
Saudi Arabia Residential Market Review

Autumn 2022



MARKET ROUND UP

The Saudi residential real estate market witnessed a decline in the total number of residential transactions in the year to Q3 2022. The number of transactions recorded this year sums to around 142,000 transactions compared to 186,000 transactions last year, representing a 24% decline.

However, the value of transactions increased by 6% during the same time, highlighting once again the affordability challenges that have emerged as a result of the exceptional house price increases recorded over the last 12 months – 30% in Riyadh for apartments, for instance, which is pushing the home ownership dream for many out of reach.

The Saudi government and Ministry of Housing's efforts to provide affordable housing units is progressing as initially laid out in Vision 2030 and this is evidenced by the success and popularity of schemes launched by ROSHN in Riyadh and Jeddah. However, rising construction costs are posing challenges to some developers looking to follow a public-private partnership (PPP) structure, with profit margins being rapidly eroded and the viability of some projects being reassessed, according to anecdotal evidence. That said, projects where the bulk of the units were sold off-plan are progressing as developers are being incentivised to complete developments as scheduled, or even ahead of plans.

As house prices rise, apartments are growing in popularity, even though many aspire to own larger villas, as evidenced by the findings in our 2022 Saudi Report.

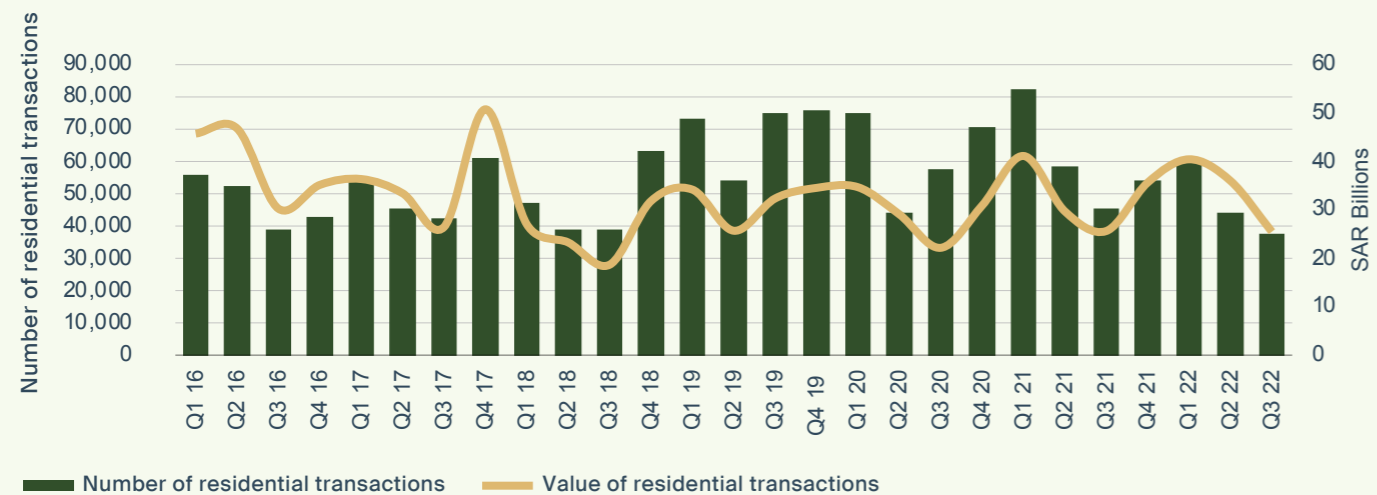
Across the Kingdom, the total number of mortgages linked to apartment purchases increased by 12% in the year to August 2022, compared to a 45% decline in villas.

Besides the affordability barrier, the changing lifestyle is also contributing to the shifting demand dynamics, particularly among young Saudis. Cultural and social acceptance of apartment living is certainly playing an important role in boosting their popularity along with obvious cost saving benefits.

