



CBRE

SAUDI ARABIA

The Game Changer

2018



ENTERTAINMENT







Saudi Vision 2030

In 2016, the Crown Prince of Saudi Arabia, Mohammed bin Salman bin Abdulaziz announced the “Saudi Vision 2030.” This plan aims to ensure that Saudi Arabia is a thriving economy, and seeks to liberate the Kingdom from its previous reliance on oil. The State’s Public Investment Fund (PIF) is tasked with investing in companies and developing a series of “Giga projects,” which will stimulate growth in the non-oil sector.

The entertainment and cultural arm is at the forefront of this Vision, with the Saudi government committed to supporting the efforts of regions, governorates, non-profit and private sectors for the organization of events. With that in mind, attracting local and international investors, and cultivating partnerships with international entertainment corporations is crucial.

In the second half of 2018, the PIF purchased a plot of land in Riyadh for SAR 2.17 billion (USD 578 million) in an auction from the late Sheikh Saleh Al Rajhi’s estate. The undeveloped land plot, which is located in the north of Riyadh and opposite the King Abdulaziz Financial District (KAFFD), serves the PIF’s aim of increasing its total assets to about USD 600 billion by 2020, in line with the overall Vision.

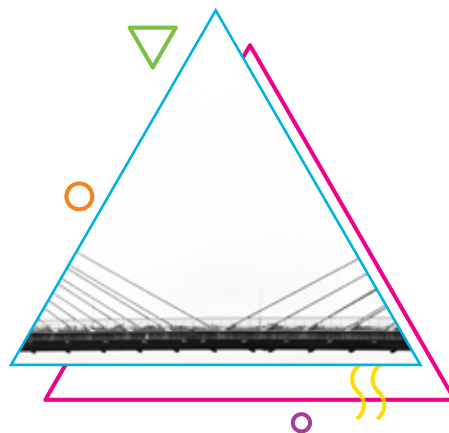
Quality of Life Program

Although the PIF is ultimately driving the country's entertainment revolution, the Saudi Crown Prince has announced that 40% of entertainment plans will be funded by the private sector. The program, aptly named "Quality of Life," seeks to improve the lifestyle of families across the Kingdom, by promoting their participation in cultural, entertainment and sports related activities, which in turn aims to generate an impressive 300,000 jobs by 2020.

