

Saudi Arabia Industrial And Logistics Market Review



H1 2024

A biannual review of key trends and the performance of Saudi Arabia's industrial and logistics market

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Backdrop

AN INDUSTRIAL POWERHOUSE

Saudi Arabia’s industrial sector has experienced significant growth in recent years, driven by strategic initiatives, technological advancements, and substantial investments, all of which have positioned the Kingdom as a burgeoning industrial hub in the Middle East.

In 2023, inflation-adjusted non-oil economic activity in Saudi Arabia grew by 3.8% over 2022. Non-oil economic output totalled SAR 2.5 trillion (US\$ 672 billion), accounting for 63% of gross domestic product. Year-on-year growth was driven by non-government fixed capital formation and consumer spending.

RISING INVESTMENT VOLUMES

According to the Saudi Authority for Industrial Cities and Technology Zones (MODON), the industrial sector in Saudi Arabia experienced a 63% increase in new investments in 2023, totalling SAR 15bn (US\$ 3.99bn). This positive trend carried into 2024, with private sector investments in the industrial sector more than doubling in the first quarter, exceeding SAR 7bn (US\$ 1.8bn).

In 2023, cumulative funding in the industrial sector reached SAR 415bn, spread across 891 projects, both local and international. Indeed, international investments surged by 85% compared to the previous year.

Developed land in industrial cities now spans over 209 million sqm, housing 6,443 factories and 7,946 industrial, logistical, and investment establishments (MODON).

GOVERNMENT INITIATIVES

The Saudi Industrial Development Fund (SIDF) also played a pivotal role in this growth. The National Industrial Strategy, announced by SIDF, aims to increase the value of industrial exports to SAR 557bn by 2030. Over the past five decades, SIDF has provided loans exceeding SAR 180bn to more than 4,000 projects, with total investments reaching approximately SAR 700bn.

SIDF continues to lead industrial development through initiatives such as Tanafus, which provides financial support and incentives to local manufacturers and the Sanea initiative, focusing on developing support for small and medium-sized enterprises (SMEs) in the industrial sector. The Green Finance initiative promotes sustainable industrial practices, while digital transformation support aids industries in adopting advanced technologies and digital solutions.

DEMAND FOR HIGH-QUALITY WAREHOUSE SOLUTIONS

The surge in e-commerce, accelerated by the COVID-19 pandemic, has heightened the demand for modern warehousing and logistics solutions. This has necessitated the development of technologically advanced warehouse facilities.

Saudi Aramco and DHL Supply Chain have recently formed a joint venture, ASMO, to meet the growing demand for sustainable and efficient supply chain services in Saudi Arabia, reflecting the region’s expanding market potential as a global trade gateway for the energy, chemical, and industrial sectors.

The demand for storage facilities, last-mile logistics centres, and cloud kitchens has surged, particularly for smaller, centrally located warehouses. The food delivery market in Saudi Arabia is thriving, valued at US\$ 10bn in 2023. It is expected to soar to US\$ 14.9bn by 2028, outpacing regional competitors (Lucidity Insights and Entrepreneur Middle East).

NEW SUPPLY ON THE WAY

On the supply front, there have been several developments over the past 12 months. The majority of warehouse and light industrial facilities have been completed in the Industrial Gate City, bringing the total warehouse and logistics stock to 28 million sqm in Riyadh.

Jeddah has also seen large-scale developments, bringing the total warehouse and logistics facilities stock to 19.6 million sqm, with notable projects including Maersk’s logistics park and Aramex’s warehouse in Jeddah Islamic Port, as well as multiple facilities developed by Logi Point in Zahid Business Park. In contrast, the industrial stock in the Eastern Province has remained relatively unchanged due to a lack of major completions.

RISING RENTS

The rising demand for warehouse and industrial facilities has driven rapid growth in warehouse rents, which have risen by 10.5% to SAR 210 psm in Riyadh and by 1.5% to SAR 208 psm in Jeddah. These lease rates reflect the market-wide average for light industrial units and Grade B warehouse and logistics facilities, as the supply of primary and Grade A spaces remains highly limited across Saudi Arabia.

National occupancy levels stand at around 97%, a record high, highlighting the robust levels of demand.

As Saudi Arabia advances its Vision 2030 agenda, the industrial sector is set to play an increasingly critical role in shaping a diversified and resilient economy, with a strong focus on sustainability, innovation, and global competitiveness.



“National warehouse occupancy levels stand at a record high of around 97%”

NUMBERS YOU NEED TO KNOW

Saudi Arabia’s industrial sector growth

410	Number of new industrial licenses issued during Jan to April 2024
505	Number of factories that began production during Jan to April 2024
SAR 38.6bn	Total capital of new licensed factories during Jan to April 2024
11,434	New workforce started working at new factories during Jan to April 2024
83.7%	Share of local investment during Jan to April 2024
8.3%	Share of international investment during Jan to April 2024
8.0%	Share of joint investment during Jan to April 2024

Source: Ministry of Industry and Mineral Resources (MIM)

Saudi Arabia’s national industrial strategy targets for 2030

SAR 557bn	Annual industrial exports by 2030
2.1 million	New jobs by 2030
SAR 97.5bn	Annual growth in the logistics sector by 2030
SAR 895bn	Manufacturing sector annual contribution to GDP by 2030
SAR 892bn	Manufacturing sector exports by 2035

Source: The Saudi Industrial Development Fund (SIDF)

Regulations and standards

SAUDI BUILDING CODE

The Saudi Building Code, aligned with MOMRA, has established regulations and standards for warehouses in warehouse districts. These warehouses have been classified into three main categories: Low Hazard (S1), which includes plastic warehouses;

Medium Hazard (S2), which includes construction materials; and High Hazard (H), which includes flammable materials. However, it should be noted that the guidelines do not cover class H warehouses.

