

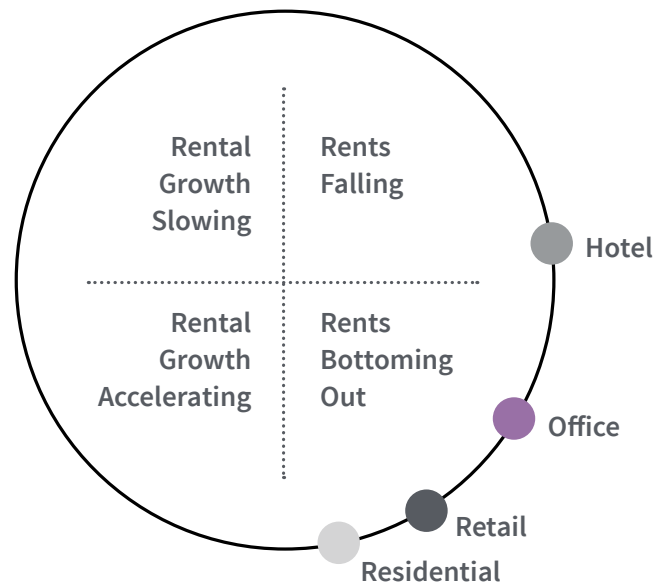
The KSA Real Estate Market

Q2 2020

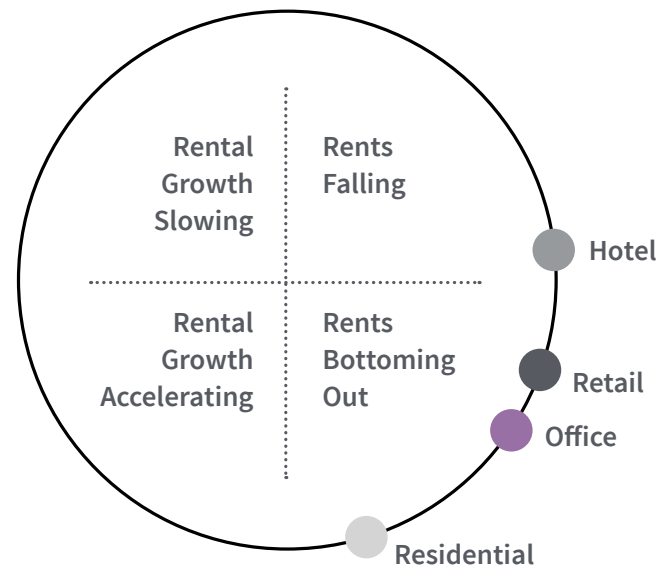


Real estate market overview

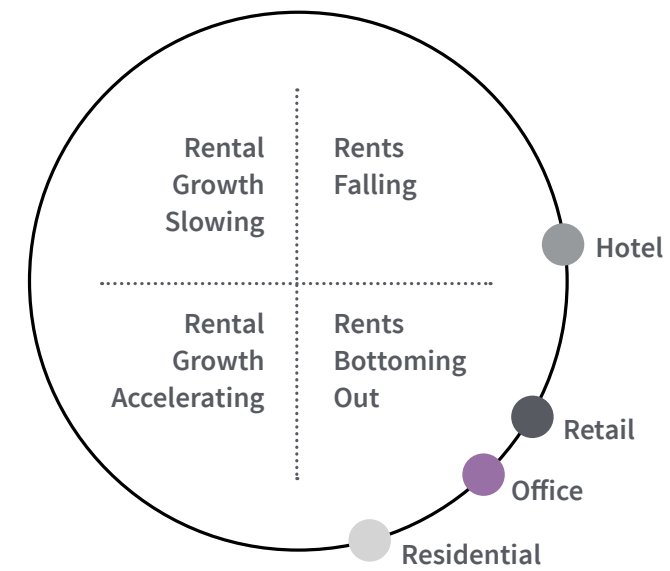
Riyadh Q2 2020



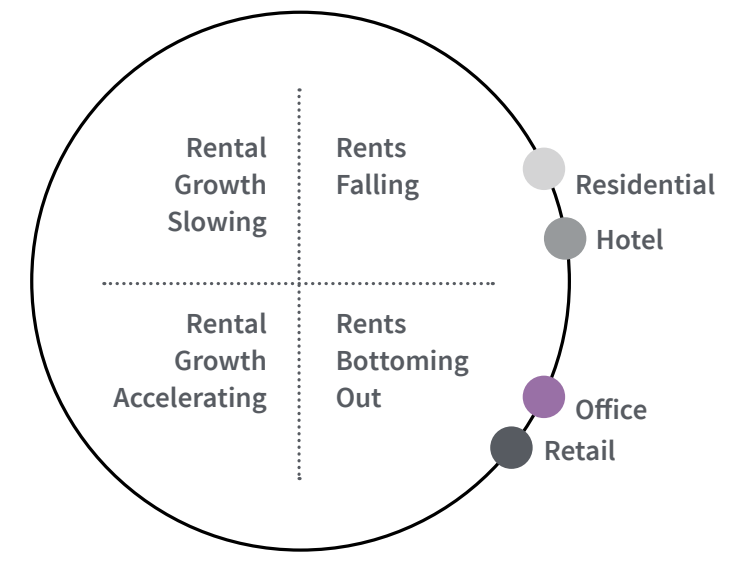
Jeddah Q2 2020



DMA H1 2020



Makkah H1 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



DMA



Jeddah



Makkah



Commercial activity in the Kingdom remained limited throughout the second quarter, despite revised lockdown restrictions. From a supply perspective, no new office GLA was handed over across the four main Saudi cities. As such, we expect many of the projects currently under construction and due for delivery in the remainder of the year to experience further delays.

This placed downward pressure on rental rates across the Kingdom, with Riyadh, being the commercial hub, continuing to perform better than the remaining cities. The Ministry of Finance's decision to restrict any lease renewals for government agencies unless rental rates are reduced by 20%, should place further downward pressure on rental rates.

Looking ahead, we expect corporate activity across the Kingdom to focus on alternative ways of optimizing and streamlining workspaces (particularly in light of VAT increases), including a shift into smaller, fitted-out units allowing for corporates to reduce their capital expenditure.

This could present an opportunity for new market entrants who offer co-working spaces, and virtual offices and meeting room rentals. This could see traditional office landlords structure deals with flex operators to ensure their occupancy rates remain optimal.

