

Saudi Arabia Retail Market Overview



Summer - 2024

A biannual review of key trends and the performance of Saudi Arabia's retail market

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Market Roundup

Driven by the ambitious Vision 2030 transformation goals, the retail market in Saudi Arabia experienced a significant shift in 2023, underpinned by government economic diversification efforts, rapid demographic changes, and technological advancements. In fact, the retail sector (including hotels and accommodation) contributed nearly a quarter (23%) of the growth of the Kingdom's non-oil GDP, which climbed to 50% last year, equating to a value of US\$ 476bn. This is the first time the non-oil sector has accounted for half of the Kingdom's economic output.

POINT OF SALE AND E-COMMERCE EXPANSION

Saudi Arabia continued to embrace digital advancements in 2023, as both traditional point-of-sale systems and the e-commerce sector saw annual growth of 13%. The latest data released by the Kingdom's central bank (SAMA) showed the total value of e-commerce sales using Mada cards and point-of-sale transactions amounted to SAR 770.9bn (US\$ 206bn).

The e-commerce market in Saudi Arabia grew by 28% in 2023 to SAR 157bn (US\$ 41.8bn). This growth was fueled by an increase in internet penetration and smartphone usage, coupled with government support for digital retail infrastructure.

“The transition toward experiential retail is helping many landlords sustain footfall and boost dwell times, and this will remain a crucial element of consideration in future retail developments across the country”

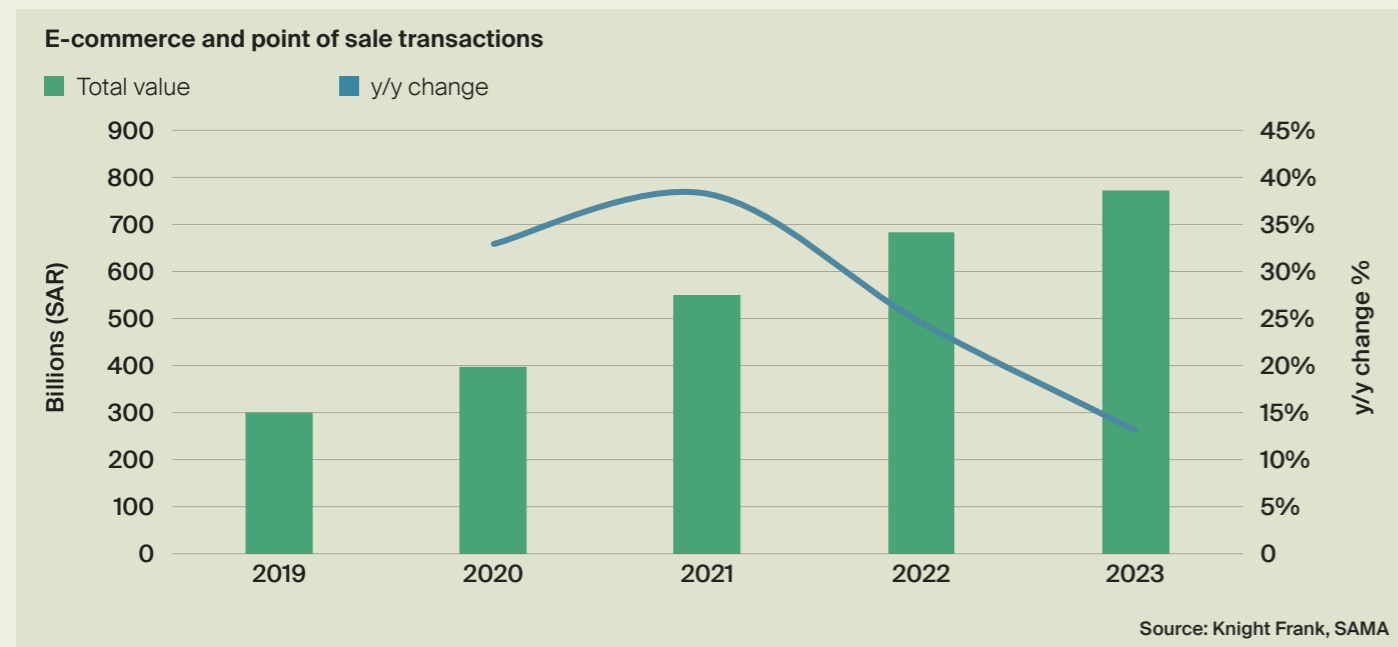
INCREASE IN FDI

Saudi Arabia has seen a surge in foreign direct investments (FDI), particularly in the retail and e-commerce sectors. The government's initiative to allow 100% foreign ownership continues to attract both new international retailers and investors. In 2023, the Ministry of Investment granted 8,540 foreign investment licenses, marking a 96% increase on 2022, including a record 2,884 licenses during Q4 last year alone. Notably, 186 licenses were issued for wholesale and retail trade services. As a result, the Kingdom's FDI inflows grew by 12% in 2023, reaching SAR 72.3bn, up from SAR64.6 billion in 2022.

RETAIL MARKET PERFORMANCE

Despite the positivity in the sector and growing interest from international retailers and investors, headline rents across shopping malls continue to decline and have been slipping for the last four years. Riyadh has been an exception, with rents remaining relatively steady at around SAR 2,700 psm.

