



REPORT

SAVILLS RESEARCH 2023

Retail Market Overview

RIYADH

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Riyadh has witnessed significant growth in the tourism industry in recent years. The growing tourism industry in Riyadh is expected to drive up the demand for retail, especially those located near popular tourist destinations.

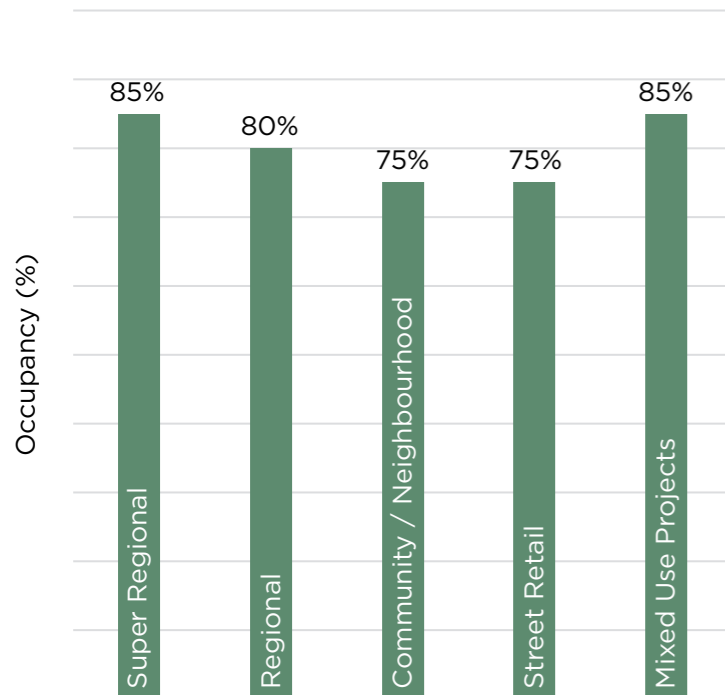
Global brands are no strangers to the GCC, with the likes of Kuwait, Riyadh, and Dubai establishing themselves as magnets for high-end names in recent years. Yet these markets have remained largely in the shadow of other top luxury markets like China.

With one of the largest young populations in the world, as well as relatively affluent millennial and Gen Z consumers in Saudi, the Riyadh retail market is likely to grow in the coming years, with developments such as Centria Mall and VIA Riyadh, hosting some of the most exclusive brands in the world. We have also seen brands like Chanel, Hermès, LV, Cartier and Tiffany working on local strategies to attract consumers through collaborations, dedicated collections, and immersive events in locations such as Al-Ula in Saudi Arabia.

As Riyadh continues to prioritise sustainability and outdoor activities, the demand for retail concepts that merge outdoor experiences with shopping is expected to grow. One trend that is gaining popularity in the city is outdoor retail villages, which provide a park-like setting for a mix of shops, restaurants, and entertainment venues. These retail concepts offer a unique and immersive shopping experience that also provides a platform for local businesses to showcase their products and services.

The trend towards flexible and dynamic rental models is particularly relevant in Riyadh, where the retail market is becoming increasingly competitive. With the rise of e-commerce and changing consumer behaviors, retailers are under pressure to adapt their business models to remain relevant and competitive. As a result, many retailers are seeking out shorter-term leases and more flexible rental agreements that allow them to quickly respond to changing market conditions and consumer preferences.

OCCUPANCY LEVELS



Note:

Super Regional Malls: cater to a larger catchment and may be frequented by tourists; typical GLA would be 120,000 sqm and above.

Regional Malls: attracts residents/visitors within 20 km to 30 km of the development; typical GLA would be in the range of 50,000 to 79,999 sqm

Community/Neighbourhood Malls: serves a local neighbourhood within 10 km radius; Typical GLA would be in the range of 20,000 to 49,999 sqm.

Street Retail: typically caters to the local micro-community, however could also be located in key tourist districts. Typical GLA would be less than 10,000 sqm.



Upcoming Retail Supply

A notable share of the existing supply can be considered low to mid-quality retail malls while a major chunk of future supply such as the Avenue Mall, Mall of Saudi, and Diriyah Square are superior quality developments and are expected to enter the market by 2025.

In terms of the existing retail supply, North Riyadh has a large number of commercial shopping centres that attract international brands as well as some basic street retail supporting residents in the area. A few of the prominent developments in the micro-market include the Riyadh Shopping Front, Masharef Hills Center, The Roof Mall, and Park Avenue.

Another important retail destination in Riyadh is Central Riyadh which includes developments such as Al Qasr Mall, Panorama Mall, The Plaza, Riyadh Avenue Mall, KAFD, Rubeen Plaza, Al Maather Square, and Localizer Mall. Additionally, the Kingdom Centre located in Al Olaya is 300,000 sqm with 99 floors and international brands. The first three floors are a shopping mall called Kingdom Centre Mall, with a large number of international brands and shops selling fancy clothes, shoes, watches, jewelry, perfumes, and accessories.

