



The Monthly Real Estate Report

MAZAYA

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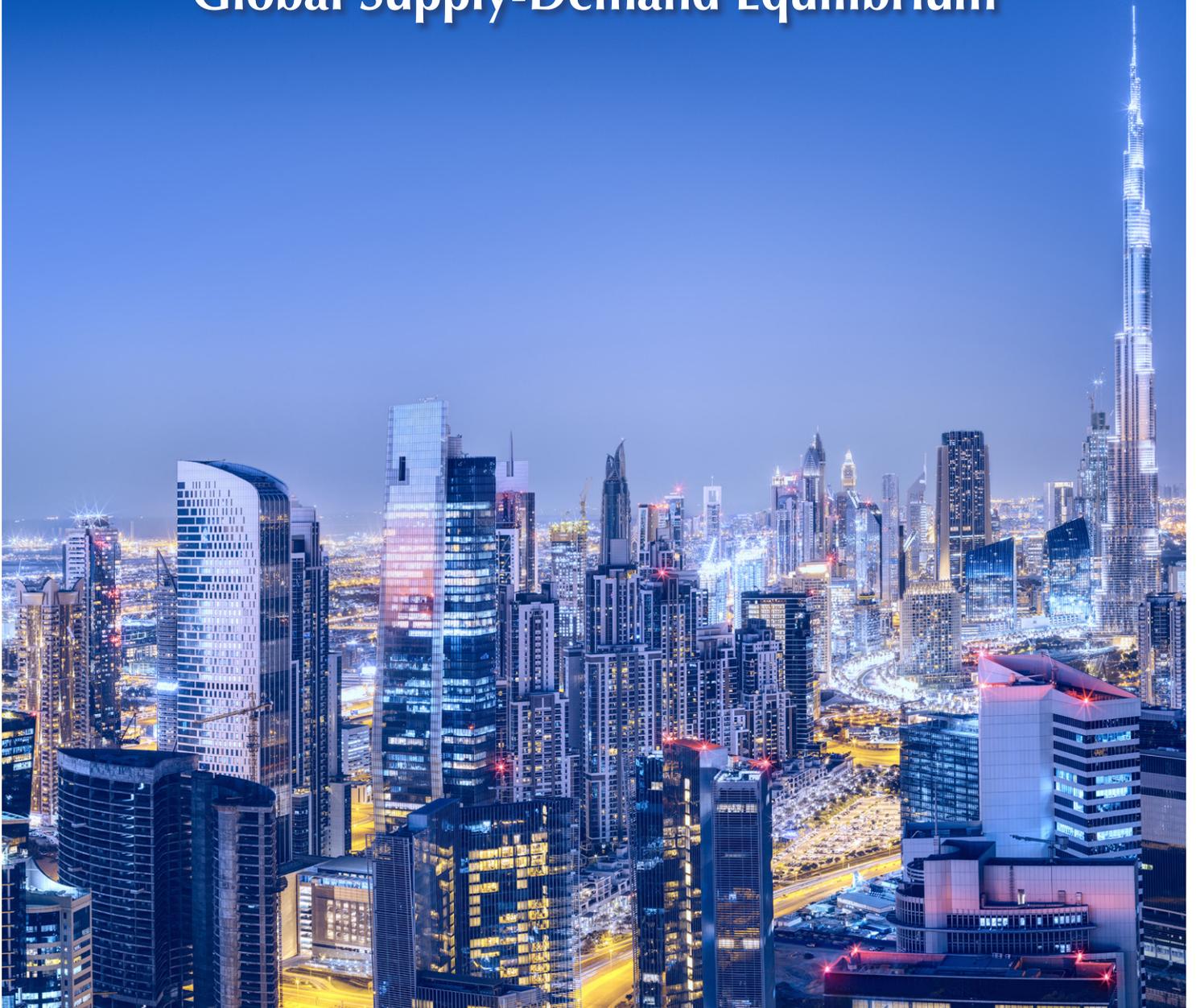
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The Monthly Report - October 2016

Al Mazaya: Real Estate Prices Reflect Global Supply-Demand Equilibrium



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Al Mazaya: Market conditions have helped mitigate a potential negative impact on property prices



The real estate market in the region witnessed unsteady, hovering rates that have brought landlords tangible yields over the past two years. A state of unsteadiness resulted in surging real estate prices and a remarkable fall in sales due to multifaceted real estate demand, varying impact of financial and economic challenges across all business sectors, and a yawning gap between property prices in top localities.

