



LOGIC

CONSULTING

SAUDI ARABIA'S ECONOMIC LANDSCAPE IN 2024

PROGRESS, CHALLENGES,
AND VISION 2030 MILESTONES

Saudi Arabia's economic trajectory has been marked by pivotal advancements and enduring challenges as the Kingdom strives to fulfill the ambitious objectives of its Vision 2030. In recent years, substantial efforts have been made to enhance non-oil sectors, backed by significant public and private investments, the development of innovative economic zones, and the growth of non-oil industries. In the third quarter of 2024, Saudi Arabia's GDP grew by an estimated 2.8% year-on-year, driven by a 4.2% increase in non-oil activities, indicating a shift away from oil dependency.

1.0 REAL ESTATE & INFRASTRUCTURE IN 2024

Evolving Opportunities



REAL ESTATE SECTOR

According to the latest **CBRE Saudi Arabia Market Review** for 2024, the Kingdom's real estate sector is experiencing robust growth:

Residential Market

In Riyadh, residential sales transactions increased by **51.6%** year-on-year in Q2 2024, totaling **18,500** transactions valued at approximately **SAR 26.6 billion**. Average villa prices in Riyadh rose by **3.3%**, reaching **SAR 5,824** per square meter, while apartment prices increased by **6.6%** to **SAR 4,971 per square meter**.

Office Market

Riyadh's Grade A office rents grew by **11.5%** year-on-year, averaging **SAR 2,050 per square meter** in Q2 2024. Occupancy rates for Grade A offices remained high at **100%**, indicating strong demand.

Hospitality Sector

The hospitality sector showed positive trends, with the Kingdom's average occupancy rate increasing by **0.9 percentage points** and Average Daily Rate (ADR) rising by **6.7%** year-on-year as of June 2024. This led to an **8.2%** growth in Revenue Per Available Room (RevPAR).

II. INFRASTRUCTURE

Project Pipeline

Saudi Arabia leads the Middle East with a construction project pipeline valued at **USD 1.5 trillion**, accounting for **39%** of the total MENA region's pipeline. The construction sector represents **USD 950 billion (62%)** of this pipeline, while transportation, infrastructure, and utilities account for **USD 582 billion (38%)**.

Mega Projects

Ambitious projects like Neom, a planned **USD 500 billion** futuristic city, are central to the Kingdom's development plans. However, reports indicate financial challenges, with delays and budget overruns leading to leadership changes within the project.

Economic Impact

The construction industry is projected to attain **SAR 287.38 billion** by 2028, driven by investments in energy, tourism, and industrial projects.

A. KEY CHALLENGES

Challenges

Economic Volatility	Fluctuations in economic conditions affect the real estate market's growth and investment attractiveness.
Land Pricing	High land costs create barriers for affordable housing and development projects.
Infrastructure Gaps	Inadequate infrastructure in certain areas limits the feasibility of new developments.
Regulatory Delays	Bureaucratic inefficiencies and prolonged processes for approvals hinder timely project completion.
Market Misalignment	A mismatch between the supply of luxury properties and the demand for affordable housing.

B. REGULATORY AND POLICY REFORMS

Key Focus Areas

Foreign Investments	Introduction of policies to attract foreign investment and partnerships in the real estate sector.
Urban Development Plans	Comprehensive urban planning initiatives to align with Vision 2030's objectives.
Sustainability Regulations	Implementation of guidelines for energy-efficient and eco-friendly building practices.
Affordable Housing Incentives	Government support for developers focusing on affordable housing projects through subsidies and tax benefits.

2.0 INDUSTRIAL SECTOR

Towards Integrated Industrial Ecosystem

The Kingdom's industrial sector plays a pivotal role in achieving Vision 2030 goals by driving economic diversification and reducing reliance on oil. Despite facing significant challenges, the government has implemented comprehensive strategies and initiatives to foster growth, enhance sustainability, and attract global investments.

Statistics	Value	Significance
Total Number of Factories	7,741 factories	Reflects growth and production capacity in the sector.
Employment in the Industrial Sector	Over 1 million workers	Demonstrates the sector's role as a key employer in the economy.
National Industrial Strategy Initiatives	136+ initiatives	Focuses on infrastructure, digital transformation, and sustainable energy.

