

REAL ESTATE MARKET REVIEW

# Saudi Arabia Real Estate Market Review Q3 2023

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Saudi Arabia's office market performance expands in Q3 2023 as quality supply looms

CBRE RESEARCH  
NOVEMBER 2023



# Saudi Arabia's office market performance expands in Q3 2023 as quality supply looms

▲ 0.4%

Forecast increase in GDP in 2023

▲ 1.7%

Rate of inflation in September 2023

▲ 9.1%

Increase in total employment in the year to Q2 2023

▲ 31.2%

Increase in hotel RevPAR in the YoY to September 2023

▲ 12.9%

Growth in average Grade A office rents in Riyadh year-on-year in Q3 2023

▲ 57.2

PMI reading in September 2023, up from 56.6 in August

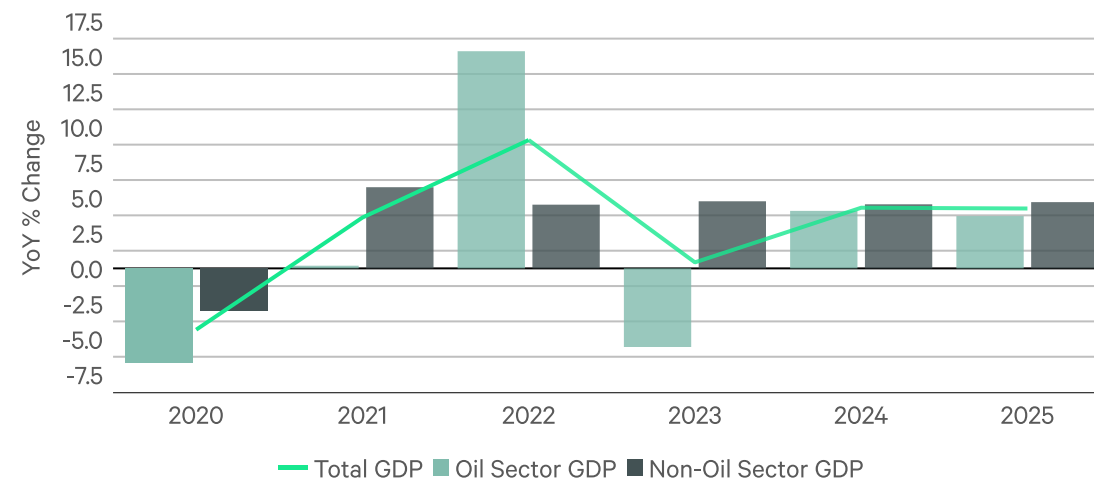
## MACROECONOMIC OVERVIEW

- Saudi Arabia's GDP growth for 2023 has been downgraded to 0.4%, down from the previous forecast of 1.1%
- Initial data for GDP growth in the year to Q3 2023 indicates that headline GDP has decreased by 4.5%, underpinned by a 17.3% decrease in oil-GDP, whereas non-oil grew by 3.6%
- Saudi Arabia's unemployment rate dropped to 4.9% as at Q2 2023

Saudi Arabia's GDP is projected to grow by 0.4% in 2023, where oil GDP expected to drop by 5.6%. Whilst the downgrades in growth forecasts have been underpinned by a weaker oil sector, Saudi Arabia's non-oil and government sector are expected to support headline growth with forecasts indicating growth rates of 5.1% and 2.6% in 2023 respectively.

In September 2023, Saudi Arabia's Purchasing Manager Index (PMI) rebounded from two consecutive months of softer growth to record a reading of 57.2. This has been achieved through increased business activity, new orders and output, higher purchasing levels and improvements in delivery times by suppliers. On the downside, higher wages and material prices are leading to increased input costs.