Looking ahead, with 5.3 million sqm of new retail planned nationwide (2.8 million sqm in Riyadh alone), rents are likely to remain under sustained downward pressure, particularly as the preference for online shopping continues to grow faster than in-store transactions. The transition toward experiential retail is helping many landlords sustain footfall and boost dwell times, and this will remain a crucial element of consideration in future retail developments across the country.



Boulevard City, Riyadh

Riyadh

AN EMERGING LUXURY RETAIL DESTINATION

The lifestyle and luxury retail offering in Riyadh has expanded significantly with the recent additions of Century Corner, 1364 AH, Bujairi Terrace, and Via Riyadh, which together have added 128,000 sqm of retail space to the city's existing total stock of 3.67 million sqm.

These new developments continue to fuel Riyadh's emergence as a lifestyle and luxury retail destination that blends opulence with local culture.

Diriyah Square (180,000 sqm) is another example, which is poised to house over 400 retail outlets, 100 restaurants and cafés, and a variety of lifestyle options when it opens in 2024.

Like the rest of Saudi Arabia, Riyadh has witnessed significant growth in e-commerce activities. Major international platforms like Noon and Amazon.sa currently dominate Riyadh's e-commerce market. However, local players also have a critical role in the ecosystem, offering unique products that cater to the specific tastes and preferences of the local Saudi market.

ENTERTAINMENT MEETS RETAIL

Elsewhere, the liberalisation of the entertainment sector has led to the emergence of new cinemas, concert halls, and sports complexes. Developments like Boulevard World and Boulevard City are prime examples, incorporating retail and F&B offerings that foster a dynamic relationship between entertainment and retail. In Riyadh alone, the past 18 months have seen the completion of 90,000 sqm of lifestyle-led retail developments.



