

# Sustainable Saudi: Exploring the ESG vision



2023

Emerging ESG trends in Saudi Arabia

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# Saudi Arabia's evolving ESG and sustainability landscape

Sustainability has been a core component of Vision 2030 since its inception. While Environmental, Social, and Governance (ESG) trends in Saudi Arabia have been gaining momentum in recent years, they remain a relatively nascent concept not just in the Kingdom, but around the Middle East in general.

That being said, broader considerations around sustainability are manifesting themselves in different ways around the region, as detailed in our recently published *The ESG Imperative – The View From The Middle East paper*.

Some notable steps the Saudi government has taken to achieve ESG:

## 1

### Renewable energy transition

Saudi Arabia has made significant commitments to diversify its energy sources and reduce its dependence on fossil fuels. The country has set ambitious targets to generate 50% of its energy from renewable sources, such as solar and wind power by 2030.

The Saudi government has launched various green energy generation projects to produce 3,300 megawatts (MW) of renewable energy, including the development of large-scale solar farms and wind farms.

## 2

### Climate change mitigation

The government is actively working towards mitigating climate change impacts. The country has pledged to reduce its carbon emissions and has signed the 2015 Paris Agreement. Initiatives like the Saudi Green Initiative and the Middle East Green Initiative aim to combat climate change by promoting sustainable practices and investing in clean technologies.

The Kingdom has recognised the importance of sustainable development and has taken several initiatives to promote ESG practices to achieve its 2060 net zero target. Furthermore, the government, along with businesses and investors, are working towards creating a more environmentally friendly, socially responsible, and transparent economy.

## 3

### Corporate governance reforms

Saudi Arabia has implemented reforms to improve corporate governance practices and transparency. The Capital Market Authority (CMA) has introduced the Corporate Governance Code, which outlines standards for boards of directors, disclosure requirements, and shareholder rights. These reforms aim to enhance accountability, protect investors, and attract foreign investment.

## 5

### Social responsibility programs

Many companies have implemented social responsibility programs to address societal needs. These programs focus on areas such as education, healthcare, community development, and youth empowerment. Charitable donations and volunteerism are becoming increasingly prevalent in the business landscape.

For instance, as part of its Corporate Social Responsibility efforts, ROSHN group donated SAR 25mn for charitable work in April 2023.

## 4

### Sustainable investing

ESG considerations are increasingly becoming a priority for investors in Saudi Arabia. Financial institutions and asset managers are integrating ESG factors into their investment decision-making processes. To push this forward, the Saudi Stock Exchange (Tadawul) launched ESG disclosure guidelines in 2021.

The guidelines provide a framework for companies to report on their environmental, social, and governance performance, helping investors to make more informed decisions and encouraging companies to improve their sustainability practices.

## 6

### Water conservation and management

The country faces water scarcity challenges and indeed is ranked as the eight most water stressed country in the world (World Resources Institute). To combat this, the government has implemented initiatives to conserve and manage water resources.

The National Water Strategy aims to reduce water consumption, increase water efficiency, and develop sustainable water sources. Efforts include the adoption of advanced technologies for water desalination and wastewater treatment.

# Milestones towards building a sustainable future

## 2016

- Launch of Vision 2030 with sustainability, renewable energy, and the environment at its heart

## 2017

- Launch of King Salman Renewable Energy Initiative

## 2018

- Launch of the National Environment Strategy

## 2019

- Establishment of National Environmental Centres
- Launch of the US\$ 23bn Green Riyadh Project

## 2020

- Creation of the Special Forces for Environmental Security
- Launch of the Environmental Fund

## 2021

- Launch of The Saudi & Middle East Green Initiatives
- National goal to reach net zero by 2060 announced

## 2022

- PIF announced successful completion of US\$ 3bn inaugural green bond

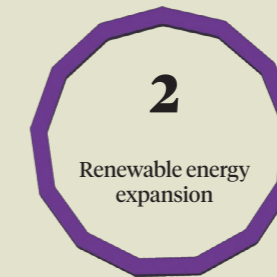
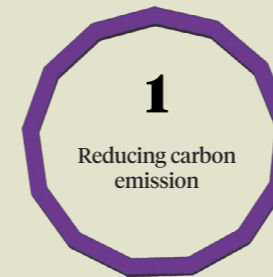
## 2023

