



Riyadh Real Estate Market Overview

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Market Study Highlights





RESIDENTIAL

- Demand to remain robust for apartments and small size villas/duplexes.
- Sale prices of apartments and villas have remained subdued in 2015, however a slight momentum in rentals has been observed during the same period, compounds have witnessed marginal increase in rentals over last year.
- Waiting period in compounds varies between 2 – 6 months, highest waiting period being in Class B compounds.

RETAIL

- Current stock stands at approx. 1.5 Mn Sqm whereas upcoming additional supply (next 3-4 years) is anticipated to be approx. 1.0 Mn Sqm.
- Marginal growth of 2% has been observed in rentals and occupancies compared to 2014 as market went through the consolidation phase during this period.
- The average rental across the city ranges between SAR 1,800 to SAR 3,000 per Sqm and average market wide occupancy is observed to be 95%.
- Going forward rentals and occupancies are likely to remain steady.

COMMERCIAL OFFICE

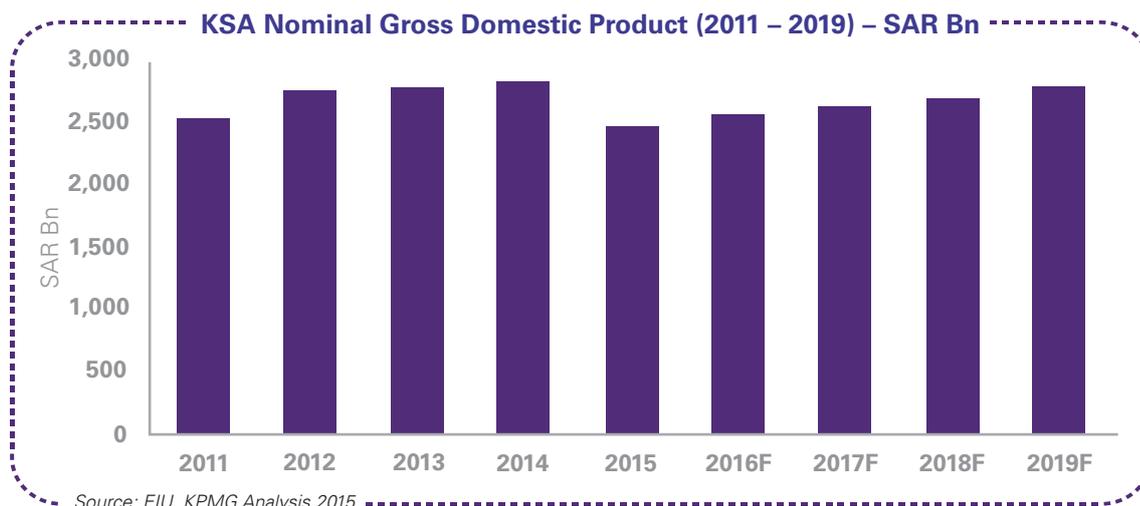
- Despite the existing over-supply condition, office market is about to witness an additional supply of approx. 1.3 Mn Sqm in next 2-3 years.
- Rentals and occupancies have remained stable in Central Business District (CBD) over the past year however office buildings located on secondary locations experienced weakening rentals and increasing vacancy rates.
- Our research indicates a correction and cautious phase to persist for office market in short to medium term.

HOSPITALITY

- Total number of keys in Riyadh is estimated to be approx. 11,940 which comprise of 3, 4 and 5 star hotels.
- Almost 50% of the current supply of hotel rooms is located in the central locations like King Fahad Road, Olaya Road and its vicinity.
- Approximately 4,550 keys are expected to be added to the current inventory in next 3-4 years.
- Given the robust demand from business travelers, Average Daily Rate (ADRs) for 3, 4 and 5 star hotels stands at SAR 580, SAR 800 and SAR 930 per night respectively with a market wide occupancy of 65 - 67%.

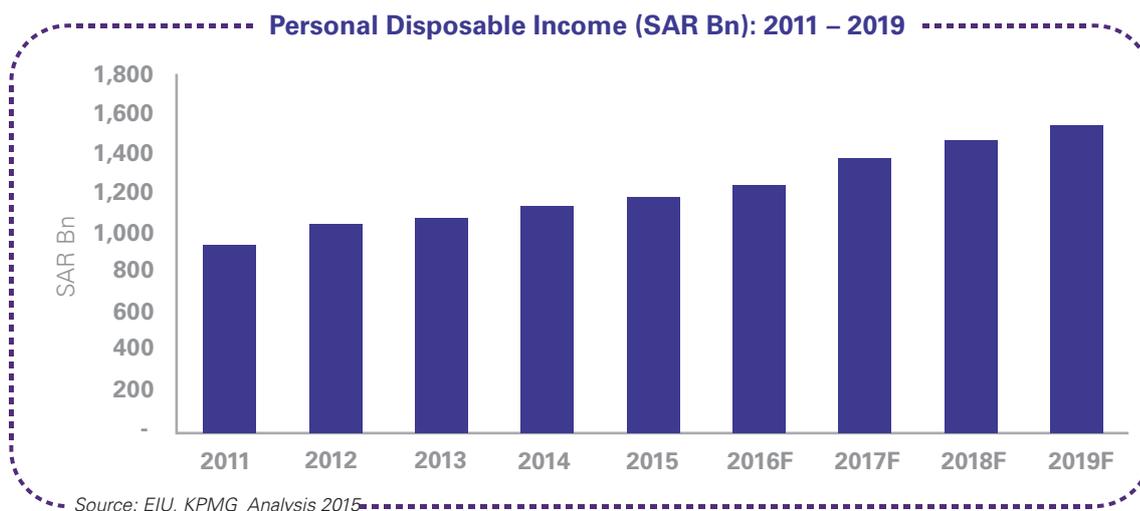
Economic and Demographic Trends

KSA's GDP experienced exponential growth in the last 4 years on the back of high oil prices. Between 2011 and 2014, KSA's GDP increased from SAR 2,513 Bn to SAR 2,799 Bn, rising at a CAGR of 3.6% per annum. However, since late 2014, the global oil prices have been declining and since 90% of KSA's revenues comes from oil exports, this affected the GDP in 2015 which dropped by almost 12.5%. Over time, it is expected that the GDP will rebound to the 2014 levels, however this is expected to take another 4 years. The increase in GDP in the coming years will be led by government initiatives to diversify the economy, where authorities are putting in efforts to move away from an oil based economy, and more towards GDP comprising diversified sectors.



Disposable Income

Given the consistent GDP growth in the past 4 years, wealth has been accumulated for both Saudi nationals and expats working in both oil and non-oil sectors leading to rising personal disposable income. Furthermore, due to the expansion in fiscal and monetary policies, private consumption is expected to expand in the future, though with less pace.



