
SAUDI ARABIA REAL ESTATE MARKET REVIEW

Q1 2020



Office Market Review - Q1 2020

Riyadh

Rents in Riyadh's office market registered fragmented performance in the year to Q1 2020, with Grade A rents remaining static at 1,458 SAR/sqm, whilst Grade B rents declined marginally by 2% to 765 SAR/sqm.

Vacancy rates across Grade A office space decreased by five percentage points from Q1 2019 to reach 5% in Q1 2020, whilst the Grade B vacancy rate decreased by two percentage points to reach 28% over the same period.

In Riyadh, there were no major office completions in Q1 2020, leaving the total office stock unchanged at 3.99 million sqm GLA. Looking ahead, total stock is expected to reach an estimated 5.11 million sqm GLA by end of 2022.

Jeddah

Jeddah's office market performance remained subdued in the year to Q1 2020, with Grade A rents falling by 6% to 1,038 SAR/sqm, whilst Grade B rents declined by 7% to 714 SAR/sqm.

The vacancy rate across Grade A office space increased by four percentage points from Q1 2019 to reach 16% in Q1 2020, whilst the Grade B vacancy rate increased by seven percentage points to reach 28% over the same period.

Jeddah's office market witnessed the delivery of around 19,000 sqm GLA of office space in Q1 2020, this addition brings the total office stock to 1.23 million sqm GLA. By 2022, this is expected to reach an estimated 1.68 million sqm GLA.

DMA

The Dammam Metropolitan Area's (DMA) office market continued to soften in the year to Q1 2020, with Grade A rents falling by 3% to 933 SAR/sqm, whilst Grade B rents declined by 6% to 624 SAR/sqm.

The vacancy rates across Grade A office space increased by three percentage points from Q1 2019 to reach 28% in Q1 2020, whilst the Grade B vacancy rate increased by four percentage points to reach 37% over the same period.

The DMA's office market registered the delivery of one major project, adding 37,800 sqm of GLA, bringing total office stock to 1.16 million sqm GLA as at Q1 2020. By 2022, this is expected to reach an estimated 1.47 million sqm GLA.

Key trends



The Saudi Arabian General Investment Authority (SAGIA) issued 305 new licences for foreign investors to operate across the Kingdom in Q4 2019, compared to 238 new licences during the same quarter in 2018.



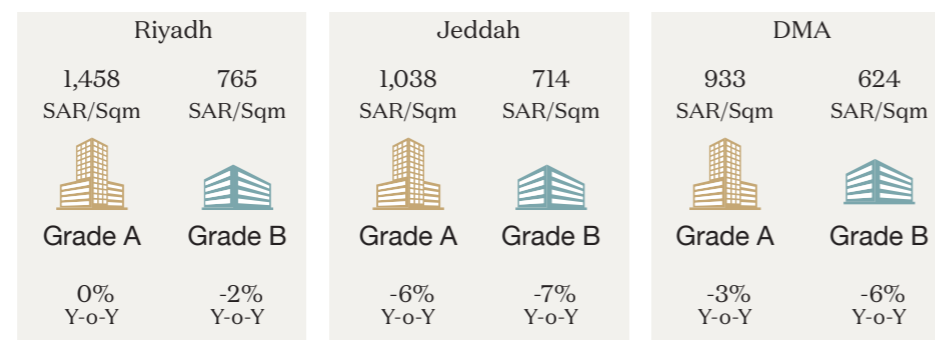
As a result of ambitious efforts by SAGIA, through the Invest Saudi brand, to promote the Kingdom's competitive and open business environment, a total of 1,131 new international firms set up operations in the Kingdom in 2019. This represents a 54% increase compared to 2018.



