KINGDOM OF SAUDI ARABIA
HOLY CITIES
ON THE ROAD TO RE-DEVELOPMENT
MAY 2014
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Introduction

Recent years have witnessed a prominent rush of foreign awareness in the Saudi Arabian hospitality market, mostly directed towards the two largest cities (Riyadh and Jeddah), with the Holy Cities (Makkah and Madinah) being sidelined on the international front. This research attempts to point out the opportunities presented by the Holy Cities hospitality industry.

Holy Cities hospitality market is considered to be exceptional in terms of enjoying the benefits of an effective indefinite demand. Although, one of the major hurdles in front of these market is accommodating this huge demand.

This research:

- Examines the hospitality market of the Holy Cities and explains scope of any future development opportunities.
- Investigates the infrastructure developments taking place in the Holy Cities for the coming years.
- Studies the impact of expansion of the Holy Mosques (Haram and Al Masjid An Nabawi) in the the Holy Cities.
- Reviews the religious visits and investigates its influential factors.
- Outlines the future outlook and trends in regards to hospitality developments within Holy Cities.

HOLY CITIES BACKGROUND

Islam is the second largest religion and visiting Makkah and Madinah for either Hajj or Umrah (Islamic pilgrimage) is of prime importance for the 1.6 billion Muslims around the globe. These cities host the two sacred places, Holy Ka‘aba (located in the Haram) and Al Masjid An Nabawi (Prophet’s mosque) respectively.

- Restraints on the Hajj pilgrim’s growth – Hajj in particular involves significant movement between different locations and takes place in phases, hence involves overnight stays within tented camps. Concerns relating to Hajj comprise of providing hospitality supply and transportation means.

- Constrained Foreign Ownership – Foreign parties are prohibited from owning land in Makkah and Madinah. But this has not affected the involvement of GCC and other international parties in establishing their business via joint ventures with local Saudi developers.

MAKKAH AND MADINAH PROVINCES

HOLY CITIES HOTEL PERFORMANCE PERCENTAGE CHANGE

<table>
<thead>
<tr>
<th></th>
<th>Makkah 2012 - 2013</th>
<th>YTD Feb 2013 - YTD Feb 2014</th>
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</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>-1.5%</td>
<td>+11.4%</td>
</tr>
<tr>
<td>ADR (SAR)</td>
<td>-0.8%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>RevPAR (SAR)</td>
<td>-2.3%</td>
<td>+10.7%</td>
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<table>
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<tr>
<th></th>
<th>Madinah 2012 - 2013</th>
<th>YTD Feb 2013 - YTD Feb 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>-8.4%</td>
<td>+13.8%</td>
</tr>
<tr>
<td>ADR (SAR)</td>
<td>-2.9%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>RevPAR (SAR)</td>
<td>-5.8%</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

PROJECTED VISITS TO HOLY CITIES 2014(f)-2025(f)

Source: Madinah Development Authority (MDA), 2014; Ministry of Hajj, 2014; Colliers International, 2014
Market Focus: Makkah

HOSPITALITY MARKET

The hospitality market in Makkah is the largest in Saudi Arabia and is divided in two sections:

- **Primary** – high quality, internationally branded hotels located around the Masjid Al Haram (Central Area) mostly consists of 5-star hotel market.
- **Secondary** – unbranded hotels and furnished apartments located outside of the Central Area.

These two districts show different dynamics of supply and demand, especially since the primary market is operational all year round with high room rates, and the secondary market sees the majority of its hotels close its doors during low season (i.e. March to July, in the last few years).

PERFORMANCE INDICATORS

- **Essential factor “location”** – The average selling price of a hotel room situated in the central area is between SAR 700-1,000 per night, while hotel rooms outside the central area are in the range of SAR 400-600 per night.
- **Sensitive market** – Makkah’s hospitality market is mainly reliant on the number of pilgrims visiting the city and there are many factors which can significantly affect the arrivals of these pilgrims ranging from global recessions to a change in pilgrim visa quotas.
- **The latest occupancy drop in 2013, is largely due to the construction activity taking place around the Masjid Al Haram and MERS virus outbreak.**

MARKETWIDE HOSPITALITY SUPPLY (EXISTING AND FORTHCOMING)

- **Dominance of Hotels** – Hotels represent 96% of the hospitality supply, while furnished apartments represent only 4% of the total supply. Such strong presence of hotels can be credited to pilgrim’s short length of stay in the city owing to short Hajj and Umrah rituals and limited permit period to reside in the city.
- **Future Prime Location** – The sheer density of developments around the Haram are pushing larger developments outwards and Al Aqzyiyah is considered a prime district for future intake of more hospitality supply.

