

6

COMMERCIAL & RESIDENTIAL REAL ESTATE IN SAUDI ARABIA

By Saudi French Business Council (CAFS)

SAUDI FRENCH BUSINESS COUN-
CIL (CAFS)

P.O. Box 16683

Riyadh 11474

Saudi Arabia

T. +966 53 941 0102

www.cafs.org.sa



مجلس الأعمال السعودي الفرنسي
Conseil d'Affaires Franco-Saoudien



JOIN US TO BENEFIT FROM OUR BUSINESS SERVICES

- Matchmaking, introduction to potential partners
- Business missions, research of business partners and B2B meetings.
- Networking events and meetings with officials. Conferences and seminars.
- Business delegations in both countries.
- Publications and sharing of economic information on both markets.
- Promotion of our members and of their products and/or services.
- Webinars, masterclasses and training.
- Site visits and pavilions during trade shows.
- Recruitment services.

THE PLACE WHERE SAUDI &
FRENCH BUSINESS MEET!

WWW.CAFS.ORG.SA

OTHERVIEW OF THE COMMERCIAL REAL ESTATE MARKET

The commercial real estate sector in Saudi Arabia has been experiencing significant growth. The market size is expected to grow from USD 64.43 billion in 2023 to USD 94.19 billion by 2028.

The market size is estimated at USD 20.71 billion in 2023, and is expected to reach USD 31.35 billion by 2028, growing at a CAGR of 8.65% during the forecast period (2023-2028).

This growth is fueled by a range of factors, including:

- The country's economic which is expected to continue at a sustained pace in the coming years.
- Increased foreign direct investment, which is expected to stimulate demand for high-quality offices.
- The development of new special economic zones, which provide companies with tax advantages and other incentives.

The market is dominated by major cities, such as Riyadh, Jeddah and Dammam. The office segment is the largest, followed by the shopping center segment and the hotel segment.

The market faces a number of challenges:

- The shortage of high-quality office space in large cities. Demand is growing strongly, but supply is insufficient to date. The situation will improve in the coming years with the construction of new office buildings.
- The rise in commercial real estate prices, up to 15% year-on-year in Riyadh and 6% in Jeddah, due to high demand and insufficient supply. This rise in prices makes commercial real estate less accessible to small and medium-sized businesses.

Despite these challenges, the market is healthy and will continue to grow in the coming years.

Due to the current mismatch between the growing demand and supply of commercial space, it is currently difficult for companies to

find small office space in many major cities in Saudi Arabia. Even in business centers, availability only remains vacant for a very short time. Indeed, the occupancy rate of quality spaces has now reached a record of 97% for Grade A and 85% for Grade B.

In addition, available spaces are not always visible online, giving a market that remains quite confidential. It is therefore recommended to use the services of an agent in the search for rented offices. This situation will improve in the coming years with the construction of many buildings, including 800,000 m² of new office space in Riyadh by 2025.

In terms of development projects for office buildings and commercial real estate, Saudi Arabia is currently undergoing a massive development program with 14 “giga projects” in the country. Over 4.3 million sqm of retail space and over 6.1 million sqm of new office space are expected by 2030, as part of the vision 2030 project.

COMMERCIAL LEASES

The rules of law governing the rental of office space are defined by the Saudi Commercial Code, which provides the conditions for the validity of a lease, the rights and obligations of the parties to the lease, as well as the remedies in the event of a dispute. In particular, it is necessary to register the lease with the Saudi Ministry of Commerce.

In addition to leases with government entities, leases of industrial land in Jubail and Yanbu, and industrial land administered by Modon, lease provisions are freely negotiable as long as the provisions agreed by the parties do not violate Islamic Sharia laws.

In addition, leases registered by owners with government departments or agencies are limited to an initial term of no less than one year and no more than three years. The lease can be renewed. However, the initial duration and the renewed duration or conditions may not exceed nine years in total. There are no maximum terms or limits on the renewal of non-

governmental leases in Saudi Arabia.

