

*Demand remains  
strong*

*Rents falling for poor  
quality stock*

*Institutional investment  
market emerging*

# Saudi Arabia Industrial Market Review

H1 2021





## BACKDROP

### Manufacturing sector continues to expand

Saudi Arabia's non-oil sector has grown by 3.3% over the last 12 months and now accounts for 44% of the economy, up from 41% at the same time last year. The improving share can in part be attributed to a rapidly expanding manufacturing sector, which grew at its fastest pace on record during Q1 2021. Manufacturing now accounts for over SAR 82 billion of economic activity, compared to SAR 73 billion at the same time last year.

Of the various lynchpins that sit at the heart of Vision 2030, the industrial and logistics sector is being positioned as a key dynamo of future growth in the Kingdom.

Reforms around governance and regulation, in addition to facilitating further expansion of this all-important sector include the launch of the National Industrial Development and Logistics Program in 2019, the central aim of which is to position Saudi Arabia as a leading global industrial and logistics hub.

In addition, the Saudi Industrial Development Fund was set up to play a vital role in promoting investment opportunities by improving access to finance for new industrial and logistics businesses. 212 loans worth SAR 17.6 billion were issued in 2020, up 41% from 2019. Most of the financial support was provided to businesses in the industrial, mining, energy, and logistics sectors, the vast majority of which are small and medium-sized companies.



**Of the various lynchpins that sit at the heart of Vision 2030, the industrial and logistics sector is being positioned as a key dynamo of future growth in the Kingdom.**

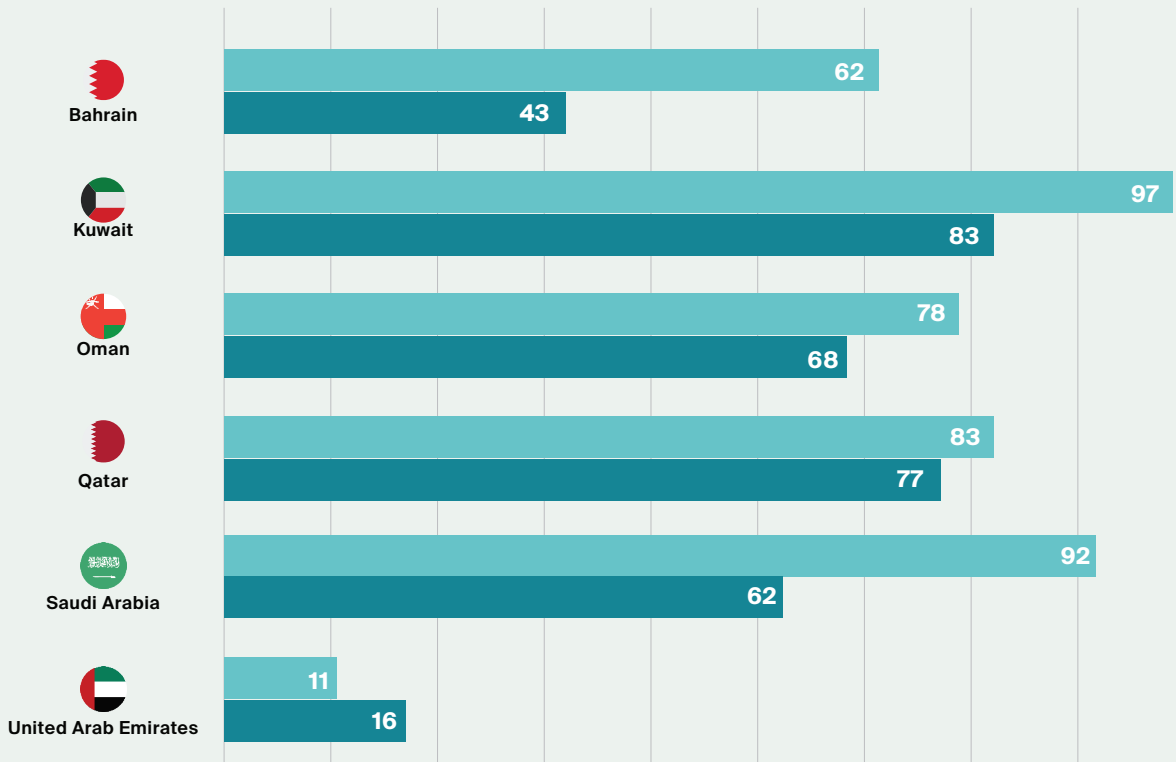


### Improved 'ease of doing business'

Furthermore, to facilitate foreign direct investment and to provide flexibility around setting up new businesses in Saudi Arabia, the government has implemented several soft infrastructure changes as well. As a result of these regulatory

changes, Saudi Arabia's 'Ease of doing Business' ranking improved from 92 in 2019, to 62 in 2020, representing the highest increase among GCC countries. Saudi Arabia now ranks third in the region in terms of ease of doing business, behind the UAE and Bahrain.

