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**Middle East Real Estate
Predictions**

2023

KSA market review

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Executive summary

KSA real estate market performance

Saudi Arabia's gross domestic product (GDP) grew by 8.6% at the end of 2022 and is expected to moderate to 3.7% and 2.3% in 2023 and 2024 respectively, according to the World Bank. The post-COVID recovery of the real estate sector is led by increasing tourist demand and government spending on infrastructure projects such as the investment in King Salman International Airport, among others. These are expected to increase the demand for prime real estate, particularly Grade A offices and logistics facilities. Meanwhile, shifting customer preferences in the hospitality, residential and retail segments are driving developers to reimagine the hotel, home and leisure components within their master plans.



Hospitality

Both average daily rate (ADR) and occupancy improved from the previous year as a market-wide recovery was supported by the ease of travel and faster visa processing for tourists. The first three months of the year were the strongest for occupancy performance in Riyadh, reaching 76% in March. Meanwhile, Jeddah hotels recorded the highest occupancy performance in May at 59%.



Residential

Sales prices for villas and apartments have increased during 2022 in comparison to 2021 and the demand for apartments from Saudi nationals has remained strong.



Offices

Employment forecasts from Oxford Economics indicate the Financial and Business Services segment registered a year-on-year (y-o-y) growth of 12% in KSA. This has resulted in continued strong demand for Grade A stock in 2022.



Retail

The Economist Intelligence Unit (EIU) estimates that the total KSA retail sales volume increased by approximately 4% in 2022, with sales expected to increase by 2% a year on average between 2023 to 2026. In addition, rents in super regional and regional malls have softened during the first nine months of the year.



Industrial and logistics

Rents have remained relatively stable for prime stock due to the limited availability of international grade warehouse facilities and the increasing demand from logistics companies.

KSA real estate market performance



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KSA's hospitality market

The easing of travel restrictions, as well as enhanced visa norms providing faster online visas to tourists, has supported the country's post-pandemic recovery.

Review of 2022 performance

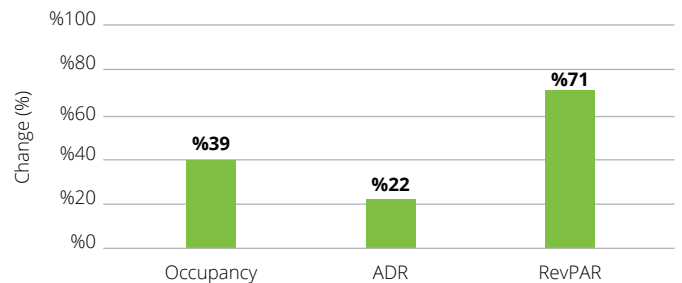
The year to date (YTD) September 2022 occupancy for KSA averaged 53% compared to 39% for the same period in 2021. Occupancy in Riyadh averaged 58% while Jeddah averaged 52% YTD September 2022.

ADR in Riyadh during the first nine months of 2022 has increased by 23.4% year-on-year to SAR 635 (USD 169). Meanwhile the ADR in Jeddah during the first nine months of 2022 has increased by 19.6% year-on-year to SAR 802 (USD 214).

Both ADR and occupancy improved from the previous year as a market-wide recovery was supported by the ease of travel and faster visa processing for tourists. The first three months of the year were the strongest for occupancy performance in Riyadh,

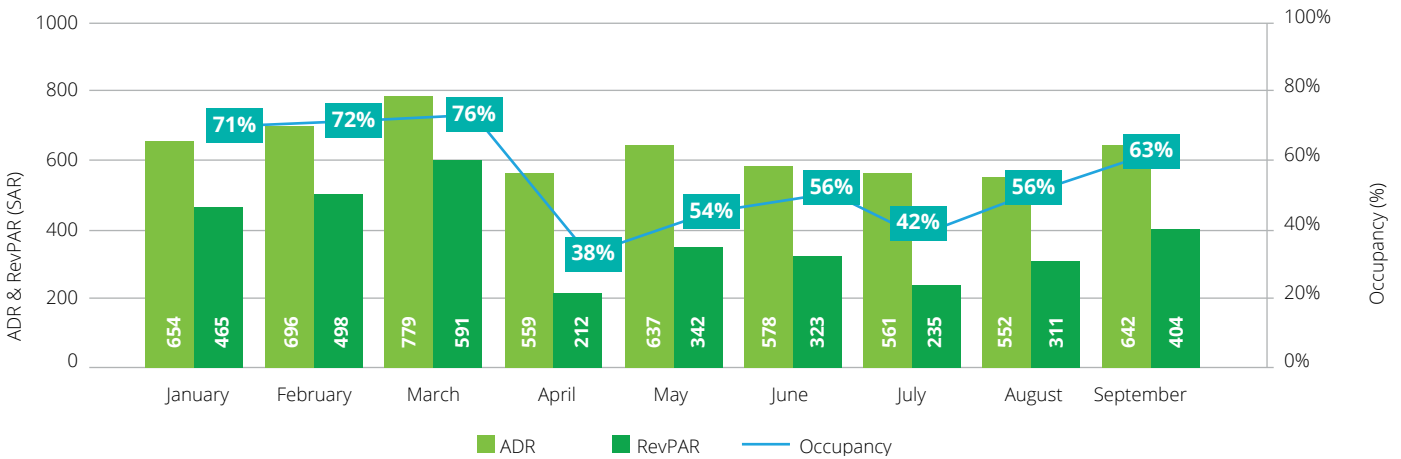
reaching 76% in March. Meanwhile, Jeddah hotels recorded their highest occupancy performance in May at 59%.