- Tadawul signed a trilateral MoU with the Ministry of Economy and Planning and the Capital Market Authority to implement an ESG framework

Source: Knight Frank, Various Sources

# Green agenda

## SAUDI GREEN INITIATIVES KEY TARGETS



## MIDDLE EAST GREEN INITIATIVES KEY TARGETS



Source: Knight Frank, Saudi & Middle East Green Initiatives



# Occupiers and investors attitude towards ESG

While the ESG agenda is still relatively embryonic in Saudi Arabia, both investors and occupiers have begun to recognise the value of sustainable and socially responsible practices in commercial assets. Our research findings align with the growing trend of ESG considerations influencing the attractiveness of assets to both occupiers and investors.

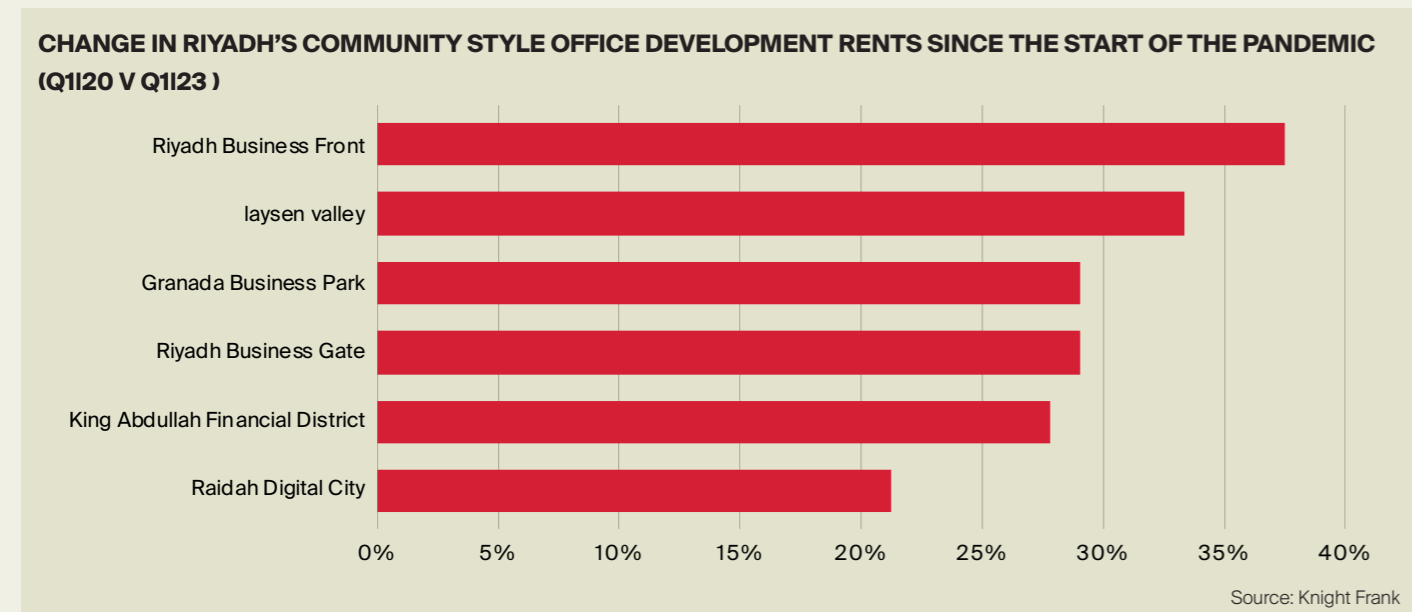
Anecdotal evidence suggests that ESG-rated properties often command higher rental rates due to several reasons. First, tenants are increasingly placing importance on sustainability and environmental performance. They understand that occupying an ESG-rated building aligns with their own corporate values and can contribute to their own sustainability goals. This demand from tenants leads to increased competition for ESG-rated assets, which in turn drives up rental prices.

