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# Spiritual Lodging – the Sharia-Compliant Hotel Concept

**Paul Rosenberg, Market Intelligence Analyst**

**Hala Matar Choufany, Managing Director**

**HVS GLOBAL HOSPITALITY SERVICES - DUBAI**

Dubai Silicon Oasis Headquarters  
Building, 4th Floor, PO Box 341041  
Dubai, UAE  
United Arab Emirates  
Tel: +971 04 501 5586  
Fax: +971 04 501 5777

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*HVS – Dubai Office*

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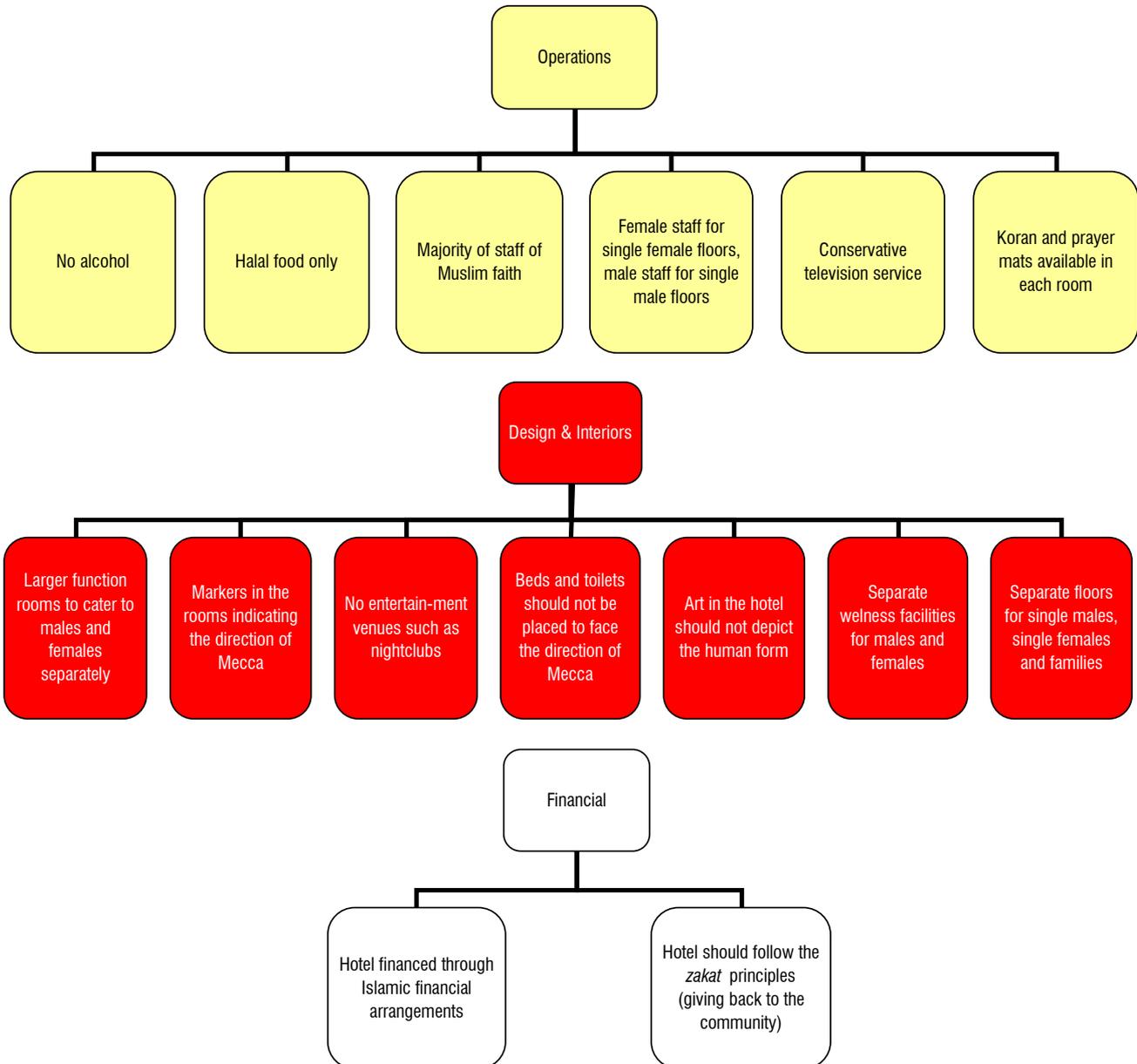
The Sharia-compliant hotel concept, through its unique value proposition, has quickly become highly attractive throughout the Middle East. The increasing availability of Sharia-compliant funds and the rise in intra-regional travel have been identified as the major drivers behind the success of this concept. The concept is not new, as most hotels developed in Saudi Arabia are Sharia-compliant – Sharia being a legal framework adopted by Islam. However, the introduction of the concept elsewhere has drawn much attention and growing interest. In this article, we attempt to clearly define the requirements a hotel must meet to be Sharia-compliant, and the differences between this concept and that of ‘dry’ hotels. Since operating and developing such properties introduces a certain number of challenges, we ask the question: ‘Is it really worth it?’

