



## Market Focus

# Industrial Manufacturing






## Overview

*Over the last year, Riyadh's industrial manufacturing sector showed solid performance and this trend is expected to continue on the back of strong demand fundamentals. A number of large-scale industrial master plans will be delivered between 2014-2018, resulting in a marginal drop in take-up level and a slowdown in sale price growth.*

### Industrial Hubs and Warehouse Districts:

1. Second Industrial City
2. Obeikan Industrial City
3. Fanar Industrial City
4. Development Industrial City
5. Industrial Gate City
6. Al-Ojaimi Industrial City
7. Jabel Ali Industrial City
8. Third Industrial City
9. Zamil Industrial City
10. First Industrial City

-  Existing Industrial City
-  Forthcoming Industrial City
-  Industrial Base

## Existing Supply & Vacancies

Within Saudi Arabia, a distinction must be made between “industrial” and “warehouse” developments, with the former traditionally being entirely controlled by the Saudi Industrial Property Authority (MODON), who offers only short development leases (c.±25 years) on their lands – no freehold interests are available.

Driven by a large population base and burgeoning population as well as Riyadh's significance as the political and financial

capital of the Kingdom, the city accounts for the lion's share of KSA's industrial manufacturing sector.

With the existing MODON facilities operating at full occupancy, a number of new industrial cities are under development in Riyadh.

The first, second and third industrial cities located in south Riyadh are located on New Kharj Road, towards Kharj City, were developed and managed by MODON.

55% of Riyadh's manufacturing land supply are located within industrial cities, whilst informal supply such as factories located outside of industrial cities makes up the remaining 45%.

This trend will change significantly over the coming years, reflecting Ar-Riyadh Development Authority (ADA)'s plans to relocate a number of unlicensed or environmentally harmful factories into the new industrial cities.

The majority of existing and forthcoming large scale industrial master plans are located in close proximity to Riyadh's Second Industrial City.

### Public Industrial Cities (Modon)

As of Q2/2014, Modon's industrial cities accounted for 81% of Riyadh's total industrial supply, while private industrial cities make up 19%. This is expected to change as a number of private industrial cities enter the market between 2014 and 2018.

Modon's industrial cities are subsidized by the government and are featured on long-term leasehold basis with near full occupancy.

92% of lands within Modon's industrial cities are developed, and are supported by excellent infrastructure relative to private industrial cities, as well as a wide array of supporting facilities, amenities, and services such as government services (One-Stop-Shop), labour accommodations, warehouses, and supporting retail services.

### Private Industrial Cities

Private industrial cities are offered on freehold basis and boast 92% occupancy. However, Colliers estimates that only 54% of usable area is being utilized by industrial facilities, indicating strong demand for industrial serviced lands by real estate investors and land traders.

Private industrial cities lack the quality and scale of facilities and amenities provided by Modon's industrial cities. Their offerings are limited to industrial serviced lands with little supporting facilities.

### Forthcoming Supply

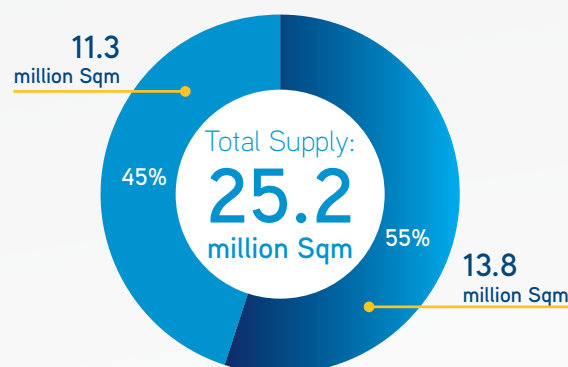
A number of industrial masterplans are expected to be completed between 2014 and 2018. The delivery of these master plans is expected to dramatically change the industrial landscape of Riyadh.

Riyadh's supply of industrial lands will significantly grow from 25.3 million square meters in 2014 to 35.4 million square meters by 2018, recording a staggering CAGR growth of 8.8%.

