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AIM TO LEAD

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Considered amongst leading, highly-demanded financing tools for government economic development plans

Al Mazaya: Islamic Sukuk comes on top of key enablers for investment growth

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Al Mazaya: Islamic Sukuk comes on top of key enablers for investment growth

The Sharia-compliant financing options have become the most useful financial solutions capable of leading the world economy at a time other traditional financing options are waning and not anymore able to meet the growing demands of developmental drives and requirements of the new global investment landscape. This competitive edge enjoyed by Sukuk, the Islamic bond, is attributable to the buoyancy and flexibility enjoyed by this investment vehicle to provide the liquidity levels needed by mega-sized enterprises launched by the private sector, and to meet the needs of government spending requirements. Over the past period, it has been noticed that the growing issuance of Sukuk has had its positive impact to keep the required momentum on capital markets in a way that has reflected positively on all essential economic sectors, atop of which come the investment and real estate platforms.

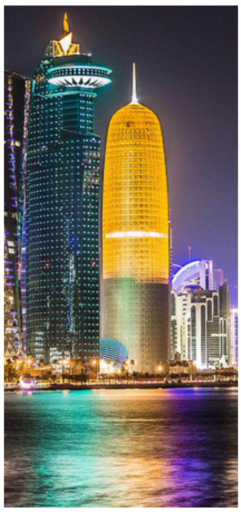
Al Mazaya Weekly Real Estate Report said that Islamic Sukuk has been gaining noticeable momentum over the past period, outperforming conventional bonds in attracting the largest possible segments of investors in light of the growing appeal it is now enjoying among investors across the world due to its relatively reduced risk, and distinctive fundamentals as a means to monetize assets once cash is needed by its issuer.

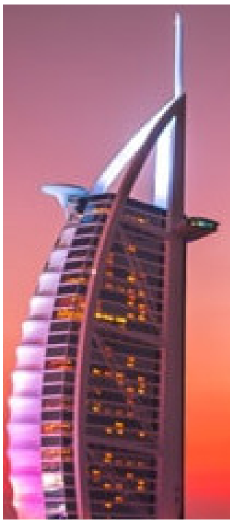
Comparing Sukuk and conventional bonds, the report said, Sukuk are financial certificates structured to comply with Islam's prohibition on charging or paying of interest that grant an undivided interest or share in an underlying asset along with the profits, cash flows and risk commensurate with such ownership. Sukuk are often referred to as the Islamic equivalent of bonds. But Sukuk represent ownership of real assets, whereas conventional bondholders own debt. Sukuk is an attractive Sharia-compliant option for investors seeking to diversify their investment portfolios. They tend to be more insulated from market fluctuations and have lower correlations to other asset classes, including global conventional bonds and global equity.

Financial institutions around the world are now vying for securing the largest possible share of Islamic finance and capital by developing banking mechanisms compliant with Islamic Sharia principles and launching new financial products on financial markets and stock exchanges that cater to the needs of Muslim investors and businessmen.

Despite surrounding headwinds, the Islamic finance industry has been posting strong growth rates over the past years, with Sukuk becoming amongst the key financing options sought after by world governments to attract Islamic capital and Sharia-compliant financial services. With countries effectively seeking to develop their financial legislation and investment vehicles in alignment with Islamic finance, Sukuk have taken on different forms and types, including Sukuk Al Ijara, Sukuk Al Musharaka, Sukuk Al Murabaha, and Sukuk Al Istisna, etc.

The report indicates that Sukuk cover a wide spectrum of economic activities including production platforms like agriculture and industry as well as financial and investment domains such as Al Murabaha, highlighting in this regard the Islamic concept of sustainability and durability ensured by Sukuk where the owners invest their money in real projects. Sukuk are well suited for smart management of risk. Uncertainty is a big part of the investment. Islamic securities can be issued with varying degrees of risk and yield, allowing investors to choose a portfolio best suited for their risk management profiles.





The value of Sukuk is reportedly expected to surge to $60 billion by the end of 2017, which is below original forecasts, said the report, noting that the fall in global oil prices which started in the second half of 2014 has accelerated the issuance of Sukuk specially by oil-producing companies which tried to utilize the Sukuk market to maintain spending level at normal rates and keep developmental efforts unaffected. The report said that the volume of Sukuk, according to current indicators and statistical data, is expected to surge to $3.4 trillion by the end of 2018, with the Islamic finance market projected to grow by 1315- per cent during 2017.

