

Q1 2015

Riyadh Real Estate Market Overview



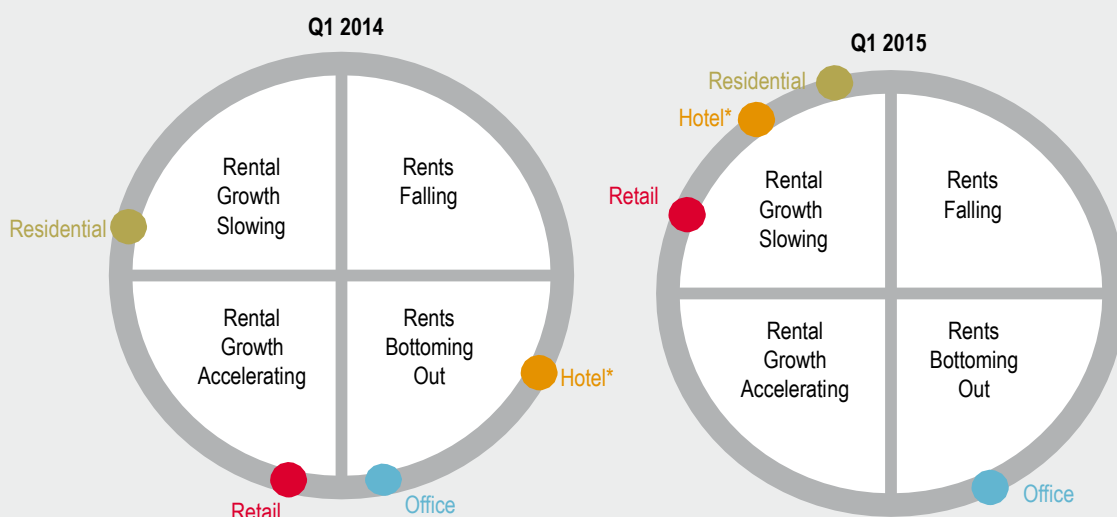
Riyadh *Market* Summary

Riyadh's real estate market has remained largely stable over the first quarter of 2015 with no major change in either supply levels or performance.

- The **residential sector** has seen a continued shift towards renting as a result of the new mortgage regulations. This has contributed to a marginal decline in the average sale prices for villas.
- Continued delays in the delivery of megaprojects has stabilized performance and vacancies in the **office market**.
- Strong **retail** spending and the announcement of multiple malls reflects continued confidence in the retail market.
- The **hotel market** saw a marginal improvement in ADR's but this growth is likely to be short lived given high levels of supply due to enter the market later in 2015 and 2016.

The major news during Q1 2015 was the Saudi Cabinet's announcement of a new tax on undeveloped land within urban areas. This is a bold move, being the first real estate tax in the Kingdom. The proposed tax is designed to address the shortage of affordable housing resulting from the current preference of many land owners to trade undeveloped sites rather than undertaking development. As no details of the timing, level, method of calculation, administration or enforcement of the tax have yet been released, it is difficult to estimate the extent to which this proposal will increase development activity or reduce residential prices in Riyadh.

Riyadh *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

Riyadh *Office* Market Overview

Market Summary

The office market witnessed no major completions in the first quarter of 2015. Delivery of some of the buildings within KAFD have been further delayed to 2016 and ITCC is expected to be completed later this year. City wide vacancy rates have remained stable at 16% while CBD vacancies dropped (by 1.5%) to 8%.

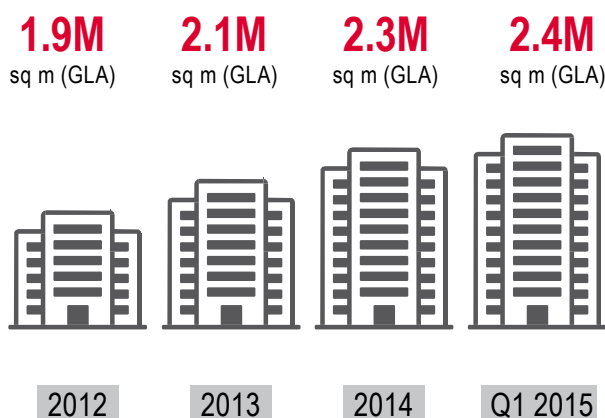
Average rents have remained stable since the last quarter for Grade A and B office buildings at SAR 1,275 and SAR 870 per sq m respectively. Prime rents have also remained stable since last quarter at SAR 1,700 per sq m.

