Saudi Arabia Commercial Market Overview

Spring – 2025

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

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Market Roundup

Saudi Arabia's economic momentum continued to strengthen in 2024, underpinned by rising private sector activity. While the pace of new foreign direct investment (FDI) softened by 11% amid global economic headwinds, foreign investor interest remained strong. A total of 14,303 foreign business investment licences were issued during 2024, a 67% increase from 2023, marking the highest annual figure on record and underscoring the sustained appeal of Saudi Arabia to global corporates and investors alike.

This significant growth has been fuelled by a wide range of government initiatives, including the Regional Headquarters Programme, tax and regulatory incentives, such as a 30-year tax relief package offering a 0% corporate income tax and 0% withholding tax on approved RHQ activities. Other initiatives include the establishment of Special Economic Zones, the Investor Visa Programme, and easing foreign ownership restrictions across key sectors such as retail and healthcare.

Alongside substantial government investment in giga-projects such as NEOM, Qiddiya, King Salman Park and Diriyah Gate, these measures have made the Saudi market increasingly attractive to international businesses. Riyadh remains at the centre of this transformation, supported by strategic efforts to bolster the capital's position as the Kingdom's economic engine and a leading commercial hub in the region.

Office sector

Government initiatives, particularly the Regional Headquarters Programme, are driving strong demand for office space in Saudi Arabia, with Riyadh seeing the most pronounced impact.

As of February 2025, around 600 companies have announced plans to establish their regional headquarters in the capital, significantly boosting demand for prime office space and reshaping the quality, services, and amenities offered in the market.

Vacancy rates in Riyadh remain low, with Grade A stock averaging occupancy levels of 98% and Grade B offices not far behind at 97%. Grade A rents rose by 23% year-on-year in Q1 2025, reaching a new all-time high of SAR 2,700 psm.

Grade B rents also increased by 24% over the same period, as a lack of prime space led businesses to seek alternatives.

Some relief is expected over the next two years, with the Kingdom likely to see the completion of 2.7 million sqm of new office space.

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Hospitality sector

Saudi Arabia's hospitality sector continues to strengthen nationwide, with key performance indicators showing double-digit year-on-year growth. As of March 2025, the occupancy levels increased by 1.3%, while the Average Daily Rate (ADR) climbed by 10.8%. As a result, the Revenue Per Available Room (RevPAR) rose by 12.3%. This growth has been driven largely by strong demand in the Holy Cities and the capital, supported by steady inflows of domestic and international pilgrims.

In 2024, Saudi Arabia welcomed a record 30 million international visitors, highlighting growing global interest in the country as a travel destination. Looking ahead, the target is to attract 70 million international tourists by 2030. If achieved, this would make the Kingdom one of the world's top seven most visited destinations.

Data centres

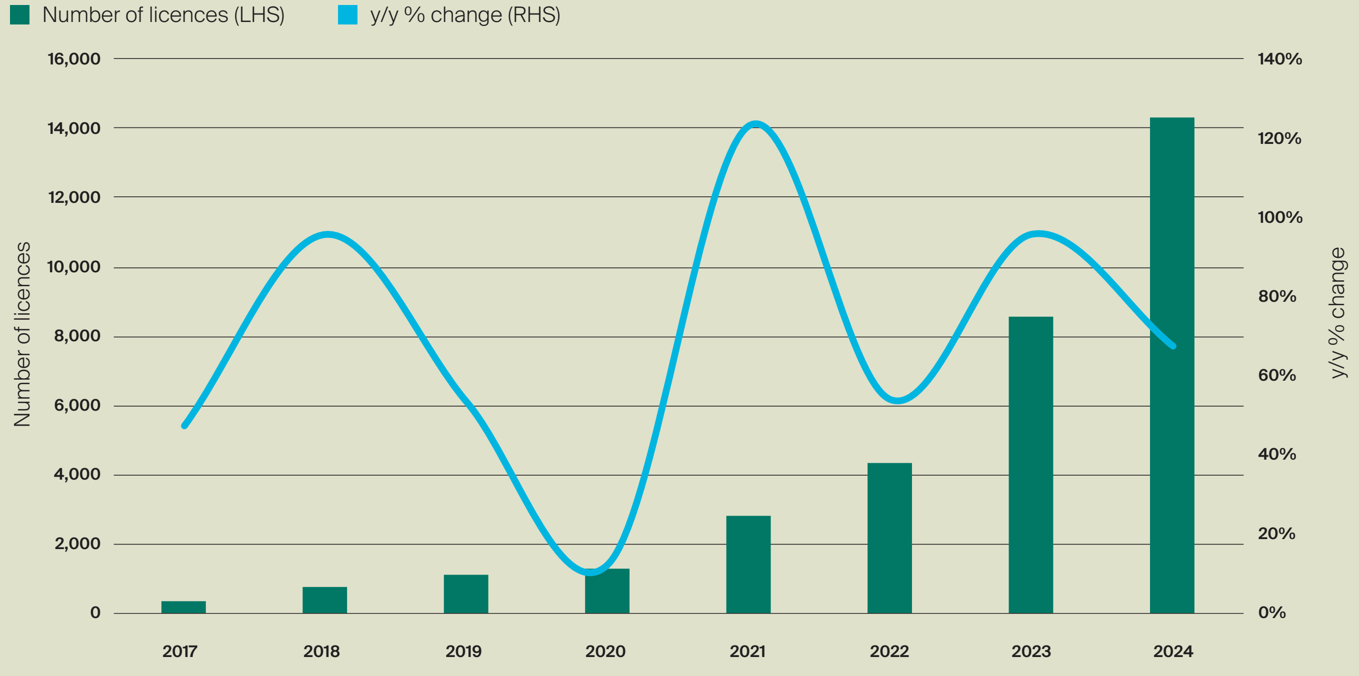
Saudi Arabia is positioning itself as the Middle East's leading data hub, with its data centre market projected to grow in value to US$ 2.3bn by 2029, supported by a compound annual growth rate (CAGR) of approximately 8.1% between 2024 and 2029.

Growth is being driven by strategic government initiatives and large-scale investment in digital infrastructure. The Kingdom plans to increase its total IT capacity from around 250-300 megawatts in 2024 to over 1,000 megawatts by 2030.

