Jeddah Real Estate Market Overview

Q1 2017

Jeddah

Jeddah

Market Summary

Weaker performance characterises market in Q1 2017.

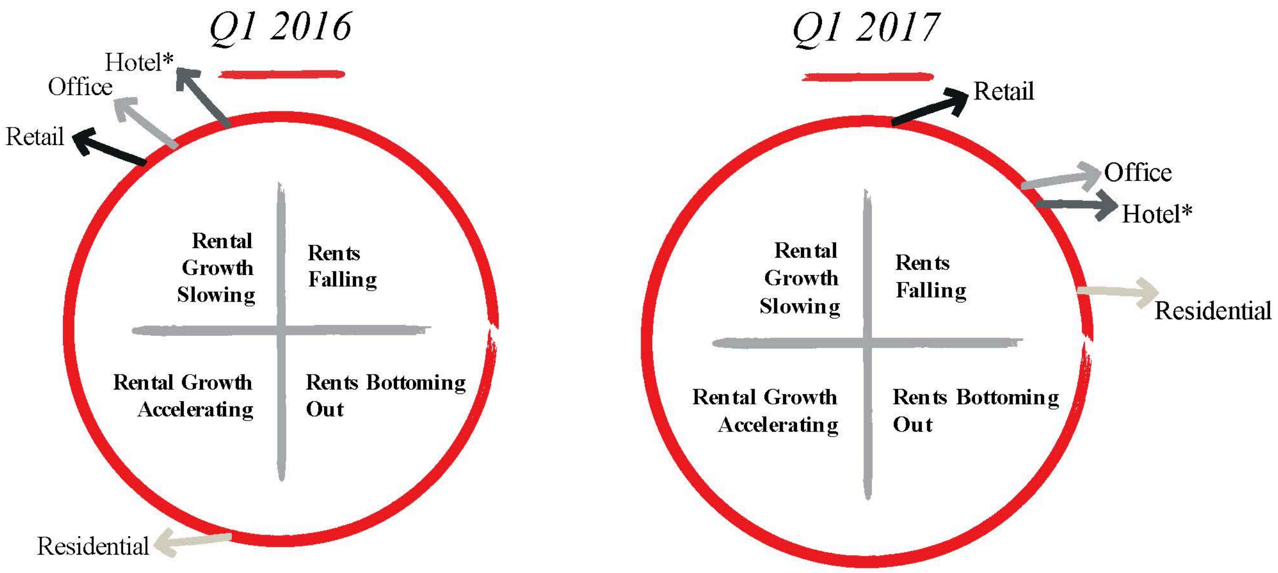
Office vacancies increased over the quarter due to additions to supply coinciding with softening demand. Office rents have softened and are likely to continue to do so throughout the year.

Performance also declined in the *Residential* sector. Apartment rents have seen a particularly sharp downturn, due to waning demand caused by the departure of a large number of expatriates last year.

While occupancies increased marginally in the *Retail* sector over Q1 2017, they are expected to soften over the rest of the year as new supply enters the market. Most malls managed to hold on to their rents, despite softening sales.

The opening of a number of *Hotels* over the past year has placed downward pressure on occupancies and ADRs, both of which fell from the corresponding period of 2016.

Jeddah Prime Rental Clock



* Hotel clock reflects the movement of RevPAR

Note: The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle. These positions are not necessarily representative of investment or development market prospects. It is important to recognise that markets move at different speeds depending on their maturity, size and economic conditions. Markets will not always move in a clockwise direction, they might move backwards or remain at the same point in their cycle for extended periods.

Source: JLL

Office

Hot Topic

The healthcare sector continues to attract demand and a growing number of commercial buildings in Jeddah are leasing space to clinics or other healthcare providers. Additionally, some buildings are remarketing their properties to target this sector in response to the current market conditions. While this will increase occupancies, it will also result in lower average rents.

