MAZAYA
AIM TO LEAD

The Monthly Real Estate Report

Issue No. 107

(Kuwait) Tel: +965 22243333 | (Dubai) Tel: +971 4 3635455/6
www.mazayaholding.com

The Monthly Report - April 2015

Al Mazaya: UAE and GCC construction sector's prospects strong in 2015, despite oil price falls

Mr. Rasheed Al Nafisi	Chairman	nifisi@mazayarealestate.com	Tel : + 965 2224 3333
Eng. Ibrahim Al Soqabi	Group CEO	alsoqabi@mazayarealestate.com	Tel : + 965 2224 3332
Eng. Salwa Malhas	Chief Business Development & Marketing Officer	salwa@mazayarealestate.com	Tel : + 965 2224 3355

Al Mazaya: UAE and GCC construction sector's prospects strong in 2015, despite oil price falls

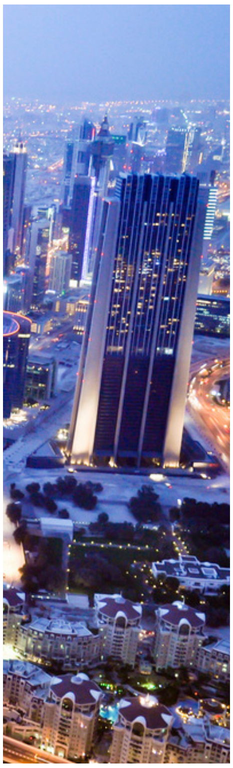
The declining oil price will likely affect the region's construction sector negatively, putting the brakes on some government short-term and long-term infrastructure and real estate spending. Also, non-government real-estate players will stay on the sidelines over the coming months as falling oil prices inevitably mean falling costs of construction materials. The market will wait, naturally, for the cheapest prices. While the prospect of a correction hangs over the industry, it is normal that it will slow – buyers, in particular, will wait to see if better value can be found tomorrow.

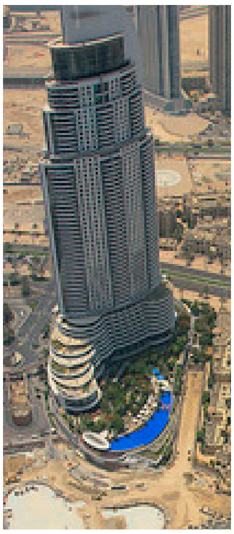
Al Mazaya Holding weekly report points out that while the construction sector slows during the downward movement in the price of oil – and diesel – cheap prices will in time prove to be good news, spurring developers and buyers alike into action while prices are cheap. While costs – of materials and diesel – are low, profit margins can be high.

It goes without saying that profitability depends on demand remaining strong during the current period, and indications suggest this is the case. Consequently, we expect the region's construction companies to deliver strong profits during this quarter and the next. In fact, we believe the current prices of materials better reflects the reality of the market than did the prices in 201314/, when high oil prices inflated costs artificially.

Al Mazaya Holding weekly report states the value of construction projects – government and private – in the United Arab Emirates underway at the present time is AED660bn, according to official figures. Despite the declines in the price of oil and the knock-on affect to government spending plans, we believe the construction sector in Dubai will grow by some 5.8 percent in 2015. In 2014, construction contributed 9.1 percent to GDP, an amount we consider sufficient to insulate the industry from any upcoming public sector spending reviews. Construction remains too important to Dubai's long-term economic diversification plans to be slowed significantly – indeed, this year we predict the government will increase its spending on construction by five percent.

Likewise, we expect the construction sector in Abu Dhabi to experience further growth during the current year due to the continuing commitment of the government to state-funded projects intended to play a strategic role in strengthening the economy for the long-term. We do not expect the declining oil price to have any effect on the government of Abu Dhabi's plans to build airports, ports, factories and other important infrastructure edifices over the coming years, with the goal of generating long-term returns. It is worth noting, all of these projects will create demand for housing in the emirate.





In Abu Dhabi, some 48 real estate projects worth AED99bn are underway. In general, the health of the UAE's construction sector (we have seen mega-projects that were halted at the onset of the global financial crisis resumed) has supported the wider industry in the region. In the first half of 2014, for example, construction contributed eight percent to Dubai's GDP and we expect this figure to rise over the coming years as mega-projects are announced in the build up to the World Expo 2020, which the emirate will host.

In the last quarter of 2014, five major international construction exhibitions were held in the UAE, demonstrating the support the sector enjoys internationally, both in the UAE and the GCC. Sales of building materials at these conferences were believed to be up on the previous year by as much as twenty percent, and more deals are likely to be done at 2015 exhibitions as a result of recent and upcoming mega-project announcements. The UAE's construction sector, thanks to the excellent infrastructure, particularly in Dubai, that facilitates the transport and import of materials, is optimally placed to thrive. As the government looks to increasingly work with private sector developers in the creation of new centres of commerce and economic cities, we expect the industry to go from strength over the coming decade, supported by beneficial legislation and strong liquidity.