Second, investors are recognising the long-term benefits of ESG investments. ESG-rated assets tend to have lower operating costs, reduced energy consumption, and better resilience to climate-related risks. These factors contribute to improved financial performance and asset value over time. As a result, investors are willing to pay a premium for ESG-rated assets, expecting higher returns and lower risks in the long run.

Furthermore, international blue-chip businesses are particularly interested in ESG-rated assets. These companies often have global operations and extensive sustainability initiatives. Occupying ESG-rated buildings allows them to showcase their commitment to sustainability and fulfil their corporate social responsibility. It also helps them attract and retain top talent, as employees seek employers that align with their values.

We have noted a sharp growth in demand for newer and modern developments, especially those with a focus on community living and ESG aspects.

Indeed, developments such as Business Front, King Abdullah Financial District (KAFD), Laysen Valley, and Business Gate in Riyadh command the highest rental rates across the city. These developments have achieved significant rental growth since the start of the pandemic. While standalone developments and relatively older stock located in secondary locations are struggling to achieve pre-Covid rental rates. This is not necessarily due to a lack of demand in the market, but a lack of demand for older, non-ESG-compliant office buildings.

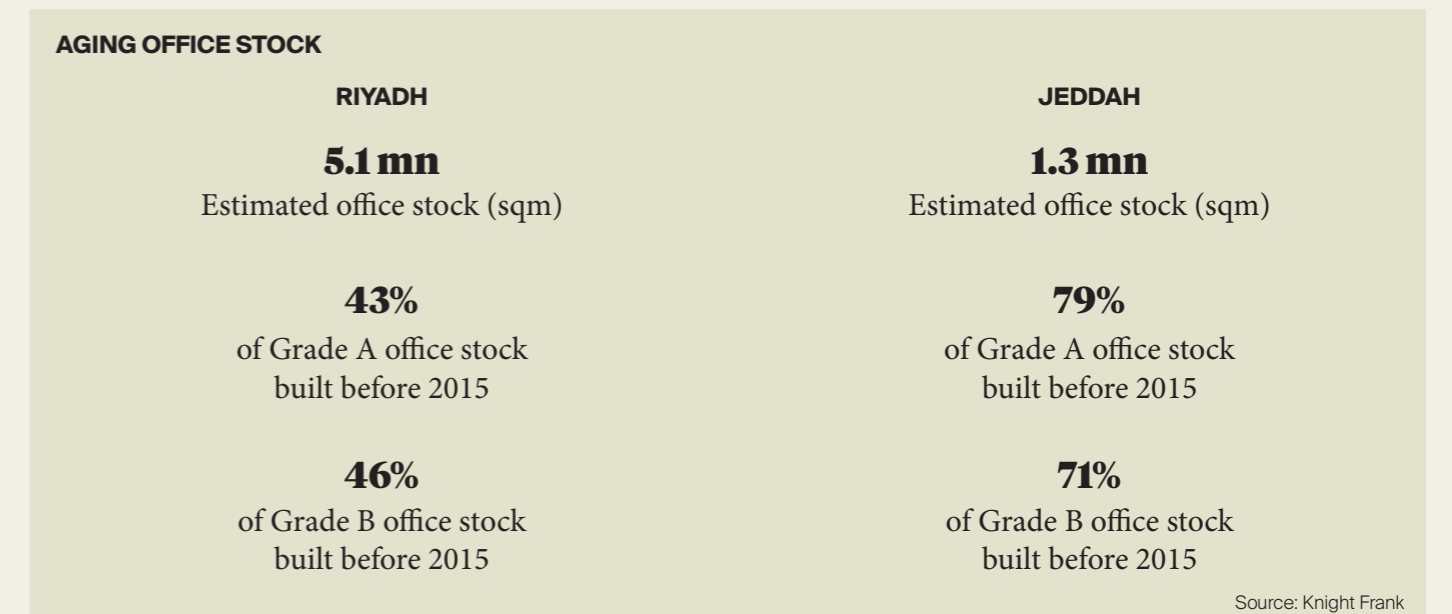


# The future of old buildings

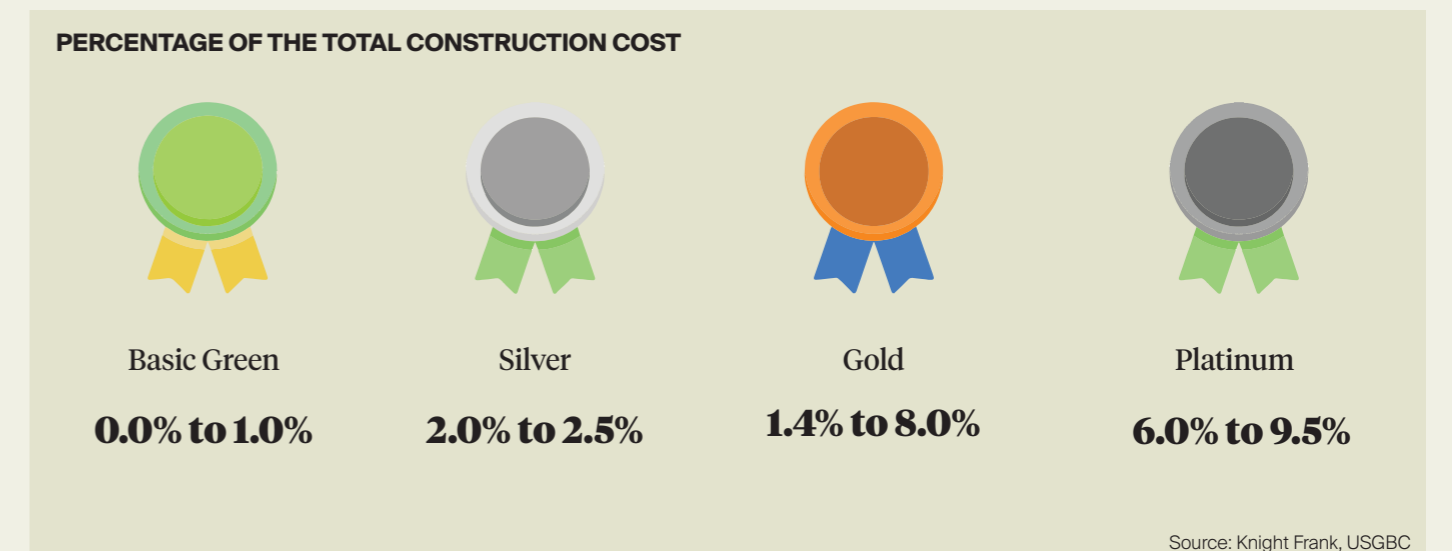