FIGURE 1: Saudi Arabia, Gross Domestic Product



Source: CBRE Research/ Oxford Economics

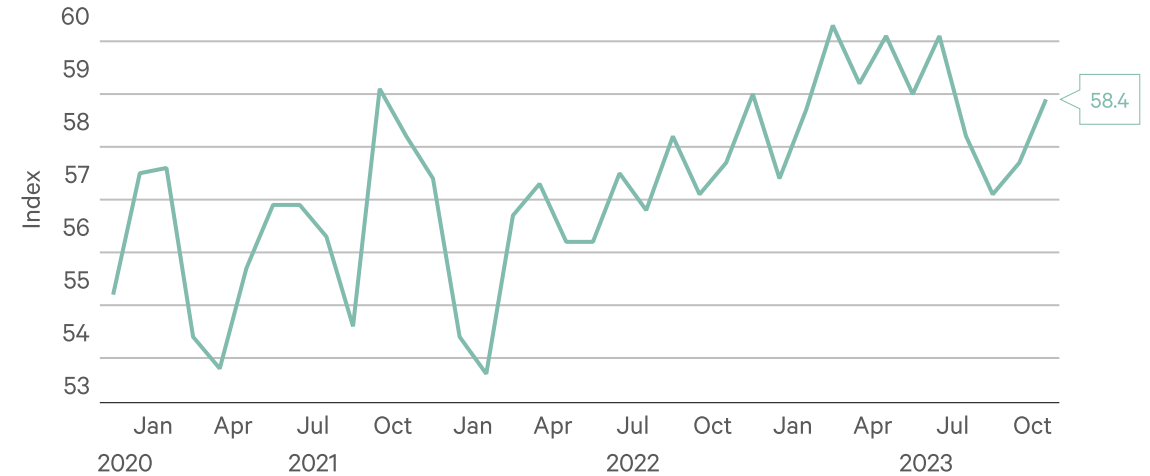
## MACROECONOMIC OVERVIEW

Headline inflation has continued to moderate, with the rate slowing to 1.7% in the year to September 2023, down from 3.1% a year earlier. Housing rents continued to record high rates of inflation, where in the year to September the rate of inflation for this sub-component was recorded at 9.9%, with this sub-component accounting for a 21.0% index weighting.

Employment levels in Saudi Arabia reached 15.5 million during Q2 2023, up 9.1% from a year earlier. This marks the sixth consecutive quarter of growth. Among Saudi nationals, employment registered a growth rate of 6.0% year-on-year, while non-Saudi residents demonstrated a larger annual increase in total employment of 10.1%. The unemployment rate in Saudi Arabia declined to 4.9% in Q2 2023, dropping by 0.9 percentage points from the corresponding quarter in 2022. The largest contributing factor among Saudi nationals was the decrease in unemployment rate for females, falling by 0.4 percentage points, as male unemployment remained unmoved at 4.6%.

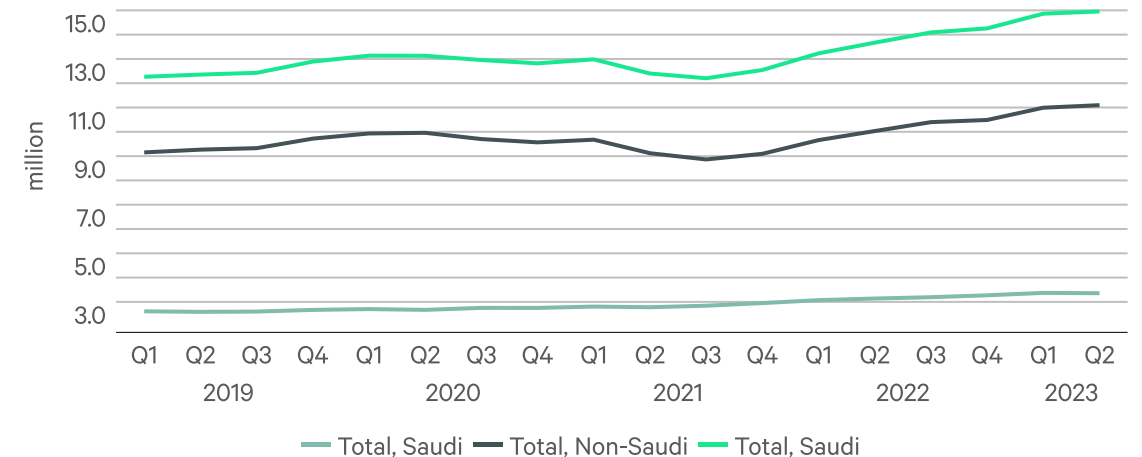
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FIGURE 2: Saudi Arabia, Purchasing Managers' Indices



