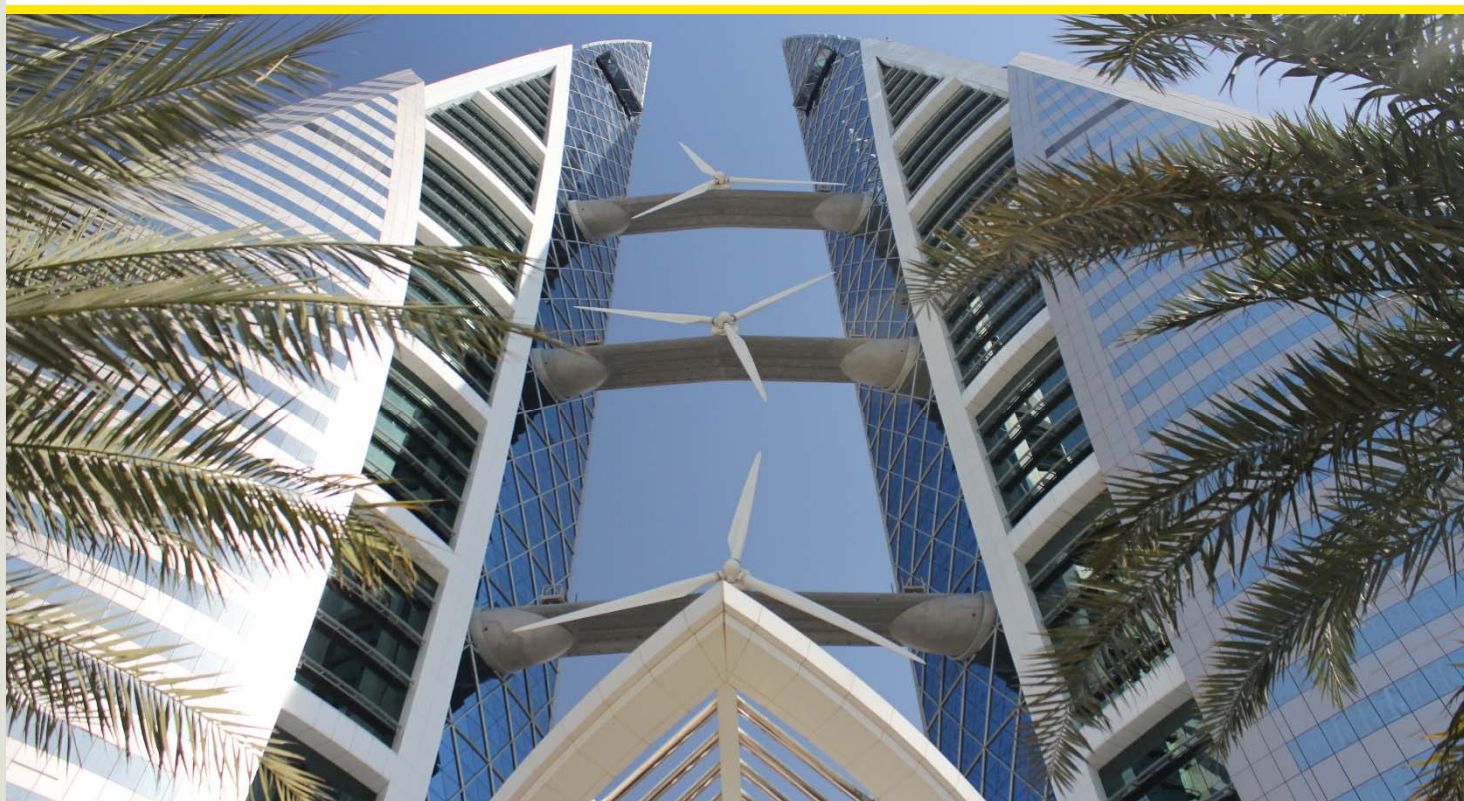


Market in Minutes

Middle East office review

H1 2015



The facts at a glance

Middle East office markets return to growth

- Regional markets were generally firm in 2014.
- Prime cities supported by significant government spending.
- Preparation for special events such as Dubai Expo 2020 and 2022 FIFA World Cup Qatar also supported the market.
- In the closing months of 2014 oil price declines created some uncertainty on global markets and regional real estate sentiment.
- Entering 2015 this situation is being closely monitored.
- Delays with significant projects, particularly in Riyadh helped to preserve demand in prime buildings.
- Future absorption in 2015 will determine success of major projects.

