

Saudi Arabia Commercial Market Overview



Summer - 2024

A biannual review of key trends and the performance of Saudi Arabia's commercial real estate market

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Market Roundup

For the first time, the Kingdom's non-oil revenue hit 50% of GDP in 2023, translating into economic output of US\$ 453 billion (Ministry of Economy and Planning).

The ongoing economic expansion is driving up demand for commercial real estate across all subsectors, with the office market in Riyadh, in particular, emerging as the primary beneficiary of rising office requirements.

Overall, the commercial real estate market continues to demonstrate robust performance, with yields remaining high for offices at 7.75%, underpinned by dwindling availability and fast-rising rents.

Separately, investors continue to enter the Saudi market in record numbers. Indeed, the Saudi Ministry of Investment issued 2,884 investment licenses in Q4 2023, which is up 125% year-on-year and the highest number of licenses ever issued in a single quarter.

Furthermore, Q1 2024 recorded 104,000 commercial registrations (business licenses), a 59% rise on Q1 2023, bringing the total number of registrations to over 1.45 million across the Kingdom.

OFFICE SECTOR

'Program HQ' continues to fuel a rise in demand for office space in Riyadh. Indeed, to date, 350 European companies have been granted licenses to establish their regional HQs in the capital.

Vacancy rates for grade A space continue to slip, while prime rents in Riyadh have risen by 8% in the last 12 months and by 36.8% since Q1 2021.

Grade B rents in the capital have also surged by 25.6% in the last 12-months as a lack of prime space is forcing businesses to secure what is perhaps less than ideal space.

“Program HQ’ continues to fuel a rise in demand for office space in Riyadh. Indeed, to date, 350 European companies have been granted licenses to establish their regional HQs in the capital.”

HOSPITALITY SECTOR

The Kingdom achieved its 2030 goal of attracting over 100 million visitors last year, with a total of 106.2 million visitors, 27.4 million of whom were international arrivals.

Religious tourism has played a significant role in achieving this milestone. Indeed, in 2023, nearly 2 million Hajj pilgrims and 27 million Umrah pilgrims visited the Holy Cities of Makkah and Madinah.

With the 2030 visitor target being reached 7 years ahead of schedule, authorities have revised the 2030 target to 150 million.

