

Saudi Arabia Residential Market Review

Summer 2022



MARKET ROUND UP

Deal volumes slip, but price rises continue

Saudi Arabia's residential real estate market has experienced a 27% year-on-year decline in the total volume of residential transactions (c. 60,000) as at the end of Q1 2022. Total deal values have however only receded by 2% to SAR 40.4 billion, reflecting the stellar price growth being experienced in all segments of the residential sector.

To boost home ownership rates among Saudi nationals, as laid out in Vision 2030, the Saudi government has taken several steps. These include incentivising developers to develop affordable housing projects, encouraging banks to introduce more home financing options, launching the Sakani and Wafi programs and various regulatory changes.

Indeed, nearly 47,000 households benefited from these initiatives during Q1 alone. These efforts are enabling the government to accelerate the rate of homeownership and achieve its objective of 70% homeownership by 2030.

This sustained growth in activity across Saudi Arabia's residential real estate market has also been super-charged by an unprecedented increase in real estate loans granted to individuals for the fourth year in a row. While the number of new mortgages issued (206,000) retreated by 11% between 2021 and 2022, the total value of loans increased by 1% to reach SAR 156 billion over the same period.

According to the Saudi Central Bank, around 63% of mortgages were issued for villas, 19% for apartments, and the remainder, 18%, for land purchases.

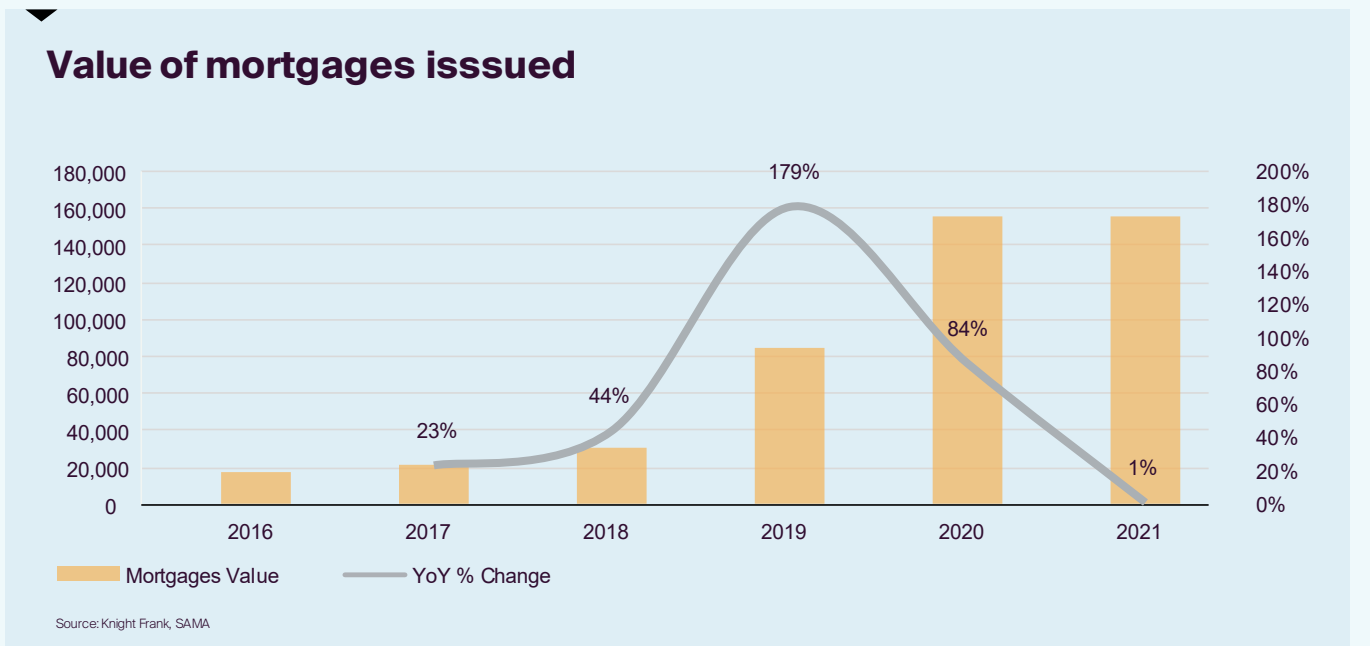
The popularity of villas echoes the recent findings of our 2022 Saudi Report, which found that around 40% of first-time buyers would target a 3 or 4 bedroom villa for their first home purchase this year.



