Riyadh Real Estate Overview

MARKET RESEARCH | FOURTH QUARTER | 2007

ECONOMIC MARKET INDICATORS

	2006 Actual	2007 Forecasts
GDP:	US$ 278bn	↑
Oil:	10.9mn bpd	↓
Current Account:	US$ 69.8bn (surplus)	↓
Population:	23.7mn	↑
Unemployment:	6.8%	↔
Inflation:	2.3%	↑
FDI:	US$ 18.3bn	↑

ECONOMIC HIGHLIGHTS

- Four consecutive years of strong economic growth driven by high oil prices and rapid industrial expansion promoted by accession to the World Trade Organisation
- Oil sector currently accounts for 90-95% of export earnings, 70-80% of state revenues and around 40% of GDP
- US$ 150bn trade surplus driven by the oil & petrochemicals sectors
- Interest rates relatively high as a result of the Riyal's peg to the US Dollar, but inflation has been controlled effectively
- Six-fold increases in FDI inflows between 2004 and 2005
- Tripling of Saudi population since 1980, including nearly six million expatriate workers
- Average residential unit prices rose by 13.7% per year, land prices grew by 16.5% per year and office units by 15.2% per year between 2002 and 2005
- Construction sector currently contributing around 5% to overall GDP

Primary grade developments targeting high-income residents, businesses, shoppers and tourists boom, whilst middle and lower income markets remain underserved

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The focus of residential development in Riyadh is concentrated to the north of the city, where the vast majority of master-planned community projects are located

INITIAL YIELDS

LOCATIONS	
AL GHADEER	7.5%
AL MOROUJ	8.0%
KING FAHD	6.0%
OLAYA	6.0%
AL TAAWON	8.8%
AL RABEIYA	9.5%

FORTHCOMING SUPPLY

PROJECT	UNITS
DURRAT AL RIYADH (2008)	843
AL JOHARA (2009)	492
SHAMS AL RIYADH (2009+)	8,000
AL REHAB (TBC)	708 PLOTS

RESIDENTIAL

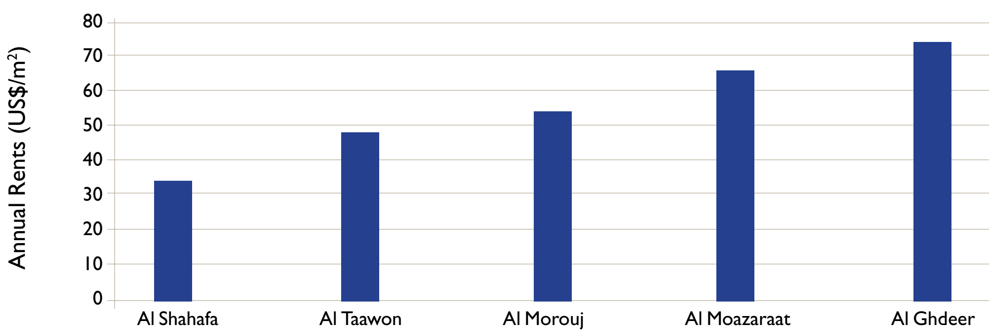
The residential sector in Riyadh has undergone a period of sustained price growth, driven by rapid increases in demand and growing speculative interest in the market. This has been galvanised by a considerable housing shortage, especially within the low to middle income segments. Annual residential unit occupancy is estimated at 92%.

At present, the bulk of the large scale residential developments in Riyadh involve the sale of sub-divided development plots within an overall scheme targeting private individuals. However, a small number of developers are beginning to change their focus away from developing just the infrastructure and selling subdivided plots, towards the development of ready to occupy properties. This has happened in tandem with a growth in demand for finished units – local developers and brokers indicate that occupiers have started to show a clear preference for purchasing completed units rather than organising the construction of their own homes. Large scale master planned developments offer price advantages to potential buyers, broaden access to home ownership, and enlarge the pool of potential buyers that developers can target, whilst mitigating the considerable difficulty inherent in organising and managing the construction of individual properties. For these reasons, the latter approach is increasingly reserved for the high income occupiers of large homes (typically with a built up area of 700m^2 or above). Properties within this category form their own sub-market, and are distinctively owner-occupied.

High income housing is primarily concentrated in the north and east of the city. It is at the periphery of these areas that the bulk of new residential developments are underway. Some developers have started to plan low income housing schemes in the south and southwest of the city, targeted at the employees of the industrial enterprises that are located in these areas.

