

CTBUH Journal

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Tall buildings: design, construction, and operation | 2013 Issue I

Kingdom: Creating a One-Kilometer High Tower

Skyscraper Reborn in Venezuela

Vertical Universities

Fire Safety in Hong Kong

The Year in Numbers: 2012

Talking Tall on Saudi Arabia

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“The fact that Torre David is a continually changing, evolving organism is perhaps its least unexpected feature. The only truly static element in Torre David is the concrete structure – everything else is in flux.”

Brillembourg et al., page 32

Fast-growing Saudi Arabia Embraces Tall Buildings



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John Harris

John has been based in Riyadh for five years. He is responsible for Jones Lang LaSalle's tenant and landlord services in the office, retail, and industrial sectors across Saudi Arabia. He has also been helping clients to develop strategies for large mixed-use schemes, residential communities, and expatriate compounds. John is an active contributor to Jones Lang LaSalle's thought leadership initiatives in Saudi Arabia, working with the research team on new reports and speaking at industry conferences, and is widely quoted in the local and regional media. He acts as General Manager of local subsidiary Jones Lang LaSalle Saudi Arabia Ltd.

John brings a diverse range of experience collected over the course of 25 years in the property sector. His previous positions have included roles focused on leasing transactions, investment transactions, market research, and client account management. Over this time he has worked on projects in many locations across the world including Canada, Middle East, Africa, United Kingdom, and Europe. Prior to moving to Saudi Arabia, John was Jones Lang LaSalle's leading specialist for property in emerging markets.

Kingdom Tower, this issue's cover story, is only one example of the development boom in Saudi Arabia, which is now the biggest construction market in the Middle East. Amid a rapidly changing cultural and economic landscape, John Harris, co-head of Jones Lang LaSalle's Saudi Arabia office, tracks the market on a daily basis. In an interview with CTBUH Journal Editor Kevin Brass, Mr. Harris discusses the shifts in the market and the Kingdom's growing interest in building tall.

What do you think is driving tall building development in the Kingdom?

One of the reasons is looking at it from the supply side. The price of land has been going further and further up in Saudi Arabia. So one reason people are going tall is the cost of land is so high in strategic locations that it's the only way you can justify development. Land prices in some of the prime locations in Saudi Arabia now are running at about SAR20,000 (US\$5,334) per square meter in the main cities. So you have to go high-rise if you're paying that kind of money for your land.

How do those prices compare to a few years ago?

In some of the prime areas, the speculation went really high in 2008 and then it fell off quite a bit. But I think we've seen values coming back. In Saudi Arabia, land is the preferred asset class for people that have wealth. Families and individuals don't have a long tradition of investing overseas, except for the wealthiest families, and people don't

always have a lot of confidence in the stock market. With interest rates at the bank, after you factor in inflation, you're really looking at zero or negative real interest rates. There are no transaction costs [in land], no stamp duty, no capital gains tax, and the ownership records aren't public, so people really like investing in land. And it's quite liquid. It's usually not too difficult to sell land.

So because it's a favored asset class, in some areas we see the value of land very high, including Riyadh and in Jeddah and most particularly in Mecca, where we see some of the most expensive land values in the world, [particularly] in the kilometer ring surrounding the Grand Mosque (see Figure 1).

That's the supply side. On the demand side, developers are looking for new ways to differentiate their offer and product and so for instance in Riyadh, we've never had high-rise living, with the exception of a few units.

That's due to culture, right? Saudis never liked living in towers.

It's partly because of culture, yes, exactly. What we're seeing now is increased differentiation and diversification of the demand and of taste. So the old monolithic market is now getting more differentiated. Developers are looking for ways to differentiate themselves. If you look at a project like Rafal Tower in Riyadh (see Figure 2), which has just topped-off, it's been a big success. It's really Riyadh's first high-rise residential condominium tower and it's already 70% sold.

So there is evidence that Saudis are ready to live taller?

We're just starting to see evidence. Along the Jeddah Corniche there was always some



Figure 1. The Kilometer ring surrounding the Grand Mosque, Mecca. © SBLG

appetite for high-rise residential apartments. Obviously in Mecca, because of the pressure, there's always been a pretty strong case for high-rise. But the jury was out whether high-rise would work for residential in Riyadh.

With the success of Rafal Tower, where there is a Kempinski Hotel on the lower levels and apartments on the top levels, it seems that some demand has emerged. There is now a segment for that market. We don't yet know how big it is. The kind of people who are getting interested in that include Saudis who are maybe from out of town who want a pied-à-terre in Riyadh. They might be Jeddah people or they might be people from Khobar or they might be Saudis living overseas who want a place when they're coming home to Riyadh. We're also getting young couples who are maybe well-educated and cosmopolitan, but don't yet have a lot of kids, and want a high-quality, premium environment to live in, that's also secure. That's also another constituency for these units.

Also, maybe not so much from a sales point of view, but from a rental point of view, expatriates are a significant part of that.

Can an expat own a condo?

An expat resident. If you have a residence permit you can own a property. But at the



Figure 2. Rafal Tower, Riyadh. © P & T Group

moment, affluent expats in Riyadh are pretty much consigned to living in these sort of sprawling compounds in the distant periphery of the city. A lot of expatriates, if they had a choice, would prefer a more central location and in a serviced high-rise environment that they're used to having in Dubai or London or Hong Kong. The idea of a vertical compound is also one that developers are thinking about, identifying expatriates that don't necessarily want to be in a gated villa community, but would prefer to be in something more urban and more architectural.

With that in mind, how might a successful tower in the kingdom differ from residential towers elsewhere? What amenities might resonate more with this audience?