## **The Concept**

Using our insight and knowledge gained from speaking with industry experts, we list the requirements that a Sharia-compliant hotel must meet. This list is by no means exhaustive, as it serves only to give the minimum requirements. It should be noted that no written rules or classifications for Sharia-compliant hotels currently exist.



**Table 1 Sharia-Compliant Hotel Requirements**



In order for a hotel to be fully Sharia-compliant, it is extremely important that most of the facilities (such as floors, spa, gym and guest and function rooms) be separate for males and females. This is especially significant at the development stage when designing floor plans of the hotel. Beds and toilets should not be placed in the direction of Mecca.

Neither alcohol nor pork should be served in any of the food and beverage outlets at the hotel and there should be no minibar in the



rooms. Food products served in the restaurants have to be halal; that is, slaughtered in the name of Allah.

The hotel development and the hotel operations should be financed through Islamic financial arrangements in order to fully respect the principles of Sharia finance.

As noted earlier, the attractiveness of the Sharia-compliant hotel concept is strongly correlated to the growth in Islamic finance in the past few years. The global financial crisis has further increased the attractiveness of Islamic finance, as the sector has been less impacted by the crisis than traditional finance sectors have. This has meant an increased availability of funds and more opportunities to finance Sharia-compliant projects such as housing complexes and hotels.

A number of differences between traditional finance and Islamic finance must be taken into account. First, Islamic finance requires participation in and sharing of profit and potential losses among all of the parties in a financial enterprise. Lenders are therefore focused not only on the collateral but also on the overall feasibility of the project. Islamic finance prohibits *riba*, which is an 'excess' or 'unjust increment'. *Riba al-nasiah*, one of the principles of *riba*, is described as 'any excess over the principal amount paid which is charged for the delay in repayment'. Therefore, interest-based profit is not permitted by Islam.

### **Sharia-Compliant or Simply 'Dry'?**

Recently, new hotel brands have been created and marketed as being 'Sharia-compliant'. However, our investigation has shown that the overuse of the term has confused those hotels that are merely 'dry' with those that are fully Sharia-compliant. Besides, operational challenges and design constraints have forced some companies to refrain from developing such properties. Many brands described as Sharia-compliant upon their launch have altered their claims and now consider themselves to be purely alcohol-free or 'dry' hotels.

By law, hotels in Sharjah and Kuwait cannot serve alcohol and are classified as 'dry' hotels. We note that hotel apartments in Dubai are not eligible for an alcohol licence from the authorities and hence may not serve alcohol.

Our experience in the market is that most hotels in the Middle East already have some of the facilities/characteristics outlined above. These include larger function rooms for Muslim weddings, markers in the rooms indicating the direction of Mecca and the provision of the Koran and prayer mats in each room in order to accommodate Muslim guests. However, these hotels cannot be considered fully Sharia-compliant as they do not meet all the requirements to be described as such.



The following table lists the key brands that are considered either Sharia-compliant or 'dry', and gives the main characteristics of each brand in terms of concept, growth and coverage.

**Table 2 Sharia-Compliant and 'Dry' Brands by Hotel Group**

Hotel Group	Concept	Existing Properties	Proposed Properties	Coverage
Almulla Hospitality	Sharia-compliant	—	TBC	Middle East
Al Jawhara Group	Sharia-compliant	3	TBC	Middle East
MMH	Dry	5	16	Middle East
Landmark Hotel Group	Sharia-compliant	3	9	UAE
Rayhaan Hotels & Resorts	Dry	—	30-40 *	Middle East
Samaya Hotels & Resorts	Dry	1	2	UAE
Seraii Hospitality	Sharia-compliant	—	15	Middle East & North Africa
Shaza Hotels	Dry	—	8	Middle East & North Africa
Tamani Hotels & Resorts	Sharia-compliant	1	3	UAE

Source: HVS Research

\* Estimated

## Opportunities and Challenges

The operation and development of Sharia-compliant hotels is in essence no different from the operation and development of standard hotels. However, a few differences in terms of operation have to be taken into account at the planning stage.