Supply

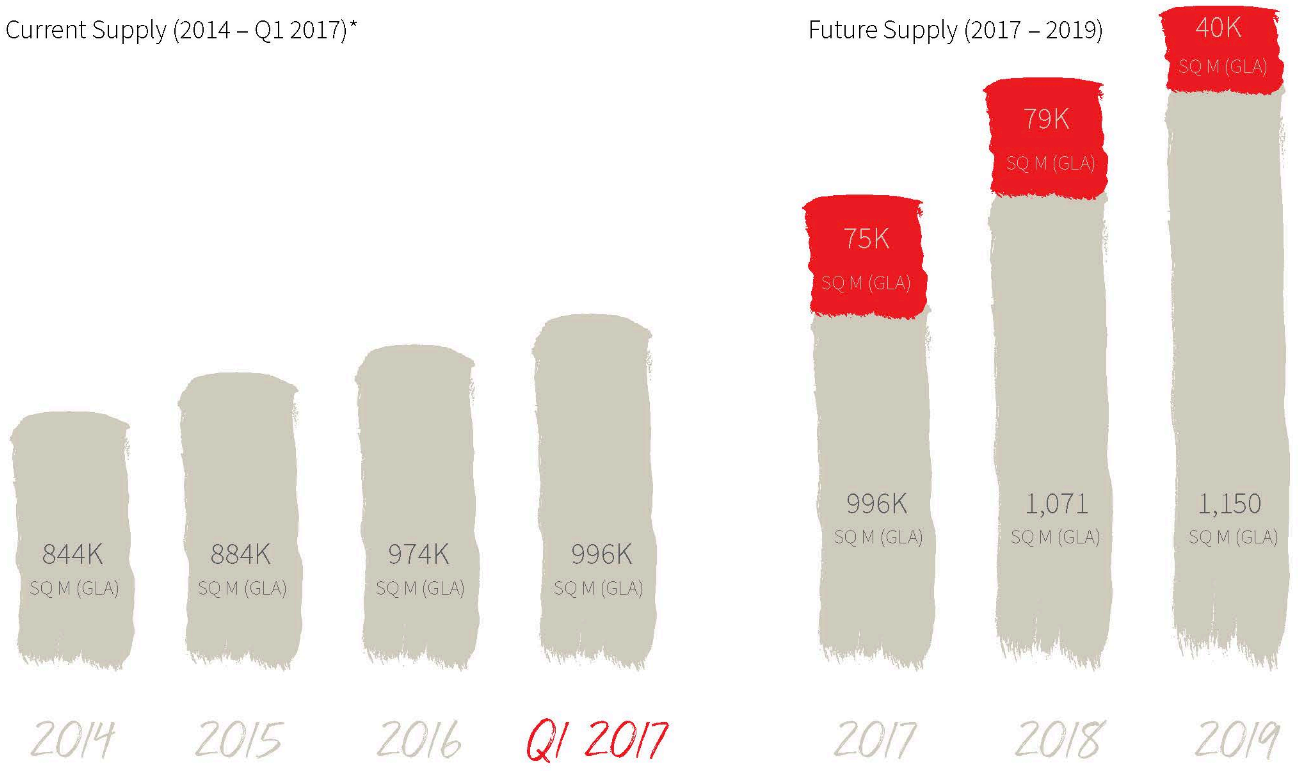
The supply of office space in Jeddah increased by approximately 23,000 sq m over Q1, with notable completions including Al Shaihanh Tower on Prince Sultan Street and Al Khayyal Tower on Prince Saud Al Faisal Street. These properties added approximately 8,800 sq m and 9,100 sq m to the market respectively. A further property by Um Al Qura, Aster 3 on Tahliya Street, also completed in the first quarter of the year.

Further completions are expected later in the year, as a number of buildings are currently in the finishing phase, including Ibrahim Center on Malik Road and the first phase of Lilian Towers on Prince Sultan Street. Although more quality, mid-scale buildings are entering the market, small buildings of up to 5,000 sq m are still abundant in the future supply pipeline.

***Note:** The decrease in supply compared to previous reports is due to the removal of a number of older office buildings that no longer offer quality office space from our supply survey.

Current Supply (2014 – Q1 2017)*

Future Supply (2017 – 2019)



