MARKET REPORT

A new chapter in the region's growth story

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Strategic master plans and reforms point to a growing appetite for hospitality investment and development across the GCC, bringing opportunities to benefit from attractive returns and contribute to the growth and diversification of regional economies. Hala Matar Choufany, president, HVS Middle East, Africa and South Asia, maps out the openings and challenges, and crunches the numbers.

The GCC countries' ambitious plans for diversifying their economies away from oil and gas are gaining pace and tourism is a key focal point, due in part to recognition of its role as a vital industry for driving growth and also the resilience it has shown by bouncing back to pre-pandemic levels.

Aligned with these plans, massive investments are being channeled into the hospitality sector as efforts to position tourism as a long-term pillar of growth take shape.



The GCC region consists of several markets, and hotel investment opportunities and returns can vary significantly between countries. Following is a general overview of several GCC markets that present attractive investment

opportunities, along with their upcoming investment and development budgets:

- The UAE, specifically Dubai, Ras Al Khaimah, and Abu Dhabi, has been a popular destination for hotel investment due to its expanding tourism offerings, favorable regulatory environment, and high occupancy rates. Significant investments in infrastructure development and tourism promotion have supported the hospitality industry's growth over the last 15 years. The UAE Tourism Strategy 2031 master plan aims to attract USD 27 billion in new tourism investments and is targeting 40 million hotel guests by 2031. The strategy includes 25 initiatives and development policies, aiming to increase the travel and tourism sector's GDP contribution to USD 122.5 billion, with an annual increase of USD 8 billion.
- Saudi Arabia is the largest market in the GCC region and the government's Vision 2030 plan, which has the development of the hospitality industry as a key focus, presents attractive opportunities for hotel investors. Saudi Arabia's tourism industry reported 93.5 million visits in 2022, and a tourism spend of USD 49 billion, a 93 percent increase compared to the previous year. The government plans to spend USD 800 billion in this sector, with the aim of attracting 105 million visitors and has committed USD 550 billion to new destinations by 2030. Additionally, a Tourism Development Fund of USD 100 million has been established, in partnership with the World Bank, to diversify the country's economy away from oil.
- Qatar invested heavily in developing its tourism infrastructure, including new hotels and resorts, ahead of hosting the FIFA World Cup in 2022. The country aims to triple its visitor numbers to 6 million per year by 2030. Similarly, Oman has been promoting itself as a luxury tourism destination and plans USD 1.8 billion in investments in new tourism and heritage projects by 2025. The Ministry of Heritage and Tourism has already approved 363 projects worth USD 6 billion across the sultanate from 2021 to 2025.

These examples serve to highlight the scale of investment commitment by just some of the GCC countries to support and grow tourism on both a national and regional level. The GCC is also planning to introduce a unified visa for tourists and business leaders from 35 foreign and Arab countries, similar to the Schengen visa system in Europe. This unified visa system aims to boost tourism and facilitate travel within the region, generating significant revenues for the regional tourism sector.

Development opportunities and trends

While data suggests that some 160,000 rooms are under development across the GCC, there are several emerging trends and niche markets that investors should consider in the region, including but not limited to:

Sustainable and eco-friendly hotels:

The focus on sustainability and environmental awareness has grown, with rising demand for sustainable and eco-friendly hotels. Investors have an opportunity to develop and operate properties with cutting-edge designs, significant investments in renewable energy, wildlife conservation and eco-friendly practices. Notably, Saudi Arabia's giga developments will include destination resorts with unique concepts and designs, some of which will open at the Red Sea Project by the end of 2023.

Wellness and medical resorts:

The global demand for medical wellness resorts is on the rise and forecast to grow at a CAGR of 15.1 percent until 2025. The GCC health and wellness market was valued at USD 63.4 billion in 2022 and is expected to exhibit a CAGR of 7.1 percent from 2023 through to 2028, presenting untapped potential in the GCC region. The market for

medical wellness is forecast to grow at a faster rate than hotel spas and day spas, offering a niche market for investors to explore.

Budget and mid-scale hotels:

There is a growing demand for affordable hotel accommodations in the GCC region, catering to frequent travelers and the price-sensitive segment. This demand is particularly evident in the secondary market, making it an attractive proposition for domestic and regional visitors.

Destination hotels:

Often characterized by their unique and distinctive features that showcase the local environment, culture, or theme, these hotels strive to create a sense of place and provide guests with an authentic and immersive experience of the destination. Destination hotels play a crucial role in driving tourism to a particular area, contributing to the local economy, and promoting the unique attractions and experiences of the location.

Adapting to change

The global pandemic forced many hotels to make significant changes to their layouts and interior design. The trend now is toward incorporating more environmentally conscious design elements and more sustainable operational and design practices. Guest-focused, smart digital contactless technology, co-working spaces, outdoor hospitality spaces, wellness amenities, signature F&B venues, smaller room count, and higher levels of efficiency are now common trends in today's hospitality investment and development outlook.

Hotel investments: rewards and risks

Hotel investment in the GCC region presents both rewards and risks. While the region offers immense potential for growth and profitability in the hospitality sector, investors must carefully assess several factors, such as economic and political stability. The regulatory environment, market demand operational costs, and financing options are among the elements that should be thoroughly evaluated for informed investment decisions to be made.

A complex investment landscape

In the current economic environment, there are undoubtedly attractive opportunities available across various markets and asset types. However, it is important to acknowledge the challenges posed by rising borrowing costs, development expenses, and operational expenditures. These factors are increasingly impacting hotel values and project returns, creating a complex landscape for investors and developers. In order to navigate these challenges and optimize project returns, industry professionals are employing various strategies by carefully analyzing market dynamics, implementing robust financial planning, and embracing innovative solutions. Overall, with strategic planning, comprehensive evaluation and a deep understanding of the GCC market dynamics, hotel investment and development in the region can offer attractive returns and contribute to the growth and diversification of economies away from oil and gas.

Cutting the red tape

The recent surge in tourism and hotel construction within the GCC is a result of strategic master plans that encompass a range of visa and economic reforms, with a focus on the hospitality and tourism sectors. The region has made it easier to travel and conduct business through public-private partnerships. Dubai, for example, has introduced initiatives such as the golden visa, five-year multi-entry visa, virtual working, green visa, and retirement programs, all of which have eased

entry barriers. Saudi Arabia's Ministry of Tourism expanded its e-Visa scheme in 2023, relaxed visa rules for all GCC nationals, and introduced a 96-hour stopover visa, the Nusuk program, and a new tourism law to improve the ease of doing business. Oman has also implemented an e-visa system, granting access to 220 countries and territories worldwide. In 2023, nationals of 103 countries and GCC residents were granted visa-free access to Oman to further facilitate and promote inter-regional travel. Qatar, known as the most open country in terms of visa facilities in the Middle East and the eighth most open globally, grants visas on arrival to over 95 nationalities.

Despite, the limited number of hotel transactions to date and the financial challenges, the positive outlook for travel and tourism in the GCC region, coupled with strategic master plans and reforms, indicates a growing appetite for investment from local, regional and international players.

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