



# USSBC Economic Brief Leisure & Entertainment 2021

## Overview

The Saudi leisure & entertainment sector is witnessing large-scale investments borne by the Kingdom's diversification strategy aimed at raising domestic spending and attracting international visitors through enhanced in-country amenities and infrastructure. Launched in 2018, the Quality of Life (QoL) program encompasses a broad economic and cultural transformation plan that has led to the reopening of cinemas in Saudi Arabia, hosting of international sporting and music events, and the development of attractive leisure tourism destinations across the country.

Despite pandemic-induced slowdowns in projects, Saudi Arabia still grew its leisure investments this year and awarded major construction contracts for Diriyah Gate, a heritage cultural site, and Qiddiya, the Kingdom's flagship theme park project. It also announced the launch of Soudah Development (SD) which will uncover a unique tourism destination in the southern region. In Q3 2021, the Ministry of Investment awarded the highest number of new licenses in 'arts, entertainment, and recreation' since data was made publicly available in 2018. Prior to the pandemic, Saudi Arabia implemented landmark reforms such as an inaugural tourism visa and lifted some foreign ownership restrictions to unleash the economic potential of the sector. While consumer spending and business activity has taken a hit from the pandemic, new investments and ongoing projects are aimed at recapturing the economic momentum built up prior to the pandemic.


## Sector Strategy

In recent years, GCC countries have pursued investments in the leisure sector to boost domestic spending and attract foreign capital and visitors. Saudi Arabia's large territorial size and population relative to its Gulf neighbors confers both advantages and challenges in implementing this development strategy. Consequently, the supply of domestic amenities and infrastructure has lagged demand and resulted in Saudi residents traveling abroad for leisure activities. The average Saudi household spends SAR14,000 (\$4,000 thousand) per year on leisure & entertainment, according to GStat. Moreover, Saudis spent SAR83 billion (\$22 billion) on overseas tourism in 2019, which the Minister of Tourism

described as “leakage.” New leisure sector investments will seek to reduce spending abroad by increasing domestic tourism options. A 2018 GStat Household Culture & Entertainment Survey showed that 40 percent of Saudis who traveled outside the Kingdom for leisure did so because such activities were not available in Saudi Arabia. Both the nascency of the domestic leisure & entertainment market in Saudi Arabia and high levels of disposable income among nationals support the case for high market growth potential. The same survey showed significant gaps in the percentage of Saudis visiting leisure & entertainment destinations inside Saudi Arabia versus outside the Kingdom. Cinema showed the largest gap of 38 percentage points in the survey, reflecting the absence of cinemas operating in Saudi Arabia prior to regulatory changes and deals signed with major theatrical distributors including U.S. theater chain AMC in recent years. Other destinations that Saudis were more likely to travel abroad for were museums, cultural landscapes, theaters, and concerts.

### Percentage of Saudis Visiting Cultural or Entertainment Destinations

Destination	Inside KSA	Outside KSA	Difference
Cinema	2%	40%	38%
Archaeological, historical museums	40%	55%	15%
Cultural landscapes	57%	70%	13%
Theaters	1%	10%	9%
Concerts and music festivals	5%	13%	8%
Fine arts, crafts, photography	6%	12%	7%
Amusement parks	50%	54%	4%
Natural heritage	27%	31%	4%
Clubs and gyms	1%	2%	1%
Book exhibition	3%	3%	0%
Libraries	3%	2%	-1%
Other	2%	0%	-2%
Sporting events	4%	2%	-2%
Eid festivals	17%	8%	-9%
National cultural festival	19%	9%	-10%



Source: GStat Household Culture & Entertainment Survey (2018)

Recognizing these gaps, the government has pursued significant investments by implementing new strategies to develop the Kingdom’s leisure amenities. Quality of Life is a Vision 2030 program that outlines a broad strategy to add vibrancy and cultural offerings in Saudi Arabia, attract businesses to participate in its development, and drive national participation in arts & entertainment. The General Entertainment Authority plans to spend SAR240 billion (\$64 billion) between 2018 and 2028 to grow leisure & entertainment offerings. Consequently, entertainment and media revenues in Saudi Arabia are expected to grow at a compound annual growth (CAGR) above 10 percent through 2025 compared to a global CAGR of 4 percent, according to PwC’s Global Entertainment & Media Outlook.