**Saudi Arabia, Ease of Doing Business Ranking**



Source: Knight Frank, World Bank

# NUMBERS YOU NEED TO KNOW



**10,000**

Number of industrial facilities  
(existing and under construction)



**530**

Number of new  
licenses issued



**300**

Number of new  
factories



**SAR 21 bn**

Capital invested by  
new factories



**29,000**

Total number of  
new jobs created

# INVESTMENT VOLUMES GROWING

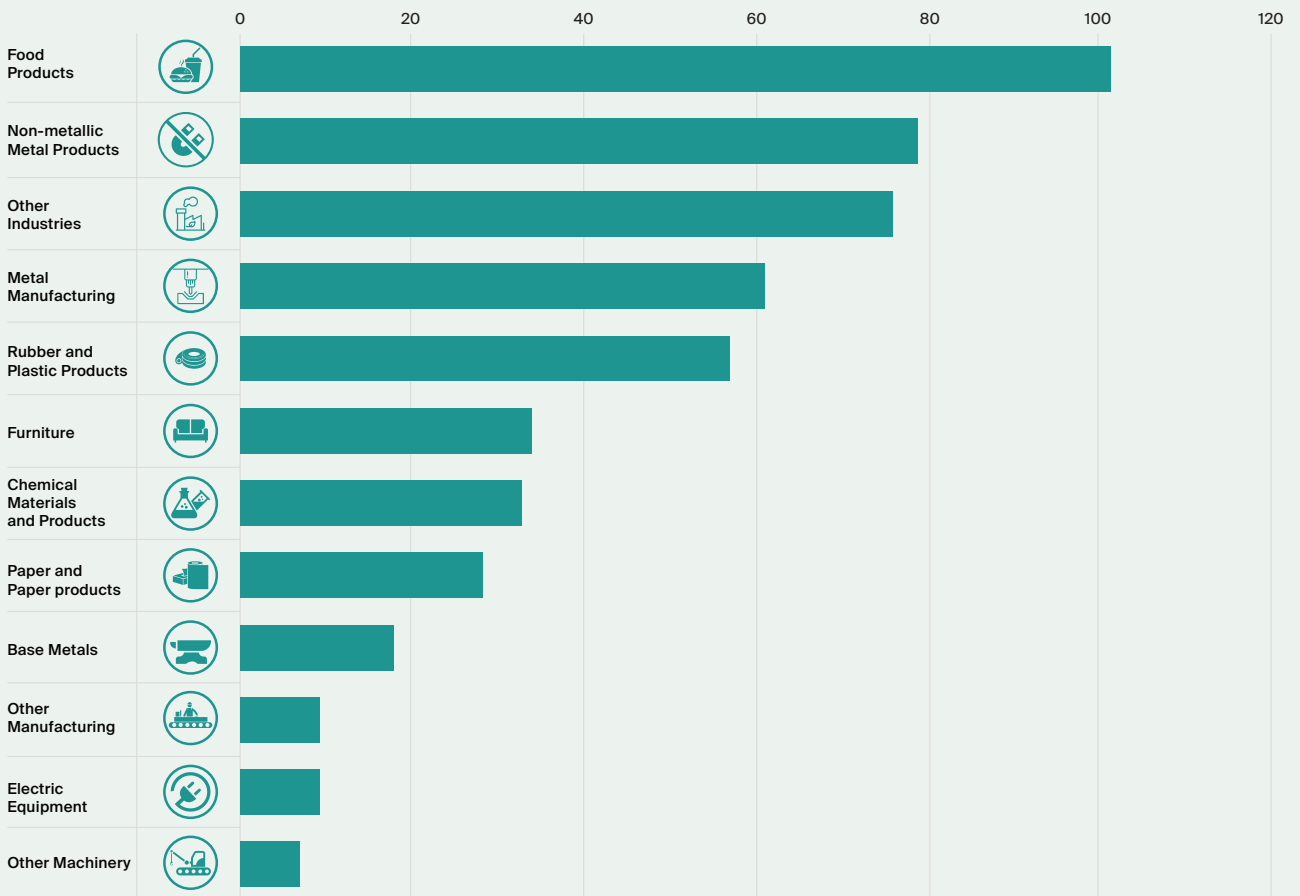
These factors together are contributing to the rapid growth of the industrial sector. Indeed, in the first half of 2021, 529 new industrial licences were issued, up 42% on H1 2020.

