

Saudi CMA Permits Foreign Investment in Listed Companies Owning Real Estate in Makkah and Madinah

Foreign investors can now directly invest in public companies that own real estate in Makkah and Madinah, thereby boosting market appeal and liquidity.

Key Points:

- **Regulatory Change:** Effective **January 27, 2025**, the Capital Market Authority (CMA) has permitted foreign investment in listed Saudi companies that own real estate in Makkah and Madinah.
- **Ownership Cap:** Foreign investors can now own up to **49%** of shares or convertible debt instruments in these companies.
- **Market Impact:** This move is expected to enhance liquidity, attract international institutional investors, and support large-scale development projects in the two holy cities.
- **Investor Eligibility:** Qualified investors in these companies now include residences, GCC nationals, Qualified Foreign Investors (QFIs), swap beneficiaries, and discretionary portfolio management clients — but strategic foreign investors are excluded.

Background and Strategic Context

Makkah and Madinah are critical economic and religious centers, attracting millions of Muslim pilgrims annually. This sustained influx fuels strong demand for hospitality, commercial real estate, and infrastructure projects. However, foreign ownership of real estate in these cities has historically been highly restricted due to their religious and strategic significance.

The Law of Real Estate Ownership and Investment by Non-Saudis has long restricted foreign individuals, companies, and even Saudi companies with foreign ownership from owning and benefiting from properties in Makkah and Madinah. This framework, aimed at maintaining control over these sensitive areas, has historically served as a barrier to international capital inflows.

Recognizing the need for foreign investment to drive economic expansion, a 2021 Royal Decree introduced flexibility to the previously restrictive framework by, among other things, exempting listed companies from such restrictions pursuant to regulations to be implemented by the CMA. However, the absence of a clear implementation mechanism delayed any material impact, until now. The CMA's recent announcement formally activates this exemption, setting the stage for international investment in public companies with real estate holdings in the two holy cities.

This shift aligns with Vision 2030, which prioritizes economic diversification, foreign direct investment (FDI), and the expansion of tourism infrastructure.

Foreign Investment in Real Estate Listed Companies

The new CMA controls clarify how foreign investors can invest in Saudi-listed companies that own real estate in Makkah and Madinah.

Foreign Ownership Limits

- Subject to the eligibility criteria discussed below, foreign investors can now purchase and own shares in publicly traded companies that own real estate in the two holy cities.
- However, their aggregate ownership in any company (including both individual and institutional investors) cannot exceed 49% of a listed company's shares or convertible debt instruments.
- This ownership ceiling ensures local control while still enabling significant international participation.

Eligible Foreign Investors

With the new CMA controls, foreign investors who are eligible to invest are limited to the following, ensuring that the capital inflows come from regulated and credible sources:

- **Residents:** Non-Saudi individuals residing in Saudi Arabia.
- **GCC Nationals:** Citizens or entities from Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates.
- **QFIs:** Foreign institutional investors who are qualified pursuant to the CMA's Rules for Foreign Investment in Securities to invest in shares listed on the Main Market of the Saudi Exchange. Qualification conditions currently include having assets under group ownership, management, or custody of SAR1,875 million (equivalent to US\$500 million), with limited exceptions such as certain pension funds, endowment funds, sovereign wealth funds, and government organizations.
- **Swap Beneficiaries:** Foreign investors accessing shares via swap agreements with CMA-licensed institutions.
- **Discretionary Portfolio Management Clients:** Foreign clients of Saudi-licensed asset managers who delegate full investment discretion to such managers.

Eligible investors will continue to be subject to the CMA's Rules for Foreign Investment in Securities. However, strategic foreign investors as defined by the CMA are not permitted to own shares or convertible debt instruments in listed Saudi companies with real estate holdings in Makkah and Madinah.

Implications for the Saudi Real Estate and Capital Markets

The new CMA controls are part of a broader strategy by the CMA to encourage further foreign investment in the Saudi capital markets with an aim to further boost liquidity, increase market depth, attract institutional investors, and enhance price discovery. Furthermore, Saudi Arabia is actively expanding pilgrim capacity in Makkah and Madinah, requiring billions of dollars in infrastructure and real estate investments. Large-scale developments — such as hotels, serviced apartments, retail centers, and transportation hubs — are critical to accommodating Saudi Arabia's goal of 30 million Umrah pilgrims annually by 2030. By enhancing foreign investor access to publicly listed companies focused on these assets, the CMA is creating a new funding source for these projects. Publicly traded developers and operators can now tap into global institutional capital, making it easier to finance large-scale urban development.

This change marks a major step toward a more open and dynamic Saudi financial market, reinforcing Saudi Arabia's status as a regional investment hub while maintaining proper oversight of its most sacred sites.

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