

Riyadh Real Estate Market Overview

Q1 2017

Riyadh





Market Summary

Short term softening ahead of impact of economic reforms

Although the delay in completing some *Office* projects has benefitted existing buildings, the office market continues to soften as private companies downsize and the public sector aims to decrease headcount by 20% in line with the National Transformation Program.

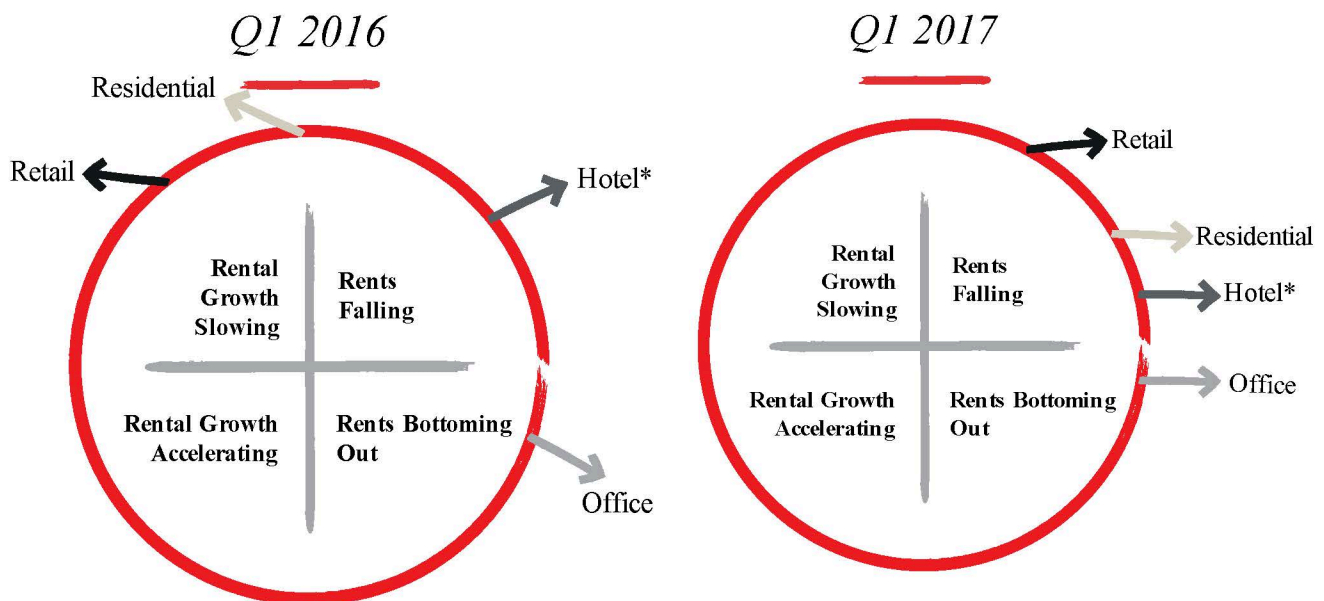
Performance indicators continue to weaken in the *Residential* sector, with rentals declining due to the departure of expats. Moreover, sale prices of units are falling as potential buyers wait for prices to bottom out.

Lower consumer spending continues to negatively affect the *Retail* sector, with older centers expected to decrease their rents to retain existing tenants and attract new ones. While recent government initiatives such as the Citizen Account should help mitigate the financial burden on low to mid income households, these programs will take time to impact the retail market.

The *Hospitality* sector in Riyadh also faces further challenges over the short term due to the economic downturn and continued increase in the supply of hotel rooms. The

government's commitment to diversifying the economy away from oil-producing activities will strengthen the hospitality sector, but once again these initiatives will not benefit the market in the short term.

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

Office

Hot Topic

Most government tenants occupy their own buildings and they have not traditionally taken space in private sector buildings in Riyadh.

This situation is now beginning to change and while some government agencies have committed to their own buildings in KAFD and elsewhere, others are now considering leasing space in private sector buildings. While positive for the general market, this demand is not expected to be sufficient to offset the increase in vacancies resulting from headcount declines in both the government and private sectors.

Supply

There were no major completions in Q1, although a number of small scale mixed-use buildings added around 15,000 sq m in aggregate to the total stock. Almost 122,000 sq m of GLA is expected to complete by the end of the year, with potential completions including Al Rajhi Tower (30,000 sq m), CMC Tower (12,000 sq m),

Elegance Tower (24,000 sq m), and the Administrative Palaces Project by Ajlan (30,000 sq m). If construction were to recommence at KAFD within the next quarter, the first phase of this project could be completed within an estimated period of 12 months.

