



MIDDLE EAST HOTEL ASSET MANAGEMENT MANAGING THE ASSET LIFE CYCLE

MAY 2014

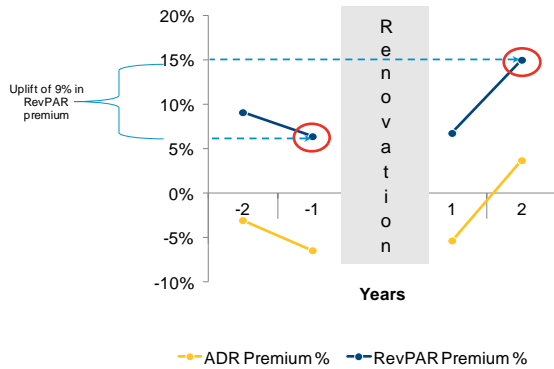
HOTEL ASSET MANAGEMENT

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Executive Summary

DUBAI HOTELS SAMPLE



Source: Colliers International, 2014

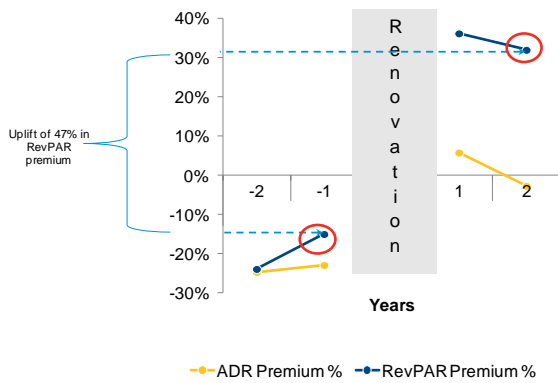
HOTEL ASSET MANAGEMENT

- Hotels are a specialist asset class requiring active and focused oversight. Hotels are dynamic income producing assets if bought, developed, operated and disposed of at the appropriate time would yield superior returns.
- The hotel industry is a cyclical industry that closely follows a country's economic peaks and troughs. The current divergence in hotel owners' and hotel operators' interests have led to owners seeking operator oversight specialists to drive optimum returns, and enhance hotel asset value over the holding period.

IMPACT OF RENOVATION ON HOTEL RevPAR

- An essential value enhancing activity a Hotel Asset Manager engages in, is assessing the timing of Capital Expenditure Works. These works are vital in keeping a hotel trading in an increasingly competitive market.
- Colliers has selected a sample of upscale hotels – located in Dubai and Abu Dhabi – which have undergone extensive renovation.
- When compared to the market, hotels that were renovated showed stronger growth in performance.
- In the first and second year post renovation, the Dubai hotel sample achieved a RevPAR premium of 7% and 15% respectively.
- Within the first year post renovation, the Abu Dhabi hotel sample achieved a RevPAR premium of 36%.
- Empirical evidence suggests that hotel renovations, implemented diligently, would create tremendous value for the property and help build and sustain long-term value.

UPSCALE ABU DHABI HOTELS



Source: Colliers International, 2014

EVOLUTION OF HOTEL ASSET MANAGEMENT

- Hotel owners have traditionally relied on operators to advise on renovations and the extension of "asset useful life". Traditionally operators have overspent and mismanaged renovation timetables, budgets, and asset performance during the renovation phase.
- The role of a hotel asset manager is to assist the owner in prioritizing the renovation works and channeling owners funds to create value to the owners not the operator.
- Hotel Asset Plans and project oversight activities, have assisted owners to maximize value, minimize costs, and ensure smooth running of the hotel operations throughout all the phases of an asset life cycle.