The personal disposable income has been rising at a CAGR of 5.6% from 2011 to 2015 to reach at SAR 1.2 billion in 2015. Increasing population coupled with rising disposable income are expected to lead to an increased spending, ultimately increasing demand for various real estate asset classes.

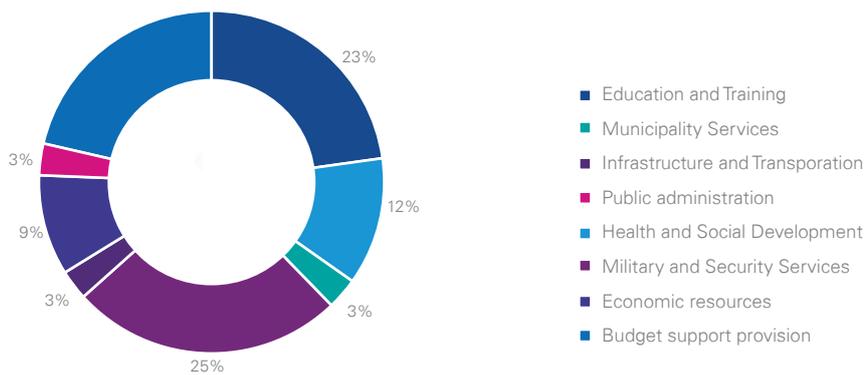


Expenditure

For the fiscal year 2016-2017, it is expected that the total government expenditure will be SAR 840 billion, whereas estimated total revenue is expected to be SAR 513.8 billion. This leads to a deficit of SAR 326.2 billion. This is the second year running that the Saudi Budget is expected to have a deficit. Almost 50% of the budgeted expenditure will be spent on education and military/security. Over the recent years, Saudi Arabia has been spending heavily on training and educating the populace, which aims to increase contribution of workforce in diversified sectors of economy.

Budget support provision of SR 183 billion has been established to offer increased flexibility to redirect capital expenditures and operating expenditures on both ongoing and new projects, which shall subsequently support real estate sector forming part of non-oil based economy. In addition, government development funds which also include Real Estate Development Fund are expected to continue delivering on their respective roles in financing different development projects by more than SR 49.9 billion.

Budgeted Expenditure (2016)



Source: Ministry of Finance, Budget 2016

Residential Sector Overview





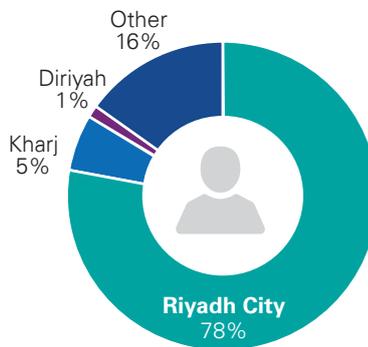
Population Growth - Riyadh

Population of Riyadh city is expected to increase from 6.15 million in 2015 to 6.82 million in 2020. Currently average household size in Riyadh is 5.7, which is expected to witness downward trend in coming years and shall be around 5.3. Meanwhile, the percentage of Saudi nationals in the city is 58% (3.84 million) and remaining populace comprises of expats. As per Central Department of Statistics and Information (CDSI) estimates, growth of expats in Riyadh is increasing at a CAGR of 2.1% per annum. By 2019 it is forecasted that expat numbers are likely to reach 2.56 million from current levels of 2.36 million.

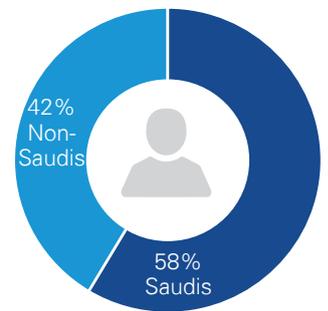
Riyadh Population Growth Trends



Riyadh Province Population Distribution



Riyadh City Population Distribution



Source: CDSI EIU, KPMG Analysis Q1-2016

Compound Market

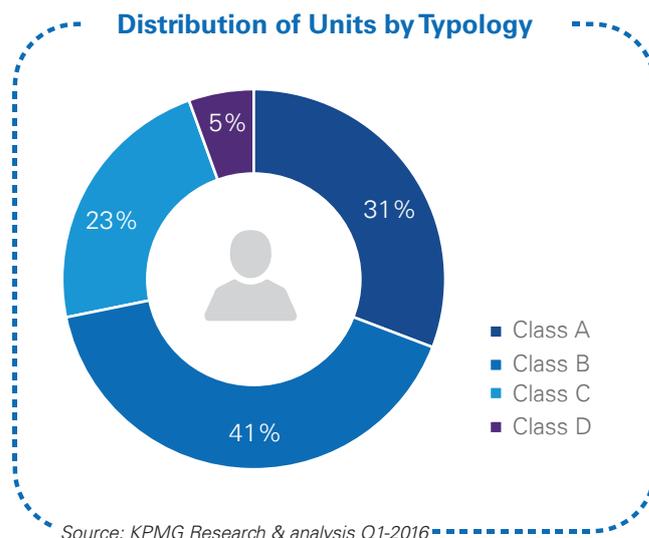
Compounds can be categorized into four different typologies, namely A, B, C, and D, typically depending upon scale of development, level of services, facilities and amenities they offer. Class A compound usually has a land area greater than 50,000 Sqm, while a Class B compound has a land area between 20,000 - 50,000 Sqm. Meanwhile, in Class C & B compounds the land area ranges between 10,000 - 15,000 Sqm and 5,000 - 10,000 Sqm respectively. Typical size for an apartment and villa in a Type A compound varies from 65 to 140 Sqm, and 160 Sqm to 1,100 Sqm respectively. In addition, this category has the largest area per unit and offers additional services and facilities like house-keeping, shuttle service, internet, school, clinic, sports court, special security services, mini market, banquet halls, library, gift shop, and a barbershop.

It may be noted that unit size offering in other categories of compounds is almost similar especially in villas however considerable size difference has been observed in apartment sizes, which in some cases are as small as 40 Sqm.

An important aspect related to compounds is the waiting period. Our research indicates that Category B compounds have highest waiting period amongst all which stands at 6 months followed by Category C & D. It is pertinent to mention that category A compounds have waiting period of approx. 2-3 months. Majority of the residential compounds are located in the northern, north east, and west of the city barring presence of few in central Riyadh as well.



