**KEY HEADLINES**

- Saudi Arabia's GDP growth recovered in 2018, reaching 1.9% according to Oxford Economics. GDP growth is expected to gain further momentum in 2019 reaching an estimated 3.0%. This return to growth is being driven by a combination of favourable factors including stabilising oil prices, acceleration in non-oil GDP growth and an expansionary stance in the public budget.

- The headline PMI - a non-oil economy tracker - stood at 57.3 in September 2019, which is significantly higher than its lowest level on record registered in April 2018 (51.4). A reading above the 50.0 mark, points to an expansion in non-oil sectors.

- Following a rise in inflation last year as a result of the introduction of VAT, inflation rates have fallen into negative territory in 2019. The latest CPI reading was measured at -1.1% YoY in August 2019, compared to -1.4% YoY in the previous month. This downward trend was mainly triggered by falling housing rents.

**FIGURE 1**

**GDP, YEAR-ON-YEAR % CHANGE**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>YoY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**FIGURE 2**

**EMPLOYMENT FORECASTS, YEAR-ON-YEAR % CHANGE**

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019f</th>
<th>2020f</th>
</tr>
</thead>
<tbody>
<tr>
<td>YoY</td>
<td>0.52</td>
<td>2.91</td>
<td></td>
</tr>
</tbody>
</table>

**FIGURE 3**

**INFLATION, YEAR-ON-YEAR % CHANGE**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

**FIGURE 4**

**OIL PRICES**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Prices - Brent Crude $</td>
<td>59.4</td>
<td>64.4</td>
<td>82.9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Oil prices averaged $59.4 in September 2019, representing a decline from an average price level of approximately $70 pb in 2018. Geopolitical risks have been overtaken by weaker demand growth and the prospect of a wave of new production coming on stream. The International Energy Agency (IAE) has recently cut its oil demand forecast on a weakening global economy.

**FIGURE 5**

**PURCHASING MANAGERS INDEX**

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>57.3</td>
<td>57.4</td>
<td>53.4</td>
<td></td>
</tr>
</tbody>
</table>

The headline PMI - a non-oil economy tracker - stood at 57.3 in September 2019, which is significantly higher than its lowest level on record registered in April 2018 (51.4). A reading above the 50.0 mark, points to an expansion in non-oil sectors.

- Following a rise in inflation last year as a result of the introduction of VAT, inflation rates have fallen into negative territory in 2019. The latest CPI reading was measured at -1.1% YoY in August 2019, compared to -1.4% YoY in the previous month. This downward trend was mainly triggered by falling housing rents.
The value of residential transactions in Riyadh increased by 139% YoY in Q3 2019, driven by a surge in transaction volumes and a stabilisation in sales prices. 

Residential supply in Riyadh reached 1.24 million housing units at the end of Q3 2019. Approximately 8,000 residential units were added to the market in Q3 2019. We expect circa 70,000 units to be handed over to the market between 2019 and 2021.

Following a marginal YoY decrease in previous quarter, residential sale prices appear to have stabilised in Q3 2019. Villa sale prices displayed a 1.4% YoY increase in Q3 2019, indicating that the market may be heading towards the bottom of its cycle. 

The rate of decline in apartment sale prices continued to moderate in Q3 2019, reaching -0.4% YoY. This compares with a -6% YoY and -10% YoY in Q2 19 and Q1 19 respectively.

We expect the volume of transactions to maintain a positive momentum over the next 12 months, underpinned by the Sakani affordable housing program and the regulatory efforts to expand the mortgage market. A stabilisation in sales prices can be expected due to a pick up in transaction activity in the market.
The value of residential transactions in Jeddah increased by 60% YoY in Q3 2019, driven by a surge in transaction volumes as prices remained under pressure.

Residential supply in Jeddah reached 835,000 housing units. Approximately 1,800 standalone residential units were added to the market in Q3 2019. Around 25,000 residential units are planned to be handed over between 2019 and 2021.

