



UNITED ARAB EMIRATES | SAUDI ARABIA HOTEL BRANDED RESIDENCES A PREMIUM OPPORTUNITY

MAY 2014

HOTEL BRANDED RESIDENCES | UAE & KSA

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Business Model

BRANDED RESIDENCE CONCEPT OVERVIEW

Branded Residences are similar to normal residential apartments, but differ in that they have an affiliation with a hotel brand, and offer services to end users and investors.

Branded Residences are usually prime residential products leveraging off the quality of the hotel brand to create an aspirational product, reflecting luxury and prestige. Accordingly Branded Residences achieve sales prices above other prime non branded residential developments.

Owners typically have the option to live in the residence year round or by choice elect to enter the property into a rental pool agreement.

From their initial development, branded residences have evolved significantly, as has the use of the concept by real estate developers around the world, most primarily in mature real estate markets.

INTEGRATED RESIDENTIAL AND HOTEL LIVING

Owners/Users of Branded Residences benefit freely from the use of the following integrated hotel services to include:

- 24 hour concierge and security
- Secure parking facilities
- Entertainment systems
- Access to Leisure Centre

Apart from the above, Owners/Users can typically elect to use the following on an a la carte basis, usually at a reduced rate:

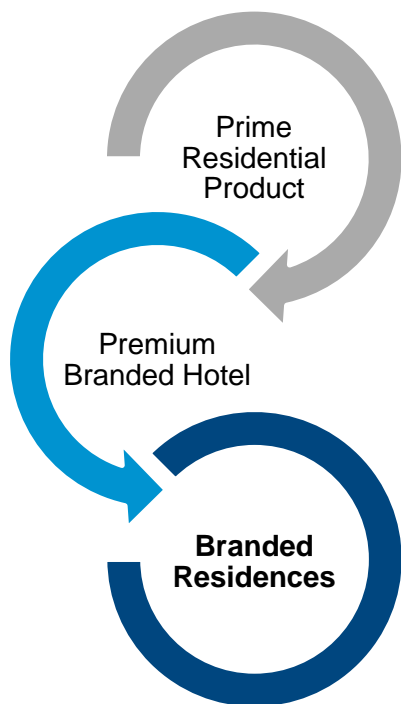
- F&B outlets
- Room Service
- Accommodation & Cleaning
- Laundry
- Spa & Health
- Meeting Facilities

INVESTMENT – RENTAL POOL OPTION

Not all branded residences are owner occupied, with some purchasers holding units as an investment. Typically owners can opt into a rental pool agreement with the hotel operator whereby the hotel agrees to rent out the property on behalf of an owner. This will often take the form of a fee sharing arrangement between both parties. In general, guaranteed rents are not offered.

Key investment attributes of Branded Residences include the following:

- Prestigious income yielding investment
- Strength of hotel brand ensuring high occupancy and stability in returns
- In a rising residential market benefits capital value appreciation
- In a rising hotel market income growth from increases in Average Room Rates
- Minimum hassle – maintained and managed by hotel operator
- Low security and damage risk
- Ability to use the residence for personal use on a set number of days each year (0-14 days)



Source: Colliers International, 2014

“A premium residential product fusing the characteristics of a prime residential development with the service offering and brand profile of a quality hotel”

