AMAR
Finance & Leasing

Real Estate Newsletter - GCC Region

Year End 2014

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AMAR FINANCE & LEASING

GCC Region – Real Estate Newsletter

AMAR FINANCE & LEASING COMPANY

Contents

Executive Summary **1**
- Economic Overview 1
- Real Estate Sector 2
- Residential Sector 2
- Commercial Sector 3
- Major Projects 5

Kuwait **6**
- Economic Overview 6
- Real Estate Sector 7
- Residential Sector 7
- Commercial Sector 8
- Major Projects 9

The UAE **10**
- Economic Overview 10
- Real Estate Sector 11
- Residential Sector 12
- Commercial Sector 14
- Major Projects 16

Kingdom of Saudi Arabia (KSA) **17**
- Economic Overview 17
- Real Estate Sector 18
- Residential Sector 18
- Commercial Sector 20
- Major Projects 22

Kingdom of Bahrain **23**
- Economic Overview 23
- Real Estate Sector 24
- Residential Sector 24
- Commercial Sector 25
- Major Projects 26

Oman **27**
- Economic Overview 27
- Real Estate Sector 28
- Residential Sector 28
- Commercial Sector 29
- Major Projects 30

Qatar **31**
- Economic Overview 31
- Real Estate Sector 32
- Residential Sector 32
- Commercial Sector 33
- Major Projects 34

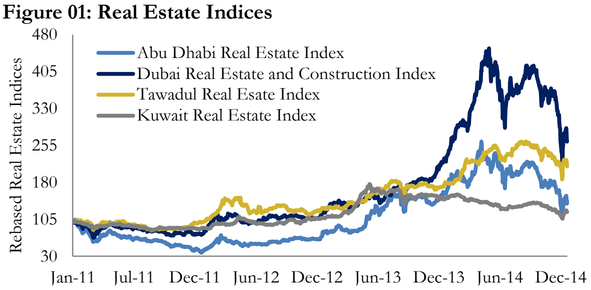
Executive Summary

One of the most defining events in 2014 for the GCC countries was undoubtedly the sharp fall in oil prices, as it was completely unexpected at the beginning of the year. According to Markaz, oil prices fell by a whopping 48%, to as low as USD 55.8/barrel in June 2014, because of increasing supplies from non-OPEC producers, stubbornness of OPEC producers to act as swing producers (a supplier or a close oligopolistic group of suppliers of any commodity, controlling its global deposits and possessing large spare production capacity), and subdued demand growth expectations.

GCC countries are focusing on diversification for a healthy survival in the long run. In H2 2014, almost all the GCC countries displayed an optimistic economic outlook as real estate recovered and political problems faded, except in Bahrain. The countries renewed (or continued) their efforts on diversification amid a positive growth outlook for non-oil sectors, including real estate. This is resulting in the growth of real estate activities in the GCC region. Real estate transactions and enquiries in the region have increased, making realty a favored investment medium. Real estate indices of the region have picked up since 2012, after a major property slump during 2008–11(Fig 01).

The increase in housing demand from both expatriates and citizens is putting pressure on prices in the GCC. This trend is likely to support residential development in the region, as developers will construct projects suitable for the growing local and expatriate population, thereby creating a balance between demand and supply.

Figure 01: Real Estate Indices



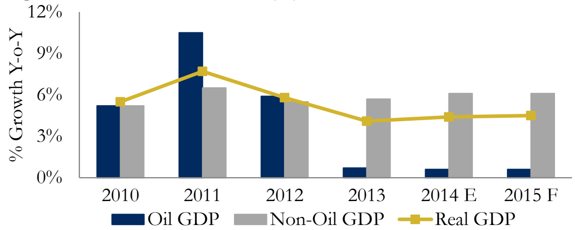
Source: Zawya, Bloomberg

Economic Overview

Non-oil sector – the growth engine for 2015

Last year proved to be a reassuring year for the GCC region. The oil-focused GCC economies displayed impressive gross domestic product (GDP) growth, higher than the global average. According to the International Monetary Fund (IMF), despite the expected slump in real oil GDP growth from 0.7% in 2013 to 0.6% in 2014 for the GCC region, due to the cutback in oil production levels following the softening of oil prices globally, the overall real GDP growth is expected to increase from 4.4% in 2013 to 4.5% in 2014, supported by large infrastructure projects, stimulus measures, accommodative monetary policy, and social spending in the form of generous grants, wage hikes for public sector employees and large-scale subsidies.

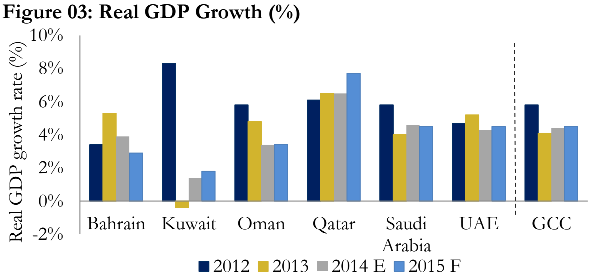
Figure 02: Real GDP Growth (%) of GCC



Source: IMF, January 2015

According to the IMF, real GDP grew by an estimated 4.4% in 2014 and is likely to grow by 4.5% in 2015. It expects Qatar and the United Arab Emirates (UAE) to be the fastest growing economies in GCC this year. In Qatar, government spending on infrastructure is likely to remain a key driver of non-oil growth, as the country continues to prepare for the FIFA World Cup. In the UAE, tighter fiscal policy is expected to continue in 2015 and the IMF expects growth in the region to continue to be driven by the domestic private sector. In addition, consumer and investor confidence in the UAE has been buoyed by a sharp recovery in real estate prices and the successful bid to host Expo 2020.

Figure 03: Real GDP Growth (%)



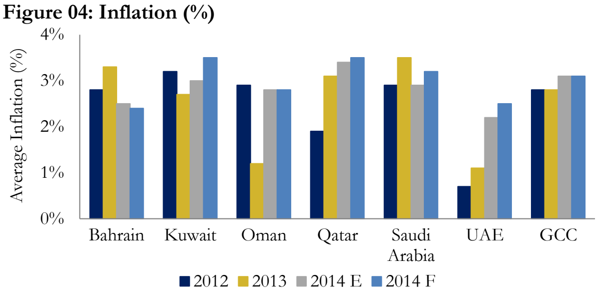
Source: IMF, January 2015

However, the present levels of government spending across the region is skewed toward current expenditures in the form of wages, grants and subsidies rather than on capital expenditures in the form of infrastructure investments. This trend is unsustainable in the long term and can push public finances into deficit as early as 2017.

Inflation likely to remain subdued

Historically, the GCC countries have largely remained immune to the rising global prices until rising oil prices pushed the inflation higher. While the rise in inflation will absorb some of the benefits from government spending on per capita income, headline rates are expected to stay at manageable, low single-digit levels throughout the region. According to the IMF, in 2014, inflation remained subdued at 3.1% for the GCC region, and is expected to remain at the same levels in 2015 at 3.1%, backed by the falling global food and oil prices and housing inflation. All GCC economies, except Bahrain, are expected to see a rise in inflation this year. Inflation is expected to increase from 3.4% in 2014 to 3.5% in 2015 in Qatar and from 3.0% in 2014 to 3.5% in 2015 in Kuwait.

Figure 04: Inflation (%)



Source: IMF, January 2015

Real Estate Sector

Project market remains strong

Since the global financial crisis in 2008-09, growth in the GCC has been primarily driven by public sector spending, especially on physical and social infrastructure, and buoyant private sector activity. Most of the GCC nations have long-term development strategies and planned events, such as the Expo 2020 in Dubai and the FIFA World Cup 2022 in Qatar, which are boosting the construction sector in the regions.

According to Venture ME, the total value of completed projects in the GCC region reached USD 67.6bn in 2014. Of these, about 42% are attributable to the residential sector while 16.9% came from commercial buildings and 10.6% from the educational sector. Hospitality, medical, and retail buildings were also completed with total values of USD 4.4bn, USD 3.7bn, and USD 854mm, respectively. The total awarded project value stood at USD 85bn. Among the markets, Saudi Arabia and the UAE topped across all the sectors, while Qatar ranked first with completed retail projects worth USD 362mm. In 2014, Saudi was the highest ranking market with USD 3.4bn, representing 43% of the market share followed by the UAE with USD 2.3bn, accounting for 31% of the market share. For the second successive year, the residential sector accounted for 41.9% of the overall market, followed by the commercial sector at 17.2% and hospitality sector at 13.5%.

According to Ventures ME, in 2015, the number of completed projects is likely to grow by 6.5% to reach USD 72bn and awarded projects by 21.2% to USD 103bn, regardless of the predicted economic slowdown in the region due to the decline in oil prices. According to the study, projects in the healthcare sector are expected to grow by 91.1% from USD 3.7bn registered in 2014, to an estimated USD 7.1bn in 2015. Qatar will have the majority of healthcare buildings, worth USD 2.4bn, followed by Saudi Arabia with USD 2.2bn and the UAE at USD 1.8bn.

Residential Sector

Performance remains mixed; affordable housing still a concern in some places

The housing sector in the GCC has shown sturdy performance in most regions, owing to a rising demand backed by strong economies and increased number of expats.

Kuwait: Kuwait's residential segment is driven by its fast-rising population, coupled with a shortage of adequate housing. The IMF estimates that the population of Kuwait will reach 4.6 million by 2019, growing at a CAGR of 2.8% during 2010–2019. On the supply side, there has been severe housing shortage. Currently, the waiting list for government-subsidized housing exceeds the 100,000 mark and, 2015 onward, the list is expected to increase at the rate of 8,000 applications every year. Owing to the high housing demand, we expect the sector to witness higher activity, mainly driven by government initiatives. Consumer sentiment has also improved significantly over the last few months, and this is expected to translate into higher demand for the residential segment. As a result, prices and rental rates are expected to trend higher.

UAE: H2 2014 saw mixed performance in the Abu Dhabi residential market, as a decline in some areas offset growth in others. The residential market is now seeing increased tenant activity, a resulted of the government's decision to extend a housing allowance to employees staying in Abu Dhabi. Additionally, the removal of rent cap has fuelled the rental prices in the emirate. Prime development areas have experienced steady rental growth of 10% y-o-y, fuelled by strong demand and lack of availability. Jones Lang Lasalle (JLL) expects the deflationary rental situation in the secondary and tertiary locations to change. Lease rates across the capital are expected to continue increasing in 2015.

Meanwhile, the residential market in Dubai is now experiencing a broad-based recovery, with a few secondary locations outperforming prime areas in H2 2014. Further, the successful bid for Expo 2020 has led to announcements of large-scale infrastructure projects, confirming recovery in the realty sector.

Saudi Arabia: The residential market witnessed solid growth in H2 2014, as demand for housing rose due to increased availability of finance, supportive policies and initiatives by the government, and improved investor confidence. With a large share of young population and a high single expat population, there is a high demand for small and affordable housing, particularly in the regions of Makkah, Riyadh, and the Eastern Province. The supply of housing units has not been able to keep up with the demand due to affordability limitations.

Bahrain: Bahrain's residential market witnessed increased activity, with a number of new developments being announced in 2014. The Housing Minister announced that around USD 8bn will be spent on housing projects by 2017. Further, Bahrain's Shura Council approved a reduction in registry charges of newly purchased properties from 3% to 2% with the aim of further boosting real estate growth.

Oman: The rapidly rising population, especially the expatriate population, and an increase in the minimum wage in the private sector has resulted in a huge boost to the residential sector. The demand for better quality properties has increased in the lower income housing segment. On the other hand, there is a strong demand from traditional Omanis for the already constructed, better designed houses as people do not want to buy land and construct their houses. Within the rental market, a two-tier market has emerged that has increased rental gaps between the prime developed and poorly designed areas.

Qatar: Qatar's residential real estate market, especially Doha, is represented by high housing shortage resulting from the influx of expatriate population. As more and more foreign workers arrive in the country to engage in development projects for the 2022 FIFA World Cup, the housing market has come under increased pressure, sending the rents spiraling up.

Table 01: Annual Residential Rents in GCC – H2 2014

Location	Type	Price
Kuwait ('000KWD)		1KWD=3.500 USD
Jabriya	2 BR Apt	5-7
Salmiya	2 BR Apt	4.5-6.5
Hawalli	2 BR Apt	4-5
UAE ('000 AED)		1AED=0.272 USD
Palm Jumeirah	2 BR Apt	150-155
Dubai Marina	2 BR Apt	100-110
Abu Dhabi Corniche	2 BR Apt	75-190
Saudi Arabia ('000 SAR)		1SAR=0.267 USD
Riyadh Central	2 BR Apt	36-40
Riyadh East	2 BR Apt	24-26
South Jeddah	2 BR Apt	25-30
Qatar ('000 QAR)		1QAR=0.274 USD
West Bay	2 BR FF Apt	100-140
Pearl Qatar	2 BR FF Apt	140-190
Al Sadd	2 BR FF Apt	60-90

*Exchange rates as on December 31, 2014
Source: Amar Finance Research

Commercial Sector

Office space performance remains mixed

Most GCC countries are witnessing increased supply of office space, as compared with demand. As a result, vacancy rates are mounting and putting a downward pressure on rental rates.

Kuwait: Kuwait's oversupplied office market, dragged down by the global financial crisis and continuous political protests, is showing distinct signs of improvement. The government's latest policies and initiatives are expected to increase foreign direct investment (FDI) inflows and improve the business environment, which in turn will improve the demand for commercial spaces.

UAE: Abu Dhabi's increasing supply and demand imbalance is expanding the tenant-led market, forcing property owners to be more flexible with their terms and generous in their incentive packages, particularly for long-term lease agreements. The demand for Grade A office premises has increased, while Grade B and C continue to witness a deflationary situation.

Dubai's office market remains fragmented, with traditional submarkets still struggling to attract tenants. On one hand, prime locations are led by landlords while in other locations, tenants continue to benefit from flexibilities offered by landlords such as rent-free periods. Further, landlords are splitting the space on offer into smaller floor-plates to attract potential tenants. Overall, the office market continues to improve, even though growth is seen primarily in top quality buildings and prime and newer locations.

Saudi Arabia: The office market in Riyadh is faced with an oversupply situation, and the trend is likely to worsen in the coming quarters. Landlords continue to see high occupancy rates despite offering attractive rent-free periods. According to JLL, 18–19% of the office stock is unoccupied and there will be an upward pressure on vacancy rates as new supplies are expected in 2015–2016.

The office space market in Jeddah continues to see strong demand from both government and private sector tenants. Vacancies are expected to decline further in the short term, until supply in the pipeline becomes ready for lease. Despite low vacancy, rents have remained relatively stable across the market and are unlikely to increase in the current year, given the significant levels of potential supply.

Bahrain: The office segment in the Kingdom remains oversupplied. Majority of the demand is from existing businesses that are expanding. Given the oversupply in the office market, landlords are under pressure to show flexibility in terms of the length of rent-free and fit-out periods. Areas with better parking facilities and easy access were the top priorities for business houses. According to CBRE, properties in prime locations that already have tenants on long leases, along with good management, are witnessing higher demands resulting in huge gaps in vacancy rates. We expect rental gaps to further widen because of this preference.

Oman: Oman's commercial market has two distinct commercial tiers – spaces with adequate car parking and spaces without it. According to Savills, the market remains under acute rental pressure, as about 45% of all office spaces completed in the last 36 months are still vacant. However, there is consistent demand for quality office spaces with adequate car parking facilities. According to Savills, smaller units, particularly those fitted out and ready to move into, are still in high demand, primarily from new startup companies.

Qatar: The commercial real estate sector witnessed significant revival in 2014. Vacancy rates dropped to 6% in the Diplomatic district, a prime office location. In the last decade, the office sector has witnessed a lot of changes as the government had moved public departments to West Bay. Prime/Grade A space in smaller sizes remains scarce. The demand for 200–500 sq m office space continues to be strong, but the supply is limited.

Table 02: Annual Office Rentals in GCC in H2 2014

Location	Rent
Kuwait (KWD per sq m)	1KWD=3.500 USD
Kuwait City	45-85
Salmiya	80-100
Hawalli	80-100
UAE (AED per sq m)	1AED=0.272 USD
Dubai International Financial Center	2,400-2,500
Dubai Business Bay	550-900
Abu Dhabi Corniche	1,350-1,550
Al Reem Island	1,150-1,450
Saudi Arabia (SAR per sq m)	1SAR=0.267 USD
King Fahad Road, Riyadh	850-1,150
Tahlia Road, Riyadh	700-950
King Abdullah Street, Jeddah	850-1,200
Qatar (QAR per sq m)	1QAR=0.274 USD
West Bay	2,400-3,000
Airport Road	1,650-1,750
C Ring Road	1,600–1,700

*Exchange rates as on December 31, 2014
Source: Amar Finance Research

Retail attractiveness of GCC countries to boost retail sector development

Most of the GCC countries are characterized by a strong and growing retail sector. Strong demographics, with young local and expatriate population, as well as improved spending capacity are the primary drivers of the growing demand. It is further supplemented by demand from the growing tourism and hospitality industry that has benefitted from government development plans and an increase in private sector contribution.

According to Markaz, the GCC retail market is set to become a USD 221bn industry by 2015, growing at an annualized growth of 7.9% during 2012-15. In the 2014 Global Retail Development Index by A. T. Kearney's, four major GCC countries – the UAE (4th rank), Kuwait (8th), Saudi Arabia (16th), and Oman (17th) – retained their positions in the top 20 global retail performers list. In the UAE, especially Dubai, new malls as well as extensions to the existing malls are underway or are being planned. Some of the examples are extensions to Dubai Mall, Ibn Battuta Mall, and Dragon Mart, new malls at JBR's The Walk and Palm Jumeirah. The Mall of the World at Mohammed Bin Rashid City, when complete, will be the largest retail space in the world. Saudi Arabia's retail mall space, in particular, remains undersupplied and JLL anticipates that with the upcoming retail projects, mall-based retail space is expected to reach 2.3mm sq m in Riyadh and 1.2mm sq m in Jeddah by the end of 2017.

GCC tourism demand remains strong

The GCC region continued to attract tourists across the globe by promoting niche tourism segments such as religious tourism, events, and sports-based tourism as well as MICE (Meetings, Incentives, Conferencing, and Exhibition) tourism. This has resulted in the development of a large number of luxury hotels across the region. The improving economic condition, government's support to the private sector, and strategic location of the GCC as an ideal transit point with better reach from the airline industry are favorable conditions for the hospitality sector. As per Markaz, the estimated room revenue in the GCC hotel sector is likely to see a CAGR of 6.9% between 2011 and 2016, reaching USD 24.9bn by 2016.

The GCC hospitality market is dominated by luxury hotels, and its current pipeline also reveals a similar scenario. According to STR Global, as of December 2014, the Middle East and Africa hotel development pipeline comprises 633 hotels with a total of 147,953 rooms. Some of the international hotel chains are increasingly showing the willingness to tie up with local players. Service apartments have also grown in the GCC region, as business travelers and expatriates seek longer stays at reasonable prices.

The industry is faced with the challenge of skilled labor shortage, and any domestic instability could impact the tourism business of the region.

Overall, the outlook for the hospitality sector is promising, and GCC governments and private stakeholders are committed to addressing the challenges through various measures.

Major Projects

Table 03 illustrates the major ongoing projects in the GCC.

