HOUSING SECTOR IN SAUDI ARABIA: A STUDY OF CHALLENGE AND OPPORTUNITIES OF HOMEOWNERSHIP FOR THE MIDDLE AND LOW INCOME

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Palabras Clave: El sector de la vivienda, La oferta y demanda de viviendas, Propiedad de la vivienda, Vivienda asequible.

Key words: Housing sector, Housing supply and demand, Affordable housing, Homeownership.

Resumen

El objetivo del estudio es demostrar e identificar los principales problemas y desafíos para acceder al sector de la vivienda en Arabia Saudita. Las razones detrás de estos problemas se ilustran también. El estudio también se hará hincapié sobre las viviendas asequibles y propiedad de viviendas para los ingresos medias y bajas.

El estudio se divide en dos partes principales. La primera parte provee una revisión teórica de la literatura seleccionada relacionada con el estudio desde muchas fuentes. La segunda parte proporciona un análisis de la recopilación de datos. En esta parte utiliza, comprende diversas técnicas de investigación. Las técnicas utilizadas son: el análisis de una selección de programas de televisión, entrevistas con promotores, E-cuestionario y entrevista personal con la gente. Finalmente, el estudio da algunas recomendaciones que sería contribuir a resolver esta crisis de la vivienda.

Las principales conclusiones son que la mayoría de los hogares vive en alquiler. Ellos son incapaces de adquirir viviendas es debido al aumento de los precios del suelo y las dificultades de financiación. El marco legislativo en el sector de la vivienda contribuido directamente en la crisis de la vivienda.

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Abstract

The objective of study is to demonstrate and identify of the major problems and challenges to access housing sector in Saudi Arabia. The reasons behind these problems will be also illustrated. The study will also emphasize on affordable housing and homeownership for the middle and low income.

The study is divided into two main parts. The first part provides a theoretical review of selected literature from many source related to the study. The second part provides analysis of data collection. This part is using, comprising different research techniques. The research techniques used are analysis of a selection television programs, Interviews with real estate developers, E- Questionnaire and face interview with people. Finally, the study gives some recommendation that would help to solve this housing crisis.

The main conclusions are the majority of households live in rent. They are unable to purchase houses is due to rise in land prices and funding difficulties. The legislative framework in housing sector contributed directly on housing crisis.

1. Introduction

All human have a right to live in adequate shelter. Therefore, housing is one of the most critical topics in most developed and developing countries.

Recently, and because of oil revenues, Gulf countries achieved grate developments and made huge steps to be an advanced countries. These revenues encouraged Gulf countries to develop their economy, infrastructures and policies. Among Gulf countries, The Kingdom of Saudi Arabia has made a noticeable progress in recent decades in enhancing and developing the economy and urban form.

The Kingdom had and still has a rapid increase in population. The growth rate of the total population between 2004 and 2010 was around 3%. Group aged below 25 years old represents more than 50% of the total population. In addition, the process of urbanization has gained considerable momentum during the past decades, particularly during the years of the economic boom in the early 1970s. The proportion of the population living in urban areas increased rapidly from 48 percent in 1974 to 81 percent in 2004. Also, the high rate of migration to major cities cannot be neglected.

Housing market in the Saudi Arabia witnessed a rapid rise in houses and land prices in most areas of the Kingdom. This increase exceeded the household incomes. This contributed in creating a shortage in affordable housing supply. The majority of households are unable to purchase houses with these high prices.

On the other hand, the demand for affordable housing has largely increased in the past decades due to many reasons. Increase of population, inflation, variation of income levels...etc. are examples of these reasons. Although, Saudi government has
given a high priority to the housing sector, the market witnessed a decline in percentage of homeownership, particularly for middle and low incomes.

This study has been organized as follows. Chapter one outlines the objectives and research methods. Chapter two presents definitions and a review of literature related to the housing sector, particularly work dealing with important relevant issues, such as demand for housing.

2 The Universal Declaration of Human Rights, Article 25(1), 1948
3 Central department of statistics and information, Saudi Arabia, 2010
4 [http://www.aleqt.com/2010/05/10/article_390789.html](http://www.aleqt.com/2010/05/10/article_390789.html)
ownership rates, and availability of affordable housing. Examples of international experiences related to the housing sector, especially for low income households are included. To provide context for the analysis and discussion, the third chapter offers background information about the Kingdom of Saudi Arabia and examines urban planning, national development plans, urban planning theory, and the economic theory of housing demand. Chapter three also presents an overview of the Saudi Arabian real estate market and the Islamic perspective on some solutions to the housing crisis. Chapter four describes data collection and presents results and analyses. The data was collected via interviews with two Saudi Arabian real estate development companies, through an analysis of television programs that discussed the housing problems in the Kingdom, an online questionnaire and face interviews with individual citizens. Conclusions and recommendations are presented in the final chapter.

1.1 National Development Plans (The Five Year Plans)

All of the government’s five-year plans, covering the years from 1970 to 2015, paid great attention to the housing sector. Due to the high economic growth rate and the rapid acceleration of population growth rates, housing demand increased and a supply–demand gap emerged. The discrepancy between targeted and actual housing units, shown in Figure 1, clearly illustrates this supply–demand gap.

