

Factors Affecting the Decision to Invest in New Hotel Property Development in Saudi Arabia

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ABSTRACT

This research identifies the factors affecting the decision to invest in new hotel property development in Saudi Arabia. To explore how the decision to invest in a new hotel property development is taken, this paper presents and discusses the findings of a research of 22 real estate development companies in Saudi Arabia, who are already developed hotels or planning to develop new hotels in the future. This study revealed that the choice of developing a new hotel is not random but there are many criteria behind the decision to invest in the Saudi hospitality industry. The findings of this research revealed that there are 32 factors considered in the decision to invest in new hotel. These factors can be grouped into 4 categories-financial, business, social and governmental.

Keywords: Hotel property development; Hospitality; Real estate development, Return on Investment (ROI)

INTRODUCTION

Hotel development in general is part of real estate development and characterized by the involvement of many participants of diversified background who need to be managed and synchronized perfectly to achieve the development goals. Hotels are dynamic, sensitive to the economic conditions, and always be an integral part of any plans to improve the country economy and attract foreign visitors and tourists. If developed, built and operated within appropriate design, budget and efficient operation, hotels are income-producing assets over long timespan and would yield above average returns.

Vision 2030 of Saudi Arabia has created a highly favorable environment for new hotel development. The vision has considered tourism and its related activities and attractions an important contributor to the gross Saudi's Gross Domestic Product (GDP). It's planned that tourism will contribute 10% of the Saudi's GDP by 2030, with expected 70 million tourists from outside the country by that time (Saudi Vision, 2030) [1]. Moreover, Saudi Arabia is planning and working to be among the best 5 tourist destination by 2030. In this environment, there is a boom in new hotel development [2]. According to the Saudi Arabia's hospitality landscape 2023, there are 315,000 hotel keys under construction and planning at an investment capital of US\$37.8 billion [3].

Hotel development is a high capital investment [4]. For example, new build of full service or luxury hotel rooms can cost between United States \$380,231 and 849,789 each [5]. Like any business, a real estate organization is presented continuously with many opportunities with unlimited uncertainties. This requires an efficient vehicle to analyses, priorities, align what comes in its way to decide what to work on and

what to invest in and what to drop. For this reason, organizations invest heavily in developing strategies and plans. Strategies reflect an organization's awareness of its markets, competitors, regulatory environment, economical forecasts, its future trajectory, and its present capacities and potentials. It integrates and translates the vision of corporate leaders and stakeholders with the plans for making that vision a reality over time [6].

Real estate in general including hotel property development have some unique characteristics as listed below-

- Multidisciplinary efforts of diversified experts
- Long term life-cycle processes
- Highly dependent on regulations, economy and environmental requirements
- High risk impeded in the project development
- Highly dependent on economic health
- Diversified stakeholders
- High volume of capital required
- Operate in highly competitive market
- Require high level of innovation in all the development phases
- Require intensive marketing and selling efforts to attract guests and customers
- Long terms of realizing Return on Investment (ROI)
- Negotiation skills
- Require extensive coordination, stakeholder management, finance and risk planning

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- Require high level of engineering, construction, financing and management

Full service and luxury hotels in Saudi Arabia, provide in addition to lodging, other services like food and beverage, health and fitness, business services, events service, etc. Each of these services requires strict compliance with certain hospitality rules and requirements to create an attractive hospitality environment [7]. Developing a successful property that provides these services and meets the required local and international classification standards is a real challenge [8].

The hotel development concept discussed in this research refers to hotel property development not hotel business development. There is clear distinction between the 2 concepts, where hotel business development applies to the full spectrum of hotel business, from strategic or day-to-day operations to expanding the organization's market exposure [9]. In Saudi Arabia, hotel property development is usually built by a real estate organization or investors and managed and operated upon completion by specialized local and international hospitality companies (Marriott, IHG, Hilton, etc.), under a variety of management agreements. This research is limited to the hotel property development in Saudi Arabia.

The decision to develop a new hotel is a complex process with many factors, selecting criteria and determinates [10]. The criteria involved in the decision to start developing a new hotel are often conflicting and when prioritizing one criterion usually leads to a situation in which other criteria are neglected [11]. This research is an attempt to identify and explore the factors and criteria considered when selecting to develop new hotels in Saudi Arabia.

