



The Monthly Real Estate Report

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Al-Mazaya Report: Real-Estate Assets are Safe from Regional Tension in the Short-Term



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Al-Mazaya Report: Real-Estate Assets are Safe from Regional Tension in the Short-Term



These are uncertain times for the global and regional economies. A number of factors make long-term forecasting difficult, and optimism seems in short supply. Certainly, there is much to keep governments, bankers and investors awake at night. How, for example, will the falling oil price affect markets? Which sectors are likely to suffer the most over the coming months, and which the least? Where can money be put to keep it secure? How will Gulf countries that rely on hydrocarbon revenues continue to finance infrastructure spending programs and keep expanding populations happy? And if populations become unhappy, might the result be conflict?



Al-Mazaya Holdings Weekly Real-Estate Report states that all sectors will be affected by the coming economic challenges to some degree, especially given the interconnectedness of Gulf economies, where investment, particularly into real estate, can come from any country in the region. The smart investors, we believe, will be those who are able to remain active in sectors that are best positioned to ride out the storm. We predict the Gulf real estate sector's fortunes will be dependent on the impact of economic uncertainty on people's savings and on their perception of Gulf countries as politically stable. For this reason, it goes without saying that conflict within the Gulf would have a deleterious affect upon regional real estate confidence, not least because it would see investors scatter, but also because the consequent sell off would exert considerable downward pressure on the market.

We expect to see some AED186bn invested into Gulf real estate developments to the end of the third quarter, 2016, demonstrating an underlying confidence in the market that strong returns are still possible, despite economic challenges. However, we believe investors over this same period will likely be able to negotiate a total AED78bn in discounts compared to the same period in 2015, a fact that illustrates starkly the imbalance between supply and demand in the market.



Turning our attention to Saudi Arabia, Al-Mazaya Holdings Weekly Real-Estate Report is not as pessimistic as some market analysts regarding the outlook for the country's real estate sector. We believe that although the kingdom faces some significant challenges in maintaining government spending programs as a result of falls in the price of oil, it is better positioned than many observers realise to adjust to adverse conditions. Current geopolitical tensions with Iran do not overly concern us, given the limited size of Iranian investment in Saudi real estate – we estimate the total value of Iranian investment in Saudi real estate is not more than US\$500m, compared to US\$20bn in Dubai real estate.



We forecast Dubai real estate will remain the most attractive real estate asset class in the Middle East, thanks to the emirate's considerable infrastructure and the international breadth of its investor catchment area. We expect to see developments continue in Dubai for the coming months in the absence of negative economic news that is tangible, as opposed to speculative.



It is worth pointing out that an escalation of Saudi/Iran tensions may have the effect of pushing up oil prices. But it might also see the Saudi Riyal's peg to the US dollar come under pressure, a phenomenon that many countries that peg their currency to America's are currently experiencing, not only in the Gulf. As a result, countries and institutions that have previously been comfortable with lending to Saudi Arabia may become more cautious. Certainly, such an eventuality would have negative ramifications for the real estate sector as liquidity dried up and the effects of the kingdom's budget deficit were keenly felt.



Conflict between Saudi Arabia and Iran would serve neither side well from an international investment perspective, at a time when both countries strive to attract FDI. Iran has only just seen sanctions lifted that have kept the international community away for decades and was it was expected the country would see an investment wave of some \$25bn into the energy and mining sectors over the coming months. Conflict would likely see this investment evaporate, for the short and medium term, at least.

There are currently many pressures on Gulf real estate prices, not limited only to Saudi-Iran tensions and the declining oil price. While some markets in the Gulf might benefit from the tensions between Saudi and Iran, we expect the luxury end of the market throughout the Gulf to suffer, thanks to the enthusiasm of Saudi and Iranian investors to participate in this segment. For this reason, we believe the middle class/middle income segment of the market represents the best value for investors and offers the best long term stability. We expect workers to continue to earn in Gulf markets, and as a result expect to see little price or demand fluctuation in this segment.



Al-Mazaya Report concludes by stating that while there are good grounds for caution currently in the Gulf's real estate markets, pessimism should not be overstated. Many other Gulf sectors continue to thrive, not least tourism, retail and industry, and we expect these engines of growth to power Gulf economies through whatever short-term challenges lie ahead.