

REAL ESTATE MARKET REVIEW

Saudi Arabia Real Estate Market Review Q2 2022

Performance in Saudi
Arabia's real estate sector
remains fragmented.

CBRE RESEARCH
AUGUST 2022



PERFORMANCE IN SAUDI ARABIA’S REAL ESTATE SECTOR REMAINS FRAGMENTED

▲ 7.5%

Forecast increase in GDP
in 2022

▲ 2.7%

Forecast rate of inflation in 2022

▼ 6.0%

Headline unemployment rate in
Q1 2022, down from 6.9% a
quarter earlier

▲ 72.8%

Increase in hotel RevPAR
in YoY YTD to June 2022

▲ 3.9%

Growth in average Grade A
office rents in Riyadh in the
year to Q2 2022

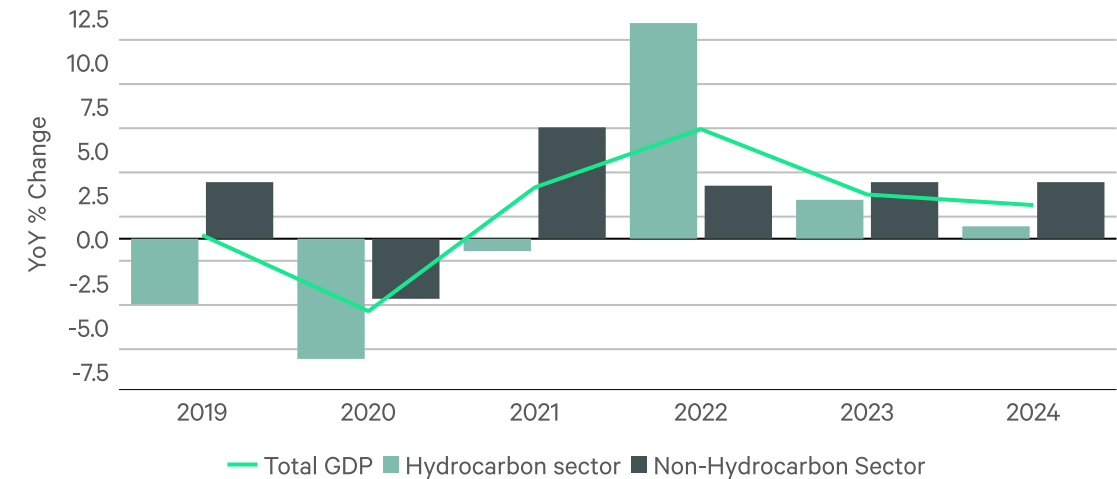
MACROECONOMIC OVERVIEW

- Saudi Arabia’s GDP is estimated to have grown by 11.8% in the year to Q2 2022
- The hydrocarbon and non-hydrocarbon sectors recorded growth rates of 23.1% and 5.4% respectively
- Saudi Arabia’s GDP forecast to grow by 7.5% in 2022
- Saudi Arabia’s hydrocarbon and non-hydrocarbon sectors are expected to register growth rates of 12.8% and 4.8% respectively

The latest data from GASTAT shows that Saudi Arabia’s economy grew by 11.8% in the year to Q2 2022, where the hydrocarbon and non-hydrocarbon sectors recorded growth rates of 23.1% and 5.4% respectively.

Saudi Arabia’s Purchasing Managers’ Index (PMI), which tracks the Kingdom’s private non-oil economy, registered a reading of 56.3 in July 2022. Whilst this is down from 57.0 a month earlier, the data still points to a strong expansion in the non-oil private sector and was the 23rd consecutive month of expansion. New business continues to register strong growth, in both domestic and export markets, which has underpinned output growth and higher employment

FIGURE 1: Saudi Arabia, Gross Domestic Product



Source: CBRE Research/ Macrobond

MACROECONOMIC OVERVIEW

levels, with the latter rising at the fastest rate since September 2019.

The latest labour market statistics show that the headline unemployment rate fell to 6.0% in Q1 2022, down from 6.9% a quarter earlier. Over this period, the Saudi national and non-Saudi national unemployment rates decreased, by 1.0% and 0.7% respectively and currently stand at 10.1% and 2.2% respectively.

Looking ahead, the latest data from Oxford Economics forecasts Saudi Arabia’s GDP to grow by 7.5% in 2022, up from its previous forecasts of 6.2% a quarter earlier. Over this period, the hydrocarbon and non-hydrocarbon sectors are expected to register growth rates of 12.8% and 4.8% respectively. The rate of inflation is also expected to ease to 2.7% in 2022, down from 3.1% a year earlier.

