

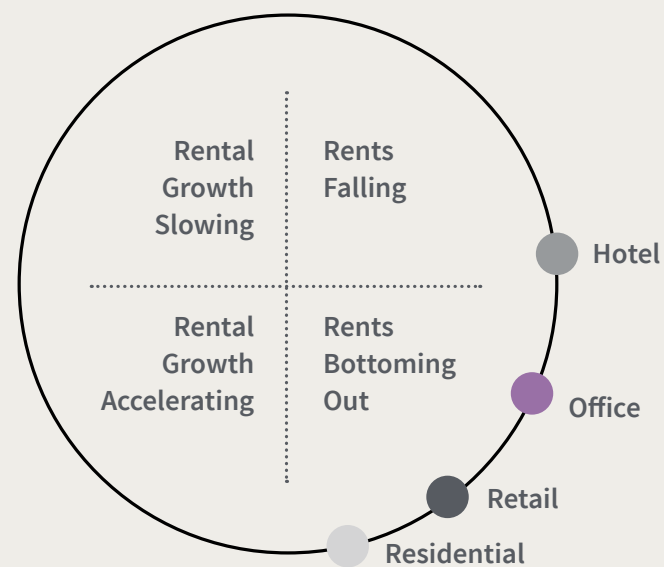
The KSA Real Estate Market

Q3 2020

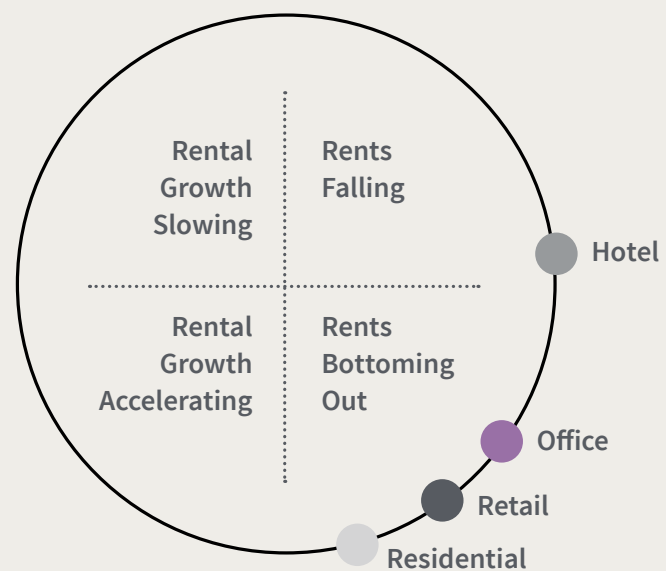


Real estate market overview

Riyadh Q3 2020



Jeddah Q3 2020



The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle at a point in time. 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.



Office

Riyadh



Jeddah



The third quarter of 2020 saw the highest number of office space deliveries in the year, with four projects added to the office stock in Riyadh, bringing the total supply of office GLA to 4.4 million sq m. Meanwhile, the total office stock in Jeddah currently stands at 1.1 million sq m, with only 750 sq m of GLA entering the market.

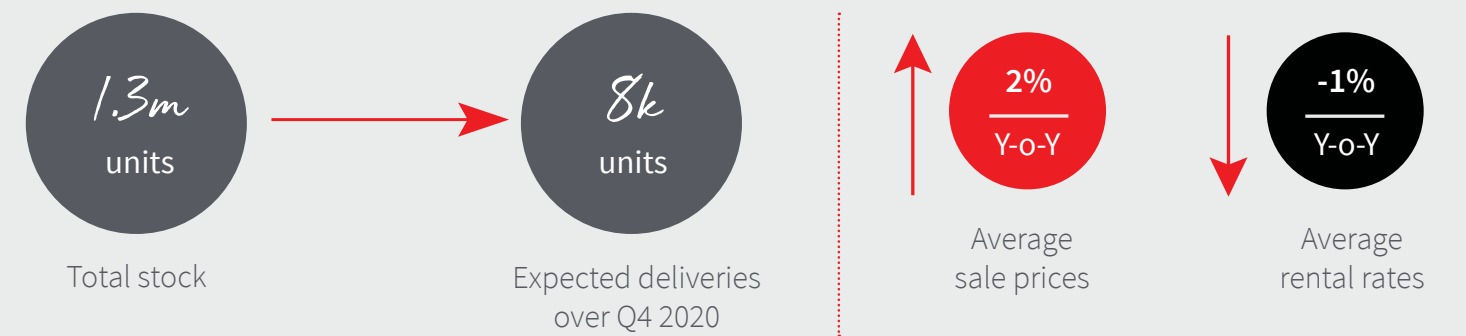
An additional 27,000 sqm and 25,000 sq m of GLA is scheduled to be delivered over the last quarter in Riyadh and Jeddah respectively, including the Olaya Park Towers in Riyadh and the office building by Retaj in Jeddah.

