The Eastern Seaboard is central to Saudi Arabia’s economic diversification strategy. Unlike other Gulf States that are basing their diversification strategies on Finance, Media or Tourism, Saudi Arabia is pursuing a different direction, based largely on downstream manufacturing and processing of the Kingdom’s hydrocarbon resources. Population, employment and investment levels in the Eastern Seaboard are all expected to increase over the next few years.

The Eastern Seaboard is anchored by the two most important commercial centres in the Eastern Province, the Dammam Metropolitan Area or DMA (comprising Dammam, Al Khobar and Dhahran) and Jubail (one of the largest petrochemical clusters in the world).

A defining feature of the Eastern Seaboard real estate market is the importance of the industrial sector, which comprises the region’s key economic driver. Large areas of land have been allocated for the future development of this sector in both the DMA and Jubail.

There is a significant shortage of high quality residential accommodation in the Eastern Seaboard at present, particularly expatriate compounds. Strong demand is creating opportunities for the development of both additional expatriate compounds and further labour and staff accommodation.

The office market remains relatively limited, with most demand generated by oil companies or service sector firms supporting the oil sector. This sector of the market is likely to develop over time as real estate demand moves downstream.

While the Jubail hotel market is likely to remain focused on business travel, there are increasing opportunities for leisure based hotel products in beachfront locations within the DMA. There are currently few entertainment options on the Eastern Seaboard, resulting in many residents travelling to Bahrain or elsewhere in the Kingdom for leisure activities.

The retail market is well provided for in the DMA (with two major super regional malls) but is less well developed in Jubail. The future growth of retail supply in the Eastern Seaboard is likely to be in line with increases in population and tourist arrivals.
Saudi Arabia’s Eastern Seaboard

Sources: JLL and Google Maps
Introduction

Despite the economic importance of the region and its rapid urban growth over the past 20 years, there has been relatively little research published on the real estate market in the Eastern Province. This report comprises the first of what will become regular updates on different components of the Eastern Province real estate market by JLL.

The Eastern Province is a vast and varied area, containing a number of freestanding cities (eg: Al Ahsa and Hafar Al Butin) each with their own independent real estate markets.

This initial report focuses on the two largest centres of commercial real estate within the Eastern Province, the Dammam Metropolitan Area (DMA) and Jubail. Both of these lie on Saudi Arabia’s Eastern Seaboard – the Arabian Gulf coast, between Kuwait to the north and the King Fahd Causeway to Bahrain.

Dammam Metropolitan Area (DMA) is the largest urban area in the Eastern Province and includes Dammam, Dhahran and Al Khobar. Dammam is the administrative centre of the Eastern Province and the fifth largest city in Saudi. As the city has grown over the past twenty years, it has merged with the adjoining cities of Al Khobar and Dhahran to form what is now increasingly referred to as the Dammam Metropolitan Area.

Jubail includes Jubail Old City (JOC) and Jubail Industrial City (JIC). Jubail Industrial City plays a significant role within the national economy, contributing approximately 12% towards Saudi’s Gross Domestic Product and approximately 65% of its industrial output in 2013. Given its strategic national significance, Jubail Industrial City is governed separately by the Royal Commission of Jubail and Yanbu, while Jubail Old City has its own municipality.
Connectivity of Saudi Arabia’s Eastern Seaboard

Sources: JLL and Google Maps

- Kuwait City
- Riyadh
- Al Hofuf
- Buqayq
- Jubail
- DMA
- Manama
- Doha
- Haradh
- RIYADH
- AL HOFUF
- BUQAYQ
- JUBAIL
- DMA

GCC RAILWAY

MAJOR HIGHWAYS

Saudi Arabia’s Eastern Seaboard – Moving Beyond Oil
Distinctive Features of the Eastern Province

The real estate market is shaped by the unique geographic, economic and demographic structure of the Region. The Eastern Province is the largest of the Kingdom’s thirteen administrative regions, spreading over an area of 672,000 sq km and representing 36% of the total land area.

Its location on the Arabian Gulf in close proximity to Kuwait, Bahrain and Qatar contributes to the region’s first unique characteristic, its excellent connectivity and role as a gateway for international trade and tourism. This results in the Eastern Province having a more diverse population and greater openness to the rest of the world than other parts of the Kingdom.

The international connectivity will be further enhanced by the proposed GCC rail network. This will not only link the region to the central and western regions of Saudi Arabia, but also to surrounding GCC countries, thereby increasing levels of both domestic and international trade.
Oil and Gas Fields in the Eastern Province
Sources: meed.com and JLL

Saudi Arabia's Eastern Seaboard – Moving Beyond Oil
Oil and Gas Fields in the Eastern Province

The second distinctive feature and most influential driver shaping the region’s real estate market is that the Eastern Province holds over 50% of Saudi Arabia’s proven oil reserves. Ghawar (which lies inland from the Eastern Seaboard) is the world’s largest oil field, spreading over 3,300 sq km with an estimated capacity of 70 billion barrels of crude oil.

Access to such large reserves of oil, gas and other natural resources have attracted a range of basic industries to the region, making the Eastern Province the most industrialised region of the Kingdom. Over 85% of Saudi Arabia’s basic industrial output is generated within the Eastern Province, with large areas of land being allocated to the industrial sector in both the DMA and Jubail.
Macroeconomic Overview

KSA Economy

Saudi Arabia is the largest economy in the Middle East and the 17th largest in the world, with a Gross Domestic Product (GDP) of approximately US$750 billion in 2013. The economy remains dominated by the petroleum sector, which accounts for more than 45% of GDP and 90% of export earnings. Saudi Arabia has the world’s second largest crude oil reserves and is the largest exporter of petroleum in the world.