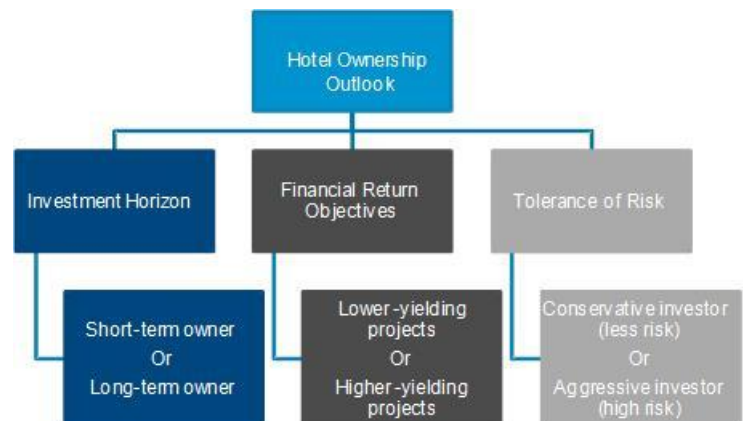
Benefits of Owning Hotel Assets

- Appreciation in property value
- Diversification
- Pride in owning a distinctive asset
- Hedge against inflation
- Deferred taxation
- Positive cashflow from operations

Hotel Investment Challenges

- High initial capital outlay
- Highly vulnerable to competition
- Highly vulnerable to market volatility

Source: Colliers International, 2014





COMPONENTS OF HOTEL ASSET MANAGEMENT

- As hotel owners and debtors seek expert opinion on driving hotel value, the role of the specialist hotel asset manager is becoming increasingly important in balancing cost containment, revenue generation, value creation and disposal initiatives.
- The key drivers of value in operational hotels are: Capital Expenditure (Capex) budgeting, Property Planning and Development, and Operational Reviews.
- At a time of operational reviews, a dynamic asset manager should spot the tell tale signs of stagnation, hence lead the Capex planning process to either reposition, expand or redefine the use of the asset.

HOTEL ASSET MANAGEMENT CYCLE

- The asset management reflects the evolving process from acquisition to active ownership and finally to disposition.
- The ownership objectives will vary based on numerous factors. However, the cycle of asset management does not change. The amount of time the asset stays in the ownership phase of the cycle changes, based on the differing objectives of ownership.
- Disposing the asset at the right time is very crucial. The timing will depend on the ownership objective of holding the asset long-term or short-term.
- Factors such as a looming capital requirement (renovation) or the expiration of management agreement influence the decision to sell an asset.

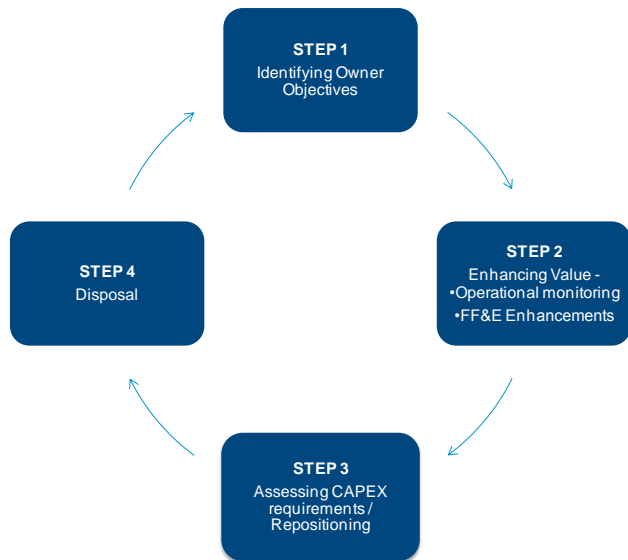
BENCHMARKS OF ASSET MANAGEMENT PERFORMANCE

Quantitative Measures	Benchmarks
Value Creation	Market Value of Asset
Financial Performance	Revenue, GOP, EBITDA
Operating Measures	ADR, RevPAR, Occupancy
Asset Utilization	Capital Expenditure
Growth Measures	Change in Asset Market Value Operational Efficiency Improvement

Source: Colliers International, 2014

Qualitative Measures	Benchmarks
Developing or maintaining relationships with stakeholders	Operators, Owners, Lenders
Quality	Property Condition Guest Satisfaction Quality Scores