Saudis who chose not to travel for leisure in-Kingdom were most likely to cite high prices as a reason for doing so. This includes 60 percent who cited high prices of accommodations and 41 percent who cited high airfares. Other potential deterrents in this sector include lack of transportation and visitation infrastructure at rural or less accessible cultural sites. Building sufficient infrastructure to facilitate visitor

movement and providing low and medium-priced accommodations at leisure venues will be critical to the sector's development.

#### Percentage of Saudis Citing Reason for Not Traveling in-Kingdom\*

Reason	Percentage
High prices of accommodation	60%
High prices of flights	41%
High prices of cultural and entertainment offerings	25%
Lack of tourist places to visit	22%
Lack of cultural and entertainment offerings	21%
Other	12%
Lack of land road services	7%

\*Of total Saudis who did not report traveling in-Kingdom for leisure in the past year  
Source: GASTat Household Culture & Entertainment Survey (2018)

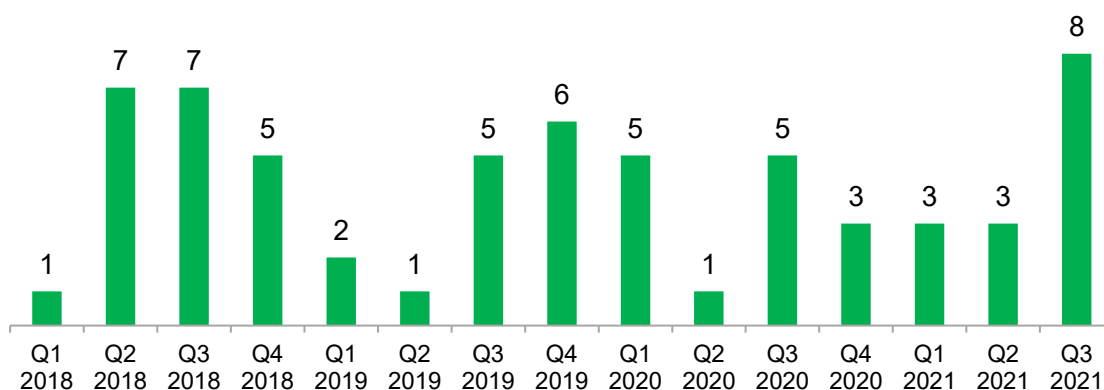
The Public Investment Fund (PIF), Saudi Arabia's sovereign wealth fund, is the force driving non-oil economic development and owns many of the tourism, entertainment, and recreational companies established in recent years to address the sector's supply gap. PIF-owned companies include Qiddiya, The Red Sea Development Company, Saudi Entertainment Ventures (SEVEN), and NEOM. Other key entities include the Ministry of Tourism and the Saudi Tourism Authority, which oversee regulatory implementation and provide strategic guidance for the sector's development.

## Sector Developments

### Regulatory & Financing

The government has broadly liberalized operational restrictions on leisure & entertainment businesses and launched new financing schemes to draw private sector investment. These reforms have attracted the

#### Number of Foreign Licenses (Arts, Entertainment, and Recreation)



Source: Ministry of Investment



attention of international investors. As a result, eight new foreign licenses in ‘arts, entertainment, & recreation’ were issued in Q3 2021, the highest since the launch of major leisure & entertainment reforms in Saudi Arabia.

