



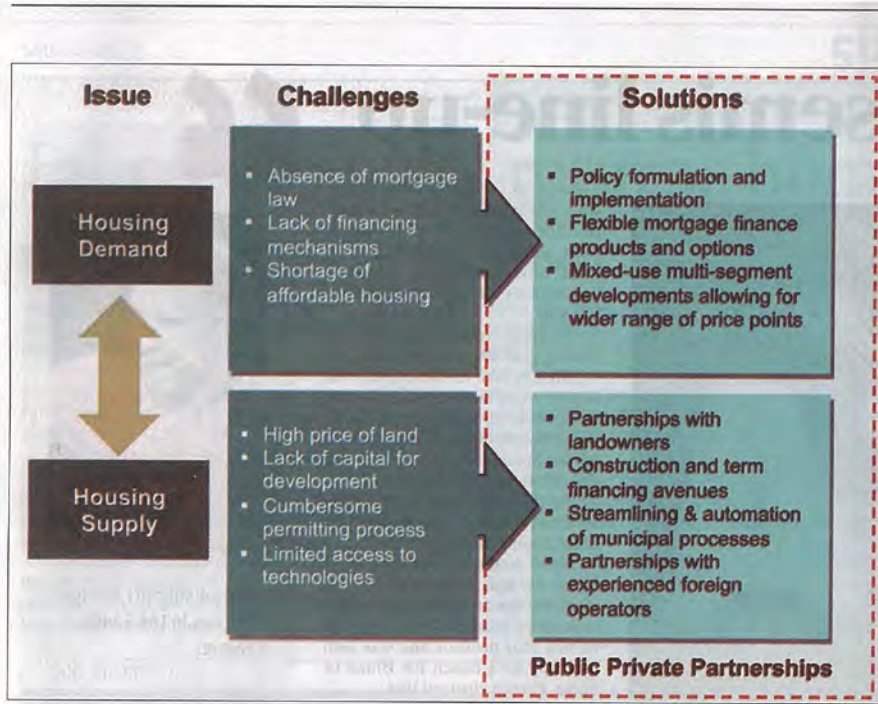
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Saudi housing challenge needs holistic approach

■ Banks have not been very receptive to providing construction finance for smaller players

JEDDAH – As housing remains a burning issue in Saudi Arabia, with a significant ripple effect across every other facet of citizens' lives, including employment and education, Capitas Group International said in its commentary that the current challenge requires a holistic approach.

It said that despite the Kingdom being spared the most disruptive effects of the Arab Spring, the regional unrest raises questions about the current and future state of basic social needs such as education, housing and employment.

While government census data indicates up to 60 percent homeownership within the country, industry experts cite a much lower ownership proportion at 30 to 40 percent, based on their interactions with would-be homeowners. Another telling sign of the housing shortage is the unabating rise in rental rates across the Kingdom, while elsewhere in the Gulf, rental rates continue to decline.

and Al-Khobar rose 18.3 percent and 20.2 percent, respectively, in 2010 from the year before. In north Riyadh – where villa prices have soared – land prices have jumped by an average 29.3 percent from a year ago. On an annual basis, east Riyadh land prices were up an average of 14.3 percent. Obviously, this directly translates into an escalating price for end units. Developers in Jeddah, for example, confirmed that affordably priced villas of 350 sqm that were sold at SR900,000 six months ago, are now generally being sold in excess of SR1.2 million.

The discrepancy in housing price increases also confirms widely held concerns that existing housing stock is disproportionately skewed toward high-end customers hence, prices of smaller villas are growing faster than that of larger ones. In eastern Riyadh, for instance, small villa prices rose 30 percent in six months, while larger villa asking prices were up only 17.2 percent. Industry estimates are that 70 percent of existing product targets the top 10 percent of households by income.

Another main developer concern is construction finance. While off-plan sales in the Kingdom are now being approved on a project basis, the option is not practical for smaller developers construct-

creates a lucrative opportunity for foreign companies who have successfully undertaken large scale community building projects overseas, especially in younger markets that, until recently, exhibited some of the same characteristics evident in the Saudi marketplace.

