



# The Monthly Real Estate Report

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## Liquidity of Real-Estate Sector allows Investors to build Long-Term Strategic Investments



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## Liquidity of Real-Estate Sector allows Investors to build Long-Term Strategic Investments



Several predictions currently surround the largest economic sector in term of its impact on the other sectors - the sector that is most stimulating to regional and world economies: the real-estate sector. Predictions on the sector range between the initial decline, to increase on prices, and take into consideration awaiting and additional decreases or potential recession phases representing a regression of investment preference. Yet, it is evident that the investment momentum is at its best shape, expressed in trading and real-estate transactions. It is booming in many countries around the world, where regional markets reveal additional real-estate trading at many locations and attractive prices even though they remain above normal levels.



Market investment and fair prices prevailing in the region are driving for additional increases, hitting new levels, not to mention that real-estate products are normally regarded as safe-haven investments, therefore foreign demand on real-estate products is regular and eventually permanent.



Al-Mazaya Real-Estate Weekly Report reveals evident increases on the number and value of real-estate trading on a daily, weekly and monthly basis at a number of real-estate markets of the region, led by a continued increases recorded on real-estate transactions, mainly in the Emirate of Dubai, and generally extending to other emirates of the UAE. The Qatari real-estate market is equally accelerating in terms of the number, value and location of real-estate momentum. Data revealed therein expresses the actual behavior of local and foreign demand as well as the ability of the prices to stabilize or otherwise decline. Another significance of such market behavior relates to the perpetuity of the construction of residence units and investment activities, regardless of their type or volume, while the overall outcome relates to the strength, weakness or demand driving factors. It may also be mentioned here, that at this level of activity, UAE and Qatari real-estate markets remained stimulating, and development activities are also arranged as priorities. Consequently, the surrounding pressures were overcome at a certain level of activities, meaning that the market still enjoys promising investment opportunities, and the potential lag is not foreseen on the mid-term.



Al-Mazaya Report believes the activities and investments recorded in the Dubai real-estate market are relatively high, being one of the indexes to count on when measuring the financial and investment momentum of the state. It also represents the actual signals of decline, stability or decrease of real-estate behavior starting from this year till last August. According to data revealed from Dubai Land Department, the gross value of real-estate transactions amounted to AED 129 billion in the first mid-term this year, concluding 23 K sales, mortgage and other real-estate transactions. AED 9.2 billion worth of transactions were recorded in July alone, increasing in August to AED 13.6 billion; with gross transactions value hitting AED 151.8 billion by the end of August. The increase or decline recorded refers to the strength, activity sources and confidence in the real-estate subject to the investment performed, not to mention its effect on the morals of transaction owners and their belief in the ability of the real-estate market to maintain their wealth and assets on the short term.





AI-Mazaya Report states sale and mortgage transactions have resumed as usual, signaling more investment preference, with finance processes equally continued, affected by the increasing number and value of mortgages amounting to about AED 65 billion till end of this mid-term. Sales followed amounting to AED 53 billion, led by the sale of commercial constructed lands, while building sales amounted to AED 20 billion during the same first mid-term. The increase of the rhythm of these activities is justified by the improvement in investors' anticipations, which eventually could be taken as an indicator to build mid to long-term investment strategies relying on the growth of sales, mortgage of transactions, stability of prices and availability of required liquidity in market, enabling investors to easily conclude their transactions without losses. The real-estate market in Dubai experienced some decline in the value of transactions during Q2 this year, especially in land, villa and residential units justified by seasonality. Real-estate finance terms, and the delay in taking investment decisions while waiting for a decrease in market prices, hoping to achieve better investments, are additional reasons for this decline.

The Report also refers to a continued investment momentum at the Qatari real-estate market as real-estate trading continues to benefit from growing demand on residential and commercial lands preparing for a larger number of projects to come. Data revealed from the Qatar Real-Estate Registration Department state the value of real-estate trading amounted to QR 36 billion during the first mid-term this year compared to QR 24.4 billion of the same term 2014 - achieving 48% growth rate, signaling a state of augmenting activities, investment preference, higher liquidity and finance streams available. In a similar context, the gross value of real-estate trading concluded - amounting to QR 53.1 billion, including common lands topping the list, not to mention residence's, commercial and housing complexes. The increase on the price of real-estates supplied, and lands allocated for villas and residential complexes during the past two years ranged between 3040%-, contributing to the decrease in the number and value of transactions concluded, whereas the lands allocated for residential towers experienced the increase recorded on trading price ranging from 7080% - during the same lapse.