Office performance remains under downward pressure across the two cities, with Riyadh, being the commercial hub, continuing to perform better, recording average rent declines of 1% across both Grade A&B space to record SAR 1,230 per sq m.

In turn, office lease rates in Jeddah declined 5% to register SAR 830 per sq m, mainly due to the price sensitive nature of the city's tenants, coupled with the source of demand being predominantly local family offices.

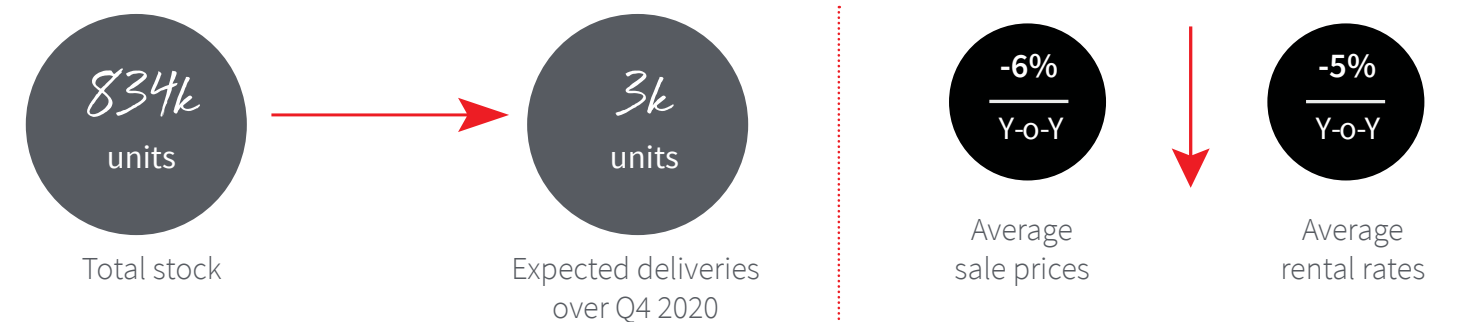
Residential

Riyadh



Source: MOJ

Jeddah



Source: MOJ

The third quarter showed strong construction activity in the residential market, with around 10,000 units handed over in Riyadh and Jeddah. This brings the total residential supply to 1.3 million and 834,000 in Riyadh and Jeddah respectively.

In terms of performance, residential sale prices in Riyadh registered an annual increase of 2% for apartments and villas. The positive performance was supported by the various mortgage products; H1 2020 registered a 50% growth in the number of loans and a 49% growth in loan values compared to the same period last year, according to SAMA. By contrast, rental rates registered annual declines of 1% for apartments and villas.

On the other hand, the overall performance of the residential market in Jeddah remained subdued in Q3

