



KSA Real Estate Report

H1 2024 Review and H2 2024 Outlook

August 2024

المركز
MARKAZ

Table of Contents

Executive Summary	3
Saudi Arabia: Macroeconomic Update	7
a. Economic activity set to recover with a 2024 real GDP forecast of 2.6%	7
b. Inflationary forces remain subdued	10
c. Credit growth trending upwards and expected to be at healthy levels	12
d. Interest rates are expected to stay higher for longer	14
e. Population growth remains healthy	15
Real Estate land prices have stabilized in recent years	16
Real Estate in Saudi Arabia – Major News/Laws	27
Markaz Real Estate Macro Index	31
Conclusion	35

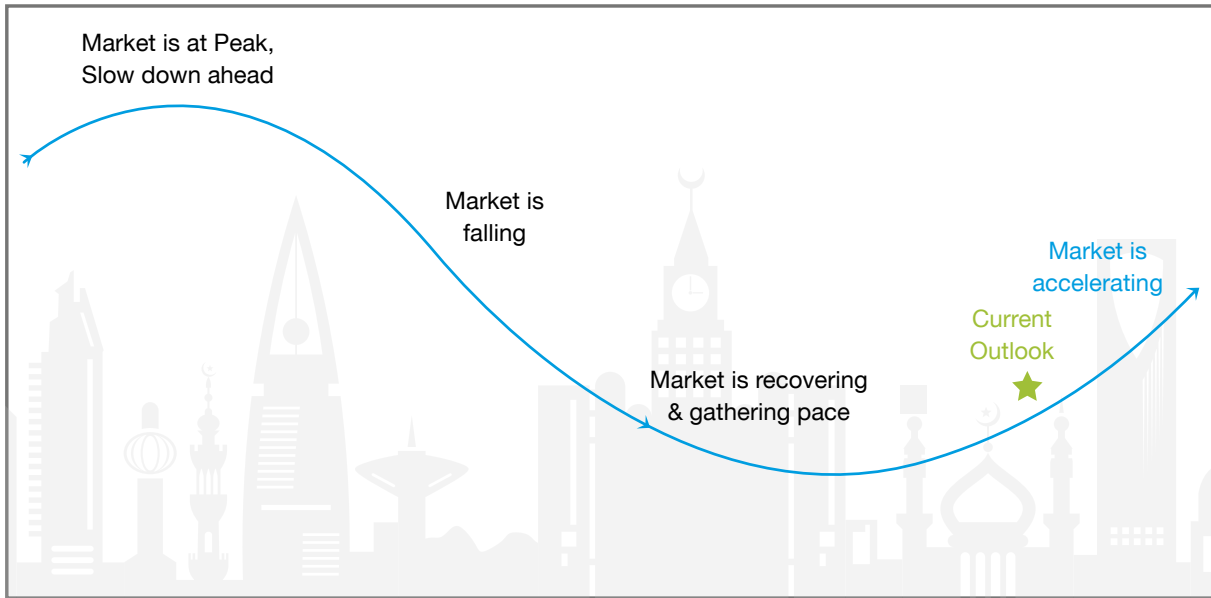
1. Executive Summary

- Saudi Arabia's economic growth momentum is expected to improve in 2024 after the sluggish growth in 2023, driven by positive performance from both oil and non-oil activities. Real GDP growth in 2024 is expected to improve to a forecast of 2.6% on y/y basis, from -0.8% y/y in 2023 estimated by the IMF. This uptrend is expected to continue in 2025 with an IMF forecast real GDP growth of 8.1%. While the quarterly GDP figures are indicating a downtrend, the performance is expected to improve in 2024 with a recovery in demand for oil from China, rate cuts by the U.S. Federal Reserve (FED), and a strong non-oil sector. The contribution of non-oil activities is expected to accelerate, supported by government spending and an uptick in project awards.
- Oil prices are expected to average at USD 87.8 per barrel in 2024 according to EIA, staying between the IMF forecast fiscal breakeven price for Saudi Arabia of USD 96.2 per barrel in 2024 and the IMF forecast external breakeven price for Saudi Arabia of USD 80.7 per barrel. OPEC+ member countries announced an extension of additional production cuts of 2.2 million barrels per day for the second quarter of 2024. As a part of this extension, Saudi Arabia announced the continuation of additional voluntary output cuts of 1 million barrels per day into 2024.
- Saudi Arabia's inflation was the second lowest in the GCC with a 2023 inflation rate of 0.4%. IMF estimates Saudi's inflation to average at 2.3% in 2024, slightly higher than UAE's estimated average of 2.1% but much lower than Kuwait and Qatar which are expected to have a 2024 average inflation of 3.3% and 2.6%, respectively. The April CPI data indicated an annual inflation rate of 1.6% driven by an 8.7% increase in prices for housing, water, electricity, gas, and other fuels.
- Saudi Arabia's fiscal position is expected to be stable in 2024. The reduced oil production resulting from voluntary production cuts and higher expenditure from continuing investments are likely to result in a deficit despite high oil prices. However, the capital expenditures are likely to help in the development of the non-oil sector in the long run. The consistent and strong PMI since 2020 indicates the impact of the investments from the government on the economy.
- The real estate price index, published by General Authority for Statistics (GASTAT), rose by 0.6% y/y in Q1 2024, mainly driven by a 1.2% y/y increase in residential

land prices. April CPI data indicated that actual housing rents increased by 10.4% in April 2024, driven by an increase in villa rents of 9.4%.

- The number of sales transactions increased y/y in Q1 2024 in the residential sector in Riyadh, Jeddah and the Dammam by 77%, 93% and 28%, respectively. Similarly, the office sector is performing strongly, with increases in rents across Grade A and Grade B categories in Riyadh, Jeddah and the Dammam Metropolitan Area (DMA). The uptick in rent can in part be attributed to the regional headquarters' (RHQ) initiative as part of Vision 2030, which was effective from January 1, 2024. The hospitality sector also exhibited strong performance, with a y/y average daily rate (ADR) growth of 26.8% in Q1 2024 in Riyadh, 3.2% in Jeddah, -2.7% in the DMA, 9.1% in Makkah and 20.5% in Madinah. Key drivers for the positive performance of the hospitality sector include increases in business travel, Hajj and Umrah pilgrims, international events as well as cultural and entertainment offerings.
- Reports cited a scaling back of the Neom's Line projects, reducing it from a 170 km stretch that was initially planned to 2.4 km. The Line was expected to house about 1.5 million residents by 2030 but is now expected to house only 0.3 million. The plan for a USD 1.5 bn desalination plant, a part of Neom's Oxagon, was cancelled stating a change in requirements and the adoption of an incremental approach to capacity expansion. However, the Minister of Economy and Planning of Saudi Arabia, Faisal Al Ibrahim, stated that all projects are moving ahead according to plan and that decisions were being made for optimal economic impact. Additionally, progress in other initiatives that form part of Saudi Arabia's Vision 2030 also reflects the growing demand in different real estate sectors.
- The Saudi Arabian real estate market remains in a favourable position with stable growth in non-oil activities, strong performance of the hospitality sector, and increased government spending on infrastructure projects. Higher-for-longer interest rates pose some headwinds in 2024.
- Based on our assessment of various macroeconomic factors, we believe that the real estate sector in Saudi Arabia remains in the accelerating phase in H1 2024 and will continue to accelerate in H2 2024.






Saudi Arabia Real Estate Market Outlook



Source: Marmore Research

Saudi Arabia Macroeconomic Views

Economic Factors	Our take	Our View
 Oil (Real) GDP Growth	Moderate	Owing to several voluntary production cuts, the fall in oil prices has been contained despite weakness in demand due to a global economic slowdown. However, this is expected to affect the oil output of Saudi Arabia, which would in turn slow down the growth of the oil sector.
 Non-Oil (Real) GDP Growth	Moderate	Non-oil sector is expected to continue its growth path in 2024 supported by government spending and favorable regulations.
 Fiscal Position	Neutral	Saudi Arabia’s fiscal position is expected to be stable in 2024 despite higher fiscal spending and lower oil output, supported by stable oil price levels.

	Investments	Moderate	Saudi Arabia is expected to continue spending on economic diversification projects in line with the Vision 2030. MEED data indicates that the total value of contracts awarded in Saudi Arabia from January 2024 to April 2024 amounted to USD 24,455 million, an increase of 9.1% from the same period in 2023 which amounted to USD 22,409 million.
	Broad Money Growth	Moderate	Demand for credit from the private sector has slowed down since 2022 owing to increasing interest rates. However, credit demand in 2024 is expected to be at healthier levels with moderate inflation, declining unemployment levels as well as improved liquidity in the markets from rate cuts expected in the latter part of H2 2024.
	Inflation	Moderate	Saudi Arabia's inflation was the second lowest in the GCC with a 2023 inflation rate of 0.4%. Inflationary pressure has eased in 2023 supported by lower food and transportation prices. Inflationary pressures are expected to be limited in 2024 with an IMF estimated average inflation of 2.3% in 2024. Housing prices are the main driver for Saudi's inflation in early 2024, indicating a revival in the property market.
	Population Growth	Neutral	Population growth is expected to be stable in Saudi Arabia supported by government initiatives including easing of worker's contractual restrictions and introduction of new VISA regulations for expats, in an attempt to attract more talent for its economic diversification drive.
	Job creation	Neutral	Job creation in Saudi is expected to be stable in 2024 with a higher labor force participation expected out of the broader government initiatives such as the implementation of major infrastructure projects and the creation of new business opportunities.



Interest rates

Neutral

With FED rates projected to remain at the same level for the rest of H1 2024, and early part of H2 2024, it could act as a downside for home purchases with an increase in mortgage rates. However, the Saudi Central Bank is expected to follow the FED and cut rates in the latter part of H2 2024.