The majority of announced projects are scheduled to enter the market by 2025. Projects scheduled for 2026 and beyond are largely components of giga-projects including Diriyah Gate and King Salman Park. The listed projects are expected to contribute a total of 1,831,454 sqm GFA to the existing supply before 2030 in line with the Saudi Vision 2030. The vast majority of the anticipated new retail space is comprised of super-regional malls across six key projects.

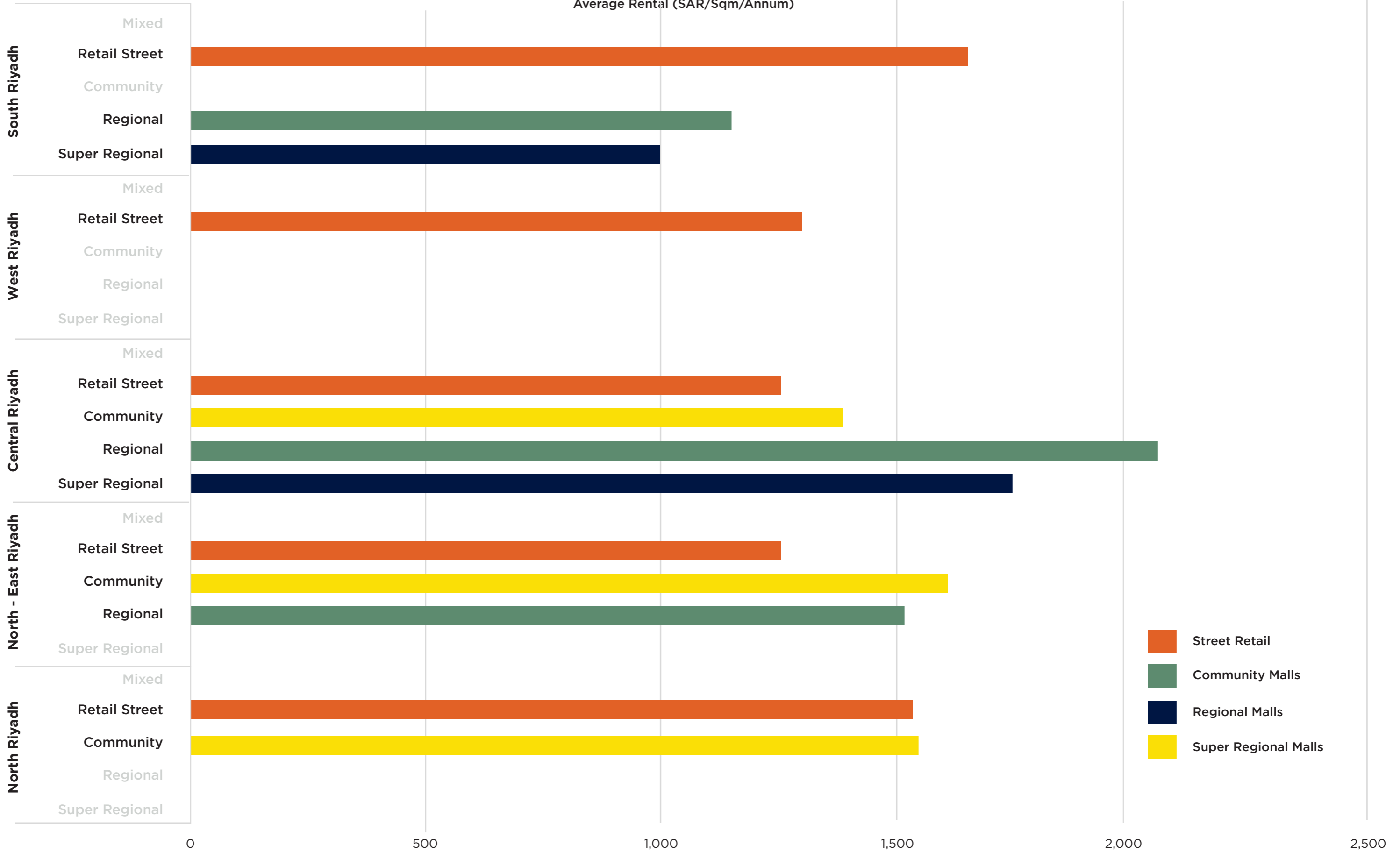
Current KSA regulations and tax structures provide global brands with a financial advantage over local operators resulting in local brands typically paying higher rental rates. However, local brands are now getting aid from the government, providing them with an opportunity to secure prime retail locations and compete against their larger-scale counterparts.

The new giga project, King Abdullah Financial District, has been successful in attracting international retail operators primarily due to its location and its alignment with global brand strategies. All these factors confirm that the retail industry in Riyadh is evolving with a growing appetite for international brands and local brands expanding their floor print.



