



Riyadh Market Snapshot

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Map of Saudi Arabia



City Overview

Riyadh is the capital and largest city of the Kingdom of Saudi Arabia. It is located in the Ar Riyad province, in the Najd region. Riyadh lies on a large plateau at the centre of the Arabian Peninsula and it is home to a population of more than 4,200,000 (around 20% of the nation's population). The city lies in Saudi Arabia's 'central corridor' of development that is defined by Buraydah to the north and Al Kharj to the south.



In addition to being the centre of power, Riyadh is a commercial hub. Numerous educational, financial, agricultural, cultural, technical and social organisations have a base there. The most striking aspect of Riyadh is its architecture, which is a vibrant mix of the old and the new: traditional buildings stand in the shadow of contemporary high-rise structures.

The bustling Olaya district is the heart of the city and it offers a choice of accommodation, entertainment, dining and shopping. The Kingdom Centre, Al Faisaliah and Al-Talia Street are the area's main landmarks. The centre of the city, Al-Bathaa and Al-Dira, is also its oldest part. At its heart lies one of the city's major attractions: the nineteenth-century Masmak Fort. The Riyadh Museum of History and Archaeology lies to the west. The Diplomatic Quarter is home to foreign embassies, international organisations, residential structures and shopping centres. With its lush gardens and numerous sports facilities, the Diplomatic Quarter is also one of the city's greenest areas. The Al-Khobar district is the preferred residential choice for expatriates; however, the Al-Dira area is also rich in commercial markets and traditional buildings, which include the famous Royal Palace, the Al-Mu'eqilia market and the Grand Mosque. We note that the city centre is now expanding, with many businesses moving out of the centre to the north and south.

Economics and Politics

The Economist Intelligence Unit (EIU) forecasts economic growth to remain robust in 2008-09, driven by strong government spending and foreign investment and an expected pick-up in oil output. Continued high oil prices are also envisaged to generate large current-account and fiscal surpluses. Inflation is expected to remain low by regional standards, mitigating pressure for a revaluation of the Saudi riyal's peg to the US dollar.

The EIU has forecast national GDP growth of 5.6% in 2008, 5.6% in 2009 and 5.4% in 2010. Consumer price inflation is expected to be 4.2% in 2008 and approximately 3.8% thereafter.

Politically, the USA is bound to remain Saudi Arabia's most important strategic partner, regardless of the result of the US presidential elections. Relations with Iraq, Iran and Syria will continue to be difficult and tensions owing to this are likely to persist.

Developments and Initiatives

In the past, the government's move towards reform has been relatively slow; however, the authorities have begun implementing cautious economic reforms, aimed primarily at developing the non-oil sector. Economic growth in recent years has been driven by strong government spending and foreign investment in the non-oil sector and a pick-up in oil output, which have given inevitable rise to the demand in quality hotel rooms. Furthermore, the government is seeking private-sector investment in various towers and economic cities around the country,



encompassing a more diversified (and possibly overambitious) range of economic sectors. Below are a few of the projects that are planned in the Riyadh area as part of the 2020 vision for the country. Due to the complexity of these projects, the exact opening dates of the developments are still unknown.

The World Jewel Capital: an ambitious three-in-one complex envisioned by Prince Bandar Bin Mohammed Al-Saud. This SAR1.5 billion project will target, among others, Saudi women, who own an estimated 40% of the country's private wealth. As part of the 35-storey tower, the jewellery showroom will provide a luxurious setting complemented with a seven-star hotel (the first of its kind in Riyadh), luxurious villas and a four-storey commercial centre. However, it is important to note that the hotel component of the development is still considered speculative.

The Al Rajhi Tower: a proposed US\$480 million tower in Riyadh is being built on behalf of the Al Rajhi family and will be used for commercial purposes. The family is considered by many in Saudi Arabia to be the wealthiest non-royals.

King Abdullah International Gardens: a 160-hectare futuristic botanical garden in Riyadh. This US\$170 million project will be a leisure destination and will stand as a cornerstone of the city's growth. The central component of this proposal is the desire to showcase sustainable development techniques by using solar power, wind turbines and recycling.

King Abdullah Financial District: a 1.6 million m² site with over 3 million m² of floor space. This project is designed as a state-of-the-art and fully self-contained centre for doing business and facilitating investment in the Kingdom and the region as a whole. Major banks, financial institutions, professional service companies and the country's stock exchange (Tadawul), among others, have indicated their intention to relocate to this development.

Visitation and the Hotel Market

As per the statistics compiled by the Tourism Information and Research Centre, Kingdom of Saudi Arabia, visitation to Riyadh emanates mostly from Muslim countries in the Middle East. Approximately 15% of visitation emanates from non-Muslim countries.

International passenger movements at King Khaled International Airport (Riyadh) increased by approximately 7.5% in 2006 whilst domestic passenger movements increased by a modest 2%, resulting in an overall increase of approximately 4%. We note that of the entire airport passenger movements at King Khaled International Airport, 40% were international travellers.



