



Achieve
Ambitions

The future of *foodservice* in Saudi Arabia

Current market & future trends



6 Trends to watch

1 / Emphasis on overall experience

2 / Development of home-grown brands

3 / Move towards healthy & sustainable eating

4 / Growth of delivery options & dark kitchens

5 / A shift from food courts to food halls

6 / A shift from fast food to fast casual

Saudi Arabia's Evolving Food & Beverage Industry

At the time of data collection and analysis, our region had not yet experienced the social and economic consequences of the outbreak of COVID-19. While the F&B landscape is expected to change, with restaurants facing cash-flow and operational restrictions, we remain positive in our outlook for the industry's growth and the shift in trends.

Saudi Arabia's Food and Beverage (F&B) industry is the largest in the Middle East, valued at USD 45 billion. The Saudi Arabian General Authority for Investment (SAGIA) forecasts that spending on foodservice will grow by 6% per annum over the next five years (far ahead of the overall population growth of 1.8%), with food consumption reaching SAR 221 billion (USD 59 billion) by 2021. This growth is being driven by a number of demographic and social changes sweeping the Kingdom.

Large, young population, with high disposable incomes

Rapidly changing demographics present many opportunities for developing the Food & Beverage industry in Saudi Arabia. With a population approaching 34 million by the end of 2019 Saudi is the largest domestic F&B market in the GCC.

More relevant than the overall size of the population, is the relatively young age demographic with 53% between the ages of 15-44. This age group has a higher propensity to spend on F&B, and is more open and exposed to the changing consumer trends being experienced globally.

Expansion of the tourism and entertainment industries

The tourism industry in Saudi Arabia is changing drastically, with public and private sector efforts focused on diversifying the tourist base and purpose of travel to the Kingdom (away from business and religious tourism). In the long run, this is expected to result in a significant shift in the Kingdom's retail and F&B landscape as part of the government's modernization and economic diversification efforts. Planned investments in the entertainment sector will also have a major impact on the quality and diversity of F&B concepts in the Kingdom. Vision 2030 envisages that household spending on domestic entertainment will increase from 2.9% of total expenditure in 2015 to 6% by 2030. The expansion of the cinema industry alone is expected to create opportunities for supporting retail and F&B offerings.

The planned increase in the number and size of sporting events and concerts will also have positive implications for the foodservice sector. This is already resulting in a proliferation of mobile food and beverages businesses and food trucks.

This growth will not just be limited to the major cities of Riyadh and Jeddah. Al Ula in the North West of the Kingdom (and home to Saudi's first UNESCO World Heritage site) introduced a number of concerts and musical performances under the banner of 'Winter at Tantora' in 2019. This event was catered for by a wide range of temporary food trucks and the establishment of a number of fine dining pop up restaurants (including Anabelle's, Sass Café, and La Cantine).



What we have seen

In line with global trends, the F&B market in Saudi Arabia has already seen many changes and developments:

- A number of world-famous fine dining restaurants have tested the market by opening their first pop-up branches in Saudi Arabia as part of the recent Jeddah and Riyadh Seasons (e.g. Zuma, Scalini, and Catch).
- A variety of international casual and fine dining options have entered the Riyadh market (e.g. Cheesecake Factory, Hakkasan and Cipriani).
- Michelin star level restaurants are opening permanently across the Kingdom (e.g. Rasoy, an Indian restaurant in Jeddah).
- There has been a trend towards new specialty smoke houses in Jeddah and elsewhere (e.g. The Warehouse, Chefs and The Smoke House).
- More specialty third-wave coffee shops are opening across the main cities. These are proving popular locations for friends to gather and socialize, especially among Millennials and Generation Z (e.g. C-Hub, Overdose, Dose, Toga).
- Increasing number of famous local Saudi chefs opening their own restaurants (e.g. Nehal Felemban) or leasing space to give culinary lessons (e.g. Bakery M).
- The first Culinary Arts Academies are planned to open in Jeddah and Riyadh.
- The growing trend of food banks (e.g. Etaam), reflecting people's awareness & responsibility in preserving food, with wedding and banquet halls now obliged to subscribe to food banks and minimize food waste. It is estimated the Etaam food bank preserved around 2.1 million meals in 2019.



The Restaurant Market in Riyadh and Jeddah: Key Insights

We have analysed data on approximately 9,000 restaurants in Riyadh and Jeddah. This data covers all restaurants and cafes with an online presence and has been sourced from Google Maps® and relevant peer review websites such as Trip Advisor, Foursquare® and Zomato®.

