

NAI Saudi Arabia

COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

Commercial Real Estate Market Review Saudi Arabia H1, Year 2020 *Impact of Covid-19*



Introduction

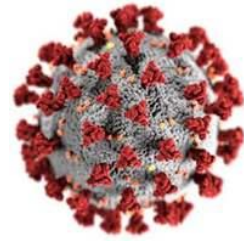
Saudi Arabia had imposed curfew and complete lockdown from March 23 till June 21, 2020 due to Corona Virus (Covid-19) pandemic.

The Govt. has taken all the necessary steps & precautionary measures to stop the spread of the Covid-19 virus.

The restrictions includes:

- Complete lockdown, smart curfew and imposing travel restrictions within the country.
- Closing the boundaries through land, air & sea.
- Cancelling all domestic & inbound international flights.
- Closure of all Govt. offices and all commercial businesses including shops, offices, malls hotels etc. and all leisure and commercial events & activities.
- Territorial and smart lockdown within Saudi Arabian cities, regions and provinces.
- Declaring medical emergency and allowing all hospitals, pharmacies and medical staff to work and operate.
- Safe exit of all international pilgrims from the holy cities of Makkah and Medina.
- For safe and regular supply of food, letting food companies, hyper & super stores and selected restaurants to operate with SOPs within the selected time zone & to deliver goods at the consumer doorstep.

In this report, we will review the commercial real estate key market performance during first half of 2020 and the impact due to Covid-19.



Complete lockdown and partial smart curfew



Traveling restrictions imposed within districts, cities, territories & provincial level

Cancellation of International & Domestic flights



All businesses and Govt. offices were closed



Hospitals & pharmacies were open during the curfew & lockdown

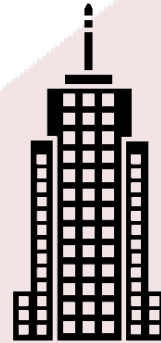
Riyadh Market Snapshot, H1 Year 2020

Office Market

The rental in Riyadh office market continued to reduce, A grade office accommodation rental had fallen on an avg by 10% in the Q1 of 2020 comparing to 2019. Reduction in the A grade office rent pressurized the B grade offices to reduce their rental offering by 15 to 20%.

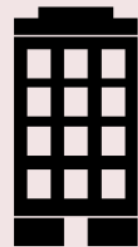
On avg. the A grade office rent is recorded at SAR 1,450 psm, whereas B grade is at SAR 740 psm. It is noticed that the future office supply is more focused in offering the A- or B+ accommodations to fill the gap. There are number of new developments at the rental range of SAR 1,000 to 1,200 psm.

Riyadh office stock stood in the range of 4.0 million GLA & expected to add additional GLA by 1.0 million by the end of 2020.



A Grade

Avg. Rent
SAR 1,450 psm



B Grade

Avg. Rent
SAR 740 psm

Retail

The Riyadh retail market showed stable performance in 2019, however the rental & occupancy levels had substantially fallen in the retail shops/strip mall segment, whereas indoor malls showed a steady performance throughout the year. During Q1, the avg. rental in shops have dropped by 10% and the occupancy level by 30%, Riyadh retail stock stood in the range of 3.0 million GLA & expected to increase by 1.0 million GLA by the end of 2020.



Malls

Avg. Rent
SAR 2,670 psm



Shops

Avg. Rent
SAR 1,850 psm

Riyadh Market Snapshot, H1 Year 2020

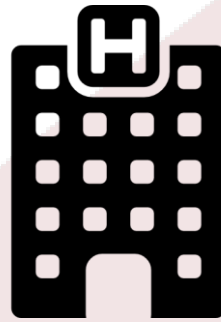
Hospitality

The current supply of Riyadh hospitality market is recorded at 16,000 keys and expected to increase by approx. 3,000 keys by the end of 2020.

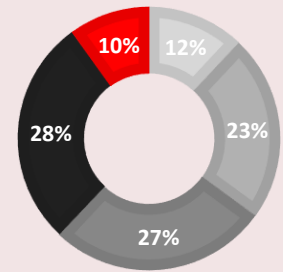
The overall occupancy has raised by 6% from last year despite the lower ADR which resulted to enhanced the RevPar.

