and Sullivan have stated that by 2020, customer experience will overtake product and price as the key brand differentiator

Experience led hotels enable this by decreasing inefficiencies in certain hotel job roles of front-facing employees, automating certain administrative roles. This allows front-facing employees to focus more on guest interaction. This approach has been adopted by hotel operators such as Hyatt, Viceroy and AccorHotels.

From our market experience and observations of international and local hospitality trends, Colliers estimates that there will be an increase in investment levels amongst existing and forthcoming hospitality properties to implement Artificial Intelligence (A.I) and Internet of Things technologies, to ensure better provision of personalized service. Findings by Gartner has also highlighted that on 2018, 50% of companies had redirected their investments towards customer experience innovations.

Source: Colliers International 2020; Gartner, 2020

To meet the shift in the needs of the younger demographic that make up the majority of the demand for the Saudi hospitality market, Colliers project that technologies such as A.I and IoT, in the form of connected in-room features and voice controlled customer service, will become a lot more common in the market in the medium to long term.

The following are the description of the previously mentioned application of IoT and AI technologies within experience-led hotels.

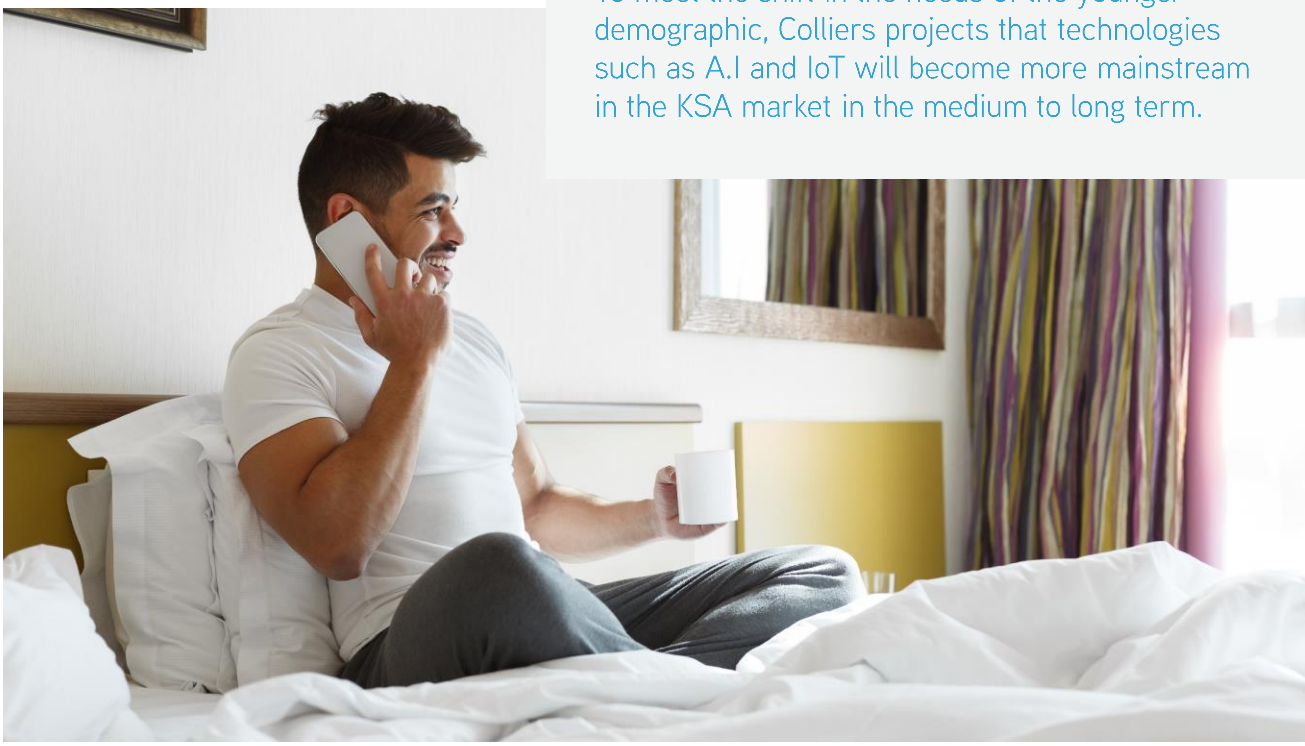
Connected In-Room Features

To further provide a personalized experience to guests, experience led hotels can adopt IoT devices and update hotel room standards. These devices can provide the room with personalized music, room temperature, water temperature and lighting settings tailored to the guests' preference.

