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A Comparative Analysis of Affordable Housing in Saudi Arabia

By

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Outline of Presentation

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- ↘ Introduction - problem statement, objective, scope of study, methodology and limitations of the study
- ↘ Inputs and players in affordable housing provision
- ↘ Housing statistics & supply mechanism in Saudi Arabia
- ↘ Definition of "Affordable" Housing
 - Developed Countries
 - Developing Countries
- ↘ Definition of affordable housing in local context
- ↘ Literature Review - Salient features of affordable housing programs in developed and developing countries
- ↘ Conclusion - Need for research of different parameters of affordable housing in the local context
- ↘ Recommendations.

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- Housing is among the basic human necessities
- General characteristics of housing include average monthly housing costs (rent, taxes, utilities), typology and condition of the housing units.
- These influence housing location, standards and 'affordability'
- A base definition of affordability can be stated as the ability of a household to purchase a home based on median monthly income.
- This ability implies that other essential living costs are not affected due to the expenditure on housing.

- Basic parameters of housing affordability include:
 - Land
 - Labor and Material Costs
 - Zoning Ordinances and Land Use Policies
 - Development and Construction Fees
 - Building Codes and Standards
 - Taxes and Finance
 - Community Participation.
- This study will be limited to comparison of housing cost to **household income** - this means a concentration on housing finance institutions and mechanisms.
- Relevance: the current situation of housing provision and the sense of impending housing crisis calls for a look at housing affordability in Saudi Arabia very Seriously .

↘ objective of the study:

to define affordability of housing in the local context with emphasis on housing ownership and arrive at directions for future research.

↘ methodology and limitations of the study:

use available statistics to define affordability.

review literature to identify definitions, policies and implementation strategies in vogue globally.

To arrive at guidelines from case-studies.

↘ significance and application of the study:

literature on the subject is sparse in the local context and there is a need to bridge the gap between global knowledge and local application.

the study is limited to housing finance other parameters also need an in-depth analysis.

↘ history:

a conscious housing policy in KSA evolved in the 1970's. the oil boom prompted public spending and infusion of enormous funds into infrastructure building and financing for constructing homes.

↘ principal players and functions:

government – real estate, construction, finance
private sector – construction, furnishing and finance
citizens - construction.

↘ urban areas:

faced a huge influx due to rapid development and urbanization reached levels of up to 80% in a span of three decades – a huge demand for middle and low-income housing arose.

Principal Housing Typologies & Financers

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- ↳ Detached Villas – most popular among affluent classes funded by REDF loans or Savings.
- ↳ Traditional attached houses – not very popular due to changing demographic structure and life styles – funded by mostly collective family savings.
- ↳ Apartments – built by government, real estate developers
Funded by government or private sector speculators.
- ↳ Housing Compounds – mostly private owned and catering to expatriates.
Funded by Pvt. Firms or ministries.

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Affordable Housing Concepts

- **Affordable Housing: Housing costs equal to or less that 30% of household income.**
- • **Example: \$18,000 annual income = \$1,500 monthly income.**
- **Affordable housing is \$450 or less/month.**
- • **Minimum wage is \$5.15/hr (\$10,712/yr): That makes**
- **Affordable housing is \$268/mo or less.**
- **Assume that the Fair Market Rent for a 2-bedroom apartment is \$730/month. At \$5.15/hour, you need to work**
- **109 hours per week or earn minimum of \$13.98/hour for 40 hour week for 2-bedroom apartment to be affordable.**

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Area Median Income

- The Department of Housing & Urban development computes and publishes the “Area Median Income” (AMI) for all parts of the US.
- HUD Household
- Income categories Household incomes
- Very-low income Less than 50% AMI
- Low income Less than 80% AMI
- Moderate income Less than 120% AMI

