Knight Frank

SAUDI ARABIA REAL ESTATE MARKET REVIEW

2020

Office Market Review - Q4 2019

Riyadh

Rents in Riyadh's office market continued to soften in the year to Q4 2019, with Grade A and Grade B rents falling by 2% and 6% respectively. On average Grade A rents were recorded at 1,460 SAR/sqm and Grade B rents at 768 SAR/sqm.

Vacancy rates across Grade A office space decreased by 3.8 percentage points from Q4 2018 to reach 6% in Q4 2019, whilst the Grade B vacancy rate decreased by 1.8 percentage points to reach 28% over the same period.

Riyadh's office stock stood at around 3.99 million sqm GLA as at Q4 2019. By 2022, total stock is expected to reach an estimated 5.14 million sqm GLA.

Jeddah

Jeddah's office market materially softened in the year to Q4 2019, where Grade A rents fell by 9% to 1,044 SAR/sqm, while Grade B rents declined by 11%, to 748 SAR/sqm.

The vacancy rate across Grade A office space increased by 2.0 percentage points from Q4 2018 to reach 14% in Q4 2019, whilst the Grade B vacancy rate increased by 7.0 percentage points to reach 26% over the same period.

Jeddah's office stock stood at around 1.21 million sqm GLA as at Q4 2019. By 2022, this is expected to reach an estimated 1.70 million sqm GLA. However, given weaker market conditions, we expect that some of this upcoming supply may be delayed.

DMA

The Dammam Metropolitan Area's (DMA) office market continued to soften in the year to Q4 2019 where Grade A rents fell by 5% to 953 SAR/sqm, while Grade B rents declined by 6%, to 659 SAR/sqm.

The vacancy rates across Grade A office space increased by 8.0 percentage points from Q4 2018 to reach 28% in Q4 2019, whilst the Grade B vacancy rate increased by 3.0 percentage points to reach 33% over the same period.

The DMA's office stock stood at around 1.12 million sqm GLA as at Q4 2019. By 2022, this is expected to reach an estimated 1.46 million sqm GLA.

Key trends

The declining rate of Saudi national unemployment, which in Q3 2019 fell to 12.0% down from 12.8% a year earlier, is expected to drive activity in Saudi Arabia's occupier sector.

Saudi Arabian General Investment Authority (SAGIA) has issued 267 new licences for foreign investors to operate across the Kingdom in Q1 2019, an increase of 70% from Q1 2018.

With the development of institutional grade projects, Saudi Arabia's office sector is expected to see a significant increase in the quality of Grade A office space, including the provision of enhanced connectivity and amenities.

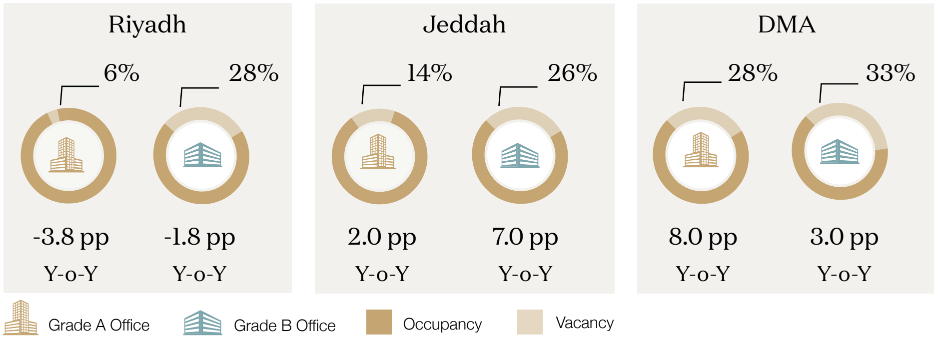
As a result of this incoming Grade A supply we expect a flight to quality from occupiers, which is likely to put further pressure on Grade B rents.