Six regional office markets at a glance

H1 2015

TABLE 1

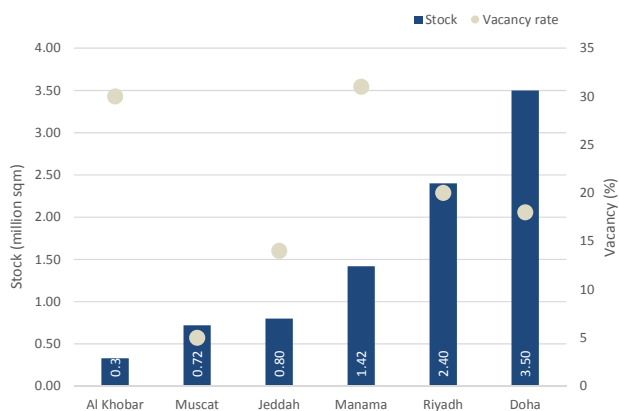
Key office market figures

Cities	Vacancy rate (%)		Prime rent (US\$/m ² pm)		Average rent (US\$/m ² pm)	
	H1 2015	y-o-y change	H1 2015	y-o-y change	H1 2015	y-o-y change
Al Khobar	30%	(-) 6%	28.7	(+) 7.9%	21.0	(+) 5.0%
Doha	18%	(+) 6%	71.4	(+) 8.3%	39.8	(+) 3.4%
Jeddah	14%	(-) 12%	37.8	(+) 21.5%	21.1	(+) 2.9%
Manama	31%	(+) 3%	26.5	(+/-) 0.0%	17.2	(+/-) 0.0%
Muscat	5%	(-) 80%	23.4	(+) 12.5%	18.2	(+) 16.7%
Riyadh	20%	(-) 1%	41.1	(+) 9.0%	23.3	(-) 4.5%
Totals/Average	20%	(-)16%	38.2	(+) 9.7%	23.4	(+) 3.2%

Source: Savills

GRAPH 1

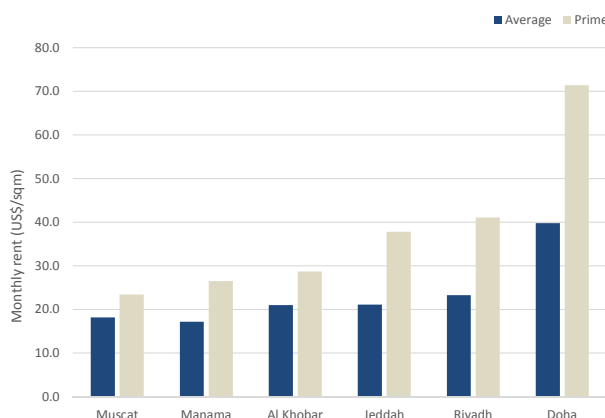
Vacancy rate



Source: Savills

GRAPH 2

Rental levels



Source: Savills

Regional summary

Supply and demand snapshot

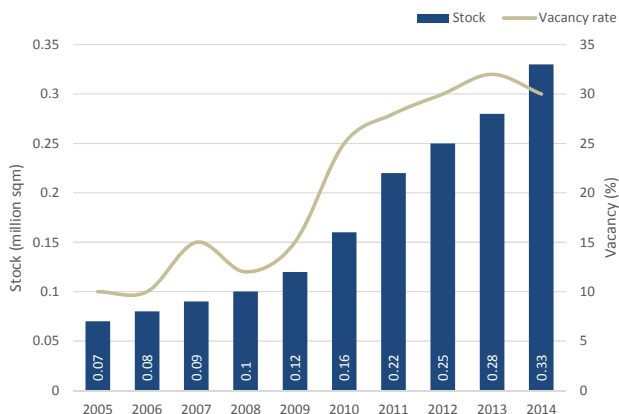
- **Al Khobar:** The city has the smallest stock of Grade A and B office space and the second highest vacancy rates at 30%.
- **Doha:** Prime rental rates have continued upwards while both stock and vacancy levels have also increased.
- **Jeddah:** Increasing demand for quality space has driven rising rental rates and falling vacancy in 2013 and 2014.
- **Manama:** Rental rates have stabilised while vacancy levels have also levelled out despite modest stock growth in 2014.
- **Muscat:** Rapid growth in quality stock has been exceeded by demand leading to falling vacancy and rising rental rates.
- **Riyadh:** Despite significant growth in supply, prime rents have risen as new levels of quality have been introduced.