Uwalk, Riyadh

STEADY RENTS AND RISING OCUPANCY

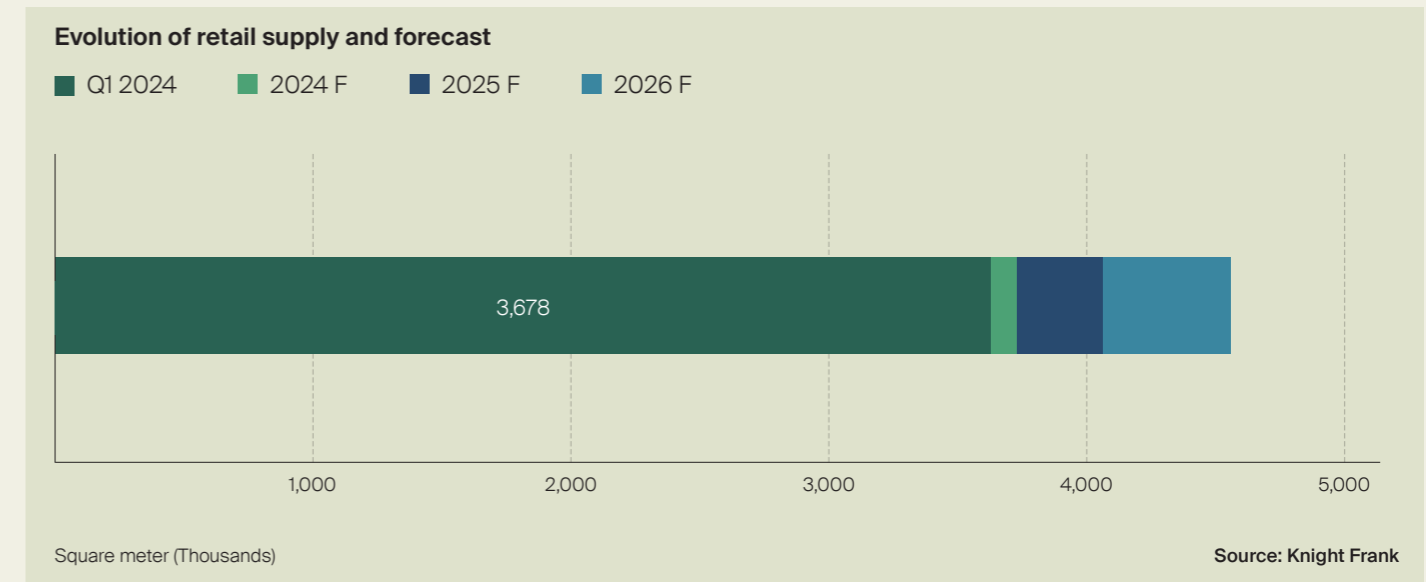
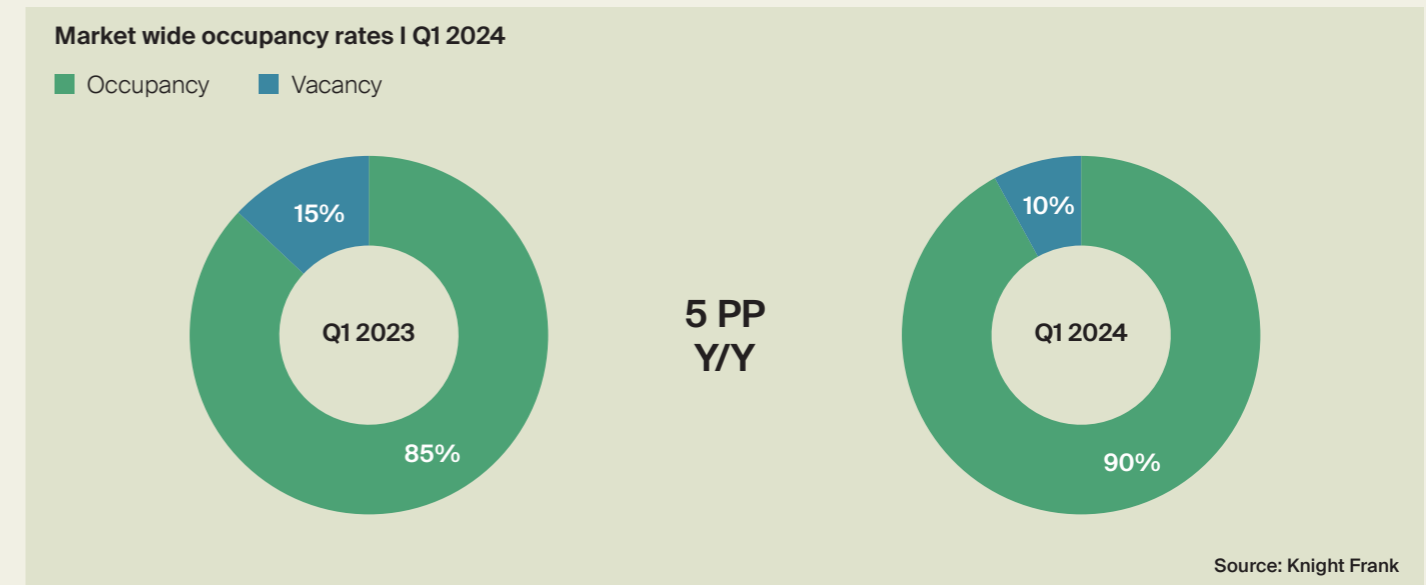
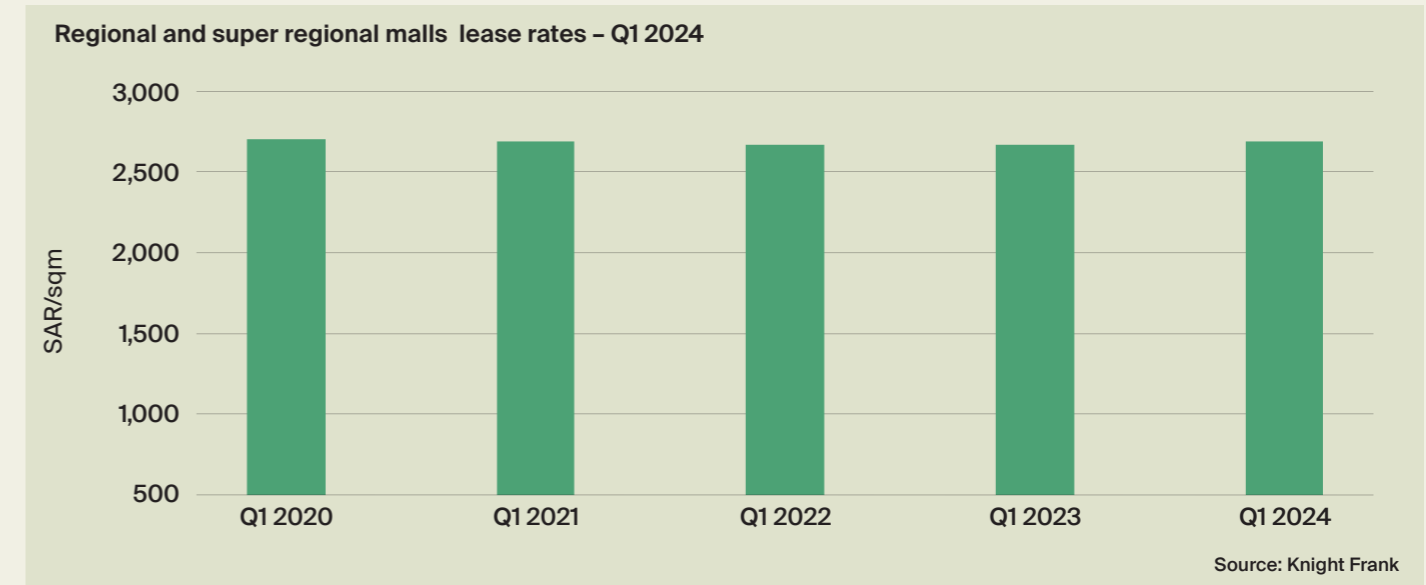
Average rental rates across Riyadh's retail market have increased marginally by 2.5% to an average of SAR 2,740 psm for regional and super regional malls in the last 12 months, while occupancy rates across the retail market have climbed by five percentage points to 90%.

NEW SUPPLY

Around 27,050 sqm of new retail space entered the market in Q1 2024. We expect the capital's retail stock to further grow to 4.57 million sqm by 2026, representing a 28% increase.

