

The Knowledge Series: 7TH EDITION

K12 MARKET IN SAUDI ARABIA *UNLIMITED OPPORTUNITIES*





الهيئة العامة للاستثمار
General Investment Authority

Quote for Colliers International KSA
K12 Education Report

“Our country is undergoing a significant economic transformation, guided by Saudi Vision 2030. To ensure the continued prosperity of Saudi Arabia, we must empower young Saudi men and women who will become the Kingdom’s leaders of tomorrow. This requires a commitment to education, facilitating skills transfer and creating new and valuable job opportunities by bolstering the private sector. SAGIA is focused on attracting the world’s leading education providers and facilitators, and to creating partnerships with local firms to drive the growth of this strategic sector. We have seen remarkable interest from companies who recognize the long-term opportunities that Saudi Arabia offers. Over the past year, we have welcomed globally well-known companies including Kaplan, Pearson, Astrolabs and GEMS Education.”

His Excellency Eng. Ibrahim Al-Omar, Governor of SAGIA

The education sector in Saudi Arabia is the largest in the Arabian Gulf region. In 2019, the government allocated US\$51 billion for education, representing 21% of fiscal spending and 7% of total GDP.

In line with Saudi Vision 2030, there are several initiatives underway to unlock the education sector for private investment with SAGIA leading the way with enabling access for international companies to establish operations in the Kingdom. Following the recent lifting of foreign ownership restrictions in this sector, education has become one of Saudi Arabia’s leading investment success stories.

Q1 2019 saw a major uptick in the number of new education-related companies that received a business license from SAGIA. Compared to the same period a year before, Saudi Arabia saw an increase of 800% in the number of education service providers establishing operations in the country. These companies include some of the sector’s most well-known education providers from the United States, the United Kingdom and from across the Gulf region with a total SAR 3.9 billion in confirmed commitments.

SAGIA is further strengthening its commitment to facilitating the development of the Kingdom’s education offering and creating a dedicated Invest Saudi Education Team, which will undertake a series of international and domestic roadshows to raise further awareness of opportunities in the sector.

Colliers International – Education & Healthcare Team

- A holistic regional view with granular in-country experience.
- 5 local Offices (Riyadh, Jeddah, Cairo, Abu Dhabi and Dubai) - 20 Years in the Region.
- Extensive knowledge and experience of the KSA education sector; including;
 - 40+ market and financial feasibility studies for schools & higher education institutions
 - 30+ business and property valuations in education sector having transaction value of US\$ 2+ billion
 - 20+ commercial and financial due diligence and review of business plans
 - 10+ operator search and selection assignment for regional and international schools



INTRODUCTION

The education sector in the Kingdom of Saudi Arabia is the largest single education market in the combined Arabian Gulf Region by a factor of 3 and it has opened to overseas investment.

There are 39,600 schools and 9.1 million K12 students in the Arabian Gulf. The Kingdom currently has over 85% of those schools and 68% of the students. Before adding on the country's expansive population profile, it is estimated that the current market value of the Kingdom's K12 sector is in excess of US\$ 37 billion (2018). Compared to its regional neighbors the Kingdom has a low private school penetration rate, currently under 20% of all schools and only 6% internationally branded.

The Government in KSA wishes to see this change and has taken significant steps, including the introduction of full foreign ownership, to encourage private sector participation and boost growth of the private education sector.

Underpinning and actively supporting the opportunity is the Kingdom's Vision 2030 plan. Within this, the education sector features as one

of the most important pillars. In the 2019 budget, KSA government allocated US\$ 51 billion (from US\$ 35 billion in 2011) for education. The highest allocation for any sector, representing 21% of fiscal spending and 7% of total GDP.

There is also the population consideration. The Kingdom's population is expected to grow by a third, up from 33.4 million to 44.9 million in the next 11 years. Of the total population 18.2 %, or over 6 million are in the K12 sector. This young demographic and overall growth have a concurrent impact; the requirement of additional 1.1 to 2.1 million student places by 2030.

The final key is affordability. With a GDP per capita of US\$ 20,000 per annum, affordability is expected to play a major role in the growth of K12 private education sector in the Kingdom. However, there is still significant scope for the premium schools segment.

Saudi Arabia K12 education, opportunity awaits.

