AMAR Finance & Leasing

Real Estate Newsletter - GCC Region

1st Semester 2013

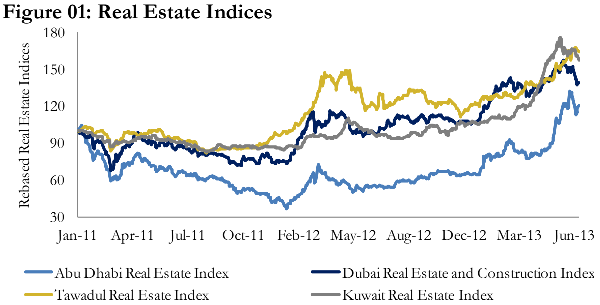
Contents

Executive Summary

To minimize their reliance on the oil industry, the GCC countries are making efforts to develop non-oil sectors, including tourism, retail, real estate and construction, transport, logistics, manufacturing, and professional services. This, in turn, 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. This is supported by the fact that the real estate indices of GCC region have picked up since 2012, after a major property slump between 2008 and 2011 (Fig 01).

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

Figure 01: Real Estate Indices



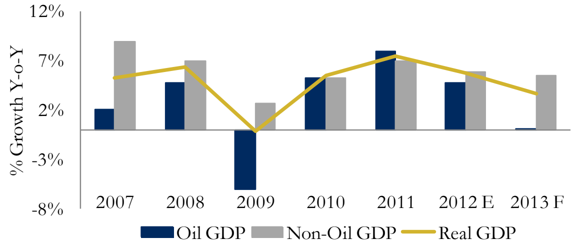
Source: Zawya

Economic Overview

Non-oil sector to support economic growth

GCC countries continued to benefit from high oil revenues that have resulted in expansionary fiscal policies. The economies of the GCC region benefited from high crude oil production in Saudi Arabia and Kuwait and increased liquefied natural gas (LNG) production in Qatar on capacity expansion. According to International Monetary Fund (IMF), both crude oil and natural gas production in the GCC countries witnessed double-digit growth in 2011 to 11.7% and 13.1%, respectively. Production rose further in 2012, increasing 5.3% for crude oil and 4.7% for natural gas, leading to a 4.8% growth in the oil sector in 2012.

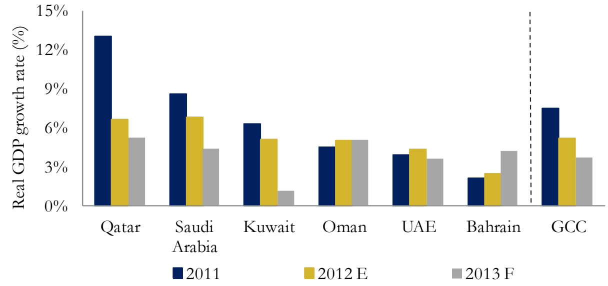
Figure 02: Real GDP Growth (%) of GCC



Source: IMF, April 2013

However, the IMF estimates that the non-oil sector will see stronger growth rates in the coming years. In 2012, the non-oil sector is estimated to have increased 5.9% in 2012 in the GCC countries, stronger than the oil sector, following increased public expenditure and private sector growth as a result of an expansionary monetary policy. The non-oil sector is expected to continue supporting economic growth, as GCC countries register 5.5% growth in the non-oil sector vis-à-vis a stagnant oil sector in 2013.

Figure 03: Real GDP Growth (%)



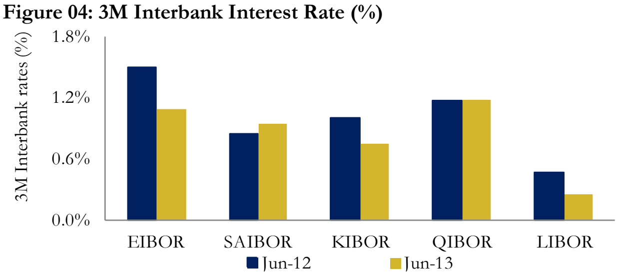
Source: IMF, April 2013

According to the IMF, the real gross domestic product (GDP) growth in the GCC is expected to slow to 3.7% in 2013 from 5.2% in 2012, as a result of a reduction in hydrocarbon production. This growth is dependent on several factors, including stable oil prices and anticipated progress in the social and political scenarios of the region.

Interest rates reflect mixed pattern in GCC

Interbank interest rates in GCC countries are judged according to movements in the US federal rates as all the currencies in the region (except Kuwait) are pegged to the US dollar. As GCC countries continued to take measures to stimulate demand, the average interest rates in H1 2013 reflected a downward trend. EIBOR witnessed a sharp decline of ~40 basis points (bps) from H1 2012 levels, followed by KIBOR, which declined by 26 bps. On the other hand, SAIBOR improved by 11 bps, while QIBOR remained flat. On the global front, LIBOR too declined by 21 bps. The GCC countries are trying to manage the interest rates in order to maintain liquidity levels, as well as to push the real estate and infrastructural developments.

Figure 04: 3M Interbank Interest Rate (%)



Source: Bloomberg, June 2013

Inflation likely to remain low

Historically, GCC countries have largely remained immune to the rising global prices until rising oil prices pushed the inflation higher. Consumer price index (CPI) in the GCC has accelerated since mid-2012. In May 2013, it stood at 2.9%. According to QNB Group, housing costs (mainly rents) account for 27% of the CPI basket in the GCC and food prices for 20%. Overall, rent inflation has averaged 2.9% from January 2013 to May 2013. It has reached high levels in some countries (Qatar and Bahrain), while in others (UAE) it continues to remain relatively low. The steady rise in rentals in Qatar is expected to lead inflation to 3% in 2013 from 1.9% in 2012. Inflation in the UAE is expected to be muted due to supply overhang and depressed housing rentals. Meanwhile, QNB Group reported that except for Saudi Arabia, all the other countries in the GCC witnessed low food inflation in line with global food price indices as the GCC imports most of its food needs.

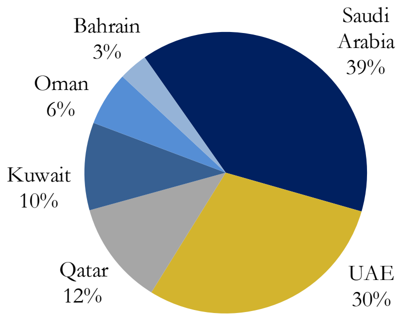
According to QNB, GCC inflation is likely to stabilize at moderate levels of ~3% in the near term, as higher increases in housing costs are offset by lower food price rises. Global inflation will average 3.8% and that in MENA will 9.3% in 2013-14, as reported by QNB. With the growth in the non-hydrocarbon sector and the expanding population and prices, especially rents are expected to rise. However, this will be offset by the falling global food prices, as anticipated by QNB. Additionally, QNB foresees oil prices to fall slightly in 2014, which will help contain inflationary pressures in the GCC.

Real Estate Sector

Project market remains strong; realty to strengthen ahead

Since the global financial crisis in 2008-09, growth in GCC countries has been primarily driven by the rising public sector spending, especially on physical and social infrastructure, and buoyant private sector activity. According to MEED, the GCC projects market is expected to have another impressive year in 2013, as the value of contracts planned or underway stood at USD 1.9 trillion as on February 2013, significantly higher than the USD 730 billion in 2012. Data from MEED shows that Saudi Arabia leads the region with close to USD 732 billion worth of projects planned or underway followed by the UAE's USD 549 billion contracts. In the first half of 2013, construction and transport sector contracts worth USD 39 billion have been awarded for projects in the GCC, with Qatar Rail Project (USD 8.4 billion) the top ranking project in terms of value of the project. Further, the latest data revealed by MEED in May 2013 stated that the value of contracts to be awarded in the GCC region is expected to reach USD 1.35 trillion by end-2013. Saudi Arabia leads the region with close to USD 600 billion projects to be awarded, followed by the UAE, with more than USD 350 billion contracts and Kuwait with a little over USD 150 billion. Between Qatar, Oman, and Bahrain, approximately USD 250 billion are expected to be awarded this year.

Figure 05: GCC Projects Planned or Underway (%)



Source: MEED, February 2013

Meanwhile, the real estate market continues to experience varied degrees of recovery because of mixed economic performances by the six countries and significant variances in demand and supply levels. The markets of the UAE and Saudi Arabia continued to lead the recovery in GCC's real estate sector, while Kuwait improved steadily in Q1 2013, backed by government support and improving consumer sentiment. In Qatar, the real estate market is still constrained by weak occupier demand and a lack of investment appetite. The future of its real estate market is promising on expected increase in demand on the back of increasing oil revenues and a successful bid of the FIFA world Cup 2022. In Saudi Arabia, the new mortgage law is expected to drive the demand for Saudi residential properties, as it is expected to facilitate the entry of lenders, property developers, and middle-class Saudi homebuyers in the real estate sector. Further, increased interest from foreign investors in the UAE and Qatari markets following their recent MSCI upgrade is also expected to contribute to the strengthening of the realty sector of the GCC region.

Residential Sector

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

The housing sector in the GCC countries mostly reflects sturdy performance, owing to a rising demand backed by strong economies and increased number of expats. The sector continued to be one of the most vulnerable in the GCC real estate industry.

UAE: H1 2013 saw mixed performance in the Abu Dhabi residential market, with decline in some areas offset by growth in others. The residential market is now witnessing increased tenant activity arising from the government's decision to extend a housing allowance to employees staying in Abu Dhabi. Prime development areas have experienced steady rental growth of 10% y-o-y, fuelled by strong demand and lack of availability. JLL anticipates that the deflationary rental situation in secondary and tertiary locations is set to change. Lease rates across the capital are expected to increase from the second half of the year.

Meanwhile, the residential market in Dubai is now experiencing a broad-based recovery, with a few secondary locations outperforming prime areas in H1 2013. Further, recent announcements of large-scale projects in the Dubai property market conforms the investor's confidence, in spite of the mortgage cap law that is expected to come in place in the near future.

Saudi Arabia: The residential market witnessed solid growth in H1 2013, as the demand for housing rose due to increased lending activities, supportive policies and initiatives by the government, and improved investor confidence. With a large of share of young population, and a high single expat population, there is a large demand for small and affordable residential accommodation, particularly in the regions of Makkah, Riyadh, and the Eastern Province. The supply of housing units has not been able to keep up with demand due to affordability limitations. However, the newly passed mortgage law is expected to help the banking sector expand lending for home purchases and narrow down the demand-supply gap.

Kuwait: Kuwait's residential segment is driven by its fast-rising population, coupled with shortage of adequate housing. The IMF predicts the population to reach 4.5 million by 2018, at a CAGR of 2.8% for 2012–2018. On the supply side, there has been severe housing shortage. Currently, the waiting list for government-subsidized housing stands past the 100,000 mark and, 2013 onwards, it is expected to increase at a rate of 8,000 applications every year. With the combined effect of rising population and growing shortage, we expect the sector to witness higher activity, mainly driven by government initiatives. Consumer sentiment has also improved significantly over the last few months, which is expected to translate into higher demand for the residential segment. As a result, prices and rental rates are expected to trend higher.

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

Oman: The rapidly rising population, especially the expatriate population, and an increase in the minimum wage in the private sector by ~48% resulted in a huge boost to the residential real estate sector. There is an increased demand for better quality properties within the lower income housing segment. On the other hand, there is a strong demand from the traditional Omanis for 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, which has increased rental gaps between the prime developed and poorly designed areas.

Bahrain: Bahrain's residential market witnessed an increased level of activity, with a number of new developments being announced in the Q2 2013. As part of the surge in housing and infrastructure projects initiated by the government during Q2 2013, the Housing Minister announced that around USD 8 billion 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 stimulating real estate growth. Meanwhile, rental gaps have widened as some pockets of the country continue to suffer from domestic unrests. The market has also witnessed development of a niche market, which comprises expatriates from Saudi Arabia who prefer to reside in Bahrain and commute to work.

Table 01: Annual Residential Rents in GCC – H1 2013

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 June 30, 2013
Source: Amar Finance Research

Commercial Sector

Office space performance sluggish

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.

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

On similar lines, Dubai's office market remains fragmented with traditional submarkets still struggling to attract tenants. On one hand, prime locations have been 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 space into smaller floor-plates and fitting out space in an attempt 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 facing an oversupply situation, and the trend is likely to worsen in the coming quarters. To tackle the oversupply situation to some extent, the government has decided to move its offices to northern Riyadh.

The office space market in Jeddah continues to see strong demand from both government and private sector tenants, and this has resulted in a reduction in vacancy levels, from 16% at the end of 2012 to just 12% at the end of Q1, as reported by JLL in its Q1 2013 report. The vacancies are expected to decline further in the short term, until more of 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 new supply.

Kuwait: Kuwait's oversupplied office market is showing distinct signs of stress, dragged down initially by the global financial crisis and continuous political protests. This has hampered the approval of many large infrastructure projects. However, with the formation of the new government and the latest government incentives, this scenario is expected to change soon. The new regulations are expected to attract more FDI and businesses into the country, thereby leading to increased demand for office spaces. Markaz estimates the rental prices to remain stable in 2013 and 2014 and start growing thereon because of increased demand from the private sector and government.

Qatar: Qatar's commercial market continues to suffer from a mismatch between occupier requirements and supply. Prime/Grade A space in smaller sizes remains scarce, which has pushed rents in the prime area of the West Bay up to levels of QAR 200-250/sqm per month. Grade B office space, with rents of 110-150/sqm per month and the office space of less than 500 sqm, continues to dominate the Doha market in terms demand. As a result, its availability is low and estimated at around 15%. In the short term, activity in the office market is likely to increase as preparations for the FIFA World Cup 2022 (Siemens plans to set up office to display its technologies for major sporting events to attract business from incoming tourists) and strong economic growth might attract more foreign investors and tenants, creating additional demand for office space in Doha.

Oman: Oman's commercial market has two very 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 space completed in the last 36 months is still vacant. However, there is consistent demand for quality office space 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.

Bahrain: The office segment in the Kingdom remains oversupplied. Demand has been concentrated from the existing businesses for expansion rather than new entrants due to the ongoing political unrests. As a result, landlords remain under pressure to remain flexible on the lengths of rent free and fit-out periods given the oversupply in the office market. Areas with better parking facilities and easy access remained the top priorities for business houses. According to CBRE, properties with existing, quality tenants on long leases, with good management and in prime locations are witnessing high preference resulting in huge gaps in vacancy rates. We anticipate rental gaps to widen further because of this preference.

Table 02: Annual Office Rentals in GCC in H1 2013

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 June 30, 2013
Source: Amar Finance Research

GCC countries' attractiveness to retailers to boost retail sector development

Most of the GCC countries are characterized by a strong and growing retail sector and 2013 has not been any exception. Strong demographics, with young local and expatriate population, as well as improving spending capacity are the primary drivers of the growing demand for the segment. It is further supplemented by demand from the growing tourism and hospitality industry that has benefitted from the governments' development plans and increase in private sector contribution.

According to Markaz, the GCC retail market is set to become a USD 221 billion industry by 2015, growing remarkably at an annualized growth of 7.9% for the period 2012-15. This growth is further reflected in the 2013 Global Retail Development Index by A. T. Kearney's, where four major GCC countries–the UAE (5th rank), Kuwait (9th), and Saudi Arabia (16th), and Oman (17th)–retain 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. Meanwhile, in Kuwait, retail mall space increased to ~550,500 sqm in end-2012, and Markaz forecasts aggregate supply to grow by 8.7% over 2013-14. 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 1.8 million sqm in Riyadh and 1.04 million sqm in Jeddah by the end of 2016.

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, fosters well for the hospitality sector. As per Markaz, the estimated room revenue in the GCC hotel sector for 2011 stood at USD 17.8 billion and is likely to see a CAGR of 6.9%, reaching USD 24.9 billion 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 June 2013, the Middle East and Africa hotel development pipeline comprises 491 hotels, with a total of 120,795 rooms. With 10,391 rooms under construction, Dubai leads the pack. Other key regions in the GCC include Riyadh with 5,598 rooms under construction, Qatar with 4,427 rooms, Abu Dhabi with 3,727 rooms, Jeddah with 2,213 rooms, and Kuwait with 2,065 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 with the rise of business travelers and expatriates who look for longer stays at reasonable prices.

The sector also faces a series of challenges. One major worry is that the global economic slowdown could reduce travel, leading to oversupply of hotel rooms. The industry suffers from lack of skilled labor, 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 major ongoing projects in the GCC.

Table 03: Major Projects in the GCC

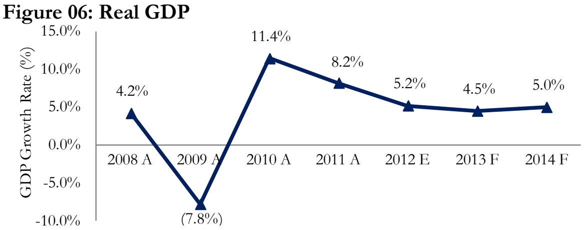
Project Name	Type	Value (USD billion)	Location
Saudi Arabia Ministry of Housing - 500,000 Houses Program	Residential	67.0	Saudi Arabia
Modon - Sudair Industrial City	Industrial Zones	40.0	Saudi Arabia
ALDAR - Yas Island Development	Community Development	40.0	UAE
Dubai World Central (DWC)	Free Zones/Economic 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

In 2012, Kuwait continued to witness the positive economic trends that had begun in 2011. KFH Research estimates that the country registered GDP growth of 5.2% in 2012, supported by record oil production, which increased exports; higher FDI; and escalating government expenditure. The country's government has registered its highest-ever budget surplus for the first 10 months of FY 2012−13.

Figure 06: Real GDP

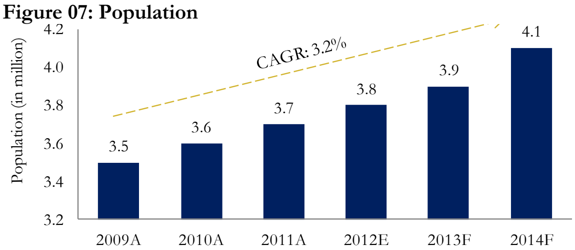


Source: IMF for Actual and KFH for Estimate and Forecast

The KFH estimates that real GDP growth in the country will remain resilient at 4.5% in 2013, and 5% in 2014, amidst sustained oil production and exports. Growth will also continue to be driven by expanding government expenditure and private consumption, coupled with increase in FDI on the back of improved business conditions. A KWD 1 billion SME Fund, which was recently approved with the objective of providing financing for small businesses, is also expected to improve the overall business environment, as SMEs form 85% of Kuwait's total private businesses.

Additionally, in Q2 2013, the government announced the allocation of USD 5.4 billion towards development spending under the Kuwait Development Plan 2013−14. The FY 2013−14 allocation, representing ~11% of GDP, will focus on infrastructure development. This will provide a boost to the infrastructure sector, given the rising demand for infrastructure development in Kuwait, in line with rapid population growth, as seen in Fig 07. As the population growth is expected to continue, demand for infrastructure is likely to carry on fuelling robust activity in the infrastructure and construction industry as well as the realty sector.

Figure 07: Population



Source: EIU Country Report, August 2013

In view of the positive measures mentioned above, the perception of Kuwait as the least business-friendly country in the GCC is likely to change.

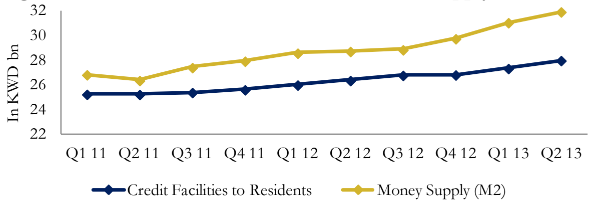
Economic Overview

Credit growth remains strong

Consumer lending in Kuwait has been climbing at a very fast pace for more than four years, since the state agreed to buy citizens' personal loans, write-off interest worth USD 2.6 billion, and reschedule repayments in April 2013. The Central Bank of Kuwait (CBK), in its July publication, revealed that bank loans to individuals grew 13.4% y-o-y in H1 2013, outstripping corporate lending, which rose 2.2% during the same period.

The total bank credit rose by a strong KWD 1.2 billion in H1 2013 to KWD 28.0 billion, with y-o-y credit growth accelerating to 6.2%, the fastest pace since late 2009. Banks continued to enjoy high levels of liquidity. Money supply remained strong during the period, with M1 and M2 growing 11.2% y-o-y and 18.3% y-o-y, respectively.

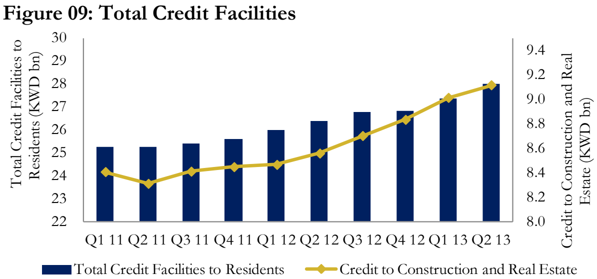
Figure 08: Credit facilities to Residents and M2 Supply



Source: Central Bank of Kuwait, June 2013

Year to date consumer loans went up 15.2% y-o-y from KWD 1.1 billion, while installment loans (loan for non-commercial purposes, particularly for restoring or purchasing private residence) went up 18.8% y-o-y from KWD 6.5 billion. Solid y-o-y gains were also witnessed in real estate (5.5%) and construction lending (10.9%), indicating that the newly formed government will bring the stability required to accelerate the launch of new projects to fulfill the growing demand in the realty sector.

Figure 09: Total Credit Facilities



Source: Central Bank of Kuwait, June 2013

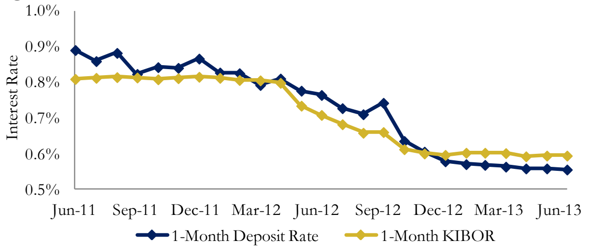
Although YTD credit growth improved in 2013, it is too soon to declare a recovery. With the on-boarding of the new government in July 2013, outlook for credit growth is likely to improve in the near future, following the unveiling of new projects and restarting of stalled ones.

Government boosts non-oil economy through lower interest rates

Interest rates in Kuwait normally follow the interest rates set by the US Federal Reserve (US central bank) as it has the maximum weight in the undisclosed trade-weighted basket of currencies. However, In October 2012, the CBK had reduced the discount rate from 2.5% to 2.0% as inflation fell significantly. This decision was aimed at boosting growth in the non-oil economy. The central bank further has hinted that the rates shall now remain largely unchanged until 2015, when the US Fed is expected to tighten its policies.

