

Saudi Arabia Residential Market Review



Summer 2023

A quarterly review of key trends and the performance of Saudi Arabia's residential market

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Market round up

The first half of 2023 saw a decline in the total residential transactions across the Saudi real estate market. Around 70,000 transactions were recorded between January and June, down from 103,000 transactions last year, representing a 32% decrease in home sales.

The total value of transactions, however, declined at a slower rate during the same period, slipping by 28%, indicating a continued rise in unit prices across the Kingdom.

It is unsurprising that the total number of mortgages issued in the year to May 2023 declined by 34.9%, compared to the same time last year. Similarly, the total value of mortgages issued declined by 36.9% during the same period.

As the cost of borrowing increases, we expect more potential homebuyers to move into a holding pattern while reassessing their financial positions. Higher mortgage rates, which jumped from 3% to 5% last year are eroding purchasing power, particularly in the villa segment, where the number of mortgages extended has fallen by 2% in the 12-months to the end of May.

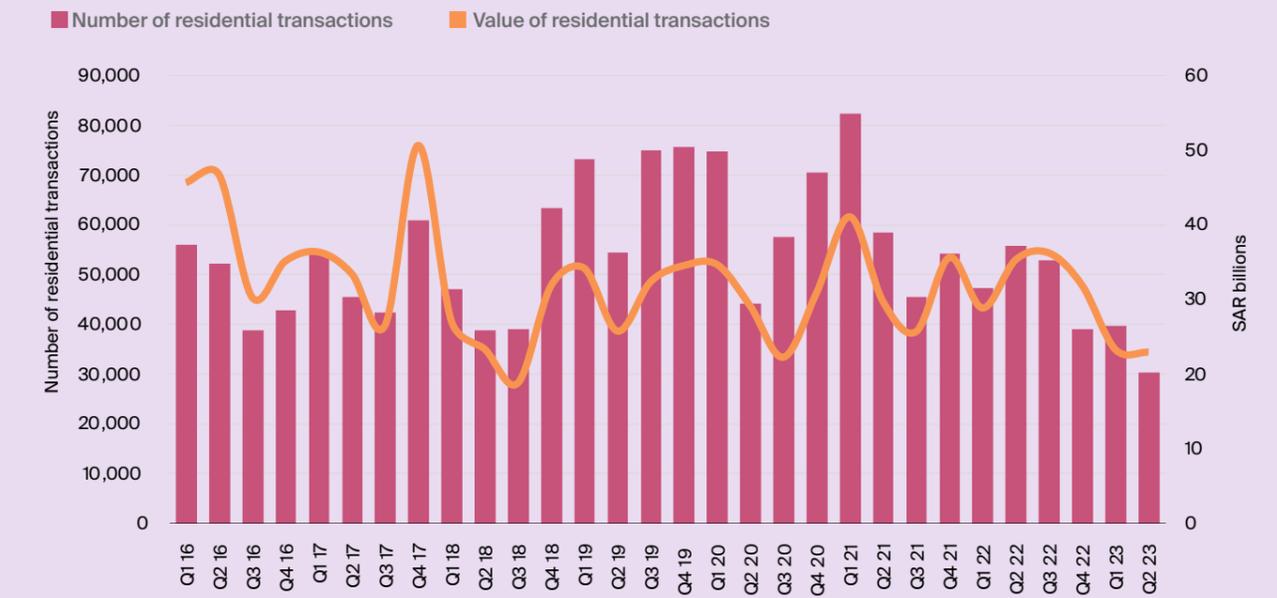
In contrast, there has been an 8% increase in apartment-linked mortgages as buyer attitudes toward apartment living continue to shift, underpinned by the reality of their relative affordability, as well as the rapidly vanishing long-standing stigma associated with apartment living.

The total share of mortgages issued for villas and apartments was around 68% and 27%, respectively, with the remaining allocated to residential land plots. While a villa remains the ultimate goal for 41% of Saudis, as confirmed by the results of our 2023 Saudi Report, apartments have emerged as a more realistic option from an affordability perspective.



