Knight Frank

SAUDI ARABIA REAL ESTATE MARKET REVIEW

Q3 2020

Office Market Review - Q3 2020

Riyadh

Rents in Riyadh's office market softened in the year to Q3 2020, where Grade and Grade B rents fell by 1.0% and 2.7%, with average rents now registering at SAR 1,448 and SAR 750 per sqm respectively.

The vacancy rate across Grade A office spaces decreased by one percentage point from Q3 2019 to reach 7% in Q3 2020, whilst the Grade B vacancy rate increased by two percentage points to reach 30% over the same period.

Q3 2020 saw the completion of one major office development, Majdool Tower, which added 75,000 sqm of GLA to the market. This addition brings the total office stock to 4.07 million sqm GLA. By 2022, this is expected to reach an estimated 5.08 million sqm GLA.

Jeddah

Jeddah's office market performance remained subdued in the year to Q3 2020, with Grade A rents falling by 4.6% to SAR 1,000 per sqm, whilst Grade B rents declined by 8.0% to SAR 690 per sqm.

The Vacancy rate for Grade A office space increased by two percentage points from Q3 2019 to reach 17% in Q3 2020, whilst the Grade B vacancy rate also increased by two percentage points to reach 28% over the same period.

In Jeddah, there were no major office completions in Q3 2020, leaving total office stock unchanged at 1.23 million sqm GLA. By 2022, this is expected to reach an estimated 1.67 million sqm GLA.

DMA

The Dammam Metropolitan Area's (DMA) office market performance continued to soften in the year to Q3 2020, with Grade A rents falling by 4.3% to SAR 915 per sqm, whilst Grade B rents declined by 8.9% to SAR 602 per sqm.

The vacancy rate for Grade A office space increased by one percentage point from Q3 2019 to reach 25% in Q3 2020, whilst the Grade B vacancy rate increased by three percentage points to reach 38% over the same period.

In Q3 2020, two office projects were delivered, adding 24,750 sqm of GLA, bringing total office stock to 1.18 million sqm GLA. By 2022, this is expected to reach an estimated 1.41 million sqm GLA.

Key trends

Saudi Arabia's Ministry of Investment granted 506 foreign investor licences in H1 2020, compared to 586 a year earlier. This decrease in activity is as a result of lower issuance levels in Q2 2020 where licence issuance declined by 47% year-on-year. Whilst April and May saw relatively anaemic levels of activity in terms of licence issuance, activity rebounded sharply in June which alone accounted for nearly half of the licences issued in Q2 2020.

According to a report from Jadwa Investment Company, around 1.2 million expatriate workers are expected to leave Saudi Arabia this year. The economic recession and resultant retrenchment in employment levels as a result of the pandemic, will affect demand for office space in the short run. Whilst some of this demand will be recovered as economic growth returns, it is unlikely that initially we will see all space that has been discarded reabsorbed, as firms are likely to adopt a varied range of post-COVID workplace models where the same quantum of space is simply no longer required. Concepts such as co-working may suffer the most as a result of behavioural changes, although the provision of space as a service may accelerate as the default form of demand as firms look to reduce capital expenditure expenses.

Performance Indicators

Grade A and B rental rates and YoY % change as at Q3 2020

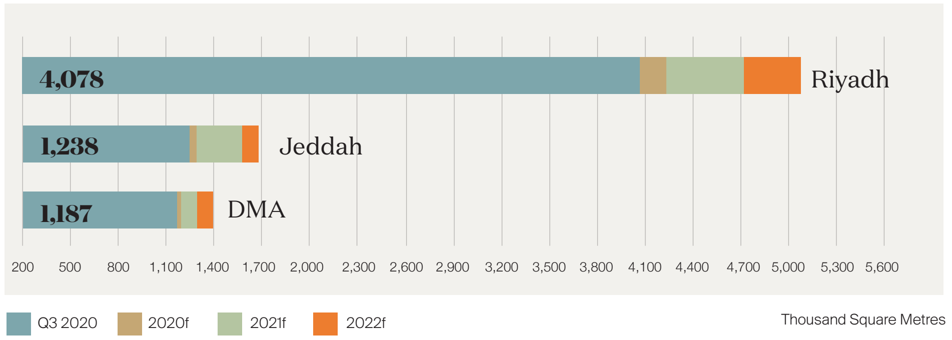
	Riyadh		Jeddah		DMA	
	Grade A	Grade B	Grade A	Grade B	Grade A	Grade B
Rent	1,448 SAR/Sqm	750 SAR/Sqm	1,000 SAR/Sqm	690 SAR/Sqm	915 SAR/Sqm	602 SAR/Sqm
Change	-1.0% Y-o-Y	-2.3% Y-o-Y	-4.6% Y-o-Y	-8.0% Y-o-Y	-4.3% Y-o-Y	-8.9% Y-o-Y

