

JLL Research Report

The Jeddah Real Estate Market

Q1 2019

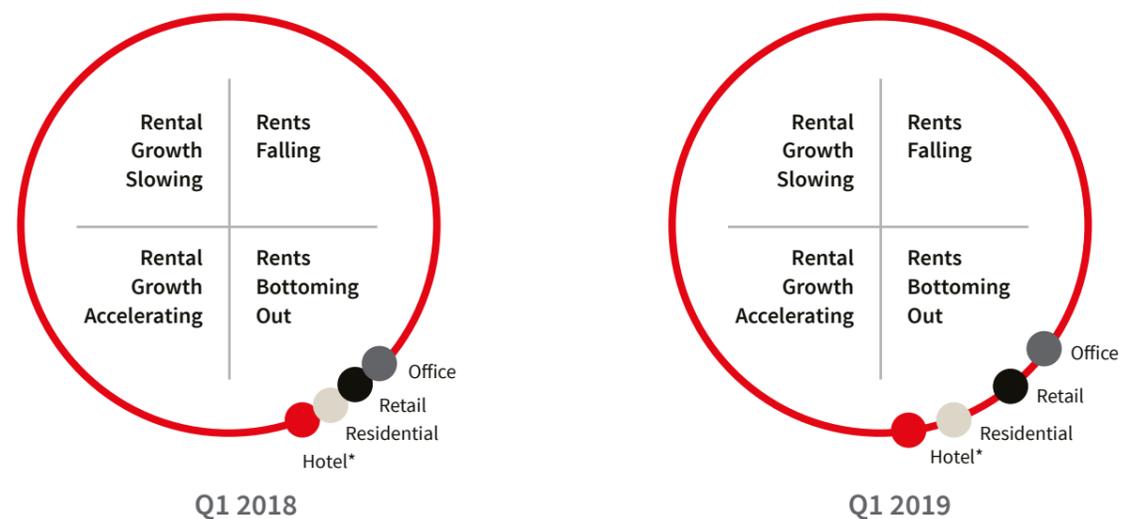
Jeddah

Jeddah

Market Summary

The overall performance of Jeddah's real estate market remained soft in Q1 2019. **Office** rents continued to soften as vacancy rates increased on the back of a slowdown in commercial activity. Similarly, **residential** rents and sale prices declined on an annual basis. However, the rate of decline appears to have slowed down over the quarter, indicating the market may be headed towards the bottom of its cycle. In the **retail** sector, despite challenges from the growth of e-commerce, centres managed to maintain their rental values particularly the better-quality super regional malls with a mix of entertainment, F&B and international retail. However as more stock is scheduled to enter the market, we expect rents to face downward pressure. In turn, **hotels** maintained their occupancy rates as improvements to Jeddah's infrastructure continue to ease business and religious travel. However average daily room rates and revenue per available room registered noticeable declines.

Jeddah Prime Rental Clock



* Hotel clock reflects the movement of RevPAR (Revenue per available room: ADR * occupancy rate)

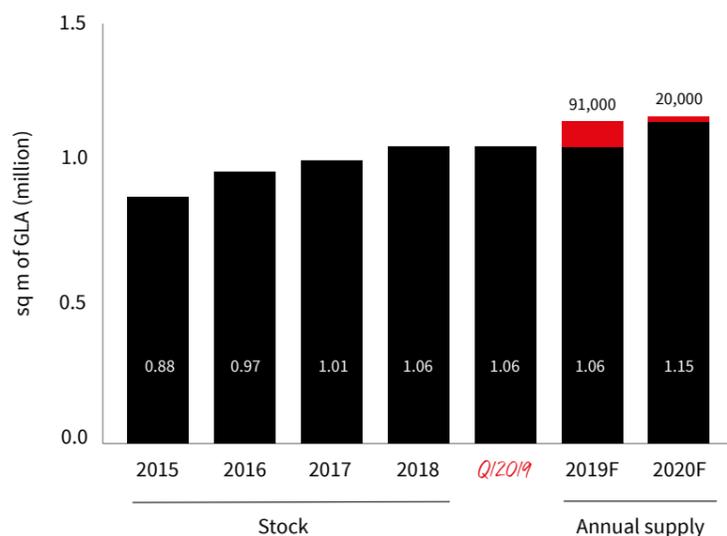
Note: The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle. These positions are not necessarily representative of investment or development market prospects. It is important to recognize that markets move at different speeds depending 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

Supply

Demand for office space remained subdued in Q1 2019 on the back of changing economic conditions and global business uncertainties. As a result, corporate activity remained limited and no noticeable expansions took place. Q1 2019 saw the delivery of one office building adding approximately 3,000 sq m GLA to the pipeline. This increased the total office stock in Jeddah to 1.1 million sq m of GLA.