Source: CBRE Research/ Macrobond

FIGURE 3: Saudi Arabia, Labour Market, Total Employment



Source: CBRE Research/ Macrobond

## OFFICES

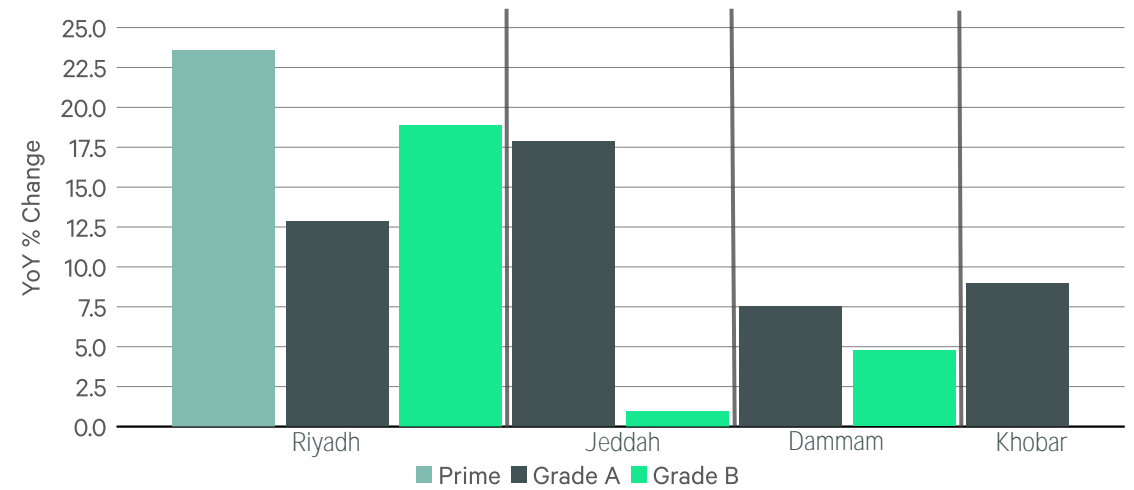
As at Q3 2023, Riyadh’s King Abdullah Financial District (KAFFD) has recorded upwards of 60% of its office space as leased. For occupiable supply, this rate is substantially higher at 92.2%. Landmark transactions within KAFFD included the acquisition of around 22,000 sqm of office space by two major management consulting firms. Whilst demand remains very much centered towards Riyadh, we continue to see demand trickle into Jeddah and the Dammam Metropolitan Area (DMA). In terms of upcoming quality supply in the next two years, key additions in Riyadh’s office market include 166,100 square metres in KAFFD, 200,000 square metres in EZDI Park, 60,000 square metres in STC Square and over 60,000 square metres in phase two of Laysen Valley.

The aforementioned drive for office space in Riyadh, particularly for quality space in the likes of KAFFD, has driven Prime rents to record growth rates of 23.6% in the year to Q3 2023, where rents currently stand at SAR 2,617 per square metre. Grade A rents grew by 12.9% over the same period, reaching an average of SAR 1,900 per square metre. Grade B offices increased by 18.9% in the 12 months to September 2023, settling at the average rent of SAR 1,529 per square metre. Occupancy levels in Riyadh’s Grade A segment of the market have reached full occupancy as at Q3 2023. During the same period, the average Grade B occupancy rate remained stable at 99.4% and the average prime occupancy rate increased by 8.2% to reach 92.2%.

Dammam and Khobar’s office market recorded growth across all segments in Q3 2023. Starting with Dammam, the Grade A segment saw its average rents grow by 7.5%, settling at SAR 950 per square metre, while Grade B rents increased by 4.8%, registering on average at SAR 550 per square metre. In Khobar, Grade A offices grew by 9.0%, with rents in this segment now averaging SAR 1,090 per square metre. Average occupancy in the two cities progressed positively in Q3 2023, with the Grade A segment in Dammam and Khobar increasing annually by 3.3% and 7.1% to reach 83.0% and 82.1% respectively. Dammam’s Grade B average occupancy rate rose 2.2% in the year to Q3 2023, to reach 68.6% average occupancy.

