

Changes in municipal real estate disposal regulations by the Ministry of Municipal and Rural Affairs

Over recent decades, a rapid rate of development has underpinned the urbanisation of Saudi Arabia, where today it is estimated that 84% of the population resides in urban centres. As part of Saudi Arabia's Vision 2030 initiative, the government aims to boost the participation of the private sector in the real estate market.

As part of this initiative and to ensure that Saudi cities are productive and efficient, the Ministry of Municipal and Rural Affairs (MoMRA) has, in February 2020, updated regulations relating to the disposal and utilisation of municipal real estate. The changes, which were enacted by Royal Decree and are some of the most significant in over 17 years, look to ensure that the real estate assets under the stewardship of MoMRA are put to the most economically and socially beneficial use.

In addition, the changes look to support the timely development of assets, which will be required to underpin the ongoing change in Saudi Arabia's built environment.

The updated regulations look to achieve the following four objectives:



Reduce the dependence of municipalities on government funding through the optimal use of its real estate portfolio



Attract private sector investment into Saudi Arabian cities



Expand the remit of municipalities to invest in and promote investment into real estate through various structures



Increase the efficiency of the implementation of investment projects

Overall, the updated regulations provide transparent and investor friendly regulations to ensure that the use of municipal real estate is efficient and provides the highest economic and social benefit for stakeholders. Below we have highlighted changes in selected regulation and the impacts that these changes will have on demand for municipal assets.

The implementation of these regulations is expected to have a marked economic impact across the Kingdom, where:

1. The attraction of new investments is expected to increase capital investments at a local level
2. These increased levels of investment will contribute to the growth of the real estate sector and the creation of direct employment but will also act as a catalyst for increased economic activity in ancillary sectors
3. Reduce the dependence of municipalities on state funding which would in turn allow the government to divert the funds to other economically beneficial uses
4. The easing and transparency of regulations will not only lead to increased investment levels but will also provide incentives for local municipalities to become efficient and competitive in order to attract private sector investment

These changes in the regulations are expected to underpin additional development across Saudi Arabia and will be important in helping municipalities create a grassroots impact to help the nation meet the objectives of Vision 2030.

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To boost participation of the private sector in the real estate market and ensure efficient and productive use of assets the Ministry of Municipal and Rural Affairs has, in February 2020, updated regulations relating to the disposal and utilisation of municipal real estate.

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Impacts of the changes in selected regulations

Regulations	Details	Impacts
Allowing for assets to leased on a short-term basis	This change in regulation will allow assets to be leased on a short-term basis for cultural, recreational and social activities such as festivals.	<ul style="list-style-type: none"> Access to strategic locations for key cultural and entertainment events Increased revenue for MoMRA
Land leases	<p>To ensure that assets are disposed of at the highest market value, an open and public asset offering must be held.</p> <p>There has also been a change in the grace period allowed for construction, which has been increased from 5% of the lease term to 10% of the term.</p> <p>There has also been a reduction in the requirement of a bank guarantee, which has been reduced from 100% of a year's rent to 25% of a year's rent.</p>	<ul style="list-style-type: none"> Increased transparency for all parties through the disposal process Maximise potential returns for MoMRA Increased grace periods will provide additional flexibility to developers Reduced levels of bank guarantee will lower capital requirements and boost efficiency of investing in public sector real estate
Contract periods	Contract periods for land leases have been extended for a range of activities. One of the most prominent changes in the updated regulations increases the maximum lease period from 25 years to up to 50 years for major investment projects.	<ul style="list-style-type: none"> Length of contracts in line with market demand Longer contract periods allow developers to better amortise their costs
Structure of contracts	The new regulations allow for turnover rent models to be used.	<ul style="list-style-type: none"> Reduced risk for investors Aligns the goals of the tenant and the municipality Potential financial upside for MoMRA if the lessee performs above expectations
Availability of fast track option	Under the updated regulations MoMRA has the option to forgo public offerings for projects deemed to be of strategic importance.	<ul style="list-style-type: none"> Allows MoMRA to provision the use of assets for such projects in a timely and efficient manner

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