





Living in the KSA Is affordable housing just a mirage?

Will the Saudi Government's recent announcement to fund the construction of 500,000 new housing units solve the issue of low-income housing demand in the Kingdom? We examine the issues and the challenges faced by those seeking a roof above their heads.

According to the November 2010 census in the Saudi Gazette, the population of Saudi Arabia amounted to more than 27 million, of whom almost 70% (approximately 18.7 million) are Saudi nationals and the remaining 30% (8.4 million) non-nationals. Due to rapid economic and urban growth, over 95% of the population is settled in the major cities, resulting in some of these cities and oases having densities of more than 1,000 people per square kilometer.

Saudi Arabia's population is characterized by rapid growth and a large number of youths. This growing population supports a strong demand for residential real estate, especially at the lower end of the market, with demand primarily concentrated in the metropolitan areas. According to the Ministry of Economy and Planning, Riyadh, Jeddah and Khobar account for approximately 71% of total new housing demand and are expected to suffer from undersupply.

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Key issues facing the average household individual

Until recently, most low-income household individuals seeking to own a house in Saudi Arabia faced challenges relating mainly to the lack of a mortgage system and facility, as well as a lack of affordable housing for low-income individuals.

1. Lack of mortgage system and facility

In the absence of a new mortgage law (which has yet to come to light) the government's Real Estate Development Fund (REDF) is the main provider of home financing. Accordingly, market demand is still suppressed by limited mortgage availability. REDF is not able to meet all the demand, which is increasing exponentially: there are more than 650,000 applications pending since end-2009, up from 450,000 in 2006.¹ This is mainly due to the obstacles faced by REDF in the collection of debts, as well as the limitation of alternative means and sources of home financing in general. This would leave an average earning household individual with no option but to rent instead of buying his own property.

2. Lack of low-income housing

Most of the low-income citizens do not have sufficient financial means to own their homes, starting from the ownership of land through to securing the necessary funding to build their home. This topic is becoming more and more complicated for low-income individuals as a result of the continued soar in land prices and the shortage of residential areas available within the zone of urban cities, in addition to the reduced supply of affordable housing which meets the capacity of low-income individuals and the continuing decline in the number of housing units provided by government agencies, as well as the lack of funding available to keep up with the demand for loans from REDF.

On the other hand, with the limited number of large-scale developers present on the Saudi market, which is dominated by small developers and contractors, the

number of ready-to-occupy units is little and once made available and ready, these units are unfortunately unaffordable to low-income individuals.

Government's announcement of substantial extra-budgetary spending

The Saudi authorities have unveiled a package of spending measures amounting to SR458 billion that is set to have a significant impact on economic performance this year and beyond. The extra-budgetary spending, announced by King Abdullah in February and March, is primarily aimed at improving living conditions, particularly for those in the lower income category.

1. Construction of new housing

The biggest single element of the spending is SR250 billion to fund the construction of 500,000 new housing units over an unspecified time period. In order to construct this number of units in a reasonable time-frame, the authorities will need to use private sector developers. In terms of providing affordable financing, REDF will have a key role to play. REDF, which provides low-cost loans to Saudis for home purchases, had its capital boosted by SR40 billion and has been instructed to speed up its loan approval process.

2. Private financing

In view of the cramped demand for housing and the scale of the government's plans, private financing will also be necessary on top of REDF's recapitalization. As such, after months of deliberation, the mortgage law might be approved before end-2011. The mortgage market is expected to reach SR86.7 billion within the next three years of the law being enacted (i.e. 4.4% of GDP).²

3. In 11 regions in the Kingdom...building 500,000 units enters into force

Today, the increased focus of the Saudi government to elevate the quality of living of its citizens will no doubt have a direct positive impact on community investment as it will increase the standard of living and create more

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jobs. It will also impact the residential and retail sectors and will result in a growing number of civic facilities such as schools and hospitals and health-related activities. It will generate major long-term investment in developing new infrastructure and transport for newly-developed cities, like the need for additional airports, railways and other means of public transportation, as well as many opportunities within the private sector, which can result in numerous public-private partnerships.

In early July 2011, *Alolaa*, a Saudi news source, reported that the Minister of Housing, Dr. Shweish Al Douwaih, had signed with H.H. Prince Turki Bin Abdullah Bin Abdulrahman (Chairman of the Board of Directors of PARSONS KSA, an engineering consultancy) a contract for the design and construction of housing units in 11 regions across the Kingdom. Affordable housing in the Kingdom may become a reality after all.

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Endnotes

- 1 Ministry of Economy and Planning.
- 2 Press reports.