

# Dammam Metropolitan Area Real Estate Market Overview

Q2 2017

# DMA







## Market Summary

The DMA real estate market has suffered from the decline in oil revenues and the subsequent slowdown in the Kingdom's economic growth over the past year. The ambitious plans to diversify the economy away from its current dependence on oil, will have a less positive impact on the oil-rich DMA – headquarters for the oil and gas giant Saudi Aramco. All sectors of the real estate market appear to have peaked over the past year and are now poised in the early downturn stage of their market cycle, with rents and prices generally experiencing a small decrease.

The office sector has experienced subdued demand and continued supply (with an additional 48,000 sq m completed over the first half of 2017). This has increased vacancies to 38%, the highest level of any major city in the Kingdom and has shifted the market in the favour of tenants. While rents have not fallen dramatically (down by only 3% Y-o-Y), tenants currently have the upper

hand in lease negotiations.

The residential sector has also experienced a steady growth of supply and a small decline in performance. Average sale prices have fallen marginally (-1% for apartments and -2% for villas), while rentals have declined by slightly more (-4% and -2% respectively) over the past year and further small declines are expected over the next 12 months.

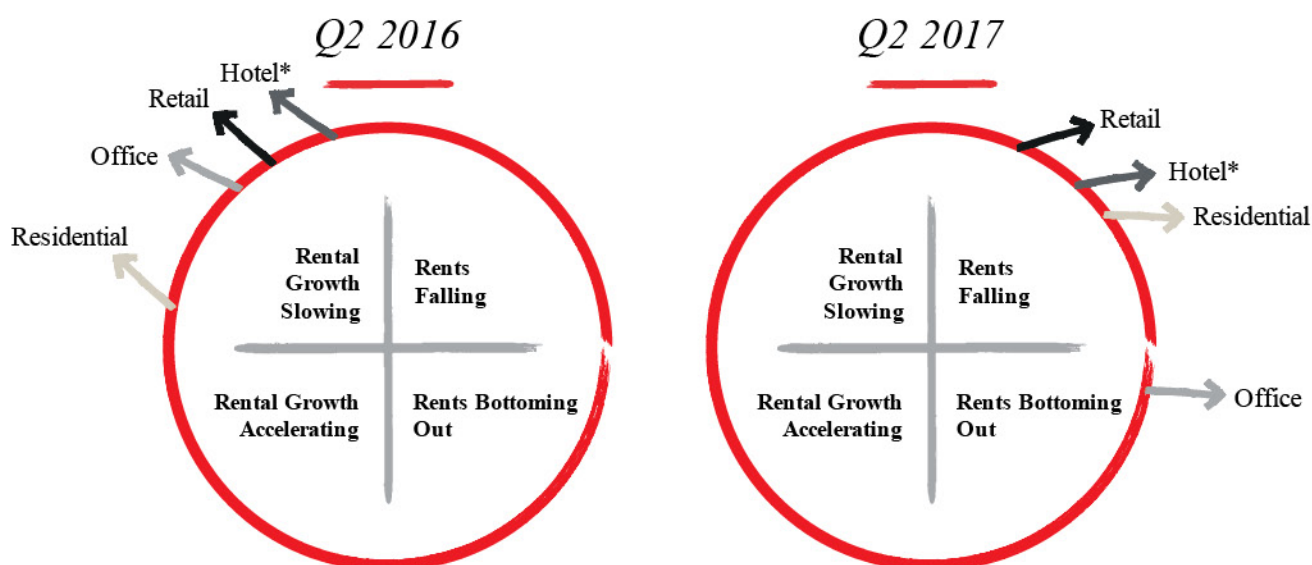
Responding to the need to provide accommodation for those families unable to afford market housing, Samba Financial Group and the Ministry of Housing have signed an agreement to give free housing to around 400 beneficiaries. Samba has provided furnished residential units for the Ministry to allocate to those in the greatest need of housing.

The retail sector has also experienced significant new supply over the past 6 months, with a further 96,000 sq m of space completing, the first significant

additions for three years. Rentals and vacancies in the retail sector have been relatively stable over the past 6 months, with a marginal increase in rents for super regional centres (1%), being offset by a small fall (-2%) in regional centres. With limited new supply scheduled to complete until 2019, retail rentals are expected to remain largely unchanged over the next 12 months.

The performance of the hospitality sector has been under pressure. Reduced demand from the corporate sector has seen a significant fall in occupancy levels (down by 10% to 52% in the year to May 2017). This has resulted in a fall in both room rates and RevPAR. No new hotels were opened over the past 6 months but the serviced apartment sector saw the completion of the Radisson Blu Residence Dhahran (adding 92 serviced apartments).

## DMA Prime Rental Clock



\* Hotel clock reflects the movement of RevPAR

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 recognise 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

Plans to expand and enhance Damman International Airport are likely to improve accessibility and the attractiveness of the DMA as an office location, which is in line with Vision 2030. Since its opening in 1999, passenger movements increased to 12.6 million in 2016, serviced by 34 different airlines. The structure of the privatization plan remains a work-in-progress. This plan could see passenger movements increase significantly, to more than 39 million travellers per annum by 2037.

