

Saudi Arabia's Vision 2030:
Reasons for it. What is it?
What are the Hoped for Results?
A Focus on Housing.

Professor Paul Sullivan

NDU/ Georgetown/ NCUSAR

pjs57@Georgetown.edu

20 June 2017

0930-1200

Ronald Reagan Building & International Trade Center

Horizon Ballroom

1300 Pennsylvania Avenue, NW

Washington, DC 20004

Saudi Arabia has ridden the good times of oil price booms. It has also ridden the bad times when the price has collapsed.

Oil is roughly 35-45+% of the GDP of Saudi Arabia and oil revenues are about 75-90% +/- of all revenues— government and export. (These all change with oil price changes.)

Saudi Arabia's Oil-Economy Roller Coaster

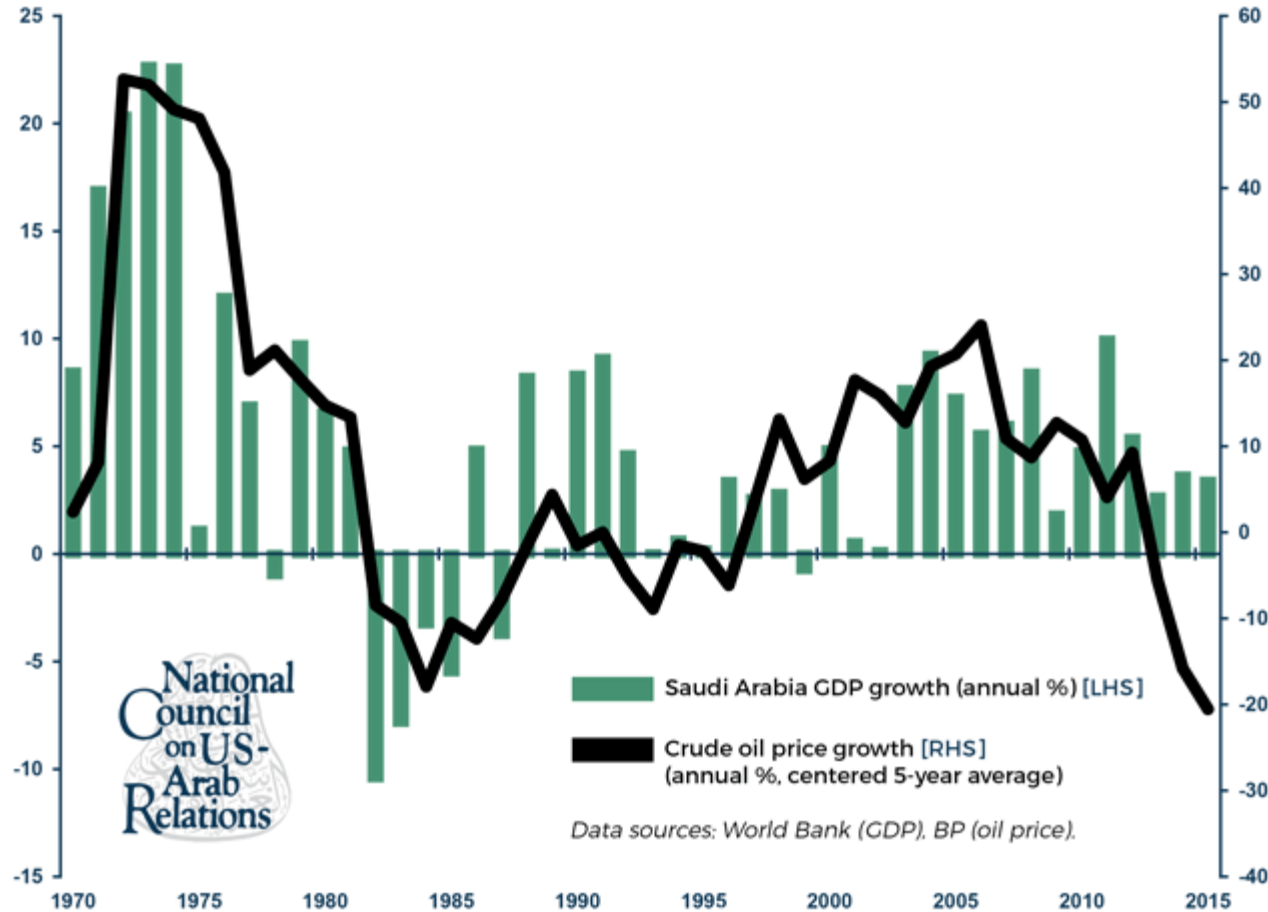
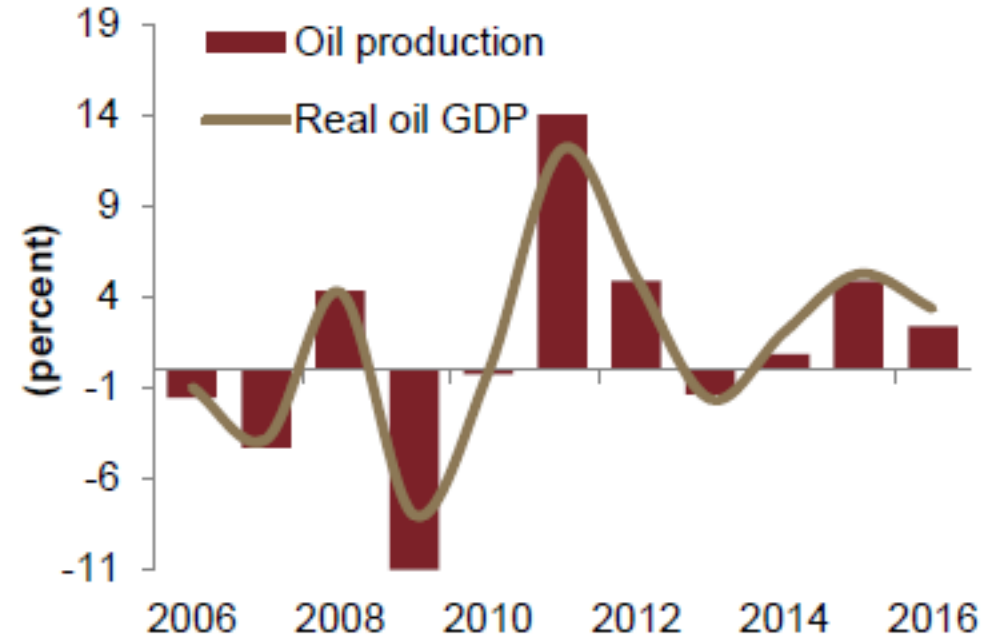


