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AIM TO LEAD

# The Monthly Real Estate Report

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## Al Mazaya: Steadfastness and tenacity of the British real estate sector to be tested



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### British Investments abroad should remain unaffected from any negative impacts that may occur due to “Brexit”



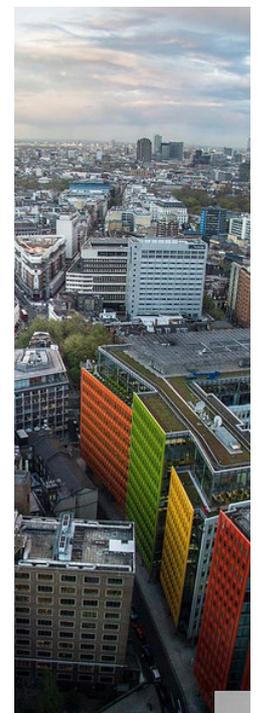
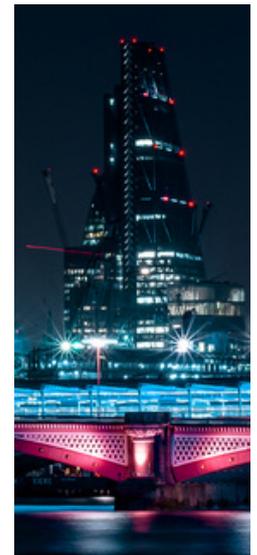
The nature and circumstances of real estate markets differ from country to country and are a result of positive or negative impacts on the real estate sector, which are typically defined by supply and demand activities during times of boom and recession. At this time, it is fair to say that major economic sectors of all world countries are still suffering from financial and economic pressures, with no country yet able to note anything resembling a full recovery, in the aftermath of the global financial crisis. Its impact and effects have remained constant up to the present day and governments of all countries are currently only providing temporary solutions to long-term challenges. All of which points to a need for a restructuring of the international economic system as a whole.

It is worth mentioning that, in 2016, as well as in the coming few years, we will witness further financial and economic alliances and divisions; merger and acquisitions will be an increasingly common activity of companies and organisations worldwide, while breakups and divisions may well be experienced by various countries. With local economic sectors and the health of the global economy at stake, tests of a different type will emerge and the real estate sector is expected to be at the forefront of industries affected by such developments. This is because development and expansion phases, including investments that transcend borders, are affected by recession across all fields and sectors in the global economy.

Al Mazaya Holding's weekly report emphasises the importance of foreign investment for the British economy with energy, real estate and infrastructure projects currently contributing to over 65,000 jobs. The volume of foreign investment into the UK market, at the end of 2015, is estimated to be more than GBP975 billion; European countries saw a share of around GBP566 billion, for the same period.



Al Mazaya's Weekly Report has highlighted the fact that British investments abroad will be unaffected by any negative impacts of Britain's referendum result calling for a withdrawal from the European Union (EU). These investments, in particular, form safe shelters during the impending transition period, while owners of these investments will look to the positive side of the investment equation, as their investments will maintain their values and maximise returns in relation to the supply and demand forces at work in investment markets abroad.



Al Mazaya's report points out that the UK economy provides several investment opportunities that are attractive to foreign investors, especially in regard to high-quality infrastructure developments. These include: roads, railways, and power projects. Each are considered highly attractive investments that will push up the growth and development indicators for the British economy, as well as help improve the income of both individuals and the larger communities these projects serve. In this respect, it is noteworthy that foreign investment in the British economy has accelerated over the past few years, given the economy's attractiveness and investment reputation abroad, both of which are considered a motive for growth and the provision of jobs. It is worth mentioning here that the British real estate sector, over the last few years, was able to attract Gulf investments to the tune of billions of dollars – given its stability, growth and rewarding return rates.

British investment in the real estate sector, in Dubai, currently amounts to AED62 billion, per year, ranking them the fourth biggest investor, by nationality, in Dubai's real estate market. UK investments have largely focused on land, buildings and housing units. On the other hand, the UAE's share in total real estate allocated to lease in the British market is worth more than 20 per cent, at the end of 2015, and reached these levels given the high return rates and strong economic growth rates of the market. Infrastructure development and the reported growth in the value of invested assets reached seven per cent, in the major cities.





Al Mazaya's report further reveals that Saudi Arabian investments in the British economy are considerable and are divided into several sectors and investment opportunities, including: shares, bonds, and property. Total investments, per year, are estimated to be worth about USD18 billion. These investments are likely to be affected as a result of the Brexit decision, especially as all indicators imply that the UK's exit from the EU will result in the British economy incurring losses and a decline in its investment attraction, amidst expectations for its entry into a state of recession in the short and intermediate term.



