



Alpha1Estates: Makkah-Madinah Real Estate Index up 9% as 2016 brings reforms

February 8, 2017 /10 Jumada Al-Awwal 1438: Global real estate advisory firm Alpha1Estates International said on Wednesday that its real estate index for Makkah and Madinah had risen by 9% in 2016, in a year in which Saudi Arabia launched its reform agenda with Vision 2030 and the National Transformation Plan 2020 (NTP).

The Ihsan al-Haramain Index, the first index to solely track Saudi-listed companies involved in real estate development in Makkah and Madinah, last year rose by 7%, as Saudi Arabia launched Vision 2030 on April 25 and the NTP on June 6.

“The Kingdom’s reform agenda was launched in 2016, with the religious tourism sector in Makkah and Madinah playing a critical role in the economic diversification plan,” said Mr. Malik al-Alawi, Chairman of Alpha1Estates International. “After six months since the NTP’s launch, the Ihsan al-Haramain Index’s performance rose by 9%, whilst the Real Estate Development Index fell by nearly 16 percent over the same period, representing a 25% difference with the market.”

The Ihsan al-Haramain Index by year end rose on Madinah-related stocks by nearly 9%, led by a near 18% jump in Knowledge Economic City, whilst Makkah stocks also rose by 9%, led by a 35% ascent by Jabal Omar Development Company, leading to a weighted 9% rise overall for the index in 2016. Stocks which were based outside the Holy Cities but on the Red Sea, an emerging uber-economic zone, did tremendously well in 2016, with Emaar the Economic City jumping nearly 33% and the Red Sea Housing Services Company up near 25%. The Red Sea Housing Services Company started trading on the Tadawul Stock Exchange in Saudi on January 3 and the Alandalus Property Company started on January 12.

Deputy Crown Prince Muhammad bin Salman in an interview with The Economist in January 2016 had 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, both Hajj and Umrah to between 35 million to 45 million by 2030.

Saudi Arabia’s Deputy Crown Prince Muhammad bin Salman bin Abdulaziz personally launched the Saudi Vision 2030 in April, an economic diversification plan to reduce the Kingdom’s dependence on oil, and in June, the NTP was launched with 543 policy initiatives across 24 government entities.

In Vision 2030, the Kingdom regards as its first pillar its status as the heart of the Arab and Islamic worlds. In NTP 2020, the Kingdom has aims to increase the number of Hajj pilgrims from 1.5 million to 2.5 million by 2020, Umrah pilgrims from abroad from 6 million currently to 15 million by 2020 and to increase the sectoral revenue through private sector partnerships by a tremendous 240-times fold from SAR 80 million (USD \$ 21.3 million) and SAR 19 billion (USD \$5.1 billion).

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. These included 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.

In April, the Deputy Crown Prince as part of the Vision 2030 announced the proposal for foreign residents in Saudi Arabia to potentially obtain green cards for permanent residence, to be implemented within five years and which would contribute over USD \$10 billion to government revenues. As part of Vision 2030, the Kingdom said it 'would will seek to improve living and working conditions for non-Saudis, by extending their ability to own real estate in certain areas, improving the quality of life, permitting the establishment of more private schools and adopting an effective and simple system for issuing visas and residence permits.'

However, the Financial Times in June interviewed the Chairman of Alpha1Estates with regards to potential plans to tax foreign residents in the Kingdom. In addition, the Shura Council in July stated that non-Saudis in any capacity, be that foreign residents, or non-Saudi companies or Saudi companies with foreign shareholders, would not allowed to buy property in the Holy Cities.

"We are delighted that some of the measures we proposed five years ago, and have repeated consistently, such as green cards and easing of foreign property ownership and living in the Kingdom, have now been formally proposed as policies," said Mr. Al-Alawi.

"However, we think that greater institutionalisation of the sector over the next five years will help to ensure our vision for the maturity of the real estate of the Holy Cities continues to materialise."

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 2016 / 1437, Makkah and Madinah have continued to experience significant change. With regards to the governance of the two Holy Cities under King Salman, Prince Khalid al-Faisal continues his second tenure as Governor of Makkah in whilst King Salman's son, Prince Faisal bin Salman, continues his tenure as the Governor of Madinah. Both the Governors of Makkah and Madinah were educated at Oxford University in the UK.

With regards to the real estate industry in the Holy Cities, global real estate leading company Jones Lang LaSalle (JLL) signed an MoU with the Makkah Chamber of Commerce & Industry in July. In December, JLL released their milestone report on the real estate sector in Makkah titled 'Makkah, A City Within a City', more than six years after their first report on the Holy Cities sector in their June 2010 report, 'Holy Cities: Saudi's Unique Real Estate Markets'. In 2007, a decade ago, Alpha1Estates advised JLL, upon its request, about the real estate sector landscape and its potential market entry into the Kingdom.

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 temporary bridge in the Mataf (circumambulation) was removed in May and the world's largest folding umbrella was to be installed in the northern courtyard of the Grand Mosque. The Great Mosque is also to get automatic sliding glass doors, which will be utilised to organize the entry and exit of the pilgrims between the third expansion and the circumambulation area. In June, marking the final days of the sacred month of Ramadan, a suicide bomber killed four security officers and injured five near the Prophet's Mosque in Madinah, an act which received universal condemnation. With new supervisory measures taken by the Kingdom, the Hajj pilgrimage in Makkah was held safely in 2016.

In terms of public transport, rail and airport infrastructure, the USD \$24 million revamp of the Jeddah-Makkah Expressway was completed in July, expanding the expressway to five lanes in each direction. The Haramain Highspeed Railway, connecting Makkah and Madinah, will commence operation by December 2017, with a total of 35 trains to be used to transport two million pilgrims. The Al Shoula consortium comprising 12 Spanish companies, including OHL and Indra as well as two Saudi firms, is building the high-speed rail link at a cost of USD \$7.11 billion). 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. In terms of airport infrastructure, the King Abdulaziz International Airport will have its expansion programme, costing \$4 billion and with an aim for 30 million passengers annually, to be complete in 2018.

With regards to real estate and hotel projects in the Holy Cities, one of the most significant impacts on the real estate market was application of a 2.5% 'white land tax' to undeveloped residential and residential/commercial plots in December 2016. The \$3.5 billion Kudai Towers mixed-use development in Makkah, the world's largest hotel, is scheduled to open in 2017. It has also been revealed that after Dubai, Makkah is the second-biggest for new hotel rooms with 24,133 rooms in construction, and that the Holy City is also the 23rd most visited city in the world.

In terms of the heritage of the Holy Cities, a new initiative was launched in Makkah called 'Mouad', to strengthen the identity of Makkah, and take care of the historical and archaeological monuments. The app Ziyara GPS, the world-leading guide to the Holy Cities of Makkah and Madinah featuring over 350 Holy Sites, is now available in Arabic, with Urdu forthcoming, and also has a detailed step by step guide by GPS for Umrah, Hajj and Ziyara in Madinah.

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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