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Saudi Arabia's off-plan market:

A driving force fueling a vibrant
and sustainable society



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Way forward

The KSA real estate market

An overview

The Kingdom of Saudi Arabia's National Transformation Programme, inspired by the Saudi Vision 2030, has brought about significant changes in the country's real estate sector. The government's forward-thinking policies and strong initiatives to address the housing needs of the nation aim to enhance the quality of life of Saudi Arabian citizens, provide better access to housing, and create investment opportunities for stakeholders.

To this end, the Ministry of Municipal and Rural Affairs and Housing (MoMRAH) has made commendable strides in its efforts to make housing more accessible to the masses. It has introduced several products and initiatives, such as market-ready units provided by real estate developers or individual owners, access to financial institutions for housing support, and setting up a legal framework for housing programmes. For those who prefer to build their own homes, self-construction of units is also an option. Citizens can also receive support from contractors and land availability has been facilitated in all areas of the Kingdom. The housing sector has benefited immensely from this multi-dimensional ecosystem that has cemented the foundation for success in the housing sector.

The first half of 2023 has seen a significant increase in off-plan projects in Saudi Arabia, with a growth of 52 percent, compared to the same period last year. According to Wafi, KSA's off-plan sales and leasing committee in MoMRAH, 47 off-plan sales projects received licences in the first half of 2023.



Owning a home is now a feasible possibility for a new generation of Saudis. Earlier, due to the shortage of supply in major cities such as Riyadh and Jeddah, property prices have historically been on the rise, putting home ownership out of reach for many.

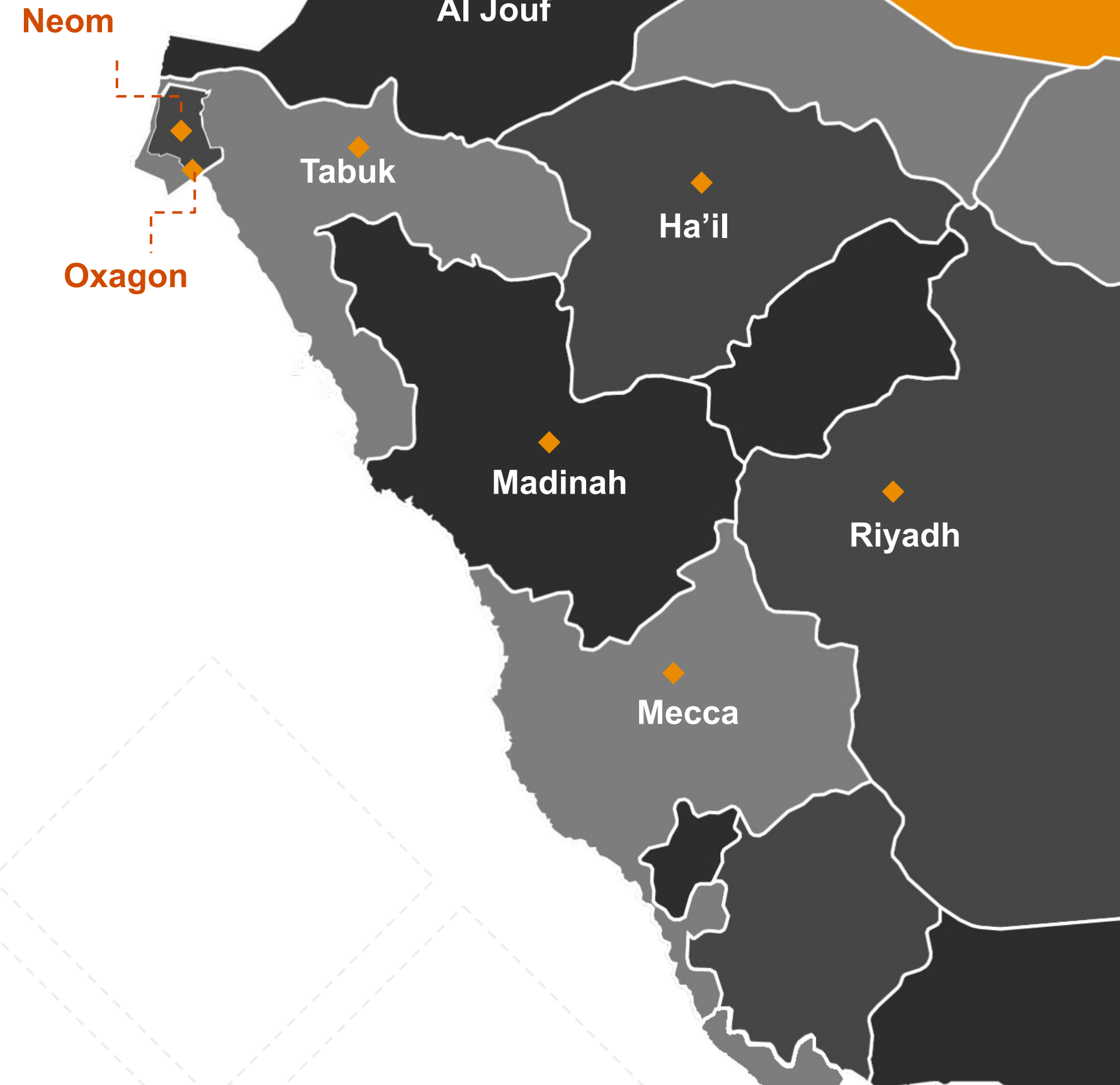
But now, as the nation transforms, giga-projects such as Neom, are expected to create demand for 300,000 new homes for the Kingdom's 9 million residents. Even sub-cities such as Oxagon, Sindalah, Trojena and The Line, along with projects from the National Housing Company (NHC) are collectively contributing to the development of over 140,000 residential units throughout the Kingdom. Under the government's Housing Programme, the proportion of residential ownership aims to increase to 70 percent by 2030, providing affordable and quality housing for Saudi families and driving urban transformation.

According to H.E. Majed bin Abdullah Al-Hogail, "With the support of the Crown Prince, more than 100 million sqm in three cities have been designated to construct 300,000 residential units by 2025 in partnership with real estate developers."

The paper explores the challenges and opportunities of the off-plan sector, and examines the attractive investment opportunities that it provides to contribute towards the country's home ownership targets set in the Vision 2030.

Neom

Oxagon



The proportion of residential ownership
will increase to **70%** by 2030.

