



Alpha1Estates: Makkah-Madinah Real Estate Index falls 18% in 2018 as structural issues impact

February 7, 2019 / 2 Jumada II 1440: Global real estate advisory firm Alpha1Estates International said on Thursday that its real estate index for Makkah and Madinah had fallen by 18% in 2018, reflecting a slowdown in the Kingdom's real estate sector, driven by commercial, economic and wider structural issues.

Though the Ihsan al-Haramain Index, the influential index used to solely track Saudi-listed companies involved in real estate development in Makkah and Madinah, outperformed real estate stocks in the Kingdom which fell dramatically by 31% in 2018, it was significantly behind an 8% percent annual rise in the Saudi market's major Tadawul All Share Index (TASI).

'Investors in real estate in the Kingdom, and in the Holy Cities, in 2018 expressed concerns about listed real estate companies, such as their high levels of indebtedness, rising financial costs, but were also affected by external factors such as a low oil price, geopolitical risks, and the general economic outlook,' said Mr. Talal Mahmood Malik al-Alawi, Chairman and CEO of Alpha1Estates International. "More so, they are also wider structural issues affecting the sector, such as the need for new legislation which can help the market to mature and which the likes of key government stakeholders like Public Investment Fund (PIF) can help to facilitate with their mega-projects in the Holy Cities.'

There was a near universal fall across all stocks on the Ihsan al-Haramain Index by year end, with Dar Alarkan Real Estate Development Company and Jabal Omar Development Company both dropping around 40% in value, and Knowledge Economic City in Madinah by around 30%. Eight out of 10 stocks in the Real Estate Management Development index fell by double-figures, with only one, Makkah Construction & Development Company, showing a slight gain of 4%.

On 23 April, in the seminal article, 'An Arabian Future', published in the Saudi Gazette to mark the second-year anniversary of the launch of Vision 2030, Mr. Malik outlined his views on the future of the real estate sector in the Kingdom, as endorsed by the Royal Court:

'Home ownership is an aspiration in the Kingdom, be it for [Saudis as citizens](#), for Muslims in the [Holy Cities](#) or across the [Red Sea](#) for everyone, a thriving economy can be facilitated with induced maturity of [the real estate sector](#).'

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 can 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.

On February 26, Mr. Malik was honoured to be a special guest at the first Riyadh International Humanitarian Forum (RHIF), inaugurated in person by the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud. Sister companies of Alpha1Estates provided strategic services at the first RHIF organised by the King Salman Centre for Humanitarian and Relief Works.

Mr. Malik also met with HRH Crown Prince Mohammad bin Salman bin Abdulaziz Al-Saud in Saudi Arabia on 24 October 2017, a milestone event which went viral on social media, was interviewed by the United Kingdom's Guardian Newspaper on the accession of the Crown Prince on 21 June 2017.

Crown Prince Muhammad bin Salman personally launched the Saudi Vision 2030 in April 2016, an economic diversification plan to reduce the Kingdom's dependence on oil, and in June, the National Transformation Program (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 and Umrah pilgrims to 30 million by 2030 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).

The Crown Prince as part of the Vision 2030 has announced the proposal for foreign residents in Saudi Arabia to potentially obtain green cards for permanent residence, which would contribute over USD \$10 billion to government revenues, with these currently under study by the Shoura Council. 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.'

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 2018/ 1440, Makkah and Madinah have continued to experience significant change. In terms of the governance of the Kingdom for the two Holy Cities, King Salman and Crown Prince Mohammad bin Salman visited Makkah and Madinah this year in high-profile visits. This included the King arriving in Makkah for the last 10 days of Ramadan and Eid Al-Adha, being in Makkah and Mina for the annual Hajj and visiting Madinah using the new Al-Haramain high-speed rail.

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. In May, Prince Khalid launched the 10-year Makkah Development Plan at the second Makkah Economic Forum and in September, Prince Khalid welcomed the King and Crown Prince to Madinah.