Performance Indicators

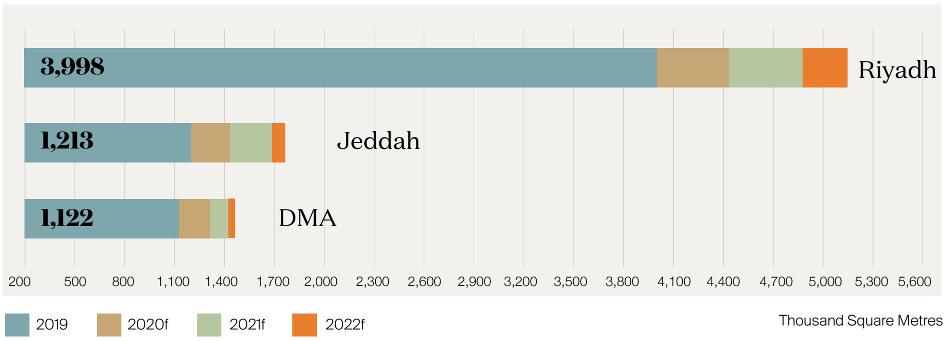
Grade A and B rental rates and YoY % change as at Q4 2019

	Riyadh		Jeddah		DMA	
	Grade A	Grade B	Grade A	Grade B	Grade A	Grade B
Rent	1,460 SAR/Sqm	768 SAR/Sqm	1,044 SAR/Sqm	748 SAR/Sqm	953 SAR/Sqm	659 SAR/Sqm
Change	-2% Y-o-Y	-6% Y-o-Y	-9% Y-o-Y	-11% Y-o-Y	-5% Y-o-Y	-6% Y-o-Y

Grade A and B occupancy as at Q4 2019



Evolution of commercial supply



Source: Knight Frank Research

Residential Market Review - Q4 2019

Riyadh

Residential apartment and villa sales prices in Riyadh increased by 3.6% and 6.6% respectively in the year to Q4 2019, this trend has been driven by government backed efforts to expand the mortgage market, the delivery of large-scale housing schemes and improving consumer sentiment.

Over the same period, the volume of residential transactions rose by 5% while the total value of residential transactions rose by 36%.

As at Q4 2019, Riyadh's housing stock is estimated to total 1.24 million units and is expected to increase to 1.34 million units by the end of 2022. The majority of this supply comprises high quality apartment and townhouses, a move which matches the changing design and affordability requirements in the capital.

Jeddah

Residential apartment and villa sales prices in Jeddah increased by 3.3% and 1.8% respectively in the year to Q4 2019, this trend has been underpinned by the Sakani affordable housing program and regulatory efforts by the government to expand the mortgage market.

Over the same period, the volume of residential transactions rose by 9% while the total value of residential transactions rose by 1% .

As at Q4 2019, Jeddah's housing stock is estimated to total 836,000 units and is expected to increase to 872,000 units by the end of 2022. The majority of upcoming supply in Jeddah is mostly geared towards middle-income housing with north Jeddah increasingly seeing the majority of development activity.

DMA

Residential apartment and villa sales prices in the Dammam Metropolitan Area (DMA) increased by 2.8% and 1.7% respectively in the year to Q4 2019, this trend has been underpinned by the Sakani affordable housing program and regulatory efforts by the government to expand the mortgage market.

Over the same period, the volume of residential transactions saw a marginal decline of 1% while the total value of residential transactions rose by 4%.

As at Q4 2019, DMA's housing stock is estimated to total 325,000 units and is expected to increase to 348,000 units by the end of 2022. The majority of this supply comprises high quality apartments and townhouses.

Key trends

Roll-out of the Sakani program to respond to the housing affordability challenge and help increase the ownership rate among Saudis to 60% by 2020 and 70% by 2030.

The pivotal role played by Real Estate Development Fund (REDF) and the Saudi Refinance Company (SRC) to boost homeownership and grow the mortgage market.

Growing involvement from the private sector in development activity through the Shraqat program with the MOH.

MOH continued to support its vision to develop smart, affordable and sustainable housing units through driving the adoption of innovative building technologies.

