Saudi Arabia Real Estate Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

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Report description:

The Saudi real estate market is expected to register a CAGR of more than 9.74% during 2022 - 2027.

Due to COVID-19, the Saudi economy was negatively impacted in many ways, including low global oil prices and crude production, which depressed oil exports and government fiscal receipts. Emergency health spending and government support programs also added to the fiscal pressures. As of May 2021, Saudi Arabia's real estate market started showing an overall improvement in business activity following the downturn caused by COVID-19. After a deep contraction in 2020, Saudi Arabia's economy is on a recovery path as new COVID-19 cases stabilize at manageable levels, global conditions improve, and the national vaccination program gains momentum. Property tax relaxations, meeting labor shortages, and affordable housing programs under various stimulus packages have been crucial factors of success for real estate companies across Saudi Arabia.

Saudi Arabia's building and construction activities increased by 14% Y-o-Y in the first six months of 2021. The Saudi real estate market saw an annual increase of more than 375,000 multi-purpose units, as approximately 100,000 new families across the Kingdom join the market every year. The government is offering several incentives to foreign companies planning to work in the Saudi market and contribute to the growth of the real estate sector and the overall economy.

The commercial property sector's value of transactions registered with the Ministry of Justice rose sharply to SAR 9.6 billion (USD 2.5 billion) in the first two months of 1443, ending October 6, 2021, from SAR 5.7 billion (USD 1.5 billion) and SAR 5.8 billion in the first two months of the previous Hijri year 1442, ending October 16, 2020. The value of residential real estate transactions in the first two months of 1443 totaled SA R17.9 billion (USD 4.7 billion), up by 8% from SAR 17.7 billion (USD 4.7 billion) in the same period of 1442 and 1441.

Saudi Arabia's real estate market declined by 9.1% in late December 2021, as the value of deals finalized were at a weekly rate of less than SAR 4.1 billion (USD 1.09 billion). All segments of the real estate sector recorded a decline, with the residential sector transactions declining by 4%, the commercial sector declining by 11.7%, and the total value of transactions in the agriculture and industrial sectors declining by 27.1%.

Saudi Arabia's residential market is expanding rapidly, with apartment values in Riyadh and Jeddah showing the fastest pace of growth in five years. The apartment values in Riyadh and Jeddah accelerated by 17% and 12%, respectively, over the last 12 months alone (as of November 2021).

In the residential market, the delivery of units in both Riyadh and Jeddah continued apace in Q3 2021, as the government made further progress to increase the percentage of Saudi families owning homes to 70% by 2030.

Saudi Arabia Real Estate Market Trends

The Residential Sector Sustains Country's Real Estate Market

Saudi Arabia has identified housing as one of its key projects under Vision 2030. The housing ministry aims to build 300,000 housing units over the next five years, in partnership with the private sector.

As conditions post-COVID-19 stabilize, residential mortgages registered an annual increase of 48%, with a total value of SAR 71.4 billion (USD 19.03 billion) during the first five months of 2021. Based on the high demand for residential villas, as they represent 80% of total mortgages, the Sakani program by the Ministry of Housing (MOH) provided 77,000 housing units to citizens during the first five months of 2021, which is roughly 55% of the target of 140 thousand units.

Construction activity in the residential market remained slightly active, as various projects were delivered across the main cities, with around 26,500 units handed over during the first half of 2021. This number brings the total residential supply to 1.3 million and 840,000 in Riyadh and Jeddah, respectively. While the total stock for Makkah and DMA stands at 404,000 and 366,000, respectively.

Regarding performance, asking sale prices for apartments and villas jumped by almost 10% in West Riyadh compared to the same period last year (2020). They also increased almost 12% in the North of the city over the same period. The construction of over 106,000 new housing units has been completed, while 101,000 housing units have been under construction since the first quarter of 2021. The number of new units exceeded 344,000 during 2020, enhancing the diversity and increasing the supply of high-quality units at reasonable prices.

The average prices of residential apartments during Q1 2021 dropped to USD 133,000 since 2020. The average selling prices of land and homes stabilized during the same period. The drop in prices reflects the provision of housing solutions and options that meet the Saudi families' desires in partnership with real estate developers in all cities and regions across the Kingdom.

International Companies are Opening Regional Headquarters in Riyadh

In October 2021, 44 multinational companies received licenses to move their regional headquarters to Saudi Arabia's capital Riyadh. Among these 44 companies are multinationals in technology, food and beverages, consulting, and construction sectors, including Unilever, Baker Hughes, and Siemens.

Earlier 2021, 24 companies signed agreements to establish main regional offices, including PepsiCo, Schlumberger, Deloitte, PwC, and Bechtel, rather than oversee operations remotely from the United Arab Emirate's Dubai emirate.

Through the Regional Headquarters Attraction Program of Multinational Companies, these companies now have direct access to the region's largest economy, gaining financial and geographic opportunities while being part of one of the most exciting transformations happening in any city in the world.

In the second quarter of 2021, 600 new international companies were registered in Saudi Arabia. Their lease of first-class offices in Riyadh coincided with the Kingdom's orientation to attract regional headquarters for international brands.

In contrast to the global trend of companies to reduce their office space by 20-30%, Riyadh is witnessing a high demand for offices, especially first-class, due to the program to attract multinational companies. Saudi Arabia launched a stimulus initiative for foreign companies to exempt them from income tax and offer them incentives to move their regional offices to the Kingdom.

Saudi Arabia Real Estate Market Competitor Analysis

The market is highly competitive, with increasing demand for new properties due to growth in commercial activities and increased competition.

Some of the major real estate development companies operating in Saudi Arabia are Al Saedan Real Estate, Kingdom Holding Company, Ewaan, SEDCO Development, Jabal Omar Development Company, and Emaar.

More than 95% of the local real estate developers are primitive in their work. The old ways of doing business will prove challenging to them in supplying the market with high-quality office buildings. The Kingdom mandated that all foreign companies with contracts with the government move their head offices to Saudi Arabia. This mandate implies the country's need for more office buildings to meet international standards and cover the huge demand for foreign companies and investors.

The market is expected to witness aggressive competition between local and international developers. Companies must change their strategies to survive by adopting international standards and practices.

International real estate companies are entering the Saudi market to secure their place and obtain a market share, as this is a growing and promising market in its early stage of booming.

Additional Benefits:

The market estimate (ME) sheet in Excel format
3 months of analyst support

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