Classification	Low Hazard -S1	Medium Hazard -S2
Minimum Area	400 square meters	300 square meters
Coverage	50%	55%
Height	8 to 28 meters	8 meters to unlimited

MODON

MODON has established a set of policies and standards to ensure the safety and sustainability of the warehouses within the industrial districts in their guidelines.

The environmental standards include:

The site should be far from smoke, dust, and other pollutants, and protected from floods.	The warehouse building should be made of good and suitable sound materials that are easy to clean.	The floor and walls of the warehouse should be made of suitable materials that are easy to clean.
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The safety standards include:

Warehouses should be located at a suitable distance from public roads, residential buildings, and other facilities.	The materials used in construction should be non-flammable, especially in warehouses used to store fast-burning materials.	Provide at least two storage locations that are as far apart as possible and in different directions.	
The stored materials should be stacked properly, preferably on shelves.	Store the materials, especially those expected to be damaged, at least 7.5 cm above the warehouse floor.	Store each type of material separately to facilitate identification of the appropriate means of fire control.	
All installations and electrical equipment should be in good condition and installed correctly.	Good and suitable lighting should be provided above the aisles and non-impact areas.	Provide fire detection devices.	Provide an automatic fire extinguishing system.

Government initiatives

ESTABLISHMENT OF FREE AND ECONOMIC ZONES

Saudi Arabia's industrial sector is at the forefront of the country's ambitious Vision 2030, which aims to diversify the economy and reduce its reliance on oil. This comprehensive strategy focuses on expanding the industrial base, fostering innovation, and attracting foreign investment, all with the aim of driving significant growth and transformation within the sector.

A cornerstone of Vision 2030 is the National Industrial Development and Logistics Program (NIDLP). This initiative seeks to position Saudi Arabia as a global industrial leader and logistics hub by establishing industrial cities and special economic zones (SEZs) across the Kingdom. These zones offer attractive incentives and state-of-the-art infrastructure to entice both local and international investors, driving significant industrial growth.

In addition, Saudi Arabia's unique advantages in the logistics industry stem from its strategic location at the crossroads of Asia, Africa, and Europe, making it a crucial commercial hub.

Furthermore, as the largest market in the GCC and a key consumption centre in the MENA region, it plays a vital role in global shipping and MENA market connectivity. Its position on both the Arabian Gulf and the Red Sea, which handles 13% of global trade, provides distinct advantages. With these factors, Saudi Arabia serves as a natural gateway to global markets totalling over 6bn people.

Saudi Arabia special & economic zones

King Abdullah Economic City Special Economic Zone		Special Integrated Logistics Zone			
<div><div><div><div></div><div>Makkah</div></div><div>Located at the heart of the Red Sea and close to Africa markets</div></div><div><div><div></div><div>60km²</div></div><div><div><div></div><div><div><div>•</div><div>Automobile supply chain and assembly</div></div><div><div>•</div><div>Consumer goods</div></div><div><div>•</div><div>ICT (Electronic light manufacturing)</div></div><div><div>•</div><div>Pharmaceuticals</div></div><div><div>•</div><div>MedTech</div></div><div><div>•</div><div>Logistics</div></div></div></div></div></div></div>	<div><div><div><div></div><div>Centrally located in Riyadh with excellent air connectivity</div></div><div>Adjacent to the King Khalid International Airport</div></div><div><div><div></div><div><div><div>•</div><div>Consumer products</div></div><div><div>•</div><div>Computer parts</div></div><div><div>•</div><div>Pharmaceuticals</div></div><div><div>•</div><div>Nutritional and medical supplies</div></div><div><div>•</div><div>Aerospace spare parts</div></div><div><div>•</div><div>Luxury goods, jewellery and precious metals</div></div></div></div></div></div>				
Jazan Special Economic Zone		Ras Al Khair Special Economic Zone		Cloud Computing Special Economic Zone	
<div><div><div><div></div><div>Jazan</div></div><div>Ideal Red Sea location in close proximity to key mines and industrial assets</div></div><div><div><div></div><div>24.6 km² Food Processing</div></div><div><div><div></div><div><div><div>•</div><div>Metal conversion</div></div><div><div>•</div><div>Logistics</div></div></div></div></div></div></div>	<div><div><div><div></div><div>Eastern Province</div></div><div>Located in Ras Al-Khair Industrial city, giving access to global markets</div></div><div><div><div></div><div>20km²</div></div><div><div><div></div><div><div><div>•</div><div>Shipbuilding</div></div><div><div>•</div><div>Rig platforms</div></div></div></div></div></div></div>	<div><div><div><div></div><div>Riyadh</div></div><div>Innovation Tower at King Abdulaziz City for Science and Technology (KACST)</div></div><div><div><div></div><div><div><div>•</div><div>Cloud Computing Services</div></div></div></div></div></div>			

Location - Province

Size

Sectors

Source: Knight Frank, Economic Cities & Special Zones

Riyadh

SURGE IN DEMAND

Across the Kingdom, there continues to be a notable surge in the demand for warehouse facilities, with Riyadh emerging as the epicenter of demand. This surge can be attributed to a variety of factors, including the booming e-commerce sector, the rapid materialisation of the Kingdom's giga projects and the wide-spread adoption of cutting-edge technologies like robotics.