KSA hotel performance, percentage change, January to September 2021 versus January to September 2022

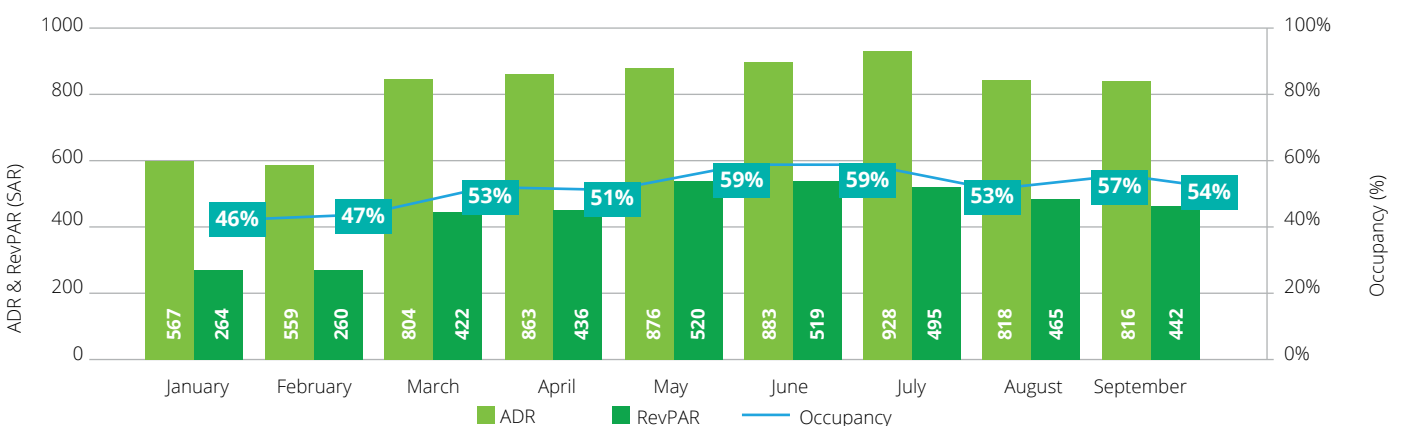


Source: STR Global

Riyadh hotel market performance, January 2022 to September 2022



Jeddah hotel market performance, January 2022 to September 2022



Source: STR Global

Poised for growth

Tourism development is one of the key pillars of the Saudi Vision 2030. The Ministry of Tourism, the Saudi Tourism Authority and the Tourism Development Fund are key entities focused on supporting the growth of this sector in the Kingdom.

YTD September 2022, Jeddah led the regional market in terms of ADR performance while Riyadh was among the top three cities in comparison to key regional markets. The average occupancy in both locations currently trails behind regional markets, however, KSA-wide occupancy in YTD September 2022 was 39% higher than the same period over the previous year.

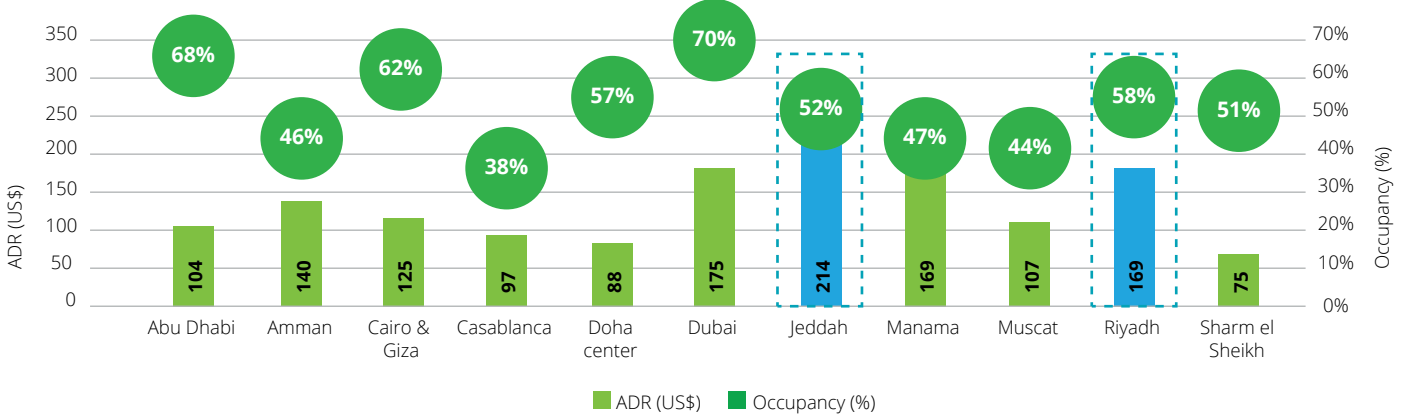
Saudi Tourism Authority reported in November 2022 that the country welcomed 62 million visitors in 2021, with visitation estimated to reach 70 million in 2022.

The facilitation of a tourist visa for GCC residents and the visa on arrival extension to UK, US and EU residents aims to support KSA's ambition to welcome 100 million visitors a year by 2030.

Select KPIs for 2021	Select KPIs for 2030
5.3% contribution to GDP from tourism	10% + contribution to GDP from tourism
836K new jobs created	1m new jobs created
62m total visitation	100m total visitation
33m domestic visitation	45m domestic visitation
30m international visitation	55m international visitation