As per the current inventory of compounds, nearly 41% belong to class B followed by class A (31%), class C (23%) and class D (5%). This clearly corroborates with the fact that class B compounds are the preferred among the target segment, which also boasts of highest waiting period among all classes. Developers and investors are targeting northern part of the city to develop compounds. Prominent among them is Shams Ar Riyadh which would be the largest up-coming residential compound (expected to deliver around 950 units, villas and apartments) though delivery timelines are still not announced. Antara residential compound is another large size development, which will deliver around 520 units. In addition, SABIC is developing a residential compound to provide accommodation to its executive employees. The residential compound market is likely to witness significant influx of supply upon completion of SABIC compound. The inventory of prominent compounds which are likely to be delivered in next 3-4 years is enumerated in table below:



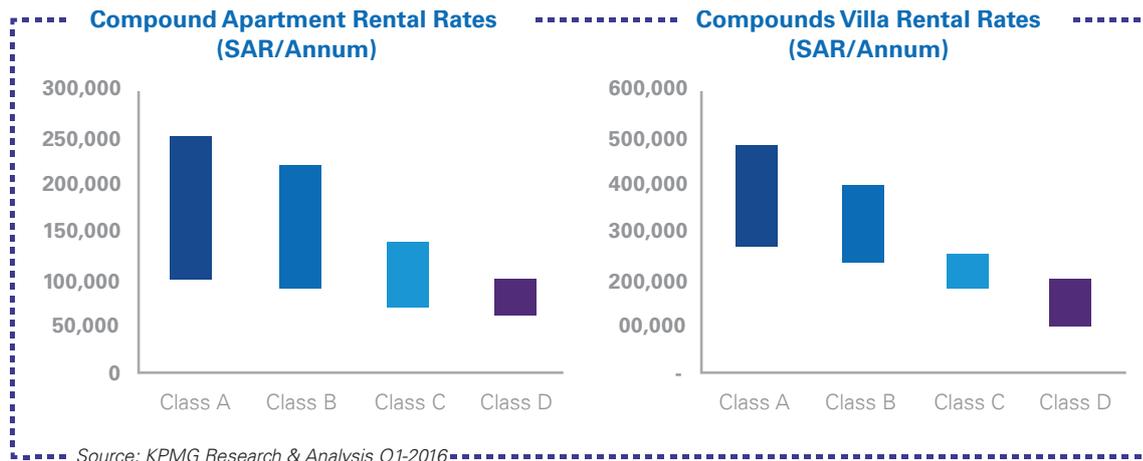
Prominent Upcoming Compound Projects

	Compound Name	Total Units	Completion Date	Typology
1	Nafl compound	45	2016	C
2	Malga village	154	2016	B
3	SABIC compound	Approx. 1000	2018	A
4	Antara compound	520	2018	B
5	Shams Ar Riyadh	950	Planning stage	A
5	Thumama compound	250	2019	B
6	Salbuk (Gulf related)	350	2018	A
7	Heet	240	2019	C

Source: KPMG Research & Analysis Q1-2016

Performance

Market wide occupancy of 87% has been observed within the targeted compounds with steady increase of 3-5% y-o-y in past 3 years which has outpaced growth in other residential asset classes. In addition, apartments and villas in Class A compound commands average annual rentals of SAR 80,000 - 250,000 and SAR 160,000 - 480,000 respectively while observing average occupancy rate of 86%. Based on this, rentals on per square meter for apartments and villas translate to SAR 900 - 2,200 per Sqm and SAR 800 - 1,600 per Sqm respectively. Similarly rentals for apartments and villas in class B compounds range between SAR 750 - 2,000 per Sqm and SAR 850 - 1,450 per Sqm respectively whereas average annual rentals vary from SAR 76,000 - 220,000 and SAR 130,000 - 400,000 for apartments and villas respectively. Both class A and B compounds command healthy occupancy rate of around 86% - 87%.



Apartments and villas in class C compounds are commanding rentals of approx. SAR 700 – 1,350 per Sqm and SAR 600– 900 per Sqm respectively which translates to annual rental of SAR 70,000 – 140,000 and SAR 180,000 – SAR 250,000 respectively. Units in class D compounds have lowest rentals, which ranges between SAR 550 – 650 per Sqm amounting to annual rental of SAR 60,000 – 100,000 for apartments. It is pertinent to mention that class D compounds have very limited inventory of villas.

Future Outlook - Compounds

As highlighted earlier, approx. 3,500 units are likely to be added to the current stock in the next 3-4 years. It is anticipated that, with increase in expat population, coupled with steady increase in investments in real estate sector and pro-active government policies, the demand for residential compounds is likely to increase.

Since a considerable level of supply is expected to be released in next 3-4 years, it is expected that waiting periods in compounds are likely to reduce considerably during the same period. Majority of the upcoming supply including Malqa Complex, Antara Compound and Thumama Compound is being positioned as class B since this category provides maximum yields with attractive payback periods.

However projects having location advantage are expected to command premium over the competing developments (both existing and up-coming). In addition, some of the current compounds have expansions that will increase the amount of supply in the market.

Residential Villas & Apartments

Attractive land prices and availability of land are determining growth of Riyadh in its northern and eastern parts. Residents are also preferring these newer areas due to access to quality road and physical infrastructure, better micro environment, amenities, services and facilities offering modern lifestyle, among others.

The expansion towards western parts is limited due to the presence of valleys, some development restrictions imposed due to security zones like Diplomatic Quarter, foreign embassies and international organizations, which in turn has made availability of land scarce resulting in exorbitant land prices. However, being tagged as high-profile area of city, quite a large number of palace developments have been observed. Presence of industrial area in south is limiting growth of residential area.

Apartments

Unlike previous years when sale prices of apartments witnessed upward trend, prices remained subdued in 2015. Whereas, a slight momentum has been observed in rental rates of apartments particularly in the northern, central and eastern parts of city.

Central areas of the city like Olaya, Sulimaniyah, Muruj, Masif, Mursalat are commanding highest sale price in the city which vary from SAR 3,000 to SAR 5,500 per sqm depending upon size of unit, location, accessibility, quality of construction, age of building, nearness to commercial areas, among others. The sale prices of a standard apartment located in northern side observed price range of SAR 2,800 to SAR 5,500 per Sqm. Apartments in south command capital value between SAR 2,000 to SAR 2,900 per sqm, whereas sale prices in eastern side range between SAR 2,275 to SAR 4,750 per sqm. As highlighted above, limited presence of apartments has been observed in western part of the city where prices vary from SAR 2,000 to SAR 4,800 per sqm. The rental rates of apartments vary between SAR 180 to SAR 450 per sqm across the city. The central and northern parts are commanding rental rates of SAR 250 – 450 per sqm followed by western and eastern sides, where rentals range between SAR 180 to SAR 380 per sqm.

Villas

During the last year villas sale prices have declined in several areas of the city. This plunge in the sale price is attributed to decreased affordability due to new mortgage law (30% down payment) implemented in late 2014. However rental rates of villas witnessed modest growth as compared to 2014 & 2015 price points. The sale prices of villas in the city range between SAR 2,000 per sqm (southern side) to SAR 6,500 per sqm (northern and central). However, this price can go up to SAR 8,000 per sqm in high-end districts such as Nakheel and Al Khozama.

The rental rates of villas vary between SAR 250 per sqm to SAR 650 per sqm in the northern, central and western sides, while rentals range between SAR 150 per sqm to SAR 250 per sqm in southern side of the city.

