

The logo for Consulting Haus, featuring the word "CONSULTING" in a smaller, uppercase font above the word "HAUS" in a larger, bold, uppercase font. The letter "A" in "HAUS" is stylized with a horizontal line through its center. The logo is centered within a white-outlined diamond shape.

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The title "KSA REAL ESTATE: MARKET OVERVIEW" is displayed in a bold, white, uppercase font. Below it, the date "AUGUST 2023" is shown in a smaller, white, uppercase font. The text is set against a background of a city skyline at night, with various buildings and lights visible.

KSA REAL ESTATE: MARKET OVERVIEW
AUGUST 2023



KINGDOM OF SAUDI ARABIA: REAL ESTATE SECTOR OVERVIEW



INTRODUCTION

This real estate sector overview (“**Overview**”) has been prepared by Consulting HAUS LLC (“**CH**”) based on information obtained from secondary resources (including the General Authority for Statistics, various real estate research publications, websites, etc.) and information gathered via primary market interviews with a cross-section of market participants in the Kingdom of Saudi Arabia (“**KSA**”).

Based on an assessment of the various data sources, the Overview presents the state of the real estate market in KSA along with the prospects, trends, and market opportunities in the sector.

Users of the Overview are encouraged to undertake their independent research before making any business-related decisions based on the content of the Overview.

Should you require a more in-depth analysis of the real estate sector, please get in touch with a member of the team or send an inquiry via our website: www.consulting-haus.com

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KSA REAL ESTATE SECTOR OVERVIEW

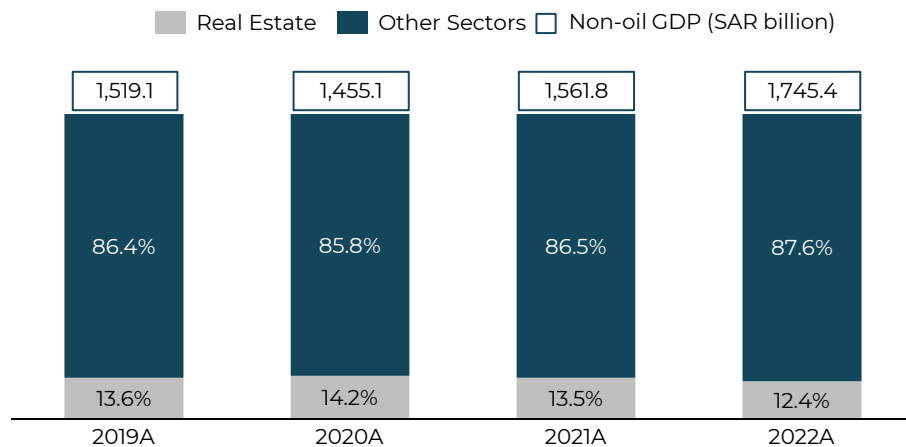
REAL ESTATE IN THE KINGDOM OF SAUDI ARABIA

The real estate sector is a key driver of KSA's economy and one of the major sources of non-oil gross domestic product

OVERVIEW OF REAL ESTATE IN KSA

- The real estate sector plays a vital role in the economic growth and diversification of KSA's economy. According to the latest data from the General Authority of Statistics of KSA, the industry contributes 12.4% of the non-oil gross domestic product ("GDP") and 5.2% of the overall GDP of the country during 2022. The industry also positively impacts the development of more than 120 other sectors, including construction, hospitality, retail, and finance.
- The real estate sector has demonstrated its resilience and adaptability in the face of the unprecedented challenges caused by the COVID-19 pandemic. The sector has recovered from the initial slowdown and is expected to grow further in the coming years. The main drivers of this recovery are the increasing demand from domestic and international tourists, who are attracted by the cultural and natural heritage of KSA, and the government's ambitious investment in infrastructure projects, such as the King Salman International Airport, which will enhance the connectivity and accessibility of the country.