As the three key components come together; underlying population demand, Government support and an underserved market we look at this sector and specifically the anticipated growth in foreign international schools.

The paper also provides a brief snapshot of the key factors impacting the K12 education market in KSA and its outlook, identifying opportunities and challenges to operators and investors.



المقدمة

يعد قطاع التعليم في المملكة العربية السعودية أكبر سوق للتعليم في منطقة الخليج، حيث تتفوق سعته بثلاثة أضعاف على أسواق دول الجوار مجتمعة، وقد فتح أبوابه مؤخراً أمام الاستثمارات الأجنبية.

تضم منطقة الخليج 39,600 مدرسة تقدم خدمات التربية والتعليم لـ 9.1 مليون طالب، 68% منهم في مدارس المملكة التي تحتل نصيب الأسد بنسبة تفوق 85% من مدارس المنطقة قاطبة. قبل التطرق إلى الحديث عن تعداد سكانها الضخم، تشير التقارير إلى أن القيمة السوقية الحالية لقطاع K12 في المملكة تتجاوز 37 مليار دولار أمريكي (2018). تعاني المملكة من نقص في عدد المدارس الخاصة المتاحة فيها مقارنة بالدول المجاورة، حيث تقل نسبة تلك الشريحة عن 20% من العدد الإجمالي للمدارس، ولا ينتمي إلا 6% منها فقط إلى علامات تجارية دولية.

في إطار رغبتها في تغيير هذه التركيبة، اتخذت حكومة المملكة عدداً من الخطوات التي تضمنت إتاحة التملك الكامل للأجانب، الأمر الذي من شأنه تشجيع نمو قطاع المدارس الخاصة.

تهدف خطة رؤية المملكة 2030 إلى دعم هذه الفرصة بجميع السبل الممكنة، حيث يمثل قطاع التعليم أحد أعمدها الرئيسية، ومن هذا المنطلق، خصصت حكومة المملكة العربية السعودية 51 مليار دولار في ميزانية عام 2019 (مقارنة بـ 35 مليار دولار في عام 2011) للتعليم، ليظفر هذا القطاع بنصيب الأسد من مخصصات الميزانية العامة بما يمثل 21% من الإنفاق الحكومي و7% من إجمالي الناتج المحلي.

من المتوقع نمو عدد سكان المملكة بمقدار الثلث تقريباً خلال السنوات الأحد عشرة القادمة، أي من 33.4 مليون إلى 44.9 مليون نسمة. يبلغ عدد المنتسقين بالمدارس 6 ملايين طالب، أو ما يوازي 18.2% من إجمالي السكان. التأثير المزدوج الناجم عن هذه التركيبة السكانية الشابة المتنامية فضلاً عن نمو عدد السكان بشكل عام سيخلق الحاجة إلى إضافة 1.1 أو 2.1 مليون مقعد جديد لتلبية احتياجات الطلاب بحلول عام 2030.

العامل المؤثر الأخير هو القدرة على تحمل التكلفة في ظل دخل الفرد البالغ 20,000 دولار سنوياً في المملكة العربية السعودية. من المتوقع أن تلعب القدرة على تحمل التكاليف دوراً كبيراً في نمو قطاع التعليم المدرسي الخاص في المملكة، حيث يتراوح متوسط الرسوم الدراسية للمدارس الدولية بين 9,500 دولار و16,000 دولار سنوياً، مقارنة بالرسوم التي تتراوح بين 15,000 دولار (للسنتين الدراسيتين) و24,500 دولار (للسنتين الدراسيتين 12-13) في المدرسة البريطانية الدولية في الرياض، والتي تعد أكثر مدارس المملكة غلاءً. لا شك في أن الطلب على المدارس المتميزة باهظة الرسوم سيظل قائماً على الدوام، ولكن بناءً على دراسات وخبرات قسم التعليم في كولينز إنترناشيونال، تظل النقطة السعرية المثالية للمدارس الدولية الخاصة تتراوح بين 9,500 دولار و16,000 دولار سنوياً.

مع اجتماع المكونات الثلاث الرئيسية المتمثلة في الطلب الملح من قبل السكان والدعم الحكومي والسوق المتعطش نظراً لانخفاض المعروض، نتوقع نمواً مستقبلياً كبيراً في هذا القطاع، وتحديدًا في شريحة المدارس الدولية الأجنبية.

