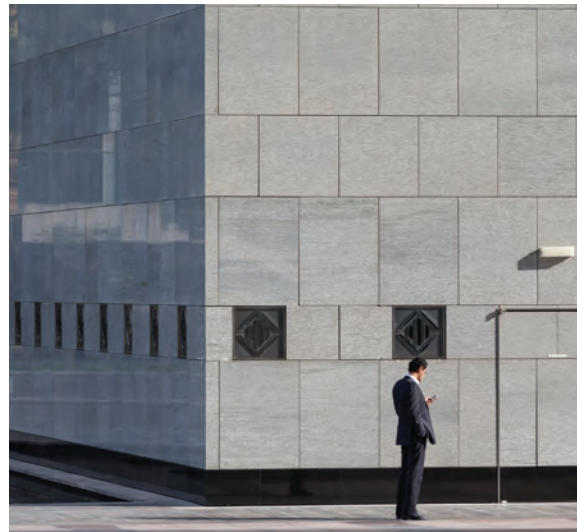


# *Gateway for growth*

*Middle East cities hotel forecast for 2014 and 2015.  
Abu Dhabi, Doha, Dubai, Jeddah, Muscat, Riyadh*

*May 2014*





THE BALCONY



# *Contents*

Summary	2
How did 2013 turn out?	4
Spotlight on prospects for 2014 and 2015	6
Beyond the data: trends transforming hotel businesses	10
Economic, travel and supply outlook	16
Which cities are best placed to grow?	23
About the survey, methodology and model assumptions	36
Appendices:	38
– Further reading	39
– Contacts	40

# Summary

This first edition of our Middle East cities hotel forecast is published amidst some of the fastest growing tourism and hotel markets in the world



There are six cities in this new Middle East econometric forecast - Abu Dhabi, Doha, Dubai, Jeddah, Muscat and Riyadh. All are important gateway or capital cities and/or business and tourism destinations. Some are emerging as magnets for Meetings, Incentives, Conferences and Exhibitions (MICE), Mega Events and leisure/shopping travelers. Some, including Dubai and Doha are heading at breakneck speed into the future. Dubai will host the Expo in 2020 and Qatar the FIFA World Cup in 2022. Although outside the parameters of this forecast, planning is already heavily underway and will mean significant new supply preparations.

According to the United Nations World Tourism Organisation (UNWTO), the Middle East was visited by 52 million international visitors last year. Travel is forecast to grow strongly over the next 10 years and the region will see robust demand for accommodation, according to a recent report from Oxford Economics and Amadeus.

Future volumes of domestic and international travelers will also shape the hotel landscape – demand for non-beach properties in Dubai is almost on par with demand for beach properties.

The region's strategic location means hub airports such as Dubai, Abu Dhabi and Doha already lead the fight to attract global transfer long haul passengers. Continued investment in airports and transportation networks will only strengthen this position.

The six cities represent over 124,000 hotel rooms and have seen high levels of new supply added in recent years with more scheduled to open. In Qatar, 45,000 further hotel rooms are reported to be required to meet FIFA World Cup capacity requirements, with 21 hotels planned for construction by 2017. In Dubai, The Department of Tourism and Commerce Marketing estimate a need for between 140,000 to 160,000 new rooms by 2020, with a further 10,000 plus rooms being reported as needing refurbishment prior to the Expo2020.

This forecast snapshot (taken in April 2014) looks at the prospects for the six hotel destinations cities in 2014 and 2015 and at some key issues facing them.

We anticipate growth in metrics for all cities across 2014 and 2015 – only Riyadh is forecast negative ADR growth. Top RevPAR growth stories in both 2014 and 2015 are Dubai and Muscat at 6.5% and 6.6% respectively. We forecast occupancy growth ranges from 1.7% in Dubai, which is already achieving levels of 84% in Q1 2014 (STR Global 2014) to 3.9% in Riyadh, where current occupancy is much lower at 56% in 2013 (STR Global 2013).



### ***Opportunity and growth potential***

A number of Mega Events coming to the region (Expo 2020, and Qatar World Cup 2022) and the improving economic backdrop in our featured cities, have the potential to reinvigorate and reshape the Middle East hotel sector. However the current political instability and impact from the Arab Spring leaves many of the remaining Middle East countries facing declining occupancies and RevPAR. Egypt and Beirut continue to suffer the most across the region with STR Global reporting significant drops in both occupancy rates of 18% and 25% respectively, and reductions in RevPAR by 20% and 30% respectively in the first quarter in 2014. Although outside the scope of this report, this is pertinent to the featured cities, as many of these, and in particular Dubai, are benefiting from increasing numbers of both tourist and business travelers who are seeking out stable destinations.

Owners and operators are pressed to achieve profitable growth and capitalise on the improved environment and the new opportunities a changing world offers. There is plenty of room to grow on many fronts including traveler volumes, new hotels and brands coming into the region and investment opportunities.

Megatrends that are transforming today's businesses include shifts in global economic power, innovation in technology and demographic change.

Within the region, hotels need to be nimble and understand the issues and their implications for business. The mobile and digital revolution is taking hotels into a whole new world as they battle to stay relevant to consumers.

# How did 2013 turn out?

The pace of recovery picked up in 2013, but still falls short of pre-recession levels



## **Where is the market today versus pre-recession?**

In terms of where we are compared to before the global recession, data from STR Global suggests that the Middle East hotel market\* as a whole remains significantly below its pre-recession level in both nominal and real terms.

The hotels sector real RevPAR has not recovered since the recession. Since 2007, while real RevPAR has declined 10% per year, real GDP in the region has been relatively resilient due to public spending on infrastructure, growing at an average of 4% per year.

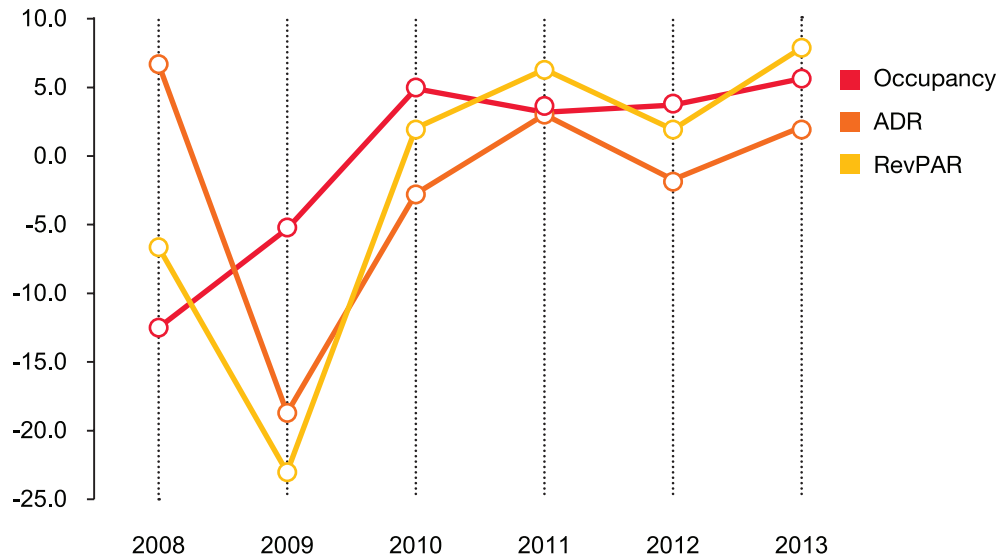
Demand fell sharply in 2009 against a high construction pipeline and while both occupancy and ADR levels are creeping back up again, occupancy has recovered most lost ground.

Occupancy finished 2013 at 66.8% compared to its 2008 level of 68.2%. After four years of decline ADR recovered by 3.1% in 2013, but remains almost \$30 below 2008 levels. RevPAR saw a healthy 6.3% gain over 2012, to \$135.7.

### Solid overall improvement in 2013....

The chart shows that 2013 has achieved some solid improvement over 2012 as the recovery continues.

Middle East annual growth 2008-2013



Source: STR Global 2014

\*Afghanistan, Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, KSA, Syria, UAE, Yemen

### ....driven predominately by occupancy

Overall, 5 of the 6 countries, the exception being Riyadh, saw an increase in RevPAR in 2013. All the same, 2013 was a mixed year for many of the six markets in our forecast (see more detail in the individual city pages).

Occupancy was the principal growth driver, with all cities except Jeddah achieving positive growth. However only Muscat, Dubai and Jeddah saw positive growth in ADR during 2013.

Dubai in particular had a very good year driven by its diverse visitor profile, the range of its events, its pre-eminence as a MICE destination, and investment in infrastructure such as the airports. Their reward was very high occupancy at almost 80% in 2013 and ADR up 6.5%. Jeddah was another top performing hotel market in 2013 from an ADR perspective, benefitting as the premier leisure destination in Saudi Arabia, in addition to its role as a corporate and religious tourism destination – however this ADR growth was offset by a fall in occupancy of 4%. Muscat enjoyed a large double digit leap in occupancy for the second year in succession and a boost to ADR after 3 years of decline. Abu Dhabi saw a 12.5% occupancy gain but a fourth successive year of declines in ADR, albeit the rate of decline has slowed considerably. Doha welcomed more leisure visitors and occupancy jumped by almost 11% but suffered a large ADR decline. Riyadh struggled against supply additions but managed to limit the impact to a small ADR decline and flat occupancy level.

# Spotlight on prospects for 2014 and 2015

Cities reinvigorated by economic recovery and future Mega Events. RevPAR growth across all our featured cities.



## ***A growth story***

The good news is that the improving economic and travel backdrop, partnered with future Mega Events, has fed into improvements in trading fundamentals in all cities analysed. It can be seen from the RevPAR growth outlook chart that the pace of growth clearly varies from city to city.

Whilst the return to growth is evident in each of the cities, challenges still remain and it is often unclear as to whether this trend will crystallise across all locations and whether this will be consistent for both 2014 and 2015. The instability in the rest of the Middle East region can provide both a positive and negative impact on these six cities.

However, despite challenges there are some significant opportunities – so which cities are best placed to take advantage of the improving economic backdrop?