LIVEABILITY



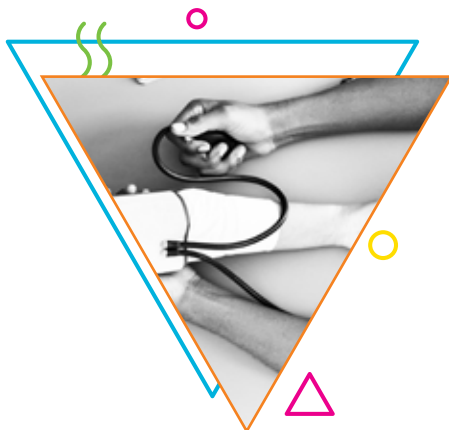
Economic & Education Opportunities



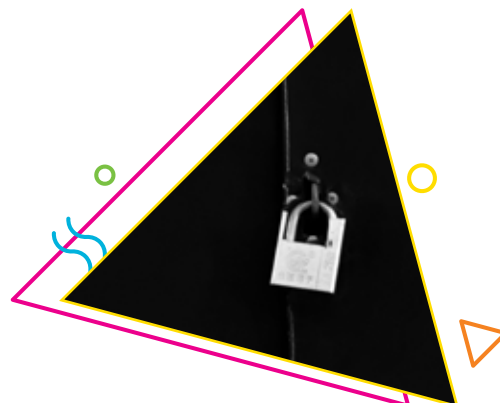
Infrastructure & Transportation



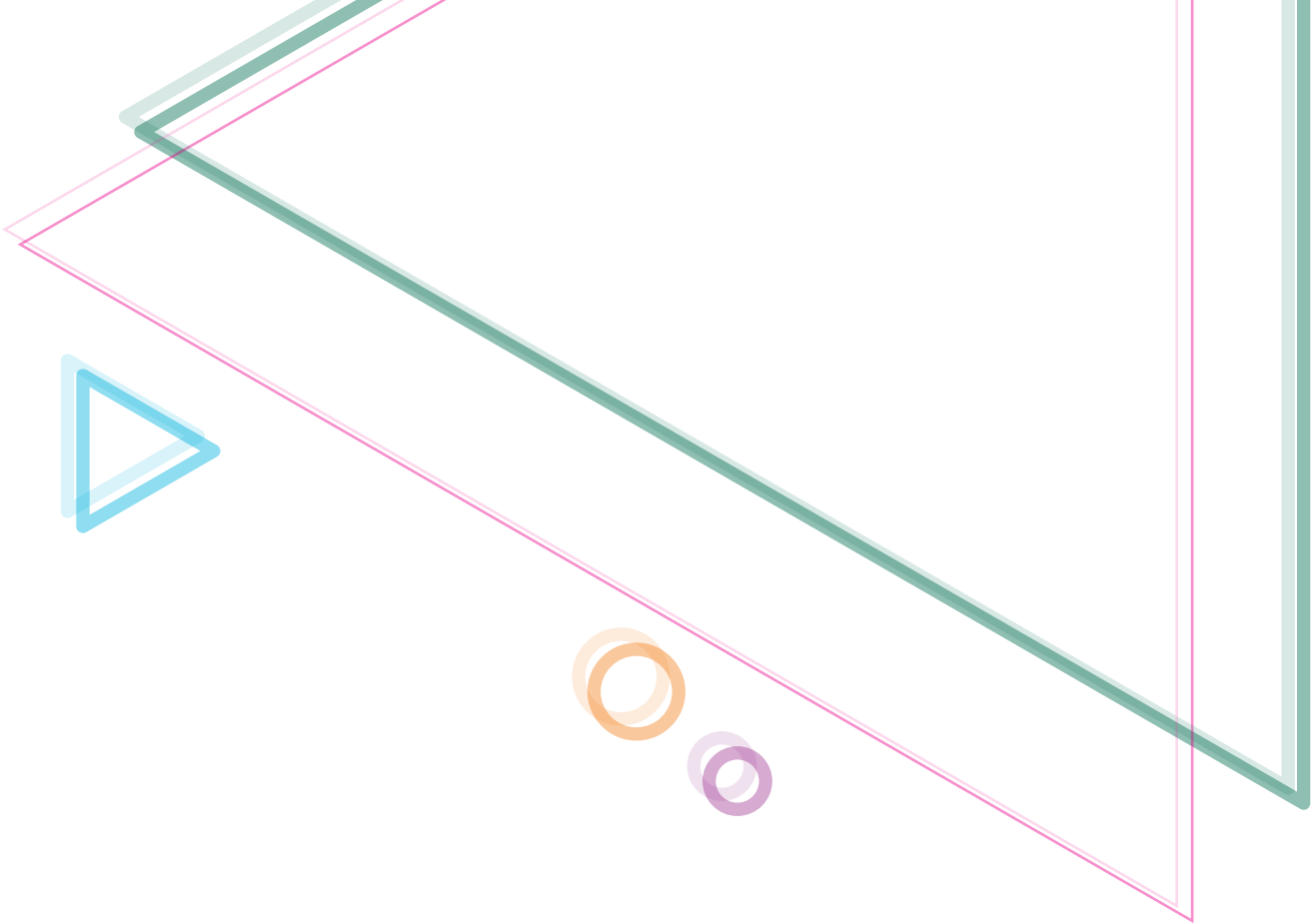
Housing, Urban Design & Environment



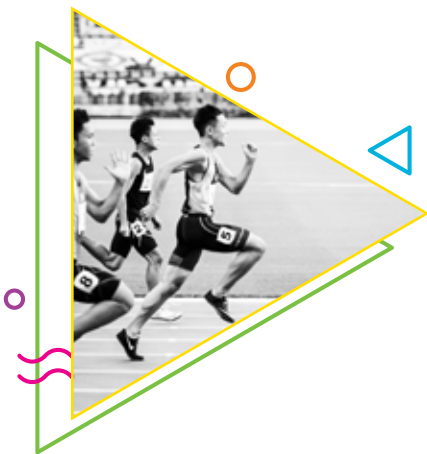
Healthcare



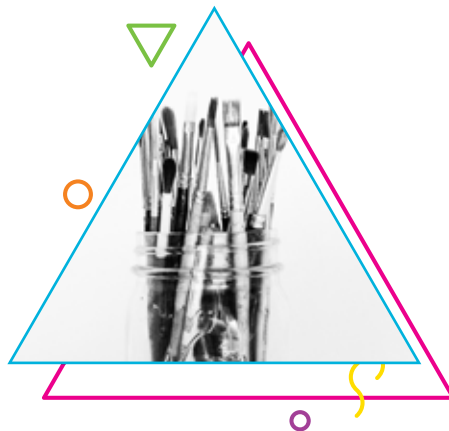
Security & Socio-Environment



LIFESTYLE



Sports



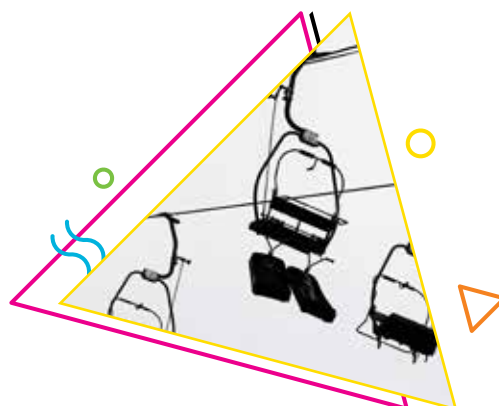
Heritage Culture & Arts



Entertainment

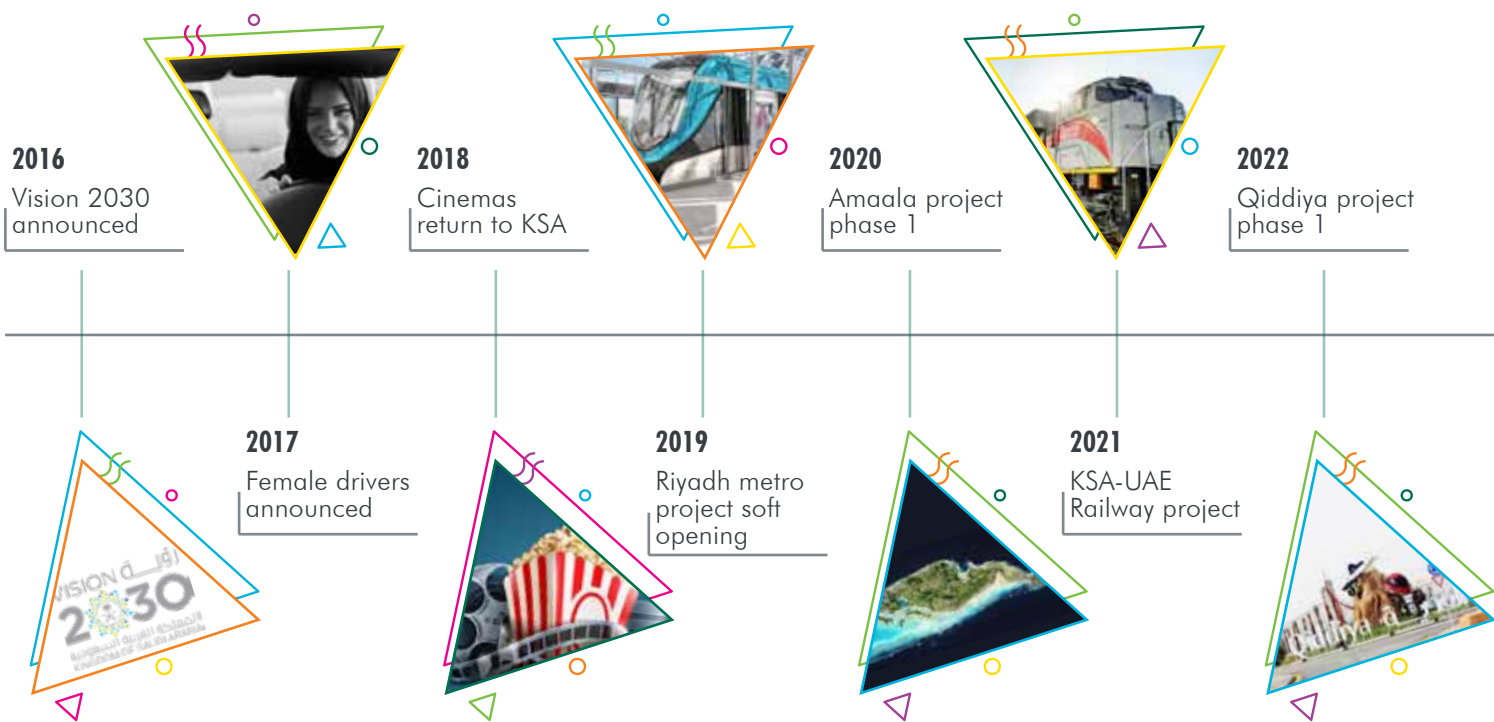


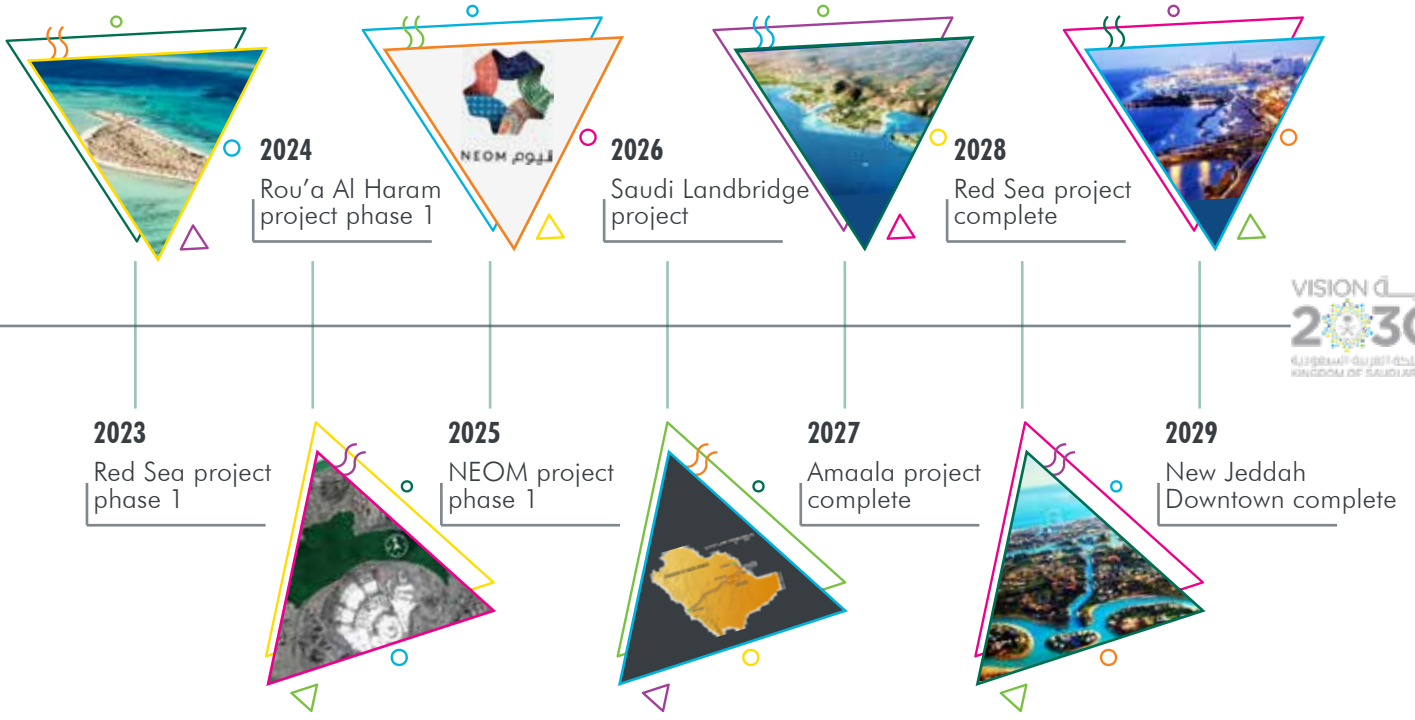
Social Engagement



Recreation

Saudi Arabia's Project Timeline for Key Projects





Key Projects

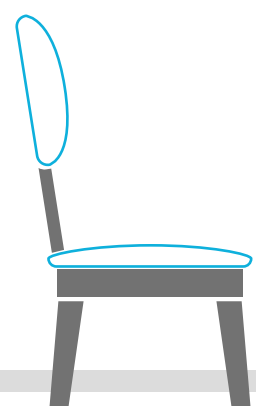
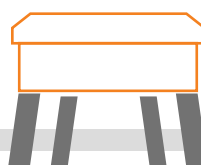
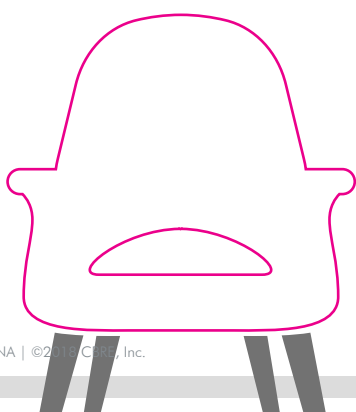
ENTERTAINMENT LANDSCAPE

Until the beginning of 2018, entertainment options across Saudi Arabia were largely limited to retail malls and restaurants. In Jeddah, for example, existing offerings are primarily concentrated around the Corniche area, leveraging on the beachfront location, or as part of larger retail malls. In the Eastern Province, residents have long taken advantage from proximity and easy access to neighbouring country Bahrain for additional entertainment and leisure options.

Current key projects include 16 entertainment complexes, an aquatic centre and three further leisure hubs throughout the Kingdom by 2030. These entertainment plans present a number of opportunities for foreign investors who are eager to enter the Saudi market.

