

Saudi Arabia Industrial Market Review



H1 2023

A biannual review of key trends and the performance of
Saudi Arabia's industrial market

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Backdrop

During Q2 2023, non-oil activities grew at a striking rate of 5.5%, helping to drive real GDP growth, which grew by 1.1%.

While there has been some volatility in the Industrial Production Index over the last six to nine months, which is a measure of the change in the volume of total production, the long-term growth prospects for the sector and its contribution to GDP growth appear bright. This is in large part due to government efforts to bolster and expand the Kingdom’s non-oil manufacturing and industrial sectors.

One such government strategy that was announced by the Saudi Industrial Development Fund (SIDF) last year, the National Industrial Strategy, aims to increase the value of industrial exports to SAR 557bn by 2030. Further initiatives such as Saudi Arabia’s National Investment Strategy (NIS) JV with the Public Investment Fund (PIF) to boost Saudi Arabia’s steel-plate production capacity up to 1.5 million tons per year will also help to drive expansion in the sector.

“The number of manufacturing foreign investment licenses increasing by 31% in the 12 months / during Q1 2023.”

Schneider Electric’s recent inauguration of its expanded production line of devices designed to streamline manufacturing and industrial processes is an example of how the private sector is responding to the government’s vision to turn the Kingdom into a global manufacturing hub. And indeed, the impact has already been clear, with the number of manufacturing foreign investment licenses increasing by 31% during H1 when compared to the same period last year.

According to MODON, the industrial sector attracted SAR 2.8bn in investments during Q2 2023, a 23% increase from last year, and adds to the SAR 3.3bn invested in Q1 2023.

The rising demand for warehouse and industrial facilities has underpinned the rapid growth in warehouse rents, which have risen by an average of 20% to SAR 190 psm in Riyadh and SAR 205 psm in Jeddah, with national occupancy levels standing at around 96% - a record high.

NUMBERS YOU NEED TO KNOW

557

Number of new industrial licenses issued during H1 2023

505

Number of factories that began production in H1 2023

SAR 38.6 billion

Total capital of new licensed factories during H1 2023

51%

Ecommerce transactions using MADA Cards (average monthly growth per annum) since Q1 2023

Notable trends

Renewable Energy

The recently announced SIDF’s Mutajadedda Program aligns with the Ministry of Energy’s renewable energy plans and supports the Kingdom’s Vision 2030 target of achieving around 50% renewable electricity generation by 2030.

As part of these efforts, Maersk has undertaken the construction of the SAR 1.3bn Integrated Logistics Park at Jeddah Islamic Port. This ambitious greenfield project spans 225,000 sqm and focuses on streamlining supply chains, offering tailored logistics solutions, and prioritising decarbonisation through the use of renewable energy sources.

Similarly, in Riyadh, Lulu Warehouse is installing solar panels in partnership with Kanoo Renewable Energy and CleanMax , which is expected to generate 0.87 million kWh of electricity when completed by the end of the year. The project is also a milestone for Lulu’s ESG strategy.

“Saudi Arabia has launched an ambitious initiative to tap into the expanding e-commerce market through the construction of 59 logistics centres by 2030.”

Logistics facilities

Saudi Arabia has launched an ambitious initiative to tap into the expanding e-commerce market through the construction of 59 logistics centres by 2030. These centres, spanning over 100 million sqm in total, are intended to establish the country as a prominent global hub for logistics.

The current plan is to build 12 logistics centres in Riyadh Region, 12 in Makkah region, 17 in the Eastern province, and the remaining 18 centres across other regions in the country.

Currently, 21 logistics hubs are under-construction around the Kingdom, according to The National Industrial Development and Logistics Program (NIDLP).



Government initiatives

The National Industrial Development and Logistics Program (NIDLP)

Since its launch in 2019, the NIDLP has allocated approximately SAR 378bn towards diverse projects and initiatives throughout Saudi Arabia, such as programmes aimed at reducing carbon emissions, as well as strategies to unlock the Kingdom’s potential as a global logistics hub.

Some main goals include:

- Maximising the value and GDP contribution of the energy, mining, industry, and logistics sectors
- Being an enabler for the “Saudi Made” programme

National Industrial Strategy

The strategy is an extension of NIDLP, whose sole aim is to attract industrial investments, contribute to achieving economic diversification, as well as boosting non-oil exports.

The main stated goal of the strategy is to increase the value of industrial exports to SAR 557bn and achieve a target of 36,000 factories in the Kingdom by 2035.