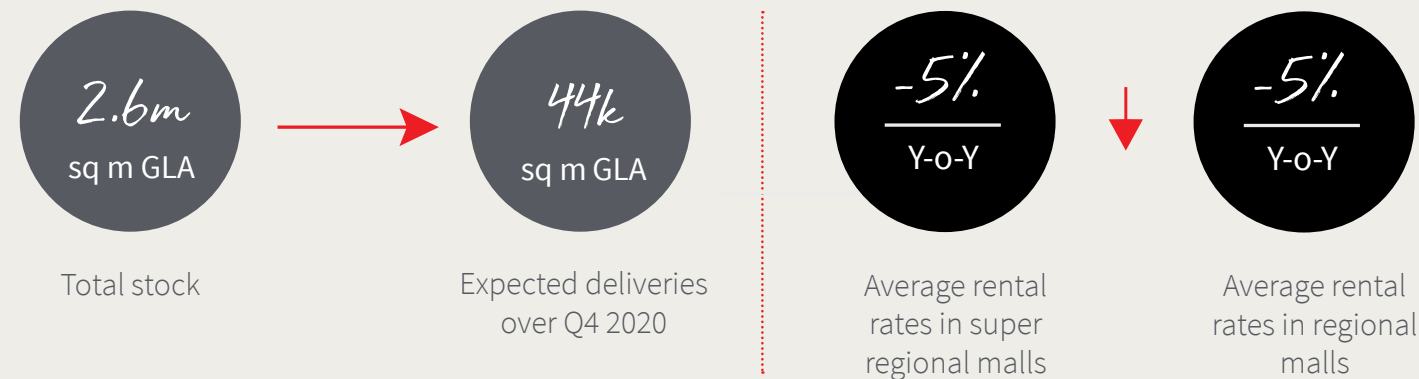
2020 as sale prices and rental rates declined 6% and 5% respectively.

In a recent announcement, the Saudi government amended the 15% VAT on property transactions, a move expected to maintain momentum in the residential mortgage market, which has so far proven resilient and has managed to weather the impact of COVID-19.

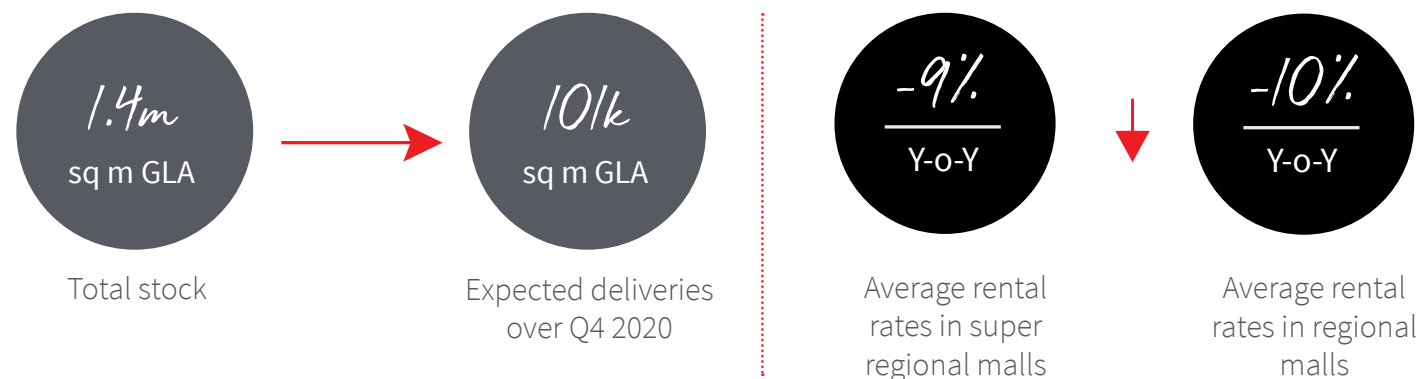
Property transactions will instead be subject to a 5% sales tax. Also, the government has scrapped the tax from first-time home-buyers of properties worth up to SAR 1 million, in a move expected to encourage first time home buyers and support the Vision 2030 goal of increasing homeownership to 60% by the end of 2020 and 70% by the end of 2030.

Retail

Riyadh



Jeddah



Riyadh's total retail stock increased this quarter to 2.6 million sq m, with the addition of 70,000 sq m of GLA. Meanwhile, the total retail stock in Jeddah stood at 1.4 million sq m as there were no new deliveries. In terms of future supply, an additional 44,000 sq m in Riyadh and 101,000 sq m in Jeddah are due to deliver in Q4.