Table 03: Major Projects in the GCC

Project Name	Type	Value (USD bn)	Location
Saudi Arabia Ministry of Housing - 500,000 Houses Program	Residential	67.0	Saudi Arabia
Modon - Sudair Industrial City	Industrial Zones	40.0	Saudi Arabia
ALDAR - Yas Island Development	Community Development	40.0	UAE
Dubai World Central (DWC)	Free Zones/Economic Zones	37.3	UAE
Kuwait PAHW - Khairan Residential City	Residential	27.0	Kuwait
Kuwait PAHW - Sabah Al Ahmad Future City	Community Development	27.0	Kuwait
SAGIA - Jazan Economic City	Free Zones/Economic Zones	27.0	Saudi Arabia
SAGIA - King Abdullah Economic City (KAEC)	Free Zones/Economic Zones	27.0	Saudi Arabia
ADFEC - Masdar Carbon Free City	Community Development	22.0	UAE
Oman Ministry of Finance - Duqm New Downtown	Community Development	20.0	Oman
Chemaweyaat - Chemicals Industrial City	Industrial	20.0	UAE
Modon - Jazan Industrial City	Industrial Zones	17.0	Saudi Arabia
ALDAR - Yas Island Development - Yas Mall	Retail	12.8	UAE
ADFEC - Masdar Carbon Free City - Phase 1	Mixed Development	10.0	UAE
Albilad - Water Garden City	Mixed Development	9.8	Bahrain
Al-Mozaini Real Estate Investment Company - Riyadh East Sub Center	Mixed Development	8.0	Saudi Arabia
KEC - Madinah Knowledge Economic City	Free Zones/Economic Zones	7.0	Saudi Arabia
MOPM - Waad El Shammal Mining City	Industrial Zones	6.9	Saudi Arabia
Kuwait MPW - Bubiyan Island	Mixed Development	6.0	Kuwait
LREDC - Lusail City	Community Development	5.5	Qatar
Msheireb Properties - Msheireb	Community Development	5.5	Qatar
JODC - Jabal Omar Development	Mixed Development	5.5	Saudi Arabia

Source: Zawya

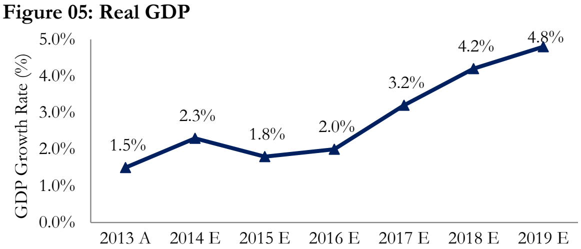
Kuwait

Kuwait's economy had not been keeping pace with its GCC neighbors, but it started picking up in 2013. According to the National Bank of Kuwait (NBK), non-oil growth reached the regional average of 5.6% y-o-y in 2013, compared with a 0.6% growth in 2012, driven by capital spending and government's aspiring development plan. The NBK expects non-oil GDP growth to hover around 5–6% in 2014 and in the coming two years, as the government's development projects get implemented.

The Economic Intelligence Unit (EIU) expects real GDP to fall to 1.8% in 2015 from 2.3% in 2014, owing to subdued growth in the oil sector and falling oil prices. It anticipates GDP growth to moderate to an average 1.9% in 2015-16 due to lower oil revenue and restrained government expenditures, as a result of political and bureaucratic logjams. The non-oil sector is unlikely to perform well in 2015-16 because of insufficient public expenditure or non-oil private consumption. However, the sector is likely to trend upwards in 2017-19 as development projects get under way.

The EIU believes that real GDP growth will increase to an average of 4.1% a year in 2017-19, led by rising government and private consumption, and improving investment growth.

Figure 05: Real GDP



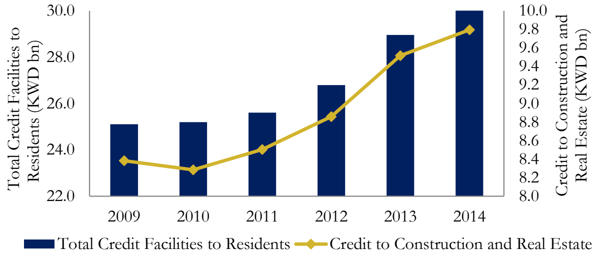
Source: EIU, February 2015

Economic Overview

Credit growth eases in 2014

Credit lending grew 6.2% y-o-y in 2014, reflecting gradual recovery. However, credit growth was slower in 2014 compared with that in 2013 held back by the acquisition of Family Fund loans and the pay down of legacy debt by some corporates. Increased government spending and comfortable monetary conditions support the increase in domestic demand. The latest statistics published by the Central Bank of Kuwait (CBK) revealed continued expansion in the private sector credit lending, which increased by 5.04% y-o-y in December 2014. The expansion is supported by a 10.5% growth in personal facilities loans. Construction lending and real estate lending, which together account for 31.9% of the total lending, grew 2.9% collectively, reflecting a rise in housing demand.

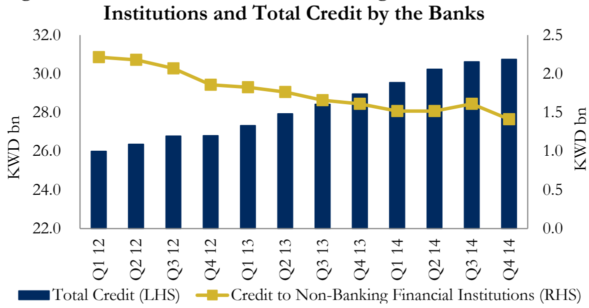
Figure 06: Total Credit Facilities



Source: Central Bank of Kuwait, December 2014

On the contrary, lending to the non-banking financial institution plummeted, indicating that investment companies in Kuwait continued to be in troubled waters. Lending to this sector declined 12.4% y-o-y in 2014. Kuwaiti investment companies, which suffered due to the financial crisis of 2009, are still recuperating. Several companies are deleveraging and restructuring their balance sheets. Debt restructuring picked up pace in late 2013 and is expected to continue in 2015, albeit at a slower pace. However, tighter global financing environment due to the US central bank tapering could worsen the funding constraints.

Figure 07: Credit facilities to Non-Banking Financial Institutions and Total Credit by the Banks



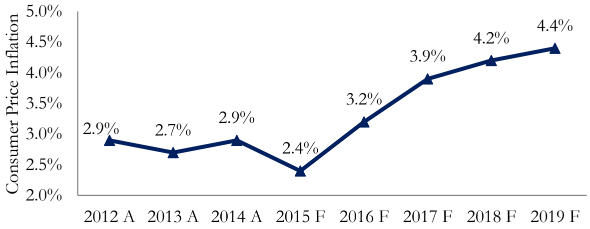
Source: Central Bank of Kuwait, December 2014

Inflation creeps up

According to the data published by Central Statistical Bureau (CSB), annual inflation increased to 2.4% y-o-y in 2014 from 2.7% a year earlier. The increase is attributed to rising housing costs, which account for 28.9% of the CPI basket. The housing inflation rose to 4.31% in 2014 from 3.91% in 2013 and ended the year at 5.03%, indicating economic recovery following the 2008-09 financial crisis, which was accompanied by an increasing inflow of expatriate workers and subsequent shortage in housing. Upward price pressures could also be seen in the education, restaurant and hotels, transport, furnishing, equipment and household maintenance, and clothing and footwear components over 2014, reflecting similar population pressures to those driving up housing inflation. In contrast, headline inflation has been contained largely due to the moderating food inflation, the second largest item in the CPI basket. Food inflation eased to an average of 2.89% in 2014, down from 4.03% in 2013.

According to the EIU, inflation is likely to remain at moderate levels as global food prices fall and credit expansion stabilize. Inflation is expected to average 3.7% in 2015-19, picking up later in the forecast period as growth in private consumption strengthens and the declining global food prices begin to reverse.

Figure 08: Consumer Price Index



Source: EIU Country Report, February 2015

Real Estate Sector

Realty offers positive outlook for 2015

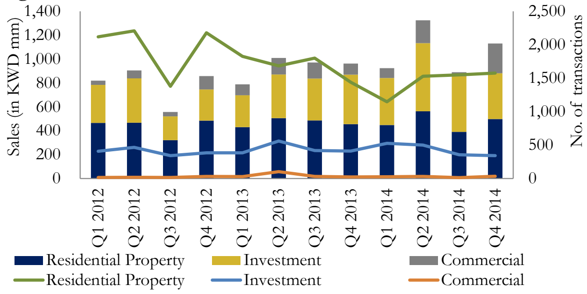
Real estate sales reached KWD 4.3bn in 2014, up 14.5% against 2013, signifying a strong year for sales. H2 2014 was dominated by sales in the residential segment (44% of total sales), closely followed by the investment segment (mainly apartments and buildings for rent) that accounted for 42% of the total sales. Strong activity in the investment segment pushed the full-year 2014 growth in this segment to 29.6%.

In Q4 2014, the commercial segment revealed a massive jump, increasing 170.9% from Q4 2013 to KWD 249.2mm. The segment saw a 626.5% q-o-q growth in Q4 and recorded a 22.4% y-o-y increase in 2014, indicating a solid recovery.

The residential segment grew 9.6% y-o-y in Q4 2014, but sales fell 12.2% in H2 2014 compared with that in H1 2014. However, the segment rebounded in Q4 2014, reflecting the fact that it recorded a 27.7% increase in Q4 2014 over Q3 2014. The growth momentum will continue in the near future because of healthy demand and upcoming supply.

Unlike other segments, the investment segment declined by 7.8% y-o-y in Q4 2014 and by 12% in H2 2014 over H1. However, it grew 29.6% in 2014 compared with 2013, indicating that the declining trend in the second half is temporary, as a notable increase in sales is expected in 2015 supported by an active government real estate fund.

Figure 09: Total Sales and Transactions in Real Estate Sector



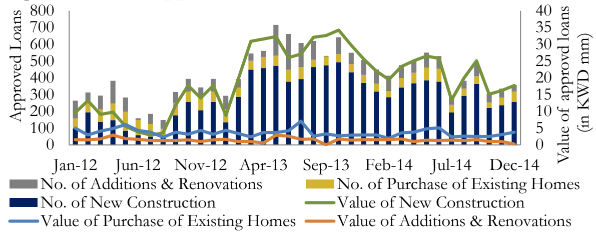
Source: NBK Economic Update, February 2015

Note: Bars represent Sales Value and line represents no. of transactions

Improved lending fuels realty growth

The robust recovery in the real estate sector is driven by increased demand from the residential and investment segments. According to NBK's February 2015 report, the demand is supported by improved lending policies and an increase in the number of disbursed loans. The total number of loans approved by the Savings and Credit Bank (SCB) in 2014 stood at 5,070, worth KWD 304.3mm, down 23.5% in numbers and 22.4% in value from 2013. However, the total number of loans disbursed increased 44.2% y-o-y in 2014, driven by the decision of the Public Authority for Housing Welfare (PAHW) to disburse 12,000 units. The value of loans disbursed was primarily driven by new construction in 2014; this accounted for 68.5% (KWD 156.9mm) of the total loans disbursed.

Figure 10: Total Approved Loans in Real Estate Sector



Source: NBK Economic Update, February 2015

Note: Bars represent Sales Value and the line represents number of transactions

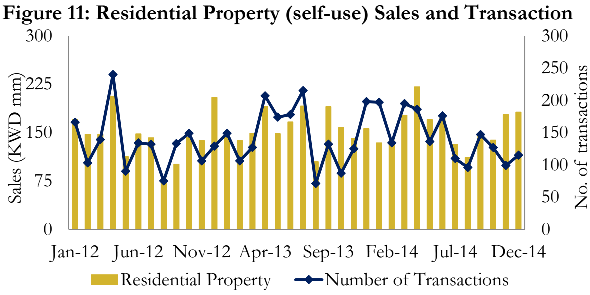
Residential Sector

Residential segment remains steady

The residential segment, unlike the rest of the realty sector, has largely remained unaffected by disagreements between the government and the parliament. This segment accounts for the largest part of the total real estate pie in Kuwait, contributing around 44% to it in H2 2014.

According to the NBK, total transaction values for the residential property segment in 2014 increased by 1.3% y-o-y to KWD 1,899.5mm. The total number of transactions declined by 14%, but the average transaction size for both homes and plots of land increased. The average transaction size was KWD 285,750, as of H2 2014.

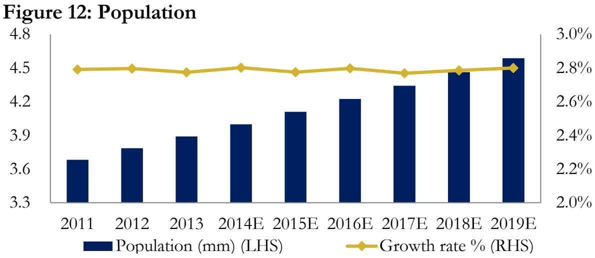
Figure 11: Residential Property (self-use) Sales and Transaction



Source: NBK Economic Update, February 2015

The recovery in Kuwait's residential real estate segment in 2015 is expected to be driven by its fast-rising population, coupled with the shortage of adequate housing. According to the IMF, in the last decade, Kuwait's total population grew at a CAGR of 4.4% to reach 4.0 million in 2014. The IMF believes that the country's population will reach 4.6 million by 2019. Therefore, the demand for infrastructure is likely to continue fuelling activities in the infrastructure and construction industry as well as the real estate sector in the coming years. Further, improved investment appetite over the last year indicates that the demand is likely to improve in the residential segment, and prices and rental rates are expected to go up.

Figure 12: Population

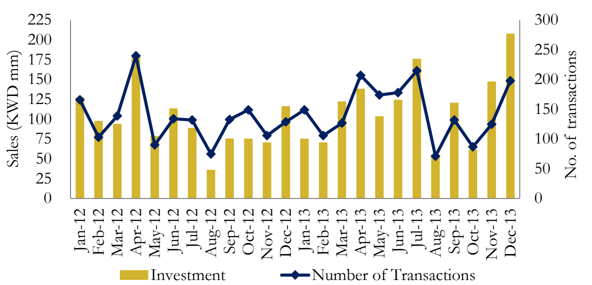


Source: IMF

Investment segment remained muted

Expat employment opportunities as well as growth in the expat population are the primary drivers for the investment segment. The segment, which comprises apartments and buildings for rent, remained muted in the second half of 2014 compared with the first half. As per the NBK, sales stood at KWD 848.4mm in H2 2014, down 12.0% compared with H1. The number of transactions, too, fell 32.2% to 694 in the same period. The drop is mainly due to the base effect, as sales in the first half were relatively high. However, total sales value increased 29.6% in 2014 to KWD 1.8bn. According to NBK Capital, in December, apartments accounted for 46% of all the transactions, followed by whole buildings at 44%. The Ahmadi governorate once again witnessed bulk of the activity, with 47% of all transactions. The Hawalli governorate accounted for 28%.

Figure 13: Sales and Transactions in the Investment Segment



Source: NBK Economic Update, February 2015

Kuwait witnesses sharp rise in house rents

High housing prices, coupled with legislation bottlenecks, have driven many construction companies away from building private houses in Kuwait. Several companies prefer building residential apartment buildings that can be sold according to the conditions set by the Bank of Savings and Credit (there is a prohibition on companies investing in land in any residential area). Experts said that apartment prices have gone up because of the growing demand from both young men and divorced and widowed Kuwaiti women who prefer buying flats and renting them out to receive a steady income. The growing demand for apartments has also led to a demand for old buildings. The increase in housing prices has resulted in rent increases.

Mid-range apartments that cover an area of 70−90 sq m are in high demand. Salmiya and Hawalli enjoy the majority of the demand in the investment segment, leading to high property prices. This has also led to an increase in the rentals of these properties. The Jabriya, Salmiya and Salwa regions, located in west Kuwait, have a large number of schools that create more demand. Average rental rates for two- and three-bedroom apartments in these areas range between KWD 500−800 and KWD 600−900 per month, respectively.

Table 04: Monthly Rental in Kuwait – H2 2014

Area	Property Type	KWD per month
Jabriya	2 BR Apt	400−560
Jabriya	3 BR Apt	600−850
Salmiya	2 BR Apt	400−600
Salmiya	3 BR Apt	600−800
Hawalli	2 BR Apt	400−450
Hawalli	3 BR Apt	500−600
Mangaf	2 BR Apt	300−350
Mangaf	3 BR Apt	350−400
Salwa	2 BR Apt	450−600
Salwa	3 BR Apt	650−800

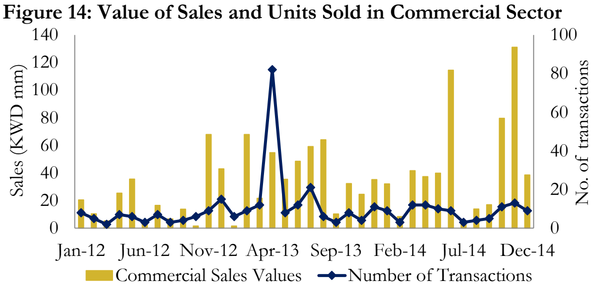
Source: Amar Finance Research

Commercial Sector

Oversupply eases due to higher sales

The commercial sector reported strong performance, with total sales reaching KWD 225.4mm in H2 2014, a 25.8% increase over H2 2013. In Q4 itself, the sector saw a 626.5% increase over the previous quarter and a 170.9% increase over the same quarter last year. The primary reason behind such a vast increase is two large transactions worth KWD 7bn each in the Hawalli Governate. The sale of plots for commercial use in Sabah Al-Ahmed Sea City helped the commercial sector sales top KWD 557mm in 2014 and record two consecutive years of growth in the value of transactions: 57% in 2013 and 40% in 2014. The two biggest commercial transactions of 2014 took place in Sabah Al-Ahmed Sea City, with a combined value of KWD 133mm.

Figure 14: Value of Sales and Units Sold in Commercial Sector

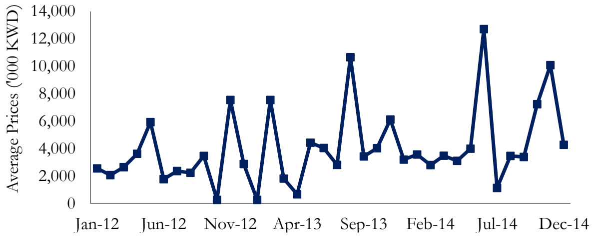


Source: NBK Economic Update, February 2015

The latest government policies and initiatives, such as faster decisions on project approvals and big ticket projects, are expected to increase FDI inflows and improve the business environment, which in turn will increase the demand for commercial spaces. Markaz believes that the demand-supply trend will balance out in 2015 due to the supply of ~1.17mm sq m of leasable area and 176,000 sq m of under-construction land.

Simultaneously, rental prices and occupancy rates have started stabilizing. Owing to the growing market optimism, excess liquidity, and strong support from the government, sales and rental prices are likely to remain strong.

Figure 15: Average Deal Price in Commercial Market



Source: NBK Economic Update, February 2015

Office rentals remain weak

Although the oversupplied situation in Kuwait has somewhat been reduced, it shows signs of stress due to an unfavorable regulatory framework for businesses as well as weak infrastructural progress that has deterred new businesses from entering the country.

Kuwait's commercial landscape is further clouded by political instability. The country's politicians and the ruling family are at loggerheads, and this is hampering the approval of many large infrastructure projects. However, the situation is expected to improve following the implementation of incentives announced by the new government. The new regulations are expected to attract more FDI and businesses into the country, thereby leading to increased demand for office spaces. This will in turn help in absorbing the extra supply in the market.

Markaz estimates rental prices to remain stable in 2015, but will start increasing thereafter because of increased demand from the private sector and the government.