The Brexit decision is expected to affect investor trust in the UK market and increase fluctuations in capital markets whilst also putting pressure on banking activity, in the UK. Real estate sectors and the activity of foreign companies are also expected to bear the impact of the expected fluctuations and potentially negative impacts.



Saudi Arabian investments in shares, treasury bonds and real estate could be at the core of the crisis and are among those investments that will be highly affected by the Brexit decision. Primarily, this would deprive them of subsidies currently provided by the EU, a matter that would push the UK economy into further recession – at a time when the UK is a major commercial partner with Saudi Arabia. Exports to the latter, at the end of 2015, were around USD7.8 billion in value, while Saudi exports to the UK exceeded USD2.6 billion.



Al Mazaya's report further adds that the Brexit decision could affect Gulf and global investments into Britain, as well as investments in many European countries which have direct, large-scale financial and economic relationships with the British economy – particularly the Netherlands, Belgium, France and Italy. Moreover, all the IMF expectations are negative in respect of a Brexit. With expectations for the British economy to enter a state of slowdown, the UK is expected to suffer an immediate downturn in the coming year, thereby having a negative impact on Britain's economic partners.



In this context, it is worth mentioning that the financial and tax restrictions on the purchase of “houses-to-let” will force several investors out of the real estate market, thus inducing more adjustments on the prevailing prices. Expected increases in interest rates will also mean higher costs on mortgage loans, thereby creating falling demand.



It is worth mentioning that the real estate sector has held the most negative expectations to this new political reality, with observers expecting that the real estate market in Britain will not be able to avoid a fall in its prices up to the end of this year. Increasingly, estimates suggest that the real estate market will undergo a process of tangible price corrections, which had increased over the last quarter as a result of low supply.

Al Mazaya's report has also assessed Qatari investments in the British economy, which are distributed over several sectors. Foremost of which is the real estate sector, in particular: hotels, residential and commercial towers, the Olympic villages, bank and stock exchange shares, as well as investments in the energy sector. These investments are estimated at USD44 billion, although the value of Qatari investments is likely to still increase given the absence of comprehensive data.

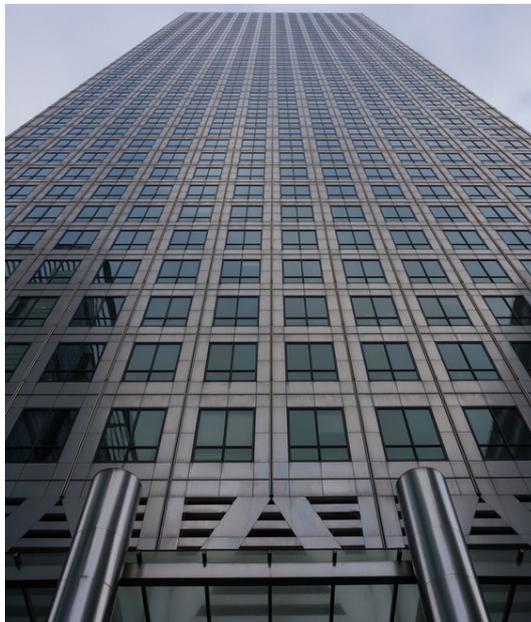




Qatar is considered among the largest investors in the British economy, particularly in luxury real estate, which is a distinguishing factor of Qatari investments in Britain. These substantial investments were mainly motivated by the characteristics of the British economy as a safe investment haven with the ability to withstand financial crises faced by the global economy. That said: Anglo-Qatari relations are stable in almost all area and contracts between the two sides in relation to oil and gas sectors are long-term. Therefore, a Brexit decision will not have considerable effect on bi-lateral and economic relations between the two countries, on the whole.



Al Mazaya's report has ruled out the possibility that foreign real estate investments may undergo liquidation over the coming period, as a direct reaction to the Brexit decision, and expectations are that the appetite for investment will remain strong. The core factor in this equation is that the volume of investments pumped into the British economy will go through a state of confusion over the coming period, until the UK enters into new deals with the EU countries and a clear vision for a post-EU status is identified. The real estate sector, just like other industry verticals, will go through a state of stagnancy due to an unwillingness of stakeholders to be vulnerable to risks through sales or purchases. It is worth mentioning, however, that prices of real estate prior to the Brexit decision were considered high and the inclination to adjustment was expected – regardless of the decision taken by the UK electorate.



Al Mazaya's report also emphasised the fact that British investments abroad, whether in the fields of real estate, industry or hotels, would be safe and their growth and value will continue to increase, as they are closely associated with the developments of the economies of the host countries. A possible positive impact of the Brexit decision is the expectation of an increase in out-bound tourism by British nationals, over the coming short period. On the other hand, British investments in Britain, regardless of their nature and concentration, will go through a trial in terms of value, attractiveness, return rates and the possibility of investor withdrawals looking to cut ties with the least losses.

