

Foreign ownership rights and restrictions: who can own real estate property in Saudi Arabia?

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This article outlines the rules on foreign ownership of real estate in Saudi Arabia (rights and restrictions).

GCC nationals

Pursuant to article 1 of the Real Estate Appropriation by Citizens of Arab Gulf States Co-operative Council and the Executive Rules, citizens of the Gulf Cooperative Council ('GCC'), in their natural person capacity, may own one property in Saudi Arabia. The property may be land or a building located in a residential area. In respect of land, the land area shall not exceed (3,000 m²).

The right to own shall be for the purpose of housing for the owner or his family, with no right to use the property for another purpose unless permitted by the law of the state in which the property is located.

If the property is land, the owner must begin construction within three years from the date of registration of ownership, and the building must be completed within five years of such date, otherwise the property may be confiscated and sold, (in which case, the owner will be compensated if the owner is able to demonstrate convincing reasons for any delay in construction).

Citizens of the GCC are also allowed to lease real estate in Saudi Arabia for use as a personal residence.

The above does not apply to real estate located within the city limits of Mecca and Medina, which is separately dealt with below.

GCC company (wholly owned by GCC nationals)

A GCC company wholly owned by GCC nationals is permitted to lease or own real estate in Saudi Arabia where its use is for the purposes of conducting the company's licensed business activity.

The above does not apply to real estate located within the city limits of Mecca and Medina, which is separately dealt with below.

Other foreign nationals (non GCC)

Foreign natural persons enjoying a legal residency status in Saudi Arabia may:

- own real estate, for use as a personal residence, subject to obtaining a permit from the Ministry of Interior; or
- lease real estate, for use as a personal residence.

The above does not apply to real estate located within the city limits of Mecca and Medina, which is separately dealt with below.

Foreign companies (non GCC)

Even the smallest equity interest held by a non-GCC individual or entity will make a corporate entity a 'foreign' company, triggering the requirement for a foreign investment licence from the Ministry of Investment (including conditions stipulating the amount of capital that must be invested, and the timeframe for such investment). Additionally, Saudi Arabia has a strict anti-fronting law, which must be carefully considered when structuring investments through a corporate entity.

Pursuant to article 1 of the Law of Real Estate Ownership and Investment by Non-Saudis and subject to addressing the Ministry of Investment's foreign investment licence requirements, a non-GCC company may:

- own or lease real estate for the conduct of its professional, technical or economic activities;
- own real estate for property development purposes, in case of particular projects (see following paragraph);

- own or lease private residences for housing employees of a licensed project; or
- own or lease real estate for residential use by its employees who enjoy normal legal residency status.

With respect to foreign real estate developers in particular, it should be noted that where a foreign company's licensed activity includes purchasing buildings or lands for development and investment (by means of selling or leasing), then the total investment amount must not be less than thirty million Saudi Riyals (approximately US\$ 8 million) (this amount may be amended by the Council of Ministers). Furthermore, the development of the real estate must be completed within five years from its acquisition, unless the Ministry of Investment approves an extended timeframe for completion.

The above does not apply to real estate located within the city limits of Mecca and Medina, which is separately dealt with below, nor to areas specifically excluded from ownership by foreign companies by royal decree.

Ownership and lease of real estate located within the city limits of Mecca and Medina

Generally speaking, non-Saudi nationals or entities, are not allowed to own or lease real estate located within the city limits of Mecca and Medina (save as mentioned below):

Pursuant to a recent amendment to the Law of Real Estate Ownership and Investment by Non-Saudis (by Royal Decree No. (M/94), dated 15-9-1439 AH) Non-Saudi entities (whether GCC or otherwise) may own or lease real estate in the vicinity of Mecca and Medina, provided that they fall under the following exemptions:

- banks and real estate financing companies licensed by the Saudi Arabian Monetary Authority ('SAMA'), provided that their acquisition of real estate is for the purpose of financing Saudi nationals, for their offices or branches, or for the practice of their activities in accordance with the regulations set out by SAMA;
- listed companies not engaged in real estate activities, provided that the entirety of the real estate is designated for their offices or branches, or the practice of their activities in accordance with the rules set out by the Capital Market Authority ('CMA'); or
- other entities specified by the Council of Ministers.

Pursuant to article 2 of the Regulations for Premium Residency, Non-Saudi nationals with premium residency status may acquire a usufruct right over real estate in the vicinity of Mecca and Medina for a period not exceeding 99 years.

Foreign missions

Foreign diplomatic missions in Saudi Arabia may, on a reciprocal basis, own the property where the official premises and chancery and the mission members' residences are located. In cases other than the above, the Chairman of the Council of Ministers may grant approval for real estate ownership for private residential purpose.

Economic Cities

There are a number of 'Economic Cities' under development in Saudi Arabia. At the date of this article, these are: the King Abdullah Economic City (Makkah Region, on the West Coast, near Jeddah); the Knowledge Economic City (Medina Region); the Prince Abdulaziz bin Mousaed Economic City (Ha'il Region, in the North of the Kingdom); and the Jazan Economic City (in the South West of the Kingdom). Pursuant to article 15 of the Statute of the Economic Cities Authority, foreign natural persons or companies may own or be granted a right of use of real estate in the Economic Cities, in accordance with rules set by the Board of Directors of the Economic Cities Authority.

Regulations have been issued by the Economic Cities Authority for the registration of all foreign companies established in the Economic Cities, the registration of all land title deeds in the name of foreign entities established in the Economic Cities, and the issuance of licenses and other approvals to service providers, including district cooling, warehousing and logistics in the Economic Cities.

Tadawul listed REITs or companies

Non-resident foreign investors are also allowed to trade in the units of Real Estate Investment Traded Funds ('REITs') and shares in companies listed on the Saudi Stock Exchange (the 'Tadawul').

In particular, the CMA introduced (in 2016) new rules for the listing of REITs on the Tadawul. The portfolio of REITs must include developed and income generating real estate (at a rate not less than 75 per cent) of the total portfolio. It is also mandatory for REITs to distribute at least 90 per cent of their net profits to unit holders in the form of dividends, with only 10 per cent of such net profits allowed to be re-invested.

From a macro perspective, REITs contribute to the goals of the Saudi Vision 2030 and the National Transformation Plan ('NTP') which aim to stimulate the real estate sector and increase its contribution to the overall GDP.

From a micro perspective, they also offer investors in Saudi Arabia attractive dividend yields and in many cases exposure to a diversified portfolio of real estate assets which may not otherwise be easily accessible to such investors.

The above, coupled with the proactive approach of the CMA in dealing with regulatory challenges, has allowed Saudi Arabia to lead the GCC countries with the highest number of established REITs.

Conclusion

Initiatives arising from the Saudi Vision 2030 and NTP have been viewed as providing a powerful momentum to both the encouragement of foreign investment generally in Saudi Arabia and also to the real estate sector.

Needless to say, the Saudi Vision 2030 will create even more opportunities in the real estate sector, with the objective of making the Kingdom of Saudi Arabia a leading real estate jurisdiction of choice.

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