

An aerial photograph of a busy port terminal. The image shows a large area filled with stacks of colorful shipping containers in various colors like red, blue, green, and orange. Two large blue gantry cranes are positioned in the center, extending over the container stacks. The ground is marked with yellow lines, and several smaller vehicles or equipment are visible. The sky is a deep blue, suggesting a clear day.

ARCAPITA

Opportunities and Insights: Saudi Arabia's Growing Logistics Sector

October 2023

Vision 2030 Driving Economic Transformation

2022 was a remarkable year for Saudi Arabia. The Kingdom registered the highest growth among the G20 countries, achieving a GDP growth of 8.7% and a total GDP exceeding \$1 trillion for the first time in the Kingdom's history according to the IMF. Saudi Arabia was able to weather the economic headwinds left behind by the pandemic and lead the economic recovery in the region with an unprecedented pace. The Kingdom's pursuit of its National Vision "Vision 2030", that was mainly focused on the economy's diversification from the oil sector, was a key driver to accelerating the country's growth.

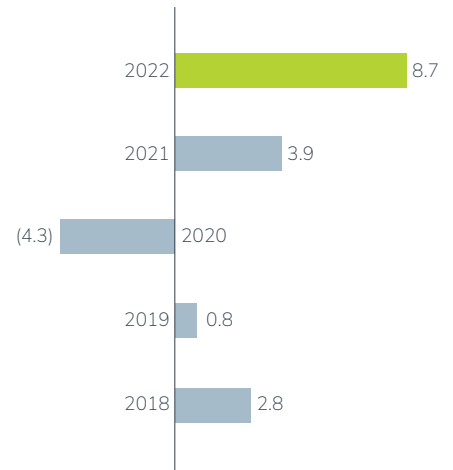
While Saudi Arabia was the latest to launch its strategic national vision in the region, Saudi Arabia's Vision 2030 gained substantial attention since its launch in 2016, due to its ambitious plan led by Crown Prince Mohammed bin Salman to transform the Kingdom socially and

economically. The plan included a wide range of initiatives, reforms and measures to promote economic diversification, increase employment opportunities, and attract foreign investments.

The Public Investment Fund (PIF) Program was developed by the Kingdom's Sovereign Wealth Fund and launched in 2017 as the main instrument to bring the plans and reforms into reality. The program's main objectives include realizing the Vision's diversification plan, unlocking growth potential in the Kingdom's private sector, and enabling Saudi Arabia to play an active role in shaping the future of the global economy.

PIF aims to achieve its objectives through driving strategic investments to support non-oil sectors, develop major real estate and infrastructure projects in the Kingdom and establish financial and economic partnerships globally.

KSA Real GDP Growth (YoY%)



The Program's Targets by End of 2025

\$1_{Tn}

Assets Under Management (Local & Global)

\$40_{Bn}

New Local Investments (Annually)