### **Top RevPAR growth stories are Muscat, Dubai and Doha**

Muscat is expected to benefit from the development of major projects (Muscat Hills and The Wave) and the expansion of the airport and infrastructure, providing hotel development opportunities in neighbouring cities – both factors expected to drive up RevPAR by 6.6% in both 2014 and 2015.

In Dubai, despite a significant supply pipeline, we expect occupancy and ADR to grow by 1.7% and 4.7% respectively in 2014 and 2015, as the city continues to benefit from increasing numbers of international and domestic, business and tourist visitors.

A reversal of the trend of declining ADR's is expected in Doha, with an expected return to growth of 3.3% in 2014. Increasing supply of luxury hotels and the extensive infrastructure/construction projects in the build up to World Cup 2022 are providing a much needed boost to the hotel industry.

### **What's driving growth?**

It's a mix of ADR and occupancy and the cities fall into two camps. In the strongest RevPAR growth cities of Doha, Dubai and Muscat we are anticipating ADR being the strongest metric. Despite sizeable supply increases in these cities, strong demand should continue to drive growth across all metrics.

However for Jeddah, Riyadh and Abu Dhabi occupancy is the principal driver, with low growth forecast on ADR (or negative growth in the case of Riyadh).

### **Supply casts a shadow in some cities**

The ambitious growth plans of most of the cities provide significant levels of new supply. An element of caution is needed in off-peak times to ensure excess supply does not drag down performance. For those cities looking forward to future Mega Events, particularly Doha, the challenge will continue to be successful planning for the post-event legacy.

### **Growth in 2014 and 2015**

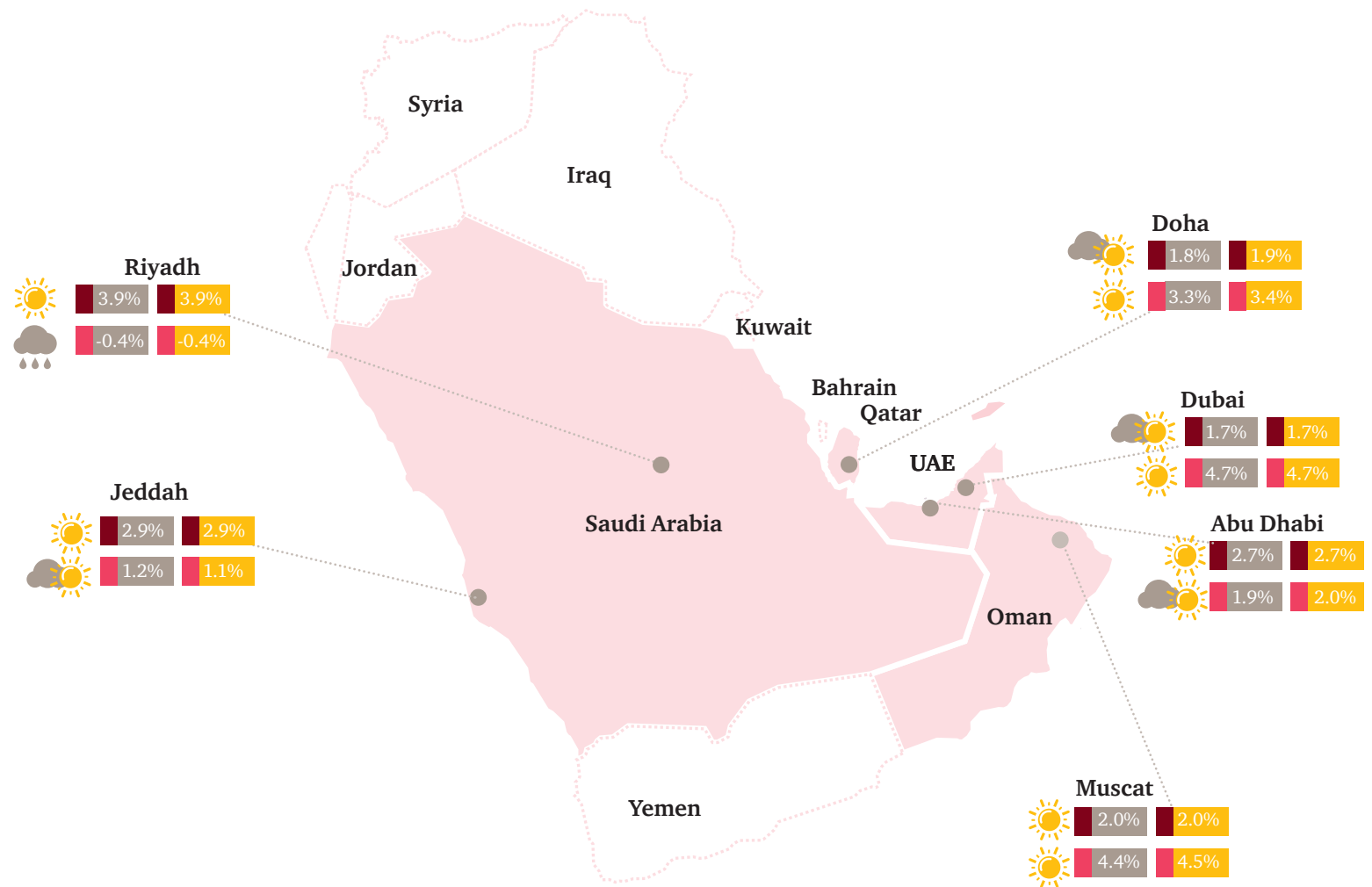
<b>RevPAR growth rates by year (local currency)</b>		
<b>City</b>	<b>2014</b>	<b>2015</b>
Abu Dhabi	4.7%	4.7%
Doha	5.2%	5.4%
Dubai	6.5%	6.5%
Jeddah	4.1%	4.0%
Muscat	6.6%	6.6%
Riyadh	3.5%	3.4%

Source: Econometric forecast PwC 2014  
Benchmarking data: STR Global

# Middle East cities

## Occupancy & ADR weather map 2014 & 2015

Key 2014 2015  
 Occupancy  ADR



# Which cities are the most expensive, the fullest and have the highest RevPAR?

It's not just about growth rates, the absolute levels are trading are also a key piece of the jigsaw. Each city has its own supply and demand characteristics and could be on a different stage on the hotel cycle - Dubai is a mature destination, with high ADR's and occupancies and quality beach properties demanding a premium over comparable city hotels, whereas Doha is emerging and has the challenge of maintaining momentum until Qatar 2022. All such factors and more need to be taken into consideration in any comparisons.

## The highest occupancies

In 2014 the highest occupancies are forecast to be in Dubai (81.1%) and Jeddah (77.9%). In 2015 we anticipate all cities seeing further growth with Dubai and Jeddah still leading the way, and Abu Dhabi also exceeding 70%.

## The highest ADR's

In 2014 the most expensive city is forecast to be Dubai, closely followed by Riyadh and Jeddah. This story continues in 2015 with Muscat also close to the forerunners.

## The highest RevPAR's

In both 2014 and 2015 Dubai is out on its own; high ADR's and occupancy rates translating into lofty RevPAR. Jeddah comes in comfortably in second place, the lower historic ADR's and a lower forecast driving the RevPAR differential from Dubai.

### Currency conversion rates

	AED: US\$ (3.673)
	SAR: US\$ (3.751)
	QAR: US\$ (3.641)
	OMR: US\$ (0.385)

City	Occupancy rates		ADR (local currency)		ADR (US\$)		RevPAR (local currency)		RevPAR (US\$)	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Abu Dhabi	69.2	71.1	557.0	567.9	151.9	154.6	385.6	403.8	105.0	110.0
Doha	67.0	68.2	699.7	723.9	192.2	198.8	468.5	493.9	128.7	135.6
Dubai	81.1	82.5	936.1	980.5	254.9	266.9	759.3	808.9	206.7	220.2
Jeddah	77.9	80.1	903.3	913.2	240.8	243.5	703.3	731.2	187.5	194.9
Muscat	67.7	69.0	87.2	91.2	226.5	236.9	59.0	63.0	153.2	163.6
Riyadh	57.8	60.1	938.6	934.6	250.2	249.2	542.7	561.4	144.7	149.7

