

Saudi Arabia Commercial Market Overview



Autumn - 2024

A biannual review of key trends and the performance of Saudi Arabia's commercial real estate market

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Market Roundup

Non-oil private sector business conditions in Saudi Arabia strengthened in Q3 2024. For the second consecutive month, Saudi Arabia's non-oil PMI rose from 54.8 in August to 56.3 in September driven by increased output and new orders.

Vision 2030 is reshaping Saudi Arabia's economy and society, with a central focus on transforming Riyadh into a key regional and global centre for business, finance, leisure, and tourism. Indeed our new white paper, [Riyadh's Near Future: how population growth is driving development](#) anticipates that Riyadh's working-age population could grow by as much as 40% by 2030.

To accommodate this expanding population, substantial increases in office and retail space, as well as hotel rooms, will be essential. The current tight market conditions underscore the pressing need for further expansion of the city's commercial real estate market.

Separately, commercial activities are accelerating across Saudi market. In Q3 2024, the Kingdom registered 135,000 new commercial business licenses, marking a 62% increase on Q3 2023, taking the total number of commercial registrations nationally to over 1.5 million.

OFFICE SECTOR

'Program HQ' is contributing to increased demand for office space in Riyadh, further influencing office lease rates. Indeed, 517 companies have now committed to establishing their regional headquarters in the Kingdom, well ahead of the 2030 target of 480. We list some of these overleaf.

'Program HQ' is contributing to increased demand for office space in Riyadh.

Vacancy rates for Grade A space remain low (3%), while prime rents in Riyadh have jumped by 31% in the last 12 months and by 73% since Q3 2021.

Grade B rents in the capital have surged by 27% over the past year, as the shortage of prime office space contributes to take-up of perhaps less-than-ideal space.

HOSPITALITY SECTOR

Last year, the Kingdom surpassed its 2030 target of attracting over 100 million visitors. And in the first half of 2024 alone, the number visitors crossed 60 million.

In addition, religious tourism has made a substantial contribution to the sector's development. Indeed, 1.83 million pilgrims were hosted during the Hajj 2024 season.

Having reached the original 2030 visitor goal six years early, authorities have increased the target to 150 million for 2030.

DATA CENTRES

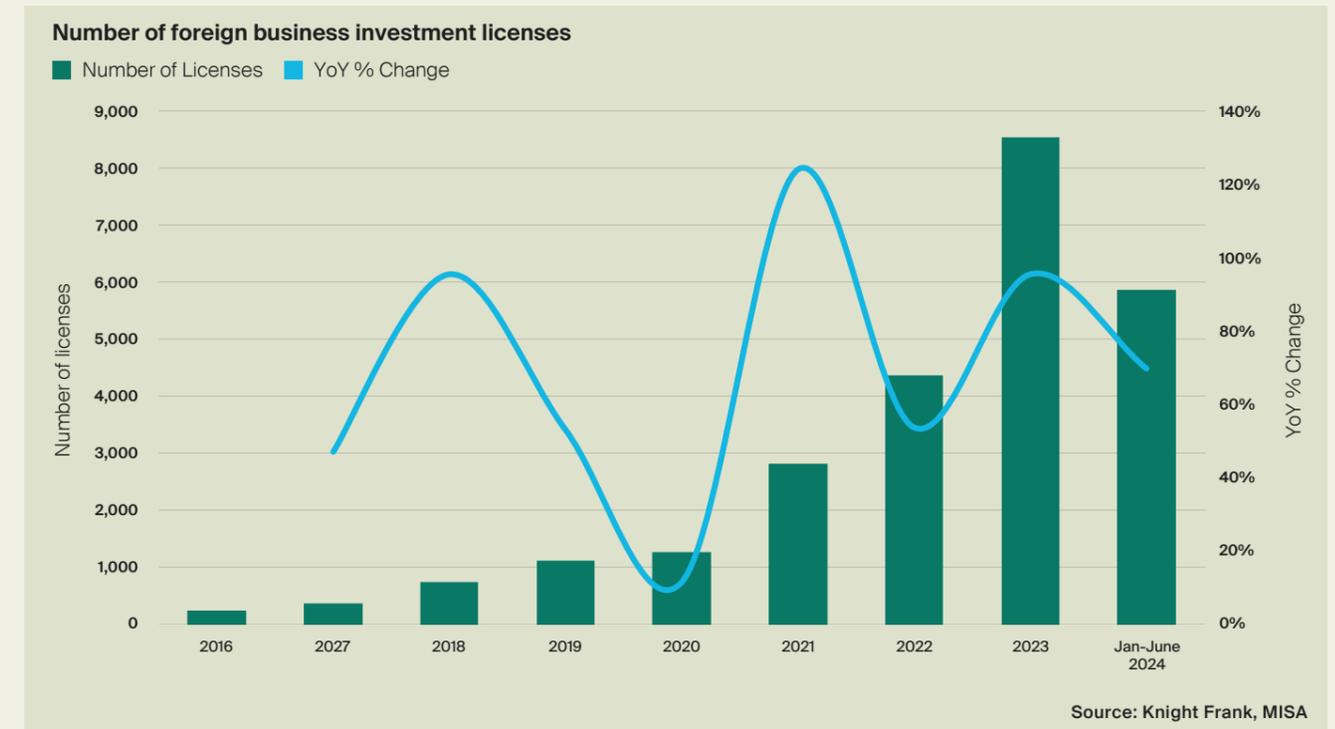
Saudi Arabia's data centre sector has been growing robustly, supported by initiatives linked to Vision 2030, aimed at diversifying the national economy and enhancing digital infrastructure.