Hot Topic

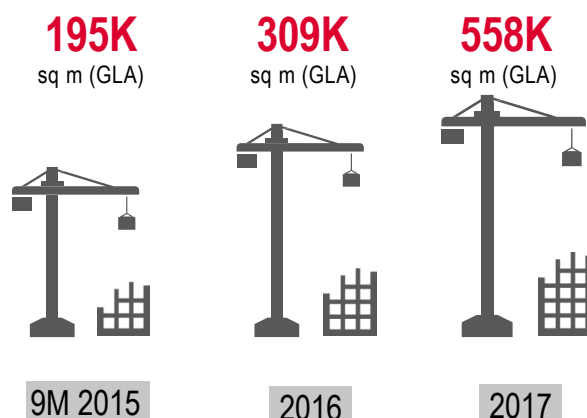
Delays to future supply contribute to market stability. Many of the larger projects are experiencing further delays and a number of private developers have delayed or reduced the size of their projects in the face of Riyadh's two mega projects; the ITCC and the KAFD. It is expected that rentals will remain unchanged until this new space enters the market in late 2015 and into 2016, at which time rentals in the existing stock are expected to soften.

Office Supply

Current Supply (2012- 2015)

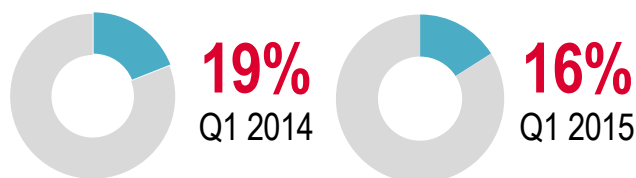


Future Supply (2015-2017)

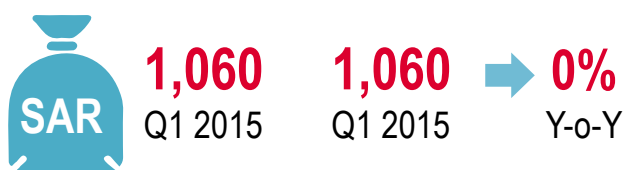


Office Performance

Vacancy Rate



Average Rents (per sq m) / Annual Change



2015/2016
Outlook

2015/2016
Outlook

Riyadh *Residential* Market Overview

Market Summary

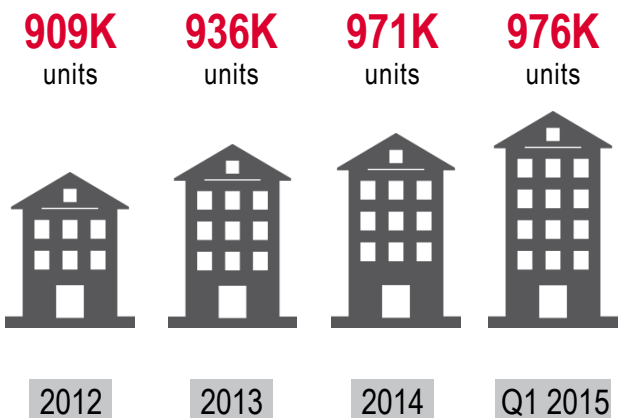
The first quarter of 2015 saw the completion of around 5,000 housing units, bringing the total stock to around 976,000 units. Rentals continue to grow at between 10% and 15% pa. While apartment prices have also increased, sales prices for villas has experienced a marginal softening (-2%) due to the new mortgage regulations.