60%

Contribution to Domestic Content

\$320_{Bn}

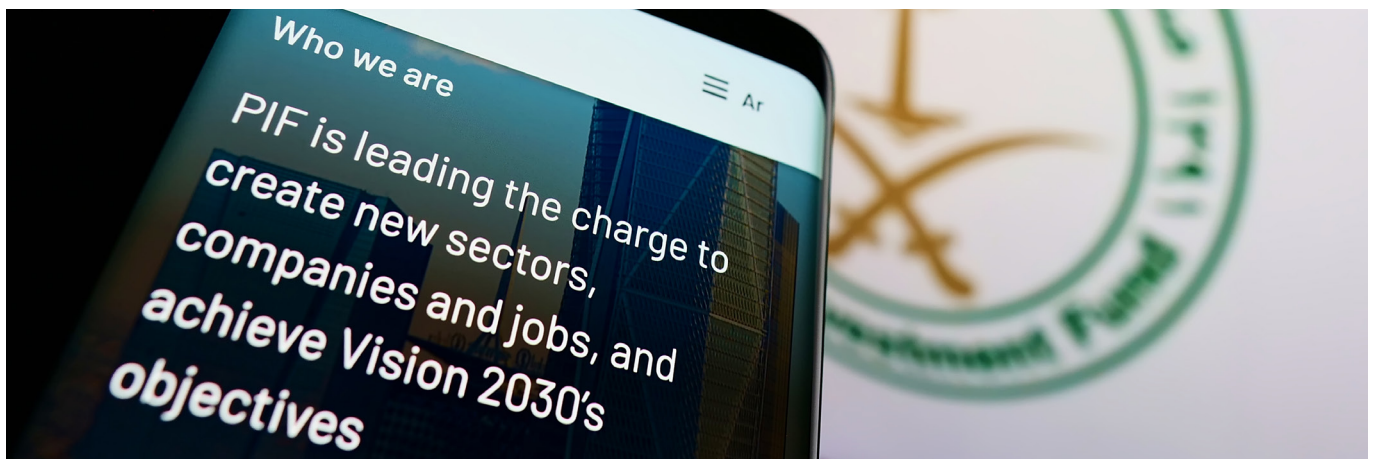
Non-Oil GDP Contribution

1.8_{Mn}

Job Creation

\$320_{Bn}

Non-Governmental Investments (Domestic & FDI)





A Wave of New Changes

As we approach the end of the first half of Vision 2030, significant progress has been made in implementing the plan, and the Saudi economy has undergone a significant transformation. Saudi Arabia has already surpassed some of the Vision's KPI targets, for example, female participation in the workforce, at 36% today, is higher than the 2030 target of 30%.

In terms of economic diversification, the non-oil sector expanded by 4.8% in 2022 and is expected to average a 5% growth in 2023, driven by strong consumption spending and giga-projects implementation. Non-oil sector GDP is already 15% larger in real terms when compared to the Vision's baseline KPIs and has contributed 59% to total GDP in 2022.

The Kingdom has already realized the benefits of the initiatives targeted to transform the Kingdom into a more attractive investment destination. The country has jumped 11 places in the World Bank Logistics Performance Index and is midway to the Vision's target of placing Saudi Arabia in the 25th position. In addition, KPI targets related to the extension of loans to SMEs and listing

of such companies on the local stock exchange have already been achieved in 2020. FDI annual inflows in Saudi Arabia since 2016 have almost tripled to reach \$19.3 billion in 2021, while FDI inward stock has grown by 48% between 2010 and 2021. The Kingdom is targeting FDI annual inflows of \$100 billion by 2030.

Halfway through Vision 2030 Program, Saudi Arabia was able to **exceed** some of its **initial targets** and KPIs **despite the pandemic headwinds**

Major Plans to Reshape the Kingdom

Implementation of giga-projects is a key defining factor of the path towards realizing Vision 2030. The aim is to transform Saudi Arabia into a global hub for business, trade, and tourism. NEOM and its four regions (The Line, Oxagon, Sindalah, and Trojena) is a \$500 billion project that will cover an area of 26,500 square kilometers. The first phase of the project is expected to be completed by 2025, while final completion of the project is targeted by 2030. Another giga-project is Qiddiya, the Kingdom's \$8 billion capital of entertainment, sports, and arts, which is expected to open its doors to visitors in 2024. The Red Sea Project, which is expected to open this year, is the largest tourism development project in the world and will cost over \$20 billion.

On the logistics and manufacturing front, Saudi Arabia announced the launch of special economic zones (SEZs) across the country with incentives for international companies to operate within the Kingdom. The new SEZs are spread strategically across the country: King Abdullah Economic City, Ras Al Khair, Cloud Computing Zone, Jazan, and the Special Integrated Logistics Zone, which has already secured Apple as its first tenant.

In addition, the Crown Prince has recently announced the launch of the Master Plan for Logistics Centers as a part of the Kingdom's broader National Transportation and Logistics Strategy (NTLS), which aims to grow the logistics sector in Saudi Arabia and enhance international trade networks within the country and attract global supply chains to ultimately position the Kingdom as a leading global logistical hub.

The master plan aims to develop more than 100 million square meters across 59 logistics centers, including 12 in Riyadh region, 12 in Makkah Region, 17 in the Eastern Region and 18 distributed in the

rest of the Kingdom. All logistics centers are expected to be completed by 2030, of which 21 are currently being developed.

