

As Saudi Arabia's industrial and logistics sector continues to mature it is providing new opportunities for occupiers and investors



SAUDI ARABIA INDUSTRIAL MARKET REVIEW

H1 2020



MACROECONOMIC OVERVIEW

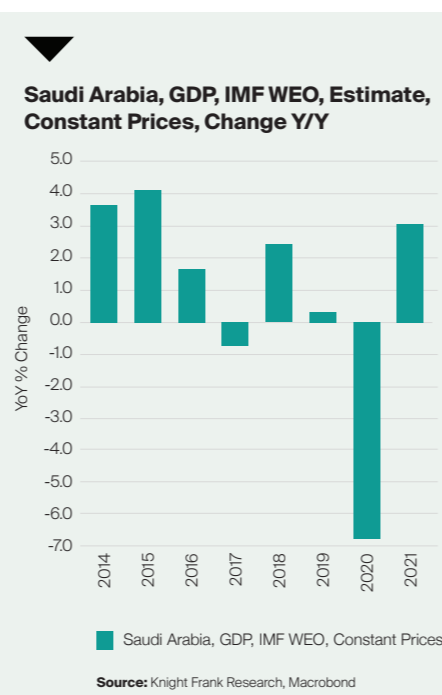
The COVID-19 pandemic, which has spread to around 185 countries and territories, has severely impacted global economic activity across the world. Prior to the onset of the pandemic, global economic growth looked set to enter a renewed phase of growth, where global GDP was expected to grow by 3.3% in 2020, up from 2.9% in 2019. However, as a result of COVID-19 these forecasts have been slashed. In its June 2020 World Economic Outlook, the IMF now expects the global economy to contract by 4.9% in 2020 before returning to a growth in 2021 with a growth rate of 5.4%. Advanced economies are expected to bear the brunt of this economic contraction with a projected contraction in GDP of 8.0% in 2020, compared to the 3.0% contraction in GDP expected in emerging and developing economies.

Pre COVID-19, the global manufacturing sector was already witnessing considerable headwinds as a result of the US-China trade war and a weak

demand backdrop. With almost a third of the global population going into lockdown for an elongated period, demand came to a virtual standstill. As a result, the IMF expects global trade volumes to fall by 11.9% in 2020 before growing by 8.0% in 2021.

Saudi Arabia's GDP is expected to contract by 6.8% in 2020 on the back of strict lockdown measures, the collapse and then tepid recovery in oil prices and subsequent reductions in production as part of the OPEC+ deal, where non-oil GDP is expected to decline by 4.0% in 2020, according to initial estimates by the IMF.

More so, whilst the tripling of VAT from 5% to 15% may help bolster public finances in the short term, it is likely to come at a cost of non-oil GDP contracting at a faster rate than the IMF's initial forecast. Looking ahead, GDP is forecast to grow by 3.1% in 2021, as oil prices and consumption recovers to pre-COVID-19 levels.



SECTOR OVERVIEW

Despite some of the immediate challenges that the Saudi Arabian economy faces, the fundamentals underpinning the development of Saudi Arabia's industrial and logistics sector are continually strengthening and in time will mean the sector will provide ample investment opportunities. In the short term, to help the sector deal with the demand shock of COVID-19, the Saudi Industrial Development Fund (SIDF) has announced several initiatives including the rescheduling of loan payments for small and medium enterprises (SMEs) and medical factories, making available new financing products for pharmaceutical and medical supplies producers and revolving lines of credit initiatives to finance operating expenses of qualified SIDF SME clients.

More so, the government has identified the industrial and logistics sector as a key component of its economic diversification strategy. As part of

Vision 2030, the National Industrial Development Logistic Program (NIDLP) looks to position Saudi Arabia as a leading industrial destination and as a global logistics hub for the mining, energy and logistics sectors.

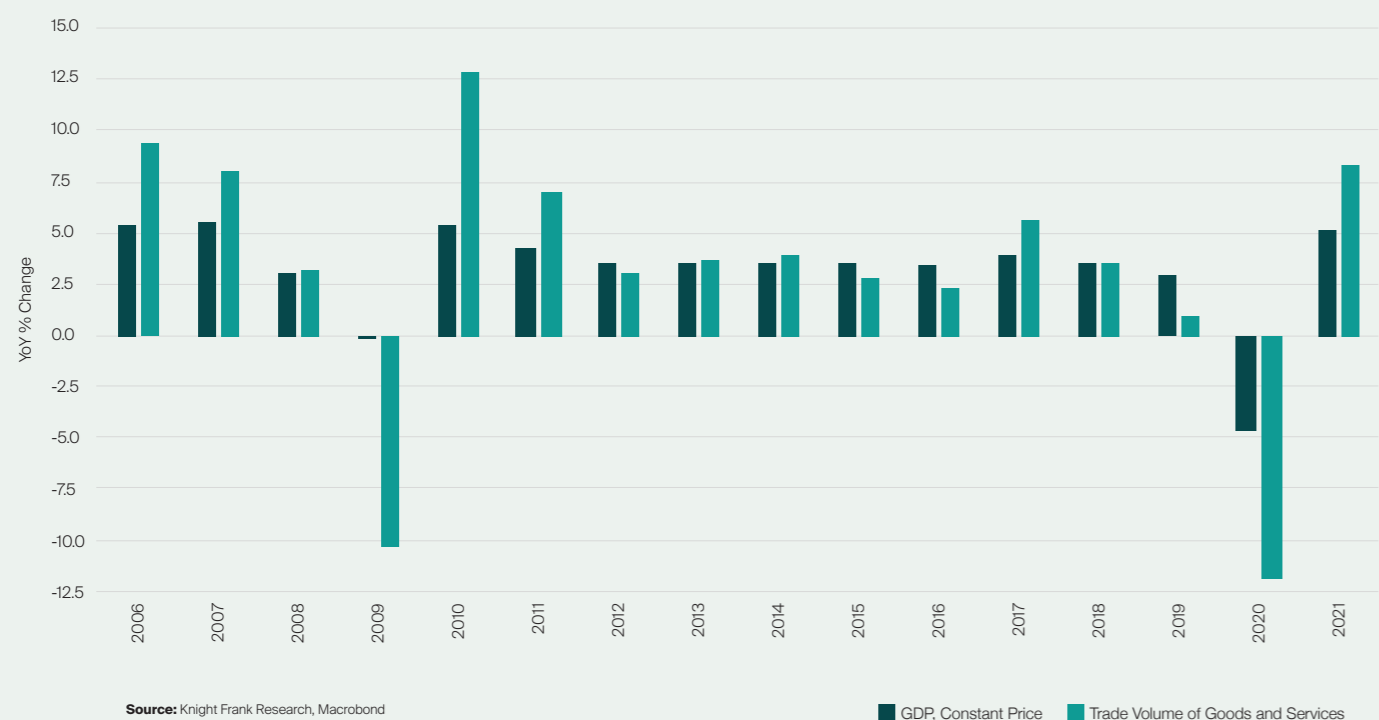
The NIDLP program aims to transform Saudi Arabia into a leading industrial powerhouse and international logistic hub, generating employment opportunities for Saudi nationals, boosting the country's trade balance and maximising local production.