Source: Econometric forecast PwC 2014  
Benchmarking data: STR Global

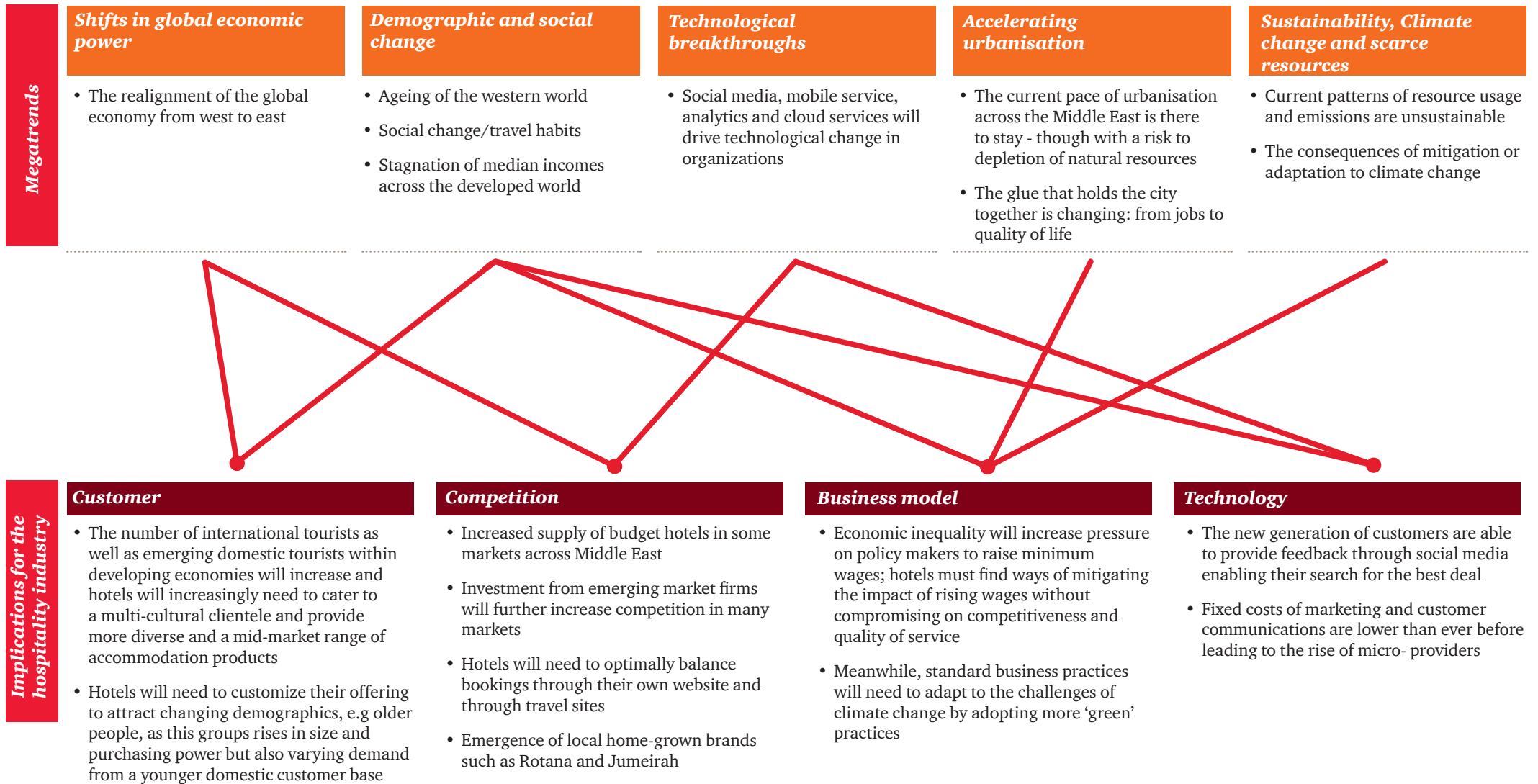
\*Monetary values have been converted to US\$ from local currency units based on projections for future exchange rates derived from the International Monetary Fund's World Economic Outlook database, April 2014.

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# *Beyond the data: trends transforming hotel businesses*

We are helping our clients to think about how structural changes ('megatrends') will affect their business models. Here we briefly describe the five megatrends, followed by some potential implications for the hotels sector.

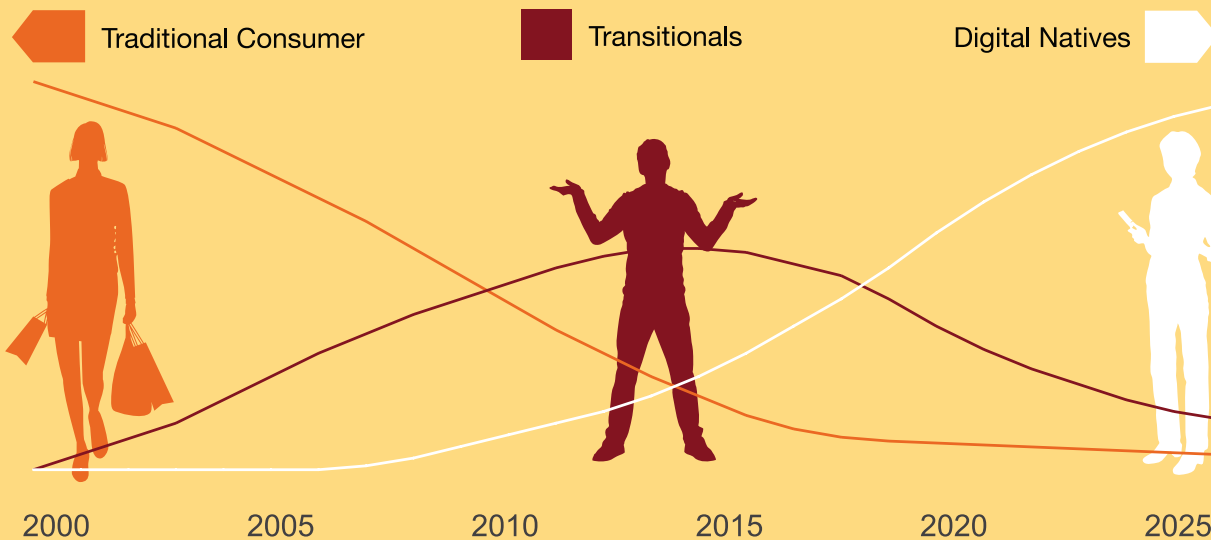
# The global economic landscape is changing quickly, and hotels have to constantly adapt to these changes to remain successful in the market



# Megatrends: technological change – where is digital taking hotels?

Digital and mobile platforms are changing everything...

**By 2017 a new breed of customer will dominate – we call them Digital Natives**



In 2013, 1.1 billion international business and leisure travelers were recorded and changes in global demographics and rapid technological change mean these consumers have different expectations, greater freedom of choice and a high degree of familiarity with digital technology. By 2017, more than 3 billion people will have mobile internet access.<sup>1</sup>

At the same time, mobile and tablet hotel bookings are already beginning to overtake 'traditional' web-based booking. The travel consumer is leading the way in driving technological change.

## **A new generation of customers**

Travel consumers want mobility, flexibility and easy real-time access to information and to shop and pay safely and easily on the go. They expect seamless connectivity allowing them to access the content they want when they want it across all platforms, and also increasingly expecting seamless transitions between different platforms.

<sup>1</sup> PwC Global Entertainment & Media Outlook: 2017-2013, [www.pwc.co.uk/outlook](http://www.pwc.co.uk/outlook)

<sup>2</sup> IHG, The new kinship economy: from travel experiences to travel relationships

<sup>3</sup> [www.tnooz.com/article/the-most-popular-mobile-travel-apps-so-far-in2013/](http://www.tnooz.com/article/the-most-popular-mobile-travel-apps-so-far-in2013/)

These new customers will judge the best deal based on feedback through social media. The importance of feedback through social media is not to be underestimated. Abu Dhabi plans to integrate social media rankings into its official hotel classification in 2014 – the first tourism authority to do so.

An InterContinental Hotel Group (IHG) survey showed that 43% of adults would choose not to stay in a hotel that charged for the internet, with travelers from China placing the most importance on connectivity, with nearly 47% listing it as the most important thing to them when staying in a hotel for business.<sup>2</sup> After IHG offered free wi-fi for its loyalty programme members, Accor and others made this freely available to all customers. Connectivity has become an essential part of the hotel offering, on a par with electricity and water.

**...creating a lot of challenges for hotels – but also opportunities**

While these trends present some opportunities for hotel companies, they also present a complex dilemma because as hotels try to differentiate themselves – from each other and from online intermediaries – the issue is how can they evaluate the optimal channel distribution mix as well as win and keep customers – and do it profitably?

It means conventional hotel business models are being challenged by the emergence of well-established as well as new online entrants mediating between hotelier and guest, and disrupting the traditional patterns of planning and reservations. These players are diluting hotels' brand visibility, threatening their margins, and weakening customer loyalty by eroding the direct relationship between the hotel operator and even its most regular loyal customers.

Cellular phones are playing their part here too. PhocusWright has estimated that online travel agencies made up about 64% of gross mobile hotel bookings in 2012, compared with 36% for hotels' own mobile sites.

If free wi-fi is not a component of a broader digital strategy, then it may become part of the threat of commoditisation, a commoditisation in which the hotel becomes just 'a room and a router'.



**Hotels are fighting back against commoditisation**

Hoteliers' toolkit for fighting commoditisation should include:

- Developing a business strategy for the digital age (as opposed to a digital strategy)
- Recognising the rise of the 'Digital Native' segment
- Using social media effectively
- Using digital to take loyalty and personalisation further
- Understanding 'big data' by thinking small

# Issues facing hotels

The cost of doing business, regulations and taxes, competitive accommodation products, keeping customers – all these and more concern the sector



## ***Cost of doing business is set to increase***

Although economic prospects are improving and inflation rates are relatively subdued across many countries, hotels will have to be watchful of changes in the cost of doing business. Hotels increasingly have to pay to secure bookings from intermediaries like comparison websites, loyalty programmes used by larger hotels must be funded, and after years of pay freezes or restraint employees are pushing for higher salaries.

On the other hand fixed costs of marketing and customer communications are lower than ever before, leading to the rise of micro-providers, e.g. Airbnb. Technological innovations, such as automated check in and check out may be as much about trying to reduce labour costs as about meeting customer preferences, but are likely to become more common.

### ***Regulation and taxes on the rise?***

In illustration of this we see hotels in many areas of the world as victims of their own success and a source of additional revenue for Governments. In Dubai, for example, the Government have imposed a hotel "tourism tax" on occupancy per room per night (in addition to the 10% municipality tax and 10% service charge), which is part of the Government's effort to fund the ambitious tourism growth.

But, in contrast Dubai has recently also announced plans to allocate new land, ease planning laws and waive the tax on three and four star hotels to encourage developers to build a broad range of three and four star hotels for Expo 2020.

### ***More branding but a more personal touch needed***

Branding is likely to continue as the large chains seek to gain market share and offer consumers a range of products. However, not everyone thinks it's a good thing and there are calls for a more personal and less standardised approach to guests.

Chain brands with over 3,000 rooms in the active pipeline in the region include Hilton, Radisson, Millennium and Starwood. Marriott, Rotana, IHG and Kempinski are not far behind.



# Economic, travel and supply outlook

## **Economic Outlook : GDP growth and Mega Events providing positive outlook; however cities need to manage supply pipeline**

In 2013, GDP growth in Oman, Qatar, Saudi Arabia and the United Arab Emirates outperformed the other oil-exporters in the region.<sup>1</sup>

However, economic growth amongst oil-exporters in the region has been hit by declining oil production in 2013. Demand has fallen due to increased supply from alternative sources such as shale oil and gas in the USA. Governments in the region have responded to this decline by increasing their investment (especially in infrastructure). Greater private sector lending and spending has also helped to offset the decline.