Apartment Rental Rates (SAR/sqm/annum)



Apartment Sale Prices (SAR/sqm)



Source: KPMG Research & Analysis Q1-2016

Villa Rental Rates (SAR/sqm/annum)



Villa Sale Prices (SAR/sqm)



Source: KPMG Research & Analysis Q1-2016

Supply Scenario

Increasing population, smaller household size and steady increase in expatriates are fuelling demand for residential sector in KSA and particularly in capital city. Array of projects promoted by local and regional developers are in various stages of construction. Our research indicates that approx. 20 – 25 large sized projects (more than 50,000 Sqm land area) with estimated supply of 20,000 units are likely to enter city market in the next 2-3 years. Information Technology and Communications Complex (ITCC) is the prominent among them, which shall release approx. 2,250 units comprising of various typologies of villas and apartments.

Part of this estimated supply is anticipated to be delivered in current year. Other major upcoming project by “Ewaan Global Residential Company” will deliver around 300 units in next 18 – 24 months’ timeframe. In addition, Manazel Qurtoba II, Marvela Community, and Bayt Al Hurr are major forthcoming project, which will deliver approx. 4,000 units in short to medium terms. The inventory of prominent upcoming projects is enumerated as follows:

Prominent Upcoming Apartment and Villas Projects

Project	Units	Expected Timelines
Masharif Hills (Ph-I)	169	2016-17
Manazel Qurtoba (Ph-II)	1,000	2016-17
Rafal Residence	172	2016
Bayt Al Hurr	216	2016
Manazel Qurtoba II	558	2016-17
Damac Esclusiva	216	2017
Al Jawan	300	2017-18
ITCC Complex	2,226	2016-17
Marvela Community	594	2016-17

Source: KPMG Research & Analysis Q1-2016

Outlook

The overall outlook of Riyadh’s residential sector is expected to remain positive. Considering the delivered units in 2015 and estimated upcoming supply, it is expected that undersupply condition in the market is likely to persist for short to medium terms. However it is anticipated that majority of supply shall be targeting rental housing segment. Riyadh houses nearly 19.5% of KSA’s population, and is by far the largest city of the Kingdom. The increasing population coupled with decreasing household size are key demand generators for residential units.

However, it is worth mentioning that by implementation of recently announced white land tax on undeveloped residential and commercial urban lands, it may make more space available for development and boost tax collection for the exchequer. In addition, it is also anticipated that property prices may witness some correction in line with their fair values.

Retail Sector Overview





Introduction

The Saudi Arabian retail sector has evolved and witnessed key developments that have transformed the Kingdom's landscape from small and unorganized markets to structured and extravagant shopping malls, with international brands, entertainment areas and hypermarkets. Majority of Riyadh's retail sector is spread across regional and super-regional malls and structured shopping centers that have replaced the traditional strip malls and shopping center retail concept. The shift towards mega and structured shopping malls has been the result of tenants wanting to benefit from the higher footfall and integrated spaces and a shift in consumer shopping experience towards leisure and entertainment.

This is quite significant as a fact that retail sales in Saudi Arabia reached SAR 301.8 billion in 2015, growing from SAR 168.1 billion in 2010 at a CAGR of 12.4%. High disposable income and government initiatives to diversify the economy have led to Riyadh becoming a center of attraction for high-end luxury brands. As per estimates, the retail sales in the country are likely to witness upward trend and will reach SAR 589 billion by 2020. Based on our understanding and market reach, we believe the increasing value of retail sales will add to the robust demand for retail space in Riyadh.

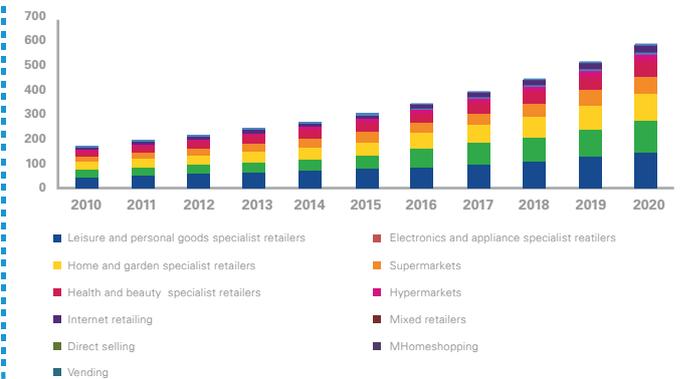
Supply Scenario

As per the current estimates, organized retail space is estimated to be approx. 1.50 Mn Sqm. Riyadh retail space dynamics completely changed between 2004 and 2010 when about 500,000 Sqm was added during this period which has acted as watershed moment for the city's retail scenario. With introduction of new malls in the subsequent years; the scale and positioning also changed which led to the rise of Super Regional Malls. Prominent among them was Riyadh Gallery which opened in 2008 offering total GLA of approx. 118,500 sqm. Regional and Super-Regional malls have an even distribution of GLA space in Riyadh. Nearly 84% of existing retail inventory comprise super-regional and regional malls while remaining constitutes community centers.

Our research also highlights that, the estimated average size of Super-Regional Mall is around 88,000 Sqm while the average size of Regional Malls is approximately 40,000 Sqm. Majority of the existing supply is located in the Central and North-Eastern Region of Riyadh.

Given the robust growth witnessed by this sector, many new projects have been announced and are in various stages of construction. Owing to this, existing retail footprint of the city is likely to expand to approx. 2.52 Mn Sqm by 2019. However it is pertinent to mention that majority of the upcoming developments promised to be delivered in 2015 have been delayed due to lack of labor supply in the market given the increased regulations from the government on labor visas coupled with other local issues. The average expected GLA of the upcoming malls is approximately 78,000 Sqm. Prominent malls, which are under various stages of construction and expected to be operational in the coming 2 to 3 years are enumerated below.

