

Original Paper

The Impact of Property Management on the Value of Residential Product in Saudi Arabia

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Received: May 22, 2019

Accepted: May 28, 2019

Online Published: May 29, 2019

doi:10.22158/uspa.v2n2p99

URL: <http://dx.doi.org/10.22158/uspa.v2n2p99>

Abstract

This paper discusses the impact of property management in maintaining the value of residential product in Saudi Arabia. The paper reviewed a comparison of two property models: the first is managed by the property management system, and the second is managed by the owner only. In addition, the field questionnaire was used and distributed to a sample of the study community consisting of 125 real estate management institutions and real estate office in Riyadh. The results of the analysis indicate that property management contributes to raising the quality of the residential product and maintaining its market value. The residential product which managed by the property management system loses 10% of its value after 5 years. On the other hand, the product that managed by the owner loses more than 50% of its real value after 5 years. The paper proposes to strengthen cooperation between governmental and private institutions to establish a Real Estate Data Center (REDC) for the classification of residential properties subject to the criteria of management, quality and economic cost.

Keywords

impact, property management, real estate development, property value, Riyadh, Saudi Arabia

1. Introduction

Real estate sector in Saudi Arabia has witnessed remarkable developments in recent years and has introduced laws that regulate the relationship between real estate market participants. The real estate sector has contributed to a significant increase in the volume of real estate investments amounting to about \$ 320 billion in 2008, making the Kingdom the second largest property market in the Arab world. The Kingdom's real estate sector contributes about \$ 14.6 billion of GDP and 9.5 percent of non-oil

GDP (Alaak, 2010). The vision of the Kingdom of Saudi Arabia 2030 emphasized improving the performance of the real estate sector through increasing its contribution to the GDP, stimulating the supply, and raising productivity (Vision of the Kingdom 2030, 2016). As shown in Figure 1: The Vision 2030 seeks to diversify sources of GDP, reduce dependence on oil revenues, and enable citizens to obtain affordable housing. Performance indicators related to the real estate sector aim to increase the contribution of this sector to GDP from 5% to 10%. Furthermore, these indicators aim to raise the annual growth rate of the real estate sector from 4% to 7% by 2020. The housing strategy has focused on bridging the gap between supply and demand in the housing market by continuing to provide housing subsidies to eligible groups (Alzamil, 2016). In this context, the [Tenth Development Plan] seeks to develop an efficient and sustainable housing sector that contributes to achieve the comprehensive urban development. This sector shall be able to enable all segments of society to access the real estate market, in which the government plays an enabling role, and the private sector has a central role in both financing and implementation (Ministry of Economy and Planning, 2017).

Property management in Saudi Arabia faces many challenges including maintaining the quality of the residential product and its suitability for Saudi families. The most common housing products for Saudi households are rented products, with occupancy rates of 43% Saudi households in 2017 (General authority for statistics, 2017). However, many real estate products are managed by non-specialized institutions or individually, which contributes to loss of market value for these products over time. The main challenges that face residential products included insufficient affordable housing supply and inflexibility of the finance and management systems of the residential product (Alzamil, 2016). The real estate sector is still suffering from the inadequacy of residential product for Saudi families due to the weakness of property management methods (Alskait & Aldegheishem, 2009). This paper highlights the impact of property management on the value of residential product within the framework of fair market in Saudi Arabia. An analysis of the current situation includes the comparison of two residential producers in Riyadh that are managed in two different ways. Finally, the paper summarizes the most impact elements of property management on the value of residential product based on the views of real estate developers in Riyadh.