Saudi hotel industry

Saudi Arabia has decided in the recent years to position the country as travel and tourism destination as part of its goal to diversify its economy [12]. Major part of the vision 2030 is to create, maintain an attractive environment that increases local as well as international tourists, business, investment and visitors [1].

The government has established the Tourism Development Fund (TDF) in 2020 of USD 4 billion capital to support the investment in tourism. The fund enables investments by providing financial support and giving several incentives and access to many services provided by Saudi Tourism Authority (STA). TDF provides investment loans own shares in some tourism projects and provide financial guarantees for the projects complying with National Tourism Strategy (NTS) [13].

Public Investment Fund (PIF) has started several Giga projects like Neom, Red Sea Development, Qiddiya, Amala, Diriyah Gate and many other mega projects across the country. These projects are planned to create unparalleled tourist attractions for local and international visitors and tourists that utilizing the many cultural background and the diversification of virgin geographic nature of Saudi Arabia.

The transformation of Saudi Arabia's hospitality market is being driven by such initiatives. These strategic endeavors are aimed at diversifying tourism offerings and attracting both leisure and business travelers to the country. As a result, the hospitality industry in Saudi Arabia market size is expected to reach USD 13.23 billion in 2024 and grow at a Compound Annual Growth Rate (CAGR) of 5.03% to reach USD 16.91 billion by 2029 [14,15].

Background

New hotel property development is considered part of real estate development in all its aspects. In fact, the new hotel property development is undertaken by real estate organizations in Saudi

Arabia [16]. Real estate organizations have the in house knowledge and experience to manage and handle such complicated projects. They also have the financial capabilities to cover the expenses of such large investments incurred during the project life span. The life span of new hotel property development is counted in years and composes of several phases. The study has specified 5 real estate development phases.

- Concept and due diligence
- Planning and project management
- Design
- Construction
- Handover and operation

Hotels within this context require the developer to start the process of selecting the hotel brand and the operator of the hotel upon completing the construction phase. It requires also selecting the amenities brands. Selecting the brand and operator at early stage would minimize the operating conflicts and enhance the guests experience as expected from the selected brands during the operation phase.

The main source of data collection for this research is real estate development organization in Saudi Arabia. These organizations have the financial, in house know how, risk-taken and management capabilities to undertake such complex endeavors from concept to operation phases. Although individual may develop and operate small hotels, but this is un-branded and limited to 1-2 stars with limited services and amenities. This small sector is insignificant and beyond the scope of this research. The research objective is to identify the factors affecting the decision to start new hotel property development in Saudi Arabia.

Few research has been found dealing with hotel property development in the available published literature. Locally, the author didn't find any previous research dealing with hotel property development in Saudi Arabia. According to Newell et al., studied the level of hotel research which has been limited and largely US-based [17].

Internationally, Newell et al., has investigators researched the factors influencing hotel investment decision making in Australia [17]. He studied 30 factors influencing hotel investment decision-making in Australia. The factors 30 were grouped into 5 categories-1) Location; 2) Economic; 3) Financial; 4) Diversification and 5) Relationship.

Abebe et al., has investigated the factors affecting hotel investment in Ethiopia and found 5 factors that affecting the decision to invest in hotels in Ethiopia [18]. The factors are socio-cultural, location, infrastructure, economy, government policy

Sungkhamanee et al., has studied the factors affecting decisions on investment patterns for accommodation business in Thailand and found 12 factors [19]. The factors are-

- The relationship with the network in the business
- Experience in the business
- Size of business
- The potential and size of the market
- The potential of personnel
- Government investment policy
- Infrastructure in the area

- Marketing in the area
- Financial risk
- Access and application of innovation
- Customer concentration
- Working processes

No research has been found that discuss the hotel properties development in Saudi Arabia. The available material about hotel industry [20] in the country are statistical data of hotels performance, metrics and future forecast. For example-Knight Frank LLP publishes periodically the Saudi Arabia's hospitality landscape report [21]. Nevertheless, this and other similar reports are extremely useful in the decision to start new hotel property development [22].