“ This sustained growth in activity across Saudi Arabia’s residential real estate market has also been super-charged by an unprecedented increase in real estate loans ”



28,500
new mortgages worth SAR 21.4bn were issued during the first two months of 2022
Source: Saudi Central Bank



Changing Demand Dynamics

Saudi Arabia accounts for more than half of the GCC's total population and has a population of around 35 million. This is expected to grow at a constant 2% annual rate from 2022 onwards.

Most of the population is made up of young middle-class nationals, with 56% of the population under the age of 35. This large and growing demographic of the population will continue to boost demand for residential units in the short to medium term.

According to our 2022 Saudi Report, affordability challenges have fueled a significant shift in the type of residential units in demand over the last couple of years. Indeed, our residential survey results indicate a preference for apartments, over villas, hinting at escalating affordability issues.

Additionally, it is now more culturally acceptable for a family to purchase an apartment as their first home.

In fact, the younger Saudi nationals are showing a preference for flats and more affordable housing units, with multigenerational living forecast to continue declining in the future.

NUMBERS YOU NEED TO KNOW



28,500

New mortgages worth SAR 21.4bn were issued during the first two months of 2022.



60,000

Residential sales recorded in Q1 2022, down 27% compared to last year



47,000

households benefitted from the Ministry of Housing's Sakani Program in Q1 2022



225,000

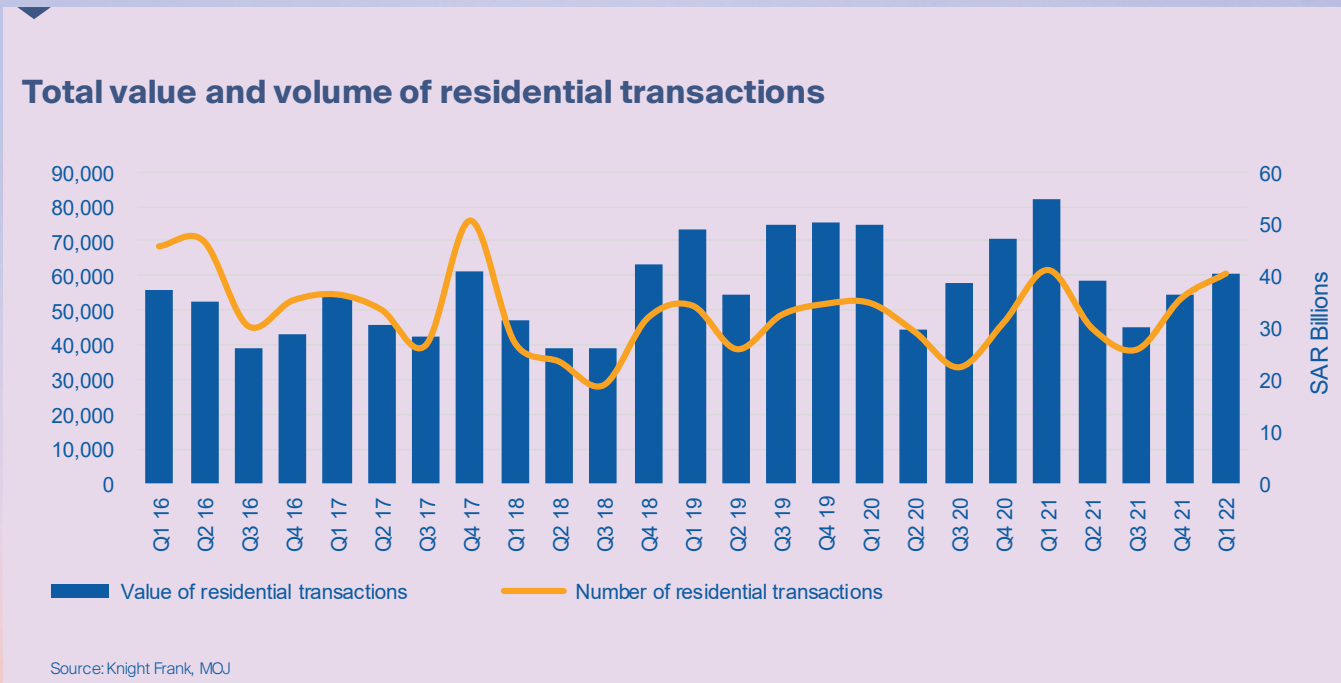
Saudi families benefitted in 2021 from Sakani Program, including 186,000 families that moved into their homes.