Riyadh's forthcoming supply will comprise manufacturing lands located within master plans, reflecting ADA's strategy to limit the development of new manufacturing facilities outside of industrial masterplans.

The city's composition of industrial cities will dramatically change in 2018, as private industrial cities increase their usable space from 2.6 million square meters in 2014 to 12.2 million square meters by 2018. In the meantime, supply at Modon's industrial city is expected to increase from 11.2 to 11.7 million square meters.

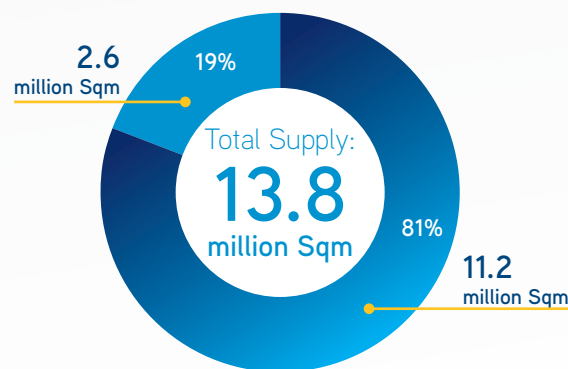
## Industrial Manufacturing Sector Supply Composition



■ Industrial Supply ■ Informal Supply

SOURCE: COLLIERS INTERNATIONAL, 2014

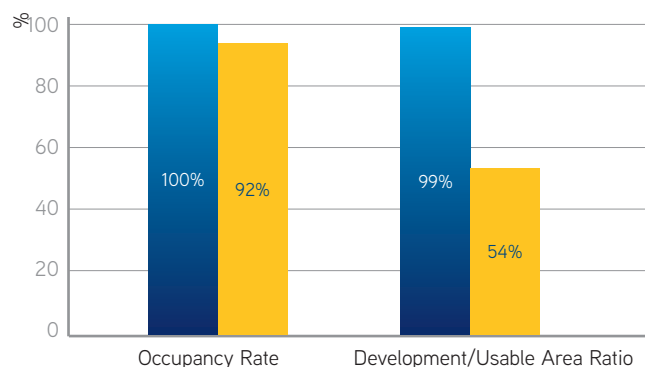
## Industrial Cities Composition (2014)



■ MODON ■ Private Industrial Cities

SOURCE: COLLIERS INTERNATIONAL, 2014

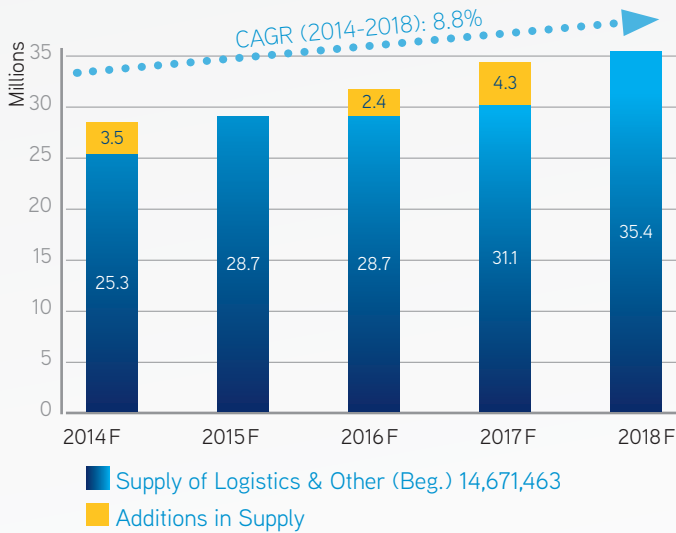
## Occupancy Level & Development Ratio (2014)