An additional 91,000 sq m of stock is expected to handover in the remainder of 2019, however we remain cautious of the delivery of projects within their specified timeframe and can expect further delays. Much of the anticipated supply is likely to be of quality Grade A office space with a focus on design, facilities, high-safety measures, and sustainability. As a large young Saudi population enters the workforce, demand is also expected to shift to smaller, collaborative, and flexible office spaces which in turn will reduce corporates' capital expenditures.

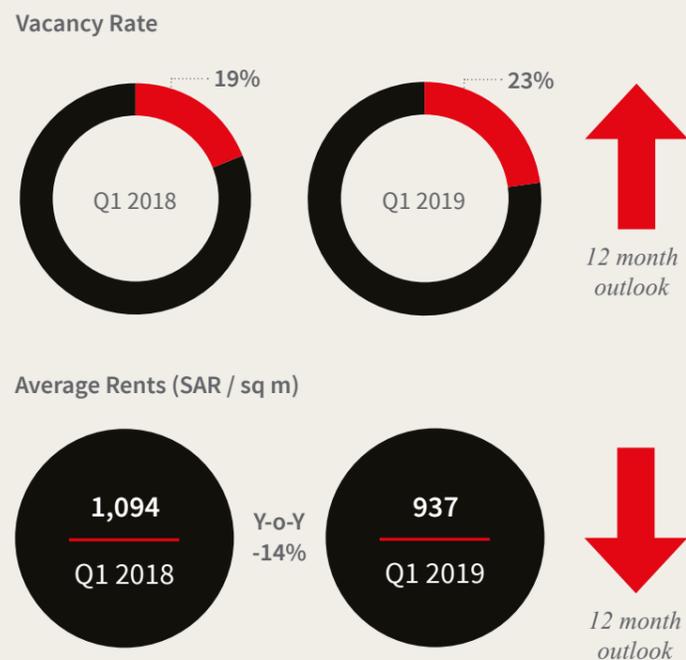


Source: JLL

Performance

Given limited demand, rents in commercial offices across Jeddah remained under downward pressure. Average Grade A rents dropped 15% to reach SAR 1,077 per sq m per annum, while Average Grade B rents dropped 13% to average SAR 771 per sq m per annum. In turn, vacancy rates for offices across the spectrum in Jeddah registered 23%, a 3.5 b. p increase Y-o-Y.

In the short-to-medium term, we expect rents to continue their downward trajectory as more supply is delivered to the market. In the long-run and as business activity picks up we can expect to see office rents regain some momentum, particularly for quality grade office buildings. In terms of location, office buildings along the primary Commercial Business District areas have been and are likely to remain popular. However, emerging areas with more advanced connectivity and amenities are expected to gain prominence and achieve a premium on office rates.



Source: JLL

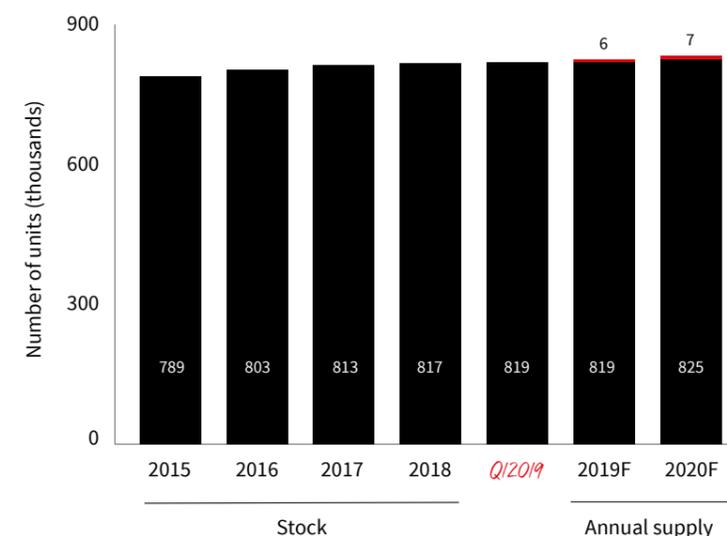
Residential

Supply

Q1 2019 saw the delivery of approximately 1,660 stand-alone units, bringing the total supply of residential units to 819,000. The first quarter saw many developers delay the delivery of their projects as demand remained subdued.