AI-Mazaya Report stresses on the government support, which adds to the investment preference and revives the real-estate sector, ranking it second amongst other economic sectors in the state, following oil and gas in term of its growth level and contribution in GDP. The real-estate sector is the most rapidly growing sector, and is a safe-haven investment for so many investors since it enjoys government support and higher yields amounting to 15% annually on residential units. The Qatari real-estate market is eligible to additional increases on traded prices affected by growing demand lacking sufficient supply provided at convenient schedules, rates, location and variety. Population growth, the resumed development plans and additional investment projects proposed add to the overall construction and investment activity enhancement.



AI-Mazaya Report also refers to the total trends visible in the real-estate market of the region, positively manifested, with liquidity indexes remaining secured and promising growth on real-estate activities despite of the continued financial and economic pressures, and uncertainty surrounding the investment climate in many countries. The Report further stresses on the investment resolutions now being smartly introduced worldwide, and especially mentions the tools used to define investment type and location becoming more professional, less risky and more profitable. This comes at the time when investment data announced signals showing continued investment flow from the region and worldwide amounting to USD 11.5 billion during the first mid-term this year. London attracted the majority of investments flooding from this region, followed by Hong Kong in term of real-estate purchase then New York. Turkish market also managed to recruit a variety of investments in the latest few years. The enhanced investment interaction amongst regional and world markets is also eye catching, adding to the competitiveness of the regional markets and leveraging the investment rate on this certain a level of progress, liquidity, profits and investment preference.



### Low oil prices, global financial uncertainty and decreased regional liquidity must make Gulf developers cautious

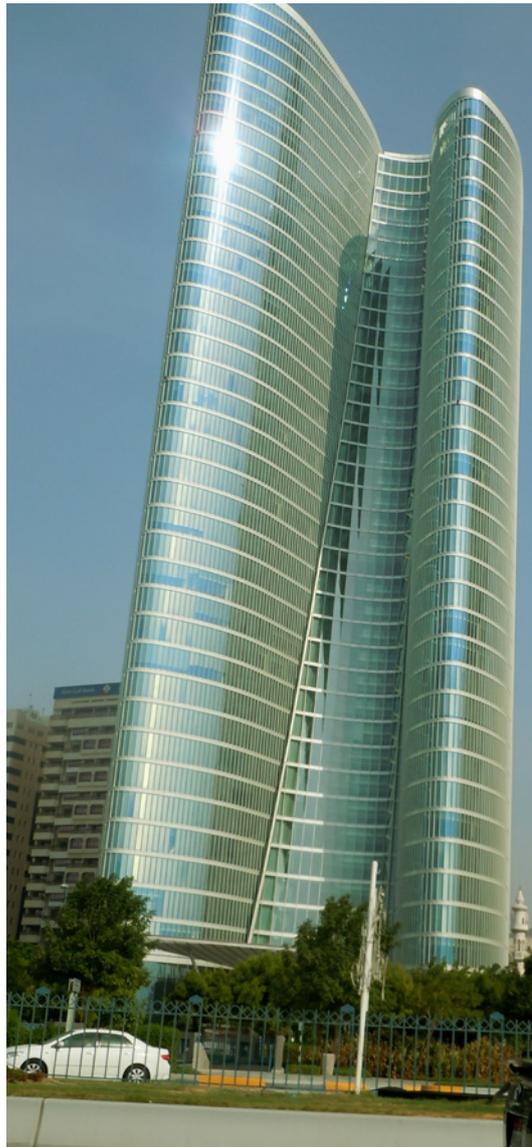


The recent vitality of Gulf real estate markets can be attributed to the happy confluence of public and private sector strategies to capitalise within the sector. Buoyed by economic recovery following the global financial crisis, private real estate developers in the Gulf have been sufficiently confident in the market to commit enthusiastically to medium and large-scale projects, while the public sector has once again viewed real estate a key driver of long-term economic growth and, consequently, been happy to commit significant investment to supporting it, chiefly through infrastructure. However, as regional government budgets come under strain due to depressed oil prices, the public sector will likely have difficult choices to make with regard to state support for real estate. As a result, the coming months will be interesting ones for the sector.