With the global economy recovering, GDP growth in the region is expected to improve from 2.3% in 2013 to 3.4% in 2014 and 3.9% in 2015.<sup>2</sup> Further, preparations for global events such as the World Expo in 2020 in Dubai and the Football World Cup in 2022 in Qatar are expected to drive investment and add to growth.

However, the uncertainty around oil prices and the growing political uncertainty in the region pose substantial downside risks to this outlook.

## **The key growth statistics<sup>3</sup> for the countries in our study are below:**

- Average GDP growth in **Qatar** in the 2010-2013 period was close to 10.5%. It slowed markedly to 6.1% in 2013, and is expected to be 5.9% in 2014 before improving to 7.1% in 2015.
- Similarly, in **Saudi Arabia**, GDP growth in the 2010-2013 period was close to 6.4%. It slowed to 3.8% in 2013, and is expected to improve to 4.1% in 2014 and 4.2% in 2015.
- In the **UAE**, growth improved from an average of 3.7% in the 2010-2013 period with 4.8% in 2013, and is expected to decrease to 4.4% in 2014 and 4.2% in 2015.
- In **Oman**, GDP growth in 2013 was 5.1%, in line with the recent average of 5.0% between 2010 and 2013. Growth is expected to slow down to 3.4% per year in 2014 and in 2015.

## **The global picture**

The wider global market is expected to play a key role in determining demand for hotels in the region and continued strong economic performance should support the sector. We project global GDP growth to improve from 2.5% in 2013 to 3.1% in 2014 and 3.2% in 2015.<sup>4</sup>

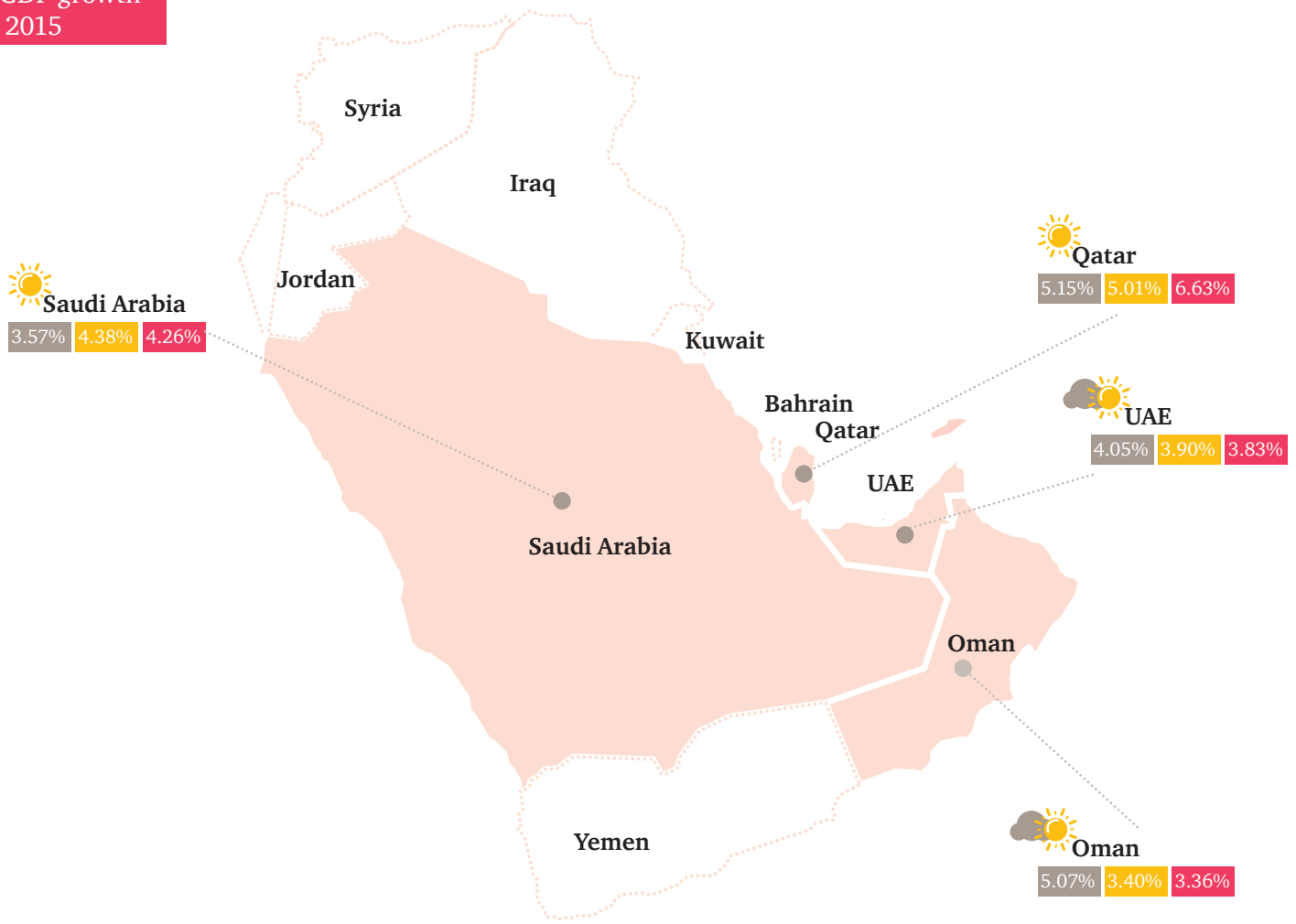
<sup>1</sup> The oil exporting economies in the Middle East and North African (MENA) region are Algeria, Bahrain, Iran, Iraq, Libya, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. In 2013, the combined GDP growth rate in these economies was 2.0%.

<sup>2</sup> Source: IMF World Economic Outlook (WEO), April 2014

<sup>3</sup> Source: IMF World Economic Outlook (WEO), April 2014

<sup>4</sup> Source: PwC Economic Projections, April 2014

# Middle East economic weather map in 2013, 2014 and 2015



# Mixed and volatile 2013 but robust future travel potential

## **Visitor volumes and overnights set for rapid growth**

International travel recovered rapidly from the 2009 financial crisis. In 2013 international tourist arrivals globally grew by 5% to reach a record 1,087 million. The Middle East, accounts for about 5% of global arrivals and received a total of 52 million arrivals in 2013, just 0.3% up on 2012 but a significant improvement on the previous year, when the region saw a 5% fall.

While several countries including Egypt, Syria, Iraq and Libya continue to struggle with security concerns, others powered on in their tourism ambitions to penetrate new and returning markets in 2013. The regions' largest destination, Dubai, saw robust growth of 10% in international arrivals in 2013 according to UNWTO, and Oman saw 6% growth. Dubai received 11million staying visitors in 2013 (compared to 5 million 10 years previously) and has ambitious plans for 20 million by 2020 when Dubai hosts the Expo. The UAE's success is partly attributed to a wide variety of events, such as the Formula One Championship held in Abu Dhabi in November 2013 and successful MICE business including GITEX, CityScape and others. The region's third largest destination, Saudi Arabia, reported a 7% decline in 2013.

Growth in international tourist arrivals to the Middle East averaged 4.6% between 2005 and 2013, and travel is forecast to increase by between 0% and 5% in 2014, according to UNWTO, as some countries suffer, some recover slowly but others power on. Oxford Economics and Amadeus forecast rapid growth in demand for accommodation in the Middle East and Africa (MEA) over the next 10 years. Although MEA domestic markets have displayed weaker growth than some other global regions they can be expected to become more important in the next 10 years, according to Oxford Economics/Amadeus.

## **Meetings market triples in 10 years**

An ICCA survey shows that the number of associations, meetings and conferences held in the Middle East have tripled in the last 10 years and is expected to grow further. Leisure visitors are attracted by an extensive events programme as well as sun, sea and shopping; sporting events; medical and religious tourism.

## **Location means airports are winning the battle for long-haul transfer passengers**

The region's strategic global location means that Middle Eastern hub airports such as Dubai, Abu Dhabi and Doha are leading the fight to attract transfer long-haul passengers according to data from Amadeus. A whopping 19.2 million O&D (Origin and Destination) passengers were recorded flying through these three Middle East hubs in 2013, a 79% increase since 2009.

## **Hospitality to help sustain prosperity for the future**

Hospitality is increasingly seen as an area that can help attract investment and drive sustainable economic diversification, deliver social benefits and help in employment creation in the region. For example, Saudi Arabia has said 1.7million jobs could be created in the tourism sector over the next 6 years. To this end, the region has seen considerable investment in extensive infrastructure, transport and tourism project. E.g. Doha's Hamad International Airport 2014, Abu Dhabi's new Cruise Terminal in 2015, Muscat Cruise Terminal, Expansion of Muscat International Airport, Al Maktoum International Airport in Dubai and King Abdulaziz Economic City in Saudi.

# Construction pipeline down from peak

## But high levels of new supply remain in some cities

### **Still, almost 78, 000 new rooms are under construction across the region**

According to recent data from Lodging Econometrics there are 276 hotels and 77,972 rooms in the Middle East construction pipeline (at the end of 2013). These totals are down 14% and 16% respectively compared to 2012 as the pipeline recovers from the impact of the financial crisis and the real estate bubble.

Many markets are still contending with absorbing the impact of past openings as well as the resuscitation of previously stalled projects. So, although demand is strengthening and supply growth slowing, there remain more rooms available than rooms sold according to data from STR Global.

For some destinations, such as Riyadh and Jeddah, the number of rooms under construction remains high and comprise a very high proportion of existing supply.

### **Who has the most rooms under construction?**

Saudi Arabia reports the most rooms under construction with 17,135 rooms, according to STR Global. Four other countries ended February with more than 2,500 rooms under construction: United Arab Emirates (16,627 rooms); Qatar (5,633 rooms); Jordan (3,231 rooms); and Egypt (2,966 rooms).

In terms of cities, Dubai is building the most rooms followed by Makkah, Riyadh, Doha, Abu Dhabi and Jeddah.