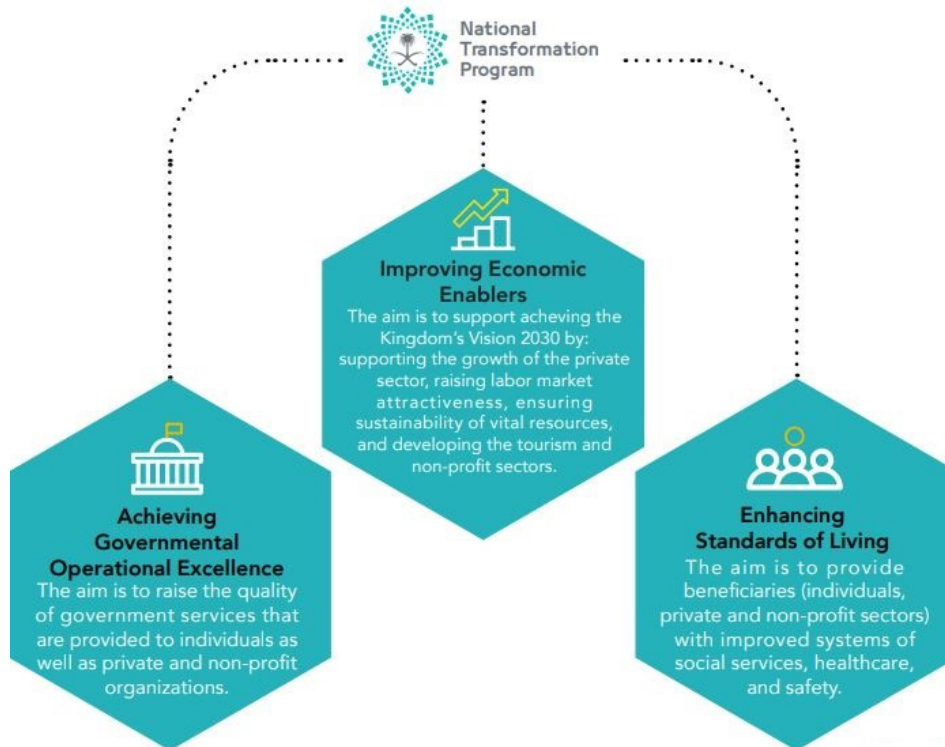


Figure 1. The National Transformation Program 2020

Source: (National Transformation Program, 2018, p. 7).

2. Research Problem

The real estate sector in Saudi Arabia is the second largest sector after the oil sector at 15% of GDP. Real estate assets are one of the most important investments that generate positive returns for investors and the real estate market. However, the management of these assets plays an important role in raising property value by maintaining the quality product. In Saudi Arabia, residential properties are managed by brokers, real estate offices, or property management system. Residential real estate, like any other property, if not managed in the right way may be affected by its quality and cause the deterioration of the property. Therefore, these entities should manage the property in a manner that preserves property value (Alskait & Aldegheishem, 2009).

3. Research Objective

This paper aims to analyze the impact of property management on the value of residential product in Riyadh. The research focuses on extrapolating the views of real estate developers to extract the most important challenges of the real estate market in Riyadh.

4. Hypothesis

This paper examines the hypothesis that property management contributes to raising or maintaining the market value of residential product.

5. Methodology

This paper adopts descriptive and comparative analysis of two residential cases in Riyadh. The first residential product is managed by a property management company. However, the second one has the same characteristics but is managed directly by the owner. The research data were obtained through in-depth analysis of a number of government reports from the high Commission for the Development of Riyadh (HCDR), General Authority for Statistics (GAS), the Ministry of Housing, and the Chamber of Commerce and Industry in Riyadh (CCIR). The community of the field study consists of 2631 real estate companies in Riyadh. The study sample was selected through the registered data of the real estate management companies, which specialize on property management in the Chamber of Commerce in Riyadh through the following equation:

$$n = \frac{X^2 NP(1-P)}{d^2 (N-1) + X^2 (P(1-P))}$$

As shown in Table 1 and Figure 2: The questionnaires were distributed to 125 real estate management companies with an average of 25 forms per sector in Riyadh (Central, North, East, West, South).

Table 1. Sample Size Details

Respondents	Frequency	Percentage
Real estate management company	7	6%
Real Estate Office (Property Management)	105	84%
Owner Property	13	10%
Total sample	125	100%

Source: Survey by the authors.