In an attempt to achieve these objectives, the NIDLP program plans to provide a range of essential enablers, including the provision of financing, development of infrastructure, implementation of digitisation procedures, enhancing research, innovation and training and raising the efficiency of available cadres.

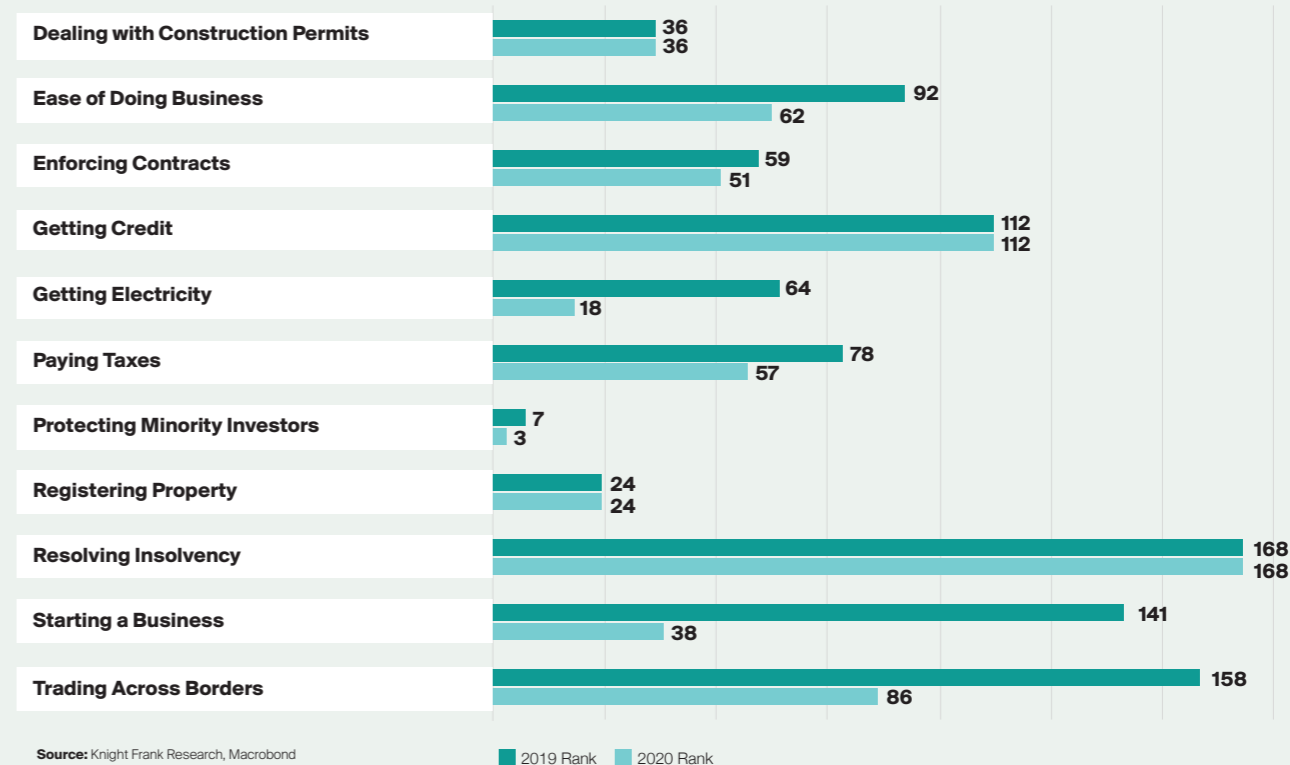
These long term initiatives will be supported by the recent improvement of Saudi Arabia's soft infrastructure where its ease of doing business ranking has improved from 92nd in 2019 to 62nd in 2020.

These initiatives and a more conducive business environment are set to underpin growth in Saudi Arabia's industrial and logistics sector according to data from Oxford Economics. Saudi Arabia's industrial sector (which consists of the extraction, manufacturing, utilities and construction sectors) is expected to grow by 15.1% over the 10 years to 2030 whereas its transport, storage and information and communication services sector is expected to grow by 27.8% over this period. Employment over the same period is expected to increase in both sectors by 14.8% and 12.8% respectively. By 2030, both sectors will account for 33.7% of total employment in Saudi Arabia.

Global GDP and Trade Volumes



Saudi Arabia, Ease of Doing Business Ranking



INDUSTRIAL DIVERSIFICATION

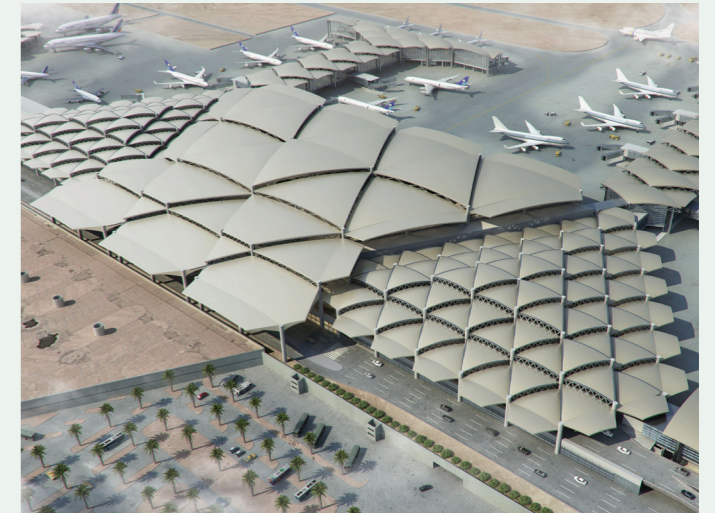
The Saudi Arabian government has implemented several diversification initiatives, the industrial sector is one of the core sectors where such economic diversification is targeted to be achieved from. These initiatives include implementation of required infrastructure, construction of the industrial cities of Jubail and Yanbu, as well as other industrial cities in various other regions.

This is in addition to waiving expatriate workers' fees in the industrial sector for five years.

Saudi Arabia's Vision 2030 outlines the logistics and manufacturing sectors as one of the key drivers in its economic diversification strategy. The development and growth of the logistics and manufacturing industries is being catalysed by

an attractive ecosystem consisting of industrial cities, well-developed infrastructure, high-quality supply chains, and a ever improving logistics network. To gain economic benefits from these underlying fundamentals, we have witnessed the launch of several industrial projects across the Kingdom.

