



MULTIPLES GROUP
PRIVATE EQUITY & INVESTMENT BANKING

The background features a blue-tinted city skyline at night, with numerous skyscrapers and lights. A semi-transparent blue overlay covers the left side, and a white vertical bar is on the right. A dark blue rectangular box is positioned in the lower-left area, containing the title text.

Real Estate Sector

2019

About Multiples

We are a boutique private equity and investment banking firm, based out of Dubai, Cairo and Nairobi, licensed by the Registrar of Companies in the DIFC and under the Egyptian and the Kenyan Investment Laws.



Private Equity

Through Dubai office, we invest directly in different focused investments in the Middle East and Africa under specific sectors and areas of business, which include services, real estate, construction, healthcare and financing solutions.



Investment Banking

Through Cairo and Nairobi offices, we offer various financial advisory services for different clients in diversified sectors across the region. We focus our efforts on structuring and placement services for successful brown field projects as well as promising green field project in selected sectors. We strategically collaborate with global business associates under a structured platform 'Multiples Associates Platform' that further widens our presence.



Fundraising Desk

Our Fundraising Desk is connected to a network of more than 1,100+ contacts in 850+ institutions in the region and globally, with the highest coverage for the Middle East, North and East Africa.



Research Center

Our Research center aims to keep our stakeholders and network of investors well informed about the economic landscape and the different market dynamics in the key markets of MENA and East Africa through periodic reports.

Disclaimer

All the data provided in the report are updated according to the latest data released in Q4-2019 by the listed references.

Real Estate Sector

EGYPT





I. Introduction

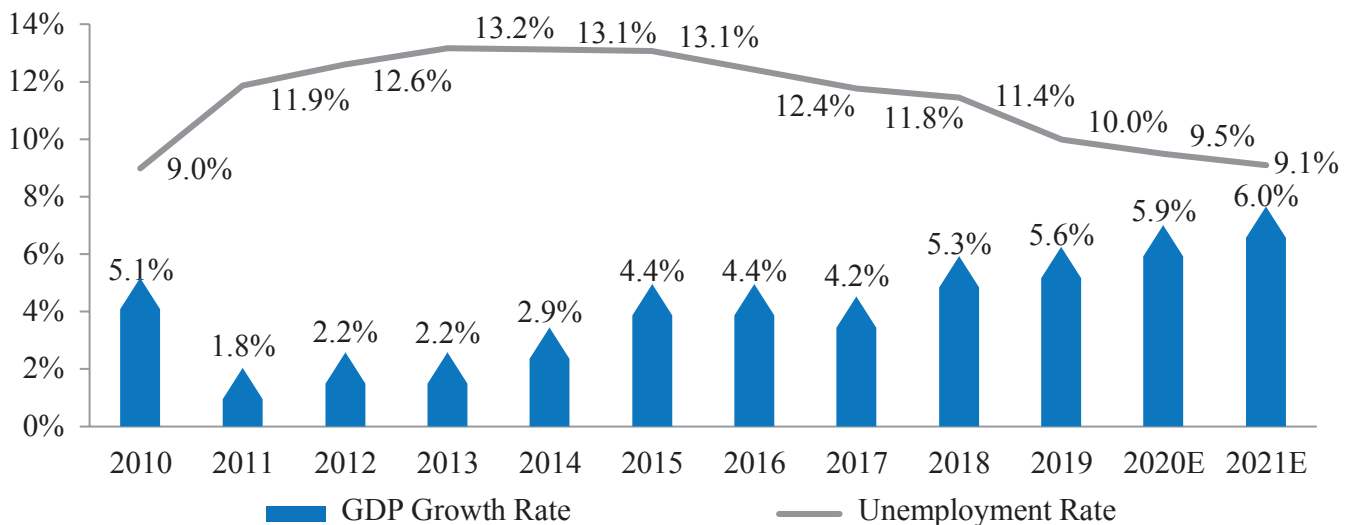
- The property market in Egypt remains one of the highest growing industries due to the country's ongoing population increase. The demands for both **residential and commercial communities** continue to increase every year. Accordingly, the Egyptian housing industry is among the most promising markets, as the country's population is coming closer to 100 million, which is why the government is working toward expanding the habitable land area and establishing new urban communities around Egypt, aiming to accommodate the population growth and encourage people to move back to their hometowns outside of the overpopulated Cairo.
- **Following the EGP flotation**, Egypt has witnessed a dramatic shift and increase in the real estate market; seeing a significant demand for real estate. As a result, the country has begun to introduce **new cities** with impressive real estate projects, such as the New Administrative Capital (NAC), New Alamein and New Mansoura.
- Egypt is among the most improved economies in the **World Bank's Ease of Doing Business report**; the country jumped **eight spots** to rank 120 out of 190 countries in 2019, making it to the index's top performers and this was due to the implementation of regulatory reforms that facilitated doing business in several fields compared to last year. In 2020, Egypt is ranked **114** out of 109 according to World Bank Doing Business 2020 report.
- It is worthy to mention that **Egypt and the UAE** hold the largest volume of **under development branded homes**, accounting for around **21%**, with the former country currently having two branded residence schemes and 14 projects in the pipeline, according to Invest-Gate reports.
- The US-based commercial real estate services firm JLL has unveiled that Cairo's property market saw a **positive performance** across all sub-sectors in Q3-2019, including hotel, residential, retail, and administrative developments.

- This report will examine the four main subsectors of the real estate market; demand in the residential market remains strong as it is supported by a growing population and a high marriage rate. Nevertheless, the **economic reforms** eroded the household's disposable income and intensified the price sensitivity for middle income brackets. Developers are introducing **longer payment plans** (up to 10 years) and smaller units to be able to compete with the changing market dynamics.

II. Macroeconomic Indicators

- The Egyptian economy is demonstrating signs of **economic recovery** where reforms have been implemented including the introduction of a **new investment law** that aims at removing bureaucracy and facilitating investments. Subsequently, the market confidence is returning cautiously, and capital flows are increasing. In addition to the accelerating growth rates that reached **5.6%** in 2019, compared to 5.3% in 2018 and is expected to reach **5.9%** in 2020 according to the IMF estimates.
- Breaking down the GDP, there was an **increase in private consumption**, which is a result of the decreased inflation. There was a boom in the construction sector and the governmental spending due to the accelerating establishment of the New Capital which will reflect on the GDP. The increased spending by the government and the consumers aided in boosting the GDP growth rate and will continue to have that effect resiliently which was expected to increase to **5.6%** by the end of 2019.
- The unemployment rate **declined by 2.8%** in 2018 reaching **11.44%** compared to 11.77% in 2017, aiming towards the targeted 10% in 2019 and which seems achievable whereas the ratio reached **8.1%** in Q1-2019.

Macroeconomic Indicators

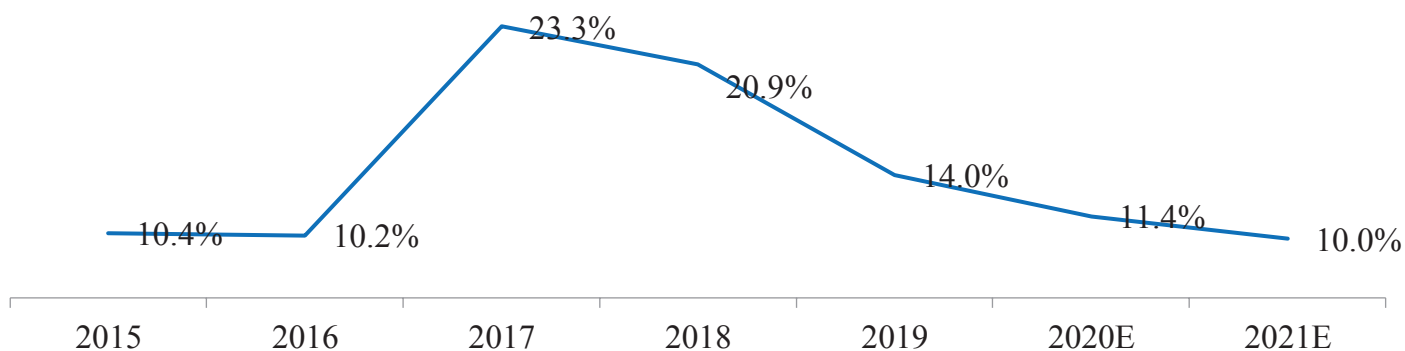


Source: Central Bank of Egypt (CBE) and IMF

Inflation Rate

It is expected to decline reaching **11.4%** by the end of 2020 compared to 14% in 2019. It is also expected to further decline reaching **10%** by 2021. Overall, average annual inflation should ease, returning to single digits as the pound appreciates against the US dollar, falling to **7.5%** in 2023.

Inflation Rate

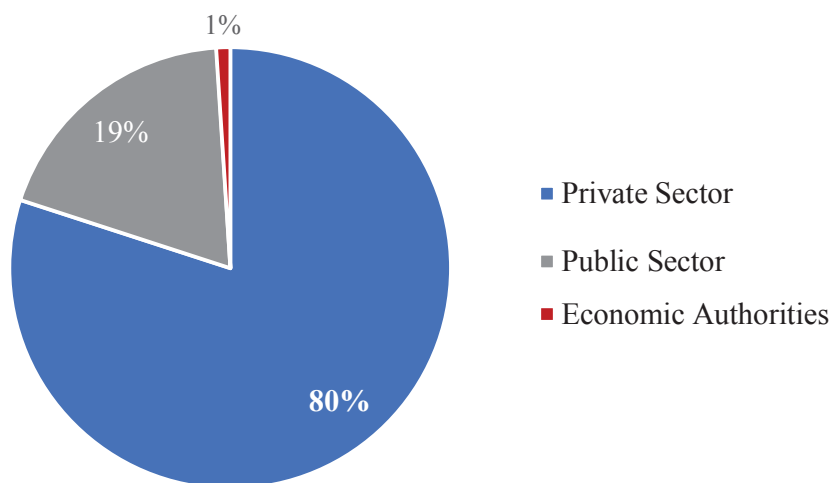


Source: Central Bank of Egypt (CBE) & International Monetary Fund (IMF)

Investment Distribution

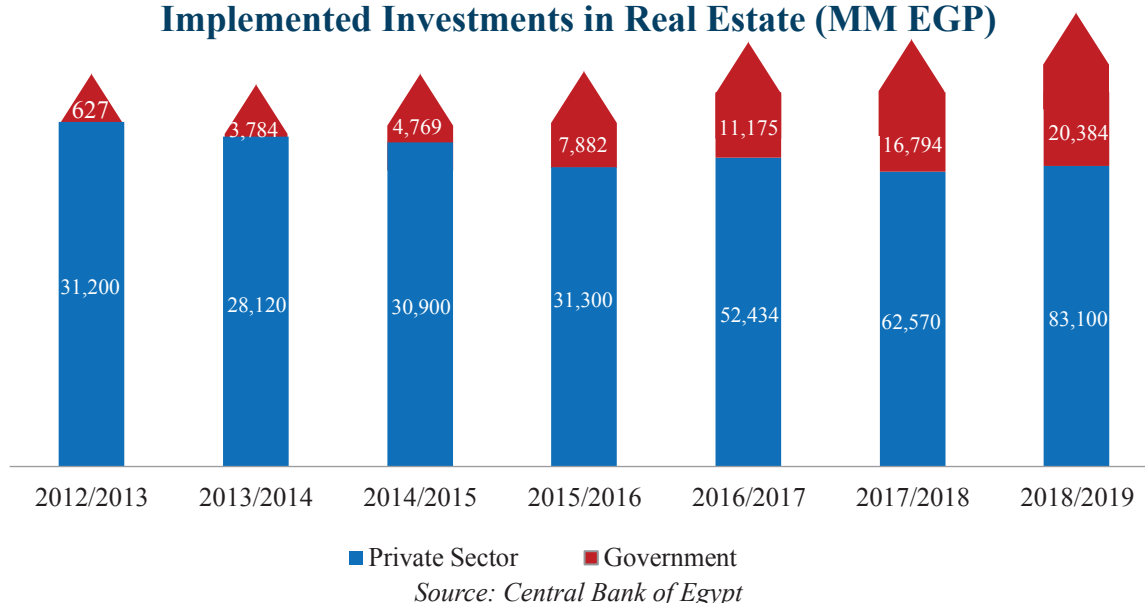
- The **private sector** is still playing the dominant role in the real estate market as it contributes **80%** of investments in the real estate. On the other hand, the government is working on managing the real estate market given the new projects established which includes the new administrative capital, which is expected to absorb **5 to 7 million residents** and include both government related entities and housing projects.

Real Estate Investments by Sector in 2018/2019



Source: Central Bank of Egypt & Invest Gate

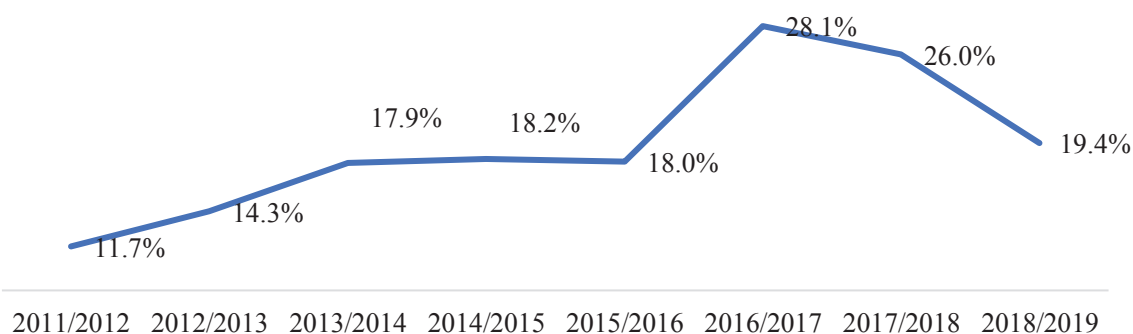
Implemented Investments in Real Estate (MM EGP)



III. Real Estate Sector Overview

- The main challenge facing the real estate sector in Egypt is the discrepancy between supply and demand. More housing units are constructed but the type of housing is mainly **targeting higher** income brackets and not in line with the growing demand for smaller units, in a country whose majority belongs to **middle income** earners, where purchasing power got adversely affected by the costly reforms that triggered inflationary hikes.
- Most of the new housing is highly priced (mainly villas and compounds) and this kind of units is favored by Egyptians who live abroad, which means that such units will remain unoccupied. Foreign developers gained a huge comparative advantage since the currency devaluation increased their **purchasing power** by almost **61%**.
- Real estate sector grew by **19.4** in 2018/2019, due to the increasing demand for housing units.

Real Estate Growth Rate



Source: Central Bank of Egypt

IV. Demand Drivers

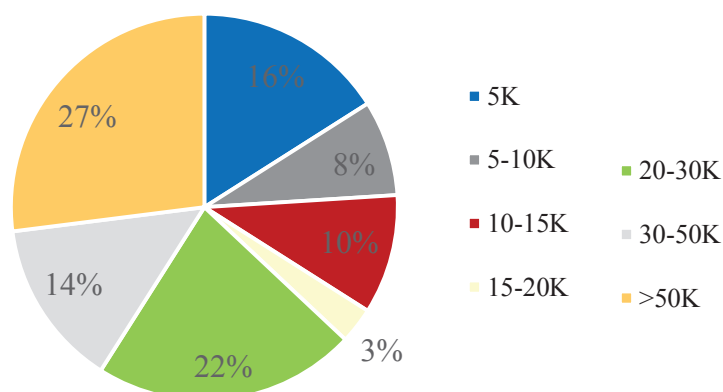
Volume

- **Egypt's demographics** had been the main driver of residential demand, as is the case in many high-density countries, with the population growing around 1% to reach roughly 98.1 million, excluding expats, in 2019, based on official figures by the Central Agency for Public Mobilization and Statistics (CAPMAS).
- On the other hand, the **property market saw a decline in the volume of demand** in 2019. According to Egypt's property listing platform Aqarmap, the real estate index recorded 2,810.4 points in the first ten months of 2019, a decline of 9.5% from the 3,108.4 points registered in the corresponding period last year.
- Based on the 2018/2019 estimates of the Arab African International Securities (AAIS), the overall demand in Cairo and Giza is mostly dominated by **middle- and low-income** classes at **71% and 14.2%**, respectively. In addition, a solid majority (70%) of potential purchasers' shop for properties with a maximum price tag of **1.5 MM EGP** in 2019.
- In contrast, market experts see the high-end residential units remain to be an integral part of the private housing supply, leaving the larger portion of those falling below the upper-income class mainly served by the government's offerings only.

Buyer Demographics & Preferences

- The change in this year's demand volume reflected a shift in the type of potential buyers, hence the preferences. In 2019, a whopping of **63%** of willing purchasers fell into the bracket of **20,000 EGP to over 50,000 EGP**, while only **24%** of those who can afford to buy units earn below **10,000 EGP**.

Monthly Income Levels

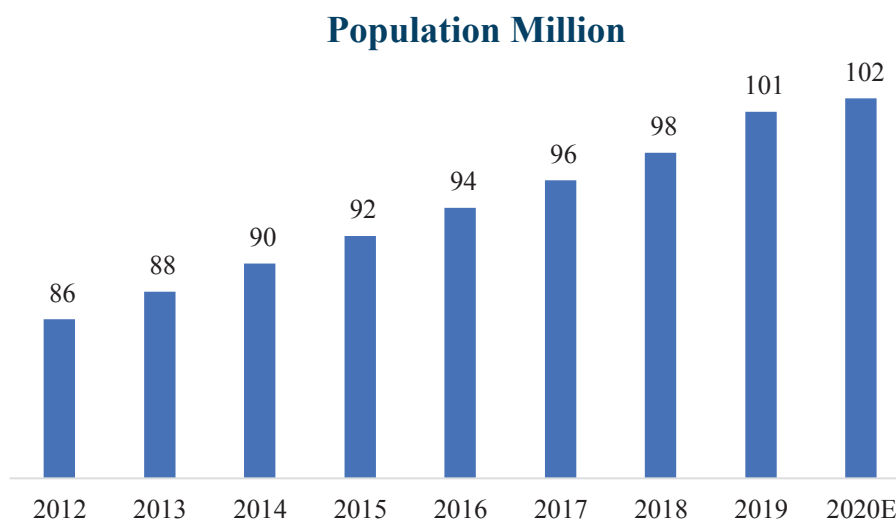


Source: Invest Gate

- It is worthy to mention that **71%** of prospective investors looked for apartments, while only **23%** preferred villas.
- The **unit price hikes** fueled the demand of actual home seekers for rentals as an internal solution this year. However, **78%** of potential buyers still prefer to purchase rather than rent.
- **The resale market in 2019** approaches its end, mainly driven by the **declining interest rates** since February, with the overnight deposit rate reaching **12.25%** in mid-November compared to **15.75%** in February.

Population Growth

- It is one of the main drivers of the **Egyptian real estate market** as it is mainly fueled by the fast-growing population that hit more than 101 million by the end of 2019, according to the World Bank.
- Additionally, there are around **900,000 marriages** happening every year as they are looking to move into their own new homes and invest in property for the future. This is considered a major contributor to the increased demand at all income levels. Also, upward **mobile families** are always looking to either upgrade from small apartments to bigger ones or from big apartments to villas. Not counting new business owners and entrepreneurs, who are constantly seeking prestigious offices for their businesses.
- According to World Bank, the population is expected to reach **102 million in 2020**. Such steady population increases pose further pressures on Egypt housing sector that is not satisfying the currently high demand where 175,000 to 200,000 units are needed every year to meet the shortage in housing units that is equal to 3.5 million.



Source: World Bank and World Meters

International Companies and Second Homes

- Middle East Rating and Investors Services (**MERIS**) estimates that the **annual demand** is approximately **750,000 units**, broken down into 480,000 for newlyweds, 50,000 for old buildings replacement and 220,000 for marginalized communities. However, the demand for housing units remains high.
- Households are hedging against inflation through investing in a **“second home”** or upgrading to satellite cities. Moreover, the demand for new and modern offices is on the rise as international companies are relocating to **satellite cities**.

Savings and Gulf Crisis

- Despite the increase in unit prices, local demand for residential units continue to be strong as the **purchasing power** is driven by **savings** not income level. On the other hand, **regional investors** have more confidence in the real estate sector due to considerable **rate of return** on investment. **Egyptians working abroad** now have a greater ability to invest in Egypt as their purchasing power effectively **doubled** in EGP terms.
- The **Gulf Crisis** impact on Egyptians working in GCC countries is reflected in the rise in real estate investment in Egypt due to its **prominent security** factor. Egyptians are suffering from job losses in the Gulf; thus, they would like to **secure** their **savings** and hedge against inflation; hence they resorted to real estate due to asset repricing.
- According to the IMF, the contribution of **remittances to GDP** is expected to slightly decline to **7%** in 2019/2020 compared to 8% in 2018/2019. Egypt was considered to be among the world’s top recipients of remittances in 2018/2019, where the CBE reported that remittances increased by 8% y-o-y in reaching **25.5 BN USD** and is expected to further increase to **28.7 BN USD** in 2019/2020.

V. Supply Overview

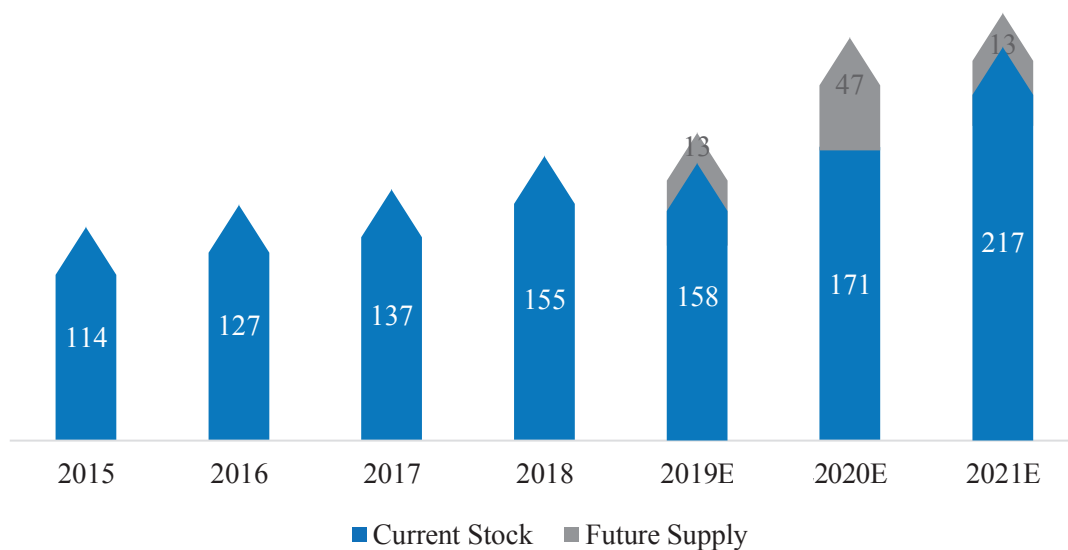
- **On the supply front**, the total of **158,000 residential units** has been implemented in Greater Cairo until Q3-2019, with **11,000** others scheduled for completion by year-end.
- Egypt’s overall real estate supply has been generally witnessing an upward trend for two consecutive fiscal years and Invest-Gate expected a **9%** growth in 2018/2019, with the pipeline volume most likely bringing in **356,550 residences**, compared to 326,263 units in the prior-year period.

- Developers are adjusting to the new market conditions; whereas the new investment law recently passed aims at removing bureaucracy, relaxing foreign ownership, tax windows and facilitating profit repatriation. Moreover, the government is adopting a **public-private partnership (PPP)** while auctioning more land, hopefully this would help create new development opportunities given that the government directs its efforts towards **reducing corruption** and **increasing transparency**.

The Residential Market in Cairo

- The residential market is still supported by strong demand from **Egyptians working abroad** and **savings**. Most developers are adopting flexible pricing strategies alongside offering smaller units.
- No new residential supply was delivered to the market in Q3-2019. Around 11,000 are scheduled to complete by year end. Two of Egypt’s biggest residential developers, **SODIC and Emaar**, have recently announced new gated community projects in the west of Cairo (The Estates and Emaar West respectively). The increased interest in the west reflects the lower land prices and therefore better affordability compared to New Cairo.
- In **2020** it could witness an unprecedented increase in residential supply, with **46,700 units** proposed.

Residential Supply (000’s Units)



Source: JLL Cairo Real Estate Market

- **Sale performance in New Cairo and 6th of October:**

Villa sale prices in the secondary market continued to increase in Q3-2019, by **13%** in New Cairo and **11%** in 6th of October. On an annual basis, villa prices increased at a faster rate in 6th of October, registering **24%** growth. Meanwhile sale prices in New Cairo grew by just **2%** y-o-y.

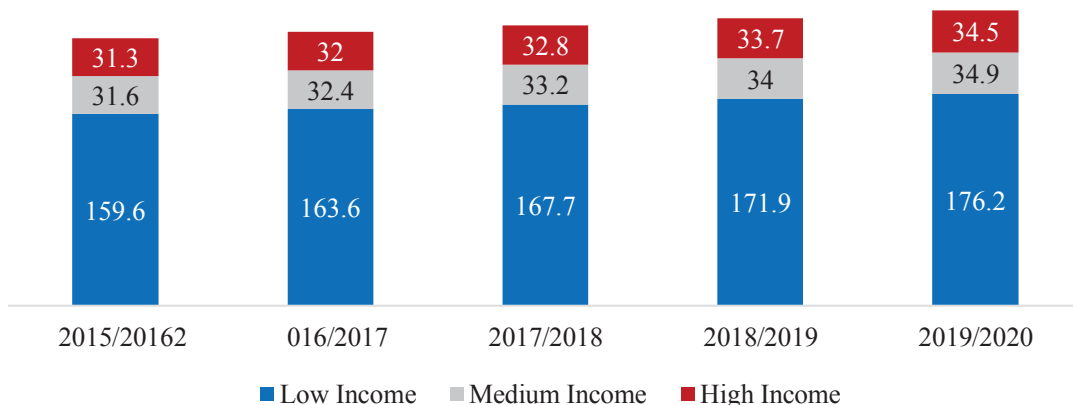
- **Rent performance in New Cairo and 6th of October:**

Average rental rates **increased across both villas and apartments** during Q3-2019 except the villas in 6th October which declined by **2% q-o-q** and this was due to newly launched projects at relatively competitive prices and flexible payment plans.

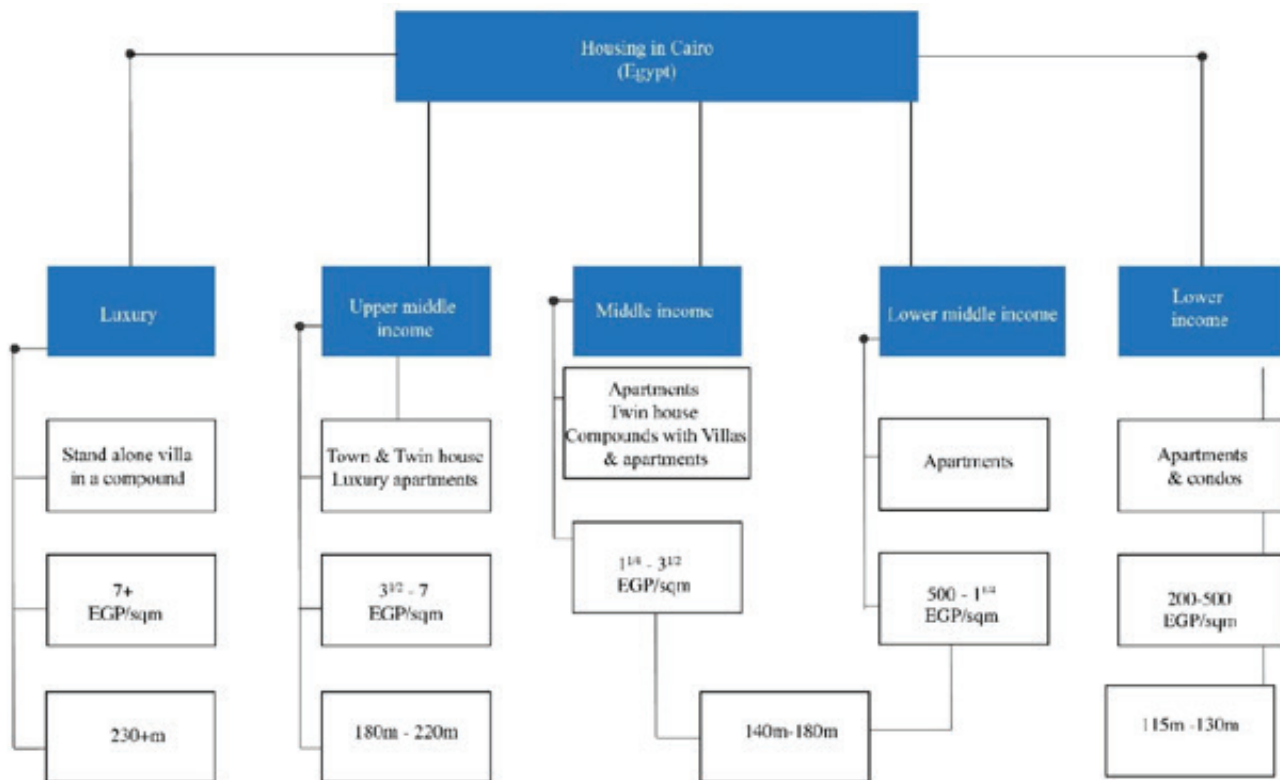
Villa rents performed strongly last year, increasing by **24% in New Cairo**. Further growth in rents is anticipated in New Cairo over the next 12 months, while rents in 6th of October are expected to remain **largely unchanged**.

- Affordability in the residential market is illustrating the **supply-demand gap** as there is an abundance in supply of **mid-high to high end housing**, however, demand is more inclined towards lower middle and low-income housing. Around **52%** of Cairo residents can afford units priced between **26,000 USD** and **35,000 USD**. Almost half of households (**49.2%**) are not able to buy the median home priced at **225,000 EGP** a value that exceeds the House Price to Income (HPI) ratio of 6.6% according to the Built Environment Deprivation Indicator (BEDI) national map. Thus, developers need to fill the gap by accommodating for the consumer who is looking for a good value for money.
- **Supply in the luxury category** is quite significant relative to its demand. However, the high-end developments are only affordable to almost **0.2%** of total households. According to property finder, there is a moderate housing bubble due to the supply-demand imbalance where supply of apartments exceed demand by **10%** for the price range more than **4 MM EGP**. Thus, demand is concentrated amongst **Egyptians living abroad** nevertheless, there is no leverage as cash payments are quite common, and developers are supported by **high equity levels**. Prices are forecasted to flatten rather than fall altogether during the next period.

Number of Units Needed in Cairo & Giza (K Units)



- The diagram below shows the housing classification in Egypt by income level.



Source: Invest Gate

As for the **lower income** housing, there is a strong demand for a “**first home**”; therefore, there is little, or no housing bubble being formed. As units are quite expensive, the extended payments plans have enabled lower income brackets to upgrade into better areas. Conversely, the **underprivileged population** are hardly hit by the economic reforms and further facilitation methods need to be adopted. As for the **28%** living in poverty, they **cannot afford** social housing nor pay the monthly installments. Thus, there is a **supply-demand gap** in the lower income housing, which can be adjusted by an efficient public private partnership providing an affordable option. The social housing law and fund shall support in this regard.

The Office Market in Cairo

- The office market was the most **negatively affected real estate segment** by the flotation as contracts are quoted in USD, thus rentals effectively doubled post-flotation; nonetheless, landlords responded by offering lease in EGP instead or capping dollar rents. New Cairo is the **most active location** with office buildings on the 90 road under construction.
- **No new office buildings** were delivered in Q3-2019, leaving the total office stock in Cairo at around **1.1 million sq m of GLA**. A further 23,000 sq m of GLA is expected to be completed in Q4-2019, with around 156,000 sq m of office space potentially completing next year.

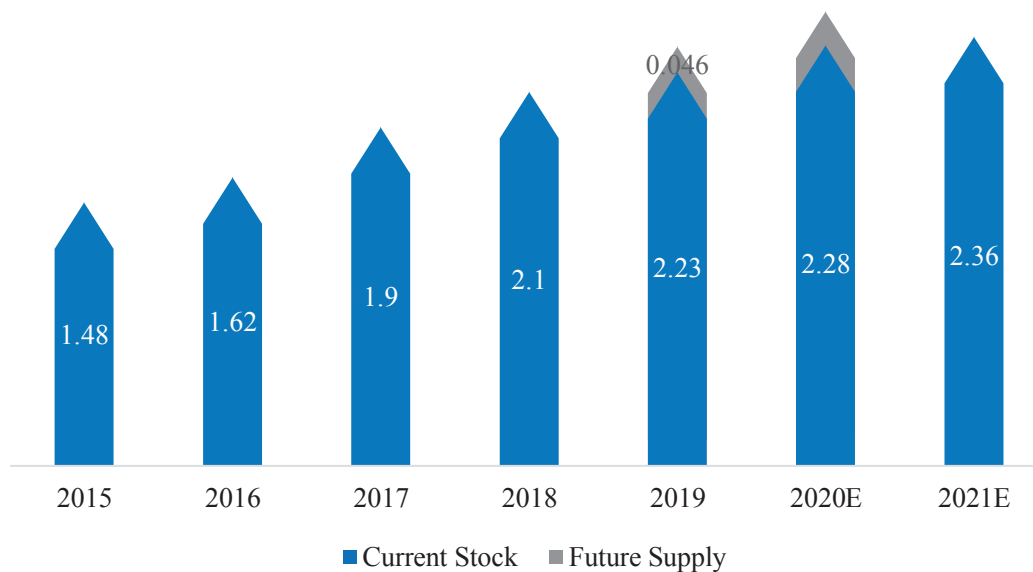
- Developers are focusing on delivering more flexible office space. **Samcrete** recently acquired the **American University in Cairo's former dorms in Zamalek** to create a mixed-use development including co working space. Another major flex space operator is currently seeking sites to roll out their city-wide expansion plans.
- **Flexible offices** may also emerge as an attractive option for companies from Cairo to the New Administrative Capital.
- **Demand for office space in Cairo** for regional service centers is also booming, as Cairo is becoming a service center hub for companies from the Middle East and Europe. **Flexible** offices and co-working spaces are gaining momentum especially with startups and small to-medium enterprises (SME's). These solutions provide tenants with a more cost and time efficient **solution** to setting up a business, while operators gain a competitive edge over the upcoming supply of traditional office space.
- **Office rents in Center and East Cairo** have risen by between **7% and 9%** in Q3 -2019. New Cairo (Cairo Festival City) and Downtown Cairo (Nile City Towers) are competing as the prime office location. New Cairo offers a more modern business district and closer proximity to New Administrative Capital, while Nile City Towers offers a downtown location bordering the overhauled Maspero Triangle.
- **Office rents in West Cairo** have improved significantly by **11%** due to the strong demand in both existing high-end gated communities (such as SODIC's Polygon) and other recently announced projects.
- **The average vacancy rate across Cairo** dropped to **5%** in Q3-2019, reflecting strong demand and limited new supply.

The Retail Market in Cairo

- Retail owners are becoming more flexible as the EGP devaluation negatively affected **international brands** and forced many to restructure their operations. Conversely, **local retailers** are seizing the opportunity to **expand**.
- Q3-2019 saw the handover of **Almaza City Center**, adding approximately 104,000 sq m of retail GLA to the market.
- **The slowdown in the future supply** pipeline reflects the disruption to the market from the growth of e-commerce and a shifting of focus to merging locations within Egypt.
- **Prime retail rents** increased to **21%** in Q3-2019. Further growth in retail rents is expected over the next 12 months.

- Retailers are also enhancing their in-store experiences in addition to investing in their **online presence** as they seek to implement omnichannel strategies in response to changing consumer patterns and trends.
- **Some brands** that have not entered the market in a full-store retail format are setting up **pop-up stores** and adopting specialty leasing approaches within major developments in order to test market accessibility and consumer demand.

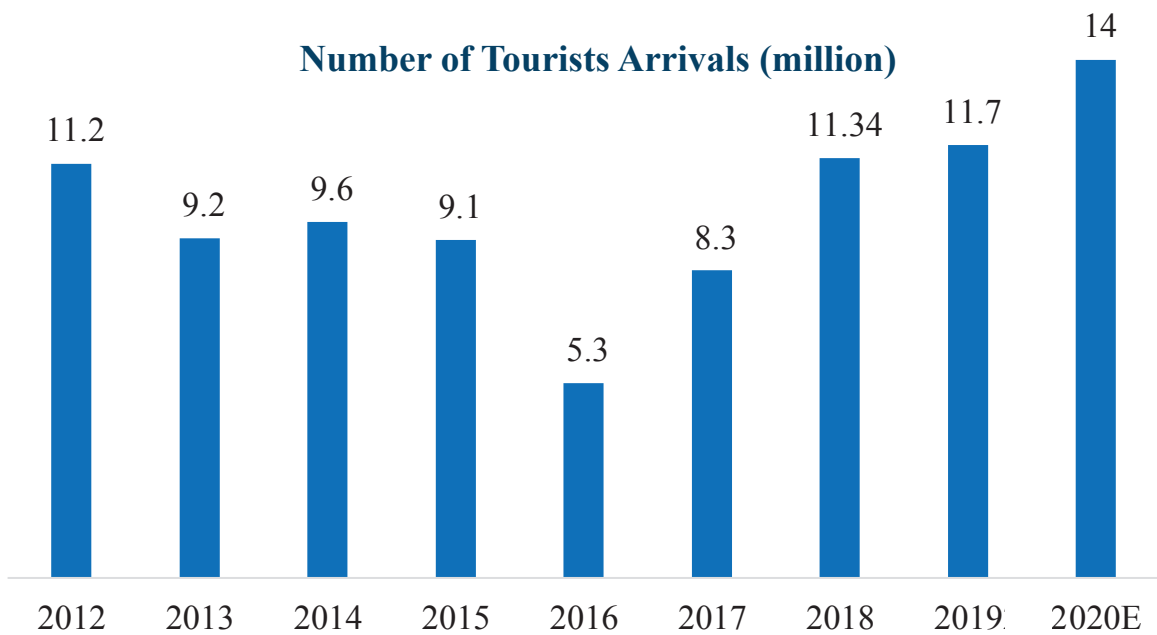
Retail Supply GLA (Sq m million)



Source: JLL Cairo Real Estate Report

The Hotel Market in Cairo

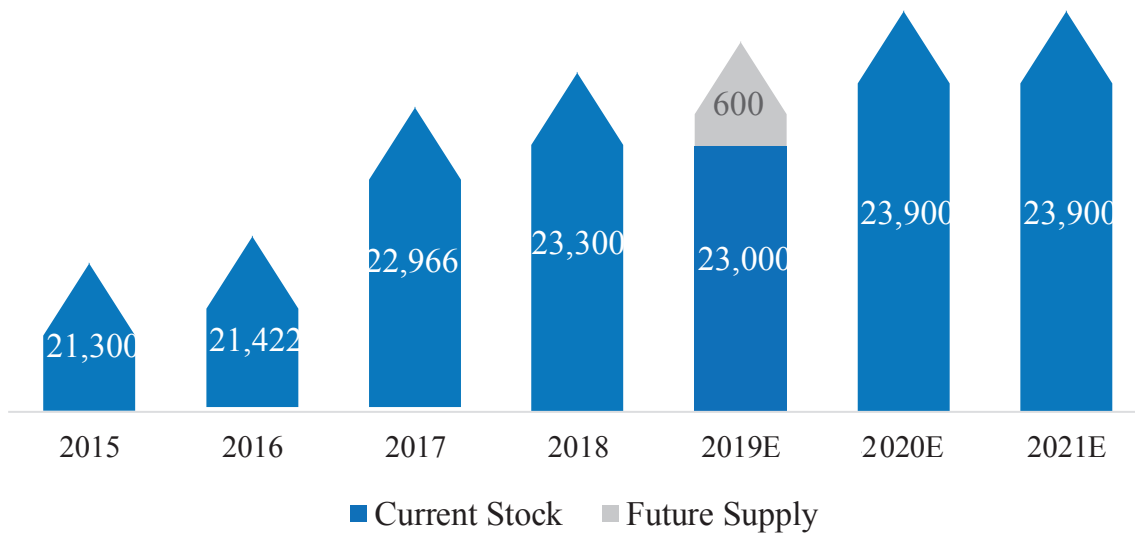
- The hotel sector has witnessed a “**highest performance since 2008**” as the economy began to show signs of recovery. The tourism sector continues to perform well with the new infrastructure, improved security, and major attractions set to open next year such as the Grand Egyptian Museum (GEM).
- **Tourists** are returning to Egypt as it became **50% cheaper** since the flotation. According to government reports Tourist arrivals increased by 3% reaching 11.7 million visitors in 2019 and is expected to increase to reach **14 million** in 2020.
- According to the World Tourism and Travel Council, the revenues yielded by tourism in Egypt in 2018 increased by 77% reaching **11.4 BN USD** compared to 7.6 BN USD in 2017 and increased by **36.7%** in Q2-2019.



