PalArch's Journal of Archaeology of Egypt / Egyptology

A COMPARATIVE ANALYSIS OF THE PRICING FACTORS OF THE RESIDENTIAL PROPERTIES IN CENTRAL JEDDAH

Yusra R. Nowilaty[1], Karima Saci[2]

College Of Business, Effat University, Qasr Khuzam St., Kilo. 2, Old Mecca Road. P.O.Box 34689, Jeddah 21478, Saudi Arabia.

College Of Business, Effat University, Qasr Khuzam St., Kilo. 2, Old Mecca Road. P.O.Box 34689, Jeddah 21478, Saudi Arabia.

ABSTRACT:

The real estate business is considered to be one of the largest business areas that can play a major role in affecting the economy of the country. It can contribute in economic growth and urban development for it is the area of business where the large surplus of money is invested and circulated. One important aspect of understanding the real estate market and its nature is to understand the determinants that affect pricing the residential properties in that market. This paper aims to contribute to the research done in Saudi Arabia and the United Arab Emirates by investigating and comparing the factors that drive pricing of the residential properties in central Jeddah, Saudi Arabia and central Dubai, United Arab Emirates from a buyer's perspective. Surveys were designed to collect data aiming to understand the property buyers' preferences and mentality towards buying properties. The research found that the locations and prices of the properties are the two most important factors affecting the purchase decisions of property buyers in Jeddah. Moreover, the research found that property buyers in Jeddah prefer living and buying properties in North Jeddah. Additionally, it was founded that the majority of the survey respondents preferred buying properties in Dubai and Istanbul if they were given the chance to buy a property abroad.

INTRODUCTION:

The real estate business is considered to be one of the largest business areas that can play a major role in affecting the economy of the country [1]. It can contribute in economic growth and urban development for it is the area of business where the large surplus of money is invested and circulated [2].

There are two types of real estate properties: the commercial and the residential properties [3]. Commercial properties include buildings, lands and structures intended to generate profits. Whereas residential properties are properties founded for the purpose of housing, living, and accommodation [4]. One important aspect of understanding the real estate market and its nature is to understand the determinants that affect pricing the residential properties in that market. According to May et al. [5], many academic studies took place to identify some of the factors that influence the residential property values throughout the world. For example, in a study conducted to investigate the pricing factors of the Istanbul housing market in Turkey, it was founded by Keskin [6] that many factors including living area size, security of sites, age of the building, the average income of the household and earthquake risks play a role in determining residential property values.Pricing the residential properties is considered to be a challenge to many due to the different kinds of factors involved in pricing and the lack of transparency and knowledge about the real estate market. For instance, a study conducted in Nigeria by Amietsenwu and Oyewole [7] to investigate the valuation of properties located near waste dump sites revealed that most surveyors of the study did not know about the existence of methods used to valuate environmentally contaminated properties. Moreover, the study concluded that those who valuate the properties near waste dumpsites use unsuitable methods to evaluate them, which results in over valuing the properties. This is an example to illustrate the problem of the lack of knowledge about the factors involved in pricing residential properties.Previous studies on housing prices have been reported around the world. May et al. [5] investigated some of the determinants affecting house prices in the UK using the case of residential property values in South London. A number of factors were considered in the study such as the house characteristics, health and psychological factors. Keskin [6] explored the factors affecting housing prices in Istanbul, Turkey. A hedonic price model was used to study the determinants of house prices with regards to the socio-economic characteristics, the quality of the community, the features and characteristics of the property, and site factors. Borowiecki [8] studied the Swiss housing price determinants using a vector-autoregressive model (VAR) created by the researcher to reproduce the Swiss housing economy. The study was based on major determinants of house pricing including the economy, wealth, banking, and demographic housing market variables and data observed throughout 17 years (1991 to 2007). De Vries and Faber [9] tested the creation of real estate databases and valuation of residential units in Buzau, Romania. Cebula [10] studied the determinants of house prices in the Historic Landmark District of Savannah, Georgia using a hedonic pricing model. Marco [11] considered studying the physical and demographical qualities and features of New York City's neighborhoods to understand how the residential rental prices are set. The purpose of the study was to group the factors that may affect residential rental housing prices in New York City and identify the attributes, from the group, that are involved in pricing the residential units.According Jeffreys [12], the Saudi Arabian real estate industry is showing a resilience and health that many nearby markets in the region lack. As both rental and sales prices have dropped throughout the last two years in