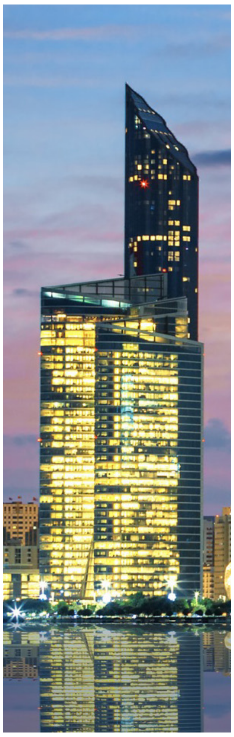
The forum discussed the key growth drivers for the Sukuk industry and potential growth markets. The participants underlined the critical role of supervisory authorities in areas of Sukuk, noting that any Islamic legislation-related headwinds in the Sukuk market might trigger a negative impact on the entire Islamic financial sector. The forum reiterated the growing trend towards issuing Sukuk across the markets of the Gulf region in specific in light of the ability of this kind of investment to survive risks related to the budget deficit, foreign loans, privatisation and monetization.

This comes at a time when the Islamic finance sector is considered among the highest growing sectors thanks to the advantages offered by Sukuk and their important role in providing feasible opportunities and savings to different investment platforms as well as their contributions to diversify investment tools, given that large-scale economic developmental plans require accelerated issuance of Sukuk in order to maximize savings and expand investment pools. Within this context, the 9th Forum for Listed Companies and Analysts, held recently in Kuwait, included for the first time a discussion panel themed “Sukuk and Future Outlook” to demonstrate Sukuk growth opportunities as a financing instrument, not to mention the legal, regulatory and supervisory requirements for sovereign and corporate Sukuk issues.

The report noted that Islamic Sukuk provide good opportunities for getting suitable and powerful financing options at a time other financing options wane and fail to provide the needed financing for infrastructure and developmental enterprises, which are subject to market volatility, ultimately reflecting negatively on spending priorities. It added that the flexibility and resilience provided by Sharia-compliant financial products have enabled many countries to launch infrastructure projects and state-run income-generating enterprises. The report concluded that the Sukuk market is a strong enabler for investment growth in the capital markets both at present and in the future thanks to its potential to facilitate synergy, safeguard markets against volatility and generate cash inflows besides its ability to develop innovative financial products.

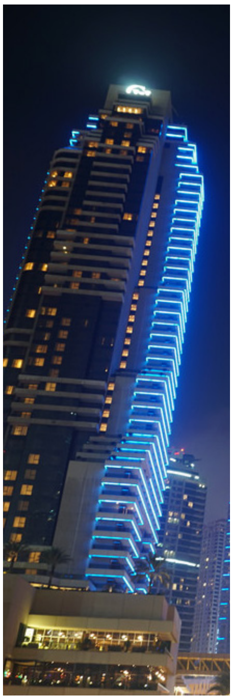
Amidst bullish economic indicators

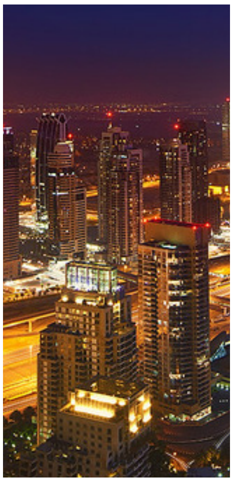
Al Mazaya: GCC states enjoy advanced industrial zones capable of attracting foreign and local investments

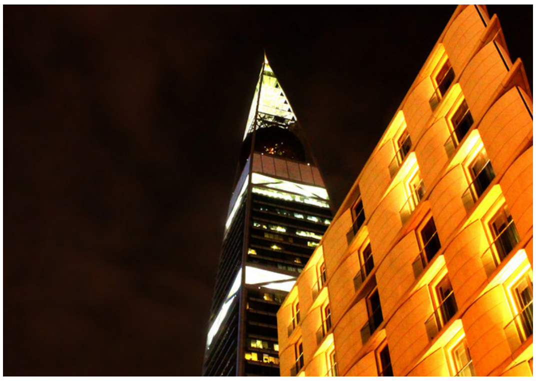


The demand for industrial spaces is a significant indicator of economic growth as it reflects the country's ability to get high rankings at local and international economic indices. Forces of demand are typically associated with developmental and economic transformational plans, which are already underway in the region, and translate the importance attached by the governments of the region to the industrial sector and steps are taken to drive its contributions to Gross Domestic Product (GDP).

According to Al Mazaya Holding Weekly Real Estate Report, most of the GCC states have advanced industrial zones capable of both attracting foreign and local investments and in the same time surviving economic pressures created by the challenges besetting the region.







The report mentioned that the declining demand for residential units, amidst continued supply of ready-to-move properties, has negatively affected selling and rental rates, with residential units demanded by foreign companies being the only exception. This, according to the report, has had its knock-on effect on the demand for commercial and industrial spaces as well as on the value of new investments.

The report revealed 1020- per cent drop in demand for industrial and commercial spaces in Qatar, with more declines projected during the first half of the year as a result of the demand for residential units, which likewise started to decrease owing to the downsizing policies adopted by some companies and growing supply of other residential options that meet the needs of different segments of society.

