

Key Factors Relating to Investing in GCC Real Estate Opportunities



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About Sakana

- Sakana Holistic Housing Solutions BSC (c) is a 50:50 joint venture between 2 leading banks in Bahrain - BBK and Shamil Bank
- Sakana is an Islamic finance company regulated by the Central Bank of Bahrain
- Paid up capital BD 20 Mil
- Commenced commercial operations in Dec '06



About Sakana

Vision

- To be the catalyst for the prosperity of the housing sector and the innovator of holistic housing solutions

Mission

- To be the market leader in mortgage financing in Bahrain through development and delivery of innovative products and superior customer service



Boom Time

- Real estate boom from 2003 to mid 2008
- High oil prices resulted in abundant liquidity
- Diversification from oil-based economy
- Property laws amended to allow foreign ownership
- Growing population
- Fast growing economies on back of oil price coupled with government- / private-backed industrial and infrastructure projects



GCC Projects Topped US\$ 2 trillion in July 2008

Type of Project	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Construction	79%	67%	55.30%	49.90%	48.90%	84.30%
Industry	2.40%	0.80%	3.50%	1.90%	5.20%	1.90%
Oil and gas	6.80%	25.70%	19.70%	29%	17.70%	6.10%
Petrochemicals	1.90%	1.60%	11.30%	6.50%	13.20%	2.20%
Power	5.90%	3.30%	6.50%	8.80%	12.20%	4.60%
Waste and water	4%	1.60%	3.50%	3.90%	2.70%	0.90%
Total Value of Projects (US\$bn)	39.6	266.9	92.5	214.6	492.4	904.3

MEED Projects November 2008



**65% of GCC project activity
accounted for by real estate**



Residential Overview

Residential Sector

- Substantial initiatives from government & private sectors
- Many upscale residential projects
- Few low- to mid- end residential developments



Non-residential Overview

Commercial Sector

- Flourishing business, increased foreign investment, improved macro environment, creation of financial centres, increasing presence of multi-national companies, international universities

Retail Sector

- Buoyant – growing population & tourism, increasing income levels



Non-residential Overview

- **Industrial Sector**

- Privatization, project expansion backed by government /private sectors, foreign direct investment

- **Tourism Sector**

- Holiday & shopping destination, several leisure and entertainment facilities, increase in MICE, presence of religious sites – Makkah & Madinah, events such as F1 motorsports and other world-class sporting events



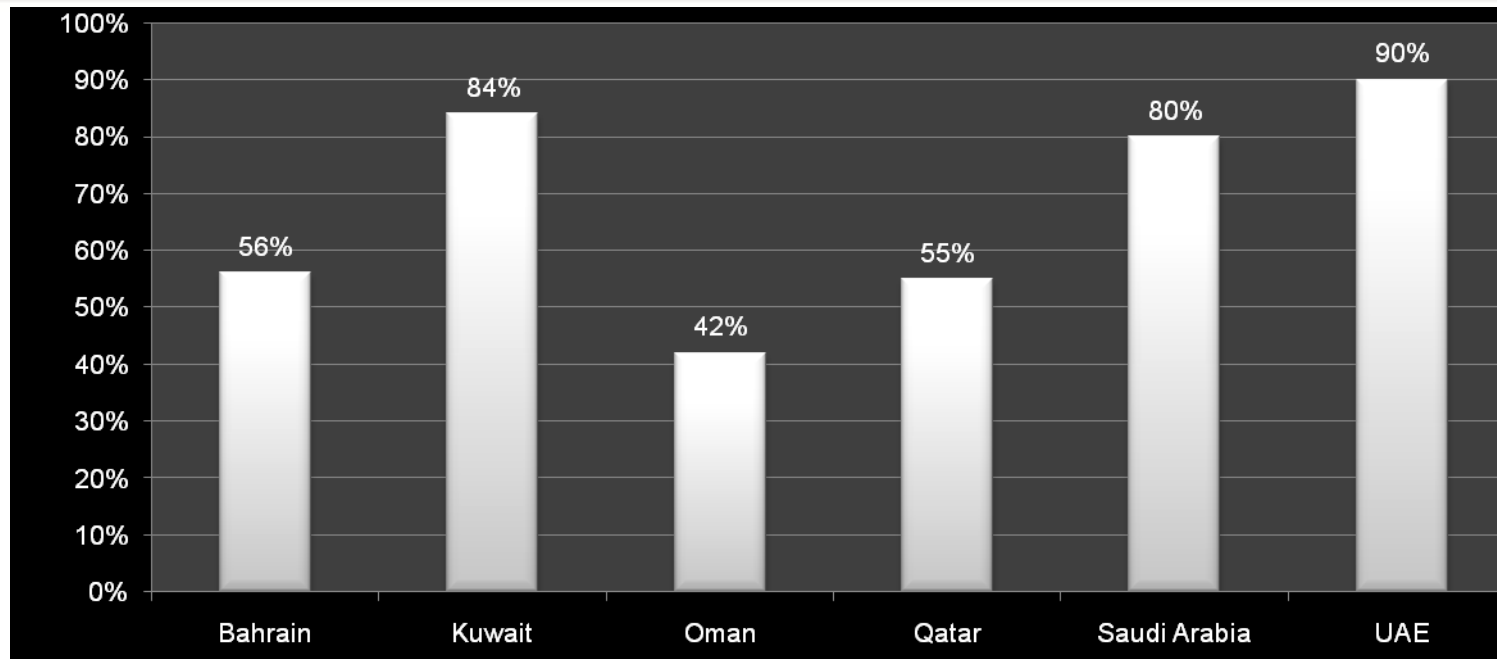
Investment Drivers - Demographic & Business

