

Saudi Arabia Residential Market Review



Winter 2023-24

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

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Market round-up

SLOWING DEAL ACTIVITY

The total number of real estate transaction volumes across all asset classes in Saudi Arabia slipped by -17% in 2023 to just over 177,000, while the total value of all deals declined by -9% to SAR 197.7bn over the same period.

Residential transactions, which accounted for 58.7% of all real estate deals by total value, registered a -16% fall in the number of deals to just under 150,000 sales.

With record house price growth across the Kingdom, deepening affordability challenges and shifting demand dynamics as younger Saudis opt to delay home ownership in favour of renting, residential demand has faced headwinds for almost two years. Indeed, the figures certainly reflect what we have been expecting for some time.

MORTGAGE RATES CURBING DEMAND

The total number of mortgages issued between January and November 2023 fell by -35%, compared to a decline of -22% over the same period last year. Similarly, the total value of mortgages issued declined by -36% to SAR 74.2bn during the same period as higher interest rates and prices move potential buyers into a longer holding pattern while they amass ever increasing deposits.

“A key contributor to the slowing level of deal activity is of course mortgage rates, which escalated from 3% to 5% over the last 12-months.”

A key contributor to slowing deal activity of mortgage rates, which escalated from 3% to 5% over the last 12-months. Despite an ongoing cultural shift towards the acceptance of apartment living, which has been galvanized by high home values and mortgages for apartments slipped by -25% to SAR 20bn over the course of the last year.

DHAMANAT

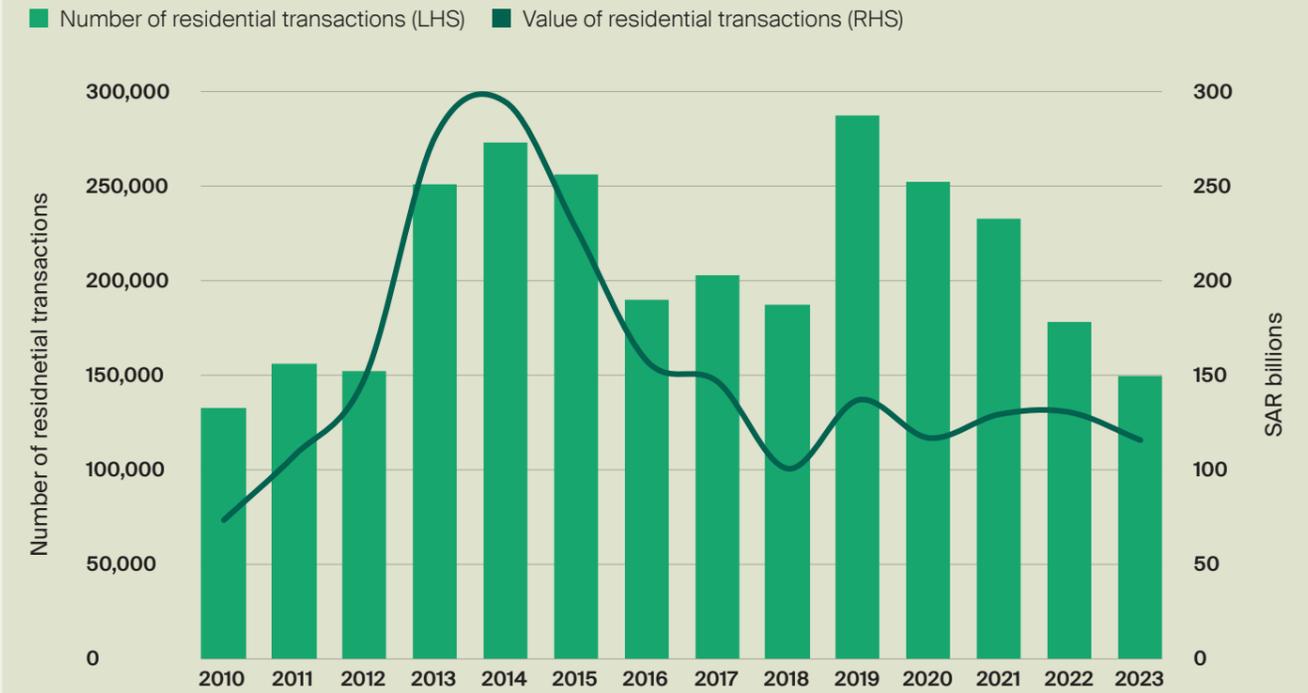
Mortgage affordability is a critical issue in the real estate market. The Saudi Ministry of Housing has been actively working to address the demand for more affordable homes as it works towards its 70% homeownership target by 2030. To bolster homeownership among nationals, a new mortgage guarantee services firm called “Dhamanat” was launched in July 2023. Dhamanat’s role is to provide financing guarantees in conjunction with mortgages, thereby facilitating easier access to home financing.