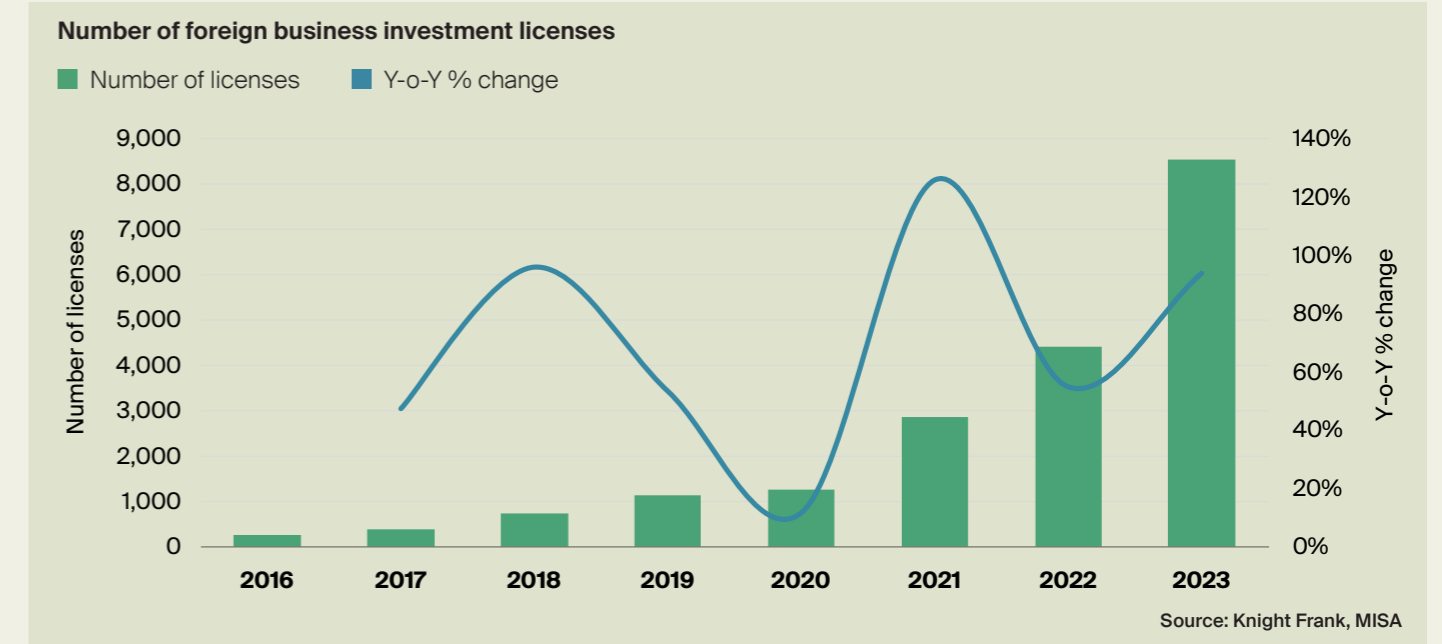
DATA CENTRES

Saudi Arabia is fast emerging as the region's main data hub and is the fastest-growing data centre market in the Middle East. The Kingdom's live IT capacity has risen by 29.7% to 109MW in 2023, with the data centre market split between Riyadh, Jeddah and Dammam, which host 80% of live IT supply, or 40MW, 29MW and 19MW, respectively. Growth in the sector is being fuelled by government initiatives and factors such as rising cloud computing adoption, a booming e-commerce market, improved connectivity and increasing recognition of big data & IoT.

The rollout of 5G and the introduction of the Personal Data Protection Law in the country is expected to further boost demand moving forward.

As a result of these initiatives, we forecast US\$ 30bn of CAPEX in the sector by 2030.

Business is booming in Saudi Arabia



Our Habitas hotel, Alula

Office Market

RIYADH

Riyadh's office lease rates continue to climb in the wake of growing demand. Grade A office rents have risen by 8% over the last 12-months to SAR 2,005 psm, while grade B rents have grown by 26% to SAR 1,225 psm over the same period. Occupancy levels stand at 98% for Grade A and 91% for Grade B.

The rapid increase in rents in Riyadh has, in part, been catalysed by the Kingdom's 'Program HQ' initiative, which aims to raise the number of regional HQs in the capital from the current 350 to 480 by 2030 (MISA).

The high occupancy rates across Grade A offices remain virtually unchanged in the last 12 months, edging up by just 1% to 98% at the end of Q1 2024. Grade B occupancy rates have increased by 8% to reach 91% over the same period.

There were no major office completions in Q1 2024, leaving the capital's total office stock unchanged at 5.22 million sqm. By 2026, total stock is expected to reach an estimated 6.9 million sqm.

JEDDAH

Fuelled by rising demand predominantly from the public sector, rents in Jeddah's office market continue to rise. Grade A rents are SAR 1,235 psm, which is an increase of 23.5% on Q1 2021 and 3.8% over the last 12-months. Grade B rents increased by 2% to SAR 790 per sqm in the 12-months to the end of Q1 2024.

Given the absence of any significant new supply and increase in demand, we expect rents to climb further.

The occupancy rate across the grade A market decreased by 2 percentage points over the last 12-months to 93% in Q1 2024. In contrast, Grade B occupancy rates have remained unchanged at 85% over the same period.

DMA

Growth in office demand in Dammam Metropolitan Area (DMA) continued in the 12 months to the end of Q1 2024, putting upward pressure on rents. Grade A rents increased by 3.5% to SAR 1,025 psm, and Grade B rents grew marginally by 1.6% to SAR 625 psm.

Average occupancy across Grade A office space increased by 5% to reach 85% in Q1 2024. Grade B occupancy levels have also risen by 3% to reach 73%.

There were no major office completions in Q1 2024, keeping the total office stock unchanged at 1.37 million sqm. The total quality office stock is expected to reach 1.55 million sqm by 2026.