Around 6,000 and 7,000 units are expected to handover in 2019 and 2020 respectively, mostly in the mid and high-rise segments of the market. These include Emaar Residences 'Abraj Al Hilal 3' within Jeddah Gate, Lamar Towers and Al Tawheed Tower along the Corniche, and Manazil Al Safa. This new supply is expected to be absorbed by the changing demographics in Jeddah who are now looking for quality residential products supported by developed amenities and facilities.

Looking ahead, the next 2 to 3 years are expected to see continued supply of fully-integrated residential developments. The market is also expected to see the delivery of villa developments, namely Lilia Villas and Al Khaldiyyah Villas, as developers continue to cater to the local population.



Source: JLL

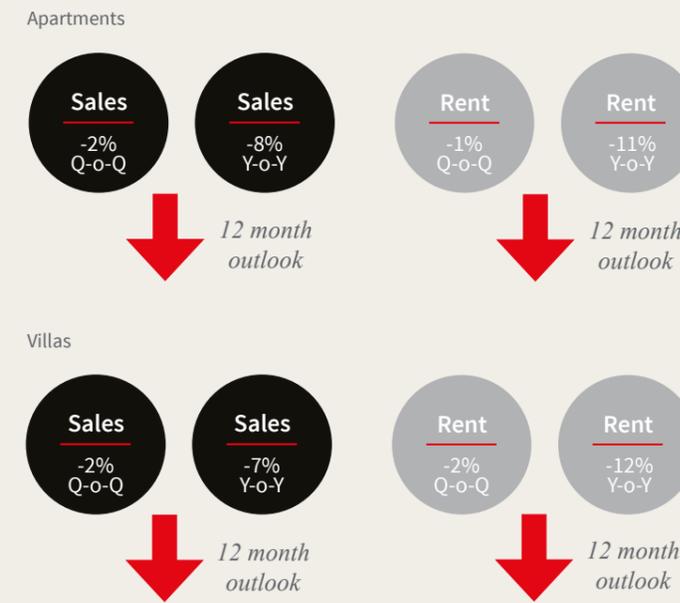
Performance

Residential performance remained soft in Q1 2019 due to the slowdown in economic activity. The lack of affordability and limited access to financing remains a key determinant of demand.

As a result, rents registered annual declines of 11% for apartments and 12% for villas. Meanwhile, sale prices for apartments and villas continued to soften by 8% and 7% respectively Y-o-Y.

The next 12 months are likely to see sale prices and rental rates remain under pressure and vacancies increase as more supply is expected to enter the market. While the current dynamics are expected to prevail in the short term, we remain positive in our long-term outlook as demand is expected to pick up on the back of government initiatives to boost home ownership rates.

Residential rents and sale prices



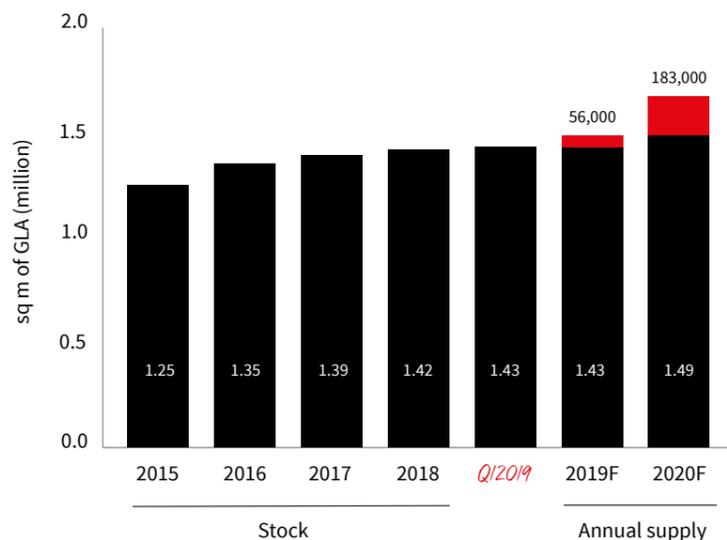
Source: JLL

Retail

Supply

Q1 2019 witnessed the opening of Jeddah's first cinema, operated by Vox Cinemas, within Red Sea Mall's second expansion adding around 8,000 sq m of GLA to the market. This brings the total retail stock to 1.43 million sq m. However the first quarter saw retail projects being delayed or put on hold as the retail environment locally and globally is undergoing challenges from shifting tastes and habits to competition from e-commerce.

The market is expected to witness an additional 56,000 sq m and 183,000 sq m of retail GLA in 2019 and 2020 respectively, with neighbourhood and community centres dominating upcoming supply to cater to Jeddah's resident population. In promoting culture and entertainment, the market is also expected to see the delivery of several theatres incorporated within existing or future shopping malls.

