



**IHHF**

**Demand, Developments, Delivery**

**Future Trends in  
Housing Market Segmentation**

**R. Lakshmanan**

**CEO**

**Sakana Holistic Housing Solutions**



# Overview

- Influences on segmentation
- International scenario and trends
- GCC scenario and trends
- Changes in buying patterns
- What type of properties are selling and to whom?
- GCC country by country overview
- Segmentation – multifamily, key workers, timeshare, buy-to-let, luxury, equity release
- Role of Islamic finance
- Future for GCC property and Islamic finance markets



# Influences on Segmentation

- Cultural factors – traditions and upbringing, family ties, premarital cohabitation, unmarried/singles
- Economic factors – income, savings, propensity to borrow, stability of employment
- Demographic factors – population growth, age of population, ethnic groups
- Maturity of housing market – housing stock

# International Scenario

- Segmentation well established
- Developed in response to consumer demand
- Rising home ownership
- Increased choice of housing and mortgage finance
- Inadequacies in some segments e.g. affordable housing

# International Trends

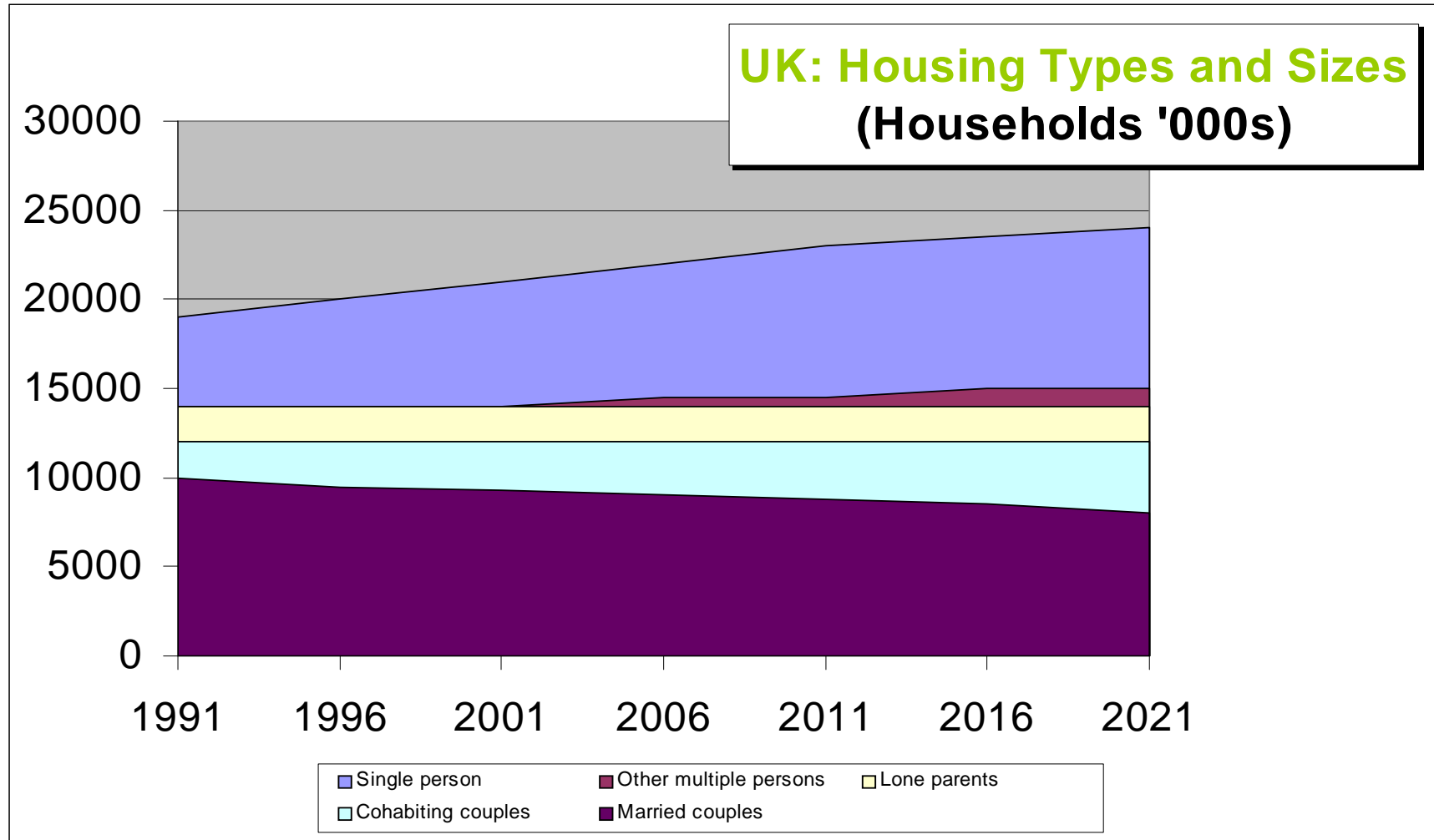
- Co-habiting couples
- Increase in single households
- Timeshare - around 5 million timeshare owners worldwide<sup>1</sup>
- Shared ownership
- Second homes
- Holiday homes
- Lone parents