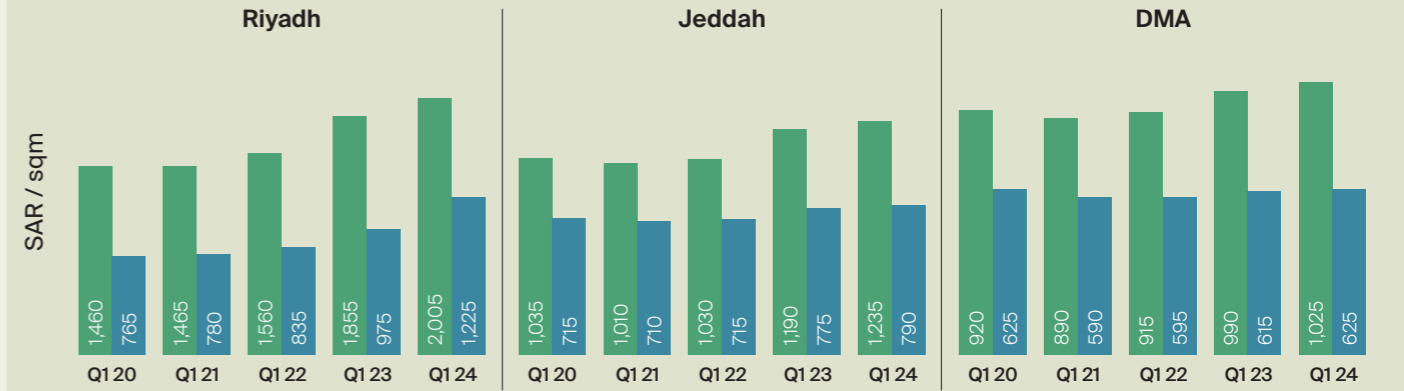


King Abdullah Financial District, Riyadh

Market Performance

Office lease rates Q1 2024

Grade A Grade B

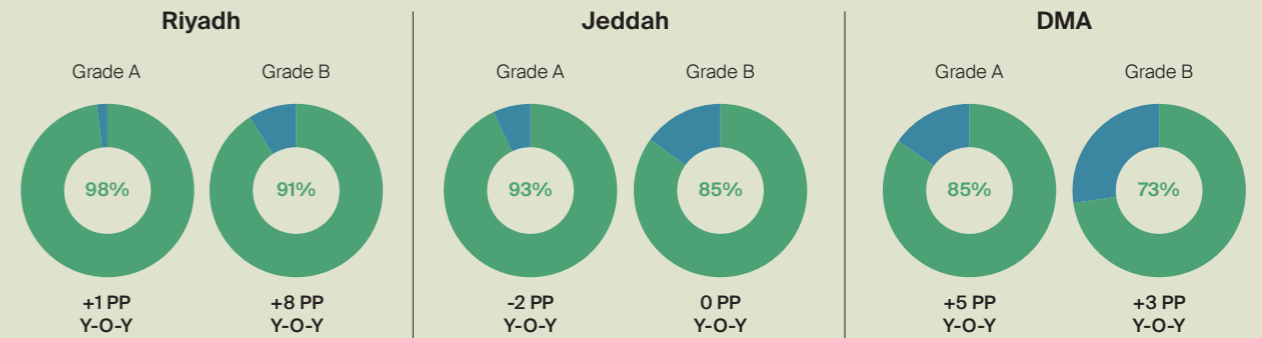


*These lease rates are based on a basket of properties we maintain.

Source: Knight Frank

Office occupancy levels | Q1 2024

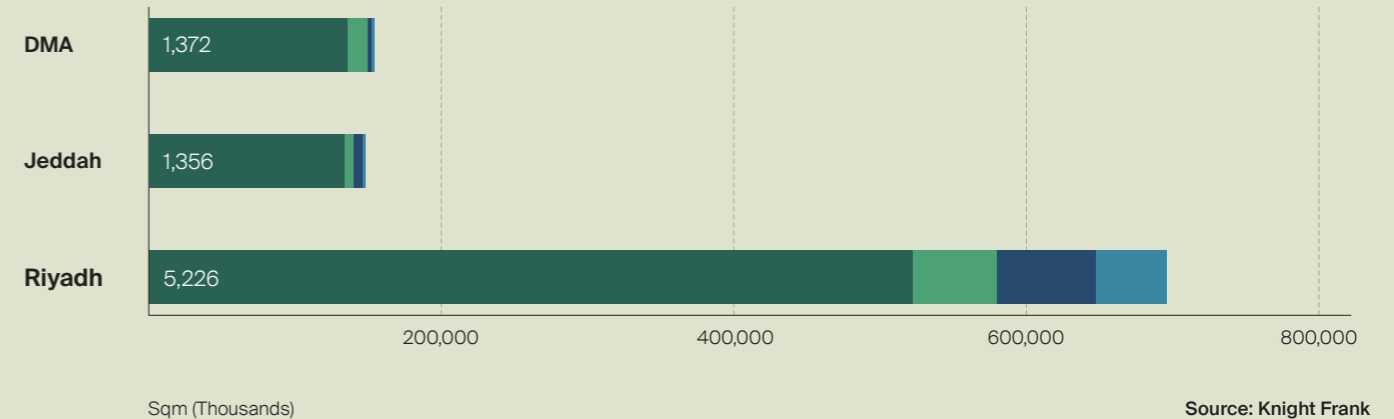
Occupancy Vacancy



Source: Knight Frank

Evolution of office supply & forecast

Q1 2024 2024 F 2025 F 2026 F



Source: Knight Frank

Hospitality Market

RIYADH

Increased business travel, a growing number of international events and the expansion of cultural and entertainment offerings in the city are contributing to the robust performance of the capital's hospitality market.

In the year to March 2024, the Average Daily Rates (ADR) in Riyadh grew by 26.8% to SAR 982, while occupancy levels decreased to 66.9% from 71.3% compared to last year.

The decline may, in part, stem from the rapid increase in room rates.

Elsewhere, the Revenue per Available Room (RevPAR) increased by 19% to SAR 657 over the same period.

The capital remains starved of hotel rooms, with an existing stockpile of just 21,275 keys.

6,840 hotel rooms are under construction and due to be delivered by 2026, which may alleviate some of the upward price pressures. However, 85% of the planned stock falls into the 4* and 5* categories, suggesting the need for a greater variation in hotel accommodation options to cater to a wider range of budgets.

JEDDAH

Jeddah has continued to enhance its position as a pivotal hospitality hub in the Middle East. Strategic initiatives such as Regulatory Reforms to simplify the visa process for tourists and burgeoning tourism infrastructure developments, such as the redevelopment of the Jeddah Corniche, have significantly contributed to its growing appeal as a destination for both leisure and business tourism.