As with other Gulf States, Saudi Arabia is pushing ahead with plans to diversify the economy away from its current reliance on oil production. Unlike other states, where these plans are focussed on service sectors such as finance, tourism, media or education, the basis of Saudi’s diversification plan involves the use of its natural resources to create a large and vibrant manufacturing sector with a particular focus on petrochemicals, plastics, fertilisers, steel, aluminium and basic industries.

As part of this strategy, the cabinet has recently approved the creation of the Saudi Arabian Company for Industrial Investment (SACI) to invest in manufacturing industries and generate further employment. The new company is a joint venture between the finance ministry’s Public Investment Fund, state oil firm Saudi Aramco and Saudi Basic Industries Corp (SABIC) and will have capital of SAR 2 billion (US$533 million).

SABIC and Aramco are both undertaking a wide variety of projects aimed at diversifying the Saudi economy. SABIC and Exxon Mobil are building what will be the first synthetic rubber plant in the Kingdom, aimed at satisfying the increasing demand for rubber products from the automotive sector in the Middle East, Africa and Asia. Aramco is developing a major petrochemicals plant in Jubail with Dow Chemical, as well as making major investments in the power generation, port and alternative energy sectors.

The results of this diversification strategy are already being felt. While the oil sector expanded by 5.5% in 2013, non-oil GDP grew by 7.2%, supported by strong growth in the manufacturing, construction and government sectors. Non-oil manufacturing accounted for around 13% of total GDP in 2013, with petrochemicals, plastics, steel and fertilisers being the largest sectors.
Top Ten Sectors of Saudi GDP (2013)
Source: IHS Global Insights

- **CRUDE PETROLEUM & NATURAL GAS**: 45%
- **GOVERNMENT SERVICES**: 13%
- **FINANCE, INSURANCE, REAL ESTATE & BUSINESS SERVICES**: 9%
- **WHOLESALE, RETAIL, RESTAURANTS & HOTELS**: 9%
- **OTHER MANUFACTURING**: 8%
- **OTHER**: 6%
- **CONSTRUCTION**: 5%
- **TRANSPORT, STORAGE & COMMUNICATION**: 5%
The Eastern Province has an abundance of mineral resources with 10 of the Kingdom’s 14 natural gas fields and over 50% of its oil reserves. It is therefore not surprising that the Eastern Province accounted for over 56% of Saudi Arabia’s total economic activity in 2013.

Within the Eastern Province, Jubail Industrial City is an important manufacturing hub, contributing approximately 12% of the Kingdom’s GDP and 85% of its non-oil exports. According to the Royal Commission of Jubail and Yanbu, JIC also attracted over 50% of the Kingdom’s total foreign investment in 2012.
The town of Al-Jubail has a long history, tracing its roots back more than 7,000 years. Today, Jubail Industrial City (JIC) is one of the world’s largest industrial cities, hosting more than 160 industrial enterprises. The 2009 Census reported that JIC was home to over 105,000 full-time residents, a number that could now have reached upwards of 130,000, and the city is a key component of the economic development of Saudi Arabia.

In 1933, Jubail gained a measure of fame as the landing site for the first team of geologists to explore for oil in The Kingdom of Saudi Arabia. Fifty years later (in 1983), Jubail staked an even greater claim to fame with the Jubail industrial city project cited in the Guinness Book of Records as the largest engineering and construction project ever attempted.

The Royal Commission for Jubail and Yanbu (RCJY) was established as an autonomous organization of the Saudi Government in 1975. The Commission is governed by a Board of Directors with a mandate to create and manage a civic and industrial development of truly global quality and scale.

The advanced physical and social infrastructure established by the Royal Commission is the cornerstone which has allowed the various industrial, commercial and social sectors to thrive and grow. Jubail has the infrastructure to operate continuously without failure of power or supplies in any of the existing facilities while meeting community requirements within modern, high living standards where all the necessities of life and tourist and recreational facilities are available.

The focus of the RCJY was initially on attracting industrial development. Having achieved great success in this area, the focus now also encompasses the creation of state of the art communities within Jubail Industrial City. This is part of a comprehensive approach to attract and retain talent and further grow the economic base of not just the city but the whole of Saudi Arabia.
Demographics

The population of the Eastern Province stands at approximately 4.5 million (around 15% of the national total). Within this, the DMA population is approximately 1.6 million, which is projected to increase to over 2 million by 2025. Jubail is somewhat smaller, with a population of below 425,000 in 2013.

According to the Ministry of Economy and Planning (MEP), total employment across the Kingdom stood at around 10.6 million in 2013. Of this total, around 1.7 million (16%) is located in the Eastern Province, with around 520,000 in the DMA. Jubail is an important employment hub, while its population is only 25% that of the DMA, it houses 50% as many jobs.

The relatively low levels of population and employment in the Eastern province compared to its contribution to the Saudi economy reflects the highly capital intensive nature of the region’s economic base (oil and petrochemicals), with relatively small numbers of employees generating very high levels of revenue.

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Population & Employment (2013)

- **KSA**
  - Population: 30,000,000
  - Employment: 10,600,000

- **Eastern Province**
  - Population: 4,500,000
  - Employment: 1,683,000

- **DMA**
  - Population: 1,648,000
  - Employment: 520,000

- **Jubail**
  - Population: 424,000
  - Employment: 268,000

Sources: JLL and Government Data
Tourism

More than 7 million people visited the Eastern Province in 2012, with visitor arrivals growing by approximately 3% per year since 2008. Given its close proximity to Bahrain, Kuwait and Qatar, it is not surprising that international visitors are relatively more important in the Eastern Province than the national average, accounting for almost 60% of all visitors. These international visitors’ contributed around SAR 6 billion to the Eastern Province economy in 2012.

