الرياض المالية
riyad capital

الرياض ريت
riyad reit

Annual Report

December 2017

About the REIT Manager

Riyad Capital, as a pioneer in real estate investment, has continuously pushed the boundaries of product innovation. From developing the tallest residential tower in the country, to launching the first 20-year open-ended real estate income fund, Riyad Capital viewed real estate as a core asset class with tremendous opportunities and potential. The launch of Riyad REIT – as the first publicly listed REIT on Tadawul – paved the way for the establishment of the institutional landscape for the property markets.

Riyad Capital is a Saudi company, licensed by the Saudi Capital Market Authority to provide securities services such as, principal, agent, underwriting, arranging, advising, and custody.

Believing in the importance of managing wealth and planning for future financial needs, Riyad Capital provides a wide range of investment products and solutions through a team of experts in investment and financial planning, assets management and corporate investment banking.

Riyad REIT is a closed-ended Shariah-compliant real estate investment traded fund. The REIT operates in accordance with Real Estate Investment Funds Regulations and REIT Instructions issued by the CMA.

The primary investment objective of the REIT is to provide Unitholders with current income by investing in income producing real estate assets in Saudi Arabia. The Fund Manager is targeting to distribute to Unitholders an annual cash dividend of no less than 90% of the REIT’s Net Profits. It is expected that the amount of such annual dividend will increase over the REIT’s term as the number of income-producing properties in the REIT’s portfolio increases.

For more information on the investment risks involved in the fund, please read the Fund Terms & Conditions.

Executive Summary:

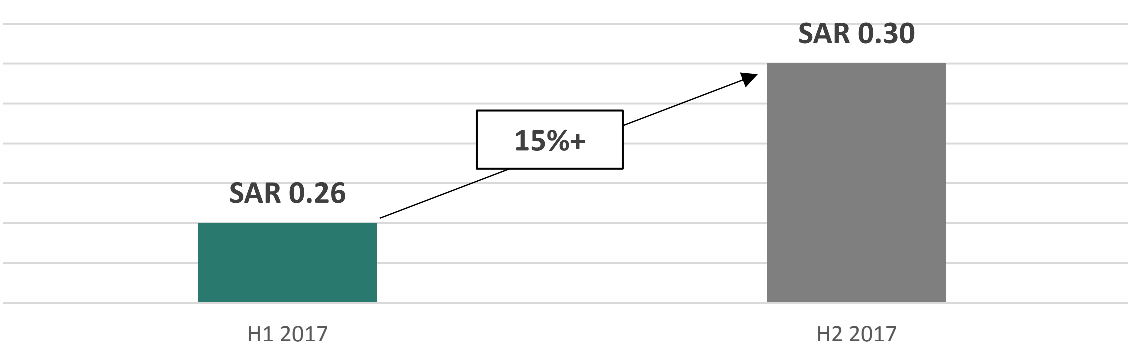
As of the date of this report, Riyad REIT has acquired seven (7) properties and has invested in one development. The acquired properties offer a diversified portfolio of income producing assets located in Riyadh, Jeddah, and Dammam. The portfolio is complemented by the development of an internationally branded serviced apartment in Khobar which is expected to be completed during 2018. Riyad REIT's diversified approach has positioned the portfolio to take advantage of a broad array of tenancy, geographic locations, and industry mix. In addition, Riyad REIT has exposure to both rental income and operational income, limiting high concentration towards large tenants that could disrupt cash flows.

Since listing on November 16, 2016, Riyad REIT has acquired two strategic assets: The Residence in Hiteen, and the Vivienda (located between Takhassusi Road and Prince Turki Ibn Abdulaziz Al Awwal Road). The Residence is a mixed-use property with a commercial component comprised of high-end food & beverage (F&B), upscale retail, and office suites, and a hotel component managed under Boudl's Braira Hotel Villas brand. The commercial component is under mid to long-term rental agreements, while the hotel component offers cash flows that benefits from operational revenues. The Vivienda property is under a long-term 15-year lease to Vivienda Hotels & Resorts with escalation every 5 years. Both properties target the niche villa hotel market – which take advantage from positive supply-demand profiles.

Riyad REIT has established a track record of dividend payments since listing with a SAR 0.26 per share dividend distribution for the first half of 2017 followed by a SAR 0.30 per share dividend distribution for the second half of 2017. The approximately 15% increase in dividends is reflective of stabilizing occupancy on various portfolio assets, and additional acquisitions that enhanced the portfolio's funds from operations (FFO).