Figure 14: Oil production and oil GDP (year-on-year change)



Jadwa Investments, February 2017

Figure 12: Contribution to real GDP growth

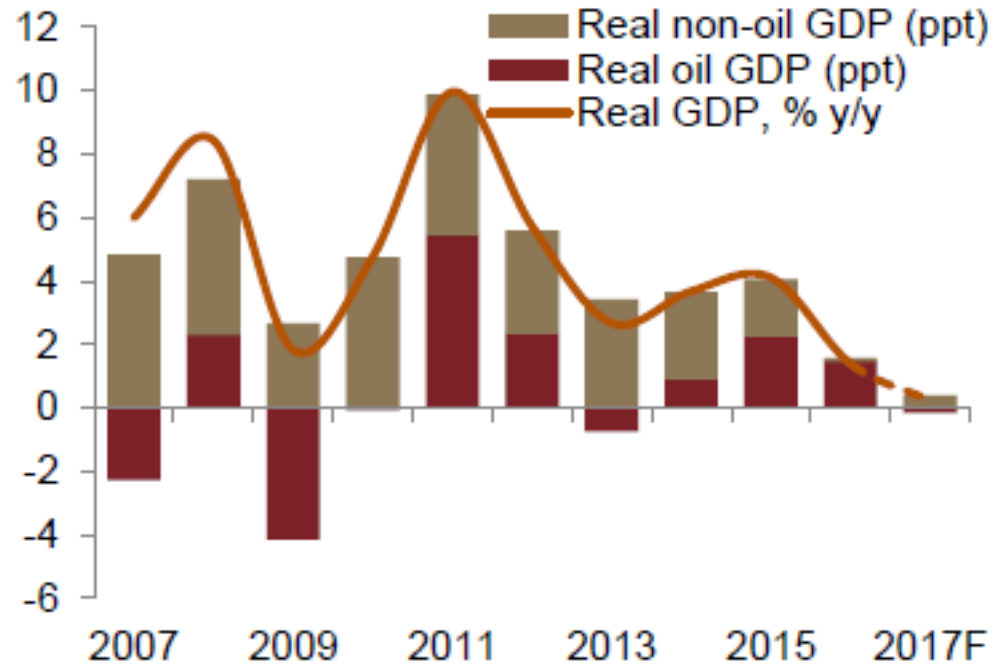


Figure 13: Contribution to non-oil GDP growth

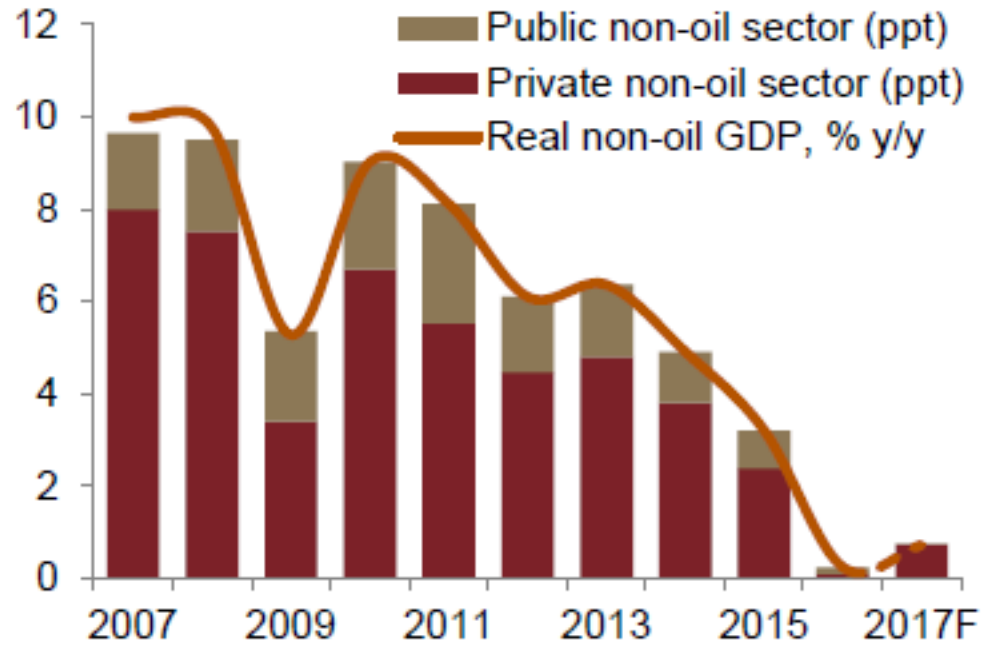
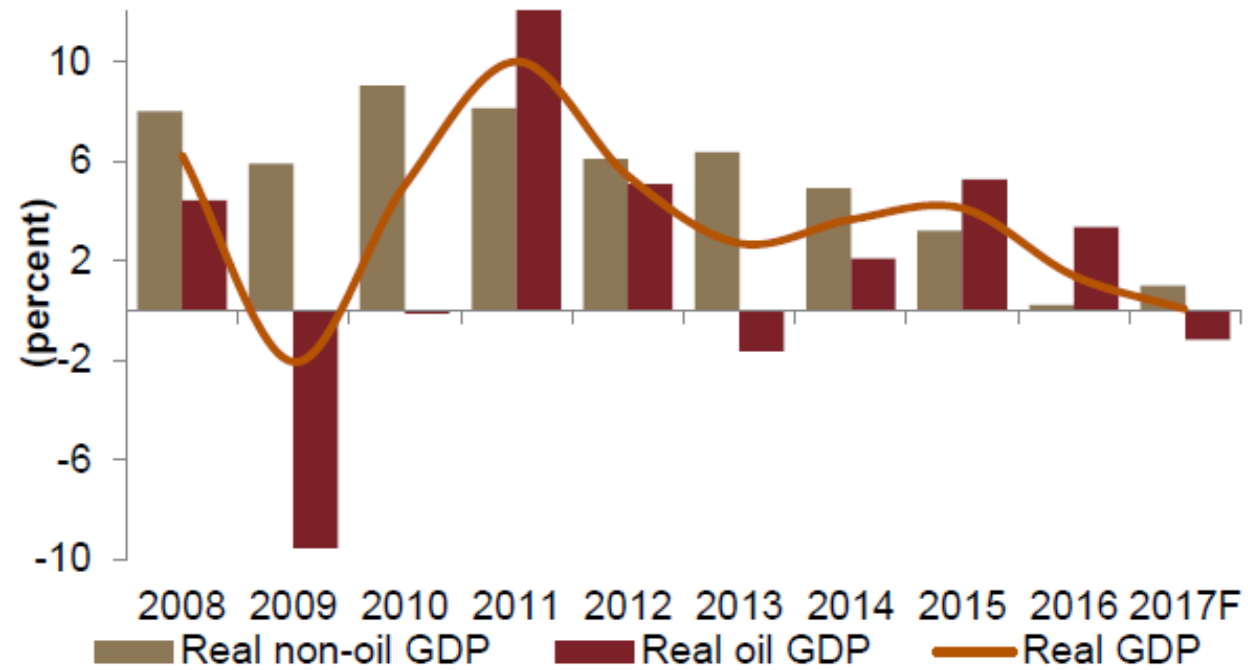