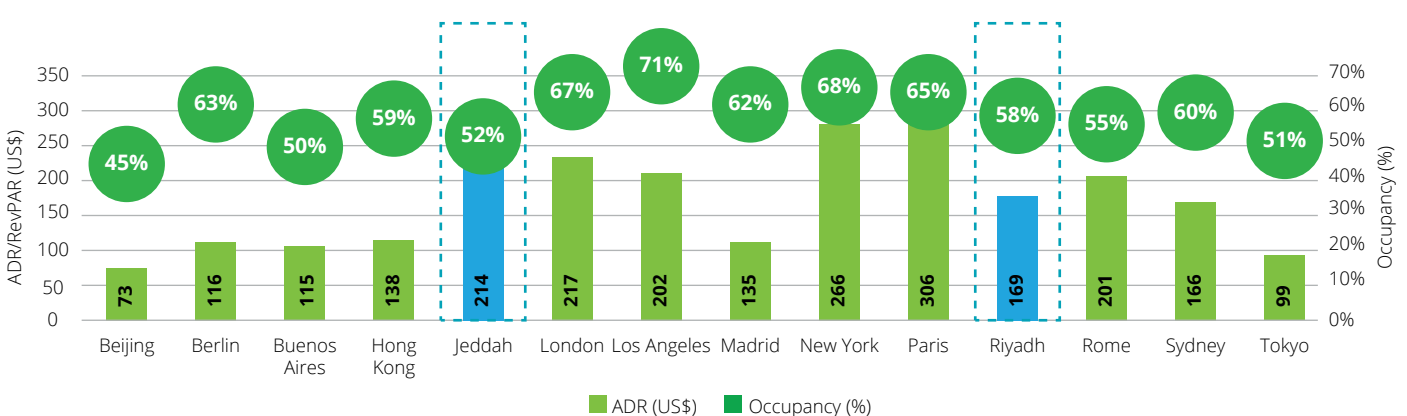
Source: Saudi Tourism Authority

ADR and occupancy vs regional markets, YTD September 2022



Source: STR Global

ADR and occupancy vs international markets, YTD September 2022



Source: STR Global

KSA's residential market

Sales prices for villas and apartments have increased during the first nine months of 2022 in comparison to 2021, underpinned by the strong demand for apartments from Saudi nationals.

Review of 2022 performance

Residential supply in key markets of Riyadh, Jeddah and Dammam Metropolitan Area (DMA) has increased YTD September 2022 in comparison to the same period in 2021. New projects delivered in 2022 mostly comprise Ministry of Housing projects such as Diyar Al Saad Housing Complex, Al Ajlan Riviera 21 in Riyadh and Al Fareeda Housing, Nesaj Town 2 in Dammam.

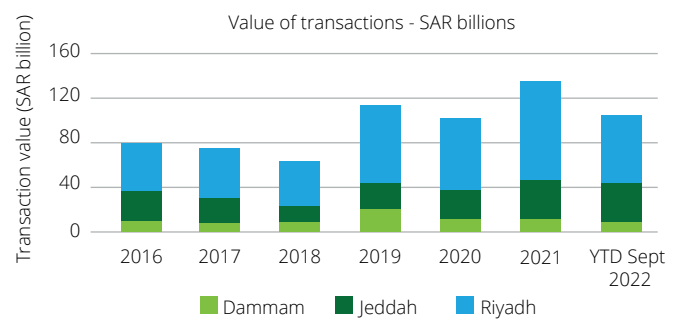
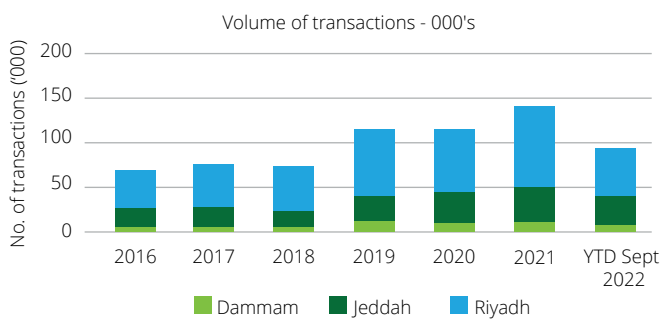
The total number of residential transactions in Riyadh, Jeddah and DMA was 95,022 in the first nine months of 2022, with a total value of SAR 106 billion (USD 28 billion). This is 5% higher than the value of transactions in these locations during the same period in 2021.

Sales prices and rents have registered a growth across Riyadh, Jeddah and DMA, with sales rates in Riyadh reaching double digit growth based on transaction data from the Ministry of Justice. In Riyadh, villas remain the preferred housing typology for Saudi

nationals, however apartments are becoming more prevalent following an increased focus on affordability coupled with better quality developments being released to the market. Despite the emerging shift towards smaller residential units, market supply has not fully aligned with current housing needs given that the majority of the large-scale developers have historically targeted the upper end of the income spectrum.

By comparison, in Jeddah there is increasing demand for upper-mid to high end residential units, with good quality apartment schemes continuing to sell well during the pre-construction phase. Meanwhile in DMA, the majority of residential supply is located within the northern regions. The current available stock is targeted towards the midscale segment of the population in standalone residential villas or low to mid rise apartment developments.