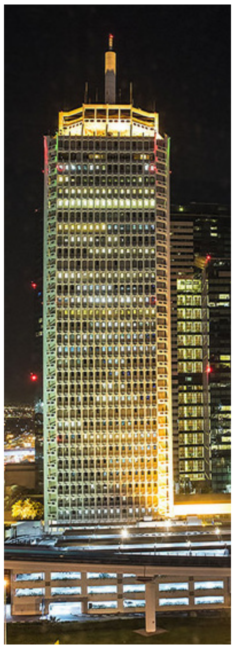
The declining global oil prices that resulted in decreasing government spending have had their own bearing on employment rates and commercial and industrial activities, said the report, pointing out that Qatar has started to launch logistics and industrial projects to revitalize business, support local products and diversify investment techniques as well as providing momentum to increase the role of the private sector in the developmental drive, thereby creating new opportunities for young investors, including small-medium scale investment companies.

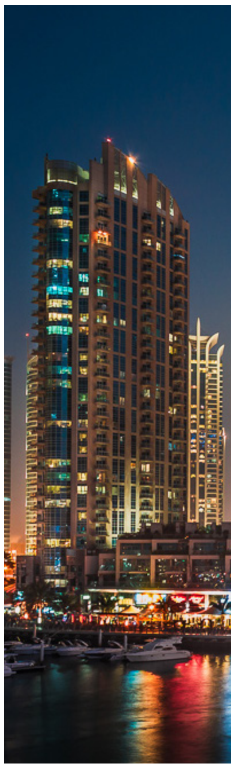
In the Emirate of Dubai, the demand for industrial areas has been stable during Q1 of 2017 despite the economic volatility witnessed at regional and global levels, said the report, noting that real estate demand in the industrial sector, including transformational industries, increased 18 per cent in Dubai's industrial free zones during 2016, with warehouses having been in strong demand during the same period.

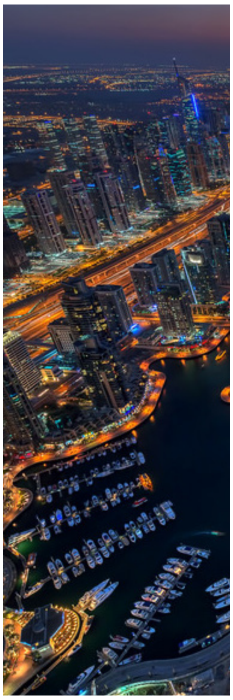
The report attributed stable demand rates in the UAE to the billions of dirhams being spent by the government on developing the industrial sector, including the launch of sophisticated industrial zones supported with premium infrastructure services and hundreds of parks and plants. In this regard, the report cited establishment of KIZAD, Dubai Industrial Zone and Dubai South as prime examples of efforts being made to promote local industries and bring them at par with global standards.

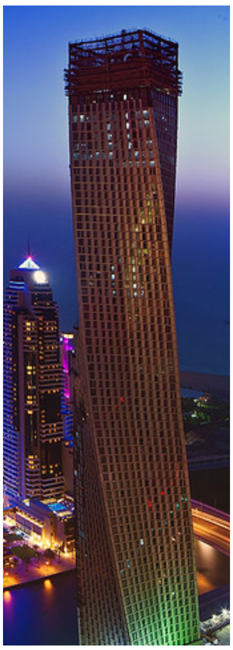
In Saudi Arabia, efforts are going on in full swing at the government level, with data indicating a growing upward movement in developing industrial areas as a result of the recorded increase in the number of industrial, service and logistics contracts being awarded. The report also cited the economic transformational plan adopted by the country to further empower the industrial sector.

The report highlighted the trend towards launching industrial infrastructural enterprises in Saudi Arabia, including different types of industrial cities owned by the private sector as well as those executed by the Saudi Industrial Development Fund, with investments channeled to the sector over the past few years amounting to SAR 1.1 trillion. The report added that Saudi Arabia, in doing so, relies on an integrated infrastructure to generate employment opportunities, improve investment potential and create a business-friendly environment capable of enticing local and foreign investors.