Figure 1: Saudi real GDP forecast



Jadwa Investments, February 2017

Figure 25: Fiscal balance and Saudi oil prices

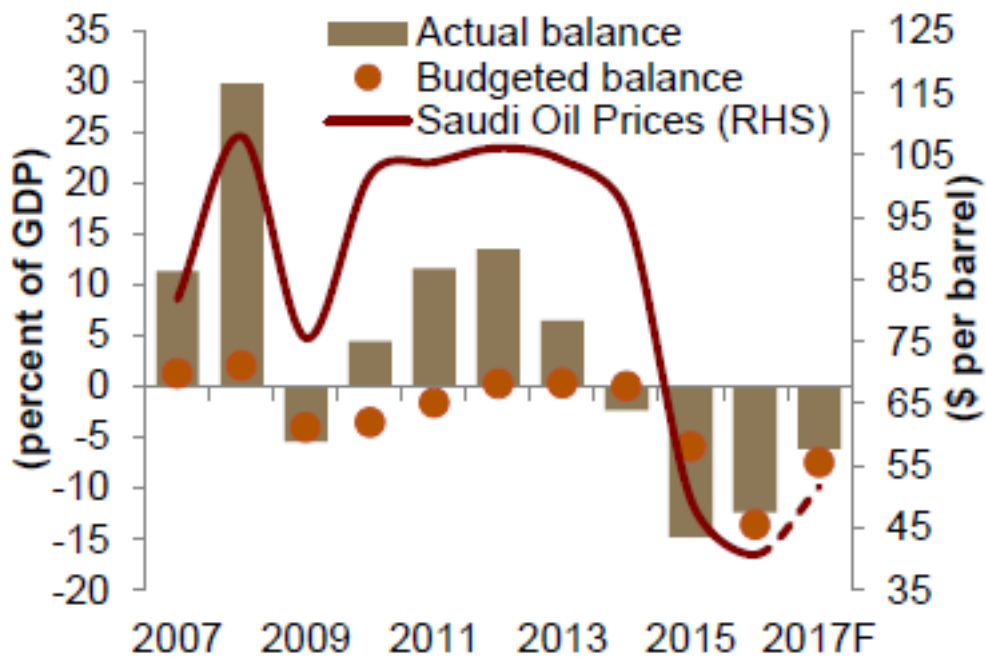
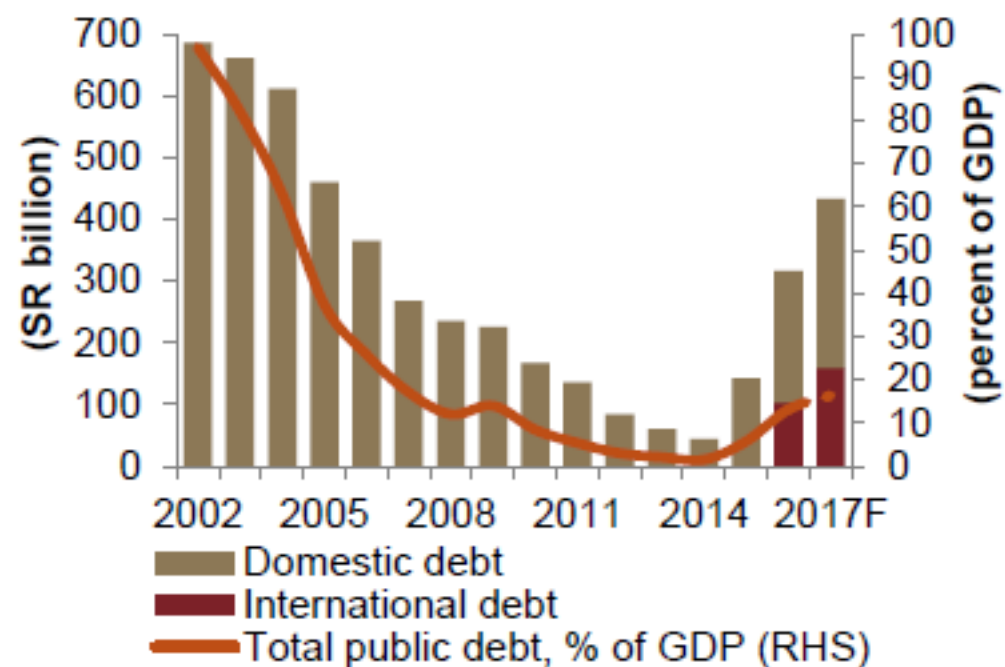