In addition, the average Saudi household size is declining as young nationals are more mobile, highlighting the erosion in the popularity of multi-generational living, but also creating a new source of residential demand. In a country where 57% of the population is below the age of 35, this is a significant change and will likely be a substantial source of residential demand going forward.

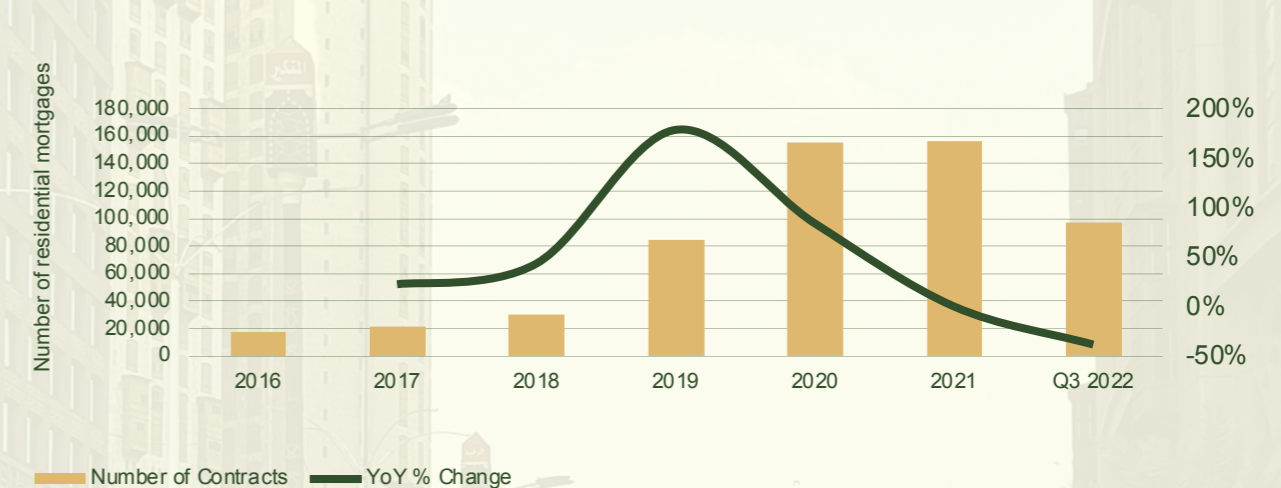
“The average Saudi household size is declining as young nationals more mobile, highlighting the erosion in the popularity of multi-generational living.”

TOTAL VALUE AND VOLUME OF RESIDENTIAL TRANSACTIONS



Source: Knight Frank, MOJ

NUMBER OF MORTGAGES ISSUED



Source: Knight Frank, SAMA

NUMBERS YOU NEED TO KNOW

MORTGAGE MATURITY

One of the primary pillars outlined in Vision 2030 is to increase homeownership to 70% by the end of the decade. As of mid-2022, the Saudi Real Estate Refinance Company (SRC) estimated that the share of homeownership exceeded 60%. However, the decline in the overall volume of mortgages, coupled with increasing affordability challenges has driven the SRC to find alternative solutions to support first-time homeowners.

Initially, the long-term fixed rate (LTFR) mortgage was offered to applicants from anywhere between 10 to 25 years; however this has recently been extended to 30 years. The amendment is expected to support the expansion of the mortgage market in the Kingdom, as well as facilitate affordable financing options for those looking to acquire their first home, particularly given the depth of demand amongst first time buyers – our 2022 Saudi Report revealed that 84% of first-time-buyers are looking to transition to home ownership this year.

At its heart, the initiative aims to alleviate the pressure resulting from rising interest rates that are making mortgages more expensive by extending mortgage terms and by offering fixed rates.

THE RISE OF BRANDED RESIDENCES

The popularity of apartments has been seeing a substantial increase in demand over the past few years. Luxury apartments, and particularly branded residences, are highly sought after in Saudi Arabia, especially amongst HNWI and second home buyers. Developers are responding by partnering with international hoteliers, such as Four Seasons and Raffles, both of whom are incorporating private residences within their beachfront developments in Jeddah to meet the rising demand.