يقدم تقرير "سوق المدارس الخاصة (K12) في المملكة العربية السعودية - فرص بلا حدود" الذي أعده قسم التعليم في كولينز إنترناشيونال نظرة سريعة على العوامل الرئيسية المؤثرة في سوق التعليم المدرسي (K12) في المملكة العربية السعودية، والتوقعات والفرص والتحديات التي تواجه المشغلين والمستثمرين في القطاع التعليمي.



THE KEY INDICATORS

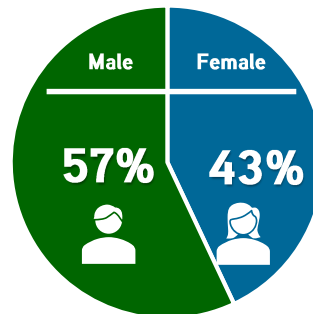
Total Population
(2018 estimated)



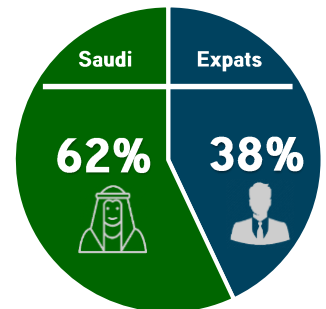
Population
Density of
KSA (P/km²)



Population by
Gender

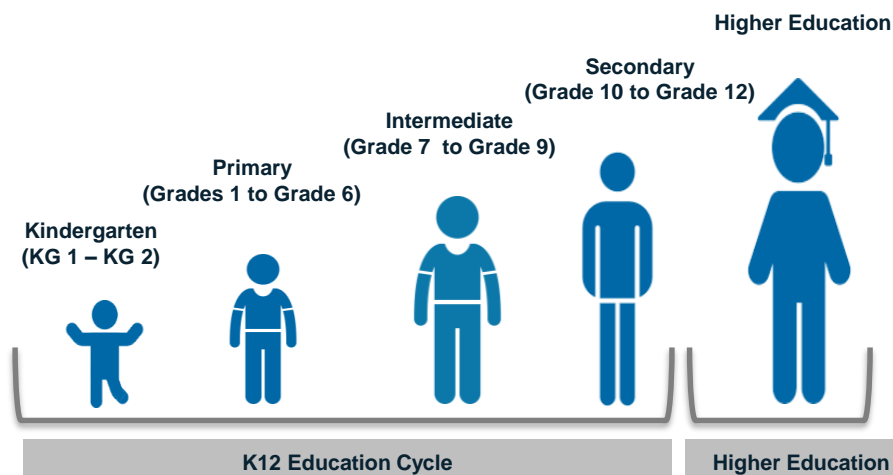


Population by
Nationality



Number of Students across Education Cycles in the KSA

Total Students	267,270 students	2,895,942 students	1,329,538 students	1,266,545 students	1,661,208 students
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Source: SAGIA, BMI, the World Bank, Colliers International Analysis
Note: Does not include International education and Special Needs