Throughout the GCC, the construction sector relies on GDP growth and infrastructure spending by government for stability and growth. Prospects, therefore, are good, even though the oil price has weakened: AED800bn of projects are expected to be announced over the coming five years throughout the region. Although it is inevitable the industry will face the challenges to which it has become accustomed – typically, caution over lending by banks, fluctuations in the costs of materials, recruiting skilled manpower and competition from overseas construction firms – it is expected the industry will thrive while remaining competitive.

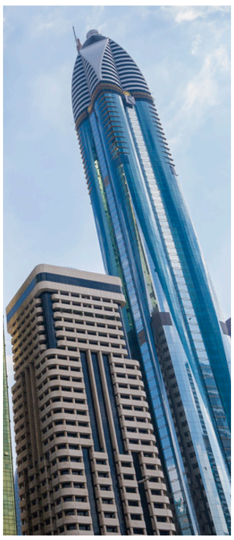
The UAE's economy is forecast to grow by 4.5 percent this year, compared to four percent in 2014, despite difficult global financial conditions. Likeweise, we expect the economies of most other GCC states to perform well. The prospects, then, for the construction sector throughout the region, and particularly in the UAE, are very good, in the opinion of Al Mazaya Holding weekly report.

Al-Mazaya: oil price declines will likely affect Gulf developers' appetite to bring units to market in 2015.

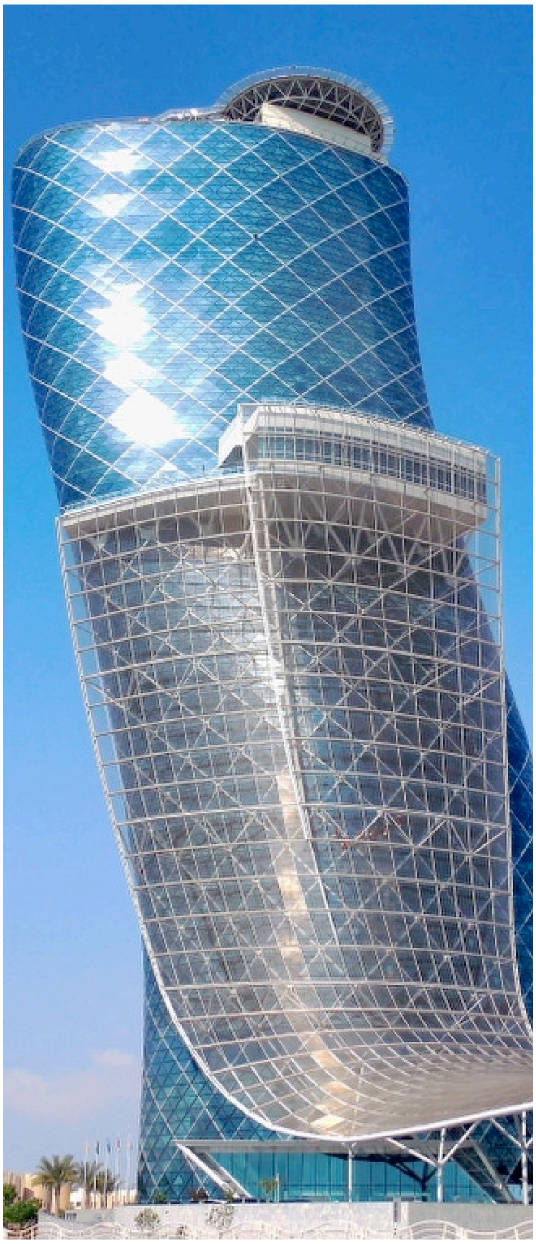
Fluctuations in the oil price are not always driven solely by the supply versus demand ratio–currently, there are other, geopolitical, forces at work that are affecting the price. These forces are by nature temporary, and in time we will see the price stabilize and more accurately reflect market realities post global economic crisis.

However, the effect of the oil price on the Gulf real estate sector is certainly real, lowering the cost of materials and transportation costs, and we can expect to see more downward pressure on construction costs over the coming months, especially as increased residential unit supply comes onto the market in some Gulf countries where construction activity has recently been high.

Looking at the residential units to be offered in the real-estate market this year, it is evident they surpass the demand forces across the regional market. This is the nature of real estate construction: market forecasts must be long-term in outlook but it is hard to accurately forecast the variables that will affect demand and supply costs accurately. As a result, the sector is often exposed to the consequences of extreme fluctuations.



No less than 20,000 residential units will come onto the market in Dubai in 2015, exerting downward pressure on sale prices and lease rates. In 2014, leasing rates in Dubai improved by some seven percent on 2013 rates, which in turn improved by 24 percent on 2012 rates. The lease rates in 2015 are expected to prove less attractive to investors than the 2013 rates, though the market will remain active, servicing local demand for sales rather than bringing in large numbers of external investors.