### **Large events drive development**

Qatar intends to spend US\$ 20 billion on tourism infrastructure ahead of the World Cup. Around 45,000 further hotel rooms are reported to be required, to meet FIFA capacity requirements, with 21 hotels planned for construction by 2017.

In Dubai upward of 10,000 rooms are reported needing refurbishments prior to the Expo in 2020. The Department of Tourism and Commerce Marketing estimate a need for between 140,000 to 160,000 new rooms by 2020.

Matching demand to supply to accommodate visitors at peak times and for large events runs the risk of overcapacity during non – peak times.

### **Diversifying room supply**

While the luxury and upscale hotel segment will continue to dominate the hotel landscape, times are changing; the sector needs to provide a range of accommodation products for growing domestic markets, whilst destinations need to widen the appeal to international visitors, to create more variety and a more diversified tourist experience.

In illustration, Dubai has announced plans to accelerate the development of more affordable three and four star hotel development as it plans to widen its appeal to new tourists and families. The UK's budget Premier Inn chain has recently announced it will open 14 hotels across Gulf Cooperation Countries (including Sharjah, Riyadh, Manama, Muscat, Doha, Jeddah and Dubai) over the next three years.

### **Room for more international brands**

Chain brands with over 3,000 rooms in the active pipeline include Hilton, Radisson, Millennium and Starwood. Marriott, Rotana, IHG and Kempinski are not far behind.

# The impact of Mega Events

Cities around the world compete to host mega events, aspiring to create lasting legacies that enhance their competitiveness. The Middle East is looking forward to a golden decade, as it finds itself hosting two of the world's largest events – so-called mega events – within two years of one another; Expo2020 in Dubai, UAE, and the FIFA World Cup in 2022 in Doha, Qatar.

In a hospitality context, meeting the immediate needs of a mega event is no simple task. Dubai and Doha both face challenges to take their tourism sectors to the next level: Dubai has become one of the world's fastest growing destinations: even without Expo, Dubai had set itself a target of hosting 20m visitors per year by 2020 – that's almost double the number they have coming through now. Doha, at an earlier stage of development as a tourism destination has started to invest heavily in the sector and is reportedly building an additional 21 new hotels by 2017 to reach the required 60,000 capacity required by FIFA.

However, whilst we all agree that these events have great potential to deliver a significant boost to both economies in the short term, these events are not just about their short term duration. They can have a much longer term and far-reaching impact, if planned appropriately.

The historical role of a mega event in urban-transformation – accompanied by an enduring boost in property values – is well documented, back to Rome in 1960, which developed a new water supply system, new hotels, improved transportation, and urban landscaping for the Olympics. In the early nineties, Barcelona transformed its economy after hosting the Summer Olympics and Paralympics. By leveraging its US\$ 8 billion infrastructure investment, the city was able to drive its tourism sector with an impressive performance: the number of tourists in the city increased by 95% between 1990 and 2001, making it the fourth most visited city in Europe. Barcelona catalyzed the tourism industry positively in all of Spain, more than doubling tourism share of the GDP from 4% to 10% with over 60 million tourists annually.

This kind of legacy is not an automatic benefit of a mega event; investment in legacy – both before and after the event – is essential to secure it. And it's not possible to create this without the right hotel infrastructure.

When planning what longer term impact a mega event can have, it's important to be clear about how the infrastructure and programmes are going to impact the city population, and in the case of hospitality, how will cities continue to attract tourists beyond the event itself?

Many growth market mega-event hosts have been known to leverage the mega event to draw attention on the world stage—sometimes described as a “coming-out” party. They view mega-events as an opportunity to showcase their economic development successes to the world as well as to attract future economic growth.

As China did with the Summer Olympics and Paralympics in 2008, South Africa with football's 2010 FIFA World Cup™, India with the 2010 Commonwealth Games, Russia with the Sochi 2014 Olympic and Paralympic Winter Games, and Brazil with football's 2014 FIFA World Cup™ followed by the Summer Olympics in 2016. However, a poorly delivered event can also result in negatively impacting the city/ national image as it was the case in New Delhi's Commonwealth Games that suffered from delays, allegations of corruption and damaged the city's brand amongst its visitors.

The unrelenting deadlines in place for mega-events allow growth markets to accelerate their long-term development by a decade or more, bringing with that acceleration the accompanying economic growth.

So, how can mega events have a longer term and far-reaching impact? One solution is to create longer term business or tourism attractions that continue to bring in visitors. Dubai for instance has already become a major destination hosting business conferences, that were once hosted in the Egyptian capital, Cairo - unrest there has seen business activity flow into the likes of Dubai, seen as a relative safe haven. (In Sochi, for example, plans are underway to create a Russian 'Disney' type park that celebrates Russian cultural heritage, and attract back many home tourists that now visit the likes of Dubai).

Qatar will spend more than \$200 billion on infrastructure projects between 2013 and 2018, and has already begun repositioning itself as a sports and entertainment hub in the Middle East by hosting the 2006 Asian Games as well as both the Pan Arab Games and the Asian Football Confederation's Asian Cup in 2011.

Successful cities have also managed to create a busy calendar of events that leverage the additional capacity built for mega events throughout the year. Both Dubai and Doha have invested heavily in promoting their cities as MICE destinations, for not-so-mega sporting events such as the Formula One, Rugby Sevens, Golf and Tennis Championships and also for other non-sporting events such as shopping and cultural festivals. To carefully manage the growth of capacity beyond what's can be sustainably occupied, we've seen host cities come up with some nimble solutions to similar issues – it's not an uncommon sight to see cruise ships moored outside of host destinations, creating some additional 40,000 capacity.

Mega events, if managed properly will provide a much needed catalyst to drive infrastructure in emerging economies. They have the potential to create a positive image and increase a city's brand recognition and its share in global tourism. However, success requires careful planning, well managed execution. A collaborative approach to engage the relative stakeholders across government entities together with the private sector, citizen engagement and leadership are all key success factor to creating a lasting legacy from a mega event.





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*Which cities are best placed to grow?*

# Abu Dhabi

## Role

Abu Dhabi is the capital of United Arab Emirates, with a population of about 921,000 in 2013. Abu Dhabi has grown to be a cosmopolitan metropolis. Its rapid development and urbanisation, coupled with the relatively high average income of its population, has transformed Abu Dhabi to a larger and advanced metropolis. Today the city is the country's center of political and industrial activities, and a major cultural and commercial center, due to its position as the capital. It is one of the world's largest producers of oil and has actively attempted to diversify its economy in recent years through investments in financial services, real estate and tourism. Demand from foreign travelers has increased strongly in recent years.

## 2013 Trading

The hotel industry had its best year yet in terms of guest arrivals, guest nights, length-of-stay and revenues, according to figures released by Abu Dhabi Tourism and Culture Authority (TCA Abu Dhabi). In 2013, 2.8 guests checked into the emirate's 150 hotels and hotel apartments, a rise of 18 percent on 2012 and beating TCA Abu Dhabi's annual target of 2.5 million. The 2013 guest intake has increased by 26%, with total RevPAR and occupancy rate increasing by 11.6% and 12.5% respectively. However, the average room rate saw a slight decline of 1% in the year.

## Latest supply trends

The year 2013 saw 13 more hotels and hotel apartments open resulting in 10% increase in supply, as reported by the Chairman of TCA Abu Dhabi. Abu Dhabi is investing billions of dollars in infrastructure, real estate and tourism to diversify its oil based economy. A total of approximately 4,693 rooms are scheduled for completion between 2014-2015. Several hotel developments that are coming up in 2014 include, but are not limited to Courtyard by Marriott Abu Dhabi Central Market, Abu Dhabi Marriott Hotel, Millennium Bab Al Qasr Hotel and Marriott Executive Apartments. Many strategic projects are under way or in the pipeline including the expansion of Abu Dhabi International Airport, the Abu Dhabi Louvre museum and construction of a nuclear power station, where the first reactor is expected to start operations in 2017 and others are planned to follow in 2020.

## Opportunities

With an improving economy and overseas tourism forecast to keep growing in 2014, the year should see strong hotel trading trends with a positive impact on hotel values. Abu Dhabi plans to integrate social media ratings into its official hotel classification in the year 2014, making it the first tourism authority to do so. Seamless integration of social media profiles into a hotel's website helps spread awareness about their comprehensive online presence and will also draw more traffic to the hotel and website.

Besides, tourism is likely to be boosted by the launch of more routes by Etihad Airways. With more air access uplift promised in 2014, with Etihad Airways planning daily flights from Rome, Zurich, Perth, Medina, Los Angeles and Jaipur, four weekly flights from Yerevan in Armenia and a thrice-weekly flight from Dallas Fort Worth, new business opportunities and tourism will increase, as reported by the deputy director general of TCA Abu Dhabi.

Following a strong 2013, we anticipate continued growth in RevPAR of 4.7% in both 2014 and 2015. Despite increased supply, occupancy levels are forecast to increase driven by high tourist demand.