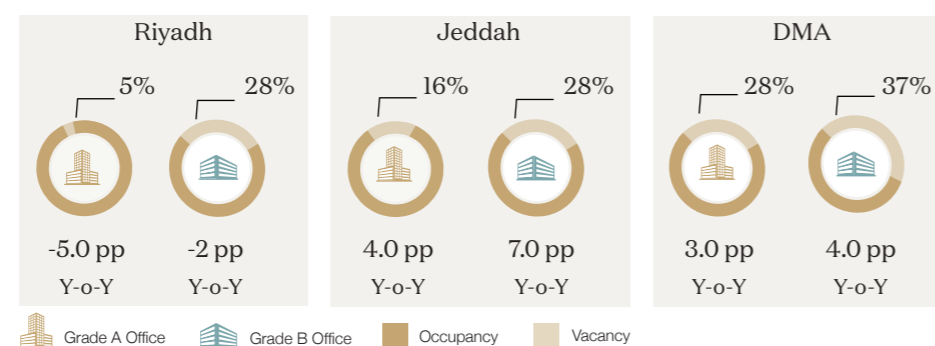
The Kingdom's workspace requirements are shifting from traditional office spaces to a more tech-savvy, elegantly designed and flexible environment. As Saudi Arabia's economy continues to diversify, its workplace needs are shifting where more collaborative and flexible workspaces will be required going forward.

Performance Indicators

Grade A and B rental rates and YoY % change as at Q1 2020

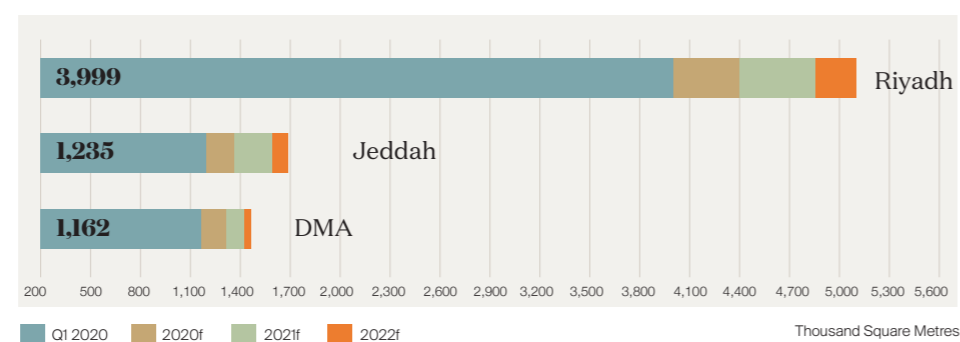


Grade A and B vacancy as at Q1 2020



Grade A Office Grade B Office Occupancy Vacancy

Evolution of commercial supply



Source: Knight Frank Research

Residential Market Review - Q1 2020

Riyadh

Residential apartment and villa sales prices in Riyadh increased by 4.2% and 6.3% respectively in the year to Q1 2020. This trend has been driven by various government initiatives such as the expansion of the mortgage market and increased private sector participation in the housing market.

Meanwhile, with respect to residential transactions, the total volume and value of residential transactions declined equally by 22% over the same period.

As at Q1 2020, Riyadh's housing stock is estimated to total 1.25 million units and is expected to increase to 1.34 million units by the end of 2022. The majority of this supply comprises apartments and townhouses, a move that matches the changing design and affordability requirements in the capital.

Jeddah

Residential apartment and villa sales prices in Jeddah increased by 6.1% and 3.1% respectively in the year to Q1 2020. 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 decreased by 8%, whilst the total value of residential transactions rose by 4%.

As at Q1 2020, Jeddah's housing stock is estimated to total 840,000 units and is expected to increase to 872,000 units by the end of 2022. The majority of upcoming supply in Jeddah is focused 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 4.4% and 3.4% respectively in the year to Q1 2020. This trend has been underpinned by the positive market sentiment achieved as a result of government initiatives to support the residential sector.

Over the same period, the volume of residential transactions saw a decline of 9%, whilst the total value of residential transactions rose by 14%.

Approximately 3,000 residential units were delivered during Q1 2020, bringing the total supply to 328,000 units, this total is expected to increase to 348,000 units by the end of 2022. The majority of this incoming supply comprises high quality apartments and townhouses.