Meanwhile, delays in development projects and poor performance of financial sector, especially investment companies, have resulted in a sluggish lending scenario for the private sector. The loan demand and supply in the housing sector is likely to be stimulated if there is any sudden rate cut by the CBK.

Figure 10: Interest Rates

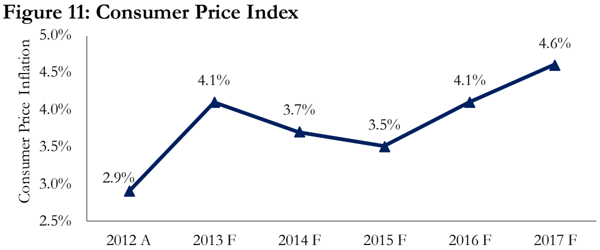


Source: Central Bank of Kuwait, August 2013

Inflation to remain at manageable levels

According to the National Bank of Kuwait (NBK), the country's inflation went up 3% y-o-y in June and averaged 2.6% in H1 2013, due to a jump in the price of non-food components and housing services. The core CPI went up by 2.4% y-o-y in June, from 2.1% in May. Inflation related to the food components, which makes up 18.3% of the CPI, slowed in June to 5.8% from 6.3% in May, and stood at an average of 4.1% in H1 2013. However, this slowdown was compensated by an increase in inflation in housing services and household maintenance.

Figure 11: Consumer Price Index



Source: EIU Country Report, August 2013

Looking ahead, EIU suggests that Kuwait's inflation rate is likely to remain manageable at 3−4% in 2013−2014, as food prices are expected to remain modest and prices in the housing segment relatively stable. Meanwhile, decreasing international food prices has resulted in a distinct deceleration in Kuwait's food inflation, which had been the source of the overall high inflation in Kuwait over the last couple of years. Extensive subsidy by the government in fuel and food items is likely to check a strong rise in inflation. In contrast, recent inflation data reveals a significant rise in rental rates which could result in a rise in inflation rates in the future.

Real Estate Sector

Government support and policy measures to provide additional boost

The Kuwaiti government has been playing an important role in the recovery of its real estate sector. Earlier, the regulatory framework of Kuwait had acted as an obstacle to attracting investments in the real estate sector. However, the government has come out with new policies that will not only attract fresh investment but also generate demand from within the country. In addition, the robust spending plans of the government are expected to provide an additional boost.

As a part of its USD 110 billion State Development Plan, Kuwait revealed its plan to spend USD 15.8−17.5 million (KWD 4.5−5.0 million) on infrastructure in 2013−2014. This comes as a welcome move for the industry, given the delay in project execution in the recent past. The banking sector is expected to further facilitate project execution with its surplus liquidity position. The IMF has also urged the Kuwaiti government to consider tapping the debt market to fund its development plan, as borrowing costs in the Middle East have dropped substantially. This would make the government less reliant on oil revenue, which makes up close to 90% of its public revenues.

Over the past few years, FDI inflows into Kuwait have been low due to an unfavorable regulatory framework. With the aim of bolstering FDI in the country, the government recently introduced a new Companies Law that offers a one-stop-shop for both company incorporation and the licensing of businesses. Further, single shareholders shall be allowed to set up first time businesses and permit transfer of shares in companies.

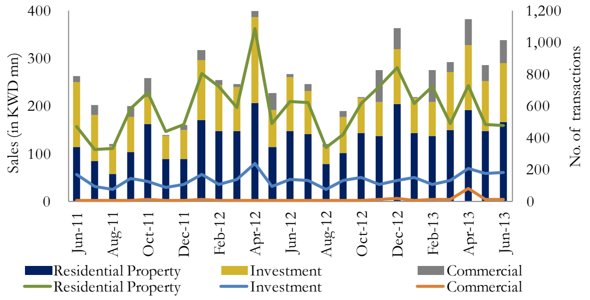
Furthermore, the Kuwait National Assembly has been deliberating over setting up a separate authority that would solely work towards bringing in fresh investments into the country. With the aforesaid initiatives, the investor sentiments for Kuwait will improve significantly leading to increased FDI inflows.

Positive trend to continue in 2013

Kuwait's real estate sector recovered strongly in 2012, after witnessing a slowdown in the past few quarters. The sector has been well–supported by various government measures, as discussed earlier. This has significantly improved the outlook of end users and has resulted in increased transaction volume. At the same time, it has resulted in preventing a price fall. In Q2 2013, the overall value of transactions grew 28.1% q-o-q to KWD 1 billion, while the total volume of transactions rose 4.9% q-o-q.

Solid growth in sales was seen across the three major market segments, namely residential, investment, and commercial. On similar lines, H1 2013 sales stood at KWD 1.8 billion, up 4.2% over the same period last year. The increase in H1 2013 came on the back of an exceptionally strong-performing commercial sector, while both the residential and investment sectors were slightly down compared with H1 2012. Nonetheless, the overall level of real estate transactions in Kuwait seems to be in good shape.

Figure 12: Total Sales and Transactions in Real Estate Sector



Source: NBK Economic Update, August 2013

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

The residential segment remained the biggest contributor (52.0%) to overall transactions in terms of value in H1 2013, down from 54.1% in H1 2012. The number of transactions in the segment declined 18.8% y-o-y in H1 2013, while the value of transactions remained stagnant.

The investment segment remained the second-largest contributor (35.2%) to overall transactions in terms of value, down from 40.0% in H1 2012. The segment witnessed modest recovery in terms of number of transactions, which grew by 7.9% y-o-y to 941 in H1 2013 from 724 in H1 2012.

The commercial segment witnessed solid growth over the past year, with the total transaction value reaching KWD 230 million in H1 2013, an increase of 124.2% y-o-y. The volume of transactions too grew exceptionally by 316.1% y-o-y to 129 in H1 2013 from 44 in H1 2012.

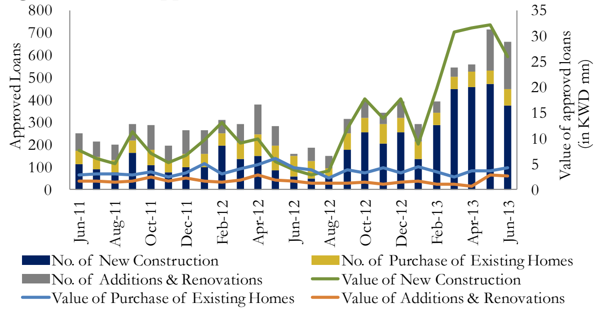
Recovery in the real estate sector is reflected in the recent rise in transactions, both in terms of volume and value, coupled with stabilizing rental prices and occupancy rates. The current trend is likely to remain in place with increasing market confidence, ample liquidity, and strong government support.

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 the NBK's February 2013 report, this demand is supported by improved lending policies and an increase in the number of loans approved.

According to the CBK, as of June 2013, credit facilities by banks to the real estate sector stood at KWD 7.3 billion, as compared with KWD 6.9 billion in June 2012, up 5.5% y-o-y. Real estate loans formed 26% of the total loan portfolio of Kuwaiti banks, reflecting reviving investor confidence in the industry. It further signifies that the project market is becoming healthier and real estate companies are returning to good health.

Figure 13: Total Approved Loans in Real Estate Sector



Source: NBK Economic Update, August 2013

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

As per the NBK's latest monetary report, In H1 2013, the Savings and Credit Bank approved 3,170 loan applications, worth KWD 181 million. Of these 3,170 loan applications, 2,178 were for new constructions. This indicates that the demand for houses is likely to remain strong in the future. These numbers are nearly double the number in H1 2012, signifying a steady revival of the realty sector.

Residential Sector

Government strives to revive the sector

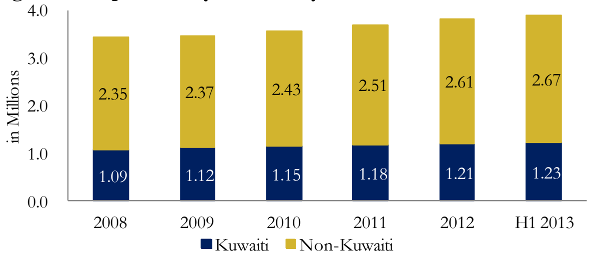
In order to revive the real estate sector, particularly the housing segment, the government is actively participating through as series of remedial measures. One such measure is the formation of two shareholding companies, for each city in Kuwait, in November 2012; the companies would be responsible for formation, operation, and maintenance of new cities.

As per a March 2013 report by the Public Authority for Housing Welfare (PAHW), real estate investments worth KWD 22 billion were pumped in for the construction of residential and social infrastructure in several residential cities. The PAHW also announced the launch of mega residential projects for the construction of 35,130 residential units in various localities; of these, 5,888 units will be delivered in 2013 and 8,191 in 2014.

Furthermore, the Kuwaiti government announced that it raised the value of residential loans to KWD 100,000 per application, the "woman residential loan" threshold from KWD 45,000 to KWD 70,000, and the renovation loans from KWD 25,000 to KWD 30,000. According to KFH Research, the government's efforts at supplying abundant residential units and offering soft loans to Kuwaitis are aimed at promoting the supply of housing units, enabling a faster system of supplying residential properties, and controlling the upward price trend caused by speculations.

Another proposition under consideration, which aims at inviting capital investments, is allowing expatriates to acquire freehold properties. The successful execution of such proposals in Turkey and Italy has revived the demand for realty estate properties. According to the PAHW, if the proposal is approved, the realty sector is likely to witness an increased demand from 1.75 million expatriates.

Figure 14: Population by Nationality



Source: Public Authority for Civil Information (PACE)

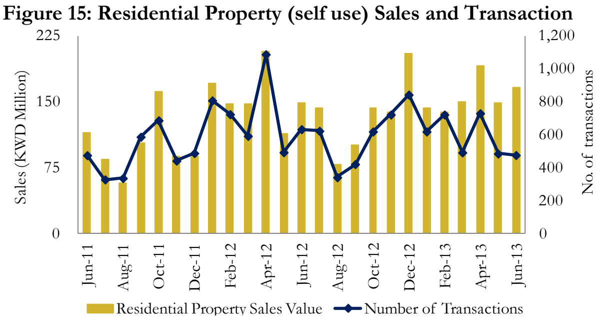
A draft law has been presented for the setting up of the Public Authority of Real Estate (PARE), supervised by the Minister of Commerce and Industry. It will maintain coordination between the state's authorities in connection with real estate affairs, regulate real estate transactions, and draw up the state's real estate policy. In addition, the CBK has resolved to incorporate a real estate valuation company with a capital less than KWD 1 million. With such initiatives, the residential sector is anticipated to see strong revival in the near future.

Residential property segment to pick up in the medium term

The residential segment, unlike the rest of the realty sector, has largely remained unaffected by the disagreements between the government and the parliament. Nevertheless, the residential property segment accounts for the largest part of the total real estate pie in Kuwait; it contributed around 52% in H1 2013.

According to the NBK, total transaction values for the residential property segment remained almost flat compared to H1 2012, at KWD 934.6 million. However, the sector witnessed a sizeable drop of 18.8% in the total number of transactions for the aforementioned period, offset by an increase in average transaction size for both homes and plots of land that constitutes a majority of the transactions. The average transaction size was KWD 274,400 as of H1 2013.

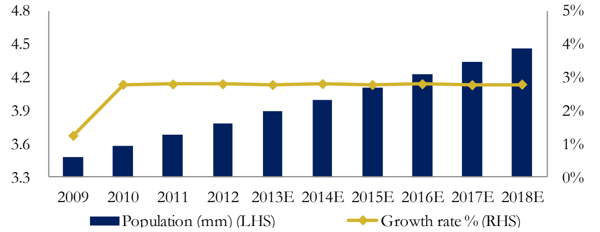
Figure 15: Residential Property (self use) Sales and Transaction



Source: NBK Economic Update, August 2013

The recovery in Kuwait's residential real estate segment is expected to be driven by its fast-rising population, coupled with a shortage of adequate housing. PACE reveals that Kuwait's population has grown at a CAGR of 4.6%, from 2.3 million in 2001 to 3.8 million in 2012. Going forward, the IMF predicts that the population will further grow at a CAGR of 2.8% to reach 4.5 million in 2018, which in turn will increase the demand for housing units.

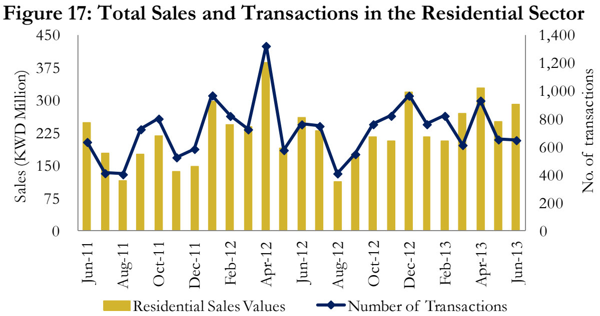
Figure 16: Population



Source: IMF

Under Kuwaiti law, its nationals are allowed to apply for government housing after marriage. However, the government has been unable to meet this local demand. Currently, the waiting list for government-subsidized housing stands past the 100,000 mark; it is expected to increase at a rate of 8000 applications every year. Furthermore, the situation has been aggravated by a shortage of land. As per recent estimates, approximately 8% of the country's land has been developed so far, while 95% is still owned by the government and controlled by oil and gas sector companies.

Figure 17: Total Sales and Transactions in the Residential Sector



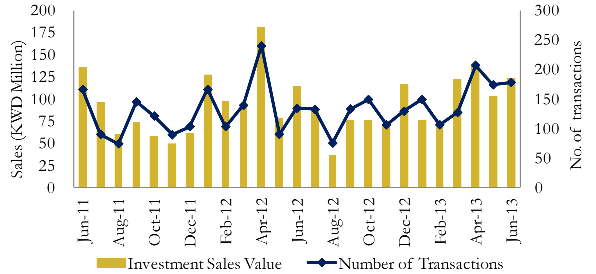
Source: NBK Economic Update, August 2013

The improved investment appetite over last few months indicates that demand is likely to improve in the residential segment, and prices and rental rates are expected to go up.

Investment segment to remain marginally undersupplied

Expat employment opportunities as well as growth in the expat population are primary drivers for the investment segment. The segment, which comprises apartments and buildings intended for rental use, weakened in the first half of 2013 compared with the same period last year. According to the NBK, the sector saw sales worth KWD 631.9 million in H1 2013, an 8.4% y-o-y decline, while the number of transactions increased 7.9% y-o-y in H1 2013. Even as the sector witnessed a rise in transaction volume, the decline in sales was due to a slide in average transaction size. The NBK states that this was because of increased apartment sales, while the number of whole buildings sold declined in H1 2013.

Figure 18: Sales and Transactions in the Investment Segment



Source: NBK Economic Update, August 2013

Markaz, in its Kuwait RE Outlook – 2013 & 14 report, forecasts that there will be an average demand of about 10,250 units of apartments per annum over 2013 and 2014, driven by a 2.5–3.0% per annum growth in the expat population. On the other hand, about 9,000 units are expected to enter the market every year. The current vacancy rate of 5.7% and incremental demand-supply trends support indicate that the segment is likely to remain marginally undersupplied over 2013 and 2014.

Rent growth continues in residential sector

The soaring cost of houses, coupled with harsh legislations, has driven many construction companies away from building private houses in Kuwait. Many opt to build 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). Citizens are entitled to utilize a KWD 70,000 loan to purchase a residential apartment. Experts say that apartment prices have gone up because of 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 highest demand has been for mid-range apartments that cover an area of ~70–90 sqm. Salmiya and Hawalli are the areas that enjoy the highest demand in the investment sector, which keeps properties prices at a peak. This high demand, as compared to supply, is leading to rental growth. Jabriya, Salmiya and Salwa regions, located in west Kuwait, have a large number of schools, which creates more demand. The rental rates for two- and three-bedroom apartments in these areas range from KWD 500–800 and KWD 600–900 per month, respectively.

Table 04: Monthly Rental in Kuwait – H1 2013

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

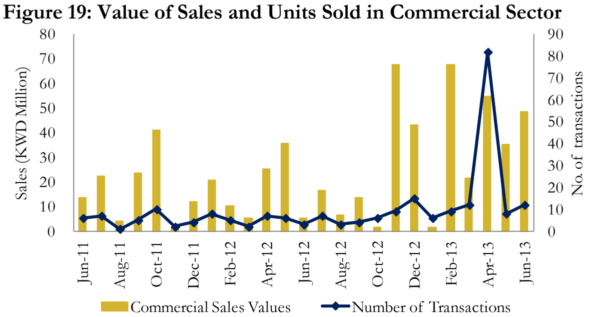
Source: Amar Finance Research

Commercial Sector

Segment presents strong performance; oversupply situation to moderate

The commercial sector performed strongly with a 124.2% increase in the sales over H1 2013. Total sales reached KWD 230 million compared with just KWD 102.5 million in H1 2012. The sector has seen some revival this year, backed by the Kuwait Investment Authority (KIA), which added liquidity into the commercial market. Though the extent of the KIA's participation is difficult to quantify, it looks likely that the sector is on its way to a solid year, possibly surpassing pre-crisis levels.

Figure 19: Value of Sales and Units Sold in Commercial Sector



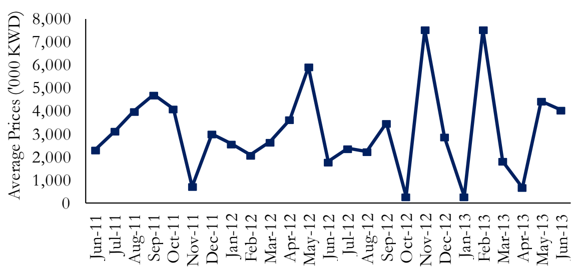
Source: NBK Economic Update, August 2013

According to Markaz, the total office space taken up in Kuwait's Central Business District (CBD) is ~943,000 sqm in Q1 2013. It expects an average incremental demand of ~54,000 sqm p.a. over 2013–2014, driven by private sector growth and demand from the government.

The latest government initiatives are expected to increase FDI inflows and improve the business environment, which in turn will improve the demand for commercial spaces. On the basis of an estimated aggregate supply of 1.17 million sqm of leasable area and 176,000 sqm under construction in Q1 2013, Markaz estimates that demand-supply trends will balance out in 2013–2014.

At the same time, rental prices and occupancy rates have started showing signs of stability. With the rising market optimism, surplus liquidity, and government support, sales and rental prices are expected to remain strong.

Figure 20: Average Deal Price in Commercial Market



Source: NBK Economic Update, August 2013

Oversupply hurts office rentals

Kuwait's oversupplied office market is showing distinct signs of stress, dragged down initially by the global financial crisis. In the past, an unfriendly regulatory framework for incoming businesses and the low key infrastructural progress have deterred the hope of new businesses flooding the country.

Kuwait's commercial landscape is clouded further by political protests, which have led elected politicians and the ruling family to be at loggerheads, hampering the approval of many large infrastructure projects. However, this is likely to change following the latest incentives of the new government. The new regulations are expected to attract more FDI and businesses into the country, thereby leading to increased demand for office space. This will help in absorbing the extra supply in the market.

Markaz estimates that the rental prices will remain stable in 2013 and 2014, and start growing thereon because of increased demand from private sector and the government. The average monthly rental rate is now KWD 5–8 per sqm, which, in an ideal situation, should be KWD 13–14. The downturn has hit real estate companies hard; several have closed down or have had their shares halted from trading on the stock exchange.

Table 05: Office Space Rentals – H1 2013

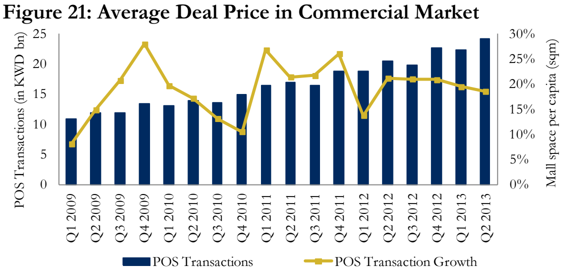
Area	KWD / sq. m/ per month
Kuwait City	4–7
Salmiya	7–8
Hawalli	7–8
Farwaniya	4–6
Khaitan	3.5–6
Fahaheel	6.5–8

Source: Amar Finance Research

Retail realty market remains optimistic

In the 2013 Global Retail Development Index by AT Kearney, Kuwait climbed up three notches to reach the ninth position globally, as its economy grows steadily and outlook remains favorable amid increasing consumer spending and greater presence of international retailers. Consumer spending is the core driver for the retail sector and, consequently, retail space demand. Trends in consumer spending can be inferred from the trends in Point of Sale (POS) transactions, which are transactions registered for the purchase of a product or service. Fig 21 clearly shows that POS transactions continue to grow. They improved to an average of 19% from Q1 2009 to Q2 2013, pointing towards a recovery in consumer spending growth and, in turn, the retail sector.

Figure 21: Average Deal Price in Commercial Market



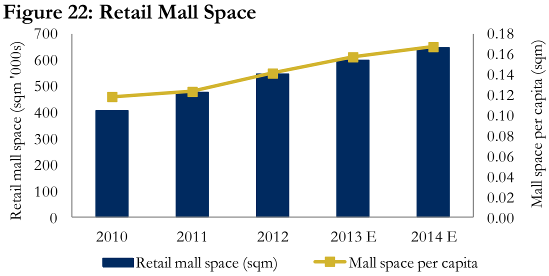
Source: NBK, June 2013

The retail sector is expanding, and so is the demand for retail space, despite their high cost. This can be inferred from the huge supply that is on the way. The Avenues, the country's largest mall, opened its phase-three extension in 2012, while the Gate Mall will open this year. As Kuwaitis have high disposable income, they are more drawn towards luxury products and high-end concepts. The new extension at Avenues includes high-end standalone shops to cater to this demand.

According to Real Estate Association, retail mall space in Kuwait increased to 550,500 sqm as of 2012. Markaz forecasts the aggregate supply to grow by 8.7% over 2013 and 2014 to 650,400 sqm. However, it trimmed its supply forecasts, mainly due to the postponement of the completion date of Phase –IV of Avenues mall, and the low visibility on the construction of the Mall of Kuwait.

Retail mall space per capita in Kuwait continues to be the lowest in the GCC region at 0.16 sqm, indicating potential for growth. Markaz predicts that in 2014, the per capita mall space in Kuwait will be 59% lower than in its GCC peers (ex-UAE), indicating that the sector is not likely to face an oversupply scenario.