Saudi Arabia's Vision 2030 outlines the logistics and manufacturing sector as one of the key drivers in its economic diversification strategy



King Salman Energy Park (SPARK)

Project Location Eastern Province

Developed/Managed By Spark Energy Park will be managed and anchored by Saudi Aramco

Project Phasing The project will be developed over three phases across a 50-square kilometre area, with phase one already underway with delivery planned for by 2021

Project Goals and Objectives Once fully completed it will create c.100,000 direct or indirect jobs and contribute more than \$6 billion to the Kingdom's GDP

Asfan Smart Industrial City 2, Jeddah

Project Location Asfan area in the North West of Jeddah

Developed/Managed By The project is developed by the Saudi Industrial Property Authority (MODON)

Project Phasing Phase 1 occupies 1.2 million square meters and was delivered in 2017

Project Goals and Objectives Asfan Smart Industrial City 2 is spread over 3.8 million square meters and once completed it will offer 2,095 industrial facilities, 183 warehouses and 22 factories

King Abdullah Economic City (KAEC)

Project Location Along the Red Sea, around 100 km North of Jeddah

Developed/Managed By The project is being developed by Emaar as a joint venture between Emaar International and local Saudi partners

Project Phasing The project is being developed over 173 square kilometres, with the majority of phases already complete

Project Goals and Objectives KAEC, along with five other economic cities, is part of an ambitious program to make Saudi Arabia a top global investment destination

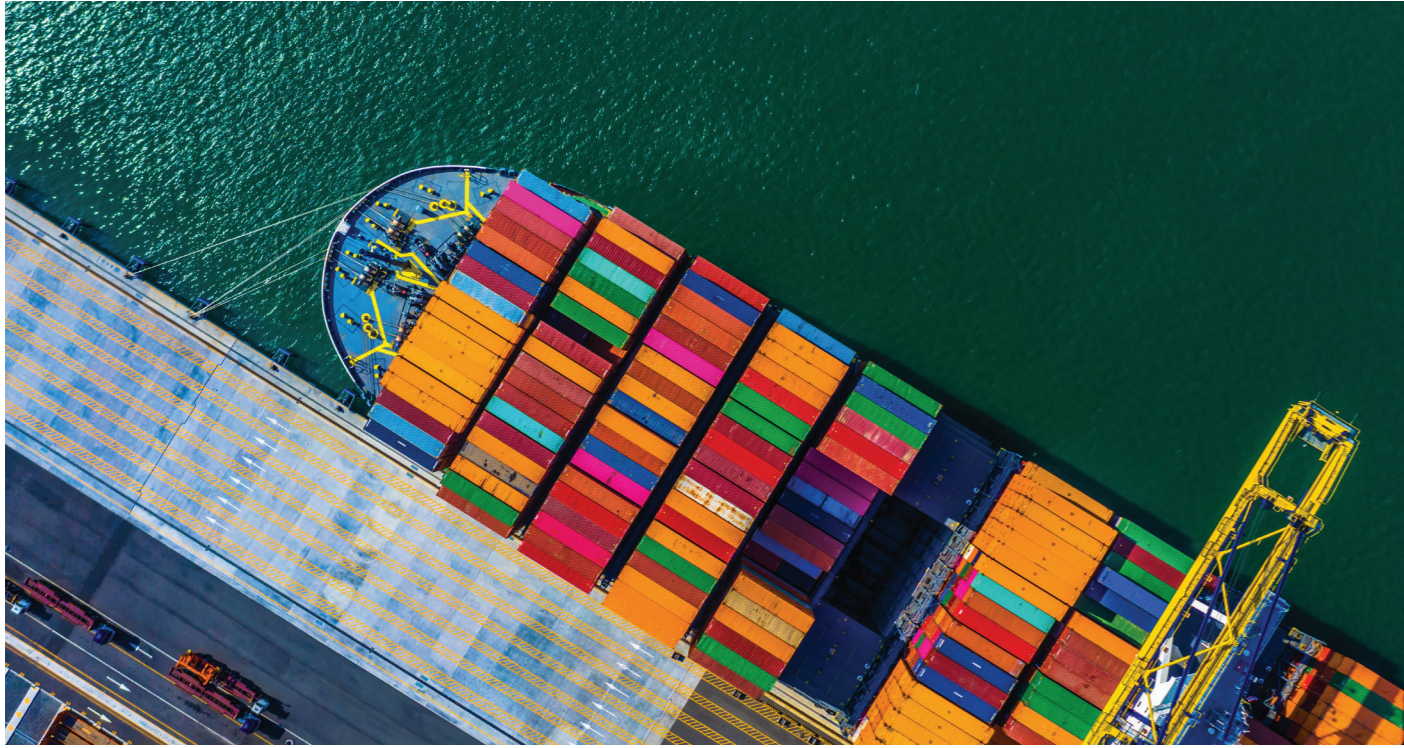
Riyadh Integrated Logistics Bonded Zone (ILBZ)

Project Location King Khalid International Airport

Developed/Managed By Announced by Royal Decree in 2018, it is one of the first projects led by the General Authority of Civil Aviation (GACA)

Project Goals and Objectives It aims to transform the Kingdom into a leading industrial power and an international logistics hub. It also aims to attract international companies by providing special rules and regulations to facilitate ease of doing business

SAUDI ARABIA INDUSTRIAL MARKET OVERVIEW



The Saudi Arabian industrial and logistics market is divided into two types of industrial developments, first those provided by the Saudi Authority for Industrial Cities and Technology Zones (MODON) and secondly private industrial cities.

MODON currently has 35 industrial cities which are either completed or under development, spanning almost 200 million square metres across Saudi Arabia. All activities in MODON's industrial cities are regulated by MODON.

More so, MODON aims to work with the private sector to develop the national industrial and

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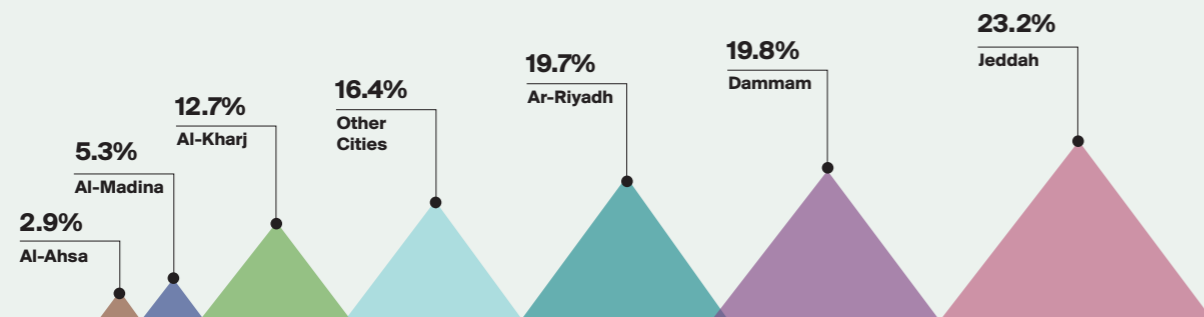
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logistics sector and provide leasable land for development as well as leasable warehousing and logistics facilities. In general, MODON's offering of infrastructure and facilities is superior to that on offer from the private sector which lack comparable infrastructure and institutional grade real estate.

