



The Monthly Real Estate Report

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Retail and tourism-related real estate is the key to minimising sector fluctuation in the Gulf



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Retail and tourism-related real estate is the key to minimising sector fluctuation in the Gulf



In recent years we have seen repeatedly how vulnerable regional economies can be to shocks and how interlinked the world's main economies are. Various crises have beset global markets, each threatening to be worse than the last. Politicians in every country have become accustomed not only to trying to avert fiscal calamity, but to reassuring markets that the conditions required for investment of any sort continue to prevail.



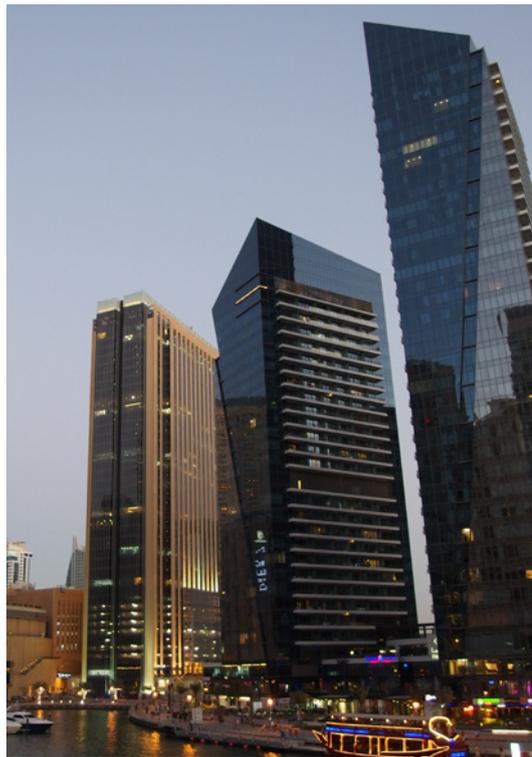
Within this context, the real estate sector has experienced mixed fortunes. A key driver of economic growth and creator of employment opportunities, in most countries governments have done what they can to protect the sector from shocks through regulation or other measures, with varying degrees of success. The real estate sector, in both developed and developing economies, is vital to the fortunes of so many other sectors – from heavy industry to tourism and everything in between – and it is therefore considered vital for overall long-term growth that real estate performs well. However, when liquidity and investor confidence dries up, it is very difficult for governments to support the sector meaningfully.



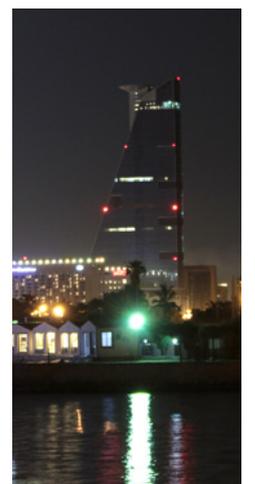
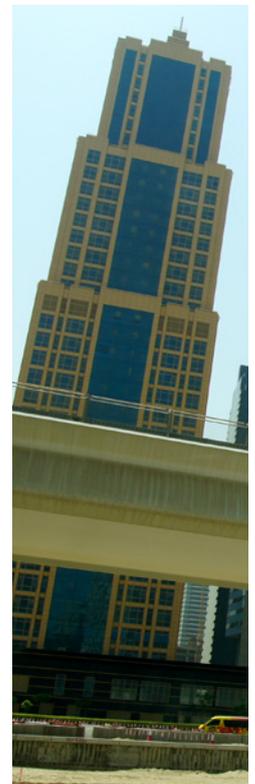
Al-Mazaya Holdings Weekly Real-Estate Report points out that there are currently several factors that are acting to depress Gulf real estate markets, from the contagion caused by poor economic growth in China to the effect of considerably weakened oil prices that are causing Gulf governments to rethink spending plans to avoid running deficits. While investors and other interested parties wait to see what direction the market will take, the reality is that we are seeing projects and major developments in the region postponed or cancelled. And with some of the world's most respected analysts predicting an oil price around the \$53 a barrel mark for the foreseeable future, it does not look as if the Gulf real estate pain is about to end, nor that the rapid growth we have seen in recent years will resume in the short to medium-term.