The 4th edition of the Jeddah Grand Prix, held in March 2024, has not only boosted the city's international profile but also profoundly impacted its hospitality sector. Hotels in proximity to the event venue reported occupancy rates nearing capacity.

In fact, in the year to March 2024, the average occupancy levels in Jeddah rose to 66.3%, representing a 10.4% increase compared to the same period last year. Similarly, ADRs increased by 3.2% to reach SAR 710, up from SAR 688 last year. As a result, RevPAR increased by 14% to SAR 451 over the same period.

Jeddah also earned a groundbreaking "Health City" title from WHO, making the Red Sea city the first major location in the Middle East to achieve this significant milestone. This achievement will pave the way for Jeddah's transformation into a global health tourism hub.

As of March 2024, Jeddah had 14,300 quality hotel rooms. With ongoing construction, this supply is expected to increase by 46% to 20,840 rooms by 2026.

DMA

Unlike Riyadh and Jeddah, which enjoy vibrant hospitality sectors due to their extensive range of corporate and leisure events which attract both domestic and international visitors, the Dammam and Khobar markets experience comparatively subdued demand.

However, Dammam and Khobar, while strategically important, are still developing their capacity to host large-scale events, with a view to drawing significant tourist numbers as part of broader economic diversification efforts.

While Dammam and Khobar do not host significant global events such as the F1, they have their own array of events, which includes music concerts, cultural exhibitions, and sporting events that draw visitors.

In the year to March 2024, ADRs across the twin cities declined by 2.7%, while occupancy increased marginally by 0.5% to 62.3%.

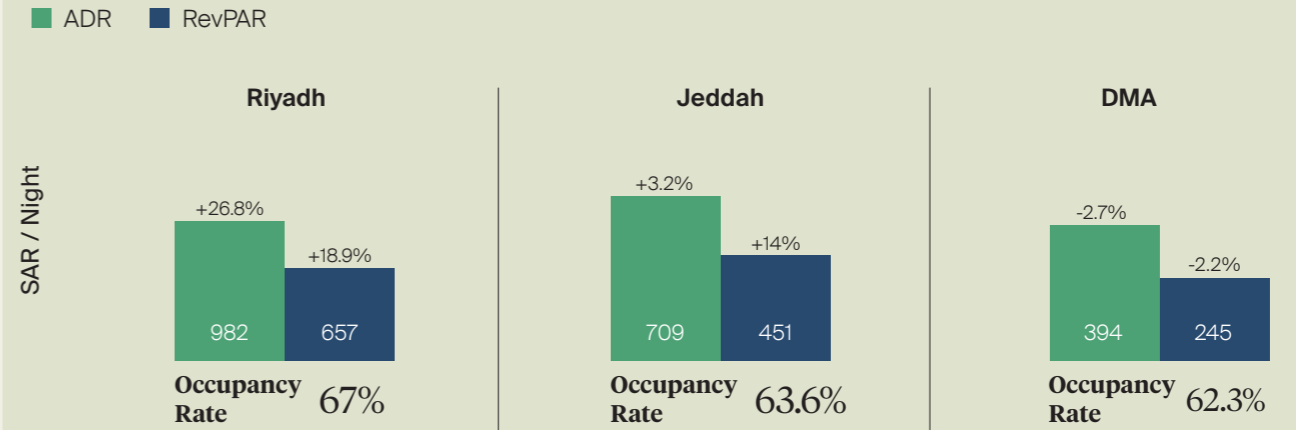
In Dammam, meanwhile, the occupancy rate jumped to 62%, translating into growth of 17% over the last 12 months.

RevPAR increased by 13.5% to SAR 171 in Dammam. However, in Khobar, ADRs fell 1.4% to SAR 431, while occupancy levels declined by 4%.

The DMA's total quality hotel supply stood at 12,830 rooms as at the end of March 2024. The supply is expected to increase by 20% to 15,460 keys by the end of 2026.