International and Domestic Tourism (2012)

45% INBOUND TOURISM

59% INBOUND TOURISM

55% DOMESTIC TOURISM

41% DOMESTIC TOURISM

Source: MAS
Major Industrial Estates – Eastern Seaboard

Source: JLL
Industrial Market Overview

The Eastern Seaboard lies at the heart of Saudi Arabia’s plan to diversify the economy through the growth of downstream manufacturing and is the region’s most important industrial development.

Supply

The importance of the industrial sector is reflected in the allocation of more than 174 million sq m (174 sq km) of land across the Eastern Seaboard. Jubail Industrial City is one of the largest industrial estates in the world, with more than 135 million sq m (135 sq km) of industrial land. While not all the allocated industrial land has yet been developed, JLL estimate there is currently over 40 million sq m of completed industrial or warehouse space across the DMA / Jubail area.

While there is a large variety of industrial activity across the region, there is a higher concentration of heavy industry compared to other industrial areas in Saudi Arabia or the broader region. This is particularly the case with respect to Jubail Industrial City 1 and 2, which have an especially high concentration of heavy industrial facilities in the Steel, Petrochemicals, Plastics and Oil / Gas sectors.

Many major foreign companies have established plants in Jubail Industrial City, with most of these operations trading in the name of the Joint Venture (JV) with their local Saudi partner. Foreign multinationals operating in this manner include Total, Dow Chemical, Mittal and Chevron.

<table>
<thead>
<tr>
<th>#</th>
<th>Development</th>
<th>Location</th>
<th>Allotted Land Area (sq m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Jubail Industrial City 1</td>
<td>Jubail</td>
<td>80,000,000</td>
</tr>
<tr>
<td>02</td>
<td>Jubail Industrial City 2</td>
<td>Jubail</td>
<td>55,000,000</td>
</tr>
<tr>
<td>03</td>
<td>Jubail Old City</td>
<td>Jubail</td>
<td>4,500,000</td>
</tr>
<tr>
<td>04</td>
<td>King Abdul Aziz Port</td>
<td>Dammam</td>
<td>3,875,000</td>
</tr>
<tr>
<td>05</td>
<td>Sumou</td>
<td>Khobar</td>
<td>1,400,000</td>
</tr>
<tr>
<td>06</td>
<td>Al Sharq</td>
<td>Khobar</td>
<td>1,300,000</td>
</tr>
<tr>
<td>07</td>
<td>First Industrial City</td>
<td>Dammam</td>
<td>500,000</td>
</tr>
</tbody>
</table>
Demand

The major driver of industrial demand is the long standing national economic priority to diversify the economy away from its current dependence upon exporting oil. This strategy has formed the centre piece of Saudi economic planning for the past 40 years and remains at the core of the Kingdom’s plans to increase the contribution of manufacturing from 11% of GDP in 2009 to 20% by 2020.

There is an increasing awareness that this target can only be met through attracting more downstream manufacturing, which has the additional advantage of generating four times as much employment per dollar of investment than the large upstream investments that have dominated spending to date.

A key part of this policy refocus involves attracting more global brands to establish manufacturing facilities within Saudi Arabia and the Eastern Province is likely to be a major beneficiary. Examples of this trend include Jaguar Land Rover, Alcoa, Dow Chemicals, Vopak (Holland), Sinopec (China) and Hamwah (South Korea) who have all announced plans for significant investment in new manufacturing plants.

The major drivers of demand for industrial property in the Eastern Province include:

- Availability of low cost fuel and petroleum products from Saudi Aramco.
- Government support and incentives to attract manufacturing industries (eg: custom exemptions, low cost loans, subsidized utilities and input costs, favourable land lease rates).
- Political support and investment from SABIC which has located many of the nation’s largest petrochemical and other basic industrial plants within the Eastern Province.
- Demand for services to support the oil exploration industry.
- Access to four major sea ports – for export of completed goods.
- Access to Dammam International Airport.
- Road links to surrounding States (Kuwait and Bahrain).
- Rail access to Riyadh and other parts of Saudi Arabia.
- University support. KFUPM (King Fahd University for Petroleum and Minerals located in Dhahran) is one of the Kingdom’s leading academic institutions and provides labour, training and research support for businesses.
Performance

Most companies seeking industrial premises in Saudi Arabia prefer to lease land on which to construct facilities according to their own specific requirements. Given the very high capital investment involved in many of the uses located in the Eastern Province, there is little space constructed on a speculative basis, with the exception of some small and relatively standard warehouse units.

Industrial rentals are much lower in Jubail Industrial City than in other parts of the region, as they have been subsidised in order to attract new industries to the area. Land is not generally made available for sale within JIC, with most industrialists leasing large sites on which they construct their own facilities.

Indicative Prices – Industrial Land and Warehouses (SAR per sq m)

Source: JLL
Market Outlook

The industrial sector of the real estate market is currently dominated by the government and para-state companies, with few private sector industrial projects. This situation is unlikely to change, with private sector investment in the industrial sector expected to remain limited.

Given the availability of large areas of land and the strategic importance of the industrial sector to the national economy, the Government is likely to ensure a suitable supply of land is released to meet future demand. The ample land supply and the capital heavy nature of industrial development is likely to ensure the market remains more stable and less exposed to the cyclical variations that impact other sectors of the real estate market.