Building a successful

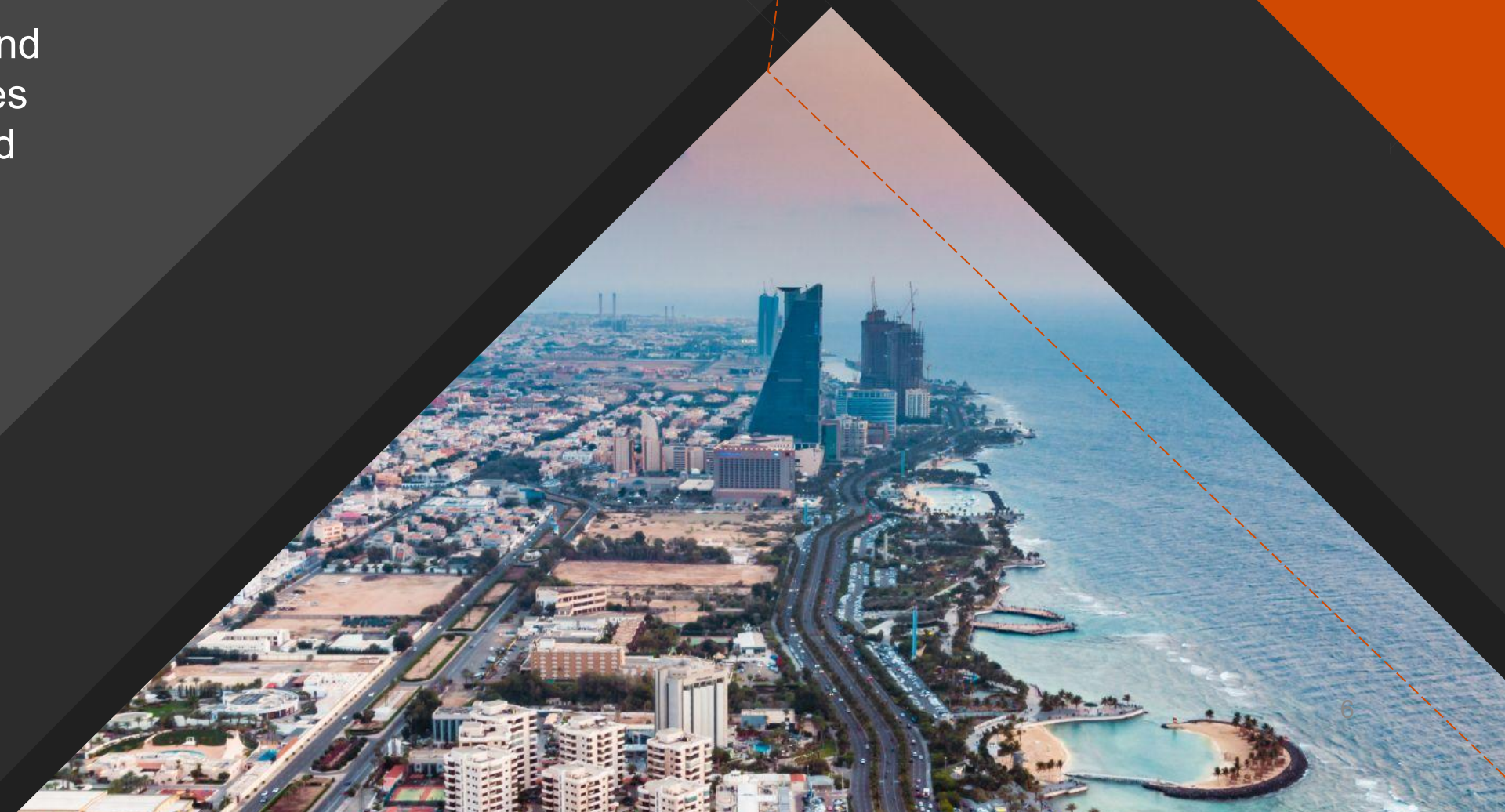
off-plan sales model

On 6 September 2016, Saudi Arabia's Council of Ministers approved the **Resolution No. 536** which includes the regulations relating to the sale or lease of off-plan real property units. The regulations form the basis of what is known as the 'Wafi Programme' that aims to authorise and regulate off-plan property sales. Since then the off-plan sales model has become a key product to achieve the objectives of Saudi Arabia's Housing Programme. It has made a significant difference in speeding up the process of home ownership, reducing the cost of acquiring housing units compared to ready-made units in the market, increasing the capabilities of real estate developers to undertake large and integrated projects, and stimulating competition between real estate development companies, thereby boosting supply.



- ◆ **Off-plan sales represent an opportunity for both local and foreign investors to create more affordable housing options. It has significant potential to boost the GDP of KSA, stimulate the banking sector to create financial solutions, grow the real estate brokerage market, and increase the confidence of end users, developers, and investors.**

In off-plan sales, developers offer several units in a project for sale after obtaining construction and sales licences, completing the designs, and opening escrow accounts. They then initiate marketing of the projects and commence sales. Buyers can directly pay for the unit or use financing institutions' mortgages to pay through the escrow account during construction. This model helps real estate developers finance the project and work on larger ones than those feasible through ready sales, as it eliminates the need to invest significant amounts of their capital in land acquisition and construction. Today, various off-plan sales models that suit both real estate developers and citizens from different segments are available.



Critical factors to building

a successful off-plan sales model

Market research:

To identify potential buyers and locations for off-plan projects, it's important to understand the local real estate market, including trends, pricing, and buyer demographics. This research will help in identifying target segments.

Cultural change management:

Significant marketing efforts are needed to ensure that Saudi citizens adapt to the changing culture of buying off-plan. This change management must be driven by multiple initiatives and focused campaigns.

Marketing and promotion:

A strategy must be put in place to create awareness and generate interest in off-plan projects through different channels such as digital marketing, social media, print media, mall activation and partnerships with real estate agents to reach potential buyers.



Sales process and contracts:

Communicating the payment terms, construction timelines, and the delivery schedule to buyers is crucial. It's also essential to ensure that the contracts and agreements legally protect the interests of both parties. It's recommended to engage legal professionals experienced in real estate transactions to assist with contract drafting and review.

Project planning and design:

Creating a project plan and design that aligns with the market demand is essential. Factors such as location, amenities, unit types, and pricing need to be considered to create a compelling value proposition for buyers.

Regulatory compliance:

The off-plan sales model must adhere to the legal requirements, permits, and licensing procedures set by the relevant authorities, such as the Ministry of Municipal, Rural Affairs and Housing or the Real Estate Development Fund.

Construction and project management:

To maintain quality standards and manage any potential risks or challenges, it's essential to work closely with contractors, suppliers, and project managers to deliver the off-plan properties on time and as per the promised specifications. This will help in gaining trust from customers and encourage them to buy.

Creating an enabling environment for the off-plan sector

Before the launch of Vision 2030, it was almost 15 years for Saudi families to receive housing support. That has changed today with the introduction of the Saudi Housing Programme, which recognises families as the foundation of a vibrant society and was created to accelerate the development of the housing market, providing access to safe, decent housing for Saudi families. By easing access to financial support, streamlining processes and digitising documentation, the rate of home ownership increased from 47% to more than 60% by the end of 2022 and is well on its way to reach 70% by 2030.