Al Khobar

H1 2015

GRAPH 3

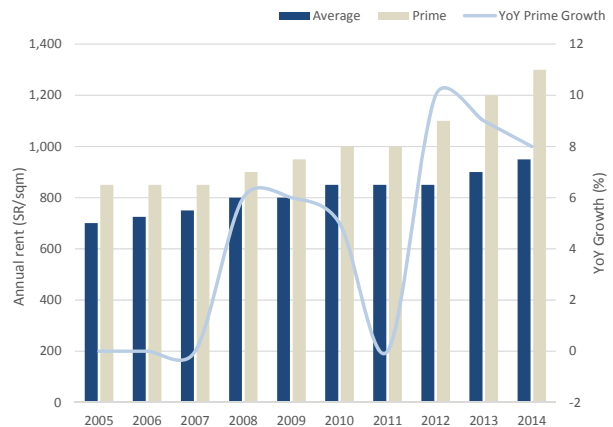
Vacancy rate



Source: Savills

GRAPH 4

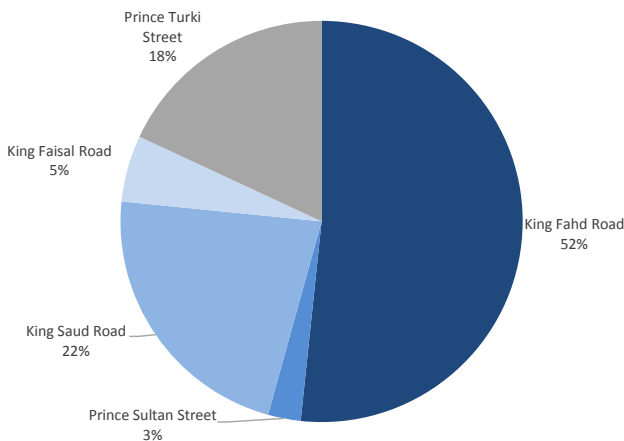
Rental levels



Source: Savills

GRAPH 5

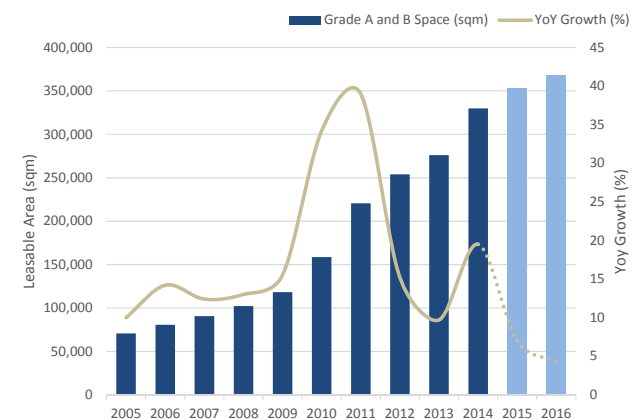
Tenant mix



Source: Savills

GRAPH 6

Development pipeline



Source: Savills

Al Khobar market in minutes

Reaching for the sky with high-rise projects

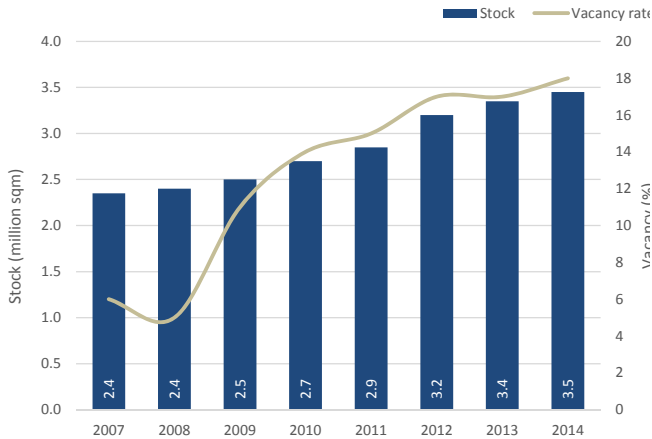
- Office rents continue to rise year-on-year reaching SR1,300 per square metre/annum for prime space, largely a reflection of the improving quality of office space rather than demand pressure.
- Vacancy rates remain high at around 30% and the development pipeline will continue to deliver significant supply-side growth at least until 2016.
- Dammam is set to raise its market profile with the completion of infrastructure at the master planned Marina project and will begin to challenge Al Khobar as the prime office location in Eastern Province, potentially introducing a competitive Central Business District.