2. Saudi Arabia: Macroeconomic Update

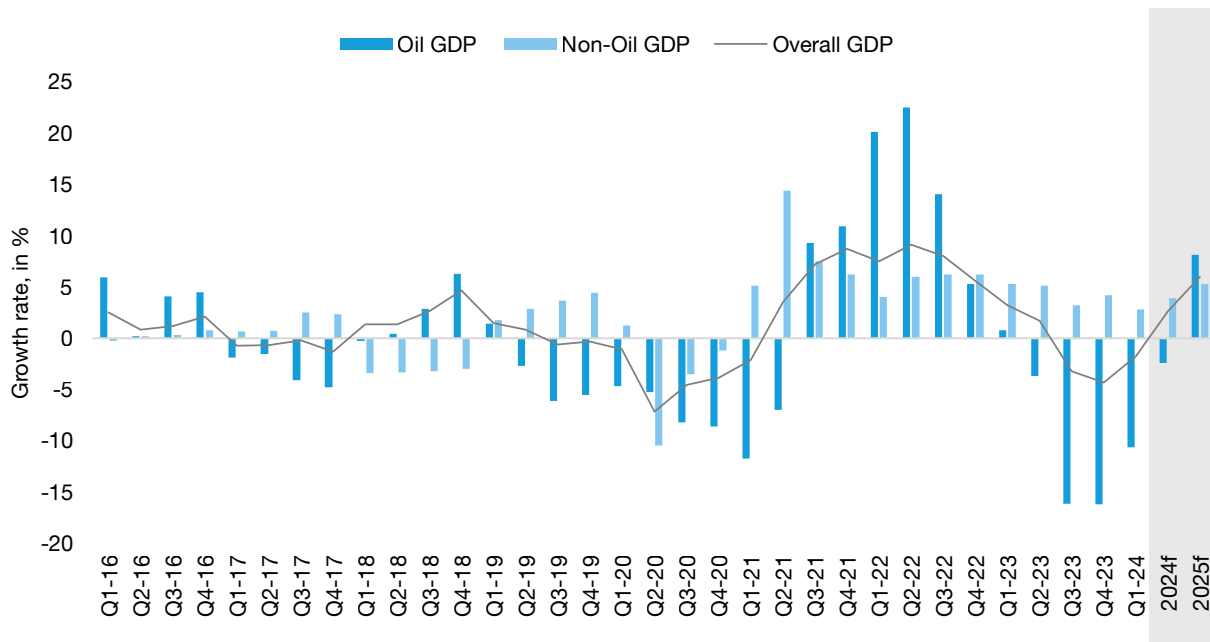
a. Economic activity set to recover with a 2024 real GDP forecast of 2.6%

Real GDP growth in 2024 is expected to improve to a forecast of 2.6% on y/y basis, from -0.8% y/y in 2023, estimated by the IMF. This uptrend is expected to continue in 2025 with an IMF forecast real GDP growth of 8.1%. Saudi Arabia's economy declined by 1.8% year-over-year (y/y) in the first quarter (Q1) of 2024, according to estimates from General Authority for Statistics (GASTAT). The decline is expected to have been mainly driven by oil activities, with an estimated decline of 10.6% y/y for oil GDP. The projected decline is primarily driven by the voluntary production cuts coupled with the country's decision to decrease reliance on hydrocarbon activity. This contrasts with a relatively flat performance of the oil economy in Q1 2023 (0.8% y/y oil GDP growth). However, the IMF projects a decline in the GDP from oil activities in 2024 of 2.4%, compared to a decline of 9% in 2023, with cooling inflation leading to recovery in global demand.

The estimated Q1 2024 non-oil GDP growth is 2.8%, which is lower than the realized growth in the last four quarters (5.3% in Q1 2023, 5.1% in Q2 2023, 3.2% in Q3 2023, and 4.2% in Q4 2023), indicating a slowdown. However, the International Monetary Fund (IMF) forecasts that the non-oil GDP will continue its growth from a 3.8% y/y growth in 2023, to a y/y growth of 3.9% in 2024 and 5.3% in 2025. The country's community, social, and personal services and transport, storage, and communication sectors have been the major driving force behind the non-oil GDP growth in 2023 and are expected to continue their strong performance. Social services, including healthcare, education, and entertainment, grew 10.8% in 2023, transportation and communication increased 3.7% in 2023 and trade, restaurants, and hotels which grew by 7% in 2023. The country's Vision 2030 agenda aims to diversify its economy and reduce dependence on oil by investing heavily in the non-oil sector, including the development of tourism, hospitality, aviation, logistics,

advanced manufacturing, and technology industries. These efforts are expected to fuel economic growth, job creation, and attract private investment. The non-oil GDP growth rate is also expected to continue to outpace its potential due to strong consumption spending and accelerated project implementation driving demand.

Saudi Arabia Oil, Non-Oil, and Overall Real GDP Growth (y/y %)

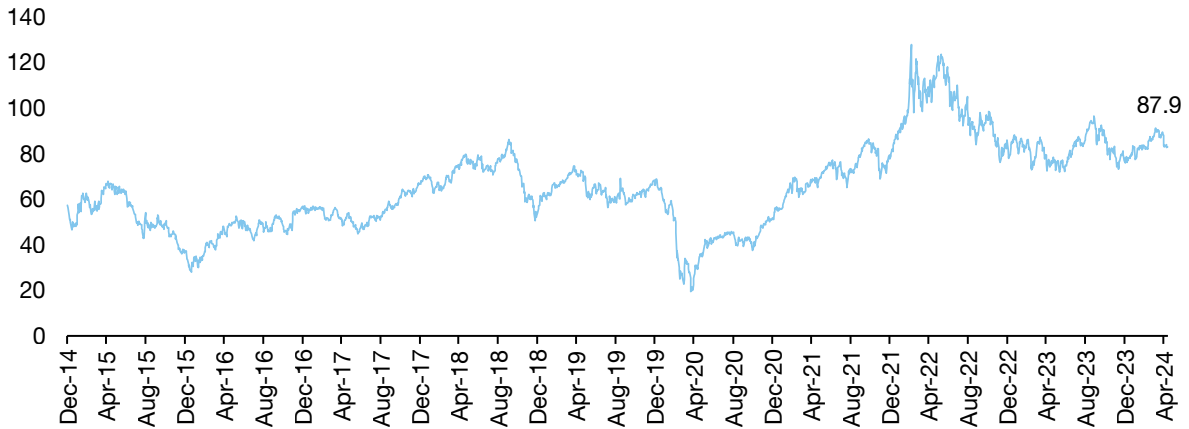


Source: General Authority for Statistics; Full year 2024 and 2025 forecasts are from IMF

Oil prices grew in Q1 2024 due to broader economic growth, falling global oil inventories coupled with the oil market’s expectation that OPEC+ production cuts will continue throughout the year. This resulted in oil prices of USD 87.86 per barrel at the end of April 2024. In June 2023, Saudi Arabia and OPEC+ member countries announced production cuts of 3.66 million barrels per day until the end of 2024. Saudi Arabia along with OPEC+ member countries announced an extension of additional production cuts of 2.2 million barrels per day for the second quarter of 2024, preventing a great fall in oil prices. Saudi Arabia has also announced the continuation of 1 million barrels per day additional voluntary output cuts into Q2 2024. However, the strong supply of oil from non-OPEC countries is combating the production cuts from OPEC. Notably, U.S. crude oil production is estimated to grow from about 12.9 million barrels a day in 2023 to 13.2 million barrels a day in 2024 and 13.7 million barrels a day in 2025.¹

¹Source: U.S. Energy Information Administration

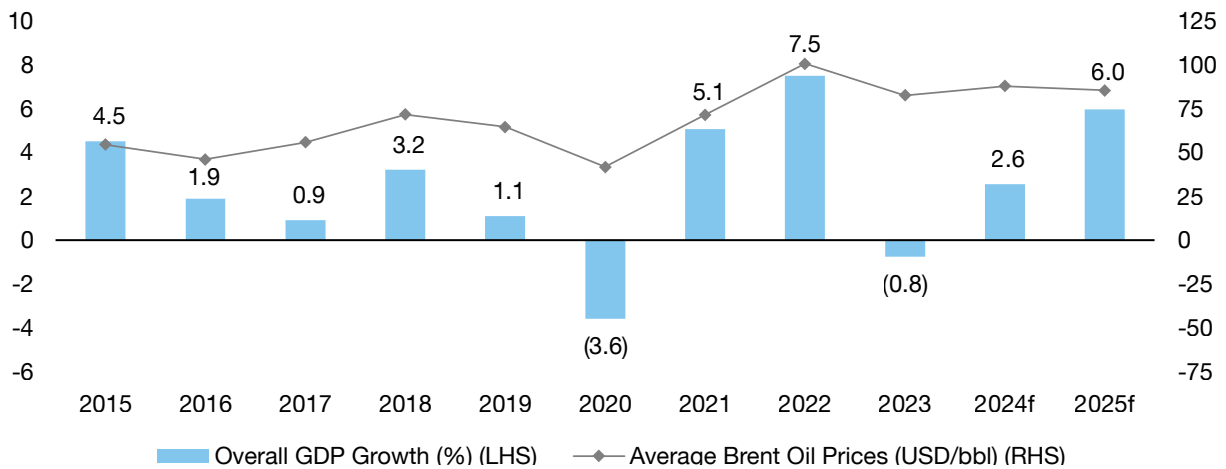
Month-End Brent Oil Prices (Dec 2014 – Apr 2024)



Source: Refinitiv

Saudi Arabia’s economic activity is closely correlated with oil prices. Oil price increased by 14.0% in the first four months of 2024, and stood 20.9% higher than the low of USD 72.7 per barrel made in May 2023. Brent crude oil spot prices are expected to average at USD 87.8 per barrel in 2024 according to EIA. The projected fiscal breakeven oil price for Saudi Arabia is USD 96.2 per barrel in 2024 and USD 84.7 per barrel in 2025, while the projected external breakeven oil price is USD 80.7 per barrel in 2024 and USD 79.8 per barrel in 2025.