There are plans to relocate the First Industrial City in Dammam, which is causing traffic jams in nearby residential neighbourhoods, to the recently announced Third Industrial City located about 60 kilometres from the city. No new licenses are therefore being issued in the First Industrial City and licenses for existing plants may not be renewed.

The Jubail industrial market will continue to be driven by the needs of large heavy industrial users located within Jubail Industrial City 1 and 2. Over time, these major manufacturing uses are expected to generate increased demand for storage, ancillary warehousing and a range of light industrial and other support facilities within JIC.
Major Residential Developments – DMA
Source: JLL
Residential Market Overview

The quality of residential development is increasing to meet international standards with particular interest in residential compounds to house expatriate workers.

Supply

There are currently around 300,000 quality residential units across the DMA, with the prime residential areas including Al Shatea, Al Hamra, Al Rayan, Al Muraikabat, and Al Jamiyyin in Dammam and the Corniche, Al Bandariya, the Golden Belt, Green belt, Olaya, and Al Hada in Al Khobar. If all the announced projects proceed on schedule, the stock could increase to around 340,000 units by the end of 2017.

<table>
<thead>
<tr>
<th>#</th>
<th>Project</th>
<th>Unit Type</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Al Nawras Lake</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>02</td>
<td>Saraya Villas</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>03</td>
<td>Dhahran Emaar</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>04</td>
<td>Techno Project Development</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>05</td>
<td>Dammam Gate</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>06</td>
<td>Tala Al Nawras</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>07</td>
<td>Asdaf Al Nawras</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>08</td>
<td>Al Andalous</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>09</td>
<td>Al Hamra</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>10</td>
<td>Rashid Tower</td>
<td>Apartments</td>
<td>Completed</td>
</tr>
<tr>
<td>11</td>
<td>Al Markaz Project</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>12</td>
<td>Mada 3</td>
<td>Villas</td>
<td>Completed</td>
</tr>
<tr>
<td>13</td>
<td>Durrat Al-Khobar</td>
<td>Villas</td>
<td>Upcoming</td>
</tr>
<tr>
<td>14</td>
<td>Murjana</td>
<td>Villas</td>
<td>Upcoming</td>
</tr>
<tr>
<td>15</td>
<td>Al-Khobar Garden</td>
<td>Villas</td>
<td>Upcoming</td>
</tr>
<tr>
<td>16</td>
<td>Dammam Hills</td>
<td>Villas</td>
<td>Upcoming</td>
</tr>
<tr>
<td>17</td>
<td>Khobar Lakes</td>
<td>Villas</td>
<td>Upcoming</td>
</tr>
<tr>
<td>18</td>
<td>Bayan – Residential Project</td>
<td>Villas</td>
<td>Upcoming</td>
</tr>
<tr>
<td>19</td>
<td>Dana Bay</td>
<td>Apartments</td>
<td>Upcoming</td>
</tr>
</tbody>
</table>
Most of the existing supply is in small clusters of villas built by local developers or individual investors, with few larger master planned projects. This is however changing, with larger national and regional developers such as Emaar, Jenan and Al Suwaiket setting new standards by developing high end residential developments and towers with quality support facilities.

Jubail is a much smaller market than the DMA, with an estimated current stock of some 52,000 residential units, split between aging mid-rise apartment buildings and compounds in Jubail Old City (JOC), and newly built villas and mid-rise apartment buildings in JIC. This stock could increase to around 90,000 over the next 15 years, with the development of large residential projects in Jalmudah and Fanateer and future districts such as City Centre, Mardumah, Mutrafiah and Eastern Corridor.

Demand

The majority of demand for housing in the DMA comes from those employed locally. A number of the larger employers provide housing for their staff, while some of these firms prefer to develop their own exclusive compounds, others are willing to house staff within projects being developed for the general market.

Based on the latest government census data, JLL estimates there is currently demand for around 280,000 residential units in the DMA and that this demand will grow at around 3% per year over the next 5 years, which is slightly ahead of the current forecasted supply pipeline. Most of this demand will be for primary residences, although there is also likely to be increased demand for second homes in the Half Moon Bay area.
In Jubail there is currently demand for around 60,000 residential units with a growth rate of 7.5% per annum expected over the next 5 years. There is an existing demand for additional housing, with the pace of demand exceeding in the short and medium term. The majority of current residents in JIC are Saudi nationals, with the majority of expatriates residing in JOC.

Like most areas of Saudi Arabia, residential demand in the Eastern Province is concentrated on the villa sector. The market is however changing, with demand for apartments expected to increase at a faster pace than that for villas as they offer a more affordable option. Land prices have increased to such an extent that many smaller developers are struggling to deliver villas at affordable prices or rentals and more plots may be developed by larger developers able to benefit from economies of scale.
Performance

Sale Price (SAR per sq m)

<table>
<thead>
<tr>
<th></th>
<th>DMA</th>
<th>Jubail</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Villas</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Quality</td>
<td>2,500–4,000</td>
<td>3,500–4,000</td>
</tr>
<tr>
<td>Medium Quality</td>
<td>1,500–3,000</td>
<td>2,500–3,500</td>
</tr>
<tr>
<td>Low Quality</td>
<td>1,000–2,000</td>
<td>1,500–2,500</td>
</tr>
<tr>
<td><strong>Apartments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Quality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium Quality</td>
<td></td>
<td>2,000–3,000</td>
</tr>
<tr>
<td>Low Quality</td>
<td></td>
<td>1,500–2,500</td>
</tr>
</tbody>
</table>

Source: JLL
Rentals (SAR per sq m p.a.)