We expect the volume of transactions to maintain a positive momentum over the next 12 months, underpinned by the Sakani affordable housing program and the regulatory efforts to expand the mortgage market. In terms of sale prices, the rate of decline is expected to further moderate over the coming quarters supported by the recent pick up in transaction activity.

The number of residential transactions in Jeddah rose by 82% YoY in Q3 2019, pointing to a recovery for the fourth consecutive quarter. Soft market conditions, efforts to expand the mortgage market, large-scale housing schemes, and improving consumer sentiment have contributed to this positive momentum.

Market-wide sale prices for apartments across Jeddah declined by 7% in Q3 2019.
The value of residential transactions in the DMA increased by 34% YoY in Q3 2019, mainly the result of an increase in transaction volumes.

The stock of residential units in the DMA ended Q3 2019 at around 323,000 units. We expect circa 17,000 residential units to be handed over between 2019 and 2021.

Following a marginal YoY decrease in previous quarter, residential sale prices appear to have stabilised in Q3 2019. Villa sale prices displayed a 0.3% YoY increase in Q3 2019, indicating that the market may be heading towards the bottom of its cycle.

Market-wide average sale prices for apartments across the DMA declined by 4% in Q3 2019 YoY, pointing to the fact that the rate of decline in prices has moderated compared to previous quarters.

We expect the volume of transactions to maintain a positive momentum over the next 12 months, underpinned by the Sakani affordable housing program and the regulatory efforts to expand the mortgage market. In terms of sale prices, the rate of decline is expected to further moderate over the coming quarters supported by the recent pick up in transaction activity.
In Q3 2019 average rental rates in Riyadh’s office sector stood at 1,460 SAR/sqm and 768 SAR/sqm across the Grade A and the Grade B segments respectively.

Rents across Riyadh continued to soften in Q3 2019 with city-wide rents declining by 5% YoY. Grade A rents fell by 3% YoY, while Grade B rents fell by a more significant 8% over the same period. The faster rate of decline across the Grade B space compared to the Grade A space has to be seen within the context of a lack of Grade A space which continues to underpin rents in this segment.

Riyadh’s office stock stood at around 3.95 million sqm GLA at the end of Q3 2019. By 2021, it is expected to reach an estimated 4.68 million sqm GLA, assuming that part of the office space from KAFD gets released to the market in 2021.

Market-wide vacancy in Riyadh stood at 19% in Q3 2019. Occupancy in prime schemes remains high as the market is characterised by limited Grade A stock. This contrasts with higher vacancy rates within the Grade B segment where demand is weakening as occupiers look to upgrade their premises amid tenant friendly market dynamics.

Although we have seen an improvement in business sentiment in Riyadh, we expect the office sector to remain under pressure over the next 12 months. Rents and occupancy rates are likely to soften further as supply outstrips demand for the foreseeable future. Longer term, we see demand for office space picking up from current levels as economic reforms start feeding into the wider system.
In Q3 2019, average rental rates in Jeddah’s office market stood at 1,048 SAR/sqm and 749 SAR/sqm across the Grade A and the Grade B segments respectively.

 rents across Jeddah continued to soften throughout the second quarter of 2019 with city-wide rents registering a 10% YoY decline. Grade A rents fell by 8%, while Grade B rents fell by 11% over the same period.

In Q3 2019, Jeddah’s office stock stood at around 1.21 million sqm GLA at the end of Q3 2019. By 2021, the total supply of office space is expected to be around 1.68 million square metres GLA.

Market-wide vacancy in Jeddah stood at 22% in Q3 2019 with a few select Grade A buildings continuing to perform above market average.

Due to soft occupier demand and economic conditions, we believe that any increase in demand for office space will remain subdued in the short term, with rental and occupancy rates likely to remain under pressure. Schemes which have good floor plates and are well located will have the potential to outperform the rest of the market.
In Q3 2019 average rentals rates in the DMA’s office sector stood at 958 SAR/sqm and 661 SAR/sqm across the Grade A and the Grade B segments respectively.