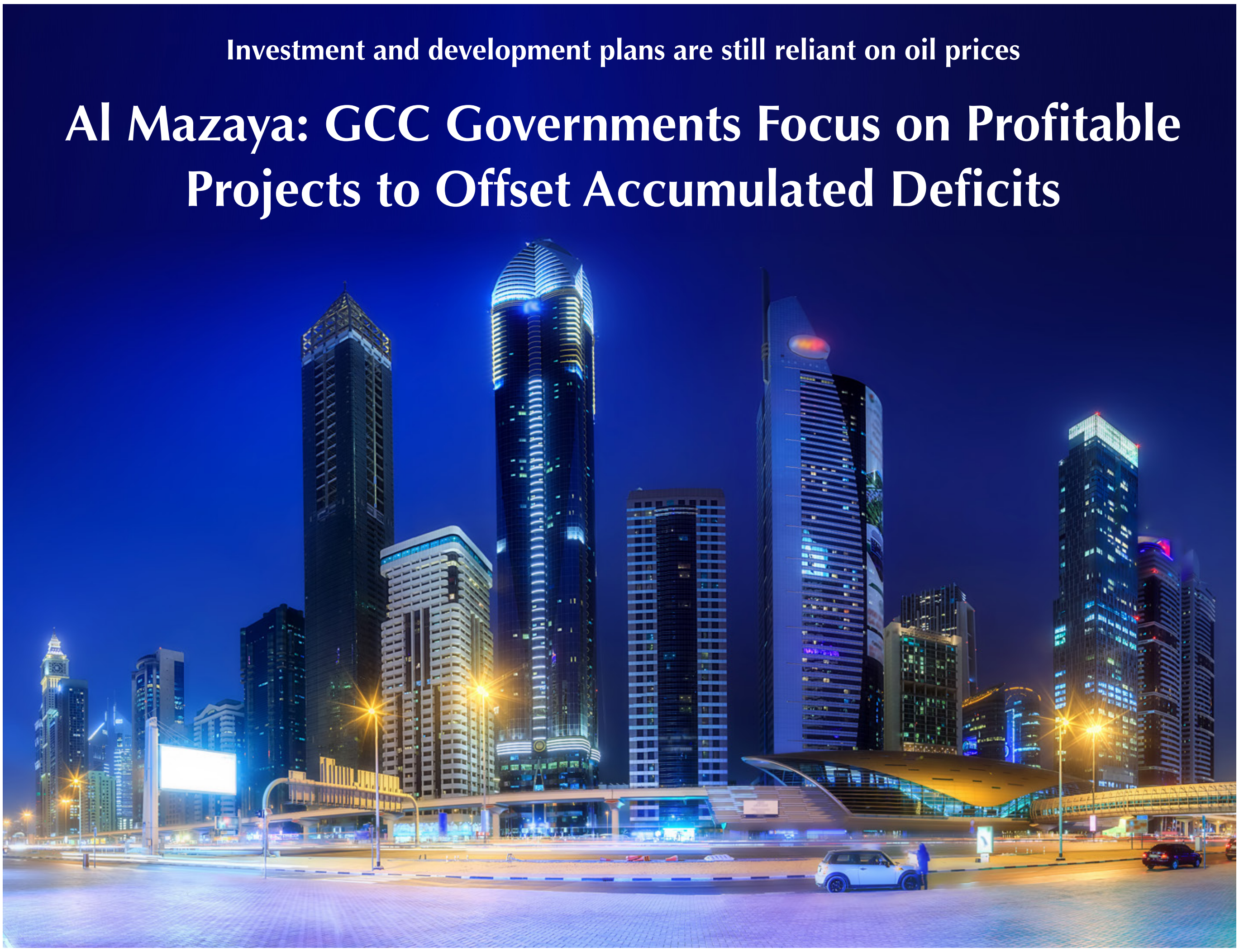
In Oman, the outlook is more optimistic on account of the direct and indirect support provided by the government, with total leasable industrial areas across all industrial zones in the Sultanate reaching more than 33 million square meters during the first half of last year. Plans are underway to ensure availability of integrated industrial areas over the coming period by diversifying sources of income and creating new solutions to consolidate the economy.

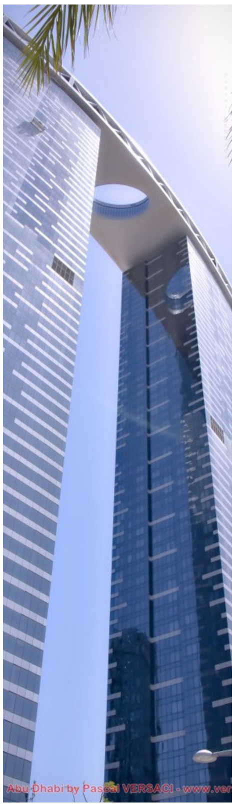
According to the report, Oman's Public Establishment for Industrial Estates has created more than 33,000 job opportunities through the projects launched at the country's industrial parks, with the total space of leasable areas exceeding the 90 million SQM mark, all of which are dedicated to industrial, commercial and service purposes. Attracting investments worth more than OMR 6 billion in 2016, industrial zones in the Sultanate are integrating state-of-the-art technologies into different industries in order to save time and effort, accelerate production and enhance quality and efficiency.

Concluding, the report said the region's industrial sector is moving in the right direction, enjoying true potential for success thanks to the continued support provided by the governments and their empowerment of the private sector, calling for developing efficient mechanisms that enable the GCC states to promote and market their industrial zones on the global level in order to ensure the highest possible levels of occupancy and demand and generate best investment returns.