In May 2025, the Public Investment Fund launched Humain, a company focused on developing advanced data centres, cloud infrastructure, and AI capabilities, reinforcing Saudi Arabia's ambition to become a global technology leader.

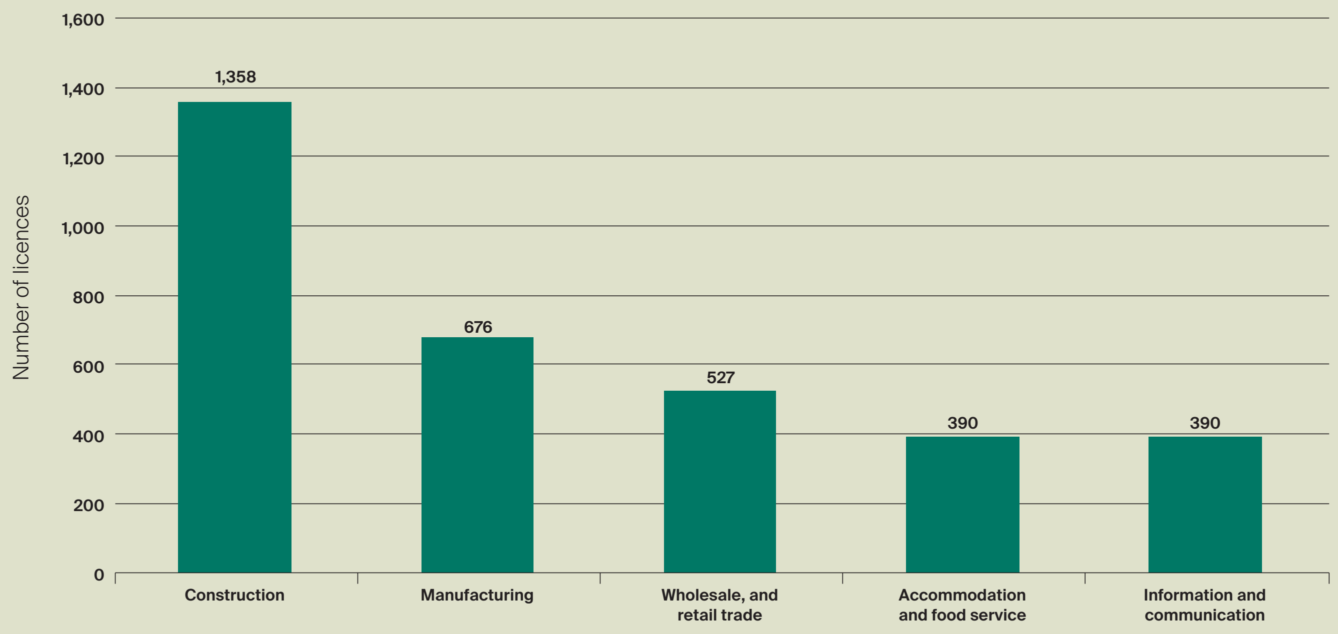
Business is booming in Saudi Arabia

Number of foreign business investment licences



Source: Knight Frank, MISA

Leading sectors for new investment licences in Q4 2024*



*Includes licences issued under the National Anti-Commercial Concealment Program (Tasattur)

Source: Knight Frank, MISA

Office Market

Riyadh

Commercial activity across Saudi Arabia continues to accelerate, with Riyadh remaining the key hub for office demand. The capital's strategic importance, bolstered by government initiatives and strong corporate expansion activity has driven Grade A office rents to a record SAR 2,700 psm, a 23% in Q1 2025 year-on-year increase. Grade B office space has followed a similar trajectory, with rents rising by 24% over the same period.

Occupancy levels remain exceptionally high, with Grade A offices recording a 98% occupancy level, up by one percentage point over the past 12 months. Grade B offices (97%) have registered a 3 percentage point increase over the same period. These figures underscore the strength of underlying demand and limited availability of quality office stock in the capital.

The key driver behind this surge has been the government's Regional Headquarters Programme (RHQ). Designed to encourage multinational companies to establish their regional operations in the Kingdom, the programme has rapidly surpassed expectations. As at February 2025, more than 600 companies had announced their plans to set up regional headquarters in Riyadh, exceeding the original target of 480 companies set for 2030.

In response, developers are accelerating supply pipelines to meet market needs. As a result, by the end of Q1 2025, the total office stock in Riyadh had climbed to 5.5 million sqm. By 2027, we expect a further increase to 9.8 million sqm.

Jeddah

Jeddah, too, is experiencing a steady increase in office rents, supported by growing demand and ongoing investment from major private sector players such as Emaar and Al Nahla Group. Over the past 12 months, Grade A rents have risen by 4%, reaching an average of SAR 1,280 psm in Q1 2025. Grade B office rents have increased by 6% over the same period, now averaging SAR 845 psm.

Occupancy levels have also strengthened in Jeddah over the last 12 months. Grade A office occupancy levels rose by 2 percentage points to 95%. Grade B occupancy rates experienced a notable increase of 6 percentage points over the same period, reaching 95%.

As more companies expand their footprint across Saudi Arabia, Jeddah is attracting a growing number of regional and local firms. This rising interest is being supported by a healthy office development pipeline. Key upcoming projects include Jeddah Gate, which is expected to deliver 230,000 sqm of office space between 2025 and 2028, and Jeddah Rose, a mixed-use development that will bring 25,000 sqm of office space by the end of 2025. The city's total office stock is forecast to reach approximately 1.8 million sqm by 2027, up from 1.6 million sqm today.