Clearly, the significant increase in supply will put pressure on retailers, mall operators, and developers to ensure their offerings remain relevant, on-trend, and centred on experiences if they are to effectively compete and survive the slew of new retail developments.

Market Performance Indicators



Jeddah

RISING SUPPLY

Like Riyadh, the Jeddah retail market is dominated by the lifestyle and luxury retail offer, where four projects, spread across 42,000 sqm, have added to the already vibrant retail scene over the past 18 months.

The lifestyle retail scene in Jeddah began to take off in 2020, aligning with the global post-Covid desire for outdoor activities and holistic well-being. Since then, Jeddah has witnessed the opening of 10 lifestyle retail centres, each offering a fusion of fountain-based attractions, retail, dining options, and attractive promenades.

We expect five more lifestyle retail developments, totalling 131,700 sqm, to be completed over the next 12 months.

Jeddah's retail supply has remained unchanged in Q1 2024, standing at 2.5 million sqm. However, if there are no construction delays, we anticipate the delivery of an additional 625,000 sqm by 2026. This substantial increase in supply will likely pose a challenge for mall operators and developers, who will need to adapt and innovate to stay relevant in an increasingly competitive landscape.

This underscores the importance of strategic planning and forward-thinking in the retail industry, given the substantial rise in online retailing.



Boulevard Mall, Jeddah

DECLINING HEADLINE RENTS

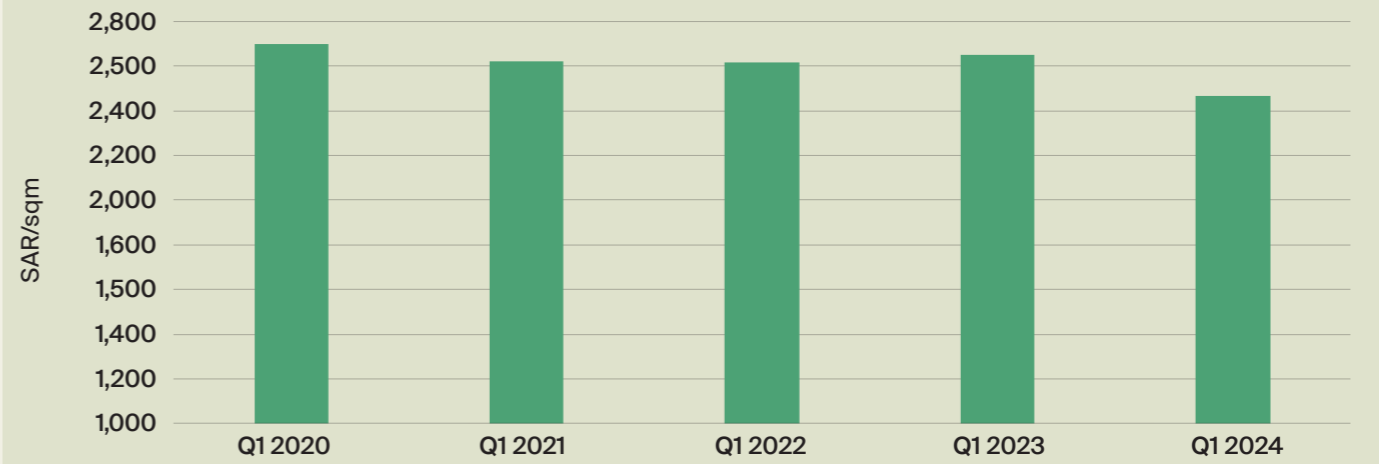
Average rental rates across Jeddah's retail market have dropped by 7% over the last 12 months for regional and super regional malls. Rents currently stand at an average of SAR 2,465 psm, while occupancy rates across the retail market experienced a slight decline of 1 percentage point during the same period to 84%.

The drop in occupancy and rental rates in regional and super regional malls is partly reflects changes in consumer preferences, as is the case elsewhere in the Kingdom.

Developments with strong entertainment and lifestyle components continue to command rental premiums as retailers are happy to pay above-average rates to be in locations that offer high levels of footfall.