Source: Colliers International, 2014

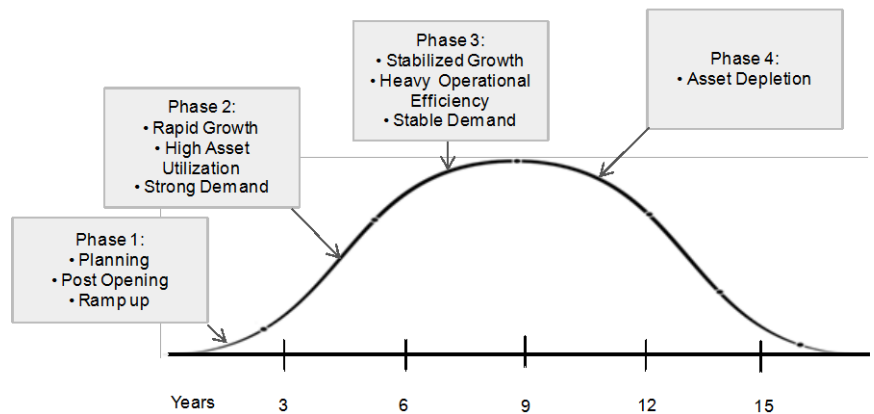
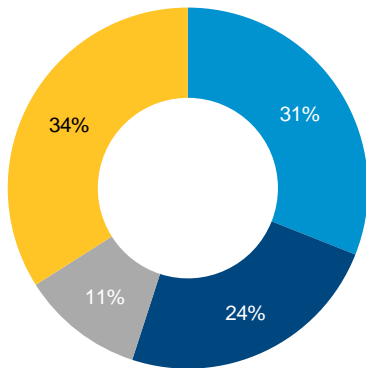


- Some market factors that decrease the likelihood of Capex spending on renovation include low barriers to entry, suburban location and difficulty in quantifying demand.
- Some market factors that increase the likelihood of Capex spending on renovation is high barriers to entry, urban competitive location and clear quantification of demand

HOTEL LIFE CYCLE (Performance Phases)

AGE OF HOTELS

Dubai & Abu Dhabi



PERFORMANCE PHASES

• Phase 1 | Opening and Stabilization (0 to 3 years)

- Key Features**
 - Post opening and ramp up phase is usually two years
 - One more year needed to stabilize performance
- Key Risk Areas**
 - Over-estimated sales targets
 - Misaligned marketing & business development plan
 - Operator's lack of hotel opening experience in the region

• Phase 2 | Prime Performance (4 to 6 years)

- Key Features**
 - Asset manager focuses on operational reviews
 - Focus on driving short term strategy and building long term strategy
- Key Risk Areas**
 - Operational cost and overheads
 - Lack of refurbishment and positioning plan

• Phase 3 | Peak Performance (7 to 9 years)

- Key Features**
 - High operational efficiencies, stable demand and strong profitability
- Key Risk Areas**
 - Operational cost and overheads
 - Lack of owner funded capital expenditure

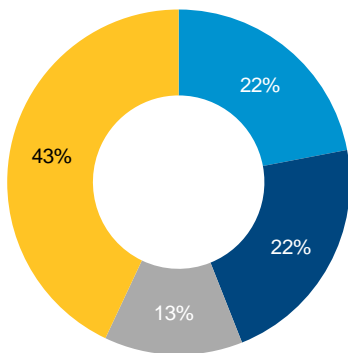
• Phase 4 | Negative Growth (10+ years)

- Key Features**
 - Asset depletion
 - Tired property
 - No renovation strategy
 - Total loss of market share
 - Downgrading of asset
- Key Risk Areas**

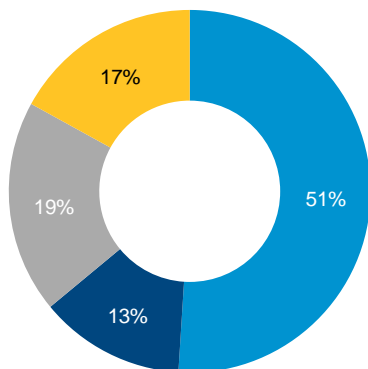
MIDDLE EAST HOTELS

- In the Middle East, a high number of hotels are past their peak performance.
 - In **Dubai & Abu Dhabi** 34% of hotels have gone beyond the peak performance stage.
 - In **Riyadh, Jeddah & Makkah** 43% of hotels have witnessed such a phenomenon and in **Doha** 17% of hotels have crossed the peak performance stage.
- To extend the useful life of a hotel, these properties need to go through refurbishment/renovation.
- In the best scenario, hotels should start strategic planning of refurbishment/renovation during the peak performance phase, to achieve long-term sustainability.

