Saudi Arabia Industrial Market Review
H1 2022

BACKDROP

As Saudi Arabia continues to diversify its economy away from hydrocarbons, the manufacturing sector is fast emerging as a key component of the government's transformation efforts. Indeed, non-oil activities grew by 3.7% during Q1 2022 (GSTAT). The manufacturing sector, excluding petroleum refining, has expanded by 4.1% over the last 12 months, according to the latest government data, contributing 8.3% to GDP.

The growth in the sector is in large part due to ongoing government-led initiatives, such as providing financial incentives to local and foreign investors local production.

In fact, foreign investments currently represent around 39% of the total investments in the industrial sector. January and May 2022, international investments accounted for 8% the value of existing factories in Saudi Arabia, as well as those under development (SAR 65 billion). Moreover, 7% of the Kingdom's factories are the result of joint ventures and have been developed at an estimated cost of close to SAR 650bn.

Separately, the Saudi government is actively working to transform the Kingdom into a leading industrial power and a global platform for logistics services appear to be gaining traction, with demand for warehousing space from the logistics sector growing as re-export activity, in particular, rises.

Unsurprisingly, according to a recent report by the National Industrial Development and Logistics Program (NDLP), the value of national re-export operations grew at an annual rate of 23% during 2021, to reach SAR 43.5 billion. The program was initiated with four primary goals:

1) to increase the contribution of industry mining, logistics and energy
2) stimulate foreign investment in the sector
3) raise the volume of non-oil exports
4) improve the industrial jobs market

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NUMBERS YOU NEED TO KNOW

1,518

Number of industrial licenses issued in 2021

558

Number of industrial licenses issued during H1 2022

88%

Ecommerce transactions (average monthly growth) Since Q1 2022

721

Factories began production in H1 2022

17+
SAR billion

Total capital of new licensed factories during H1 2022

Source: Knight Frank Research, MIM

What Our Experts Say

"Industrial projects such as Luberef Hub in Yanbu and PlasChem Park in Jubail will enhance the Kingdom's ability to fulfil requirements through additional chemical plants and other conversion units. Thus, paving the way for advanced production industries to service the automotive, construction, pharmaceutical and alternative energy sectors to name a few."

Mohammed Shaikh
Partner - Head of Plant & Machinery MEA

A NEW DAWN FOR WAREHOUSES

Fully/partially automated facilities

The Kingdom's first fully automated warehouse and distribution centre in Sudair – an industrial city located around 120 km away from Riyadh – began operations in 2019. The 45,000 sqm facility, owned by Landmark Arabia inspired several others to follow suit, such as The National Unified Procurement Company (NUPCO), which launched one of the Kingdom's largest warehouses in late 2020 – a high tech, fully automated 300,000 sqm in Riyadh, designed to cater to the health sector.

Others have since followed suit, announcing plans to build fully or partially automated facilities to improve efficiency and reduce operating costs.

Indeed, the most recent such as announcement has been The Oxagon, a city within the super-city NEOM. When completed by the end of the decade, The Octagon will become the world's largest floating city, complete with a full automated logistics hub, run entirely on renewable energy.

As for the manufacturing sector, the Saudi Ministry of Industry and Mineral Resources launched a program to improve 4,000 factories and nudge them towards the Digital Transformation Policy announced as part of Vision 2030. The program aims to ensure that new factories are built to the highest global standards, while also modernising older factories.

The embrace of renewable energy

As part of Vision 2030's aim to use cleaner energy sources, several industrial occupiers are installing solar panels as they begin the transition to greener energy sources.

For instance, Al-Munaijam Foods installed over 3,500 solar rooftop panels on their temperature-controlled warehouse in Riyadh, aiming to help the kingdom in reaching their green ambitions. The installed solar panels reduce up to 38,000 tons of carbon emissions per annum and 30% of the total energy requirements.

The obvious benefits of switching to renewable energy entirely, or as a means to supplement traditional energy sources will aid the Kingdom in achieving its 2060 net-zero target, while also reducing operational costs for businesses. Depending on the size of solar panels installed at a facility, industrial occupiers in the Kingdom claim that they are expecting to save as much as 50% in energy costs by transitioning to renewable energy sources that are harvested on site.

