

*Apartment prices  
climbing*

*Affordability issues  
emerging*

*Demand dynamics  
changing*

# Saudi Arabia Residential Market Review

Q3 2021





## MARKET ROUND UP

### Mixed performance continues

Performance across Saudi Arabia's residential market remains mixed, with apartment values rising significantly in all major markets over the last 12 months, while villa prices are weakening. At the same time, transaction volumes have declined, in line with seasonal trends, while total sale values continue to edge upwards.

Indeed, during Q3, the number of residential deals nation-wide was down 21% on Q2, while the total value of residential transactions rose by 15% over the same period. Around 45,400 residential transactions were recorded in Q3, compared to 57,500 transactions during the same period last year.

Unsurprisingly, the number of new residential mortgage contracts banks and financial institutions issued also retreated during Q3, falling by 34%, when compared to Q2. 60,000 mortgages, worth SAR 31bn were issued in the third quarter. According to the Saudi Central Bank, around 79% of mortgages were issued for villas, 17% for apartments, and the remaining 4% for land purchases.

### Home ownership rates still climbing

While Q3 has experienced a seasonal decline in activity, 27,000 new mortgages were issued in August, a 24% jump when compared to the same month last year. This underscores the depth of momentum in the Kingdom's housing market as home ownership rates climb higher towards the government's 70% target by the end of the decade.

To increase homeownership rates among Saudi nationals, as laid out in Vision 2030, the Saudi Government has launched various initiatives such as the Sakani Housing Program, which is currently in its fifth year, as well as the Wafi Initiative, and various regulatory efforts to ease access to mortgages. These efforts are continuing to contribute to an acceleration in homeownership rates.

The number of households benefiting from the Ministry of Housing's Sakani Program, for instance, climbed to over 41,000 in Q2, 38,000 of whom have moved into their new homes. This brings the total number of households who have moved into their new homes directly as a result of the Sakani Program across the Kingdom to almost 88,000 in the first half of 2021.



**27,000**

new mortgages were issued in August

Source: Saudi Central Bank

**Total value and volume of residential transactions**



Source: Knight Frank, MOJ

# NUMBERS YOU NEED TO KNOW



**27,000**

mortgage contracts issued in August, up 24% on August 2020



**45,000**

residential sales recorded in Q3 2021, down 21% compared to last year



**41,000**

households benefited from the Ministry of Housing's Sakani Program in Q2 2021, including 38,000 households that moved into their homes over the same period



**88,000**

households moved into their new homes during the first half of 2021 across the Kingdom



**93,500**

housing units were completed across the Kingdom in Q2, a 39% increase on Q2 2020



**60,000**

mortgages, worth SAR 31bn were issued in the third quarter

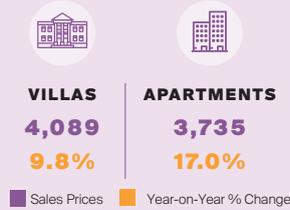


Apartment prices in Riyadh and Jeddah are up 17% and 11.7% in the last 12 months; the highest rates of growth in at least 5 years.

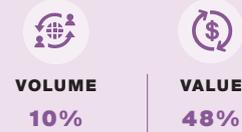
# RIYADH

## MARKET PERFORMANCE INDICATORS

### Sales Prices (SAR psm)



### Annual change in residential transactions



### Strongest price rises in 5 years

The residential market in Riyadh continues to expand, as highlighted by the marked increase in transactions and values. Apartment prices in Riyadh are up 17% in the last 12-months; the highest rate of increase in at least five years. Meanwhile, villa prices have increased by close to 10% over the same period.

The growing demand is being fuelled by a growing urban population, which is a direct result of an inflow of Saudi nationals and expatriates, who are relocating to Riyadh from other cities around the Kingdom as the city continues to cement its position as the commercial hub for the Kingdom.

### Demand for more affordable homes growing

Anecdotal evidence suggests an increase in demand for apartments and townhouses rather than villas, hinting at rising affordability issues as well as a growing number of single-person households,

which are together altering the demand dynamics across the city.