Figure 26: Gross public debt



Saudi Arabia's Fiscal Balance If No Action is Taken

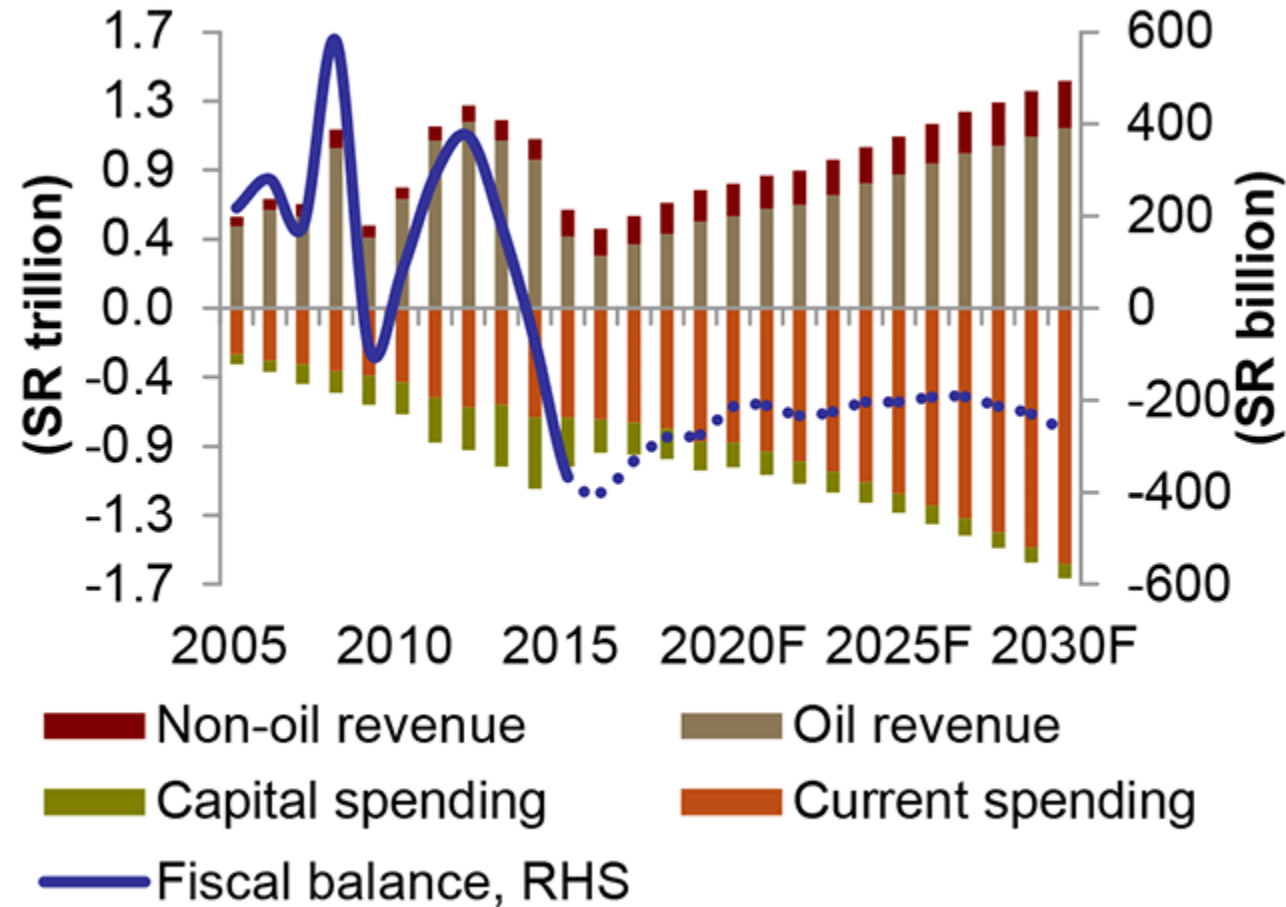


Chart from Jadwa Investment Report "Saudi Vision 2030" (May 2016).

“The pool of young women and men scheduled to enter the Kingdom’s work force in the coming years, already large, is growing. About 60% of Saudi Arabians are under the age of 30. Official unemployment for Saudi Arabians is about 12%.

Underemployment is likely much higher.”

<https://ncusar.org/aa/2016/06/can-vision-2030-get-kingdom-off-oil-economy-roller-coaster/>

“Youth unemployment (15-25 years old), however, is about 43%. For those in the 15-30 years old age bracket it could be as much as 35%. Jobs need to be created – and created quickly and smartly – that are as productive and as satisfying as possible.”

<https://ncusar.org/aa/2016/06/can-vision-2030-get-kingdom-off-oil-economy-roller-coaster/>

“The Kingdom’s leaders acknowledge that the country’s efficiency gaps, budget gaps, value-added gaps, human capital gaps, and other gaps must be addressed. They also understand how important their economy is to their national security.”

<https://ncusar.org/aa/2016/06/can-vision-2030-get-kingdom-off-oil-economy-roller-coaster/>



10 points to achieve Vision 2030



Box 4. Key Economic Targets Announced in Vision 2030 and the NTP

Economic targets

Labor markets	<ul style="list-style-type: none">• Unemployment to be reduced from 11.6 percent currently to 7 percent (9 percent by 2020).• Women's participation in workforce to be increased from 22 percent currently to 30 percent (28 percent by 2020).• Create 450,000 jobs in nongovernment sector by 2020.• Reduce civil service workforce by 20 percent by 2020.
Trade	<ul style="list-style-type: none">• Share of non-oil exports to be increased to 50 percent of total from current 16 percent.
Fiscal	<ul style="list-style-type: none">• Non-oil revenue to be increased from SR163 billion in 2015 to SR1 trillion by 2030 (SR530 billion by 2020).• Reduce wages and salaries as share of budget spending.• Achieve balanced budget.
Subsidy reform	<ul style="list-style-type: none">• Subsidies to be removed; direct cash payments to low and middle income households who rely on subsidies.
Private and SME sectors	<ul style="list-style-type: none">• Share of private sector in economy to be increased to 65 percent of GDP from 40 percent currently; SME sector contribution to be raised from 20 percent of GDP to 35 percent.
FDI	<ul style="list-style-type: none">• To increase FDI share of GDP from 3.8 percent to 5.7 percent of GDP.

Sector objectives/targets

Tourism	<ul style="list-style-type: none">• Liberalizing tourist visa regime.• Plans to build world's biggest Islamic museum alongside other heritage sites• Increase number of Umrah pilgrims from abroad from 6 to 30 million per year (15 million by 2020).
Healthcare	<ul style="list-style-type: none">• Plans to increase private sector role in healthcare and increase average life expectancy from 74 to 80 years.
Oil and gas	<ul style="list-style-type: none">• Increase share of domestically owned (localized) oil and gas sector output from 40 percent to 75 percent.
Housing	<ul style="list-style-type: none">• Focus on affordable housing and boost home ownership from 47 percent to 52 percent by 2020.
Military	<ul style="list-style-type: none">• Military industry holding company to be created. Boost local participation in defense production.
Education	<ul style="list-style-type: none">• Curriculum modernization; greater focus on training teachers and measuring performance.