## Supply

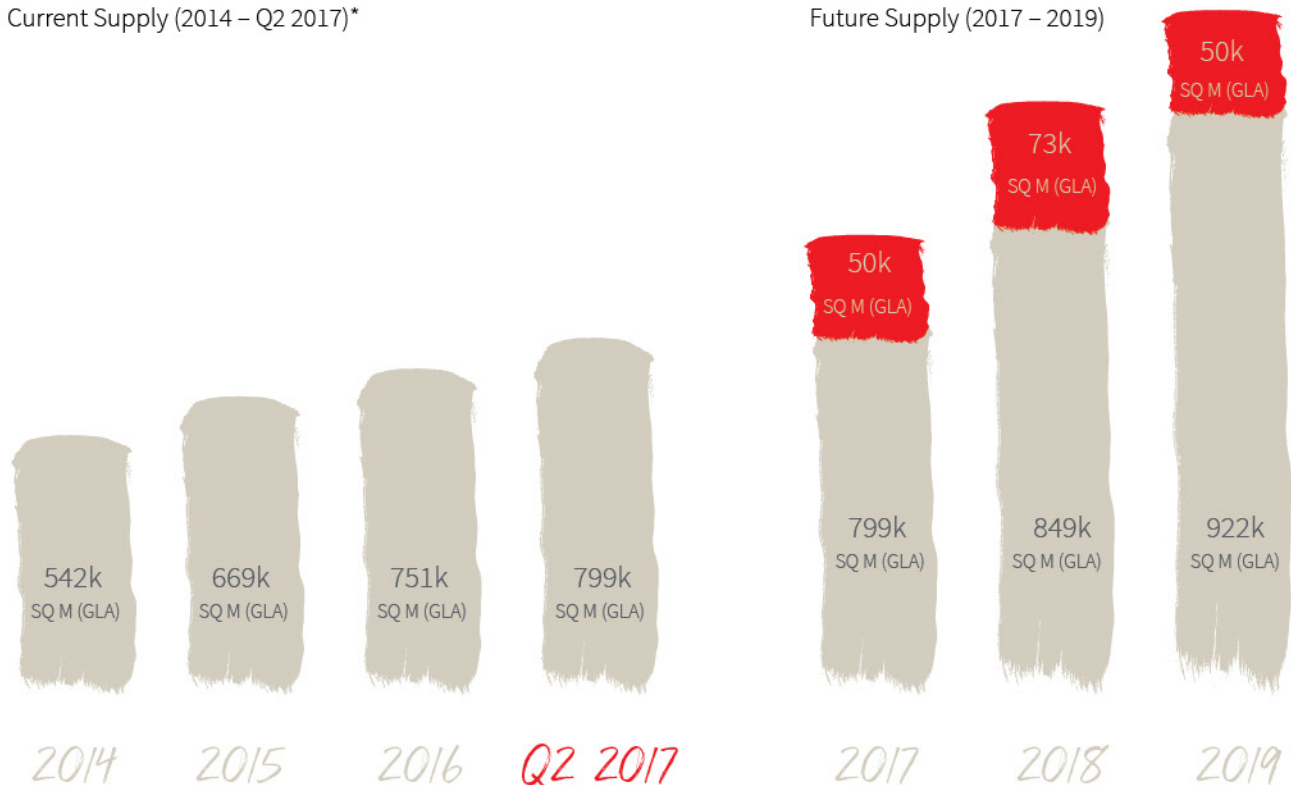
The total stock of quality office space in the DMA currently stands at nearly 800,000 sq m. Around 29% of this space has been completed over the past 3 years with almost 230,000 sq m delivered between 2014 and 2016 (an average of 77,000 sq m pa). Supply levels are expected to remain high over the next 3 years with 221,000 sq m scheduled for completion between 2017 and 2019 (average of 74,000 sq m pa).

There were several notable completions in H1 2017, adding almost 48,000 sq m. These include Adeer tower (14,000 sq m), Al Reziza Tower (14,700 sq m), Al Ajlan (10,000 sq m), Macro Twin Towers (4,200 sq m) and the Yasameen Business Center (3,300 sq m). The Business Quarter (50,000 sq m) and the Hajri Tower are the major projects scheduled for delivery over the remainder of 2017. Further

downward pressures on rents and occupancies are expected in light of oversupply.

Current Supply (2014 – Q2 2017)\*

Future Supply (2017 – 2019)