■ Modon Industrial Cities  
■ Private Industrial Cities

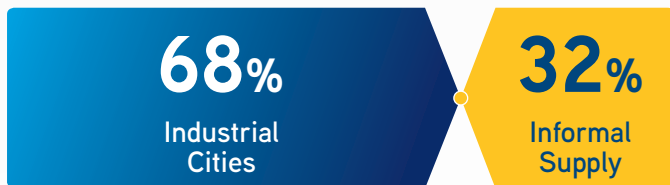
SOURCE: COLLIERS INTERNATIONAL, 2014

## Forthcoming Supply of Manufacturing Lands



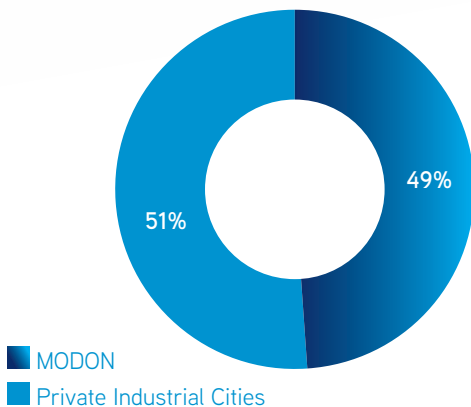
SOURCE: COLLIERS INTERNATIONAL, 2014

## Industrial Manufacturing Sector Supply Composition:



SOURCE: COLLIERS INTERNATIONAL, 2014

## Industrial Cities Composition (2018)



SOURCE: COLLIERS INTERNATIONAL, 2014

## Performance of Manufacturing Serviced Lands (Q2/2014):

CATEGORY	Range SAR/Sqm	G Q2/2013-Q2/2014
Industrial Cities Sale Price - Al-Kharj	600-780	9%
Industrial Land Sale Price - As-Sulay	1,050-1,600	7%

SOURCE: COLLIERS INTERNATIONAL, 2014

## Demand

Despite Riyadh's industrial master plans' large forthcoming supply of 10.1 million square meters, demand for manufacturing lands will remain strong on the back of solid economic fundamentals, burgeoning population, and government plans to increase the economic contribution of the industrial sector.

As tenants seek turnkey industrial solutions that minimize capital expenditure on non-core operating assets, end-user industrial developments such as pre-fabricated factories as well as supporting industrial and logistics facilities are becoming increasingly popular in Riyadh.

## Lease Rate & Sale Price

Average sale price of manufacturing serviced lands in private industrial cities ranges between SAR 600 and SAR 780 per square meter. Sale price has significantly increased over the past year, recording a growth rate of 9%. However, this growth is mainly attributed to the increasing sale price of forthcoming master plans that are offered on off-plan basis.

Modon's manufacturing serviced lands are subsidized by the government, and as such, their lease rate is relatively low.

Manufacturing lands offered for sale are mostly located in south Riyadh within As-Sulay District, and generally hold industrial permits for light industries and warehousing activities. Their sale price of between SAR 1,050 and SAR 1,600 per square metre is higher than that of private industrial master plans mainly due to their close proximity to the city's urban boundaries.

## Summary & Outlook

Demand for manufacturing space is strong and is expected to maintain solid growth momentum, driven by positive economic conditions as well as increased public and private sector spending. However, tenants are expected to place more focus on the quality of infrastructure and scale of supporting facilities and amenities in the selection of manufacturing lands.

10.1 million square meters of manufacturing land is expected to enter the market. This will have a marginal impact on the market's take-up level, but will likely decelerate the growth rate of manufacturing land sale prices.

End-user developments offered on lease-hold basis are becoming increasingly popular among industrial tenants, as they minimize capital expenditure on non-core operating assets. Therefore, new industrial master plans are expected to adapt to this trend to differentiate their offering.



## Market Focus

# Warehouses & Logistics

### Overview

*Riyadh's warehouse and logistics sub-sector revealed solid performance over last year and is anticipated to remain positive in the coming years. The sector's positive outlook is driven by improved business conditions and consumer spending as well as increased government expenditure on infrastructure projects.*



### Existing Supply

Riyadh is KSA's most populated city, with a population nearing 6 million. The city boasts the highest GDP in the Kingdom and houses the majority of the country's government ministries, agencies and major financial institutions. These factors have greatly contributed in attracting and promoting investment in warehouses and supporting logistics facilities.

The city's supply of warehouses is fragmented throughout the As-Sulay, Faisaliah, Al-Masani, An-Nur, and Al Shifa districts of south Riyadh. The majority of Riyadh's warehouse supply is concentrated near the industrial hubs of First and Second

Industrial City and logistics corridors of the Eastern and Southern Ring Road Networks.