PREMIUM RESIDENCY BOOST?

Separately, several new Premium Residency Visa options were unveiled in January, including a real estate ownership visa. The announcement, which is tied to owning a property worth at least SAR 4 million, with no outstanding mortgages, or debt against the property is expected to pave the way for greater demand for high-end homes from international buyers.

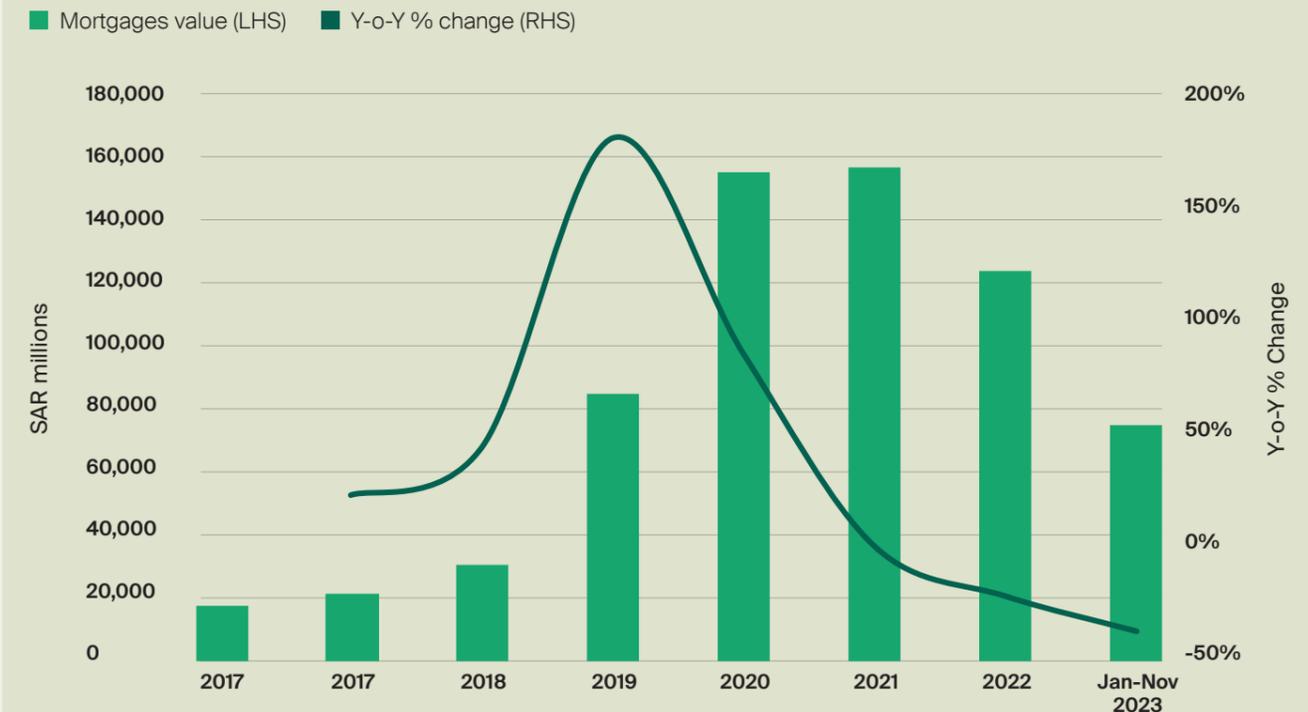


Total value and volume of residential transactions



Source: Knight Frank, MOJ

Value of mortgages issued



Source: Knight Frank, SAMA

Riyadh

BEST PERFORMER

Unlike the rest of the Kingdom, Riyadh stands out from the pack, with transaction volumes rising by 7% last year, compared to a -21% fall in Jeddah and a -12% decline in the Dammam Metropolitan Area.

A growing population in the capital, coupled with increasing urban migration is supporting heightened demand for housing.

