



# The Monthly Real Estate Report

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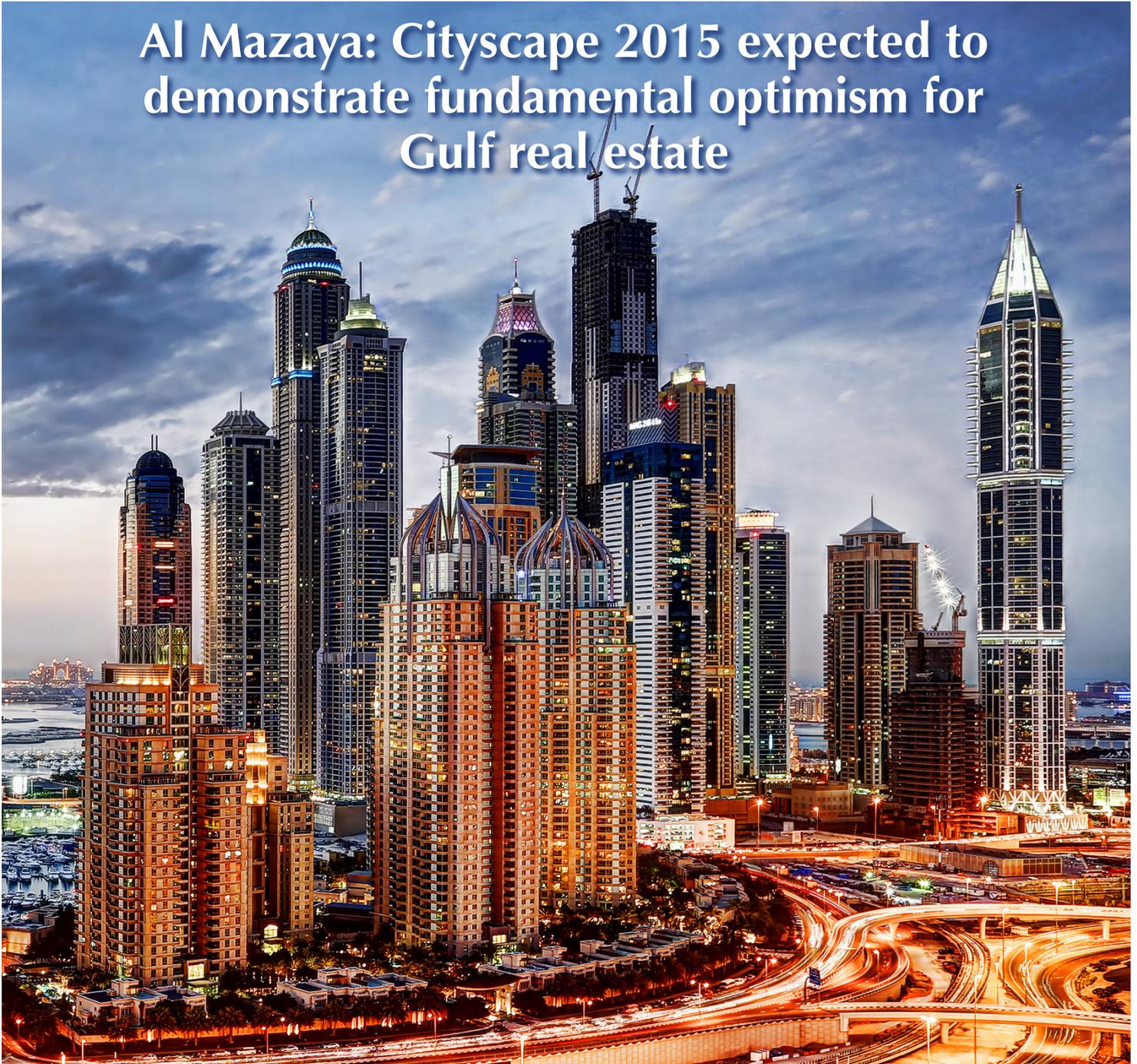
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The Monthly Report - September 2015

## Al Mazaya: Cityscape 2015 expected to demonstrate fundamental optimism for Gulf real estate



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## Al Mazaya: Cityscape 2015 expected to demonstrate fundamental optimism for Gulf real estate



It can at times seem difficult to get an accurate picture of the GCC real estate sector's vitality due to issues of transparency regarding the number of new projects that are slated for delivery over the coming decade. Developers are keen, naturally, to understand variables such as forthcoming areas of government focus or state infrastructure spending plans before committing themselves to projects, or to making their commitment public. As a result, market analysts often pay close attention to feasibility studies into proposed developments in different geographies to gain insights ahead of the curve of the future direction the market will move, should the conditions be favourable. Feasibility studies at least give an impression of what sort of real estate developments are likely to receive the green light quickly.

