

THE RIYADH METRO

THE IMPACT OF NEW INFRASTRUCTURE ON REAL ESTATE VALUES | JUNE 2018

Key findings

The implementation of the Riyadh Metro falls in line with the rapid expansion of population and urbanisation which calls for the establishment of mass transportation systems in the capital city

The opening of the Riyadh Metro is set to help drive real estate demand across the capital as well as reviving neighbourhoods which have historically been classed as secondary locations

Whilst it is too early to quantify the effect on real estate values, an analysis of international benchmarks shows that mass transit systems have the potential to be a strong driver for growth as a result of improved connectivity

Introduction

Following Saudi Arabia's rapid population growth, which has increased from 27.6 million in 2010 to 32.6 million, urban centres across the Kingdom have seen corresponding expansion. The United Nations currently estimates that 84% of the Kingdom's population reside in urban centres, up from 45% five decades earlier - in numerical terms this equates to 27.3 million urban residents in 2018 compared to 2.4 million in 1968. With this rate of expansion and urbanisation comes the need for cities to adapt to changing market dynamics and occupier demands. In the short to medium term, we believe that urban regeneration will need to play an increasingly important role across Saudi Arabia.

Recently introduced strategic reforms aimed at creating a favourable environment for investment and strengthening the non-oil sector have placed a focus on real estate which is forecast to double its contribution to economic output throughout the period to 2030.

Moreover the implementation of various urban regeneration initiatives including mixed use communities and large scale infrastructure projects are expected to act as catalysts for the real estate market.

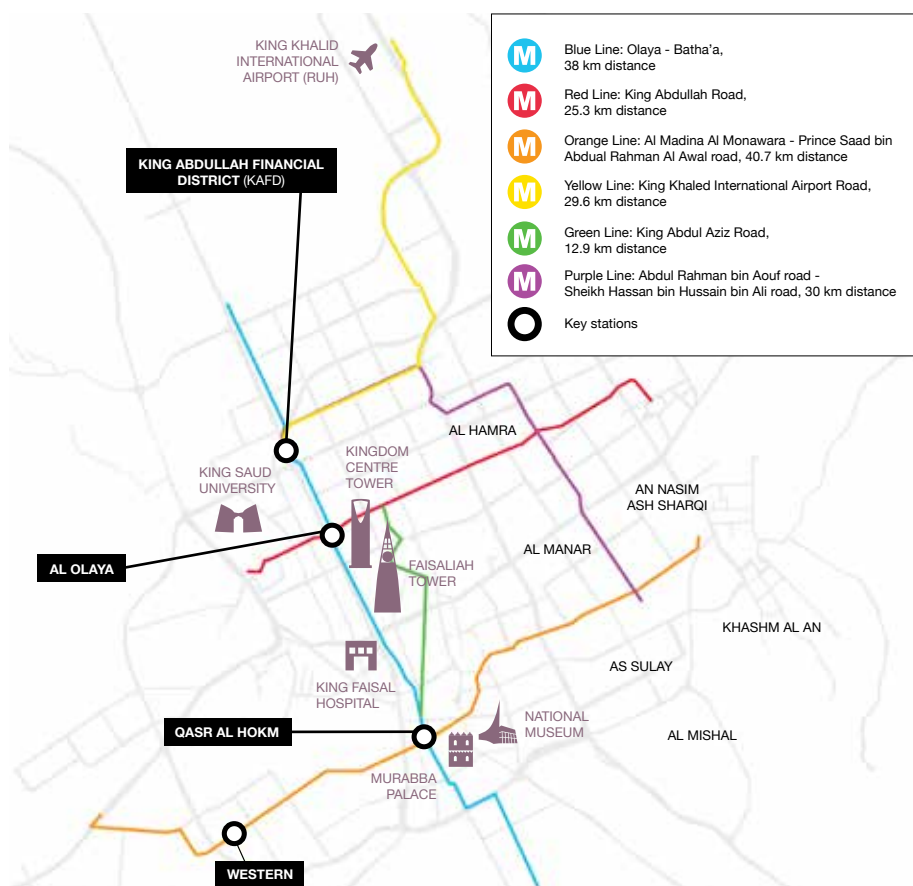
The Riyadh Metro is one of the key infrastructure projects that is being implemented and which is set to dramatically alter the dynamics of both residential and commercial real estate markets when delivered. Whilst it is too early to quantify the effect on capital values, land values and rental rates, an analysis of international benchmarks shows that mass transit systems have the potential to be a strong driver for growth as a result of improved connectivity.