Self-storage units

A self-storage unit is space that individuals can rent on short-term or long-term basis to store personal belongings. There are several factors that are contributing to rising demand for such facilities in the Kingdom, despite limited availability.

Most self-storage units, such as Makhzany and Self Storage Co., are located in the Eastern Province, and due to its success and high demand, developers elsewhere in the Kingdom have also launched similar new projects.

The ease of access and relatively convenient lease terms mean self-storage facilities also appeal to small, start-up businesses. Considering that the concept is relatively new to Saudi Arabia, the potential for this nascent and underserved industrial subsector appears to be quite high.

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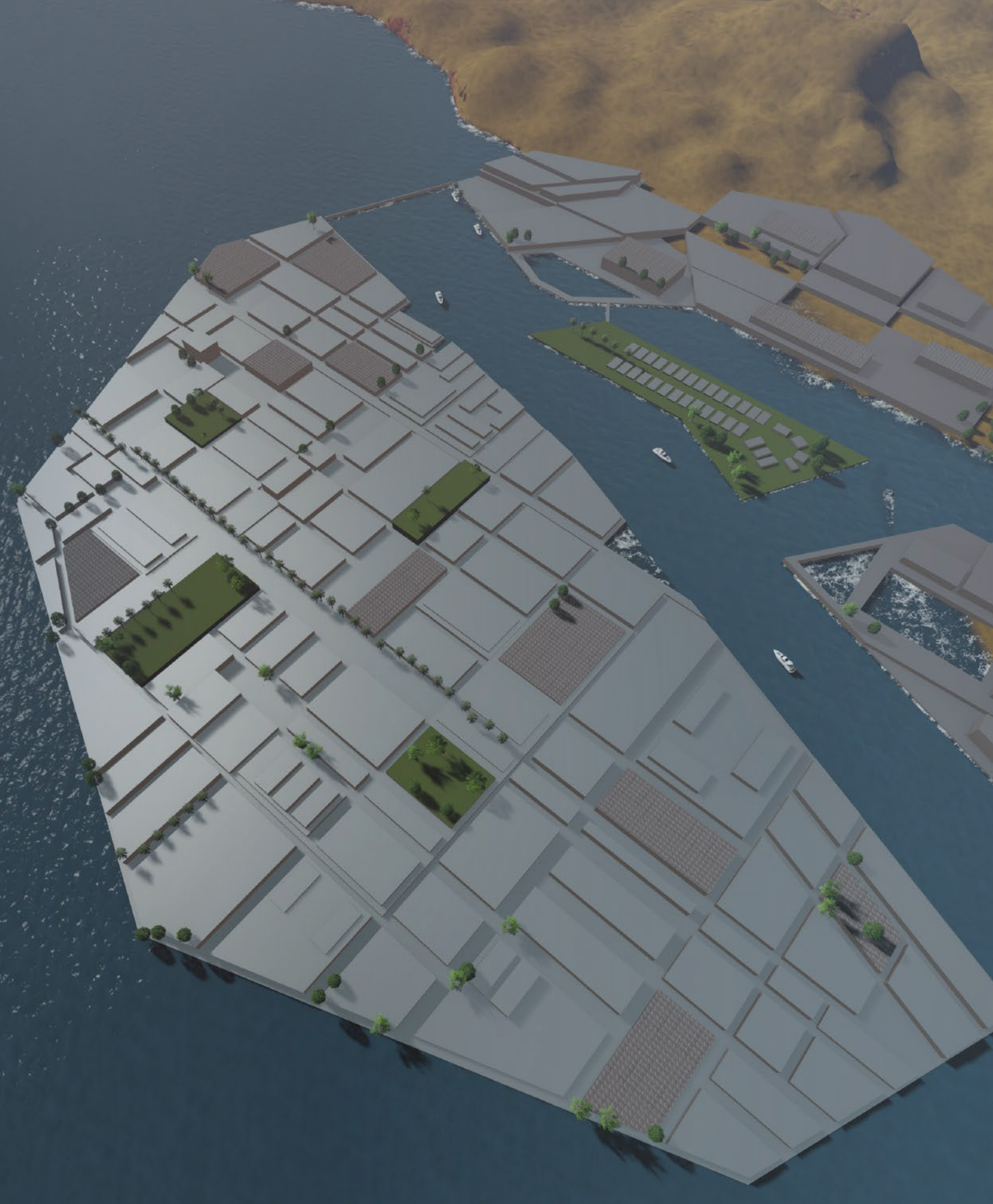


