REAL ESTATE MARKET REVIEW

Saudi Arabia Real Estate Market Review Q1 2025

Saudi Arabia's Economic Engine Drives Optimistic Real Estate Outlook

CBRE RESEARCH
MAY 2025

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▲ 2.7%
Notable expansion in real GDP in Q1 2025

▲ 2.0%
Inflation rate in February 2025, surpassing market expectation of 1.9%

▼ 7.0%
Saudi Arabia's unemployment Rate in Q4 2024, meeting the Vision 2030 target five years ahead of schedule

▲ 12.3%
An increase in hotel RevPAR YTD March 2025

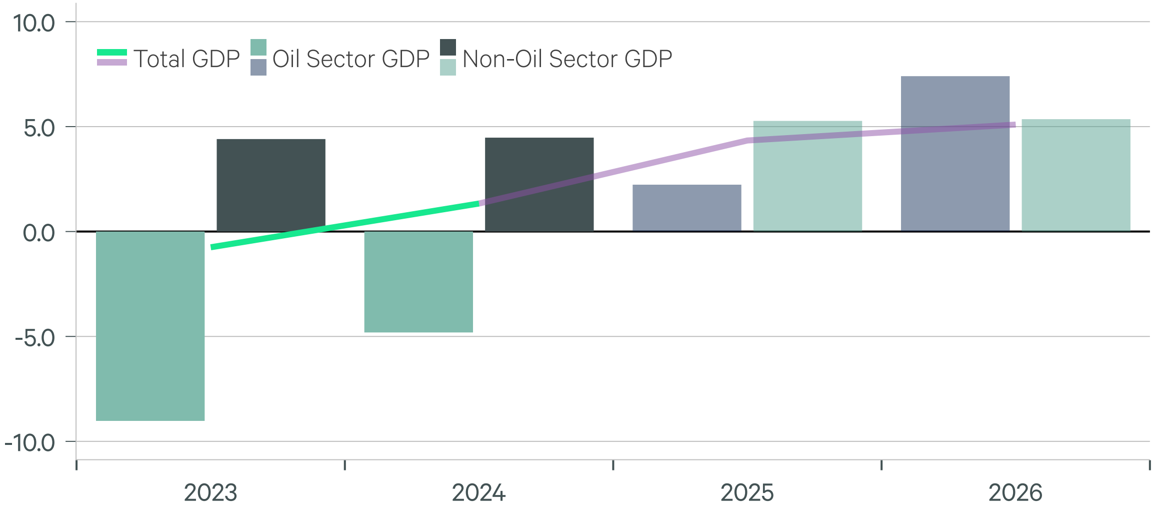
▲ 21%
Growth in average office rents in Riyadh in the year to Q1 2025

▼ 58.1
PMI reading in March 2025

MACROECONOMIC OVERVIEW

- Saudi Arabia's real GDP grew by 2.7% in Q1 2025, primarily fueled by a robust 4.2% expansion in non-oil activities, marking its 17th consecutive quarter of growth.
- While the non-oil sector thrived, oil-related activities saw a minor decrease of 1.4% in Q1 2025 due to ongoing OPEC+ production adjustments.
- In the first quarter of 2025, Saudi Arabia saw a 4.9% increase in government activities and a 1.0% rise in non-oil output on a seasonally adjusted quarterly basis.
- Projections indicate that the non-oil sector will continue to be the primary driver of Saudi Arabia's economic growth in 2025 and 2026, supporting an overall GDP increase of 4.3%. The oil sector is expected to rebound into growth in 2025 and see stronger expansion in 2026.

FIGURE 1: Saudi Arabia, Gross Domestic Product



Source: CBRE Research/ Oxford Economics

Real Estate Market

The Saudi Arabia real estate market has continued to demonstrate positive fundamentals through in Q1 2025, with real estate transaction volumes reaching US$29 billion. This positive momentum is primarily driven by strong demand from Riyadh's residential, office, and hospitality sectors. Furthermore, growth continued to be underpinned by proactive governmental initiatives, strong investor confidence, and ongoing developments within the crucial construction sector.

Government Initiatives in Riyadh: Unlocking Land and Addressing Price Pressures

A key focus within the Riyadh property market during Q1 2025 was the significant government intervention aimed at addressing price pressures and enhancing accessibility. The Real Estate General Authority (REGA) announced a study into potential rental caps as part of a comprehensive five-point plan spearheaded by the Crown Prince to rebalance the market.