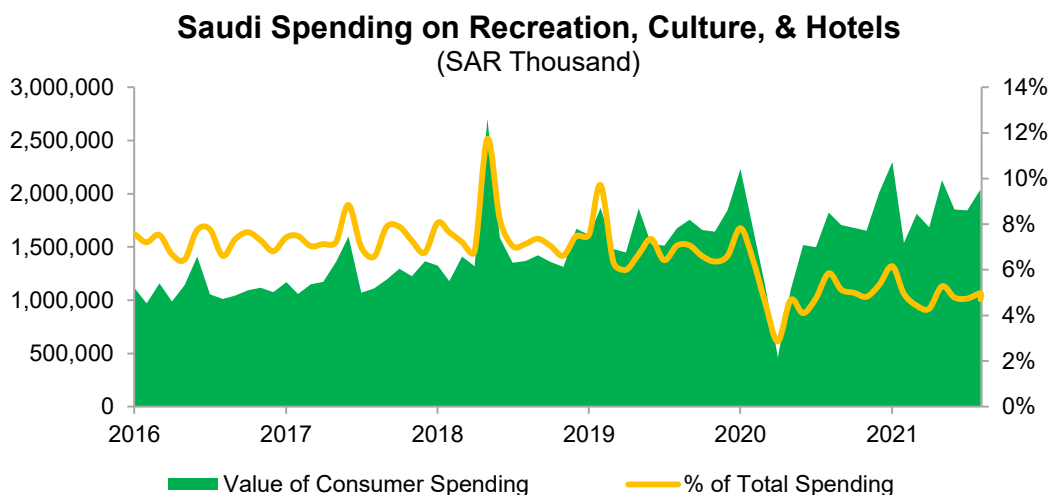
GEA signed an agreement with the Social Development Bank (SDB) to offer soft financing totaling SAR500 million (\$133.3 million) for private entertainment projects. SDB will set aside SAR10 million (\$2.7 million) for seed funding for small and medium enterprises (SMEs) in the industry. The Kingdom established a SAR15 billion (\$4 billion) Tourism Development Fund (TDF) in 2020, which has since signed deals with major commercial banks that will offer loans to Saudi businesses. The government is also promoting private investments through the Kafalah program and land-lease extensions. The Kafalah program will guarantee tourism & entertainment projects with a total purse size that will reach up to SAR1.5 billion (\$400 million) for such developments as hotels, resorts, amusement parks, and cinemas. Kafalah supported 61 tourism projects worth SAR176 million (\$47 million) during 2020. The Ministry of Tourism expects tourism to contribute 5.3 percent of GDP in 2022, up from 3 percent in 2018.

### Transportation

Greater interconnectivity within cities and between provinces via public transportation such as buses, metro, and high-speed rail will likely boost the financial viability of leisure & entertainment investments. The government has pursued several transportation initiatives focused on improving road safety, traffic management, and public transportation capacity. Key projects include the Riyadh metro, a 176-kilometer network serving 85 stations, supported by a 1,900-kilometer bus network with at least 3,000 stops. The project is overseen by the Royal Commission for Riyadh City (RCRC) which is also leading the development of numerous cultural and lifestyle projects in the Saudi capital. The Kingdom launched a significant SAR200 billion (\$53 billion) national infrastructure fund with BlackRock this year to support major transportation projects include metro and high-speed rail over the next decade.

### Consumer Spending

Saudi spending on leisure-related segments was significantly impacted by the COVID-19 pandemic but shows signs of recovery. After authorities gradually began easing lockdowns in June 2020, Saudi consumer spending picked back up but the percentage of total spending remains below pre-COVID



Source: SAMA, USSBC

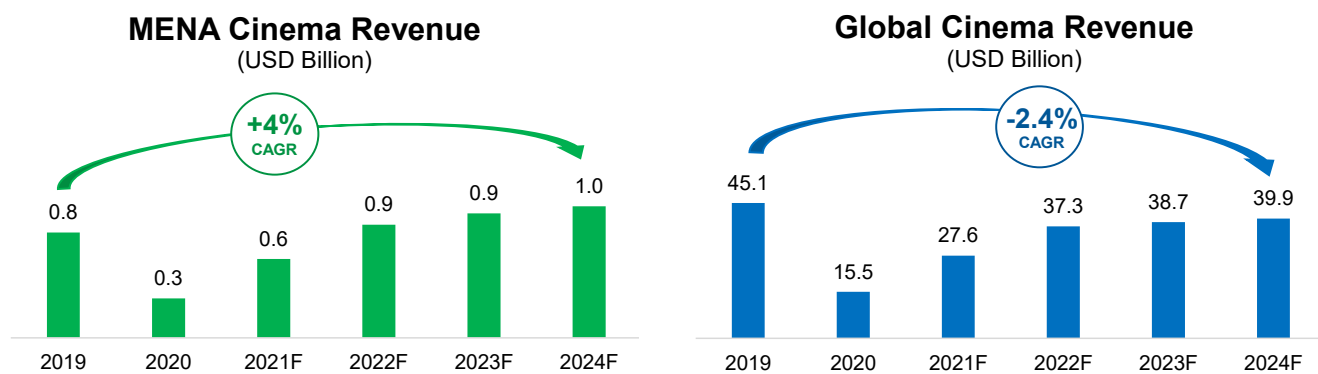


levels. Though spending is up SAR2.9 billion (\$760 million), spending on these segments as a percentage of total spending fell from 7 percent to 5 percent. Spending on recreation, culture, and hotels totaled SAR18 billion (\$4.8 billion) during the first nine months of 2021. By comparison, spending on the same segments totaled SAR15.1 billion (\$4 billion) during the first nine months of 2019. This change likely reflects lingering social and economic effects of the pandemic, including consumer preference for socially distanced recreation and fewer social venues and events.