The logistics services sector is a key contributor to the Kingdom's economic diversification initiatives and the recent major developments in the area will ensure accelerating the expansion of the sector to support the economic growth of the Kingdom.

KSA's 2030 Targets for Logistics Sector

\$15.3Bn

Expected Market Size

10%

Expected Contribution to KSA's GDP



The Logistics Sector is Poised for Growth in the Kingdom



We are seeing strong fundamentals in the logistics real estate sector; demand continues to outstrip supply for higher quality assets.

Over the past two years, the Kingdom's real estate industrial sector has been experiencing a supply-demand mismatch as evident by the strong levels of occupancy and year-on-year rental growth rates posted across the three main cities of Riyadh, Jeddah, and Dammam, based on a 2023 Knight Frank report.

The strong demand for industrial space is fueled by the government's Vision 2030 and its initiatives to diversify away from an oil-reliant economy in addition to the demand generated by e-commerce. This included an inward investments approach that focused on expanding existing sectors such as energy and petrochemicals, and creating new sectors including tourism and entertainment.

Current stock comprises mainly low to mid-quality dry storage facilities, cold storage facilities and open yards

We are seeing encouraging fundamentals in the **logistics real estate sector**; demand continues to outstrip supply for **higher quality assets**

Supply on the other hand, has been subdued across the main cities in the Kingdom. Current stock comprises mainly low to mid-quality dry storage facilities, cold storage facilities and open yards. New stock entering the market has been mainly contained to operators building their own industrial space.

There has, however, been very limited notable build to suit transactions in Riyadh, including Amazon's distribution center in the Agility Logistics Park that spans around 36,000 sqm across five floors and the Noon distribution center in the Sulay Area, which spans over 45,000 sqm.



Riyadh Leading the Growth in the Sector

Riyadh is the largest city in the GCC and has been expanding rapidly over the past five years. The city from the west is bordered by a series of mountains known as Tuwaiq. The south includes most of the industrial zones and the old city. As such, Riyadh's urban expansion is heading north and north eastwards. Both locations over the past 18 months experienced large influx of residential sub-divided plot supply entering the market, creating new urban locations. Land prices in these areas have also skyrocketed, which signifies the strong demand from end-users for these areas. It will therefore be imperative for e-commerce and 3PL operators to locate

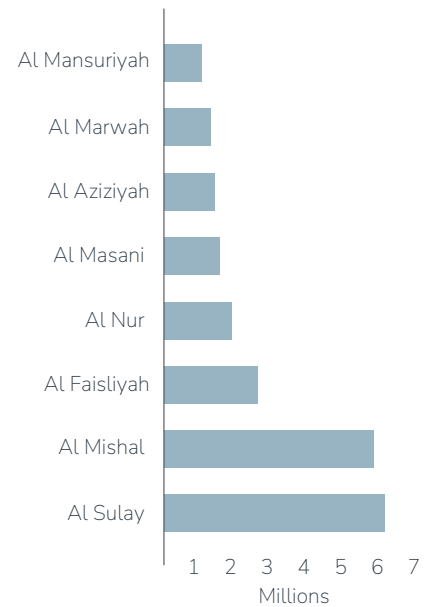
within proximity to these new urban centers.

Traditionally, industrial and logistics spaces have been concentrated in the south of the city, with the Sulay and Mishal areas being the prime option for e-commerce and 3PL operators.

However, due to the expansion of the city, Riyadh's Amana (Municipality) halted issuing new building permits for industrial use in these locations. This resulted in an upward rental rates pressure in the area, inhibiting the expansion efforts of end-users.

Over the last 12 months, lease rates were up by 22%, and they currently average 158 SAR/ sqm, among which logistic parks achieved the highest leasing rate of 250 SAR/ sqm. Secondary quality space is currently leased for 105 SAR/ sqm. The delta between the two ends of the market is likely to widen further as the flight to quality intensifies. As a result of the demand influx, occupancy levels increased across the city, currently standing at around 96% in 2022. The occupancy rate is based on a sample of tracked properties.