*Source: 1. Khaleej times*

# International Trends

- European timeshare boom
- Brits spend annual average of £1,500 per home on DIY<sup>1</sup>
- Housing segmentation can meet the challenges if both public and private housing sectors adapt

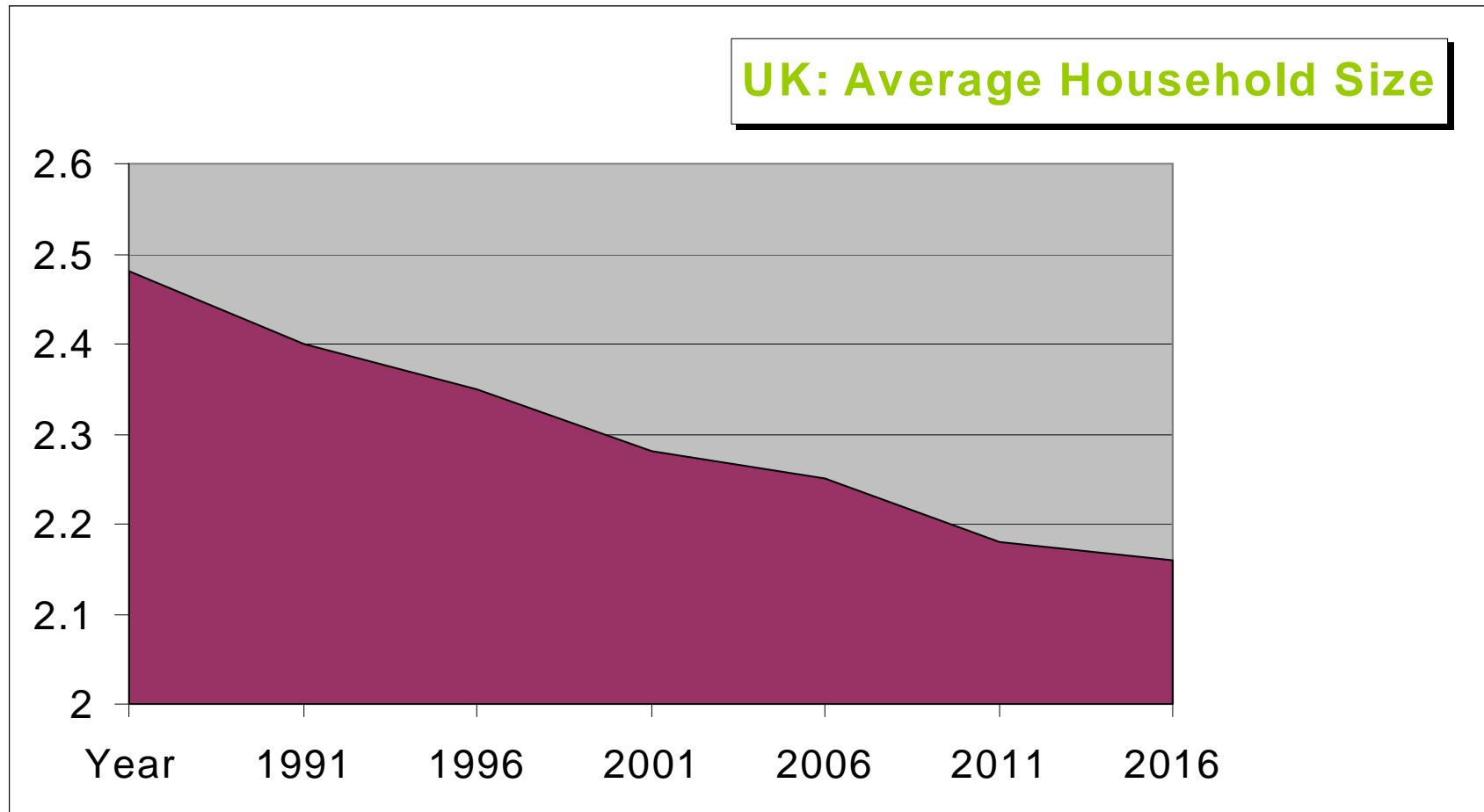
# UK Trends Segmentation



Source: Office of National Statistics (UK)

# UK Trends

## Average Household Size



Source: Office of National Statistics (UK)

# GCC Scenario



## Gulf Cooperation Council

**UAE, Saudi Arabia, Bahrain, Oman, Kuwait & Qatar**

Unprecedented economic growth in real GDP<sup>1</sup>

- UAE 8.9%
- Saudi Arabia 4.2%
- Bahrain 7.1%
- Oman 4.5%
- Kuwait 9%
- Qatar 8%

*Source: 1. MEED - all 2006 figures*

# GCC Scenario



- Less reliance on oil but still 38% of GDP averaged across GCC <sup>1</sup>