REAL ESTATE SECTOR CONTRIBUTION TO NON-OIL GDP



Source: General Authority of Statistics

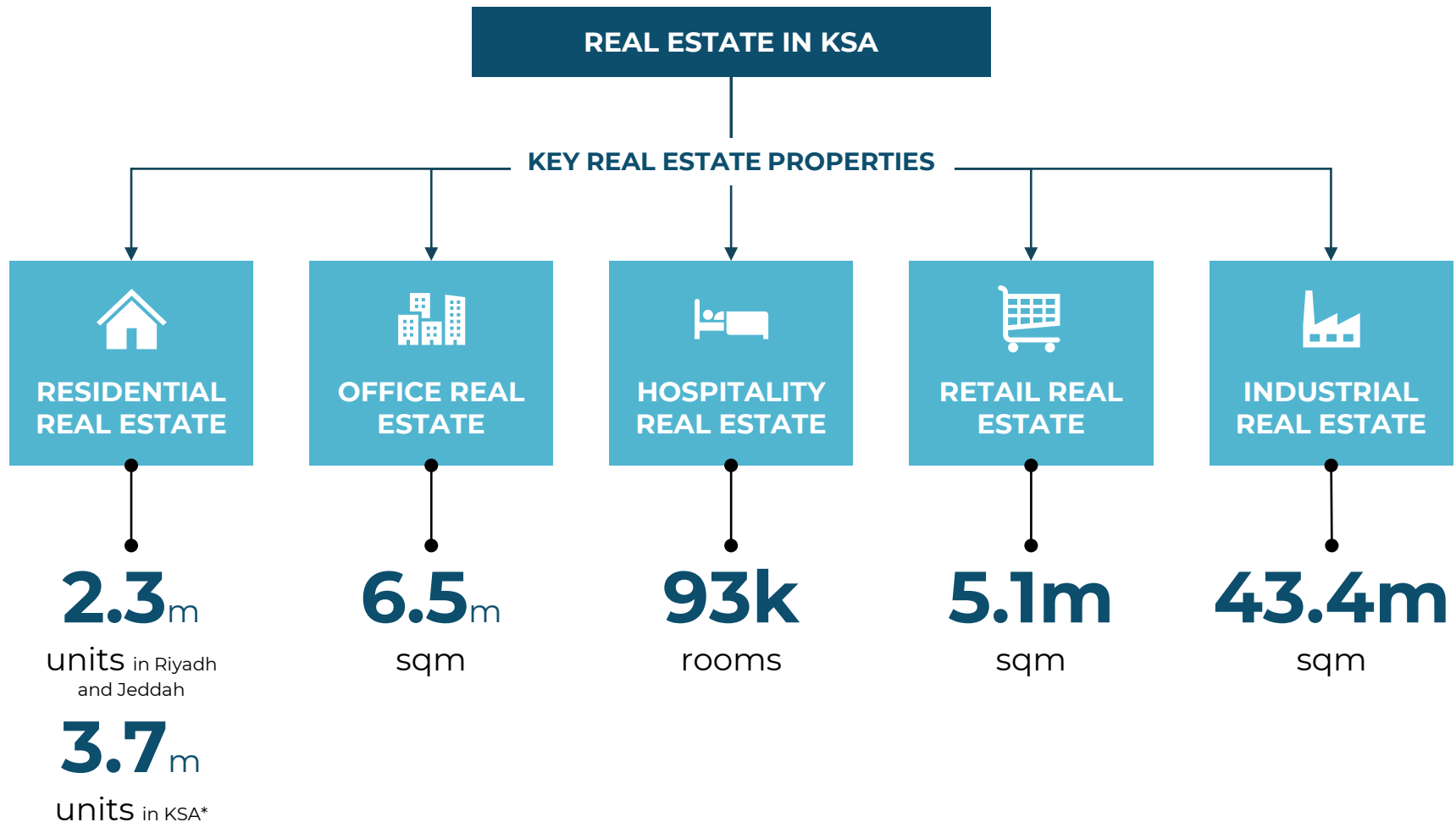




KSA REAL ESTATE SECTOR OVERVIEW

KEY SEGMENTS: BY NUMBERS

KSA real estate sector consists of five main types of properties



*As per the data published for 2019 in General Authority of Statistics, KSA

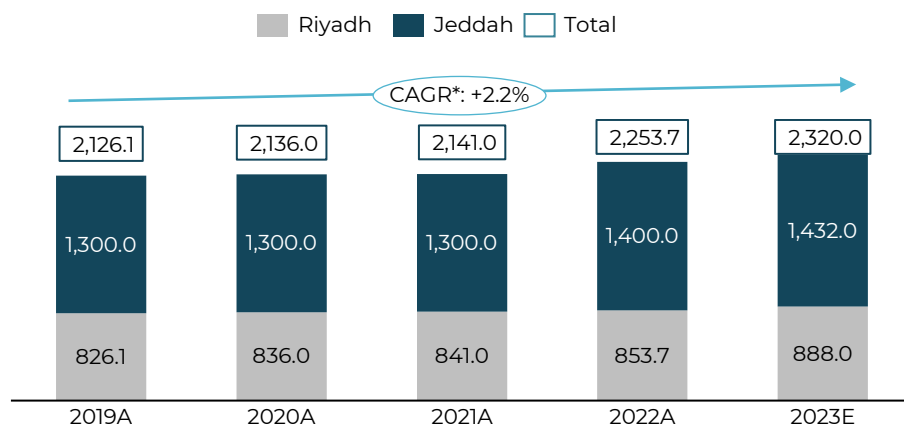
Source: Refer to sources for each number on subsequent pages

KSA REAL ESTATE SECTOR OVERVIEW

RESIDENTIAL REAL ESTATE OVERVIEW

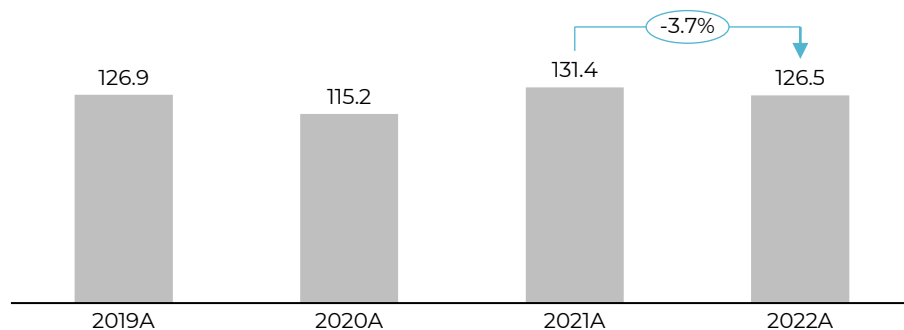
The residential market in KSA's key cities saw a surge in supply, a decline in transactions, and an increase in prices and rents in 2022.

