TOURISM IN SAUDI ARABIA ² ³

<table>
<thead>
<tr>
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<th>2014</th>
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<tbody>
<tr>
<td>Growth Rate</td>
<td>2014</td>
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<tr>
<td>Earnings from inbound tourism</td>
<td>USD Million</td>
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<tr>
<td>Investment</td>
<td>USD Million</td>
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<tr>
<td>Inbound Tourists</td>
<td>Million</td>
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<tr>
<td>Rooms Available</td>
<td>318,833</td>
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² World Travel and Tourism Council
³ Business Monitor International

Saudi Arabia Tourism Opinion Piece

The Kingdom of Saudi Arabia is a land of opportunities and contradictions in terms of tourism development potential:

- Strict entry visa procedures yet strong inbound tourism growth potential;
- A large and fast growing population (27m in 2010) but currently limited leisure product to capitalise on domestic tourism potential.
- A very young and increasingly affluent population with limited opportunities for out-of-home leisure and entertainment.
- A number of stunning land and marine-based natural heritage assets but as yet limited investment and marketing to promote their tourism potential.
- A naturally welcoming and hospitable population with the potential to provide first class tourism, leisure and hospitality ‘services’;
- A competitive and open business environment that is fully primed to engage and partner with international tourism investors, developers and operators.

The Saudi Government has recognised the need to diversify away from its dependence on oil, and the tourism industry has been identified as a priority area for investment. Government expenditure to date has been particularly focused on developing the religious tourism (Mecca and Medina together attracted c. 4.4m inbound tourists and 5.2mm domestic tourists in 2009) and business travel sectors.

The statistics are impressive. BMI figures put inbound tourist arrivals to the country in 2010 at 12.9m and an average 6.7% year-on-year growth is forecasted until 2014. In 2014 there will be an estimated 16.7m inbound tourist arrivals to Saudi Arabia.

Yet, the real opportunity for the country lies in the growing domestic tourism industry. The Government is committed to substantially increase this market to capture some of the capital spent by the c. 8.2m Saudi residents that currently travel abroad each year. In 2009, it is estimated that c. 32m domestic tourism trips (199m nights) were taken within the country. The Saudi Commission for Tourism and Antiquities (SCTA) forecasts that domestic tourism will grow to a staggering 128m trips and 640m nights by 2019.

Colliers’ broad based experience has been invaluable in helping us take forward a number of innovative and exciting new developments that will help to transform the leisure and tourism offer of Jeddah.

Tareq Telmesani, CEO, Jeddah Development & Urban Regeneration Company.

¹ Saudi Arabia Tourism Report, Q4 2010. Business Monitor International
Although a bullish target, a number of positive market and product development factors provide confidence that such a target could be achievable.

MARKET FACTORS

- **A large and growing population** The population is estimated to grow from 27 million in 2010 to 28.6 million in 2015 to 31.2 million in 2020. Demand from domestic consumers has helped the Saudi economy to weather the global recession and will continue to underpin the expansion of the retail, leisure and tourism sectors.

- **A youthful population** More than half of the Saudi nationals are under the age of 25. This opens up tremendous opportunities for the leisure and tourism industry to provide ‘something to do’ for this market that has ever increasing aspirations for quality leisure and entertainment experiences.

- **Rising disposable incomes** Income levels in the country are now comparable with many European countries with GDP per capita forecast to grow by 21.4% between 2011 and 2015 to over SAR 71,100 (US$18,960) per annum*. Furthermore, nationals benefit from zero income tax, free education and healthcare, and grants towards the costs of weddings and first homes.

- **Education and training** To support the diversification of the economy and to reduce the reliance on foreign skilled workers, the government has invested significant sums in the expansion of the education system. The plans include thousands of new schools and a number of major new universities. New courses to support employment in the tourism sector are being introduced.

PRODUCT DEVELOPMENT & INVESTMENT FACTORS

- **Marketing and events** Saudi Arabia has been boosting its tourism marketing in recent years. The tourism board supported 18 festivals in 2010 targeting all age groups. The festivals were held throughout the country and included sport events, entertainment, and Saudi culture and heritage activities.

- **Attractions development** Approximately 40 private museums have been licensed to be established using the latest technology to showcase Saudi Arabia’s heritage and antiquities.

- **Encouraging private sector investment and partnership** SCTA has publicly stated that it is particularly keen to encourage the private sector to take precedence in the establishment of international quality tourism facilities and attractions through investment in the Kingdom and will do all it can to support potential private sector partners.

There is much to be done for the Kingdom to reach its full domestic tourism potential. Tourism is a complex industry, with a complex mix of customers. Its reach penetrates many parts of the economy and community.

All of the elements identified in the Colliers Tourism Universe diagram below will need to be considered and addressed to deliver a comprehensive tourism experience matching the needs of Saudi customers.

The Colliers International Destination Consulting team understands all parts of this complex industry and is currently working on a large number of tourism development initiatives all across the Kingdom. We advise on the key ingredients of success in delivering a leisure, cultural and tourism destination that meets the needs of both destination creators (developers, investors, government stakeholders) and the destination consumers (residents and visitors).

We combine over 8 years of local experience in the Saudi market with over 20 years of experience in international destination development to advise our clients throughout all stages of the destination development lifecycle:

- Destination concept, strategy and product development
- Market & Financial Feasibility Study
- Development Consultancy & Highest and Best Use Analysis
- Operator Search & Contract Negotiation
- Project Monitoring (Assistance with Pre-Opening Expenses and Business Plan)
- Asset Management/Operational & Financial Performance Review
- Site and Asset Investment Strategy/Brokerage
- RICS Valuations/Corporate Finance/IPOs

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5 Historical CAGR of 3.04% between 2004 and 2010
6 Research division from SCTA (MAS)