Total value and volume of residential transactions

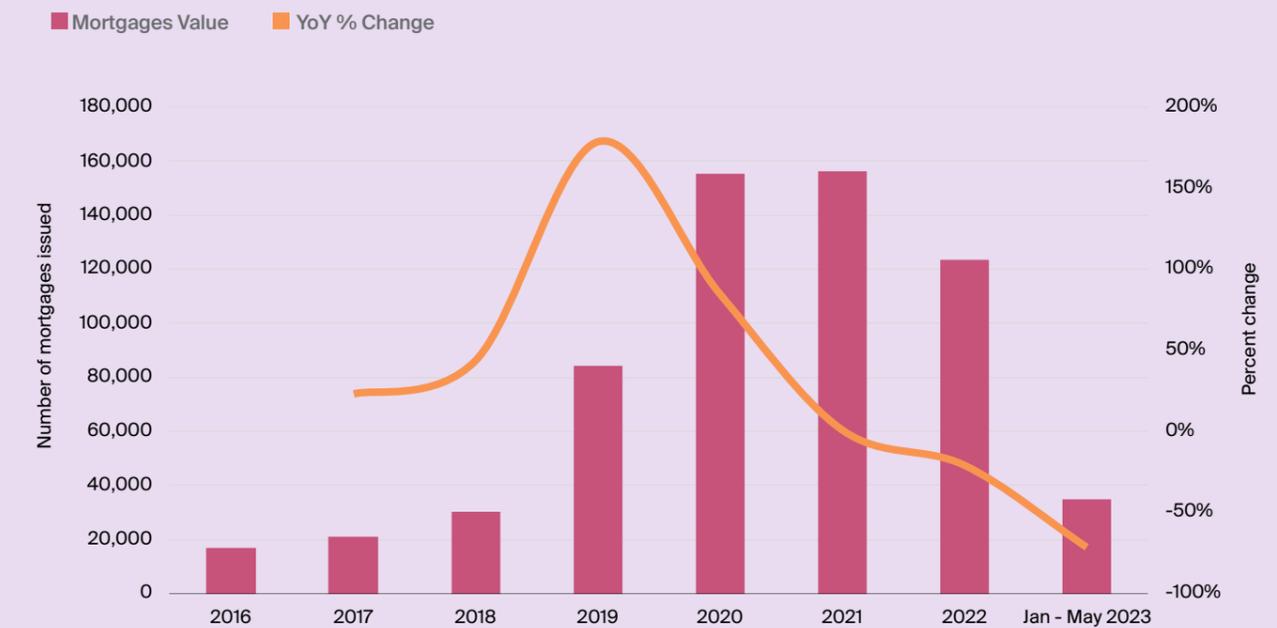
Number of residential transactions



Source: Knight Frank, MOJ

Number of mortgages issued

Number of residential transactions



Source: Knight Frank, SAMA

Riyadh

In Riyadh, house prices have been increasing at an unprecedented rate over the past few years and have in fact risen by 45-50% since January 2020. As outlined above, this extraordinary growth has begun to dampen demand.

However, the influx of domestic migrants and expats to the Saudi capital has started to create a different form of housing demand – for rental properties. Indeed, our 2023 Saudi report confirms this, with 62% of Riyadh’s residents keener on renting than owning. This is being driven by both affordability challenges, but more importantly by the increasingly transient nature of the capital’s workforce, many of whom are transplants from elsewhere in the Kingdom – 40% consider themselves to be temporary residents.

Average apartment prices across Riyadh have risen by 10% during the first six-months of 2023. The city-wide average currently stands at around SAR 5,100 psm, but variation across the city’s subdistricts is evident. For instance, average apartment prices in Al Malqa currently stand at SAR 6,900 psm (14.5% up on this time last year), while in Tuwaiq prices stand at an average of SAR 3,300 psm, equating to a rise of 3.9% over the last 12-months.

Villas have registered a 6% price rise during the same period, with prices averaging at SAR 4,800 psm.

Villas located in Al Nakhil and Al Malqa are the priciest in the Kingdom, standing at an average of SAR 9,200 psm and SAR 8,200 psm, respectively. Other, more affordable districts, such as Al Shifa and Dar Al Bayda’a have prices that range from SAR 2,500 psm to SAR 2,800 psm.

From a supply perspective, the Ministry of Housing is continuing to work on providing affordable options to meet the growing demand for more affordable homes and achieve the government’s 70% homeownership target by 2030. Indeed, several projects have been delivered during the first half of 2023, adding around 23,000 “affordable” units, including Jawharat Al-Sahab and Al Nayfa..

Additionally, other developers are rapidly increasing their presence in the market with small residential developments of around of 10-30 units, such as Al Ajlan Riviera and Al Majdiah Residence. The developers have projects spread across the city with a portfolio of over 10,000 units each, comprised of both apartments and townhouses.