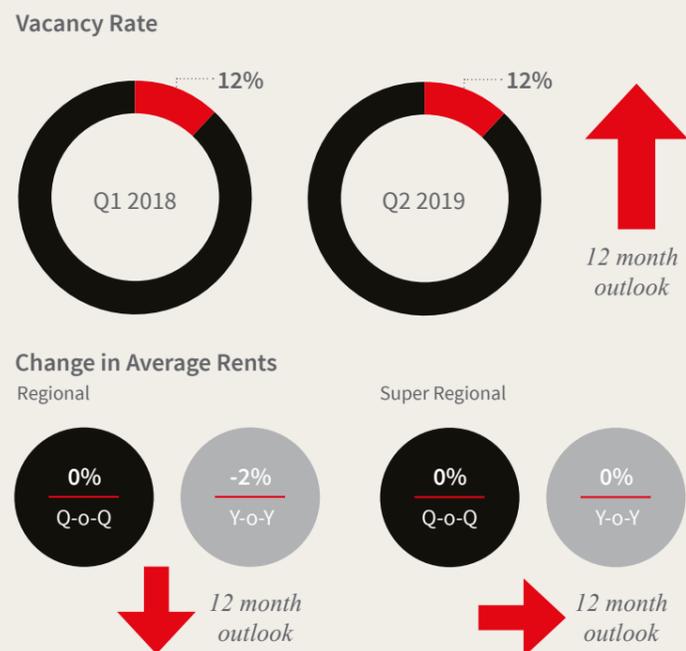


Source: JLL

Performance

Average retail rents for regional malls registered annual declines of 2% in Q1 2019, while super regional centres reported no change. As landlords continued to offer yearly leasing incentives to retain tenants, market wide vacancies remained stable year-on-year. As the pipeline of retail stock is expected to increase over the next 12 months, performance is likely to face downward pressure, with rents dropping further and vacancies increasing.

Pressure is also likely to mount from the growth of e-commerce in Saudi Arabia. According to data from Saudi Arabia's Communications and Information Technology Commission (CITC), the percentage of online users who engaged in online shopping in 2018 increased to 50%, up from 48% in 2017 and 37% in 2016. This is expected to result in mall operators rethinking their layouts to make room for entertainment outlets and offer more international F&B and fashion concepts that cater to the shifting tastes of Jeddah's young demographic.



Source: JLL

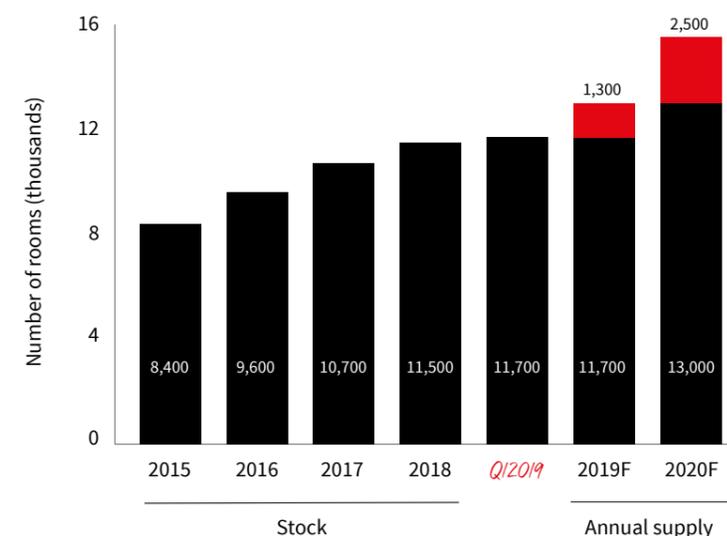
Hotel

Supply

Two upscale branded hotels were handed over in Q1 2019: Movenpick Hotel Tahlia Jeddah and Hyatt House Jeddah Sari Street, adding approximately 160 and 100 keys respectively. These properties bring the total supply of quality hotel keys in Jeddah to 11,700.

A further 3,800 keys are expected enter the market by 2020. Scheduled completions include Ibis and Adagio on Al Malik Road, the new Jeddah Marriot in Al Bawadi, Crowne Plaza Jeddah, and two Choice hotels brands. While some properties are at an advanced stage of construction, we may expect some delays as demand remains soft.

Looking ahead, demand for the growing leisure and entertainment sector will likely see Jeddah witness new operators entering the market. Furthermore, the progression of giga-projects such as the Red Sea Project, comprising 14 luxury hotels in its first phase, will boost and diversify demand in the hospitality market.