The Saudi housing market previously faced significant challenges, including the high cost and shortage of housing units, lack of due diligence and feasibility studies carried out by contractors, limited financing options, and insufficient private sector contribution. To address these challenges, stakeholders in the housing ecosystem focused on creating an enabling environment for the off-plan sector.



Enabling the off-plan sector by:

Establishing a comprehensive regulatory framework

Diversifying financing solutions

Empowering real estate developers

Supporting professional teams and partners

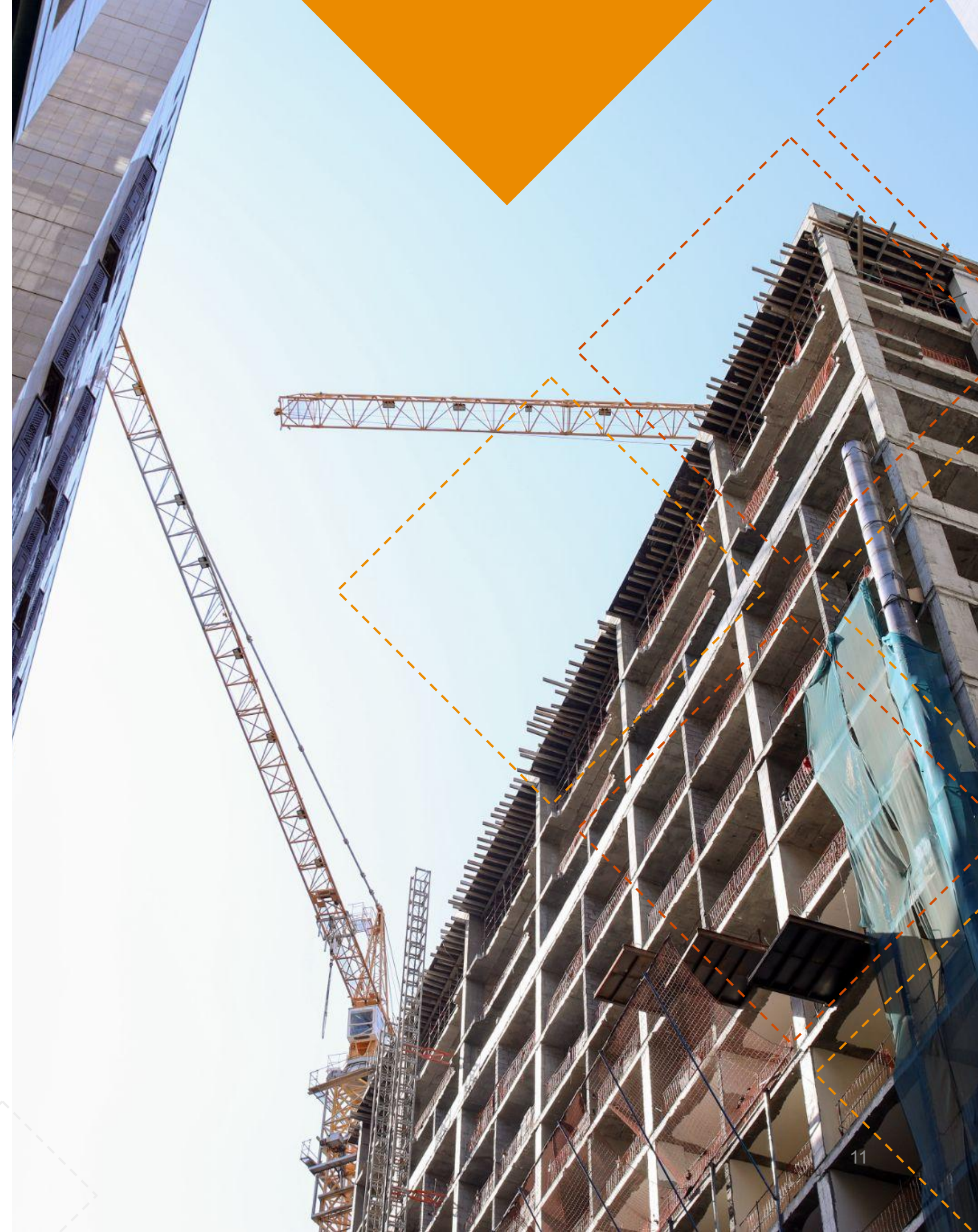
Encouraging private sector participation

Ensuring availability of construction materials



Establishing a comprehensive regulatory framework

Comprehensive and clear regulations have been developed to govern and regulate the development, sale, and registration of off-plan units. The Real Estate General Authority (REGA) was established to address gaps in regulation, creating an enabling environment for private sector growth. There are a host of other supporting entities to tackle a variety of disputes and challenges in the market from licensing bureaucracy, developer financing to the adoption of progressive building technologies. The recently launched Real Estate Exchange is also expected to boost transparency and ensure speedy implementation of operations, as well as accuracy in providing data to enhance the investment climate. Measures have also been implemented to safeguard investors' rights, enhance transparency, and elevate accessible platforms, making the development journey easier, as seen with the Etmam platform. Government entities also worked on cultivating an effective partnership between the public and private sectors with shared interests.



Empowering real estate developers

Several upskilling programmes have been launched by The National Housing Company and the Real Estate Development Deputyship, including programs related to business development, design management, project execution, marketing, sales, and community management functions to empower the real estate developers in KSA. Moreover, they are working to boost the financial capabilities of developers by introducing several partnership and financing solution models. Finally, proactive approaches to bridge the gap between developers and prospective buyers, also contributed to the tangible success, resulting in the achievement of off-plan sales targets.

Encouraging private sector participation

The off-plan sales model encourages private sector participation in the real estate industry, creates job opportunities, and contributes to the overall development of the country.



Diversifying financing solutions

Government entities, such as the Real Estate Development Fund (REDF) have fortified financial relations, positively impacting real estate developers to create products tailored to different segments of the society.

Supporting professional teams and partners

The Saudi real estate sector has benefited from the collaborative engagement with diverse partner entities. Business consultants have been involved to conduct market and feasibility studies, ensuring greater project success rates, while engineering firms have helped with innovation and design in line with urban planning trends. Construction contractors have played a crucial role in project execution by ensuring availability of manpower, equipment, and machinery. Marketing agencies, sales brokers, facility management companies have all been critical enablers for project success. This harmonious synergy within the real estate ecosystem has significantly contributed to the enhancement of off-plan sales, driving the continued growth and dynamism of the real estate market.