## Emerging Sectors

As a result of regulatory and lifestyle changes in the Kingdom, several emerging sectors with high potential are set to experience rapid growth over the next decade. Saudi Arabia was the only country globally to see an increase in box office returns in 2020, rising from SAR412 million (\$110 million) in 2019 to SAR450 million (\$120 million) in 2020 despite cinema closures between March and June. MENA cinema revenue is expected to grow at a 4 percent CAGR from pre-pandemic levels compared to global cinema revenues which are expected to decline at a 2.4 percent CAGR from pre-pandemic levels through 2024.

PIF-owned Saudi Entertainment Ventures (SEVEN) was formed with an initial capitalization of SAR10 billion (\$2.7 billion) to act as a planning body and investor in the Saudi entertainment industry. After Saudi Arabia reopened cinemas in 2018, SEVEN awarded U.S. exhibitor AMC Theatres its first cinema license and subsequently secured investments from Cinopolis, Empire Cinemas, Vue, Vox Cinemas, and iPic. Consequently, the Kingdom quickly overtook U.A.E as the Middle East’s top grossing market despite a third of the number of screens. Saudi Arabia is expected to have close to 700 screens operational by the end of 2021.



Source: PwC Global Entertainment & Media Outlook, USSBC

Beyond cinemas, PIF has lead investments in new areas such as mountain tourism and heritage site infrastructure with Soudah Development and created a new domestic cruise industry with Cruise Saudi. SD and Cruise Saudi have been set up with broad mandates to develop new leisure offerings that have never been available before. Like the proliferation of cinemas in Saudi Arabia, the emergence of these new attractions will require both international investments and local participation.



## **In Focus:**

### **Key Insights from Mr. Husameddin AlMadani, CEO of Soudah Development**

#### **What is Soudah?**

“Soudah is a unique natural destination on the highest mountain peak of the Kingdom of Saudi Arabia, offering adventure and authentic cultural experiences in a serene setting.

This green mountainous region is located in the Kingdom’s southwest near Abha, a city of more than one million people in the Asir region. Situated at 3,015 meters above sea level, Public Investment Fund (PIF) company Soudah Development is creating a luxury mountain tourism destination that will redefine hospitality.

The altitude and clean, cool air in Soudah make it a perfect year-round destination where visitors can hike, bike, and paraglide any time they wish. But these valleys and mountains offer so much more than adventure; Soudah is celebrated for its unique culture, rich heritage and authenticity, too. There are historic buildings that are more than 500 years old. Archeologists have discovered rock inscriptions they believe could be between 5-6,000 years old. Unique customs and traditions, such as local clothing, folk songs, food, dance, poetry, calligraphy and art are widely practiced and celebrated.”



#### **What are SD’s current development plans?**

“People from Saudi Arabia and the region have always enjoyed coming to Soudah, but our aim is to share the nature beauty, immersive cultural experiences, locally-produced food and extraordinary wildlife with the world. To do so, Soudah Development plans to develop 2,700 hotel rooms, 1,300 residential units and 30 experiential attractions to become the newest year-round visitor destination within the Kingdom.

Driving tourism and entertainment growth comes under the Saudi Vision 2030 blueprint for socioeconomic progress and the company plays a key role as one of the major PIF projects. The project will also create more than 8,000 employment opportunities by 2030. Development follows the highest international sustainable standards, and the company works with in synchrony with the nature. More than one million trees will be planted across Soudah and Rijal Almaa in line with Saudi Green Initiative. This also aims to reduce carbon emissions by 4 percent and raise protected areas to more than 30 percent.”

#### **What opportunities are there for U.S. companies to participate in SD projects?**

“Soudah Development is actively seeking both domestic and foreign direct investment to create a luxury mountain destination with immersive cultural experiences that simultaneously celebrate the region’s natural landscape. Plans are under way to create the first tourism-related economic development zone in Saudi Arabia. It will provide investors and business with 100 percent foreign ownership, enhance ease of doing business and promote the attractiveness and competitiveness of Soudah and parts of Rijal Almaa.