Certainly, the private sector will feel the pressure of deadlines for delivery should government support weaken and concerns about the direction of the economy naturally increase. Uncertainty is the enemy of real estate development and while the market seeks assurance from government about the direction of future state expenditure, we can expect delays.



Al Mazaya Real Estate report believes that low oil prices may not be a short-term phenomenon and are most likely a more accurate reflection of reality than the high prices of recent years. If this is the case then we believe Gulf states may significantly rethink their 2016 budgets in order to avoid running unnecessary deficits. At the least, they will look for areas in which savings can be made and we predict we will see borrowing taking place in the form of the issuance of treasury bonds. The real estate sector will likely be affected in two ways: by reduced flows of liquidity with which to finance projects, and by reduced market confidence, which will be felt in slackening sales and leasing figures. If prices go south, as it is likely they will in the face of slower market demand, bear market momentum will be generated that will become increasingly hard to reverse.



In light of these prevailing market conditions, it was interesting to see at Cityscape Dubai in October the sheer volume of projects that were announced and slated for delivery across the region. It would be easy to assume, from attending the conference alone, that either the industry is in denial about the potential ramifications of a low oil price, or that it has not yet adjusted its thinking accordingly. The projects unveiled at Cityscape totalled more than AED1tr, an increase of some fifteen percent on 2014's show. This report believes the region's developers must look carefully at market dynamics before pressing ahead with any of the projects unveiled at Cityscape to ensure they do not find themselves on the wrong end of a supply glut, particularly in the luxury residential villa and commercial office space ends of the market.





Al Mazaya report believes the Gulf residential villa market particularly could be heading for trouble if suppliers do not take steps to stem the flow of product given changed liquidity conditions. If this does not happen, then we forecast large drops in sale and lease prices. It is important that developers spread their project portfolios across all sections of the market and do not focus only on one area – variety is what brings investors, and no one is helped by massive oversupply in one area.



Over the coming months and years it is critical that the real estate industry pays close attention to economic and population growth indexes, especially as they correlate to the viability of future development. The total value of real estate projects launched in the UAE since the start of the year is some AED111bn. In Bahrain, we have seen a seven percent rise on the value of projects announced in 2015 compared to 2014, the result of increased tourism development. In Saudi Arabia, too, we have seen a boom in building. The industry must ask itself if the market fundamentals can support this level of development over the long term.



Al Mazaya report believes developers must be cleverer when money does not flow so freely in order to turn a profit. In such times, areas of the market that are being underserved must be found and capitalised upon. For example, across the Gulf it is noticeable that relatively little development has been created to date to meet the needs of the low to middle income sections of society, because returns on investment for such work have traditionally not been as high as they have for luxury developments. We believe this will change over the coming months as more developers take an interest in this area of the market.





A report recently issued by the Arab Monetary Fund (AMF) predicts 8.2 percent growth for Arab economies collectively in 2015, and 3.5 percent growth in 2016. The report further shows world oil markets are still affected by the fragile global economic recovery, and pressures of supply. The report points out that Arab and, particularly, Gulf economies are still heavily reliant on the fortunes of the hydrocarbon sector, and that a downturn in the price of oil will inevitably be felt in Arab societies. Oil revenues constitute 68 percent of the Arab countries' total revenues. The report predicts that Arab oil exporting nations will see GDP decrease by as much as five percent in coming years if the oil price remains low.

Should this be the case, this report believes Gulf governments will naturally become more cautious in their approach to stimulating economic growth, and that areas in which they had previously been happy to invest significantly will become markedly less attractive as a result of the risk profiles they present. The prognostications of the World Monetary Fund, in this light, make for particularly grim reading – predicting, as they do, contractions in the global economy over the coming two years, at least, and a serious drop in world trade.



These are uncertain times, economically, and it is vital that Gulf real estate developers act cautiously and cleverly to negotiate them successfully.