Current Supply (2014 – Q1 2017)*

Future Supply (2017 – 2019)



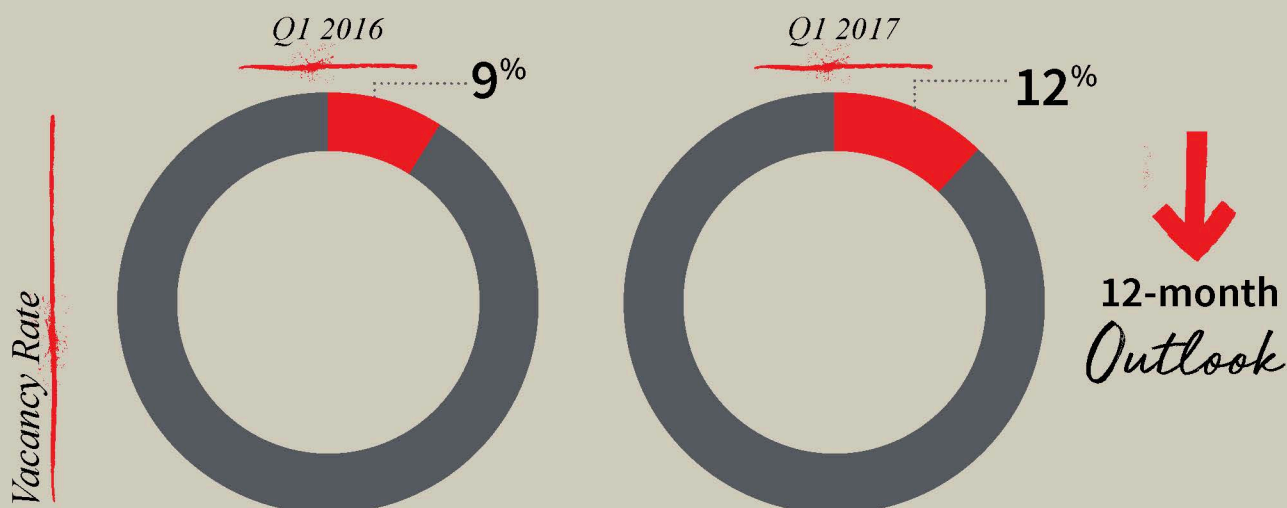
*The increase in historical office supply is due to the addition of office space to JLL's supply basket

Office

Performance

Lower demand and the release of shadow space have contributed to vacancies increasing from 9.3% in Q1 2016 to reach 12% as of Q1 2017. The reduced demand has also affected market performance, with rents decreasing marginally (by around 2%) over the past 12 months to SAR 1,239 per sq m.

With some private companies expected to downsize further, and the public sector shrinking its headcount (in line with the 20% reduction required in the 2030 vision), vacancies are expected to increase and rents to decline further over the remainder of 2017.



Residential

Hot Topic

Public Private Partnerships (PPPs) are being more widely used to tackle the shortage of affordable housing in Riyadh. Recently signed MoUs between the Ministry of Housing and the private sector are expected to streamline the development process and reduce both timeframes and construction costs. The launch of East Gate, a large-scale residential project consisting of 7,000 units in eastern Riyadh, marks the first PPP executed by the Ministry of Housing with additional PPPs expected to be entered into over the rest of the year.

Income-generating residential properties should become a more attractive investment grade asset as a result of the new unified rental agreements under the “Ejar” regulations. This new contract serves as an executive deed, which will increase confidence and transparency in the market. The new contract is also expected to make the collection of rents easier and faster for property owners.

Supply

As of Q1 2017, the total stock of residential units in Riyadh stands at around 1.17 million units. Notable completions in Q1 include Marvella apartments, a project by Rafal situated in eastern Riyadh with almost 600 units. Approximately 24,000 additional units could potentially materialize by the end of

the year. This total is likely to include more affordable projects developed under PPP agreements between the Ministry of Housing and private developers. These agreements are considered a positive in terms of increasing future supply in line with customer preferences and pricing.