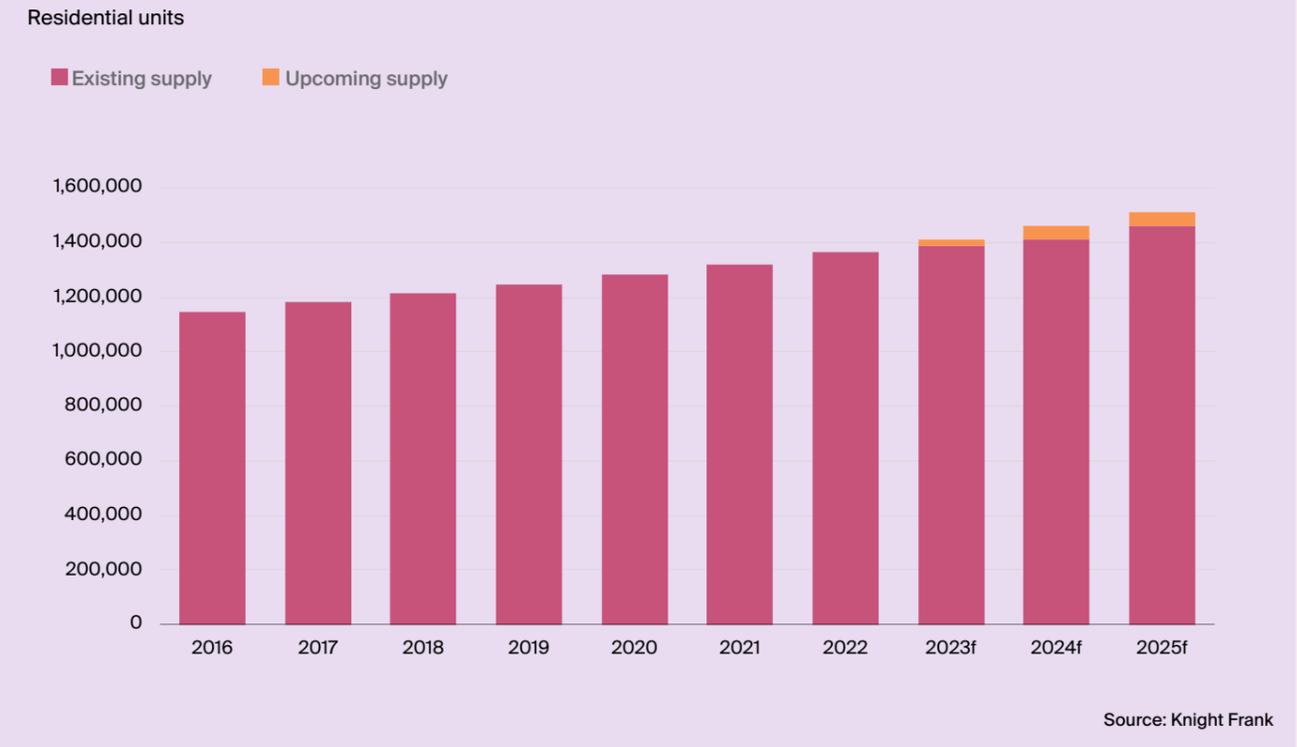
As Riyadh’s population edges towards the authorities’ target of 17 million by 2030, the housing market is expected to experience sustained demand; however the nature of this demand is likely to be focused on smaller homes, apartments and rental properties specifically.



Market performance indicators – Q2 2023



Riyadh residential supply



Jeddah

The housing market in Jeddah experienced slightly slower growth in prices, compared to Riyadh. Average villa prices grew marginally by 1% during Q2 2023, while average apartment prices increased by 2% during the same period.

Across the city's submarkets, average villa prices in Al Shatea and Al Murajan districts are the highest, with an average of SAR 8,200 and SAR 7,000 psm, respectively. Meanwhile, in districts like Al Manar and Al Ajwad, prices are relatively lower, standing at an average of SAR 4,100 and SAR 3,600 psm, respectively.

The average price for apartments across the city ranges from an average of SAR 5,200 psm in districts like Al Zahra, to SAR 3,500 psm in Al Manar. The city-wide average equates to SAR 4,200 psm. Prices vary depending on the quality and specifications of the units, and more recently, for community residential developments, a premium of around 20-30% is being charged and achieved.

“The slowdown in the market highlights the affordability threshold that has been breached in Jeddah.”



In terms of transactions, the number of residential transactions registered across the coastal city saw a steep decline of 53%, dropping from 4,500 deals in Q2 2022 to 2,200 deals in Q2 2023. Similarly, the value of transactions declined at a similar rate of 52% during the same period.

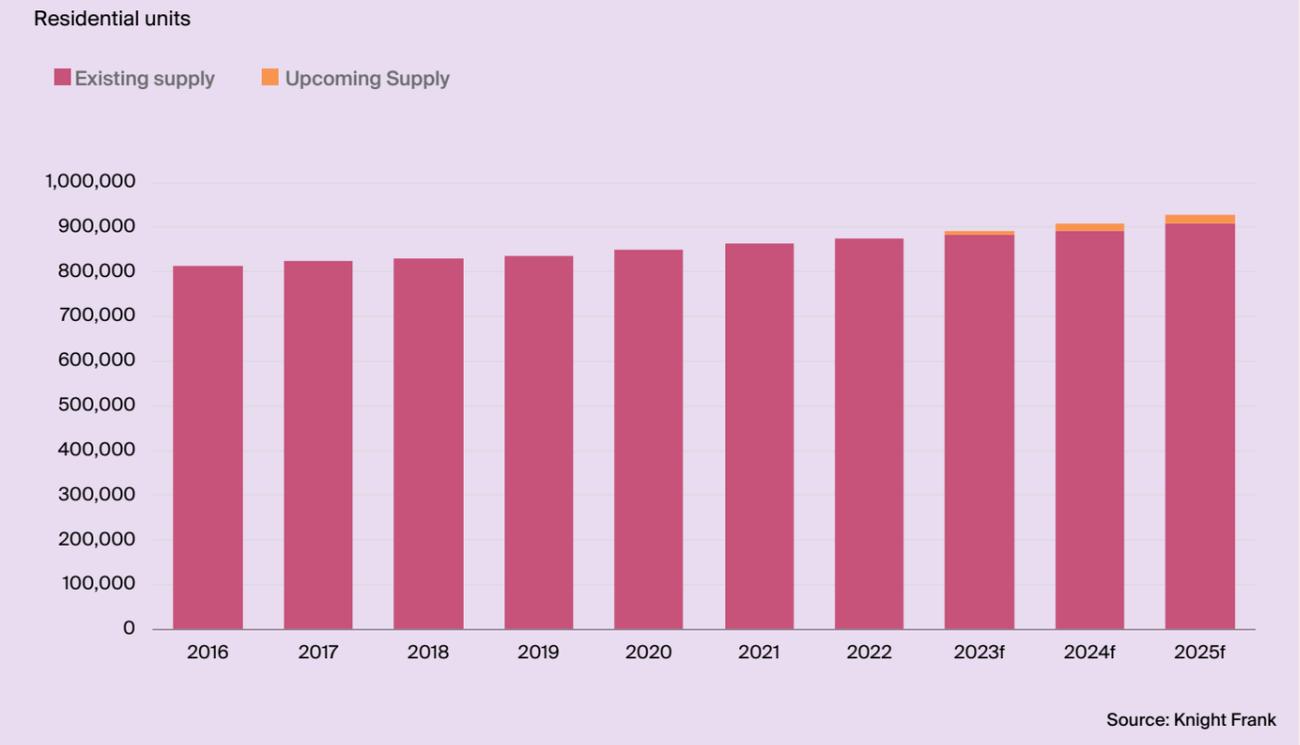
The slowdown in the market highlights the affordability threshold that has been breached in Jeddah. Indeed, the household income multiplier, i.e., the number of years of annual salary needed to purchase a home is currently 4.6 and 14.5 for apartments and villas, respectively, compared to 4.7 and 15.8 during 2016. We investigate this in more detail below.