## Gulf governments must act to safeguard real estate markets from unnecessary fluctuations

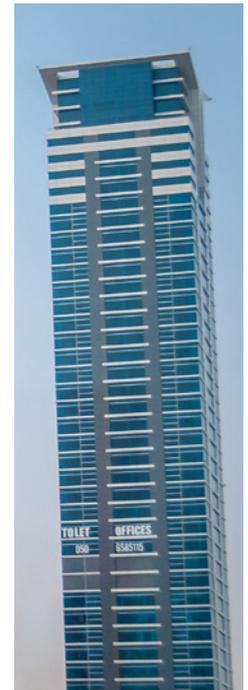


The fortunes of the real estate sector in any country are closely linked to the health or otherwise of national and regional economies. When government investment in infrastructure is decreased, or when regional liquidity is tightened, or when regulations are enacted to stem the pace of economic decline, the real estate sector will always suffer. It is natural that developers are reluctant to commit to new projects during times of economic uncertainty or when credit is hard to come by. Likewise, when uncertainty abounds, buyers will stay away. The challenge, then, for governments, is to keep the market stimulated but not overstretched during times of potential economic difficulty – managed correctly, the real estate sector is a generator of considerable wealth.

In the Gulf, the real estate sector waits nervously to see how the region's governments will amend investment budget plans in light of low oil prices over the coming year. Much of the Gulf real estate that is currently under, or slated, for construction was commenced when oil prices were higher and the good times looked endless. It is safe to say the market was not prepared for the dip prices have taken in recent months.



Al-Mazaya Holdings Weekly Real-Estate Report believes the Gulf real estate markets are distinguishable from other global real estate markets by virtue of the stratospheric growth they have undergone in recent years thanks to ambitious government spending plans intended both to keep pace with rapidly increasing populations and to attract direct foreign investment from all over the world. The real estate sector has been a key economic driver of all GCC economies in recent decades, perhaps second only to the hydrocarbon sector as the creator of most significant value for the region's governments. It is no surprise, then, that Gulf leaders recognise the importance of a thriving real estate industry and the opportunities it creates.



In recent months several Gulf governments have enacted regulations that have bolstered real estate markets, particularly with regard to the creation of residential units. New rules have contained inflation rates, minimised the need for discounts and addressed the problem of oversupply in a time of weakening demand. There is still much work to be done to further stimulate markets, but it is important we as an industry appreciate the efforts made already by visionary leadership. In some ways, periods of difficulty can have a positive effect on a market – forcing it to become more transparent and efficient, and getting rid of slower players.

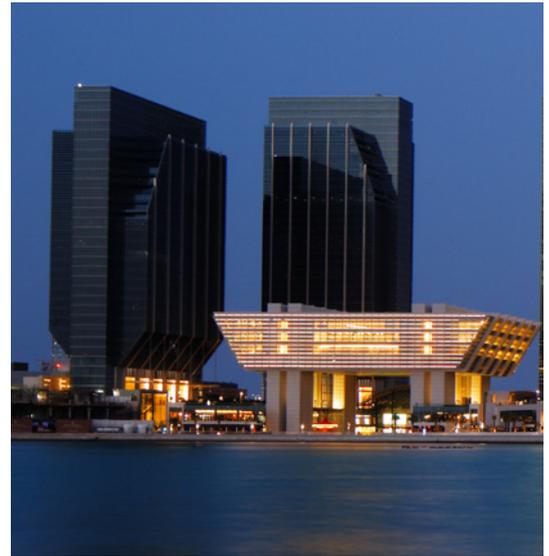
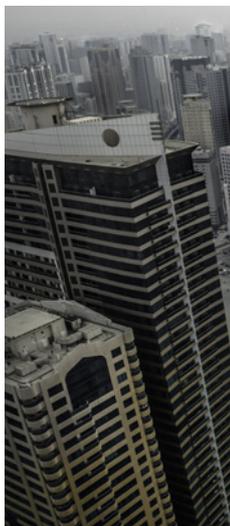


Currently, across the region, we see a wide variety of real estate projects being discussed – residential, tourist, industrial and commercial projects are all currently available for investors looking to buy into the Gulf real estate story. The question is, given the slowing of regional liquidity in recent times, do Gulf investors have appetite sufficient to get the projects off the ground?