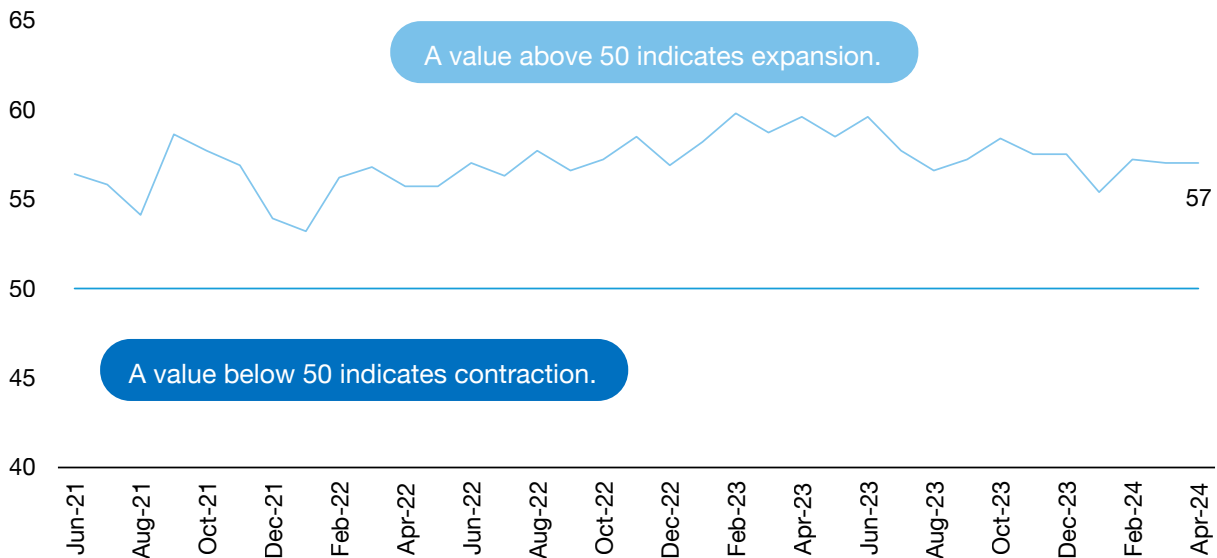
Real GDP Growth and Average Brent Oil Prices (2015-2025f)



Source: EIA, IMF, Refinitiv; Note: Average Brent oil prices for 2024 and 2025 based on EIA estimates. Data for other years is computed based on month-end closing prices.

The Composite Purchasing Managers Index (PMI) for Saudi Arabia stood at 57 in April 2024. The composite PMI reading has consistently been above the key level of 50, indicating robust expansion of the non-oil private sector.

Saudi Composite PMI (Jun 2021 – Apr 2024)



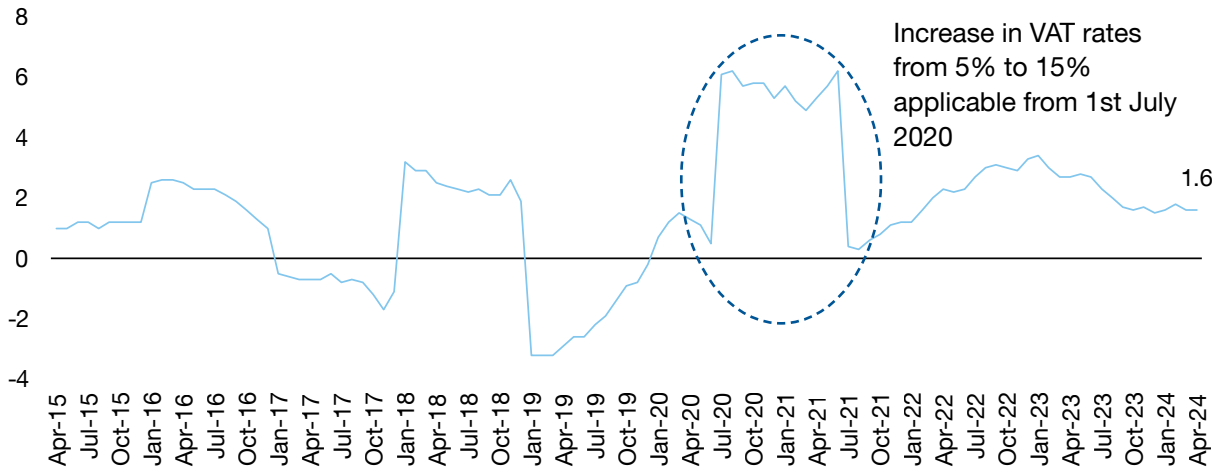
Source: IHS Markit, Refinitiv

b. Inflationary forces remain subdued

Despite inflationary pressures witnessed in many developed economies on account of various factors including supply chain disruptions and increased food prices, overall price levels in Saudi Arabia remains relatively subdued at 1-3% levels. In April 2024, inflation in Saudi Arabia increased by 1.6% y/y mainly driven by higher prices for housing, water, electricity, gas, and other fuels, which rose by 8.7% y/y. Restaurants and hotels inflation was up 2.0% y/y, while education was up 1.1% y/y. Housing rents saw a significant increase of 10.4%, primarily due to a rise in rents for villas by 9.4%. The increase in rental prices had the most significant impact on the inflation rate in April 2024. Food and beverages inflation has increased by only 0.8% y/y. On the other hand, clothing and footwear inflation decreased by 4.2% y/y and furnishings and household equipment inflation decreased by 3.9% y/y. Notably, inflation has been on a downward trend from the highs of 3.4% in January 2023. Housing, water, electricity, gas and other fuels have the highest weightage in the CPI with a weight of 25.5%, followed by an 18.8% weight in food and beverages and a 13.1% weight in transport. The Saudi Arabian government

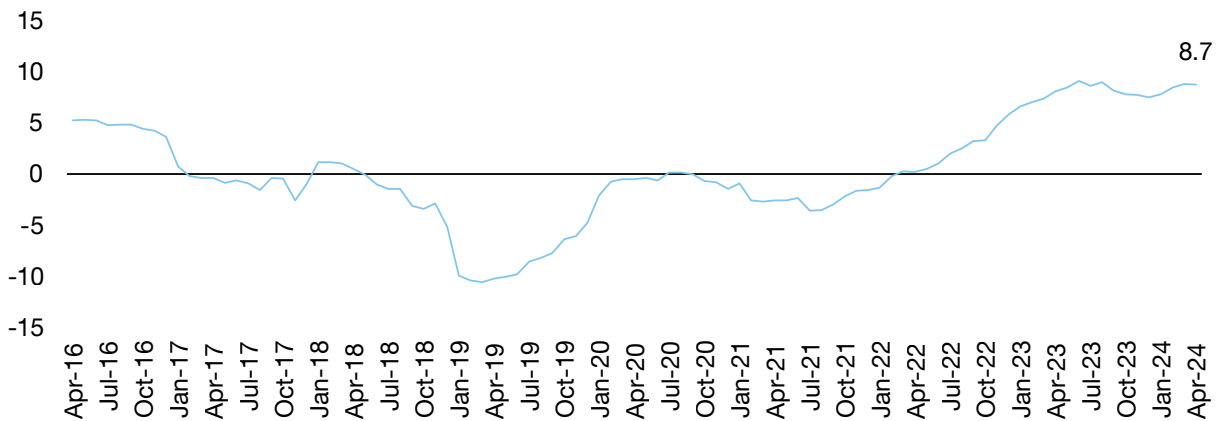
has successfully taken several measures to address the rise in inflation, including providing subsidies for food and energy, and raising interest rates. The government also continues to implement plans for reforms, including the privatization of state-owned companies. According to IMF, Saudi’s inflation is expected to average at 2.3% in 2024.

Consumer Price Index Inflation (Apr 2015 - Apr 2024) (y/y, %)



Source: Refinitiv

Housing & Utilities Price Change (Apr 2016 - Apr 2024) (y/y, %)



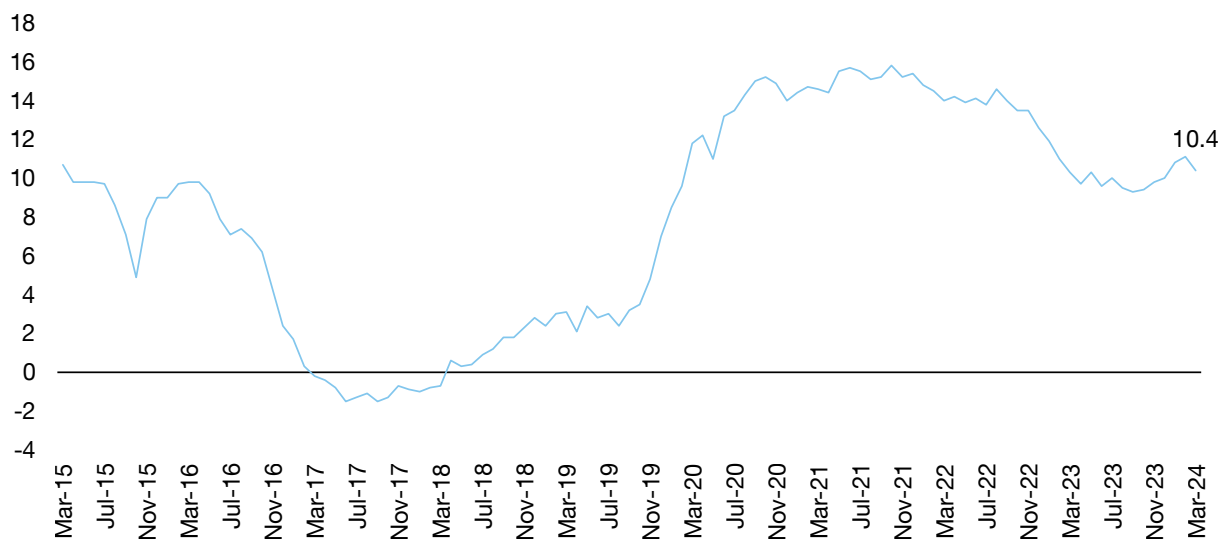
Source: General Authority of Statistics, KSA

c. Credit growth trending upwards and expected to be at healthy levels

Credit growth has been largely driven by growth in corporate bank credit, which grew 10.7 y/y in Q1 2024, as against consumer and credit card loans, which grew 1.4% y/y in Q1 2024. The growth in corporate loans changed from SAR 2,411,010 million in Q1 2023 to SAR 2,668,079 million in Q1 2024, a change of SAR 257,069 million. On the other hand, the total of consumer and credit card loans changed from about SAR 471,503 million in Q1 2023 to about SAR 478,135 million in Q1 2024, a change of SAR 6,633 million.

Credit growth as evidenced by total commercial bank claims on private sector remains healthy and stood at 10.4% in March 2024 (y/y). Additionally, the credit growth has receded, following the peaks in 2020-2022. The growth rate is slightly higher than 10.3% in March 2023 and higher than the 10.0% at the end of 2023. The country has witnessed strong double-digit growth numbers between 2020 and Q1 2024. The driving factor behind the slowing growth rates was the rapid increase in interest rates by the monetary authority. However, credit growth in 2024 is expected to continue to be at healthier levels owing to moderate inflation and continued decline in unemployment levels.