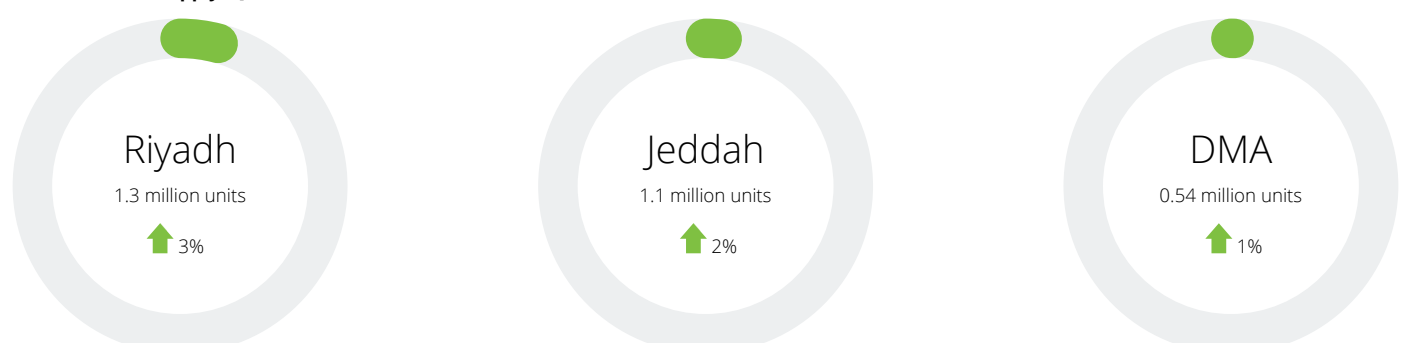
KSA residential supply, Q3 2022



Source: Ministry of Justice

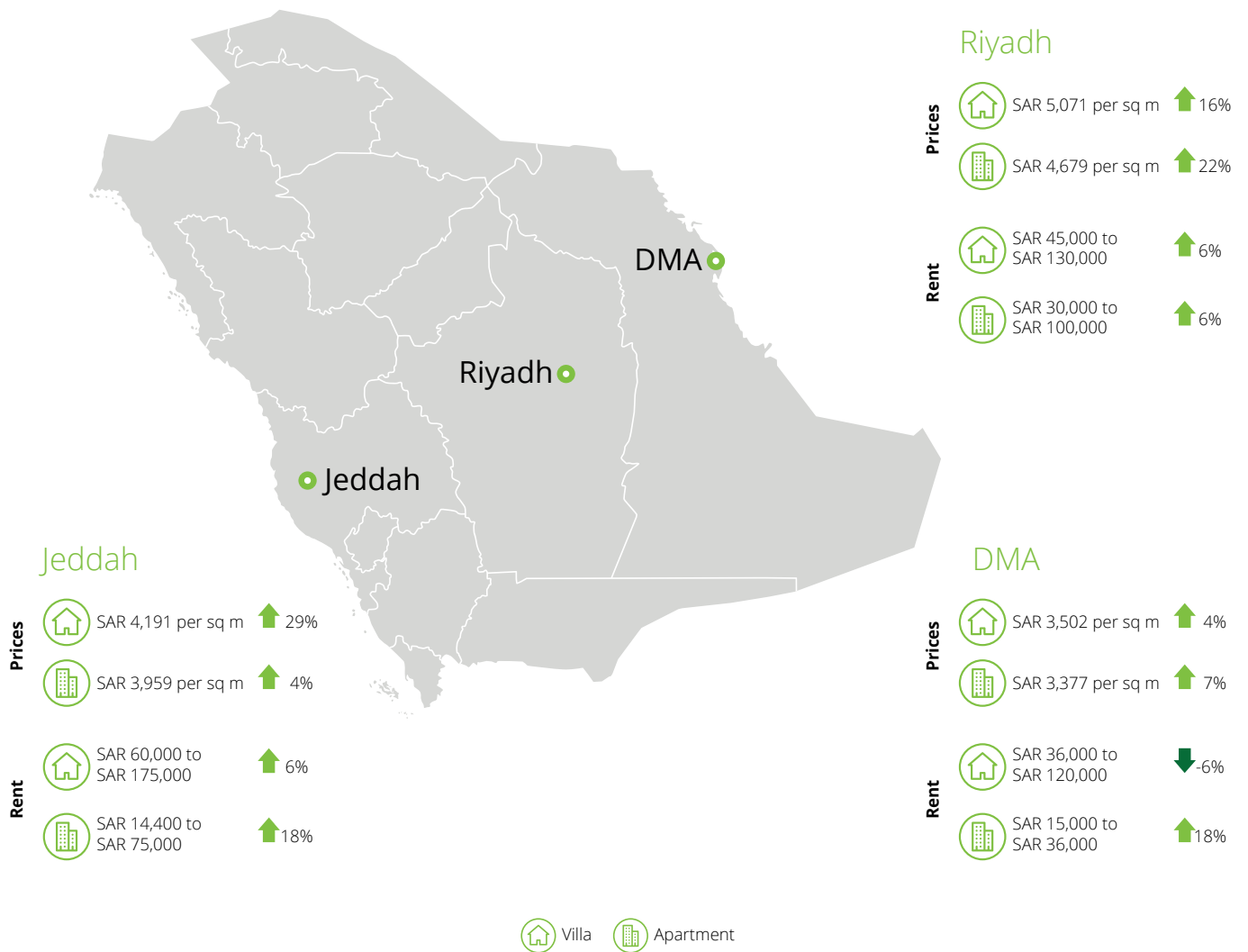
Note: The data includes building, flat, residential land and villas

KSA residential supply, Q3 2022



Source: RCRC; MEED Projects; Deloitte

KSA residential average sales prices and rents by location, Q3 2022



Source: Ministry of Justice; Deloitte

Average prices are quoted in SAR per sq m and average rents in SAR per annum with year-on-year percentage change based on rental transactions.

Note: 1 USD = 3.75 SAR

Population migration in KSA

A big data perspective on a vibrant society

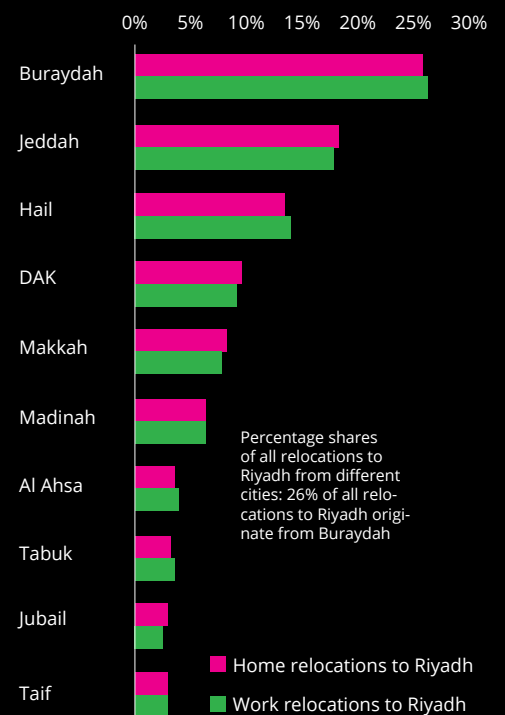
1. Detecting home location changes through big data

Finding the optimal asset portfolio to invest in and properties to develop requires an understanding of home relocation patterns across the country and within cities. What mix of real estate assets - housing, retail, healthcare, etc., is best to develop in a given market? What are the trends in remote work and office occupancy rates? When do people move houses and which neighbourhoods do they choose to relocate to? Harnessing the power of anonymised big data and AI can help property developers and investors understand consumer preferences which can support strategic decision-making. Deloitte has partnered with Perigon AI to analyse home relocation trends within KSA in response to the workplace location.

