THE EFFECT OF LAND SPECULATION ON THE HOUSING IN THE CITY OF JEDDAH

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Abstract

RESEARCH PAPER: The Effect of Land Speculation on the Housing in the City of Jeddah

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Housing is a basic need for mankind. In Jeddah, Saudi Arabia, it has become a problem due to speculative activities that can threaten the housing supply and demand. Speculation in most cases may tip the scale of supply and demand for housing while rendering the land useless. The land price in the city is escalating and the population can no longer afford to acquire a property. Land speculation is defined by the major stakeholders in the city who acquire large property with no intention of any investment, but just simply keep it and wait for short or long term for the price to escalate. This method causes several areas in the city that has all the amenities provided by the government and to stay vacant and force the city to sprawl.

The purpose of this study is to find some ways that the government can lessen the impact of land speculation. The study will examine how other cities have dealt with this problem and provide guidelines that can easily be implemented in the city of Jeddah. To reach this goal, it will be necessary to define speculation and to identify how it was originated, how the speculator thinks and what is his aim and how does he go about achieving it.
Eventually some rules needs to be applied to ensure that this problem does not elude the government. The balance in the supply and demand in the housing market must be restored. Housing is a right that must be available for all the citizen’s in the city but today in the city of Jeddah it has become a luxury that only a few can afford.
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First chapter: introduction

1-0 Outline of the thesis:

1- Chapter one: Introduction

The first chapter identifies the study goals, illustrates the problem statement and discusses some facts about Saudi Arabia such as population growth, new mega projects speculation in the city of Jeddah.

2- Chapter two: literature review

This chapter talks about speculation in general. What is the origin of speculation, some factors caused by speculation, how speculators think, housing prices, and what polices of the ministry of housing in Saudi Arabia say about speculation.

3- Chapter three: case studies

The third chapter discusses case studies. First, it examines the city of Hong Kong and how they have dealt with the land speculation problem, including the effects on housing, the demographic changes and the land use. Next, the same aspects of land speculation will be explored in the Yunbu industrial city in Saudi Arabia.

4- Chapter four: outcomes

This chapter first discusses the outcomes in both cities’ experience and methods in land speculation control and how they would help if implemented in the city of Jeddah. After looking at the speculation effects on the housing market in Jeddah, and how that would be affected by the current land use, the research will focus on how to apply other cities’ approaches to prevent those problems in Jeddah.
1-1 Problem statement:

Land is a necessity for human existence in Saudi Arabia. There are a lot of undeveloped lands which are called white land in Saudi Arabia. It is a term used to describe pieces of land which remain empty or underutilized.

Undeveloped lands within a residential area are the result of land speculation which occurs due to investors buying more than one block of land. After that, to make the highest profit, investors keep the undeveloped blocks or lands until they get a good price to sell it.

There are two major problems associated with land speculation in Jeddah.

First, it is the urban sprawl. The population of Saudi Arabia grew 333 percent between 1975 and 2009 (Saudi Arabia 8th development plan), making housing a major issue in the country, Jeddah included. The problem is there are large areas of undeveloped lands inside Jeddah residential which are not brought into use. Although the lands have all the amenities like schools, open spaces, gardens, mosques and infrastructures around, land speculators keep them from development until the price rises exponentially. Because of the absence of low regarding land ownership and development in Saudi Arabia, there is no land tax which boosts housing prices substantially and creates a housing crisis. According to specialists, owning a house in Saudi require that one has to earn at least 15,000 riyals (4,000 USD) per month (Jeddah municipality). The growing population migrates from Jeddah center to the outskirts, causing urban sprawl.

Second, the problem becomes more tremendous when land monopoly takes part on the delay of new urban projects in the city, or obstructing the evolvement of the city. This leads to leaving huge undeveloped pieces of land in the middle of the city causing urban sprawl.
(Some of the disadvantages that are occurring due to land speculation are: the economic effect caused by the land market, a housing crisis in the city of Jeddah.)

The interest in this topic became evident when I was asking around to buy a lot. The prices are just too high for anyone to afford. One square meter probably will cost around one thousand Saudi riyal a normal parcel for a family of four would be around 450 square meters.

1-2 study objectives:

There are three objectives I would like to accomplish through my study. The main objectives are to discover the effects of land speculation on the housing market and help make it a fair market for low and middle income population. Second is examining the best way to utilize the land available within Jeddah urban growth boundaries. The city cannot expand to the east because of the mountains or to the west because of the sea. The land in the city of Jeddah is available but as aforementioned, the demand is too high at the moment and the land price would not fit in the household budget. Therefore, we must leave no stone unturned.

The third objective is to explore some common ground between government oriented and private oriented projects. From that, I would search for solutions on how to create coordination between both and establishing some connections in all stages of these projects’ development. The main reason behind this objective is we are trying to put a stop to the urban sprawl. The city of Jeddah has sufficient land yet it is still expanding in the wrong direction. These two kinds of projects have to be separated but still we cannot move on before knowing where the other side is going how far any development is going to reach. The goals of these two sectors must be coordinated or reconciled to face future challenges.
This paper focuses on these objectives and identifies the main reasons why Jeddah is dealing with such the current problems, addressing some solutions how to proceed with this issues and setting some basic guidelines and recommendations.

1-3 Overview of Saudi Arabia:

The kingdom of Saudi Arabia was founded in 1932. The country has the second largest oil reserve in the world. Oil accounts for 95 percent of the country’s exports and provides 70 percent of the country’s revenues. The country is divided into thirteen provinces, each with its own capital. All of them are managed from the main capital of the country which is the city of Riyadh.

1-4 Jeddah city:

Jeddah city is located on the west region of the country, specifically MAKKAH region. The city has the total area of 1,756 km2. The population of the city is around 3.5 million citizens, representing 14 percent of the country’s total population.

Some 50 percent of the city population is foreigners. The population growth in Jeddah is 3.5 percent (per year). Jeddah is also considered the commercial hub of the country.

1-5 Land speculation in Jeddah:

Land speculation began as the city became overpopulated. People from all over the country started migrating to the city of Jeddah hoping to find better jobs and education opportunities. As those became scarce even in a city like Jeddah, development started to occur on an extreme scale.

Speculation in the city of Jeddah is a major problem, the city minister of housing Abdullah almdefer in 2013 said on tv “our new policy for land will be either develop or sell” and he indicated that land speculation is the reason why the land price is so high and unaffordable and
the fastest way to get rid of this problem is to enforce tax on vacant land. The minister said freeing the land from the burden of speculation is the first step to a cheaper housing market.

The minister actions alone will not be the only solution to the problem but this is a good first step toward this cause. The ministry of housing kept looking for remedies for the speculation problem, eventually they came up with a temporary solutions all of them include providing housing for the Saudi families. Currently there are three projects for housing provided fully from the government. He said the country has 27,000,000 citizen and out of those almost 19,000,000 Saudi why cannot we find land for those people in a country with the area of 2,240,000 square kilometers, during his talk he said we got a lot of vacant land within the fabric our community but currently we cannot do anything against that since the absence of laws regarding these land so we will offer some housing for the citizens who cannot afford it.

First alamir fawaz north this project just started this year and it is said to have the total area of 1,235,004 square meters and 7,213 housing unit.

The second alamir fawaz south another one just starting with the total area of 2,675,225 square meters and will feature 11,883 housing unit.

The last one is near the Jeddah airport also just started this year with the area of 2,000,000 square meters and will have 6,664 housing unit.

These three projects was just started by the ministry of housing all information available at http://www.housing.gov.sa/Projects/Home?rId=1004

The housing projects offers currently one type of housing it includes a living room, dining room, 4 bathrooms, kitchen, and 5 bedrooms on two floors unit this unit were made to fit seven family members and has the ability for future extensions if needed.
Figure 1 several housing units source ministry of housing

Figure 2 first floor source ministry of housing

Figure 3 second floor of the housing unit source ministry of housing
The ministry of housing started this project in late 2013 and on their website they asked all the citizens to participate by sending text messages to all the phone services, and they released some regulation to be certified under this program. The ministry also stated if there is any public opinion on the subject it should be shared on their website no later than 03/15/2014.

