Kingdom of Saudi Arabia

Modern Luxury: the Changing DNA of the KSA High Rise Residential Market
Jeddah High-Rise Market

Given its waterfront setting offering picturesque sea views along the Red Sea, Jeddah Corniche is considered a prime location for freehold high-rise residential developments in the country. In addition to primary home buyers from within Jeddah (estimated at 60%), it has also attracted investment from investors and second home owners from other cities in Saudi Arabia as well as a small fraction from nearby GCC countries.

A number of high-rise residential units have come online over the past few years, and with the recent announcements of forthcoming supply, this trend is expected to continue in the future. The city has also seen a shift in the type of product offered, with a greater focus on “Modern Luxury” as opposed to conventional vertical buildings. This is apparent when comparing earlier developments from 2005-2010, such as Corniche Gardens (2005), Corniche Dreams (2009) and Abraj Al Farsi (2010) to Jawhara Tower (2014) and other upcoming developments. The latter normally features visually stunning exterior façades and unique features such as high lobby and room ceilings, marble floors, landscaped gardens, water features and mini theatres.

Following the success of the earlier developments, the latest residential high-rises indicate that the market can accommodate higher sale prices for the right type of product. The relatively quick absorption at higher prices in the market is testament to this. These trends have paved the way in the market for the inception of the tallest tower in the world - Kingdom Tower (1000m+) that is expected to be completed by 2018/19. Once complete, it will be a symbol of luxury and a pinnacle of high rise living.
Riyadh

There has been a limited presence of high-rise residential developments in other cities in The Kingdom. However, this is rapidly changing. Following the successful completion of Burj Rafal by Rafal Real Estate in Riyadh in 2013, two further developments have been announced, Rafal Residences (27 Floors) and Rafal Living (62 Floors). Both are expected to be completed over the next few years. In addition, other developers, such as DAMAC (Fendi & Paramount Towers) have announced the launch of modern luxury towers in Riyadh.

Tri-City (Dammam/Khobar/Dhahran)

The high-rise segment in the Tri City is currently underdeveloped owing to its proximity to Bahrain. Many people commute to the Tri City for work from Bahrain where their primary/secondary residence is. Many prefer to purchase homes / second homes in Bahrain instead. These dynamics have led to high-rise development in this area primarily being leasehold developments such as DTC (Downtown Complex), Subeai Tower and Dhahran Tower. There are a limited number of unconfirmed, seafront high-rises in the pipeline.

Modern Skyline

Market Movement

Changing lifestyles and rising income levels have led to a market preference for modern high-rises. The focus is now on offering premium facilities in a prestigious and often branded development, with a modern design and functional layout.

Consequently, market appetite is shifting towards smaller but more luxurious units, rather than larger units in conventional towers.

This is connected to a change in buying motives and a larger portion of micro-investors and second home buyers.

Buyers with leisure and investment motives usually prefer smaller units, whereas buyers who are planning to use the property as a primary residence prefer larger units.

A relatively larger portion of buyers in Jeddah use their properties as primary residences, whereas the leisure and investment market is more typical in Riyadh.
Rise of the Modern Towers

The phenomenon of luxury high-rise living, is a relatively new one in Saudi Arabia, as past supply consisted mainly of traditional tower blocks in Jeddah, located along the Corniche. We are now witnessing a wave of development across both Jeddah and Riyadh.

At present, Jeddah’s only existing modern luxury residential tower is DAMAC's Jawhara Tower. However, the majority of the city’s confirmed upcoming high rises are modern luxury to prime grade developments by international or high profile developers. Riyadh’s single existing luxury residential tower is Burj Rafal.

Focal point of new masterplans

Landmark high-rise developments have become focal points when building new communities. Similar to the Burj Khalifa masterplan and Emaar Downtown, the Kingdom Tower masterplan (Kingdom City) is expected to bring new investment opportunities to the area surrounding the building.

Kingdom Tower is expected to be the tallest building in the world once complete by the end of December 2018. It is currently under construction and has reached its 14th floor. The tower is primarily residential and will offer around 360 residential units, a luxury hotel and prime office space.

<table>
<thead>
<tr>
<th>Room Type</th>
<th>Modern (SAR)</th>
<th>Conventional (SAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 BEDROOM</td>
<td>1.5 - 1.8 M</td>
<td>1.4 - 1.6 M</td>
</tr>
<tr>
<td>2 BEDROOM</td>
<td>3.3 - 3.7 M</td>
<td>3.0 - 3.3 M</td>
</tr>
<tr>
<td>3 BEDROOM</td>
<td>5.3 - 7.8 M</td>
<td>4.0 - 4.5 M</td>
</tr>
<tr>
<td>4 BEDROOM</td>
<td>7.5 - 11.7 M</td>
<td>5.0 - 6.3 M</td>
</tr>
<tr>
<td>5 BEDROOM</td>
<td>20.0 - 20.5 M</td>
<td>6.0 - 6.5 M</td>
</tr>
<tr>
<td>PENTHOUSE</td>
<td>45.0 - 60.0 M</td>
<td>30.0 - 40.0 M</td>
</tr>
</tbody>
</table>

JEDDAH HIGH RISE CORNICHE AVERAGE PRICES (Modern Luxury vs Conventional)

The entry point for both conventional residential towers and modern luxury high-rise apartments, is between approximately SAR 1.5M - 2 M for a 1 BR unit. It is interesting to note that the conventional developments generally offer a very limited number of 1 or 2 bedroom units, if any. This could be seen as contributing factor to why the overall unit price difference becomes pronounced under the larger rooms category (3 BR+), as these larger units are generally targeting different target segments.