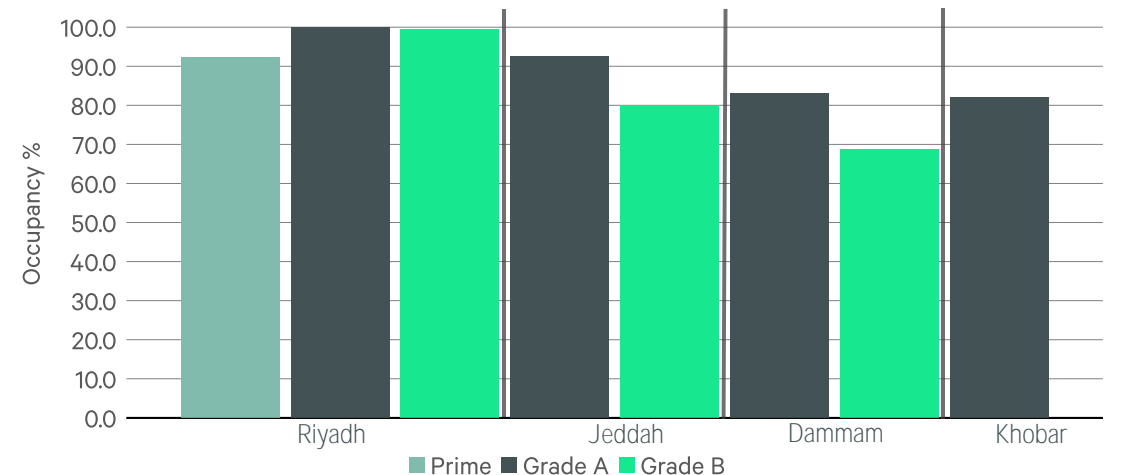
Both office segments in Jeddah saw their average rents rise in the year to Q3 2023 as Grade A offices reached SAR 1,356 per square metre to register a 17.9% growth. Grade B segment managed to incur a 1.0% rise in average rent to reach SAR 707 per square metre. Average occupancy within both segments witnessed upticks of 2.5% for Grade A and 4.7% for Grade B, resulting in average occupancies of 92.5% and 80.0% respectively.

FIGURE 4: Saudi Arabia, Office Rents, YoY % Change to Q3 2023



Source: CBRE Research

FIGURE 5: Saudi Arabia, Office Occupancy, Q3 2023, %



Source: CBRE Research

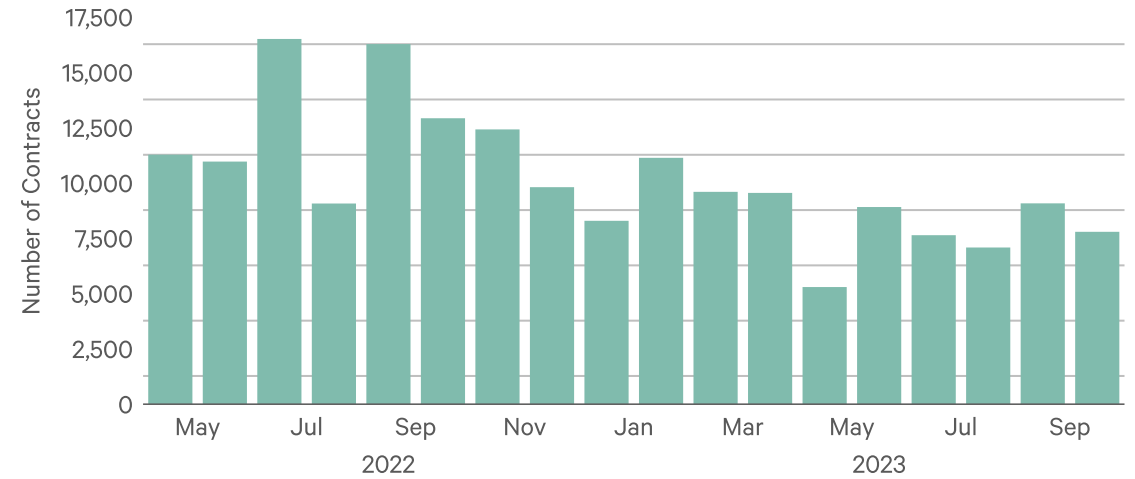
## RESIDENTIAL

In the year to Q3 2023, the total number of residential transactions totaled 61,473, equating to a total value of SAR 45.9 billion. In comparison to the same period in 2022, the total number of transactions demonstrated a drop of 7.0%, while the total value for these transactions decreased by 11.3%. The total number of mortgage contracts in the year to date to Q3 2023 fell by 37.5%, where the total value registered, which totaled SAR 18.40 billion, fell by 38.3%. Single-family homes accounted for 69.8% of the total value of lending, followed by apartments and land at 24.8% and 5.4% respectively.

In Riyadh, as at September 2023, the average price for apartments rose to SAR 4,780 per square metre, a growth of 16.1% compared to a year earlier. During this period, Khobar's average apartment prices saw an uptick of 2.9% to reach SAR 3,424 per square metre, while Dammam's average apartment prices rose by 2.4% to stand at SAR 2,862 per square metre. The only apartment market to regress in terms of prices was in Jeddah, where average apartment prices fell by 9.5% to reach SAR 3,872.