The final major obstacle faced by existing and potential developers is the need to streamline the municipal approvals process. While several municipalities have made attempts at automating parts of the planning, approvals and completion processes, there remains a dire need for end-to-end systems including land and title registry, planning permission, construction monitoring and completion in addition to other services that currently fall under the remit of the municipal departments. Developed real estate markets such as Singapore have successfully managed to overcome these obstacles through the implementation of automated solutions facilitating not only developers but also end users and buyers. Given the formidable challenges facing the housing sector, it is imperative that the Kingdom expedite its real estate automation process to enable the achievement of its ambitious targets. While this has begun, there still remains a need to fast track this and make it more inclusive and comprehensive. The Kingdom's housing chal-



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House prices in the Kingdom continue to increase, mainly on the back of land price increases. A leading real estate agency has estimated that over 70 percent of households in Jeddah are unable to afford the cheapest villas on the market today, priced at around SR900,000. On the other hand, the government's 9th Development plan forecasts a need for 250,000 units annually, of which only a small proportion is being supplied annually by developers, adding to the existing estimated shortfall of around 1 million units.

A home purchase transaction is a two-sided affair, consisting of housing demand meeting housing supply at a mutually agreed price. There are currently shortfalls on both sides, widening the existing divide. Solutions, then, have to be implemented for both.

Customer demand can be enabled by creating purchasing power through financing, allowing consumers to pay in installments instead of an unaffordable lump sum payment. Interest from the financial sector in this arena, along with the implementation of

the much awaited mortgage law, is expected to alleviate some of the pressure in this respect. However, stimulating the supply of homes is a more complicated undertaking, affected by numerous factors including rising land prices, depleting stock, a lack of efficient building methods, limited number of real estate developers, time-consuming municipal approvals, excessive profit margins, low appetite for construction finance, neglecting the mid-income customer segment, and a lack of affordable-yet-sustainable community development models.

Of these factors, the most pressing are land prices, availability of construction finance and the lack of sustainable community development models.

Developers across the Kingdom have made it clear that the rising land price is the largest obstacle in developing affordable housing and, in general, being able to bring stock to market. According to SAMBA's recent real estate report, average asking prices for land in Jeddah

ing up to 15 units at a time. Banks have also not been very receptive to providing construction finance for these smaller players and their appetite for smaller projects, at best, remains limited and selective. According to CGI estimates, an estimated 60-70 percent of affordable housing stock is developed by small-sized developers. And while there are few mid-sized developers in the Kingdom, larger players are only now beginning to focus on developing affordable units to ensure their supply is quickly absorbed.

In addition to targeting the real source of demand – affordable homes – the other recent shift in the developer mindset is the focus on holistic community design. While present market dynamics are likely to reward any affordable housing development, a move

enges will remain unsolved if solutions are fragmented and incomprehensive. The need therefore is for an ongoing and sustained public private partnership, where both public and private sectors bring to bear their key strengths and core competencies.

One possibility of realizing a successful public private partnership model tailored for the specific needs of Saudi Arabia is for owners of unutilized land banks from the public and private sectors as well as other public interest institutions contribute land to residential community projects. Private developers and master planners then team up to create sustainable mixed-use communities that not only have a mix of residential units targeted at various income segments but also have communal facilities such as parks,

mosques, libraries, hospitals and schools alongside commercial developments. At an aggregate level, such developments will not only offer residents a higher standard of living but also by virtue of its diversity, render

it more sustainable where multiple income streams will not only allow for greater affordability for targeted segments but also provide for better developer margins and mechanisms to fund ongoing facilities management.

To supplement this approach strategies and incentives that attract international expertise must be put in place. Given the dearth of local experience and expertise in creating and managing community based developments, the quickest route to addressing this is through bringing in cross-border experts who have a demonstrated track record of delivering and sustaining similar solutions elsewhere. The impact of this will be twofold in that it will not only speed up the delivery of housing projects in the Kingdom, but will also educate local players and lay down the foundation for a more sustainable and community based model that will contribute to the overall well being and prosperity of the Kingdom and its people. – SG

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to sustainable, community based models of development will allow developers to meet the real needs of a modern Saudi society while maintaining margins on the overall development through creation of multiple income streams. This can be achieved through the incorporation of commercial elements as well as middle-income homes. In this manner, the construction costs of common spaces and community elements such as parks and community centers, as well as affordable units and the ever-increasing cost of land can be defrayed by the sale of middle-income homes and a recurring commercial income stream. This recurring income would further provide for the maintenance needs of the community.

The intricate community planning, efficient and inclusive design, and ongoing asset-maintenance focus integral to the success of such an endeavor requires expertise that is currently lacking in the Saudi marketplace. The resulting vacuum