<http://www.imf.org/en/Publications/CR/Issues/2016/12/31/Saudi-Arabia-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Informational-Annex-44328>

Productivity

- To move into top-10 position on Global Competitiveness Index (25th currently).
- Raise ranking in Global Logistics Performance Index from 49th place currently to 25th.
- Raise ranking within Government Effectiveness Index from 80th currently to 20th.

Immigration policy

- Green card-like program for foreign workers within five years.
- Visa exemption for expats working in King Abdullah business district.

Aramco

- IPO of up to 5 percent equity stake; dual listing likely. Government estimates value of Aramco at over \$2 trillion.

Public Investment Fund (PIF)

- SWF to be created to diversify away from oil. PIF assets to be increased from SR600 billion currently to SR7 trillion by 2030.

All targets are for 2030, unless otherwise stated.

Source: Vision 2030 and National Transformation Program.

<http://www.imf.org/en/Publications/CR/Issues/2016/12/31/Saudi-Arabia-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Informational-Annex-44328>

A Focus on Housing



<https://www.riyadbank.com/en/personal-banking/home-loan/subsidized-home-finance#success>

“The shortage of housing in Saudi Arabia is a social and a security issue.”

<https://intpolicydigest.org/2017/06/09/saudi-housing-requirements-strong-secure-future/>

“Saudi Arabia has a waiting list for 1.5 million housing units over the next five years and plans to deliver one million units to satisfy demand and backlog.”

<https://intpolicydigest.org/2017/06/09/saudi-housing-requirements-strong-secure-future/>

Many Saudis have turned to renting instead of buying in recent years. Home ownership has dropped from 62% in 2007 to 47% in 2016.

(Some say it may be as low as 30%)

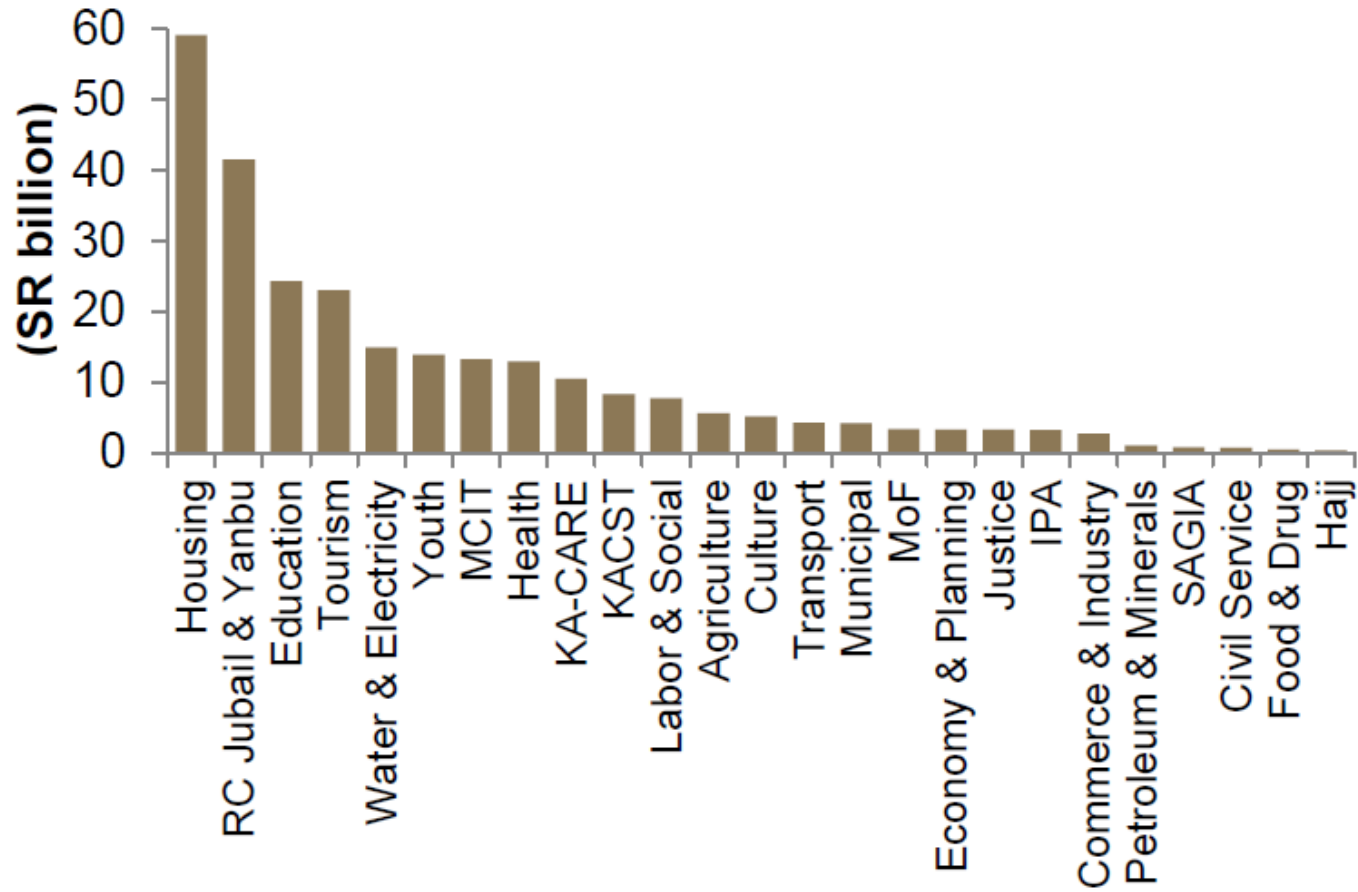
Strategic Objectives of Vision 2030

Strategic Objectives of Vision 2030	Challenges	Strategic Objectives	Key Performance Indicators	Baseline	2020 Target	Benchmark	
						Regional Benchmark	International Benchmark
Enable Citizens to obtain a suitable residence Equip individuals with financial planning tools	Difficulty of obtaining suitable housing funding financing	Enable citizens to obtain suitable housing financing	Percentage of Saudi families owning homes	47%	52%	48%	64%
			Percentage of real estate financing to gross non-oil national product	8%	15%	16%	75%
			Percentage of families who obtained housing subsidy out of the total enrolled families in ownership tracks.	0%	40%	N/A	
			Percentage of families who obtained housing support to qualify them to obtain housing financing.	0%	60%	N/A	
			Average waiting period to obtain housing financing.	15 years	5 years	N/A	

An illustrative example highlighting the various stages of development; from Strategic Objectives of Vision 2030, to Challenges to 2020 Targets.

http://vision2030.gov.sa/sites/default/files/NTP_En.pdf

Figure 6: Ministry of Housing allocated largest amount of funds under the NTP



“In November 2014 a new mortgage law was introduced for loans covering residential real estate transactions in the Kingdom. This imposed a 70% loan-to-value (LTV) rule on residential mortgages.”