Rents across the DMA continued to soften throughout the third quarter of 2019 with city-wide rents registering a 5% decline on a YoY basis. Grade A rents fell by 5%, while Grade B rents fell by 6% over the same period.

Currently there are around 14 active projects within the DMA, expected to be delivered by 2021. These projects are either in the execution phase or in the study/design phases. We remain cautious about the delivery of scheduled projects within the specified timeframe and expect some delays given market conditions.

The DMA’s office stock stood at around 1.13 million sqm GLA at the end of Q3 2019. By 2021 the total stock of office space is expected to be around 1.42 million sqm GLA.

Market-wide vacancy in the DMA market stood at 32% in Q3 2019 unchanged from the previous quarter. Vacancy in well located prime and Grade A buildings remained relatively low whereas lower quality schemes have seen their vacancy levels trending higher.

Given a subdued occupier demand and the large pipeline of office space that could be released on the market (c. 300,000 sqm GLA over the next three years), we expect rental and occupancy rates across the DMA’s office market to remain under pressure in the short to medium term.
Average Daily Rates (ADR)

-6.0% Aug YTD 2018 YoY % Change
-9.1% Aug YTD 2019 YoY % Change

ADRs in Riyadh continued to soften on the back of supply dynamics and increasing price competition amongst hotels. Cost cutting measures implemented by corporate entities placed further downward pressure on rates.

Occupancy Rates

+1.4 pp Aug YTD 2018 YoY % Change
+3.7 pp Aug YTD 2019 YoY % Change

City-wide occupancy levels increased by 3.7 percentage points YoY in Aug YTD 2019. This reflects a pickup in inbound corporate demand (primarily consultants, contractors and tech) primarily linked to governmental initiatives aimed at activating the Saudi tourism sector.

Revenue Per Available Room (RevPAR)

-4.7% Aug YTD 2018 YoY % Change
-5.7% Aug YTD 2019 YoY % Change

RevPAR across hotels in Riyadh declined YoY by 5.7% in Aug YTD 2019, primarily attributable to a more rate sensitive guest profile. This is reflective of the wider macroeconomic conditions throughout the GCC.

As of Aug YTD 2019, the luxury and upper upscale (typically associated with a 5-Star product) accounted for 38% of the total Riyadh quality hotel supply. The upscale, upper mid-scale and mid-scale segments account for 27%, 23% and 11% of the total quality hotel supply, respectively.

Despite RevPAR facing downward pressures over the last few years, the hospitality sector is expected to recover over the medium term as Riyadh remains a focal point for future business and tourism growth supported by government initiatives in favour of increased visitation and public investments in infrastructure and tourism in line with Vision 2030.

As of Aug YTD 2019, the total quality hotel supply in Riyadh stood at 16,211 rooms. Taking into consideration projects that are currently under construction, supply is expected to increase by 27% until the end of 2021.

Source: STR
In Aug YTD 2019, occupancy levels decreased by a 1.0 percentage points on a YoY basis. Jeddah's occupancy rates compare favourably to other key cities in the Kingdom.

Contrasting with a positive performance in 2018, RevPAR across hotels in Jeddah declined by 12.3% in Aug YTD 2019 on a YoY basis. This RevPAR decline has been led by ADR's rather than occupancy rates.

We expect occupancy rates and ADRs to remain under pressure over the next 12 months due to a large supply pipeline. The longer term outlook for Jeddah's hotel market remains underpinned by stabilising oil prices, government initiatives in favour of stimulating visitation and public investments in infrastructures and tourism in line with the Saudi Vision 2030. However, a strong supply pipeline may soften potential growth.