Offerings in the affordable segment are dominated by Ministry of Housing projects, that are spread across the city, and mainly clustered in the North and the East. Moving forward, over 25,000 units are expected to enter the market by 2024. While the upcoming supply is mainly composed of Sakani-linked projects, more luxurious projects, such as Raffles' 120-unit branded residence t, due to be delivered in 2024, are also in the pipeline.

Market performance indicators – Q2 2023



Jeddah residential supply



Dammam Metropolitan Area (DMA)

In the Dammam Metropolitan Area, prices in the residential market are experiencing lopsided performance. Average apartment prices are 5% higher than this time last year, while the cost of a villa is down 2% over the same period.

Mirroring Jeddah, transactions in the DMA saw an annual decline in both the value and number of residential transactions recorded in the year Q2 2023. Indeed, the total number of transactions dropped from 2,140 transactions last year to 1,204 transactions during H1 2023, representing a 44% decline. Similarly, the total value of transactions dropped by almost half (52%) during the same period.

The demand in the DMA is centered around apartments for ready-built units, with little to no transactions recorded in Q2 2023 for villas. The limited availability of villas, coupled with the affordability barrier, is the key driver behind this.

To address the supply shortage, the Ministry of Housing has been adding affordable villas to their mix, including Al-Bayraq, where 595 homes were delivered recently, and Nisaj Town in Al Khobar (1,653 units). Looking forward, we expect the DMA to see around 12,000 units to be completed by 2024, driving total stock up by around 5% to 372,000.

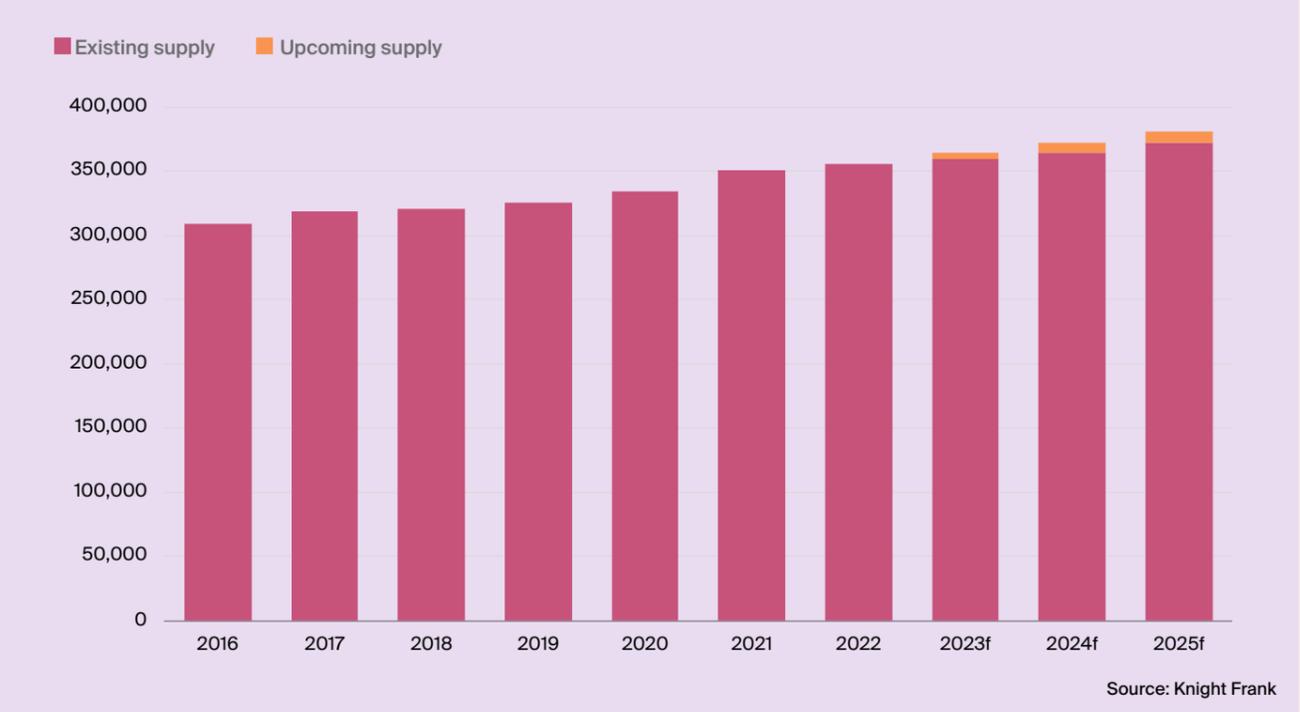
“The demand in the DMA is centered around apartments for ready-built units, with little to no transactions recorded in Q2 2023 for villas.”