METHODOLOGY

Due to the lack of previous research about Saudi hotels sector as revealed in the literature review, and due to the unique characteristics of Saudi real estate development market. And the fact that what applies in a country can't be generalized in other countries, 2nd stage survey was conducted 1st to identify and find out the factors which are considered in initiating new hotel developments in Saudi Arabia. The objective of the 2nd stage was to assess the relative importance of these factors in the decision-making process by the real estate investors. This research excludes the hotel operators, as they are usually don't invest directly in developing new hotels in Saudi Arabia. Their role is to operate and manage the hotels after completing the development.

67 real estate developers have been contacted in the capital city Riyadh and Jeddah and asked if they developed or planning to develop new hotels. This process identified 29 real estate development companies, who are already developed hotels or planning to develop new hotels. 22 developers agreed to participate in this research. Hence the population of this survey is 22 companies [23]. These companies are the most known real estate developers in Saudi Arabia, with total real estate assets of SAR 41 billion (US\$ 10.9 billion). The geographic location of these organizations is Riyadh city. The real estate investment coverage of these organizations spread all over Saudi Arabia. The basis of selecting these 22 organizations was, they developed or planned to develop new hotel property projects.

RESULTS

The real estate business in Saudi Arabia covers a wide range of sectors, to name few residential, commercial, hospitality, logistics and warehouses, mixed use, etc. The real estate industry in Saudi Arabia is not officially segregated into sectors, so it's not easy to determine the total numbers of real estate organizations working in hospitality development for example. For this reason, this research is limited to 22 real-estate organizations investing among other sectors in hotel properties development or planning to develop new hotels in the future.

One question was directed to the development director's/vice presidents of investment of the selected 22 real estate development companies in a face-to-face (55 minutes) interview managed by the author between January and April 2024. The author didn't interfere or directed the answers. However, the question asked was about the main factors considered in the decision to initiate a new hotel property development in their organization. Further, the critical factors used to determine whether to proceed with a new hotel property development

were considered where these critical factors included gathering of data and identification of factors with relative importance [24].

Gathering data

The answer to the research question by the participants has identified 32 factors which are considered in the decision to start new hotel property development. These factors are as shown in Table 1.

The frequency in Table 1, indicates the number of respondents mention a certain factor. If 18 respondents mention a certain factor, its frequency is 18, and so on. The research has found that the frequency in the above table has no relation to the relative importance of that factor.

Close analysis of respondents' answers and based on the Saudi business environment and work culture, the 32 factors in Table 1, can be grouped in 4 groups (Table 2).

The frequencies of the factors have no relation to the relative importance of that factors in the decision-making process. For example, 7 out of the 22 (32%) respondents considered the availability of tourist attraction activities and events is an important factor in the decision-making process, however, it's revealed by the questioner in stage 2 of the research that this factor is very influential. This shows the need for decision-making model in the hotel property development sector.

Identification of factors relative importance

After identifying the factors considered or affecting the decision to start new hotel property development in Saudi Arabia in the interview process, the 2nd stage of the research was to rank these factors according to the relative importance of each factor as seen by the participants of the research.

The factors which are identified 32 factors in the interview process were randomly listed in a 5 Likert scale in a form of questionnaire and sent back to the 22 participants to assess the relative importance of each factor. Likert scale was chosen as the main instrument in this questionnaire, as the simplest and most practical way to measure strength of opinion; a study shows that it is most commonly and successfully employed in Information Systems (IS) research [25].

For this research, weighed average was used to identify the relative importance of each of the 32 factors identified in stage 1 of the survey. The weighted averages were calculated for the Likert scales from very important score was equal to 1 to not important score which was equal to 5, so to enable the scores for each factor to be ascertained and ranked [26]. Table 3, shows the weighted average of the Likert scale.

Excel was used to calculate the weighted average and standard deviation for each factor in the scale. Then the factors are ranked according to weighted average. The results can be interpreted to show how influential (or not) each factor is.

All the participants who participated in stage 1 have returned the questionnaire due to the follow up email sent to the participants after 5 days of sending the questionnaire.