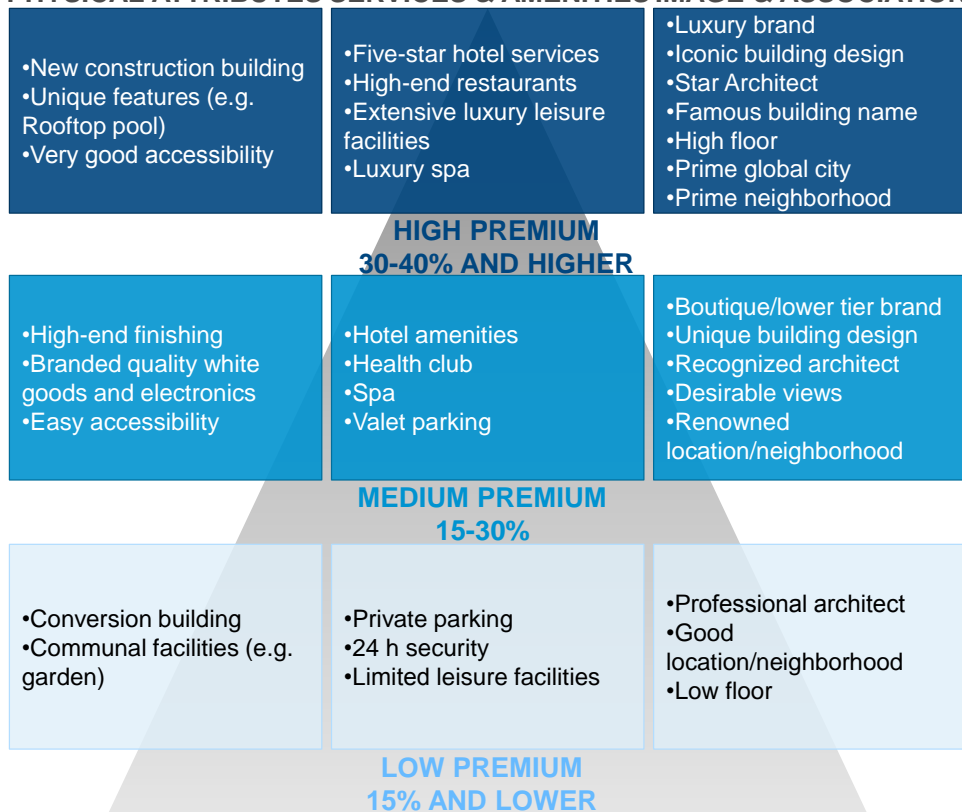


Source: Colliers International, 2014

Drivers of Premium

KEY DRIVERS OF PREMIUM BY BRANDED RESIDENCES

PHYSICAL ATTRIBUTES SERVICES & AMENITIES IMAGE & ASSOCIATION



Source: Colliers International, 2014

As branded residences are most often purchased by high net worth individuals (HNWI), an important consideration is the level of pride and status such an investment can bring. High status is often achieved through recognisable and famous elements to include the following:

High Floors and Views – within a single development, units on higher floors achieve a premium over the same residences on lower floors. Penthouses may often achieve an even higher premium, as they are sought for by HNWIs.

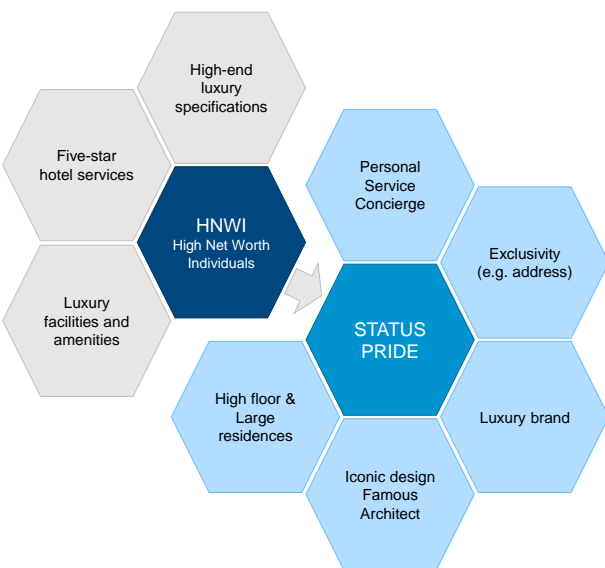
Quality of Location and Neighbourhood – Ultra prime neighbourhoods achieve premiums over other locations. Being located in an ultra prime location is key to attracting HNWIs.

Quality of Design and the “Starchitect” effect – Design quality is of high value to HNWIs. The use of famous architects reinforces the perceived quality of a building. The term “*Starchitect*” effect is often used to define the price premium a unit can achieve when designed by a star architect.

Range of Hotel Services and Facilities – will expect a range of five-star hotel services to automatically be offered with a high-end branded residential development.

Brand Positioning – The premium achieved by a brand can vary depending on its perceived image and positioning. The more luxurious a brand and the more high-end it is positioned, the higher premium it can achieve.

Exclusivity – Creating an impression of exclusivity for the development is key to creating a price premium. Invite only launches, limiting the number of available units and personality endorsement can help create an aura of exceptionality.

