SAUDI ARABIA REAL ESTATE MARKET REVIEW

Q1 2021

Office Market Review - Q1 2021

Riyadh

Rents in Riyadh's office market registered fragmented performance in the year to Q1 2021, with Grade A rents increasing marginally by 0.5% to SAR 1,465 per sqm, whilst Grade B rents declined by 2.5% to SAR 746 per sqm.

The vacancy rate for Grade A office space increased by one percentage point from Q1 2020 to reach 7% in Q1 2021, whilst the Grade B vacancy rate increased by two percentage points to reach 32% over the same period.

There were no major office completions in Riyadh in Q1 2021, leaving the total office stock relatively unchanged at 4.21 million sqm GLA. Looking ahead, the total stock is expected to reach an estimated 5.28 million sqm GLA by the end of 2023.

Jeddah

Jeddah's office market performance remained subdued in the year to Q1 2021, with Grade A rents falling by 2.8% to SAR 1,008 per sqm, whilst Grade B rents declined by 5.1% to SAR 678 per sqm.

The vacancy rate across Grade A office spaces decreased by one percentage point from Q1 2020 to reach 15% in Q1 2021, whereas the Grade B vacancy rate increased by two percentage points to reach 30% over the same period.

Jeddah's office stock stood at 1.26 million sqm GLA as at Q1 2021. By 2023, this is expected to reach an estimated 2.72 million sqm GLA. However, given weaker market conditions, we expect some projects may be delayed.

DMA

Rental performance in the Dammam Metropolitan Area's (DMA) office market continued to soften in the year to Q1 2021, where Grade A and Grade B rents fell by 4.3% and 3.8% respectively. On average Grade A rents were recorded at SAR 901 per sqm and Grade B rents at SAR 600 per sqm.

The vacancy rate for Grade A office space increased by two percentage points from Q1 2020 to reach 27% in Q1 2021, whilst the Grade B vacancy rate increased by three percentage points to reach 38% over the same period.

In the DMA, there were no major office completions in Q1 2021, leaving total office stock unchanged at 1.23 million sqm GLA. By 2023, supply is expected to reach an estimated 1.48 million sqm GLA.

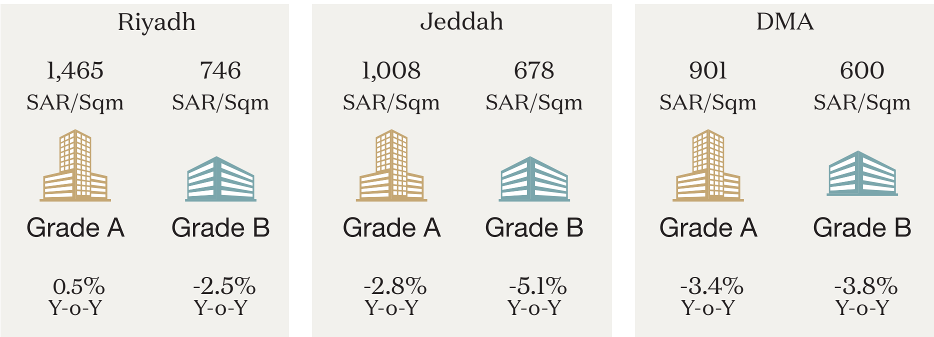
Key trends

Saudi Arabia's Ministry of Investment granted 466 foreign investment licences during Q4 2020, up 60% from a year earlier. The fourth quarter of 2020 was reported to be the strongest quarter of investment interest in Saudi Arabia since data compilation began in 2005. December 2020 was the Kingdom's most active month for granting foreign investment licences, with 189 investment licenses being issued this month. The industrial and manufacturing, logistics, retail, e-commerce and ICT were the sectors that attracted the most of foreign investment.