Home and work relocations in Saudi Arabia in 2021-2022



Home and Work relocations to Riyadh from different cities

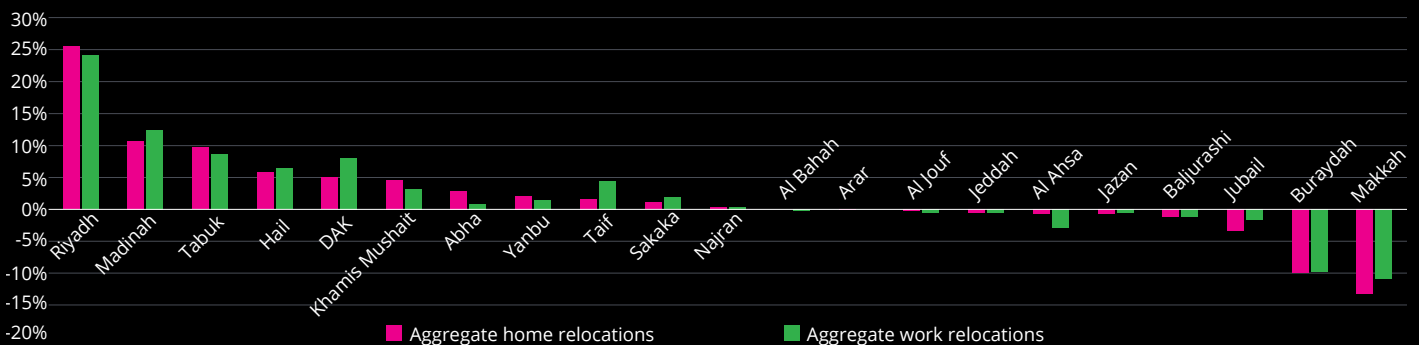


2. Which cities gained and lost?

In the image above, we see home relocations between cities in Saudi Arabia during 2021-2022, portrayed as strings. Focusing on Riyadh, the cities from where people moved homes and relocated to Riyadh the most, include Buraydah (26% of all

relocations to Riyadh), Jeddah (18%), Hail (13%), DAK (9%), Makkah (7%), and Madinah (6%), represented by pink bars. These home relocation patterns strongly correlate with work relocations, as one would expect, and as represented by the green bars.

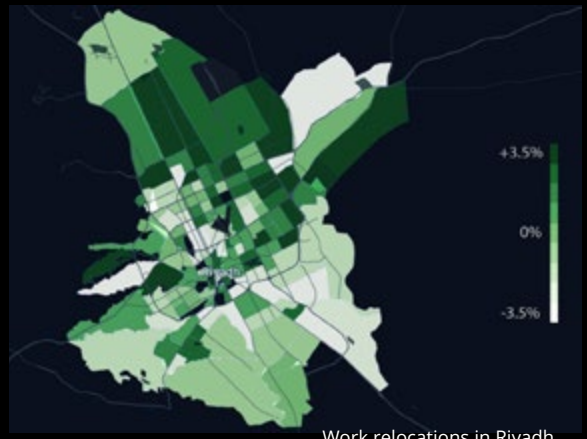
Home and work relocation shares between 21 KSA cities, 2021-2022



*Relocations were analysed only between 21 major cities, hence negative values represent relocation loss but not population loss



Home relocations in Riyadh



Work relocations in Riyadh

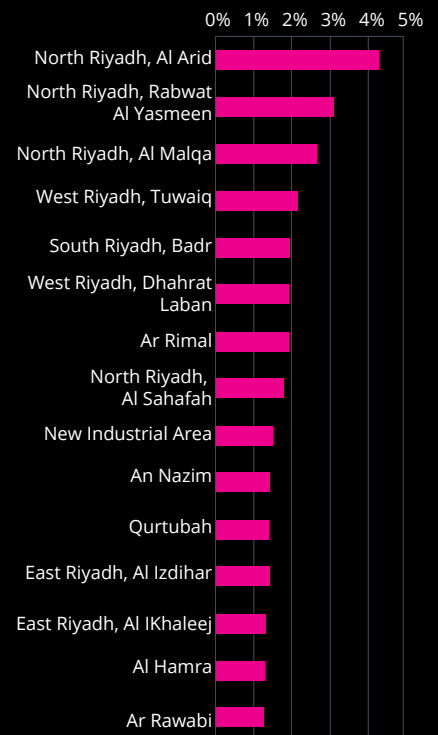
3. Home and work relocation patterns in Riyadh in 2021-2022

In the above plots, we see how Riyadh North has gained in terms of home (left) and work (right) relocations between 2021 and 2022. The districts that gained the most home and work relocations are Al Narjis, Al Arid and Al Malqa in Riyadh North; Al Nasim Al Sharqi, Al Khaleej and Ishbiliyah in Riyadh East. Let's look at the districts that contributed the most home relocations to Al Narjis, North Riyadh - the district with most inflow:



Home relocations to Al Narjis, North Riyadh

1% — 2% — 3% — 4% — 5%



4. Home relocations to Al Narjis, North Riyadh

The image above represents the top 15 districts from which people moved to Al Narjis, North Riyadh between 2021 and 2022. We see an interesting pattern emerging where most home relocations originate from the immediate neighbours of Al Narjis - Al Arid, Al Malqa, Rabwat Al Yasmeen; from the South and West Riyadh - Badr, Tuwaiq, and Dhahrat Laban; and from East Riyadh - Al Khaleej, An Nazim, and Ar Rimal.

These home and work relocation patterns analysed through streams of big data offer developers an accurate and granular view on the impact of intricate urban dynamics on real estate trends globally, and particularly in Saudi Arabia.

KSA's office market

Employment forecasts from Oxford Economics indicate financial and business services segments registered a year-on-year growth of 12% in KSA.

