



JasperCapital

International Financial Partners



Foreign Direct Investment (FDI) Flows into & from the GCC Real Estate Sector

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What a difference a year makes!

At this conference in December of last year, we were just feeling the effects of the post Lehman crisis hitting the GCC

- We still felt the GCC would be a predator in UK and US real estate markets.
- The prospects for both US and UK real estate markets looked very bleak, and for the foreseeable future.
- Debt finance was almost impossible in the UK and beginning to tighten up in the GCC.
- The oil price had started a dramatic drop though!

One year on

- The GCC has been hit far harder than anyone could have predicted. Real estate prices crashed by up to 20% in most markets and beyond 50% in Dubai.
- Huge number of projects on hold or cancelled across the GCC.
- Mouth watering opportunities in the UK earlier in 2009 had to be foregone as GCC markets drained of confidence and liquidity.
- Signs of recovery have been seen in the UK particularly from Q2 onwards and more recently in the US, whilst GCC markets remain depressed and continue to drift.
- The international banking community is struggling back into some sense of normality whilst GCC banks have been rocked by liquidity issues, crashes in real estate prices and, more recently, bad debts.

One year on Cont'd.

Whilst some debt is now flowing again in the UK and US, many GCC banks, whilst seeing increased liquidity, are hamstrung either by loan-to-deposit ratios or real estate capacity issues or both!

The Islamic sector has not been immune.

The oil price has recovered faster than expected and GCC governments have reacted quickly with both market management strategies and the announcement of stimulus packages but confidence has yet to trickle back into the real estate sector in the GCC.

Loan defaults have arrived back in the GCC – not seen since 1980's.

The dramatic loss of confidence in the GCC

From Q4 2008 to Q1 2009 there was a combination of:

- Already damaged morale due to real and feared losses in international investments and to a real reduction in liquidity.
- Feared downturn in core GCC businesses.
- Precipitous falls in GCC real estate prices.

And then as the months passed:

- The shocking speed with which a genuine banking crisis swept through the GCC in what had been felt to be a robust sector.
- Virtual cessation of bank lending to all but the very best backed projects.
- Equity and debt capital markets, including Islamic, seized.
- Number of corporate defaults.
- Stalled government spending.
- Major negative swing in media coverage in the region and internationally.

All contributed to a collapse in confidence and morale across the GCC.

Real Estate developer and investor hit hard...

- The real estate crisis in the region has blunted the appetite of many institutional and individual developers and investors.
- The illusion of a very fast buck from off plan speculation has been cruelly exposed with many now in negative equity and/or looking at losing deposits and stage payments.
- Many others are stuck in projects that are hugely delayed and now severely reduced in value.
- Developers, even the largest, are struggling to find debt to finish projects.

Whilst the situation is at its most severe in Dubai, elements of the above can be seen across the GCC with the possible exception of Saudi.

The off plan speculation market is largely dead.

Most international institutions already suffering in their home markets from the effects of the 2008 crisis have had neither the resources nor the appetite to seek value plays in the region.

In most cases

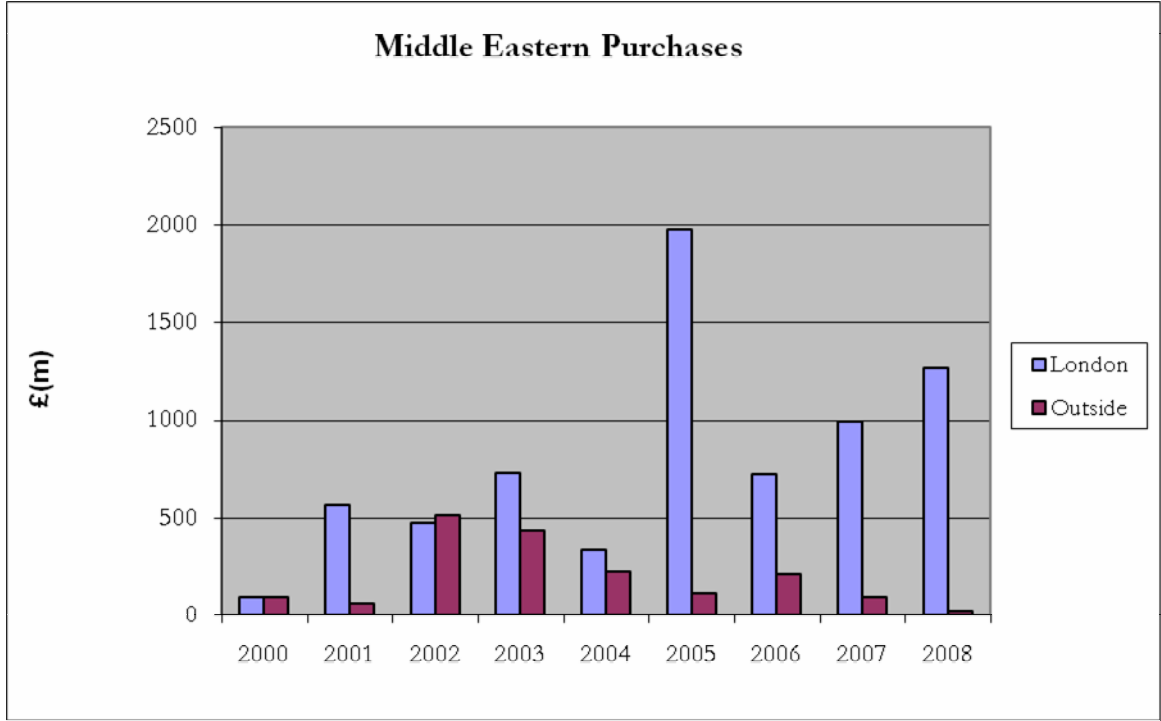
- Regional investors have, in most cases, legacy projects with issues.
- Many are facing shortfalls on funding as new pre sales have dried up and current contracts are not being honoured and/or having to be delayed.
- Bank lending to real estate is virtually inaccessible to most in the UAE and very difficult in most of the GCC states once again with Saudi presenting a flat but stable picture.
- Most investors from the region are investors in GCC real estate as well and therefore whilst they may have appetite to take advantage of deals in international markets many either cannot or Boards are keen to preserve cash.
- Many remain nervous of another major problem in Dubai but also have very real concerns about the sustainability of the recovery in the UK. The US story remains too complex and distant for many to try to address.

