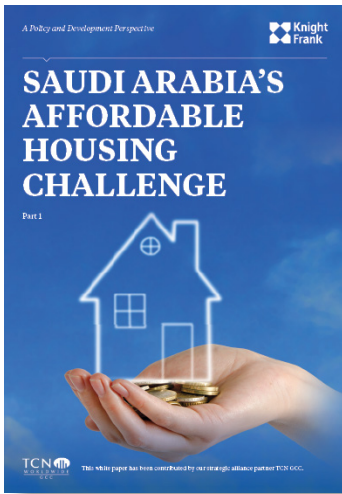


SAUDI ARABIA'S AFFORDABLE HOUSING CHALLENGE

Part 2

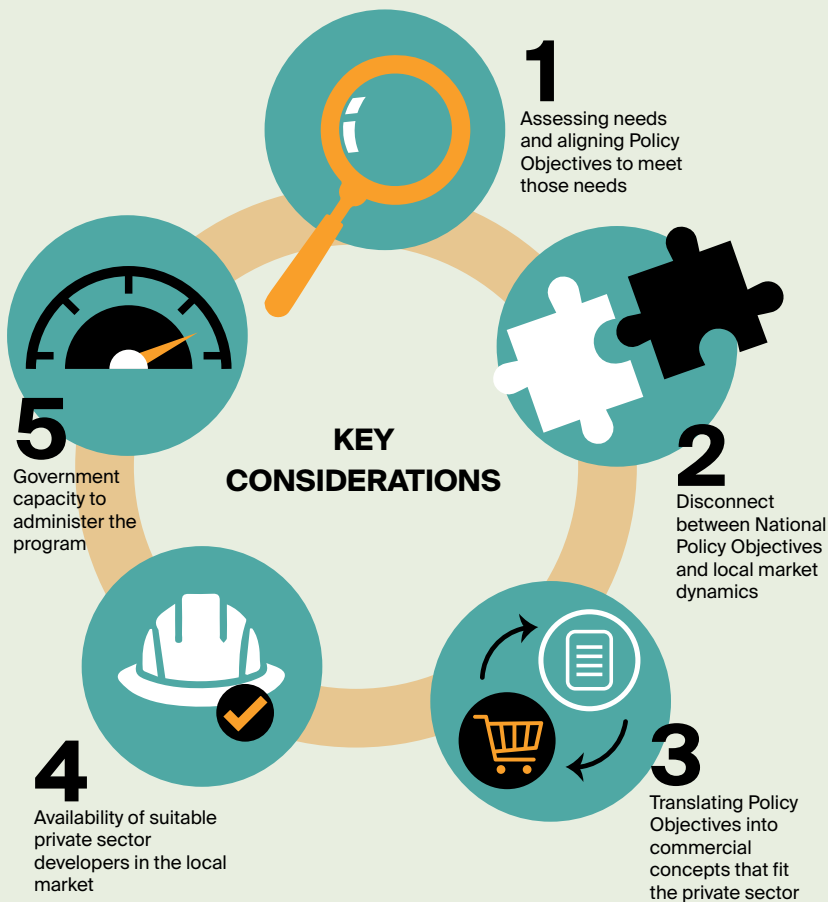




Part 1 of this Affordable Housing White Paper (available for download on KnightFrank.com.sa) focused on a presentation and analysis of various PPP (public private partnership) development models based on international best-practices and explored their applicability to the Saudi market.

Part 2 below focuses on the affordable housing question from a government policy perspective and concludes with a number of takeaways from our analysis and how they can be applied specifically to the Saudi market.

FIGURE 1 Key considerations in implementing a successful affordable housing policy



AFFORDABLE HOUSING POLICY CONSIDERATIONS

Selecting the optimal development model is only one step in the affordable housing spectrum. By its very nature, affordable housing requires significant government involvement; in addition, rolling out an affordable housing program on a mass scale involves translating development considerations into government policy initiatives.

An analysis of international best practices provides several key considerations in implementing a successful affordable housing policy:

- Accurately assessing the low-income population’s needs and aligning Policy Objectives to meet those needs
- Navigating the potential disconnect between national Policy Objectives and local real estate market dynamics
- Translating Policy Objectives into commercial concepts that fit the private sector
- Studying whether the required sophistication and availability of private sector developers capable of participating in affordable housing programs exists in the local market
- Ensuring that government capacity to administer the program (bureaucracy, institutions, etc.) exists or can be feasibly implemented both at the national and regional / local level

ACCURATELY ASSESSING THE LOW-INCOME POPULATION'S NEEDS TO ALIGN POLICY OBJECTIVES

Perhaps the greatest challenge in formulating a successful affordable housing policy - and indeed the primary reason why affordable housing initiatives fail internationally - is creating an alignment between the policy and the actual needs of the low-income population.

