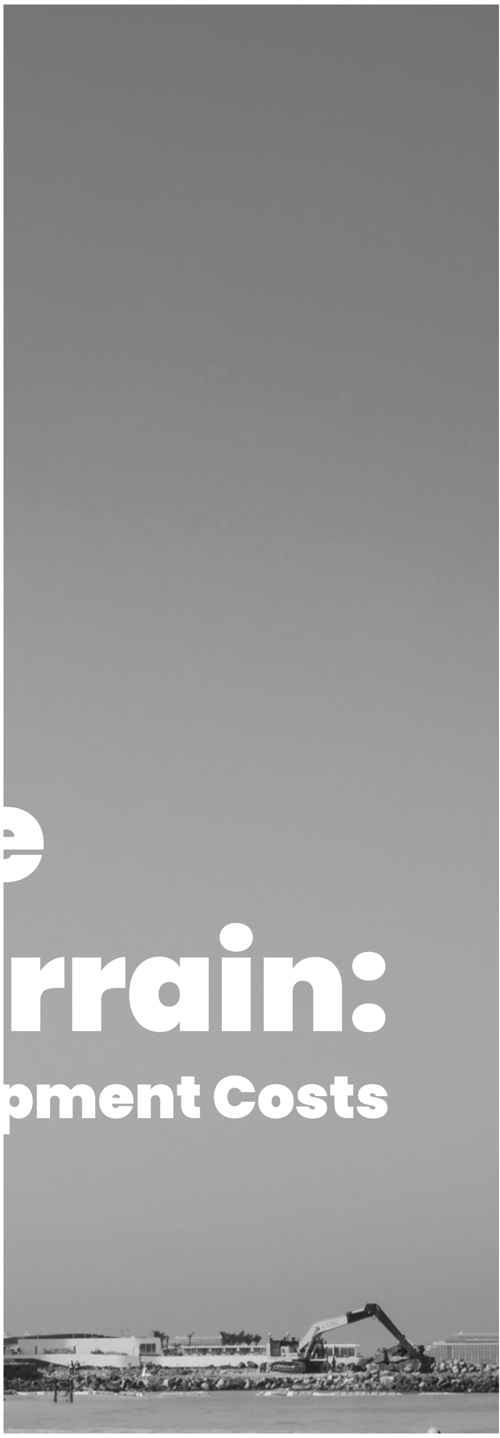
20 September 2023





Navigating the Investment Terrain:

Trends in GCC Hotel Development Costs

HVS

WOOD COUTURE

Authors Opening Comments

Welcome to the world of hospitality development, where unique developments and unforgettable moments come to life. We are thrilled to introduce you to our latest publication, "Navigating the Investment Terrain: Trends in GCC Hotel Development Costs" where we delve deep into the intricate world of hotel development costs, unveiling the secrets that impact project costs and hotel values. In this joint publication, we outline the main hotel development expenses and recent trends in hotel development and design. Whether you are a seasoned developer, an aspiring hotelier, or simply an enthusiast curious about the inner workings of the industry, we hope this publication equips you with the knowledge to navigate this dynamic industry successfully.

Our team of experts has gathered invaluable insights, best practices, and case studies from the forefront of hotel development which forms the basis of our cost indication.

Collectively, Hala Matar Choufany and Filippo Sona have advised on more than 10,000 hotel projects in the region, bringing tremendous experience, and unparalleled insights into hotel development costs and recent trends in the industry.

Collaboration

At the heart of this thriving landscape, two industry giants unite - HVS and Wood Couture. With an unmatched legacy and unrivaled expertise, they bring you a collaborative publication that is destined to become the compass for those involved in the hospitality investment and terrain in the GCC.

HVS

HVS, a global leader in hospitality consulting, has for decades, been a guiding star for investors, developers, and operators in the GCC region across every stage of hospitality development, from ownership to operation and management, disposition and exit. Their insights have been instrumental in shaping some of the most iconic hotels and resorts in the region.

WOOD COUTURE

Wood Couture, synonymous with exquisite craftsmanship, has woven its artistry into the very fabric of luxury hotels across the world. With a portfolio that exudes elegance and an unwavering commitment to excellence, they have been instrumental in crafting spaces that elevate the guest experience to new heights.

In this collaborative publication, we embark on a journey into the heart of hotel development in the GCC. We shed light on the trends that are redefining hotel development, and provide an indication of cost per key and cost per sqm for different asset types.

Special thanks to Irmak Sen and Alexander Lebedev – HVS, Candy Juala & Lilia Chehab at Wood Couture for their valuable contribution to this publication.

Methodology & Disclamer

For the purpose of this publication, we have tracked, analyzed and compiled hotel development costs in key Middle Eastern markets. Each year, we monitor and record development costs in our database of actual hotel construction budgets, analyze industry reports and cost benchmarks per brand provided by hotel management companies. These sources provide the basis for our range of elemental costs per room.

The primary objective of this article is to analyze prevailing market trends within the hospitality industry and to provide insights into hotel costs across various positioning strategies. Crafted with a dual audience in mind, the article caters to both hospitality professionals and individuals without formal hospitality education. By presenting the information in a clear and accessible manner, the article aims to ensure that a broad spectrum of readers can comprehend and benefit from the valuable insights presented.