Grade A and B vacancy as at Q3 2020

	Riyadh		Jeddah		DMA	
	Grade A	Grade B	Grade A	Grade B	Grade A	Grade B
Vacancy	7%	30%	17%	28%	25%	38%
Change	1 pp Y-o-Y	-2 pp Y-o-Y	-2 pp Y-o-Y	-2 pp Y-o-Y	-1 pp Y-o-Y	-3 pp Y-o-Y

Grade A Office · Grade B Office · Occupancy · Vacancy

Evolution of commercial supply



Source: Knight Frank Research

Residential Market Review - Q3 2020

Riyadh

Residential apartment sales prices in Riyadh increased by 2.4% on average in the year to Q3 2020 to an average of SAR 3,191 per sqm, whilst residential villa prices increased by 1.6% to SAR 3,723 per sqm over the same period.

With respect to residential transactions, the total volume and value of residential transactions declined equally by 40% in the year to Q3 2020.

As at Q3 2020, Riyadh's housing stock is estimated to total 1.26 million units and is expected to increase to 1.34 million units by the end of 2022. Projects which were scheduled for delivery in early 2020, are now expected to begin the handover process in the fourth quarter of this year.

Jeddah

In Jeddah, average residential apartment sales prices increased by 1.2% to SAR 3,589 per sqm, whereas average villa prices fell by 3.7% to SAR 5,010 per sqm over the same period.

In the year to Q3 2020, transaction volumes and values fell by 15% and 21% respectively. Jeddah's weakening economic backdrop and delays in project completions as a result of social distancing measures have impacted both demand for and supply of new build developments.

As at Q3 2020, Jeddah's housing stock is estimated to total 843,000 units and is expected to increase to 875,000 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

In the year to Q3 2020, residential apartment sales prices in the Dammam Metropolitan Area (DMA) increased on average by 1.2% to SAR 2,908 per sqm whereas average residential villa sales prices fell by 2.6% to SAR 3,405 per sqm.

Over the same period, the volume of residential transactions saw a decline of 35%, whilst the total value of residential transactions fell by 23%.

As at Q3 2020, the DMA's housing stock is estimated to total 331,000 units, which is expected to increase to 350,000 units by the end of 2022. The majority of this incoming supply comprises of high quality apartments and townhouses.

Key trends

In the year to date to Q3 2020, transaction volumes decreased by 28% compared to the same period a year earlier, with the total value of residential transactions decreasing by 38% over the same period. Despite the decline in transaction volumes, residential sales prices have remained relatively resilient. Pre-pandemic, we saw prices stabilise across many cities in Saudi Arabia and this trend appears to be continuing despite the economic headwinds that Saudi Arabia faces.

The exemption of property from VAT and the introduction of a lower property tax will help end-users, developers and the government achieve its aims of increased levels of homeownership and private participation in the real estate sector. More so, the decision by the government to bear the tax burden for properties up to SAR 1 million will ensure that affordability is not curtailed by this tax. Finally, a clear and standalone property tax may help provide long-term clarity and confidence to the sector, which in turn is likely to underpin development activity and demand.