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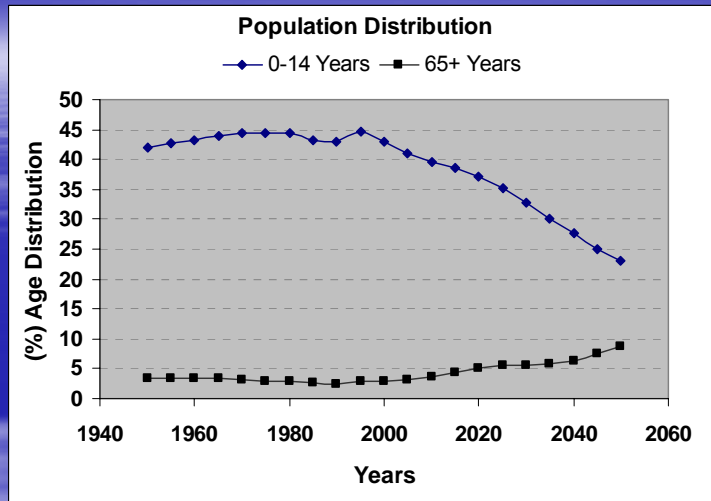
Housing Determinants

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Demographics and Housing Statistics

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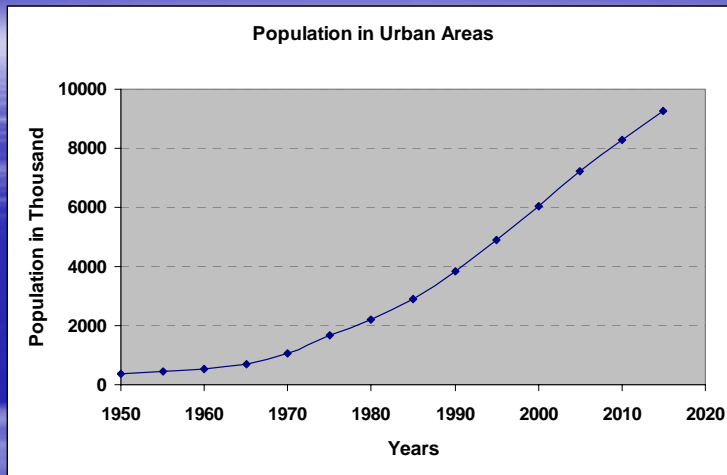


The increasing percentage of young population

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Demographics and Housing Statistics

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Urbanization is currently around 80% and increasing

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Demographics and Housing Statistics

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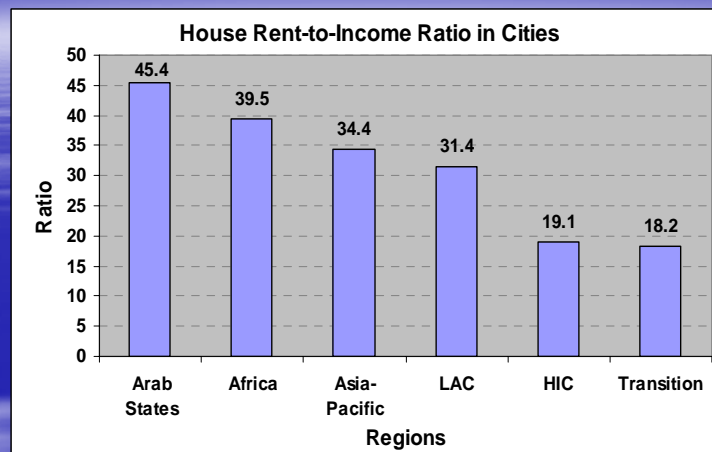
Executing Agency	Constructed during the Sixth Development Plan	Cumulative Stock up to End of Sixth Development Plan (No of Units)	Structure of Stock (Percent)
Government Housing:			
- Ministry of Public Works & Housing	-	24540	0.8%
- Government Agencies (for employees)	-	221000	7.1%
Sub-Total	-	245540	7.9%
Private Sector:			
REDF Finance	33,300	573,000	18.3%
Self Finance	250,000	2,308,000	73.8%
Sub-Total	283,300	2,881,000	92.1%
Total	283,300	3,126,540	100.0%

Public sector share of the housing market is very small

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Demographics and Housing Statistics

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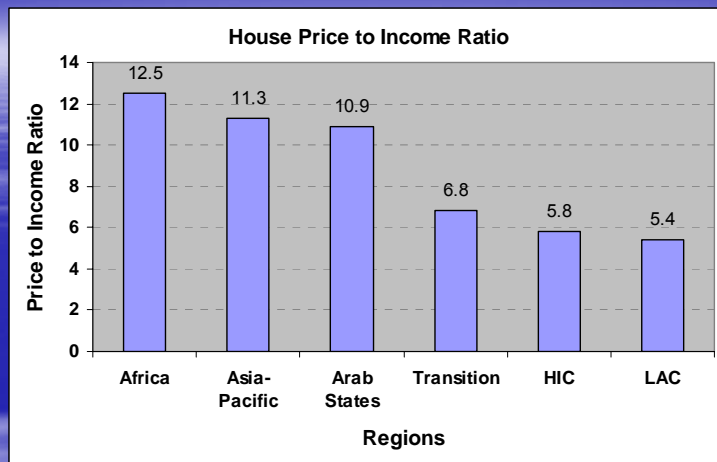


