

K-12 Education in Saudi Arabia

A wealth of opportunities for operators and investors



INTRODUCTION

This report is a sequel to our previous publication “Saudi Arabia Education Report 2021” and focuses on the opportunity and growth potential within the K-12 education segment within the Kingdom. Several factors contribute to catalyzing growth within this sector:

Saudi Arabia is undergoing rapid transformation at all stages of education, especially policies to align with the Saudi Vision 2030.

The Kingdom's school-going population surpasses the GCC school-aged population by almost threefold.

There is an observable increase in interest towards private education amongst the national population.

Quality and relevant education institutions are required to meet the needs of the growing expatriate population that are drawn to the Kingdom to pursue lucrative employment opportunities generated from the ongoing Giga projects and the economic shift.



THE FUNDAMENTAL SHIFT

Government Budget Allocation

Allocation of fiscal budget towards education stands at US\$ 52 billion in 2022 (US\$ 51.2 billion in 2021), consistently featuring within the top 3 areas of KSA public sector expenditure in recent years.

As part of the National Transformation Program US\$ 7bn have been allocated for schools and other education facilities all due to be completed by 2030.

Public Private Participation

The government is engaging with the private sector to improve infrastructure, delivery of education and enhance quality of teaching methods

Market Entry

The government is actively taking steps to lower barriers to market entry for private and international market players. The dedicated desk for Education sector at Ministry of Investment (MISA) and the grant

of ‘Super Licenses’ by the Royal Commission for Riyadh City (RCRC) are a few examples.

Teacher Training

Improve training, development and recruitment of teachers.

Curriculum Design

The local curriculum is being revisited for quality and alignment with global standards with a focus on critical thinking.

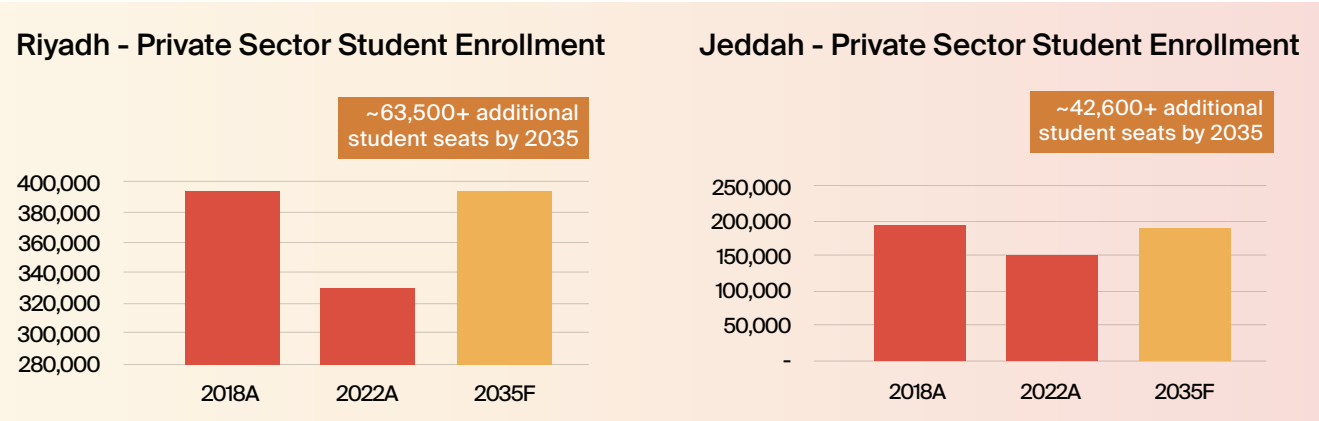
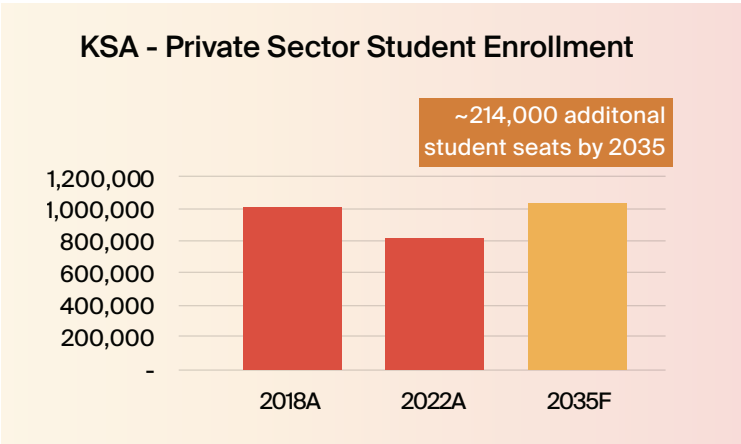
Building Standards

Implementation of minimum building standards for educational facilities to ensure health and safety standards are met.

Demand

Saudi Nationals are now allowed to enroll their children in private foreign curriculum schools.

The Demand & Supply Story: The exhibits below present the historical demand and supply situation and forecasted demand gap for KSA and two major cities of Riyadh and Jeddah.



