



The Monthly Real Estate Report

M A Z A Y A

AIM TO LEAD

Issue No. 124



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The Monthly Report - September 2016

Al Mazaya: Recession of real estate activities gives local companies a competitive advantage over foreign companies



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In spite of several impediments and challenges, many countries in the region have been able to maintain their investment attractiveness at both foreign and domestic levels. Competition among countries did not limit the movement of investment to all economic sectors; however, foreign companies' entry into the region's economies has had considerable impact on economic development. They also have had a role in transferring various modern technology and techniques that have made the development of various sectors feasible.



Moreover, the efforts of the region's countries have been focused on developing their tax exemption laws in order to attract foreign investments, in addition to offering more investment incentives to foreign companies. They moved towards developing human capital as well as corporate governance. This would encourage foreign companies to continue their work, entry and investment, especially in the real estate sector, which has undergone unprecedented growth over the past ten years. Foreign companies and investments have had a considerable and direct role in this growth over the last decade.

Al Mazaya Holding's Weekly Real Estate Report points out that the regional economies possess ideal investment attractiveness to foreign companies – this attractiveness is attributed to type, volume and number of the projects as well as the timeframe required for completion. This has encouraged companies to continue investing for a long period of time on the one hand, while on the other hand, the profit level has led these companies to expand their activities. Moreover, the development of legislative framework – which has been kept apace of reported development – has played an important role in achieving the successes targeted by both governments and the private sector.



With regards to the UAE model, Al Mazaya's Report states that the open door policy adopted by the UAE for attracting foreign companies and investment has contributed to improving its rating among the region's countries in terms of its ability to attract diverse investments, thanks to its economic resilience in the face of global economy developments. This is in addition to low taxes on imports, and even zero taxes on imports for companies registered in free trade zones. Other factors include the low level of credit risks and constant improvement in the elements of competition. It is worth mentioning that the number of branches of foreign companies in the UAE is increasing daily, reaching 1,941 branches at the end of first quarter of the current year.



Furthermore, the big challenge in this respect lies in the economic capacity of the region's countries to attract foreign companies in order to benefit from them through techniques, experiences, and capital investments. It is no longer feasible to attract foreign companies to acquire transactions, contracts and investment opportunities alone. This is the case for the power sector, real estate sector or even the services sector, unless these investments are medium to long-term. It is worth mentioning that the volume of financial and economic pressures impedes the entry of further direct investment companies at present due to the accelerated pace of events and amendments introduced to investment plans over a short span of time.

Professional and trading licenses accounted for the largest portion of companies coming to invest, while the industrial companies acquired the lowest portion. It's worth noting here that the strength of the UAE's economy – which mainly depends on oil and gas sector – has declined and affected foreign investments as well as the number of the companies entering the market. This is because, as an entry plan, foreign companies were relying on major industrial projects and huge investments, which were being prepared during the period before the drop in oil revenues. Thus, the decline in the total investment capitals at the domestic level will have a negative impact on the desire of foreign companies to enter and invest.





Al Mazaya's Report also touched upon the state of investment growth reported in the investment markets in the KSA, in light of the new movement to open the way for foreign companies, particularly in the wholesale and retail sector. The Kingdom considered new amendments to the current foreign ownership percentage, as set forth by the World Trade Organization (WTO), potentially reaching 100% foreign ownership. The report also pointed out that the foreign and mixed companies, which have been granted business licenses by the Saudi market were 10 companies in total. While the capital of these companies exceeds 66 million USD, these were mainly concentrated in the sectors of pharmaceutical, medical and aircrafts parts industries, in addition to the business licenses granted in the commercial and construction sectors, which are heading towards more mixed companies.



It is noteworthy that according to previous statistics, the number of foreign companies in Saudi Arabia has reached 13,000 buildings. Meanwhile, the value of construction projects has reached 1.2 trillion dollars, representing one of the largest markets for the construction sector. Al Mazaya's Report indicates that the contracting companies showed further indicators of weakness and insolvency during the first half of the current year, which may lead to high rates of unemployment and interruption in the development projects, particularly after the rise in default projects reached a 40% of the total number of development projects. The developments of the Saudi economy may lead to the postponement of the entry of foreign investment companies until the macroeconomic indicators stabilize.



Furthermore, Al Mazaya's Report pointed out that a big number of foreign companies, particularly the construction companies, have headed towards the Qatari market several years ago, owing to the high number of mega and development projects, as well as the short period set for completion. This gives the priority to foreign companies, due to their superior capabilities and more qualified staff, as compared to the local companies that are striving to improve their capabilities to maintain their position in the market against the competition imposed by foreign companies. The report also states that the Qatari market is attractive for investment and business in different fields as it is a growing market that is developing rapidly. As a result, foreign companies are interested in entering the Qatari market to benefit from the reported growth and achieve huge gains of profits, reputation and expansion.



Data released by the Ministry of Economy and Commerce pointed out that the value of contracts with foreign companies reached QAR12 million at the end of the first quarter of the current year. Single person companies ranked in first place, while the limited liability companies came second followed by general partnership companies. On the other hand, construction companies headed the new records followed by the building materials trading companies. It is noteworthy that the construction sector in Qatar is almost wholly controlled by foreign companies, a matter which would reduce the positive impact of investment volumes on domestic companies and the local economy in the long-term.



Al Mazaya's Report stressed that the challenges faced by the majority of economic sectors in the present will slow down the entry of foreign companies, whether at the level of investment or the level of service provision, thus benefiting from the varying activities provided by the local economy. These will also impact the domestic companies and the real estate companies will be at the heart of these developments, as many of these companies will exit the market as a result of the decline in their market shares, resulting from the cutback in the pace of investment and real estate and development projects.



Al Mazaya's Report asserts that the events and activities, first of which are the real estate exhibitions, would reveal the volume of challenges and investment opportunities generated by different economic sectors in the region. These events are able to reflect the ability of the region's economies to attract foreign companies with capitals and not companies that provide services and get mega projects which deprive the countries in the region from economic benefits. This includes the pace of activity and the investment momentum under all circumstances. Thus, it has become necessary to move towards mixed companies as they provide further flexibility and continuity for domestic companies, ensure their survival in changing market conditions, and a minimum positive return for the local economies. These real estate exhibitions will have a role in testing market results during the coming period and till the end of the year. This is contingent on the total indicators and overall results showed by the region's markets.



Moreover, investment plans and investment attractiveness will be affected by the challenges faced by the region's economy. It is also noteworthy that incentives packages are still encouraging foreign investment in all circumstances, taking into consideration that the need for investment and experiences of foreign companies vary in the region. Meanwhile, we are currently witnessing the ability of domestic companies to manage local projects and acquire large and diverse foreign investments.