All the government is currently doing is temporary putting of the speculation problem which is the main source behind all of this, which is relating to a film that was made by a Saudi citizen (monoboly) this movie talks about the speculation problem and show the events in the life of a Saudi citizen.

This problem not only affecting the housing ministry it is has included the ministry of health, the minister of health Dr. Abdullah alrabea said in an interview with alsharg newspaper that his ministry is spending from the health budget to buy new lands for more hospitals, and he said “it is not we cannot afford the land we cannot find it” and then he continued by relating all the problems toward the speculators saying they are abusing the need we are in and further increasing the land price, during these time the country is expanding population is increasing and the health budget is no enough to accommodate all that increase. Article published by alsharg newspaper 30/1/2012

Before 2010 the government solution to aid the public to acquire housing was to give all the applicant parcels of land but in these last several years this action was rendered impossible the minister of housing affairs Mr.rashed alfowzan said “we cannot find land to give the population” he also said during our meetings to solve this problem when we touch upon the main cause behind this problem we just stop talking, which in return makes the problem more difficult to solve source ministry of housing affairs.
The ministry of education was also affected by this problem in an interview with a Saudi TV channel in 2012. The minister said we had given a piece of land dedicated for public use to create a park in the king’s name but soon after this piece of land was also taken and the park was never appeared.

The minister of housing said in a newspaper article for Okaz News in 12/18/2013 while most people see that the only solution to the speculation problem is enforcing tax on the vacant land, and some even went and said that the government should take the land and give their owner the original amount that was paid for the land. While this is not far from the new strategy that we are working on but some of the people got the land from the government and they just never used it, he said originally we intended for these land to be used we under no circumstances had foreseen the events unfolding in this way. Others have suggested that we move to the suburbs and force the government to extend the utility services there to help reduce the congestion in the city. The minister said that in then lack of land developments started to head vertically and this has some other effects and further increases the burden on the city and reduces safety and increase congestion. Development in the city of Jeddah has already reached the airport while we still have vacant lands in the middle of the city. The minister said the Khilifa Omar ibn Alkhatab, the second successor after Prophet Mohamed God bless him, has taken a land form its owner because he did not use it.

The minister said our first priority right now is getting public utility for the housing projects and later we can look back on this problem and the ministry of housing is undergoing a study to see how is the vertical extension is going to work for the city of Jeddah. Forcing the taxation on land may not be the right way the minister of housing said that people may find ways to get around this like selling the land before the tax period arrive and then buy it back from the same
person, we are going to study this more and force the correct rules. The housing market current condition is dominated by the speculation effects the price for housing is beyond anyone affordability.

Finally the minister of housing asked the people to change their living style and instead of living in large homes we turn to smaller living arrangement. The current slandered for the Saudi family is between 500 – 600 square meters which are very large but this is the normal in a city like Jeddah. The units provided by the government are 260 square meters all information published by okaz newspaper 12/18/2013.

Currently the city is in a phase of creating different mega projects, such as: Jeddah center development project, Jeddah gate project, Alruwais development project and Qasr khozam project, with the total area of 4,702 hectares. Jeddah gate is a project build a new apartment buildings and it is the only one that actually started out of the four. The price tags on these unit before it start is out of both low and middle income classes, they offer units from 320 square meters to 430 square mater the price is at 1,200,000 Saudi riyal which is equal 320,000 usd. Alruwais development project and Qasr khozam project is all about tearing down the slums in these neighborhoods completely and start a new completely different neighborhoods which would require throwing the people who live there out simply cause they cannot afford to live in close proximity to downtown. Jeddah center development project is a project to revitalize the old downtown in the city of Jeddah.
These projects started 6 years ago but until now only one of them is actually in progress. One of the main reasons behind these delays is the problems of tenure confiscation and compensation. As these projects could help the city get rid of the spontaneous settlements which have most of the land problems, the government had plans to get a hold of the land surrounding these sites. However, most of the land the government is trying to acquire is owned by people who do not want to sell or take compensation for, or owned by an investor who is just waiting to get the maximum profit. Information acquired from (Emaar, JDURC, and Jeddah municipality)
This picture shows the slum area in alruwais neighborhood we can see 2 different urban fabrics in one area.. The proximity of spontaneous settlement where the population in most cases has no tenure on the land yet they claim it is theirs.

Now the same thing is happening all over the city and the government cannot get sufficient land for their future projects. As the urban development in Jeddah has reached all of the urban growth boundaries, the government is forced to extend the boundaries to the south and north (Jeddah municipality urban planning department).

1-5-1 Jeddah center development:

This project is about upgrading the city center and the water front for Jeddah city. The project was the first collaboration between the government and the private sector, Jeddah municipality, Jeddah Company for urban renewal and City Center Company. The goal was to upgrade the area of 6,000,000 square meters that includes 14 kilometer long water front and with that upgrade the current infrastructure. In 2008 the contracts were signed with the presence of the
region prince khaled alfaisal and the project was estimated at 30,000,000,000 Saudi riyal which is 8,000,000,000 usd.

Figure 6 Jeddah center development source Jeddah municipality

The project has 3 main Objectives:

1- Purify the lakes and bay to remove the biggest barrier to the investment.

2- Transform the historical district to a traditional landmark.

3- Develop the infrastructure to the highest level.
These are some quick facts about the project obtained from Jeddah municipality.

<table>
<thead>
<tr>
<th>Project name</th>
<th>Jeddah center development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>City center</td>
</tr>
<tr>
<td>Current population</td>
<td>157,670</td>
</tr>
<tr>
<td>Area</td>
<td>6000000 m2</td>
</tr>
<tr>
<td>Project type</td>
<td>Urban design</td>
</tr>
<tr>
<td>Developer</td>
<td>Jeddah municipality, Jeddah Company for urban renewal and City Center Company</td>
</tr>
</tbody>
</table>
Some of the problems caused by this project in the years to come were the government rules that enforced anyone in that area that required a building permit, transferred to the responsible companies and they gave permit to build only 6 floors in the downtown which in the past was 70 floors. Anyone who wishes to build more than 6 floors would to pay a fee for 1000 to 2000 Saudi riyal which is 375 to 600 usd for every square meter to the companies in the project source (Jeddah municipality).

1-5-2 Jeddah gate:

This project is about building an entire new district for the city of Jeddah, the project started in 2005 by Emmar Company Middle East the land they acquired was the old airport land. This is the only project that acquired all the land before starting their development, this unique project has the best location in the city with close proximity to downtown and few kilometers from King Abdul-Aziz University, and 5 minutes access to the highway leading to the airport. Emmar company got their approval from the Jeddah municipality in 2005 and immediately started their plans in 2007 they released the whole project.

The project Objectives:

1 – Introducing a new type of living with new modern ways.

2 - Bring a new business to the city with the high-rise office space.

3 –Make this project the new retail district in the city.
Figure 8 Jeddah gate model source Emmar Company

The company has already finished phase one of the project and started selling in 2013.

Figure 9 Jeddah gate completed buildings Emma Company 2014

This project has the total area of 553,000 square meters for phase one it is an urban development project in the middle of the city and is considered to be the new downtown for the city according to the city municipality. The only company involved in this project is Emmar
Company Middle East. This project offers 75,000 square meter of office space, 30,000 square meter of retail space and 4,000 housing units all managed by the single company and right now they are talking with Jeddah municipality to issue complete paper work for every single unit separately (Emmar Middle East).

1-5-3 Alruwais development:

This project was approved in 2008 after the prince of Makkah region (Jeddah city is within Makkah region) Khalid al faisal as part of his new method to deter slums in the city. The project was the same as Jeddah center to collaborate between the city of Jeddah municipality, Jeddah urban development company and alruwais company.

The municipality chosen this neighborhood because it is a slum area with high population density, this method to them insured that this area will be fully demolished and redesigned from scratch, the area was approximately 2,000,000 square meters. The population density according to Jeddah municipality in this area is 335 people per hectare.