Retail Sales Trends In Saudi Arabia

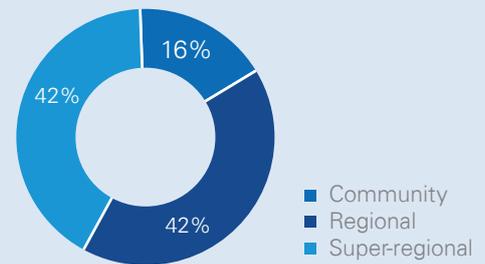


Source: Retailing Euromonitor from Trade Sources/National Statistics 2015

Prominent Upcoming Retail Project	Expected GLA (Sqm)
The Boulevard	30,000
Al Khaleej Mall	43,028
Al Hamra Mall	51,787
Cordoba Boulevard	79,000
KAFD	88,000
ITCC	50,000
Riyadh Park	92,000
Al Diriyah Festival City Mall	250,000

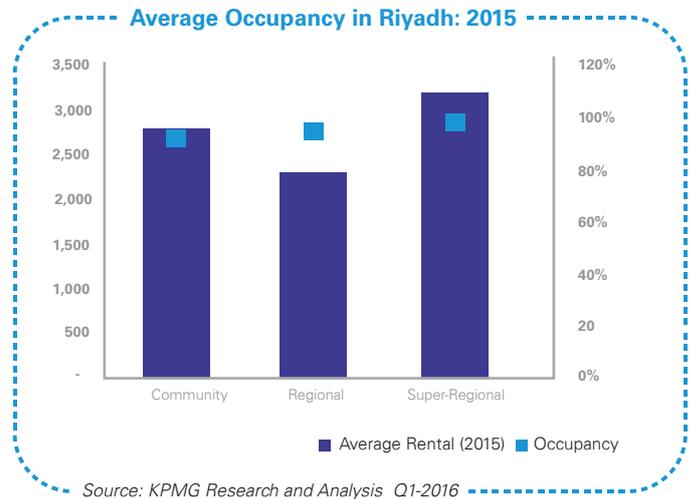
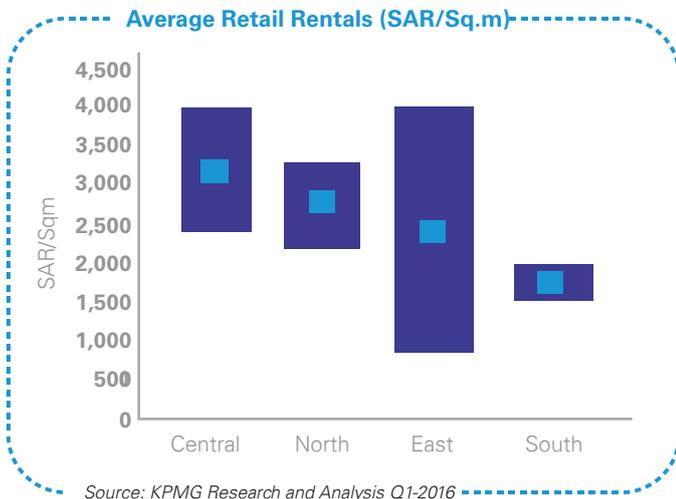
Source: KPMG Research and Analysis Q1-2016

Distribution of Retail Supply



Performance

Marginal growth of 2% has been observed in rentals and occupancies compared to year 2014 as market went through the consolidation phase during this period. This trend is likely to witness steady growth in short to medium term even though considerable level of upcoming supply is likely to get operational. This is based on the growing demand for organized retailing coupled with corresponding growth in disposable incomes. The rental in Riyadh varied based on the geographical location of the malls, with the highest rentals witnessed in Central Region, where majority of the malls are located along King Fahad Road and Olaya Street. This indicates presence of quality retail positioned along these stretches which are frequently visited by the city residents and tourists.



The malls located in the Central Region along King Fahad Road and Olaya Street command a premium in terms of rentals due to their location in a high-density area attracting higher footfall compared to other regions of Riyadh. Our primary research also suggests that malls with a lower efficiency charge premium in rentals owing to provision of large open spaces and ample surface parking.

It is estimated that the rentals for line shops across the city ranges between SAR 1,800 to SAR 3,000 per Sqm with average being SAR 2,400 per Sqm. The average rental of Super-Regional malls is 18% higher than the market average. The average market wide occupancy is observed to be 95%. However, Super-Regional Malls are commanding occupancy rate of 98%, followed by Regional Malls at 95% and community centers at 92%.

Outlook

It is interesting to mention that no quality organized retail mall presence has been witnessed in western part of the city, however Al Diriyah Festival City Mall will dot the retail landscape of this region in next 36 – 40 months. Based on our research and understanding of the market, the demand for retail space in Riyadh is likely to remain healthy in the next 2 to 3 years even though the sector is likely to experience an additional supply of more than 1 Mn Sqm. We believe that going forward, the retail real estate sector's performance is likely to remain steady with marginal growth in market wide rental and occupancy rates.

It is also believed that few of the announced projects are likely to get delayed given the current investor sentiment in Saudi economy and the budget cuts from the government. However, once the projects are completed, it is expected that the area towards the North and North-West of Northern Ring Road will become the retail destination of Riyadh with approx. 600,000 Sqm of supply, housing nearly one third of total retail inventory of city.

It worthwhile to note that two major retail groups, Majid Al Futtaim and AlShaya have announced retail projects expected to be completed in North of Riyadh, Majid Al Futtaim's project is expected to be completed by 2022 and will be built on a land area of 866,000 Sqm with a total cost of SAR 10.5 Bn. AlShaya's project is expected to be completed by 2019 and will be built on a land area of 388,000 Sqm with a total cost of SAR 6.5 Bn.



Office Sector Overview



Introduction

Riyadh houses approx. 78% of province population and 19.5% of KSA's population. The population of Riyadh city reached 6.15 million in 2015, which recorded an increase of 13.17% as compared to 2010 (5.34 million) population. According to Central Department of Statistics and Information (CDSI) projection, the city population is expected to reach 6.83 million in 2020 at a CAGR of 2.12%

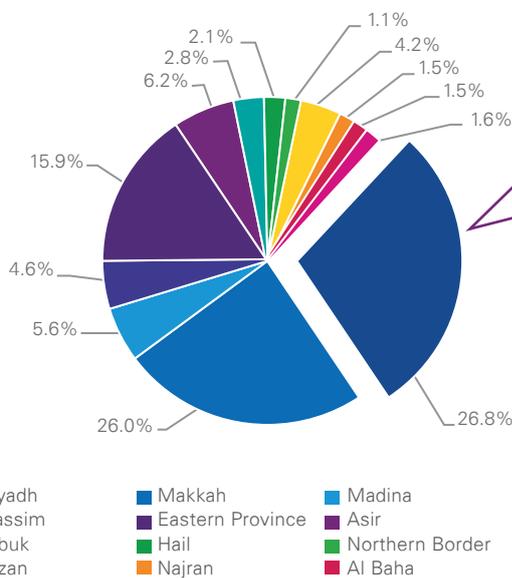
As per CDSI labor survey, nearly 27% of total labor force in the Kingdom belongs to Riyadh, comprising of nationals and expatriates. It grew from 3.9 million in 2011 to 3.2 million in H1 2015.

Riyadh being the capital city hosts head offices of large companies and various diplomatic and local government offices. It has experienced sustained growth in the business sector over the past few years.