GIGA PROJECTS BOOSTING DEMAND IN RIYADH

Along with ongoing transportation and infrastructure projects, landmark projects such as Diriyah Gate, King Salman Park, New Murabba, and Qiddiya are emerging as crucial drivers of the industrial market's expansion, as well as being critical sources of demand in Riyadh.

By their very nature, the capital's giga-projects are driving up demand levels not only for construction and building materials, but are also catalysing the emergence of new and dedicated industrial and logistics hubs.

These new supercities include the development of vast new transportation networks and commercial complexes, all of which are underpinning substantial demand for storage and distribution facilities across the city.

E-COMMERCE BOOST

The flourishing e-commerce industry continues to amplify the demand for warehouse facilities and distribution centres as businesses work to efficiently manage inventory and fulfil customer orders.

Furthermore, cutting-edge technologies like robotics and inventory management software are increasingly being deployed in modern warehousing facilities to enhance operational efficiency, driving an even greater gulf in the quality of modern warehouses and their more secondary counterparts.

DEMAND OUTPACING SUPPLY

On the supply front, there have been several developments over the past 12 months. The majority of warehouse and light industrial facilities have been completed in the Industrial Gate City, bringing the total warehouse and logistics stock to 28 million sqm in Riyadh. There is another 820,000 sqm of industrial and logistic space under construction in various districts of Riyadh with majority of under construction supply located in the Industrial Gate district (456,000 sqm) followed by Jabl Ali district (130,000 sqm). However, it is important to highlight that the majority of upcoming supply (this year and in 2025) is represented by properties with light industrial unit' specification having usually height 6-8 m and ground access only.

In additions the Arcapita and RIKAZ recently announced plans to jointly develop industrial and logistics facilities on a 400,000 sqm land plot in the eastern part of Riyadh.

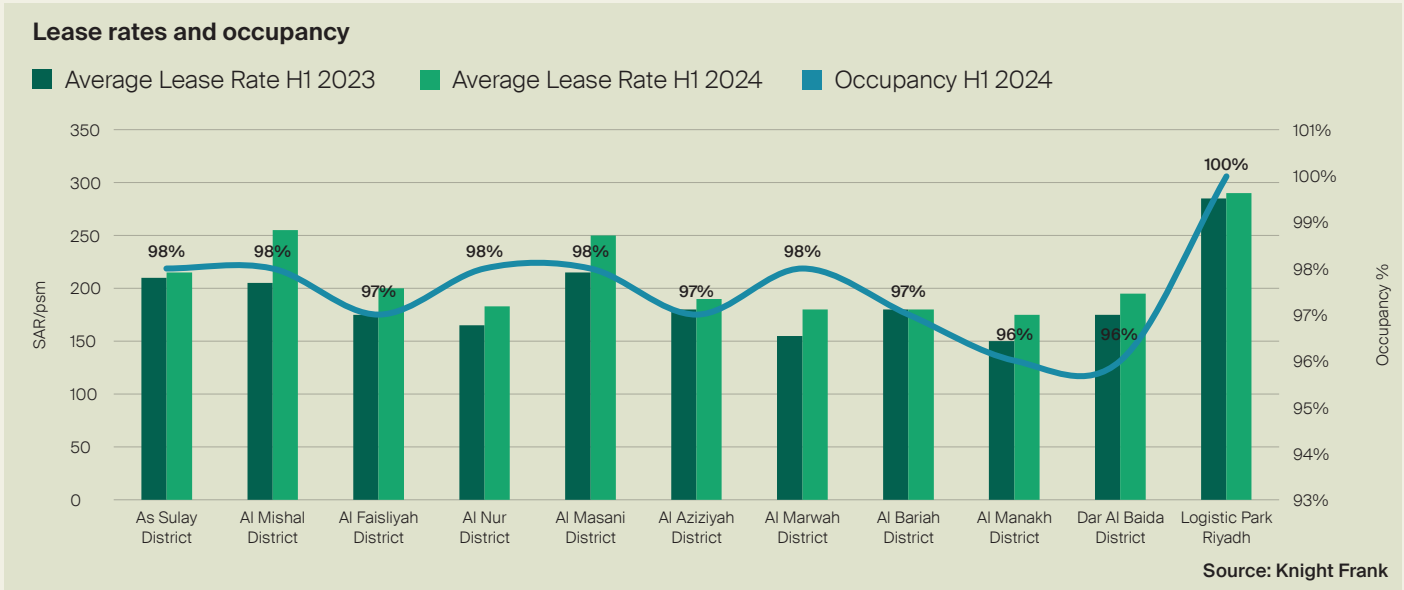
Panattoni Europe, developer of logistics properties has also announced their entry to Saudi market with plans to build facilities across all three major cities in Saudi Arabia.