The Global Supply Chain Resilience Initiative (GSCRI)

Launched in Q4 2022, the GSCRI aims to position Saudi Arabia as a key link in global supply chains.

The initiative is dedicated to bolstering foreign investment strategies by expanding economic zones and positioning the Kingdom as a pivotal global logistics centre for export economies.

At the same time, the initiative is meant to enhance the resilience of the Kingdom’s supply chains.

The GSCRI is prioritising competitive sectors, like mining and agriculture, and is expecting to attract SAR 40bn investments, and SAR 10.7bn in FDI within two years.

Surge in demand for modern warehouses

Across the Kingdom, there continues to be a notable surge in the demand for warehouse facilities. This surge stems from several factors ranging from the booming e-commerce sector, to the rapid materialisation of the Kingdom’s giga projects.

These new super-cities include the development of vast new transportation networks, and industrial complexes, all of which are underpinning substantial demand for storage and distribution facilities around the country.

The flourishing e-commerce industry in particular, continues to amplify the demand for warehouse facilities and distribution centres as businesses work to efficiently manage inventory and fulfil customer orders. MODON, for instance, has signed a deal to build 14 high-tech warehouses in Jeddah that are expected to be tenanted by global e-commerce companies, including Amazon.

Furthermore, cutting-edge technologies like robotics and inventory management software are presently being deployed in modern warehousing facilities to enhance operational efficiency, driving an even greater gulf in the quality of modern warehouses and their more secondary counterparts.

“The flourishing e-commerce industry in particular, continues to amplify the demand for warehouse facilities and distribution centres.”

These technologies play a critical role in meeting the demands of both e-commerce and other occupiers’ requirements and marks a significant departure from the often low-quality warehouse facilities that form the bulk of stock in the Kingdom.

The Kingdom’s e-commerce sector has been supercharged in the wake of the pandemic, as has been the case elsewhere in the world. The seemingly permanent shift in attitudes towards online shopping is particularly notable amongst Generation Z – those below the age of 25.

Indeed, our Saudi Report 2023 found that this group prefers online shopping more than any other age bracket.

Predictably, demand for storage facilities, last-mile logistics facilities and cloud kitchens has soared, with a particular need for smaller, centrally located warehouses to cater to these requirements.

Finally, the prosperous manufacturing sector is also fuelling the demand for warehouses. These facilities are essential for storing raw materials, work-in-progress inventory, and finished products.



Logistics and warehouse supply

The warehousing market is characterised by a high degree of fragmentation, with numerous small players, both organised and informal, primarily clustered in major cities including Riyadh, Jeddah, and Dammam.

The majority of high-quality warehousing facilities are owner-occupied, leaving limited options for external businesses. The persistent high demand is prompting the need not only for an enlargement of the current supply but also for addressing issues linked to low-quality stock.

Throughout the first half of 2023, there has been a noticeable upturn in supply across key cities in Saudi Arabia. In Riyadh, for instance, warehousing supply has grown from 25.1 million sqm in H1 2022 to 25.6 million sqm in H1 2023. Over half of the capital’s supply is located in Al Sulay and Al Mishal.

“Throughout the first half of 2023, there has been a noticeable upturn in supply across key cities in Saudi Arabia.”

Similarly, in Jeddah, the supply of warehouses increased from 18 million sqm in H1 2022 to 18.8 million sqm in H1 2023. Within Jeddah, Al Khumra holds a substantial share, representing around 82% of the city’s warehouse stock.

Meanwhile, in Dammam, the first half of 2023 has also witnessed an expansion in supply, up from 7.5 million sqm last year to 7.9 million sqm this year. Notably, Dammam Industrial and Al Khodaryah constitute roughly 45% of the overall warehouse supply in the Dammam Metropolitan Area.

The limited availability of high-quality, internationally specified warehouses is driving some companies to explore alternative options, including the adoption of built-to-suit models. As business requirements continue to evolve, enterprises in sectors like e-commerce and FMCG, which have substantial storage demands, are encountering significant challenges in securing adequate space. This has prompted them to increasingly turn towards bespoke solutions tailored to their specific operational needs.