Moving forward, Riyad REIT will target to continue improving FFO through further acquisitions, the opening of Braira Hotel Villas at the Residence and of Ascott Khobar Al Corniche in the latter half of the year, and continued stabilization of existing properties. The opening of the two new hotel operating properties is expected to elevate FFO through the generation of operational income from hospitality assets.

Dividend Per Share



Fund Performance:

	December 2017	December 2016
Fund Size	SAR 719,986,000	SAR 500,282,998
Net Asset Value	SAR 525,062,630	SAR 500,282,998
Net Asset Value per unit	SAR 10.50	SAR 10.01
Issued units	50,000,000	50,000,000
Distribution of income per Unit	SAR 0.56	SAR 0.50
Expense ratio (Fund level)	1.01%	1.27%
Annual return	SAR 38,521,974	SAR 23,668,833

Highest NAV per unit was in 2017 (SR 10.5), and lowest NAV per Unit was in 2016 (SR 10.01)

Third parties fees and commission:

	December 2017	December 2016
Fund Management Fee	7,181,616	6,318,143
Custodian Fee	100,000	100,000
Transaction Fee	1,776,207	2,830,000
Property Management Fee	624,503	1,044,854
Maintenance , Utilities, Security charge	955,040	470,889
Legal Expense	406,885	372,275
Other	256,606	299,593
Total Fee ratio	1.41%	2.27%

*Amounts in SAR & rounded

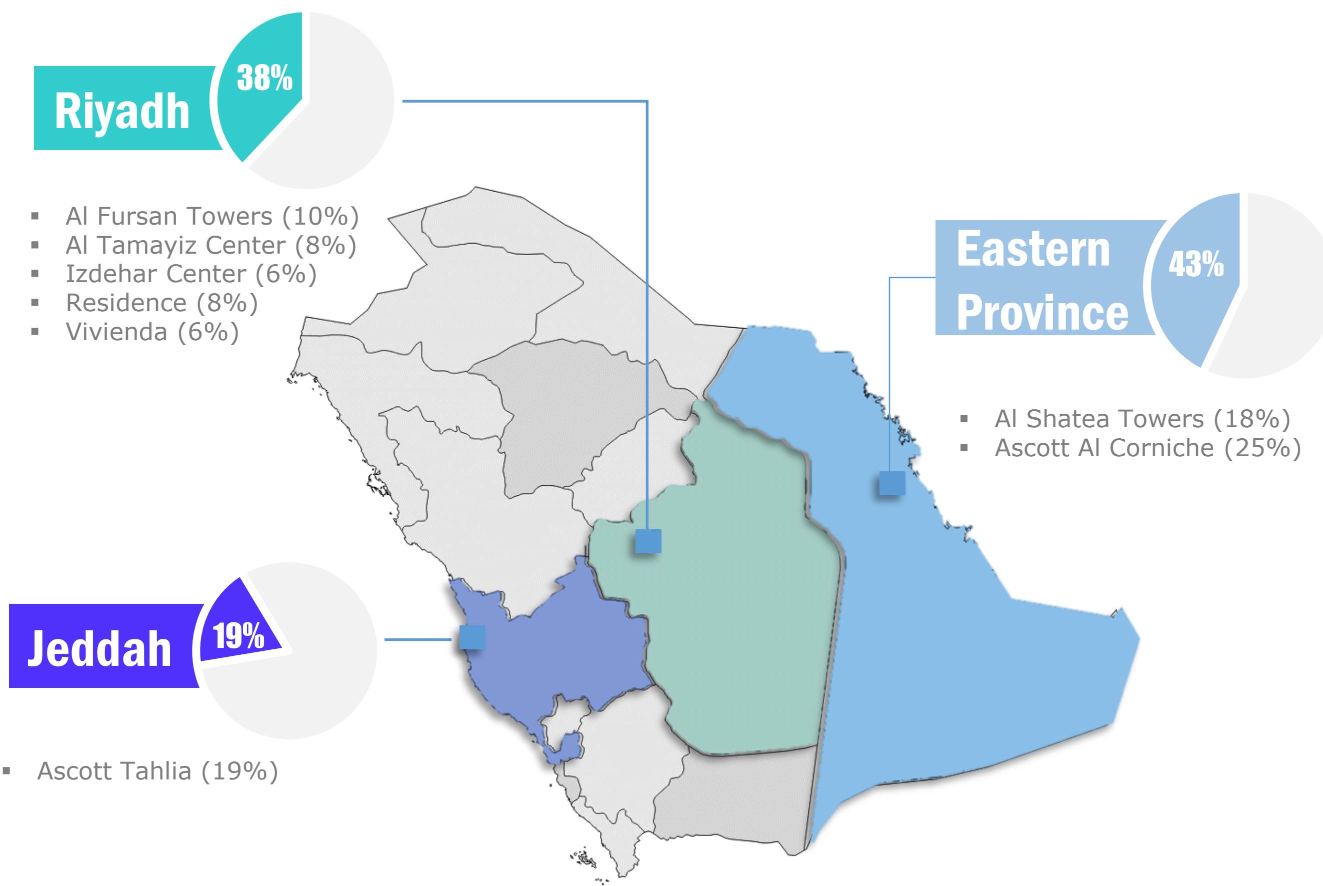
SUMMARY OF BOARD MEETINGS:

The Board of Directors of the Fund met three times during 2017 and discussed the following topics:

- Periodic updates on the properties owned by the Fund
- Progress of the development project (Ascott Khobar) including the time table and expected completion date
- Commitment and compliance with regulations to achieve strategic goals and optimize opportunities
- Approval of 2016's financial statements
- Update of performance of newly acquired properties (The Residence and Vivienda Mousa bin Nusair)
- Approval of the fund's capital increase
- Update on new acquisitions under MOUs (Kempinski, Riyadh), (Omnia Center, Jeddah), (Saudi Electronic University, Riyadh).
- Discussing the properties' insurance policies of several companies
- Updates on properties' periodic valuations
- Approval of dividend distribution for the first half of 2017

Portfolio's Geographic Distribution

The following graph reflects Riyad REIT's geographic distribution based on Net Leasable Area (NLA). The portfolio exhibits a well balanced distribution among Saudi Arabia's primary metropolitan areas.



Allocation is based on NLA.

Portfolio Highlights

Portfolio acquisitions

7

Portfolio developments

1

Total Assets

8

Total acquisition costs

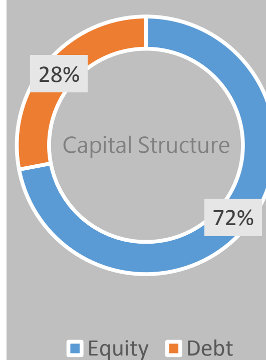
SAR 600mn

Total development costs

SAR 90mn

Gross Assets

SAR 690mn



Net leasable area (acquisitions)

52,600 m²

Net leasable area (development)

25,000 m²

Number of tenants

90 tenants

Portfolio occupancy

94%

WAULT

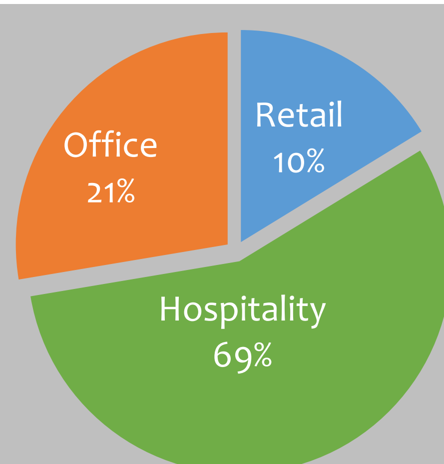
7.3 years

Total Revenue

SAR 38.5mn

Distribution of Portfolio (per NLA) **

- The chart only includes net leasable area (NLA) distribution of acquisitions allocated by use of space.
- The hospitality component is based on a commercial lease to hotel operators, and direct hotel operations.
- The Khobar development will be a 5-star serviced-apartment (hospitality) property offering over 25,000 m2 of BUA.