Hot Topic

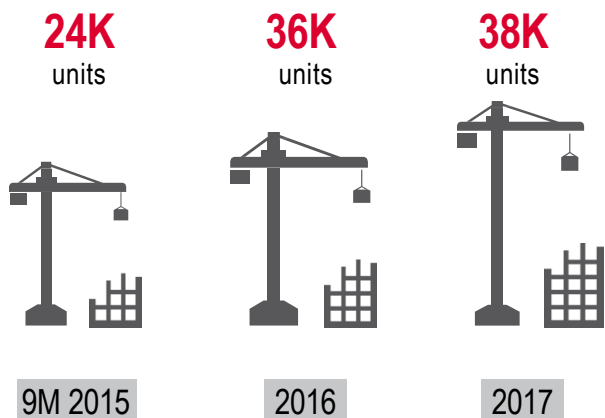
Villa sale prices soften due to new mortgage regulations. The volume of villa and apartment transactions recorded by the ministry of justice have decreased around 70% and 33% respectively since the new mortgage regulations were introduced in November 2014. These regulations limit mortgages to a maximum of 70% of the sale price and have resulted in a shift to the rental market by reducing the number of potential purchasers. As a result, average villa prices have declined marginally during Q1.

Residential Supply

Current Supply (2012–2015)



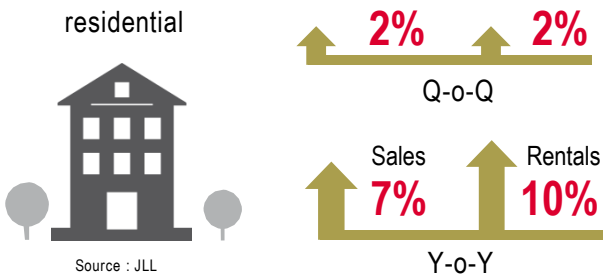
Future Supply (2015–2017)



Residential Performance

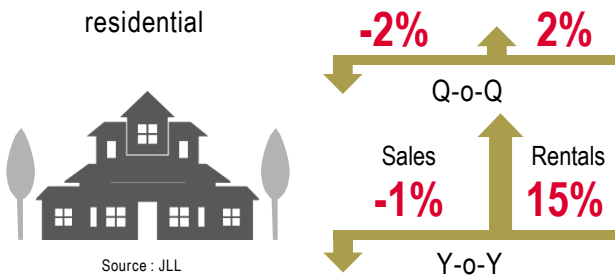
Riyadh Residential Property Rent and Sale Indices

Apartment



Source : JLL

Villa



Source : JLL

Riyadh *Retail* Market Overview

Market Summary

The retail segment showed steady growth in the first quarter of 2015. Vacancy rates decreased slightly (-1%) and rentals increased marginally (0.5%) across super regional, regional and community centres. The first quarter witnessed a number of retail completions including the delivery of Alia Plaza located on Al Thumama Road. Other projects have however been delayed, resulting in a high level of expected supply in 2016 and 2017.

Hot Topic

Short term confidence boosts future supply pipeline. Confidence in the retail market remains strong with the announcement of number of new malls, with circa 750,000 sq m expected to enter the market in 2018 and 2019.

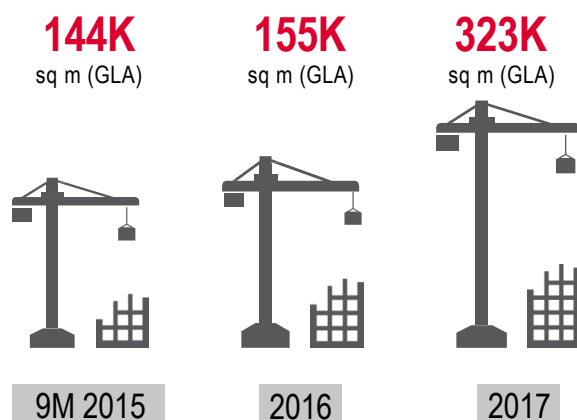
After assuming the throne in January, King Salman Bin Abdul Aziz awarded all state employees a two month salary bonus. As a result, point of sale transactions for the months of January and February increased by around 20% in comparison with the same months of 2014.