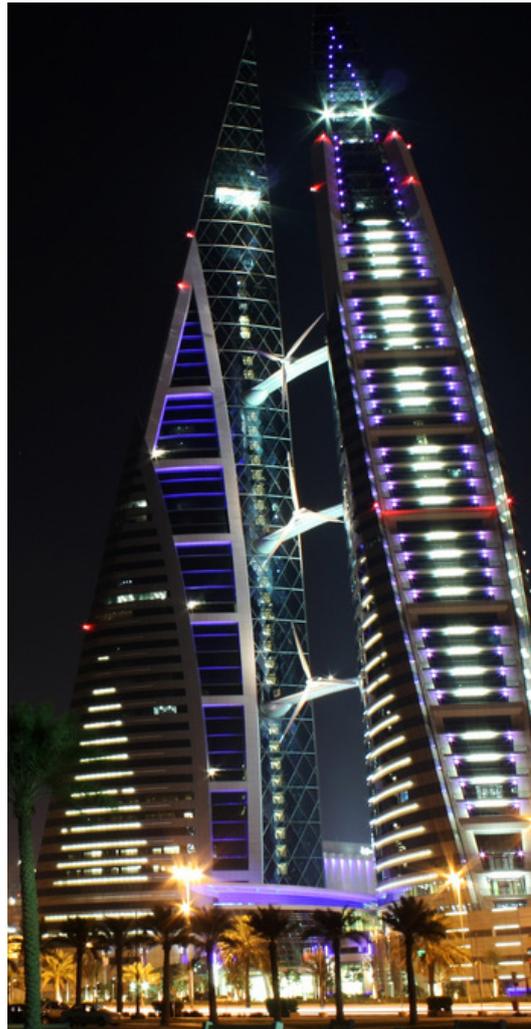


According to Al Mazaya Holding's Weekly Report, market conditions helped mitigate a potential negative impact on property prices. In the meantime, the real estate markets in the region did not witness a collapse in rental prices, with the recorded price plummet remaining within rational levels for investors and end-users alike. The report highlighted the criteria adopted on the Saudi Real Estate Market where state-run authorities are heading for design-driven luxury hotels that are subject neither to the demand - supply mechanism nor to the conventional price growth rates. In excess of a 2 per cent fall was posted in the KSA Real Estate Market, with a 20 per cent increase in Jeddah. An annual hike of 3 per cent was recorded on average in rental prices that have been increasing in different proportions for the second year running. Such a trend has caused landlords to curb the increasing prices of existing real estate investments.

On the Bahraini Market, the Al Mazaya Holding Report indicated that the prices have not been affected by the sharp plummeting of oil prices though the country is largely dependent on oil revenues. The real estate values exhibited tangible growth in the first half of this year, with office rentals remaining stable during the same period. In the meantime, a rental price growth was posted in many locations, thanks to the robust supply-demand mechanism, which is a direct result of the Bahraini Government's plans to provide Bahraini nationals with decent accommodation. These plans fructified into infrastructure developments aimed at strengthening growth rates across different economic platforms, primarily tourism, trade and industry.



The report termed the current real estate price fall in Qatar as a self-correcting tendency, following the continuous price hikes witnessed all over the past years. Such a decline, according to the report, is likely to beef up demand across all real estate categories, including those currently in supply as well as those to be marketed over the coming period.



In Qatar, a 25 per cent fall in prices was recorded since the beginning of the year due to real estate oversupply, the report indicated. Expatriates have multiple and competitive apartment rental options in surrounding areas within the capital's proximity, with an increasing number of residential units being pumped into the market to meet stable demand levels. The considerable amount of liquidity and the value of ongoing government enterprises worth more than QR 260 billion play a significant role in keeping the market equilibrium in times of recovery and low economic growth alike.

In Dubai, the report said that price indications are more realistic and rather reflect, to a large extent, a natural supply-demand mechanism, fair rates and competitiveness. This is attributed, according to the report, to the rich variety in demand sources and to the number of real estate units available. The report added that the rules and regulations governing the official real estate sectors play a fundamental role in maximising real estate yields, ensuring more stability and growth, thanks to the government's constant follow-up and update of these rules and regulations.