the region, the prices in the Kingdom have held their value. Little research was done to understand the pricing factors of the residential properties in Saudi Arabia and the United Arab Emirates, especially after the 2008 economic crisis, which majorly affected the housing prices. The pricing of the residential properties became unacceptable to many due to the unrealistic prices the individuals set in buying, selling and leasing properties. As some tend to ignore important factors while setting their prices, real estate businesses strive to compete and offer better deals to individuals.This paper aims to contribute to the research done in Saudi Arabia and the United Arab Emirates by investigating and comparing the factors that drive pricing of the residential properties in central Jeddah, Saudi Arabia and central Dubai, United Arab Emirates from a buyer's perspective.

METHODOLOGY
The methodology of this research follows the quantitative approach. It intends to design two surveys targeting potential property buyers in Jeddah and Dubai and use the results of these surveys to employ a multi variable regression analysis for the pricing factors and criteria involved in house purchasing in central Jeddah and central Dubai.There are two kinds of data used to conduct a research: the primary data and the secondary data. Two surveys were designed to collect data to understand the potential property buyers' preferences, opinions and mentality towards the pricing and valuation of residential units and properties in both central Jeddah and central Dubai. Collaboration was made with the Saudi branch of Dorchester Estates, a real estate company based in London, United Kingdom, and Skai Holdings, a real estate investment firm based in Dubai, United Arab Emirates, to send the designed surveys of Jeddah and Dubai to the potential property buyers and customers of these real estate firms to collect the survey respondents' responses. For the secondary data, collaboration was made with Dorchester Estates in Jeddah and Skai Holdings in Dubai to request a collection of data, from the companies' databases, regarding the determinants of the residential properties' prices in Jeddah and Dubai to include the data in the multi variable regression analysis. The data from Dorchester Estates and Skai Holdings were received.

RESULT AND DISCUSSION
Based on the responses of 40 participants in this survey, the results are as follows. The survey revealed that property buyers in Jeddah would consider the factors and criteria to make the purchase decision based on the following order of criteria as shown in Table 1.

Table 1: The Order of the Factors Considered When Buying a Property in Jeddah

Order	Criteria
1	Price of the property.
2	Location of the property.
3	Cleanliness of the neighborhood.
4	Property characteristics (such as design, number of floors,

	rooms, property age and date of construction, safety standards implemented in construction of property).
5	Facilities of the property (such as availability of swimming pools, gardens, security)
6	Closeness to general stores, hypermarkets, hospitals, schools, malls

Eleven of the respondents of the survey -25% of the respondents- added comments regarding other factors they would consider when buying a property in Jeddah, these factors are: a) Closeness to family and friends and the level of the social life in the neighborhood; b) The constructor and developer of the property; c) The safety of the area and age of the neighborhood; d) The level of noise and traffic in the neighborhood; e) Ethnicity of neighborhood residents; f) Availability of Septic Services; g) Proximity to work.The property buyers in Jeddah would prefer buying a property in the following districts as shown in Table 2.

Table 2: Preferred Districts for Living in Jeddah

District	Number of Responses	Percentage of Responses (%)
Tahlia Street	6	14.63
Corniche	6	14.63
Obhur (North Jeddah)	6	14.63
King Abdulaziz Road	4	9.76%
Al-Rawda District	3	7.32%
Al-Muhammadiya District	3	7.32%
Prince Sultan Road	2	4.88%
Sari Street	2	4.88%
Al-Hamra District	2	4.88%
Al-Bandar	2	4.88%
Al-Nahda District	1	2.44%
Al-Safa District	1	2.44%

In addition, the survey revealed that 31 respondents, 75.61% of the respondents would take into consideration the possible damages of the floods, which happened in Jeddah in 2009, when choosing a location to buy a property. The survey showed that the respondents chose the following cities as their preferred location for living as shown in Table 3.