DMA

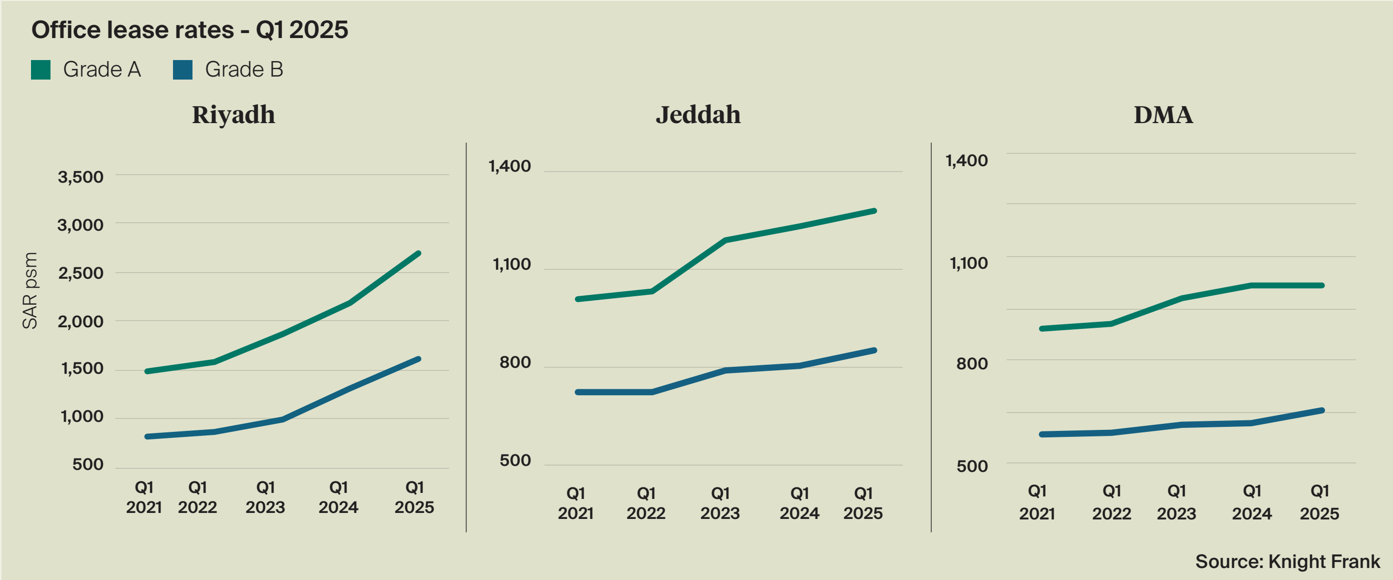
The Dammam Metropolitan Area's (DMA) office market continues to follow a distinct trend compared to other major cities in the Kingdom, with varied performance across segments. Over the past 12 months, Grade A office rents have remained broadly stable, while Grade B rents recorded a 6% increase, reaching SAR 1,025 psm and SAR 660 psm in Q1 2025, respectively.

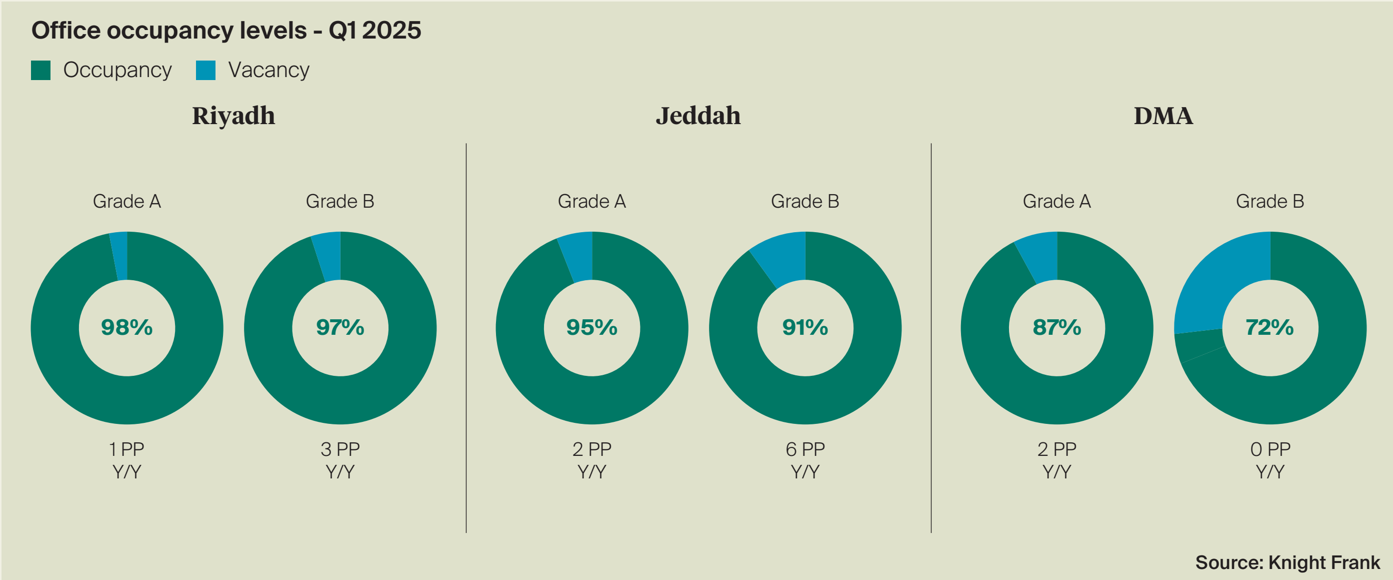
Occupancy trends further reinforced this split in office rent performance, with Grade A offices rising to 87%, a 2 percentage point increase over the past year, while Grade B occupancy remained stable at 72%, reflecting continued tenant interest across secondary stock despite rising preference for higher-quality space.

