

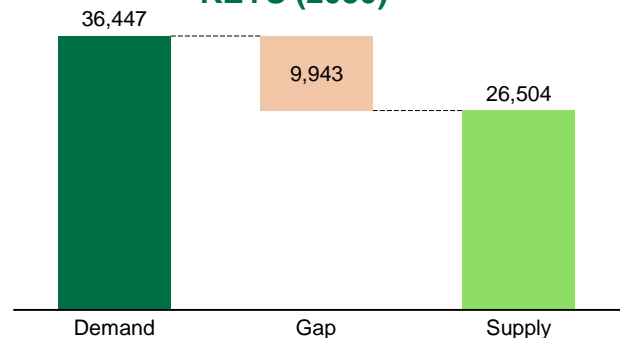


# RENOVATING 2 STAR HOTEL TO 3 STAR HOTEL IN MADINAH

**OPPORTUNITY'S DESCRIPTION:** Opportunity to renovate existing 2 Star hotels in Madinah to 3 Star hotels (318 keys ) to cater the rising demand from religious tourists

## DEMAND

### MARKET SIZE - 3 STAR KEYS, KEYS (2030)



### INVESTMENT HIGHLIGHTS

- Investment Ticket: SAR 17,252,648
- IRR: 24.1%
- NPV: SAR 17,333,239
- Payback period: 6.0 years
- ROI: 25.1%
- Opportunity to consider different operating models – FDI with 100% ownership or joint venture with local private sector player(s)

## INVESTMENT OVERVIEW

### VALUE PROPOSITION

- KSA government targets to host 30.0 million International Umrah Pilgrims under Vision 2030 initiative which will create opportunity to serve additional 20.0 million visitors in the upcoming 10 years
- Enriching Hajj and Umrah experience for visitors is one of the main goals set under Vision 2030 and the government has initiated several measures to support the stakeholders and prospective investors
- While there is an oversupply in the luxury (4-star and 5-star) and low value hotel segments (1-star) in Madinah, there is a shortage of mid tier budget hotels (2-star and 3-star) with good quality infrastructure and acceptable service experience

### KEY DEMAND DRIVERS

- With 12.2 million domestic pilgrim and 9.3 million International Pilgrims in 2019, religious tourism remains the main driver of Saudi Arabia's tourism.
- Accommodation accounts for the highest on ground spend by the Pilgrims. Average pilgrim spending in KSA is 1,725 USD, 25% of which is spent on accommodation
- Expansion project of the two Holy Mosques, government investments in infrastructure and online visit visa issuance initiative will boost pilgrimage visits and create perennial demand for accommodation options in the holy cities
- 75% of the umrah visitors come from mid to low socio-economic class and prefer to stay in budget hotels

## MARKET OVERVIEW

### MARKET READINESS AND COMPETITOR ANALYSIS

- Hospitality segment in Madinah comprises of local as well as International players
- Occupancy rates in Madinah were 70% in 2019, with revenue per available rooms (RevPAR's) improving

### GLOBAL TRENDS

- Increasing trend amongst tourists to balance religious visits with cultural and heritage experience to enrich tourism experience
- Most tourism trends are based on general changes in consumer behavior, like the need for healthy and organic food & drinks, sustainability, personalized service, rising demand of digitalization and increased use of technology
- Additional health precautionary and safety measures adopted across the globe due to Covid – 19 induced pandemic are leading to increased operational costs

### COMPETITOR ANALYSIS





# TOURISM & QUALITY OF LIFE

## RENOVATING 2 STAR HOTEL TO 3 STAR HOTEL IN MADINAH

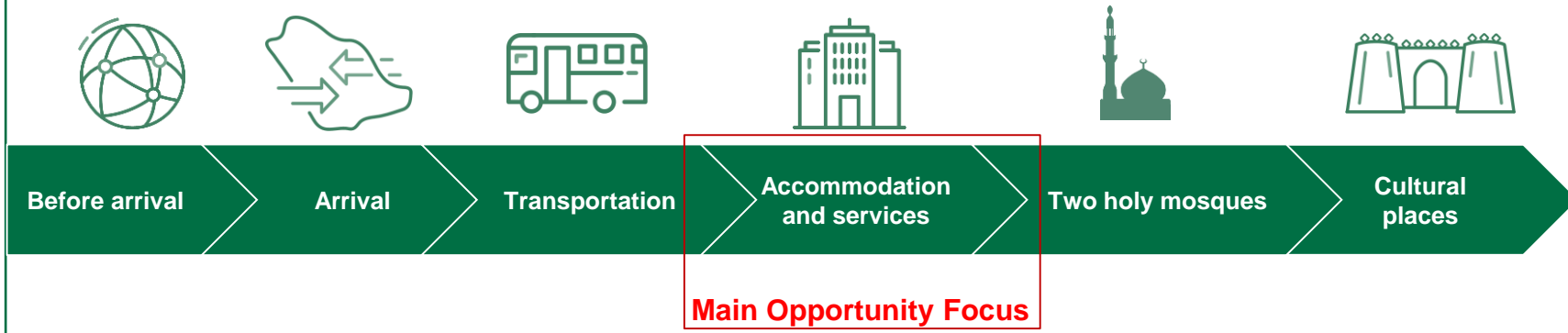
### SUPPLY

#### SCALABILITY AND LOCALIZATION

Grade: Low Medium High

- The government have already issued new standards and guidelines to streamline the operational efficiency and standards of hotels
- There are over 274 hotels with 1-star rating and 56 hotels with 2-star rating in Madinah, with an oversupply of 12,666 keys in 1-star hotels. Some of these hotels can be converted to 3-star facilities based on review of their existing infrastructure and capabilities
- Renovation can be quickly performed in approx. 6 months and operations which will allow success cases to be replicated fairly quickly
- Low cost of construction, labor wages and utility fees combined with availability of trained hospitality resources to support low capital and operating expense for the investor and maximize investment returns
- Early market entry to potentially benefit investors to increase geographic footprint in the two Holy Cities and capture larger market share in medium-long term

#### PILGRIM'S JOURNEY



#### KEY STAKEHOLDERS



### ENABLING FACTORS

#### ENABLERS

- The Ministry of Municipality and Rural Affairs has created supporting regulatory ecosystem for easy issuance of necessary permits
- Unification of the licensing authority for hotels and residential units in the two Holy Cities
- Establishing a unified center for investor services in Hajj and Umrah in cooperation with MISA

#### COST OF DOING BUSINESS IN KSA

Factor	Ranking Amongst Regional Peers
Macroeconomic risk (100=high)	40
Productivity adjusted wages	\$3.3 /hour
Ease of getting credit (0 – 100)	50
Contract enforcement (0-100)	55
Construction Costs (Indexed to US, % 0 is cheapest)	74

Bottom 25% | Top 75% | Top 50% | Top 25%