Based on population figures from Oxford Economics, we find that Jeddah has a higher ratio of restaurants per capita (1 per 1,090 people) than Riyadh (1 per 1,385 people). This is a reflection of the larger domestic tourist market in Jeddah and the large number of religious tourists that pass-through Jeddah.

Restaurant mix

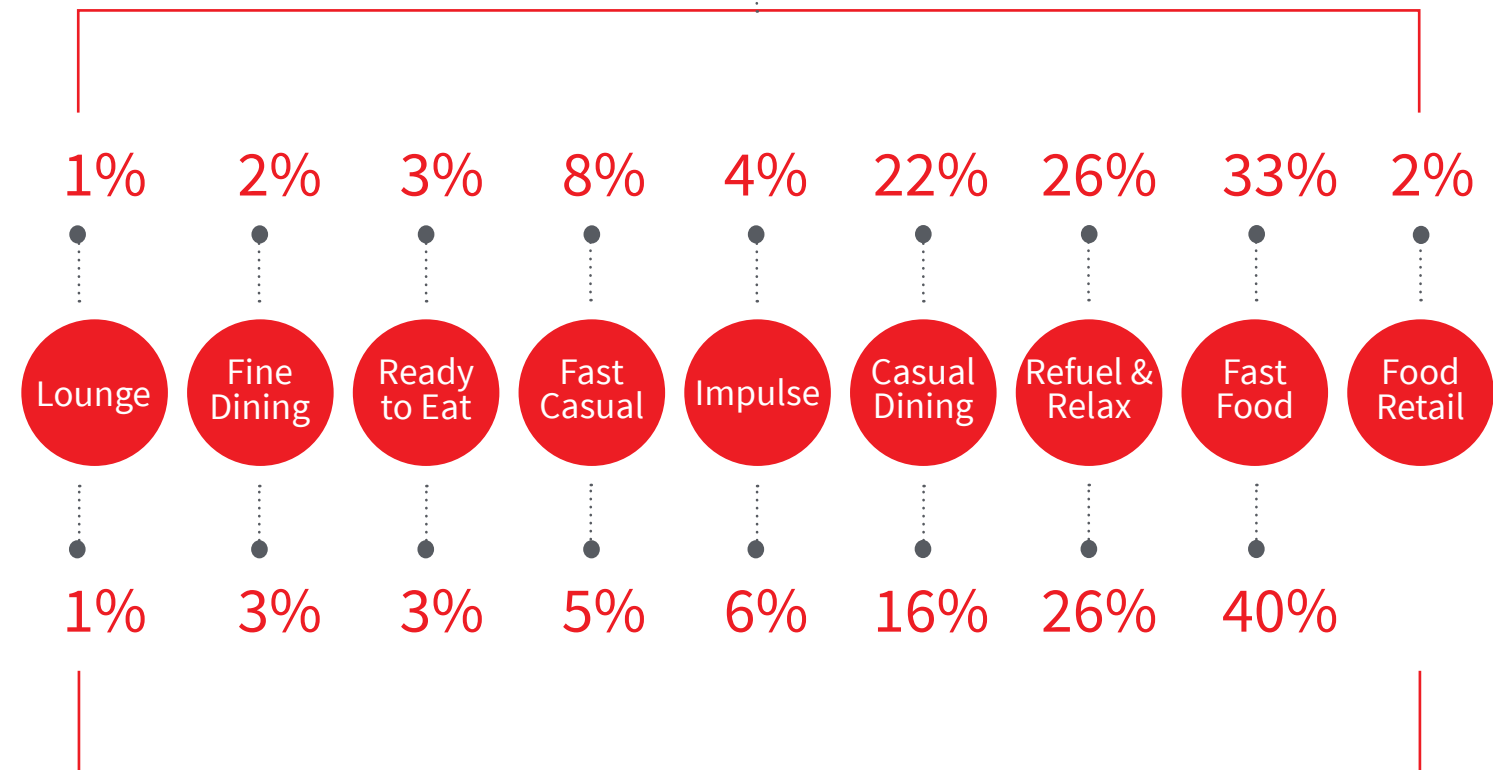
The mix of restaurants in each city is relatively similar, with a number of standout observations (Infographic 1).