SOARING DEMAND FOR HIGH-QUALITY STOCK

Demand for warehouse facilities and logistics hubs is strengthening across the world as a seemingly permanent shift in consumer shopping habits catalyses the global e-commerce sector.

The growth in the appetite for online shopping, fueled in large part by the pandemic, is continuing to drive a world-wide surge in need for warehousing space to fulfil online orders and manage inventory.

In fact, the Morgan Stanley estimates that the global e-commerce industry could be worth US$ 5.4tn by 2026, up 60% on 2021.

The Saudi market is no different, with the number of online transactions using Mada cards rising by 91% in 2021. And there is no sign of a slowdown. By the end of June 2022, the annual change in the number of online purchases was up by close to 90%.

Like elsewhere in the world, the growth in online shopping is driving demand for modern and technologically sophisticated facilities.

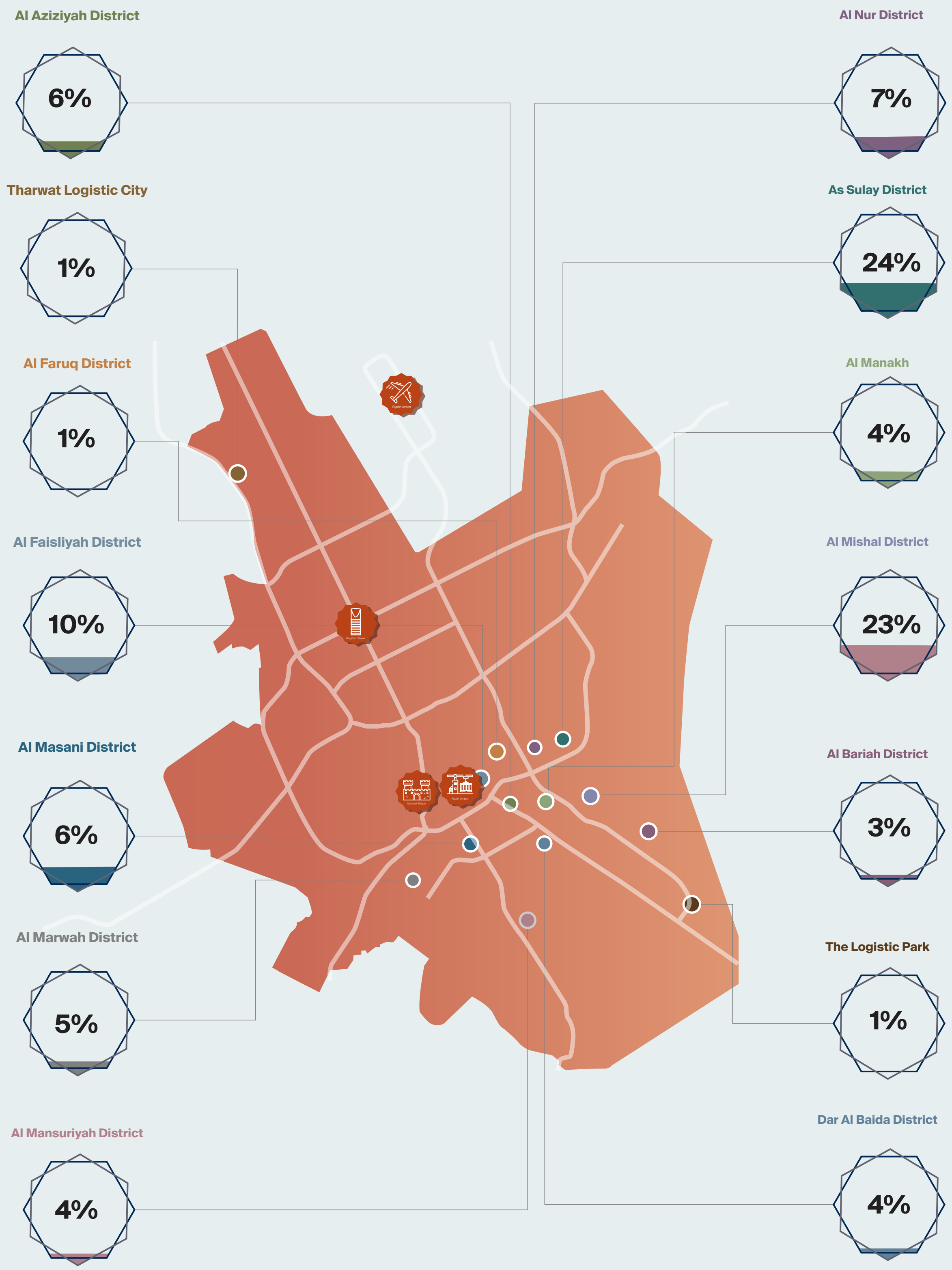
In addition, increased activity in the local manufacturing sector is also contributing to overall demand for warehouses.

