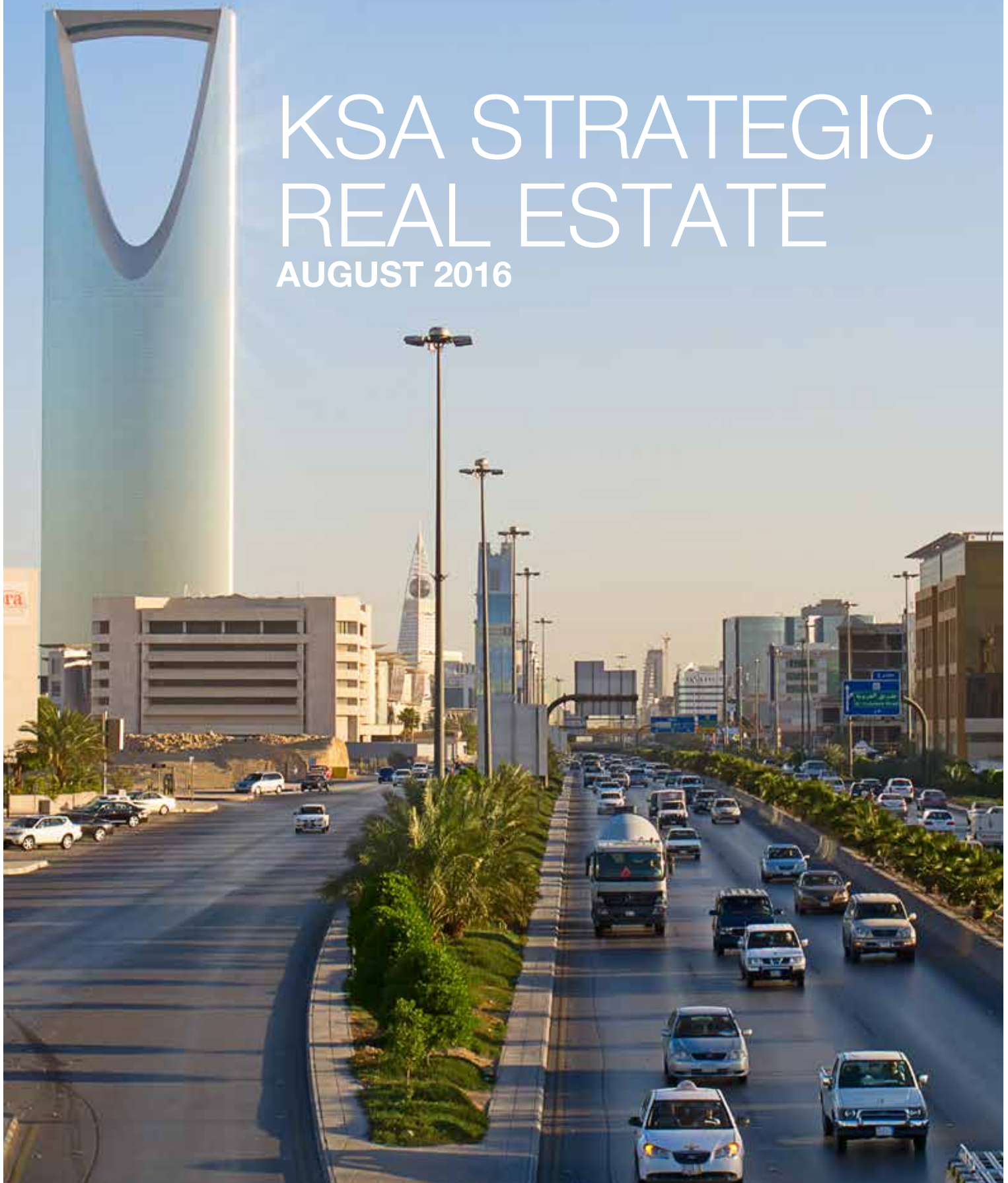


RESEARCH



KSA STRATEGIC REAL ESTATE

AUGUST 2016





STRATEGIC REAL ESTATE

The National Transformation Program (NTP) outlines strategic objectives and key performance indicators for the public, private and non-profit sectors, aimed at diversifying the Kingdom's economy and reducing its dependence on oil.