The planned reforms to the country's laws on Public-Private Partnerships (PPPs), including those that greatly reduce the time it takes to source business visas, will certainly make Saudi Arabia considerably more investor friendly. And, as more opportunities continue to arise, more foreign investors are sure to take full advantage of the opportunity to invest in the GCC's biggest economy.

Moving forward, it is expected that the following entertainment options will increasingly feature as part of the wider supply in the market:





CINEMAS

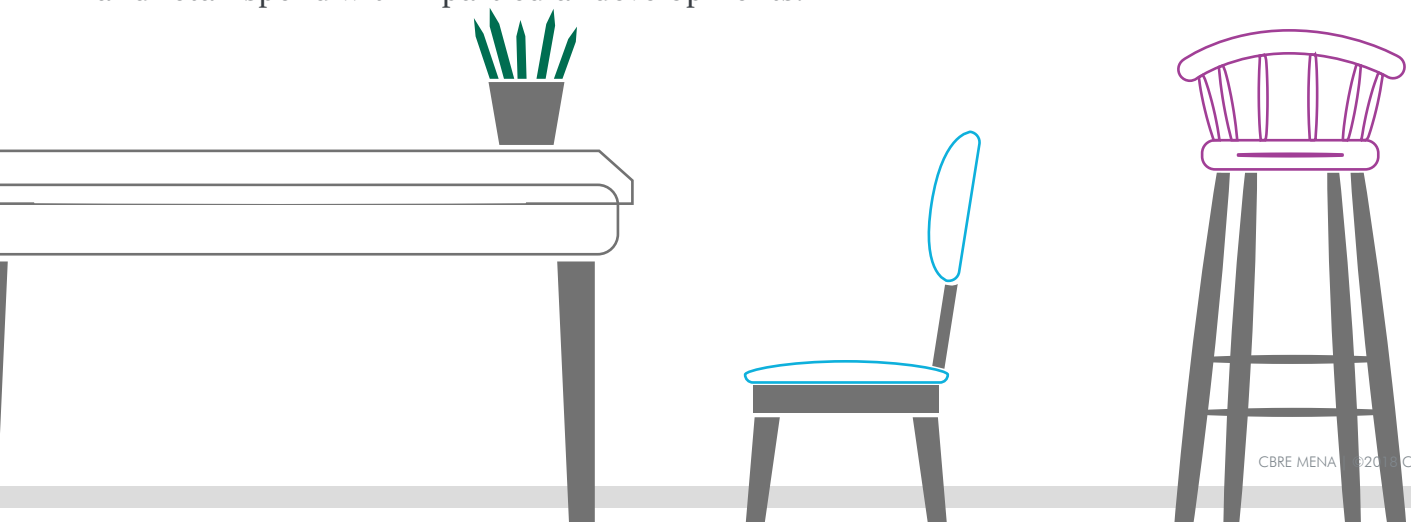
In line with the lifting of the ban on cinemas in the Kingdom in Q2 of 2018, a number of international cinema operators have already begun operating in major cities, while a number of other international operators have signed agreements to launch their brands within the Kingdom soon. Developers are also increasingly tailoring their projects to accommodate the requirements of cinema operators, with the aim of differentiating their projects and increasing footfall. The first cinema was opened in KAFD in Riyadh, with a joint venture between PIF and AMC, followed by a second cinema in Riyadh Park Mall. Jeddah's first cinema is planned to be located in Red Sea Mall, and will be operated by UAE's VOX Cinemas by the end of 2018.