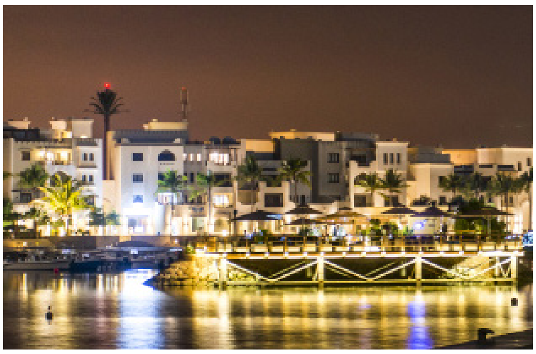
Investment and development plans are still reliant on oil prices

Al Mazaya: GCC Governments Focus on Profitable Projects to Offset Accumulated Deficits





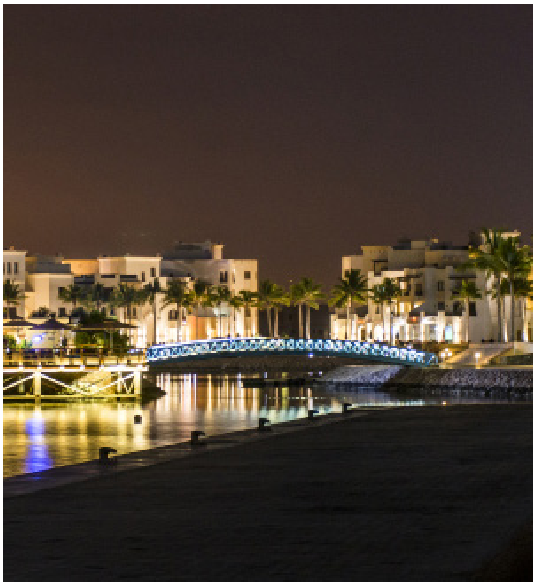
GCC States have shown far greater efficiency in managing the impact of falling oil prices, according to current data and economic indicators gathered by Al Mazaya Holding's latest weekly report. The Gulf region has reconsidered development priorities in a way that corresponds to generated returns, optimising government expenses and incentivising the private sector to take up additional roles in the development process.



The region's countries have proved hitherto successful in their economic investment options despite market pressures, which are, however, strong enough to endanger gains of strategic developmental plans and long-term investments. The economies of oil exporting countries have for a long time been largely dependent on oil market performance with weaker crude oil prices creating a new reality that augments pressures on oil economies. As a result, this has developed new policies to avoid enormous budget deficits that could jeopardise their investment gains, including increasing oil production levels or maintaining them at their current rates.

The report mentioned that global oil prices declined by 6% during Q1 2017 amidst fears of increasing shale oil reserves after OPEC's deal with non-members to cut oil output. This has pushed oil rates over the $50 mark, a level that encourages American shale oil producers, who are not part of the deal, to resume production. Oil prices declined by 2% in April, standing at an average of $51.7 per barrel, with light crude rates continuing their plunge during the first week of May through electronic transactions in Asia. Brent crude dropped to $47.1, with current data projecting no potential stability or improvement at the $70 mark.

Government expenditures remain unchanged, running at safety net spending levels, with private sectors being empowered to chip in and make up for weaning government spending. The first quarter of 2017 recorded a 16% enterprise growth as compared to the same period last year, with the UAE economy coming on top in terms of the number of projects being launched while the Saudi market is down 29% as compared to the same period last year.



Energy sector enterprises have increased by 18% comparatively with Q1 in 2016 amidst persistent fears of further declines across the sector. This has triggered a reconsideration of several mega project-related tenders, as prices are not encouraging a resumption of development plans and property, industrial and service projects.

The report shed light on the UAE's real estate market which has witnessed new property projects worth AED 16 billion, in addition to investment enterprises in areas of hospitality, marketing and leisure launched by semi-government and private companies as well as luxury property projects initiated as part of plush and integrated model urban communities. Economic diversification and the varying effects of oil prices from one emirate to another are supporting factors that has kept momentum running in the real estate sector during the first quarter of the year.

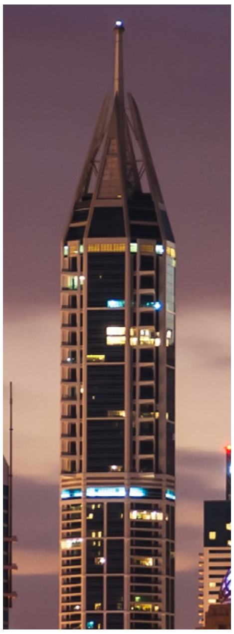
Data released by the Real Estate Registration Department in Dubai showed consistently increasing foreign demand for Dubai property, with non-Arabs claiming 51.6% of property purchases, followed by Gulf investors at 35.5% and Arab investors at 12.9%. In Saudi Arabia, pressures are more likely to continue at key economic platforms during the rest of 2017, according to the report, as transformation plans underway need longer time to bear fruit. The Saudi property market is, therefore, not likely to witness growth at the current stage and will wait for deliverables of the transformation drive.

