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Riyadh

The Riyadh Real Estate Market

Q3 2018

Market Summary

The performance of Riyadh's real estate market remained relatively subdued across all asset classes. As such, all sectors remain in the downturn stage of their cycle.

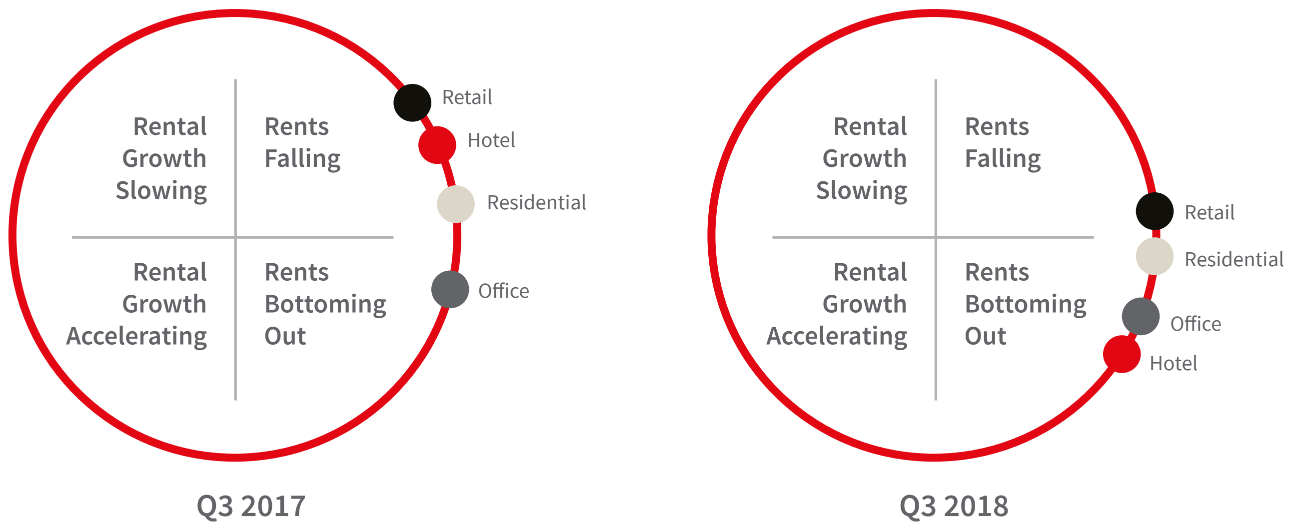
The **office** market saw a few small project completions which left the total office GLA in Riyadh largely unchanged at around 4.10 million sq m. Meanwhile, office rents declined 4% on an annual basis and 3% Q-o-Q, on the back of a slowdown in economic conditions and business activity. Business activity focused on consolidation rather than expansion, which saw vacancy rates remain flat at 8%.

The total supply of **residential** units reached 1.29 million units, with a further 7,000 units expected over the last quarter of the year. Average rents and sale prices remained largely stable on a quarterly basis, with a 3% decline registered on an annual basis. While the upcoming supply pipeline consists of high-end projects, we are likely to see more affordable housing project announcements, in line with the Ministry of Housing's drive to provide accommodation for all.

The **retail** market saw the completion of Al-Dhahiah Center which has had little impact on total retail GLA. Supply remained at approximately 2.14 million sq m. Rental rates continued to soften as vacancy rates increased to registered 15% across all mall types. This comes as the retail market remains under pressure, with landlords now looking to promote the concept of 'Shoppertainment' to differentiate their products and maintain footfall.

Activity in the hospitality market remained subdued as no new hotel rooms were delivered over Q3 2018. Total **hotel** room stock in Riyadh remained unchanged at around 12,400 keys. While occupancy rates improved slightly, ADR's and RevPar's remain under pressure.

Riyadh Prime Rental Clock



** Hotel clock reflects the movement of RevPAR (Revenue per available room: ADR * occupancy rate)*

Note: *The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle. 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. Source: JLL*