Mr. Malik also met the Deputy Governor of Makkah, Prince Abdullah bin Bandar bin Abdul Aziz, in Riyadh in October, before he became the minister of the Saudi Arabian National Guard in December, and was succeeded by the new Deputy Governor for Makkah, Prince Badr bin Sultan bin Abdulaziz.

Prince Saud bin Khalid Al-Faisal, the former Governor of the Saudi Arabian General Investment Authority (SAGIA), is the current Deputy Governor of Madinah.

With regard to real estate projects in the Holy Cities, the Public Investment Fund in late 2017 announced its mega projects of Rou' a Al Haram in Makkah and Rou' a Al Madinah in Madinah. Global leading real estate services advisory company JLL (Jones Lang LaSalle) in its H1 2018 Makkah marketplace report in July cited that Rou' a Al Haram would be expected to contribute 8 billion Saudi Arabian riyals (\$2.1 billion) to the national economy, with a 310,000-visitor capacity, including 70,000 hotel rooms and 9,000 new residences. In 2007, JLL officially consulted Alpha1Estates for its expertise in the Saudi Arabian real estate sector before opening their first office in Saudi Arabia in 2008, now having advised on projects in excess of USD 100 billion in Saudi Arabia in the last two years.

With regards to hotel projects in the Holy Cities, there have been several new openings or announced projects in Makkah and Madinah. In Makkah, new openings included Four Points by Sheraton Makkah Al Naseem and Shaza Makkah, with the new Jabal Omar Address Hotel Makkah and Jabal Omar Grand Aston in 2019 and the launch of the Taj Makkah for 2023. In Madinah, new openings included Millennium Madinah Airport, Saja AlMadinah and Elaf Grand El Majeedi Madinah.

In terms of transport, rail and aviation infrastructure, the two major announcements in 2018 were the launch of the Al-Haramain high-speed rail and the soft operational phase of the new Jeddah International Airport. In September, King Salman launched the 450 km Al-Haramain high-speed rail which connects Makkah, Jeddah, King Abdulaziz International Airport, King Abdullah Economic City and Madinah in 90 minutes, which was then launched to the public in October. The Jeddah International Airport had its first flight land in May, using six gates, with 46 gates to be used in the first half of 2019. In March, it was announced that a new 72-kilometer highway was being constructed to reduce the travel time from between Jeddah and Makkah to 35 minutes and in July, a new welcome and reception center for pilgrims was opened on the Makkah-Madinah highway. Whilst there are an average of 25 to 30 flights between Makkah and Madinah daily, tripling during the Hajj season, Malaysian Airlines announced it would commence its seasonal Kuala Lumpur-Madinah service in October. In Madinah, it was also announced that four new pedestrian tunnels will be built in nearby neighborhoods to allow easier access for people to the northern central region of the city.

In the area of projects, significant projects were announced in both Makkah and Madinah in 2018. At the second Makkah Economic Forum in May, the Makkah Development Commission launched eight investment projects for the Makkah region. This included a sacrificial meat waste management factory; a project of support services for people with special needs; the Miqat Qarn Al-Manazel development project; the food factory for pilgrims project; a Makkah-made product factory; the Makkah Gate development project; the Downtown Terminal project; and the Makkah and Madinah historical sites development project. In September, King Salman inaugurated a number of development projects in Madinah such as a specialty hospital, Al Miqat Hospital and a water treatment plant. He also opened the King Salman International Conference Center in Madinah, built on a total area of 91,000 square meters, including 60,000 square meters of built-up area.

In the area of business and commerce, the Governor of Makkah, Prince Khalid Al-Faisal approved the merging of all the economic forums of Jeddah, Makkah and Taif, including the Jeddah Economic Forum, into the Makkah Economic Forum. Mr. Malik was the Senior Strategic Adviser on the Jeddah Economic Forum in 2011 and 2012, the latter being the first held under the patronage of the King. The Makkah Economic Forum was held on May 6-7, under the titled of 'From Vision to Reality – Invest in Makkah', with the eight investment projects launched. In Madinah, Prince Faisal bin Salman launched several initiatives to develop the business environment in Madinah in May, an MoU between the governorate's Center for Economic Development and SAGIA and in June, patronised the signing of a deal for the building of the Madinah Chamber of Commerce and Industry in the Knowledge Economic City. The Madinah Chamber of Commerce also signed an agreement in Indonesia with the Indonesian Chambers of Commerce in April.