Al Mazaya Holding real estate weekly report points out the 2015 Cityscape Global Exhibition is the starting point for the Gulf real estate season. Private sector developers and public sector officials, whose job it is to stimulate and regulate the market, come together for a week to showcase to potential buyers the region's best and brightest developments – some of which will never make it past the architect's drawing stage. Delegates love Cityscape for the opportunity it provides to knowledge-share and to swap rumours or industry gossip. Time spent at Cityscape is indispensable for understanding GCC real estate market sentiment and the domestic and international appetite for investment. Put simply, Cityscape is a bellwether for the GCC real estate industry – a jamboree at which partnerships are entered, deals are done and contacts are made. When the market is tough, the atmosphere at the showpiece exhibition is muted, but when conditions are good, the euphoria is palpable.

Al Mazaya weekly report believes Cityscape 2015 will be the most interesting edition of the event in recent years – it will give the first indication of where the Gulf real estate sector stands as an industry at the end of Q3, and its ability to attract buyers. There has been much recent talk within Gulf markets as to whether real estate now presents long-term value, and Cityscape should give us the most definitive answer we can hope for. Should buyers remain on the sidelines, or relatively few new developments be announced, we will know the sector has still not regained the momentum that many claim it has. Conversely, strong demand at Cityscape for residential and commercial property, and the unveiling of the type of projects that have previously caught the global imagination, will show Gulf real estate is well and truly back, despite global economic uncertainty and depressed oil prices. 47,000 Cityscape visitors can't be wrong, after all.



Al Mazaya weekly report predicts this year's Cityscape will reflect the realities of what a low oil price means for both the real estate and the construction industries in the Gulf. While low oil prices will inevitably mean decreased liquidity – a worrying prospect for any country's real estate sector – they will also mean lower construction costs for developers, a state of affairs that, in the short-term at least, should bring about strong yields, and - if savings are passed on to buyers - present a strong value proposition. The long-term effect of depressed oil prices will play on buyers' minds, however, tempering purchasing enthusiasm. Long-term cheap oil could have serious repercussions for the value of Gulf real estate, particularly in countries or emirates that have not yet diversified their economies away from reliance on revenues generated by hydrocarbons. These are certainly interesting times for the market, hence the interest in Cityscape.



For comparison: last year's Cityscape saw 27 large-scale projects announced and drew 280 exhibitors from more than 30 countries. These are the figures against which Cityscape 2015 will be judged.





Al Mazaya weekly report believes it is crucially important that developers this year strive to offer outstanding value to potential buyers, and are mindful of the need to build domestic confidence in buying Gulf real estate. The region's demographics dictate that millions of new homes must come onto the market in the coming five years to keep pace with the growth of young populations. In this respect, affordable housing is an extremely important area of the real estate market throughout the region and will attract much interest at Cityscape. Another area likely to attract interest is commercial real estate that is suitable for the SME-type businesses that are sprouting up quickly thanks to government policies that are conducive to small enterprise. Many believe the best value available in the market is at the affordable end of the market, residential and commercial.



Al Mazaya weekly report sees much to be optimistic about in the Gulf's real estate sector – we believe the region's long-term economic prospects are strong, while GCC political stability gives the region safe haven status that is highly sought-after by potential investors. We believe Gulf governments are in the main delivering on promises to create climates that are conducive to attracting FDI while pursuing economic diversification goals. Real estate development is recognised within the Gulf as an important contributor to GDP and to the creation of employment opportunities, and is therefore supported by the region's governments. For these reasons, we believe Cityscape 2015 will be very well supported.



We conclude by stating that, provided the region's governments continue to do all they can to ease the bureaucracy so loathed by investors while ensuring real estate markets are well regulated and appear secure, there is no reason for pessimism of any kind regarding the region's real estate sector. We expect Cityscape 2015 to show unequivocally that this is the widely held view.

## Al-Mazaya: Gulf real estate markets well poised to attract large-scale domestic and foreign investment



The vitality of the Gulf's real estate markets are very much linked to the appetite of the region's governments for investment into the sector. Real estate, after all, can be seen both as a bellwether for the health of Gulf economies and as an indicator of the level of regional liquidity flows. The real estate sector in any country forms a central pillar of the economy, affecting all other sectors, creating large numbers of jobs and attracting foreign investment.



