



KINGDOM OF SAUDI ARABIA

Q3 2017 VALUATIONS NEWSLETTER

REAL ESTATE INVESTMENT TRUSTS (REITS)

We have seen an increase in valuation instructions from capital houses and institutional clients to support the establishment of Real Estate Investment Trust (REITS) in the Kingdom. Often these involve specialised property assets subject to long lease agreements with minimum rent uplifts. Depending on the level of fund management expertise these can comprise one asset class (e.g. industrial, schools, retail, etc.) or a mixed portfolio. In general, geographical and property asset type diversification, length of lease/s, effective tenancy mix and good asset management remain critical.

In addition to the positive impact on the real estate investment market, REITS can also help achieve the goals of the National Transformation Plan (Saudi Vision 2030) through the increase of the real estate sector's contribution to the overall GDP. REITS offer diversification to the general investment offering in the Kingdom and also provide investors much easier access to local real estate.

Regulatory Framework

In the Kingdom of Saudi Arabia a REIT is closed-ended investment company which owns income producing property.

Key points:


- The minimum capital requirement for a REIT in Saudi Arabia is SAR 100 million.
- A minimum of 90% of the REIT's profits have to be distributed to unit holders.
- A maximum of 25% of the REIT's total value can be invested outside Saudi Arabia.
- A minimum of 75% of total asset value should be invested in income-producing property.
- A REIT cannot borrow more than 50% of the Fund's total asset value.
- A maximum of 25% of the REIT's total asset value can be invested in real estate development or redevelopment.
- The minimum required number of investors in a REIT is 50 and 30% of the REIT units must be owned by the public.

For more information please contact:

Alex Arvalis, MRICS

+971 56 1786 678

Alex.Arvalis@me.knightfrank.com

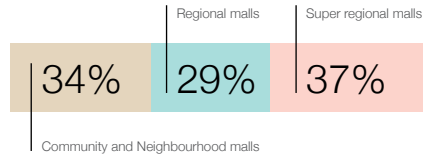


In 2016 the capital value of land and buildings valued by Knight Frank exceeded US\$1.3 trillion globally.

IN FOCUS: JEDDAH RETAIL REVIEW

Supply

FIGURE 1
Current retail GLA



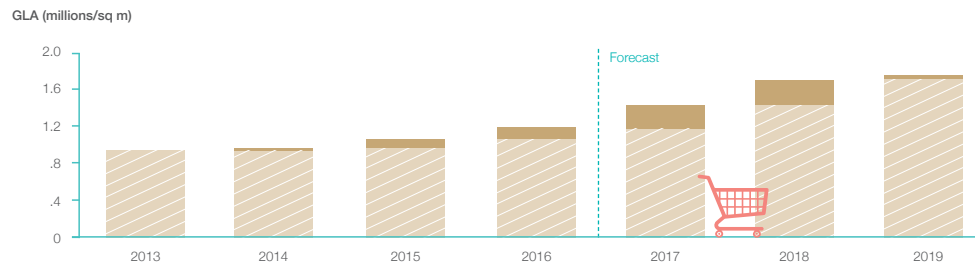
Source: Knight Frank Research

- The Jeddah retail market is expected to expand by a further 585,000 sq m of GLA between 2017 and 2019, based on forthcoming supply which includes: Jawharat Jeddah (2018), Panorama Jeddah (2018), Prince Sultan Oasis (2017) and Jeddah Gate Mall (2017).

Demand

- The retail market has experienced a downturn in recent years; however the food & beverage sector has experienced the slowest decline.
- This is mainly due to a reduction in consumer income and hence a shift in spending patterns.
- It is estimated that between 2017 and 2020 income will rise and retail expenditure will surpass that of 2014. (Source: BMI)