For the purpose of this publication, we have developed the following summary format for development budgets which forms the basis for our cost categories. We find these categories are meaningful for hotel professionals when undertaking analysis relating to hotel feasibility. While the proposed structure is not an accounting practice, it does provide a basis to analyze proposed projects.

Land has purposely been excluded from this analysis as land costs in the Middle East vary greatly depending on location. Removing land cost also allows for a fair comparison of development costs irrespective of freehold or leasehold land tenures.

We note the exclusion of Budget hotels from this publication due to the limited data available to draw sound conclusions on development costs for this classification of hotels.

Land:

Not included in this study.

Hard Cost:

Building Costs, Contractor Overhead, Site Improvements, Landscaping Costs, Parking, Subcontractor's Bids, Engineering Costs, Building and Monument Signage, Construction Contingency.

Fixtures, Furniture and Equipment (FF&E) and Operating Supplies and Equipment (OS&E):

Guestroom Furniture and Fixtures, Bathroom Furniture and Fixtures, Public Space and Meeting Room Furniture and Fixtures, Kitchen and Laundry Equipment, Soft goods including carpets, drapes and room accessories, supply inventories – linen, operating supplies, initial purchases.

Soft Costs:

Financing Costs, Architectural/ Design Fees, Interior Design Fees, Other Professional Fees (legal, consultants, etc.), Technical Services Fees, Pre-opening Recruitment, Staffing, Training, Operating Reserves, Marketing Expenses.

There are factors, unique to each hotel project, which will influence the development costs. The following list is not exhaustive but highlights some of the most relevant factors in this region:

- The differences in building material costs in each market have a significant impact on the Construction/Hard Costs of a development, which account for the largest portion of the overall development cost. Construction/Hard Costs therefore vary per market, which are the fundamental reasons for variances in overall development costs in different markets. Our experience in hotel feasibility studies and reviews of numerous development budgets indicate that the other cost categories such as FF&E and OS&E, Soft Costs, and Pre-opening and Marketing, are less influenced by geographic factors. They are usually more influenced by individual hotel brand standards, abilities to negotiate favorable procurement contracts, debt financing terms, variances in consultant fees, and the efficiency of the overall development process.
- The data represent a wide array of geographical locations within each market. The development costs of the same hotel classification, for example an upscale hotel, can vary substantially between two different locations in the same market. This is because development cost budgets are heavily influenced by building design, spatial planning, site conditions, project delays, as well as the individual aspirations of the owner/developer. Market conditions between 2020 and 2023 also changed, which impacted the prices of building materials and prices being charged by contractors.
- The principal building materials used in construction include cement, concrete, sand, steel, wood, plastic and fuel, and their prices vary upon the amount of supply and demand in the market. Building material costs are therefore tied to the amount of construction activity in a market and further beyond. Construction activity also includes sectors outside of real estate such as transport, power, and other infrastructure. Markets that are experiencing construction booms across multiple sectors are more likely to encounter shortages in supply of materials, which would drive material input prices upwards. In addition to the shift in costs is the increasingly global sourcing of materials, where transportation costs and currency exchange rates play an important role. Supply and demand influences are magnified by the challenges of procuring materials due to changes in global availability, pricing, quality, and delivery.
- Owner aspirations and personal reasons for developing a hotel are not always entirely motivated by financial returns. These types of investments, which are known to be more common in this region, will typically see hotel projects being developed at much higher budgets than the norm;
- Site conditions - Certain sites in remote locations will require the installation of their own water treatment facilities and power grids to support a hotel development. Sometimes accessibility to the site can be a challenge, which is likely to require additional road construction. The general topography can pose design challenges while soil conditions will dictate the level of depth and method needed to lay the building foundations;
- Hotels that form part of mixed-use developments can benefit from shared facilities where costs are divided between different components of the development;
- Resort developments are typically built at lower densities over larger surface areas, hence requiring higher landscaping costs. Room sizes are usually larger, and the properties will offer a wider variety of facilities;
- Procurement strategies are different methods of realising a construction project. Developers can choose to differ from the traditional approach of appointing the designer and contractor separately. The Design-build method for example, appoints a single entity for the design and contracting, which can shorten delivery timelines and reduce costs, while also reducing the development risk;
- Changes in regulatory requirements for hotels to qualify for different classifications, such as minimum room sizes and number of food and beverage outlets, can increase development costs if the regulations stipulate larger facilities and higher standards.
- **We recommend** that users of the "Navigating the Investment Terrain: Trends in GCC Hotel Development Costs" consider the material presented here as a general guide and that no investment decision should be based purely on these estimates without seeking validation of development budgets from specialized cost consultants.
- All individual property information used by HVS and Wood Couture for the development cost publication is provided on a confidential basis and is believed to be reliable. Data from individual sources are not disclosed.