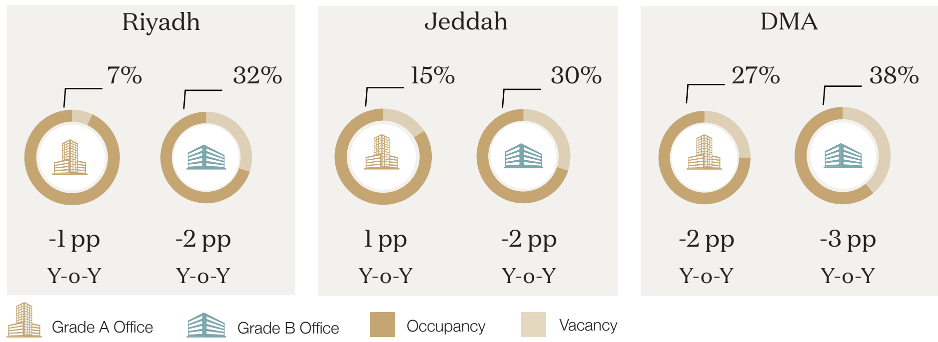
According to official statistics, the unemployment rate for Saudi citizens fell to 12.6% in Q4 2020, down from 14.9% in Q3 2020. Over this period, the unemployment rate for males fell to 7.1% down from 7.9%, whilst for females, the unemployment rate dropped to 24.4% down from 34.2%. This drop in the unemployment rate is primarily underpinned by an improvement in overall business conditions in Saudi Arabia. The increase in employment is expected to positively impact on office demand going forward.

Performance Indicators

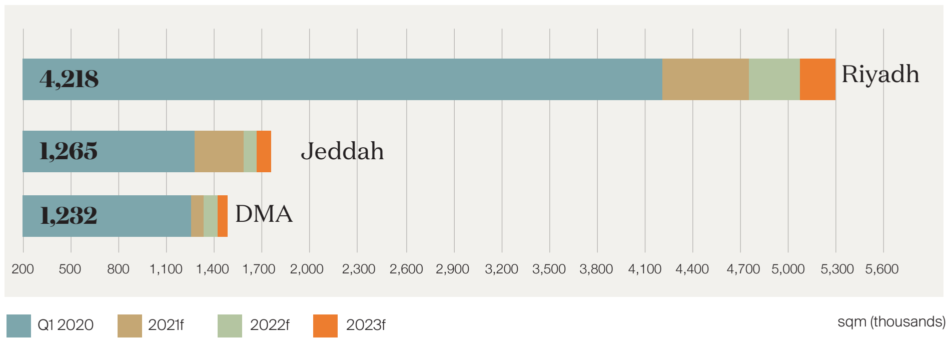
Grade A and B rental rates and YoY % change as at Q1 2021



Grade A and B vacancy as at Q1 2021



Evolution of commercial supply



Source: Knight Frank Research

Residential Market Review - Q1 2021

Riyadh

Riyadh's residential market registered fragmented performances in the year to Q1 2021, with residential apartment sales prices increasing by 4.4% to an average of SAR 3,453 per sqm, whilst residential villa prices decreased by 1.6% to SAR 3,753 per sqm over the same period.

With respect to residential transactions, the total volume of residential transactions increased by 25%, whilst the total value of residential transactions increased by 80% in the year to Q1 2020. This relative outperformance can be explained by a marked increase in the take up of mortgages and the delivery of large scale housing schemes.

As at Q1 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.

Jeddah

In Jeddah, average residential apartment sales prices increased by 6.5% to SAR 3,944 per sqm in the year to Q1 2021, whereas average villa sales prices fell by 6.3% to SAR 5,023 per sqm over the same period.

Residential transaction volumes and values in Jeddah increased by 34% and 26% respectively in the year to Q1 2021, a trend driven by a notable increase in the uptake of mortgages provided by banks and financial institutions.

As at Q1 2020, Jeddah's housing stock is estimated to total 853,373 units and is expected to increase to 890,657 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 Q1 2020, residential market performance remained fragmented in the Dammam Metropolitan Area (DMA), where residential apartment sales prices increased on average by 3.2% to SAR 2,045 per sqm, whereas average residential villa sales prices fell by 7.9% to SAR 3,253 per sqm.

Over this period, the volume of residential transactions rose by 11%, whilst the total value of residential transactions increased by 24%, a trend underpinned by the delivery of affordable housing units through the Sakani program and continued efforts by the government to expand the mortgage market.

As at Q4 2020, the DMA's housing stock is estimated to total 336,190 units, this total is expected to increase to 358,073 units by the end of 2023. The majority of this incoming supply comprises high quality apartments and townhouses.