The current supply consisting of 10% of upper upscale, 28% upper scale, 27% upper midscale, 23% midscale and 12% lower scale development.

With new upcoming under construction and planned developments are more focused towards hiring the international operators and brands. With new initiatives and projects in Riyadh, additional supply will enhance the overall market offerings.



Hotels



■ Lower scale ■ Mid scale
■ Upper mid scale ■ Upper scale
■ Upper upscale



ADR:
SAR 590



Occ:
58%



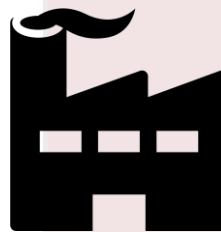
RevPar:
SAR 340

Industrial/ Warehousing

The Riyadh industrial, logistics & warehousing facilities are spread mostly at the southern side of the city with the total size of above 25 million sq.m. with an average market occupancy level of 70%.

The additional supply of 10% contributed to the total in the northern side of Riyadh in the year 2019.

The average rental of industrial site for manufacturing is recorded at SAR 450 psm for built facility and SAR 150 to 200 psm for land (land with license). The avg. market rental for warehousing facility is recorded at SAR 200 to 250 for as built & SAR 100 to 150 for land.



Industrial

Avg. Rent:
SAR 450 psm (as built)
SAR 250 (land)



Warehouse

Avg. Rent
SAR 250 psm (as built)
SAR 100 (land)

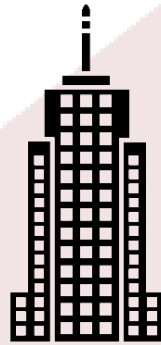
Jeddah Market Snapshot, H1 Year 2020

Office Market

The rentals in Jeddah office market continue to melt, A grade office accommodation rentals had fallen on an avg by 30% in the Q1 of 2020 comparing to 2019. Reduction in the A grade office rent pressurized the B grade offices to reduce their rental offering by 25%.

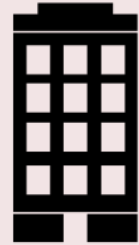
On avg. the A grade office rent is recorded at SAR 960 psm, whereas B grade is at 675 psm.

Jeddah office stock stood in range of 1.2 million GLA & expected to add additional GLA by 50,000 sq.m. by the end of 2020. However, with weaker market condition, we expect a delay in the upcoming supply.



A Grade

Avg. Rent
SAR 960 psm



B Grade

Avg. Rent
SAR 675 psm

Retail

Unlike offices, the Jeddah retail especially the malls showed stable performance in 2019, however the rental & occupancy levels had substantially fallen in the retail shops/strip mall segment, whereas indoor malls showed a steady performance throughout the year. The avg. rental in shops had dropped by 25% and the occupancy level by 40%, however, there is no major drop in the rental rates and occupancy levels in the malls.

Jeddah retail stock stood in range of 1.75 million sq.m. GLA & expected to increase by 500,000 sq.m. GLA by the end of 2021.



Malls

Avg. Rent
SAR 2,645 psm



Shops

Avg. Rent
SAR 1,650 psm

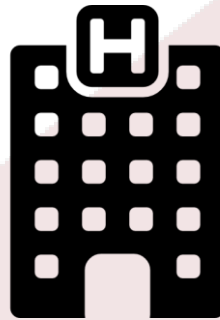
Jeddah Market Snapshot, H1 Year 2020

Hospitality

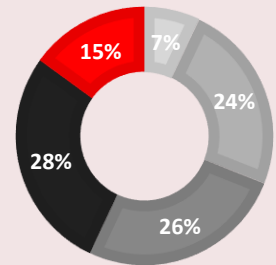
Jeddah hospitality market faced a challenging year comparing with past many years despite stable occupancy rate, however the market witnessed a major drop in ADR and RevPar. The total supply is recorded at 12,000 keys and expected to increase by approx. 1,000 keys by the end of 2020.

The current supply consisting of 15% of upper upscale, 28% upper scale, 26% upper midscale, 24% midscale, 7% lower scale developments.

The market is expected to grow with new upcoming developments in the northern Jeddah (Dhurrah/Obhur) and new tourism projects like NEOM, Red Sea Development, Amaala, Alula & Wadi Aldiash and with new tourist visa policy, the Jeddah market will act as gateway to tourism travelers along with the religious tourism.