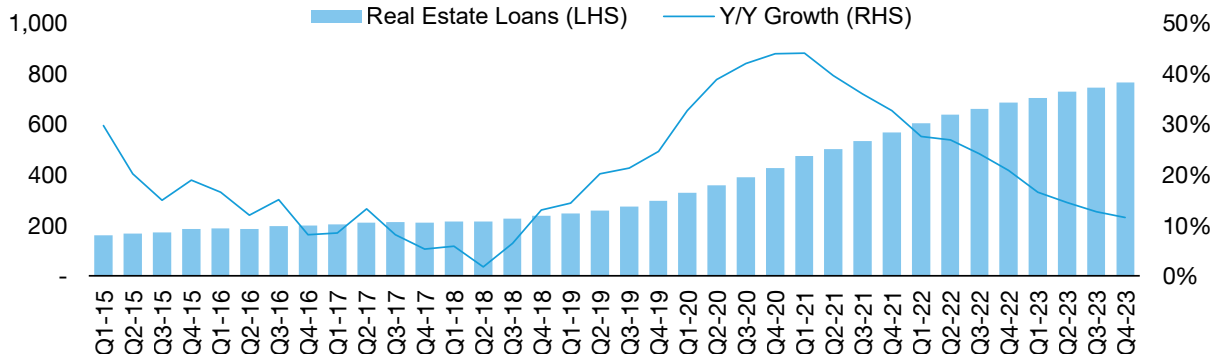
Bank claims on private sector (Mar 2015 - Mar 2024) (y/y, %)



Source: SAMA, Refinitiv

Real estate loans offered by banks stood at SAR 767.3 billion at the end of Q4 2023, representing a healthy growth of 11.5% (y/y). Of the total value, loans offered to retail customers stood at SAR 607.2 billion, a growth of 10.4% (y/y) and those to corporates stood at SAR 160.1 billion, a growth of 15.9% (y/y). Potential rate cuts in the second half of 2024 could act as a catalyst for the acceleration of loan origination growth rates.

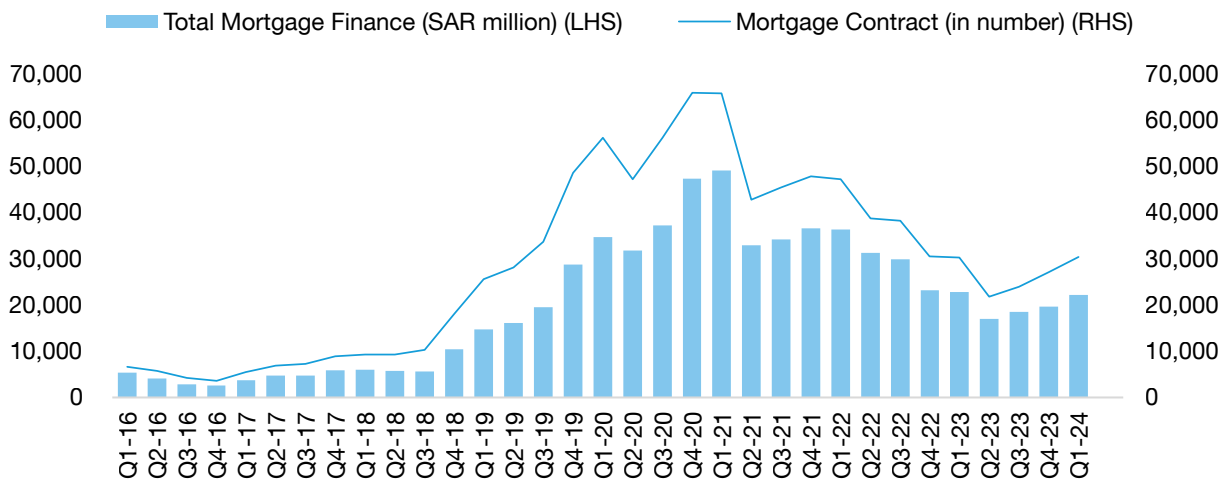
Real Estate loans by banks (SAR billions & y/y change %)



Source: SAMA

The value of new residential mortgages offered to individuals by banks stood at SAR 22.1 billion as of Q1 2024-end, representing a decline of 2.9% when compared to the same period in the previous year. The total number of mortgage contracts increased by 0.4% y/y in Q1 2024, weighed down by interest rates remaining higher for longer. However, when viewed on a quarter-on-quarter basis, the downward trend has witnessed a turnaround as the value and the number of contracts of new residential mortgages offered to individuals increased by 12.4% each, when compared to Q4 2023. With rates expected to remain at the same high level at least until H2 2024, the number of mortgage contracts is expected to remain flat with minimal growth in Q2 2024.

Number of new residential mortgage contracts and total mortgage value

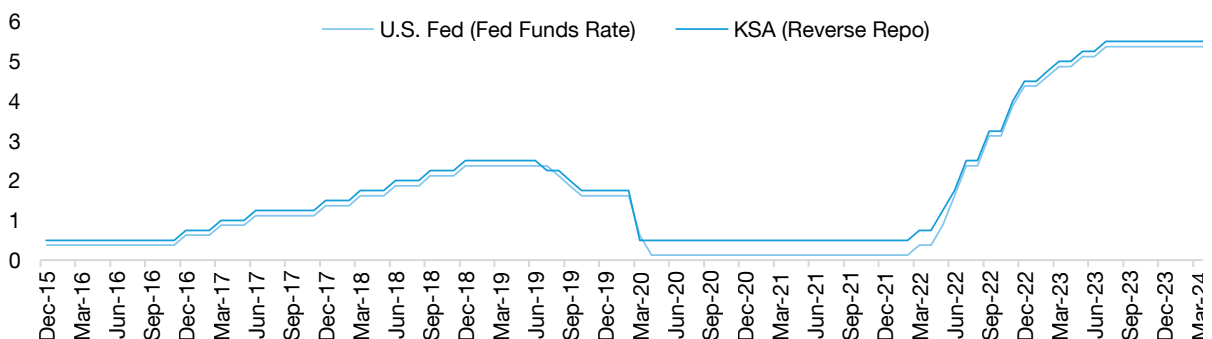


Source: SAMA; Note: Data available only from 2016

d. Interest rates are expected to stay higher for longer

The change in KSA’s policy rates has largely been in line with the change in U.S. FED rate historically. Since the beginning of 2022, the U.S FED has increased its policy rate by 525 bps until July 2023 and KSA also hiked rates by 500 bps. Currently, the U.S. FED is expected to maintain the higher rates, without rate cuts in H1 2024 with possible pivot expected in the latter part of H2 2024. KSA is expected to follow the U.S. FED owing to the currency peg, which will lead to higher interest rates for a sustained period. High mortgage rates for a sustained period influence consumer spending and are expected to dampen spending in the next year.

Interest Rates of KSA vs US (2015 – 2024)

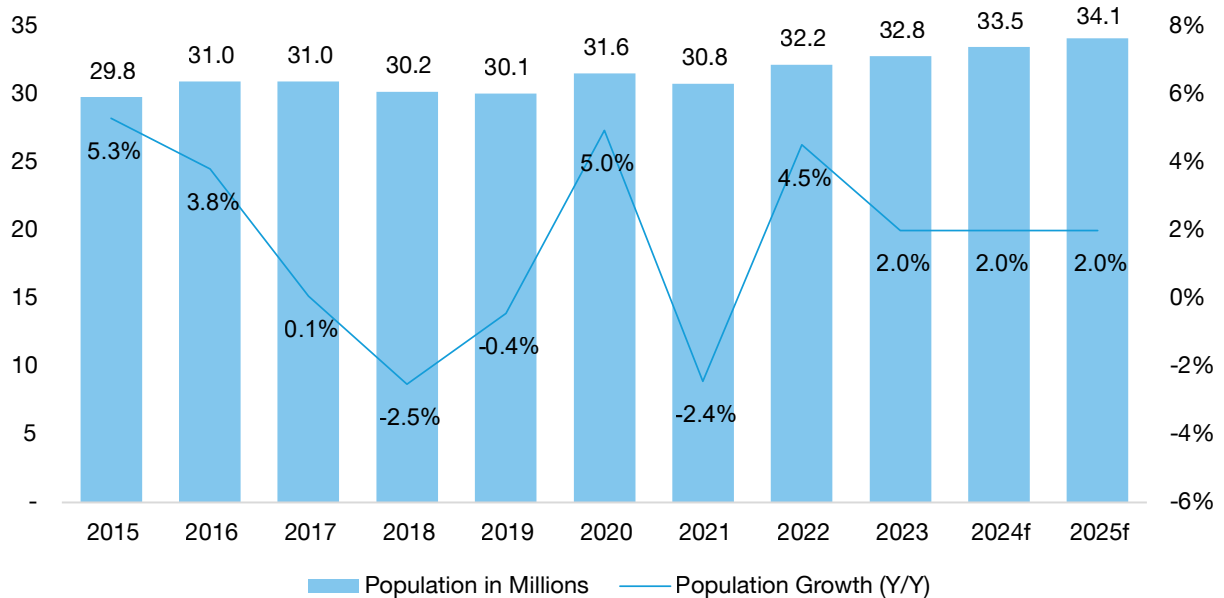


Source: Respective Central Banks

e. Population growth remains healthy

Population growth is expected to be stable at 2.0% in 2024 and 2025. The number of foreign residents in Saudi Arabia decreased after the government imposed additional fees on relatives of foreign workers, and the COVID-19 crisis led to over 1 million foreigners leaving the country in 2020. However, the Saudi government has relaxed contractual restrictions for foreign workers, including a seven-decade-old sponsorship system, to attract more talent for economic diversification. The reforms also provide workers with job mobility as they no longer require the consent of their employer to switch jobs. In April 2023, KSA implemented a new temporary work visa that can be obtained instantly without documentation, allowing businesses to hire workers for up to three months, with the option to extend it for another three months. This was followed by the addition of five programs in 2024, under Saudi Arabia’s long-term Premium Residency Permit (PRP) scheme, to attract a wider range of foreign nationals and increase the number of highly skilled individuals. The categories include special talent (including executives, and healthcare and scientific professionals); gifted individuals in culture, the arts, and sport; investors; entrepreneurs; or real estate owners or investors.