Data released by the Saudi Ministry of Justice indicated a decline of 9.5% for property transactions in the housing sector, 11.7% for the commercial sector and 1.3% for the agricultural sector. The report referred to 10 ambitious enterprises underway worth $92 billion, including religious, entertainment and new housing projects. Urban and transportation projects account for 68% of KSA’s total projects, estimated at A$ 700 billion.

In Oman, Vision 2040 is set to give the property market more momentum over the coming few years, with the exceptional nature of the Omani realty market auguring well in a way that exceeds expectations and outpaces the performance recorded in neighbouring countries. In conclusion, the report stated that government spending is now mainly focused on never-failing profitable enterprises in order to offset accumulated budget deficits. In addition, the relative rise in oil prices compared to the previous years has reflected positively on the real estate sector’s performance. However, with oil prices remaining below the $50 mark, despite the consensus on extending crude oversupply limits, pressures are expected to persist at vital sectors of primary importance to GDP.

The current momentum recorded by the regional tourism sector is exceptional

Remarkable Tourist Performance Yields Substantial Results and Consolidates GCC GDP



The growing focus of GCC states on tourism has yielded substantial results, expanding economic opportunities and helping Gulf economies survive current business pressures. The successful impact of tourism on the economy is attributable to the strong tourist infrastructure enjoyed by the region's countries, which gives the tourist sector a regional and global competitive edge that reflects positively on total revenues.

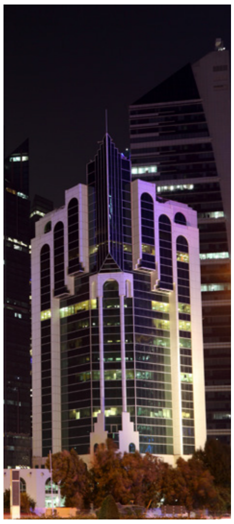
In its weekly real estate report, Al Mazaya Holding said that the region's countries are mulling over all possibilities and opportunities that can help ensure stable and increasing growth rates amidst current local and global challenges that are difficult to survive through the plans and strategies now in place. The report termed the current momentum recorded by the regional tourism sector as exceptional, being mainly created by the private sector, with the region's governments continuing to provide all forms of support to their economic platforms, primarily tourism, to help ensure the required growth rates.

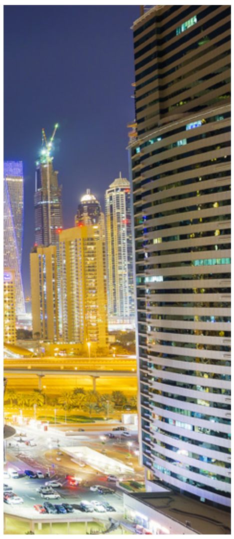
Tourism is regarded by the region's countries as a major enabler for economic diversification, owing to its substantial contribution to creating the needed momentum on the trade, industrial, real estate and service sectors during both growth and deceleration times.

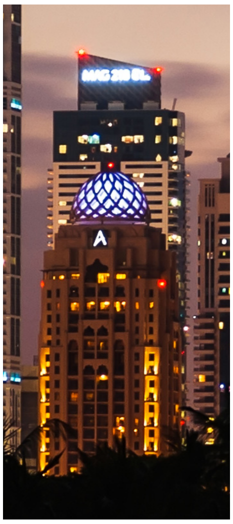
Citing the successful tourist projects launched in the region over the past period, the report said the innovative tourist products introduced by the GCC states are characterised by cultural diversity and provide different options for edutainment and leisure that cater to all needs in a way that attracts global interest. This helps woo more foreign investments into the region and create solid ground for luxury real estate projects.

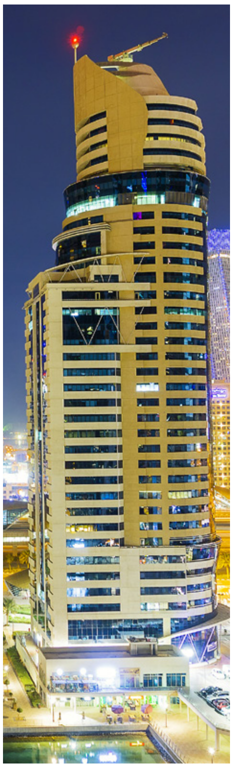
Shedding light on the Qatari market, the report said that tourist expansion plans are going at full tilt, with the Qatari government working to attracting over 10 million tourists by the year 2030 and increasing tourism revenues to around $18 billion.

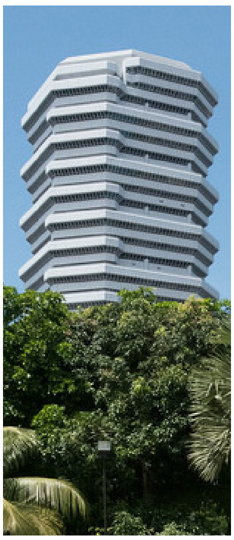
The report added that the Qatari government plans to draw new investments to the tourism sector amounting to $45 billion in the form of cultural, infrastructure and transportation projects, which are expected to increase by 8% annually up until the year 2026. The report referred to the efforts being made to stamp out all obstacles met by the tourist sector, including facilitating tourist visa requirements, developing more effective plans that market the country's tourist potential, increasing discounts and promotions, and expanding leisure and business tourism options. The successes achieved over the past period are encouraging enough to invite more investments to the sector and expand tourist projects, including the construction of additional numbers of resorts and hotels.