The location of this project is amazing for one it is close to the harbor and is adjacent to the new train station that is going to be established in 2016. This is not too far from the old downtown and the historical districts

The project objectives: remove the slum area – renovate the entire district – secure the old infrastructure and upgrading them – introduce the original property owners as investors in the project.
This is the second project that has government and private sector collaboration but this one also never saw the light of day. Most of the land that was issued for the project could not be obtained because of the speculation activities in the middle of downtown area. Some of the area current residents refused to be in any part related to the project, the reimbursement method were
not good enough for the residents but the homes they already live in may not be worth much but at least it is theirs to do as they please. Source


1-5-4 Qusr khozam:

This project is another one of the government tries to remove informal settlements was also signed by prince khlaid alfaisal. The project was announced in 2008 the collaboration this time was between Jeddah municipality, Jeddah urban development and Dar Alarkan company. This project area was about 3,750,000 square meters.

The project objectives was redeveloping the area – demolishing spontaneous settlements – creating new retail district for the city – forcing the owners to be part of the development.
This is the third project that was directed mainly from Jeddah municipality and until today there is still no work to show for. The problem here was the companies involved could not acquire the necessary land for the development to take place source (Dar alarkan).

Even within slum area the government still fail to attain the land needed for future development, the speculation effects has taken over the city as a whole no development could even start to take root in today land market. Only if the problem were the small slum owners the company could offer good compensation but the large parcels that are a necessity for the projects to continue are unattainable.
Table 1 land ownership ministry of justice in Saudi Arabia the survey was held by the ministry of justice in 2012 moj.gov.sa

The table above shows the land ownership according to a survey made by the Ministry of Justice. And each of those has an annual land ownership increase in the percent. The royal get fifteen percent increase ministers (these are government officials selected by the royal family but they also can be aliases for them or could be used to register things in their names) and investors get from seven to nine increase and the citizens get two percent. The way anyone can acquire a piece of land is either to get a grant from the government or buy the land from its current owner.

1-6 Helping the new development

Jeddah has essential services in most parts of the city the government has already set up all the services inside the urban growth boundaries. However the city is still facing some housing problems because the land within the city is so expensive to acquire for living, each and every individual has to be banished to the city outskirts where the amenities have not yet been set up. Therefore, the urban growth boundaries have changed several times over the last 5 years. Why
can’t we contain this development within the urban growth boundaries? Why is the city facing such sprawl we have never seen before?

The main reason behind that is land speculation. First, speculators typically buy an entire neighborhood and sell several lots to cover annual expenses, then leave the rest until further notice. Second, they only aim at owning areas covered with the government amenities (schools, mosques, etc) although they can do the same thing with the non-serviced areas to pose no threats to the city dwellers. Consequently, this kind of land abuse is making the situation worse every time. For example a site near king abdulaziz university is owned by one developer and has been left empty for almost 15 year now and there are no sign of any development until today.

One of my study objectives is implanting smart growth methods to help with the new project and help with the housing crises. Another is to imply tax on the vacant land that is covered with the government amenities to lower the land speculation effect.

1-7 Smart growth:

Smart growth is a method that focuses on ensuring that new development occurs where there are adequate public facilities for it and coordination between the construction of such facilities and long range planning. This method counters urban sprawl. It focuses on walkability and encourages bicycle use with a variety of housing choices (less is more). Might that be a quote from the minimalist school of design but somehow it fits here. Smart growth will help reduce the urban sprawl that is happening due to land speculation, and it is a new direction we should take in our upcoming development. More so it should be implemented in all the new developments the city is undergoing. With all the new projects in the city of most will abide by this method of course the population will have to believe in
smaller units or condensed space but at least it will be all they can afford so they can offer at least an alternative.

Smart growth is also mostly associated with long-term planning, so it does advocate for sustainability. Sustainability is a concept we need to look at in Saudi Arabia especially in Jeddah. We need to stop expanding our boundaries to accommodate more people because the land we currently have should be more than sufficient to house the city population.

1-8 Tax - why and how:

One of the proposals in this paper is implementing taxation on vacant land served with government amenities. The law in Jeddah does not allow something like that, but it also helps prevent something like that (although that may sound confusing). Recently, we have witnessed dramatic changes, so anything would happen in these days, one would say. The law could change overnight; if this yields a great solution, many will stand for it and it could be passed as a law. The procedures to pass a law in Saudi Arabia are as follows: first, it goes to “majlis ash-shura” and they vote on it, then it goes to the king who would give the final word. Tax on this kind of land if implied will help the city a great deal in preventing sprawl.

Tax on vacant land is a solution adopted by several other countries. In my study, I want to explore the way other countries dealt with it, specifically on how they implied their tax rules on this subject.

Henry George believed that land, labor and capital are the means for producing wealth. Each has a value land provides rent, labor produce wages, and capital get interest. The wealth of society is a collective of rent, wage and interest. Whatever the government collect and in whichever way the spent it builds the economic system that the government uses.
Henry said “Why should a man benefit merely from the act of ownership, when he may render no services to the community in exchange?” and "What gives the wealthy the right to become rich - not for service rendered to the community, but from the good fortune to have advantageously situated land?” (Henry George and the single tax)

He knew at the time that all the economic dilemmas were directed at the unavailability of land for those who needed it the most. All the speculation robbed the land and led people to poverty. Henry suggested a tax on land; this tax would evidently lead to ownership of the land as a common commodity. He thought this tax could raise wages, increase earnings, and abolish poverty by providing new jobs and finally redistribute the wealth.

1-9 The importance of the subject:

This study is important because it will help set some guidelines for future development in the city of Jeddah. The main issues being discussed in this study are smart growth and sustainability concepts. The study also looks at tax implementation, how effective it has been in other countries and to what end it is helpful or not. But I would mainly concentrate on these topics within the city of Jeddah. The study will help address the main reasons for the high inflation in land prices. Once the study results could be achieved and brought into practice, they would increase the city economy. If the government could utilize the vacant lands in the city of Jeddah which is currently served with all the necessary amenities, more job opportunities in the government and the private sections would be created.

Another aspect the study will deal with is the possibility to adjust the urban density of the new projects. The study also seeks ways to enhance the design of the area by introducing more creative design solutions that would bring urban renewal chances for the old parts of the city. Additionally, although many new mega projects in Jeddah tend to facilitate the
extension of all infrastructure services to the developed areas, so much remains to be done. Therefore, the study also looks at solutions to Jeddah’s many spontaneous settlements or randomly developed areas within the city boundaries. This study gives the chance to solve these problems. Even though the availability of all infrastructure services which facilitate extending them to the developed areas of the new mega projects.

I-10 Population in Saudi Arabia:

Statistics obtained from the Population and Housing Censuses, demographic surveys and population projections point to a considerable rise in population size over the past three decades. According to the 1974 census, Saudi Arabia population was estimated at some 7 million, of whom 6.2 million were Saudi citizens, i.e., 89 percent of total population. In the second census conducted in 1992, the population was found to have increased to 16.9 million; 12.3 million citizens and 4.6 million foreigners (72.6 percent and 27.4 percent respectively of total population). The considerable rise in population over such a short span of time is attributed to two major factors, namely, the high rate of natural growth of the Saudi population, estimated at about 3.8 percent per year for that period, and the influx of a large number of foreign workers, who were recruited to meet the needs of economic and social development. Over the 1992–2004 period, the natural growth rate of the Saudi population has remained high at 2.5% annually. Preliminary results of the 2004 Population and Housing Census indicate that the population stood at around 22.6 million in 2004; 16.5 million citizens and 6.1 million noncitizens, i.e., 73% and 27% of total population respectively.

The population growth is different from one region to another in Saudi Arabia. As far as MAKKAH region where the city of Jeddah is located, the population growth from the years 1974
to 1992 was 5.2 percent and for the years from 1994-2004 has decreased significantly to reach 2.2 percent and 3.5 percent in the year 2010.

<table>
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<th>Non-Saudi %</th>
<th>Total %</th>
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<tr>
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</table>

Table 2 Total Population by Age, Sex and Nationality source: Saudi Arabia National Development Plan
The percentage ratio of population in each age group over the total population in each category with data obtained through the central department of statistics as we know the demographic changes actually affect the population need for housing and in Saudi Arabia the age group that is most affected is from 20-24 since they are the ones that will be looking for housing and they are the largest group. This also indicates that Jeddah is a city with diversity in the population which if we focus we could see that from the 29-50 is where the male foreigner is dominant and those need accommodations, most of them reside in spontaneous settlement in the city because there is no housing units for their price range.