Performance Indicators

Villa & apartment sales prices and YoY % change as at Q3 2020

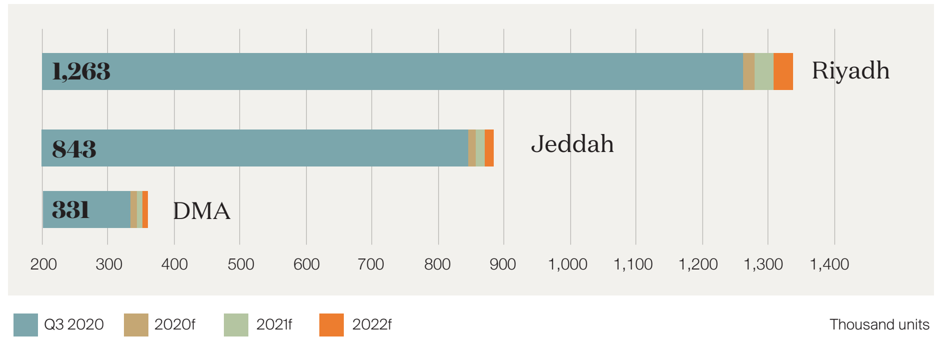
	Riyadh		Jeddah		DMA	
	Villa	Apartment	Villa	Apartment	Villa	Apartment
Price	3,723 SAR/Sqm	3,191 SAR/Sqm	5,010 SAR/Sqm	3,589 SAR/Sqm	3,405 SAR/Sqm	2,908 SAR/Sqm
Change	1.6% Y-o-Y	2.4% Y-o-Y	-3.7% Y-o-Y	1.2% Y-o-Y	-2.6% Y-o-Y	1.2% Y-o-Y

Villa · Apartment

YoY % change in the volume and value of residential transactions as at Q3 2020

	Riyadh	Jeddah	DMA
Volume	-40%	-15%	-35%
Value	-40%	-21%	-23%

Evolution of residential supply



Source: Knight Frank Research

Retail Market Review - Q3 2020

Riyadh

Market performance in Riyadh's retail market softened in all segments in the year to Q3 2020, with average regional and super-regional mall rents falling by 1.9% to reach SAR 2,690 per sqm, whilst average community mall rents fell by 3.2% to reach SAR 1,980 per sqm.

The market-wide vacancy rate in Riyadh increased by three percentage points in the year to Q3 2020 to reach 18%. Average vacancy rates in super-regional/ regional malls remained relative stable, whereas community malls and Grade B retail centres have seen their vacancy rates trend higher.

Riyadh's retail stock stood at 2.82 million sqm GLA as at Q3 2020. By 2022, total stock is expected to reach 3.36 million sqm GLA.

Jeddah

Rents in Jeddah's retail market continued to soften in the year to Q3 2020, with average regional/ super-regional mall rents falling by 2.6% to SAR 2,670 per sqm, whilst average community mall rents fell by 3.1% to reach SAR 1,745 per sqm.

The market-wide vacancy rate in Jeddah increased by five percentage points to reach 17% in the year to Q3 2020. This increase continues to be driven primarily by vacation of space by small and medium sized retailers in retail spaces where limited concessions were offered to support such operations through the downturn in demand.

Jeddah's retail stock stood at 1.89 million sqm GLA as at Q3 2020. By 2022, this is expected to reach an estimated 2.36 million sqm GLA. However, given weaker market conditions, we expect some projects may be delayed.

DMA

The DMA's retail market registered softening market performance across all segments in the year to Q3 2020, where average regional and super-regional mall rental rates fell by 2.3% to reach SAR 2,300 per sqm, whilst average rental rates for community malls dropped by 2.4% to SAR 1,645 per sqm.

The market-wide vacancy rate in the DMA increased by four percentage points to reach 10% in the year to Q3 2020. This increase in the vacancy rate has stemmed primarily from malls where tenants were not given any exemptions from paying rent to mitigate the impact of the pandemic.

The DMA's retail stock stood at 1.14 million sqm GLA as at Q3 2020. By 2022, this total is expected to reach an estimated 1.40 million sqm GLA.

Key trends

Given the scale of lockdown measures in early Q2 2020, which caused all but essential retail activity to cease and the suspension of living allowance payments, resident based retail spending in Saudi Arabia is expected to decline by 10.9% in 2020. These forecasts by Oxford Economics were calculated prior to the increase in VAT and therefore we are likely to see resident based spending decline more than this headline suggests, with total spending unlikely to return to 2019 levels before 2023.

Saudi Arabia's e-commerce industry, whilst nascent, is rapidly growing and the pandemic has fast-tracked this growth trajectory. To support and regulate growth the Saudi Arabian Ministry of Commerce and Investments implemented its e-commerce law in January 2020. The law will provide significant consumer protection and rights which are likely to underpin consumer confidence.