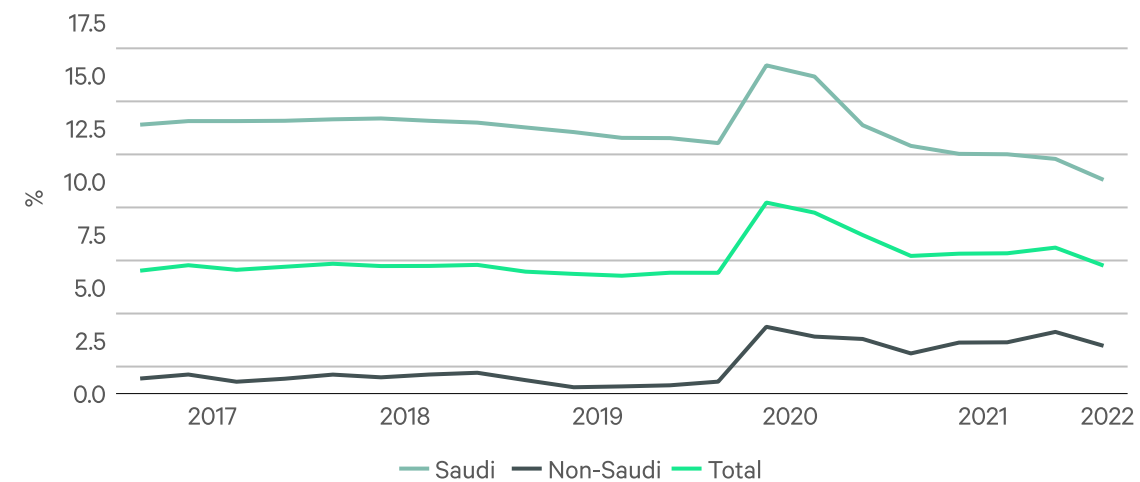
“The unemployment rate for Saudi nationals has decreased from 11.8% in Q1 2020 to 10.1% in Q1 2022. Over this period, the Saudi nationals’ male and female unemployment rates fell from 5.6% and 28.2% to 5.1% and 20.2% respectively.”

FIGURE 2: Saudi Arabia, Purchasing Managers’ Indices



Source: CBRE Research/ Macrobond

FIGURE 3: Saudi Arabia, Labour Market, Unemployment Rate, %



Source: CBRE Research/ Macrobond

OFFICES

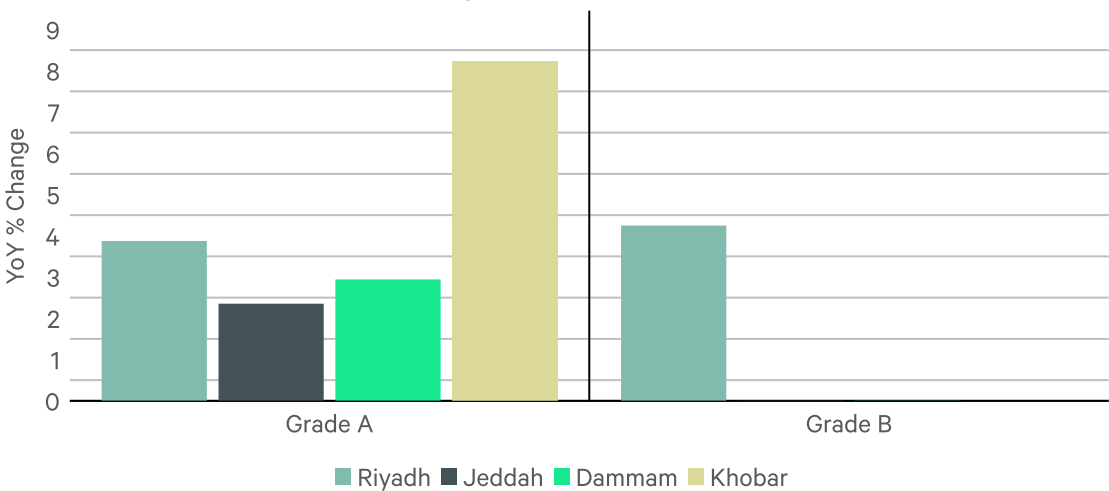
Visitation to workplaces in Saudi Arabia continues to remain firmly above its pre-pandemic baselines according to Google’s mobility data. The data, as at the end of June 2022, shows that visitation now sits 19.3% above its baseline. The Eastern, Riyadh and Makkah Provinces recorded visitation at 20.3%, 18.0% and 15.4% above their respective pre-pandemic baselines, as at the end of the second quarter.