This in part stems from the government's desire to make the country more self-sufficient by boosting local production, particularly of food and beverage products as it works to improve Saudi Arabia's food security.

Other manufacturing industries such as the pharmaceuticals and automobile production sectors are also contributing to rising levels of warehouse requirements.

OVERVIEW OF RIYADH'S WAREHOUSE AND LOGISTICS MARKET

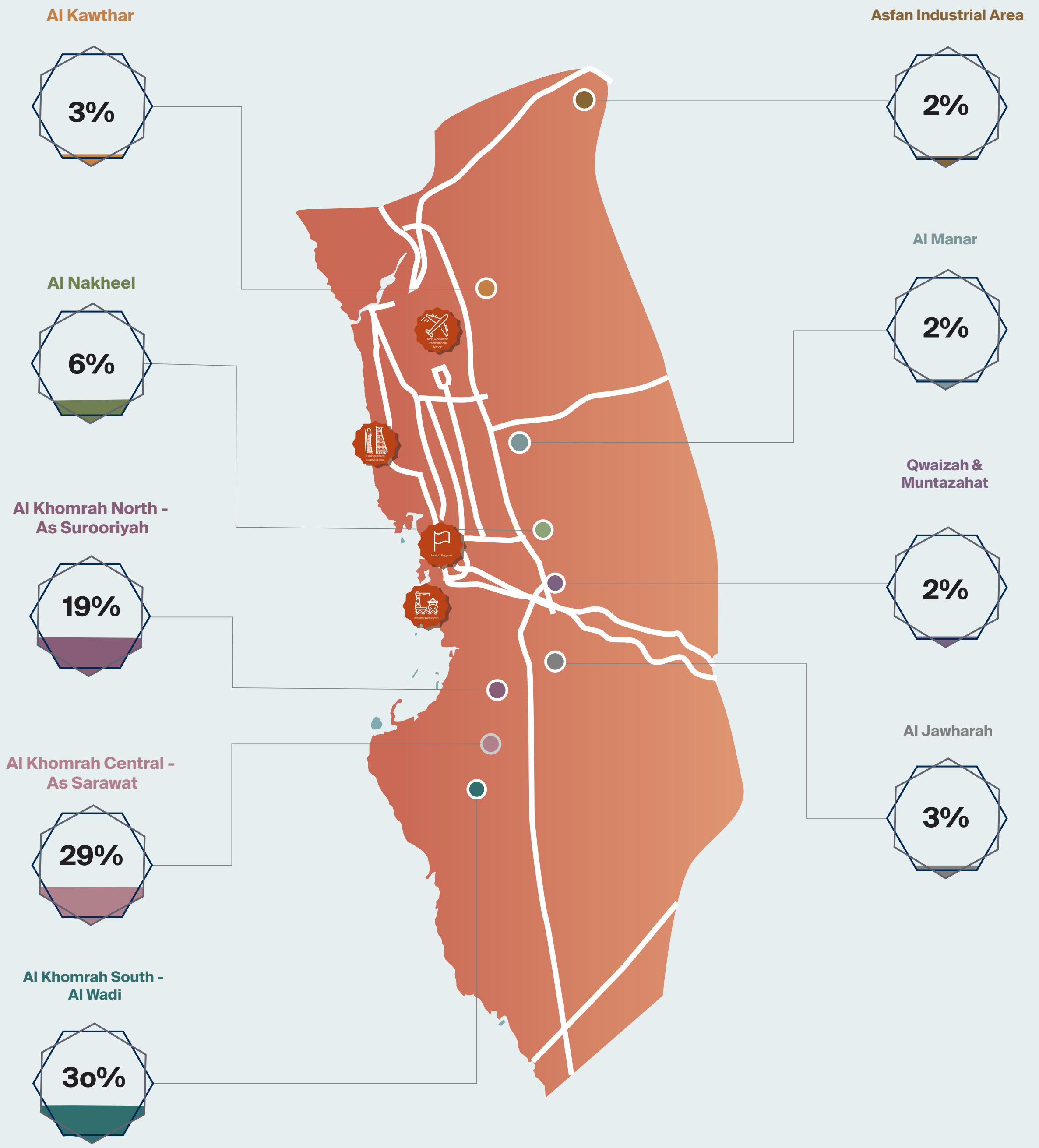
TOTAL ALLOCATED LAND SUPPLY	TOTAL LEASABLE AREA
126.7 M SQM	25.1 M sqm