Table 4, shows the importance level (weighted average) of the factors considered in the decision-making process of initiating new hotel property development in Saudi Arabia as rated by the 22 participants in this research. The factors in Table 4, are not ranked and shown randomly as presented to the respondents in the questionnaire sent to each of them. The following section will discuss the findings of the research after analyzing the questionnaire.

Table 1: Factors considered in initiating new hotel property developments in Saudi Arabia.

Factors	Frequency
Availability of fund at low cost	22
Favorable ROI	18
Predictable annual income	5
Predictable market growth	13
Location characteristics	22
High demand on hotel services	22
Availability of affordable land	22
High Average Daily Rate (ADR), Daily Delegate Rate (DDR) and other hospitality measures	19
In line with the company vision and strategies	19
Existing in-house experience on hospitality developments	16
Risk reduction of the investment portfolio	15
Clear exit strategy	13
Lack of hotels in certain geographic areas	19
Existing relation with hotel operators	14
Expansion of the company business	22
Diversification of the company assets	21
Increase the assets portfolio of the company	18
Lack of alternate high return investment	18
Stability and high safety level in the country	22
Government support of tourism	22
Predictable government policies	9
Government support of the hospitality investors	21
Controlled inflation and stable currency	20
Promising future forecast of the country	8
Government support of business and foreign investment	21
Clear governmental requirements	13
Existence of advanced infrastructure and transportation	20
Contribution to the government socioeconomic plans	17
Creating jobs to locals	13
Availability of tourist attraction activities and events	7
Diversity of weather, culture and geography of Saudi Arabia	18
Availability of local well-trained operation personnel	11

Table 2: Close analysis of respondents' answers and based on the Saudi business environment and work culture, the 32 factors are grouped into 4 groups. Finance: 4 factors; Business: 14 factors; Government: 9 factors; Social: 5 factors.

Factors	Frequency
Financial factors	
Availability of fund at low cost	22
Favorable ROI	18
Predictable annual income	5
Predictable market growth	13
Business factors	
Location characteristics	22
High demand on hotel services	22
Availability of affordable land	22
Current high ADR, DDR and other hospitality measures	19
In line with the company vision and strategies	19
Existing inhouse experience on hospitality developments	16
Risk reduction of the investment portfolio	15
Clear exit strategy	13
Lack of hotels in certain geographic areas	19

Existing relation with hotel operators	14
Expansion of the company business	22
Diversification of the company assets	21
Increase the assets portfolio of the company	18
Lack of alternate high return investment	18
Government factors	
Stability and high safety level in the country	22
Government support of tourism	22
Predictable government policies	9
Government support of the hospitality investors	21
Controlled inflation and stable currency	20
Promising future forecast of the country	8
Government support of business and foreign investment	21
Clear governmental requirements	13
Existence of advanced infrastructure and transportation	20
Social factors	
Contribution to the government socioeconomic plans	17
Creating jobs to locals	13
Availability of tourist attraction activities and events	7
Diversity of weather, culture and geography of Saudi Arabia	18
Availability of local well-trained operation personnel	11

Table 3: Weighted averages for 5-point Likert scale.

Weighted average	Scale	Interpretation
1-1.79	Very important	Very influential
1.8-2.59	Important	Influential
2.60-3.39	Average important	Average influence
3.4-4.19	Low important	Low influence
4.2-5	Not important	Uninfluential

Table 4: Importance level of the factors considered in initiating new hotel property developments in Saudi Arabia.

Factor	Mean	Standard deviation	Importance level	Group
Availability of fund at low cost	1.36	1	Very influential	Financial
Availability of affordable land	1.41	1	Very influential	Business
High demand on hotel services	1.45	1	Very influential	Business
Stability and high safety level in the country	1	0	Very influential	Government
Location characteristics	1.41	1.087	Very influential	Business /Social
Government support of tourism	1.09	0.426	Very influential	Government
Expansion of the company business	2.82	2.629	Average influence	Business
Diversification of the company assets	2.95	2.646	Average influence	Business
Government support of the hospitality investors	1.5	1.168	Very influential	Government
Government support of business and foreign investment	2.05	1.732	Influential	Government
Controlled inflation and stable currency	1.64	1.477	Very influential	Government
Existence of advanced infrastructure and transportation	1.32	0.853	Very influential	Government