Key trends



In line with the Vision 2030 targets to increase home ownership from 62% to 70% in 2030, Saudi Arabia's first mortgage refinance firm (SRC) plans to buy SAR 23 billion worth of mortgages from banks in 2020, a ten-fold increase from its current holdings of home-loan portfolios.



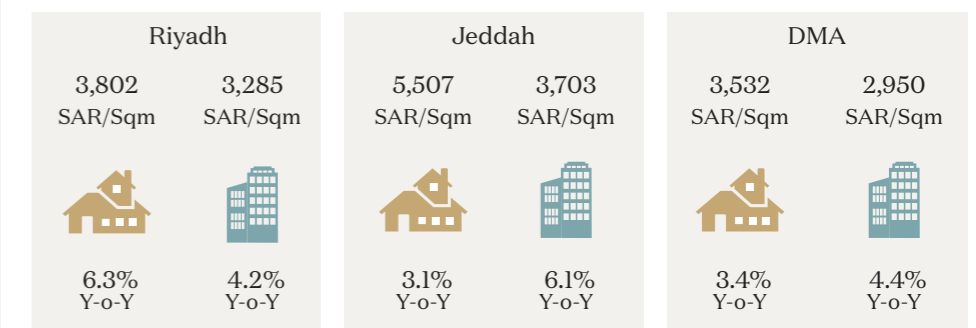
Saudi Arabia's government is actively working with local and international developers to cater the increasing need for affordable housing from mid-income households. In January the government signed an agreement with Katerra to build 8,000 homes in the Kingdom.



Data from the Saudi Arabian Monetary Authority (SAMA) revealed that the volume of new residential mortgages for individuals, provided by banks and financial institutions, increased by 238% in the year to Q4 2019, up from the 102% growth rate recorded in Q3 2019.

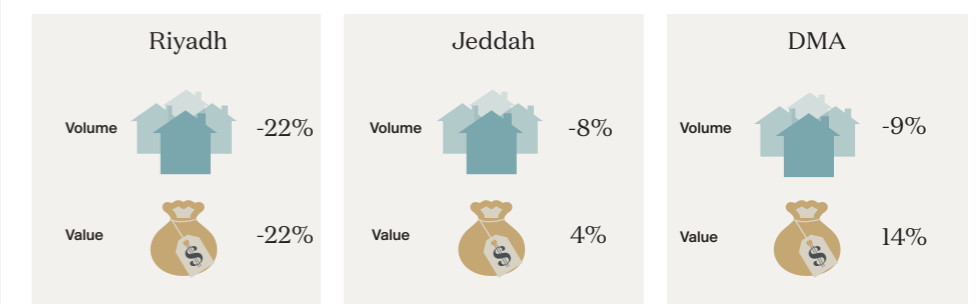
Performance Indicators

Villas & apartment sales prices and YoY % change as at Q1 2020

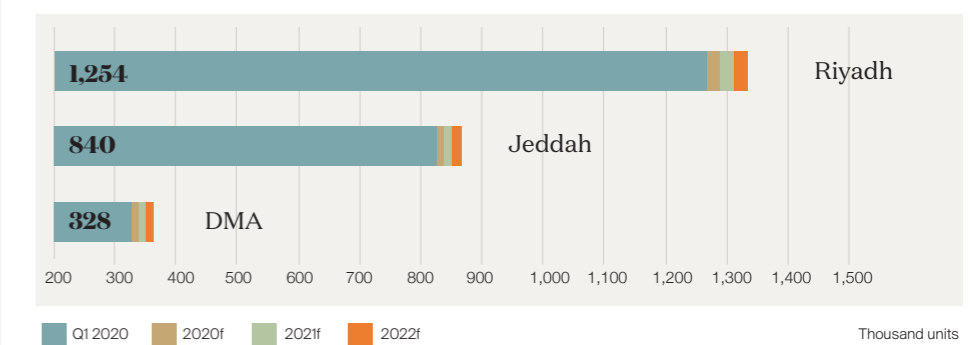


Villa Apartment

YoY % change in the volume and value of residential transactions as at Q1 2020



Evolution of residential supply



Source: Knight Frank Research

Retail Market Review - Q1 2020

Riyadh

Market performance in Riyadh's retail market remains fragmented in the year to Q1 2020, with average regional/ super-regional mall rents remaining stable at 2,764 SAR/sqm, whilst average community mall rents fell by 3% to reach 2,040 SAR/sqm.