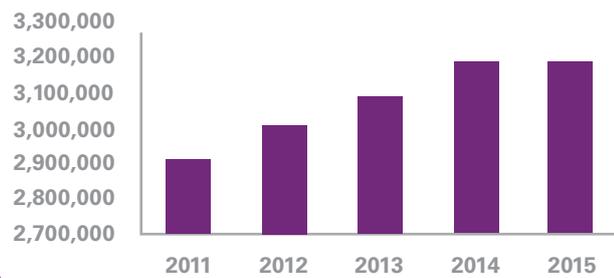
The office sector of the capital city has experienced dramatic changes since last two decades. Historically grade A and B office space development have concentrated primarily on King Fahad and Olaya roads in "Al Olaya District". Traffic congestion, lack of parking spaces and increasing rents have led the upcoming developments scattered along different arterial roads predominantly on northern side of the city.



KSA Manpower Distribution (Area Wise)



Riyadh Manpower Trends



Source: CDSI, KPMG Research and Analysis Q1-2016

Supply Scenario

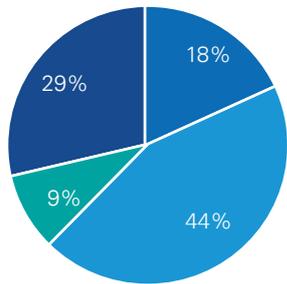
Though considerable level of delay in completion of upcoming projects has been witnessed in 2015, city has observed supply of approx. 120,000 Sqm during last year. King Abdulaziz Center for National Dialogue on northern ring road was the major completion during the year that delivered 35,000 Sqm in the market. The remaining supply comprised of several B class office buildings during the year.

The existing stock of Grade A and Grade B office space located on prime location is estimated to be approx. 2.4 million square meters. The office market of the capital city is evolving and the quality of new offerings are meeting the international standards. It is estimated that upon completion of under construction projects, Grade A office space will be holding approx. 60% of market share which currently stands at

40% The majority of existing office supply (approximately 44%) is located in the Central Business District (CBD), predominantly along and in vicinity of King Fahad road and Olaya road, among others. However, as indicated earlier, large proportion of upcoming supply shall be located on northern side of the city.

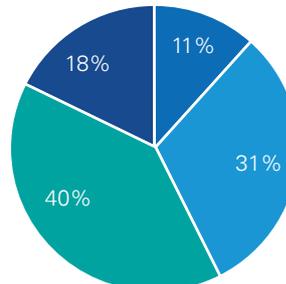
The prominent projects dotting skyline of this part of the city will be KAFD, ITCC, and Nakhla Tower, among others, along-with other medium size projects which will add more than 1.3 million square meters of Grade A and B office stock, augmenting the existing stock by more than 50%. Upon completion (2017-18), northern part of the city will be accommodating approx. 40% of quality office space, followed by CBD (31%)

Office Stock Distribution in 2016



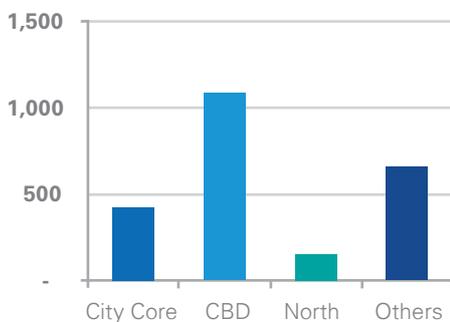
City Core CBD North Others

Office Stock Distribution in 2017-18



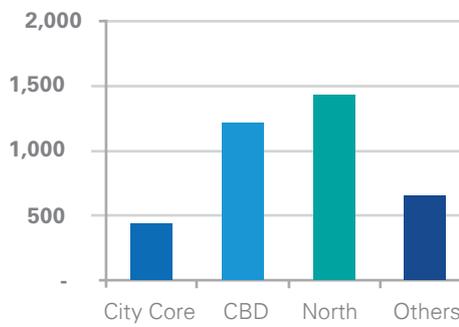
City Core CBD North Others

Office Stock Distribution in 2016 (Sqm '000)



City Core CBD North Others

Office Stock Distribution in 2017-18 (Sqm '000)



City Core CBD North Others

Source: KPMG Research & Analysis Q1-2016

Prominent Up-coming Projects

Office Project	Expected GLA (Sqm)	Expected Completion
Hamad Tower	31,000	2016
Information Technology and Communications Complex (ITCC)	230,000	2016 – 17
Majdoul Tower	55,000	2016 – 17
King Saud University Endowment Project (KSUE)	95,000	2017 – 18
King Abdullah Financial District (KAFD)	800,000	2017 – 18

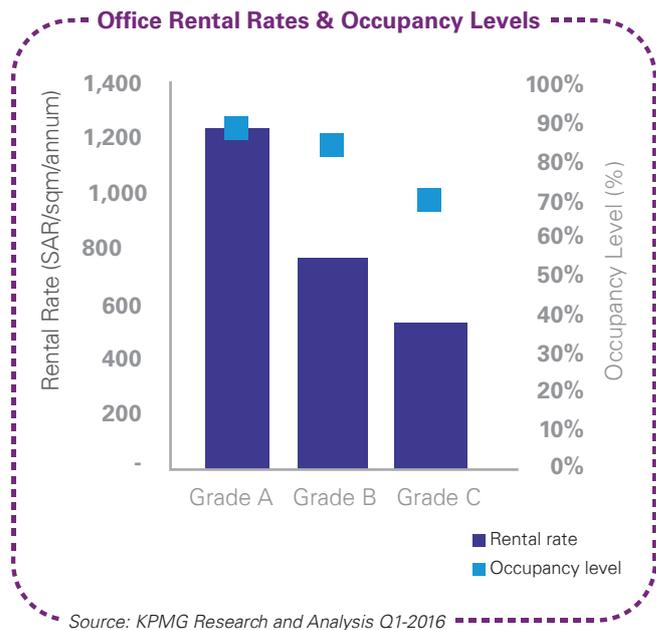
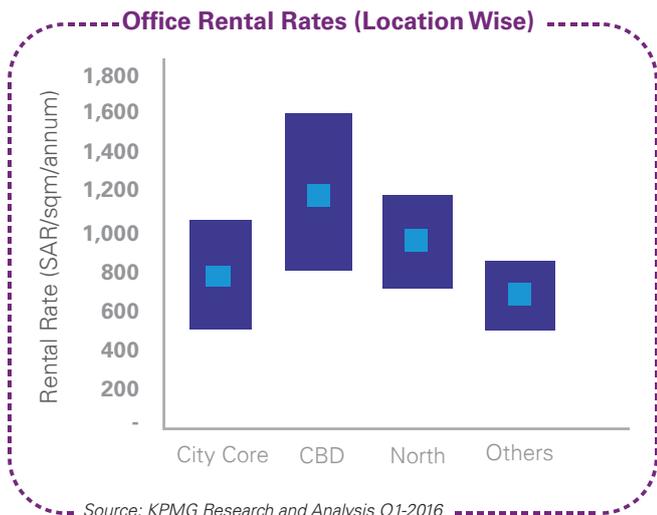
Source: KPMG Research & Analysis Q1-2016

Performance

Year 2015 witnessed mixed performance in office sector. The rentals remained stable for office buildings located in prime locations, which deliver high quality offerings like superior specifications, ample parking, high-speed elevators, centralized air conditioning, larger floor plates, etc. whereas on the other hand, office buildings located in secondary locations experienced weakening rentals and increasing vacancy rates during the same period. This transient stability and performance in the office market is attributed to demand generated by both public and private sectors coupled with delays in the delivery of under construction projects.

