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Building Construction and Interiors Market in the Kingdom of Saudi Arabia

March 2013

Table of Contents

Building Construction and Interiors Market in the Kingdom of Saudi Arabia March 2013	1
Building Construction Sector in the Kingdom of Saudi Arabia (KSA)	3
The KSA Economy and the Government Budget Spend	3
KSA Building Construction and Real Estate Overview	5
KSA Buildings Segment Overview	7
KSA Interiors and Fit-outs Market.....	13
Conclusion	15

List of Figures

Figure 1: KSA Buildings-Main Contractor Awards (US\$ Million), 2012-2014	6
Figure 2: KSA Building Projects Split by Stage of Construction, March 2013	7
Figure 3: KSA Building Contractor Awards across Key Segments (US\$ Million), 2012-2013.....	8
Figure 4: KSA Interiors and Fit-outs Spend (US\$ Million), 2012-2013	14

List of Tables

Table 1: KSA Main Macroeconomic Indicators, 2012	4
Table 2: Top KSA Building Projects Awarded to Contractors in 2012 (US\$ Million)	10

Building Construction Sector in the Kingdom of Saudi Arabia (KSA)

The KSA Economy and the Government Budget Spend

The Kingdom of Saudi Arabia (KSA) is one of the largest in the Gulf Cooperation Council (GCC) by area as also one of the largest suppliers of hydrocarbons in the world. Backed by vast oil surpluses, the Kingdom had embarked on an ambitious expansion and diversification programme since 2009 to invest its oil surpluses back into the economic growth and diversification of the Kingdom in order to reduce its reliance on its fast depleting non-renewable hydrocarbon resources, while also shielding the economy from the worst of the global economic slowdown. Consistently since 2011, Saudi Arabia has invested large amounts in its diversification and economic development while continuing to reap a huge surplus, contributed not only by its oil sector, but also its non-government owned, non-oil and construction sectors that have grown at 7.5 percent and 10 percent, respectively, in 2012. Overall Saudi GDP also grew by 6.8 percent in 2012, continuing to maintain pre-economic slowdown growth rates and presenting an attractive investment climate for both regional and international investors.

The following table lists the main macroeconomic indicators for Saudi Arabia for 2012.

Table 1: KSA Main Macroeconomic Indicators, 2012

Macroeconomic Indicators	2012
Surface Area (Square Kilometres)	21,49,690
GDP (US\$ Billion)	740.5
GDP Growth (%)	6%
Population	2,65,34,504
GDP per capita (US\$)	25,700
Inflation (%)	5.4%
Exchange Rate (per US\$)	3.75 Saudi Riyals
Labor Force	7.337 million
Budget Surplus/Deficit (% of GDP)	6.8%
GDP Shares By Sector	agriculture: 2.6% industry: 61.8% services: 35.7%
Construction GDP(% to total) *	4.40%

Source: CIA- The World Fact Book <https://www.cia.gov/> (Figures as on January 2013)

While the 2011 and 2012 budgets have made huge allocations for the development of social infrastructure such as affordable housing, healthcare and sanitation services and education, with the prime aim of empowering the domestic Saudi population and creating more jobs for the Saudis, with the dual benefit of shielding the economy from the global economic slowdown and preventing a spread of socio-political unrest such as the Arab Spring.

A budget of SAR 350 billion had been earmarked toward the construction and funding of affordable housing schemes across the Kingdom with the aim of providing at least 5.5 million homes to resolve the problem of acute shortage of affordable housing in the Kingdom by 2014. Infrastructure spending was placed at SAR 400 billion over the next few years, while education and healthcare have been receiving increasing attention in successive budgets with Saudi Arabia being declared the largest educational investor in the region in recent studies.

In the 2013 budget, the largest in the history of Saudi Arabia with a spending of US\$ 218 billion (SAR 820 billion), allocation of SAR 40 billion (US\$ 10 billion) has been further enhanced toward transportation and other infrastructure projects. Allocation for education and healthcare infrastructure and services was also hiked by nearly 21 percent and 16 percent, with nearly 25 percent and 12.2 percent shares in the budget, at SAR 204 billion (US\$ 55 billion) and SAR 100 billion (US\$ 27 billion), respectively.

