

# Dammam - Khobar Residential Overview



## MARKET CHARACTERISTICS

This review focuses on the three most dominant residential markets in the Eastern Province of Saudi Arabia, namely Dammam, Dhahran and Al Khobar. The importance of these cities is underscored by the fact that Dammam is the third largest city in Saudi Arabia, and ARAMCO, the state owned oil company is based in Dhahran.

According to the 2010 census statistics, the populations of Dammam and Khobar grew by a CAGR of 3.3% and 4.0% respectively between 2004 and 2010. It is this growth in population, combined with the fact that average family size in Saudi Arabia is decreasing, that is the primary driver of demand for residential space in the three cities.

Colliers' Research has revealed that in general, the quality of residential stock (recently added or under construction) in Dammam and Al Khobar is higher than those of other cities in the country, due to a higher standard of construction, improved finishing, and better periodic maintenance.

Historically the property market in Dammam has focussed more on the residential sector of the market whilst Al Khobar has been more oriented towards the office/commercial sector. In recent months however, there have been a number of new residential developments in Al Khobar. Notwithstanding these recent investments in Al Khobar, Dammam would seem to remain the favoured destination for residential investment, largely because land prices in Al Khobar are higher than those in Dammam.

An observable trend in new residential developments in Dammam and Al Khobar is the increased building heights – usually between 8 to 12 floors. This is indicative of the decreasing stock of developable land both in central Dammam and Al Khobar.

Dammam, Dhahran and Al Khobar are increasingly being seen as a major unified city that is connected by new residential and commercial developments; rather than three individual cities. With limited developable land available to the north and east of Dammam, substantial growth is taking place west and south of the city. Dammam Hills project by Jubail Development Company (Tameer Jubail) is a major project located in west Dammam. The project is expected to deliver approximately 700 single family dwellings (duplexes and villas) and is expected to be completed by 2015. Situated south of Dammam, Al Argan started construction on its Murjana Project in the Al Khaldiyah District, and is expected to deliver 400 single family dwellings by 2014. Dhahran is also expanding its residential developments near major thoroughfares such as the Prince Mohammad bin Fahd Road in new districts such as Al Qusoor. Unlike Dammam which is dominated by large developers, Dhahran is characterised by the presence of medium sized developers. Khobar is expanding mostly towards the south near Azizia Beach with medium sized developers delivering most of the stock. One of the high profile residential projects currently under construction is the Khobar Lakes Gated Residential Community, being developed by Emaar Middle East. The project expects to deliver 2,100 units across several phases. Phase 1 of the project is expected to be completed in the near future, which would deliver approximately 214 units.

Stark contrasts are observed between mid scale developers operating in Dammam and Khobar compared to those in Riyadh and Jeddah. Dammam and Khobar developers are more active with multiple ongoing projects and higher number of units per project. Moreover, many of them use professional sales and marketing tools, something that is absent in Riyadh and Jeddah.



Project	Units	Completion
Murcia Apartments	78	2012
Murjana	400	2014
Masaken Homes	250	2014
Dammam Hills	700	2015
Abraj Al Salam	850 (24 in Phase1)	2015
Khobar Lakes	2,100	2016+

Note: This list is not exhaustive of all forthcoming supply

## RESIDENTIAL PERFORMANCE

Developed land parcels in South Khobar are important targets for small to medium sized developers due to more acceptable land costs in these areas. South Khobar is also an attractive location for individual investors interested in real estate investments. Most developers and investors interviewed by Colliers are of the opinion that prices in South Khobar are expected to rise more rapidly than in other areas of Dammam and Khobar.

Due to its proximity to both Dammam and Khobar the Telal Al Doha area is being targeted by medium sized developers for the construction of villa projects. Villas in this area are being marketed at prices that appeal to middle income households.

Colliers Research suggests that the current absorption rate of multi-family dwellings, apartment submarket reached 81% to 86% of 2011YTD supply. Demand for apartment units outweighs demand for single-family dwellings (villa and duplex units) with absorption rate of the latter reaching 78% to 79% of 2011YTD supply.