Figure 1: Targeted and actual housing units under nine 5-year development plans 1970-2015

Source: author

1.2 The Real Estate Development Fund (REDF)
Founded in 1974, the REDF is a government agency, supervised by the Ministry of Finance. The agency’s objective is to support the development of real-estate projects through personal or investment loans to individuals and commercial real estate developers. REDF provide long term interest free loans. Loans for private houses constitute the largest proportion of the loans granted by the fund. These loans constitute more than 99% of the total number of loans, and their value constitutes 95.6% of the total amount of financing provided by the fund (Ministry of Public Works and Housing, 1998).

As shown in Figure 2, in the mid-1980s REDF funding dropped from more than SR600 million (nearly 160 million of U.S dollar) to SR200 million (nearly 53.4 million of U.S dollar) due to a drop in oil prices. During this period, Saudi cities experienced increasing demand for affordable housing, and stagnation in the housing supply market. (Al-Hathloul and Edadan, 1992) attribute this, in part, to the reduction in REDF loans.

1.3 Income

Most public servants with five years" experience are paid between SR3000 and SR20,250 per month. Public service employees are paid a 15 grade scale; the wage is SR8,644, although most employees earn around SR5,699. Even at the highest end of the scale, a public service employee could not afford for example a villa in Riyadh city described in the below scenario.(Banque Saudi Fransi, 2011)
1.4 Developers and housing sector

The majority of housing projects that provided by the private sector were targeted at those that have an income of more than 12000 SR per month. Not more than 20% of households meet this threshold. The obstacles for developers include: onerous government regulatory requirements, lack of funding, delay in obtaining permits and licenses and the scarcity of land at reasonable prices. In addition, there is an absence of regulations for real estate developers and an absence of incentives for developers.

1.5 Electronic questionnaire survey

The e-questionnaire showed that around 18% of the participants owned homes. For the majority of Saudis owning a home is a top priority and villas and duplex villas are preferred.

Housing satisfaction was directly and positively correlated with homeownership; tenants reported a corresponding lack of satisfaction. Around 75% of respondents agreed that there is a limited access to housing finance and indicated that this resulted in considerable difficulties.

Analysis information of Middle and Low income group (less than SR15,000)

Around 90% of respondents indicated that they did not own their current house; the majority of the respondents live in apartments. Also the analysis shows the correlation
between monthly income and type of house. There was a noticeable increase in the proportion of ownership as income increased.

The analysis also shows that there is a correlation between household size and income and favorite house type; as the household size and income increases, there is an increased demand for villas. On another hand, the duplex and a floor in a villa are preferred by those who live in a small household.
1.6  **Face interviews**

Most of those interviewed lived in rental units (around 65%) and the majority of those units were apartments (85%). The analysis showed that people with higher education are more included to indicate a preference for buying land and building a house. In contrast, people who had not graduated from university were less inclined to aspire to home ownership. Around 77% are waiting for a loan to help them buy a house and the most important reason for wanting a new residence was “Expansion in the house”.

2.  **Conclusion**

2.1  **Important points**

In the past, the Government of Saudi Arabia raised the proportion of homeownership through a range of programs including: the Real Estate Development Fund and land grant programs, but eventually, given rising population and concentration of the population in cities, these programs could not satisfy the increasing demand.

Central of government departments and large companies in major cities have contributed to the concentration of population and internal migration to cities, into these cities, which led to significantly increased demand for housing. In addition, there are identified implementation weaknesses in housing development projects undertaken by the Ministry of Housing.

A culture of horizontal expansion in the Kingdom, the division of land and the granting of land in undeveloped areas contributed to the housing crisis. In addition, land grants did not guarantee the construction of houses; land grants were often transformed into investments.

It is very important to understand that the crisis cannot be solved simply by building more houses; the needs and the aspirations of the target group must be studied and taken into consideration.

Overall, we can say that this study proved that the legislative framework Contributed directly on housing crisis.

2.2  **Main problems facing the middle and low income groups are:**

- A lack of affordable housing.
- Rise in housing prices due to high land prices, where the residential land price constitutes about 60% of the final value of a house. The main causes of that
is monopoly and speculation of land. Some interviewees proposed the imposition of legislation to limit the monopoly of land and yearly fees on residential land as solutions to alleviate the housing shortage.

- Funding difficulties: the waiting period to obtain loan from the REDF is excessive. The banks charge high interest rates and obtaining loans to finance a house purchase is difficult.
2.3 **Factors affecting of provide housing:**

The study revealed some important factors that affect the provision of housing including the provision of land, and social, cultural and economic factors. Figure 4 illustrates the relationships among these factors.

![Figure 4: Factors affecting the provision of housing](image)

3. **Recommendations**

   Based on our analysis and data, we recommend the following:

   - Support studies in the housing sector and take advantage of other countries’ experience.
   - Reconsider the distribution mechanism for real estate development fund loans; and reevaluate its programs.
   - Reconsider the land grant system.
   - Reconsider municipal laws and regulations relating to land; reduce the size of lots
in order to reduce the cost of building houses and thereby make them accessible to more of the population.

- Develop appropriate legislation that limits the increase of prices for land and housing.
- Use of modern methods and construction materials will contribute to providing high quality housing in a short time.
Unity and connectivity of all housing issues under one main legislative authority will foster appropriate decision-making and eliminate regulatory discrepancies and conflict with other distinct governmental sectors.

Encourage companies and real estate developers and support them through facilitating permits, licenses, and credits.

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