Al-Mazaya Holdings Weekly Real-Estate Report believes, however, that Gulf governments should be praised for the efforts they have made so far to safeguard respective real estate sectors from negative momentum. In particular, the governments of the United Arab Emirates, Qatar and Bahrain have acted quickly and decisively to bring about some kind of market stability and to keep foreign investors interested.



The real estate sector in the United Arab Emirates benefits to some degree from its size and the variety of developments on offer to investors. In this respect, risk can be spread within the emirate, a factor beloved by large-scale investors. The emirate is also better able to withstand fluctuations in the global economy than some other Gulf states thanks to the size of its market and also the established desirability of owning property in Abu Dhabi or, particularly, Dubai. In Qatar we see the real estate market buoyed by government infrastructure spending plans to 2017 and beyond. Investors are encouraged by state backing for projects such as airports, marine port upgrades, roads and bridges.





The vitality of a country's retail sector can significantly affect the fortunes of its real estate sector. For example, in the UAE, where retail performs strongly, we see a beneficial effect upon the real estate sector. Tourism, too, can help the real estate sector, another advantage the UAE has over other, less touristically developed Gulf states. For example, in 2015 it is forecast some sixteen million people will visit the UAE, an increase of 7.6 percent on 2014, generating revenues of AED67bn. In order to keep pace with such growth, the tourism industry must necessarily invest heavily in the real estate sector, generating real estate momentum.

Over the coming two years, we believe we will see a 35 percent increase in retail-related real estate in Jeddah, and strong interest in tourism-related real estate thanks to average 75 percent occupancy rates recorded in 2015 in region's existing hotels.



In Saudi Arabia, Al-Mazaya Holdings Weekly Real-Estate Report believes Jeddah presents significant opportunities to investors, on both the retail and residential sides. We see strong fundamentals that will likely push lease values higher to the end of the year, although we believe the same momentum will not be enjoyed by commercial office real estate, where the market is already sufficiently well supplied to meet demand.



Al-Mazaya Holdings Weekly Real-Estate Report concludes by stating that we expect to see Gulf governments put considerable focus and emphasis on the retail sector over the coming years as a means of riding out fluctuations in the global economy. Gulf countries have rapidly growing populations capable of supporting retail growth as well as worldwide cache as retail destinations. We believe that retail-related real estate will perform strongly over the coming half decade and more as a result of the underlying strength of the retail sector. We recommend that investors looking to put money into Gulf real estate look to developments that are related to either tourism or to retail. Or, ideally, to both.





Turkish real estate is a good news story that is increasingly attracting global investors.



It goes without saying that any country looking to attract overseas investment must demonstrate political stability, a robust economy, strong production and services sectors and clear sighted government capable of creating long-term, sustainable growth. Above all, overseas investors want to see a real estate sector that looks like a reliable and secure environment into which to put money.



As a result, governments throughout the world do all that they can to ensure that their real estate sectors are, as much as possible, safeguarded from the fluctuations that might more easily affect other sectors. Real estate underpins virtually every other sector of a country's economy, it creates jobs and it brings in direct foreign investment. Real estate is an economic driver and a creator of wealth. Protecting it is far from simple, encompassing ensuring materials are cheap, labour is available and exchange rates are advantageous. The rewards of a strong real estate sector, however, are felt widely.

