

SAUDI ARABIA REAL ESTATE MARKET REVIEW

Q4 2020



Office Market Review - Q4 2020

Riyadh

Riyadh's office market performance continued to soften in the year to Q4 2020, with Grade A rents falling marginally by 0.7% to SAR 1,450 per sqm, whilst Grade B rents declined by 2.9% to SAR 745 per sqm.

The vacancy rate for Grade A office space increased by one percentage point from Q4 2019 to reach 7% in Q4 2020, whilst the Grade B vacancy rate increased by three percentage points to reach 31% over the same period.

Q4 2020 saw the completion of several office developments, which added approximately 140,000 sqm of GLA to the market. These additions bring the total office stock to 4.21 million sqm GLA. By 2023, supply is expected to reach an estimated 5.25 million sqm GLA.

Jeddah

Rental performance in Jeddah's office market remained subdued in the year to Q4 2020, where Grade A and Grade B rents fell by 4.2% and 8.0% respectively. On average, Grade A rents were recorded at SAR 1,000 per sqm and Grade B rents at SAR 688 per sqm.

The vacancy rate across Grade A office spaces increased by two percentage points from Q4 2019 to reach 16% in Q4 2020, whereas the Grade B vacancy rate increased by four percentage points to reach 30% over the same period.

The fourth quarter of 2020 saw the completion of two office developments, which added around 27,000 sqm of GLA to the market. These additions bring the total office stock to 1.26 million sqm GLA. By 2023, supply is expected to reach an estimated 1.75 million sqm GLA.

DMA

The Dammam Metropolitan Area's (DMA) office market performance continued to soften in the year to Q4 2020, with Grade A rents falling by 4.8% to SAR 906 per sqm, whilst Grade B rents declined by 8.6% to SAR 602 per sqm.

The vacancy rate for Grade A office space increased by one percentage point from Q4 2019 to reach 25% in Q4 2020, whilst the Grade B vacancy rate increased by two percentage points to reach 39% over the same period.

In Q4 2020, we have seen the completion of one major development, Al Hugayet tower, which added around 45,000 sqm of GLA to the market. This addition brings the total office stock to 1.23 million sqm GLA. By 2023, supply is expected to reach an estimated 1.47 million sqm GLA.

Key trends



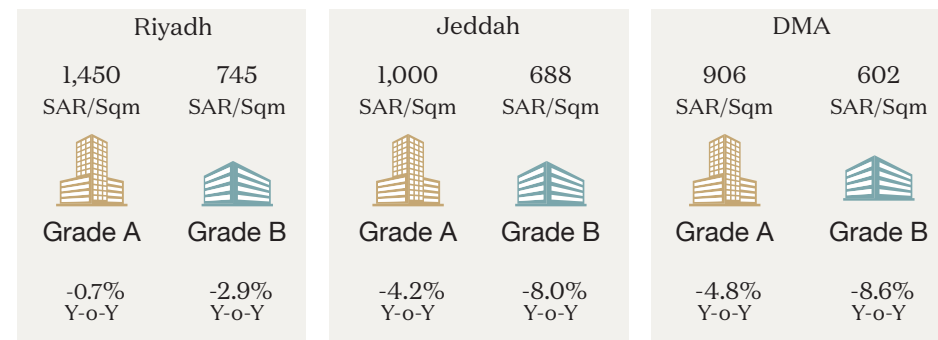
Saudi Arabia's Ministry of Investment granted 812 foreign investment licences during the first nine months of 2020, compared to 840 licences during the same period a year earlier. This slowdown was largely underpinned by the sharp slowdown in issuance in Q2 2020, where issuance fell by 47% on an annual basis. Whereas, in the year to Q3 2020, the number of foreign investment licences issued in the Kingdom increased by 20%.