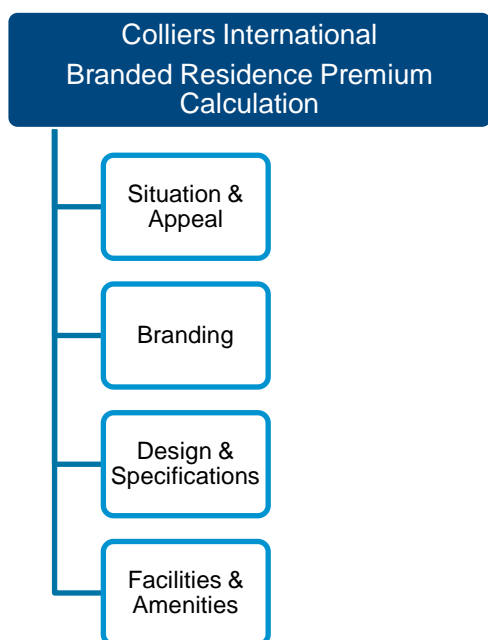


Source: Colliers International, 2014

“Physical attributes, range of services/ amenities and image/association are the key price premium drivers for Branded Residences”

Calculation of Premium

COLLIERS INTERNATIONAL – BRANDED RESIDENCES PREMIUM CALCULATION



Source: Colliers International, 2014

Branded Residences achieve high price premiums over other prime residential schemes in a specific market. Based on our knowledge of the asset class, Colliers International have devised a calculation method for estimating the premiums achieved by Branded Residences.

The Colliers International Branded Residence Premium is based upon the following weighted scoring categories, with their influencing factors also explained:

Situation & Appeal – This is the highest weighting of the categories. Factors that effect this category include being located in a prime global city, the appeal of the neighbourhood, unique features, views, and the exclusivity of the development.

Branding – Branding is the next highest scoring category and influenced by such factors as positioning of the brand, RevPAR index performance and the experience of the operating group in managing residencies.

Design & Specifications – This category is also an important component in the calculation and is influenced by iconic/unique design, the “Starchitect” effect, room sizes and quality of finish.

Facilities & Amenities – The range of services offered will also effect the attainable premium. To attain the highest premium residences should have access to such 5-star amenities such as parking (valet/ private), luxury spa, quality pool & leisure facilities and butler/maid/porter services.

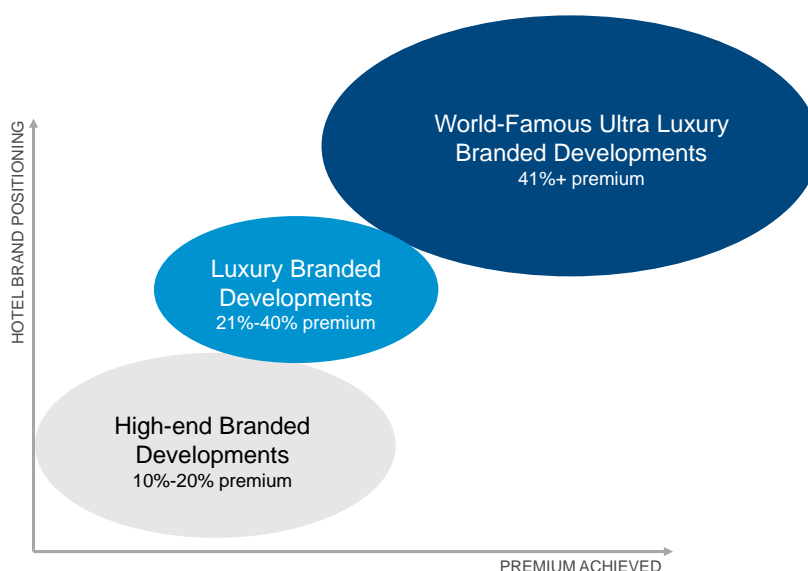
PREMIUM BY BRANDED RESIDENCES

Research conducted by Colliers International has found that brand positioning is highly correlated with the premium achieved by a development.

World-famous ultra luxury brands can achieve a price premium of between 41%+ when compared to prime residential developments.

Luxury brand typically achieve a premium of between 21-40%, with high-end brands achieving a lower premium of between 10%-20%.

“World-famous ultra luxury branded properties can achieve premiums of in excess of 41% above other prime residential properties – illustrating the significant demand for this type of residential development across many of the prime global cities”



Source: Colliers International, 2014

Case Study : New York City

NEW YORK CITY – OVERVIEW

The prime residential market in New York is famous for its iconic residential towers, many of which are branded.