Office

Hot Topic

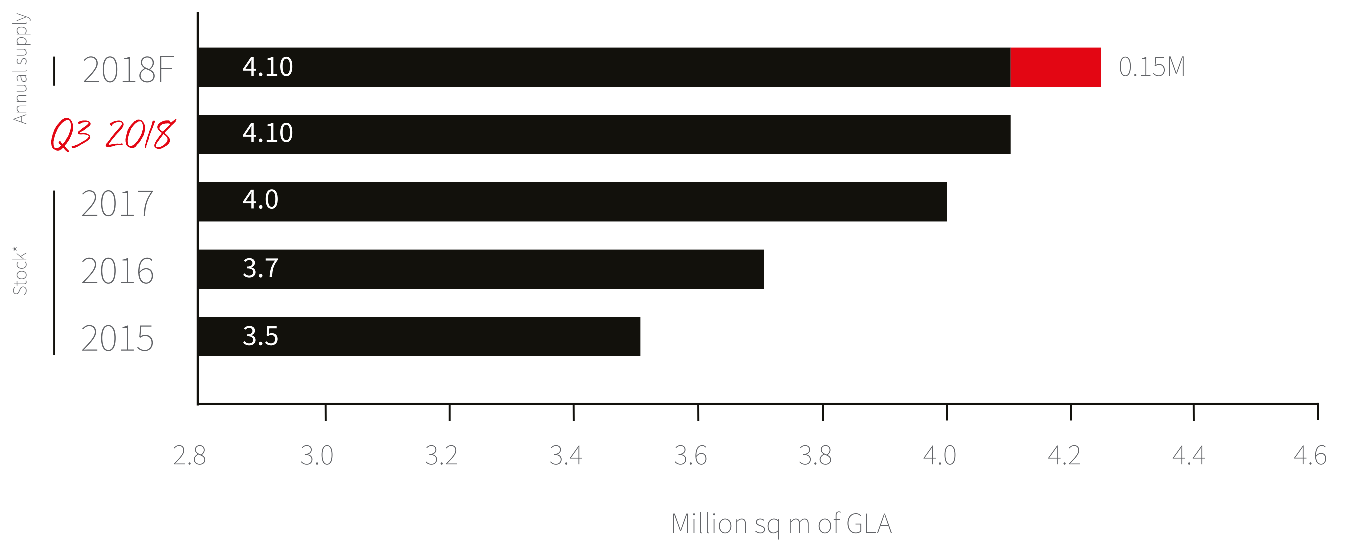
Progress on the construction of the Riyadh metro is underway, with around 75% completion rate recorded as of Q3 2018. Once completed, the Riyadh metro will offer significant support to the business infrastructure and improve accessibility to the office space located in the Central Business District (CBD), King Abdullah Financial District (KAFD) and other office developments, thus increasing demand for office space in these locations.

The KAFD Metro Hub, will serve as a key interchange on the new Riyadh Metro network for Line 1 and the terminus of Line 4 for passengers connecting to King Khaled International Airport (KKIA), thus improving business travel and making it one of the main stations expected to witness high footfalls. The 45,000 sq m complex will include six platforms with four above ground levels and two below accommodating car parking facilities.

Supply

Q3 2018 saw the completion of Elite project, a relatively small office building located on Prince Abdulaziz Ibn Musaid Ibn Jalawi Street. This minor completion left the total quality office GLA in Riyadh largely unchanged at around 4.10 million sq m.

The last quarter of 2018 is expected to see a more significant increase in the supply of office space, with nearly 153,000 sq m scheduled for completion. This includes Majdoul tower, the first phase of the Business Front, Malathek 1 tower, Alwan Center, Binayat Center, Deem Center, Back Yard, and Laban Plaza. The delivery of these projects within the time frame will see the total office stock increase to 4.25 million sq m by year end.



**Supply estimates for 2019 and 2020 have been excluded given the lack of clarity on the completion of the first phase of the KAFD project.* *Source: JLL*