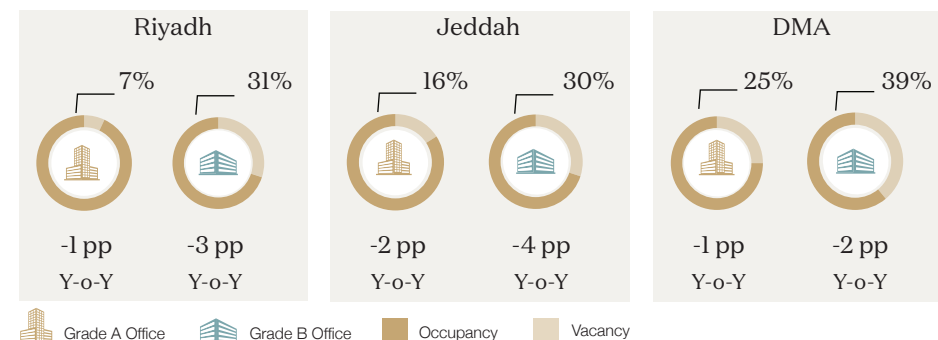
In a bid to increase the number of international corporates in the Kingdom, the Saudi Arabian government has launched a marketing program dubbed Program HQ. The program intends to persuade international firms to relocate regional headquarters to Riyadh. Under this initiative, authorities are offering a broad range of incentives to blue-chip companies such as those operating in the fields of IT, Finance and Oil Services. The initiative aims to bolster foreign investment into the Kingdom and in turn support the government's Vision 2030 goal which aims to establish the Kingdom as a regional business hub. Incentives offered under this program include a 50-year tax holiday, waiving quotas on Saudization quotas and guarantees of protection against future regulations.

Performance Indicators

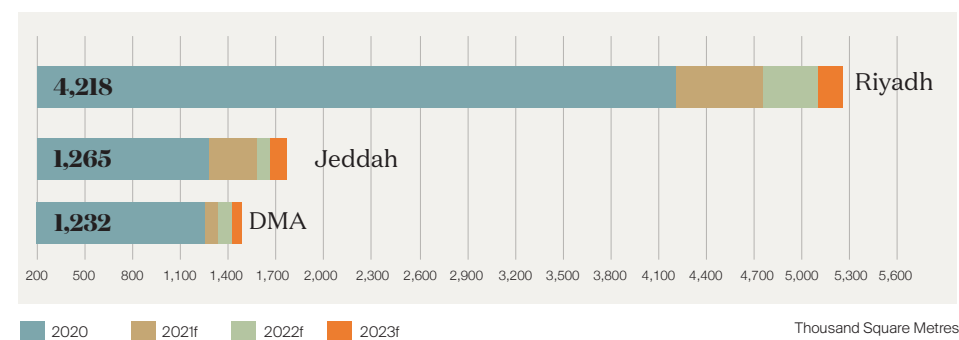
Grade A and B rental rates and YoY % change as at Q4 2020



Grade A and B vacancy as at Q4 2020



Evolution of commercial supply



Source: Knight Frank Research

Residential Market Review - Q4 2020

Riyadh

Riyadh's residential market registered fragmented performances in the year to Q4 2020, with residential apartment sales prices increasing by 1.6% to an average of SAR 3,317 per sqm, whilst residential villa prices decreased by 2.0% to SAR 3,700 per sqm over the same period.

With respect to residential transactions, the total volume of residential transactions increased by 11%, whilst the total value of residential transactions declined by 6% in the year to Q4 2020.

As at Q4 2020, Riyadh's housing stock is estimated to total 1.28 million units and is expected to increase to 1.37 million units by the end of 2023. In Q4 2020, we have seen the delivery of a significant quantum of residential units which had been delayed due to lockdown measures in place during 2020.

Jeddah

In Jeddah, in the year to Q4 2020, average residential apartment sales prices decreased by 2.0% to SAR 3,721 per sqm. Average villa prices fell by 3.1% to SAR 4,859 per sqm over the same period.

Residential transaction volumes and values in Jeddah increased by 17% and 16% respectively in the year to Q4 2020, a trend driven by a notable increase in the uptake of mortgages provided by banks and financial institutions.

