

Halal Hotels



Blake Goud
Islamic Finance Community
Leader
Thomson Reuters

Turkey has emerged as a leading destination within the halal tourism market with a [growing number of halal hotels and resorts](#) that have seemingly found a market not catered to as widely elsewhere. How, outside of Turkey where the idea of a 'halal hotel' is becoming more common, will the same need be met in a way that is financially viable and gets the involvement of the Islamic finance sector which is a key need for the halal tourism sector.

Financing is such a key in the tourism market because much of the main assets that support travel and tourism are hotels and hotels are expensive, big ticket assets that are rarely if ever financed without external financing. For halal tourism, as in other Islamic economy sectors, there is a growing realization that the 'halal-ness' (and thus its appeal to consumers) depends not just on whether it serves alcohol or pork but also whether the business relies on interest-based financing.

For many Islamic economy sectors, the key financial need is working capital financing which affects the speed of a business' growth but is not as essential to its existence as in the hotel sector. In the other sectors, the financing needs are further outside of their comfort zone. Islamic banks prefer, by and large, projects which include tangible (often fixed) assets and larger businesses who they perceive as being safer. Fairly or not, sectors like halal media and modest fashion are able to rely on bootstrapping using their founders' resources, angel investors and, in the best case, venture capital funding because access to bank financing is extremely limited.

The same should not be true for hotels, either conversion of existing properties or green field developments. Their business revolves around financing a large tangible asset which should be highly appealing to the real estate-focused Islamic bankers. A hotel project gives them a tangible underlying asset which can be used to structure a Shariah compliant transaction and secure the financing of the Islamic bank who, by virtue of their position within the regulated banking sector, is of primary concern.

And yet, with few exceptions, Islamic banks are not getting involved. One reason could be the lack of a halal hotel brand that offers guests with a consistent level of service in multiple countries. A search for London as a representative (popular) destination yields a list of halal hotels with reviews suggesting that being halal is not a deterrent to non-Muslim customers (so they don't face any insurmountable obstacle even in non-Muslim majority markets).

But by the bank's standards, most of these halal hotels are Small-to-Medium Enterprises (SMEs) and that may give an insight into the Islamic economy has had such a difficult time getting more deeply involved with the Islamic finance sector. The large share of SMEs that make up the Islamic economy raises questions about these companies' financial risk profile. This higher risk comes both on an individual business level (most SMEs in countries where Islamic finance is large are financially excluded) and sector wide (if there are only SMEs in this business, does that mean it is not financially viable).

As with everything new, there will be a lag between when it starts and when its usefulness is taken for granted. In the interim, it will be important for the Islamic economy to find 'champions' that can build comfort within Islamic finance that there truly is a viable and serviceable opportunity for an Islamic financial institutions in the Islamic economy. One place to start may lie with creating a halal hotel chain.