The number of residential units sold has increased by 10% over the last 12 months, while the value of total transactions has slipped by 48%, highlighting the substantial appetite amongst home buyers for more affordable homes.

Whilst our analysis indicates that affordability has actually improved in Riyadh since the National Transformation Plan was unveiled in 2016, buying a three-, four-, or five-bedroom villa still costs between 7 to 11 times annual incomes. This is in excess of a globally accepted threshold of four to six times annual incomes for home ownership to be considered affordable.

Apartments on the other hand can be purchased for 1.5 to 3 times annual incomes, positioning them within easy reach of home buyers, which is also contributing to the rising volume of transactions in the Saudi capital.



**The rising demand is being fuelled by a growing urban population, which is a direct result of an inflow of Saudi nationals and expatriates from elsewhere in the Kingdom**





### Supply remains restricted

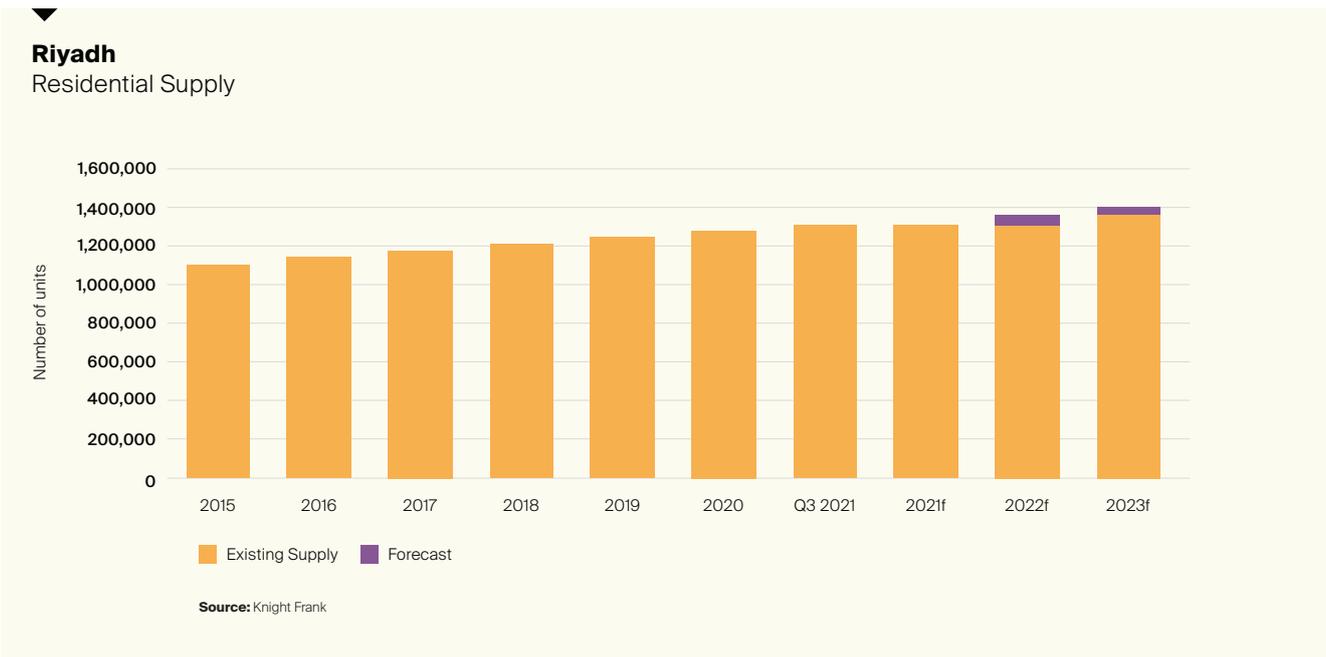
Despite the affordability issues for larger homes and shifting demand-supply dynamics, the outlook for the sector remains buoyant. According to RCRC (The Royal Commission of Riyadh City) projections, Riyadh's population will more than double to 17 million by 2030, and if we use the city's long-term historical growth rate for the number of households created each year (32,000 per year), we project a housing shortage of at least 420,000 units by 2030.