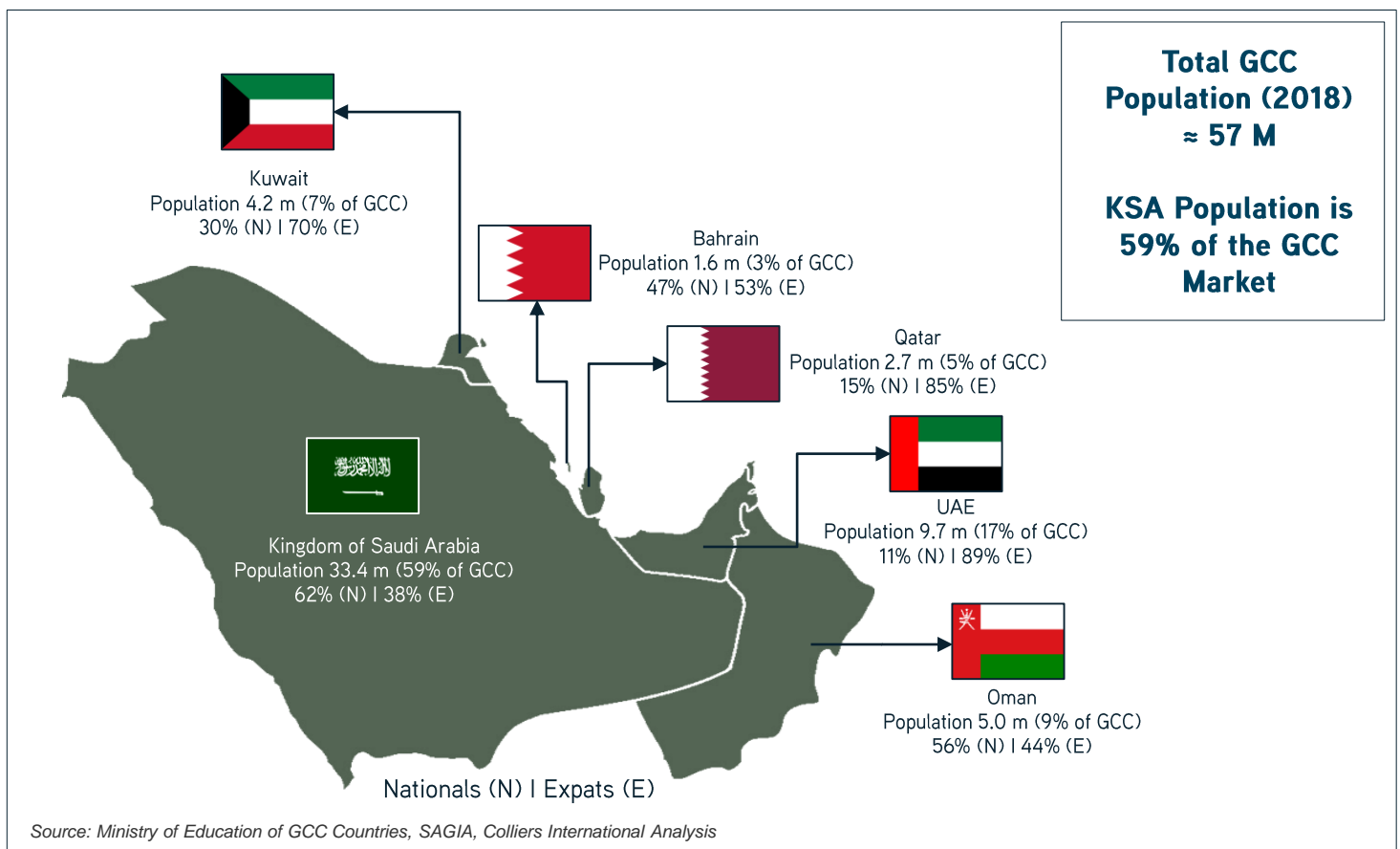


THE LARGEST MARKET IN THE GCC

Largest Population Base in the GCC

The Kingdom of Saudi Arabia is the largest nation in the Arabian Peninsula, representing approximately 59% of the total regional population. The country's population reached 33.4 million in 2018, rising from 27.1 million in 2010 a CAGR of 3.03%.

The Kingdom is the only country in the GCC besides Oman, where the proportion of Nationals are higher than expatriates. In 2018, the proportion of Saudi nationals to expatriates was 62% to 38% respectively.



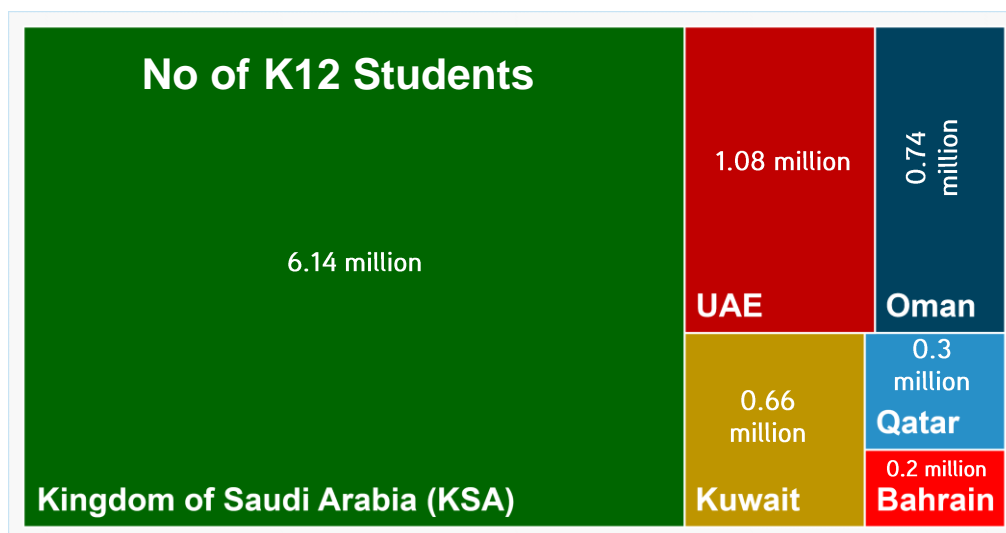
Implications for the K12 Education Sector

