



# **GCC Mortgages – Current Perspective**

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# About Sakana

- **Islamic finance company licensed by the Central Bank of Bahrain**
- **50:50 joint venture between 2 leading banks – BBK and Shamil Bank (Ithmaar), Bahrain**
- **Commenced commercial operations Dec '06**
- **Paid up capital USD 53 Mil**
- **Asset base 30 Sep '09 – Approx. USD 100 Mil (un-audited)**
- **Winner of the Best Islamic mortgage provider in the Middle East – IREF ME 2008**

# Current situation – General

- **Dramatic fall in oil prices – now stabilizing around USD 70 per barrel**
- **Liquidity crunch – Easing due to implementation of several policies by the Government/regulators**
- **Government infrastructure spending continues though not at the same levels**
- **Real estate sector constitutes approximately 8% of combined GDP**
- **Consumer price inflation reduced**
- **Economic growth reduced**
- **Significant number of bonds issued recently**

# Current situation – Property

- **Property markets rocked over the last 1 year**
- **Demand for real estate remains low – supply and demand gap widening**
- **Increased inventory**
- **High borrowing costs**
- **Property market speculators significantly affected**
- **Construction costs have fallen**
- **Market shifted to owner-occupied and long term investors**

# Current situation – Property

- **Huge disparity between buyers and sellers – hence difficult to determine true value of property**
- **Improving regulations – Lots more to be done**
- **Demand for off-plan property considerably down. Market shift to completed units**
- **Property owners are increasingly looking to let out instead of resale**
- **Developers increasingly face large-scale defaults by off-plan purchasers**

# Current situation – Property

- **UAE – Prices have dropped 50% particularly in Dubai. Abu Dhabi market comparatively better**
  - **Kuwait – House sales have fallen 38% over the last year (Source “the gulf”). Office space price reduced by 43%.**
  - **Bahrain – Off plan market standstill. Average price of residential real estate contracted by 24% @**
  - **Qatar - Average price of residential real estate in Qatar have contracted 26% @**
  - **Oman – Down**
  - **Saudi Arabia – Marginal slide – less impact compared to other GCC countries**
- @ - Source “Markaz”, Kuwait**



# Current situation – Property

- **3,000 real estate projections in the region that are either under construction or in bidding - Approx. USD 1.5 trillion**
- **1,372 projects in Dubai alone**
- **759 projects are either on hold or have been cancelled altogether of which 566 in Dubai.**

**Source - Proleads**

# Current situation – Mortgage

- **Stricter lending criteria by banks – mortgage availability still an issue**
- **High mortgage rates compared to developed markets**
- **Growth of mortgages reduced due to lack of confidence in real estate**
- **Increasing mortgage defaults**
- **Growth in UAE restricted due to delay in merger of Amlak and Tamweel. Despite this mortgage loans stood at Dh 115.7 billion for the 1<sup>st</sup> 9 months 2008 compared to Dh 58.8 billion in 2007**
- **Bahrain - BD 349 Mil outstanding personal financing secured by mortgage (6.1% of total lending). In addition, outstanding business financing to construction & real estate sector BD 1,064.9 Mil (27.85 of total lending – as at 30 Sep '09**

# Drivers of real estate

- **Around 1/3 to 1/2 of population under age 25 – Young and growing**
- **Demand for houses in excess of supply particularly in low to middle end units - Saudi Arabia – demand 240,000 units by 2012, Bahrain – 40K to 50K people in waiting list for Government housing**
- **Increase in GDP per capita income resulting in increased purchasing power**
- **Household sizes declining – Saudi Arabia current size 5.9 people, expected to reduce to 5 people**
- **Availability of freehold/leasehold for expatriates**
- **Low penetration of mortgages as a % of GDP compared to developed and some developing countries**
- **Low interest rates**
- **Low rates of private home ownership – Saudi Arabia 20%**

# Action required

Strengthen  
legislation &  
regulation

- Permit escrow law
- Construction quality / progress monitoring
- Criteria for brokers, valuers, mortgage consultants
- Repossession
- Foreclosure

# Action required

Confidence  
building  
measures  
with greater  
cooperation

- Real estate regulators
- Central banks
- Banks
- Developers
- And all involved in the real estate chain
- Better risk management

# Action required

- **Consolidation in real estate sector**
- **Recapitalize developers/mortgage providers**
- **Restructuring business models to suit market conditions**
- **Resize the developments based on revised target market of customers**
- **Develop affordable housing – matter of high priority**
- **Use of debt/equity options to finance development instead of customer funding**

# Action required

- **Lenders to loosen criteria**
- **Mortgage rates to be reduced**
- **Financial support to mortgage companies to stimulate lending**
- **Developers to focus completion of projects and improve credibility**
- **Developers to reduce prices**

# Outlook

## Residential

- High end – demand tailing off
- Low to middle end – High demand but not enough supply

## Commercial

- Oversupply

Oversupply likely to continue for 2010 resulting in possible further price reduction

Sustained pace of development based on demand



**THANK YOU**