Whilst private industrial developments do exist, they represent a fraction of the market. Within these industrial cities, land is not solely allocated for industrial developments. In most cases land is also allocated for the development of staff and labour accommodation, commercial spaces, retail and showroom outlets.

Industrial Cities - Developed land Supply Breakdown by Industrial



Source: Knight Frank Research

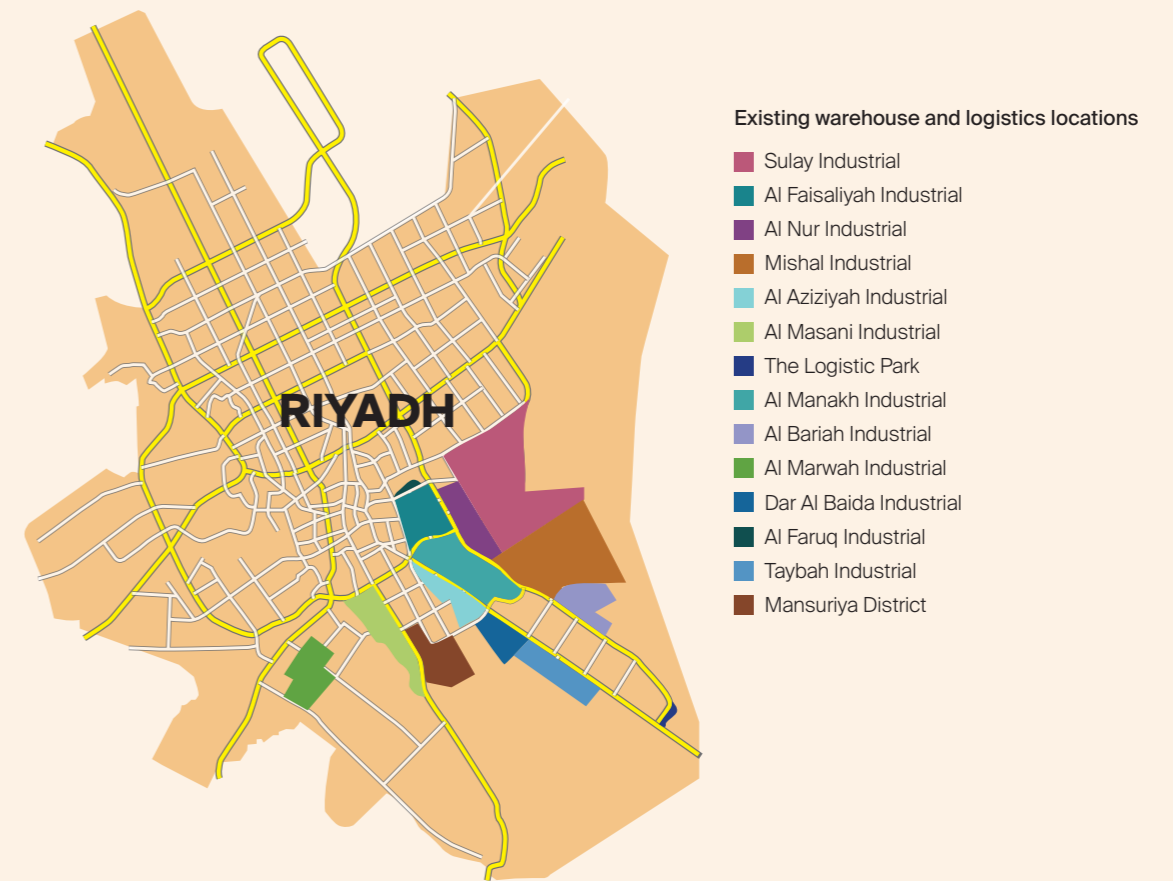
RIYADH MARKET REVIEW



Riyadh Industrial Overview



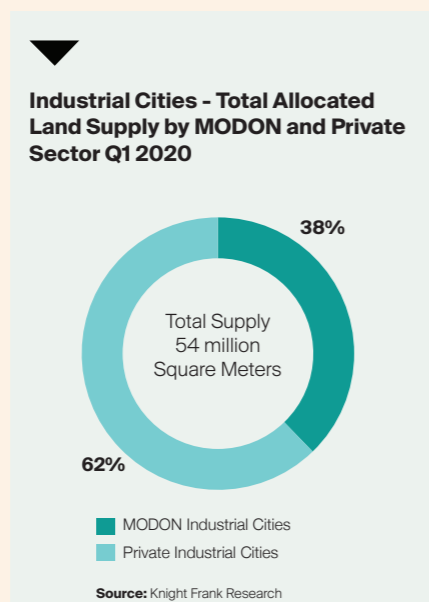
Riyadh Warehouse and Logistics Overview



Riyadh Industrial Manufacturing Sector Supply

Knight Frank research estimates that Riyadh's eight existing industrial areas and four upcoming industrial areas occupy a land area of approximately 50 million square meters. Of the 12 industrial developments, MODON has developed three of the industrial cities, which account for 38% of the total allocated land while private industrial developments accounting for the remaining eight developments.

As at Q1 2020, of the 50 million square metres of land earmarked for industrial development, circa 28 million square metres has been developed. Areas developed by MODON account for the majority of the developed area, where developments by MODON account for 73% of the total developed area. The remaining 27% of developed land has been developed by the private sector.