Ensuring availability of construction materials

To enhance the real estate market value chain, it's essential to ensure the continuous availability of primary construction materials at optimal prices and quality levels. This strengthens the construction process and builds trust in customers who invest in off-plan products. Seamless accessibility to high-quality construction materials at favourable prices is crucial for project continuity and reliability. It boosts customer confidence in a consistent development timeline. By strengthening the supply chain for construction materials, the real estate market optimises its operational efficiency and establishes itself as a trustworthy provider of off-plan offerings.



An integrated operational model:

A robust private and public sector collaboration

The recent Cityscape Global exhibition in September showcased the remarkable transformation of KSA's real estate market. Attracting over **10,000 investors and 160,000 visitors from 170 countries**, the exhibition underscored the sector's opportunities for progress and prosperity. Launches and agreements valued at over **110 billion** Saudi Riyals have highlighted the maturation of the Saudi real estate sector, poised for further growth.

The sector is propelled by the collaborative efforts between public and private entities that helps address housing deficits and has ushered in a transformative era for the Saudi real estate sector. As evidenced by the successful implementation of platforms like "Etmam" and "Wafi," coupled with the impactful contributions of the National Housing Company, the sector is poised for sustained growth and achievement of the visionary targets outlined in the Saudi Vision 2030.

Attracted over 10,000 investors

160,000 visitors from 170 countries

Cityscape in numbers

Launches and agreements valued over

110 billion

Saudi Riyals



Etmam platform

A cornerstone of the integrated model, the "Etmam" platform has emerged as a successful facilitator in providing diverse services to real estate developers. It provides a one-stop digital platform for developers to attain necessary permits along with more than 30 distinct services. To date, more than 329 construction projects permits have been issued via the Etmam platform.

Private-sector real estate developers, registered on platform, have become the driving force behind the transformation of the Saudi real estate market. Success stories, exemplified by developers like ROSHN, are actively supporting the goal of achieving 70% home ownership by 2030.



Wafi platform

The establishment of the "Wafi" platform by the Ministry of Municipal, Rural Affairs and Housing has also played a pivotal role in managing off-plan sales and nurturing developer financing with financial institutions. It has catalysed growth in the critical off-plan product type through the issuance of licences.



Sharakat

Sharakat is introduced to incentivise builders and developers through a range of different financing, non-financing products and free developed lands to enhance supply in terms of quality and affordability. Sharakat has enabled acceleration in construction activity, particularly for the new off-plan unit with more than **141,000** units under construction.

There are also deep operational connections among Wafi, Etmam and Sharakat that are providing operational efficiencies for the Saudi Housing Programme and stand as a testament to the strengthening of public-private collaboration.



Impact of National Housing Company (NHC):

The National Housing Company (NHC) has also emerged as a key player in actively partnering with private-sector real estate developers. Through collaborative initiatives, the NHC has planned a yearly injection of approximately **60,000 housing units into the market, actually totaling more than 180,000 units since its inception**. These partnerships, involving 158 private sector developers, account for 56% of the total off-plan sales, with a cumulative value exceeding 114 billion Saudi Riyals.

Identifying key challenges

in off-plan

To achieve further progress in the real estate sector, and boost off-plan sales, it is necessary to identify the key challenges that need to be addressed.





Marketing and product positioning

Buying properties off-plan is a new concept in Saudi Arabia. Most buyers prefer tangible products, leading to a lack of trust in developers offering off-plan units. They fear that uncertified developers would be unable to deliver their future residential units as agreed as there is a fair amount of risk associated with project delays or cancellations. Despite government regulations, many still avoid buying units under construction. To shift the culture towards off-plan sales, marketing plays a crucial role in educating consumers about the benefits and pricing strategy of off-plan properties. A comprehensive communication plan is needed regarding delivery schedules and to ensure that all the amenities are delivered on time and are properly aligned with the buyers' needs and preferences.



Ensuring quality

There is a critical need to have quality assurance mechanisms in place to protect the interests of buyers. This is especially true for off-plan properties, where buyers often rely on developers' promises and marketing materials. Ensuring the quality of such properties is a significant concern that must be addressed to safeguard the buyers' interests.



Location is key

Location plays a crucial role in the success of off-plan projects. However, many developers tend to design such projects far from the city centres and essential services, which makes them less attractive to potential buyers or tenants. There is a greater need to focus on the proximity to important amenities such as transportation, schools, and other facilities that may be significant to future buyers or tenants.



Liquidity pressures

A notable obstacle has been banks grappling with the imperative for swift project completion and sales, a necessity inherent in the off-plan model. The core of this challenge lies in the need for liquidity to finance multiple projects at once.

This is especially challenging in the growing off-plan market in KSA, where there are many construction projects at different stages of completion. This intensifies the pressure on banks. The crucial need for liquidity to fund these ventures becomes a pivotal consideration, and banks may encounter difficulties aligning their financial capabilities with the evolving requirements of a rapidly advancing real estate landscape. The concurrent demand for financing, coupled with the urgency to meet the expectations of a vibrant market, places strain on the liquidity capacities of even the most established financial institutions.

Moreover, the escalating buying demand, a clear testament to the appeal of off-plan offerings in the KSA real estate market, introduces an additional layer of complexity. The challenge for banks extends beyond merely financing construction phases; it encompasses the intricate financial management associated with a high volume of property transactions. This includes ensuring funds are readily available, aligning with the fluid nature of real estate development timelines and the varied completion schedules of multiple projects.