Activity in Saudi Arabia’s office market remains centred towards Riyadh, where demand continues to significantly outstrip supply. As a result, we are not seeing activity levels reach their true potential in the capital. Given these dynamics, average occupancy levels have risen over the last quarter by 0.7 percentage points to reach 98.1% in Q2 2022, where average Grade A and Grade B occupancy levels stood at 98.6% and 97.6% respectively. Constrained supply levels have also continued to support growth in rental rates, where in the year to Q2 2022, average Grade A and Grade B rents increased by 3.9% and 4.2% respectively. Average Grade A rents currently stand at SAR 1,639 per square metre and average Grade B rents at SAR 1,286 per square metre.

In Jeddah, occupier activity remained subdued over the course of the second quarter. The Grade A segment of the market recorded an average occupancy rate of 87.8% in Q2 2022, up marginally by 0.3 percentage points from a quarter earlier. With a relatively high occupancy rate, the Grade A segment of the market is landlord favoured. As a result, average rents Grade A rents have increased by 2.4% in the 12 months to June 2022. In the Grade B segment of the market, in the year to Q2 2022, the average occupancy rate has remained stable at 74.6% as have average rents.

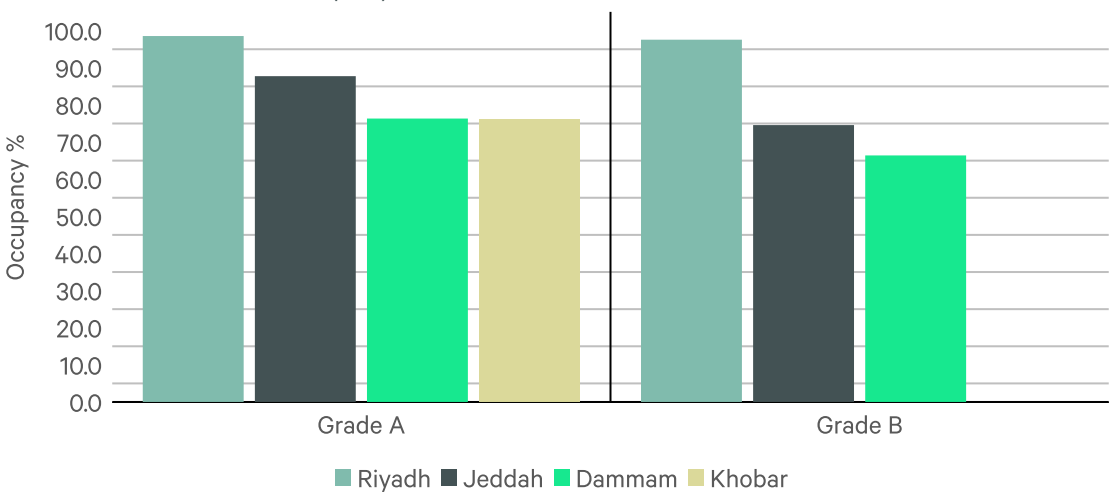
Activity levels in the Eastern Province from institutional occupiers, over the course of Q2 2022, were anaemic. In the year to Q2 2022, Grade A rents in Dammam increased by 2.9%, whereas in Khobar, average Grade A rents remained stable. Over this period, Grade B rents in Dammam were also flat. The average occupancy rate for Grade A buildings in Dammam and Khobar increased by 2.2 percentage points and 1.7 percentage points to reach 76.3% and 76.0% respectively.

FIGURE 4: Saudi Arabia, Office Rents, YoY % Change to Q2 2022



Source: CBRE Research

FIGURE 5: Saudi Arabia, Office Occupancy, Q2 2022, %



Source: CBRE Research

RESIDENTIAL

Residential transaction volumes in Saudi Arabia fell by 19.9% in Q2 2022, compared to a year earlier, whilst the total value of transactions increased by 21.4%. During this period, the number of residential transactions totalled 44,055 and the value of transactions totalled SAR 36.0 billion.