Riyadh Warehouse and Logistics Supply

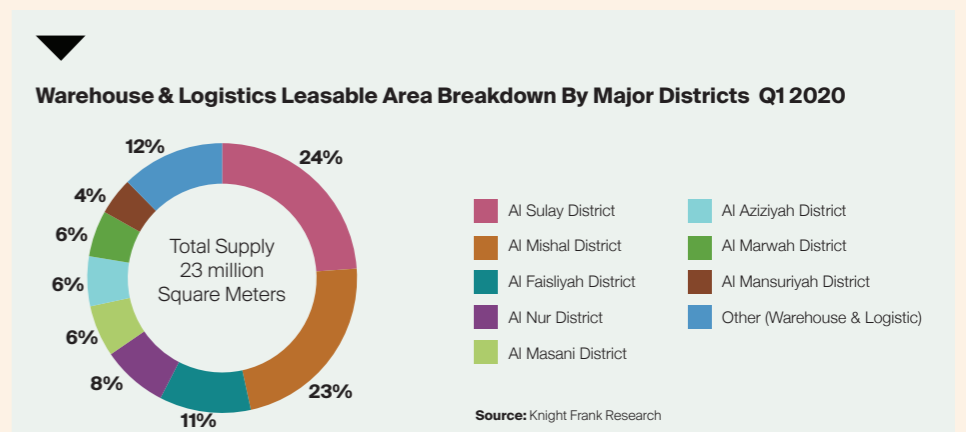
Warehousing and logistics facilities in Riyadh have historically been centred in three major districts namely Al Sulay, Al Faisaliyah and Al Aziziyah, where all three districts are almost fully developed and have longstanding tenants in place. As land availability in these areas has become scarce, there are a number of new warehousing and logistics areas which have been developed. Currently the majority of Riyadh's warehouse and logistic facilities stock is concentrated near the industrial hubs of the First and Second Industrial City and the logistics corridors of the Eastern and Southern Ring Road networks.

As at Q1 2020, Riyadh's warehouse and logistics supply stands at an estimated 23 million square metres of GLA. The vast majority of existing stock is comprised of developments featuring conventional warehouses such as dry-storage,

cold-storage, and open yards. Whilst there have been recent additions of international quality stock, stock of this caliber remains limited.

In the short to medium term, new stock is

expected to originate in a limited range of master planned industrial and logistics areas. However, rather than speculative developments, any additional developments are likely to be driven by build-to-suit requirements.



MARKET PERFORMANCE

Over recent years there have been two major driving factors which have underpinned softer market conditions in Riyadh's warehousing and logistics sector.

First, Saudi Arabia has faced a challenging macroeconomic backdrop over recent year, this has been underpinned by volatile oil prices, the implementation of VAT and the introduction of levies on expatriate workers. This has in turn has led to a softening in consumer demand and as a result, demand for warehouse and logistics real estate, which is used to service such demand, has also declined.

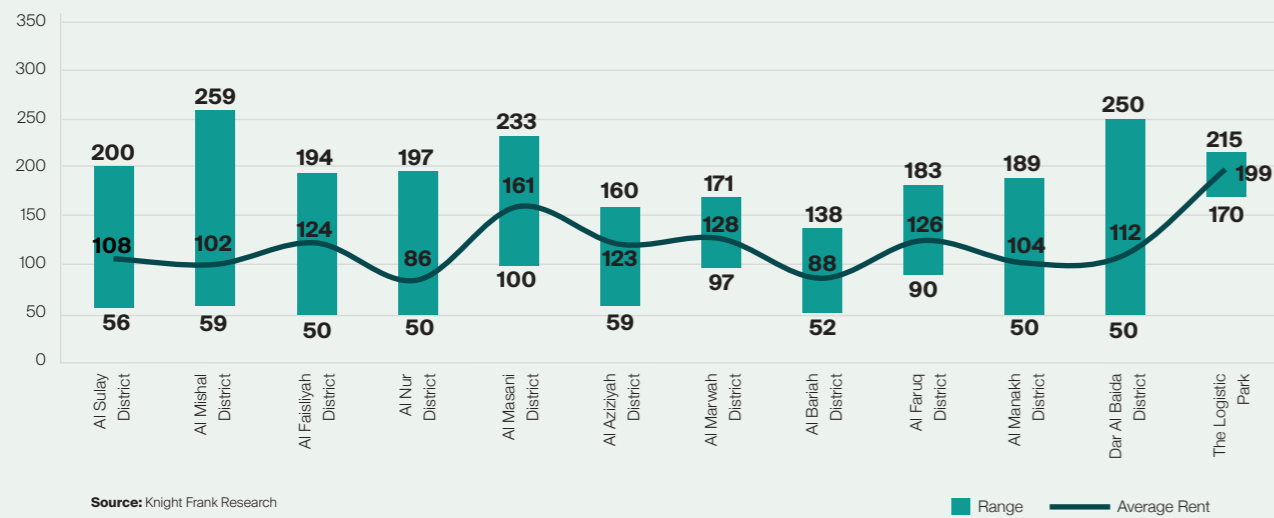
On average, rental rates in Riyadh's warehousing and logistics sector fell by 5.4% in the year to Q1 2020.

Secondly, with a flight to quality, rental rates in assets of Grade B and below quality have begun to decline at much faster rates compared to Grade A stock, where rents have remained relatively stable as a result of limited supply.

As at Q1 2020, rental rates for dry-storage averaged SAR 120/sqm/annum. However, as a result of varying quality in the market, rental rates range from SAR 50/sqm/annum to SAR 250/sqm/annum.

Occupancy in Riyadh's warehousing and logistics sector decreased by four percentage points in the year to Q1 2020, where occupancy stood at an estimated 90%.