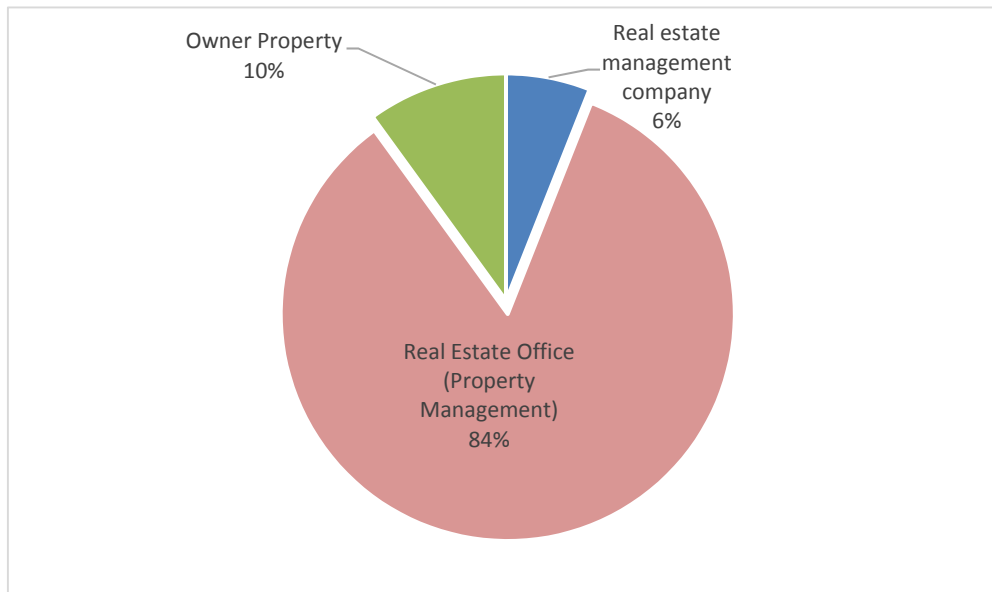


Figure 2. Distribution of the Research Sample

6. Literature Review

6.1 The Concept of Residential Property Management

Property Management (PM) refers to administrative processes involving the supervision of residential, commercial, or industrial property. It usually includes the management of property that owned by another party or entity (CHEN, 2018). Therefore, Residential Property Management (RPM) includes management of land and residential buildings in a manner that contributes to maintaining of buildings and organizing the leasing process. The Residential Property Management involves compliance with legal obligations between landlord and tenant in planning regulations, health and safety regulations.

6.2 The Scope of Residential Property Management

Property is an essential component of the real estate market that should be seen within the context of investment and financial planning (Šerić & Gil-Saura, 2006). The absence of property management negatively affects the physical condition of the residential product due to poor maintenance, marketing and follow-up. The concept of successful investment of a residential product includes the development of future perceptions based on the analysis of all decision-making information to shape the future performance of the object (Muyingo, 2016). Therefore, it is important that the residential properties are maintained in a sound condition to provide the greatest possible economic return. As shown in Figure 3: Residential Property Management carries out several administrative services such as: resolving disputes, management of on-site staff, improving energy efficiency, negotiations, risk assessments, and development of strategic plan (RICS, 2017).