Arab states have the highest Rent- Income Ratio

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Demographics and Housing Statistics

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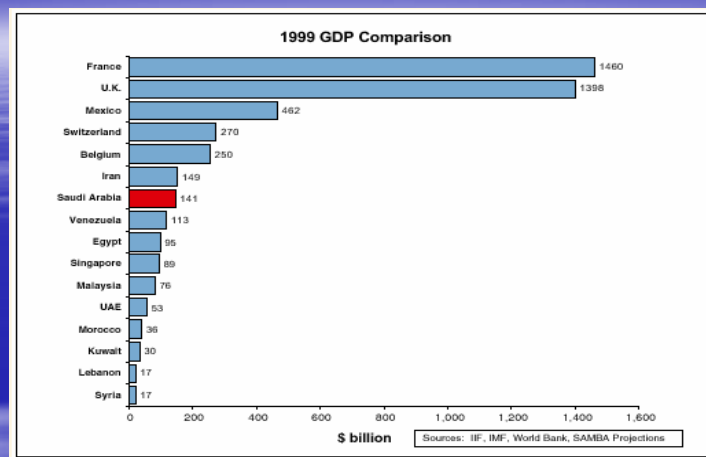


The cost of a house is about 10 years of cumulative earnings for a 7000SR median household income family

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Demographics and Housing statistics

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The comparison of GDP gives an idea of living standards in comparison to developed and developing countries. Helps in the comparison of definitions of housing affordability.

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Definition of Affordable Housing

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↳ In Developed Countries -

It is generally accepted that it means "housing that can be purchased by families earning between 30% and 80% of the community's median income".

↳ In Developing Countries -

Due to the relatively low per capita incomes " it is generally means "housing that is provided for the lower middle and low-income groups who need assistance or supplements to fulfill housing needs".

↳ In Saudi Arabia -

The statistics and costs of housing acquisition show that vast majority of households that have an average median monthly income of about 7000SAR or less, have to spend much more than 30% of income for housing acquisition, hence liable for assistance.

EXTENSIVE MARKET RESEARCH IS NEEDED TO ASCERTAIN ACTUAL COSTS AND FIX AFFORDABILITY BRACKETS.

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Principal Housing finance providers in KSA

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↳ Middle & Low-income households were provided assistance through -

Free land grant program and
REDF Loans.
High rise public housing.
Housing by charitable institutions

↳ Ministries - Various ministries have provided either Housing or loans to their employees. Universities.

↳ the private sector -

Developers, independently or with assistance from government.
Joint stock companies
Institutions like ARAMCO, SCECO, Saudi Real-Estate Company.
Informal financing and individual savings.

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Inputs to Housing Affordability - shortcomings in KSA

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- ↘ Land supply - Policies fall short at provision of land for affordable housing.
lack of measures to optimize services, as it is a major contribution to cost.
- ↘ Labor & Standards - Indigenous labor and technologies are limited to the small proportion of professional labor.
lack of codes and standards is also adding to the costs of housing construction.
municipalities play a limited role.
- ↘ Building Materials - Construction material affordability and quality is not addressed, this is an area to encourage private sector participation.
- ↘ Services - Policies and laws governing services do not recognize the aspect of sustainability and adversely affect housing affordability.

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Inputs to Housing Affordability - shortcomings in KSA

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- ↘ Finance -
 1. Cost of even a modest house represents the accumulated savings of median households for over 20 years.
 2. The public sector caters to a very small portion of the affordable housing requirement.
 3. The private sector finances over 90% of the housing but has no specific mechanisms to address the issue of housing affordability.
 4. The presence of extensive infrastructure and facilities is not utilized to address the issue.
 5. There is a lack of discussion and literature on the issue of affordability of housing in Saudi Arabia.