Voice Controlled Customer Service

Saudi hospitality properties can also use voice-controlled customer service, which is enabled by IoT technology. Providing voice enabled devices can allow guests to tailor their experience in the property.
This technology is already being adopted by operators such as Marriott International and Hilton.

To meet the shift in the needs of the younger demographic, Colliers projects that technologies such as A.I and IoT will become more mainstream in the KSA market in the medium to long term.



Source: Colliers International 2020

COMMUNITY HUBS

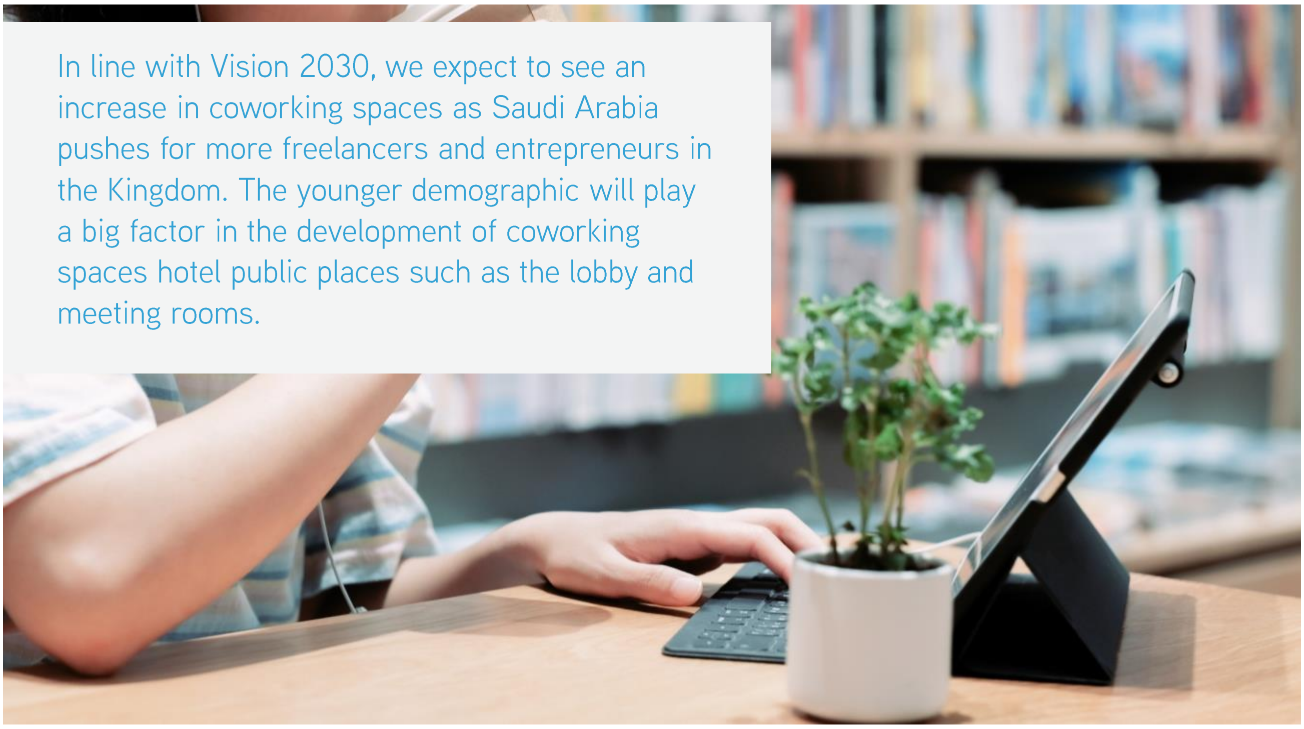
Most hotels have a social aspect to them at their very core, which plays a key role in the strength of their relationships with guests and the local community. This characteristic factors in the standing of the hotel and what effect it has on its community. In this case, the hotel is seen to be a social platform that not only connects the hotel to its environment but also to the community. The hotel becomes a hub that brings people together, both overnight guests and the local residents, and promotes social engagement between them. Colliers International has identified three key enablers of hotels as community hubs, listed below.