The city's warehouse supply reached approximately 15.8 million square meters by Q2/2014. This estimate is inclusive of supporting logistics facilities.

Riyadh's warehouse supply mainly comprises warehouse projects featuring conventional warehouses such as dry-storage, open-yard, and cold-storage, while new-generation logistics facilities and fully-integrated distribution centres are limited.

## Forthcoming Supply

The forthcoming supply of warehouses and logistics supporting facilities will mainly include warehouse complex projects located in the As-Sulay district and upcoming private industrial cities.

The majority of Riyadh's warehouse projects are developed by small-scale developers and individual investors. Consequently, supply data is limited and Colliers has projected forthcoming supply based on historic growth trends. Riyadh's forthcoming supply is estimated to reach 24.8 million square meters by 2018, adding approximately 1.7 million square meters annually from 2014.

## Demand

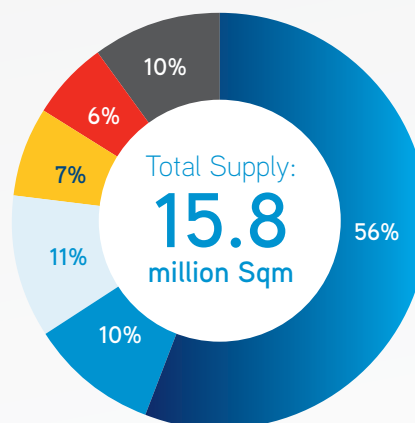
Riyadh has witnessed strong market demand for warehouse and logistics facilities and this trend will continue for the foreseeable future. This demand is driven by rapid population growth and rise in consumer spending as well as growth in construction activities and increased government expenditure.

The product offering of Riyadh's warehouse and logistics subsector is limited relative to that of other regional markets. As such, strong demand is anticipated for fully fledged integrated distribution centres that include logistics' facilities, cold-storage, dry storage, and supporting retail facilities.

Currently, retailers, distributors, automotive/spare parts dealers, and construction materials companies account for the largest share of demand for warehouses in Riyadh.

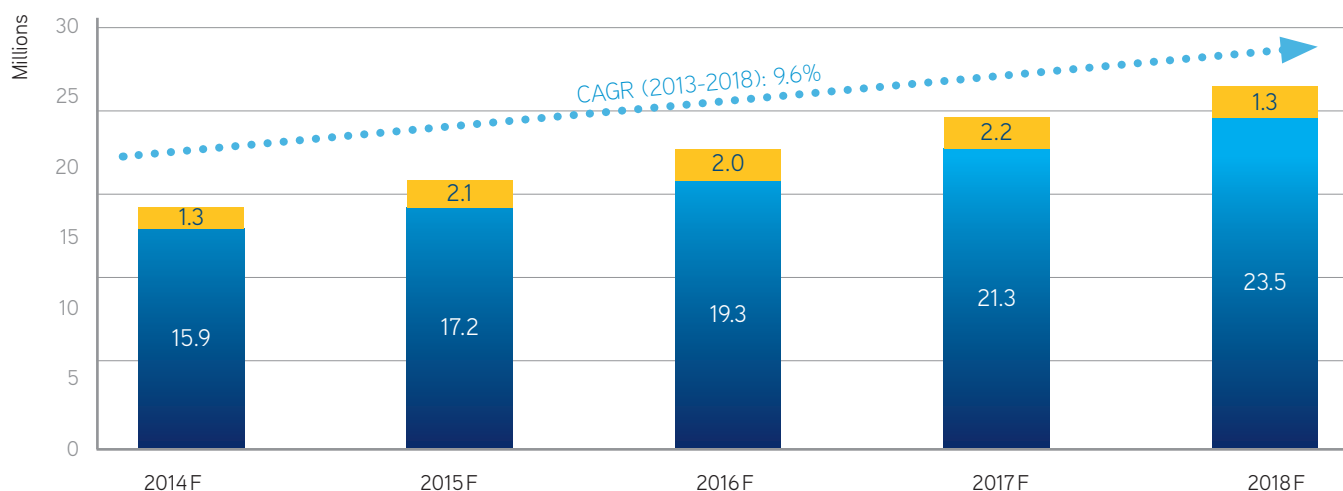
Demand for new-generation logistics facilities (Built-to-Suit) is expected to rise with the emergence of 3PL (Third Party Logistics) companies that handle stock distribution for companies with large and sophisticated supply chains. Colliers expects 3PL companies and warehouse operators to add to the major tenant list of Riyadh's warehouse sector.