Investment too, is rising. According to a report issued by the Ministry of Industry and Mineral Resources, the total volume of industrial investments increased by 281% to reach SAR 20.5 billion

in the first half of 2021, compared to SAR 5.4 billion over the same period last year.

Unsurprising, the high investment levels and growth in the sector are together fueling strong jobs growth. In fact, 30,000 new job opportunities have been created in the last 12 months (Ministry of Industry and Mineral Resources).

**Number of Investment Licenses Issued By Sector**



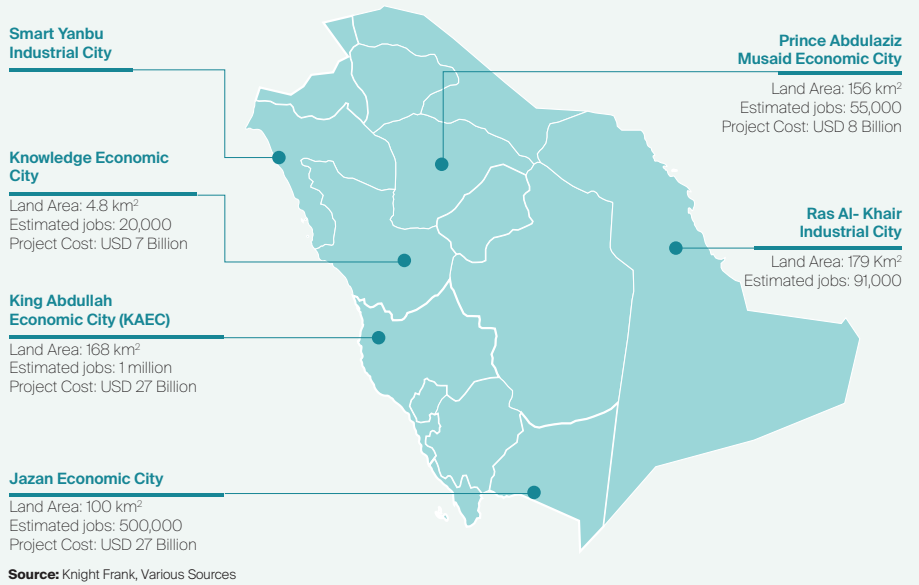
Source: Knight Frank, Ministry of Industry and Mineral Resources

# INDUSTRIAL CITIES

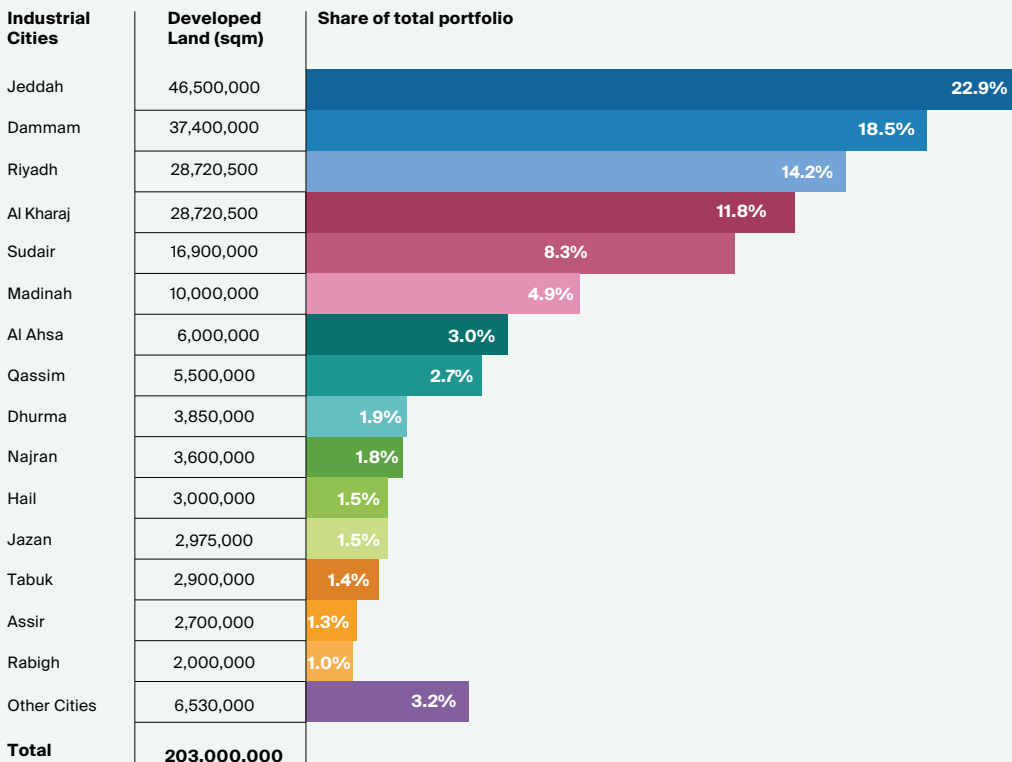
The fast paced growth in Saudi Arabia's industrial sector has also been supported by strategic and precision initiatives by MODON (Saudi Arabia's industrial real estate authority) to further grow the sector. Apart from developing and managing 36 industrial cities around the Kingdom, spread across more than 200 million sqm of developed land, MODON has started to offer new products and services, such as ready warehouses, self storage units and financing solutions to small and medium enterprises and entrepreneurs, including 'plug n' play' factories.