Warehouse Supply in Riyadh (GLA Sqm)



Source: Knight Frank, 2023

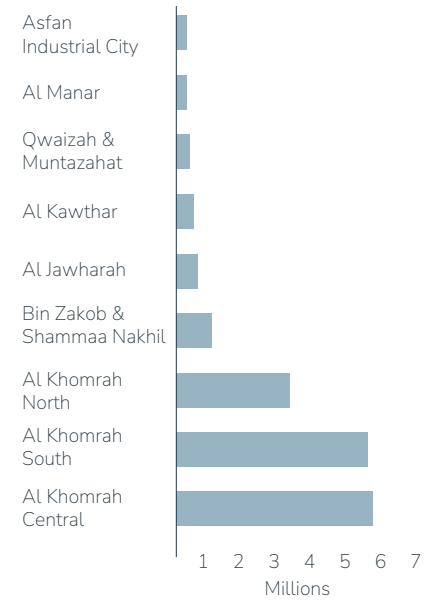
Supply-Demand Mismatch in Jeddah

Demand for warehouse space in Jeddah continues to grow with a focus on large warehouses as e-retail operators are expanding in the city, given its strategic location with maritime access to 260 ports across the Middle East, Europe, Africa, the Americas, and the Indian Subcontinent. In June 2023, Jeddah Islamic Port registered its highest container throughput by handling 473,676 TEUs, an increase of 16% compared to the same period last year. Despite positive momentum, the supply of warehouses in Jeddah has witnessed a significant decrease of 2.3% in 2022, due to land expropriation measures, with the current supply reaching 18.5 million square meters in 2022. This, along with the lack of quality warehouses entering the market, means that current supply of 18.5 million square meters in 2022 is not sufficient to cover demand in Jeddah. This demand and supply mismatch is further intensified for larger

units that exceed 6,000 square meters in size. Warehouses in areas such as Al Khomra, Wadi, and Sarawat average around 6,000 sqm, while older and more congested areas such as Al Nakhil and Al Muntazahat offer smaller units averaging 3,000 sqm.

In terms of performance, the resulting constrained supply and demand influx has led to an increase in lease rates by 22% in 2022, averaging 179 SAR / sqm, while occupancy levels increased across the city, standing at around 96%, up by two percent compared to 2021. Since pent-up demand continues to grow and the regulations continue to diverge to international standards, developers have realized the need for higher quality warehouses focused on creating modern, sustainable, and technologically advanced facilities. New additions include Village V and Agility Logistics Park, which is expected to add around 115,000 sqm of new stock.

Warehouse Supply in Jeddah (GLA Sqm)



Source: Knight Frank, 2023



E-Commerce Continues to be a Major Demand Driver for the Industrial Real Estate Sector

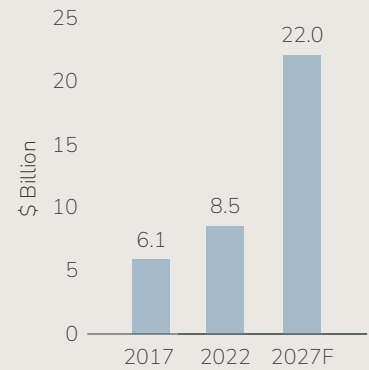
E-commerce continues to disrupt the retail sector and has achieved significant growth in the GCC. The market is well poised to continue growing, given the high adoption rate of mobiles and accessibility to the internet. The growth witnessed was accelerated as a result of the Covid-19 pandemic as more individuals have adopted cashless payments and the usage of e-commerce applications gained more traction.

The e-commerce market size is expected to expand and reach \$22.01 billion by 2027, with an estimated CAGR of 20.87% from 2022 to 2027. In 2020, online sales accounted for 6% of

the total retail sales in Saudi Arabia compared to 18% in 2022. According to Deloitte Digital, the number of e-commerce users in the Kingdom is expected to reach 34.5 million by 2025. Given the high number of smartphones with internet access, consumers found it easier and more relevant to shop online with the ease of new payment methods such as biometric, contactless, and QR code for their online transactions.