DEMAND TRENDS

- **Low Season** – The low season in Makkah lasts for an average of 155 days and many properties in the secondary hospitality market tend to close their doors during this period.
- **High Season** – Hajj pilgrimage took place in October 2013, with 2 million tourist trips during this period. However, there was a drop of 35% in tourist trips from October 2012.

HISTORICAL PILGRIM VISITS

- **Strong religious visits** – Hajj visit numbers are expected to continue to grow to 5.2 million by 2025 from 2 million in 2013.
- **Building strong tourism foundation** – Increasing pilgrim visit numbers are partly dependent on the increasing infrastructure such as the expansion of Jeddah’s airport which is expected to increase its capacity to 80 million pax by 2035.
- **Hajj is a critical demand generator** – Tourism revenue in Saudi Arabia amounted to SAR 75 million for 2013, out of which 40% (SAR 30 million) was generated during the Haj season (October).
Makkah Future Developments

- **Al Masjid Al Haram Expansion** – The mosque has a total area of 356,000m² and a capacity of 700,000 worshippers. Current plans to expand the mosque to the northwest and northeast will increase the size of the mosque by over 456,000m² to 812,000m², and increase its holding capacity to over 2.5 million at the cost of SAR 80 billion.

**NEW LARGE SCALE DEVELOPMENT (MASJID AL HARAM CENTRAL AREA)**

<table>
<thead>
<tr>
<th>1</th>
<th>AL SHAMYAH</th>
<th>2</th>
<th>JABAL AL KAABA</th>
<th>3</th>
<th>KING ABDULAZIZ ROAD</th>
<th>4</th>
<th>JABAL OMAR</th>
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<tr>
<td>5</td>
<td>DRB AL KHALEEL</td>
<td>6</td>
<td>ABRAJ AL BAIT</td>
<td>7</td>
<td>JABAL KHANDAMA</td>
<td>8</td>
<td>HARAM EXPANSION</td>
</tr>
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</table>

Source: Colliers International, 2014

**UPCOMING DEVELOPMENTS**

- **Jabal Al Kaaba** – This upcoming mixed-use development will cover 1,380,000m² and will include villas, apartments, hotels, business facilities, retail areas, schools and hospitals. Approximately 42,000m² of land area, will deliver 8,500 hotel rooms over the next few years.

- **Jabal Omar Project** – Spread across 2,200,000m² of land, this project is being developed in five phases at a cost of 20 billion riyals ($5.3 billion) and includes 37 hotel towers with 13,500 rooms and 45,000 total guest capacity.

- **King Abdul Aziz Road** – This project is anticipated to include hotels, apartments, commercial, and recreational areas. The expected capacity of the project is approximately 197,000 residents and 28,000 hotel rooms.

- **Drb Al Khaleel Project** – Located on a land area of 57,725m² and a capacity of 7,965, this project is expected to comprise of 40% hospitality, 30% residential and 30% serviced residential apartments units.

- **Abraj Al Bait** – Located on a site area of 35,000m² with holding capacity of 65,000 people, this palatial complex is expected to include 7 towers comprising of a commercial mall, 22,000 hotel rooms, 4,000 parking spaces, a medical center, 7,134 residential units and a prayer hall. Additionally the residential spaces will include 10,000 accommodation units, ranging from apartments and suites to studios.

- **Jabal Khandama** – This project consists of 2,000,000m² of BUA, and is a mixed-use development which is expected to feature permanent residences, seasonal residences, hotels, prayer spaces and commercial areas. This development will host approximately 90,000 inhabitants, about 24,000 of whom will be permanent residents.

