

Tourism – Riyadh

A Report

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1. Introduction and Project Overview

The purpose of this report is to provide a macro- and meso-level analysis of the property market in Riyadh with the aim of providing recommendations to build a commercial property in the city. The report evaluates the property development market in Riyadh and Saudi Arabia by means of a PESTLE analysis with a specific focus on market demand, market segments and opportunities/risks for growth. Riyadh, the capital city of Saudi Arabia, is a gateway city for property and infrastructure development. There are diverse financial institutions and internal corporations functioning in Riyadh, creating an opportunity for commercial property development.

2. Macro-Environmental Analysis

A PESTLE analysis was conducted to evaluate the core macro-environmental factors influencing growth in the region.

Political Factors

The government's Vision 2030 programme is an important political initiative which is intended to improve access to appropriate housing for Saudi residents and families. The programme introduced diverse governance, delivery and financial support mechanisms within the residential housing market (Kingdom of Saudi Arabia, 2016). The programme created an ecosystem engaging with funders, builders and beneficiaries to enable access to finance and customer enablement. Government support for giga projects needs to be acknowledged as essential to the property development and infrastructure sector (Knight Frank, 2023).

Closely linked to the growth of the housing and property development sector is investment in tourism. For example, the King Salman Project in Riyadh is intended to be the largest urban park in the world with 11 km² of green space, run by renewable energy and resources. This park has \$1 billion in contracts for development and is strongly supported by the government. There are financial centres and hotel development opportunities within this region. As part of government investments, additional hospitality sector-specific actions like the Tourism Development Fund aim to promote hospitality. Government support for global events, including the Formula 1 Grand Prix and a joint bid with Italy to host the World Cup 2030, are intended to help the hospitality sector (Mordor Intelligence, 2024).

There remain challenges with political support. For example, Ekiz et al. (2017) recognise that with the volatility of oil prices and increasing production from non-Arab countries, there is an ongoing budget deficit impacting all areas of growth. Similarly, Sobaih and Abu Elnasr (2024) contend that there are concerns regarding government support for equity policies. There are concerns of gender discrimination and cultural conflict for women within the hospitality industry which remain unaddressed by the government.

Economic Factors

Economic indicators signify both positive and negative trends. For example, the International Monetary Fund (IMF) estimates that the GDP growth forecast in 2024 is 1.5%. However, the IMF estimates that growth will be faster in 2025 (Reuters, 2024). There is investment in diversification, including expansion into other sectors like tourism, manufacturing and technology (Hilmi et al., 2020). The unemployment rate had reduced from 4.9% in 2023 to 4% in 2022 and can be attributed to an increase in job opportunities. According to Mordor Intelligence (2024), growth of 5.03% is expected in the hospitality sector between 2024 and 2029. In 2024, the market size is estimated at \$13.2 billion. There are positive indicators for property development. For example, government investment with private player partnerships of up to \$550 billion is expected to positively influence travel and hospitality (GCS, 2024). It is important to recognise the impact of international tourist arrivals to GCC. As seen in the figure below, though the UAE ranks as the top tourist destination, the growth of Saudi Arabia has been significant: for example, 2022 saw a total of 18.3 million visitors, showcasing a recovery since the pandemic (Alpen Capital, 2024).