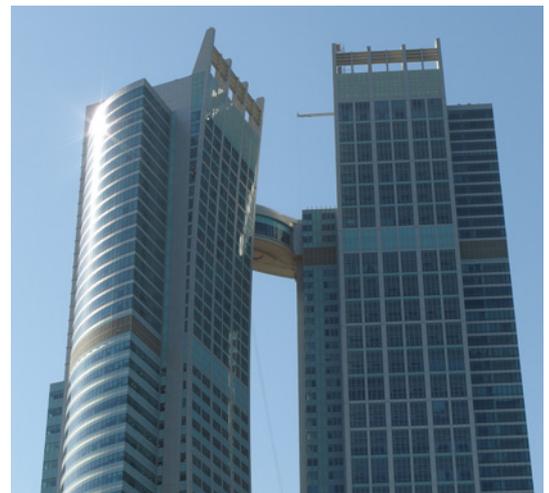




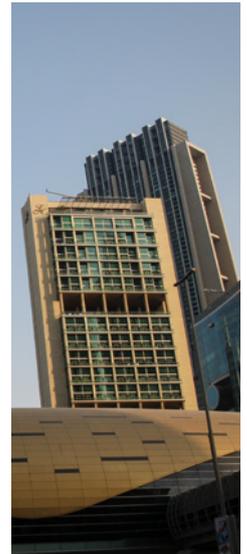
Al-Mazaya Holdings Weekly Real-Estate Report stresses the ongoing importance of government interventions in the real estate sector in order to maintain market momentum and to keep liquidity flowing, especially from overseas. It is also important that governments continue to invest in infrastructure and related projects, and by doing so demonstrate their confidence in the sector. In particular, by continuing to invest heavily in the tourism sector, Gulf governments can send a powerful signal to the real estate market, showing that funds are still available for large-scale projects that have the capability to help the region generate revenues that are non-hydrocarbon related. We believe tourism sector spending will become increasingly important over the coming decade, and increasingly attractive to the region's governments as a result.



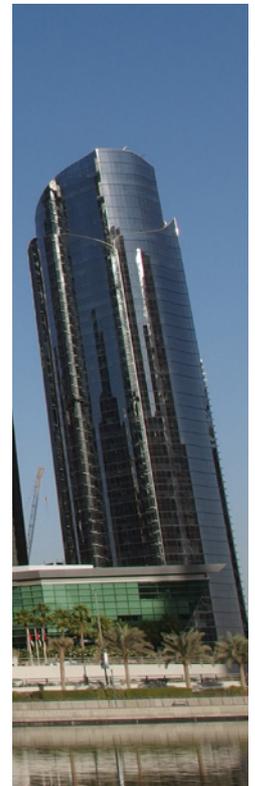
Over the coming years, Al-Mazaya Holdings Weekly Real-Estate Report believes that Islamic financing models must be developed to better serve the needs of the real estate sector. Current Sharia-compliant lending by the region's Islamic banks still lag Western-style lending in terms of flexibility of repayment schedules. We note that Islamic banking is currently a growing sector, and that Islamic bank assets are greater now than at any point over the last five years. We speculate that demand for Islamic finance products will grow by seventeen percent in Saudi Arabia over the coming year to some AED340bn. The UAE will rank second with an asset base of \$144bn, followed by Qatar, which will hold \$111bn. Islamic banks increasingly play a fundamental role in the region's economies, and we believe this role could be considerably bolstered should real estate sector lending practices be modernised.



The real estate market in any country is highly reliant upon sentiment – confidence becomes self-fulfilling, generating market momentum. For this reason, it is vital that governments do all they can to safeguard real estate markets from the type of fluctuations that are so unappealing to investors, both domestic and international. Managed correctly, the real estate sector could become an attractive investment option as oil prices plummet, offering strong returns, but for this to happen it is crucial that investors feel their assets are protected for the long-term. Certainly, there will be many investors in the region looking for a safe haven to put money during a potential downturn.



There is no one-size-fits-all policy by which the region's governments can safeguard and stimulate their respective real estate sectors, but by carefully managing them and helping them wherever possible to withstand both domestic and external pressures, governments will reap significant rewards for years to come.