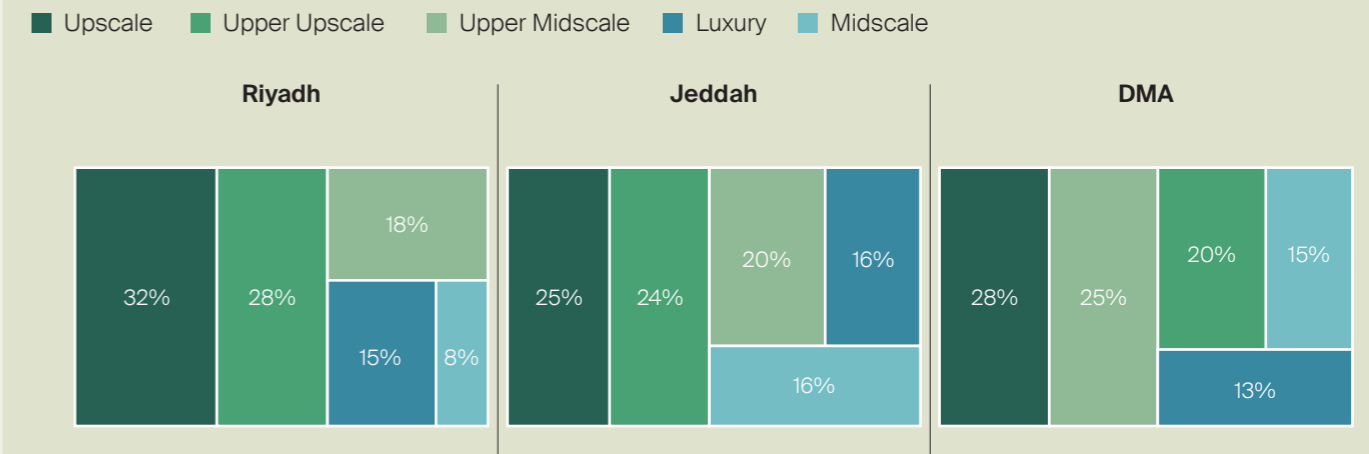
Market Performance

KPIs – ADR and RevPAR YoY % change YTD March 2024



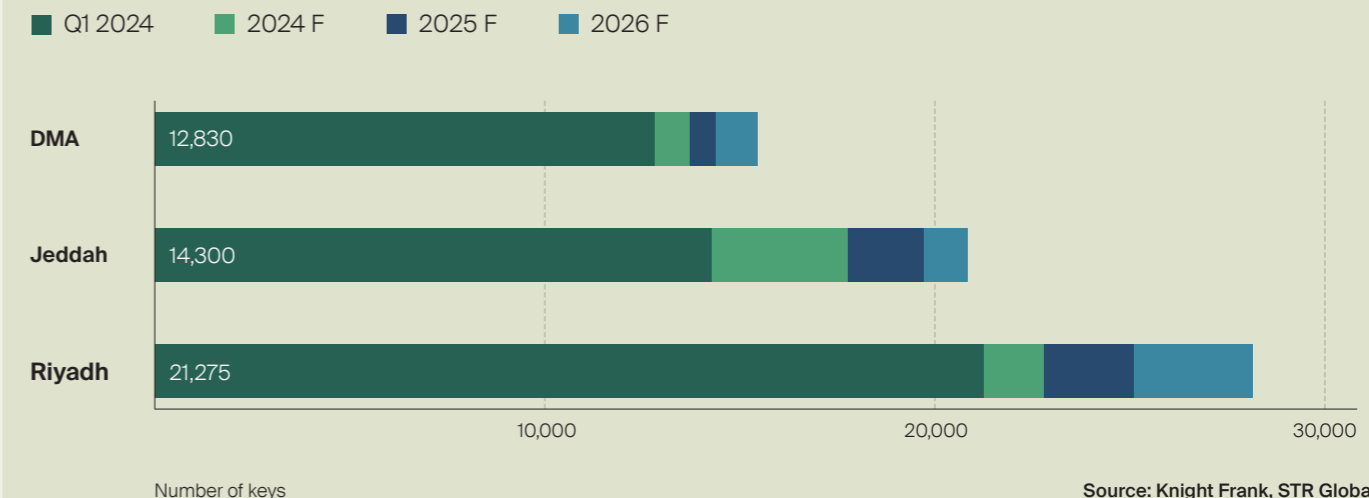
Source: Knight Frank, STR Global

Existing quality hotel supply segmentation YTD March 2024



Source: Knight Frank, STR Global

Evolution of quality hotel supply & forecast



Source: Knight Frank, STR Global

Hospitality Market

MAKKAH

In Islam's holiest city, Makkah, the Hajj and Umrah pilgrim quotas were restored to full capacity last year. This has unsurprisingly provided a substantial boost to the hospitality and tourism sectors. In fact, in 2023, 1.84 million pilgrims performed Hajj and around 26.9 million pilgrims performed Umrah, of which 23 million were international visitors, marking the highest number of Umrah pilgrims in history.

There was an influx of Umrah pilgrims during Q1 2024, which pushed up room rates. Indeed, ARDs saw a notable increase of 9.1%, reaching SAR 671 over the last 12 months. In parallel, occupancy levels increased marginally by 0.5% to reach 75.8%. RevPAR also crept up by 9.7%, reaching SAR 509 in the same period.

As of the end of March 2024, Makkah had 54,100 quality hotel rooms. With ongoing construction, this supply is expected to increase by 12% to 60,345 by 2026, assuming projects are completed as planned.

In addition to current developments, substantial hotel expansions are underway within Makkah. Masar Makkah, for instance, is poised to add 40,000 new hotel rooms, while Thaker Makkah will add a further 39,000 rooms by 2030.

Collectively, these developments are designed to support the anticipated surge in religious tourism, with religious pilgrim volumes set to swell to 30 million by 2025, rising to 50 million by 2030.