### Annual hotel statistics and forecast 2014 and 2015

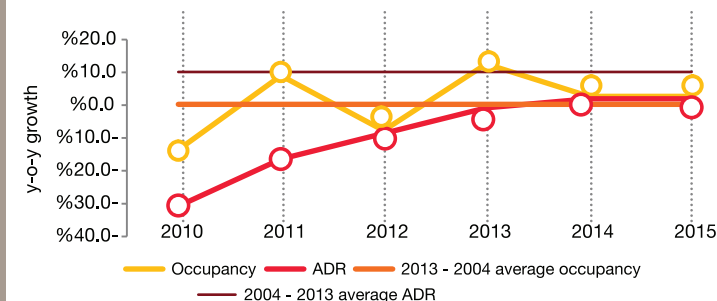
	Occupancy	ADR (AED)	RevPAR (AED)
2008	80.2	1045.9	838.9
2009	69.0	1042.3	718.7
2010	59.6	721.6	429.8
2011	64.9	603.0	391.5
2012	59.9	551.0	330.2
2013	67.4	546.4	368.4
<b>2014 F</b>	<b>69.2</b>	<b>557.0</b>	<b>385.6</b>
<b>2015 F</b>	<b>71.1</b>	<b>567.9</b>	<b>403.8</b>



### Average annual growth rates

	Occupancy	ADR	RevPAR
2008	7.1%	33.2%	42.6%
2009	-14.0%	-0.3%	-14.3%
2010	-13.6%	-30.8%	-40.2%
2011	9.0%	-16.4%	-8.9%
2012	-7.7%	-8.6%	-15.7%
2013	12.5%	-0.8%	11.6%
<b>2014 F</b>	<b>2.7%</b>	<b>1.9%</b>	<b>4.7%</b>
<b>2015 F</b>	<b>2.7%</b>	<b>2.0%</b>	<b>4.7%</b>

Forecast ADR and occupancy growth vs long run average





# Dubai

## Role

Dubai is one of the few cities in the world that has undergone a rapid transformation - from a pearl-diving centre - to one of the fastest growing cities on earth. Today it is a tourism, trade and logistics hub and one of the most cosmopolitan cities in the world. The hospitality industry is one of the main engines of the growth in Dubai. Increased number of hotel rooms, tourist arrivals and enhanced flight connections to new and growing markets are the key components for this growth. There was a marked improvement in the overall business optimism and economic activity in Dubai during the year, which was led by the tourism sector. With a number of new projects announced, such as the Mohammed Bin Rashid City, and previously delayed schemes coming back, Dubai is forecasted to achieve impressive economic growth in 2014 and beyond. Dubai has been named as one of the top 25 places to go worldwide in the 'Traveler Choice Awards 2014' by Trip Advisor, the world's largest travel site and is the most popular tourist destination in the region.

## 2013 Trading

In 2013, Department of Tourism and Commerce Marketing (DTCM) reported an increase in guest arrival reaching 11million compared to 10million recorded in 2012. RevPAR increased by 9.5% in 2013, driven by a 6.5% rise in ADR. Total guest nights also increased by 11 percent, while occupancy rates for hotel rooms and hotel apartments increased from 78% to 80%. Hotels in Dubai reported the highest profit levels in the region in 2013 for the fourth consecutive year, according to the latest HotStats survey.

## Latest supply trends

Around 2,780 new four and five star hotel rooms were added to Dubai's supply in 2013. Ritz-Carlton extension on Jumeirah Beach, the Oberoi Dubai, Sofitel Palm Resort and Spa, Anantara on Palm Jumeriah, Conrad Hotel, Movenpick Hotel in Jumeirah Lake Towers and

Novotel in Al Barsha were some of the latest additions to the Emirate's hospitality market. DTCM reported that the number of hotel rooms and apartments at the end of 2013 were 84,534 at 611 establishments, compared to 80,414 rooms at 599 establishments in 2012, an increase of over 5%. Several hotel developments have been announced during the period including one in Jumeirah Beach Residence, two hotels by Majid Al Futtaim Group, the Dream Hotel in Marina and TRYP by Wyndham in TECOM. More recently, Dubai Properties Group too unveiled plans to build a new waterfront hotel in the Jumeirah Beach Residence community. Major openings scheduled for 2014 include the Four Seasons, Sofitel Sheik Zayed Road, Intercontinental Marina, the second tower of JW Marriott Marquis and Marriott Al Jadaf. The Dubai Government decided to impose a hotel tax, which will come into effect from the end of March 2014. The new fee will be in addition to the 10% municipality tax and the 10% service charge. The charge will vary between Dhs 7 and Dhs 20 per room, per night, depending on the hotel category and rating. The hospitality tax is expected to help contribute payment for Expo 2020 projects and the promotion of tourism in Dubai, which hopes to attract 20 million visitors by 2020. In the current development pipeline for 2014-2015, there will be an additional 6,724 rooms added to the market to accommodate the growing demand in the city.

## Opportunities

Dubai will continue to boost its tourism and hospitality sectors. In the coming years, the tourism sector expects huge growth. The successful Expo 2020 bid is expected to give an additional boost to the sector and lead to further hotel developments in 2014 and beyond. According to Alpen Capital's October 2012 GCC Hospitality Industry Report, the UAE's hospitality market is likely to increase to US\$7.5 billion by 2016, up from US\$4.5 billion in 2011 as visitor demand gains traction and new hotel supply enhances the existing tourism product.

*We expect another two strong years with occupancies surpassing 80% and edging closer towards pre-recession levels. ADR increases of 4.7% are expected in both 2014 and 2015 as beachfront properties continue to demand premium pricing.*



### Annual hotel statistics and forecast 2014 and 2015

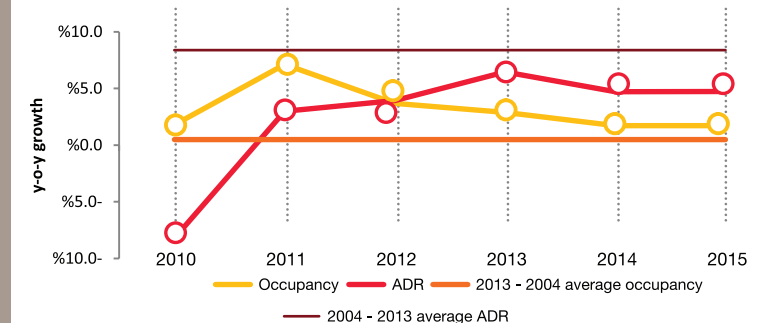
	Occupancy	ADR (AED)	RevPAR (AED)
2008	76.6	1132.7	867.8
2009	68.6	854.6	586.1
2010	69.8	784.3	547.4
2011	74.8	807.8	604.0
2012	77.5	839.6	650.9
2013	79.8	893.9	713.0
2014 F	81.1	936.1	759.3
2015 F	82.5	980.5	808.9



### Average annual growth rates

	Occupancy	ADR	RevPAR
2008	-6.7%	7.7%	0.5%
2009	-10.5%	-24.6%	-32.5%
2010	1.8%	-8.2%	-6.6%
2011	7.1%	3.0%	10.3%
2012	3.7%	3.9%	7.8%
2013	2.9%	6.5%	9.5%
2014 F	1.7%	4.7%	6.5%
2015 F	1.7%	4.7%	6.5%

Forecast ADR and occupancy growth vs long run average





# Doha

## Role

Doha is the economic centre and capital city of the State of Qatar. It is the largest city in Qatar, with over 60% of the nation's population residing in Doha or the surrounding suburbs. Having hosted the 2006 Asian Games, the city is home to many sports complexes as well. With the country investing heavily in every sector of the economy, including sports, Qatar is seen as an investment hub that is attracting companies from all around the world to come and be part of the overall growth of the sports and tourism industry.

## 2013 Trading

Hotels have recorded 1.3 million visitors in 2013, which is an increase of 8.3% from 2012. Ongoing rate reductions resulting from high levels of competition has led to a decline in the ADR during 2012-2013 by almost 20%, which in turn has driven down the RevPAR by 11%. However, considering the extent of supply that came into Doha during 2013, occupancy levels recovered very strongly in 2013 with rates of 65.8%, the highest since 2009, reflecting the increasing number of leisure visitors that the city is attracting.

## Latest supply trends

The new hotels to be completed by 2014 include Four Seasons at The Pearl, Hilton Garden Inn Doha Al Sadd, Pullman West Bay, Kempinski Marsa Malaz and Hotel Missonu Doha adding over 3,000 additional keys. These hotels will be adding an additional approximately 3,200 rooms to the city. Driven by the goal of honouring commitments related to the FIFA World Cup 2022, Doha is witnessing a massive transformation with major developments in planning or under construction. The real estate and infrastructure projects to be completed in the coming years include the Lusail Development, Barwa Commercial Avenue, Doha Festival City, Doha Metro and others which are expected to increase tourism in the city. 4,759 rooms are scheduled for completion during the years 2014 and 2015, along with the addition of 188 apartments, 392 residences and 25 suites.

## Opportunities

Doha will be hosting a large number of venues for the 2022 FIFA World Cup, which will have a positive impact on tourism and hotel values. They will also benefit from extensive infrastructural initiatives associated with the FIFA World Cup preparation. Demand for hotel accommodation is anticipated to increase as more visitors are expected to visit Doha in the run-up to the FIFA World Cup 2022, Qatar has planned for the development of several hotels in Doha in the next five years. The State plans expanding the number the number of hotel rooms to 95,000 by 2022 from the current 15,000. In addition, the new Doha International Airport due to open in 2014 and the expansion of Qatar Airways are likely to positively impact tourism of Doha.

*Doha saw a turnaround in occupancies in 2013, however high competition drove down ADR's. We anticipate this trend to change in the next two years with positive growth expected in both occupancy and ADR, driving RevPAR growth of 5.2% in 2014 and 5.4% in 2015.*



Annual hotel statistics and forecast 2014 and 2015

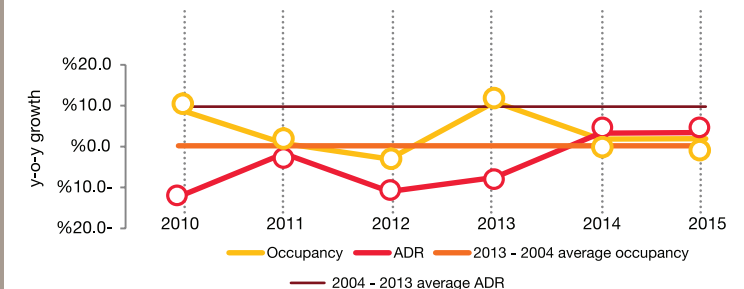
	Occupancy	ADR (QAR)	RevPAR (QAR)
2008	70.0	994.3	695.8
2009	55.6	954.3	530.5
2010	60.7	837.4	508.1
2011	61.2	823.3	503.5
2012	59.3	732.9	434.5
2013	65.8	677.5	445.5
2014 F	67.0	699.7	468.5
2015 F	68.2	723.9	493.9



Average annual growth rates

	Occupancy	ADR	RevPAR
2008	3.8%	21.0%	25.6%
2009	-20.6%	-4.0%	-23.8%
2010	9.1%	-12.2%	-4.2%
2011	0.8%	-1.7%	-0.9%
2012	-3.1%	-11.0%	-13.7%
2013	10.9%	-7.6%	2.5%
2014 F	1.8%	3.3%	5.2%
2015 F	1.9%	3.4%	5.4%

Forecast ADR and occupancy growth vs long run average





# Jeddah

## Role

Jeddah, the second largest city in Saudi Arabia has emerged as one of the key business destinations in the region, and arguably the most important leisure destination in Saudi Arabia. 2012 saw the emergence of the Jeddah hotel market into a formidable player in the region, achieving strong growth in performance levels across all key indicators. Jeddah is advantaged by the availability of a range of hotel demand generators, attracting a steady flow of corporate and leisure tourists throughout the year.