This initiative is complemented by crucial supply-side measures, including the finalisation of the White Land Tax to stimulate housing development and the recent lifting of development restrictions on a substantial 81 million square metres of land in northern Riyadh. Furthermore, the Royal Commission for Riyadh City is actively working to release 10,000 to 40,000 affordable residential plots annually, underscoring a concerted effort to moderate price growth and improve accessibility for residents.

Construction Sector Dynamics Amidst Global Trade Landscape

The construction sector, a crucial component in realising Saudi Arabia's Vision 2030 projects, faces potential challenges from an increasingly complex global landscape, with ongoing trade tensions and US tariff wards, which presents a potential headwind from projected short-term cost increases to major construction raw materials.

Surging Investor Confidence Underpins Market Appeal

The Kingdom's strong economic fundamentals and the transformative reforms continue to bolster international investor confidence. This was clearly reflected in Q1 2025, with Saudi Arabia achieving a record 13th position in the Kearney's FDI Confidence Index, signifying its growing appeal as a global investment destination. This positive sentiment is further validated by a substantial 37% year-on-year increase in net Foreign Direct Investment (FDI) inflows during Q3 2024, reaching SAR16 billion, firmly establishing Saudi Arabia as a leading hub for global capital.

The positive investment landscape was further underlined by the increased bank lending and a growing influx of foreign investment into the broader real estate sector, particularly following the January 2025 approval for foreign investment in real estate companies operating within Makkah and Madinah.

Riyadh's Expanding Investment Landscape and Urban Development

Further underscoring the dynamic investment environment in the capital, Riyadh announced 20 new investment opportunities across diverse sectors in Q1 2025, encompassing commercial, residential, retail, industrial, and leisure developments of over 175,000 square metres. These projects are strategically aligned with Vision 2030, aiming to stimulate economic growth through increased private sector participation and enhanced urban facilities. Complementing this development push, Riyadh has significantly enhanced its urban environment through the inauguration of 87 new parks over the past three years, expanding green spaces and improving overall livability.

Ambitious Skyline Transformation with the Rise Tower

The scale of Riyadh's urban development ambitions under Vision 2030 reached new heights in Q1 2025 with the unveiling of the Rise Tower project. Designed by the globally renowned firm Foster + Partners for the North Pole development. The proposed 2-km skyscraper aims to claim the title of the world's tallest structure. Backed by a US$5 billion (SAR18.75 billion) investment, with the consultancy bidding process now underway, the Rise Tower is poised to become the iconic centerpiece of a new 306 square kilometer Central Business District. The North Pole is envisioned as a fully integrated smart city, alongside luxury hotels, entertainment venues, and advanced, renewable energy-powered infrastructure.

Offices

The office sector remains on an upward trajectory, demonstrating robust demand fueled by the Kingdom's Vision 2030 and ongoing economic diversification efforts, which is reinforcing Saudi Arabia's attractiveness as a key business hub.

This trend is exemplified by PepsiCo's recent opening of its new Middle East regional headquarters in Riyadh's King Abdullah Financial District (KAFD), specifically in Parcel 3.09. The 2,800 square metre facility includes a new R&D center, and is set to accommodate over 150 employees, serving as a central hub for regional operations.

Riyadh's office market in Q1 2025 experienced further sustained activity, with demand continuing to outstrip available supply, especially for premium Grade A properties. Amidst the current scarcity of space, rental rates have move up significantly with Prime and Grade A office rentals seeing substantial year-on-year growth of 17% and 25%, respectively, while the lack of quality accommodation has also led to a 19% year-on-year increase in Grade B rents as many businesses have sought alternatives spaces to lease.

