

# Rising Tourism in Saudi Arabia: Implications For Real Estate Investment



**Author: Ali S Daye**

---

Ali Daye will graduate from the Baker Program in Real Estate in 2019 with a concentration in development and sustainability. Prior to Cornell, Ali received a Master's of Construction Management from NC A&T State University. During his 10-year career in the construction industry, he was involved in the buildouts of many large-scale projects while working for major construction management firms. Upon completion of the Baker Program, Ali intends to pursue a career in international real estate and development, with a focus on sustainability, concentrating in the markets of the Gulf Cooperation Council.



## INTRODUCTION

Over the last few years, the Kingdom of Saudi Arabia (KSA) has pursued a more aggressive approach towards economic diversification in order to plan for the future of its youth as nearly 60 percent of the country's 3 million citizens are under the age of 30 (KSA-General Authority for Statics, 2017). Saudi Arabia traditionally has relied heavily on the public sector to absorb many of the educated Saudi nationals. However, the country is now looking to the private sector to create more jobs for its burgeoning population and has enacted policies that ease doing business in the country and make it more accessible to the outside world.

Considered one of the world's most insular nations, Saudi Arabia is now investing billions of dollars to become more open under its Vision 2030 reform program. The Kingdom is making a large investment in tourism with the recent announcement of several gigaprojects as well as with the recent completion of several major projects, including the renovation and expansion of the Grand Mosque (Masjid Al-Haram) in Mecca and the Prophet's Mosque in Medina in order to accommodate an increase in religious pilgrims.

## NEW VISA POLICIES

Saudi Arabia has had some of the strictest visitor policies of any country. Visitors have only been able to obtain either religious pilgrimage visas for hajj or umrah or business visas in which they must have a local corporate sponsor. The hajj and umrah visas are strictly regulated and are only valid for thirty days. The number of people making these pilgrimages from outside of the country is heavily regulated by the government in order to control those entering and leaving Mecca and Medina. Under the hajj/umrah visas, pilgrims have not been allowed free access to other cities in the country (Toumi, 2018).

Recently, the Saudi government has created new tourist visas allowing visitors easier access. In September, the country announced plans for a new electronic visa process called Sharek to allow racing fans to enter the country to attend an inaugural Formula E racing event near the capital of Riyadh (Kournelis, 2019). Also, the country relaxed hajj/umrah visas regulations to allow religious pilgrims to visit all cities within the country during their thirty day visit. (Toumi, 2018).

## PUBLIC INVESTMENT RESTRUCTURING

Established in 1971, the Public Investment Fund (PIF) is Saudi Arabia's sovereign wealth fund. Since its creation, the fund has primarily invested in major projects within the Kingdom. In recent years, the fund has undergone major

restructuring, focusing on projects that support the country's Vision 2030 plans as well as making major investments outside of the country. In 2015 oversight of the PIF was moved from the Ministry of Finance to the newly established Council of Economic and Development Affairs (CEDA). Crown Prince Mohammed bin Salman assumed the position of Chairman of the PIF. The fund currently holds \$150 billion in assets in Saudi-based companies and has a total of \$230 billion in assets (Algethami, 2018). A major source of expected funding was to be an IPO of the state-owned oil company Saudi Aramco, announced in 2016. Although this IPO has stalled, the PIF hopes to control more than \$2 trillion by 2030 (Algethami, 2018). The PIF is currently the tenth largest sovereign wealth fund in the world, ranked behind the Abu Dhabi Investment Authority (ADIA) and the Kuwait Investment Authority (Daye, 2018).

Since its restructuring, the PIF has made a plethora of moves to support Vision 2030. Investments outside the country have included a five percent share in the ride-sharing giant Uber, which is valued at \$3.5 billion (Hook, 2016), and a \$90 billion investment in the Japanese tech conglomerate Softbank (Hamilton, 2018). In Saudi Arabia, the PIF has backed several major projects. In 2016, the ownership of the King Abdullah Financial District was transferred from the Public Pension Agency (PPA) to the PIF (*Arabian Business*,



Figure 1. Pristine island in the Red Sea archipelago (Photo Credit: Red Sea Development Company).



2016). The King Abdullah Financial District is a major office development consisting of a cluster of skyscrapers in the northern section of the capital of Riyadh and was established as a hub for banking and financial institutions. Construction of the project, which spans over 1.6 million square meters, first began in 2006. Since then, the project has floundered and, as of 2014, the total investment of the PPA exceeded \$8 billion. PIF has committed to rescue the project by changing the real estate mix to include not only commercial office space but also residential and hospitality developments (*Arabian Business*, 2016).

