

Saudi Arabia Commercial Market Overview



H1 - 2023

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

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Market Roundup

The office market has exhibited overall outperformance across all three major Saudi cities, with Riyadh emerging as a dynamic epicentre of growth in terms of both demand and lease rates. A significant catalyst for this surge in momentum is the ‘Program HQ’ initiative, which has already issued licenses to more than 44 international companies to relocate their regional headquarters to Riyadh. This initiative is forecast to infuse SAR 67bn (US\$ 18bn) into the economy and generate 30,000 job opportunities by 2030.

The escalating demand for Grade A offices within the capital has naturally led to a noticeable increase in lease rates, with a 6.2% rise over the past 12 months, with occupancy levels now standing at 97%. In addition, businesses from other regions of the Kingdom continue to gravitate towards Riyadh, leading to relatively subdued market conditions elsewhere in the country.

Furthermore, the shortage of prime and Grade A offices in the capital has left businesses with little choice but to rent Grade B space instead as businesses rush to be part of the Kingdom’s economic transformation. This phenomenon has resulted in a significant spike of 17.3% in Grade B lease rates, which now stand at an average of SAR 1,050 psm in Riyadh.

Elsewhere, the retail sector’s performance has remained fragmented in the last 12 months. Lease rates for regional and super regional malls in Riyadh saw a 2.9% increase, while in Jeddah, lease rates experienced a decline of 5.7% during the same period.

The pandemic has driven a permanent shift to the digital world, and many of the pandemic-induced shopping habits appear to be permanent. Retailers who fail to transition or offer an enhanced digital experience are finding it challenging to remain competitive. Operators too, cannot afford to be complacent. Developments that do not cater to the swell in demand for destination retail that incorporates a public realm, F&B and entertainment, for instance, are struggling to maintain healthy lease rates and occupancy levels.