Despite this, the total value of residential transactions in Riyadh has only risen by 1% during 2023 to SAR 50.9bn, hinting at a rapid tapering of the strong price growth registered over the last two to three years.

While average apartment prices climbed to a new record high of SAR 5,250 psm, equating to a year-on-year rise of 4.5%, prices during Q4 only increased by 2%.

However, this performance has not been uniform, with apartment prices in northern districts such as As Sahafah (23%) and An Nakhil (13%) climbing at a faster rate during 2023 to reach SAR 7,744 psm and SAR 7,785 psm, respectively. Similarly, in Al Malqa prices stand at an average of SAR 9,200 psm, equating to a rise of 14.5% over the last 12 months.



VILLA PRICES MODERATE

In contrast, villa prices have risen by a more modest 0.5% during 2023 to an average of SAR 4,970 psm by the end of the year. Some districts like Al Uraijah (-14%) and Al Hamra (-13%) experienced sharp corrections during the year, with prices settling at SAR 2,390 psm and SAR 5,590 psm, respectively. Northern areas such as Al Malqa (SAR 9,140 psm) and Al Irqah (SAR 5,980 psm) have mirrored the performance of prices for apartments, growing by 12% and 7%, respectively.

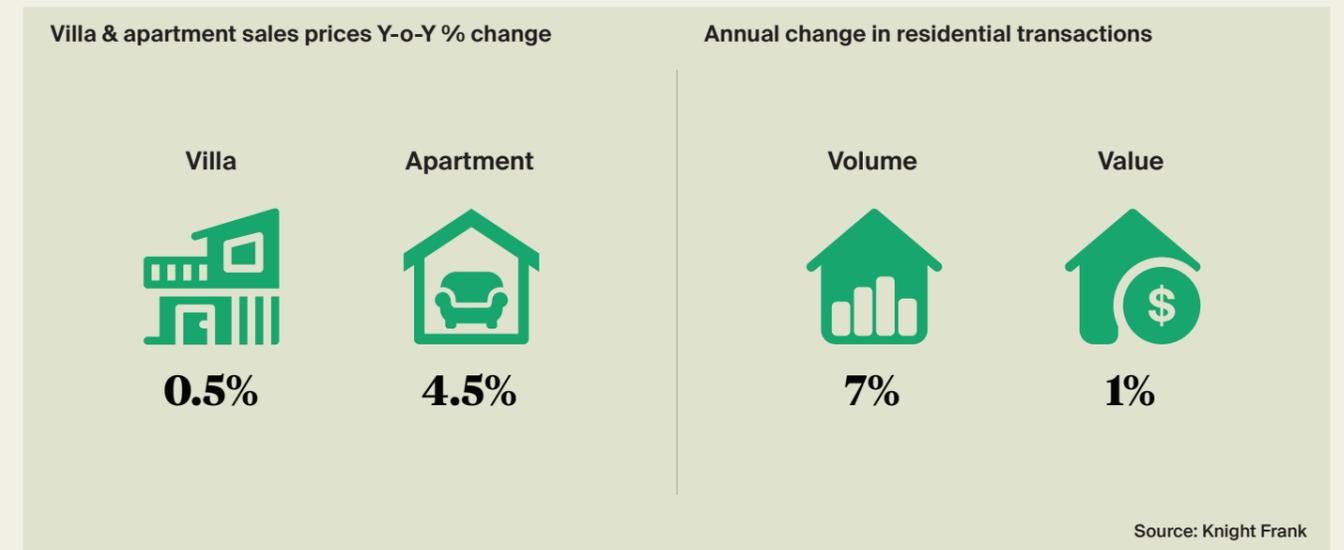
REGIONAL HQ AMBITIONS

Over the medium to long term, the government's vision to turn Riyadh into a new financial hub for the Kingdom and region is expected to drive up home ownership demand levels.

Indeed, thus far, some 200 companies have signed up to the Program HQ initiative, including the likes of Unilever and Siemens. These businesses are contributing to rising job levels in the Kingdom and also fuelling the high levels of intra-Saudi migration being recorded anecdotally.

The capital anticipates its population to double to nearly 16 million by 2030 and even with 241,000 homes expected to be completed between now and then, we forecast a shortfall of 1.5 million homes.

Market Performance Indicators



Jeddah

TRANSACTION LEVELS DECLINE

The number of residential transactions registered across Jeddah saw a double-digit decline of -21%, dropping from 23,990 deals in 2022 to 18,897 in 2023. In addition, the value of transactions declined at a rate of -26% during the same period to end 2023 at SAR 20.9bn.