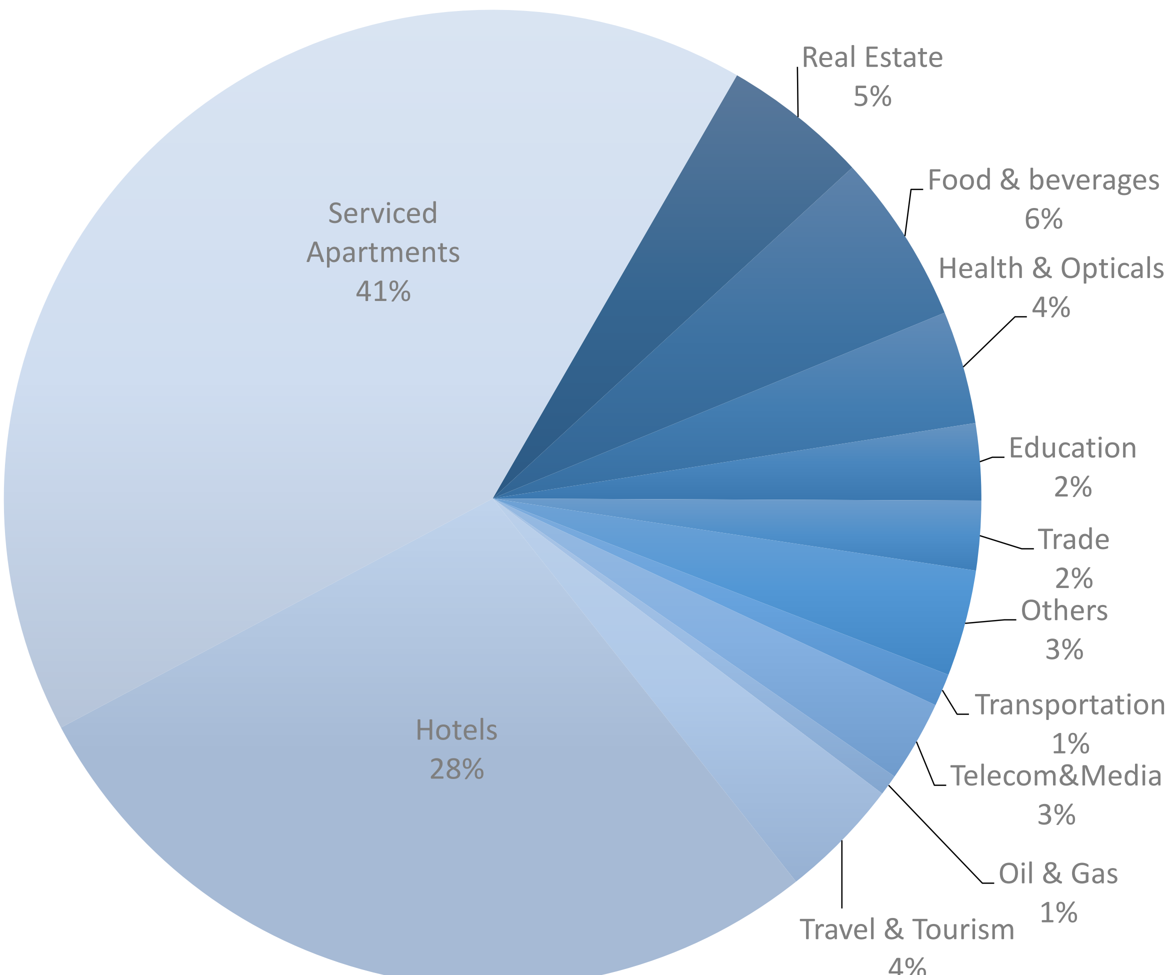


** Includes development

*Amounts in SAR & rounded

Diversified Trade Mix

- Riyad REIT has established a diversified tenancy base that taps into a broad range of business sectors, offering investors stabilized cash flows generated from multiple industries.
- In developing the REIT's large tenancy base, the portfolio also assembled a range of well-recognized brands. These types of brands should offer stability and are complimentary to the well-diversified tenant profile backed by a large number of businesses and sectors.
- Hospitality tenants are a mixture of both long-term corporate leases as well as operating hospitality space – allowing for a combination of rental revenues as well as hotel revenues generated from room, F&B, and other revenues.
- Serviced apartments are flexible assets offering apartment units on both short-term and long-term basis. The ideal target is to generate 40% of revenues from short-term stays, while the remaining 60% is generated from long-term, extended stays.



Allocation is based on NLA
Includes developments

Select Tenancy

With 90 tenants, Riyad REITs tenancy base continues to grow with a combination of branded tenants, international operators, and a mix of SMEs and F&B tenants. The following are select tenants that are currently occupying space in one of Riyad REITs properties.