- Jeddah has a higher provision of Fast Casual outlets (8% versus 5% in Riyadh), indicating it is a more modern market as this unit category is relatively new, globally.
- Casual Dining in Riyadh (16%) is significantly lower than Jeddah (22%). This disparity is explained by the much higher provision of Fast Food in Riyadh (40%) compared to Jeddah (33%). This is due to the large proportion of low quality, old and traditional establishments in Riyadh, classified as Fast Food, catering to a low-income population. In the upcoming decade, we expect some of these establishments to be gradually replaced by Casual Dining and Fast Casual establishments delivered by international brands and home-grown concepts.
- Refuel & Relax units (such as coffee shops) are the second most common form of outlet, following Fast Food, accounting for 26% of

all units in both cities. This provision mix is approximately 50% higher than other global destinations we have studied, due to the fact that Refuel & Relax destinations are currently the dominant “social” commercial spaces available in Saudi. As other social spaces such as Entertainment Clusters, Food Halls and Cinemas increase their presence in the Kingdom, we expect more structured food establishments (Fast Food, Casual and Fast Casual Dining) to supplement a proportion of the Refuel & Relax establishments.

- We find that Modern Fast Casual and All-Day Dining establishments are relatively underprovided in both markets and expect these categories will increase in popularity as new concepts, especially better quality home-grown restaurants, come into the market.
- Ready to Eat and Food Retail are also scarce in both markets. As people become increasingly busy and time poor, we have seen an increase in such concepts globally and expect a similar trend in the Kingdom.

Jeddah



Riyadh

Location analysis

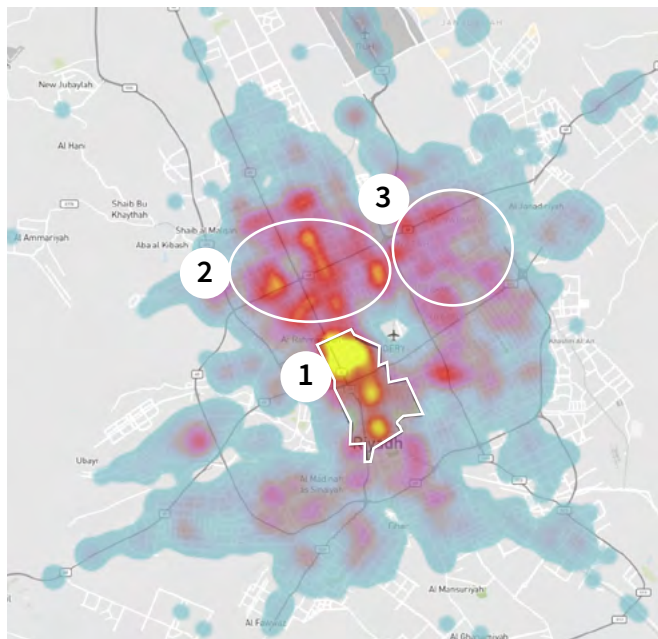
Riyadh Clustering (Graph 2)

1. As expected, the unit clustering is concentrated in the downtown area of the city.
2. On the East of the Riyadh Air Base we find a higher density of restaurants than on the West of the city. This is due to the higher density of population in this area. It is also important to notice that in the East, we find a higher density of Fast Food Restaurants which is in line with our expectations due to the lower income averages in this area.
3. The most important observation from this analysis is the increasing supply on the North of the city. When this is coupled with our development supply figures, there is a clear trend of the city growing to the North with high quality supply of both restaurants and other asset classes.

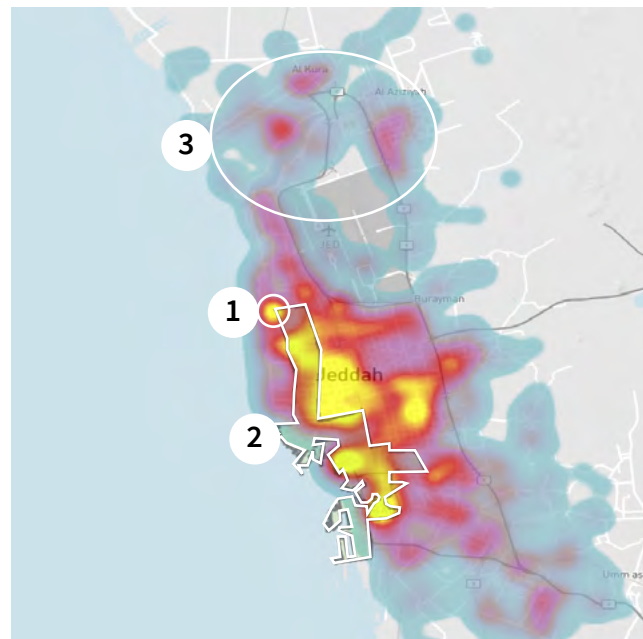
Jeddah Clustering (Graph 3)

1. Similar to Riyadh, the highest concentration is found in the downtown of Jeddah with one key difference. Jeddah as a city is more condensed and the same is found in the restaurant provision.
2. We find two pockets of F&B in the south of the city in the Al Bahad and Corniche areas of the city. These are the “old city” destinations which provide a lower quality restaurant experience.
3. Even though the population in the North is limited, in recent years JLL has seen a large increase in restaurant supply on the northern side of the airport (JED), east of the creek. This is supported by developments around the Creek, Jeddah Tower, and other large up and coming commercial centres.