Market performance indicators – Q2 2023



DMA residential supply



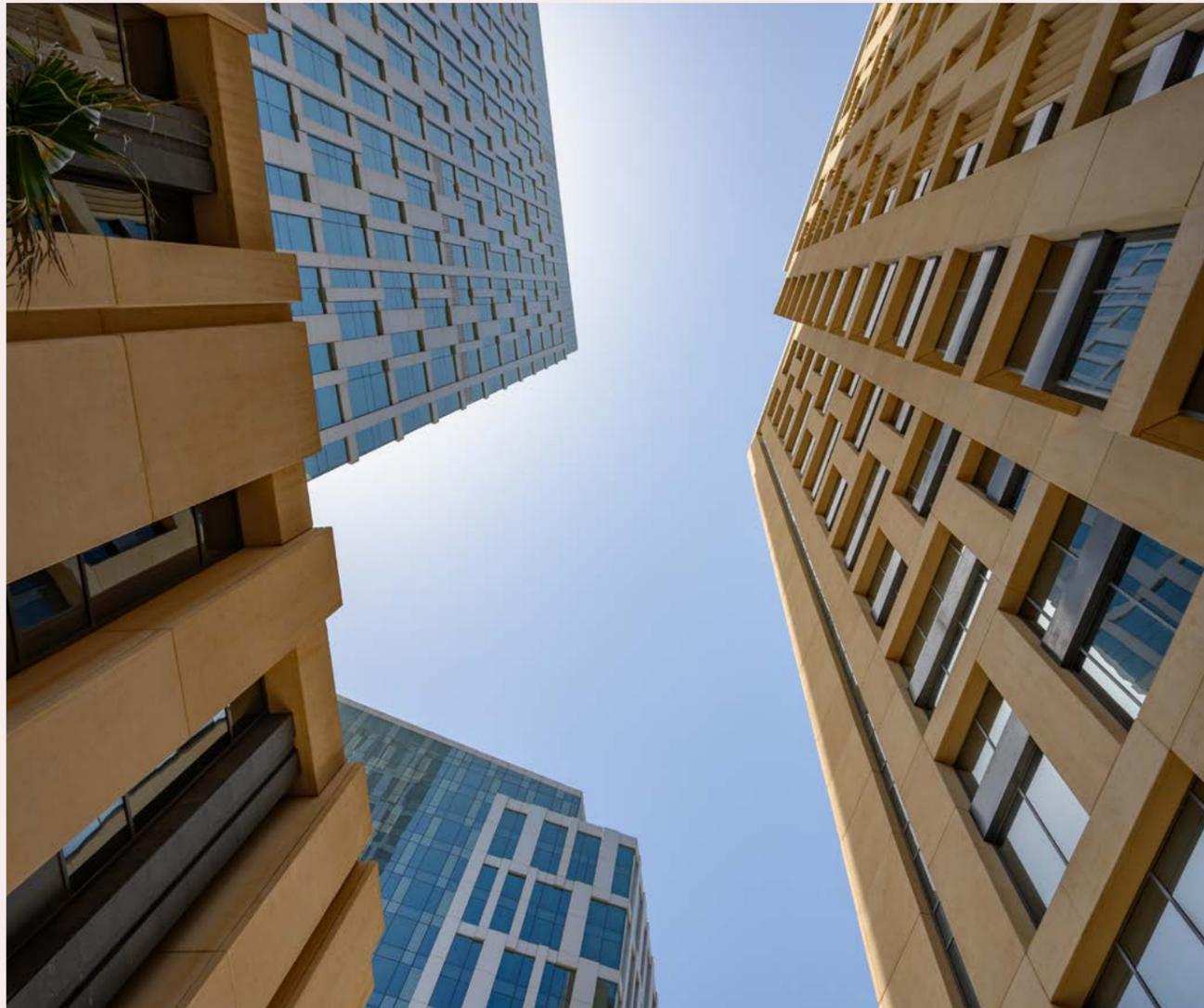
In focus: the income multiplier

As highlighted above, affordability remains one of the most significant hurdles for home buyers across the Kingdom.

