Knight Frank

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.

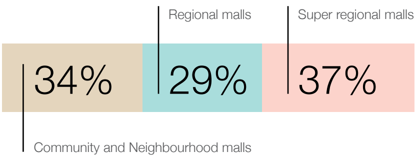
For more information please contact:

Alex Arvalis, *MRICS*
+971 56 1786 678
Alex.Arvalis@me.knightfrank.com

IN FOCUS: JEDDAH RETAIL REVIEW

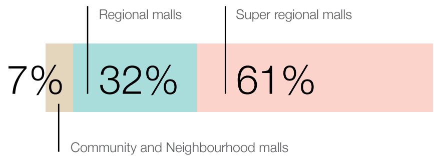
Supply

FIGURE 1
Current retail GLA



Source: Knight Frank Research

FIGURE 2
Future supply GLA



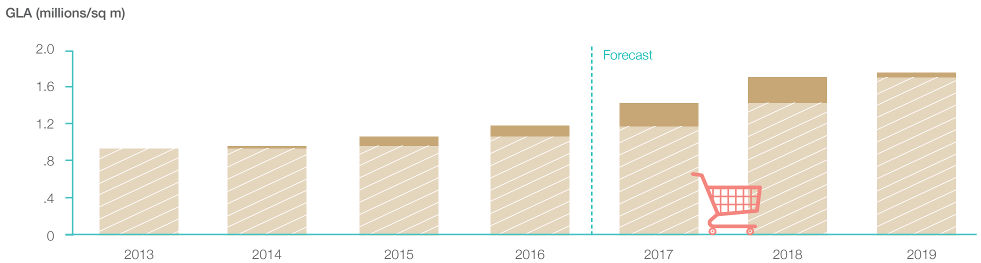
Source: Knight Frank Research

- 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 experience a downturn in recent years; however the food & beverage sector has experience 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

