

# HEALTHCARE IN SAUDI ARABIA

## OPPORTUNITIES IN THE SECTOR | MAY 2018

### Key findings

Demand for healthcare in Saudi Arabia is set to continue growing triggered by a demographic shift and an increase in health insurance coverage.

Forecasted demand gap due to population growth and facilities requirements, create a business case for the development of additional facilities in Saudi Arabia.

In the context of growing healthcare demand, government initiatives call for a greater participation of the private sector in healthcare as highlighted in the National Transformation Plan (NTP) and the recent privatisation plan.



**DR. GIREESH KUMAR**  
Senior Manager, Healthcare

“Over the next decade, population dynamics are forecast to shift with a significant increase in the population over 40. This indicates an expected increase in the burden of lifestyle diseases and the associated co-morbidities which would trigger an upsurge in demand for highly specialised medical and surgical care in the Kingdom.”

Please refer to the important notice at the end of this report.

Investing in alternative real estate asset classes such as healthcare is a growing trend among global and local investors seeking diversification benefits as well as long term stability given the defensive nature of the underlying income stream. In Saudi Arabia, rising demand for healthcare and government initiatives favouring an increased participation from the private sector look set to drive expansion in the sector and open new doors for investors.

### Opportunities

Taking a closer look at the Saudi Arabian healthcare market, we note that the prevailing picture is one that offers a number of opportunities to existing operators / investors and new entrants, hence the possibility to unlock a significant growth potential by fulfilling existing and future gaps.

With 44% of the population over the age of 40 and 14% over the age of 60 in 2035, requirements for healthcare services will broaden. With such a population mix there will be increased demand for health services such as:

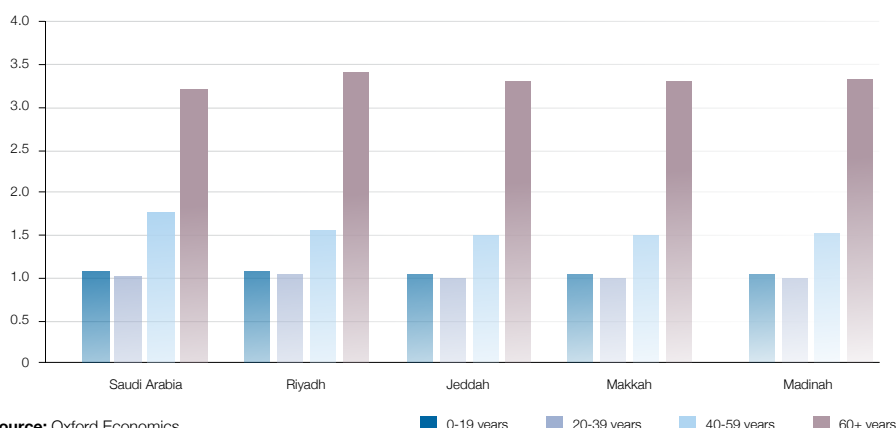
- Care related to lifestyle and non-communicable diseases; as these diseases normally start developing when people reach their 40s, such as cardiovascular, diabetes, obesity and rheumatoid arthritis.
- Geriatric related care, rehabilitation, home healthcare and specialised healthcare services as immunity and activity beyond the age of 60 are generally low.
- Proactive healthcare, antiaging services and regenerative medicine, as generation X, Y and Z are relatively more health aware and conscious of their appearances.