Source: Central Bank of Egypt (CBE) and World Bank

- Performance in the **Cairo hotel market** continued to improve in Q3-2019, with **occupancy rates** increasing by 300 basis points to **73%** in the August 2019 y-o-y compared to **70%** in August 2018 y-o-y.
- **Average daily rates (ADR's)** increased to **104 USD** in August 2019 y-o-y (almost 10% higher than those of August 2018). As a result, revenues per available room (RevPAR's) have increased by **14%**.
- **Recent renovations of tourist attractions** (e.g. The Baron Palace) combined with innovative concepts designed by local entrepreneurs (e.g. URentX) are diversifying and improving Egypt's tourist appeal. The long-awaited completion of the **Grand Egyptian Museum** (due to open before the end of 2020) and the proposed **Disneyland on the North Coast** (with investment of 3.3 BN USD from a US /Saudi consortium), will further boost the hospitality sector in coming years.
- Finally, an agreement between the Ministry of Finance and the Ministry of Tourism was reached regarding the imposition of real estate taxes on hotels where the rate will be **50,000 EGP** per star and average occupancy rate throughout the fiscal year and the property's inventory.

Hotel Supply (Number of Rooms)



Source: JLL Cairo Real Estate Report

VI. Future Outlook

- On the **optimistic front**, the real estate sector managed to **maintain its asset value** after the devaluation due to the process of asset repricing and manifested strong performance during 2018 where prices are expected to increase further by **15%** on average in 2019. Demand in the residential market for luxury units is **strong** due to Egyptians living abroad (Gulf). However, supply started to exceed demand by **10%** within the units with prices higher than **4 MM EGP**. More importantly, there is a **demand-supply gap** in the **middle** income and social housing whereby demand (**31.4%**) exceed supply (**18.2%**) in the price range of 50,000 to 1 MM EGP. Some features of a housing bubble are prevalent in the market in light of the lower prices in the resale market and the excess supply of highly priced units. However, the risk of a housing bubble is relatively low as there is no leverage and developers have high equity and no steep decline in prices over all sectors was witnessed and demand is not stagnant
- Furthermore, the hotel market is **booming** as Egypt became a **cheaper** and more attractive travel destination where the country was ranked as the second top destination after New Zealand by CNN in 2018. In addition, to the plans aiming increasing the number of Chinese tourists to reach 1 million tourist and the strong demand witnessed by GCC countries over 2018. However, more midscale hotels that are more affordable are still needed.

- **The office market** has recovered after it was adversely affected by the EGP devaluation. Office sales significantly expanded inducing developers to provide more business parks and office space. On the other hand, **vacancy rates** in the **retail market**, after declining in 2018 compared to 2017, are expected to increase due to the large number of retail projects entering the market in 2019.
- To resolve the problem of the mismatch between supply and demand in the residential market, an inclusive housing development framework needs to be undertaken by the government which would include adopting a balanced approach for land allocation giving out more lands for lower-end segments of the market at preferential prices, availing **mortgage financing** at a wider scale to middle and lower-middle segments and finally the government would better focus on providing social housing at cost or even subsidized to resolve such a critical gap in the market. The newly ratified **social housing law and social housing fund** shall help in this regard.

New Cities in Egypt

It has become necessary to establish new cities for different reasons such as decreasing pressure on major cities and their infrastructure, as well as, creating new investment and job opportunities.

- The launch of **mega projects** in new areas would necessarily open new investment and job opportunities, while fueling the demand for housing, and thus, increasing real estate projects.
- These new cities are located in the provinces of Cairo, Giza, Qalyubia, Marsa Matrouh, Alamein, Dakahlia, Beheira, Port Said, North Sinai, Beni Suef, Minya, Assiut, Qena, Luxor, and Aswan, while the largest new one is the NAC, located east Cairo.



New Administrative Capital (NAC)



- NAC, Egypt's mega-project and administrative capital of the future, started in March 2015, during the Egyptian Economic Development Conference in Sharm El Sheikh.
- It is located between **Regional Ring Road, Cairo-Suez Road, and Cairo-Ain Sokhna road.**
- The government institutions will move to NAC and this will resolve the overcrowding problems in Cairo.



There are **44% of total units sold.**



Total Area **170,000 acres.**



Target Population **6.5 million**

New Akhmim



- Is one of the **third-generation cities.** Its located east of the Nile River, southeast Akhmim city in Sohag.
- The city has three main entrances with modern regional roads, as well as, a distinct location near Sohag cities.
- It has **industrial and touristic zones**, featuring retail, industrial and commercial spaces.



Total area: **34,868 acres.**

New Alamein



- It is among the new generation of **millennium cities.** The city will not only be ready as a summer resort, but also as an all-year-round destination. Once implemented, it will be an iconic city for the **Western North Coast.**
- The city is located on the northern coast of “**Kilo 34**” west of Alexandria to the western border of Egypt - bordered to the north of the Mediterranean Sea and south of the line of 200 km.



Total area **48,000 acres**



Target population **3 million**

New Assiut



- It is located on the **east of the River Nile** (Cairo/Sohag Road) and about **18 km away** from Assiut city.
- It has a prime location, **18 km** far away from Assiut city and near Assiut airport.
- The city is now open for **private recreational and commercial businesses**.
- New Assiut Barrage will attract more investments and boost tourism in the city significantly.



Total investments **3.8 BN EGP**



Total area **30,000**



Total population **750,000**

New Aswan



- New Aswan is located on the **West Bank of the River Nile**, 12 km away from Aswan city.
- The touristic strip project will attract investments and has a strategic location overlooking the Nile.
- The city provides all kinds of health, sports, and tourism facilities, while comprising a 2k-acre industrial hub.
- **Magdi Yacoub Center for Heart Disease and Research** will serve not only local patients but also foreign patients, due to its proximity to Aswan International Airport.



Total investments **2.7 BN EGP**



Total area **23,390 acres**



Target population **850,000**

New Beni Suef



- It is located along the Nile River between **Cairo and Minya cities** and is 124 km away from the capital.
- **The city's Technology Park** is expected to create **15,000** job opportunities.
- It is a promising industrial hub, given the implementation of various factories.



Total investments: **3.9 BN EGP**



Total area: **37,306 acres**



Target population: **558,000**

New Borg El-Arab



- New Borg El Arab is **60 km** away from Alexandria and **7 km** far from the North Coast.
- The city is near to **Borg El Arab Stadium**, which is considered one of the largest stadiums in Egypt and is designed to accommodate around **80,000 spectators**.
- It is also near **Borg El Arab International Airport**, which will boost tourism.



Total investments: 4.9 BN EGP



Total area: 47,403 acres



Target population: 750,000

New Damietta



- New Damietta lies on the Mediterranean coast, running **9 km** in length and is about **4.5 km** far from Damietta Port.
- It is considered a **fully integrated city**. It has been an essential tourist attraction and is becoming a huge developmental project with several ongoing housing and service projects.
- It is expected to be the biggest **commercial and industrial furniture** complex in Egypt.
- It will be a diversified industrial hub for comprising over **700 factories**.



Total investments: 7 BN EGP



Total area: 12,798 acres



Target population: 500,000

East Port Said



- East Port Said is located on the **northern entrance of the Suez Canal**. It is bordered by the Mediterranean Sea to the north, New Suez Canal to the west, Romana and Baloza cities to the east, and an agricultural back and Al Qantara area to the south.
- It will have **national, economic, and tourism** projects.
- It has an **industrial zone** including iron and **steel** industries.
- It has a potential for **fashion and retail** businesses.



Total investments: 22 BN EGP



Total area: 12,000 acres



Target population: 1.5 million

New Fayoum



- New Fayoum is located **west of Cairo–Assiut Eastern Road, 100 km** from south Cairo and about **15 and 40 km from Fayoum and Beni Suef**, respectively.
- The industrial park will open new horizons for job opportunities, as well as, investment inflows.



Total investments: 1.1 BN EGP



Total area: 12,852 acres



Target population: 140,000

Galala City (Suez Zone)



- Galala City is situated on the **highest mount plateau in the Red Sea** area between **Ain Sokhna and Zafarana**, 650 m above sea level, and is located in Suez Canal Zone.
- The city will also have one of the largest **coastal resorts** in Egypt to serve the tourism and trade sectors.
- The mountain plateau is known for containing several natural resources such as **marble and phosphate**.
- It is an expected **industrial and educational hub**.



Total investments: 100 MM USD



Total area: 17,000 acres

New Luxor



- is about **14 km** away from Luxor International Airport and 15 km away from New Tiba city.
- It will be an **industrial hub** that will provide job opportunities for the youth
- It will be an **international medical and touristic** hub.
- It will host several **international cultural and educational** centers, and a university.



Total area: 9,675 acres



Target population: 200,000

New Mansoura



- The city will have residential units that embrace old Mansoura's stunning designs and lively colors. The first phase is already built on **2,063** acres.
- The city's **15 km waterfront promenade** will enhance tourism projects.
- The city will have **different housing types**; residences, villas (first and second homes), middle-income housing, and social housing.
- The **industrial and commercial zone** will boost investments.



Total investments: 60 BN EGP



Total area: 5,193 acres



Target population: 680,000

New Minya



- New Minya is **250 km away from Cairo, north east of the Nile**, with approximately **6,509 acres** of urban developed land (residential, service, industrial, and touristic areas).



Total investments: 4,673 MM EGP



Total area: 31,106 acres



Target population: 638,000

New Nubaria



- is located along **Cairo/ Alexandria Desert Road**, and 79 km away from Alexandria.
- New Nubaria will have different **housing types**: middle-income housing and social housing.
- It will be an industrial hub, with a plan for over **200 factories** so far.



Total investments: 1.2 BN EGP



Total area: 1,816 acres



Target population: 125,000

New Qena



- New Qena is located **north of the Nile Delta**, 8 km away from Qena city.
- It will include **7,000 acres** of urban developed land (residential, services, industrial, and tourist areas).
- It will provide **integrated services** to residents (social, medical, commercial, and sports).
- It will contribute to **reduce population** density in the city and will provide **new job opportunities**.



Total investments: 2.9 BN EGP



Total area: 24,200 acres



Target population: 130,000

New Rashid



- Is considered an urban expansion of **Rashid City**.
- New Rashid is considered a **coastal city** with a distinctive touristic heritage.
- It has a potential for **entertainment/commercial** businesses.



Total investments: 148 MM EGP



Total area: 3,100 acres

Real Estate Sector

KSA



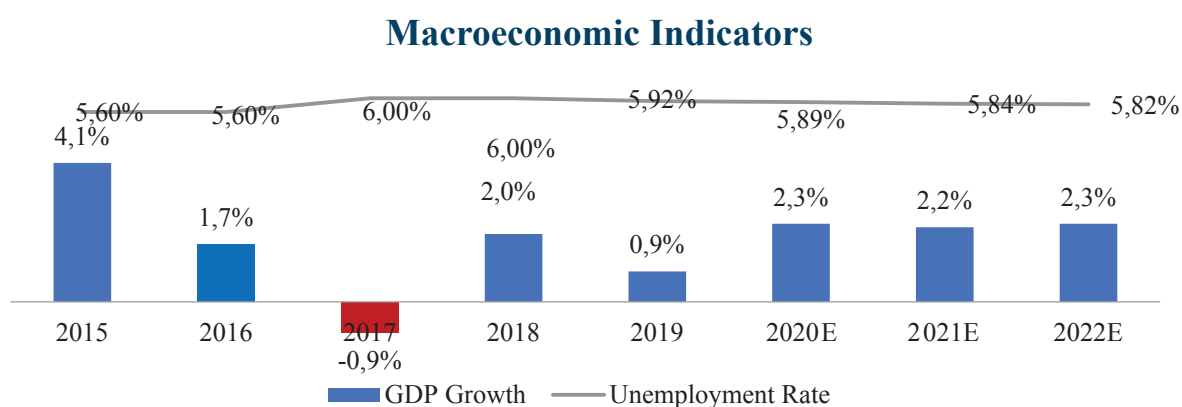


I. Introduction

- The real estate sector in Saudi Arabia is facing a **huge decrease in the demand** for all sectors except the **residential** sector due to the population increase. This demand is due to the **weaker economic spending** reflecting the economic and security instabilities.
- The Saudi government is looking forward to increasing the **collaboration** with the **private sector** in the real estate sector especially in the residential sector. However, the government still contributes with a large amount in the **financing** of the real estate projects.
- Saudi Arabian developers are focusing more on investing their money in real estate projects **abroad**. The government added some **rules and regulations** to increase the housing supply and facilitate the process of taking loans for **families**.
- The **Saudi Vision 2030** and the National Transformation Program (NTP) aim to **diversify** the economy away from the oil sector and increase the **contribution** of the real estate sector to the country's **GDP** from **5% to 10%**.
- As a part of Saudi Arabia **Saudization** plan, taxes started to be imposed on expats since 2017, where a **200 SAR** excise was imposed per expat on companies where the number of expats employees surpass that of local employees. Another excise of **100 SAR** is imposed per expat dependent per month starting July 2017. These fees almost **doubled** in 2018 and are expected to keep increasing in the future.
- Value Added Tax has been imposed in Saudi Arabia in **January** 2018 as a part of the GCC agreement to introduce **5%** tax on goods and services. VAT is expected to **positively** affect the non-oil revenues in Saudi Arabia and to be one of its major sources.
- This report will evaluate the real estate sector in Saudi Arabia and its subsectors; residential, retail, hotel and office sectors. It will examine the **performance, supply and demand** of each subsector; in addition to an overview of the rules and regulations set by the government with relevance to that sector. Finally, it studies the Saudi Vision 2030 and the National Transformation Program and their implication on the real estate sector; concluded by the **future outlook** of the sector in Saudi Arabia.

II. Macroeconomic Indicators

- Preliminary estimates indicate real GDP growth to increase reaching **2.3%** in 2020 compared to **0.8%** in 2019 which was affected by the attacks on Saudi oil facilities in September 2019 which led to a significant supply disruption. According to Saudi Arabia Ministry of Finance (MOF), this increase is a result of relatively **stable oil prices**, implementation of Vision 2030 programs, and increased spending on infrastructure. Noting that estimates of real GDP growth for 2020 have been projected downwards due to oil market developments and the decrease in oil production as a result of the **extension of OPEC+ agreement**.
- **Unemployment rate:** Saudi Arabia citizen unemployment rate decreased to the lowest in more than three years as the Kingdom's non-oil economy recovers reaching **0.9%** in 2019. However, the unemployment rate is expected to increase reaching **2.3%** in 2020 noting that improvements in employment have continued to lag a rebound in non-oil growth. That's partly a reflection of persistent **weaknesses in business confidence**, worsened by a string of fiscal reforms such as new taxes and fees. Moreover, the unemployment rate is strikingly **high** for **Saudi women** with a bachelor's degree, but there are large numbers of both male and female bachelor's degree holders, and a substantial percentage of them are unemployed. It is worthy to mention that Saudi Arabia government is trying hard to create jobs for nationals in a private sector dominated by foreign labor.



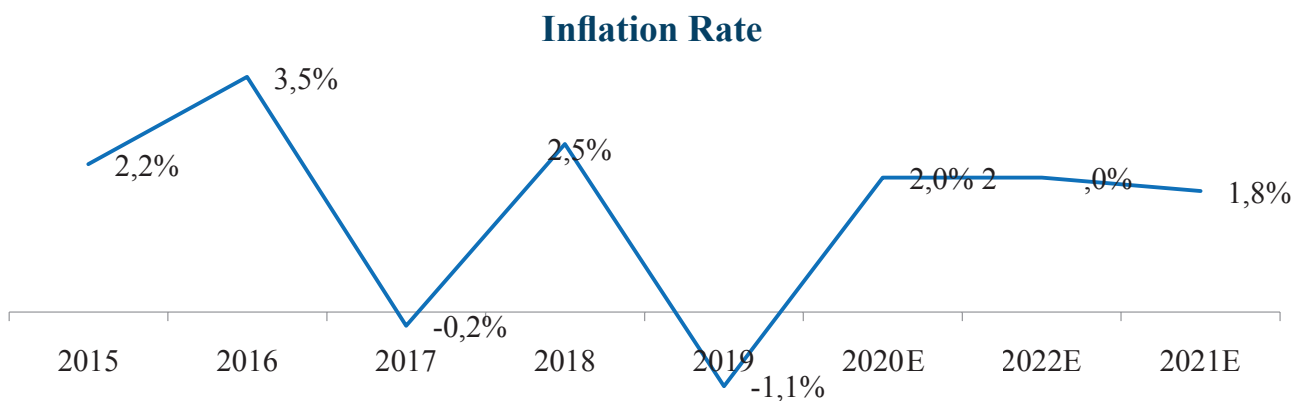
Source: Saudi Arabia Ministry of Finance and International Monetary Fund (IMF)

- According to **Jadwa Investment**, budgeted capital spending, amounted to **246 BN SAR** in 2019, compared to 205 BN SAR in 2018. This is a clear sign that there has been a particular effort to raise the level of the growth aspect of government expenditure in order to support development and lift the overall investment profile of the **private sector**. This type of expenditure can have positive implications over the growth in the non-oil private sector, since capital spending normally leads to higher demand for services from some of the largest sectors in the private economy, including construction, transport, and utilities.

- **Consumer Spending** in Saudi Arabia increased to **284,333 MM SAR** in Q1-2019 from **276,929 MM SAR** in Q1-2018. However, in the future it is expected to have an **increasing cost** in the private sector due to the implementation of **expat levies**, which is expected to affect the private consumption.

Inflation Rate

- Saudi Arabia inflation rate is expected to normalize in 2020 reaching **2%** compared to **-1.1%** in 2019 despite that the economy is experiencing a **deflationary** period at the beginning of 2019, according to a recent report by KPMG Al Fozan and Partners. The report showed that the **VAT** is expected to cause minimal one-off price increase in the **short run**, however, in the **long run**, VAT is not likely to cause a significant or sustainable increase in underlying inflation. Meanwhile, small and medium-sized enterprises (**SMEs**) experienced a moderate impact from VAT due to **high compliance costs**, and due to concerns regarding **VAT neutrality**. In response, the government introduced the **“Private Sector Stimulus Plan”** to stimulate growth, remove any potential obstacles and enhance private sector confidence. Also, the government is planning to increase the capital expenditure and focus on its fiscal policy by 2023.



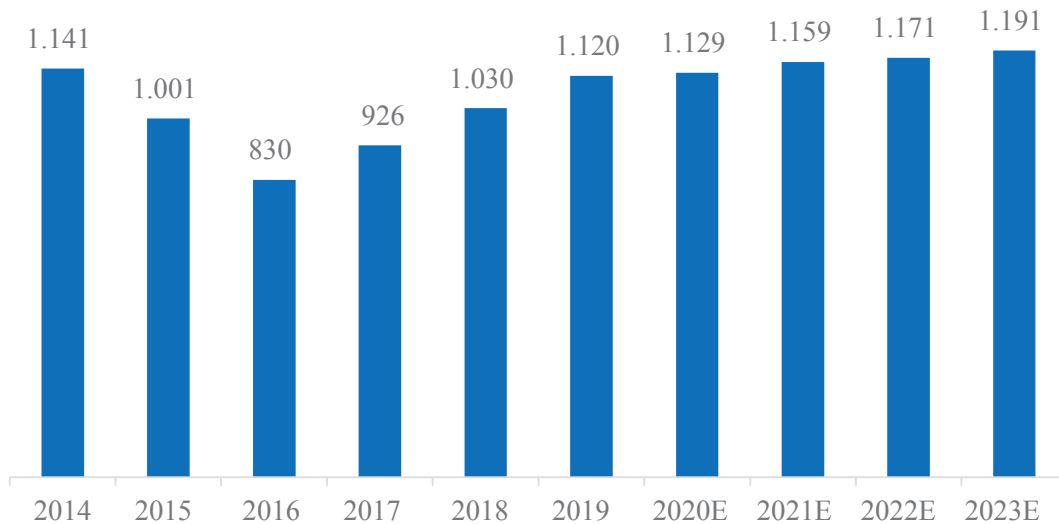
Source: Saudi Arabia Ministry of Finance

- In an effort to attract more FDIs to Saudi Arabia, the government has introduced reforms permitting **100% foreign ownership** in multiple sectors. The reforms are not only designed to draw more investments, but it will drive **M&A activity** and FDI due to the greater pool of foreign purchasers. Saudi Arabia FDI inflows reached **6.3 BN USD** in 2019 compared to **4.5 BN USD** in 2018 and expected to further increase in 2020 reaching 7.2 BN USD. This increase is due to the addition of Saudi Stock Exchange (**Tadawul**) to the MSCI Emerging Markets Index in August 2019 which is expected to enhance the country's market efficiency. With the volatility in oil prices anticipated to decrease in 2020, it is expected that Saudi Arabia will continue progressing towards achieving its 2030 Vision objectives.

Government Distribution

- Saudi Arabia government spending has been **decreasing** since 2014, in a trend that affected the **financing** of real estate projects and **delay** their implementation, affecting the real estate supply especially the **residential subsector**. However, in **2017** actual government spending reached 926 BN SAR compared to 890 BN SAR which was the original 2017 budget plan. Spending increased to 1,030 BN SAR in **2018** and is expected to reach 1,159 BN SAR in **2021** and increase to 1,191 BN SAR in **2023**.

Government Spending (in BN SAR)



Source: MoF

III. Real Estate Sector Overview

- The Real estate industry plays a substantial role in promoting sustainable development in Saudi Arabia; it is a strategic production factor for all vital sectors. It is also a vital incentive for income-based, job-creating investment, in addition to being a basis for launching investment projects in miscellaneous economic and social fields.
- The Real Estate Price Index in Q1-2019 declined 0.4% compared to Q4-2018 and 4.9% compared to Q1-2018.
- In 2018, the maximum loan-to-value mortgage rate was raised across Saudi Arabia, with applicants now able to raise **90%** of a property's value through a mortgage instead of the previous limit of **85%**. This move was designed to stimulate activity across the residential market. Saudi Arabia's Ministry of Housing wants the mortgage market to reach a total value of **134 BN USD** by 2020, up from **80 BN USD** in 2018.

- By 2020, the Saudi Arabian government also wants to reduce the average ratio between **house price and per capita** income to **five times** and increase the percentage of home ownership among Saudi citizens to **60%**. Under the National Transformation Plan, it aims to raise real estate's contribution to GDP from **5%** in 2016 to **10% in 2020**. By 2030, its ambition is to see nationwide home ownership levels at **70%**.

The following section will be discussing the real estate market in Saudi Arabia as well as the related factors that have impacted cost of living, consumer prices, and investments in the country.

- **Increased living cost and Value added Tax**

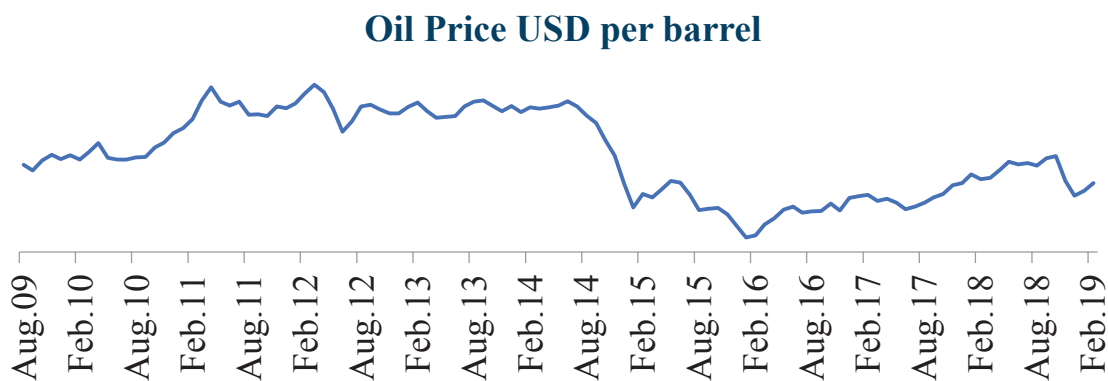
The selective or “**sin**” tax implemented in June 2017 led to the increase of living cost as the retail price of some products have increased too. The retail price of tobacco products increased by 100% and energy or soft drinks increased by 50%. In July 2017, a levy on **expatriate dependents** was implemented, where expatriates are required to pay a monthly fee of **100 SAR** per dependent per month in 2017. This levy fee has doubled to **200** in 2018 and increased between 300 and 400 SAR in 2019, increasing the living cost of expatriate community.

- **Public Investment Fund (PIF)**

The **PIF**, which is funded primarily through **government** capital injections, has been active since 1971. The value of PIF's investments, which span across several sectors (including finance, energy, mining, infrastructure, real estate, agriculture and technology), currently has around **320 BN USD** assets under management (AUM). The PIF plans to target **400 BN USD AUM** by **2020**. The PIF helps diversify Saudi Arabia economy while in alignment with the 2030 Vision.

- **Oil prices**

Oil prices have been mainly rising in 2018 reaching the highest at **75.36 USD** per barrel in September. In 2019, the highest price per barrel was **68.58** USD in April 2019 and by the end of July it reached **61.48 USD** per barrel. The prices are expected to further increase in 2019 because of the 2018 **oil cut agreement** made by OPEC and their allies in attempt to boost the market.



Source: Index Mundi

● White Land Tax

White land tax regulation was introduced in Q4-2015 and started to be implemented in **June 2016**. It targets the landowners whose lands are specified for residential and commercial use. The registration period for landowners opened in June 2016, and landowners started paying a **2.5% tax in 2017**. The taxes will be decided according to the development phase of the land and land area; based on the following **four phases for lands**:

o **Phase 1:** Undeveloped land with area over 10,000 sqm.

o **Phase 2:** Developed land with area over 10,000 sqm.

o **Phase 3:** Developed land with are over 5,000 sqm.

o **Phase 4:** Developed land with collective area over 10,000 sqm from one city.

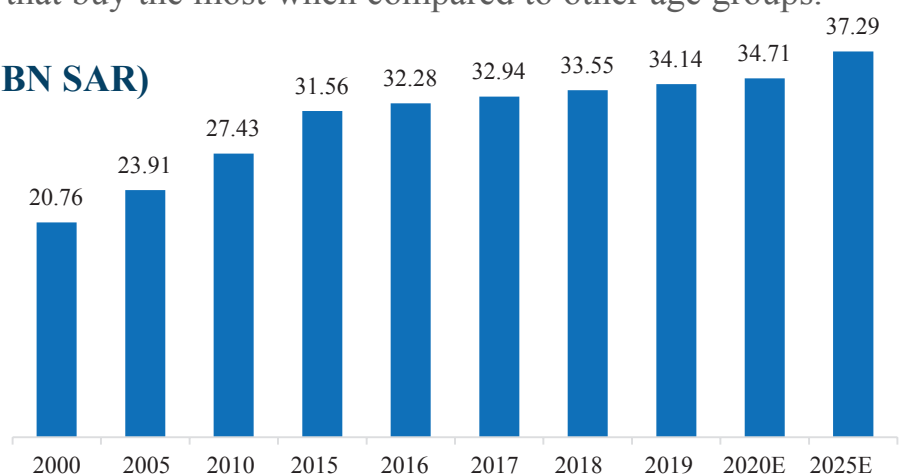
The objective of this regulation is to encourage landowners to develop their lands holdings and increase their lands activity rather than keeping them on hold. The tax will be implemented in three cities, Riyadh, Damam and Jeddah, with Riyadh being the first city to implement the tax system in 2017. The White Land Tax system will help the government deal with the shortage in the supply by forcing landowners to develop their lands and therefore increase the supply. Lands sized 10,000 sqm or above were sent out to landowners in the cities of Riyadh, Jeddah, Damam, and Makkah in April, March, May and December of 2017 respectively. According to the Ministry of Housing, the total land area subject to the new tax in these four cities has reached around 400 million sqm. Based on the Ministry of Justice releases, the tax is achieving the effects it intended as it has increased development interest and caused a decline in average land prices of around 18.5% for the four cities since 2017.

IV. Demand Drivers

Population

- The increase in the population points out the constant increase in the demand for housing as well as services such as malls and entertainment centers. According to SAMA, 65% of the population in Saudi Arabia come from the age group less than 35 years. This large percentage of people under 35 years will positively affect the purchasing power, since its people in this category that buy the most when compared to other age groups.

Government Spending (in BN SAR)



Source: Worldometers

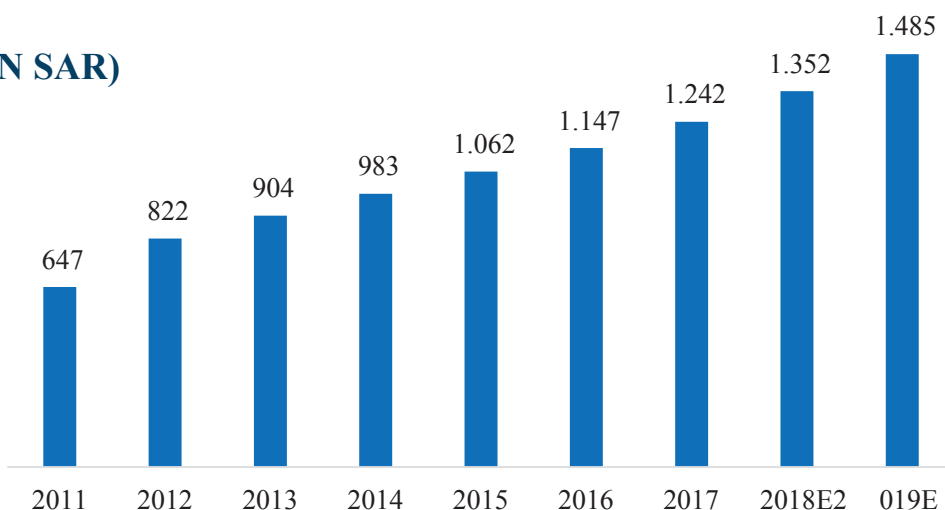
Expatriates

- The number of foreigners Saudi Arabia's labor market has declined by 1.8 million since the start of 2017, with around **185,000 expats**, excluding domestic help, leaving in Q1-2019 alone, According to the kingdom's General Authority for Statistics (Gastat). Although foreigners have the right to own land and property in Saudi Arabia, there are some restrictions to this. For instance, if a foreigner company wants to own a land it should have a legal presence in Saudi Arabia. For the individual foreigners, they should have legal residency and a permission from the Ministry of Interior in Saudi Arabia.
- Among the restrictions for the foreigners are their need for a license to engage in any real estate investment. Moreover, foreigners aren't allowed to own any land or property in Makkah and Madinah, the **holy cities**. However, for the first time in the country, a new law has been issued by the Government permitting **non-resident foreigners** to own properties **in King Abdullah Economic City** project in Jeddah.
- As a result of the **taxes** imposed on the **expats** and their families as a part of the **Saudization plan**, many expat employees and their families **departed** from Saudi Arabia, due to the **increasing cost** of the family's stay in the country. In addition, some expats had to leave their jobs because their employers won't be able to keep up with the increasing levy per expat employee.
- In addition to the new expat's excises, expats face other **high expenses** from living in Saudi Arabia especially with their families, as expats children don't have access to **public schools**, they are restricted with **private international schools** that have **expensive** tuition fees. In addition to school fees, expats face high **housing** fees, due to the **high demand** on **expat compounds**.

Income and Salaries

- Disposable income **increased** in Saudi Arabia. The increase in the personal disposable income has a **positive effect** on the **retail** performance, since people tend to spend more on day to day goods and electronics as their incomes increase. However, this increase has a **slight to zero effect** on the **residential** sector, since most of the buyers in the residential sector buy using their **savings**, not their disposable income.

Disposable Income (BN SAR)



Source: EIU Colliers Analysis

Saudi Arabia Residential Market

- The government has been focusing on the residential market since the Arab Spring in 2011 and started some initiatives and projects to enhance this sector. It developed a plan to build about **half a million** housing units. It also developed a new scheme called **ESKAN**, which aids a certain number of people who need lands or houses or even home loans based on their eligibility. The government also built a real estate financial company to help finance people in real estate sector.
- **The number of residential transactions in Riyadh** increased by **122%** y-o-y in Q3-2019, pointing to a recovery for the fourth consecutive quarter. Also, **the value** of residential transactions increased by **139%** y-o-y reaching 12.92 BN SAR in Q3-2019 compared 5.40 BN SAR in Q3-2018, driven by a surge in transaction volumes and a stabilization in sales prices.
- It is expected that the volume of transactions in Riyadh to maintain a positive momentum over the next 12 months, under pinned by the Sakani affordable housing program and the regulatory efforts to expand the mortgage market. In terms of sale prices, the rate of decline is expected to further moderate over the coming quarters supported by the recent pick up in transaction activity.
- **The number of residential transactions in Jeddah** increased by **82%** y-o-y in Q3-2019, pointing to a recovery for the fourth consecutive quarter. Also, **the value** of residential transactions increased by **60%** y-o-y reaching 4.27 BN SAR in Q3-2019 compared 2.67 BN SAR in Q3-2018, driven by a surge in transaction volumes and a stabilization in sales prices.
- **The number of residential transactions in DMA** increased by **72%** y-o-y in Q3-2019, pointing to a recovery for the fourth consecutive quarter. Also, **the value** of residential transactions increased by **34%** y-o-y reaching 2.24 BN SAR in Q3-2019 compared 1.67 BN SAR in Q3-2018, due to the increase in the transaction volumes.

Saudi Arabia Office Market

- In Q3-2019 average rental rates in **Riyadh's office** stood at **1,460 SAR/sqm** and **786 SAR/sqm** across the Grade A and the Grade B segments respectively.
- There are currently around **15 active projects** within Riyadh, expected to be delivered by 2021. These projects are either in the execution phase or in the study/design phases.
- Market-wide vacancy in **Riyadh** stood at **19%** in Q3-2019. Occupancy in prime schemes remains high as the market is characterized by limited Grade A stock. This contrasts with higher vacancy rates within the Grade B segment where demand is weakening as occupiers look to upgrade their premises amid tenant friendly market dynamics.

- In Q3-2019 average rental rates in **Jeddah's office** stood at **1,048 SAR/sqm** and **749 SAR/sqm** across the Grade A and the Grade B segments respectively.
- Market-wide vacancy in **Jeddah's** stood at **22%** in Q3-2019 with a few select Grade A buildings continue to perform above market average.
- In Q3-2019 average rental rates in **DMA's office** stood at **958 SAR/sqm** and **661 SAR/sqm** across the Grade A and the Grade B segments respectively.
- Rents across DMA continued to soften throughout Q3-2019 with city-wide rents registering a 5% decline on a y-o-y basis. Market-wide vacancy in **DMA's** stood at **32%** in Q3-2019 unchanged compared to Q2-2019.

Saudi Arabia Retail Market

- Since Saudi Arabia is known for its hot weather and tough climate, people tend to spend their time in **closed places**. Since Saudi Arabia lacks the different entertainment projects, big closed malls are attractive to the citizens, to spend time and be entertained in a good weather.
- In **Riyadh**, rents declined in regional malls and community centers by an average of **5%** in **H1-2019**, whereas rents in high end regional malls remained unchanged. Since the retail market has been performing weakly in the last period, mall managers started to provide more **generous leasing terms** to keep their rentals rate. Vacancy rates have **increased** to reach **14%** in **H1-2019** and is expected to keep increasing since more retail spaces are anticipated to be delivered soon.
- In **Jeddah**, rents declined for regional malls by 3% in H1-2019, whereas the high end regional mall rents remained stable. Vacancies increased by **10%** in **H1-2019** compared to an 11% increase in H1-2018.
- In **Damam**, rents declined further for regional malls and community centers by **1%** and **3%** respectively in **H1-2019**. Whereas high end regional malls experienced an **8%** increase in **H1-2019**. Overall vacancy rates increased from 6% in H1-2018 to 7% in H1-2019.

Saudi Arabia Hotel Market

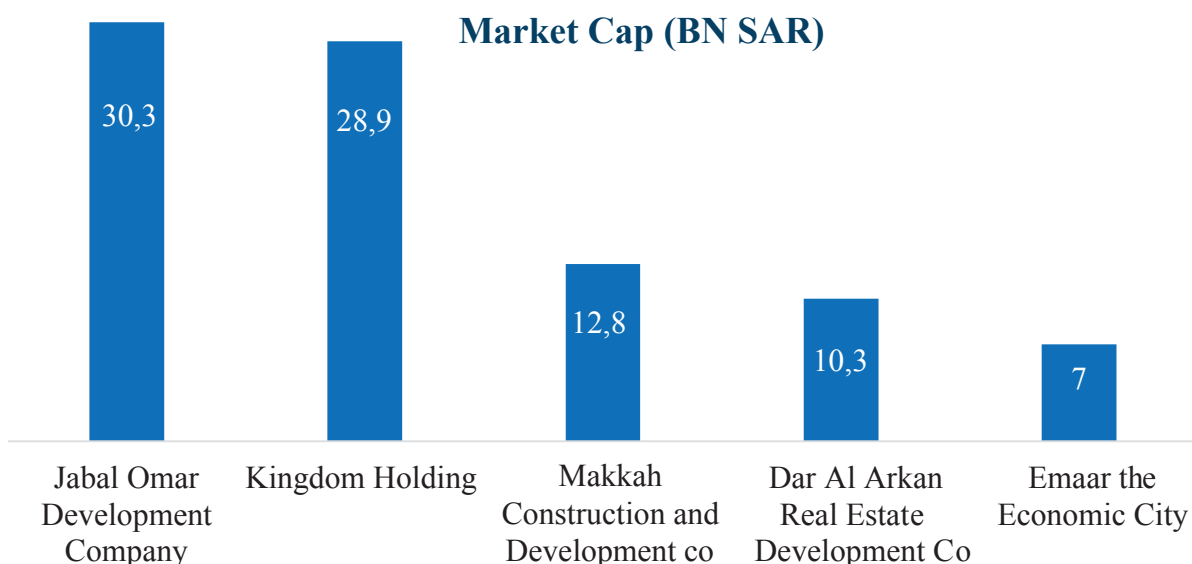
- In **Riyadh**, revenue per available room in hotels dropped to reach 91 USD in 2018 and **94 USD** in **2019**. Average daily rates decreased in **H1-2019** to **162 USD** dropping from a 179 USD in 2018. This is due to the **stagnation** of the business performance which is considered the **main source** of income to hotels. The decision of issuing tourist visas in 2018 should help grow demand from the leisure sector and reduce Riyadh reliance on corporate demand. **Occupancy rates** improved to reach **59%** in **H1-2019**.

- In **Jeddah**, citizens decreased their spending and their travels and chose to spend their holidays locally. As a result, there was only a slight decline in the average daily rates in the hotels sector in **2018** the average daily rates reached **244 USD** whereas in **H1-2019** they declined further to **215 USD**. The revenue per available room decreased by **13%** to reach **114 USD** in **H1-2019**. **Occupancy rates** reached **53%** in **H1-2019** with no significant change.
- In **Damam**, the average daily returns dropped to **117 USD** in **H1-2019** compared to 142 USD in 2018. Moreover, the revenue per available rooms decreased to reach **64 USD** in **H1-2019**. Occupancy rates improved reaching **54%**.