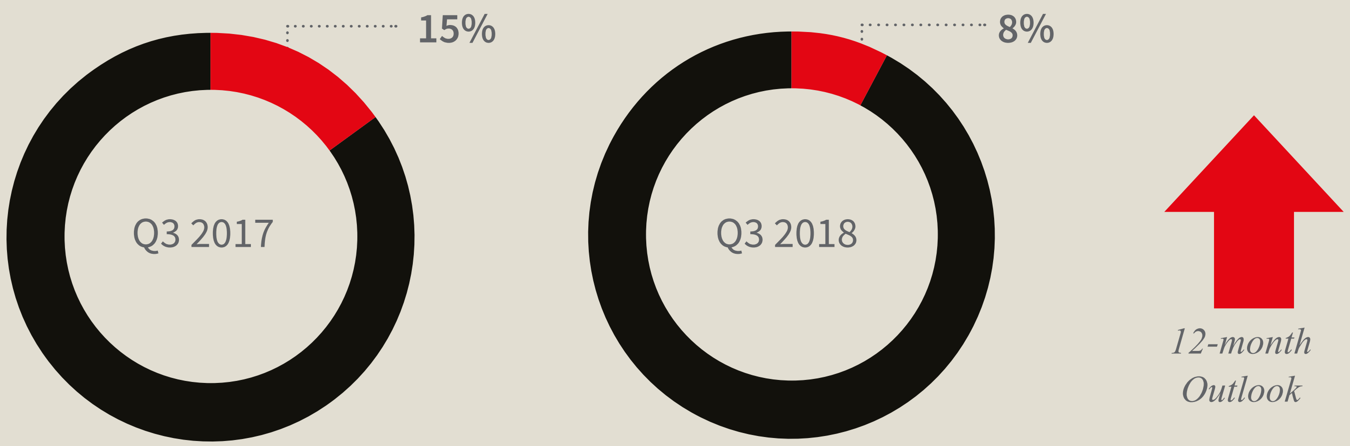
Office

Performance

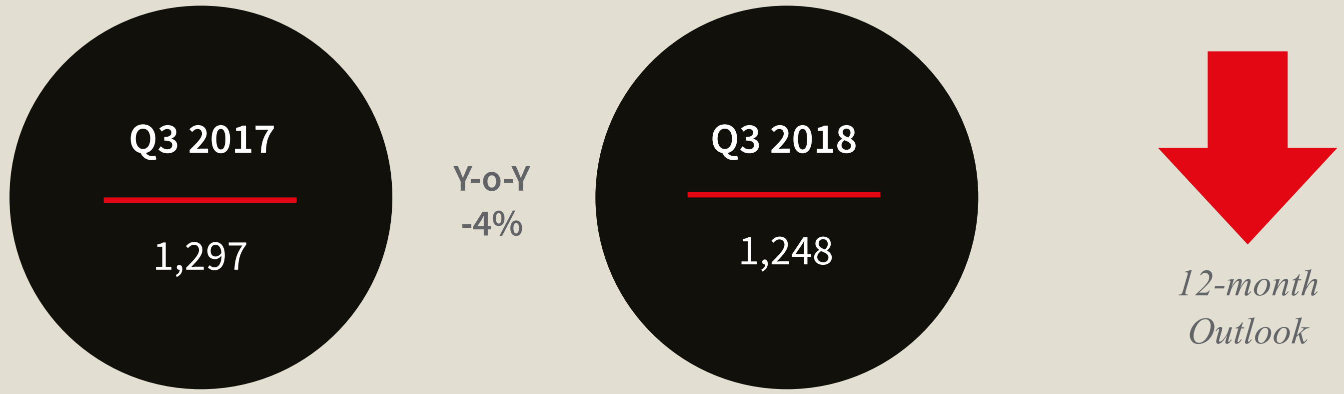
Office rents declined 3% Q-o-Q with the weighted average rent currently at SAR 1,248 per sq m, representing a 4% decline from Q3 2017 levels. This comes as the result of a slowdown in economic activity and the subsequent downsizing and consolidating of many businesses. Looking ahead, rents are likely to soften further due to the expected delivery of new stock over the remainder of the year, and the potential release of office space within phase 1 of KAFD.

Vacancies remained unchanged at around 8% as of Q3 2018 versus Q2 2018. While vacancies appear to have declined significantly over the past year (from 15% in Q3 2017) this reflects changes to JLL's basket of monitored projects which was done in the beginning of this year rather than any improvement in take up in the market. Vacancy rates are expected to continue increasing as more supply is handed over.

Vacancy Rate



Rents (SAR / sq m)