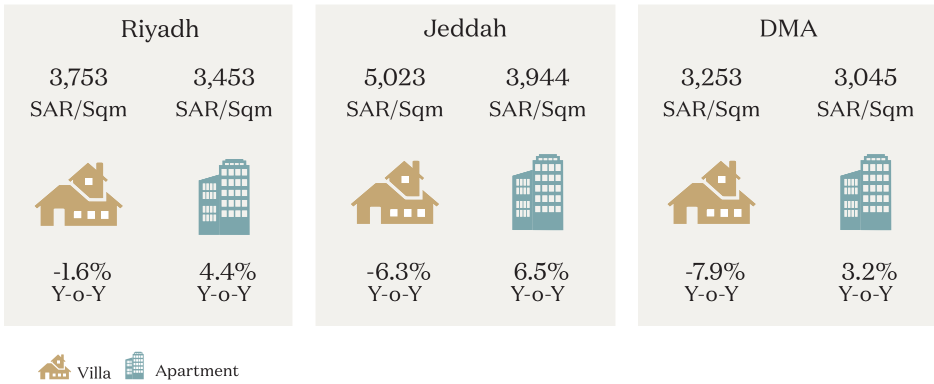
Key trends

According to data from the Saudi Central Bank, the value of new residential mortgages for individuals provided by banks and financial institutions increased by 38% in the 12 months to February 2021. Around 26,800 new contracts were recorded in February 2021, reaching a total value of more than SAR 14 billion, up 28% from February 2020. Of these 26,800 contracts, 97% of these were arranged by banks, whereas the rest of the contracts were provided by financial institutions. New residential mortgage loans for villas accounted for nearly 80% of contracts, valued at SAR 11.3 billion. Residential apartment and land mortgages accounted for 6% and 4% respectively.

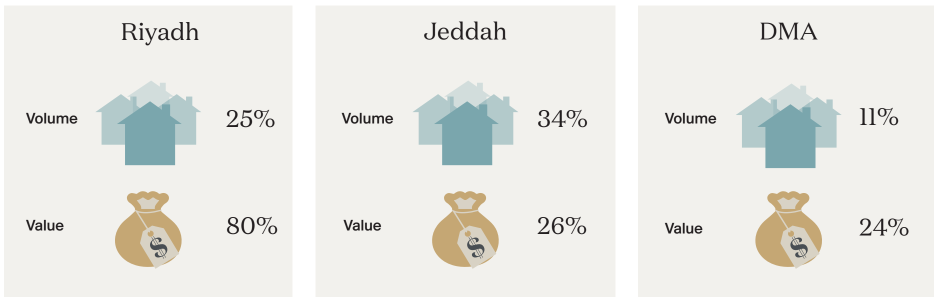
The recent decision to exempt real estate transactions from 15% VAT and the introduction of a lower property tax has helped to boost activity in the residential market. The reduction of the VAT rate on property transactions from 15% to 5% during Q3 2020 is expected to continue having a positive impact on deal levels, whilst also boosting home ownership rates; a key initiative in helping the government achieve its goal of 70% home ownership by 2030.

Performance Indicators

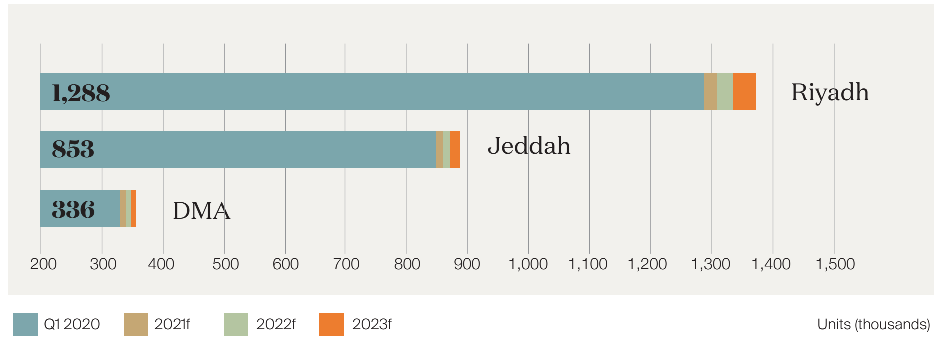
Villa & apartment sales prices and YoY % change as at Q 2021



YoY % change in the volume and value of residential transactions as at Q1 2021



Evolution of residential supply



Source: Knight Frank Research

Retail Market Review - Q1 2021

Riyadh

In Riyadh's retail market, market performance softened in all segments in the year to Q1 2021, with average regional and super-regional mall rents falling by 2.5% to reach SAR 2,695 per sqm, whilst average community mall rents fell by 3.0% to reach SAR 1,978 per sqm.

