



مجلس الأعمال السعودي الأمريكي
U.S.-Saudi Arabian Business Council

Update on the Saudi Arabian Real Estate Market March 2019

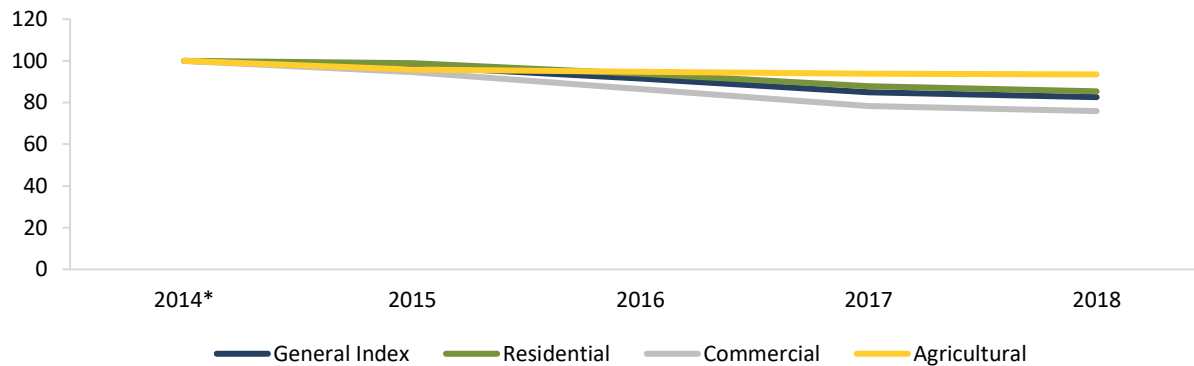
The Saudi real estate market is a significant contributor to the economy. It acts as an enabler of economic activity whereby it provides sizeable employment opportunities, promotes the proliferation of infrastructure requirements, and represents an attractive asset class for institutional investors. In terms of GDP contributions, construction (of which real estate is a contributing component) accounted for 5.14 percent of total GDP in 2018. A supporting component of real estate, ‘Real Estate Activities’ under the ‘Finance, Insurance, Real Estate & Business Services’ category contributed 7.03 percent to total GDP in 2018. The majority of real estate activities is broken down into two components: residential and commercial. The focus of this Economic Brief will revolve around real estate price movements and their contributing factors.

The Saudi Ministry of Justice is responsible for collecting and disseminating real estate values across three main categories; residential, commercial, and agricultural. The General Authority for Statistics (GASStat) maintains a real estate values index with 2014 as its base year. The index is weighted heavily in favor of residential real estate, which accounts for 65 percent. Commercial and agricultural real estate account for 31 percent and 4 percent, respectively. According to GASStat, the value of real estate in the Kingdom across all three property categories have gradually declined, as depicted in the next chart.



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Real Estate Index



*Base Year

Source: General Authority for Statistics (GStat)

While all three categories have decreased since 2014, the performance of specific segments within each category type indicates which property types have been impacted the most (See appendix for breakdown). Within residential real estate values, land plots and apartments witnessed the highest rates of decline. There are several contributing factors that led to the decreases. Most noteworthy is the ongoing increase in expatriate departures. The latest labor data indicates that 265,000 foreign workers left the labor market during the third quarter of 2018 bringing total expatriate departures to 1.4 million since the beginning of 2017.

Significant factors leading to the departure of expats has been the elimination of foreign workers across a growing number of sectors coupled with the introduction, and recent doubling of expat dependent fees borne by the workers. These departures have directly affected real estate prices on various levels. Moreover, apartments are the preferred type of dwelling for expats. The reduced demand for apartments has allowed rental prices and real estate values to decrease. Further evidence can be seen in the performance of the Consumer Price Index (CPI). The general CPI declined 2.2 percent year-over-year (y-o-y) in February, led by significant declines in the



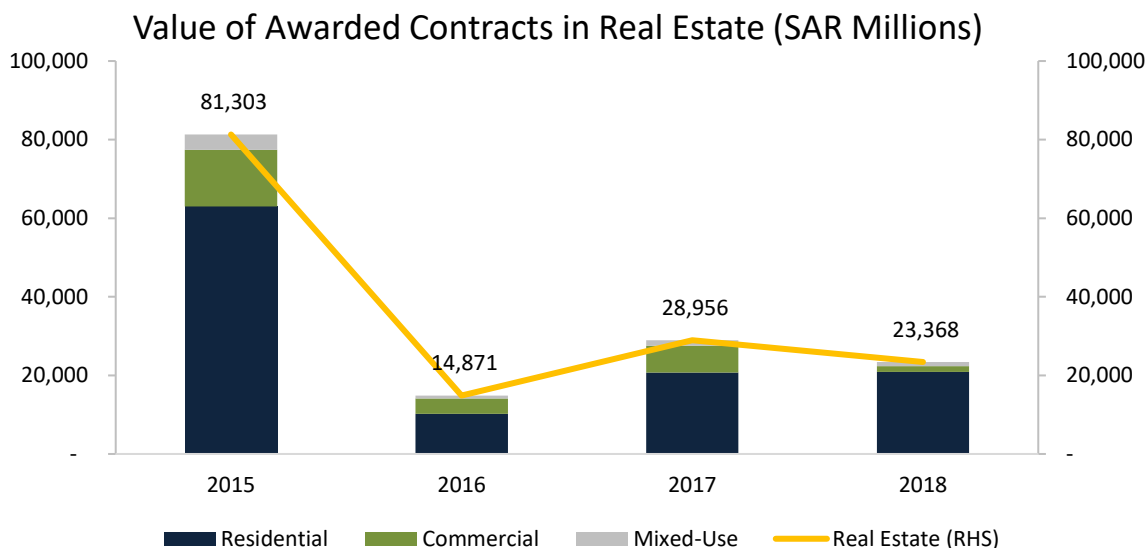
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‘Housing, Water, Electricity, Gas and Other Fuels’ category, which witnessed an 8.2 percent drop y-o-y. Furthermore, the subcategory of ‘Actual Rentals for Housing’ suffered the largest decline compared to all subcategories with a 9.4 percent decrease y-o-y.