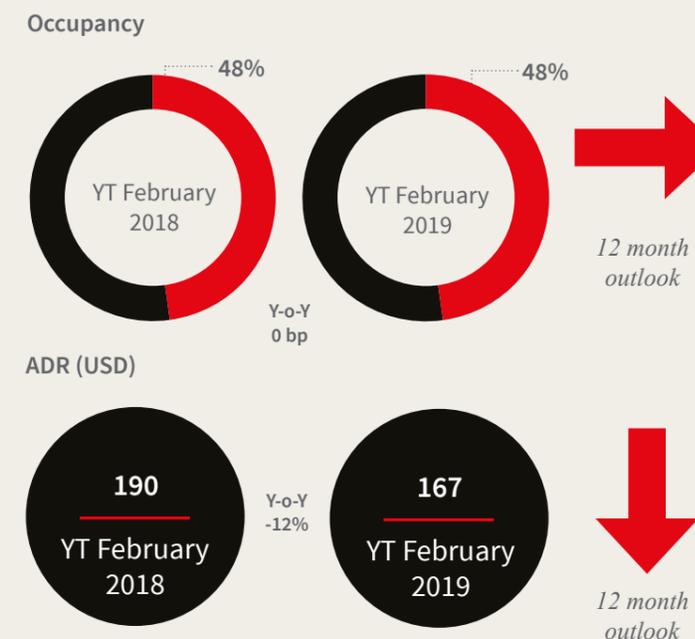


Source: JLL

Performance

Performance in Jeddah's hotel market remained subdued in the YT February 2019. While occupancy rates remained stable at 48%, average daily room rates (ADR's) dropped 12% year-on-year. In turn, revenue per available room (RevPAR's) dropped 10% and reached USD 80 over the same period. Hotel performance is expected to soften further over the remainder of the year as more keys are expected to be delivered to the market.

However, our mid-to-long term view of Jeddah's hotel market remains positive as the city is set to benefit from the expansion works to the Grand Mosque in Makkah, and the improvement in infrastructure offerings. Already in 2018, the General Authority for Civil Aviation (GACA) reported that King Abdulaziz International Airport (KAIA) in Jeddah recorded the highest footfall in 2018, with 35.8 million passengers flying through, an 8% increase compared to 2017 figures. Once fully operational, KAIA is expected to draw further tourists and religious pilgrims, which is expected to translate into further demand for hotels.



Source: STR Global

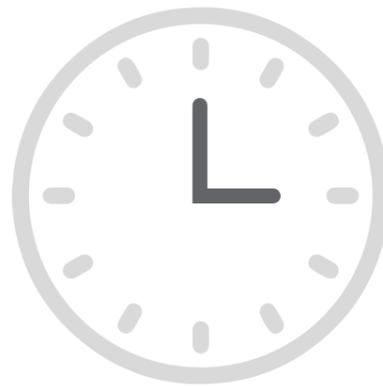
Property Clock

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 downward.

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.

Definitions

Definitions

Future Supply

- JLL estimates of future supply are updated quarterly, based on physical inspections and discussions with developers. We remain cautious of the ability of some projects to meet their stated completion deadlines, with significant delays in project delivery leading to a low materialization rate.

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 in Jeddah.
- 'Completed' supply refers to projects / buildings that are handed over for immediate occupation.
- Residential performance is based on two separate baskets, one for rental rates and the other for sale prices of villas and apartments. The two baskets cover properties in selected locations across the city.

Office

- The supply data is based on our quarterly survey of Grade A and B office space located in certain areas of each city.
- In Jeddah, the areas covered include: Prince Sultan, Tahlia, Al-Malek, Ibrahim Al Jaffali, Amanah Street, Madinah, King Abdullah and Rowdah Streets.
- 'Completed' supply refers to projects / buildings that are handed over for immediate occupation.
- Office performance is based on the average of Prime, Grade A, and Upper Grade B office space within a basket tracked by JLL.
- Office vacancy rates are based on the average of estimates for a basket of buildings tracked by the Offices and Business space team.

Retail

- Classification of Retail Centres is based upon the ULI definition and based on their Gross Leasable Area (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
 - Neighborhood Malls have a GLA of 3,000 -10,000 sq m
 - Convenience Malls have a GLA of less than 3,000 sq m
- Retail supply relates to the Gross Lettable Area (GLA) within retail malls tracked by JLL.
- Retail performance is based on the quoted average rents for line shops for the major shopping malls in Jeddah.
- Retail vacancy rates are based on the average of estimates for a basket of line shops in retail centres, tracked by the JLL Retail team.

Hotels

- Hotel room supply is based on existing supply figures provided by the Saudi Commission for Tourism and Antiquities as well as future hotel development data tracked by JLL the Hotels team.
- 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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