AMPHITHEATRES / CONCERT HALLS

Providing live music and entertainment serves not only as a unique offering for visitors but also to activate the surrounding projects. These particular spaces can also be designed in a flexible manner so as to double as event and conference space. In Jeddah, there are plans for the construction of a world-class opera house with the aim of enhancing the music, cultural and arts scene in the city.

F&B / CASUAL DINING

With more than 15% of household expenditure dedicated to F&B, retail developments are increasingly incorporating unique casual dining and F&B outlets to attract footfall. These retail types serve as gathering places for families and friends while extending visitors' length of stay and retail spend within particular developments.

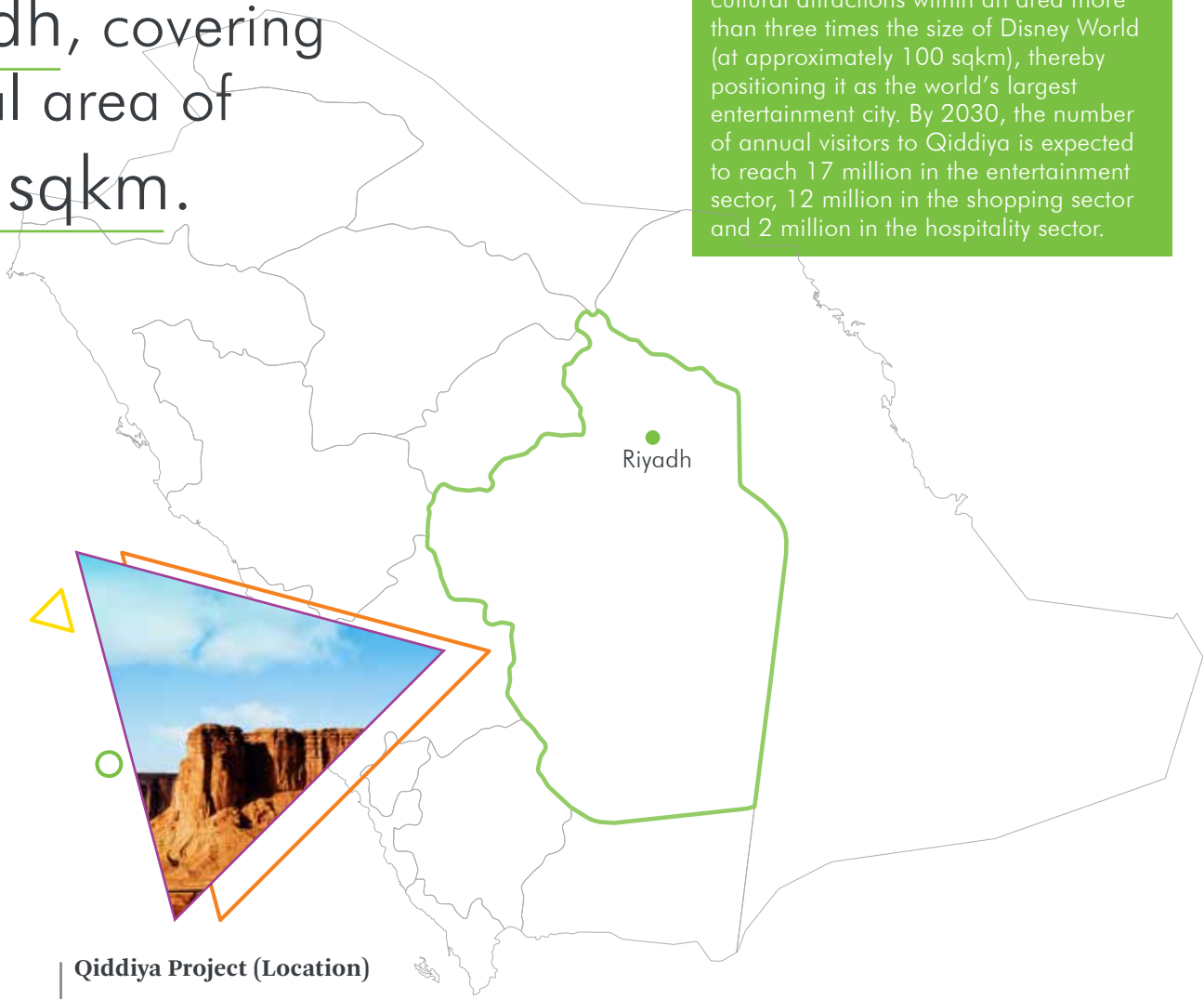


Key Upcoming Projects

QIDDIYA PROJECT

is located 40 km
from the centre of
Riyadh, covering
a total area of
334 sqkm.

Once fully developed, the project will encompass entertainment, sports and cultural attractions within an area more than three times the size of Disney World (at approximately 100 sqkm), thereby positioning it as the world's largest entertainment city. By 2030, the number of annual visitors to Qiddiya is expected to reach 17 million in the entertainment sector, 12 million in the shopping sector and 2 million in the hospitality sector.



RED SEA PROJECT

is located along the Red Sea between Umluj and Al Wahj, covering a total area of 34,000 sqkm.

Red Sea Project is a tourism destination encompassing 50 islands, which will be developed in partnership with leading hotel operators. The first phase is planned for delivery by the end of 2022.