Al-Masjid an-Nabawi (Prophet's Mosque) in Madinah

MADINAH

Madinah, the second-holiest city in Islam and home to the Prophet Muhammad's mosque, Al-Masjid an-Nabawi, attracts millions of Muslims performing the Hajj and Umrah pilgrimages annually. This consistent influx ensures steady demand for hotel accommodation and related services.

Beyond religious activities, Madinah is promoting itself as a centre for Islamic cultural heritage. For instance, the recent opening of Al-Safiyah Museum and Park, a 4,400 sqm public garden, cultural museum and waterways, in addition to commercial facilities including souvenir shops, restaurants, and cafes, have become a focal point for visitors.

In the year to March 2024, the city's ADR rose by 20.5% to SAR 804, up from SAR 667 last year, positioning it as the second highest in Saudi Arabia, while the RevPAR increased by 15.2% to SAR 635.

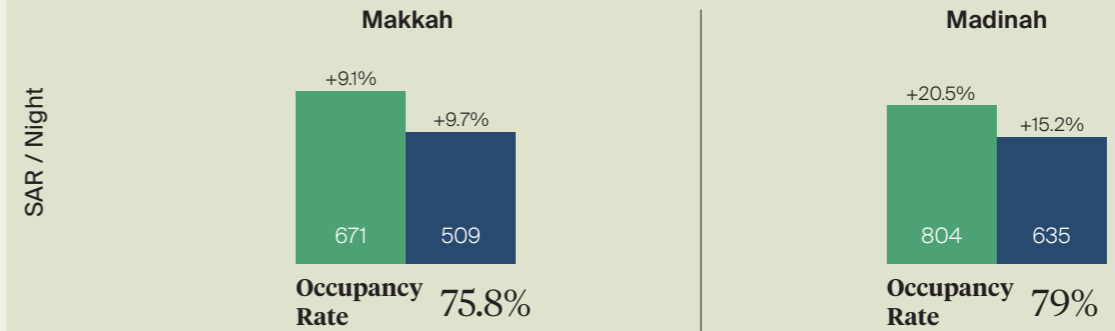
Occupancy levels have, however, decreased by 4.4% to 79%. Despite this drop, it remains the highest occupancy rate across the Kingdom in the year to March 2024.

Besides the cultural Islamic projects, Madinah is aiming to attract a higher number of global tourists by introducing exclusive Giga Projects such as PIF-managed Rua Al Madinah, which is expected to cater to 23 million visitors annually by 2030, complete with 47,000 hotel rooms.