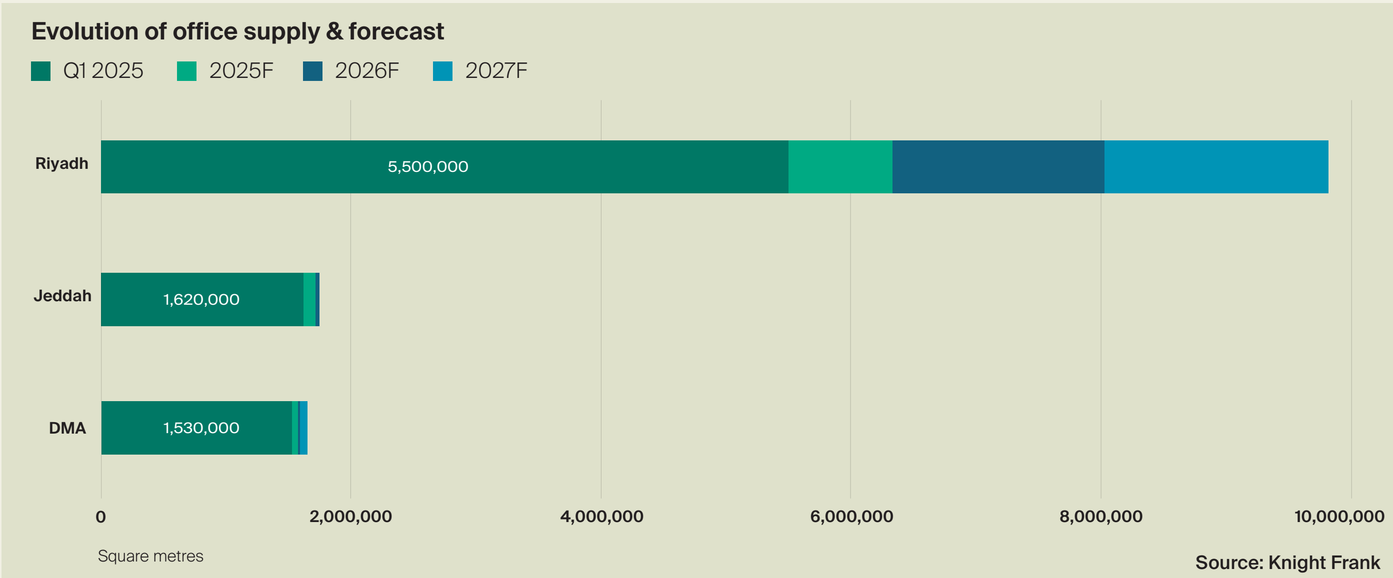
Total office stock in the DMA currently stands at approximately 1.5 million sqm, with a projected increase to 1.65 million sqm by 2027. We expect around 120,000 sqm of new office supply to be completed over this period, with Grade A developments accounting for 80% of the pipeline. This trend will likely continue to drive a flight-to-quality, with developers focusing on premium offerings to meet evolving occupier expectations.

Laysen Valley, Riyadh

Market performance







Hospitality Market

Riyadh

The capital continues to attract both business and leisure travellers, positioning itself as a key destination for tourism, commerce, and large-scale events. Riyadh's hotel market, however, experienced a softening in performance during Q1 2025, marking a shift from the strong momentum recorded in previous quarters.

As of Q1 2025 the ADR declined by 8.2% year-on-year, settling at SAR 890, while RevPAR dropped by 17% to SAR 537. Over the same period, average occupancy levels have dipped to 60.3%.

This downward trend can be largely attributed to a combination of seasonal factors, a quieter events calendar, delayed corporate activity early in the year and perhaps the sharp rise in room rates over the last 12 months, which may be dampening some business traveller demand.

Unlike previous years, when Q1 benefited from a packed calendar of high-profile conferences, summits and international exhibitions, such as LEAP or FII, 2025 opened with fewer large-scale events, limiting inbound demand from the MICE (meetings, incentives, conferences and exhibitions) segment. Additionally, the timing of Ramadan in mid-March further compressed business activity and leisure travel towards the end of the quarter.

Demand is likely to receive a boost towards the end of the year as Riyadh prepares to host major events, including Cityscape Global, the Saudi Food Expo and Saudi Horeca.

The city currently has 24,738 hotel rooms, with an additional 3,510 expected by the end of 2025. By 2027, the total supply is projected to reach 30,299 rooms. Of the existing inventory, 74% falls within the luxury, upper upscale and upscale segments, reflecting a continued focus on high-end accommodation.

Jeddah

Jeddah's hospitality sector continues to show long-term potential, benefiting from its strategic position along the Red Sea coast and its role as a key gateway to the Holy Cities of Makkah and Madinah. However, performance indicators softened in early 2025, mirroring Riyadh.

As of March 2025 year-to-date, the ADR in Jeddah fell by 12.6% to SAR 627, while RevPAR declined by 9.9% to SAR 404. Occupancy improved slightly, rising by one percentage point to 64.5% in March 2025. Historically, Jeddah has served as a key stopover for religious tourists, particularly Umrah pilgrims, due to restrictions limiting their travel to Makkah, Madinah, and Jeddah only. With the easing of these regulations, pilgrims can now visit a broader range of destinations across the Kingdom, including Riyadh, AlUla, and the Red Sea Project region, perhaps diluting Jeddah's share of religious and transit-related demand. Additionally, the share of government sector in the wider business mix has decreased, negatively impacting overall ADR levels.

In addition, the rapid growth of entertainment and sports programming across the Kingdom, particularly in Riyadh, now a focal point for concerts, sporting events, and global forums, has further shifted some domestic and international visitor flows away from Jeddah. The relative absence of major events in the city during the early part of the year may have curtailed its appeal as a standalone destination.

The city currently offers 15,827 hotel rooms, with an additional 3,616 expected to be delivered by the end of 2025. Total hotel stock is forecast to reach approximately 21,600 keys by 2027, with over 30 new hotels currently under construction.

The pipeline includes a strong mix of upscale and luxury brands, including recent or upcoming openings such as Raffles Jeddah, Vignette Collection by IHG, and Hilton Garden Inn.

DMA

Dammam Metropolitan Area is slowly evolving into a multi-purpose destination, benefiting from increased investment in leisure infrastructure and improved connectivity within the Eastern Province.