Source: JLL

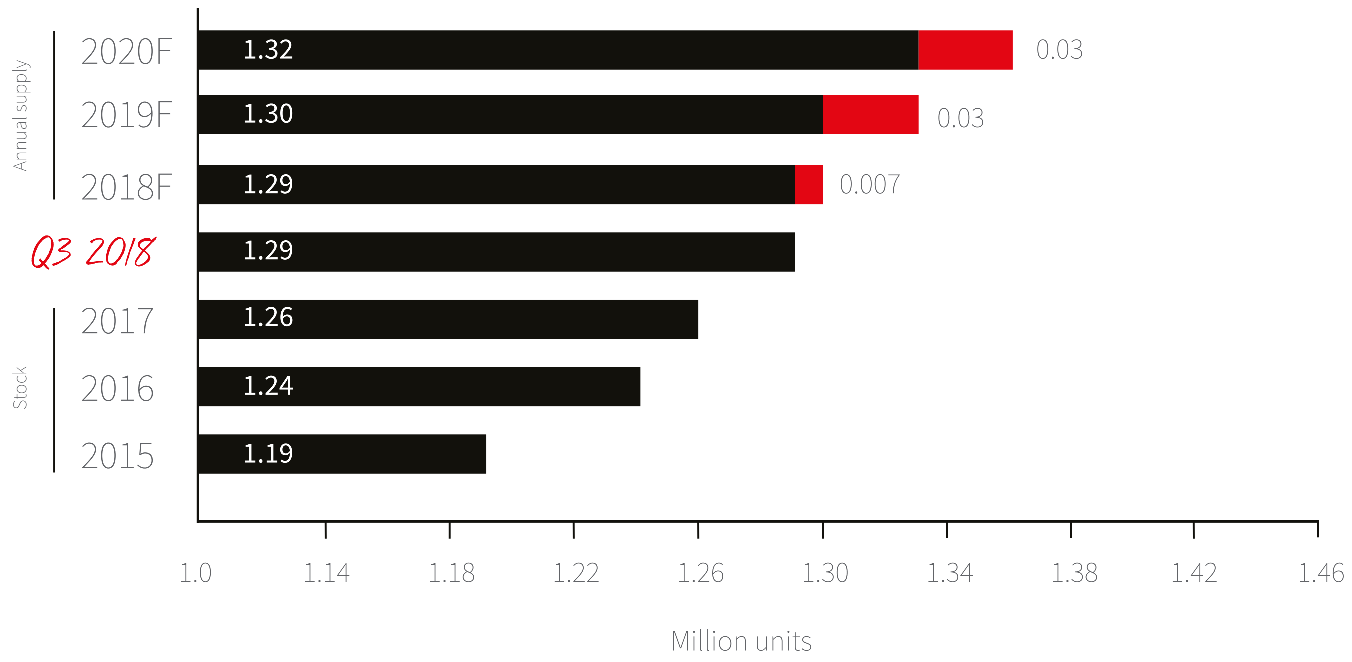
Residential

Hot Topic

In line with the Ministry of Housing's efforts to promote the development of affordable housing, Hamad and Ahmed Mohammed Al-Mozaini Real Estate Company commenced work on Phase 1 of their project, 'East Gate'. Phase 1, expected to complete in 36 months, will consist of 2,129 villas and is estimated to cost around SAR 1.4 billion. Initial works also include the development of surrounding infrastructure and the establishment of supporting facilities. East Gate is considered one of the largest fully integrated affordable housing projects in the Kingdom, extending across 6.5 million sq m of land and providing almost 6,000 residential villas in total.

Supply

Q3 2018 saw a number of residential completions in Riyadh, including Al Bayt 53 Hittin bloc 83, Midtown Malga Project, Hayat Villa, and Nuzul al-Maha. The completion of other small stand-alone villas and apartment buildings brings the total supply of residential units in Q3 to 1.29 million units, with a further 7,000 units expected over the last quarter of the year. These include projects such as DAMAC Tower by Paramount, DAMAC Esclusiva, Malathek 1, Canary al-Khozama, and M Residence.



Source: JLL

Residential

Performance

Overall the performance of the residential market remained subdued in Q3 2018. Average rents continued to decrease, with marginal declines of 1% recorded across apartments and 2% Y-o-Y across villas. In turn, sale prices of apartments and villas dropped 3% over the same period. We remain cautious about the 12-month outlook, expecting to witness further downward pressure on residential rents and prices.

Q3 2018 saw the announcement of monthly payment options in newly signed rental contracts through the Ejar platform. Ejar launched a new electronic payment feature, with the option to choose payment frequency as monthly, quarterly, half yearly, or annually. This is expected to provide more flexibility to the tenants while simultaneously assisting property owners to collect rents on time. The new contracts, which are considered legally binding and enforced, are likely to be a positive catalyst to the regulation and transparency of the residential sector.

Apartments (% change)

	Q-o-Q	Y-o-Y
Sales	0%	-3%
Rental	0%	-1%

12-month Outlook

Villas (% change)