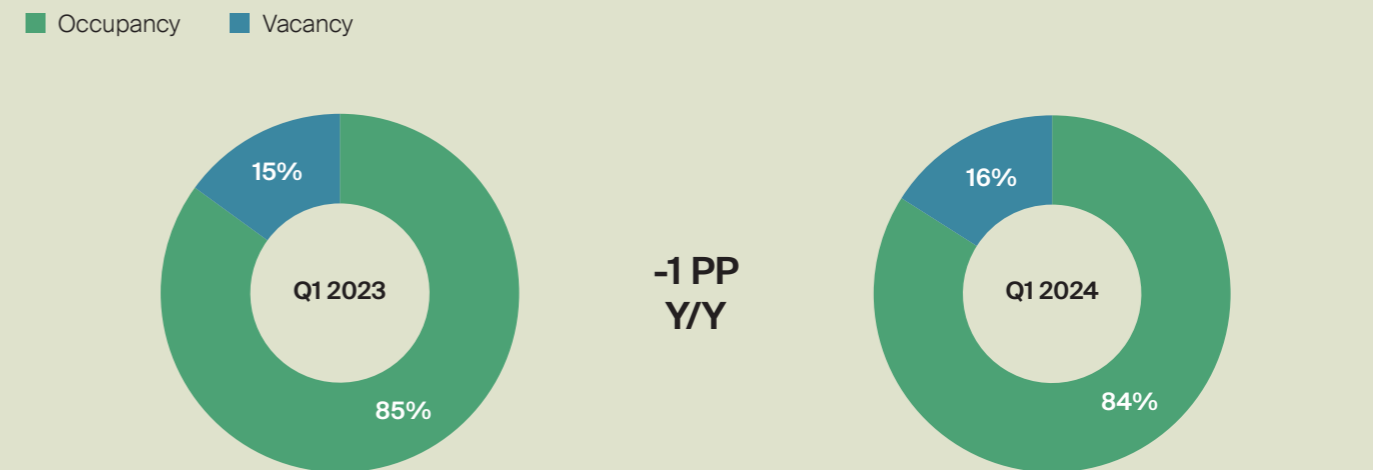
Market Performance Indicators

Regional and super regional malls lease rates – Q1 2024



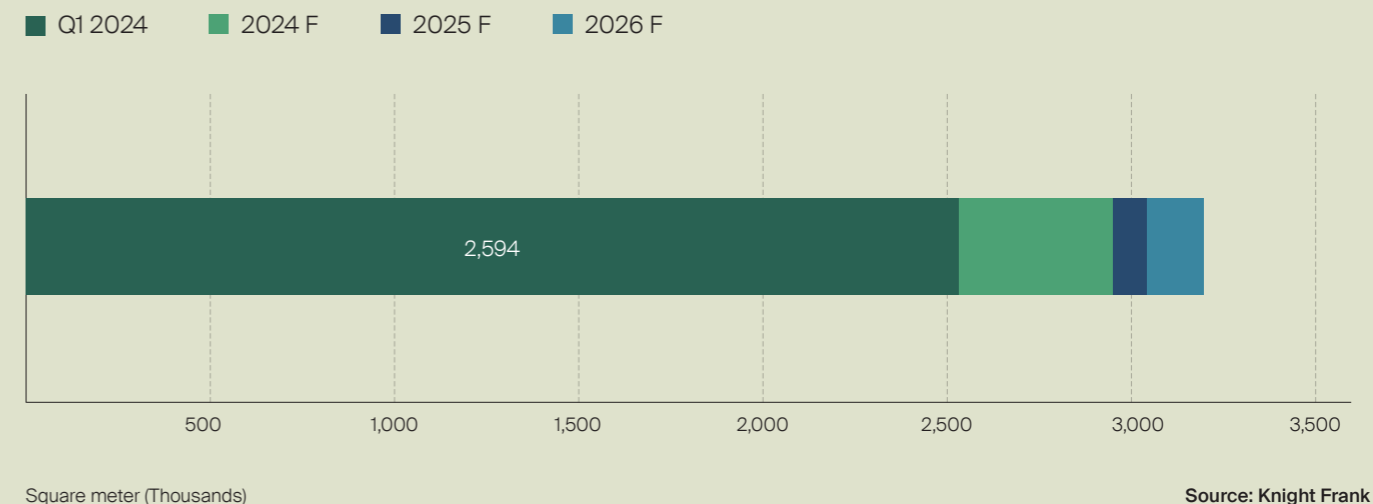
Source: Knight Frank

Market wide occupancy rates | Q1 2024



Source: Knight Frank

Evolution of retail supply and forecast



Source: Knight Frank

Dammam Metropolitan Area (DMA)

A SUBDUED MARKET

While demand from retailers to be located in regional and super regional malls remains steady, rental rates have dropped by 1.3% to SAR 2,275 psm in the last 12 months. In parallel, occupancy levels decreased marginally by 1 percentage point, from 90% to 89% over the same period.

Like elsewhere in the Kingdom, retailers clearly prefer space that offers a combination of entertainment, fountain-based attractions, retail, dining options, and attractive promenades. Tenants are increasingly seeking to either maintain their presence in well-managed existing developments or secure space in new, vibrant projects.

RISING ENTERTAINMENT OPTIONS

In line with trends across the Kingdom, the DMA is set to see a significant enhancement in its entertainment offerings. Saudi Entertainment Ventures (SEVEN) is actively working on expanding the DMA's retail and entertainment landscape, with the 140,000 sqm, due to be completed by 2025 being one such example.

Elsewhere, older and more secondary retail and those malls lacking a strong entertainment and experiential offer are struggling to compete in this changing market, with rising vacancy levels and rents slipping.



