

# Laying the foundations for rebuilding the GCC

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# Introduction

- Recent developments
- Market trends and challenges
- The imperative of transparency and regulation
- The role of finance



# History

- Liquidity
- Real estate – attractive asset class
- Tourism as a driver for the economy
- Big gains for developers and individuals



# Competing interests

- Islamic banks and real estate
  - Business model
  - The power of the IRR
- Long-term project or short-term returns?
- Master developer or developer-seller?
- Market attuned to creative solutions
- Investors not willing to wait for law to catch up



# Inside story

- Lack of coherent framework
- Rampant speculation
- Shortage of materials
- Collapse of construction finance
- Perfect storm



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# The laws

- Restrictive
  - Saudi Arabia
- Open
  - Bahrain, Dubai, Oman
- Cautious
  - Abu Dhabi



# Case study - Bahrain

- Freehold ownership
  - Designated areas
  - Special projects
  - Mostly reclaimed land
- Leases not registrable
  - Limited structures
- Residency – limited self-sponsorship
- Inheritance – law of home country



# Case Study - Dubai

- Suite of new laws
  - Real Estate Regulatory Authority
  - Escrow law
  - Community title
  - Strata title
  - Off-plan registration
  - Mortgage law
- Too late?



# Case study – Saudi Arabia

- Uncertain laws
- Inconsistent application
  - Can GCC companies and nationals own property?
- New mortgage law still expected
  - Will mortgages boom when the law comes in?
- Special projects
  - Internal frameworks
  - Models from elsewhere



# The after-effects

- Centres of speculation suffered most
- Regulatory framework in Dubai is an important step
  - At tail-end of development cycle
  - Requires fine-tuning and detail
  - Other countries must create their frameworks
- Cautious markets suffered less



# Transparency and regulation

- First markets to show some recovery?
  - Traditional property markets
  - e.g. London
- Why?
  - Transparent and liquid
  - Fair value readily ascertainable
  - Easy comparators
  - Clear processes



# Transparency and regulation

- Builds confidence
- Attracts longer-term players
- Allows for institutional investment
- Creates true secondary markets
- Encourages competitive finance



# Role of finance – past trends

- Master developers – reliance on sub-developer revenue
  - Facilities obtained for elements of infrastructure
- Sub-developers and small developers – reliance on off-plan model
  - Minimal reliance on finance
  - Problems of collateral
- Conflicting interests?
  - Simple security/title regimes constrained creativity



# Role of finance – new challenges

- Risk of over-exposure
  - Central banks placing limits on real estate exposure
  - Many banks involved in own-account real estate
  - Fire sales would have depressed market further
- Sukuk-backed projects/offshore placement-backed projects
  - Some are struggling
  - Double jeopardy (funder default/customer default)
  - Exit opportunities drying up



# Current trends in real estate

- Diversification in projects
  - Industrial/logistics
  - Move away from high-end residential
  - Affordable housing
  - 'Social' infrastructure
- A move towards a true developer business model?
  - More long-term focus to projects
  - Emphasis on rental yield



# Ongoing challenges

- What is affordable housing?
  - Cheaper houses or targeted housing?
  - Challenge to create sustainable models
- ‘Stop-gap’ transactions
  - Sale and leaseback
  - Keeping it in the family – tighter pools of investors
- International investors wary
  - Where have the pension funds gone?



# Lessons to be learnt

- Are off-plan sales dead?
- Need for robust frameworks
- Importance of well-structured documents and due diligence
- Proper assessment and valuation
- Utilise 'down-time' to refine products