Sakani aims to provide various financing and housing options for 180,000 households in 2022



Apartment prices in Riyadh are up 20% over the last 12 months; the highest rates of growth in at least 5 years.



RIYADH

Strongest price rises in 5 years

The residential market in Saudi Arabia continues to expand at a rapid rate, as evidenced by the persistent strong price acceleration. Riyadh's house prices have increased at the highest rate since 2016.

Indeed, apartment prices in Riyadh are up by 20% in the last 12 months, while villa prices have increased by 18.6% over the same period.

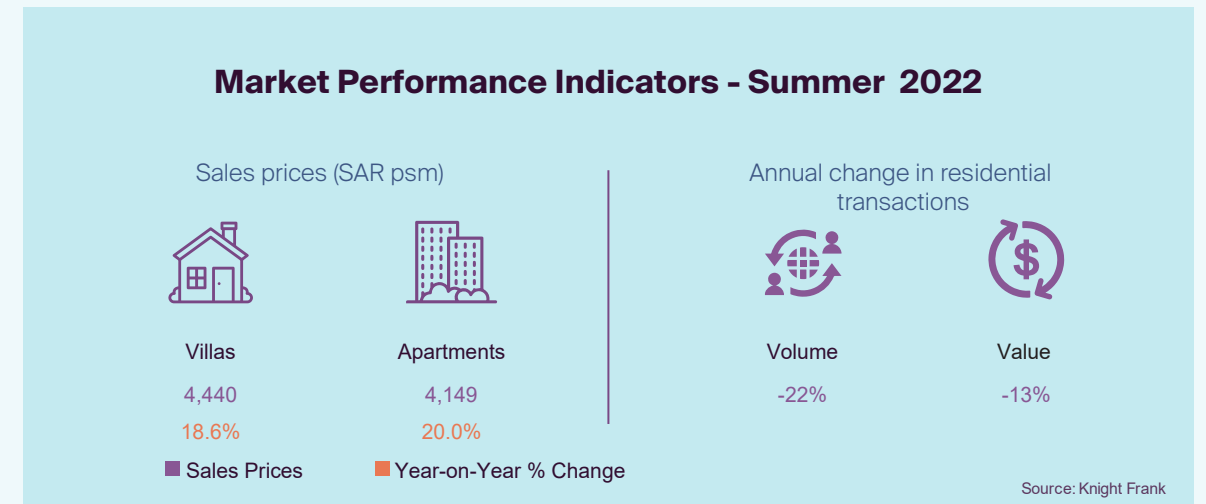
This exceptional growth in residential prices is being fuelled by a growing demand which is underpinned by the strong job creation rates in the Kingdom's economic heart.

Anecdotal evidence suggests that Riyadh has started to attract talent locally, regionally and internationally which has catalysed demand. The Kingdom's residential market appears to be in the midst of a structural shift in its demand dynamics, particularly in Riyadh.

The capital's workforce is being bolstered by a significant rise in younger Saudi's relocating to Riyadh to take advantage of the high concentration of new jobs.

