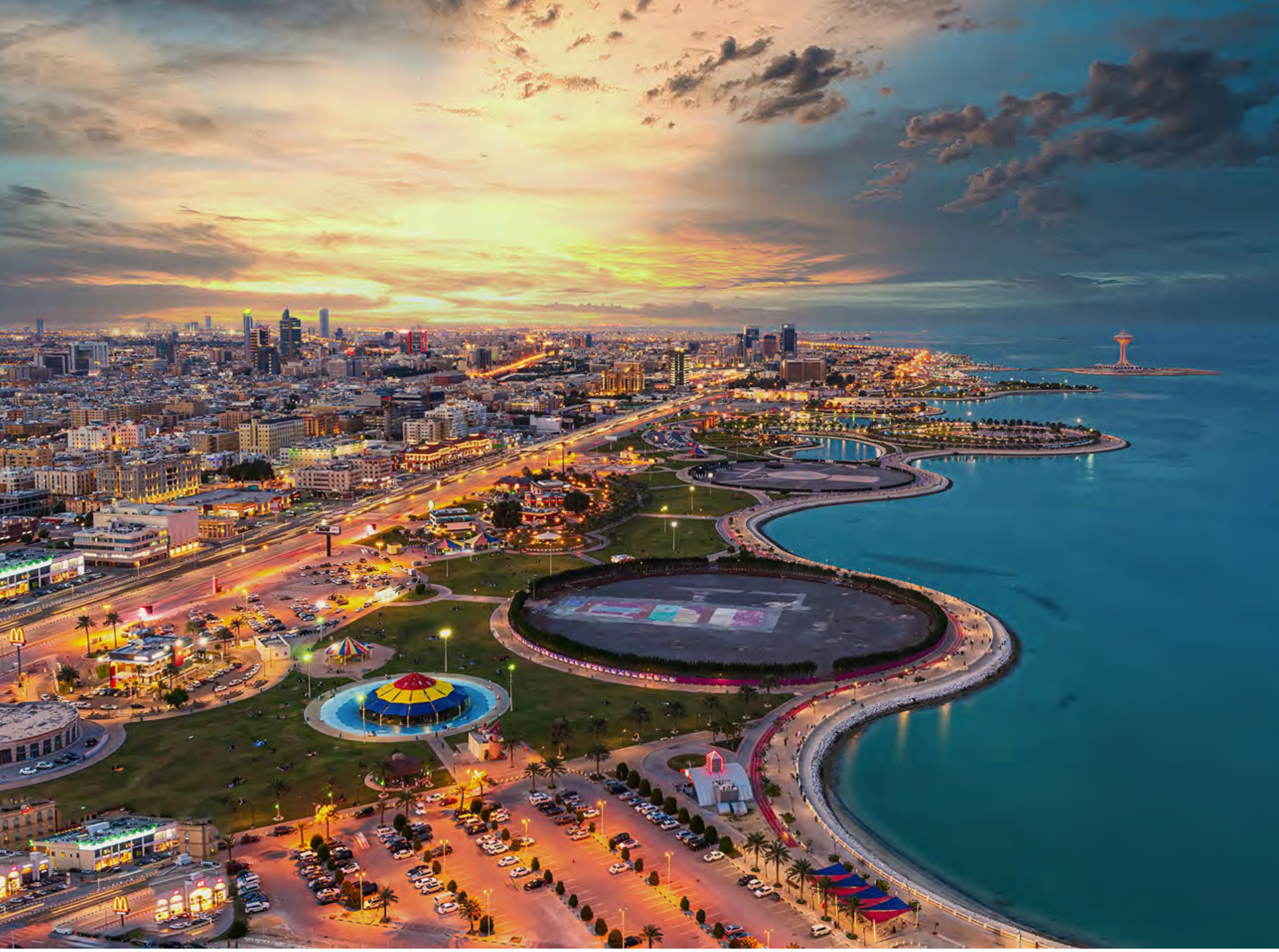

The KSA Real Estate Market overview

Research | Q1 2023

JLL SEE A BRIGHTER WAY

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Office

Riyadh

Total stock	2023 planned deliveries	Average Grade A & B rents
4.9m sq m GLA	583k sq m GLA	Y-o-Y 18%

Jeddah

Total stock	2023 planned deliveries	Average Grade A & B rents
1.2m sq m GLA	61k sq m GLA	Y-o-Y 12%

In the first three months of 2023, around 50,000 sq. m. of office gross leasable area (GLA) was delivered in Riyadh and Jeddah collectively. This brought the total existing stock to approximately 4.9 million sq. m. in the capital and 1.2 million sq. m. in Jeddah. Over the remainder of this year, an additional 61,000 sq. m. and 583,000 sq. m. of office GLA is scheduled to enter the market in Jeddah and Riyadh, respectively.

In the capital, the supply and demand dynamics have further shifted the tide towards landlords, and they are expected to continue to remain bullish in order to capitalise on the strong demand. Additionally, corporates have been expanding towards the north where office offerings come with better accessibility and parking. There is tight availability of good quality office space in the market. Indeed, the average market wide vacancy in Riyadh dropped to 1% in Q1 2023. As a result average Grade A rents increased by 19% year-on-year (Y-o-Y) to reach SAR 1,764 per sq. m. per annum during the same period.