Despite the political challenges of the wider Middle East region, Gulf real estate is still very much capable of bringing in large amounts of investment from overseas. Likewise, governments in the region remain enthusiastic to support the sector by announcing large development projects, many of which form part of strategies to diversify economies away from reliance on hydrocarbons.





Al-Mazaya Holdings Weekly Real-Estate Report states that Gulf countries are amongst the most attractive in the world for real estate investment, due to a variety of factors. Economic diversification plans are significant; they bring large workforces into the region in need of housing, and they facilitate foreign investment. Investors are keen to place money into economies that demonstrate an appetite for progress through investment in innovation – internationally competitive economies are more likely to generate strong returns on investment than non-competitive ones. For this reason, international investors typically like Gulf countries.



Mega-project investment is good news for Gulf economies, bringing many benefits and creating enormous value. We need only to look at Dubai to see the advantages of the state investing boldly in mega-projects and opening doors to foreign investors. It is no coincidence that Dubai today is regarded as a global centre for luxury real estate investment, on a par with New York, London and Paris. Data issued recently by the Dubai Land Department shows some 75 percent of Dubai real estate investment comes from overseas. Al-Mazaya Holdings Weekly Real-Estate Report predicts this trend will continue for the foreseeable future.



Al-Mazaya Holdings Weekly Real-Estate Report notes that there is a healthy appetite amongst GCC governments for developments sufficiently large to qualify for mega-project status. In fact, we have lately seen mega-projects being announced with a frequency that matches that of the pre-global financial crisis years. Investment into mega-projects in the region is some eight percent increased on 2014 levels already in 2015, and we expect this trend to continue until at least 2019 as infrastructure is upgraded throughout the GCC. By 2020, in fact, we expect to see some \$40bn invested into airports alone as GCC countries compete for a share of total annual passenger flows totalling four billion people through the Gulf.



Within the Arab world, GCC countries are the favourite destination for investment, especially now that a decline in the price of oil has brought down construction costs and improved real estate's value proposition. GCC countries are seen in many respects by other Middle East countries as examples of what can be achieved when government is keen to support business and inflation rates are well regulated. GCC countries have well-earned reputations for innovation, and this makes them attractive to Arab investors, particularly into real estate.

Al-Mazaya Holdings Weekly Real-Estate Report believes that as oil prices decline, mega-project investment might counter-intuitively increase as governments in the GCC look to speed up the pace of economic diversification. In this respect, we believe tourist developments will become more attractive than ever, as they have a proven track record of delivering strong returns around the year. We believe there is plenty of room in the tourist market in the Gulf for additional developments. We also see plenty of scope for healthcare developments, in line with a regional drive to become a health tourism hub.



Al-Mazaya Holdings Weekly Real-Estate Report points out that GCC countries would be wise to improve data capture mechanisms in order to better demonstrate trends pertaining to real estate investment, both in order to better capitalise on investment flows and to advertise opportunities to future investors. Such data would also of course be invaluable in terms of market analysis and formulating strategy.



We conclude by pointing out Gulf economies are very well poised to attract considerable flows of foreign investment into real estate over the coming years, but we believe it is imperative that governments lead the way, demonstrating commitment to the sector both through injections of liquidity and by ensuring bureaucracy is lifted while financial incentives are optimised. If this can be achieved, the future is bright.





### Gulf real estate outlook remains strong despite low oil prices



While Gulf economies strive to diversify away from reliance on the income generated by the hydrocarbon sector, it is important not to lose sight of the fact that oil or natural gas remain crucial mainstays of almost all Gulf economies. With this in mind, it is natural that many analysts consider what a depressed oil price will mean for the economies of the countries that comprise the GCC, and, in particular, for Gulf real estate.



Demand for Gulf real estate remains high –the region’s population boom continues apace, and the need for residential property does not fall away because the oil price weakens. The danger, of course, is that with lower oil prices, liquidity flows through the region suffer, meaning income for citizens to invest in property, and, potentially, less appetite by government for investment in large-scale infrastructure mega-projects. From the developer’s perspective, it is natural that during times of reduced liquidity the focus on efficiency is heightened. Al-Mazaya Holdings Weekly Real-Estate Report predicts that over the coming months we will hear much about initiatives to improve efficiency by those who work within the sector.