Coworking Spaces	Community Engagement	Fee-based Membership

Coworking Spaces/ Shared Spaces

The rise of the digital nomads and increase in business travel, has led to hotels incorporating coworking spaces as part of their service offering. The industry has seen an increase in business travel among millennials, many of whom view business travel as a perk rather than an inconvenience. There were more than 3 million coworkers globally in 2019. This number is expected to double by 2022. Hotel brands are taking note of this trend are incorporating shared working spaces to capitalize on this growing market. Accor announced its plans to implement 1,200 coworking spaces within the next 3 years with WOJO. This would make it the largest coworking brand in Europe by 2022. The Hoxton hotel in Williamsburg, New York, has a "coworking lobby" that attracts the local neighborhood as a social place to work or meet for business.

In line with Vision 2030, we expect to see an increase in coworking spaces as Saudi Arabia pushes for more freelancers and entrepreneurs in the Kingdom. The younger demographic will play a big factor in the development of coworking spaces hotel public places such as the lobby and meeting rooms.



Source: Hotel Yearbook 2020; Howarth HTL: GCUC 2019: Colliers International 2019.

Coworking spaces in hotels can take three forms:

1. Coworking space that is integrated with the hotel lobby with both leisure and business aspects. This involves use of the hotel lobby to serve a multifunctional purpose.

2. Hotel's own coworking space brand that is integrated in the same building with shared facilities.

3. An independent coworking brand that is in the same building as the hotel. This follows more of a partnership model.

Community Engagement

Authentic local experiences is one aspect of community led hotels. It requires engagement and involvement with the community. This in turn solidifies the hotel's place within its community. The hotel neighborhood plays an important role in guest experiences especially as guests are looking to be more in touch with the communities they are in and look to have experiences from a local perspective. Community engagement can take different forms including: (1) employment of the local community, (2) display of local artists' work at the property and, (3) organizing events for the local community and guests.

"Radisson Blu Hotel & Residences in Riyadh has on display a collection of more than 1,000 traditional handicrafts from about 60 Saudi artisans featured as part of the Living Exhibition. This exhibition Is the largest compilation of handmade Saudi crafts in the country. "

Source: Hotel Yearbook 2020; Colliers International 2020.