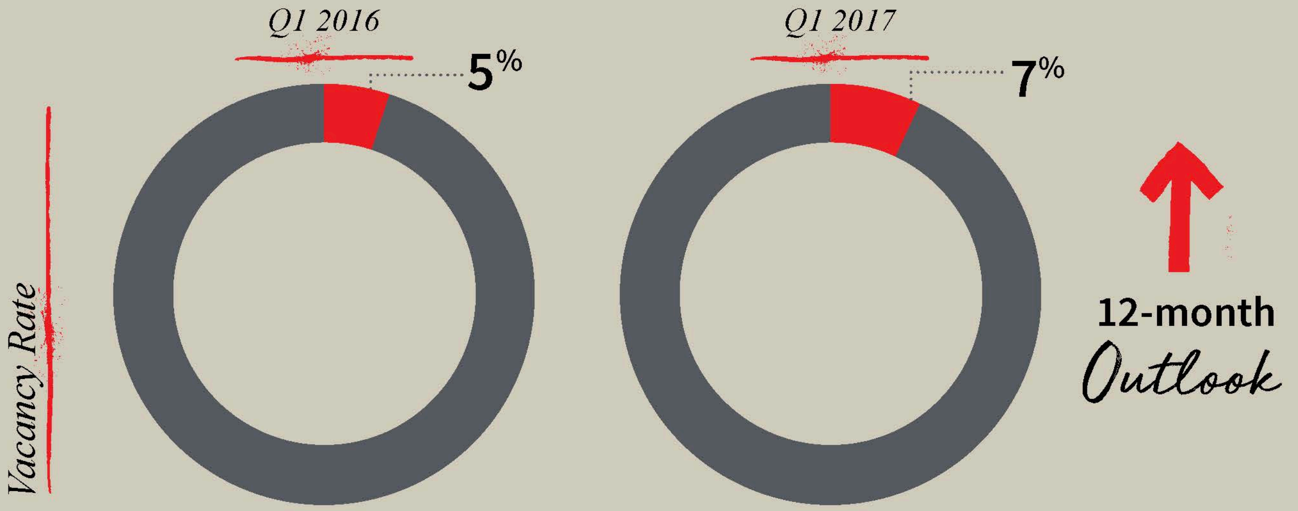
Office

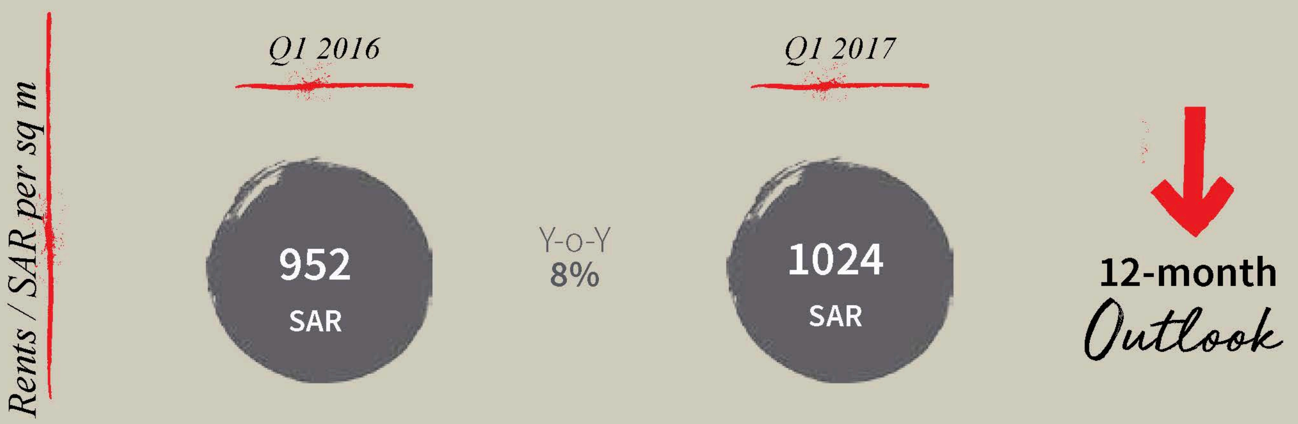
Performance

JLL has revised its performance basket to include a number of recent entrants to the market and excluded a number of older buildings, to better reflect current market preferences in terms of quality and location. New entrants in the basket include Emaar Square (Jeddah Gate), Al Khayyal building (on Prince Saud Al Faisal) and Al Olaya Office Tower (on Prince Sultan Road). As these recent completions remain in the early stages of leasing, they will not be included in our vacancy calculations until they reach stabilisation. Vacancies are expected to increase further and remain above equilibrium rates until market conditions improve.

The entry of over 112,000 sq m into the market since Q1 2016 has resulted in supply outpacing demand, and the release of shadow vacancies into the market has also contributed to the increase in vacancies in Q1 2017.

While average rents have increased by 8% compared to the same period last year to reach SAR 1,024, this increase is due to the revisions to JLL's performance basket rather than market conditions. With increasing vacancies and soft demand, tenants are better positioned to negotiate and lower rentals are expected over the remainder of 2017.