Doha

H1 2015

GRAPH 7

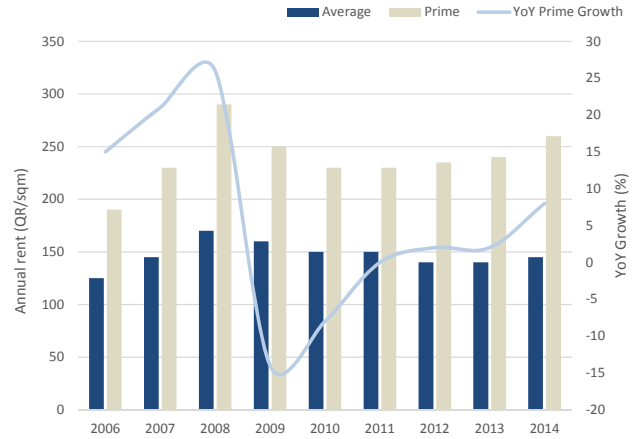
Vacancy rate



Source: Savills

GRAPH 8

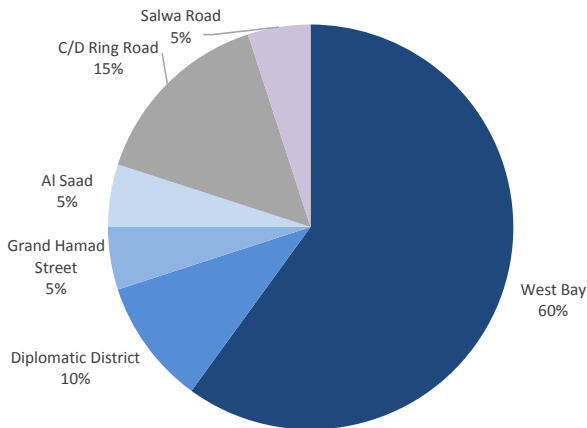
Rental levels



Source: Savills

GRAPH 9

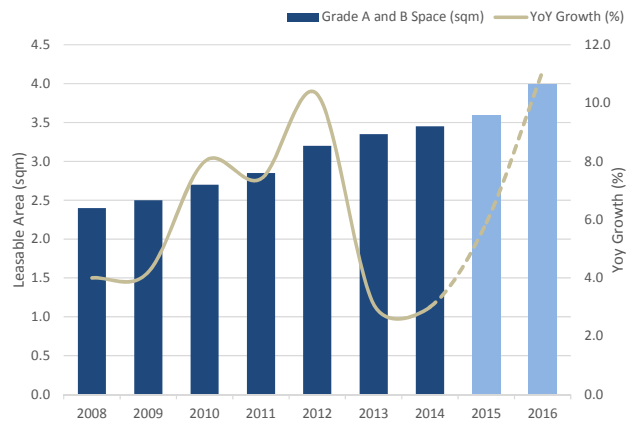
Tenant mix



Source: Savills

GRAPH 10

Development pipeline



Source: Savills

Doha market in minutes

Economic growth continues to drive prime office absorption

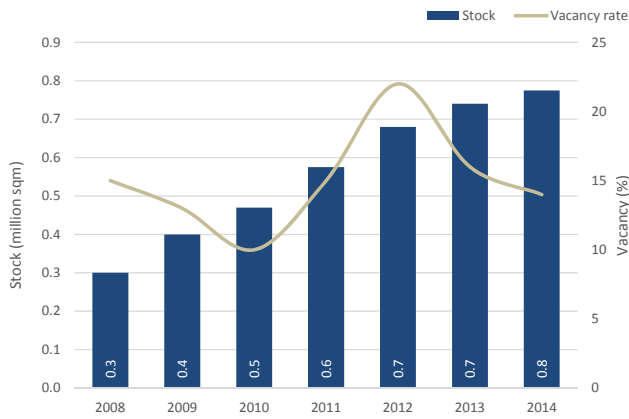
- Supply growth continues to lead demand growth, albeit marginally, with the result that vacancy levels reached approximately 18% by year end 2014.
- Despite the small growth in vacancy levels, rental rates rose during 2014, mainly driven by increasing numbers of international tenants replacing Ministry tenants in many of the high profile office towers.
- The development pipeline indicates significant supply side growth in 2016, with the potential to cause some downward pressure on rental rates if population and economic growth fail to materialise.