The departure of expats has impacted the construction of real estate projects since a majority of the labor force in the construction sector are foreigners. However, a more compelling factor has been the suspension or cancellation of projects by the government. The government initiated strict procedures in 2016 and 2017 to evaluate all construction works across all phases to ensure the economic viability of such projects. Numerous projects were deemed as non-essential and put on hold while others were modified to fit newly created economic reforms, under the supervision of the Bureau of Capital and Operational Spending Rationalization. Another factor was the effect declining oil prices had on the economy, whereby mega-projects came under scrutiny given the reduced oil revenues that ensued. Looking at the value of awarded contracts between 2015-2018, data further supports the decline in both real estate prices and appetite for new developments amid economic reforms during the short-term.



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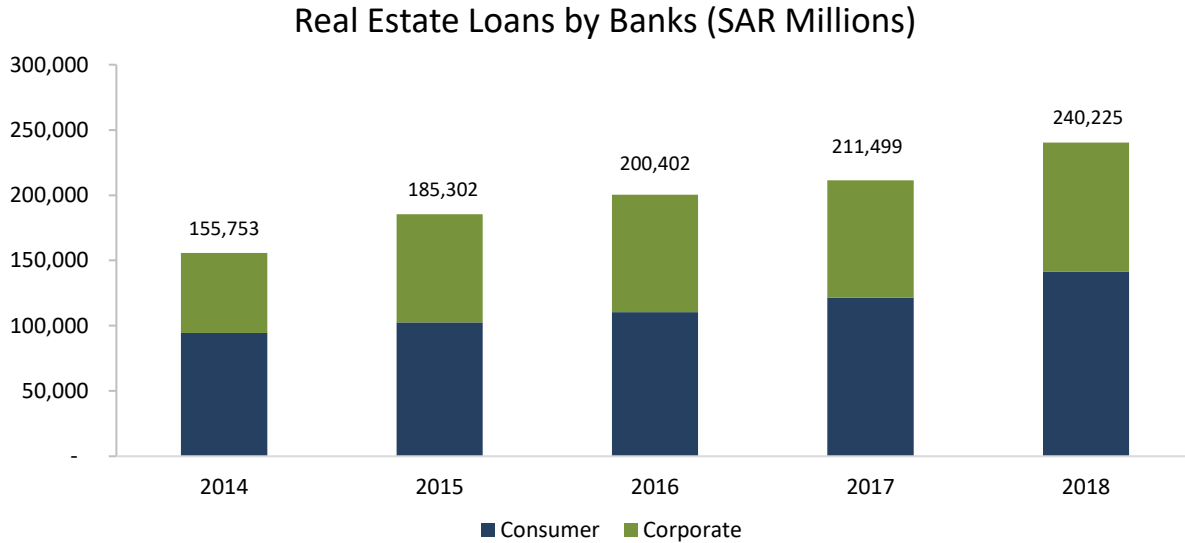
Source: Various Sources, USSABC estimates

The value of awarded contracts in the real estate sector dramatically declined in 2016-2018 after a strong 2015. Residential real estate accounted for the majority of contract awards as ongoing affordable housing demand exceeds current supply. Unsurprisingly, anecdotal evidence suggests the drop in real estate projects coincides with the combination of the decrease in oil export revenues, restudying of construction projects by the government, and the decline in the expat labor force. However, the effects of King Abdullah's royal decree in 2011 that called for the construction of 500,000 homes at a cost of SAR250 billion to cater to the affordable housing segment, along with a major Vision 2030 objective of boosting Saudi home ownership from 47 percent to 70 percent by 2030, has provided concentrated efforts to increase the supply of housing.

One area that has witnessed sizeable growth has been bank financing to support real estate lending. The increase in the banking sector's appetite for real estate financing over the years is expected to continue as key regulatory developments and partnerships with local banks will provide more lending options to consumers and corporations alike.



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Source: SAMA, USSABC

While the impact of economic reforms on the real estate sector creates challenges in the short-term, the medium to long-term strategic plan set forth by the government for the economy as a whole is expected to provide a more robust economic foundation. The real estate sector is one of the critical areas the government aims to enhance, with particular emphasis on residential real estate. The reforms will aid the economy by improving local labor participation rates, needed capital injections by the government, and active support from the private sector.



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APPENDIX:

Saudi Real Estate Values Index

	2014*	2015	2016	2017	2018
General Index	100	97.4	91.5	85.0	82.6
Residential	100	98.9	93.8	87.9	85.4
Land Plots	100	99.0	93.9	87.9	85.4
Buildings	100	101.9	97.9	94.0	93.7
Villas	100	101.7	96.6	93.7	91.1
Apartments	100	96.1	92.0	85.9	83.7
Houses	100	98.7	98.5	96.6	95.2
Commercial	100	94.6	86.4	78.3	75.9
Land Plots	100	94.6	86.3	78.2	75.9
Buildings	100	100.5	102.0	102.1	102.1
Gallery/Shops	100	95.4	93.5	89.0	90.1
Commercial Centers	100	102.7	102.0	101.8	100.2
Agricultural	100	95.8	94.7	93.8	93.5
Land Plots	100	95.8	94.7	93.8	93.5

*Base Year
Source: GASTat