Table 05: Office Space Rentals – H2 2014

Area	KWD / sq m/ per month
Kuwait City	4–7
Salmiya	7–8
Hawalli	7–8
Farwaniya	4–6
Khaitan	3.5–6
Fahaheel	6.5–8

Source: Amar Finance Research

Hospitality sector looks promising

According to industry experts, the tourism industry in Kuwait performed well in 2014 with its hotels getting the most business in the GCC market. Both public and private industry players are keen to further develop the market despite the fact that Kuwait has a limited scope to offer to tourists. To bridge this gap, the government released a five-year tourism plan as it expects one million tourists by 2015. The World Travel and Tourism Council (WTTC) expects international tourist arrivals to reach 331,000 in 2013, growing 3.6% annually to 485,000 by 2023.

Industry experts believe that new leisure facilities such as the Jumeirah Messilah Beach Hotel and Spa will supplement the upcoming planned hotels. According to Hotelier Middle East, four projects under the InterContinental Hotel Group and Jumeirah Messilah Beach Hotel and Spa are scheduled to open by 2015. Other developments include the re-opening of the Radisson Blu Hotel following a USD 52mm renovation. The hotel will offer 307 five-star rooms and 4,000 sq m of exhibition space. Authorities also plan to develop properties in the Fair Ground, Al Salam Palace and Sabah Al Salem University by teaming up with the private sector. The Kuwait Hotel Owners Association expects that 10,000 new rooms will be available by 2015, reflecting a one-third increase in supply.

Although Kuwait's tourism is picking up, additions to the existing attractions and retail developments is essential to avoid oversupply.

Major Projects

Table 06 lists several major construction projects that are underway in Kuwait

Table 06: Major Real Estate Projects in Kuwait

Project Name	Type	Value (USD bn)	Status
Kuwait PAHW – Khairan Residential City	Residential	27.0	Ongoing
Kuwait PAHW – Sabah Al Ahmad Future City	Community Development	27.0	Ongoing
Kuwait MPW – Bubiyan Island	Mixed Development	6.0	Ongoing
Kuwait MPW – Failaka Island Development	Mixed Development	3.3	Ongoing
KU – Kuwait University City	Education	3.0	Ongoing
Kuwait MPW – Jaber Ahmed Al Jaber Al Sabah Hospital	Healthcare	1.6	Ongoing
KIA/ MoH – Kuwait Health Assurance Company (KHAC) Hospitals Project	Healthcare	1.2	Ongoing

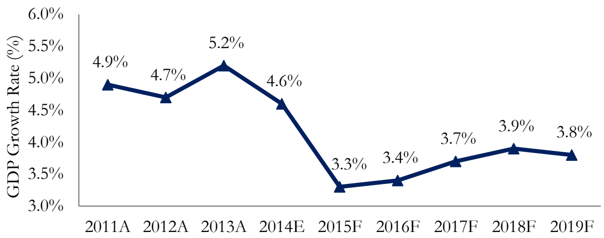
Source: Zawya

The UAE

Official statistics indicate that the UAE's GDP has increased from AED 314.8bn to AED 1.54 trillion, in the past decade. The country has emerged as a major economic power in the MENA region. A report on online portal HotelandRest states that non-oil sectors accounted for 69% of the total GDP in the past 10 years, reflecting the country's major transition from an oil-based to a diversified economy. The IMF estimates the UAE's GDP to reach AED 1.74 trillion by 2018.

According to the EIU, annual real GDP growth slowed to 4.6% in 2014 from 5.2% in 2013. Growth in the non-oil sector was stable while that in the oil sector remained more or less static. The recovering realty market also supported the economy to a great extent. The UAE will continue to benefit from its safe haven status, backed by the construction and manufacturing sectors and government spending in Dubai and Abu Dhabi. This will in turn help sustain non-oil growth.

Figure 16: Real GDP Growth Rate



Source: EIU Country Report, February 2015

However, EIU lowered its GDP growth projections for the UAE due to weak global oil prices. It anticipates GDP growth of around 3.3% in 2015. Annual growth will average 3.6% in 2015-19, as preparations for the World Expo 2020 will support economic activity towards the end of the forecast period. Factoring in related infrastructure spending and the boost to employment, preparations for the event should add to the GDP. The event itself will draw in a large pool of visitors (government forecasts 19 million foreign visitors), boosting demand. However, the Expo also presents risks related to overcapacity, steep rise in property prices and debt.

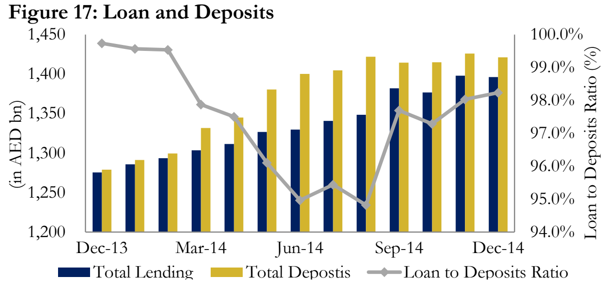
Economic Overview

UAE loans growth hit 5-year high

According to the data published by the Central Bank of UAE, in the last five years, bank lending in the UAE witnessed the fastest growth in November 2014 as it grew by 1.5% m-o-m and 10.2% y-o-y. At the end of 2014, the loans, advances and overdraft facilities reached AED 1.4 trillion, up 9.5% y-o-y. Increasing loan growth, coupled with falling oil prices, is an indication that the non-oil sector has been performing strongly. Personal loans, which accounts for 22.8% of the total bank loans, witnessed a much faster growth rate of 13.8% y-o-y in December. This indicates that individual or retail demand for credit is particularly robust and banks are increasingly willing to lend to this sector.

The latest central bank data also reveals growth in deposits. Total deposits increased to AED1.4 trillion, up 11.1% y-o-y. As loan growth has remained more or less similar to the deposit growth, the loan-to-deposit ratio increased to 98.23% in December. However, bankers admit that falling oil prices have negatively impacted investors' perception and could hit their risk appetite, which may be reflected in the loan growth figures in the first few months of 2015.

Figure 17: Loan and Deposits

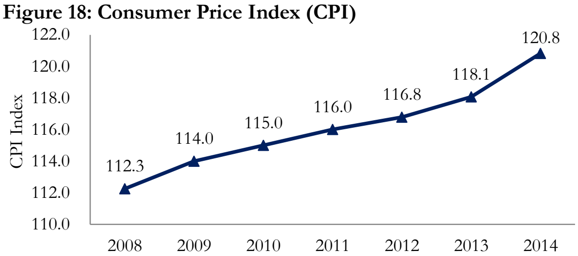


Source: Central Bank of UAE, Monthly Banking Indicators, Dec 2014

Inflation remained moderate in 2014

According to the National Bureau of Statistics (NBS), inflation in UAE was on an upward trend averaging 2.3%, as housing prices continued to increase. Overall inflation in December was 3.1%, with housing bucket at 5.4% - the highest since early 2009. However, in recent months, residential rent has started stabilizing and this is likely to bring down housing inflation in the coming months.

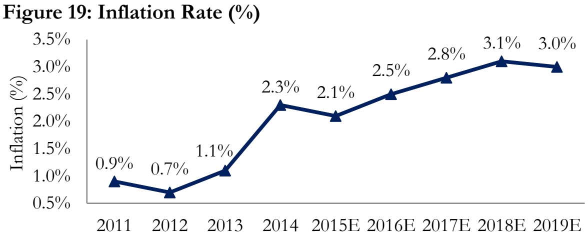
Figure 18: Consumer Price Index (CPI)



Source: National Bureau of Statistics, December 2014

The EIU believes that a stabilizing domestic demand, weakening commodity prices and strengthening UDS is likely to bring down inflation levels to 2.1% in 2015. However, it expects inflation levels to rise, albeit remain at manageable levels, averaging at 2.8% a year between 2016 and 2019. The growth will be backed by rising global food prices, robust population growth and scaling back of subsidies, as is the case expected in Abu Dhabi in 2015.

Figure 19: Inflation Rate (%)



Source: EIU, February 2015

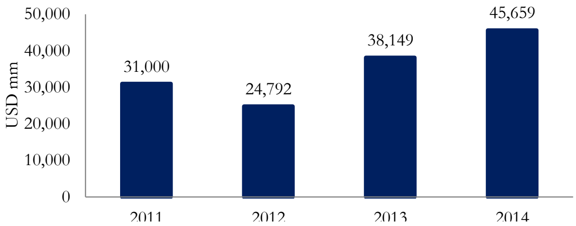
Real Estate Sector

Projects worth USD 46bn awarded in 2014 signifies solid construction environment

Among the GCC countries, economic growth in the UAE is the fastest, backed by a boom in the construction sector and sustained support from the oil and gas sector. Since 2012, the Abu Dhabi and Dubai governments have announced a number of development projects leading to the revival of the economy.

According to the IMF, UAE's GDP is expected to grow by 4% each year to reach USD 404bn in 2014 from USD 390bn in 2013. The tourism and infrastructure sectors boosted the GDP in 2013 and 2014. Now, with the UAE winning the bid to host World Expo 2020, it is set to attract visitors from across the globe and in turn boost the domestic construction and tourism industries. This is evident from the fact that a number of stalled projects kick started in 2014. The total construction projects awarded in the UAE in 2013 totaled USD 38bn, of which building and construction sector comprised ~59% while infrastructure, oil and gas, and power and water together contributed 34% to the total construction project values.

Figure 20: Construction projects awarded in UAE (USD mm)



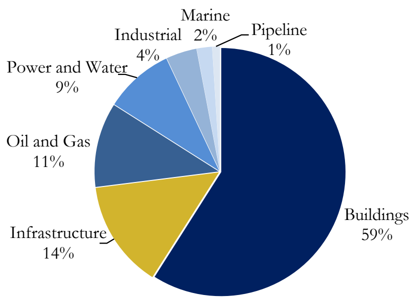
Source: Ventures Onsite

The growing population of the UAE has led to a rise in the demand for housing, office, and retail space. The population was ~8.7 million in 2012, and is estimated to reach 9.3 million in 2014.

The building and construction sectors are also benefiting from the growing tourism and hospitality sectors. The expected preparations for the World Expo 2020 has boosted investor confidence, leading to several mega projects across the hospitality and tourism sectors.

Abu Dhabi is actively upgrading its national infrastructure, airport, seaports, etc., in line with its Vision 2030 plans.

Figure 21: UAE construction projects by sector (2013)



Source: Ventures Onsite Database

To further boost the hospitality and tourism industries, the governments of Abu Dhabi and Dubai are developing islands such as Sadiyat, Al Reem Island and Yas Island. This is driving the building construction sector in the Emirates. The construction market in Dubai is bouncing back from the downturn, driven by significant state spending for hosting the Expo; revival in retail markets; population growth; and high visitor inflow. Nearly USD 300mm has been awarded to The Palmarosa in Dubailand project, an upcoming regional and international tourism hub. Another new tourism-based project, Mohammed bin Rashid City, is expected to feature world-class leisure facilities and provide a platform for development of entrepreneurship and innovation.

Property market continues uphill rally through 2014

The real estate environment, especially in Dubai and Abu Dhabi, continued to witness an upward trend, as predicted by industry players and analysts. Both the markets present strong growth, backed by property sales, steady supply, and rising investor confidence. Industry experts believe that the recent review (by the Regulatory Development Unit of the UAE Central Bank) of global best practices related to real estate mortgage loan regulations will impact the supply-demand balance and may prove to be a critical market factor. With more regulations in place, there will be a major reduction in the speculation activities that are currently rampant in the market. Additionally, job creation may help sustain positive industry trends.

According to Tasweek Real Estate, Abu Dhabi's realty sector is likely to observe solid growth and development over the next decade. This will be backed by huge investment-backed island projects, such as Reem Island, Al Raha Beach, Saadiyat Island, and Yas Island, which are drawing significant investor interest. Recent turnovers, such as the second batch of the luxury Eastern Mangroves apartments, indicate end-to-end market expansion.

Other factors that are expected to drive growth in the local market are: allocation of AED 330bn by the Abu Dhabi government for various projects across multiple sectors, which has placed the Emirates among the top investment destinations in the world, and the announcement that employees of companies owned by the Abu Dhabi government have to relocate to the capital before September to retain their housing allowance.

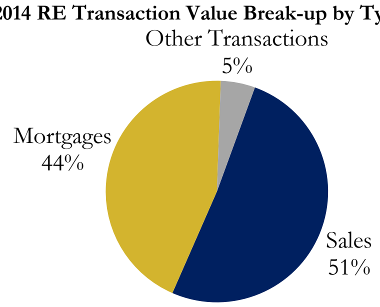
Dubai realty transactions witness fall in 2014

The Dubai Land Department (DLD) has revealed that real estate transactions in Dubai stood at AED 218bn, a marginal drop of 8.25% y-o-y from AED 236bn in 2013.

According to the latest numbers revealed by DLD, in 2014, the total number of transactions in terms of sales reached 38,113 with their total value exceeding AED 112bn. The mortgage market recorded 12,511 transactions, which exceeded AED 97bn, and the remaining operations accounted 3,227 transactions with a total value of AED 10bn. Of the total, transactions worth AED 157bn were related to land mortgage and sales. The report by DLD stated that sales accounted for more half of the total value of transactions at 51%, with the share of mortgages at 44%, leaving all remaining operations at only 5% of the total activity.

According to DLD, Al Thenaya Al Thaletha area of Dubai was reported as the most attractive for investors, followed by Al Thenaya Al Khamesa, and Al Barsha South 4. Business Bay was popular among investors looking to buy apartments followed by Dubai Marina and Al Thenaya Al Khamesa.

Figure 22: 2014 RE Transaction Value Break-up by Type

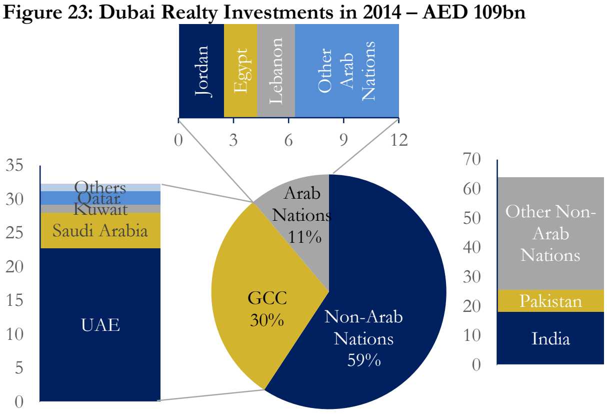


Source: Dubai Land Department, December 2014

Foreign investors continue to be active

Dubai's realty market is deemed a profitable investment channel because of its stability, diversity, and high returns. According to DLD, 41,715 investors contributed AED 109bn to the realty market in 2014. A break-down of this investment shows that UAE investors, at AED 22.7bn, contributed about 71% to the GCC investments in Dubai. The fact that 4,452 UAE investors made bigger transactions than the 8,165 other Arab investors implies that the real estate industry sector is a sweet spot for Arab nations.

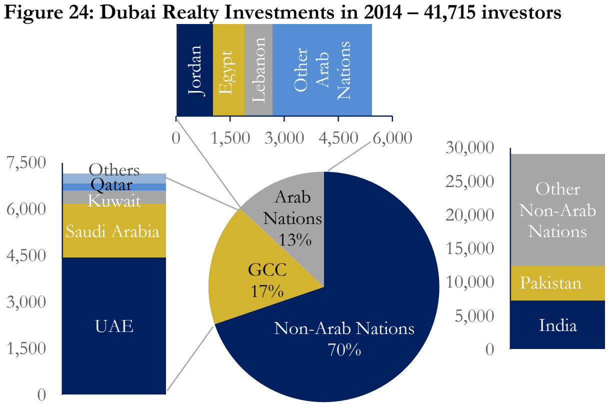
Figure 23: Dubai Realty Investments in 2014 – AED 109bn



Source: Dubai Land Department, December 2014

Meanwhile, there were 29,098 foreign investors (non-Arab investors) or 70% of the total number of investors who invested ~AED 64bn (~60% of the entire investment) in the Dubai realty market in 2014.

Figure 24: Dubai Realty Investments in 2014 – 41,715 investors



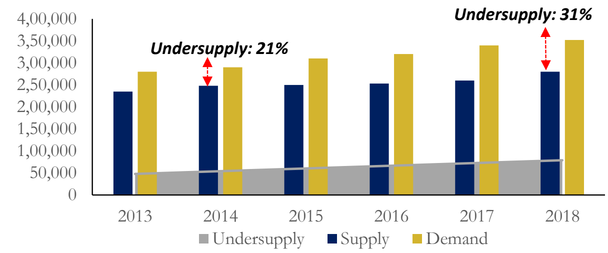
Source: Dubai Land Department, December 2014

Residential Sector

Demand supply continues to be widely gapped in Abu Dhabi

The residential market continues to remain undersupplied due to changing demographics and limited supply of units in the market. According to Colliers, the gap between residential demand and supply is currently ~21% across Abu Dhabi indicating a significantly undersupplied market. The realty expert estimates that this gap is likely to reach ~31% by 2018, given that the current timelines are met by the existing developers.

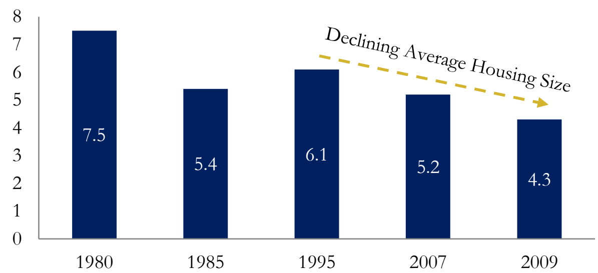
Figure 25: Abu Dhabi Residential Demand and Supply



Source: Statistics Centre Abu Dhabi, Colliers International Estimates

As per Colliers data, about 47,900 residential units are likely to enter the market during 2015-2018 – a 3.6% increase p.a. However, this will not be sufficient to accommodate the population growth (5.5% per annum). The declining housing sizes are also likely to add pressure to the widening demand supply gap.

Figure 26: Average Housing Size



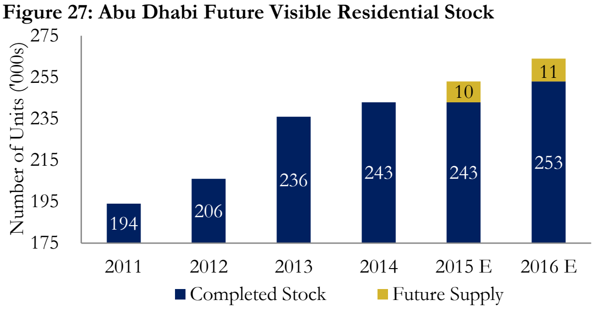
Source: Statistics Centre Abu Dhabi, Colliers International Estimates

Abu Dhabi's residential rent remains at higher end – affordability an issue

The second half of 2014 has been a relatively mixed period for Abu Dhabi's residential market, as slump in some areas was offset by growth in others. The residential market is witnessing increased tenant activity, following the government's decision to extend housing allowance to employees staying in Abu Dhabi and remove the 5% rent cap. This means that landlords can now raise annual rents by more than 5%, depending on the demand and supply conditions in the realty market. The completion of a significant number of new residential units from master-planned locations is also encouraging widespread relocation within the capital, as tenants look to benefit from new and better quality housing options.

JLL, in its latest report, mentioned that approximately 2,800 residential units were delivered in Abu Dhabi in H2 2014, bringing its total residential stock to approximately 243,000 at the end of 2014. An additional 10,000 units are scheduled to be delivered in 2015 and, further, the aggregate supply could reach 264,000 by the end of 2016.

