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Property

Homes too costly for many Saudis

Mortgage overhaul appears imminent

While new housing sits empty, potential homebuyers cannot find affordable property

Kevin Brass

Newly constructed homes in Saudi Arabia are sitting empty because potential buyers cannot afford them, analysts say.

In Riyadh, the capital, 28 per cent of houses built in the past 18 months are vacant, the property brokerage Colliers International reports.

"Developers continue to show bias towards developing mid to high-income housing units," Colliers said in a recent analysis. "This has created a large pool of untapped demand."

Demand for housing in the kingdom is primarily from lower and middle-income families unable to afford the new homes, industry experts say.

Some 12 to 15 per cent of homes in the kingdom are vacant, according to RNCOS a research firm based in India. Yet government estimates indicate more than 270,000 housing units are needed to meet current demand, says Shushmil Maheshwari, the RNCOS chief executive.

Homes would have to be priced below \$130,000 to be affordable for a large portion of potential buyers, Mr Maheshwari said.

"It is expected that the vacancy rate will remain high for some time but will gradually go down with the implementation of new mortgage laws," he said.

After 10 years of debate, the Saudi government is reportedly on the verge of approving sweeping new laws to open up the mortgage market. At present, fewer than 1 per cent of homes are purchased using mortgages, according to industry estimates.

The new laws could make the market more accessible and increase sales, some industry analysts believe. But others feel that not all the issues will be resolved.

"Developers need to be more engaged with banking and financial institutions to make sure the right kind of financing is available," said Walid Sarij, the executive vice-president of Capitas Group International, a financial services company.

About half the population of Saudi Arabia still rents, and more than 60 per cent of the population is below the age of 30, according to data tracked by Capitas. Between 1 million and 2 million homes would need to be built by 2014 to satisfy demand, analysts estimate.

Smaller, more efficient houses need to be built to suit the needs of young families, Mr Sarij said.

"There is a misconnection between the supply and the type of homes people need," he said. Many current housing projects are small developments built by local companies, he said.

To satisfy demand, large companies with technical and financial expertise need to enter the market, he believes.

"The market needs international developers who have the ability to build properties of this scale," Mr Sarij said. "Clearly demand is there now, but the business case needs to be built so investors feel comfortable."

Analysts say land prices also are major stumbling blocks. Prices for developable land have increased by 40 per cent in some areas, according to some industry estimates.

In the past year, the Saudi government has taken steps to implement a national strategy to address the housing issue, Mr Maheshwari said. This includes a plan to build a large number of homes.

"Although steps are being taken by the government," Mr Maheshwari said, "it needs to be seen how effective they shall be in filling up the units."

Inaccessible



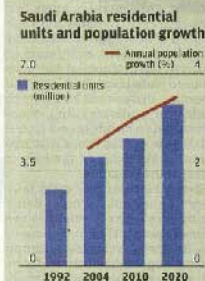
50%

Ratio of the Saudi Arabian population that still rents

2 million

Upper range of estimated number of homes that need to be built by 2014 to satisfy demand

Steady rise



Sources: Jones Lang LaSalle

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Some 12 to 15 per cent of homes in the kingdom are vacant, according a study. Waseem Otaidi / Bloomberg