Current Supply (2014–Q1 2017)*

Future Supply (2017–2019)



*The increase in historical residential supply is due to the addition of residential units to JLL's supply basket

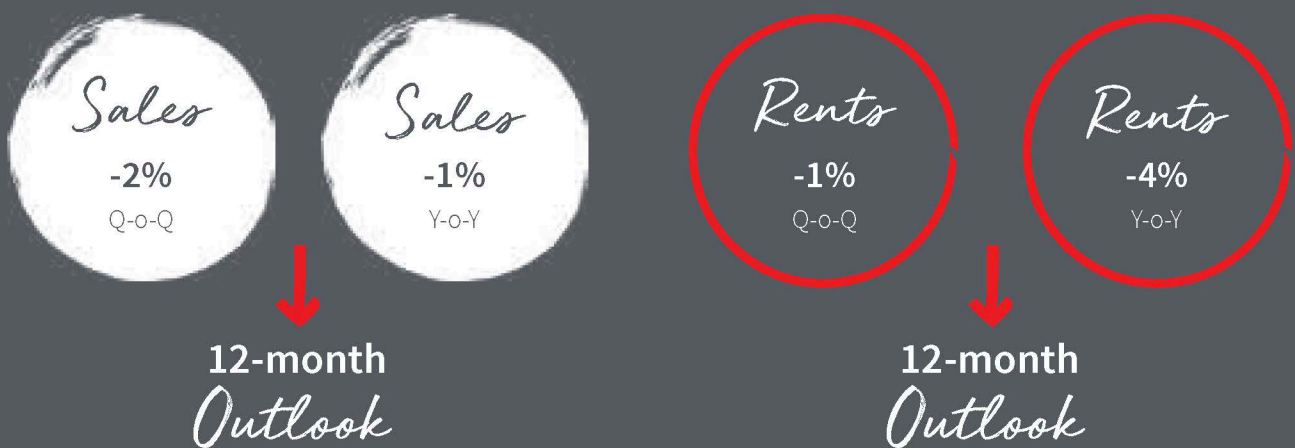
Residential

Performance

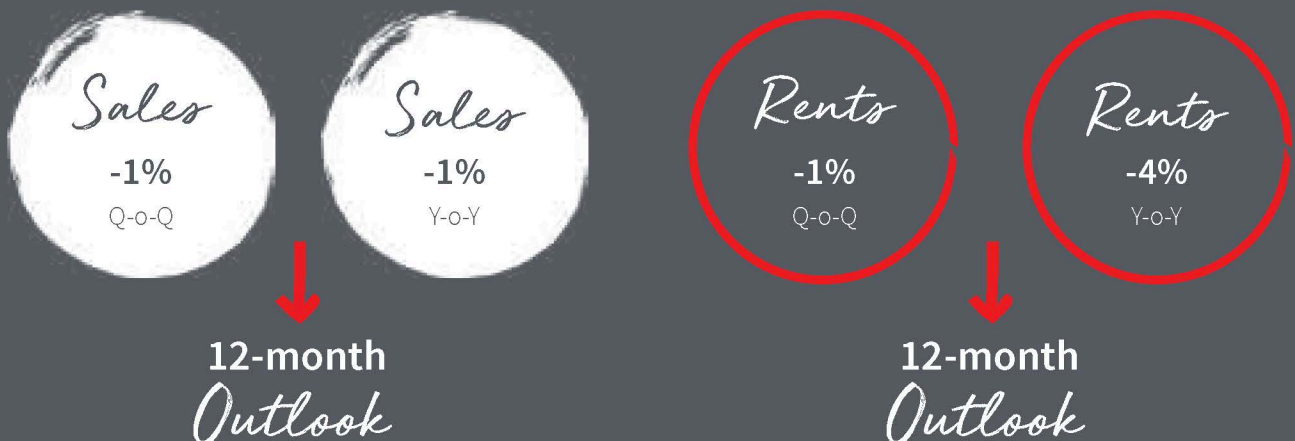
The performance of the residential sector softened marginally over the quarter. Sale prices of apartments decreased by 2% Q-o-Q, and sale prices of villas decreased by 1%. Rentals have followed a similar trend, falling by 1% Q-o-Q for both villas and apartments.

Data from the Ministry of Justice suggests that sales volumes of apartments witnessed a 1% decrease Y-o-Y and a 25% decrease Q-o-Q. Moreover, the sale volume of villas fell by almost 40% compared to the same period last year and experienced just a 2% increase relative to last quarter.

Apartments



Villas



Retail

Hot Topic

Increased female participation in the retail sector (feminization) is good news not just for women, but also for the retail sector as a whole. This initiative should increase the number of female owned businesses as well as the number of women in the workforce, resulting in higher spending power. The feminization of the retail sector is in line with the Saudi Vision 2030, that seeks to increase the participation of women in the workforce from 22% to 30%.