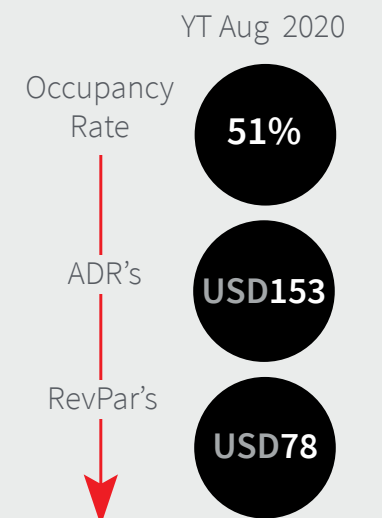
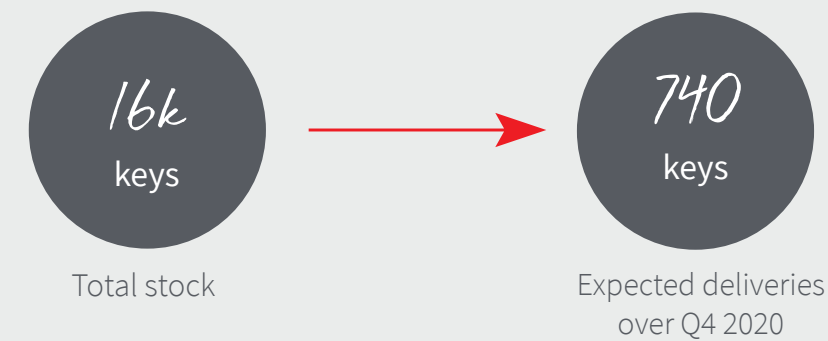
Despite retail rents continuing to decrease on an annual

level, mall operators and owners continue to retain their tenants and maintain their quarterly average rental rates through offering explicit incentives including rent free periods and temporary discounts.

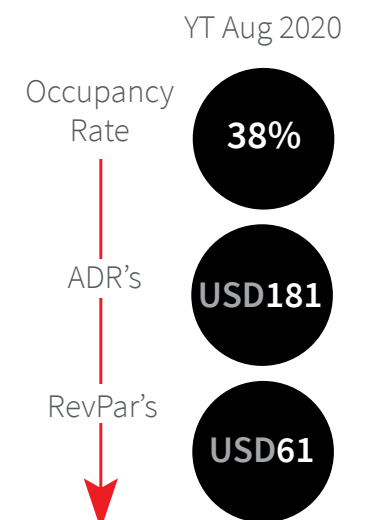
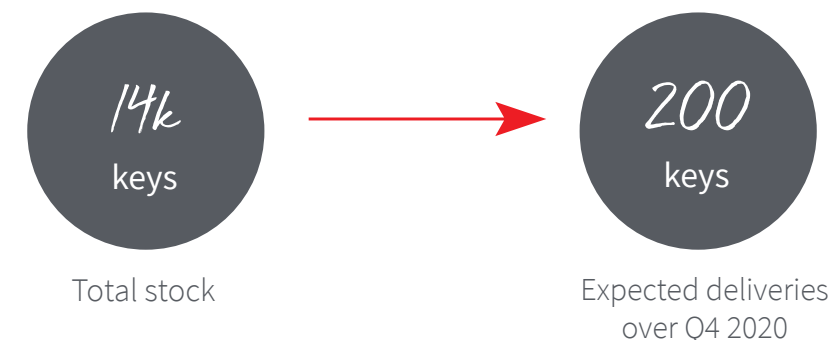
In the short term, retail performance in both cities is expected to remain under pressure as more supply enters the market thus intensifying competition.

Hospitality

Riyadh



Jeddah



Riyadh saw the delivery of 400 keys in Q3 2020, bringing the total stock to 16,000. Meanwhile, only 84 keys were added to Jeddah's hotel stock, which increased the total slightly to 14,000. Around 700 and 200 keys are expected to deliver over Q4 in Riyadh and Jeddah respectively.

Riyadh performance levels traded higher than any of the other Saudi cities. Occupancy rates in the YT August 2020 decreased by 300 bp to register 51% Y-o-Y, while average daily room rates (ADR's) dropped only 1% to register USD 153 (SAR 573). Revenue per available room's (RevPar's) declined 7% to reach USD 78 (SAR 293).