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

OVERVIEW OF JEDDAH'S WAREHOUSE AND LOGISTICS MARKET

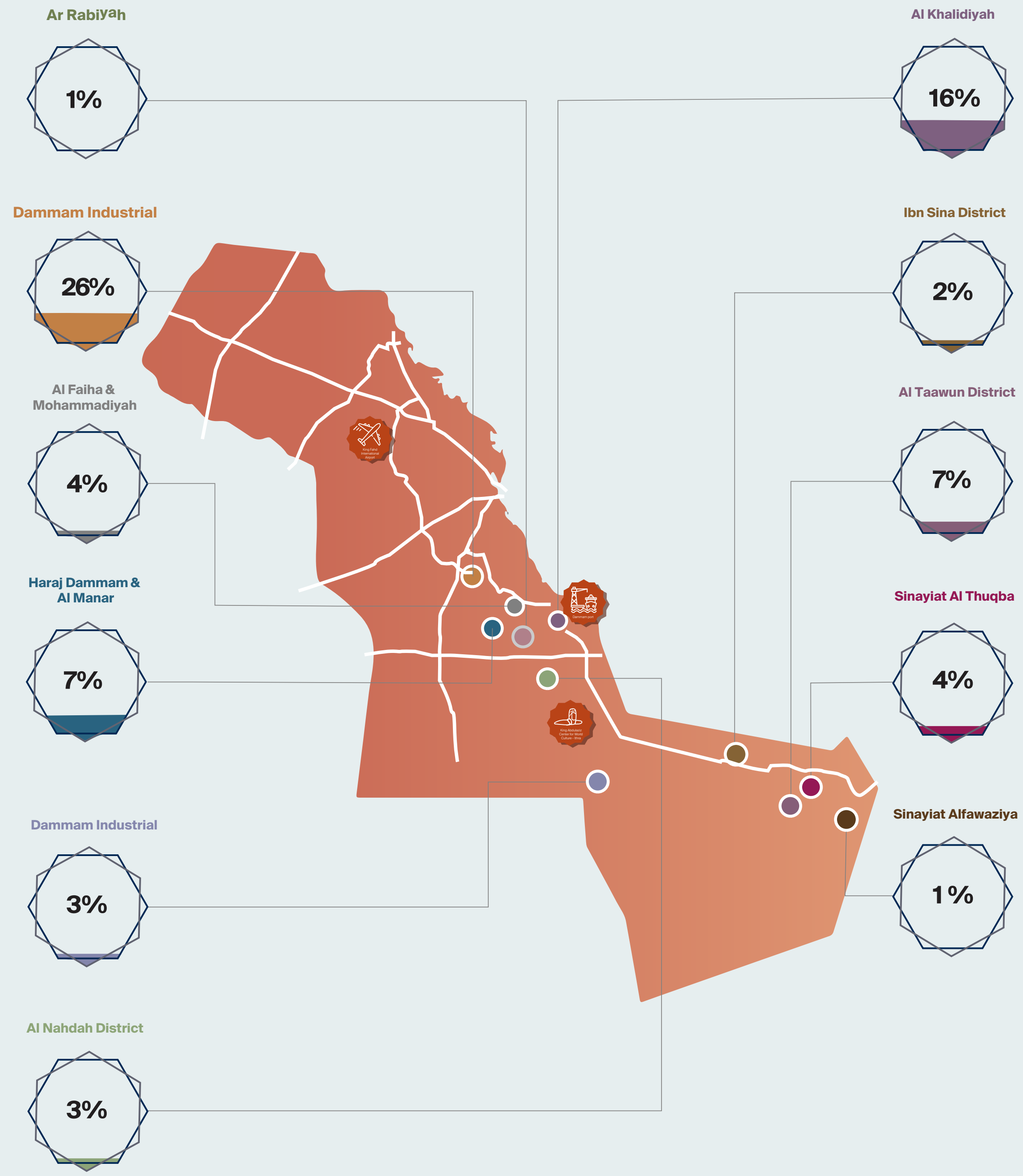
TOTAL ALLOCATED LAND SUPPLY	TOTAL LEASABLE AREA
90M SQM	**18.3M SQM**