**DMA HIGH QUALITY VILLA**
- 300–450
- 250–400
- 150–250

**DMA MEDIUM QUALITY VILLA**
- 250–400

**DMA LOW QUALITY VILLA**
- 150–250

**JUBAIL HIGH QUALITY VILLA**
- 300–350
- N/A

**JUBAIL MEDIUM QUALITY VILLA**
- 200–300

**JUBAIL LOW QUALITY VILLA**
- 150–250

**VILLAS VS APARTMENTS**

**DMA HIGH QUALITY APARTMENT**
- 350–450

**DMA MEDIUM QUALITY APARTMENT**
- 250–350

**DMA LOW QUALITY APARTMENT**
- 150–300

**JUBAIL HIGH QUALITY APARTMENT**
- N/A

**JUBAIL MEDIUM QUALITY APARTMENT**
- 250–300

**JUBAIL LOW QUALITY APARTMENT**
- 150–250

Source: JLL
Market Outlook

Most Saudi families still prefer to purchase land and construct their own homes in the Eastern Seaboard (as in the rest of the country). This dynamic is however expected to change gradually over time, with a shift towards the purchase of completed homes and apartments. This changing dynamic, and the growth in population and number of households living in the area, is expected to increase both sale prices and rentals in both the DMA and Jubail over the next few years.

The major constraint on future price increases will be affordability, which is being negatively impacted by increasing land values. Over the short term, the greatest increases are expected to be in villas rather than apartments. Over the longer term, apartments are expected to outperform villas as affordability becomes an increasing concern.

Prices and rentals currently vary significantly between projects, with those projects offering the highest quality residential environment achieving a premium. Access to supporting facilities (e.g., retail, F & B and recreational amenities) will become increasingly important in determining the attraction and therefore the relative pricing of competing projects.

In terms of geography, new projects located in JIC, Al Khobar and areas to the South of the DMA towards Half Moon Bay are expected to outperform those in other parts of the region.
Compounds (secure gated estates with high levels of security and access restricted to expatriates) are an important component of the Saudi residential market. Their attraction is that foreigners can enjoy a more relaxed and overseas lifestyle in compounds compared to traditional residential projects elsewhere in Saudi. As a result, rentals are typically higher and many of the more popular compounds have lengthy waiting lists.

JLL estimate there are currently around 12,000 compound units across the DMA, with a further 3,200 units in Jubail. The majority of this supply is in relatively small projects of 20 to 100 units due to a combination of economic, regulatory and security factors. This is well short of the demand, resulting in waiting lists of up to 2 years and many single expatriates forced to seek accommodation outside of compounds.

Major local employers such as SWCC, Mortco and SABIC are choosing to build their own staff compounds. A further 2,500 units are currently under construction within the DMA, while extensions to the existing Western Park, Nesma and Al Jude village compounds in Jubail will add an additional 450 units.

The excess demand for compound units results in much higher rental levels in comparison to traditional residential accommodation in the DMA and Jubail. Compound rents have increased by an average of 5% per annum over the past 3 years, with the greatest increases in those compounds offering the highest levels of security and entertainment, retailing and sporting facilities.

With many existing compounds operating at full capacity and maintaining lengthy waiting lists, there is a clear current shortage of good quality residential compounds in areas of the Eastern province. This shortfall is expected to remain over the next 5 years despite planned increases in supply levels, implying opportunities for further compound developments.
Major Office Projects – DMA
Source: JLL

Saudi Arabia’s Eastern Seaboard – Moving Beyond Oil
Office Market Overview

The office market remains relatively small with most demand generated by oil companies or firms supporting the oil sector.

Supply

The office market is relatively small, with a current stock of around 1 million sq m across the Eastern Seaboard. The majority of the current space (around 715,000 sq m) is located within the DMA, where more than 74,000 sq m of office space has entered the market over the last two years. The majority of the new supply is located in Al Khobar due to its strategic location and connectivity to Bahrain.

<table>
<thead>
<tr>
<th>#</th>
<th>Project</th>
<th>Location</th>
<th>GLA (sq m)</th>
<th>Grade</th>
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</thead>
<tbody>
<tr>
<td>01</td>
<td>Novotel Business Park</td>
<td>Dammam Khobar Highway</td>
<td>30,000</td>
<td>A</td>
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<tr>
<td>02</td>
<td>Al Hugayet Tower</td>
<td>Dammam Khobar Highway</td>
<td>17,800</td>
<td>A</td>
</tr>
<tr>
<td>03</td>
<td>Al Saed Tower</td>
<td>Dammam Khobar Highway</td>
<td>17,300</td>
<td>B</td>
</tr>
<tr>
<td>04</td>
<td>Eastern Cement</td>
<td>Dammam Khobar Highway</td>
<td>16,500</td>
<td>B</td>
</tr>
<tr>
<td>05</td>
<td>Sehameya Tower</td>
<td>Prince Sultan Street</td>
<td>10,500</td>
<td>B</td>
</tr>
<tr>
<td>06</td>
<td>Karawan Tower</td>
<td>King Faisal Road</td>
<td>10,400</td>
<td>B</td>
</tr>
<tr>
<td>07</td>
<td>Al Rashid Tower</td>
<td>Dammam Khobar Highway</td>
<td>9,100</td>
<td>B</td>
</tr>
<tr>
<td>08</td>
<td>Sumou Building</td>
<td>Prince Turki Road</td>
<td>8,936</td>
<td>B</td>
</tr>
<tr>
<td>09</td>
<td>Al Rajaa Tower</td>
<td>Dammam Khobar Highway</td>
<td>8,000</td>
<td>B</td>
</tr>
<tr>
<td>10</td>
<td>Al Khoraji Tower</td>
<td>King Faisal Road</td>
<td>8,000</td>
<td>B</td>
</tr>
<tr>
<td>11</td>
<td>Butain Tower</td>
<td>Prince Turki Road</td>
<td>8,000</td>
<td>B</td>
</tr>
<tr>
<td>12</td>
<td>Al Ez Building</td>
<td>King Abdullahz Street</td>
<td>7,800</td>
<td>B</td>
</tr>
<tr>
<td>13</td>
<td>Ali bin Ali Building</td>
<td>King Saud bin Abdullahz</td>
<td>7,350</td>
<td>B</td>
</tr>
<tr>
<td>14</td>
<td>Delmon Building</td>
<td>Prince Sultan Street</td>
<td>6,760</td>
<td>B</td>
</tr>
<tr>
<td>15</td>
<td>Al Tamimi Centre</td>
<td>Al Dhahran Road</td>
<td>8,100</td>
<td>C</td>
</tr>
<tr>
<td>16</td>
<td>Al Dewan Building</td>
<td>King Abdullah Road</td>
<td>7,800</td>
<td>C</td>
</tr>
</tbody>
</table>
Most of the existing supply in the DMA is Grade B quality, with very little Grade A quality office space, especially in Dammam itself. The proportion of Grade A space is expected to increase slowly over the next few years with new completions and the withdrawal of older stock from the market. Around 100,000 sq m of additional space is currently planned to enter the DMA office market over the next few years.