Rents on the rise

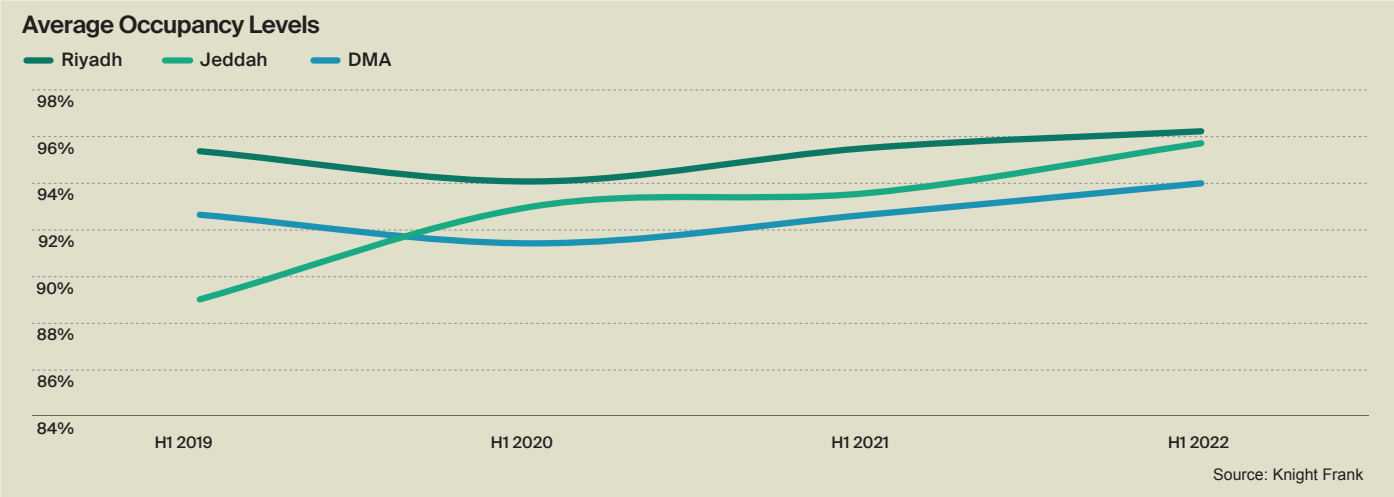
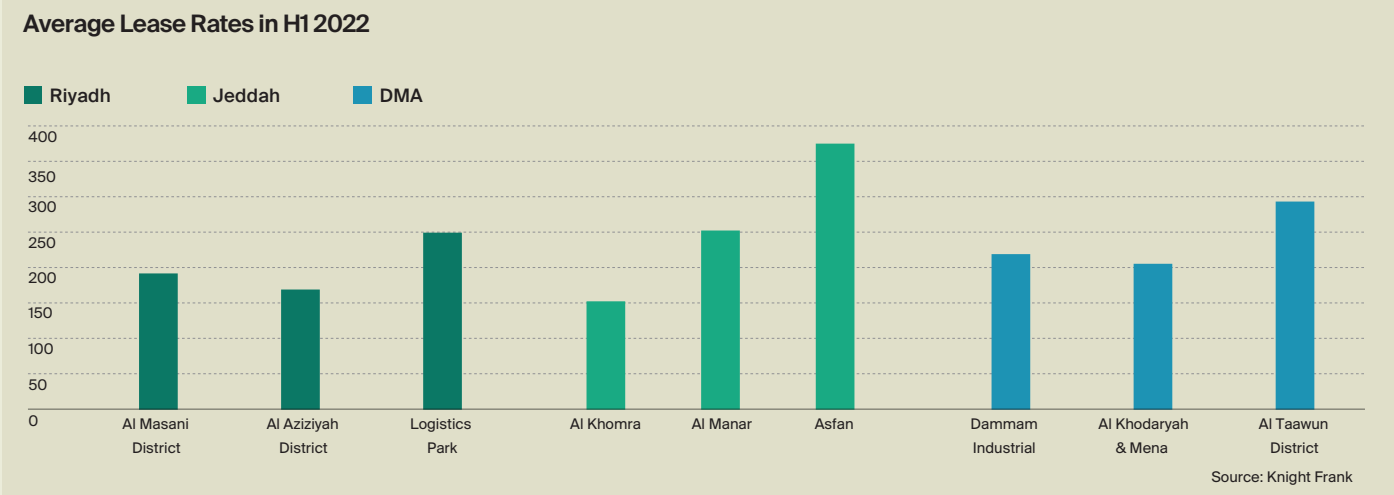
The warehouse market in the Kingdom remains severely undersupplied and predictably, rents remain on a sharp upward trajectory, climbing by 15% in Jeddah and 20% in Riyadh over the last 12 months.