RENTS CONTINUE TO CLIMB

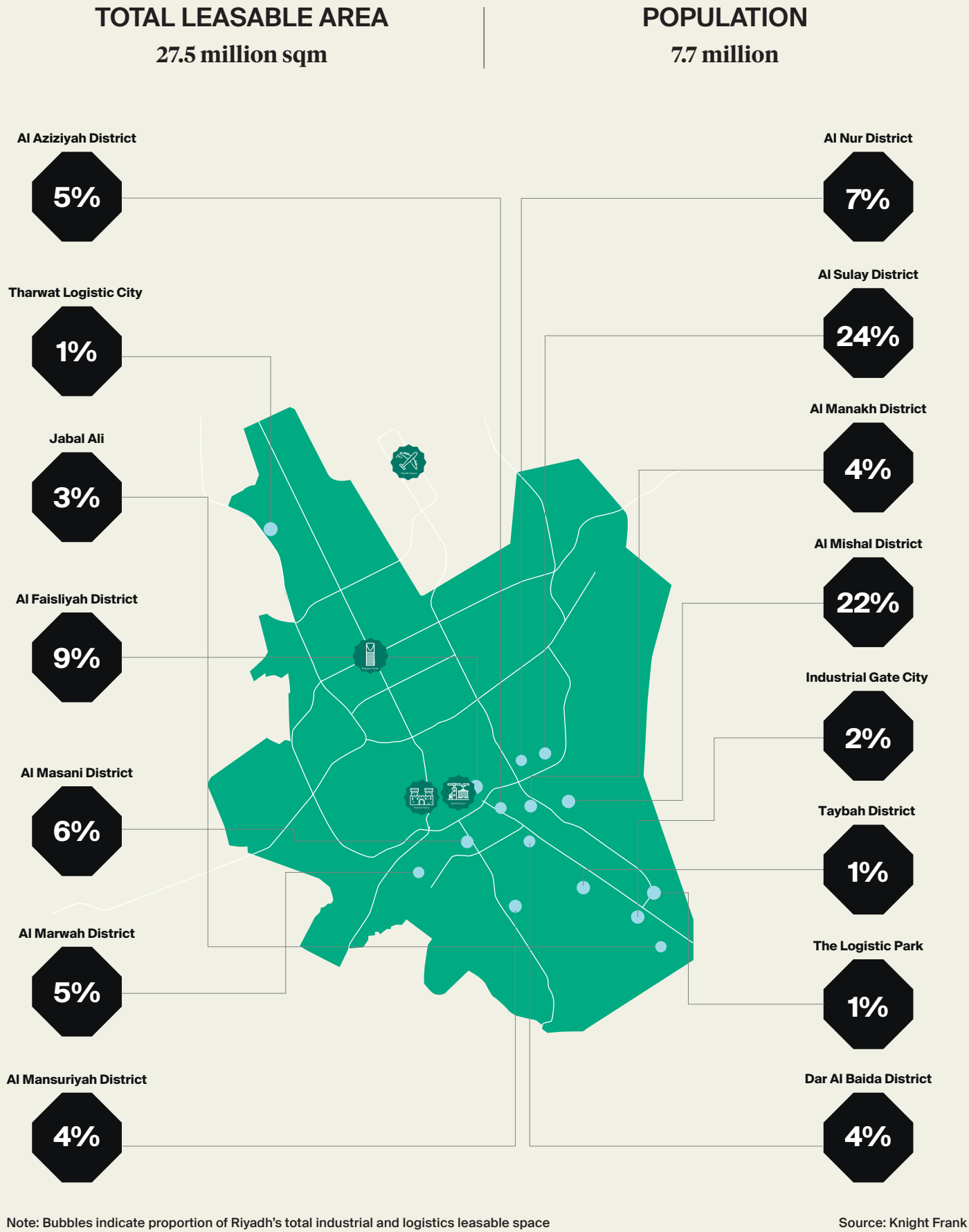
The significant surge in demand for logistics and warehouse facilities is reflected in increasing lease rates and consistently high occupancy rates across Riyadh. In fact, over the past 12 months, average lease rates for light industrial units and Grade B facilities increased by 10.4% to SAR 210 psm. Most districts have seen a rise in lease rates from H1 2023 to H1 2024, with Logistic Park Riyadh commanding the highest rates at SAR 290 psm and achieving 100% occupancy.

Moreover, districts like Al Mishal and Al Masani have also experienced a significant increase in lease rates, pointing to their strategic importance or improved facilities.

Elsewhere, Al Bariah District has maintained stable lease rates while consistently achieving a 97% occupancy rate.



Overview Of Riyadh's Warehouse And Logistics Market



Jeddah

SUPPLY CONTINUES TO GROW

Mirroring the trend in Riyadh, Jeddah’s industrial and logistics sector has also seen a significant increase in supply over the past 12 months, bringing the total warehouse and logistics facility stock to 19.6 million sqm.

Notable projects include Maersk’s logistics park and Aramex’s warehouse in Jeddah Islamic Port, as well as multiple facilities developed by Logi Point in Zahid Business Park. Most of the development activity has taken place in Jeddah Islamic Port over the past year, while Al Khumra continues to hold a substantial share, representing around 80% of the city’s warehouse stock.

MODERN STOCK

The majority of the older stock in Jeddah is characterised as low quality. However, new developments are being constructed with higher quality specifications and according to international standards, ensuring better quality and functionality, which itself is helping to drive demand and leasing activity in the city.

Most of the new stock is designed to accommodate the needs of international occupiers, incorporating modern amenities and features that were previously lacking. This shift towards higher-quality construction is driven by the surge in demand from international occupiers looking to enter the Saudi market.

INVESTMENT BY DP WORLD

The increasing demand, coupled with the improved quality of new facilities, indicates strong potential for further development and investment in Jeddah. In fact, DP World and Mawani recently announced their plans to commence construction on the Jeddah Logistics Park, which will be developed on a 415,000 sqm land plot.