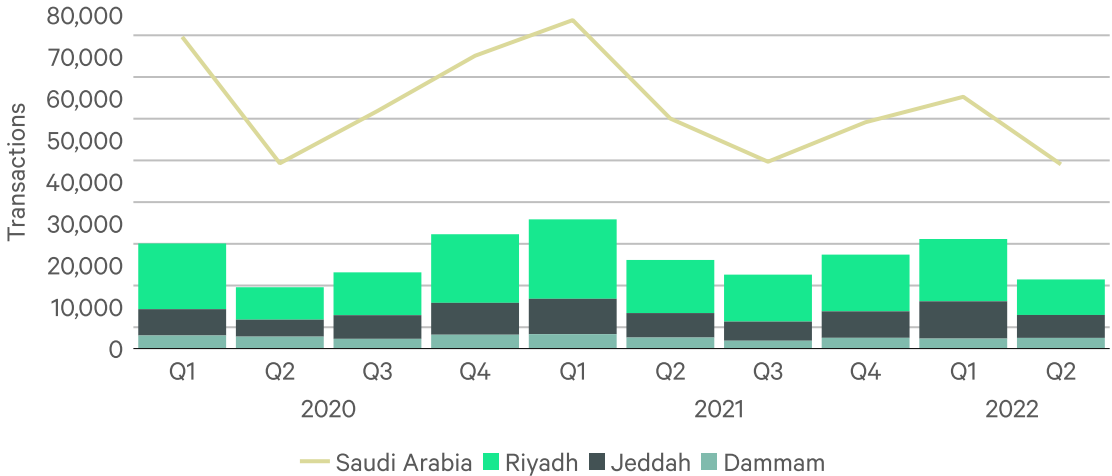
Year-on-year in the year to date to June 2022, the number of mortgage contracts issued by banks decreased by 20.9%, with the total value of mortgages provided falling by 17.7% over this period, to reach a total of SAR 67.4 billion. As at June 2022, of the total value of mortgages provided to individuals by banks, single-family residences, apartments and land accounted for 71.7%, 24.1% and 4.1% of total lending, respectively.

In Riyadh, in the year to Q2 2022, the total number of transactions fell by 33.1% compared to a year earlier. Transaction volumes in Jeddah fell by 6.2% in the 12 months to Q2 2022. The Dammam Metropolitan Area (DMA) also saw its total number of residential transactions fall over this period by 3.4%. However, unlike Riyadh and Jeddah, the DMA saw its year-on-year year-to-June 2022 transaction volumes total increase by 0.7%.

Average apartment prices, on a per square metre basis, in Saudi Arabia have increased by 6.2% in the year to Q2 2022. Over this period., apartment prices in Khobar, Jeddah, Riyadh and Dammam increased by 11.3%, 5.0%, 4.2% and 4.1% respectively. Aside from Khobar, all major cities have registered a sharp decline in the annual rate of price growth in Q2 2022, compared to the quarter earlier.

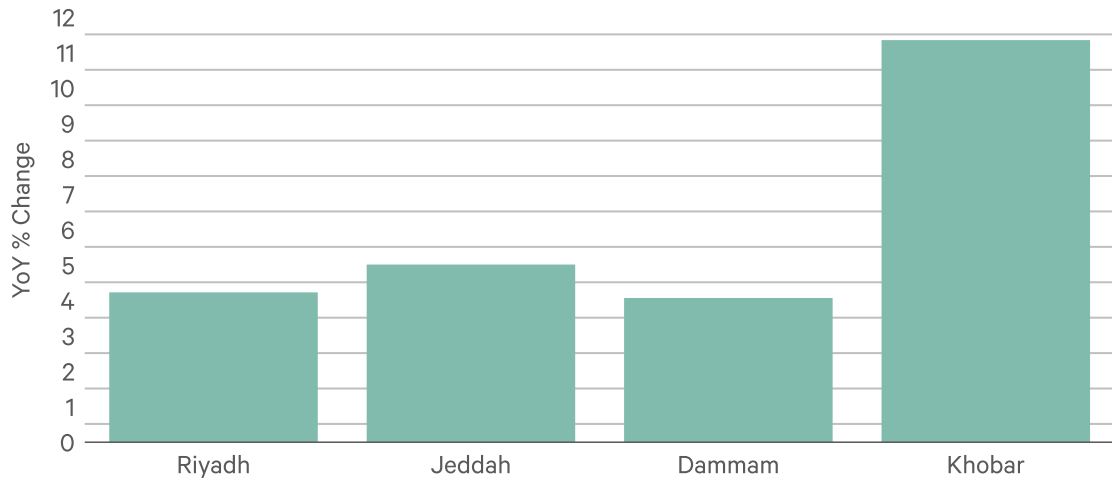
“Year-on-year in the year to date to June 2022, the number of mortgage contracts issued by banks increased by 20.9%, with the total value of mortgages provided falling by 17.7% over this period, to reach a total of SAR 67.4 billion.”