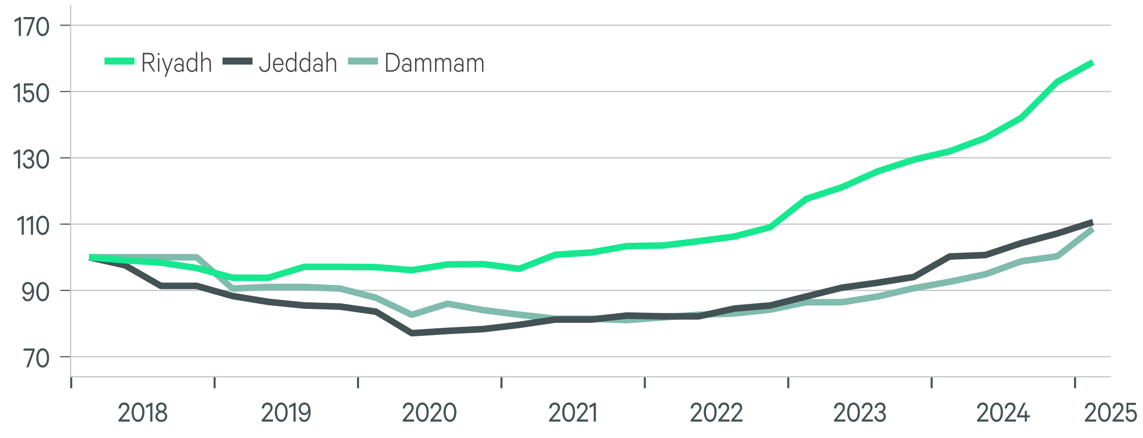
Consequently, Grade A office occupancy rates in Riyadh remain exceptionally high, nearing full capacity at approximately 98%, underscoring the competition for prime addresses. Grade B properties have also maintained a strong level.

Whilst the long-term office supply pipeline in Riyadh remains significant, largely due to future deliveries from the Kingdom's multiple mega-projects, in the near term (2025-2026), new office space will mainly emerge from private developers, playing a crucial role in stabilizing rental prices and providing a wider range of options for tenants.

Among the mega-projects, the first notable office completions are anticipated in late 2025 or early 2026 with the KSPR Headquarter Building at KSP. Meanwhile, Diriyah is also expected to witness the completion of several smaller commercial properties in the coming months, albeit the major quantum of space deliveries is still seen to be some way.

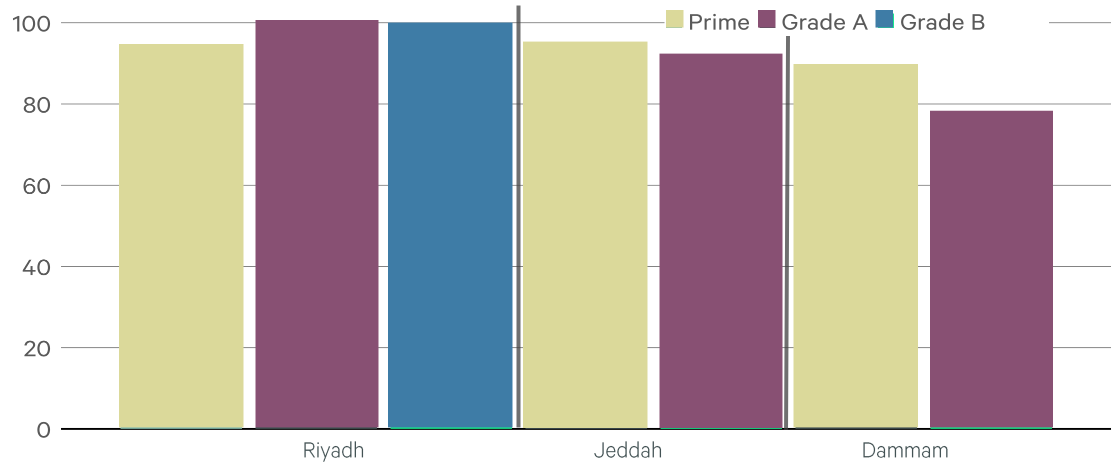
Jeddah's office real estate market also saw increased demand in Q1 2025, leading to rising Grade A office rents. However, this growth was less pronounced than in Riyadh. Jeddah's positive trend is supported by ongoing economic diversification and the cities strategic proximity to key industrial zones, which is supporting strong non-oil growth and company expansion across key business nodes.

FIGURE 2: Saudi Arabia, Office Rent Index (2018 = 100) – Q1 2025



Source: CBRE Research

FIGURE 3: Saudi Arabia, Office Occupancy (%), Q1 2025



Source: CBRE Research

Residential

The residential mortgage market saw strong growth through February 2025, with new loans to individuals increasing by 28.3% year-on-year to SAR8.91 billion ($2.37 billion). Apartment lending led the surge with a 46.5% jump, indicating a gradual shift in demand from stand alone houses, which still dominate financing (62.6% share). This momentum aligns with the Vision 2030 goal of achieving 70% homeownership for nationals, fueled by citizen and expat demand (72% aspiration rate, 93% for high-income Saudis).