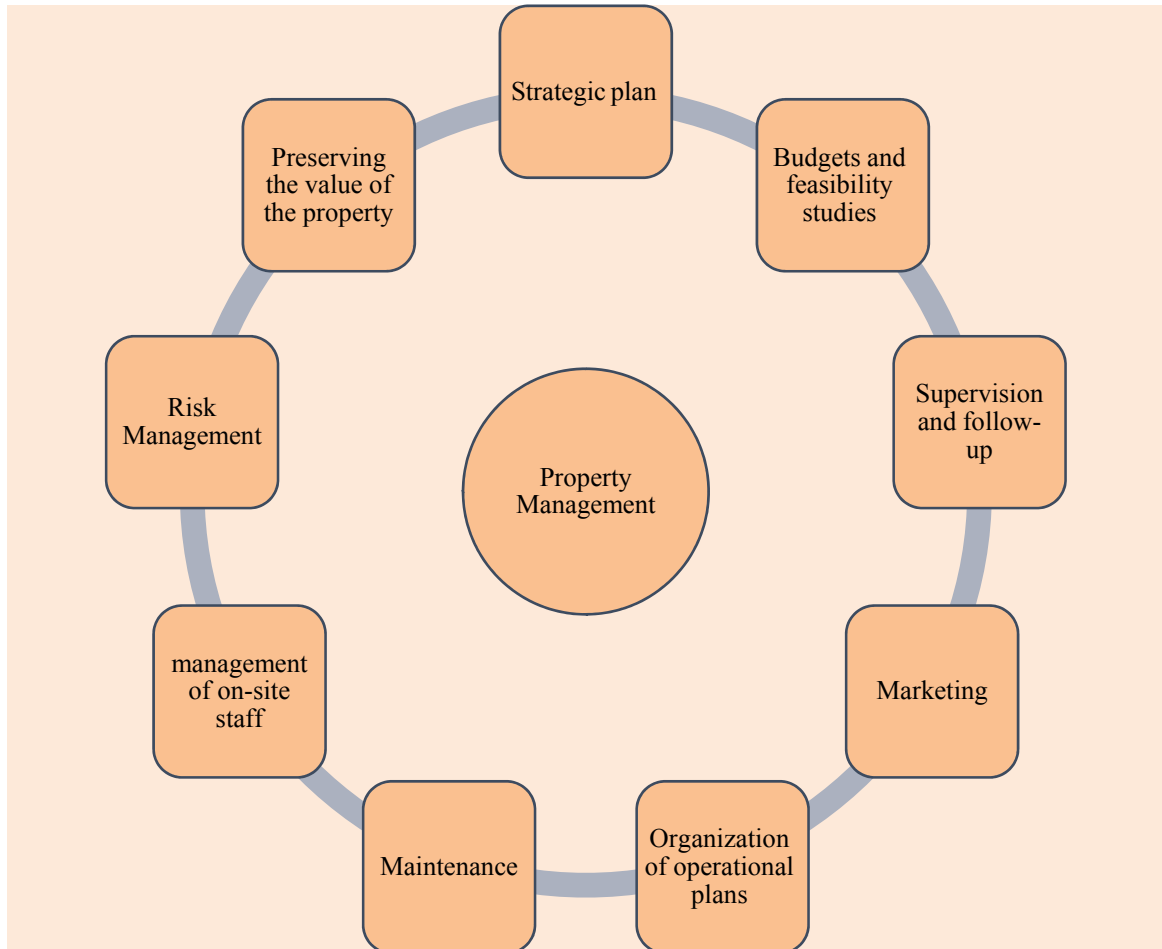


Figure 3. The Main Functions of Residential Property Management

Source: Authors depending on (Griswold, 2008); (Mike, 2006); (Martin, 2006).

6.3 Factors Affecting the Value of Residential Product

Residential products are subject to certain factors that may affect their value or reduce them in the real estate market. Factors influencing residential property may be due to the absence of a strategic plan, poor funding, maintenance, and marketing (Muyingo, 2017). Spatial location is one of the most important factors affecting the price of residential product. Property prices close to central areas differ from properties that located on the outskirts of the city. Hui, Lau, and Khan (2011) found that property management positively affects the property prices. Residential products managed through a high-quality property management system can increase their price by 2.84 to 4.92 percent (Hui, Lau, & Khan, 2011). Heller (1998) indicated that the great challenge is to achieve the satisfaction of multiple property owners that often associated with misuse or poor maintenance of common areas such as elevators, semi-private spaces, and parking. Heller (1998) described this phenomenon as a “*tragedy of the commons*” because it leads to a long-term devaluation of property. However, there is a correlation between the supply and demand of the residential product, as the scarcity of the housing unit often increases its value. The low demand and the increase in the supply ratio often lead to lower real estate

prices. Also, the modification of the residential product can affect the value of the property. This modification is often done by adding new architectural elements, restoration, or reconstruction (Almgloth, 2015). Moreover, the value of a residential property is affected by the availability of facilities, infrastructure, market price, economic conditions, property status, and the surrounding environment. Finally, Figure 4: summarizes the most important factors affecting the value of residential product.