Given the deep and historical trade, economic and investment ties between the U.S. and the Kingdom of Saudi Arabia, U.S. companies will have an important role to play in the project. There are tremendous areas for greater potential cooperation on both development and operational levels for hotel operators, F&B and hospitality, smart cities technologies, construction and real estate, sports and entertainment.

The long-term project offers an array of investment opportunities with the goal of creating mutually beneficial partnerships within the public and private sectors. For investors, the opportunity is to be part of a brownfield project that will create thousands of new jobs and set a new direction for tourism, entertainment, hospitality, wellness, adventure and sustainable development.”



## Projects

Saudi Arabia continues to develop its leisure & entertainment sector through a range of projects including urban seasonal festivals, UNESCO-recognized heritage sites, and sizeable megaprojects. The Kingdom launched two major entertainment initiatives – the annual 11-festival Saudi Seasons in 2019 as part of themed events to enliven Saudi cities and ‘Winter at Tantora,’ an eight-week cultural festival that hosts international music talent at the UNESCO-designated Hegra site in Al Ula. ‘Winter at Tantora,’ a first of its kind music event in Saudi Arabia, will return in December 2021 after a pandemic-induced pause. The festival is also seen as a venue to showcase new leisure, hiking, dining, and entertainment offerings in Saudi Arabia to international audiences.

The Royal Commission for Riyadh City (RCRC) is also leading an array of projects to transform the Saudi capital into a vibrant and international city. RCRC has awarded numerous contracts to local and international developers and tendered other urban development projects such as the Riyadh Sports Boulevard, Riyadh Art Project, King Abdulaziz public transportation projects, King Salman Park project, Riyadh Green project, and a series of road development and historical site preservation initiatives.

The Kingdom is also developing multi-billion-dollar megaprojects that include theme parks, sports stadiums, concert venues, parasailing, mountain biking, horse racing, cultural sites, and an array of luxury tourism amenities. Diriyah Gate and Qiddiya are the most developed of the Kingdom’s leisure megaprojects and are expected to open in 2022 and 2023, respectively. Diriyah Gate is a well-known historic and cultural site with extensive infrastructure and amenities that are being developed to turn the site into a wholly unique cultural experience. Qiddiya is Saudi Arabia’s flagship theme park project, which also features sports facilities, concert venues, and a Formula One racetrack. The Red Sea Project and Amaala are two other highly anticipated leisure tourism megaprojects which will host resorts on 50 islands off the coast of the Red Sea.

## Opportunities

The leisure and entertainment economy has some of the most attractive growth prospects of any industry in the Kingdom due to burgeoning demand and a transformation plan that positions the sector as a critical contributor to Saudi Arabia’s economy. Natural endowments like the Red Sea’s Farasan Islands, the mountains of Soudah, and the rock formations of Al Ula represent the untapped potential and unique offerings of Saudi Arabia. The Minister of Tourism stated Saudi aims to attract new tourism investments worth SR220 billion (\$58 billion) by 2023, and more than SR500 billion (\$133.3 billion) by the end of the decade. Through large-scale spending by the GEA and RCRC to develop the urban landscape of major Saudi cities and cultural sites, the sector is set to experience unprecedented commercial activity over the next decade.

The PIF is expected to play a leading role in the development of Saudi Arabia’s leisure & entertainment offerings. These include companies in air tourism (The Helicopter Company) and cruises (Cruise Saudi) along with new entities to oversee large-scale tourism infrastructure projects (SD). The PIF reportedly plans to inject SAR150 billion (\$40 billion) annually into the Saudi economy in 2021 and 2022 as the main driver for economic diversification.



Additional contracts for local and international firms at Saudi megaproject sites are expected to comprise some of the most sizeable deals in the sector over the near-term. Meanwhile, numerous opportunities also exist for local SMEs to provide tour services, event management, digital solutions, or other innovative ideas to a growing sector. The Kafalah SME lending program announced that it will target tourism and entertainment in 2021, in addition to the communications and information technology sectors. Business opportunities in leisure & entertainment are unprecedented given the rapid shift in development strategy. U.S. industry leaders in leisure & entertainment verticals are well-positioned to pursue design/architectural, EPC, and PMC services partnerships with Saudi developers.

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