## GIGAPROJECTS

With this shift toward developing the Kingdom into a major travel destination, the country has announced several gigaprojects whose scope expands across vast swaths of land and will require trillions of dollars of public and private investment. All of these projects have spurred the creation of subsidiary companies managed by the PIF. Some of these projects have been designated Special Economic Zones, which allow them to establish their own laws of governance independent of the rest of the Kingdom.

The futuristic city of Neom is the most ambitious of Saudi Arabia's projects. Crown Prince Mohammad bin Salman announced the creation of this new city in the northwest of the country in the fall of 2017 (Daye, A., 2017). With a cost of \$500 billion, the proposal calls for the creation of a city in the desert near the border with Jordan and across the Gulf of Aqaba from Egypt. Neom is expected to be one of the most technologically advanced communities in the world. In October of 2018, an advisory board was announced, comprising industry professionals with a variety of backgrounds including urban planning,

architecture, design, technology, sustainability, energy and manufacturing (Neom, 2018). The company now has over 125 employees (LinkedIn) and has announced that it will start building homes in Neom Bay for completion in 2020 (Pukas & Flanagan, 2019).

Another ambitious addition to Saudi Arabia's tourism offerings is the Red Sea Development Project, a massive tourism destination project spanning a fifty island archipelago stretched over 17,000 square miles along the northern Red Sea coast. The site is located nearly 350 miles north of Jeddah and features a maximum temperature of 93-degrees Fahrenheit in the summer, in sharp contrast to temperatures in Jeddah and Riyadh, which easily can exceed 100 degrees Fahrenheit. In addition to pristine beaches, the site is easily accessible to dormant volcanoes and is about 100 miles from Mada'in Saleh, a UNESCO World Heritage Site. Similar to Neom, the Red Sea Development Company has established an advisory board that includes several world-leaders in business, tourism, environmental sustainability and conservation. In January of 2019, the master plan for the project was approved. The overall project is expected to add 70,000 jobs, attracting one million tourists per year and adding \$5.86 billion to the Saudi GDP (Bridge, 2018). The first phase of the project is scheduled for completion in 2022 and includes 14 luxury and hyper-luxury hotels. This phase will add 3,000 hotel rooms across five islands (Bridge, Sam, 2019).

Coined the "Riviera of the Middle East," Amaala is a hyper-luxury resort also along Saudi Arabia's Red Sea coast (News, 2018). Smaller than the Red Sea Development Project, Amaala is billed as an exclusive destination that will focus on wellness, healthy living, and meditation. The project is expected to create 22,000 jobs in hospitality



Figure 2. Dormant volcanos are a part of the natural wonder inside Saudi Arabia (Photo Credit: Red Sea Development Company).



Figure 3. Aerial view of the Red Sea (Photo Credit: Red Sea Development Company).



Figure 4. Mada'in Saleh a UNESCO World Heritage site; home of the ancient Nabatean Kingdom (Photo Credit: Flickr).



Figure 5. Mada'in Saleh a UNESCO World Heritage site; home of the ancient Nabatean Kingdom (Photo Credit: Red Sea Development Company).

and tourism, leisure, and retail. (News, 2018). The initial architectural renderings show the project covering over 2,300 square miles and include more than 2,500 hotel keys and 700 residential villas (Dyer, 2018).

Meanwhile, Qiddiya is a large entertainment district proposed on the outskirts of Riyadh. Located 25 miles from the Saudi capital and covering an area of 200 square miles, it is claimed that it will be the largest entertainment district in the world (Obaid, 2018). Upon completion, Qiddiya will include theme parks, entertainment centers, sports amenities capable of hosting international competitions, training academies, desert and asphalt tracks for motorsport enthusiasts, and water and snow-based recreation. The proposals also include adventure activities alongside nature and safari experiences, with historical, cultural, and educational activities and events. Qiddiya is to be completed by 2030, attracting 17 million people annually and contributing \$4.5 billion to the country's total GDP (Obaid, 2018). A master plan is expected to be finalized in early 2019 (Kader, 2019).

At the end of 2018 another major planned destination was announced: Wadi Al Disah. It is proposed to be an ecotourism destination within the Prince Mohammed bin Salman Nature Reserve (Pradeep, 2018), resting in the Al Disah Valley, with its tall mountain forms located southwest of the city of Tabuk.