## 2013 Trading

Whilst 2013 saw a fall in occupancy of 4%, strong ADR growth drove RevPAR up 6.5%. The growth in average rates were attributed to increased demand from corporate and segments which comprised 54.5% of the market mix in December. RevPAR was propelled by a double digit rise in food and beverage revenues that exceeded expectations. 2013 demand was also buoyed by events such as the Jeddah International Trade Fair which attracted 16,000 visitors. The final quarter of 2013 saw a further surge in profitability as the Kingdom experienced a rise in domestic travel, primarily due to security concerns in key travel destinations for Saudi's such as Egypt, Lebanon and Syria.

## Latest supply trends

Hotel supply has been stable during 2013. However, there are a number of upcoming projects that could deliver approximately an additional 3,781 rooms in 2014 and 2015. These include the Rocco Forte, Novotel Jeddah, Elaf Gallerina on Tahliyah Road, the Dusit Thani overlooking the Obhur Creek, the Park Inn by Radisson and the Ibis Jeddah on Malik Road. These additions will increase the total hotel room supply in Jeddah to around 13,000 quality hotel rooms, an increase of 15% on the current stock of rooms.

## Opportunities

The city is now undergoing massive expansion including the US\$7 billion expansion of the King Abdulaziz International Airport and the King Abdullah Economic City. Jeddah is likely to be a front-runner in terms of hotel performance and a target for hotel investors in the near future.

*Following a mixed 2013, the next two years are anticipated to be steady in terms of both occupancy and ADR growth. Airport expansion and increasing tourist numbers are predicted to offset increased levels of supply in the market.*



### Annual hotel statistics and forecast 2014 and 2015

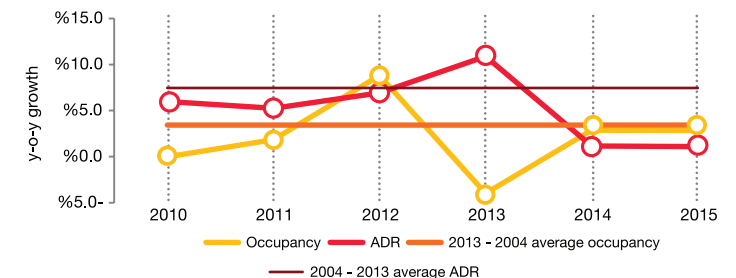
	Occupancy	ADR (SAR)	RevPAR (SAR)
2008	71.4	603.6	431.0
2009	71.1	675.1	480.3
2010	71.1	715.6	509.0
2011	72.4	753.2	545.6
2012	78.8	805.3	634.8
2013	75.7	892.9	675.8
2014 F	77.9	903.3	703.3
2015 F	80.1	913.2	731.3



### Average annual growth rates

	Occupancy	ADR	RevPAR
2008	4.5%	22.4%	27.9%
2009	-0.4%	11.8%	11.4%
2010	0.0%	6.0%	6.0%
2011	1.8%	5.3%	7.2%
2012	8.8%	6.9%	16.4%
2013	-4.0%	10.9%	6.5%
2014 F	2.9%	1.2%	4.1%
2015 F	2.9%	1.1%	4.0%

Forecast ADR and occupancy growth vs long run average





# Muscat

## Role

Muscat, the capital of Oman, has arrived as a significant destination for tourism. Beyond its beaches, frankincense trees, and wadis, the city boasts a more congenial atmosphere than many Arab states. For a true holiday traveler, there is a lot to explore in Muscat and this is the reason for the growth in Muscat's tourism 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." Muscat is the strongest performing hotel market in Oman, with occupancy rates exceeding 60% followed by Musandam and Dhofar.

## 2013 Trading

As reported by the Ministry of Tourism, Oman welcomed 2.1 million tourists in 2013 driving growth of 10% as compared to 2012. Recent statistics from the National Centre for Statistics and Information (NCSI) also show that there was an 11% increase in revenues of four and five star hotels across the Sultanate in 2013, compared to 2012 figures. Five-star hotels achieved an increase of 60.6% in room occupancy in 2013, up from 55.3% in 2012. Four-star hotels achieved a room occupancy rate of 56.7%, compared with 54% in the previous year.

## Latest supply trends

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. Oman Air recently announced the leasing of an additional two Boeing B738 aircraft to boost the frequency and capacity of services to India, aiming at twice daily services to all major cities; meanwhile and IndiGo Airlines has launched a 4 time week schedule from Mumbai to Oman's capital.

The outlook for new resorts and hotels in Oman looks promising with over 3,000 hotel rooms due for completion by the end of 2014, with prospects to 2017 looking extremely bright.

The new supply is including, but is not limited to: W Muscat, Element Muscat, Ritz-Carlton Reserve Muscat, Rotana Muscat, Copthorne Hotel Muscat and Swiss Belinn Ghubrah Muscat, Somerset Panorama Muscat, and the recently announced Grand Millenium, the first Sharia-compliant five-star hotel in Oman. A total of approximately 600 rooms are scheduled for completion in 2014 and 2015 to accommodate the growing demand. 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.

## Opportunities

Muscat's tourism sector has much to look forward to in the upcoming years, particularly with the development of major projects such as the Jebel Sifah, Muscat Hills, The Wave and Oman Convention and Exhibition Centre. The expansion of Muscat International Airport will also result in more hotel development opportunities in neighboring cities. The development projects now in planning or construction stage will put Muscat's tourism industry on a new footing. The ministry sees the upcoming building projects such as airports, Oman Air's international expansion, fast ferries and improved communications as the platforms for tourism growth, with local and international investors responding favourably.

*Economic development and tourist numbers will deliver strong RevPAR growth in both 2014 and 2015. However, occupancy growth is anticipated to slow in both years due to increased level of supply.*



### Annual hotel statistics and forecast 2014 and 2015

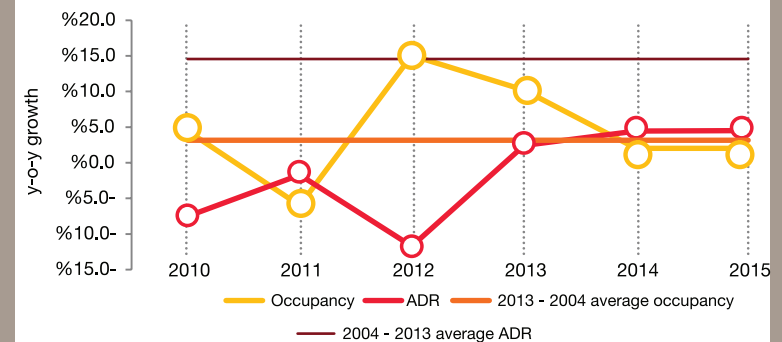
	Occupancy	ADR (OMR)	RevPAR (OMR)
2008	67.8	99.0	67.1
2009	53.3	101.6	54.1
2010	55.6	94.0	52.3
2011	52.3	92.4	48.3
2012	60.2	81.5	49.1
2013	66.3	83.5	55.4
2014 F	67.7	87.2	59.0
2015 F	69.0	91.2	63.0



### Average annual growth rates

	Occupancy	ADR	RevPAR
2008	-2.8%	34.6%	30.9%
2009	-21.4%	2.7%	-19.4%
2010	4.5%	-7.5%	-3.4%
2011	-6.0%	-1.7%	-7.6%
2012	15.1%	-11.7%	1.6%
2013	10.2%	2.4%	12.9%
2014 F	2.0%	4.4%	6.6%
2015 F	2.0%	4.5%	6.6%

Forecast ADR and occupancy growth vs long run average





# Riyadh

## Role

Saudi Arabia's capital city, Riyadh, is the geographic and cultural hub of the country and its largest city. Riyadh has developed into a dynamic metropolis over the years and the city has experienced a fairly unique history and colorful past. Being the political seat of the country, Riyadh primarily receives business visitors from within the region and internationally. Riyadh has grown both culturally and commercially over the years and become a focal point for both travel and trade. The hotel industry in Saudi Arabia is growing at a positive pace, with the sector experiencing significant investment due to the Kingdom's economic stability. This provides a safe haven for investments. Additionally, the occupancy rates reach 100% during specific periods of the year and an average of up to 75% throughout the year, especially in Riyadh.

## 2013 Trading

Occupancy levels declined significantly from their peak of 71% in 2008 to 56% in 2013. ADR has remained largely unchanged when compared to the same period of 2012, while RevPAR saw a decline by 1% from 2012. This is mainly attributed to the significant increase in supply recorded in 2011 and 2012.

## Latest supply trends

Hotel supply has been relatively stable in 2013, and the opening of Holiday Inn Meydan, Park Inn by Radisson and Kempinski Burj Rafal (one of the tallest buildings in Riyadh) which have added a further 464 rooms to the market. With the Kingdom's hospitality sector growing at an annual rate over 8.5%, 20% of 155 new hotels (delivering approximately 7,308 additional rooms) are expected to open in Riyadh during 2014-2015; these openings include Regency and Fairmont Business Gate.

## Opportunities

The government is making significant investments to increase business and tourism, including plans of airport developments to boost overall passenger capacity. Along with that, the Kingdom is investing in large-scale railway developments to realize its potential as a leading global transport and logistics hub. These investments in infrastructure are likely to boost the tourism industry in Riyadh, which will directly have a positive impact on the hotel values.