In Jeddah however, the office market is exhibiting signs of softening. That said, well managed, single owned quality office spaces are highly sought after. Consequently, average Grade A rents rose by 15% Y-o-Y to reach SAR 1,199 per sq. m. per annum in the first quarter of 2023. Broadly, market-wide demand is being led by local companies and family businesses relocating to newer areas towards the north and west. Accordingly, the city-wide average vacancy stood at 8% in Q1 2023.

The office market in the Kingdom is expected to sustain its positive momentum. As Riyadh is being positioned as the new commercial nerve center, we expect more efforts towards substantially improving the infrastructure of the capital, to cater to its increasing popularity.

Residential

Riyadh

Total stock	2023 planned deliveries	Average sale prices	Average rents
1.4m units	24k units	7% Y-o-Y	2% Y-o-Y

Source: MOJ

Jeddah

Total stock	2023 planned deliveries	Average sale prices	Average rents
864k units	21k units	11% Y-o-Y	9% Y-o-Y

Riyadh witnessed the completion of close to 7,800 residential units in Q1 2023, pushing up the total stock to 1.4 million residential units. Over the same period, 4,400 units were handed over in Jeddah to bring the city's residential inventory to 864,000 units. In the remaining months of this year, 45,000 units are planned to be delivered across the two cities combined.

Several government backed projects were launched in recent months to support the growing residential sector, such as the first phase of Al Arous in Jeddah, Al Fursan and second phase of Khuzum in the capital. One of the biggest announcements has been the launch of New Murabba in Riyadh, which aims to be one of the world's largest downtowns. All these announcements are reflective of strong pent-up demand and the government's continued confidence in the long-term growth of the residential sector in the Kingdom.

The government has introduced several measures to expedite home-ownership among Saudi nationals and boost the residential sector. Demand has been increasing and is expected to continue to trend-up. In a recent announcement, 100 million sq. m. of land was allocated to the residential sector in the capital and other cities to control the increase in land and residential prices. Undeniably, in the first quarter of 2023, average sale prices and rents in Riyadh increased by 7% and 2%, Y-o-Y, respectively. On the same basis, in Jeddah, average sale prices increased by 11% annually and average rents climbed by 9%.

Overall, there has been a structural shift in the market and demand for apartments has been outpacing villas, with sale prices registering annual growth of 6% in the capital and 17% in Jeddah, in Q1 2023. Over the same period, rents for apartments grew by 4% in Riyadh and 13% in Jeddah.

Retail

Riyadh

3.4m sq m GLA — Total stock → 105k sq m GLA — 2023 planned deliveries

11% Y-o-Y — Average rental rates in super regional malls

8% Y-o-Y — Average rental rates in regional malls

Jeddah

1.8m sq m GLA — Total stock → 478k sq m GLA — 2023 planned deliveries

-6% Y-o-Y — Average rental rates in super regional malls

0% Y-o-Y — Average rental rates in regional malls

In Q1 2023, there were two retail developments completed in Riyadh, adding approximately 84,000 sq. m. of retail space and increasing the total supply to 3.4 million sq. m. Over the same period, Jeddah's retail stock increased by roughly 46,000 sq. m. to 1.8 million sq. m. In the remaining nine months of this year, 478,000 sq. m. of retail floorspace is scheduled to enter the market in Jeddah and about 105,000 sq. m. in Riyadh. With the retail market softening in Jeddah, we continue to be cautious about completing future projects on schedule.

Overall, strip retail and smaller community centres have been performing better than larger super regional malls. Majority of the enquiries were for smaller spaces, particularly in Jeddah, where enquired spaces ranged between 8 to 120 sq. m. Additionally, tenants displayed preference for corner locations with high visibility on the street, and outdoor seating areas have become very important for F&B (Food and Beverage) retailers due to their increasing popularity among consumers. In line with this trend, several malls have started to establish a separate F&B area located outside of the malls to attract tenants and increase footfall in their developments.

F&B and entertainment segments have been the key footfall generators with increased focus on experiential retail. Moreover, landlords in the capital are trying to attract new market entrants who do not have a local presence in the country. In contrast, landlords in Jeddah are being more cautious and are seeking well known brands to avoid risks associated with new market entrants.

Looking at the rental performance, in annual terms, rents for super regional and regional malls increased by 11% and 8%, respectively, in Riyadh in the first quarter of this year. On the same basis, rents in Jeddah fell on average by 6% across super regional malls and remained stable for regional malls, signaling slowing market conditions in the city.