V. Supply Overview

- **Main players**

The largest real estate and construction company in Saudi Arabia is **Jabal Omar Development Company** having around 30 BN SAR market cap , **Kingdom Holding Company (KHC)** having around 29 BN SAR market cap, **Makkah Construction and Development co** having around 13 BN SAR market cap followed by **Dar El Arkan Development company** with around 10 BN SAR market cap and **Emaar the Economic city** with 7 BN SAR market cap. **KHC** has participated in several worldwide projects such as the longest tower in the world in the Red Sea port city of **Jeddah**.



Source: Argaam

- **Premium locations and projects**

- Among the largest real estate projects in Saudi Arabia are Jabal Omar in Makkah, King Abdullah Economic city which is located in parts of Makkah, Jeddah and Medina, in addition to Riyadh Metro.

- **Jabal Omar** project will invest in the area overlooking the Holy Mosques of Makkah and develop it. Its aim is to provide the largest number of **commercial** and **residential** spaces.
- The **King Abdullah Economic City** is equipped with all services and residential projects to occupy about **two million residents**. It has a financial island, hotels, commercial establishments and an industrial complex.
- **Riyadh Metro** which is part of the transportation project in Riyadh consisting of six metro lines, is expected to be completed by **2021**. The cost of the metro station is about 22.5 BN USD.

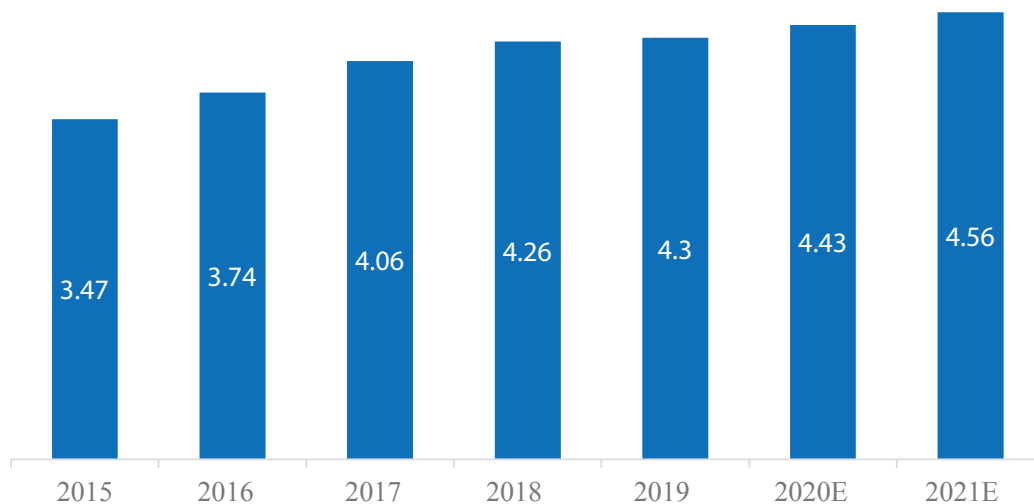
Saudi Arabia Office Market

- **Office Supply**

In Riyadh: Despite delays in the handover of some office projects, Q3-2019 saw the completion of one corporate office building, Verdun Towers by Al Fardan Group, adding **14,800 of GLA** to the market. This completion left the total office space in Riyadh largely unchanged at around 4.3 million sq m GLA.

The last quarter of 2019 showed more significant increase in the supply of office space, with nearly **125,000 sq m of GLA** scheduled for completion. The delivery of these projects within the time frame will see the total office stock increase to 4.4 million sq m GLA by year-end 2019.

Riyadh Office Supply (Million SQM of GLA)

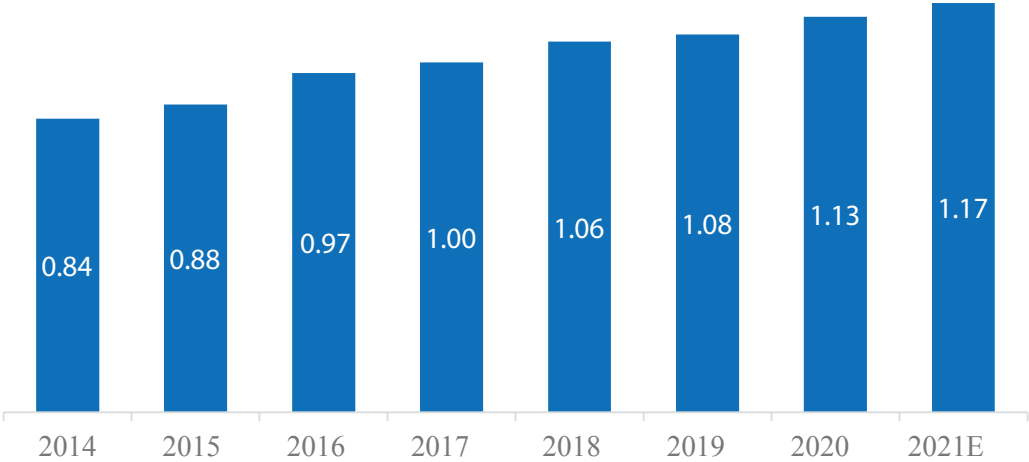


Source: JLL & KnightsFrank

- A number of office buildings were completed over Q3-2019, adding around 29,000 sq m of GLA to the market. Major additions were Jeddah Square on Corniche Road, the 7th Tower on Malik Road, in addition to Vision Tower and the first phase of Lilian Towers on Prince Sultan Street. This brings the total office stock in Jeddah to approximately 1.08 million sq m of GLA.

- The market is likely to remain tenant favorable as supply increases while demand remains sluggish. As a result, landlords are becoming more responsive to the current economic climate by putting the remaining phases of their projects on hold until market conditions improve. Others are willing to convert their office buildings to other asset classes or shifting parts of their premises to flexible smart offices targeting the young entrepreneurs. An additional 33,000 sq m of office stock is expected to be delivered by year-end 2019. However, we remain cautious of the delivery within the specified timeframe and can expect further delays.

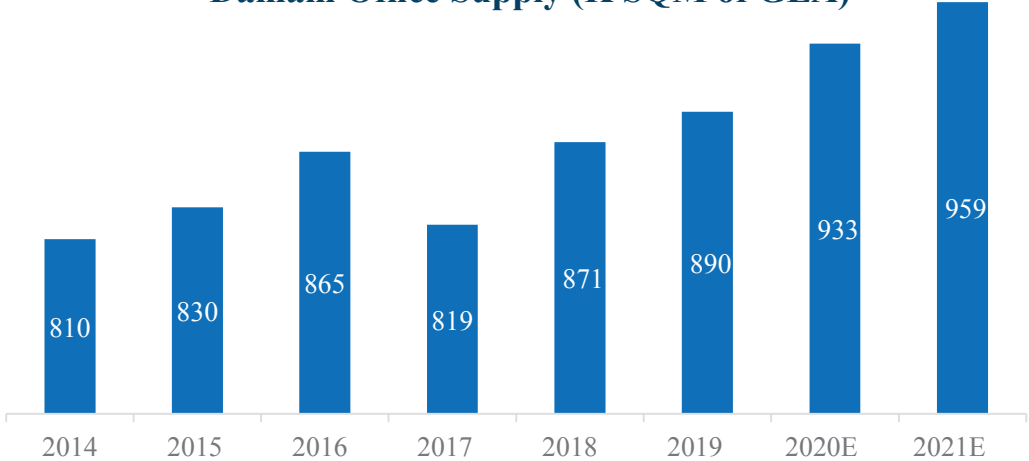
Jeddah Office Supply (Million SQM of GLA)



Source: JLL & KnightsFrank

- H1-2019 saw an additional 19,450 sq m GLA of office space enter the market, bringing the total office inventory in DMA to approximately 890,000 sq m GLA as of H1-2019. Among the deliveries were the Al Juaib Administrative building on Dhahran-Jubail Highway, as well as Al Khafra Tower located in the central area on King Fahd Highway in Dammam. An additional 43,000 sq m GLA is expected to be delivery over the remainder of the year, however we expect delays in the handover of some projects given subdued market conditions. Expected completions include Ta’ziz Tower, Al Hajiri Tower, Al Khalidiya Tower and Biato Project. 2020 is expected to witness the handover of an additional 26,000 sq m of office space, including Abdul Hadi Al Hukait project located on the Corniche road.

Damam Office Supply (K SQM of GLA)

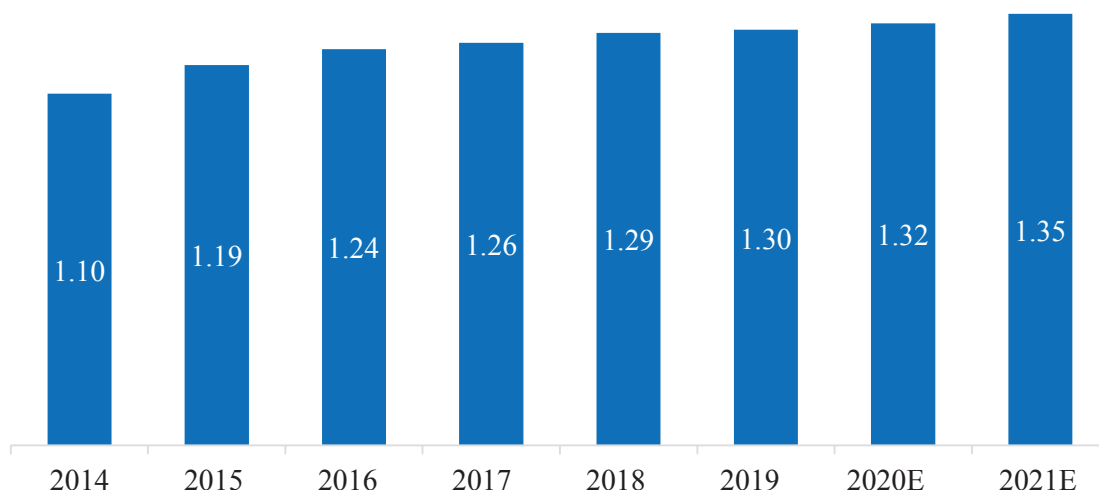


Source: JLL & KnightFrank

Residential supply

- Q3-2019 witnessed a slowdown in the number of completions, as only 177 standalone units were handed over in Riyadh. Projects delivered include Canary Al Khozama, phase 5&6 of the Darraq project at the Diplomatic Quarter and Villas within Masharef Hills complex in the north of Riyadh. This brings the total supply of residential units in Q3 to approximately 1.3 million units. Riyadh is expected to receive an additional supply of 2,400 residential units by the last quarter of the year. Likely completions include Al Ra'idah complex project, Al Bayt 53 project at Hittin district, and Al Bani 8144 at Al Sulimaniyah district. Housing projects announced by the Ministry of Housing have received good reservation rates, including Saraya Al Narjis project in the North of Riyadh, and Suhail Al-Riyadh project in the South. A significant amount of these projects will be delivered in the form of small to medium-size units targeting lower-income and middle-income families.

Riyadh Residential Supply (Million Units)

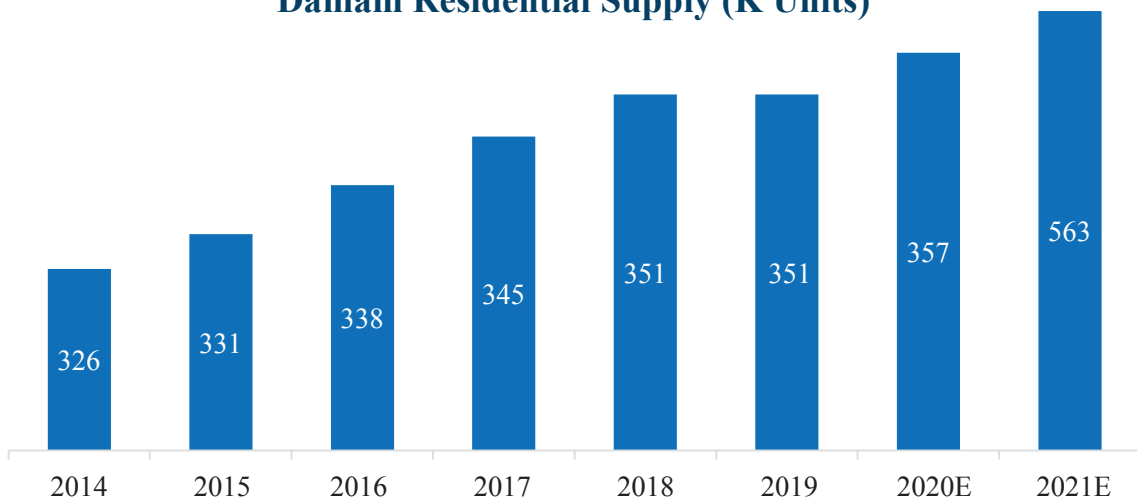


Source: JLL & KnightsFrank

- H1-2019 witnessed a slowdown in the number of units completed, as only 100 units were handed over in the city of Khobar. Projects delivered include Al Fahad Towers, Al Khobar Garden Phase 2, Al Khobar Views, and Shrafiya Towers. This brings the total residential supply to approximately 351,000 units by the end of H1 2019.

- H2 2019 is expected to witness the delivery of an additional 6,000 units. However, given materialization rates to date, we expect some delays in the delivery of these projects. Among the projects expected in the second half of 2019 are Al Khobar Marina (1,400 units), Laguna project Phase 1 (32 residential villas), and Al Morouj residential project (37 villas). Construction activity is set to remain strong, with an additional 6,000 units anticipated in 2020.

Damam Residential Supply (K Units)

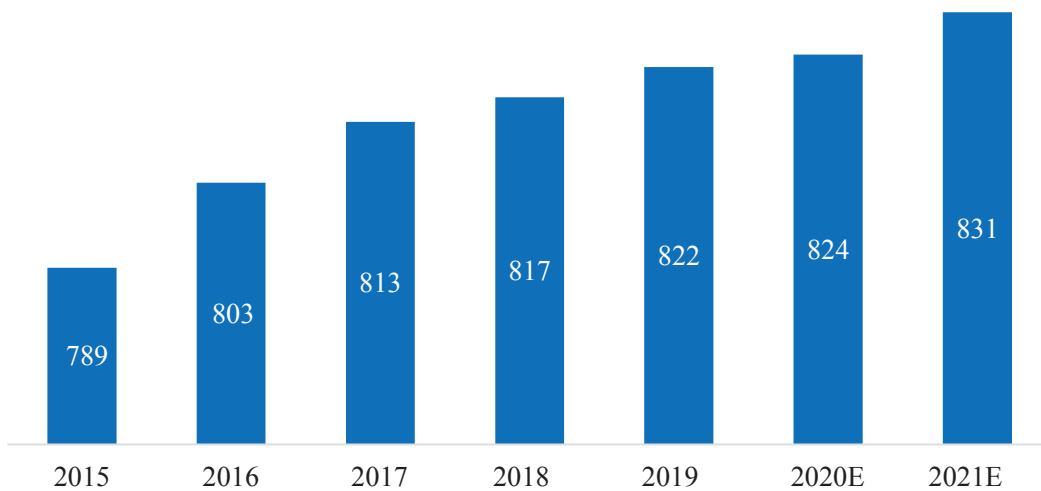


Source: JLL

- The total stock of residential units in Jeddah currently stands at 822,500, with approximately 1,500 stand-alone units entering the market in Q3 2019. The most recent notable completion was Emaar Residences “Abraj Al Hilal 3” within Jeddah Gate, which added 283 apartment units.

- A further 2,000 units are expected to hand over in Q4, with much of the upcoming supply in the mid-to-high rise segments of the market. These include Al Tawheed Tower along the Corniche, Tower Two of Bayat Plaza on Madinah Road, and the first phase of Manazil Al Safwa. Further growth is expected in the villa segment with the completion of AlKhaldiyyah Villas. Most of these projects are available for reservations or for lease until handover. A strong pipeline comprising of 15,000 units is also expected to enter the market between 2020 and 2021, assuming no further delays. Majority of new developments are within fully integrated communities, which offer quality residential solutions at affordable rates, with the aim of attracting Jeddah’s young population.

Jeddah Residential Supply (Million Units)



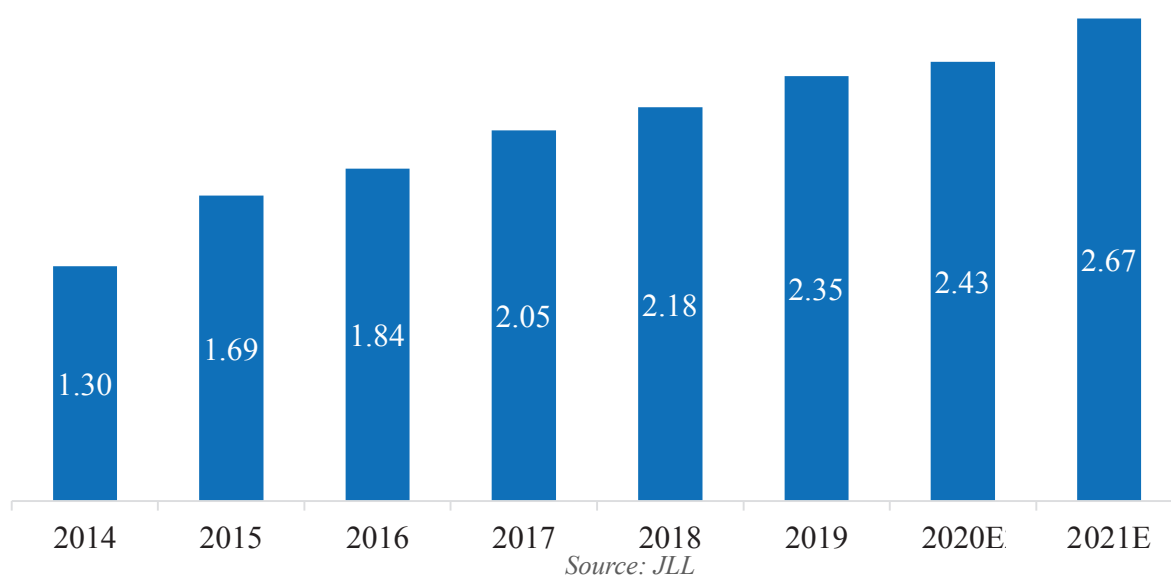
Source: JLL

Saudi Arabia Residential Market

Retail supply

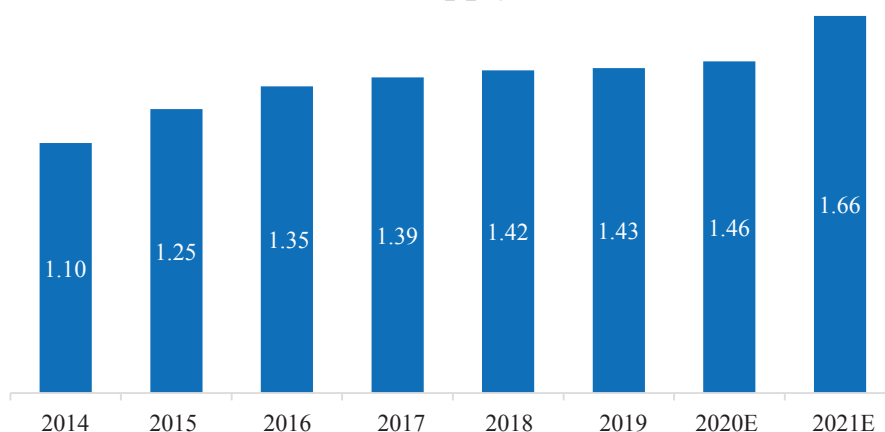
- The retail market in Riyadh saw the completion of one centre, Al-Shiddi Plaza, adding approximately 6,800 sq m of GLA to the pipeline of completed projects. This minor completion left the total retail supply in the market relatively stable at approximately 2.4 million sq m of GLA. The market is expected to witness further completions by year-end, comprising mainly of neighborhood and community centres. Notable projects include Wadi Qurtoba Reef Commercial Center, Hamad Mall, and Mercato Strip Mall, amongst others. Looking ahead, the retail market is expected to see an additional 85,000 sq m of GLA by year-end. However, construction delays and the soft performance of the retail sector could result in some delays in the delivery of these projects.

Damam Residential Supply (K Units)



- Retail projects under construction experienced further delays in Q3 2019, which left the total retail supply in Jeddah unchanged at almost 1.43 million sq m of GLA. The market, however, witnessed the delivery of the Kingdom's first homegrown cinema brand, 'Muvi cinemas', within the existing Mall of Arabia. Approximately 26,000 sq m of GLA is expected to enter the market over the last quarter of 2019, with an additional 191,000 sq m scheduled to complete in 2020. Expected deliveries include the retail component of Jeddah Park (Serafi Mall – 125,000 sq m) on Tahlia Street, in addition to other notable neighbourhood and community centres including Atelier La Vie, Al Sariah Square, Obhur Mall, Coral Boulevard, Al Massarrah Square, and WOW

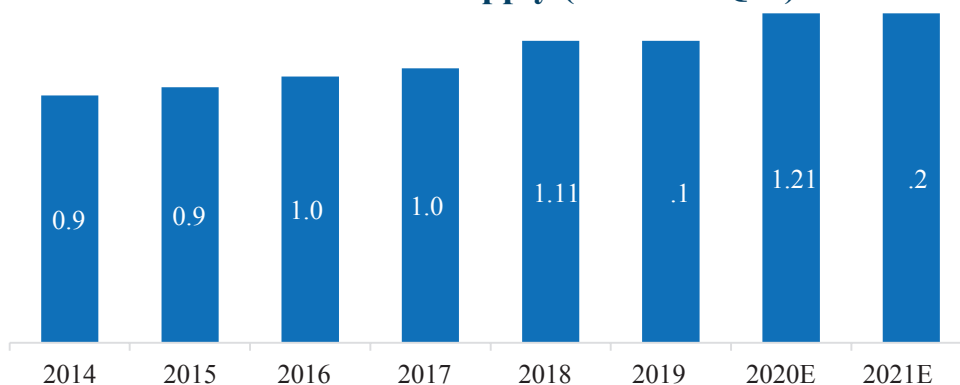
Jeddah Retail Supply (Million SQM)



Source: JLL

-In **Damam, H1-2019** there was the completion of a small number of retail projects, adding approximately 20,000 SQM to the supply pipeline. These projects include Villaggio, Al Sadeen Commercial Center Phase 1, and Al-Falak. These additions kept the total retail supply at **1.1 MM SQM** at the end of H1 2019. With another **0.12 MM SQM** in construction for the year, while there are no planned projects for 2020.

Damam Retail Supply (Million SQM)



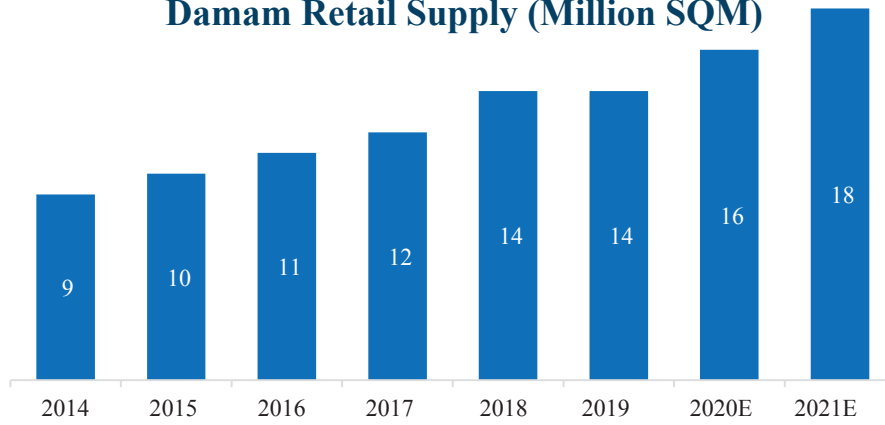
Source: JLL

Saudi Arabia Hotel Market

● Hotel supply

Riyadh hotels need to focus on **different hotel demand** sources other than business tourism; due to the decline in the business sector in Saudi Arabia reflecting the decline in the oil prices all over the Gulf countries. Riyadh **hospitality** sector is encouraged to **diversify** its services to attract tourists and citizens of the country, whose spending power weakened recently and therefore decreased their travels abroad and decided to spend their holidays in their country seeking leisure. The total number of hotel keys in Riyadh increased to **14,350** by the end of H1-2019, with the addition of Shaza Riyadh Hotel Residence (225 keys). An additional **1,500 keys** are expected to enter the market over H2-2019.

Dammam Retail Supply (Million SQM)

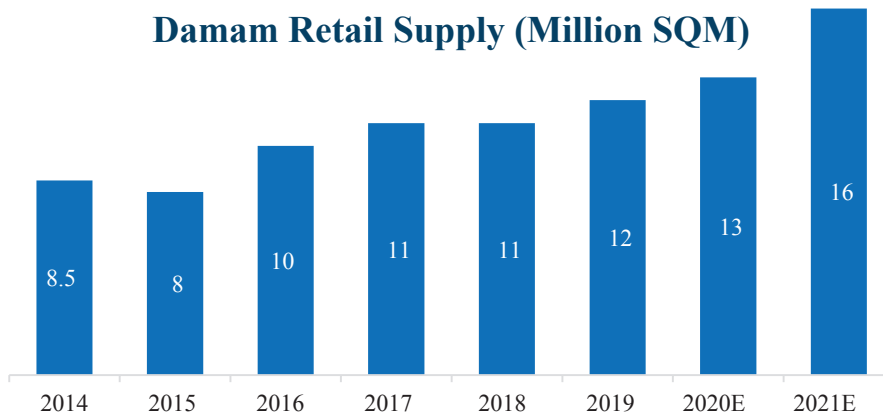


Source: JLL

- The second quarter saw the opening of one budget branded hotel, Ibis Jeddah Malik Road, adding approximately 180 keys. This brings the total supply of hotel keys in Jeddah to 11,900. A further 1,000 keys are expected to enter the market in 2019. These properties include Ibis Jeddah Alesayi Plaza, the new Jeddah Marriott in Al Bawadi, Crowne Plaza Jeddah, and Park Inn by Radisson Madinah Road, the first property for the brand. Further growth in the branded serviced apartment segment is expected, with several properties due to hand over in 2019 including Adagio Jeddah Malik Road and Adagio Alesayi Plaza.

- Looking ahead, the recently-opened Neom Bay Airport, as part of the Neom Project, is expected to attract more investments due to enhanced connectivity, thus boosting demand in the hospitality market. This is likely to reflect positively on the branded hotel segment as the city prepares to cater to a more diverse tourist base.

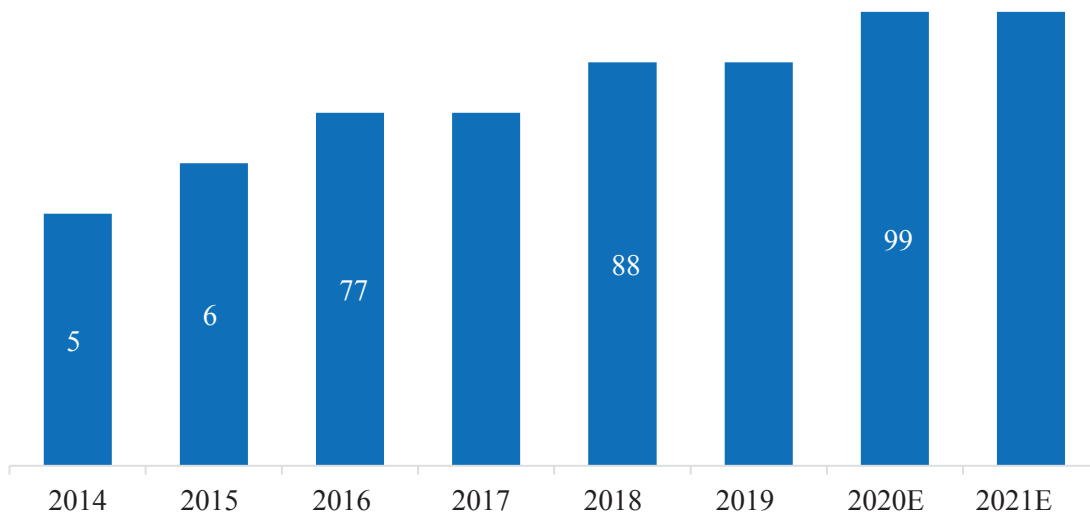
Dammam Retail Supply (Million SQM)



Source: JLL

- No new hotel keys were delivered over the first half of the year in the DMA, keeping supply levels stable at 7,800 keys as of H1 2019. Assuming construction activity proceeds in a timely manner, the market is expected to witness the delivery of an additional 750 keys in H2 2019. This represents a decline from the previously estimated number of keys, indicating developers are delaying the handover of projects. 2020 and 2021 are expected to witness the delivery of an additional 800 and 560 keys respectively. Upcoming hotels include King Fahd International Airport Hotel (120 keys), Centro Al Khobar Hotel by Rotana (250 keys), Swiss-Bel Hotel Khobar (99 keys), Dana Rayhaan by Rotana (285 keys), Hilton Garden Inn (159 keys), Marriott Dammam (280 keys), Ascott Corniche Al Khobar (172 keys), and Hilton Al Khobar King Fahd Causeway (341 keys).

Damam Hotel Supply (Keys in thousand)



Source: JLL

VI. Future Outlook

- **Saudi Vision 2030 and the National Transformation Program (NTP)**

The Saudi 2030 vision aims to restructure and **diversify the economy** away from the concentration on the oil sector. The vision also aims to increasing the real estate reserves of the government. The NTP aims to increase the **contribution** of the **real estate** to the country's **GDP** from **5%** to **10%**. It also encourages private investments especially in the housing sector. The program entails a willing to invest **13.5 BN SAR** in five years to develop the lands of the government for housing and projects. The NTP also aims to increase the number of residential units to reach **1.5 million units** in seven years.

- **Future of Oil Prices**

Major oil producers around the world have taken the decision to **cut oil supply** to boost the market, by cutting the daily production by 1.2 million bpd in H1-2019. This strategy is expected to affect the oil prices to reach **55-62 USD/bbl** in Q1-2019, **67 USD/bbl** in Q2-2019, where the **6 months grace period** offered by the US to Iran will have ended. Prices are then expected to reach around **70 USD/bbl** at the end of **2019**. Although **Tensions** have pushed the Brent Crude oil index above **72 USD** per barrel as of May 2019, up from **69 USD** earlier this month; with some experts warning of **90 USD** just around the corner. A conflict with Iran would undoubtedly push prices well into the triple digits.

VII. Conclusion

- **Opportunities**

Since there is shortage in the **residential sector** in Saudi Arabia, there is an **opportunity** for the government to increase the supply in this sector to meet the demand, given more cooperation with the private sector to fill such gap. Also, with the increase of cost of living in Saudi Arabia, residents are now looking for **less luxurious residential places**, which opens the door for more developments in the mid sector residential units. A lot of Saudi Arabian residents tend to spend their vacations in Saudi Arabian cities rather than travelling abroad due to the prices increase, so more demand for the **retail and hotel sectors** is expected to encourage supply in both sectors in the future.

- **Risks**

- **Regional instability**

The instability of the security conditions of the region encourages the government to focus on spending in the security and defense sectors and **decrease** the **spending** in other sectors such as real estate.

- **Restrictions in the number of pilgrims**

Religious tourism is one of the main sources of tourists in Saudi Arabia. However, with the **20% restrictions** put on the pilgrims, not only Makkah is affected, but also, **Jeddah** which is the gateway to Makkah. The decrease in tourists will **downwardly** affect the hotel sector in Makkah and Jeddah.

- **Expats taxes**

Due to the **new taxes** imposed on expats living in Saudi Arabia, more **expats** decided to make their families leave the country to decrease the costs and therefore, their demand on **family apartments** have **decreased**. Also, some employers have laid out their expats employees due to the taxes imposed on them. This is expected to negatively affect the **expat labor force** in Saudi Arabia in the future. It is also expected to affect the demand of expats on family **residential units**.

- **Cost of living**

The **cost of living** has increased in the last couple of years in Saudi Arabia, due to the instability of the economy and the instability of the oil prices, which was one of the **main contributors** to the country's economy. This led to the **decrease** of the **living standards** of Saudi Arabian residents. This provides of a risk of the decrease in consumption overall, and the **decrease** in the demand for high end residential units.

Real Estate Sector

UAE





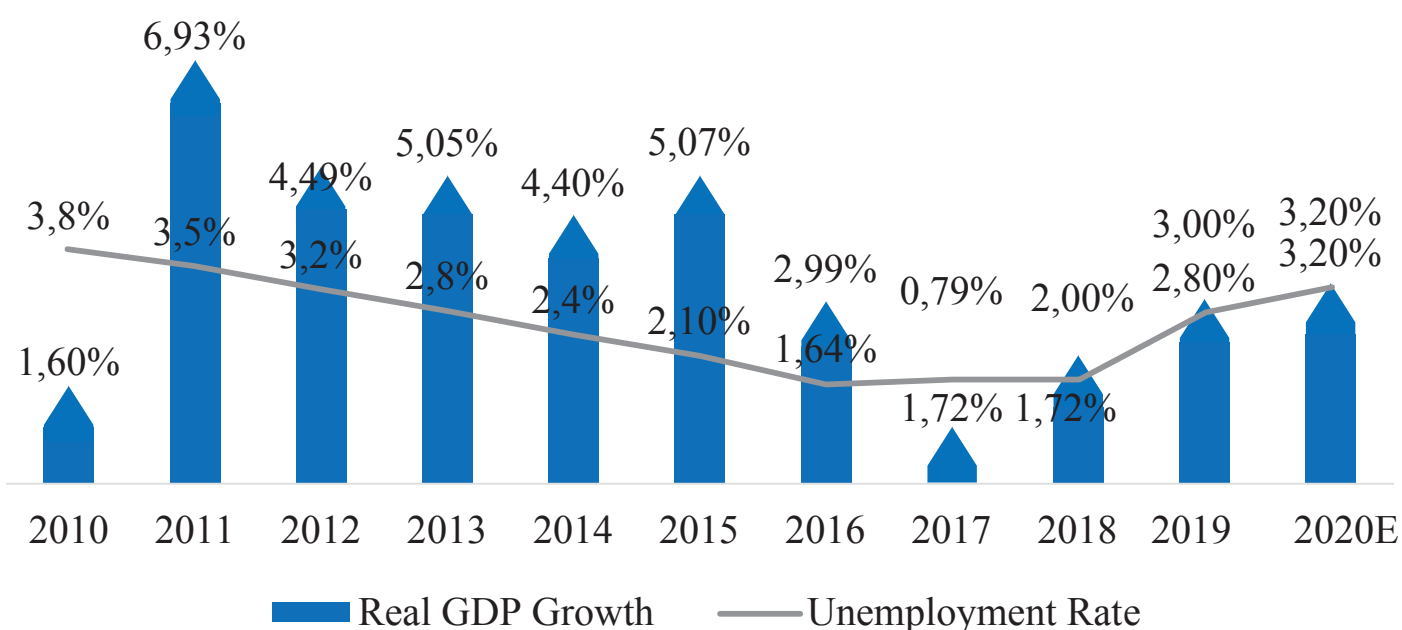
I. Introduction

- UAE is the **second largest economy** in the MENA region while Abu Dhabi accounts for almost all of the country's oil production, Dubai has emerged as a major logistics, tourism and financial services hub. Other emirates have also carved out their own identities, such as the manufacturing clusters and free zones of Ras Al Khaimah and industrially strong Sharjah.
- **UAE economy** is growing, and the governmental initiatives have generated a healthier business ecosystem which was highlighted in the country's position in the latest World Bank **"Doing business 2020 report"** of **11th** globally and **the first** rank region ally. On the other hand, the global oil price crisis has put immense pressure on the growth of the economy and accordingly many sectors have struggled such as the energy and real estate sectors.
- The real estate sector in the two biggest emirates **Dubai** and **Abu Dhabi** has been struggling since the oil crisis in **2016** with pricing declining for the last years in all segments of the sector. However, market activity has remained stable within the market with some segments growing in terms of vacancies such as the hotel, retail and office.
- This report will evaluate the real estate market in **Dubai** and **Abu Dhabi** highlighting the **residential** market, the **office** market, the **retail** market and the **hotel** market; with a particular emphasis on the **future outlook** of each subcategory.

II Macroeconomic Indicators

- The GDP growth rate is maintaining a **positive trend**, although it fell in **2017** reaching **0.79%**. The fall is estimated to be around 2.2% which is mainly due to the unstable condition of the global oil markets. However, the GDP growth rate increased in 2018 registering **2%** depending on the fact that UAE is diversifying its economy and increasing the reliance on non-oil sectors according to their 2021 Vision. The GDP growth rate is expected to further increase in 2019 to **3%** and maintain this trend in 2020 with an expected growth rate of **3.2%**.
- The UAE government has been **cutting** government spending by introducing energy reforms, a **3%** municipal fee on **expats** home rental and a **5%** value added tax (**VAT**) in order to adjust their budget deficit which declined to **1.5%** in **2018** and is expected to balance by **2019**.
- These measures will be enforced to combat a relatively large government related entities debt, approximately amounting to **one third** of **UAE GDP**. Hence, reforms combined with the decline in housing allowance and the rising living costs, the **household disposable income** is set on a **declining** path till **2021** particularly since wage growth is below inflation rate.

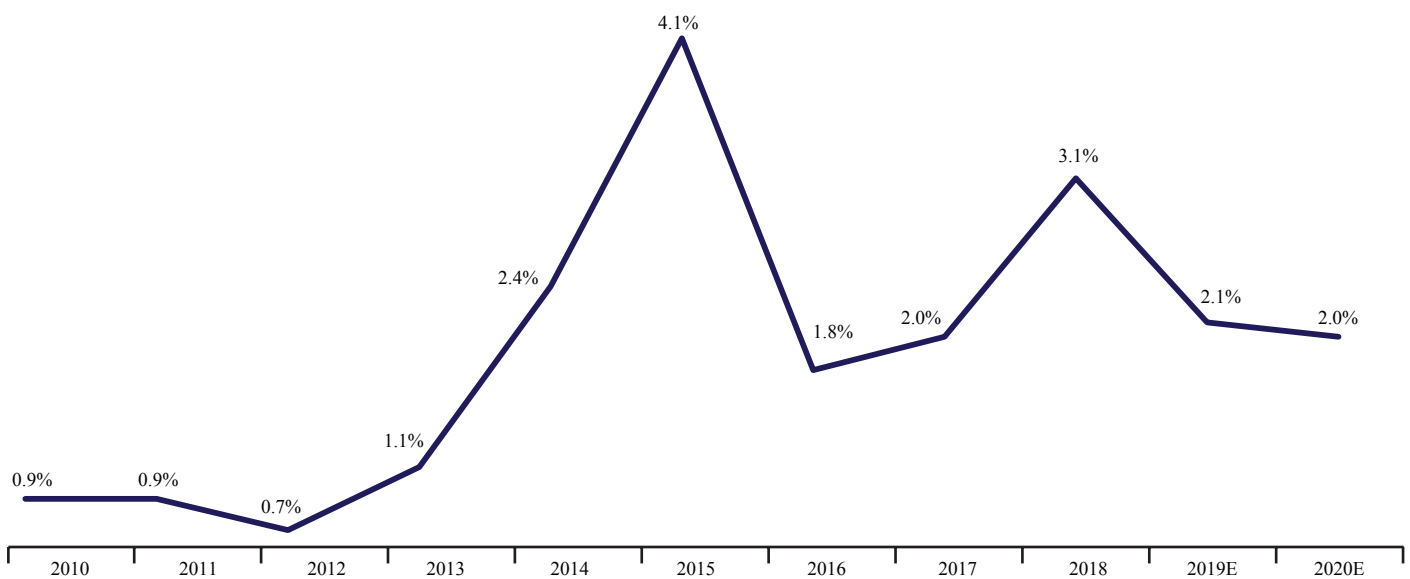
Macroeconomic Indicators



Source: Statista & World Bank & Central Bank of UAE

- The Unemployment rate was stable during 2017 and 2018. It is not expected to experience any sudden changes in **2019** and **2020** as the expected values are **2.8%** and **3.2%** respectively. Overall, the unemployment rate in UAE is typically low when compared to the world average of 5.8% in 2017 and 2018 according to International Labour Organization (ILO). According to the World Bank Database and the ILO estimates, the total labor forces in UAE increased reaching 6.8 million people in 2018 of the total population aged 15 years and above compared to 6,8 thousand in 2017. The rate of participation in the male labor force of the total male population aged 15 years and above is quite stable reaching 94.1% in 2018 compared to 94.2% in 2017. Moreover, the rate of participation in the female labor force of the total female population aged 15 years and above has also been quite stable registering 51.98% in 2018 compared to 52.06% in 2017.
- The Central Bank of UAE has raised its key rate by **25 bps** to **2.75%** on **19th December 2018** in response to the Federal reserves decision. The certificates of deposits were also increased by the same margin, which increased the borrowing costs for consumers.