There is currently around 330,000 sq m of office space in Jubail (less than half of that in the DMA), with this space scattered between JOC and JIC with no clearly defined central business district. The quality of office space in JOC is much lower than in JIC, which commands a premium of approximately 70% to 100% in their quoted rentals. Given the ongoing demand and current lack of quality options, the supply of office space in Jubail is expected to more than double from current levels to around 790,000 sq m by 2025.

**Breakdown of Office Supply – DMA**

<table>
<thead>
<tr>
<th>Grade A</th>
<th>Grade B</th>
<th>Grade C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXISTING SUPPLY</strong></td>
<td><strong>FUTURE SUPPLY</strong></td>
<td></td>
</tr>
<tr>
<td>7%</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>83%</td>
<td>57%</td>
<td>13%</td>
</tr>
<tr>
<td>10%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>

Source: JLL
Demand

The energy sector is the primary employer and the major source of demand for office space in the DMA, but there is also increasing demand from professional and business services catering to the energy sector. As with other parts of Saudi Arabia, the public sector forms an important source of office demand in the Eastern Province, particularly in Dammam, the administrative centre of the region.

The DMA has not yet developed as a major office market and there remains a limited presence of international service sector firms that typically demand Grade A space. The market is currently dominated by Saudi Aramco, King Fahad University of Petroleum and Minerals (KFUPM) and a range of government and quasi-government tenants. Many of these occupants have developed their own buildings and they do not currently form a major source of demand for privately developed office projects.

While the Jubail office market is relatively small, it has been growing quickly over the past 5 years, absorbing around 50,000 sq m per annum. Most of this demand has emanated from companies servicing the industrial sector. With a continued growth in both office employment and the allocation of office space per person, demand for office space in Jubail is expected to increase by around 5% per annum over the next few years.
Given the relative shortage of Grade A office space, existing buildings are enjoying occupancy rates of 95–100% with rental rates of SAR 1,100 – 1,600 per sq m being achieved in both the DMA and JIC. Grade B buildings are experiencing higher vacancies and lower rents.
Market Outlook

Oil and petrochemical companies have traditionally driven the demand for office space in the Eastern Seaboard. While recent years have seen increased demand from international service companies such as engineers, technology providers, consultants, lawyers, banks and accountants, there remains a relatively limited presence of such companies which typically demand Grade A office space. Many developers are therefore currently focusing on the delivery of Grade B buildings.

The current shortage of quality space has pushed rentals to unsustainable levels in both the DMA and Jubail. As more new space comes to the market over the next 5 years, a ‘flight to quality’ is likely to occur, resulting in increased vacancies and a decline in rentals, especially for secondary grade space.
Supply

The Dammam Metropolitan Area is the largest and fastest growing hotel market within the Eastern Province. The latest data from MAS suggests there were around 6,000 rooms in 30 three to five star hotels at the end of 2012. According to MAS, some 54% of this stock was in the four and five star categories and this is consistent with JLL’s own current estimate of around 3,300 internationally branded rooms across the DMA.

Hospitality Market Overview

*Increased international business travel and new leisure opportunities are driving the hotel market.*

DMA Hotel Rooms by Class

![DMA Hotel Rooms by Class](image)

- **5-STAR**: 35%
- **4-STAR**: 19%
- **3-STAR**: 18%
- **2-STAR**: 28%

*Source: MAS 2012*
Early movers such as Sheraton and Le Meridien opened hotels in DMA early in the 1980s and capitalised on the undersupply at that time. The late 2000s saw the opening of several other internationally branded properties including the InterContinental, Hilton, Starwood, Accor, Rezidor, Wyndham and Louvre Hôtels. Hilton, which recently announced major expansion plans across Saudi Arabia, opened the 153-room DoubleTree by Hilton in Dhahran in January 2014, the brand’s first appearance in Saudi Arabia.

Jubail is a much smaller hotel market, with a total of just 850 quality rooms. Of these, around 430 rooms are within three internationally branded hotels; the Golden Tulip, Coral Beach Hotel and the InterContinental Al Jubail. A large portion of hospitality accommodations in Jubail is in the format of hotel apartments aimed at long term visitors. Most of the current hotel apartments are however of a relatively low standard.