Saudi Arabia, Total Population (2015-2024f)

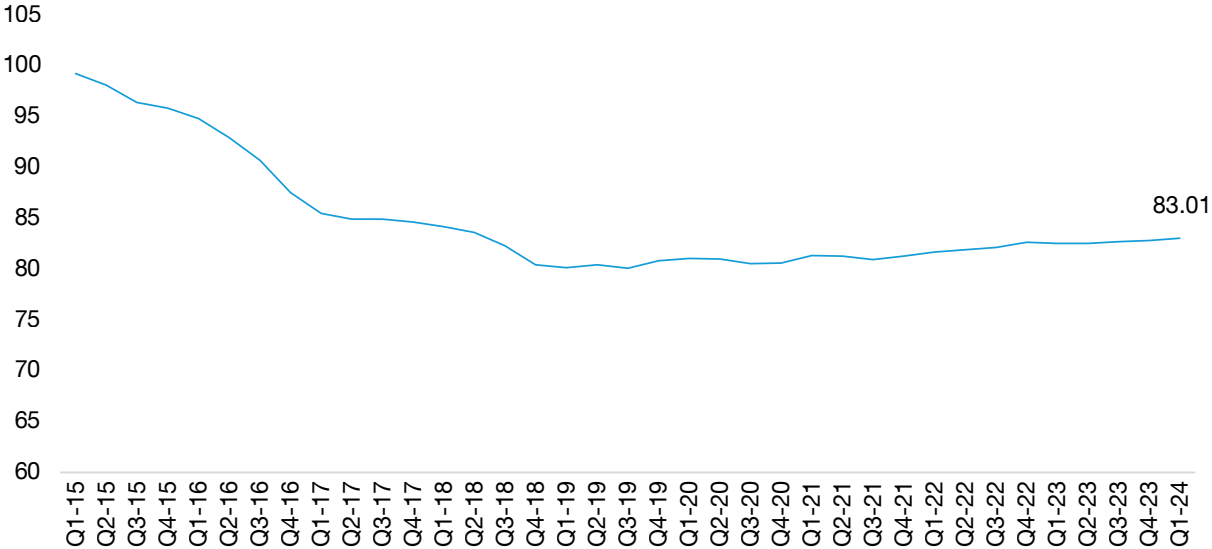


Source: IMF; Latest data available; e – expected; f – forecast

3. Real Estate land prices have stabilized in recent years

Though the real estate price index is still below its 2015 highs, it has stabilized and is slowly improving in recent quarters. Annual real estate prices in KSA increased by 0.6% y/y in Q1 2024 to 83.01 points, mainly driven by a 1.2% y/y increase in residential land prices. The KSA real estate index is a measure of price changes in three major segments of real estate which are the residential segment (65% weightage), commercial segment (31% weightage), and agricultural land (4% weightage). Although this index includes plots, buildings, villas, and apartments, much of the weightage is given to the plot of land. (Residential land – 62%; Commercial land – 31%)². In Q1 2024, apartment prices stayed flat at 0.8% when compared to the same period last year, while villa and house prices declined by 2.3% and 1.6% y/y, respectively. Commercial real estate prices decreased by 0.5% y/y, led by a 1.1% decrease in galleries/shops.

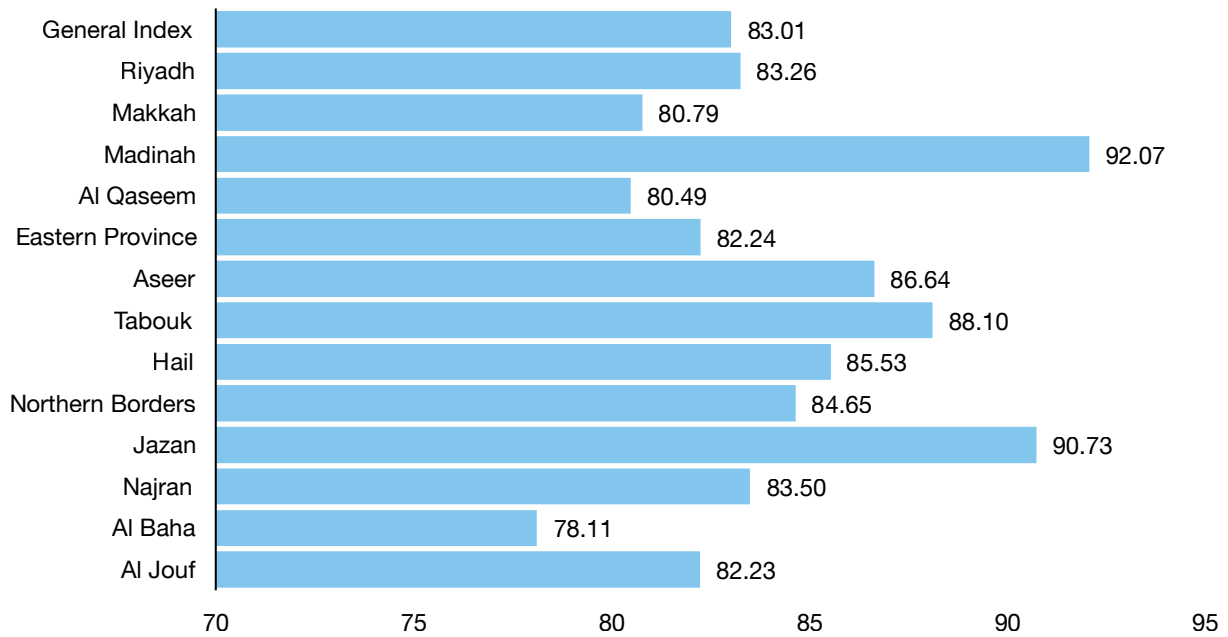
Saudi Real Estate Price Index has stabilized in recent years



Source: General Authority on Statistics

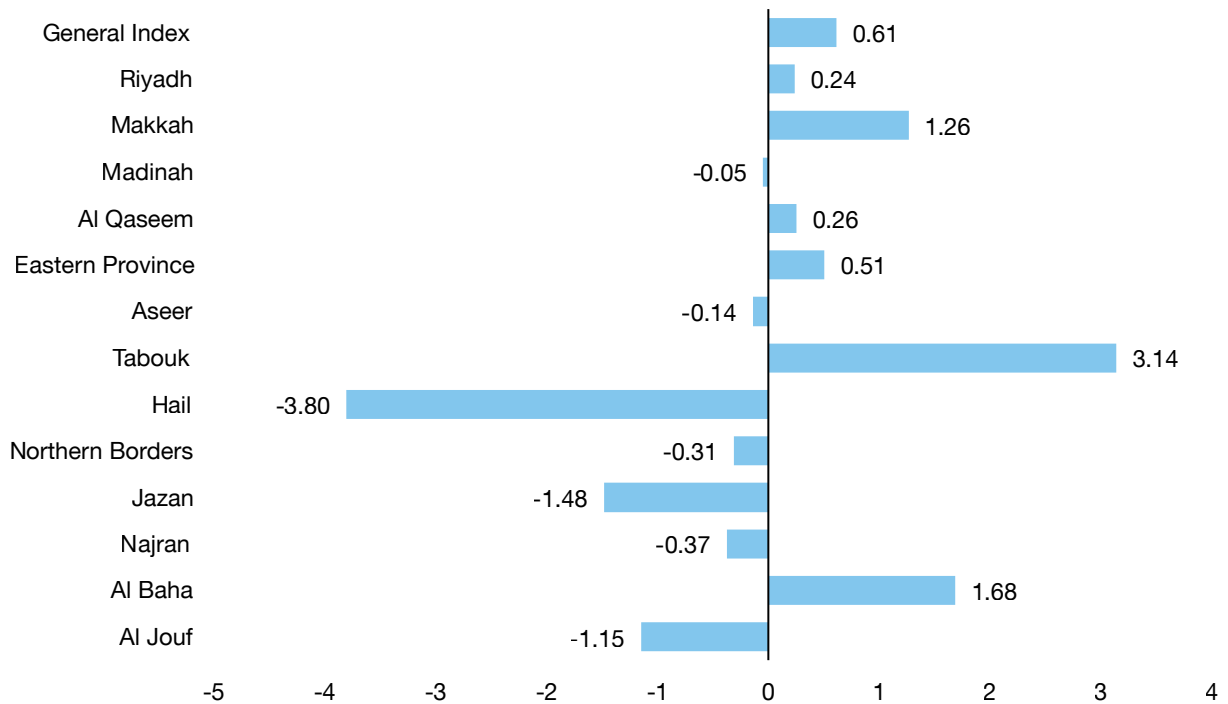
² Source: GASTAT

Real Estate Price Index by Administrative Region, Q1 2024 (2014=100)



Source: General Authority on Statistics

Real Estate Price Index (y/y change in %) by region – Q1 2024



Source: General Authority on Statistics

Sector-wise performance of KSA Real Estate

The Saudi Arabian real estate market remains in a favorable position. Various measures taken by the government to ensure homeownerships for Saudi citizens have also given new impetus to the real estate sector.

Performance of the Residential sector³

- The number of sales transactions in Riyadh increased y/y in Q1 2024 by 77%, totaling to 23,900 registered sales transactions, indicating strong demand. Total value of residential properties sold was SAR 32.7 billion in Q1 2024. Average villa prices in Riyadh increased by 3.6% in Q1 2024 to an average of SAR 5,808 per square meter. The average apartment prices grew 8.4% in Q1 2024, in Riyadh, to an average sales rate of SAR 4,939 per square meter.
- The number of sales transactions in Jeddah increased y/y in Q1 2024 by 92.9%, totaling to 14,400 registered sales transactions, indicating strong demand. Total value of residential properties sold was SAR 17.9 billion in Q1 2024. Average villa prices in Jeddah increased by 0.2% in Q1 2024 to an average of SAR 5,658 per square meter. The average apartment prices declined 1.1% in Q1 2024, in Jeddah, to an average sales rate of SAR 3,952 per square meter.
- The number of sales transactions in Dammam increased y/y in Q1 2024 by 28%, totaling to 3,044 registered sales transactions. Total value of residential properties sold was SAR 3.3 billion in Q1 2024. Average villa prices in Khobar increased by 3.1% in Q1 2024 to an average of SAR 3,626 per square meter. However, average villa prices in Dammam declined by 0.5% in Q1 2024 to an average of SAR 3,573 per square meter. The average apartment prices grew 0.9% and 0.4% in Q1 2024, in Dammam and Khobar respectively, to an average sales rate of SAR 2,813 per square meter in Dammam and SAR 3,397 per square meter in Khobar.
- 2023 trends indicated that the growth in South Riyadh was driven by the availability of affordable stock, growing demand for upper-middle to high-end residential units in Jeddah and the demand from the midscale segment for standalone residential villas or low to mid-rise apartments in Dammam. Additionally, the demand for affordable housing has led to an uptrend in the demand for modern houses with limited land area (approx. 200 sq. m). This is expected to be more pronounced in cities with rising prices, such as Riyadh.