EACH OF THE ABOVE MENTIONED INPUTS TO HOUSING AFFORDABILITY NEED TO EXTENSIVELY RESEARCHED IN THE LIGHT OF GLOBAL DEVELOPMENTS.

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- The affordable housing financial institutions in developed countries are quite complex and involve,
 1. Private Developers,
 2. Local Governments and
 3. Central Government Agencies.
- Levels of equity participation, amounts of lending, risks involved in investment for all parties, are all spelled out as policies.
- Well established institutions help easy implementation of policies.
- Most countries are concentrating on fine tuning their mechanisms to suit financial market trends.
- Several approaches are being tried to improve housing affordability.

- some of the notable approaches and innovations are -
 1. Lowering risk for lending institutions through insurance or guarantees or lowering of down payment by granting of higher loans.
 2. Involving all levels of government through taxation subsidies.
 3. Community based non-profit organizations are being organized at local levels to assist in affordable housing provision.
 4. The main ingredients of land finance and management expertise are pooled together by voluntary organizations through creating a nexus between government, private and non-profit players.
 5. Tax-credits to developers in return for provision of affordable housing units.

Findings of case studies - Developed countries

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6. Conversion of unused buildings and refurbishment of dilapidated units to increase the supply of affordable housing units in city centers and historic cores.
7. Distribution of sites for affordable housing to facilitate integration with society and maintain the market value.
8. A strong political will is essential to enforce policies and bring together government and private sectors.
9. At the grass-roots societies with a co-operative outlook can help organize loans, build housing units and foster savings.
10. Certain autonomy to local governments to deal effectively with regional peculiarities and players.
11. Planning tools like land-use can be effectively employed to include affordable housing in new developments.

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Findings of case studies - Developing countries

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- The urbanization of developing countries from about 18% in the 50's to more than 50% in 2000 has put immense pressure on the supply of housing.
- In the absence of good infrastructure and rudimentary formal sector mechanisms, the largest segment of society comprising the mid and low-income households depend on incremental housing market which is more informal.
- The formal sector caters to a small segment of upper middle class and public sector employees.
- Some experiments in the informal sector are notable for their success even in the absence of government support.
- Housing non-affordability is mainly due to bureaucratic hurdles, antiquated planning norms, lack of access to easy credit, technology, materials and information.

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- adaptations to conditions of insecurity and development of the informal sector have lessons for the provision of affordable housing.
 1. In the backdrop of the huge housing demand and unemployment integrated approach to housing and employment has emerged as a viable solution.
 2. The effectiveness of the informal sector in affordability is due to, choice of sites for settlements, selective speculation by developers to offset infrastructure costs and curbing speculation by compelling immediate occupancy
 3. Informal sector strikes a balance in the trade of between housing quality and price. This lack of flexibility in the formal sector is a major hurdle in housing affordability
 4. The idea of Mutual Self-Help groups with revolving funds and help with expertise for a community helps in increasing affordability and foster savings.

- Saudi Arabia in the past few decades has built good infrastructure and developed public sector agencies. Many of the features of affordable housing finance observed from case-studies can be effectively introduced due to this elaborate infrastructure and strong social network.
 1. In the backdrop of the huge housing demand and unemployment integrated approach to housing and employment can be explored.
 2. Some features from the informal sector for housing affordability like, choice of sites for settlements, selective speculation by developers to offset infrastructure costs and curbing speculation by compelling immediate occupancy can be adopted as guidelines for policies.
 3. Informal sector strikes a balance in the trade of between housing quality and price. This lack of flexibility in the formal sector is a major hurdle in housing affordability

4. Concepts of mutual self help can be explored even if at an experimental scale to ascertain suitability.
 5. Effective management of resources and interaction between different players in the housing sector implies a certain amount of autonomy to local bodies at the level of the municipalities.
 6. In the formal sector many of the approaches like insurance cover for mortgages, employing land-use tools for ensuring affordable housing provision are potentially practical.
 7. Non-government organizations can help at grass-roots level implementation of strategies.
- Saudi Arabia in the past few decades has built good infrastructure and developed public sector agencies. Many of the features of affordable housing finance observed from case-studies can be effectively introduced due to this elaborate infrastructure and strong social network.

End-note

We have attempted to identify the parameters that affect housing affordability and identify the bracket needing housing assistance.

Further research is necessary to give an in-depth analysis of each of the inputs and players role in “housing affordability” in the context of Saudi Arabia.