The market-wide vacancy rate in Riyadh increased by two percentage points in the year to Q1 2020 to reach 17%. 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 2.78 million sqm GLA as at Q1 2020. By 2022, total stock is expected to reach 3.51 million sqm GLA.

Jeddah

Rents in Jeddah's retail market continued to soften in the year to Q1 2020, with average regional/ super-regional mall rents falling by 3% to 2,870 SAR/ sqm, whilst average community mall rents fell by 4% to reach 1,785 SAR/sqm.

The market-wide vacancy rate in Jeddah decreased by three percentage points in the year to Q1 2020 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 1.86 million sqm GLA as at Q1 2020. By 2022, this is expected to reach an estimated 2.77 million sqm GLA. However, given weaker market conditions, we expect some projects may be delayed.

DMA

The DMA's retail market registered a mix of market performances in the year to Q1 2020, where average regional/ super-regional mall rental rates increased marginally by 1% to reach 2,357 SAR/sqm, whilst average rental rates for community malls dropped by 4% to 1,650 SAR/sqm.

The market-wide vacancy rate in the DMA increased by one percentage point in the year to Q1 2020 to reach 7%. A decrease in vacancy rates has been recorded in those malls where landlords have successfully introduced new retail concepts to attract and retain tenants.

The DMA's retail stock stood at 1.14 million sqm GLA as at Q1 2020. By 2022, this total is expected to reach an estimated 1.54 million sqm GLA.

Hospitality Market Review - Q1 2020

Riyadh

Despite a sharp drop in performance in March 2020, year to date RevPAR levels in the capital were 8.6% higher in the first quarter of the year than they were in Q1 2019. The strong KPIs during the early part of the year were underpinned by the extension of the Riyadh Season initiative as well as a slight variance in school holiday periods, but have been largely eroded. The month of March saw marketwide RevPAR levels fall by 39.3% in relation to the previous year, with further declines expected over the coming months.

Total quality hotel supply in Riyadh stood at 16,476 rooms as at March 2020. Taking into consideration only projects that have broken ground, supply is expected to increase by 33% by the end of 2022.

Jeddah

ADRs in Jeddah fell y-o-y by 3.5% in the year to date March 2020, whilst occupancy decreased by 1.4 percentage points. As a result, marketwide RevPAR levels decreased y-o-y by 6.3%. Given the strict lockdowns in the Makkah region, religious tourism has been severely impacted. In the month of March alone RevPAR levels fell by 43.7%.

Jeddah's total quality hotel supply stood at 11,171 rooms as at March 2020. The supply of quality hotel rooms is expected to increase by 59% considering only projects that are currently under construction and due for completion by the end of 2022, assuming that they complete as planned.

DMA

In the year to date March 2020, ADRs in the DMA fell y-o-y by 1.2%, whilst occupancy decreased by 1.5 percentage points. In turn, RevPAR decreased y-o-y by 3.7%. With the closure of both King Fahd International Airport and the King Fahd Causeway severely limiting corporate and leisure tourism to the DMA, RevPAR in the year to March 2020 fell by 42.2%.

The DMA's total quality hotel supply stood at 7,977 rooms as at March 2020. Taking into consideration only projects that have broken ground, supply is expected to increase by 28% by the end of 2022.

Key trends



During the first eleven months of 2019, consumer spending in Saudi Arabia rose by 4.5% to reach SAR 934.37 billion, compared to SAR 894.44 billion for the same period a year earlier.