FIGURE 3
Jeddah retail supply, 2013-2019



Source: Middle East Council of Shopping Centres, Knight Frank Research

Existing supply Additional supply

IN FOCUS: RIYADH RETAIL REVIEW

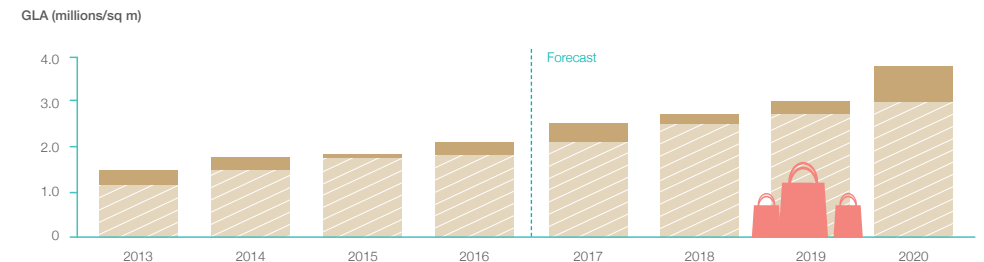
Supply

- As of 2016, Riyadh's retail supply stood at approximately 2.1 million sq m of GLA, with the majority of stock introduced in 2013.
- Total retail supply in Riyadh is expected to almost double over the next four years, growing to 3.8 million sq m of GLA by 2020. This will see the addition of 807,000 sq m of retail space in the form of The Avenues Riyadh, Al Diriyah Festival City Mall and City Centre Ishbiliyah.
- Whilst the majority of Riyadh's existing retail stock is clustered around King Fahd highway, expansion is mirroring the city's development, with future stock being planned in the North and North West of the city.

Demand

- Currently undersupplied by almost 1 million sq m of GLA, retail demand is expected to continue to outstrip supply between the periods 2016 to 2020.
- In 2020, the gap is expected to close from the current 1 million sq m of GLA to 200,000 sq m of GLA.
- It is estimated that between 2017 and 2020 income will rise and retail expenditure will surpass that of 2014, which bodes well for the retail market.

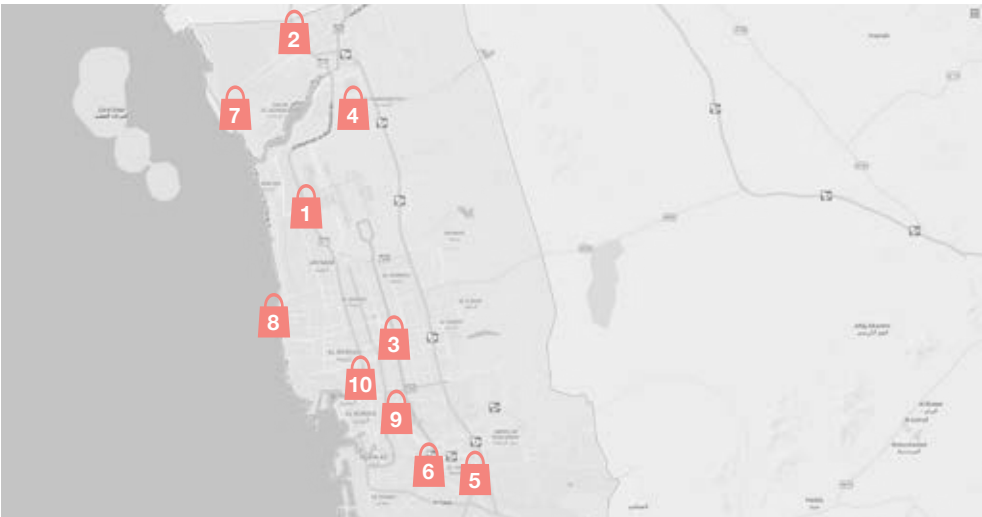
FIGURE 4
Riyadh retail supply, 2010-2020