Household sizes declining ¹	Investment-friendly policies
Around 1/3 to 1/2 of population under age 15 ²	Increasing expatriate workforce
Massive population growth predicted (see next slide)	Increase in freehold drives expatriate demand
Strengthening of SME / Middle-class sectors	Entrepreneurial spirit – smaller-scale ventures

1. MEED 2. IMF



Projected GCC Population Growth 2007 - 2050



2007 World Population Data Sheet,
Population Reference Bureau, August 2007



Investment Drivers

- Political and economic stability
- Economic reform
- Progressive liberalisation
- Huge current surpluses
- Significant Infrastructure investment
- Sovereign wealth funds – wealthy!



Investment Drivers

- Increased foreign investment
- Foreigner-friendly environment
- Availability of liquidity - although currently in shortage
- Prevalence of low finance rates - although recently margins have increased



Investment Drivers

- Free Trade Agreements
- Quality lifestyle
- Strong rental market
- Attractive rental yield
- Growing demand for affordable housing
- Increased availability of mortgages



Investment Drivers

- Relatively high incomes
- No income tax
- Capital repatriation
- Creation of free trade zones/economic cities
- Reductions in construction costs



Investment drivers

- Shortage of supply – for e.g. demand in Abu Dhabi still outstrips supply for all segments of the property sector #
- Growing Tourism - Leisure and entertainment destination

Khaleej Times 11 Dec 2008 – Citigroup research



Current Snapshot

- The GCC real estate market is experiencing a cooling off period
- Around 44% of planned projects underway as planned as of July 2008 #



MEED Projects Nov 2008



Current Snapshot

- And the rest...
 - Many still in early stages of the project
 - Several delayed
 - Some may be cancelled/revised to suit current market



Road Ahead

- Moderately priced oil
- Sustainable economic growth
- Slower credit growth
- Lower corporate profit margins



Past and Projected GDP Growth

Real GDP %	Average 2000-04	2004	2005	2006	2007e	2008proj	2009proj
Bahrain	5.6	5.6	7.9	6.5	6.0	6.3	6.0
Kuwait	13.4	10.7	11.4	6.3	4.6	5.9	5.8
Oman	4.6	3.6	6.0	6.8	6.4	7.4	6.0
Saudi Arabia	3.7	5.3	5.6	3.0	3.5	5.9	4.3
Qatar	8.9	17.7	9.2	15.0	15.9	16.8	21.4
UAE	7.7	9.7	8.2	9.4	7.4	7.0	6.0

IMF, October 2008

Money is tight and oil is flirting with levels that raise doubts about the projected growth rates (below), but combined GCC government debt to GDP is only 10% and provides significant fiscal headroom¹.



Nomura Investment Banking (Middle East) BSC (c), Nowhere To Hide, November 2008



Measures Required

- Make more liquidity available
- Continue progress on Government projects
- Encourage banks to lend each other
- Manage supply versus demand
- Control inflation



Measures Required

- Improve regulation of off-plan properties
e.g. escrow accounts, developer rules for payment and construction
- Improve regulations for real estate sector
e.g. licensing of brokerages, mortgage laws



Measures Required

- Legislative changes to control speculation
- More transparency by government / developers
- Develop/strengthen repossession laws
- Provide government support to mortgage providers/developers



Measures Required

- Consolidation of real estate companies
- Readjustment in property prices
- Retrenchment to keep costs under control
- Restructuring business models to suit market conditions



Measures Required

- Convert some luxury residential development to serviced accommodation
- Recapitalisation of real estate companies
- A more balanced funding approach by property companies will be required



What Might This New Model Look Like for Residential?



Impact On Different Market Segments

- **High-end residential** – demand tailing off
- **Low- to mid-end residential** – increasing and robust demand
- **Buy-to-live** – most stable
- **Buy-to-let** – still strong: lag effect may take at least 6-9 months to show up



Impact On Different Market Segments

- **Tourism** – slow down
- **Commercial properties** – increasing oversupply
- **Serviced accommodation** – steady growth - may be resistant to recession



Conclusion

- Short/Medium survival strategies to be adopted
- Sustained pace of development based on demand

Though market correction is happening,
potential still exists in GCC real estate



THANK YOU

&

SEASONS GREETINGS
FROM SAKANA