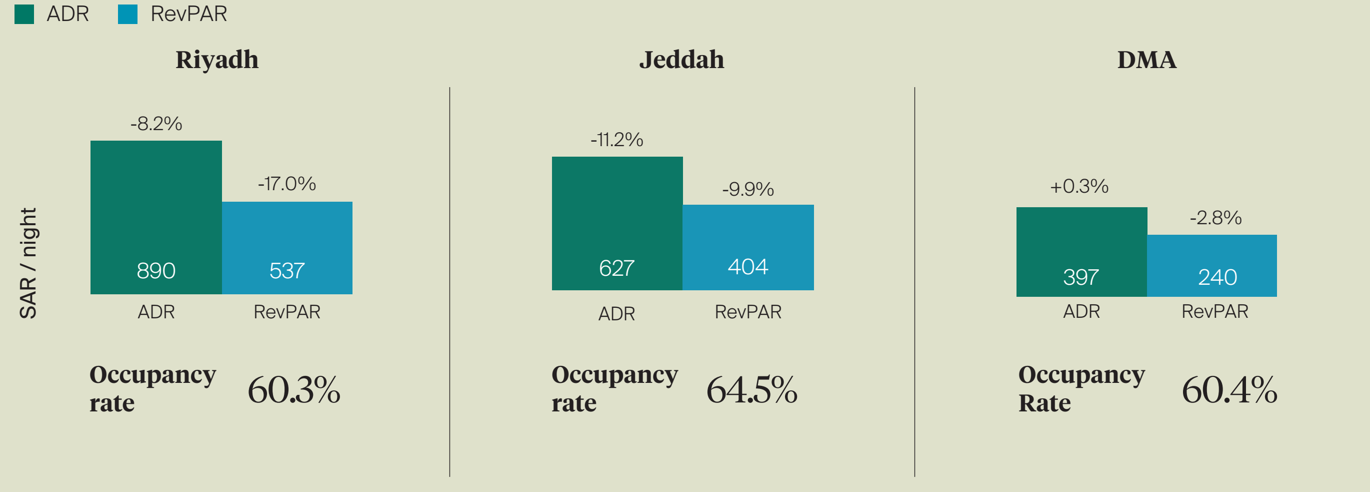
However, as is the case with Jeddah and Riyadh, performance across DMA during Q1 has been mixed. In Khobar, ADR declined by 0.9% to SAR 427, while RevPAR fell by 5.9% to SAR 253 compared to Q1 2024. In contrast, Dammam recorded stronger results, with ADR rising by 7.3% to SAR 297 and RevPAR increasing by 11.2% to SAR 191.

Occupancy across the DMA averaged 60.4%, representing a 1.9 percentage point decline compared to the same period last year. Despite this marginal drop, the overall trend remains stable, supported by sustained corporate demand.

DMA's current hotel inventory stands at 13,246 rooms, with the total supply expected to reach approximately 14,783 rooms by 2027. Around 10 new hotels are currently under construction across the area. The existing supply is largely concentrated in the upper midscale and upscale categories, in line with prevailing demand from domestic travellers.

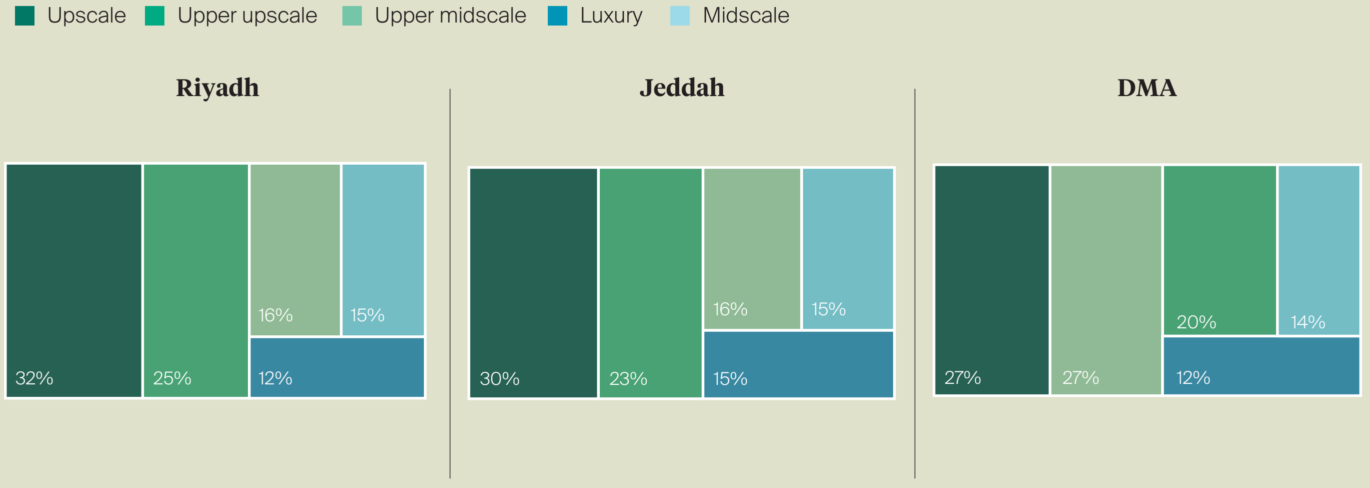
Market performance

Hotel performance KPI's (Jan-Mar 2025)



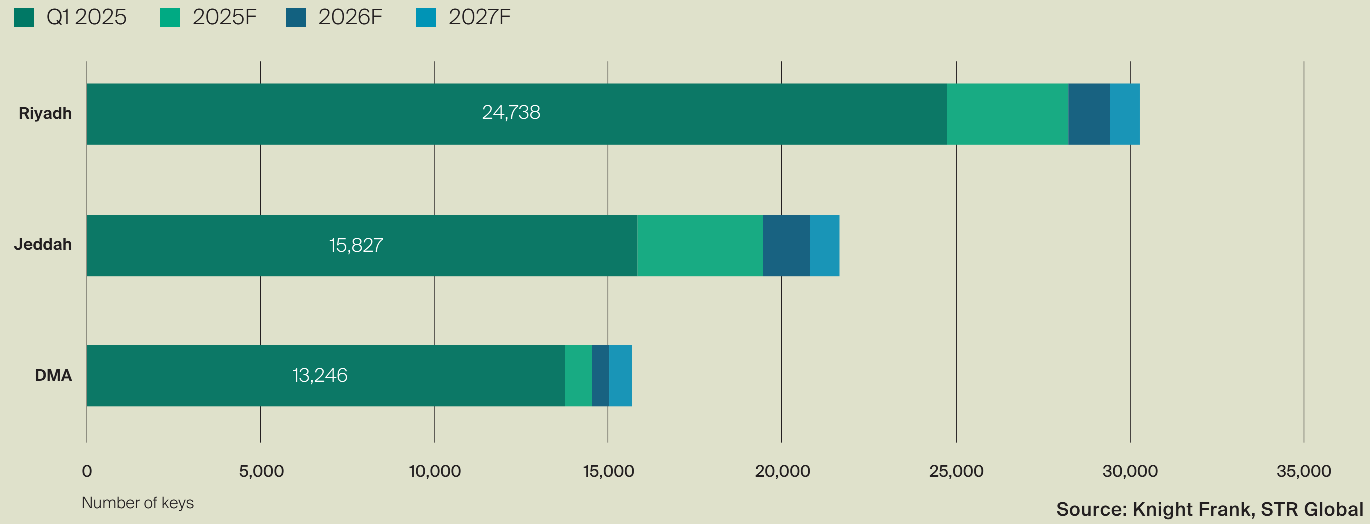
Source: Knight Frank, STR Global

Existing quality hotel supply segmentation



Source: Knight Frank, STR Global

Evolution of quality hotel supply & forecast



Source: Knight Frank, STR Global

Hospitality Market

Makkah

Makkah's hospitality sector began 2025 on a strong trajectory, driven by elevated Umrah pilgrim volumes and sustained demand across accommodation zones surrounding Al Haram. The city continues to serve as a critical destination for religious tourism, supported by infrastructure upgrades and increased capacity across core hotel clusters.