Figure 27: Abu Dhabi Future Visible Residential Stock



Source: JLL Abu Dhabi Real Estate Market Overview, Q4 2014

For a country like Abu Dhabi, which has a high capita income, affordable housing is deemed as a relative measure by industry experts as the residential market is undersupplied. The latest income and expenditure surveys published by the Statistics Centre Abu Dhabi (SCAD) suggest that an accepted guideline for spending on housing is about 37% of the income. This number is likely to increase as a result of the removal of the rental cap by the government in a market that is acutely undersupplied. As per Colliers, 72% of families in Abu Dhabi (excluding blue collar workers) earn between AED 9,500 and AED 32,000 per month, and majority of them can afford rentals between AED 43,000 and AED 140,000 annually.

After a strong H1 2014, when rentals grew sizably, H2 showed signs of stabilization, bringing the average annual increment in prime rent to 11% in 2014. In H2 2014, rentals initially was more or less unchanged; however, in the last quarter, rentals increased by 4%. During Q3, average rent increased by just 2% but the market was fragmented as rents of some properties were stable.

As a large part of Abu Dhabi's housing units are now outdated, there has been a general shift of preference toward new developments, resulting in sustained rental deflation in many older units.

The developments that will continue to be in demand include Al Bandar, Al Zeina and Al Muneera at Al Raha Beach. These developments have become more attractive as retail outlets have opened and the communities have established themselves as quality destinations. In addition, prime located properties on the Corniche and Saadiyat Island are likely to retain strong premiums.

Table 07: Average Villa Rentals in Abu Dhabi in H2 2014

(In AED '000 p.a.)	3-BR Apt	4-BR Apt	5-BR Apt
Khalidiya / Bateen	160-195	200-230	250-300
Al Nahyan Camp / Muroor	160-180	185-200	210-260
Mushrif / Karama /	160-180	180-190	190-300
MBZ / Mussafah	100-110	130-140	150-170
Khalifa A & B	100-125	135-150	150-190
Sas Al Nakhl	160-180	180-210	220-280
Al Raha Gardens	150-190	160-240	250-320
Golf Gardens	190-230	240-280	320-350
Al Reef	110-120	140-150	160-170
Saadiyat Beach	275-300	290-330	500-800
Al Raha Beach	265-290	280-300	310-330

Source: Amar Finance Research

Table 08: Average Apartment Rentals in Abu Dhabi in H2 2014

(in AED '000 p.a.)	1-BR Apt	2-BR Apt	3-BR Apt
Saadiyat Beach	95-135	125-190	175-245
Al Raha Beach	95-120	140-180	170-275
Khalidiya/Bateen	90-145	75-180	100-320
Marina Square	75-95	95-145	150-225
Corniche	60-130	75-190	100-280
Shams Abu	65-115	90-160	140-190
Tourist Club Area	60-75	65-145	80-180
Reef Downtown	60-65	70-75	85-95
Central Abu	55-90	75-150	70-190
Al Nahyan Camp	50-90	65-130	90-150
Khalifa A	40-90	50-130	60-160
MBZ/Mussafah	40-65	50-85	60-90

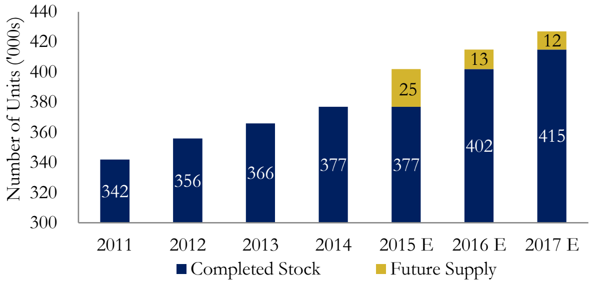
Source: Amar Finance Research

Dubai residential segment stabilizes in 2014, trend to continue in 2015

After two years of steep increase in housing prices, the Dubai housing market witnessed corrections in 2014. The prices stabilized after increasing by almost 60% between January 2012 and June 2014. From the third quarter, residential rent dipped marginally by 1%. According to REIDIN, a company offering real estate information for emerging markets, rental index shows growth levels dropping from 18% in 2013 to 15% in 2014. Similarly, the sales market saw some cooling down as the REIDIN sales index points to a decline in growth levels from 23% in 2013 to 20% in 2014. This is further supported by the drop in number and value of transactions in 2014 by 30% and 14%, respectively. JLL, in its Q4 2014 report, suggests that housing prices are likely to decline by 10% in 2015 and rentals will also fall in parallel.

However, positive market and economic fundamentals in the past year has seen a growing number of developers moving ahead with stalled projects as well as the launch of multiple new schemes within a short period. Construction activity across established locations and newer developments such as Al Jadaf, DuBiotech, Dubai World Central and Dubai Healthcare City Phase II is noticeably up, resulting in a rapidly growing pipeline of residential supply. As per JLL, 25,000 new units, which constitute ~7% of the current stock, are likely to enter the market in 2015. Analysts believe that this stock will easily be absorbed with the changing demographics and income levels.

Figure 28: Residential Stock (H2 2014) and Future Supply



Source: JLL Dubai Real Estate Market Overview, Q4 2014

On the rental front, H2 2014 saw residential markets stabilize as average rent and sale prices remained relatively flat in the final quarter of 2014. The apartment units saw rent rising by ~18% y-o-y while villa rent increased by 5% y-o-y. According to JLL, the residential sector is likely to remain subdued over the next 12 months as the market is expected to absorb 25,000 additional units in 2015.

Table 09: Average Apartment Rentals in Dubai in H2 2014

(in AED '000 p.a.)	1-BR Apt	2-BR Apt	3-BR Apt
Discovery Gardens	45-50	70-75	n/a-n/a
Downtown Dubai	85-90	125-130	190-200
Dubai Marina	70-75	100-110	135-150
International City	26-30	40-45	n/a-n/a
Jumeirah Beach Residence	80-85	100-110	140-140
Jumeirah Lakes Towers	55-60	75-80	100-110
Palm Jumeirah	100-105	150-155	190-200
Sheikh Zayed Road	80-85	120-130	140-150

Source: Amar Finance Research

Table 10: Average Villa Rentals in Dubai in H2 2014

(in AED '000 p.a.)	3-BR Apt	4-BR Apt	5-BR Apt
Arabian Ranches	170-165	230-225	290-290
Green Community	215-200	230-230	265-260
Jumeirah	170-160	210-190	250-230
Jumeirah Islands	n/a-n/a	325-300	375-350
Meadows	240-220	265-240	280-265
Mirdif	110-100	130-120	160-150
Palm Jumeirah	330-325	425-400	575-550
Springs	160-145	n/a-n/a	n/a-n/a

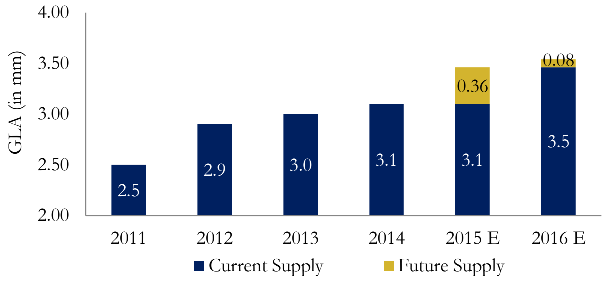
Source: Amar Finance Research

Commercial Sector

Abu Dhabi office market remains more or less flat while Dubai faces two tier market

Abu Dhabi: The office sector in Abu Dhabi stabilized in H2 2014. According to JLL, the current supply of office stock stands at 3.1mm sq m, comprising 16% Grade A, 41% Grade B, 38% Grades C and D, and 4% other, with a total vacancy rate of 39% in H2 2014. The market expects an additional supply of 440,000mm sq m of GLA by 2015.

Figure 29: Abu Dhabi Office GLA (2011 – 2016)



Source: JLL Abu Dhabi Real Estate Market Overview, Q4 2014

With limited completions in H2 2014, vacancy rates remained stable at 25%, while rentals for prime space increased by 5-6% and secondary areas or Grade B offices remained unchanged. Grade A office rents increased by 12% y-o-y while Grade B office rents were unchanged, indicating evident disparity between good quality space and low-grade products. However, a more active leasing market is expected to emerge with increased demand from the private sector in the coming years.

Table 11: Average annual office rentals in Abu Dhabi – H2 2014

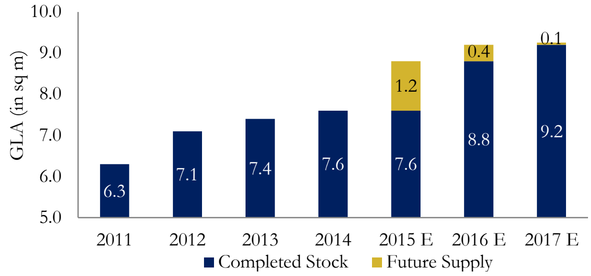
Area	(AED per sq m)
Khalifa Street	850-1,250
Aud Al Touba Street	850-1,150
Main Street	850-1,250
Senaya Street	500-700

Source: Amar Finance Research

Dubai: According to JLL, the current stock of office space in Dubai stands at 7.6mm sq m, with a vacancy rate of around 24%, and another 1.7mm sq m is expected to enter the market by 2017. Demand continues to remain strong for single owned buildings in established locations and this is likely to keep rental rates and vacancy levels at manageable levels in the short term. However, as new space enters the market, average rent is likely to decline as tenants would want to optimize their space constraints and consolidate their operations at one location.

Dubai is witnessing a two-tier office market. Prime Central Business District (CBD) rents were stable in H2 2014 and they are expected to increase as demand remains strong for Grade A office space. Meanwhile, rent in secondary locations are likely to remain under stress as more Grade A office space enters the market by 2015.

Figure 30: Dubai Office GLA (2011–2017)



Source: JLL Dubai Real Estate Market Overview, Q4 2014

Table 12: Average annual office rentals in Dubai – H2 2014

Area	(AED per sq m)
Bur Dubai	600-900
Business Bay	500-800
Dubai International Financial Centre	1500-2500
Dubai Internet City	1000-1500
Dubai Investment Park	200-400
Jumeirah Lakes Towers	300-600
Sheikh Zayed Road	350-700

Source: Amar Finance Research

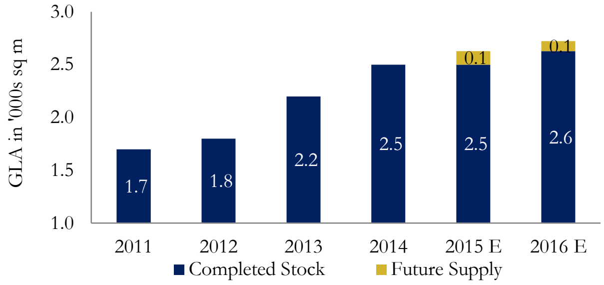
Supply of retail space offers growth potential

The UAE is undergoing fast recovery in its retail property market, partly due to Abu Dhabi's strong aspiration to catch up with Dubai.

Of late, various malls in Abu Dhabi have been running at almost 100% occupancy due to shortage of retail space. JLL reported that the total retail space in Abu Dhabi was 2.5mm sq m, and 0.3mm sq m was added in 2014. Retail space in Abu Dhabi increased by 326,000 sq m in Q4 2013 following the delivery of Yas Mall – Abu Dhabi's largest mall to date (235,000sq m), together with Capital Mall (MBZ) and Al Reef retail. By end-2016, the total retail space in the city is expected to reach 2.7mm sqm. Recently, there have been announcements for the opening of new malls, such as Sowwah Central, Saadiyat mall, Reem Mall, and the Marina Mall extension. These malls can increase the retail supply in Abu Dhabi substantially by 2017-18.

On the rental front, retail rent has remained stable in H2, with prime rent between AED 3,500–4,000 per sq m p.a. With extra retail space entering the market over the next two years, we expect downward pressure on retail rent.

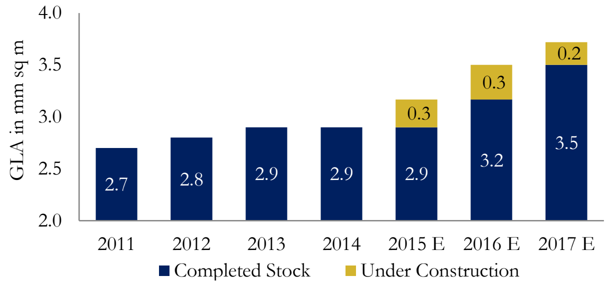
Figure 31: Abu Dhabi Retail Stock (2011-2016)



Source: JLL Abu Dhabi Real Estate Market Overview, Q4 2014

Dubai, which accounts for 60% of the UAE's luxury market, retains its second position in global retail destinations, as revealed by Bain & Company. The market continues to be dominated by super-regional malls, such as Dubai Mall and Mall of the Emirates. However, with increasing space constraints in these malls, increased demand for retail space is expected in secondary malls.

Figure 32: Dubai Retail Stock (2011-2017)



Source: JLL Dubai Real Estate Market Overview, Q4 2014

JLL revealed that the total mall space in Dubai at the end of 2014 was 2.9mm sq m, of which 19,300 sq m was added to the market in Q3 2014. In 2015, retail space of 267,000 sq m will be added – of which 118,000 sq m is due for completion in Q1 2015. This largely includes Phase II of Dragon Mart and three neighborhood centers, including The Box Park by Meraas. An estimated 819,000 sq m of retail space will enter Dubai by the end of 2017, including the Agora Mall, as well as the expansion of Ibn Battuta Mall, Phase II of the Avenue Mall, and the expansion of the Dubai Mall.

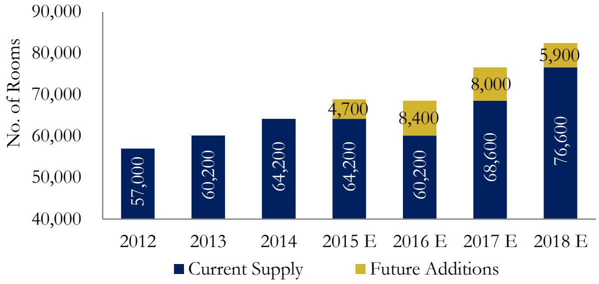
UAE hospitality portrays strong growth ahead

Data from United Nations World Tourism Organization data shows that the UAE ranked 31st among the world's most-popular tourism destinations and is the most popular in the Arab World, ahead of Egypt (ranked 32) and Saudi Arabia (ranked 35), in terms of tourism receipts. Official data reveals that tourism accounts for 8.5% of the UAE's GDP, with a 4.5% y-o-y growth to AED 122.6bn in 2013.

Expo 2020 is expected to attract 25 million visitors to Dubai and generate USD 25–35bn in revenue.

As per JLL, Dubai currently has 64,200 hotel rooms and is likely to see an inflow of 4,700 rooms in 2015, and a total of 27,000 units until 2018. While most of the current pipeline comprises upscale hotels, tourism authorities are taking initiatives to promote and facilitate development of mid-segment hotels. Consolidation in the Dubai hospitality market is anticipated after the sale of the Movenpick JBR in 2014.

Figure 33: Dubai Hotel Stock (2013-2016)

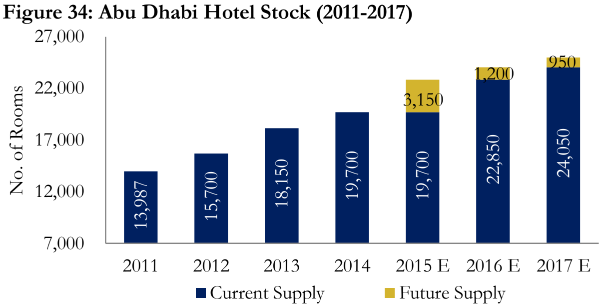


Source: JLL Dubai Real Estate Market Overview, Q4 2014

Abu Dhabi's hospitality market grew significantly in 2014. According to the Abu Dhabi Tourism & Culture Authority (TCA), in 2014, 3,494,063 guests checked into the emirate's 160 hotels and hotel apartments – up 25% y-o-y and beating TCA's annual target of 2.7 million. JLL revealed that 1,550 hotel rooms were added during 2014, and about 3,150 additional rooms are expected to enter the market by end-2015. Overall supply is expected to reach about 25,000 rooms by end-2017, a CAGR of 7.1% from the 2011 levels.

While the hospitality space in Abu Dhabi continues to be driven by the corporate and MICE (Meetings, Incentives, Conferencing, Exhibitions) segments, efforts are being made to diversify the demand base by focusing on the leisure segment.

Figure 34: Abu Dhabi Hotel Stock (2011-2017)



Source: JLL Abu Dhabi Real Estate Market Overview, Q4 2014

Major Projects

Table 13 provides a list of the major construction projects in the UAE.

Table 13: Major Real Estate Projects in UAE

Project Name	Type	Value (USD bn)	Status
ALDAR - Yas Island Development	Community Development	40.0	Ongoing
DWC - Dubai World Central	Free Zones/Economic Zones	37.3	Ongoing
ADFEC - Masdar Carbon Free City	Community Development	22.0	Ongoing
Chemaweyaat - Chemicals Industrial City	Industrial	20.0	Ongoing
ALDAR - Yas Island Development - Yas Mall	Retail	12.8	Ongoing
ADFEC - Masdar Carbon Free City - Phase 1	Mixed Development	10.0	Ongoing
SEHA - Sheikh Khalifa Medical City	Healthcare	4.0	Ongoing
Waha Land - Almarkaz	Mixed Development	3.3	Ongoing
Al Barari - Al Barari - Phase 2	Mixed Development	3.2	Ongoing
ALDAR Properties - Motor World	Mixed Development	3.0	Ongoing
ALDAR Properties - Al Falah	Residential	2.6	Ongoing
Damac Properties - Akoya	Hotels	2.5	Ongoing
ADNEC - Capital Centre	Community Development	2.2	Ongoing
Musanada - North Wathba Development	Residential	2.1	Ongoing
Meraas - Bluewaters Island Development	Mixed Development	1.6	Ongoing
Tamouh - Jebel Hafeet Glacier	Leisure & Entertainment	1.4	Ongoing
DWC - Dubai World Central - Aviation City	Free Zones/Economic Zones	1.4	Ongoing
Al Qudra Holding - Ain Al Fayda - Phase 1	Residential	1.4	Ongoing
Mubadala - Sowwah Island - Phase 1 - Cleveland Clinic Abu Dhabi (CCAD)	Healthcare	1.3	Ongoing
ALDAR - Central Market	Mixed Development	1.1	Ongoing

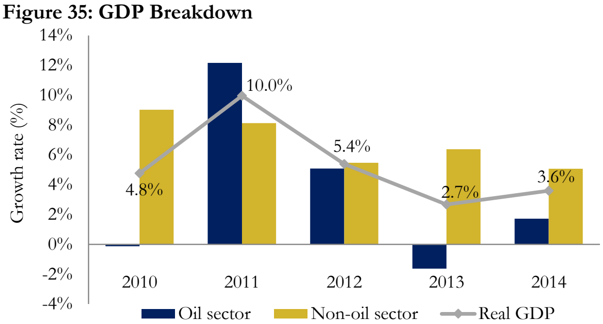
Source: Zawya

Kingdom of Saudi Arabia (KSA)

According to the NBK, the KSA has recorded an average growth rate of 5.5% in the last five years. Backed by the government's diversification and investment plans to stimulate employment, private sector activity, and consumer demand, the economy is likely to experience moderate growth in 2015-16. We expect it to remain moderate because of the stabilization of oil production in the country and continued downward trend in oil prices.

