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2017 set to become a watershed year for Saudi real estate market

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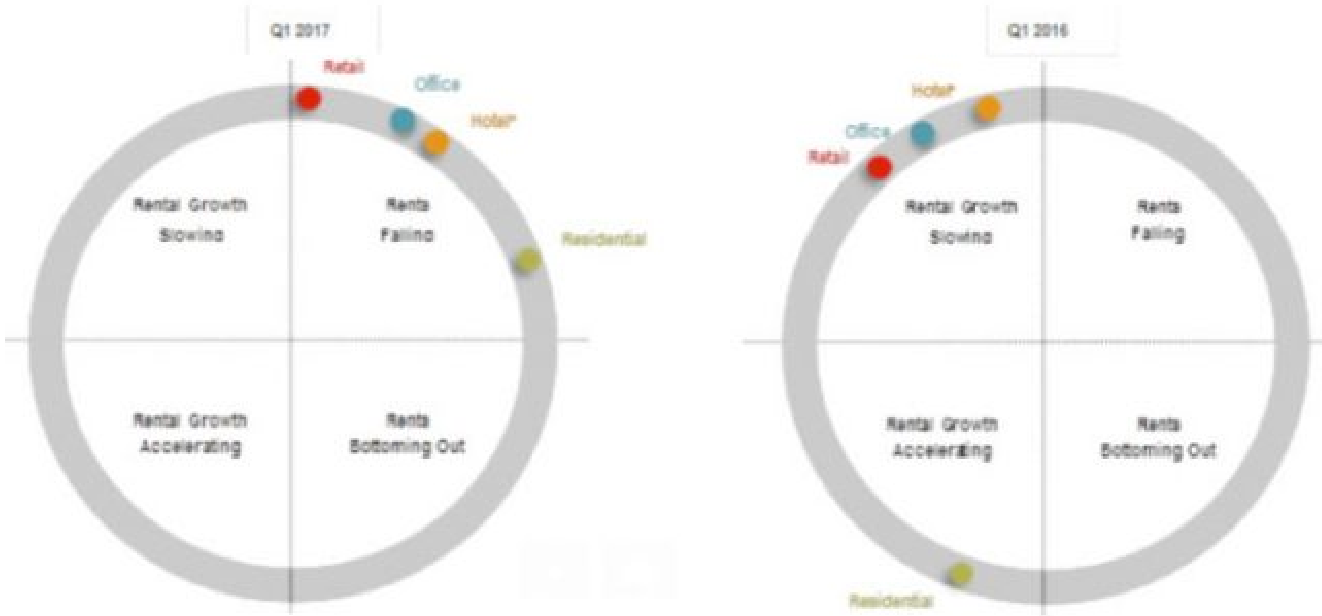

JLL, the world›s leading real estate investment and advisory firm, on Tuesday unveiled its top trends for Saudi Arabia's Real Estate market at an event held in Jeddah. JLL forecasts the major trends that are likely to impact and shape Saudi Arabia's real estate sector over the next 12 months.

"With Vision 2030 in place, and the economy adjusting to lower economic growth, 2017 is set to become a watershed year for the Kingdom's real estate market," said Craig Plumb, head of research, JLL, MENA.

"We predict there will be increased activity in the real estate sector through the public investment fund (PIF), the listing of further REITs (Real Estate Investment Trusts), taxation reforms and a series of public private partnerships or PPP's. The Kingdom is keen to move towards diversifying the economy and as a result the government is expanding the leisure and tourism sector to attract visitors to the country," he added.

To coincide with the event, JLL also released its Q1 2017 Jeddah Real Estate Market Overview report which assesses the latest trends in the office, residential, retail and hotel sectors. Most sectors have experienced weaker performance over Q1 as the market moved in the favor of tenants who are able to negotiate more preferable terms from their landlords.

The latest Q1 market summary report discusses the impact of the new Ejar (leasing) regulations – introduced by the Saudi Arabian government in February 2017- on the residential sector. The move comes after the government's initiative to regulate the private sector, accelerating development of more units into the market. The Ejar regulation will further create an attractive environment for investors, whilst also increasing confidence in the housing sector, where affordable housing is the main focus throughout 2017.

Rental values in the housing sector in the first quarter of the year have decreased by 9% quarter-on-quarter and 8.5% year-on-year. Following the economic slowdown of the market in 2016, and the subsequent departure of a large number of expatriates, the rental market now sees more room for negotiation, forcing the rental values to go down.

The office sector witnessed an increase in office spaces by 23,000 square meters in the market. Vacancies increased over the quarter due to a combination of factors, including new entrants to the market and supply that was initially withheld in 2016, and softening demand in the market.