Government initiatives and investment, rising cloud adoption, improved connectivity, rising recognition of 'big data' and the internet of things (IoT) are all fuelling growth of the data centre sector. The roll out of 5G and the introduction of the Personal Data Protection law are expected to further boost demand.



Modern buildings in the city center of Riyadh

Business is booming in Saudi Arabia



Companies that have committed to establishing a regional HQ in the Kingdom



Source: Knight Frank

Office Market

RIYADH

Office lease rates in Riyadh continue to rise in response to rising demand and limited supply. Over the past year, Grade A office rents have climbed by 31% to an historic high of SAR 2,605 psm, while Grade B rents have increased by 27% to SAR 1,335 psm.

This significant rise in rents is being catalysed by the Kingdom's 'Program HQ' initiative, with 184 businesses declaring to establish their HQ in the Kingdom during H1 alone.

Occupancy rates for Grade A offices have remained stable at 97%, while Grade B occupancy has risen by 5 percentage points to 95% during the same period.

The lack of office space in the market has also contributed to the increasing rents. During Q3, noteworthy office completions included Tafaseel Commercial building (12,450 sqm) and Double Two Center (6,000 sqm). As at the end of Q3, the total office stock in Riyadh had climbed to 5.3 million sqm. By 2026, we expect a further increase to 6.3 million sqm.

JEDDAH

Demand for office space in Jeddah has remained relatively stable over the last quarter, with rents remaining largely constant, rising by 2.9% to SAR 1,235 psm over the last 12-months. Meanwhile, Grade B rents have also climbed slightly to SAR 810 psm, reflecting a 3.8% increase over the year.

Despite the relative stability in demand, Grade A occupancy levels in the city edged down slightly by one percentage point to 94% during Q3.

In contrast, Grade B occupancy rates experienced an increase of 2 percentage points, topping out at 90%.

Looking ahead, we expect office demand to gradually rise as Vision 2030 initiatives connected to enhancing the entertainment and tourism industry, in particular, boost business activity and investment.

DMA

Meanwhile, office rents in the Damman Metropolitan Area (DMA) rose by 2.2% during Q3 to an average of SAR 1,020 psm, while Grade B rents climbed faster by 3.2% to SAR 640 psm.

Improving demand, largely from the oil & energy, industrial, and technology sectors have boosted average occupancy levels, with an improvement for both Grade A (87%) and Grade B offices (69%), which climbed by 7 and 3 percentage points, respectively over the last 12 months.

No major office completions were recorded in DMA in Q3 2024, keeping the total office stock at 1.37 million sqm. By the end of 2026, we expect the total office stock in the DMA to climb to 1.55 million sqm. KFUPM-Business Park (113,000 sqm) which is due to be completed in 2025 will be one of the largest new office developments.