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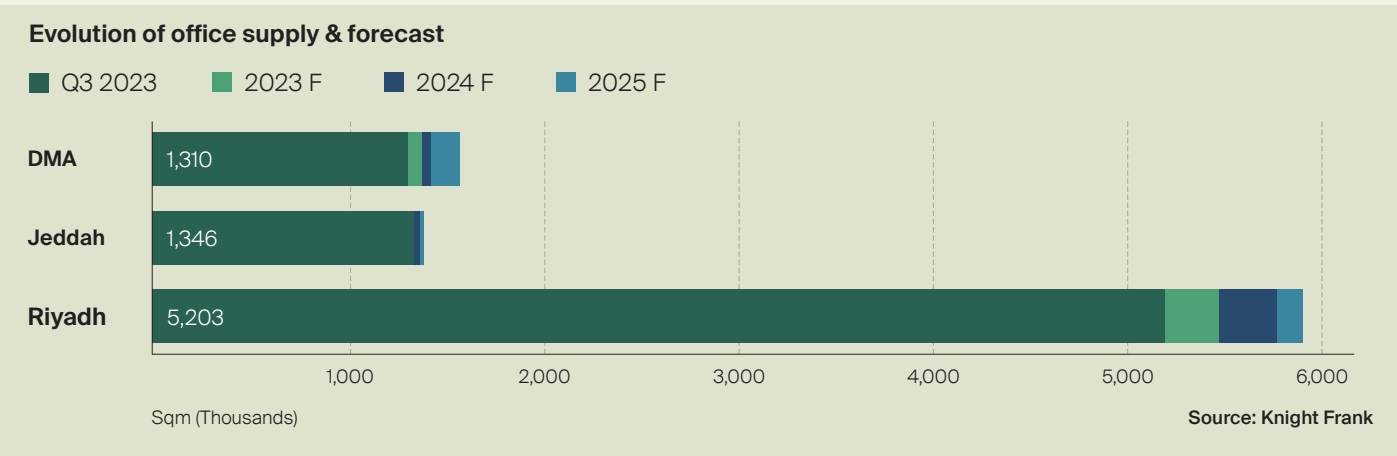
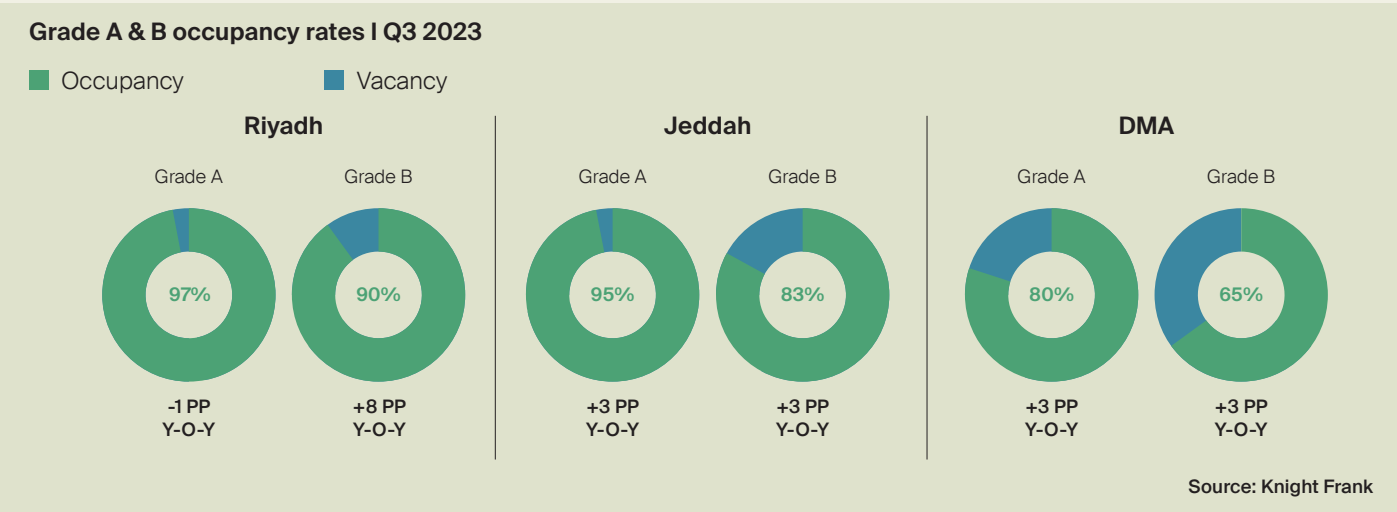
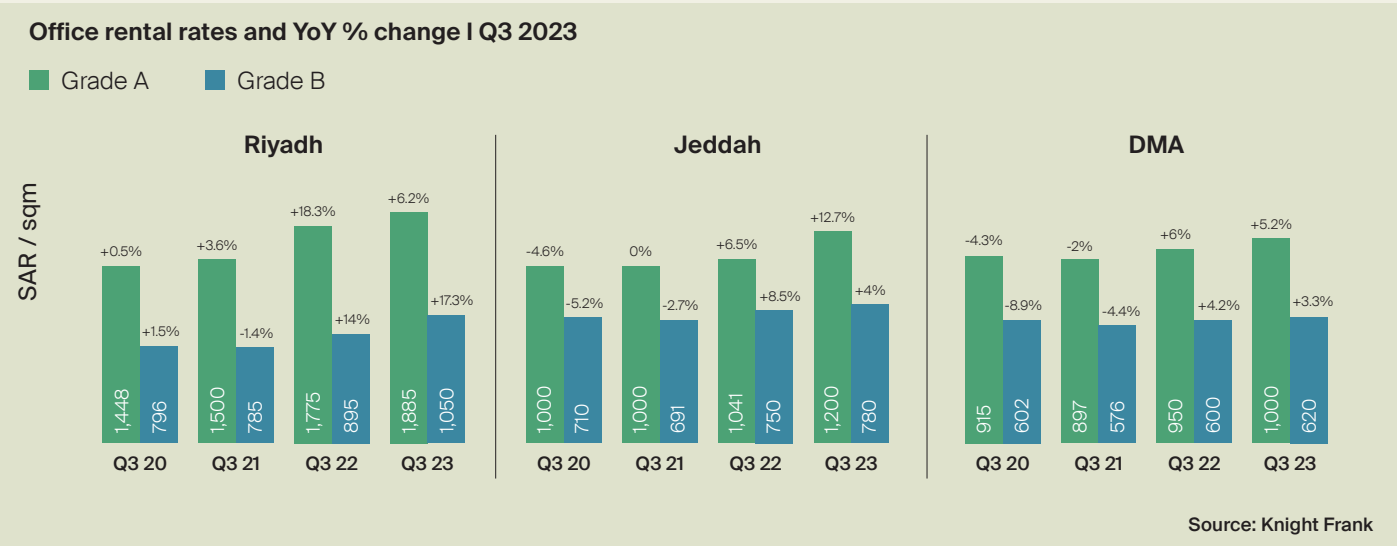
Despite this, our outlook for the retail sector remains positive, underpinned by the booming e-commerce sector, the thriving F&B scene and steady demand for luxury retail. Saudi Arabia’s retail sector is anticipated to grow to SAR 596bn by 2024, becoming the largest market in the region (RLC). Emerging F&B and entertainment concepts are playing a pivotal role in redefining the Kingdom’s retail landscape and remain the primary drivers of footfall in retail developments. Indeed, our research indicates that over 50% of the new retail space under development in Riyadh and Jeddah is allocated for F&B and entertainment venues.