RESIDENTIAL STOCK AND PLANNED SUPPLY IN KEY MARKETS, '000 UNITS



Source: JLL, CBRE, HSBC, Sidra Capital

RESIDENTIAL MARKET TRANSACTION VALUE IN KSA - SARb (2019A-2022A)



Source: JLL, CBRE, HSBC, Sidra Capital

*CAGR: Cumulative annual growth rate

KEY OBSERVATIONS

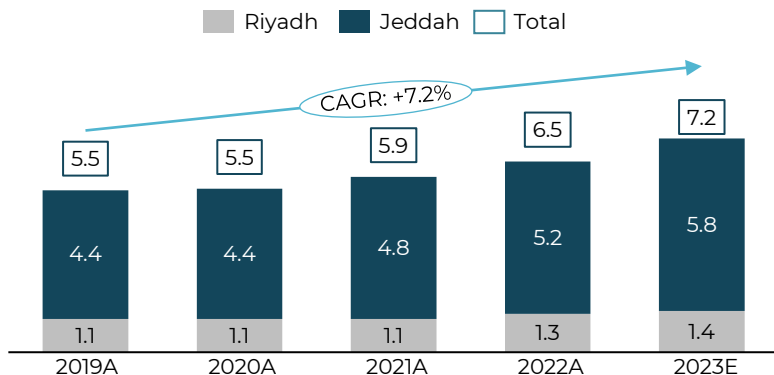
- The residential market in KSA's key cities (Riyadh, Jeddah, and Dammam Metropolitan Area) experienced a boost in supply in 2022A, as the Ministry of Housing delivered several new projects under its Sakani program, which aims to provide affordable housing for KSA's citizens.
- Some of the notable projects that were completed in 2022A include Diyar Al Saad Housing Complex in Riyadh, which offers 1,008 villas and apartments; Al Ajlan Riviera 21 in Riyadh, which offers 1,500 apartments; Al Fareeda Housing in Dammam, which offers 1,200 villas; and Nesaj Town 2 in Dammam, which offers 1,000 apartments.
- By the end of 2022A, the total residential stock in Riyadh, Jeddah, and Dammam reached 2.8m units, with Riyadh accounting for the largest share of 49.0% (1.4m units), followed by Jeddah with 32.0% (0.9m units), and Dammam with 19% (0.54m units). The residential stock in these cities is expected to grow further in the coming years as more projects are under construction or planned by the government and private developers.
- The total value of residential real estate transactions in 2022A decreased slightly by 3.7% YoY to SAR126.5b. However, residential transactions dropped significantly, falling by 24.5% YoY in 2022 to 175,067. Interest rates surged, and development costs increased in 2022A, keeping housing demand at the same level. CBRE data shows fewer properties were sold in the three main regions – Riyadh, Jeddah, and Dammam – with sales dropping by 33.9%, 16.2%, and 20.9%, respectively.
- The high prices of villas compared to average incomes, especially for middle and lower-income groups, and the lack of suitable options also contributed to the slowdown in sales activity. For example, villas in Jeddah are about 12 times more expensive than the average yearly earnings, while in Riyadh, they are around 8.5 times more.

KSA REAL ESTATE SECTOR OVERVIEW

OFFICE REAL ESTATE OVERVIEW

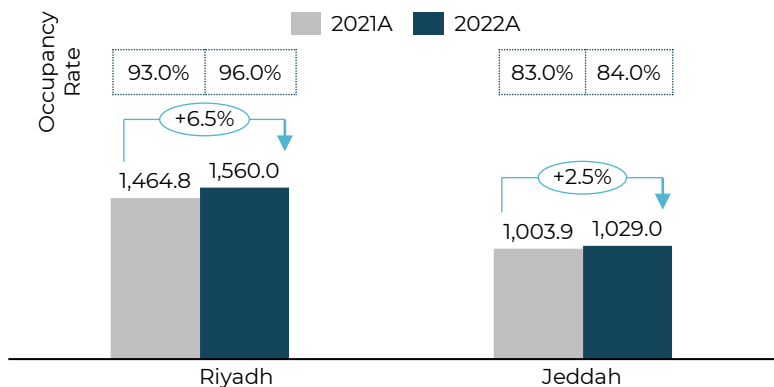
The office market in KSA's key cities witnessed a strong performance in 2022A, with new supply, high demand, and rising rent