Retail Supply

Current Supply (2012–2015)

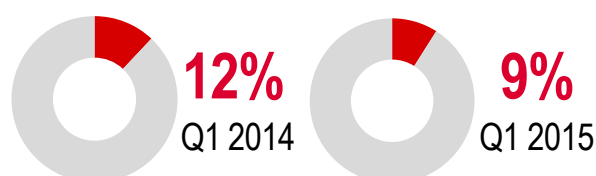


Future Supply (2015- 2017)



Retail Performance

Vacancy Rate



Average Retail Rents (per sq m) / Annual Change

Super Regional	2,700	2,850	↑ 6%
	Q1 2014	Q1 2015	Y-o-Y
Community	2,400	2,750	↑ 15%
	Q1 2014	Q1 2015	Y-o-Y



2015/2016
Outlook



2015/2016
Outlook

Riyadh *Hotel* Market Overview

Market Summary

DoubleTree by Hilton was the only hotel delivered during the first quarter of 2015 adding 196 keys and increasing the total stock to about 10,100 keys. Major projects expected to be completed in 2015 include Hilton Riyadh Hotel & Residences and Movenpick Hotel in the CBD.

Year to February occupancy rates have remained stable at 64%, however average daily rates have improved marginally (2%) compared to the same period in 2014. As a result, revenue per available room (RevPAR) has improved by 2.5%, to USD162 over the first two months of 2015.

Hot Topic

New supply to soften future performance. The hotel stock in Riyadh has remained relatively stable since 2013. This situation is, however, due to change, with high levels of new supply forecast for the next 3 years as many of the previously delayed projects come to fruition. This increase in supply is likely to increase vacancies and reduce RevPAR but this impact may be muted by the continued delay of some announced projects.

Hotel Supply

Current Supply* (2012–2015)

7,400 keys **9,500** keys **9,900** keys **10,100** keys



2012

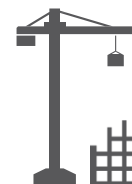
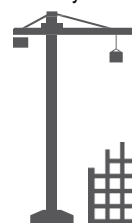
2013

2014

Q1 2015

Future Supply (2015–2017)

2,000 keys **3,000** keys **2,600** keys



9M 2015

2016

2017

*The hotel room supply has been revised since 2014 to focus on quality supply in the city.

Hotel Performance

Occupancy Rates



64%
YTD Feb
2014



64%
YTD Feb
2015



Average Daily Rate / Annual change

245
YTD Feb
2014

251
YTD Feb
2015

↑ 2%
YTD Feb



2015/2016
Outlook

Source : STR Global



2015/2016
Outlook

Source : STR Global

Definitions and methodology



Interpretation of market positions:

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.

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.

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.

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



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 of Riyadh.

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 in selected locations across Riyadh.



The supply data is based on our quarterly survey of the Grade A and B office space located in CBD, North and East Ring roads, Khurais, Mazer, and Sitteen Streets.

Completed building refers to a building that is handed over for immediate occupation.

The rents shown in the office performance graphic, represent the average of Prime, Grade A and Upper Grade B office space.

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 period). 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.

Vacancy rate is based on estimates from the JLL Agency team.



Classification of Retail Centers 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

Primary Malls are the good performing malls with high levels of turnover. Secondary Malls are the average performing malls with lower levels of turnover.

Rent represents the average quoted average rent for line stores in the major shopping malls in Riyadh

Vacancy rate is based on estimates from the JLL Retail team, and represents the average rate across standard in line unit shops at regional malls.



Hotel room supply is based on existing supply figures provided by Saudi Commission for Tourism and Antiques as well as future hotel development data tracked by Jones Lang LaSalle Hotels. Room supply includes 3, 4 and 5 star hotel rooms but excludes serviced apartments.

Performance data is based on a monthly survey of hotels conducted by STR Global.



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