The hospitality sector is witnessing rapid growth in performance, driven by the year-round series of cultural and entertainment events and festivals, which are contributing to the rising number of both leisure and business travellers, both domestic and international, to all the major cities in Saudi Arabia.

Indeed, during 2022, the Kingdom played host to 93.5 million tourists, 16.5 million of whom were international visitors. Building on this momentum, the Kingdom has set an ambitious target of 150 million visits by 2030, representing a 50% increase from its previous goal of 100 million tourists by the end of the decade.

The demand for hotel rooms in Saudi Arabia remains robust, driven by a combination of seasonal events, festivals, corporate activities, and the continuous expansion of the country’s tourism sector. Notably, Saudi Arabia boasts the world’s largest hotel development pipeline, with approximately 289,000 new rooms scheduled to be added by the end of 2030 – for context this is almost double that of nearby Dubai, which has approximately 154,000 hotel rooms.

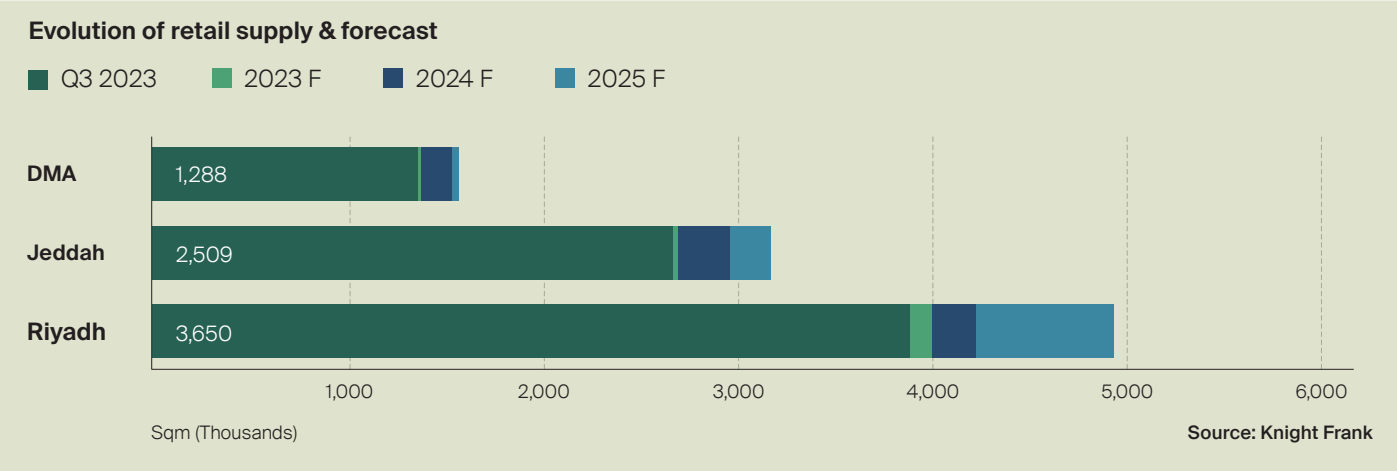
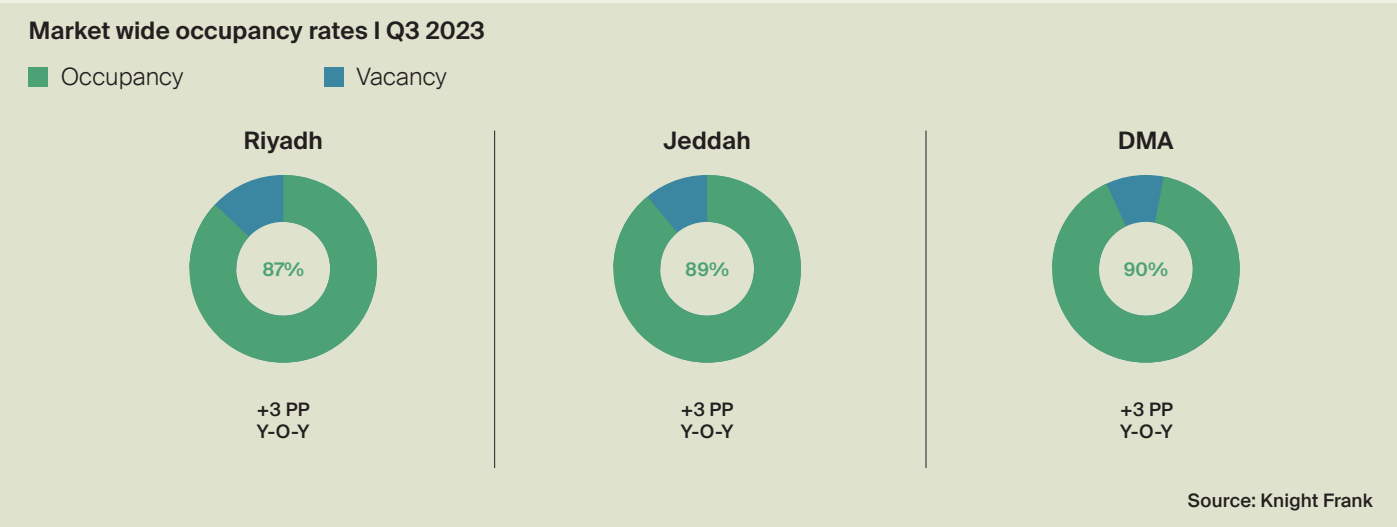
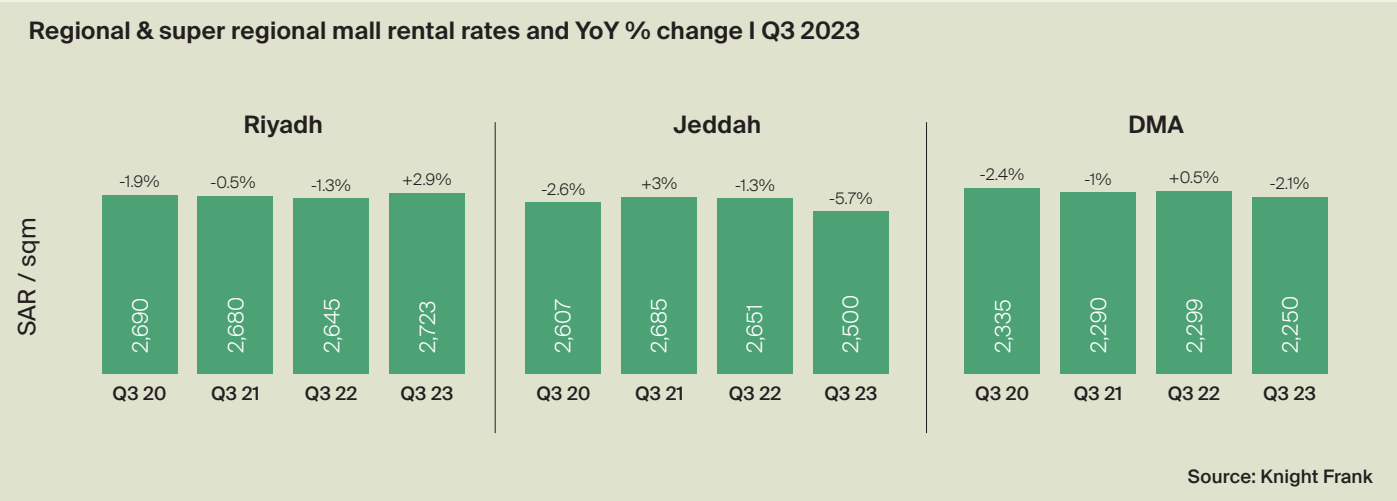
Office Market



Key Highlights

- 44 international companies received licenses to move their regional headquarters to Saudi Arabia’s capital, Riyadh.
- These new headquarters are expected to contribute SAR 67bn (US\$ 18bn) to the economy and create 30,000 jobs by 2030 (SPA).
- Despite the significant surge in demand from new international occupiers, the public sector remains the primary driver of office demand across Saudi Arabia.