New projects in 2013 include plans for the construction of 539 schools apart from the 1200 already under construction and renovation of another 2000 schools. Several technical colleges and institutions are also planned to be constructed. In the healthcare space, construction of new primary health centres, construction of 19 new hospitals apart from the 102 already under construction and a number of social and welfare centres constitute fresh projects on the pipeline.

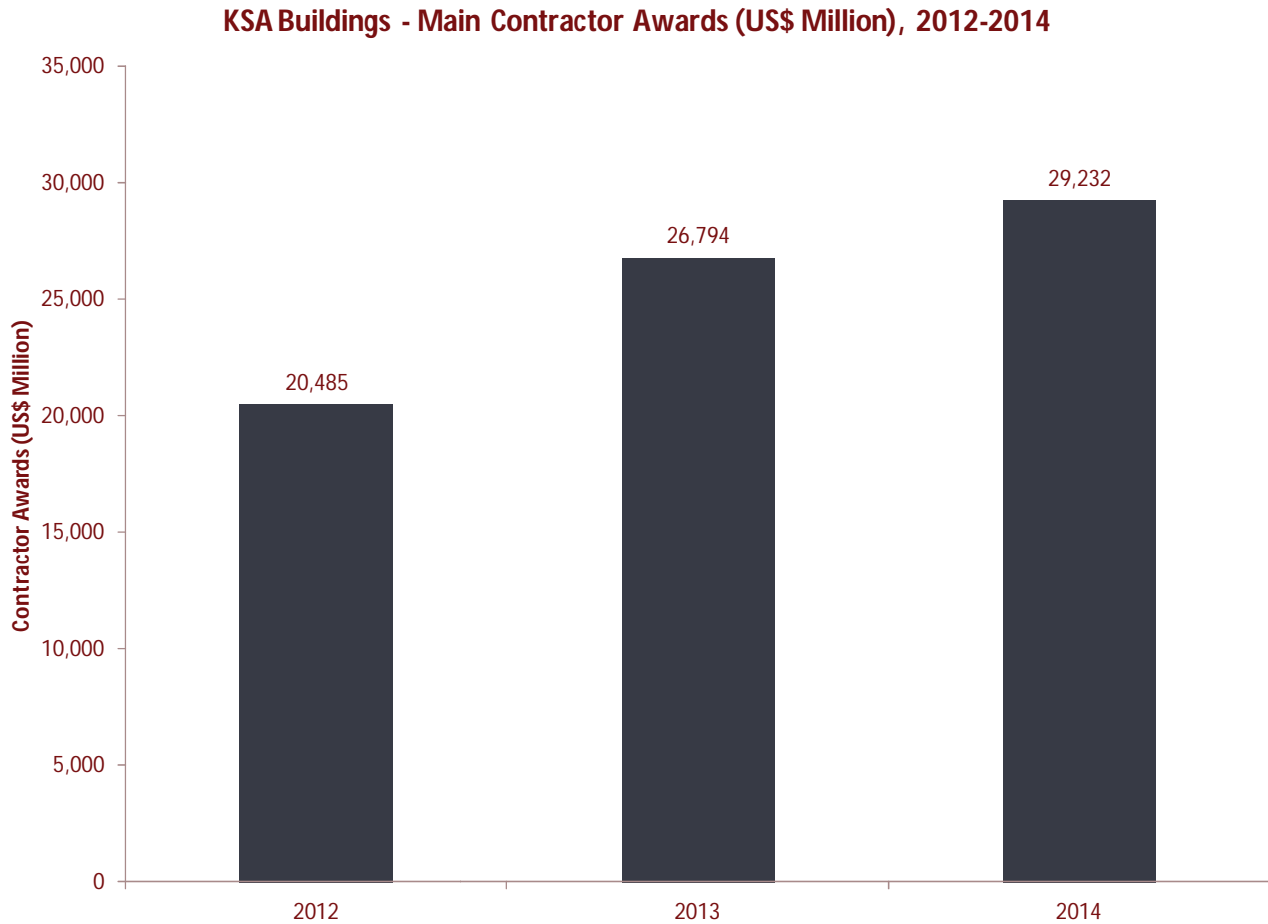
These present myriad opportunities for investors in the GCC building construction sector and more specifically for the interiors and fit outs market for new and refurbishment projects in 2013.