Upon completion, it will provide 185,000 sqm of warehouse facilities, making it the largest warehouse facility built by DP World in the region.

For reference, DP World’s largest current standalone asset in the Middle East is located in JAFZA, Dubai (55,000 sq. m).

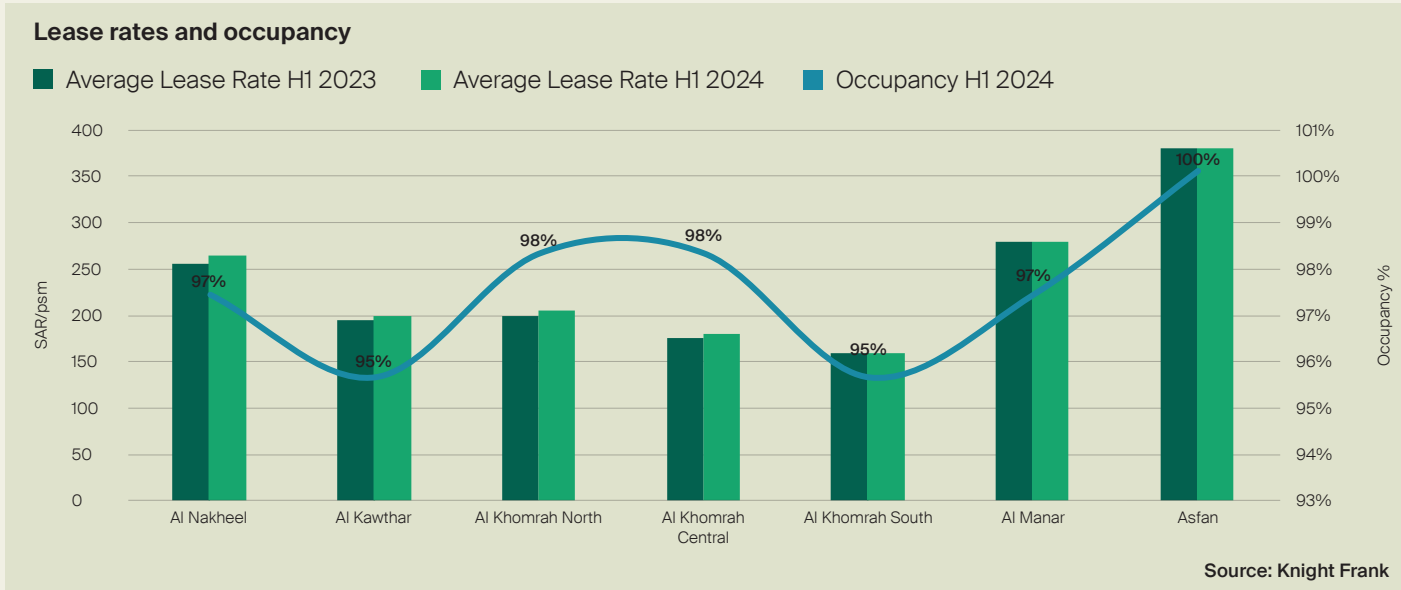
RENTS AND OCCUPANCY LEVELS EDGE UP

The Jeddah warehouse market has demonstrated strong performance over the past 12 months, with market-wide average lease rates for light industrial units and Grade B warehouse facilities standing at SAR 208 psm and an impressive occupancy rate of 97%. In Al Nakheel, lease rates increased from SAR 255 to SAR 265 psm over the last 12-months. Occupancy rates here stand at 97%.

Meanwhile, Al Khomrah North, lease rates for secondary and Grade B facilities have risen from SAR 200 psm to SAR 205 psm, with a prevailing occupancy rate of 98%.

In contrast, lease rates in Al Khomrah South and Al Manar remained stable at SAR 160 psm and SAR 280 psm, with occupancy rates of 95% and 97%, respectively.