Warehouses & Logistics Supply by Area (Q2/2014)



SOURCE: COLLIERS INTERNATIONAL, 2014

Forthcoming Supply of Warehouses & Logistics Facilities



SOURCE: COLLIERS INTERNATIONAL, 2014

Warehouses Rental Rates (Q2/2014)		
TYPE	RANGE (SAR)	TREND
Dry-Storage (Sqm/Annum)	130-220	↑↑
Cold-Storage (Per Pallet/Month)	70 - 140	↑↑

SOURCE: COLLIERS INTERNATIONAL, 2014

Sale Prices (Q2/2014)		
TYPE	SALE PRICE (SAR/Sqm)	YIELD (%)
Dry-Storage*	1,300-1,650	10%
Industrial Lands	1,000-1,800	8%

\*The Sample represents warehouses offered on freehold basis in the As-Sualy area only.

The industrial lands are intended for storage purposes only.

SOURCE: COLLIERS INTERNATIONAL, 2014

## Performance

Rental rates of dry-storage warehouses vary by location, accessibility and condition of the development. The majority of Riyadh's warehouses feature basic specifications and their quality is substandard relative to similar warehouses in other areas of the GCC such as Dubai and Abu Dhabi.

Average rental rates of dry-storage space reaches SR 160 / sqm and ranges between SR 130/sqm to SR 220/sqm with storage space located in close proximity to population centers being leased at the upper range.

Rental rates of dry-storage and cold-storage warehouses have increased over the past year by approximately 6% as demand overtook supply. Riyadh's strong demand for warehouses and logistics facilities is reflected by the high occupancy levels (91% as of Q2/2014) of major sub-industrial areas. Occupancy is expected to slightly soften in the coming years due to large forthcoming supply.

Leasehold is the common model for warehouses in Riyadh, but several recent warehouse projects in As-Sulay offer freehold developments with prices ranging between SAR 1,300-1,650 per square meter.

## Summary & Outlook

Warehouses in Riyadh are mostly limited to conventional warehouse developments that boast basic features and fittings. With the emergence of 3PL companies and logistics and warehouse operators, strong demand will arise for modern logistics facilities and fully fledged distribution centres.

Quality of Riyadh's warehouse stock is substandard relative to that of other regional cities.

The logistics and warehouse market is expected to maintain its robust performance in the coming years on the back of strong economic conditions, burgeoning population, and increased consumer spending. However, the city's large future supply is expected to marginally decrease occupancy levels and curb rental rate growth.





# How We Can Help You?

*Colliers International has been helping clients who are interested in industrial sector investments in major cities. We have worked with financial institutions, private investors and professional developers in achieving their goals through our services, some of which are mentioned below:*

- Comprehensive Market Research
- Target Segment Identification
- Recommended Land Use Allocation
- Warehouse Units Lease Rates and Pricing Strategies
- Product Recommendations for Different Target Markets
- Demand Supply and Gap Analysis
- Historical Price Movements & Absorption Trends
- Financially Attractive and Architecturally Achievable Area Programs
- Identifying Markets for New Products and their Target Market
- Development Opportunities & Specific Opportunities for Sites Under Study
- Operating Model & Investment Strategy
- Market Sizing
- Brokerage and Leasing
- Facility and Property Management
- Valuation Services
- Commercial Due Diligence
- Concept Development
- Highest and Best Use Analysis
- Feasibility Assessment
- Business Plans

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**5,800** brokers

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over **1.46 billion**

square feet under management  
(excluding residential properties)

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