Jamil Ghaznawi, national director and country head, JLL, KSA, said: “Amid toughening economic conditions and the dip in oil prices, there has been positive developments in the office sector in Q1 where the healthcare sector continues to provide viable tenants for office space in Jeddah. An increased number of commercial buildings are leasing to clinics and other healthcare providers.”

The retail sector is mainly affected by household spending power. Vacancies increased by 1% to reach 11% in Q1 2017 compared to 10% during the same quarter last year. The market is expected to soften further until improvement is noticed in the economic environment, restoring household buying power.

“Earlier this year the government launched “the Citizens Account” scheme which will aim to aid in the cost of energy and water on household spending power,” added Ghaznawi. “As the initiative will reimburse mid to low income households, spending power will naturally increase in the market again.”

“With the entertainment reforms being introduced by the government, shopping center owners remain positive on movie theatres being licensed in the Kingdom. These will reinvigorate shopping centers and attract a higher footfall. Differentiation, entertainment and new design concepts will lead to the success of future shopping centers in Jeddah.”

Q1 2017 has shown a slower start for the hotel sector as corporate demand remains under pressure. However, the Novotel Jeddah Tahlia opened in Q1, bringing the hotel stock to 10,000 keys in Jeddah. Two new brands: the Langham Jeddah and DoubleTree by Hilton, are expected to enter the market over the next two years, confirming that Jeddah continues to be a popular location for hotel operators.

Jeddah is the gateway to Makkah and with the decision to lift the 20% reduction of Haj quotas by the Kingdom, hotel operators will benefit from the influx of pilgrims expected during the 2017 Haj season at the end of the summer.

• Office: The supply of office space in Jeddah increased by approximately 23,000 square meters. The most notable completions include the Al Shaihanh Tower on Prince Sultan Street and Al Khayyal Tower on Prince Saud Al Faisal Street. The properties added approximately 8,800 square meter and 9,100 square metre to the market respectively. A further property by Um Al Qura, Aster 3 on Tahliya Street, also completed in the first quarter of the year. Further completions are expected later in the year as a number of buildings are currently in the finishing phase. Ibrahim Center on Malik Road and the first Phase of Lilian Towers on Prince Sultan Street are some of the notable expected completions. Although more quality, prominent, mid-scale buildings are entering the market, small buildings up to 5,000 square meter are still abundant in the pipeline.

• Residential: Q1 2017 saw the completion of Farsi Seven Towers, another addition to the high-rise segment of the market located on Obhur Creek. Further high-rise towers are currently under development or planned along in the Corniche stretch and within the city, including: Abraj Al Hilal 2 and Emaar Residences by Emaar, Golden Tower by Solidere, and Bayat Plaza Tower by Sabban Group. The total stock of housing in Jeddah at the end of the quarter stood at approximately 806,000 units. Diyar Al Salam Residences (140 apartments) and Gardenia Residences (370 apartments) on Madinah Road, two of three developments offering lifestyle living in the area, are expected to hand over later this year.

• Retail: Total retail supply in Jeddah currently stands at almost 1.2 million sq m. Part of the retail component of the Jeddah Park development on Tahliya Street completed over Q1 2017 adding approximately 15,000 square meter to the market. The remaining retail component of the Jeddah Park, a super-regional shopping center under the same name, is expected to complete by the end of the year. Further retail completions this year include Alireza Shopping Center located in the Balad (7,300 square meter), the expansion of Red Sea Mall (20,000 square meter), and the retail component of the first phase of Lilian Towers (6,600 square meter) located on Prince Sultan Street. Few announced regional and super-regional shopping centers have begun construction. Currently there are two large-scale developments in the market: Jeddah Park and The Avenue. This is encouraging for existing retailers as the delay in project materialization will soften the potential impact on rents and occupancies.

• Hotel: The hotel stock in Jeddah edged closer to 10,000 keys after the Novotel Jeddah Tahlia opened in Q1 2017. The hotel added 139 keys to the market, bringing the total supply of quality rooms to just over 9,900 keys. The opening of the Novotel marks the second hotel opening on Tahlia over the last 12 months after the Assila Hotel by Rocco Forte a few months ago. A further opening on Tahlia, Elaf Galleria (445 keys), is expected later this year followed by the Movenpick Hotel & Apartments Al Tahlia Jeddah in 2018 that will offer 164 serviced apartments. Further expected completions this year include the landmark Ritz Carlton (442 keys), and a further addition to the quality serviced branded segment of the market: Staybridge Suites Alandalus Mall (164 keys).

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