The market-wide vacancy rate in Riyadh increased by one percentage point in the year to Q1 2021 to reach 16%. Despite the economic headwinds caused by COVID-19, the average vacancy rate in malls where landlords have adopted digital transformation strategies to redefine consumer experiences and have introduced more innovative omnichannel retail experiences, have managed to retain their existing tenants and attract additional demand.

Riyadh's retail stock stood at 2.87 million sqm GLA as at Q1 2021. By 2023, total stock is expected to reach 3.64 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.

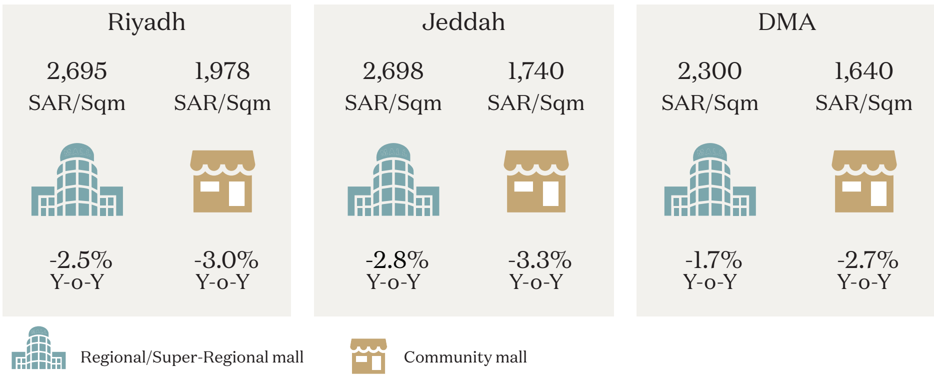
Key trends

In an effort to help increase SME's share of GDP to 35%, a key goal of Vision 2030, Kafalah, the Saudi SME guarantee program, has to date achieved substantial growth. According to the Saudi Press Agency, around 10,000 establishments are now benefiting from the Kafalah fund in Saudi Arabia. The fund's guarantees have reached SAR 30 billion in 2020, double its 2019 total. The wholesale and retail sectors were the biggest beneficiaries, with more than 2,000 establishments benefiting from the program in 2020, up by 254% from a year earlier.

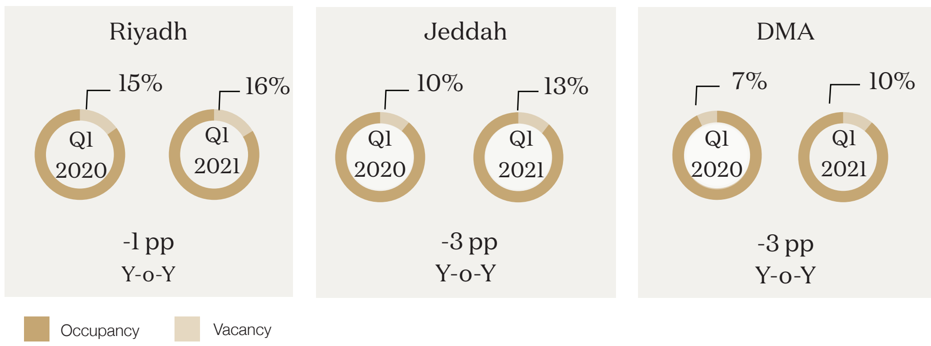
Saudi Arabia's first home grown cinema chain, MUVI Cinemas, announced a SAR 820 million expansion plan for 2021. In a bid to capitalise on the fast-growing entertainment sector and to compete with other major players in the market, MUVI Cinemas intends to expand to 307 screens nationwide during 2021. MUVI Cinemas plans to launch 23 new sites in eight key regions of Saudi Arabia, adding 204 screens and 22,872 seats to its portfolio.