Figure 22: Retail Mall Space



Source: REA, MEED, Markaz

Major Projects

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

Table 06: Average Deal Price in Commercial Market

Project Name	Type	Value (USD billion)	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

According to the Ministry of Economy, real GDP growth in the UAE increased to 4.4% in 2012, from 3.9% in 2011 (the UAE statistical office revised it down from 4.2%), backed by an expansion in oil production, stronger growth in the services sector, and a recuperating construction sector. The UAE produced an average of 2.65 million barrel per day (b/d) of oil in 2012. In view of the current expansion plans, the production is expected to reach 3.15 million b/d in 2017, resulting in increased export growth in the forecast period (2013-17).

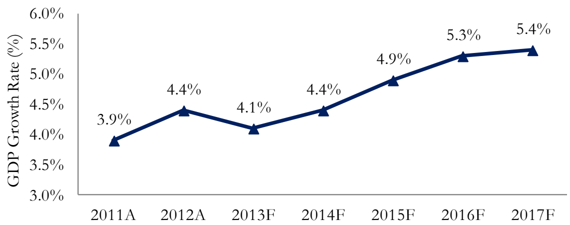
Meanwhile, the non-oil sector too is expanding rapidly, increasing to 3.5% in 2012 from 2.6% in 2011. This is backed by developments in the services segment, an active trade sector, solid transport and tourism, as well as stronger consumer confidence.

The recent times have seen a broadening and advancement of capabilities in alignment with UAE Vision 2021, which is expected to gradually transform the UAE into a knowledge economy. EIU, in its July 2013 report, raised its GDP forecast for the UAE to 4.1% from the 3.7% announced earlier, as non-oil growth is expected to be further strengthened in 2013.

The EIU's forecast is in line with the growth estimates released by the country's Ministry of Economy, which believes that the UAE will sustain an annual growth rate above 4% in 2013. However, it projects that the overall growth in 2013 will be lower than in 2012, given smaller gains in oil production this year.

Government spending on new projects in Abu Dhabi and Dubai, along with progress in the recouping construction sector, is likely to drive non-oil growth. Further, the EIU projects that non-oil activity will boost growth throughout the forecast period. In 2015−17, it will be supported again by stronger oil production growth and prices.

Figure 23: Real GDP Growth Rate



Source: EIU Country Report, July 2013

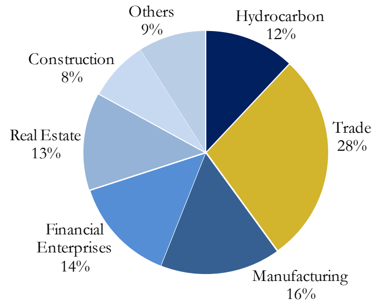
Economic Overview

Dubai economy turning the corner

Dubai is expected to be the most competitive city in the MENA region by 2025, when it improves its ranking by six to become the twenty-third most competitive city globally, as per EIU's *Hot Spots 2025 report*. Other GCC cities in the list were Doha (24th), Abu Dhabi (39th), Muscat (64th), Kuwait City (63rd), and Riyadh (87th).

According to official data, Dubai's economy continued its post-crisis recovery and expanded by 4.7% in Q2 2013, driven by strong performance in the trade and most non-oil sectors. The Emirate's real GDP grew by 4.1% in Q1, before picking up in Q2, indicating steady recovery after a slowdown in the wake of the 2009 financial crisis. Dubai is making steady progress in its plan to ease the reliance on volatile oil exports. Its 2013 budget allocates only 12% to the hydrocarbon sector; the remaining will be shared by the non-oil sectors.

Figure 24: 2013-14 Budget Allocations



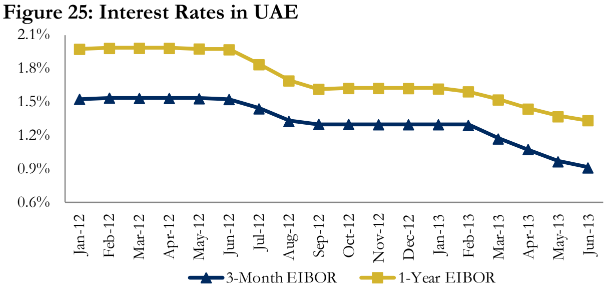
Source: National Bureau of Statistics

Standard Chartered Bank expects the economy of Dubai to grow by 3.5% in 2013, backed by fast recovery in the real estate and hospitality sectors to their pre-crisis levels. Despite the optimism, Dubai's debt problems are not fully resolved yet. According to the Institute of International Finance (IIF), the Emirate needs USD 10 billion in 2013 and USD 27 billion in 2014 to deal with maturing debt. It suggests that it should reduce its overseas investments and focus on tourism and trade, its long-established strengths.

Increased liquidity boosts economy

Since the Dubai debt crisis in 2009, the UAE's monetary policy has focused on protecting the banking sector and increasing liquidity. EIBOR dropped below 1% in May 2013, its lowest level in more than two years, indicating high liquidity in the market. According to the EIU, US interest rates are likely to remain constant until 2015, restricting the Central Bank's ability to manage inflation, as the AED is pegged to the USD. Given low inflation, weak global growth, and low US interest rates in 2013, the Central Bank is expected to retain a loose monetary policy. The stabilized interest rate scenario is encouraging SMEs to contribute to the development of the economy.

Figure 25: Interest Rates in UAE

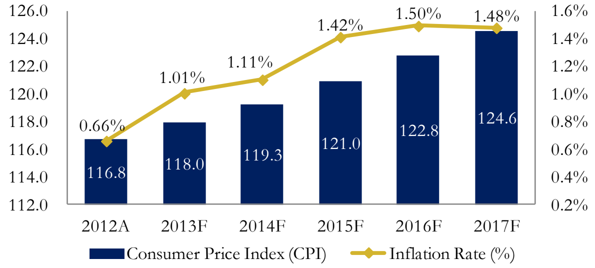


Source: Central Bank of the UAE, July 2013

Inflationary pressures subdued

As per official data, inflation in the UAE remained subdued at 0.88% y-o-y in H1 2013 and 1.25% y-o-y in June 2013. However, the housing/rent component of CPI, which has mostly been in a deflationary mode since mid-2009, is edging back towards inflation (-0.42% y-o-y June) consistent with the reported revival in real estate prices. As housing/rent has a heavy influence on CPI, this rising trend is expected to push inflation higher in the coming months. In addition, price pressures are apparent in the services sector, and education, recreation and culture costs have risen.

Figure 26: Consumer Price Index (CPI) and Inflation Rate (%)



Source: National Bureau of Statistics, June 2013

According to the National Bureau of Statistics (NBS), inflation is expected to rise in 2013, in line with higher global non-oil commodity prices. The government will maintain subsidies in the first half of the forecast period (2013−17), owing to the fear of unrest in the country. However, in the latter half, a consolidation in expenditure could entail the scaling back of some subsidies.

Meanwhile, an important caveat, when looking at the official inflation rate, is that the official basket is more representative of prices faced by the local Emirati population, who benefit from extensive subsidies, rather than the expatriate community, who make up more than 85% of its labor force.

Real Estate Sector

Property market continues uphill rally through H1 2013

The real estate environment, especially in Dubai and Abu Dhabi, continues an upward momentum, as predicted by industry players and analysts. Both markets present strong growth, backed by property sales, steady supply, and rising investor confidence. This renewed confidence is due to strong returns on investments and an improving ability of developers and owners to meet their financial commitments. Industry experts believe that the recent review of global best practices related to real estate mortgage loan regulations, conducted by the Regulatory Development Unit of the UAE Central Bank, will impact the supply-demand balance, and may prove to be a critical market factor. Further, enhanced services and job creation may help sustain the 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. Investors are showing significant interest in the huge investment-backed island projects, such as Reem Island, Al Raha Beach, Saadiyat Island, and Yas Island.

Other factors that are expected to drive growth in the local market are the allocation of AED 330 billion by the Abu Dhabi Government for various projects across multiple sectors, which has placed the Emirate 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 reinstated its position in the global real estate market after being declared the second hottest property market globally in 2012. It posted its sixteenth consecutive monthly increase in property prices and rents in 2013, indicating steady and sustained recovery in the local property market. Dubai is currently a profitable market due to its higher population growth rate and stronger investor attraction. March 2013 property prices in the Emirate climbed 18.3% over the previous year, with Dubai ranking among the top five best performing real estate markets in the world.

Mortgage law finalized; deals surge before expected implementation in H2

In order to prevent the recurrence of the 2008 real estate crash in Abu Dhabi and Dubai, which led to a shocking 50% fall in realty prices, the Central Bank of UAE introduced a mortgage law in January. Under this law, mortgages will be limited to 50% for foreign buyers procuring property for the first time and 70% for the local population. The levels for sequential acquisitions will be limited to 40% and 60%, respectively.

At present, banks in the UAE are permitted to lend 100% of the value of a property to home buyers. However, as a result of protests carried out by commercial banks, the cap was relaxed in March to 75% for the first time for foreign purchasers and 80% for local citizens. The law shall be implemented in H2 2013.

Mortgage lenders have left no stones unturned to allure clients to avail loans before this law comes into practice. The lenders lured customers with white goods, by waving off valuation fees and insurance charges, and even reducing home loan interest rates. According to the Dubai Land Department (DLD), the city witnessed a 47% surge in mortgage transaction in H1 2013 over H1 2012. In addition, the total value of real estate transactions in Dubai in H1 2013 reached AED 108 billion from a total of 30,469 transactions – a 30% y-o-y increase. Similarly Abu Dhabi, too, witnessed a surge in real estate transactions.

Meanwhile, analysts believe that banks may come up with ingenious ways to partially sidestep the new regulation by inflating property value in their books. Only vigorous fiscal policing will help avoid this.

Abu Dhabi realty market oversupplied; H1 remains encouraging

The first half of 2013 was encouraging for Abu Dhabi's real estate markets, according the JLL. The market is revealing optimistic signs, with price stabilization and recovery in select areas. Q2 2013 witnessed improved performances of the retail and hospitality sectors and increase in the price of the prime residential properties. Prime residential rents remained stable in Q2, after an 8% growth in the Q1. Asteco has opined that its sales prices, which is increasingly lower than in Dubai, coupled with the launch of several lifestyle communities, will make Abu Dhabi a very attractive alternative for both investors and owner-occupiers. Meanwhile, the office market remained oversupplied, with additional new supply still in pipeline.

Over the short to medium term, the JLL sees positive growth in the hospitality sector, backed by government's commitment to build a highly attractive visitor destination. It projects that the residential sector may also improve with wide-ranging economic and social development as well as infrastructure investment initiatives, leading to job growth. Growth among the residential population as well as tourism will further increase retail spending, thereby creating demand for retail space.

Dubai realty market gaining momentum

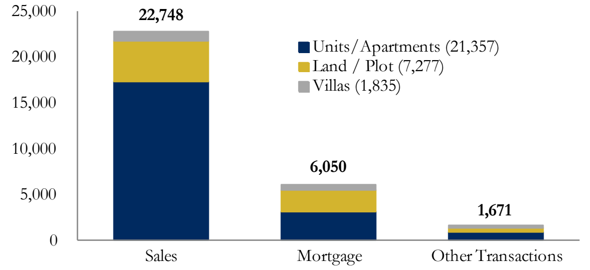
Dubai's realty market continues to improve, with all the sectors in a recovery phase. The market saw a spectacular H1 2013, with 30,469 deals worth AED 108 billion being sealed, a 30% y-o-y increase. DLD revealed that sales transactions in H1 2013 reached 22,748, or a total value of AED 52.8 billion, representing a 49% growth. Mortgages accounted for AED 51.3 billion, representing a 47% growth with 6,050 transactions in H1 2013.

Table 07: H1 2013 RE Transaction Value Break-up by Type

(in AED billion)	Sales	Mortgage	Other transactions	Total
Land/Plot	27.1	45.4	2.5	**75.0**
Units/Apartments	23.2	4.7	0.8	**28.7**
Villas	2.4	1.2	1.0	**4.6**
Total	**52.7**	**51.3**	**4.3**	**108.3**

Source: Dubai Land Department, July 2013

Figure 27: H1 2013 Dubai Total RE Transactions (30,469)



Source: Dubai Land Department, July 2013

The real estate investment market remained active in 2013, with increased levels of commercial and residential transactions, as investors showed interest to invest in Dubai. In its H1 2013 report, the JLL observed that on one hand, the office property segment's strong performance remained concentrated on quality projects in prime locations while on the other hand, the residential and retail markets are witnessing a more broad-based recovery. The hotel sector has maintained its strong growth, while the industrial segment continues to expand.

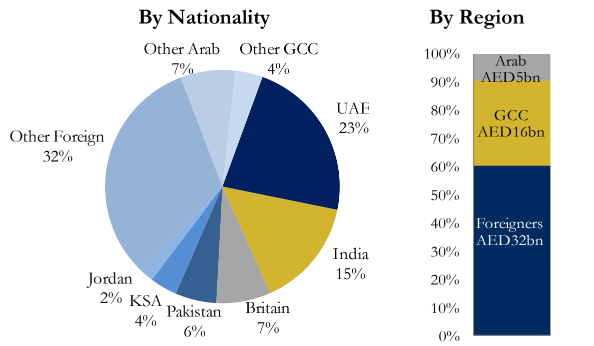
Dubai's rental sector topped the list of best performing rental markets globally in 2012. While Knight Frank reported a 10.1% rise in rental values in H1 2013, the National Bank of Abu Dhabi (NBAD) revealed that average rents in the city rose by 3% in June alone to AED 74.2 per sq. ft., taking the annual increase to 16.4%. The overall performance of the market, including the realty, retail, and hospitality businesses, indicates that Dubai is set to become the investors' paradise again.

However, a surge in new property development has prompted concerns about the sustainability of sector recovery (recall the bubble in 2008). The International Monetary Fund (IMF) had released a statement warning Dubai that its property market is on a path to a dangerous boom-and-bust cycle, which could bring it close to default. IMF urged that the speed with which the realty market is progressing must be regulated.

Foreign investors continue to be active

Dubai's realty market is a profitable investment channel because of its stability, diversity, and high returns. This is reflected by the increase in transactions and investments, which in turn signify that Dubai has largely recovered from the crisis. According to DLD's semi-annual report, the Emirate's realty market attracted investments worth AED 52.8 billion in H1 2013, a 49% y-o-y increase. A AED 53 billion break-down in investments shows that Arab investors contributed roughly AED 5 billion – a 111% y-o-y increase in spending, GCC nationals contributed over AED 16 billion – a 57% increase in spending, and foreign investors contributed over AED32 billion – a 73% increase.

Figure 28: Dubai Realty Investments in H1 2013 – AED 53 billion



Source: Dubai Land Department, July 2013

Among GCC investors, the largest chunk is made up of UAE investors as 2,765 investors affected transactions worth AED 12 billion in 2012. The next largest investor communities belonged to the KSA (605 investors with AED 2 billion) and Kuwait (141 investors with AED 360 million). Among expatriate investors, Indians ranked first, purchasing property worth AED 8 billion against a total investment of AED 9 billion in 2012. They were followed by British and Pakistani investors, who transacted AED 4 billion and AED 3 billion, respectively.

The Q1 2013 Prime Global Cities Index by Knight Frank also revealed that real estate prices in Dubai grew 5.4% between January and March – the highest among major global cities, with the Emirate continuing to maintain its position among the top five best performing real estate markets. The index ranked Dubai in the fourth position among the 29 global cities. An increase in the number of investors globally signals the accomplishment of various policies and initiatives launched by the government to portray Dubai as a safe and a rewarding place to invest in.

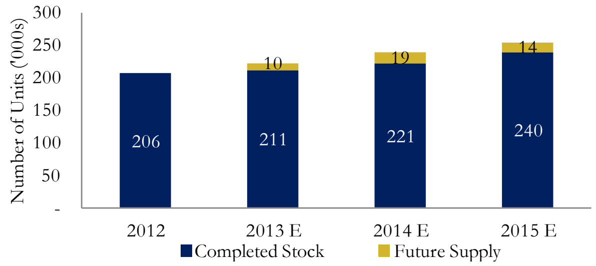
Residential Sector

Abu Dhabi on recovery trajectory

The first half of 2013 has been a relatively mixed period for Abu Dhabi's residential market, with decline in some areas offset by growth in others. The residential market is now witnessing increased tenant activity following the government's decision to extend housing allowance only to employees staying in Abu Dhabi. The completion of a significant number of new residential units from master-planned locations is also encouraging relocation, as tenants look to capitalize on prevailing affordability as they search for new and better quality housing options.

A number of significantly delayed projects, such as Hydra Village, have now been completed, while other stalled projects have seen construction work restart, as confidence returns to the market. Such trends are being positively received by the market, raising confidence amongst investors and signaling the start of a new growth phase in the capital. The JLL, in its latest report, revealed that approximately 4,300 residential units were delivered in Abu Dhabi in H1 2013, bringing its total residential stock to approximately 211,000 at the end of H1 2013. An additional 10,000 units are scheduled to be delivered in 2013; by 2015, the aggregate supply could reach 254,000.

Figure 29: Abu Dhabi Future Visible Residential Stock



Source: JLL Abu Dhabi Real Estate Market Overview, Q2 2013

The residential sector is expected to return to positive growth territory by 2013-end, with occupier and investor activity intensifying. As the recovery intensifies, increased demand is expected, specifically for quality properties within established well planned communities and desirable locations on the prime areas. Secondary residential locations and inferior units without access to good transportation or the benefit of a master-plan are expected to see further deflationary trends in the short term before the recovery becomes more broad-based.

Rental gap widens as quality rules; strong prospects ahead for Abu Dhabi

Despite a noticeable rise in leasing activity during H1 2013, and record sales transactions, average rents continue to fall. The CBRE reported that rental rates have dropped a further 4% during Q2 and are now down around 10% y-o-y. However, prime development areas have experienced steady rental growth of 10% y-o-y, fuelled by strong demand and limited availability.

Table 08: Average Villa Rentals in Abu Dhabi in H1 2013

(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 / Manaseer	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

According to the CBRE, the high-end sector, which includes areas such as Al Raha Beach and Al Reem Island, has recorded significant rent fluctuation over the last year-and-a-half. Rental rates initially declined, reflecting the large volume of available stock, but then recovered as supply was absorbed and availability declined.

Unlike the prime and high-end sectors, the mid-end sector has seen rental decline in the past year. This trend is being driven by a various factors, including residents choosing to relocate to better quality, and optimally priced new developments. In addition, a large number of these properties were historically overpriced and have a larger margin to adjust in order to reach its current market level.

Further, the growth in demand driven by government spending and regulations has been partially offset by a continued increase in supply. At the low-end of the market on the main Abu Dhabi Island, rental rates appear to have bottomed out in Q4 2012, following a sustained period of decline. This stabilization has been supported by robust demand and lack of availability.

Table 09: Average Apartment Rentals in Abu Dhabi in H1 2013

(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 Dhabi	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 Dhabi	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

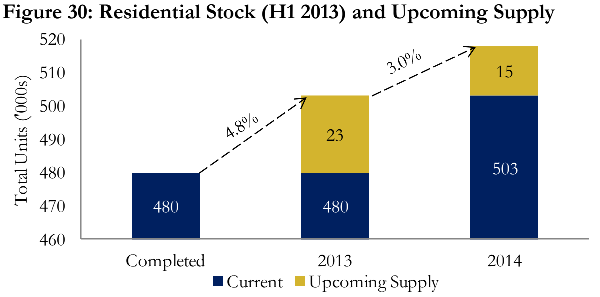
Source: Amar Finance Research

Newly delivered residential units, such as Marasy Abu Dhabi and Nation Towers, are commanding relatively high rental rates, due to their superior finish, waterfront views, and facilities and amenities. This trend reflects a sustained demand for high-end residential properties that offer a real point of difference against existing inventory. The JLL anticipates that the modest rent deflation seen in secondary and tertiary locations are about to change. Lease rates across the capital are expected to increase from the second half of the year.

Dubai residential market buoyant; rents firm up

The housing sector in Dubai is experiencing huge growth, with few non-prime locations surpassing prime areas in H1 2013. The city's residential real estate market currently comprises 417,900 apartments and 62,000 villas. Assuming construction schedules are adhered, Asteco believes that another 19,400 apartments and 3,400 villas will be delivered to the market by the end of 2013. Despite expectations of the implementation of the mortgage cap law, confidence in Dubai's property market continues to grow, as huge numbers of large-scale developments being announced recently.

Figure 30: Residential Stock (H1 2013) and Upcoming Supply



Source: Asteco Dubai H1 2013 Report

Dubai experienced the fourth consecutive yearly increase in residential rentals and sales prices in Q2. A recent Asteco report states that apartment sales increased 12% in Q2 2013 over Q1 2013 (38% on a yearly basis) and villa sales by 8% q-o-q (growth over the last 12 months stood at around 24%). Renewed confidence in the economy has also resulted in a spike in rents – the cost of leasing an apartment and villa has increased by 7% and 6% respectively, compared to the last quarter. The year-on-year asking rent for apartments and villas are up 20% and 17%, respectively.

Table 10: Average Apartment Rentals in Dubai in H1 2013

(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

The JLL believes that the residential market is currently undergoing broad-based recovery. While both property and rental prices are escalating in the secondary and more affordable locations, primary areas such as Downtown Burj, Business Bay. and Dubai Marina, are still enduring a slower pace of growth. This is due to increased migration to cheaper locations, which are offering a fresh supply of villas and apartments. Locations such as International Media Production Zone (IMPZ), Dubai Sports City, and Jumeirah Village have all seen very strong rental growth during the first half of 2013, driven by infrastructure improvement and the completion of complementary facilities and retail malls in the area.

Table 11: Average Villa Rentals in Dubai in H1 2013

(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

The residential sector is showing unusual optimism, with lease and sale rates rising far too quickly to be justified by the current economic atmosphere, as rental growth significantly outpaces growth in wage levels. If the current levels are sustained for a long time, the rising cost of living could adversely impact Dubai's competitiveness.

Commercial Sector

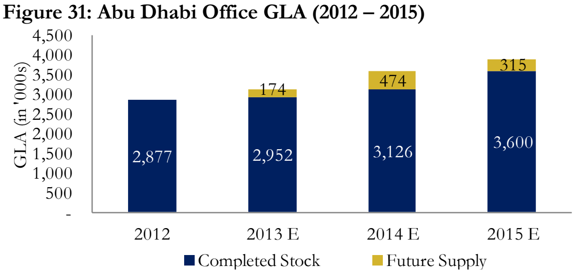
Abu Dhabi office space remains oversupplied despite increased demand; rental gap widens

The commercial market in Abu Dhabi showed early signs of revival, backed by an increase in leasing transactions and rising interest from occupiers. The supply of office space within Abu Dhabi has increased over the past six months, with further developments set to be delivered in the second half of 2013. The demand for large office space remains limited to government bodies and affiliates;

a majority of such demand is intended for standalone office buildings intended to be used as the headquarter of various government departments.