## The lure of Gulf commercial real estate for international investors remains strong



The residential and commercial segments of the real estate sector are not entirely distinct from one another. Both have the ability to affect the other, negatively or positively. After all, people with jobs – users of commercial real estate – must live in homes – making them users of residential real estate. Typically, during good times both segments flourish, and during bad times the opposite is true. Where both commercial and residential segments in the Gulf region were adversely affected by the global financial crisis of 2008, for example, we have seen both claw back losses up to 2014. However, where residential has since weakened, we have seen commercial prices and yields hold firm thanks to the global centrality and logistical capabilities of the region, which make it an attractive place from which to do business.

One aspect of commercial real estate that sets it apart from residential real estate is the level of investment required upfront before a development can begin, a factor that makes investors naturally cautious and keen to carry out multiple viability studies ahead of construction commencing. Commercial real estate is typically more expensive to create than residential real estate, thanks to the cost of the materials that are needed to build it. However, the returns on commercial real estate are typically higher than for residential.



Al-Mazaya Holdings Weekly Real-Estate Report points out that although commercial and residential market segments are somewhat co-dependent, it is still the case that the commercial segment relies on a thriving national or regional economy, whereas the residential segment can be supported by buying interest from overseas. Real estate that is attractive to overseas investors is likely be able, from a price perspective, to withstand local financial shocks or the ups and downs of domestic demand. This type of real estate is the preferred type for investors ahead of construction, as it presents significantly less risk.

Al-Mazaya Holdings Weekly Real-Estate Report believes the commercial segment of the real estate market is better able to provide security for investors than the residential segment during times of healthy local, regional and global economic growth. This is because the trends upon which the commercial segment relies for sentiment are more varied and international in nature than those that influence most asset classes of the residential sector.



Al-Mazaya Holdings Weekly Real-Estate Report points out we have seen declines of some 28 percent in Saudi Arabia's real estate market compared to 2014, the result of several factors, including: lessened liquidity as a result of a weakened oil price, buyers waiting on the sidelines for the market to bottom out and new regulations, including the White Lands charge that impels landowners to develop previously undeveloped land. As a result of the White Lands charge, the market is seeing increased supply at a time of depressed demand. These are interesting times for Saudi Arabia's real estate market.

For example, recent high-level business cooperations between Saudi Arabia and the United States of America, spanning industries such as energy, mining, health and financial markets, have given the commercial real estate segment in the kingdom a considerable fillip. Further good news for the segment comes in the form of Saudi government plans to allow 100 percent foreign ownership of commercial property in some parts of the country to foreign businesses, a move likely to stimulate commercial activity markedly and bring about increased foreign direct investment. Saudi's large retail sector has consistently posted returns of some eight percent or more in recent years, a figure that will likely bring foreign players flocking when the market opens and recently proposed regulations to safeguard investors are implemented.



Al-Mazaya Holdings Weekly Real-Estate Report points out commercial real estate has performed relatively strongly in the UAE in 2015, especially when compared to the residential market. This is thanks in no short measure to the diversified nature of Dubai's economy, which means the effect of the weakening oil price is not felt so keenly as it is in other parts of the region, and also because Dubai and Abu Dhabi are seen as two of the most transparent and easy places in the Gulf in which to do business. They are attractive places for foreign businesses to set up, a factor that supports the commercial real estate market considerably. Dubai Land Department statistics show some AED106bn of commercial real estate transactions took place in H1, 2015.



Other factors underpinning the vitality of the commercial real estate sector in Dubai include the success of the emirate-wide metro and the winning of the World Expo 2020 bid, which will bring many millions of extra business travellers to Dubai in the years leading up to the event, and, conceivably, beyond.

While returns on commercial real estate continue to present better value than those on most residential asset classes, it is not surprising that investors remain keen to put their money into commercial ventures in the Gulf. We expect this year to see most commercial real estate investors enjoy returns around the fifteen percent market in the region, which is a healthy and attractive figure. It is important, though, that governments continue to monitor the market closely in order to be able to provide investors with accurate information in a transparent manner.



Al-Mazaya Holdings Weekly Real-Estate Report points out that over the coming months the Gulf markets will feel the squeeze of lower oil prices as government spending plans are announced that show more cautious state expenditure than in previous years when oil prices were stronger. It is important, therefore, that both the residential and commercial segments of the real estate sector throughout the Gulf region do all they can to impress upon investors that they are solid investment options capable of withstanding a downturn in economic sentiment, whether regional or global. It is a significant challenge, but managed correctly, a not insurmountable one.