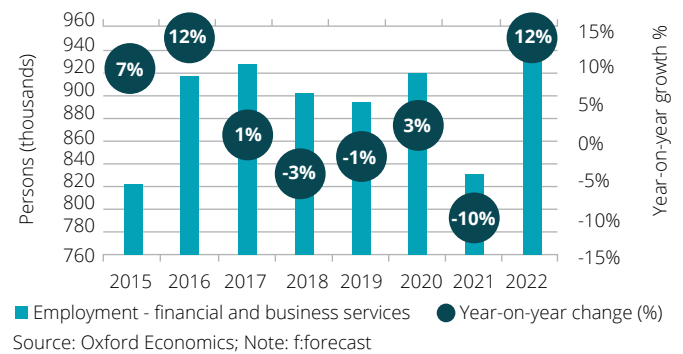
Review of 2022 performance

Office supply in the key markets of Riyadh, Jeddah and DMA stood at 5.2 million sq m, 1.3 million sq m and 1.3 million sq m respectively as of September 2022. Notable additions to the market in 2022 included SABB Headquarters on King Fahd Road and King Abdulaziz City for Science & Technology (KACST) Directorate's Complex in Riyadh, as well as Saudi Arabian Airlines cargo terminal offices in Jeddah.

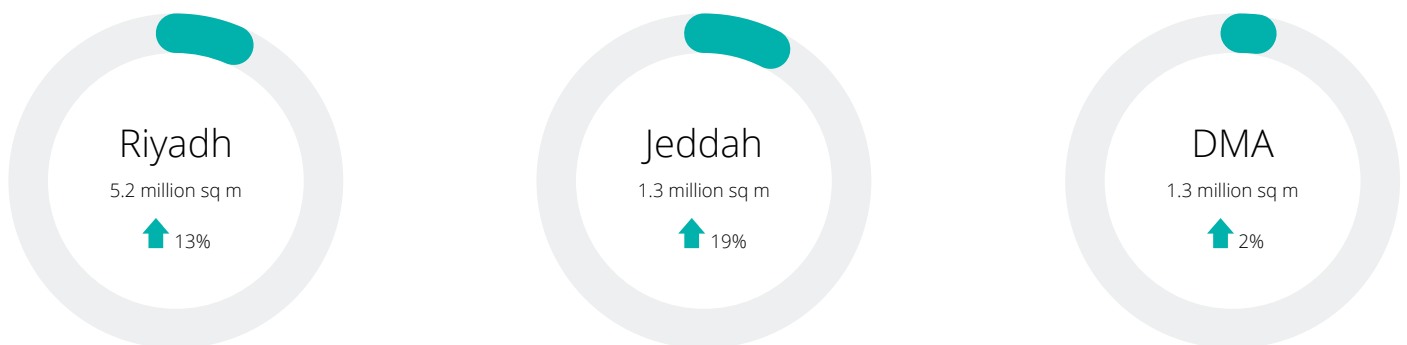
Saudi Arabia's GDP grew 8.6% in Q3 2022 and is expected to grow 8.3% in 2022, before moderating to 3.7% and 2.3% in 2023 and 2024 respectively, according to the World Bank. The post-COVID recovery of the office sector has been led by government spending on infrastructure projects such as investment in King Salman International Airport, among others. Demand for Grade A stock in Riyadh has remained strong, underpinned by the government's focus on developing the city as a regional hub for international companies. Meanwhile Jeddah and DMA Grade A stock primarily caters to government offices and public sector entities.

Landlords are increasingly offering incentives such as rent-free periods and fully-fitted smaller units to attract a wide range of tenants. Lease lengths typically align with the size of the unit, with larger units being leased for longer periods of six to nine years. As new quality stock enters the market, the existing Grade A stock will be under pressure due to increased competition. This will likely lead to further declines in rents and occupancy rates for Grade B stock.