Residential

Riyadh



DMA



Jeddah



Makkah



Construction activity in the residential market remained somewhat active, as various projects were delivered across the main cities. However in the short-to-mid-term we expect delays in the handover of projects currently under construction, as the higher VAT imposed (effective 1st July) is expected to increase the cost of residential developments and sale prices, which is likely result in reduced demand and slower absorption.

To counter the impact, the Ministry of Housing has agreed to absorb the increased VAT for first time buyers of unit's worth SAR 850K or less, in efforts to promote demand and the affordable housing segment of the market.

However with expected high levels of unemployment, and a reprioritization of household spending as a result of the VAT, we expect a shift towards the rental market as it becomes comparatively more attractive and cost

competitive. This could see performance trends reverse, whereby sale prices begin to slowdown while rental rates pick up in the longer-term.

Retail

Riyadh



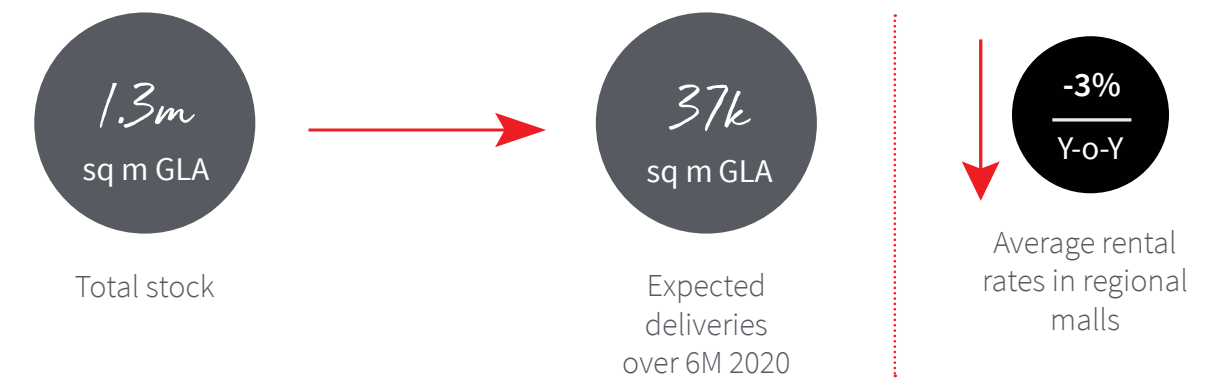
DMA



Jeddah



Makkah



The retail market across the Kingdom is expected to remain in the downturn stage of its cycle as the VAT increase and suspension of public sector allowances fuels further contractions in consumer spending, particularly on dining out and entertainment. This is expected to reflect negatively on rental rates, as these continue to soften over the second quarter.