The apartment unit sizes in modern luxury towers are generally smaller than their conventional counterparts. However, 5 BR and penthouse unit sizes can be much larger – these target ultra high net worth individuals, interested in exclusivity and prestige as these normally have a full floor or half floor with dedicated elevators and entrances.
Existing & Upcoming Supply

**PRIME RESIDENTIAL: GLOBALLY RECOGNIZED LANDMARKS**

**UPCOMING**

Jeddah Kingdom Tower

Estimated c. 360 units

(no official figures announced)

As the world’s tallest skyscraper, Kingdom Tower will place Saudi Arabia on the global map of iconic buildings. Its presence will not only enhance the skyline, but also positively impact the real estate market.

**BRANDED RESIDENCES**

**Branded by Hotel Name**

The branded residences concept is directly linked to prime locations associated with a global lifestyle hotel brand. Depending on the design and brand, the premiums can be as high as 30%.

**Branded by Designer Name**

This option is more design led than brand led and there is little financial gain for the owner. Examples include: Versace and Fendi.

**EXISTING & UPCOMING SUPPLY**

<table>
<thead>
<tr>
<th></th>
<th>Existing units</th>
<th>Upcoming units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riyadh</td>
<td>N/A</td>
<td>424</td>
</tr>
<tr>
<td>Jeddah</td>
<td>49</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**MARKET GAP:** 14,000-18,000

**CONVENTIONAL TOWERS**

Conventional residential high-rise towers make up the majority of the existing supply and include Masarrat Tower and Abraj Al Farsi, which is located on the Jeddah Corniche. Although a number of upcoming projects (e.g. Farsi 180) fall within this segment, the majority of upcoming towers fall with the high-end segment, and therefore the overall presence of conventional towers is expected to decrease over the next 5 years.
Luxury living

Luxury high-rise residential buildings cater to the High Net Worth Individuals and Ultra High Net Worth Individuals markets. Their market dynamic is different from regular residential apartment buildings as potential buyers are willing to pay a premium for exclusivity, prestige, and brand image.

The market in Saudi Arabia is demonstrating a preference for high-end build, fittings and fixtures as well as the provision of world-class facilities. Strong demand is reflected by high absorption levels among existing towers and pre-booking among forthcoming supply. An emphasis is being placed on trending facilities such as sky lounges, pools as well as services in keeping with clients expectations and the market segment.

Penthouse: The Exclusive Club

Penthouses defy Real Estate market dynamics and command both a higher unit price and a higher price per sqm of Saleable Area. They are located on the top floor of high-rise residential buildings and offer larger floor plates and panoramic views.

Issues facing high-rises

Construction issues have resulted in major delivery delays in a handful of high rises (e.g. Lamar began development in 2008). This trend undermined developer’s credibility and buyers have become skeptical of the pre sale models. Developers must either wait until final stages of construction or offer larger discounts to stimulate pre-sales.

The construction sector faces several issues resulting in delays that often last between 1 and 5 years. These include labor issues, difficulties in obtaining permits and infrastructure problems.
Earning Success

Developer Reputation – A proven developer with successful track record will gain credibility from an outset.

Situation & Appeal – This is the most important factor and includes: location in a prime global city, the appeal of the neighborhood, unique features, views, and the exclusivity of the development.

Design & Specifications – Price of units are influenced by iconic/unique designs, the “Starchitect” affect, room sizes and quality of finish.

Facilities & Amenities – To attain the highest premium, residences should have access to 5-star amenities such as valet parking, luxury spa, infinity pool & leisure facilities and butler/maid/porter services.

Brand Association – Association with a luxury brand such as Armani increases the appeal of the apartment and allows for higher premiums.

Rental pool scheme

A new trend is to create a rental pool scheme which has led way to smaller apartment units as they are easier to lease out on a short term basis. These generally target short stay (less than one year) business travelers.

The following are some of the characteristics of this model:

› Hassle-free investment model
› Professional management
› Easy-in, easy out
› Flexible usage

Additional sources of premium

Height & View Premium

The towers on the corniche all offer sea views so the impact of the view premium is minimized. Panoramic views often achieve a higher premium.

There are other factors which can negate the effect of the height premium, such as accessibility to the amenities floor. In tall towers (e.g. Burj Khalifa) the highest premium is usually in the penthouse floors as well as in the middle of the tower because this is where the optimal view of the city is often found.