- The Kingdom of Saudi Arabia population is bigger than the rest of the GCC countries combined with the concurrent opportunities for investors and operators.
- Similar to Oman, apart from the expatriate population, the demand for K12 education is highest within the Saudi population comprising 62% of the total population, implying that private K12 education operators shall mainly focus on Saudi nationals, not just expats in order to attract sustainable demand.

THE LARGEST MARKET IN THE GCC

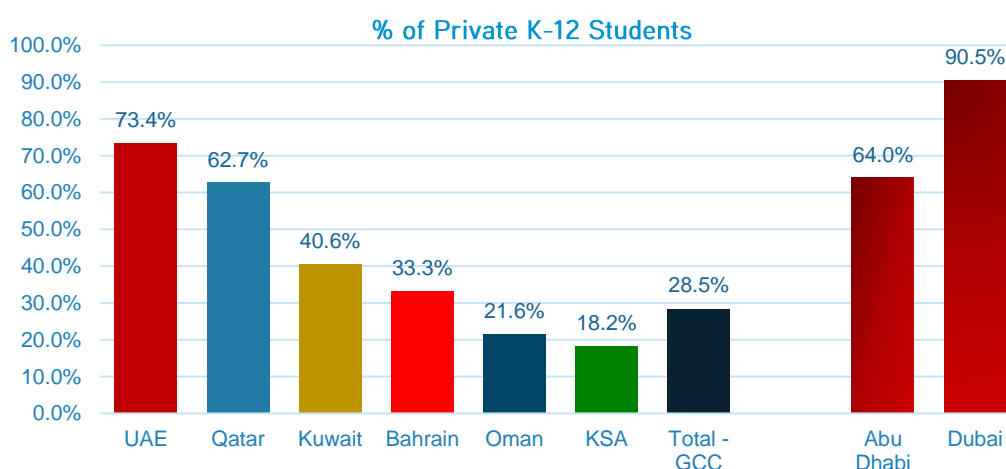
Largest K12 Student Base in the GCC

The Kingdom of Saudi Arabia with 6.14 million students out of total 9.1 million students in the GCC, is by far the largest K-12 market with almost 68% share of total GCC market.



Source: Ministry of Education of GCC Countries, SAGIA, Colliers International Analysis

Lowest Enrolment Rate in the Private Sector



Source: Ministry of Education of GCC Countries, SAGIA, Colliers International Analysis

Implications for the K12 Education Sector

- At around 18%, KSA has the lowest total student penetration rates in the region for private sector K12 education. Furthermore, only 13% of Saudi students attend private schools.
- Aside from quality and availability, participation in private education is also linked to income levels and affordability. KSA has a per capita income of US\$ 20,000 which sits in the middle of Oman and Kuwait which have per capita income of US\$ 16,000 and US\$ 26,000 respectively. In Oman, 22% and in Kuwait, 41% of the entire student population attend private schools, while the share of Omani and Kuwaiti student population in private schools is 14% and 21% respectively.
- Outliers, with a GDP per capita of US\$ 37,500, both Dubai and Abu Dhabi student boast private school penetration levels of 90% and 64% respectively; with a share of Emirati students in private schools at 37% and 57% respectively. This indicates potential for the future growth of private education in KSA with a focus on inducting Saudi nationals for sustainable demand, particularly in the premium end of the market.