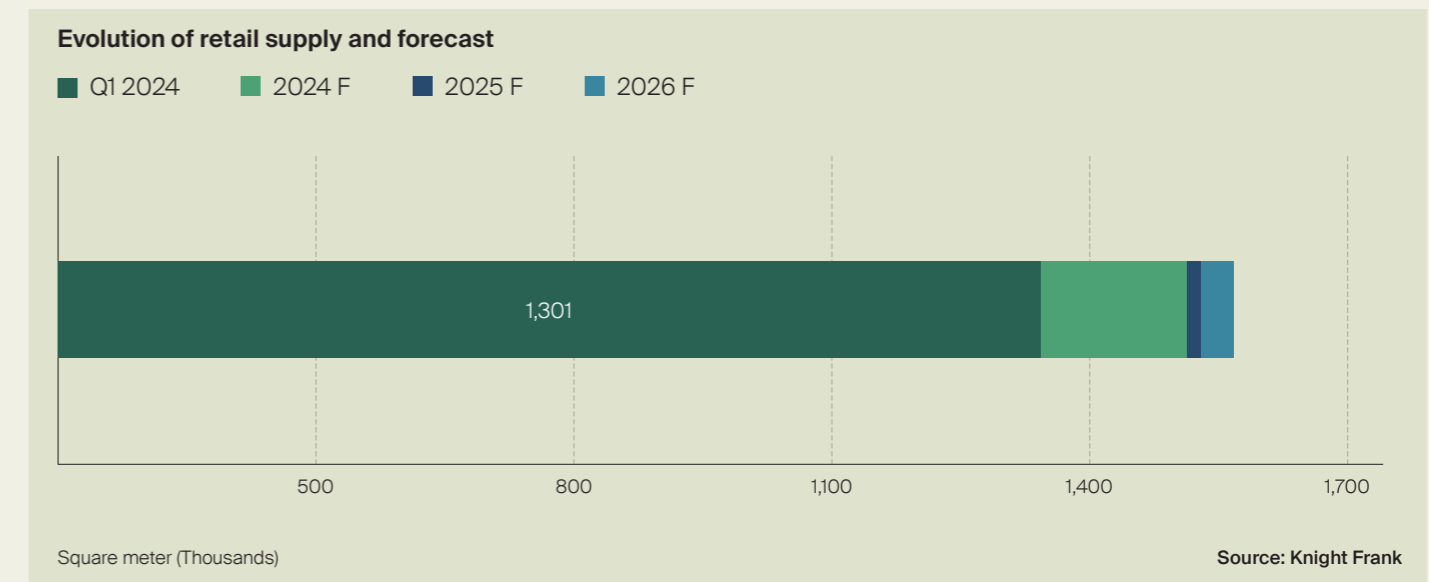
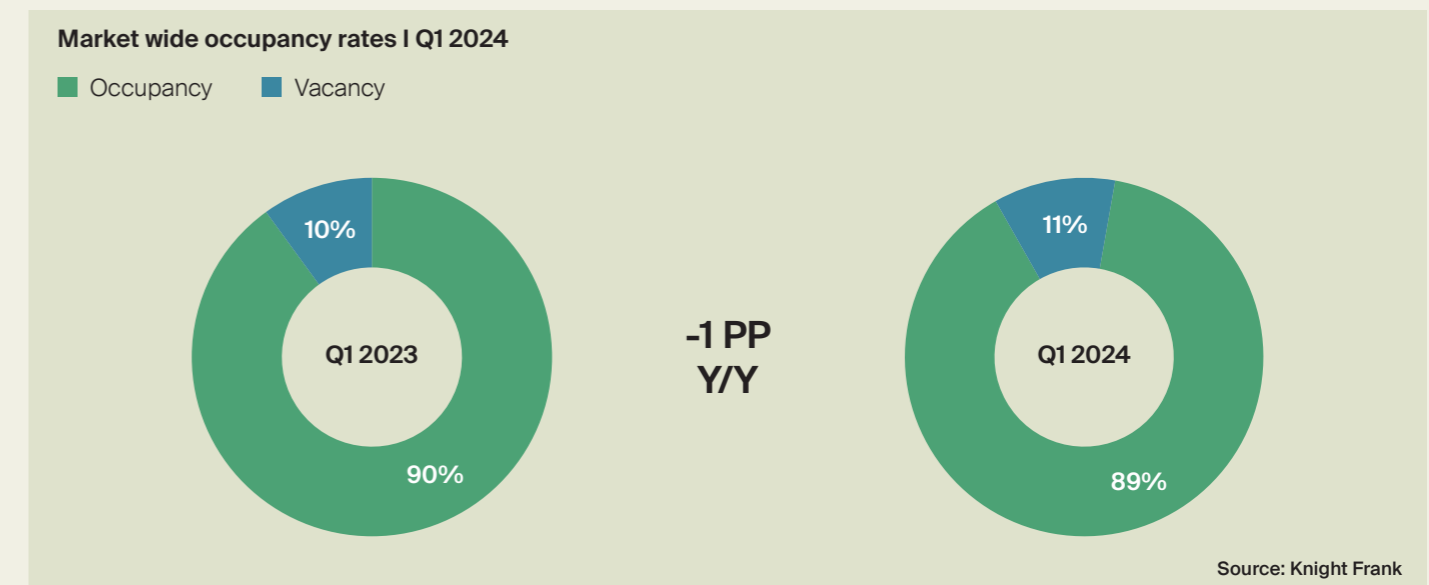
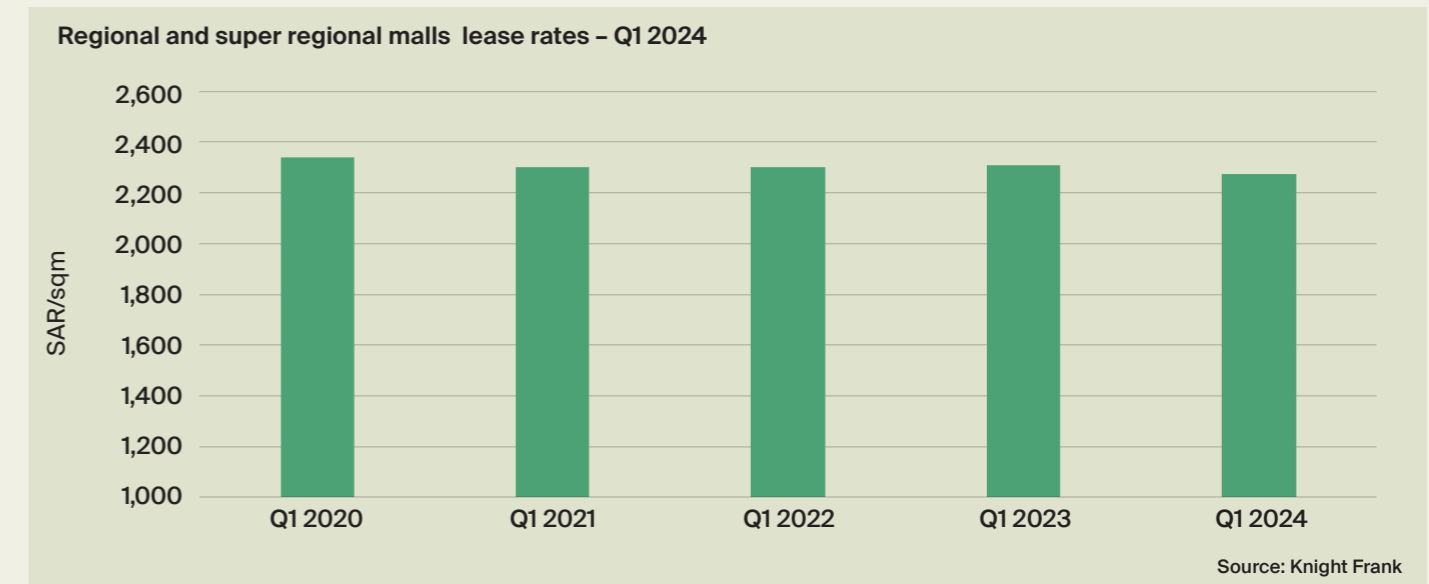
Ajdan Walk, Al-Khobar