Hotels



■ Lower scale ■ Mid scale
■ Upper mid scale ■ Upper scale
■ Upper upscale



ADR:
SAR 555



Occ:
58%

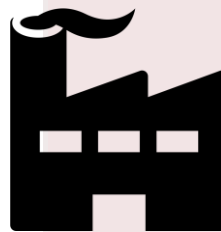


RevPar:
SAR 226

Industrial/ Warehousing

The 90% of the Jeddah Industrial and warehousing market is situated in the southern side at Alkhumrah area, other areas including Asfan and Alnakheel contributes a relatively small but in demand portion specially Alnakheel due to its location, easy and quick connectivity to the Jeddah city center & port. Total market size is above 27 million sq.m. with an average market occupancy level of 65%.

The average rental is recorded at SAR 350 psm & SAR 125 for as built facility and SAR 150 psm & SAR 80 psm for land with license for industrial and warehousing respectively.



Industrial

Avg. Rent:
SAR 350 psm (as built)
SAR 150 (land)



Warehouse

Avg. Rent
SAR 125 psm (as built)
SAR 80 (land)

Market Outlook (Impact of Covid-19)

Market Summary

Offices

The office market remained stable in the central region whereas, an uncertainty was witnessed in the western & eastern provinces.

This is because of various factors as both provinces are the home of the regional markets for multinational corporates, banks, local businesses and traders. The capital city, Riyadh is always the first preference of all corporates to have a head office.

With tremendous upcoming supply of A grade office accommodation in Riyadh will put pressure on the existing stock specially grade B offices to lower their offering but it will create a healthy competition within A grade office to offer better offerings and services.

Impact of Covid-19

The corporates are under pressure specially with the impact of Covid-19 and lockdown, which halted the process for new lease or relocation. The corporate and Govt, offices still prefer to work from home. This practice will continue for short term, however it will not have longer impact on large corporates to consider either to shrink their presence or relocate however, the covid-19 do gave a negotiation tool for small and medium size corporate to lower their rental from landlords..

Retail

The retail market enjoyed a healthy performance over the past few years specially the quality retail malls offering alternative entertainment like cinemas, F&B outlets and family attractions.

We have witnessed growth in the disposal income of the Saudi citizens specially with the diversification plan and allowing female to work have raised the standards of living & family earnings.

Impact of Covid-19

The retail market is deeply affected by the Covid-19 & lockdown. its aftereffects are emerging with the time as retailer are adopting new techniques and technology to sell and deliver their goods to the consumers at their doorstep.

Major retailer specially the fashion brands (clothing, accessories, health & beauty, home décor, jewelry & watches, footwear etc) struggled during the lockdown, which helped them to negotiate their rental with the landlord, we have witnessed the landlord also provided the short-term bailout alternatives to the retailer in difficult time. However, we believe such bailout will be temporary and will not have a big impact on overall retail market.

Hospitality

The overall summary of the Kingdom hospitality remain positive with the impact of transformation, cultural and social reforms & diversification efforts. With new initiative like entertainment & leisure led developmental projects, infrastructure improvement investment and easing of tourism policy and with on arrival visa for 49 countries will place Saudi Arabia on the must visit spot for tourist along with the religious tourism.

Impact of Covid-19

The overall market is being affected by Covid-19, however major dent was marked on the hospitality market related to religious tourism, primarily to Makkah & Medina and secondary on the Jeddah. The Makkah and Medina went to the state of complete lockdown during pandemic & the highest season of holy month of Ramadan. Recently, the Govt. announced that they will allow only 10,000 domestic pilgrims to perform Hajj this year. It is expected that the holy cities will open for international Umrah pilgrims from selected regions from Sep, 2020.

Industrial/ Warehousing

The industrial & warehousing markets have enough potential to grow this year with the Kingdom diversification plan effects, encouraging the non-oil-based businesses to grow. With potential influx of new entrants, FDI's and with technological advancement and e-commerce, the market will offer opportunities.

Impact of Covid-19

There is no bigger impact on the industrial market due to Covid-19, however, the supply chain, distribution, e-commerce and online shopping raised the warehousing needs. We have witnessed, online retailers, F&B, logistics expanding their foot print & presence.

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