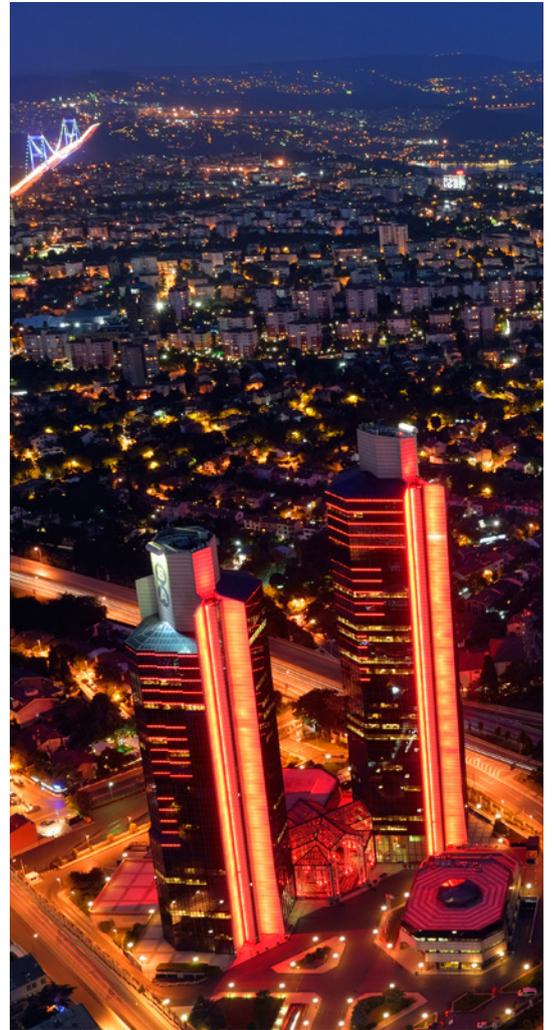


Political stability is the most important concern to any potential overseas investor. More and more, countries - either developed or developing - that can demonstrate a track record of political stability are able to unlock vast streams of liquidity with which to execute government or private sector projects. No sector benefits from these streams of liquidity like the real estate sector, with the possible exception of the industrial sector. Real estate offers investors an easy way to access the economic success story of a country, with the option to make an easy exit.



Al-Mazaya Report points to Turkey as an example of what political stability and a well run economy can achieve in terms of attracting large-scale foreign investment over the short, medium and long-term. When investors look at Turkey, they see a government doing all it can to create an environment that is conducive to investment, for example by reducing bureaucracy to facilitate trans-border currency flows. Investors see that the possibility is there for strong returns on investment, and the investment flow becomes self-sustaining. Investment begets investment, benefitting the Turkish economy exponentially.

Turkey, too, is able to distinguish itself in the eyes of investors from neighbouring countries by dint of its social welfare programs that are effective means of ensuring domestic stability, regardless of external factors. The results of the country's most recent elections will have also gone a considerable way towards reassuring investors that Turkey is ready and open for business, and capable of overcoming challenges.

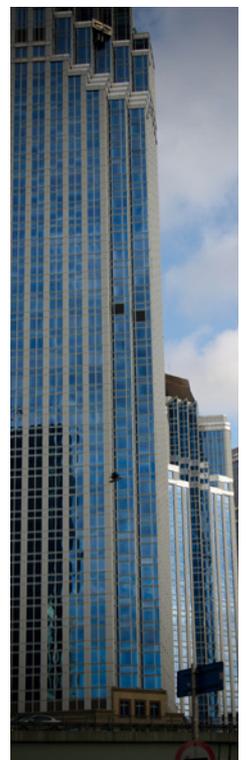


Al-Mazaya Report believes the Turkish economy is efficient and capable of responding quickly to negative and positive stimuli, regardless of the prevailing global economic winds. The Turkish lira for example, subsequent to elections and reports that a stable cabinet coalition would be formed, has recently strengthened against the US dollar by 1.5 percent. The signs are good and the outlook positive.



Economists predict that despite an inflation rate that was as high as seven percent in the third quarter, the Turkish economy is on course to record growth of some three percent in 2015 - music to the ears of investors.

Should Turkey now be able to join the EU, as many commentators believe is possible, we predict the country will see very significant inflows of direct investment. A perfect time, then, for the country's banks to reduce interest on home loans by 1.1 percent, as they have recently done, to make investing in real estate even more attractive. We believe further reductions are in the offing – it is worth pointing out that Turkish banks have issued loans totalling TL129.5bn this year, an increase of 13.1 percent on 2014.



Al-Mazaya Report believes the election result was the right one for Turkey, paving the way for needed modernisation and reform in the fields of exchange rate competition, financial market trading, public debt management and optimisation of the country's credit rating. For example, public debt has been reduced by TL48bn, and government bonds have performed strongly recently. Over the coming weeks and months we expect to see the economy perform strongly as a direct result of the election result and the people's vote for stability. These are positive indicators for risk-averse global investors – especially the cancelling of the prospect of political uncertainty seen before the election. We expect to see real estate benefit considerably.