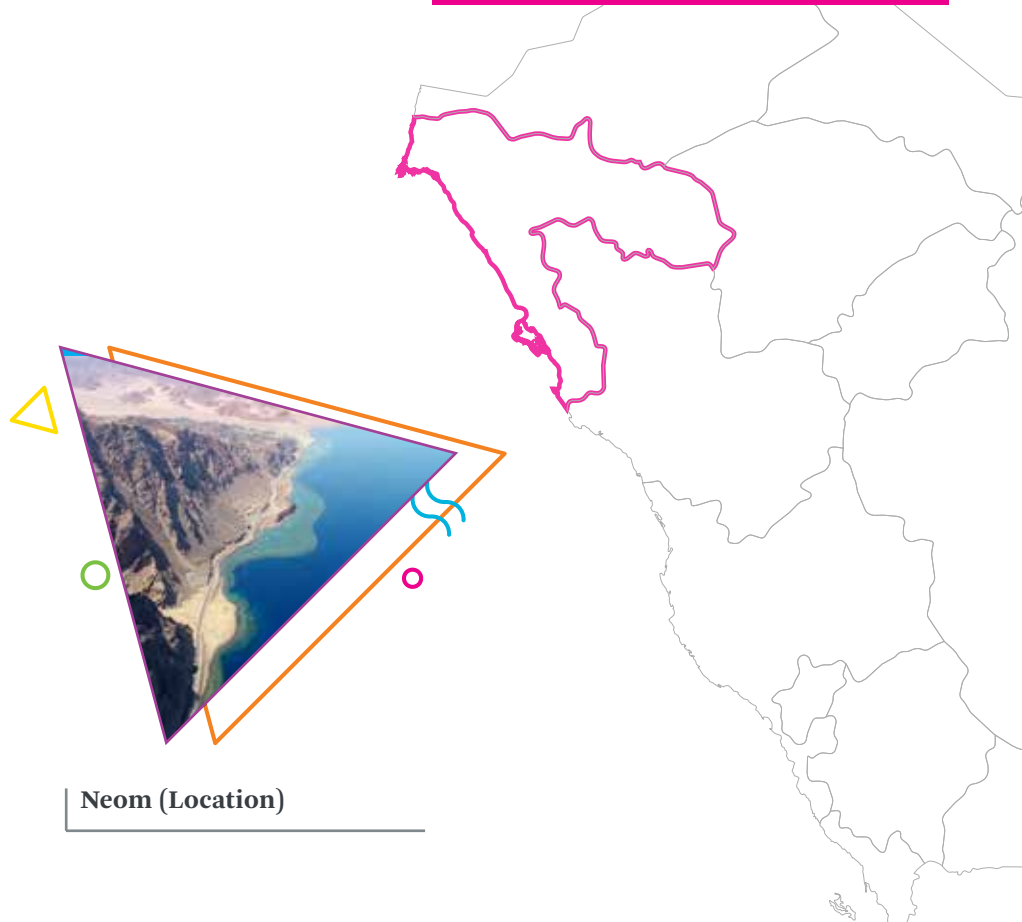


Red Sea Project (Location)

NEOM

is located north-west
of Saudi Arabia,
and covering an area
of approximately
26,500 sqkm.

Neom, is a megacity project with a focus on innovation, trade and creativity. Strategically located along the Red Sea (where approximately 10% of the world's trade passes), this project will be the world's first private zone spanning three countries (KSA, Jordan and Egypt). Once it is complete, it will offer potential investors (both regional and international) a wide range of opportunities in various sectors, including technology and entertainment.



Neom (Location)

AMAALA PROJECT

is located on the coast of the Red Sea, encompassing a total area of 26,000 sqkm.

The project aims to be the Riviera of the Middle East, featuring a range of hotels, private villas, retail and cultural offerings. Phase 1 of the project is scheduled to be delivered by the end of 2020.



Amaala Project (Location)

Economic Indicators in Support of Entertainment

The demographic make-up of the country will play a significant role in transforming the nation's entertainment landscape. With more than 60% of the country's total population under the age of 35, the younger generations of Saudis, which have traditionally travelled to other Gulf nations or further abroad for entertainment and leisure purposes, could choose to stay within the Kingdom, once thriving entertainment hubs are present.

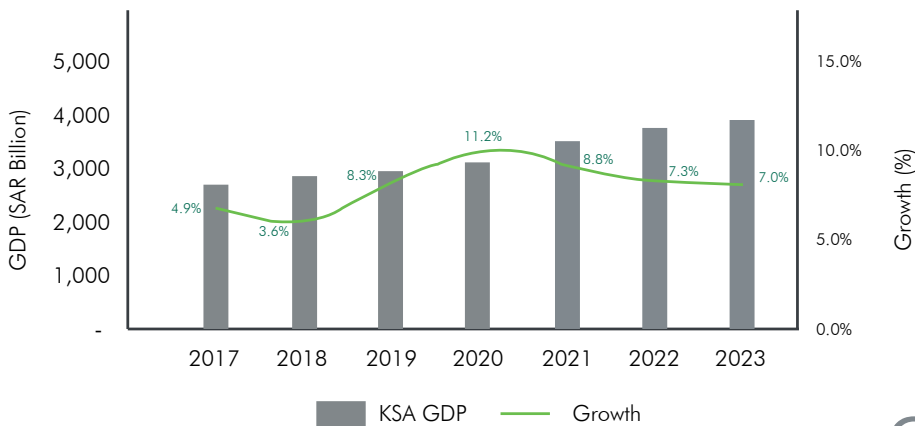
This trend will lead to increased domestic spending on entertainment. The food and beverage, retail and hospitality sectors are also set to enjoy sustained growth off the back of increased tourism and further investments in the entertainment sector. Additionally, other structural reforms, such as women driving, already started transforming how women in the Kingdom spend their leisure time.



ECONOMIC INDICATORS WHICH WILL GROW AS A RESULT

Saudi Arabia's economy picked up in the first half of 2018, increasing 3.6% from levels recorded in 2017. Moving forward, GDP is expected to grow at a CAGR of 8.5% between 2018 and 2023, to reach close to SAR 4.0 billion by the end of the forecast period. This growth is expected to be largely due to an increase in oil prices reflecting the success of the supply agreement instituted by OPEC, which will aid the growth in government spending, in line with Vision 2030.

Figure 1 - KSA GDP (2017 - 2023)



Source: Oxford Economics, General Authority for Statistics (GAS)

GDP CAGR
Forecast of
8.5%
between
2018 and 2023

EMPLOYMENT

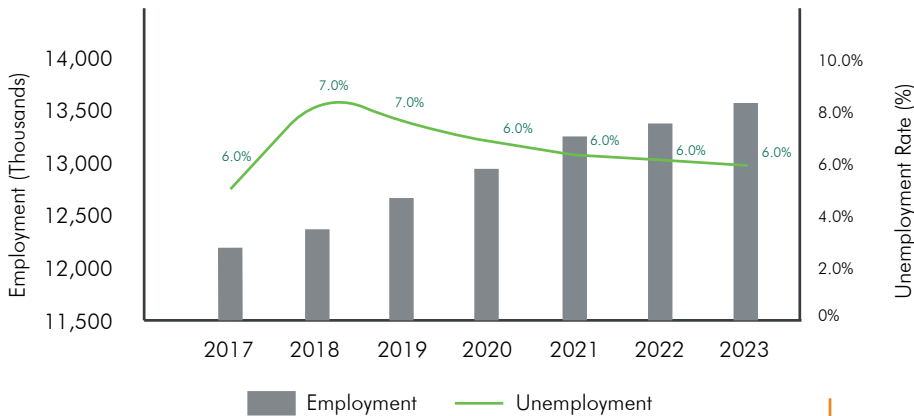
Employment within the Kingdom is estimated at around 12.3 million people in 2017, and is expected to reach approximately 13.6 million people in 2023.