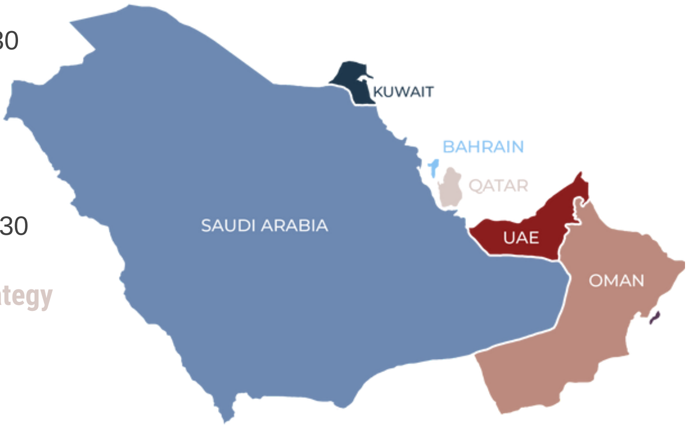
GCC in Numbers

GCC Countries' Visions & Tourism Strategies

UAE Tourism Strategy 2031
40 Mn Tourists by 2030

Saudi Arabia 2030 Vision
100 Mn Tourists by 2030

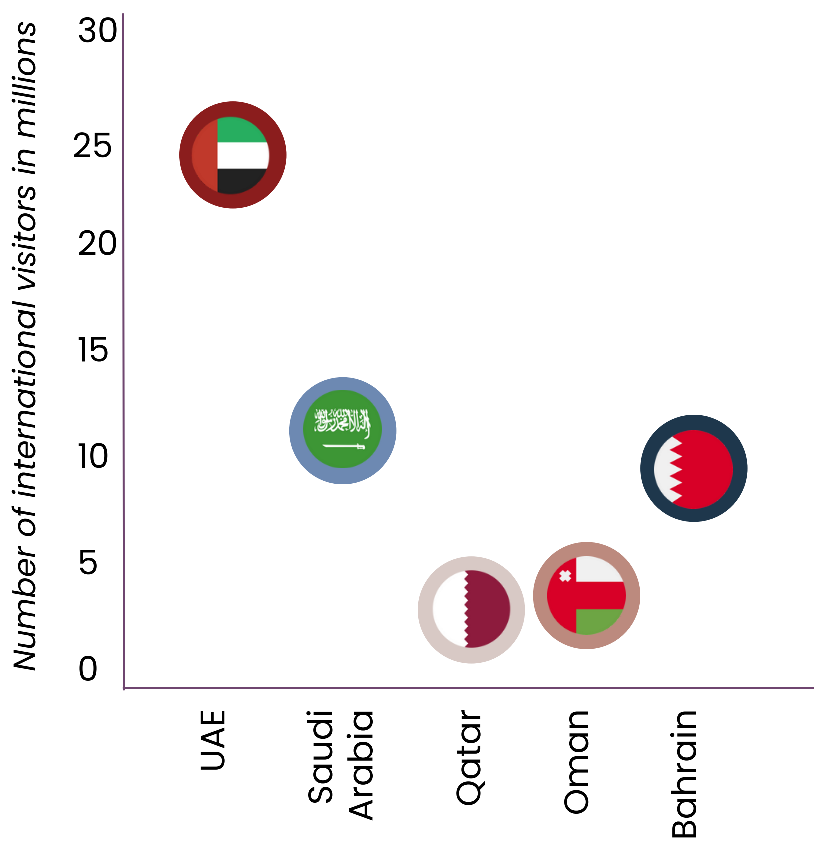
Qatar National Tourism Strategy 2030
6 Mn Tourists by 2030



Oman Vision 2040
12 Mn Tourists by 2040

Bahrain 2022-2026 Tourism Strategy
14 Mn Tourists by 2026

Kuwait 2025 Vision
9 Mn Tourists by 2035

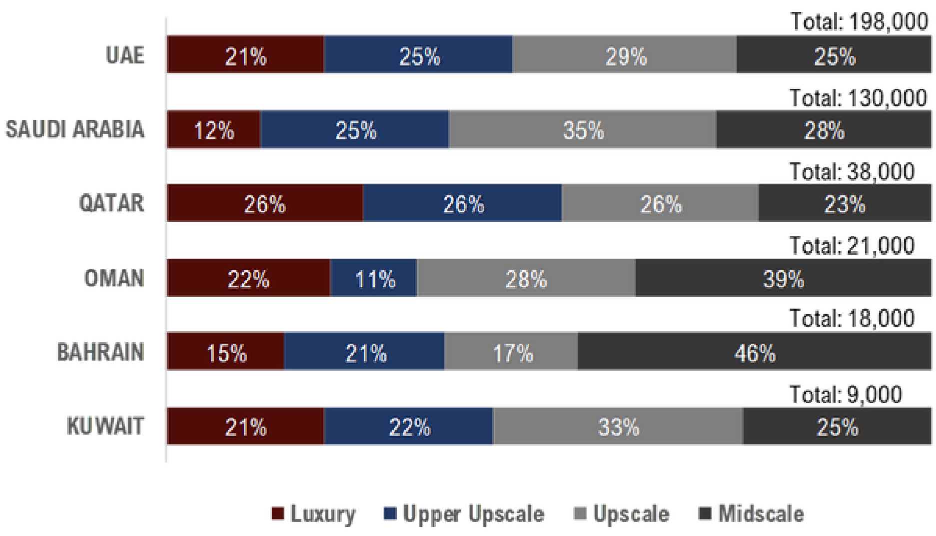


Note: Kuwait was excluded from the graph due to the unavailability of information
Source: HVS, Wood Couture 2023