UAE Inflation Rate



Source: World Bank & Central Bank of UAE

- Federal Competitiveness and Statistics Authority's data showed that the inflation rate has increased in the state by **2.7%** in 2017 compared to **1.6%** in 2016. The Authority stated that the high inflation rate came as a result of the increase in **tobacco prices** by an average of **70.2%**, especially after enforcing **selective sales tax** on tobacco as of October 2017. Moreover, the Authority indicated that 2018 inflation rate in all emirates has increased. It increased in Sharjah by **6.2%**, in Ras Al Khaimah by **4%**, in Ajman by **3.8%**, Umm Al Quwain by **3.4%**, Fujairah by **2.6%**, Abu Dhabi by **2%** and Dubai **1.5%**. The inflation rate in consumer prices for January 2018 reached **4.7%** compared

to January 2017, as shown by the increase in the CPI to 112.7% in January 2018 compared to 107.6% in January 2017. However, inflation rates have declined in UAE for fourth months in a row **in May 2018 and reaching 4.2% by the end of 2018**, after a remarkably high increase by **5%** in January 2018, as a result of **enforcing VAT** as of the beginning of 2018. The VAT implementation objective is to increase non-oil income and to compensate the fiscal deficit. The **VAT** has a **negative effect** on the prices of most commodities as it drives the prices up, causing inflation. This upward trend is not expected to last because the VAT is considered as a **temporary supply shock** that the prices will absorb. It is expected that the inflation rate will reach **2.5%** in both 2019 and 2020.

- **The cut of oil production** by OPEC countries is expected to continue in **2019**. In **2018**, oil prices have recovered to **75.22 USD** per barrel which has contributed to the decrease in the budget deficit in **2018**. However, the prices have declined in **2019**, reaching **56.16 USD** per barrel in July **2019**. As mentioned above, the Central Bank of UAE has projected a further decrease in production by **200,000** daily barrels in the UAE to combat the reduction in prices. However, the effect of this decrease on the budget deficit is expected to be mitigated as both the **central bank of UAE** and **IMF** expect a slight budget surplus in **2019**.
- Additionally, an accelerated growth in Dubai is expected by the end of **2019**, derived by growth of sectors such as logistics and transport, tourism, wholesale and retail trade and financial services. Additionally, by launching this year Dubai Expo 2020, it is expected to contribute by 1.5% increase in GDP growth and attract 25 million visitors.



III. Real Estate Sector Overview

- The **UAE** real estate market has reached a state of **stagnation** due to the following 3 main reasons; lower oil prices and production cuts, oversupply in the market and a slow economic growth economy. However, with the governments of **Dubai and Abu Dhabi** countering this economic state with business easing regulations and long term residencies schemes for expats, the outlook of both markets looks uncertain.

Dubai

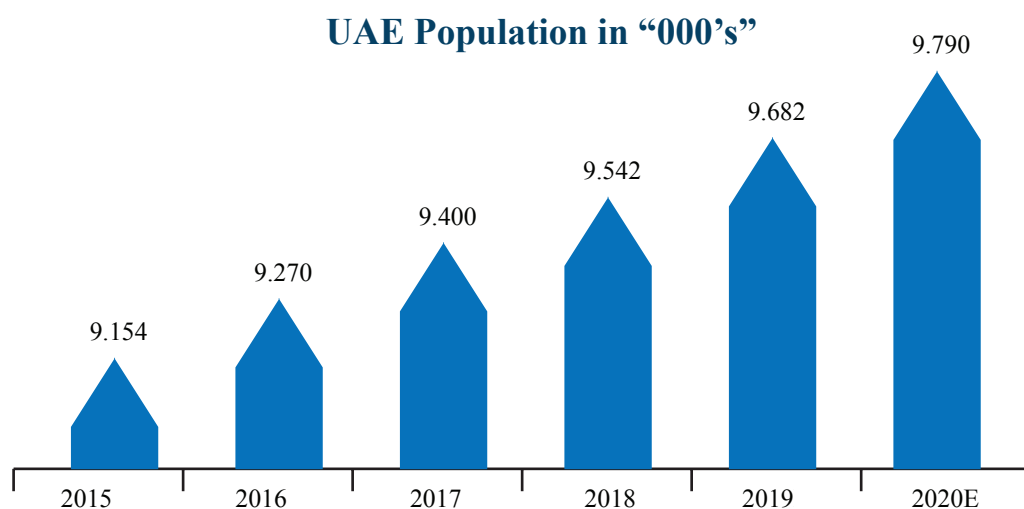
- The government started building upon the visa reforms launched in late **2018** by giving out a number of long term residency schemes to boost demand in the real estate market by making it easier for expatriates to become long term residents within Dubai. On the other hand, with the market gearing up for Expo **2020, H1-2019** saw multiple projects being re-commenced in the commercial sector. The performance of the office market remained soft with average rental rates continuing to face downward pressure. The residential market softened further with declines registered in both sale prices and rents during **H1-2019**.
- Yet, **Q1-2019** had the highest number of deliveries in a single quarter for a number of years in the residential sector. The retail market remains the most challenged sector due to the growth of e-commerce and the high level of future supply, which continues to exert downward pressure on rental rates across all mall types. The occupancy rates across Dubai's hotels remained relatively stable in **2019**. While, average daily room rates and revenue per available room continued to decrease on the back of increased supply.

Abu Dhabi

- **Q2-2019** has seen the passage of a new law allowing foreigners to own land and property within Abu Dhabi's investment areas on a freehold basis. The new law aims to stimulate foreign investment and provide investors with more certainty. Another attraction is that **registration fees** for freehold properties have been **set** at **2%** (in comparison to **4%** for leasehold properties).
- Additionally, the government announced new initiatives to boost growth in the SME sector as part of the 'Ghadan 21' programme. Most notably, it includes instant business licenses, industrial tariffs, credit guarantees for SMEs, and ecotourism incentives promoting tourism into Abu Dhabi. This is the latest in a series of measures the Abu Dhabi government has taken to boost the overall economy and improve the current weak real estate market conditions.
- The initiatives that the government is taking are proving to be fruitful for the real estate sector, according to the Department of Urban Planning and Municipalities, Abu Dhabi's real estate sector witnessed a significant amount of transactions valued at **31 BN AED** during the **Q2-2019** indicating a strong performance in investor sentiment notably in Reem Island, and a promising outlook with the launch of the freehold law.

IV. Demand Drivers

- UAE population has been growing in an increasing pace in recent years reaching **9,541,615** in **2018** and is expected to increase by **1.47%** in **2019** to reach **9,682,088** and further **1.11%** reaching **9,790,000** in **2020**. Also, the **UAE** is one of the biggest countries in terms of expats to national's ratio with a population mix of **90%** of expats according to World population review. Additionally, according to latest reports expats turnover is still higher than the global average. Thus, all these factors created a high demand for real estate in the Emirate Kingdom.
- Since **2015** till **2018**, Dubai's population grew by a five-year average growth rate of **7%**, so that the population in **2018** reached **3,126,000**. The increase in population stimulates economic growth through an improved labor pool, an increased consumer consumption and a higher demand for real estate units. Although, with the current oil price dilemma and high inflation, demand on property decreased. However, it is projected that in **2019**, inflation would decrease which would stabilize the market slightly.



Source: Worldometers, Trading Economics

Economic Performance

- As mentioned earlier the inflation rate has hiked in **2018** due to various reasons such of the introduction of **VAT**, slower economic growth and retreating oil prices. However, in **2019** as expected the inflation rate has decreased significantly in **H1-2019** and is expected to fall to **2.1%** by the end of **2019** according to the IMF, creating in the process more **purchasing power** for the country's residents. Adding to that, the **Y-o-Y** decrease in prices in real estate units; a greater demand in the slightly oversupplied market would be expected.

- Given that UAE is vulnerable to **international downturns**, the global economic uncertainty has kept international buyers away. As the market is highly **reliant** on **expats**, thus a slowdown in the global economy (Brexit and Emerging Markets crisis) adversely affected real estate investments. However, the recovery in oil prices has led to a gradual shrink in the budget deficit to **1.4%** of GDP in **2018** relative to **2.4%** and **1.8%** in **2016** and **2017** respectively. The decrease in the budget deficit is expected to continue for the subsequent years reaching **0.8%** and **0.5%** of GDP in **2019** and **2020** respectively.
- The Central Bank of UAE has raised its key rate by **25 bps** to **2.75%** on **19th December 2018** in response to the Federal Reserve's decision. The certificates of deposits were also increased by the same margin, which increased the borrowing costs for consumers.
- However, buyers' uncertainty due to the **lower economic growth** in recent years and the shock of the **high inflation** rates in **2018** also created higher levels of **cautious behavior in the market** as it has been reported that buyers are taking significantly **longer time** to close deals.

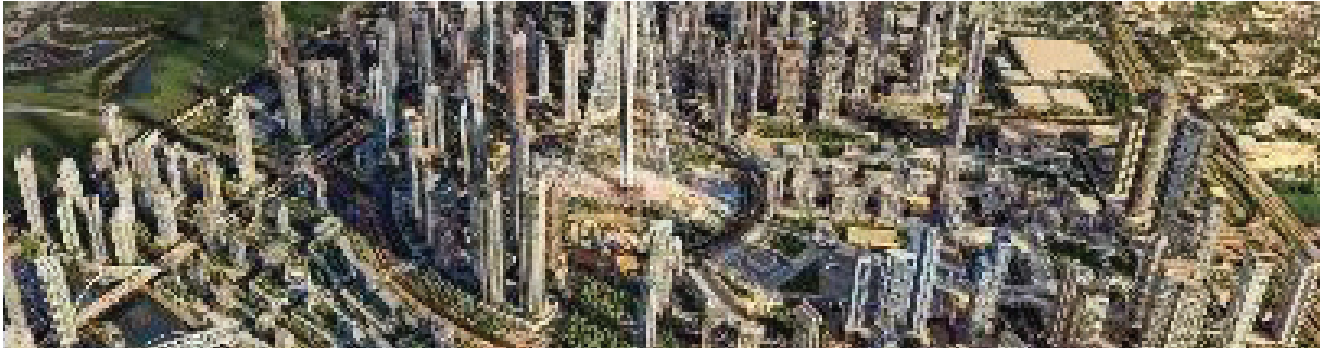
V. Supply Overview

Major Transactions

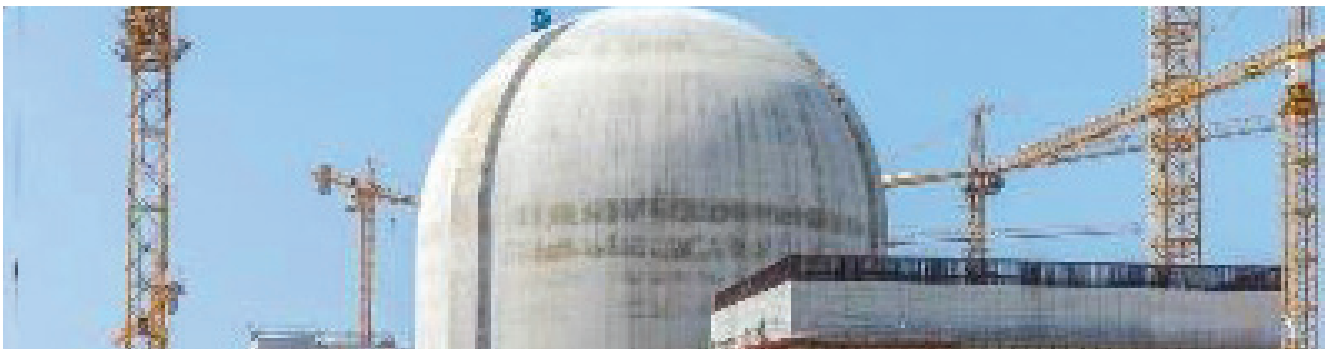
- **Emirates NBD**, the largest lender in Dubai, launched the **2nd Real Estate Investment Trust (REIT)** in the UAE market which was listed on Nasdaq Dubai Exchange. This can provide investors with the opportunity to invest in a broader portfolio of properties especially as ENBD REIT aims to enhance **flexibility** and improve **liquidity** in the market
- **Dubai Expo 2020** Bureau, the government entity charged with carrying out the event, awarded more than **1,200** contracts in **2016** alone, worth some **2 BN AED (544 MM USD)** in total. This included deep infrastructure work for the event site itself, including irrigation and sewerage, pipes and cabling, roads, electrical and water networks, and ducting for telecom munications hardware. The site is expected to host **300,000** people per day during the event.
- The pace of investment picked up in **2017**. As of the end of November **2018**, **10.8 AED BN (2.9 BN USD)** in construction contracts for nearly **50 projects** and **411 MM AED (111.9 MM USD)** in non-construction contracts for around **100 projects** had been awarded – over half to small and medium-sized enterprises. As of **July 2019 Expo, 2020** construction work was reportedly on track to be completed a full year before the scheduled launch date of the event, in **October 2020**.



- A significant number of private development projects have coordinated their building efforts to match the Expo timeline to participate in and contribute to the opportunities surrounding the event.



- Major new real estate developments set to launch in conjunction with the Expo include the District One neighborhood at the 10 BN USD Mohammed Bin Rashid Al Maktoum City; the 545 MM USD Dubai Water Canal Project; the 3 BN USD Al Habtoor City project; and Dubai Creek Harbour.
- The Construction of the 25 BN USD Nuclear Power Plant in Abu Dhabi is nearing completion in 2019. The plan is to bring four nuclear reactors into operation by 2021 producing a combined 5,600 megawatts of power.



- Phase two of Etihad Rail is expected to be completed within 2019 after delays in 2018. When complete, the railroad will run for 605 kilometers from Ghufeifat to the Port of Fujairah and will take in Mussaffah in Abu Dhabi's industrial area and Jebel Ali and Khalifa ports.
- The 500 MM AED national museum of the future in Dubai was originally scheduled to open in 2017 but was later postponed until 2019. In November 2018, it was announced that the curvaceous structure will open in 2020.



Listed Developers

The UAE real estate market is one of the biggest markets in MENA region and a main driver for the country's economic performance with increasing y-o-y mega projects featuring in Dubai and Abu Dhabi being a normalized feature of the kingdom in the last decade. Furthermore, in "GlobalData" latest report, Dubai ranked the most valuable city in the world in terms of the total value of planned and ongoing construction projects with **374.2 BN USD**, toppling London from its top spot in the prior year's list. In this section, the report will cover the biggest UAE publicly listed companies in the real estate sector and construction:

Emaar properties - Market Capitalization: **37.2 BN AED**.

Emaar Properties is a real estate development company located in the United Arab Emirates (UAE). It is a public joint-stock company, listed on the Dubai Financial Market. The company operates internationally with a market presence of in 36 markets across the MENA region, North America and Pan-Asia, providing property development and management services.



Damac Properties - Market Capitalization: **5.8 BN AED**.

DAMAC Properties is a property development company, based in Dubai, in UAE. The company is joint-stock company which is publicly listed on the Dubai Financial Market. It specializes in developing luxury residential and commercial units across the MENA region and the United Kingdom.



Deyaar Developments - Market Capitalization: **1.9 BN AED**

The company was established in 2002 with a paid up capital of 18.38 MM AED and became a joint public stock company its IPO in May 2007. Deyaar is one of the largest developers in Dubai, its real estate ventures span major growth corridors and prime locations, including Business Bay, Dubai Marina, DIFC, Jumeirah Lake Towers, and Dubai Silicon Oasis.



Union Properties - Market Capitalization: **1.47 BN AED**.

Union Properties (UP) is a real estate development company based in Dubai, United Arab Emirates. The company is known as the Master Developer of both, The Index skyscraper and Dubai Motor City. Union Properties is a public jointstock company in the Dubai Financial Market. The company also provides a number of services through its subsidiaries in UAE, including leisure and destination development, integrated facilities management and services.

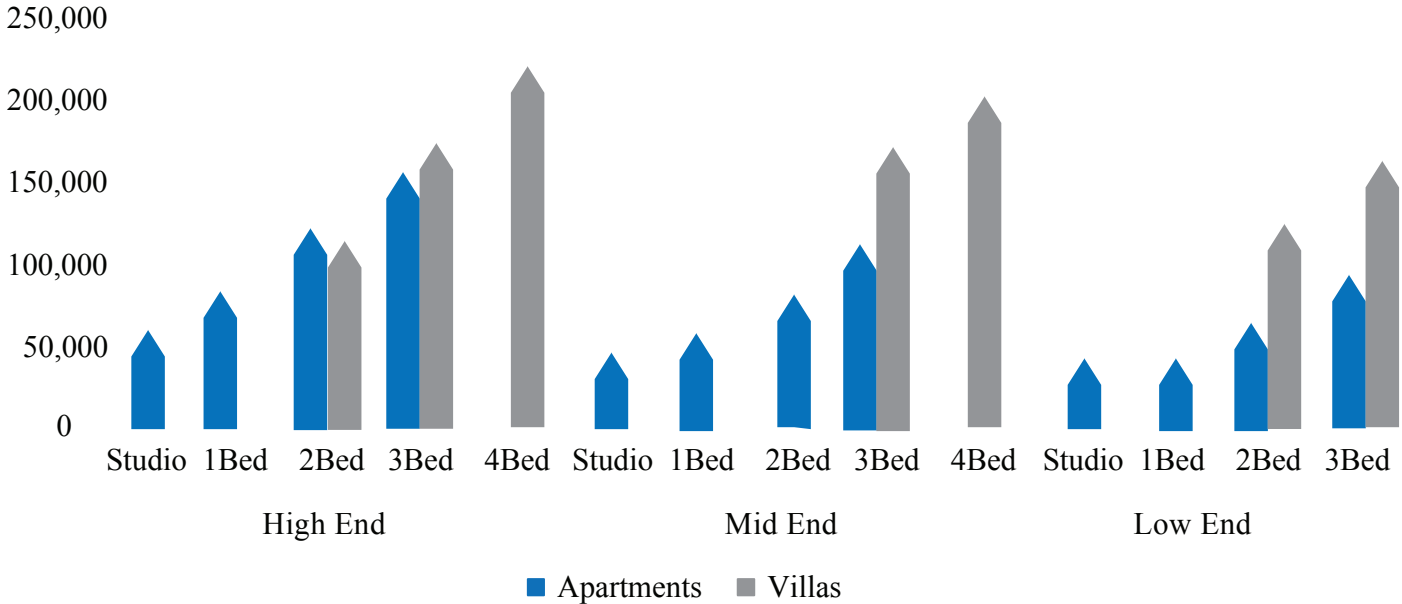


The Residential Market

Dubai

- Residential apartments asking price are down **14% y-o-y** and **4% q-o-q**. Similarly, the residential asking price is down **14% y-o-y** and **5% q-o-q**. The impact of the new visa regulations and the Golden Card residency scheme are yet to be seen, but these are likely to boost the residential market in the medium term. However, with limited demand and ample supply, the residential market will more likely continue to face downward pressure in the future. In addition to the government reforms, developers are also trying to boost the residential market by offering very attractive payment plans to potential investors. According to JLL latest report, one developer has even gone as far as offering European citizenship for those investing **5 MM AED** in its project in Dubai.
- The Dubai government is committed to spend more on **infrastructure**; in addition, the market is showing signs of maturing as developers are starting to phase out projects to avoid the threat of **oversupply**. As the market matures, developers are adjusting their expectations in line with demand so that prices become more **realistic**.

Average Annual Rental Values, Q2-2019 (AED)

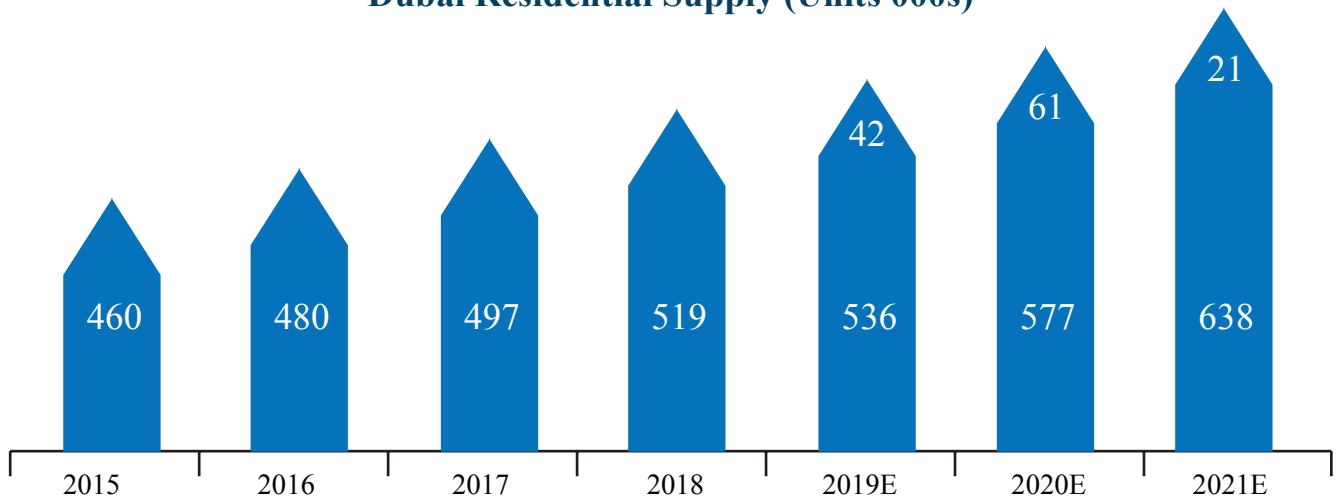


High end- Downtown Dubai, Dubai Marina, Palm Jumeirah, DIFC
Mid end- Business Bay, The Views, Greens, Dubai Marina, Green Community, JLT
Low end- IMPZ, Discovery Gardens, Jumeriah Village, International City, Sports City, JLT, Dubai Land Apartments.

Source: Atesco

- From the supply side, More than **6,300** units were completed in **Q2-2019**, bringing the total residential stock to **536,000**. Major completions included multiple towers in Dubai Creek Harbour, Marina Gate Tower 2 in Dubai Marina and several villa communities within Damac Hills. Additionally, around **42,000** units are expected to enter the market in **H2-2019**. Moreover, residential supply is expected to reach **659,000** by the end of **2021**. Major projects are expected to be complete in the next two years including Al Habtoor City, a new development by Wasl in Ras Al Khor and Aston Plaza in Dubiotech.
- **11,050** apartments have been completed in **H1-2019** and another **12,000** are expected to be completed by **H2-2019**. Additionally, **2,200** Villas have been in **H1-2019** and **5,000** more are expected to be completed by the end of **2019**.

Dubai Residential Supply (Units 000s)



Source: JLL

Abu Dhabi

- **Prudent policies** were implemented since 2017 in order to combat weaker oil prices and tougher economic conditions. Job uncertainty, increased mergers and lower corporate activity combined with cutting government spending and consolidating government entities led to **downsizing**, increased vacancy rates and a **decline** in residential sales prices and **rentals**.
- Apartment rents declined by **1% q-o-q** and **11% y-o-y** and the median apartment reached **116,200** per annum. Additionally, as more supply is expected to materialize towards the end of the year, residential vacancy rates are anticipated to increase particularly within prime developments where demand has been negatively affected by job losses, exerting further pressure on rental rates. Villa rents also decreased by **1% q-o-q** and by **9% y-o-y**.

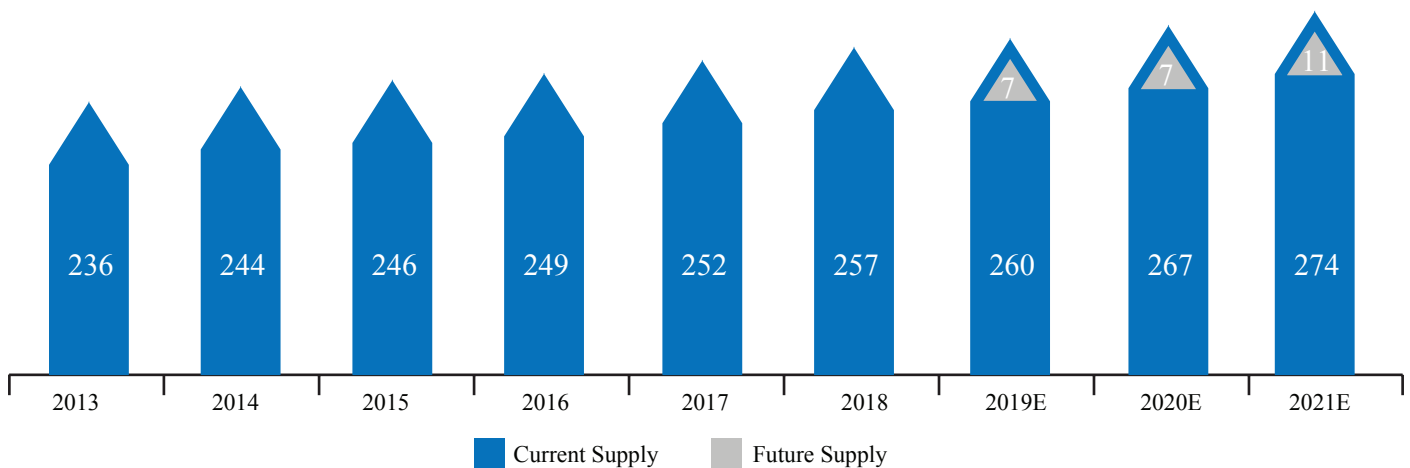
- Residential sale prices for prime villas declined by **2% q-o-q** and **6% y-o-y**, whereas prices for apartments recorded a **1% decline q-o-q** and **15% decline y-o-y** to reach approximately **10,050 AED per sqm** for both apartments and villas respectively.
- Villas in Al Reef witnessed a decrease in asking rents of **12% y-o-y** in **Q2-2019** which represents the highest decrease in average asking rents compared to Hydra Village and Al Raha Gardens which have witnessed decreases of 11%, 9% respectively. Additionally, Al Raha Beach, Khalifa City, Mohamed Bin Zayed and Hidd Al Saadiyat decreased also by 5% each.
- Similarly, average asking rents for apartments have witnessed a decrease, **Corniche** and Khalidya apartments have witnessed the largest Y-o-Y decrease in the asking rents of 14% compared to the decrease in Sayidat, Najmat and Tamouh, Central Abu Dhabi, Al Reef, Al Reem of **12%** for the former two and **11%** for the latter three.
- A pool of landlords is currently competing against each other for a limited number of tenants; hence, rent is facing **downward pressure**. In the rental market, supply seems to be exceeding demand thus tenants have strong **bargaining power**. As mentioned earlier, the redundancy of programs in banking and oil sectors combined with a weak global outlook is presenting a challenge for the residential investment market as a whole

Rental Rates (AED, psf)	Studio 1		Bedroom 2		Bedroom 3		Bedroom		Q1-2019-Q2 2019
	From T	To	From T	To	From T	To	From	To Q	-o-Q
High end	49	71	62	105	84	153	118	195	-3.5%
Mid end	42	61	50	78	68	114	96	154	-3.2%
Affordable	24	37	34	52	50	75	68	95	-3.6%

- Q2-2019 witnessed the delivery of approximately **720 units** bringing the total stock to **260,000** units. Major completions included residential buildings in **Al-Raha Beach**, **Leonardo** in **Masdar City**, and part of **Zone K West** Yas villas. Another **7,250** units are currently scheduled for delivery over the remainder of **2019**, mainly within major master plans such as **Reem Island** and **Al Raha Beach**.
- Given the unanticipated appetite for residential land plots catering to the mid-market segment, **Aldar** released **Al Reeman II** solely for **UAE nationals** to design their own villas within approved standards following the rapid sale of land plots in its two previous developments **Al-Reeman** and **Lea**. The new residential freehold law formalizing foreigners' rights to own land and property within **Abu Dhabi's** investment areas, could ultimately stimulate additional demand for properties in **Al-Reeman** and elsewhere within the investment zones.

- The softening market conditions have resulted in both homebuyers and tenants having more bargaining power with negotiating terms and conditions, rental rates, and sales prices. Potentially, the expected delivery of **14,000** residential units over the next year and half (**2019/2020**) coupled with subdued demand is likely to continue exerting pressure on rent and sales prices.

Abu Dhabi Residential Supply (Units 000s)



Source: Knight Frank

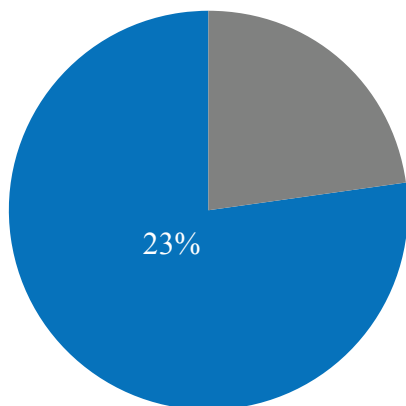
The Office Market

Dubai

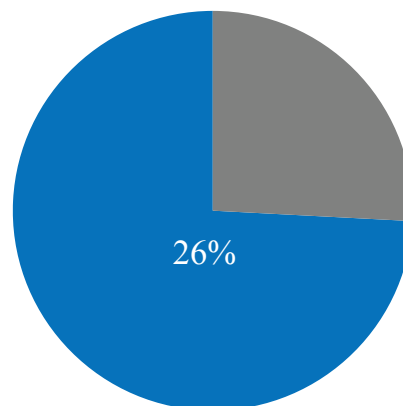
- In a move to **liberalize the current regulations and promote business development**, the Dubai Free Zones Council have announced a scheme called **One Free Zone Passport**. This initiative will allow companies registered with any single free zone to operate in other free zones in Dubai without the need for additional licenses.
- Other moves to generate further employment and investment and thereby create demand for more office space in Dubai include the reduction of market fees imposed on businesses by the Dubai Municipality from **5.0%** to **2.5%** of rent for private businesses and changes to the company laws to allow **100%** foreign ownership of more businesses outside of free zones.

- Average vacancy in the Central Business District (CBD) has increased to **13%**, a **3% Yo-Y** increase and is expected to increase further in **H2-2019**. Average Grade A rents have declined by **10% Y-o-Y** to reach **1,510 AED per sqm** from **1,687 AED per sqm**. Additionally, the downward pressure on rents and vacancies is likely to continue in 2019 given the increased availability of Grade A stock even in prime areas.
- Thus, with demand remaining weak and variant choices available, tenants can expect landlords to offer appealing terms such as competitive rates, fit out contributions, rentfree periods, active asset management and lease re-gears.
- While some established businesses are downsizing and reducing their floor space requirements, there remains growth among SMEs and startups. This is stimulating growth in demand for co-working and other forms of office space. While this sector currently accounts for less than **1%** of all office space in Dubai, it is expected to grow rapidly over the coming years.
- Furthermore, high demand areas such as **Barsha Heights** and **Business Bay** has seen a **y-o-y** decline of 19% and 16% respectively. Additionally, **Jumeirah Lakes Towers** has seen a **Y-o-Y** decline of **17%**. However, **Dubai International Financial Center (DIFC)** has seen a **slighter decline** of **9%**.

Dubai Average Office Vacancy Rate “Q2-2018”



Dubai Average Office Vacancy Rate “Q2-2019”



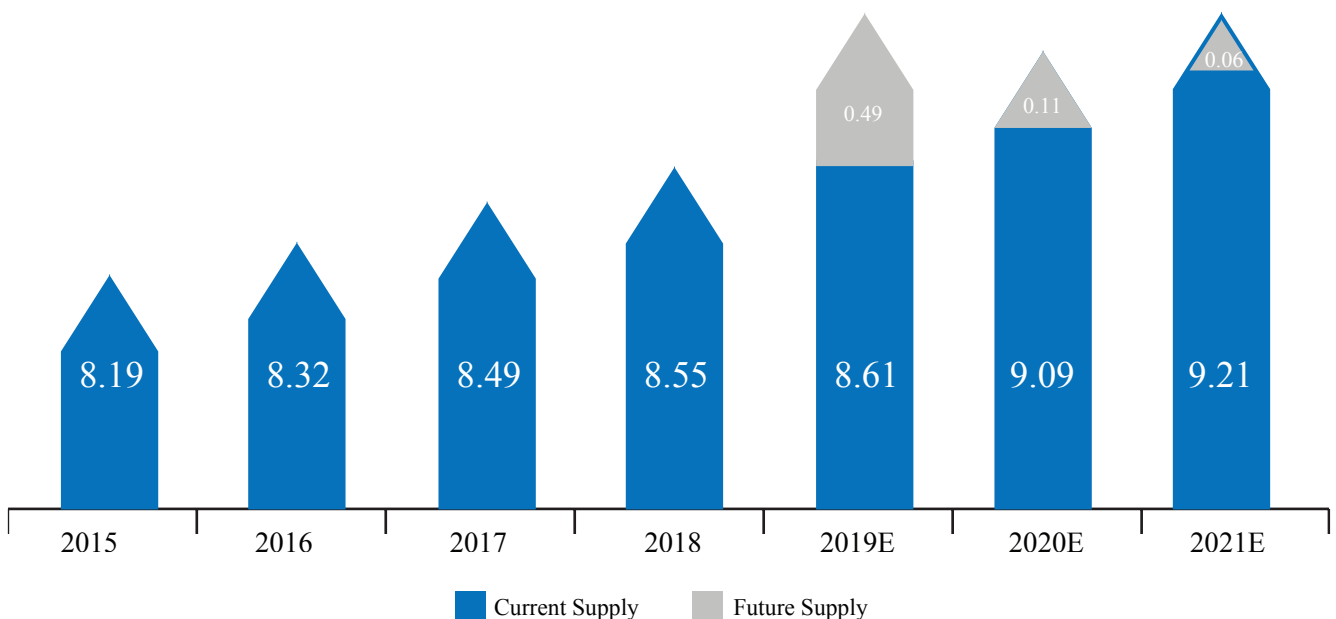
■ AverageVacancy Rate

Source: JLL

- **Q2-2019** witnessed the completion of phase I of Innovation Hub in Dubai Internet City and one tower of Dubiotech Headquarters in Dubai Science Park, bringing the total of office stock to around **8.6 million sqm** of GLA. Looking ahead, office supply is expected to reach **9.09 million sqm** by the end of **2020** and **9.26 million sqm** by the end of **2021**, with notable projects including ICD Brookfield Place in DIFC and Dubai Hills Square expected to be completed by then.

- Office space under construction is estimated reach **9.09 million sqm** by **2020** with most constructed offices expected to be delivered by **2021**. There were no major completions recorded for **2018**. Most upcoming office space would be concentrated in Jumeirah Lake Towers (**32%**), Barsha Heights (**20%**), Business Bay (**15%**), DIFC (**11%**) and Dubai Silicon Oasis (**7%**).
- It was announced in **2018** that the government has taken initiative related to the **100%** ownership outside free zones that might further improve volume in the medium term.
- Limited supply in the pipeline is supporting the stabilization of rental rates. The introduction of **VAT** in **2018** is presenting a pressure on existing and future tenants. Europe an occupiers' response is not yet clear on the prospect of a rise in operational cost resulting from the strengthening of the **US dollar** and a **5%** VAT on rental payments; however, such changes may hamper activity in the short and medium term.
- The **SMEs** sector continues to expand as **Business Bay** is still upholding its position as an SME hub. Business Bay has a stock of small units which is suppressing lower rent limits in which the volume of units will likely keep rent contained in the future.

Dubai's Office Supply (MM SQM)



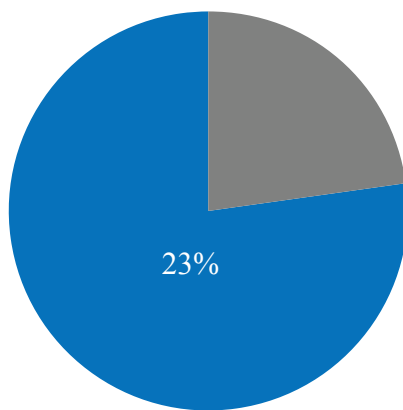
Source: Frank

Abu Dhabi

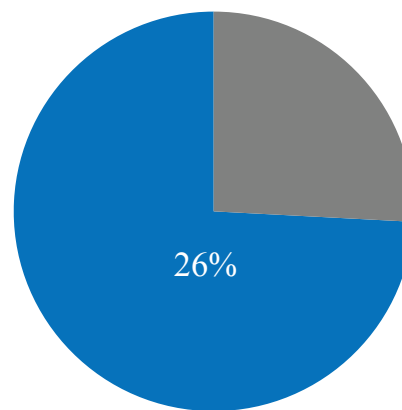
- Demand **remains weak** as companies continue to be cost conscious. However, there remains demand for smaller sized units as global corporates are focusing on occupancy metrics to enhance employee productivity by eliminating wasted space.

- Given limited demand, the office market has continued to face downward pressure with further declines in rentals for both Grade A and Grade B space. The headline rentals for shell and core offices (exclusive of service charges) dropped **6%** to average **1,605 AED per sqm** for Grade A, while Grade B rent dropped **5%** to average **AED 855 per sqm**. While the rate of decline is slowing, the market remains in favor of tenants with landlords continuing to offer incentives such as rent-free periods to attract and retain tenants.
- Vacancy rates have increased by **300bp** over the past year to **26%** mainly within **Grade B offices** as **Grade A offices** maintain adequate occupancy levels.

Dubai Average Office Vacancy Rate “Q2-2018”



Dubai Average Office Vacancy Rate “Q2-2019”



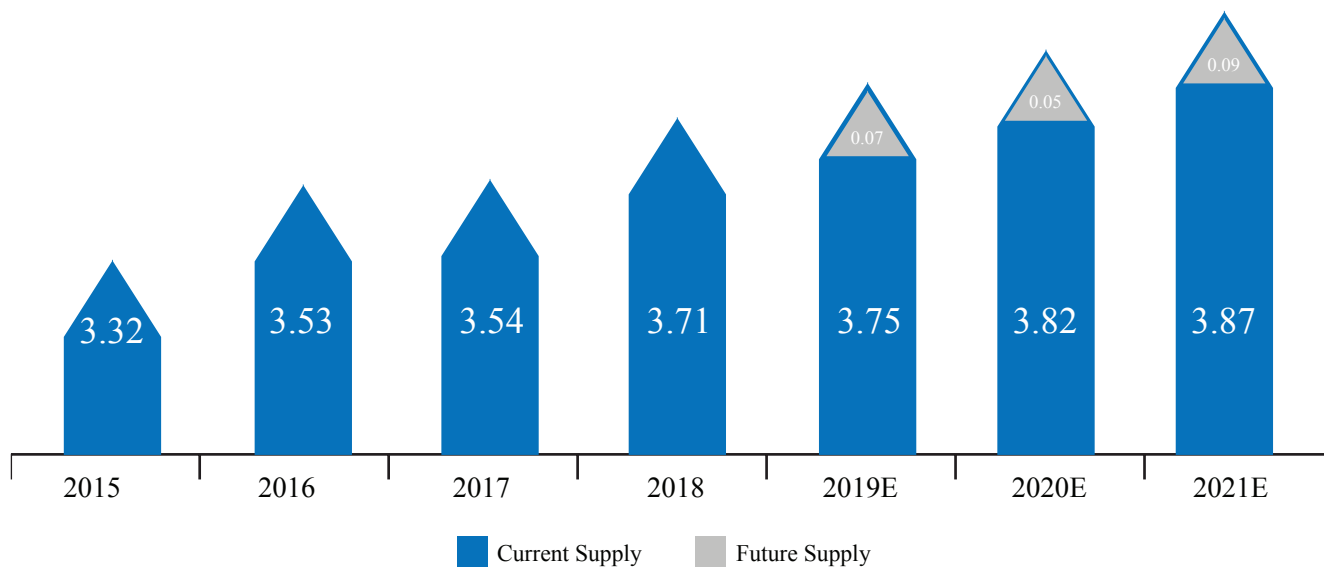
■ AverageVacancy Rate

Source: JLL

- The completion of the Saleem building in Al Raha beach and Ali & Sons building in Rawdhat has increased the total office stock to around **3.75 million sqm** of GLA. An additional **68,000 sqm** of GLA is scheduled for delivery by end **2019**, with notable projects including a new Grade A office building in **Zayed City**. However, developers remain cautious with projected deliveries due to current market conditions, and delays in delivery dates might be expected to occur.