**GOVERNMENT EFFORTS**

- The government is making constant efforts to improve their working process via incorporating technological means. For instance electronic communication systems have been provided in buses, which enables bus drivers to anticipate and handle large crowds.
### MADINAH HOTEL PERFORMANCE

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Source: STR Global, 2014; Colliers International, 2014

### EXISTING HOTEL SUPPLY, FEB 2014

- 46,536 Keys
  - 5-Star: 17%
  - 4-Star: 23%
  - 3-Star: 6%
  - 2-Star: 8%
  - Unclassified: 2%

Source: SCTA, 2014; Colliers International, 2014

### PROJECTED ADDITIONAL SUPPLY BY YEAR 2014(f) – 2018(f)

- 4,000 Keys
  - 5-Star: 0%
  - 4-Star: 0%
  - 3-Star: 0%
  - 2-Star: 0%
  - Unclassified: 0%

Source: Colliers International, 2014

### MONTHLY SEASONALITY OF DEMAND 2013 (NO. OF TOURIST TRIPS)

- Variance from the Mean
  - Jan: +27%
  - Feb: +21%
  - Mar: +13%
  - Apr: +18%
  - May: +23%
  - Jun: +26%
  - Jul: -47%
  - Aug: -27%
  - Sep: -19%
  - Oct: -57%
  - Nov: -43%
  - Dec: -9%

Source: Colliers International, 2014

### HISTORICAL EVOLUTION OF NO. OF TOURISTS

- 2010: 5 million
- 2011: 5 million
- 2012: 6 million
- 2013: 6 million

Source: MAS, 2014; Colliers International, 2014

### Market Focus : Madinah

#### HOSPITALITY MARKET

The Madinah hospitality landscape is the second largest in Saudi Arabia after the Makkah province. It offered over 46,000 hotel rooms and 4,000 furnished apartment rooms in 2013, as per the latest licensed hotel figures. The hospitality market in general has been volatile due to the recategorization standards that SCTA has undergone in recent years.

- **Strong Correlation** – Madinah and Makkah’s hospitality market are closely correlated as a large share of pilgrims execute Hajj or Umrah in Makkah and then travel towards Madinah to visit Al Masjid An Nabawi (Prophet’s mosque).

#### PERFORMANCE INDICATORS

- **Decreasing Occupancy** – The drop in occupancy levels in 2013 can be hugely credited to the MERS virus outbreak and the major demolition process taking place around the mosque, hence limiting the number of visas being granted.

- **Recovering Market** – Signs of market growth with YTD February 2014 growth of 13.8% occupancy indicate overall hotel market is not yet mature and opportunities for further development may exist.

- **Key Takeaway** – Strong hotel demand suggests that the market would be able to absorb additional supply.

#### MARKETWIDE HOSPITALITY SUPPLY (EXISTING AND FORTHCOMING)

- **Hotels Supremacy** – Hotels outnumber furnished apartments and dominate the overall hospitality landscape in Madinah with 217 properties.

- **Dominance of low quality hotels** – The hotel market is mainly dominated by unclassified (i.e. 1 & 2-Star hotels) with approximately 45% of the overall supply; while the 3-Star hotels represent 23%. The majority of these hotels are unbranded, of low quality and locally managed.

- **Market Gap** – Currently only 30% of hotel supply is branded by international operators. With regards to furnished apartments, there is a large absence of internationally branded furnished apartment.

- **Opportunities for Internationally branded hotels** – Due to the low presence of internationally branded operators, there is a high possibility that the market can be outperformed by international operators with existing brand standards and an established distribution chain.

- Some major international hotel companies are expected to make their first entrance in the next few years, namely Accor, Millennium; while Starwood is expected to increase its number of keys, with the opening of a Sheraton with 356 keys.

- **Distribution Channels** – Hotels mostly use online distribution systems and their own reservation networks. Target market mostly includes approximately 60% free independent travelers and 40% groups.

#### DEMAND TRENDS

- **Domestic Demand during low season** – The hospitality market is supported by short stay visits on the weekends and holidays by the domestic market throughout the year.

- **High Season** – The last 10 days of Ramadan represent a sacred part of the month for Muslims due to Laylat Al Qadr prayers and Eid Alfitr. During this period, occupancy rates are comparative to those during Hajj season, with many hotels requiring early booking.
Madinah Future Developments

- **Al Masjid An Nabawi Expansion** – A massive expansion of the Prophets Mosque was announced by King Abdullah in 2012 with an aim to have a holding capacity of 1.6 million worshipers by 2040.

- **Increasing Capacity** – The Mosque’s holding capacity (indoors and out) will be increased from 600,000 to 1,600,000 upon completion of the expansion by 2040.

- **The initial phase of the expansion calls for the addition of an additional 12.5 hectares to the Al Masjid An Nabawi’s current area of 38.3 hectares.**

- **Demolition Plans** – In order to achieve additional mosque capacity, specific demolition plans are set by the Madinah Development Authority. These plans will witness the demolition of residential properties, hotels, and furnished apartments surrounding the Prophet’s mosque.