FIGURE 6: Saudi Arabia, Residential Transactions



Source: CBRE Research

FIGURE 7: Saudi Arabia, Residential, Prices, Apartments, YoY % Change to Q2 2022



Source: CBRE Research

HOSPITALITY

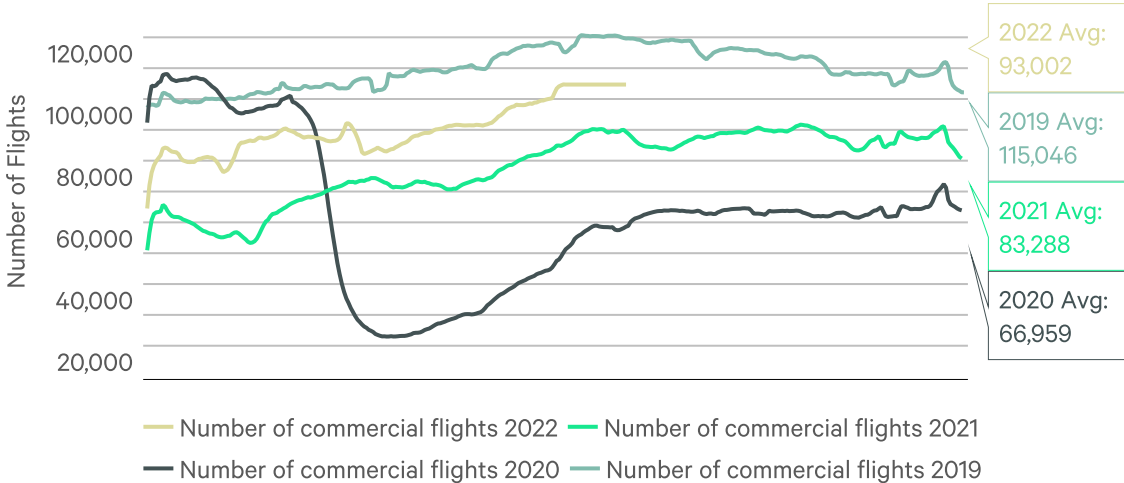
Globally, we have continued to see the recovery in the number of daily flights recorded, where the average number of daily flights in the year to Q2 2022 reached 93,002. Whilst this still sits 16.6% below 2019 levels, it is a marked improvement from the 33.8% decline recorded over the same period in 2021. Data from IATA also points to an improving picture, where in June 2022, global passenger capacity was down 27.5% compared to the same month in 2019, once again a marked improvement from the early 2022.

With COVID-19 related restrictions easing alongside a partial return of religious tourism and a number of cultural and sporting events, has meant that visitation to Saudi Arabia has seen a marked increase in 2022. As a result, key performance indicators across Saudi Arabia’s hospitality market have seen a significant improvements over the course of the first half of the year.

Year-on-year in the year to date to June 2022, average occupancy in Saudi Arabia increased by 19.0 percentage points. Over the same period, the ADR increased by 13.5%, and, RevPAR, on average, increased by 72.8%. Unsurprisingly, given the differences between the Gregorian and Hijri calendars, the holy cities of Makkah and Medina have seen spikes in performance year-on-year in the year to date to June 2022. In the year to date to June 2022, compared to the same period in 2019, Saudi Arabia’s average occupancy sits 5.1 percentage points lower, despite its ADR increasing by 2.6%, its RevPAR decreased by 6.0%. Riyadh and Medina are the only two markets which have exhibited improved performance levels in comparison to 2019.

With further easing of restrictions on religious tourism, particularly in relation to the quantum of international pilgrims, we expect performance in the holy cities of Makkah and Medina to continue to improve during the remainder of 2022. With regards to business and leisure visitation, we also expect performance to improve, albeit not dramatically. We believe this slower rate of improvement will be underpinned by a number of regional events scheduled outside of Saudi Arabia during the last quarter of 2022.

FIGURE 8: Global, Total Number of Tracked Flights



Source: CBRE Research, Flightradar24

FIGURE 9: Saudi Arabia, Hospitality Market, KPIs, YoY % Change

	Year to Date - June 2022 vs June 2019			Year to Date - June 2022 vs June 2021		
	Occ PP Change	ADR % Change	RevPAR % Change	Occ PP Change	ADR % Change	RevPAR % Change
Saudi Arabia	-5.1%	2.6%	-6.0%	19.0%	13.5%	72.8%
Al Khobar	-	-	-	0.9%	-6.0%	-4.5%
Dammam	-	-	-	4.4%	-1.7%	7.4%
Jeddah	-1.8%	-14.6%	-17.3%	4.8%	9.8%	20.4%
Makkah	-13.0%	1.8%	-17.8%	34.8%	12.3%	211.3%
Medina	0.1%	23.0%	23.2%	34.1%	37.8%	206.2%
Riyadh	4.4%	9.8%	18.3%	10.9%	24.0%	50.8%

Source: CBRE Research/ STR Global

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