**In majority of the circumstances (excluding RCRC and Community Schools) the schools are segregated by gender and education cycle reflecting a 4:1 ratio compared to other regions*

The education sector by and large has demonstrated consistent growth both in terms of demand as well as supply. In the lines below, key items have been discussed to provide a historical perspective:

Sector Growth

Other than the generic and natural growth within the sector led by both the public and private sector, the segment that showed the highest growth were, private schools offering international curricula, which saw a 24.4% increase during the 2018 – 2022 and private schools licensed by the Royal Commissions which increased by 46.2% during the period, albeit of a low base.

Health & Safety

Schools operating out of make-shift campuses or campuses that compromised health and safety standards were directed to relocate to a quality campus or shut down its operations. This resulted in a significant number of schools to close down in 2018.

Expat Levy

This was implemented gradually from 01 July 2017 and

adversely affected the student enrollment on account of affordability. The decline in student volumes was more pronounced in schools that were mid-market or below.

COVID-19

The outbreak of the global pandemic resulted in school closures due to challenging economic fundamentals and a reduction in enrolments by 27% in private schools and 4.9% in foreign curriculum schools. Scores of students were compelled to shift from the private education system and to the, free of cost, public sector institutions, amid a tight fiscal environment. However, in the following years, the private sector, more specifically the foreign curriculum schools, have shown signs of recovery, demonstrating resilience and the intent amongst parents to seek quality education for their children.



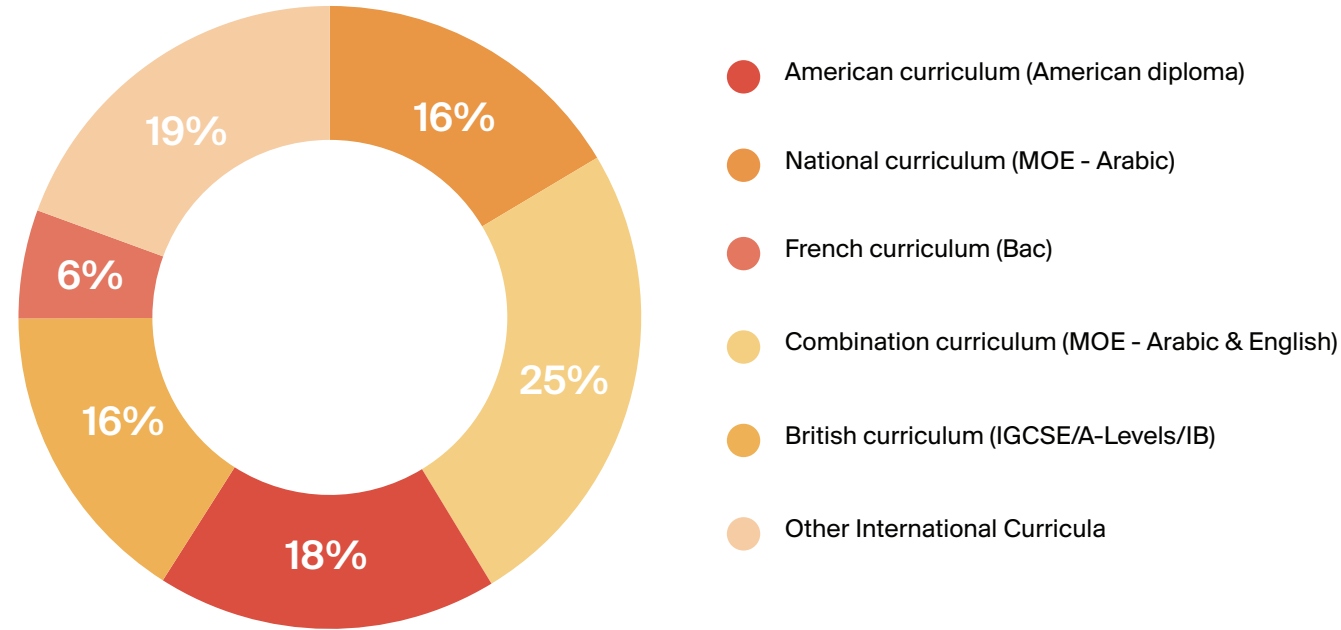
FUTURE GAZING

Demand has been forecasted considering the population growth rates from Oxford Economics. However, considering the government's strong growth plans for Riyadh with the aim of growing the capital's population to at least 15 million by 2030, would result in an incremental demand estimate of over 254,000 seats, nearly 5 times more compared to the base case demand estimate.

Government initiatives, market dynamics and MoE's intent to shift roles from being a provider to a regulator is expected to enhance demand for private schools, especially in key cities such as Riyadh and Jeddah,

along with the rest of the Kingdom. Meeting the needs of the growing expatriate workforce drawn by Giga projects necessitates quality and relevant educational institutions. The number of white-collar expats in the Kingdom soared by six-fold to almost 1.2 million between March and September 2022.