KSA Building Construction and Real Estate Overview

Kingdom of Saudi Arabia is one of the fastest growing real estate markets in the region with the boost provided by the large scale government spending on mega projects such as the six new “smart” economic cities planned at a cost of US\$ 110 billion to support facilities for 4.5 million people and the large scale social housing scheme that has put KSA on the global map as the largest residential sector in the region.

Building Projects are valued at over US\$ 674 billion across the Kingdom in various stages from planning to construction including projects on hold. The following figure presents the contractor awards for the Building construction sector between 2012 and 2014.

Figure 1: KSA Buildings-Main Contractor Awards (US\$ Million), 2012-2014



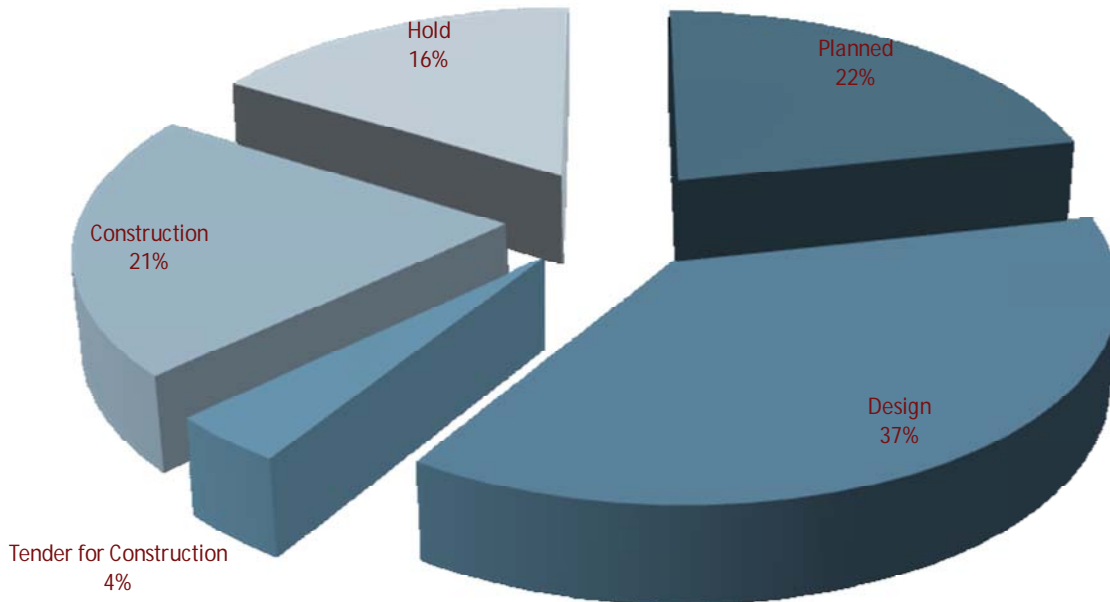
Source: Ventures Onsite MENA Projects Database www.venturesonsite.com

As successive budgets make heavy allocations toward the development of social infrastructure such as housing, healthcare facilities and housing, these are likely to prove the major drivers to the growth of the buildings sector between 2012 and 2014 as can be seen in the healthy increase in contracts awarded during the period in the above figure. As nearly 59 percent of the projects are at the planning or design stages, these are likely to translate into huge opportunities for the interiors contracting and fit outs by the end of the year or into 2014.

The following figure presents the shares of building projects in KSA during March 2013 by stage of construction.