### Population

Saudi Arabia has a young population with approximately 70% below the age of 40 years, and health services have been planned based on this demographic profile. If we fast-forward to 2035, the population would still be considered young, despite a significant change in healthcare demand dynamics:

- Population between the ages of 40 and 59 will increase by 1.5 times in Saudi Arabia.
- Population over the age of 60 is forecast to increase by more than 3 times in Saudi Arabia. (Figure 1)

FIGURE 1  
Demographic Shift (2017-2035 Multipliers)



Source: Oxford Economics

Legend: 0-19 years (dark blue), 20-39 years (medium blue), 40-59 years (light blue), 60+ years (purple)



### Healthcare facilities

Healthcare facilities in the Holy and economic cities are lower than the national average and significantly lower than the global average. These facts create a business case for the establishment of healthcare facilities. (Figure 2)

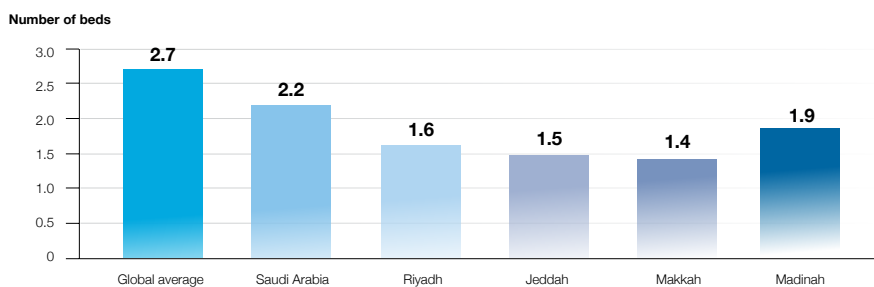
- Economic cities** – these cities generally have better healthcare infrastructure than the rest of the country and host patients from the other parts of the Kingdom. Lower infrastructure density and the existing strain on healthcare resources presents opportunities for additional beds, centres of excellences, specialised and niche healthcare services commonly found in developed metropolises. Careful study of specialisation opportunities and their subsequent introduction will help improve availability of healthcare in the country, curb outbound medical tourism and save outflows from the exchequer.
- Holy cities** – private healthcare facilities in these cities can be classified as basic with potential for upgrade. With the relaxation of visa

requirements, these cities should strongly consider the introduction of medical tourism to complement their religious tourism. Over the last ten years, the number of Hajj pilgrims remained within the region of 1.9 million to 3.2 million, while Umrah pilgrims peaked in 2017 at 8.4 million. Assuming adequate infrastructure is in place, these cities are uniquely positioned to cater to the spiritual and medical requirements of the population. This would appeal to a significant number of Muslims who would consider benefiting from spirituality and holiness of these cities whilst being treated.

### Forecasted demand

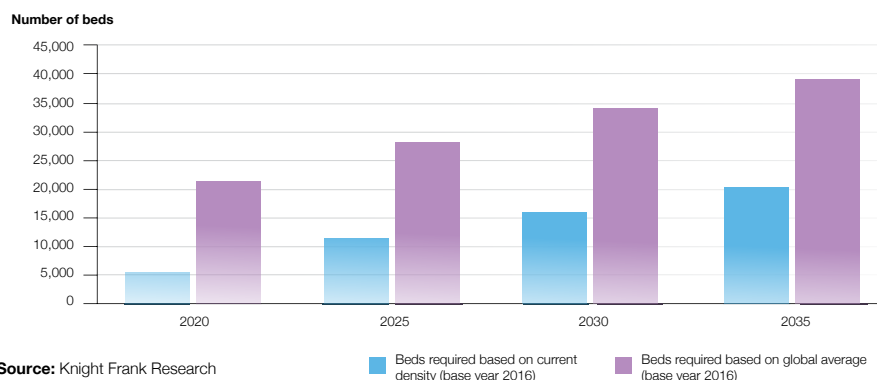
- To keep pace with population growth, Saudi Arabia would require an additional 5,000 beds by 2020 and 20,000 beds by 2035, based on the current density of beds.
- Based on the global average of bed density, Saudi Arabia was faced with a gap of 14,000 beds in 2016 and this gap is expected to widen to 40,000 beds by 2035. (Figure 3)

FIGURE 2  
Beds per 1,000 population



Source: Ministry of Health

FIGURE 3  
Estimated demand 2020 - 2035



Source: Knight Frank Research



RAYA MAJDALANI  
Research Manager

“The current situation presents a need as well as an opportunity for the development of private healthcare in Saudi Arabia. The private sector can count on the right enabling environment to drive its participation in healthcare.”