<https://www.oxfordbusinessgroup.com/analysis/finance-options-2014-mortgage-law-aims-curb-lending-new-initiatives-help-saudis-get-property-ladder>

[The reasons for this were directly related to financial stability of the Kingdom and the risks from housing loans.]

“Under the 2014 mortgage law, the down payment on a property of that value is SR135,000 (\$36,000), the equivalent of seven months’ salary for wealthier middle-income families, and around 23 months for those at the lower end of the band.”

<https://www.oxfordbusinessgroup.com/overview/fine-tuning-regulations-aim-sustain-growth-while-preserving-stability>

Bad timing as the oil prices fell in 2014.....

“The government has created a vehicle through which Saudi citizens can access finance to cover the 30% deposit required for new homes. The Real Estate Development Fund (REDF), the most significant specialized credit institution (SCI) in Saudi Arabia, was established to provide loans for citizens wishing to buy property.”

<https://www.oxfordbusinessgroup.com/analysis/finance-options-2014-mortgage-law-aims-curb-lending-new-initiatives-help-saudis-get-property-ladder>

“In 2014 the ESKAN fund was created to work with the private sector to facilitate the process of providing good-quality **affordable homes for Saudi families, and by 2015 work had commenced on two major affordable housing schemes, one by the airport in Riyadh and the other at Salman Bay near Jeddah.”**

<https://www.oxfordbusinessgroup.com/overview/fine-tuning-regulations-aim-sustain-growth-while-preserving-stability>

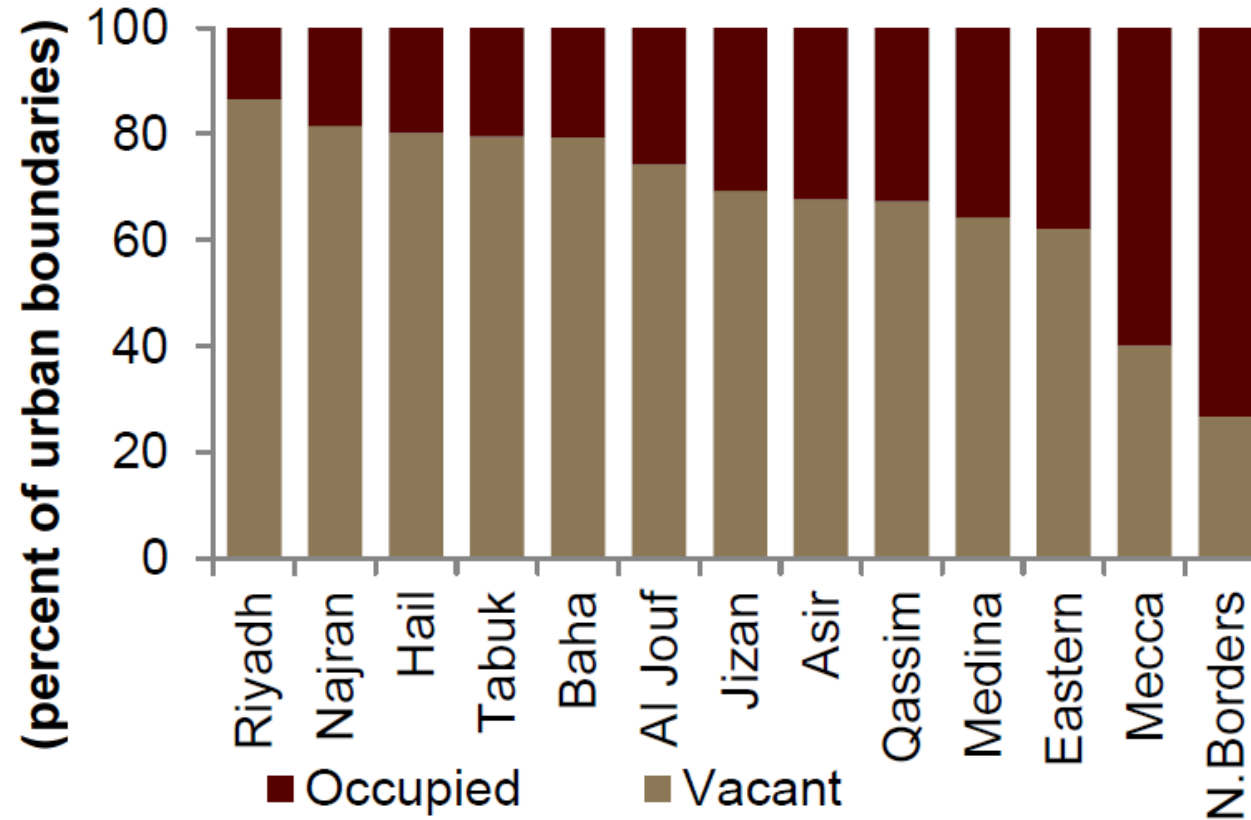
“In October 2015 the SR183bn (\$48.8bn) Saudi Real Estate Development Fund (REDF) announced it would be converting into a bank so that it could offer a broader range of services to enable Saudi families to buy affordable properties.....

After the process of converting to a bank is completed, the REDF will work with the private sector to offer a broader range of home loans and mortgages on existing properties.”

<https://www.oxfordbusinessgroup.com/overview/fine-tuning-regulations-aim-sustain-growth-while-preserving-stability>

There is a lot of vacant, unused land held for wealth, that could be used to help solve the housing shortages and the development of affordable housing.