## ISLAMIC TOURISM

The long-term strategy of Saudi Arabia is to make it inviting to the rest of the world. In the short term, however, it will continue to capitalize on its position as the birthplace of Islam and the site of the annual hajj which draws millions

of Muslims each year. Currently, religious tourism only accounts for two to three percent of the total GDP. With recent major expansion projects to Masjid Al-Haram in Mecca and the Prophet's Mosque in Medina, under Vision 2030, Saudi Arabia is looking to double the number of pilgrims making hajj and umrah to 15 million and 5 million, respectively, by 2020 (Kingdom of Saudi Arabia, 2016).

In addition to the increasing the number of pilgrims entering the country for hajj and umrah, Saudi Arabia is seeking to expand its heritage tourism offerings. Under Vision 2030, the country is committed to building the world's largest Islamic museum as well as to doubling its UNESCO World Heritage Sites (Kingdom of Saudi Arabia, 2016).

## INCREASE IN HOTELS

Saudi Arabia is already seeing an increase in the number of hotels across the country. Currently there are over 80 hotels under construction across the Kingdom, accounting for 27,281 rooms. This is growth is in major cities such as Riyadh, Jeddah, Mecca, and Al Khobar (Abdel-Razzq, 2018). Many international brands are seizing the opportunity to strengthen their position in the Saudi market. Khobar Kamel Ajami, the VP of Operations for KSA & Levant Hilton, remarked: "Saudi Arabia is one of the most important markets in this region, with new legislation and government reforms making the Kingdom more accessible than ever. It represents our largest development pipeline" (Abdel-Razzq, 2018).

## LOOKING AHEAD: OPPORTUNITIES & CHALLENGES

The potential expansion of Saudi Arabia's tourism sector provides several challenges and opportunities. Among these challenges are the need to acculturate Saudis to



Figure 6. Marina concept for the Red Sea Development Project (Photo Credit: Red Sea Development Company).



Figure 7. Island concept for the Red Sea Development Project (Photo Credit: Red Sea Development Company).



Figure 8. Mountain concept for the Red Sea Development Project (Photo Credit: Red Sea Development Company).



Figure 9. Marina concept for the Red Sea Development Project (Photo Credit: Red Sea Development Company).

careers in the hospitality industry, the continued integration of women in the workforce, and the questions associated with maintaining sustainable transportation options, water and power sources, and adequate sanitation infrastructure.

Saudi Arabia's drive to expand its tourism is largely predicated on its desire to provide private sector jobs for the millions of young people who are either unemployed or underemployed. Under Vision 2030, the hospitality and tourism industry serves as a major employer of these citizens. Many of the projects that are either under construction or proposed will create thousands of jobs. With that being the case, there is a major obstacle of educating and acculturating Saudis to careers in the hospitality industry. Many Saudis typically frown on these positions as beneath them. Currently, only about eight percent of native Saudis work in the hospitality sector (Azhar, Duncan, & Edgar, 2014), with many positions occupied by expatriates. Historically, the service industry has also been viewed unfavorably by young Saudis due to the irregular work hours and comparatively low pay scale (Birchall, 2012).

As the hospitality sector grows, there is a major opportunity for women to contribute. Saudi women have now begun to outnumber men on university campuses within the Kingdom. Women now account for 51.8 percent of Saudi university students (*Gazette*, 2015). Although Saudi Arabian society has maintained a tradition whereby women are excluded from working outside of the household—the unemployment rate for women is 26.9 percent, four times the rate for men—it is possible that this could change. Already, of the working female population, 96 percent are employed in state teaching jobs (Allam, 2013).

Currently, Saudi women make up only 0.03 percent of the total people working in the hospitality sector (Azhar,

Duncan, & Edgar, 2014). This is in stark contrast to other countries where the hospitality industry has seen significant growth of female workers. In 2004, in the United States, for example, women and minorities accounted for 57 percent of the hospitality workforce with women comprising three-quarters of that number (Brownell & Walsh, 2008).

To capitalize on this gap in the market, some companies are already looking to train women in the hospitality industry. In 2016, Marriott International launched Tahseen, an 18-month hospitality program in conjunction with Cornell University. In the same year, AccorHotels launched its second management program in Saudi Arabia, allowing women to participate (Walsh, 2016). Major hurdles to encouraging women to pursue opportunities in hospitality are the local laws and traditions. This means that that customs regarding the interactions between male and females must be maintained. To accomplish this, efforts have focused on training women for non-guest facing roles such as finance, human resources and marketing (Walsh, 2016)

With the vast developments planned in the Kingdom, the need for sustainable development practices should be of the utmost importance. Saudi Arabia's position as a global leader in fossil fuel production and its rank as one of the highest oil consuming countries establish it as a major contributor to global climate change (Alshuwaikhat & Mohammed, 2017). With a dramatically sharp increase in tourism, Saudi Arabia's impact on global environmental issues should be monitored, evaluated, and adjusted appropriately.