Residential

Hot Topic

The government's decision to collaborate more closely with the private sector is positive news for the housing sector. This initiative should eventually result in the faster development of units (given the experience of private developers who are well attuned to consumer preferences), and help bridge the current shortage of homes.

The introduction of the unified rental agreements under the "Ejar" regulations will create a more attractive environment for investors and increase confidence in the residential sector. This should prompt an increased level of investment in the sector that may also aid in bridging the gap between supply and demand.

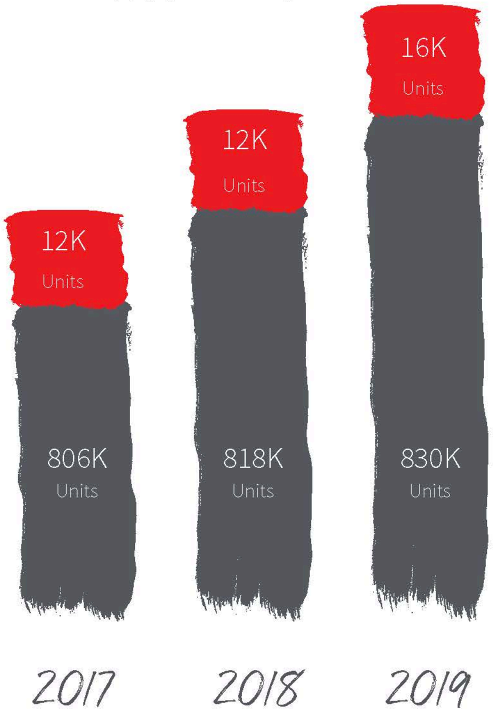
Supply

Q1 2017 saw the completion of Farsi Seven Towers, another addition to the high-rise segment of the market located on Obhur Creek. Further high-rise towers are currently under development or planned in the Corniche stretch and within the city, including Abraj Al Hilal 2 and Emaar Residences by Emaar, Golden Tower by Solidere, and Bayat Plaza Tower by Sabban Group.

The total stock of housing in Jeddah at the end of the quarter stood at approximately 806,000 units. Further additions are expected later in the year including Diyar Al Salam Residences (140 apartments) and Gardenia Residences (370 apartments) on Madinah Road.

Current Supply (2014–Q1 2017)

Future Supply (2017–2019)



Residential

Performance

Apartment rents decreased significantly over the first quarter of the year by 9% Q-o-Q and 8.5% Y-o-Y. The steepest decline was witnessed in apartments located in the western districts of Jeddah, which are popular with expatriates. The number of expatriates declined substantially following the economic slowdown witnessed in 2016, leaving more room for negotiation and forcing rents downwards. Apartment rents in other areas of the city remained relatively stable. Villa rents decreased less markedly (by 2% on both a Y-o-Y and Q-o-Q basis).

Sale prices decreased by 3% over the quarter in the apartment sector, but actually increased marginally (1%) in the villa segment of the market.

Apartments

Sales
-3%
Q-o-Q

Sales
-9%
Y-o-Y

12-month
Outlook

Rents
-9%
Q-o-Q

Rents
-8.5%
Y-o-Y

12-month
Outlook

Villas

Sales
1%
Q-o-Q

Sales
-5%
Y-o-Y

12-month
Outlook

Rents
-2%
Q-o-Q

Rents
-2%
Y-o-Y

12-month
Outlook

Retail

Hot Topic

The Citizens Account, launched by the government earlier this year, should soften the blow of economic reforms to the cost of energy and water on household spending power. This initiative aims to reimburse mid to low income households to help offset the increased financial burden of rising utility costs. This reimbursement should ensure that household spending power remains relatively intact, to the benefit of retailers.

Shopping center owners are hopeful that the proposed entertainment reforms will lead to the licensing of movie theatres in the Kingdom. This could potentially reinvigorate many malls, enabling them to enhance their 'shopper-tainment' experience and attract a higher footfall. Differentiation, entertainment and fresh design concepts are considered key to the success of shopping centers in the increasingly competitive Jeddah market.