OFFICE SUPPLY IN KEY CITIES IN KSA (M, SQM)



Source: JLL, CBRE, Deloitte, Knight Frank, HSBC, News articles

GRADE-A OFFICE SPACE RENTS (SAR/SQM/YEAR)



Source: JLL, CBRE, Knight Frank, HSBC, News articles

KEY OBSERVATIONS

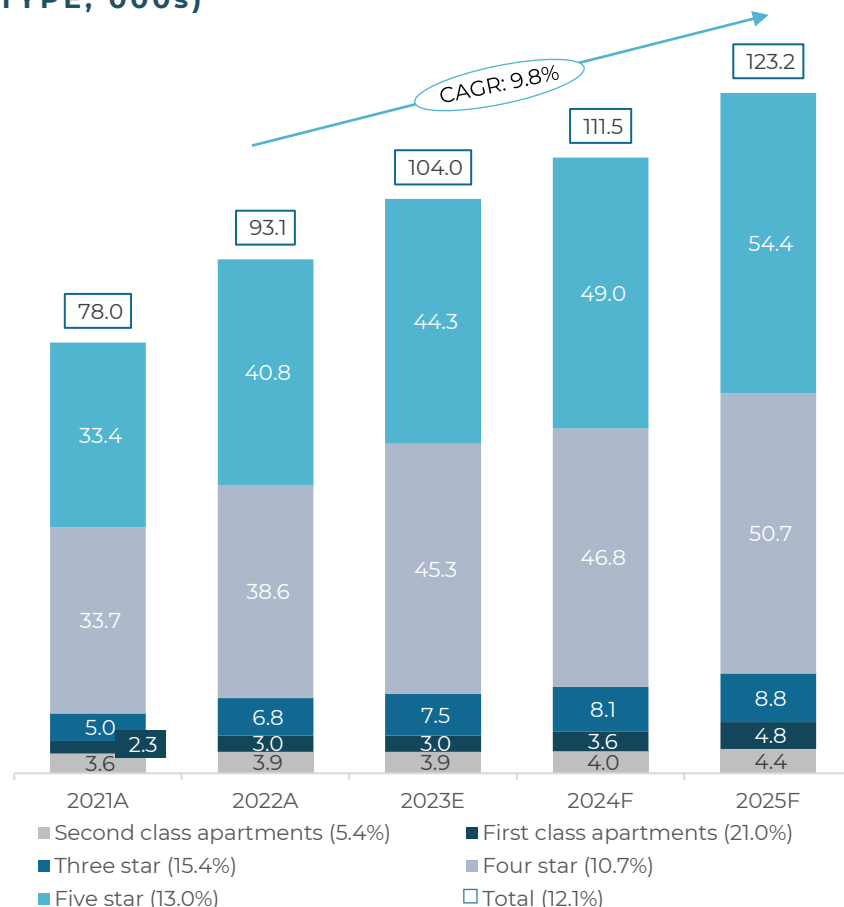
- The office market in KSA's key cities (Riyadh and Jeddah) experienced a significant increase in supply in 2022A, with 5.2m sq m and 1.3m sq m of office space, respectively. This was due to the completion of several major projects that added office space to the market.
- Some of the major projects that were delivered in 2022A include the Saudi Awwal Bank headquarters on King Fahd Road and the King Abdulaziz City for Science and Technology complex in Riyadh, which are iconic landmarks, and the Saudi Arabian Airlines cargo terminal offices in Jeddah, which are strategically located near the airport.
- According to Jones Lang LaSalle Incorporated ("JLL"), Riyadh and Jeddah have the largest office stock in the country, accounting for 65% and 16% of the stock, respectively. These two cities are the main business hubs of the country and attract most of the office demand from various sectors.
- The office market in Riyadh and Jeddah also witnessed a high demand in 2022A, as evidenced by the high occupancy levels of offices in both cities. The occupancy level of offices in Riyadh reached 98.0%, while in Jeddah, it reached 90.6% for Grade-A and 76.0% for Grade-B offices. These occupancy levels are among the highest in the region and reflect the attractiveness of the KSA's office market for local and international businesses.
- The demand for office space was driven by factors such as the economy's recovery after the pandemic, the expansion of existing businesses, and the entry of new businesses into the market. Initiatives such as Vision 2030 and NIDLP, as well as the increasing presence of foreign firms that are required to establish their regional headquarters in the country by 2024, aim to create more opportunities and incentives for businesses to invest and operate in KSA.
- The strong demand for office space in Riyadh and Jeddah increased the average office rent in both cities in 2022A. The average office rent in Riyadh increased by 6.5%, while in Jeddah, it increased by 2.5% compared to 2021A. The rent growth reflects the limited supply of quality office space that can meet the requirements and expectations of tenants, especially those looking for Grade-A offices.