Increased competition in the niche-market of F&B plazas is expected over the rest of 2017. Notable existing F&B projects such as the Riyadh Boulevard and the Rubeen Plaza are likely to be joined by Levels restaurants and the Veranda dining complex, both of which are currently under construction. F&B plazas are generally classified as a “neighbourhood” product, ranging from 3,000 to 10,000 sq m, which are typically located along major arterial roads in suburban locations.

Supply

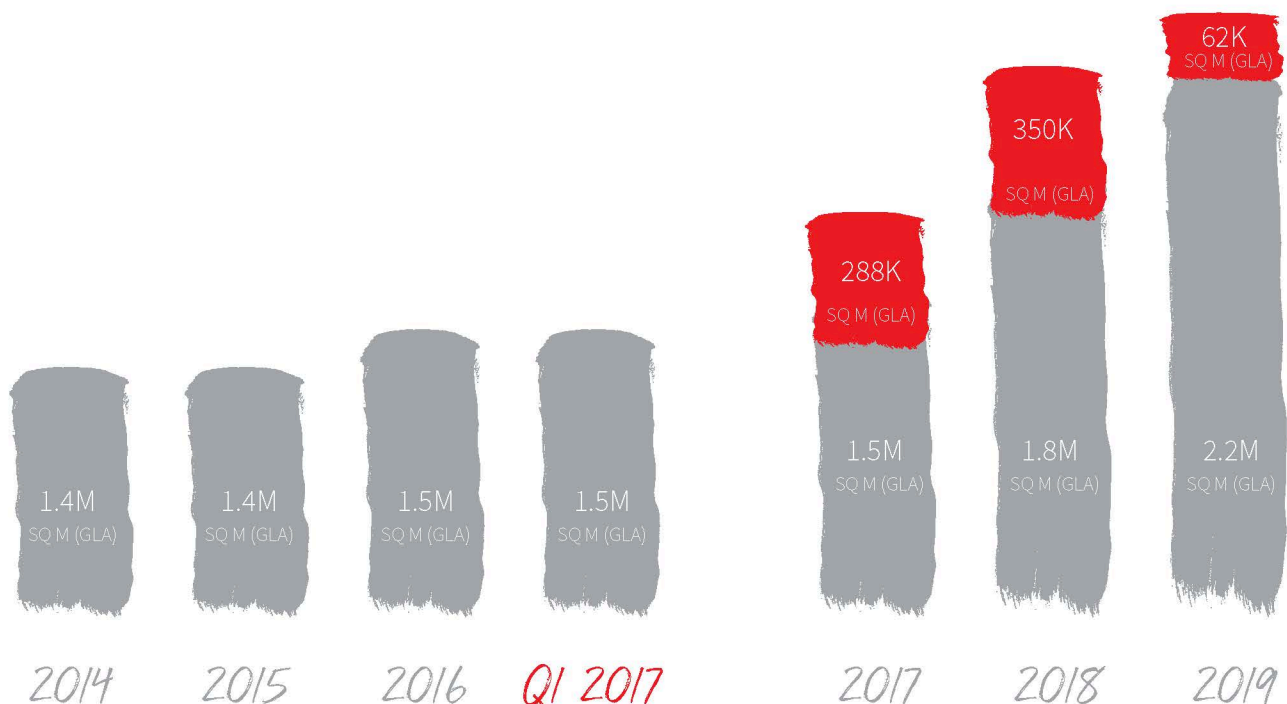
The total supply of retail space in Riyadh stands at around 1.52 million sq m as of Q1 2017. While there were no major completions, one small project Al Ghadeer Square (around 7,000 sq m of GLA) was completed in Q1 2017. In addition, some small-scale retailers, like Al Jazeera Markets are expanding their business

and leasing new space. Al Jazeera Markets opened its fourth branch in Riyadh this quarter, (adding almost 3,000 sq m of GLA) and are expected to open three more small branches over the year, adding a further 3,000 sq m of GLA in aggregate. Additional small-scale completions expected during 2017 include Elite (11,000 sq

m on Dhabbab Road) and Levels (7,500 sq m on the Northern Ring Road). The most notable completion expected this year is Riyadh Park, a super-regional mall situated on the Northern Ring Road, which is expected to add around 92,000 sq m of GLA to the total retail supply in Q4.