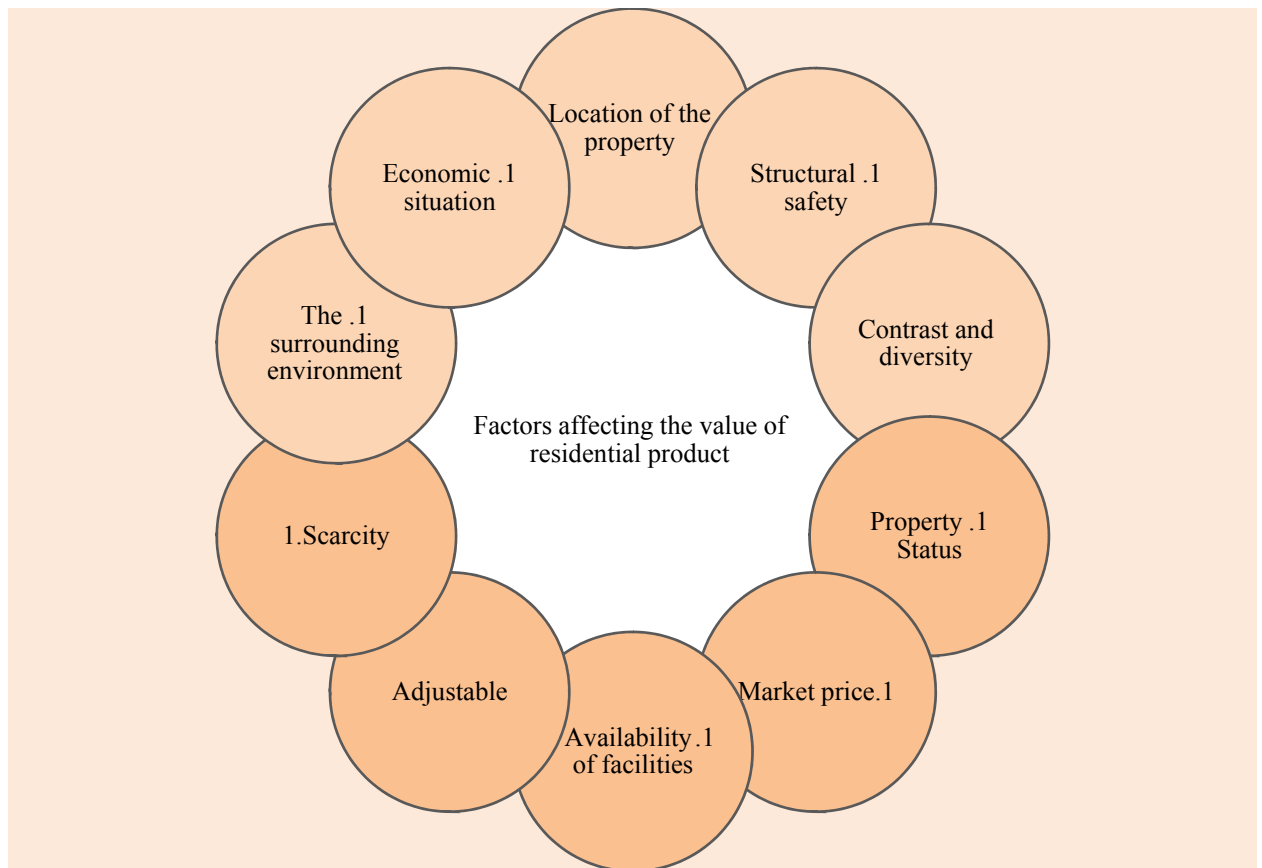


Figure 4. The Most Important Factors Affecting the Value of Residential Product

Source: Authors depending on (Almgloth, 2015), (Muyingo, 2016).

6.4 Financial Stability of the Residential Product

Habitat Agenda III Commitments [39] confirmed enable people to have adequate housing and improve the overall environment in residential neighborhoods. Everyone has the right to a “dwelling” which includes services and facilities, safe, healthy, and affordable (Leckie & Huggins, 2011, p. 88). Financing systems and real estate management plays an important role in stabilizing the residential product price within the framework of the Fair Housing Market (FHM). The value of residential products varies according to the structure of the national economy, social and demographic characteristics (Li & Monkkonen, 2014). In addition, there are other aspects that support the stability of the housing market, including the legal and financial structure, management and oversight in the

country (International Monetary Fund, 2011). Housing Finance Systems (HFS) vary depending on the type of housing product, lender, and government participation. In general, the diversity of housing finance systems can help provide a stable housing market. The Government is involved in the development of housing market management policies to provide tax incentives and facilities for mortgage market. However, many countries suffer from fluctuations in the prices of residential products due to gaps in the management of the real estate market, subsidy, financing, and mortgage systems (International Monetary Fund, 2011). Therefore, many countries with low ownership rates such as Germany rely on home rental support by providing incentives to developers to support rental investment.

7. Result

As shown in the Figure 5: two cases were selected for analysis of property management costs, maintenance costs, and net income. These cases located in the eastern sector of Riyadh, which are residential apartments in “*Yarmouk Abi Refa'a Al Ansari Street*” (Figure 6). The first case (residential unit No. 1) is managed by a property management system (Figure 7). The second case (residential unit No. 2) has the same architectural characteristics but managed directly by the owner (Figure 8). The results of the analysis indicate that the first case (residential unit No. 1), which is managed by a property management system, has a net annual income of \$ 85,407 in 2015, and reached to \$ 77,301 in 2019. In other words, net income decreased over five years just 10% (Table 2). However, the second case (residential unit No. 2), which is managed by an owner, has a net annual income of \$ 104,260 in 2015, and reached to \$ 57,863 in 2019. Therefore, net income decreased over five years 50% (Table 3). As shown in the Figure 9: There is a constant rate of net income for the property that managed by the property management system. The residential units managed by the property management system maintain the long-term market value of the property through planning, operation, maintenance and evaluation. In contrast, there is a sharp decline in the net income of the property managed by the owner. These units, although they generate good revenues at the beginning of the operation, suffer from maintaining stability in the market value due to weak management methods of the real estate product.