Figure 2: KSA Building Projects Split by Stage of Construction, March 2013

KSA Buildings-Project Value by Status, 2013



Source: Ventures Onsite MENA Projects Database www.venturesonsite.com

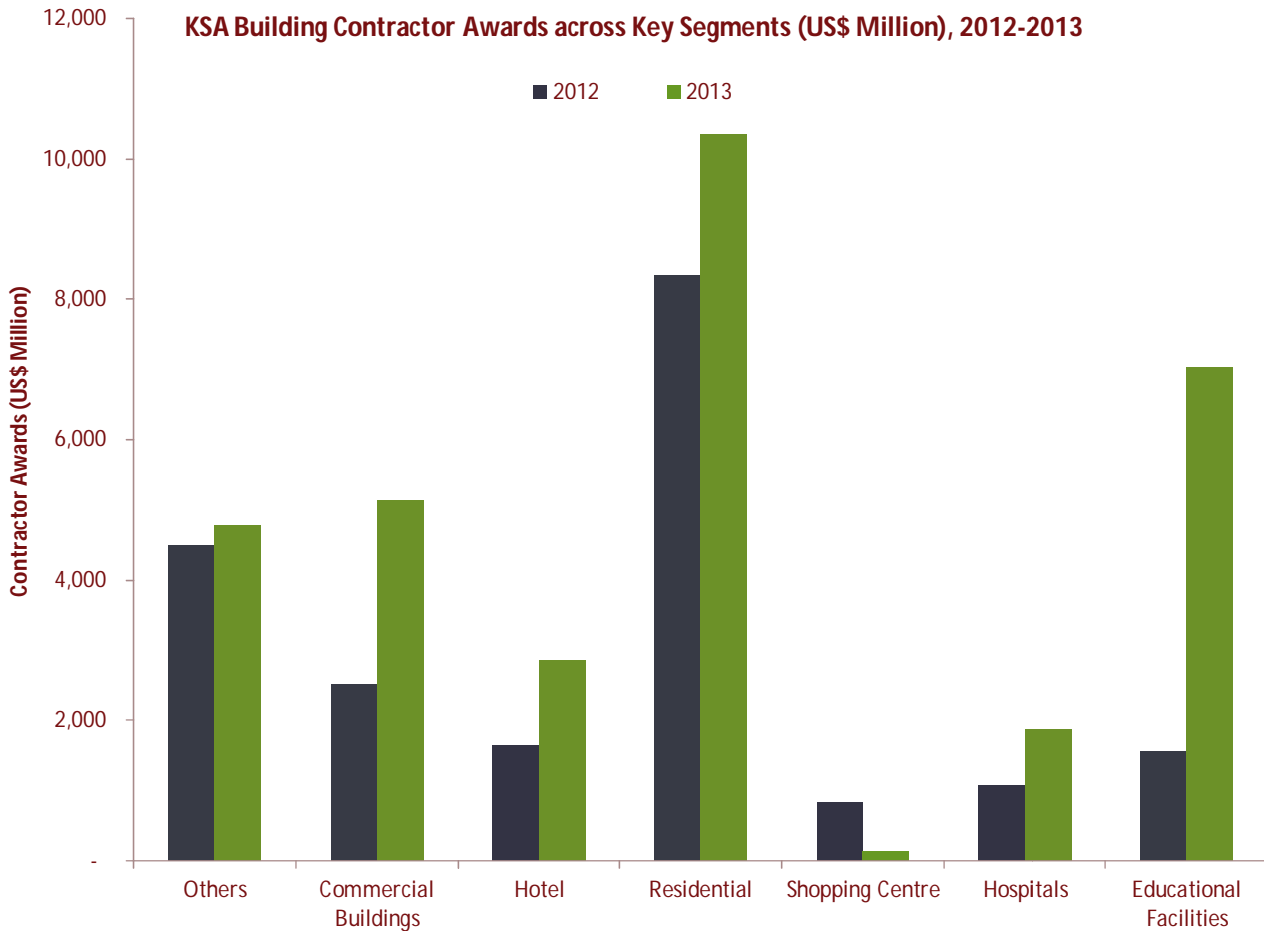
Projects across the building construction sector are progressing at rates faster than the entire region and Saudi Arabia has gained the distinction of having the best record for completion of projects in the region as well, with only 16 percent of projects on hold as of 2013.