THE PROPERTIES

Current property portfolio and newly acquired properties

VIVIENDA

City	Riyadh	
Location	Um-AlHamam District, Mousa bin Nusair	
Description	Hotel Villas	
Year Built	2015	
Yield	2017*	Stabilized *(Targeted)*
	5.94%	8.54%
WAULT	Hotel Villas leased for 15 years starting from 2017, operated by Vivienda.	
Land Area	2,800 m2	
Occupancy (2017)	The property is fully leased by Forus under a long-term, 15-year NNN lease arrangement operated by Vivienda Hotel Villas.	
Key Tenant(s)	Forus	

* Acquired in May 2017; therefore, 2017 income does not reflect full year result

THE RESIDENCE

City	Riyadh	
Location	Hitteen, Prince Saud bin Mohammed bin Muqrin Road	
Description	Mixed-Use property including 33 hotel villas and 6,500 m2 of commercial space	
Year Built	2017	
Yield	2017	Stabilized *(Targeted)*
	2.29%*	9.68%
WAULT	▪ Villa Hotels (Operational; Braira Residence) ▪ Commercial: 5 to 15 years	
Land Area	15,000 m2	
Occupancy (2017)	Retail = 77% Hotel Villas = Operational	
Key Tenant(s)	▪ Braira (Boudl) ▪ Café Farzi ▪ Morood Investment	

* Acquired in May 2017, therefore, 2017 income does not reflect full year

AL FURSAN TOWERS

City	Riyadh	
Location	Olaya, King Fahad Road	
Description	Mixed-Use property	
Year Built	2002	
Yield	2017	Stabilized *(Targeted)*
	9.35%	9.35%
WAULT	1.2 year	
Land Area	1,740 m2	
Occupancy (2017)	96%	

AL SHATEA TOWERS

City	Dammam	
Location	Al Shatea, Prince Mohmmad Bin Fahad Street	
Description	Mixed-Use property consisting of retail, office and hospitality space.	
Year Built	2015	
Yield	2017	Stabilized *(Targeted)*
	7.44%	8.11%
WAULT	6.8 years. The hospitality space is under a long-term 15-year corporate lease.	
Land Area	6,300 m2	
Occupancy (2017)	91%	
Key Tenant(s)	▪ Boudl (Braira) ▪ Al Khallej Training & Education	

ALTAMAYUZ CENTER

City	Riyadh	
Location	Qurtoba, positioned on the intersection of Imam Abdullah Bin Saud Road Abraaj Street.	
Description	Mixed-Use property	
Year Built	2015	
Yield	2017	Stabilized *(Targeted)*
	7.41%	7.95%
WAULT	5.3 years	
Land Area	4,630 m2	
Occupancy (2017)	85%	
Key Tenant(s)	▪ Magrabi ▪ Dominos Pizza	

ALIZDIHAR CENTER

City	Riyadh	
Location	Izdihar, located on Othman Bin Afan Road in close proximity to Nakheel Mall.	
Description	Mixed-Use property	
Year Built	2015	
Yield	2017	Stabilized *(Targeted)*
	8.51%	8.69%
WAULT	3.7 years	
Land Area	2,506 m2	
Occupancy (2017)	94%	
Key Tenant(s)	▪ Nahdi Pharmacy ▪ Obal ▪ Pearls Clinic	