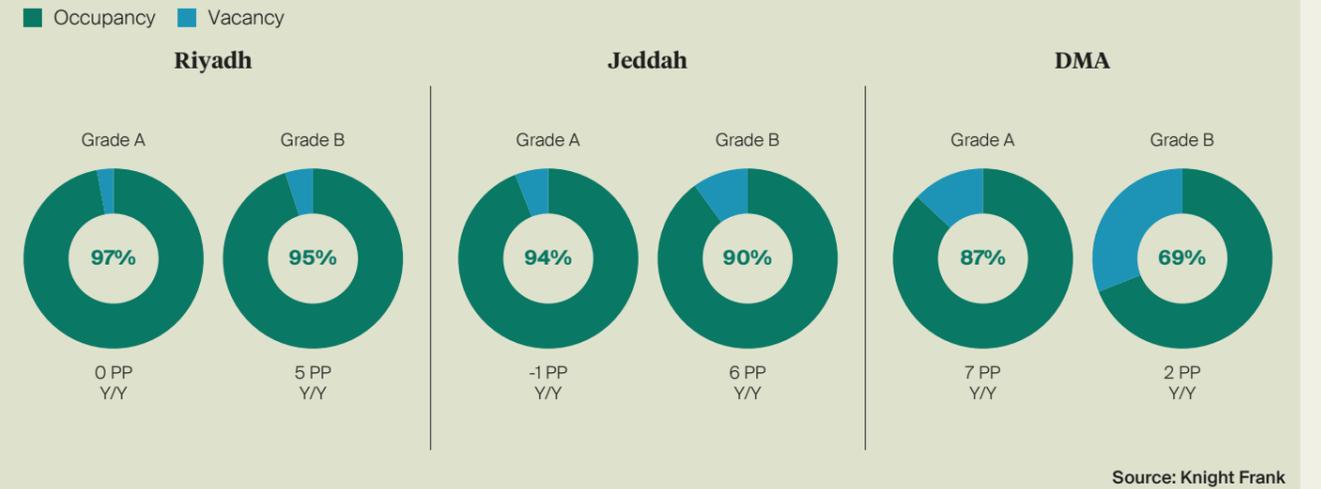
Laysen Valley

Market Performance

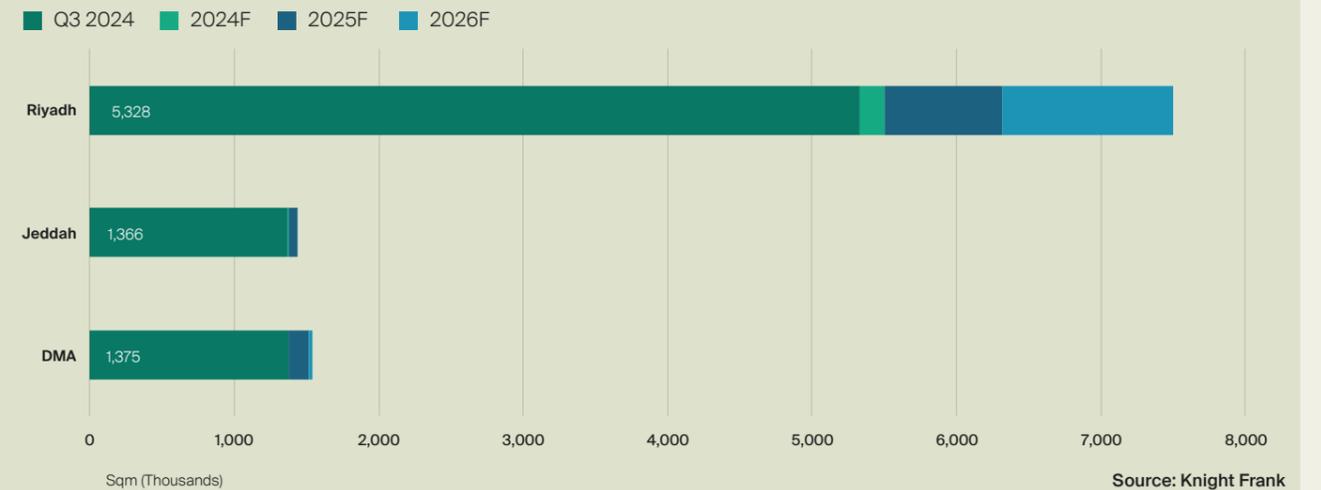
Office lease rates Q3 2024



Office occupancy levels Q3 2024



Evolution of office supply & forecast



Hospitality Market

RIYADH

An ongoing increase in business travel, the start of major events like Riyadh Season, along with the expansion of cultural and entertainment offerings in the city, are contributing to sharp improvement in the capital's hospitality market.