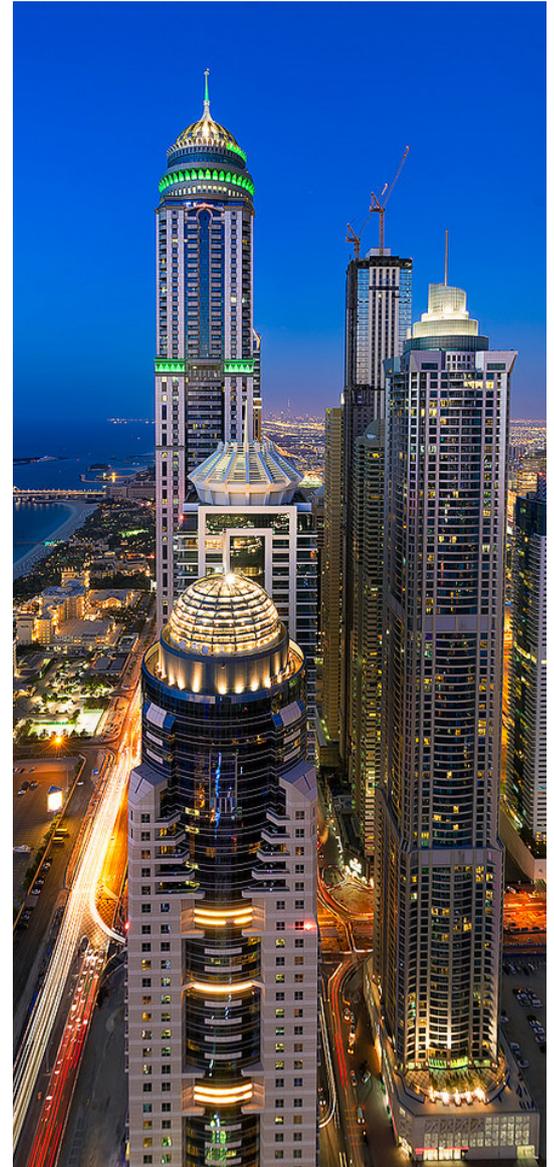
Recorded dates showed Dubai apartment sales prices edging down to 12 per cent on average, with luxurious units seeing a considerable price plummet. Average priced apartments exhibited more flexibility with the market variables, according to the report, with apartment rentals recording a 2 per cent decrease and office rentals maintaining the current balanced prevailing rates. In Abu Dhabi, the market is witnessing oversupply, while almost all the rental prices remain unchanged. Some units located outside the capital have recorded a fall in rental prices.



The report highlighted the positive social impact of the housing projects being increasingly implemented by the region's governments for their citizens. However, according to the report, the inclusion of these residential units within the lists of supplied property and defining demand rates and prices accordingly would lead to incorrect indicators and data that might impinge on future plans and consequently might create negative results in terms of investment returns and market overall stability.



Therefore, multiple market-oriented measurement parameters have to be developed in order to define real rental and sale prices, said the report. Maximising real estate sale incentives has become largely dependent on returns indicators, owing to the availability of various investment options at the local, regional and global levels, which makes real estate investments available for all nationalities worldwide.



The report concluded that providing residential units is no longer the only investment incentive, as stable annual returns are becoming a clear favourite with investors. In addition, the decline in rental prices region-wide is still merely self-correcting, as the prices have not yet edged down toward their real levels.



Fast-paced economic changes render overseas investment difficult

Al Mazaya: Real Estate Markets in the UK and GCC Maintain Robust Appeal Despite Considerable Challenges



The global real estate market and the Gulf region are currently experiencing fast-paced economic changes that have rendered overseas investment quite difficult. This business landscape rather paved the way for cross-continental investments on a number of world markets that yield relatively riskless reasonable returns. New markets that boast security, socio-economic and political stability are high in demand. On this score, UK and the Gulf Region, in general, and the UAE, in particular, emerge as foremost investment destinations by virtue of the economic and investment incentives they offer.