Jeddah

H1 2015

GRAPH 11

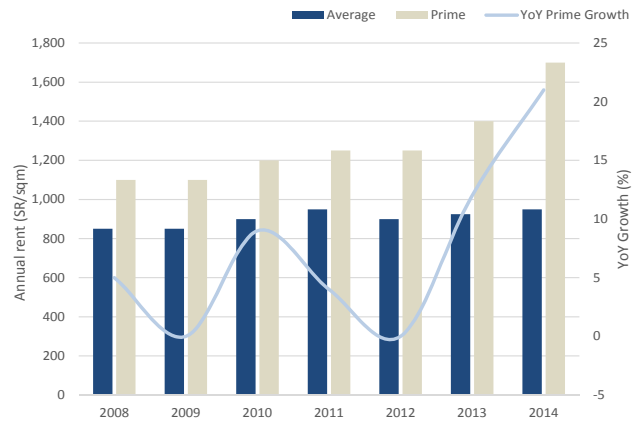
Vacancy rate



Source: Savills

GRAPH 12

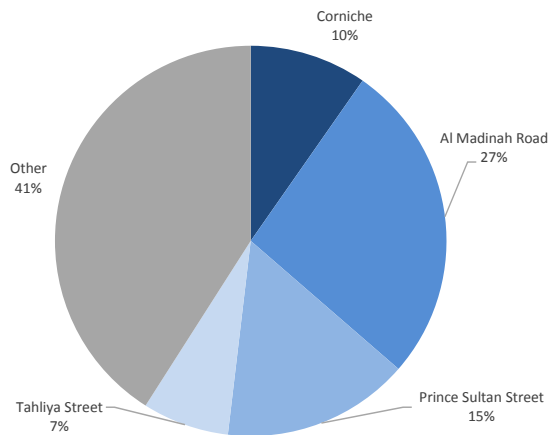
Rental levels



Source: Savills

GRAPH 13

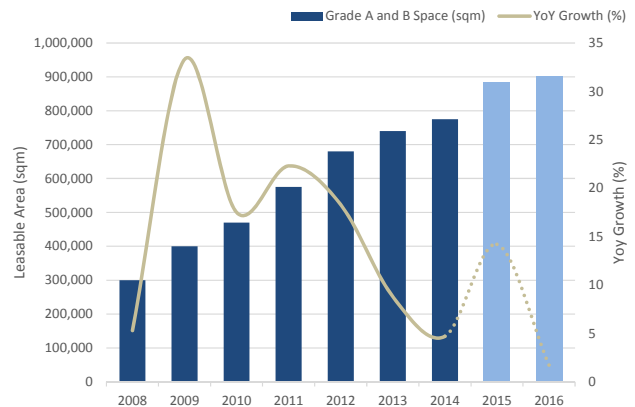
Stock by submarket



Source: Savills

GRAPH 14

Development pipeline



Source: Savills

Jeddah market in minutes

Recent growth in Grade A stock

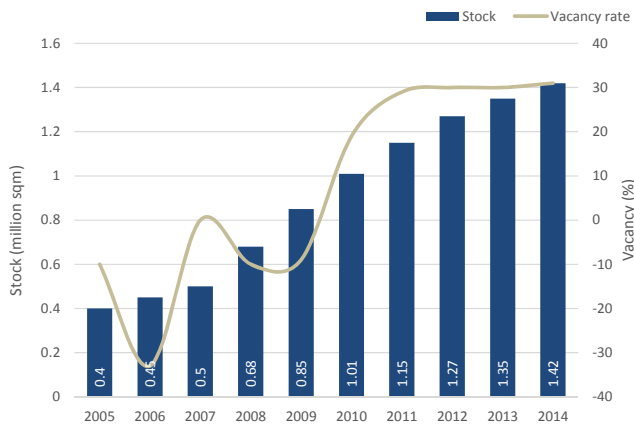
- Rental prices have stabilised over the last 12 months following a prolonged period of year on year decline. In 2014, rents of BD10 per square metre/month have been achieved for shell and core space in prime office buildings, together with average rates of BD6.500 per square metre/month across the city.
- The market continues to suffer from high levels of vacancy in Grade A and B stock, currently recorded at an average of 31%, although limited pipeline supply since 2010 has meant that this figure has not increased further since 2011/12.
- Problems with insufficient parking and traffic congestion in the city's central business districts continue to worsen. Office buildings with good parking ratios and access points are well positioned to charge a premium rental rate for office space.