As per Al Rajhi Capital, real GDP declined further to 2.0% in Q4 2014 compared with 2.4% in Q3 2014 due to the continuous fall in crude oil prices. The Central Department of Statistics and Information (CDSI) revised the base year for economic indicators to 2010 from the earlier base of 1999. Calculations on the new base show that GDP grew by 3.6% in 2014 compared with 2.7% in 2013, mainly due to revival in the oil sector and strong growth in the manufacturing sector (+8.0% y-o-y). Despite the falling oil prices, oil sector GDP recovered to +1.7% in 2014 from -1.6% in 2013. However, non-oil sector GDP dropped to 5.1% in 2014 from 6.4% in 2013.

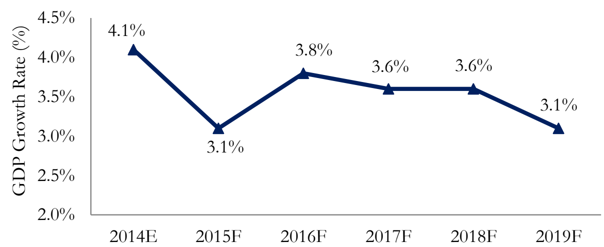
Figure 35: GDP Breakdown



Source: CDSI, December 2014

The EIU has not included base year changes in its projections, as CDSI projections are provisional. Despite the global slowdown in the oil sector, it expects a robust GDP growth averaging 3.5% a year in 2015-19.

Figure 36: GDP Growth Rate



Source: EIU, February 2015

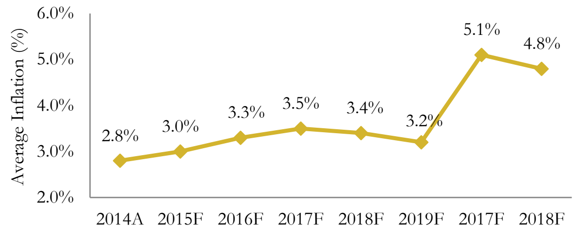
Economic Overview

Inflation softens in second half of 2014

According to the CDSI, y-o-y inflation dropped to 2.4% in December – the lowest since April 2007 – bringing annual inflation down to 2.7%. This was mainly due to a slowdown in both housing and food components. The food and beverage and housing inflation eased from 5.8% and 3.5%, respectively, in 2013 to 3.3% and 3.4%, respectively, in 2014. The fall in housing inflation was a result of a slowdown in the rent segment. Rental inflation, an important constituent of housing inflation, slowed to 3.2% y-o-y in December, down from 3.4% in the previous month. According to Jadwa Investment, the rental segment is likely to remain a major source of inflationary pressure until housing initiatives by the government contribute to the increased supply of affordable housing units.

The EIU believes that overall inflation will average 3.0% in 2015, backed by a decline in global commodity prices. It also suggests that inflation will increase to a peak of 3.5% in 2017 due to the Saudisation program and the government plans to increase water charges for industries and government departments.

Figure 37: Inflation

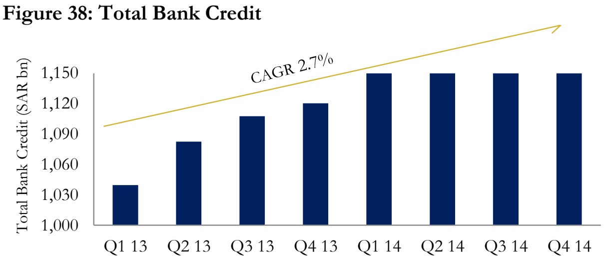


Source: EIU, January 2015

Bank to curb lending on the onset of new consumer credit rules

Quarterly data from the Saudi Arabia Monetary Agency (SAMA) shows a gradual increase in loan disbursement by banks over the last two years, at a CAGR of 2.7%. Total bank credit stood at SAR 1,251bn in 2014, up 11.6% y-o-y. Credit to the construction sector witnessed a gradual increase from SAR 71bn to SAR 83bn at a CAGR of 2.2% and consumer loans for real estate have increased from SAR 24bn to SAR 38bn at a CAGR of 6.8%.

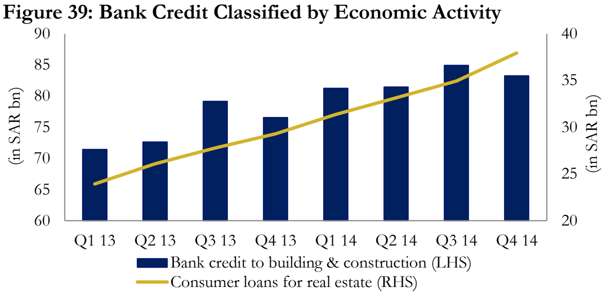
Figure 38: Total Bank Credit



Source: Saudi Arabia Monetary Agency, Q4 2014

However, the growth is likely to fall after the implementation of new consumer credit rules and the start of compulsory compliance with SAMA's Finance Companies Control Law. According to the new consumer lending rules, banks may charge a cap on fees of ~1% or SAR 5,000 – whichever is lower. Apart from this, another rule requires residential home seekers to make a 30% down payment of the original property value whenever they apply for a mortgage loan to finance their purchase. According to Jadwa Investments, these new rules will reduce credit to the private sector by 11.7% y-o-y by the end of 2015. Jadwa Investments expects the finance sector to slow to 4% in 2015 from 4.5% in 2014, based on these indications.

Figure 39: Bank Credit Classified by Economic Activity



Source: Saudi Arabia Monetary Agency, Q4 2014

Real Estate Sector

Realty sector to witness sustained growth in 2015

According to the Ministry of Commerce and Industry, Saudi Arabia's real estate market is likely to witness persistent growth as there were more than 17,000 ready-for-sale real estate units, valued at ~SAR 20bn, in end-2014. According to statistics from the ministry's real estate units sales program, the total number of licensed real estate units for sale in all regions of the kingdom reached 17,258, valued at SAR 19.3bn, of which 14,834 were housing units, 354 office units, eight commercial units and 2,070 land development units.

Market experts are of the opinion that the realty market will enjoy further stability in the coming years. In addition, the mortgage law and the additional loan program, incorporated between late 2013 and early 2014, has led to a sustained increase in demand, resulting in supply shortages, thereby posing strong growth opportunities. The demand is also backed by the growing young population, the rapidly diminishing household sizes, and the changing lifestyles. According to the CDSI, the KSA will need significant supply of new housing projects to keep pace with the growing population, which is expected to grow at a CAGR of 4.4% to reach 37.2 million by 2020 from 30.0 million in February 2014.

Property loans hit SAR 148.9bn

According to SAMA, the total real estate loans provided by the banks to individuals and corporates amounted to SAR 148.9bn by the end of 2014, up 31% y-o-y. While the majority of the loans were for the individual segment at 63%, the remaining 37% went to the corporate segment. The individual property loans amounted to SAR 94.2bn, up 34% y-o-y, whereas corporate loans rose 26% to SAR 54.7bn.

On a quarterly basis, property loans grew by 6% in Q4 2014, compared with SAR 140.4bn in Q3 2014. Similarly, individual property loans grew by 7% to add another SAR 5.8bn to the loans of Q3, which reached SAR 88.4bn. Corporate loans grew by 5% to hit SAR 54.7bn in Q4 compared with SAR 51.9bn in Q3.

From November 2014, Saudi banks were instructed to apply the new mortgage rule, under which the loan applicant is required to pay 30% of the required loan as the first instalment. This new system passed by SAMA allows loan applicants to finance the remaining portion of loans from SAMA-approved financing firms or banks. This mortgage system will help genuine seekers of residential property to get their accommodation, as property flippers and buyers for investment purposes will now be restricted due to initial instalment payments.

First real estate index and auction system for real estate deals to be launched

According to industry experts, the realty market of Saudi Arabia is one of the world's largest, with investments estimated at SAR 1.2 trillion. Experts believe that by 2020 the country will require ~4.5 million housing units to meet the needs of its growing population. There is also a need for proper regulation as the sector is plagued with illegal dealings. The KSA is set to witness the launch of the country's first real estate index in Jeddah, which aims to provide detailed data to investors, sellers, and buyers on the real estate sector, property prices, construction projects, and relevant government decisions. The government also plans to launch a new auction system in Jeddah to ensure that the property under consideration possesses a clear title deed and is free from any legal disputes. In addition, only expatriates with valid residence permits will be allowed to purchase property in the KSA. The auction system will be implemented in 2015 in Jeddah, and will eventually be applied to the rest of the kingdom. These reforms will not only reduce illegal realty dealings, but also help create jobs for the Saudi youth in the sector.

Residential Sector

Changing demographics boost housing demand

According to the population statistics by the CDSI, the Saudi population reached 30 million by end-February 2014, with the majority of the population being under 30, at an average age of 26. This younger age group, representing the greater portion of the Saudi population, exhibits non-traditional consumption habits in particular due to the development of the Internet and technological evolution. According to the United Nations (UN) data, the population of Saudi Arabia has grown significantly over the past decade and is expected to continue rising in the future, reaching 37 million in 2020 and 55 million by 2060.

The youth population in the KSA is driving the demand for more affordable housing. Thanks to demographic trends and pricing pressures, low-cost property development has become a priority for the government. An analysis of the current property market by Al Rajhi Capital revealed that only individuals earning SAR 25,000 (USD 6,664) and above per month can afford to purchase high-end housing. Salary levels for the lowest grade job in the Saudi government start at SAR 3,000-5,000 (USD 800-1,333) per month, with the highest grade jobs reaching SAR 20,000-30,000 (USD 5,330-8,000). Therefore, there is high demand for affordable properties. The government has pledged huge investments to meet the rising demand, with over SAR 250bn being injected into the property market to build more than 500,000 new housing units.

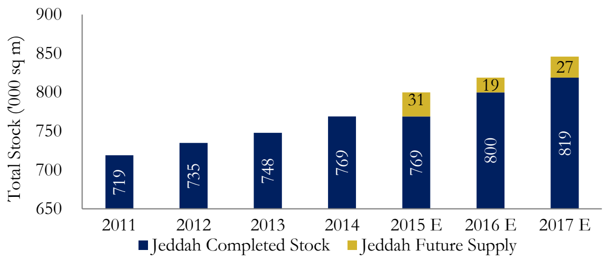
The Committee for International Trade (CIT) believes that the support of the royal decree to the Housing Authority in building these new housing units has resulted in increased demand for land plots, as well as increased activity in the real estate market. However, according to Salman Ben Saedan, founder of Salman Abdullah Sin Saedan Real Estate and board member of the Tunisian Saudi Real Estate Company, co-operation between developers and the government is imperative to the success of the Kingdom's housing projects.

Demand-supply gap widens in realty space

For real estate developers, Riyadh is the best place in Saudi Arabia for the residential segment, as the demand for homes is certainly outstripping short- to medium-term supply. This is despite the fact that there is a marked increase of 319% over the last decade in building permits being issued for projects in Riyadh.

Dar Al-Akran, a Saudi-based realty company, expects the demand for housing units to cross four million by 2024. However, based on the current assessment of planned projects, the supply may not been able to keep up with the demand. According to the NCB's Semi-Annual Sector Review, the supply-demand imbalance is mainly because of affordability limitations. Artificially propelled high prices of plots, which are increasingly seen as long-term investment options by high net worth Saudis, further limit the prospects for other citizens. Additionally, home developers are less inclined to develop affordable housing on expensive land as it hampers their return on investment.

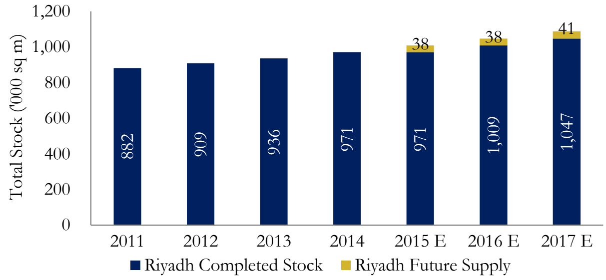
Figure 40: Jeddah Residential Supply



Source: JLL Jeddah Real Estate Overview, Q4 2014

Industry experts believe that the current supply-demand imbalance will take at least five years to be bridged. As per JLL, Jeddah has a stock of 769,000 residential units and another 77,000 units will enter the market by end-2017. In Riyadh, the current stock stands at 971,000 and 117,000 units will be added by end-2017, representing an annual supply of around 39,000 units.

Figure 41: Riyadh Residential Supply



Source: JLL Riyadh Real Estate Overview, Q4 2014

Further, the government is taking active initiatives to bridge the demand-supply gap, especially in the low-to-medium housing category. The Ministry of Housing has announced six large residential projects across Jeddah that will deliver 29,000 housing units. Of these, three projects delivering 14,900 residential units are underway, while the remaining three are at the design and approval stage.

In March 2014, the government launched the ESKAN program to address the shortage of housing for low-income Saudi families. ESKAN has been designed to accelerate progress in housing development and create a transparent system for allocating aid. More than 690,000 families were found to be eligible for the program.

To control land speculation and increase the supply of housing, the Saudi government is considering the introduction of a tax on white lands. This is likely to boost residential supply, as investors are likely to switch their portfolios to include more income generating residential developments as opposed to undeveloped sites. Lastly, real estate experts believe that the royal order related to land grants and construction loans will push down the current exorbitant rents and property prices, as land will be available to citizens within a year. Some experts have forecast that the prices of residential units will decline by 30−40% in certain areas.

Rental markets post growth

The residential rental market continued to witness an upswing into 2014 from 2013. According to real estate experts, rents of villas and apartments shot up by 10–15% y-o-y on average. They believe that the rent hikes were due to the rising costs of building and renovation, and increasing wages related to the construction and management of buildings. Despite a housing fund of SAR 250bn by the government, average house rents in Riyadh and Jeddah increased 4–8% in H2 2014 compared with that in the first half of the year.

Table 14: Jeddah Annual Apartment Rents in H2 2014

Area	Type	Rent (SAR)
South Jeddah	2–BR Apt.	25,000–30,000
East Jeddah	2–BR Apt.	29,000–32,000
West Jeddah	2–BR Apt.	48,000–52,000

Source: Amar Finance Research

Central Jeddah demands the highest rents. In Q4 2014, apartment rents increased ~4% q-o-q, while villa rents stabilized during the quarter after declining in Q4 2013. Villas in residential compounds showed continuous strong performance in terms of rent and occupancy, as expatriates prefer gated communities. In south-eastern Jeddah, apartment rents are expected to drop as it is no longer considered desirable due to frequent demolition of buildings on land allocated for low-income housing.

Table 15: Riyadh Annual Apartment Rents in H2 2014

Area	Type	Rent (SAR)
Riyadh East	2–BR Apt.	24,000–26,000
Riyadh South	2–BR Apt.	24,000–26,000
Riyadh West	2–BR Apt.	28,000–30,000
Riyadh North	2–BR Apt.	32,000–36,000
Riyadh Central	2–BR Apt.	36,000–40,000

Source: Amar Finance Research

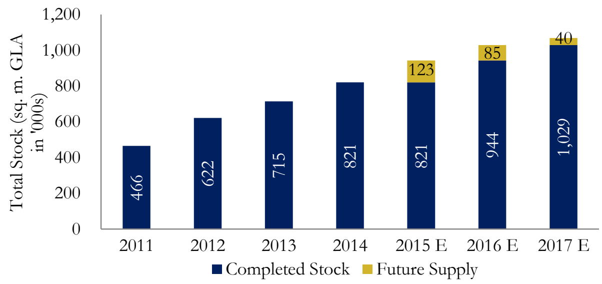
In Riyadh, rents of villas and apartments increased 8% q-o-q and 6% q-o-q, respectively, in Q4 2014. Olaya in the north, Sulemenia in central Riyadh, Hiteen and Nakheel in the west, and Shumaisi in the south are witnessing higher villa rents. Districts between the North Ring Road and the Prince Salman Street are also experiencing higher villa rents; this area is expected to attract more interest from Saudi families as government offices move toward the north of Riyadh. Apartment rents are higher in areas such as Wazarat and Malaz in the south, Olaya in the center, Diplomatic Quarter in the west, and Yarmuk and Qurtaba in the east.

Commercial Sector

Oversupply in office market space in Jeddah likely to balance out in 2015

The Saudi Arabian commercial office construction market is expected to grow in 2015 as the business climate in the kingdom continues to be supported by high liquidity, low interest rates, and a thriving economy.

Figure 42: Jeddah Office Stock (2011–2017)



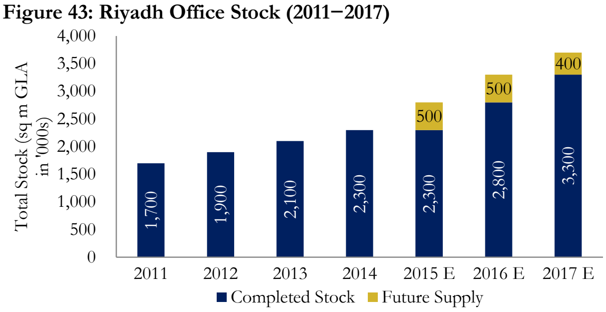
Source: JLL, Jeddah Real Estate overview Q4 2014

The Jeddah office market is likely to remain stable in 2015–16. JLL, in its Q4 2014 report, estimated that office stock in Jeddah is expected to rise from ~821,000 sq m to ~1,069,000 sq m by the end of 2017. In Q4 itself, the market saw a supply of almost 100,00 sq m of GLA. Although additional supply continues to enter the market, further economic growth and the anticipated rise in office-based employment is expected to absorb much of the new supply. This is based on the fact that the last three quarters have seen a steady decline in the vacancy rates of 4% y-o-y, to be at the lowest level of any major city in the MENA region. According to JLL, the current vacancy rate in Jeddah in the office market space stands at 6%.

Increased demand not enough to tackle oversupply situation in Riyadh

The commercial market remained oversupplied in 2014 and the trend is expected to continue in 2015. The office market in Riyadh is oversupplied, and the situation is likely to worsen in the coming quarters. Landlords continue to struggle with occupancy rates, despite offering attractive rent-free periods. According to JLL, vacancy rates currently stand at 16% across the city and 10% in Central Business District (CBD). Vacancy rates have increased by ~2% in Q4 2014 compared with the previous quarter, as tenants continue to relocate to upcoming developments in the north and north east of the city. This is because these new locations are less congested, offer better quality units, and better parking ratios. With high levels of new office units scheduled to be completed over the next three years, vacancies are likely to increase further, particularly in older and secondary grade buildings.

Figure 43: Riyadh Office Stock (2011–2017)



Source: JLL, Riyadh Real Estate Overview Q4 2014

Rental rates remain more or less stable

Historically, office stock in Riyadh was located along King Fahd Road, which is also home to Riyadh's prime office complexes – Kingdom Tower and the Faisaliah Tower. However, due to increasing congestion, poor car parking, and impractical floor plans, a number of 'out of town' office developments have been completed. Migration to the north will increase in the coming years as the initial phase of the King Abdullah Financial District and Information Technology Communications Complex projects will release 800,000 sq m of supply to the market.

In Riyadh, average H2 2014 rental prices varied across different districts, from a low of SAR 250 per sq m in the southern part to SAR 1,500 per sq m in Grade A and B offices. Although the vacancy rate is rising and there is downward pressure on rental rates in the office market, Grade A offices in CBD (Kingdom Tower and Faisaliah Tower) enjoyed better occupancy and moderate increase in rents (5–10%) in H2 2014.

On the other hand, office rents in Jeddah remained stable in Grade A buildings during H2 2014 but have increased slightly in Grade B buildings. The increase in office rents for Grade B buildings was a result of an increase in quality space for rent in Grade B buildings.