As at Q4 2020, Jeddah's housing stock is estimated to total 849,000 units and is expected to increase to 890,000 units by the end of 2023. 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 Q4 2020, residential market performance remained fragmented in the Dammam Metropolitan Area (DMA), where residential apartment sales prices increased on average by 0.8% to SAR 2,930 per sqm, whereas average residential villa sales prices fell by 5.1% to SAR 3,235 per sqm.

Over this period, the volume of residential transactions saw a decline of 9%, whilst the total value of residential transactions increased by 3%.

As at Q4 2020, the DMA's housing stock is estimated to total 334,000 units. This total is expected to increase to 358,000 units by the end of 2023. The majority of this incoming supply comprises high quality apartments and townhouses.

Key trends



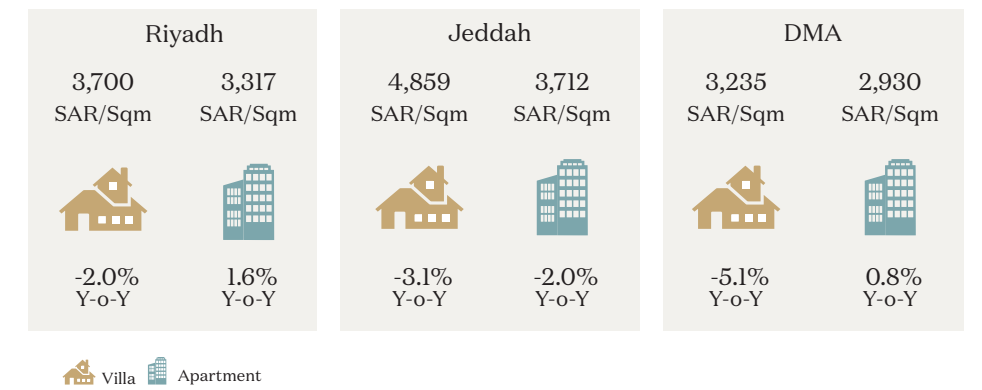
According to data from the Saudi Central Bank, the volume of new residential mortgages for individuals provided by banks, increased by 86% to SAR 120.78 billion in the first eleven months of 2020. This marked increase in take up of mortgages is underpinned by the Saudi Arabian government's aims to increase homeownership in the Kingdom to 70% as part of its Vision 2023 targets, up from 50% in 2018. In November, the breakdown of mortgage loans showed that mortgages for villas represented 81% of total financing, with the remainder being used to purchase apartments and land plots.



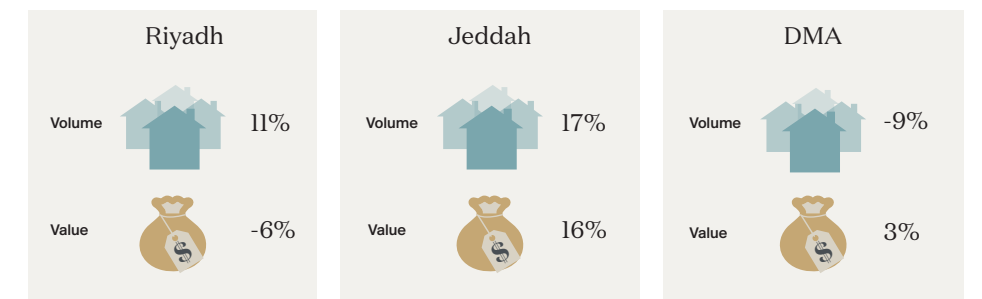
The recent decision to exempt real estate transactions from 15% VAT and the introduction of a lower property tax, has helped to boost activity in the residential market. The introduction of a dedicated property tax will be beneficial to end-users and developers, and help the government achieve its aim of increased levels of homeownership and private participation in the real estate sector.