Warehouse and Logistics Lease Rates By Districts Q1 2020

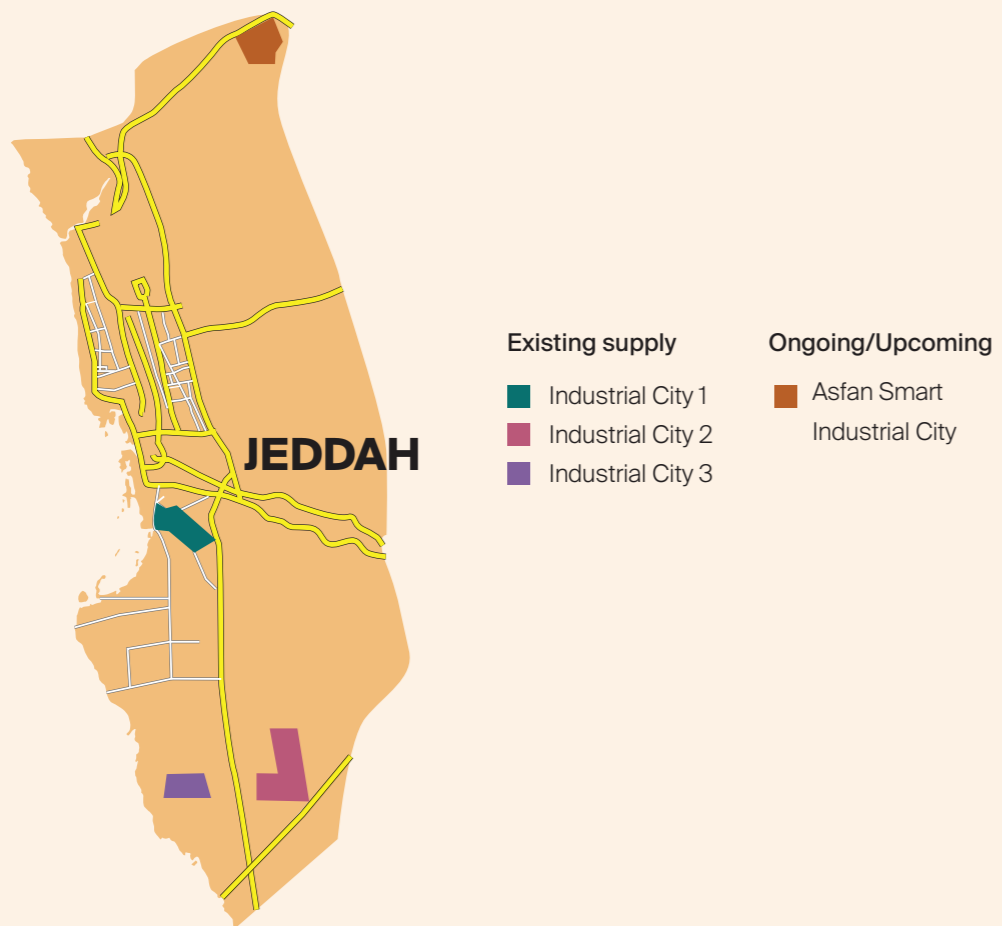


Low-quality warehouses are expected to see reduced levels of demand in the coming years as prospective tenants will more likely demand better designed, sustainable, high-quality premises.

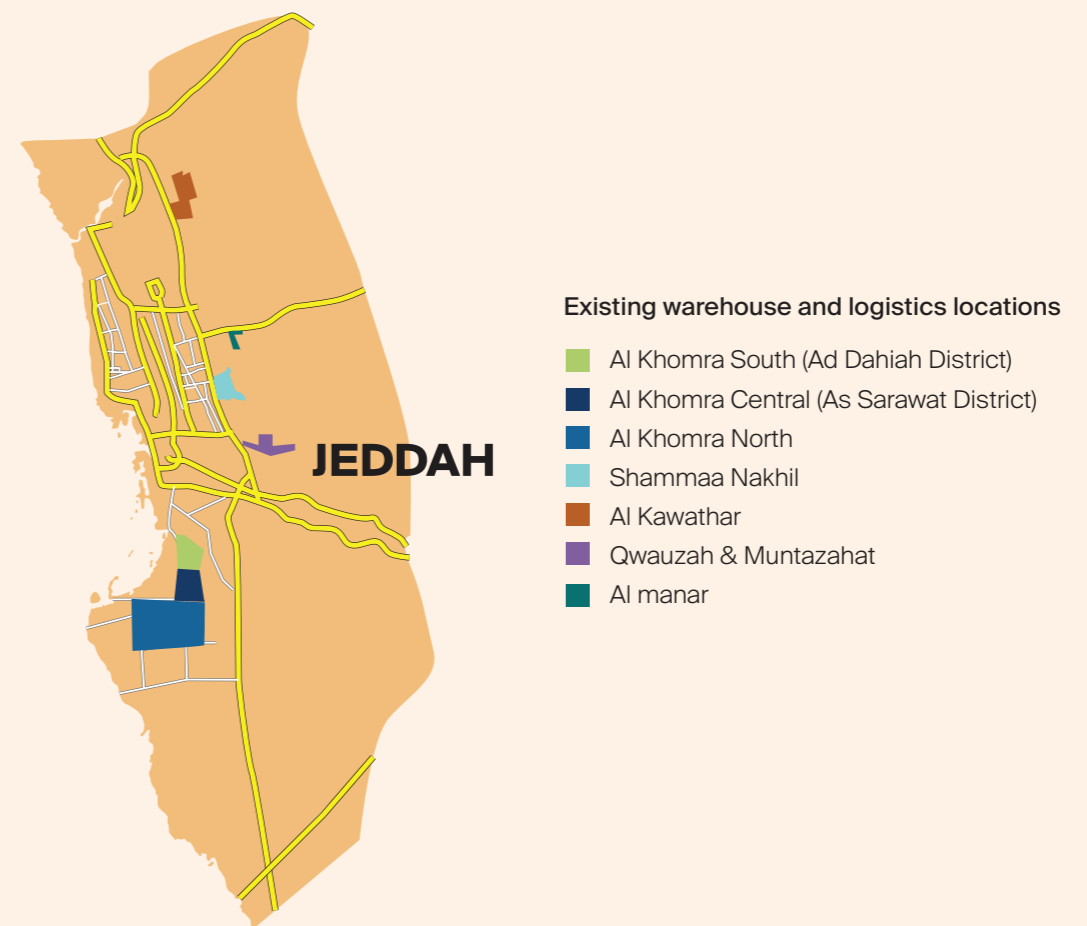
JEDDAH MARKET REVIEW



Jeddah Industrial Overview



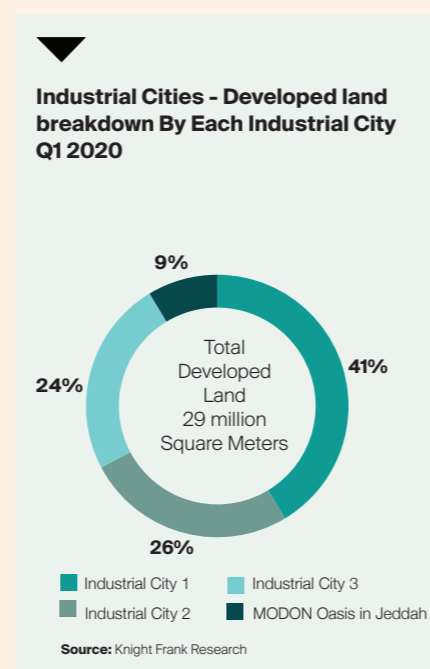
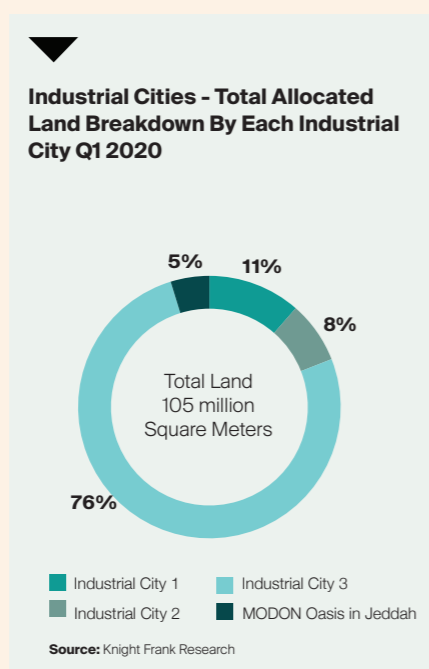
Jeddah Warehouse and Logistics Overview



Jeddah Industrial Manufacturing Sector Supply

As at Q1 2020, Jeddah's four industrial cities have a total of approximately 105 million square metres of land allocated for industrial development, with all areas being developed by MODON. Of the four areas, Industrial City 3 accounts for 76% of the total land allocation.