PRICES START TO WEAKEN

Average villa prices in Jeddah fell marginally by -2.5% during 2023 to SAR 5,085 psm. Q4 2023 alone registered a decrease of 1% in villa values.

Villa prices in Ash Shati (SAR 8,580 psm) and Al-Khaldiyyah (SAR 7,380 psm) remain the highest in the city, and are now 3% and 7%, higher than at the end of 2022, respectively.

Meanwhile, more affordable villa locations like Al-Kausar (SAR 3,123 psm) and Al-Sanabal (SAR 2,623 psm), the annual rate of decline has been stronger at -15% and -20%, respectively.

APARTMENTS PERFORM marginally BETTER

Elsewhere, apartment prices dropped by -2% in 2023, ending the year at SAR 4,150 psm.

The average price for apartments across the city ranges from SAR 6,370 psm in districts like Obhur Al Junubiyah, to SAR 3,510 psm in Al Safa.

The current supply of residential units stands at 891,500 units, representing a 1.8% increase compared to 2022.

It is anticipated that by 2026, the market will have grown by 4% due to the addition of almost 55,000 new units.

MORTGAGE RATES TO BLAME?

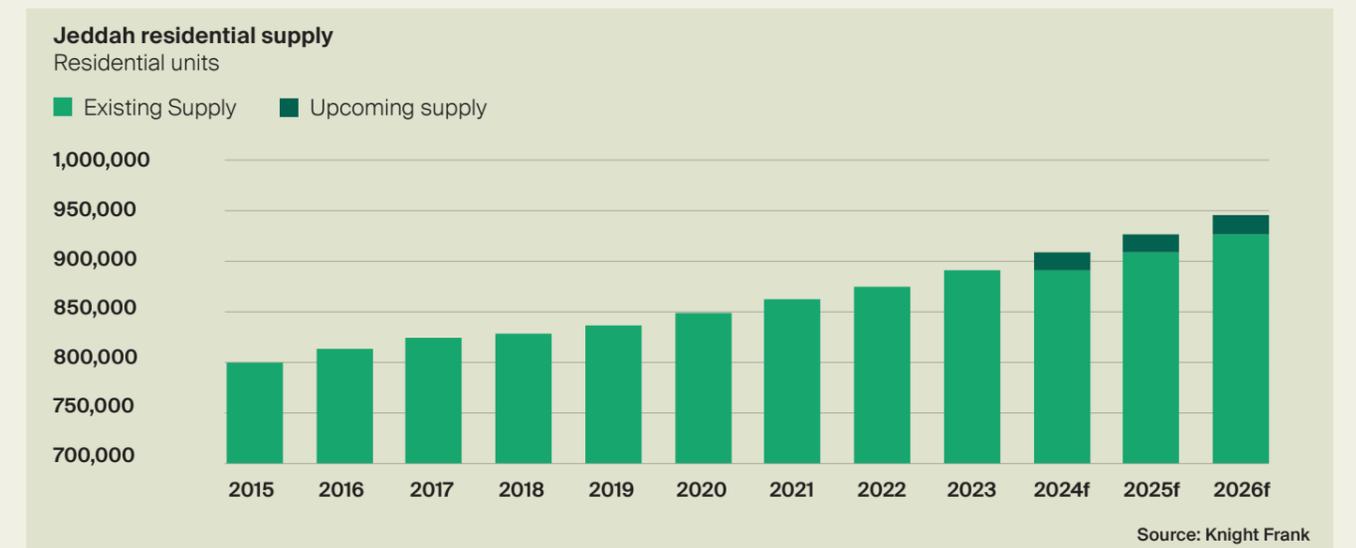
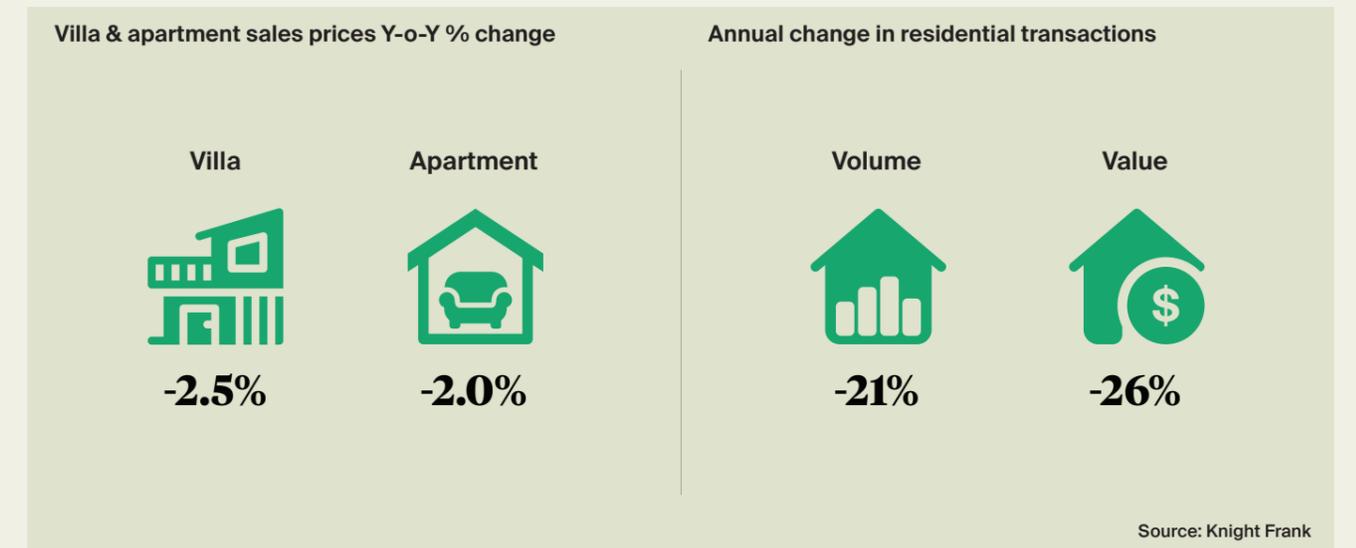
Despite not experiencing the same extreme inflation levels as North America and Europe over the last 18-24 months, borrowing has become more expensive in the Kingdom, especially outside the capital where monthly earnings lower average monthly earnings make the transition to property ownership even more challenging.