Performance Indicators

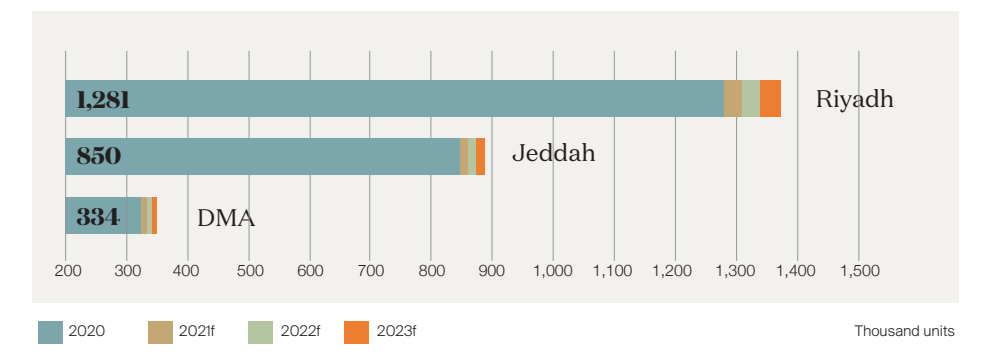
Villa & apartment sales prices and YoY % change as at Q4 2020



YoY % change in the volume and value of residential transactions as at Q4 2020



Evolution of residential supply



Source: Knight Frank Research

Retail Market Review - Q4 2020

Riyadh

Market performance in Riyadh's retail market softened in all segments in the year to Q4 2020, with average regional and super-regional mall rents falling by 2.3% to reach SAR 2,680 per sqm, whilst average community mall rents fell by 3.4% to reach SAR 1,975 per sqm.

The market-wide vacancy rate in Riyadh increased by four percentage points in the year to Q4 2020 to reach 19%. Average vacancy in the malls where landlords offered explicit incentives such as rent free periods and discounted rental rates to retain existing tenants and capture new demand remained resilient. Whereas, vacancy rates trended higher where such incentives were not offered.

Riyadh's retail stock stood at 2.86 million sqm GLA as at Q4 2020. By 2023, total stock is expected to reach 3.63 million sqm GLA.

Jeddah

Rents in Jeddah's retail market continued to soften in the year to Q4 2020, with average regional and super-regional mall rents falling by 2.7% to SAR 2,669 per sqm, whilst average community mall rents fell by 3.1% to reach SAR 1,735 per sqm.

The market-wide vacancy rate in Jeddah increased by seven percentage points to reach 17% in the year to Q4 2020. This increase continues to be driven primarily by small and medium sized retailers vacating due to limited concessions being offered to support occupiers.

Jeddah's retail stock stood at 1.95 million sqm GLA as at Q4 2020. By 2023, this is expected to reach an estimated 2.69 million sqm GLA. However, given weaker market conditions, we expect that some projects may be delayed.

DMA

The DMA's retail market softened across all segments in the year to Q4 2020, where average regional and super-regional mall rental rates fell by 2.6% to reach SAR 2,299 per sqm, whilst average rental rates for community malls dropped by 3.0% to SAR 1,640 per sqm.

The market-wide vacancy rate in the DMA increased by six percentage points to reach 11% in the year to Q4 2020. This increase in the vacancy rate has stemmed primarily from malls where tenants were not given any rent rebates to mitigate the impact of the pandemic.

The DMA's retail stock stood at 1.14 million sqm GLA as at Q4 2020. By 2023, this total is expected to reach an estimated 1.54 million sqm GLA.

Hospitality Market Review - Q4 2020

Riyadh

Average daily rates in Riyadh softened by 8.9% in the year to December 2020, whilst occupancy decreased by 11.1 percentage points. As a result, market-wide RevPAR levels decreased by 25.8% over this period. As travel restrictions began to ease across the Kingdom in mid-September, Riyadh recorded marginal improvements to both ADR and occupancy rates.

The total quality hotel supply in Riyadh stood at 17,427 rooms as of December 2020. Taking into consideration projects that have only broken ground, the supply is expected to increase by 24% by the end of 2023.