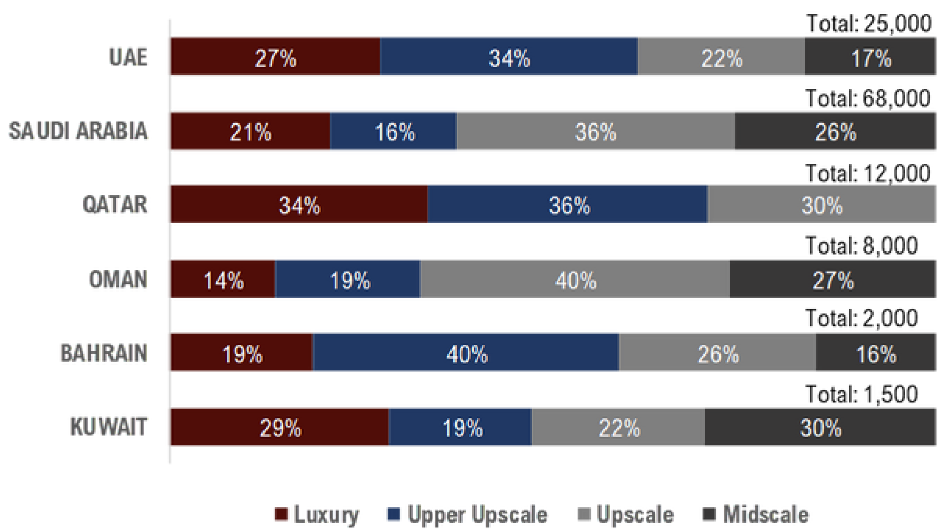
Hospitality Supply and Pipeline

- While the UAE has the highest number of properties and rooms within the GCC, the current growth is slower relative to Saudi Arabia. This is explained by the development phases of the two countries. While the UAE has witnessed high development rates in the previous years, Saudi Arabia has currently become the focus for investors as the kingdom strives to turn itself into a travel destination.
- Although Saudi Arabia has almost triple of UAE's number of rooms in the pipeline, the UAE is still leading the total (existing + pipeline) number of rooms across the GCC countries. Saudi Arabia's rooms in the pipeline are primarily upscale, accounting for 36% of the total pipeline.
- The concentration of the number of rooms operated by the top three operators for the existing supply decreases as the positioning moves from luxury to midscale hotels. While 36% of luxury hotels are operated by the top three parent companies, this is the case for only 20% of midscale hotels.
- Saudi Arabia is the leading country of hotels in the pipeline, with a focus on luxury and upper-upscale hotels.

Existing Hotel Key Supply by Country & By Positioning (August 2023)

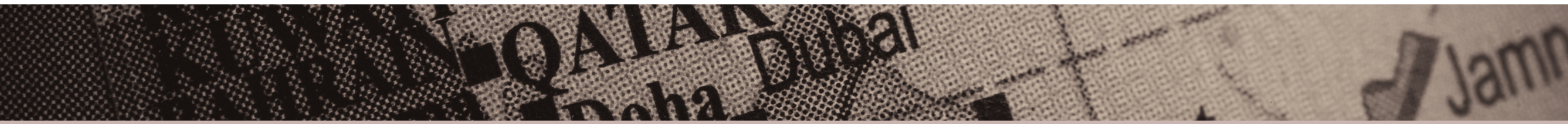


Pipeline hotel key supply by country and by positioning (2023 – 2028)



Note: For the purpose of this analysis we have only considered quality supply which is mostly branded and excluded the budget hotels.

Source: HVS, Wood Couture 2023



Consolidated Indicative Development Costs

- Our computations of development costs are based on our database of actual hotel construction budgets, industry reports, and cost benchmarks per brand provided by hotel management companies. The costs presented in this report are intended to reflect the development costs for typical hotels under each classification. The table illustrates the typical room inventories, efficiency per key and approximate built-up areas for each hotel classification that forms the basis of our analysis. Changes in these parameters can have resulting differences in overall project costs to those presented in this publication.

- While Construction/Hard Costs may vary per market and as per site conditions, our experience indicate that the other cost categories such as FF&E and OS&E, Soft Costs, and Pre-opening and Marketing, are less influenced by geographic factors and site conditions.

- The overview of the development costs table outlines the difference in the costs for hotels of different positionings as well as shows how they differ in the total built-up areas and efficiencies. A luxury hotel, compared to a midscale one, will typically require a larger built-up area, although might feature fewer rooms. This is explained by the additional space use that is required when positioning a hotel as a luxury. Typically, a luxury hotel will have a larger meeting space, reception space, lobby bar, etc. Besides, a luxury hotel might be required to include a swimming pool and/or SPA, as opposed to a midscale hotel.

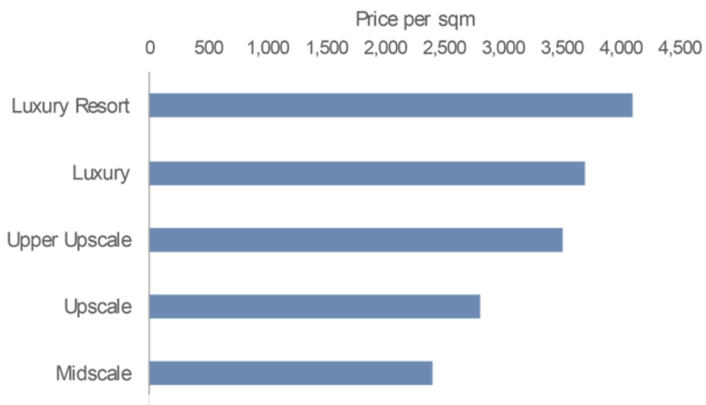
Overview of the Development Costs for Different Asset Positioning (USD)