KSA Buildings Segment Overview

The residential, educational, commercial, healthcare, hospitality and retail segments of the KSA buildings market offer varied prospects for investors as the large scale government matched by growing private investment have made Saudi Arabia a growing destinations for global and regional investors since 2011 unaffected by the poor global economic conditions and regional turmoil.

The following figure represents the contracts awarded across the key segments of the KSA buildings market in 2012 and 2013.

Figure 3: KSA Building Contractor Awards across Key Segments (US\$ Million), 2012-2013



Source: Ventures Onsite MENA Projects Database www.venturesonsite.com

Studies have shown that the Kingdom needs nearly 5.5 million homes by 2015 and the investment being poured into the residential segment both by the government at SAR 350 billion and private investors, is likely to feed this growing demand while posing vast opportunities.

Commercial and hospitality sectors have also received the indirect effects of the investment led growth though as greater supply comes on board, markets are performing slower than earlier years. In the commercial sector, for example, as supply of Grade A office spaces across the key markets such as Riyadh and Jeddah nearly double, and mega projects such as components of the King Abdullah Financial District (KAFFD) are brought into the market in 2013, an additional Gross Leasable Area (GLA) of 120,000 square metres having already entered the Riyadh market over 2012, growth is

likely to slow down to a slower pace as older and lower grade office space segments get adversely affected by the increased supply.

Similarly, the hospitality sector has witnessed an explosion of hotel construction with the increased interest by international hotel chains in the setting up of budget hotels to cater to the growing demand across the religious tourism locales of Mecca and Medina and the increasing importance of Saudi Arabia as a calm tourist hub amidst the regional and global turmoil. It has been estimated by analysts that over the next few years nearly US\$ 120 billion would be spent toward the construction of new hotels. In the last quarter of 2012, some of these new international hotels opened including the first Ibis hotel in Riyadh (of the Accor Group) as a part of its bigger plans to open a number of budget hotels by the group in the mid to long term across the Kingdom. Rotana also has similar plans in the budget segment wherein construction is already progressing as per plan. Reizdor has announced its plans to open nearly 50 hotels in the budget segment over the next ten years. All put together there are nearly 1200 hotel rooms awaited to come on board by 2015 of which 2700 will be in Riyadh alone. While additional supply has pushed down performance with ADRs declining and occupancies declining to 52 percent, the onset of the Haj season boarding arrival of tourists on a large scale to Mecca and Medina are likely to revive the hospitality sector growth rates and likely to present large opportunities for the interiors and fit outs sector.

The retail sector that is an attractive destination to medium to high end international brands owing to the largely affluent and urbanizing and fast growing population, has resulted in shopping malls operating at 100 percent occupancies and Saudi Arabia ranking fourteenth among AT Kearney's top global retail destinations for 2012. With an additional supply of GLA of 400,000 square metres to add to the existing supply of 1.1 million square metres by 2015, and projects in and around Riyadh including the mixed use developments such as the Kingdom Centre, the neighbourhood shopping malls to be managed under the "Oasis Centre" brand by the Dubai based Landmark group and the Jabal Omar Project touted to be the Kingdom's largest shopping mall are planned for development, strong demand is likely to continue to drive expansion over the next few years, though performance in 2013 is likely to remain subdued as the large number of existing projects invested in 2012 drive slower expansion plans in 2013.

The following is the list of top building projects across segments in KSA in which a contractor is appointed.