Jeddah

In Jeddah, ADRs fell y-o-y by 34.7% as of year to date December 2020, whilst occupancy decreased by 20.1 percentage points. As a result, market-wide RevPAR levels decreased by 57.6% over the same period. The resumption of Umrah pilgrimage for Saudi nationals and residents in early October and for international pilgrims in early November, resulted in a 7.2 percentage point increase in occupancy since September. Over this period, despite ADRs falling by 7.3%, RevPAR increased by 11.2%.

Jeddah's total quality hotel supply stood at 11,629 rooms as of December 2020. Taking into account hotels that are currently under construction and due for completion by the end of 2023, the supply of quality hotel rooms is expected to increase by 52%.

DMA

Despite the challenges faced with the global pandemic, DMA's tourism market was the most resilient compared to other major Saudi Arabian city markets. Year to date December 2020, ADRs in DMA grew by 1.4% y-o-y, whilst occupancy levels decreased by 2.6 percentage points. Over this period, RevPAR fell by 3.4%. The market's resilience primarily stemmed from domestic leisure demand, as Saudi nationals looked to travel domestically rather than internationally. Sub-markets such as Half Moon Bay performed well given the dynamics surrounding the pandemic.

DMA's total quality hotel supply reached 11,423 rooms as of December 2020. Taking into consideration projects that have only broken ground, the total quality supply is expected to increase by 25% by the end of 2023.

Key trends



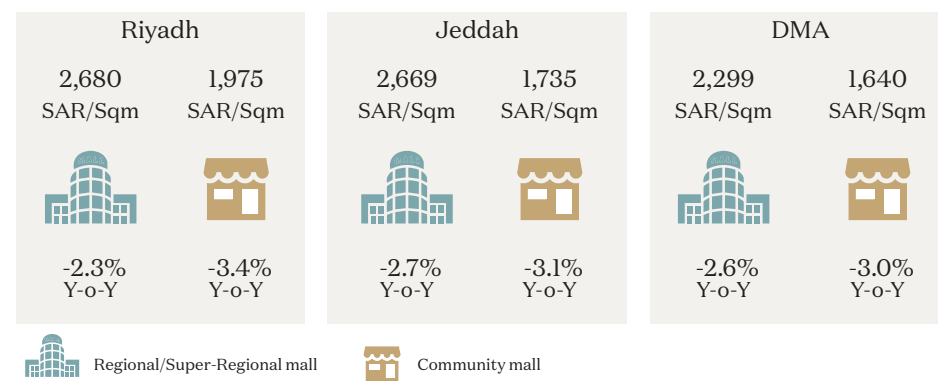
Increasingly within the development of retail assets we are seeing a focus on lifestyle concepts, or experienced based retail developments featuring public realm elements. These types of developments typically encourage extended stays in shopping centres and higher spending, particularly amongst the country's younger population demographics.



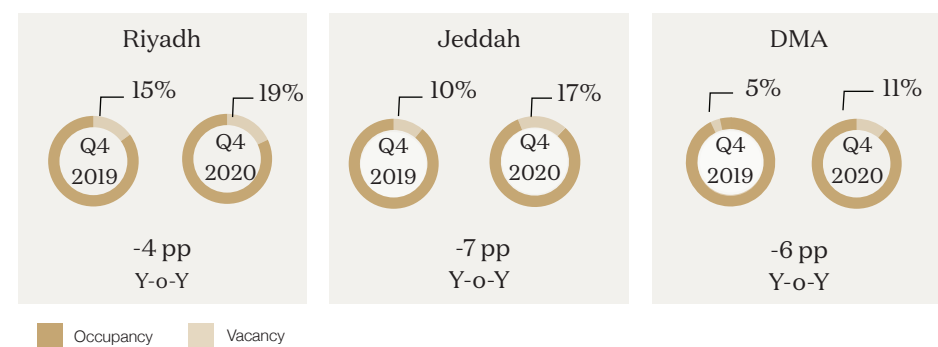
Since online shopping has become more common, retail has become increasingly digital and internet driven. To compete with the growing e-commerce market in the Kingdom, traditional brick and mortar retail brands continue to evolve with innovative concepts being adapted in order to meet demand. In a world where customer expectations are continuously increasing, retailers are changing their physical landscape in order to provide memorable shopping experiences to retain and attract new customers.