Meanwhile, vacancy rates in Riyadh and Jeddah have fallen to just 3%, highlighting the challenge for industrial occupiers and at the same time, the opportunity for developers.

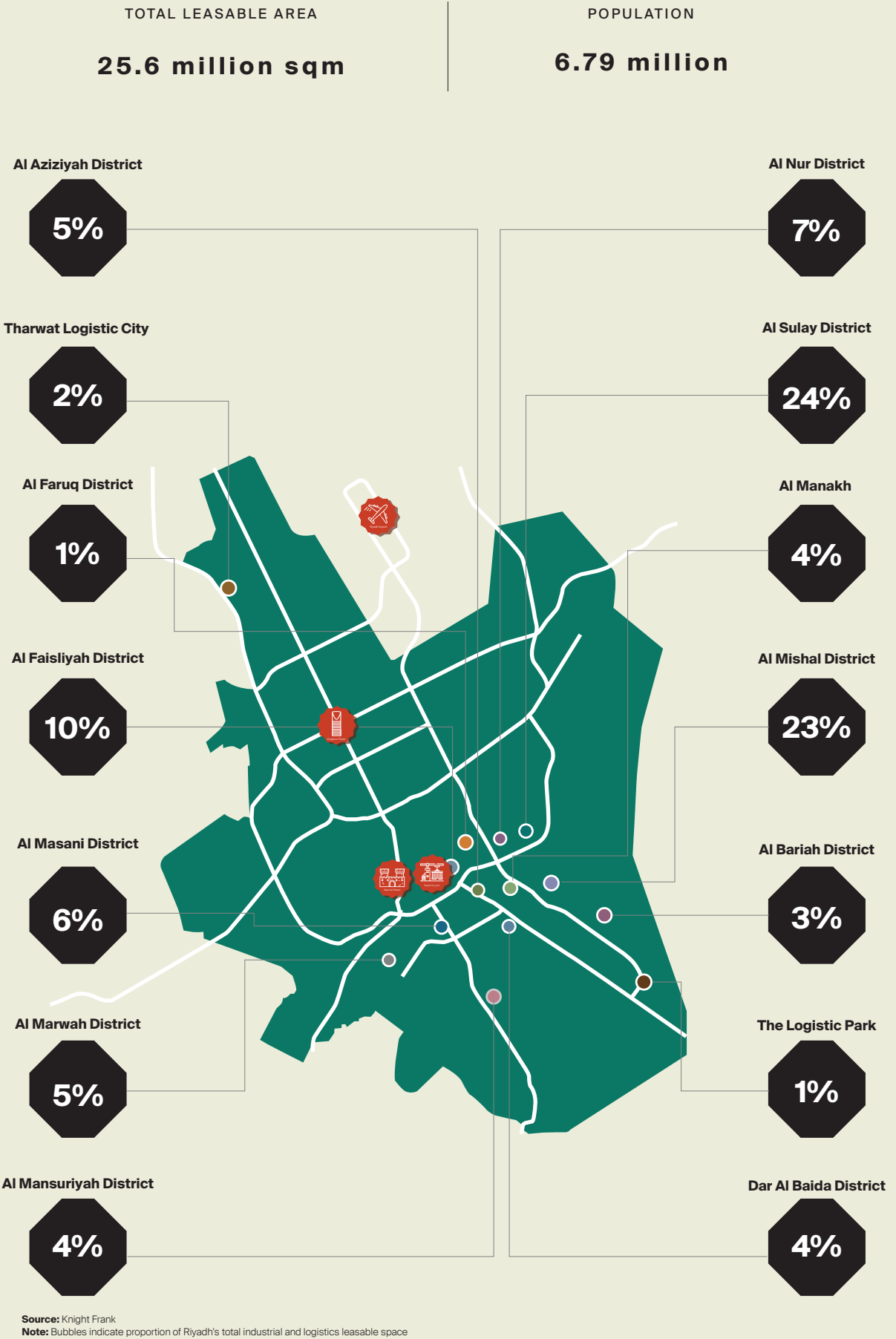
“Vacancy rates in Riyadh and Jeddah have fallen to just 3%, highlighting the challenge for industrial occupiers.”