Table 2: Top KSA Building Projects Awarded to Contractors in 2012 (US\$ Million)

Project Name	Client	Consultant	Contractor	Value (US\$ Million)	Project Type
King Abdulaziz International Airport Expansion - Aircraft Hangar Facility	General Authority for Civil Aviation (GACA), Saudi Arabia	Dar Al Handasah Al Consultants (Shair and Partners)	Al Rajhi Construction (ARC) / TAV Construction, Turkey / Al Habtoor Leighton	800	Airport
Jabal Omar Development Phase 3	Jabal Omar Development Company	Abnia Design Consultants / Saudi Consolidated Engineering Company (Khatib & Alami)	Arabian Construction Company Sal (Acc) / Drake & Scull International	720	Hotel
Expansion of King Faisal Hospital & Research Center (KFSH & RC) - Jeddah	King Faisal Specialist Hospital & Research Centre (KFSH)	Saudi Diyar Saudi Consultants & Architects / RTKL, USA / RTKL / Dar Al Riyadh Consultants	Saudi Binladin Group	472	Hospital
Jizan Housing Project	Ministry of Defence and Aviation, Riyadh	Zuhair Fayed Partnership Consultants	Al-Joudah Contracting Company (Zahran)	442	Residential Development



Project Name	Client	Consultant	Contractor	Value (US\$ Million)	Project Type
Jabal Omar Development Phase 2	Jabal Omar - Development Company	-	Azmeel Contracting Establishment / Baytur Construction & Contracting	392	Mixed Use
Najran University - Staff Housing	Najran University	Al Mehwar Handasy Takweenat Consulting Engineering	Al Banwah Contracting Limited Co. / Abdullah Al Sayed Trading Group	324	Residential Development
King Fahd Medical Research Laboratory & Consultant Offices	King Fahd - Medical City	DAR Engineering	Al Habtoor Leighton / Al Latifia Trading & Contracting Co.	320	Hospital
King Fahd Medical City - Cardiac Center	Ministry of Health, Saudi Arabia	DAR Engineering / HKS Architects / RKD Architects / TPE Consulting Engineers	Al Latifia Trading & Contracting Co. / Al Habtoor Leighton	320	Hospital
Wahat Makkah - Phase 1	Albalad Alameen	Makkiyoon Urban Developers	Al Khayalah Arabia Group	280	Residential Development
King Abdullah Financial District (KAFD) - Phase 2 - Tadawul Tower	Rayadah Investment Company	Nikken Sekkei / Ramboll East	Samsung C & T Corporation / Contracting & Construction Enterprises (CCE)	266	Commercial Buildings



Project Name	Client	Consultant	Contractor	Value (US\$ Million)	Project Type
Al Rashid Hotel Tower - Al Khobar	Rashid Saad al-Rashid	Rashid Saad Al-Rashid Consulting	Al Rashid Trading & Contracting Co. (RTCC)	216	Hotel
500-Bed Specialized Hospital in Jizan	Ministry of Health, Saudi Arabia	-	Al Fouzan Company for Trading and Contracting	194.5	Hospital
Expansion of Riyadh Airport - Phase 1	King Khalid International Airport	-	Almabani General Contractors	178	Airport
King Faisal Medical City in Assir - Phase 1	Ministry of Health, Saudi Arabia	Zuhair Fayeze Partnership Consultants	Al Fouzan Trading & General Construction Company	170	Hospital
Al Rajhi Bank Headquarters	Al Rajhi Banking Investment Corporation	Buro Happold / Skidmore, Owings & Merrill (SOM)	Contracting & Construction Enterprises (CCE) / Samsung Engineering	166.7	Commercial Buildings