Indeed, Average Daily Rates (ADR) for hotel rooms in Riyadh grew by 19% to an average of SAR 847 between January and September. Occupancy levels (59.8%) have remained largely stable, however, likely curbed slightly by the sharp increase in ADR.

In addition, the Revenue per Available Room (RevPAR) increased by 17.1% to SAR 506.5 between Jan-Sep 2023 and Jan-Sep 2024.

While Riyadh has a relatively modest hotel room total (23,967), when compared to many other GCC cities, we are tracking 6,688 rooms currently under construction and due to be delivered by 2026.

While this may suggest a potential future tapering in the rate of room rate increases, it is worth noting that just 11% of the new supply over the next two years will fall into the midscale and economy segments. This limited availability highlights a significant gap in affordable accommodation options within the capital.

JEDDAH

In contrast to Riyadh, while hotel occupancy levels increased by 2.1% between January and September in Jeddah, both ADR and Revenue Per Available Room (RevPAR). ADR saw a reduction of -12%, and RevPAR reflected a -10% slowdown.

Still, the government is pressing ahead with plans to develop Jeddah's rich heritage. It is working to preserve and nurture the city's historical legacy while unlocking its tourism potential to establish itself as a premier global destination.

In line with Vision 2030, a recent agreement between the Ministry of Tourism and Al-Balad Development Company will further contribute to the city's appeal to travellers. New hotels and tourist attractions are planned in the city's historic heart.

New stock continues to trickle on to the market, with Anantara Jeddah, Radisson Hotel Jeddah Tahlia, and Voco Jeddah scheduled to open in Q4 2024, followed by the Four Points by Sheraton Jeddah (112 rooms) set to open in early 2025.

As of September 2024, Jeddah had 14,885 quality hotel rooms. We expect this total to increase by 27% to 19,000 rooms by 2026.

DMA

The DMA's hospitality sector is steadily expanding, supported by a growing demand for business and leisure travel within the region. New hotel developments are focused on midscale and upscale accommodations, aiming to cater to both corporate travellers drawn by the industrial and energy sectors as well as visitors seeking coastal and cultural experiences along the Kingdom's Arabian Gulf coast.

Between January and September 2024, ADR dropped by 2.4% to SAR 387, with a marginal increase in occupancy by 0.3%, to 58.9%.

Dammam's hospitality sector, in particular, experienced strong performance. Occupancy rose to 60.9%, marking a 15% year-on-year increase. RevPAR also grew by 14.8% to SAR 167.

Conversely, Khobar experienced a mixed performance. ADR declined by 1.7% to SAR 423, while occupancy decreased by 3.9%.

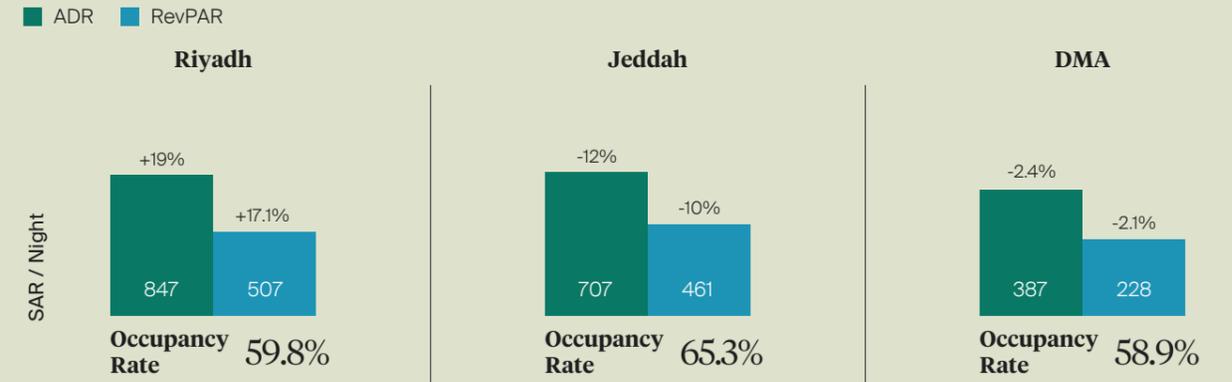
As of September 2024, DMA had a total of 13,701 hotel rooms, with our forecast suggesting that supply will grow by 5.6% to 14,474 rooms by the end of 2026.