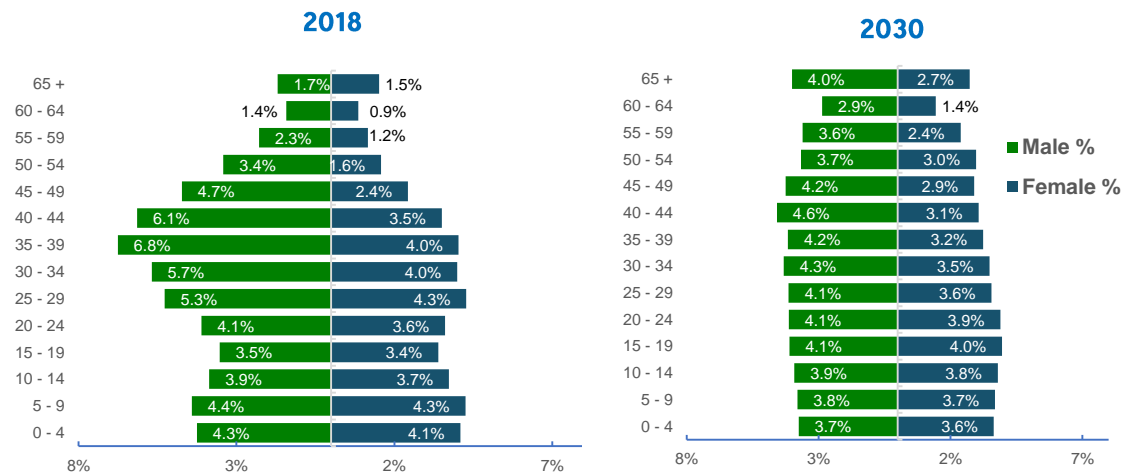


DEMOGRAPHICS OF THE KSA

The current population of the Kingdom of Saudi Arabia stands at 33.4 million in 2018 rising from 27.1 million in 2010, a CAGR of over 3.03% for this period. In 2018, the proportion between Saudi nationals and expatriates was observed at 62% to 38% respectively.

Similar to other GCC countries, KSA also has very young population profile also continuously fueling demand for K12 education.

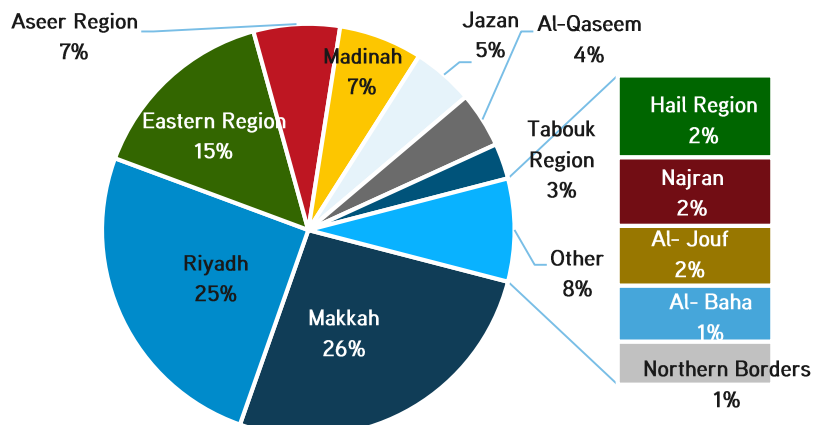
As of end of 2018, out of 33.4 million population 7.3 million (21.8%) are in the school going age group of 3 years (KG1) to year 17 (Grade 12), which are expected to increase to 9.5 million (21.0%) by 2030 with total population size of 44.9 million.



Source: General Authority of Statistics, KSA, Colliers International Analysis

The Kingdom is divided into 13 provinces of which Makkah (26.3%), Riyadh (25.3%) and Eastern province (15.1%) are the most populated with 22.3 million or 66.7% of the total population. Riyadh and Jeddah provinces also have the highest concentration of expatriates (non-Saudi Nationals) with 46.7% and 42.8% respectively.