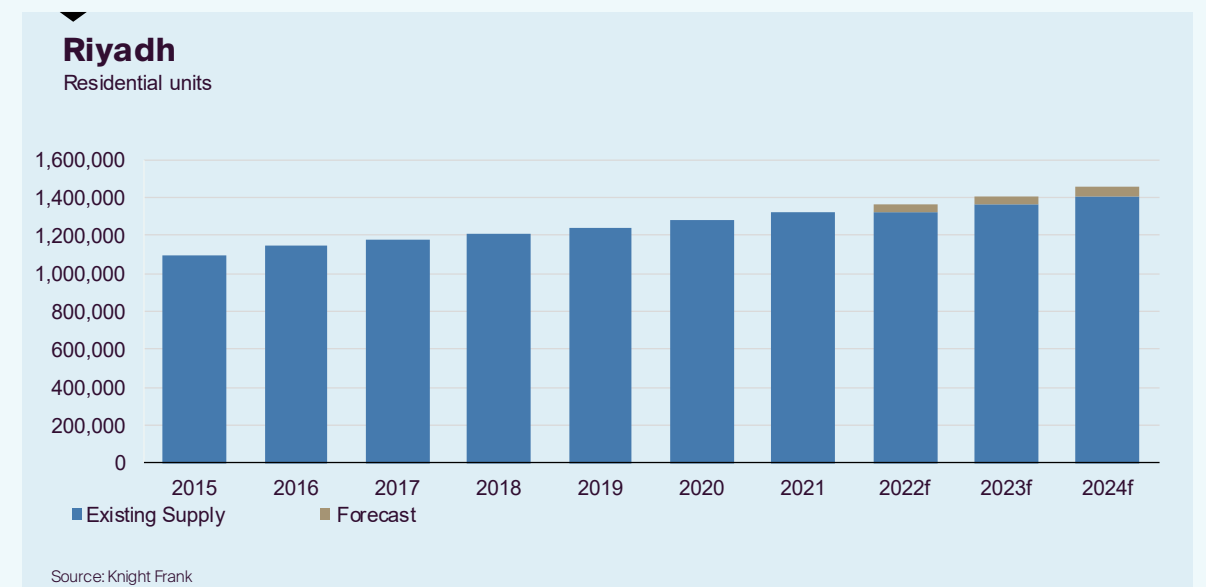
These new and semi-transient additions to Riyadh are not only displaying a preference for apartments and townhouses over villas, but they are also more focused on renting homes, rather than buying them.

“ The exceptional rise in home prices is being driven by rising demand, which is being fuelled by strong job creation in the Kingdom's economic powerhouse, Riyadh. ”



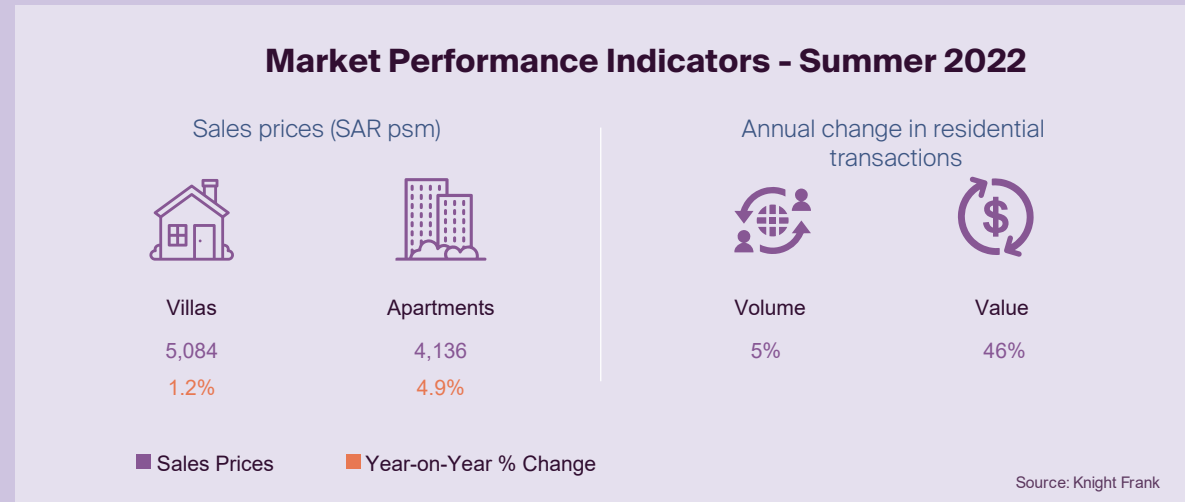
In the sales market, the number of transactions in Riyadh have declined by 22% over the last 12 months, while the total value of residential transactions dropped by 13% over the same period. The marked drop in residential volumes can be linked in large part to the surge in residential prices, which is cooling demand as buyers contend with the need to save for longer before being able to transact.

