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HOUSE PRICING DETERMINANTS FROM BUYERS PERSPECTIVE IN JEDDAH, SAUDI ARABIA

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ABSTRACT

This paper aimed to investigate the price/rent determinants in Jeddah, Saudi Arabia to better understand the buyer's preferences, attitude and mentality toward housing appraisal and valuation. In doing so an online survey was conducted through simple random sampling, the survey was taken by 277 people. The research aimed to conduct a regression analysis as a methodology for analyzing collected data. Major findings of this study are considering the price of property, location of property, safety standards implemented in construction of the property, property characteristics (Age, number of floors, rooms, bathrooms, design, size in M2) and cleanness and safety of neighborhood to be the most important factors effecting the decision of property buyers/tenants with price being the first factor. Other factors that influence the purchase decision which were mentioned by respondents of the survey are closeness of the property to family members and infrastructure of the district. Factors that were considered to be neutral or unimportant for property buyer/tenants were house facilities (Swimming pool, garden, security), closeness of the property to general facilities, mortgage rate and owning a green-sustainable-low energy property.

INTRODUCTION

The Saudi real estate market is considered to be an underdeveloped market, which is rapidly growing, providing huge investments opportunities for the private sector to look up to [1]. It is reported that there is a demand of 2.7 million housing units in opposite to 2.3 million supply unites, which creates a shortage of 0.4 million housing unites [2]. Taking this fact into consideration a curiosity was built to search factors influencing housing prices from buyer's

perspective. It is indeed that the results of this research will be of benefit for the landlords and investors for future reference. To have a better understanding of the Saudi real estate market it is important to understand reasons of shortage of supply in the housing market.

Many factors come into play when it comes to reasons behind the lack of supply for affordable housing in Jeddah, Saudi Arabia [3]. Saudi Arabia's population is considered to be a young population with 66.6% of the population between the age of 16 and 64 [4]. A lot of young adults will be searching for new homes to live in and start their new lives. Moreover, this young population will be reproducing and growing fast, the growth rate of the Saudi population is 2.15% [5].

Saudi Arabia's GDP per capita growth is 21,101 at 2013 with 9.2% CAGR. Rate of Urbanization for the same year is 87.5% with 2.2% CAGR [6]. These numbers indicate an increase in demand for affordable housing in the kingdom. Not only there is deficient supply for affordable housing, professional developers have been providing houses priced at over I million SAR. According to Jeddah Economic Form 2013, the Majority of the new housing supply in Jeddah will be in luxury apartments some are priced at over I million SAR/unit. These luxury apartments will not be affordable for the low-middle class population in Jeddah [7].

Many efforts were invested in searching and trying to identify factors and variables that alter prices of residential properties around the globe. Ong [8] studied the relationship between different macroeconomic variables and the housing price in Malaysia. He examined whether the increasing trend in the Malaysian housing price is related to changes in the gross domestic product (GDP), population, inflations rate, costs of construction, interest rate and real property gains tax (RPGT). Pashardes and Savva [9] investigated the impact of various macroeconomic variables on house prices in Cyprus during the period of 1988-2008. Furthermore, the two researchers examined how specific characteristics of the house affect its price. They found house prices to be particularly sensitive to changes in island's population. Guo and Wu [10] researched the factors affecting Shanghai's house prices. Researchers believe the commodity housing demand and supply determines the price of a house. The impact of factors affecting price directly affects supply and demand, and then affects the price, so demand and supply is the middle of the bridge. Tcha [11] analyzed certain aspects of the housing prices in Korea by utilizing quarterly data for 1987: Q1 - 2003: Q2. Results of the study indicated that interest rate and chonse price are important factors affecting housing price. Park, [12] explains the Chonse system as follows: "Chonse is a rental agreement where the tenant pays a lump sum deposit to the landlord in lieu of rent for two years. The entire deposit (excluding any interest earned) is returned when the household moves out at the end of the tenancy". Selim [13] analyzed determinants of housing prices in Turkey. His paper analyzed the determinants of house prices in Turkey for the whole country, the urban and rural areas. Marco [14] investigated physical and demographic characteristics of New York City neighborhoods to better understand residential rental prices in this region. Mavrodiy [15] conducted a research in Kiev, Ukraine to find

out the main determinants of real estate prices. Different macro and micro factors had influence on the real estate market.

Finally lack of available land for affordable housing construction fueled increasing high prices for housing. The percentage of land that is arable in Saudi Arabia is only 1.5% of the total land area [16]. With the absence of fees and taxation on landowners, landowners would prefer to hold on to their lands instead of turning them into affordable housing development. However, regulations on improving fees on empty lands are expected to take effect soon. Such regulations would help reduce the prices of real estate units. Appraisal of residential properties in Jeddah, Saudi Arabia does not follow clear and sustainable criteria. Real estate agencies tend to function individually each with its own appraisal guidelines, which results in property being mispriced. Therefore, this work aims to investigate the price/rental determinants of Jeddah, Saudi Arabia, to better understand buyers' preferences, attitudes and mentality towards house appraisal and valuation.