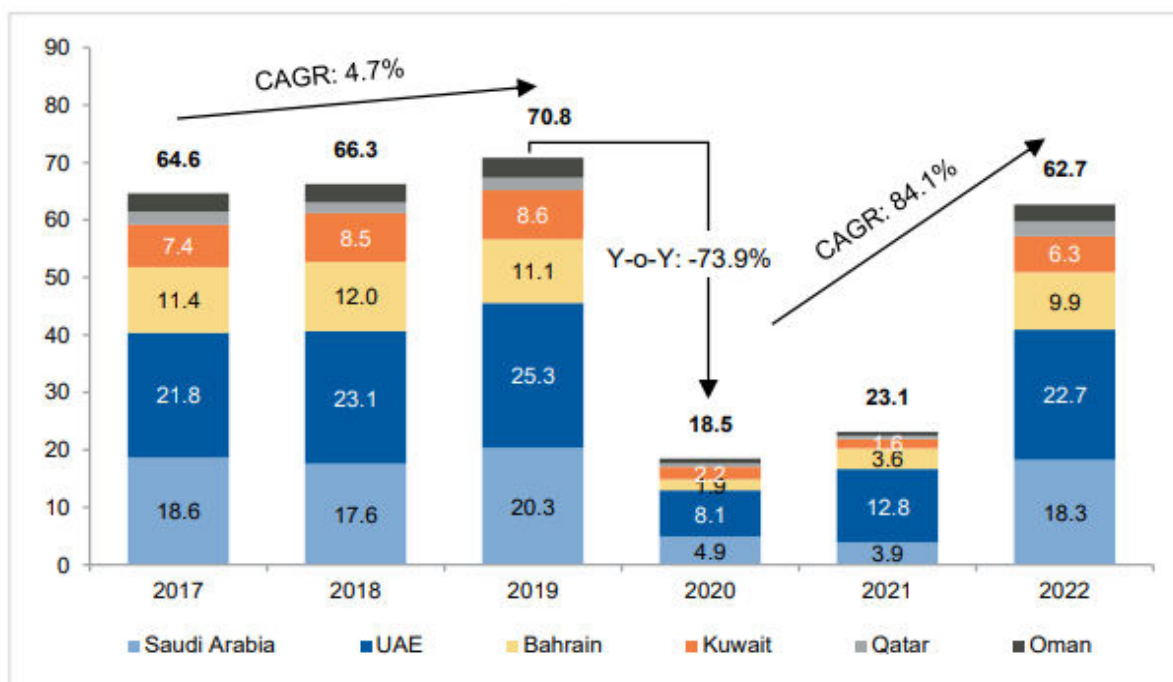


Figure 1. International tourist arrivals – GCC countries

Source: Alpen Capital (2024, p. 11)

A comparison of country spending on travel and tourism shows that Saudi Arabia has the highest investment. In 2022, the country spent \$55 billion (Figure 2).

Country/Region	T&T Spending (A+B)		Leisure Spending (A)		Business Spending (B)	
	Value (US\$ bn)	Travel & Tourism GDP Contribution	Value (US\$ bn)	Share (%)	Value (US\$ bn)	Share (%)
GCC	137.4	8.3%	114.0	83.0%	23.4	17.0%
UAE	44.8	9.0%	36.2	80.8%	8.6	19.2%
Saudi Arabia	55.4	8.4%	52.0	93.8%	3.4	6.2%
Qatar	19	9.5%	13.3	69.9%	5.7	30.1%
Kuwait	8.4	5.2%	6.0	70.9%	2.4	29.1%
Oman	3.6	4.0%	2.3	64.1%	1.3	35.9%
Bahrain	6.2	12.8%	4.3	69.6%	1.9	30.4%

Figure 2. Travel and tourism spending 2024

Source: Alpen Capital (2024, p. 12)

Despite these positive trends, as Alhamoudi and Lee (2018) recognise, there remain some challenges regarding commercial property prices. For example, there has been volatility in interest rates for commercial property developers as financial institutions offering high interest rates thereby increase prices (WSP, 2024). Similarly, Alshihri et al. (2022) recognise that the high cost of construction due to sourcing challenges and technical expertise challenges like access to talented labour. The high price of land is an important real estate development challenge, investors and developers facing significant delays in procuring land for development (WSP, 2024).