NEW SUPPLY

There were no significant completions in Q1 2024, leaving the current retail stock steady at 1.3 million sqm. Looking ahead and assuming that construction progresses without delays, we forecast an additional 216,500 sqm will be added to the retail landscape by 2026.

This projected growth reflects ongoing investments in the region's retail sector, aiming to meet evolving consumer demands and enhance overall market vitality. But equally, it signals the challenge that lies ahead for existing mall owners to stay relevant and attractive to retailers and consumers.

Market Performance Indicators



Expert Insight

Using Consumer Data to Make Informed Decisions

TOUCHY-FEELY RETAIL

Historically, retail destinations focused on consumer 'needs' before evolving to 'wants'. Recently, however, consumer demands have evolved to 'feels'. Purchases have become a by-product of shopping mall visitation habits, and consumers continue to seek unique immersive experiences. This is true not just for the Kingdom but globally.

On the whole, shopping malls are typically viewed not just as somewhere to run errands or make specific purchases but as a place to go and interact with family and friends. This notion of shared activities and experiences that can be easily accessed by all participants is central to the overall mall experience. In many cases, the actual shopping element is secondary or enhanced through other social activities, and it is vital that mall offerings are positioned to reflect this.

It is also crucial to thoroughly understand your target consumer base to optimise net operating income and development returns.

Developers should aim to avoid the 'build it and they will come' mentality and instead focus on a 'top-down' approach to define market share and a 'bottom-up' strategy to fully understand their market and what is the optimal positioning to optimise footfall, conversion, net operating income and capital value.

UNDERSTANDING YOUR CUSTOMER

For example, the scale and pace at which Saudi Arabia's retail scene is evolving means there is no single answer to this question. Consumer behaviour can vary significantly across the Kingdom, which creates its own unique challenges and opportunities. However, whilst the response may differ, the route to understanding your target consumer is largely the same.

The first important step is to identify the key target consumer groups and ensure they are at the heart of the asset development and management strategies. Any assumptions made around what these consumers want from a retail and leisure experience must also be underpinned by hard data that pinpoints what their key drivers are in terms of attracting them to the asset and convincing them to spend once there.

DATA-DRIVEN DECISIONS

Access to robust data sets is critical for all stakeholders as we move through 2024.

Analysis of consumer trends, customer journeys, changing behaviours, and spending habits is key to enabling informed decision-making around major capital investment plans.

Whether these are retailer expansion strategies, major acquisitions or new build projects, it all centres around reliable data to inform business cases. We are also seeing a surge in demand for access to reliable data from international investors who are seeking investment opportunities but first would like to understand the risks and opportunities further before committing.