Despite this, affordability remains a significant challenge for many, particularly in Riyadh, where prices have seen substantial increases over the past five years. However, authorities are actively addressing this through regulatory and urban planning reforms, such as unlocking land and price controls. The Kingdom is also taking steps to attract foreign investment in specific zones, and under certain conditions, alongside efforts to broaden homeownership opportunities by building for lower income groups. This dynamic is reflected in the overall performance of the market.

The General Authority for Statistics (GASTAT) reported a 4.3% year-on-year increase in the overall Real Estate Price Index (RPI) for Q1 2025, with the residential sector the primary driver of this growth, with prices increasing by 5.1% against the same period last year.

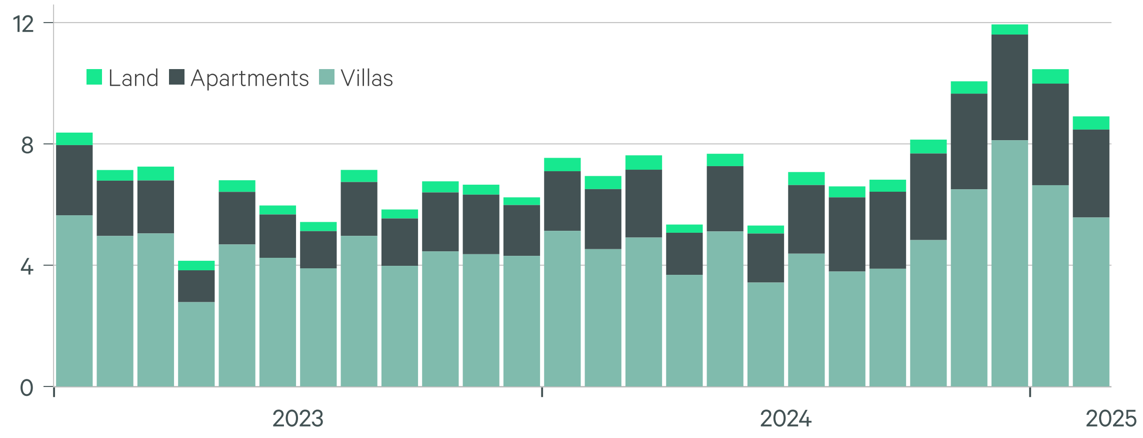
Within the residential sector, key trends included:

- **Land price appreciation**: Prices for residential land plots, which hold the largest weight in the RPI, rose by a 5.3% year-on-year, indicating continued demand for land development.
- **Strong villa demand**: Villa prices experienced the most significant growth, surging by 10.3%, reflecting robust demand for family housing.
- **Moderate apartment growth:** apartments and floor units saw modest increases of 1.2% and 2.8%, respectively.

On a quarterly basis, the residential sector also showed positive momentum, with the RPI increasing by 1.9% from Q4 2024 to Q1 2025, primarily driven by a 3.2% rise in residential land plot values. However, villa prices saw a slight quarterly decline of 1.4%.

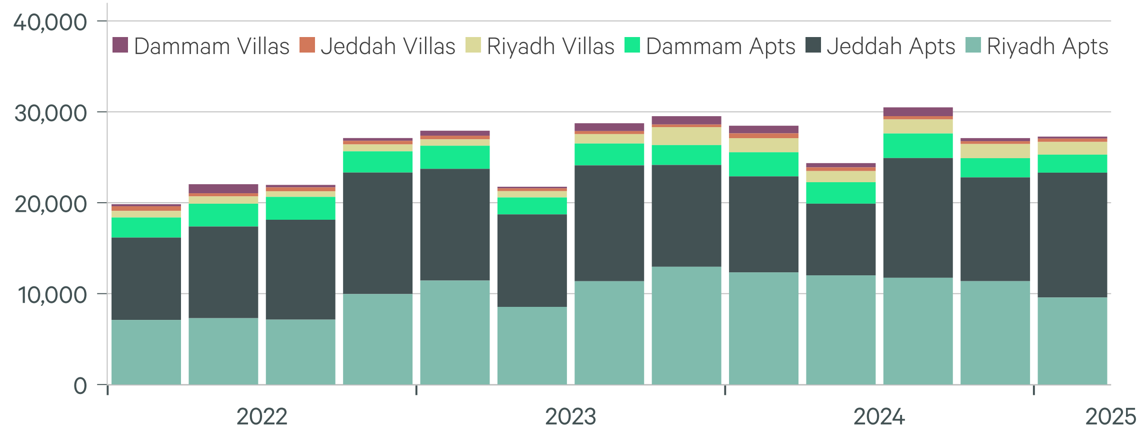
In terms of the regional dynamics, Riyadh led the way with a significant 10.7% annual increase in residential real estate prices, contributing substantially to growth in the national average.