In addition to the 4,000 factories established in MODON-built industrial cities, the government has launched six new industrial cities and is intensively investing in state-of-the-art infrastructure to boost their attractiveness.

## New Industrial Cities



## Modon's industrial manufacturing empire



Source: Knight Frank

# ECONOMIC CITIES AND SPECIAL ZONES AIDING IN INDUSTRIAL DIVERSIFICATION IN SAUDI ARABIA






## Backdrop

The Saudi government is transforming the Kingdom's industrial sector, with the goal of creating a leading industrial powerhouse and international industrial hub. In order to achieve this vision, Saudi Arabia's government has launched several diversification initiatives.

At the core of these initiatives is the establishment of special industrial zones and economic cities, which have become catalysts for industrial development and growth. We detail four of these below.



### King Salman Energy Park (SPARK)

 <b>Project Value</b>	USD 3 billion (phase 1)
 <b>Location</b>	Eastern Province
 <b>Project Land Area</b>	50 km <sup>2</sup>
 <b>Project key Components</b>	Dry port & logistics zone, an industrial zone, a dedicated business district, residential & commercial facilities and industrial skills training centers
 <b>Project Goals and Objectives</b>	Once fully completed it will create 100,000 jobs (direct and indirect) and contribute more than USD 6 billion to the Kingdom's GDP






### NEOM Industrial City Project

 <b>Project Value</b>	USD 500 million
 <b>Location</b>	Tabuk Province of northwestern Saudi Arabia
 <b>Project Land Area</b>	14.5 km <sup>2</sup>
 <b>Project key Components</b>	Expansion of Duba port, a dedicated industrial zone, a research and innovation hub and an urban community
 <b>Project Goals and Objectives</b>	It will be the region's premier industrial zone for advanced clean industries, modern manufacturing and industrial research. It will also include a next-generation port and logistics hub






“ Saudi Arabia’s Vision 2030 has positioned the logistics and manufacturing sector as one of the key drivers in its economic diversification strategy ”



▼  
**Knowledge Economic City, Madinah**

 <b>Project Value</b>	USD 7 billion
 <b>Location</b>	Along King Abdul Aziz Road in Madinah
 <b>Project Land Area</b>	4.8 km <sup>2</sup>
 <b>Project key Components</b>	A bio-tech center, a high-tech park, an industrial research centre and a research centre dedicated to the study of Islamic
 <b>Project Goals and Objectives</b>	Once completed it will house 20,000 residents and create 20,000 jobs

▼  
**Jazan Economic City**

 <b>Project Value</b>	USD 27 billion
 <b>Location</b>	Located along the Red Sea in the south western region of Saudi Arabia
 <b>Project Land Area</b>	102 km <sup>2</sup>
 <b>Project key Components</b>	An industrial park, a sea port, food processing and packaging facilities, mining industries and a petroleum refinery
 <b>Project Goals and Objectives</b>	Once completed it will house 250,000 residents and create 500,000 new jobs



# RIYADH WAREHOUSE AND LOGISTICS OVERVIEW



## Backdrop

The demand for warehouse and logistics facilities not just in Riyadh, but across Saudi Arabia, started to weaken in 2016. This was in large part driven by the oil-price collapse induced economic slowdown, which was exacerbated by the implementation of a VAT regime, as well as the introduction of monthly levies on expatriate workers in the form of Iqama renewal fees. Anecdotal evidence suggests that this has hastened the closure of numerous small and medium enterprises, weakening demand for warehouses.

However, over the last year, we have seen a recovery in requirements. Despite the economic headwinds due to the pandemic, demand for warehouse facilities has remained high. The majority of this demand is centred on larger, modern facilities and is heavily connected to the Kingdom's megaprojects and the buoyant e-commerce sector. In fact, Saudi Arabia's e-commerce sector sales increased by 34% in 2020 to reach a record SAR 24.7 billion. Sales are projected to approach SAR 29 billion this year. In

addition, the number of online users reached 69% of Saudi Arabia's population over the same period and is anticipated to hit 80% by the end of the year.