Capacity management is a challenge imposed by the requirement of gender segregation. Hotels with floors dedicated to a particular type of guest (family, single man, single woman) may on occasion lose revenue and turn away demand because that demand does not match the type of room available. In addition, we note that the constraints placed by the staffing of women-only floors by women and men-only floors by men could make staffing schedules more difficult and might result in the need to increase the number of employees.

The absence of revenue from the sale of alcohol may, in some cases, make it challenging for a food and beverage department to be profitable. However, the unique value proposition of a Sharia-compliant hotel means that such a hotel can overcome this difficulty as it will capture those guests looking for an authentic or spiritually friendly experience. A restriction in one area can lead to multiple opportunities in others.

The advantages of developing and operating a Sharia-compliant property are many, as such properties attract a large number of guests from more traditional source markets such as Saudi Arabia, Kuwait and Qatar that have been less impacted by the financial crisis than Western markets. These source markets are known to spend, on average, a



substantially greater amount of money on leisure than other source markets.

We understand that a significant number of Westerners have a strong attraction to exploring a different culture when travelling. Sharjah, although its hotels are dry, attracts a significant number of European guests who are looking for a more family-friendly and culturally more enriching experience. The essence of a Sharia-compliant hotel is the spiritual experience it offers. As such hotels are not especially rooted in religion, they would therefore attract secular families and individuals.

The concept itself gives room to different interpretations, as no written requirements or classifications for such a hotel class currently exist, except in Saudi Arabia where it is part of the legislation. There is definitely demand for Sharia-compliant hotels and the opportunities are many in terms of location and size. We consider that operators and developers should not shy away from going fully Sharia-compliant and local regulation/classification would help the industry tremendously in the long run.

*We recommend that anyone interested in developing such an asset class commission a market and feasibility study to investigate optimum location, facilities and target audience. For feasibility studies, valuation, strategic positioning and further advice please contact the authors.*

### **About our Team**

HVS has a team of experts that conducts our operations in the Middle East and North Africa. The team benefits from international and local backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last three years, the team has advised on more than 150 projects in the region for hotel owners, developers, lenders, investors and operators. HVS has advised on more than US\$25 billion worth of hotel real estate in the region.



### About the Authors



**Paul Rosenberg** is a Market Intelligence Analyst with HVS Dubai, specialising in hotel valuation and consultancy. He joined HVS in 2008 after completing a BSc in International Hospitality Management from Ecole Hôtelière de Lausanne in Switzerland. Since then he has conducted a number of market studies in the Middle East. His industry experience includes various finance and operational roles with Jumeirah, Nestlé, and Marriott in Europe, America and the Middle East.



**Hala Matar Choufany** is the Managing Director of HVS Dubai and is responsible for the firm's valuation and consulting work in the Middle East and North Africa. She initially joined HVS London in 2005, and moved to HVS Shanghai in September 2006 where she helped grow HVS Shanghai and its business in the Asia region. She relocated to Dubai in September 2007 and looks after HVS's interests in the Middle East. Before joining HVS, Hala had four years' operational and managerial hotel industry experience.

She lectured at Notre Dame University in Lebanon on International Travel and Tourism. Hala holds an MPhil from Leeds University, UK, an MBA from IMHI (Essec- Cornell) University, Paris, France, and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala has worked on several midscale and large-scale mixed-use developments and has conducted numerous valuations, feasibility studies, operator search, return on investment and market studies in Europe, Middle East and Asia.

*For further information, please contact one of the authors.*

**Paul Rosenberg – Market Intelligence Analyst, Dubai**

Email: [prosenberg@hvs.com](mailto:prosenberg@hvs.com)

Direct Line: +971 50 1304339

**Hala Matar Choufany – Managing Director, Dubai**

Email: [hchoufany@hvs.com](mailto:hchoufany@hvs.com)

Direct Line: +971 50 4597930

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