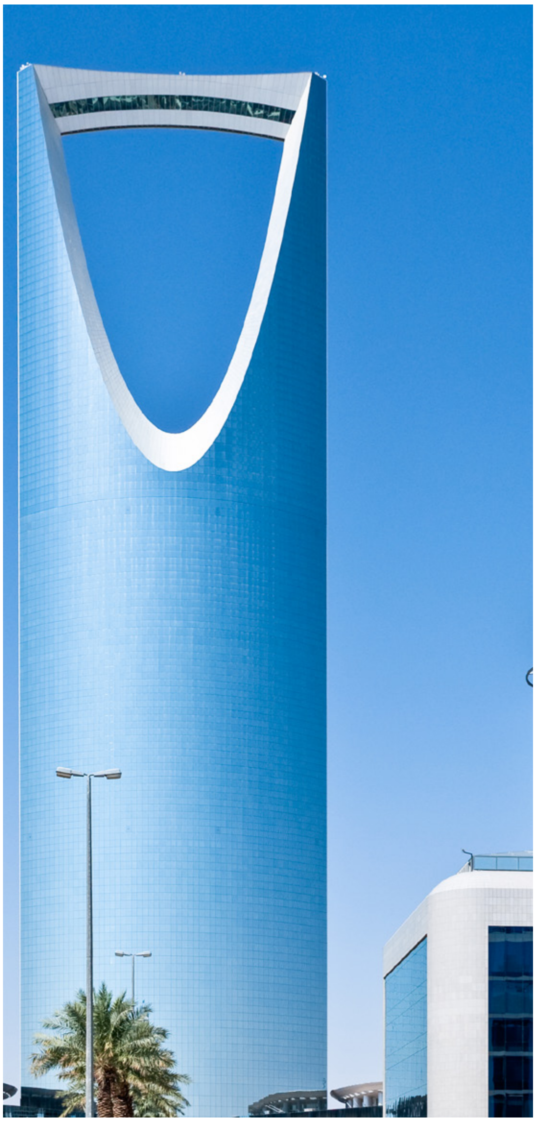








In Saudi Arabia, the tourism sector, being an efficient generator of job opportunities, has been receiving growing attention from the Saudi government, with available data indicating that the sector can provide up to 1.2 million job opportunities by the year 2020 as a result of the momentum created by the government's increasing focus on directing more capital inflows to the industry.



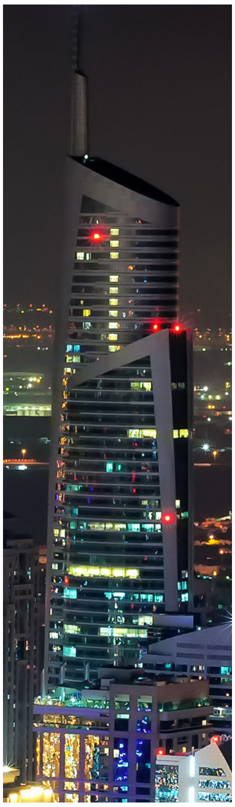
Within this context, the Saudi Tourism Authority has allocated SAR 3 billion in credit to establish hotels and other types of tourist facilities until the year 2020. As a result, the number of hotels in KSA has increased by 6% this year, in addition to a 4% increase in the number of furnished apartments. However, the coming period requires more effort by the government to survive the multi-faceted challenges besetting the sector.

The report highlighted the continual progress made by the UAE tourist sector over the past 17 years despite economic pressures. Having met the requirements of the private-public sector integration, the UAE tourist sector has ushered in a fresh phase of creativity and innovative concepts, relying on a highly advanced infrastructure and a well-diversified economy that ensures increasing demand and competiveness.

Despite the pressures besetting other business platforms, the UAE tourist sector is launching well-thought-out projects, with the industry's contribution to the nation's GDP amounting to 12% and tourist spending reaching AED 110 billion by the end of 2016. Online tourist reservations in the UAE hit an enviable value of AED33 billion, accounting for 55% of the region's total electronic reservations. In conclusion, the report noted that the average hotel occupancy in the UAE jumped to 81% by the beginning of the current year, with a 6% increase in demand, topping the region's tourist sectors in terms of hotel occupancy, which reached 67% in Saudi Arabia and 70% in Qatar.