KSA REAL ESTATE SECTOR OVERVIEW

HOSPITALITY REAL ESTATE OVERVIEW

The hospitality sector in KSA showed a mixed recovery in 2022A, with some cities exceeding their pre-pandemic levels and others lagging

KSA HOTEL PIPELINE (NUMBER OF KEYS BY TYPE, 000s)



Parentheses after the legend name indicate the CAGR for 2021A through 2025F

Source: HVS, STR, News articles

KEY OBSERVATIONS

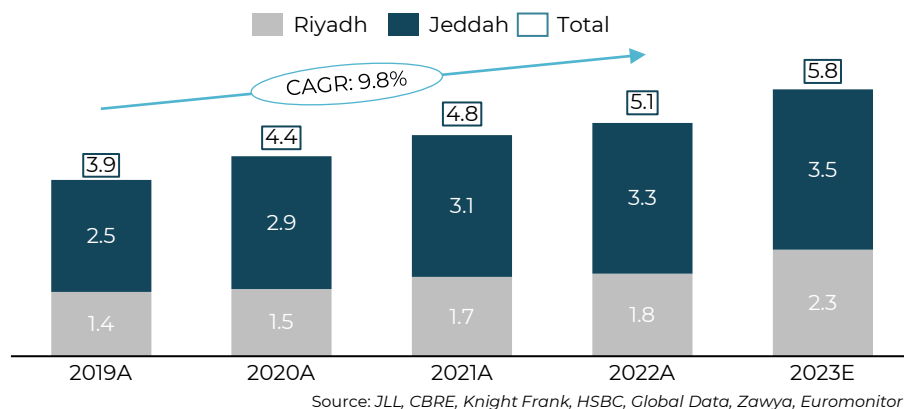
- The hospitality sector in KSA showed a mixed performance in 2022A, as some cities recovered faster than others from the impact of the COVID-19 pandemic. Riyadh and Madinah achieved higher average daily rates (“ADR”) and occupancy levels than their pre-pandemic benchmarks, indicating a strong demand for hotels in these cities. However, Jeddah and Makkah lagged in their pre-pandemic levels, suggesting a slower recovery in these cities. This reflects the different factors that influence the hospitality sector in each city, such as business travel, religious tourism, leisure tourism, and events and entertainment.
- The hospitality sector in KSA witnessed significant growth in 2022A compared to 2021A, as the country reopened its borders and resumed its religious tourism activities. The sector recorded an increase of 17.2% in occupancy rate, 17.9% in ADR, and 67.2% in revenue per available room (RevPAR) on a country level.
- The growth was mainly driven by the return of religious tourism, a major source of demand for hotels in KSA, especially in Makkah and Madinah. The growth was also supported by the increase in events and entertainment-related tourism, which attracted domestic and international visitors to various cultural and recreational activities across the country.
- The travel and tourism sector in KSA is expected to grow at a rapid pace over the next ten years, making it the fastest-growing market in the Middle East. According to the World Travel and Tourism Council, the sector is projected to grow at an annual rate of 11.0% from 2022A to 2032F, outpacing the global average of 3.8%. By 2032F, the sector’s contribution to KSA’s GDP is expected to reach 17.1%, up from 9.5% in 2021A, making it a key driving force for the economic diversification and development of the country. The sector’s growth will be fueled by the government’s Vision 2030 initiatives, which aim to increase the number of religious tourists, develop new tourism destinations and attractions, promote domestic tourism, and enhance the quality and competitiveness of tourism services and infrastructure.

KSA REAL ESTATE SECTOR OVERVIEW

RETAIL REAL ESTATE OVERVIEW

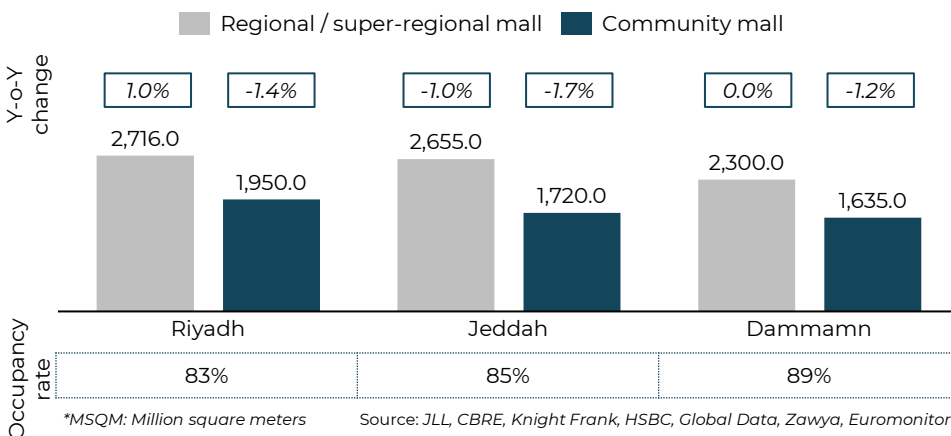
Though the retail sector in KSA has mostly recovered from the pandemic and growing steadily but it still faces challenges from market saturation, rental softening, and changing consumer behavior