Unsurprisingly, average rents are up 6.6% on this time last year and currently stand at around SAR 130 psm (but range from SAR 65-260 psm, depending on quality and location), while the occupancy levels have risen by two percentage points to 92% over the same period.

## Institutional investment market being created

The rising demand however is being met with limited high-quality stock. Traditionally, developers have developed warehouse and logistics facilities based on speculative demand, while built-to-suit stock has always been limited. However, this trend is reversing. Now, developers are more inclined to build new stock based on confirmed demand, or according to the tenants' specifications. This

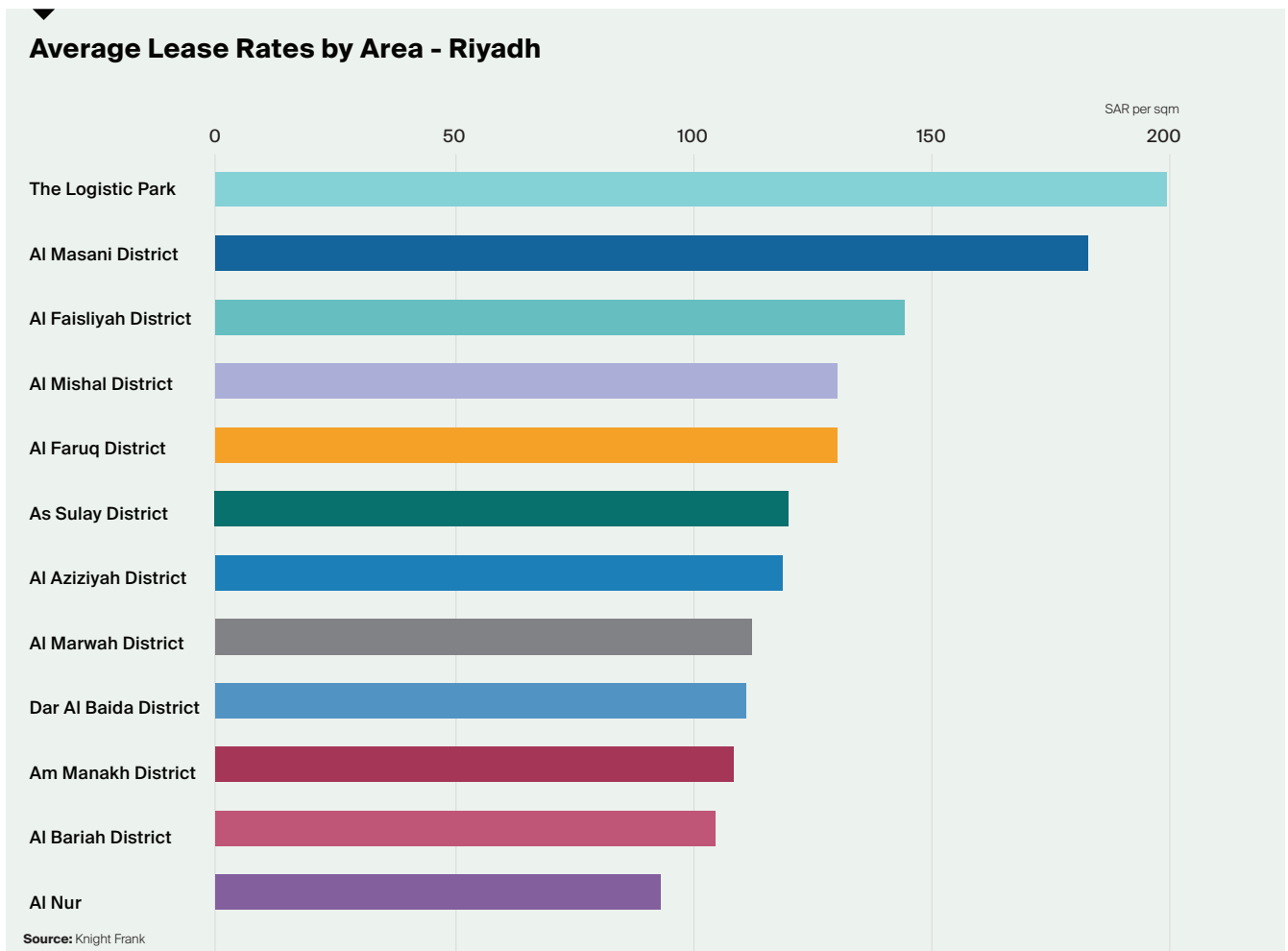
has resulted in a significant drop in the development of new warehouses and logistical facilities.

Riyadh’s warehouse stock currently stands at 23.7 million sqm. And with no major developments completed in the first half of 2021, the city’s stock level has remained relatively unchanged. The majority of Riyadh’s existing stock is characterised by low quality space, with limited services and amenities, that take the form of conventional sheds such as dry warehouses and also open yards.