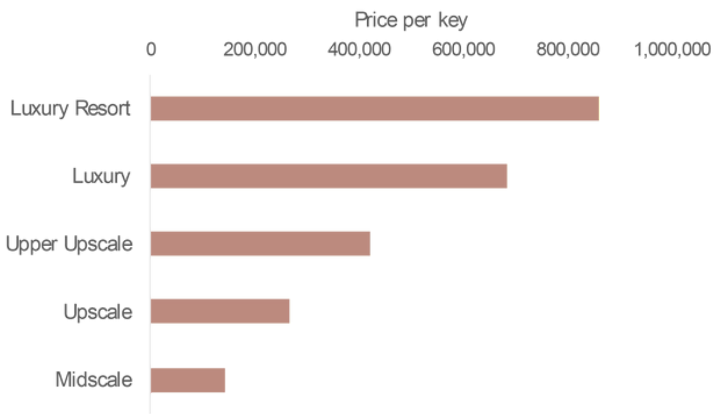
	Keys	Built-up Area (sqm)	Efficiency sqm/key
Luxury Resort	200	42,000	210
Luxury	175	32,400	185
Upper Upscale	200	24,000	120
Upscale	200	19,100	85
Midscale	250	15,000	60

*It is important to note that the cost per key as well as the cost per sqm do not include the land cost, which can vary substantially depending on the location of the proposed property

- The two types of costs (cost per sqm and cost per key) also follow a varying trend; the cost per sqm decreases slower than the cost per key. This is due to the difference in the sizes of rooms and the BUA. As the positioning decreases, there are more rooms for a given built-up area. For example, a midscale hotel will build more rooms of smaller sizes and will be able to use most of its build-up area for the rooms. This trend is also reflected in the efficiency values. A midscale hotel will be more efficient than a luxury one because it will have more keys for the same built-up area.

Indicative Total Development Costs in USD
(Per Sqm & Per Key Across Different Asset Positioning)





Source: HVS, Wood Couture 2023

Luxury Resorts

Development Costs (USD)

Typical Room Sizes	Keys	Typical sqm/key	Built Up Area sqm	Indicative Cost Per sqm	Indicative Cost per key
55-80	200	210	42,000	4,100	861,000

Category	Hard Cost	FF&E and OS&E	Soft Cost	Indicative Cost per sqm	Indicative Cost per key
Costs	672,000	86,100	103,000	4,100	861,100
Cost Distribution %	78%	10%	12%		

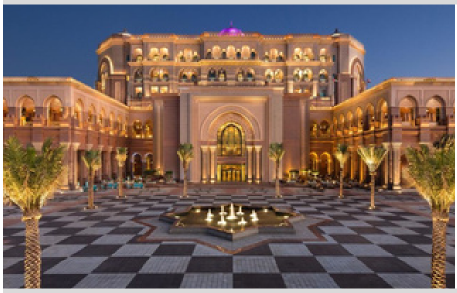
BUA 42,000 sqm

Efficiency Per Key 210 Sqm

USD 4,100 Per Sqm

USD 861,000 Per Key

Four Seasons Resort Dubai



Emirates Palace Abu Dhabi

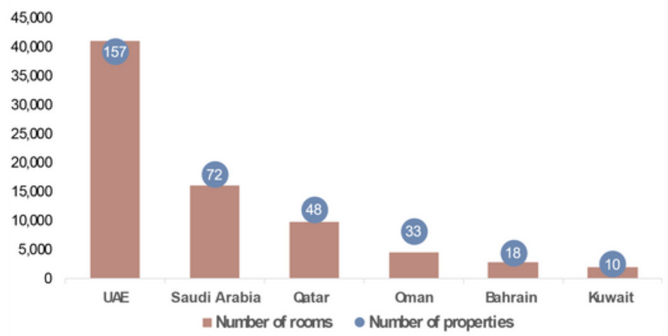
Park Hyatt Jeddah

Pictures are intended for visuals only. The data provided is not specific to any of the presented hotels and visuals.

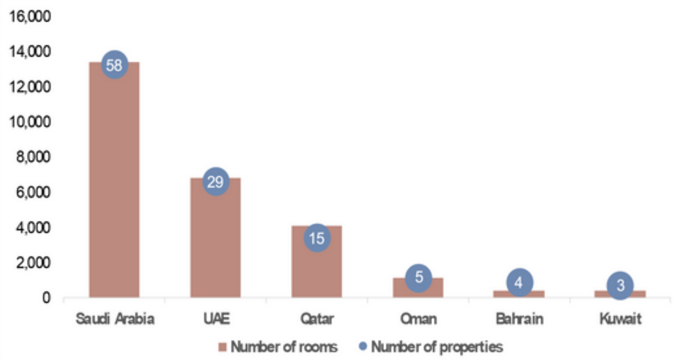
Source: HVS, Wood Couture 2023

Luxury

Existing Number of Luxury Hotels and Keys in GCC by Country



Proposed Number of Luxury Hotels and Keys in GCC by Country



- Marriott International is the largest operator of existing Luxury hotels in the GCC, operating a total of 15% of luxury hotels. Accor and IHG Hotels & Resorts operate 12% and 9%, respectively.
- On the other hand, Accor has the highest number of luxury hotels in the pipeline across the GCC, with 16% of the total pipeline, followed by Marriott International with 11%, and IHG Hotels & Resorts with 10%.