Knight Frank's recent survey encompassing over a thousand households in the Kingdom unveiled some noteworthy insights:



- 54% of respondents exhibit a preference for enrolling their children in private schools.
- Younger Saudis many of whom likely hold degrees from international universities, show an even stronger inclination towards private international education for their children.
- Among those under 25 years of age , 58% favour private schooling over public institutions, while the preference dips to 49% among individuals aged over 45.
- Naturally, respondents with higher incomes tend to favour private schools, with 66% of those earning over SAR 20,000 monthly expressing a preference for private education for their children, compared to less than half (49%) among those earning below SAR 20,000 per month.
- The most favoured curriculum is the US syllabus at 18%, closely followed by the British syllabus at 16%.



OUR PERSPECTIVE ON MARKET OPPORTUNITIES

Market Segments

K-12 Education – schools cater to all ages of population. Growing population base and the government’s ambition to attract top talent to work and live in the Kingdom is generating demand for social infrastructure including K-12 education.

Early Years – with increasing participation of women in the workforce and government’s intent to increase the currently low gross enrolment ratio in early childhood education, demand for early learning centres is expected to bolster.

Special Education Needs (SEN) – there exists a gap in terms of provision of structured and comprehensive solutions and international providers in the current market.

Price segments

Premium / Super Premium – demand exist for quality premium schools. Rising levels of awareness, disposable incomes, the Kingdom’s desire and requirement to attract top talent advocates the need for premium international schools. However, caution is to be exercised to avoid overcrowding the market to serve a limited segment of the population.

Mid / Upper-mid Tier – represents a more sustainable demand base catering to larger proportion of the population that falls within the low to mid-income category.

Curriculum

American – most popular choice of amongst Saudi population and some Arab expatriates who wish to pursue higher education in the Americas.

British (National Curriculum in England) – appeals to the wider expatriate community owing to ease of transferability and a central examination system, which makes it easy to access in the event expatriates relocate to other destinations or repatriate. However, a significant proportion of the student population at recently launched international branch campuses in Riyadh are observed to be Saudi, that would provide a sustainable demand. This could indicate a shift in trend where the population are given more British curriculum choices.

International Baccalaureate (IB) – a niche offering with only a handful of schools offering the IB curriculum in the Kingdom.

Ministry of Education – while recent data indicates a decline in enrolments at private MoE schools, a recent survey conducted by Knight Frank in KSA, brought to surface consumers’ demand for a dual curriculum offering which pairs the MoE curriculum with the American curriculum,to provide a blend of international curriculum and local context. To compete with public sector offerings, operators have to adopt strategy of differentiation and innovation, to demonstrate a USP and better educational outcomes.

Business

International Branch Campuses – leverage the experience and brand platform of international education service providers via Management/Operating Agreements

Collaborating with regional operators to extend branch networks – Management/Operating Agreements, Joint-ventures

Real Estate – land acquisition, finance and develop built-to-suit properties for long-term lease. While there is demand from international and regional operators to establish new schools, opportunities with existing, established local market players can be tapped to replace obsolete or non-compliant school buildings as authorities enforce minimum building standards.

Key Challenges

Investors

Access to Land

Limited availability of land and escalating prices. Recent years, marked by heightened economic activity and a surge in land development, have catalysed an upward trajectory in construction and land prices. High land costs restrict the provision In this heated environment, investor enthusiasm for new developments is poised at a crossroads, navigating the delicate balance between opportunity and caution.

Development Cost

Amid the high level of development activity in the Kingdom and the consequent rise in demand for contracting services and input material have increased. Suppliers’ bargaining power has increased. High development costs may render school projects to be unviable, the scope to pass on cost burden on to consumers/parents is limited in a school setting.

High Cost of Capital

Elevated interest rates contribute to rising costs. Prudent financial planning becomes the strategic compass as investors actively seek avenues to optimise capital deployment, fine-tuning strategies to navigate the landscape while mitigating financial risks.

Affordability and Perception

The tuition fee at private schools is perceived to be expensive by many.

Operators

Staffing

The private education sector workforce in KSA often faces a supply and demand imbalance shortage of teaching staff, especially in the private sector where the requirement for skilled teachers is higher because of higher education standards. Average retention period for teachers is 2 – 3 years leading to increasing recruitment costs for operators. Furthermore, as more schools enter the market, they are likely to compete for human resources, challenging talent retention.

Saudization policies contribute to a shortage of skilled staff for operators, as the pool of Saudi teaching staff is limited. Teaching is regarded as low status profession amongst the population. Hence compliance with Saudisation requirements can be challenging. Additionally, operators grapple with the added responsibility of covering teachers’ salaries, as the Human Resource Development Fund (HRDF) withdraws its 50% contribution for Saudi teachers’ salaries.

CONTACTS



SHEHZAD JAMAL

Partner - Strategy & Consulting, MEA
shehzad.jamal@me.knightfrank.com
+971 56 410 1298



SALMAN KHAN

Senior Manager - Strategy & Consulting
Education, MEA
salman.khan@me.knightfrank.com
+971 50 938 2574

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