Mirroring Riyadh, overall occupancy rates in Jeddah increased by 2% to 97% as at the end of H1 2023. Meanwhile, average lease rates grew by 15% during the same period to reach an average of SAR 205 psm. Generally, warehouse rents in Jeddah range from SAR 160-380 psm, subject to location and quality of the warehouse.

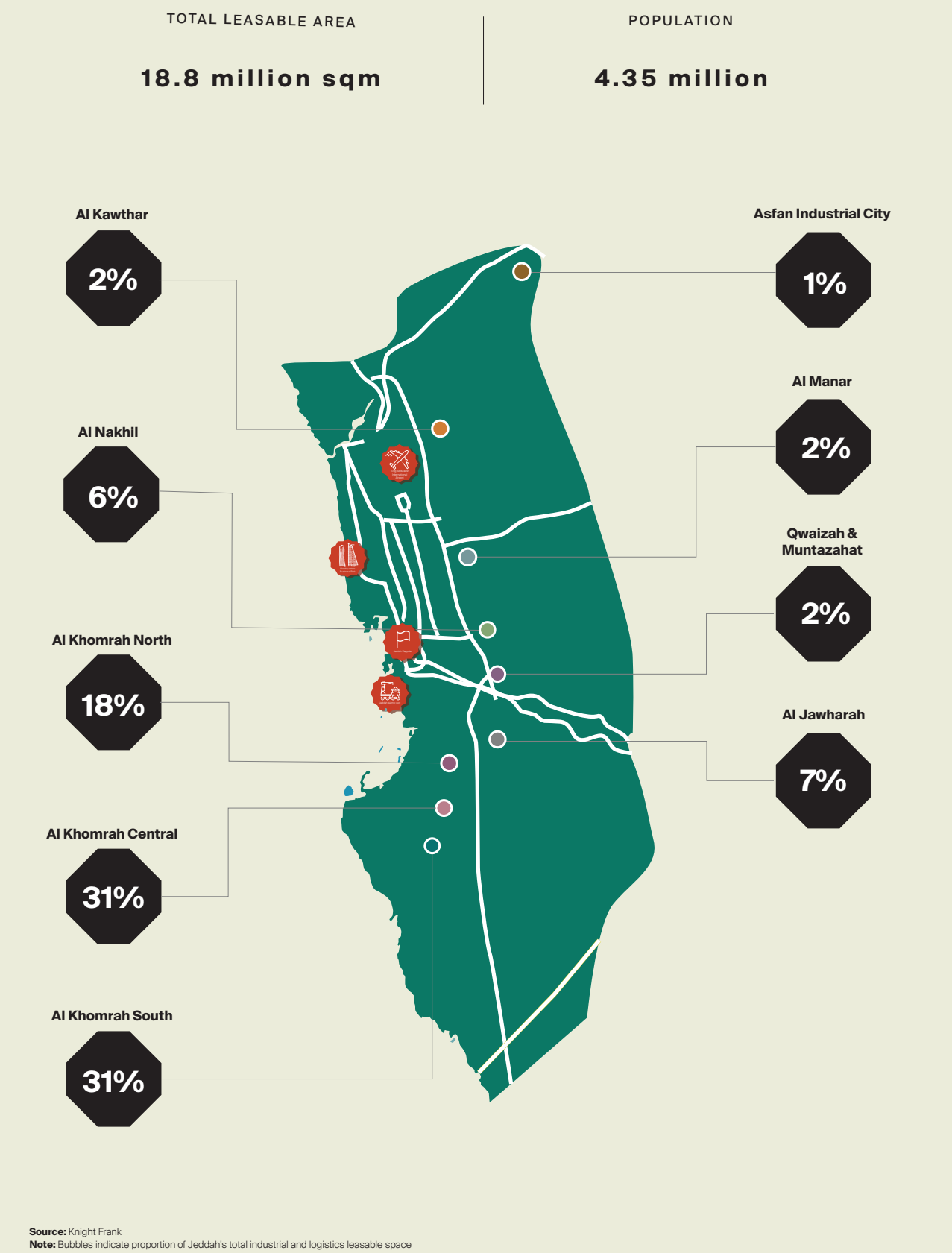
In the Dammam Metropolitan Area, rents have risen by an average of 14% over the past 12 months to SAR 230 psm. In districts like Dammam Industrial and Al Taawun, rates range from SAR 250-SAR 300 psm.