With the exception of development leases or ground leases and industrial leases which are generally for terms of 15 to 25 years, most leases are for one-year terms, renewable for new one-year terms and subject to an upward rent review. In general, a landlord can only terminate a lease in accordance with the termination provisions contained in the lease, or, for example, if the tenant is in breach of his obligations under the lease. A tenant cannot terminate a lease without cause, unless there are specific provisions in the lease allowing it.

Rent is usually paid annually in advance. The parties to a lease are free to set the rent in currencies other than Saudi riyals. However, provisions for paying rent in foreign currencies are not typical. In addition, there are no laws that set a cap on rent revisions or seek to control renewals. The rent is generally revised upwards at the time of renewal of the mandate, either at market rates or by a fixed increase of

5 to 10%. There is no limit to the extent to which a landlord can increase the rent, as long as the increase occurs at the time of renewal or on dates/intervals agreed to by the parties.

In addition to industrial and government leases, tenants and landlords are free to agree on the extent to which a tenant can dispose of their interest in the lease. As a general rule, tenants are prohibited from transferring or subletting all or part of the leased premises without the prior written consent of the landlord.

Finally, neither party is required by law to insure itself against the risks associated with the leased premises.

However, it is not uncommon for leases to contain insurance clauses, under which the lessor takes out comprehensive home insurance and liability insurance, and the tenant takes out insurance for his fixtures, fixtures and property in the leased premises.

RESIDENTIAL REAL ESTATE IN SAUDI ARABIA

The Housing Program

The Housing Program, launched by the Saudi government in 2018, aimed at facilitating the access to property for Saudi nationals from 47% in 2016 to 70% in 2030. This resulted in the launch of several development projects as part of PIF projects (ROSHN, Diriyah, and so on), aiming to build a total of 400,000 homes in Riyadh, Makkah, Asir, Jeddah, Al Koraj, and other cities.

To achieve this objective, the government launched the Sakani program in 2018, to provide affordable options for citizens to own a home. Sakani works hand in hand with private sector developers to build new communities in high-demand areas. The financing options include rent-to-own and mortgage options. It also provides support for first-time homebuyers, guiding them through the process and assisting them with obtaining financing.

Finally, the Saudi authorities also launched the Ejar platform in 2018, to streamline the pro-

cess of leasing a new property by offering a secure and convenient way to conclude leases electronically, using a standard contract certified by the Ministry of Justice. The platform offers access to supporting reports and verification services, ensuring that all parties involved are trustworthy and can make informed decisions. Ejar also provides training and qualification programs through the General Real Estate Authority for real estate brokers, ensuring that only the most qualified professionals are used to help citizens' new homes.

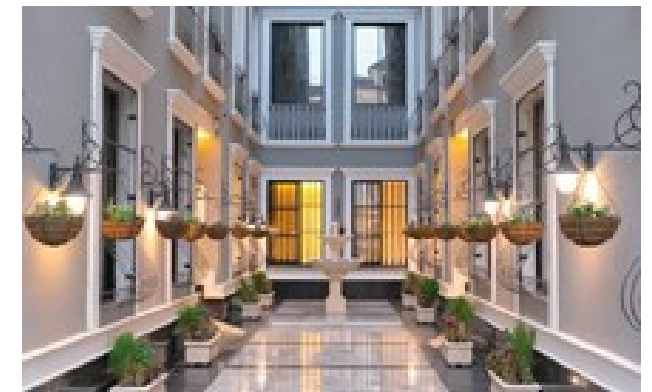
What solutions for your accommodation in Saudi Arabia?

The number of expats living in Saudi Arabia is lower than it is in most other Gulf countries. Foreign residents comprise only about 30% of the total population, and are mostly unskilled workers. Most skilled expats in Saudi Arabia are based in Dammam, Jeddah or Riyadh – the three main cities. They generally prefer to live in compounds, which are self-contained and

secure neighborhoods, run by private companies, offering many services reserved for their inhabitants, such as swimming pools, restaurants, gyms, sports fields, and so on.

However, more and more quality apartment buildings as well as service residences and complexes are appearing on the market, and make it possible to expand the supply of quality housing at prices lower than those offered by compounds.

It should be noted, however, that residential property prices in Saudi Arabia are generally higher than in other countries in the region.