To understand the relative affordability of homes across the country, we have analysed the ratio of average household incomes to average house prices across Riyadh, Jeddah, and the DMA.

In simple terms, this ratio represents the annual income multiplier needed to purchase a home.

Globally, a home priced at six-times an annual salary is classed as affordable and it is clear to see that villas in Riyadh and Jeddah are well above what would be considered affordable.



	District	Apartment SAR psm	Villa SAR psm
Riyadh	Al Aziziah	3,100	3,000
	Al Hamra	5,200	5,700
	Al Malqa	6,900	8,200
	Al Sahafah	6,100	6,400
	Al Shifa	-	2,500
	Al Ta'awun	-	6,800
	Al Yasmeen	6,400	7,100
	Dar Al Baida	2,800	2,700
	Hiteen	7,000	7,800
	Ishbiliah	4,600	4,700
	Qurtaba	-	6,000
	Tuwaiq	3,300	3,400
Zahrah Laban	4,100	3,900	

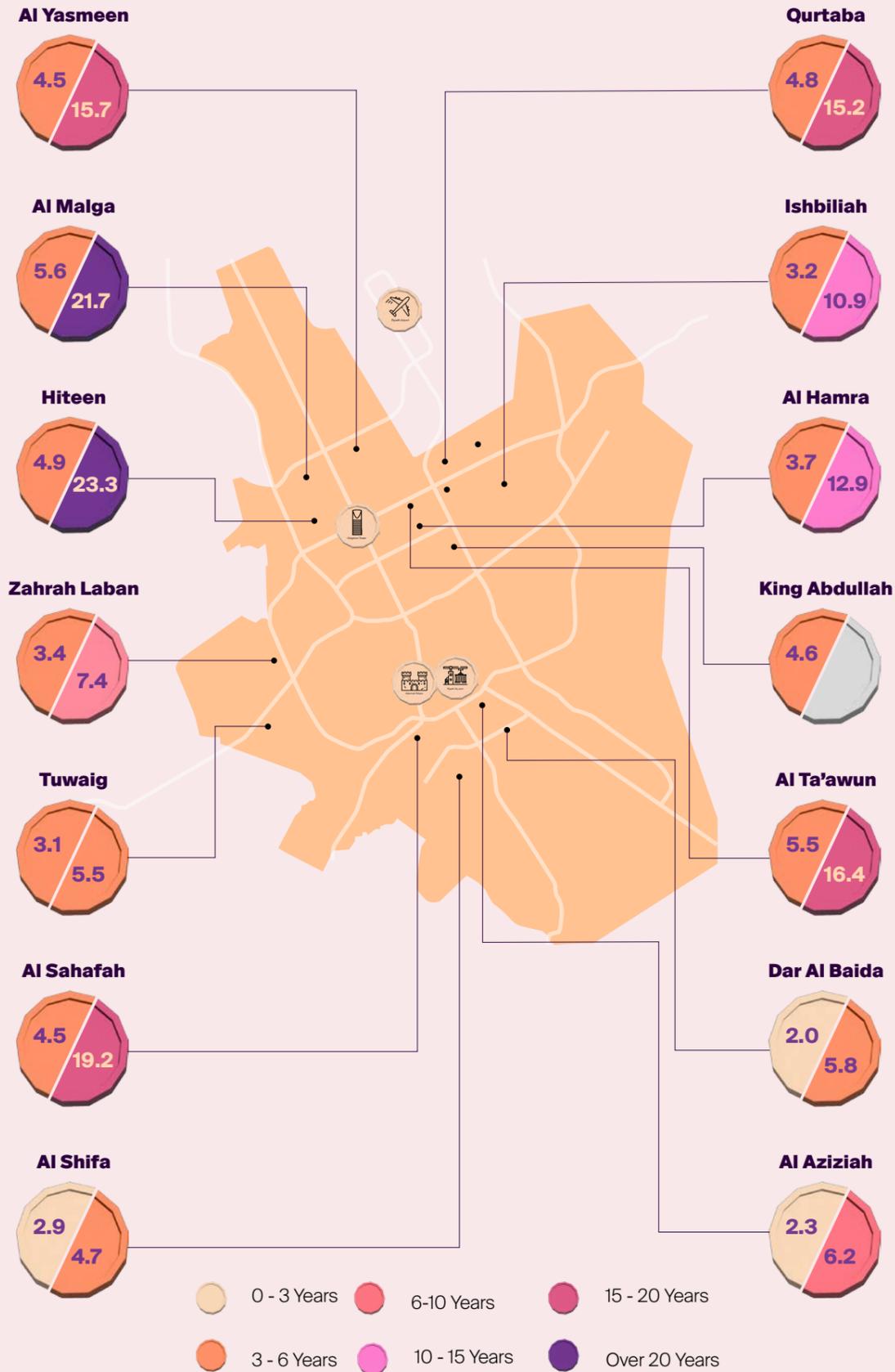
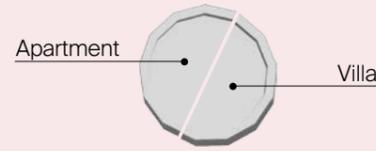
	District	Apartment SAR psm	Villa SAR psm
Jeddah	Obhur Al Shamaliyah	6100	5600
	Al Murjan	-	6800
	Al Ajawweed	-	3500
	Al Khaldiyah	-	6800
	Al Naseem	3900	-
	Al Nuzha	4200	-
	Al Rawdah	5000	6300
	Al Safa	4000	-
	Al Salamah	4700	-
	Al Salamah	4700	-
	Al Samir	-	3600

