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Sweeping changes proposed for Saudi Arabian mortgages

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The offices of the King Abdullah financial district are under construction in Riyadh.

Waseem Obaidi / Bloomberg

Saudi Arabia appears set to make sweeping changes to its mortgage laws as part of a plan to boost the housing sector.

After years of false starts the Shura Council this week approved a draft law that will, pending approval from the king, establish a traditional mortgage system with detailed mechanisms for foreclosures, a first for the kingdom.

"It's obvious this time it is very real," said Imad Damrah, the country director for Colliers International, a property company.

The law, if enacted, would create a US\$32 billion (Dh117.53bn) a year mortgage business in Saudi Arabia over the next 10 years, Capitas Group International estimated.

The development comes on the heels of King Abdullah's announcement on March 18 to spend \$67bn to build 500,000 homes. The kingdom has also established a housing ministry to oversee the construction of affordable property.

Only about 30 per cent of the Saudi population own their homes and only about 2 per cent of home purchases in the kingdom are financed by mortgages, according to industry estimates.

About 150,000 new homes a year are needed over the next 10 years to satisfy demand, according to Jones Lang LaSalle, the property company.

The mortgage legislation is expected to set up detailed procedures for foreclosures and repossessions. It would also regulate the finance industry and ensure compliance with Sharia law, according to initial reports.

"It seems like it's ready to go and that's a positive thing," said John Harris, the head of Jones Lang LaSalle's Saudi Arabia office. "Perhaps events across the region have encouraged [the] government to make housing a higher priority."

Mortgages are already available in the kingdom. But they are hard to obtain, require large down payments and are typically available only for short terms. Lenders have been reluctant to commit capital without a system in place to enforce lending agreements.

A new law would create a mechanism for enforcement, giving lenders "more confidence", Mr Harris said.

The legislation is expected to allow securitisation of loans, helping financial institutions to raise capital to back lending, he said.

"I think the impact on the market itself and the delivery and purchase of housing will be a gradual process," Mr Harris said.

The creation of a mortgage apparatus will encourage the construction industry to build more homes by expanding the pool of available buyers.

With land prices rising and access to financing limited, the private sector has focused on higher-priced housing, which is too expensive for the majority of the population, analysts say.

More than 15 per cent of homes are vacant, despite demand, according to a recent report from CB Richard Ellis, the property company.

Mortgage laws alone are not a solution to the housing issues, said Nasser Nubani, the executive vice president of Capitas Group International, a consultancy. "If supply doesn't grow, there will be a lot of high real estate prices."

The government's housing initiative appears to have broken the deadlock on reforming the mortgage law. Some government representatives had expressed concern that liberalised mortgage laws would increase property speculation.

"What is needed is a co-ordinated effort," Mr Nubani said. "It seems various wheels are moving together."

While the government has not yet offered details on its housing plan, it may develop private-sector partnerships to spur construction, analysts say.

"The government is very serious about it," Mr Damrah said. "I think it will happen very soon." Creation of the housing ministry was an important step. "Now they are under pressure and they have to perform," he added.