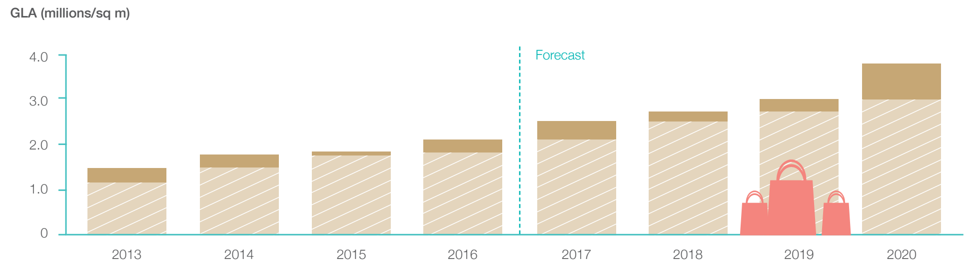
Supply

- 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

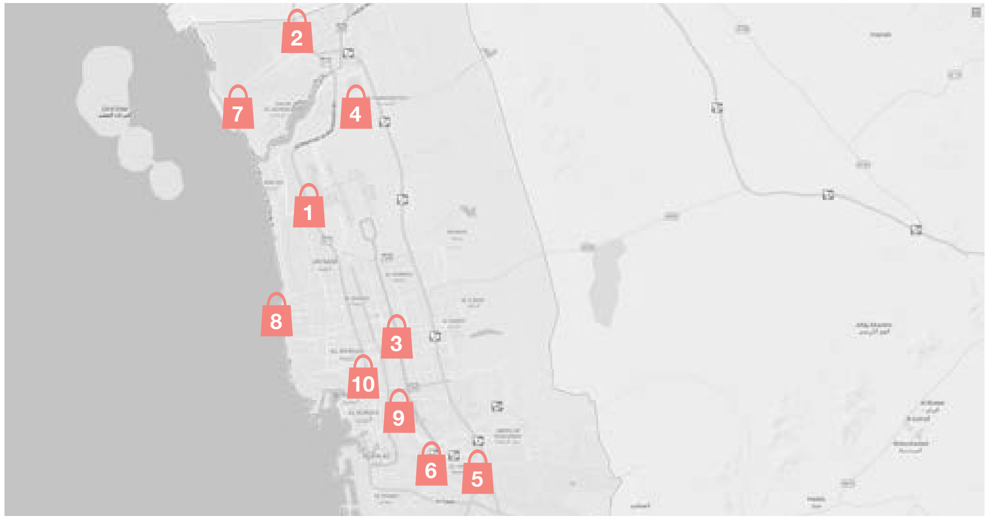


Source: Middle East Council of Shopping Centres, Knight Frank Research

Existing supply Additional supply

FIGURE 5

Jeddah future retail map



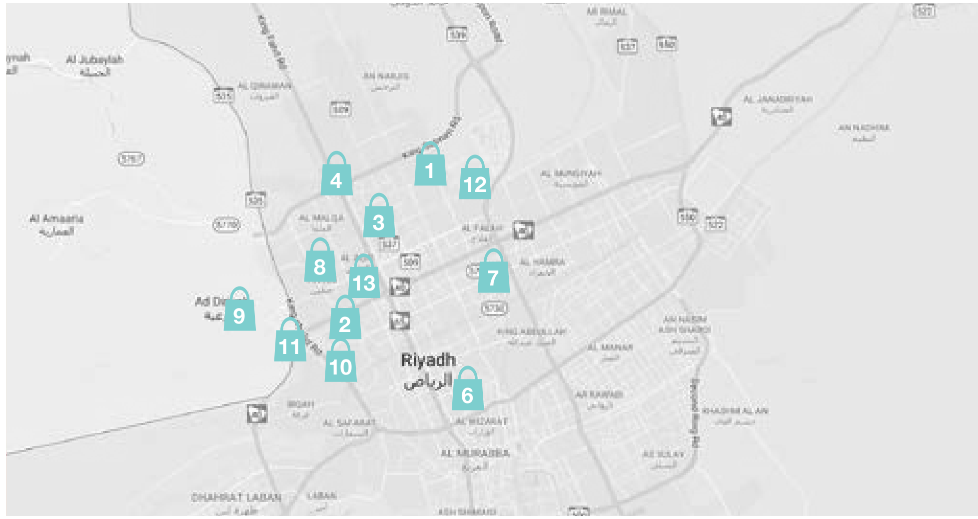
1	Jawhart Jeddah
2	Panorama Mall
3	Jeddah Park
4	Prince Sultan Oasis
5	Al Qalam Mall

6	Jeddah Gate Mall
7	Jeddah Economic City Retail
8	Lamar Tower
9	Oasis Mall
10	Galleria Commercial Tower

Source: Knight Frank Research

FIGURE 6

Riyadh future retail map



1	Mall of Saudi
2	Riyadh Walk Mall
3	The Avenues Mall
4	University Boulevard
5	City Centre Ishbiliyah
6	Malaz Mall

7	Nakheel Extension
8	Jardin Mall (Riyadh Park)
9	Al Diriyah Festival City Mall
10	Al Nakheel Centro Mall
11	Al Thager 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).

COUNTRY HEAD

Stefan Burch
Partner, *MRICS*
+966 53 0893 297
StefanBurch@me.knightfrank.com

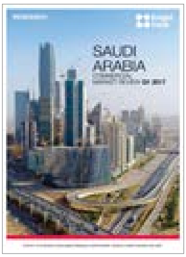
VALUATIONS

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

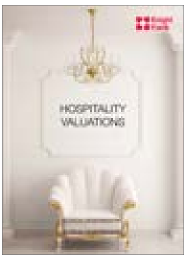
Saoud Sulaymani
Senior Consultant
+966 53 0893 297
Saoud.Sulaymani@me.knightfrank.com

RESEARCH AND VALUATION PUBLICATIONS

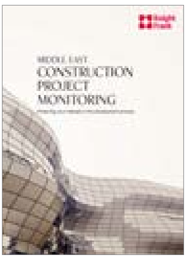


Saudi Arabia Commercial Market Review Q1 2017

Global Valuations



Hospitality Valuations



Project Monitoring

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

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