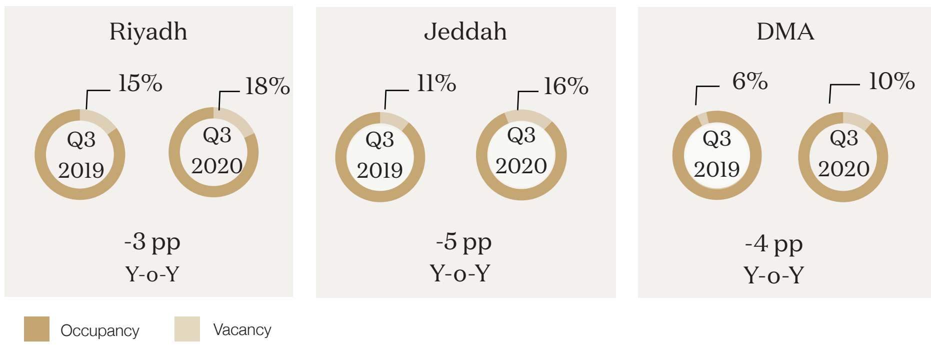
Performance Indicators

Retail market lease rates as at Q3 2020

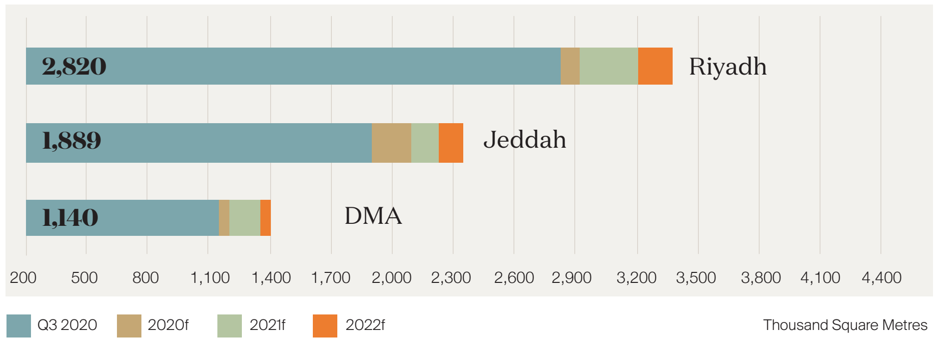
	Riyadh		Jeddah		DMA	
	Regional/Super-Regional mall	Community mall	Regional/Super-Regional mall	Community mall	Regional/Super-Regional mall	Community mall
Rate	2,690 SAR/Sqm	1,980 SAR/Sqm	2,670 SAR/Sqm	1,745 SAR/Sqm	2,300 SAR/Sqm	1,645 SAR/Sqm
Change	-1.9% Y-o-Y	-3.2% Y-o-Y	-2.6% Y-o-Y	-3.1% Y-o-Y	-2.3% Y-o-Y	-2.4% Y-o-Y

Regional/Super-Regional mall   Community mall

Retail occupancy rates



Evolution of retail supply



Source: Knight Frank Research

Hospitality Market Review – Q3 2020

Riyadh

Whilst RevPAR levels in Riyadh softened y-o-y by 7.1% in the year to August 2020, the capital's hospitality market continues to record relative outperformance in comparison to the broader Saudi Arabian hospitality market. As of 15th September 2020, resident and business visa holders are once again able to travel to Saudi Arabia. As a result of these relaxed travel restrictions for business visa holders, we may begin to see an upturn in occupancy levels, with Riyadh most likely to benefit from any increases in corporate visitation.

Total quality hotel supply in Riyadh stood at 16,290 rooms as at August 2020. Taking into consideration only projects that have broken ground, supply is expected to increase by 29% by the end of 2022.

Jeddah

ADRs in Jeddah fell y-o-y by 39.9% in the year to date August 2020, whilst occupancy decreased by 22.2 percentage points. As a result, market-wide RevPAR levels decreased over the same period by 62.0%. The introduction of a phased approach to resume the Umrah pilgrimage in early October for Saudi nationals and residents and international pilgrimages expected to resume in November 2020, may provide some respite for the sector. However, as pilgrim numbers are expected to be capped with a stricter cap expected on international pilgrim numbers we expect the upside to be muted.

Jeddah's total quality hotel supply stood at 11,079 rooms as at August 2020. By the end of 2022, the supply of quality hotel rooms is expected to increase by 45%. This future supply only accounts for projects that are currently under construction and assumes that they complete as planned.