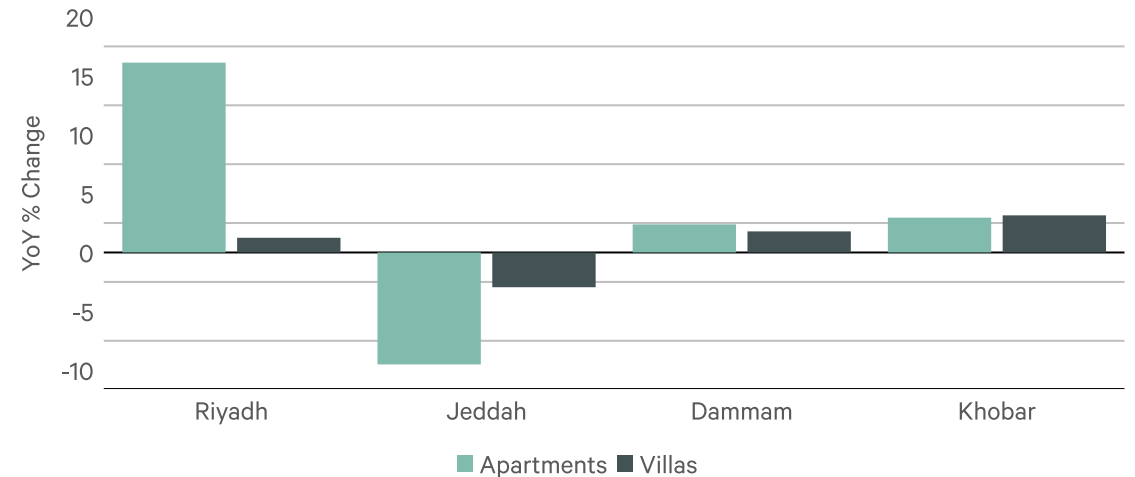
In the villa segment of the market, average prices in Riyadh, Dammam and Khobar have shown gains in the 12 months to Q3 2023. In Riyadh, the average price for villas improved by 1.2% year-on-year, reaching SAR 5,615 per square metre. Dammam and Khobar's average villa prices increased by 1.8% and 3.2% over the same period in 2022, where average prices registered at SAR 3,565 and SAR 3,612 per square metre, respectively. Jeddah's villas segment contracted in the year to Q3 2023 by 3.0%, where average villa prices stood at SAR 5,411 per square metre.

FIGURE 6: Saudi Arabia, Number of Loan Contracts issued by Banks, September 2023



Source: CBRE Research

FIGURE 7: Saudi Arabia, Residential, Prices, Villas & Apartments, YoY % Change to Q3 2023