Performance Indicators

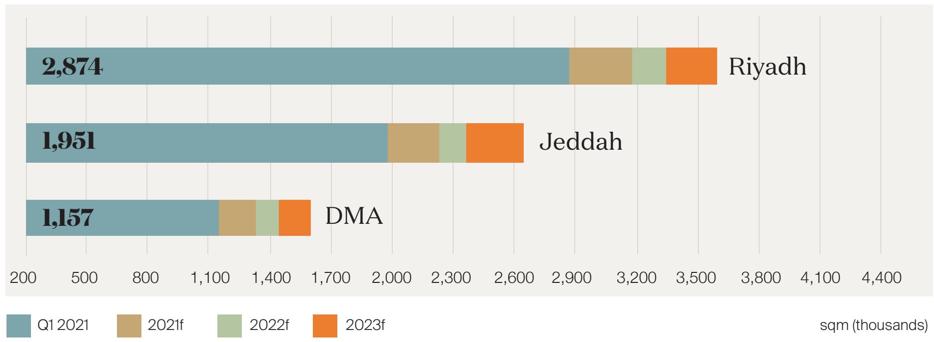
Retail market lease rates as at Q1 2021



Retail occupancy rates



Evolution of retail supply



Source: Knight Frank Research

Hospitality Market Review – Q1 2021

Riyadh

Performance in Riyadh's hospitality market continued to soften in the year to March 2021, where average daily rates (ADR) and average occupancy decreased by 11.6% and 20.2% respectively. As a result, market-wide RevPAR levels fell by 29.4% over this period. Given the reliance of the capital's hospitality market on corporate tourism, which has largely remained subdued due to international travel restrictions, the deterioration in KPIs is not surprising. However, with international travel restrictions set to be lifted from 17th May 2021, we expect market performance will begin a process of gradual recovery over the coming quarter.

Total quality hotel supply in Riyadh stood at 17,592 rooms as at March 2021. Taking into consideration only projects that have broken ground, supply is expected to increase by 23% by the end of 2023.

Jeddah

The resumption of the Umrah pilgrimage has underpinned performance in Jeddah's hospitality market, where in the year to date March 2021, ADRs grew y-o-y by 18.7%, whilst occupancy decreased marginally by 2.2%. Over this period, RevPAR grew by 16.2%. Going forward we expect performance in Jeddah's hospitality market to remain robust as the number of pilgrims permitted to perform Umrah is increased during Ramadan.

Jeddah's total quality hotel supply stood at 11,490 rooms as at March 2021. The supply of quality hotel rooms is expected to increase by 53%, considering only projects that are currently under construction and due for completion by the end of 2023, assuming that they complete as planned.

DMA

In the year to date March 2021, occupancy in the DMA's hospitality market fell marginally by 0.2% y-o-y, whilst ADRs grew y-o-y by 4.9%. Over this period, RevPAR increased by 4.7%. Performance in the DMA has been driven by Al Khobar, where in the year to March 2021 RevPAR increased by 12.2% y-o-y, whereas in Dammam, over the same period, we have seen RevPAR fall by 30.7%. Therefore, the DMA's market resiliency stems predominantly from leisure demand, as Saudi nationals continue to travel domestically due to international travel restrictions.

The DMA's total quality hotel supply reached 11,338 rooms as of March 2020. Taking into consideration only projects that have broken ground, supply is expected to increase by 23% by the end of 2023.