Riyadh, Jeddah & Makkah



Doha



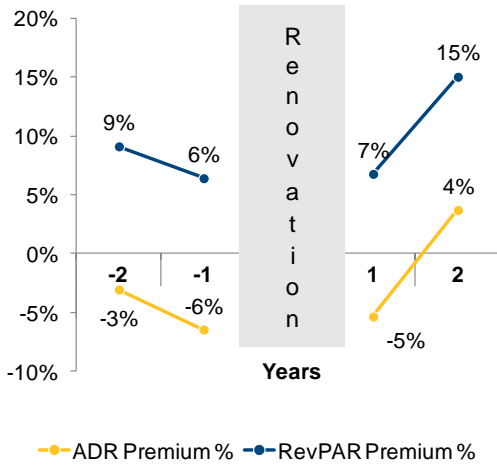
- 0 to 3 Years
- 4 to 6 Years
- 7 to 9 Years
- 10+ Years

Source: Colliers International, 2014

SIGNIFICANCE OF RENOVATION

- There are many different reasons that explain the role played by renovation in the success of hotels. These reasons can be classified as strategic, operational or functional needs to be met by renovation.
- Some reasons why renovation is essential to hotel operations include:
 - To keep up with the **competition**
 - To maintain or increase **market share**
 - To improve the **operational efficiency** of the hotel that will lead to an increase in both productivity and long-term operational expenses
 - To extend the **useful life** of the hotel
 - To help increase or maintain the **occupancy** and **rates** in the hotel

UPSCALE DUBAI HOTELS



Source: Colliers International, 2014
 Note: The performance of hotels in this study has been compared to that of their respective sub-markets.
 Note: 1 year before renovation has been used as the base year to calculate increase in premium.

CASE STUDY: IMPACT OF RENOVATION ON HOTEL KPI'S- DUBAI & ABU DHABI

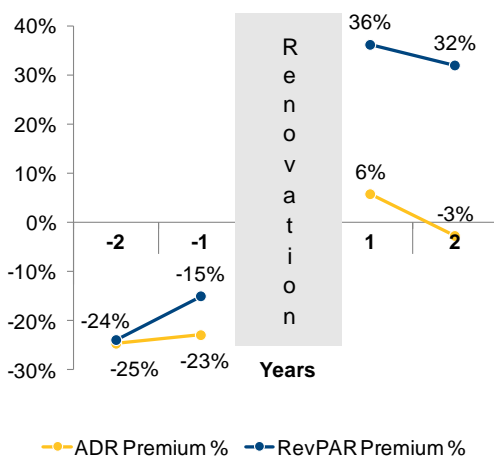
METHODOLOGY

- Colliers has selected a sample of upscale hotels – located in Dubai and Abu Dhabi – which have undergone extensive renovation of all facilities.
- The selected group comprises of 4 hotels in Dubai and 4 hotels in Abu Dhabi which are of a similar age.
- The performance of these hotels has been compared to that of their respective sub-markets. This comparison resulted in ADR and RevPAR discounts/premiums achieved under or over the hotels' sub-markets.
- The premiums are an average of the selected number of hotels in both Dubai and Abu Dhabi. Uplift in premium is calculated using one year before renovation as the base year.