According to the JLL, in H1 2013, the supply of office stock in Abu Dhabi stood at 2.95 million sqm, with an average vacancy rate of 38%. A majority of the vacancy is related to Grade B and Grade C property. The market expects a total supply of 960,000 sqm of office stock by 2015, increasing the total office stock to 3.9 million sqm.

Figure 31: Abu Dhabi Office GLA (2012 – 2015)



Source: JLL Abu Dhabi Real Estate Market Overview, Q2 2013

The demand for Grade A office space has been relatively stable over the past six months, with Nation Tower, Aldar HQ, and Etihad Towers all reporting occupancy levels of over 70%. This is demonstrated by the fact that Nation Tower leased space even before the construction began.

Meanwhile, the annual decline in non-prime office rentals is ~10%, widening the spread between prime and non-prime properties, and reflecting a sustained trend of flight to quality. Increased supply in the market is expected to put more pressure on rents over the next 6–12 months.

Table 12: Average Office Rentals in Abu Dhabi in H1 2013

Area	(AED per sq m)
Corniche	1,350-1,550
Tourist Club Area	1,000-1,400
Al Bateen / Khalidiya	1,150-1,300
Muroor / Mushrif	1,100-1,300
Abu Dhabi South / Grand Mosque District	1,350-1,650
Al Reem Island	1,150-1,450

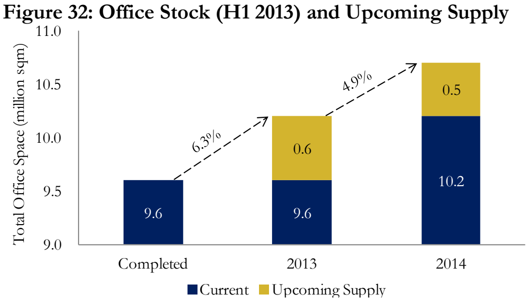
Source: Amar Finance Research

The increasing supply-demand imbalance in Abu Dhabi is prolonging the market conditions that are favorable for tenants, encouraging city landlords to be more flexible with their terms and more generous in the incentives offered, especially for long-term lease agreements. As a result, office rental rates are likely to see a further decline, led by the weak performance of the secondary market.

Dubai office market improves but submarkets continue to struggle

Dubai's office market is highly fragmented, with several traditional submarkets still struggling to attract tenants. However, with improving market confidence, the demand for office space is picking up. Asteco reported that at the end of H1 2013, total office space in Dubai stood at 9.6 million sqm; another 600,000 sqm is projected to enter the market in H2 2013. By the end of 2014, the total office stock is expected to reach 10.7 million sqm. A majority of the office space is expected to be delivered in the Business Bay and Sheikh Zayed Road.

Figure 32: Office Stock (H1 2013) and Upcoming Supply



Source: Asteco Dubai H1 2013 Report

As confidence in the market keeps increasing, office leasing activity in Dubai has been flourishing, even though it is more noticeable in the best quality buildings and prime locations. Increased demand for commercial space has driven up office rents in prime locations by 10–15% over the past six months, although other "submarkets" continue to struggle. Business Bay has been a prime beneficiary of the demand upturn, as has been Dubai Silicon Oasis. As stated by CBRE, locations in the Dubai International Financial Centre continue to command a premium, as Dubai has reasserted its status as the most expensive office space in the region.

Landlords have become stricter on rental agreements in most prime locations but are adaptable in other locations, offering rent-free periods to attract tenants. Prime Grade A markets is still observing cutthroat pricing of office space, as landlords now complementing demands of the market more closely. Landlords are splitting space into smaller floor-plates and fitting out space in an attempt to attract potential tenants.

Also, in some cases, an oversupply of office space is prompting developers to change the use of incomplete buildings from commercial offices to residential and hospitality purposes, especially in the Business Bay area, which has high office vacancy rates because of over-development of strata buildings (multiple tenants). Overall, the office market continues to improve, even though the growth remains limited to top quality buildings and the prime and newer locations.

Table 13: Average Annual Office Rentals in Dubai in H1 2013

Area	(AED per sq m)
Bur Dubai	850-1,050
Business Bay	550-900
DIFC	2,400-2,500
Dubai Internet City	1,400-1,700
Dubai Investment Park	450-650
Jumeirah Lakes Towers	650-1,000
Sheikh Zayed Road	1,300-1,600
Tecom C	550-1,100

Source: Amar Finance Research

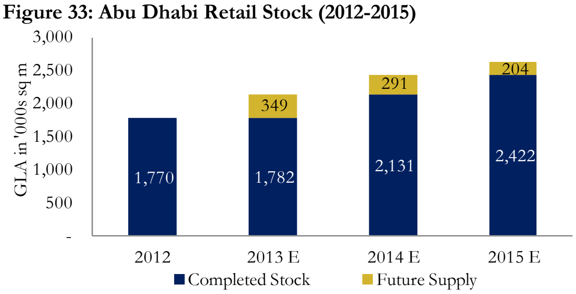
Retail segment recovers with the return of mega malls

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

Off late, a majority of the main malls in Abu Dhabi have been running close to 100% occupancy due to the undersupply of retail space. However, it is set to witness a hoard of new stock soon. The CBRE revealed that with 0.8 million sqm of new retail space under construction, Abu Dhabi is among the top ten shopping centre development cities globally. The JLL reported that total retail space in Abu Dhabi stood at 1.78 million sqm, with an estimated 349,000 sqm expected to be delivered in H2 2013. This includes a number of major new malls including Deerfields Town Square, Emporium Mall, and Capital Mall. By the end of 2015, total retail space in the city is expected to reach around 2.6 million sqm.

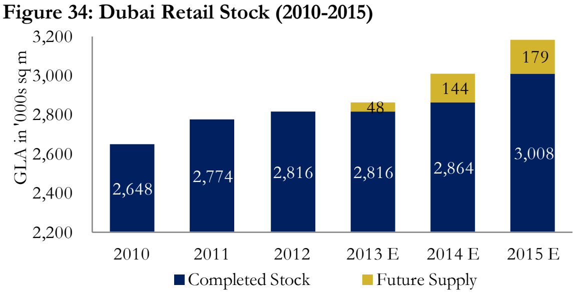
Analysts believe that Abu Dhabi continues to lack destination malls. The opening of Yas Mall in 2014 is likely to bring the leisure offering, which the Abu Dhabi retail market lacks. On the rental front, retail rents have remained consistent over the last six months, with prime rents between AED 3,500 and AED 4,000 per sqm p.a. As further retail space is released to the market over next two years, we expect downward pressure on retail rents.

Figure 33: Abu Dhabi Retail Stock (2012-2015)



Source: JLL Abu Dhabi Real Estate Market Overview, Q2 2013

Figure 34: Dubai Retail Stock (2010-2015)



Source: JLL Dubai Real Estate Market Overview, Q2 2013

Dubai, meanwhile, which accounts for 60% of the UAE's luxury market, retains its second position with regard to retail destinations globally, as revealed in the latest report by Bain & Company. The market continues to be dominated by the regional malls, such as Dubai Mall and Mall of the Emirates. However, with increasing space constraints in these malls, analysts foresee an increased demand for retail spaces in secondary malls.

The JLL revealed that the total mall space in Dubai at the end of H1 2013 was 2.8 million sqm; 48,000 sqm is expected to enter the market in H2 2013. Further, in 2012, the announcement regarding the launch of the Mohammad Bin Rashid City, the largest shopping mall in the world, confirms its attractiveness in the global market. Dubai doubled its visitors' numbers to 10 million per annum in 2012, and projects to take it to 20 million per annum by 2020. This is turn makes the demand for retail real estate attractive, as more retail space will be required to meet the upcoming demand.

UAE hospitality portrays strong growth

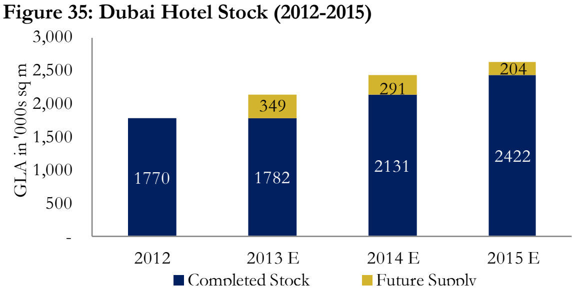
United Nations World Tourism Organization's data shows that the UAE is the world's thirty-first most popular tourism destination and the most popular in the Arab World, ahead of Egypt (ranked 32) and Saudi Arabia (ranked 35), in terms of tourism receipts. Official data reveals that tourism accounts for 14% of the UAE's GDP, which is well above the global average of 9%.

Dubai's global position is backed by the recent hosting of high-profile international events and growth in leisure demand. TRI Hospitality revealed that Dubai attracted ~40,000 visitors at the International Design Exhibition and Arabian Travel Market, while events such as Africa Global Business Forum and Dubai Airport Show attracted an audience of 10,000. Further, Dubai's "Tourism Vision 2020" plan is expected enhance tourism's contribution towards economic development, as it aims to draw 20 million visitors per year and generate revenue of AED 300 billion.

Tareq Daoud, Regional VP of Global Sales, Middle East for Hyatt International, commented that Dubai would need additional 75,000-90,000 rooms to align with the 2020 vision. Meanwhile, the Dubai Department of Tourism and Commerce Marketing (DTCM) revealed that Dubai's hospitality space will witness an additional supply of 15,000 hotel rooms by 2015. Analysts believe that a winning bid for Dubai at Expo 2020 will give a strong kick to the tourism sector, and will speed up the demand for additional hospitality projects.

As per the JLL, Dubai currently has 54,300 rooms and is expected to see an inflow of 4,500 rooms by 2013, and a total of 11,000 units until 2014. Also, 2013 saw many new hotel developers entering the hospitality space, signaling the entry of new brands and operators into the market.

Figure 35: Dubai Hotel Stock (2012-2015)

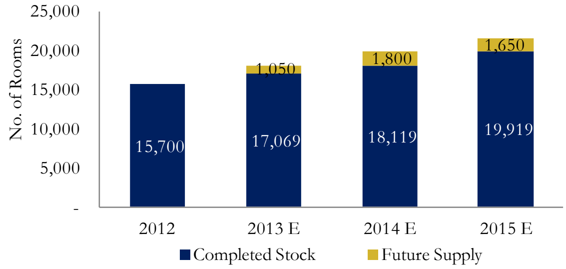


Source: JLL Dubai Real Estate Market Overview, Q2 2013

Meanwhile, Abu Dhabi's hospitality market noted a 13.4% rise in demand in the first half of 2013. HotStats attributed this growth to an increase in visitors to the capital by 25% and a 12.6% rise in transit passengers at the Abu Dhabi International Airport. However, the impact of the increase in visitor arrivals has been offset by a significant increase in supply. The JLL revealed that ~1,400 hotel rooms were added during H1 2013, and about 4,500 additional rooms are expected to enter the market by the end of 2015. Overall supply is expected to reach 21,500 rooms by the end of 2015 representing a CAGR of 8%.

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 36: Abu Dhabi Hotel Stock (2012-2015)



Source: JLL Abu Dhabi Real Estate Market Overview, Q2 2013

Another upcoming emirate in the hospitality space is Ras Al Khaima, which is among the oldest of the seven emirates that comprise the UAE. It aims to increase its tourism contribution to the UAE from 2% to 9% this year. As tourist arrivals are expected to increase significantly during the year, the demand for hospitality space is set to rise. According to Ras Al Khaima's Tourism Development Authority, Ras Al Khaima had 2,934 rooms in 2012, and aims to add another 1000 rooms by 2013-end. By the end of 2016, the projected hotel room supply will be close to 10,000.

Major Projects

Table 14 lists several major ongoing construction projects in the UAE.

Table 14: Major Real Estate Projects in UAE

Project Name	Type	Value (USD billion)	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

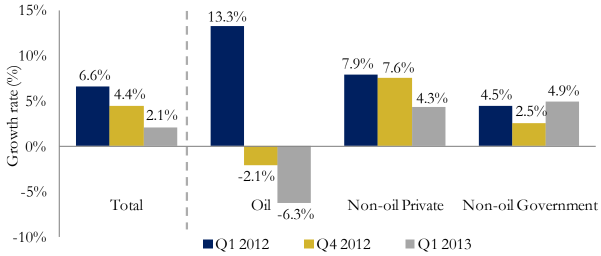
Source: Zawya

Kingdom of Saudi Arabia (KSA)

Sound fiscal management and healthy reserves have set Saudi Arabia back on track for robust growth. In 2012, real GDP growth in the country remained strong at 5.1%, owing to rising government and consumer spending, and an improvement in oil output.

However, recently released data from the Central Department of Statistics and Information (CDSI) shows a slowdown in real GDP growth from 4.4% y-o-y in Q4 2012 to 2.1% in Q1 2013. This can be attributed to a decline in oil production and the growth of the non-oil private sector. Non-oil GDP growth expanded by 4.4% y-o-y in Q1 2013 compared with 6.1% in Q4 2013 and 4.8% in Q1 2012.

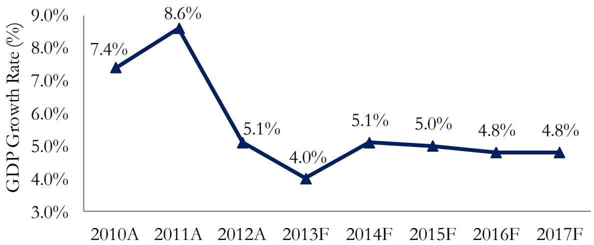
Figure 37: GDP Breakdown



Source: Central Department of Statistics and Information

Meanwhile, as per Capital Economics, the economic slowdown in the KSA may have bottomed out in Q2 2013, as the contraction in oil production seems to have eased a little in comparison with Q1. As per Jadwa Investments and Samba Capital, KSA's real GDP is projected to expand by ~4.2–4.4% in 2013, with growth stimulated by the non-hydrocarbon sector. Also, the oil production in KSA is expected to fall to 9.6 million barrels per day (bpd) after reaching its highest annual average of 9.8 million bpd in 2012.

Figure 38: GDP Growth Rate



Source: EIU, July 2013

Additionally, as per the EIU, the rate of economic expansion will remain robust at 4% in 2013, supported by strong domestic demand growth and a host of planned industrial projects. Although recurrent fiscal expenditure growth will slow somewhat over the forecast period (2013–17), government capital spending will rise rapidly, backed by a massive house-building program, as well as plans for the establishment of new schools and hospitals, which is set to gather pace from 2014.

In April, the Saudi King ordered the ministry to release land to begin construction. Private investment will be stimulated by projects that are planned or underway (including four proposed new economic cities and a massive rail network expansion), besides upcoming petrochemical projects (an integrated petrochemicals complex at Sadara, two new offshore and an onshore gas-field, as well as an aluminum smelter at Ras al-Khair). This is expected to keep annual average economic growth at a robust 4.7% in 2013–17.

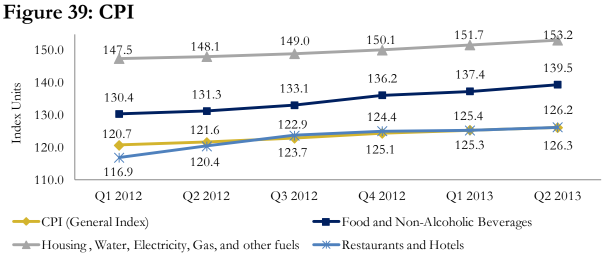
However, if the government's increasingly aggressive Saudisation policies would lead to foreign workers being replaced Saudis, both productivity and domestic demand would be depressed.

Economic Overview

Inflation appears contained

Saudi Arabia reversed a steady rise in inflation for many months; it declined in June for the fourth consecutive month this year, driven by falling core inflation (excludes food and rental and housing-related services) and food prices. The index has recently been rebased to 2007, and this has led to a sharp fall in the inflation.

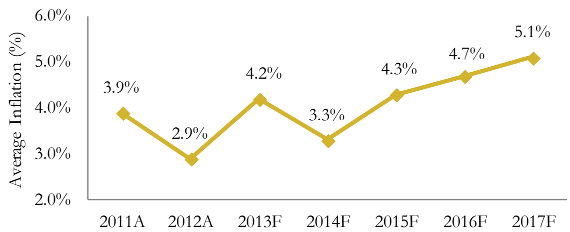
Figure 39: CPI



Source: Saudi Arabian Monetary Agency (SAMA), Q2 2013

According to the IMF, Saudi Arabia faces a possible inflation risk due to buoyant growth, which may necessitate policy action to prevent the economy from over-heating. This seems to be the right time for the KSA to undergo fiscal reforms, hike fuel prices to reduce domestic consumption, and take precautionary measures to contain inflation. On similar lines, the EIU suggests that inflation will average 3.8% in 2013–14 as global commodity prices decline, before picking up to an average of 4.7% in 2015–17 as domestic demand pressures rise.

Figure 40: Inflation



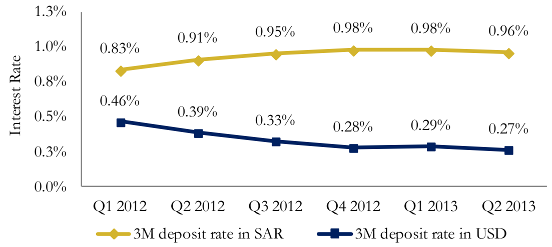
Source: EIU, July 2013

Interest rates remain stable

In Q1 2013, the 3M deposit rate stood at 0.98%, same as in Q4 2012. Since the SAR is pegged to the USD, the main policy rate must roughly track movements in US interest rates, although this can lead to economic distortion. The current combination of low interest rate and persistent fiscal stimulus has increased concerns of potential asset bubbles, especially in view of the ongoing boom in the commercial property segment.

Nevertheless, Saudi rates are unlikely to rise until 2015 (when the Federal Reserve is expected to begin tightening). Despite this, to promote entrepreneurship, the government seeks to target more lending towards small and medium-sized enterprises. Also, the five-state backed specialized credit institutions, to be introduced in the later part of 2013, will aim at increasing lending to the private sector.

Figure 41: Interest Rates

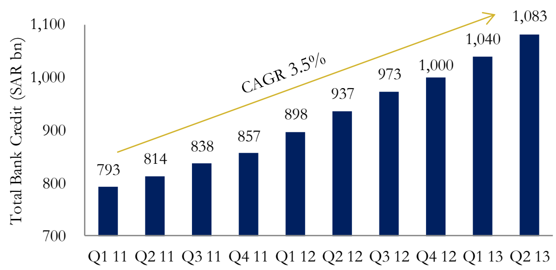


Source: Saudi Arabian Monetary Agency (SAMA), Q2 2013

Bank lending to construction sector slows but mortgage lending picks up

Quarterly data from SAMA shows a gradual increase in loan disbursement by banks over the last two years, at a CAGR of 3.5%, in the Kingdom. Total bank credit stood at SAR 1,083 billion in Q2 2013. The striking feature is the 5% q-o-q contraction in lending to the construction sector in Q1 2013, which suggests that non-oil investment has slowed significantly in 2013, supported by a fairly stagnant projects market. This slowdown is evident from the fact that banks are refocusing on retail lending, where margins are much more lucrative, and the deceleration in project flow. The projects delayed in 2012 were expected to be released in H1 2013, but that has not happened. According to Samba, the lower oil price environment might have begun to crimp investment activity.

Figure 42: Total Bank Credit

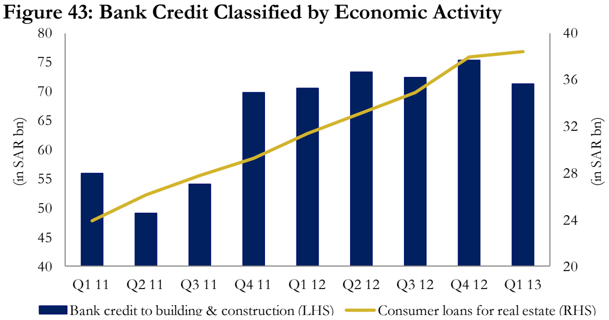


Source: Saudi Arabia Monetary Agency, Q2 2013

Subtle bank lending to the construction sector is in sharp contrast to the strong pace of consumer lending. Though mortgage is a vital aspect of consumer lending, the passage of the mortgage law in July last year has not sparked a surge in lending as final the elements of the accompanying legislation are still awaited. Nevertheless, there has still been a notable uptick in consumer loans for real estate, with a q-o-q gain of nearly 9% in Q4 2012.

However, real estate lending remained almost flat in Q1 2013 q-o-q. For the moment, banks are continuing to focus on lending to upper- and upper-middle income Saudis. Affordability remains an issue for the middle- and lower-income segments, particularly as the new mortgage legislation is understood to cap bank lending to individuals at 70% loan-to-value.

Figure 43: Bank Credit Classified by Economic Activity



Source: Saudi Arabia Monetary Agency, Q2 2013

Kingdom changes its weekend

Saudi Arabia changed its weekend, starting June 28, 2013, to Friday and Saturday from Thursday and Friday. This change had been under discussion since 2007, but had faced hostile responses from the religious conservatives, who felt that sharing a weekend with Western countries would result in a dilution of the Kingdom's religious character. However, in the end, it appears that business pressure and momentum worked against religious objections. KSA is now at par with other GCC countries and Saudi businesses share four working days with the Western world. The shift in the weekend reinforces the belief that the government will continue strengthening the business environment.

Real Estate Sector

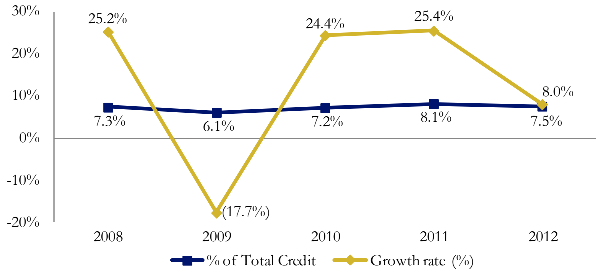
KSA may face the next property bubble

The modest growth in the Saudi economy is backed by an expansionary fiscal position and a continued loose monetary policy. Despite fast-rising retail sales, and surging wages, inflation in the country has remained subdued, averaging just 4% in 2012.

There is increasing fear that a combination of rapid liquidity growth and scarcity of investment opportunities could result in the creation of asset bubbles, with the ongoing boom in office construction becoming one of the most likely cause. The sudden increase in construction in the capital, Riyadh, and elsewhere is changing the face of the realty sector of the Kingdom. The most striking example is the 1km high, mixed-use Kingdom Tower in Jeddah, the construction of which began early this year.