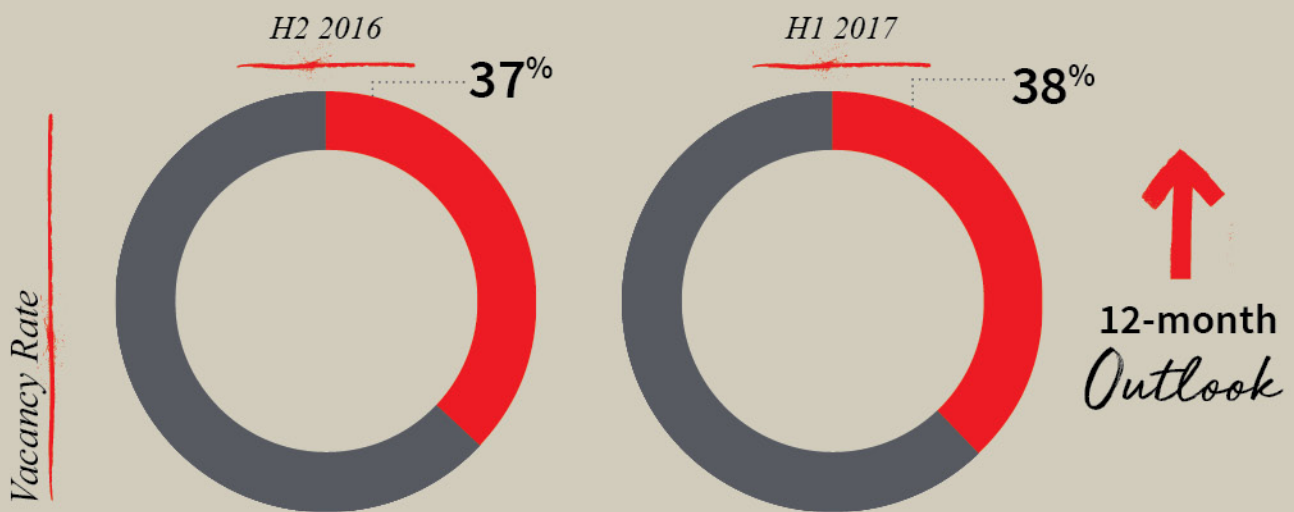


# Office

## Performance

The office sector softened over the past 6 months, with the weighted average vacancies for Grade A and B properties increasing by 1% to 38%, the highest of any of the major markets in Saudi. As a result of the subdued demand and additional supply, office rentals continued to decline with the weighted average rental decreased by 3% over the past year to SAR1,014 sq m. The 12-month outlook remains negative, with rents expected to witness downward

pressure in the face of further increases in vacancies.





# Residential

## Hot Topic

The introduction of the new legally binding Ejar tenancy agreements is expected to increase demand for investment opportunities in the residential sector from both individual and institutional investors. This trend is likely to boost demand in all the major cities in the Kingdom (not just the DMA), compared to smaller cities. As income generating residential developments become a more investable grade asset, the market is expected to shift from its previous reliance on home owners to also embrace investors attracted by reduced risks in a market where the collection of rents and lease enforceability have traditionally been time consuming and inefficient.

### Supply

The residential market is growing at an increased rate in the DMA. Between 2014 and 2016, around 17,000 units were completed (at an average of 6,000 units pa). In the next three years, 31,000 units are scheduled to complete, an average of 10,000 units pa.

The first tower in the Abraj Al Saraya project in Khobar was completed in H1 2017, adding 108 apartments to the total stock (this project won the best affordable housing category of the Gulf Real Estate Awards). The remaining two towers in this project are expected to complete

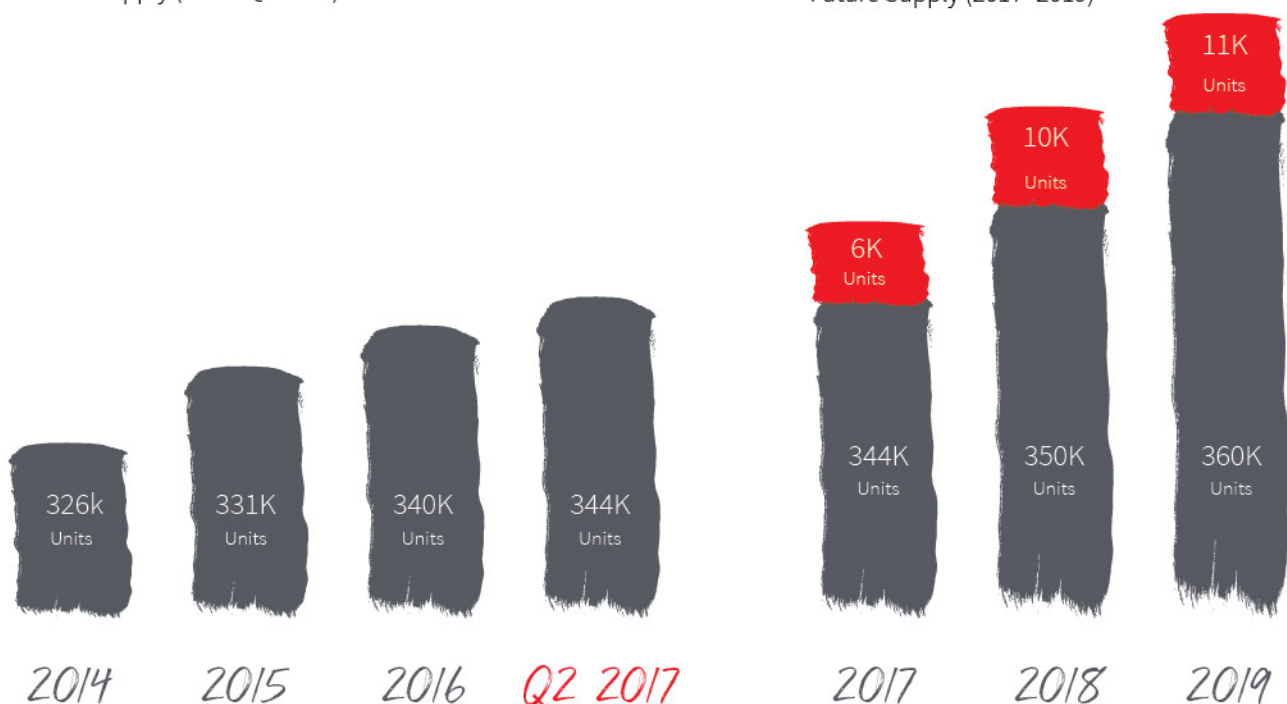
by the end of 2017, adding a further 215 apartments. Other notable completions include the Rehab villas (50 villas) and Phase 1 of the Murooj Residential Complex (35 villas). The second phase of the Murooj Residential Complex (37 villas) is expected to complete next quarter. In addition, Ibn Sultan Residential Tower, which comprises 208 apartments, is expected to complete by the end of 2017.