- **Out of the existing 50,619 keys, a total of 22,716 hotel keys and 3,334 furnished apartment keys are expected to be demolished by the end of this expansion.**

- **Untouched Districts** – The only areas not undergoing any changes as per the master plan are Bani Khidra (5,281 hospitality keys) and An Naqa (8,327 hospitality keys).

- **Demolition Effect** – At year-end 2013, 80% of the Al Haram district was razed to the ground, along with 386 hotel keys.

  - The final phase of demolition will see 7,225 keys exit the market. As a result of the lower supply, Colliers expects year-end 2016 to reach 69.5%.

UPCOMING DEVELOPMENTS

- **Knowledge Economic City (KEC)** – It is one of the five economic cities launched in Saudi Arabia. KEC is focused around knowledge-based industries and is 4.8 million sqm in size.

  This project is worth USD 30 billion investment. Additionally KEC is expected to offer 20,000 jobs and accommodate 150,000 people once completed by 2020.

- **Pilgrim City** – This mixed-development is meant to cater for Hajj and Umrah pilgrims. It is 1.6 million sqm in area and is expected to accommodate approximately 200,000 people.

  This project will feature hotels, one 400-bed hospital, government offices, bus station and a train station.

- **Haramain High Speed Rail** – This is a key nation-wide transportation strategy that will connect the Holy Cities of Makkah and Madinah to Jeddah with the potential to expand to Riyadh.

- **Speed and Travel Distance** – The new trains will be able to reach a top speed of 330km/h, cutting the travel time between Madinah and Makkah to 2 hours.
**Holy Cities: Opportunities**

**Projected Visits to Holy Cities**
- **Visits in Madinah** – Based on the planned expansion of the Prophet’s Mosque, the total number of pilgrims is expected to reach 8.3 million in 2014, and 10 million by 2025 as announced by Madinah Development Authority (MDA).
- **Visits in Makkah** – The Ministry of Hajj forecasts that the total number of religious visits (including Hajj and Umrah) in Makkah is expected to reach 17 million by 2025.
- **Projected Visits to Holy Cities** – With the completion of the expansion of both the mosques in the Holy Cities, anticipated relaxation of visa restrictions by the government and strong infrastructure, visits to these cities is expected to reach 27 million (including Hajj and Umrah visits) by 2025.

**Factors Influencing Visits**
- **Growing Muslim Population** – Since Makkah and Madinah hold strong importance for Muslims, the increasing population will in turn increase visits to the Holy Cities.
- **Strong Economic Growth** – Good economic growth in the country boosts better employment conditions. Hence an increasing number of people can afford to travel.
- **Strong Gross National Income (GNI) per capita** – It is a clear indication of increasing income growth in Muslim populated countries and as income levels increase we expect more people can afford to travel to the Holy Cities.

**Future Outlook**
- **Hotel Design Trends** – Religious tourism is the primary demand driver in the Holy Cities, hence provisions must be made to cater for this market.
- Important details need to be considered such as large check-in/check-out capacity and separate entrances, check-in desks for individuals and groups.
- Rooms should offer enough floor space to accommodate prayer mats, prayer and ablution areas, etc.
- **Brand Essence** – In a competitive market, a strong brand is essential to maintain the competitiveness of any development. International hotel brands would cater to the religious and price sensitive domestic travelers who are familiar with international hotel companies in their countries of residence.
- **Prime Locations** – The only areas not undergoing any changes as per the Madinah demolition master plan are Bani Khidra (5,281 hospitality keys) and An Naqa (8,327 hospitality keys). Additionally Al Aziziyah in Makkah is considered to be the future hospitality hotspot.
- **Tourism Revenue** – Saudi Arabia achieved revenues of SAR 75 million for 2013, out of which 40% (SAR 30 million) was generated during the Haj season (October). This positive trend is likely to continue in the future with the large scale infrastructural developments in the Holy Cities.
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- Site and Asset Investment Sale and Acquisition/Due Diligence
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- In excess of 17,258 keys proposed within Highest and Best Use, Market and Financial Feasibility Studies for Hotels, Resorts and Serviced Apartments.

- Highest and Best Use, Market and Financial Feasibility Studies for Hotels and Serviced Apartments with a total estimated net asset value in excess of AED 36.2 Billion.

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• MIXED USE

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