The government is working on ways to revitalize demand in the city through new large-scale real estate and infrastructure projects. Jeddah Central, for instance, will emerge as a world-class retail and hospitality hub for the city, complete with 17,000 homes when it is completed by 2030.

For those with more modest budgets, over 25,000 affordable units are expected to enter the market by 2024 in the framework of the Ministry of Housing and Sakani Program, which should help to satisfy pent-up demand from those currently priced out of the market.



Market Performance Indicators



Dammam Metropolitan Area (DMA)

PRICES RETREAT

Echoing Jeddah's residential market, the Dammam Metropolitan Area (DMA) registered apartment price falls of -0.5% over the course of the last 12 months, while villa rates slipped by -2.5%.

Unsurprisingly, both the value and number of residential transactions recorded an annual decline in the DMA in 2023. The total number of transactions decreased from 9,500 in 2022 to 8,366 in 2023, representing a 12% decline. The total value of transactions dropped by 23% during the same period to SAR 10.1bn.

OIL INDUSTRY SUPPORTING APARTMENT DEMAND

DMA's historical role as a major administrative hub for the Saudi oil industry continues to underpin demand for apartments and ready-built units rather than villas.

As a result, the two key cities that comprise the DMA – Dammam and Khobar – have experienced diverging performance when it comes to residential values.