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

OVERVIEW OF DMA'S WAREHOUSE AND LOGISTICS MARKET

TOTAL ALLOCATED LAND SUPPLY	TOTAL LEASABLE AREA
34.8 M SQM	**7.5 M SQM**



Note: Bubbles indicate proportion of DMA's total industrial and logistics leasable space
Source: Knight Frank

DEEP DIVE: LOGISTICS & WAREHOUSE SUPPLY

Since the unveiling of Vision 2030, the Saudi warehousing and logistics market has been rapidly improving in terms the ease of doing business.

The overall supply in the market consists mainly of low to mid-quality dry storage, cold storage, and open yards. Modern, high-quality warehousing facilities are limited, and most are owner-occupied.

The meteoric rise in e-commerce is sustaining a protracted period of rising demand and is putting the sector under pressure to expand the current supply, as well as address issues of poor-quality stock.

With around 1.3 mn sqm of space added over the last 12 months, Riyadh's total warehouse stock currently stands at 25 million sqm.

Subject to the speed of construction and assuming there are no delays in announced schemes, we expected a 5% increase in supply by 2025. Riyadh's existing stock consists mainly of low quality, aging warehouses located near the city's dry port. Despite the strong demand for modern, high-quality stock, most developers are temporarily putting their plans on hold.

Over on the west coast, in the port city, Jeddah, there is around 18 million sqm of warehousing stock. We expect this to grow by around 8% by 2025, mainly near the Jeddah Islamic Seaport, where large projects such as Village V warehousing complex is expected to add around 45,000 sqm of new stock.

Moreover, Al-Khumrah district has been a particular favourite amongst warehouse developers due to its proximity to the industrial cities in Jeddah and the city's main seaport, Jeddah Islamic Seaport.

Jeddah's strategic location on the country's Red Sea and being home to two major seaports, suggests that any new supply will be quickly absorbed by the market, as has been the case in the past.

In addition, most developers are adopting build-to-suit models, only developing stock once they have firm commitments and understand what occupiers need.

Elsewhere in the Dammam Metropolitan Area (DMA), the warehousing market is smaller, with about 7.5 mn sqm of existing space. This will grow by approximately 4-5% by 2025 through the development of projects.