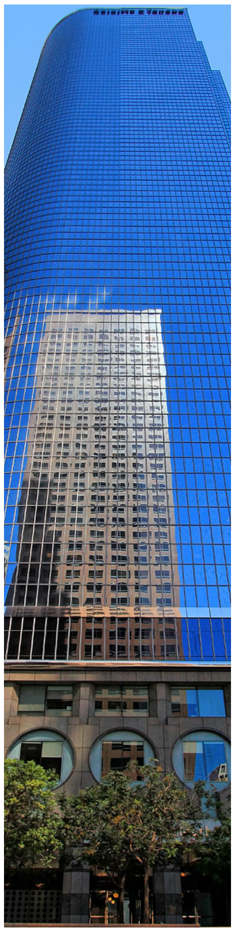
In Sharjah, 175 real-estate projects were launched in 2014 and we expect to see some 3,000 further units brought to market in 2015.

In Saudi Arabia, construction activity is high on the residential side as the government looks to provide sufficient quantities of homes to keep pace with a rapidly growing population. Investment into residential supply is expected to be some SR82bn in 2015, and more than 750,000 units will be finished. A significant proportion of the financing costs for such large-scale construction will be met by the Saudi Real Estate Development Fund, while the rest will likely emanate from the private sector.

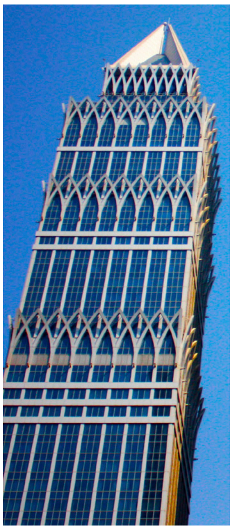
It is expected that, as a result of the new residential unit supply, prices for homes in much of the country will face pressure – currently, market demand is sufficient only to absorb 25 percent of supply. Already, prices in Saudi Arabia for completed homes have weakened by between five and fifteen percent since the start of the year, while land prices have dropped by as much as nineteen percent. As a result, investors are content to wait on the sidelines for further falls before entering the market.

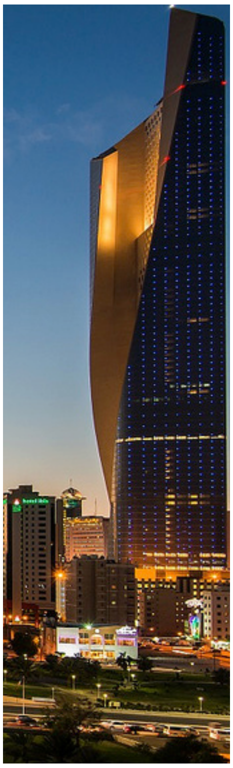
In Qatar, we expect to see 25,000 new residential units come onto the market in 2015, and some 100,000 by 2020. Current projections show demand is sufficient to absorb this level of supply – and lease rates are likely to remain stable and attractive to investors. It is expected that government calls for the construction of increased numbers of affordable homes for low-to-middle income families will see considerably more low cost residential units completed over the short-term future.

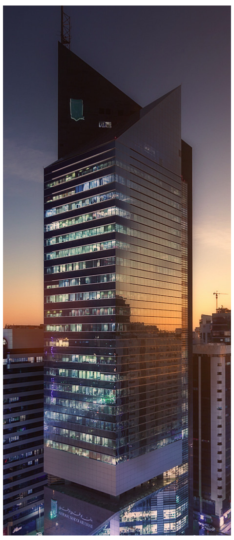
In Jordan, we see some momentum in the market for small apartments – in January of this year alone, some 863 small apartments were purchased, up eighteen percent on January, 2014. However, demand for larger apartments has fallen off significantly, by as much as 21 percent in January 2015 versus a year previously. Investor hesitation as prices decrease and high levels of bureaucracy are deterring construction companies from pushing ahead with planned projects. While the market continues to experience downward pressure, we expect the real estate sector to seem less attractive than it has previously to potential investors.



Lease rates in Qatar have surged in recent years, up by between seventy to eighty percent between 2011 and 2014, as a result of the increased price of land. We expect strong demand for residential units over the coming five years will support a further ten percent strengthening of lease rates.







In Bahrain, we expect to see 40,000 residential units delivered, largely driven by a Bahraini Ministry of Housing Social Housing initiative to meet projected demand, especially towards the lower-income end of the market. We expect to see demand grow by between five and seven percent, and we are confident the construction sector in Bahrain will enjoy significant momentum as a result of well-supported mega-project announcements and investment drives.

Despite the large amount of residential units forecast to come onto the Gulf market in 2015, Al Mazaya report does not predict a supply glut. Instead, and perhaps controversially, we expect declining oil prices to temper developers' enthusiasm to complete projects on schedule, delaying completion of final phases until prices and lease rate have strengthened. As a result, we do not predict the occurrence of real estate bubbles similar to those we have seen in the recent past. Supply will naturally realign itself to a level at which the prospect of meeting demand is, in most cases, realistic.