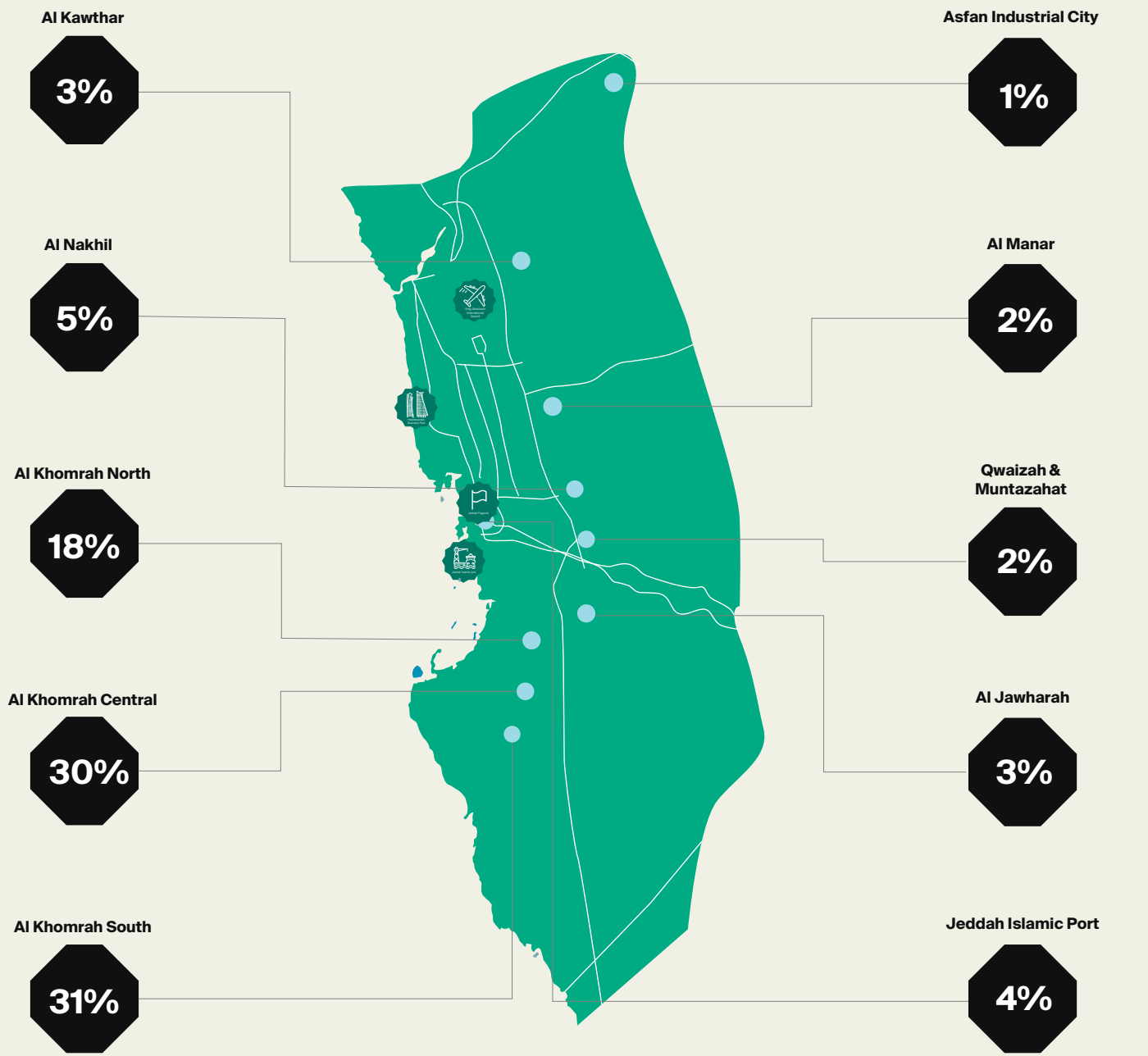
Asfan (SAR 380 psm) commands the highest average lease rates, with an occupancy level of 100%.



Overview Of Jeddah’s Warehouse And Logistics Market

TOTAL LEASABLE AREA
19.6 million sqm

POPULATION
3.9 million



Note: Bubbles indicate proportion of Jeddah’s total industrial and logistics leasable space

Source: Knight Frank

Dammam Metropolitan Area (DMA)

A KEY LOGISTICS HUB FOR THE KINGDOM

The industrial and logistics sector is poised for continued growth in DMA, driven by strategic infrastructure investments, the rise of e-commerce, and the region's critical role in Saudi Arabia's economic diversification efforts.

The modernisation of facilities and the increasing demand for high-quality warehouses are likely to attract further investments, making the Eastern Province a key logistics hub in the Kingdom.

For instance, the expansion of King Fahd International Airport and the development of King Abdulaziz Port have greatly enhanced the region's logistics capabilities. Saudi Logistics Services (SLA) has approved funding worth SAR 100 million (US\$ 26.6 million) to increase its air cargo facility capacity and equip it with the latest technologies and equipment in line with global best practices, aimed at boosting efficiency and improving customer service.

NEW INDUSTRIAL CITIES

The establishment of industrial cities such as King Salman Energy Park (SPARK) and the Industrial Valley in Dammam has also spurred the demand for warehouse facilities.

These industrial zones house numerous manufacturing and petrochemical companies that require extensive storage and logistics support, driving the need for high-quality warehouse spaces.