KSA RETAIL SPACE SUPPLY BY KEY CITIES (MSQM*) KEY OBSERVATIONS



- The retail sector in KSA witnessed a moderate increase in demand of 3.8% in 2022A, despite the challenges posed by the pandemic. The outlook for the sector remains positive, with a projected annual growth rate of 1.5-2.0% for the next four years. This growth is fueled by the revival of domestic demand and spending as the COVID-19 restrictions were lifted, allowing consumers to resume their normal shopping activities.
- Moreover, the government's initiatives to boost the non-oil sector and diversify the economy have also supported the development of the retail sector, especially in terms of attracting foreign investments and creating new opportunities for local businesses.
- The future supply of retail space is likely to be dominated by super-regional malls, which are large-scale developments that offer a wide range of shopping and entertainment options. These malls are expected to cater to the changing preferences and expectations of consumers, who are looking for more than just shopping when they visit a retail destination. However, this also means that there could be a potential market saturation in this segment, as smaller and medium-sized malls may struggle to compete with the super-regional malls in terms of attracting tenants and customers. In the first half of 2022A, Riyadh added 55,000sqm of gross leasable area, Jeddah added 16,000sqm, and Makkah added 17,500sqm of retail space, mostly in the form of super-regional malls.
- The impact of the pandemic on the retail sector is also reflected in the rental rates, which have declined slightly by 1.0% on average across regional and super-regional malls in KSA in the past year. This indicates a softening of the market and a need for landlords to adjust their strategies to attract and retain tenants. Landlords may have to offer more flexible and attractive terms and conditions to tenants, such as rent discounts, lease extensions, or revenue-sharing agreements. Landlords may also have to invest more in enhancing the quality and safety of their retail spaces, as well as providing more value-added services and amenities to tenants and customers.

KSA RETAIL MARKET LEASE RATE (SAR/SQM/YEAR)

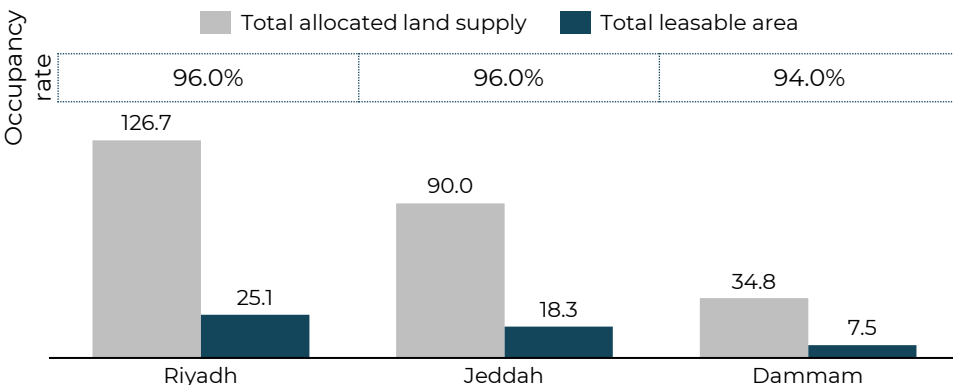


KSA REAL ESTATE SECTOR OVERVIEW

INDUSTRIAL REAL ESTATE OVERVIEW

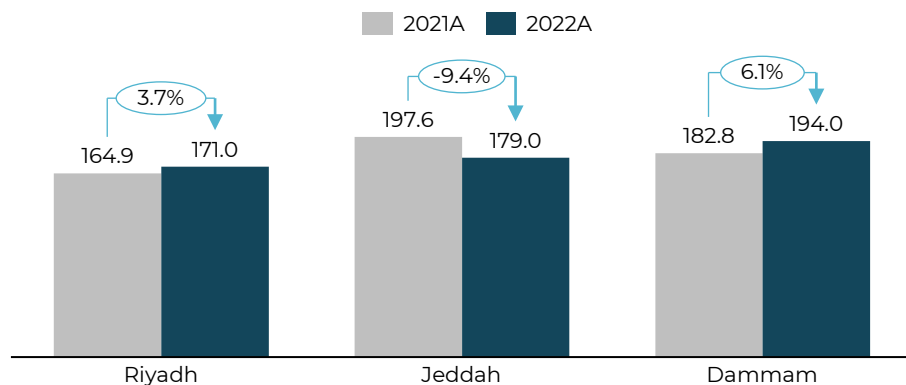
The industrial and logistics sector in KSA is recovering and growing under Vision 2030, but faces challenges from limited quality stock, rental softening, and market fragmentation

KSA INDUSTRIAL SPACE SUPPLY BY KEY MARKETS (MSQM)



Source: JLL, CBRE, Knight Frank, HSBC, Global Data, Zawya, Euromonitor

KSA WAREHOUSE RENTS BY CITY (SAR PER SQM PER YEAR)