Looking at the amount of aging office stock in Riyadh and Jeddah, there is clearly an opportunity for developers and landlords to revitalise their properties while aligning with sustainability goals. Several options can be considered, such as renovation and modernisation, adaptive reuse with green principles, or complete redevelopment.

However, the increasing focus on green financing and sustainability poses challenges for developers and landlords when considering complete redevelopment of

older buildings, as the carbon footprint associated with demolishing and rebuilding can be higher than renovating an existing building, which goes against the principles of environmental sustainability.



Below are our cost estimates for upgrading new-build properties to different levels of LEED accreditation. These estimates are approximate and can vary based on several factors, such as the size of the building, location, complexity of upgrades, and green-certification requirements.



# Building headquarters is gaining popularity in Riyadh

In Riyadh, large corporates and governmental entities are choosing to build their own headquarters. Anecdotally, this trend is emerging among businesses because there is no or limited office stock available that suits their requirements, aligns with their corporate values, and can contribute to their sustainability goals. Another consideration is the provision of a central administrative and operational hub for their respective organisations, as many businesses continue to ramp up operations in line with the rapid expansion of the economy, catalysed by Vision 2030 and the US\$ 1.1 trillion of real estate and infrastructure spending, designed to transform the Kingdom ([see our 2022 Saudi Giga Projects Map here](#)).

