

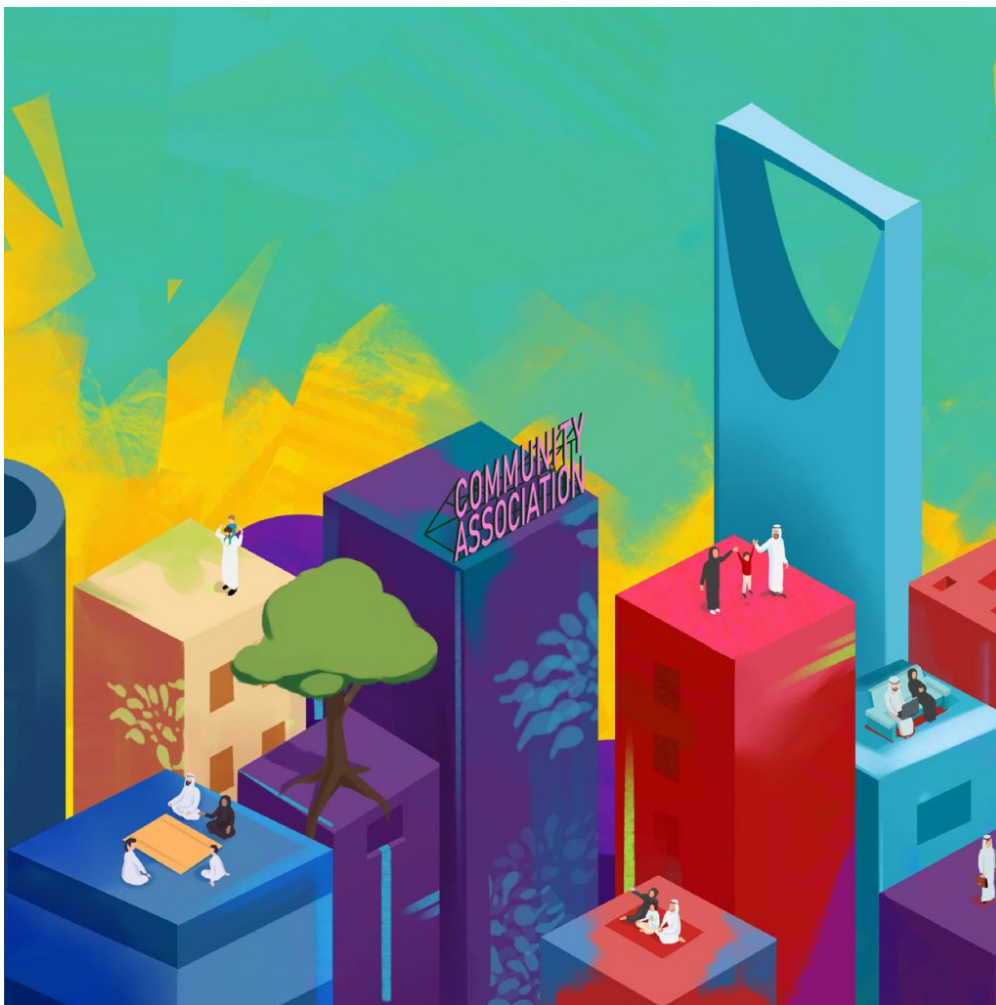
Kingdom of Saudi Arabia issues a new Regulation of Ownership of Real Estate Units and their subdivision and management

Mohammed Kawasmi - Partner - Real Estate / Family Business

m.kawasmi@tamimi.com - Dubai International Financial Centre

Sebastian Roberts - Senior Associate - Real Estate

- Dubai International Financial Centre



A new law has been issued in the Kingdom of Saudi Arabia (the 'Kingdom') called 'The Regulation of Ownership of Real Estate Units and its subdivision and management' (the 'Law'). The Law was published in the official gazette on 13 March 2020 (Corresponding to 18 Rajab 1441 H) and shall be effective after (180) days from the date of its publication in the official gazette.