Office space located in the Central Business District (CBD) commands highest rentals which range between SAR 800 to SAR 1,600 per square meter followed by northern part of the city where average rental range between SAR 700 to SAR 1,200 per square meter depending upon location, specifications, space offerings, facilities and services, among others.

The average rentals in the city core which comprises locations like King Saud Road, Salahuddin Ayoubi Road range between SAR 500 to SAR 1,050 per square meter. It is pertinent to mention that approx. 55% of buildings in CBD comprises Grade A supply. This clearly corroborates the fact that due to considerable presence of Grade A buildings, CBD commands the highest rentals across city. The vacancy rates in CBD vary between 5% to 10%, whereas, citywide vacancy rate ranges between 15% to 20%, depending upon the location, accessibility, offered serviced and condition of the building.



Slower economic growth due to the recent decline in oil prices and its continuing volatility (for remaining part of the year) is anticipated to impact the demand for office space in coming years, as companies have become more vigilant about investment and its expansion strategies.

The upcoming supply coupled with weakening demand are likely to have ripple effect on the Riyadh office market in short to medium term. However, any further delay in delivery of upcoming projects shall offset this impact and stable performance may be expected, especially in vacancy levels. Declining trend in both rental and occupancy levels is expected till the equilibrium is achieved between demand and supply.



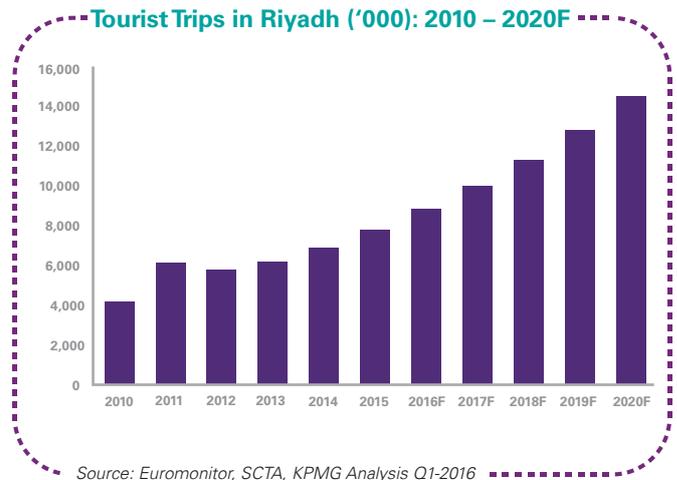
Hospitality Sector Overview



Introduction

Being the capital city and administrative headquarters of the Kingdom, Riyadh has been at the forefront in attracting tourists in the past decades. With increased business and economic activities, it has emerged as a major commercial hub for the region. As per the estimates, the number of tourist trips to Riyadh over the past 5 years has been rising at a CAGR of 2.9%, which currently stands at approx. 7.77 Million trips. Majority (37%) of the people visiting Riyadh belong to Visit Family and Relatives (VFR) category, followed by business visitors (29%) and Leisure and other category (24%).

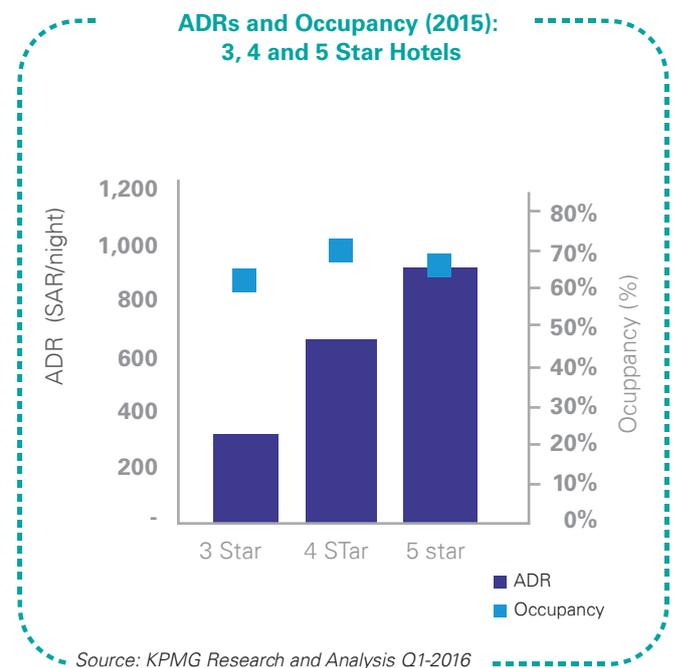
It is expected that the number of tourist trips to Riyadh will continue rising over the coming years due to the opening up of the stock market, enhanced business activity, pro-active government policies for private sector investments, among others. Unlike other cities of the Kingdom, Riyadh attracts highest number of business tourists whereas other prominent cities are frequented by religious tourists. Furthermore, the Saudi Commission of Tourism and Antiquities (SCTA) has taken several initiatives to develop the tourism sector in Saudi Arabia. One of the initiatives includes collaborating with different ministries to improve the tourism in unconventional areas like agri-tourism and geo-tourism. Riyadh is also likely to benefit from these initiatives.



Performance

Given the robust demand from business travelers the ADRs (average daily rate) in the market for 3, 4 and 5 star hotels stand at SAR 730 per night with a market wide occupancy of 65%. The highest ADRs are commanded by 5 star hotels due to the brand positioning and service offering which include state of art facilities, swimming pools, and business centers. At the same time, 4 star hotels have the highest occupancy rates, due to the fact that majority of the existing supply is located along the CBD of Riyadh which is frequented and preferred by the travelers

Given the performance of year 2015 in relation to 2014, the ADRs have shown upward trend which have been observed in range of (4%-6%) across all categories, wherein 5 star hotels have witnessed highest appreciation in ADRs during the same period. However, occupancies across all categories have been relatively stable. Our research indicates that hotels located within the Central Business District perform better with an occupancy level of 70% and Average Daily Rate of SAR 750 per night. It is worthwhile to note that branded 4 star hotels across the city perform better than the non-branded 4 star hotels with an occupancy of 69% and Average Daily Rate of SAR 740 per night. 5 star hotels located in central areas witnessed healthy occupancy levels of 66% in 2015.