Manama

H1 2015

GRAPH 15

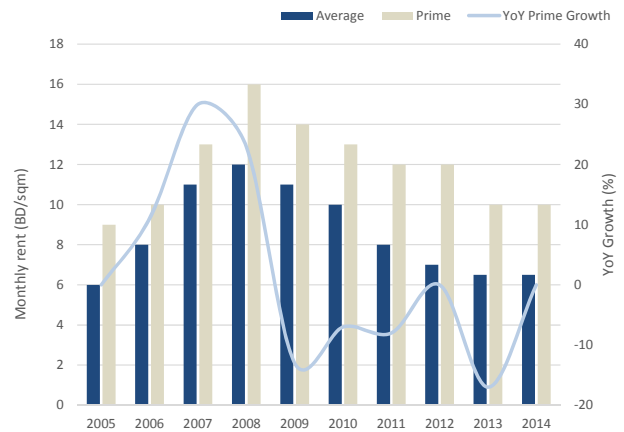
Vacancy rate



Source: Savills

GRAPH 16

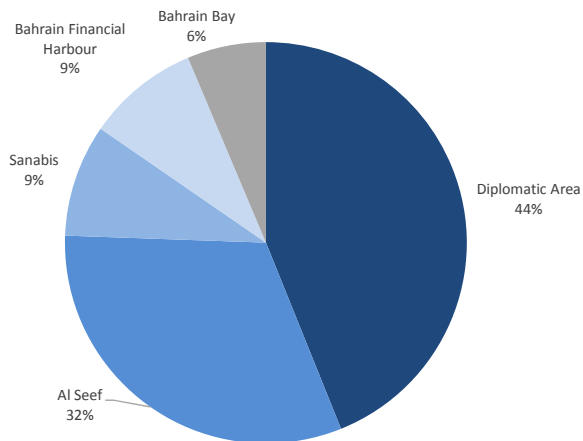
Rental levels



Source: Savills

GRAPH 17

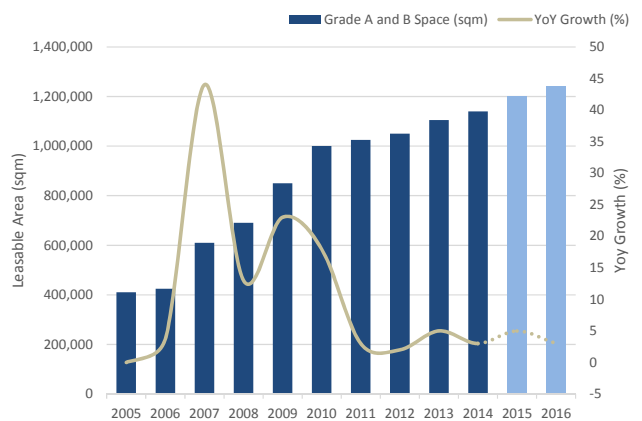
Stock by submarket



Source: Savills

GRAPH 18

Development pipeline



Source: Savills

Manama market in minutes

A stable platform for positive growth

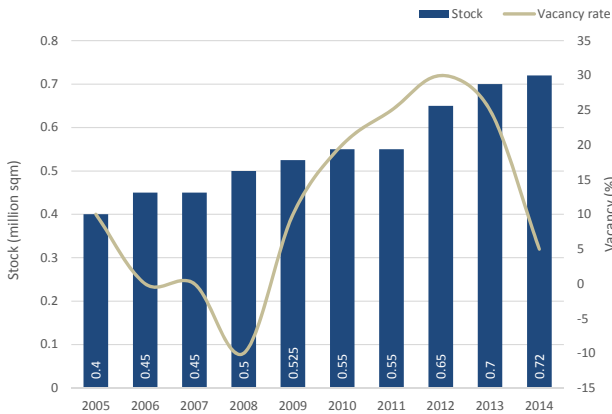
- Rental rates appear to have stabilised in 2014 following a prolonged period of decline. Rents of BD10 per square metre/month are being achieved for shell and core space in prime office buildings, similar to pre-crash levels of 2006.
- However, the prime office sector continues to suffer from high levels of vacancy in Grade A and B stock, currently recorded at approximately 31%, indicative of a significantly oversupplied market.
- As a consequence, the supply pipeline has slowed but as occupancy rises it is likely that there will be an increasing rental rate separation between prime buildings with good access and parking and those without.