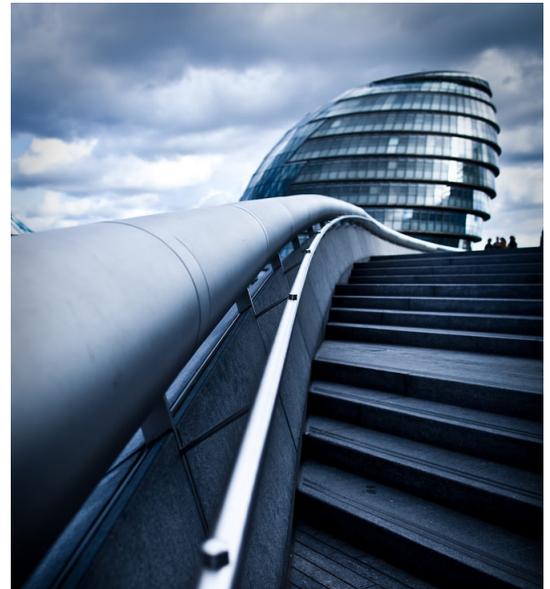
Al Mazaya's Weekly Report summarises the key factors behind the change in investment priorities experienced by world real estate markets. The main factors, according to the report, are the changes introduced by world economic and financial regimes into their lists of investment destinations and priorities. Changes in terms of competitiveness and ability to lure foreign investments and protect local ones are also highlighted by the report.





Recent indications revealed that the UK realty market – despite the recent official decision to walk away from the European Union before 2017 and the resultant fall in GBP – still maintains a robust investment appeal. This is explained by the unprecedented investment edge enjoyed by the UK realty market, with London still being the favorite business destination for foreigners, especially those from the Gulf Region. This investment excellence is attributed to so many aspects of the investment climate, including a secure and economically and politically stable environment that abounds in several future investment opportunities, especially in light of the current changes witnessed by UK.

The Dubai realty market, according to the report, boasts a potential investment attraction tantamount to that of London, due to its stability and luring environment. This is despite the corrective trend that is sometimes experienced by some economic sectors, particularly the real estate one, along with the fall in world oil prices, which has not yet triggered a fundamental long-term impact on the realty market. Instead, a continuous real estate activity is going on, bolstered by a regular launch of real estate projects by the government and private sector to meet real demand on commercial and residential units, particularly the mid-income bracket property in both the UAE and Saudi Arabia.

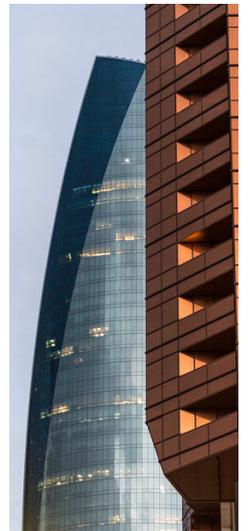


The report noted that the UK economy will continue to influence the world's financial and investment landscape at least over the next two years by virtue of a robust real estate market that is still at its best, maintaining high potential to help lure more foreign investors.

The report predicted that the oil prices – should they exceed the current \$49 level reached by Brent Crude by end of September – will reflect positively on different economic sectors, increasing liquidity and regaining market attractiveness. Such positive predictions are contingent on an oil price increase scenario, the report indicated. Before developing long-term strategies, it is preferable to ensure oil price stability, in order to control investment risks on all sectors. The report also recommends that separate and selective assessments of investment opportunities should be conducted per market in terms of liquidity, mortgage rates and investment opportunities to ensure success.

With regards to the real estate market in Turkey, the report noted that all indications show it will continue to remain in the forefront, thanks to its robust investment plans and considerable potential and incentives, including tax exemption for up to 5 years starting in 2017. This is coupled with a strong supply-demand mechanism and highly attractive property investment environment, according to the report. Competitiveness levels will remain at an all-time-high among GCC States and Turkey, according to the report. The UK realty market will keep its robust appeal, speeding up competitiveness among all these countries.

The current inflation rates give the region's markets a fair long-term investment advantage. Any additional fall in oil prices, however, would drive inflation rates up to a danger zone that would necessitate additional austerity measures over the coming year and the years to come, the report pointed out. The availability of investment options and opportunities on world real estate markets has strengthened quality and enhanced competitiveness, said the report, adding that integrated promotion and marketing campaigns are needed to lure investors into the Gulf region, consequently stepping up competitiveness levels.



The report pointed out that real estate markets in the region still remain at the required positive levels, rising between 1.53 per cent and 3.8 per cent in GCC States. This, in turn, reflected positively on the inflation rates resulting from the fall in oil prices and decline in investment liquidity, helping real estate markets lure more foreign investments.

The region's markets enjoy real estate diversity that is robust enough to ensure a highly competitive environment. Low mortgage interest rates play a fundamental role in enhancing local property market attractiveness, thus wooing individual investors to go for more mortgages. The report concludes by underlining the ability of Gulf markets to accommodate diverse real estate investments at the residential, commercial or tourism levels.



