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The Monthly Real Estate Report

Issue No. 129



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The Monthly Report - FEBRUARY 2017

Diversification of Projects Maintains the Momentum and Performance that Local Firms Require to Enhance Competitiveness to Survive Coming Challenges

The Building and Construction Sector is a Significant Income Generator and a Key Catalyst for Economic Recovery



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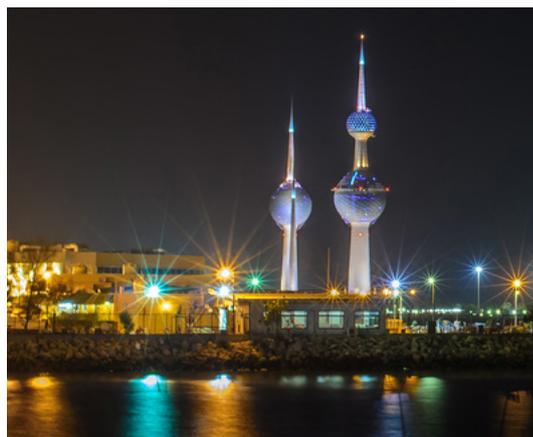
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The Building and Construction Sector is a Significant Income Generator and a Key Catalyst for Economic Recovery



The building and construction sector in the region has survived the economic challenges witnessed over the past period as a result of oil price fluctuations along with the concomitant global and regional developments. Though it has been adversely impacted by the fall in government spending, the sector has played a positive role in attracting new foreign investments to the real estate sector and other economic platforms in GCC states, thus significantly contributing to economic recovery in the region.

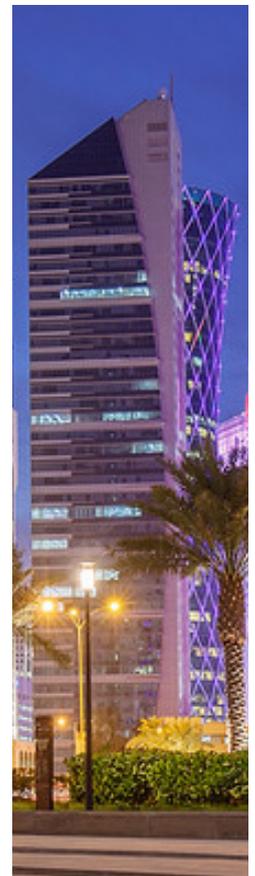
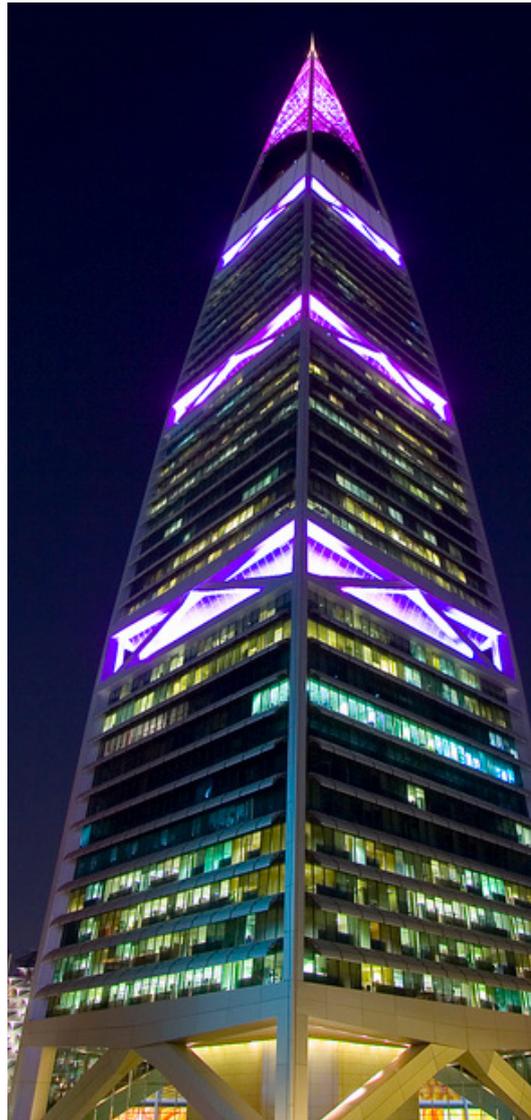


In its weekly real estate report, Al Mazaya Holding said the cost control policy adopted by the region's countries has directed more focus on the construction sector, being a significant income-generating stream, with the private sector directing more attention to the construction-contracting sector as projects have continued to be established and generate investment returns. In the meantime, local firms have remained unable to compete with foreign multinationals.