Tower types

The following depicts the main different types of residential towers:

LUXURY TOWER

A high-end residential tower with retail facilities limited only to high end apparel and F&B outlets.

Typical Facilities & Amenities:
› Iconic Design (“Landmark”)
› Distinguished Exterior Façade
› Elegantly Furnished Lobby
› Sky Lounge
› Reception and Concierge
› Security and 24/7 Facility Management
› Smart Home System
› Multi Function Hall
› Storage Facilities
› Swimming Pool and Fitness Centre
› Driver Accommodation

BRANDED RESIDENCE

A high-end branded iconic residential tower with limited high-end retail.

Typical Facilities & Amenities:
› Association with a Designer Brand
› Iconic Design (“Landmark”)
› Distinguished Exterior Façade
› Open Terraces
› Designer Fittings in Common Areas
› Reception and Concierge
› Security and 24/7 Facility Management
› Designer Boutique
› Multi-Function Hall
› Nursery / Hairdresser Saloon
› Swimming Pool
› Jacuzzi, Sauna and Wellness Centre
› Sky Lounge
› Meeting Rooms
› High Ceilings

BRANDED RESIDENCE WITH A HOTEL

A high-end branded iconic residential tower within a luxury five star hotel. The hotel will manage the residences within the tower, providing the necessary facilities and amenities.

Typical Facilities & Amenities:
› Iconic Design (“Landmark”)
› Distinguished Exterior Façade
› Sky Gardens
› Leisure Lounge
› Women’s Executive Club
› Signature Spa
› Lifestyle Management Service
› In Residence Personal Chef
Conclusion

Spread of High Rise Development

Existing and forthcoming confirmed high-rise residential developments in Jeddah are focused along the Corniche. However, recent announcements, such as Bayat Plaza Residential Project, indicates that upcoming supply in the city centre, is currently being planned.

In Riyadh, existing and planned developments are limited to sites along King Fahad Road and King Abdullah Financial District.

Given the limited options that are currently available, several new focal hotspots across cities are expected to emerge in the future.

Development trend

Whereas the existing supply is heavily weighted towards developments with larger units (3+ bedrooms), upcoming towers contain a mix of smaller units.

In line with this trend, target segments for high-rise developments has also moved from accommodation to investment purposes.

Despite the challenges facing the high-rise residential sector in the Kingdom, it has shown strong performance with luxury developments emerging as a key trend in the market. Existing luxury high-rise residential buildings have fared well in the KSA market as demonstrated by their premium sales prices and quick absorption.

This change in preferences and focus has moved the market toward a high premium, high quality trend which is anticipated to continue in the upcoming years. The expected arrival of Golden Tower, Rafal Living, Damac Paramount and Kingdom Tower is expected to widen the gap between the luxury and the ultra luxury segments.

Opportunity identification

The upcoming supply of high-rise residential towers will be modern luxury aimed at the ultra high net worth individuals. As mentioned, there is a gap forming between these and older, conventional high-rise apartments. This creates an opportunity to develop residential towers with simple but elegant designs, that are adequately serviced and priced between the two categories (SAR 14,000-18,000 / sqm).

These developments could be positioned as “affordable modern luxury”. Key selling characteristics from ultra luxury developments could be retained to maintain high standards. At the same time, the costs of development can be mitigated by providing simple design and efficient, smart buildings. If balanced correctly, a development such as this would capture a market segment that is currently under supplied.

UNIT MIX BETWEEN CITIES

Riyadh

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</tr>
<tr>
<td>1 BR</td>
<td>48%</td>
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<td>2 BR</td>
<td>34%</td>
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<tr>
<td>3 BR</td>
<td>5%</td>
</tr>
<tr>
<td>4 BR</td>
<td>1%</td>
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Jeddah

<table>
<thead>
<tr>
<th>Unit</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Studio</td>
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<td>1 BR</td>
<td>15%</td>
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<td>2 BR</td>
<td>26%</td>
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<td>3 BR</td>
<td>31%</td>
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<tr>
<td>4 BR</td>
<td>10%</td>
</tr>
<tr>
<td>Penthouse</td>
<td>1%</td>
</tr>
</tbody>
</table>

CRITICAL SUCCESS FACTORS

> Elegant building design featuring high quality build, fittings and fixtures

> Careful consideration of facilities and amenities to ensure that the price premium is justified

> Iconic, ground-breaking designs that set new standards in the regional and local markets

> Water features as well as landscaped elements to strengthen the image of the proposed development.

> An owners’ association and professional facility management to ensure maintenance of the building

> A successful marketing campaign to showcase the unique features of the building, and lifestyle provided
502 offices in 67 countries on 6 continents

$2.3 billion in annual revenue

over 16,300 professionals

5,700 brokers

$97 billion in transaction volume across more than 84,000 sale and lease transactions

over 1.7 billion square feet under management (excluding residential properties)

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