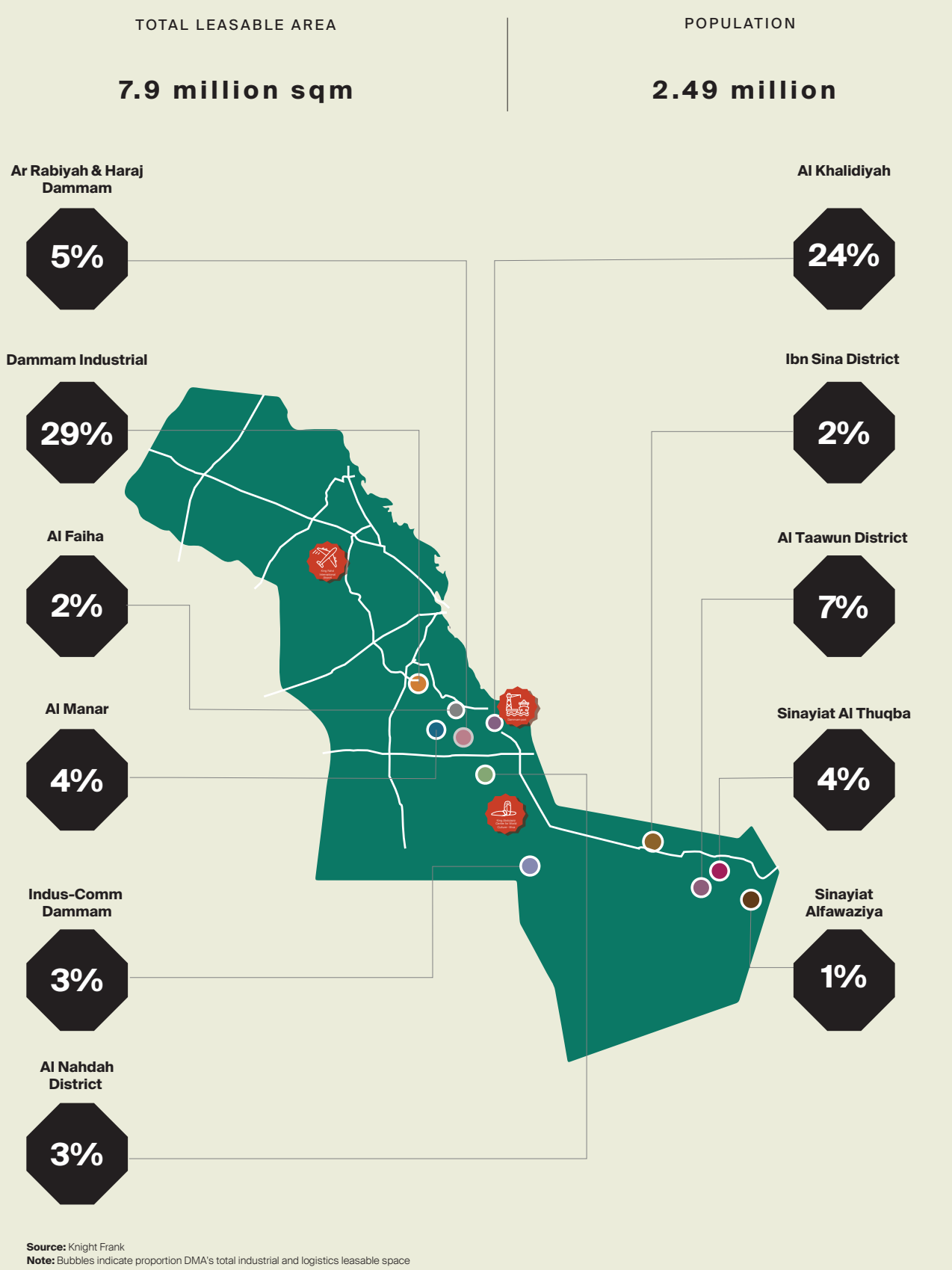
OVERVIEW OF RIYADH'S WAREHOUSE AND LOGISTICS MARKET



OVERVIEW OF JEDDAH'S WAREHOUSE AND LOGISTICS MARKET



OVERVIEW OF DMA'S WAREHOUSE AND LOGISTICS MARKET



We like questions. If you've got one about our research, or would like some property advice, we would love to hear from you.

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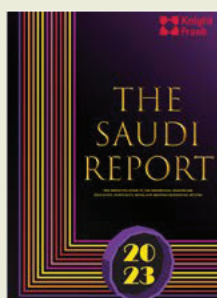
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