³ CBRE; Latest Available

Office Sector Performance⁴

- Grade A office rents in Riyadh have grown by 8%, to SAR 2,005 per square metre, in the 12 months ending on March 31, 2024. On the other hand, Grade B rents have grown by 26% to SAR 1,225 per square metre. Occupancy rates for Grade A offices were 98% at the end of Q1 2024, increasing by 1% y/y, while Grade B occupancy rates increased by 8% y/y to 91% at the end of Q1 2024. The uptick in rent can in part be attributed to the RHQ initiative as part of Vision 2030, which was effective from January 1, 2024.
- Rents in Jeddah rose, with increasing demand from the public sector, with Grade A rents rising 3.8% y/y to SAR 1,235 per square metre in Q1 2024 and Grade B rents rising 2% y/y to SAR 790 per square metre at the end of Q1 2024. Occupancy rates for Grade A offices were 93% at the end of Q1 2024, decreasing by 2% y/y, while Grade B occupancy rates remained unchanged at 85% at the end of Q1 2024.
- In DMA, growing office demand resulted in a rise in rents with an increase of 3.5% y/y in Grade A rents to SAR 1,025 per square metre and a 1.6% y/y increase in Grade B rents to SAR 625 per square metre. Occupancy rates increased across both Grade A and Grade B markets with an increase of 5% in Grade A to reach 85% and a 3% increase in Grade B occupancy levels to reach 73% in Q1 2024.

Performance of Industrial & Logistics Sector⁵

- Average industrial and logistics rents in Riyadh increased 8.1% y/y in Q1 2024 to reach an average rate of SAR 204 per square metre. The highest rents were attributable to Eastern Riyadh with an average rent of SAR 320 per square metre. In central Riyadh, the average rent was SAR 119 per square metre in Q1 2024.
- Jeddah industrial and logistics average rents increased 3.1% to SAR 184 per square metre for the 12 months ending in Q1 2024. North Jeddah was the main driver with an increase in average rent to SAR 241 per square metre. On the other hand, rents in Southern Jeddah averaged to SAR 127 per square metre in for the 12 months ending in Q1 2024.
- The annual average industrial and logistics rents in Dammam rose 4.6% y/y in Q1 2024 to an average of SAR 222 per square metre. In the same period, Khobar's

⁴ KnightFrank; Latest Available

⁵ CBRE; Deloitte; Latest Available

average rent for industrial and logistics declined 2.8% to an average rent of SAR 231 per square metre.

- Ministry of Transportation and Logistics Services continued its efforts to enhance the logistical ecosystem and its services, with two key directives launched at the 'LEAP 24' forum in Q1 2024. The first was the announcement of the 'LOGISTI 2' platform that seeks to offer over 140 electronic logistical services as well as adopting best practices to provide expedited and enhanced investors' experiences. The second was the announcement of Port Cluster System (PCS) that seeks to provide over 250 related services with the aim of improving Saudi ports' efficiency while also progressing towards the achievement of Vision 2030's logistics objectives. Additionally, according to the World Economic Forum (WEF), Saudi Arabia scored 5.7 in the Quality of Road Infrastructure (QRI) score. This resulted in Saudi Arabia being ranked the 4th among the G20 countries.
- A key deliverable for the National Transport and Logistics Strategy (NTLS) is the optimization of shipping services offered under the Saudi Ports Authority (MAWANI). Ongoing structural and operational reforms by the Ministry of Transportation and Logistics Services resulted in MAWANI recording the highest development rate in Q4 2023, measured by a score of 79 in United Nations Conference on Trade and Development's (UNCTAD) Liner Shipping Connectivity Index (LSCI). This score exceeds the Vision 2030 target score of 75 by 2030.

Performance of Retail Sector⁶

- Retail rents increased in 2023 with average regional mall rents rising by 3% y/y while maintaining robust occupancy levels and an uptick in footfall.
- Large-scale retail development is expected to reach a potential market saturation with differentiating factors such as a diverse mix of food and beverage and leisure activities being key to attracting footfall.
- The digitalization of the retail sector has altered consumer shopping behavior and presents opportunities for retailers to transform their operations, marketing, and supply chain management. Areas with potential for retailers include omni-channel retailing, data analytics and inventory optimization with digital tools.

⁶ Deloitte; Latest Available



Performance of Hospitality Sector⁷

- Key drivers for the positive performance of the hospitality sector include increases in business travel, international events as well as cultural and entertainment offerings. According to data from General Authority for Statistics (GASTAT), in 2023, the number of air passengers in Saudi Arabia increased by 26% to a total of 112 million, while the number of international travelers grew 46% to a total of about 61 million. An announcement from the Ministry of Tourism indicated that the total number of international visitors was about 27.4 million, a 65% increase from 2022.

⁷ KnightFrank; CBRE; Latest Available

- The average daily rate (ADR) in Riyadh grew by 26.8% y/y in Q1 2024, SAR 982 while the Revenue per Available Room (RevPAR) increased by 19% to SAR 657. However, occupancy levels decreased from 71.3% in Q1 2023 to 66.9% in Q1 2024. Existing hotel rooms total 21,275 with additions of 6,840 expected by 2026.
- Tourism infrastructure developments, such as the redevelopment of the Jeddah Corniche and the 4th edition of the Jeddah Grand Prix, held in March 2024 positively impacted the hospitality sector in Jeddah. Average occupancy level rose 10.4% from Q1 2023 to 66.3% in Q1 2024. ADRs increased 3.2% y/y in Q1 2024 to reach SAR 710 while RevPAR increased by 14% y/y to reach SAR 451 in Q1 2024. Existing hotel rooms total 14,300 and are expected to increase by 46% to 20,840 rooms by 2026.
- ADRs in the Dammam Metropolitan Area (DMA) declined by 2.7% y/y in Q1 2024 to SAR 394, while RevPAR declined by 2.2% y/y to SAR 245 in Q1 2024. Occupancy levels in the DMA rose marginally by 0.5% y/y to 62.3% in Q1 2024. Existing hotel rooms total 12,830 and are expected to increase by 20% to 15,460 rooms by 2026.
- Driven by Hajj and Umrah pilgrims ADRs in Makkah increased by 9.1% y/y in Q1 2024 to SAR 671, while RevPAR increased by 9.7% y/y to SAR 509 in Q1 2024. Occupancy levels in Makkah rose marginally by 0.5% y/y to 75.8% in Q1 2024. Existing hotel rooms total 54,100 and are expected to increase by 12% to 60,345 rooms by 2026. Similarly, in Madinah ADRs increased by 20.5% y/y in Q1 2024 to SAR 804, while RevPAR increased by 15.2% y/y to SAR 635 in Q1 2024. However, occupancy levels in Madinah decreased by 4.4% y/y to 79% in Q1 2024.

How are the different sectors in real estate expected to fare in 2024 vs 2023?

Asset Class	2024 vs 2023	Key Driver
Residential	Similar to 2023	The government has implemented several measures to accelerate home ownership among Saudi nationals and boost the residential sector. The trend of increasing demand is anticipated to continue especially in upper-mid to high-end residential units.
Office	Similar to 2023	The positive momentum of the office market in the Kingdom is expected to be sustained in 2024. As Riyadh becomes the new commercial hub, more work is expected to modernize its infrastructure to meet growing demand including sustainable office spaces. The demand is fueled by the demand for setting up regional headquarters by multinational companies, as part of the RHQ program.
Industrial & Logistics	Similar to 2023	Structural and operational reforms by the Ministry of Transportation and Logistics Services, lower levels of supply and increasing demand are expected to support the performance in 2024. The National Industrial Development and Logistics Program (NIDLP) is expected to create industrial and logistics clusters in major cities by changing regulations, standards, and relocation.
Retail	Similar to 2023	The government's promotion of domestic tourism and entertainment events like has increased experiential retail demand in 2023. The positive performance of the Retail sector is expected to continue, driven by the Food & Beverages sector. The Economist Intelligence Unit (EIU) estimates that KSA retail sales volume will rise by 2.4% year in 2024 and trend upwards to 2.8% in 2026.
Hospitality	Better than 2023	Hospitality performed well in the first quarter of 2024 and is likely to perform better than in 2023, backed by the strong tourism sector. To boost tourism, Saudi Arabia is building new entertainment venues and hosting worldwide events, in addition to the religious tourism. Considering the hotel industry's growth possibilities, most operators with a presence in the Kingdom plan to significantly expand their offers and room count. The de-escalation of geopolitical tensions in the Middle East could also boost performance.

Source: JLL, Deloitte, Marmore Research

Vision 2030 and Real Estate

As part of Saudi Arabia's Vision 2030 program, several reforms were introduced to the real estate sector. The Saudi government enacted over 18 pieces of legislation including real estate systems, executive regulations, and regulatory rules. Additionally, various real estate projects have also been started under the Vision 2030 program.

Major real estate projects under Vision 2030, H1 2024

Project	Category	Details
Jeddah's Grand Square development	Mixed-use	Ajdan Real Estate Development Company, Mask Investment Company, and SEDCO Capital launched a billion-riyal real estate fund for the development of Jeddah's 'Grand Square', a mixed-use project. The project, announced in February, is situated across a 47,060 square meter area along King Abdulaziz Road in Jeddah and involves a mix of commercial, residential, office, and hotel spaces.
Diriyah Gate project	Mixed-use	Diriyah Company signed contracts for the construction of the Ritz Carlton residences (SAR 700 million) and infrastructure development at Diriyah Gate (SAR 2 billion). The contract for residences, reported in February, involves the construction of 106 villas. The infrastructure development contract, reported in January, involves residential developments, hotels, a university as well as an opera house.
Entertainment complex in Mecca	Retail	Saudi Entertainment Ventures (Seven) awarded a SAR 1.3 billion contract for an entertainment complex in Mecca to Modern Building Leaders (MBL), reported in February. The development covers an area of 80,000 square metres and is located in the Al Abidiyah district on Taif Road.
Banan City and other urban projects	Mixed-use	Talaat Moustafa Group and Al Muhaidib Group launch strategic partnership, in March, to develop a variety of urban projects. The partnership will commence with the "Banan City" project in Riyadh, a multi-use project that includes 27,000 residential units, integrated health, educational, and commercial services, a sports club, and public service areas.