KSA Population Distribution by Province (2018)



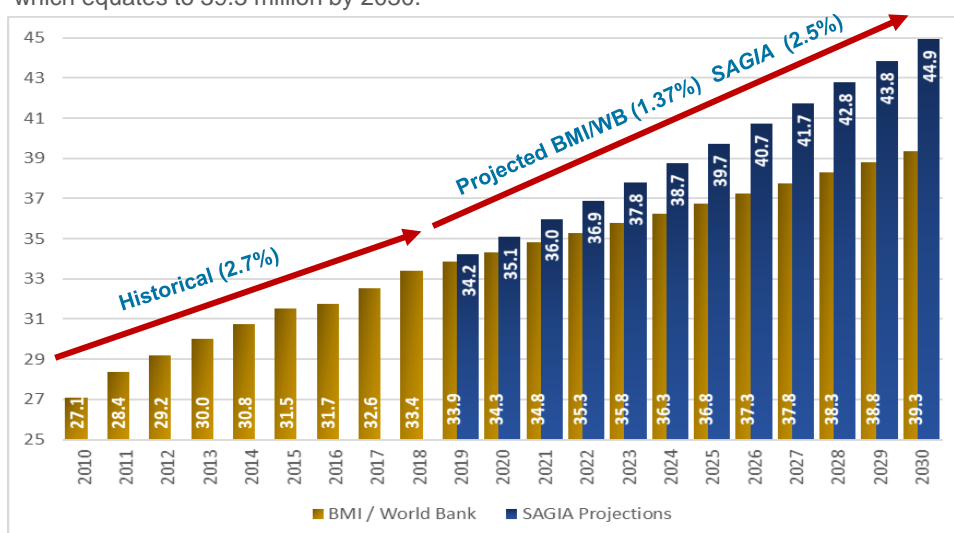
Source: General Authority of Statistics, KSA, Colliers International Analysis



PROJECTED MARKET 2030

2030 Projections

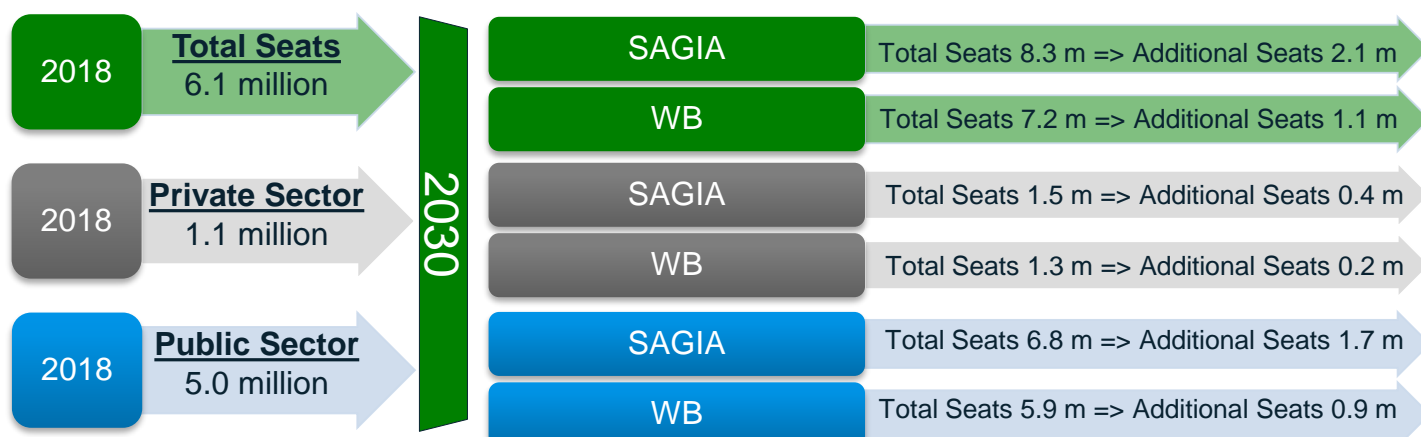
Based on The Saudi Arabian General Investment Authority (SAGIA) population projection of 2.5% per annum, the Kingdom population is expected to reach 44.9 million by 2030. External Source BMI and World Bank conservatively place population projections of 1.37% which equates to 39.3 million by 2030.