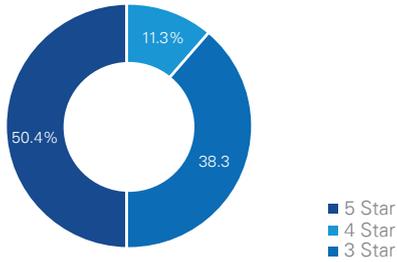
Supply

With increased business activity and subsequent increase in tourist in-flows, Riyadh has witnessed considerable level of hotel room supply in past 3-4 years especially in 4 & 5 star categories. As per our recent assessment, the total number of keys estimated in Riyadh is approx. 11,940. The current supply estimate of 11,940 rooms pertains to 3, 4 and 5 star hotels comprising 72 hotels.

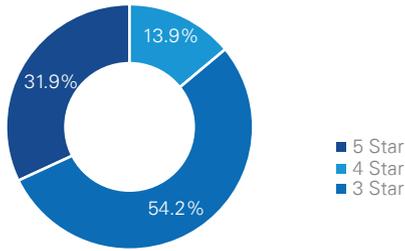
Although the number of 4 Star hotels account for over than 54% of the existing hotel supply in Riyadh, the number of 4 Star keys reflect a lower percentage of 38%. On the other hand, 5 star hotels have the highest inventory of keys standing at 6,019 rooms in 2015 constituting over 50% of the existing supply, indicating the dominance of 5 star hotels in the market. It is interesting to note that almost 50% of the current supply of hotel keys is located in the central region of Riyadh, majority of which are located along King Fahad Road and Olaya Road. Southern region of Riyadh has the second highest supply of hotel keys primarily located along King Abdul Aziz Road. Whereas, central region is dominated by 4 star hotels followed by 5 star hotels typically catering to business travelers.

We understand that majority of the upcoming supply in Riyadh will include 4 and 5 star hotels where 5 star hotels will make majority in both number of hotels and key supply. In total, approximately 4,550 keys are expected to be added to the current inventory in next 3-4 years. Some of the prominent hotels that will dot Riyadh's skyline are Granada Hilton, Le Meridian, Fraser suites, among others. In the medium to long term, more than 55% of the upcoming supply of rooms will be located in the Northern region, owing to the fact that considerable level of office supply (KAFD and ITCC) will be located in this part of the city.

2015 Riyadh Hotel keys by Category



2015 Riyadh Hotels by Category



Source: KPMG Research and Analysis Q1-2016

Project	Expected keys	Date of Completion
Granada Hilton	830	2016
Fairmont Hotel	298	2016
Wyndham KAFD	210	2018
Fraser Suites	225	2016
Indigo Riyadh KAFD	225	2018
Hyatt Regency	261	2017
Radisson Blue	252	2018
Le Meridian	232	2016

Source: KPMG Research and Analysis Q1-2016

It should be noted that from the total upcoming supply, approximately 35% of the hotel key inventory was promised to be delivered in 2015, however same has been deferred and is likely to be released in current year. Some of the projects that have been delayed include Hyatt Regency, Fairmount and Nobu Riyadh.

Outlook

Our research and understanding of the market indicates that demand for hotel rooms in Riyadh is likely to remain robust in the next 2 to 3 years even though the sector is likely to experience an additional supply of more than 4,550 rooms (4 & 5 star) in the coming 3-4 years. This is due to the opening up of the economy allowing more foreign investors to enter the Saudi Market along the active tourism activities that SCTA is promoting.

We believe that going forward, the hospitality sector's performance is likely to remain steady, though same are likely to see marginal correction in market wide ADR and occupancy. However, it shall be dependent upon quantum of projects getting operational during the same period.



KPMG Real Estate Services

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We have more than 173,965 outstanding professionals working together to deliver value in 155 countries worldwide. We work closely with our clients, helping them to mitigate risks and grasp opportunities.

KPMG in the Kingdom of Saudi Arabia is established through its member firm KPMG Al Fozan & Partners. The firm has been operated in the Kingdom of Saudi Arabia since 1992. It also operates through a national leadership with dedicated regional teams, which enable our network of professional talent, our technologies and our products and solutions to quickly come together to meet clients' needs. The firm has grown to be one of the largest professional services firms in the Kingdom with more than 675 working professionals and three offices in Riyadh, Jeddah, and Al Khobar.

KPMG's Real Estate team is led by seasoned professionals with over 50 years of combined Real Estate experience. The team provides different types of real estate advisory services across the Kingdom of Saudi Arabia through our three offices in Riyadh, Jeddah, and Al Khobar. The team is also supported by KPMG's global network of member firms. KPMG's Real Estate team provides the following services for Real Estate Developers and Investors.

Strategy Advisory Services

- 1. Strategy and business plans:** The team is involved in developing Corporate Strategies and Business Plans for Real Estate clients in the start-up, growth, transformation, and mature stages. Strategy development includes setting goals/objectives, determining actions to achieve the goals, and helping clients mobilize resources/funding to execute the actions.
- 2. Financial modelling:** KPMG's experienced Financial Modelling team develops custom models for Real Estate clients to be used for their Strategic, Financial, and day-to-day requirements. These models are delivered to clients with user manuals and training sessions to help ensure proper usage of the model.

Development Advisory Services

- 1. Highest and best use studies:** Our professionals advise clients on the best development option that is financially feasible and appropriately supported by the market to generate the highest returns. KPMG provides research backed development options, scenario analysis, sensitivity analysis, and key financial returns/indicators.
- 2. Market research and analysis:** KPMG's Real Estate team assesses the market in order to advise on the most attractive sectors of the Real Estate market. The assessment is based on drivers like demand and supply and performance indicators like Lease Rates, Sale Prices, Occupancies, ADRs etc. The Market Analysis is based on both primary and secondary research conducted by our dedicated research team.
- 3. Financial feasibility studies:** Combined with the market study, KPMG assesses the expected Financial Returns of specific Real Estate projects based on the parameters of the project and the market indicators.

The Feasibility Study includes Market and Financial Analysis sections. KPMG's Financial Feasibility Studies are frequently used by a number of banks as bankable documents; these can also be used by developers/Investors to raise debt from banks.

- 4. Valuation services:** KPMG's Real Estate Team provides Valuation Services where the Entity Value is derived by using different valuation methods such as Comparables, Multiples, Asset Sale, and DCF valuation methodologies.

Transaction and Financial Advisory Services

- 1. Real estate sales:** The Real Estate team is actively involved in bringing together Real Estate Developers with Real Estate Investors. The scope involves developing an Information Pack, which includes background, market, technical, and financial information about the company. KPMG's Real Estate team can help clients with the sales process from inception to signature of a binding agreement.
- 2. Bank financing:** The Real Estate team is also actively involved in preparing Information Packs used for bank financing. KPMG's Real Estate team has a long track record of success in helping clients' secure bank financing with our Information Packs.
- 3. PPP procurement and tendering:** KPMG's Real Estate team can lead the procurement and tendering processes of PPP projects on behalf of clients. The team has led several multibillion-dollar PPP projects in the region and has developed the relative PPP experience which can help ensure favorable financial closure of projects.

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