Amazon and Noon's expansion in Riyadh through their new distribution centers is a sentiment towards the demand for e-commerce in Riyadh.

E-Commerce Market Size in Saudi Arabia



129%

Mobile Subscriptions¹

90%

Internet Usage¹

3x

Consumer Spend²

18%

E-commerce Share of Retail³

We believe e-commerce will continue to compete on pricing and speed of delivery to customers. This inherently will create further demand for industrial space.

With the growing pains of the traffic congestion faced by Riyadh and the continuous change in regulations of large trucks movement within the city, e-commerce players and 3PL operators will have to optimize their locations to limit their operating costs and gain competitive edge.

Truck movements differ across various cities and months in Saudi Arabia. Nonetheless, the above table outlines the prohibited periods for truck transportation in major cities during a typical month.

	Riyadh	Jeddah	Dammam
Sunday to Thursday	6 AM to 9 AM	6 AM to 9 AM 12 PM to 1 AM Thursday: 12 PM to 10 PM	6 AM to 8 AM 12 PM to 2 PM 5 PM to 8 AM
Friday and Saturday	5 PM to 9 PM	Friday: 4 PM to 1 AM Saturday: 4 PM to 10 PM	3 PM to 8 PM

Government Initiatives

The government has launched initiatives aimed at promoting digital commerce, by establishing digital marketplaces and expanding e-commerce platforms. The Ministry of Commerce recently launched 10 initiatives to develop e-stores in Saudi Arabia. Those initiatives include promotion of e-stores to expand their geographical coverage for delivery, diversify their shipping and delivery options, and to employ technology in developing replacement and retrieval systems.

Last Mile Delivery

Last mile delivery is the final step of the delivery process, when a package is moved from a transportation hub to its final destination. The KSA last mile delivery market was valued at \$285.3 million in 2020 and is projected to reach \$520.9 million by 2030, registering a CAGR of 6.3% from 2021 to 2030. The B2C segment of the market is expected to register significant growth, with a CAGR of 9.7% during the same period.

Sources: Mckinsey Research Report, 2023 and Euromonitor Research, 2023

¹ 2023

² 2022

³ Between 2019 and 2022

Rising Interest Rates Instill some Turbulence in the Market

In KSA, the majority of existing quality stock is owner-occupied. At current interest rate levels, owners will most likely be reluctant to offload their assets through sale and lease back transactions.

The market has also experienced limited transactions, making it difficult to determine the right capitalization rates for such assets. Similarly, interested buyers will also be less incentivized to make

purchases due to the high interest rate environment and will find it difficult to achieve acceptable risk-adjusted returns as sellers hold off their high asking prices.



Outlook Summary

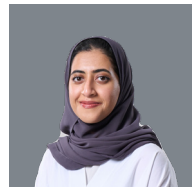
Saudi Arabia has established several programs and plans to guide the development of the industrial and logistic sectors across the Kingdom, including the National Industrial Development and Logistics Program and the National Transport and Logistics Strategy. These aim to improve the performance of logistics hubs and enhance the local, regional, and international connectivity of trade and transport networks.

The growing demand for the industrial real estate sector presents a significant investment opportunity due to factors such as the rise of e-commerce and the presence of international occupiers, setting higher construction requirements and specifications for industrial facilities that align with international standard levels, presenting an opportunity for investors and developers to fill this gap in the market.

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ARCAPITA

Overview

Arcapita is a premier asset manager offering diverse investment opportunities, focusing on private equity and real estate. At the center of one of the fastest growing wealth markets in the world, Arcapita’s management has been serving an exclusive group of investors in the GCC region over the past two decades. With offices in Bahrain, US, UK, Saudi Arabia, and Singapore, Arcapita’s management team has completed over 100 transactions with a total value of approximately \$30 billion and possesses a footprint to invest on a global scale. Arcapita focuses on defensive and counter-cyclical sectors supported by long-term macroeconomic and demographic trends.

With two decades of experience, Arcapita’s management has built a global investment platform to access the opportunities that exist in our core markets of the US, Europe, Middle East and Asia.



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