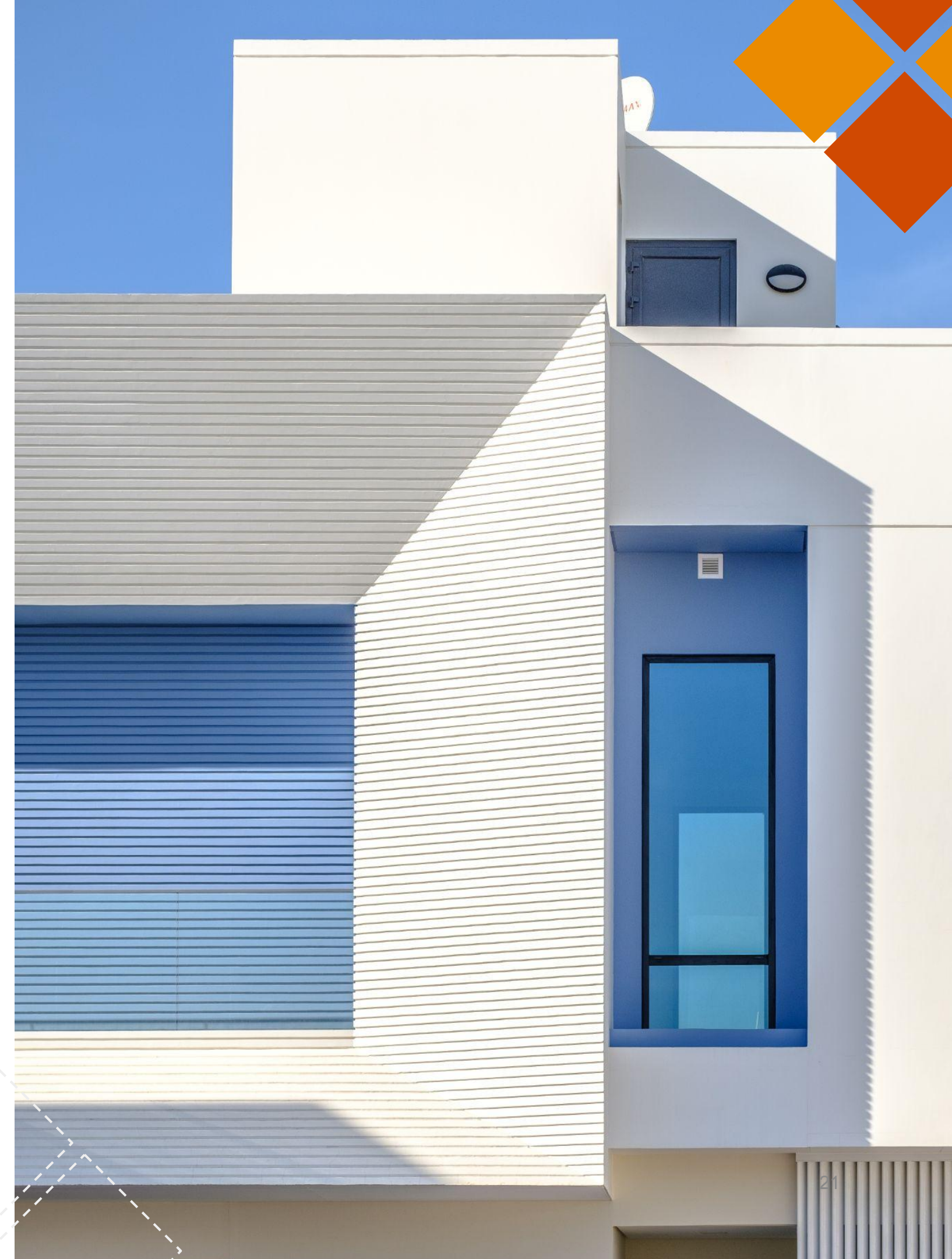
What can be done to mitigate these challenges?

While off-plan sales has proven to be a successful global concept, it is relatively new for the Saudi real estate market. As a result, there is a significant need to boost confidence in the sector.

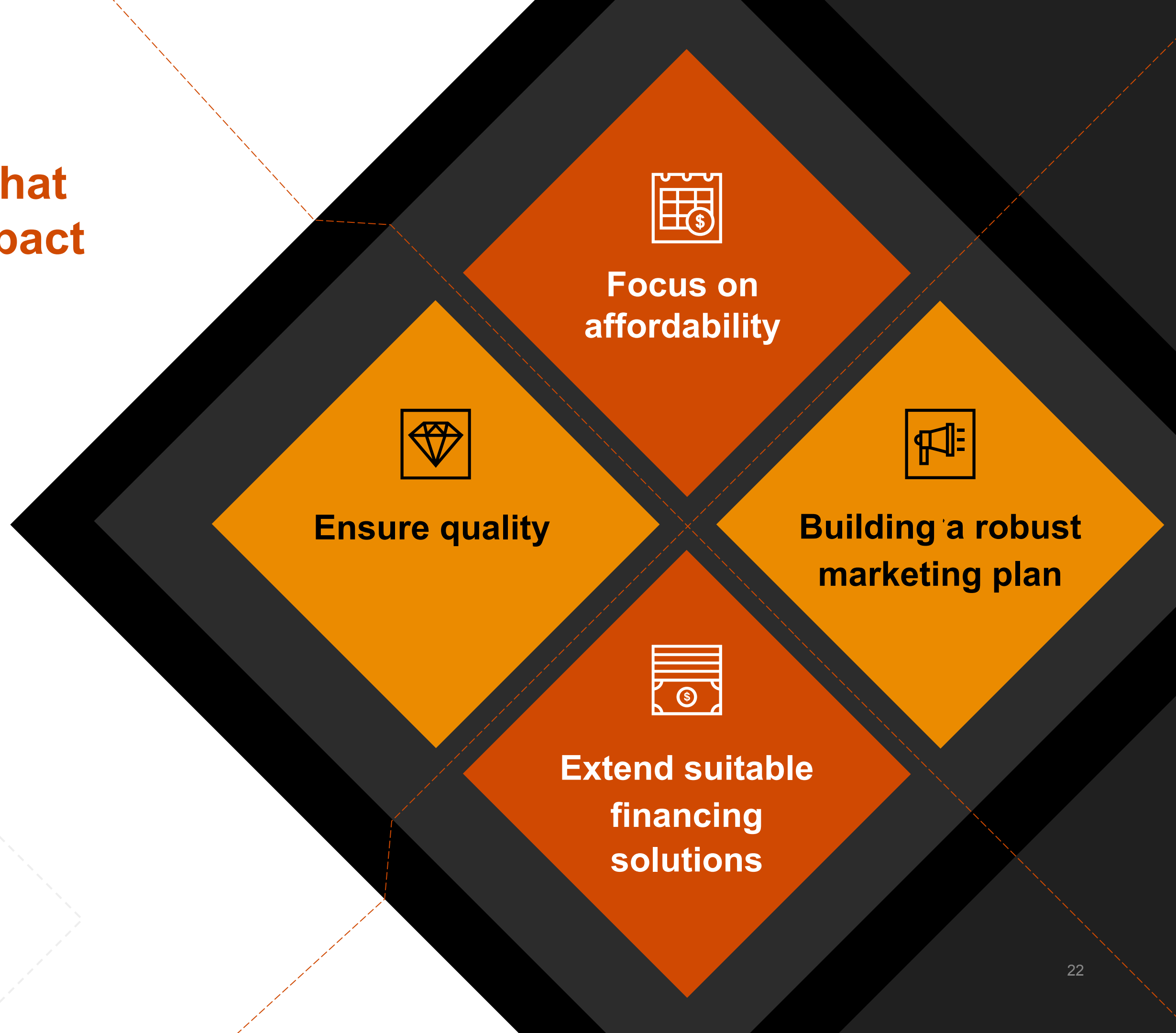
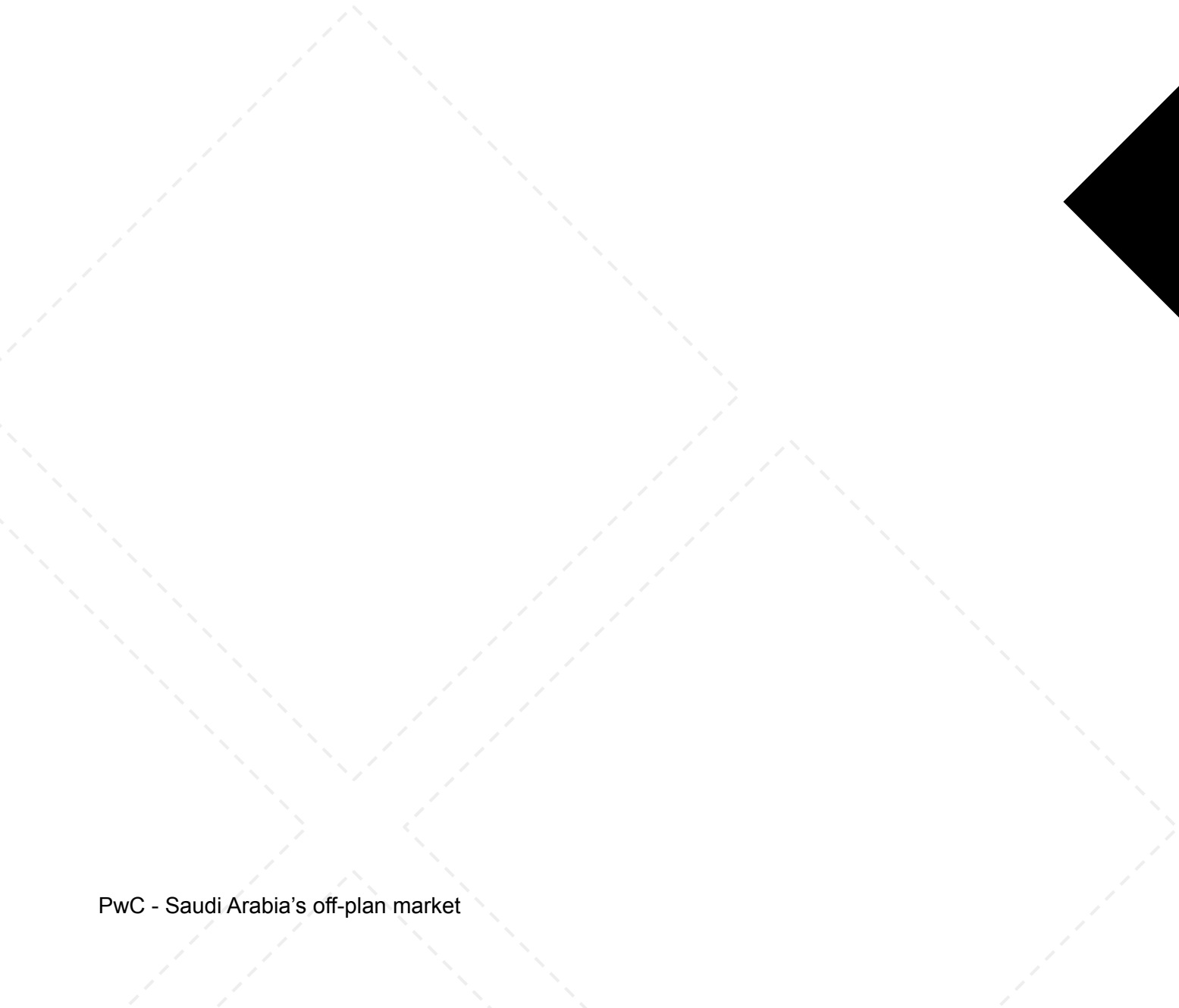
Developers must be more transparent and demonstrate a strong financial standing, in addition to complying with regulations and ensuring quality, timely project delivery, post-sales support and buyer protection measures. It is also important to reduce construction costs and make the product more affordable, diversify financing approaches to enable beneficiaries to own off-plan properties, and partner with financial institutions for collaborative financing.