Source: CBRE Research

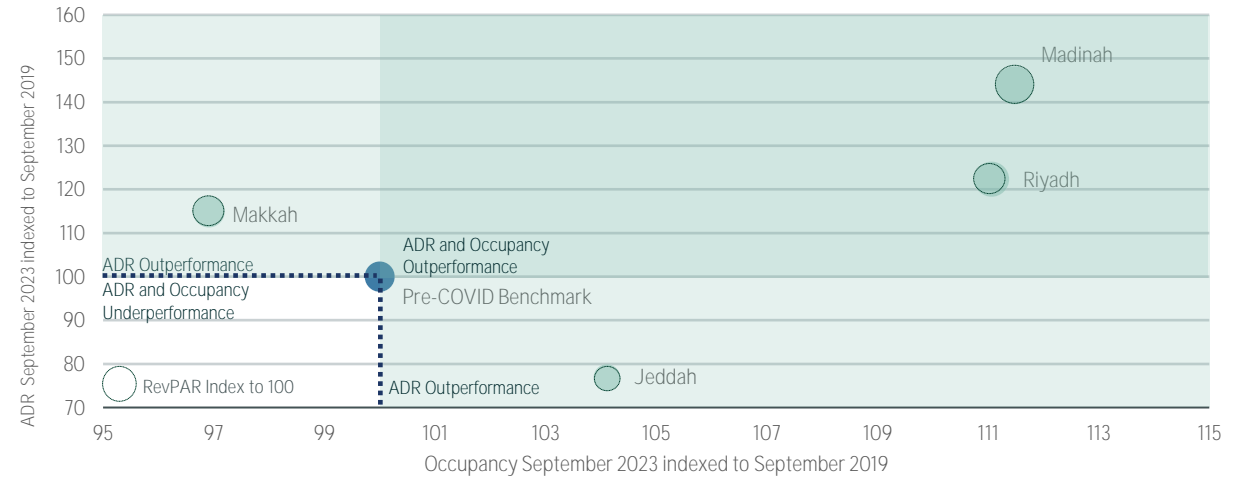
## HOSPITALITY

Year-on-year in the year to September 2023, Saudi Arabia's hospitality has seen uniform improvements in its Key Performance Indicators. Over this period, the average occupancy rate increased by 5.9 percentage points, this was accompanied by a 18.4% increase in its ADR and a 31.2% increase in RevPAR.

This strong level of performance has meant that these indicators now, in most cases, sit comfortably above their 2019 levels. In the year to date to September 2023 compared to the same period in 2019, we have seen Saudi Arabia record a 1.2 percentage points increase in average occupancy levels, a 9.6% increase in its ADR and a 11.8% increase in its RevPAR.

At a city level, year-on-year in the year to date to September 2023, in Jeddah, the average occupancy grew by 7.3 percentage points, while its ADR softened by 0.1%. This led Jeddah's RevPAR to expand by 12.7%. Over this period, in Khobar, the average occupancy rate increased by 7.7 percentage points, while its ADR declined by 4.9%, which has resulted in an improvement of 9.0% in RevPAR. In Riyadh, the average occupancy saw a rise of 3.1 percentage points as ADR improved by 13.1%, culminating in a RevPAR growth of 19.1% in the capital. Both Makkah and Madinah performed consistently as they concluded the religious high seasons. Madinah's average occupancy rate saw an expansion of 10.1 percentage points, with ADR marking a 38.1% upsurge, which resulted in RevPAR improving by 60.8%. As for Makkah, the average occupancy rate stood 5.9 percentage points higher, and its ADR rose by 27.2% year-on-year in the year to September 2023, leading to RevPAR recording a strong growth rate of 40.6%.

FIGURE 8: Saudi Arabia, ADR & Occupancy, September 2023 indexed to September 2019



Source: CBRE Research/ STR Global

FIGURE 9: Saudi Arabia, Hospitality Market, KPIs, YoY % Change

	Year to Date - September 2023 vs September 2019			Year to Date - September 2023 vs September 2022		
	Occ PP Change	ADR % Change	RevPAR % Change	Occ PP Change	ADR % Change	RevPAR % Change
Saudi Arabia	1.2%	9.6%	11.8%	5.9%	18.4%	31.2%
Khobar	-	-	-	7.7%	-4.9%	9.0%
Dammam	-	-	-	4.5%	0.9%	10.4%
Jeddah	2.5%	-23.1%	-20.0%	7.3%	-0.1%	12.7%
Makkah	-2.0%	14.9%	11.3%	5.9%	27.2%	40.6%
Madinah	7.4%	43.8%	60.3%	10.1%	38.1%	60.8%
Riyadh	6.1%	22.3%	35.9%	3.1%	13.1%	19.1%