Supply

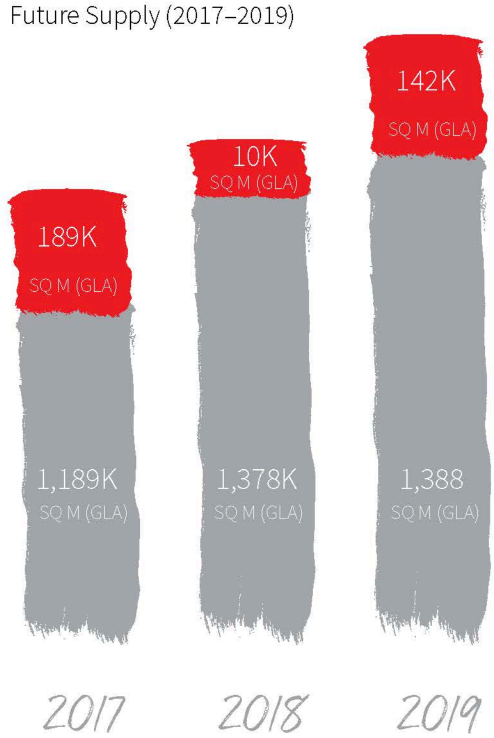
Total retail supply in Jeddah currently stands at almost 1.2 million sq m. Part of the retail component of the Jeddah Park development on Tahliya Street completed over Q1 2017 adding approximately 15,000 sq m to the market. The remaining retail component of Jeddah Park, a super-regional shopping center under the same name, is expected to complete by the end of the year. Further expected retail completions this year include Alireza Shopping Center located in the Balad (7,300 sq m), the expansion of Red Sea Mall (20,000 sq m), and the retail component of Lilian Towers (6,600 sq m) located on Prince Sultan Street.

Few of the announced regional and super-regional shopping centers have yet to begin construction with the exception of Jeddah Park and The Avenue. This is encouraging for existing centers, as the delay in project materialization will soften the potential impact on rents and occupancies.

***Note:** The increase in historical retail supply is due to the addition of retail space to JLL's retail supply basket

Current Supply (2014 – Q1 2017)*

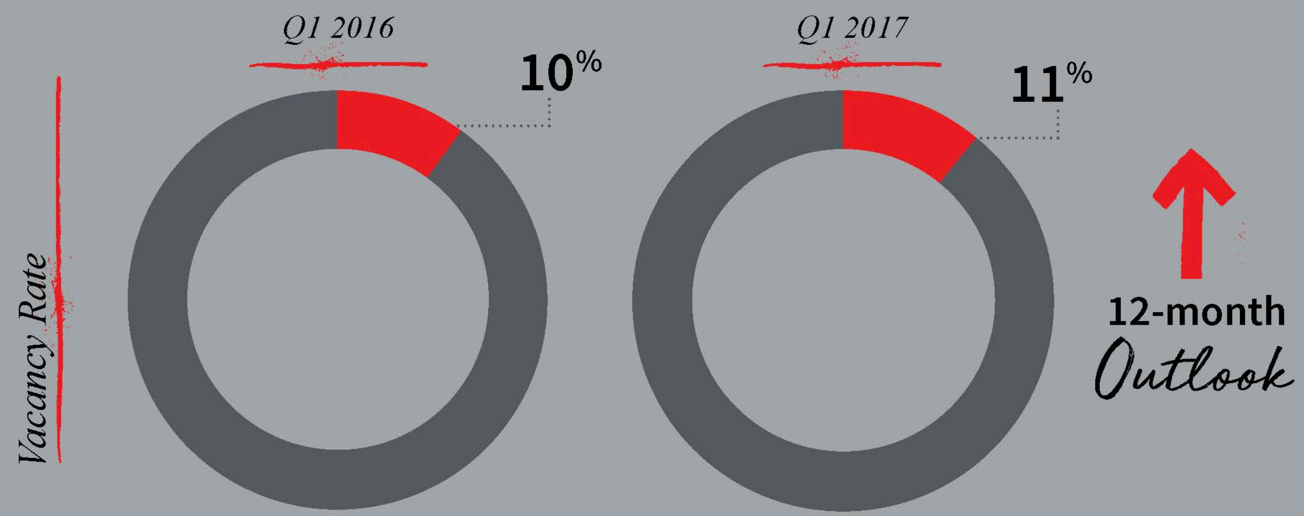
Future Supply (2017–2019)



Retail

Performance

Market wide vacancies increased by 1% to reach 11% in Q1 2017 with further increases in vacancies expected until the economic environment improves and household buying power is restored. Retail rents have remained relatively stable Q-o-Q despite increasing vacancies, with super-regional rents registering no change over the quarter and a decrease of just -3% Y-o-Y. Our series for regional center rents increased substantially (by 19% and 17% Q-o-Q and Y-o-Y respectively). This increase is due to the addition of Al Yasmin Mall to JLL's performance basket. Existing regional centers reported little to no change in rents over the quarter.