Performance Indicators

Villas & apartment sales prices and YoY % change as at Q4 2019

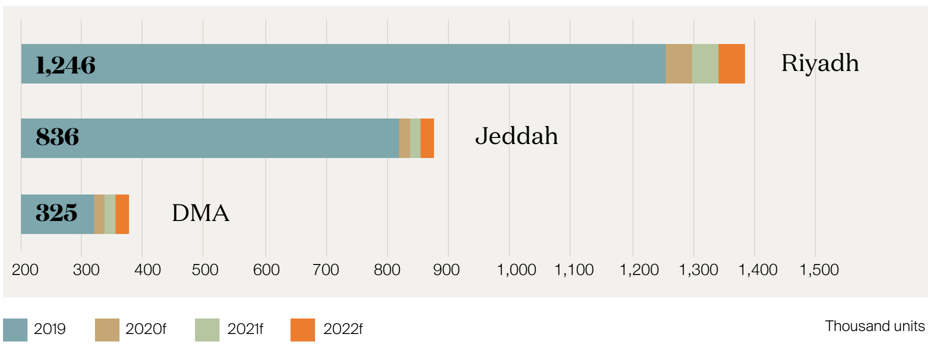
	Riyadh		Jeddah		DMA	
	Villa	Apartment	Villa	Apartment	Villa	Apartment
Price	3,775 SAR/Sqm	3,264 SAR/Sqm	5,547 SAR/Sqm	3,786 SAR/Sqm	3,508 SAR/Sqm	2,905 SAR/Sqm
Change	6.6% Y-o-Y	3.6% Y-o-Y	1.8% Y-o-Y	3.3% Y-o-Y	1.7% Y-o-Y	2.8% Y-o-Y

Villa Apartment

YoY % change in the volume and value of residential transactions as at Q4 2019

	Riyadh	Jeddah	DMA
Volume	5%	9%	-1%
Value	36%	1%	4%

Evolution of residential supply



Source: Knight Frank Research

Retail Market Review - Q4 2019

Riyadh

Market performance in Riyadh's retail market remains fragmented in the year to Q4 2019, where regional/ super-regional mall average rents remained stable at 2,764 SAR/sqm, whilst average community mall rents fell by 6% to reach 2,046 SAR/sqm.

The market-wide vacancy rate in Riyadh increased by 1 percentage point in the year to Q4 2019 to reach 16%. The average vacancy rate in super-regional/ regional malls remained relatively stable whereas community malls and Grade B retail centres have seen their vacancy rates trend higher.

Riyadh's retail stock stood at around 2.76 million sqm GLA as at Q4 2019. By 2022, total stock is expected to reach 3.42 million sqm GLA.

Jeddah

Rents in Jeddah's retail market continued to soften in the year to Q4 2019, where average regional/ super-regional mall rents fell by 2% to 2,874 SAR/ sqm, whilst average community mall rents fell by 5% to reach 1,795 SAR/sqm..

The market-wide vacancy rate in Jeddah decreased by 3 percentage points in the year to Q4 2019 to reach 10%. This trend has primarily been recorded in malls where landlords have introduced new retail concepts and continue to offer flexible leasing options to retain tenants.

Jeddah's retail stock stood at around 1.86 million sqm GLA as at Q4 2019. By 2022, this is expected to reach an estimated 2.75 million sqm GLA. However, given weaker lower market conditions, we expect some projects may be delayed.

DMA

Performance of DMA's retail market softened further in the year to Q4 2019. Average regional/ super-regional mall rental rates fell marginally by 1% to reach 2,336 SAR/sqm, while community malls average rental rates dropped by 6% to 1,688 SAR/sqm.

The market-wide vacancy rate in DMA decreased by 2 percentage points in the year to Q4 2019 to reach 6%. A decrease in vacancy rates has been recorded in those malls where landlords have successfully introduced new retail concepts to attract and retain tenants.

DMA retail stock stood at around 1.11 million sqm GLA at the end of Q4 2019. By 2022, this is expected to reach an estimated 1.53 million sqm GLA.

Key trends

As e-commerce gains prominence, brick-and-mortar retail has sought to diversify its offering in order to secure its customer base by providing an increased range of leisure and entertainment facilities.

The reintroduction of cinemas to the Kingdom in April last year following a 35-year hiatus, coupled with other forms of public entertainment, is expected to increase retail footfall.

The Ministry of Municipal and Rural Affairs has ended the requirement for restaurants to have separate sections for males and families.

Introduction of 100 percent tax on food and beverages in outlets that serve tobacco products poses a challenge to the majority of food and beverage outlets across Kingdom.