- With the office supply under control and government initiatives set to stimulate the economy we expect the office market to experience limited further declines in rent over the rest of **2019** before stabilizing in **2020**.

Abu Dhabi Office Supply



Source: Knight Frank

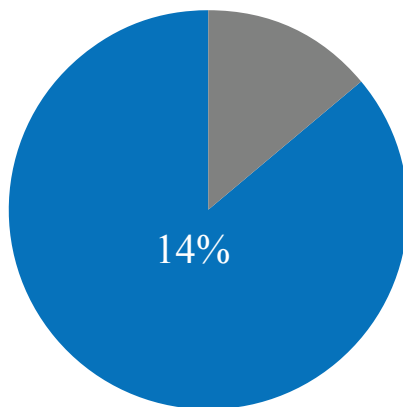
The Retail Market

Dubai

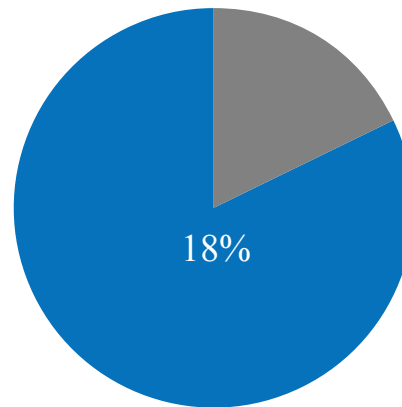
- The **Dubai retail market** is currently facing a challenging time as many retailers are limiting their expansion plans, while others are seeking to close branches. Retailers are increasingly turning to discounts/promotions to entice consumers to spend.
- Additionally, market rents in primary and secondary malls have continued to decline. While it is hard to quantify due to the variety of incentives and discounts being offered by landlords, the real estate consultancy **JLL** estimates that rents have declined by around **14%** and **24%** for primary and secondary malls respectively, when compared to the same period last year. Market wide vacancies are estimated to have increased from **14%** in **Q2-2018** to **18%** in **Q2-2019**.
- Retailers are witnessing weaker sales as occupancy costs increased, in addition the **5% VAT** might add more pressure on landlords by giving tenants more leverage. Shopping malls will likely witness more competition from **e-shopping** in the upcoming years; especially with the strong supply in the pipeline, thus rent is expected to weaken.

- Even though retailers are still cautious due to the uncertain economic outlook; the well established malls maintained near **100% occupancy rate**, like **Emaar retail** for example which maintained around **92%** in **Q1-2019**. As the retail market is directly linked to the **hospitality market**, the investment in Dubai international Airport, Al Maktoum International Airport and the expansion of Emirates Airline will likely to have a positive effect on the former.

Dubai Average Retail Vacancy Rate “Q2-2018”



Dubai Average Retail Vacancy Rate “Q2-2019”



■ Average Vacancy Rate

Source: JLL

- Total mall-based retail supply was recorded at around **3.8 million sqm** by the end of **Q2-2019**, with the Dragon Mall expansion and The Souq Cultural village are the only projects completed during **H1-2019**. Additionally, another **1.6 million sqm** of retail space is expected to enter the market by the end of **2021** with more than **600,000 sqm** of this total due to be complete by the end of **2019**. Major future projects currently under construction include Meydan Mall, Dubai Hills Estate Mall and Nakheel Mall on Palm Jumeirah.
- The retail market faces the greatest **threat of oversupply** of any sector, with major delays being expected and not all the announced projects materializing. The retail market is also under pressure from external factors such as changing consumer trends

(with consumers moving away from luxury brands) and rise of online retailing in the region. To counter these concerns, mall operators are constantly looking for new strategies to boost dwell time, operating performance and the tenant mix of their projects.

Abu Dhabi Office Supply

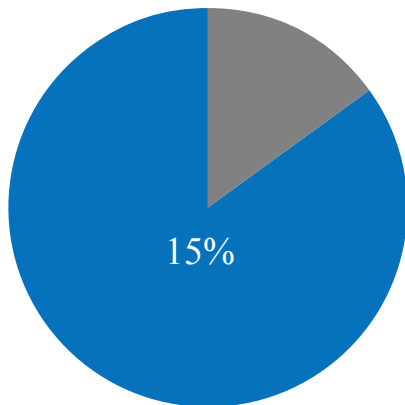


Source: Knight Frank

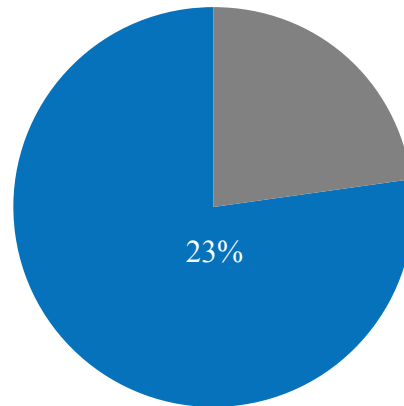
Abu Dhabi

- Weaker macroeconomic conditions are exacerbating the reduction of retail spending combined with tougher competition from **e-commerce**. Moreover, additional supply in the pipeline and weaker demand are more likely to hamper the recovery of the retail sector in Abu Dhabi.
- Additionally, Average retail rents have continued to decline (by **5%** Y-o-Y), as vacancy rates increased by **8%** over the past year, reaching **23%**. Landlords are increasingly offering tenant favorable leases with negotiable rental rents, rent free periods, and higher levels of capital expenditure contributions.
- Most of the Mallshave maintained a healthy occupancy of above **90%** such as Yas Mall , The Galleria and Abu Dhabi Mall. Nevertheless, there are expectations that the retail market will soften.

Abu Dhabi Average Retail Vacancy Rate “Q2-2018”



Abu Dhabi Average Retail Vacancy Rate “Q2-2019”

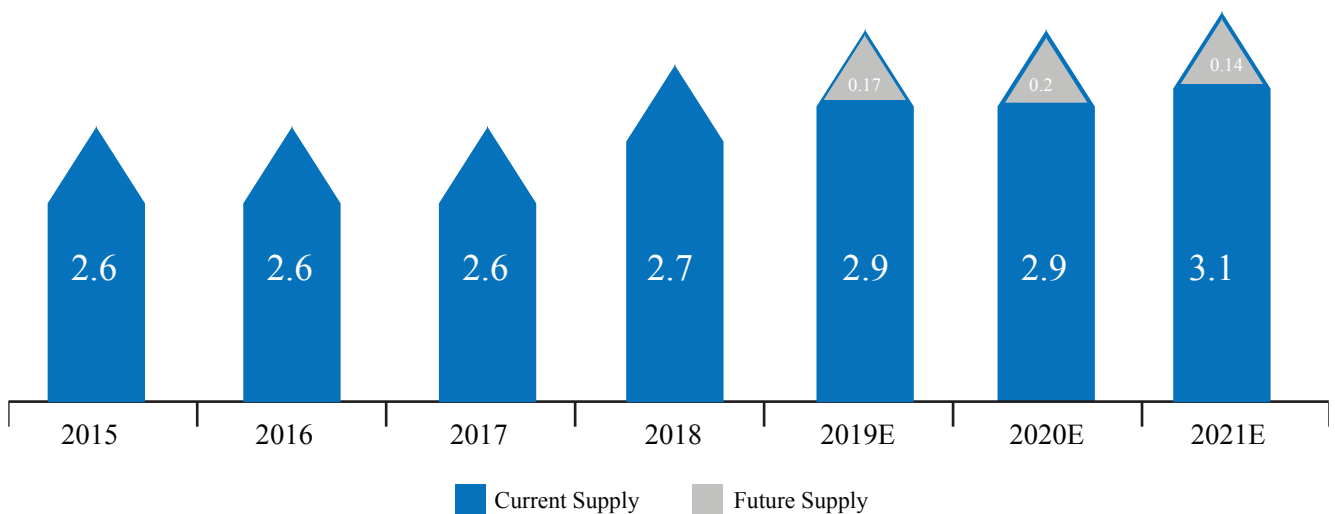


■ Average Vacancy Rate

Source: JLL

- Q2-2019** witnessed the delivery of the region’s most sustainable community mall, My City Centre in Masdar City adding **18,800 sqm** of GLA to the total retail stock registering approximately **2.7 million sqm** of GLA. The Galleria Al Maryah is due to open in **September 2019** and represents the first major addition of quality retail since Yas Mall opened in 2014. Additionally, with Al Reem Mall due to complete in 2020, the total retail supply will increase to approximately **3 million sqm** by the end of **2020** and **4.4 BN AED**.

Retail Supply in Abu Dhabi (MM SQM)



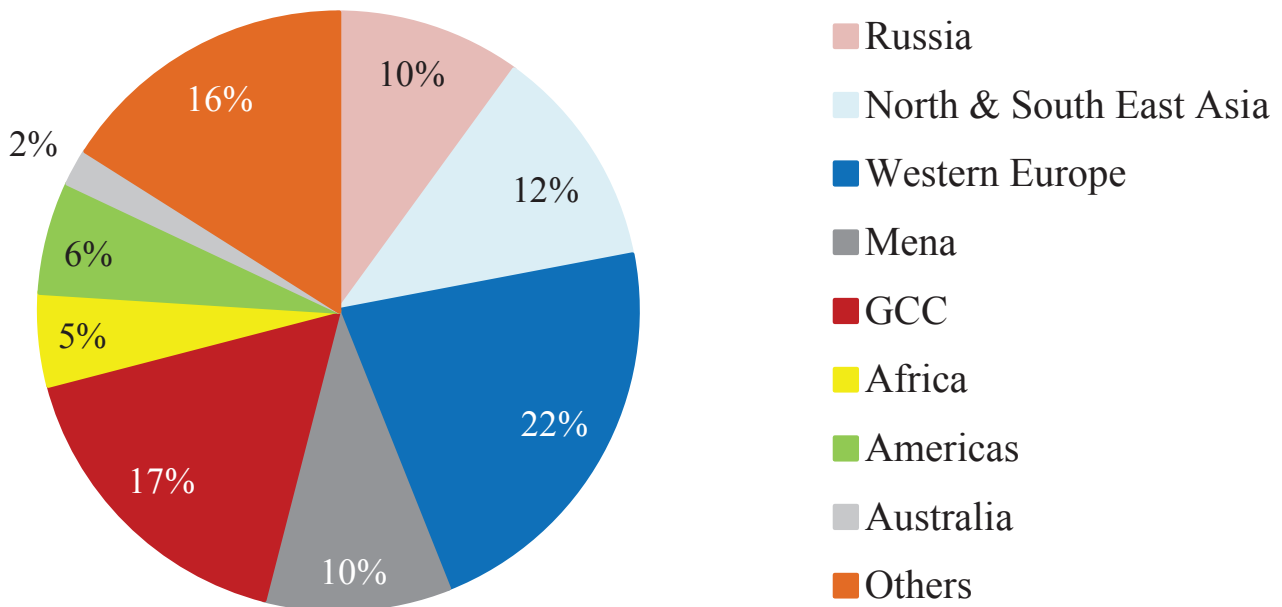
Source: Knight Frank

The Hotel Market

Dubai

- Dubai was ranked the 7th travel destination in 2018, a ranking that is supported by the ease of the number of arrivals that was achieved that year of **16,658,500 passengers**. The emirate is further aiming at achieving a target of **20 million visitors** by **2020**.
- The top source markets for Dubai visitors as shown in the below graph accounting for more than **50%** which was a result of the contribution of Europe, South Asia and GCC.

Dubai Visitors by Region

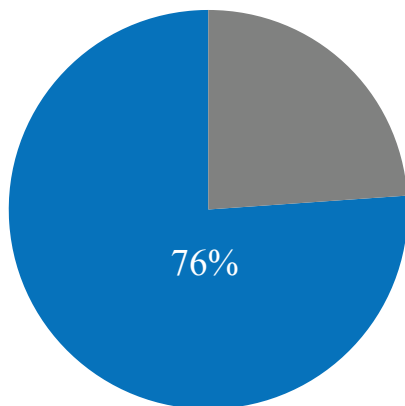


Source: Department of Tourism and Commerce Marketing

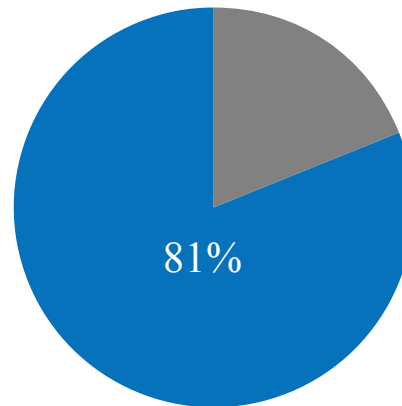
- **The Dubai hotel market** has seen a decline in performance until **May 2019**, with Average Daily Rates (ADR's) decreasing by around **12%** compared to the same period in **2018** (to reach **172 USD**) and Revenue Per Available Room (RevPAR) declining by around **17%** (to **159 USD**). Occupancy levels also suffered a decline (of around **5%** basis points) to **76%** when compared to the same period last year. One reason for this decline was the timing of Ramadan a quiet period for the Dubai market), in May.

- The government launched multiple initiatives to attract more tourists during the slower summer months, such as exemption on visa fees for children accompanied by parents and free sim cards to tourists on arrival. Despite these initiatives, further declines in performance are expected over the next **12 months**, before the hotel market recovers on the back of strong visitor arrivals growth associated with **Expo 2020**.

Abu Dhabi Average Retail Vacancy Rate “Q2-2018”



Abu Dhabi Average Retail Vacancy Rate “Q2-2019”



■ Average Vacancy Rate

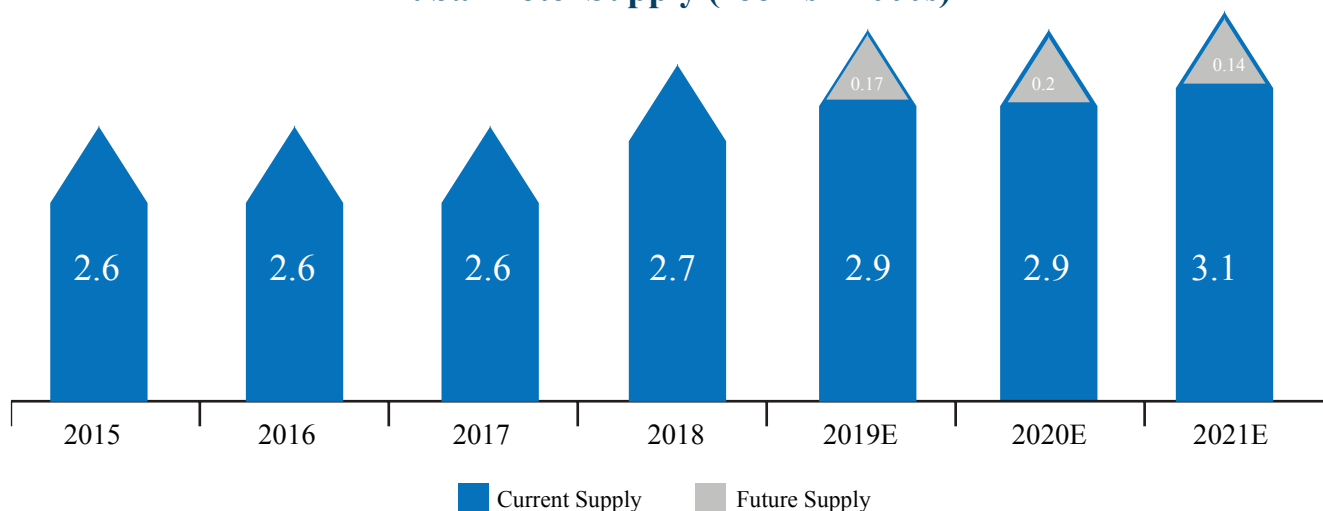
Source: JLL

- The total number of hotel and serviced apartment keys in Dubai stood at around **123,200** at the end of **Q2-2019**, with around **1,100 keys** added during the quarter. Notable projects to complete included Rove at the Park in Dubai South and Vida Hills in the Views. Another **18,400** keys are expected to enter the market in the second half of **2019**.

Additionally, hotel Supply is expected to reach **155,900** keys by the end of **2021**, with major projects including The Royal Atlantis in Palm Jumeirah and The Address Fountain Views in Downtown. Although developers are bringing the timing of some strategic projects forward to complete ahead of **Expo 2020**, we remain cautious on the timely delivery of many projects.

- By the end of **2020**, **2,583** rooms are expected to be added as a result of the new hospitality projects launched. These projects are Dubai Greek Harbour providing **1,500** rooms, followed by Centara Hotel providing **601 rooms** and Radisson Hotel DAMAC hills providing **481 keys**.

Dubai Hotel Supply (rooms in 000s)

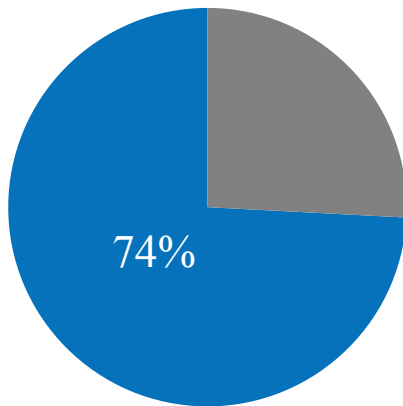


Source: JLL

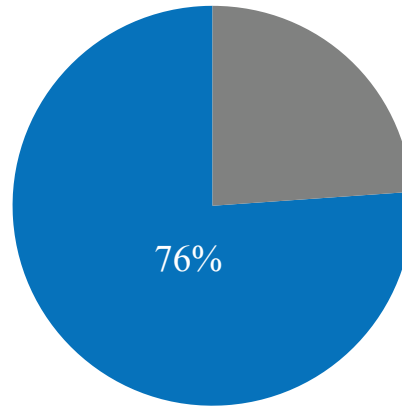
Abu Dhabi

- The hotel market experienced a **7%** growth in hotel guests flow reaching **1.6 million guests**. Abu Dhabi government started an initiative called “**Your Extraordinary Story**” aimed at reviving tourism through ADTCA’s **11** overseas offices. Overall medium-term trends are positive amid the hosting of world-class events and attractions on Yas Island and Saadiyat Island.
- The Department of Culture and Tourism (**DCT**) has announced a set of initiatives and marketing efforts to promote tourism and improve Abu Dhabi hotel market. As part of these initiatives, DCT is planning a series of events, exhibitions, and temporary activation schemes within existing developments. In a separate move, **Miral** has partnered with **Abu Dhabi Global Market** (ADGM) new travel and hospitality platform, Plug and Play, aiming to boost and diversify tourism in Abu Dhabi.
- Additionally, Abu Dhabi hospitality market has performed strongly over **H1-2019**. Although occupancy levels reduced to register **74%** until **May 2019**, Average daily rates (ADR) increased by **12%** in comparison to **Q2-2018** to reach **126 USD**. As a result, revenues per available room (RevPar) increased by **9%** over the same period to register **94 USD**. Tourism numbers have been increasing, partly due to a strong calendar of events during **Q2-2019**. These included a popular program of family entertainment activities on Yas Island during Eid Al Fitr, including a gaming festival catering to all ages.
- Looking forward, it is expected that the hotel sector to perform better by year end (in comparison to **2018**) but the market has not yet moved into a period of sustained recovery.

Abu Dhabi Hotel Occupancy Rate “Q2-2018”



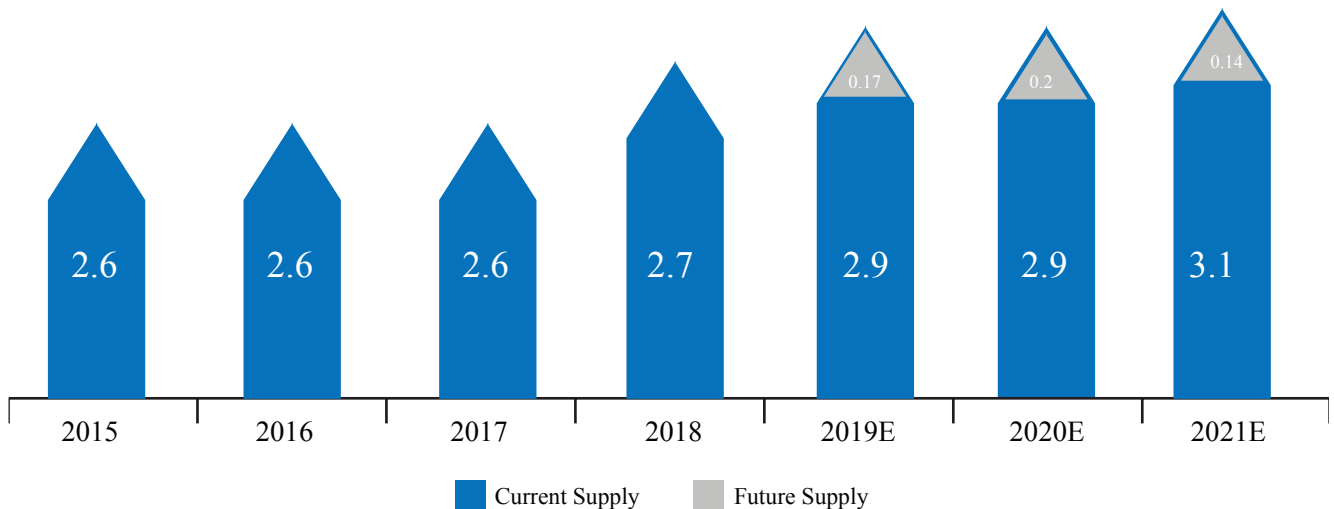
Abu Dhabi Hotel Occupancy Rate “Q2-2019”



■ Average Vacancy Rate

- No major completions took place during **Q2-2019**, with the total hospitality stock remaining stable at approximately **30,100 keys**. Park View (a serviced apartment project on Saadiyat Island) is the only major addition to supply scheduled for delivery over the second half of this year. A further **800 keys** are scheduled for delivery in **2020**, increasing the total stock of hotel and hotel apartment keys to around **31,100**, mostly falling within the upper scale segment. Some hotel projects scheduled for delivery during **2019** have been delayed in response to the current market conditions.
- As boosters for tourism, **Warner Bros World Abu Dhabi** opened in **2018** which was described by Time Magazine’s top **2018** list as “World’s greatest places”, in addition to the Louvre Abu Dhabi which launched in **2017**.

Retail Supply in Abu Dhabi (MM SQM)



Source: JLL

VI. Future Outlook

- **Predictions** for Dubai residential market are **optimistic** as the market has bottomed out, sales prices and rentals are falling less rapidly. The lower end and upper end of the market are **stabilizing**, the former due to expanding demand opportunities and the latter is supported by the lifestyle and appeal of Dubai. The market is **maturing** since developers are adjusting their expectations to demand; furthermore, they are phasing out projects to avoid **excess supply**.
- Despite downward pressure on office rents in Dubai in non-core locations, prime locations were relatively more stable as **multinationals** cannot compromise the prestige aspect. Yet, forecasts imply that there will be **limited change** in rental values; many firms are cancelling projects or delaying expansions in response to the sluggish economic conditions. Technology, media, telecommunications and pharmaceutical companies reported increased economic activities while SMEs are on the rise especially in Business Bay. Demand is shifting towards smaller, higher quality and fully furnished office spaces. The introduction of a **5% VAT** and the possible strengthening of the USD are applying pressure on buyers to “wait and see”.
- On the other hand, the retail market in Dubai is facing more **competition** from e-commerce since the online retail industry is expected to boom by **2021**. Developers are expected to differentiate their malls in line with a modern **urban lifestyle** to attract footfall. The strongest performer is Dubai electronics market. **Well-established malls** are achieving near **100%** occupancy; however, rent is forecasted to fall in other “shopping centers” as a result of weaker residents’ purchasing power and low confidence.
- Dubai hospitality market is recovering thanks to the easing of **visa requirements** especially for **Chinese** visitors. The investments in **Expo2020** coupled with upgrading the infrastructure and the **expansion of airports** are likely to be reflected in an improvement in future expectations. Moreover, the luxury and upscale market is dominating supply while the midscale market is stagnating. The opportunity lies in the growth of services tailored to the **Chinese** and **East Asian visitors** which will be a crucial step forward.
- However, external debt is another problem for Dubai with **60 BN USD (representing 50% of GDP)** are expected to mature within **5 years** of which **30 BN USD** are to mature in the next **36 months**.

VII. Conclusion

In conclusion, **UAE's outlook** is generally positive as oil prices are expected to gain momentum due to OPEC decision to cut production, which in turn is expected to increase the government revenue and boost spending on infrastructure such as **metro, airport and roads**. Additionally, Dubai **Expo2020** is likely to focus investments on **real estate and tourism** facilities. Sectors such as hospitality and retail for instance are expected to significantly higher in the medium term.

As mentioned before, the residential market is **maturing** and various projects are phasing out to avoid **excess supply which in turn was one of the key factor of the declining prices**.

However, since the market has bottomed out, sales prices and rentals are falling less rapidly and a more optimistic outlook is perceived. Finally, market activity within the office market is encouraging with vacancy increasing in both emirates, the immense pressure on the office market is expected to ease up in the future.

Real Estate Sector

KUWAIT





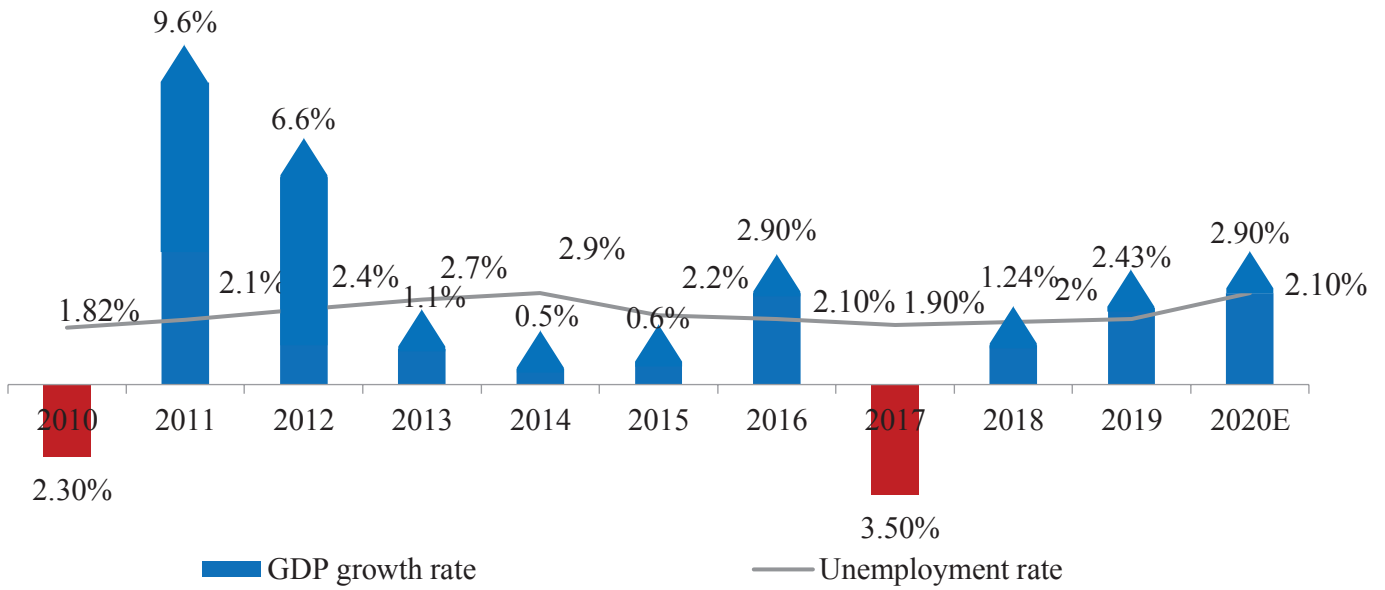
I. Introduction

- The real estate sector in Kuwait has an **upward trend since 2018** and has brought up property deals to the third highest value in about 10 years.
- The significant growth in Kuwait property market in 2018 was supported by a noticeable expansion in different sectors led by the real estate sector, investments raised the value of its deals by **57% y-o-y** to **1.7 BN KWD**.
- Hundreds of thousands of construction workers in Kuwait are busy building bridges, roads, homes, the region's largest refinery, an expanded airport terminal and a new port. These are just some of the major projects being completed as the country works towards **the New Kuwait 2035 vision**.
- These developments are almost entirely driven by government spending and components of the **Kuwait National Development Plan 2015-2020**, which have been subject to delays in 2017 and 2018. Despite these setbacks, the government hopes in the remaining one year of the plan should see the completion of major infrastructure improvements that could serve as the catalyst for significant changes within Kuwait economic landscape.
- This report will evaluate the real estate sector in Kuwait and its subsectors; residential, retail, hotel and office sectors. It will present the **performance, supply, and demand** of each subsector; in addition to an overview of the rules and regulations set by the government with relevance to that sector. Finally, it will include Kuwait 2035 Vision; and the **future outlook** of real estate sector in Kuwait.

II. Macroeconomic Indicators

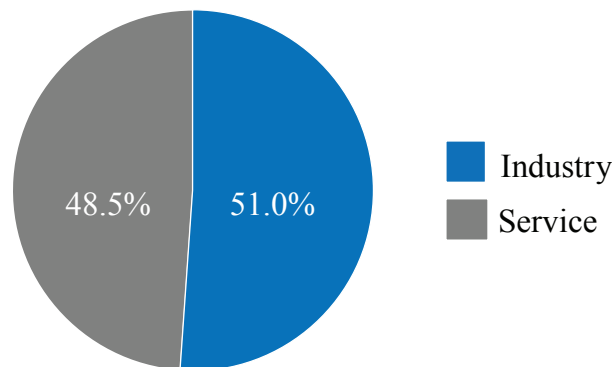
- Kuwait has a geographically small, but wealthy and relatively open economy with crude oil reserves of about 102 billion barrels - more than 6% of the world reserves. Kuwaiti officials plan to increase production to 4 million barrels of oil per day by 2020. The Petroleum sector accounts for over half of the country's GDP, 92% of export revenues, and 90% of government income.
- Kuwait has failed to diversify its economy or bolster the private sector, because of a poor business climate, a large public sector that employs about 76% of citizens. The Kuwaiti Government has made little progress on its long-term economic development plan first passed in 2010. While the government planned to spend up to 104 BN USD over four years to diversify the economy, attract more investment, and boost private sector participation in the economy, many of the projects did not materialize because of an uncertain political situation or delays in awarding contracts.
- Property development, sales and rentals play a significant role in Kuwait economy, and home ownership is set to grow as new cities are built to accommodate a growing population. Landlords in the office, retail and industrial sectors enjoy high occupancy levels and there has been extensive development of rented residential properties for the expatriate workers, who constitute almost **70%** of the country's **4.6 million population**. Private sector developers have opened new flagship hotels and shopping malls in 2017 and 2018, with others under construction. The government itself is driving the construction of new communities to meet the sizeable backlog in homes for citizens.
- The reason behind the fall of GDP growth in **2017** was due the cut in oil production imposed by OPEC, in attempt to avoid the fall of oil prices. The oil production represents over **40%** of the GDP, therefore this highly affected the GDP growth In **2018** the GDP growth rate started to increase in parallel with the oil prices, gradually recovering the economy to reach **1.24%**.
- The GDP growth rate reached **2.43%** in **2019** and is expected to reach **2.9%** in **2020**, as the economy is expected to surge rapidly with the increase in oil prices.
- Unemployment rate has been relatively constant, fluctuating within a variance of **1%** then it increased by **5%** in **2018** compared to **2017**. It reached **2.43%** by the end of **2019** and is expected to reach **2.9%** in **2020**.
- The cut in oil production had its resonance on the economy including a fall in the jobs availability in the labor market, therefore causing the increase in the unemployment rate.

Macroeconomic indicators



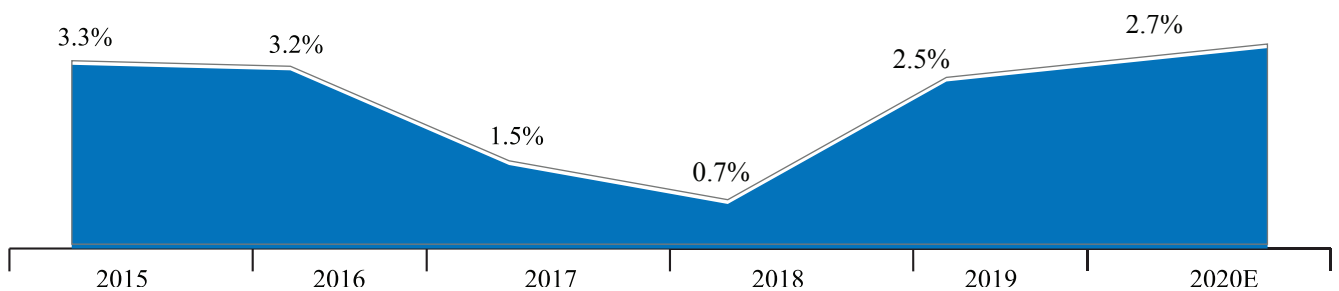
Source: World Bank

- Kuwait's economy is reliant on two sectors as shown below. Industry, contributing **51.0%** of GDP and services contribute **48.5%** of GDP



- The inflation rate has increased in 2019 reaching 2.5% and is expected to reach 2.7% in 2020. This was due to the increase in oil prices in addition to expected expenditure on new mega structures that shall take its toll on fiscal budget echoing in the inflation rate.

Inflation Rate

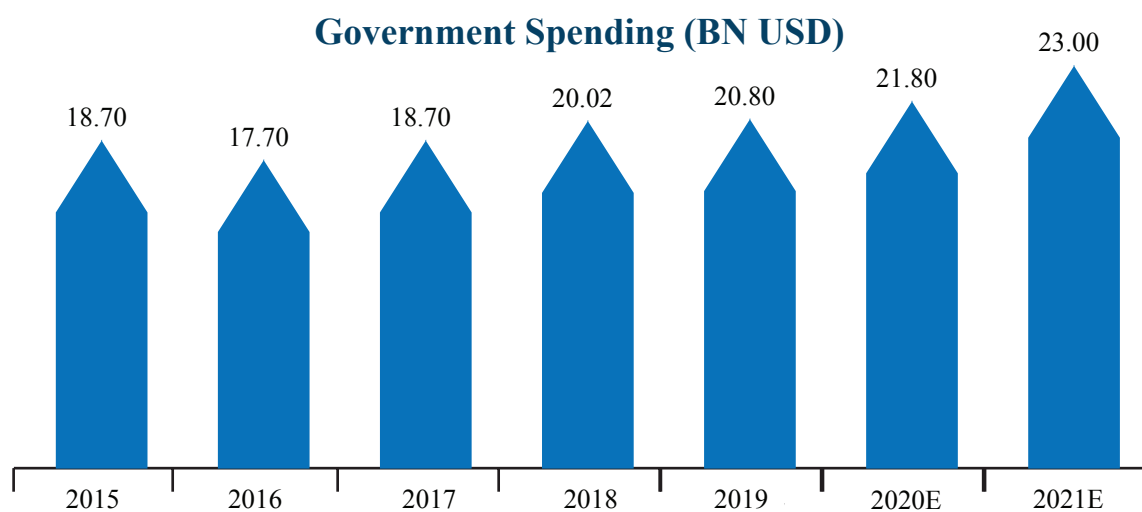


Source: IMF

- Kuwait has always been a country open to foreign investment and is further opening to foreign capital, however, FDIs are still underdeveloped in the country. According to the **UNCTAD's World Investment Report 2019**, the lack of diversity in economy and the fall in oil prices since 2014 which caused the decrease of inflows in 2018. This decline began in 2012 and Kuwait investments did not recover. Inflows reached **346 MM USD** in 2018, staying stable compared to **348 MM USD** in 2017. The bulk of investments are directed towards the oil and gas sector, followed by real estate/construction and financial services. The majority of foreign investments come from the United States and China. With the decline in oil revenue, the government seeks increased foreign investments as it plans to diversify its oil-dependent economy.
- A law on foreign investment, enacted in 2013, was implemented in 2015 and a series of other laws related to businesses and public-private partnerships were introduced as well. The law allowed **100% foreign ownership** in a number of sectors as well as providing a number of tax breaks to attract new investors, who in return must guarantee a set of quotas regarding the employment of Kuwaiti nationals. Further steps have been taken allowing the opening of the stock market to non-Kuwaitis, the presence of foreign operators in the petrochemical industry and the entry of foreign banks in the country. The industries covered by the FDI law that allows 100% foreign ownership, include: infrastructure (water, power, wastewater treatment, and communications) insurance, information technology and software development, hospitals and pharmaceuticals, air, land, and sea freight, tourism, hotels, and entertainment; housing projects and urban development; and investment management.

Government Spending

Kuwait Government expenditure reached **20.83 BN KWD** in 2019 as reported by International Monetary Fund - World Economic Outlook. It records an **increase** from the last reported number of **20.02 BN KWD** in 2018.



Source: International Monetary Fund

Industrial Sites

Kuwait existing stock of industrial real estate is limited. The REA 2017 report focused on **eight areas offering warehousing space**, estimating that occupancy rates are above **95%**, with **strong demand** for warehousing and leasing rates holding steady or even increasing marginally. Prices per sq. meter range from **2 KWD (6.63 USD)** in Abdullah Port, to **9.5 KWD (31.50 USD)** for the most expensive cold storage facilities.

III. Real Estate Market Overview

The Central Statistical Bureau data on national accounts shows that the real estate sector contribution at current prices grew from **2.9 BN KWD** (9.5 BN USD) in 2015 to **3 BN KWD** (10 BN USD) in 2016 and **3.1 BN KWD** (10.3 BN USD) in 2017. In 2016 the sector generated **9.1%** of total GDP and **12.2%** of non-oil GDP. The provisional data for 2017 showed that the real estate sector contributed **8.6%** of total GDP, and like 2016, **12.2%** of non-oil GDP.

As of September 2018, there were **38 real estate** companies listed on Boursa Kuwait. **Mabaneer**, with a market capitalization of **623.4 MM KWD (2.1 BN USD)**, was the only real estate business listed on the premier market, but the main market also included **Salhia** Real Estate Company, **Ream** Real Estate Company, **Commercial** Real Estate Company and **Tamdeen** Group.

Key Companies

- **Mabaneer** owns The Avenues Malls in Kuwait and Bahrain and is building two new destination malls with the same brand in Al Khobar and Riyadh in Saudi Arabia.
- **Salhia** owns landmark upmarket retail and leisure complexes in Kuwait City as well as the JW Marriott and Courtyard by Marriott hotels and office towers and is building the new mixed-use Al Assima development in the Sharq area of Kuwait City, with a business tower, mall and leisure facilities.
- **Tamdeen** is working to complete a number of major projects, including the Tamdeen Square development, which features four 40-storey residential towers with more than 400 apartments that can be acquired as homes or investment properties; two hotel-apartment buildings; a hotel; and a shopping center in Sabah Al Salem.