Al-Mazaya Report believes the Turkish real estate story is an exciting one for investors, and has the potential to be a long-lasting value creator, especially given good management of the sector by government. In Q3 this year we saw real estate in Turkey appreciate by eighteen percent, implying the good news has spread. Investors, then, should get in now, while they can.

Gulf and European real estate long-term prospects remain strong, despite uncertainty



The real estate sector is often an economy's single largest generator of wealth. Not because it creates the most multimillionaires, but because it underpins every other sector, it creates large-scale employment opportunities and it can bring in large volumes of foreign investment. Managed correctly, the real estate sector is a country's most formidable engine of growth.



Of course, the real estate sector is susceptible to the fluctuations of regional and global economies – it requires large injections of liquidity to get projects off the ground, and at times when investors are cautious, funding becomes harder to source. Likewise, during periods of economic uncertainty, the market for real estate, like any other market, becomes less demand-driven and less vigorous, inevitably tempering enthusiasm to commence developments. It is therefore imperative that governments, in the Gulf and elsewhere, do all they can to safeguard as far as possible their real estate sectors from the consequences of economic downturn.



Al-Mazaya Holdings Weekly Real-Estate Report believes that real estate markets in the Gulf are often unnecessarily negatively affected by market analysis that fails to take into account the realities on the ground, instead putting too much emphasis on projections and indices. While it is useful to look at current levels of demand, it is also important to consider future levels of demand as an indicator of the probability of market surplus. The market can be too easily spooked by analysis that is overly pessimistic due to consideration of too few variables.



Al-Mazaya Holdings Weekly Real-Estate Report points out that Gulf real estate in the last fifteen years has been seen as a highly attractive asset for wealthy individuals from all over the world, not only from the region. During the worst months of the global financial crisis, we naturally saw money that had been tied up in Gulf real estate released and repatriated, causing regional markets to head south. However, as the global economy has recovered, we have again seen large volumes of liquidity from all over the world ploughed back into Gulf real estate. This has been an important factor in buoying the market's confidence, creating optimism that has become self-fulfilling. Ultimately, the fortunes of foreign economies underpin the health of Gulf real estate markets.



While it might be easy to look at the market in a negative manner based on consideration only of, say, prevailing low demand, taking a more long-term view – factoring in, for example, the social changes the Gulf region is undergoing, considering demographic pressures exerted on the market by rapidly growing populations – leads naturally to optimism about the direction in which the Gulf real estate sector is moving.





Certainly, too, the downward trajectory of the oil price in recent months has not been helpful in terms of boosting liquidity levels in the Gulf for investment in real estate, nor has the widely predicted consequential reduction in GCC state infrastructure spending plans given markets reason to expect real estate values to correspondingly tick upwards. However, we still see demand for real estate in the Gulf, although not at levels witnessed in European markets, which enjoy safe-haven status during times of fiscal uncertainty. High net worth individuals all over the world are currently looking to buy real estate in Europe or America over the Near, Middle and Far East. Hotel real estate in Europe is particularly attractive and viewed as low risk.

It is expected that by 2019, some \$129bn of privately held money will head out of Saudi Arabia for investment overseas, more than 30 percent into real estate. Some \$60bn of Gulf money will be invested in European real estate in the coming decade. Al-Mazaya Holdings Weekly Real-Estate Report states it is not surprising that real estate is now such an attractive field of investment for Gulf societies – the latest available research shows in 2014 some 25 percent of high net worth individuals made their fortune from financial services, whereas 40 percent made their money in real estate. In fact, Saudi Arabian investment is a significant driver of the success of Dubai real estate – last year some AED23bn invested into Dubai came from Saudi, demonstrating the high regard the Dubai market is held in in the kingdom.



It is worth pointing out that last year alone, the USA received some \$104bn in real estate investment from overseas. Within Europe, the most attractive destinations in which to park money in the form of bricks and mortar were Berlin, Barcelona and Paris, with London at the top of the list. Taking the Gulf specifically, Europe accounted for some 90 percent of overseas investment into real estate, with the majority of that money invested into luxury developments.