That said, some developers are already responding to this projected supply-demand mismatch, particularly for affordable homes.

ROSHN, for instance, Saudi Arabia's first community developer, has begun pre-sales of its first project in Riyadh, in line with the government's aim of delivering high-quality affordable housing.

This project is part of the government's long-term strategy to develop master-planned communities with state-of-the-art infrastructure and public realm elements to deliver a quality product that is not present in the current Riyadh market.

Such affordable projects are expected to play a vital role in responding to changing demand dynamics; however, for the time being, they appear to be in short supply.



# JEDDAH

## HEADLINE AFFORDABILITY



Average Apartment Price to Household Income Multipliers

2016	2021
4.9	4.8

Average Ticket Price of Apartments (SAR)

2016	2021
835,000	725,000



Average Villa Price to Household Income Multipliers

2016	2021
16.3	12.4

Average Ticket Price of Villas (SAR)

2016	2021
2,750,000	2,685,000

### Affordability issues stifling villa prices

Similar to Riyadh, Jeddah's residential market has seen apartment prices surge by 11.7% over the last 12 months, the strongest rate of growth in at least five years. Villa prices on the other hand have risen by just 1.3% over the same period. This disparity is in large part down to affordability issues, with villas in Jeddah costing upwards of 12-times annual incomes.

### Demand for more affordable homes growing

In contrast to Riyadh, the total number of residential properties sold has declined by 19% over the last 12 months, while the total value of sales has risen by 18% to SAR 4.2 bn, reflecting the spike in apartment values, which has clearly dampened the appetite to purchase. Anecdotally, another contributing factor is the rise in internal migration, with Saudi nationals and expats opting to leave the Red Sea coastal city for work in Riyadh, which is upending the historically stable demand-supply equilibrium.

Approximately 3,200 residential units were delivered during Q3, taking the total stock in the city to 860,000 units. A further 30,000 units are expected by the end of 2023.

## MARKET PERFORMANCE INDICATORS

Sales Prices (SAR psm)



**VILLAS**  
5,073  
1.3%



**APARTMENTS**  
4,010  
11.7%

■ Sales Prices

■ Year-on-Year % Change

Annual change in residential transactions



**VOLUME**  
-19%



**VALUE**  
18%



**In contrast to Riyadh, the total number of residential properties sold in Jeddah has declined by 19% over the last 12 months**





# DAMMAM METROPOLITAN AREA (DMA)

## Diverging performance for apartments and villas

Mirroring the Jeddah market, average apartment prices in DMA have risen by 5.5% in the year to Q3 2021, while average villa prices have declined by 1.9% over the same period.

This mixed performance reflects our analysis on affordability, which is influencing buyer behaviour. Due to their relative affordability, apartments are gaining traction with Saudi nationals as an acceptable dwelling type for a first home, driving both demand and prices for villas lower.

Counterintuitively, while DMA's residential market experienced a 20% decline in the volumes of deals over the last 12 months, the total value of residential transactions increased by 5% over the same period. However, if we zoom in to the last six-months, both the value and volume of deals have declined, by 26% and 20%, respectively.

## Developers changing tact

Like elsewhere in the Kingdom, due to rising affordability challenges, most buyers are gravitating towards apartments and townhouses. Developers are responding with a growing number of townhouse projects. These are being priced at a more affordable level (c. SAR 1,000,000 vs. average incomes in DMA of SAR 215,000), which we feel will go some way to bridging the affordability gap in DMA's residential market.