Figure 8: Breakdown of land plots by region in 2015 (percent of urban boundaries)



White Land Tax

Box 2: Tax on undeveloped land

A broad pick-up in real estate development activity is expected with the imposition of fees on undeveloped land plots. We think this will intensify from 2017 onwards, as a deadline to tax undeveloped land plots looms. The increased availability of land will allow more affordable access to plots, which should lead to a rise in land transactions and contribute to lifting the value added generated by real estate services. This should ultimately lead to higher growth in ownership of dwellings. Currently, the supply of undeveloped land plots is substantial, covering 67 percent of the Kingdom's urban boundaries in 2015. This presents a significant opportunity in real estate development since these empty land plots constitute more than 50 percent of urban boundaries in most of the regions, including Riyadh and the Eastern Province, two regions with large populations and dynamic economic activity (Figure 8).

REITS in Saudi Arabia: New with Great Potential

“[In November 2016] the **Capital Market Authority (CMA)** approved a set of rules **allowing the formation of Real Estate Investment Traded Funds (REITs) on the Saudi Stock Exchange (Tadawul).**”

Jadwa Investments, December 2016

“Besides diversifying the investment offering available within the Kingdom, REITs will also give investors much easier access to local real estate. This should bring about increased participation from the private sector which, in turn, will help stimulate the development of vacant land and raise the real estate sector’s contribution in overall GDP, a key target of the NTP. Overall, we believe the introduction of REITs in the Kingdom will not only help confer benefits to capital markets, but also to the wider economy as well.”

Jadwa Investments
December 2016

What role can foreign companies play in closing the current gap in the Kingdom's housing market?

“AL HOGAIL: From the demand side, the door could be open for international mortgage houses to penetrate the Saudi market through partnerships with the government and the private sector. The mortgage market is today worth SR116bn (\$30.9bn) and the target is to reach SR250bn-300bn (\$66.6bn-\$80bn) in the coming five years. This cannot be achieved without the activation of a secondary mortgage market.

<https://www.oxfordbusinessgroup.com/interview/right-home-obg-talks-majed-al-hogail-minister-housing>

“[Al Hogail]: The initial market assessment revealed that there is a significant role for foreign companies in the housing market from the supply side as well. Thus, there is a strategic initiative to improve the investment environment in the housing sector to attract foreign companies. The ministry aims to have foreign companies contribute on the supply side by investing in the housing market and promoting knowledge transfer. The ministry is also coordinating with the Capital Market Authority on the introduction of real estate investment trusts. Initial estimates project that foreign companies could provide 30-40% of supplied units within the next five years. The ministry is therefore working with the relevant government agencies to help foreign investors obtain the required licenses.”

<https://www.oxfordbusinessgroup.com/interview/right-home-obg-talks-majed-al-hogail-minister-housing>

Al Hogail: “They [foreign investors] could play a role by **buying bonds and sukuk (Islamic bonds)**. Moreover, they could play a major role in **refinancing companies**. There are also potential opportunities for **mortgage guarantee companies and private sector insurance**. Private sector players from the mortgage markets of advanced economies could use their experience and know-how to **play an advisory role in setting up the secondary mortgage market here in Saudi Arabia**. Furthermore, through the National Transformation Programme, the ministry will be providing SR20bn (\$5.3bn) to financing applicants to enhance their purchasing power.”

<https://www.oxfordbusinessgroup.com/interview/right-home-obg-talks-majed-al-hogail-minister-housing>

Backup Slides

Table 2. Residential real estate targets in the NTP

		Strategic objective
Time		Reducing the approval and licensing process of new residential real estate development projects from 730 days to 60 days.
Cost		Halving the housing unit cost multiples of gross individual annual income from 10 times to 5 times.
Access to finance	Homeownership rise	Enabling citizens to obtain suitable housing financing in order to facilitate a rise in Saudi home ownership ratio from 47 percent in 2015 to 52 percent by 2020.
	Increased financing	Increasing the share of residential real estate financing from 8 percent of non-oil GDP to 15 percent by 2020.
	Mortgage collateral	Provision of mortgage collateral for certain segments not likely to get loans because of the associated risks (such as private sector employees working in SMEs).
Affordability		House buyers and savings programs with a total cost of SR22.9 billion (38 percent of the total budget for the Ministry of Housing).
Availability		Encouraging the development of government land plots, introducing cooperative housing, imposing land fees on undeveloped land and involving large private land owners in developing residential units.

Ministry of Housing

Strategic Objective (1)		Improve performance of the real estate sector and increase its contribution to the GDP			
Relevant Vision 2030 Objectives		Enable citizens to obtain a suitable residence Create an attractive environment for both local and international investors and enhance their confidence in our economy			
Key Performance Indicators	Baseline	2020 Target	Unit	Regional Benchmark	International Benchmark
Percentage of real estate sector contribution to the GDP	5	10	Percentage (%)	13	20
Annual growth rate in the real estate sector	4	7	Percentage (%)	6	11
Average time required to approve and license new residential real estate development projects	730	60	Day / Permit	44	26

Strategic Objective (2)		Stimulating the real estate supply and raising productivity to provide residential products with appropriate price and quality			
Relevant Vision 2030 Objectives		Enable citizens to obtain a suitable residence Create an attractive environment for both local and international investors and enhance their confidence in our economy			
Key Performance Indicators	Baseline	2020 Target	Unit	Regional Benchmark	International Benchmark
Housing unit cost multiples of gross individual annual income	10	5	Multiple	6.7	3
Percentage of residential units developed by approved real estate developers	10	30	Percentage (%)	Not Applicable	
Percentage of available housing units (new and unoccupied) to total number of subsidy-eligible citizens	10	50	Percentage (%)	Not Applicable	

http://vision2030.gov.sa/sites/default/files/NTP_En.pdf

Strategic Objective (3)		Enabling citizens to obtain suitable housing financing			
Relevant Vision 2030 Objectives		Enable citizens to obtain a suitable residence Equip individuals with financial planning tools			
Key Performance Indicators	Baseline	2020 Target	Unit	Regional Benchmark	International Benchmark
Percentage of Saudi families owning homes	47	52	Percentage (%)	48	64
Percentage of real estate financing to non-oil GDP	8	15	Percentage (%)	16	75
Percentage of families who obtained housing subsidy out of the total enrolled families in ownership tracks.	0	40	Percentage (%)	Not Applicable	
Percentage of families who obtained housing support to qualify them to obtain housing financing.	0	60	Percentage (%)	Not Applicable	
Average waiting period to obtain housing financing.	15	5	Year / Financing	Not Applicable	