RAYA MAJDALANI
Research Manager

"The Riyadh Metro is set to have a marked effect in relation to real estate dynamics and the ability to spur meaningful urban regeneration."

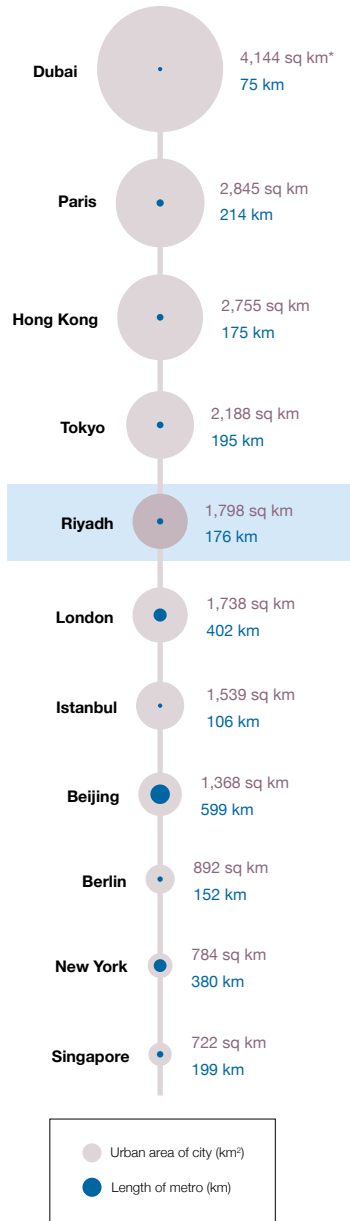
FIGURE 1
Riyadh Metro



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

Source: Knight Frank Research, Riyadh Metro website

FIGURE 2
Global ranking by metro length to urban area



*Note: Represents the area of the Emirate of Dubai
Source: Knight Frank Research

Transport orientated developments and real estate markets

There exists a body of empirical work which looks at the impact on the real estate market as a result of the introduction of new mass transport systems (MTS), from continuously changing cities such as Beijing and Mumbai to comparatively developed cities such as London.

Overall, the introduction of MTS has been a net positive for real estate, leading to not only outperformance of the wider market but also reducing congestion and enabling the development of new business districts and lifestyle destinations.

Research carried out by Knight Frank in 2015 and 2017 has highlighted the impact of Crossrail, London’s largest transport infrastructure project since the Second World War, on London’s residential market in terms of capital and rental values. The analysis showed that central London property values within a 10-minute walk of Crossrail stations outperformed Knight Frank’s Prime Central London (PCL) index by 40% between July 2008 and December 2016 (Figure 3).

In addition to driving price and rental growth the introduction of Crossrail has opened up significant development potential along its route. At the end of Q1 2017, 23,345 units were under construction and a further 42,125 units with planning permission in the pipeline.

Furthermore plans put forward for Crossrail 2, the second proposed line, indicate that there is capacity for 200,000 new homes to be built along this section of the route.

As part of these proposals, calls are being made to relax zoning rules to enable an

increase in development density as a solution to the housing supply shortage which has contributed to the affordability issues across the capital.

Crossrail, as a result of reduction in travel times by up to 25 minutes to central London from non-central London stations, is expected to underpin an uptick in property demand and development opportunities around the non-central London stations across the line. This, alongside other studies, shows clearly the role that infrastructure projects can play in relation to wider real estate markets.

The Riyadh Metro

Turning to Riyadh where the 176 km Metro – complemented by a new 24 route bus network - is expected to be operational in the coming 18 months, the impact on the city is due to be equally wide ranging both in terms of social and economic development. With Riyadh city’s population set to grow from circa seven million to eight million by 2030, the requirement for a mass transit system seems clear, not only when placed in context of the city’s congested nature but given the rapid social reform that is underway in Saudi Arabia.