Development Costs (USD)

Typical Room Sizes	Keys	Typical sqm/key	Built Up Area sqm	Indicative Cost Per sqm	Indicative Cost per key
45 - 60	175	185	32,400	3,700	685,000

Category	Hard Cost	FF&E and OS&E	Soft Cost	Indicative Cost per sqm	Indicative Cost per key
Costs	534,000	69,000	82,000	3,700	685,000
Cost Distribution %	78%	10%	12%		

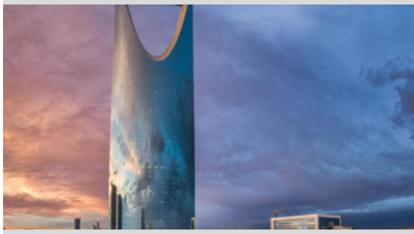
BUA 32,400 sqm

Efficiency Per Key 185 Sqm

USD 3,700 Per Sqm

USD 685,000 Per Key

Shangri-La Dubai



Ritz-Carlton Jeddah

Four Seasons Riyadh

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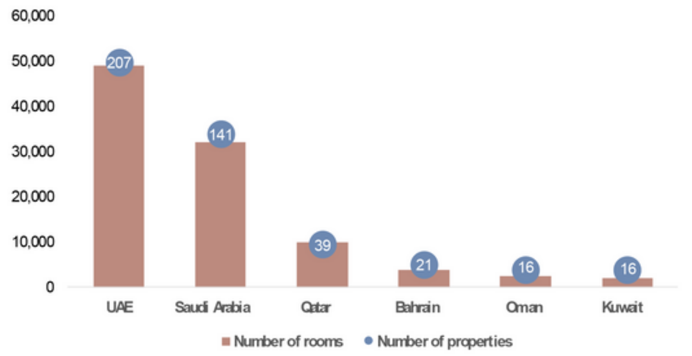
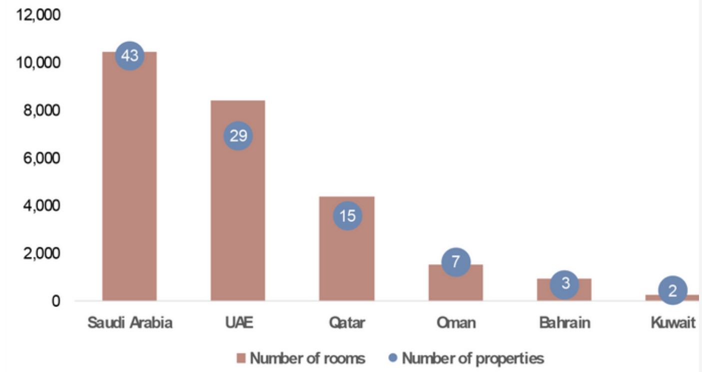
Source: HVS, Wood Couture 2023

Upper Upscale

Existing Number of Upper Upscale Hotels and Keys in GCC by Country



Proposed Number of Upper Upscale Hotels and Keys in GCC by Country



- Marriott International is the largest operator of existing upper upscale hotels in the GCC, operating a total of 17% of upper upscale hotels. Accor and Hilton operate 12% and 10%, respectively.
- On the other hand, Hilton and Rotana are the largest operators of the proposed supply in the GCC, with 23% and 20%, respectively, followed by Marriott International, accounting for 17% of the upper upscale hotels in the pipeline.

Development Costs (USD)

Typical Room Sizes	Keys	Typical sqm/key	Built Up Area sqm	Indicative Cost Per sqm	Indicative Cost per key
36 - 40	200	120	24,000	3,500	420,000

Category	Hard Cost	FF&E and OS&E	Soft Cost	Indicative Cost Per sqm	Indicative Cost per key
Costs	323,000	48,000	48,000	3,500	420,000
Cost Distribution %	77%	11%	11%		

BUA 24,000 Sqm

Efficiency Per Key 120 Sqm

USD 3,500 Per Sqm

USD 420,000 Per Key

InterContinental Dubai

Marriott Riyadh

The Diplomat Radisson Blu Bahrain

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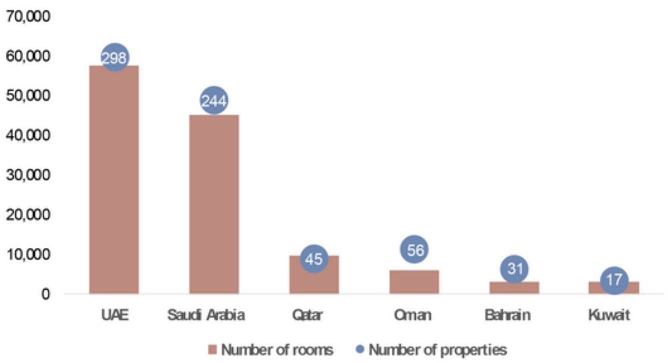
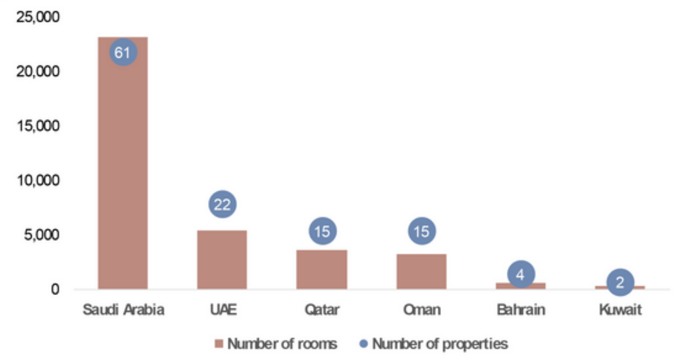
Source: HVS, Wood Couture 2023