Market Performance

KPIs – ADR and RevPAR YoY % change YTD March 2024

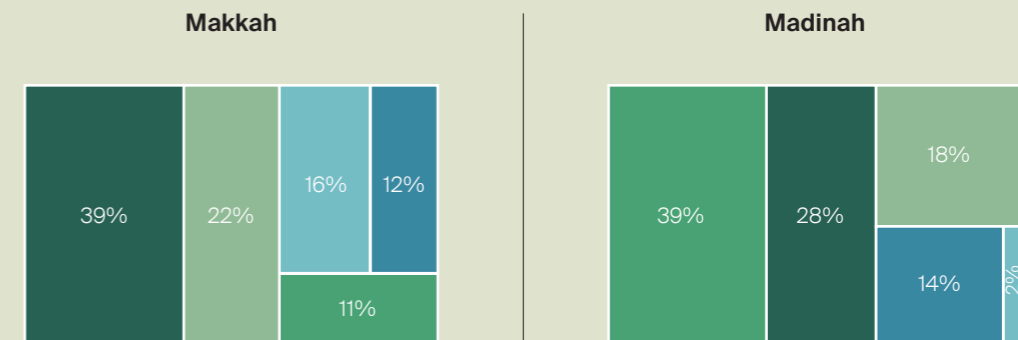
■ ADR ■ RevPAR



Source: Knight Frank, STR Global

Existing quality hotel supply segmentation YTD March 2024

■ Upscale ■ Upper Upscale ■ Upper Midscale ■ Luxury ■ Midscale

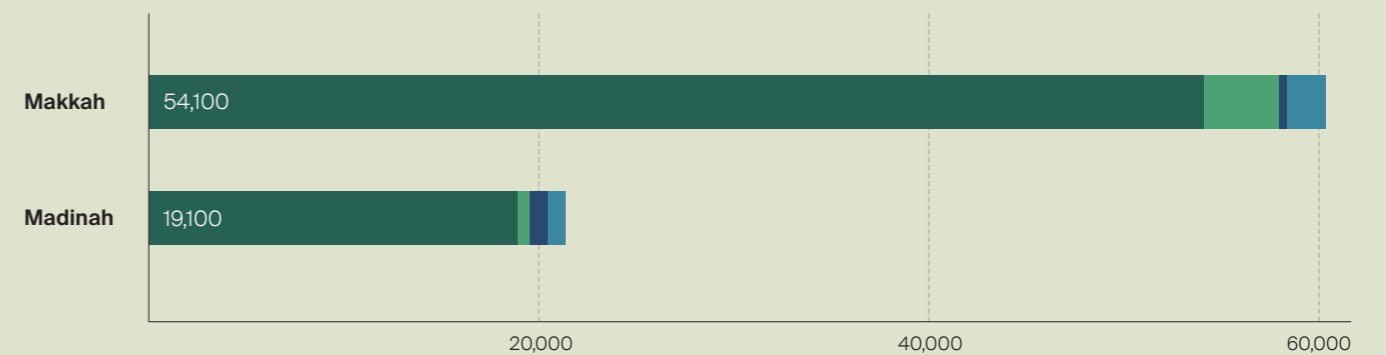


*This segmentation excludes around 80,000 hotel rooms, which are unbranded, locally branded, or lower-quality hotel rooms in Makkah.

Source: Knight Frank, STR Global

Evolution of quality hotel supply & forecast

■ Q1 2024 ■ 2024 F ■ 2025 F ■ 2026 F



Number of keys

Source: Knight Frank, STR Global

Data Centres

OVERVIEW

Saudi Arabia's strategic geographical location, political stability and growing domestic and international demand for digital services have served to position the country into a data hub for the region.

Over the past decade, Saudi Arabia's data centre sector has grown exponentially, with IT capacity rising from 40MW in 2014 to 205MW today, driven in large part by Vision 2030.

The Kingdom's strategic position, bridging Asia, Africa and Europe, has also facilitated the sector's expansion, with a multitude of subsea cables passing through the Red Sea and the Arabian Gulf.

The data centre industry began to evolve in the early 2000s, initially serving the telecoms and banking & finance sectors. Since then, both local and international investments have broadened the sector, leading to the construction of Tier-III and Tier-IV certified data centres.

The operator landscape in Saudi Arabia is dominated by local and national providers, with Saudi Telecom Company (STC) backed Center3 leading the way. In fact, the PIF-backed company currently operates 28MW of live IT capacity and has a further 82MW in its pipeline.

FUTURE SUPPLY

Last year saw the launch of Center3's expansion in Khurais, as well as Toromus opening its first data centre, offering up an initial 12MW, with plans for an additional 24MW in the pipeline.

“Over the past decade, Saudi Arabia's data centre sector has grown exponentially, with live IT capacity rising from around 40 MW in 2014 to 205 MW today.”

The completion of a 50.4MW project by Center3 and the opening of Edgnex Data Centres' Dammam and Riyadh facilities, that will, once complete, reach a combined 55MW, are scheduled for delivery this year.

Huawei has also announced plans to open a cloud data centre in Riyadh, aimed at serving public sector requirements and AI needs.

In addition, Amazon Web Services made the announcement of a US\$ 15bn commitment to create additional Cloud Zones in Riyadh, Jeddah and Dammam to enhance its regional presence starting in 2026. It is anticipated that the other leading US cloud players, including Google, Microsoft, and Oracle, will soon follow suit.

We predict a total demand of c.1,500MW of new capacity demand before the end of the decade, equating to around US\$ 30bn of CAPEX.

VACANCY RATES

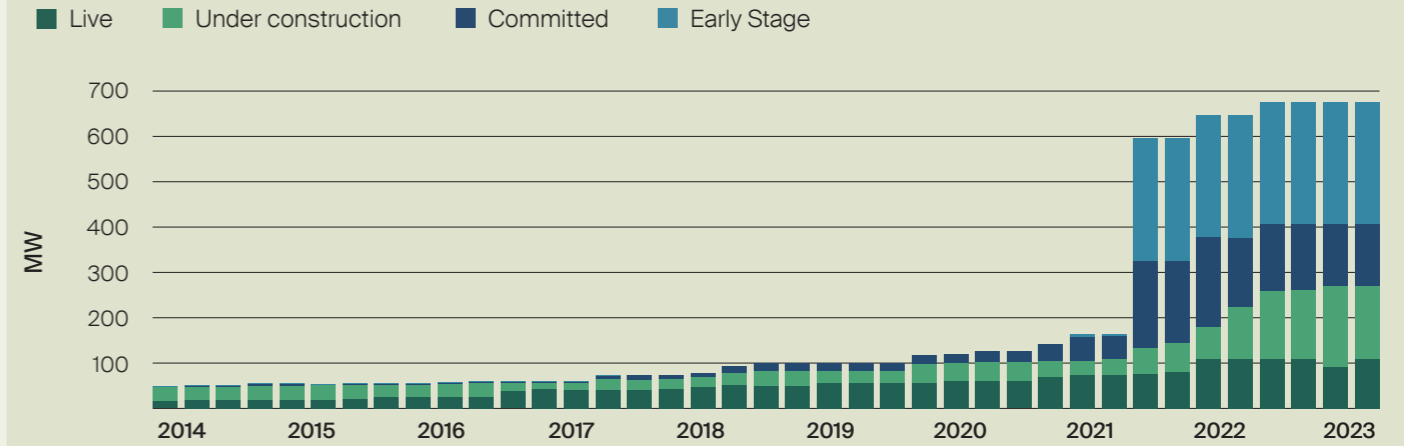
The Kingdom is witnessing decreasing availability, with vacancy falling from 38% recorded two years ago to just over 30% in Q3 2023.

