

Saudi Arabia Commercial Real Estate Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

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Report description:

The Saudi Arabia Commercial Real Estate Market is anticipated to register a CAGR of more than 10% over the forecast period.

Key Highlights

Saudi Arabia's real estate market has begun to show an overall improvement in business activity following a downturn caused by the COVID-19 pandemic. The government of Saudi Arabia, in response to the pandemic, is implementing various initiatives to contain the economic fallout and protect the Kingdom's economy.

The Saudi Arabian economy grew by 6.8% Y-o-Y in Q4 of 2021, after a 7.0% advance in Q3, the most robust growth since Q1 2012, boosted by higher oil prices. The oil sector grew 9% year-on-year, while the non-oil economy expanded by 6.2%. The continued government spending on mega-projects, coupled with increasing developments in the entertainment sector, is likely to stimulate demand in the commercial real estate market in Saudi Arabia.

With conditions remaining soft across most of the commercial real estate sectors of the market in 2021, the hospitality industry witnessed several major development announcements. According to STR data, Saudi Arabia is leading the world in hotel supply growth. As of June 2021, with 73,057 hotel rooms in the pipeline across the planning, final planning, and construction phases, the country is projected for a 67.1% increase in room supply once all projects are completed over the next two to three years. These projects are anticipated to trigger other large scales of commercial real estate development activities in the country.

As part of Vision 2030, the government has also launched international tourist e-visas in Saudi Arabia to boost tourism in the country and increase global competitiveness, which is set to positively impact the Kingdom's real estate market.

The office market, however, remained slightly under pressure across the major cities in Saudi Arabia. However, with the improving economic conditions in the country, it is expected that in the medium to long term, corporate demand will pick up as business conditions improve, owing to various new projects such as Riyadh's 176.7 km metro and Dammam's King Salman Energy Park (SPARK). In addition, increased investment opportunities and the ease of travel stimulated by the new King Abdulaziz International

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Airport (KAIA) are also expected to positively affect commercial real estate expansion, especially in Riyadh, as it remains the primary business center of the western region.

Saudi Arabia Commercial Real Estate Market Trends

Rise in the retail sector in Riyadh driving the market

The retail real estate market in Saudi Arabia, particularly in cities like Riyadh, is witnessing developments that have transformed the retail market, which consists of various outlets ranging from high-end dining to fast-food restaurants, in addition to luxury brands that were once absent from Riyadh's retail scene.

Retail destinations recorded an increase in footfall as the Saudi government began to ease restrictions on restaurants, cafes, and cinemas. With the opening of Jeddah Park and other smaller retail centers, Jeddah delivered 132,000 sq. m. of retail GLA in Q3 2021. Over the same period, Riyadh completed 19,000 sq. m. Additional 174,000 sq. m. and 34,000 sq. m. of retail GLA were added before the end of 2021 in Riyadh and Jeddah, respectively.

With the growth of e-commerce, shopping centers have to shift their focus to enhance customer experiences. Developments are positioning their assets among other strategies to improve their entertainment and F&B offerings. If executed properly, such changes can add value by attracting greater levels of footfall. Although there may be some delays in the handover of the retail spaces, most of this stock was expected to be of high-quality shopping centers with strong entertainment and food and beverage elements. These include retail centers such as Qurtoba Boulevard, River Walk Center, and Shorofat Al Nada Park, which come as developers in the Kingdom and look to differentiate their products to secure a large consumer base.

Demand for office spaces is likely to increase across key cities in Saudi Arabia

Over the third quarter of 2021, Riyadh's office market saw the delivery of 330,000 sq. m. of office gross leasable area (GLA). These completions increased Riyadh's total stock to 4.8 million sq. m. In Jeddah, only 40,600 sq. m. of office stock was added in Q3 2021, bringing the total supply to 1.1 million sq. m. Additional 170,000 sq. m. and 2,000 sq. m. of GLA are scheduled to be delivered in the final quarter of 2022 in Riyadh and Jeddah, respectively. The majority of this upcoming stock is Grade A floorspace.

In Jeddah, in upcoming years, a large amount of potential office space could be released to the market, the majority of which is Grade A (60%-70%), while an additional 30% of the stock is set to come online in smaller projects along major arterial routes. A prime scheme in the pipeline is Jeddah Gate, which is a master plan development by Emaar. The development will offer nearly 230,000 sq. m. of high-quality office space within a mixed-use environment.

In the longer term, it is anticipated that the demand for office space will pick up from the current levels as economic reforms under the National Transformation Plan (NTP) and Vision 2030 start getting implemented and benefit the economy. Moreover, various urban regeneration initiatives, including mixed-use communities and large-scale infrastructure projects, are also expected to act as a catalyst for the commercial real estate market. Furthermore, it is expected that the planned wave of privatization will boost investment and foster growth in the business environment, creating favorable conditions for the office sector.

Saudi Arabia Commercial Real Estate Market Competitor Analysis

The Saudi Arabia Commercial Real Estate Market is highly fragmented and highly competitive. The demand for new properties is increasing due to growth in commercial activities and an increase in competition. Some of the significant real estate development

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companies operating in Saudi Arabia are Al Saedan Real Estate, Kingdom Holding Company, SEDCO Development, Jabal Omar Development Company, Makkah Construction & Development Co., Dar Alaskan Real Estate Development Co., and Saudi Taiba Investment and Real Estate Development Co. Competition among developers majorly happens on parameters such as land banks, location of the property, upcoming projects, construction costs, the reputation of the company, and other parameters.

Additional Benefits:

The market estimate (ME) sheet in Excel format
3 months of analyst support

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