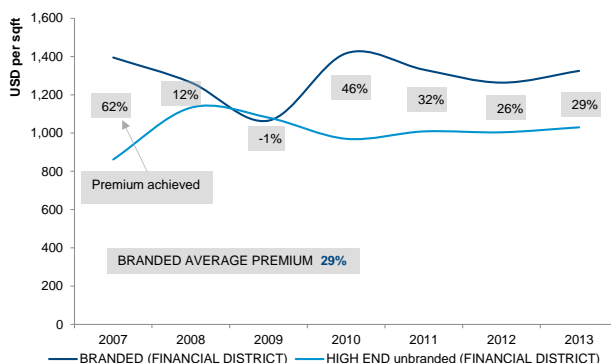
New York is recognized as one of the pioneer cities of Branded Residences, having a long history in the city's real estate market.

Colliers International have conducted extensive research into sales premiums achieved in the market by branded developments, a sample of which is presented below.

BRANDED PREMIUM – FINANCIAL DISTRICT

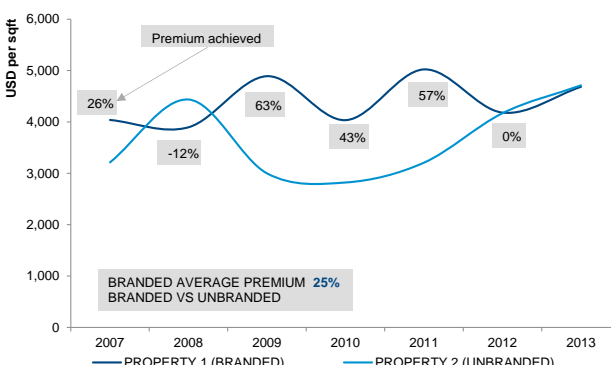
Part of our study focuses on the historical sales prices of high-end and luxury residential and branded condominiums in New York's Financial District. We analyzed a sample of branded and unbranded residences over a 7 year period (2007-2013) to calculate a premium for the location.

Financial District - Premium Calculation



Source: Colliers International, 2014

Midtown - Premium Calculation



Source: Colliers International, 2014

Key Findings

In this instance, the premium achieved by branded residences over non branded high-end residential properties in the Financial District of New York City was on average 29%.

BRANDED PREMIUM – MIDTOWN

A second piece of research carried out on the New York market looked at two iconic luxury residences located within the same mixed commercial and residential development in the Midtown area of the city. Again, one of the properties is branded, while the other is unbranded.

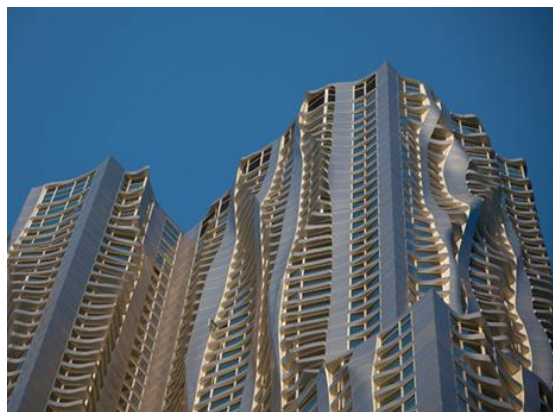
Key Findings

In the past 11 years, the branded residences achieved a 19% premium over the unbranded ones within the same development

This 20% premium is attributable mainly to 3 key factors which help differentiate the two properties.

- High-end quality brand
- 5-star services and amenities
- Superior facilities e.g. pool, gym etc.

Example of Starchitect Effect: 8 Spruce St, Manhattan, New York City



STARCHITECT EFFECT : 8 SPRUCE ST., LOWER MANHATTAN

Developers in New York City enlisted the help of famous architects to provide a unique selling point for their buildings for many years.

8 Spruce Street, located in lower Manhattan, is one of the city's most famous residential towers. Although it is not a hotel branded residence, it is a good example of how using a famous architect can help to promote, market and position a high end property,

Designed by Frank Gehry (Guggenheim Museum, Bilbao and Walt Disney Concert Hall, Los Angeles), the building is currently being marketed as "New York by Gehry".

UAE – Branded Residence Market

Armani Residences – Burj Khalifa, Dubai



“Dubai has witnessed exceptional development of branded residences over the past number of years, while Abu Dhabi is beginning to embrace the concept”

St. Regis Saadiyat Island Resort – Abu Dhabi



UAE OVERVIEW

The market for branded residences is most mature in the US and Europe, while the sector is emerging in the Middle East and South East Asia over the last number of years.