Saudi Arabia is already one of the world's top per capita carbon dioxide (CO<sub>2</sub>) producing countries, emitting 13.6 tons of CO<sub>2</sub> per person in 2009, which accounts for approximately 1.1 percent of global emissions despite representing only



Figure 10. Saudi Arabia's Red Sea (Photo Credit: Red Sea Development Company).



Figure 11. Saudi Arabia's Red Sea (Photo Credit: Red Sea Development Company).



Figure 12. Renovation and expansion work in the Masjid Al-Haram in Mecca (Photo Credit: Ali Daye).



0.4 percent of the world's population (Hashmi, Abdulghaffar, & Edinat, 2015). Dramatic increases in foreign visitors will add to the country's current pollution issues as travel and tourism is considered the fifth largest pollution source, accounting for nearly 14 percent of greenhouse gas (GHG) emissions (El Hanandeh, 2013). Vast waste is already being produced as a byproduct of religious tourism. The 2011 hajj season generated 86,500 metric tons of solid waste (El Hanandeh, 2013). Any increases in activity in this area would exponentially increase the amount of waste produced, most of which is hauled to nearby landfills.

In terms of the new projects that have been announced, many of them will occupy previously undisturbed environs. Creating new infrastructure will be a major challenge as well. Large scale projects must also consider air quality, sustainable water resource planning, and sustainable energy planning. Much of this development would disturb Saudi Arabia's Red Sea coast.

Although Vision 2030 makes no mention of sustainable management of water and sanitation (Alshuwaikhat & Mohammed, 2017), some of the newly proposed tourism projects publicly seek to make a conscious effort towards sustainable environmental development. The current master plan for the Red Sea Development stipulates that energy be 100 percent produced by renewable resources. As Saudi Arabia continues to transform, it remains to be seen what sustainable measures will be implemented.

## WORKS CITED

- Abdel-Razzq, J. (2018, February 13). More Than 80 Hotels Set to Open Across Saudi Arabia in 2018. Retrieved from Construction Week Online.com: <http://www.constructionweekonline.com/article-48191-more-than-80-hotels-set-to-open-across-saudi-arabia-in-2018/>
- Algethami, S. (2018, August 8). What Now for Saudi Arabia's Planned \$2 Trillion Fund? Retrieved from Bloomberg: <https://www.bloomberg.com/news/articles/2018-08-08/what-now-for-saudi-arabia-s-planned-2-trillion-fund-quicktake>
- Allam, A. (2013, October 20). Saudi Arabia's women graduates hit 'walls of tradition'. Financial Times. Retrieved from Financial Times.
- Arabian Business. (2016, May 9). Saudi Arabia to transfer Riyadh finance district project to PIF. Retrieved from Arabian Business: <https://www.arabianbusiness.com/saudi-arabia-transfer-riyadh-finance-district-project-pif-631108.html>
- Azhar, A., Duncan, P., & Edgar, D. (2014). A Multi-Phase Methodology for Investigating Localisation Policies within the GCC: The Hotel Industry in the KSA and the UAE. World Academy of Science, Engineering and Technology International Journal of Humanities and Social Sciences, 8(12), 3854-3858.
- Azhar, A., Duncan, P., & Edgar, D. (2014). vA Multi-Phase Methodology for Investigating Localisation Policies within the GCC: The Hotel Industry in the KSA and the UAE. World Academy of Science, Engineering and Technology International Journal of Humanities and Social Sciences, 8(12), 3854-358.
- Birchall, L. (2012, March 27). Saudization crackdown puts hotels under pressure. Retrieved January 2019, from Hotelier Middle East: <http://www.hoteliermiddleeast.com/13891-saudization-crackdown-puts-hotels-under-pressure/2/>
- Bridge, S. (2018, December 2018). Red Sea Project set to add \$5.8bn to Saudi Arabia's GDP. Retrieved from Arabian Business: Red Sea Project set to add \$5.8bn to Saudi Arabia's GDP
- Bridge, S. (2019, January 22). Master plan approved for new Saudi eco-tourism mega project. Retrieved from Arabian Business: <https://www.arabianbusiness.com/travel-hospitality/411833-master-plan-approved-for-new-saudi-mega-eco-tourism-project>
- Brownell, J., & Walsh, K. (2008). Women in Hospitality. School of Hotel Administration Collection at Te Scholarly Commons., 107-128.
- Business, A. (2016, April 27). Saudi to overhaul floundering financial district, economic cities. Retrieved from Arabian Business: Saudi to overhaul floundering financial district, economic cities
- Daye, A. (2017, November 2018). With a Price Tag of \$500 Billion, Saudi Arabia Plans World's Most Ambitious Mega-City. Retrieved from Cornell Real Estate Review: <http://blog.realestate.cornell.edu/2017/11/01/neom/>
- Daye, A. (2018, May 11). Qatar Looks to Take Lead in US Real Estate Investments by Gulf Wealth Funds. Retrieved from Cornell Real Estate Review : <http://blog.realestate.cornell.edu/2018/05/11/gulfwealthfunds/>
- Dyer, C. (2018, November 20). Pictured: New multi-billion dollar 'Riviera of the Middle East' resort on the Saudi Arabian Red Sea coast covering nearly 1,500 sq miles