**Table 3**: Preferred Cities for Living (Jeddah Survey Respondents)

City	Number of Responses	Percentage of Responses
Dubai, UAE	17	41.46%
Istanbul, Turkey	9	21.95%
London, United	3	7.5%

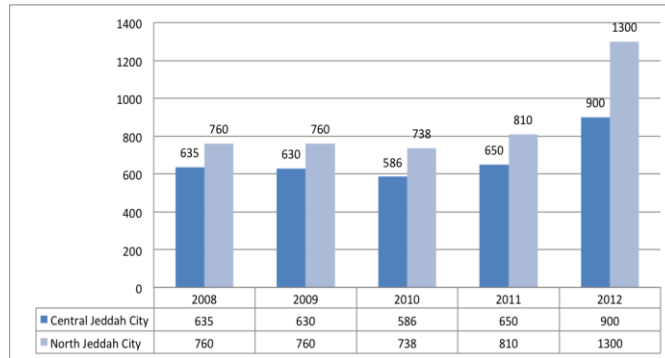| Kingdom		
Doha, Qatar	2	4.88%
Cairo, Egypt	2	4.88%
Beirut, Lebanon	1	2.44%
Dammam, Saudi Arabia	1	2.44%
Khobar, Saudi Arabia	1	2.44%
Riyadh, Saudi Arabia	1	2.44%

The meeting conducted with Dorchester Estates helped gain an insight about the real estate industry of Jeddah. The following explains the meeting results:

1) South Jeddah -Makkah Road- is no longer a highly demanded area, as people now prefer to live in the north and center of Jeddah. 2) Madina Road is one of the most important roads in Jeddah because it starts in South Jeddah, Al Balad District -also known as downtown Jeddah- and ends in north Jeddah. It is a road that connects all areas of Jeddah and has many points to allow people to access different parts of Jeddah wherever they are. 3) It is somehow common for people to refer to themselves living either east or west Madina Road -west is the coast and Corniche of Jeddah-. 4) Since the Corniche is located on the west side of Madina Road, people prefer living west Madina Road. 5) Madina Road is the first used road to reach King Abdul-Aziz International Airport in the north. 6) Jeddah keeps expanding towards the north after Madina Road. 7) Central Jeddah has the most expensive properties and the more we head north or south from central Jeddah, the less property prices become. However, this is not reflected in the dataset of residential properties' prices received from Dorchester Estates
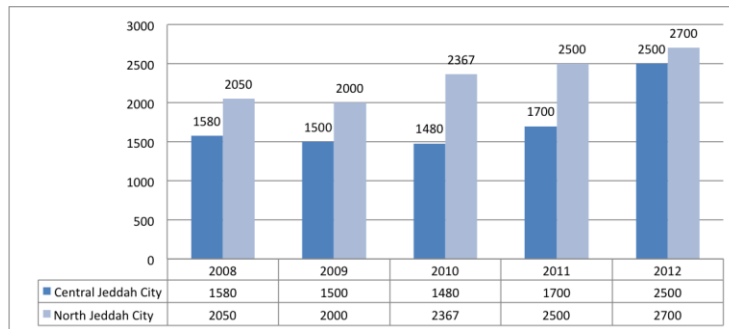
The following graphs shown in Figure 1 to Figure 4 were received from Dorchester Estates and represent all residential listing for properties for sale from 2008 to 2012 around Jeddah sold by Dorchester Estates. Based on the prices presented in the graphs, it is evident that the prices of villas and apartments in north Jeddah have always been higher, for the last 6 years, in the north than central Jeddah
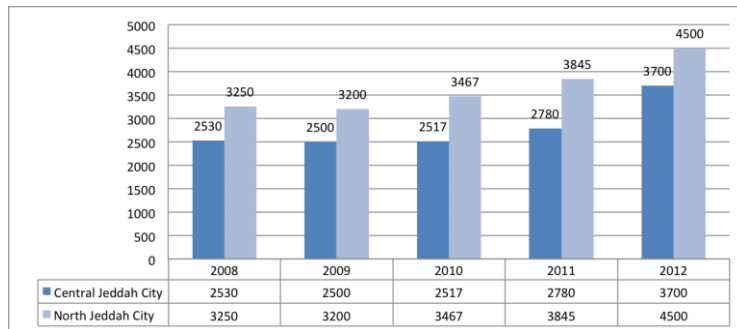