Figures for 2006 provided by the Riyadh Chamber of Commerce and the Riyadh Development Authority estimate the total number of individual housing units in the greater metropolitan area of the city at 732,154. Saudi-American Bank (Samba) estimates, correlated with the Chamber of Commerce's own figures, indicate that approximately 59% of all units are villas, duplexes or traditional Arabic bungalows. On this basis, there are approximately 432,000 villas, duplexes and Arabic bungalows in the city as a whole. They further estimate that apartments account for nearly 33% of the total (approximately 242,000 units), whilst other forms of housing units account for the remaining 8%.

APARTMENT RENTS BY LOCATION



As the intensity and quality of development gathers pace in the city's traditional CBD, developers are now looking to surrounding roads beyond the King Fahd and Olaya arteries for available land

OFFICE

The commercial property sector has experienced a notable shift in its demand-supply dynamic over the last few years. Historically a stagnant market characterised by weak demand and a diminishing tenant base, increased economic activity and investor confidence has brought about a shortage of supply. This has been due both to the increase in the number of new companies - local and foreign - setting up offices in the Kingdom and to the expansion of existing companies' operations.

The current market trend of unsatisfied demand is most pronounced for primary grade office space. Whilst there is a defined CBD in Riyadh located around King Fahd and Al Olaya roads, much of the existing office space does not meet tenant requirements in terms of standards. Though the majority of buildings in the CBD enjoy occupancy levels close to 100%, this is in part due to a paucity of alternatives in the city, at least in the short term.

Commercial rents have therefore escalated by an annual average of 15% and yields have compressed, reflecting a strengthening market for commercial property. The traditional CBD continues to command the highest commercial rents in the city, and interviews with local developers suggest that sales price appreciation in this area has also been strongest. The overall shortage of supply and associated traffic congestion in the area, however, has compelled some office occupiers to seek alternative options to satisfy their need for office space – including the common practice of converting residential villas for commercial purposes.

Recent legislation has been issued specifically to end the practice of converting residential villas, and whilst it is too early to assess the implementation of the new measures, it has substantially increased demand for purpose-built office space, placing further strain on the city's already oversubscribed office stock. It remains possible that the market for purpose-built office space in secondary CBD areas will strengthen as a result of these relocations, leaving the market in King Fahd and Al Olaya Roads unaffected.

The CBD has seen rapid growth in the number of office space developments, some of which are now ready for occupation. As these buildings have come on stream, older and secondary grade office buildings have seen a decline in their occupancy and rental rates as tenants have sought to lease better quality accommodation. At the same time, the delivery of higher grade space than has traditionally been available has stratified the existing market by offering quality standards previously non-existent in Riyadh.

OFFICE SERVICE CHARGES

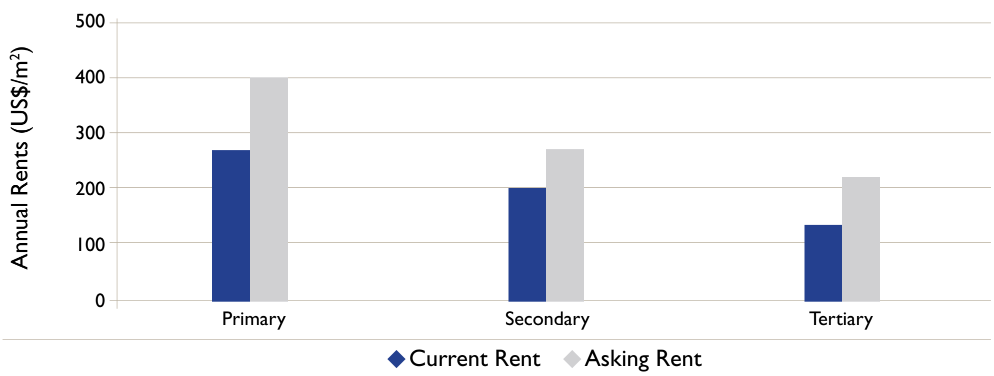
CATEGORY	% OF RENT
PRIMARY	10-15
SECONDARY	5-10
TERTIARY	2