Despite the receding levels of demand, vendors are either holding firm on prices, or turning to the rental market instead, further contributing to the dip in overall deal activity and indeed further exacerbating the dearth of homes available for sale.



JEDDAH

“Mounting affordability pressures are driving demand away from traditional villas towards community and lifestyle oriented developments, with modern facilities”



Mirroring Riyadh, house prices in Jeddah have seen rapid growth over the last 12 months. Apartment prices increased by 4.9% in the year to Q1 2021, while villa prices rose by just 1.2% over the same period. This disparity is in large part due to affordability issues, with villas in Jeddah costing upwards of 12-times average incomes.

As a result, Saudi nationals and expatriates are returning to Jeddah, underpinning demand for homes.

Despite this, the number of residential transactions increased by 5% in the last year, while the total value of residential sales increased by 46% over the same period. The greater rise in sales value over volume reflects the substantial growth in house prices in Jeddah.

In Q1 2022, around 3,500 residential units were completed, bringing the city's total stock to 866,000 units. By the end of 2024, Jeddah's housing stock is predicted to increase by 40,000 units, taking total stock to over 900,000 units.

Despite affordability concerns for larger houses and shifting demand-supply dynamics, the sector's outlook remains positive, as we expect government efforts to promote homeownership among Saudi nationals to continue to support the housing market.

Although there has been a recent outflow of Saudi nationals and expatriates from Jeddah seeking employment in Riyadh, this trend is showing signs of slowing. Numerous government and private sector entities, like ROSHN, Upton Jeddah, Al Ballad Development, and Jeddah Central, have established their offices in Jeddah, offering multiple employment opportunities for Jeddah's residents.

Unsurprisingly, social changes aided by mounting affordability pressures are driving demand away from traditional villas towards community and lifestyle oriented developments, with modern facilities.





DAMMAM

Diverging performance for apartments and villas

Like the rest of Saudi Arabia's major markets, the residential market in the Dammam Metropolitan Area has witnessed a profound price increase. Indeed, the average apartment prices in the DMA increased by 6.1% in the year to Q1 2022, while average villa prices increased by 2.5% over the same period.

Anecdotal evidence of increased rates of job creation fuelled by rising oil prices in the Kingdom's oil producing heartland are underpinning rising demand for homes in the DMA, which is in turn helping to lift home values.