Apartments are increasing in popularity, in comparison to villas, primarily due to their affordability. The outskirts of Dammam and Khobar offer reasonably priced houses ranging from SAR 850,000 to SAR 1,200,000, favoured by mid income households.

Although moderately priced products are available in the peripheral areas of Dammam and Khobar, most new developments have undergone rapid price increases over the past year. Single family dwellings (villas) are offered at an average of SAR 3,510/m<sup>2</sup>, while multifamily dwellings (apartments) are priced at SAR 2,841/m<sup>2</sup>. These developments are primarily targeted at upper mid to high income households, leaving pent up demand for low to mid income households close to the centre of the city. This is a typical trend observed throughout the Kingdom.

## OPPORTUNITY IDENTIFICATION

Affordability is a prime issue amongst middle income households. Potential home owners in Dammam and Al Khobar have increasingly shifted towards home financing rather than cash purchase. Therefore, opportunity lies in developing sensibly priced units in master planned communities with strong alliances with home financiers.

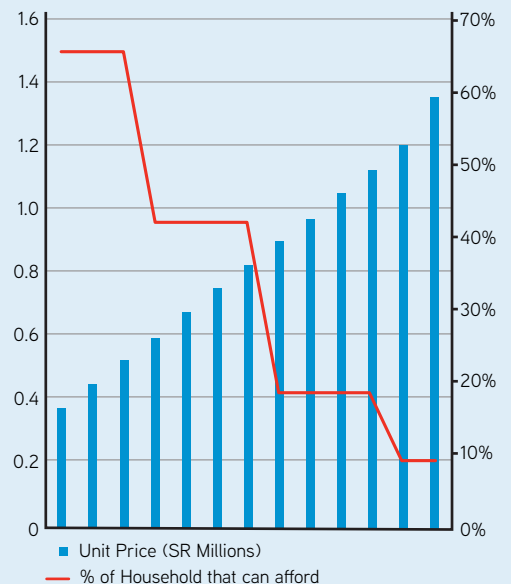
There is preference for quality apartment developments in Dammam and Al-Khobar. A fitting example would be the Al Hamraa District (also commonly known as Shobily High Rise) in Al Khobar, which is a prime location for quality apartments. Most home buyers in the district believe in the investment potential of their purchases, particularly with the expected forthcoming completion of the Shobily Masterplan, which has been on hold for several years.

## OUTLOOK

Dammam and Khobar's rental market is displaying strong performance, at par with other major cities of the Kingdom, particularly within the apartment sub market. Colliers envisages that the rental market will continue to perform strongly in the medium term until the implementation of the mortgage law. Sales of high end products, whilst still buoyant, appear to be slowing, which points to saturation levels being reached in the supply/demand balance. Demand for products for low income households nevertheless remains strong. While there are a variety of options in the freehold market for mid income households, their potential remains severely limited due to the limited availability of home financing.

Dwelling Type (Freehold SR/Sqm)	Q4 2010	Q4 2011	Change %
Single-Family Dwelling (Villa/Duplex)	3,075	3,510	14% ↑
Multi-Family Dwelling (Apartment)	2,588	2,841	10% ↑
Dwelling Type (Rent SR/Sqm)	Q4 2010	Q4 2011	Change %
Single-Family Dwelling (Villa/Duplex)	184	215	17% ↑
Multi-Family Dwelling (Apartment)	194	223	15% ↑
Dwelling Type (Yield %)	Q4 2010	Q4 2011	Change %
Single-Family Dwelling (Villa/Duplex)	5.98%	6.13%	2.4% ↑
Multi-Family Dwelling (Apartment)	7.50%	7.85%	4.7% ↑

Dammam - Khobar Affordability Matrix



**Note:** Affordability Matrix was estimated through applying a 20- year home loan program with 20% down payment of unit price at 4% interest rate.



**Ian Albert**

Regional Director, Middle East  
ialbert@colliers-me.com

**Imad Damrah**

Country Director, Saudi Arabia  
idamrah@colliers-me.com

**Sari Anabtawi**

Head of Western Region  
sanabtawi@colliers-me.com

**Main:** +966 1 217 9997

**Mobile:** +966 50 417 2178