The Ritz-Carlton, Jeddah

Market Performance

Hotel performance KPI's (Jan-Sep 2024)



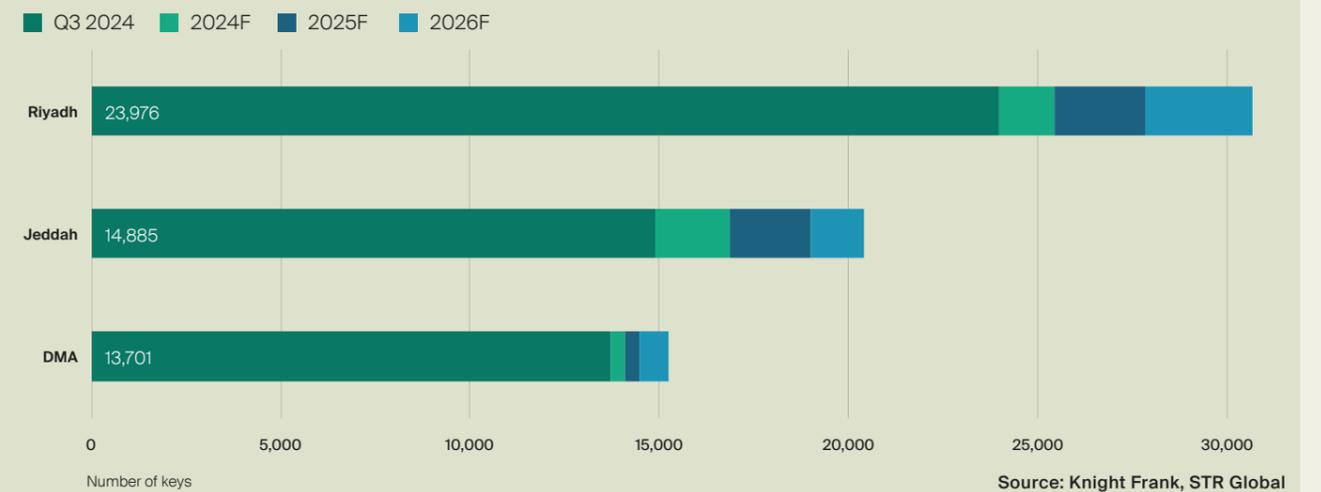
Source: Knight Frank, STR Global

Existing quality hotel supply segmentation



Source: Knight Frank, STR Global

Evolution of quality hotel supply & forecast



Source: Knight Frank, STR Global

Hospitality Market

MAKKAH

The sacred city of Makkah has drawn more than 1.83 million pilgrims to perform Hajj in 2024, according to Saudi Arabia's General Authority for Statistics (GASTAT). Of these, 1.6 million arrived from outside the Kingdom, a figure largely credited to the 'Makkah Route Initiative'.

The newly introduced initiative enhances efficiency and convenience for pilgrims by allowing them to complete entry procedures at their home country's airports, followed by direct transfer to accommodations in one of the Holy Cities of Makkah and Madinah. Additionally, the number of domestic pilgrims, including citizens and residents, reached 221,854.

In 2023, Makkah continued to benefit from the post-pandemic travel surge and a growing FIT (Free Independent Travelers) segment supported by more flexible visa requirements. However, the addition of new hotel rooms to the market, combined with a slowdown in the travel overflow, has led to a slight decrease in top-line performance for quality hotels during Q3. Indeed, ARDs experienced a slight drop of -1.9%, reaching SAR 748 over the last 12-months. In parallel, occupancy levels decreased by -1% to reach 60.9%. RevPAR has also slipped by -2.9% to SAR 456 over the same period.