Project Gidori	Mixed-use	NEOM unveils private residential golf community project Gidori, in March, located in the Gulf of Aqaba. The project will involve 200 individually designed private villas and homes, dining experiences, retail stores, garden spaces and a clubhouse for golf players.
Coast Guard residential village	Mixed-use	Neom seeks firms for Coast Guard residential village, as reported by MEED in April. The project will span over 1 square kilometre and include residential facilities, administration buildings, military and police buildings, mosques, a retail shopping centre, sports facilities, a healthcare clinic, schools, a civil defence facility, warehouses, a waste management facility and associated infrastructure.
Madinah mixed-use projects	Mixed-use	Saudi-based Knowledge Economic City (KEC) signed two contracts, in April, worth SAR 289 million with Elkhareiji Commerce and Contracting Company for a project within its mixed-use development, Al Alya, in Madinah. The first (SAR 117.5 million) involves contracting work for four residential buildings, with 132 residential units of various sizes. The second (SAR171 million) involves landscaping work for a group of eight residential buildings and features a total of 264 units of various sizes.
Residential units in Sedra community	Residential	Roshn and Dar Al Arkan sign deal to develop residential units within Sedra community, in April. The project will involve the development of 200 villas across a span of 56,280 sq m.
Alfulwa real estate development	Residential	Roshn signed contracts with local entities for real estate development in Alfulwa community, in February. Alayuni Investment & Contracting Company is to design and build 400+ single-family homes and public amenities and facilities in the F1 and D1 neighbourhoods of ROSHN's ALFULWA community.

Hilton hotel	Hospitality	Cayan Group signs agreement in April, to build Hilton hotel at Neom. Under the agreement, Cayan Group will fully fund and develop a 201-key Hampton by Hilton situated in NEOM.
Almanar, Mecca project	Mixed-use	Roshn launches Mecca project Almanar, in April. Almanar will be located at the western gate of Mecca, between the old and new expressways linking Mecca and Jeddah. The first phase is to be built over 2.5 million square metres and is to comprise of 4,149 residential units, a mall, eight commercial centres, a business park and other social infrastructure.
Aldanah, Dhahran project	Residential	Roshn launches Aldanah, a project in Dhahran, in April. The project will be located close to King Abdulaziz Road in Dhahran. The project is to cover an area of over 1.7 million square metres and feature 2,500 housing units.

Source: MEED, Saudi Gazette, Zawya

4. Real Estate in Saudi Arabia – Major News/Laws

New residency programs launched by the Saudi Arabia government

- Saudi Arabia added five programs under its long-term Premium Residency Permit (PRP) scheme, to attract a wider range of foreign nationals and increase the number of highly skilled individuals. The categories include special talent (including executives, and healthcare and scientific professionals); gifted individuals in culture, the arts, and sport; investors; entrepreneurs; or real estate owners or investors.

Saudi Civil Transactions Law expected to be beneficial for construction contracts

- Saudi Civil Transactions Law (CTL) applies to commercial transactions of every kind, is applicable retroactively, and is expected to bring clarity and enforceability to contracts by codifying the mechanisms that apply to construction contracts. Broadly, the law introduces new rights and remedies for contractors as well as discretionary powers for dispute resolution bodies, providing a clear legal framework.



Saudi Arabia prioritizes real estate sector with 18 legislative initiatives to drive growth

- The Saudi government enacted over 18 pieces of legislation indicating prioritization of the real estate sector to drive growth and boost gross domestic product. The real estate sector contributed 5.9% of the GDP in Q4 2023 and 12.1% of non-oil activities. The 18 legislative actions issued to date include real estate systems, executive regulations, and regulatory rules.

Real Estate Price Index increased y/y in Q1 2024 driven by increase in residential land prices

- The Real Estate Price Index increased by 0.6% in Q1 2024 compared Q1 2023, driven by 1.2% increase in residential prices, a decline of 0.5% in commercial segment prices and a decline of 0.1% in agricultural segment prices. The growth in the residential segment was driven by 1.2% increase in land and 0.8% increase in apartments while building, villas and houses decreased by 0.2%, 2.3%, 1.6%, respectively. On the other hand, the commercial segment was affected by a decrease in commercial land and exhibitions of 0.5% and 1.1% respectively.

Royal Institution of Chartered Surveyors indicate increased demand for commercial property

- The Royal Institution of Chartered Surveyors (RICS) Global Commercial Property Monitor for Q1 2024 indicated that overall occupier demand increased by 53% driven by a 65% increase in demand for offices. Demand for industrial properties grew at 56% and retail properties at 38%.

S&P Global Ratings expects strong demand for residential properties in Saudi Arabia

- According to S&P Global Ratings, the population growth and home-ownership targets under the government's Vision 2030 program are likely to result in a strong demand for properties, benefitting Saudi real estate developers. Additionally, governmental efforts to increase home ownership by Saudi nationals and simplified ownership for foreigners are also expected to boost revenue and profits.



Progress towards Vision 2030 sees ‘golden era’ in Saudi Arabia real estate

- Arabian Business reports that Saudi Arabia real estate enters a ‘golden era’ as progress towards Vision 2030 cements. A construction frenzy is afoot in Riyadh with preparations for hosting Expo 2030 and sections of the 2034 FIFA World Cup are underway. Luxury hotels are seeing increased investment and there is an uptick in constructions of shopping malls and residential complexes. Additionally, high-end office space demand is on the rise with an increase in the number of companies setting up in Saudi.

Neom cancels USD 1.5 billion desalination plant project

- In a statement sent to MEED, Neom subsidiary Enowa highlighted that evolving water requirements for NEOM has led to the cancellation of the joint development agreement (JDA) signed by a consortium of Enowa, Japan’s Itochu and France’s Veolia for a renewable energy powered advanced seawater reverse osmosis project in Oxagon, Neom’s industrial cluster. The proposed plant was expected to deliver up to 2 million cubic metres a day (cm/d) of desalinated water (30% of the total Neom water demand) to Neom, once complete and was estimated to require a total investment of USD 1.5 billion – USD 2 billion.

Saudi offers 30-year tax exemption as part of RHQ program

- The Government of Saudi Arabia offered a 30-year tax exemption package for foreign companies establishing their regional headquarters (RHQ) in Saudi Arabia. The goal is to bring international investment and to attract multinational enterprises (MNEs). The offer includes a zero per cent corporate tax rate and withholding tax for 30 years, applicable from the date of the RHQ license. This program is expected to further drive real estate demand in both residential and commercial sectors.

Saudi Arabia launches new real estate registry

- Saudi Arabia launched the Real Estate Registry (RER) Platform to provide digital services, including mortgage registration, adding real estate rights and obligations, amongst other services, acting as a central hub for all real estate transactions. The platform aims to provide quick and effective access to key information about real estate and transactions, through a data bank that adds value to investors, owners, brokers as well as real estate developers.

Saudi Arabia introduces system for selling and renting off-plan real estate projects

- Umm Al-Qura published the new system for the sale and rental of off-plan real estate projects. According to the system's third article, real estate developer that are not registered in the Developer's Register are not allowed to engage in the sale and rental of off-plan real estate projects.
- Only real estate projects licensed by the competent authority in accordance with the system's provisions and regulations are allowed to advertise these projects in local or foreign media, or organize exhibitions and invitations to them.
- Developers interested in selling or renting off-plan real estate projects are required to apply to the competent authority for a special license for the project, commit to start construction within 6 months of obtaining the license and complete the project within the specified deadline.
- Additionally, developers and landowners are prohibited from disposing of the shared part of the licensed project before the division of real estate units. Any disposals after division must also comply with the system for ownership, division, and management of real estate units.

5. Markaz Real Estate Macro Index

'Markaz Real Estate Macro Index' helps investors in identifying the current state of real estate market using a list of economic indicators such as Oil and non-Oil GDP growth, inflation expectations, money supply growth, jobs generated etc. Historical data along with estimates for 2024 were considered and a qualitative rating (strong, moderate, neutral, subdued & poor) was assigned considering the historical information, current environment and future expectations.

Macro-Economic factors that matter

Economic Factors	Weightage Assigned	Rationale
GDP Growth (Oil & Non-Oil)	25%	Strong economic activity bodes well for real estate. Higher economic growth usually leads to demand for commercial real estate and growing incomes would spur activity on the residential segment.
Inflation	15%	Real estate acts as a natural hedge against inflation, as rents typically increase during times of inflation. Strong, stable inflation is generally positive for real estate.
Money (M2) Supply Growth	10%	Higher growth in money supply is a leading indicator of economic activity.
Jobs created	10%	Number of jobs created serves as a useful indicator for real estate demand.
Population Growth	10%	Increasing population is directly related to real estate growth and residential demand.
Investments	10%	Investment serves as a proxy for project activity and infrastructure development that shall directly stand to influence the real estate markets through job creation and increased economic activity.
Fiscal Position	10%	Expansionary fiscal policy signifies active role of government to support the economy through increased investments. A positive for real estate and government spending entails improvement to physical & social infrastructure and unlocks the value of nearby lands.
Interest Rates	10%	Changes in interest rates impact real estate investments. Higher interest rates translate to higher mortgage costs thereby reducing demand for home buyers.

Source: Marmore research

For each of the qualitative score, a quantitative score was assigned with 'Strong' being assigned a top score of '5' and 'Poor' assigned a value of '1'. A weighted average score was computed based on the weights as provided in the below table.