Muscat

H1 2015

GRAPH 19

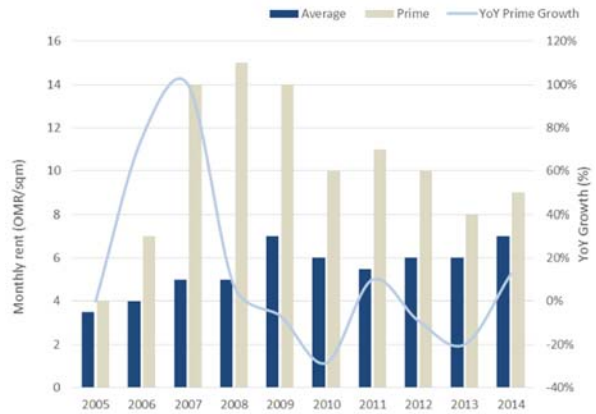
Vacancy rate



Source: Savills

GRAPH 20

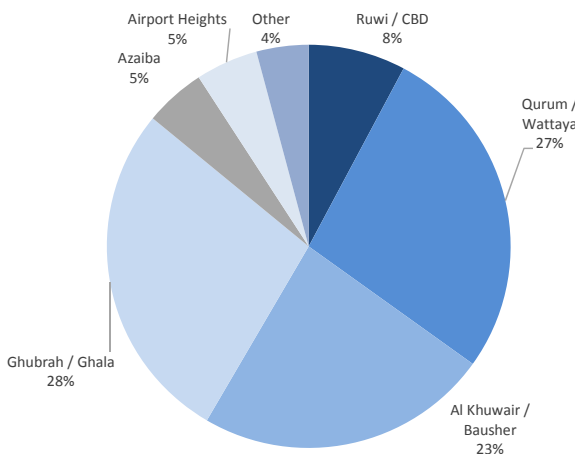
Rental levels



Source: Savills

GRAPH 21

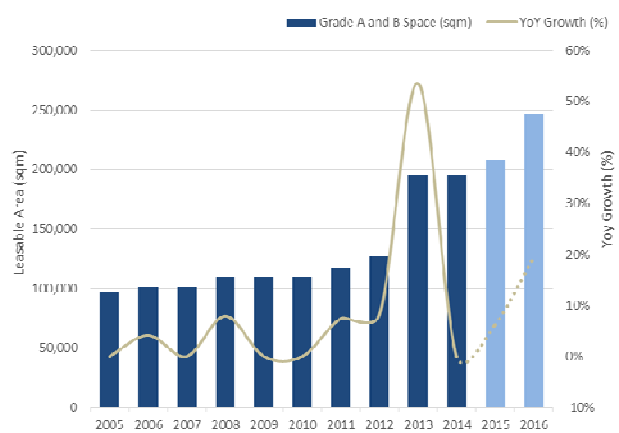
Tenant mix



Source: Savills

GRAPH 22

Development pipeline



Source: Savills

Muscat market in minutes

Rapid growth in demand for office space

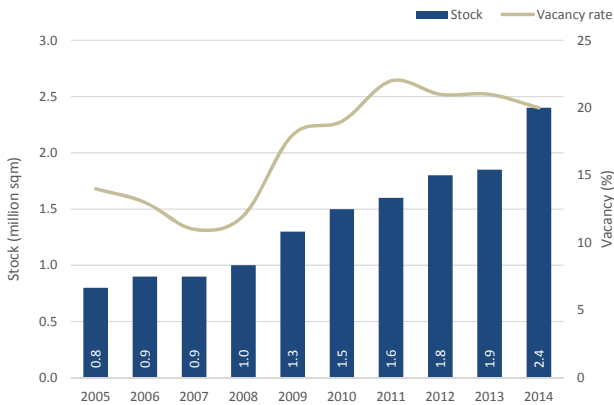
- In 2014, Muscat prime rents recovered slightly to OMR9 per square metre/month, an increase of 13% over 12 months following a marginal decline from 2011 to 2013.
- The medium term oversupply of office space which has been evident since 2010, has been rapidly absorbed in recent months following accelerated demand for accommodation. Vacancy rates have dropped from approximately 30% to 5% since 2012, indicative of a small market with limited ability to respond to market dynamics.
- However, with an additional 152,000 square metres of quality space currently in the pipeline, the potential for oversupply is once again predicted come 2017, if all new planned developments are completed and demand growth remains constant.

Riyadh

H1 2015

GRAPH 23