The average household size in Saudi Arabia is 6 to 7 persons. The large household size leads to an increase in the amount of efforts needed from the household head to meet the food, health, and education and entertainment demands of the household members. In fact, inability to meet the basic needs of children has a tremendous effect, particularly among the poor families, making them perpetual in the poverty for long periods.

1-11 Housing in Saudi Arabia:

During the period from 2000–2004, the number of housing units that were to be completed or under construction was about 300,000, including about 240,000 units financed and implemented by the private sector and 60,000 financed by the real estate development funds but sadly they were not to be completed. Furthermore, the Ministry of Municipal and Rural Affairs (MOMRA) issued about 150,000 building permits for construction of private and investment housing units. The private sector financed 75 percent of the total number of existing housing units, which numbered about 3.99 million, while real estate development funds financed 610,000, in addition to 24,500 provided by the government under the urgent public housing program. The government also granted 1.5 million land plots to citizens, and government agencies provided
250 thousand housing units to their staff all the housing is issued by Ministry of Municipal and Rural Affairs.

Currently the ratio of the average rental house costs 35% of the household income in contrast to 26% in the past 10 years. House ownership also declined from 65% to 55% due to a shortage in real estate financing opportunities and insufficient loans provided by real estate development funds to meet the growing demands in housing.

The real estate development fund is an agency that offers soft loans to the citizens (these loans are offered by the government, so it can be paid back over the course of 20 or more years with no increments or increase what so ever). However, the funds in that company are not enough to cover the growing demand in housing. The citizens cannot afford to pay back the old loans and that is one of the reasons why the company is not as effective as it should be. Loan applications are estimated to be over 400,000 which make the wait seem almost impassable. However, in the coming years the government is thinking about shortening the waiting period and collecting outstanding loans to give the citizens a chance in overcoming the housing crisis.

There is no clear amount that is processed every year but currently as of 2014 the government started a program to house the citizens but there is no clear way of knowing what are the powers behind that, since the declare the names on the papers the applications are processed through www.eskan.gov.sa

1-12 Methodology:

The methodology of this study is the case study approach. It takes a closer look onto cities in Saudi Arabia and cities from outside to see how they face the problems caused by land speculation, as well as how they prevent or reduce the damage to the minimal. These case studies will be the guidelines to the study. We will see what the impacts of the solutions are if one is
provided, what the outcome of the provided solution is, and whether there will be any problems caused by the solutions as well.

In Saudi Arabia, there are several cities not affected by land speculation, for example, the city of MAKKAH. But this city will not serve the purpose of this study majorly because of the eminent domain rule for the expansion of the holy mosque. Most of the land in this city is owned by the government and the whole city is in the service of the holy mosque.

Yanbu, one of the greatest industrial cities on the east coast is another worth exploring example. This city in Saudi Arabia does not have the land speculation problem at this point. But as far as the solutions are applied to the city of Jeddah, the situation must be different. The only thing we could do at this point is examine the cities and see how they turn the impact of land speculation into a positive one. The reason I have chosen this city because it is such an advanced city in the country. Currently it is the only city that has separate public transportation systems for men and women. This research will focus on the population growth and housing and land use in Yanbu.

Another city included as a case study Hong Kong because it suffered from the same problem and it was ranked the highest in housing affordability in 2011 source 10th Annual Demographia International Housing Affordability Survey. This paper to analyzes what methods they have been using and how they took advantage from the available resources, mainly about the availability of land because in contrast to the size Jeddah is larger than both these cities.
Second Chapter: Literature Review

2-1 Speculation:

The increase of housing prices, collection of properties, increase in vacancy rates, these are the main aspects of land speculation. The inflation in land prices mostly occurs due to speculation. One of the worst impacts of speculation is the negative impact on the housing market where the price escalates so fast to reach a price that is simply unaffordable for the citizens.

The following chapter discusses land speculation and how it started in Saudi Arabia and what were the causes behind it as well as the effects of speculation on the economy, so we could establish a framework for the study to analyze this problem in Saudi Arabia.

2-2 Origins:

The process of speculation is the selling and buying of properties, with the intention of making a profit from the future changes in the value. Mostly there is a waiting period before the selling of the property. The expected gain should always be beyond the original transaction and the holding cost but what makes this problem unique is that there is no holding cost in Saudi Arabia. Of course in this operation, the risk is high but the gain is also unimaginable. The dream of making a high profit as such is the main cause for land speculation. According to Emery (1969), speculation is limited to commodities of uncertain production or limited supply that are under no monopoly control in demand and supply and create a general world-wide demand.

“Speculation is a transaction, in which one acquires by purchase the right to a certain property, and gains or losses for himself the difference between the values at the time of the purchase.” (Emery, 1969, p.100) To make it simple, we would say the speculation goal is to make the highest profit from the inflation in property prices.
2-2-1 Value increment:

In land speculation there is always increment or reduction in the value of the properties. The amount (gain or loss) is the speculators’ real aim. Of course they will always buy the property below market value to make the maximum profit possible. The change in the value of the property is controlled by the speculators if they have the capital to support their investments; therefore, the speculators hold the market in their hands.

2-2-2 Investment Risk Economically:

In land speculation, there is a high economical risk in the value change. This risk is the one factor behind what we call speculation. Speculation in Saudi Arabia often occurs when a new project is announced, or services are extended to a new part of the city within the urban growth boundary. Being equipped with new services, the property within the vicinity is predicted to increase in value. Speculators invest their money in that area. They buy the land within that area with a below or equal to market price, and sell it after waiting for an anticipated time and the property value has increased. By doing that, they play a big role in controlling the land market as the price gets adjusted to their buying and selling transactions. Therefore, speculators are controlling the supply and demand in the real estate sector.

2-2-3 Misleading information:

Hirshleifer (1975), in his definition of speculation under the market constraint of imperfect information, argues that if we all have the same information, we all share the same opportunities. That means there will be no risk involved in the process and the profit will not be the same, therefore there will be no land speculation. For example, when the construction of The King Abdullah University began, smart investors already had purchased the adjacent properties.
Investors may sell at different times but nevertheless the profit has been made by the investors who had the right information.

2-3 Land Speculation (real estate):

Plattner (1988) defined land speculation as the purchase of a property with no intention of using it. In his argument, the investor buys and holds the land for a certain amount of time, waits for the price to escalate, and then sells the property with the maximum profit. This operation causes high vacancy rates and fast turnover in ownership, leading to some of the speculation effects.

According to Bratt (1986), “a real estate speculator can be defined as an entrepreneur or corporate entity that buys and develops real estate with the hope of making a profit from raising the land value” (p.103-p.104). Most speculators work in a capitalist market system. Whether they are individuals or companies, by definition, they are all land owners waiting to make their profit.

2-4 Economic bubble:

This term is originally derived from the economy but in this discussion, we can refer to it as a speculative bubble. What it means is a fast growth in prices as an effect to excessive buying in any commodity. This affects the supply and demand of that commodity, the land in this case. Speculators rush to buy the land before the price escalates and rush to sell the property before the price reverses.

Speculative activities can be branched to two sectors. One is the buying of the land and waiting for the anticipated price due to the changes happening in supply and demand. The other is the speculative bubbles. This only happens when the price of the property increases with no justifiable reason (Wong et al, 1994).
Pezdona(1988) explained the second sector in the housing market as some type of price movement that are quicker than which would be expected on the basis of changes in a housing fundamental ability to provide income or service. The speculators would get misleading information regarding a property but that may happen due to irregularity of the circumstances affecting each property. There is no one hundred percent accurate data in this line of work. The most accurate information that could be obtained is through observing the recent transactions in the housing supply and demand. That prediction whether the property price was going up or coming down is the main cause of a speculation bubble. Only the well informed speculators who can make profits from the ups and downs of the real estate market can make speculative bubbles explode.

2-5 Speculation Effects:

2-5-1 Unstable Prices:

The increase in the speculation often brings escalated prices and has always been deemed the reason behind these unstable prices in the land market. In fact, the unstable prices are the factors that induce speculation. The big risk is often accompanied with bigger profits and of course more instability in the price.

Grebler and Mittelbach(1979) shared the same belief that speculation is not the diseases that we should cure but only a symptom. Because if the investor buys a land for resale purpose, only will he not make any profit unless the demand for the land is high and the prices are affordable by the public; if not, that will only cause a further increase in the price.