Al-Mazaya Holdings Weekly Real-Estate Report concludes by stating that real estate retains its lustre, both within the Gulf and abroad, whatever the prognostications of naysayers. Downturns are short-term. The long-term trajectory of the market in the Gulf and the West is onwards and upwards.





Smart investors look for middle class real estate opportunities in Dubai and the GCC



Gulf real estate is attractive to investors from all over the world for many reasons, but one of its chief draws is its long-term, consistent value growth and its ability to generate reliable returns. While, like all almost asset classes, real estate is affected to an extent by the fluctuations of local, regional and global economies, the fundamentals that underpin Gulf real estate are solid. Gulf populations are growing rapidly and need houses, and liquidity levels in the region, after a decade-long oil boom, are high relative to other parts of the world, even with a lower oil price.

For these reasons, it is wrong to base investment decisions on Gulf real estate on today's prices. Instead, investors must consider the value Gulf real estate will hold in the future, and the ongoing stability of the region as a place in which to place money.





Al-Mazaya Report points out that there is significant demand throughout the Gulf for housing to serve the middle and lower income ends of the market, and investors would do well to investigate the opportunities this section of the market affords. Many Gulf countries have oversupplied demand at the top, luxury end of the market. But now, as Gulf economies continue to develop, is the time to look lower down the demographic scale to find value.



All developing, successful economies seek to create an upwardly mobile middle class – indeed, nothing generates wealth as effectively as a middle class that feels it is in possession of plentiful disposable income. GCC societies are today seeing the emergence of the type of upwardly mobile middle classes that have driven the growth of China and India over the last two decades. The real estate sector is striving to meet middle class demand throughout the GCC, and Al-Mazaya Report believes that over the coming two years we will see many developments that are targeted directly at middle income earners.



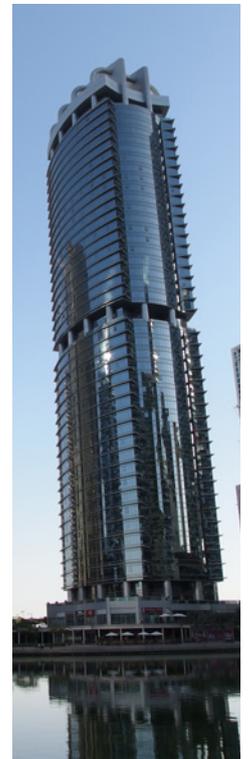
If we take Dubai as a bellwether for the rest of the Gulf real estate markets – which, historically, it has proved to be, demonstrating the international appetite for investment into the Gulf – already we are seeing much activity in the middle class section of the market. More and more, we see that investors are buying properties that will offer consistent long-term returns by serving a skilled workforce that grows by the day. Throughout the Gulf, leaders stress the importance of cultivating a knowledge economy – the result is confident and prosperous middle class.



While Dubai sees short term value swings in the market – the dreaded boom and bust that allows savvy investors to find bargains – over the long-term we continue to see prices tick upwards, a trend we expect to continue for the long-term. As a result, we believe international investors will continue to flock to Dubai to put money into projects, particularly those that are aimed at underserved market segments. Market data suggests that by 2020, when Dubai hosts the World Expo, some 6,000 new villas are required and 24,000 apartments to meet projected demand.



A final point to note is that middle class housing is less expensive to create than luxury housing, and therefore requires lower levels of investor liquidity to be sourced at the outset – another factor that makes it attractive to developers. Al-Mazaya Report is optimistic regarding the prospects for the middle class sector of the market not just in Dubai, where we see it thriving, but throughout the wider Gulf region. These are exciting times for GCC economies – investors can capitalise by servicing the economic miracle that is driving all growth: the upwardly mobile middle classes.



Middle class housing that is robustly built, Al-Mazaya Report believes, will come to dominate investor enquiries not only into Dubai but throughout the region. Declines in oil price, we predict, will only make this opportunity more attractive – bricks offer security that few other assets can match in a politically stable region.