Source: SAGIA, BMI, the World Bank, Colliers International Analysis

Implications for the K12 Education Sector

- Based on SAGIA population growth rate of 2.5% per annum, the total demand for K12 enrollment will reach to 8.3 million in 2030, compared to 6.1 million in 2018, **an additional demand for 2.1 million new seats in the Kingdom by 2030.**
- While, based on the World Bank population growth rate of 1.37% per annum, the total demand for K12 enrollment will reach to 7.2 million in 2030, compared to 6.1 million in 2018, **an additional demand for 1.1 million new seats in the Kingdom by 2030.**



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For a long time, access to the Gulf's largest private K12 market for both investors and operators was a difficult road through a myriad of legislative and bureaucratic hurdles.

Under the Kingdom's Vision 2030 Plan, the education sector is listed as one of the main pillars for the Kingdom's economic and social growth. SAGIA is leading the way by enabling access for international companies to establish operations in the Kingdom. Additionally, with the recent lifting of foreign ownership restrictions, the education sector has become one of Saudi Arabia's leading investment sectors with many regional and international investors and operators actively planning or entering the K12 market.

The opportunities are underscored by the numbers; 85% (39,600) of the region's schools and 68% (6.1 million) of the region's students with an estimated market value of over \$37 billion are in the Kingdom. Within this, the participation of private sector remains very low with only 19.6% schools and 18.2% students in the private sector. Furthermore, only 13% of Saudi National students attend private schools.

The salient features of KSA K12 education sector can be summarised as follows:

- **Growing Population & Young Demographics:** The Kingdom's population of 33.4 million in 2018 is expected to reach 44.9 million by 2030, consequently, the current student number of 6.1 million are expected to grow to almost 8.2 million by 2030; creating an additional demand for almost 2.1 million new seats.
- **Low Private Sector Participation:** At present, the market share of private sector is only 18.2% (Kuwait 40.9%; UAE 73.4%; Dubai 90.5%), which is expected to double by 2030, thus creating demand for additional 400,000 (at 18.2% current share) to 800,000 (at 36.4% share) new seats in the private sector. The share of international schools is even lower, with 378,000 students (out of 6.1m students), or 6.1% students are in international schools. With the exception GEMS Education and SABIS no regional or international operators are currently operating in KSA.
- **Affordability:** With a per capita income of US\$ 20,000 per annum, affordability is expected to play a major role in the growth of K12 private education sector in the Kingdom. The average tuition fees for international

schools ranges between US\$ 9,500 to US\$ 16,000 per annum. There will always be demand for premium schools with even higher fees level, however, based on Colliers Education local knowledge the sweet spot for international private schools would range between US\$ 9,500 to US\$ 16,000 per annum.

- **Focus on Saudi Nationals:** Presently, only 13% of Saudi student population attend private schools, compared to the share of Omani and Kuwaiti nationals in private schools with 14% and 21% respectively.

Outliers, with a GDP per capita of US\$ 37,500, both Dubai and Abu Dhabi students boast private school penetration levels of 90% and 64% respectively; with a share of Emirati students in private schools at 37% and 57% respectively. This indicates potential for the future growth of private education in KSA with a focus on inducting Saudi nationals for sustainable demand, particularly in the premium end of the market.

In summary, the K12 education sector in KSA, especially the private K12 education sector, offers several lucrative opportunities for education operators, developers and investors. However, it also poses number of challenges including high capital expenditure requirements, attracting and retaining qualified staff.

Colliers International education team is actively working with several local, regional and international investors and operators to facilitate entry and/or expansion in KSA's lucrative K12 education sector. From initial market analysis to business expansion strategies, joint ventures, structured finance, investor engagement and mergers and acquisitions. we are working alongside our PropCo and Opco clients studying the variety of entry routes available.

With over 500 international and five regional offices in Riyadh and Jeddah, Egypt, Dubai and Abu Dhabi, Colliers International brings together global innovation with in-depth local knowledge. If you are interested to enter or expand into KSA's K12 education sector, please contact Mansoor Ahmed, Director (MENA Region) for Healthcare, Education & PPP on mansoor.ahmed@colliers.com.

FOR MORE INFORMATION

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About Colliers International

Colliers International is a global leader in commercial real estate services, with over 17,000 professionals operating in 68 countries. Colliers International delivers a full range of services to real estate users, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services and insightful research. The latest annual survey by the Lipsey Company ranked Colliers International as the second-most recognised commercial real estate firm in the world.

In MENA, Colliers International has provided leading advisory services through its regional offices since 1996.