Current Supply (2014 – Q1 2017)

Future Supply (2017–2019)



Retail

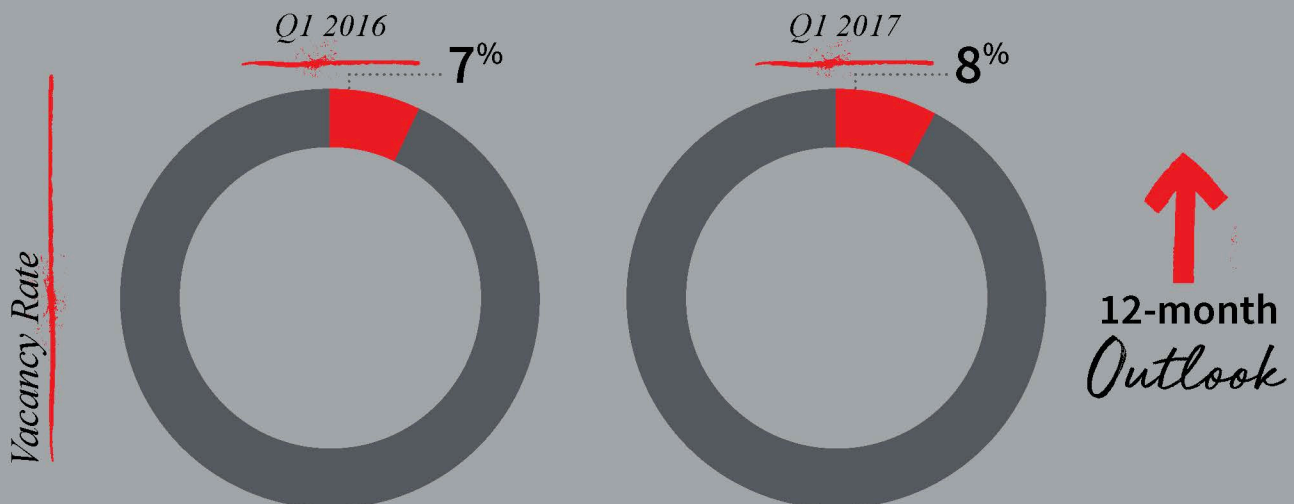
Performance

Rents for super-regional centers have fallen by more than other malls, declining by 10% over the past year. Rents for regional malls have decreased by 5% and rents for community malls have fallen 3% Y-o-Y. Market wide vacancies have increased marginally to reach 8% and occupancies are expected to soften

further over the remainder of 2017 due to increased stock and more selective consumer behaviour.

According to the Saudi Arabian Monetary Authority (SAMA), the total value of 'point of sales transactions' grew 5% (Year to Feb 2017 compared to the same period in

2016), which is lower than in recent years. The purchasing power of national households should remain unaffected by the planned rise of the utility costs as the Citizen Account program provides for direct financial support to compensate for the additional financial burden.



Hotel

Hot Topic

The number of passengers on domestic flights at King Khalid International Airport reached almost 38,000 per day during March 2017. Domestic tourism in the Kingdom is expected to grow significantly over the next 10 years as a result of increased government spending on this sector under the Vision 2030. A number of initiatives have been launched to promote the cultural heritage of the Kingdom with the Saudi Commission for Tourism and National Heritage (SCTH) allocating around SAR 400 million to a tourism related lending program that was launched at the Saudi Travel & Tourism Investment Market (STTIM) in Riyadh in Q1. This annual event gathers investors, operators, governmental entities and consultants and is viewed as one of the most important events in stimulating investment in the tourism industry in the Kingdom.