FIGURE 4: Saudi Arabia, New Monthly Bank Mortgages (Saudi Banks) by Value (SAR billions)



Source: CBRE Research / Saudi Central Bank

FIGURE 5: Saudi Arabia, Quarterly Residential Transactions by Volume (Villas & Apartments) to Q1 2025



Source: CBRE Research / Real Estate Market & MoJ

Retail

Saudi Arabia's retail sector is experiencing robust growth, driven by strong underlying fundamentals. This is reflected in the POS data, with sales reaching nearly SAR 116 billion in the first two months of 2025, an increase of around 8% as compared to approximately SAR 108 billion for the same period in 2024. This expansion is fueled by population growth, rising inbound tourism, and evolving consumer preferences. The F&B market remains a key driver of overall sales, demonstrating year-on-year growth of around 4%, consistent with the growth rate observed in the year to February 2024.

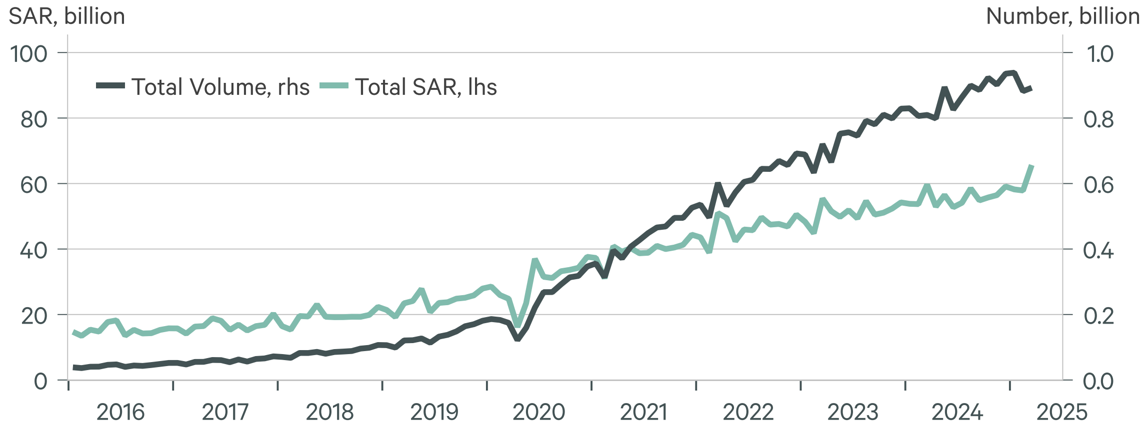
Saudi consumers are increasingly embracing digital shopping and seeking out experience-driven retail destinations, prompting traditional retail offerings to adapt. Consumer spending is projected to rise, fueled by a growing and young population. This is reflected in the growth of the gift card market, driven by increased adoption of digital payment solutions and e-commerce.

While the sector exhibits strong growth potential from a demographic and macro perspective, there are also potential risks and challenges emerging, including concerns about a potential oversupply of retail space in the longer term given the massive pipeline of new malls, particularly in secondary locations, which could exert downward pressure on rental rates. While the retail market expansion presents exciting opportunities for consumers and other stakeholders, we are likely to see a major transformation of market dynamics in the coming years.

Riyadh's retail landscape is set for a significant shift with development of key projects, including under construction destinations such as Jawharat Riyadh, which will offer around 120,000 sqm of gross leasable area and is slated for completion by early 2026, and the Avenue Mall, a substantial retail development with approximately 370,000 sqm of gross leasable area, expected to be completed during 2027.