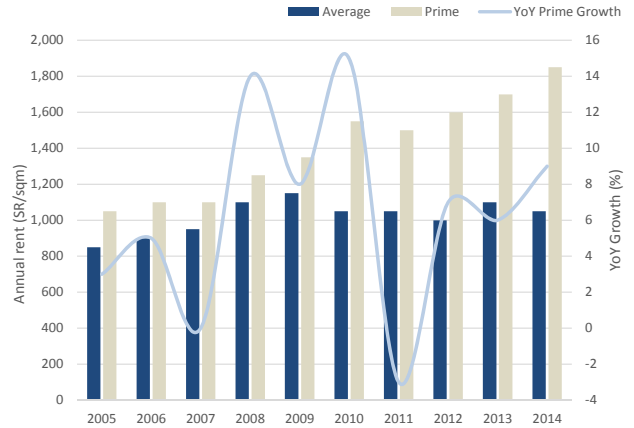
Vacancy rate



Source: Savills

GRAPH 24

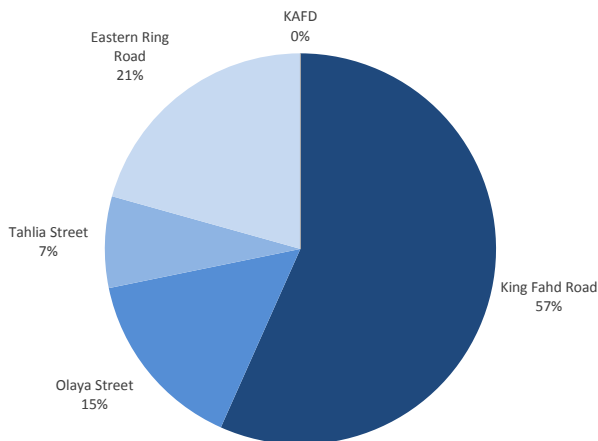
Rental levels



Source: Savills

GRAPH 25

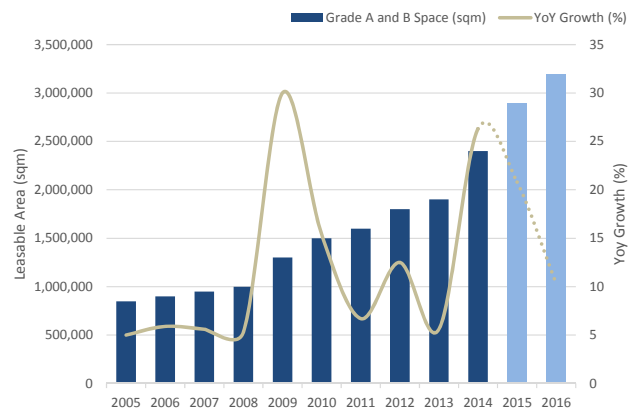
Tenant mix



Source: Savills

GRAPH 26

Development pipeline



Source: Savills

Riyadh market in minutes

Significant rise in asking prices in new builds

- In 2014, year on year growth in office stock supply is high at over 26% although, vacancy rates in the market have remained relatively constant at 20% for the same period. This indicates that recent demand for office space has been strong in Riyadh absorbing new product that has entered the market.
- Prime rental rates have peaked at SR1,850 per square metre/annum, a reflection of the improving quality of new supply and international tenants. Average rental rates have shown some decline as the high vacancy levels continue to exert downward pressure on the market.
- The impact of completions at King Abdullah Financial District and the Metro system will likely be reflected in 2015 data.

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Savills Middle East

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