When you're designing residential for Saudi Arabia, first of all, you do need to bear in mind the fact that the expatriate probably is a different constituency than the Saudi. You always have to bear in mind that discretion and privacy are highly valued by Saudis. I would not expect that a Saudi family would make as an intensive use of common areas and recreation centers as you would get in North America or in China or some other place. They're not going to want to have too many doors coming off the elevator, too many people that they're running into as they go in and out of the building. They have to have a discreet and private entrance coming in and out of the building.

They're going to want to have larger units because the families here are larger. In global cities you might have a very high concentration of one- and two-bedroom units. Here the one- or two-bedroom units will be less than half of the unit total.

The other thing that you need to bear in mind here is you have to look at providing some accommodation for the drivers. Oftentimes that can be placed as sort of a residence built into the garage, the basement or the parking building where drivers can be housed. What typically happens in houses in Riyadh is they usually have a little room attached to the garage. Well that obviously doesn't exist in a high-rise. Also, often these households will

want a maid's room in the apartment. That probably wouldn't be a high-priority in other jurisdictions, but it's quite important here.

Sometimes Saudis, again because of the privacy and management of people, might want to have two entrances into the apartment. There might be a family entrance and a formal guest entrance.

What about on the office side? Is there a demand?

There is demand. I don't think, to be honest, that high-rise or height has actually been the biggest driver or biggest aspiration of office tenants here in Riyadh, from what I've seen. It's traditionally not been a high-rise city, so you don't have that same urban sensibility as you do in Hong Kong or New York. What's much more important here is accessibility from the roads and access to parking. Basically the demand here follows parking. Security and a gated environment is a big plus. What's been very popular here is having a master planned, gated environment. That is quite new, but the developments that have produced it have been quite popular. Having a standalone building on a high street is no longer going to be very attractive for office tenants in Saudi Arabia. Tenants want to be a part of something that's more mixed-use or gated and secure and landscaped.

But are we seeing the development of new CBDs?

We are, but I think this may not be completely aligned with the interests of your constituency here. What's really interesting about the Riyadh financial district is that they've probably got 60 towers under construction, but there are probably not more than five of them that are more than 40 stories. They've created a lot of diversity of height, size, and design. There are some signature buildings – for example the 77-story Capital Market Authority Headquarters (see Figure 3), and the 53-story Gulf Cooperation Council (GCC) Bank Headquarters. So those tall buildings create an anchor and a center to the development, but it's been quite interesting that actually most of the buildings in the financial district are less than 20 stories tall.

Are there tenants for these buildings?

Yes, there are, but it is going to take some time. Most of the market in Riyadh, there's only about 10% of the market at the moment in the premium category in Riyadh. So it's going to take six or seven years for the market to migrate up to the quality of what's being produced in the financial district.

What about the economic cities and these large scale developments? Are they moving forward?

They are, but probably what's driving them at the moment is more industrial and residential demand. What we're going to see is that the office demand is going to follow the residential and industrial demand. Actually, that's not a big surprise.

The one that's come the furthest is the King Abdullah Economic City (see Figure 4), about 100 kilometers north of Jeddah. They probably made a misstep when they started by creating a business park and some premium apartment units around a marina when they launched the development. That progressed very slowly, and some of the buildings aren't finished. Now what's really turning out to be a big success for the King Abdullah Economic City is the industrial valley, which is surrounding a brand new deep water port facility that they're building, because there's been a lot of congestion and challenges with logistics down at the Jeddah Islamic Port. On the back of this brand new port and the new road and rail links that are



Figure 3. Capital Market Authority Headquarters, Riyadh. © HOK

coming into this port there's been a lot of foreign companies that have established operations there and we are now seeing it being adopted by the big Saudi family conglomerates. Some of the big family groups are consolidating a lot of their warehousing distribution and logistics in this city just because they've got good infrastructure and they can get large contiguous areas of land.

Now that this industrial site is taking off, that's also attracting a lot of residential interest. They're also starting up a high speed train, which is linking Mecca and Medina, that's stopping at the Jeddah Airport and at the King Abdullah Economic City.

Along those lines, do you see the Kingdom showing any willingness to open the doors for more international developers?

The door has been open, actually. Legally, it's quite open. The problem is one of pricing and transparencies. Saudi has made it a policy to allow foreign development companies to set up subsidiaries and there is a Kuwaiti company which is quite successful here. There are some other Gulf-based developers that have set up operations. The problem I've seen is a lot of our clients in Europe and North America and Singapore come over here looking to build, looking to develop projects,

but I think they've found it very hard to make sense of the economics. The margins are not that high compared to the amount of risk they perceive. Also it's not a very transparent market. It's very hard for foreign groups to get the comfort level to invest substantial amounts of money when there just isn't enough data to encourage them. That's all slowly changing.

What is the trend going forward? Do you see the rate of development continuing?

There's certainly a lot of money and a lot of funding available in Saudi Arabia for development. The banks for a long time were not lending on new development and we didn't see a lot of new projects started, except by some of the large state pension funds. Those are the guys developing projects like the financial district. They've got the deep pockets and the scale to develop projects that the private sector can't develop.

But we are seeing the market-based sector starting to launch new commercial projects, particularly on the retail side. Also, increasingly, as we saw with Rafal, high-rise residential projects. There's also a very big sector of development in the affordable housing market. But that's being led by the government as a developer, and they're going to focus on developing that themselves and then issuing contracts. We're also seeing a lot of the employers, like Saudi Aramco and SADC, developing housing for their employees.

What I see is the market here is becoming more diverse and more sophisticated. We're going to see increasingly more high-rise, more high-quality projects and more mixed-use projects, which reflect the changing market. ■

“In Saudi Arabia, land is the preferred asset class for people that have wealth. Families and individuals don't have a long tradition of investing overseas.”



Figure 4. The King Abdullah Economic City, Jeddah. © Emaar