FURTHER RENT HIKES TO COME

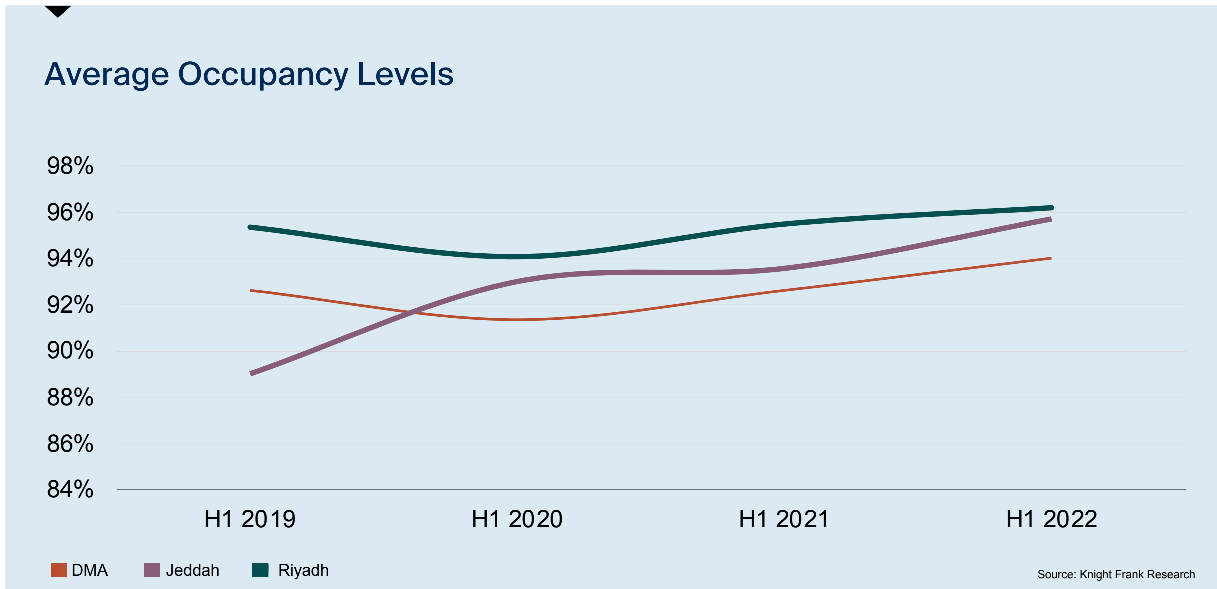
As the demand for warehouses and distribution facilities soars across the country and due to the limited availability of space, average lease rates are continuing to rise nationwide. In Riyadh, average warehouse rental rates increased by around 22% during the first half of 2022, reaching an average of SAR 158 psm.

These can however range from lows of SAR 100 psm, rising to as much as SAR 250 psm at the Logistics Park, for instance. Rental rates mainly increased the southern districts due the limited availability of warehouses in the area.

Similarly, in Jeddah, lease rates are up 22% over the last 12 months and currently average SAR 179 psm, but can rise to as much as SAR 375 psm in Asfan for instance.

Overall occupancy levels in both Riyadh and Jeddah remain relatively high at 96%.

Meanwhile, in DMA, prices have increased at a relatively slower rate of 9% since last summer and range from SAR 170 psm to SAR 300 psm. In terms of occupancy, DMA has enjoyed a 2% rise to 93% as at the end of June 2022.
Looking forward, we expect the market to remain landlord friendly in the short to medium term, with rental rates increasing, underpinned by the limited availability of high quality, well-managed stock.



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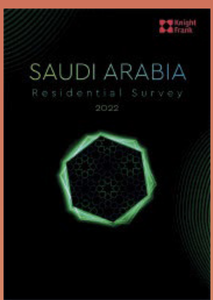

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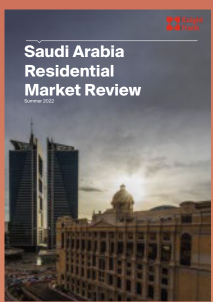

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