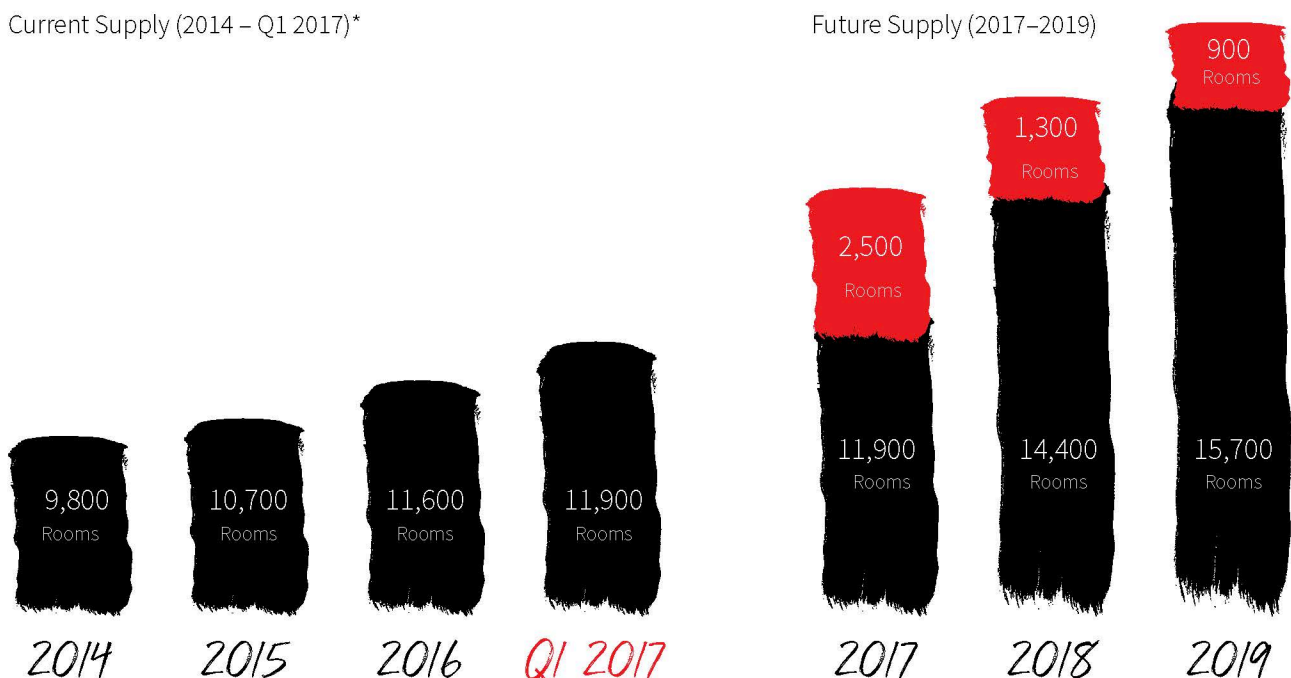
Supply

The first quarter of 2017 saw the opening of the Hyatt Regency hotel and the Best Western Plus Fursan. The Hyatt Regency, a 5 star hotel situated in Al Olaya district, marks the first property of the Hyatt Hotels Corporation in Riyadh. It added 261 rooms to the total stock, currently standing at around 11,900 keys. The Best Western Plus added 66 keys of 4 star quality on the Eastern Ring Rd.

A further 2,500 keys are currently scheduled for delivery in 2017, which should add downward pressure on ADRs. The pipeline for 2017 includes but is not limited to Crowne Plaza ITCC (386 keys), Fairmont Riyadh Business Gate (287 keys), Hilton Riyadh King Saud University (241 keys), Hilton Riyadh Hotel & Residences GOSI (645 keys and 221 serviced apartments), Nobu Hotel (134 keys), and Swiss-Belhotel Riyadh

(126 keys). However, some of the scheduled supply may be delayed to 2018 and beyond, given the historical trend of delays and the softening performance of this sector.

Current Supply (2014 – Q1 2017)*



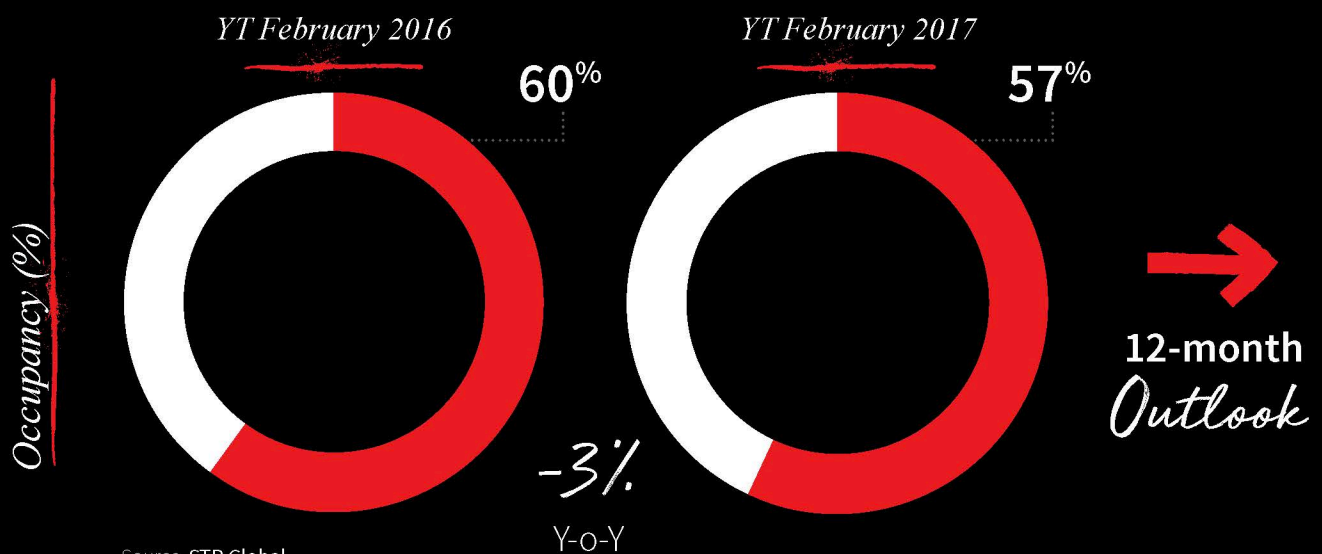
*The increase in historical hotel supply is due to the addition of hotel rooms to JLL's supply basket