	2008	2009	2010	2011	2012
Central Jeddah City	465	460	468	500	650
North Jeddah City	610	600	577	600	800
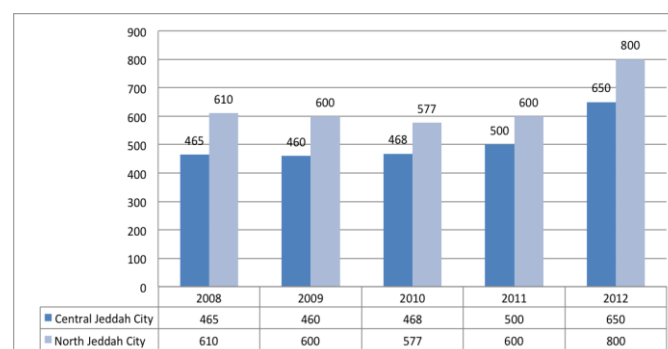
Figure 1: Average Price of Apartments for Sale (120-135 Sq. M) (in SR 000's) Source: (Dorchester Estates, 2013)

	2008	2009	2010	2011	2012
Central Jeddah City	635	630	586	650	900
North Jeddah City	760	760	738	810	1300

Figure 2: Average Price of Apartments for Sale (135-190 Sq. M) (in SR 000's) Source: (Dorchester Estates, 2013)

	2008	2009	2010	2011	2012
Central Jeddah City	1580	1500	1480	1700	2500
North Jeddah City	2050	2000	2367	2500	2700

Figure 3: Average Price of Villas for Sale (300-400 Sq. M) (in SR 000's) Source: (Dorchester Estates, 2013)

	2008	2009	2010	2011	2012
Central Jeddah City	2530	2500	2517	2780	3700
North Jeddah City	3250	3200	3467	3845	4500

Figure 4: Average Price of Villas for Sale (400-700 Sq. Mt) (in SR 000's) Source: (Dorchester Estates, 2013)

Thus overall, the main objective of this research was to design a questionnaire to collect data and conduct a multi variable regression analysis to compare the factors that drive pricing of the residential properties in central Jeddah and central Dubai. However, due to the lack of time, the unavailability of the Dubai survey results and unavailability of sufficient data from Dorchester Estates, the objective of the research is partially fulfilled based on the type of data and results found. In this condition, it cannot be stated whether the hypothesis of the research is accepted or rejected.The results of the survey of Jeddah revealed that there is a resemblance in the factors and determinants of

house prices between Jeddah and the locations covered in the studies of the literature review chapter. The results of the survey showed that the locations and prices of the properties are the two most important factors affecting the purchase decisions of property buyers. This indicates the importance of focusing on properly valuating properties and performing real estate appraisal correctly for many properties may be mispriced throughout Jeddah.The results of the survey also reflected what potential property buyers focus on when looking for properties in Jeddah; some place an emphasis on details related to location, such as the closeness to family and work, while others focus on the neighborhood features, such as the level of quietness and type of residents in the area. The focus on closeness to family may imply the level and strength of the social bonds, relations and interactions between the close and extended family members and friends in all the different societies of Jeddah, which may be different in Dubai. The focus on the neighborhood features may suggest how much property buyer places an emphasis on the environmental nature of the property. The environmental factors taken into consideration when looking for a property in Jeddah would include the level of pollution, water supplies, electricity problems and sewage systems. For this reason, one of the survey respondents suggested the availability of septic services in the neighborhood of the property. Based on these results, it is implied that there is a correlation between the factors affecting house prices in Jeddah.The districts of Jeddah continue to develop every year, specifically the northern ones. The survey revealed that Tahlia Street, the Corniche and Obhur (North Jeddah) are the three most preferred districts for living. This result supports the continuous research and observations of Dorchester Estates, which stated that the majority of property buyers do prefer buying properties and living in North Jeddah than any other area in the city. It also supports the fact that Jeddah has been expanding towards the north throughout the last decade, as stated in the meeting with Dorchester Estates, and the fact that property prices are expensive most in North Jeddah, as seen in the dataset received from Dorchester Estates.As for the preferred cities for living, the survey of Jeddah revealed that many of its respondents preferred buying a property in Dubai, if they were given the opportunity to buy a property in another city. This supports the idea that Dubai today is one of the major investment locations throughout the world. Some of the survey respondents chose Dubai above all for its internationalism, strategic location, and wide business and investment opportunities, especially in the real estate sector of the city. The second most preferred city is Istanbul, Turkey, where survey respondents believe that the country's political stability, hyper tourism, nature, weather, and investment opportunities are what make their decision optimal.Even though the research objectives were partially fulfilled and the results of the research did not cover Dubai, the results of this research would help realtors understand the property buyer's mentality towards property hunting in Jeddah.