## Government initiatives

Several government-driven initiatives are changing the dynamics of the sector and contributing in reshaping the healthcare landscape in the Kingdom by creating a stronger institutional set-up and effective regulatory frameworks to promote private sector investment in healthcare.

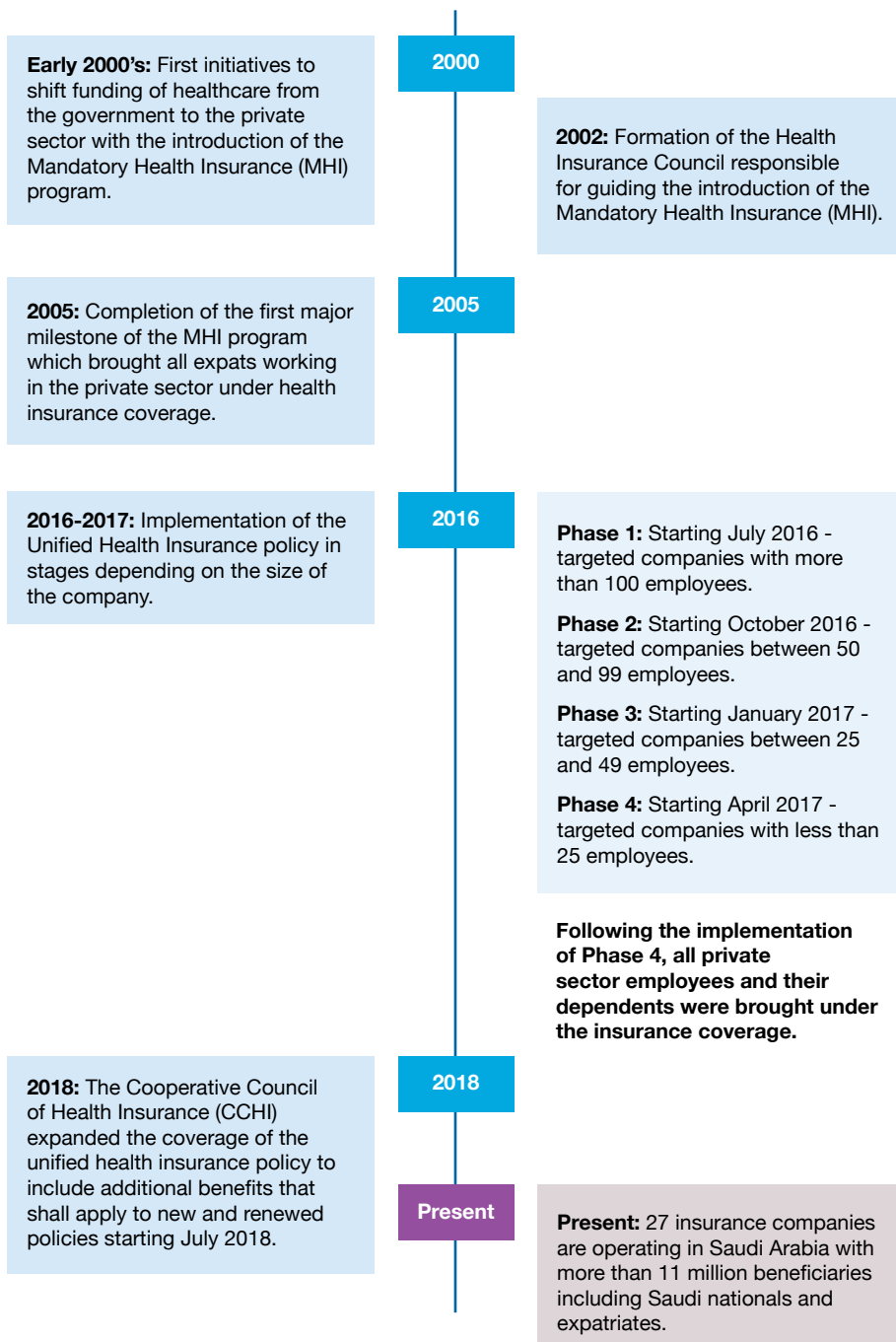
## Mandatory Health Insurance

The roll-out of the Mandatory Health Insurance (MHI) to private sector employees in Saudi Arabia took place in various stages. We outline these developments in *Figure 4* below.



FIGURE 4

Mandatory private health insurance program, key milestones to date





## Saudi Vision 2030 and the NTP

Healthcare is one of the main focus areas of the Vision 2030 and the National Transformation Plan (NTP).

The main goal of the Saudi Vision 2030 is to diversify the economy away from hydrocarbons and trigger a greater participation of the private sector by encouraging both local and international investments in a number of key sectors, one of which is healthcare. Privatisation of government services is expected to help meet the goals set out in Vision 2030 with the aim to increase private sector's contribution to GDP from 40% to 65% in 2030.

The NTP, which was developed to help fulfil the Saudi Vision 2030, has identified number of key targets to be met by each government body by 2020. The Kingdom's healthcare plan under the NTP has placed the sector on a fast trajectory to privatisation and growth over the coming years. Targets set out by the NTP for the Ministry of Health for the year 2020 include:

- Increasing private healthcare expenditure from 25% to 35% of total healthcare expenditure.
- Increasing the number of licensed medical facilities from 40 to 100.
- Increasing the number of internationally accredited hospitals.
- Doubling the number of primary healthcare visits per capita from two to four.
- Decreasing the percentage of smoking and obesity incidence by 2% and 1% from baseline respectively.
- Doubling the percentage of patients who receive healthcare after critical care and long-term hospitalisation within 4 weeks from 25% to 50%.
- Focusing on improving the quality of preventive and therapeutic healthcare services.
- Increasing focus on digital healthcare innovations.