ANALYSIS

- The hotels that have completed a renovation have shown a strong growth in performance in comparison to the sub-market.
- Before renovation, the selected hotels in Dubai and Abu Dhabi had experienced a drop in RevPAR premium, in comparison to that of their respective sub-markets.
- After renovation, the hotels in Dubai witnessed an increase in ADR and RevPAR premium over their sub-markets. These properties achieved a RevPAR premium of 7% and 15% in the first and second years following the renovation.
- The hotels in Abu Dhabi witnessed a strong increase in RevPAR premium. The RevPAR premium increased from -15% to 36% within one year of renovation.
- Hotels that innovate and renovate due to ever-shifting consumer preferences are able to achieve high occupancies and an increase in average daily rate.
- This study supports the point, that hotel renovations can create tremendous value for the property and help build long-term brand equity.
- Timing is crucial, as recognizing the need to renovate is just as important as the renovation itself. In order to stay ahead of competition, achieve high operational efficiency and maintain stable demand and strong profitability, a hotel should ideally start renovation planning during its peak performance years.

UPSCALE ABU DHABI HOTELS

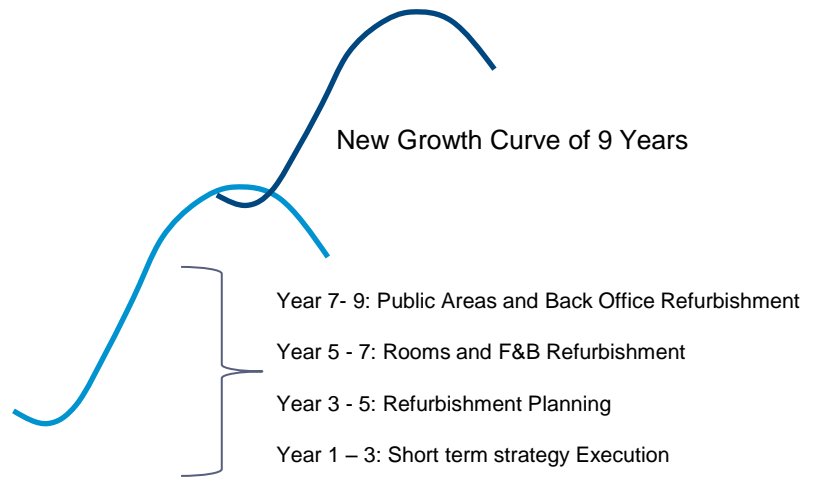


Source: Colliers International, 2014
 Note: The performance of hotels in this study has been compared to that of their respective sub-markets.
 Note: 1 year before renovation has been used as the base year to calculate increase in premium.

STAYING AHEAD OF THE CURVE

GROWTH CURVES

- Building a long term strategy for refurbishment and positioning will help asset owners to plan for uncertain times and ever-changing market dynamics.
- In today’s world, owners are not only looking to exit the investment at the opportune time, but also work on building new growth curves to stay ahead of the competition and unlock a higher value for the asset.



ROLE OF AN ASSET MANAGER

- **Year 1 to 3: Short term Strategy**
 - Lead monthly operational review and operator oversight
 - Focus on FF&E expense management; invest in short term opportunities
 - Periodical benchmarking and property review visits
- **Year 3 to 5: Refurbishment Planning**
 - Complete Micro and Macro Economic Trend Analysis
 - Capture Consumer behaviour trends
 - Pre-empt competition and market
 - Build Refurbishment Strategy
- **Year 5 to 7: Refurbishment Execution**
 - Work closely with operator to kick-off refurbishment plan
 - Lead the bidding process to manage the supply chain
 - Act as a program manager; focus on budget and timelines
 - Ensure smooth execution
- **Year 7 to 9: Final Refurbishment Phase**
 - Refurbishment of public areas and back office
 - Asses refurbishment impact on asset value
 - Management of marketing and sale of asset

Asset Strategy

Short Term Strategies

Years 1 to 3

- Operational & Performance Review
- Capital Expenditure Planning
- FF&E Management
- Sustainability & Energy Management

Refurbishment Planning

Years 3 to 5

- Assess Micro and Macro Trends
- Understand Consumer Behavior
- Pre-empt Competition
- Rebranding Assessment
- Refurbishment Requirement
- Gathering & Impact Analysis

