



HI 2012

EASTERN PROVINCE OFFICES

Market update

Knight Frank

HIGHLIGHTS

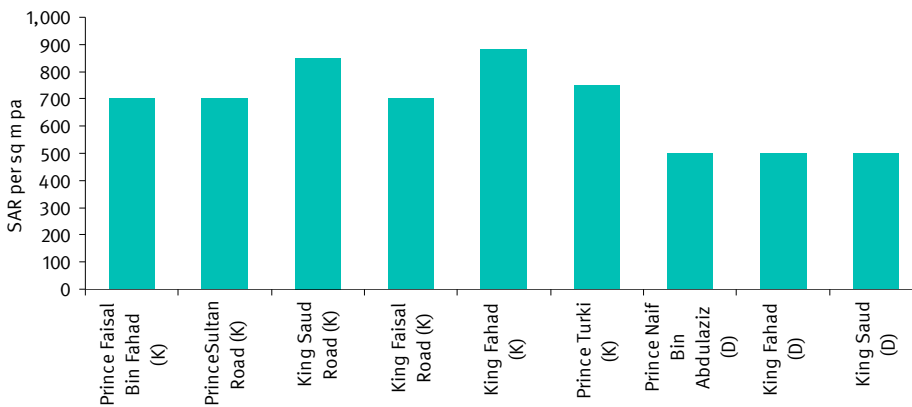
- Leasing activity has increased in the wake of the global economic downturn, but tenants remain price conscious and place high importance on ease of access and parking provisions.
- Demand for commercial space, which has historically been driven by the expansion of the oil and gas sector, looks set to witness growth from the service economy over the short to medium term.
- Large amounts of stock are owner occupied while the balance is classed as Grade B by international standards.
- The high levels of future supply being delivered to the market will raise the standard of commercial stock. However the market still lacks a landmark mixed use development.

Market comment

- The Eastern Province conurbations of Damman, Khobar and Dharan do not currently benefit from a well defined CBD
- As a result the majority of commercial development has been focussed along main roads, often with retail space on the ground floor
- Large amounts of stock are owner occupied, in a market that has not placed importance on Grade A stock, the majority of which is classed at Grade B by international standards
- Khobar benefits from better quality of stock in comparison to Damman with the Corniche emerging as a focus for a number of multi storey commercial developments

Figure 1

Indicative annual office rents by district (per sq m)



Source: Knight Frank and Arabian Property Services (APS)

Notes: (K) Al Khobar; (D) Damman

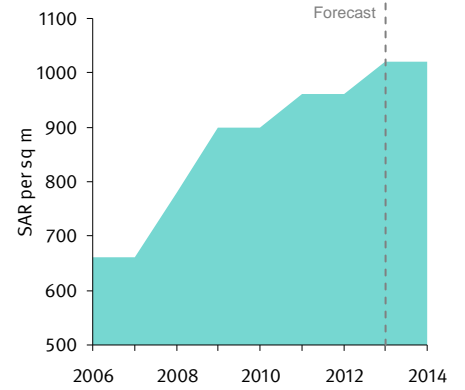


MARKET VIEW

- Demand for office space has primarily been driven by the expansion of the oil and gas sector, with ARAMCO constituting the largest employer both directly and indirectly
- Despite a reduction in oil prices and the economic news emerging from Europe, leasing activity increases as the market begins to stabilise
- Tenants remain price sensitive and continue to place high importance on ease of access and adequate parking provisions
- Given the majority of landlords are owner occupiers, the practice of offering tenant incentives has not gained traction; this is set to change as stock levels increase

Figure 2

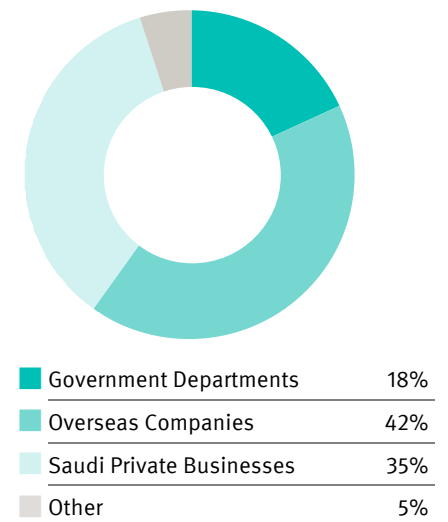
Average rents for shell & core offices



Source: Knight Frank and APS

Figure 3

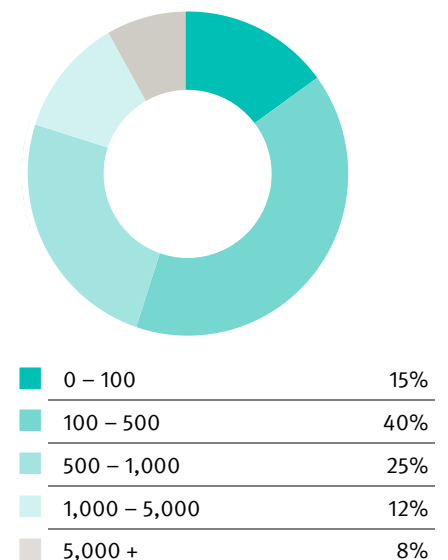
Current demand by occupier in H1 2012



Source: Knight Frank and APS

Figure 4

Size requirement (sq m) in H1 2012



Source: Knight Frank and APS

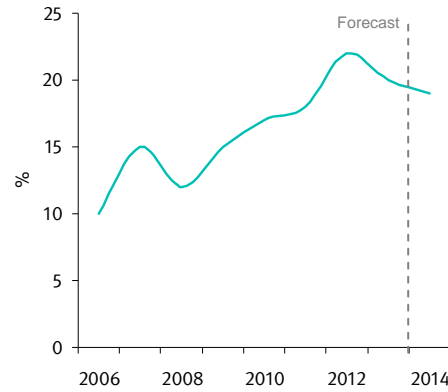


Figure 5
Key market indicators
To CAT A fit out

	Rents	Trending
Prime	SAR 1,100	▶
Grade A	SAR 700	▶
Grade B	SAR 550	▼
Availability/vacancy	22%	▲
Average rent free	8%	▶

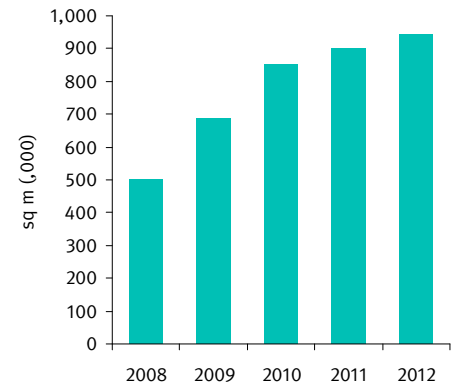
Source: Knight Frank and APS

Figure 6
Total vacancy rates



Source: Knight Frank and APS

Figure 7
Eastern Province stock (2008-2012)



Source: Knight Frank and APS



King Fahad Road underpass, Al Khobar

MARKET VIEW

- The high levels of future stock which is due to come on line over the coming two years will curtail rental growth over the short to medium term
- Accordingly vacancy rates are likely to increase as this new stock is delivered to the market while demand looks set to remain level in the short term
- Future supply looks set to raise the standard of stock in the market but there remains an absence of prime, landmark mixed-use developments in the current pipeline
- As the market develops, demand is set to shift from a reliance on the oil and gas sector to the expanding service economy



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