Source: CBRE Research/ STR Global

## INDUSTRIAL

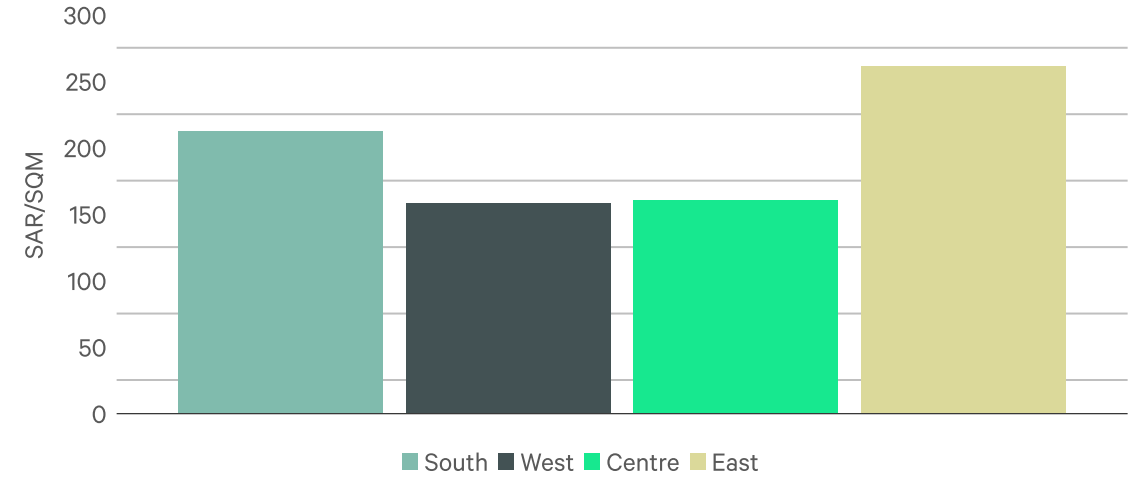
In Q3 2023, the industrial sector saw the introduction of “LOGISTI” platform, which targets to provide 59 logistics centres across Saudi Arabia by 2030, up from the 21 which are currently operational. The programme, alongside the National Transport & Logistics Strategy (NTLS), aims to supply the required infrastructure and associated services to help enable the development of these future centres. Among the key goals for LOGISTI is achieving a top-10 ranking in the Logistics Performance Index, processing 40 million containers and transporting 4.5 million tonnes of air cargo. Moreover, the third quarter of 2023 marked the materialisation of several key agreements within MODON, where EVA Pharma acquired 50,000 square metres of land in Sudair in the North Riyadh to establish an industrial complex to produce over 990 million units annually. Another agreement was signed with retailer “B4L” to create a 38,000 square metre fully automated distribution centre.

In Riyadh, average industrial and logistics rents increased to SAR 195 per square metre, representing an increase of 30.3% in the year to Q3 2023. Industrial and logistics rents in Eastern and Central Riyadh stand at SAR 294 per square metre and SAR 119 per square metre, the highest and lowest in the capital respectively.

In the 12 months to Q3 2023, Jeddah’s industrial and logistics average rents have softened marginally by 0.7% compared to a year earlier. In terms of rates achieved, average rents in Northern Jeddah stood at SAR 223 per square metre, whereas Southern Jeddah rents reached SAR 137 per square metre.

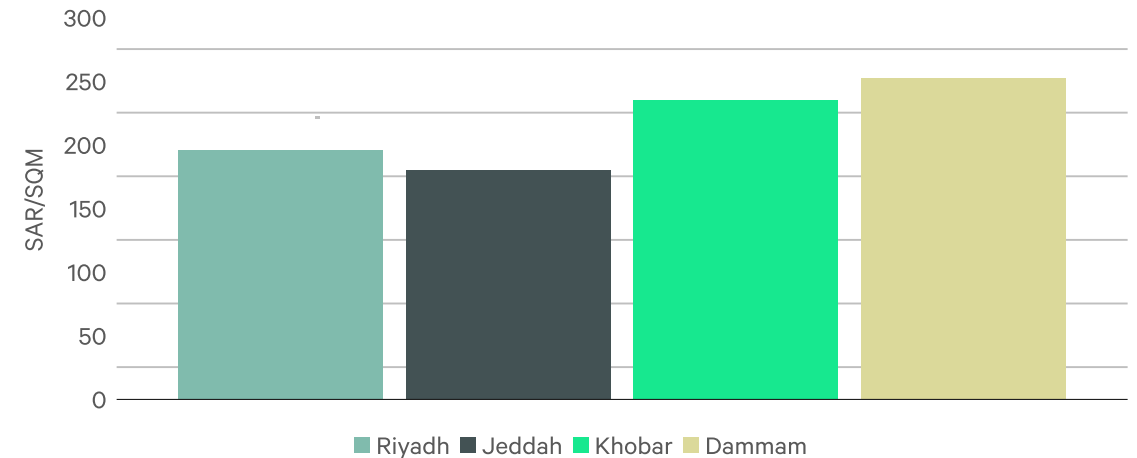
Dammam and Khobar’s average rents improved in the year to Q3 2023 by 19.8% and 16.4% respectively. In Dammam, average industrial and logistics average rents rose to SAR 252 per square metre, while in Khobar average rents currently stand at SAR 235 per square metre.

FIGURE 10: Riyadh, Industrial Rents Q3 2023, SAR per Square Metre



Source: CBRE Research

FIGURE 11: Saudi Arabia, Industrial Rents Q3 2023, SAR per Square Metre



Source: CBRE Research

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