Graph 2



Graph 3



Brands, cuisine types, and reviews

Brands: In addition to the internationally recognizable brands, we have categorized brands as establishments with 3 or more units in each market. Our analysis finds Riyadh’s supply (39%) is significantly more branded than Jeddah (24%). Both markets however, are less branded than other global cities. This is as a result of the expansion strategy of global brands which does not include the Kingdom in their initial expansion plans. Following the strong reforms and 2030 vision push, we expect the branded provision in both Riyadh and Jeddah to increase.

Cuisine Types: In both markets coffee represents the highest provision of units due to the popularity of Refuel and Relax units followed by Middle Eastern restaurants at 16% in Riyadh and 17% for Jeddah. There is little difference in the overall mix of cuisines with Indian/ Pakistani restaurants the third most popular category in both at around 8%. It is important to note that healthy options represent less than 1% in each market.

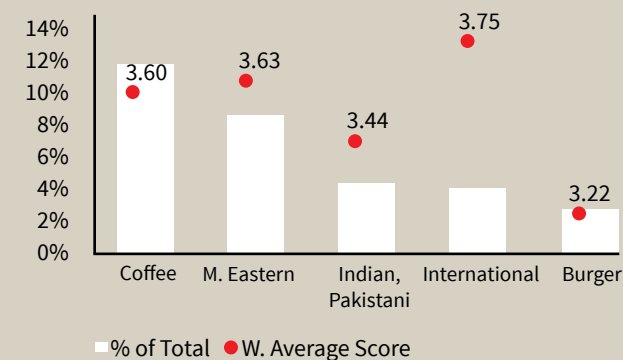
Following global trends, but also due to the

young population in the Kingdom, we believe this segment is expected to grow over the next 5 years.

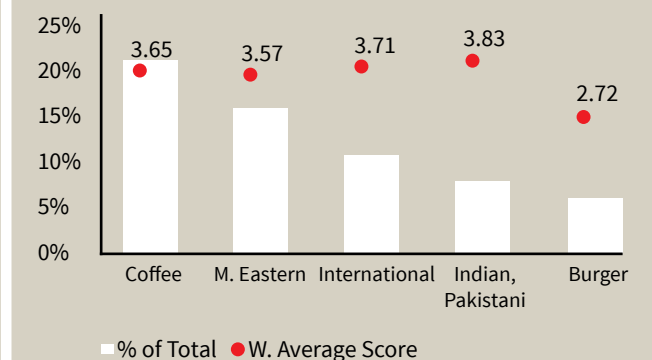
We also analysed over 400,000 reviews, equally split between Riyadh and Jeddah, to find that Jeddah’s weighted average rating is 3.64 out of 5 compared to Riyadh’s 3.57. Further detailing the Riyadh market, we find that people mentioned “Food” in positive reviews 22% of the time, were “Service” and “Staff” is mentioned 28% of the time in negative reviews. Similar to Riyadh, in Jeddah, “Service” appears in most negative reviews (21%) and “food” in 26% of the positive ones. It is important to note that “Service”, “Staff”, “Place” and “Experience” appear in 37% of all reviews in Riyadh and over half (51%) of all Jeddah reviews which highlighting the need for better training, sharper service and the importance of the experience not only in terms of service but also look and feel of the restaurant.

This will be increasingly important in those areas that are aiming to attract international tourists whose service expectations are often more demanding.

Jeddah - Top 5 Cuisine Categories



Riyadh - Top 5 Cuisine Categories



Future trends and opportunities in KSA

From food courts to food halls

One outcome of the increased focus on experience will see a shift from the currently ubiquitous food courts found in most malls across the Kingdom, to a wider range of Dinnertainment options, especially Food Halls.

There are multiple types of food halls, ranging from the traditional market revival to your modern street food market. Even though each type delivers a different experience, they all have common characteristics. They work because they provide a fresh, ever changing, “local” and unique experience delivered by rotating concepts, focusing on good food, freshly made to order and usually prepared by local heroes who are looking to grow their brand. A food hall is not only, a relatively cheap good meal, it is an experience the local population can relate with and a must-see, unique experience for tourists.



