Global Corporate Real Estate Guide - Saudi Arabia

Leases

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# What are the usual forms of leases?

The following are the usual forms of leases:

Industrial leases

Commercial office leases

Retail leases

Residential leases

Development leases/ground leases

# Are lease provisions regulated or freely negotiable?

While there is no leasing law per se specifying lease provisions, if parties wish to benefit from having their lease being directly enforceable by the enforcement courts as an enforcement instrument, a unified form of lease is available and must be registered on the online Ejar platform.

Parties are free not to use the unified form of lease. However, this free-form lease must still be registered on the Ejar platform to be enforceable in the ordinary course (i.e., free-form leases are enforceable through normal courts and not as enforcement instruments if they are registered).

Additionally, leases of industrial land in Jubail and Yanbu and industrial land administered by the Saudi Authority for Industrial Cities and Technology Zones “MODON“ are subject to very limited changes from the prescribed form.

# Is there a maximum term for leases? Can these be extended?

Leases entered into by landlords with government departments or agencies are limited to an initial term of no less than five years. The lease can be extended to 50 years under certain conditions.

There is no maximum term or limitations on renewal for nongovernment leases in Saudi Arabia.

# What are the usual lease terms?

Most leases are for terms of one year, renewable for further one-year terms and subject to upward rent review, except for development leases or ground leases and for industrial leases, which are usually for terms between 15 and 25 years.

# Are there instances where tenants may demand an extension of the lease?

No.

# On what grounds may a lease be terminated?

In general, a landlord can only terminate a lease pursuant to the termination provisions contained therein (e.g., the tenant is in breach of its obligations under the lease).

A tenant may not terminate a lease without cause, unless there are specific provisions in the lease permitting such termination.

# Must rents be paid in local currency?

The parties to a lease are free to set the rent in currencies other than Saudi riyals. However, arrangements for payment of rent in foreign currency are not typical.

# Is rent paid on a monthly basis? Is it required to be paid in advance?

Rent is typically paid annually in advance.

# How is rent reviewed? Are there limits to the increase in rent?

There are no laws that set a cap on rent reviews or that seek to control renewals.

Rent is usually reviewed upward upon the renewal of the term, either at market rates or by a fixed increment of 5%-10%. There are no limits on the extent to which a landlord can increase rent, so long as the increase takes place at the time of renewal or at dates/intervals agreed by the parties.

# What are the basic obligations of landlords and tenants?

The following is usually required of landlords:

Repair and maintain the structure of the property

Insure the property

Provide tenants with a valid notice of termination if terminating the tenancy

The following is usually required of tenants:

Pay rent on time

Keep the property in good order

Inform the landlord if repairs are needed and give the landlord access to the property to carry out repairs

Give the landlord access for inspections and to perform the landlord’s work

# What provisions or restrictions typically apply to the transfer of the lease by the tenant? May a tenant sublet the leased premises?

Tenants and landlords are free to agree on the extent to which a tenant can alienate their interest in the lease, except for industrial and governmental leases. Typically, tenants are prohibited from assigning or subletting the whole or part of the leased premises without the landlord’s prior written consent.

# What happens in the event of destruction of the leased premises?

If the tenant caused the destruction of the leased premises, they will be liable not only for the remaining rent due for the balance of the term but also for the costs arising from that destruction, including the cost of reinstatement.

If the landlord caused the destruction of the leased premises, the lease ends and the tenant can claim damages from the landlord for their direct losses. The tenant will be entitled to receive a refund on that portion of the rent paid in advance prior to the date of termination.

# Who is usually responsible for insuring the leased premises?

Neither party is obligated by law to insure against the risks arising in respect of the leased premises.

However, leases commonly contain insurance provisions, pursuant to which:

The landlord takes out all-risk property insurance and third-party/public liability insurance

The tenant takes out insurance in respect of its fixtures, fittings and belongings within the leased premises

# Will the lease survive if the owner sells the leased premises?

Yes, as the lease runs with the land and binds subsequent owners.

# Will the lease survive if the leased premises are foreclosed?

Yes, as the lease runs with the land and binds subsequent owners.

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