The Saudi Real Estate cake is big enough for everyone

Key trends and considerations when entering the Saudi Market.

It is certainly no secret that the real estate market in Saudi Arabia is witnessing significant growth and transformation. Saudi Arabia's GDP is estimated to grow to SAR 11.6 trillion (USD 3 trillion) by 2030, backed and driven by the country's Vision 2030 initiative, aimed at diversifying the economy away from oil dependency. Subsequently, the real estate market is projected to reach a value of US$2.10trillion in 2024 alone. With a strong forecasted economy and a booming real estate market, it’s hardly a surprise that developers are queuing up for a slice of the Saudi Real Estate cake. Certainly, there is enough cake for everyone. Here’s what developers should consider when entering the Kingdom.

The land with endless opportunities?

The demand for residential properties, both affordable housing as well as high-end accommodation, are on the rise across the Kingdom with Riyadh being at the center of the action. Today, Riyadh houses approximately 24% of the Kingdom’s population and this number is likely to expand as various international companies are looking to establish their regional headquarters here in the coming years, as part of KSA’s Regional Head Quarters programme. The demand for luxury housing has increased especially from Saudi Nationals, given the growing population of high-income earners, and the influx of expats.

These preferences have created a limited but growing demand for a niche category of branded residences, referenced in the pictures below. It is encouraging that the audiences who seek these high-quality projects also display willingness to pay premium prices associated with such developments, compared to earlier, thereby creating the economic equilibrium sought by developers to conceptualise and launch such projects in the market. This especially holds true for the branded and prime residential segment, where the overall cost to develop, deliver and maintain the project is substantially higher than the standard product range.

It would be key for developers to balance the demand for such projects with the supply, to ensure minimum risks of oversupply that could disrupt market equilibrium and cause price fluctuations. Whilst there is appetite for such high-end projects in Riyadh, it would be put to the test as more developers bring their product to market. As more projects within this category are introduced, further clarity about the demand itself will emerge:

- What is the typical target audience category?
- Is the demand for end-use or investment?
- Is a particular location(s) preferred?
- Is branded or non-branded a consideration?
- Is it a price-sensitive product?
- What financial backing does the project require - payment plans, bank financing etc.?
- Is ESG a consideration for investors and occupiers?

Meanwhile, the commercial sector is seeing robust demand for office space, with significant developments in Riyadh, such as the King Abdullah Financial District. In and around Riyadh itself, there are several giga projects planned and under development, which is testament to the Government's intent and effort to further develop the city's infrastructure and centralise most of this demand for high-quality, premium living.

Several new giga projects such as New Murabba, Qiddiya, and King Salman Park, to name a few, boast their own niche offering to attract various categories of residents and investors and aim to create new micro communities within different districts of Riyadh. These projects, as per latest announcements, are expected to be delivered 2027-28 onwards, and it is likely that the resulting growth in infrastructure around these projects will build the case for future developments from private players alongside the public sector.

In the coming years, private developers may also have the option to consider opportunities such as Joint Ventures, Co-Development, Build to Suit, Build Operate Transfer Models, etc., where they can participate as large stakeholders in this new ecosystem, with or without investment into the land itself.

Image above is from a recently launched residential project in Diriyah Gate (Riyadh), which combines the Arabic (NAJDI) designs with the modernity of a leading hospitality brand, Ritz Carlton

Key trends

A vital practice emerging in future developments of the Kingdom, especially Riyadh, is to instill 'best international practices' in all major projects – whether it is design, development and construction, project management, project planning or operations. Hence, the majority of the new commercial developments will have LEED-certified buildings, which are suitable for and preferred by multi-national companies.

Change is however afoot in the commercial real estate market in Riyadh, and we may see international companies entering the market to grow their portfolio within this segment. This increase in activity is likely due to the high occupancy levels in major Grade 'A' office developments across the city, many recording over 90% occupancy, and resulting in demand for business hotels in upscale and upper upscale categories simultaneously.

This high demand in commercial assets (such as Grade 'A' offices) have led to a reduction in the payback period duration for various developers.

It is also worth mentioning the growing emphasis on sustainability and the integration of technology in real estate projects.

This includes environmentally friendly designs and smart city initiatives, which are becoming critical factors for developers.

With international best practices being implemented and a new ecosystem forming in Riyadh, we anticipate that certain project categories listed below will prove to be lucrative sectors for investors and new market players:

1. Modern living residential / gated communities
2. Grade 'A' office towers and business parks
3. Mixed-use projects with hospitality offerings catering to growing business travel requirements.
4. Mixed-use projects with innovative recreational real estate components (entertainment and F&B combined)

Key Considerations when entering Saudi

The overall outlook for the Saudi real estate sector remains positive, with continuous growth expected as the Kingdom progresses towards its Vision 2030 goals. For developers who are looking to take a piece of the cake, there are however several considerations to bear in mind when entering the market for the first time.