2-5-2 High Expectations:

Land purchasing or real estate in general is something of a high value and normally, acquiring the property is accompanied with making use of it. With the high price, it is not something
people do on a whim at all. Nevertheless, when the land value is increasing constantly, that could instigate the investors to play their little game. Normally a property in a good location with all the amenities will serve as a perfect piece where the increase in its price is almost a sure thing.

The main instigator in the increase of real estate prices is actually the fear of more increase. This way of thinking is like an illusionary expectation of the public and the people are susceptible to it. This will affect mostly the future of the real estate market as well as the supply and demand in the current market.

2-5-3 the Wrong Information:

There is no way to obtain the correct information about the housing market. In this case I only believe in this because of how the events unfolded when the city unveils the new king Abdullah university the people rushed to buy dirt cheap land outside of the city only to resale later, and this is just one case out of many that have unfolded in the city of Jeddah. The citizens always differ and their choices vary from one person to another. No one can predict the demand on the market as it is difficult to control the flow of the supply. This lack of information leads to one of the causes behind speculation and sets up room for speculation to occur. Similar to Bramley et al’s (1995) view on the matter, market imperfections can have wider consequences on the housing market. The people who have the correct information are the ones who can control the market flows.

Unstable prices, wrong information, and high expectations, these are the immediate factors of speculation. Moreover there are other factors help in creating speculation problems in the housing supply and demand.
2-5-4 Unstable supply and demand:

The way supply and demand work is that they satisfy each other, meaning the demanded quantity must be supplied. If supplies are short, then prices would change to meet market requirements and they will stay that way until the supplies could catch up with the demands or the demands lessen to the limited supplies.

The relation between supply and demand is strong. If for some reason the price of the market is low, then the current supply is going to run out, and the demand will increase. The demand will not stop until the suppliers acknowledge that the price needs an increase to stop the urgent demand. The housing market is of no exception: the demand for housing will lessen as the price increases. The housing price will increase at a fast pace since this is a product that cannot be produced overnight.

The demand might outgrow the supply if met with other factors such as a change in the demographics, an increase of population income, a decrease in the materials cost for buildings, and many other factors. All of this combined affect supply and demand.

2-6 Housing cost worldwide:

The real estate market in Saudi Arabia is unaffordable at the moment. According to the (7th Annual demographia international housing survey in 2011), the price of a house should be no more than 3 years income on average. The world highest record in housing cost belonged to the city of Hong Kong. Even though it is a small city, the average house was found to cost as much the equivalent of an 11.4-year income. This index in some other large cities is as follows: New York 6.1, London 6.3, and the United States 3.3 as a whole. In Saudi Arabia it was found to be 14 where the average salary for a government job is 8000 Saudi riyals which means 2000 dollars per month and 24,000 dollars per year, and the average price for a house 328,000 dollars.
According to this number, an average citizen needs to save his entire income for 14 years to be able to afford a house. There are no mortgages but there are the banks loans which will take forever to payback with the interest rate.

Some might argue the fact that Saudis live in enormous lots with no need for the extra space. So let us round these numbers and take in mind only the necessary space needed for living which is 190 square meters these average to about 150,000 dollar it will still take the citizen 6.3 years to afford a tiny apartment.

What these numbers stated clearly that in fact there is a problem that is beyond only the economic aspect of the matter. The price for a piece of land in the country is equal to 50% of the actual house cost.

2-7 Economical Problems Led to Speculation Saudi Arabia:

There are several problems that led to speculation in Saudi Arabia. First is that the residents depend on the country for their income as a primary source and almost all of the private companies depends on the government for their continuous existence; the effect of that caused all the citizens preferred the governmental job which led the private companies to hire the cheap outside labor to stimulate the rest of the economy, and eventually they become a necessity for both the government and the private sections. The outside labor reached a 90 percent occupation in the private section. Second is the absence of rules regarding vacant land development on the contrary there are rules that make it easier to do.

All of these were not problems in the past the demographic 20 years ago was not the same as today. Nevertheless this problem did not occur overnight it was growing and growing until it got out of control. We cannot solve this entire problem in one instant but the least we could do is put
a stop to land speculation which is one of the main reasons why Saudi Arabia is suffering economically.

The housing ministry in Saudi Arabia in its new strategy outline that is coming out at the end of the year declared the following in their website http://www.housing.gov.sa/. There will be increase in the developed land, increase in the government loans for housing which is currently at 130,000 dollar, issue rules regarding vacant land, and new monitoring system for apartments rent, increase density in the housing units, and lastly issuing tax for any real estate transactions. These are some of the issues the housing ministry will look at in the following year.

The housing ministry will issue a law that a vacant land should be developed within a period of time, or the owners will face extreme punishment such as taking the land. This has never happened before in the country. This is not evident until now in Jeddah city but in king Abdullah economic city this low is in the contracts.

2-8 How Speculators Think in Saudi Arabia:

The vacant land price is increasing even though the market is at a stall condition, many wonders why is this happening? Why the price is increasing and no one is buying anything? To answer these questions we must know how the speculator thinks.

If the speculator acquired a piece of land his goal is to keep it for the longest possible time, and never to sell unless he is in desperate need for cash, in his eyes the land is the best way to keep his fortune. For several reasons he does not need to pay anything for there are no taxes and the price is only going to increase therefore he will always keep it in that form and will only sell some of the property to sustain his other expenses.

For example: if an investor owns 100,000 square meter of land he needs 300,000 Saudi riyals which is about 80,000 usd for his annual expense he will only sell a parcel of the land to cover
this year expense. And next year as the price increase he will sell a smaller parcel of the land. And what is happening that the investor is only selling to a small percent that can afford his price. We currently live in a vicious never ending cycle where the rich get richer and the poor get poorer.

2-9 Conclusion:

Speculation in the land market is caused by many things, the increase in the housing prices, misleading information, hoarding of properties, unstable supply and demand, and absence of laws regarding vacant land development.

Many think that speculation is the result of all these combined but I still think if the speculation were to cease existence all the others will decrease dramatically.
Third Chapter: Case Studies

3-1 Hong Kong experience with speculation:

The city of Hong Kong is one of the overpopulated cities around the world. It has suffered from the speculation problem long before Saudi Arabia. The speculation activities in the city started in 1980-1994 source Lau, k (1995) master thesis on land speculation effect in the university of Hong Kong, and in order for the city to reduce this kind of activities the government had to intervene. The government started to issue some rules in 1991 to slow down the process of speculation, reducing the profits from speculation did not work so good for the government for the high price in housing was still in effect and the prices would not just go down in days it will probably take a long time for this to take effects. However in 1994 the government had to step in to solve the problem but this time they were adamant to put a stop to the continuing problem by introducing a way to deal with speculation (Planning, Environmental and land, Brach, 1994). The government were trying to decrease the speculation demand and boosting the city supply for housing units.

3-1-1 Hong Kong housing market:

![Graph showing Supply, Take-up, and Vacancy of Private Domestic Units in Hong Kong (1980-1994)]

Figure 13 Supply, Take-up and Vacancy of the Private Domestic Units in Hong Kong (1980-1994) source property review Hong Kong
In the 1980s the supply in the Hong Kong market has been over flooded with flats. The major developers were trying to seduce buyers by offering incentives. All this effort has gone since at the time was not keeping up with the available supply. After that in the year 1985 demands on housing was flooding the market and this was the perfect opportunity for owners to increase the price any emerging development at the time would be bought immediately. With all of this going on the city still was suffering from a high vacancy rate this is the moment the speculation started to take roots in the city. This was the main reason for vacancies to appear in all the city venues. With developers waiting for the price to appreciate or reach a number they are satisfied with, they will wait and keep these units vacant for as long as possible since their financial state allows them to wait.

In any good market a vacant unit for a year or more after completion still vacant is considered hoarding of property in other word speculation.

When comparing this to what we have in Saudi Arabia development keeps emerging with no one able to buy a unit in today’s market the latest of those in the city of Jeddah the new project of “Jeddah gate” has completed phase one recently in 2013. With different kind of units the cheapest of which is at almost $325000 dollars. Of course here we are taking about the cheapest unit according to “Emmer Company” the company responsible for this project in Jeddah city.