The US Realty Market remains a favourable destination for Gulf Investments

US Presidential Elections could have a great bearing on GCC Property Investments



Successful real estate investments need expertise and sufficient cash flows to cover obligations. More importantly, buoyancy is necessary to survive investment risks, according to Al Mazaya Holding's weekly report. The report noted that modern market indicators term the dynamic US property as a favourable investment destination for Arab and GCC states by virtue of its lucrative yields and high growth rates.

The report notes that the growing competition among key world realty markets has reflected positively on GCC states' outbound investments and helped boost these countries' business relationships with world economic powers. Furthermore, the US presidential elections will have a great bearing on the direction of the Arab and GCC realty investments in US over the coming period.



US realty market boasts fiscal stimulus packages that ensure high yields for GCC businesses, including individual and corporate investments. On top of these advantages comes the high demand for property as flexible legislations ensure its sustained attractiveness under all economic circumstances. Moreover, the open economic policy adopted there plays a pivotal role in drawing different kinds of investments from all over the world.

some years, according to the report. The report attributed the buoyance of the US realty market to its resilient set of rules and regulations. It indicated that office sales and rentals account for a greater share in both local and foreign investments. Industrial property are increasingly attracting foreign investments, pushing their prices by 6 per cent, which resulted in the need to develop more projects to meet the current and expected high rate of demand.



According to the report, the US has several big cities that enjoy a competitive edge, thanks to their diverse and huge natural resources, principally New York and Miami, which are considered among the world's largest cities that attract foreign investments, including those coming from the Gulf region. Annual real estate investment yields as high as 8 per cent have been posted there, jumping up to 12 per cent in



The report also noted that growing employment rates during 2016, investment resilience, high business yields, economic security and political stability are all positive factors that play a major role in increasing demand on commercial and office spaces, noting that demand vastly outstrips supply in many major locations. The report expected that the future Arab and Gulf real estate investments will be negatively impacted by candidate Donald Trump winning the US presidential elections, with the existing investments to be less affected thanks to their growing returns.





The Arab and GCC states are major trade partners of the US, with the trade exchange between the US and the UAE reaching \$25 billion by the end of 2015 and US-Saudi trade exchange posting good growth rates in the same year, rising up to SR170 billion. In the meantime, Qatar is planning to pump more than \$35 billion in direct and indirect investments into the US. In addition, Gulf investments in the US are estimated at \$612 billion.



The report underlined the importance of Gulf investments finding out other investment opportunities in the region's markets, even in developed countries, including China, Turkey and Indonesia, where realty markets are posting high yields without any indirect or direct economic or political repercussions. The report highlighted that some of the risks that private and public Gulf businesses could be exposed to in the US should Saudi Arabia decide to withdraw from the US market – this includes cash and asset investments. A new major world financial crisis could be triggered if the Gulf countries scaled down their new investments in the US, resulting in drastic pricing deviations in all economic platforms.



The grave implications of the Justice Against Sponsors of Terrorism Act (JASTA), in case of its enactment into a law, would outweigh those of the presidential elections on Saudi-US relations at all levels. The act, if enforced, would have a drastic impact on eminent Saudi figures, credit institutions and charity organisations that will be required to pay billions of dollars in damages. This will create a gloomy scenario that could cause a large portion of foreign investments to flee back to local Gulf markets.



In conclusion, the report called upon all Gulf companies and organisations to invest their growing revenues from the oil industry in other fields like finance, real estate and industrial markets that are likely to generate more investment momentum and improve the business environment.





Al Mazaya: Despite Mounting Economic Pressures, Saudi Realty Market Remains on Track



The Gulf realty sector has been experiencing a wave of fluctuations over the past economic period. Unsteady prices of housing units and projects, low cash flows and mounting pressures exercised by state departments on real estate companies and investors are cited by Al Mazaya Holding to be the main reason behind new challenges. A report released recently by the company said that Gulf countries and investors now need to adopt structured measures robust enough to bolster the Gulf property sector. They need to steer clear from being selective in their long and mid-term investment plans – rather, they should focus on monetisation policies to avoid losses and mitigate potential risks.