Saudi Arabia Macro-Economic Factor Assessment									
Economic Factors	2019	2020	2021	2022	2023	2024f	2025f	Qualitative Take	Quantitative Score
Oil (Real) GDP Growth	-3.3%	-6.6%	1.2%	15.0%	-9.0%	-2.4%	8.1%	Moderate	4
Non-Oil (Real) GDP Growth	2.8%	-3.0%	5.6%	5.3%	3.8%	3.9%	5.3%	Moderate	4
Fiscal Position, % of GDP	-4.2%	-10.7%	-2.2%	2.5%	-2.0%	-2.8%	-1.6%	Neutral	3
Investments (as % of GDP)	28.3%	27.7%	25.4%	26.4%	29.3%	29.6%	30.0%	Moderate	4
Money Supply, M2 (Y/Y)	7.1%	8.3%	7.4%	8.1%	7.6%	9.3%	8.4%	Moderate	4
Inflation	-0.2%	5.3%	1.2%	2.0%	0.4%	2.3%	2.0%	Moderate	4
Interest Rates (%)	2.2	0.7	0.5	2.1	4.8	5.1	4.1	Neutral	3
Yearly Population Growth	-0.4%	5.0%	-2.4%	4.5%	2.0%	2.0%	2.0%	Neutral	3
Jobs created (in '000s)	534	919	239	962	482	476	420	Neutral	3
								Overall Score	3.60

Source: IMF, GaStat, ILO, Marmore research; Note: *Average monthly Interest Rate for the respective year is considered. So, despite two rate cuts factored for 2024, the average interest rate for 2024 is higher than 2023

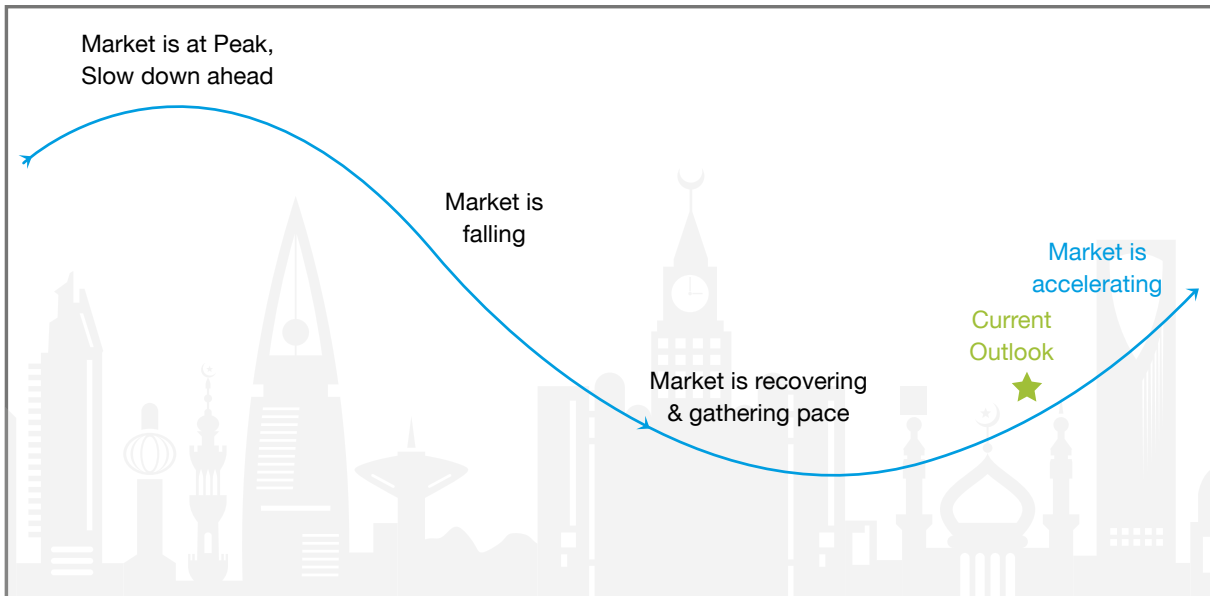
The state of the real estate market was categorized into four distinct phases as shown below.

Market Phases

From	To	Market Phase
4.3	5.0	Market is at peak, slowdown ahead
3.5	4.3	Market is accelerating
2.8	3.5	Market is recovering & gathering pace
Less than 2.8		Market is Falling

Source: Marmore research

Markaz Real Estate Outlook based on Macro Economic Indicators



Source: Marmore Research

Saudi Arabia Markaz Real Estate Macro Index Scores (2023-2024)

Macro indicators	H2 2023	H1 2024	H2 2024
Oil Real GDP Growth	3	3	4
Non-Oil Real GDP Growth	4	4	4
Fiscal Position	3	3	3
Investments	3	4	4
Money Supply, M2 (YoY)	4	3	4
Inflation	4	4	4
Interest Rate	3	3	3
Population growth	3	4	3
Jobs created	5	4	3
Overall Score	3.55	3.55	3.60

Source: Marmore research

Conclusion

Saudi Arabia's economic growth is expected to improve in 2024 compared to 2023 due to the expected revival in demand for oil, supported by stability in oil prices, despite the continued oil production cuts. Non-oil economic growth is expected to be stable supported by increased government spending. Saudi Arabia's fiscal position is expected to be stable in 2024 despite higher spending. Credit growth from the private sector has slowed down since 2022 with increasing interest rates.

Saudi real estate has recovered from the dip caused by the pandemic. Lagged effects caused the residential sector total transaction value in Riyadh, Jeddah, and the DMA to decline by 15% in 2023. However, Q1 2024 numbers indicate a rebound in sales transactions and average prices. Q1 2024 data also indicated the positive performance of the office sector, with increases in office rents in both Grade A and Grade B markets across Riyadh, Jeddah, and the DMA. Saudi Arabia has made great improvement in United Nations Conference on Trade and Development's (UNCTAD) Liner Shipping Connectivity Index (LSCI) with a score of 79 in Q4 2023, as against the Vision 2030 target score of 75 by 2030. In the retail sector, the rents for regional malls witnessed a growth of 3% y/y in 2023, indicating stability in the market. Key drivers for the positive performance of the hospitality sector include increases in business travel, Hajj and Umrah pilgrims, international events as well as cultural and entertainment offerings.

The government has implemented measures to accelerate home ownership among Saudi nationals, indicating a positive momentum for the residential market, which is expected to continue. The positive momentum of the office market in the Kingdom is expected to be sustained in 2024 with Riyadh emerging as a new commercial hub and driving the need for modernized infrastructure, including sustainable office spaces. The industrial and logistics sectors are set to benefit from the National Industrial Development and Logistics Program (NIDLP), which aims to create clusters in major cities through regulatory changes and relocations. The government's efforts to promote domestic tourism and entertainment events have increased experiential retail demand, leading to a rise in retail sales volume and the trend is expected to continue in 2024. The hospitality sector is likely to improve further in 2024 with various initiatives taken by the government to boost tourism.

Based on our assessment of various macroeconomic factors, we believe that the real estate sector in Saudi Arabia has started accelerating from H2 2023. While economic growth supported by constantly expanding non-oil sector, government spending, and recovering private sector activity are positive indicators for the sector, volatile oil prices, higher-for-longer interest rates, and global economic slowdown present some headwinds.

Summary – KSA Markaz Real Estate Macro Index

Macro indicators	Outlook (2024 & beyond)	Quantitative Score
 Oil Real GDP Growth	Moderate	4
 Non-Oil Real GDP Growth	Moderate	4
 Fiscal Position	Neutral	3
 Investments	Moderate	4
 Money Supply, M2 (YoY)	Moderate	4
 Inflation	Moderate	4
 Interest Rates	Neutral	3
 Population growth	Neutral	3
 Jobs created	Neutral	3
Overall Score		3.60

Source: Marmore Research

What reports to expect soon?



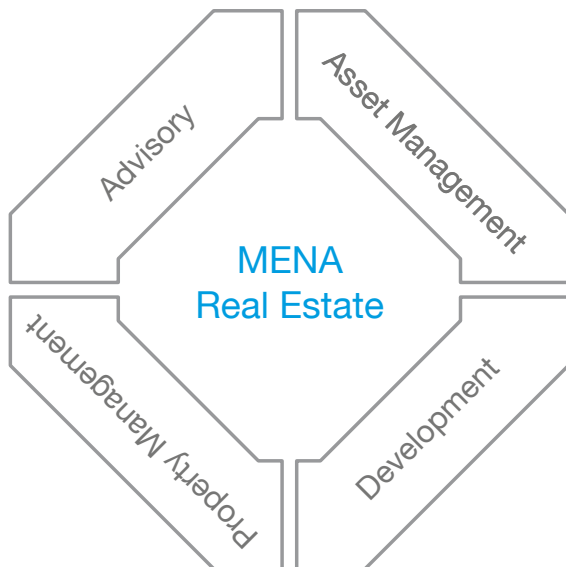
**UAE Real Estate Report H1 2024
Review and H2 2024 Outlook**



**Kuwait Real Estate Report H1 2024
Review and H2 2024 Outlook**

Markaz Real Estate Capabilities: Management Team

With a team of 27 professionals, Markaz MENA Real Estate provides a fully integrated insights and services to managing real estate funds



Team of 27

- Investment
- Project Management
- Financial Management
- Administration

Kuwait HQ

- Riyadh KSA - 2006
- Khobar KSA - 2006
- Abu Dhabi - 2010
- Dubai - 2014

Markaz provides great value through:

- Governance
- Experience
- On the ground presence
- Hands-On approach
- Developed Systems covering
 - Operations,
 - Maintenance,
 - Financial management, &
 - Administration
- Software Support



Invest in Markaz Real Estate Fund

The Internal Rate of Return:

7.52%

Average annual distribution since inception:

5.06%

Fund Performance

Total Return (Jan 03 - Dec 03)	17.80%
Total Return (Jan 03 - Dec 05)	40.20%
Total Return (Jan 06 - Dec 08)	32.10%
Total Return (Jan 09 - Dec 11)	4.60%
Total Return (Jan 12 - Dec 14)	21.10%
Total Return (Jan 15 - Dec 17)	2.10%
Total Return (Jan 18 - Dec 20)	2.70%
Total Return (Jan 03 - March 24)	171.21%
Capital Gain since Inception	29.35%
Income Distribution since Inception	142.8%
Total Return Annualized	6.44%
Average Annual Yield (Cash)	4.57%
Volatility (3 year)	2.36%

The Markaz Real Estate fund, established in 2002, is considered the first open-ended real-estate investment fund in Kuwait, and stands as a testament to Markaz's innovation in the financial services field. This is reflected through the ongoing development of unique investment tools that cater to investors' needs. Markaz Real Estate Fund is Sharia compliant and aims to achieve stable and recurring returns, through investing in income generation properties in Kuwait.

Important info:

- Fund manager: Kuwait Financial Centre K.P.S.C. Kuwait City, Al Mirqab, Al Soor Street, Burj Alshaya, Floor 8, Tel: +965 2224 8000, P.O. Box 23444, Safat 13095, State of Kuwait
- Fund Executive Committee Members: Ghazi Al Osaimi, Milad Elia, Khaled Al-Mubarak
- To get a copy of the Fund's Articles of Association, the subscription form, and the financial statement of the fund, please visit our website: www.markaz.com
- The Total Return consists of the Capital Gain and the Dividend Yield after deducting all fees and expenses

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markaz.com
+965 2224 8000

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For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait; Email: research@markaz.com; Tel: 00965 1804800; Fax: 00965 22450647.