As at the end of September 2024, Makkah had 58,650 quality hotel rooms. With ongoing construction, we expect this to increase by 12% to 60,855 by 2026, assuming projects are completed as planned.

Looking further ahead, Makkah is expected to see a significant increase in hotel accommodation options. Leading this effort is the remaining phases of Jabal Omar Development (7,700 hotel rooms), while the highly anticipated Masar Makkah will add another 40,000 rooms by 2030.

These ambitious projects are designed not just to increase capacity but to elevate the pilgrim experience, providing modern amenities and convenient access to the Holy Cities. With religious pilgrim numbers expected to soar—reaching 30 million by 2025 (37 million by 2030 — the growth in the city's hotel options is pivotal for the city's projected growth.

“Makkah is expected to see a significant increase in hotel accommodation options by 2030.”

MADINAH

In a bid to strengthen public-private partnerships within the Kingdom, the Saudi Ministry of Sport has recently introduced an investment opportunity for investors to build hospitality and sports complexes in Madinah.

The initiative involves the construction of football fields, swimming pools, cycling tracks, and tennis courts.

Additionally, the project includes developing, operating, and maintaining an integrated commercial, hotel, and entertainment development to diversify Madinah's hospitality offering while continuing to accommodate the rising number of visitors and pilgrims.

Between January and September, the city's ADR rose by 5.9% to SAR 821, up from SAR 775 last year, positioning it as the second highest in Saudi Arabia, while the RevPAR increased by 1.6% to SAR 564.

Occupancy levels have however decreased by 4%, to 68.7%. Despite this, it remains the highest occupancy rate across the Kingdom.

By the end of September 2024, Madinah had a total of 23,745 quality hotel rooms. With current construction projects underway, we project this figure to grow by 3%, reaching 24,455 rooms by 2026.

Looking ahead, Madinah is poised to attract more upper-class hotel brands. In collaboration with Taiba Investments, a leader in Saudi hospitality and real estate, Hilton Worldwide has recently unveiled the upcoming opening of the award-winning brand Waldorf Astoria in Madinah in 2028. The hotel will feature 300 rooms and set a precedent as a wellness-focused development.

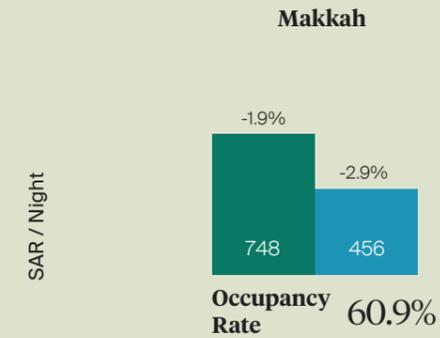


Mecca city – Jabal Omar

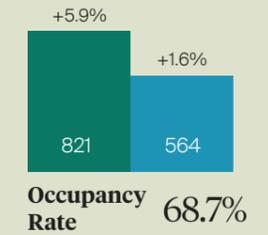
Market Performance

Hotel performance KPI's (Jan-Sep 2024)