124,000

New mortgages of worth SAR 97bn were issued in the year to Q3 2022



113,000

Saudi families have benefitted from the Sakani Program (Jan-Sep 2022)



37,700

Residential sales recorded in Q2 2022, down 16% on Q2 2021



30%

Y-o-Y increase in average apartment prices- the highest rates of growth in at least 5 years



33,000 units

Expected to be completed in Jeddah by 2024



59%

Increase in the total value of transactions in DMA



RIYADH

Residential real estate prices continue to accelerate across primary cities. House prices in Riyadh have seen rapid growth over the past 12 months, exceeding the 2016 market peak, in large part fueled by the influx of domestic migrants and expats relocating to the capital to take advantage of the boom in new jobs.

Rising business activity in Riyadh and the increase in total employment in the capital is boosting demand for residential units. Indeed, the latest forecast by Oxford Economics indicates that employment levels in Riyadh will have increased by around 5% by the end of 2022, with a further rise of 3% forecast for 2023.

Villa prices rose by 20% in the year to Q3 2022, while apartment prices increased by 30% during the same period. Moreover, the price gap between neighborhoods continues to widen. Indeed, apartment prices in northern districts, such as Al-Sahafah and Al Wadi, increased at an average rate of 40% when compared to last year.

The Ministry of Housing has been working alongside the private sector to meet the growing demand. Several projects have been delivered, such as the first phase of East Gate Community and Ishraq Living, during the first 8 months of this year. Despite the enormous pipeline of Ministry of Housing projects, including Al-Danah and Aknah Al-Sharq, house price growth remains on a sharp upward trajectory. Indeed, our estimates suggest that Riyadh is expecting to face a deficit when factoring for the expected spike in population to 17 million by 2030, from 7.5 million today.

MARKET PERFORMANCE INDICATORS - AUTUMN 2022

Sales prices (SAR/sqm)



Villas

4,898

19.8%



Apartments

4,884

30.8%



Volume

-30%



Value

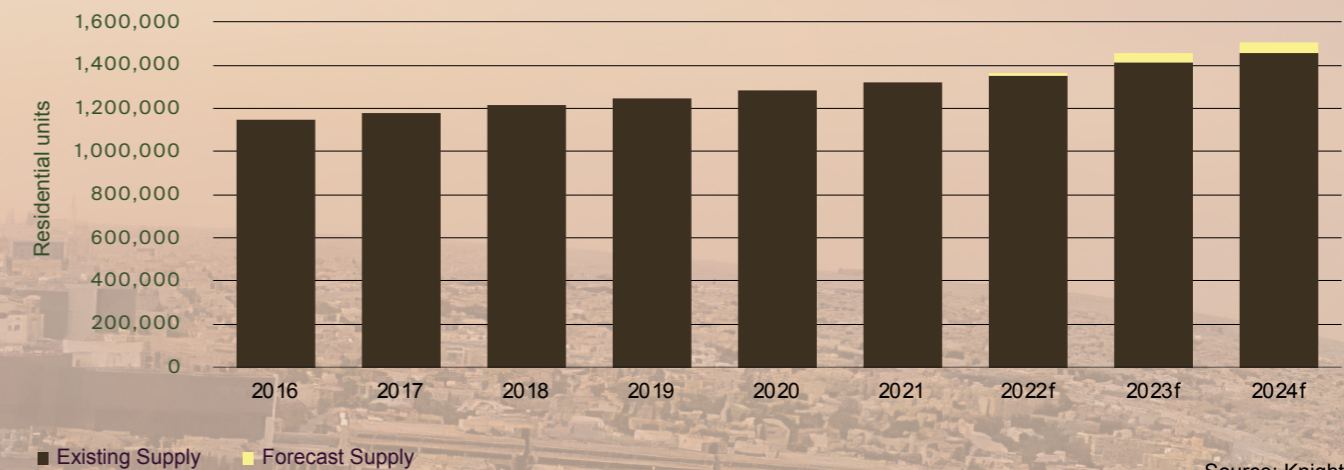
-20%

■ Sales Prices

■ Year-on-Year% Change

“Rising business activity in Riyadh and the increase in total employment in the capital is boosting demand for residential units.”