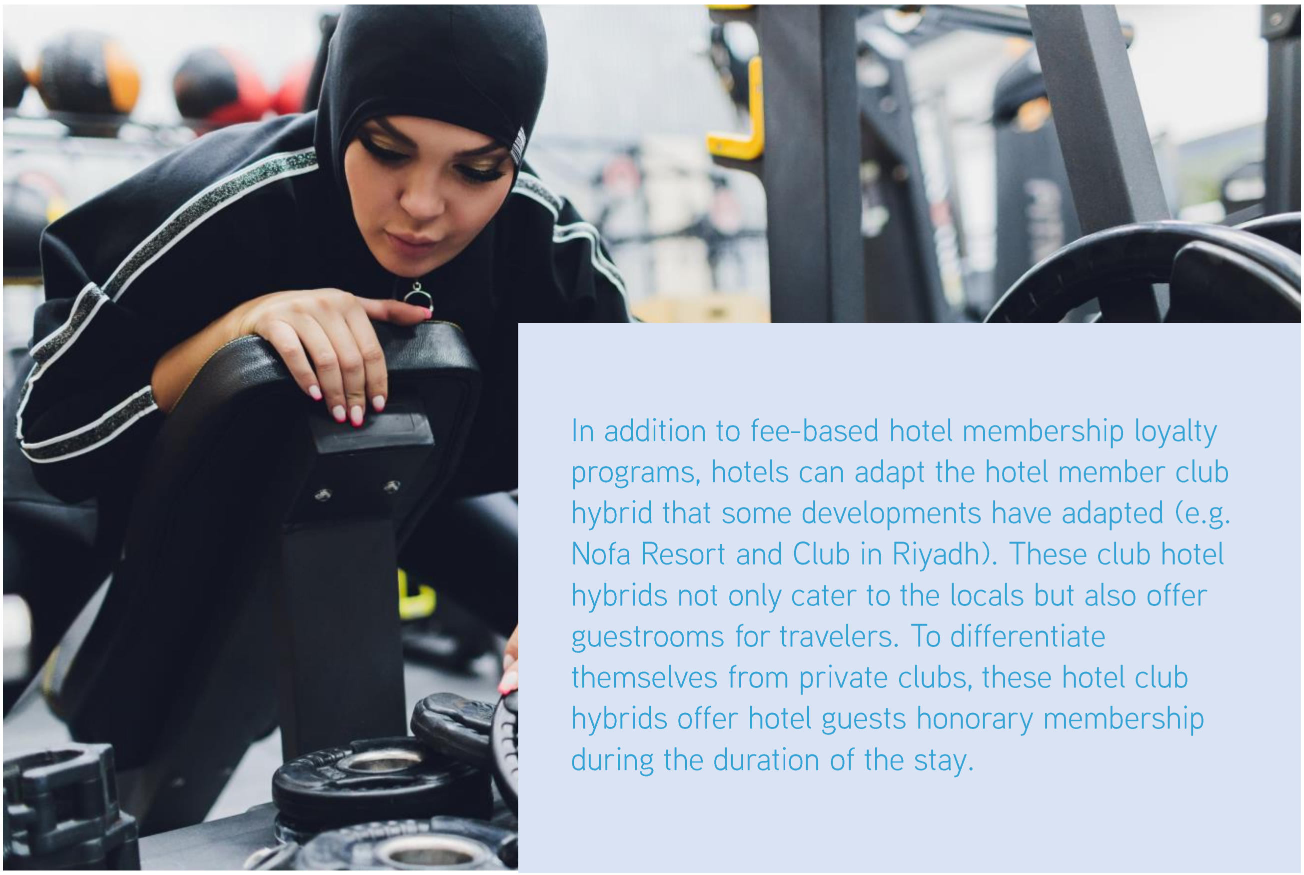
Hotel Fee-Based Memberships

While hotels in Saudi Arabia can look forward to increase in international arrivals over the next number of years, hoteliers should also look towards local residents as a source of supplementary revenue. This supplemental revenue can be achieved through leveraging hotel assets and services through fee-based memberships. Fee-based memberships can be used to drive revenue, increase on property spending, gain local exposure, as well as utilize the facilities at the property such as the gym, pool and spa. Operators can benefit from driving sales and spending on restaurants, retail and other facilities available at the property.

Fee-based memberships are a great way for hotel properties to reduce dependency on occupancy and ADR for revenue generation.

Fee-based membership can include:

- Access to hotel facilities
- Earning Loyalty points
- Complimentary access for friends and family
- Discounts on spa treatments, rooms, retail and F&B offerings
- Access to group fitness classes
- Valet parking



In addition to fee-based hotel membership loyalty programs, hotels can adapt the hotel member club hybrid that some developments have adapted (e.g. Nofa Resort and Club in Riyadh). These club hotel hybrids not only cater to the locals but also offer guestrooms for travelers. To differentiate themselves from private clubs, these hotel club hybrids offer hotel guests honorary membership during the duration of the stay.