- with 2,500 hotels. Retrieved from Daily Mail: <https://www.dailymail.co.uk/news/article-6411551/Pictures-new-Riviera-Middle-East-Amaala-resort-Saudi-Arabian-Red-Sea-coast.html>
- Gazette, S. (2015, May 28). More women than men in Saudi universities, says ministry. Retrieved from Al Arabiya English: <http://english.alarabiya.net/en/perspective/features/2015/05/28/More-women-than-men-in-Saudi-universities-says-ministry.html>
- Hamilton, I. A. (2018, October 8). Saudi Arabia is investing another \$45 billion with SoftBank. Retrieved from Business Insider: <https://www.businessinsider.com/saudi-arabia-45-billion-with-softbank-2018-10>
- Hook, L. (2016, June 1). Saudi wealth fund takes \$3.5bn Uber stake. Financial Times.
- Kader, A. (2019, January 30). Interview: Saudi Arabia's Qiddiya project master plan to be finalised by end of Q1 - CEO. Retrieved from Zawya: [Zawya.com](http://www.zawya.com)
- Kingdom of Saudi Arabia. (2016). Vision 2030.
- Kournelis, T. (2019, January 2). Saudi Arabia launches first visitor visa for sports fans worldwide with Formula E. Retrieved from Travel Daily New: <https://www.traveldailynews.com/post/saudi-arabia-launches-first-visitor-visa-for-sports-fans-worldwide-with-formula-e>
- Neom. (2018, October 9). Global Advisory Board Announced by NEOM. Retrieved from Neom: <https://www.neom.com/content/pdfs/NEOM-advisory-en.pdf>
- News, A. (2018, September 30). Saudi Arabia's PIF unveils Amaala, a new global leading destination for wellness. Retrieved from Arab News: <http://www.arabnews.com/node/1378411/saudi-arabia>
- Obaid, R. (2018, April 29). Saudi Arabia's Qiddiya, built for fun, also means business. Retrieved from Arab News: <http://www.arabnews.com/node/1293306/saudi-arabia>
- Pradeep, A. (2018, November 29). Saudi Arabia announces sustainable mountaineering tourism development. Retrieved from ME Construction News: <http://meconstructionnews.com/32454/saudi-arabia-announces-sustainable-mountaineering-tourism-development>
- Pukas, A., & Flanagan, B. (2019, January 18). Saudi Arabia to Start First Phase of Neom Project. Retrieved from Arab News: <http://www.arabnews.com/node/1436436/business-economy>
- Red Sea Development. (2018, September 17). The Red Sea Development Company Announces Global Advisory Board. Retrieved from The Red Sea Development Company: <https://newsroom.theredsea.sa/the-red-sea-development-company-announces-global-advisory-board>
- Sreenivas, S. (2018, June 2018). Market Update: Sharjah - The Culture Capital. Retrieved from HotelierMiddleEast.com: <http://www.hoteliermiddleeast.com/33835-market-update-sharjah-the-culture-capital/>
- Stephenson, & Russell. (2010). Islamic Heritage in the UAE: Indigenization of Products and Human Capital. *Journal of Islamic Marketing*, 1(1), 9-24.
- Toumi, H. (2018, September 18). Umrah visa holders can visit any Saudi city. Retrieved from Gulf News: <https://gulfnews.com/world/gulf/saudi/umrah-visa-holders-can-visit-any-saudi-city-1.2279930>
- Walsh, P. (2016, June 9). News Analysis: Saudi Women Take on Hospitality. Retrieved from HotelierMiddleEast.com: <http://www.hoteliermiddleeast.com/27340-news-analysis-saudi-women-take-on-hospitality/>
- Walsh, P. (2016, June 9). News Analysis: Saudi Women Take on Hospitality. Retrieved from ArabianBusiness.com: <http://www.hoteliermiddleeast.com/27340-news-analysis-saudi-women-take-on-hospitality/>