■ ADR ■ RevPAR



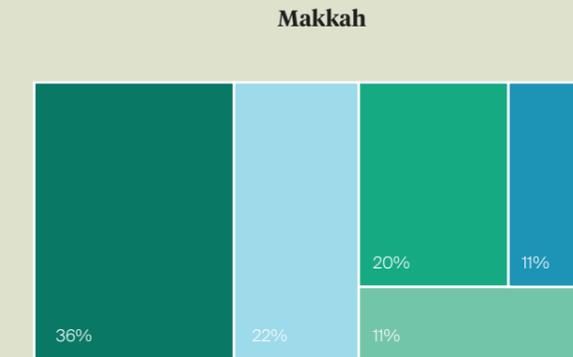
Madinah



Source: Knight Frank, STR Global

Existing quality hotel supply segmentation

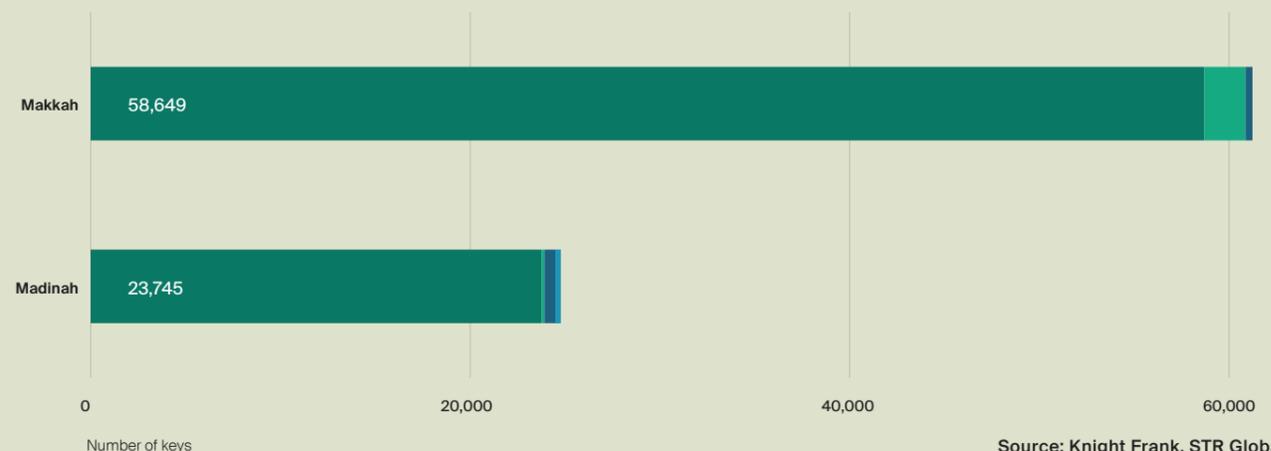
■ Upscale ■ Upper Upscale ■ Upper Midscale ■ Luxury ■ Midscale



Source: Knight Frank, STR Global

Evolution of quality hotel supply & forecast

■ Q3 2024 ■ 2024F ■ 2025F ■ 2026F



Source: Knight Frank, STR Global

Data Centres

OVERVIEW

Over the past two decades, Saudi Arabia has recorded robust growth in the development of its data centre infrastructure, driven largely by the government’s Vision 2030 initiative, which aims to diversify the national economy.

Strategically located between Asia, Africa, and Europe, Saudi Arabia benefits from the multitude of subsea cables passing through the Red Sea and the Persian Gulf. The first significant data centre developments in the country emerged in the mid-2000s, with early data centres primarily servicing the telecommunications and financial industries.

Subsequent years have seen foreign and domestic investment expand the market, leading to the construction of Tier-III and Tier-IV certified data centres.

The operator landscape across Riyadh and Dammam is 57% owned by national providers, and the remainder with international operators.

Government initiatives and investment, rising cloud adoption, improved connectivity, rising recognition of ‘big data’ and the internet of things (IoT) are all fuelling growth of the data centre sector. The roll out of 5G and the introduction of the Personal Data Protection Law in the country will further boost demand moving forward.

The government has initiated several programmes to facilitate growth, such as the development of Special Economic Zones and Free Trade Zones, alongside ‘Smart City’.

INVESTMENT OPPORTUNITIES

Saudi Arabia’s data center market holds strong investment potential, driven by supply-demand gaps and government-backed digital initiatives. Strategic incentives through Vision 2030, Special Economic Zones, and favorable regulations like the Personal Data Protection Law position Saudi Arabia as a prime market for scalable data infrastructure. High-growth cities like Riyadh, Dammam, and Jeddah offer significant opportunities aligned with current and future demand.

“Riyadh and Dammam are leading the Kingdom’s data centre market, with comparable supply volumes, reflecting their strategic importance.”

Investors should focus on hyperscale-ready, energy-efficient facilities to support cloud providers and AI applications. Building partnerships with local stakeholders will be crucial for navigating regulations and maximizing government incentives, while sustainable infrastructure aligned with local data policies ensures long-term value in this growing market.

CURRENT SUPPLY & FORECAST

Riyadh and Dammam are leading the market with comparable supply volumes, reflecting their strategic importance. While Riyadh shows a well-distributed project pipeline, Dammam’s growth is expected to accelerate post-2027. Jeddah is poised for steady development with strategic investments in place.