Social Factors

Population growth is an important social factor influencing the future of property development in Saudi Arabia. According to the Knight Frank Report (2024), Riyadh is poised for sustained population growth, reaching up to 9.6 million by 2030. This population will include a mix of Saudi Nationals (4.1 million) and expatriates (5.5 million), marking a 38% increase between 2022 and 2030. This rise in demand indicates opportunities for locally driven market segments for a hotel in Riyadh. There has been a demand for premium residency and premium ownership. The introduction of premium residency visa options has brought in foreign investors who are looking to purchase premium hotel-managed properties (Knight Frank Report, 2024). This initiative allows investment in high-end property and is expected to increase demand for luxury property in Riyadh.

The potential social challenges influencing property development include the potential misalignment of local preferences and development opportunities (Sobaih, 2023). Another social challenge is addressing policy needs pertaining to localisation. The government has required the use of local labour within the hospitality industry (Aldosari, 2013). The evidence shows that there remains a lack of skilled labour within the Saudi population. In an assessment of the Gulf Cooperation Council (GCC), Alpen Capital (2024) recognises that the shortage of skilled workers within the local workforce will necessitate looking for international labour. A core challenge that will be evident to developers of hotel projects is balancing localisation goals and government policies against access to the right talent. As Palmer (2024) recognises, in Saudi Arabia and the UAE there is an expected combined demand for 90,000 workers.

A shift in customer behaviour is another social factor that should be acknowledged. The global health crisis linked to COVID-19 created trust needs in the hospitality industry, with

the need for evidence of more open spaces (CID, 2024). New hotels in Saudi Arabia should focus on a balance of green spaces and closed spaces to meet customer preferences.

Technology Factors

There has been strong evidence of digital transformation within the Saudi construction sector. According to CID (2024), the rise of green building technologies and intelligent building systems is improving the efficiency of operations within the sector. Technology trends, including the use of digital wallets along with digital restaurant menus or check-in applications, need to be recognised and integrated within the hospitality sector. There is evidence of the hotel and hospitality sector in Saudi Arabia investing in technologies like big data analytics and robotics. There is also evidence of businesses in Saudi Arabia embracing smart solutions. For example, VOTEL in the NOEM region has been designed to integrate digital-first solutions like smart beds and a robotic concierge (VOTEL, 2023). Consumer acceptance of such technology solutions needs to be addressed when considering the development of a hotel in Riyadh.

Legal Factors

There are some important legal factors that need to be addressed. International investment in Saudi Arabia is overseen by the Saudi Arabian General Investment Authority (SAGIA). It is important to adhere to the standards set out by the agency, which encourages and facilitates international investment in Saudi Arabia. Due to recent changes made to the tourism law and its implementing regulations, any international hotel chain looking to break into the Saudi market must now set up business in the Kingdom as a legally recognised corporation. All licence holders, including those in the hotel business, will be required to contribute data to a tourism data centre that will consolidate all information pertaining to the Kingdom's tourist industry. In addition to the necessity that hotels disclose certain information, the tourism law imposes other duties on them, such as the need to register information about every worker and being required to meet Saudization criteria regarding their staff (Tamimi, 2016).

Environmental Factors

The real estate sector is placing a growing emphasis on sustainability and environmentally friendly construction methods. This has led to a push for sustainability measures among Saudi Arabia's real estate developers. Some of these characteristics include recyclable materials, water conservation systems, and energy-efficient lighting (Abdou et al., 2022). The

implementation of these features not only reduces the environmental impact of the building, but also generates substantial cost savings for the operator. There is also rising concern of overtourism, which could negatively impact the local community and affect sustainability in the region (Zaki,2024). This may lead to regulatory laws in the future regarding environmental impact.

3. Global Trends

The most important global trend influencing growth in the hospitality sector is post-COVID recovery in travel and tourism. International travel is returning to pre-COVID-19 levels, with demand for both leisure and business travel (Figure 3).