Deals are still being done!

- In the GCC, few if any new projects have been announced in the past 12 months.
- New sales on existing projects under development are also largely stalled.
- However, many projects are still being completed with equity or the few bank packages that have not been withdrawn or re-profiled.
- Anecdotally, individual units continue to be traded in most GCC markets.
- Value buyers (aka Vultures), are also trawling the markets for distressed sellers.
- Several new GCC focused real estate funds, both conventional and Islamic, are also in later stages of launch.

Some significant moves.....

- Al Salam Bank and Evans Randall acquisition of Milton Gate in June for £127M.
- Libyan Investment Authority acquisition of Portman House for £155M.
- National Bank of Abu Dhabi and Evans Randall announce USD\$500M mezzanine company to invest in opportunities in the UK and German markets.
- Jadwa and CIT bid to acquire USD\$ 1.1billion Aviva portfolio.
- Gatehouse Bank, launch of £350M London office high income recovery fund.
- Acquisitions of Man city, Portsmouth, apparent attempts to buy Liverpool, others to come.....
- KFH, USD\$500M joint venture with UDR Inc. targeting high-end US residential.



Year to date 2009, it is estimated that ME buyers have bought £1.47billion of UK real estate

Source: Strutt and Parker

But.....

- All fund raisers whether large institutions, or boutiques, are reporting that raising for Funds is very tough.
- Bilateral and direct deals much more favoured.
- Investor return expectations are also now very high.....
But opportunities, particularly in the UK market have, however, quickly passed through minimum return thresholds.
- Debt remains hard to source. Investors unwilling to commit much higher levels of equity.
- Current buyers and investors tend to be institutions, funds and families that have been set up since the onset of the crisis in 2008, or were amongst the few investment groups that were either prescient enough or lucky enough or both to avoid the direct effects of the global and regional real estate crises.

The Kingdom

Saudi Arabia has largely bucked the trend having avoided the worst effects of the crisis.

- The Saudi real estate sector was never as leveraged as other GCC states.
- General loan to deposit levels were lower than elsewhere.
- The off-plan sales market never gained momentum and has since been officially discouraged.
- Foreign buyers and speculators not a factor.
- End-user market is seen to have genuine depth.
- Great expectation of market once new mortgage law is passed. Some estimate a million of new homes needed over next 5 years.
- Market is flat and drifting pending passage of the law and real impact of the huge structures package in the real economy.
- Several high profile corporate loan defaults have knocked confidence.

Globally, investment is going back into real estate, the GCC needs it share!

- USD\$12billion in 2009. (source CBRE). Likely to be exceeded in 2010.
- But most going to markets other than GCC. East Asia getting major slice.
- GCC needs FDI in real estate because commercial banking loans and bonds unlikely to come back for several years, and equity investors are bruised.
- Real Estate funds will remain difficult to place with investors.
- Securitisation will take time to regain a role in real estate financing globally and in the Gulf where it never really became established.
- Competition for bank capacity will be strong from energy and social infrastructure borrowers.

The UK in 2010.....

- The supply / demand equation will see greater equilibrium returning during 2010.
- There is likely to be a shortage of newly developed stock as 2010 progresses and that situation is unlikely to be remedied until 2012.
- Substantial liquidity will continue waiting to commit to the UK market.
- Overseas buyers will continue to dominate Central London investment activity, particularly if Sterling remains around current levels.
- Availability of good quality stock / product will continue to be limited.
- Despite economic concerns prevailing for 2010 – difficult to see prices falling with so much liquidity.
- Increasing number of opportunities to arise from the banks as they start to unravel their loan books.
- The cost and availability of debt will continue to be restricted compared to historic levels / pricing.

2010 in the GCC.....

- Evolution of end-user markets, corporate and residential, are going to be key.
- “Build them and they will come” strategies will be hard to sell to investors and almost impossible to finance.
- Where will mortgage finance capacity come from?
- How relevant will Islamic financing be both regionally and on the global stage?
- When will the Saudi mortgage law actually get promulgated?
- Will international investors get comfortable with the new realities in the Gulf real estate market?
- When will appetite for international real estate acquisitions by Gulf investors take off again?

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