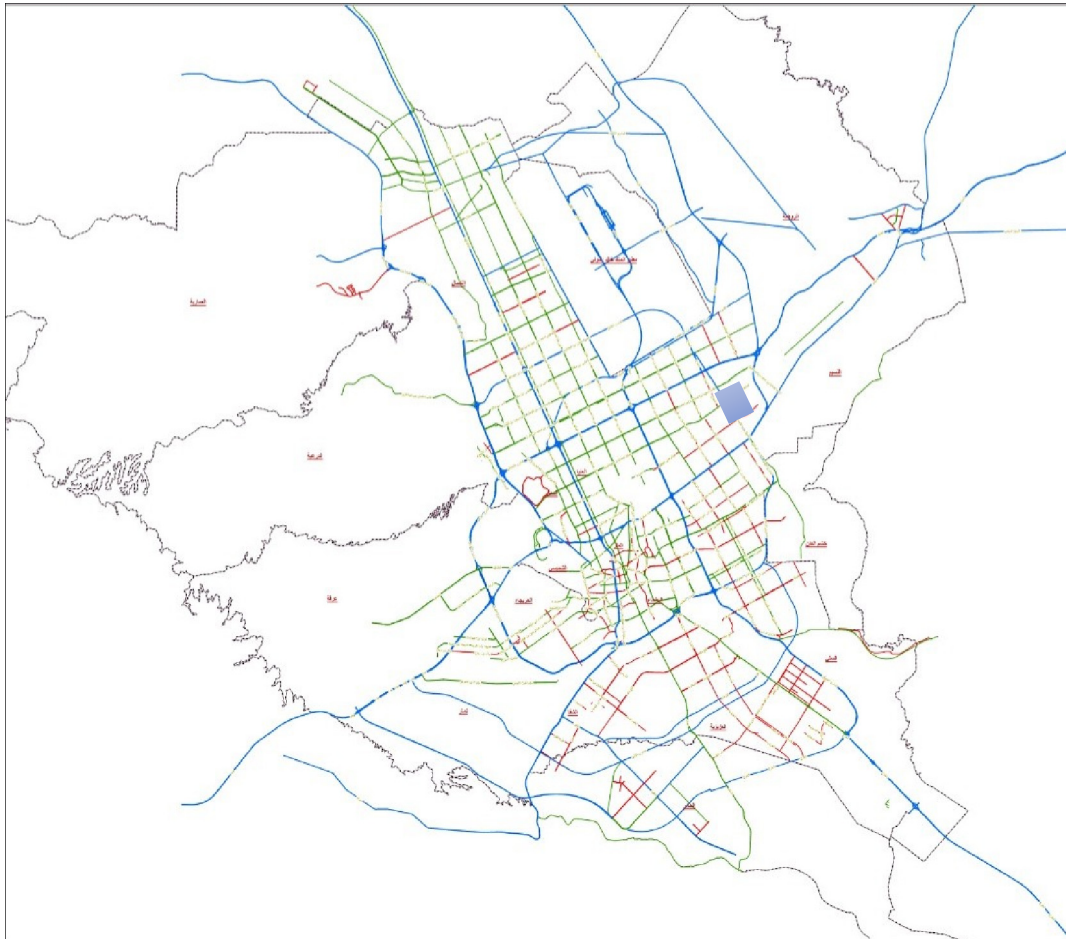
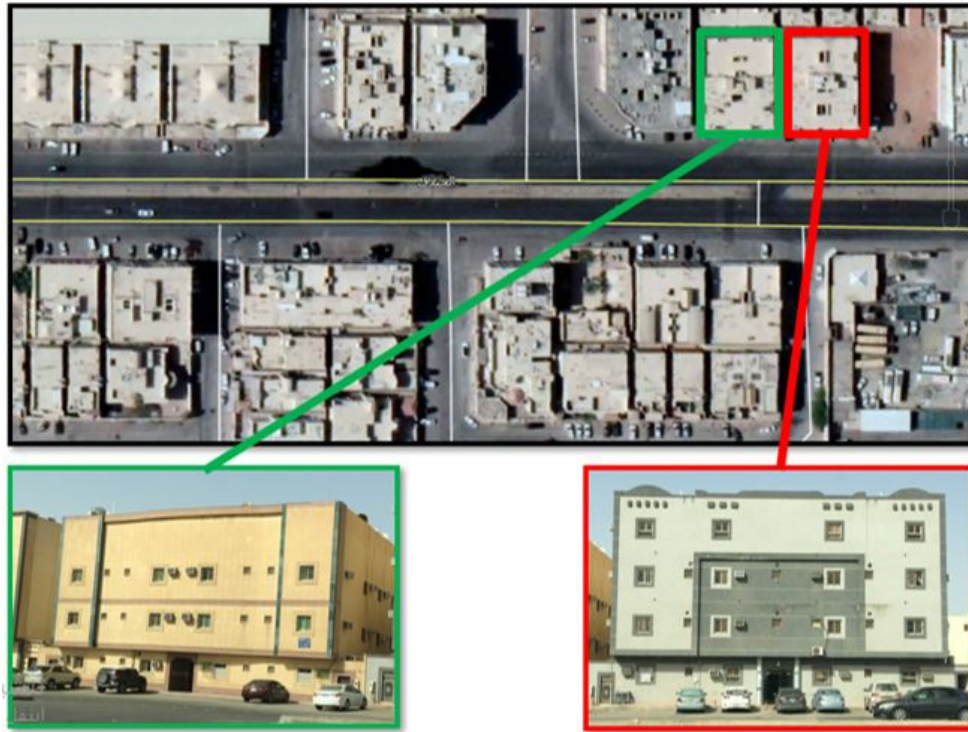


Figure 5. Location of Al-Yarmouk Neighborhood in Riyadh

Source: (Riyadh Municipality, 2015).