DMA

In the year to date August 2020, ADRs in the DMA fell y-o-y by 2.1%, whilst occupancy decreased by 2.1 percentage points. The DMA is traditionally a popular destination for domestic visitation and has benefited from sustained visitation over the summer period, as Saudi Nationals who are unable to travel abroad instead holiday within the Kingdom. As a result, the DMA has been more resilient than other major cities with RevPAR only falling by 5.9% in y-o-y in the year to August 2020.

The DMA's total quality hotel supply stood at 8,501 rooms as at March 2020. Taking into consideration only projects that have broken ground, supply is expected to increase by 26% by the end of 2022.

Key trends

Despite the current challenges the hospitality sector faces as a result of the pandemic, Saudi Arabia has continued to push ahead with its tourism development strategy. In September 2020, Saudi Arabia's Tourism Development Fund signed an agreement worth SAR 160 bn to help finance tourism projects in the Kingdom. This continued level of commitment and investment will be key in ensuring that tourism accounts for the targeted 10% of GDP by 2030.

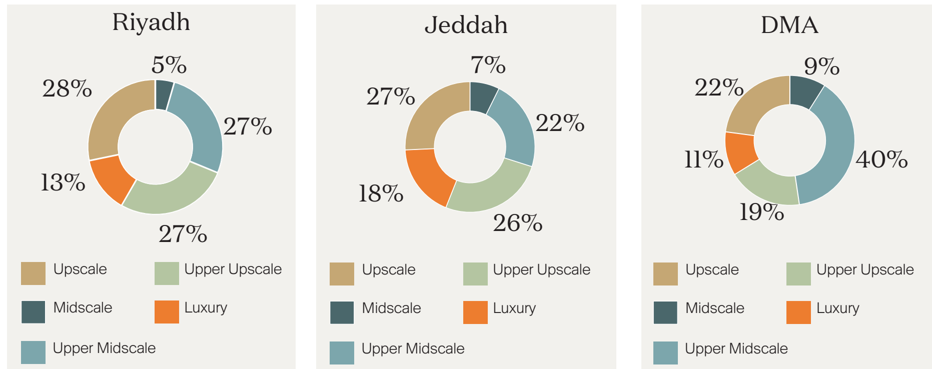
With travel restrictions being eased on a gradual basis, where resident and business visa holders are able to enter and leave Saudi Arabia as of 15th September 2020, and with all travel restrictions expected to be lifted after January 1st 2021, we may begin to see pressure alleviate across the sector. However, as this is likely to be a gradual process, we expect hotels to continue implementing cost-cutting measures across the Kingdom.

Performance Indicators

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

	ADR	Occupancy	RevPAR
Riyadh	-1.2%	-3.2 PP	-7.1%
Jeddah	-39.9%	-22.2 PP	-62.0%
DMA	-2.1%	-2.1% PP	-5.9%

Existing quality hotel supply market segmentation YTD Aug 2020



Existing and upcoming quality hotel supply

	Riyadh	Jeddah	DMA
Existing supply August 2020	16,290 keys	11,079 keys	8,501 keys
Increase in supply until 2022	+29%	+45%	+26%

Source: Knight Frank Research and STR Global

KSA Real Estate Market Outlook

Macroeconomic Outlook

Recent data releases are beginning to show the impact the pandemic has had on Saudi Arabia's economy with headline GDP decreasing by 7.0% in the year to Q2 2020. Over the same period, the oil and non-oil sectors contracted by 5.3% and 8.2% respectively.

Saudi Arabia's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy, shows that economic activity and business conditions are improving whilst still being in contractionary territory. In Q3 2020 Saudi Arabia's PMI averaged a reading of 49.8, whilst this is up from the Q2 average reading of 46.7, it shows that the private non-oil economy continued to contract over the last quarter. The latest monthly reading of 50.7, the highest reading since February and an indication of expansion in economic activity, provides some cause for optimism.

> **The IMF, in its latest World Economic Outlook, revised up Saudi Arabia's GDP for 2020 from a 6.8% contraction to a 5.4% contraction. Saudi Arabia was the only GCC country to have the depth of its contraction revised up, where all other GCC countries have seen their outlook deteriorate further.**

This view is shared by the IMF, where in its latest World Economic Outlook it revised up Saudi Arabia's GDP for 2020 from a 6.8% contraction to a 5.4% contraction. The IMF's forecast GDP growth in 2021 remains unchanged at 3.1%. Saudi Arabia was the only GCC country to have the depth of its contraction revised up, where all other GCC countries have seen their outlook deteriorate further.

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