Source: JLL, CBRE, Knight Frank, HSBC, Global Data, Zawya, Euromonitor

KEY OBSERVATIONS

- Industrial and logistics are one of the prominent areas under Vision 2030, as the country embarks on the journey to becoming the world's leading industrial and logistics hub. The government has created NIDLP to help improve regulations and standards for the sector and provide support and incentives for investors and developers. The NIDLP aims to enhance the competitiveness and efficiency of the industrial and logistics sector, as well as to create more jobs and diversify the economy. KSA's transportation and warehousing market grew at a CAGR of 6.5% during 2020A-2022A, reaching SAR141.0b. This growth is driven by the increasing demand for logistics services from various sectors such as e-commerce, healthcare, food and beverages, and manufacturing.
- The industrial market in the country is currently divided into two segments: one that offers international-grade quality stock and one that does not. The former segment is mainly concentrated in Riyadh, Jeddah, and Dammam, where there is limited supply and high demand for such stock. This has resulted in relative stability in rents for prime stock, as tenants are willing to pay a premium for quality and location. The latter segment, on the other hand, is more widespread and has lower demand and higher vacancy rates. This has resulted in a decline in rental rates for secondary stock, as landlords have to compete for tenants and offer discounts and incentives. However, the industrial sector as a whole is showing signs of recovery, as evidenced by the increase in the industrial production index by 4.1% in March 2023 compared to the same month of the previous year, according to the General Authority for Statistics. This indicates that industrial activity and output have improved after the pandemic and are expected to grow further in the future.
- In the near to mid-term, the sector is expected to witness high demand and an increase in rents, as more tenants seek quality international stocks that can meet their operational and environmental requirements. However, as the sector matures in the long term, the performance is expected to be more fragmented based on the availability of quality international stocks.



KSA REAL ESTATE SECTOR OVERVIEW

KEY MARKET TRENDS

The real estate sector is currently undergoing several significant transformations including the emergence of innovative retail formats, the implementation of green building standards, and the incorporation of advanced smart technologies

EMERGENCE OF NEW RETAIL FORMAT

- New retail formats such as e-commerce and food courts are driving demand for different types of retail spaces. These spaces must accommodate customer movement and transactions. Traditional retailers must also offer more value-added services to remain competitive.

ADOPTION OF GREEN BUILDING STANDARDS

- The KSA government is actively working towards investing in green buildings and standardizing the building rating system through the development of a new standard known as the Mostadam Standard.
- The ongoing shift to sustainable construction is expected to considerably impact the real estate sector as over 555,000 residential units and 275,000 hotel keys are planned to be built in KSA by 2030F.

ADOPTION OF SMART TECHNOLOGIES

- Smart technologies are being adopted to enhance the efficiency of the real estate sector in KSA. The National Housing Co. and the Saudi Contractors Authority have signed a memorandum of understanding to develop an electronic platform that will help streamline real estate development through various services.
- The integration of AI into the real estate market in KSA has the potential to double its growth in the following five years.

Source: CH research



KSA REAL ESTATE SECTOR OVERVIEW

PESTEL ANALYSIS

Favorable political, economic, social and technological environment, while challenging and demanding environmental and an improving and developing legal environment for real estate

P

POLITICAL

Political environment is improving and developing, as the country reforms its laws and regulations to align with its economic and social goals. These legal changes aim to enhance transparency, accountability, and accessibility in real estate. New laws and regulations facilitate real estate ownership, financing, registration, and other activities.

E

ECONOMIC

Economic atmosphere is recovering and growing after the pandemic and the oil price shock. The GDP growth rate is has reached 4.8% in 2022A, driven by the non-oil sector's expansion and diversification. The real estate sector is one of the key contributors to the non-oil GDP, accounting for 12.4% in 2022A.

S

SOCIAL

Social atmosphere is changing and evolving, as the country undergoes a cultural and demographic transformation. The population is young, educated, and tech-savvy, with a median age of 31.9 years and an internet penetration rate of 95.7% in 2022A. These social factors influence the preferences and expectations of real estate customers.

T

TECHNOLOGICAL

Technological environment is advanced and innovative, as the country embraces digitalization and modernization across various sectors. The real estate sector is also adopting new technologies and solutions such as AI, blockchain, IoT, big data, cloud computing, and 5G to improve its efficiency, quality, and customer experience.

E

ENVIRONMENTAL

Environmental atmosphere is challenging and demanding, as the country faces issues such as water scarcity, desertification, and climate change. The real estate sector is also responsible for a significant amount of energy consumption and carbon emissions, therefore, is under pressure to adopt more environmentally friendly practices and standards.

L

LEGAL

Improving and developing, as the country reforms its laws and regulations to align with its economic and social goals. These legal changes aim to enhance transparency, accountability, and accessibility in real estate. New laws and regulations facilitate real estate ownership, financing, registration, and other activities.

Source: CH research



KSA REAL ESTATE SECTOR OVERVIEW

KEY PROJECTS (1/3)

As part of its Vision2030, the kingdom has unveiled several mega projects that will create hundreds of thousands of new homes, hotels, shops, and offices by the end of the decade

NEOM

NEOM is a planned smart city in Tabuk Province in northwestern Saudi Arabia, spanning an area of 26,500 km² along the Red Sea coast. NEOM is part of Saudi Arabia's Vision2030 and aims to be a global hub for innovation, technology, and sustainability, powered by 100% renewable energy. The project is estimated to cost over USD500b and is expected to be completed by 2030F.