Table 16: Annual Office Rentals in Saudi Arabia – H2 2014

Location	Rent (SAR per sq m)
King Fahad Road, Riyadh	900-1,200
Tahlia Road, Riyadh	750-1,000
Olaya Road, Riyadh	750-850
Khurais Road, Riyadh	750-850
King Abdulaziz Road, Riyadh	700-750
King Abdullah Street, Jeddah	800-1,200
Al Madina Street, Jeddah	600-700
Al Tahlia Street, Jeddah	950-1,300
Sultan Street, Jeddah	750-1,100

Source: Amar Finance Research

Premium hotels dominate hospitality sector with sizeable scope for the budget segment

Growth in the tourism sector has been robust in the last few years. This trend is expected to continue, with the number of pilgrims growing at an exponential rate every year. According to Aljazira Capital, the hospitality sector in Saudi Arabia can be segregated into two segments – the high-quality international branded luxury hotel market and the unbranded and unfurnished hotel market. At the end of February 2014, there were 107,209 rooms in Makkah, of which 13% were five-star properties, 11% four-star, 19% three-star, and about 37% remained unbranded. In Madinah, the total room supply amounted to 46,536, of which 17% were five-star, 6% four-star, 23% three star, and about 45% belonged to one and two-star categories. The above data indicates huge growth potential for branded economy hotels as they currently have low penetration levels.

According to Aljazira Capital, Makkah is likely to receive around 17 million tourists every year by 2025, while Madinah expects pilgrim inflow of 10 million per year by 2025. In Madinah, about 25 hotels with more than 6,000 rooms had been demolished for the redevelopment of the Central area, resulting in a huge demand-supply gap. This had opened an attractive growth opportunity in the hospitality sector for the areas around Haram.

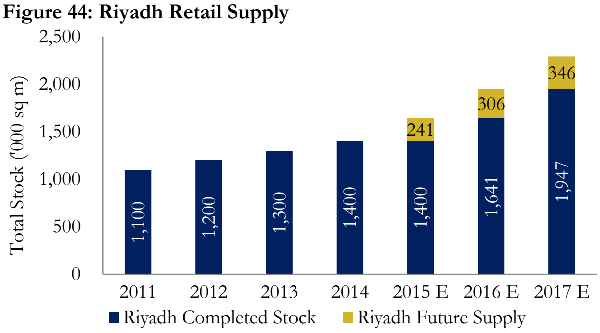
It is estimated that Makkah is likely to see an influx of branded economy hotels in the next three years, as sector analysts believe that the number of hotels will increase from 577 in 2013 to 7,848 in 2018. Similarly Madinah will see an increase of branded hotel rooms from 80 in 2013 to 986 in 2018.

Kingdom's retail sector outlook stays strong

Saudi Arabia has excellent growth potential in the retail space due to demographic benefits and huge local demand. Riyadh is expected to witness continuous growth in the retail segment, backed by the fact that it is the commercial hub of Saudi Arabia. It currently lacks leisure activities, hence retail malls are under pressure to cater to all the entertainment requirements of the residents.

According to JLL, Riyadh's retail sector is led by secondary grade malls, which have over 25,000 sq m to over 60,000 sq m of GLA. In 2014, Riyadh had 1.4mm sq m of GLA and more than 893,000 sq m is likely to enter the market between 2015 and 2017. Al Nakheel Mall and the Olaya Towers retail space have been completed in 2014. Confidence in the retail market is reflected in the announcement of various new shopping centers in Riyadh. One of the largest malls to be announced is Salboukh Mall, which will add around 275,000 sq m to the market upon completion in 2016. Another major announcement is Al Dirriyah Festival City, which will add 250,000 sq m, but this project is likely to be started by end-2018.

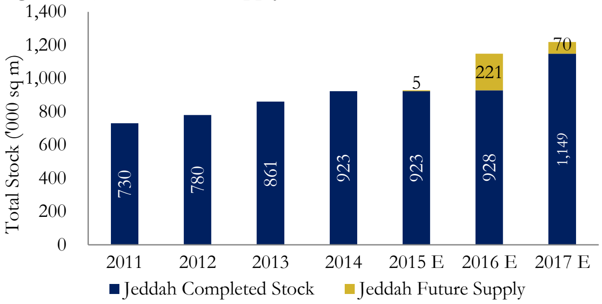
Figure 44: Riyadh Retail Supply



Source: JLL, Riyadh Real Estate Market Overview Q4 2014

Jeddah, which is dominated by a younger population, has witnessed high growth in retail spaces occupied by international brands. La Prestige opened in Q3 2014, adding over 17,000 sq m of luxury retail space to the market. Mandarin Avenue has also opened during this quarter, adding approximately 15,000 sq m of retail space, while Jamaah Plaza is currently undergoing expansion. As of 2014, Jeddah's formal retail supply stood at 923,000 sq m of GLA and is likely to witness an addition of 296,000 sq m by end-2017. This is likely to add downward pressure on rents across all retail space grades, (but especially for lower grade retail space) while increasing city-wide vacancy rates. However, as there are no expected completions during 2016, the market will have an opportunity to absorb the excess supply, stabilizing vacancy and rental rates.

Figure 45: Jeddah Retail Supply



Source: JLL, Riyadh Real Estate Market Overview Q4 2014

Major Projects

Table 17 lists several major construction projects that are underway in Saudi Arabia.

Table 17: Major Ongoing Projects in the KSA

Project Name	Type	Value (USD bn)
Saudi Arabia Ministry of Housing – 500,000 Houses Program	Residential	67.0
Sudair Industrial City	Industrial Zone	40.0
Jazan Economic City	Free/Economic Zone	27.0
King Abdullah Economic City	Free/Economic Zone	27.0
Modon – Jazan Industrial City	Industrial Zone	17.0
Riyadh East Sub Center	Mixed Development	8.0
Madinah Knowledge Economic City	Free/Economic Zone	7.0
Waad El Shammal Mining City	Industrial Zone	6.9
JODC – Jabal Omar Development	Mixed Development	5.5
King Abdullah Medical City	Healthcare, Residential	5.3
Injaz Development Company – Al Marina	Community Development	2.7
Royal Protocol – Jeddah Convention Center	Commercial	2.0
Dar Al Arkan – Shams Al Arous	Residential	2.0
Al Shoula – Ajmakan Development	Community Development	1.6
Saudi Arabia Ministry of Endowment – Abraj Al Bait	Mixed Development	1.6
Emaar Middle East – Jeddah Gate	Mixed Development	1.6
Saudi Arabia Ministry of Endowment – Abraj Al Bait	Mixed Development	1.6
Al Khobar Lakes Development	Community Development	1.2
King Khalid Medical City	Healthcare, Residential	1.2

Source: Zawya

Kingdom of Bahrain

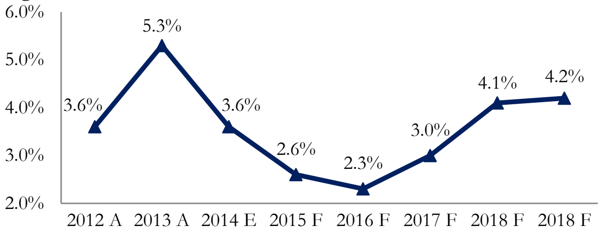
Bahrain's economy continued to gather momentum in 2014, backed by its oil sector. This reflects the normalization of output in the Abu Sa'afah offshore oilfield after its protracted unscheduled maintenance in 2012.

According to Bahrain Economic Development Board (EDB), Bahrain's GDP growth reached 5.1% y-o-y in Q3 2014 as a number of significant infrastructure projects were executed. The non-oil sector continued to grow, especially the construction sector accelerated from a 3.6% y-o-y growth in Q2 2014 to 12.3% in Q3 2014, making it the fastest growing sector in the economy. The hotels and restaurants sector also posted strong y-o-y growth of 7.4% in Q3 2014. Meanwhile, the hydrocarbons sector in Bahrain continued to expand in 2014, with a 4.7% y-o-y growth in Q3 2014. EDP estimates that the overall GDP growth rate will surpass 4.0% for 2014.

The EIU estimates that real GDP is likely to expand by 3.6% in 2014 and is likely to grow by 2.6%, down from previous estimate of 3.2%. This fall in projection is a result of the falling oil prices that has affected government and private consumption. Real GDP growth in 2015-16 will be sustained to some extent by investments in GCC Development Fund-related projects, which, despite delays, is expected to commence by early 2015.

Bahrain has planned to build an oil pipeline from the KSA. The pipeline is expected to start operations in 2018. The country has also planned to increase the capacity of the Sitra refinery by Q3 2016. These factors are likely to push GDP growth in 2017−18 to 4.2% by 2019. The EIU expects the financial sector to suffer because of the ongoing unrest that has undermined Bahrain's long-cultivated business-friendly image.

Figure 46: Real GDP Growth Rate



Source: EIU, November 2014

Economic Overview

Rating organizations downgrade Bahrain's credit profile

Major rating agencies across the globe have downgraded the credit profile for Bahrain due to its high reliance on oil, deteriorating government finances, and political instability. Fitch Ratings has revised Bahrain's outlook to "Negative" from "Stable" and affirmed its rating at BBB/BBB+. Moody's also downgraded its rating by one notch to Baa2 and provided a negative outlook. Standard & Poor's lowered the country's sovereign credit rating, citing the recent decline in oil prices.

The main reason for the downgrade is the sharp decline in oil prices, coupled with the fact that Bahrain has limited oil reserves. Fitch estimates that Bahrain's non-oil revenue will amount to just 14% of its total revenue in 2015. Wages and subsidies together will account for 70% of the total budget spending. The falling oil prices coupled with wages and subsidy spending has resulted in an unfavorable budget deficit scenario, which is worsening due to the declining oil prices. To add to the country's woes, government debt continued to rise and is forecast to reach 47.2% of GDP in end-2014 and 52% in 2015.

Further, the continuous loggerheads between the government and the opposition has resulted in nullification of two rounds of election in November 2014. There are no plans for further talks and the political stalemate continues.

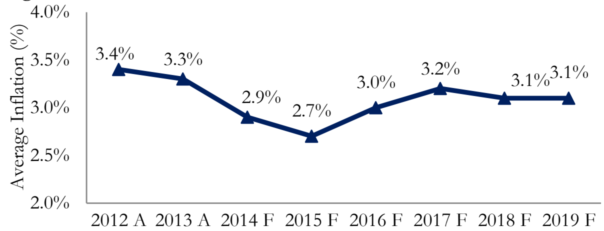
Meanwhile, the rating agencies believe that a cut-back in capital spending, some moderation in current spending growth, and incremental measures to raise non-oil revenue and reduce subsidies can help the country to revive the current financial distress.

Inflation rises in 2014

Inflation dynamics in Bahrain have remained fairly constant and in line with broader regional trends in recent months. In November 2014, inflation stood at 2.3% y-o-y, averaging 2.9% the year 2014. Housing, water, electricity, gas and other fuels continued to be the sectors experiencing the highest growth in prices at 6.1% annually. At the other end, the transport sector witnessed the smallest inflation increase, growing at an annual rate of 0.9%. In general, price increases across the different sub-indices have converged in recent months.

The EIU estimates that average inflation will decline slightly in 2015 to 2.7% from 2.9% in 2014, as global food prices drop. However, inflation will rise if there is any revision of Bahrain's extensive subsidy (authorities have indicated they plan to implement gradually). The recovering property market and gradual reduction in subsidies will push up inflation to an average 3% a year during 2015-19.

Figure 47: Inflation



Source: EIU Country Report, November 2014

Real Estate Sector

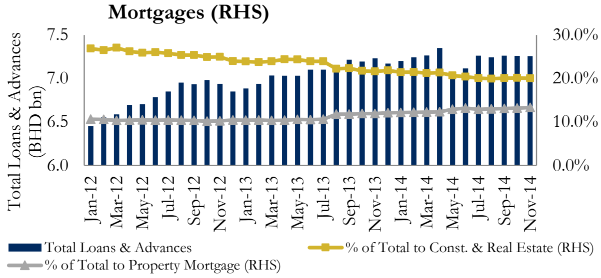
Real estate deals up 45% in first three quarters of 2014

According to the Survey and Land Registration Bureau (SRLB), the overall volume of real estate trading in Bahrain grew 45% y-o-y in first nine months of 2014, amounting to BHD 1.0bn. Q3 2014 alone witnessed a 47% y-o-y increase amounting to BHD 285.5mm. This indicates a significant rebound for the property market, which was hit by a prolonged period of stagnation following the global financial crisis and after the 2011 uprising. According to Arabic daily Akhbar al Khaleej, 80% of the real estate transactions were carried out by Bahraini investors and 98% of the total investments were made by GCC investors. The growth in activity also reflects new government policies to spur growth in the market, such as the introduction of a new law in December 2014 that reduced the cost of registering a newly purchased property under the buyer's name. New policies, combined with relatively low real-estate prices, have primarily led to an upturn in the sector.

Sustained performance by lending sector strengthens realty growth

The improving Bahraini economy, coupled with government infrastructure development plans, has had a strong positive impact on the country's realty scenario. The sector has witnessed renewed activity, as is evident from the increase in personal loans (mortgage loans). Bahrain's credit sector continues to witness strong lending activity, supported by falling interest rates in the real estate and construction sector as well as personal mortgage. Real estate and construction, and personal mortgages, account for 33.3% of the total loans and advances offered.

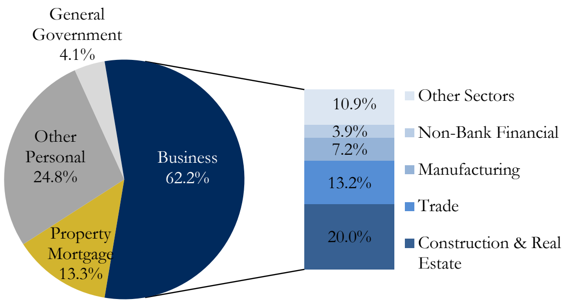
Figure 48: Loans and Advances (LHS), % of Total Loans to Real Estate & Construction (LHS) and % of Total Loans to Mortgages (RHS)



Source: Central Bank of Bahrain, November 2014

Total loans and advances in Bahrain increased 0.4% y-o-y, reaching BHD7.2bn at the end of November 2014. Surprisingly, there was an almost 6.9% y-o-y fall in loans offered to the construction and real estate sector, while there was an 11.9% y-o-y increase in mortgage loans. Personal loans secured through mortgage continued to rise gradually, accounting for 32.7% of total personal lending by commercial banks and 13.3% of total loans and advances by banks. Property mortgage loans grew 11.9% y-o-y and 11.1% YTD November 2014, reaching BHD 964.0mm. This shows that buyers are more optimistic about sector recovery and government efforts to boost the sector. However, reduced loans to real estate and construction indicate that developers are waiting for a more stable geo-political environment to invest.

Figure 49: Bank Credit Breakdown – November 2014



Source: Central Bank of Bahrain, November 2014

Residential Sector

Massive investment in realty sector

Bahrain's real estate market showed signs of improvement in 2014, and is set to grow on the back of economic recovery and huge investment by the government. Bahrain will spend around USD4.4bn, financed by the GCC Development Fund, on infrastructure and housing until 2017 (as announced in 2011). As announced by the Prime Minister's office, 49% of this fund will be spent on building 2,548 houses in 2015; 1,443 in 2016; and 5,241 in 2017. The remaining fund (~USD 2.2bn) will be allocated to water and power projects. EDB disclosed that the key ventures tendered in 2013 include parts of North Town (Al Madina Al Shamaliya) development, the East Hidd housing project, some power projects, the Muharraq ring road and a center for disabled.

The latest research by international real estate consultancy firms indicates an increase in jobs as a result of wide-ranging infrastructure investment by the government. This has already led to a rise in confidence levels among builders. Growth in the government's housing program is also likely to boost demand for services from local and international construction companies. With such huge investments in place, the Bahraini realty sector is all set to enter a growth trajectory.

Market driven by tenants

Relatively expensive mortgage finance has made it difficult for Bahrainis who are the lower end of the income spectrum to opt for owned accommodation. In absence of a permanent housing solution, the rental market for relatively small, inexpensive apartments remains strong. However, the performance of the residential market was fragmented, as growth trends were location specific and dependent on the nuances of each micro-market. For example, the 15% growth achieved in Juffair since Q32013 to date has been driven principally by the completion of new and higher quality developments, with each offering ever more comprehensive facilities, such as Fontana Towers. Many of these new completed properties have thus been able to attract tenants from ageing towers. Improvements in local amenities and infrastructure have also added to the appeal of areas such as Amwaj Islands, Riffa Views, Reef Island and Sar, with the trend towards community retail developments offering convenience to residents in these locations.

Table 18: Monthly Apartment Rents in Bahrain – H2 2014

Location	Type	Rent (BHD)
Seef	2 BR FF	600-700
Amwaj Island	2 BR FF	600-700
Juffair	2 BR FF	600-750
Adliya	2 BR FF	350-600

Source: Amar Finance Research

Rentals have declined in areas (Amwaj Islands, Saar, and Janabiya) popular among expatriates as tenants prefer purchasing property in a lower price bracket. The already oversupplied residential market is likely to bear the brunt of further drop in rates – large residential units are scheduled to become available in the coming years. However, the rental value of villas in Adliya and Amwaj is strengthening, as the real estate market in Bahrain has already crossed the bottom and is now moving up.

Table 19: Monthly Villa Rental Rates in Bahrain – H2 2014

Location	Type	Rent (BHD)
Saar	4 BR Villa	1,000-1,200
Adliya	4 BR Villa	1,100-1,250
Amwaj	4 BR Villa	1,100-1,400
Janabiya	4 BR Villa (Unfurnished)	800-1,200

Source: Amar Finance Research

The market has also seen the emergence of a new micro market due to the continued influx of expatriates from Saudi Arabia. Employees of many companies that have relocated to the Eastern Province choose to live in Bahrain. This has created an increased interest in the Hamala and Jasra areas, which provide easy access to the King Fahad Causeway. Rents in these areas increased in H2 2013. Several self-contained developments have or are being developed to meet this new demand, with many providing supermarkets, salons, and community areas.

The rental market is likely to remain extremely price sensitive, with demand centered on good value and high quality accommodation with additional facilities in prime locations.

Commercial Sector

Modest outlook for commercial real estate

Although Bahrain's real estate market showed signs of improvement in 2014, the office segment continued to remain oversupplied. There was a minimal increase in rents due to the improved economic outlook, which was somewhat offset by a slowdown in the number of new occupiers in the market. Demand came from existing businesses looking at expansion, rather than from new entrants. Additionally, landlords remained under pressure to be flexible on the length of rent-free and fit-out periods, given the oversupply in the office market.

Vacancy rates witnessed huge gaps across the market. Areas offering better parking facilities and easy access remained the top choices. As a result, the Diplomatic Area performed poorly, compared with the Seef Area. A new trend of tenants preferring international property management also emerged in 2014. We expect the rental gap to widen further because of this preference.

Table 20: Office Space Rental in Bahrain in H2 2014

Location	Rent (BHD per sq m/Month)
Bahrain Financial Harbour	8–9.5
Seef Area	5.5–7.5
Diplomatic Area	3.5–4.5

Source: Amar Finance Research

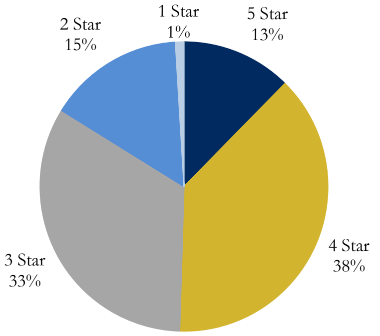
Business tourism boosts hospitality market

Business tourism or the MICE is an important sector in Bahrain. The Bahrain Exhibition and Convention Authority (BECA) hosts a number of industry events and exhibitions, the major among which are the annual Bahrain Boat Show and the bi-annual Bahrain Air Show. In recent years, Bahrain has become an important location for exhibitions and conferences. Therefore, the BECA plans to expand its exhibition and conference space by constructing the Bahrain Expo City in Manama City. This project will increase the net available exhibition space to 145,000 sq m from the current 16,000 sq m; it is scheduled to be completed by 2015.