The report, which was mainly focused on the Saudi realty sector, said the Saudi government's plans and investments adopted hitherto have not yet fructified, nor have they managed to bridge the yawning gap between supply and demand due to the vast extent and magnitude of the Saudi market where demand for housing units and villas is on a spiraling rise, significantly outstripping supply.





The report said the change in Saudi government's expenditure priorities in light of the Saudi Vision 2030 is likely to trigger a state of uncertainty that would lead investors to shy away from the real estate business due to the challenges they encounter, particularly falling land prices and reducing liquidity at a sector that used to boast 45% of the total liquidity available for all investment platforms in the Kingdom.

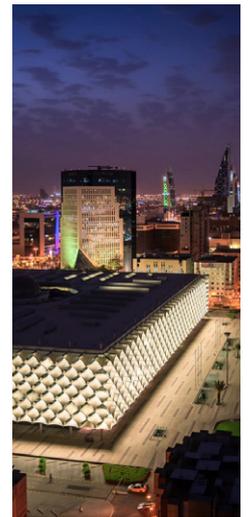
Though land sales accounted for the lion's share of real estate transactions, residential land prices fell by 19% against 2015's and by 32% against 2014's. The report added that the market would witness more developments and cycles in terms of liquidity, sales and prices over the coming period, should supply, demand and sales of lands and real estate property continue to grow.



Al Mazaya Holding's report indicated that the Saudi real estate market showed signs of weakness due to the sharp drop in the value of real estate transactions over the past period of the current year. The total value of real estate transactions plummeted by 23% over the past 10 months to as low as SR 246 billion compared to SR 319 billion at the same period last year. Residential property transactions fell by 20% while commercial property rose by 6% at the same period, with land transactions leading the sector with 83% of the total value of all real estate sector transactions.

The report referred to the discrepancy in liquidity levels in the Saudi realty market, where land sales are on the rise, while villas' prices fell by 30%, attributing this decline to the fact that property services differ from one location to another. This decline triggered pressures on real estate activities, leading property purchases to fall to an all-time low as buyers could get lower prices with higher advantages and, at the same time, owners tend to sell to avoid potential losses.

Laws relevant to levying charges on land sales have not changed radically until now, said the report, adding that more control is needed to curb unjustifiable price rises that are at an all time high as a natural result of owners taking advantage of the high demand on the types of lands set for residential and investment purposes.



Nevertheless, the Saudi realty market is considered one of the region's largest, generating high demand and recovery levels, including a sustained launch of governmental enterprises. The sector is of vital importance to the Saudi national economy, due to its impact on growth and prosperity levels as well as on local and overseas investments. Furthermore, the sector creates growing job opportunities and has its ultimate impact on other economic platforms.



The Saudi market is anticipating major decisions that lead to a fundamental change in the trend of buying lands only for the purpose of keeping them until their prices rise rather than buying for construction and development purposes, according to the report. The report also indicates that determining the type of contractors, including their areas of expertise, so that investors can choose the best that meets their needs, is a crucial step.

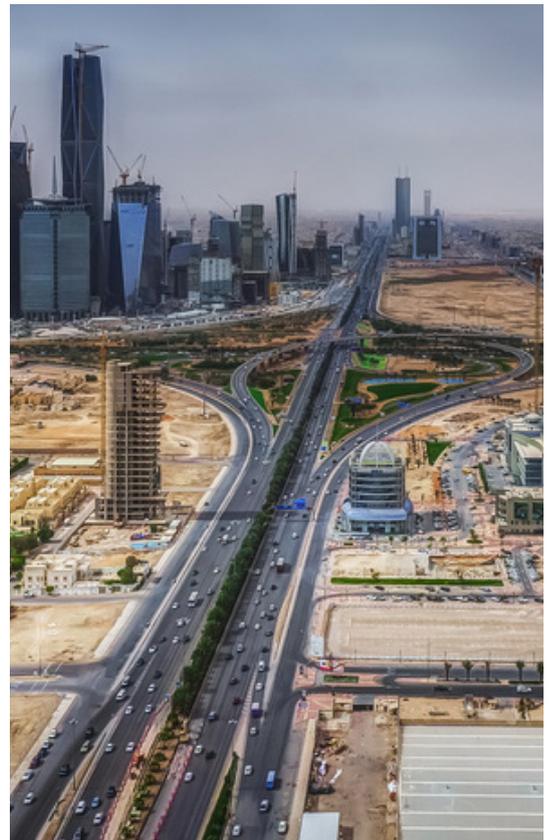




The report added that the government's support will play a major role in helping the Saudi real sector gain the right momentum and survive the challenges of the past and present so that it can regain its attractiveness and favoured status in drawing real estate projects. This support is needed to reduce burden on individuals and encourage investors through stimulus packages and official incentives.