With demand for higher quality, well managed stock on the rise, developers are turning their attention to delivering more modern warehouses, which is driving a flight to quality amongst occupiers and fuelling the emergence of a distinct two-tiered market. In fact, during the first half of 2021, prime rents rose by 7.6%, while rents for more secondary quality sheds declined by 3.5%.

Attracting global capital in a meaningful way has always been a challenge, not just for the Kingdom, but the region in general. Part of the challenge has been around the lack of institutional grade assets, but this is changing and some developers are turning their attention to plugging this gap. Therein lies one of the greatest opportunities in the market. Combined with adequate, internationally acceptable regulations, a vibrant industrial investment market could be on the cusp of materialising.

And when it comes to returns and future market performance projections, with new inventory likely to remain limited, rents for modern facilities are likely to accelerate upwards, particularly as the e-commerce sector in the Kingdom continues to rapidly expand.



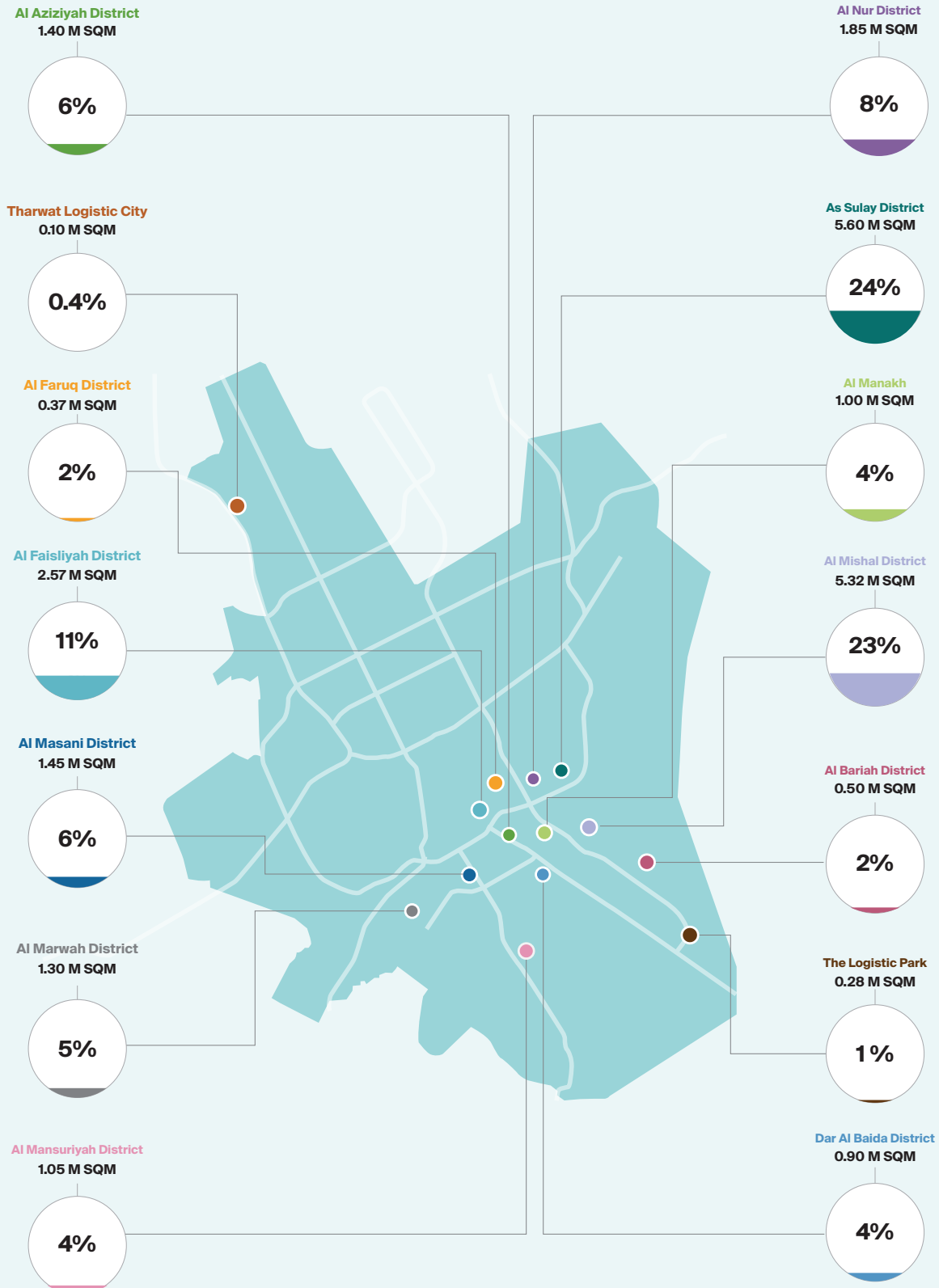
# OVERVIEW OF RIYADH'S WAREHOUSE AND LOGISTICS MARKET