With the growing importance of business tourism, the demand for hospitality space is also bound to increase. There has been an increased supply of 3- and 4-star hotels, as seen in Figure 50, to meet the requirements of business travelers. Also, with the change in the Saudi working week, there has been a surge in the development of luxury hotels because of an increase in weekend tourism.

Five new luxury hotels opened in Bahrain in end-2014, adding to the 14 already operating in the Kingdom. The new hotels include The Four Seasons Hotel and Resort, Bahrain Bay, the Ramee Grand Hotel and Spa in Seef, the Renaissance on Amwaj Islands, the Rotana at Bab Al Bahrain and the Swiss-Belhotel International also in Seef.

Figure 50: Hotels by Tier – 2013



Source: Central Informatics Organization

The emergence of boutique hotels is expected to create more interest in hospitality spaces. For example, Domain Hotels have launched a 131-room boutique hotel project, which will include a club for members and nine restaurants and lounges.

All these developments indicate strong growth prospects for the hospitality space.

Major Projects

Table 21 provides a list of the major ongoing construction projects in Bahrain.

Table 21: Major Real Estate Projects

Project Name	Type	Value (USD bn)	Status
Albilad - Water Garden City	Mixed Development	9.8	Ongoing
Bahrain Ministry of Works - North Bahrain Town	Community Development	4.5	Ongoing
Diyar Al Muharraq Company - Diyar Al Muharraq	Community Development	3.2	Ongoing
GBCORP Bahrain - Marsa Al Seef	Mixed Development	2.5	Ongoing
Bahrain Bay Development	Mixed Development	2.5	Ongoing
Manara Development - Janayin Al Hamala	Residential	1.3	Ongoing
Durrat Al Bahrain - Durrat Marina	Mixed Development	1.3	Ongoing

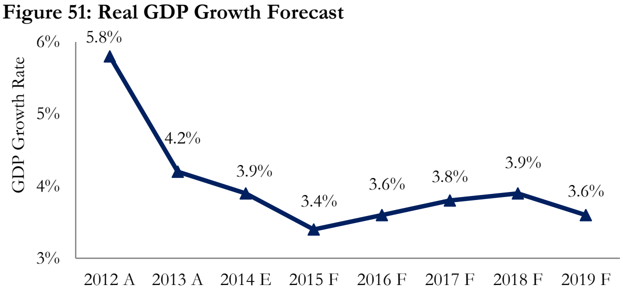
Source: Zawya

Oman

Oman, which had been heavily dependent on oil resources, is now focused on diversification, industrialization, and privatization. The country aims to reduce its reliance on the oil sector, which accounted for 46.6% (OMR 11.4bn) of the country's GDP in the first nine months of 2014. According to the National Centre for Statistics and Information (NCSI), Oman's GDP grew 5.2% y-o-y in the first nine months of 2014. NCSI's report showed that oil and gas activities grew by 1.4% and contributed OMR 11.4bn to the GDP in end-Q3 2014. The contribution of the non-hydrocarbon sector to the GDP increased by 8% y-o-y. It emerged as the major driving force of the country's GDP, with a contribution of OMR 13.6bn. The sector outperformed the oil and gas sectors in terms of both volume and growth rate. Oman is expected to witness similar growth levels in 2015 as that in 2014. The growth is expected to be driven by an increase in oil production as well as the government's fiscal policies.

Meanwhile, Standard & Poor's (S&P) maintained its 'stable' outlook for Oman for 2015 but lowered its long- and short-term sovereign credit ratings from A/A-1 to A-/A-2. The EIU has also lowered its economic growth forecast for 2015 to 3.4% from 3.6% due to weakening oil prices, indicating that the economy is likely to be vulnerable to any downturn in domestic oil production and fluctuations in oil and gas export prices. Therefore, economic diversification is extremely important, as the development of manufacturing and tourism, accompanied by infrastructure improvements, will boost non-oil exports. The EIU forecasts that real GDP growth will average about 3.7% a year in 2015-19.

Figure 51: Real GDP Growth Forecast



Source: EIU Country Report, January 2015

Economic Overview

Govt. spending to rise in 2015 despite falling oil prices

According to the latest budget data revealed by official sources in January 2015, a deficit of OMR 2.5bn is estimated under Oman's 2015 state general budget. With relatively modest oil and gas reserves, there is a strong requirement for economic diversification in Oman and, hence, a rise in government investment spending. Official data shows that the forecast deficit of 2014 represents just over 20% of the expected revenue in 2015 and 8% of annual GDP. Around 70% of the expenditure in 2015 is allocated to current spending, totalling OMR 9.6bn. Investment expenditure is expected to be OMR 3.2bn, nearly one fourth of the total spending.

According to the Ministry of Finance, spending for 2015 is budgeted at about OMR 14bn, 5% higher than that budgeted for 2014. The following are a few of the projects to be executed in 2015:

- First phase of national railway project from Sohar to Buraimi
- First two phases of the Adam–Thumrait dual carriageway
- An industrial fisheries complex and infrastructure for government and commercial quays at Duqm
- A new town at Liwa
- Completion of the wastewater network in Muscat and construction of water treatment plants in other regions
- Completion of the Muscat Convention Centre
- Building of three hotels in Muscat

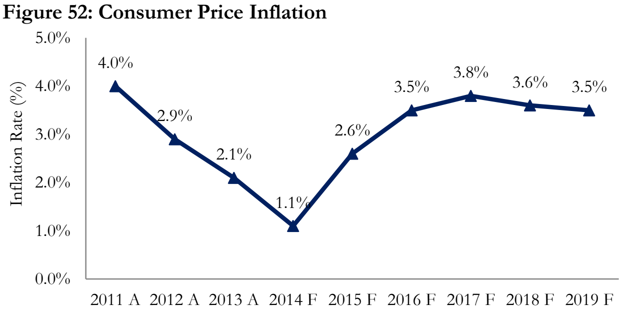
Revenue for 2015 is forecast at OMR 11.6bn, down 1% compared with forecast revenue for 2014. Oil revenue is expected to contribute ~OMR 9.2bn, or 79%, to the total revenue in 2015, but this is likely to be an overestimate given the falling oil prices. As total revenue is likely to slow in 2015 (owing to declining oil prices), the government may be forced to lower its spending target.

Subsidies hold back inflation

According to the Central Bank of Oman (CBO), average inflation in the Sultanate increased by 0.8% y-o-y in December 2014. According to Dr. Fabio Scacciavillani, Chief Economist with Oman Investment Fund, inflation is likely to weigh down on the back of a strengthening USD and stabilizing/declining global commodity prices.

According to the EIU, y-o-y inflation for the first 10 months of 2014 averaged 1%. Domestic demand growth, rising wages and higher electricity and gas prices for businesses (which will be introduced in 2015) are likely to exert upward pressure on inflation in the medium term. The EIU estimates average inflation in 2015-16 to rise to 3.1% and average 3.6% a year in 2017–19, given strong growth in domestic demand, upward pressure on wages, and higher electricity and gas prices for businesses.

Figure 52: Consumer Price Inflation



Source: EIU, January 2015

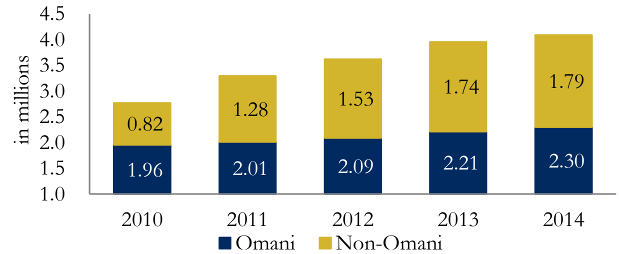
Real Estate Sector

Realty sector sees bright recovery prospects

The realty market recovered in 2014, supported by strong transaction numbers and is likely to stay on the recovery path in 2015 due to Oman's favourable macroeconomic and demographic profile as well as support from the government and financial institutions.

Expatriates are the biggest contributors to demand for the residential sector in Oman. The total population of Oman stood at 4.1 million in 2014, of which 56.3% are Omanis and the remaining are expatriates.

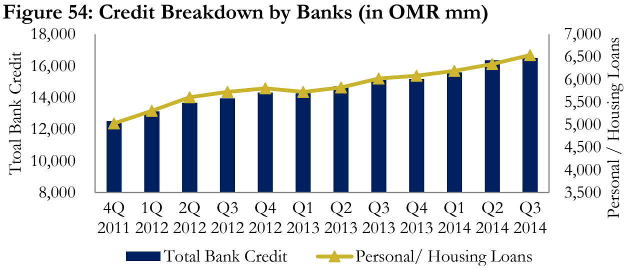
Figure 53: Population Breakdown



Source: Central Bank of Oman, February 2015

According to NCSI, total traded value of the property in Oman grew 29.3% in 2014 to OMR 2.9bn, reaching almost the 3-billion mark for the first time since 2008. Of the total traded value of the property, mortgage contracts amounted to OMR 1.7bn from 10,033 contracts, up 15.3% from 2013. The growth in mortgage transactions reflects the confidence of the banking sector, which in turn is a result of improved borrowing capacity of people.

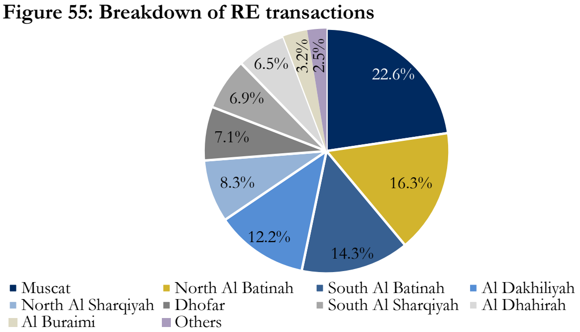
Figure 54: Credit Breakdown by Banks (in OMR mm)



Source: Central Bank of Oman, September 2014

A total of 354,565 transactions were recorded in the real estate sector in 2014. The breakdown of the number of transactions is illustrated below.

Figure 55: Breakdown of RE transactions



Source: NCSI, January 2015

The realty market of Oman is on the recovery path, and this can be attributed to improved salaries, population growth, increased government spending, and new business opportunities.

Government measures to revive sector

The Omani government continued to introduce initiatives in the sector for better professional practices and greater transparency. After the creation of Oman Real Estate Association in 2012, the government emphasized the need for a real estate price index. The Ministry of Housing is set to establish a Directorate General, which will help Omanis and expats looking to buy properties in integrated tourism complexes. The Omani government has standardized pay structures and grades across the public sector, thereby improving the salary structure of employees. The Housing Ministry of Oman has awarded projects worth OMR 491,265 to construct new housing units in various parts of the country. The government has been making every possible effort to improve the tourism and hospitality sector to transform Muscat as the preferred global tourist attraction. The focus on tourism, as evident in the Oman policy and investment program for the decade up to 2030, will lead to growth in the residential and infrastructure sectors.

Residential Sector

Strong demographics back demand for quality residential accommodation

The population of Oman is growing at a steady pace, and is likely to increase by 2.4 million in the period 2015-2040, as forecast by NCSI's report 'Population Projection in Sultanate of Oman 2015-2040'. Population growth will increase the housing demand in the Sultanate. In 2014, apartment supply increased across Muscat, matching a steady demand in established locations. Despite the growth in supply, rental value of good quality apartments in prime locations have been retained or increased due to stronger demand and limited opportunities for further development in restricted areas. This has created a two-tier market within the residential sector. On one hand, well-designed properties suited to tenant needs have relatively stable rentals and high occupancy rates. On the other, rentals and vacancy rates of poorly designed properties are declining.

The residential leasing market in Muscat is extremely active as the number of expatriates in the Sultanate continues to increase. However, the demand is constrained by lack of quality residences suited to tenant requirements and budgets.

In the secondary market, integrated tourism complexes such as The Wave witnessed increased interest from purchasers in 2014. However, only a few transactions were closed as the majority of properties were priced above purchaser expectations.

Rental rates shoot up in prime areas

The demand for quality residential accommodation in Oman continued to increase owing to increased disposable incomes of the Omanis and a steady rise in the number of expatriates. The trend was supported by the country's conducive economic environment and improved access to financing options. The increasing demand for better quality properties has resulted in higher rents for these properties and lower rents for old and low-quality buildings. According to real estate agents, the most popular residential areas in Muscat are Qurum, Bausher, Ghala, Azaiba, Ghubra, and Madinat Qaboos. These regions attract the executive expatriate community. According to the Times of Oman, land prices in the capital jumped 60% in some areas due to activities of unlicensed brokers. This, too, has contributed to the increase in rent.

Table 22: Monthly Residential Rentals of Apartments – H2 2014

Area	Type	(in OMR)
Muscat Hills	2 BR FF Apt	700-800
The Wave	2 BR FF Apt	800-900
Shatti Al Qurum	2 BR FF Apt	800-900
Azaiba	2 BR FF Apt	400-500
Al Khuwair	2 BR FF Apt	400-450

Source: Amar Finance Research

A similar trend was reported in villas offering top quality construction and amenities. In central and western areas of Muscat, there is a shortage of modern apartments with facilities and good quality villas in the OMR 1,000–1,800 per month range. This trend is likely to continue in the near term, putting an upward pressure on the rentals and making the market more competitive.

Table 23: Monthly Rentals of Villas in Oman – H2 2014

Area	Type	(in OMR)
Muscat Hills	4 BR FF	1,600-1,650
Shatti Al Qurm	4 BR FF	1,900-2,500
The Wave	4 BR FF	1,500-1,650
Madinat Qaboos	4 BR FF	1,400-1,500
Azaiba	4 BR FF	800-1,000

Source: Amar Finance Research

Commercial Sector

Commercial space demand looks up

The office segment is also gaining from the recovery in realty demand, which is a result of huge infrastructure investments by the government and subsequent increase in job opportunities. The trend will continue as general business and industrial sectors in Muscat are expected to see steady growth over the next decade. Smaller (50–250 sq m), fully finished office spaces in prime locations have the highest demand, while the uptake of larger, shell and core office spaces is relatively slow even in high-quality buildings.

A major share of the demand is generated by the public sector, as the government is building a "ministries district" in the south of Muscat International Airport. In fact, several ministries are waiting to be relocated to these emerging areas. The decision to create the district in this area may be driven in part by the region's proximity to residential submarkets preferred by the public sector workforce and a choice of better infrastructure and superior parking spaces.

Meanwhile, the demand for poorly constructed office space continues to decline. Thus, in the medium term, the commercial sector will continue to face the challenge of meeting the demand for well-designed office spaces.

Rentals for Grade A offices remain steady; Grade B suffers oversupply

Rents remained steady throughout H2 2014, despite sustained demand in most of the popular areas, except Ghubarah and Shatti Al Qurum, where rents are down 6-7% and 8-10%, respectively.

High-quality Grade A office properties are in high demand as against its supply, putting an upward pressure on the rentals (OMR 10–12 per sq m per month). These properties offer additional amenities, including basement parking, restaurants, and ATMs, as well as world-class construction and fittings. However, demand is shifting to the west of the city, where there is less traffic congestion.

Conversely, Grade B office properties are not preferred by international companies, resulting in higher vacancy levels. Rent for these properties is in the range of OMR 7–9 per sq m per month.

Table 24: Monthly Office Space Rentals in Oman – H2 2014

Area	(OMR per sq m)
Shatti Al Qurm	8-9
Ghala	7-9
Al Khuwair	6-7
Al Ghubra	6.5-7.5
Al Azaiba	7-8

Source: Amar Finance Research

The outlook for the office sector in Muscat is negative, particularly in light of the increasing supply of lower grade buildings. We expect the demand and rentals for good quality buildings in prime locations to be relatively stable, but that of low-grade buildings to continue declining. For Grade B properties, landlords are considering options such as rent-free periods, step rents, and office fittings to attract tenants.

Tourism industry set for a massive uplift backed by government initiatives

Oman is trending strongly towards a substantial boom in the hospitality industry with a host of measures. One of the key policy changes include development of a 30-year tourism strategy to align the sector's role with plans for the nation's economy. This strategy focuses on four points - tourism competitiveness, marketing and product development, governance, education and socio-economic development.

Tourism in Oman has been on a consistent growth path and is poised to witness spectacular development in the coming years to be one of the largest contributors to the economy. According to WTTC, the travel and tourism industry in Oman supported 37,000 jobs directly in 2013 and is forecast to grow by 11.4% in 2014 to 41,000. By 2024, travel and tourism will account for 60,000 direct jobs, an increase of 3.9% per annum over the next 10 years. This is the fastest growth in the Middle East region and among the strongest worldwide.

According to WTTC, total contribution of travel and tourism to Oman's GDP was OMR 2.08bn, or 6.4%, in 2013 and is expected to increase to 9.4% to OMR 2.27bn in 2014. The total contribution to GDP is forecast to rise by 5.5% per annum to OMR 3.88bn (8.2% of GDP) by 2024.

The government of Oman continues to take various steps to further develop the sector. Omran, a company set up by the government of Oman to deliver major projects and manage assets and investments in the tourism sector, is undertaking the following steps for the development of the sector:

- 12 new projects, including water parks, development of Omani castles and forts and eco-tourism resorts, are under study
- The ministry, along with Omran, is working with Paradores Consultancy, an arm of Spain's prominent luxury hotel chain Paradores de Turismo de España, to transform select forts and castles into luxury heritage hotel properties
- Signed a pact to develop 1.85mm sq m for the eco-themed Ras al Hadd tourism project in South Sharqiyah, which includes an eco-themed resort; hotel and residential villas; a souk; a dedicated center for wildlife preservation; observation park; and a new market area, at a cost of OMR 250mm
- Development of at least 18 hotels (over 4,200 rooms) in the next four years with its joint venture partner Muriya

Another much awaited mega project, Omagine Project, a project undertaken by the Omani government and the US based Omagine Inc., was kick-started in October 2014. The USD 2.5bn mixed-use tourism and real-estate project will be 60% owned by Omagine Inc's subsidiary Omagine LLC, 25% by the office of Royal Court Affairs of the Sultanate, and the remaining 15% to be collectively owned by two subsidiaries of Consolidated Contractors International Co (CCIC). The Omagine Project will integrate cultural, entertainment and residential components, including hotels, commercial buildings, retail establishments and more than 2,000 residences to be developed for sale. The project will be developed on 1mm sq m of beachfront land in Seeb.

Major Projects

Table 25 lists several major construction projects planned or ongoing in Oman.