Dubai currently has a number of branded residences with further developments in the pipeline. The branded residence concept is particularly suited for the Dubai market given its international reputation as a luxury destination and the popularity of the city with visitors and expatriates.

Abu Dhabi has also taken to the concept of branded residences but is at an earlier stage of development than Dubai.

Outside of Dubai and Abu Dhabi, branded residence development is not prevalent given the relatively low international profile of the other cities across the UAE. However, there may be an opportunity for limited branded developments in these areas, for example branded holiday villas.

DUBAI

Arguably the most iconic branded residences in Dubai are the Armani Residences in the Burj Khalifa totaling 144 units, located in the downtown area of the city. This is noted as the first major branded residence development in Dubai.

The pipeline of stock due to come on the market is significant, with the Downtown and surrounding areas viewed as key locations. Paramount Residences will be located in the Downtown area, along with the new Palazzo Versace Condominiums in the nearby Dubai Culture Village.

The Palm Jumeirah is also witnessing a number of branded residence developments, typically attached to the many luxury hotel properties on the island. The Kempinski, Anantara and Fairmont hotels all offer branded residences and it is envisaged that many of the other planned hotels will also contain a branded residence element.

In terms of upscale branded residences, the market is fairly undeveloped in Dubai with the residences at the Movenpick Hotel at Laguna Tower in JLT being one of the few non-luxury branded residence developments in the city. This sector of the market represents a potential development opportunity.

ABU DHABI

The branded residence market in Abu Dhabi is a number of years behind Dubai in terms of development, however, it is beginning to advance as illustrated by the completion of the high profile residences at St. Regis Hotel, Saadiyat Island.

In terms of pipeline, the planned new Fairmont Hotel (adjacent to the Marina Mall) is due to offer 105 branded residential apartments showing further development of the branded residence concept in Abu Dhabi.

Given that the branded development concept is in its infancy in Abu Dhabi, we expect further growth in this segment as the market continues to mature.

KSA – Branded Residence Market

KSA OVERVIEW

Millennium Hotels & Resorts – Jeddah



Source: Millennium Hotels & Resorts, 2014

Paramount Hotels & Resorts – Riyadh



Source: Damac Properties, 2014

The branded residence market in Saudi Arabia is at an early stage of development and presents a specific growth area for the real estate market in the country. Over the past decade, the general hotel stock has been modernized with a large number of international hotel operators entering the market, many of which are growing their brand portfolio across the country.

Although the major KSA cities may not have high global appeal, given the large concentration of high net worth individuals, the growing maturity of the general real estate market and the increasing number of expatriate workers, it appears the conditions are favourable for the expansion of the branded residence concept in specific locations in the country.

With regard to price premiums, based on research carried out by Colliers International, prices of units vary considerably based on height (elevation), sea view and number of units per floor. Full sea view residences are particularly valuable and carry a 29% premium above those with limited/very limited sea views.

JEDDAH

The Jeddah branded residence market is undeveloped at present with no current hotel branded residence stock.

An example of development that does benefit from brand association (but is not branded) is the new Damac Residences which is due to be completed shortly and will comprise 231 units. Although there is no hotel component or services offered with the property, Versace have designed 49 of the residences providing a unique selling point that will help position the property.

With regard to forthcoming stock, Millennium Hotels & Resorts are due to bring the first fully branded hotel residences to Jeddah in 2017. The group have announced a new 305 key hotel in the city which will include a mix of hotel rooms, serviced apartments and branded residences.

RIYADH

The branded residence market in Riyadh is also in its infancy. The first branded residences to be announced for the city is the new Paramount Hotel & Resort Hotel located in central Riyadh and will include 215 branded residences.

In terms of other prime residential developments, the new Burj Rafal Tower comprising 440 residential apartments is located next to the new Kempinski Hotel. Although there is no branding agreement with the hotel, we understand apartment users will have the option to utilize hotel services at a cost.

Marketing Branded Residences in KSA

- Target HNWI and UHNWI in Saudi Arabia.
- Launch Branded Residences “By Invitation Only” to increase exclusivity and appeal to HNWI.
- Large residences will appeal to the HNWI.
- Create a limited number of residences to ensure exclusivity.