In 2018, the unemployment rate increased to approximately 7%, largely driven by the increasing departures of non-Saudis in line with the implementation of new government reforms, such as the levy on expatriate dependents and stricter Saudisation requirements in specific industries.

The weaker performance in the construction and oil related industries also led to the downsizing of corporations, which contributed to the outflow of workers from the Kingdom.

Moving forward, unemployment levels are expected to decline, stabilising at 6% on average across the forecast period, in line with greater government spending and economic expansion.

Figure 2 - KSA Labor Force and Employment (2017 – 2023)



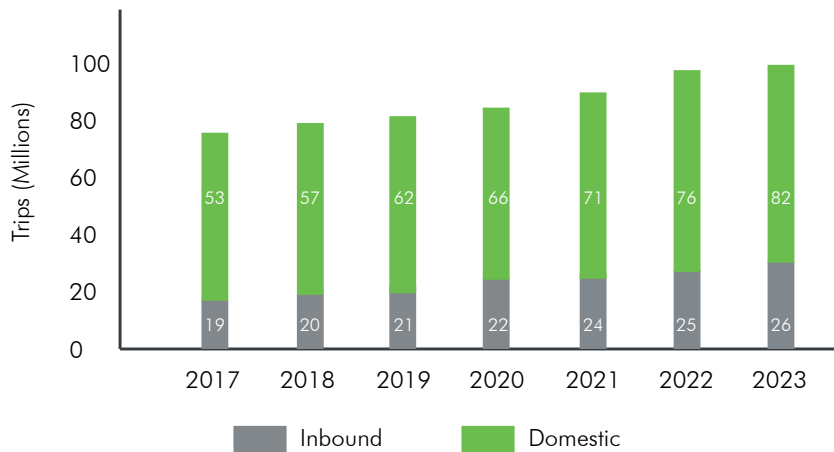
Source: Oxford Economics, General Authority for Statistics (GAS)

Employment to increase more than **10%**

NUMBER OF TOURISTS

Saudi Arabia's tourism sector as of today is heavily reliant on religious tourism. As of 2017, the Kingdom received about 19 million inbound visitors and 53 million domestic visitors. This number is expected to continue to increase in line with wider government reforms to push the tourism sector and its offering across the country. Ultimately, tourist figures are expected to reach 26 million and 82 million inbound and domestic tourists respectively by 2023.

Figure 3 - Tourists Trips (2017-2023)



Source: MAS, World Travel & Tourism Council (WTTC)

TOURISM CONTRIBUTION TO GDP

In 2017, tourism accounted for SAR 88.2 billion of the total GDP of the KSA, reflecting a record growth of 8.2% from 2016. Moving forward, it is expected that the growth will stabilise at an average of 7% for the next 5 years, reaching SAR 138 billion by 2023.

Major contributors to this expected increase include new tourists visas to be issued as of this year, other initiatives taken by the Saudi government to diversify the economy and the development of infrastructure to support the tourism, leisure and entertainment sectors, in line with the 2030 Vision.

Planned tourism contribution to GDP by 2023:
SAR 136 bn

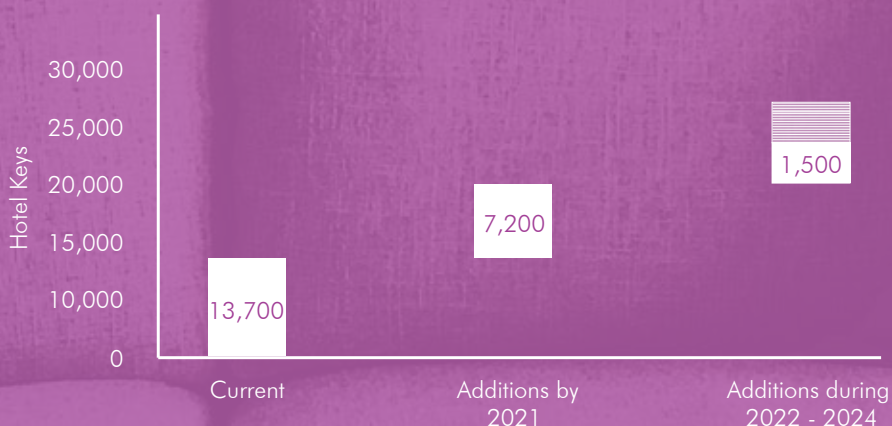
Impact On Real Estate Sector

HOSPITALITY

Riyadh

The hospitality market in Riyadh has been catering in large part to corporate travellers, and thus more than 50% of hotel rooms have been in the upper scale category. As leisure offerings grow across the capital, we are expecting to see a change in hotel product offerings, particularly the growth of the serviced apartments sector, which will be favourable to families. Based on projects which are currently under construction and/or planned, serviced apartments will account for 12% of hotel rooms after 2021, however, we believe this segment's contribution will see further increases in the long term.

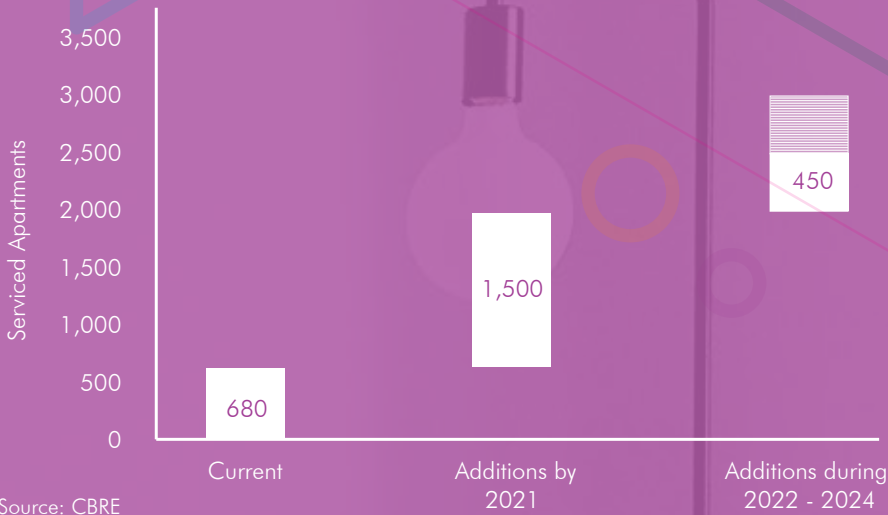
Figure 4 - Riyadh Hotel Market



Source: CBRE

■ CBRE expects more hotel rooms to enter the market by the end of the forecast period