Aggregate supply volumes in Riyadh are presently 263.61MW, with 22.81MW live, 95.8MW under construction, 81MW committed, and 64MW in early-stage development with 44% of all planned projects currently under construction.

Elsewhere, the aggregate supply volume in Jeddah is 121.48MW, with 20.58MW live, 34.5MW under construction, 14.4MW committed, and 52MW in early-stage development. 78% of development projects within Jeddah are in early-stage development, with new deployment expected from Q4 2025 onwards.

Dammam, the largest market in the Kingdom, operates a live IT capacity of 30.88MW and an aggregate supply capacity of 392.38MW. The market currently has 48MW under construction, with 1.5MW committed to, alongside 312MW of projects in early-stage development. 86.3% of the development projects in Dammam are currently in early-stage development meaning significant gains in live IT volumes are not expected until late 2027.

VACANCY RATES

Vacancy rates across the Kingdom’s data centre market are tightening steadily. While data centres in Jeddah and Dammam are 95% and 93% occupied, respectively, Riyadh has 15% availability as of Q3 2024.

Market Performance

Evolution of data centre supply & forecast

	Live IT (Q3 2024) ¹	Under Construction ²	Committed ³	Early Stage ⁴
Riyadh	26 MW	102 MW	81 MW	64 MW
Dammam	32 MW	48 MW	1.5 MW	312 MW
Jeddah	24 MW	35 MW	14 MW	52 MW

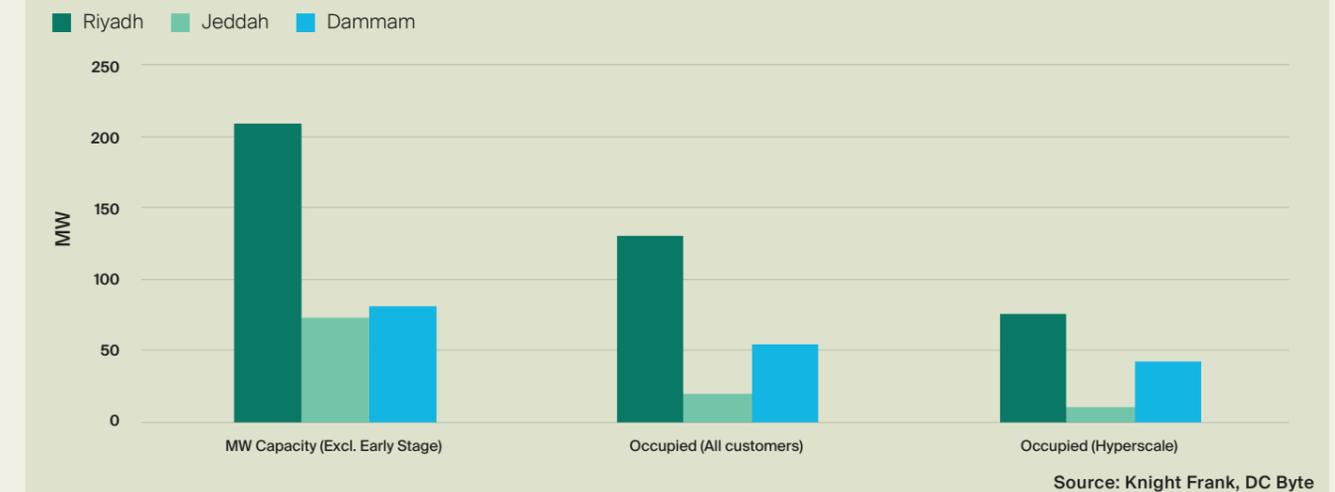
1 – Built IT capacity available for consumer use
 2 – Sites/phases with active development on-going
 3 – Power and planning permits in place, no recorded activity on site/phase
 4 – Site missing either/or both power and planning permits

Source: Knight Frank, DC Byte

Data centre vacancy levels Q3 2024



Occupied capacity breakdown Q3 2024



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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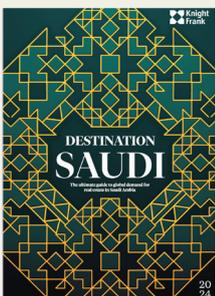
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