Through targeted investments, regulatory reforms, and workforce development, Saudi Arabia is building a robust industrial ecosystem poised for sustainable growth. Efforts to diversify into non-oil industries underscore the Kingdom's commitment to becoming a global industrial leader by 2025 and beyond, with projections of GDP growth of 4.6% in 2025.

A. KEY CHALLENGES

Financial Barriers for SMEs

SMEs face significant challenges, including stringent financing conditions, limited managerial expertise, cash flow issues from delayed payments, and intense competition, which collectively hinder their financial stability and growth potential.

Infrastructure Gaps

- ▶ Aging infrastructure in older industrial areas fails to keep pace with the requirements of modern industries.
- ▶ Poor logistics in remote areas lead to high transportation costs and operational inefficiencies.
- ▶ Some industrial zones lack effective integration of infrastructure components like energy, utilities, and transportation, often operating in isolation from logistics and energy networks.

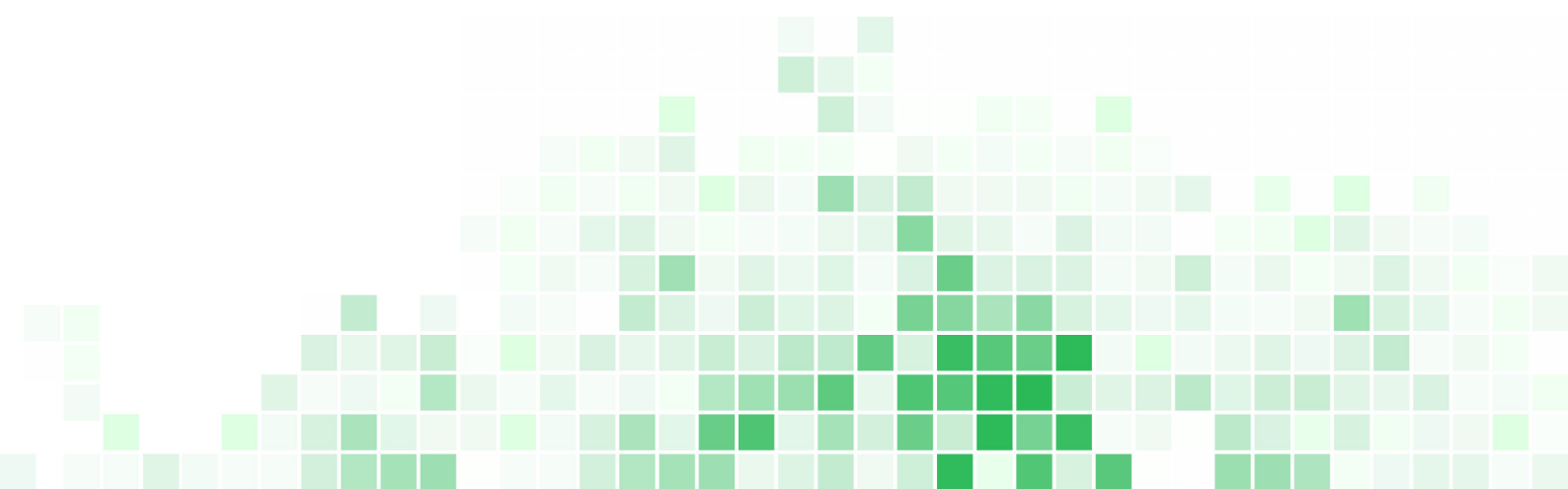
Regulatory and Legislative Hurdles

- ▶ The complexity of the current legal framework hinders foreign investors' ability to understand and comply with regulations.
- ▶ Frequent and unpredictable changes in local laws create uncertainty for investors
- ▶ The involvement of multiple regulatory bodies with differing requirements and overlapping penalties

Operational Inefficiencies

- ▶ Limited capabilities of service providers hinder their ability to facilitate the transition to smart manufacturing and drive innovation.
- ▶ Poor coordination among regulatory bodies overseeing factories causes overlapping responsibilities, leading to repeated inspections for same issues.