KSA employment in financial and business services, 2015 to 2022f

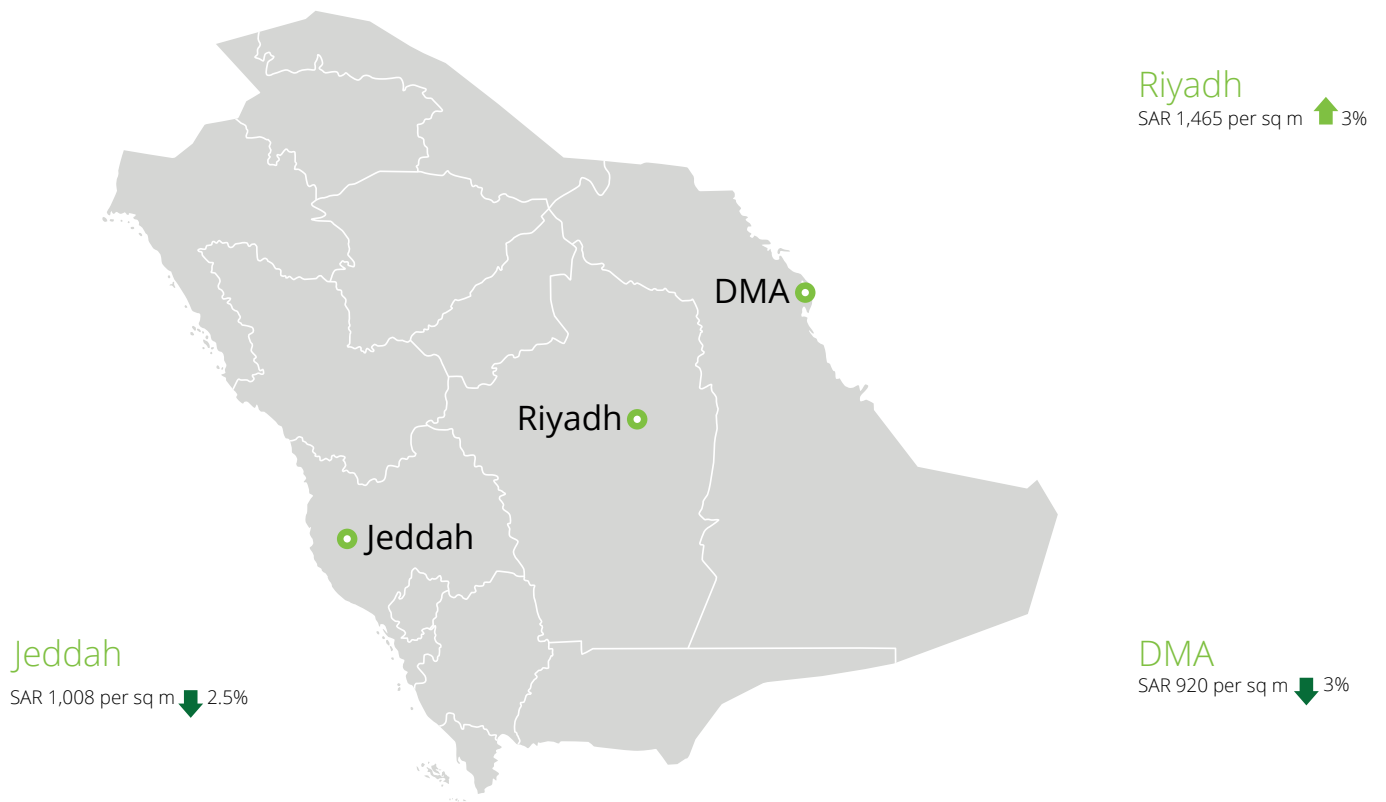


KSA office supply by location, Q3 2022



Source: Deloitte

KSA Grade A office rents by location, Q3 2022



Source: Deloitte

Note: Rents quoted above exclude service charge

Note: 1 USD = 3.75 SAR

KSA's retail market

The EIU estimates that the total KSA retail sales volume will increase by approximately 4% in 2022, with sales expected to increase by 2% a year on average over the remainder of the forecast period.

Review of 2022 performance

The bulk of future retail supply is expected to be delivered within the super regional mall category, demonstrating a potential market saturation in large-scale retail development. Entertainment, leisure facilities and an appropriate F&B mix will remain key differentiators in attracting footfall in an increasingly competitive market.

During the last 12 months, retail rents across KSA have softened, with average regional and super-regional mall rents declining by 1%.

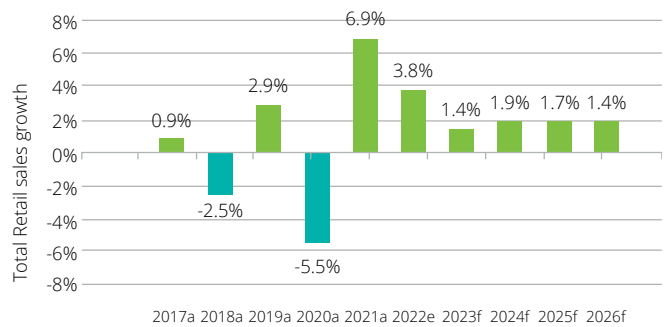
Prime malls in KSA have managed to maintain occupancy levels during 2022, and lifestyle retail offerings in particular have recorded an increase in footfall following the lifting of COVID-19 restrictions.

KSA consumer preferences

The shifting role of the retail sector within the social fabric of the Kingdom's society has caused an increase in the demand for food and beverage (F&B) outlets, giving rise to an increasing number of homegrown concepts.

Retail outlets are now considered places to socialise on top of shopping, encouraging retail landlords to increase the portion of entertainment, leisure, and F&B outlets within the retail mix,

KSA retail sales volume growth, 2017 to 2026f

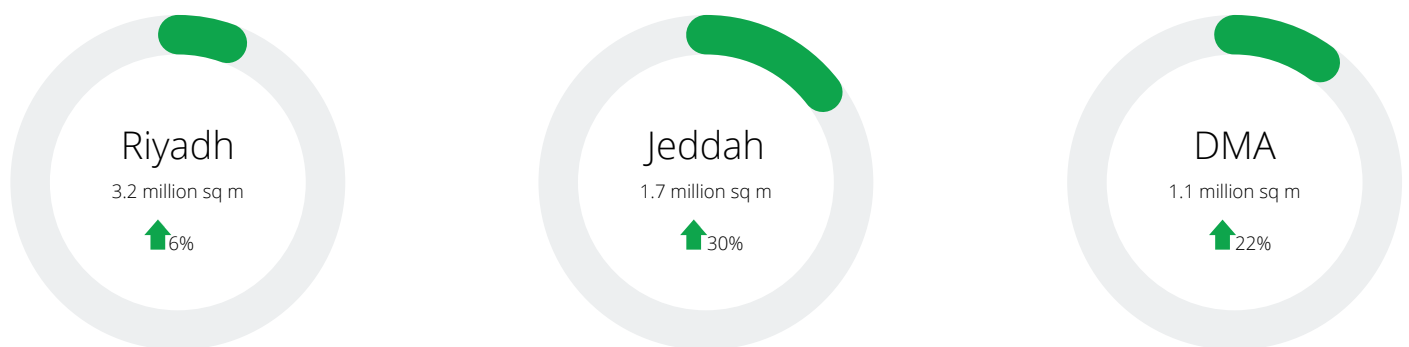


Source: EIU a:actual, e:EIU estimate, f: EIU forecast

which can comprise up to 30% of the mall mix. Additionally, the government's push to promote domestic tourism and entertainment events such as the 'seasons', has led to an increase in experiential retail demand.