Performance Indicators

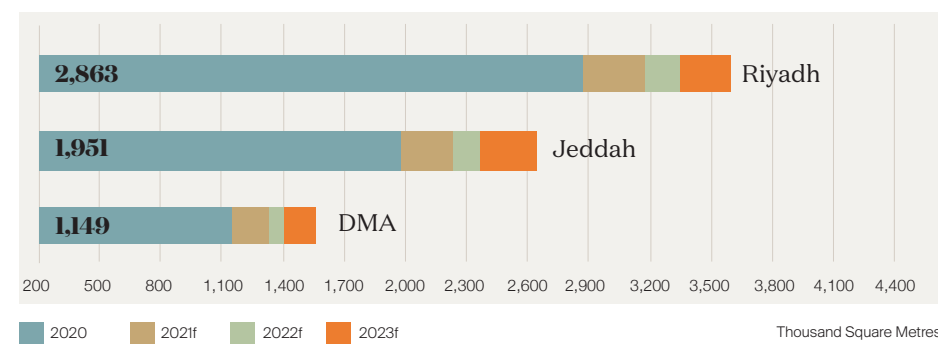
Retail market lease rates as at Q4 2020



Retail occupancy rates



Evolution of retail supply



Key trends



Saudi Arabia is aiming to attract SAR 220 billion in investments to its tourism sector by 2023 and more than SAR 500 billion by 2030.



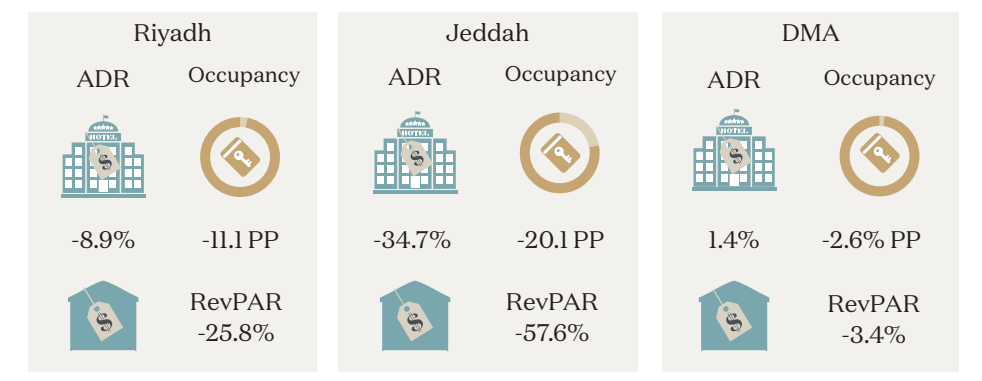
To help small and medium enterprises (SMEs) in the tourism sector tackle the adverse impacts of the pandemic, the Saudi Arabian Kafalah program has supported 61 tourism projects to date. The Kafalah program provides financing from partner banks to SMEs of up to SAR 2 million, where the Kafalah program provides guarantees to these banks covering up to 80% of the financing.



