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Mortgage Law to Spur Real Estate Finance Sector

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Saudi stock market hit a five-week high yesterday after the government approved a long-awaited mortgage law. The Tadawul All-Share Index (TASI) surged 143.23 points or 2.12 percent to 6,885.27, its highest finish since May 30. The index has gained 7.3 percent so far this year.

Banks with large retail businesses attracted the most buying on the view that they will be able to attract the most mortgage business through their large branch networks.

Bank stocks rose sharply, helping the sector's index climb 5.1 percent. Heavyweight Al-Rajhi Bank edged higher by 4.08 percent to SR 76.50, Bank AlJazira surged 9.91 percent to SR24.40 and Alinma Bank added 6.43 percent to SR13.25.

Jarmo T. Kotilaine, chief economist at the National Commercial Bank, said: "A number of Saudi banks have been pursuing a deliberate strategy of building their asset base through new focused lending in key growth areas such as mortgages. This initial growth in this area has in part benefited from the ability of banks to serve a low-risk, often pre-screened clientele.

He added: "The mortgage law is a potential game changer in as much as, by putting in place a comprehensive regulatory framework for the market to develop, it will give lenders more comfort to expand lending beyond this relatively limited clientele. At the same time, the growing demand for medium-income housing that mortgages will trigger, will boost property development and credit to real estate companies."

He said while proper regulation is critical, this has the makings of a virtuous cycle. Mortgages in Saudi Arabia are just a couple of percent of GDP whereas in many advanced markets they are 60-70 percent, even as much as 100 percent. Even though sustainable growth will have to be measured, the potential over the long-term is tremendous. New opportunities should also emerge in areas such as mortgage bonds and securitization. In short, the law has significantly boosted the sustainable growth prospects in this area even if a lot of work remains to be done, Kotilaine added.

Commenting on mortgage law approval, Abdullah Al-Mubti, president of the Council of Saudi Chambers (CSC), said the new mortgage and real estate financing laws would encourage investors and developers. He described real estate as one of the fast growing sectors in the Kingdom, adding that the new laws would encourage banks and finance firms to extend more loans to carry out housing and other real estate projects.

He said Saudi Arabia needs about 200,000 housing units annually to meet the requirements of its growing population. "The Kingdom will require 2.62 million housing units by 2020," he pointed out.

Abdul Wahab Abudahish, vice chairman of the real estate committee at Riyadh Chamber of Commerce and Industry, said real estate financing in the Kingdom accounted for only 2 to 3 percent of the gross domestic product. "This is very low compared to some other GCC countries where it is between 15 and 18 percent," he added.

Abudahish expected the issuance of mortgage law would lead to increasing the capital of Saudi commercial banks to meet increasing demand for loans. "It will take at least three years to get a complete picture of the Saudi real estate after the issuance of the mortgage law," he said, adding that a number of factors are required to make the law a success.



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Naveed Siddiqui, CEO of Capitas Group International, said this is a much awaited milestone in the history of the Saudi real estate and housing market. "The mortgage law will pave the way for broader home ownership and a healthier real estate market overall. The guessing game about the Saudi real estate sector is now over. Its growth and stature in the global real estate market is now imminent," Siddiqui said.

The passage of the mortgage law will spur the emergence of a vibrant real estate finance sector that will be truly responsive to customer needs connecting home buyers' demand with housing supply through much needed purchasing power. However, we must watch how these laws will translate into regulations, how the ultimate regulators enforce the laws and manage the sector, and how financiers translate the benefits of the law into better terms and protections for the mass market.

"The ultimate goal should be for the financial sector to fill the huge gap in funding which amounts to SR 1.2 trillion over 10 years," Siddiqui added.

Hamad Al-Shuwaier, chairman of the national real estate committee at CSC, said the new laws passed by the Cabinet would regulate the Kingdom's real estate market, protecting the rights of lenders and borrowers.

"Mortgage law is the real driving force of real estate financing in any country," he said, adding that the new laws would bring more investments to the Kingdom.

Al-Shuwaier estimated the Kingdom's real estate market at more than SR2 trillion. "The problem was not with real estate assets but with shortage of financing," he said. The new laws together with the government plan to construct 500,000 housing units would solve the country's housing problem, he added.

Yousuf Al-Shalash, chairman of Dar Alarkan Real Estate Development Company, commended the government for passing the mortgage law and real estate financing law, and said it would bring about qualitative development of the Kingdom's real estate market. "It will not only stabilize the market but also protect the rights of all parties involved in the business," he said.

Al-Shalash said the issuance of the new law is a quantum leap in the legislative environment for the Saudi real estate sector. "The mortgage registration system will provide the necessary regulations to ensure discipline and flexibility that should allow optimal utilization of the duly registered real estate assets," he pointed out.

Al-Shalash added that the leasing and mortgage finance laws would encourage institutions and mortgage companies to increase funding available for real estate, improving purchasing power and thus helping solve the Kingdom's housing shortage. "These laws will also help create a competitive environment for financing companies and real estate developers, which will ultimately be in the interest of the nation and its citizens," he added.

The new laws would help curb inflation and protect the Saudi real estate market from fluctuations and shocks that have been experienced by many foreign real estate markets, where initially real estate prices rose to illogical levels only to collapse at a later stage, Al-Shalash said.