In line with the company vision and strategies	1.77	1.314	Very influential	Business
Lack of hotels in certain geographic areas	2.41	2.153	Influential	Business
Current high ADR, DDR and other hospitality measures	1.73	1.314	Very influential	Business
Increase the assets portfolio of the company	3.14	2.876	Average influence	Business
Favorable ROI	1.23	0.674	Very influential	Financial
Diversity of weather, culture and geography of Saudi Arabia	2.55	2.296	Influential	Social
Lack of alternate high return investment	3.18	3.06	Average influence	Business
Contribution to the government socioeconomic plans	2.09	1.859	Influential	Social
Existing inhouse experience on hospitality developments	1.77	1.508	Very influential	Business
Risk reduction of the investment portfolio	1.95	1.809	Influential	Business
Existing Relation with hotel operators	2.36	2.153	Influential	Business
Clear governmental requirements	1.82	1.348	Influential	Government
Creating jobs to locals	2.23	2.067	Influential	Social
Clear exit strategy	2.18	2.111	Influential	Business
Predictable market growth	2.36	1.954	Influential	Financial
Availability of local well-trained operation personnel	3.55	3.233	Low influence	Social
Predictable government policies	1.14	0.522	Very influential	Government
Promising future forecast of the country	1.14	0.522	Very influential	Government
Availability of tourist attraction activities and events	1.73	1.679	Very influential	Social
Predictable annual income	1.86	1.679	Influential	Financial

DISCUSSION

It is worth noting that this research is about the early stages of the hotel property development. At that time the available information and data are very basic and general in nature. This survey has revealed 32 factors considered at the early stage of new hotel property development in Saudi Arabia. There are 16 very influential factors that direct the decision to initiate the development of new hotel property (Table 5).

The “very influential factors” are not surprising; in fact, they are in line with the research done in Australia, Ethiopia and Thailand as discussed in this research. Financial and business factors at the early stages of the development process flag the importance of the market studies periodic reports published by the specialized entities in the country. These reports set the base of the main data source available to the real estate development organizations at that early stage.

Government related factors 7 factors indicate the importance of the government role in the success of the tourist and hospitality sectors. The Saudi government efforts to create and maintain a sustainable tourism destination that exploit the cultural and geographic diversity of the country couldn't be unnoticed [27]. This would create a

favorable investment environment to the investors in the hotel property development. One very influential factor that considered by the investors in the hotel industry is the inflation and local currency stability. This indicates the importance of the value of money invested in this sensitive industry [28].

Location characteristics is very influential factor in the decision-making process, as geographical nature plays an important role in attracting tourists and visitors to a certain location. This factor is shared by the business and social groups. Business side includes land price, access to the site, availability of a nearby utility connections, constructability, etc. Social side includes nearby attractions, cultural and natural landmarks, etc.

The other social very influential factor is the availability of tourist attraction activities and events, which indicates the importance of traditional cultural activities and events in the tourism industry [29]. The country has witnessed in recent years many seasonal events like Riyadh, Jeddah, Asir and many other seasons across the country. These events attract millions of visitors and tourists locally and internationally. For example, 10 million people attend Riyadh season 2023 events in the first 50 days [14,30].

There 11 factors that have been rated by the respondents as “Influential”. These factors are 2 financial, 4 business related, 2 governmental, and 3 socials.

The financial 2 factors rated as influential are highly dependent on the previous experience in the hotel sector and published statistical data on local and international economy [31]. As at the early stage, there is no detailed feasibility study available in hand. The business case prepared at this stage depends on the experience and knowledge of the hospitality services operation, market dynamics and market structure [32]. This reflects the very influential factor “Existing in-house experience on hospitality developments”.

The business related 4 factors are expected and logically ranked in this second level of importance. For example, the developer will not be able to build a hotel in an area without existing infrastructure, even though there is a need for hotels in that area.

Clear exit strategy is raised based on the current trend, that the real estate developer can obtain a concision for a period of 25-30 years to use the land for developing his investment properties, usually (commercial, retail and hospitality). This trend exists in the deals with government land and some private landlords.