Hotel

Performance

Low oil prices have reduced the travel and entertainment budgets of both the public and private sectors. As the Riyadh hospitality market relies heavily upon corporate and government related travel, it has witnessed a continued softening in performance. Occupancy rates have decreased from 60% to 57% YT Feb,

while ADR compressed to USD 193 (a 15% decrease compared to YT Feb 2016) and RevPAR fell by 18% to USD 109.



Source: STR Global



Source: STR Global

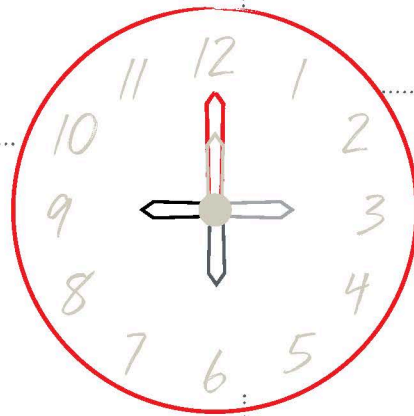
Definitions

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.

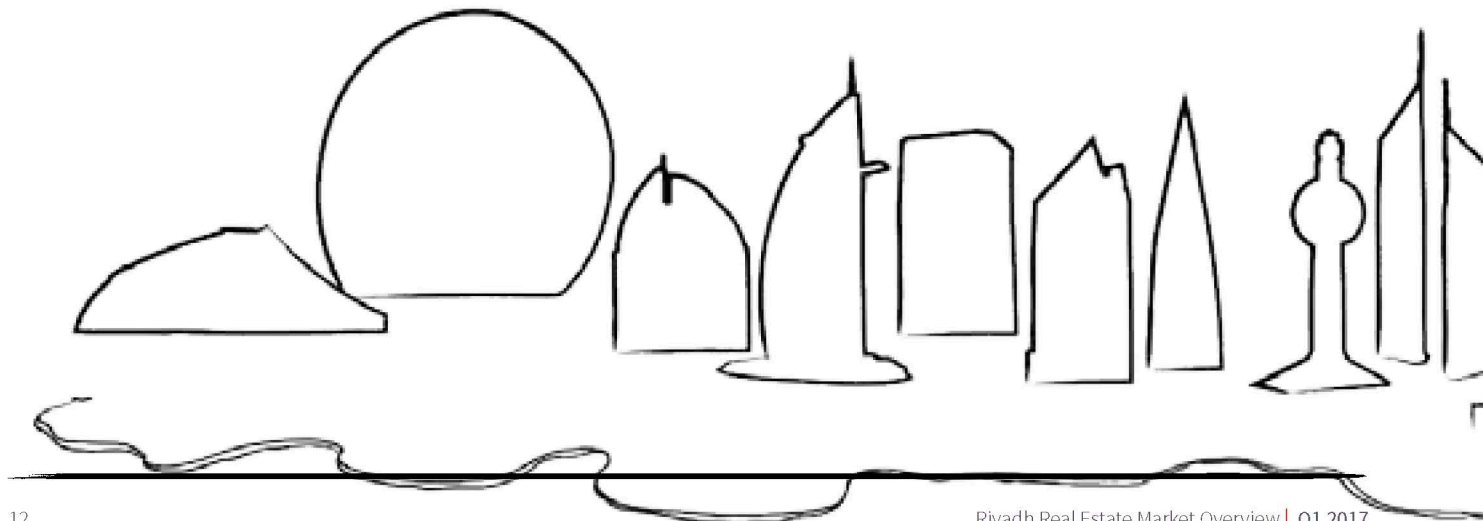


3 O'clock

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

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.

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 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.

Retail

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.