Too often, policy objectives are formulated without adequate examination of the detailed issues facing low-income individuals and households. It is assumed that the problem definition is simple - there are individuals within the population that can't comfortably afford housing, and so the policy should center on making units more affordable by lowering the price of housing units.

Unfortunately, this over-simplistic problem definition often dooms affordable housing initiatives before they even reach the execution phase. In reality, the issue of affordable housing is extremely complex and requires detailed study, as well as the participation of the low-income individuals and households in the policy-creation process, in order to ensure alignment of policy to needs.

Some example of key considerations in the critical (and often skipped) Assessment phase are:

- **Determining true affordability levels**

The international standard benchmark is that housing should cost no more than 30% of the household's total income. However, market dynamics, population trends, and cultural considerations may make this figure irrelevant; therefore, each affordable housing program should first engage in a detailed analysis of what it actually means for a unit to be labelled "affordable"

- **Incorrectly assuming that price is the barrier**

Although clearly the market price of a unit is a barrier for low-income individuals and households, often times this is not the full story. Examination should be given to other factors which may be limiting low-income individuals' access to housing such as build quality, location, and housing type. United Nations studies for example, have shown that in semi-rural areas in Southeast Asia, the issue was not the affordability of housing per-se but rather the fact that the population desired large housing units built along a multi-generational living model whereas the government affordable housing being built was blocks of small units designed for nuclear families.

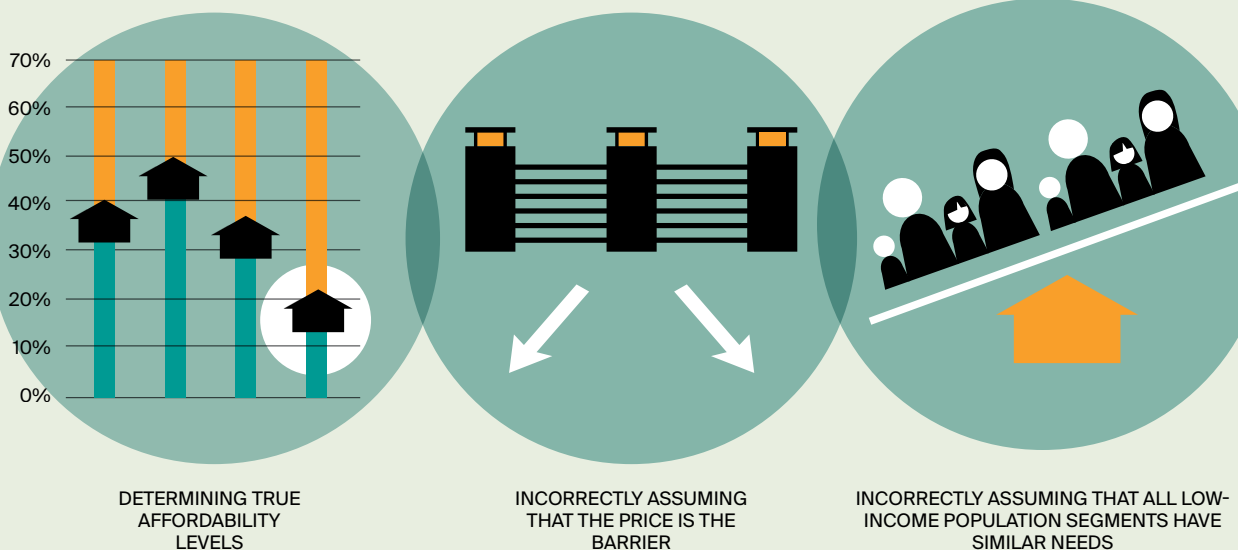
- **Incorrectly assuming that all low-income population segments have similar needs**

The needs, challenges, and issues faced by what can be categorized as very-low-income individuals and households often differs significantly from these categorized as mid-low or even low-income. Population segments at the very bottom of the income bracket often face issues far beyond lack of affordable housing, and therefore require more complex solutions. In summary, a "one size fits all" policy approach will not be successful.

NAVIGATING POTENTIAL DISCONNECT BETWEEN NATIONAL POLICY OBJECTIVES AND LOCAL MARKET DYNAMICS

Real estate development is inherently a local enterprise. Specific market dynamics in a certain local or even regional sub-market often determine how development projects get built. Policy objectives however, are determined at a national level. Therefore, when national policy concerns real estate development projects, there is the potential issue of a "policy disconnect" between national objectives and local market dynamics.