Source: Ventures Onsite MENA Projects Database www.venturesonsite.com

KSA Interiors and Fit-outs Market

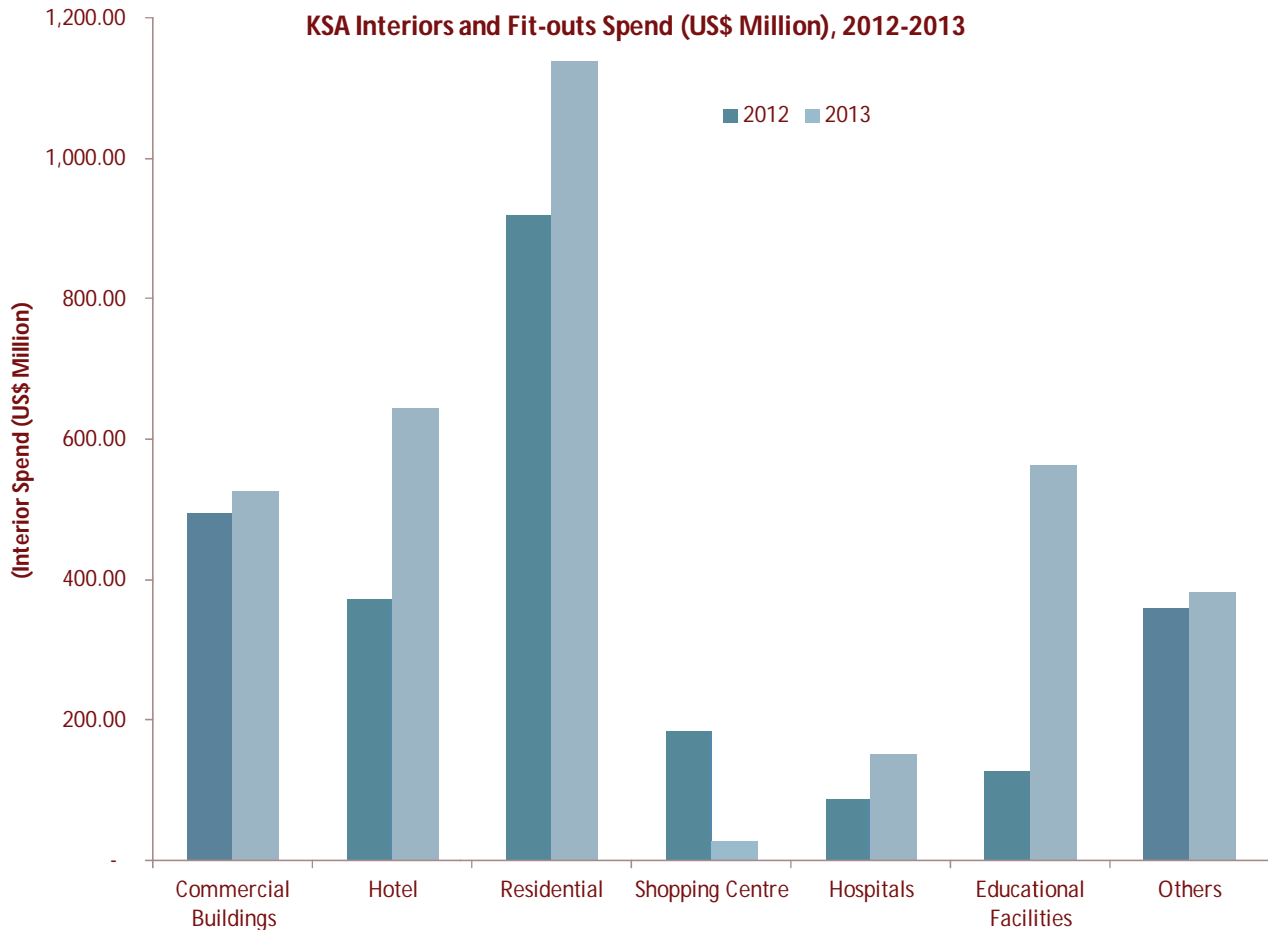
Driven by one of the fastest growing construction sectors in the GCC region, the Interiors and Fit outs market in the Kingdom of Saudi Arabia (KSA) encompassing internal wood works, soft and hard furnishings, lightings, partitions, flooring, kitchens, bathroom fittings etc constitutes approximately 10 to 20 percent of the average construction project value, performing much better than its European and Asian counterparts. The size of the market stood at US\$ 2.5 billion in 2012 likely to grow to US\$ 3.4 billion in 2013, at a whopping 35 percent annual growth.

With the Saudi economy's successive years of expansionary budgets since 2011 with increasing focus on affordable housing including plans for the construction of 1.5 million homes and financing for affordable housing projects helping boost projects in the residential segment, and investment in infrastructure including educational and healthcare facilities and plans to develop tourism that include a focus on budget hotels in and around the holy shrines of Mecca and Medina have resulted in a number of projects both in the government and private sectors to drive growth of building construction in 2012 and 2013.