- Real estate has become major contributor to GDP breaking the USD 3 trillion of investment in the 885 active building sites around the Gulf <sup>2</sup>
- The Gulf has become the biggest projects market globally on a per capita basis<sup>3</sup> with the largest five projects totaling a cool USD 358 billion. <sup>2</sup>

Sources: 1. National Bank of Kuwait 2. Gulf Daily news 3. Zawya

# GCC Scenario



## Less mature markets

### Less scope for consumer-led segmentation

- Prevalence of certain types of segmentation
  - e.g. buy-to-let, multifamily
- Housing traditionally for nationals
- Since 2002, freehold legislation in some countries
- Mortgage finance generally state sponsored
- Explosion of mortgage finance providers since freehold

# GCC Scenario

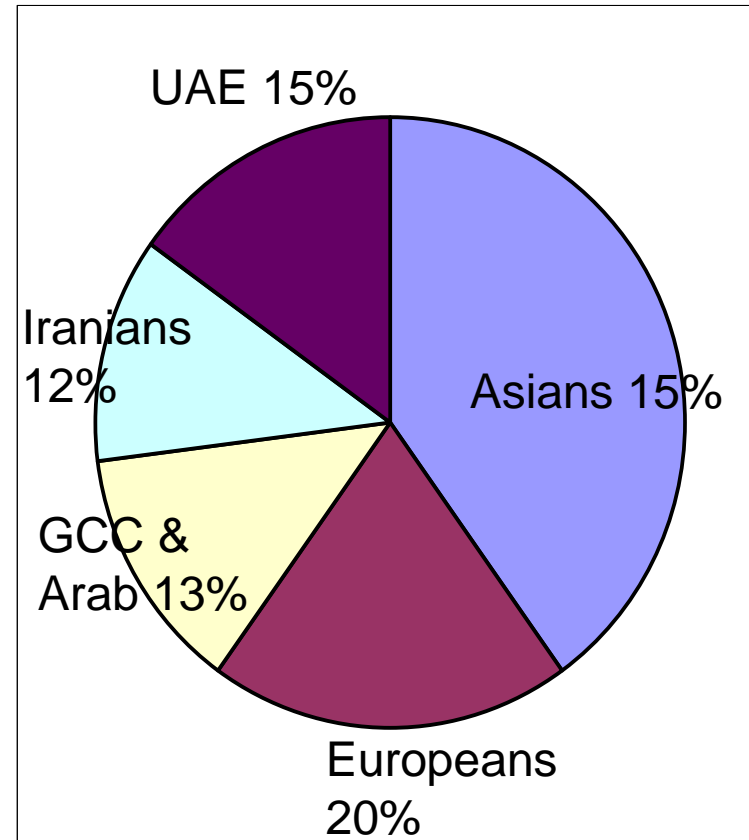
## Pattern of property development & ownership changing