In Q1 2025, ADR rose by 28.9% year-on-year to SAR 859, while RevPAR reached SAR 673, marking a 35.7% increase over the same period. The surge in performance reflects heightened demand linked to the rise in issued Umrah visas, which grew by 8.3% according to Ministry of Hajj data. The timing of Ramadan during this period further boosted visitation and hotel performance.

Occupancy climbed to 78.3%, reflecting a 3.9 percentage point increase compared to Q1 2024. The uplift highlights the sustained interest in proximity-based accommodation near the Grand Mosque, particularly across the upscale and upper midscale segments.

As of Q1 2025, Makkah's total hotel room supply stood at 63,428 keys. With more than 8,500 rooms currently under construction across over 12 hotel developments, the city's total inventory is projected to reach 71,643 rooms by 2027. Large-scale masterplans such as Masar Destination and Rua Al Haram are reshaping the hospitality landscape, reinforcing Makkah's position as the spiritual hub of the Kingdom and improving access, capacity and guest flow within walking distance of Al Haram.

"Pilgrim arrivals in Madinah are expected to reach 30 million by 2030, up from 15.5 million in 2024, highlighting the city's strategic role as a global hub for religious tourism."

Madinah

Madinah's hospitality sector posted strong results in Q1 2025, supported by steady religious tourism flows and a shift toward higher-tier accommodation. A shortage of quality hotel supply continues to drive performance, making Madinah the city with the highest ADR in the Kingdom in Q1.

ADR reached SAR 891, up 11.8% year-on-year, while RevPAR increased by 15.1% to SAR 724. These figures reflect resilient demand amid limited new supply, further highlighting the city's pricing strength.

Occupancy stood at 81.3% in Q1 2025, marking a 2.2 percentage point increase compared to the same period in 2024. The upper upscale segment remains dominant, accounting for 32% of the active hotel supply and benefitting from proximity to the Prophet's Mosque.

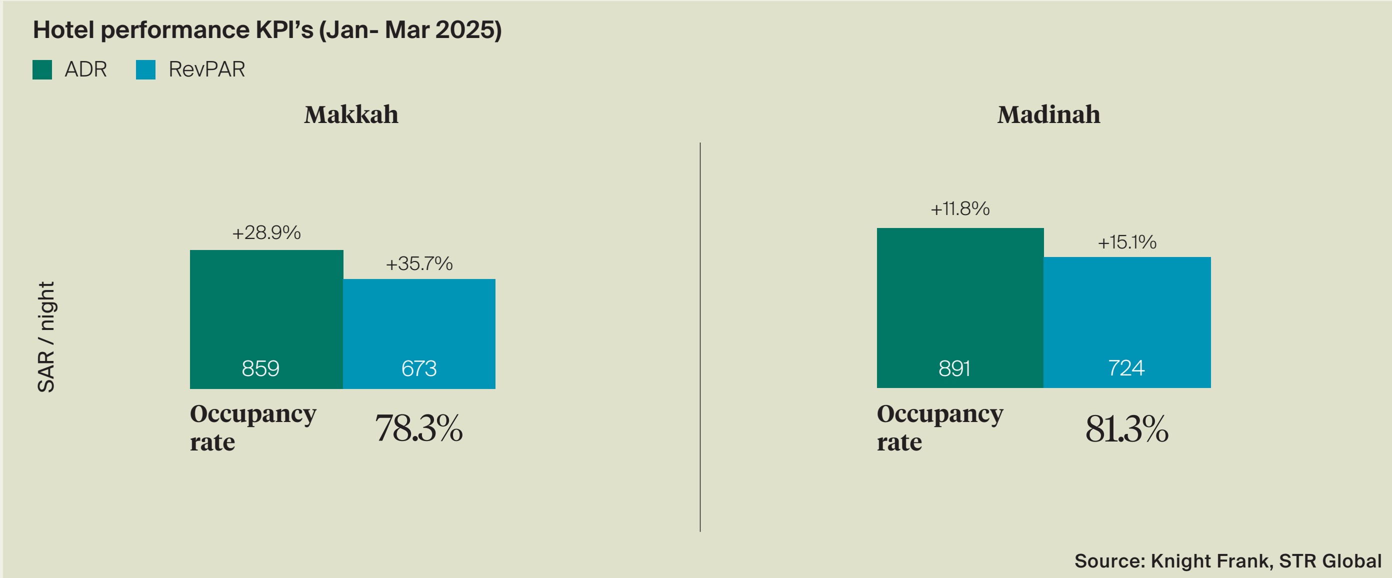
Madinah currently has 20,673 hotel rooms, with an additional 2,100 keys expected to be delivered by 2027. Major international operators continue to expand their presence, including Hilton and Marriott, with planned openings totalling over 6,000 rooms by these two operators alone.