http://vision2030.gov.sa/sites/default/files/NTP_En.pdf

Ministry of Housing		59,166,660
1	Devising appropriate solutions to utilize unused or non-productive government-owned land through a land exchange process to help the Ministry of Housing develop and provide affordable housing units.	-
2	Loan collateral: Mortgage (aside from the down payment), provided to private sector employees working in SMEs unaccredited by banks. Currently, this segment is not granted any loans because of the associated risks. This initiative will provide mortgage financing for that segment	2,811,000
3	Involving large private land owners in the process of developing residential units (such as family companies) to achieve housing goals and generate financial returns for land owners.	1,800,000
4	Issuing bonds (Sokok) for re-securitization of cash flow to the Real Estate Development Fund.	290,000
5	Cooperative Housing: Utilizing community ties and collective purchasing power to enable housing cooperatives development and build houses at low costs compared to market prices.	1,296,500
6	Developing savings programs to help housing applicants save for a part of the cost of owning a convenient house.	20,050,000
7	Developing a program to review, approve and monitor off-plan sales projects.	33,980
8	Stimulating innovative industrial solutions (in cooperation with King Abdul Aziz City for Science and Technology and the Ministry of Municipal and Rural Affairs to develop building codes, and international housing technical service providers) to improve energy efficiency and waste management.	90,000

Numbers in Thousands		
No.	Initiatives	The total cost of initiative for five fiscal years from 1437/1438 to 1441/1442, which will be borne by the government (numbers does not include the contribution of the private sector in the initiative costs)
9	Motivating private sector developers through issuing fast-track permits (in collaboration with the Ministry of Municipal and Rural Affairs) and providing the necessary funding (in collaboration with private banks and the Saudi Arabian Monetary Agency (SAMA), in order to develop affordable housing projects on privately owned lands and reduce capital expenditure incurred by the government.	18,000,000
10	Converting the Real Estate Development Fund into a financial institution to bridge the current gap in the mortgage sector. The fund shall act as the executive arm of the Ministry of Housing.	170,400
11	Boosting cooperation between the Ministry of Housing and the Ministry of Finance to facilitate access of government employees to bank housing loans .	-
12	Enabling the Ministry of Housing to found and establish power plants (traditional and alternative) for housing projects.	-
13	Urban density regulation.	20,000
14	Applying fees to undeveloped land within urban borders.	114,675

15	Ensuring centralized procurement of basic raw materials, such as rebar and cement, to reduce construction costs through achieving economies of scale to benefit developers and contractors.	90,000
16	Forging partnerships with private sector developers to utilize government land and consequently develop affordable, large-scale residential projects.	13,500,000
17	Establishing a national data center to function as an official source specialized in housing market data collection.	94,625
18	Establishing a center to facilitate private sector developers' work by linking developers to government agencies and reviewing development laws and regulations. .	60,000
19	Establishing an e-platform to facilitate real-estate rental market activities.	125,480
20	Establishing an authority to regulate real-estate business developers, financiers and other concerned parties, and implement Ministry policies. .	321,000
21	Developing an applicable framework to regulate property owners' councils and housing units division.	299,000

http://vision2030.gov.sa/sites/default/files/NTP_En.pdf

Ownership of dwellings (9 percent of non-oil GDP), is likely to contribute significantly towards private sector growth in 2017 and beyond. The announcement of the 'My House' program by the Ministry of Housing will be a major boost to this sector, as financial support will be given to 85 thousand eligible citizens as well as the handing of 75 thousand land plots in various residential areas. According to the Ministry of Housing, the program will result in the construction of 120 thousand units over three years, helping inject SR562 billion into the Saudi economy. Also, SAMA recently increased the maximum loan-to-value cap from 70 percent to 85 percent for citizens buying their first home. This will support growth in demand for housing units, thereby stimulating more residential real estate development.

Jadwa Investments, February 2017

The Council of Ministers recently announced the establishment of the General Authority for Real Estate. It will be responsible for regulating, developing, and monitoring the real estate sector for the purpose of increasing efficiency and encouraging investment. It will also take charge of achieving the NTP objective of accelerating GDP growth in ownership of dwellings from an average of 4 percent between 2014-16, to an average of 7 percent by the year 2020. In addition, the General Authority for Statistics (GaStat) recently released the real estate price index (Figure 20), showing a downward trend in activity since 2015. We expect the trend in residential real estate to reverse during 2017 as major initiatives led by both public and private entities commence.

SAUDI ARABIA

Expanding Access to Finance and Preserving Financial Stability	
As housing finance expands in the future, ensure loan soundness through strong prudential measures, notably lowering permissible loan-to-value and debt service ratios.	The loan-to-value ratio (LTV) was increased from 70 percent to 85 percent in early-2016 for residential real estate finance provided by banks and finance companies. Finance companies are subject to a cap on total financing assets at 5 times capital and reserves (which can be increased up to 7 times capital and reserves with SAMA's permission). SAMA is engaging an external consulting firm to develop responsible lending principles, including debt burden ratios.
Contract banks to manage both the existing and new Real Estate Development Fund (REDF) portfolio.	The Ministry of Housing and REDF are working closely with Saudi Banks and Real Estate Finance Companies to develop and explore various funding schemes. A number of alternative proposals are being considered.
Complement mortgage reform by establishing a housing market observatory, developing consumer guidance options, and strengthening the developer industry.	SAMA is coordinating with related government entities to facilitate collection and publication of housing market data. SAMA has issued the Consumer Protection Principles for banking and insurance, emphasizing fair treatment, honesty, and financial inclusiveness. A draft Consumer Protection Principles for finance companies is under public consultation.
Prepare long-term funding solution for mortgage finance, starting with a refinance facility.	Public Investment Fund (PIF) is in the process of establishing the Saudi Real Estate Refinance Company (fully owned by PIF and supervised by SAMA), which is expected to provide long-term funding solutions for mortgage finance.
Create a modern, electronic and unified registry for movable collateral.	Assessment of the feasibility of establishing a financial lease registry in the form of a company owned by licensed lessors has been finalized. SAMA is coordinating with the Ministry of Justice to ensure that registration certificates issued by the financial lease registry will be admissible by courts and enforceable.