Meanwhile, Jeddah saw more significant annual declines. As such, occupancy rates dropped significantly to reach 38%, while ADR's and RevPar's declined 33% and 62% to register USD 181 (SAR 679) and USD 61 (SAR 229) respectively.

While the hospitality industry remains challenged in the short term, in the long-term however, and in light of the agreement between the Tourism Development Fund and local banks to finance SAR 160 billion (USD 43 billion) of tourism projects, is to speed up construction activity, improve infrastructure, and increase the number of hotel rooms in line with Vision 2030.

Definitions and methodology



Future Supply

JLL estimates of future supply is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers). The future supply is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started. 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.

Office Supply

The current supply of completed office GLA is based on a comprehensive list of office buildings that have been handed over for immediate occupation. This includes standalone office buildings and office space within mixed-use buildings:

- In Riyadh, the areas covered include: CBD, North and East Ring Roads, Khurais, Mazer, and Sitteen Streets.
- In Jeddah, the areas covered include: Prince Sultan, Tahlia, King Road, Ibrahim Al Jaffali, Amanah Street, Madinah, King Abdullah and Rawdah Streets.

Performance

The weighted average rent (WAR) is based on estimates from the JLL Offices and Business Space team. It reflects the WAR across a basket of Grade A buildings in theCBD.

Grade A buildings are defined as high quality office spaces, well located, with good access to infrastructure (metro) and amenities including F&B and retail.

The WAR of Grade A buildings represents the top open-market, net rent (exclusive of service charge and incentives) for a new lease that could be expected for a notional office unit.

Vacancy rate is based on estimates from the JLL Offices and Business Space team. It reflects the weighted average rate across a basket of buildings.



Residential Supply

The current supply of completed residential buildings is based on the National Housing Census 2010, and quarterly surveys of major projects and standalone developments in Riyadh and Jeddah. It is reflecting residential units that have been handed over for immediate occupation. Our definition of residential units includes apartments and villas

Performance

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 cities.



Retail Supply

The classification of retail centres is based on the **Urban Land Institute (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

The current supply of completed retail GLA is based on a comprehensive list of mall-based retail that have been handed over for immediate occupation. Our project list excludes street retail and retail within mixed-use buildings.

Performance

Average rents are based on estimates from the JLL Retail team. It reflects the rents across a basket of primary and secondary retail centres. Primary and secondary retail centres are identified based on their turnover levels. **Primary Malls** are the best performing malls with highest levels of turnover. **Secondary Malls** are the average performing malls with lower levels of turnover. **Average rents** represent the top open market net rent expected for a standard in line unit shop of 100 sq m in a basket of regional and super regional centres. Given the variation in rentals, we quote percentage change for retail rents rather than actual figures. **Vacancy rate** is based on estimates from the JLL Retail team. It reflects the average rate across a basket of super regional and regional centres.



Hotels Supply

The current supply of hotel rooms is based on data from our quarterly surveys, reflecting hotel rooms that have been handed over for immediate occupation. Our project list includes all graded supply and includes serviced apartments

Performance

STR performance data is based on a monthly survey conducted by STR Global on a sample of international standard midscale and upscale hotels. **Average Daily Rates (ADR)** and **Revenue Per Available Room (Rev Par)** are the key performance metrics.

Disclaimer: the Covid-19 pandemic has created a material uncertainty in real estate investment market performance. Across MENA, there is considerable variation in the extent of the human tragedy implications unfolding and its impact on economic activity, including the trajectory, duration and extent of these impacts on all real estate sectors. With varying recent and ongoing policy response across the region and the mitigating implications differing by market and sector, it is too early for us to provide a quantitative and robust assessment of value impact. We will talk to the evolution of the market throughout Q3 in our reporting and will be continually monitoring market movements as the situation evolves, to inform our ongoing view of pricing. We will be updating our forecasts, albeit these will be directional at this time, broadly reflecting any meaningful changes to the underlying fundamentals. Please feel free to contact us if we can assist.

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