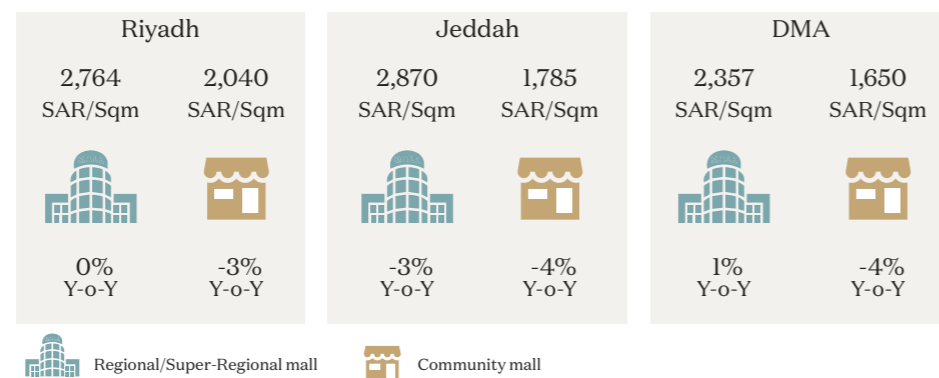
Overall, the retail market backdrop in Saudi Arabia is expected to remain strong, despite some short-term challenges brought about by the COVID-19 pandemic, on the back of multiple reforms by the Saudi government. The move to allow 100% foreign direct investment in this sector will play a critical role in underpinning the retail sector in the long-run.



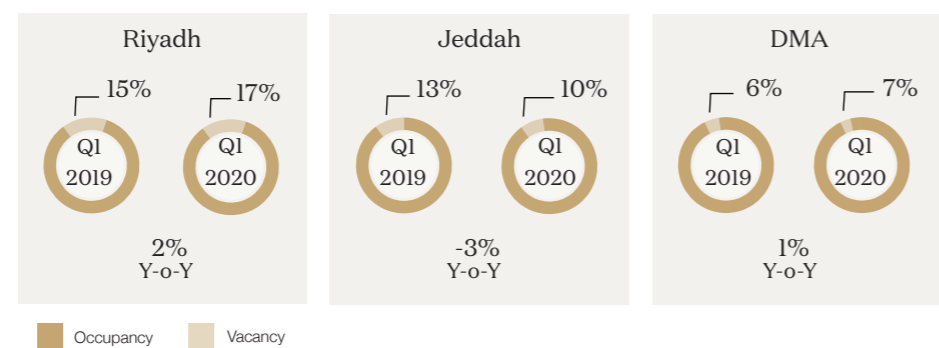
To cater to the growing e-commerce market in Saudi Arabia, traditional bricks and mortar retail brands are starting to implement omnichannel strategies and increasingly invest in outlet modernisations. Looking ahead, Knight Frank expects that a number of brands will implement omnichannel strategies as it becomes increasingly important for traditional retailers to craft a user experience that cuts across online shopping.

Performance Indicators

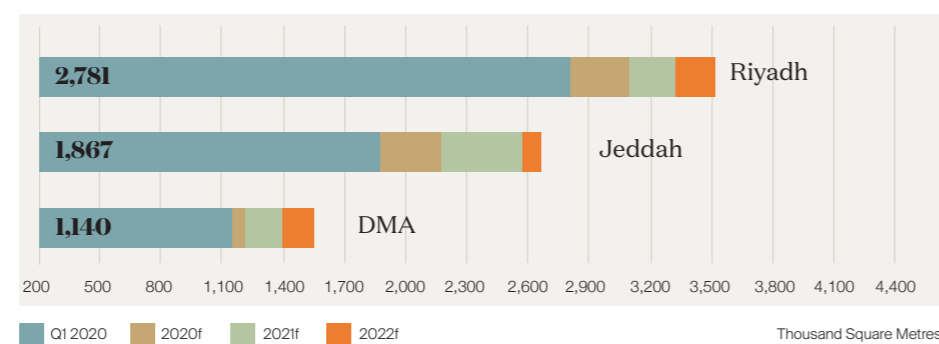
Retail market lease rates as at Q1 2020



Retail occupancy rates



Evolution of retail supply



Source: Knight Frank Research

Key trends



Recent government initiatives designed to diversify the composition of hotel demand have been showing signs of promise, and a number of high profile events have had an overwhelmingly positive reception. However, the impact of COVID-19 on the Kingdom's hospitality sector will have lasting consequences, with the central concerns revolving around the longevity of travel restrictions and how rapidly the sector will recover once this hurdle has been overcome.