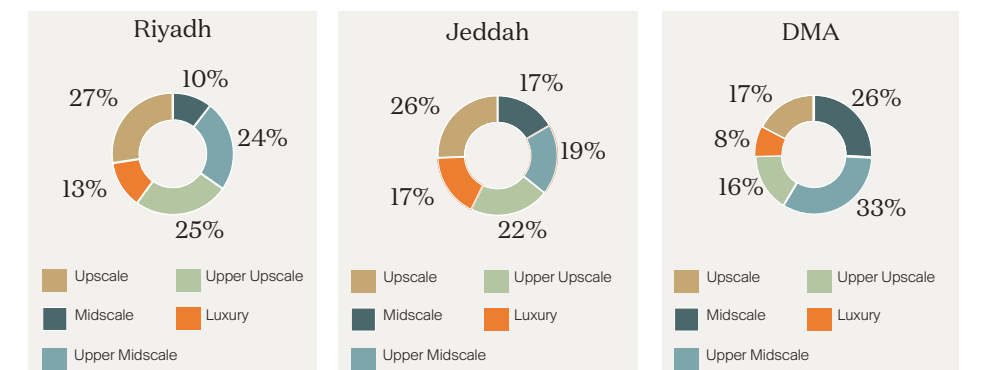
Since the Umrah pilgrimage restarted, Saudi Arabia has received at least five million pilgrims. This marked increase in pilgrims is likely to provide much needed support to the hospitality assets in and around the Holy Cities.

Performance Indicators

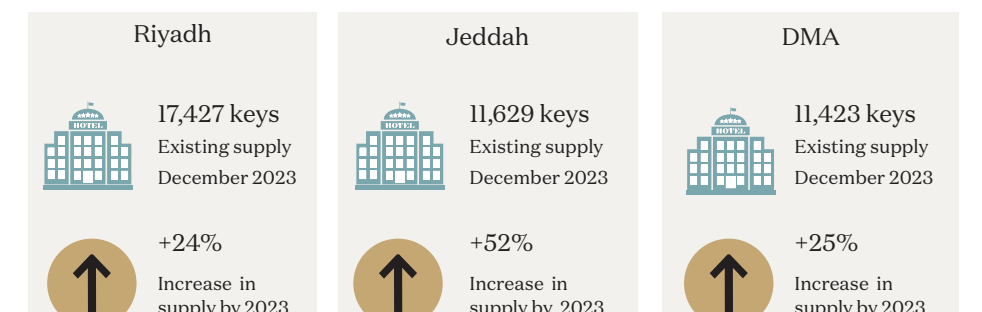
KPIs - ADR, Occupancy and RevPAR - Y-o-Y % change YTD Dec 2020



Existing quality hotel supply market segmentation YTD Dec 2020



Existing and upcoming quality hotel supply



KSA Real Estate Market Outlook

Outlook

Data from Saudi Arabia's Central Department of Statistics and Information shows that whilst on a quarter-on-quarter basis GDP has stopped contracting, where in the quarter to Q3 2020 seasonally adjusted GDP grew by 1.6%, Saudi Arabia's GDP still sits 4.8% below its pre-pandemic level.

However, with higher frequency indicators such as Saudi Arabia's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy, indicating that both economic activity and business conditions are improving, Saudi Arabia's economy may yet finish the year in a stronger position than expected.

In Q4 2020, Saudi Arabia's PMI averaged a reading of 54.2, a marked increase from the Q2 and Q3 average readings of 46.7 and 49.8 respectively. The index shows that the private non-oil economy has

Saudi Arabia's PMI index shows that the private non-oil economy has firmly moved into expansion territory during the last quarter of 2020 and its December 2020 index reading was the highest in 12 months. This upturn in business activity is likely to underpin a stronger than expected GDP reading in Q4 2020.

firmly moved into expansion territory during the last quarter of 2020 and its December 2020 index reading was the highest in 12 months. This upturn in business activity is likely to underpin a stronger than expected GDP reading in Q4 2020 and as a result Saudi Arabia's GDP in 2020 is likely to contract less than the 5.4% rate forecast by the IMF.

Whilst there are material downside risks that may still impact economic activity in Saudi Arabia, most are unlikely to come to fruition and few are exogenous in nature. This underpins Saudi Arabia's 2021 GDP growth forecast of 3.4%, the strongest in the region. Whilst Saudi Arabia's real estate market will face challenges in parts, particularly its hospitality and retail sectors, the fundamentals underpinning its real estate market remain steadfast for the long-term.

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