	District	Apartment SAR psm	Villa SAR psm
DMA	Al Amwaj	-	2400
	Al Aziziyah & Al Tahliyah	3600	3500
	Al Faisaliyah	3000	3800
	Al Khuzama	3600	3200
	Al Muntazah/Al Ghadir	4200	5300
	Al Yarmouk	-	3800
	Al Hamra'a	3000	3000
	Al Rakah Al Janubiyah	3600	3800
	Ar Rawabi	4700	-
	Al Shati Al Gharbi	-	3600
	Taybah	3400	3400
	Uhud	2800	3000

Source: Knight Frank

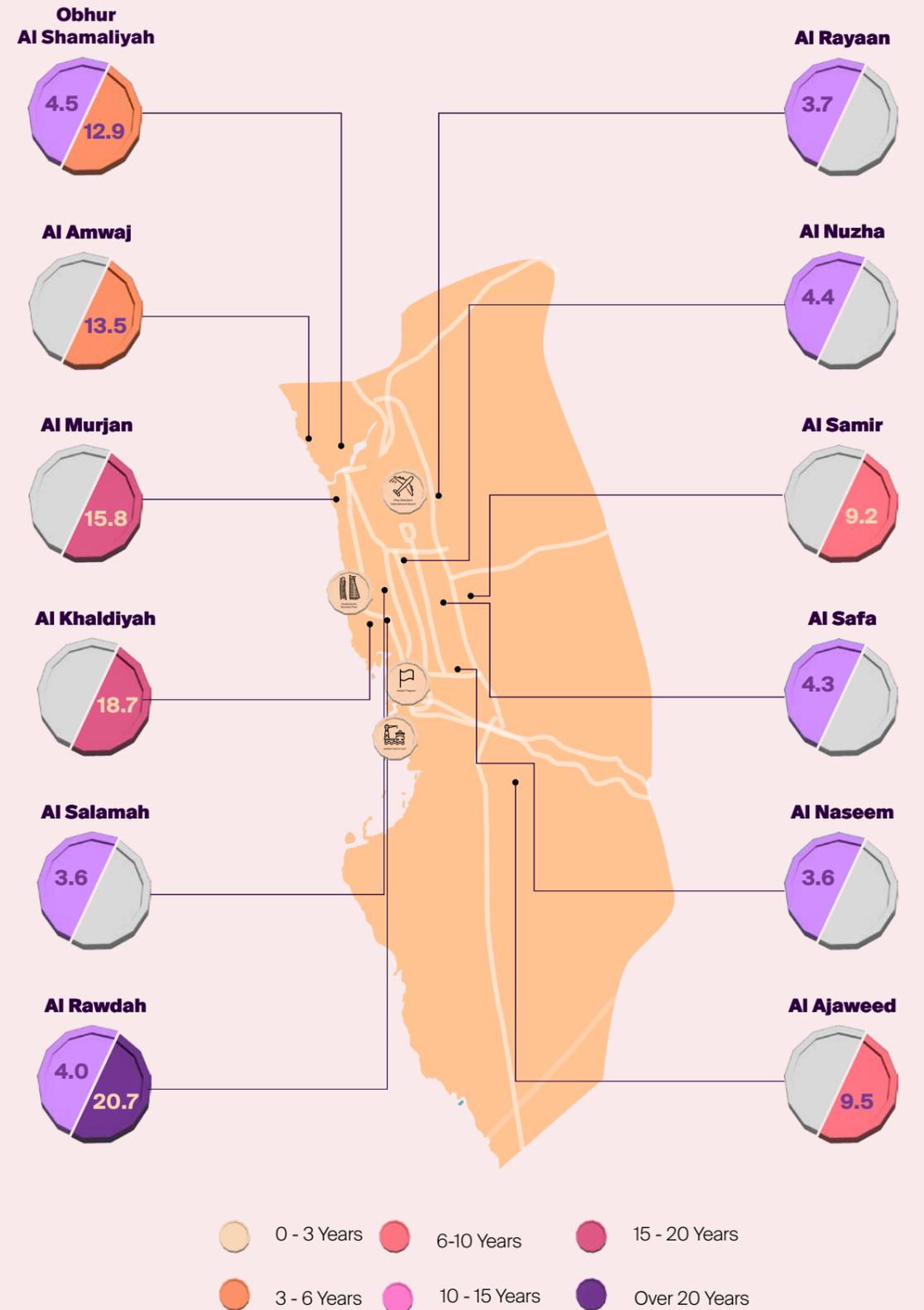
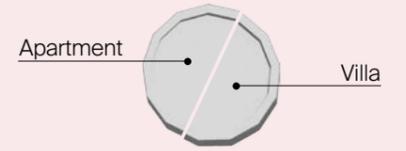
** The average prices above may vary and are subject to quality and specific property features