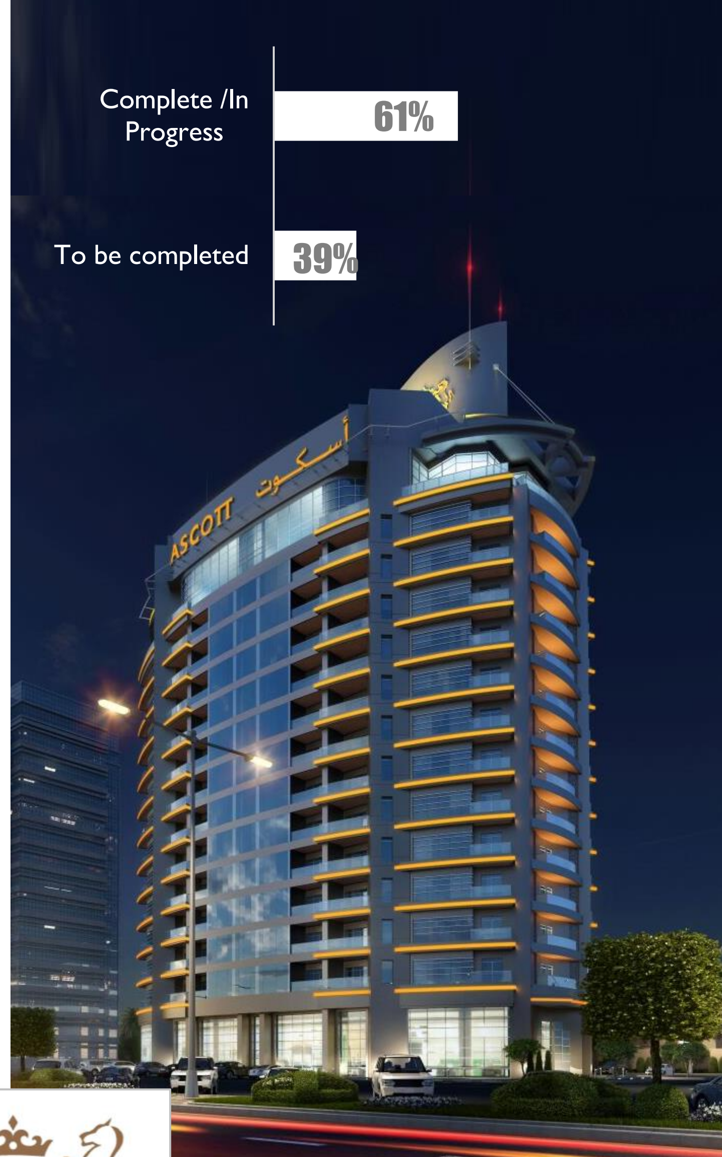
ASCOTT TAHLIYA

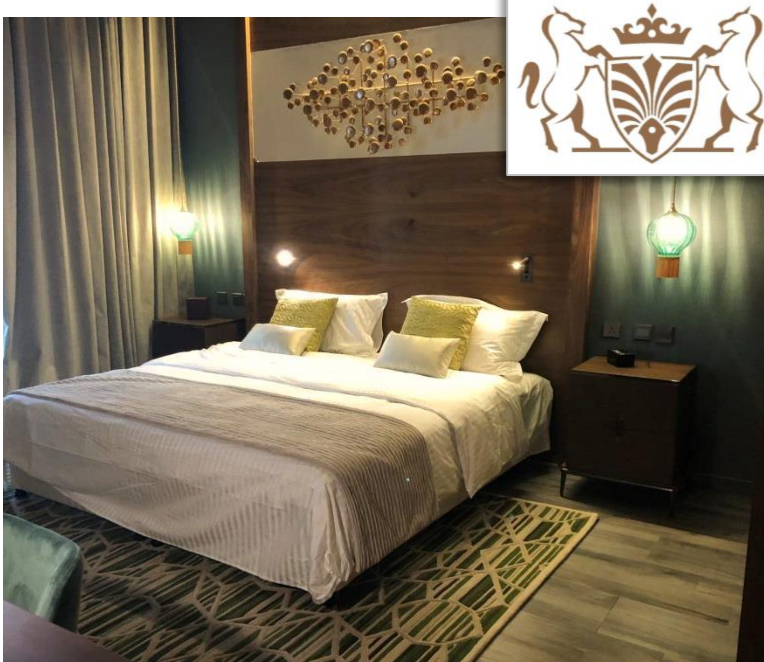
City	Jeddah	
Location	Al Rawdah, located Tahlia Street – Jeddah's main commercial avenue	
Description	Serviced Apartment operated by Ascott with ground floor and mezzanine retail space leased by STC.	
Year Built	2015	
Yield	2017*	Stabilized *(Targeted)*
	6.81%	8.44%
WAULT	10.8 years	
Land Area	2,025 m2	
Occupancy (2017)	100%	
Key Tenant(s)	▪ Ascott / Spectrums ▪ STC (retail branch)	

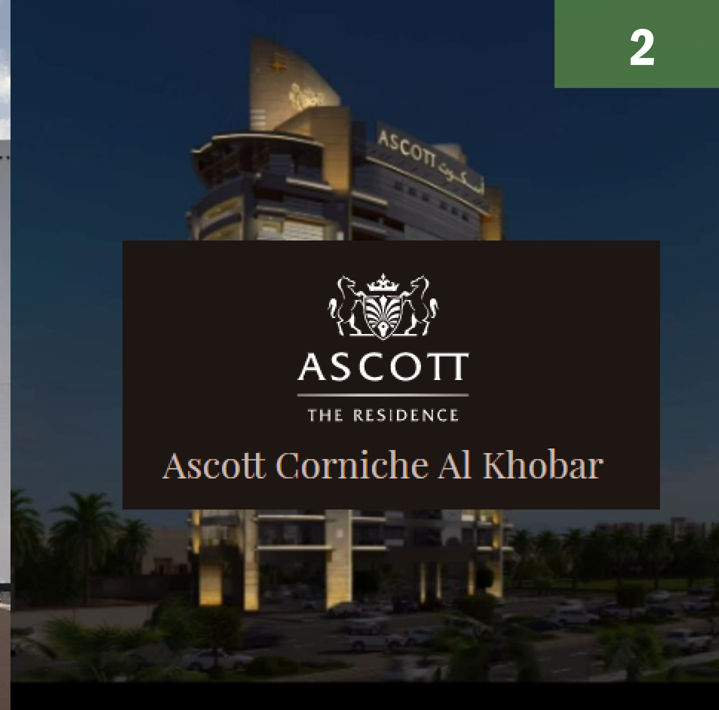
* 2017 income does not reflect full year of some tenants