In addition, building HQs provide companies with better operational control, design customisation, long-term cost efficiency, brand identity, security, and allows future growth and expansion.

Creating a better workspace for employees is a top priority for many companies. A well-designed and supportive work environment can enhance productivity, engagement, and overall employee well-being.

Therefore, building their headquarters allows companies to cater to their employees' needs. In fact, we have seen companies such as Arabian Oud, Jarir, Alinma Bank, STC, Ministry of Civil Service and SDAIA, to name a few, already building their own HQs in Riyadh, where the central focus of their developments is to provide comfortable and ergonomic design, flexible and collaborative spaces, natural lighting and biophilic design, technology and digital connectivity, wellness initiatives, well-designed amenities, and environmental considerations.

# The green race

It is indeed impressive to see the United Arab Emirates (UAE) leading in the number of LEED (Leadership in Energy and Environmental Design) registered projects among Middle Eastern countries. With 2,072 registered projects, including stand-alone homes, the UAE has and continues to demonstrate a strong commitment to sustainable and green building practices. This can be attributed to various factors, including government initiatives, market demand, and the UAE's ambition to establish itself as a global leader in sustainability.

On the other hand, Saudi Arabia and Turkey also demonstrate a noteworthy number of LEED registered projects, indicating a growing interest in sustainable construction practices within these countries. Saudi Arabia's success rate of 58.4% in terms of LEED certification indicates a relatively high proportion of projects successfully meeting the stringent requirements for sustainable design, construction, and operation set by LEED.

The table below shows that the Kingdom of Saudi Arabia has a remarkable 96% of projects with Silver, Gold, or Platinum-level certifications, while the UAE and Turkey have 70% and 93% above the LEED silver level, respectively.

## PLANNED HQ SPACE BY PUBLIC AND PRIVATE SECTORS

Planned HQ space (sqm)

Public Sector HQs



**1,100,000**









Private Sector HQs



**287,000**

Source: Knight Frank

## LEED PROJECTS IN THE MIDDLE EAST & AFRICA COUNTRIES

								
	KSA	UAE	Turkey	Qatar	Egypt	Oman	Kuwait	Jordan
Certified Projects	<b>901</b>	<b>486</b>	<b>486</b>	<b>118</b>	<b>22</b>	<b>20</b>	<b>10</b>	<b>10</b>
Registered Projects	<b>1,543</b>	<b>2,072</b>	<b>1,122</b>	<b>282</b>	<b>76</b>	<b>60</b>	<b>67</b>	<b>47</b>

Source: Knight Frank, IOP Publishing

# Sustainable financing

Underpinning the rise in LEED certifications is the rise in sustainable financing, which, in recent years has gained popularity in Saudi Arabia. The government has shown a strong commitment to promoting sustainable practices, and businesses are following suit.

One of the key drivers of sustainable financing in Saudi Arabia is the increasing awareness of environmental and social issues. Consumers are becoming more conscious of the impact their actions have on the planet, and they are demanding that businesses take responsibility for their environmental and social footprints. Indeed, a 2021 Mastercard survey of adults in 24 countries found that 58% are mindful of their environmental impact, with 8% willing to take personal actions to mitigate this. Unsurprisingly, a global shift in the way businesses operate and finance their operations is well underway, including across Saudi Arabia.

In response to this demand, financial institutions in Saudi Arabia now offer a range of sustainable financing options. These include green bonds, sukuks, sustainability-linked loans, and social impact investing.

Green bonds are a popular option for companies looking to finance environmentally friendly projects. Sustainability-linked loans incentivise companies to meet sustainability targets by offering lower interest rates. Social impact investing allows investors to support projects that have a positive impact on society.

There has been a top-down approach when it comes to driving sustainable financing considerations, with the Public Investment Fund (PIF) successfully completing the issuance of its second international green bond amounting to US\$ 5.5bn in February 2023. This follows the inaugural green bond amounting to US \$3bn in October 2022.