Source: Middle East Council of Shopping Centres, Knight Frank Research

Existing supply Additional supply

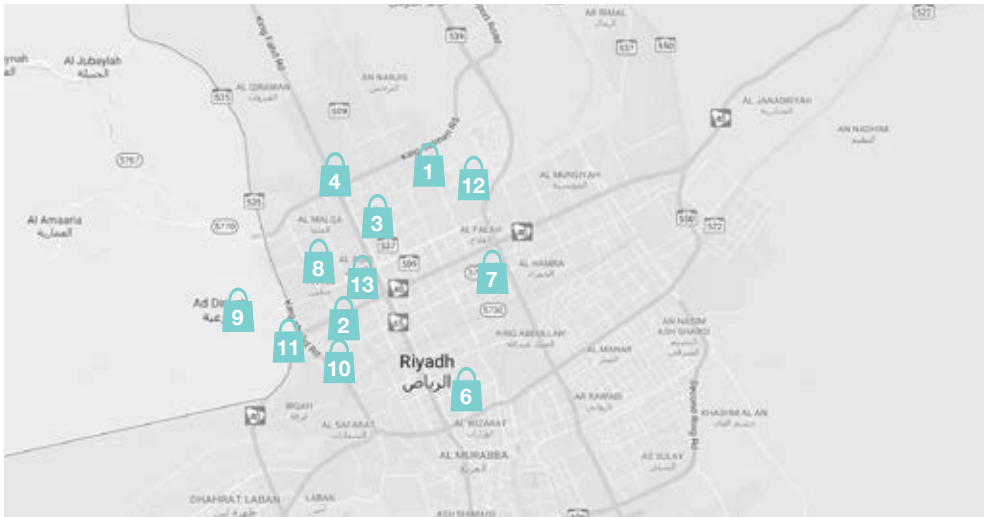
FIGURE 5
Jeddah future retail map



1	Jawhart Jeddah	6	Jeddah Gate Mall
2	Panorama Mall	7	Jeddah Economic City Retail
3	Jeddah Park	8	Lamar Tower
4	Prince Sultan Oasis	9	Oasis Mall
5	Al Qalam Mall	10	Galleria Commercial Tower

Source: Knight Frank Research

FIGURE 6
Riyadh future retail map



1	Mall of Saudi	7	Nakheel Extension
2	Riyadh Walk Mall	8	Jardin Mall (Riyadh Park)
3	The Avenues Mall	9	Al Diriyah Festival City Mall
4	University Boulevard	10	Al Nakheel Centro Mall
5	City Centre Ishbiliyah	11	Al Thager Mall
6	Malaz Mall	12	Mall of Arabia

Source: Knight Frank Research



Update

The Kingdom of Saudi Arabia (KSA) has historically required at least partial KSA ownership of retail and wholesale businesses. Previously, the non KSA ownership was capped at 75%. The Saudi Arabian General Investment Authority (SAGIA) announced in September

2015 that non-KSA nationals would be permitted to hold 100% ownership. On 13 June 2016, the Saudi Council of Ministers (the Cabinet of the KSA) enacted the decision made in September 2015 by SAGIA and announced conditions relating to the granting

of licenses for 100% ownership of retail and wholesale operations by non-KSA nationals. The decision is in line with the Vision 2030 and the National Transformation Program (NTP).



GLOBAL BRIEFING

For the latest news, views and analysis
on the world of prime property, visit
KnightFrankblog.com/global-briefing

COUNTRY HEAD

Stefan Burch

Partner, *MRICS*

+966 53 0893 297

StefanBurch@me.knightfrank.com

VALUATIONS

Stephen Flanagan

Partner, *MRICS*

+966 53 0893 297

Stephen.Flanagan@me.knightfrank.com

Alexandros Arvalis

Associate Partner, *MRICS*

+966 53 0893 297

Alex.Arvalis@me.knightfrank.com

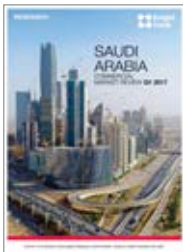
Saoud Sulaymani

Senior Consultant

+966 53 0893 297

Saoud.Sulaymani@me.knightfrank.com

RESEARCH AND VALUATION PUBLICATIONS



Saudi Arabia Commercial
Market Review Q1 2017



Global Valuations



Hospitality Valuations



Project Monitoring



Important Notice

© Knight Frank LLP 2017 - This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears.

Knight Frank Middle East Limited (Dubai Branch): Prime Star International Real Estate Brokers (PSIREB RERA ORN: 11964 trading as Knight Frank with registration number 653414. Our registered office is: 5th Floor, Building 2, Emaar Business Park, PO Box 487207, Dubai, UAE.

Knight Frank UAE Limited - Abu Dhabi is a foreign branch, with registration number 1189910. Our registered office is Unit 103, West Tower, Abu Dhabi Trade Center, Abu Dhabi, PO Box 105374, Abu Dhabi, UAE.

Knight Frank Research Reports are available
at KnightFrank.com/Research