WAREHOUSE & LOGISTICS TOTAL  
ALLOCATED LAND SUPPLY - H1 2021

**126.7 M SQM**

WAREHOUSE & LOGISTICS  
LEASABLE AREA - H1 2021

**23.7 M SQM**



Source: Knight Frank

Note: Bubbles indicate proportion of Riyadh's total industrial and logistics leasable space

# JEDDAH WAREHOUSE AND LOGISTICS OVERVIEW

## Backdrop

Jeddah’s warehouse supply currently stands at 17.3 million sqm and like Riyadh, with no major completions this year, stock levels are relatively unchanged on 2020. In terms of quality, Jeddah’s stock mirrors that of Riyadh: conventional sheds, including dry-storage, cold-storage and open yards. Modern warehouse and logistics schemes are limited.

The pandemic has undoubtedly changed the demand dynamics of warehouse and logistics facilities across the country. Moreover, spiking online shopping levels have fueled demand for ever more modern and sophisticated facilities that emphasise automation and digitisation, such as inventory management and product fulfilment centres.

## Rents on the rise

The rising demand has supported average rent rises of 4.5% over the last 12 months, with better quality space recording rents as high as SAR 310 psm. More secondary quality space currently lets for about SAR 70 psm. The delta between the two ends of the market is likely to widen further as the flight to quality intensifies.

Occupancy levels have also risen and now stand at 87%, a two

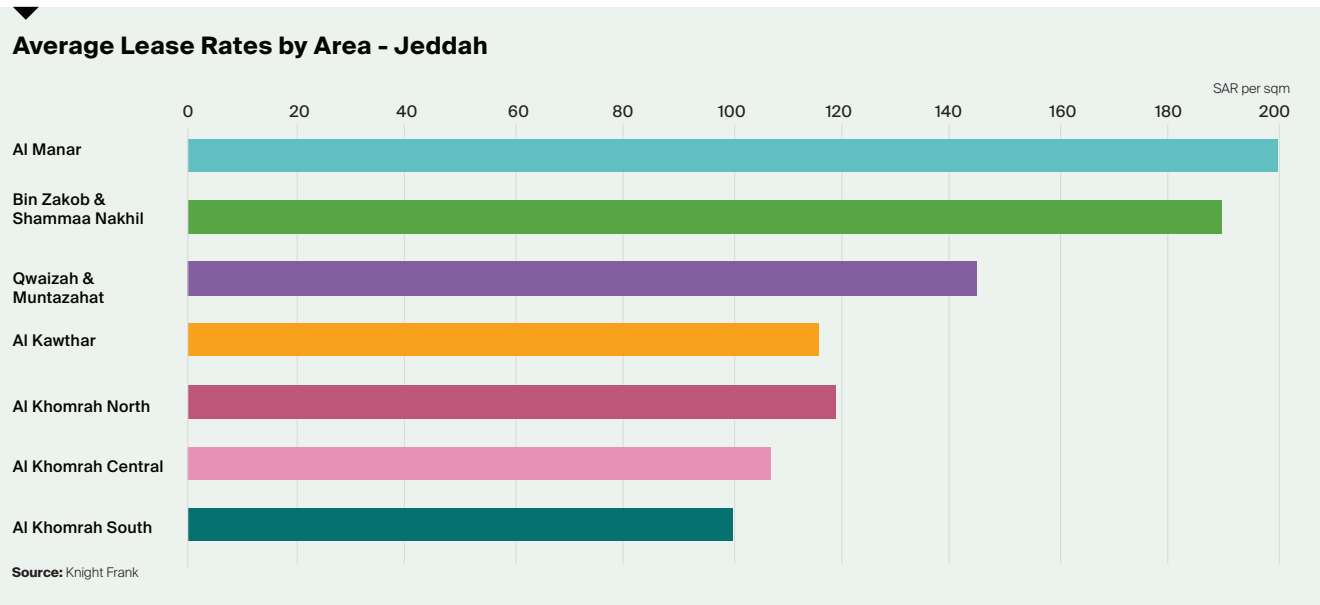
percentage point rise on this time last year.

## More supply on the way

Unlike Riyadh, the speculative development pipeline is set to add approximately 800,000 sqm to Jeddah’s warehousing stock by 2022. Most of this is expected in Al Khomrah due to the availability of large land plots in close proximity to Industrial City 1 and Jeddah Islamic Seaport.