	Q-o-Q	Y-o-Y
Sales	0%	-3%
Rental	0%	-2%

12-month Outlook

Source: JLL

Retail

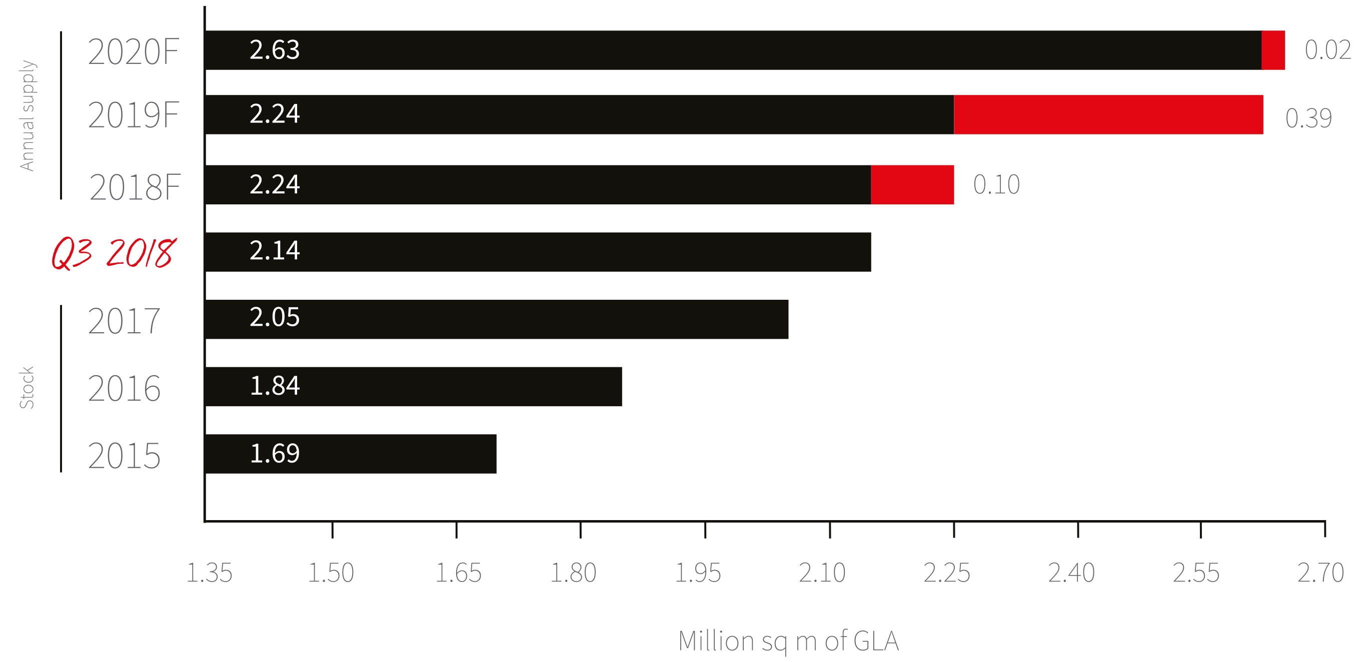
Hot Topic

With e-commerce on the rise, cinemas, F&B and entertainment options are becoming increasingly important features of shopping centres, and will continue to play a greater role in their performance. Going forward, we expect mall operators to implement 'Shoppertainment' methods to differentiate their space from other retail offerings and ensure higher footfalls.

Leejam Sports Company, a large fitness centre operator in KSA was listed on Tadawul stock exchange in September 2018. This listing was positively received as it is in line with the Kingdom's Vision 2030 to promote health and fitness within the society.

Supply

Q3 2018 saw the completion of al-Dhahiah Center situated in Western Riyadh. This minor completion left total retail supply in the market relatively stable at approximately 2.14 million sq m. Almost 98,000 sq m of retail space is scheduled for completion by year end. Notable upcoming projects include Hamad Mall, Elegant Center, Deem Center, Deyyafa, al-Takhassusi Plaza, Mercato Strip Mall, Binayat Center, Elite, Laban Plaza, Olaya Plaza, Souq Hittin, and Garden Wood. Looking ahead, the retail market is expected to see an increase in supply with over 388,000 sq m of retail GLA in the pipeline. Construction delays and the soft performance of the retail sector could possibly result in some delays in the delivery of these projects.