Refurbishment Execution

Years 5 to 7

- Rooms and F&B Design Phase
- Bidding Management
- Intelligent Procurement
- Program budget & Schedule Management
- Rooms and F&B Refurbishment

Final Refurbishment Phase

Years 7 to 9

- Back office and Public Areas Refurbishment
- Enhance Intrinsic Value
- Asses Total Refurbishment
- Impact /Evaluation

Source: Colliers International, 2014

Owners Expectations From Asset Manager
<ul style="list-style-type: none"> • Ability to leverage prior experience • Industry-wide expertise • Consultative skills

Source: Colliers International, 2014

Operator Expectations
<ul style="list-style-type: none"> • Identifying/eliminating loss making activities • Recession Awareness

Source: Colliers International, 2014

MIDDLE EAST OUTLOOK

- The Middle East has experienced an unprecedented level of hotel activity with an abundant creation of very successful hotel-owning companies. The Middle East remains one of the fastest growing regions in terms of tourism arrival.
- The rapid growth in the lodging industry, with its gamut of products ranging from budget through mid-scale to boutique and luxury properties, has required a rapid development of asset management in this region.

GLOBAL OUTLOOK

- In the past asset managers were just relied upon to help with problems such as renovations and improving operational efficiency at a particular phase of the hotels lifecycle.
- As the profile of ownership shifts over time, the hotel asset management will continue to evolve accordingly, to serve the needs of owners.
- Today the role of asset managers is to help and guide the ownership through the complete lifecycle of an asset, from acquisition to disposition.
- From the operators perspective, asset managers are considered to be the GM's best source for expanding profitability in this uncertain global market.

CONCLUSION

- Divergence in hotel owners' and hotel operators' interests have led owners to seek specialist operator oversight.
- Asset management plans have assisted owners to maximize value, minimize costs and ensure a smooth running of the hotel operations throughout all the phases of an asset lifecycle.
- Asset managers guide owners through the complete lifecycle of an asset, from acquisition to active ownership and finally to disposition.
- During the ownership phase, renovation planning and execution play an important role. Renovation helps the hotel to achieve operational efficiency and maintain stable demand and performance.
- Building a long-term strategy for renovation will help asset owners to plan for uncertain times and ever-changing market dynamics.
- Hotel renovations drive superior value to a hotel asset and helps build long-term brand equity.
- In the first and second year post renovation, the Dubai hotel sample achieved a RevPAR premium of 7% and 15% respectively.
- Within the first year post renovation, the Abu Dhabi hotel sample achieved a RevPAR premium of 36%.
- Some reasons why renovation is essential to hotel operations include:
 - To keep up with the **competition**
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After Renovation	Increase in Premium % Year 1	Increase in Premium % Year 2
Dubai		
ADR Premium	↑ 1%	↑ 10%
RevPAR Premium	↑ 1%	↑ 9%

Source: Colliers International, 2014

After Renovation	Increase in Premium % Year 1	Increase in Premium % Year 2
Abu Dhabi		
ADR Premium	↑ 29%	↑ 20%
RevPAR Premium	↑ 51%	↑ 47%

Source: Colliers International, 2014

485 offices in 63 countries on 6 continents

- \$2.1 billion in annual revenue
- 1.46 billion square feet under management
- 15,800 employees
- \$75 billion total transaction value

COLLIERS INTERNATIONAL HOTELS

P O Box 71591
Dubai
United Arab Emirates

Filippo Sona

Director | Head of Hotels | MENA Region
MAIN +971 4 453 7400
MOBILE +971 55 899 6102
EMAIL filippo.sona@colliers.com

Selim El Zein

Head of Hotel Asset Management | MENA
MAIN +971 4 453 7400
MOBILE +971 55 899 6103
EMAIL selim.elzein@colliers.com

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COLLIERS INTERNATIONAL MENA REGION

Colliers International has been providing leading advisory services in the Middle East and North Africa region since 1996, and Saudi Arabia since 2004. Regarded as the largest and most experienced firm in the region, Colliers International's expertise covers Hotels, Residential, Commercial, Retail, Education and Healthcare sectors together with master planning solutions, serviced from the five regional offices.