Increased Budget for Kuwait Real Estate Sector

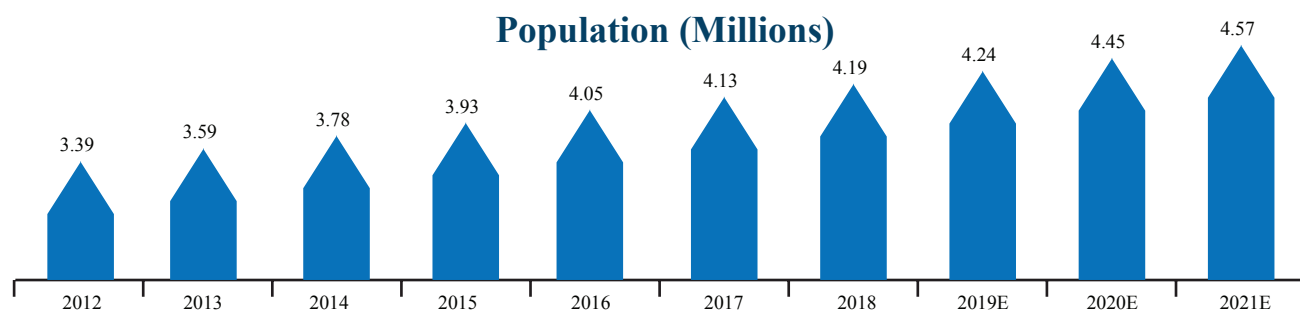
The Public Authority for Housing Welfare (PAWH), responsible for building towns, neighborhoods and homes for Kuwaitis, is spending almost **1 BN KWD** (3.3 BN USD) per year on new developments, aiming to hand over **36,000 residential plots** in 2017.

Local media reported PAHW’s budget would be increased from **911.3 MM KWD** (3.02 BN USD) to **916.6 MM KWD** (3.04 BN USD) in 2018/2019 for work on **28 projects** to provide roads, housing plots, infrastructure, public buildings and amenities. The project development costs in two new neighborhoods in **Jaber Al Ahmad** and **Al Mutlaa** cities were amended, rising from **336 MM KWD** (1.1 BN USD) to **388 MM KWD** (1.3 BN USD). Other projects are progressing as planned, with PAHW stating that by the end of 2018 a mosque, clinic, schools and shops would be handed over in the **Wafra expansion project**, which have been successfully delivered in October 2018. As well as all the homes are due to be completed by February 2020.

IV. Demand Drivers

Population

Kuwait population is expected to reach **4.24 million**, which includes over **1 million Kuwaitis** and more than **2 million expats**. The increase in the population points out the constant increase in the demand for housing. It also conveys the increase in retail sector services; malls and entertainment centers will be able to serve the increasing population.



Infrastructure

Source: Worldometers

The centerpiece of the transport infrastructure development program is the expansion of Kuwait International Airport (KWI), and the addition of a **1.3 BN KWD (4.2 BN USD)** passenger terminal designed to accommodate all types of aircrafts, while boosting passenger capacity from **7 million** passengers in 2016 to **25 million** per year by 2025. Quality tests have begun in 2018, currently both terminal 2 and terminal 4 are operational. In December 2016, Kuwait Municipality appointed a global consortium comprising **Dar Al Handasah** and **Perkins & Will** to draw up the country’s fourth master plan, an urban constitution and roadmap for development projects to 2040, in line with Vision 2035 objectives. Through initiatives such as the **PPP** program and the privatization law, the development focus of the new master plan is expected to include a greater emphasis on the **shared responsibility** for infrastructure development. The efficiencies of improved private sector engagement will help to drive development in infrastructure, and create new opportunities for companies in transportation and logistics.

V. Supply Overview

Major Projects

PAHW is also planning ahead for the needs of a young, growing population as it seeks to clear **100,000 applications** on the housing waiting list. Across the country PAHW is overseeing **8** ongoing projects with a combined area of **17,395 hectare (ha)**, on which **56,614** homes are being built at **Abu Halifa, Wafra, Jaber Al Ahmad, South Al Mutlaa, North West Sulaibikhat, Sabah Al Ahmad** and **West Abdullah Al Mubarak**. Some homes will be apartments, while others will be villas or plots for Kuwaitis to build their own homes. The properties will range in size from **400 sq** meters to **600 sq** metres. In these communities PAHW is planning to build **229 schools**, **330 mosques**, and stations for police, fire, ambulance, shops, clinics, and government buildings.

International Firms

In March 2018, PAHW signed a **29 MM KWD (96.1 MM USD)** contract with the Turkish construction firm **Limak** to construct one of the projects currently in the design phase; **South Abdullah Al Mubarak**, which will have **3,260 plots on 435.8 ha**, and amenities including five schools, three kindergartens and a mosque. Limak will also be responsible for the new community's roads, drains, and sewage system and telecoms infrastructure. This is not the first time in Kuwait history that international firms have been awarded construction contracts for government-funded communities. International firms delivering housing and building new towns and estates would appear to remove local real estate companies from the equation and reduce the overall demand for freehold apartments. However, the real estate market is segmented between homes for Kuwaitis and those for foreign residents, with the latter considered as investment properties. Some private developments are easing Kuwaiti demand for **affordable and cost-efficient housing**. Sabah Al Ahmad Sea City in the south of the country, has been built by Kuwaitis who are able to afford seaside homes. The reclaimed, palm-shaped development hopes to allocate homes for **150,000 Kuwaiti citizens**. Local real estate developer **Athra** plans to provide those residents with retail and leisure facilities in the form of the **30 MM KWD (99.5 MM USD)** Blue Water Mall.

Legal Foundations

In addition to PAHW activities in the residential housing market, the country's laws **restrict** land and property ownership to GCC citizens. Laws **passed** in 1959, 1960 and 1978 established regulations for the **registration** of real estate, the operation of commercial companies and the leasing of property. Law No. 74 of 1979 **regulated foreign ownership** of property and effectively prohibited foreign residents or companies from owning property.

A subsequent law in 2004 **allowed** citizens of GCC countries residing in Kuwait to **buy** real estate, and the same rights have been extended to citizens of other Arab countries. The Ministry of Justice (MoJ) operates a land registry and can also consider applications for **property ownership** from Arab nationals. In 2015, local media reported that six foreign residents from Lebanon, Jordan, Yemen and Egypt had been granted permission by the MoJ to purchase plots of land under Law No. 74. In 2018, the Cabinet’s economic affairs committee prepared a report suggesting foreign residents to be allowed to own their own homes in certain areas. It claimed the move could stimulate the real estate market without having an impact on housing options or prices for Kuwaitis.

In the wake of the global financial crisis of 2008, Kuwait passed Law No. 8 and Law No. 9 which restricted commercial ownership of land in residential areas. The laws were designed to prevent monopolization of land ownership and reduce speculation. The new laws stipulated that any party owning more than 5000 sq. meters of land for more than three years for trading purposes would have to **pay a 10 KD (33.15 USD) fee** for every additional square meter of land they owned. Kuwait Finance House (KFH), an Islamic lender, subsequently challenged the law in 2009, successfully arguing that banks should be excluded from the fees, as the land was being held in collateral rather than for trading purposes. However, the impact of the legislation has effectively hampered the growth of commercial residential property development in Kuwait.

Property Loans

In its “Financial Stability Report 2017”, the Central Bank of Kuwait (CBK) notes that the combination of property loans to individuals, real estate companies and construction firms meant that half of Kuwaiti banks’ credit portfolios were exposed to the real estate sector. The CBK reported that lending to households **grew** by **7.6%** in 2017, with **86%** of that credit accounted for by instalment loans for the repair and purchase of private homes. In the same year **direct lending** to the real estate sector **increased** by **4.4%**, reversing the **3.4%** loss the sector had experienced in 2016. The CBK attributed the real estate market’s partial recovery in 2017 to renewed activity in the residential segment. In 2017 bank credit to **households increased** by **7.6%** to **11.5 BN KWD** (38.1 BN USD), making it the top recipient of bank credit, followed by the real estate sector, which was loaned **9.5 BN KWD** (31.5 BN USD). In Q1-2019 **24.2 MM KWD** were approved for housing loans.



Property Pricing

The government commitment to provide homes for citizens, combined with laws largely prohibiting foreign ownership of property, has resulted in a two-tier home market in Kuwait. Villas and apartments built for Kuwaitis are classified as **residential**, while buildings designed for occupancy by foreign residents are regarded as **investment** properties. MoJ data on transactions across the real estate sector is analyzed by both KFH and NBK, while the Real Estate Association (REA) makes its own surveys of activity in residential, investment, office and industrial property transactions. NBK noted that in 2018 the overall activity in all property segments grew by a **91% increase Y-o-Y**. It reported that the residential sales increased by **22%**, but that the investment and commercial sectors declined by **19%** and **37%**, respectively. The market picked up in Q2-2018, with sales totaling **774 MM KWD** (2.6 BN USD), a **31%** year-on-year increase. Residential sales for the quarter were **306 MM KWD** (1 BN USD); investment sales nearly doubled year-on-year to **347 MM KWD** (1.2 BN USD); and commercial sales increased by **40%** to **120 MM KWD** (397.8 MM USD). According to KFH's report, in the first quarter of 2018 the average prices per sq meter for residential, investment and commercial land were **610 KWD** (2,022 USD), **1,500 KWD** (4,970 USD) and **3,386 KWD** (11,200 USD), respectively. Land in **Capital** Governorate was the most expensive with average prices of **838 KWD** (2,780 USD), **2,380 KWD** (7,890 USD) and **6,011 KWD** (19,900 USD) per sq meter for residential, investment and commercial plots, respectively.

Investment Properties

The analysis of the Real Estate Association (REA) of the market shows that the **occupancy levels** of properties leased to foreign residents **declined** from **95%** during 2011-2016 to **86.8%** in 2017. The REA attributed this to a slowdown in the **growth rate of the expatriate** population, thereby **reducing demand** for some of the new properties that are being built. The association found that the average annual growth rate in foreign citizens living in Kuwait had been between 3% and 4% during 2011-2015, peaking at 4.8% in 2016. In 2017 the overall number of foreign residents living in Kuwait increased by just 2%. "A 2017 survey noted that 21,529 vacant apartments and based on its sample, estimated that 48,973 apartments were standing empty across the country". It also counted 875 new investment properties under construction, with 26,466 apartments, which it forecast would supply by 6.6% in 2018/2019. The REA predicted it would take until **2022 for market demand to absorb the 75,000 apartments** that are already empty or under construction if the growth rate of the expatriate population over that period were to remain at **1.5-2%**.

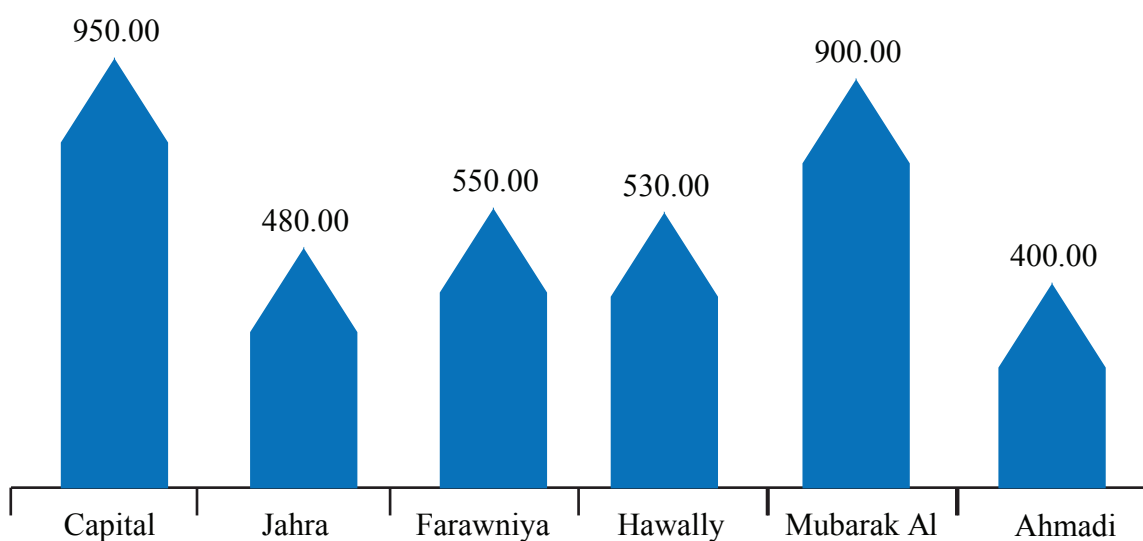
Freehold Apartments

Although many Kuwaitis prefer to live in family villas, freehold apartment buildings are an attractive alternative. Despite this being a relatively small segment of the real estate market in the country, such properties offer some of the best yields for property investors. MoJ data shows 2017 was a modest year, with **671 property transactions** compared to **819** the year before, and **973** in 2015. The REA analyzed **43 properties** including **1,590 flats** in Q4-2017 and counted **599 unsold units**. The association calculated that it was taking an **average of 31.3 months** for a project to sell out, against a construction time of **24 months**. Although the market may have stalled in 2017, over the preceding decade from 2007 the compound annual growth rate in freehold prices was **7.6%**, with rents growing by an average of **6-6.5%** per annum. The result is that over the 10-year period the combined return for investors was some **14.3%** per annum.



By 2018, the infrastructure works had been completed on the Hessah Al Mubarak district, allowing developers to commence the design phase for apartments. “There will be two 40-storey towers on the seafront with 212 apartments and 20 buildings for low-rise homes, 300 in all,” Tawfiq Aljarrah, executive director of Kuwait Projects Company, told OBG. “The homes will be sold freehold to Kuwaitis.”

Average Rent Price By Area Per Month (KWD)



Source: Real Estate Kuwait and Kuwait Real Estate Directory

Office Properties

The office space segment in Kuwait enjoyed some of its highest occupancy rates since the global downturn of 2008, according to the REA. Their research shows the rate grew from **59.4%** in 2011 to **95.6%** in 2017. Alongside this, average lease rates have grown to **7.77 KWD** (25.76 USD) per sq. meter, not including common area charges. Office buildings, approximately **415 office**, generated **127.7 MM KWD** (423.4 MM USD) in annual rental income, with the REA estimating the **combined value of properties was 1.8 BN KWD (6 BN USD)**. In Sharq, near the central business district, new headquarters for the Kuwait Investment Authority and the CBK were nearing completion which had a combined space of **140,000 sq meters**, with the possibility of additional tenants filling available added space. NBK and Mabanee are also building headquarters towers in Asma Governorate, with **50,000 sq meters** between them.



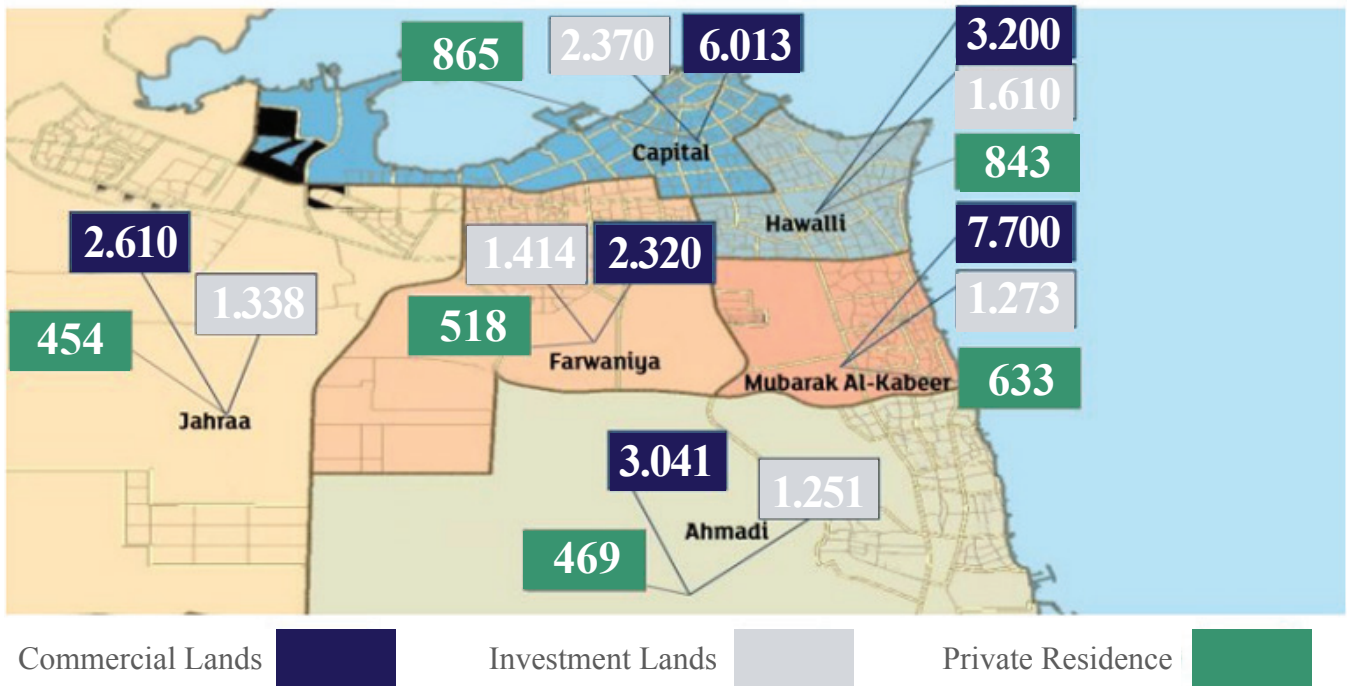
Retail Space

In 2018, the final phase of “The Avenues Mall” by Mabanee opened. According to the REA, **799,141 sq. meters** of existing retail space in Kuwait at the end of 2017, with **346,046 sq. meters** under construction. This is a significant increase from 2015, when there was **770,196 sq. meters** of retail space, but just 28,945 sq. meters under construction. At the end of 2017, the **occupancy rate** of existing retail property was **98.7%**, but only half of units under construction had been leased, putting the occupancy ratio for retail mall space at **84%**, according to the REA. From the second quarter of 2015 to the end of 2017, the average lease rates per sq. meter fell from **18 KWD (59.68 USD)** to **17.5 KWD (58.02 USD)** for basement units, and from **25.7 KWD (85.21 USD)** to **23.5 KWD (77.91 USD)** for ground-floor spaces.

Recent projects include major mega projects part of the Kuwait 2035 vision including **South Sabah Al Ahmad** residential city and **South Saad Al Abdullah city**, with expected completion in 2029. Both projects are at **10%** and **11%** completion respectively.

Infographic Overview

Average Price per Square Meter



Source: Kuwait Real Estate House

Average price per meter in **Capital governorate** increased as at the end of 2018 to reach **865 KWD** in the private residence sector. Average price in investment sector stabilized at **2,370 KWD** 2018. The commercial sector is higher at a rate above **6,000 KWD**.

In **Hawalli** governorate, average price per square meter increased to reach more than **843 KWD** while in the investment sector it reached **1,610 KWD**. Average price stabilized in the commercial sector at **3,200 KWD**.

In **Farwaniya** governorate, average price reached **518 KWD** in the private residence sector while it stabilized at **1,414 KWD** in the investment sector and reached **2,320 KWD** in the commercial sector.

In **Jahraa** governorate, average price reached **454 KWD** in the private residence sector while it stabilized at **1,338 KWD** in the investment sector and reached **2,610 KWD** in the commercial sector.

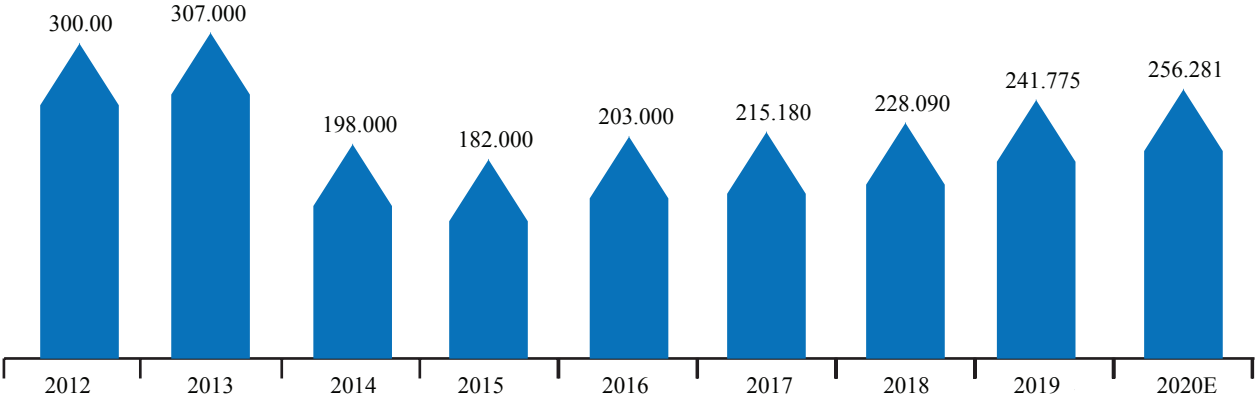
In **Ahmadi** governorate, average price reached **469 KWD** in the private residence sector while it stabilized at **1,251 KWD** in the investment sector and reached **3,041 KWD** in the commercial sector.

In **Mubarak Al-Kabeer** governorate, average price reached **633 KWD** in the private residence sector while it stabilized at **1,273 KWD** in the investment sector and reached **1,700 KWD** in the commercial sector.

Hotels

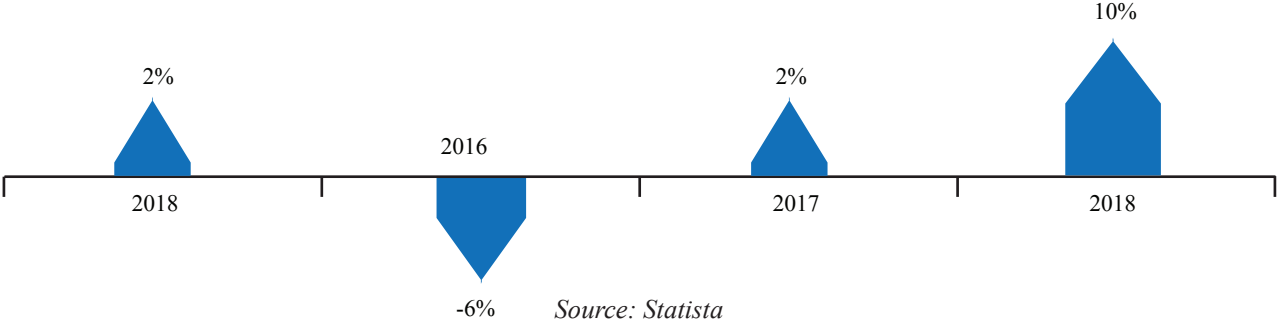
Kuwait real estate developers are also working on hospitality developments. By **2020**, the five-star **Waldorf Astoria** hotel and the four-star **Hilton Garden Inn** will have been completed, adjacent to “The Avenues Mall” with a total of **600 rooms**. This follows the opening in early 2017 of the 284-room **Four Seasons Hotel** Kuwait at **Burj Alshaya**, a **140,000-sq-meter** development that includes the 43-storey Western Tower, which also serves as Alshaya’s corporate headquarters. Tamdeen is working on two additional hotel projects, with the **200-room Rotana Hotel** as part of the Al Kout development and the planned **261-room Grand Hyatt** planned to be open in Occupancy Rates in Kuwait show slight changes with the latest figures showing a **10% increase** in 2020, hotel occupancy in **2018** compared to an **8%** change during 2017. According to many articles in referring to Kuwait tourism most hotels enjoy an occupancy rate of **90%** or above with some reaching **100%** during the New Year

Tourist Arrivals (Thousands)



Source: CEIC Data and UNWTO and Index Mundi

% Change in Occupancy Rate



Source: Statista

VI. Key Takeaways

- Kuwait's construction and real estate market covers the growing construction projects in different sectors, including commercial, residential, industrial, infrastructure, and energy and utility construction.
- Projects included would be Kuwait International Airport, ports, oil refineries, and residential projects to address the shortage of apartments for residents.
- Kuwait Vision 2035 hopes of transforming Kuwait into a world-class financial and commercial center.
- All these efforts are in hopes of achieving a balanced economic and human development, supported by adequate infrastructure, legal framework, and by enabling an active business environment.
- Kuwait has executed projects worth more than **60 BN USD** toward its Vision Kuwait 2035 strategy, and according to senior officials, a further **100 BN USD** is still to be invested.



VII. Future Outlook

● Kuwait 2035 Economic Diversification Strategy

Built on seven pillars, the Vision seeks to address issues relating to Kuwait global position **infrastructure, human capital, public administration, healthcare, living environment** and **economy**. In the case of the private sector, it emphasizes that, in order to develop a diversified and prosperous economy, Kuwait must first become less dependent on the oil sector. **Privatization**, the creation of a favorable business environment and support for a knowledge-based economy have been proposed as suitable economic diversification strategies.

- In 2019, the **Sheikh Al Jaber Al Ahmad Al Sabah Causeway** was inaugurated, linking the existing city to **Subiyah**, where one of the landmark real estate projects is set to be unveiled at the proposed location of the **Silk City mega-project development**. Along with the development of uninhabited Boubyan Island and the redevelopment of Failaka Island, Silk City offers a wealth of **opportunity** for private property developers as well as for the **construction firms**, building tens of thousands of new homes for Kuwaitis. Failaka is to host new hotels, universities and cultural centers, while leisure facilities, solar generation and data storage facilities are planned alongside a logistics zone on Boubyan. Silk City is to have a **new financial center** and an amusement park as well as homes and amenities.
- Overall, with Kuwait's 2035 program, Kuwait has signaled that it is becoming more open to foreign investment. The plan includes various mega projects, including the building of a multipurpose industrial city to the tune **6.6 BN USD**. Kuwait's construction and real estate market is expected to grow at a rate of **6.8%** over the next 5 years.

VIII. Conclusion

Opportunities

- Since there is shortage in the **residential sector supply** in Kuwait for Kuwaitis, in terms of apartments rather than villas, there is an **opportunity** for the government to increase the supply in this sector to meet the demand.
- Growing activity in the real estate market signaling an ongoing state of **stability** which is most likely to continue further towards the end of the year.
- Expansion into the new mega cities currently under construction.

Risks

- Lack of Further Investment Opportunities. Due to the lack of investment vehicles in Kuwait people are quickly driven to new investment vehicles outside real estate, i.e. **Bourse** Kuwait, in last March Real estate faced a recession when investors redirected their investments to Bourse.

Real Estate Sector

QATAR





I. Introduction

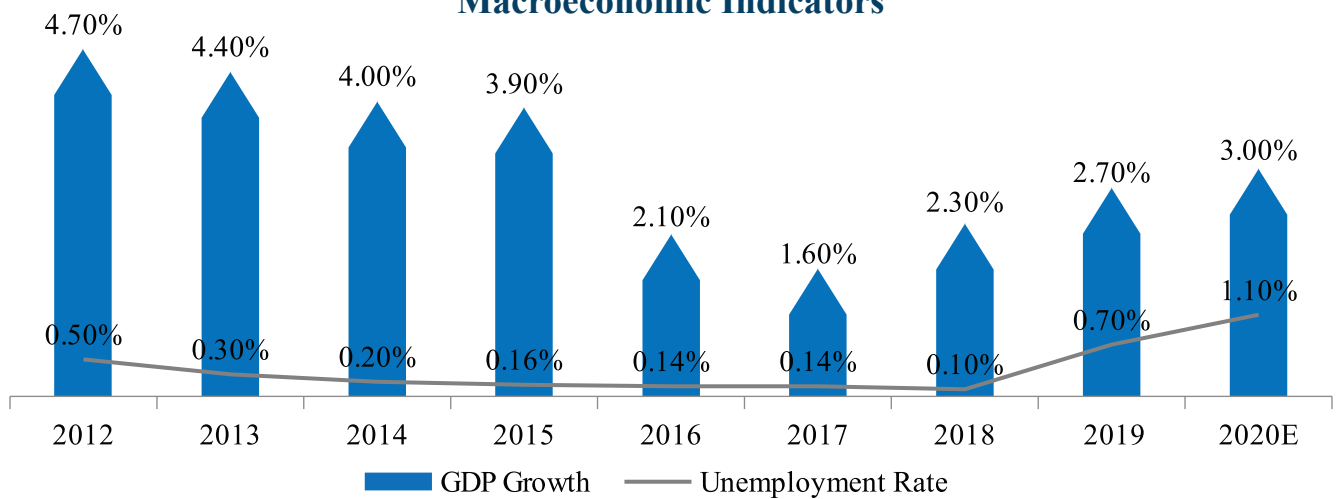
- The 2017 **Qatar Diplomatic crisis** also known as the **Gulf Crisis** began when Saudi Arabia, UAE, Bahrain and Egypt abruptly cut diplomatic ties with Qatar in **June 2017**. The Gulf crisis have created a period of uncertainty amongst investors, leading to a vague macroeconomic outlook especially in the long term. Standard & Poor's, the credit rating agency, has **lowered Qatar credit rating to AA- with a negative outlook**; leading to a rise in borrowing rates.
- Qatar budget for 2019/2020 will be recording a **surplus** for the third consecutive year of **500 MM QAR (13.7 MM USD)**.
- **Hamad International Airport** recorded the busiest quarter (Q3-2019) so far with **10.7 million passengers**, with an increase of **10.7%** compared to last year.
- Qatar is implementing more **flexible labor and company ownership legislation**, improving its global reputation as a place to do business. The introduction of **Free Zones** is another initiative to develop Qatar's business environment and stimulate demand in the office sector.
- **Rental reductions** have resulted in prime residential locations such as The Pearl Qatar becoming more affordable. This has resulted in an increase in leasing activity in recent months.
- **Tenants in Qatar's retail malls** are now increasingly able to negotiate attractive lease terms with the landlords as the increase in supply has seen vacancy rates increase. Outside of the main malls, there has been a surge in interest in temporary specialty leasing, such as **Box Parks**.
- Qatar's real estate sector witnessed deals valuing more than **22.8 BN QAR** in 2019, demonstrating the strong interest of investors in country's growing real estate market.

- Deals worth **1.58 BN QAR** were done in December 2019, compared to 1.55 BN QAR in November 2019, showing a growth of around **2%**, according to the Planning and Statistics Authority.
- October 2019 emerged as the **busiest month** as it witnessed deals worth **4.36 BN QAR**, making it month with highest value of deals during the year.
- Regarding the data of buildings permits, the total number of permits issued during December 2019 reached **650 permits**, recording a monthly decrease of **3.4%**.

II. Macroeconomic Indicators

- Qatar is the most influential player in the global LNG market due to its massive output capacity and gas reserves. In **2018**, Qatar Petroleum, announced adding a fourth LNG production line raising their output capacity from **77** million tons to **110** million tons per year.
- On Wednesday **26th September 2018**, Qatar announced the launching of a new project which is expected to be finished between the end of **2023** and the beginning **2024** with the aim of producing 32 million tons per year of LNG, **4,000** tons per day of pure Helium, 260,000 a day barrels of condensate and 11,000 tons a day of LPG.
- GDP growth rate increased in 2018 recording **2.3%** compared to **1.6%** in 2017. the growth rate during the previous years is modest compared to the early 2010s rates, this reflects that the economy was heavily affected by the **oil prices crisis** and the **cut of diplomatic ties with neighbor countries**.
- The main drag in 2017 GDP growth was from the **hydrocarbon sector**, which contracted by **1.1%** as a result of the OPEC output cuts and maintenance on LNG (Liquefied Natural Gas) trains while the non-hydrocarbon sector remained robust, averaging **4.2%**.
- Overall GDP growth is projected to reach **2.7%** by the end of 2019 compared to **2.3%** in 2018, underpinned by a recovery in the hydrocarbon output and still robust growth of the nonhydrocarbon sector. **The projected non-hydrocarbon growth** for 2019 reflects the persistent multiplier effects of sustained increases in capital expenditures in the last few years, the gradual pace of fiscal consolidation, ample liquidity, and increased private sector activity. Medium-term growth will be supported by increased gas production from the **Barzan field**, a planned increase in **LNG production capacity** by **40%**.

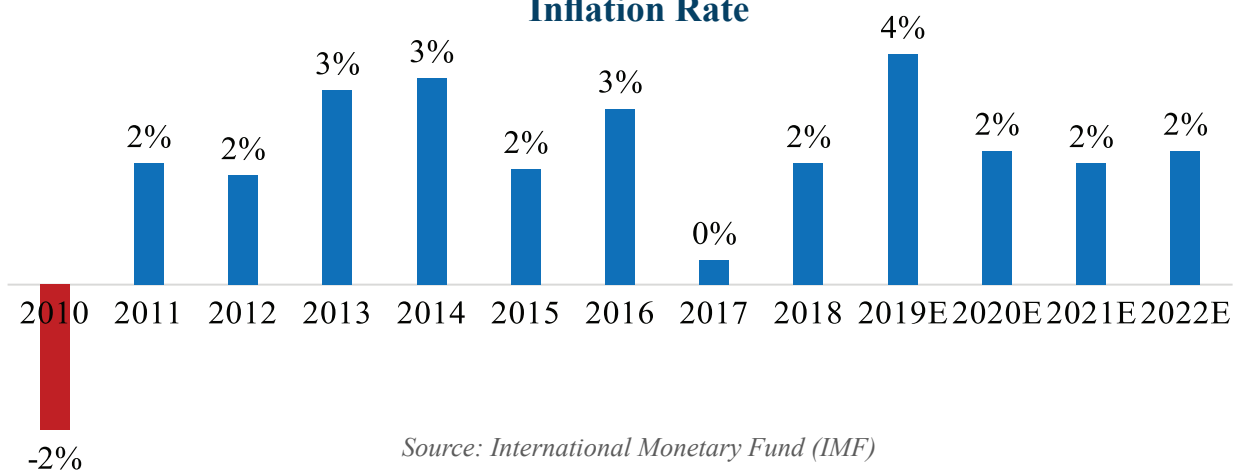
Macroeconomic Indicators



Source: International Monetary Fund (IMF)

- Qatar is reported to have one of the **lowest unemployment rates** in the **Middle East**. The rate decreased in 2018 reaching **0.1%** after it recorded **0.14%** in 2017 for the total labor force and **1.8%** for women. Spatial differences in welfare exist, both for monetary and nonmonetary measures, notably between more urbanized and less urbanized areas. However, it is forecasted to increase reaching **0.7%** by the end of 2019 and **1.1%** by 2020. The main driver of this increase is the cut in diplomatic ties with neighbor countries.
- The country **women empowerment** and **equality** would **support inclusive growth**. With limited unemployment, emphasis on human development, and broad access to education, electricity, and internet, Qatar rapid development in recent decades has been broadly.
- Inflation rate has seen a huge increase in 2018 reaching **2.0%** compared to a sharp decrease during 2017 registering **0.4%**. Although **transportation and food and beverage** inflation indicators surged in 2017 due to the increase in **global oil prices** and the food costs associated with the blockade, the overall inflation declined as it was dragged by the lower rents as a result of the sharp increase in housing supply as a preparation for the World Cup 2022.

Inflation Rate



Source: International Monetary Fund (IMF)

- The Inflation rate is expected to increase again, to reach **3.9%** in 2019 and fall again gradually on the medium term to reach **2.2%** in 2022. The higher inflation will be mainly derived from the introduction of a new **VAT** in H2-2018 at a rate of **5%** with an effect that will extend to H1-2019 along with the higher expected oil prices which will affect the transportation costs. Inflation is projected to peak at **3.6%** in 2020 with the introduction of a VAT but converge to **2%** in the medium term.
- Qatar current accounts balance is mainly determined by hydrocarbon exports and nonhydrocarbon imports. There was a significant recovery in oil **prices in 2018 increasing the oil prices to 72 USD per barrel. Higher hydrocarbon production in 2019 and 2020** as a result of the removal of **OPEC' cuts** should also support exports. Meanwhile, imports are expected to rise at a moderate pace, driven by continued project activity, rising government spending and higher non-hydrocarbon growth in 2019/2020 which will lead to a steady rise in **imports**.
- The budget in **2019** will experience a surplus of **2.9%** compared to the surplus of **2.3%** in **2018** according to the World Bank Economic outlook projections. This was backed by the temporary recovery in oil prices in **2018**. Total expenditures are estimated at **206.7 BN QAR** (56.7 BN USD) in **2019**, up only **1.7%** from the budget plan in **2018**, whereas revenues are projected at **211 BN QAR** (58 BN USD), increasing by **20.5%** compared to **175 BN QAR** (48.06 BN USD) in 2018. Accordingly, the government expects to achieve a **4.3 BN QAR** (1.2 BN USD) budget surplus in 2019.

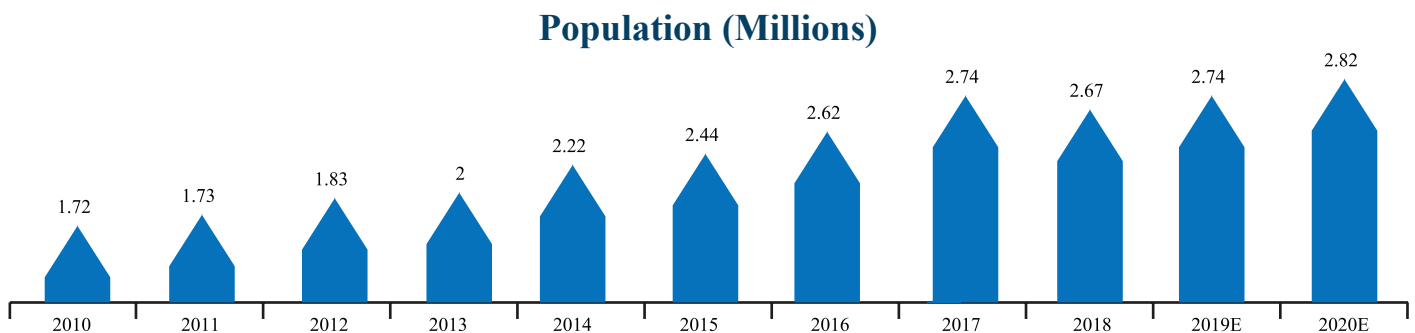
III. Real Estate Market Overview

- Qatar Residential Market suffers from the huge gap between the supply and the demand on real estate. Qatar faces a huge **oversupply** relative to a lack of demand which will result in continuous decrease in rental and sales prices.
- Qatar real estate price index decreased by a small margin of **11** points reaching **239** points in June 2019 from **248** points in **January 2019** Central Bank of Qatar.
- According to latest numbers from the Ministry of Planning and Statistics Authority, the number of total arrivals in **2018** reached **1.8 million** passengers which is a decline of **18%** compared to **2017** in which the kingdom welcomed **2.2 million** visitors. However, it was noticed that the huge decline was due to the decrease in the arrival of tourists from GCC and other Arab nationalities mainly.
- In order to attract tourists, a tourism project called **Doha**, spread over **79,000 sqm** will be launched by Qatar Development Bank and expected to be finished in **2020**. Doha Tourism project is to be designed based on marine theme and Qatar's heritage. This project will be a great opportunity for investments by entrepreneurs because it will offer shops ranging **25 to 200 sq m** with competitive leasing contracts for one to three years. The services provided in the shop will be related to the marine theme and to Qatar Heritage.

IV. Demand Drivers

Population Mix

- In **2018**, Qataris GDP per capita has reached **66,202 USD** which marks an increase of **8%** compared to **2017**'s GDP per capita reaching **61,282 USD**. Qatar is considered one of the **world's richest nations**. Qatar economy is **highly capital intensive**; however, it is characterized by having **low unemployment rate** recording **0.09%** according to Euromonitor in **Q3-2018** and high level of labor productivity.