Meanwhile, in Riyadh, building sites, ranging from offices, residential blocks, hospitals, and universities, have been rapidly springing up on the King Fahd and Makkah roads. The National Commercial Bank (NCB) has stated that construction projects worth USD 71.6 billion are currently ongoing. This is set to accelerate, as MEED estimates that construction projects worth USD 600 billion will be signed in the KSA this year. In addition, the SAR 250 billion program to build 500,000 affordable homes, announced in March 2011, is yet to begin.

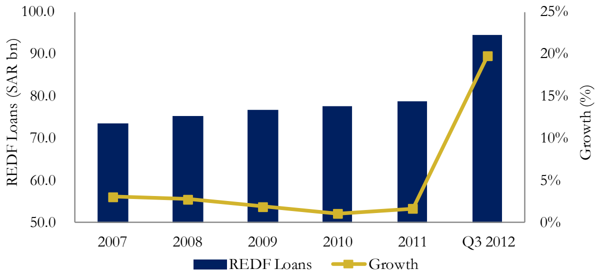
Figure 44: Credit to Real Estate & Construction – 2007–2012



Source: Saudi Arabian Monetary Agency (SAMA), Q2 2013

Regardless of the huge infrastructure outlay, the existing infrastructure opportunities are insufficient to absorb the excess liquidity arising from high oil earnings and a relaxed fiscal and monetary policy. This has led to the free funds being channelized into construction leading to a property bubble. Simultaneously, lending from state credit institutions, including the Real Estate Development Fund (REDF), has also increased.

Figure 45: REDF Loans and Loan Growth – 2007 – Q3 2012



Source: Saudi Arabian Monetary Agency (SAMA), Q2 2013

While the strong economic atmosphere supports some of the growth in the realty segment, the King Abdullah Financial District (KAFD), which comprises 42 buildings and 900,000 sqm of office space, provides cause for concern. According to The Economist, only 10% of the office space in the KAFD had been leased in May, despite the fact that its first phase is set for completion in 2013. There are rumors that a number of government departments are now being earmarked to move to the site, in order to fill some of the space.

The oversupply of office space is not limited to the KAFD. Adding to the scenario is the 3.8-sq km business district, King Abdullah Economic City, which includes another financial services hub. The increasing surplus makes it extremely important that tackle the growth of office space. As the government continues with its expansionary fiscal policies, SAMA is expected to take preventive action against any possible bubbles. However, as SAR is pegged to the USD, the central bank cannot increase the interest rates, the most obvious step in the current low–inflation environment.

Sector growth supported by improved policy framework and robust government budget

In line with the upturn in the Saudi economy in the first half of 2013, the Kingdom's real estate market is set to witness a sustained increase in demand and strong growth. This will be in line with the boom in other key sectors such as retail, manufacturing, and construction. According to Business Monitor International, the Saudi construction sector grew by 9.3% in 2012, and will continue boosting confidence in the real estate sector, even as the annual growth rate remains stable at 5.9% until 2017. Injaz Development Co. has estimated that the Saudi construction and building sector will grow by 7.5% in 2013.

The government of Saudi Arabia realizes the importance of favorable policies, not only in attracting new investment but also meeting local demand. The government has allocated a budget spending of USD 219 billion for 2013, up 18.8% y-o-y. About USD 76 billion has been allocated for capital expenditures.

Real estate demand is primarily driven by the housing market. Given the current housing shortage, the Saudi government has released a SAR 250 billon construction program, under which 500,000 new housing units will be built across the KSA. It has also come up with measures, such as the new mortgage law and the "Additional Loan Program", and continues to address the housing shortage problem through public-private partnerships. The new mortgage law is expected to boost residential lending to the tune of USD 30–32 billion in the coming 4–5 years. Furthermore, as per the recently set up Additional Loan Program, all nationals who get an approved loan from REDF will be eligible for additional loans from other partnering financial institutions and banks.

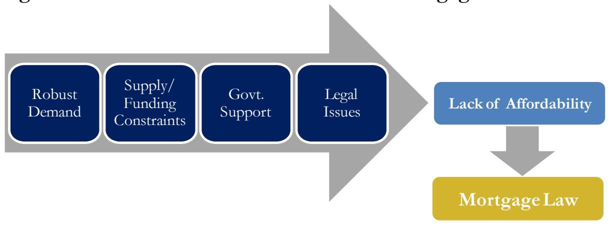
All these discussed initiatives and laws above will go a long way in strengthening the reputation of KSA as a leading investment destination.

Mortgage law to usher a new era of realty market

The KSA is currently plagued by the unavailability of affordable housing. As per Al Rajhi's analysis, a majority of the low- and middle-income population can manage to buy only apartments, the least preferred housing unit. People earning above SAR 25,000 are the only ones who can afford a villa or high-end housing. Further, lending is limited, as banks prefer to offer housing finance to people in the 30–45 age group, having stable and high-paying jobs, as salary is taken as collateral instead of property.

Moreover, the introduction of the mortgage law ushers in a new era for the real estate market in the Kingdom. As levying interest is prohibited under the Shariah principles, and given the futile attempts of other Islamic countries and the hurdles involved in formulating a legal framework, Saudi officials had initially been reluctant to pass the mortgage law. However, they were successful in passing the law on February 24, 2013.

Figure 46: Factors behind Creation of New Mortgage Law



Source: Al Rajhi Capital, March 2013

The law will lead to the creation of real estate mortgages for the first time in the country, resulting in the availability of finance for a larger population. New entities such as real estate finance and finance lease companies, enforcement authorities, and a real estate refinancing corporation (likes of Fannie Mae and Freddie Mac) will add more depth to the market. Banks with strong balance sheet and extensive reach are likely to have an upper hand in the mortgage business over private finance companies.

According to S&P, domestic banks are likely to corner a majority of the market, similar to 2007, when SAMA reorganized the investment banking sector. As a result, it is believed that there is a distinct possibility of SAMA directing banks to separate mortgage from the traditional banking business, to offer a level playing field.

The fast enactment of regulations for the first three out of the five parts of the mortgage law indicates the government's commitment to make affordable residential housing finance available to its citizens. In addition, it will lead to the creation of a new mortgage financing industry in the country. However, certain basic concerns, such as lack of incentives to develop land, shortages in housing supply, etc., remains beyond its scope. Introduction of mortgage law will not be enough to meet the requirements of affordable housing.

SAMA mulls over mortgage rate regulations; unified rent contract mandatory by Shoura

With the implementation of a mortgage system, many local and foreign banks and finance companies are expected to join the Saudi market and present the best mortgage offers. Experts expect the new law to fuel competition, especially as interest rates are not fixed. To regulate the market and ensure the success of the mortgage system, SAMA is contemplating on a unified interest rate which all financial institutions will have to follow. Such a step will take away banks' ability to be competitive and eliminate product creativity and distinction. According to Abdullah Al-Rashoud, the CEO of Blominvest Bank, unifying rates coupled with other factors will allow bank clients to pay 44% less interest than what they are paying today.

Meanwhile, the Shoura Council has made unified rent contract mandatory, under which real estate offices must follow a unified rent contract drafted by the Ministry of Commerce and Industry. The contract specifies the functioning of real estate offices in extending real estate brokerage services, such as marketing, sale, purchase and leasing, in addition to managing properties and assessing their value. It also specifies the commission of real estate offices which cannot exceed 2.5% and is to be calculated on the basis of annual rent. Also, there cannot be any change in commission even if the renting is for more than one year or the contract is renewed for any period of time.

Supreme body needed for real estate sector

In view of growing housing demand, the Saudi Arabia International Real Estate Conference (SAIREC) declared the need for the establishment of a supreme body to manage the realty sector in the country. The realty market lacks pricing policies and suffers from the lack of a monitoring body to streamline the market. The market for apartments and villas is controlled by landlords (owners) in the absence of specific standards to control the pricing mechanism.

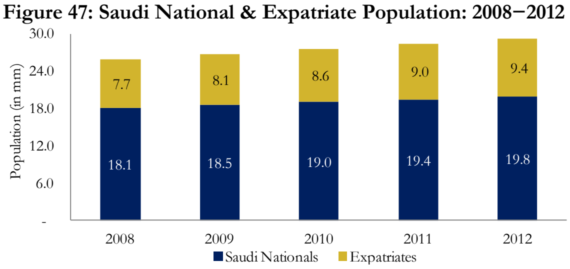
Experts have expressed the need the creation of a "real estate authority" to draft legislation, safeguard the rights of landlords and tenants, and regulate the relationships between them. Such an authority would attend to the needs of owners, consumers and investors, in turn helping to monitor the over-heated realty sector.

Residential Sector

Demographics drive demand supply imbalance

The residential market witnessed solid growth in Q1 2013, as demand for housing rose, backed by increased levels of credit, employment, assistance from government, and confidence. Additionally, the demographics in the KSA have changed in recent years, thereby improving demand in the residential market. The population has been rising at a strong rate and this rising population has three major features – growth in expats, as seen in Fig 47; concentration in urban areas, as seen in Fig 48; and increased share of young population.

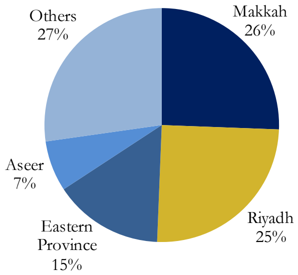
Figure 47: Saudi National & Expatriate Population: 2008–2012



Source: SAMA, Annual Statistics

It is noteworthy that 60% of expatriates are single. The increasing number of single as well as young population has created a large demand for small and affordable residential accommodation, particularly in Makkah, Riyadh, and the Eastern Province. The Ministry of Municipal and Rural Affairs forecasts that 88% of the Kingdom's residents will live in urban areas by 2025.

Figure 48: Saudi Population by Geographic Distribution (2012)

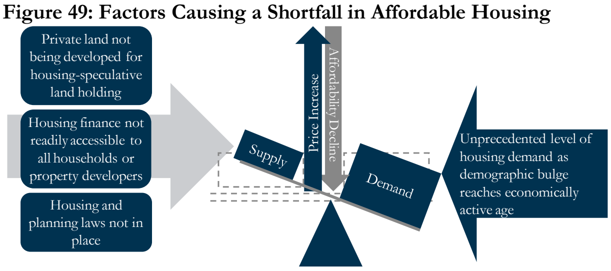


Source: SAMA, Annual Statistics

The NCB estimates that the Kingdom's population will reach about 37 million by 2020. It anticipates that a housing stock of 7.1 million units is likely to house this projected population by 2020. Consequently, total housing stock in the Saudi housing market is expected to expand by 2.2 million units during the next 7 years, with annual demand growing from 186,000 units in 2011 to 265,000 units by 2020.

The supply of housing units has not been able to keep up with demand, thereby causing an imbalance. According to the NCB's Semi-Annual Sector Review, the major supply-demand imbalance is due to affordability limitations. The artificially-propelled high price of plots, which are increasingly sought as a long-term investment option by high net worth Saudis, limits the prospects for other citizens. Additionally, home developers are less inclined to develop affordable housing on such highly priced land, as it hampers their return on investment.

Figure 49: Factors Causing a Shortfall in Affordable Housing

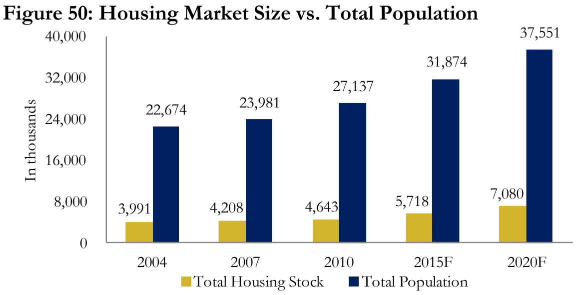


Source: Ernst and Young report on Affordable Housing, March 2013

The government is actively seeking ways to tackle this shortage. Apart from the mortgage law, in April 2013, the King had issued orders to grant citizens plots of land that have already been developed to build houses, and loans to construct houses on that land. Further, the government warned vacant plots owners to either build a house or sell.

In June end, the REDF sanctioned 10,015 loans, worth more than SAR 5 billion, to build more than 12,000 new housing units across the country. Additionally, the Shoura Council approved uniform rules to obtain loans from the REDF on the basis of social, cultural, and economic situations of the person. It decided to treat male and female citizens as equal, with regard to factors such as age, marital status and other factors, for obtaining loans. These initiatives are expected to slowly end the supply-demand imbalance in the housing market across all income groups.

Figure 50: Housing Market Size vs. Total Population



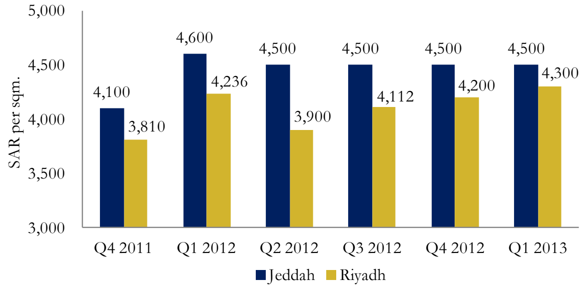
Source: NCB Saudi Housing Sector Report, November 2012

On the whole, real estate experts believe that the royal order related to land grants and construction loans will lead to a reduction in the current exorbitant rents and property prices, as land will be available to citizens within a year. Some even forecast that the residential units will witness a high 30–40% price decline some specific areas.

Apartment/villa sale prices remain strong

The Saudi's residential market is expected to drive the overall real estate sector in the country. As the demand for quality properties continue to soar, it has resulted in a rise in rental rates and sales prices. According to JLL, in Q1 2013, Jeddah saw villa prices rising to SAR 4,500 per sqm, with the Western districts leading the market with a price of SAR 6,300 per sqm. On the other hand, it revealed that apartment prices grew by 3–5% q-o-q in Q1 2013, aided by better affordability in comparison to villas.

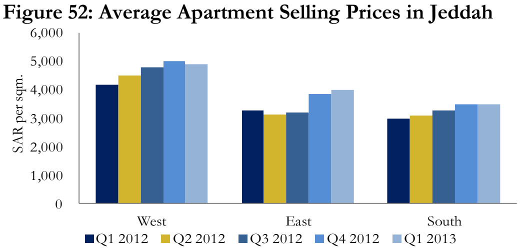
Figure 51: Average Villa Selling Prices – Riyadh and Jeddah



Source: JLL, Q1 2013, Global Research

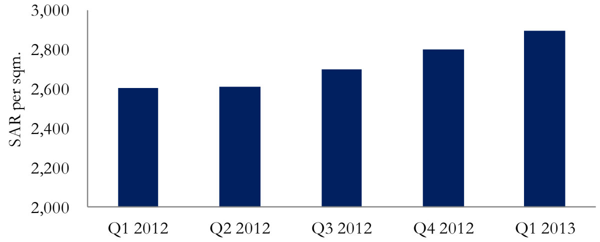
Likewise, the Riyadh market also saw a 1–2% q-o-q increase in villa prices in Q1 2013, reaching SAR 4,300 per sqm. The average price of apartments grew at almost 2% q-o-q to SAR 2,860 per sqm, with strong activity seen in the eastern, southern, and western districts.

Figure 52: Average Apartment Selling Prices in Jeddah



Source: JLL, Q1 2013

Figure 53: Average Apartment Selling Prices in Riyadh



Source: JLL, Q1 2013

Jeddah, Riyadh rental markets post growth

The residential rental market continued the uptrend in H1 2013 from the end of 2012. In a surprising move, rents of villas and apartments shot up by 30% in some areas, according to real estate experts. They believe that the rent hikes were due to the rising costs of building and renovation, and the increase in wages related to the construction and management of buildings. Despite the government's decision to allocate a housing fund of SAR 250 billion in early 2012, average house rents in Riyadh and Jeddah are still soaring between 4% and 8%.

Table 15: Jeddah Annual Apartment Rents in H1–2013

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

The central area of Jeddah demands the highest rent rates. Rates advanced ~4% q-o-q in Q1 2013 for apartments; while villa rents stabilized during the quarter after having declined in Q4 2012. Villas in residential compounds have shown continuous strong performance in terms of rent and occupancy due to the preferences among expatriates to live in gated communities. It is expected that rents of apartments in south-eastern Jeddah will drop as it is no longer considered desirable due to frequent demolition of buildings. These buildings have been demolished as these lands have been set aside by the municipality for development of low-income housing.

Table 16: Riyadh Annual Apartment Rents in H1 2013

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

Riyadh witnessed rental rates of villas and apartments increase by 8% q-o-q and 6% q-o-q, respectively. Rent of villas in areas such as Olaya in the north, Sulemenia in central Riyadh, Hiteen and Nakheel in the west, and Shumaisi in the south is higher than in the surrounding neighborhoods. Villa occupancy in districts between North Ring Road and Prince Salman Street is increasing rapidly; this area is expected to attract more attraction from Saudi families, as government offices move towards north of Riyadh. Apartments, 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. The government is planning to move many government offices to the north of Riyadh, while large expat schools are also moving to the north. This is likely to result in stronger future rental growth in the north and center than in other areas.

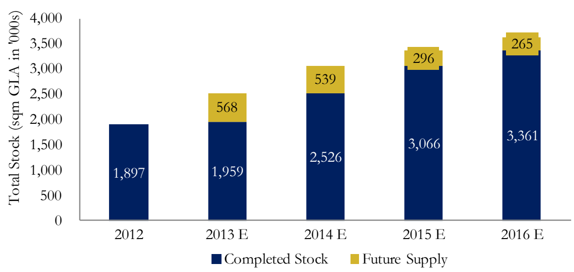
Commercial Sector

Riyadh office market deteriorates

The office market in Riyadh is facing an oversupply situation; the trend is likely to worsen in the coming quarters. The total stock of Grade A and B office space in locations surveyed by Jones Lang LaSalle (JLL) has increased by 61,000 sqm in Q1 2013 to stand close to 2 million sqm. The largest completion was Blue Towers, on King Fahd Road, which added 20,000 sqm space. Several Grade "B" buildings have been completed on King Fahd Road and Olaya Street over last three years. Vacancy in these buildings and in the under-construction structures have resulted in a wide choice for tenants. Riyadh is likely to see an addition of ~1.7 million sqm by 2016.

The latest report by JLL suggests that the completion of the first King Abdullah Financial District (KAFD) projects, coupled with the delivery of the IT and Communications Complex (ITCC) and GOSI's Olaya Towers in the central business district (CBD) is likely to have a detrimental impact both on vacancy rates and rents. These projects could add ~500,000 sqm of high quality space within the CBD. To tackle the oversupply situation to some extent, the government has decided to move its offices to northern Riyadh.

Figure 54: Riyadh Office Stock (2012–2016)



Source: JLL, Q1 2013

This oversupply is expected to put downward pressure on rental rates, while vacancy rates continue to move up. The average prime rent in Riyadh declined 5% y-o-y in Q1 2013 to SAR 1,910 per sqm, while it rose to 16.0% in Q1 2013 from 15.9% in Q4 2012. Real estate experts expect that increased vacancy rates and the greater choice available to tenants will maintain downward pressure on rental levels in 2013, especially for Grade B properties.

Grade A rents decreased 5.1% y-o-y in Q1 2013 from SAR 1,305 to SAR 1,291 per sqm. Comparatively, Grade B rents also decreased by 4.3% y-o-y. City-wide vacancy increased from 16% to 18% whereas CBD vacancy increased from 18% to 19%. Going forward, the major concern, for both the markets, is the addition of new stock, which might hurt rental prices significantly.

Table 17: Annual Office Rentals in Saudi Arabia – H1 2013

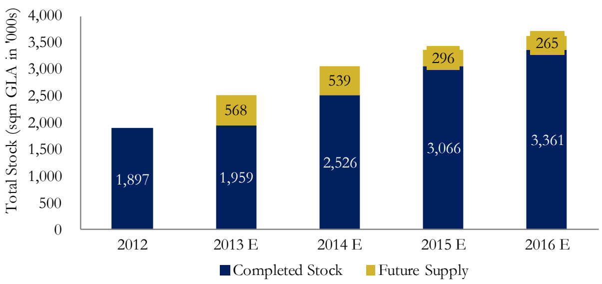
Location	Rent (SAR per sq m)
King Fahd Road, Riyadh	850–1,150
Tahlia Road, Riyadh	700–950
Olaya Road, Riyadh	700–800
Khurais Road, Riyadh	700–800
King Abdulaziz Road, Riyadh	650–750

Source: Amar Finance Research

Jeddah office market improves

The office space market in Jeddah continues to see strong demand from both government and private sector tenants. This has resulted in a reduction in vacancy levels from 16% at the end of 2012 to just 12% at the end of Q1, as reported by JLL in its Q1 2013 report. The vacancies are expected to decline further in the short term, until more office space is ready for lease. The strongest demand is for 500–800 sqm offices, which are being consumed at a higher rate than in 2012.

Figure 55: Riyadh Office Stock (2012–2016)



Source: JLL, Q1 2013, Global Research

Government expenditure is a major demand driver in sectors like infrastructure, transportation, and healthcare. The government's initiatives to improve the regulatory environment, such as Sawaed and Nitaqat, will further boost the demand for office space in Jeddah. The stock reached 661,000 sqm at the end of Q1 2013 with 38,000 sqm being delivered in Q1 2013. The key additions include private offices covering 14,400 sqm on Prince Sultan St., Diwan Najia on Tahlia St (with 14,700 sqm); and Al-Sohaily 2 on Andalus St. A significant increase in supply (103,000 sqm) is expected in 2013, of which 75,000 sqm will be delivered in the Headquarters Building.

Table 18: Annual Office Rentals in Saudi Arabia – H1 2013

Location	Rent (SAR per sq m)
King Abdullah Street, Jeddah	850–1,200
Al Madina Street, Jeddah	650–750
Al Tahlia Street, Jeddah	900–1,350
Sultan Street, Jeddah	700–1,150

Source: Amar Finance Research

Rents have remained relatively stable across the market and are unlikely to increase during the remainder of 2013, given the significant potential new supply. Average office rents remained unchanged since the previous quarter but were up 3% y-o-y. Grade A office rents showed a minimal increase of 1% since last year, in contrast to Grade B rents, which grew by 8%. At 12%, CBD vacancy remained unchanged since Q4 12.

Hotel rooms in Riyadh, Jeddah to rise

The Kingdom's tourism market was one of the world's fastest growing in 2012, despite a 5% y-o-y decline in the number of visitors to the Middle East. The Saudi Commission for Tourism and Antiquities (SCTA) has proposed a SAR 5 billion fund to promote tourism in the Kingdom. The SCTA is currently developing a number of tourist destinations, including Al-Aqeer beach at a cost of SAR 17 billion; the first phase of the project will provide 1,364 rooms. The proposed fund can finance tourism projects with interest-free loans that are paid in annual installments, to encourage higher private sector participation in the sector.