The previous is only one example of many in the city of Jeddah multiple other project of course are in the horizon with no guidelines to guide these development, the city will be creating a huge problem for the future.

3-1-2 Hong Kong fast turn of ownership:

Speculation is defined as the purchase of a commodity and reselling with making some profit in the process. In most cases when raped turnover in ownership occur the cause behind it is still
speculation but only speculators who are looking to make a profit with it but when a major player enter the field who can afford to wait and let the price appreciate further up cause he simply can afford to wait this is what cause the problem.

To market a property in Hong Kong for some development under construction the owner will ask for 10-15 percent of the unit price is due at signing a lease before completion date. After that this escalate to 20-30 percent so most speculators aim to buy more units before completion and soon after they sell some of their units and wait on other to sell later.

In Saudi Arabia it is different since there are no rules regarding this matter the price is usually the same but since there is no tax for withholding anything of that sort it makes no difference the speculator will sell at his will.

3-1-3 Future planned development:

Any new development in Hong Kong would need approval from the government, and any developer tend to increase the number of apartment to increase their profit from selling more units since it is relatively cheaper to build more units in a floor than buying more land. In Hong Kong they need to submit the plans for the government to get the permission depending on many factors the most important of which would be environmental hazard and transportation.

In Saudi Arabia it is almost the same process but with minor differences that caused some neighborhoods to build future development that stayed vacant for almost two years now. The reason behind that is the government changed one of the zones from low density to high density cause of speculation and the housing price escalation. They changed one zone in 2011 this uprooted the whole neighborhood from villas and 2-3 story building to suddenly 10 story buildings (source Jeddah municipality housing report) this neighborhood now has lots of vacant apartments.
3-2 limitation of land supply:

(Goldberg & Chinloy, 1984) argue that land is major input for housing or any other development for that matter, and any increase in the land price will reflect as in increase in the cost of housing. Therefore the limitation of land is also one of the factors the triggered the speculation effect.

Housing is not a commodity that can be provided overnight via construction or destruction of other units and producing new ones. In the short term these housing units are available or the available housing supply has their own price at which they can be sold (Pozdena, 1988). Therefore when the demand on housing increase the price of the units escalates.

Since the city of Jeddah is a coastal city that is surrounded by mountains from the east and sea on the west the only natural sprawl will be north and south. The city has been actually moving to west and building over the sea, Jeddah municipality started converting parts of sea into land and it has been doing that for 15 years now because the land supply is limited the development had to move over to another terrain.

3-3 Unstable prices:

We have defined speculation as the action of making money while using the fluctuations in the price of the housing market. Naturally with greater risks come better revenues but in this process nothing is curtain. (Emery, 1969) acknowledged speculation as a result of the change in the price in the housing market. In a market so unpredictable even the population should be considered as a factor, some people are willing to buy and sell if they even should make a friction of profit, they have the power to shift the balance and control the speculation to some extinct (Emery, 1969) therefore the more graduation in the change of the price in the housing market the more speculation activity are bound to happen.
3-4 Vacancy rate in Hong Kong:

In the city of Hong Kong the boom of the housing market was in the 1980s after that their market crashed according to (Hong Kong property reviews, various issues) over several years and the vacancy rates were too high that indicated the housing market started with vacancy rates from 20 percent that in start of the 1990s that limit has reached almost 64 percent.

The activities in that period of time was affected by the speculation, therefore the huge decline in the housing market activity that led to the vacancies was an indicator that the speculative bubble has already burst and left the market in the dump for a few years.

The housing market was not moving in Hong Kong in 1994 and that has forced the price to decrease exponentially by 10-15 percent. This forced the hand of most developer to cut down their prices in order to shake up the market, forcing a company to do something as major and never had any precedent (Nan Fung development) offered 100 percent home loans for all of their nine residential developments.

The city of Hong Kong conducted a survey with a sample size of 10,078 unit 31.7 percent of large development were completed by 1992 and only 1.803 unit 17.9 percent were not occupied by the end of the first quarter of 1994 which indicated hoarding of properties (Planning, Enviromental and land branch, 1994).

Another experiment were conducted with a sample of 17,544 unit 69.9 percent that were completed in 1993 indicated that 7,099 unit 40.5 percent remained vacant in the first quarter of 1994. Almost half of the units were hoarded by a single person (Planning, Enviromental and land branch, 1994).
All of that indicated that the speculators were most active in 1991-1992 and the two surveys indicated that the speculation infects the new development especially anything that is under development.

Looking through the Hong Kong housing market from 1980 could be our focus point to understand some of the elements that led to speculation and what it had caused.

3-5 Factors that led to speculation in Hong Kong:

3-5-1 Scarcity of land:

Land has a main and important role to play in the housing game. In that time Hong Kong could not control the land supply for one main reason (Sino-British Joint declaration) which forced Hong Kong not to add more than fifty hectare of land per year. Every time the government needed to acquire more land they would have to negotiate china before making any new land supply available. The agreement also had the condition that Hong Kong must determine their needed supply before negotiating and the amount supplied could not be changed without proper reasoning.

The agreement was one of the reason people started their speculation to boost their profit because of the scarcity of land supply at the time and the following table show the amount of land acquired every year.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Land Disposal (hectare)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985 - 1986</td>
<td>55</td>
</tr>
<tr>
<td>1986 - 1987</td>
<td>58.00</td>
</tr>
<tr>
<td>1987 - 1988</td>
<td>61</td>
</tr>
<tr>
<td>1988 - 1989</td>
<td>94.5</td>
</tr>
<tr>
<td>1989 - 1990</td>
<td>78.26</td>
</tr>
<tr>
<td>1990 - 1991</td>
<td>128.27</td>
</tr>
<tr>
<td>1991 - 1992</td>
<td>81</td>
</tr>
<tr>
<td>1992 - 1993</td>
<td>159.3</td>
</tr>
<tr>
<td>1993 - 1994</td>
<td>127.8</td>
</tr>
</tbody>
</table>

Table 3 The Amounts of Land Disposed Since the Sino-British Agreement

source: Planning, Environment and Land Branch 1994

we cannot put all the blame in the government in this matter even though their hands were tied, some of the property developer also share the blame here in the year 1993 a small amount of land 25 hectare were only zoned and sold as residential and commercial leaving the bigger share for private developers source (Planning, Environment and Land Branch 1994). Now the developer can start their hoarding game in these hard times they could easily develop and sell some of the land and leave the rest until the price appreciates. The scarcity of land makes housing a rare commodity thus increasing the price to new heights.

3-5-2 Governmental loans made speculation easy:

In Hong Kong housing market, loans provided by the government and financial organization to all the developers in the housing market. Lately almost 35 percent of banks loans were given to property related use. Naturally this implicate that only a small down payment to get a mortgage loan and put it as another down payment for another unit and getting another loan. Of course this made the speculator job easy giving him all the leverage he needs to attain new flats source Hong Kong monthly digest of statistics, various issues.

The lucratively access to loans for housing has drastically decreased the mortgage rate speculators. The cost for buying new housing is low therefore most speculators would go for
recently developed apartments. This time was the high peak of the speculation, eventually led the financial institutions to reduce their loans to 70 percent of the property value in 1991, suddenly the demand for housing lessen by almost 50 percent in less than a year source Hong Kong monthly digest of statistics, various issues.

3-5-3 Financial participation from developers:

Since 1991 the financial institutions have limited their loans, which in return help to curb the speculation in the couple following years. During that time most developer came up with a new way to sell their properties to provide the buyers with the hurdle that was 70 percent of the property value. The method was to put a down payment in easy 15-20 month installments but the rest of the money which is the 70 percent would be paid later after they get the deed to the house. Meaning in case the owner decides to sell the apartment after he buys it a good profit can be made, which in a way is more convenient since he has no need to pay the full amount and he only needed a small hedge fund to start this operation.

The limitation that was implied on the housing market were just a small band aid on a big wound but it had some effect on letting the prices stay as is and not appreciates. In the year 1992 there was 100 residential project for sale, 38 percent was offered in the new financing method provided by developers source Hong Kong economic times, April 1995.