Separately, the 2024 US\$ 80bn IPO planned by NEOM, the US\$ 500bn supercity on Saudi Arabia's Red Sea coast and the centre piece of the Kingdom's Vision 2030, will be one to watch closely, particularly as NEOM has placed sustainable development at the heart of its plans, including Oxagon, the world's largest floating city and logistics hub, which promises to be run entirely on renewable energy.

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**In the realm of sustainable finance, the success of PIF's international green bond issuances, totaling US\$ 8.5bn, shows their strong financial position and continuous global credit confidence.**

# Digital connectivity and smart technology

Away from the more visible rising ESG considerations, digital connectivity and smart technology are also fast rising up board room agendas. Digital connectivity, while not physically visible, is indeed a crucial element of the built environment that significantly impacts the potential of a workspace and the well-being of its occupants.

In the context of ESG considerations, connectivity sits across all components of a company's strategy, though possibly more importantly, it is most relevant to the additional "R" for Resilience. Technology is fundamental to creating a building that delivers high quality outcomes, especially ones that relate to ESG+R goals, including targets such as net zero carbon.

## GOVERNMENT INITIATIVES TO ENHANCE DIGITAL CONNECTIVITY

Saudi Arabia has made strides in improving its digital connectivity, driven by the government's recognition of its importance. The country has high internet penetration, with 99% of the population having access. In addition, investments in digital infrastructure, such as fibre-optic networks and 5G technology, have substantially improved internet speeds and coverage. Indeed, the Speedtest Global Index ranks the Kingdom's mobile internet speeds as the 11th fastest in the world, while broadband speeds position the country in 41st position globally.

## WIRESCORE

WiredScore offers two certifications that measure the digital infrastructure and smart technology capabilities of a building: WiredScore and SmartScore. Both digital connectivity and smart technology have become critical requirements in modern offices, facilitating an enhanced experience for occupiers that focuses on a seamless transition in between an employee's home, work desk, meeting room, and collaborative space. In fact, research shows that a high quality internet connection is the number one priority for office workers in Saudi Arabia.

With this expectation from occupiers, it is fundamental that landlords invest in futureproofing their assets to avoid obsolescence and expensive retrofits down the line, which can directly impact the value and marketability of a commercial asset. It can also hinder worker productivity, affecting lease renewals and occupier expansion prospects.

## BENEFITS OF WIRESCORE AND SMARTSCORE

- Tech centred leasing and branding to attract forward thinking occupiers
- Future-proofed assets
- Demonstrated enhanced asset value
- Avoid Future Retrofits for Next-Generation Technology
- Optimize Building Design Process
- Enhance Building Reputation
- Lease Faster and Reduce Vacancy Rates
- Differentiate from Competition
- Better Understand Property's Connectivity Infrastructure
- Safeguard Against Obsolescence

# What next?

ESG considerations are still in early stages in Saudi Arabia, and that poses some challenges for entities, such as a shortage of expertise, limited regulatory frameworks, and lack of awareness on the matter.

Despite that, the importance of adopting those frameworks is quickly gaining momentum. Besides the general benefits of boosting an organization's reputation and being able to satisfy stakeholders, some financial regulatory authorities have implemented mandatory ESG disclosure requirements for all companies they work with. Disclosing ESG strategies builds confidence by improving transparency and contributing to a healthy work environment.

In the end, incorporating ESG factors offers plenty of opportunities that can help companies across Saudi Arabia, such as boosting their reputation, minimizing costs in the long run, and attracting investors.

However, doing that will require companies and decision makers to stay educated about the evolving ESG trends, industry best practices, and legislation, which will be critical for real estate professionals to effectively navigate the future ESG landscape.



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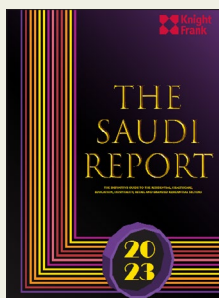
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