MARKET IN MINUTES
Savills Research

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Temporary slowdown before long-term growth

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The Kingdom of Saudi Arabia (KSA) faces a precarious situation due to the declining global oil demand, dropping oil prices because of output disagreements with Russia, and the looming threat of the pandemic spreading globally and within the region.

As the largest and one of the most significant economies in the GCC, KSA was among the first countries in the region to initiate stringent measures to contain the spread of COVID-19. All international flights to and from the country were cancelled from 15th of March. Major cities including Riyadh, Makkah and Madinah have been under a curfew since 25th of March, and Jeddah a few days later. Travellers arriving in the kingdom were quarantined for 14 days. Failure on the part of residents to disclose travel history and health issues is an offense with fines up to USD 133,000. The country's experience in dealing with MERS in 2012 has led to these quick and effective measures from the government. Its social and medical infrastructure is also well positioned to address the logistical challenges posed by the pandemic. These measures and support factors have so far been effective as the country has officially recorded only 8,274 cases till the 19th of April 2020, seven weeks after the first official case was recorded on the 2nd of March 2020. The society's commitment with the curfew orders has also helped in curtailing the further spread of virus.

The Government has stepped in to support the economy with monetary policies aimed at invigorating business sentiments and ensuring sufficient liquidity in the market. In the past few weeks, the SAMA (Saudi Arabian Monetary Authority) has announced a SAR 50 billion program to support the private sector. It is aimed at promoting economic growth through a package of measures including the following:

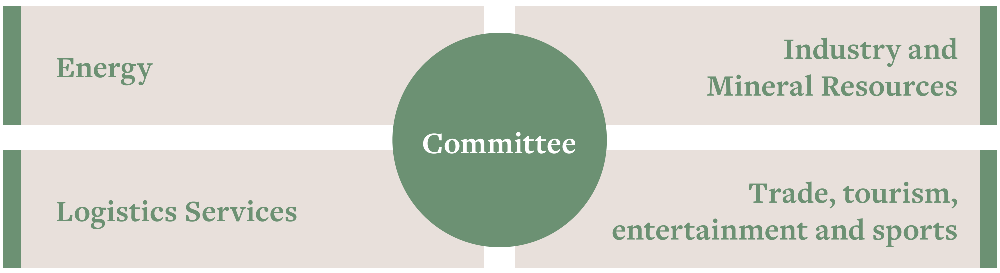
SAR 50 billion program to support the private sector

- To support financing of small and medium enterprises
- To support POS (point of sale) and e-commerce transaction fee
- Coordinating with banks and financing companies to facilitate payments related to financing enterprises affected by the precautionary measures being adopted in the cities of Makkah and Madinah
- Cutting repo rate by 75 basis points from 1.75% to 1.00 % and the Reverse Repo rate by 75 basis points from 1.25% to 0.50%
- Exempting all customers from
- fees for conducting operations through electronic channels
- fees for below-minimum low balance
- fees imposed on refinancing operations or termination of existing agreements (whether through financing or by deposits), for a period of at least six months.
- Reviewing reassessment of interest rates and other fees on credit cards, whether for current or new customers in line with the current low interest rates due to the economic circumstances
- Refunding any foreign exchange transfer fees imposed by banks on customers who wish to cancel them or who have cancelled travel-related reservations, which were implemented by using credit cards or cards linked to their current accounts (mada) or prepaid option.
- Raising the allowed top-up of the monthly ceiling limit for e-wallets up to (20,000) SAR for licensed Payment Services Providers (PSPs) in the kingdom

In addition to the above measures by SAMA, the Ministry of Finance has announced urgent initiatives to support the private sector, especially small and medium enterprises and economic activities most affected by the virus. The financial stimulus package of these initiatives reaches more than SAR 70 billion, which consists of exemptions and postponement of some government dues to provide liquidity to the private sector thereby enabling them to manage continuity of their economic activities.

These vital initiatives among others are as follows:

- Exemption from expat levy for those whose Iqama has expired from now until 30 June 2020, by extending their Iqama for a period of three months without charge.
- Enabling employers to refund the fees of issued work visas that were not used during the ban on entry and exit, even if they were stamped in the passport, or extend them for a period of three months without charge.
- Enabling employers to extend exit and re-entry visas that were not used during the ban on entry and exit from the Kingdom for a period of three months without charge.
- Enabling business owners, for a period of three months, to postpone the payment of value-added tax, excise tax, income tax, and the submission of Zakat declarations and the payment of obligations due therefrom.
- Postponing the collection of customs duties on imports for a period of thirty days against the submission of a bank guarantee, for the next three months and setting the necessary criteria for extending the postponement period for the most affected activities as needed.
- Postponing the payment of some government services fees and municipal fees due on private sector, for a period of three months, and setting the necessary criteria to extend the postponement period for the most affected activities as needed.
- Authorizing the Minister of Finance to approve lending and other forms of financing as well as exemption from payment of fees and returns on loans granted until the end of 2020, under the Corporate Sustainability Program initiative.
- Forming a committee headed by the Minister of Finance and the membership of each of Minister of Economy and Planning, the Minister of Commerce, the Minister of Industry and Mineral Resources, the Vice Chairman of the National Development Fund Board of Directors and the Governor of the National Development Fund. The aim of the committee will be to study the impact and repercussions of the emerging coronavirus crisis and its challenges on sectors or regions and study the prospect and means of tackling them through subsidies or stimulus packages or other forms.



The above policy measures will provide a much-needed support to the economy at this critical juncture. In the long-run, the positive impact of these measures will trickle down to the economy and the real estate sector. However, in the short-to-medium term, economic growth is likely to remain muted. As per latest estimates by Oxford Economics, non-oil growth is forecast to grow at 0.7% (from 2.8% previously) in 2020. This may have a negative impact on real estate activity in the country in the immediate future as expansion plans and market entry strategies may be postponed. The existing travel restrictions have already led to key policy decisions being delayed on a few of the ongoing mandates where Savills is involved. Site inspections for new office leases have been postponed while the lease start date on a few contracts has been pushed back. Close to 80% of the active enquiries represented by Savills are ongoing but at a slow pace as companies struggle to start fit-out work on the new premises and key decision makers across multinational companies revisit their business strategy.

Most of the above-mentioned delays are purely because of the current challenges posed by COVID-19. Fundamentally, there is a strong demand for investment grade real estate across KSA. A few of the ongoing deals have been concluded in the last few weeks, indicating a long-term optimistic view most companies are adopting while considering their real estate requirement in the Kingdom. Over the last twelve to eighteen months, the Kingdom has liberalised investments guidelines and opened up its economy to new business sectors. This has led to a surge in enquiry levels from regional and global companies keen to set-up / expand their operations in KSA. We anticipate a strong recovery in demand especially across the office and retail sector during H2 2020, provided the current situation is contained and business activity resumes at the earliest.

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