**The increase in regional shopping enter rents is due to the addition of Al Yasmin Mall to JLL's performance basket.*

Hotel

Hot Topic

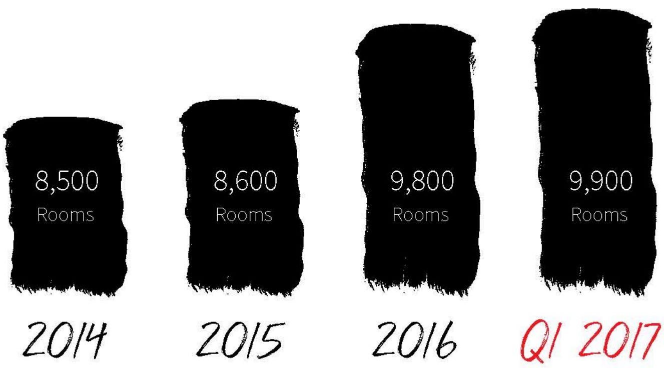
Two new brands are expected to enter the market over the next two years: the Langham Jeddah (277 keys) in 2018 and DoubleTree by Hilton (112 keys) in 2019, confirming Jeddah as a continued popular location for hotel operators. Hotels, located on Madinah Road, Prince Majid Road and King Fahd Road, are expected to see increased demand following the opening of the new airport expected in 2018.

The decision to lift the 20% reduction of Hajj quotas will come as a relief to hotel operators in Jeddah, which acts as the gateway to Makkah for most pilgrims. The Jeddah market should benefit from the influx of pilgrims expected during the 2017 Hajj season which will occur at the end of summer 2017.

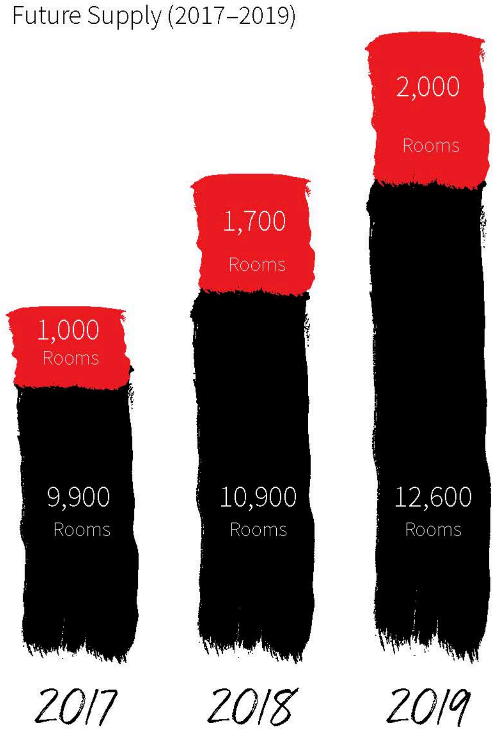
Supply

The hotel stock in Jeddah edged closer to 10,000 keys after the Novotel Jeddah Tahlia opened in Q1 2017. The hotel added 139 keys to the market, bringing the total supply of quality rooms to just over 9,900 keys. The Novotel is the second hotel opening on Tahlia over the last 12 months (following the Assila Hotel by Rocco Forte a few months ago). A further opening on Tahlia, Elaf Galleria (445 keys), is expected later this year followed by the Movenpick Hotel & Apartments Al Tahlia Jeddah in 2018 that will offer 164 serviced apartments. Further expected completions this year include the landmark Ritz Carlton (442 keys), and the Staybridge Suites serviced apartments at the Alandalus Mall (164 keys).