Average Rental Rates

Average Rental (SAR/Sqm/Annum)



Lease Terms and Tenant Incentives

In the Riyadh retail market, lease terms vary based on the retailer type and specifications. However, there are some commonly used lease terms which apply mostly to retail space letting. Typical terms used in the Riyadh retail market include the following:

TERMS	TYPICAL CLAUSE EXAMPLE
Typical Lease Duration	3 - 5 Years
Rents Quoted in	SAR per SQM per Annum.
Renewal Terms	Lease to be renewed for a further period of 5 years with a revised annual rent, with all other terms & conditions remaining the same.
Frequency of Rental Payable	Annually in advance.
Upfront Payment	25 % of annual rent upon signing of the lease.
Activity & Product Type	Department stores, electronics stores, fast food, ready-made garments, electronic items, furniture, toys, household, items, gift items, shoes and accessories etc...
Handover Penalty	45 Days maximum extended period, resulting in refund and 10% additional penalty.
Rent Free Period	After handover, a total of 180 days of rent-free period.
Contract Renewal & Negotiation	Tenant to give Landlord a notice (6) months before the expiration of the current lease.
Incentives	Rent free vacation period of four months when completing three full lease terms.
Sub-letting	Tenant can sublease part of this lease to a third party under the approval of the Landlord, Tenant is responsible for applying all terms & conditions of this lease toward the First Party.

Retail rental agreements under the Turnover Rent (TOR) framework have become increasingly prevalent in the commercial real estate industry. Typically, retail rental agreements are to be based on either a fixed rate/sqm or through a TOR agreement.

Accordingly based on the Tenant positioning and development stage of the project, TOR may vary between 8-20%.

During the early years of operations and based on the importance of the Tenant as a key brand, an initial discount is applied to the agreement rates of 25-40% to attract potential key Tenants to the development.

As the project gains momentum within the market with increased occupancy and footfall, the discount levels are typically gradually dropped to 15-25% for the main/large-scale Tenants.

Additional Capex assistance is selectively offered to help attract targeted brands that are viewed as key to the overall success of the mall.

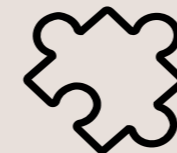
Although Tenants would not prefer paying a fixed TOR as it is considered a very high cost, mall owners would be willing to accept lower TOR rates provided Tenants have a high sales performance that would guarantee them the minimum return required.



SERVICE ANCHORS:
Supermarkets TOR ranges between 6 - 8%



LINE SHOPS:
TOR ranges between 12 - 15%



ENTERTAINMENT ANCHORS:
Cinemas TOR ranges between 6 - 8%



SMALL SHOPS:
For key brands only, TOR would be 15% minimum



OTHER ANCHORS:
TOR ranges between 8 - 11%



SMALLER BRANDS:
Minimum fixed rent on rates/sqm basis

Riyadh Standard Market Terms and Practices

Commercial Term	Standard Market Practice
Delivery Condition	<ul style="list-style-type: none"> Standard delivery of product is Shell & Core It is the Tenant's responsibility to undertake any modification/ or refurbishment inside its premises at his own cost (subject to Landlord's prior consent) The Landlord's responsibility is to repair common parts/ external/ structural, unless damage incurred by the Tenant where indemnity shall be required Where the space is offered in a fitted out /previously occupied condition, the Landlord will handover the space to the Tenant in as-is condition for the Tenant to fitout/refurbish the space at his own cost subject to the Landlord's prior consent
Lease Term (Duration)	<ul style="list-style-type: none"> Standard lease term 3-5 Hijri/or Gregorian Years. Few Landlords accept a yearly lease, In addition, they may have a 10% base rent increase for 4.5 years inward. Renewal options is subject to negotiations prior to lease expiry date Break options are not common but sometimes achievable for one-time at the end of year 3 for a 5 years lease
Payment terms	Annual in advance / or semi annual may be negotiable
Rent Free Period	<ul style="list-style-type: none"> Rent free is common for fitted out Retail shops for 2-3 months duration for 200-300 Sqm area. Rent free is typical offered outside of the Lease term

Market Rent	Prime Tier 1 developments in the high streets rents range between SAR 2,000 - 3,000/m ² /annum
Security Deposit	Security Deposit is 10%-15% of the Gross Annual Rent (refundable upon lease expiry) – In some developments, Landlords may not require a security deposit and may ask for bank guarantee instead
Retail Service Charges	Prime Tier 1 properties range between 15-20% Regional Grade Tier 2 properties within CBD range between 12-15% depending on the properties itself
Utility and Other Charges	Utility consumption is separately metered and payable by each Tenant directly to service provider
Additional Landlord Marketing Fee	As a common market practice, where the Landlord has an official marketing agent, the Tenant may be required to pay an additional fee (one-time payment) upon signing a lease agreement with the Landlord. Such fee is applicable in some buildings ranging between 2.5% - 10% of first years' rent
Other Comments	Ministry of Housing "MoH" recently implemented a new electronic unified lease called "Ejar", its aim is mainly to protect the best interest of both parties (Landlord and Tenant) by having a balanced structure of the T&Cs, in which you will notice the majority these T&Cs are fixed and cannot be altered (except for filling-in the blanks). In some cases, Landlords may accept to execute a separate printed addendum as an Annex to Ejar in order to include the terms that are not specified in the fixed Ejar lease. As of July 2020, VAT increased from 5% to 15%



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