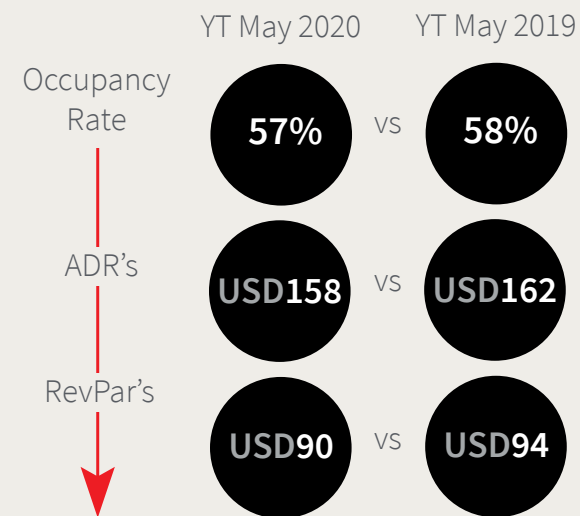
However, the entertainment market is currently at a nascent stage in Saudi Arabia, with latent demand far exceeding the available supply, which is likely to minimize the impact of the additional costs due to VAT over the short to medium term. In the longer-term, there is a high level of proposed entertainment supply, which may result in an adjustment in prices and rentals, regardless of VAT.

From a supply perspective, no new retail centers were delivered to the market. Those currently under construction are expected to witness some delays in handover as retailers focus on mitigating and minimizing

losses as opposed to expanding. Retailers in the roll-out phase of their operations are expected to seize the current slowdown in rental ratios as an opportunity to renegotiate leases and contracts.