As of Aug YTD 2019, the total quality hotel supply in Jeddah stood at 10,937 rooms. Taking into consideration projects that are currently under construction, supply is expected to increase by 44% until the end of 2021.
Although rates declined significantly, visitation and hotel demand to DMA increased YoY with occupancy recording double digit growth of 12.8 percentage points in Aug YTD 2019. This increase was primarily spurred on by SCTH’s ‘Saudi Seasons’ initiative, which included Sharqiah Season in March that featured a number of events e.g. Sharqiah Music Festival.

RevPAR continued to soften further in Aug YTD 2019 recording a decline of 4.8%, which was primarily attributable to rates.

As of Aug YTD 2019, the luxury segment accounted for the smallest share at 10%, followed by the upper upscale and midscale segments, both at 13% of total quality hotel supply. The upscale and upper midscale segments account for the largest share of the total quality hotel supply at 30% and 34%, respectively.

Rates are expected to continue to experience pressure as a result of a significant supply pipeline, which is likely to soften RevPAR further. Nevertheless, occupancy is likely to remain stable on the back of the government’s push towards tourism growth coupled with stabilising oil prices.
In Q2 2019 average rental rates in super regional and regional malls were recorded at 2,748 SAR/sqm, whilst community malls rentals stood at 2,093 SAR/sqm.

Rents across Riyadh’s retail market continued to soften in the second quarter of 2019, falling by 5% YoY on average. Super regional/regional malls rents fell by 2% while community malls rents registered a more significant 9% decline over the same period.

Riyadh’s retail stock stood at around 2.6 million sqm of mall-based retail space at the end of Q2 2019. By 2021, the total supply of structured retail space is expected to be around 3.31 million sqm.

Market-wide vacancy in Riyadh stood at 16% in Q2 2019. The average vacancy rates in super regional/regional malls remained relatively low whereas community malls and lesser quality retail centres have seen their vacancy rates trending higher.

We expect the retail sector in Riyadh to remain challenged by a significant supply pipeline and increased competition from e-commerce. Therefore, we expect rental and occupancy rates to remain under pressure over the next 12 months.
JEDDAH RETAIL MARKET

Jeddah's retail stock stood at around 1.87 million sqm of mall-based retail space at the end of Q2 2019. By 2021, the total supply of structured retail space is expected to be around 2.7 million sqm.

There are approximately 16 active projects within Jeddah, with delivery dates up to 2021, which are either being executed or in the study or design phase. The total value of these projects is estimated at around USD 1.3 billion.

Jeddah’s retail stock stood at around 1.87 million sqm of mall-based retail space at the end of Q2 2019. By 2021, the total supply of structured retail space is expected to be around 2.7 million sqm.

As at Q2 2019 average rental rates in super regional and regional malls were recorded at 2,945 SAR/sqm, whilst community mall rentals stood at 1,844 SAR/sqm.

Super regional and regional mall rents across Jeddah remained unchanged in Q2 2019 on a YoY basis. Whilst average lease rates for community centres fell by 4% over the same period.

It is expected that the lease rates of regional and super regional malls will remain stable during the next 12 months due to a limited supply of retail space in this segment of the market. However, we expect market conditions to remain challenging in the community malls segment, exerting further pressures on rental and occupancy rates over the next 12 months.

Market-wide vacancy in Jeddah remained unchanged at 13% in Q2 2019. Given the soft economic conditions and the growth of e-commerce, landlords continue to offer flexible leasing options to retail tenants.
As at Q2 2019 average rental rates in super regional and regional malls were recorded at 2,315 SAR/sqm, whilst community mall rentals stood at 1,725 SAR/sqm.

On average, super regional/regional mall rents across the DMA fell by 2% YoY in Q2 2019, whilst community mall rents declined by 4%.

Market-wide vacancy in the DMA market stood at 7% in Q2 2019. Vacancy rates in super regional/regional malls remained relatively limited whereas community malls and low quality retail centres have seen their vacancy rates trending higher.

Currently there are approximately 17 active projects within the DMA, with delivery dates up to 2021, which are either being executed or in the study or design phase.