Upscale

Existing Number of Upscale Hotels and Keys in GCC by Country



Proposed Number of Upscale Hotels and Keys in GCC by Country



- Accor is the leading operator in the existing upscale hotels across the GCC, operating a total of 11% of upscale hotels. IHG Hotels & Resorts and Marriott International operate 10% and 9%, respectively.
- On the other hand, Hilton and Accor are the largest operators of the proposed supply in the GCC, with 30% and 18%, respectively, followed by Marriott International, accounting for 15% of the upscale hotels in the pipeline.

Development Costs (USD)

Typical Room Sizes	Keys	Typical sqm/key	BUA	Indicative Cost Per sqm	Indicative Cost Per Key
30 - 36	200	85	19,100	2,800	267,000

Category	Hard Cost	FF&E and OS&E	Soft Cost	Indicative Cost Per sqm	Indicative Cost Per Key
Costs	208,000	33,000	26,000	2,800	267,000
Cost Distribution %	78%	12%	10%		

BUA 19,100 Sqm

Efficiency Per Key 85 Sqm

USD 2,800 Per Sqm

USD 267,000 Per Key

DoubleTree Riyadh

Four Points Dubai

Crowne Plaza Muscat

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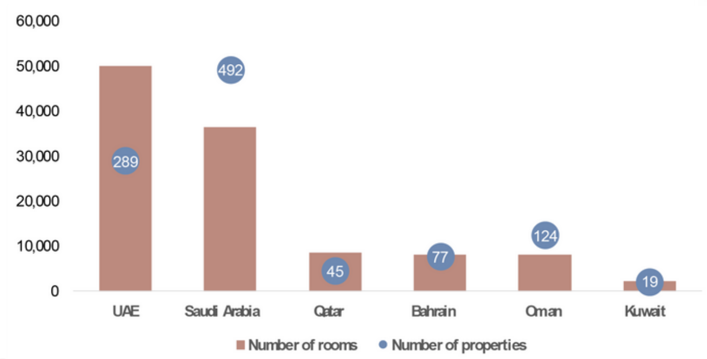
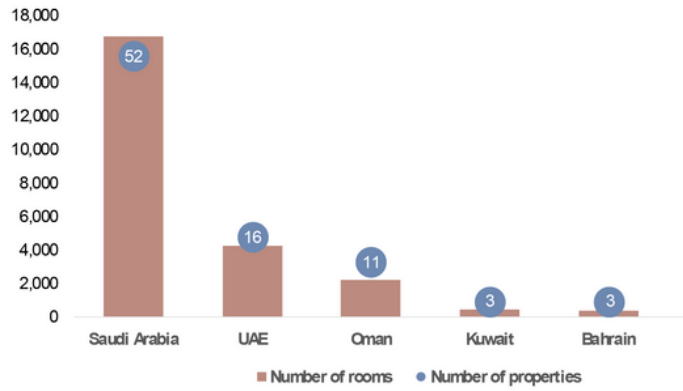
Source: HVS, Wood Couture 2023

Midscale

Existing Number of Midscale Hotels and Keys in GCC by Country



Proposed Number of Midscale Hotels and Keys in GCC by Country



- Accor is the leading operator in the existing midscale hotels across the GCC, operating a total of 8% of midscale hotels. IHG Hotels & Resorts and Wyndham operate 7% and 6%,respectively.
- On the other hand, Accor and Marriot International are the largest operators of the proposed supply in the GCC, with 30% and 19%, respectively, followed by IHG Hotels & Resorts, accounting for 10% of the midscale hotels in the pipeline.

Development Costs (USD)

Typical Room Sizes	Keys	Typical sqm/key	BUA	Indicative Cost Per sqm	Indicative Cost Per Key
26 - 32	250	60	15,000	2,,400	144,000

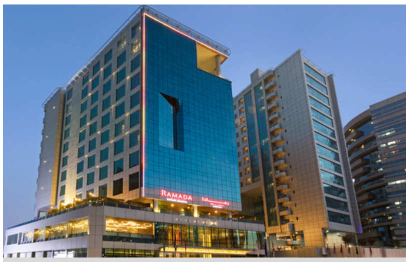
Category	Hard Cost	FF&E and OS&E	Soft Cost	Indicative Cost Per sqm	Indicative Cost Per Key
Costs	111,000	16,000	17,000	2,400	144,000
Cost Distribution %	77%	11%	12%		

BUA 15,000 Sqm

Efficiency Per Key 60 Sqm

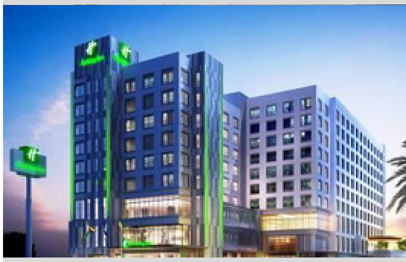
USD 2,400 Per Sqm

USD 144,000 Per Key



Ramada by Wyndham Dubai

Ibis Riyadh



Holiday Inn Doha

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Source: HVS, Wood Couture 2023