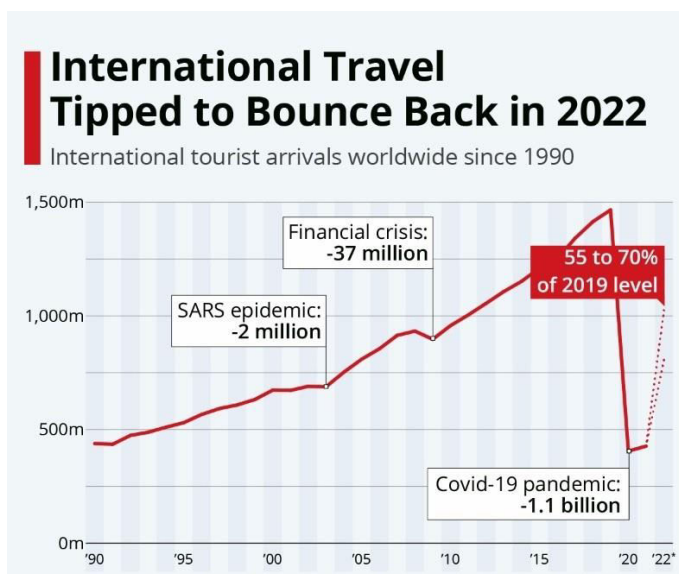


Figure 3: International Travel post Covid-19

Source: World Economic Forum (2022)

Another global trend that should be acknowledged is the rise of sustainable tourism. There is evidence of travellers increasingly looking for hospitality organisations that are eco-conscious, and they are willing to pay a premium for sustainable operations. Thirdly, as discussed earlier, the rise of technological advancements including AI-powered customer service, personalised solutions through data analytics and digital touchpoints for check-in and in-room requests are global aspects that may influence hospitality operations.

4. Market Segments

Evidence has shown that leisure tourism continues to be an important market segment contributing to growth in the Kingdom. In 2024, 17.5 million overseas visitors visited Saudi

Arabia, a 656% increase from 2019. There was a 25% rise from 2023, with 4.2 million tourists visiting Saudi Arabia in search of entertainment and leisure activities (Al-Barakati, 2024). In contrast, growth in the business segment is minor, revenue per vacant room being low when compared to leisure and religion-related travel trends (Research and Markets, 2023).

5. Demand Drain Factors: Recommendations

Riyadh, as the capital and the epicentre of Saudi Arabia's economic change, is seeing a massive urban makeover. Since 2016, the city has invested a significant amount of money (1.18 trillion Saudi riyals (SAR)) in new infrastructure, real estate and transportation projects (WSP, 2024). An analysis of the hotel sector shows a balance of both mid-level and luxury tourism. The budget segment restricted to religious tourism is often evident in other regions of the KSA such as Jeddah (Research and Markets, 2023). This accompanied by growing investments in major projects across Riyadh (Figure 4) contribute to opportunities for property development. This report recommends that the property development firm look for opportunities near King Salman Park, as there is an expected increase in corporate investment and corporate headquarters. This can not only aid in leisure tourism but also business tourism. The demand in Riyadh is for mid-range and luxury hotels and therefore targeted investment in this region should be focused on luxury hotel development.