As at Q1 2020, of the 105 million square metres of land allocated for industrial development, approximately 29 million square metres has been developed. Industrial City 1, 2, 3 and 4 account for 41%, 26%, 24% and 9% of the total developed area respectively, where the majority of the undeveloped land is located in Industrial Cities 3 and 4. Jeddah's upcoming industrial areas are situated in two main locations, the southern and north eastern parts of the city.



Jeddah Warehouse and Logistics Supply

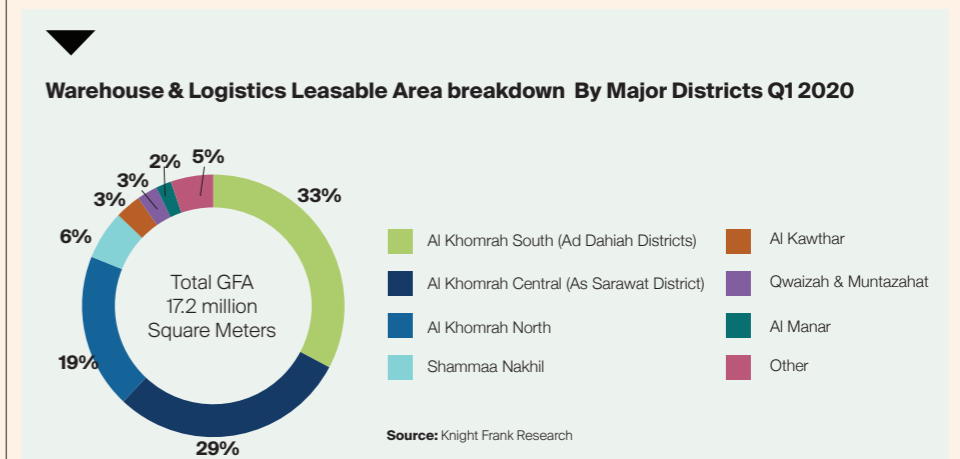
Over the last five years Jeddah's warehousing and logistics landscape has seen a marked change. One of the most notable changes which has taken place has been the relocation of industrial activities from the districts of An Nuzha and Al Jamiah as part of Jeddah Municipality's regeneration plans for these areas.

As at Q1 2020, Jeddah's warehousing and logistic facilities supply reached approximately 17.2 million square meters of GLA. The existing supply of warehousing and logistics centres in Jeddah is primarily concentrated in locations in Industrial City 1 and the Jeddah Islamic Seaport. Several other warehousing and logistic facilities are located along the logistic corridors of Haramain and Alsfan Roads.

The Al-Khomra district has the largest share of warehousing and logistics supply in Jeddah. Warehousing and logistics stock in the areas of Al-Khumra North, Central and South districts account for 81 percent of total leasable space.

The majority of Jeddah's existing supply comprises projects featuring conventional warehouses such as dry-storage, cold-storage and open yards whilst modern logistics facilities are limited in number.

Due to the availability of large land plots and proximity to Industrial City 1 and Jeddah Islamic Seaport, the majority of forthcoming warehousing and logistics stock is located within the Al-Khomra district.



MARKET PERFORMANCE

Jeddah's warehousing and logistics market has faced similar economic headwinds and structural challenges as those witnessed in Riyadh. As a result, average rental rates in the year to Q1 2020 have softened by 4.0%.

Rental rates for Grade A warehousing and logistics facilities located in close proximity to Industrial City 1, Jeddah Islamic Seaport and

along logistic corridors have remained relatively stable over this period, where such stock has been competitively priced.

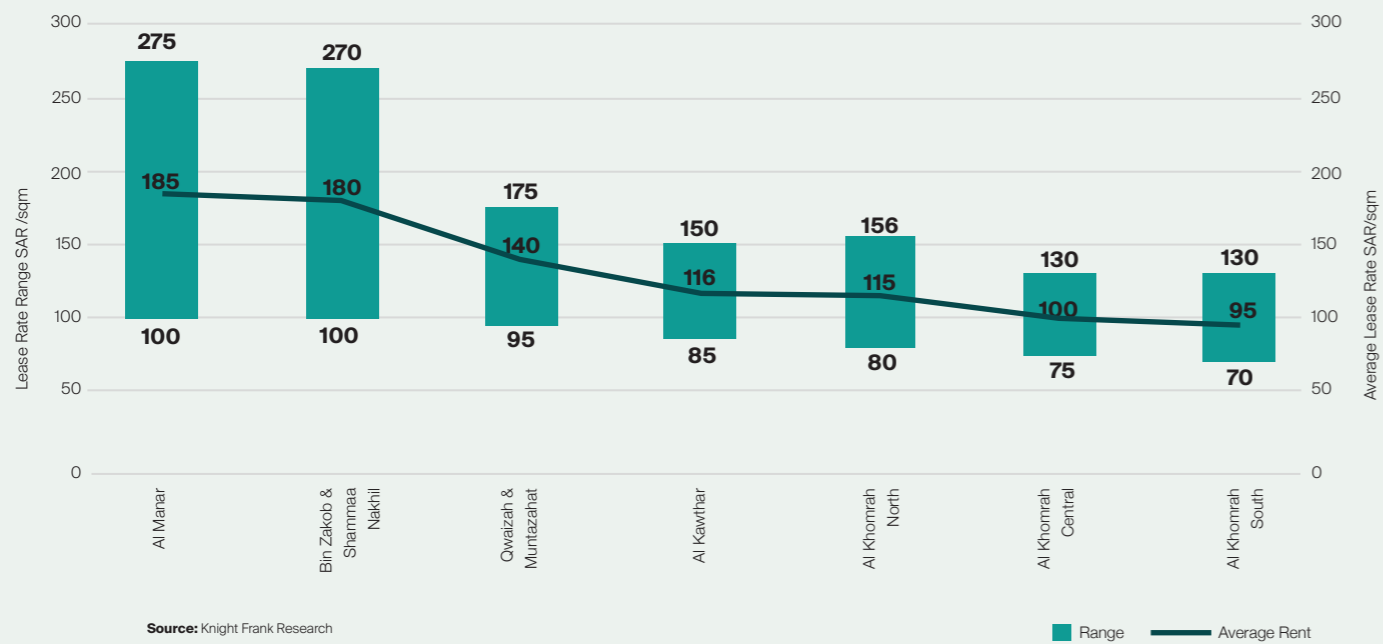
As at Q1 2020, rental rates for dry-storage facilities stood at an average of SAR 134/sqm/annum, with lease rates ranging from SAR 70 /sqm/annum to SAR 275 /sqm/annum, depending on the quality of space on offer and accessibility of the location.