Off-plan sales are expected to witness growing demand. The Ministry of Housing launched the Wafi initiative in 2016 to implement

comprehensive regulations, including the creation of escrow accounts for each specific project, title deed verification, site visits and payment plans reflecting the completion rate. Under the Wafi program, developers enjoy direct funding from the buyers. Moreover, buyers receive discounted prices due to capital raising purposes associated with an early purchase. One of these projects is Khobar Views (an off-plan project, consisting of 32 apartments, situated on King Faissal Road) which is expected to complete in Q1 2018.

Current Supply (2014–Q2 2017)

Future Supply (2017–2019)



# Residential

## Performance

The residential sector experienced a marginal decline in both sale prices and rentals over the past 6 months. Average sale prices decreased 2% and 1% for villas and apartments respectively. The rental market has seen falls of 2% for villas and 4% for apartments respectively.

One of the main factors driving prices down has been the lower level of sales activity, with total residential transactions falling 18% from H1 2016 to H1 2017 according to the Ministry of Justice data. Sales levels are typically subdued in the third quarter due to the summer holidays

when many prospective buyers are travelling and the celebration of the two Eids. The number of transactions recorded in Q3 2016 was nearly 30% lower than in Q2 2016, and the same trend is likely to be experienced this year before activity picks up again in the final quarter.

## Apartments



↓  
12-month  
Outlook



↓  
12-month  
Outlook

## Villas



↓  
12-month  
Outlook



↓  
12-month  
Outlook

# Retail

## Hot Topic

Traditionally, international retailers and wholesalers could own up to 75% of their businesses in the Kingdom, with the remaining 25% being owned by their Saudi partner. The Saudi Arabian General Investment Authority (SAGIA) announced plans to allow up to 100% foreign ownership in 2015, with these plans coming into effect in Q3 2016, subject to a number of restrictions (including a minimum capital of SAR 30 million, operations in three other markets and training 30% of the Saudi employees pa). While there have been a limited number of new entrants as a result of this new legislation to date, they should act as a long term benefit, increasing demand in the retail sector in line with the Saudi Vision 2030.

## Supply

The total mall based stock across the DMA currently stands at around 1.1 million sq m. There has been relatively less new stock added over the past 3 years with just 68,000 sq m of retail space completed between 2014 and 2016 (averaging just 23,000 sq m per annum). In the next three years, the growth rate of new supply is proposed to more than triple with more than 218,000 sq m scheduled (an average of 72,000 sq m pa).

A number of notable completions occurred over the first half of 2017,

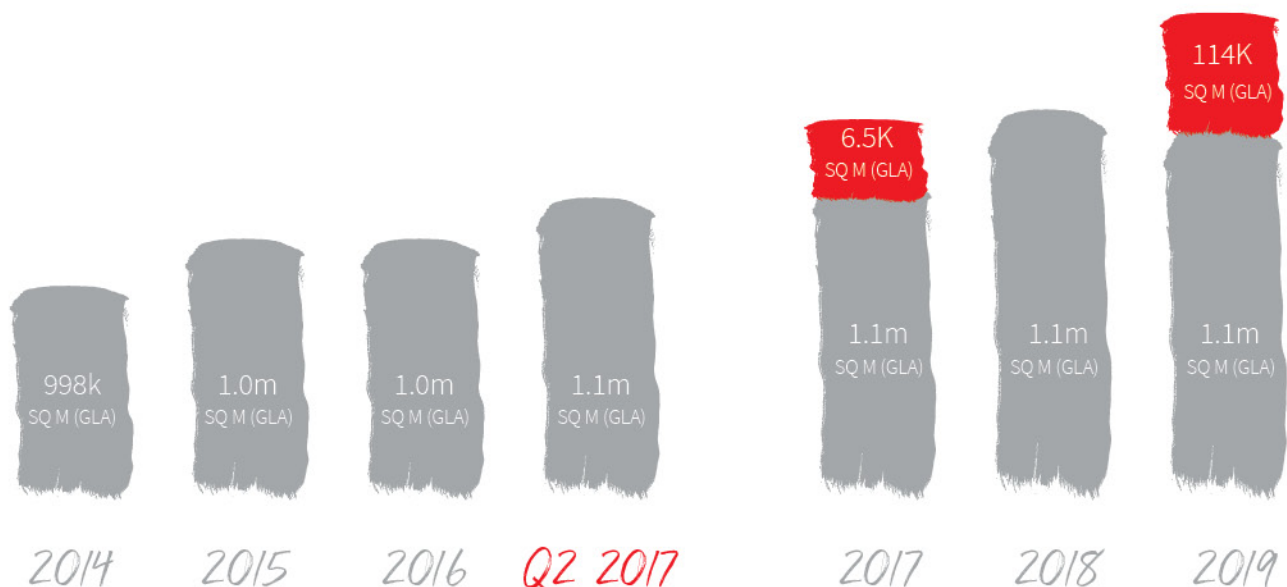
adding 96,000 sq m to the total stock. These include West Avenue Mall (34,000 sq m), Shaikh Avenue (13,000 sq m), Raaka Square (12,000 sq m), Azizyah Plaza (9,200 sq m), Bohaira Plaza (9,000 sq m), Wahat Al Khobar (7,000 sq m), Othaim Markets (6,500 sq m), and Shatea Square (5,500 sq m).