Source: IMF

- According to the latest data of the Ministry of Development, Planning and Statistics (MDPS), in June **2019**, Qatar population is estimated to be **2.639** million residents. The figure saw a small decline from **2018** population figure of **2.674** million and **2017** population figure of **2.641** million resident. Moreover, the decline mentioned above in foreign population started as of **2017**, as past infrastructural projects achieved completion, new migration policies that privilege skills over number were initiated, and as well as the political uncertainty was at peak at the time. Thus, foreign population growth started declining. However, according to the **IMF**, Qatar population is expected to increase by **4%** to reach **2.74 million** residents by the end of **2019**.
- According to the latest data from the **MDPS**, the country has approximately **1,982,570 males** and **656,087 females** as of June **2019**. The data represents the number of people of all ages (Qataris and non-Qataris) within the boundaries of Qatar.
- **Regional political tensions**, additionally, may have a further impact on migrants in Qatar. Since three Gulf States and Egypt cut ties with Qatar and imposed a land, sea, and air blockade on June 5, 2017, many expatriates, including Egyptians, fear for their future in the country.
- In **2018**, Qatar has been hailed for issuing a new Labor Law that allows migrant workers to leave the country without seeking their employers' permission. The law was described by Amnesty international as a milestone for migrant workers due to the high number of

migrant workers in the kingdom -there are more than **1.9 million** migrant workers in Qatar – about **90%** of the country’s total population, according to the ministry of development, planning and statistics. Most are from south and south-east Asian countries including India, Nepal, Pakistan, the Philippines and Bangladesh. However, the law will not affect the rights of workers who are not covered by Qatar’s **labor law** which are estimated to be **174,000** domestic workers in Qatar.

V. Supply Overview

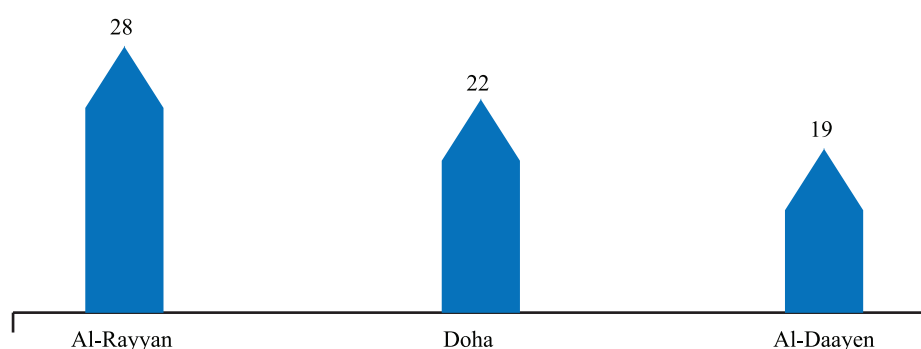
Major Developments

- A number of ongoing developments are continuing to add residential and commercial stock. **Lusail City** will be one of the centerpieces of the **2022 FIFA WorldCup**, with **Lusail Stadium** hosting both the opening and closing matches. The 38-sq- km residential city is the flagship project of **Qatari Diar**, the real estate wing of the Qatar Investment Authority (QIA).
 - **Four** residential islands will host some **200,000** permanent residences, and a further **19** mixed-use districts, including a new financial center and dedicated entertainment and energy cities, will employ over **170,000** people.
 - In May 2018, the government of Qatar approved a draft law that allows **100%** ownership of businesses for foreigners in all economic areas except the financial sector and commercial agencies involved in the purchase of real estate.
 - In the center of **Doha**, on the opposite side of West Bay, the **Msheireb Downtown Doha** project is expected to revive the historic commercial area by constructing residential and commercial properties as well as **hotels** and **museums**. The project, which has a budget of **20 BN QAR** (5.5 BN USD), is considered to be the first fully sustainable downtown regeneration project. According to its developers, the district has already taken on its firstetion by **Q2-2019**.
 - The recovery of oil prices and the upcoming FIFA 2022 World Cup together are expected to stimulate growth, especially in the real estate sector. Arising out of the country’s longterm development plan, **Qatar National Vision 2030**, the Qatar National Development Framework (QNDF) puts an emphasis on not just the development of the capital, but other municipalities as well. It also stresses a decentralized approach to the capital, with a series of local hubs envisaged, centered on the stations of the Doha Metro. This **36 BN USD** Qatar Rail project will see three lines completed by 2020 for its first phase, with **37 stations in total**. The metro will radically improve transit times around the city and its suburbs, as well as shift settlement patterns and transport corridors.
- Population

The Residential Market

- In **Q2-2019** median sales transacted ticket sizes for houses increased by **12%** quarterly and **3%** annually which can be attributed to larger ticket sizes of housing transactions experienced in areas such as Al Kharaitiyat, Al Markhiya, Lusail, Abu Hamour, Madinat Al Khalifa and Rawdhat Al Hamama. However, transactional volumes for houses declined **25% Q-o-Q** and **14% Y-o-y**.
- The median ticket size for residential houses was **2.8 MM QAR**. The five largest ticket sizes were seen in The Pearl, New Salata, Lusail and Abu Hamour for dwellings ranging from **1400 sqm** to **5500 sqm**.
- Additionally, **53** transactions were recorded for residential buildings. Rawdhat Al Khail, Al Sadd, Najma, Al Wakrah and Muaither had the largest transacted prices. While in Q1-2019, **58** transactions were recorded for residential buildings with a median transacted price of a residential unit was **2.5 MM QAR**. The majority of transactions were in Al Rayyan (**28%**) followed by Doha (**22%**) and Al Daayen (**19%**).

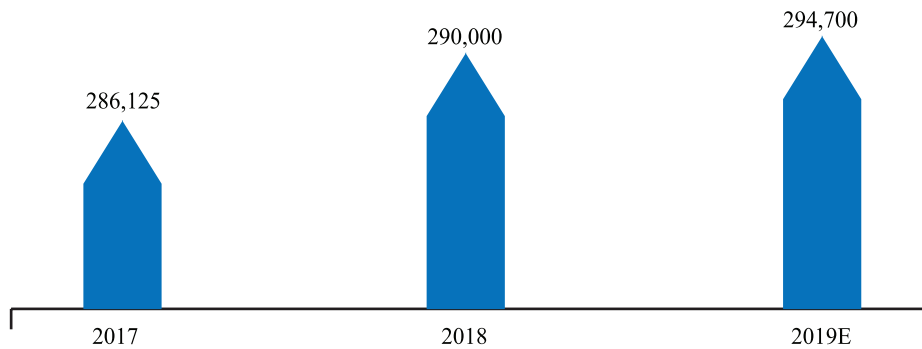
Highest Number of Transaction Areas (Q1-2019)



Source: ValuStrat

- As of **May 2019**, transactional volume in The Pearl and West Bay Lagoon was **274 units** with a total value of **612 MM QAR**.
- In an effort to attract people to rent, some landlords of new residential properties in the Pearl, Lusail, some areas of Al Sadd and Doha offered rent-free periods of up to two months with the condition of a contract of one year, in addition to waiving utility expenses.
- As of **H1-2019**, the total residential supply in the market is **294,700** compared **290,000** units in **2018** and **286,125** units in **2017**.

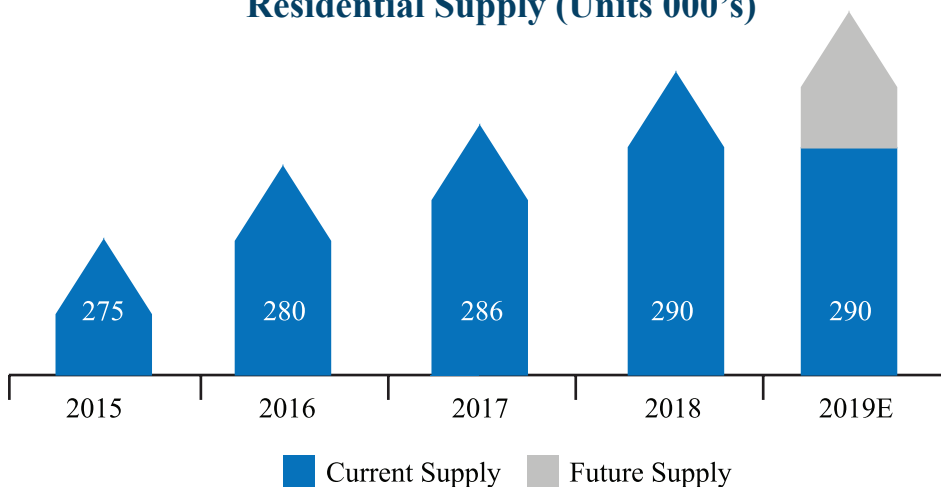
Residential Supply Number of Units (H1-2019)



Source: ValuStrat

- In **H1-2019**, an approximate of **4,700** units were added to the market. The supply of apartments consisted of **4,000** units delivered in Al Wakair, The Pearl, Abu Sidra and Lusail and **700** units in n Al Kheesa, Al Wajba, Umm Salal Ali.
- Rents for apartments in secondary locations such as Al Mansoura, Al Wakrah, old airport and Najma declined the most with up to **15%** on an annual basis.
- According to Valustrat latest report, it is projected that by the end of **2019** an estimated **9,000** units will be added to the market which includes upcoming **35% of the units will be** in Lusail, **35%** units in The Pearl and **30%** in central areas of Doha such as Mushiereb, Al Sadd, Fereej Bin Mahmoud, Al Dafna and Old Airport.

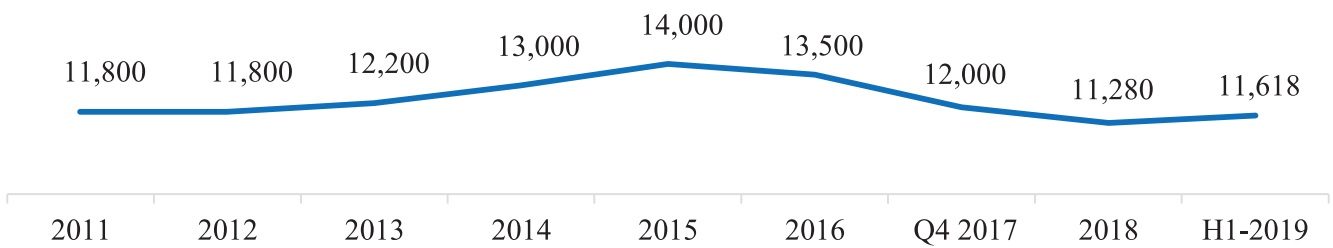
Residential Supply (Units 000's)



Source: ValuStrat

- **Qatar's VPI-Residential** stands at **73.4** points in **Q1-2019** while starting at 100-point base from **Q1-2016**. House prices declined in **Q1-2019** as falling population figures, subdued economic growth impacted the market. Countrywide residential capital values have declined by **26.6%** compared to the **Q1-2016**, **9.71%** down as compared to **Q1-2018** and **7.75%** less than Q4-2018. Additionally, **DTZ** research team identified an increase in investment opportunities as a result of the implementation of **Law no. 16 of 2018**, which was introduced in **March 2019** and expanded the number of freehold zones from three to ten.

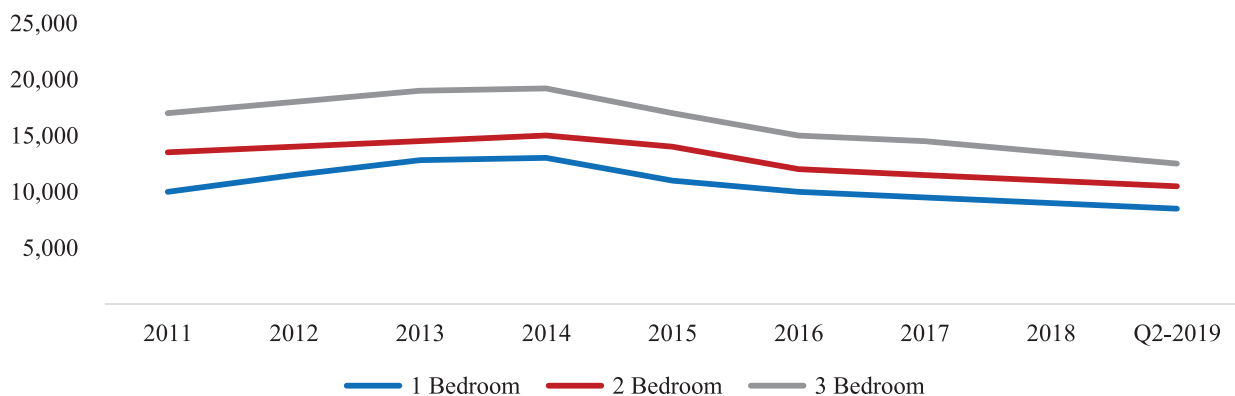
Average Apartment Sales Price



Source: DTZ research (Debenham Thouard Zadelhoff)

Residential Median Asking Price	Last year	Last quarter
Q2-2018	-6.2%	-3.9%
Q2-2019	-12.0%	-3%

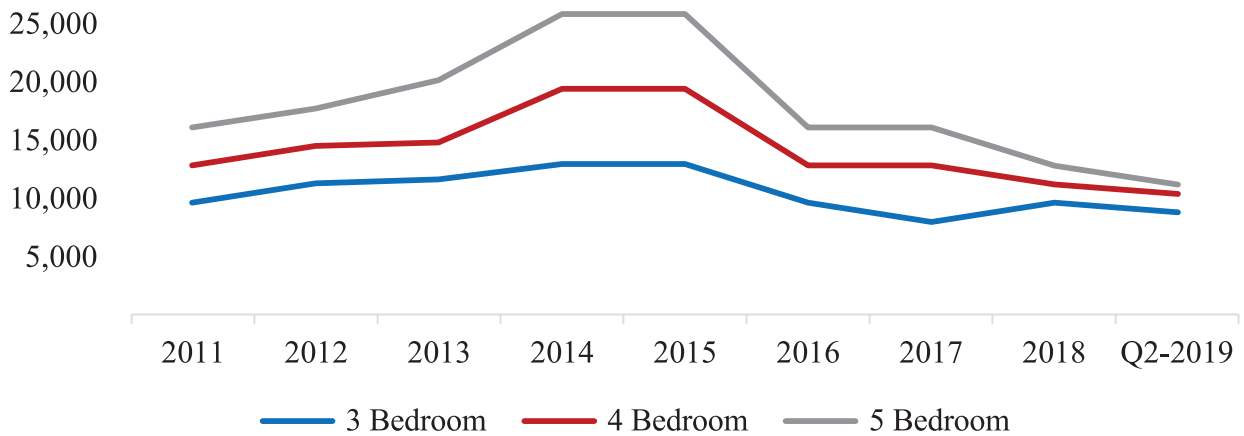
Apartment Rents, The Pearl (QAR/Month)



Source: DTZ research

- As shown on the graph above, apartment rents in The Pearl witnessed a surge in 2014; nonetheless, rental prices moderately fell in 2016 due to reduced demand from white collar workers for 1, 2 and 3-bedroom apartments. Prime villas in Al Waab also experienced the same cyclical cycle, whereas between 2014 and 2015 rents surged followed by a decline in 2016, 2017, 2018 and 2019 reaching **8500**, **10,500** and **12,500** for the one bedroom, two bedroom and three bedrooms respectively in Q2-2019.
- Additionally, Al Waab followed the same trend as The Pearl with rates declining from **2016** to **Q2-2019**.

Prime Villa Rent, Al Waab

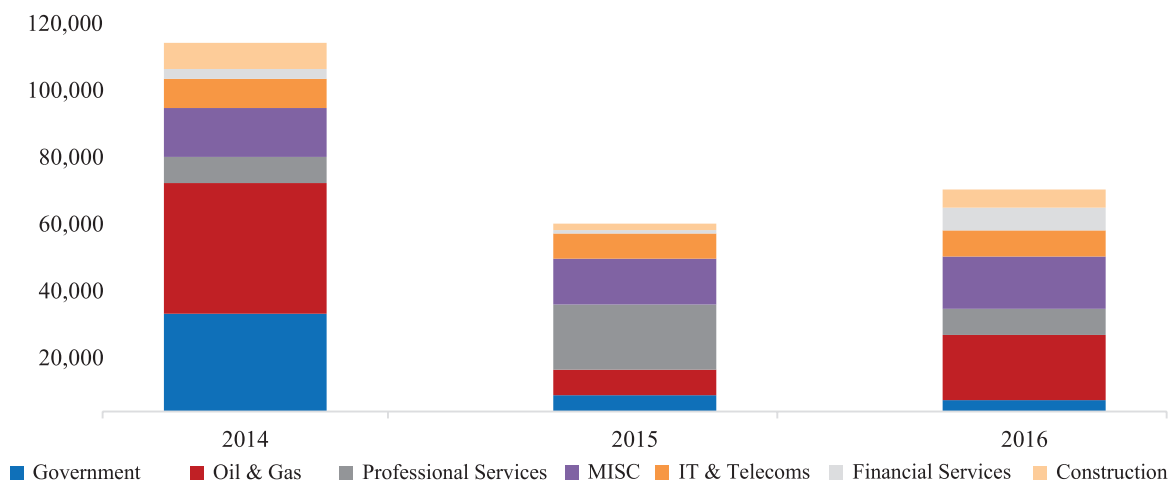


Source: DTZ research

The Office Market

- Approximately **70%** of prime office spaces in West Bay in Doha were leased by oil and gas companies or government bodies between 2008 and 2014. Since 2014, government spending cuts were applied driven by lower oil prices coupled with the retreat of the public sector; which adversely affected office demand.

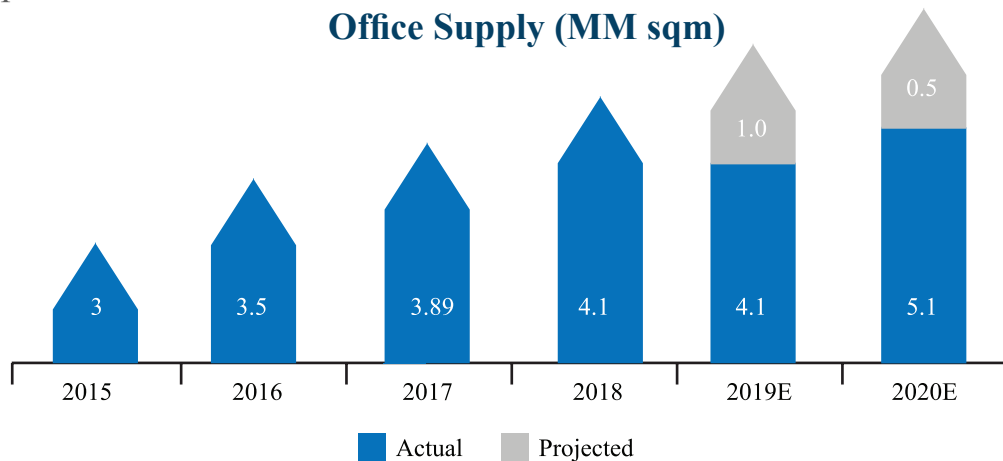
Office Demand by Sector (sqm)



Source:DTZ research

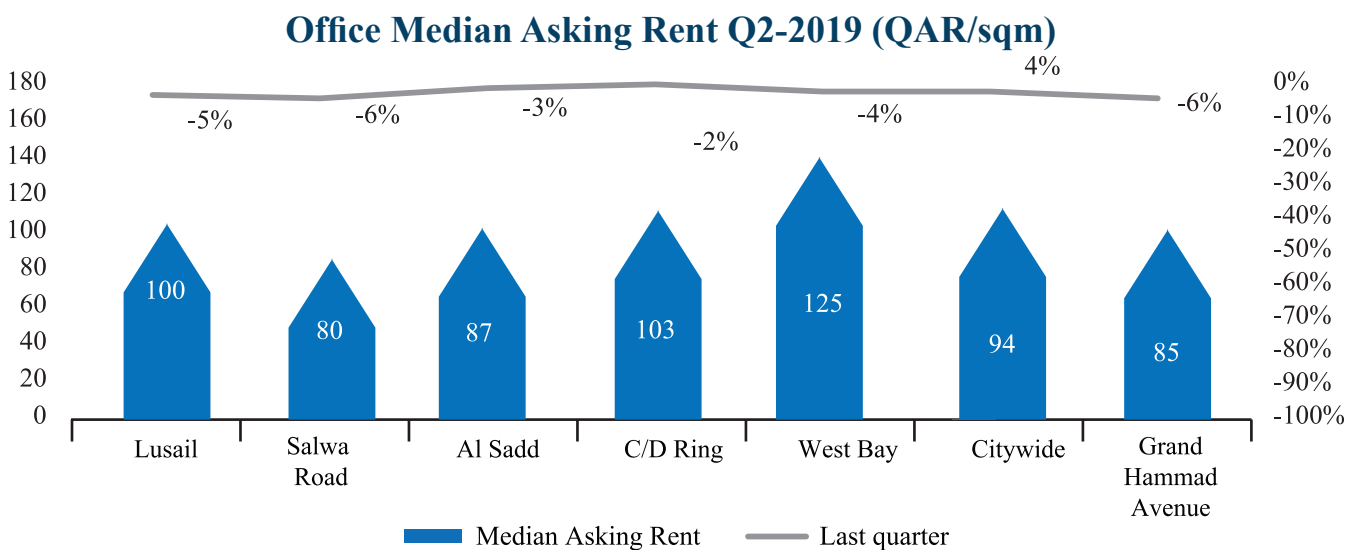
- As of Q2-2019, the total estimated Gross Leasable Area (GLA) of Qatar office supply stood at **4.54** million SQM, an increase from 2018 **4.1** million SQM.

- **15** office buildings were added in **H1-2019** with two in Lusail (Energy City) and one each in Al Hilal, Fereej Bin Mahmoud, Old Ghanem, Al Sadd and Ain Khaled, comprising of **200,000 SQM GLA**.
- The estimated number of offices under construction to be completed in **2019** is **600,000 SQM GLA** in which **52%** of these offices will be located at Lusail (Energy City and Marina District), **45%** in Doha Municipality (Old Salata, Umm Ghuwailina, Fereej Abdul Aziz, Al Sadd, New Doha and Mushiereb) and remaining mixed amongst other municipalities.



Source: ValuStrat

- Compared to **2018**, median office asking rents in Q2-2019 declined **14% Y-o-y** and **4% q-o-q**. Primary locations such as West Bay declined to reach an overall median asking rent of **130 QAR per SQM** with occupancy rate at **65%**.
- In Q2-2019, the rent prices decrease in prime locations has pressured the secondary location market which resulted in further declines in secondary office places such as Salwa road which reached a median price of **80 QAR per SQM** and Grand Hamad Avenue which reached a median price of **85 QAR per SQM**, representing the highest quarterly declines in the market.



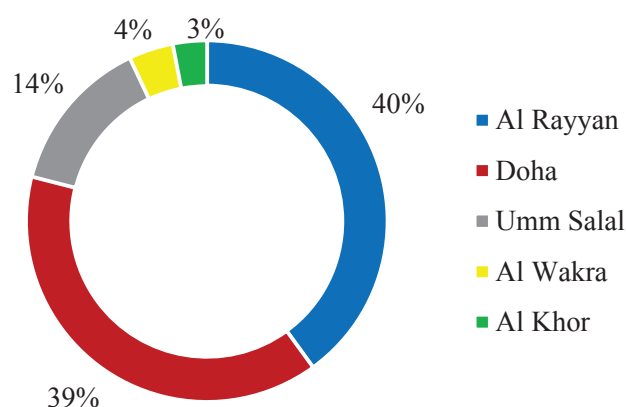
Source: ValuStrat

The Retail Market

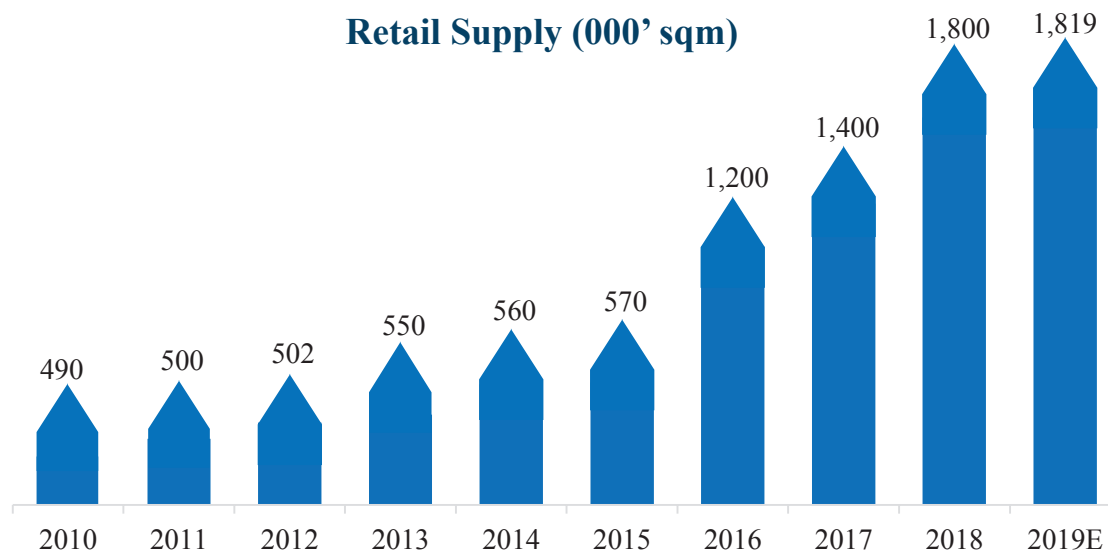
- As of Q2-2019 the total supply of organized retail spaces is **1.81** million SQM GLA from a collection of **32** malls and shopping centers with Doha and Al Rayyan having **79%** of the shopping areas in the country.
- Additionally, an expected **95,000 SQM GLA** from 2 shopping centers are in the pipeline for the remaining quarters in **2019**.
- Qatar Development Bank has launched a second phase for Al Furjan Markets which is expected to be completed in **2019**, which will feature a minimum of 300 shops distributed around Al Rayyan, Umm Salal, Al Khor and El Wakrah.
- City center expansion of **534,000 SQM GLA** is consisting of eight shopping centers and is expected to be finished by the end of 2019.
- Galeries Lafayette (**4,350 SQM GLA**) announced a soft opening of its flagship store within Katara Cultural Village
 - Mall of Qatar and Dar Al Salam Mall announced expansion of the existing outlets to include more shops and entertainment zones to be completed by **2022**. Based on GLA and population figures, shopping centers GLA of **Qatar** is **650 SQM** per 1,000 capita compared to the **GCC** average of **615 SQM** per **1,000** capita.
 - According to **ValuStrat** latest report, demand on retail is expected to grow by **5%** in **2020**. Rising competition and falling occupancy in relatively older regional and super regional malls may lead to fall in rents in the medium term. Monthly rents for line shops which are less than **500 SQM** in mall range from **260-420 QAR** per SQM.
 - According to **Valustrat** latest report, the saturation ratio of shopping centres in Qatar is 653 SQM GLA per **1,000** capita compared to the GCC average of **620 SQM GLA** per **1,000** capita.

Distribution of Shopping Centers

Project	Location	Estimated Completion Date
Doha Mall	Abu Hamour	2019
Katara Plaza	Al Qassar	2019
Doha Souq	Al Miqrab	2019
Northgate Mall	North Doha	2019
La Gallaria	Mesheireb	2019



Source: DTZ research

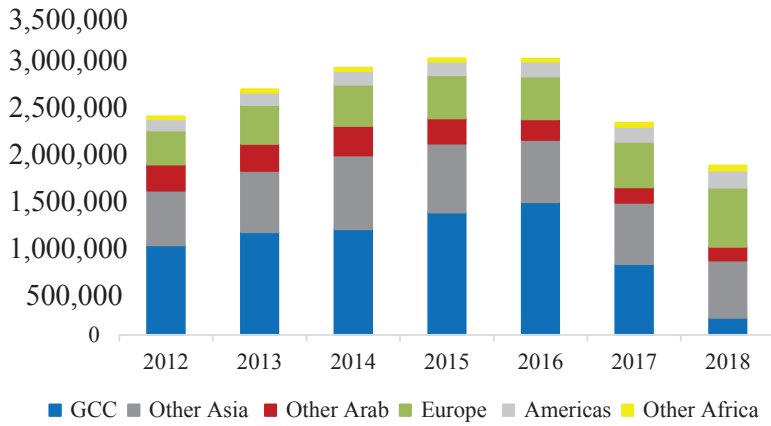


Source: ValuStrat

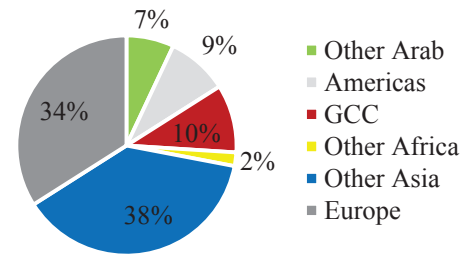
The Hotel Market

- Slowing economic activity due to reduced oil prices and the continued Arab dispute have had a downturn on hotel demand. In response, Qatar Tourism Authority, Qatar Airways and the Ministry of Interior launched an e-visa platform so that tourists can directly apply for visas.
- In **H1-2019**, total number of hotel rooms and apartments stood at an estimated **26,890** keys across **129** establishments. Mandarin Oriental Doha, Dana Al Sadd, VIP hotel and Dusit Doha were unveiled, adding **964** keys to the total supply. o Approximately **9,540** hotel rooms are in the pipeline till **2020** of which **55%** are of 5-star category.
- The total international hotel guests in full year 2018 declined 18% y-o-y to 1.8 million. Yet, **H1-2019** numbers were promising as the number of arrivals in Qatar stood at **922,132** up until May, which is an 11% increase compared to same period last year.
- Additionally, visitor arrivals from other Arab countries and Europe indicated significant growth as well (up by 22% y-o-y) and average occupancy of hotels increased by 6% annually to **66%**, while hotel apartment occupancy grew **1%** y-o-y to **74% (until May 2019)**.
- In H1-2019, Hotel Average Daily Rates (ADR) declined by **6% y-o-y** whereas the Revenue per Available Room (RevPAR) increased **2%** annually. Hotel apartments ADR fell by at least **4% y-o-y** and **RevPAR** declined by more than **2%** on a yearly basis.
- **Four and five** -star hotels experienced **7%** increase in occupancy during first two months of **2019**

Arrivals to Qatar by Region

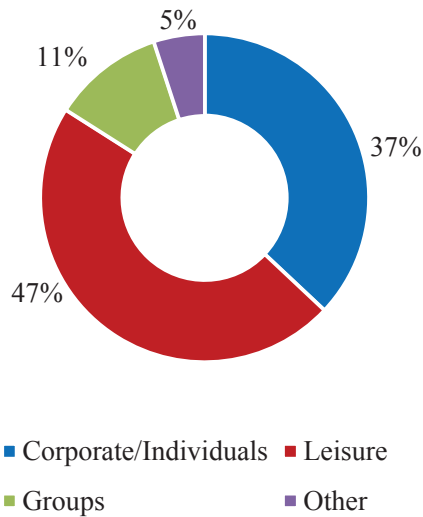


Qatar Visitors By Region 2018

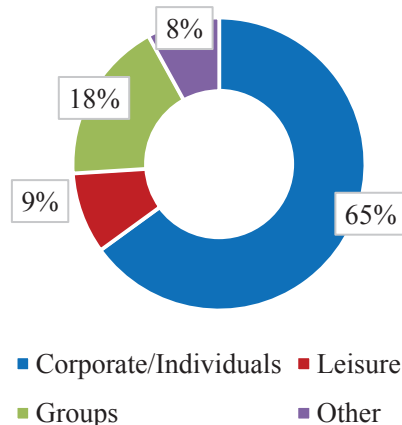


Source: Qatar Tourism Authority

Lusail Expected Segmentation



Doha Hotel Market Segmentation



Source: Colliers International

VI. Future Outlook

- The residential market outlook projects that demand is increasing; particularly in the middle-income segment (**2,600 to 3,600 QAR per month**), henceforth more developers need to focus on supplying affordable housing for an expanding population.
- **By 2020**, it is predicted that Qatar could witness an oversupply of 50,000 **residential units**, which can be reflected by the increasing gap between transaction prices and listings; thus, the residential market could become a buyers' market in the near future.
- DTZ estimates that **2 million sqm** of new office accommodation is planned for Qatar within a decade, predominantly concentrated in West Bay, Msheireb, Energy City and Lusail Marina District. This suggests a potential fall in rent and an increase in vacancy rates.
- **By 2022**, the Tourism Authority has projected tourism receipts to reach **30 MM QAR** with a total economic contribution of **81.2 MM QAR by 2026**. A significant number of projects was launched with an overreaching aim to contribute to **2022 FIFA World Cup, Lusail City** and **Msheireb Downtown** which are expected to contribute to the leisure demand.
- Guests travelling for Business purposes or couples were the most satisfied; rating hotels at **80.7** out of **100**. This suggests a lack of hotels targeting leisure tourism.
- **Slower growth** is expected to continue as many businesses are seizing transactions with Qatar especially since Doha is a business destination. More than **70%** of hotel demand in Doha is attributed to the corporate segment based on Colliers International.

VII. Conclusion

Qatar is increasing spending on infrastructure not only for the **FIFA World Cup 22** but also as a buffer against potential macroeconomic and political challenges, especially consequent to the Gulf crisis. Qatar is also trying to enhance tourism by encouraging foreigners to invest in their country and establishing new projects to increase the amount of activities available in their country which will attract many foreigners.

Real Estate Sector

Bahrain





I. Introduction

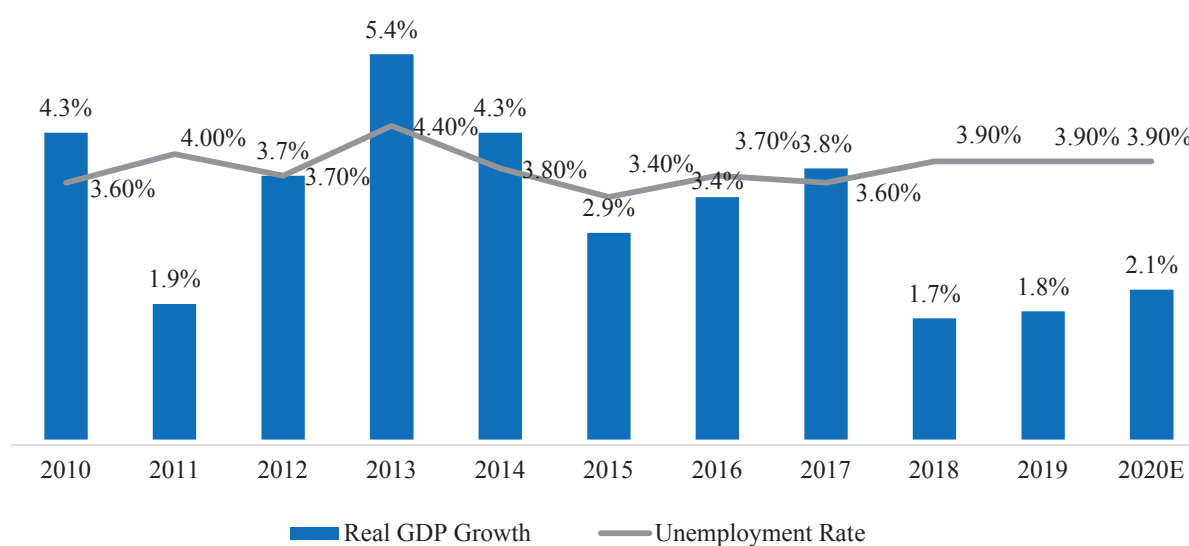
- **Bahrain** is one of the most diversified economies in the GCC, with well-developed financial services and manufacturing sectors. However, even with the robust expansion in the non-oil sector, Bahrain nonetheless has faced a few constraints in recent years due to its contracting oil industry resulted by **2014/2015** drop in oil prices.
- After the Kingdom's budget deficit started deteriorating due to the global oil crisis in 2015. The country was granted another **10 BN USD** from its GCC neighbors in 2018 to further support its economic stability and its **2030 Vision**. The fund came after country's credit was downgraded by the global credit ratings agencies such as **S&P to B+**, **Moody's to B2** and **Fitch BB-** which are all below average investment grades. The Fund also came as a breather after the plan by the Bahrain National Oil and Gas Authority (NOGA) to issue **1 BN USD** of debt was also cancelled, due to low investor interest and the increase of the cost of borrowing of the kingdom due to fears over its outlook and increasing budget deficit.
- The government has been attempting to diversify its revenue away from oil dominated industries for last decade. A key driver in this plan is its **Bahrain 2030** vision, where the country is trying to focus on the real estate sector with the government announcing constructions projects estimated to be worth around **32 BN USD** down the pipeline. The projects include the build-up of the infrastructure for three planned cities, **1.1 BN USD** airport modernization program, major housing projects valuing **2.2 BN USD**, an airport expansion project valuing **1.1 BN USD**, gulf rail line development and public transport network.
- The real estate market has seen many changes since the introduction of the new regulations by the government. On one hand, the market has seen slight declines over the past years. On the other hand, the market did see stability in the market activity that it intensely longed for. The following report will be going to overview the Bahraini real estate market from a top down approach, starting with the macro-economic indicators to the micro performance of the market.

II. Macroeconomic Indicators

GDP Growth and Unemployment Rate

- Bahrain economy is closely linked to the fluctuation in **global crude oil prices** as the rest of the region. However, its impact is much narrower compared to other Gulf countries due to the relatively diverse nature of the Bahraini economy.
- **GDP growth rate** has slightly increased reaching **1.8%** in 2019 compared to **1.7%** in 2018. Moreover, the increasing trend is expected to continue in 2020 reaching **2.10%**. The positive performance of Bahrain economy in Q2-2019 was reflective of the continuing resilience in the non-oil private sector with the ongoing implementation of the Fiscal Balance Program initiatives.
- **Unemployment rate** remained stable between 2016, 2017 and 2018 and is expected to increase slightly reaching **3.9%** in 2019 and 2020.
- According to the Labor Market Regulatory Authority (**LMRA**) Foreign workers employment reached **594,944 workers** by the end of Q2-2019. Non-Bahraini employment decreased by **1.1%** annually compared to **601,461 workers** in Q2-2018.
- The number of **new employment type work permits** issued by LMRA during Q2-2019 was **37,570** representing a decrease at an annual rate of **5%**.

Macroeconomic Indicators

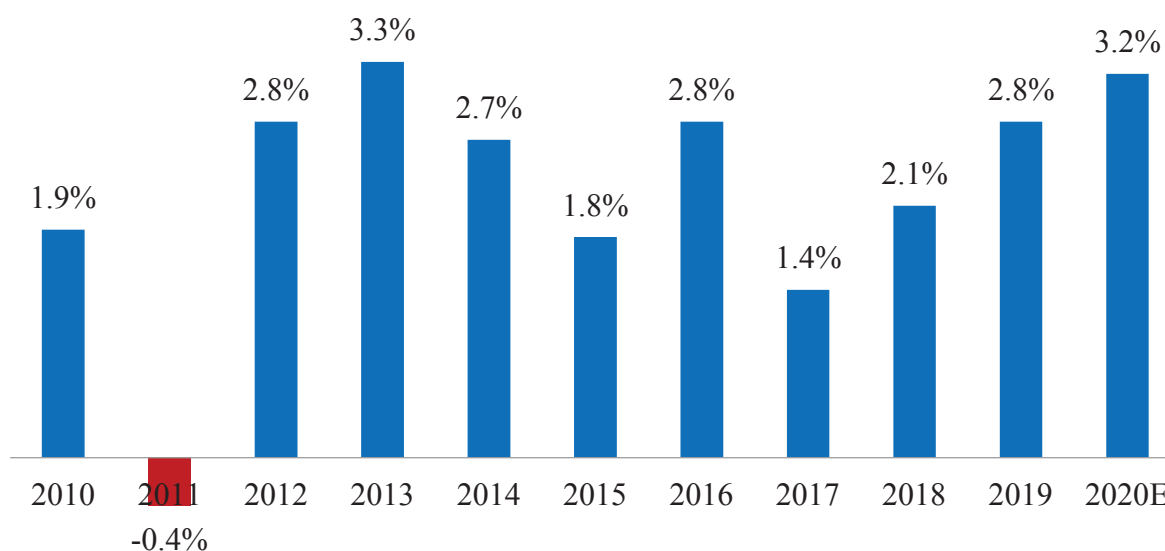


Source: World Bank Indicators and Bahrain Ministry of Finance and National Economy

Inflation Rate

- Inflation rate has been **unstable** given that it reached **2.8%** in 2019 compared to 2.1% in 2018 and is expected to further increase to reach **3.2%** in 2020.
- In line with regional trends, consumer price inflationary pressures in Bahrain have continued to **weaken markedly** despite the introduction of VAT in January 2019. The headline Consumer Price Index (CPI) in June 2019 recorded an annual reading of **0.2%** with the average CPI in Q2-2019 reaching **0.6%**. The weakening inflationary dynamics reflect the absence of structural price pressures in key categories of the CPI Index, suggesting that businesses are in many cases not passing on the full effect of the VAT at a time of historically subdued demand growth.
- Mirroring the situation in other regional economies, Bahrain has seen minimal price pressure in rentals following a period of brisk supply growth. Although overall **housing cost inflation** has remained positive at **4.1%** in Q2-2019, actual rentals for housing turned marginally negative at **-0.1%** following half a year of stagnation.