Entering the Market

- A foreign investment license, issued by the Ministry of Investment Saudi Arabia, will be required in most circumstances.
- The Ministry of Investment allows 100% foreign ownership of real estate companies, so long as the project they intend undertaking has a value in excess of SAR 30 million and is completed within a period of 5 years.
- Different, less restrictive, requirements apply to developers that are wholly owned by GCC nationals.
- Developers will need to register with WAFI if they intend to develop and sell real estate off plan. This also applies to developers who wish to pre-lease space under development. They will also need to obtain separate marketing licenses and sales licenses on a project-by-project basis where an off-plan sale or lease is intended.

Equity Structures

- Joint ventures, structured either as an LLC or JSC, are commonplace as the corporate vehicle through which developers partner with others in the development of a real estate project.
- The typical participants in a real estate joint venture include the landowner, equity provider, institutional investor and in some instances, the contractor or professional team who may contribute their services partly in kind in consideration for shares in the project company.

- Real Estate funds are a popular alternative to joint ventures, particularly where limited recourse financing is required. The fund is sponsored by the fund manager who has oversight of the project. The developer is appointed by the fund as development manager, and often acts in a dual capacity, as both a unit holder and service provider.

Land Registration

- Historically, the office of the notary public was responsible for the registration of title deeds and transfer of title, in each city in Saudi Arabia.
- Steps are well underway to move towards a centralised land registry, under the Real Estate General Authority, with implementation having already occurred in some areas of Riyadh, Jeddah and elsewhere.
- It is now possible to register the transfer of real estate at an office of the notary public outside the city in which the real estate is located.
- Registration and transfer of title to real estate can now also take place before a private notary, duly licensed by the Ministry of Justice. In some areas of Saudi Arabia, subject to certain limitations, registration and transfer of title can take place entirely online without the need to attend the office of the notary public.
- Online searches are also now available, although it remains important to conduct a final title check at the office of the notary public before transacting.

Financing

- Banks take a careful and measured approach to lending to the real estate sector in Saudi Arabia.
- Debt facilities are often over-collateralised and limited recourse financing is the exception rather than the norm.
- LTV ratios can be as low as 50% for development financing.
- Not all banks will consider land as equity, in the context of development financing. Land is instead treated as collateral and the banks will look to the borrower for cash equity that is to be utilised first before the debt is drawn down.

Tax

- Saudi Arabia is a taxed jurisdiction, implementing both a company tax and withholding tax on foreign investors.
- A system of Zakat, based on Islamic law, applies to Saudi Arabian shareholders.
- Tax advice is essential when structuring the corporate vehicle used to enter Saudi Arabia and the project vehicle deployed to develop a real estate asset.

Conclusion:

In short, when developers are leveraging these trends to innovate and deliver projects that meet the evolving needs of the market and follow a well-structured entry to the Kingdom, they could very well enjoy a piece of the Saudi Real estate cake.

About Wisefields

Wisefields is a specialist law firm with a singular focus on the real estate, hotels and tourism industry. Established by the two leading real estate and hotels lawyers in the Middle East, Bilal Ambikapathy and Moustafa Said, the only two lawyers in Saudi Arabia consistently ranked by the legal directories year after year as leading individuals with tier 1 practices in the real eEstate sector in Saudi Arabia. Both Moustafa and Bilal are Australian qualified lawyers having worked in tier 1 Australian, British and American law firms throughout their careers, they bring to bear extensive international experience with deep local knowledge in the context of the dynamic and rapidly evolving real estate, hotels and tourism landscape in Middle East.

About Savills

Savills Global Residential Development Consultancy has an extensive track record advising a range of clients including institutional, corporate and private clients on their branded residential strategy. Based in the Savills global headquarters in London, the team has an international remit working in conjunction with the Savills network across the globe to ensure advisory services take into consideration both local and international market dynamics and trends. The specialist team provides a range of professional services for branded and non-branded residential, hotel and integrated resort projects, from luxury small-scale resort developments to large, mixed-use urban regeneration projects.

Since its inception, the global residential development team has grown from strength-to-strength to now be considered market-leaders and thought-pioneers in the luxury and branded residential market sectors. Savills is constantly updating sector intelligence and its market leading research for clients that feeds into feasibility reports and brand premium studies. This broad service offering is enhanced by the network that has been established in the last decade with brands, developers and investors who are active in the branded residential sector. As a central point of contact for these parties, Savills is ideally positioned to offer negotiate hotel and residential license and management agreements.

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