Case Study (1): Managed by property management

Case Study (2): Managed by the owner

Figure 6. Location of Residential Units in Yarmouk District, Riyadh

Source: Field survey.

Table 2. Revenues of Residential Unit No.1 Which Are Managed by Property Management System

Year	2015	2016	2017	2018	2019
Income of the property	94,394	94,394	94,394	85,861	85,861
Property Management cost	4,719	4,719	4,719	4,293	4,293
Maintenance costs	3,333	3,333	3,333	3,333	3,333
Maintenance of the elevator	666	666	666	666	666
Service costs	266	266	266	266	266
Net income	85,407	85,407	85,407	77,303	77,303

Revenues were converted from Saudi Riyal to US Dollar.

Source: The authors based on the owner’s interview (Al Ahram Real Estate Office).



Figure 7. The Current State of the Housing Unit (Case No. 1)

Source: Field survey.

Table 3. Revenues of Residential Unit No.2 Which Are Managed Directly by the Owner

Year	2015	2016	2017	2018	2019
Income of the property	108,259	108,259	108,259	87,461	62,662
Property Management cost	N/A	N/A	N/A	N/A	N/A
Maintenance costs	3,333	3,333	3,333	3,999	3,999
Maintenance of the elevator	666	666	666	666	666
Service costs	N/A	N/A	N/A	N/A	N/A
Net income	104,260	104,260	104,260	82,796	57,997

Revenues were converted from Saudi Riyal to US Dollar.

Source: The authors based on the owner's interview.

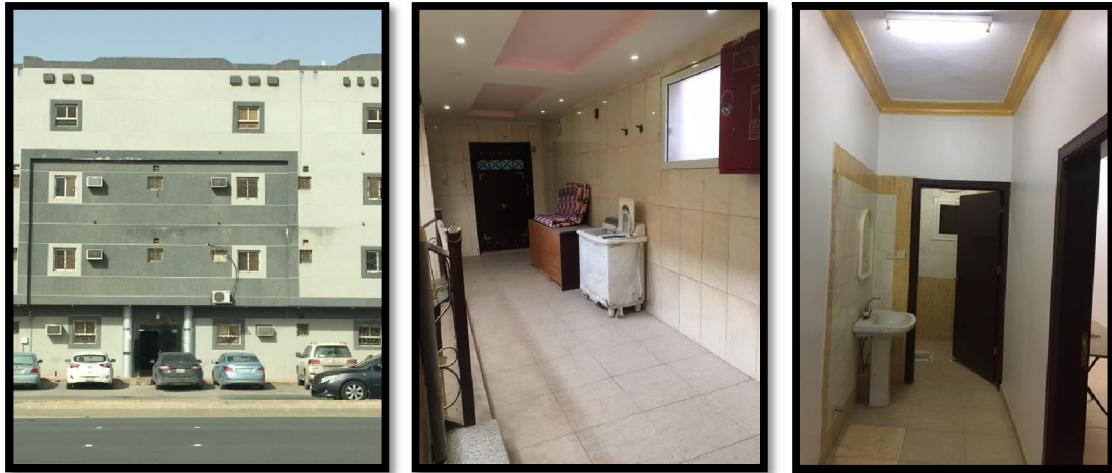


Figure 8. The Current State of the Housing Unit (Case No. 2)

Source: Field survey.