Performance Indicators

Reatil market lease rates as at Q4 2019

	Riyadh		Jeddah		DMA	
	Regional/Super-Regional mall	Community mall	Regional/Super-Regional mall	Community mall	Regional/Super-Regional mall	Community mall
Rent	2,764 SAR/Sqm	2,046 SAR/Sqm	2,874 SAR/Sqm	1,795 SAR/Sqm	2,336 SAR/Sqm	1,688 SAR/Sqm
Change	0% Y-o-Y	6% Y-o-Y	-2% Y-o-Y	-5% Y-o-Y	-1% Y-o-Y	-6% Y-o-Y

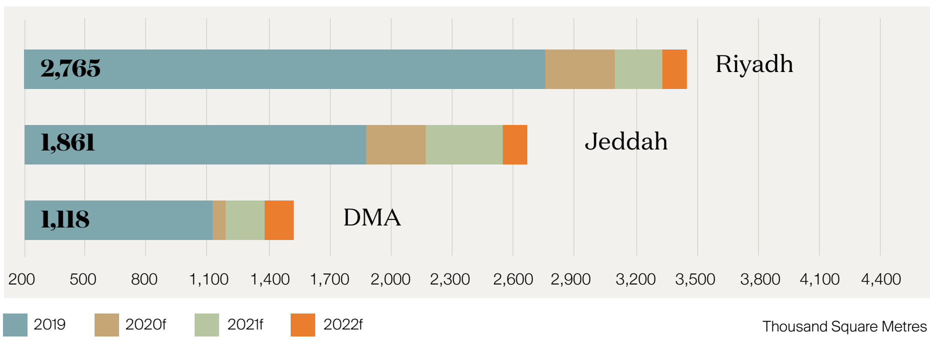
Regional/Super-Regional mall   Community mall

Retail occupancy rates

	Riyadh	Jeddah	DMA
2018 vacancy	15%	13%	8%
2019 vacancy	16%	10%	6%
Change	1% Y-o-Y	-3% Y-o-Y	-2% Y-o-Y

Occupancy   Vacancy

Evolution of retail supply



Source: Knight Frank Research

Hospitality Market Review – Q4 2019

Riyadh

Revenue per available room (RevPAR) in Riyadh grew by 5.2% in 2019, while occupancy increased by 5 percentage points over the same period. This uplift in occupancy was enough to offset a softening of ADR by 3.6% resulting in RevPAR growth.

Total quality hotel supply in Riyadh stood at 16,384 rooms as at December 2019, of which the luxury and upper-upscale (typically associated with a 5-star hotel keys) accounted for 39%.The upscale, upper-midscale and midscale segments are accounted for 27%, 23% and 11% of the total quality hotel supply respectively.

Taking into consideration only projects that have broken ground, supply is expected to increase by 29% by the end of 2022.

Jeddah

ADR in Jeddah fell by 11% in 2019, while occupancy rates improved by 3.1 percentage over the same period. As a result, RevPAR decreased by 9.3%.

Jeddah's total quality hotel supply stood at 10,997 rooms as at December 2019. The luxury and upper-upscale hotel keys accounted for 45%, while the upscale, upper midscale and midscale segments are accounted for 26%, 24% and 5% of the total quality hotel supply respectively.

The supply of quality hotel rooms is expected to increase by 55% considering only the projects that are currently under construction and due for completion by the end of 2022.

DMA

ADR in Dammam Metropolitan Area (DMA) softened by 13.8% in 2019, while occupancy rates improved by 7.5 percentage points over the same period, resulting in a decrease in RevPAR by 0.5% in 2019.

DMA's total quality hotel supply stood at 7,805 rooms as at December 2019. The luxury and upper-upscale hotel keys accounted for 23%, while the upscale, upper midscale and midscale segments are accounted for 31%, 32% and 14% of the total quality hotel supply respectively.

Taking into consideration only the projects that have broken ground, supply is expected to increase by 47% by the end of 2022.

Key trends

The Public Investment Fund has launched several GIGA tourism and hospitality projects including NEOM, The Red Sea Project, Amaala, Al Ula, Wadi Al Disah Development and Qiddiya. Continued progress of such mega development is a positive signal for the Kingdom's ability to attract new demand.

Saudi Arabia began offering tourist visas in September 2019 to citizens of 49 countries. Additionally, Saudi Arabia's recent initiative to allow US, UK or Schengen visa holders to obtain a tourist visa on arrival in the Kingdom will help to boost the tourism sector and diversify the country's economy.