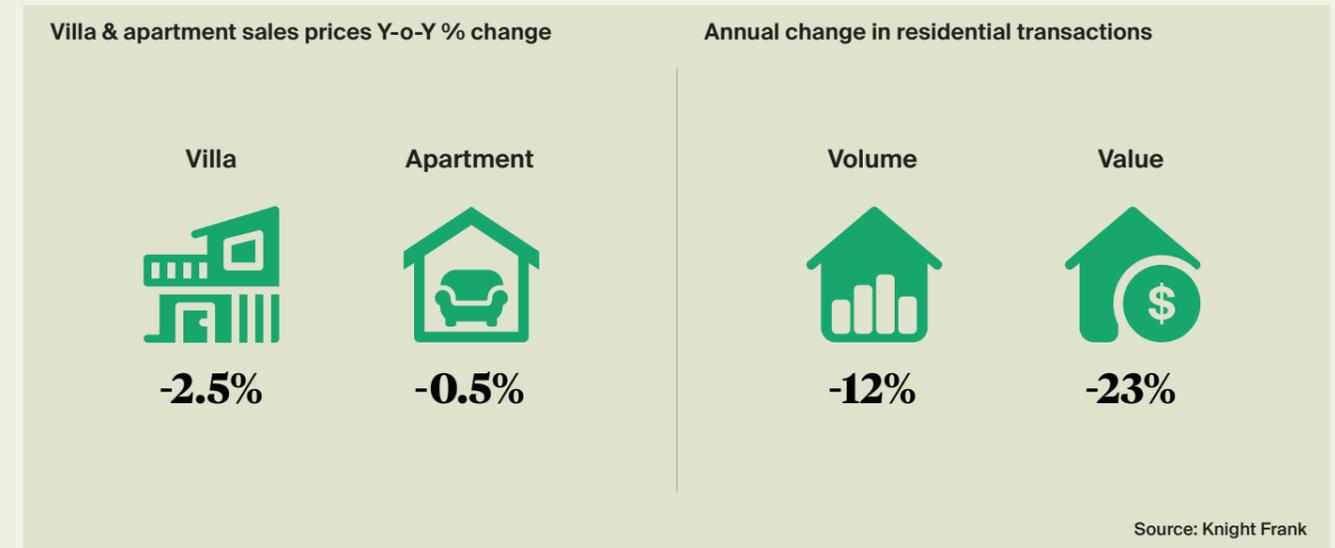
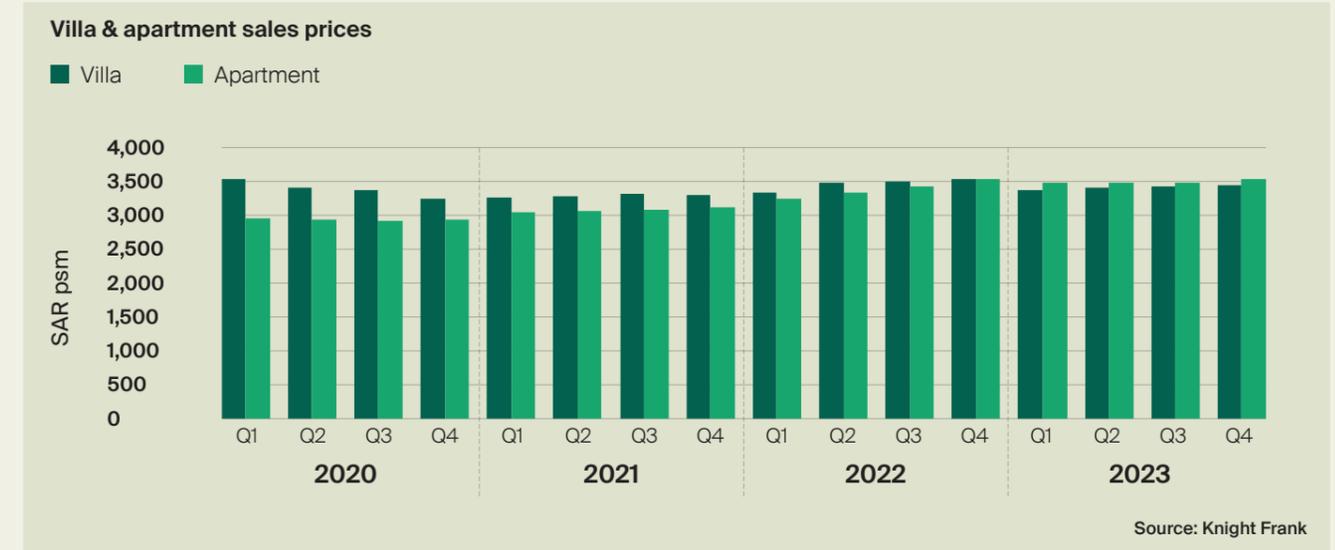
Villas are generally more affordable in Khobar with an average price of SAR 3,185 psm, whereas Dammam's villa rates are 13% higher at SAR 3,620 psm.

For apartments, the opposite is true. Apartment prices for Khobar stand at 3,870 psm, making them 16% higher than Dammam (3,325 psm).

The existing residential supply in DMA stands at 364,000 units. Looking ahead, we forecast this figure to increase by 7% by the end of 2026, which translates into 8,630 new completions between now and then.



Market Performance Indicators



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