- Privacy a major factor
- Juxtaposition of traditional v modern architecture and lifestyles
- Mix of ethnicities in population but segregation is common in housing

# Who is buying?

- UAE has high proportion of foreign ownership
- Other GCC states less so, but steadily increasing
- The Wave in Muscat had buyers from 24 nationalities
- Bahrain – GCC & Arab, Asians & Europeans

## Dubai property ownership



Source: FutureBrand

# Why the changes?

**GCC real estate projects announced during financial year 2006-2007 surged 59% to USD 143 billion<sup>1</sup>**

- Introduction and extension of freehold legislation
- Luxury developments increasing
  - Attracting a mix of nationals and expatriates
- Preference for apartments as starter homes is increasing in some markets
- Nearly 50% of all real estate listings in Dubai are for 1 and 2-bed apartments<sup>2</sup>
- Mortgage finance relatively new trend

*Sources: 1. Trowers & Hamlins 2. FutureBrand*

# Why the changes?

## GCC mortgage debt is increasing – figures June 2007

- Bahrain's outstanding mortgage debt USD 722 million<sup>1</sup>
- UAE outstanding mortgage debt USD 12.5 billion<sup>2</sup>
- UAE saw increase of 90% quarter on quarter at end 2<sup>nd</sup> quarter 2007<sup>2</sup>
- More foreign investment pouring in

# Why are they buying?

- Investment opportunities
- Permanent or semi-permanent home
- Holiday home
- Retirement home
- Timeshare
- Buy-to-let
- Owning instead of renting
- Corporate apartments for regionally-based companies



**The Palm – Dubai, UAE**

# Who is buying what?

## Apartments

- Holiday or seasonal home buyers
- Timeshare
- Expatriates in general
- Short term expatriate couples
- Young, single professionals
- Investors for buy-to-let or capital growth



**King Abdullah Economic  
City – Saudi Arabia**

# Who is buying what?

## Villas

- Primary home for families
- Vacation homes for families
- Long term expatriate couples
- Investors buy-to-let or capital growth



**Durrat Al Bahrain – Bahrain**

# GCC Country Overview

## Saudi Arabia



- Opening up to mortgages
- Recent flurry of low cost housing projects<sup>1</sup>
- Projects underway USD371,954 million<sup>1</sup>
- Population growth 2.7% pa<sup>1</sup>
- Freehold limited to GCC nationals

## Bahrain



- Financial hub
- Many luxury developments coming on stream
- Projects underway USD 31,835 million<sup>1</sup>
- Population growth 2%<sup>1</sup>
- Widespread freehold for expatriates

## UAE



- Trendsetter in GCC property market
- Leading tourism and business hub
- Projects underway USD 662,874 million<sup>1</sup>
- Population growth 9.7%<sup>1</sup>
- Freehold and leasehold available

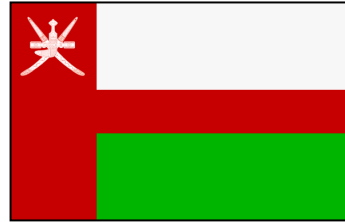
# GCC Country Overview

## Kuwait



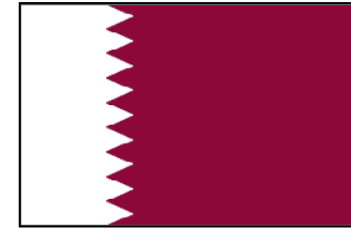
- Traditional society, impressive growth and economic reforms
- Projects underway USD 250,647 million<sup>1</sup>
- Population growth 7.5 % pa<sup>1</sup>
- Restricted freehold for GCC nationals