There are low levels of supply forecast over the next year with just one small project, Awan Gallery (6,500 sq m) scheduled to complete before the end of 2017. The next

major projects to enter the market are the Dhahran Boulevard (60,000 sq m) and the Dammam Mall (54,000 sq m) both currently scheduled to complete in 2019.

Current Supply (2014 – Q1 2017)\*

Future Supply (2017–2019)



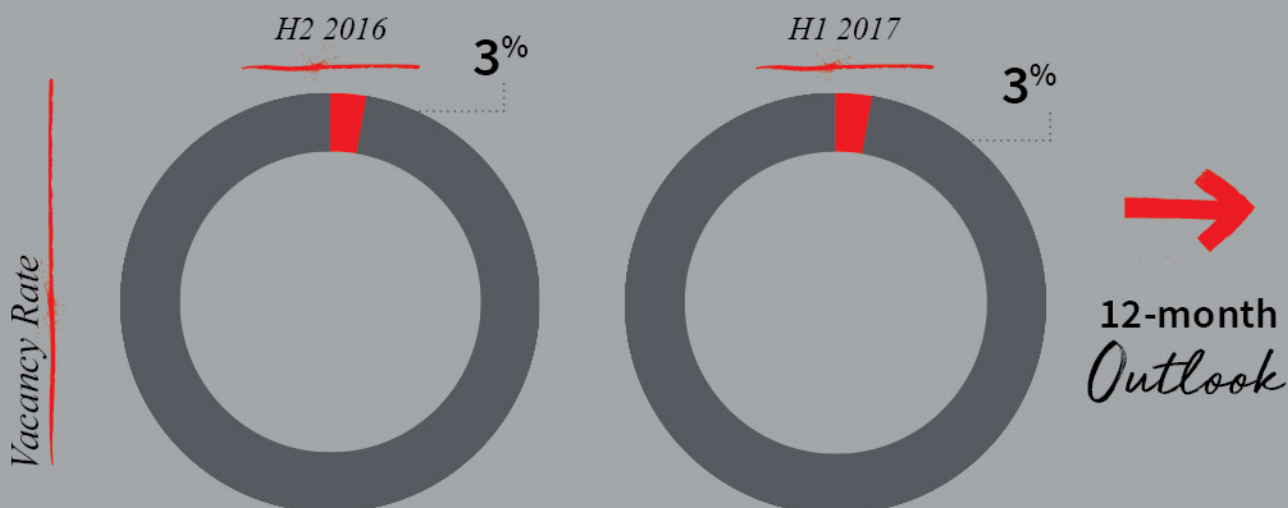


# Retail

## Performance

The retail sector remained relatively stable over the past 6 months. Vacancies remained largely unchanged at around 3%. There has been little change in rentals with those in super-regional malls rents increased by 1% while regional malls saw an equally minimal decline of 2% over the past year.

The reinstatement of salary benefits and allowances to public sector employees has certainly been positive news for the retail sector. Rents are however expected to remain largely unchanged over the next 12 months, before coming under further downward pressure with the completion of two major new malls in 2019.



# Hotel

## Hot Topic

Government ministries and private entities have invested in new visitor experiences in the DMA, in line with the goal of attracting more visitors as set out in the Saudi Vision 2030. Examples of this include the newly opened 5,000 sq m family entertainment center in Dammam by the Abdulmohsen Al Hokair Group.

The General Entertainment Authority (GEA) launched several events targeting families in the DMA across the Holy month of Ramadan. The GEA is committed to positioning the DMA as one of the main leisure and entertainment destinations in the Kingdom, seeking to capitalize on the growing demand for domestic tourism.

Almost 343,000 travelers crossed the King Fahad Causeway during the recent four day Eid holiday, with 116,000 travelers on Wednesday alone, the highest daily flow since the opening of the causeway in 1986. The average daily traffic in 2016 was 31,000. The King Hamad Causeway, a proposed second causeway linking Saudi Arabia and Bahrain, is expected to involve the two countries, is expected to involve a public private partnership (PPP) arrangement exceeding 25 years. While primarily boosting the Bahrain tourist market, this project could result in some development opportunities within the DMA.

