



Investing in hotel developments to exploit the increase demand in all facets of religious tourism in the Kingdom with project financing a key obstacle facing real estate developers and hindering growth of home ownership in Saudi Arabia

Hotel development has emerged as one of the most attractive segments in real estate in Saudi Arabia. Driven by an average growth of 6% year-on-year on business and tourism and the government's investment of SAR 100 billion in infrastructure and transportation projects, the opportunities to gain from high returns on hotels and overall boom in religious tourism throughout the Western province has never been more lucrative than now.

Yesterday, Day Two of Cityscape Jeddah Conference consisted of the all new Hotel Investment and Development Summit and focused on the strategies for securing project finance, various types of business models for luxury and budget hotels, asset management, hotel opportunities for religious tourism and maximizing returns on hotel investments.

"The summit was specially designed as the perfect platform for hotel developers, investors, government officials, hoteliers and financiers to come together and share ideas, source new business contacts and shape strategies for maximizing and supporting growth of the Saudi Arabian hospitality industry. Among the leading international brands present at the summit, Hyatt, Hilton and Accord, discussed ways of developing low and midscale hotels to increase revenues in growing segments and to maximize returns on hotel investments. Exclusive information found only at Cityscape Jeddah and that any international hotel brand would find vital in order to take advantage of the wealth of opportunities available as the future of religious tourism continues to be brighter and brighter," Hussein Al-Harithy, Managing Director of National Exhibitions Company.

Opening the summit on the subject of hotels yesterday, Filippo Sona, Head of Hotels and Resorts/Hospitality MENA, Colliers International stated, "The main drivers, of course for religious tourism are mega projects such as numerous hotel developments, transportation and infrastructure projects, like the Haramain Railway and the massive Jabal Omer Project, which are causing the main areas of Makkah to triple in size in less than two decades."

According to a report published by Colliers International, there is a limited supply of quality internationally branded economy hotels in the Kingdom of Saudi Arabia. Findings show that there are currently seven notable cities without any such hotel stock, representing a significant gap in the market. However, the forthcoming supply of internationally branded economy hotels is strong, with 1,182 rooms to be delivered to the market across the Kingdom by 2015. Colliers International's latest investigations have found evidence that the market could potentially absorb an additional 34,882 economy hotel rooms over and above forthcoming supply over the next five years, spread across major and secondary cities. Attractive investment opportunities lie in wait as economy hotels operate with a very cost-efficient structure characterized by a less volatile and sustainable pricing strategy. Based on the current profitability ratios of existing economy hotels, new developments prove to be a lucrative investment, with potential IRR ranges between 18% and 21%.

Among other speakers discussing key drivers for hotels is Shuqba Zaidi, Vice President of Projects Saudi Arabia, and General Manager, Makkah Hilton & Towers, KSA and lead advisor for the Makkah Jabal Omer Project.

"The main point I like to make when discussing religious tourism with developers and investors is that there is only ONE Makkah. This means while the interest to visit other tourist destinations may fade, Makkah is always going to be emotionally positioned in the hearts of all Muslims, with the obligation for all them to visit at least once in a lifetime. This is the key driver that is spurring hotel development and investment and guaranteeing that revenues will always be stable for the religious tourism industry." Zaidi said.

He further mentioned that by 2014, he expects hotel brands such as Jabal Omer, Movenpick, Orchid, Fairmount and Jabal Kaaba hotels to inject over 8,000 rooms into the Makkah hotel market.

"Other developments that will be massive in driving religious tourism and the rush of developers and hoteliers to Makkah is the King Abdul Aziz Expressway Development that is 3 kilometers of new developments leading up to the Haram."

Zaidi reiterated that this is very important since 60% of hotel revenues come in over only two months, namely the Holy Month of Ramadan and Hajj.

In concluding, Zaidi explained that the Jabal Omer project is current on track in all of its 5 phases, with the first of the brand's hotels coming into operation by the end of 2013 and the remainder operational by 2014.

Concerning companies exhibiting at Cityscape Jeddah and working to capitalize on up- and- coming projects in Jeddah and the two Holy Cities, Leman Project Management, a project management firm explained, concerning two projects that are primarily focused towards being a resting point for pilgrims and other religious tourists.