## Oman



- Traditional society, impressive growth and economic reforms
- Projects underway USD 48,096 million<sup>1</sup>
- Population growth 4%<sup>1</sup>
- Freehold recently available limited basis to expatriates

## Qatar



- Growing at 9.3%pa, ranked sixth fastest growing economy in world<sup>2</sup>
- Projects underway USD 137,911 million<sup>1</sup>
- Population growth 6.5%<sup>1</sup>
- Recent and limited freehold to expatriates

# Multifamily

## Area of steady growth

- Single owner of entire building or compound of houses (gated multiple residencies with shared facilities)
- Private ownership of above for buy-to-let purposes
- Used for housing entire extended family
- Community ownership of property

# Key Workers

## Growth area some developers targeting

- Workers housed in exclusive area or building
- Employer purchases or rents property
- Employer establishes preferential mortgage finance scheme
- Recruitment and retention tool

# Timeshare

## Timeshare slowly building momentum

- Suits GCC nationals preference for privacy and minimal changes in lifestyle
- Expect to launch timeshare sales in Dubai 2008
  - Estimates put value at USD1.2 billion<sup>1</sup>
- More investors can afford to buy a piece of the action
- Bahrain launches freehold timeshare ownership in one of the three Villamar within the Financial Harbour<sup>2</sup>
- Plans for USD 390 million timeshare in Mecca to cater for pilgrims or Haj tourism

# Buy-to-Let

## Traditionally major market for GCC property owners

- Limited freehold for large expatriate population and short-term nature of residency
- Recent freehold rights have allowed expatriates to capitalize on this segment
- Despite soaring rents, occupancy is as much as 98% in UAE<sup>1</sup>
- Similar in other countries notably Bahrain and Qatar
- Rents vary widely e.g. two-bed apartment in Manama is 50% of similar property in Dubai<sup>1</sup>
- Tax free rental income also a driver

Source: 1. FutureBrand

# Luxury Market

**Most GCC states have luxury developments  
This is changing demographics, behaviours &  
lifestyles**

- Proliferation is causing a skewed property market
- Demand is however still strong from GCC and beyond
- New class of elite is a mix of nationals and expatriates

# Luxury Market

Developers are vying to build the biggest, most luxurious – or some other superlative into their designs!



The Pearl – Qatar

**Versace, Zaha Hadid, Porsche Design, Colin Montgomerie and Tiger Woods are just a small number of celebrity names lending their signature to regional real estate**

# Equity Release

**Increasing in popularity as land and property values rise rapidly across GCC**

- Allows owners to take advantage of equity release
- Allows owners to extend the usefulness of current home by improvements or extensions
- Allows families to stay together – strong trait in GCC culture
- Unlock capital and use funds for any purpose including reinvestment in property market



# Role of Islamic Finance

Offer innovative products to meet needs of  
GCC's segmented housing market

- Equity release
- Key worker schemes
- Financing for low income groups
- Multifamily schemes
- Buy-to-let
- Shared ownership – timeshare, joint mortgage applications
- Co-habiting couples
- Second or holiday home and timeshare

# What's in store for the GCC?

**Projects planned in excess of USD 1 trillion make GCC biggest property project market<sup>1</sup>**

- Household sizes declining<sup>2</sup>
- Massive population growth predicted which is driving real estate development
  - The population of the GCC grew by more than 3 per cent during 2006, higher than other regions<sup>3</sup>
  - Around 1/3 to 1/2 of population is under age 15<sup>3</sup>

# What's in store for the GCC?

## Scope for “boom or bust” scenario

- Sustainability of current level of investment questioned
- At same time, predictions of severe shortages in some sectors notable low cost housing
- Ironically, this sector may be more profitable than luxury for developers<sup>1</sup>
- Change in attitudes to housing required – apartment living, starter homes, mortgage finance etc

# What's in store for the GCC?

## Amendments and reforms required

- To laws and regulations in real estate and mortgage sector
- Macroeconomic reforms in the pipeline
  - Planned monetary union ?
  - Help face external challenges imposed by rapid pace of globalization
  - Accelerate non-oil growth and reduce vulnerability to oil price shocks



Meanwhile, the building goes on...