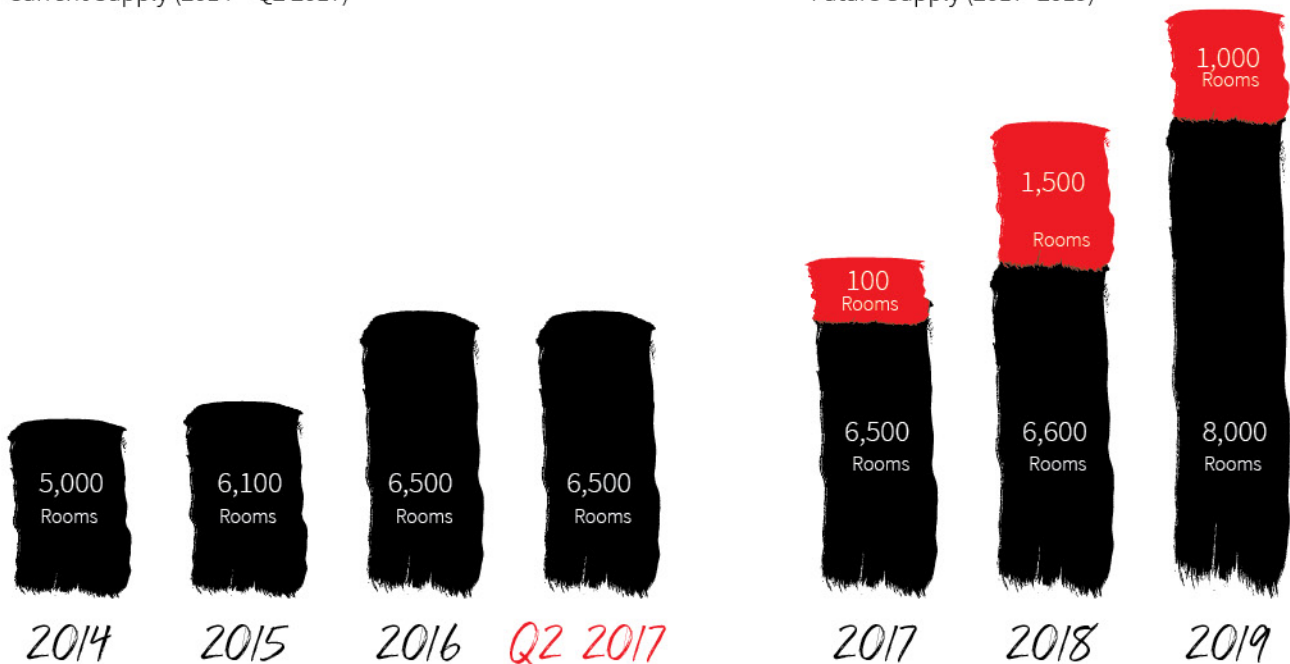
## Supply

The most notable addition to supply over the first half of 2017 was the Radisson Blu Residence, Dhahran (with 92 serviced apartments). This is the second property under the Radisson Blu flag in the DMA and will soon be followed by the Radisson Blu Resort Half Moon Bay that is scheduled to open later this year.

Between 2014 and 2016, a total of 1,700 keys was added to the hotel stock across the DMA, an average of 550 keys pa. A further 2,600 keys are scheduled to enter the market during the next three years at an average of 900 keys pa. As with other sectors, not all of these projects are expected to complete on schedule.

Current Supply (2014 – Q2 2017)

Future Supply (2017–2019)