Similarly it is equally critical for buyers to do their due diligence, understand contractual obligations, monitor construction progress and stay updated about regulations and legal compliances.

The government and developers play a crucial role in building trust in the product through media and marketing campaigns and by highlighting success stories. It is also important to highlight the benefits of choosing this product compared to ready-made units, which can be challenging in the current situation. As the off-plan market matures and sees more developers enter the market, along with regulations that protect buyers, there will be greater levels of confidence in buying off-plan.



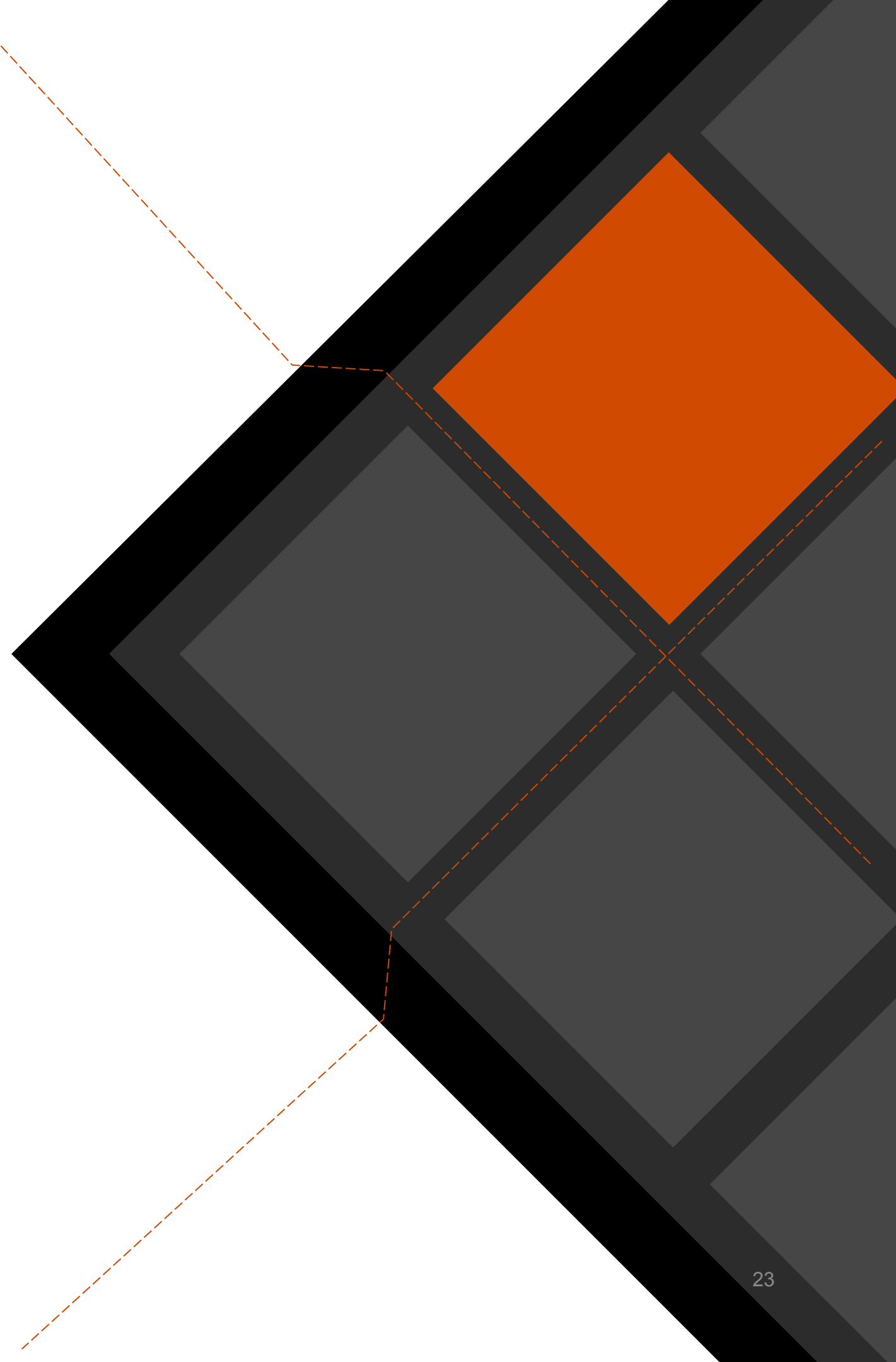
Here are a few initiatives that can make a significant impact