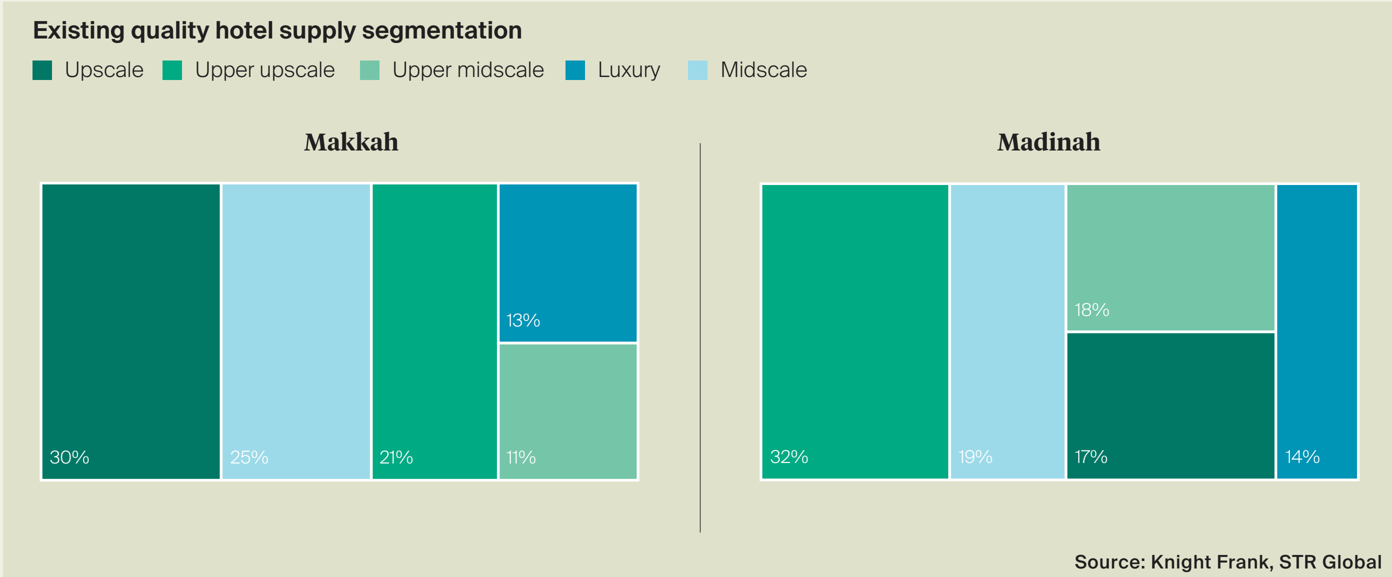
In parallel, Rua Al Madinah, a new giga-project located east of the Prophet's Mosque, is set to reshape the hospitality landscape with over 47,000 planned hotel rooms, integrated transit, and public realm enhancements.

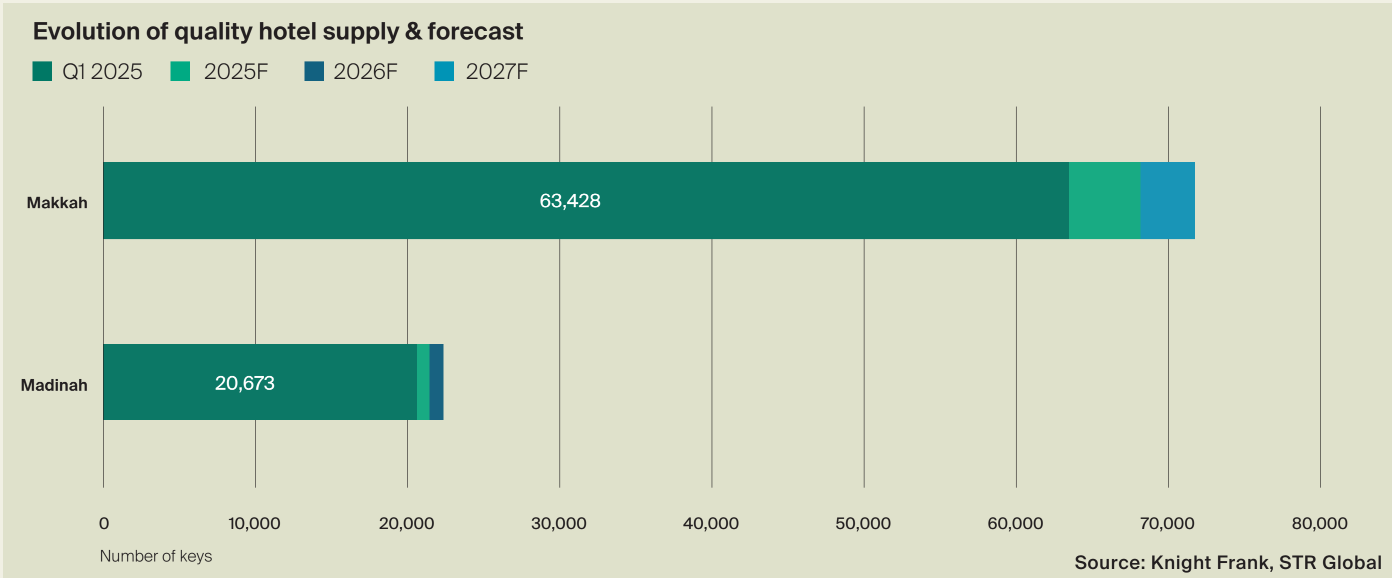
According to the Smart Madinah Authority, tourist arrivals are expected to reach 30 million by 2030, up from 15.5 million in 2024, highlighting the city's strategic role as a global hub for religious tourism.

Makkah city

Market performance







Data Centres

Overview

Saudi Arabia continues to emerge as a regional data hub, leveraging its strategic geographic location between Asia, Africa, and Europe and benefiting from extensive subsea cable networks that cross the Red Sea and the Arabian Gulf. Over the past two decades, the Kingdom has recorded robust growth in the development of its data centre infrastructure, driven largely by Vision 2030 and sustained public and private investment. This momentum has been further reinforced by the recent launch of the US$ 100bn Transcendence AI initiative, which aims to establish Saudi Arabia as a global leader in advanced technologies.

Currently, 57% of the operator landscape in Riyadh and Dammam is held by local and national providers, while international firms such as Gulf Data Hub and Quantum Switch operate the remainder.

Market trends and outlook

The Saudi data centre market was valued at US$ 1.78bn in 2023 and is expected to reach US$ 3.2bn by 2029, representing a compound annual growth rate of 10.1%. Growth is being driven by increasing cloud adoption, rising demand for big data and Internet of Things applications, the nationwide rollout of 5G, and the implementation of the Personal Data Protection Law.

All Tier I United States cloud providers, including Microsoft, Amazon Web Services, Google Cloud, and Oracle, have either launched operations or announced further expansions in Saudi Arabia. Amazon Web Services alone has committed US$ 5.3bn to scale up its cloud services across key cities. Chinese firms such as Alibaba Cloud and Huawei Cloud have also established a local presence.