Meanwhile, sources in the industry said that the value of hotel investments in the KSA is set to increase to SAR 144 billon by 2020. As per STR Global's June 2013 report, the number of hotel rooms in Riyadh is expected to soar once all projects in its active pipeline are finished. It added that in June, the Saudi capital's total active pipeline comprised 5,598 hotel rooms; with 2,213 rooms in the pipeline the hotel market in Jeddah is also expected to surge. SCTA states that in the next two years, 214 new hotels will be built in the Kingdom.

SAMA revealed that the tourism sector is expected to create 841,000 direct jobs and 421,000 indirect jobs by 2015, which will increase to 1.2 million direct jobs and 591,000 indirect jobs by 2020. It said that the tourism sector provided 670,000 jobs in 2011 against 633,000 in 2010, an increase of 5.9%. Such massive employment opportunities will lead to better purchasing power and may lend a natural feel good factor to the real estate sector overall.

Makkah–Madinah require huge investments

With the number of hotels and tower buildings under construction in Makkah, local realty dealers foresee hotel investments to reach SAR 500 billion (USD 133 billion). According to the Makkah–Madinah Chamber of Commerce and Industry (MCCI), the investments on 450 categorized hotels in Makkah stands at nearly USD 500 million per annum. Over 100 towers currently underway in Makkah will add more than 24,480 rooms in the region.

Meanwhile, authorities in Madinah are faced with the pressing issue of constructing 500 hotels within the span of five years to avoid a hospitality crisis. According to MCCI, Madinah is expected to attract 1 million visitors per month upon the completion of the expansion work at the airport and the Prophet's Mosque, thereby creating a large demand for hospitality space in the region. MCCI is trying to speed up the progress by taking quick measures, such as compensating land owners or giving them a stake in the new hospitality projects on their land. MCCI stated that, in addition to 30 furnished apartment units, Madinah has 17% of the total number of hotels in the Kingdom.

Saudi retail sector to remain robust

The retail environment in Saudi Arabia is predominantly limited to leisure and entertainment activities for Saudi families. Further, a high per capita income and younger demographic profile has a positive implication for luxury products, while the working expatriate population supports the surging demand for consumer goods.

Figure 56: Opportunities and Challenges of KSA Retail

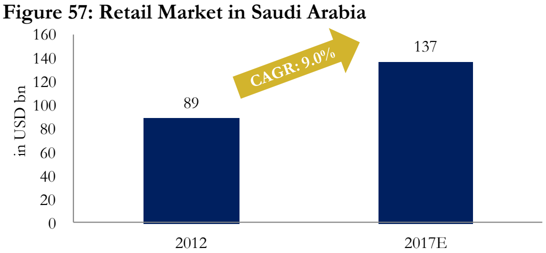
Retail Stakeholders	Opportunities	Challenges
Investors | Developers	• Growing retail expenditure • Increasing youth demographic • Religious retail spending	• Wider competition • Market evolution • Nascent retail policies • Lack of transparency
Mall | Real Estate Management and Operation	• Mall represent a unique social hub • Innovation and creation of new entertainment experience	• Cultural differentiations • Customer service and training • Seasonality festivities and religious tourism
Retailers | Brands	• Gain market share from overseas competitors • Innovation and unique retail concepts • Modernizing trades • E-Retail	• Ownership concentration • Customer service and training • Transparency • Cultural differentiations • Logistics

Source: Sacha Orloff, Saudi Arabia Retail Prospects & Outlook for 2012

AT Kearney's 2013 Global Retail Index report places the Kingdom on the sixteenth position. It predicts that retail sales in the KSA will increase by 11% in 2013. It also suggests that there is plenty of room for growth in the Saudi Arabian retail market, as the retail sales per capita and disposable income remains lower than in some of the neighboring locations. Furthermore, more than 12 million religious tourists visit the Kingdom each year, driving the need for offering that caters to a diverse consumer group.

Meanwhile, the EIU estimates that the KSA's retail market will grow at a CAGR of 9%, to reach USD 137 billion, by 2017 from USD 89 billion in 2012. This in turn will increase the demand for retail space in the Kingdom.

Figure 57: Retail Market in Saudi Arabia



Source: EIU

Shortage persist in mall-based retail space

A growing economy and a young population with strong purchasing power offer a favorable environment for retail growth. KSA has all this and an undersupplied retail space. This makes it an attractive investment destination.

As per JLL, the available retail space has risen rapidly, with mall-based retail floor space increasing to 1.25 million sqm in Riyadh and 780,000 sqm in Jeddah. However, these markets remain scarce. According to retail consultancy firm Sacha Orloff Group, Riyadh and Jeddah have retail space of 0.2 sqm per capita, which is well below the levels in Bahrain, Qatar, and the UAE. With JLL's forecast of retail space reaching 1.8 million sqm in Riyadh and 1.04 million sqm in Jeddah by the end of 2016, this situation is likely to improve.

In the meantime, apart from Grade A and upper-middle class segment of the market, activities are picking up in the tier B and C cities too. Landmark Group announced in November 2012 that it will bring its neighborhood mall concept to KSA's tier B and C cities to avoid the rush to the urban centers. It plans to concentrate on secondary cities with a population between 350,000 and 600,000. The firm hopes to operate in four locations through an investment of AED 800 m (USD 217.8 m) by 2013-end.

Major Projects

Table 19 lists several major construction projects that are underway in Saudi Arabia.

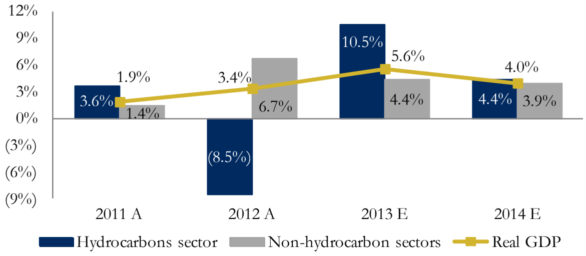
Table 19: Major Ongoing Projects in the KSA

Project Name	Type	Value (USD billion)
Saudi Arabia Ministry of Housing – 500,000 Houses Program	Residential	67.0
Sudair Industrial City	Industrial Zones	40.0
Jazan Economic City	Free/Economic Zone	27.0
King Abdullah Economic City	Free/Economic Zone	27.0
Modon – Jazan Industrial City	Industrial Zones	17.0
Riyadh East Sub Center	Mixed Development	8.0
Madinah Knowledge Econmic City	Free/Economic Zone	7.0
Waad El Shammal Mining City	Industrial Zones	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

Kingdom of Bahrain

Bahrain's economy grew steadily in 2013, despite an uncertain global economic scenario and continued domestic unrest (concentrated in certain pockets of the country). According to data from the Bahrain Economic Development Board, real GDP grew 3.4% in 2012, up from 1.9% in 2011. The non-oil sector expanded 6.7%, backed by the tourism sector, which grew by 26% y-o-y in 2012. On the other hand, the oil sector contracted because of a temporary technical disruption at the country's main Abu Sa'afa oilfield; the oilfield has now returned to its normal capacity. Backed by an increase in oil output, the Kingdom's GDP expanded at an annual rate of 4.3% y-o-y during Q1 2013. The board expects real GDP to grow at 5.6% and 4.0% in 2013 and 2014, respectively.

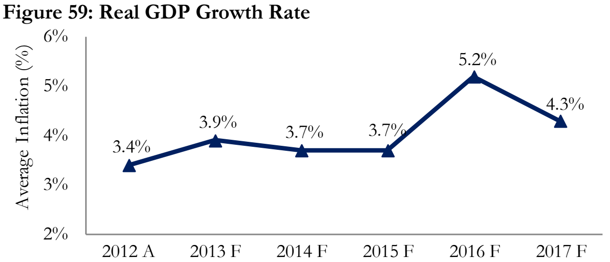
Figure 58: Real GDP Growth Rate



Source: Bahrain Economic Development Board, May 2013

Meanwhile, the EIU has pegged the Kingdom's real GDP growth estimate at 3.9% in 2013 and 3.7% in 2014–15, supported by the ongoing recovery in the services sector, strengthening of the tourism sector, and recovery in production at the Abu Sa'afa oilfield. The economy is then expected to rise to an average of 4.7% in 2016–17, as Aluminum Bahrain (Alba), the state-owned aluminum company, is adding a new plotline. Meanwhile, the non-hydrocarbon sector is expected to grow modestly, backed by the government's 2013–14 budget proposal, under which its spending priorities continue to be infrastructure, housing, and social development. Hydrocarbons are expected to remain a major contributor to growth, although the country has relatively low reserves. However, foreign businesses may be less interested in investing in Bahrain, given the small size of the market, regulatory progress in other GCC nations, and an insecure domestic political scene.

Figure 59: Real GDP Growth Rate



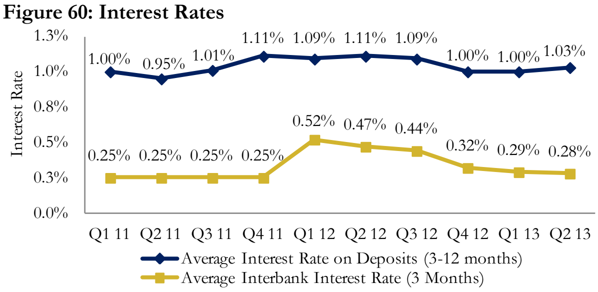
Source: EIU, August 2013

Economic Overview

Government maintains affordable credit to stimulate economy

Central Bank of Bahrain (CBB) maintained its policy rate at 0.5% in 2012. As the BHD is pegged to the USD, CBB has maintained its policy rate, as well as the one-week deposit rate, in line with US rates. Bank lending in the country has also slowed down. In such a scenario, the central bank is unlikely to increase its policy rate unless the Federal Reserve does the same; this is expected to occur only in 2015. In 2011–12, the central bank kept rates low to stimulate the economy, which was affected by the global recession. This led to a decline in the market interest rates, signifying a better credit atmosphere. Average lending rates on business loans remained flat, in the range of 4.9–5.0%, between 2011 and 2012; however, it decreased to ~4.2% in H1 2013. Meanwhile, the average lending rate on personal loans in Q2 2013 was 6.1%, up from 5.8% in Q2 2012.

Figure 60: Interest Rates

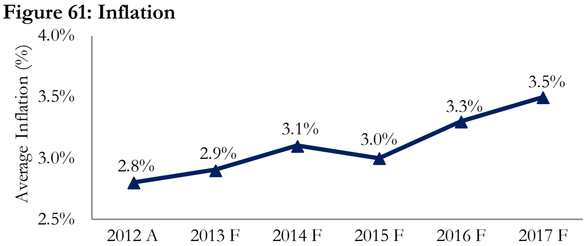


Source: Central Bank of Bahrain, June 2012

Inflation to remain at moderate levels

According to official data, in H1 2013, inflation in Bahrain increased to 3.2% y-o-y, driven by a sharp increase in housing costs. In June itself, housing costs increased by 10% over that in May. However, the EIU expects inflation to average out to 2.9% in 2013, due to the impact of a stronger USD on import costs. The EIU expects the ongoing recovery in the property market, which slumped in 2011–12, to push up inflation to an average of 3.2% in 2014–17. Inflation is expected to remain in the range of 2.9–3.1% in 2013–14, supported by easing commodities prices, particularly food items. Thereafter, it is expected to rise, as subsidies may not be sufficient to meet the price rise in global industrial raw materials.

Figure 61: Inflation



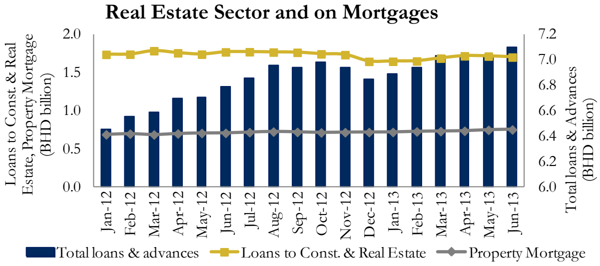
Source: EIU Country Report, January 2013

Real Estate Sector

Favorable credit conditions underpin realty sector growth

The improving performance of the Bahraini economy, coupled with government infrastructure development plans, has had a strong positive impact on the realty scenario of the Kingdom. The real estate sector has seen renewed activity as well as increasingly consistent signs of a turnaround. This is evident from increased lending in the business (real estate and construction) as well as personal loans (mortgage loans). Bahrain's credit sector continues to witness strong lending activities, supported by falling interest rates for the real estate and construction sector, and personal mortgages. The construction and real estate sector and personal mortgages account for almost 34% of the total loans and advances offered in the country.

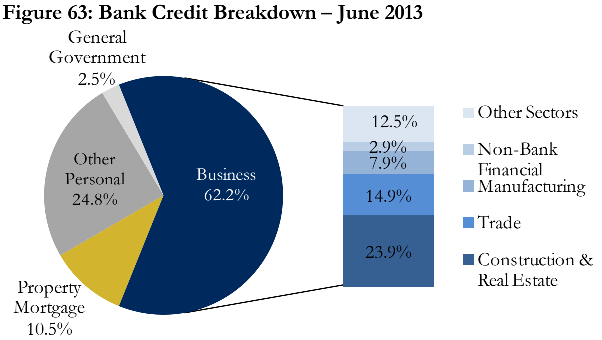
Figure 62: Loans and Advances, Total Loans to Construction and Real Estate Sector and on Mortgages



Source: Central Bank of Bahrain, June 2013

The total loans and advances increased by 3.7% y-o-y in H1 2013, reaching BHD 7.10 billion by the end of June 2013. Of these, the number of construction and real estate-related loans surged 3.4% in H1 2013, compared with that in H2 2012, reaching BHD 1.70 billion. This indicates that developers are now showing interest in undertaking new constructions and restarting stalled projects.

Figure 63: Bank Credit Breakdown – June 2013



Source: Central Bank of Bahrain, June 2013

Personal loans secured through mortgage continued to rise gradually, accounting for ~30% of the total personal lending by commercial banks and ~10% of the total loans and advances by banks. Property mortgage loans posted a strong growth of 6.4% y-o-y and 4.7% in H1 2013, reaching BHD 747.4 million. This indicates recovery in the real estate sector, backed by the government's attempts to maintain liquidity in the market.

Residential Sector

Government incentives boost the residential segment

The level of activity in Bahrain's residential market has increased because of the announcement of a number of new developments in Q2 2013. In addition, the Housing Minister announced plans to invest USD 8 billion on housing projects by 2017. The largest government housing project consists of 14 reclaimed islands that house more than 15,000 homes in Northern Town. Approximately 6,000 units in the ongoing program of the Ministry of Housing are due to be completed by Q3 2012. Additionally, the government announced its decision to demolish some of the existing government apartment buildings and replace them with improved accommodation facilities. Under this initiative, the ministry will replace 1,912 existing units with 4,000 new units on the same land in taller buildings by 2018.

In addition to the above initiatives, in May 2013, Bahrain's Shura Council approved a reduction in the registry charges of newly purchased properties. The move was aimed at further stimulating growth in the real estate segment. Under this latest amendment to the law, the council has reduced the fee buyers need to pay to register property in their own name from 3% of the property's value to 2%. The Survey and Land Registration Bureau also approved an incentive aimed at encouraging buyers to make their payments quickly. Under this incentive, the bureau is offering a 15% discount on the registration fee if the buyer makes the payment within 60 days of the sale.

According to market analysts, these new laws are likely to spur activity in the market, as reducing fees is the biggest incentive for buyers. While the market would benefit from the above initiatives, it is still unclear when the revision in registration fee will come into effect. According to CBRE, if the law is implemented quickly, it will create a cost advantage for the buyers who have been holding off their investments for more favorable conditions.

Rental market remains muted; troubled areas witness decline

Driven by an increase in the expatriate population, the residential rental market saw an improvement in demand in Q2 2013. Demand for rental properties in the main expatriate areas of Amwaj Islands and Reef Island has shown continuous improvement as the areas are located on the waterfront and are close to the Kingdom's major employment districts, retail malls, and 5-star hotels. Meanwhile, rent in areas such as Saar, Hamala, and central Manama remained muted and, in some cases, declined. The earlier preferred expatriate locations of Saar and Budaiya are now slowly being replaced by new Hamala, which is directly linked to the Manama highway. This is because Saar and Budaiya are located near domestically troubled areas. Real estate consultants estimate that in areas facing domestic unrest, such as the Northern Governorate, rents have declined by 40–60%.

Table 20: Monthly Villa Rental Rates in Bahrain in H1 2013

Location	Type	Rent (BHD)
Reef Island	2 BR FF	600–800
Amwaj Island	2 BR FF	650–800
Juffair	2 BR FF	500–700
Adliya	2 BR FF	350–550

Source: Amar Finance Research

A new niche market has developed, owing to the influx of expatriates from Saudi Arabia. Many companies have relocated to the Eastern Province in the KSA, while their employees choose to live in Bahrain and commute to work. According to Cluttons, this has led to increased interest in the areas such as Hamala and Jasra that provides easy access to the King Fahad Causeway. In addition, several self-contained developments have been made, or are being developed, to cater to this new demand.

Commercial Sector

Modest outlook for commercial real estate

Although Bahrain's real estate market has shown signs of improvement in Q2 2013, the office segment continues to remain oversupplied. There was a minimal increase in rents owing to improvement in the economic outlook and a slowdown in the number of new occupiers in the market. Demand came from existing businesses looking at expansion, rather than from new entrants, due to ongoing domestic unrests. Additionally, landlords remain under pressure to be flexible on the lengths of rent-free, fit-out periods, given the oversupply in the office market.

Meanwhile, vacancy rates witnessed huge gaps across the market. Areas offering better parking facilities and easy access remained the top choices for business houses. As a result, Diplomatic Area performed poorly, as compared with Seef Area. In addition, a new trend has emerged in which tenants are showing a preference for international property management; properties with such facilities generated investor interest during Q2 2013.

Table 21: Office Space Rental in Bahrain in H1 2013

Location	Rent (BHD per sqm/Month)
Bahrain Financial Harbour	8–10
Seef Area	4.5–8
Diplomatic Area	3.5–4.5

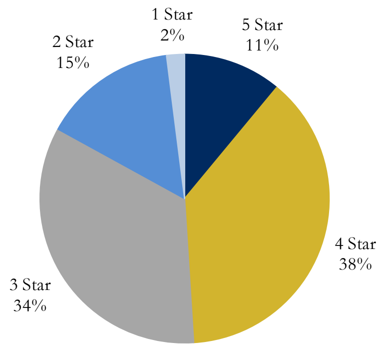
Source: Amar Finance Research

Properties in prime locations with quality tenants on long leases and good management are now being actively considered. We anticipate rental gaps to widen further because of this preference.

Business tourism strengthens hospitality market in the Kingdom

Business tourism plays an important role in the Kingdom. The Bahrain Exhibition and Convention Authority (BECA) host a number of industry events and exhibitions. The major events include the annual Bahrain Boat Show and the bi-annual Bahrain Air Show, which is the island's largest exhibition. In recent years, Bahrain has become an important location for organizing exhibitions and conferences. Therefore, the BECA plans to expand its exhibition and conference space through the construction of the Bahrain Expo City in Manama City. This would increase the net available exhibition space to 145,000 sq m from the current 16,000 sq m. The project is scheduled to be completed by 2015. With the growing importance of business tourism, demand for hospitality space is also bound to increase. There has been increased supply of 3- and 4-star hotels, as seen below, to meet the requirements of business travelers.

Figure 64: Hotels by Tier – 2012



Source: Central Informatics Organization

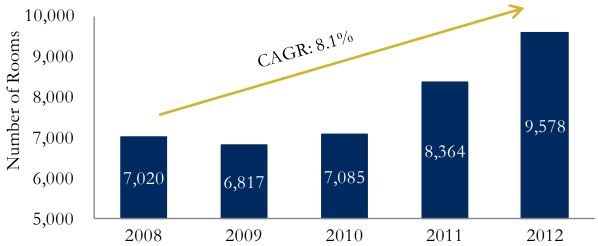
According to the World Travel and Tourism Council, the tourism sector contributed BHD 538 million to Bahrain's GDP in 2012, up 8.5% from that in 2011 (BHD 496 million). This growing trend has resulted in improvements in the hospitality space in Bahrain over the last two years. The number of hotels increased at a CAGR of 8.1% between 2008 and 2012. In 2012, the hospitality space grew by 15% y-o-y. In Q2 2013, the number of hotel projects in Bahrain increased on the back of a strong hospitality sector, coupled with the change in Saudi Arabia's working days (Saudi Arabia's weekend is now the same as that of other GCC countries), which will increase the inflow of weekend-getaway tourists.

Kuwait Finance House announced the financing of the stalled Banader Rotana Hotel project, a 28-storey, 5-star hotel and furnished-apartments property offering 251 rooms. Hilton Worldwide also announced its intention to open a 350-room, 5-star DoubleTree Suites in Juffair in late 2015. Other projects on board include Nama International's 4-star hotel with about 175 rooms on Bahrain Bay and a further phase two development of 240 5-star rooms, and Swiss-Belhotel International's 4-star project offering 149 rooms in Seef District; the hotel is slated to open in Q1 2014.

Another new concept set to enter Bahrain's hospitality space is a boutique hotel by Domain Hotels. The project includes a 131-room hotel and a private members' club with nine restaurants and lounges.

All these developments indicate a strong hospitality market for the Kingdom.

Figure 65: Number of Hotels



Source: Ministry of Information (Tourism Affairs)

Major Projects

Table 22 provides a list of the major ongoing construction projects in Bahrain.

Table 22: Major Real Estate Projects

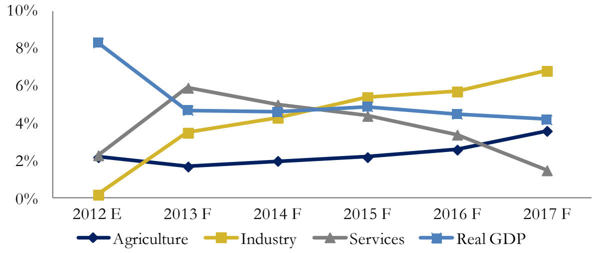
Project Name	Type	Value (USD billion)	Status
Albilad - Water Garden City	Mixed Development	9.8	Ongoing
Bahrain Ministry of Works - North Bahrain Town	Community Development	4.5	Ongoing
Diyar Al Muharraq Company - Diyar Al Muharraq	Community Development	3.2	Ongoing
GBCORP Bahrain - Marsa Al Seef	Mixed 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

High oil prices and increased public spending led to an 11.5% rise in Oman's GDP (at current prices) in 2012. According to the National Centre for Statistics and Information (NSCI), the oil sector grew by around 10.9% and the non-hydrocarbon GDP by nearly 12%, mainly because of a surge in public expenditure. Preliminary fiscal data reveals that the government's expansionary fiscal policy will be crucial for maintaining the strength of domestic demand. This is because the fiscal policy plays a vital role in the economy as government expenditures (~OMR 13 billion) amounted to 43% of the GDP in 2012. The government is not keen to pull back spending, as evident by the size of the eighth Five-Year Plan (2011–15), which amounts to more than OMR 16 billion.