In parallel with a shift towards a greater participation of the private sector, healthcare is expected to remain a key area of government spending in this transition phase.

The allocated budget for healthcare under the NTP stands at SAR 23 billion, of the total SAR 268 billion (over 5 years ending 2020) which is the fourth largest area of spending under the NTP. We see this as an encouraging step for the sector amidst the ongoing transformation.

From a public finance perspective, healthcare remains the third largest area of government spending following military and education, accounting for 15% of total expenditures in the 2018 announced budget.

## Privatisation and PPP schemes

Privatisation is seen as a key focus area in the Saudi Vision 2030 and the NTP. The strategic objectives stated for healthcare in the NTP include:

- Privatisation of one of the medical cities through a Public-Private Partnership (PPP) scheme.
- Increasing private sector share of spending in healthcare through alternative financing methods and service providers.

In April 2018, Saudi Arabia announced an ambitious privatisation plan, which includes 14 PPP investments to be completed across 10 sectors including healthcare by 2020. The key targets of the privatisation plan in relation to healthcare include:

- Updating and expanding primary care across Saudi Arabia.
- Providing additional rehabilitation and long-term care beds across the Kingdom through the creation of PPP structures.
- Planning for the establishment of additional medical cities.
- Preparing King Faisal Specialist Hospital & Research Center for privatisation and help it in achieving its leadership position through focusing on innovation.
- Updating and expanding laboratory and radiology services across the country in partnership with the private sector.

The most significant constraint to the development of the PPP market in Saudi Arabia is the absence of a clear legal



**SHEHZAD JAMAL**  
Partner

“Healthcare is undergoing a transformation phase – long term view and thorough research must be taken while investing in the sector to ensure investments match current and forecasted demand.”

framework for investors. In February 2018, Custodian of the Two Holy Mosques King Salman approved a number of decisions taken by the Saudi Health Council including the establishment of a PPP program in the healthcare sector.