"The Saudi data centre market was valued at US$ 1.78bn in 2023 and is expected to reach US$ 3.2bn by 2029, representing a compound annual growth rate of 10.1%."

In response, the government is advancing several programmes to improve competitiveness and attract investment. These include the development of Special Economic Zones and Free Trade Zones, as well as large-scale smart city initiatives designed to enhance digital infrastructure and encourage innovation.

AI-led investment: HUMAIN initiative

In May 2025, the Kingdom launched Humain, a national artificial intelligence company backed by the Public Investment Fund. The initiative has a reported budget of US$ 40bn and is intended to position Saudi Arabia as a global leader in artificial intelligence infrastructure.

Humain will focus on developing advanced cloud platforms and hyperscale data centres to support growing AI workloads, both locally and internationally. The project is expected to accelerate demand for large-scale, high-density digital infrastructure, reinforcing the Kingdom's ambitions in the global digital economy.

Corridor in working data centre

Market performance

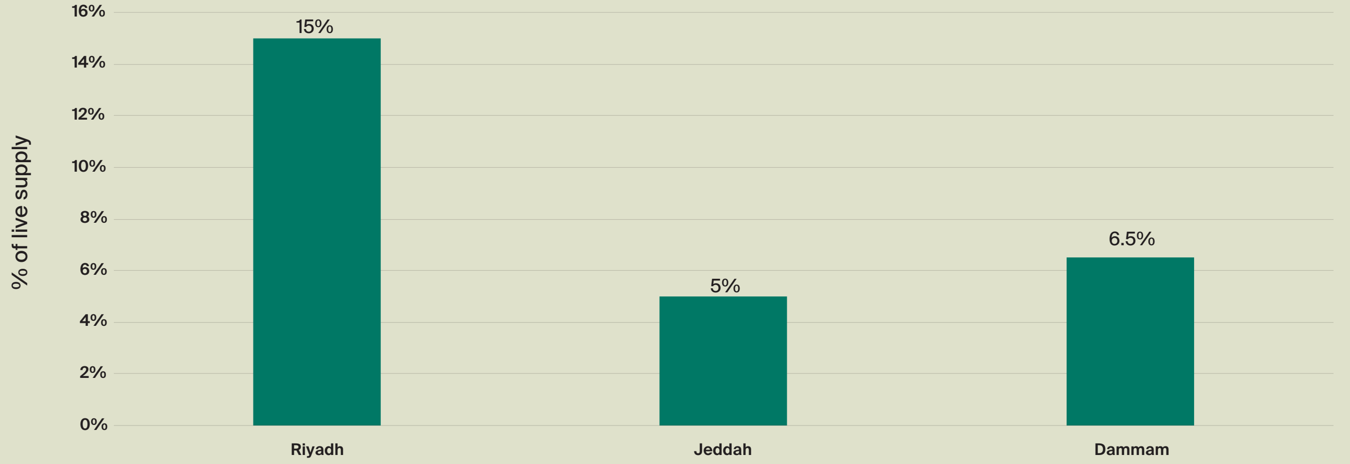
Evolution of data centre supply & forecast

	Live IT [1]	Under construction [2]	Committed [3]	Early stage [4]
Riyadh	26 MW	106 MW	87 MW	68 MW
Dammam	32 MW	60 MW	1.5 MW	420 MW
Jeddah	24 MW	35 MW	14 MW	52 MW

1 – Built IT capacity available for consumer use
2 – Sites/phases with active development on-going
3 – Power and planning permits in place, no recorded activity on site/phase
4 – Site missing either/or both power and planning permits

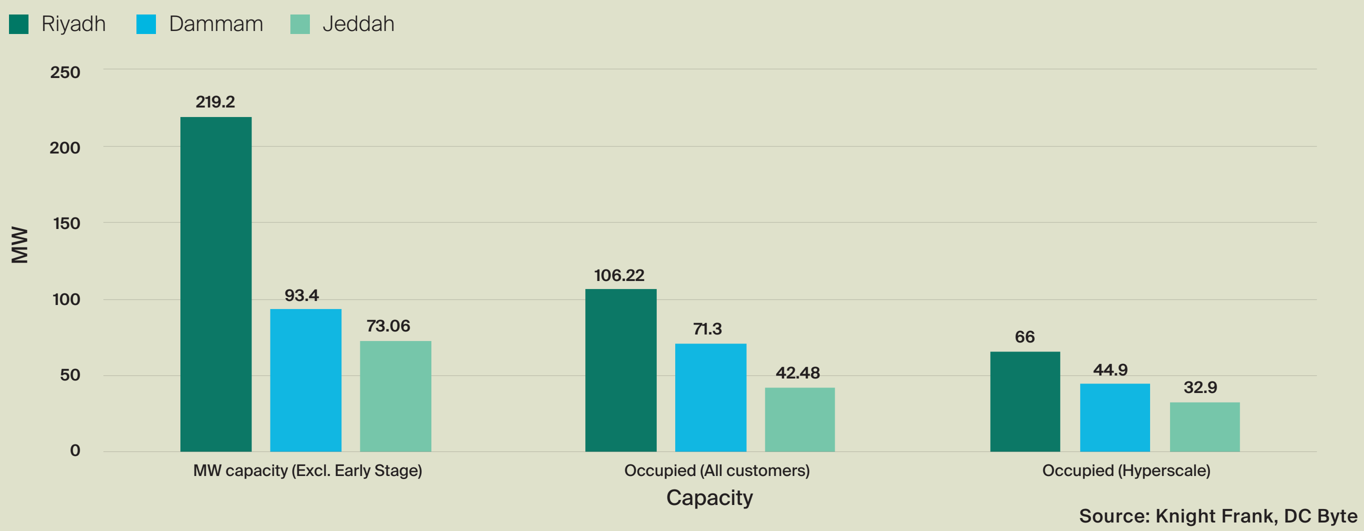
Source: Knight Frank, DC Byte

Data centre vacancy levels - Q1 2025



Source: Knight Frank, DC Byte

Occupied capacity breakdown - Q1 2025



Source: Knight Frank, DC Byte

We like questions. If you've got one about our research,
or would like some property advice, we would love to hear from you.

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