Workforce Limitations

- ▶ Shortage of qualified local labor to operate advanced equipment and modern technologies, limiting operational efficiency and the full utilization of available technologies.
 - ▶ Provision of essential services such as adequate housing and healthcare for workers, negatively impacting labor quality, well-being, and overall productivity.
 - ▶ Difficulty in aligning national workforce goals with the technical demands of the sector.
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B. KEY STRATEGIC INITIATIVES

Financial Initiatives

- ▶ Saudi Industrial Development Fund (SIDF) provides loans and programs like "Promising Factories" to support SMEs.
- ▶ Incentives to boost local production and attract investments in key industries.

Infrastructure Development

- ▶ Expanding digital and energy infrastructure to support industrial growth.
- ▶ Transforming industrial cities into specialized clusters, e.g., for food industries.
- ▶ Enhancing storage facilities with incentives for public-private partnerships.

Regulatory Reforms

- ▶ Streamlining laws and introducing unified governance to ease compliance.
- ▶ Protecting local industries through trade policies and promoting exports.

Operational Improvements

- ▶ Programs like "Factories of the Future" to integrate advanced technologies.
- ▶ National centers established for industrial data management and supply chain optimization.

Workforce Development

- ▶ Wage support programs to encourage national employment in industries.
- ▶ Initiatives like "Nesnad" by SABIC to develop local talent.

3.0 AGRICULTURE

Addressing Food Security Amid Arid Conditions

In 2024, Saudi Arabia intensified its efforts to enhance food security amid arid conditions, implementing several innovative strategies to address challenges such as water scarcity, supply chain issues, security concerns, and climate change.

A. KEY CHALLENGES

Challenges

Water Scarcity

KSA faces severe water scarcity, with agriculture consuming 88% of freshwater resources. Overuse has led to groundwater depletion and soil salinization, threatening sustainability.

Supply Chain Issues

Heavy reliance on food imports makes the Kingdom vulnerable to global supply chain disruptions, risking food security during international crises.

Security Concerns

Geopolitical tensions in the region can disrupt agricultural activities and trade routes, affecting the stability of food supplies.

Climate Change

Rising temperatures and changing precipitation patterns worsen water scarcity and reduce arable land, further limiting agricultural productivity.

B. INNOVATIVE SOLUTIONS IMPLEMENTED IN 2024

Initiative

Hydroponics and Vertical Farming

Investment in hydroponic and vertical farming technologies to address water scarcity. These methods enable efficient water use and higher crop yields in controlled environments.

Sustainable Agriculture Practices

Promotion of sustainable farming techniques, including controlled environment agriculture, solar-powered water desalination, and smart irrigation systems to reduce environmental impact.

Public-Private Partnerships

Collaborations between public institutions and private enterprises to drive innovation, enhance food security, and improve resource efficiency through agritech and bio-technology.

Artificial Underground Water River

Construction of a 12,000 km underground pipeline network using anti-corrosion pipes, capable of distributing 9.4 million cubic meters of desalinated water daily to address water scarcity. It supports water sustainability by enhancing distribution efficiency and reducing reliance on surface water.

Ras Mohaisen-Baha-Makkah IWTS

A 300 km pipeline with a capacity of 515,000 cubic meters per day, developed on a Design, Build, Finance, Lease, and Transfer (DBFLT) basis to connect key consumption centers with desalination facilities. It improves water connectivity, reduces groundwater dependence, and aligns with Vision 2030 sustainability goals.

4.0 TOURISM

Saudi Arabia's efforts in the tourism sector have already surpassed expectations:

Achievement

Vision 2030 Tourism Targets

Achieved the goal of 100 million annual visitors by 2023, seven years early.

International Tourist Arrivals

73% increase in arrivals in the first 7 months of 2024 (17.5 million visitors).

Leisure Tourism Growth

Leisure tourism surged by 656% since 2019, with 17.5 million international visitors in 2024.

Policy Enhancements

VAT refund system for tourists to be introduced in 2025 to attract foreign visitors.