In 2007, business travel made up approximately 35% of the total visitation to Riyadh, travelling for shopping or other leisure-related activities constituted 25%, and approximately 40% of visitation was made up of those visiting friends and relatives. This makes Riyadh essentially a business destination for hotel accommodation.

Unlike other business destinations, Riyadh suffers from irregular seasonality. Occupancies generally drop significantly during religious festivals, particularly during the holy month of Ramadan. Occupancies also drop from June until August because of extreme heat. In addition, January is considered to be a slow month for transient accommodation due to a slowdown in business activities in Riyadh's feeder markets.

Approximately 10% of the hotel supply in Riyadh is in the five-star hotel category and approximately 30% is in the four-star category. The four-star market in Riyadh is highly fragmented with limited brand presence. However, this is expected to change in the near future as new branded four-star hotels are expected to open (see below).

Marketwide occupancy for branded and quality hotels in 2007 increased by two percentage points to 72%. This modest increase reflects stability and ongoing growth in the area. Average rate, however, had a second consecutive significant increase in 2007 as it increased by approximately 30% to SAR545. This growth was achieved by imaginative pricing strategies exercised by various hotels during busy periods. Increases in average rate are otherwise difficult to achieve in Saudi Arabia due to the government's policy on having a rate ceiling whereby hotels cannot charge more than a certain rate. We note that the government is reviewing this policy and is likely to discontinue it.

As a result of the pricing strategy and modest occupancy growth, the marketwide revenue per available room (RevPAR) increased by approximately 35% to SAR392 in 2007.

New Hotel Supply

Table 1 details the new hotel supply that is expected to enter the market in the near future.


Table 1 Proposed New Hotel Supply

Proposed Property	Number of Opening	
	Rooms	Date
Mövenpick Hotel Riyadh	300	2008
Novotel Al Naud	210	2008
Park Inn	250	2009
Courtyard by Marriott	200	2010
Crowne Plaza ¹	300	2010
Ritz-Carlton	250	2011
Four-Star Hotel (Northern Ring Road)	200	2011
Five-Star Hotel (Granada)	450	2012
Total	2,160	

¹Rumoured Project

Source: HVS Research

- Novotel Al Naud was supposed to open in late 2007; however, it is now expected to open in the second quarter of 2008;
- Planning permission has been sought for a five-star hotel and serviced apartments next to the Granada shopping mall. The developer of this project is General Organisation for Social Insurance (GOSI). The brand for this project is still unknown. The development will also feature a business park;
- Planning permission has also been sought for a hotel and serviced apartment development on the northern ring road. The brand for this project is also unknown;
- There are rumours for that a 300-room Crowne Plaza is to be developed in Riyadh. However, no further details were available at this time;
- We note that international hotel operators such as Hilton, Starwood and Accor are currently actively looking to establish a presence in Riyadh;
- Apart from the above new entrants, we note that there are plans to demolish the existing Al Khozama hotel in the Al Faisiliah complex to make way for a luxury five-star hotel.

Outlook and Opportunities

The numerous proposed developments are bound to affect the existing occupancy levels in the medium term; however, with the government's plan to scrap the rate ceiling, it might be seen as a respite to help RevPAR grow during that term as hotels will look at revising their rates.

The government of Saudi Arabia is continuing with its efforts to restructure the economy away from a reliance on oil exports. We



consider that the Kingdom of Saudi Arabia has strong potential for tourism if it copes with socio-demographic challenges such as human rights and women's liberation.

The country has experienced considerable growth in demand over the past two years, a trend which is expected to continue. The reasons for this growth are improved security measures and the Middle East's attractiveness to investors and other business-related clients caused by higher oil prices stimulating business activity.

We are not only of the opinion that the market for transient accommodation will grow, but also that it will be sustainable over the long term.

No investment decision should be made based on the information in this survey. For further advice please contact the authors.



About our Team

HVS has a team of Middle East experts that conducts our operations in the Middle East and Egypt. The team benefits from international and local cultural backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last three years, the team has advised on more than 100 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$10 billion worth of hotel real estate in the region.

About the Authors



Saurabh Chawla is a Senior Associate with HVS's London office. He joined HVS in 2006 after seven years' operational and managerial experience in the hospitality industry. Originally from New Delhi, India, Saurabh holds an MBA from IMHI (ESSEC Business School – France), a Diploma in Hotel Management from National Council for Hotel Management and Catering Technology, New Delhi and a Bachelor of Commerce degree from Delhi University, New Delhi. Since joining HVS he has advised owners on many hotel and hotel-related investment projects and strategic developments in Europe, the Middle East and Africa.



Hala Matar Choufany is a Director with HVS and is responsible for the firm's valuation and consulting work in the Middle East and Egypt. She initially joined HVS London in 2005, before moving to HVS Shanghai in September 2006 where she helped grow the HVS Shanghai office and business in the Asia region. She relocated to Dubai in September 2007 and now looks after HVS's interests in the Middle East. Previously, Hala had four years of operational and managerial experience in the hotel industry. She lectured at Notre Dame University in Lebanon on International Travel and Tourism and holds an MPhil from Leeds University, UK, an MBA from IMHI (Essec-Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon.

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