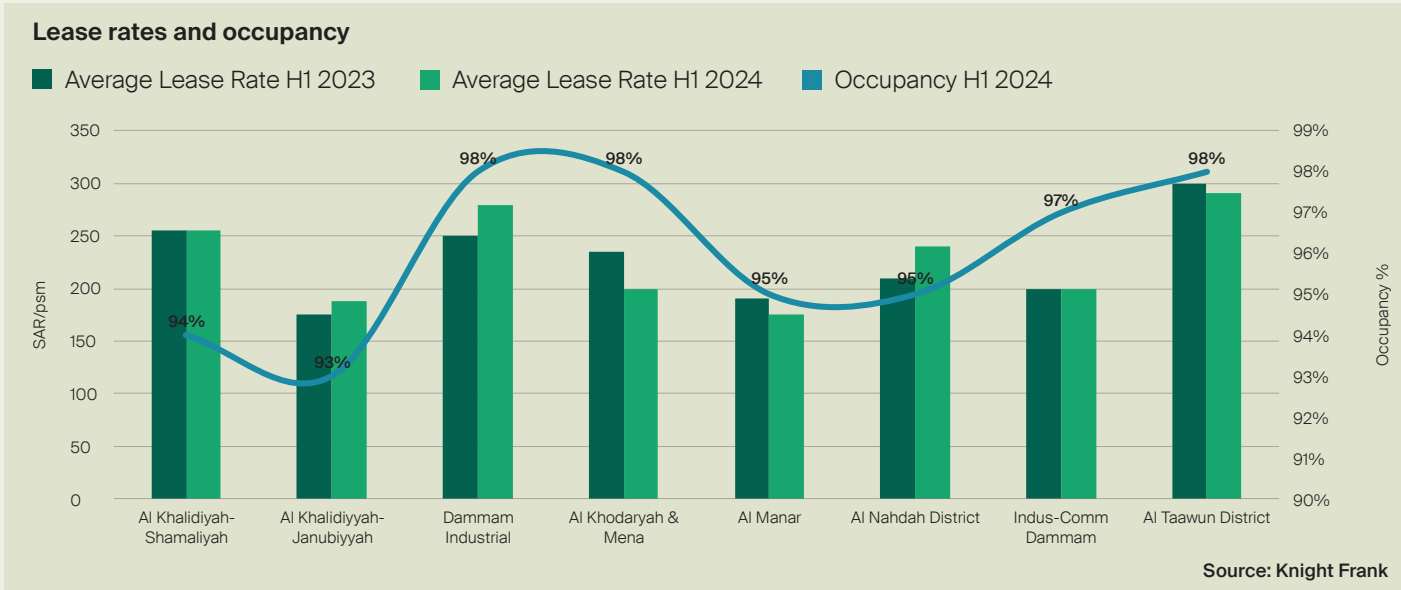
STABLE SUPPLY AND RENTS

On the supply front, the industrial and logistics stock in the DMA has remained relatively unchanged due to a lack of major completions over the last 12 month leaving the stock at 7.96 million sqm.

Lease rates for light industrial units and Grade B warehouse spaces in the Eastern Province have been steady at SAR 228 psm, reflecting the stable demand and limited supply of high-quality facilities.

Occupancy rates also remain high at 96%, particularly in strategic locations near major transport links and industrial zones.

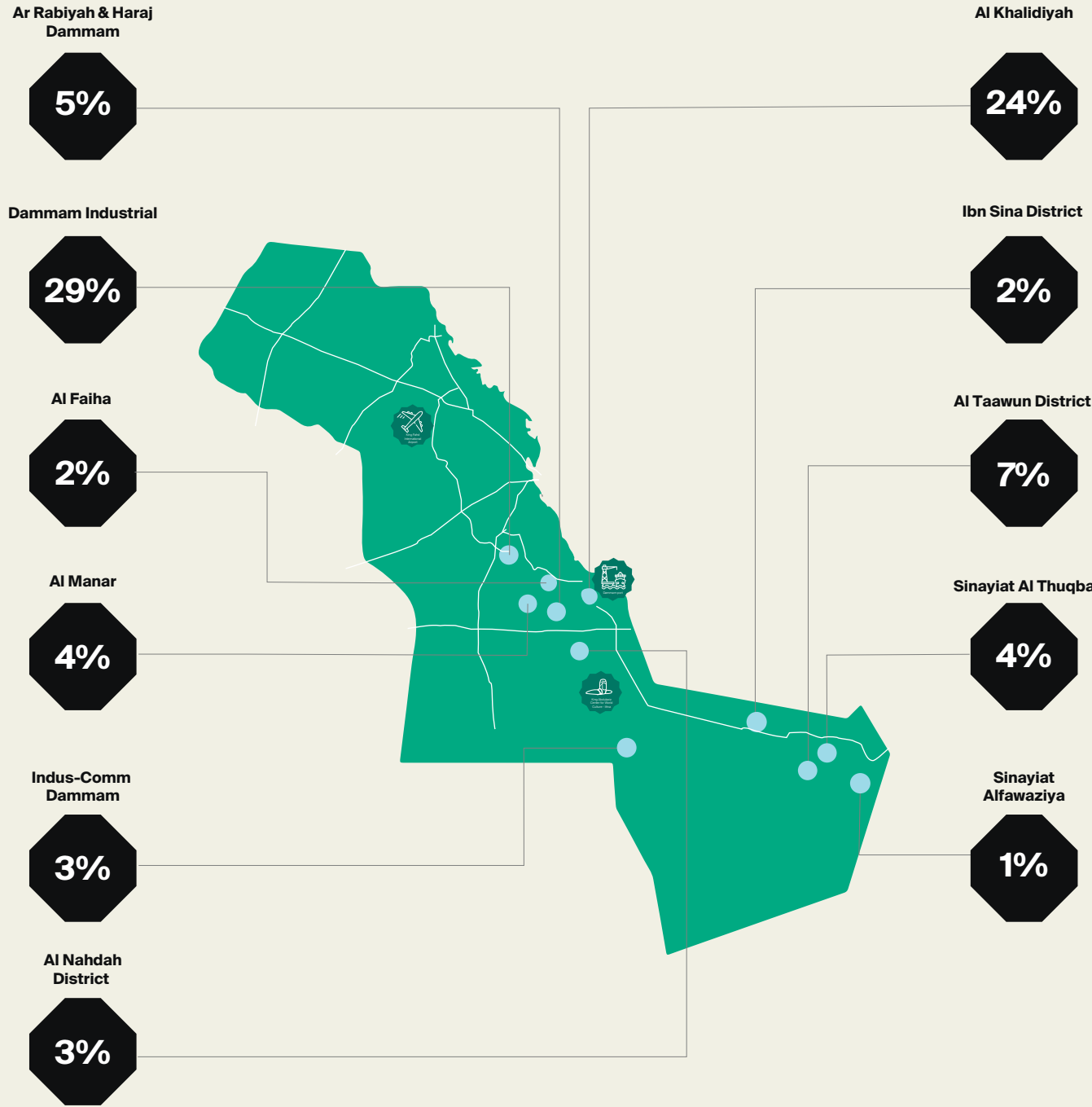
In districts like Dammam Industrial and Al Taawun, rates range from SAR 280-SAR 300 psm.