With regards to the Holy Mosques, the multi-year massive expansion of the Grand Mosque in Makkah and the Prophet's Mosque continues. In March, Prince Khaled Al-Faisal, Governor of Makkah, opened the renovation project of the Zamzam well and the surrounding area at Makkah's Grand Mosque, where the circumambulation area (mataf) had been restricted to Umrah pilgrims from October. In May, Prince Khalid announced the mataf areas would once again be temporarily restricted for Umrah pilgrims making tawaf throughout Ramadan, which lasted from 16 May to 14 Jun. Whilst itikaf (mosque seclusion) in the Grand Mosque in Makkah was allowed in the basement or the northern expansion in Makkah in Ramadan, in the Prophet's Mosque, those wishing to embark on the spiritual practice would have to do so on the roof.

The annual Hajj this year, from 19-24 August, more than 2.37 million pilgrims took part, compared to 1.86 million in 2016 and just 24,000 in 1941. Every hour, officials estimated an average of 107,000 pilgrims circle the Kaaba, the black cube at the centre of Makkah's Grand Mosque, which Muslims around the world must face while praying. Prior to the Hajj, social media images of the kiswa (black cloth) covering the Ka'aba being pulled off by the wind, went viral.

In Madinah, in January, prayers in the Prophet's Mosque have returned to being commenced at the original lead prayer position (mihrab) of the Prophet Muhammad inside the Sacred Chamber (al-Rawda al-Sharifa), having been conducted for 25 years at a newer mihrab. This allows for full and clear passage for worshippers to visit the tombs of Prophet Muhammad and his two companions after prayers.

In the realm of heritage preservation and promotion in the two Holy Cities, both traditional and technological efforts are being undertaken to preserve and promote heritage in the Holy Cities. In March 2018, the Saudi Commission of Tourism and National Heritage organized a campaign to clean the litter from around Jabal Thawr. In May, at the Makkah Economic Forum, the Makkah Development Commission launched the Makkah and Madinah historical sites development project, with an investment of 425 million riyals (USD \$113 million) to renovate four historical sites of great significance in Makkah and Madinah: Jabal Al-Noor, Jabal Thawr, Jabal Al-Rumah and the Arwah Ibn Al-Zubair Palace.

In August, the Madinah Development Authority launched a new double-decker bus sight-seeing tour to introduce visitors to some of Madinah's historic landmarks as well as its entertainment facilities, commercial sites, and public utilities, as part of the successful vision of the Madinah entrepreneur, Saud Al-Harbi. The bus tour covers 12 stops, including the Prophet's Mosque, Al-Manakha, the 'Beautiful Names of Allah' exhibition, Al-Salam Door, Jabal Uhud, Al-Noor Mall, Abu Bakr Road, Masjid Al-Qiblatain, Al-Khandaq Mosque, Quba Mosque, the Hejaz railway and the Quba Boulevard. In the realm of technology, the world's first major app for over 350 sites in the Holy Cities, Ziyara GPS, introduced the Ziyara al-Haramain Prayer Mat, used on the Day of Arafat during Hajj 2018.

In November, Crown Prince Mohammad bin Salman ordered the restoration of 130 historical mosques within the National Program for the Restoration of Historic Mosques supervised by the Saudi Commission for Tourism and National Heritage in partnership with the Ministry of Islamic Affairs, Call and Guidance. The support he provided to develop historical mosques covered in the first phase the restoration of 30 mosques in 10 regions, is at a cost of more than 50 million Saudi Riyals (USD \$13 million). In November too, American Muslim scholar, Hamza Yusuf in Madinah endorses the Islamic heritage app, Hislo, created by the Saudi Arabian academic, Professor Abdullah Alkadi.

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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