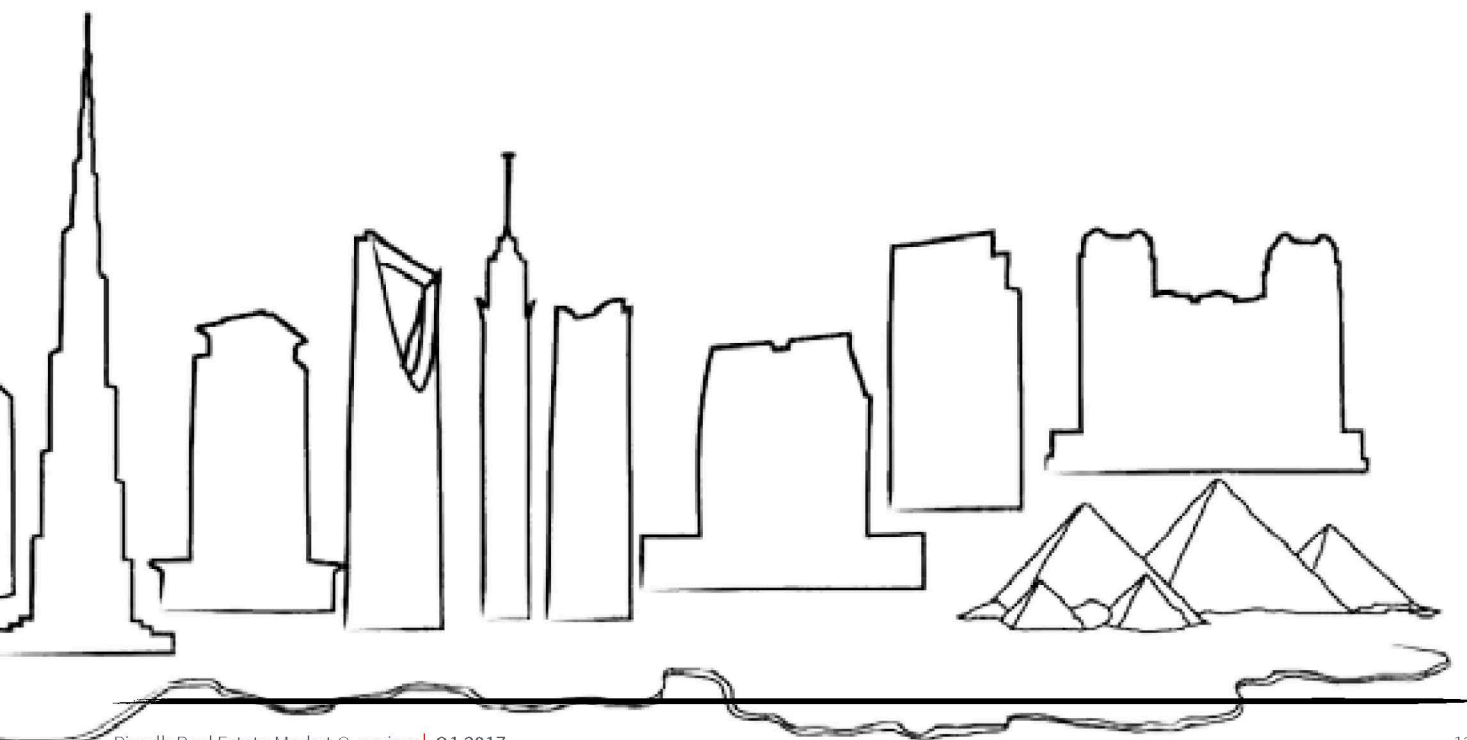
Rent represents the average quoted average rent for line stores in the major shopping malls in Riyadh.

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

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.



Riyadh

Abraj Attawuniya
18th Floor, South Tower
King Fahad Road
PO Box 13547
Riyadh 11414
Saudi Arabia
Tel: +966 11 218 0303
Fax: +966 11 218 0308

For questions and inquiries about the Riyadh real estate market, please contact:

Jamil Ghaznawi

Country Head
KSA
jamil.ghaznawi@eu.jll.com

Dana Williamson

Head Of Tenant Representation
& Corporate Solutions
MENA
dana.williamson@eu.jll.com

Andrew Williamson

Head of Retail
MENA
andrew.williamson@eu.jll.com

Marko Vucinic

Senior Vice President, Acting
Head of Hotels & Hospitality
Group
MEA
marko.vucinic@eu.jll.com

Craig Plumb

Head of Research
MENA
craig.plumb@eu.jll.com

Fayyaz Ahmad

Director, Advisory
KSA
fayyaz.ahmed@eu.jll.com

Mohamd Alkhateeb

Analyst
KSA
mohamd.alkhateeb@eu.jll.com

With other regional offices in:

**Dubai, Abu Dhabi, Cairo, Jeddah, Al Khobar,
Johannesburg, Nairobi, Lagos and Casablanca.**