Source: JLL

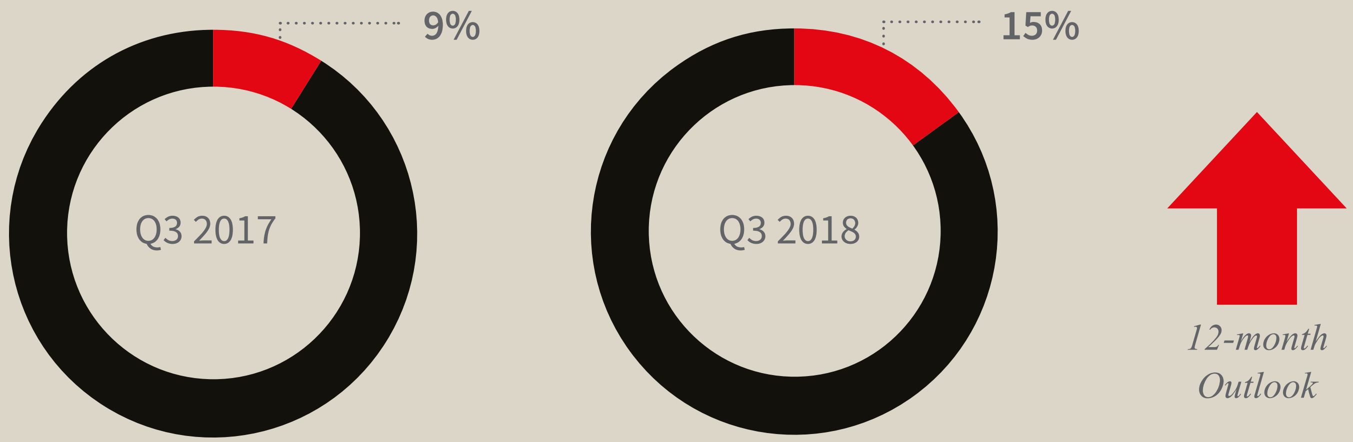
Retail

Performance

Retail rents continued to soften in Riyadh over Q3 2018. Rents in super regional malls remained unchanged Q-o-Q and decreased 4% Y-o-Y, whereas rents in regional malls decreased 3% and 5% quarterly and yearly respectively. Meanwhile, rents in community centres declined 2% Q-o-Q and 11% Y-o-Y. In response to the softening performance of the retail sector, mall managers continued to offer rent incentives and more generous leasing terms to maintain their tenant base. Vacancy rates increased 6 bp Y-o-Y to reach 15% as of Q3 2018. As more retail stock is handed over, we expect vacancy rates to increase further.

According to the Saudi Arabian Monetary Authority (SAMA), both the number and value of point of sales transaction in Riyadh increased over the year to August, by around 32% and 9% respectively. The rate of increase in the value of transactions remained far below that of the number of transactions, suggesting that consumer preference still trends towards value for money, which is likely to remain the case in the near future.

Vacancy Rate



Change in Average Rents

Super Regional 0% Q-o-Q	Super Regional -4% Y-o-Y
Regional -3% Q-o-Q	Regional -5% Y-o-Y
Community -2% Q-o-Q	Community -11% Y-o-Y

12-month Outlook

Source: JLL

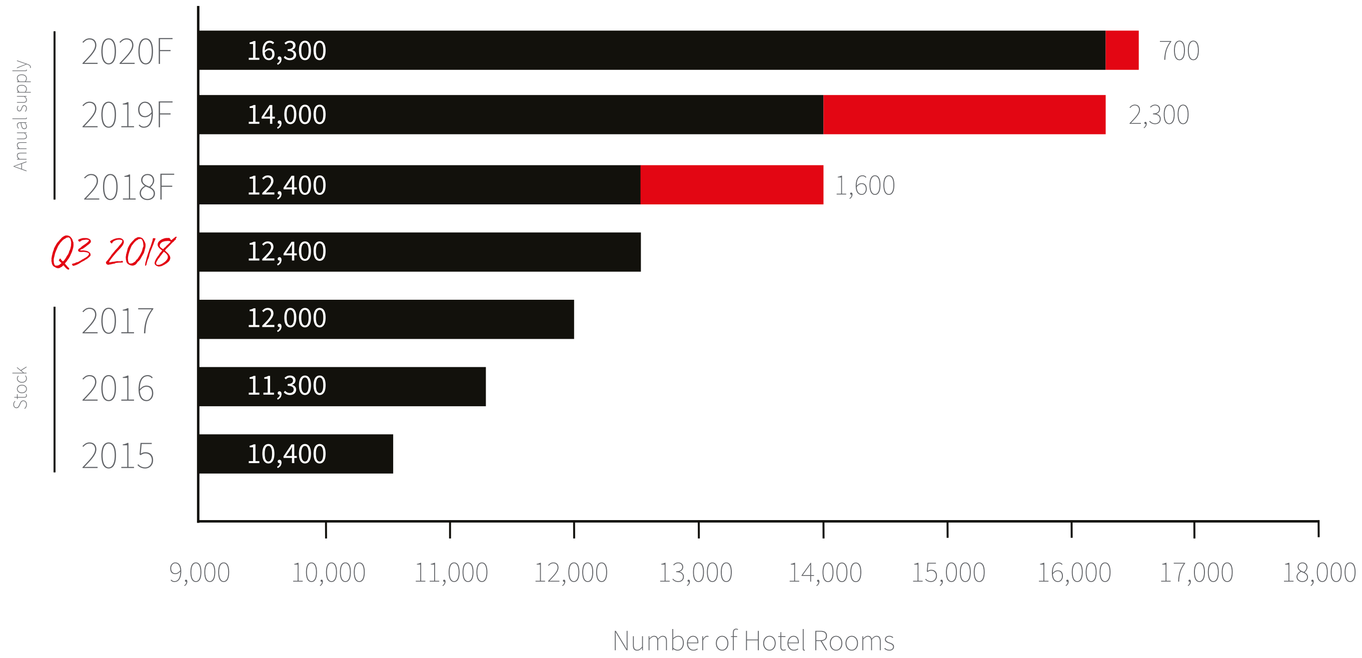
Hotel

Hot Topic

The government of Saudi Arabia is pushing ahead with its diversification efforts by introducing various mega-projects across the country. One of these mega-projects is Qiddiya Entertainment City, with phase one expected to open in 2022. The megaproject spreads over 334 sq km and is located 40 kilometres west of Riyadh. Qiddiya Entertainment City will include amusement parks, recreation centres and hospitality components, and is expected to host 17 million visitors by 2030 attracting local, regional and international leisure travellers.