RIYADH



Source: Knight Frank

JEDDAH

Echoing Riyadh, house prices in Jeddah have also risen, albeit at a slower pace. Average villa prices grew at an annual rate of 3% during Q3 2022, while average apartment prices were up by 6% during the same period.

The number of transactions in the year to Q3 2022 saw a decline of 19%, falling to 3,711 deals. Despite this, the value of transactions increased by 30% during the same period. This underscores the significant price growth that the coastal city has witnessed over the past year.

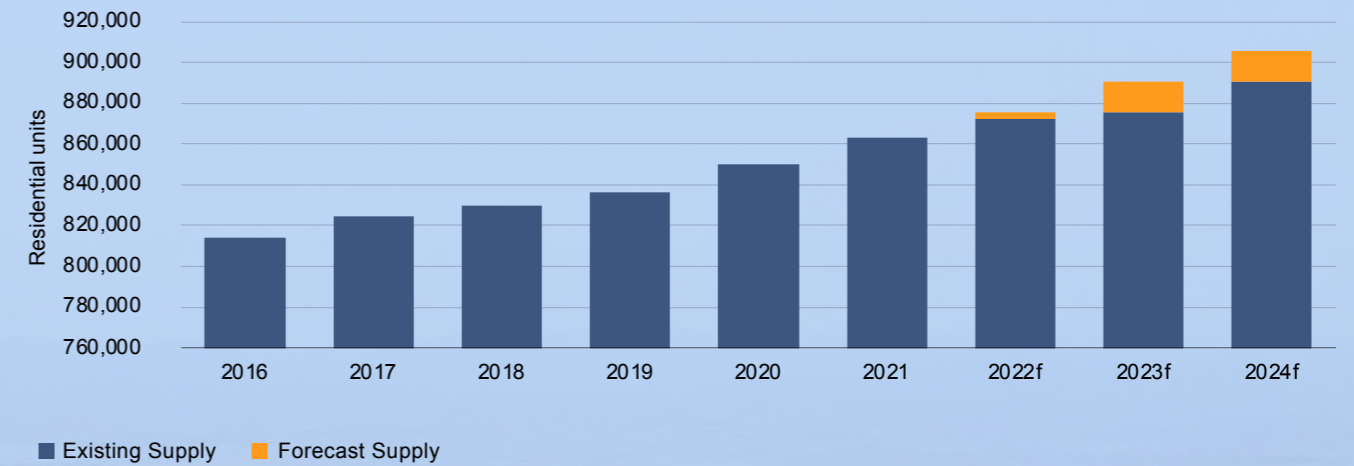
Moreover, the redevelopment of the city and urban regeneration of some districts in the south are driving a shift in the city's population. Residents are moving from southern districts to northern and north-eastern districts, such as Al-Rayyan and Al-Hamadaneya. The shift is driving a spike in demand, especially in the rental market as households explore their options

To address the emerging affordability challenge and the changing demand dynamics, developers have been incorporating more apartments in their residential developments. Real estate developers in Jeddah, such as Darco, have been building apartment complexes across the city in districts such as Al-Zahra, Al-Sawari, and Al-Rawdah.

Developers are also racing to complete units to capitalise on the demand for community apartment living. Developments like Jeddah Central plan to centre their plans around apartment living.

Looking forward, the upcoming pipeline is dominated by Sakani-linked projects, such as Bouvardia City and Jawhra Residence located in Al-Jawhara suburb and Dar Somou located in Khayala suburb. Overall, we forecast that over 30,000 units will be completed by 2024.

JEDDAH



Source: Knight Frank

MARKET PERFORMANCE INDICATORS - AUTUMN 2022



DMA

In the Dammam Metropolitan Area (DMA) apartment prices increased at an annual rate of 12% during Q3 2022, while average villa prices grew by 6% over the same period.