CONCLUSION
This research investigated the factors affecting house pricing in central Jeddah and central Dubai in an effort to understand the property buyers' preferences and mentality towards property hunting. The research aimed to conduct a

multi variable regression analysis using data collected through surveys targeting potential property buyers in Jeddah and Dubai. However, due to the lack of sufficient data and results of Dubai's survey, it cannot be stated whether the research hypothesis is accepted or rejected. Based on the results of Jeddah's Survey, Dorchester Estates meeting, and the data from Dorchester Estates, the research found that the locations and prices of the properties are the two most important factors affecting the purchase decisions of property buyers. Moreover, the research found that property buyers in Jeddah prefer living and buying properties in North Jeddah. Additionally, it was founded that the majority of the survey respondents preferred buying properties in Dubai and Istanbul if they were given the chance to buy a property abroad.

ACKNOWLEDGMENTS

REFERENCES
Teece, D. J. 2010. Business models, business strategy and innovation. Long range planning, 43, 2-3, 172-194.

Osterwalder, A., and Pigneur, Y. 2010. Business model generation: a handbook for visionaries, game changers, and challengers. John Wiley & Sons.

Brueggeman, W. B., and Fisher, J. D. 2011. Real estate finance and investments. 5-6. New York, NY: McGraw-Hill Irwin.

Pivo, G., and Fisher, J. D. 2011. The walkability premium in commercial real estate investments. Real Estate Economics, 39, 2, 185-219.

May, D., Corbin, A., and Hollins, P. 2011. Identifying Determinants of Residential Property Values in South London. Review of Economic Perspectives, 11, 1, 3-11.

Keskin, B. 2008. Hedonic analysis of price in the Istanbul housing market. International Journal of Strategic Property Management, 12, 2, 125-138.

Bello, V. A., and Bello, M. O. 2009. Valuation of properties in close proximity to waste dumps sites: The Nigeria experience. International Journal of Strategic Property Management, 13, 4, 309-317.

Borowiecki, K. J. 2009. The determinants of house prices and construction: An empirical investigation of the Swiss housing economy. International Real Estate Review, 12, 3, 193-220.

de Vries, P., and Faber, R. 2009. Determinants of house prices in Romania: how to measure house prices in a new EU state. In Paper presented on ERES Conference 24th–27th June.

Cebula, R. J. 2009. The Hedonic Pricing Model Applied to the Housing Market of the City of Savannah and Its Savannah Historic Landmark District. Review of Regional Studies, 39, 1.

Marco, L. 2008. Determinants of New York City residential rental prices. Michigan journal of business, 1, 2, 61-83.

Jeffreys, A. 2012. The Report: Saudi Arabia. 2010. Oxford Business Group.

*This form below helps us to understand your paper better, so please fill in the information of all authors. The form itself will not be published.

Authors' background

Position can be chosen from: Prof. / Assoc. Prof. / Asst. Prof. / Lect. / Dr. / Ph. D Candidate / Postgraduate / Ms.				
Paper ID	Position , Full Name, Working unit & nation	Email address	Research Interests	Personal website (if any)
	Dr. Karima Saci, Effat University, Saudi Arabia	ksaci@effatuniversity.edu.sa		
	Student, Yusra R. Nowilaty, Effat University, Saudi Arabia	ynowilaty@effatuniversity.edu.sa		