FORTHCOMING SUPPLY

LOCATION	GLA (m^2)
KING FAHD/AL OLAYA (2007+)	400,000
DHABAB RD. (2008+)	60,000
MAKKAH RD. (2008+)	43,000
AL MA'ATHER RD. (2008+)	60,000

Class A (Primary): Strong location, purpose-built, high quality finishing, central provision of Information and Communications Technology (ICT), Air-conditioning (A/C) and central heating (C/H), good state of repair, available parking facilities.
Class B (Secondary): Strong location, converted use, moderate quality finishing, provision of ICT, A/C and C/H, limited parking facilities
Class C (Tertiary): Poor location, congestion and parking constraints, limited or no ICT, A/C and C/H, adequate state of repair, moderate quality finishing

OFFICE RENTS BY CATEGORY



RETAIL

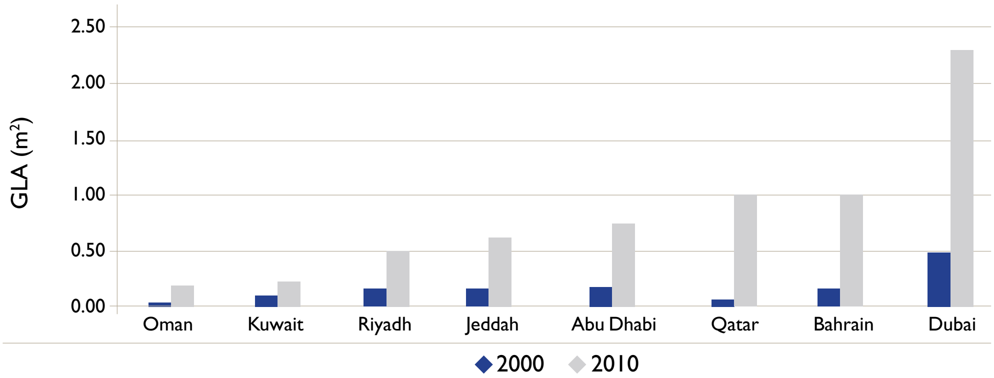
In common with regional trends, retail space in Riyadh attracts the highest rental returns when compared against the residential, office and hospitality real estate sectors. This has driven the development of a number of large malls in the city, along with the inclusion of a ground floor retail component in the majority of new office and residential buildings under development. This trend is likely to be even more marked in future due to the position of shopping as a primary leisure activity in the Kingdom.

The shopping mall provision in Riyadh grew relatively slowly until 2005, when new deliveries of space started to accelerate sharply. This continued through 2006 and a further large increase in GLA is expected by the end of this year. Colliers International expects a cumulative total Gross Leasable Area (GLA) of 2.5 million m² in Riyadh by the end of 2007 – exceeding that of regional counterparts Jeddah (2.1 million m²), Dubai (1.7 million m²) and Abu Dhabi (833,500m²). Growth is then expected to slow until 2010, when there will again be a substantial increase in overall GLA.

Rents in primary grade retail malls have increased between 15% and 20% since 2005, where existing leases have allowed. Given the typical length of lease terms (generally of five years), these increases are relatively moderate. However, this modest growth in rents hides the impact of a substantial increase in GLA across Riyadh. Leasing agents have indicated to Colliers International research staff that uptake in some of the new malls in Riyadh has been sluggish, although this has partially been the result of a greater range of options for potential tenants rather than an indication of oversupply. As the retail market in the city has matured, malls offering a greater range of brands, aesthetically appealing design and more prominent locations have begun to command more substantial rental premiums than was previously the case. At the same time, malls in a poor state of repair and those in weaker locations have reportedly started to experience occupancy shortfalls and falling rental rates.

By regional standards, the overall provision of GLA per capita in Riyadh provides more scope for development even when lower incomes compared to those of other regional locations are taken into account. This suggests that although the overall supply of leasable area in Riyadh has grown sharply, strong potential remains for further profitable investment in retail mall assets.

