



Alpha1Estates: Makkah-Madinah Real Estate Index up 7% as 2015 in year of change

January 17, 2016 / 7 Rabi al-Akhir 1437: Global real estate advisory firm Alpha1Estates International said on Sunday that its real estate index for Makkah and Madinah had risen by 7% in 2015, its lowest rise in five years, in a year of immense change for the Kingdom, with the death of the Custodian of the Two Holy Mosques King Abdullah and accession of King Salman bin Abdulaziz Al-Saud.

The Ihsan al-Haramain Index, the first index to solely track Saudi-listed companies involved in real estate development in Makkah and Madinah, last fell by 13% in 2010, followed by years of double-digit growth, demonstrating how 2015 has been a year of major change with the new monarch, government structure and policy, geopolitical tensions and focused financial restructuring in the Kingdom.

"The Kingdom was deeply affected by change in 2015, first with the death of King Abdullah, may God have mercy on him, and by the subsequent accession of King Salman, may God preserve him," said Mr. Malik al-Alawi, Chairman of Alpha1Estates International.

"Despite this period of change, the Ihsan al-Haramain Index's performance rose by 7% was much better than the Saudi stock market's, TASI, which fell by 17 percent over the same period, representing a 24% difference with the market."

The Ihsan al-Haramain Index by year end fell across all Madinah-related stocks by nearly 10%, led by a 23% drop in Dar al-Arkan, whilst Makkah stocks compensated by rising 15%, led by a 22% rise by Makkah Construction & Development Co leading to a weighted 7% rise overall for the index in 2015. Real estate stocks as a hole stayed relatively steady with a rise of less than 1% over the year.

King Abdullah ibn Abdulaziz Al-Saud passed away on 23 January 2015, following a near decade in rule, and was immediately succeeded by King Salman ibn Abdulaziz Al-Saud. King Salman subsequently appointed a new government, and also appointed Crown Prince Muhammad bin Nayef bin Abdulaziz on 29 April 2015 and Deputy Crown Prince Muhammad bin Salman bin Abdulaziz.

Geopolitical tensions affecting the Kingdom in 2015 included a war against Houthi militants in Yemen commenced on 29 March, the formation of an Islamic military alliance with 34 nations against Daesh on 15 December and deteriorating relations with Iran.

The Kingdom on 28 December announced its state budget for 2016, marking the biggest shake-up to economic policy in the Kingdom for over a decade, with a record state budget deficit with spending cuts, reforms to energy subsidies and a drive to raise revenues from taxes and privatisation. Deputy Crown Prince Muhammad bin Salman will also be launching a National Transformation Plan (NTP) at the end of January to change the economic landscape of the Kingdom over the next five years and beyond, aspects of which directly will impact the economy of Makkah and Madinah.

Deputy Crown Prince Muhammad bin Salman in an interview with The Economist in January 2016 said that in the NTP, there would be plans for the government to sell land, such as the 4 million square metres in Makkah alone of unutilised state-owned lands, to developers and also focus on expanding religious tourism, boosting the annual 18 million visitors to between 35 million to 45 million in five years.

In order to ensure stability, non-oil economic dependence and global marketing in the real estate sector of Makkah and Madinah, Alpha1Estates in 2012 proposed five critical pieces of legislation that focus on globalising the sector, which will lead to greater investments, prosperity and quality of life in the Holy Cities.

"We very much welcome the Saudi government's aspirations to more than double global pilgrim access and also expand the real estate sector in the Holy Cities,' said Mr. Al-Alawi.

"We hope that the forthcoming National Transformation Plan (NTP), will eventually incorporate our proposal five critical legislation recommendations to bolster the economy of for the real estate sector in the Holy Cities: easing of immigration and travel for non-Saudi Muslims; setting up a real estate regulatory authority to monitor buying and selling of real estate and prevent monopolies; empowering non-Saudi Muslim ownership, leasing and investment of real estate; easing non-Saudi Muslims setting up a company, working, residing or studying in the Kingdom, and introducing and scaling Islamic mortgage financing in the Kingdom."

Celebrating its 10-year anniversary, Alpha1Estates International launched in 2006 to become the world's first company to market Saudi Arabian property globally and also the first company to market property in both Makkah and Madinah, and has worked with the three of the five largest real estate developers in Saudi Arabia and five of the biggest in the Middle East.

Makkah and Madinah Real Estate Sector Year in Review

In the year 2015 / 1436, Makkah and Madinah have once again experienced significant change. With regards to the governance of the two Holy Cities under King Salman, the new monarch, Prince Khalid al-Faisal began his second tenure as the Governor of Makkah on 29 January in whilst King Salman's son, Prince Faisal bin Salman continued his tenure as the Governor of Madinah. Both the Governors of Makkah and Madinah were educated at Oxford University in the UK. Dr Abdulaziz Kaki, an adviser to the Madinah Development Commission, was awarded the 2015 King Faisal International Prize for Islamic Studies this year, and also urging punishments for those who were destroying the Kingdom's archaeological sites in the two Holy Cities. Prince Khalid Al-Faisal also announced the establishment of a body called the Integrated Development Center to boost the development of Makkah and all governorates under the region with the active participation of public and private sectors, including a total of 2,568 major projects that are under various phases of implementation in the region.