Occupancy in Jeddah's warehousing and logistics sector increased by three percentage points in the year to Q1 2020, where occupancy stood at an estimated 93%.

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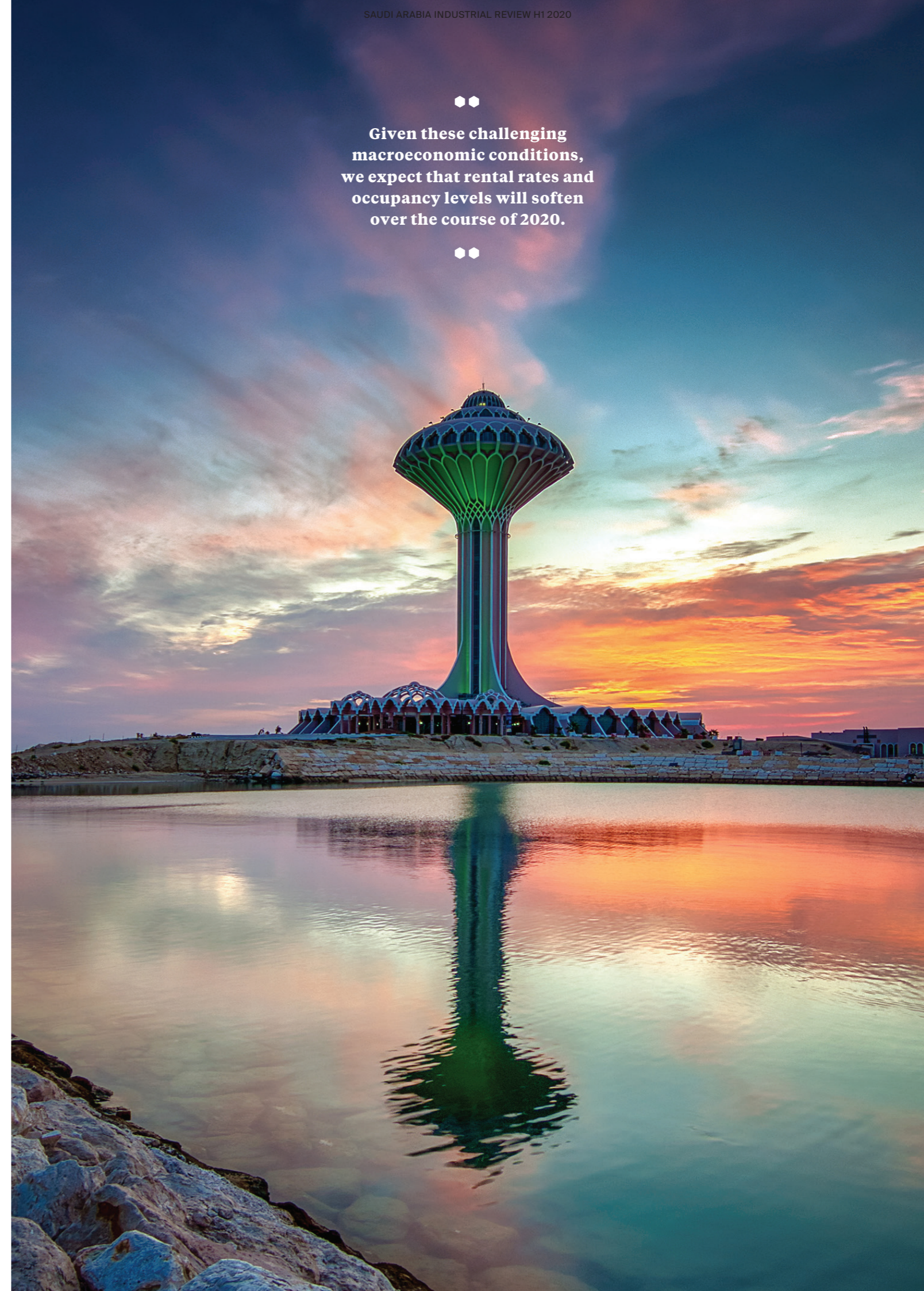
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Warehouse and Logistics Lease Rates By Districts Q1 2020



The potential growth of e-commerce is expected to become a major driver of change in the logistics sector. This fundamental shift will likely create a wave of demand for modern, international grade of logistics facilities.

Given these challenging macroeconomic conditions, we expect that rental rates and occupancy levels will soften over the course of 2020.



MARKET OUTLOOK

The outlook for Saudi Arabia's industrial, warehousing and logistics sector is likely to be challenging in the short to medium term. This trend is likely to be underpinned by lower levels of consumer demand amid expectations of a marked downturn in economic activity over the coming year as a result of the COVID-19 pandemic.

Furthermore, with government finances being materially impacted, and the tripling of VAT and increases expected in customs duties, we are likely to see demand shrink further from both the corporate and consumer sector. For the prior, the sectors most likely to be impacted include automotive, construction, retail and manufacturing, which will in turn lead to a direct reduction in demand for industrial and logistics facilities.

The Government of Saudi Arabia has enacted various stimulus packages to support the industrial and logistics sector throughout the

pandemic. In addition to the Government stimulus packages, the Saudi Industrial Development Fund (SIDF) has also announced several initiatives aimed to support the national efforts to limit the financial and economic impact

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A paradigm shift in commercial property is occurring, with the traditional bricks-and-mortar retail sector being displaced in parts by a growing industrial sector driven by the emergence of e-commerce in Saudi Arabia.
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of COVID-19 on the private sector. Whilst these efforts are likely to provide some support to the sector, the decline in demand is likely to outweigh various Government initiatives.

In the short run, Saudi Arabia's industrial and logistics sectors face some considerable headwinds, namely as a result of COVID-19 and on the back of multiple reforms enacted by the Saudi Government. For the prior, Saudi Arabia's lack of status as a global trade hub will mean the sector is likely to only face short term headwinds as a result of lower domestic demand. More so, new regulations, which may initially pose challenges, are designed for the long term prosperity of the sector. Given the prosperity nature of the sector in Saudi Arabia, Saudi Arabia's strategic location and sizeable domestic economy alongside its flexible regulations, the fundamentals underpinning a growing industrial and logistics sector remain strong, despite some of the aforementioned short run challenges.

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