The Dammam Metropolitan Area also has the largest future hotel pipeline in the Eastern Province with around 750 additional rooms expected to be completed by the end of 2016. Most new hotel properties are being developed for international operators, with Dammam and Khobar being recognised as a fast-growing region and the focus of expansion plans.

The Rosh Rayhaan is expected to open in Dammam later in 2014, with a Radisson Blu Resort and the Hilton Garden Inn expected to open in Al Khobar in 2015 and 2017 respectively. These hotels will add to Dammam Metropolitan Area’s internationally branded supply and cater for the increasing leisure demand in the area.

Jubail’s pipeline is less transparent, with no major publicly announced projects. It is expected that any future hotels in Jubail will be positioned in the 3-4 star segments to cater to the city’s corporate demand. The smaller city of Al Ahsa continues to see further interest, with Hilton planning to open a 180-key hotel in 2016.
Demand

The demand generators for the hospitality market also vary between the DMA and Jubail. Demand in Jubail is primarily driven by business travellers while the DMA is a more multi-purpose destination, with leisure serving as the leading source of hotel demand.

Many domestic tourists tend to choose apartments or other accommodation options over hotels when traveling for leisure purposes to the Eastern Province.

MAS reported that around 80% of Jubail’s domestic tourists in 2012 were business travellers, with the remaining 20% being leisure guests. The majority of business travellers are working in Jubail’s petrochemical industry. Because of the long-term nature of many business visits, the average length of stay in Jubail was 6.7 days, compared to just 2.2 days per trip for leisure visitors.

The majority of Dammam’s 2 million domestic visitors in 2012 were leisure travellers. Saudi families have traditionally travelled to the Dammam and Khobar area during vacations and weekends to enjoy the seaside.

The business sector is primarily driven by visitors from the oil industry, which have historically comprised a very important source of demand for hotels in the Dammam Metropolitan Area. Companies such as Saudi Aramco, Sumitomo and Al Rashid sustain a steady demand for room nights due to regular visits for meetings and extended stays for missions. A higher proportion of business travellers are from overseas compared to the domestic domination of leisure visitors to the DMA.

### Domestic Visitors to the Dammam Metropolitan Area

- **Leisure**: 76%
- **Visiting Friends and Relatives (VFR)**: 15%
- **Other**: 6%
- **Shopping**: 2%
- **Business**: 1%

Source: MAS 2012
Performance

Given the relatively immature nature of the hospitality market in the Eastern Province, there is less performance data available than for more mature markets within Saudi Arabia, such as Jeddah and Riyadh. It is however clear that the Eastern Province shares the same seasonal characteristics as other hospitality markets in Saudi, with much higher performance in the winter months than in the summer, when occupancy and ADR levels tend to drop, especially during Ramadan.

The hotel market in DMA benefits from the city’s diverse demand base, with corporate demand during the week being complimented by leisure demand at weekends. Based upon a sample of 2,200 rooms, STR Global data shows that RevPAR declined steadily from SAR 411 in 2009 to SAR 308 in 2011. Since this time the market has recovered, with increases in both occupancy and ADR. Occupancies increased from 52% in 2011 to 62% in 2013 and ADR increased from SAR 708 to SAR 749. The combination of these factors resulted in annual RevPAR growth of 13% from 2011 to 2013.

Although no hotel performance data is published for Jubail, JLL understand that the quality hotels record high occupancy levels due to corporate demand and the limited supply of quality rooms. Occupancy levels are estimated to be near 80%, supported by long-term stays and monthly contracts. ADR is dependent on the quality of accommodation, with the internationally branded hotels achieving ADR’s of between SAR 600 and SAR 1,000.

Dammam Metropolitan Area Quality Hotel Performance 2008–2013 (SAR)

<table>
<thead>
<tr>
<th>Year</th>
<th>AVERAGE DAILY RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>709</td>
</tr>
<tr>
<td>2009</td>
<td>802</td>
</tr>
<tr>
<td>2010</td>
<td>737</td>
</tr>
<tr>
<td>2011</td>
<td>702</td>
</tr>
<tr>
<td>2012</td>
<td>708</td>
</tr>
<tr>
<td>2013</td>
<td>749</td>
</tr>
</tbody>
</table>

Source: STR Global
Market Outlook

As demand generators expand in the Eastern Seaboard, we expect that the tourism industry will continue to develop.

Jubail’s expanding petrochemical industry will drive the development of additional hotels to accommodate the increasingly international demand, with expansion expected to be concentrated in the Jubail Industrial City area.

The hospitality market in the Dammam Metropolitan Area will continue to benefit from the region’s diversified demand base with increasing interest among international hotel operators demonstrating the ongoing maturity of the market. A number of the planned new projects include serviced apartments, reflecting the historic importance of this sector of the market in the Eastern Seaboard.

The government of Saudi Arabia is proposing to develop the Al-Uqair area of the Eastern Province as a major tourist destination with new hotels, residential, retail and extensive recreational facilities. A waterpark is included in this project, to attract demand from tourists currently visiting Bahrain’s water park. The initial development plan includes 730 upscale hotel rooms, 470 tent camp units and 2,200 hotel apartments, with opening scheduled for 2017.