Hospitality

Riyadh

21k keys — Total stock → 2k keys — 2023 planned deliveries

YT Feb 2023

Occupancy Rate	76%
ADR's	USD212
RevPar's	USD160

Source: STR

Jeddah

16k keys — Total stock → 1k keys — 2023 planned deliveries

YT Feb 2023

Occupancy Rate	54%
ADR's	USD147
RevPar's	USD79

Source: STR

There were no new hotel developments completed in the capital in Q1 2023, keeping the total stock stable at 21,000 keys. During the same period, Jeddah saw the delivery of 300 keys, increasing the total existing supply to 16,000 keys. An additional 3,000 keys are scheduled to enter the market in 2023 in both the cities combined. Of this, around 2,000 keys are expected to enter in Riyadh and the remaining 1,000 keys in Jeddah.

As part of its efforts to increase tourism in the Kingdom and reach the target of 100 million visits a year by 2030, the government recently launched a new national airline Riyadh air, which will have its hub at Riyadh's King Salman International Airport. Additionally, new stop over (transit) visa was also announced for passengers traveling using existing national airlines, Saudia and Flynas. All these initiatives are going to boost the hospitality industry and help position Saudi Arabia as a global tourism destination in the long run.

The Saudi market is currently going through a cultural shift, where new entertainment venues are being created and global events are being hosted to establish its presence on the global tourism map. Looking at the growth prospects of the hotel industry, majority of the operators who already have a presence in the country are planning to aggressively expand their offerings in the Kingdom and increase the volume of rooms under their portfolios. That said, owners of hospitality developments, are seeking to attract new unique operators.

As a result, hospitality sector performed strongly in the first quarter of 2023. Riyadh's occupancy rate rose to 76% and the average daily rate (ADR) increased to USD 212 for YT February 2023, when compared to the same period last year. On the same basis, Jeddah's occupancy rate reached 54% and ADR was recorded at USD 147. The Saudi hospitality market is expected to sustain its positive drive and improve further.

Definitions and methodology

Future Supply
JLL estimates of future supply is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers). The future supply is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started. We remain cautious of the ability of some projects to meet their stated completion deadlines, with significant delays in project delivery leading to a low materialization rate.

Office

Supply
The current supply of completed office GLA is based on a comprehensive list of office buildings that have been handed over for immediate occupation. This includes standalone office buildings and office space within mixed-use buildings: In Riyadh, the areas covered include: CBD, North and East Ring Roads, Khurais, Mazer, and Sitteen Streets. In Jeddah, the areas covered include: Prince Sultan, Tahlia, King Road, Ibrahim Al Jaffali, Amanah Street, Madinah, King Abdullah and Rawdah Streets.

Performance
The weighted average rent (WAR) is based on estimates from the JLL Offices and Business Space team. It reflects the WAR across a basket of Grade A buildings in the CBD.
Grade A buildings are defined as high quality office spaces, well located, with good access to infrastructure (metro) and amenities including F&B and retail.
The WAR of Grade A buildings represents the top open-market, net rent (exclusive of service charge and incentives) for a new lease that could be expected for a notional office unit.
Vacancy rate is based on estimates from the JLL Offices and Business Space team. It reflects the weighted average rate across a basket of buildings.

Residential

Supply
The current supply of completed residential buildings is based on the National Housing Census 2010, and quarterly surveys of major projects and standalone developments in Riyadh and Jeddah. It is reflecting residential units that have been handed over for immediate occupation. Our definition of residential units includes apartments and villas.

Performance
Residential performance is based on two separate baskets, one for rental rates and the other for sale prices of villas and apartments. The two baskets cover properties in selected locations across the cities.

Retail

Supply
The classification of retail centers is based on the **Urban Land Institute (ULI)** definition and based on their **Gross Leasable Area (GLA)**:

Super Regional Malls have a GLA of above 90,000 sq m
Regional Malls have a GLA of 30,000 - 90,000 sq m
Community Malls have a GLA of 10,000 - 30,000 sq m
Neighborhood Malls have a GLA of 3,000 - 10,000 sq m
Convenience Malls have a GLA of less than 3,000 sq m

The current supply of completed retail GLA is based on a comprehensive list of mall-based retail that have been handed over for immediate occupation. Our project list excludes street retail and retail within mixed-use buildings.

Performance
Average rents are based on estimates from the JLL Retail team. It reflects the rents across a basket of primary and secondary retail centers.
Primary and secondary retail centers are identified based on their turnover levels. **Primary Malls** are the best performing malls with highest levels of turnover. **Secondary Malls** are the average performing malls with lower levels of turnover.
Average rents represent the top open market net rent expected for a standard in line unit shop of 100 sq m in a basket of regional and super regional centers. Given the variation in rentals, we quote percentage change for retail rents rather than actual figures.
Vacancy rate is based on estimates from the JLL Retail team. It reflects the average rate across a basket of super regional and regional centers.

Hotels

Supply
The current supply of hotel rooms is based on data from our quarterly surveys, reflecting hotel rooms that have been handed over for immediate occupation. Our project list includes all graded supply and includes serviced apartments.

Performance
STR performance data is based on a monthly survey conducted by **STR Global** on a sample of international standard midscale and upscale hotels. **Average Daily Rates (ADR)** and **Revenue Per Available Room (Rev Par)** are the key performance metrics.

SEE A BRIGHTER WAY

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