# Hotel

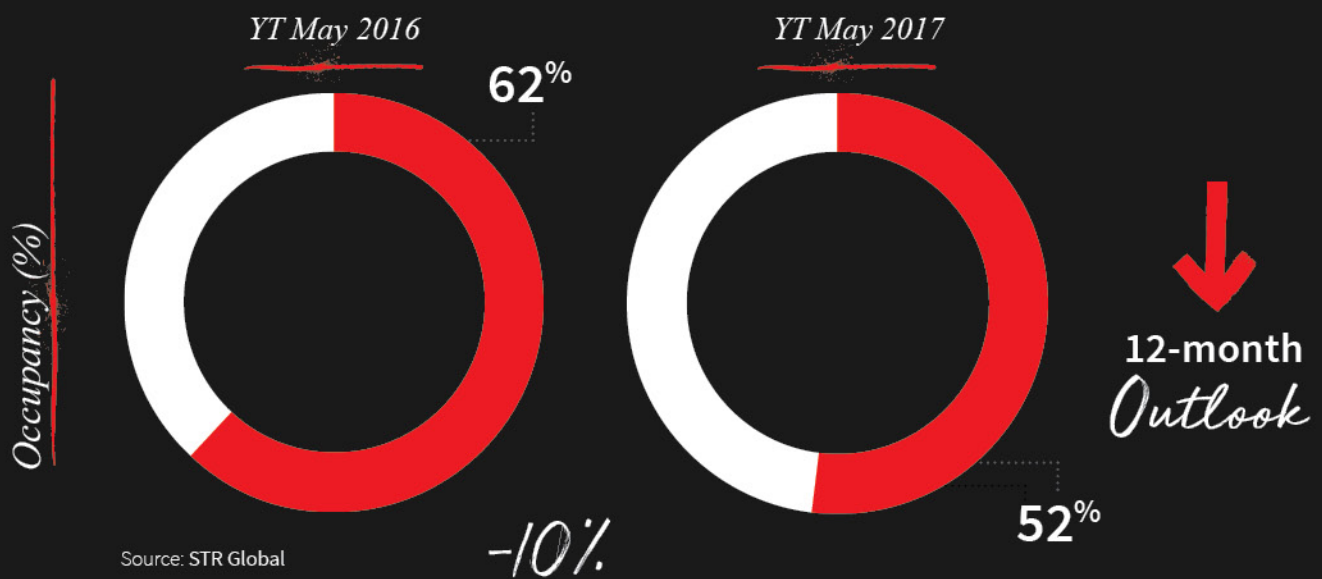
## Performance

Hotel performance in the DMA has softened significantly over the past year, as the market remains highly dependent upon travel related to the oil and gas sector. Occupancies decreased by 10% and ADR levels by 9% over the year to May 2017, compared to the same period in 2016. Occupancies YTD May stood at 52% with ADR's falling to USD 154. Bahrain enjoyed growing demand from Saudi tourists because of its

more developed entertainment sector.

RevPAR levels declined 24% to USD 80 year to May compared to USD 105 in 2016. The fall of travel related to the oil and gas sector explains most of the decrease in RevPAR. Another smaller factor is the additional supply in the market, which resulted in higher vacancies and hoteliers competing on price.

The short-term outlook for the hospitality sector in the DMA remains negative with further declines in occupancies and performance expected over the next 12 months. The longer term prospects are more positive given the expected increase in the economy in 2018, along with the expansion of the airport and the potential growth of domestic tourism.





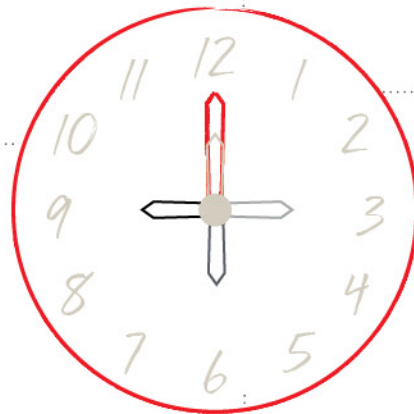
# Definitions

## 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.

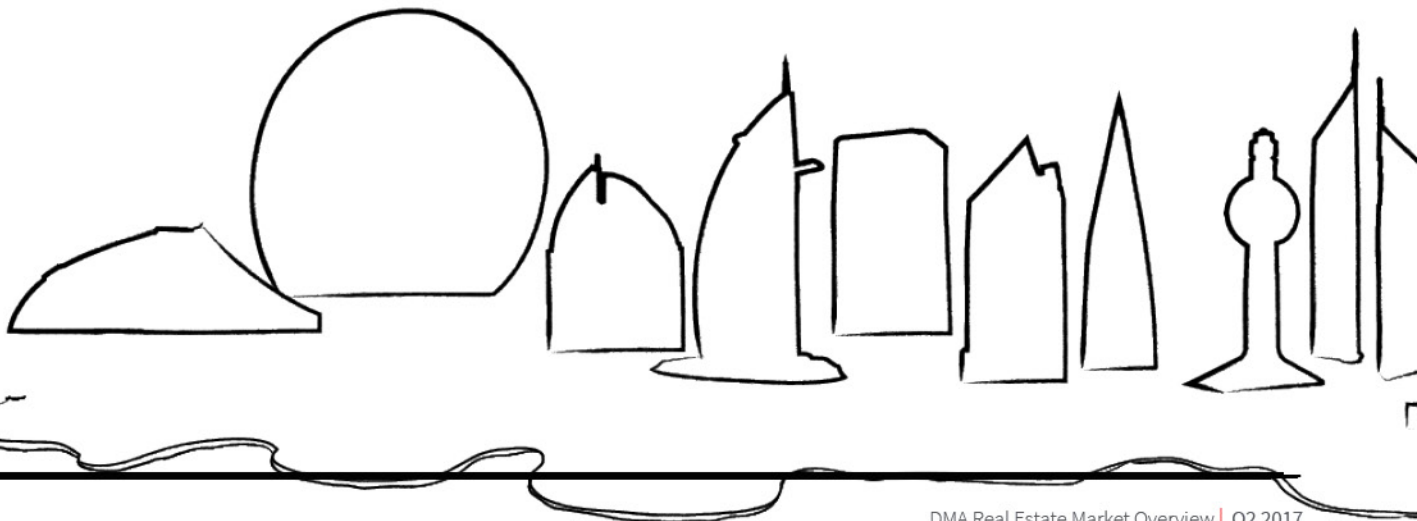


## 3 O'clock

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.



## Office

The supply data is based on our survey of Grade A and B office space located in certain commercial areas in the DMA including: Dammam Khobar Highway, Prince Sultan Street and Prince Turki Road.