3-5-4 People expectation for the housing market:

Any kind of investment in the housing market is based on the premise that the value is going to increase. Thus, the price of housing is going to increase with no doubt leading to speculation. The housing prices reached a new high in 1991 after the Sino-British agreement were concluded. Still speculators were able to make their profit from the land they acquired while the agreement
was under effect. They would now control the supply and demand for the housing market and only offer few apartments for direct housing while they control the rest.

One other matter began to surface at the time after all that any future construction would be a gamble. Any developer in a city like Hong Kong would be fully responsible for his development, which somehow similar to Saudi Arabia any price is applicable since the developer building on his own expense. Unlike the United States were investment risk spread across many local markets.

Naturally speculator involvement in any market their goal is to gain the maximum profit otherwise they are wasting their time.

3-5-5 No government rules for speculation:

The government role in Hong Kong is to set a good and complete frame work for the economy that is equal to all, which is pretty much the same in Saudi Arabia.

The major mistake in both cases of course that none of them has accounted for the real estate to raise the ceiling over and over.

One other flew in both of their policies was to set limitation on unit sales because this rule were absent one could buy as many as he can afford. This was the reason that most of their unit were sold to speculator who hoarded them and left so few for the housing purpose. All of this led both countries supply of housing to ruin by shifting the balance of the supply and demand scale.

3-5-6 Population growth rates:

Some factors could lead indirectly to speculation for example the continuous change in the population. Families sometimes outgrew the house they live in and to change to bigger house, family size does effect where and how we live so there is always that need for more units in the housing market.
We already looked earlier in the growth rate of Saudi Arabia, the population growth in Hong Kong slowed down immensely from an average 1.5 percent to 0.6 percent in 1986-1991 until it reached 2 percent in 1993 which was a sign that they needed more housing units.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population</th>
<th>Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>5063100</td>
<td>2.7</td>
</tr>
<tr>
<td>1981</td>
<td>5183400</td>
<td>2.4</td>
</tr>
<tr>
<td>1982</td>
<td>5264000</td>
<td>1.6</td>
</tr>
<tr>
<td>1983</td>
<td>5345100</td>
<td>1.5</td>
</tr>
<tr>
<td>1984</td>
<td>5397900</td>
<td>1</td>
</tr>
<tr>
<td>1985</td>
<td>5456200</td>
<td>1.1</td>
</tr>
<tr>
<td>1986</td>
<td>5532600</td>
<td>1.4</td>
</tr>
<tr>
<td>1987</td>
<td>5613400</td>
<td>1.5</td>
</tr>
<tr>
<td>1988</td>
<td>5681300</td>
<td>1.2</td>
</tr>
<tr>
<td>1989</td>
<td>5761400</td>
<td>1.4</td>
</tr>
<tr>
<td>1990</td>
<td>5800600</td>
<td>0.7</td>
</tr>
<tr>
<td>1991</td>
<td>5822500</td>
<td>0.9</td>
</tr>
<tr>
<td>1992</td>
<td>5902100</td>
<td>1</td>
</tr>
<tr>
<td>1993</td>
<td>6019900</td>
<td>1.8</td>
</tr>
<tr>
<td>1994</td>
<td>6149100</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Table 4 Population growth rates in Hong Kong

Source Census and Statistics Department, 1990

When we look at this table we do not account for the family size, the average household also differ throughout the years so does a family need for housing. According to (Hong Kong home affairs department, 1981) the surge in their population in the early 1980s was due to immigration and they were considered to be the main reason behind the shortage in housing. At the time because they were not permanent residents in the city of Hong Kong they could not purchase housing.
3-6 Industrial city of Yanbu:

Industrial Yanbu was established in 1977 when the population Yanbu al Bahr was estimated at 20,000. The current form and structure of Industrial Yanbu evolved over several developmental phases of the master plan.

Figure 14 Sub-Regional Structure Plan Showing the Relationship between Industrial Yanbu and Yanbu Al Bahr and the long term development plan. (Yanbu Al Sinaiyah Master Plan 2000, 6)

The following picture is of the city of Industrial Yanbu show the city boundaries and urban form. The picture shows that almost all the land is developed before the urban boundaries extension.
The next picture is from the city of Jeddah showing what some of the many speculators has affected the city urban form and wasted an insane amount of vacant land that is in the middle of the urban fabric.
There are almost no different rules set aside for both cities but for Jeddah there is a problem that is affecting the community. Lack of housing opportunities in one but even if we talk about the different of population there is the job opportunity between the both given their size, Jeddah would offer more yet still acquiring a house is almost a dream for any resident in the city.

3-7 Speculation in the industrial city of Yanbu:

Land speculation in Yanbu is different than Jeddah, the population of the city is relatively smaller than Jeddah therefore the effect is not as damaging. The city of Yanbu has suffered from the speculation problem in the recent years which force the public to speak up demanding parcels of land, which is in Saudi Arabia provided by the government for citizens and by the ministry of housing affairs.
A survey made in the city of Yanbu by the ministry of housing affairs that included 6,105 citizens the jest of that was to determine house owners and defining them by age groups, and their income, and ownership of properties. According to the survey most incomes are between 7,000 – 15,000 saudi riyal which is 1,800 – 4,000 usd. For housing ownership the numbers were 26 percent of the married couples owned either an apartment or villa while the 64 percent of married couples is renting a floor or an apartment while the last 10 percent lives with their relatives. When we try to identify them through their age group is in the following table.

![Housing ownership survey](image)

Figure 17 Housing ownership survey in Yanbu ministry of housing affairs 2010

This table shows that out of the population between the ages of 22-30 years only 15 percent owns residence, and as it goes on and on we can see that most of the population do not own housing even at the 50 years some people still suffer and cannot afford a house. The population income is rising over the years and yet the still cannot afford a place to live.

The citizens affordability for housing become a problem with the growing speculation even in a city like Yanbu the population cannot get their most basic of commodities housing.
The president of the real estate development Mohammed Al Helaly for the city of Yanbu stated in a newspaper (Aleksadia) in 2010 that the neighborhoods in the city have more than 20 percent of vacant undeveloped space and the value of that was estimated at 6,000,000,000 Saudi riyal which is 1,600,000,000 USD and that eventually would have to force their owner to pay taxes and that he already submitted the papers to their main office in Riyadh city. Until now there is no clear intervention from the government.

![Figure 18 chart showing the use of land in Yanbu urban growth boundaries by Yanbu center of development in published in 2012](image)

The change in the urban growth boundary for the city is evident in this chart. With 6 percent increase in the boundary and they also stated that the development is reaching the city limits, and it is only growing in the outer rim of the city. Their representative Dr/ Ibrahim Al Khatani said “if only we took images from Google Earth we would be surprised by how much vacant land are within the urban growth boundaries”.
Residential districts in the industrial city of Yanbu:

The city of Yanbu has a diversity of nationalities which is similar to Jeddah, but since it is a smaller city this gave it the chance to be mold and shaped by the residents. Many neighborhoods in the city have a unique character especially in planning and design of the residential units which in some way help to eliminate the income variation among the residents.

Figure 19 Example of Industrial Yanbu Neighborhood Units’ Design. (By author)
These neighborhood designs were an indication for each neighborhood and who lived in that area. The speculation effect is minimal in this city because of the form it had been shaped up to be. While most of the city is dedicated to Armco workers, and since all the plans for the city were interrupted by greedy speculators. For 30 years now the city has yet to reach the projection that was set at the time of the design, on the other hand the city of Jeddah keeps expanding toward an unknown future.
Fourth Chapter: Measures to Reduce Speculation

4-1 Introduction:

As mentioned earlier housing is a basic commodity that should be every resident right. Most of the Saudi cities are not doing great in that department but for some cities like Jeddah the problem has got out of hand. In these times any intervention from the government would be most welcomed. At this time all the government is doing in other cities not including Jeddah is providing low income housing but the city of Jeddah need that and need to set some rules or guidelines for the future development in the this city, as it is the second largest city in the country. The private housing market is in desperate need for some attention from the government.

In today’s growing economy any household would have to grow economically, incidentally they begin demanding better housing. The market price goes up of course leaving most of the families behind, this rate increase is only available for the high income people from high middle to low always are left behind. The housing supply in the city is not increasing because all of the ongoing development is made with living quality to match the high income population.