These projects are poised to redefine the city's retail sector, enhancing its regional prominence and attracting both domestic and international attention. The introduction of these large-scale, modern retail spaces aligns with the ongoing evolution of Riyadh's retail environment, catering to the increasing demand for diverse and experiential shopping experiences. However, further out on the horizon, the city also has massive projects such as New Muraba, Diriyah Gate and Qiddiya, which will all bring huge new quantities of retail supply to the market.

FIGURE 6: Saudi Arabia, Retail POS (Total Value and Volume in billions)



Source: CBRE Research / Saudi Central Bank

Hospitality

The hospitality market continues to experience significant growth, particularly in terms of visitor numbers, as a key pillar of the country's long-term growth and diversification strategy, with ambitious goals to transform the Kingdom into a global tourism hub. This is being supported by substantial infrastructure investments and developments, including ongoing preparations for the nations many upcoming global events.

In 2024, Saudi Arabia's inbound tourism spending reached a record SAR153.61 billion ($40.95 billion), a 13.82% annual increase, pushing its travel balance surplus to a record SAR49.78 billion.

During this period, The Kingdom also welcomed 30 million international visitors, a 9.5% rise, with non-religious tourism now representing the majority. Accordingly, the tourism sector contributed SAR498 billion (12.45% of GDP) to the domestic economy, with growth fuelled by ongoing development of new hotels and serviced apartments.

Saudi Arabia is focused on significantly increasing its hotel capacity (over 426,000 rooms) to accommodate a growing influx of tourists, a push further boosted by upcoming events such as the World Expo 2030 and FIFA World Cup 2034. The Kingdom is also focusing on attracting high-end tourists with the development of luxury hotels and unique, high-value experiences, alongside growth in budget-friendly and business accommodations driven by domestic travel and increased business tourism, such as at the Red Sea and Al-Ula.

Unsurprisingly, many major international hotel chains are now aggressively expanding their presence in Saudi Arabia, as they look to build market share and position themselves to benefit from future growth of the economy and the tourism sector.

The industry is also increasingly adopting sustainable practices and integrating smart room technology and contactless services to enhance guest experiences. Leisure and business travel are key growth drivers, with private sector tourism investment reaching SAR14.2 billion (40% foreign), as the Kingdom aims for $80 billion in private tourism investment by 2030. This expansion is reflected in increasing tourism figures.

FIGURE 7: Key Tourism Indicators in the Kingdom, 2024 vs. 2030

30mn

International tourists in 2024 (Million)

70mn*

International tourists in 2030 (Million)

Source: CBRE Research/ Ministry of Tourism
*Projected figure

FIGURE 8: Saudi Arabia, Hospitality Market, Hotel KPIs, YoY% Change

Current Month- March 2025 vs March 2024				Year to Date - March 2025 vs March 2024		
Location	Occ Change	ADR % Change	RevPAR % Change	Occ Change	ADR % Change	RevPAR % Change
	Month Change March 2025 vs 2024			YTD Change March 2025 vs. 2024		
Saudi Arabia	3.7%	28.8%	33.5%	1.3%	10.8%	12.3%
Jeddah	-9.9%	-28.9%	-35.9%	1.5%	-11.2%	-9.9%
Riyadh	-31.0%	-21.2%	-45.6%	-9.5%	-8.2%	-17.0%

Source: CBRE Research / Co-Star

Industrial

Saudi Arabia's industrial market is experiencing strong growth, supported by an anticipated 11% year-on-year increase in aggregated net profit for petrochemical companies in 2025.

The industrial real estate sector is also gaining momentum due to rising non-oil exports and increased industrial output, boosting demand for logistics properties, particularly in Riyadh and the Eastern Province.

Consequently, industrial rents are climbing quickly with Riyadh experiencing a significant 14% year-on-year increase, reaching approximately SAR 206 per square metre annually, while Jeddah saw a more modest 1.8% rise to SAR 221 per square metre per annum.