The report highlighted the myriad challenges besetting the Saudi real estate market, including the growing gap between supply and demand with regards to property in general and residential units in particular. The ongoing projects as well as those executed in the past failed to overcome the commercial property shortage, noted the report, highlighting that the sector needs a momentum to draw different types of investments in the building and construction industry, whose regional value is estimated at more than \$300 billion. Thus, the sector can turn to a think tank to adopt and produce state-of-the-art technology.



In conclusion, the report underscored the importance of the real estate market in adopting the Saudi Vision 2030 that aims to increase returns to \$160 billion by 2020. The report called for maintaining the construction sector's fundamentals, and augmenting the construction sector's yields to the maximum level. In this regard, it referenced the positive impact that the Saudi Vision 2030 will have on the buoyancy of the sector, the local economy and the gross domestic product in general by attracting more investments while restructuring other sectors. Furthermore, the report indicates that expected government expenditure allocated to Saudi Vision 2030 will reach more than SR 60 billion by the next year.



Supply-Demand Imbalance Triggers Crisis in the Egyptian Realty Market



Demand is outpacing supply in the Egyptian realty market, which is considered one of the major economic sectors in the country. This is occurring at a time when the private sector is more incentivised than before to launch real estate projects that bridge the gap between supply and demand. Furthermore, the government is increasing efforts to launch projects that meet the needs of the low-income segments of society. Despite the financial crises besetting the Egyptian economy, big foreign and local investments have recently been drawn to the economy, solidifying the real estate sector's attractiveness.

However, Al Mazaya Holding's Weekly Report predicted that increasing property prices would trigger a crisis in the realty market, now considered the only investment platform where cash flows can be directed. This is in anticipation of the probable devaluation of the Egyptian pound, which will have its own bearing on bank deposits and financial markets credits, ultimately leading to price bubbles that are difficult to control in the short run.

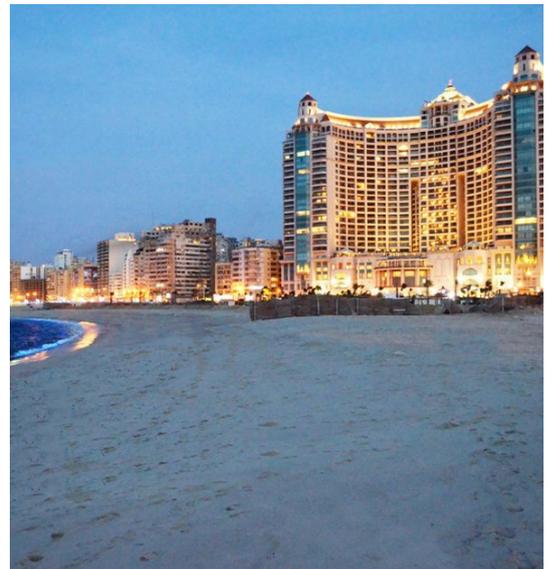
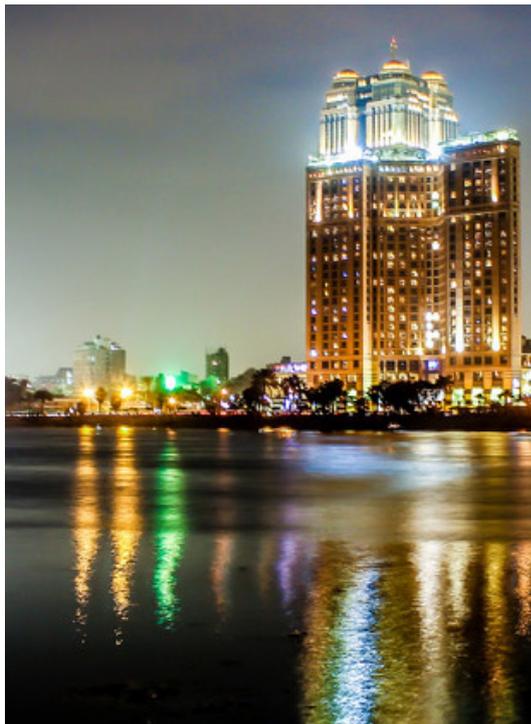




The report summarised the crisis the Egyptian realty market is going through due to the lack of balance between demand and supply. This is a result of the rapid population growth, the low-income demographic's inability to pay for housing, and the discrepancy in property prices from one area to another, in addition to the decreasing purchasing power. The report noted that property prices represent a real challenge, with real estate development companies finding growing difficulties in selling housing units at the current high prices. The report also urged all parties concerned to collaborate before the situation worsens and escalates into a significant crisis that would certainly impinge on the Egyptian economy, leading ultimately to a situation where the banks would not hold sufficient funds to fund real estate companies.