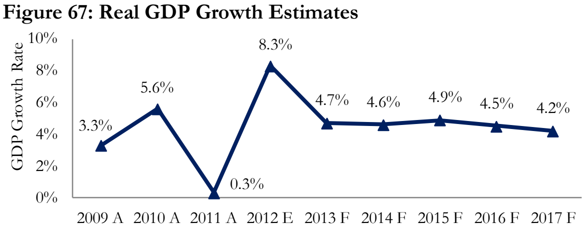
Figure 66: Real GDP Breakdown



Source: EIU, August 2013

According to the EIU, the non-oil sector will continue to dominate the country's growth. However, it will slow down when the benefits of superior recovery techniques at ageing oil wells tapers. As depicted in Fig 66, the services and industry sector, which is likely to continue growing at a brisk pace, will compensate for the decline in the non-oil sector. The industrial sector will suffer from a weaker-than-expected external economic environment, particularly due to slow growth in China and India, which will dampen the growth of non-oil exports. India emerged as the largest importer of non-oil goods in 2012, while China ranked fourth. The EIU estimates that high domestic demand, a still expansionary fiscal policy and gains in the non-oil economy will ensure that economic growth is robust, averaging 4.6% in 2013-17.

Figure 67: Real GDP Growth Estimates



Source: EIU Country Report Oman, August 2013

On the contrary, in its first financial stability report, the Central Bank of Oman (CBO) estimated Oman's real GDP at 4.2% and 3.5% in 2013 and 2014, respectively. These forecasts were based on the assumptions of global growth rate of 3.3% in 2013 and 4.0% in 2014 and world oil prices (per barrel) of USD 102.6 in 2013 and USD 97.6 in 2014. However, the CBO believes that these baseline projections for Oman's growth would undergo downward revisions to some extent under adverse scenario of oil prices causing Oman's real GDP growth to decrease 3.2-3.5% in 2014. This reflects Oman's dependence on the oil prices and global growth.

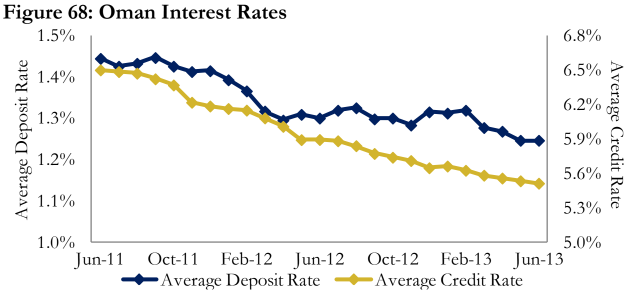
Despite the challenges faced in sustaining high growth rates, containing inflation, reducing debts, and monitoring volatility in oil prices, Oman continues to be in line with the 'Oman 2020' vision of diversifying its economy. In the 2013 budget, the government focused on increasing employment opportunities through the provision of 56,000 jobs in 2013 as well as focused on the education and healthcare sectors. To expand the SME sector and set up new industrial zones, the government has invited local and foreign capital in the private sector. These initiatives are likely to have a strong impact on the realty sector.

Economic Overview

Interest rates continue to head downwards

To boost lending to SME and other non-hydrocarbon sectors, the central bank held the interest rates steady despite the global uncertainty. The CBO announced that by the end of 2014, a minimum of 5% of total loans must be allocated to the SME sector. Meanwhile, the EIU forecasts interest rates to trend up from 2015, in line with movements by the Federal Reserve (the US central bank). It forecasts that the lending rate in Oman will average at 6.0% during 2013−17.

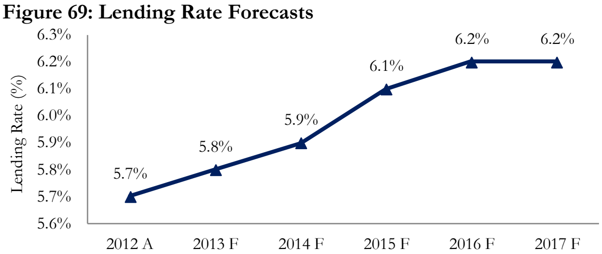
Figure 68: Oman Interest Rates



Source: Central Bank of Oman, June 2013

The Sultanate showcased confidence in the Omani Riyal's peg to the USD, by deciding not to join the proposed GCC single currency. The CBO insists that the peg will remain in place for the foreseeable future. However, in June, for the first time, Oman hinted that economic trends might eventually push Qatar into allowing its currency to fluctuate.

Figure 69: Lending Rate Forecasts

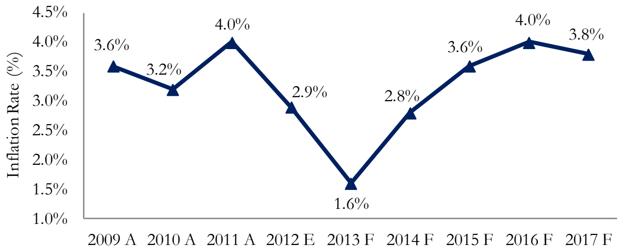


Source: EIU Country Report, January 2013

Inflation drops to lowest level since 2009

Inflation in the Sultanate is primarily affected by the prices of products that it imports, including food grains. However, the government uses an extensive subsidy system to contain global fluctuations in the prices of core goods and services.

Figure 70: Consumer Price Inflation



Source: EIU, August 2013

According to a monthly statistical bulletin released by the National Centre for Statistics and Information (NCSI), the country's inflation fell to 0.98% in June, the lowest level since December 2009. The fall is attributed to stable housing and utility costs and decline in the prices of certain imported items due to the strengthening of the USD against major Asian currencies. Average inflation for H1 2013 eased considerably to 1.8% on the back of softening of commodity prices, especially agricultural products, as well as a slowdown in awarding of major projects by the government. The EIU estimates the country's inflation to average at just 1.6% for 2013. However, in the medium term, inflation is expected to rise owing to robust domestic demand, rising wages and higher electricity and gas prices for businesses. Average inflation between 2014 and 2017 is estimated at 3.6%.

Real Estate Sector

Strong government spending boosts growth

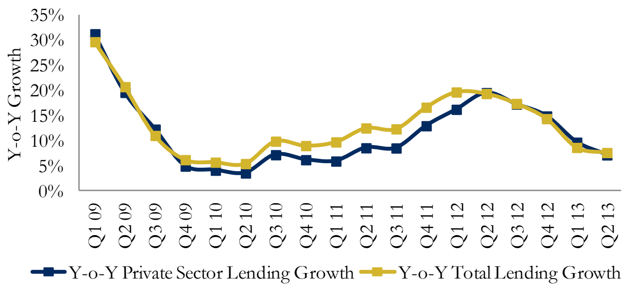
Oman's real estate sector is driven by increased government spending on development and infrastructure projects. Under the eighth Five Year Plan (2011–2015), budget allocation for development and infrastructure projects has been revised to OMR 16 billion, up from the initial projection of OMR 12.1 billion. The housing budget for 2013 has been increased by 45%, from OMR 323 million in 2012 to OMR 469 million.

Sustained by optimistic oil prices and expanding non-oil output, the economy of Oman remains positive. As a result, real estate sector is witnessing increased investor confidence which is evident from the developments of Integrated Tourism Complexes (ITCs), sophisticated residential projects, mixed-use tourism, and residential schemes, and a glut of stand-alone office and residential projects.

Retail loans and housing loans drop due to regulatory restrictions

Lending by commercial banks grew by 7.7% y-o-y in H1 2013, a marked slowdown from the 19.4% expansion in the same period in 2012. There have been concerns on the huge amount of personal loan that was used for luxury cars, mobile phones, leisure travel, etc. To address this issue, the CBO in 2012 capped 50% of the monthly income for EMI on personal loans with a maximum repayment period of 10 years. This led to a fall in private sector growth, from 19.6% in H2 2012 to 7.2% in H2 2013 (see Fig 71). It also capped 60% of the monthly income for EMI on housing loans with a maximum repayment period of 25 years. As a result, personal loan (that included housing loans) growth reduced to 3.9% in H2 2013 from 22.1% in H2 2012. Further, housing loan, as a percentage of total credit, fell to 39.6% in H2 2013 from 41.0% in H2 2012 (see Fig 72).

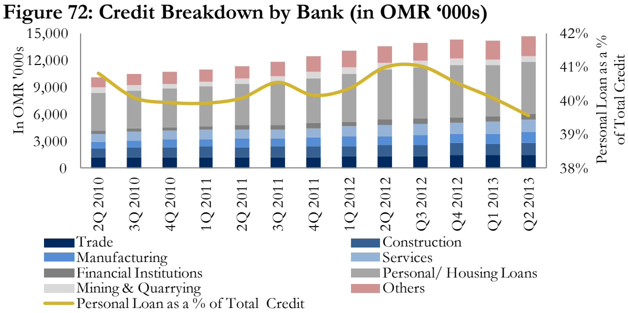
Figure 71: Growth in Total and Private Sector Lending by Banks



Source: Central Bank of Oman, Quarterly Bulletin June 2013

The CBO announced further curbs on personal lending in March 2013, lowering the maximum share of personal loans in a bank's total loans from 40% to 35%. Simultaneously, it raised the cap on mortgage advances from 10% to 15% to sustain the revival of the housing market. However, this decision has been postponed until June 2014.

Figure 72: Credit Breakdown by Bank (in OMR '000s)



Source: Central Bank of Oman, Quarterly Bulletin June 2013

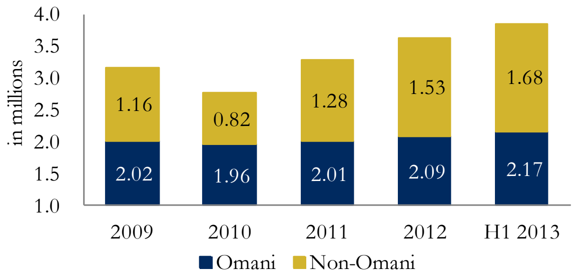
According to market analysts, growth in bank credit is expected to slow to 8–10% this year from ~15% in 2012, as the CBO's restrictions on personal loans continue to hinder the growth of banks' retail portfolio. However, the demand for credit from the corporate sector is expected to improve in H2 2013 due to improved business confidence in the industrial sector.

Residential Sector

Strong demographics and better wages back demand for quality residential space

Rapidly rising population, especially the expatriates, and an increase in the minimum wage in the private sector by ~48% resulted in a big boost to the residential real estate sector. The expatriate workforce has grown rapidly in recent years. According to NCSI, overall population grew by an estimated 14% in 2012 to 3.8 million, with expatriates accounting for 75% of the rise. The country's population is expected to rise to 8.3 million by 2050.

Figure 73: Population by Nationality



Source: Central Bank of Oman, Quarterly Bulletin June 2013

The rising expatriate population has led to an increased demand for residential units, which is expected to remain strong in the foreseeable period. In Q1 2013, the value of traded property surged 36.1% y-o-y to OMR 707.4 million. The demand for residential units is also expected to be fuelled by the increase in the minimum wage rate of Omanis working in the private sector. The minimum wage has been revised from OMR 220 per month to OMR 325 per month. This will lead to demand for better quality properties within the lower income housing segment. Meanwhile, demand for the already constructed well-designed houses is picking up among traditional Omanis, as they do not want to purchase land and then construct their houses. Additionally, under the Eighth Five-Year Plan, the government has emphasised human resource development, with spending on education and health to increase 55% and 88%, respectively. The plan includes creation of 200,000–275,000 jobs at an average rate of 40,000–45,000 jobs per year. These measures are expected to add to the demand for residential units.

Meanwhile, good quality apartments in prime locations have retained or even increased their value due to strong demand. According to the Ministry of Housing, real estate prices have seen a notable increase of 10–20% during the first half of this year, reflecting economic growth and return of investment activities. The launch of various projects, such as the Phase 2 of Muscat Hills and The Wave Marsa 2, clearly reflects strong demand.

The uptrend in the volume of transactions and rental rates continued during the quarter. Further, cheaper mortgage options and access to Islamic finance for buying properties continue to drive growth in the segment. Despite the significant developments in the residential segment in recent years, the rental market suffers from the lack of high-quality and well designed stocks to meet the lessee's expectations. The residential leasing market in Muscat is extremely active as the number of expatriates in Oman continues to increase. Interest from purchasers in the secondary market at ITCs such as The Wave, has shown a significant increase this year, but the majority of properties available are priced above buyer's expectations, leading to fewer transactions being completed.

Housing rental to remain competitive

The demand for high-quality residential accommodation is increasing owing to an increase in disposable incomes of the Omanis and the steady inflow of expatriates. In its 2013 budget, the government announced a housing assistance program, which includes construction of 4,000 houses at a cost of OMR 80 million, 250 houses in the wilayat of al Mazyonah at a cost of OMR 8 million, and 1,390 housing loans worth OMR 28 million under the framework of the housing loans program.

The two-tier market within the residential segment has increased rental gaps between prime developed and poorly designed areas. For example, there has been strong interest in residential apartments in the Tilal Complex—its rental values range from OMR 550–650 per month for a one-bedroom apartment; OMR 750–900 for a two-bedroom apartment; and OMR 1,000–1,300 for a three - bedroom apartment. These values are significantly higher than the average rental value in the Al Khuwair area.

Table 23: Monthly Residential Rentals of Apartments – H1 2013

Area	Type	(in OMR)
The Muscat Hills	2 BR FF Apt	950-1,250
The Wave	2 BR FF Apt	1,000-1,300
Shatti Al Qurum	2 BR FF Apt	700-900
Azaiba	2 BR FF Apt	450-550
Al Khuwair	2 BR FF Apt	400-600

Source: Amar Finance Research

A similar trend is seen in the case of villas that offer top quality construction and amenities. Good quality villas in the OMR 1,200–2,000 per month range are in shortage in central and western areas; modern apartments with facilities are also lacking. The trend is likely to continue in the near term, putting an upward pressure on rentals and making the market more competitive.

Table 24: Monthly Rentals of Villas in Oman –H1 2013

Area	Type	(in OMR)
The Muscat Hills	4 BR FF	1,750-2,200
Shatti Al Qurm	4 BR FF	2,000-2,200
The Wave	4 BR FF	1,750-2,300
Madinat Qaboos	4 BR FF	1,600-1,900
Azaiba	4 BR FF	900-1,000

Source: Amar Finance Research

Commercial Sector

Optimistic outlook for commercial office market; free zones act as catalyst

Oman continues to witness a fall in commercial property prices due to oversupply and muted demand. According to property experts, office vacancy rates in Oman stands at 25–30%. However, even as the overall commercial office properties market remains oversupplied, new superior quality office space will be supplied within smaller modular units. In Muscat, the stock of modern commercial office space has increased over the last few years, backed by growing economy, changing demography, diversification and privatization initiatives by the government. However, Grade A buildings that qualify the requirements of multinational companies remain undersupplied and this situation is expected to change in the next one year with the completion of office buildings, such as Al Rawaq Building in Qurum and Tilal Complex in Al Khuwair.

Oman is focusing on the development of free zones which is expected to have positive impacts on economic growth and investment and will also offer employment opportunities to the nationals. Currently, there are two new free zones under development—Al Duqm Free Trade Zone and Sohar Free Trade Zone. The Al Duqm free zone area is proposed to be built on a 24,000-hectare plot near the Duqm port, while the Sohar free zone is being constructed on a 4,500 hectare plot. The completion of these free zones is expected to boost the demand for commercial office space in Oman.

Rental gap widens in office space

Oman's commercial market has two very distinct tiers: space with adequate car parking and space without it. According to Savills, with an estimated 45% of all office space completed in the last 36 months still vacant, the market remains under acute rental pricing pressure. It further states that there are rumors that sizeable office development is taking place in emerging areas, particularly in the Ghala Industrial area despite inadequate car parking in the location. In addition, many completed buildings are 100% vacant 12–24 months after completion.

However, there is consistent demand for quality office space with adequate car parking facilities. According to Savills, smaller units, mainly those fitted out and ready-to-move-into are still in high demand, primarily among new startup companies. Offices from 80 to 150 square meters continue to lease fast and, assuming they have adequate parking, they command all inclusive rents of up to OMR 10 per square meter per month.

Meanwhile, municipalities are continuously striving to stop the usage of residential villas as commercial spaces by declining new commercial usage licenses for residential villas. This is likely to assist in increasing the demand for office space. At the same time, as existing users of such spaces are enjoying an official pardon and leases are being renewed with after receiving commercial approval.

Table 25: Monthly Office Space Rentals in Oman – H1 2013

Area	(OMR per sq m)
Shatti Al Qurm	6.5-9
Ruwi CBD	3-4
Al Khuwair	5-7
Qurum	5-6.5
Al Azaiba	5-8

Source: Amar Finance Research

Hospitality space continues to grow

Oman's tourism industry has maintained its growth momentum, with significant increase in the hotel occupancy rate and addition of hotel rooms, along with the on-boarding of new projects. The hotel occupancy rate rose from an average of 58% to 67% y-o-y in Q2 2013, despite a 4.5% increase in the hospitality space. Oman's "Vision 2020" plan supports the government's dedication toward the diversification of economy through the expansion of the tourism sector. This is supported by the fact that numerous prestigious projects are in the pipeline, and by the end of 2013, the county will witness addition of nearly 2,000 hotel rooms to the three-, four- and five-star hotel inventory, as reported by the Vice Chairman of National Bank of Oman. Further, Oman Tourism Development Company, the tourism infrastructure development arm of the government, along with its joint venture affiliates will add 3,650 rooms in the luxury (five and four stars) segment in the next five to seven years. These projects include hotels at Oman Convention and Exhibition Centre, Alila Jabal Akhdar Resort, Saraya Bandar Jissah, Muriya's hotels in Jebel Sifah and Salalah and Musandam Resort.

Major Projects

Table 26 lists major ongoing construction projects in Oman

Table 26: Major Projects

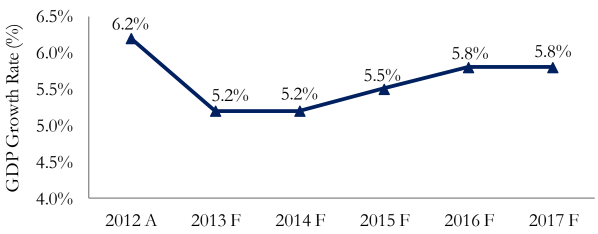
Project Name	Type	Value (USD billion)	Status
Oman Ministry of Finance - Duqm New Downtown	Community Development	20.0	Ongoing
The Wave - The Wave Muscat	Mixed Development	4.0	Ongoing
Sohar Free Zone	Economic / Free Zones	2.0	Ongoing
Omagine LLC-Omagine	Community Development	1.9	Ongoing
OTDC - Oman Convention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

Source: Zawya

Qatar

According to Qatar Statistics Authority (QSA), Qatar's witnessed economic growth at an average of 15% per annum in 2010-11 on the back of huge LNG output and gas-to-liquids production. The growth was further supported by expansionary monetary policy by the government and rising global hydrocarbon prices. In 2012 growth subsided considerably to 6.2%, with oil sector contributing 1.7% to the growth and the non-oil sector 10%. However, in Q1 2013, Qatar's real GDP increased swiftly to 6.2% y-o-y. EIU believes that since the country has completed the expansion of LNG output, the real GDP growth rate will slow down to 5.2% in 2013 and will increase thereafter maintaining an average of 5.5% over 2013-17. This growth will mainly be driven by non-oil sectors which are expected to grow at an average of 9% per annum. Further, growth is expected to be stimulated from the increased infrastructure investments on projects related to Football World Cup 2022.

Figure 74: Economic growth forecasts



Source: EIU Country Report, July 2013

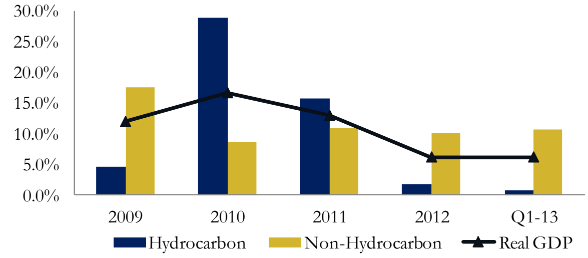
Meanwhile, Qatar witnessed a transition of power in June from the retiring emir Sheikh Hamad to his son, Sheikh Tamim, in a rare hand over by a hereditary Gulf Arab ruler for smooth transition. Experts and economists believe that Qatar is unlikely to see a change in macroeconomic policy despite having a new leader. In addition, there is likely to be any change in the country's aggressive international investment strategy in the short term. However, there could be a longer term shift toward domestic spending, for example, more money towards agriculture development at home rather than just land purchases abroad.

Economic Overview

Non-hydrocarbon sectors drive growth

According to Qatar's Economic Outlook 2013-2014 by the General Secretariat for Development Planning (GSDP), Qatar's real GDP growth in 2013 is estimated to increase to 5.3% from the earlier estimated 4.8%, and will drop to 4.5% in 2014, citing changes to its expected output of oil and gas. The country's pipeline gas production is expected to rise in 2013 and unscheduled shutdowns, which limited the output in 2012, are unlikely to be repeated. Also, in 2014, upstream oil and gas is likely to reduce as output from maturing oil fields tapers off and gas production hits installed-capacity limits.

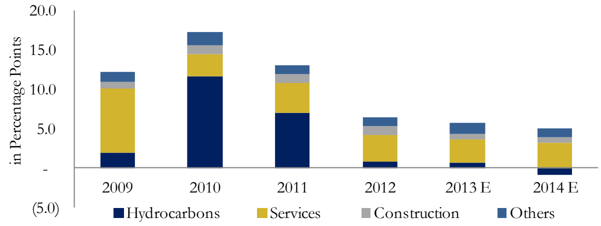
Figure 75: Contributions to Real GDP Growth



Source: Qatar Statistics Authority

With a projected 9.8% growth in the non-oil sector for 2013 and 10.3% in 2014, Qatar is already ranked as the country with the highest growth rate in the non-oil sector in the region. Further, Qatar's policy to diversify its economy toward the non-hydrocarbon sector is expected to get a huge boost with the opening of three economic zones in 2016-2017. These economic zones will be mainly dedicated to start-ups, innovations, and SMEs in the non-hydrocarbon sectors.