Table 25: Major Projects

Project Name	Type	Value (USD bn)	Status
Oman Ministry of Finance - Duqm New Downtown	Community Development	20.0	Ongoing
DSME/Omran - Frontier Town	Community Development	20.0	Ongoing
The Wave Muscat - Infrastructure	Mixed Development	4.0	Ongoing
Sohar Free Zone Company - Free Zone Sohar	Economic / Free Zones	2.0	Ongoing
Omagine LLC-Omagine	Community Development	1.9	Ongoing
OTDC - Oman Convention and Exhibition Center	Mixed Development	1.8	Ongoing

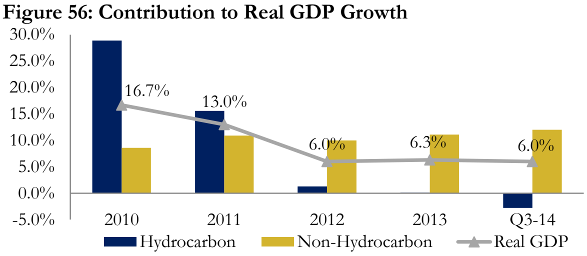
Source: Zawya

Qatar

According to the Ministry of Development Planning and Statistics (MDPS), Qatar's GDP grew 6.0% y-o-y in Q3 2014 from 5.7% in the previous quarter. The non-hydrocarbon sector accounted for more than half (50.7%) of the GDP, growing 12.0% y-o-y in Q3 2014. Growth of the non-hydrocarbon sector was backed by major infrastructure projects such as the new metro in Doha, new roads, highways, expansion of the new Hamad International Airport, and real estate projects such as Musheireb in central old Doha and Lusail in the north. The construction sector recorded the maximum growth in 2014 at 18.5% y-o-y, followed by the transport and communication sector that grew 10.5% y-o-y. Financial, real estate, and business services reported significant growth (13.7% y-o-y in Q3 2014), as banking activities accelerated and real estate services grew due to housing demands of the growing population. Further, trade, hotels and restaurants grew on the back of the Ramadan effect as well as increased tourist activity.

On the other hand, the hydrocarbon sector, which includes crude oil and raw gas production, declined 2.8% y-o-y in 2014 because of lower crude oil production and temporary gas production shutdowns for maintenance. Qatar National Bank (QNB) expects overall growth to accelerate further in 2015, as large infrastructure projects and a large influx of expatriate population ahead of the FIFA World Cup 2022.

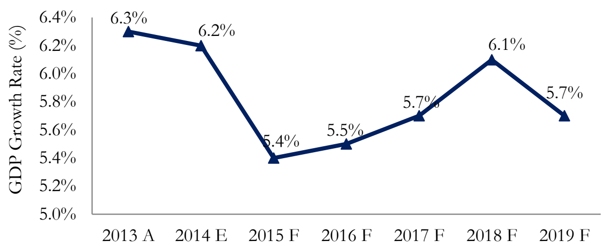
Figure 56: Contribution to Real GDP Growth



Source: MDPS, December 2014

Meanwhile, the EIU estimates a 6.2% real GDP growth rate for 2014, and expects this to ease down to 5.4% in 2015 due to a fall in oil and gas prices. It also predicts the growth to average at 5.7% p.a. in 2016−19 as increased capital spending will offset the adverse effect of lower oil prices.

Figure 57: Economic Growth Forecast



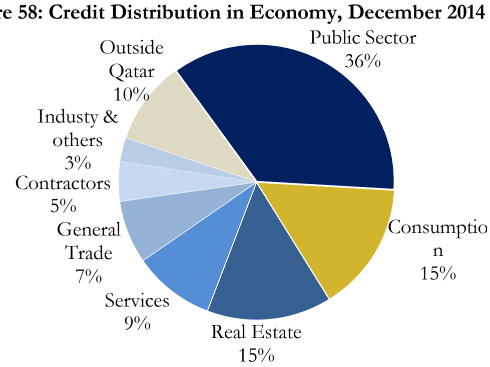
Source: EIU Country Report, January 2015

Economic Overview

Moderate lending witnessed in 2014

Annual data released by the Qatar Central Bank (QCB) reveals that domestic credit growth declined to 10.0% in 2014 from 11.8% in 2013. The slowdown was primarily attributed to sluggish lending activities in the public sector, from 45% growth in 2013 to 40% in 2014, as public sector entities resorted either to the central government resources or the developing domestic capital market for financing. Nevertheless, bank credit will continue to remain important in 2015 due to the upcoming 2022 World Cup. Lending to the real estate industry has already started rising. It grew 11% y-o-y in 2014 as against the stagnant level in 2013.

Figure 58: Credit Distribution in Economy, December 2014



Source: QCB, Quarterly Statistical Bulletin, December 2014

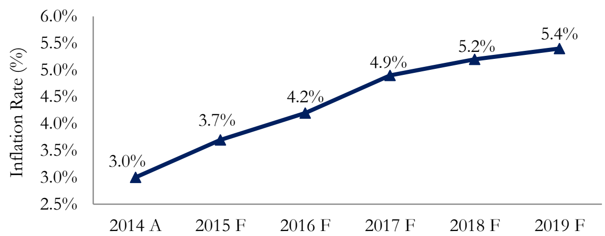
Inflation remained moderate in 2014

According to the MDPS, inflation remained stable at 3% in 2014 compared with 3.1% in 2013, due to lower global food prices that had offset the high rental inflation.

Rent inflation rose to an average of 7% in 2014 because of land prices, which increased 92.7% y-o-y in December 2014, and the growing population (up 10.1% in 2014) and higher GDP per capita.

Inflation is expected to rise to 3.7% in 2015 and 4.2% in 2016, largely due to a tightening property market, according to the EIU's January 2015 report. The EIU predicts that inflation will increase further to an annual average of 4.7% in 2015−19, as high liquidity persists, population growth continues, major construction projects pick-up pace, and supply in the housing market tightens. Rising global non-oil commodity prices in 2017−18 will also add to inflationary pressures.

Figure 59: Consumer Price Inflation



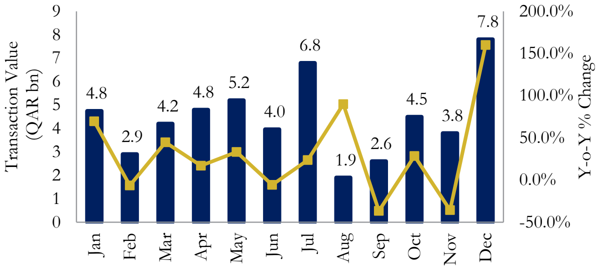
Source: EIU, January 2015

Real Estate Sector

Realty deals rise 24% in 2014

The latest numbers by Al Sharq reveal that real estate transactions in Qatar rose 24% y-o-y in 2014, totaling QAR 55.4bn. On a monthly basis, December witnessed a massive jump in the total transaction value to QAR 7.8bn compared with QAR 3bn during the same month in 2013. The following chart depicts transactions in 2014 by month.

Figure 60: Real Estate Transactions in 2014

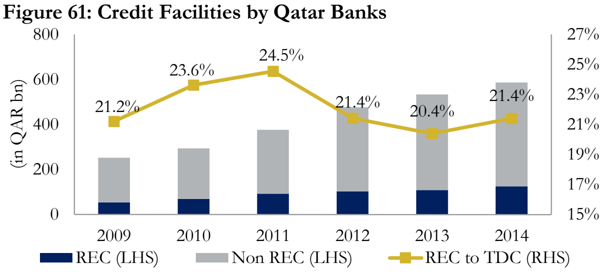


Source: Colliers International

Realty lending maintains pace in 2014

The Qatari banking sector, initially hesitant about funding the realty segment, gradually improved its exposure in view of the government's capital expenditure plans aimed at improving infrastructure for the 2022 FIFA World Cup. As per QCB, total lending to the sector picked up in 2010, after Qatar won the World Cup bid. Since then, lending levels have increased at a CAGR of 15.9% during 2010–14, with total banking exposure to the sector reaching QAR 125.5bn in 2014. Real estate credit (REC) to total domestic credit (TDC) increased to 21.4% in 2014 from 20.4% in 2013. This was due to increased construction activities and restart of some of the stalled projects.

Figure 61: Credit Facilities by Qatar Banks



Source: Central Bank of Qatar, December 2014

According to the latest data from MEED projects, Qatar's infrastructure projects pipeline is likely to witness project deals worth more than USD 30bn in 2015. Some of these major projects include the Public Works Authority's (Ashghal) expressway, local roads and drainage programs, as well as significant investment in real estate and transport projects such as Lusail and the New Port Project. In 2015, the sector will be boosted by project awards worth more than USD 5bn on the Al Karaana petrochemical complex, the rolling stock and systems contract on the Doha Metro exceeding USD 2bn, and five multi-billion dollar packages on the mega water reservoirs.

Sector may be overstocked after FIFA 2022

Qatar is investing heavily in infrastructure to prepare itself for one of the world's grandest sporting events. The strong growth in public spending is expected to help create new jobs and diversify the economy. It will also push up realty sector growth, especially in Doha, as increase in tourist inflows will help improve the demand for hospitality space and retail space. The ongoing activity has already created demand for residential and office space. However, some sections of the industry are questioning the long-term viability of these investments.

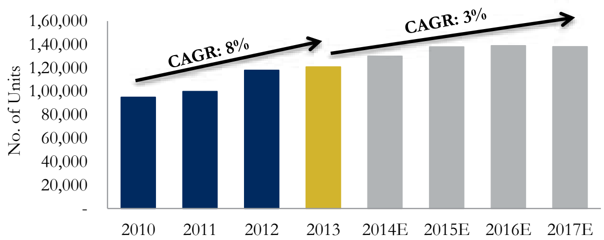
The real estate market in Doha is rising rapidly, with big projects to be delivered over the next eight years. As per CBRE, in the next five years, Doha's residential stock levels will rise by 25%, total office inventory by 50%, and hotel and hotel apartment supply by 100%. From a current stock of one million sq m of GLA, Doha's retail space will double by 2017. However, this development is focused only on one upcoming big sport event rather than long-term goals and requirements. The feasibility of some projects is already under question due to construction delays (due to material shortage and rising construction cost) and anticipated oversupply state. There are concerns that after the event, Qatar may face a sharp fall in demand for these properties due to a significant oversupply situation. These concerns underscore an urgent need to look at alternate ways to increase demand after the event.

Residential Sector

Qatar residential property half way through the boom cycle

Qatar's residential real estate market, especially in Doha, is experiencing an acute housing shortage. This is mainly due to the increasing expatriate population. According to the MDPS, in 2014, population grew by 10.1% to reach 2.2 million, reflecting a large influx of expatriate workers filling the 120,000 new jobs being created in Qatar each year. In turn, this larger population is feeding into higher economic growth by boosting aggregate demand and investment in housing and services. This unplanned population growth is expected to continue in the coming years, as more and more foreign workers arrive in the country to engage in development projects being launched for the 2022 FIFA World Cup. This in turn will result in pressure on the housing sector and push up rentals.

Figure 62: Cumulative Residential Supply Estimates in Doha



Source: Colliers International

According to the 2010 census, Doha's residential market comprised of 23,185 villas and 74,370 apartments. According to government projections, 60,000 new units will be completed by 2020. The increase in population is likely to be followed by a similar growth in the demand for accommodation facilities. As Doha is the business capital of the country, its population is likely to grow at a higher rate. Collier estimates that the demand for residential units will be stronger than their supply in the coming years. It estimates that residential demand in Qatar as a whole will reach 242,000 units by 2017, against a supply of 1,38,235 units by 2017 (Fig 62).

Population rise push up rent and sale price

In H2 2014, sales prices remained relatively stable, with a few localities recording an appreciation of 3–5%. As per Al Asmakh, the Pearl continues to be a preferred location for global investors. It states that areas, such as Al Sadd, Bin Mahmoud, and Al Nasr, may witness an equal demand for residential properties due to easy accessibility and a legal benefit that allows individuals a right on property owned by another, for a limited time or until death.

Table 26: Monthly Residential Rents in Qatar – H2 2014

Area	1 BR FF Apt	2 BR FF Apt	3 BR FF Apt
Al Muntazah	3,500–4,600	4,500–6,500	6,500–8,000
Najma	3,500–4,500	5,000–6,000	6,200–7,500
Bin Mahmoud	4,000–5,000	5,500–7,500	7,000–9,000
Al Maamoura	5,000–5,500	5,000–6,500	6,750–8,000
Bin Omran	4,750–5,500	5,000–6,500	6,500–7,500
Al Sadd	4,550–6,500	5,600–8,000	6,500–9,000
Old Airport	5,000–6,000	6,000–6,500	6,500–7,500
West Bay / Dafna	7,000–9,000	9,000–12,000	12,000–16,000
Pearl Qatar	9,500–12,500	14,000–16,500	15,000–19,000

Source: Amar Finance Research

In H2 2014, rental prices of both apartments and villas surged across Doha and in secondary areas. Many companies are relocating their employees in the outskirts (Al Wakra, Al Aziziyah, and Umm Salal) because of increasing rentals in Doha. Additionally, these locations are favorable because of better connectivity to city center areas and growth of local shopping complexes. The overall outlook for the residential market within the Doha city looks stable. The expected rise in population may result in additional upward pressure on sales and rentals.

Table 27: Monthly Rents of Villas in Qatar – H2 2014

Area	3 BR FF Apt
Al Dafna	15,000–21,500
Al Waab	13,500–19,000
Al Hilal	11,000–14,000
Abu Hamour	12,500–15,500
Ain Khaled	12,000–16,000
West Bay	23,000–25,500
West Bay Lagoon	21,500–35,000
Al Gharrafa	10,000–14,000
Al Khraytiyat	8,500–11,000

Source: Amar Finance Research

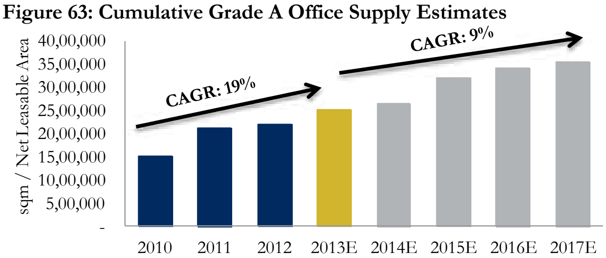
Commercial Sector

Commercial real estate witnesses boom

The commercial real estate sector witnessed a significant revival in 2014. Vacancy rates dropped to 10% in the Diplomatic district, signifying a demand for prime office accommodation. In the last decade, the office sector witnessed spectacular changes, backed by the growing importance of West Bay after the government moved public departments into this area.

Apart from the public sector, financial and professional services companies are also seeking new office spaces. The recent decision by the government to relocate commercial units from residential localities has resulted in increased demand for office spaces. As stated by Colliers, Doha's Grade A office space reached 2.2mm sq m net leasable area in 2012, and is expected to grow at a CAGR of 9% and reach 2.6mm sq m by 2017 (Fig 63).

Figure 63: Cumulative Grade A Office Supply Estimates



Source: Colliers International

During the first nine months of 2014, the demand for prime office space grew 2.5 times the five-year average (2009–13). The demand for 200–500 sq m office space continues to remain strong due to limited supply; rent for such properties witnessed an upward movement. Prime and Grade A space in smaller sizes remain scarce, pushing up rents in the prime area of the West Bay up to QAR210–260/sq m per month. On the contrary, secondary/low-quality space continues to face pressure, as vacancy rates remain high. Demand for the office sector will primarily originate from the private sector, as most government departments have shifted to new offices in the West Bay.

Table 28: Average Monthly Rents for Office Space – H2 2014

Area	QAR per sq m per month
West Bay	210–260
A Ring Road	125–140
C Ring Road	140–145
D Ring Road	130–145
Old Doha	125–150
Airport Road	150–155
Salwa Road	90–115

Source: Amar Finance Research

Strong prospects for organized retail sector

Qatar has the highest per capita income in the world. This translates into a high disposable per capita income, which leads to greater inclination towards shopping and eating out. As a result, the retail space in the country continues to grow. Retail development is the second largest construction activity, after residential development in Qatar.

According to industry experts, Qatar has more than a dozen operational malls with another dozen in the pipeline. By the end of 2015, the anticipated net leasable area (NLA) will be nearly 954,500 sq m. Upon completion of all the under-construction malls, the total number of malls would be 27 with an expected NLA of 1.8mm sq m.

There is high demand for retail space from the garment segment and luxury brand stores. Within Qatar, the retail market can be segmented into four basic zones: malls, souks, hypermarkets, and unorganized shops (unorganized retail secures 70% of total retail space). Currently, Qatar has 13 malls that offer nearly 569,000 sq m of the total leasable area. Villaggio and City Center cover 43% or around 245,000 sq m leasable area. Hypermarkets comprise around 158,000 sq m or 5% of total retail supply. Approximately 550,000 sq m net leasable area is expected to be delivered on and near Al Shamal Road. Upon completion of all the proposed mall projects, the total net leasable area within the upcoming malls will reach 1.6mm sq m.

International sports and business events to boost tourism

The various upcoming international sports and business events are likely to lead to a leap in the number of tourists entering the country. According to Qatar Tourism Authority (QTA), Qatar attracted about 2.8mm visitors from across the globe in 2014, representing growth of 8.2% y-o-y. According to the report, 40% percent of visitors came from GCC countries, 28% from various parts of Asia and Oceania, while 15% came from European countries. The increase in tourist inflow is attributable to hosting of large-scale events, conferences and exhibitions, such as the Doha Jewelry and Watches Exhibition 2014, the fourth Qatar International Motor Show, and the "Tourism in Tomorrow's World" conference.

Regional tourists were attracted by seasonal festivals such as Qatar International Food Festival, Souq Waqif Spring Festival, International Festival for Falcon and Hunting, and increasing live family entertainment such as Cirque Eloize and Disney Live, Eid festival in Qatar in addition to the Summer Festival. Also, 2014 saw the launch of the Qatar National Tourism Sector Strategy 2030, which is designed to serve as a road map for developing the tourism industry over the next decades.

As per Colliers' Q3 Hotel Market report, the country is expected to receive 3.5 million international tourists for the FIFA World Cup in 2022. Huge infrastructure development is required to accommodate the needs of these travelers. For example, an additional 60,000 rooms must be operational by 2022 to meet the needs of the travelers during the FIFA cup. However, such a large inventory is likely to create downward pressure on utilization, both before and after the 2022 event.

Doha is likely to face the risk of oversupply as the market gears up for the FIFA World Cup. According to the latest numbers, in 2014, average occupancy in Qatar stood at 73%, compared with about 65% in 2013. Of equal concern is the belief that the city still has some way to go in developing an urban space that combines this new infrastructure and the city's core identity.

Major Projects

Table 29 lists the major ongoing construction projects in Qatar.

Table 29: Major Projects

Project Name	Type	Value (USD bn)	Status
LREDC – Lusail City	Community Development	5.5	Ongoing
Msheireb Properties – Msheireb	Community Development	5.5	Ongoing
Qatar CAA – Space City Establishment	Education	3.3	Ongoing
QFA – 2022 Stadiums	Leisure & Entertainment	3.1	Ongoing
ADIH – Qatar Entertainment City	Community Development	3.0	Ongoing
GFH – Energy City Qatar – Phase 1	Commercial	2.6	Ongoing
Qatar Foundation – Sidra Medical and Research Center	Healthcare	2.3	Ongoing
Barwa Real Estate Company – Ain Khalid Commercial Avenue	Mixed Development	1.7	Ongoing
Bawabat Al Shamal – Doha Festival City	Retail, Leisure & Entertainment	1.7	Ongoing
Msheireb Properties – Msheireb – Phase 1	Mixed Development	1.6	Ongoing
Bawabat Al Shamal – Doha Festival City – Phase 2	Retail, Leisure & Entertainment	1.6	Ongoing
ADIH – Qatar Entertainment City – Downtown	Mixed Development	1.5	Ongoing
Barwa Real Estate Company – Barwa City	Residential	1.4	Ongoing
Barwa Real Estate Company – Barwa Financial District	Commercial	1.4	Ongoing
Barwa Real Estate Company – Barwa Al Baraha	Residential	1.1	Ongoing

Source: Zawya

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