ASCOTT CORNICHE AL KHOBAR

City	Khobar
Location	Corniche area, Prince Turki Street
Description	148-key serviced apartment with ground floor retail
Built	Under construction; expected opening H2 2018
Targeted Stabilized Yield	13.10%
Hotel Management Term	25 years
Land Area	2,784 m²
BUA	25,000 m²
Stabilized Occupancy	70%
Brand	Ascott International







Things to Expect in 2018

1) Farzi Café - an Indian restaurant chain with locations in India and successful launch in Dubai's City Walk, is expected to open during the first half of 2018 at the Residence, cementing the properties positioning as a destination after the successful opening of Personage – a concept boutique shop – in December 2017.

2) Ascott Corniche Al Khobar is expected to open in the later half of the year – filling a gap in the internationally branded service apartment market in Khobar which currently has limited inventory of branded service apartments. Operating income generated from the property is expected to enhance the portfolio's FFO.

3) Braira Villas at the Residence is expected to open in Q1 2018, adding additional operating income to the portfolio's FFO. The property is already generating strong interest from extended stay guests given its strong location and unique offering.

Market Overview:

Since Riyad REITs' listing, Saudi Arabia witnessed a boom in Tadawul-listed REITs, with 9 REITs currently listed and 4 REITs recently approved by the Capital Market Authority (CMA) reflecting a pent up demand for income producing real estate product.

The private sector's investment into the property markets through REITs is expected to grow with more REITs expected to get listed over the short to mid term. As the REIT sector continues to grow and mature, the property markets in Saudi Arabia are expected to "institutionalize" as property trades and market data become more transparent and available to the public. The institutionalization of the property market should also benefit from a broader investor base comprised of capital seeking income oriented investment products.

According to Knight Frank - a global real estate consultant, "From a macro perspective, the introduction of REITs falls in line with the broader goals of the Saudi Vision 2030 and the National Transformation Plan (NTP) which aim to stimulate the real estate sector and increase its contribution to the overall GDP, while encouraging private sector participation in this process".

With the lower oil price environment, the Saudi Arabian government has initiated plans to diversify the economy by boosting the non-oil sector. Through initiatives detailed in Saudi Vision 2030 and the National Transformation Plan, the non-oil business environment is expected to expand – providing significant opportunities for the commercial and hospitality real estate sectors. In order to accommodate the restructured economy, the real estate landscape is expected to transform in the long-run, as the diversified economy combined with changing demographics, alters the market's demand on real estate space. The opening of the tourism and entertainment sectors is expected to positively impact the property sector as destination retail, higher quality hospitality offerings, and office spaces suitable to newly emerging businesses take precedent. The anticipated launch of The Avenues – Riyadh is expected to introduce the first high quality super-regional mall in Riyadh – a capital city of a G20 economy with a strong base of potential shoppers. Key infrastructure projects like Riyadh Metro and the Haramain Train Station is expected to push the needs to position Transit Oriented Developments that are conducive to support public transportation facilities. The planned opening of King Abdullah Financial District by 2020 will formalize Riyadh's central business district (CBD) – pushing the center of gravity to the northern areas of Riyadh. Elevated Umrah visitor targets (a key Vision 2030 target) is expected to increase capacity of Umrah visitors from 8 million to 30 million per year.

As the market shifts towards the new economy, rapid inventory replacement is expected to take place. The Saudi Arabian property market is mired by older property stock. Although large projects like King Abdullah Financial District and ITCC should improve the overall quality within the office market, the market is predominantly comprised of dated product (at the lower B/C Class levels). Substandard maintenance and nominal capital expenditure on properties have lowered the overall class quality of the property markets in the Kingdom. A handful of newer, well configured office properties like Home Offices (Riyadh), Business Gate (Riyadh), Jameel Square (Jeddah), and Alturki Business Park (Alkhobar) were well received and achieved strong occupancies and premium rents – indicative of the demand for better quality space. Those types of properties set the benchmark for Class A product and rental rates.