The importance of applying data-driven assumptions cannot be underestimated; these allow operators to limit conjecture and be more confident in their ability to maximise income streams for themselves and external investors. It also enables asset owners to make smarter decisions around tenant mix, asset design, marketing strategy, omnichannel strategies and sales performance.

Securing access to the right type and quality of data can be a challenge, as many of the usual investment indicators can be scarce or very quickly become dated due to the pace of market evolution.

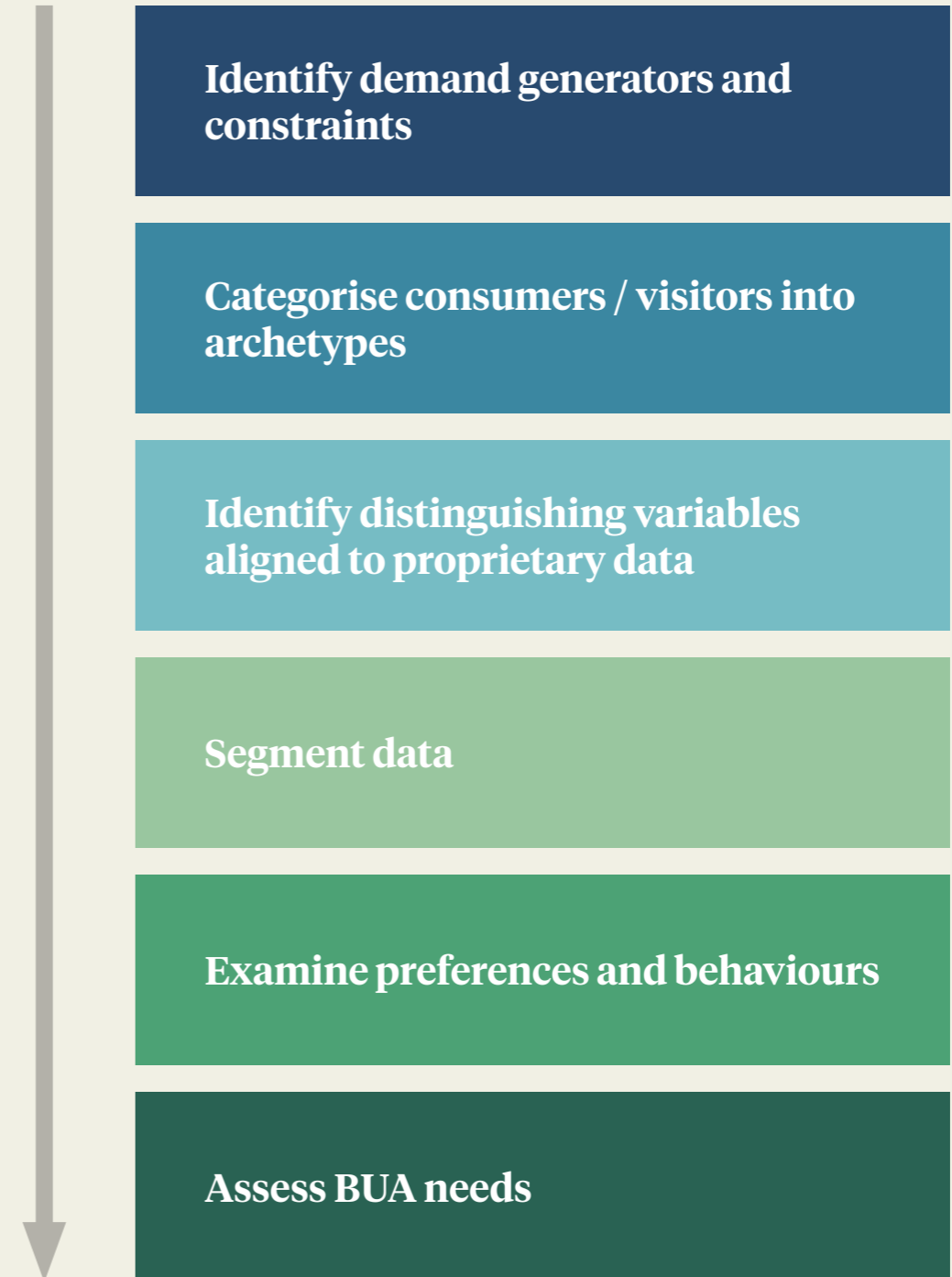
Knight Frank has market-leading proprietary data. The biggest challenge often comes in interpreting data correctly and building a strategy that can deliver a commercially successful asset.

Our Retail Advisory team is data-led and focused on developing recommendations based on consumer data, enabling objective and informed decision-making.



Jonathan Pagett
Partner - Retail Advisory

Consumer Segmentation Methodology



Source: Knight Frank

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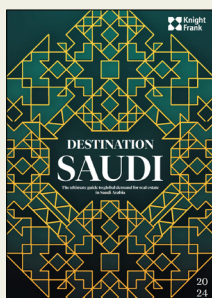
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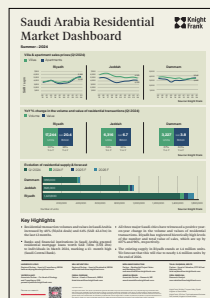
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Saudi Arabia Commercial Market Review - Summer 2024



Saudi Arabia Residential Market Dashboard - Summer 2024

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