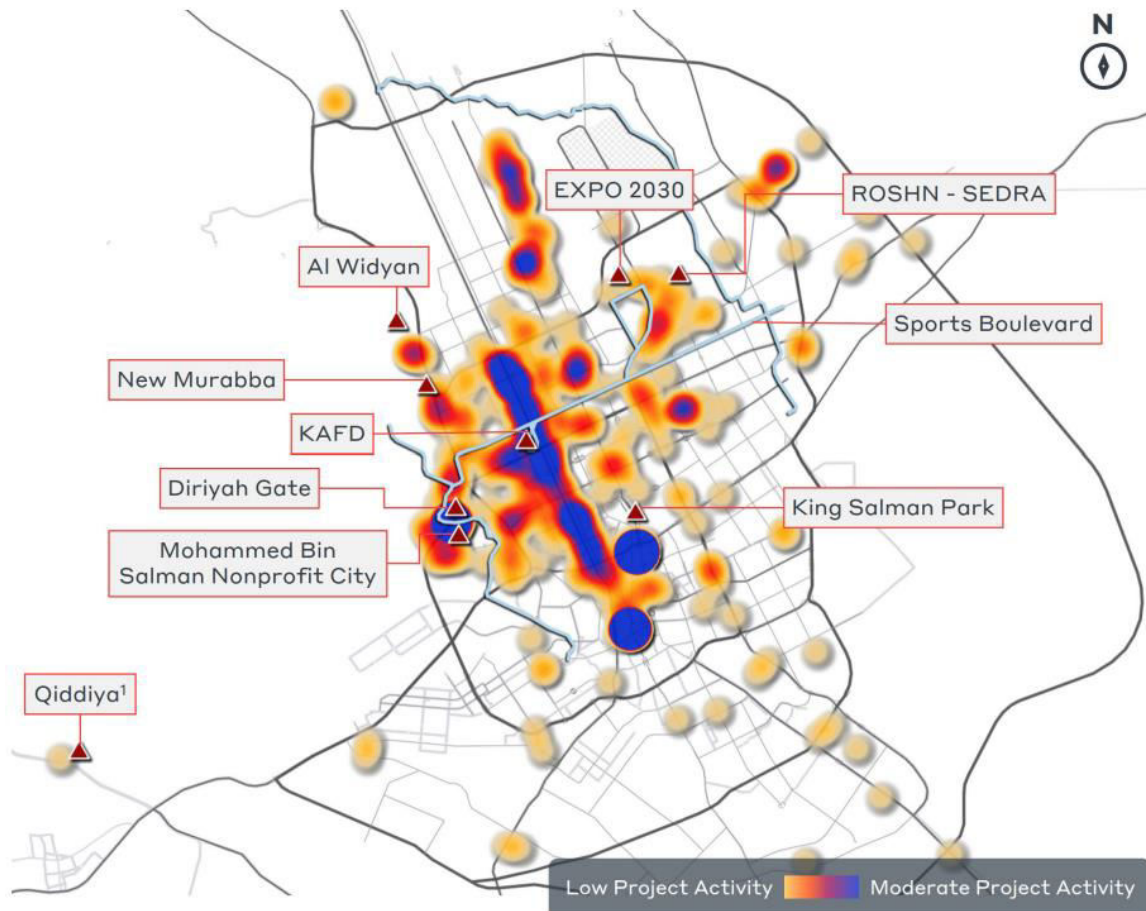


Figure 4: Projects Near Riyadh

Source: WSP (2024)

An analysis of demand drain factors shows some important trends. The threat of new entrants remains significantly high. As discussed in the PESTLE analysis, government support, accompanied by growing tourist inflow, has created opportunities for new hotel and hospitality development. A high level of foreign investment entering the Saudi market can create new players to compete with established alternatives. The threat of substitutes remains low at the moment, with preferences for hospitality. However, as the Mordor Intelligence (2024) report recognises, the high-end residential rental market could act as a substitute threat for serviced apartment and short-term rental alternatives. The bargaining power of the buyer remains moderate, with large companies and travel agents negotiating for bulk booking. Suppliers' bargaining power remains low, given the rise in demand in the hospitality sector. Competitive rivalry is intense with established global chains and local brands. Therefore, any new hospitality organisation entering should focus on ways to differentiate through branding, technology integration and service quality.

6. Conclusion

This research concludes with the argument that within Saudi Arabia, especially Riyadh, the opportunities for commercial real estate development and hospitality sector development are positive. Macro-environmental factors, including political support, economic growth factors and technology factors, are positive. Global trends, including the rise of sustainable tourism and the integration of AI and data analytics, need to be addressed. As a new player, there are opportunities for growth in the gateway city, given the depth of investment opportunities present for new international players.

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