Market Overview (cont'd):

Although the retail segment has started to witness higher quality entries – like Boulevard, Rubeen Plaza, and Riyadh Park (expected to open in 2018), the retail property sector is still notably behind when it comes to super-regional mall offerings and outdoor open-air lifestyle centers. On the hospitality front, a significant amount of new hotel room inventory has entered the market. International brands have elevated their presence – especially in the four-star segment. Local brands like Boudl have diversified their segmentation with the positioning of Narcissus (5-star), Braira (4-star), Aber (3-star), and various resorts (beach resorts in Khobar and Jeddah and villa hotels in Riyadh). Despite the progress made in the hospitality sector – there are still areas that need to be improved. In Riyadh, a G20 business-oriented capital city with a population in excess of 7 million, there are only 5 luxury hotels (Four Seasons – 311 keys, Al Faisaliah Hotel – 201 keys, Kempinski – 349 keys, Narcissus – 280 keys, and the Ritz Carlton – 492 keys) totaling 1,633 keys, or 12% of the total room inventory. New entries like Fairmont Riyadh Business Gate (298 keys) and Hilton Riyadh Hotel & Residences in Ghirnatah business Park (645 keys) should increase the luxury offering of the city. With the opening of KAFD – as the city's new financial and economic engine, demand is expected to escalate as new business in the non-oil sector, a better oil environment, and improved economic sentiments continue to support economic recovery.

Moving forward, the real estate market should address gaps in the market as the property sector undergoes a trend of replacing older inventory. The limited availability of well-integrated mixed-use centers that integrate retail, office, residential, and hospitality space could emerge based on new lifestyle demands generated by the country's young population. There is a misconception of oversupply in certain sectors that takes into account a predominantly older property stock that will need to be replaced under the new economy fueled by changing demographic trends and demands. Over time, older inventory will need to be repositioned, refurbished, or replaced in order to compete in the new market place.

VISION رؤيـــة 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

Targets expected to have positive impact on the Real Estate Sector

SELECT TARGETS OF THE SAUDI VISION 2030 & NATIONAL TRANSFORMATION PLAN
Increase SME contribution to GDP from 20% to 35%
Increase the private sector's contribution from 40% to 65% of GDP
Increase to welcome Umrah visitors from 8 million to 30 million per year
Increase non-oil government revenue from SAR 163 billion to SAR 1 trillion
Double the real estate contribution to economic output to 10%, with annual growth of 7%

Moving Forward & Riyad REIT Strategy: (Growth, Diversification, & Quality)

Value comes from continued cash distribution & growth.

Funds From Operations (FFO) will be the main metric that differentiates REITs as we move forward. FFO based on well diversified sources of cash flow should reflect stronger stability in the long-term. FFO derived by multiple properties, geographies, tenants, and industry mix should prove to be resilient in the face of fluctuating economic conditions. Diversification will be key to FFO strength and a REITs ability to continue distributing attractive dividends.

With the focus on generating stable and growing cash distributions to our unitholders, Riyad REIT will continue its investment strategy of diversifying its portfolio of income producing properties through its accretive acquisition program. This has already been reflected during 2017, as Riyad REIT, through active management of its assets, and several acquisitions, was able to increase dividend distribution by 15%.

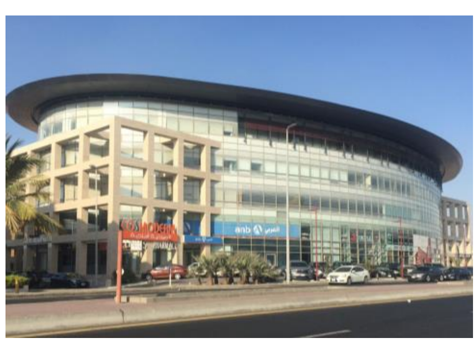
Riyad REIT's targeted acquisitions for 2018 – as announced in May 2017 – is aligned with our strategy of continued growth of high quality assets, additional sources of cash flows, expanded industry mix, and increased presence in Saudi Arabia's second largest city – Jeddah. The increase in FFO, greater diversification of our asset base, and ability to continue distributing sustainable dividends should support long-term value creation. In addition, the larger asset base will aid higher debt headroom, which could potentially lead to enhanced leveraged yields on the REIT's portfolio.

Future Aquistions

Acquisition of a Trophy Asset – the first acquisition of a high-rise property by a REIT

Continued expansion into Jeddah with a multi-tenanted property on a prime commercial road

Expansion into the education sector through the acquisition of the Saudi Electronic University



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Terms and Conditions of the /fund can be downloaded from:

www.riyadcapital.com

The financial statements are available through Riyad Capital website at:
click here