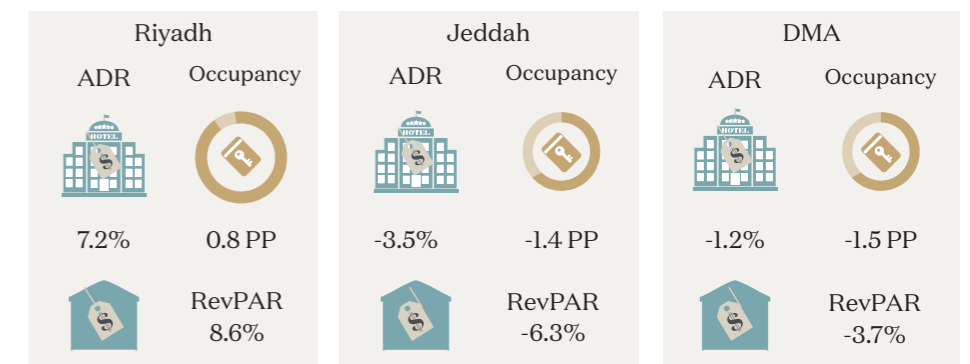
As part of Vision 2030 the Saudi government is looking to establish a vibrant entertainment and tourism industry. In order to attract 30 million visitors by 2030, Saudi Arabia's government has launched several key projects to enhance its demand drivers.



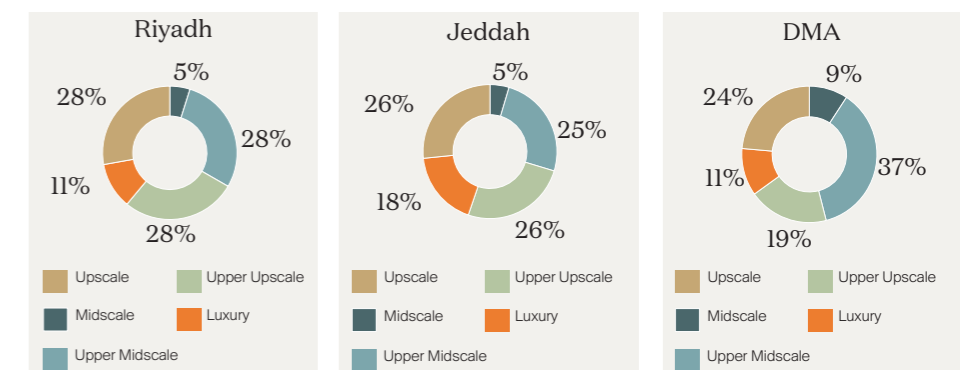
On the back of Riyadh Season, the largest of 11 events planned as part of the Saudi Seasons initiative across the Kingdom, King Khalid International Airport witnessed increased levels of passenger movements from October 2019 to January 2020. Over this period, the number of flights more than doubled compared to the same period a year earlier.

Performance Indicators

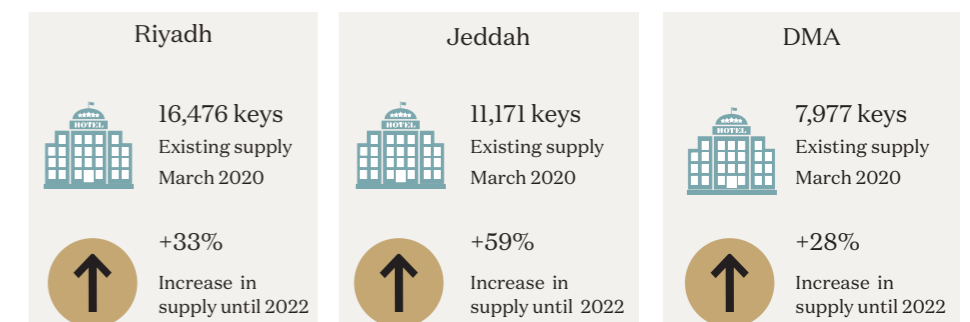
KPIs - ADR, Occupancy and RevPAR - Y-o-Y % change YTD March 2020