However it is in relation to real estate dynamics and the ability to spur meaningful urban regeneration where the Riyadh Metro is able to have a marked effect. Riyadh is defined as a real estate ecosystem that has no natural topographical restraints, as a result a key question for owners and investors is how to maintain and grow asset value in light of a highly elastic supply dynamic.

Over the past decade or so Riyadh’s urban boundaries have rapidly increased as a result of low density development, mainly in the residential sector, which

FIGURE 3
London Crossrail - The impact on residential prices

London - Crossrail
In central London, property values within a 10-minute walk of Crossrail stations have outperformed Knight Frank’s prime central London index

40% Outperformance of prime central London Crossrail stations Jul 2008 – Dec 2016



Source: Knight Frank Research

has hindered the ability for the market to show any signs of capital value growth. The introduction of the metro may lead to a more permanent outer boundary for Riyadh, therefore we argue that areas which may have been classed secondary locations historically are set to become future value creation hotspots. More so this trend is likely to extend further to developing areas where there is low density.

Whilst we are positive on the residential market in the medium to long term based on underlying fundamentals, our latest Saudi Arabian Residential Review showed that the market weakened throughout 2017 despite strong demand drivers. This is in part due to the change in buyer demand profile which to date has been mismatched by inventory and new supply which has mainly taken the form of large villa accommodation. With demand shifting away from villa stock towards more affordable, smaller units, mixed use urban regeneration around key metro hubs could respond to this growing market segment. Given the young and growing population whose tastes are fast-changing and developing in line with global trends along with the propensity for smaller household sizes, we

are likely to see demand shift away from villa stock to smaller units which are part of environments with good connectivity. This will also aid affordability given that this new cohort of demand will require home financing to gain access to the housing ladder. As social norms change within the Kingdom, the move away from the family home is coming earlier in each generation. Given the Kingdom's young population dynamics, this only stresses the requirement for such stock.

Whilst there are a number of high profile new developments that are currently taking place across the city, in the longer term we see the success of these projects resting in part on being efficiently connected to the wider urban environment through major infrastructure projects such as the Riyadh Metro. We see the implementation of the Riyadh Metro acting as a catalyst for urban regeneration and sustainable development in the capital city. Over the medium to long term, the metro is expected to transform Riyadh for the better, improving the quality of life of local community, a central objective of the Kingdom's leadership.



STEFAN BURCH
Partner, Saudi Arabia

“We see the implementation of the Riyadh Metro as a catalyst for urban regeneration and sustainable development in the capital city. Over the medium to long term, the metro is expected to transform Riyadh for the better, improving the quality of life of local community, a central objective of the Kingdom's leadership.”

FIGURE 4
Mass transport systems (MTS) implications

MTS Implications



PLACE MAKING

Investment in improvements to public spaces and infrastructure is expected to help drive demand across the capital, as well as opening up previously under-used land for both residential and commercial use. As the need for new housing continues to rise, the creation of new neighbourhoods will become increasingly important.



TRANSPORT

Changes in transport infrastructure stimulate and open up parts of a city, attract investment, create additional demand for real estate and can revive demand in and around transport hubs. The opening of the Riyadh Metro will cut journey times across the capital, opening up new markets and improving connections in existing ones.



PRICE DIFFERENTIALS

As investment in infrastructure and regeneration continues, areas which have been poorly connected or are in secondary locations, will have the potential to help deliver a wider range of new real estate projects. These new neighbourhoods are expected to benefit and have the potential to outperform the wider market.



DEVELOPMENT

As tastes and social norms change, we expect mixed use and urban regeneration schemes to play a vital role in responding to demand dynamics in the short to medium term.



REGENERATION

Regeneration can affect a wholesale change to public identity by re-activating secondary and tertiary urban areas, leading to re-connection and value growth.

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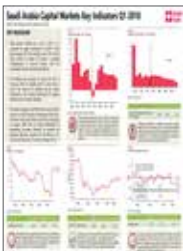
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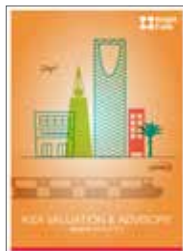
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