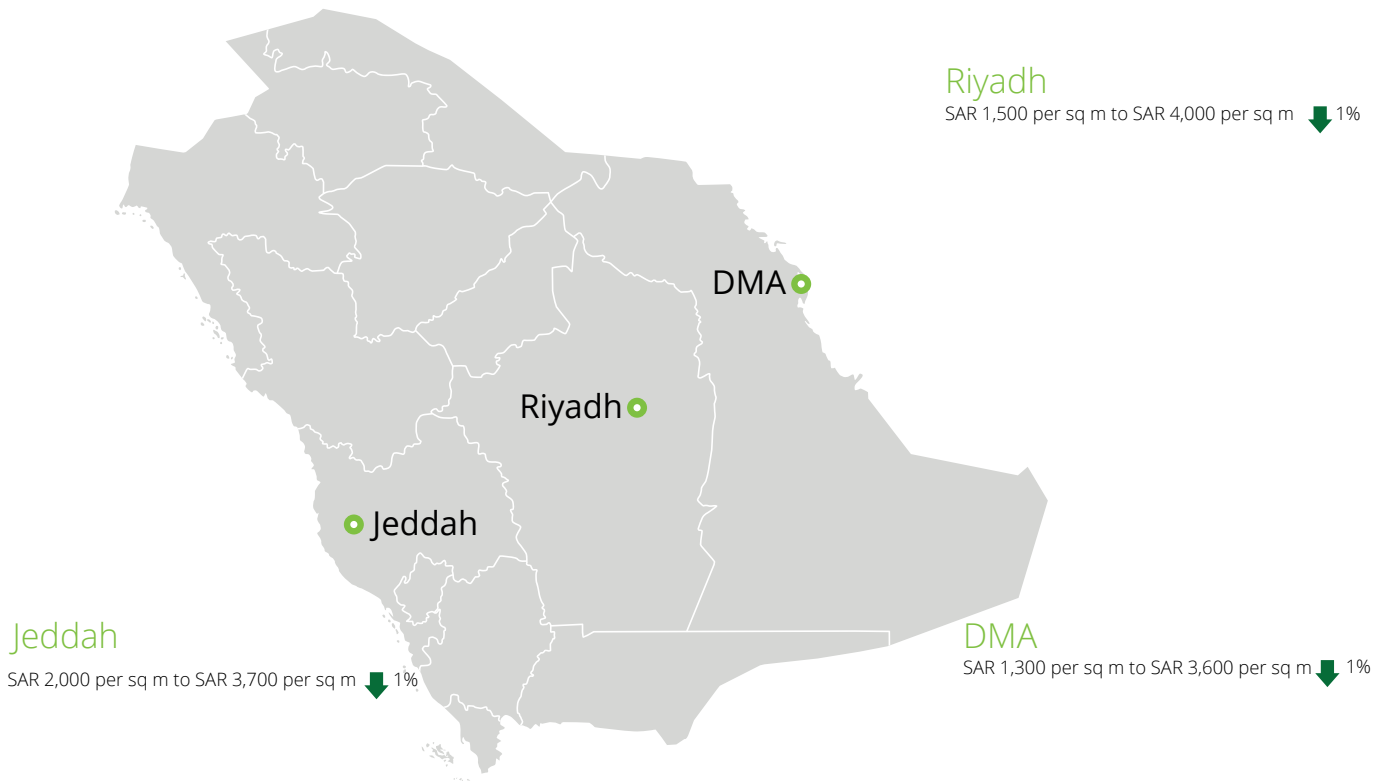
A shift in consumer preferences has highlighted that available retail stock no longer fully meets the requirements and demands of retailers, with an increased demand for high quality public realm and supporting amenities with a greater emphasis on the consumer experience.

KSA retail supply by location and year-on-year growth, Q3 2022



Source: Deloitte
Note: The above figures represent organised retail formats

KSA regional and super regional mall rents by location, Q3 2022



Source: Deloitte

Note: rents within regional and super regional malls are wide ranging depending on the unit type and as such, the above chart represents the average ranges. This includes all types of units, including F&B, restaurant, anchor tenants etc.

Note: 1 USD = 3.75 SAR

KSA's industrial and logistics market

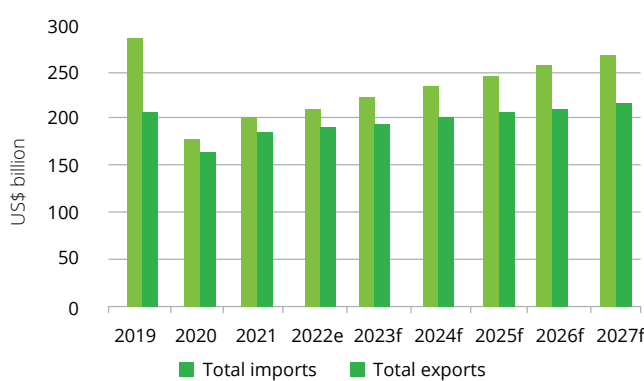
The logistics and warehousing sector continues to be dominated by the freight forwarding segment with an emerging shift towards the logistics and e-commerce sector.

Review of 2022 performance

The industrial market in KSA is two-tiered with limited international grade quality stock currently available in Riyadh, Jeddah and Dammam. This has led to relative stability in rents for prime stock, whereas rental rates for secondary stock are declining. In response to planned projects such as increased cargo capacity at the Riyadh Airport and integrated logistics zones being planned in Jeddah and Dammam, the demand from logistics providers for quality warehouse space is expected to increase.

Potential tenants are seeking flexible layouts that can allow for segregation of uses such as ambient and cold storage in addition to open yards, to allow for expansion capabilities in response to needs of the target market of their products. Additionally, provision of value-added services within industrial zones, such as visa processing, data management, among others, can provide significant additional revenues for large scale projects.

KSA imports and exports, 2018 to 2025f



Source: Fitch Solutions; Note: f:forecast

Freight movements at KSA Airports

Period	Riyadh	Jeddah	Dammam
2019	219,074	366,954	77,128
2020	152,131	193,400	31,478
Year-on-year change %	↑105%	↑89%	↑162%
2021	312,048	216,284	50,881

Note: Data for 2022 is not available
Source: General Authority of Civil Aviation (GACA)

Freight movements at KSA Airports

Period	Total containers (tons)
2020	52,087,862
2021	52,665,749
Year-on-year change %	↓-0.58%
2022	51,767,380

Note: YTD August for all years
Source: Saudi Ports Authority

KSA prime warehouse rents, Q3 2022

Riyadh
SAR 160 to 375 per sq m per annum

Jeddah
SAR 120 to 310 per sq m per annum

DMA
SAR 120 to 220 per sq m per annum

Source: Deloitte
Note: Rents are quoted SAR per sq m per year; Rents are average achieved rents for quality purpose warehouses exclusive of service charges

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