Fundamental Drivers of Tourism

INTRODUCTION

The Saudi hotel market is predominantly driven by corporate room nights, especially in the capital Riyadh where leisure currently only accounts for 12% of demand. Following the announcement of Saudi Vision 2030 and with the objective to increase tourism’s role, it is expected that there will be an increased focus on leisure, religious and domestic tourism.

ONGOING AND NEW INITIATIVES

Vision 2030 includes a number of strategic goals that would lead to an increased contribution from the non-oil sectors. Tourism is a significant part of the vision, and includes objectives such as development of facilities and entertainment options to sustain a growth in tourism.

- Increasing the capacity to welcome Umrah visitors from 8 to 30 million per year. Work towards achieving this goal has already started, as both Holy Mosques have large expansion plans, and Makkah and Madinah have major infrastructure projects under works or in the pipeline that would facilitate travel to and within these destinations.

- To double the number of UNESCO heritage sites, which would encourage more domestic leisure tourism. There are currently 4 Saudi sites on the world heritage list, with another 10 sites submitted on the tentative list.

- To increase household spending on cultural and entertainment activities inside the country, from 2.9% to 6%. Activity has already begun, with the government’s appointment of the board of the General Entertainment Authority, and Six Flags announcing their expansion into Saudi Arabia, with the first park likely to open as soon as 2020-2021. Government data forecasts that domestic tourism will grow by 7.5% per annum until 2020, compared to 6.1% for inbound tourism.

LEISURE DEMAND IN HOTELS (% OF TOTAL)

RIYADH LEISURE TOURISM SET FOR GROWTH

Riyadh is expected to see the opening of a potential Six Flags theme park and 2 major malls: Mall of Saudi with 300,000 m² of retail and entertainment space, a large snow park and hotels, and The Avenues Riyadh, a USD 1.9bn shopping complex. These facilities will undoubtedly increase the domestic leisure tourism to Riyadh, which would in turn increase the length of stay and weekend occupancy in the city.

RIYADH LEISURE TOURISM SET FOR GROWTH

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DOMESTIC LEISURE DESTINATIONS IN SAUDI ARABIA

Istirahas & Urban Resorts (Riyadh)

Commonly used by domestic groups and families during weekends and holidays, these Istirahas and chalet resorts are located near Riyadh. Occupancy rates range from 35 to 65% due to seasonality, with some days as low as 10%, while average rates can go from SAR 800 to 2,200.

In the end of 2016, 3 resorts opened in the North of Riyadh, the largest being Al Faisiliah Resort (98 rooms), which further diversifies Riyadh’s leisure offering and strengthens the fundamentals for the city’s development of its leisure tourism.

Obbur & North Jeddah (Jeddah)

Obbur is home to a number of vacation homes and compounds in the north of Jeddah; currently the resort supply of Jeddah is just shy of 1,000 keys. 90% of guests are Saudi and GCC nationals. Mövenpick Resort Al Nafwas is currently the only internationally branded chalet resort, leaving further opportunities for market penetration.

Half Moon Bay (Al Khobar)

Several masterplans have been announced and partly developed in Half Moon Bay, consisting mainly of holiday homes and chalet resorts. Of the supply currently on offer, 64% consists of chalets (as opposed to rooms) as the demographic is very family-oriented. Guests have become increasingly price-sensitive and hence the popularity of smaller chalets have risen. The local Braitwa Resort opened its 4-star resort in December 2016, and a Radisson Blu Resort is expected to open in 2017.
**HOTEL PERFORMANCE REVIEW**

After a period with low oil prices and cautionary corporate spending, all major cities experienced a drop in occupancy and average rate, except for the occupancy increase in Makkah and rate increase in Jeddah.

The performance change in 2017 is forecasted to be less accentuated in most markets compared to 2016.

**SAUDI HOTEL TRENDS**

The Saudi market has historically been dominated by conventional upscale corporate hotels, often lacking a unique character. However, the market has recently seen the introduction of new home-grown brands and concepts as well as lifestyle hotels:

- New lifestyle hotel concepts are emerging, such as Aloft Hotel Riyadh which opened in September 2016. Indigo Riyadh KAFD is in the pipeline.

- Home-grown brands such as Bouddi’s 4-star brand Braira and 5-star brand Narcissus are gaining momentum with hotels recently opened in Riyadh and Al Khobar.

- Riyadh has seen the development of true boutique hotels, such as Mira Trio and Al Mashreq (Small Luxury Hotels of the World) with less than 100 rooms.

**BRANDED ECONOMY HOTELS**

The gap of economy hotels (generally 2 and 3-star) in Saudi Arabia still exists. Currently, the supply of affordable accommodation is unbranded and of low quality, while most internationally branded hotels are in the upmarket segments. With the future pipeline, the supply of internationally branded economy hotel rooms is expected to reach 7,600 by 2021, the majority of which will be developed in Makkah. Gaps still remain, especially to target the increasingly price-sensitive hotel guests.

**DISTRIBUTION OF BRANDED ECONOMY HOTEL ROOMS IN 2021 BY CITY (% OF TOTAL)**

Source: Colliers International, 2017
Note: Includes Internationally Branded Economy Hotels Only
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