Figure 5 - Riyadh Serviced Apartments Market



Source: CBRE

■ CBRE expects more serviced apartments to enter the market by the end of the forecast period

Riyadh - Serviced Apartments as a % of Hotel Rooms

5%

Current

10%

By 2021

12%

Beyond 2021

20%*

Beyond 2021

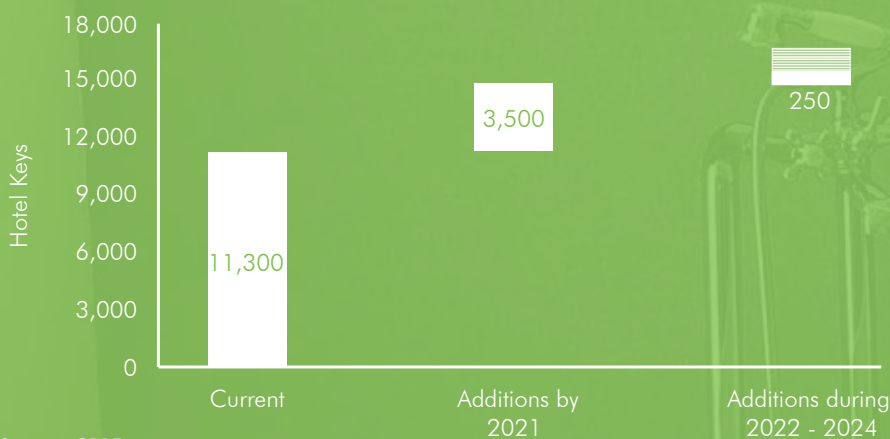
*CBRE prediction

Jeddah

Jeddah, has long been regarded the principal gateway to Makkah and Madinah, two of the holiest cities in Islam, and the commercial capital of Saudi Arabia owing to its geographical location on the coast of the Red Sea. As such, the hospitality offering in the city is different when compared to Riyadh. The contribution of serviced apartments in Jeddah currently stands at 25% of total hotel rooms, a significant difference from the levels recorded for Riyadh. This is to cater to the increasing demand of family units traveling into the Kingdom to perform Hajj and Umrah. Going forward, we expect this segment to continue expanding, as the number of pilgrims is expected to continue rising – in line with government initiatives.

With the re-development of its corniche front, and the mega-projects currently underway, most notably the Red Sea Tourism project, Jeddah will be considered more than just a principal gateway, and as such we are seeing a surge in the number of branded hotel rooms entering the market (an approximate increase of 30% by 2021 from current levels).

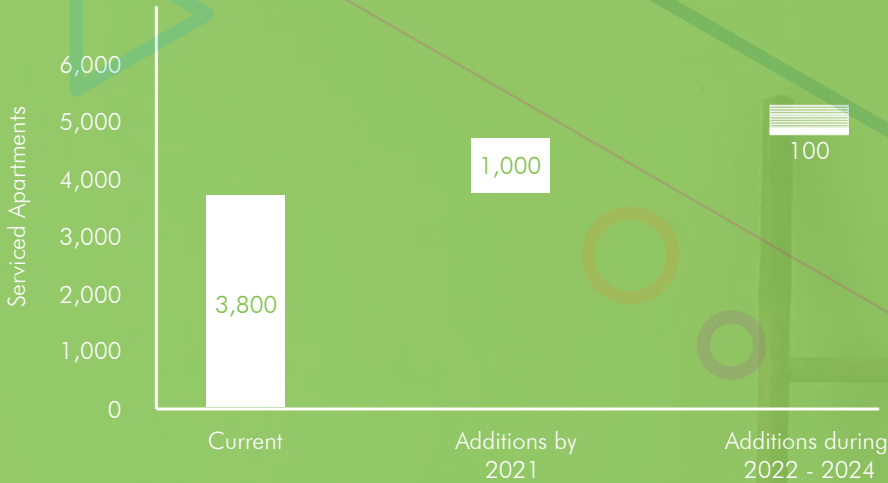
Figure 6 - Jeddah Hotel Market



Source: CBRE

■ CBRE expects more hotel rooms to enter the market by the end of the forecast period

Figure 7 - Jeddah Serviced Apartments Market



Source: CBRE

■ CBRE expects more serviced apartments to enter the market by the end of the forecast period

Jeddah - Serviced Apartments as a % of Hotel Rooms

34%
Current

32%
By 2021

33%
Beyond 2021

35%*
Beyond 2021

*CBRE prediction

Makkah

Given its status as the holiest city in Islam, Makkah is definitely a unique city, with strong demand for hotels and other tourist facilities. The Saudi Vision 2030 recognises the importance of religious tourism in diversifying the economy away from its previous reliance on oil, and as such the government has plans to increase the number of pilgrims to 20 million by 2020.

Moreover, the opening of the Haramain Railway in October 2018 will facilitate transportation from and to the holy cities on Makkah and Madinah. As logistical difficulties wean off, this will undoubtedly translate to continued demand for hotels and other hospitality services in the medium to long term.