Existing quality hotel supply market segmentation YTD March 2020



Existing and upcoming quality hotel supply



Source: Knight Frank Research and STR Global

KSA Real Estate Market Outlook

Macroeconomic Outlook

Saudi Arabia's economic growth rate slowed down in 2019, with GDP registering a marginal rate of growth of 0.3% compared 2.4% in 2018. Whilst headline GDP growth was below expectations, it is important to note this slowdown in growth had largely been driven by output cuts in the oil sector, which in the year to Q4 2019 contracted by 5.8%, whereas the non-oil sector over the same period grew by 3.8%.

The spread of COVID-19 presents material downside risks to the Kingdom's economy, regardless of the SAR 129 billion worth of stimulus packages enacted to support the economy. Whilst the magnitude of the impact is almost impossible to quantify at the moment, given the open-ended lockdown currently in place, the impact of the pandemic is likely to have broad and lasting consequences across all economic sectors in 2020 and potentially 2021.

Given the COVID-19 pandemic and its impact on domestic consumption and the challenges faced by the hydrocarbon sector, Saudi Arabia's GDP is forecast to decline by 2.3% in 2020, with non-oil GDP contracting by 4% over the same period according to IMF data.

Office Market

Total employment in Saudi Arabia declined by 6.3% in 2018. However, as a result of government efforts to promote the private-sector, this trend reversed in 2019 where total employment increased marginally by 1.3%.

Given the current economic backdrop, we are likely to see total employment fall in 2020 as firms consolidate

operations amidst weaker demand expectations. This is despite the Saudi Arabian government's provision of a SAR 9 billion fund for small and medium enterprises to pay up to 60% of Saudi nationals' salaries.

As a result of the COVID-19 outbreak and the measures taken to contain this outbreak, occupier activity has been very limited across the Kingdom. With the long-run impact of the outbreak still unknown, many occupiers are likely to adopt a wait-and-see approach before enacting any expansionary or relocation strategies.

Residential Market

The volume of residential transactions in Saudi Arabia grew marginally by 0.8% in the year to Q1 2020, whilst the value of transactions declined by 2.0% over the same period.

However, initial data shows that as a result of COVID-19, monthly residential transactions volumes have declined by 37.0% in March 2020.

Due to the stringent, open-ended lockdowns in place across the country and the expected impact on the national economy, we anticipate that the residential market is likely to witness a significant decline in activity over the coming months.

Retail Market

In order to contain the COVID-19 outbreak, many malls and retail centres were closed from the 15th March 2020, with only essential retailers such as

pharmacies and supermarkets being the exception. With this sudden halt in demand and virtually no rent relief announced by major landlords, the retail sector is likely to be amongst the hardest hit, particularly those retailers who do not have omnichannel retail offering.

Retailers with omnichannel offerings may not be as significantly impacted, however, with the economic impact of the COVID-19 outbreak yet to be fully realised, particularly as non-essential spending is reigned in, even these firms may be facing considerable pressure.

Hospitality Market

In an attempt to stem the spread of COVID-19, Saudi Arabia closed its borders on the 15th of March 2020 and halted domestic travel on the 20th of March 2020. As a result, corporate, leisure and religious tourism has come to a standstill, which in turn has severely affected the Kingdom's hospitality sector.

Given this backdrop, many operators are enacting a range of measures to reduce costs, including but not limited to salary cuts, furloughs and partial or full-shutdowns.

With international travel restrictions likely to be lifted systematically, the recovery in corporate and leisure tourism is likely to be gradual. More so, given the stringent lockdowns in place in the holy cities of Makkah and Medina and on the back of advice by the Saudi government for pilgrims to defer their Hajj plans for this year, religious tourism is also likely to be extremely limited over the course of 2020.

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