Dammam Metropolitan Area Quality Hotel Performance 2008–2013 (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>57%</td>
</tr>
<tr>
<td>2009</td>
<td>51%</td>
</tr>
<tr>
<td>2010</td>
<td>42%</td>
</tr>
<tr>
<td>2011</td>
<td>52%</td>
</tr>
<tr>
<td>2012</td>
<td>59%</td>
</tr>
<tr>
<td>2013</td>
<td>62%</td>
</tr>
</tbody>
</table>

Source: STR Global
Major Retail Malls in DMA
Source: JLL
Retail Market Overview

**DMA is dominated by two super regional malls, limiting opportunities for further retail development.**

**Supply**

There is estimated to be around 700,000 sq m of modern retail malls in the DMA, with the market being dominated by Dhahran Mall and Rashid Mall, two of the largest Malls in Saudi, which are located less than 2 km from each other. Other malls in the DMA are typically smaller, in the range of 40,000–60,000 sq m. This represents a relatively high level of retail supply and future projects are therefore relatively limited, with only 15,000 sq m of additional supply having been announced.

There is relatively little modern retail space in Jubail, with no malls of the scale of those in the DMA. Existing malls include the Fanateer Mall, Galleria Mall and Al Huwaylat Mall located in JIC, but most of Jubail’s retail space continues to be informal outlets, local markets and street shops within Jubail Old City.

<table>
<thead>
<tr>
<th>Shopping Centre</th>
<th>GLA (sq m)</th>
<th>Completion Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Dhahran Mall</td>
<td>164,300</td>
<td>2005</td>
</tr>
<tr>
<td>02 Al Rashid Mall</td>
<td>120,000</td>
<td>2007</td>
</tr>
<tr>
<td>03 Al Othaim Mall</td>
<td>60,000</td>
<td>2010</td>
</tr>
<tr>
<td>04 Janr Plaza</td>
<td>57,500</td>
<td>2008</td>
</tr>
<tr>
<td>05 Shatea Mall</td>
<td>56,000</td>
<td>2005</td>
</tr>
<tr>
<td>06 Dareen Mall</td>
<td>41,800</td>
<td>2009</td>
</tr>
<tr>
<td>07 Al Shiraa Mall</td>
<td>40,000</td>
<td>2009</td>
</tr>
</tbody>
</table>
Demand

Demand for retail space is being driven by the population growth of around 5% pa and continued expatriate job growth in the Eastern Seaboard. Not all of this spending will however find its way into retail malls, given the continued popularity of street front retail in the region.

Data from MAS suggests households in the DMA spent around 24% of their income on retail goods in 2012 (a total of around SAR 7.3 billion). An additional SAR 300 million of retail spending was generated by visitors to the DMA in 2012.

Jubail is a much smaller retail market, with an estimated SAR 2.0 billion of spending in 2012. The largest component of this (88%) is from Jubail households who spent a total of SAR 1.9 billion on retail items with retail expenditure by visitors amounting to approximately SAR 130 million.

Retail Spending, 2012 (SAR million)

<table>
<thead>
<tr>
<th></th>
<th>DMA</th>
<th>Jubail</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESIDENTS</td>
<td>1,900</td>
<td>44</td>
</tr>
<tr>
<td>VISITORS</td>
<td>300</td>
<td>136</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7,300</td>
<td>2,036</td>
</tr>
</tbody>
</table>

Sources: Retail Expenditure Survey, MAS (2012) and JLL
Performance

There is an ample supply of retail space in the DMA at present, with JLL estimating an overall vacancy rate of around 30%. The vacant retail units are concentrated in older malls and in street front units, with the two large regional malls benefiting from higher occupancy levels, which have led the owners to refurbish and expand the level of retail space they offer.

Occupancy levels are relatively high within the existing malls in Jubail, but these are likely to come under pressure once new space is added to the market over the next few years. The delivery of Dareen Mall in 2015 will have a significant impact on the retail market, creating strong competition for the established older malls.

Retail rents vary significantly across the DMA, with line stores on the ground floor of the prime malls achieving rates as high as SAR 3,000 sq m pa. Rents for upper level units and stores outside of the prime malls are somewhat lower, averaging between SAR 1,000 and SAR 1,500 sq m pa.

Line Store Rents in Retail Malls (SAR per sq m)

<table>
<thead>
<tr>
<th>Quality</th>
<th>DMA</th>
<th>Jubail</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOW QUALITY</td>
<td>400–1,200</td>
<td>600–800</td>
</tr>
<tr>
<td>MEDIUM QUALITY</td>
<td>600–1,900</td>
<td>1,300–1,700</td>
</tr>
<tr>
<td>HIGH QUALITY</td>
<td>1,500–3,200</td>
<td>1,700–2,500</td>
</tr>
</tbody>
</table>

Source: JLL
Market Outlook

The retail market in the DMA remains constrained by the development of two such large malls over the past few years. Future opportunities are therefore limited to smaller community malls in new residential neighbourhoods, boutique retail offerings (eg: F & B outlets along the Corniche) and strip retailing in selected locations over the next few years.

The Jubail retail market is primarily driven by local residents and future growth is therefore dependent upon population increases. While there will be a continued shift from informal retail formats into more organised malls, this demand is already being catered for, with a number of new malls in the pipeline. Supply is anticipated to increase over the next few years, increasing vacancies and capping potential rental growth.
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- Highest and best use studies for small to large plots
- Catchment area analysis
- Bespoke market research across all asset classes
- Development recommendations and land use planning
- Master planning & detailed design support
- City level economic planning studies
- Demand supply and gap analysis
- Market entry strategies
- Cash flow analysis
- Sales and marketing strategy
- Economic impact assessment
- Special event real estate legacy strategy
- Business plans

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- Property and asset management services
- Cost consulting
- Office and retail space fit-out
- Project and development management
- Office and retail leasing
- London residential sales
- Hotel feasibility
- Hotel operator selection and contract negotiation
- Buying or selling of real estate assets or land
- Real estate fund advisory
- Sustainability

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