In all of the Gulf countries, the private sector naturally leads the way in terms of real estate development, innovation and implementation. However, a low oil price presents a formidable obstacle to achieving previously set targets and delivering sustainable profitability for private developers. It is natural that as the oil price heads south, the industry does what it can to recalibrate its targets and to continue moving in the right direction. Perspectives change during periods of decreased liquidity, as do imperatives. It remains of tantamount importance to continue to safeguard the industry as much as possible through intelligent regulation and investment. Not every country in the Gulf will feel the effects of oil price fluctuations identically – the real estate sector in each country will then necessarily have to react to circumstance differently. There is no one-size-fits-all solution.

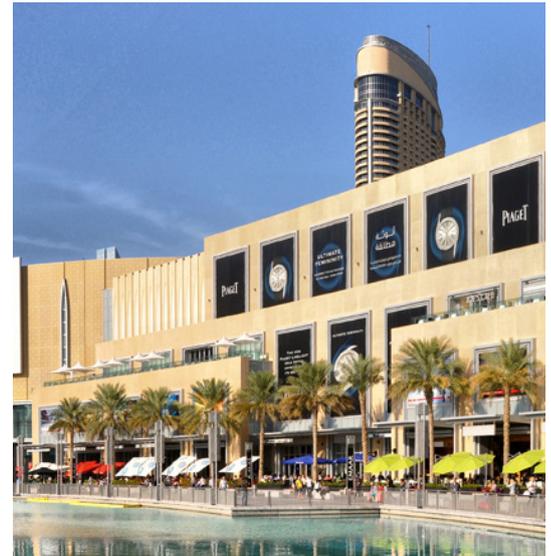


AI-Mazaya Holdings Weekly Real-Estate Report points out that while liquidity flows in the region decline in line with a weakening oil price, it will likely be difficult for the real estate industry to enjoy previous levels of investment. It is not all doom and gloom, however – financial services sectors in the Gulf continue to perform well, particularly in the UAE. Commercial sectors, too, continue to post strong returns and we see increased employment across the region as job opportunities are created. In Saudi Arabia, we see the industrial sector growing (related perhaps to increased oil production – a factor in bringing the price down).





The ongoing vitality of the region's retail sector is directly related to the likely fortunes of the real estate sector. Retail provides much of the demand the real estate sector depends on, and any factor that causes retail activity in the region to lessen will inevitably have knock-on consequences for real estate. For this reason, we are delighted to see that, throughout the Gulf, retail continues to perform strongly, and we expect to see it post growth of an average eight percent in 2015. In Dubai alone, we forecast retail growth of ten percent, a figure we believe the emirate can sustain for the next half decade, at least. Retail spaces will expand by some thirty to forty percent in Dubai over that time as new malls are constructed to meet demand. By the end of 2014, the UAE retail market was valued at AED120bn.



In Bahrain, we see continued investment into the retail sector, evidence that confidence is still strong. Mega malls are being built and office space is also at a premium. We believe there is still plenty of potential in Bahrain's retail sector, a view that is increasingly shared by international investors. International Bahrain Investment Park, Bahrain Investment Wharf and Bahrain Logistics Zone are examples of the progressive attitude towards retail Bahrain is currently demonstrating. We also see plenty to be optimistic about in terms of Bahrain's residential real estate sector.



Across the GCC, there is strong momentum behind the industrial sector, ensuring local and international investment into it remains good. The downstream hydrocarbon sector also remains strong, posting healthy year-on-year growth, and we see no reason for this trend to reverse. GCC governments have indicated they will continue to invest in downstream related-industry, especially where it pertains to petrochemicals, refinement, gas liquefaction, fertilisers, iron, steel and food manufacturing. Where downstream investment at the end of 2010 was \$222bn, in 2014 it was \$380bn, representing compound annual growth of fourteen percent.

Over the coming years, Al-Mazaya Holdings Weekly Real-Estate Report predicts the best real estate areas for investment within the GCC will be residential and tourism, especially at the luxury end of the spectrum. Recent statistics have shown that in Dubai, this area of the real estate sector continues to return large margins, and a decline in the oil price is unlikely to cause problems. Likewise, in Saudi Arabia, residential and tourism real estate are forecast to perform strongly. We see investments in this area totalling some SR25bn in 2015. Qatar also shows good signs in this regard.



In conclusion, Al-Mazaya Holdings Weekly Real-Estate Report states that while a low oil price is not an optimal situation for the Gulf's real estate sector, there remains, thanks to recent economic diversification initiatives, much to be optimistic about within the region.