## Value perspective – healthcare real estate

Figures 6 & 7 present the investment and potential returns that can be generated from healthcare assets. The data on built-up-area (BUA) and construction costs are sourced from industry averages and can vary due to the type of offering and speciality. The yield sits on a range based on risk profile, which increase or decrease based on the factors mentioned below:

- Age of the asset
- Length of the lease tenure
- Covenant strength and security
- Position of the operations on the business life cycle

FIGURE 5  
Government initiatives and plans, resulting opportunities



International healthcare service providers to directly enter the Saudi Arabian healthcare market.



Private healthcare sector to benefit from increased patient volume and improved spending power.



Increased demand for primary care due to its enhanced role.



Collaboration with international operators for digital healthcare solutions (telemedicine).



Attracting long-term care providers to the sector which includes inpatient and home healthcare services.



Creating opportunities for preventive and regenerative medicine.

Source: Knight Frank Research

## Conclusion

In the short to medium term, based on the factors mentioned above, the healthcare space in Saudi Arabia presents itself as a sector with high growth opportunities. To ensure long-term success it is important to carefully study the market, identify gaps and be willing to continuously embrace technological advancement.

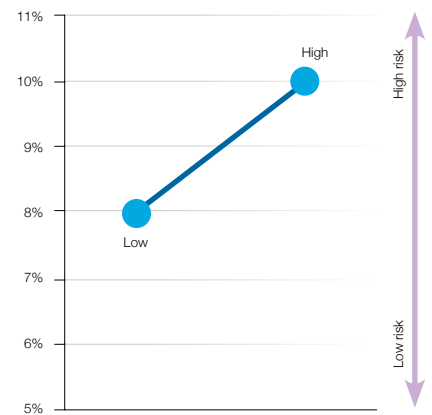
Private investment in healthcare is being guided by the Saudi Arabian General Investment Authority (SAGIA) and we can expect to see further changes to regulatory controls in order to achieve the goal of increased private sector involvement and investment while ensuring a suitable regulatory framework for the upcoming privatisation waves and PPP schemes within the healthcare sector.

FIGURE 6  
Real estate value perspective, 50 hospital beds

	Low	High
BUA in sq m	5,000	8,750
Construction cost with fixed fit out (SAR / sq m)	6,000	8,500

Source: Knight Frank Research

FIGURE 7  
Initial yield range



Source: Knight Frank Research

#### KINGDOM OF SAUDI ARABIA

**Stefan Burch, MRICS**  
General Manager & Partner  
+966 53 0893 297  
stefan.burch@me.knightfrank.com

#### EDUCATION & HEALTHCARE

**Shehzad Jamal**  
Partner  
+971 56 4101 298  
shehzad.jamal@me.knightfrank.com

**Dr. Gireesh Kumar**  
Senior Manager, Healthcare  
+971 56 4845 490  
gireesh.kumar@me.knightfrank.com

#### RESEARCH

**Raya Majdalani**  
Research Manager  
+971 56 4206 735  
raya.majdalani@me.knightfrank.com

#### DEVELOPMENT CONSULTANCY & RESEARCH

**Harmen De Jong**  
Partner  
+971 56 1766 588  
harmen.dejong@me.knightfrank.com

#### VALUATION & ADVISORY SERVICES

**Stephen Flanagan, MRICS**  
Partner  
+971 50 8133 402  
stephen.flanagan@me.knightfrank.com

#### CAPITAL MARKETS / INVESTMENT

**Joseph Morris, MRICS**  
Partner  
+971 50 5036 351  
joseph.morris@me.knightfrank.com

#### MEDIA & MARKETING

**Nicola Milton**  
Head of Middle East Marketing  
+971 56 6116 368  
nicola.milton@me.knightfrank.com

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