The volume of speculative stock suggests that rental growth in Jeddah’s warehousing market is likely to be relatively subdued, when compared to Riyadh, at least in the short term. Clearly further government-backed development along the Red Sea coast around Jeddah may result in rapid absorption of this space, which would alter our outlook.

“Spiking online shopping levels have fueled demand for ever more modern and sophisticated facilities”



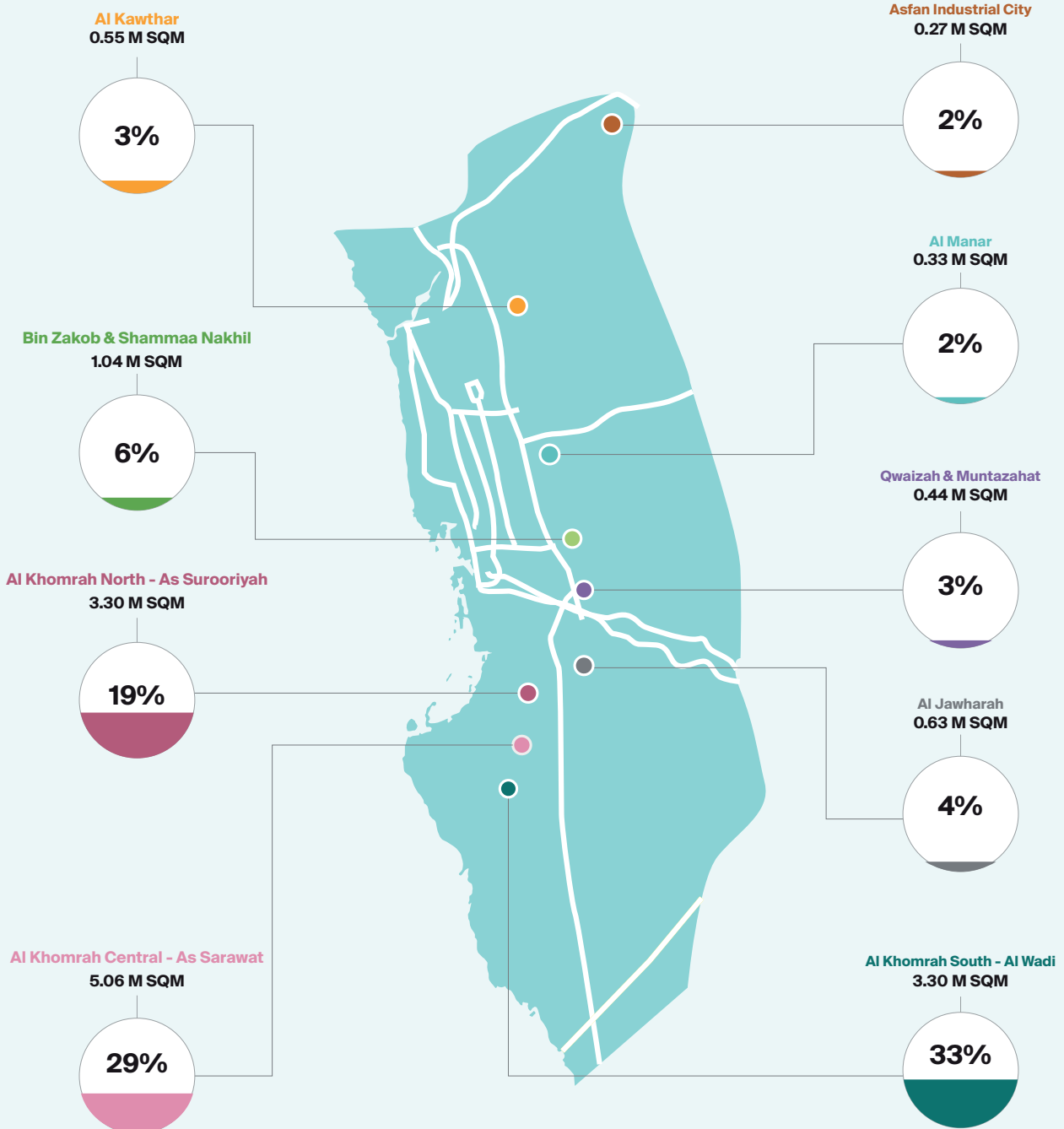
## OVERVIEW OF JEDDAH'S WAREHOUSE AND LOGISTICS MARKET

WAREHOUSE & LOGISTICS TOTAL  
ALLOCATED LAND SUPPLY - H1 2021

**90M SQM**

WAREHOUSE & LOGISTICS  
LEASABLE AREA - H1 2021

**17.3M SQM**



Source: Knight Frank

Note: Bubbles indicate proportion of Jeddah's total industrial and logistics leasable space

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