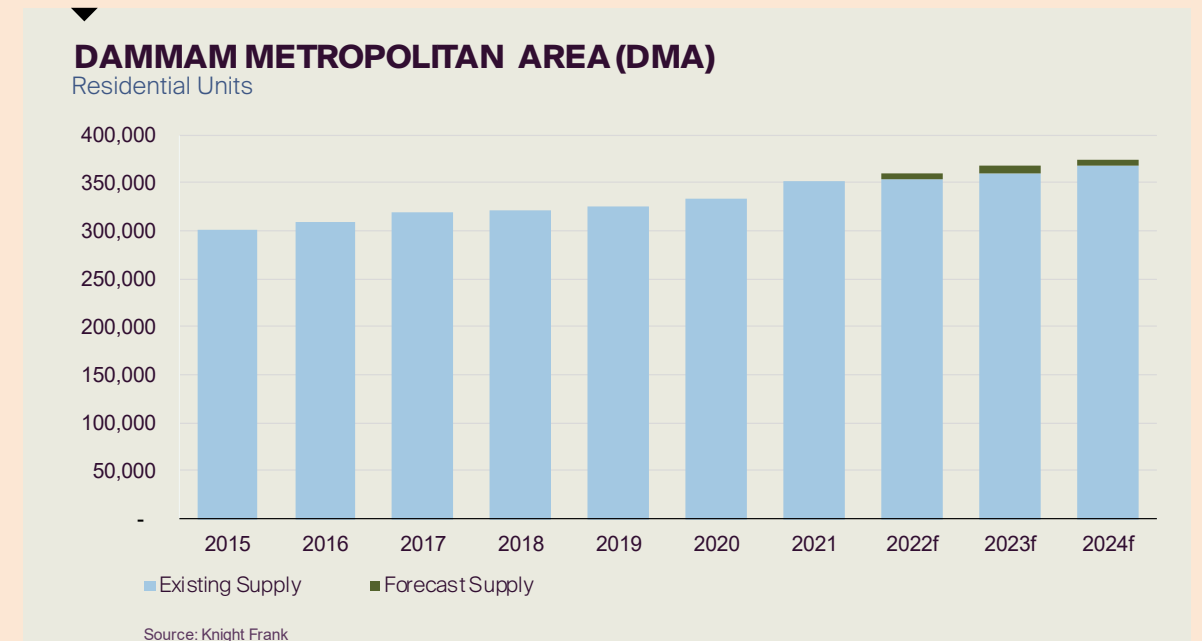
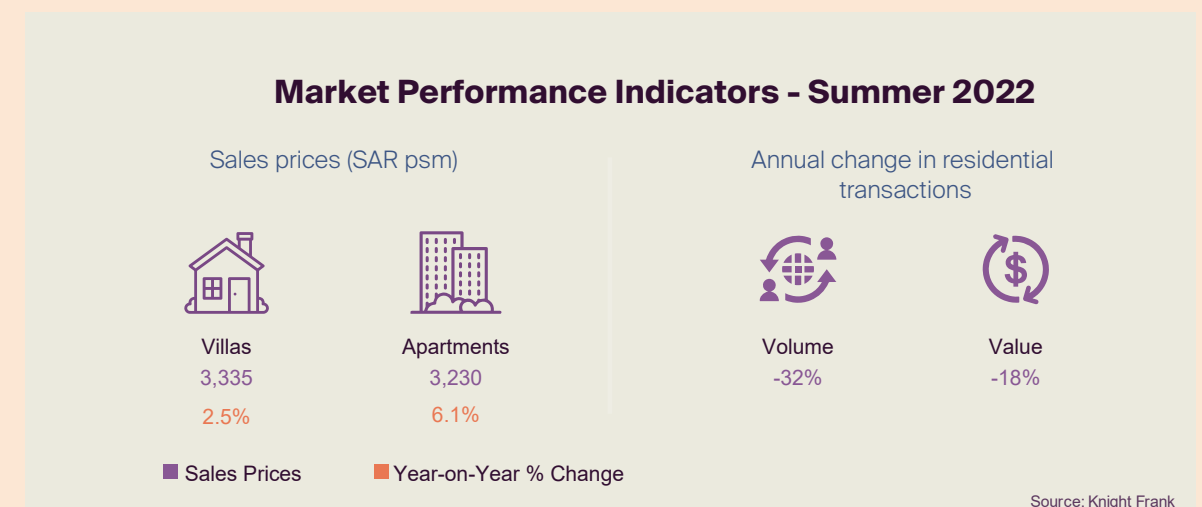
“ Apartments and townhouses have become the preferred dwelling type for first-time home buyers in the DMA. ”

Still, just like the rest of Saudi Arabia, mounting affordability issues are driving demand away from villas, which has led to a drop in both demand and prices for stand-alone family homes. Apartments on the other hand are experiencing a resurgence in demand.

Mirroring Riyadh, the DMA's residential market experienced a 32% decline in the volume of deals over the last 12 months, while the total value of residential transactions decreased by 18% over the same period.

The rising affordability challenge, combined with a lack of suitable supply for mid to lower tier buyers, is contributing to slowing sales activity.

As at the end of Q1, DMA's housing stock stood at about 353,000 units. 22,000 units are due to complete by the end of 2024, most of which are expected to be better quality apartments and townhouses.



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