Unlike Riyadh and Jeddah, the residential market in DMA saw an annual growth in both the value and number of residential transactions. Indeed, in the year to Q3 2022, the total number of transactions increased by 12%, whereas the volume of transactions jumped by 59%. This illustrates that despite the price growth, the availability of suitable supply is sustaining deal activity in the residential market.

The Ministry of Housing has been spearheading residential developments in the DMA, with projects such as Bayraq Villas located in Al-Wajha Suburb recently completing 431 units out of a total of 959 units expected to be delivered.

As is the case elsewhere in the Kingdom, demand is concentrated on apartments and indeed our own research of the number and type of homes listed for sale in websites, such as Aqar, has shown a 12% rise in the number of apartments available for sale, compared to a 7% increase in the number of villas during Q3.

Looking ahead at planned supply, we expect around 18,000 units to be completed by 2024, with residential developments such as Nesaj Town in Al-Khobar where over 67,000 sqm is being developed.

“Despite the price growth, the availability of suitable supply is sustaining deal activity in the residential market.”

MARKET PERFORMANCE INDICATORS - AUTUMN 2022

Sales prices (SAR/sqm)



Villas
3,488
5.5%



Apartments
3,420
11.5%

Annual change in residential transactions



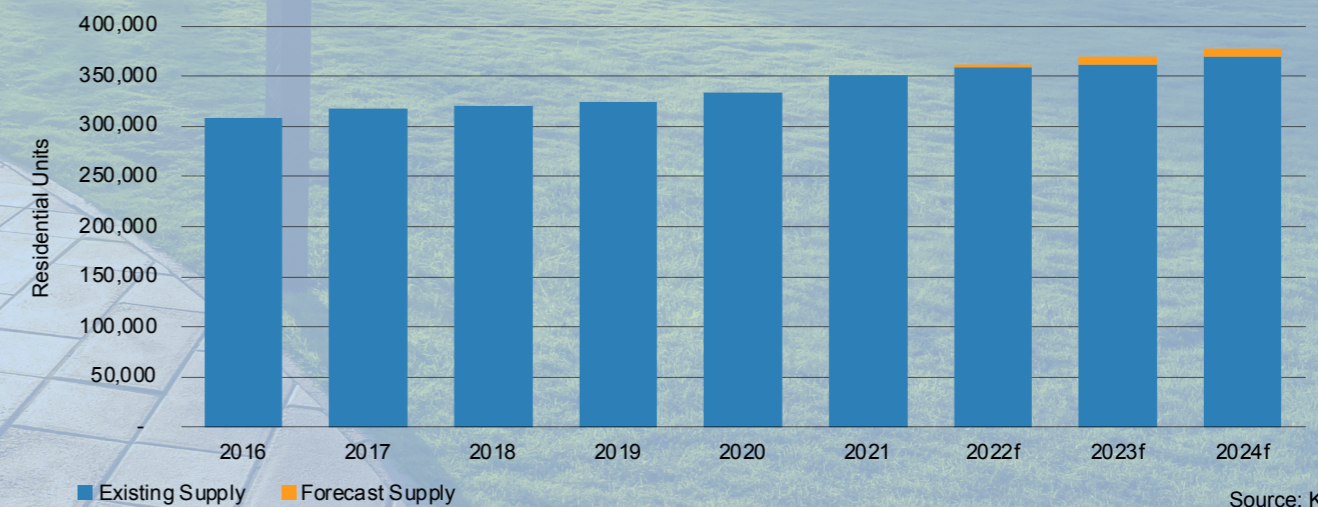
Volume
12%



Value
59%

■ Sales Prices ■ Year-on-Year% Change

DAMMAM METROPOLITAN AREA (DMA)



Source: Knight Frank

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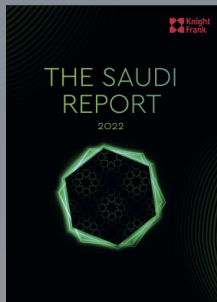
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