

Luxury on the Horizon in KSA

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Traditionally reliant on religious tourism, as well as regional visitation, current projects underway in KSA include The Red Sea, Qiddiya, Amaala, Al Ula and NEOM, to name a few. These developments will become home to some of the largest mixed-use schemes and will undoubtedly encourage travel demand and transform the hospitality landscape and offering.

Vision 2030 aims to increase travel and tourism contribution to GDP from 4 percent (2019) to 10 percent (2030) by attracting 100 million international and domestic overnight visits by the beginning of the next decade. Recent changes include women empowerment, the easing of visa regulations, incentives for foreign investment, more cinemas and entertainment venues as well as a number of legislative changes that support tourism growth.

The current pandemic, which has had a tremendous impact on the hotel market both globally and regionally, has fueled local and domestic travel in the kingdom and potentially accelerated the development of hospitality projects.

Inbound and Domestic Travel

In 2019, as per Saudi Arabia Tourism and Research Centre, visiting the country for religious purposes constituted 64 percent of total inbound tourism to Saudi Arabia. This was followed by travel for business and conferences (15 percent), visiting family and friends (14 percent) and entertainment and shopping (the remaining 5 percent). Inbound and domestic trips made to and in Saudi Arabia reached 16.5 million and 47.5 million in 2019 respectively, reflecting an overall increase of 9 percent compared to 2018.

In the short term, domestic travel is expected to lead Saudi Arabia's recovery from COVID-19 as lockdown restrictions are eased. However, resurgence of regional and international visitors will depend on vaccination rollouts, traveler confidence and government policies.

In the long term, initiatives that will be implemented under Vision 2030 and the easing of visa restrictions – with the introduction of tourist visas – mean that inbound arrivals are expected to increase exponentially.

KSA Versus the Rest of the Gulf

Compared to other countries in the GCC, Saudi Arabia currently has approximately 2,100 resort keys in the upper-upscale and luxury segment. This accounts for only 4 percent of existing hotel/resort inventory in the kingdom. Large new developments will add an additional 19,500 keys in the resort sector by 2030, which is likely to be distributed as follows: The Red Sea Project and Al Ula (13,000 rooms combined), Amaala (2,800 rooms), Diriyah Gate (2,200 rooms) and Qiddiya (1,500 rooms). In contrast, it is evident that the resort market is well developed in the UAE, which accounts for approximately 73 percent of the total resort market, with prominent brands and leading flagship properties being well established.

The resort market in KSA is considered largely seasonal and has historically attracted domestic leisure tourism. While it is expected that domestic leisure tourism will continue to generate the largest number of room nights, we anticipate an increase in regional and international tourism into KSA as the country further strengthens its tourism offering and promotes the destination.

Summary

Amid the current global pandemic and travel restrictions, Saudi Arabia remains committed to its Vision 2030 and projects are underway to transform its hospitality offering. Hala Matar Choufany, President, Middle East, Africa and South Asia of HVS, shines a bright light on the kingdom's luxury resorts and what we can expect to see.

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It is evident that the UAE resort market is the leader in occupancy, averaging approximately 70 percent over the last five years and 76 percent when excluding 2020, which does not represent normal market conditions. Saudi Arabia follows the UAE, with a five-year average occupancy of 56 percent and 59 percent when excluding 2020. It is worth noting that the UAE resort market typically captures a fair share of commercial and corporate business, helping to flatten seasonality. On the other hand, the current segmentation of resorts in the kingdom is primarily driven by leisure domestic tourism and suffers from high seasonality. Both Doha and Bahrain exhibit similar seasonality.

The regional average rate for the resort market between 2015 and 2020 was USD 349, a marginal drop when compared to 2015-2019, which registered USD 356. All markets, excluding UAE, have exhibited a decline in the average rate in 2019 on account of increased supply and lower oil prices, which impacted the disposable income levels of travelers. Notwithstanding these conditions, both the UAE and KSA resorts achieved a slight premium over the regional average.

We expect all markets to witness strong recovery on the back of pent-up demand and the relaxation of travel restrictions. In the short term, domestic leisure travelers are expected to drive tourism demand in the region, given the lasting impact of the COVID-19 pandemic. In the mid to long term, we anticipate that the region will establish itself further as a leisure tourism destination that appeals to international travelers, as KSA and other markets increase their efforts to develop unique and differentiated tourism product offerings.

The Takeaway

The hotel market in Kingdom of Saudi Arabia in particular is expected to benefit from the continued economic development of the country, particularly from the major infrastructure development projects which will contribute to driving growth in tourism. The new giga-projects will cover an area over 65,000 square kilometers and will cost approximately USD 810 billion. These giga-projects will help to transform Saudi Arabia into a global tourism hot spot and support the kingdom's economy by creating jobs and attracting foreign and domestic investments.

It is clear from the robust planning and Vision 2030 that KSA will emerge as a key player in the regional leisure segment. However, success will largely depend on maintaining a healthy supply and demand equilibrium and equally on a sustainable execution strategy.

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About Hala Matar Choufany



Hala Matar Choufany is the President for HVS Middle East, Africa & South Asia and Managing Partner of HVS Dubai.

Hala is an experienced Managing Partner and Hospitality Advisor with a demonstrated history of working in the hospitality industry. Skilled in Contract Negotiation, Feasibility Studies, Development Recommendation, Valuation, Asset Management, and Strategic Advisory; she has advised on more than 2,500 hospitality and mixed-use projects in the last 15 years across Europe, MEA and Asia. Hala has in-depth expertise in regional hotel markets and a broad exposure to international markets and maintains excellent contacts with developers, owners, operators, investment institutions and government entities. Hala speaks frequently at investment conferences on a range of topics including asset valuation, management issues and women leadership.

Hala completed Executive Education at Harvard Business School. She also holds an MBA in Finance and Strategy from IMHI (Essec- Cornell) University, Paris, France and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala is fluent in English, French and Arabic.

Hala is a board member of Harvard Business School club of the GCC and is a mum of three. Born in Beirut, Hala lived and worked in a number of cities across Europe, Asia and Middle East.

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