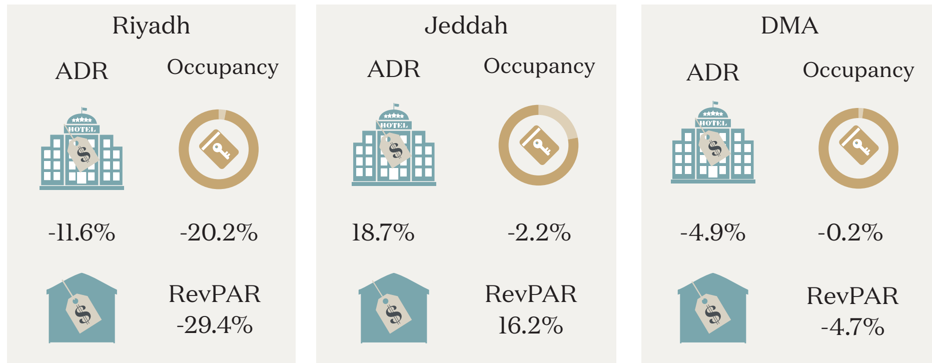
Key trends

The Saudi tourism sector is considered to be a key pillar of Saudi Arabia's Vision 2030. To achieve this Vision 2030 objective, the Saudi government is striving to unlock the tourism sector's potential and 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, where it is aiming to attract SAR 220 billion in investments to its tourism sector by 2023 and more than SAR 500 billion by 2030.

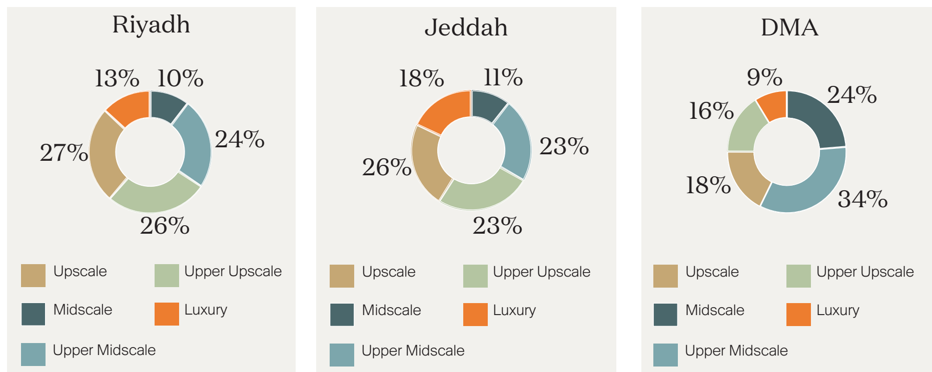
Saudi Arabia has the world's largest hotel construction pipeline. Indeed, the country's room supply is expected to increase by 61.1% over the next three years, the highest rate among the most 50 populated countries in the world (STR Global).

Performance Indicators

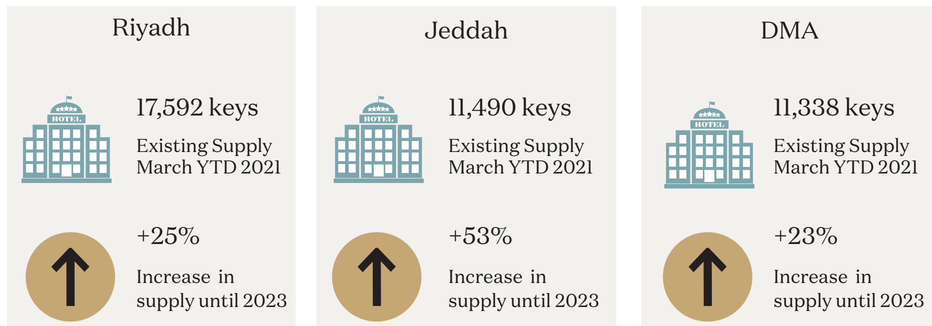
KPIs - ADR, Occupancy and RevPAR - Y-o-Y % change YTD March 2021



Existing quality hotel supply market segmentation YTD March 2021



Existing and upcoming quality hotel supply



Source: Knight Frank Research and STR Global

Outlook

According to provisional full year data published by the General Authority for Statistics, Saudi Arabia's real GDP contracted by 4.1% in 2020, down from the 0.3% growth in 2019.

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 firmly moved to 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 has underpinned a stronger than expected GDP reading in Q4 2020, and as a result, Saudi Arabia's GDP in 2020 contracted less than the 5.1% rate forecast by Oxford Economics.

During Q4 2020, Saudi Arabia's PMI moved firmly into expansion territory, with the December reading itself being the highest in 12 months.

Looking ahead, the forecast from Oxford Economics reveals that Saudi Arabia economy is expected to return to growth territory this year. The region's largest economy is expected to see GDP growth of 2.8% in 2021, down from the 3.1% predicted three months ago (Oxford Economics).

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