Source: Colliers International, 2014

DRIVING DEMAND IN KSA – HIGH NET WORTH INDIVIDUALS (HNWI)

The property market in Saudi Arabia is mostly limited to Saudi nationals. With regard to branded residences, this type of product will have to specifically appeal to domestic high net worth individuals.

According to the Wealth-X and UBS World Ultra Wealth Report 2013, there are 1,360 Ultra HNWI who are classed as having assets worth in excess of USD30M in KSA. There are another 113,300 HNWI with more than USD1M indicating that there is sufficient HNWI to target when developing branded residence property in the Kingdom. Overall, real estate has been found to account for 24.7% of the wealth of HNWI in KSA.

Conclusion & Opportunities

SUMMARY OF BRANDED RESIDENCES

Although a well established concept across many global cities, the branded residence model is fairly new to the Middle East. Dubai is the most developed market regionally, while Abu Dhabi and the KSA cities of Riyadh and Jeddah are emerging with some new and exciting projects.

It has been shown that branded residences achieve a significant premium over other non-branded high-end residential properties.

A number of factors directly influence the price premiums that can be achieved by branded residences. Developers should consider these factors to ensure the highest premium for their development.

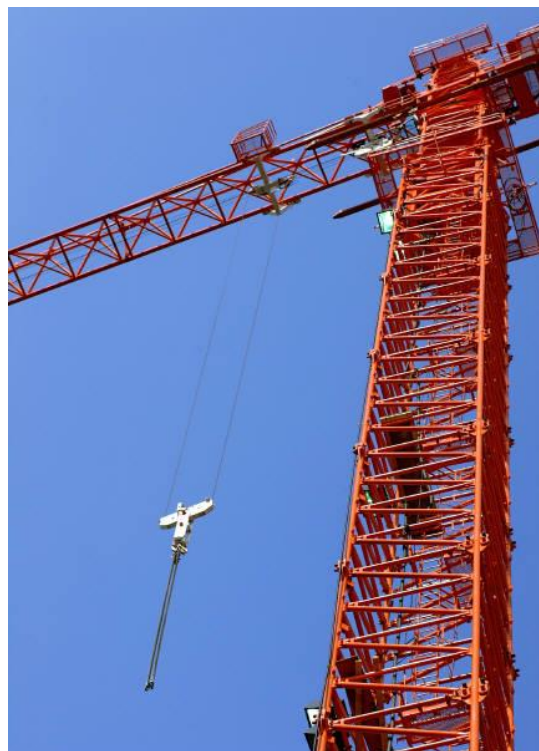
CONSIDERATIONS FOR REAL ESTATE DEVELOPERS

1. Choose a high quality location/neighborhood that reflects the prestige of the development.
2. Construct a building of high design quality (possibility of Starchitect effect).
3. Partner with a high quality hotel brand that to reflect the high end/luxury positioning.
4. Ensure the hotel operator can deliver/make available a wide range of quality hotel services and facilities for owners.
5. Locate the branded residence component on the upper floors of the development. Units on higher floors command the largest premiums.
6. Market the product at High Net Worth Individuals (HNWI's). Launch a limited number of residences at one time to ensure exclusivity, have an invite only launch, etc.
7. Agree a rental pool agreement with the hotel operator to appeal to the investor market.

OPPORTUNITIES IN THE UAE AND KSA

Based on our study of the branded residence market in both the UAE and KSA, the following are the areas of opportunity for the concept:

- In Dubai there is limited development in the Upper Upscale branded residence market. Although developers will not achieve the same premium as luxury branded residences, partnering with an Upper Upscale brand is a credible development option in areas of the city that are not suitable for luxury developments (away from beachfront or downtown areas).
- As the branded residence market in Abu Dhabi is in its infancy, opportunities exist to develop a range of branded residences from Upper Upscale to Luxury developments.
- Branded Residence market in KSA is also emerging with some exciting developments in the pipeline. Given the restrictions of buying real estate in the Kingdom for non-nationals, branded developments should be developed with the needs of the domestic market in mind. Appealing to Saudi HNWIs is key, with luxury developments being the most appropriate positioning to appeal to this sector.



“Development opportunities are plentiful for branded residences in both the UAE and KSA. Developers should consider a number of factors before embarking on such projects to ensure the maximum price premium for the development ”

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

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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.

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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



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

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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

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

OUR SERVICES

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