Current Supply (2014 – Q1 2017)



Future Supply (2017–2019)

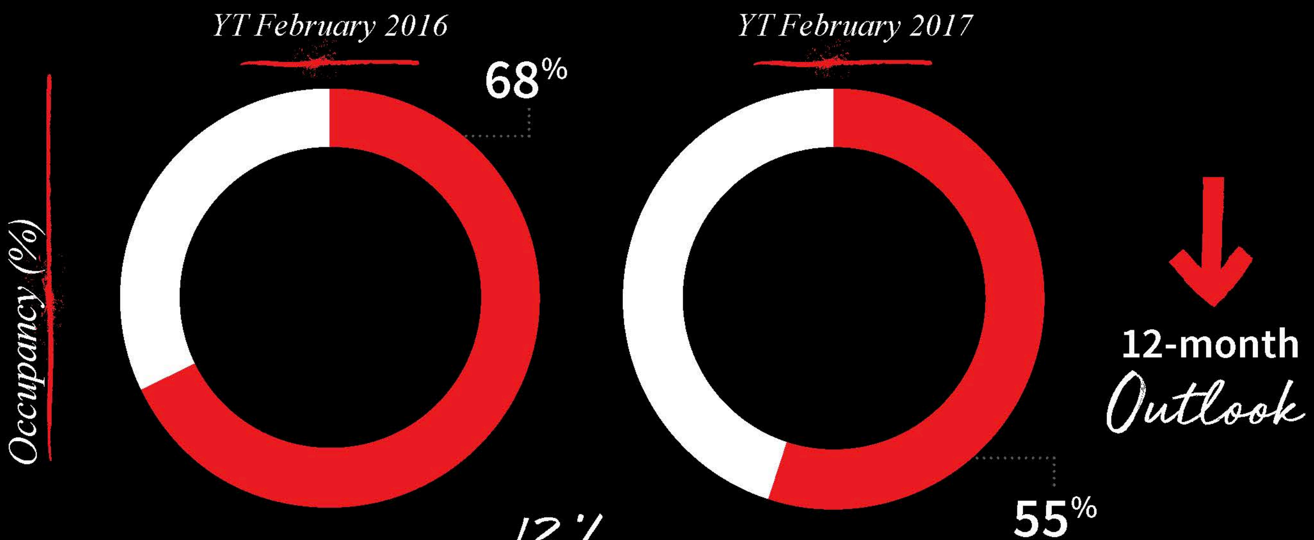


Hotel

Performance

2017 has begun weakly for the hotel sector, as corporate demand remains under pressure. Occupancies in Jeddah have decreased to 55% YT February 2017, compared to 68% in the same period of 2016 . ADRs also decreased in tandem by 12% compared to YT February 2016 to USD 201. RevPAR dropped by almost 30% to USD 110 as a result.

Increased competition with the opening of several properties in the last few months and pressure on companies' travel budgets are the main explanations for the relatively low performance in the first two months of 2017 when compared to the same period last year.



Source: STR Global

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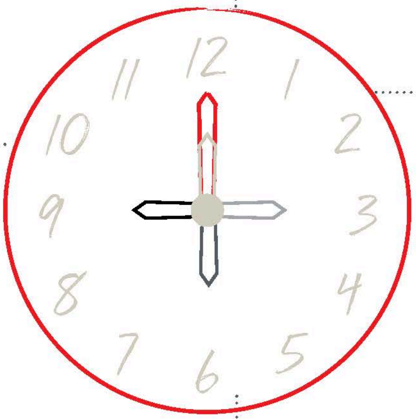
Definitions

12 O'clock

Indicates a turning point towards a market consolidation / slowdown. At this position, the market has no further rental growth potential left in the current cycle, with the next move likely to be downwards.

9 O'clock

Indicates the market has reached the rental growth peak, while rents may continue to increase over coming quarters the market is heading towards a period of rental stabilisation.



3 O'clock

Indicates the market has reached its point of fastest decline. While rents may continue to decline for some time, the rate of decrease is expected to slow as the market moves towards a period of rental stabilisation.

6 O'clock

Indicates a turning point towards rental growth. At this position, we believe the market has reached its lowest point and the next movement in rents is likely to be upwards.

Office

Supply data is based on our quarterly survey of the Grade A & B office space located in the Jeddah CBD, defined as Prince Sultan, Tahlia, Al-Malek, Ibrahim Al Juffali, Amanah Street, Madinah, King Abdullah & Prince Saud AlFaisal (Rawdah) Streets.
Completed building refers to a building that is handed over for immediate occupation.
Prime Office Rent represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter). The Prime Rent reflects an occupational lease that is standard for the local market. It is a face rent that does not reflect the financial impact of tenant incentives, and excludes service charges and local taxes.
Office vacancy rates are based on JLL estimates for a basket of buildings that comprises approx. 60% of the current supply.

Residential

The supply data is based on the National Housing Census (2010) and our quarterly survey of major projects and stand alone developments in selected areas.
Completed building refers to a building that is handed over for immediate occupation.
Residential performance data is based on two separate baskets one for rentals in villas and apartments and another basket for sales performance for both villas and apartments. The two baskets cover projects in selected locations across Jeddah.