How to find your accommodation

Finding accommodation from abroad, especially compound, can be difficult. Indeed, with an increasing demand and a still limited supply, some compounds do not respond to emails. Some don't even have a website. In addition, the preferred mode of communication in Saudi Arabia being the phone and Whatsapp, it can be difficult to find the contact details of the person in charge of leasing. Finally, most compounds have waiting lists of several months and it is often better to visit them in person to obtain the contact details of the Sales Manager.

Some compounds bring together a large number of French expatriates. Having contact within the French expatriate community in the country, either through introductions, or through the Union des Français de l'Etranger or Riyad Accueil, or in dedicated groups on social networks, is often the best way to get valuable information about the different com-

pounds, their rates and who to contact to reserve an accommodation.

In addition, it is not always easier to find accommodation outside the compounds before your arrival in the country. Indeed, some mobile applications require a Saudi phone number to register and do not allow access to housing ads posted on the Internet. Therefore, it limits the possibilities of looking for vacant houses or apartments before you arrive in the country. In addition, communication problems may arise as owners or agents who have posted ads do not always respond to messages or emails, or do not speak English.

In any case, regardless of the type of accommodation you are going towards, the best solution is to ask your employer or an Arabic-speaking person from your company based in Saudi Arabia, to help you with your research and manage communications with compounds and/or owners of rental properties. If this is not possible, it is recommended to use an

agent who will offer you a housing search service.

Finally, when looking for a home, do not forget to put the home-work distance on top of your criteria, as well as the proximity of facilities and shops. Indeed, it is important to take traffic into consideration for your quality of life. You should also anticipate the upcoming inauguration of the Metro Riyadh and have the map of the lines in mind.

FINDING A HOME IN A COMPOUND



Please be informed that the Saudi French Business Council (CAFS) is keeping a listing of contacts of compounds in Riyadh at the disposal of its members for free.

Some CAFS members also propose agent services to support you in your search for an accommodation.

Rental rates & payment

Rental rates are generally higher in Saudi Arabia than in neighboring countries. Significant differences exist from one type of housing to another, from one compound to another, from one neighbourhood to another, or from one city to another. To get an idea of the rental rates outside compounds, please visit websites of real estate agencies. It should be noted a continuous increase in rent of 2% to 5% from one year to the next in the residential market.

Most compounds and landlords ask for the payment of one year's rent in advance at once, or in two instalments six months apart. Some homeowners are starting to accept monthly payments, but this is still rare.

Residential leases

The regulations in place are mainly aimed at licensing real estate brokers, restricting commissions and creating and using Ejar, the Ministry of Housing's (MOH) electronic services

platform. Landlords and tenants are therefore generally free to enter into contracts on terms they deem acceptable, provided that the agreed terms are not incompatible with Sharia principles. The general principles of Sharia law are in line with commonly accepted contractual principles. As renting is essentially a contractual exercise, landlords and tenants therefore have a great deal of flexibility as to the nature of their lease. This contractual freedom leads to a wide variation in leases.

It is necessary to register the lease with the Ejar online platform. The landlord must transmit the lease which must be validated by the tenant. The Ministry of Housing has also published [model leases \(called "unified contracts"\)](#) for residential premises. The use of the Unified Housing Contract (URC) is mandatory in order to facilitate registration on the Ejar system. In addition, the Ministry of Justice issued a circular in 2019, which states that unregistered leases cannot be reviewed by the

courts. Registration on Ejar also allows the owner to expedite the execution of the URC as an enforceable act. The registration of the lease on Ejar will also allow:

- Its electronic integration with several government entities and ministries.
- Access to the Electronic Payment Service, which must be made on EJAR or SADAD.
- Access to support reports, such as the living unit maintenance report.
- Verification of the real estate broker's compliance with the regulations.

The Unified Housing Agreement (URC) is comprehensive and addresses customary tenancy obligations, such as paying rent and utilities, delineates each party's responsibility for maintenance, imposes restrictions on the tenant's use and any modifications, and sets out the tenant's performance obligations at the end of the term. It may include additional clauses negotiated between the landlord and tenant.