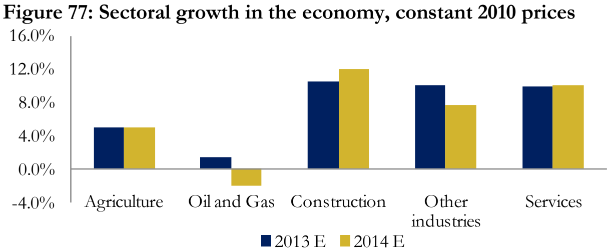
Figure 76: Growth in real GDP growth (percentage points)



Source: GSDP estimates based on QSA release dated 29 April 2013

As seen in Fig 77, the services sector, the largest contributor to growth in 2013 and 2014, is expected to expand by 10.0% in 2013 and 10.1% in 2014. Further, construction activity will also be an important driver of real growth in the non-hydrocarbon economy, and is forecast to expand by 10.5% in 2013, accelerating to 12.1% in 2014. Private construction activity, which is centered on residential and commercial buildings, including new malls, hotels and labor accommodation throughout Qatar, will also fuel growth. GSDP estimates total investment spending on infrastructure from 2013 to 2018 at USD 158.9 billion.

Figure 77: Sectoral growth in the economy, constant 2010 prices



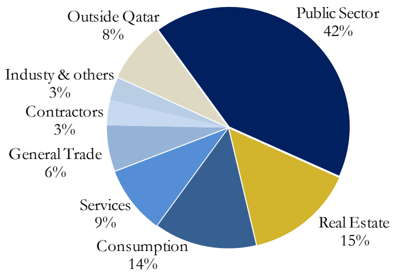
Source: GSDP estimates based on QSA release dated 29 April 2013

Domestic credit growth slows amid real estate exposure

As the QAR is pegged to the USD, the central bank cannot keep a large gap with US rates without inviting capital inflows. In August 2011, QCB cut its lending rate by 50 bps to boost private sector credit. This led to a 30-

month high of 22% y-o-y private sector credit growth in November 2011, before averaging to 16% in 2012 and 15% y-o-y in H1 2013. Meanwhile, credit growth to the public sector slowed to 18% y-o-y in June, after averaging 58% y-o-y in 2012.

Figure 78: Credit distribution in the economy, June 2013



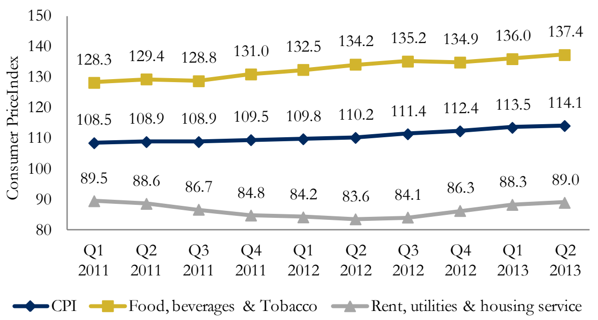
Source: Qatar Central Bank, Quarterly Statistical Bulletin, June 2013

While real estate accounted for 40% of the total private lending in 2012, in H1 2013, it already accounts for ~36%. Although this is not a cause for immediate concern, given the rising demand due to population and income growth, it might lead to a property bubble in the coming years. Further, real estate loans will be increasingly directed to infrastructure developments for the World Cup in 2022. Nevertheless, the banking system is well capitalized, with the lowest non-performing loan ratio in the region. Qatar will maintain its support for the banking system, retaining substantial equity stakes in domestic banks.

Real estate recovery fuels inflation

Qatar's average inflation in Q2 2013 increased to 3.5% y-o-y, partly due to increasing residential prices. EIU forecasts an average inflation of 3.5% in 2013 and expects it to increase further to an average of 4.8% in 2014-17 on the back of improved liquidity, increasing population, a pickup in projects market ahead of the World Cup, and strengthening of the housing market.

Figure 79: Consumer Price Inflation Index



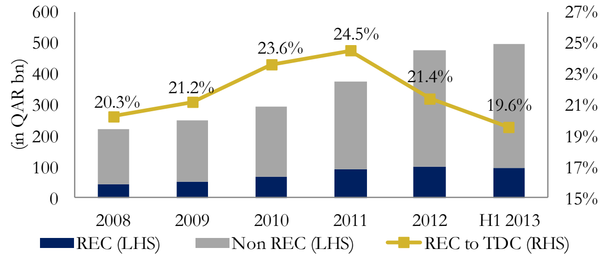
Source: Central Bank of Qatar, June 2013

Real Estate Sector

Realty lending slows in H1 2013

The Qatari banking sector, initially hesitant about funding the realty segment, gradually improved its exposure because of the government's capital expenditure plans to improve infrastructure for the 2022 FIFA World Cup. As per QCB, total lending to the sector picked up in 2010, with Qatar winning the World Cup bid. Since then, lending activities have increased, with total banking exposure to the sector reaching QAR 102.1 billion in 2012, a ~23% CAGR over 2007–2012. However, in 2013, credit growth declined, reporting a 4.6% fall in H1 2013 from 2012 end to reach QAR 97.5 billion at end-June. Also, real estate credit (REC) to total domestic credit (TDC) declined to 19.6% from 21.4% in end-2012. This is partly due to the slowdown in credit facilities to the public sector. Further, realty lending volumes declined in H1 2013 as there were fewer projects awarded and due to delays in tendering of few infrastructure-linked projects. Standard & Poor's estimated that the loan growth will decelerate to about 15% this year and onwards, as Qatari banks face risks from exposure to real estate.

Figure 80: Credit Facilities by Qatar Banks

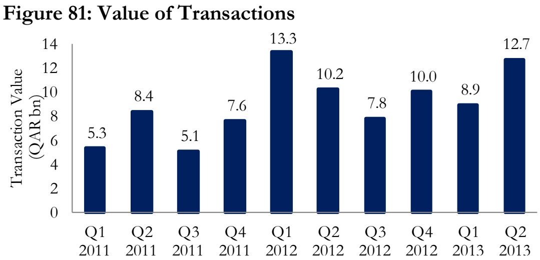


Source: Central Bank of Qatar, June 2013

Mega projects pipeline boosts realty sector

The realty sector, after a prolonged lull between 2009 and 2011, is witnessing a boom. Transaction value reached QAR 41.3 billon in 2012, a 57% y-o-y increase and land prices near the existing/planned projects observed a sharp rise. Despite this, 2013 recorded a sluggish start with lower transaction values compared to 2012 averages. The total transaction value during H1 2013 was QAR 21.6 billion, down 8% from QAR 23.5 billion in H1 2012.

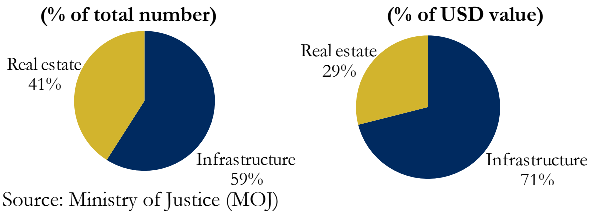
Figure 81: Value of Transactions



Source: Ministry of Justice (MOJ)

However, leading market players have expressed hope that Qatar's property market is set to rebound in the second half of 2013, when some of the key World Cup-related projects, such as Barwa's USD 5.5 billion worth island project off the coast of Doha that would include luxury villas and a water park, are expected to be launched. As per Zawya, the construction market in Qatar is valued at around USD 240 billion, of which 41% of the projects (in terms of number of projects) pertain to realty.

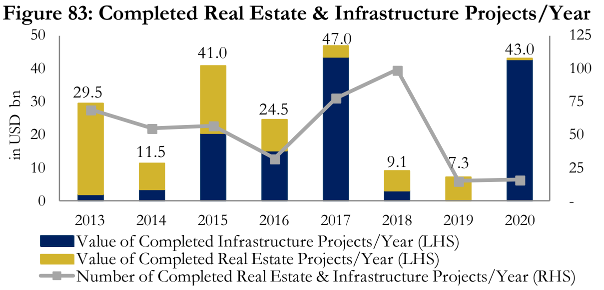
Figure 82: Sector Share of Ongoing RE and Infrastructure Projects



Source: Ministry of Justice (MOJ)

The onset of the boom promises prosperity for the country, but experts warn that it could lead to increase in house rents, which are already showing signs of an upswing. Land prices increased by 50% in 2012, while the asking price (property price before any negotiation), a key indicator of the real estate market, increased by 5–10% in Doha and its suburbs. The prices are likely to shoot up further by end-2013 or 2014 when Qatar's flagship projects, such as Lusail City, Oryx Island, Gulf Resort, are likely to begin construction, leading to a heavy influx of foreign workers and their families. With this, the demand for housing is likely to go up as the population would increase beyond 2 million from the current 1.9 million. Currently, the housing market is undersupplied, but the situation might reverse by the year-end, which may push up the rents. Meanwhile, QSA commented that the chances of a repeat of the home rentals peaking (as witnessed during 2006-08) are remote.

Figure 83: Completed Real Estate & Infrastructure Projects/Year



Source: Zawya

Realty sector may be oversupplied post World Cup 2022

Qatar is investing heavily in its infrastructure to prepare itself for one of the world's grandest sporting events. The strong growth in public spending is expected to help the country create new jobs and diversify the economy. In addition, it will push up realty sector growth, especially in Doha, as the expected increase in tourist inflow will help improve demand for hospitality space as well as the retail space. However, some sections of the industry are questioning the long-term viability of these investments.

The real estate market in Doha is growing rapidly, with massive developments to be delivered over the next 10 years. According to CBRE, in the next five years, Doha's residential stock levels will rise by 25%, total office inventory will grow by 50%, and hotel and hotel apartment supply will double. From a current stock of one million sqm of GLA, Doha's retail space will also double by 2017. However, this development is focused only on the upcoming one 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 shortages and escalating construction costs) and anticipated oversupply situations. There are concerns that after the World Cup event, the country may face a sharp fall in the demand of these properties and lead to a significant oversupply situation.

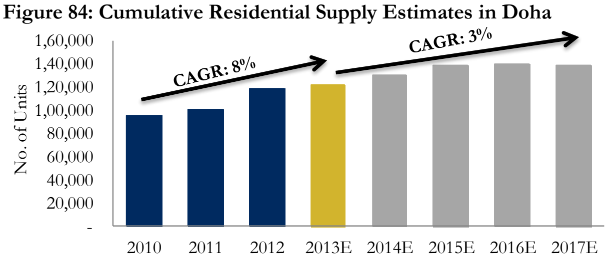
These concerns underscore a high need to look at alternate ways to increase demand after the event.

Residential Sector

Qatar residential property demand on rise

Qatar's residential real estate market, especially Doha, is going through acute housing shortages. This is mainly due to the increasing arrivals of expatriate population. Data released by the Qatar Statistics Authority reflect that in H1 2013 alone, ~130,000 new recruits arrived in Qatar, taking the population to 1.92 million from 1.83 million by end-2012. As more and more foreign workers arrive in the country to engage in development projects being launched for the 2022 FIFA World Cup, this unplanned population growth is expected to cross the two million-mark by the end of 2013. This in turn will result in pressure on housing and send the rents spiraling up.

Figure 84: Cumulative Residential Supply Estimates in Doha



Source: Colliers International

According to the 2010 census, Doha's residential market comprised 23,185 villas and 74,370 apartments. As per government projections, additional 60,000 units will be completed by 2020. The increase in population is likely to be followed by a similar growth rate in demand for accommodation facilities. As Doha is the business capital of the country, its population is likely to grow at a higher rate than that across Qatar. Collier estimates that the demand will be stronger than the supply. It estimates the residential demand in Qatar to reach 242,000 units by 2017, against the supply of 1,38,235 units by 2017 (fig 84). Doha's residential real estate market is expected to experience strong demand over the short to medium term as the economic and population growth continues.

Population rise to push up rent and sale price

In the last six months, sales prices remained relatively stable with a few localities recording an appreciation of 3-5%. According to Al Asmakh, the Pearl continues to be a preferable location for external retail investors. It stated that areas such as Al Sadd, Bin Mahmoud, and Al Nasr may fetch equal demand due to accessibility and usufruct status (right in a property owned by another, normally for a limited time or until death).

Table 27: Monthly Residential Rents in Qatar – H1 2013

Area	1 BR FF Apt	2 BR FF Apt	3 BR FF Apt
Al Muntazah	3,000-4,250	4,250-6,500	6,250-7,000
Najma	3,000-4,250	4,250-6,000	6,000-7,000
Bin Mahmoud	3,750-4,750	4,750-7,000	6,500-8,500
Al Maamoura	4,250-4,750	5,250-6,250	6,250-7,000
Bin Omran	4,250-4,750	5,000-6,500	6,250-7,000
Al Sadd	4,250-6,000	5,250-7,750	6,500-8,750
Old Airport	4,500-5,000	6,250-7,000	6,250-7,250
West Bay / Dafna	6,500-8,500	8,500-11,500	12,000-15,000
Pearl Qatar	9,000-11,000	12,000-16,000	15,000-19,000

Source: Amar Finance Research

In the meantime, rental prices have surged in the last six months. This rise was observed in both apartment and villa segments across Doha and in secondary areas. Many companies have been relocating their employees to nearby areas such as Al Wakra, Al Aziziyah, and Umm Salal because of increasing rentals in Doha. Additionally, these locations are favorable because of its better connectivity to the city center areas and growth of local shopping complexes. The overall outlook for the residential market within Doha city limits looks stable. However, with the expected rise in population, there may be an upward pressure on the outright sales and rentals.

Table 28: Monthly Rents of Villas in Qatar – H1 2013

Area	3 BR FF Apt
Al Dafna	14,500-20,750
Al Waab	12000-17,000
Al Hilal	10,750-13,750
Abu Hamour	11,000-14,000
Ain Khaled	10,250-13,750
West Bay	22,000-24,000
West Bay Lagoon	19,000-31,000
Al Gharrafa	9,500-13,250
Al Khraytiyat	8500-11,000

Source: Amar Finance Research

Commercial Sector

Strong prospects for office space

The office sector of Qatar underwent spectacular changes in the last ten years. This change was backed by the growing importance of West Bay which started gaining importance after government moved public departments to 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, in 2012, Doha's Grade A office space reached 2.2 million sqm net leasable area, with West Bay comprising majority of the space. It is expected to grow at a CAGR of 9% and reach 2.6 million sqm by 2017 (Fig 85).

The Doha office market, with current vacancy levels of 29%, remains largely in favor of occupiers due to the oversupply of office space and the on-going completion of space. However, there is a mismatch between occupier requirements in the market and supply. Prime and Grade A space in smaller sizes remains scarce, which has pushed rents in the prime area of the West Bay up to QAR 200-250/sqm per month. Office space available within the Diplomatic District is usually limited to large floor plates and, as a result, most occupiers in this area are large corporate offices of the oil and gas sector. Nevertheless, availability is still as high as 60%. Grade B office space, with rents of 110-150/sqm per month and the office space of less than 500 sqm, continues to dominate the Doha market in terms of provision and demand. As a result, its availability is low and estimated at around 15%. In the short term, activity in the office market is likely to increase as preparations for the FIFA World Cup 2022 and strong economic growth might attract more foreign investors and tenants, creating additional demand for office space in Doha.

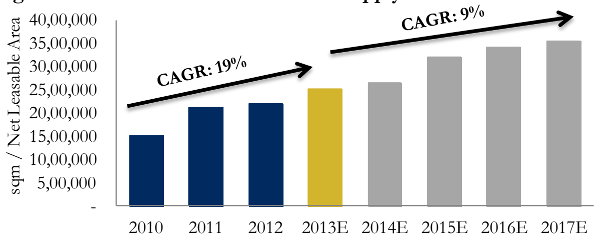
Table 29: Average Monthly Rents for Office Space – H1 2013

Area	QAR per sq m per month
West Bay	200-250
A Ring Road	110-125
C Ring Road	135-140
D Ring Road	115-130
Old Doha	105-125
Airport Road	140-145
Salwa Road	80-100

Source: Amar Finance Research

According to Colliers estimates, the demand for Grade A office space in Doha is likely to reach 1.9 million sqm by the end of 2013. The demand for office space is expected to rise with the increase in white collar workers. Considering the growth numbers projected by various analysts, Colliers estimated cumulative office demand to reach 2.7 million sqm by 2017. Given the demographic characteristics, with the majority of the labor force in the age bracket of 20-30, there will be a major focus on flexibility in design and more open/social office spaces.

Figure 85: Cumulative Grade A Office Supply Estimates

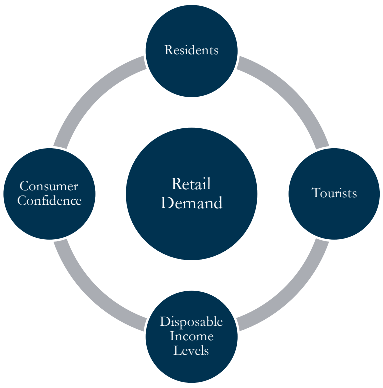


Source: Colliers International

Retail space to witness high growth potential in the short to medium term

The global economic downturn has certainly had negative effects to the spending power and consumer confidence, however, Qatar has been less severely affected for two reasons. First, the retail market in Qatar is less dependent on tourists, and is supported by the strong spending power of Qatari nationals. Secondly, Qatar has always maintained a high GDP per capita income. Globally, it had the highest GDP per capita in 2010 and in 2011 it secured the second position. The IMF anticipates that the country will continue to occupy its second ranking until 2016, and this directly supports the retail demand. Further, 61% of the Qatari residents are under the age of 35, and this set of population has a higher propensity to consume. They are the main contributors to demand.

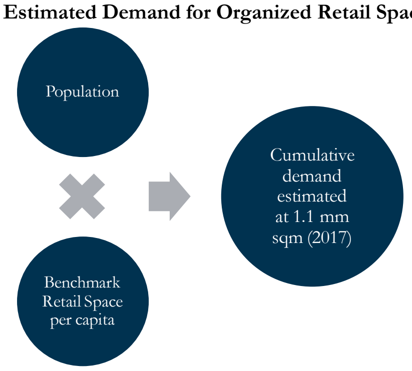
Figure 86: Retail Demand Drivers



Source: Colliers International

Due to higher demand for organized retail, construction activities of several malls have been restarted. Ezdan Mall, with 40,000 sqm of GLA, was initially scheduled to open in 2012 but was delayed until 2013. Also, Gulf Mall with 80,000 sqm GLA, was initially scheduled for 2012, but delayed to 2013. Meanwhile, in its Q2 2013 report, Colliers revealed that organized retail space in Doha reached 504,000 sqm of GLA by end-2012. Doha City Centre, Villagio, and Porto Arabia alone accounted for 65% of total retail supply. Provided construction plans are completed, an additional supply of 1.48 million sqm of GLA is likely to enter the market between 2013 and 2020, indicating an increase of 294% from the current supply.

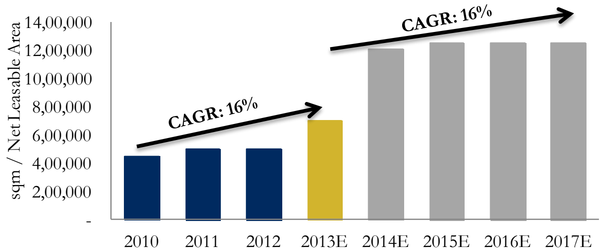
Figure 87: Estimated Demand for Organized Retail Space



Source: Colliers International

The International Council of Shopping Centers (ICSC) has issued a guideline suggesting that developed nations can absorb a supply of 1.1 sqm GLA per head of population for organized retail space. In line with this international benchmark, Colliers estimates the demand for organized retail space to reach ~986,000 sqm /GLA in 2013 and 1.1 million sqm /GLA in 2017. Qatar's relatively high demand for retail space is currently sustained by its high per capita income. Tanween's Q1 2013 report projected the asking rental rates in some upcoming malls in Qatar to increase by 20-30% in the coming year compared with the existing rates, indicating a bullish market outlook.

Figure 88: Cumulative Total (organized and unorganized) Retail Supply Estimates



Source: Colliers International

Qatar continues to lead in hospitality growth

Qatar continues to be one of the fastest growing tourism destinations in the GCC, resulting in a sharp rise in the hospitality space. Last year, according to media reports, Qatar topped the GCC region with 110 new hotels under construction. The number of hotel rooms in the country has already crossed the 10,000-mark, standing at 13,407 in 2012. While it has already gained popularity as a local hub for business tourism, the country also strives to establish itself as a leisure destination, backed by massive spending plans in the context of preparations for hosting the World Cup in 2022. Qatar Tourism Authority (QTA) revealed that the hotel occupancy rate was 58% in 2012, a slight fall of 3% against 2011. Occupancy levels reached 67% in H1 2013, indicating a rebound.

As per the World Travel and Tourism Council, the direct contribution of travel and tourism to Qatar's GDP reached QAR 12.4 billion (1.8% of total GDP) in 2012. It is forecast to rise by 7.1% in 2013 and at a CAGR of 4% from 2012 to 2023, one year after the World Cup. Qatar had earlier stated that it aimed to attract high-income tourists focusing on business travel and high-end luxury vacations. However, a new strategy of "diversification" seems to be underway, which aims to entertain a range of tourism facilities and activities as well as hotel accommodation. In addition, the government intends to involve the private sector in the process, especially when it comes to developing leisure tourism, where the government would be the strategy designer without necessarily owning, or being the developer itself.

The QTA targets to achieve a growth rate of 20% over the next five years. Along with the awaited USD 15.5 billion new Doha International Airport, an expansion in hotel capacity is on track. After completion, the airport will have an estimated capacity to handle 50 million passengers and 320,000 planes per year. Its prospective opening will bring more transit passengers to Qatar, encouraging transit travelers to enjoy the country's tourist attractions. To meet FIFA's projected requirements of 60,000 hotel rooms, Qatar has 21 new upcoming hotels in the next five years that will add 45,000 additional rooms to its existing capacity.

With a large pipeline of new projects to be delivered in the coming years, Qatar's hotel sector will continue to experience challenging conditions in the near future.

Major Projects

Table 30 lists the major ongoing construction projects in Qatar.

Table 30: Major Projects

Project Name	Type	Value (USD billion)	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

عمار للتمويل والإجارة
AMAR
FINANCE & LEASING

Sharq Area, Ahmed Al-Jaber St., Al-Bodour Tower P.O. Box: 28776 Safat, 13148 Kuwait
Tel: +965 1826050 - Fax: +965 22473507 www.amarfinance.com