GCC RETAIL MALL GLA PER CAPITA



Retail mall development continues unabated in Riyadh with a number of major destination centres under construction. Despite the rapid expansion of supply, absorption rates remain strong as retailers show considerable confidence in Riyadh's consumer spending

SHOPPING MALL RENTS

LOCATION	RENT (US$/m²/pa)
KING FAHD RD.	500-800
AL OLAYA RD.	428-640
NORTH RING RD.	267-374
EAST RING RD.	307-387

FORTHCOMING SUPPLY

PROJECT	GLA (m²)
SWAIDI MALL (2007)	50,000
PANORAMA MALL (2007)	130,000
GARDENS (2007)	75,000
SAVOLA RETAIL (2009)	60,000
BENAA CITY (2010)	300,000

With eight major hotels under construction and a further four planned, Riyadh's international standard hospitality sector is set to expand considerably

HOTEL PERFORMANCE

Category	Occupancy	RevPAR (US$)
4*	63%	96
5*	66%	142
5* DELUXE	74%	257

FORTHCOMING SUPPLY

PROJECT	ROOMS
NOVOTEL (2007)	220
HOLIDAY INN OLAYA (2008)	114
KEMPINSKI (2008)	206
MOVENPICK (2008)	300
DIPLOMAT MAKAREM (2008)	175
PARK INN (2009)	262
MARRIOT COURTYARD (2010)	200
AL DHABAB (2010)	150

HOSPITALITY

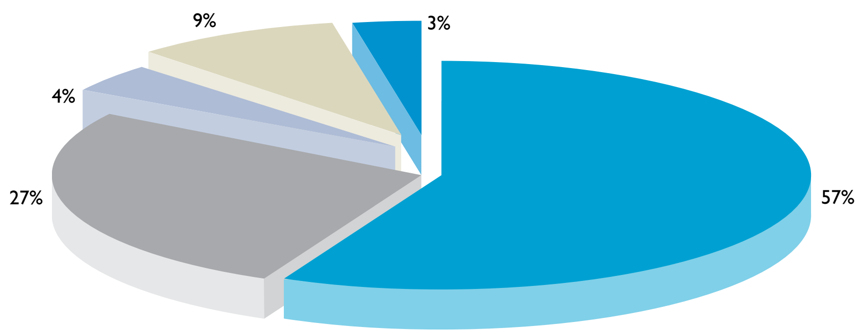
By regional standards, Riyadh has a moderately sized but highly profitable hospitality sector. Hotels are reporting high occupancy rates and steadily growing Average Room Rates (ARRs). The Four Seasons and the Al Faisaliah (operated by Rosewood) account for Riyadh's international 5* Deluxe hotel offering. The Intercontinental and the Sheraton constitute the international 5* segment, whilst the Al Khozama (also operated by Rosewood), Marriott, Radisson SAS, Holiday Inn Olaya and the Holiday Inn Minhal account for the international 4* market.

Demand for hotel accommodation in Riyadh is overwhelmingly derived from business tourism. The growth in foreign investment, along with the development of the industrial and real estate sectors, has resulted in rapidly increasing demand. The sources of demand for hotel accommodation closely follow the sources of foreign investment into the Kingdom. At present, there is a reported tendency for Middle Eastern visitors to prefer hotel accommodation at the upper end of the spectrum, with larger proportions of European and Asian guests staying in hotels of international 4* quality. The leisure tourist segment accounts for only a small market share of Riyadh's current hospitality market, and is expected to remain the case for the foreseeable future.

There are several new hotel properties currently under construction in the city, some of which have already secured agreements with international operators. These new hotels will expand the city's current stock of internationally operated hotel rooms considerably - 220 new rooms will be added by the end of 2007, a further 795 during 2008, 262 during 2009 and 350 during 2010. This supply will be added unevenly across grades, with the bulk of additional 4* supply beginning operations by the end of 2008.

Considerable additional 5* hotel room supply will be completed in 2009. Colliers International expect that both segments will experience short term performance declines as new supply is delivered, but that the market will perform robustly in the medium to longer term.