## MARKET PERFORMANCE INDICATORS

Sales Prices (SAR psm)



**VILLAS**

**3,307**

**-1.9%**



**APARTMENTS**

**3,068**

**5.5%**

■ Sales Prices ■ Year-on-Year % Change

Annual change in residential transactions



**VOLUME**

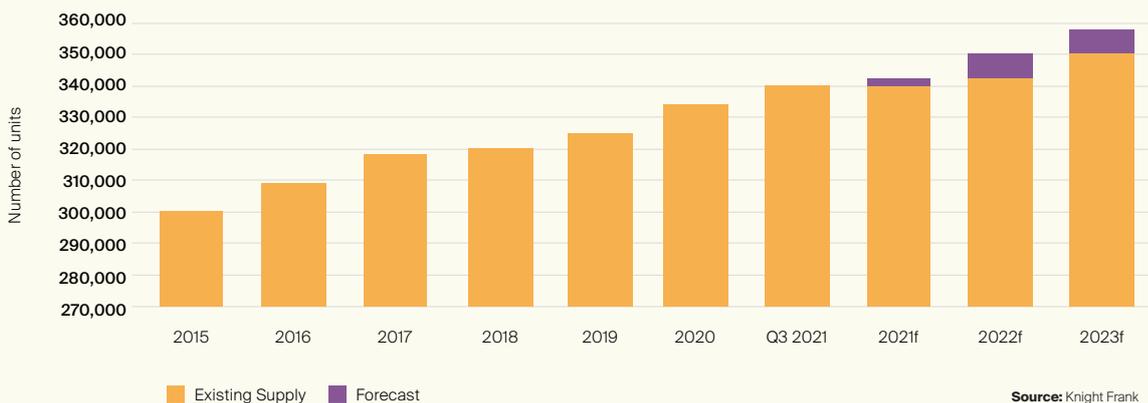
**-20%**



**VALUE**

**5%**

## Dammam Metropolitan Area (DMA) Residential Supply



# FOOD FOR THOUGHT

## Villas falling out of favour?

Looking ahead, we feel there are a number of factors that are likely to contribute to the decline in popularity of villas, not just in Jeddah, but across the Kingdom.

The changing social dynamics driven by the young demographic profile of the country – 56% of the Saudi national population is under the age of 35 – will create a new generation of homebuyers. This younger cohort is expected to be in favour of smaller households, so we expect to see a fall in multi-generational living arrangements. Indeed, Riyadh has seen average household sizes decline from 6.75 persons to 5.75 persons in the last 100 years, but we feel this decline is set to accelerate imminently.

Furthermore, with a rapidly mobilising female workforce, the need and desire for technology and connectivity, and 24/hour "live/work/play" concepts, apartments and single-person dwellings will quickly grow in demand.

Coupled with the affordability challenges highlighted above, these social changes are expected to drive demand away from traditional standalone villa properties, with smaller units, where community and lifestyle are at the heart of developments, offering modern comforts, set to reshape the residential landscape in the Kingdom.



## KEY CONTACTS

### Harmen De Jong

Partner  
Real Estate Strategy & Consulting  
+966 56 3045 356  
Harmen.DeJong@me.knightfrank.com

### Kaveh Samsamy

Partner  
Development Management  
+966 56 356 1622 (KSA)  
+971 50 996 5221 (UAE)  
Kaveh.Samsamy@me.knightfrank.com

### Talal Raqaban, MRICS

Partner  
Valuation & Advisory  
+966 50 0556 308  
Talal.Raqaban@me.knightfrank.com

### Faisal Durrani

Partner  
Head of Middle East Research  
+971 4 4267 698  
Faisal.Durrani@me.knightfrank.com

### Amar Hussain

Data Manager  
MEA Research  
+966 55 2323 036  
Amar.Hussain@me.knightfrank.com

### Balqaise Fayadh

Intern  
MEA Research  
+966 112 890 775  
Balqaise.Fayadh@me.knightfrank.com

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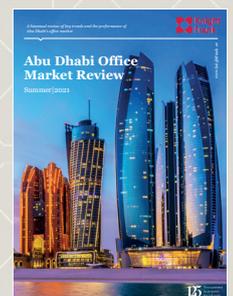
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### Contact Us

1st floor, Building WH01, Al Raidah Digital City, Riyadh, Kingdom of Saudi Arabia, +966 11 2890 700,  
12th floor, The Headquarters Business Park, Jeddah, Kingdom of Saudi Arabia