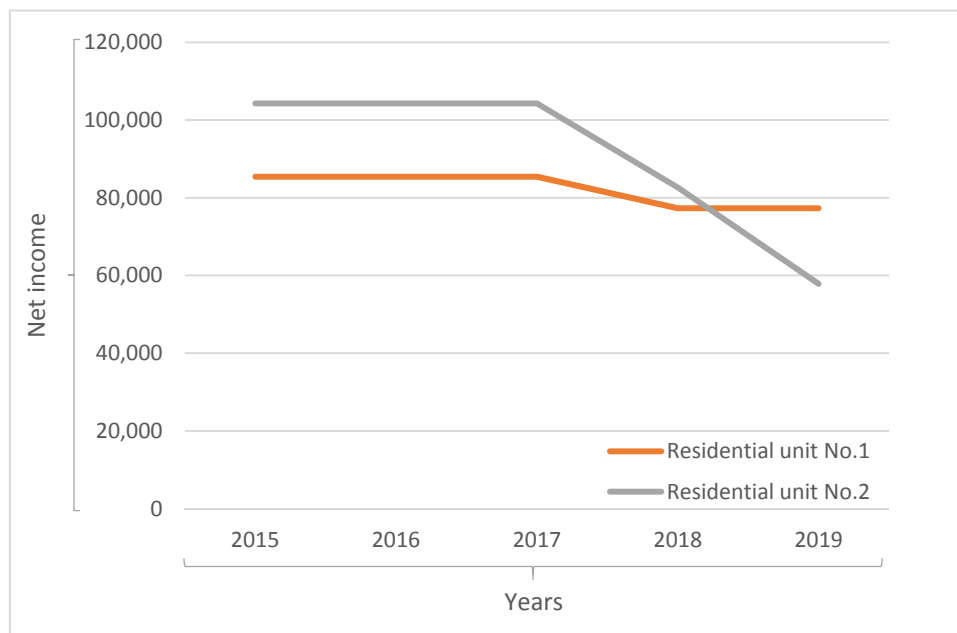


Figure 9. The Net Income of the Two Cases

Source: Auteurs.

8. Conclusions

This paper discussed the impact of property management on the value of residential product using comparative analysis of two models in Riyadh. Results show that property management system (model No.1) contributes to the financial stability of the residential product, especially in the long term. However, the direct management of residential product by the owner (model No.2) negatively affects its value in the long term. Table 4 summarizes the views of real estate developers about the impact of

property management on the value of residential product. Property management affected the value of residential unit according to the point of view of the respondents. More than 85% of the respondents agree that the property management contributes to improving property quality, marketing methods, contract systems, rights of owners and tenants. This result helps decision-makers and property developers improve property management systems and raise quality to achieve tenant satisfaction.

As a recommendation, there are some aspects that need to be considered:

- 1) Developing standards for classification of property management companies to ensure the quality of real estate products in line with the economic, social and urban context.
- 2) The real estate development regulations should encourage investors to register and manage their properties through property management companies, in order to preserve the rights of the investor and the beneficiary.
- 3) Activating collaborative work between governmental and private institutions through establish a Real Estate Data Center (REDC) to serve all parties involved in the real estate market system.
- 4) The Property Management System should take into account the satisfaction assessment of all parties involved in the real estate market such as Investors, developers, and beneficiaries.
- 5) Activating the research work and continuous evaluation of the Real Estate Market to estimate the future demand of residential products within the framework of the Saudi Vision 2030.

Table 4. The Impact of Property Management on the Value of Residential Product

	impact factors	Percentage of respondents					
		Frequency	Strongly agree	Agree	Neutral	Not agree	Strongly Disagree
1	Property management affects real estate marketing effectively.	No.	39	80	6	0	0
		Perc.	31.2	64.0	4.8	0	0
2	Property management contributes to maintaining housing unit prices	No.	48	70	7	0	0
		Perc.	38.4	56.0	5.6	0	0
3	Property management improve the means of contracting through using modern technologies.	No.	50	68	7	0	0
		Perc.	40.0	54.4	5.6	0	0
4	Property management contributes to improving property quality	No.	60	56	9	0	0
		Perc.	48.0	44.8	7.2	0	0
5	Property management contributes to the preservation of the rights of property owners	No.	50	60	13	2	0
		Perc.	40.0	48.0	10.4	1.6	0
6	Property management helps tenants	No.	47	66	9	3	0

	meet their needs with landlords.	Perc.	37.6	52.8	7.2	2.4	0
7	Property management includes various marketing means	No.	45	74	6	0	0
		Perc.	36.0	59.2	4.8	0	0
8	Property management improve the conditions of the residential environment	No.	50	66	9	0	0
		Perc.	40.0	52.8	7.2	0	0
9	Property management helps accelerate government action	No.	58	58	8	1	0
		Perc.	46.6	46.4	6.4	0.8	0
10	Property management acts as a neutral broker between landlords and tenants	No.	52	62	10	1	0
		Perc.	41.6	49.6	8.0	0.8	0

Source: Survey by the authors.

Acknowledgments

The authors acknowledge the Saudi Housing Research Unit at the College of Architecture and Planning, King Saud University for providing supporting in publishing this article in this journal.

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