DIRIYAH GATE

Diriyah Gate is a cultural and heritage development project in Diriyah. The project covers an area of 7.1m square meters. It is one of the Public Investment Fund's projects managed by the Diriyah Gate Development Authority. The project was announced in 2017A and is expected to be completed by 2027F. The project is estimated to cost SAR64.0b (USD17.0b) and is expected to create 55,000 direct and indirect jobs and attract 27m visitors by 2030.

THE RED SEA

The Red Sea project is a tourism and hospitality development project on the west coast of Saudi Arabia, covering an area of 28,000km² along the Red Sea coast. The project is managed by Red Sea Global and backed by the Public Investment Fund. The project was announced in July 2017A and is expected to be completed by 2030F. The project is estimated to cost USD10.0b and is expected to contribute USD5.9b per year to the Saudi GDP.



Source: Vision 2030, News articles, CH research



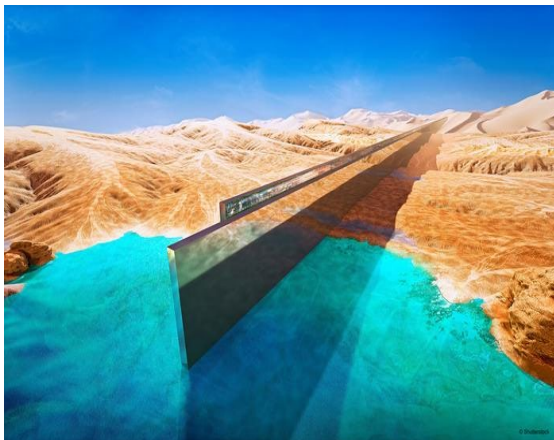
KSA REAL ESTATE SECTOR OVERVIEW

KEY PROJECTS (2/3)

As part of its Vision 2030, the kingdom has unveiled several mega projects that will create hundreds of thousands of new homes, hotels, shops, and offices by the end of the decade

THE LINE

The Line is a linear smart city project that is part of the Neom mega project in Saudi Arabia. It is designed to have no cars, streets, or carbon emissions and to run on 100% renewable energy. It will stretch 170 kilometers (106 miles) from the Red Sea to Tabuk and accommodate 9.0m residents in sub-cities. The project's estimated cost is USD100-200b and is expected to be completed by 2030F.



THE CUBE

The Cube project is a proposed architectural project to build a 400-meter-tall cube-shaped skyscraper in Riyadh. The Cube will be the centerpiece of the New Murabba district, a 19-square-kilometer area that will become one of the largest downtown developments in the world. The project was announced in 2023 and is expected to be completed by 2030F. The project will have 2.0m square meters of floor space, over 100,000 residential units; 9,000 hotel rooms.

AL NAMA SMART CITY

Al Nama Smart City is a visionary project that aims to create a zero-carbon smart community in Riyadh. The project aligns with the Vision 2030 plan to foster a green circular economy in the kingdom. The project will cover 10 square kilometers of land and offer 11,000 residential units for 44,000 residents. It will also generate 10,000 jobs in green-tech industries and provide various hubs for education, tourism, healthcare, and innovation.



Source: Vision 2030, Forbes, IoT2M Council, News articles, CH research



KSA REAL ESTATE SECTOR OVERVIEW

KEY PROJECTS (3/3)

As part of its Vision 2030, the kingdom has unveiled several mega projects that will create hundreds of thousands of new homes, hotels, shops, and offices by the end of the decade

QIDDIYA

Qiddiya is an entertainment megaproject that is being established in Riyadh and will cover 334 square kilometers of area. It will feature theme parks, water parks, sports facilities, cultural venues, resorts, hotels, and a Six Flags park with the world's fastest roller coaster. It will also have a creative hub for the media and arts industries. It is expected to be completed by 2030. The project is a venture of Qiddiya Investment Company.



THE ALULA PROJECT

The AlUla Project is a major project to transform the AlUla region in northwest Saudi Arabia into a cultural and tourism hub with archaeological sites, museums, hotels, and entertainment venues. It will feature more than 200,000 years of unexplored human history, including the Nabataean city of Hegra, the ancient North Arabian Dadanite and Lihyanite Kingdoms, and AlUla Old Town, a stopping point for pilgrims. The project is expected to be completed by 2035.

AMAALA

Amaala is a luxury tourism project developed along the Red Sea coast in northwestern Saudi Arabia. It will feature hotels, spas, health centers, sports facilities, art galleries, and a marina. It will also have a circular economy and a carbon-neutral footprint. It is expected to be completed by 2028. Red Sea Global is developing the project with three components: Triple Bay, Coastal Development, and The Island. It will span 4,155 square kilometers.



Source: Vision 2030, News articles, CH research



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