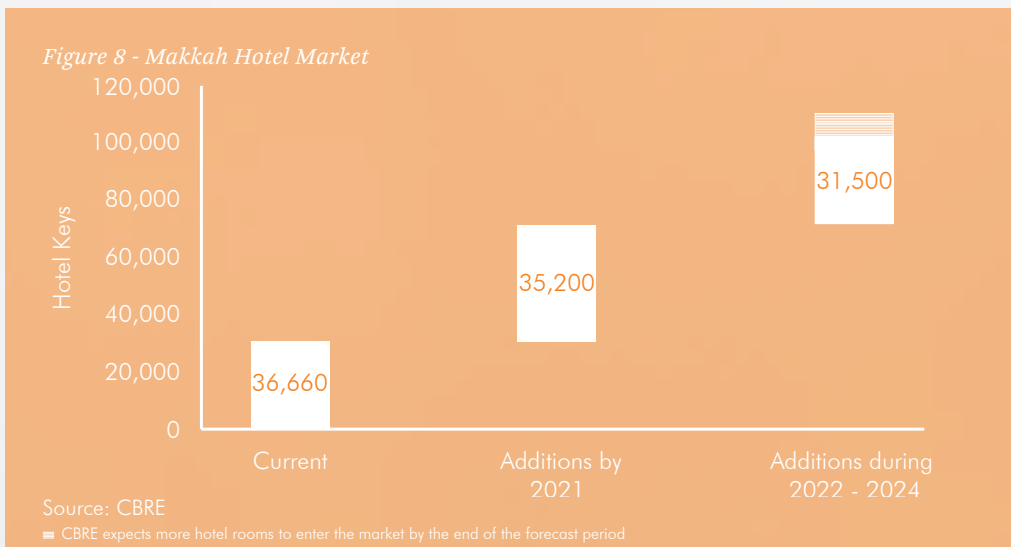
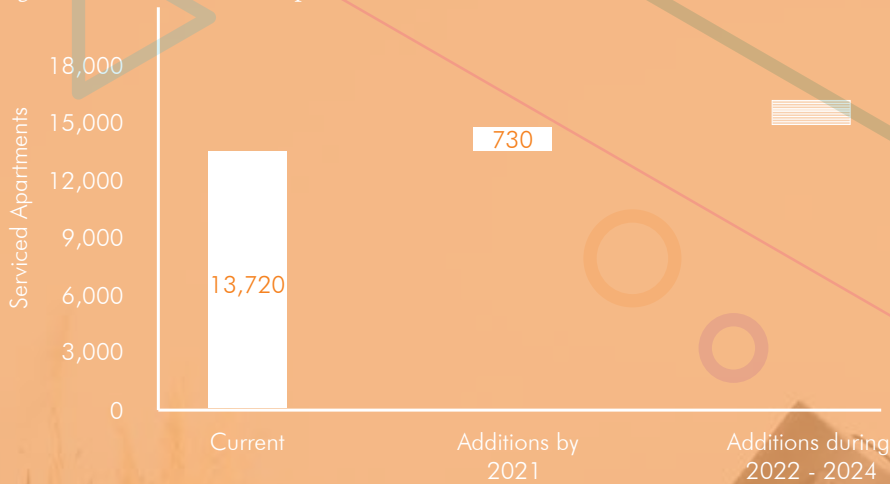


Figure 9 - Makkah Serviced Apartments Market



Source: CBRE

■ CBRE expects more serviced apartments to enter the market by the end of the forecast period

Makkah - Serviced Apartments as a % of Hotel Rooms

37%

Current

20%

By 2021

14%

Beyond 2021

30%*

Beyond 2021

*CBRE prediction

Although the contribution of serviced apartments to hotel rooms is expected to record a decline beyond 2020, we believe that there will be further announcements with regards to the construction of serviced apartments, to cater for the demand of pilgrims (in terms of typologies preferred).

RETAIL

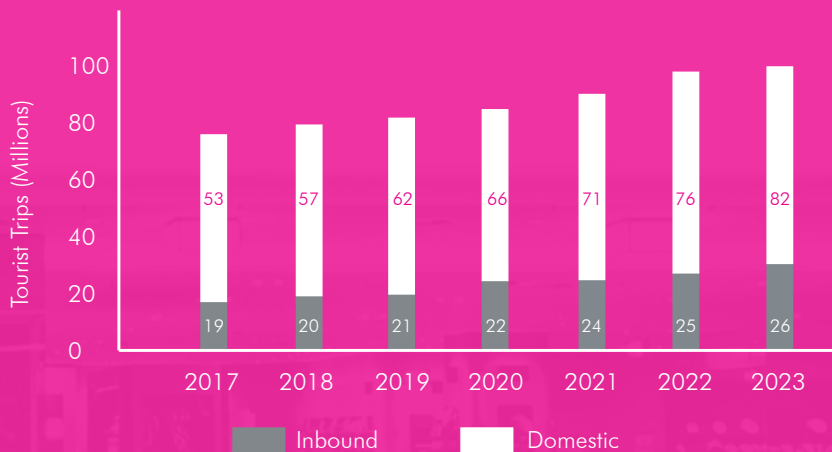
Impact on Overall Retail in KSA

One of the goals of the Saudi Vision 2030 is to increase household spending on cultural and entertainment activities within the Kingdom from almost 3% to 6% by 2030. In line with this objective, the country has witnessed a greater push towards the development of various entertainment facilities and cultural areas as well as the lifting of the ban on cinemas earlier this year. This initiative is expected to result in the opening of over 350 cinemas and 2,500 screens across KSA by 2030.

Following the announcement of the lifting of the ban, a number of international cinema operators, have received licenses and/or signed memorandums of understanding to develop cinemas throughout the Kingdom. With the majority of these cinemas expected to be delivered within retail centres, developers are seeking to attract these operators to their existing and future properties. Furthermore, a number of existing retail centres are undergoing repositioning and/or refurbishment in order to be able to accommodate these new anchor tenants, expected to be critical in driving footfall and securing complementary tenants moving forward.

In line with population, household income and expenditure has a significant impact on retail sales and consequently demand for retail space. Based on GAS and Oxford Economics, the average household expenditure in Saudi was estimated at around SAR 15,400 per month, with approx. 46% spent on retail. Of this retail spend, almost half is spent on Food and Beverage (F&B) and Restaurants combined, highlighting the importance of F&B within the retail space.

Figure 10 - KSA Tourist Trips (2017 - 2030)



Source: Oxford Economics, Tourism and Research Centre (MAS), CBRE Research & Analysis

Challenges

The external perception of Saudi Arabia tends to concentrate on its conservatism, comparative to its regional neighbours and this will, in the short term, be a challenge to the country's non-religious tourism ambitions.

An overview of the visa and investment rules will also be required to ensure easier access for tourists and capital. The reviews that are underway will, no doubt, address these issues and the Kingdom has shown itself to be flexible for particular business and sporting events. Transparency and consistent application will become increasingly important.

Foreign direct investment (both capital and business creation) will increase in importance to Saudi as the country strives toward achieving the 2030 vision. The regulatory framework surrounding FDI will go through a modernisation program over the next few years but in many ways the selection of a local partner (here and across the GCC) remains, possibly, the most important consideration for new entrants.

How can CBRE help you?

With a presence in the Middle East since 2004, CBRE's dedicated teams of professionals have international and local know-how and have experience undertaking high-profile, complex real estate projects across the region. CBRE's Strategic Advisory team specialises in providing market leading development advice throughout the Middle East. Across our 10+ regional offices, our team has advised on a wide range of developments and asset classes and has served an array of clients, including public sector entities, international corporations and local enterprises. Our team is committed to providing high-quality data and analysis to assist our clients in making informed decisions and enhancing the value of their real estate developments.

Our strategic advisory team is well placed to assist you, offering a range of consulting services including:

- Customized market research
- Financial feasibility studies
- Highest and best use studies
- Phasing, development and operating strategies
- Masterplan reviews and validation
- Portfolio optimisation
- Investment strategy and acquisition advisory
- Independent valuations across all real estate asset classes

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We have other offices across the region in:
Jeddah, Dubai, Abu Dhabi, Bahrain, Cairo, Casablanca and Istanbul

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“We will not rest until our nation is a leader in providing opportunities for all through **entertainment** and other initiatives”

HRH Prince Mohammed bin Salman bin Abdulaziz



CBRE

ENTERTAINMENT