Supply

The hotel market in Riyadh did not witness any notable additions to the supply over Q3 2018. As such, the total hotel room stock in Riyadh remained unchanged at around 12,400 keys. Nearly 1,600 hotel keys and 800 serviced apartments are scheduled for completion by year-end. Notable projects include Hilton Riyadh Hotel & Residences (GOSI), Hilton Riyadh King Saud University, Le Meridien Riyadh, Centro Olaya, Hyatt Place Riyadh Sulaimania, Intercity Malaz, Marriott Hotel and Marriott Executive Apartments DQ, Radisson Blu Hotel & Residence DQ, Shaza Hotel, and Hilton Riyadh King Saud University Residence. In light of the soft performance of the hospitality market, we could see delays in the delivery of some of these projects.



Source: JLL

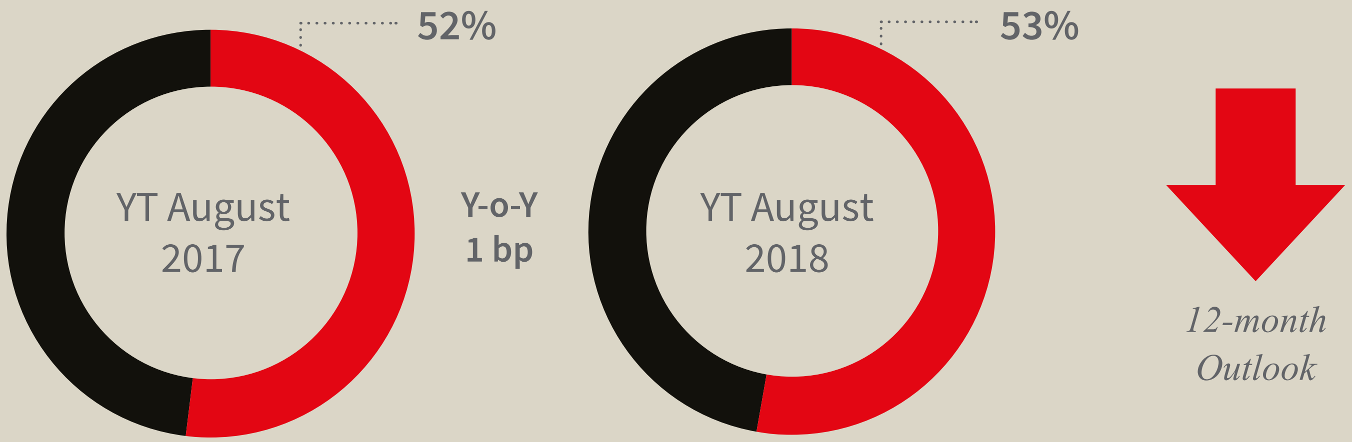
Hotel

Performance

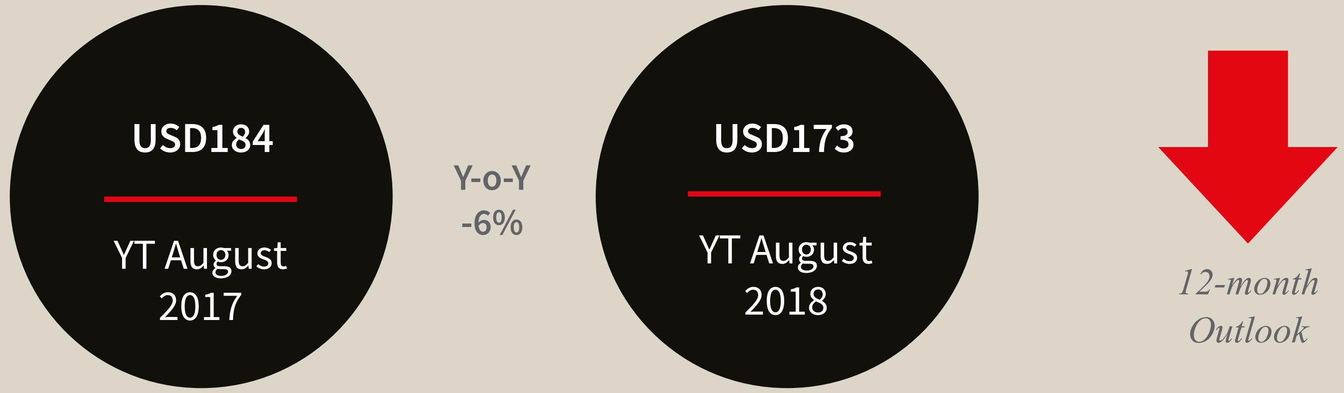
Hotel occupancy rates improved marginally in the YT August 2018 registering 53%, a 1 bp increase from YT August 2017 levels. Meanwhile, ADR's dropped 6% to reach USD 173, down from USD 184 over the same period last year. This has resulted in a 5% decline in RevPAR to USD 91 in the YT August 2018.