Overview Of DMA's Warehouse And Logistics Market

TOTAL LEASABLE AREA
8.0 million sqm

POPULATION
2.2 million



Note: Bubbles indicate proportion of DMA's total industrial and logistics leasable space

Source: Knight Frank

EXPERT INSIGHTS

THE OPPORTUNITY IN SAUDI ARABIA'S INDUSTRIAL MARKET

SUPPLY SHORTAGE

Saudi Arabia is currently facing a shortage of warehousing, a situation exacerbated by the cautious investment behavior of landowners. Many are hesitant to develop speculatively due to their lack of experience in creating a real estate that meets international standards. This caution is understandable, given the complexities involved in constructing high-quality warehouse facilities that align with global expectations.

INTERNATIONAL DEVELOPERS

Despite this, there is growing interest from international developers looking to enter the Saudi market.

These developers bring with them a wealth of expertise in building top-tier industrial and logistics infrastructure. Potential partnerships between these international entities and local developers could help mitigate the current supply shortage over time.

However, even with such alliances, the construction and availability of new warehouse spaces would likely take around two years from the time the partnership is established. This timeline suggests that the shortage of warehousing will persist.

A TOUGH CHOICE FOR OCCUPIERS

International occupiers entering the Saudi market often face a choice: either build their own warehouses or partner with local third-party logistics (3PL) providers who already have established logistics facilities. This decision is crucial, as it influences their operational efficiency and supply chain management in a market that is still evolving in terms of infrastructure.

RIYADH REMAINS STARVED OF SUPPLY

Riyadh is currently experiencing the most severe shortage of warehouse space, driven by the rapid economic growth and the increasing demand for modern logistics solutions.

However, the majority of new projects are being launched in Jeddah, particularly around Jeddah Islamic Port. Jeddah's strategic location as both a gateway to the Kingdom and a key hub for transshipment operations makes it a prime area for logistics development. The port's proximity to major shipping routes and its role in facilitating trade between Saudi Arabia and other regional markets underscore its importance in the broader logistics landscape.

The shortage of warehousing space in Saudi Arabia reflects broader trends in the region's industrial and logistics sector. The ongoing expansion of e-commerce, the rise in consumer demand, and the Kingdom's ambitious Vision 2030 initiatives are all contributing to the increased need for state-of-the-art warehousing facilities. Yet, the gap between supply and demand highlights the challenges of rapidly scaling up infrastructure to meet these evolving needs.

CRITICALITY OF HIGH-QUALITY WAREHOUSING

Additionally, the development of high-quality warehousing facilities is crucial for supporting Saudi Arabia's role as a logistics hub in the Middle East. The country's strategic location, coupled with its ongoing investments in transportation and infrastructure, positions it as a potential leader in regional trade and logistics.

However, overcoming the current shortage of warehousing spaces will require not only investment but also a shift in the approach to development, with a greater emphasis on collaboration between local and international players.



Mikhail Vereshchagin
Associate Partner - Industrial & Logistics,
KSA



“ The demand for storage facilities, last-mile logistics centres, and cloud kitchens has surged ”

CONTACTS

SUSAN AMAWI

General Manager, KSA
susan.amawi@me.knightfrank.com

MOHAMED NABIL

Head of Project & Development Services, MENA
mohamed.nabil@me.knightfrank.com

FAISAL DURRANI

Partner - Head of Research, MENA
faisal.durrani@me.knightfrank.com

HARMEN DE JONG

Regional Partner - Head of Consultancy, MENA
harmen.dejong@me.knightfrank.com

YAZEED HIJAZI

Associate Partner - Co-Head of Strategy and Consultancy, KSA
yazeed.hijazi@me.knightfrank.com

AMAR HUSSAIN

Associate Partner, Research, ME
amar.hussain@me.knightfrank.com

ANDREW LOVE

Regional Partner - Head of Capital Markets & Occupier/Landlord Strategy and Solutions, MENA
andrew.love@me.knightfrank.com

TALAL RAQABAN, MRICS

Partner - Head of Valuation and Advisory, KSA
talal.raqaban@me.knightfrank.com

VERA ZABELINA

Research Analyst
vera.zabelina@me.knightfrank.com

ADAM WYNNE, MRICS

Partner - Occupier/Landlord Strategy & Solutions
adam.wynne@me.knightfrank.com

STEPHEN FLANAGAN, MRICS

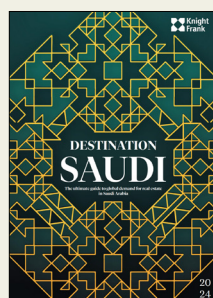
Regional Partner - Head of Valuation and Advisory, MENA
stephen.flanagan@me.knightfrank.com

EYAD AL SAIDI

Research Creative
eyad.alsaidi@me.knightfrank.com

MIKHAIL VERESHCHAGIN

Associate Partner - Industrial & Logistics, KSA
mikhail.vereshchagin@me.knightfrank.com



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Our registered office address: Knight Frank, Building 7, Laysen Valley, Riyadh, Kingdom of Saudi Arabia

Knight Frank, 47th floor, The Headquarters Business Park, Jeddah, Kingdom of Saudi Arabia



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