The report mentioned that the building and construction sector posted fair growth rates reaching up to 12% during the first 9 months of 2016, which makes government estimations of scoring a growth rate of 4.5% a valid possibility. The current and expected growth rates continued to rise during August, reaching up to 16.4% on an annual basis.

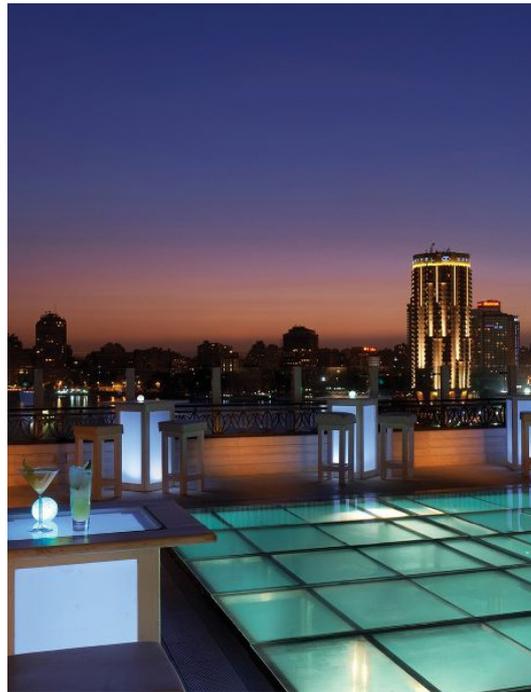


Furthermore, the report added that real estate companies and investors are required to launch more projects addressing the low-income demographic that accounts for the largest share of the Egyptian population. Real estate companies were also advised to stay clear of luxury projects in order to avoid a potential collapse in prices and demand for real estate units and enhance economic growth rates in order to preempt any more crises.

The non-availability of hard currency in the banks that fund foreign trade will cause investors and traders in the Egyptian real estate sector to sustain heavy losses, pushing them to get their financial needs at much higher prices from the black market – a situation that will lead to increasingly high inflation rates. The report attributed the current financial crisis to an imbalanced management of foreign credit and the lack of a proper mechanism to generate sustained flows of foreign currency.

The current crisis is considerably attributed as well to the deteriorating conditions in the tourism sector, which is one of the largest hard currency earners in the country. The ailing economic conditions have not been mitigated by the floating exchange rate regime, which has proved to be an insufficient solution to survive the current crisis, despite previous predictions that exchange rate flexibility would draw foreign investments and re-channel expats' remittances back to the local economy.

The report highlighted the effect of increasing inflation rates on the current property prices, with available data attributing the all-time high 20% increase in prices over the past year to the 70% hike in land prices in Grater Cairo. The average price per square meter for houses and villas reached around LE 18,000, with property prices varying according to location, space and level of finishing and decoration.



The report added that it has now become necessary to launch a package of economic reforms in parallel with the floating exchange rate mechanism. These reforms, according to the report, should include guarantees to provide foreign currency for purposes of importation for a minimum of six months. The report highlighted the grave impact the current economic developments would have on the realty market, which has for 10 years been witnessing increasing prices and high demand due to the continued devaluation of the local currency by the Egyptian Central Bank.

The report predicted that the crisis will continue and the average Egyptian citizen's purchasing power will be curbed if no sufficient measures are taken. A continued rise in real estate prices will probably make the recession manifest itself due to the locals' unwillingness to buy at overstated prices. Mortgages would go for longer payment periods to ensure lower monthly instalments. The report concluded that it has become more necessary now than ever before to survive the crisis by launching medium and small-scale housing units. Furthermore, the government can also enhance its efficiency to overcome challenges in a market that already boasts multiple investment opportunities for Egyptian businessmen, due to the restrictions imposed on foreign currency and external money transfer transactions.