Focus on affordability

While planning for their projects, real estate developers need to focus on the affordability of their residential offerings through achieving lower construction and infrastructure costs. Moreover, it is important to understand the affordability of the buyers while taking into consideration the governmental incentives, and associated subsidies to support citizens in owning their first home.



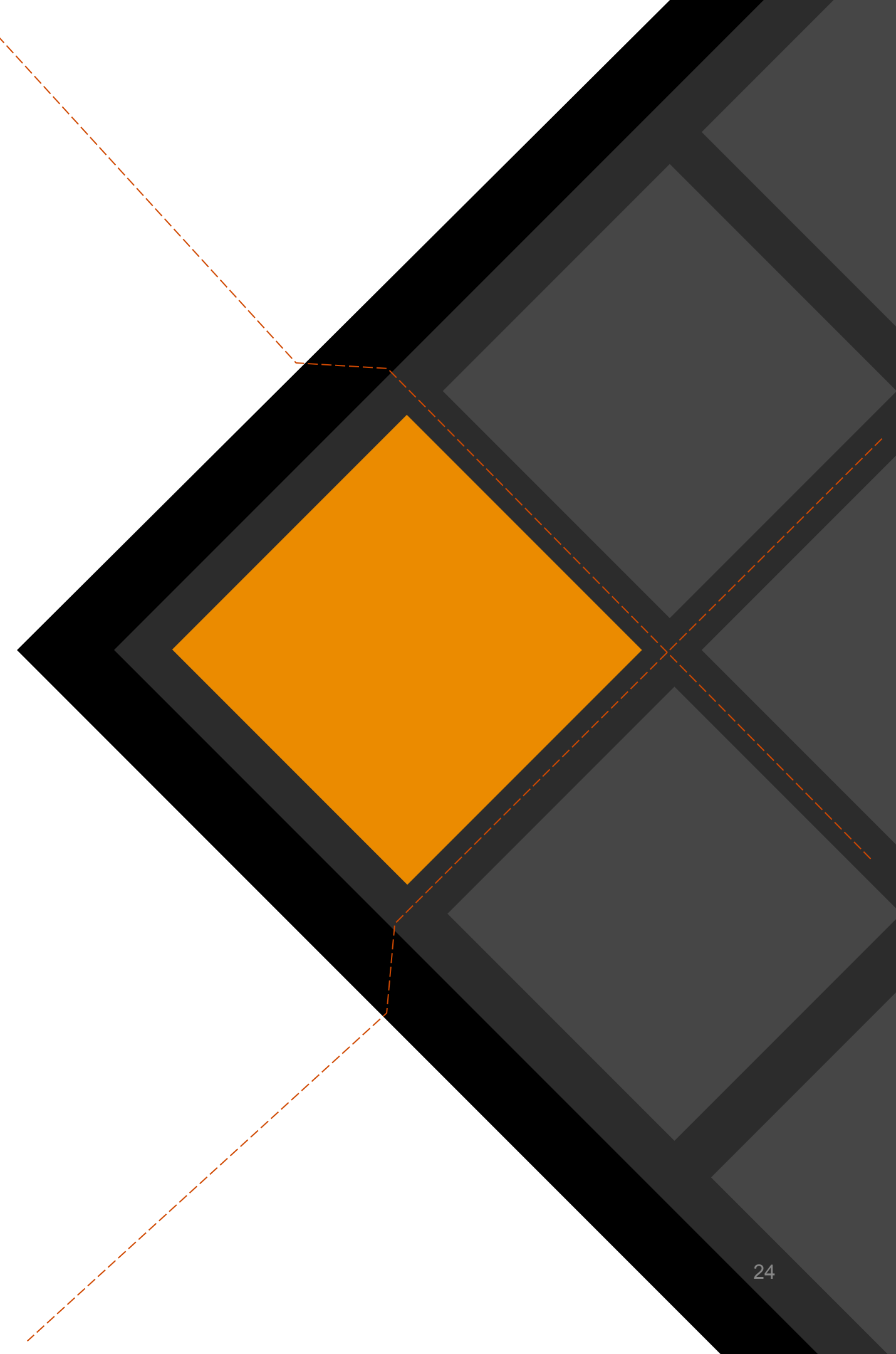


Ensure quality

Many real estate developers believe that completing superstructure work quickly is a key indicator of project success. This is because most developers come from construction backgrounds and do not prioritise providing quality products in a timely manner, in line with project delivery schedules. The government is actively working to address these issues or challenges with real estate developers through capacity-building programmes, educating real estate developers, and attracting international developers to work alongside local developers to improve this sector.

Recognising the pivotal role that quality plays in the overall success of real estate ventures, emphasis must also be placed on ensuring that infrastructure development aligns with the highest standards. This holistic approach underscores the commitment to maintain the quality of not just the physical structures but also the surrounding infrastructure that enhances the overall living experience.

The collaborative engagement with private sector real estate developers and contractors further enriches the local landscape, bringing diverse experiences and community development offerings to ensure that the sector evolves not only in pace but also in quality, meeting the expectations of a discerning market.





Extend suitable financing solutions

One of the most significant challenges for off-plan housing is related to financing products aimed at citizens and beneficiaries. Developers must align with financial institutes to explore the most suitable financing solutions for target buyers, in order to avoid sales stagnation or reservations withdrawals. The Saudi Central Bank has already had a significant impact on the growth of the housing sector, reducing the minimum down payment required for property purchases from 30 percent to 5 percent of the purchase price. The mortgage market in Saudi Arabia has, therefore, grown significantly in the last few years.