The government support of business and foreign investment factor is sought to increase the demand for hotel services by local and foreign businessmen. Clear government requirements are important for hospitality investment to overcome bureaucracy and minimize paperwork.

Social factors in this level of importance are expected to be considered

in the decision-making process. There are many government initiatives to develop the society across the country with many incentives to the private sector. Among these incentives is Tamheer program for on-the-job training for fresh graduates. Employment Subsidization Sector (ESS) by Hadaf program which support the salaries of the Saudi citizen employees and other different initiatives. These programs enable the investors to hire the local employees at low cost for long periods (5 years) on some occasions. There are 4 factors rated by the respondents as “Average influence”. All the factors in this level are business related.

These factors are considered by the real estate organizations most of the time to comply with the company strategy. The wide span of real estate development sectors in Saudi Arabia makes investment in new hotel property development is not always the 1st choice. Branded hotels and hospitality projects are perceived by the real estate community as a complicated development. As a result, the rating of these 4 factors as “Average influence” reflects the nature of the real estate development sector. Other investment opportunity in residential, commercial, logistics and warehouses, mixed use, sectors always exist [33].

The “Availability of local well-trained operation personnel” was rated low influential. This rating is expected since the Saudi labor working in the sector is relatively low. In 2021, there were 386,400 total labors working in the sector, 78,330 (20.3%) of them are Saudi [34]. This phenomenon is rapidly changing as the government has launched several training programs for Saudi people in the hospitality sectors, these training programs with the implied incentives are very appealing to the Saudi youth. Saudi labor market is open and the business owners can easily recruit and hire the needed labor and professions from everywhere.

Table 5: The 16 very influential factors that direct the decision to initiate the development of new hotel property.

Factor	Group
16 Very influential factors	
Availability of fund at low cost	Financial
Favorable ROI	Financial
Availability of affordable land	Business
High demand on hotel services	Business
Location characteristics	Business/Social
In line with the company vision and strategies	Business
Current high ADR, DDR and other hospitality measures	Business
Existing in-house experience on hospitality developments	Business
Stability and high safety level in the country	Government
Government support of tourism	Government
Government support of the hospitality investors	Government
Controlled inflation and stable currency	Government
Existence of advanced infrastructure and transportation	Government
Predictable government policies	Government
Promising future forecast of the country	Government
Availability of tourist attraction activities and events	Social
11 Influential factors	
Predictable market growth	Financial
Predictable annual income	Financial
Lack of hotels in certain geographic areas	Business
Risk reduction of the investment portfolio	Business
Existing relation with hotel operators	Business
Clear exit strategy.	Business
Government Support of business and foreign investment	Government

Clear governmental requirements	Government
Diversity of weather, culture and geography of Saudi Arabia	Social
Contribution to the government socioeconomic plans	Social
Creating jobs to locals	Social
4 Average influence factors	
Expansion of the company business	Business
Diversification of the company assets	Business
Increase the assets portfolio of the company	Business
Lack of alternate high return investment	Business

CONCLUSION

This research has identified the factors that are considered in the decision-making process to initiate new hotel properties development in Saudi Arabia. The data collected through interview with the development director's/vice presidents of investment of 22 real estate development companies who are already developed hotels or planning to develop new hotel properties. In the second stage of the research, the identified factors were ranked by the participants in a 5 Likert scale, through a questionnaire sent to each of them.

32 factors are considered in the decision-making process as identified by the research. These 32 factors can be grouped into 4 main categories- Financial, Business, Government and Social. 16 factors have been identified as very influential. They are 2 financial factors, 6 business related factors, 7 government related factors and 1 social category factor.

There are 11 factors identified as influential in decision-making process. They are 2 financial factors, 4 business related factors, 2 government related factors and 3 social category factors. The research has identified 4 business related factors as average influence. 1 factor is low influential and belongs to social category.

This research sets the basis for developing multi-criterial hotel properties development decision-making model for Saudi hospitality sector. It also contributes effectively to developing a framework for evaluation of hotel properties investment. In the era of Artificial Intelligence (AI), this research will be excellent contribution in developing a computerized system based on AI to automate decision-making process and investment evaluation of hospitality investment.

CONFLICT OF INTERESTS

Author declares no conflict of interests.

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