As the budget expansion continues unabated in 2013 though with a smaller surplus, successive years of spending have also driven the non-oil sector to grow faster than the oil sector also contributing to the economic development of the Kingdom, further enhancing opportunities across the commercial, retail and hospitality segments as well, attracting international brands to invest in the Kingdom's booming construction sector.

Consequently, Saudi Arabia has proved to be one of the largest markets for building interiors and fit outs in the region providing opportunities across its commercial, residential, hospitality, education and healthcare sectors as well as the retail sector with fresh projects as well as refurbishments fuelling growth over the next few years. The following figure represents the Interiors and Fit out spend across the key building segments namely,

Figure 4: KSA Interiors and Fit-outs Spend (US\$ Million), 2012-2013



Source: Ventures Onsite MENA Projects Database www.venturesonsite.com

With a large fillip provided by the Saudi government in the residential and educational sectors toward the construction of 1.5 million affordable homes and financing for low budget housing schemes for Saudi nationals, including large urban developments such as the Prince Sultan Bin Abdulaziz Humanitarian City in Northern Riyadh and the Prince Salman Park in Banban, construction of new schools and refurbishment of existing schools around 2000 in total, are all likely to result in a booming residential and educational interiors and fit outs market in 2013 as projects of 2012 near completion and fresh projects are sanctioned setting a growing trend in these segments. Discussions are ongoing to bring about greater regulation to check rising rentals and prices in this segment by

cracking down on non licensed real estate offices are further enhancing demand in the residential segment, fuelling prospects for growth in the interiors and fit outs market in the future.

With the expansion of budget hotels as an emerging trend as witnessed by the declining Average Daily rates (ADRs) in 2012, in the KSA hospitality market and international hotel chains investing heavily in expansion into the Kingdom, while also shifting their focus to making existing accommodation more affordable to suit the growing demand in this segment, demand for refurbishment of existing hotel chains and fresh interiors and fit outs contracts for the new hotel chains are likely to concentrate growth in the hospitality segment as well. The growing significance of Saudi Arabia as a business and religious tourism hub has been fuelling this trend.

As tourism gains focus, the others segment comprising sports and recreational facilities etc., is also likely to undergo expansion posing equally large opportunities similar to the rest of the segments. The interiors and fit outs market is likely to grow vastly over 2012 with the exception of the retail segment which has already witnessed large scale expansions in 2012 causing a subdued growth in 2013 and further expansions lined up after a wait and watch trend in the markets to gauge the extent and direction of demand sets in, over 2013.

Large scale commercial developments such as the first phase of King Abdullah Financial District (KAFD) and the Information Technology Communications Complex (ITCC) coming on board in 2013, and additional 800,000 square meters of GLA are likely to be added to the KSA market posing greater prospects for the Interiors and Fit-outs market apart from Riyadh's additions of 120,000 square meters of office space in the past year and the planned expansions of Grade A office space across Riyadh and Jeddah to double the existing supply, greater opportunities are likely across this segment in the next few years.

Conclusion

The interiors and fit outs market in the Kingdom of Saudi Arabia growing at a staggering pace of around 35 percent year on year as of 2013, is likely to be the leading destination for investors including the largest in terms of the educational, commercial and residential segments in the region,

aided by the growing affluence of the economy and its population and its growing non-oil sector in 2013 and beyond. The residential and educational segments with large scale developments to enhance affordable facilities and shares of 32 percent and 22 percent, respectively of the interiors and fit-outs market in 2013, are likely to be the leading segments to drive the market on its high growth trajectory, followed by the spill-over to the commercial segment with a market share of 16 percent. Refurbishment is likely to flourish as well as quality and value for money constitute emerging trends that are being tapped afresh across KSA building markets with the exception of the retail sector where luxury, brands and opulence hold the key to expansion with interiors and fit outs on fresh projects remaining the primary trend therein.