Given the hospitality market's large reliance on corporate demand, we expect hotel performance to remain under pressure in the short term. The increased competition from the delivery of additional stock over the next 12 months is likely to add pressure on the market and see ADR's and occupancy rates drop further.

Occupancy Rate



ADR (USD)



Source: STR

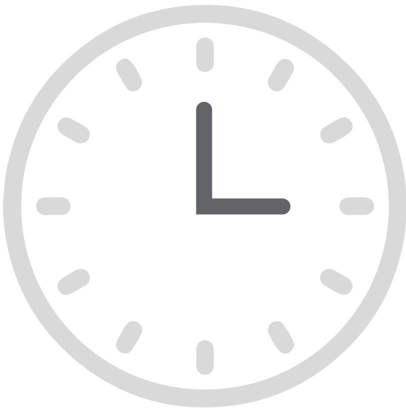
Property Clock

12 O'clock

Indicates a turning point towards a market consolidation / slowdown. At this position, the market has no further rental growth potential left in the current cycle, with the next move likely to be downwards.

9 O'clock

Indicates the market has reached the rental growth peak. While rents may continue to increase over coming quarters the market is heading towards a period of rental stabilisation.



3 O'clock

Indicates the market has reached its point of fastest decline. While rents may continue to decline for some time, the rate of decrease is expected to slow as the market moves towards a period of rental stabilisation.

6 O'clock

Indicates a turning point towards rental growth. At this position, we believe the market has reached its lowest point and the next movement in rents is likely to be upwards.

Definitions

Definitions

Office

The supply data is based on our quarterly survey of the Grade A and B office space located in, but not limited to, the CBD, North and East Ring roads, Khurais, Mazer, and Sitteen Streets.
Completed building refers to a building that is handed over for immediate occupation.
Weighted average rents represent the average of Prime, Grade A and Upper Grade B office space. Prime Office Rent represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter period). The Prime Rent reflects an occupational lease that is standard for the local market. A face rent does not reflect the financial impact of tenant incentives, and excludes service charges and local taxes. Vacancy rate is based on estimates from the JLL Office and Business Space team.
While the first stage of the KAFD project is physically complete, no decision on the release date of this project has yet been made. We have therefore excluded the KAFD project from our estimates of future supply for the purpose of this report

Residential

The supply data is based on the National Housing Census (2010), a residential study by Arriyadh Development Authority (1437 H) and our quarterly survey of major projects and standalone developments in selected areas of Riyadh.
Completed building refers to a building that is handed over for immediate occupation
Residential performance data is based on two separate baskets one for rentals in villas and apartments and another basket for sales performance for both villas and apartments in selected locations across Riyadh.
While the first stage of the KAFD project is physically complete, no decision on the release date of this project has yet been made. We have therefore excluded the KAFD project from our estimates of future supply for the purpose of this report

Retail

Retail supply relates to the Gross Lettable Area (GLA) within retail malls and quality plazas. Weighted average shopping centre rents represent the quoted average rents for line shops for major shopping malls. Vacancy rate is based on estimates from the JLL Retail team, and discussions with leasing agents, and represents the average rate across shopping centres.
Classification of Retail Centers is based upon the ULI definition and based on their 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
Vacancy rate is based on estimates from the JLL Retail team, and represents the average rate across standard in line unit shops at regional malls.
While the first stage of the KAFD project is physically complete, no decision on the release date of this project has yet been made. We have therefore excluded the KAFD project from our estimates of future supply for the purpose of this report

Hotels

Hotel room supply is based on existing supply figures provided by Saudi Commission for Tourism and Antiques as well as future hotel development data tracked by Jones Lang LaSalle Hotels. 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.
While the first stage of the KAFD project is physically complete, no decision on the release date of this project has yet been made. We have therefore excluded the KAFD project from our estimates of future supply for the purpose of this report

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