Observations & Concluding Comments

Observations

The hospitality industry is currently grappling with a series of challenges stemming from a convergence of factors that have fundamentally reshaped its landscape. Among these challenges, the early stages of development, particularly regarding Fire, Life & Safety (FLS) and Furniture, Fixtures, and Equipment (FF&E), stand out as a primary cause of project delays, resulting in substantial cost escalation and reputational damage for developers. Beyond the delay in hotel and project openings, developers are confronted with issues related to product quality, failing to meet the specifications outlined in approved designs. This situation has become more pronounced in the post-Covid era, driven by several key factors:

- **Incomplete Design Briefs and Unrealistic Timeframes:** Design firms are often presented with incomplete design briefs and unrealistic timeframes for deliverables. Consequently, the design stages experience protracted timelines, necessitating multiple revisions and, subsequently, curtailing financing grace periods.
- **Poor Renovations and PIP Compliance:** Inadequate adherence to Property Improvement Plans (PIPs) results in a significant imbalance between Return on Investment (ROI) and project costs. Last-minute decisions prioritizing cost savings over quality compromise the attainment of the desired positioning for the property.
- **Generalist Suppliers vs. Specialized Suppliers:** Developers increasingly opt to award contractors full packages encompassing Fit Out and Loose FF&E categories, as opposed to dividing them into separate packages. This approach often leads to schedule delays, as contractors divert their focus towards non-core activities.
- **ESG Implementation Challenges:** The misapplication of Environmental, Social, and Governance (ESG) principles in the supply chain contributes to scheduling delays, as the complexities of integrating sustainability measures are not fully understood or addressed.
- **Lack of Project Site Dynamics Understanding:** Traditional supply chain entities often lack an appreciation for the unique dynamics of project sites, including varying timeframes and product requirements. This disconnect, in contrast to the retail industry's standardized and mass-produced approach, hinders manufacturers' ability to comprehend and navigate project-related challenges.
- **Unaccounted Lead Time Changes:** Construction programs frequently fail to adapt to shifts in lead times from the pre-Covid to the post-Covid era. This oversight exacerbates scheduling issues and disrupts project timelines.
- **Insufficient Product Knowledge:** A dearth of knowledge concerning material and product manufacturing, encompassing factors such as constructability, stability, safety, and functionality, contributes to the receipt of subpar products by developers.
- **Limited Understanding of Hotel Brand Standards:** Manufacturers often lack a comprehensive understanding of hotel brand standards, including essential knowledge of Fire, Life, and Safety standards and material specifications mandated by global hotel companies. This knowledge gap frequently leads to delays in the material approval process.

In sum, the challenges faced by the hospitality industry, particularly in the context of project development and FF&E procurement, have been accentuated in the post-Covid era. Addressing these multifaceted issues demands a concerted effort to improve communication, enhance expertise, and adapt supply chain practices to the unique demands of the industry. Failure to do so risks prolonged delays, increased costs, and compromised project quality, all of which can have lasting implications for developers and their reputations within the sector.

Conclusion

While data suggests that some 200,000 rooms are under development across the GCC, in the current economic environment, it is important to acknowledge the challenges posed by rising borrowing costs, development expenses, and operational expenditures. These factors are increasingly impacting hotel values and project returns, creating a complex landscape for investors and developers. In order to navigate these challenges and optimize project returns, industry professionals should employ various strategies by carefully analyzing market dynamics, implementing robust financial planning, and embracing innovative solutions. Overall, with strategic planning, comprehensive evaluation and a deep understanding of the investments costs, hotel investment and development in the region can offer attractive returns. Some of the noticeable emerging trends including but not limited to:

- The focus on sustainability and environmental awareness has grown, with rising demand for sustainable and eco-friendly hotels. Investors have an opportunity to develop and operate properties with cutting-edge designs, significant investments in renewable energy, wildlife conservation and eco-friendly practices.
- The global pandemic forced many hotels to make significant changes to their layouts and interior design. The trend now is toward incorporating more environmentally conscious design elements and more sustainable operational and design practices. Guest-focused, smart digital contactless technology, co-working spaces, outdoor hospitality spaces, wellness amenities, signature F&B venues, smaller room count, and higher levels of efficiency are now common trends in today’s hospitality investment and development outlook.

In the coming years, the industry is likely to witness a growth in the followings:

- Luxury hotels inventory dominated by residential component for both greenfield and repositioned developments
- Design and Built & Modular construction to dominate the Mid-Market & Upscale segment
- More Interior Design firms to incorporate Design & supply for Loose FF&E packages

Disclaimer

The information and findings presented in this publication regarding "Navigating the Investment Terrain: Trends in GCC" Hotel Development Costs are based on the data available up to the publication date. While every effort has been made to ensure the accuracy and reliability of the information contained herein, we cannot guarantee the completeness or timeliness of the data.

Readers are advised to consider this publication as a source of general information and analysis. Any decisions or actions taken based on the information provided in this study are at the reader's own discretion and risk.

The hotel development industry is subject to various economic, regulatory, and market-related factors that can change over time. Therefore, the trends and insights presented in this study may not necessarily reflect current market conditions or future developments accurately.

Furthermore, this study does not constitute financial, investment, or legal advice. Readers are encouraged to consult with qualified professionals and conduct their own due diligence before making any investment or business decisions related to hotel development in the GCC region.

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