METHODOLOGY

There are two types of research quantitative research and qualitative research. To determine which type of research will be done the objective of the research should be clear and known to the researcher from the beginning. Quantitative research is used to quantify the problem of the study in a way to generate numerical data or data that can be used in statistical analysis. It is used to quantify attitudes, opinions, behaviors and other defined variables. The aim of quantitative research is to formulate facts and uncover pattern in research. Methods of data collection used in quantitative research are much more structured than qualitative and they include surveys, face-to-face interviews, telephone interviews, online polls and systematic observations. On the other hand, qualitative research is primarily exploratory research. Its main purpose is to understand underlying reasons, opinions, and motivations. It helps to develop ideas or hypotheses for potential quantitative research by providing insights into the problem; it dives deep into the research problem. Qualitative data collection methods vary between unstructured and semi-structured techniques. Common methods of qualitative research include focus groups, individual interviews and participation/observations. The methodology of this research will be under the quantitative approach.

Data Collection

Primary data in this research is collected through structured online survey. 277 people did the survey (sample size) through simple random sampling. The aim of this survey is to understand the buyer's preferences, attitude and mentality toward housing appraisal and valuation in Jeddah, Saudi Arabia. Questions in the survey intended to collect information regarding the following; which of the given areas in Jeddah (north, south, west, east and center) would the survey respondent prefer to live in; which of the given criteria would the survey respondent take into consideration when buying or renting a property; which of the given channel of payment (Cash payment, bank mortgage and government loan from the Real Estate Development Fund) would the survey respondent prefer when buying a house.

RESULT AND DISCUSSION

The aim of this research paper is to investigate the determinants of the residential property price/rent in Jeddah, Saudi Arabia through a critical review of the available literature on the subject, collecting information about buyers/tenants' preferences by an online survey and analyzing collected data by doing a regression analysis. However, the research is partially fulfilled, where a regression analysis was not done.

The results of the survey revealed that the price of property, location of property, safety standards implemented in construction of the property, property characteristics (Age, number of floors, rooms, bathrooms, design, size in M²) and cleanness and safety of neighborhood are considered to be the most important factors effecting the decision of property buyers/tenants with price being the first factor. This also shows a resemblance between price/rent determinants in Jeddah and other locations being covered in the literature review section. With price and location being most important factors to property buyer/tenants in Jeddah, it is important for real estate investors to take into consideration the consumers' income and their buying power as well as the location of the property when investing in real estates. Real estate investors should be aware of the consumers' needs when it comes to the property characteristics, to make most use of their investments it is not advisable for real estate investor to only consider building luxurious residential properties. Other factors that influence the purchase decision which were mentioned by respondents of the survey are closeness of the property to family members and infrastructure of the district.

Factors that were considered to be neutral or unimportant for property buyer/tenants were house facilities (Swimming pool garden, security), closeness of the property to general facilities, mortgage rate and owning a green-sustainable-low energy property.

189 respondents out of 277 preferred the northern area of Jeddah to live in which constitutes of 68.23% of all respondents. When asked about the reason of choosing their preferred area to live in main answers were because north of Jeddah is considered to be clean, modern, more organized, less crowded, availability of different facilities and close to Comiche (the seaside).

When planning to buy a property 50% of respondents preferred paying in cash, 29% preferred bank mortgage and 21% choose to finance their houses through a government loan from the Real Estate Development Fund. This shows that considering mortgages, as a mean for finance is unfavorable to property buyer's in Jeddah. Lack of desire to own a mortgage can explain why mortgage rate is considered to be neutral or unimportant factor.

When asked about level of agreement with the following statement (I am aware of the different options available in the kingdom to finance my existing/future house) average, rating of respondent scored 3.08 out of 5 which is considered to be neutral. Not having the proper knowledge about house financing can be one of the reasons why property buyers are discouraged from owning a mortgage. Banks modest efforts in making their customers aware of the mortgages available might explain the low knowledge level of the survey's respondents. 2.88 out of 5 were the score for the level of agreement with the statement (My bank has given me information and details about how to best

finance my existing/future house). Moreover, low mortgage penetration in the real estate market can be due to the limited mortgage availability in the market and the delay of issuance the Saudi Mortgage Law.

Interestingly to discover 69.67% of survey's respondents care to different levels of owning an Islamic mortgage over a conventional mortgage. On the other hand, 30.33% of survey's respondents did not care of owning an Islamic mortgage or preferred to own a conventional mortgage, based on the countries religious culture this percentage is considered to be high.

CONCLUSION

All in all, this study investigates the price/rent determinants in Jeddah, Saudi Arabia, and has a better understanding of buyers' preferences, attitudes and mindsets towards housing appraisal and valuation. Approximately 227 respondents were randomly selected to participate in the online survey. The main findings of this study are considering property prices, property location, safety standards implemented in property construction, property characteristics (age, number of floors, rooms, bathrooms, design, size of M2), and nearby cleanliness and safety prices It is the most important factor influencing the decision of real estate buyers/tenants. Other factors that the survey respondents mentioned that influence the purchase decision are the closeness of the property to family members and the infrastructure in the area. For house buyers/tenants, the factors that are considered neutral or unimportant house facilities, such as swimming pools, gardens, and security.

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