The rise in mortgage instalments can be attributed to two primary factors: The first factor is the increase in interest rates, which most financing institutions cannot bypass and the second factor is the consideration that 65% of the beneficiary's monthly salary is an acceptable Debt Burden Ratio (DBR). This is seen as a high percentage compared to other countries where it typically does not exceed 40%. When making a reservation, the beneficiary assumes that the housing unit they have chosen is suitable for their income bracket. However, when it comes to financing, they are often surprised to find that the required amount exceeds their capacity, leading to withdrawal.



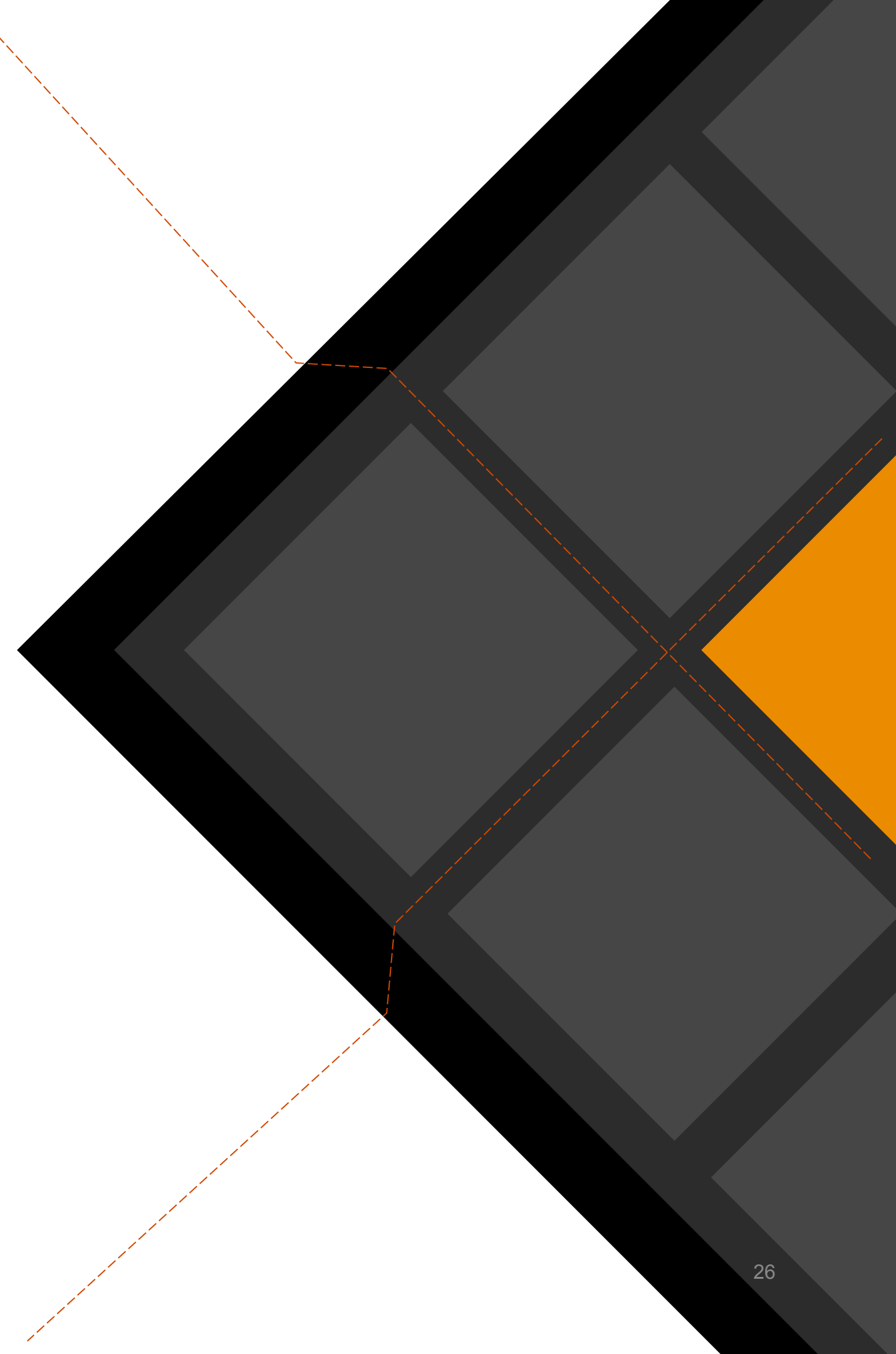


Building a robust marketing plan

KSA real estate developers often struggle to establish a clear market position for their projects and attract buyers due to their limited understanding of marketing and lack of proper tools.

They frequently rely on the government to promote and sell housing units to registered beneficiaries, neglecting the importance of marketing through different channels. This approach results in slower sales and insufficient awareness among the public and beneficiaries. To achieve desirable sales figures, developers must develop a comprehensive marketing plan and communications strategy that focuses on reaching the largest possible number of target audiences.

To help developers understand the market's needs and conduct supply-demand analysis for their off-plan projects, MoMraH has taken significant steps in setting up studies and decision support functions, which provide market data to developers and other stakeholders.



Way forward

Boosting off-plan sales in Saudi Arabia's real estate market can help achieve the goals of Vision 2030 through increasing the market depth, attracting more local, regional, and international developers.

Developers who have used off-plan sales to promote residential communities have seen exponential growth, better access to capital markets, and stronger brand equity. Buyers who purchase off-plan units from developers with strong brand equity also stand to benefit from capital gains.

Therefore, we strongly recommend that local and international developers seriously consider off-plan sales - a sector that holds promise and promises a notable surge in interest from homebuyers in the future.

To mitigate the challenges of off-plan sales, developers should develop robust and innovative marketing and sales strategies, identify unique selling points, invest in building strong customer service and aftersales support, and build facility management capabilities to build long-term relationships with their customers. These steps will allow developers in Saudi Arabia to leverage the tremendous opportunities that exist in the off-plan sector.

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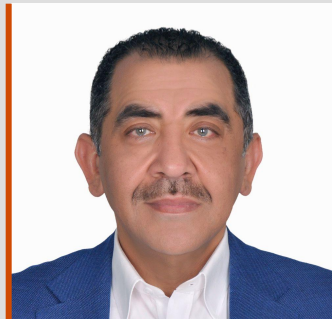
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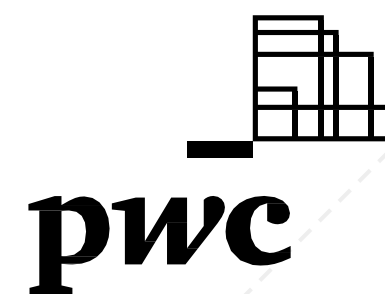
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