FIGURE 2 Key considerations for assessing low-income population's needs to align policy objectives



If the policy objectives attempt to take into consideration every local market dynamic, then the policy becomes too lengthy and unwieldy to be effective. Alternatively, if local market dynamics are not considered, then the policy proves almost impossible to execute once it reaches the local market level for execution.

International best-practice has revealed that the best solution is a combination of local involvement and a multi-tiered policy structure.

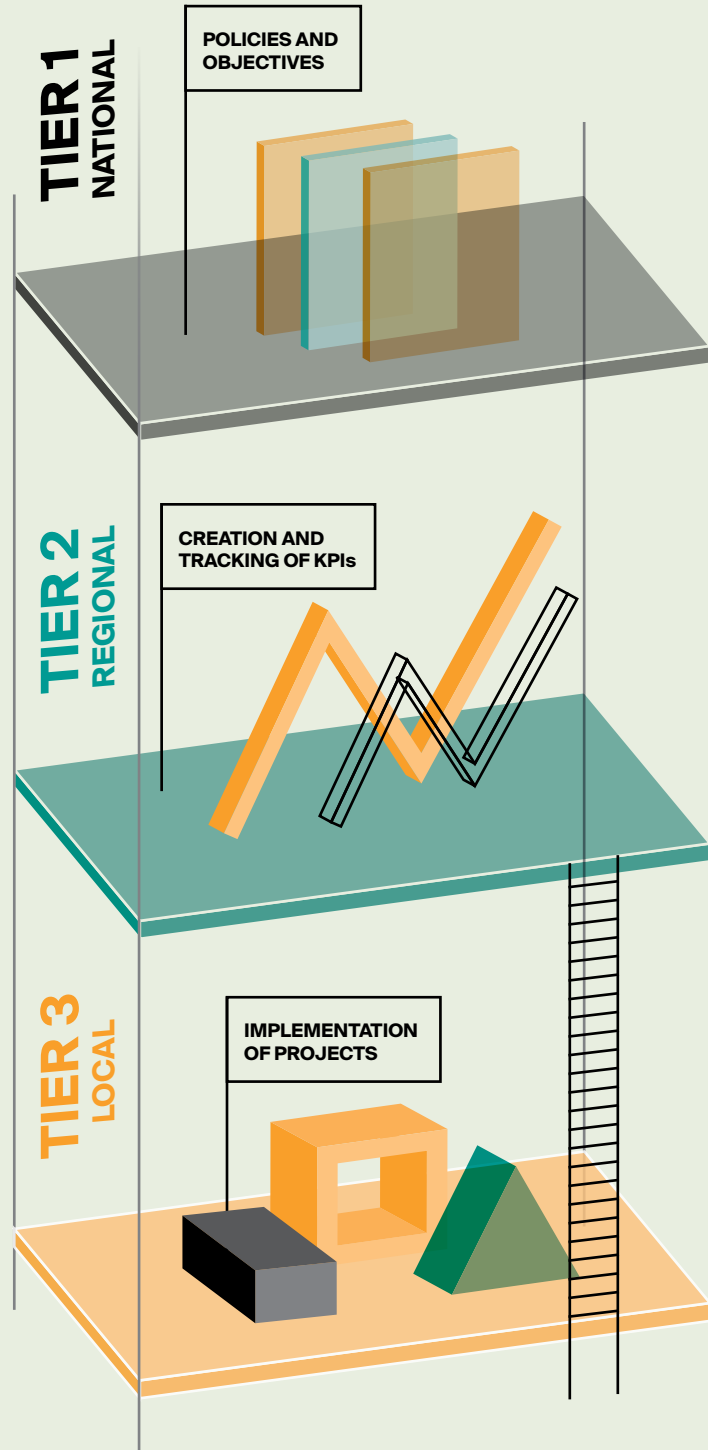
It is imperative for a successful policy objective that local and regional government agencies involved in housing and real estate development are consulted and invited to have input in the process. This ensures that all issues are considered and that where possible, local concerns are injected into the national policy objective discussion.

It is similarly essential that any affordable housing policy is organized in a multi-tiered structure:

- In the first tier, Broad-based national-level policy objectives serve as the “guiding principles” and outline the vision, mission and objectives of the affordable housing program, as well as long-term expected results and the overall funding and budget structure for the affordable housing program.
- In the next tier, regional government bodies can be tasked with creating and tracking the program’s Key Performance Indicators (KPIs), housing typologies, assessing detailed citizen demand for housing, and monitoring the performance of local government bodies
- In the next tier, local government bodies can be tasked with implementing projects in-line with local market realities, managing private-sector involvement, selecting the appropriate development model typologies, and monitoring project execution

With this multi-tiered structure, national housing policy can be effectively executed on a local scale.