Inflation Rate

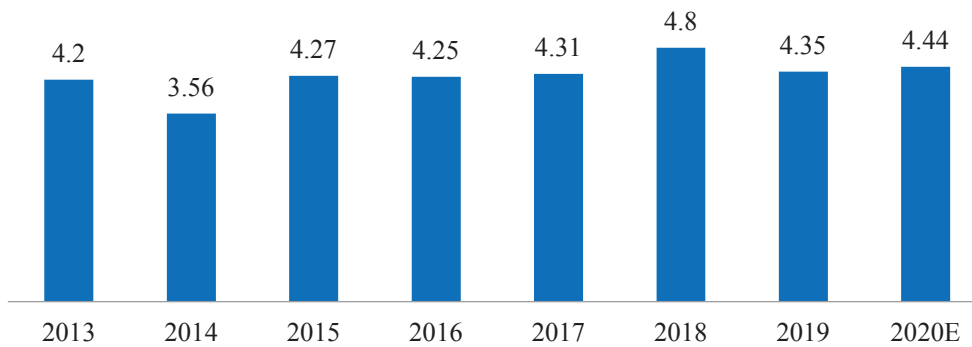


Source: Bahrain Ministry of Finance, IMF and World Bank Indicators

Government Spending

Fiscal Expenditure has declined reaching **4.35 BN BHD** in **2019** (35.3% of GDP) compared to **4.8 BN BHD** in **2018**. The decline is attributed to the government efforts to diversify its revenues away from the oil sector by engaging in infrastructure and real estate projects. Despite the Government efforts to diversify the economy, according to the CIA Factbook oil still comprises **85%** of Bahraini budget revenue. Also, the overdependence of the economy on the oil sector was very apparent in recent years budget deficits after the energy prices declined in 2014.

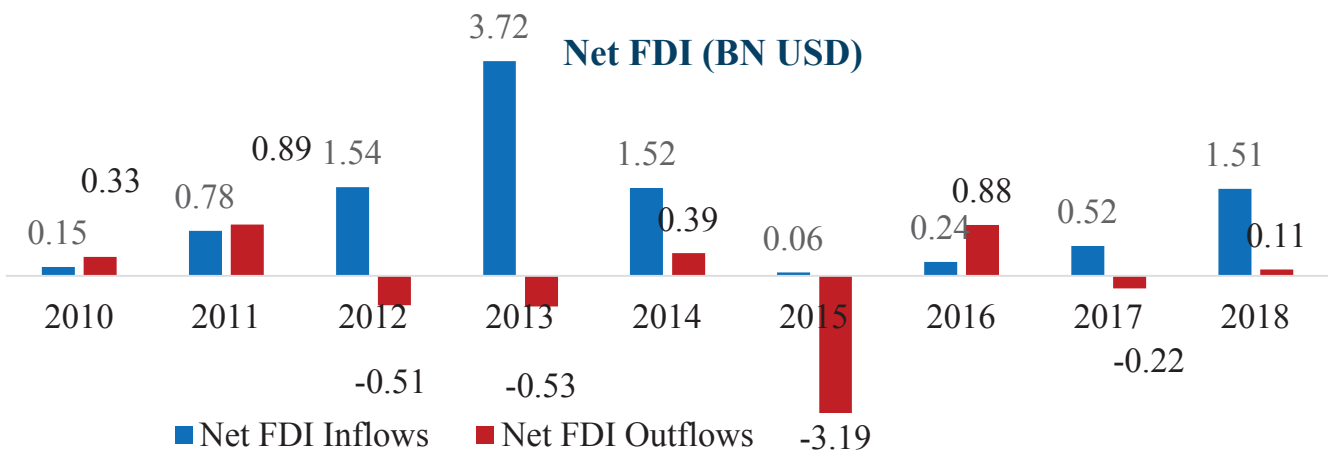
Government Spending (BN BHD)



Source: CEICData and IMF

Foreign Direct Investment (FDI)

- The Kingdom of Bahrain is very open to foreign investment and has one of the highest FDI stock-to-GDP ratios in the region. Inflows of FDI to Bahrain increased **6%** in 2018 reaching **1.51 BN USD** taking a **4%** share of the national GDP, according to the World Bank. The sector of information, communication and technology (**ICT**) accounts for **54%** of the FDI. Tourism, logistic and financial sectors also attract FDI. The main investor countries are Saudi Arabia, Kuwait, India and United Arab Emirates. The total stock of FDI stood at **28.9 BN USD** in 2018 according to the United Nations Conference on Trade and Development (UNCTAD) 2019 World Investment Report.
- Moreover, Bahrain enjoys an open and attractive economic and regulatory environment for international companies looking for a gateway to Gulf and Middle East markets. The country has the **lowest corporate and personal taxes** in the Gulf, without any restrictions for free trade zones. Foreign business ownership is fully permitted in more than **95%** of all economic activities, eliminating the need to resort to a local partner in most cases. The excellence of the country's **logistical infrastructure** is also a major factor of attraction. In addition, Bahrain offers a large, highly skilled pool of financial workers, a regulatory structure that is both advanced and internationally well-regarded, and a physical connection to Saudi Arabia which is by far the largest economy in the Gulf.



Source: The World Bank Indicators

Interest Rate

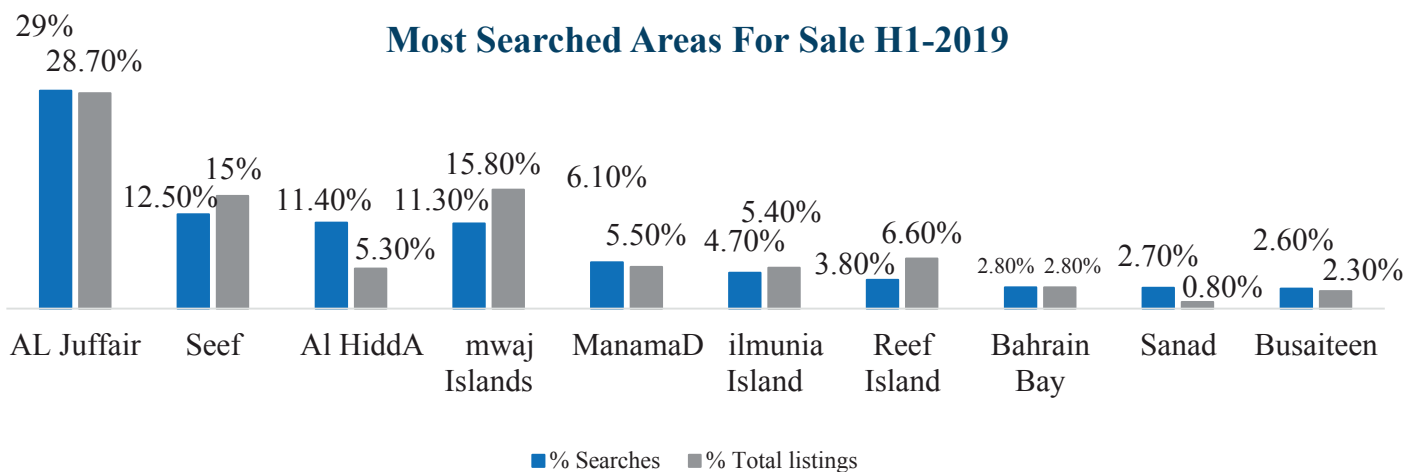
The interest rate in Bahrain follows the same trends as the US interest rate as the **Bahraini currency** is pegged to the **U.S. dollar**. **In August 2019**, the country mirrored its American counterpart and decreased its interest rates by 25 basis points. The announced meant that the overnight deposit rate decreased to **2.25%** and the lending rate to **4.25%** instead of **4.5%**. The move encourages business investment within and from outside the country as the lowered cost of borrowing incentives business to invest in the economy more.

III. Real Estate Sector Overview

- The Bahrain real estate market has witnessed in full the effect of the changes that have taken place over the past few years in the country. This includes the **implementation of RERA and the regulations** that it is bringing into the market, as well as some stability in prices. Naturally, this has led to more investments, especially from Saudi Arabia, and more interest in purchasing properties across the Kingdom, which has rejuvenated the sales market. This is partially due to the regulations that RERA has put forth, which have made investors more comfortable with the market's growth and transition, as well as finding the opportunity for fairer price margins.
- The real estate sector is a significant contributor to the Bahraini economy and the witnessed growth in recent years has led to the sector contributing to the country's GDP a value added worth **507 MM BHD (1.3 BN USD)** according to data from the Information and e-Government Authority. This was equivalent to **3.8%** of the kingdom total GDP for that year.
- **In H1-2019**, prices across all four Governorates in Bahrain have seen a drop, which is most likely due to the natural course the market is taking, as well as pricing regulations that RERA has put in place. Most significantly, prices for apartments for sale in the southern governorate have dropped **15.6%** when compared to **H2-2018**. When it comes to villas for sale in the same governorate, a decrease of **3.5%** was recorded for the same period. The same trend can be seen across the rest of the governorates, but with less of a sharp decline. The capital governorate for example recorded a drop of **5%** in apartment rent, which is also likely due to an influx of new properties in the area, as well as an **8.6%** decrease for villa rents. While, apartment rents in the Muharraq governorate also decreased by **6.9%** in the same period.
- It is worthy to mention that the value of personal lending secured by property mortgages stood at **1.76 BN BHD (4.7 BN USD)** in June **2018**, according to the **CBB**, equivalent to **44.9%** of total personal lending. The figure was up from **1.57 BN BHD (4.2 BN USD)** a year earlier. One development that may boost the availability of financing for

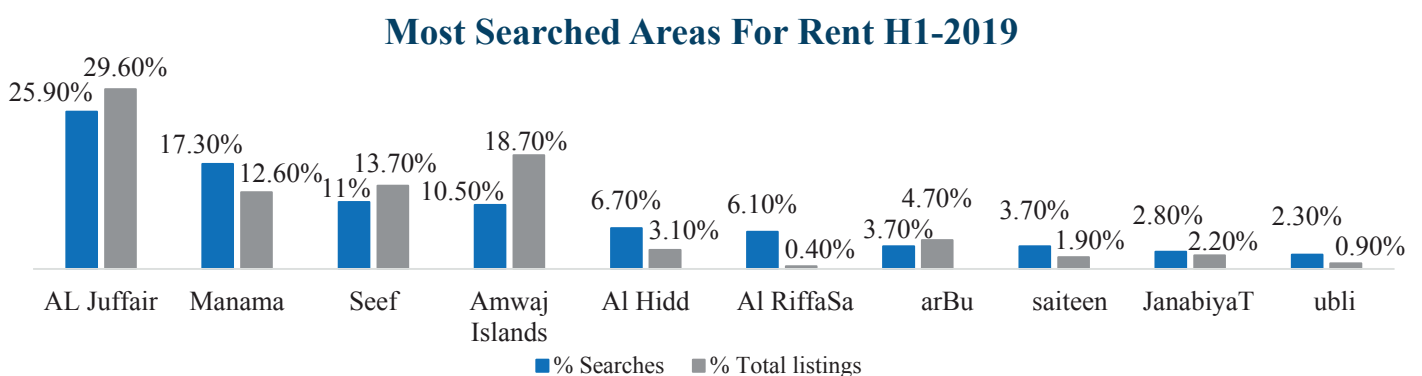
developers in the kingdom is the new arrival of real estate investment trusts, a form of property-based investment vehicle listed on stock markets in which investors can buy and sell stake-like shares.

- The most popular rental a **Juffair and Amwaj Islands** with both increasing by **3.26%** and **2.39%**. While the most areas of the market that have seen movement along the sales section is Amwaj Islands and Saar with transactions increasing by **5.27%** and **0.22%** respectively.
- According to the Bahraini real estate search engine Bahrain Property Market, Al Juffair remain the most searched area for sale with **29%** of the searches and **28.7%** of the listed properties. On the other hand, Busaiteen was the least searched area for in H1-2019 and Sanad had the least listed properties for sale at only **0.8%** of the listed real estate



Source: BahrainPropertyMarket

- Furthermore, Al Juffair has also been the most searched area for rent with **25.9%** of the searches and **29.6%** of the total listed properties. Manama came as the second most searched area in the rent market while third in the number of listed apartments. While Tubli was the least searched for area for rent and Al Riffa had the lowest number of listed properties on the website.

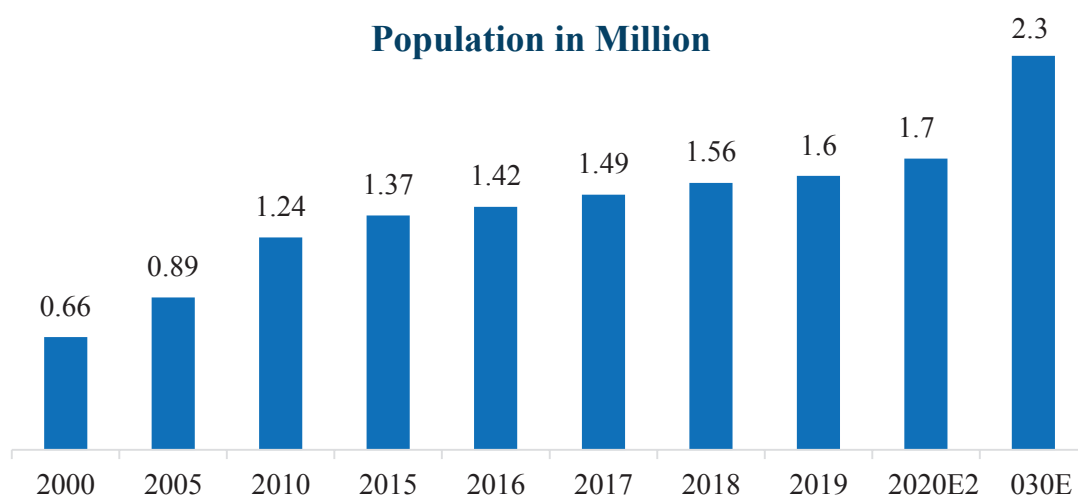


Source: BahrainPropertyMarket

IV. Demand Drivers

Population

- The Bahraini population has been growing in an increasing pace in recent years reaching **1.6 million** in **2019** an increase of **3%** compared to **1.56 million** in 2018. In addition to this, Bahrain is one of most densely populated countries in the world with **1,627** people per square kilometer, which ranks **7th** globally. As illustrated in the graph below, the country's population is expected to increase to **1.7 million citizens** in **2020**.
- Thus, the steady increase over the years has created a real demand in the segments such as affordable housing the residential market where most of the demand is from the increasing young adult population.



Source: Ministry of Information Affairs and Worldometer

Introduction of Real Estate Regulatory Authority (RERA)

- The industry has experienced a few vital regulatory changes as of late **March 2018** saw the establishment of the real estate Regulatory Authority (**RERA**) to resolve and oversee the disputes emerging within the industry. Its role incorporates the licensing of industry actors, for example, property managers, developers, real estate brokers and evaluators. Under the law, all industry performers were required to become licensed by the end of **August 2018**. The authority's other fundamental priority is managing issues identified with off-plan sales, that is projects in which units are sold to buyers before having been built.
- Also, another change presented under the Real Estate Law is a requirement for

developers of off-plan activities to keep sales revenue in an escrow account that they can't access until the units have been finished. On the other hand, developers will before long have the capacity to buy a protection bond for somewhere in the range of **3%** and **5%** of the undertakings worth, a choice on which the RERA and the Bahrain Insurance Association are presently working on. The changes are intended to guarantee that developers don't solely depend on sales revenue to complete their projects. However, it ensures the market that developers will finance their projects through their very own funds. This is planned to decrease the risk of a task not going advances should sales dramatically decline, while additionally guaranteeing consumers are able to obtain refunds if a real estate project stagnates.

V. Supply Overview

Major Developers and Projects

Naseej

The prominent local developer Naseej currently moving into the higher-end of the residual market, building a project that is set to comprise of **264** apartment and **6,000** sq meters of high-end retail space with work due to be finished in **Q2-2020**. Also, the developer has started the construction of **30,000** housing units which is being financed by the Abu Dhabi Fund for Development. The new housing is expected to be fundamentally located in Salman Town, a development project on 10 artificial islands off the kingdom's northern coast that will in the long run house **100,000** individuals.

Arcapita

In addition to this, the local investment company is working on developing a mixed-used Bahrain Bay project valued at **2.5 BN USD**, which is a master planned waterfront project situated on two man-made islands situated off northern Manama.



Seef Property

Also, Seef Property is currently working on the **120,000**-sq-metre Liwan project in the kingdom's Northern Governorate, which has been valued at around **50 MM BHD (132.5 MM USD)** and is expected for completion before the start of **2020**.



Amlak

In addition to this, the government is active in the segment through Amlak, the property investment arm of the SIO. The firm currently working on five development projects, all in the retail and residential segments. The biggest of these is the **46,100**-sq-meter Residenze development, a tower containing **193** apartments and ground-level shops. The firm is also effectively looking to expand into projects in the social housing segment mainly through PPP agreements.



Mumtalakat

Moreover, Bahrain's sovereign wealth fund Mumtalakat also acts as a developer through its real estate arm Edamah. The firm is leading the **119 MM USD** mixed-use Saada West project that is being built on **18,000** sq metres of reclaimed land in Muharraq, among different developments. Besides, state-owned housing finance Eskin Bank also acts as a property developer. The bank is currently developing projects such as Danat al Lawzi and Danat al Baraka, which contain **303** and **210** villas, respectively, and plans to start at Danat al Yufoor, a **150**-villa development, in early **2019**.



Kuwait Finance House

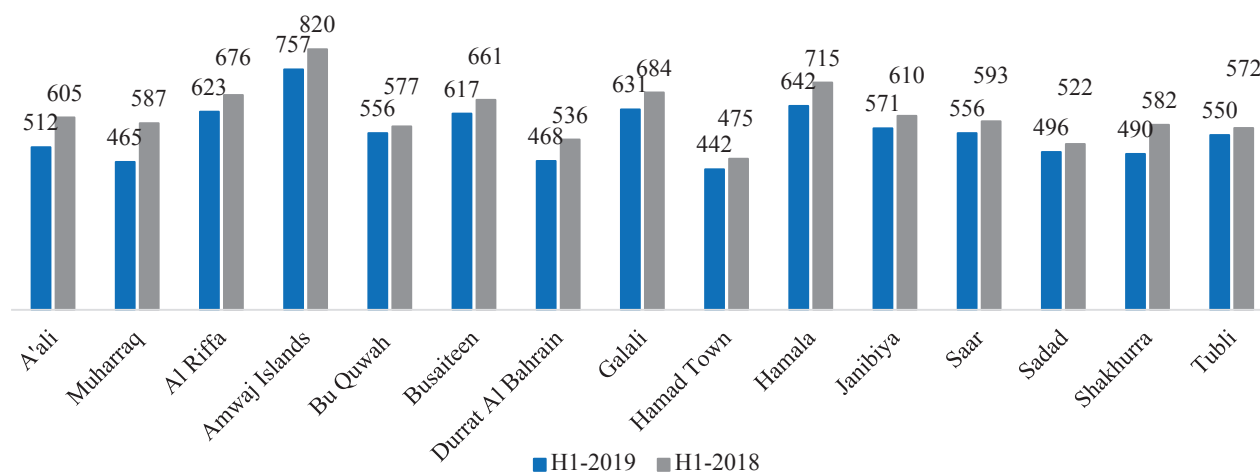
In addition to these domestic players, foreign-owned firms are also dynamic in the Bahraini market. These include the financial institution **Kuwait Finance House**, which is the major shareholder in the Diyar Al Muharraq project. Other projects being developed by the Kuwaiti firm in Bahrain include the **Durat Al Bahrain** waterfront villas development, which is jointly owned by **the Bahraini government**.



The Residential Market

- Declining prices were recorded across the board for all areas in Bahrain when it comes to finding villas for sale between **H1-2018** and **H1-2019**. This is not surprising as many are adjusting their prices due to regulations from RERA, a more stable and transparent market, and in order to meet the current market demand.
- **Bahrain Bay and Marassi Al Bahrain**, two areas which have been instrumental in reviving the sales market, continue to attract the attention of investors and private owners, especially because these areas and developments offer new and modern properties for sale. For those reasons, a price increase has been recorded between **H1- 2018** and **H1-2019**, from **1,297 BHD** per sqm to **1,379 BHD** per sqm in Bahrain Bay, and from BHD1,116 per sqm to 1,264 per sqm in Marassi Al Bahrain
- Diplomas has recorded the most significant drop in price, from **7500 BHD** per sqm to **6017 BHD** per sqm in the same timeframe. With more price transparency in Bahrain the ongoing effect of RERA, the introduction of VAT and other factors, prices in the Bahrain real estate market are expected to decrease. But what will result from this is a transparent market with stable prices and transaction transparency in the coming years.
- As mentioned above the market is witnessing a more stably priced market, especially when it comes to the sales segment. As a continuation of the effect that RERA has had, the market has seen a significant increase in buyer confidence, which has resulted in greater interest. RERA has also created more transparency in the market, which has led to reasonable and candid prices.
- A decrease in prices was recorded for most other areas, with Manama and Amwaj Island 0recording the most significant change when comparing **H1-2018** and **H1-2019**. Prices decreased from **748 BHD** per sqm to **696 BHD** per sqm in Amwaj Islands and from **759 BHD** per sqm to **679 BHD** per sqm in Manama.

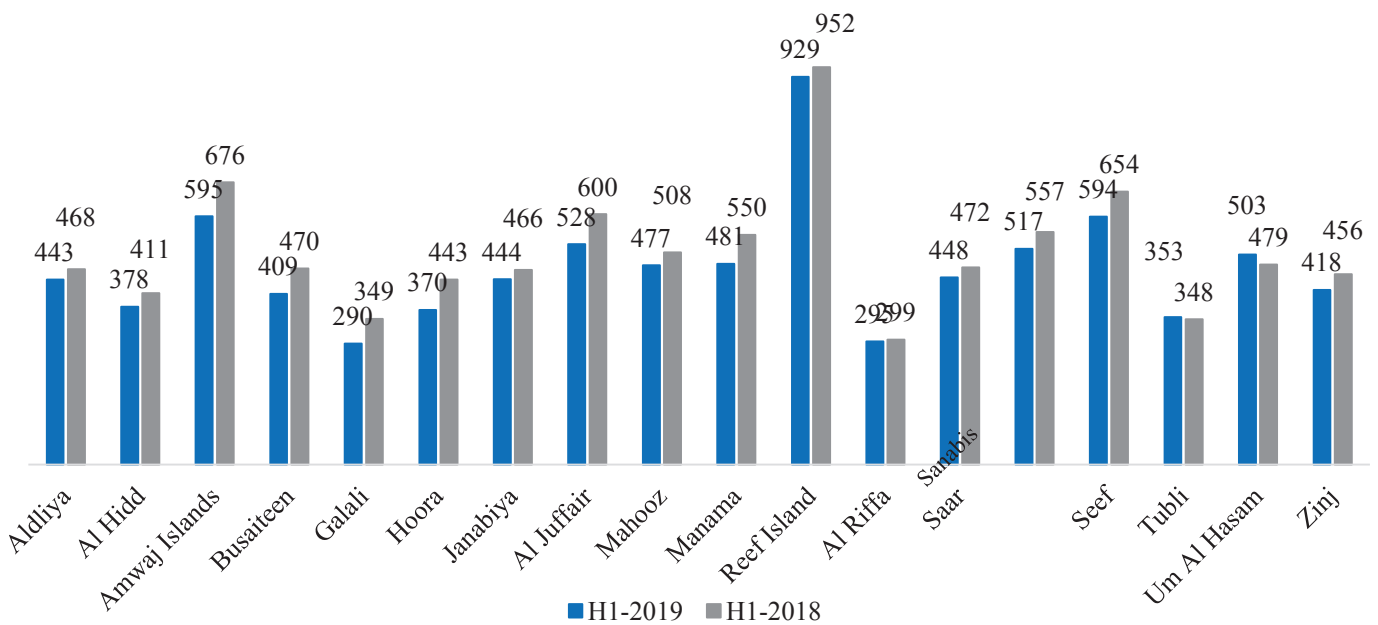
Bahrain Villas Median Sales Price Per Sqm



Source: BahrainPropertyMarket

- As illustrated below, the decrease in price is the general trajectory recorded for apartment rents in the country, with only a few areas recording an increase. Most significantly, rents increased in Um Al Hasam from **479 BHD** to **503 BHD** between **H1-2018** and **H1-2019** as newer units with a higher price tag become ready for tenants to move into. The most significant decrease between H1-2018 and H1-2019 was recorded in Galali (**349 BHD to 290 BHD**) and Hooraa (**443 BHD to 370 BHD**), with rents dropping to continue to create interest from renters in these areas, as other, newer developments become ready for handover.

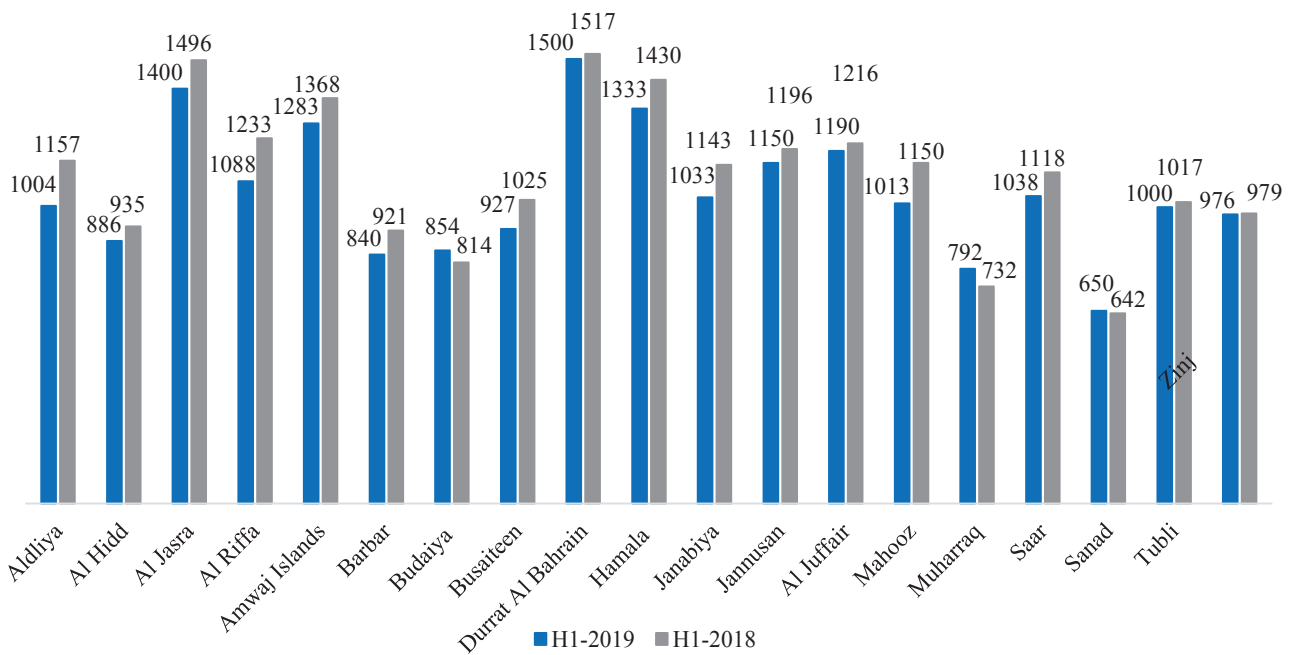
Bahrain Median Apartment Rent Monthly Price



Source: BahrainPropertyMarket

- In the villa market, the country is adopting a more affordable approach when it comes to rents, prices have been on an overall declining trajectory in **H1-2019**. Most significantly, villa rentals in Mahooz have decreased from **1,150 BHD** to **1,013 BHD**, and from **1,157 BHD** to **1,004 BHD** in Adliya, the latter partly due to the fact that there are only a limited number of villas in the area to begin with.
- The only location to record a noteworthy price increase in **H1-2019** is Muharraq (from **732 BHD** to **792 BHD**). Both Sanad and Budaiya have seen a minor increase in rents. This is a testament to the market shift of offering more affordable

Bahrain Median Villas Monthly Rent

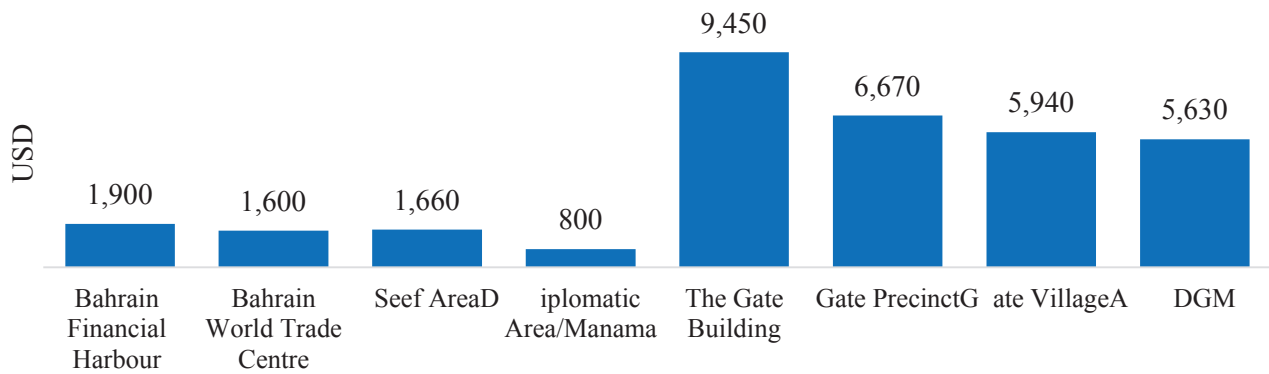


Source: BahrainPropertyMarket

The Office Market

- As seen in the figures below, headline office rents have mainly remained stable in recent years. Even though, the prominent feature since the declining oil prices of deals being finalized below the advertised rates is a feature in the market. The Bahraini office rent prices are one of the most competitive prices in the region especially when compared to other similar market yet more expensive hubs like Dubai and Abu Dhabi. Furthermore, the Kingdom's business legalization and its relatively cheaper cost of starting a business is low as well its cheap commercial rentals (According to KMPG commercial rental costs for office space in Bahrain are **43,800 USD** for Bahrain compared to an average of **86,480 USD** for the GCC region) are positive factors that help the kingdom's business ecosystem and differentiates it from other GCC countries. All of this has helped mitigate the decline in national business development due to the oil prices crisis of **2014-2015**. Yet, the frail oil prices environment has undoubtedly impacted on the demand for office space in the kingdom over the last four years, with rents declining virtually across the board with the exception of Seef Area.

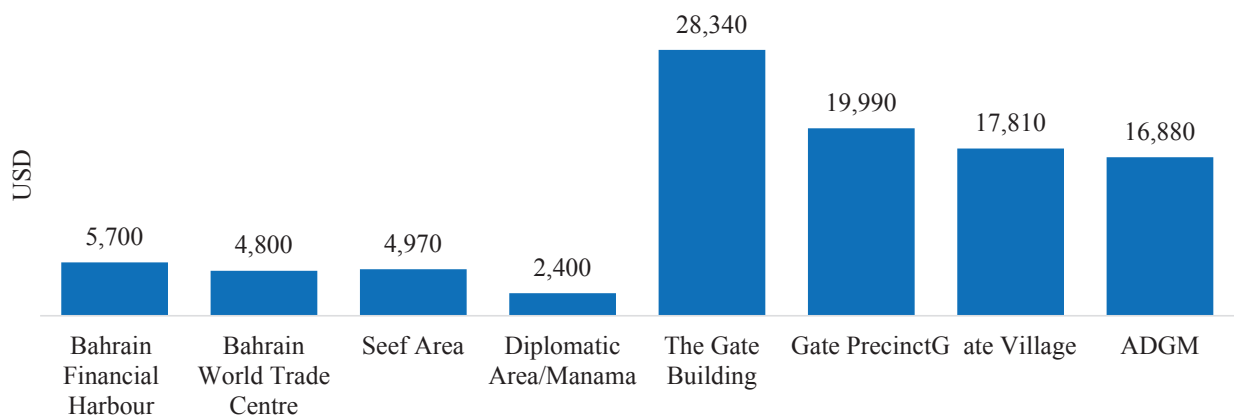
100 Meter Sqm offices comparison between Bahrain, Dubai and Abu Dhabi



Source: KMPG Cost of doing business in Bahrain report 2018¹

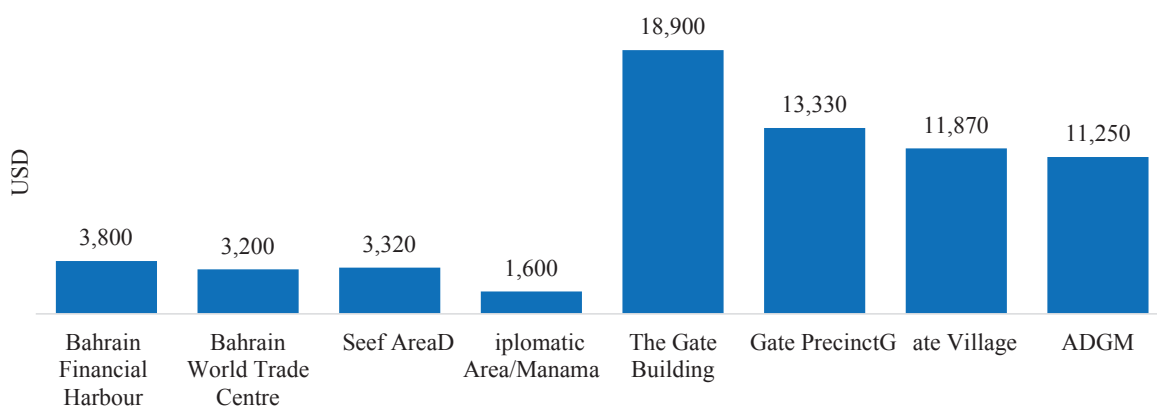
¹ Bahrain office: Bahrain Financial Harbour, Bahrain World Trade Center, Seef Area and Diplomatic Area Dubai: The Gate Building, Gate Precinct and Gate Village Abu Dhabi: ADGM

300 Meter Sqm offices comparison between Bahrain, Dubai and Abu Dhabi



Source: KMPG Cost of doing business in Bahrain report

200 Meter Sqm offices comparison between Bahrain, Dubai and Abu Dhabi



Source: KMPG Cost of doing business in Bahrain report

The Hospitality Market

- According to the EDB, hotels accounted for the majority of tourist accommodation in the first half of **2018** at **73%**, followed by furnished apartments with **14%**, friends and relatives with **10%**, owned apartments with **2%** and rented apartments with **1%**.
- Bahrain has welcomed 3.2 million visitor in **Q1-2019**, **3.1%** increase from the same period in **2018**. **Additionally**, occupancy has increased in **Q1-2019** to reach **53%**, a **3%** increase from **Q1-2018**. **Additionally**, the touristic outlook looks optimistic with **22** hotels are expected to open in the next four years.
- Oversupply is a concern in the market as occupancy rates are somewhat subdued, and the BTEA reports that the average occupancy rate at a four-star hotel was **50%** in the first half of **2018**, against **48%** for five-star hotels. The authority further reports average daily room rates were **BHD 35.9 (95.12 USD)** for four-star hotels and **BHD 72.6 (191 USD)** for five-star hotels, while revenue per available room was **BHD 14.4 (38.16 USD)** for four-star hotels and **BHD 34.6 (91.68 USD)** for five-star hotels. Some stakeholders argue that unregulated apartment rentals have kept rates artificially low, with the growing popularity of sites like Airbnb exacerbating problems of market oversupply.
- **Additionally**, the over-dependency of the kingdom of Saudi tourists remains a key concern key concern when analyzing the long-term sustainability of the hospitality sector. The fact that **57%** of all visitors to Bahrain are from Saudi Arabia is concerning considering the Saudi Arabia **2030** vision and its focus on becoming a tourist destination; Bahrain hospitality sector may get affected as a result as the Saudi nationals may turn to domestic tourism.
- The government attempt to boost its hospitality and tourism segment through retail festivals and organized food festivals has succeeded in stimulating the tourism and retail sectors while achieving outstanding revenues with transactions reaching **50 MM USD** from **145,000** transactions, compared to **21 MM USD** from **130,000** transactions in **2017**. Also, Bahrain International Airport is under renovation with an investment of **1.1 BN USD** modernization program.

Affordable Housing

- The demand for affordable housing is particularly high in the kingdom, the government has made efforts to meet this demand by boosting its supply. In **2016** the ministry of housing announced a program to deliver a total of **25,000** new housing units by 2020 as part of previously announced plans for the construction of **40,000** units by **2022**, with **5,000** of the houses having already been delivered by that date.

- As of **December 2018**, the ministry was working on projects for a combined **8,250** new units. By far the largest of these undertakings is the Al Ramli project, which involves the construction of **1,266** houses and **2,360** apartments in the kingdom's northern governorate. The government has also engaged in several PPPs with developers to build social housing projects, starting with Naseej.
- In recent years the authorities have increasingly focused on financing affordable housing built by private developers. This primarily happens through the Mazaya subsidized mortgage program, which was introduced in **2013**. According to a report by the Bahrain News Agency, some **2,650** homebuyers have benefitted from the program between its launch and **2018**, receiving subsidies worth a total of **15 MM BHD (39.7 MM USD)**.

VI. Future Outlook

- **The Bahrain 2030** vision aims to restructure and diversify the economy away from the concentration on the oil sector. The extensive projects down the pipeline which are estimated to be worth around **32 BN USD** are expected to progress due to the availability of funds and the increasing FDI. The large Infrastructure projects are expected to continue to drive the sector's activity despite the high level of debt and the potential of fiscal difficulties that faces the kingdom's government. Besides, the high and rising demand for affordable housing, alongside with higher-end developments, office capacity and industrial units can too be relied upon to boost the outlook of the sector's activity.



- Additionally, the kingdom's **reforms** and **change in regulatory system** can be relied on to support the market and stimulate activity in territories in which there is particularly intense demand. The kingdom's developing regulatory framework can likewise be expected to help boost increased investment from the private sector. Private firms are now assuming an undeniably noteworthy job in the development of transport and industrial framework, alongside housing.

VII. Conclusion

Opportunities

- Despite of the fact that rents stay under pressure in most of the market, a few segments, such as, office space, show current stability and potential increase due to the increasing FDI in the kingdom. In addition to this, the affordable housing segment is shows positive signs with the demand in the market exceeding the supply.
- Also, the establishment of the **RERA** and the requirements for off-plan developers to place cash escrow accounts or purchase bonds are set to help to strengthen sector further. The recovery in energy prices in the last quarter of **2018** and agreement of a **10 BN USD** aid bundle with other Gulf states, are ought to give further support to the kingdom's real estate in the coming years, maintaining its position as one of the key drivers of national economic development.

Risks

- **High level of debt:** The high level of debts and sustainability of maintaining the high level of government spending is a risk. Especially considering that the median wages for the public sector was higher than the private sector in the country. To many citizens, public sector employment is still more attractive than working in the private sphere: according to the latest data from LMRA, the median public sector wage is **695 BHD (1,840 USD)** per month, versus **406 BHD (1,080 USD)** for private work



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