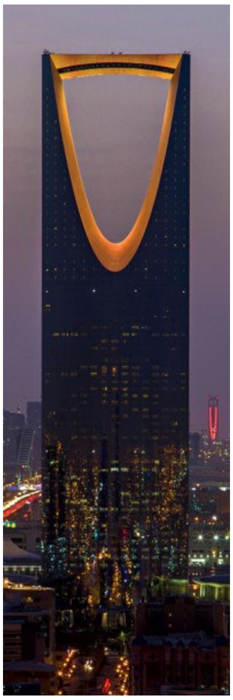
The campaigns will help to secure cash needed for ongoing projects and revitalise demand

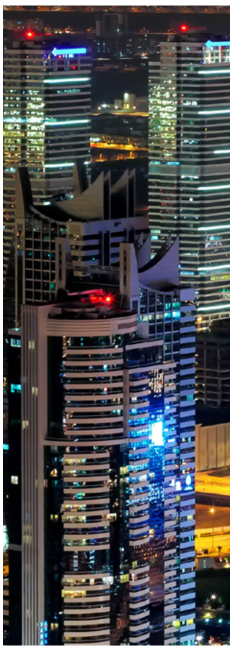
Al Mazaya: The Region's Property Markets are Poised for More Promotional Campaigns to Increase Local and Foreign Investments



In response to the fluctuating market conditions across the region, the Gulf property sector has adopted a set of flexible promotional tools and campaigns that meet the requirements of the multi-faceted developments taking place. These include fast-paced business ups and downs observed throughout the GCC states.

With each of the region's markets having its own distinctive peculiarities, a multi-pronged approach is needed for each accounting period in order to come up with an ideal mechanism that can generate reasonable investment returns. Al Mazaya Weekly Real Estate Report confirmed that the positive yields generated over the past period will help render current real estate marketing plans a success, both at the regional and global levels.





The report noted that foreign companies now tend to pump more liquidity to property investments in active markets, making use of the high annual returns of real estate investments and the current economic and political stability enjoyed by the GCC states. This enhances their competitive edge and propels promotional and market plans at the global level. The region's real estate companies seek to get more cash inflows, revitalise demand over all types of property and utilise external demand to generate capital profits. Industry indicators expect the region's markets to continue to launch more promotional and marketing offers that will reflect positively on other economic platforms in the future.

The report highlighted the positive activities recorded by the forces of demand and supply in Saudi Arabia, where prices of land, flats and villas decreased by 1530%-, particularly in Mecca, Jeddah and Riyadh. As a result, property companies now go for all possible kinds of promotional plans, including waiving first installments of for-sale flats and offering real estate products at reduced installments in order to increase demand and get the cash needed for ongoing projects.

The report described the current status on the Saudi market as positive for all parties concerned, with property companies getting the needed liquidity and end-users ultimately having property at affordable prices. The report noted that low prices of land located outside urban areas might not have a positive impact on prices and end-users.

The forces of demand and supply in the UAE market go otherwise, according to the report, if compared with neighbouring markets. Varying prices could slightly affect demand over different types of real estate products, with declining rates of flats and luxury villas likely to encourage several segments, including middle-income categories, to invest and buy. In cases where price hikes have been reported, more confidence in the sector performance would be ensured, which would ultimately lead to more demand over all types of products.

The UAE is forging ahead with its promotional and marketing plans at the local and foreign levels, with the property companies operating in the country vying to lure the largest possible segments of international investments by participating in global platforms and forums through which they promote different categories of real estate products. Dubai Land Department, for example, has over the past period been organising overseas promotional campaigns to increase foreign investors' awareness of investment prospects in the real estate sector in the emirate. Such efforts have resulted in a 34% increase in foreign investments to AED23 billion during Q1 2017, with indicators expecting continual growth for the UAE real estate market during the Holy Month of Ramadan.

The report highlighted the high-yield returns of real estate investments in the region's markets, which help draw investors under all circumstances, despite besetting economic pressures. In this regard, the report mentioned that real estate investments in the UAE recorded an average annual interest rate of 9%, with Bahraini market registering an annual interest rate of 913%-. Property annual expenses do not exceed a maximum of 1.5% of the total annual returns while re-sale profit of under-construction residential units after completion ranges between 17 to 22%.

Due to the prevailing state of deceleration, property development companies in the region are expected to offer more discounts during the Holy Month of Ramadan to overcome current slowdown and draw more customers with the objective of achieving sale targets for the elapsed period of the year.

It is noteworthy that observing Ramadan during the early months of the summer season, where the property sector usually suffers some deceleration in terms of sales and demand, provides a good chance for property companies to develop attractive promotional campaigns during the Holy Month in the run-up to the post-Eid El-Fitr period. The real estate exhibitions held by the end of last year and early this year provided property companies with a good chance to promote their products, with a lot of them having made good business at the local and international levels. Such campaigns are expected to continue during and after Ramadan by making use of the current low prices as a catalyst to revitalise demand. In conclusion, the report said that the rental market remains tight in most of the region's countries, with rising rental costs usually driving demand over sales operations.