Saudi Arabia's domestic tourism witnessed a significant rise, with 60 million domestic tourists recorded in the first half of 2024. The Kingdom's inbound tourism also rebounded impressively post-pandemic, experiencing a 688% increase from 2021 to 2023. Additionally, Saudi Arabia has established itself as a global leader in tourism, achieving the highest growth among G20 nations during the first seven months of 2024. According to the United Nations World Tourism Organization (UNWTO), the Kingdom recorded a remarkable 73% increase in international tourist arrivals, underscoring its growing appeal as a premier travel destination. These trends highlight the success of strategic initiatives under Vision 2030.

Despite significant progress, critical challenges such as infrastructure deficiencies, service quality, and the imperative for sustainable development continue to pose obstacles. Addressing these issues is vital for securing long-term growth and enhancing global competitiveness. Saudi Arabia is adopting a customer-centric approach, meticulously tailoring experiences to meet the diverse needs of travelers, from family-focused destinations to wellness retreats. Through groundbreaking projects, sustained investment, and strategic policy reforms, the Kingdom's tourism sector is poised to emerge as a global leader, fully aligned with the ambitions of Vision 2030 for economic diversification and cultural enrichment.

5.0



KNOWLEDGE AND INNOVATION

Building a Future-Ready Economy

Advancing the knowledge economy remained a priority under Vision 2030, with a focus on education, technology, and innovation.

A.

KEY CHALLENGES

Challenges

Skills Gap

A mismatch between educational outcomes and labor market needs has constrained workforce competitiveness.

R&D and Private Sector Involvement

Insufficient investment in R&D, coupled with regulatory barriers for startups and collaborations, has stifled innovation.

Digital Infrastructure Disparity

Unequal access to digital infrastructure in some areas has hindered technological progress.

B.

KEY STRATEGIC INITIATIVES

Education Reforms

Aligning curricula with market needs to prepare students for emerging industries.

Tech Investments

Supporting initiatives in artificial intelligence, renewable energy, and smart cities.

Innovation Hubs

Creating ecosystems that encourage collaboration between academia, industry, and government to drive research and development.

Progress Amidst Challenges

Saudi Arabia in 2024 exemplified a nation in transition. While declining oil revenues and structural challenges posed difficulties, the Kingdom's strategic investments in tourism, innovation, and governance reforms drove meaningful progress. Streamlining bureaucracy through the adoption of digital systems to simplify processes like land registration and permitting further underscored the Kingdom's commitment to enhancing efficiency and fostering a business-friendly environment. As Saudi Arabia continues to implement Vision 2030, its ability to sustain momentum and adapt to emerging global trends will define its path toward long-term prosperity and diversification.

Key Economic Indicators

Indicator	Unit	2023	2024 Est.	2025 F
Gross domestic product, constant prices	% change	-0.755	1.527 ▲	4.571 ▲
Budget Balance	% of GDP	-2.020	-3.034 ▲	-3.436 ▲
Total investment	% of GDP	29.342	30.342 ▲	31.149 ▲
FDI Inflows	\$bn	25.5	24 ▼	N/A
Inflation rates	%	2.3	1.7 ▼	1.9 ▲
Unemployment rate	% of total labor force	3.775	3.65 ▼	N/A
Volume of exports of goods and services	% change	-0.11	0.824 ▲	8.986 ▲
Volume of imports of goods and services	% change	15.815	6.489 ▼	8.878 ▲

Note: A trade deficit is evident here, driven by a disparity between the growth rates of exports and imports. While the volume of exports of goods and services experienced slight fluctuations, with changes of -0.11%, 0.82%, and 8.99% over the periods, the volume of imports of goods and services grew at a significantly faster pace, with increases of 15.82%, 6.49%, and 8.88%. This faster growth in imports relative to exports has widened the trade gap, contributing to the observed deficit.

Source: International Monetary Fund, World Economic Outlook Database, October 2024

Saudi Arabia is strategically addressing its budget deficit, reflected in the disparity between revenue and expenditure, through leverage. Saudi Arabia recently issued sukuk to finance the deficit, leveraging its robust economic position and strong credit ratings. The Kingdom's ability to attract investors is underpinned by its diversified economic base, prudent fiscal policies, and ambitious Vision 2030 initiatives. With one of the highest credit ratings in the region, Saudi Arabia continues to demonstrate significant borrowing capacity, making sukuk issuances an efficient and sustainable tool to address fiscal gaps while maintaining investor confidence. This approach aligns with the government's strategy to manage debt responsibly while driving economic growth and diversification.

