Tourism growth • Improvements to infrastructure • Diversifying economy
International visitor arrivals in Saudi Arabia topped 16.1m in 2017, alongside a 10.5% increase in expenditure to $14.8bn.

Demand drives hotel growth

Extensive visitor growth outlook for the three key tourist demand pools is accelerating hotel requirements across Saudi Arabia.

Saudi Arabia has dramatically increased its hotel offering in recent years following growing interest from international hotel groups. Hotel supply in terms of rooms grew by 13% over 2017 with rooms in construction set to increase current stock levels by 51.4%, with over 48,000 rooms, according to STR.

This accounted for a 37.9% share of all rooms in construction across the Middle East, according to STR as of October 2018. While cities such as Riyadh, Jeddah, Makkah (Mecca) and Madinah (Medina) continue to lead the way, considerably increasing their hospitality offering, a number of smaller destinations are beginning to rise as attractive opportunity markets, such as Dammam and Jazan.

An expansive tourism sector is attracting a number of international brands. A rapidly emerging tourism sector has boosted hotel requirements across Saudi Arabia, driven by the three key demand pools of corporate, leisure and religious visitors. Travel and tourism alone accounted for 9.4% of the country's total GDP over 2017.

Total international overnight visitor arrivals in Saudi Arabia topped 16.1m in 2017, alongside a 10.5% year-on-year increase in expenditure to $14.8bn. This encouraging growth is forecast to continue, with international arrivals due to increase on average by 4% per annum to 2025 to reach 22.1m according to the World Travel and Tourism Council (WTTC), which would exceed Dubai's current level of visitor arrivals by almost 40%.

This has sparked significant levels of interest amongst some of the world's largest hotel groups. For example, Marriott International opened the country's first two Aloft hotels in Riyadh and Dhahran in 2016. 2017 saw Rocco Forte Hotels open the Assila hotel in Jeddah and in 2018 both Hilton and Swiss-Belhotel International each opened three hotels over the course of the year. Groups including Accor and InterContinental are also looking to expand into new locations across the country.

Luxury resorts in construction will widen choice for both domestic and international visitors.

The Kingdom of Saudi Arabia (KSA) has an array of large-scale leisure-focused developments in the pipeline, to meet the needs of a growing number of visitor arrivals.

Rooms in construction are set to increase current stock levels by 51.4%, delivering over 48,000 new rooms.
Saudi Arabia accounts for 59.5% of the total population of all GCC nations.

60m expected passenger numbers each year on the Haramain High-Speed Rail line.

$500bn NEOM project, opening in 2025, will significantly increase KSA’s corporate demand.

22.1m international overnight visitor arrivals expected by 2025.

13% growth in hotel room supply over 2017.

91.8m passenger numbers across all airports in KSA last year.

International Arrivals
Overnight arrivals in Saudi Arabia are expected to reach 22.1m by 2025.

Prospects for domestic demand are also positive
KSA has a significantly large population, accounting for 59.5% of the total population of all Gulf Cooperation Council (GCC) countries. In GDP terms, Saudi Arabia is the largest in the Middle East and 1.7x that of the next largest from the GCC countries (UAE). Economic growth in Saudi Arabia also shows no sign of abating, with GDP forecast to grow by an average of 3.6% per annum over the next five years. This is particularly strong when compared to other GCC nations, outperforming the likes of UAE and Kuwait.

The government has existing plans, under the Vision 2030 implementation, to capitalise on this domestic demand having set aside $64bn to invest in culture, leisure and entertainment projects over the next decade. One major example of this is the multi-purpose entertainment resort of Qiddiya, due to welcome the world’s largest Six Flags theme park and estimated to attract 17m visitors per annum by 2030.

In line with this, Riyadh now plays host to various key international events. This includes the likes of the International Half Marathon, Time Entertainment’s Comic-Con as well as the first Formula E event held in the Middle East, in December 2018. This was also the first event to introduce the Sharek international events visa, allowing overseas visitors to easily obtain a 30-day electronic visa.

Hajj and Umrah visitor are set to draw 30 million visitors by 2030
Perhaps the cornerstone of KSA’s inbound tourism are the annual pilgrimages of Hajj and Umrah, which drew 2.4m and 6.5m visitors respectively over the two most recent events – forecast to increase to 30m visitors collectively by 2030. A 30-day Visa extension available for Umrah visitors has undoubtedly contributed to the increase in average length of stay from overseas visitors (from 9.7 days in 2016 to 11.3 in 2017). This, alongside recent restrictions on the use of non-hotel accommodation in Makkah during Hajj (such as home-stays) has helped to boost hotel occupancy levels in the area during this period.

Upgrades to cultural sites across the country will improve access and capacity for pilgrim visitors. The Grand Mosque of Makkah is currently undergoing restoration, increasing its capacity to 2.5m with the city constructing the first new Islamic Faith Museum of Makkah just 7km away. This is alongside the Jabal Omar Project, which is expected to see over 12,000
A diversification of Saudi Arabia’s economy has provided a boost for employment and its GDP outlook.

**GDP Outlook vs Employment Growth** Saudi Arabia is one of the largest and fastest growing economies of the GCC.

[Graph showing GDP Growth (2018-23) and Total Employment Growth (2018-23) for various GCC countries, including Saudi Arabia, Bahrain, Oman, Kuwait, UAE, and Qatar.]

**Key** Size of bubble = size of GDP (2018)

**Source** Savills Research, Oxford Economics

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**EXTENDED STAY OPERATORS EYE GROWTH OPPORTUNITIES**

The extended stay market has recently become a well-established sub sector in hospitality globally, with a number of international operators expanding into new emerging geographies.

The expanding corporate sector across Saudi Arabia continues to provide widespread investment opportunities for extended stay operators. However, many brands could just as easily capitalise on the increasing leisure and pilgrim visitor markets, which is generally characterised by families travelling together – well suited to more cost-effective extended-stay options. Saudi Arabia’s largely young, and increasingly more cosmopolitan, population unlocks further opportunities for lifestyle-focused operators.

A number of global extended-stay providers have taken advantage of the opportunity to open apartments within Saudi Arabia’s relatively undersupplied market, with the likes of Frasers Hospitality opening their first site in the country with a 95-key aparthotel in Riyadh in February 2018. Likewise, both Citadines and Staybridge Suites have introduced sites to Jeddah over the past two years.

**3.6%** Average annual GDP growth rate in Saudi Arabia over the next 5 years.

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**OPERATORS EYE GROWTH OPPORTUNITIES**

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Vikram Malhotra
Head of Hospitality Advisory, Middle East
+971 4 365 7700
vikram.malhotra@savills.me

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