The rents shown in the office performance graphic represent the weighted average of Grade A and Grade B office space.

Completed building refers to a building that is handed over for immediate occupation.

Office vacancy rates are based on estimates by the JLL Agency team and buildings tracked in the DMA.

## Residential

The supply data is based on the National Housing Census (2010) and our quarterly survey of major projects and stand-alone developments in selected areas in the DMA.

Completed building refers to a building that is handed over for immediate occupation.

Residential performance data is based on a market survey for rental performance in villas and apartments and sales performance for villas and apartments. Performance figures reflect average lease rates and sale prices of stand-alone villas and apartments in the DMA comprising of 3 - 4 bedroom villas and 2 - 3 bedroom apartments, and not just major, master planned developments which may achieve higher prices / rentals.

## Retail

The retail tracked in the DMA includes retail space located in enclosed retail centers and excludes strip retail. The classification of retail centres 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

Neighbourhood Malls have a GLA of 3,000 - 10,000 sq m

Convenience Malls have a GLA of less than 3,000 sq m

Retail supply relates to the Gross Lettable Area (GLA) within retail malls tracked by JLL.

Average Rent Shopping Centre represents the quoted average rents for line shops for the major regional and sup regional shopping malls the DMA. Other types of shops (F&B, anchors, kiosks and entertainment) are not included.

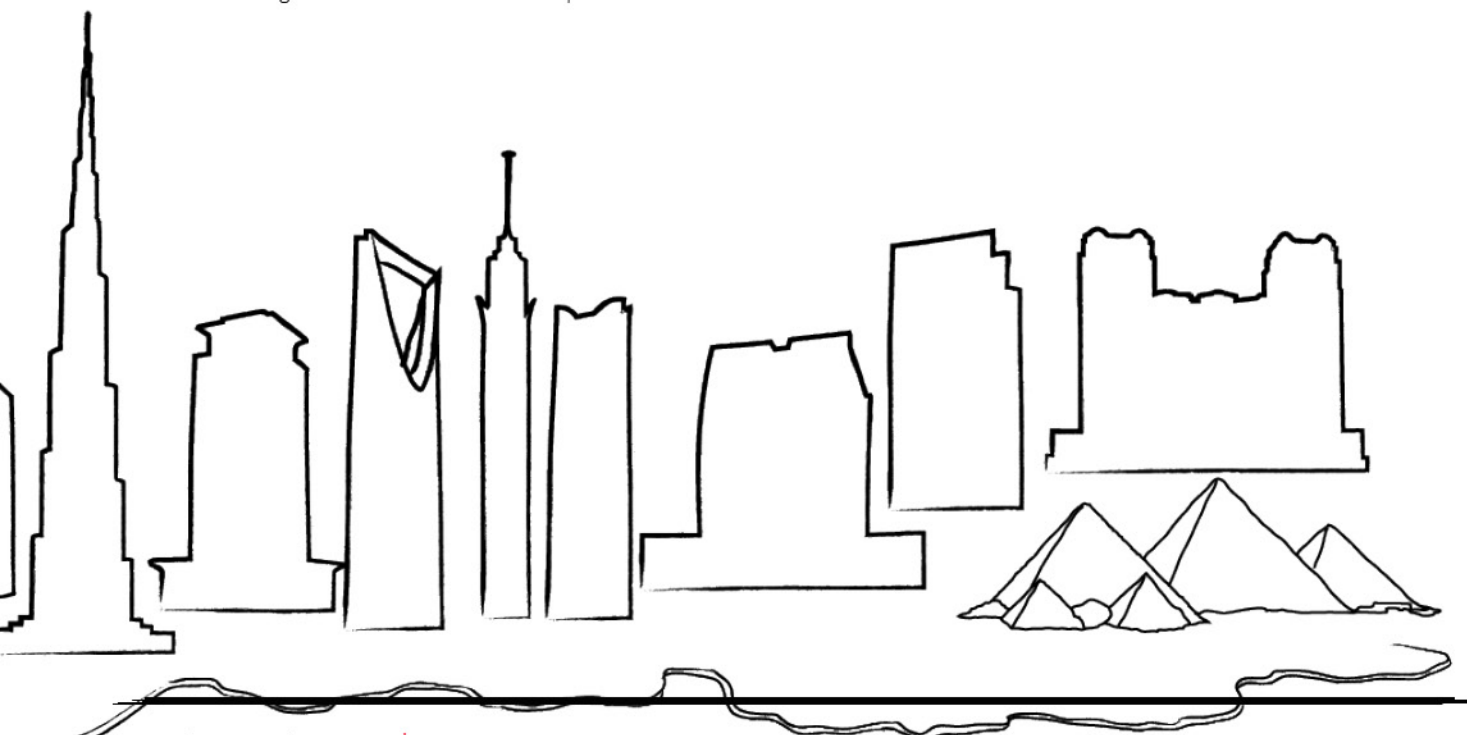
Vacancy rate is based on estimates from the JLL Retail team and represents the average rate across standard in line shops.

## Hotel

Hotel room supply is based on existing supply figures provided by Saudi Commission for Tourism and Antiquities as well as future hotel developments tracked by JLL 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.



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