Unveiling KSA's Market Dynamics and Future Prospects With

Mostafa El Ghorab

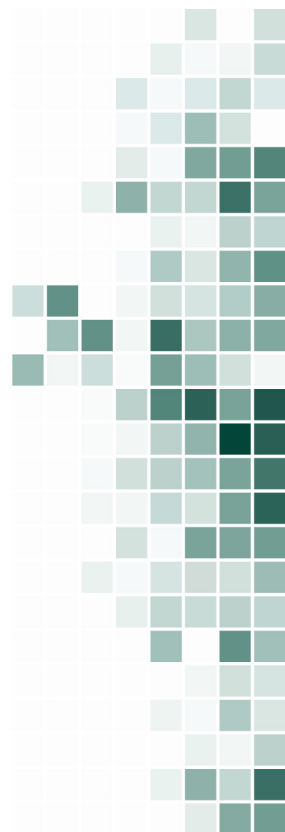
Mostafa El Ghorab, Senior Partner and KSA Managing Partner at LOGIC Consulting, provided key insights into the economic landscape of Saudi Arabia. He addressed the drivers and challenges shaping the market in 2024, projections for 2025, and discussed pivotal sectors, government policies, and unexpected developments that have influenced the Kingdom's business environment.



Q1 What are the key economic drivers and challenges currently shaping KSA market in 2024? What is the outlook for the market in 2025?

▶ In 2024, the non-oil sector has grown by 3-4%, primarily driven by infrastructure projects, growth in global corporate establishments (such as Regional HQs and R&D centers), an increase in foreign visitors and local tourism, and enhanced participation of the private sector in the economy. However, the oil sector has seen a decline in its contribution to GDP. Geopolitical tensions in the region have caused certain disruptions primarily in trade and supply chain networks, and high interest rates have adversely impacted industries like real estate, which started recovering cautiously toward the end of the year.

Looking ahead to 2025, there is expected to be continued investment in infrastructure to prepare for major events such as the Asian Games 2027, Expo 2030, and the World Cup 2034. Tourism is anticipated to improve with the launch of the Red Sea Resorts. Recovery in the real estate sector is likely to be supported by increasing employees arrivals and anticipated declines in interest rates. Furthermore, escalating US-China trade tensions may create opportunities for the industrial sector.



Q2 Which sectors in KSA are experiencing the most significant growth or showing potential for investment in 2025?



In 2025, Saudi Arabia is expected to see strong growth across several key sectors, each offering promising investment opportunities.

Technology: Saudi Arabia's technology sector, particularly in artificial intelligence (AI) and cybersecurity, is poised for rapid growth as the Kingdom invests heavily in digital transformation and smart cities, creating substantial opportunities for innovation and security solutions. By December 2024, Saudi Arabia ranked second in regional startup funding, raising approximately \$95 million, nearly doubling October's \$50 million. This strong performance highlights the Kingdom's commitment to nurturing its startup ecosystem as part of Vision 2030, even as the UAE led the MENA region with about \$150 million raised across 11 deals.

Tourism and Hospitality: Saudi Arabia's Vision 2030 is driving significant development in tourism, with major projects like NEOM and the Red Sea Projects attracting international visitors and boosting demand for hospitality services.

Real Estate: The real estate sector is recovering, driven by government initiatives and rising demand for residential, commercial, and mixed-use developments, making it an attractive option for investors.

Logistics and Transport: Improvements in infrastructure are fostering growth in the logistics and transport sectors, with Saudi Arabia positioned as a key trade hub between Asia, Europe, and Africa.