With a market availability of 20MW, much of this is spread across multiple facilities, with an average facility availability of 850kW.



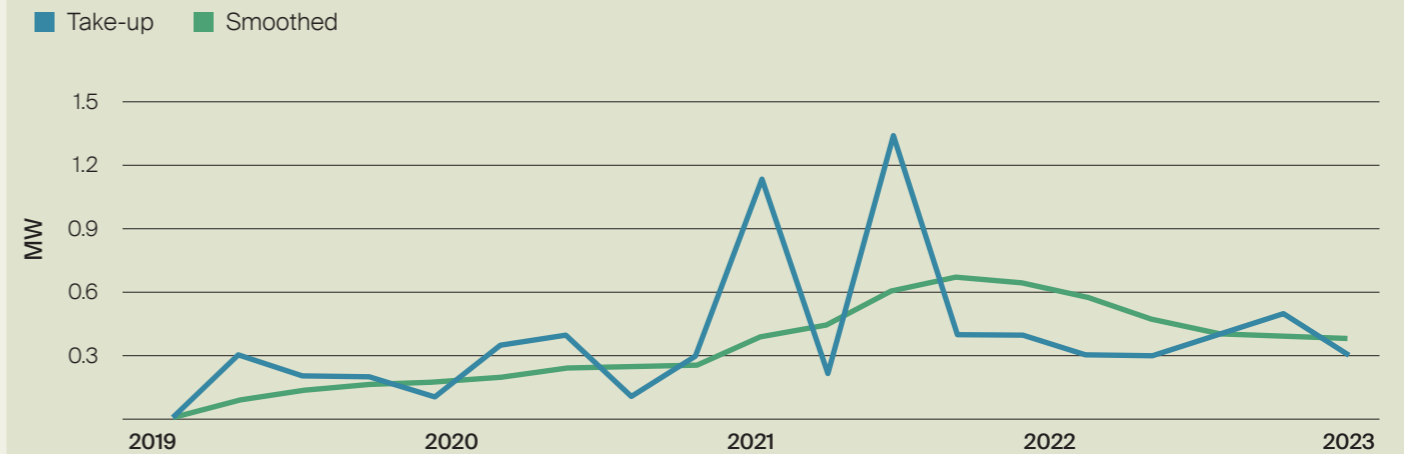
Market Performance

Evolution of data centre supply & forecast



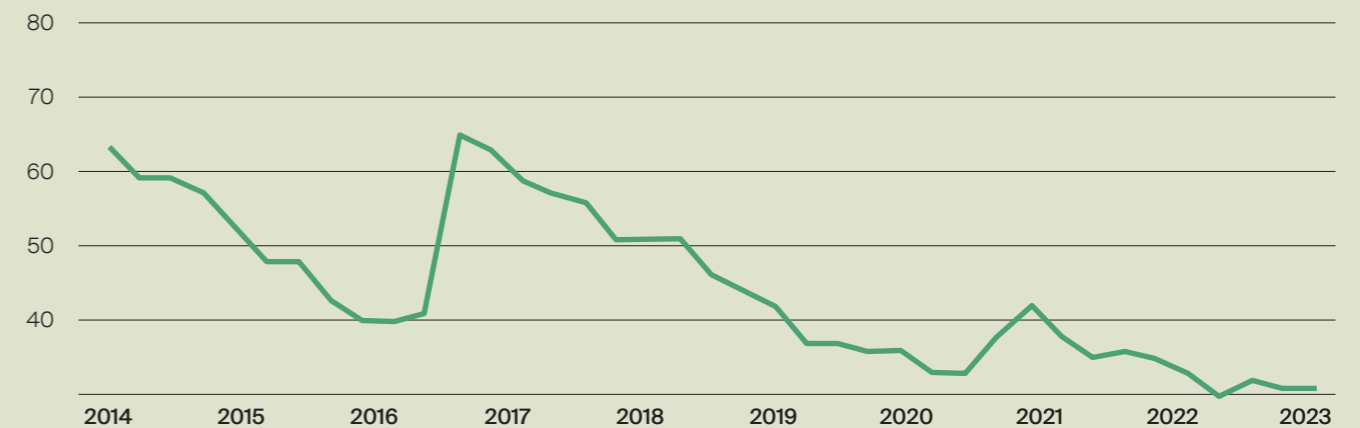
Source: Knight Frank, DC Byte

Take up at data centres in Saudi Arabia



Source: Knight Frank, DC Byte

Vacancy rates



Source: Knight Frank, DC Byte

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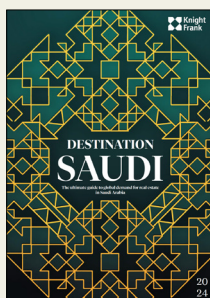
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