Colliers Research Services Group is recognized as a knowledge leader in the real estate industry, providing clients with valuable market intelligence to support business decisions. Colliers' research analysts provide multi-level support across all property types, ranging from data collection to comprehensive market analysis.

COLLIERS INTERNATIONAL HOTELS

Colliers International Hotels division is a global network of specialist consultants in hotel, resort, marina, golf, leisure and spa sectors, dedicated to providing strategic advisory services to owners, developers and government institutions to extract best values from projects and assets. The foundation of our service is the hands-on experience of our team combined with the intelligence and resources of global practice. Through effective management of the hospitality process, Colliers delivers tangible financial benefits to clients. With offices in Dubai, Abu Dhabi, Jeddah, Riyadh and Cairo, Colliers International Hotels combines global expertise with local market knowledge.

SERVICE AT A GLANCE

The team can advise throughout the key phases and lifecycle of project:

- Destination/Tourism/Resort/Brand Strategy
- Market and Financial Feasibility Study
- Development Consultancy & Highest and Best Use Analysis
- Operator Search, Selection and Contract Negotiation
- Pre-Opening Budget Analysis and Operational Business Plan
- Owner Representative/Asset Management/Lenders Asset Monitoring
- Site and Asset Investment Sale and Acquisition/Due Diligence
- RICS Valuations for Finance Purposes and IPOs

OUR REGIONAL EXPERIENCE

- Strategic Advisory and Hospitality Capital Valuation for more than 32,400 keys with a total asset value in excess of AED29.4 Billion
- Hotel Operator Search, Selection and Contract Negotiation in excess of 7,200 keys with client savings averaging AED10.4 million
- In excess of 17,258 keys proposed within Highest & Best Use, Market & Financial Feasibility Studies for Hotels, Resorts & Serviced Apartments
- Highest & Best Use, Market & Financial Feasibility Studies for Hotels & Serviced Apartments with a total estimated net asset value in excess of AED 36.2 Billion
- In Excess of 4,635 Hotel Keys under Asset Management as Owner's Representative



OUR SERVICES

COLLIERS INTERNATIONAL

offers a comprehensive portfolio of real estate services to occupiers, owners and investors on a local, regional, national and international basis.

Colliers International provides specialized services to owners and occupiers on a local, regional, national and international basis. The foundation of our service is the strength and depth of our specialists. Our clients can depend on our ability to draw on years of direct experience in the local market.

Our professionals know their communities and the industry inside and out. Whether you are a local firm or a global organization, we provide creative solutions for all your real estate needs.

OUR SERVICES INCLUDE:

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- CORPORATE SOLUTIONS
- DEVELOPMENT SOLUTIONS
- HOTEL SERVICES
- HEALTHCARE & EDUCATION
- INVESTMENT SERVICES
- PROJECT MANAGEMENT
- REAL ESTATE MANAGEMENT SERVICES
- RETAIL ADVISORY SERVICES
- VALUATION & ADVISORY SERVICES

WORLD WIDE OFFICES



WE COVER THE FOLLOWING CORE SECTORS AS WELL AS MANY SPECIALIZED PROPERTY TYPES:

- OFFICES
- INDUSTRIAL & LOGISTICS
- RETAIL & SHOPPING MALLS
- RESIDENTIAL
- HOTELS, RESORTS, MARINAS, GOLF COURSES & SPAS
- SCHOOLS, UNIVERSITIES, HOSPITALS & MEDICAL CLINICS
- AIRPORTS
- MIXED USE

MIDDLE EAST & NORTH AFRICA (MENA) OFFICES





Filippo Sona

Director | Head of Hotels | MENA Region

MAIN +971 4 453 7400

MOBILE +971 55 899 6102

EMAIL filippo.sona@colliers.com

Selim El Zein

Head of Hotel Asset Management | MENA

MAIN +971 4 453 7400

MOBILE +971 55 899 6103

EMAIL selim.elzein@colliers.com

Colliers International MENA Region

Dubai | Abu Dhabi | Riyadh | Jeddah | Cairo | Doha