"The first project, Wadi Asla, is still in the design stage and will be more of a whole new city positioned on 120 kilometers of land and will be located 20 km east of Jeddah on the way to Makkah, which is very important in relating to religious tourism," Michel Abu Jawdeh, Associate Director, Leman Project Management said.

He explained that the city will have residential and leisure features including a golf course, equestrian club, safari club, theme park and an I-Max Visual Entertainment System.

The second project being managed by Leman is called the, "Heart of Jeddah" and will be located in the old airport area, having one of the main station for the Haramain Railway project linking Jeddah to the Two Holy cities of Makkah and Madinah.

"Our business, including these two major projects has increase substantially, due to the boom in religious tourism and its effect as a main driver in promoting and developing Jeddah's real estate sector," Abu Jawdeh said.

Speakers on Day One of the Cityscape Jeddah Residential and Affordable Housing Summit discussed some of the obstacles facing Saudi developers within the residential and affordable housing sector.

Eng. Mohamed Al-Otaibi, Business Development Manager at Al-Oula Real Estate Development Company, said that social culture represents a key concern in Saudi Arabia, as families tend to look for large-sized residential units above international standards and more than they can afford and need.

In addition, the building techniques currently used in Saudi Arabia are considered primitive, using expensive concrete that is labor intensive and extremely harmful to the environment. Using pre-cast and ready-made building materials can save up to 50 percent of construction costs and help promote home ownership.

Eng. Al-Otaibi, explained that one of the main issues slowing the growth of the real estate market is that developers do not sell to end users and trade lands between each other. Developers should be more responsible toward the market and not keep empty lands within the city undeveloped for long periods of time.

He went on to call for successful real estate companies to share experiences and change old behaviors that are limiting growth of the sector and suggested setting up a committee to organize and facilitate affordable housing projects.

Project financing was a key topic discussed during the Cityscape summit included, assessing successful strategies for securing project financing, Mr. Abdulmajied Bannan, CEO Aayan Modern Real Estate Development, said, "It is difficult to convince commercial banks to extend finance to projects targeting low and mid-income residents. Securing finance from banks requires collateral and the only thing developers have is the land available for development. However, this land is divided into smaller plots to be used for developing residential units and banks won't accept it as collateral."

Mr. Abdulmajied explained that there are other methods to get financing like off-plan sales, sukuk, real estate funds, installment sales, as well as collaborating with well-experienced contractors with a track record of achievements in the real estate sector. However, there are many difficulties facing these options which need to be solved."

Another viewpoint is that "Banks provide loans to make profit and it is a highly organized and structured sector that does not have confidence in the real estate sector to provide finance for projects," said Stephen Atkinson, Director, ARIEIT Investment Holdings. "With maximizing profit as main objectives, banks are not incentivized to diversify their business to cover real estate projects. You might see a bank financing a petrochemical project, but you will not find any bank interested in financing a real estate project for low and

mid-income people. In addition, we don't see enough effort SAMA to encourage banks to finance residential projects."

Mr. Atkinson went on to point out that Saudi Arabia will need real estate banks specialized in financing small to medium sized projects, which is the only way to grow this sector and achieve home ownership in the Kingdom.

Discussing delivering affordable housing through PPP models, Dr. Raeyd Al Dakheel, CEO, Mawten Real Estate Company, said, "New laws have to be created to promote partnerships between the private and public sector and protect their interests." Dr. Dakheel highlighted some successful experiences carried out by Makkah municipality in partnership with the private sector. "One of the main obstacles facing PPP models is the restriction currently pertaining to transferring land deeds from the government to the private sector. Also, the Ministry of Housing should consider buying residential units from real estate developers at competitive prices below market rates and resell them to low income residents."

With extraordinary hotel development projects and project financing options under discussion in the Kingdom, there is no doubt that Jeddah Urban Development and Real Estate Investment Event - Cityscape Jeddah, is one of the leading real estate events in the region, supporting the Government's vision for growth in the real estate industry, highlighting iconic architecture and innovative development, and providing direct access to the region's biggest real estate market - Saudi Arabia.

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