We anticipate Riyadh will continue to have mixed fortunes in 2014 and 2015, with strong growth in occupancy offset by negative ADR growth, dampening RevPAR gains to 3.5% in 2014 and 3.4% in 2015.



### Annual hotel statistics and forecast 2014 and 2015

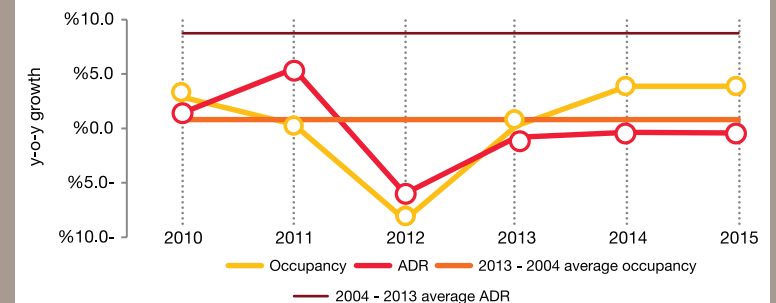
	Occupancy	ADR (SAR)	RevPAR (SAR)
2008	70.7	904.9	639.7
2009	58.7	944.1	554.2
2010	60.4	957.8	578.4
2011	60.6	1010.5	612.5
2012	55.5	949.8	527.3
2013	55.7	942.1	524.3
2014 F	57.8	938.6	542.7
2015 F	60.1	934.6	561.4



### Average annual growth rates

	Occupancy	ADR	RevPAR
2008	-0.5%	23.8%	23.1%
2009	-17.0%	4.3%	-13.4%
2010	2.9%	1.4%	4.4%
2011	0.4%	5.5%	5.9%
2012	-8.4%	-6.0%	-13.9%
2013	0.2%	-0.8%	-0.6%
2014 F	3.9%	-0.4%	3.5%
2015 F	3.9%	-0.4%	3.4%

Forecast ADR and occupancy growth vs long run average





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# *About the survey, methodology and model assumptions*

# Methodology for the hotel forecasts

*This section outlines in more detail the PwC models used to forecast hotel occupancy, Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) for six Middle Eastern cities.*

## **Data**

Our hotels dataset provided by STR Global contains ADR, hotel room supply, demand and occupancy on a monthly basis for each of the six cities. Macroeconomic variables such as GDP growth, oil prices and Consumer Price Indices (CPI) were obtained from the IMF for the four countries.

## **Econometric model**

We developed a 2-stage least squares (2SLS) instrumental variables approach that models hotel demand and price (ADR) using a two-stage process. This process avoids circularity among variables that may lead to technically inconsistent estimates. Further, by using panel modelling techniques, our model aims to capture similarities in the market where possible.

This is consistent with the modelling approach we used for the European hotels forecast published in March 2014 ('Room to grow' - European cities hotel forecasts for 2014 and 2015).

## **Forecasts**

Forecasts for ADR growth and hotel demand were generated using IMF forecasts of macroeconomic variables, supplemented by additional forecast data for hotel supply based on country-level pipeline data provided by STR Global.

Allowance was made for attrition in the existing supply stock and pipeline based on historic trends and local expectations. RevPAR forecasts were constructed using ADR, demand and supply forecasts. This model was used to generate forecasts through to 2015.

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# *Appendices*

# Further reading

**Global reports, available at the following link**  
[www.pwc.com/hospitality](http://www.pwc.com/hospitality)

## **Room to grow: European cities hotel forecast**

Our flagship publication for Europe's hospitality and leisure industry. Provides forecasts of occupancy and hotel revenues and analysis of key trends for the hotels sector in 18 key gateway cities from Amsterdam to Zurich.

## **Emerging Trends in Real Estate Europe**

A joint undertaking of the Urban Land Institute and PwC, the Emerging Trends in Real Estate® series provides an outlook on real estate investment and development trends, real estate finance and capital markets, trends by property sector and metropolitan area, and other real estate issues.

## **UK Hotels Forecast**

Our flagship publication for the UK hospitality and leisure industry. Provides forecasts of occupancy and hotel revenues and analysis of key trends for the UK hotels sector.

## **Hospitality Directions US**

Quarterly outlook for the US lodging sector providing our forecast for occupancy and hotel revenues and analysis of key issues impacting the US industry.

## **South African Hospitality Outlook**

PwC's team of hospitality specialists provide an unbiased overview of how the hospitality industry in South Africa is expected to develop over the coming years.

## **MarketVision of the hospitality sector in Italy**

This report provides an overview of past performance trends for the Italian hospitality sector with an analysis of future drivers and prospects in 2015. It includes market trend data for Milan, Rome, Venice, Florence and Naples.

## **How can hotels achieve the right kind of growth in a digital age? A toolkit for fighting commoditisation**

Brands, hotel owners and operators that are able to capitalise on social media, mobile, analytics and cloud (SMAC) – and put customer experience at the heart of everything they do – can gain significant competitive advantage in the longer run.

## **OHE (Observatorio de la Industria Hotelera Española) Spain**

A report by PwC Spain and CEHAT, with the macro-economic forecast and the sector perspectives on each of the main tourism seasons.

**Middle East reports, available at the following link**  
[www.pwc.com/me](http://www.pwc.com/me)

## **Cities of opportunity 2012**

PwC's global thought leadership publication. In the fifth edition of Cities of Opportunity, PwC and the Partnership for New York City again examine the current social and economic performance of the world's leading cities.

## **Mega Trends**

Global Annual Review, looks at issues that impact our stakeholders around the world, and examines our performance, our key network policies and standards, and our work in the global community during FY 2013.

## **PwC's Global Economy Watch**

Beyond oil: Outlook for the gulf economies  
The UK flagship thought leadership publication looks at how in past decade the seven largest emerging market economies (the E7) have been monopolising the spotlight and why the Gulf Cooperation Council (GCC) countries deserve more attention from global business than they are currently receiving.

## **Total Impact Measurement and Management**

"Total Impact Measurement and Management" explores why business needs total impact measurement, how to do it and the benefits of embedding it into decision making. It also showcases a framework we've developed with our clients to provide the total perspective on business impact.

## **Delivering Middle East's Mega Projects**

The first Middle East Mega Projects survey takes the temperature of the Capital Projects market in the region, to understand the challenges the people who live and breathe capital projects are facing and what they intend to do about them, and to get their insight into the opportunities ahead.

# About PwC

PwC provides industry-focused assurance, tax, deals and consulting services to the hotel industry. We also deliver a fully integrated service at every stage of the deal process, from origination to post investment appraisal. In a rapidly changing world adapting to the digitally demanding and mobile savvy consumer, we're renowned for our forward looking in depth research and insights.

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 184,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.com](http://www.pwc.com)

Established in the Middle East for 40 years, PwC has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with over 3,000 people. For more information please visit [www.pwc.com/me](http://www.pwc.com/me)

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# Contacts

## Middle East

### Viren Lodhia

*Hospitality & Leisure  
Partner*

T: +971 (4) 3043323  
E: [viren.d.lodhia@ae.pwc.com](mailto:viren.d.lodhia@ae.pwc.com)

### Alison Cashmore

*Hospitality & Leisure  
Director*

T: +971 (4) 3043916  
E: [alison.cashmore@ae.pwc.com](mailto:alison.cashmore@ae.pwc.com)

### Mohammad Dahmash

*Real Estate, Hospitality & Leisure  
Partner*

T: +971 (4) 3043343  
E: [mohammed.dahmash@ae.pwc.com](mailto:mohammed.dahmash@ae.pwc.com)

### Hazem Galal

*Global Cities & Local Government  
Partner*

T: +974 4419 2777  
E: [hazem.galal@qa.pwc.com](mailto:hazem.galal@qa.pwc.com)

### Stephen Anderson

*Capital Project and Infrastructure  
Partner*

T: +974 4419 2850  
E: [stephen.x.anderson@qa.pwc.com](mailto:stephen.x.anderson@qa.pwc.com)

### Martin Berlin

*Deals Strategy  
Partner*

T: +971 (4) 3043182  
E: [martin.berlin@ae.pwc.com](mailto:martin.berlin@ae.pwc.com)

### Osman Babar

*Hospitality  
Senior Manager*

T: +971 (4) 3043068  
E: [osman.babar@ae.pwc.com](mailto:osman.babar@ae.pwc.com)

### Vikram Loomba

*Hospitality Advisory  
Director*

T: +971 (0) 4 304 3453  
E: [vikram.loomba@ae.pwc.com](mailto:vikram.loomba@ae.pwc.com)

## Switzerland

### Nicolas Mayer

*Partner & Industry Leader –  
Lodging & Tourism Clients*

T: +41 0 58 792 2191  
E: [nicolas.mayer@ch.pwc.com](mailto:nicolas.mayer@ch.pwc.com)

## US

### Scott D. Berman

*Principal and US Industry Leader,  
Hospitality & Leisure*

T: +1 (305) 375 621 1  
E: [scott.berman@us.pwc.com](mailto:scott.berman@us.pwc.com)

## UK

### Liz Hall

*Head of Hospitality & Leisure  
Research*

T: +44 020 7213 4995  
E: [liz.hall@uk.pwc.com](mailto:liz.hall@uk.pwc.com)

### Richard Snook

*Economist*

T: +44 020 7212 1195  
E: [richard.snook@uk.pwc.com](mailto:richard.snook@uk.pwc.com)

### Sam Ward

*Hotels Leader*

T: +44 020 7212 2974  
E: [samantha.m.ward@uk.pwc.com](mailto:samantha.m.ward@uk.pwc.com)

### David Trunkfield

*Hospitality & Leisure Leader*

T: +44 020 7804 6397  
E: [richard.snook@uk.pwc.com](mailto:richard.snook@uk.pwc.com)

### Craig Hughes

*UK & Global Sovereign Wealth  
Fund & UK Real Estate Leader*

T: +44 0) 20 7212 4183  
E: [craig.o.hughes@uk.pwc.com](mailto:craig.o.hughes@uk.pwc.com)



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