FIGURE 3 Multi-tiered policy structure for affordable housing



TRANSLATING POLICY OBJECTIVES INTO COMMERCIAL CONCEPTS THAT FIT THE PRIVATE SECTOR

Policy objectives are the sphere of government; however, in cases where these policy objectives are designed to solicit private sector participation, then the commercial considerations of private-sector companies must be considered. Too often, affordable housing policy is written in a “bubble” without considering the commercial impacts to the private sector; and then once the program reaches the execution phase, the policy must be modified or re-worked to accommodate private sector and commercial realities.

Inviting private-sector participation in the policy creation process through workshops and conferences is a key first step. In addition, international best-practices has shown that the involvement of consulting companies with specifically real estate development expertise within the policy creation process, has yielded the best results. These consultants who typically advise private sector developers and are considered relative “experts” in the field, can provide government policy makers with keen insights on how policy objectives which are being considered, will actually play-out in the market, and also analyse and present recommendations based on anticipating the commercial repercussions of policies.

As a result, real estate development expertise and the commercial realities of the private-sector real estate market are infused into the policy creation process from the beginning, thus increasing the success-rate of the affordable housing program over the execution horizon.

SOPHISTICATION AND AVAILABILITY OF PRIVATE SECTOR DEVELOPERS

In cases where the national affordable housing policy objectives call for private sector participation, an oft-overlooked dynamic is whether there exists a sufficient number of private sector developers with the appropriate capabilities in order to execute the proposed program.

Therefore, an analysis of the private sector’s capacity and capability in terms of real estate development professional expertise, should be a key consideration in the formation of national affordable housing policy objectives.

In cases where it is determined that there is a lack of sufficient capacity of private sector developers relative to the type and number of units that needs to be delivered, then a comprehensive training and technical certification program can be considered.

Assigning government resources to create and then execute a technical certification and training program to bring private-sector developers “up to par” to a level wherein they can feasibly participate in PPP contracts to develop affordable housing, is often a key step to consider when developing affordable housing policy.

GOVERNMENT CAPACITY TO ADMINISTER THE PROGRAM

Similar to assessing the private sector’s capacity, a key consideration in a national affordable housing policy is assessing the government’s capacity to administer the programs required to meet the policy objectives being considered. This is true at both the national and regional / local level of government. The different commercial models for affordable housing have vastly different administration requirements on the government side. Therefore, it is important to fully understand and assess the administration requirements of a policy from the beginning.

TOWARDS AN AFFORDABLE HOUSING POLICY FOR SAUDI ARABIA

Based on the presentation and analysis of various PPP (public private partnership) development models, international best-practices and their applicability to the Saudi market and a discussion of government policy initiatives, there are both challenges and opportunities for developing a national affordable housing program in the Kingdom.

Some key takeaways from the analysis in this paper can be applied specifically to the Saudi market:

1. **Regional and local dynamics**
Saudi Arabia has a sufficiently diverse population demographic that regional and local market dynamics must be considered in a national affordable housing policy. Solutions applicable to major metropolitan centers such as Riyadh and Jeddah may be very different from what is needed in semi-rural areas in the country’s interior
2. **Private sector participation**
Given the sheer scale of the affordable housing needs in the Kingdom as a result of a largely youthful population demographic, it is unlikely that the country’s housing goals can be accomplished without some degree



A contemporary neighbourhood in Saudi Arabia

of private-sector participation in the development of affordable housing.

However, this private sector participation brings with it many challenges – such as the lack of available professional developers versus the total number of units to be built, little history of PPP projects to establish an ongoing working relationship between the government and private sector, and the difficulty in administering private sector collaborations across a large country. Selecting the most appropriate development models for each policy

objective and customizing the model to fit the Saudi market is a key first step.

3. Affordability envelope

The Kingdom has a diverse economic demographic and a “one size fits all” approach will likely not meet the needs of the population. Establishing an “affordability envelope” on a national and regional level determining what categories of affordable housing are needed, is a key step in a successful policy. Each category in the affordability envelope may then require a different

development model and a different series of specific policy considerations

4. For-sale versus for-rent housing

Cultural considerations in the Kingdom (similar to other GCC countries) dictate that most families expect home ownership as an intrinsic result of any government housing program. However, in reality, for-rent affordable housing programs internationally have shown much higher success rates than for-sale program models.

A detailed analysis is required to establish whether a majority for-sale affordable housing policy is indeed sustainable for Saudi Arabia; and in the case that rental housing must be introduced, then development models must be adapted to fit local cultural dynamics.

FIGURE 4 Key takeaways for implementing an affordable housing policy in Saudi Arabia



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