The issuance of this Law is considered a unique step which will have positive effects in promoting and regulating the real estate sector in the Kingdom, namely the real estate development industry and strata ownership scheme. This Law is part of the Kingdom 2030 vision and aims to encourage citizens to purchase and reside in units located within jointly owned projects.

The Law introduces a new concept to the real estate joint ownership scheme in the Kingdom which is

called 'Real Estate Community' and accordingly the ownership of the jointly owned properties are not limited to standalone buildings anymore. It also includes a group of single-use or multi-use buildings located in one community.

The Law confirms it is compulsory to establish an owners' association ('OA') in the case of jointly owned property comprising three or more units. The Law also grants OAs an independent legal personality and independent financial liability.

The Law provides that jointly owned properties located within a Real Estate Community may establish a 'Community Association', whereby the members of the Community Association are one representative or more of each OA. The Community Association will be subject to all of the provisions of the OAs.

The main duty of an OA is to manage the jointly owned property in accordance with the standards determined by the implementation regulations of the Law.

The constitution of the OA is considered binding as it sets out the requirements to ensure the smooth operation and the good management of jointly owned property. The implementation regulation will clarify, in further detail, the constitution, but as it stands the Law outlines a number of matters which must, at a minimum, be regulated in the constitution and they are as follows:

1. operating rules of the general assembly and the manager;
2. provisions regarding utilisation and management of the common areas;
3. rules determining the financial obligations of the owners to be paid towards the management in relation to the maintenance of the common areas;
4. determining the beginning and the end of the fiscal year for the OA, the rules of payments from the association budget and financial control methods; and
5. rules to be followed upon the dissolution of the OA and the applicable liquidation procedures.

A manager must be appointed to manage the jointly owned property and take care of the daily management of the common areas. The manager appointed may be one of the owners or anyone else. The constitution sets out the rules applicable to the appointment of the manager, its duties and authorities. The Law provides the owner who built the jointly owned property the right to solely appoint a manager according to the rules stated in the Law (which are expected to be specified in further detail by the implementation regulations).

The constitution is deemed to be binding on all of the owners in the jointly owned property and is not subject to negotiation. Owners must comply with the decisions issued by the OA.

One of the new requirements imposed by the Law is the necessity of including a disclosure statement in the sale contract stating all descriptions related to the unit and the project so as to ensure that the purchaser is fully aware of all the details that may affect his or her decision to purchase the property. In the case of the omission of this statement the purchaser is entitled to terminate the contract within 30 days of the date of signing the contract or from the date he or she became aware of such information where such information is material.

The Law obliges owners in the jointly owned property to contribute to the costs of maintaining and managing the common areas. As a general rule each owner's share is determined on the basis of the unit area. Other criteria may also apply in calculating the maintenance costs of the owner's share in the common areas. The amount of service fees payable, is based on the property value or nature of use, and that may vary from one project to the next.

The Law indicates that the manager's decisions (once approved by the Real Estate General Authority) are considered as an executive deed against the owners. This would contribute in facilitating and expediting the collection mechanism of the maintenance and management fees without the need to go through the normal process of filing a substantive case, but instead directly filing an execution case. The

implementation regulations will further elaborate upon the procedures and conditions in that respect.

The Law allows tenants who have leases of more than five years to establish an OA subject to agreement with the owner.

The Real Estate General Authority is the main authority responsible for the implementation of the provisions of the Law taking into consideration that such authority is also responsible for regulating the real estate sector in the Kingdom. We are looking forward to the issuance of the implementation regulations of the Law which will clarify, in further detail, the procedural matters regarding implementing the provisions of the Law. We think that this Law contains many positive features which we expect will contribute to promoting investment in jointly owned properties in the Kingdom.

For further information, please contact [Mohammad Kawasmi \(m.kawasmi@tamimi.com\)](mailto:m.kawasmi@tamimi.com).