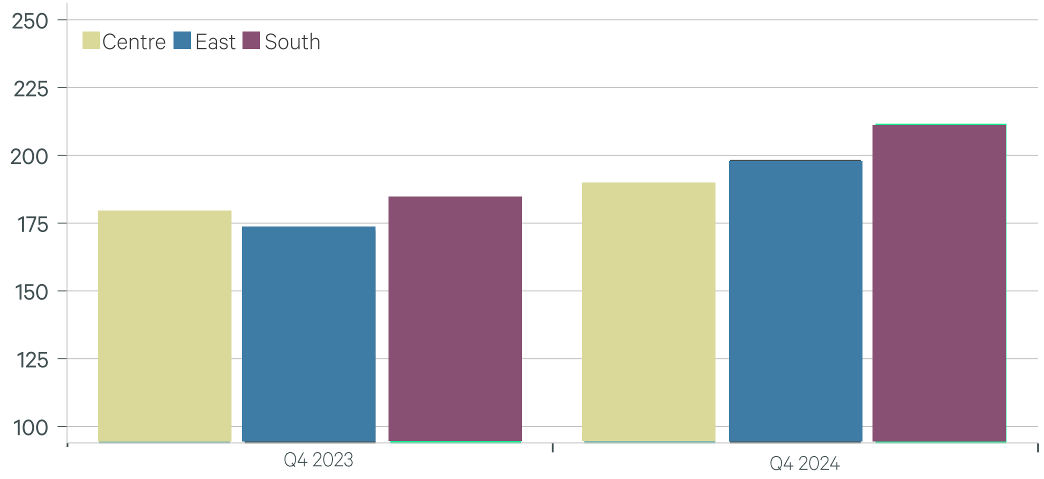
The government's National Industrial Strategy aims to significantly increase the number of factories and industrial GDP, fostering the development of new industrial cities and attracting foreign investment. This is evident in the issuance of 105 new industrial licenses in February 2025, following the launch of 103 new factories in January with investments totaling SR900 million.

Key projects aligned with the strategy include the $11 billion Aramco-Total Amiral Complex in Jubail, projected to produce 1.65 million tons of ethylene annually and create around 7,000 jobs, and NEOM's Octagon Hub, a 48 square kilometer automated port and logistics center powered by 100% clean energy, expected to generate around 460,000 jobs.

Saudi Arabia is also focusing on logistics expansion under the National Transport and Logistics Strategy and Vision 2030. SAL has committed SAR4 billion to establish a 1.5 million+ square meter logistics hub near Riyadh. MODON is actively developing industrial infrastructure through partnerships and initiatives, including contracts worth over SAR 1.75 billion signed in late 2024 for ready-built factories.

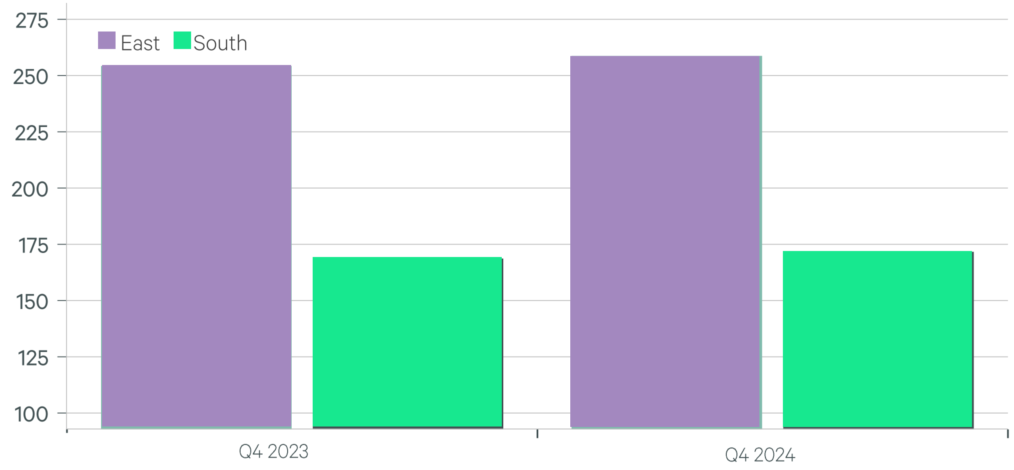
The broader construction market, encompassing the industrial sector, is projected to grow from SAR 218.58 billion in 2024 to approximately SAR 297.19 billion by the end of 2029.

FIGURE 9: Riyadh, Industrial Rents Q4 2023-Q4 2024, SAR per Square Metre/Annum



Source: CBRE Research

FIGURE 10: Jeddah, Industrial Rents Q4 2023-Q4 2024, SAR per Square Metre/Annum



Source: CBRE Research

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