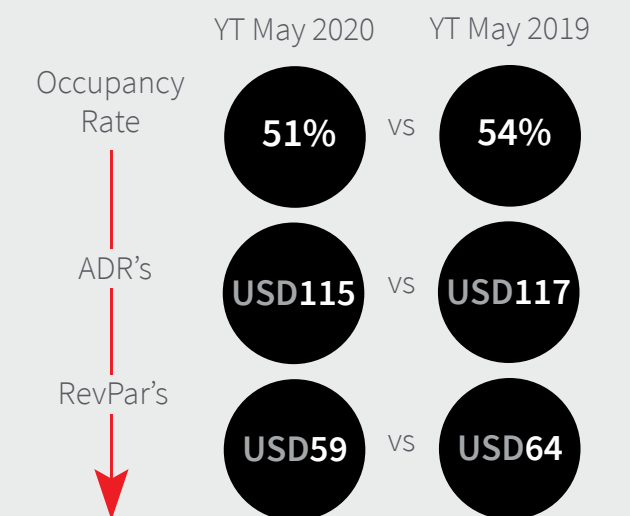
Hospitality

Riyadh



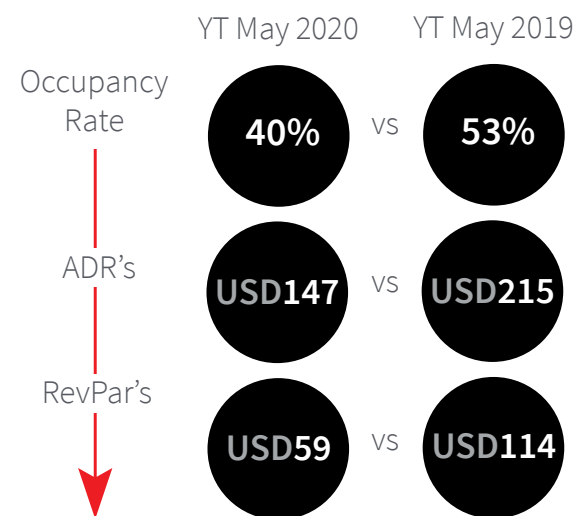
Source: STR Global

DMA



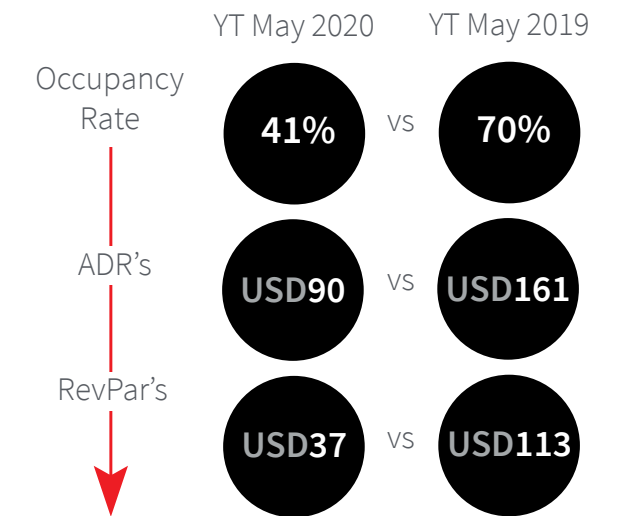
Source: STR Global

Jeddah



Source: STR Global

Makkah



Source: STR Global

Stringent precautionary measures and the ongoing suspension of international air travel, continued to impact the delivery of hotels in the Kingdom throughout the second quarter, as developers delay the handover of projects.

However given the significance of the tourism industry to the Kingdom's diversification efforts, the Ministry of Tourism launched a USD 4 Billion (SAR 15 billion) tourism development fund aimed at providing financing to investors, and supporting in the development of various mega-projects. This is expected to drive construction in the sector and ensure the delivery and development of hotels in Saudi Arabia in the long-run.

The performance of hotels continued to trend downward, registering annual declines in occupancy rates and average daily room rates in the YT May 2020. While the latest figures published reflect this, we believe the rate of decline is steeper as some hotels remain un-operational or have been taken over by the Ministry of Health.

Unsurprisingly, Jeddah and Makkah have recorded the largest declines considering the cancellation of Umrah. This is expected to reflect further in the third quarter as restrictions on Hajj pilgrimage will severely impact the number of tourist arrivals over the period.

Definitions and methodology

Future Supply

JLL estimates of future supply are updated quarterly, based on physical inspections and discussions with developers. 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

The supply data is based on our quarterly survey of Grade A and B office space located in certain areas of each city.

- 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.
- In the DMA, the areas covered include: Dammam Khobar Highway, Prince Sultan Street and Prince Turki Road.
- In Makkah, the areas covered include: Al Nuzha Road, Old Makkah – Jeddah Road, Um Alqura Street, Al Diyafa Street, the 3rd and 4th Ring Roads.
- “Completed” supply refers to projects / buildings that are handed over for immediate occupation.
- Office performance is based on the average of Prime, Grade A, and Upper Grade B office space within a basket tracked by JLL.
- Office vacancy rates are based on the average of estimates for a basket of buildings tracked by the offices and business space team.



Residential

- The supply data is based on the National Housing Census (2010) and our quarterly survey of major projects and stand-alone developments in selected areas in Riyadh, Jeddah, DMA and Makkah.
- “Completed” supply refers to projects / buildings that are handed over for immediate occupation.
- 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. Performance data in Makkah excludes units located in the Markazia area.

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 Q2 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.



Retail

Classification of Retail Centers is based upon the 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
- Retail supply relates to the Gross Lettable Area (GLA) within retail malls tracked by JLL.
- Retail performance is based on the quoted average rents for line shops for the major shopping malls in Riyadh, Jeddah, DMA and Makkah.
- Retail vacancy rates are based on the average of estimates for a basket of line shops in retail centers, tracked by the JLL Retail team.



Hotels

Hotel room supply is based on existing supply figures provided by the Saudi Commission for Tourism and Antiquities as well as future hotel development data tracked by JLL the Hotels team.

- Room supply includes 3, 4 and 5-star hotel rooms, but excludes serviced apartments.
- Performance data is based on a monthly survey of hotels conducted by STR Global.

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