The construction-contracting sector now sees a slow down in new projects due to the scourge of late payments by both the government and private developers. This makes it clear that the diversification of projects in terms of volume and time frames is not the only factor that directly impacts the performance of local contracting companies. A stable banking sector plays a major role in ensuring successful real estate investments, said the report, underlining the benefits secured from the developers' timely fulfilment of their financial obligations. The report cited the state of optimism created by the Saudi real estate sector's payment of outstanding dues estimated at SAR 80 billion to contracting companies, a move that has boosted economic activity, helped launch feasible projects, and limit the number of foreign companies defaulting and exiting local markets.

In the meantime, the UAE realty market continues to deliver positive results, especially with the growing number of new projects being launched. Recent data revealed that the total spending on construction projects in Dubai shall amount to AED 100 billion in 2017 thanks to the fact that the contracting sector has hitherto fulfilled all its financial obligations.



In 2016, the Saudi construction-contracting sector dropped projects worth around \$266 billion, most of which are heavy investments that are not expected to yield commensurate returns. The report stated that continued austerity measures and restructuring plans in KSA, including efforts to cut budget deficit to SAR 198 billion, will have adverse direct effect on the construction-contracting sector this year, with infrastructure projects to take the lead instead.

In Qatar, more contracts are expected to be signed to launch new projects worth QAR 46 billion during 2017, thanks to the considerable budget allocations to mega infrastructure, healthcare, education and transportation projects. The report referred to the Qatari government's economic diversification plan aimed at keeping the competitiveness of the contracting sector and its ability to attract investments and laborers until 2020.



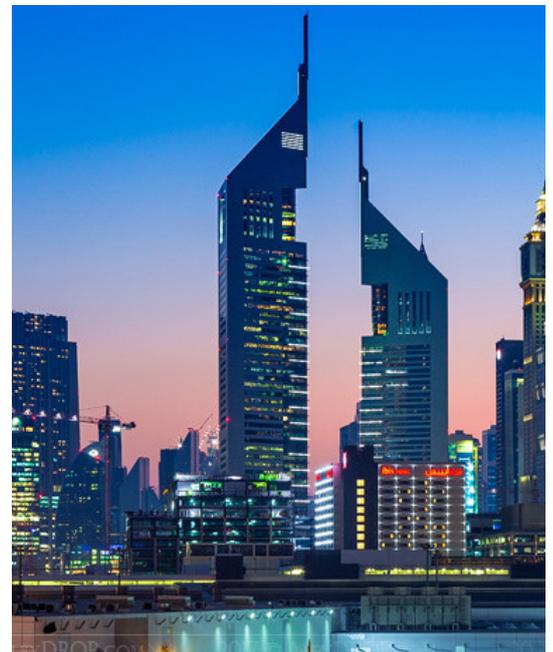
The report noted that the region's realty markets s have generally maintained their growth, with property developments expected to grow by 18% during the first quarter of 2017, with associated risk levels still low.



The slump sustained by the construction sector has significantly affected the building material sector, which is known to be one of the driving forces behind the fall in prices. The report cited the 30% slide in building material prices on the Saudi market last year, attributing it to the slowdown in private and public construction operations, in addition to the state of recession suffered by the contracting sector due to the rising land prices and decline in property demand.



The report noted that the UAE's real estate markets are now stable in the wake of the slowdown witnessed at the building and construction sector in Abu Dhabi, and the fluctuations and state of unsteadiness in Dubai. In Qatar, there is a sustained demand for property, with prices remaining stable and even rising from time to time, which means that any potential fall in building costs would depend on how far the total costs of the ongoing projects would decrease so that they might become resilient enough to deal with market challenges.



Conclusion

The report underlined the importance of mitigating the competition between foreign multinationals and local firms, pointing out that such a heated level of competition has a negative impact on the entire market. Foreign companies are still controlling and owning most of the developmental and infrastructure projects as well as the private sector enterprises, thanks to their experience, readiness and ability to deliver projects on schedule at top quality and optimum investment returns. Due to the slowdown witnessed in under-construction projects, the Gulf markets are now witnessing the most heated competition ever that would curb, if not mitigate, the local companies' ability to survive the challenges over the coming years.