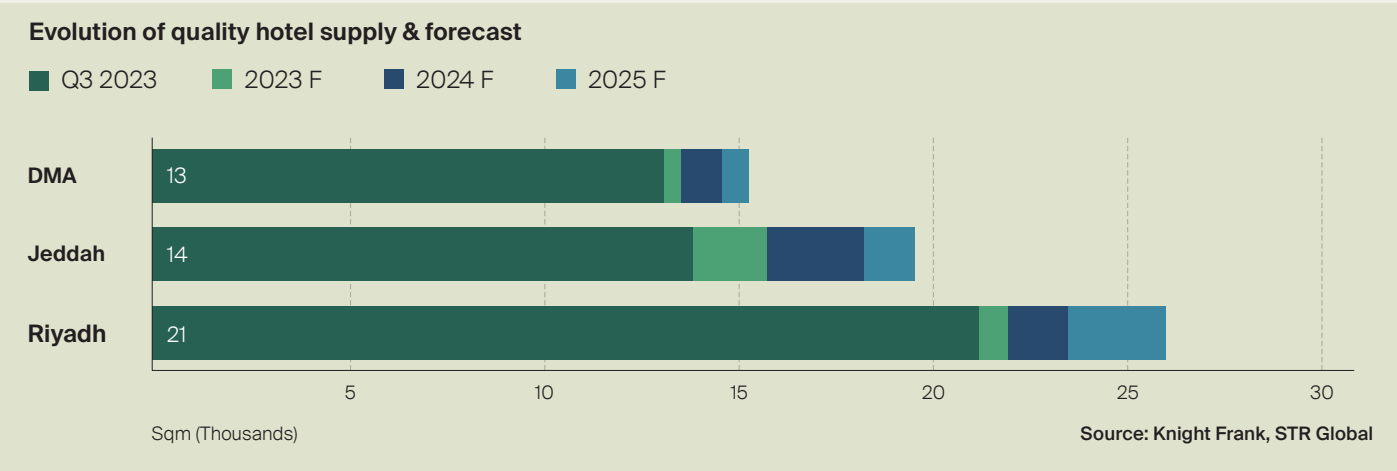
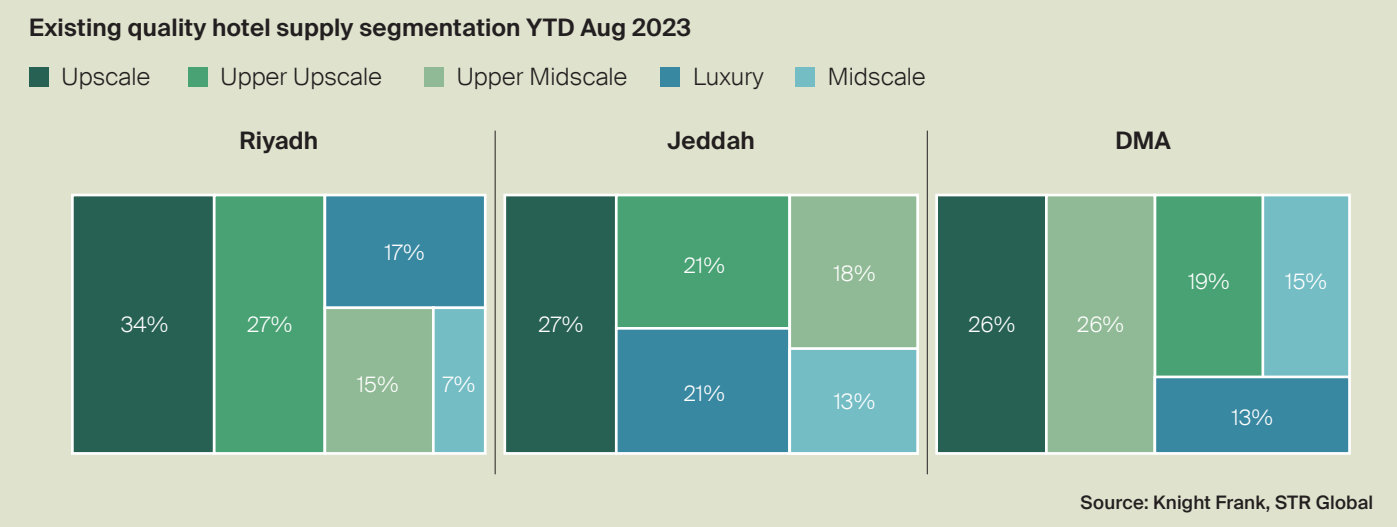
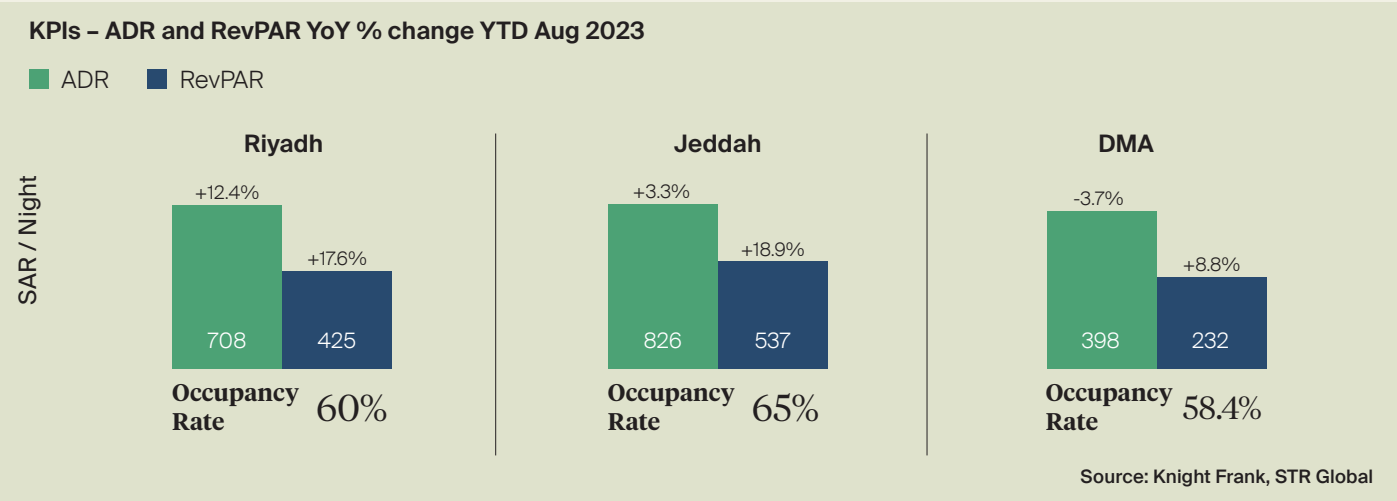
Retail Market



Key Highlights

- Fuelled by e-commerce and strong luxury retail demand, Saudi Arabia’s retail sector is anticipated to grow to SAR 596bn by 2024, becoming the largest market in the region (RLC).
- Emerging F&B and entertainment concepts are redefining the Kingdom’s retail landscape and remain the primary drivers of footfall in retail developments.
- Our research indicates that over 50% of the new retail space under development in Riyadh and Jeddah is allocated for F&B and entertainment venues.

Hospitality Market



Key Highlights

- During 2022, the Kingdom played host to 93.5 million tourists, 16.5 million of whom were international visitors.
- Saudi Arabia has set an ambitious target of 150 million visits by 2030, representing a 50% increase from its previous goal of 100 million tourists by the end of the decade.
- Saudi Arabia’s hotel room demand remains robust, driven by a combination of seasonal events, festivals, corporate activities and the country’s growing tourism sector.
- Saudi Arabia boasts the world’s largest hotel development pipeline, with approximately 289,000 new rooms scheduled to be added by the end of 2030.

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