As per Vision 2030, the government is aiming to attract 30 million visitors by 2030, which represents a 58% growth from 2019. While aggressive, the recent completion of key projects such as King Abdulaziz International Airport and Al Haramain High Speed Rail are signals that the infrastructure is in place to support such visitations.

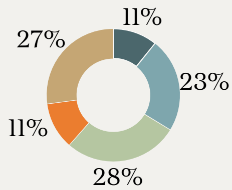
Performance Indicators

KPIs - ADR, Occupancy and RevPAR - % Change FY 2019

	ADR	Occupancy	RevPar
Riyadh	-3.6%	5.0 PP	5.2%
Jeddah	-11.0%	3.1 PP	-9.3%
DMA	-13.8%	7.5 PP	-0.5%

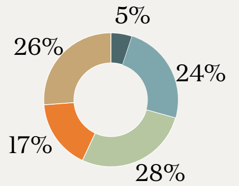
Existing Quality hotel supply market segmentation - FY 2019

Riyadh



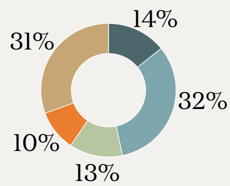
Upscale Upper Upscale Midscale Luxury Upper Midscale

Jeddah



Upscale Upper Upscale Midscale Luxury Upper Midscale

DMA



Upscale Upper Upscale Midscale Luxury Upper Midscale

Existing and upcoming quality hotel supply

	Existing supply Dec 2019	Increase in supply by 2022
Riyadh	16,384 keys	+29%
Jeddah	10,997 keys	+55%
DMA	7,805 keys	+47%

Source: Knight Frank Research and STR Global

KSA Real Estate Market Outlook

Macroeconomic Outlook

After a slowdown in GDP growth in 2019, where growth is expected to register a marginal rate of growth of 0.2%, down from 2.2% in 2018, Saudi Arabia's GDP is forecast to increase by 2.2% in 2020 according to IMF data.

Whilst the headline GDP growth is significantly below expectations it is important to note this slowdown in growth has largely been driven by output cuts in the oil sector which in the year to Q3 2019 contracted by 6.4%, whereas the non-oil sector over the same period grew by 4.3%.

Office Market

The office market is likely to remain favoured towards occupiers in the year ahead where rents are likely to trend down. However, we are likely to witness a fragmentation in relative performance in key commercial hubs and asset grades.

In Riyadh, where strong rates of employment growth are being witnessed we expect the vacancy rates in the Grade A segment to continue to decline at the expense of increased vacancy in the Grade B segment of the market. As additional Grade A stock is delivered we are likely to see a flight to quality.

The Dammam Metropolitan Area and Jeddah have, over the course of 2019, both witnessed challenging market conditions driven by a slowdown in the oil sector for the prior and due to relocations of key occupiers in the latter. In these markets, we expect challenging market conditions to continue as occupiers consolidate and as additional supply enters the market. These trends are likely to put sustained pressure on average rents and occupancy rates going forward.

Residential Market

Saudi Arabia's residential market has been a key point of focus for government initiatives over recent years with a range of regulatory, finance and supply side reforms enacted which aimed to underpin activity in this sector. Over the course of 2019, we have witnessed a marked increase in activity as a result of these reforms.

Looking ahead, as these initiatives further take effect alongside the provision of additional affordable residential stock, we expect the volume of the residential transactions to maintain positive momentum. With regards to sales price performance, we expect performance to remain stable in the short to medium term.

Retail Market

As a result of the government's economic diversification strategies and the drive to boost Saudi nationals' and female workforce participation rates, we have witnessed growth in disposable incomes, which has in turn underpinned stability in the Saudi Arabian retail sector.

Given these improving economic fundamentals, we expect rental rates in regional and super-regional malls to remain stable in the short run across all key commercial hubs. However, Grade B stock is likely to continue softening given the influx of quality retail supply due to come to fruition.

Hospitality Market

As a result of recent easing of tourism visa regulations, where the citizens of 49 countries are now able to apply for e-visas and holders of Schengen, UK or US visas are eligible for visas on arrival, we are likely to witness a marked increase in visitation to the Kingdom which in turn will provide support to its hospitality market.

Despite these encouraging developments, we expect muted performance in key performance indicators across major tourism hubs over the short to medium term due to the influx of supply scheduled over this

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