All of the project that are under development which will not be completed until late 2016 of it stayed on track, but where is supply for the middle income families who will provide for them and how are they going to be effected by this problem, has the speculators acquired all the land available for the market and left them with nothing. The government intervention now is a must for the city of Jeddah. All of the major development in the city is directed toward the high income population.

This chapter will be focusing on some method to reduce the speculation effect and how could it be implemented in the city of Jeddah.
Speculation in the city of Jeddah is a major problem, the city minister of housing Abdullah almdefer in 2013 said on tv “our new policy for land will be either develop or sell” and he indicated that land speculation is the reason why the land price is so high and unaffordable and the fastest way to get rid of this problem is to enforce tax on vacant land.

At this time the demand is exceeding the supply since there is no available land for development whiten the city of Jeddah. The city of Jeddah has over 70 percent of the land within the urban growth boundary are undeveloped land (http://www.housing.gov.sa/) and in the city of jeddah the value if this land were estimated to be 3,000,000,000,000 saudi riyal which is 800,000,000,000 usd and mr.abdullah said that only if 10 percent of this land were available for the public market that most of the citizens will not be able to afford it, and eventually it will force the owners to reduce their price to meet the public expectation or affordability. This article was published on April/30/2013.

The 3 largest vacant lands in the country are in this table:

<table>
<thead>
<tr>
<th>City</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeddah south</td>
<td>150,000,000 km²</td>
</tr>
<tr>
<td>Al dammam</td>
<td>110,000,000 km²</td>
</tr>
<tr>
<td>Riyadh north</td>
<td>100,000,000 km²</td>
</tr>
</tbody>
</table>

Table 5 the largest sites in the country published by al riyadh newspaper march 2014

The newspaper article stated that the minister of housing affairs and the minister of justice will have to come up with a new system, this new system will have to comply with the previous and help enforce rules only on vacant or undeveloped land, any delay in building will be forcing penalties.

4-2 Set limitation on property related loans:

In the last chapter we discussed how most bank loans were regarding housing and most of them have defaulted. It was advised in Hong Kong to give any support for property developers.
This may not be the case in Saudi Arabia but such rule would prove useful. What is implied here is the only way to get a loan approved from a bank or any other institution is that the buyer/owner/investor comes up with at least 35 percent of the property value as a sign that he is in need of that commodity.

This rule could prove more useful to at least curb the actions of little speculator if not eliminating their activity in general.

4-3 Set limits on unit sale:

From what happened in Hong Kong in chapter 3 speculators bought many unfinished apartments and sold them as soon as they finished. The government of Saudi Arabia could force the owners or set rules regarding this.

Rule such as this could allow anyone to buy one unit only and the government could also raise the first deposit to be at least 10 percent to force only people who are in genuine need for housing.

4-4 Applying lease fee:

In Hong Kong the government introduced the stamp duty ordinance in 1992. In short that rule meant any buyer would need to pay a stamp duty at the time of signing any sale or purchase agreement. This ordinance has affected all the short term speculation since their activities depended on fast turnover ownerships.

Such a rule in Jeddah would be very helpful to the middle income class since it will force short term speculators to bow down. The way to implement this at best would be 2.5 to 5 percent depending on the value of the land to be paid to the government. This will not only help contain speculation but in addition will help the government set aside some extra fund for housing.
This is unheard of in any Saudi city but such a rule in Hong Kong generated a large amount of money (Hong Kong Economic Journal, 11 November 1993)

4-5 Provide more lands:

This is perhaps the most effective way to avoid speculation but it cannot be applied whenever we would like. Increasing the housing supply is the most logical solution for Jeddah but now the city has reached new limits. Jeddah city moved their development out to the sea and it cannot move east to the mountain side, north is the new heading these days but how far north will the city go. The new airport expansion is already set at the city limit and housing is almost nearing this area. In order for this plan to work perfectly all of the undergoing development will need to be accelerated and new development need to focus on creating more adequate housing unit, this means something more affordable for all levels of income.

4-6 Utilizing the vacant lands:

This is the most important of all for the city of Jeddah since currently there is a lot of vacant land the run thorough the urban fabric of the city. While we cannot pinpoint exact locations since it is appearing all over the city like a plague.

Setting some simple rules such as develop within a maximum of year or two after purchase or else the government will have to use imminent domain.

Such a rule is now implied in the new city in Saudi Arabia (King Abdullah Economic City) the rule states if the purchase did not use the land for the purpose of his/her purchase the city has the right to forcefully take back the property source(Emmar company).

One of the other rules that are being implied in that city is if a resident has proven to be a nuisance or fail to fulfill his obligation to the property as it is zoned the city has the right to retain the land.
These kinds of rules will force the speculators to think twice before acting or in Jeddah case it will be a big burden on them.

4-7 Applying some kind of administrative and monitor measures for housing:

This is really out there but such measure will insure that the housing market is going to be fair ground for all. In all of Saudi Arabia government in the recent years has been trying to control and monitor several departments a couple of years ago, they started sending government officials to restaurants and coffee for monetary purposes, upon finding a violation they shut the place down and give them a substantially large fine in several occasions forced some business to shut down permanently. Last year the country did that for immigrants too, the government started doing house searches for any illegals, deports them as soon as they find them. With these entire new rules why cannot we simply do the same for housing forcing any change of the zoning regulations to pay a fine or take back the land, or at least monitor any new lease agreement we already have the department for it (Ministry of Municipal and Rural Affairs) any new lease should be sent to them and they send people to monitor the land activity.

If the city of Jeddah applied this measure there can be a really accurate forecast in the housing market supply and demand, avoidance of any sudden shift in their balance or the ability to resolve problems before they occur.

4-8 Applying tax on vacant land:

This is a simplest task of all yet until now has yet to see light in Saudi Arabia. A simple tax only on vacant land but we need to reach a percent that will force the developer to either build or sell as soon as possible for the sake of the city future. The reason most speculators in Jeddah keep their land is simply because they can and it is free, and the price will only appreciate it is
not possible that it will go down in time. The suggestion here is a simple 3-5 percent for small development such as residence and 10 percent on huge developments.

This rule if applied it might reduce speculation activities in the city and force it back to the right track of development. Jeddah is the second largest city in the country and it is still expanding and major development from around the world is expanding there, but the availability of the land is making the city advancement hard and unpredictable.

4-9 Conclusions:

Housing is a necessity for all mankind, but the housing market in Saudi Arabia was affected by the speculators. The speculators tip the balance in the housing market supply and demand through one major method excessive buying of properties, and that leads to an increase in the market value for other properties. Eventually when the market reach a state that is simple unaffordable for the middle income families.

As we have seen in Hong Kong case the government intervened in the market in 1991. But to no avail the prices kept on rising so later in 1994 the government again started to come up with some measures to reduce speculation.

To start this research first thing is to clarify speculation, and it is origin, how did it affect Saudi Arabia, why was it easy for the speculator to hoard more property. The second thing discussed in this research is the speculation effects on the housing market, how does it affect supply and demand, who has the speculative power in today’s market and after that we look into Hong Kong experience with speculation and how they have dealt with that problem. What are some of the method they used to reduce its effects.

Robert Plattner (1988), defined speculation as the purchase of a property with no intent to use it, the main reason behind this purchase is to wait for a while until the property price escalates
and he can gain a small profit. Some of the effects discussed in the research includes fast
turnover for ownerships, increase in vacancy rates, housing price escalation, accumulated
properties among speculators.

The increase of the housing price makes home purchasing hard to both lower and middle
income. In 1991 the government of Hong Kong intervened in the housing market but all they did
at the time was to reduce the speculative demand, and they could not come up with supply
because they were under the Sino-British agreement.

The second time the government joined hand with the people to help the dying housing
market of Hong Kong in 1994 one of the long term measures used at the time was increasing the
land supply therefore increasing the housing. Even though this would take years to kick in at the
time it was the best solution.

Speculation activity affects at most the lower to middle income class and in most countries
this is where most of the population falls, making it hard for these people to obtain a basic
human need.

The government actions regarding speculation should be minimal and only affect those who
are using it to gain profit. Some of the measures discussed here: Setting limitation on property
related loans, setting limits on unit sale, applying lease fee, provide more lands, utilizing the
vacant lands, applying some kind of administrative and monitor measures for housing, applying
tax on vacant land.
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