HOTEL VISITOR BY REGION OF ORIGIN



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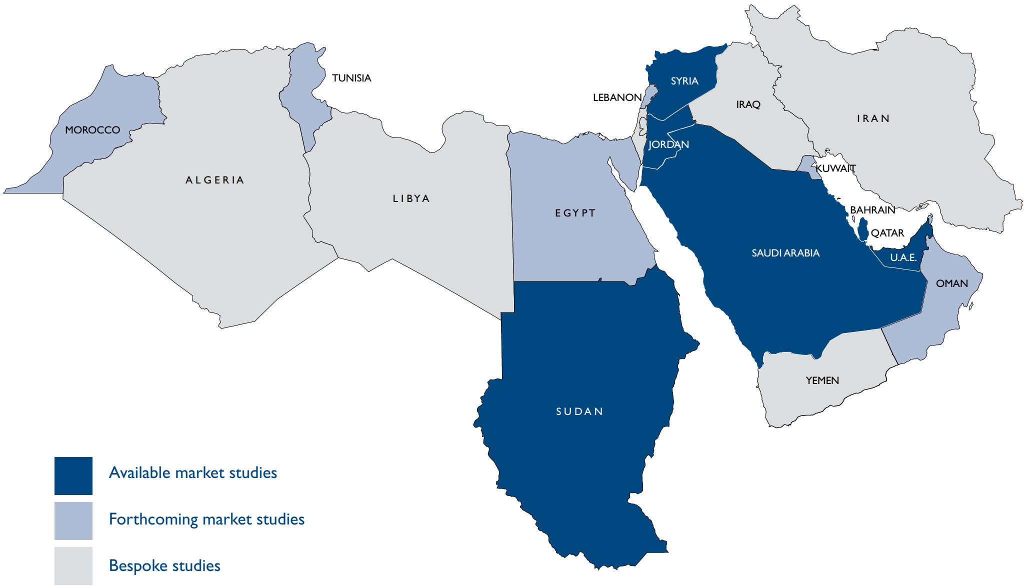

This market overview is extracted from a comprehensive Riyadh real estate market study carried out in 2007, available from Colliers International UAE for purchase.

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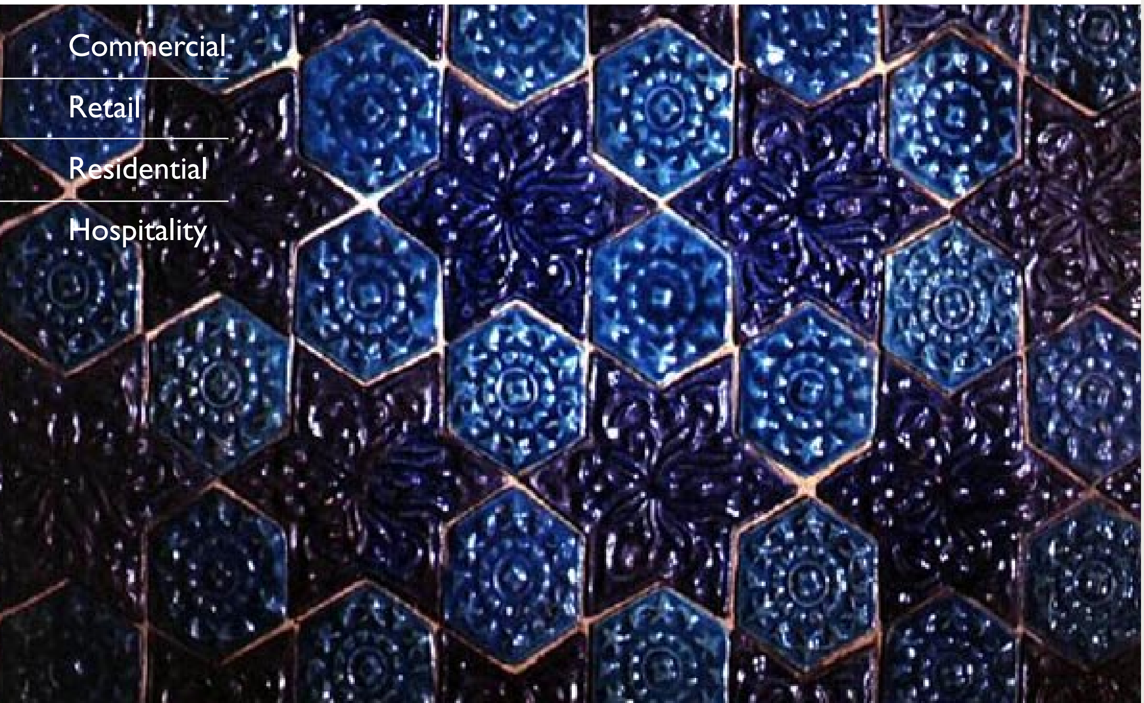

OVER 260 OFFICES
MORE THAN 50 COUNTRIES
6 CONTINENTS

EMEA 85
Americas 129
Asia Pacific 52

US$1.6bn in revenues
828 million ft^2 under management
Over 10,000 Professionals

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