Income multiplier: Riyadh



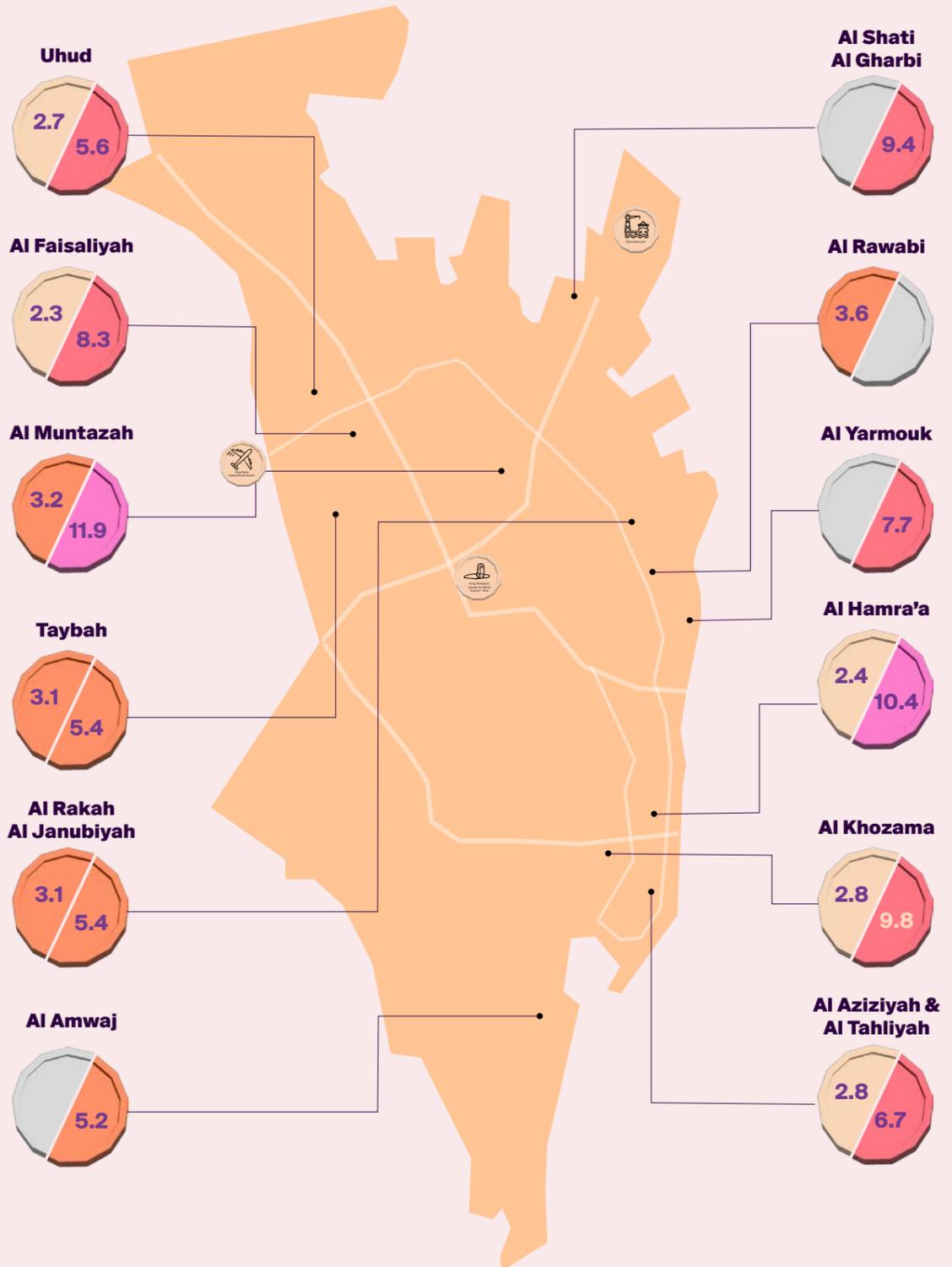
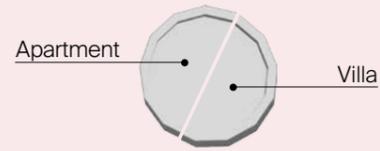
Source: Knight Frank estimates

Income multiplier: Jeddah



Source: Knight Frank estimates

Income multiplier: DMA



Source: Knight Frank estimates

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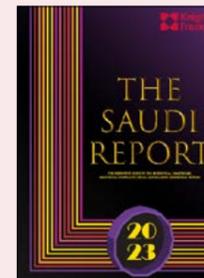
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