Emphasis on overall experience

In 2016/2017 we highlighted the importance of experiences as the shift of super-casualization had already started. Paired with an experience economy, the trend is now global, here is what people say:

- 61% of adults report that they would prefer to spend money on experiences, including eating out, over purchasing a physical item from a store (GlobeSt.com).
- 40% of millennials like to try new kinds of ethnic cuisines and “anything new and different (Harris Inc).”
- Food Hall growth in the US is expected to rise by 60%, by 2022 (TouchBistro).

The increased focus on experience is likely to drive a shift in the market dynamic away from Fast Food to Fast Casual formats as consumers attach greater weight to a quality experience relative to merely convenience.

Heathy and sustainable eating

As with consumers elsewhere, those in Saudi Arabia are becoming increasingly concerned with health & wellness and this has clear implications for their food choices.

Many of the existing fast food chains have responded by introducing more healthy menu options, and new brands are emerging with a specific focus on health and wellbeing.

Capitalizing on the health-conscious consumer, local brands such as Sinless and Yogi have established a presence in Riyadh, offering healthy locally produced dishes.

A shift from fast food to fast casual

Fast food, invented sometime in the early 20th century, commoditized food production and invented the take-out market. An increasingly busy provided the perfect fuel for the fast food industry to take over the world by storm. In Riyadh and Jeddah, this category represents 40% and 33% of the offer.

Today, population needs are very different, healthy habits are increasingly important, people are looking to get back lost social interactions with friends & family and, as seen in many of the highlighted trends, people need an experience as much as they need food. Similar to many global markets where fast food represents about 20% of the offer, we expect a significant shift from fast food to fast casual, a foodservice category that better responds to today’s population needs whilst still offering a quick dining solution.

“One outcome of the shift in consumer habits is a focus on more experiential and healthy dining, brought by unique local concepts.”



Emergence of more “home grown” brands

The Saudi foodservice sector is currently heavily dependent upon traditional local offers and the large global brands, with this trend particularly apparent in the fast food sector which remains dominated by brands such as McDonalds, Subway and KFC. This has resulted in a certain “sameness” and lack of identity characterizing the foodservice mix some projects.

In recent years and as the Kingdom continues to develop its capabilities as an up and coming tourist destination, the market is becoming increasingly appealing to more interesting brands such as Coya, Nobu, Scalini, Gaia and many others having established a presence in response to the rapid opening up of the restaurant sector in Saudi.

With a range of local brands demonstrating they can compete effectively against international giants, and consumers becoming increasingly selective in their desire for more unique experiences, there are opportunities for additional local or “home grown” concepts in coming years, particularly for those offering healthy options utilizing locally sourced ingredients.

Delivery and dark kitchens

While more people will go outside the home to share their eating experience, the market for home delivery will remain sizeable. This is estimated by UBS Evedence Lab to reach USD 365 billion by 2022 globally.

The nature of the delivery model will, however, continue to evolve, with options for delivery to an increased range of locations. It is increasingly common for food to be delivered to workplaces across Saudi. As the range of entertainment and sporting venues increases in line with the aims of Vision 2030, so will the demand for food delivery to those attending events in public spaces.

Another consequence of the growth in food delivery options, will be a further separation between the location of food preparation and consumption. We are already seeing a growth in interest in “dark kitchens” (kitchens without dining facilities) across the major cities in Saudi and this interest is only likely to increase over coming years. The preparation of food from a central kitchen housed in a central but relatively low-cost location, is likely to prove attractive for restaurants with multiple branches.

Foodservice categories definition

- Lounge** Beverage or Shisha led units with or without a food offer. Food menu can be important but usually a supporting offer. Places focused on social interaction with a higher than usual dwell time.
- Fine Dining** Restaurants with a high average spend (SAR 250+ per person). Full service restaurants usually associated with 3-course meals.
- Ready to Eat** Sandwich shops, delis, sushi shops, salad specialists among others. Food is often pre-prepared or quick-assembly. Take-away available. Generally offers more cold food than hot.
- Fast Casual** Better quality (and often slightly slower) than Fast Food. Order from counter / till / device rather than table service. Medium average spend.
- Impulse** Snack specialists (i.e. ice cream or juices) that serve customers who want a “quick pick me up.” Does not include coffee kiosks.
- Casual Dining** The largest category - restaurants with full table service and medium average spend. Generally not open before 10am (see All Day Dining).
- Refuel & Relax** Coffee shops, tea shops, and bakeries with a strong hot drink and snack offer. Generally offers more sweet food than savoury.
- Fast Food** Includes big branded players specialising in burgers, fried chicken, pizza & subs as well as independents. Low average spend, generally offers more hot food than cold.
- Food Retail** Specialist grocer with substantial merchandise display. More items to take home as groceries (not a grocery store though) or gifts than to consume after purchase.



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