The physical expansion of the two Holy Mosques has continued, based on the Grand Mosque in Makkah having its capacity increased to 2.5 million whilst the Prophet's Mosque in Madinah will have its capacity increased to 1.6 million. The expansion and large-scale of the Grand Mosque in Makkah and its wider vicinity requires the demolition of 25,000 properties, representing the largest real estate expropriation. Two tragedies at the time of Hajj also occurred in Makkah. On September 11, at least 107 people were killed and over 400 people were injured when a construction crane collapsed in the Grand Mosque in Makkah before the Hajj. On 24 September 2015, a crowd collapse caused the deaths of at least 2,236 pilgrims who were suffocated or crushed during the Hajj pilgrimage in Mina, Makkah, making it the deadliest Hajj disaster in history.

In terms of public transport and rail infrastructure, the Haramain Highspeed Railway, connecting Makkah and Madinah, will commence operation by December 2016, with a total of 35 trains to be used to transport two million pilgrims. The new Makkah public transport system is also to be launched, including a metro with four lines and 88 stations and a fast bus service network. The Madinah Metro Development Authority is also planning a three line metro, to be built in two phases and due open in 2020, in which the Green, Blue and Red lines would have a total route length of 95 km, including 25km underground and 48 km elevated. The Madinah Development Authority in 2015 also revealed plans for the construction of gates at the three main roads leading into the Holy City.

In terms of airport infrastructure, the King Abdulaziz International Airport will have its expansion programme, costing \$4 billion, to start operation by the end of 2017. On July 2, King Salman officially opened the new 4 July 2015 the new Prince Muhammad bin Abdulaziz International Airport in Madinah, spread over an area of 4 million square metres, is the Kingdom's first airport constructed and operated entirely by the private sector. The new airport in Madinah has the capacity to handle 8million passengers a year in the first phase, 18 million in the second, and then 40 million after the third and final phase, and is the first facility in the world outside the USA to abide by the standards for energy use stipulated by the United States Green Building Council.

With regards to real estate and hotel projects in the Holy Cities, one of the most significant impacts on the real estate market was the announcement by the government in November of proposals for a 2.5% 'white land tax' which will apply to undeveloped residential and residential/commercial plots. The 1.2 million square metres project, King Abdul Aziz Road, in Makkah has signed for its contractor and a new heritage district around the Makkah Gate project. In Madinah, the Darb Al-Sunnah Project is a new 3 km long road, between the Prophet's Mosque and the Quba Mosque, on which there will be land development projects for hotels and residential towers. New hotels in Makkah which have launched include the first ever Marriot hotel, the Park Inn by Radisson Makkah Al Naseem Park and the Hyatt Regency Makkah. The \$3.5 billion Kudai Towers mixed-use development in Makkah, the world's largest hotel, has also been announced as had the building of the world's largest Holiday Inn in Makkah, Abraj Al-Tayseer.

In terms of commerce in the Holy Cities, both the Makkah Chamber of Commerce and the Namaa al-Munawara have launched 'Made in Makkah' and 'Made in Madinah'. For greater globalisation, the Makkah Chamber of Commerce also signed an MoU with the Dubai Chamber and is also the exclusive representation of the Alibaba platform in the Kingdom. Economists expected the volume of investments in Madinah's economies during the coming few years to reach SR500 billion, with the projected growth in population to reach 2.6 million after 25 years, and the number of visitors to reach 12.2 million persons a year.

In terms of the financial sector in the Holy Cities, the Saudi Stock Exchange, Tadawul, was opened to foreign direct institutional investors on 15 June, but real estate stock investments focused on the Holy Cities are excluded, as per the negative list published by the Saudi Arabian General Investment Authority. In addition, a new property company, AlAndalus, has also been listed on the Tadawul. Jadwa Investments also unveiled its first real estate fund in Makkah this year.

In terms of digital infrastructure, free Wi-Fi services have been provided in the courtyard of the Grand Mosque in Makkah. Also in 2015, the Video messaging app Snapchat's decided to live-stream Ramadan prayers in Makkah, making it an instant hit with over a million people tweeting about the #Mecca_live event as coverage went viral.

ABOUT ALPHA1ESTATES INTERNATIONAL

Alpha1Estates International is a global real estate advisory firm headquartered in the United Kingdom, with offices in Dubai UAE, and Jeddah, Saudi Arabia. It primarily focuses on emerging real estate markets. The company has advised on some of the Middle East's most prestigious real estate projects, working with the largest developers. Please visit www.Alpha1Estates.com

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