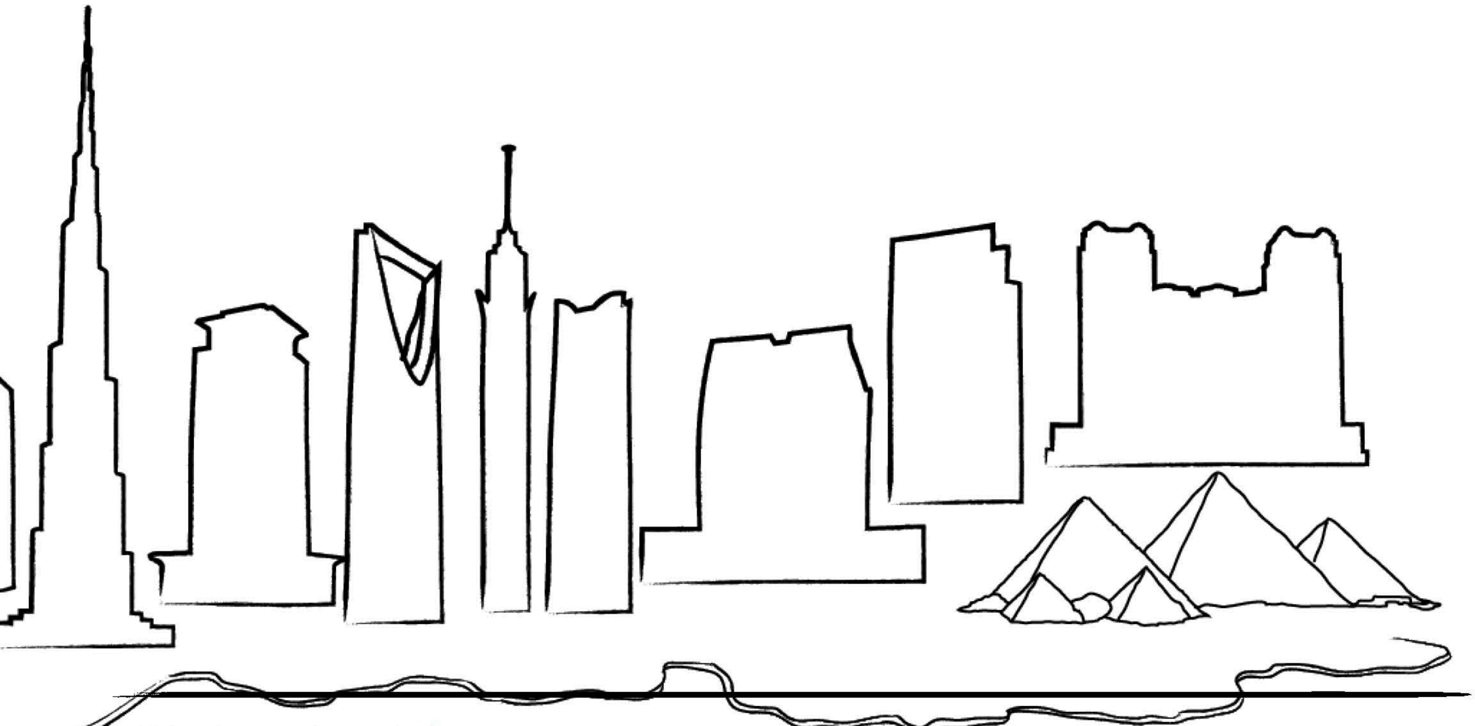
Retail

Classification of Retail Centres is based upon the ULI definition and based on their 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
- Neighbourhood Malls have a GLA of 3,000 - 10,000 sq m
- Convenience Malls have a GLA of less than 3,000 sq m

Average Rent Shopping Centre represents the quoted average rents for line shops for the major shopping malls in Jeddah.
Retail supply relates to the Gross Lettable Area (GLA) within retail malls.
Vacancy rate is based on estimates from the JLL Retail team, in addition to data received from the Shopping Centre Committee of the Jeddah Chamber of Commerce and Industry, and represents the average rate across standard in line unit shops at regional malls.

Hotel

JLL tracks the supply of 3, 4 and 5 star quality hotels. The supply data excludes serviced apartments.
Performance data is based on a monthly survey conducted by STR Global.



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