DESIGN: EFFICIENT & CONTEMPORARY

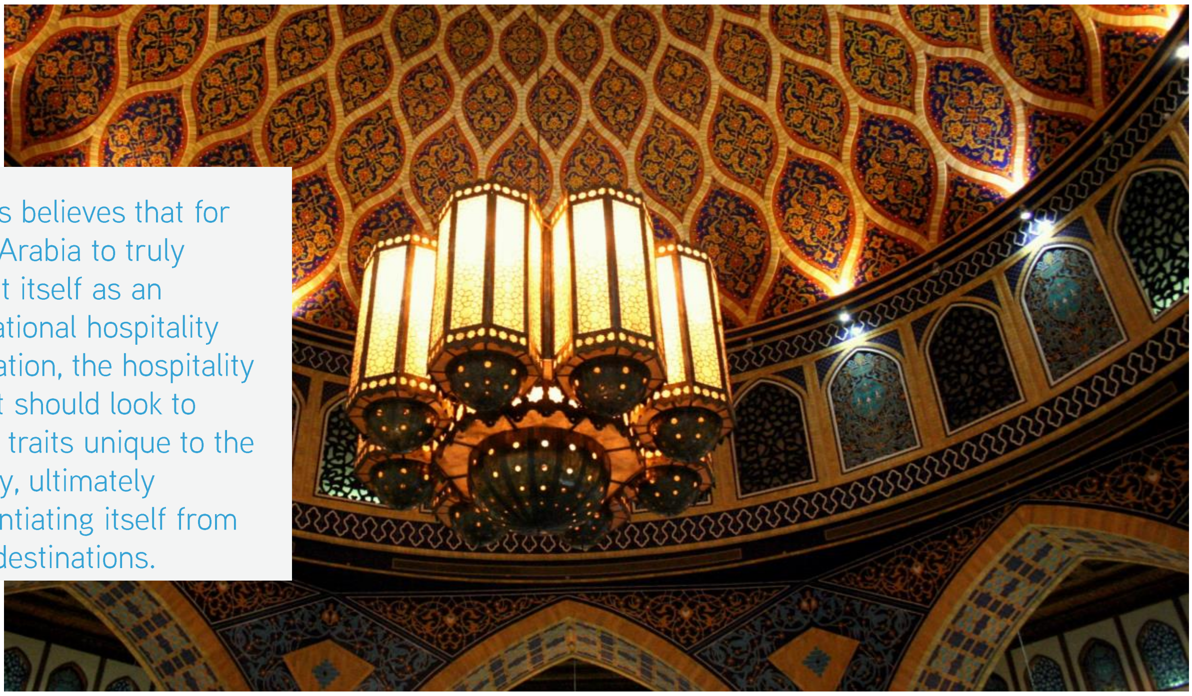
As the hospitality industry matures in Saudi Arabia, guests have more sophisticated taste and preferences towards hospitality products and services. This has led to an increasing proportion of internationally branded properties.

These internationally branded properties will soon include lifestyle brands such as Canopy by Hilton and the House Hotel (Kerten Hosptiality), adding to the already present lifestyle offerings like Aloft (Marriott).

Conceptually, these brands prioritize the use of public spaces and room spaces. Even with the increase in international lifestyle brands entering the market, Colliers believes that room sizes within Saudi Arabia will remain larger than the international room size standards for these lifestyle brands. The reason for this is that the main leisure demographic for hospitality companies in the market are still mostly local which are predominantly families. This demographic mostly prefers larger room sizes from international standards.

Moreover, new hotels in Saudi Arabia should prioritize efficient design and room layout as means of differentiation from existing hotels in the market. Aside from this change, we have also seen a slight shift in the way that forthcoming hospitality assets are designed in Saudi Arabia. The hotel's designs are more authentic to its surroundings. This is in line with increased importance that is placed on representing Saudi culture by Vision 2030. This is best represented in the design of the forthcoming Mada'in Saleh Hotel in the Al Madinah region of Saudi Arabia. The design of the hotel is intended to reflect a mirage to the Jabal Ithlib by using locally sourced silica stones.

Colliers believes that for Saudi Arabia to truly cement itself as an international hospitality destination, its hospitality market should exhibit traits unique to the country. This has become critical to be relevant in the competitive international stage, as it acts as a means of differentiation from other established destinations.



Colliers believes that for Saudi Arabia to truly cement itself as an international hospitality destination, the hospitality market should look to exhibit traits unique to the country, ultimately differentiating itself from other destinations.

LOOKING FORWARD

The hospitality industry in Saudi Arabia is now reaching out to a new regional and international audience. During the first month of introducing the tourist e-visas to 49 different nationalities, Saudi Arabia had processed approximately 77,000 e-visas. With a goal of attracting 1.5 million tourists by 2020, international tourist demand for hospitality products are expected to increase. With the changing consumer preferences from local consumers and international tourists, developers are trying to adapt to these changes to stay competitive within the market. Colliers believes that through the enablers listed below, hotels will be able to adapt to the changing preferences in the market and remain competitive in the changing hospitality landscape of Saudi Arabia.

Personalized Service Enablers

1. Integration of smart technologies: Connected in Room Features & Voice Controlled Customer Service
2. Decreased Inefficiencies
3. Restructuring of Front-Facing Employees' Job Roles

Community-Hubs Enabler

1. Co-working Spaces
2. Hotel as a community anchor
3. Incorporation of fee-based memberships

Design: Efficient + Contemporary Enablers

1. Culturally inspired designs
2. Adaptable public/ shared spaces

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The economic and social changes taking place in the Kingdom are expected to bolster not only the tourism industry but other supporting components as well.

We expect to see an increase in tourists to the country as well as a change in hospitality offerings, with successful developments focusing on Experience Led hotels.

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FOR MORE INFORMATION

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