Among the targets published earlier in 2016, is a raft of objectives that aim to increase the property sector's contribution to the country's GDP from 5% to 10% by 2020 – the equivalent of USD 74.8 billion.

Under the new plan, both the public and private sector are encouraged to take a role in ensuring the growth of the property sector, either through individual initiatives or forming public-private partnerships (PPPs). Key among these:

Plans to introduce a Real Estate Investment Trust

This is likely to institutionalize the real estate market in Saudi Arabia and attract foreign investors while offering them the opportunity to diversify their investment. The creation of a REIT is likely to encourage commercial investments into office towers, retail centres and hotels, which provides institutional investors with diversity, long-term stability, and growth.

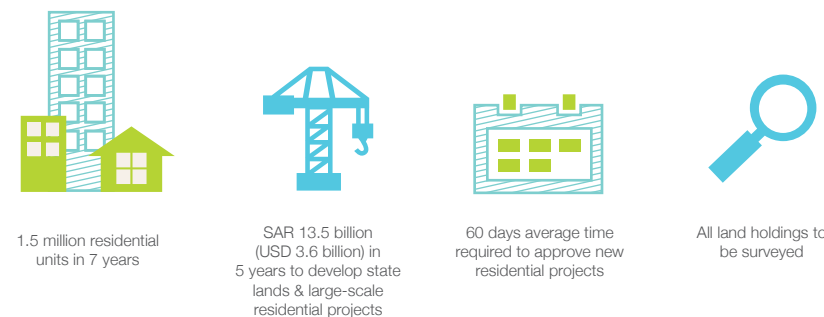
Approval of a 'white land' tax on undeveloped land

Under the regulation, owners of undeveloped land plots of 10,000 sq m and above are subject to an annual 2.5% tax of the land value. This measure aims at encouraging land owners to develop more homes to the market in order to tackle the shortage of housing in the Kingdom and avoid speculative land trading.

Development of a home-building programme

The Ministry of Housing announced plans to create its own property development company and start a mortgage-guarantee fund to boost the rate of lending growth. The new entity will essentially provide plots of lands to businesses planning to develop homes, and also help them secure financing by offering loan-guarantees. The creation of a state-owned mortgage firm aims to expand the country's mortgage market and increase Saudi families' access to real estate.

FIGURE 1
Headline housing targets of the National Transformation Plan



Source: KSA NTP

Please refer to the important notice at the end of this report.

Viewpoint

The SAR 268 billion (USD 71 billion) National Transformation Program (NTP) details projects and initiatives, as well as performance indicators, which aim to transform the Saudi economy into a powerhouse led by the private sector, which the real estate industry forms an integral part of.

While efforts to tackle the issues surrounding the housing market in Saudi Arabia have been on-going before the NTP announcement, we welcome these measures as a step in the right direction, proving that there is willingness to change. This in turn is expected to translate into strong prospects in the Saudi real estate market.

However we believe there are a number of factors restraining the real estate market, that need to be addressed.

FIGURE 2
Factors restraining the residential market



Source: Knight Frank Research

In the short run, the approval of a white land tax on undeveloped land is expected to see land owners review their holdings and develop value optimisation strategies to maximize their asset's productivity and improve returns. Through recognizing their real estate capabilities, undertaking comprehensive valuations and developing high operating assets, land owners are well positioned in light of the proposed tax. This in turn is likely to increase development activity across the Kingdom.

Over the medium-to-long term these development strategies are expected to transform cities for the better, improving the quality of life while maintaining affordability and safety of the local communities - a central objective of the Kingdom's leadership.



Under the new plan, both the public and private sector are encouraged to take a role in ensuring the growth of the property sector, either through individual initiatives or forming public-private partnerships (PPPs).

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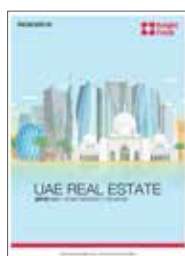
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