Industrial: The industrial sector in Saudi Arabia is attracting significant Foreign Direct Investment (FDI), with the government's emphasis on diversification, manufacturing, and petrochemicals creating promising opportunities in this sector. One landmark project is the **Jubail Carbon Capture and Storage (CCS) Facility**, led by Aramco in partnership with SLB and Linde, which aims to capture up to 9 million metric tons of CO₂ annually by 2027, contributing to the Kingdom's target of achieving net-zero emissions by 2060. In renewable energy, projects like the Sudair Solar PV Project, nearing completion with a 1.5 GW capacity, will power 185,000 households, while a \$972 million collaboration with China Energy Engineering will add a 2 GW solar power plant. The government has also pledged over \$180 billion to green economy initiatives, focusing on renewable energy, circular economies, and climate adaptation, further establishing Saudi Arabia as a regional leader in sustainability.

Food and Agriculture: With a focus on food security, Saudi Arabia is investing in innovative agricultural technologies, presenting opportunities for growth in food production and sustainable practices.

Energy: The Kingdom is accelerating investments in renewable energy, with a focus on solar and wind energy projects, creating opportunities in the green energy space.

Overall, 2025 offers diverse investment potential across these sectors, fueled by the country's ongoing economic transformation and Vision 2030.

Q3 How have recent government policies or regulatory changes impacted business operations and foreign investments in KSA this year?

- ▶ Recent government policies and regulatory changes in Saudi Arabia have significantly reshaped the business environment and bolstered foreign investments. A strong emphasis on data security and the promotion of cybersecurity initiatives has enhanced the country's digital infrastructure, attracting further investment in tech sectors. The introduction of simplified entry visa policies has contributed to a marked increase in both tourism and business visitor arrivals, supporting the growth of the hospitality sector. Additionally, industrial support programs have effectively drawn Foreign Direct Investments, improved labor mobility, and fostered development within the industrial sector, positioning Saudi Arabia for continued economic growth.

Q4 What significant shifts or developments took place in KSA market this year?

- ▶ This year, the oil market experienced a notable decline in demand, largely due to reduced consumption in China. This slowdown prompted OPEC and OPEC+ to implement strategic supply cuts to stabilize prices and mitigate the effects of the downturn. Geopolitical tensions have further complicated the global landscape, particularly impacting trade in critical regions like the Red Sea, a vital maritime corridor for international commerce. These developments have created both challenges and opportunities, reshaping investment strategies and global trade dynamics. Lastly, the government is realigning its spending priorities in response to recent global trends, leading to adjustments in the timelines for major projects, including The Line in NEOM.

Q5 Real estate and industrial sectors have undergone many changes. What are your insights on this?



In the **real estate sector**, there has been a strategic push to unlock landbanks for development, particularly in Riyadh, which has been a major catalyst for growth. This initiative has paved the way for large-scale projects and urban expansion, transforming Riyadh into a leading economic hub. A clear emphasis is being placed on technology-driven solutions, such as **smart homes and smart cities**, with a growing focus on **proptech use-cases** to streamline processes, enhance efficiency, and improve sustainability. Additionally, there is a noticeable shift towards prioritizing **customer experience and livability** in communities, aiming to create sustainable, vibrant living environments that align with the needs of modern residents.

In the industrial sector, escalating trade tensions between the US and China have presented an opportunity for Saudi Arabia to strengthen its position as a global manufacturing and trade hub. As supply chains shift, international companies are increasingly looking to diversify their production locations, making Saudi Arabia an attractive destination for investment. This growth drives demand for **industrial real estate**, including **logistics hubs, manufacturing zones, and worker accommodations**, particularly in urban centers like Riyadh, where infrastructure development is accelerating. To capitalize on this momentum, the government has introduced industrial support packages, including financial incentives, infrastructure upgrades, and regulatory reforms. The decline in interest rates has further improved access to financing, benefiting both real estate and industrial projects.

Together, the advancements in the real estate sector not only accommodate the growing needs of urban and industrial expansion but also reinforce Saudi Arabia's positioning as a global hub for commerce and innovation. These combined efforts are pivotal to achieving the Kingdom's Vision 2030 economic diversification goals.

Closing Thoughts

Saudi Arabia's market continues to undergo dynamic transformations, with strategic investments and policy shifts paving the way for long-term growth. Despite challenges in 2024, the outlook for 2025 remains optimistic, with numerous opportunities emerging across diverse sectors.

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