PRESS RELEASE

'Urban Regeneration, Commercial Property with Caveats, Housing Demand & Specialised Sectors Will Drive Real Estate Markets, Financing &Innovation' - Preparing for Long Term Economic Growth

In some respects the global economic slowdown and the crisis in the financial markets, and its impact on real estate assets and financing, has been a blessing in disguise.

For the real estate market, especially in the Middle East & North Africa (MENA) Region, where people have been predicting corrections ad nauseam over the last decade, it has been a forced pause for reflection, the jettisoning of excesses, the tightening of regulation and perhaps above all preparing for the next wave of market opportunities as and when long-term sustainable economic recovery and growth returns.

Analysts including Nobel Laureate Paul Krugman, Professor of Economics at Princeton University, and Professor Laura Tyson of Haas Business School and an economic adviser to US president Barack Obama, for instance, speaking at the World Capital Markets Symposium held in Kuala Lumpur in August 2009 concurred that global economic recovery led by the US and Europe could start in the first half of 2010, although a sustainable solution to the global financial crisis remained elusive.

Already in the major markets of the world there are green shoots of recovery emerging, and Islamic financial institutions (IFIs) are already leveraging new opportunities ranging from quality niche portfolios in commercial property let on long leases to strong covenants and bought at a discount to the long term trend; distressed sales; entering exciting new property markets less affected by the global credit crunch; to specialized sectors such as affordable housing, urban regeneration and infrastructure.

Islamic real estate finance and investment opportunities going forward will be confined to specialized markets offering well-defined opportunities. While this applies to traditional markets such as the US and the UK, there are increasing signs of geographic diversification to newer markets in China, Malaysia, Australia and Singapore.

In the core GCC countries, Saudi Arabia and Qatar offer the most exciting and sustainable proposition. In the case of the Kingdom, this is backed by demographics, an estimated project spend of over $160bn over the next five years or so, and a housing demand that is mouth watering for both developers and mortgage providers; and beyond the GCC countries such as Turkey offer good niche sustainable opportunities.

Similarly, the days of purely vanilla realty transactions may be numbered, with investors seeking perhaps less volatile but value added returns. Here real estate backed or based Sukuk; PFI (private finance initiatives); PPP (Private Public Partnerships); Real Estate Investment Trusts (REITs); Sustainable Alternative Housing Finance Schemes including Shared Ownership; and specialized private equity and real estate funds may pave the wave of the next generation of Islamic real estate financing offerings.

The month of August 2009 saw the return of Islamic banks and investors to the US market, a potentially important development given that the new administration of President Barack Obama is putting put feelers to Islamic investors perhaps to participate in opportunities aimed at stimulating the recovery of the US economy.

Kuwait Finance House (KFH) in August 2009 signed a $450m joint venture agreement with UDR Inc., a leading US-bases real estate investment company, to acquire various top-class high value residential portfolios in selected US metropolitan areas. Ali Al-Ghannam, Head of International Real Estate Department at KFH, has been spearheading the KFH forays into the US and other markets including Shenzen in China where KFH has also launched a $500m Real Estate Fund with a local partner; Russia and Australia.

According to Ali Al-Ghannam (Head of Real Estate, KFH), the joint venture will target 'Class A' property portfolios with high income producing assets which are less than seven years old and with a minimum value of $120m. The joint venture is targeting an internal rate of return (IRR) of 12 – 14 per cent per year.

In the Middle East, the equities and the realty markets moved from 'irrational exuberance' to 'irrational caution' in a space of five years. The challenge for investors is to maintain a 'rational sustainability' in their behaviour.

According to research published by Credit Suisse in July 2009, the Saudi real estate market offers a strong growth opportunity and is better positioned than other GCC markets. The growth and demand drivers of the Saudi real estate market according to Credit Suisse are:

- The Saudi government is committed to development expenditure in the 2009 budget - an increase of 36 per cent on 2008.
- The country has a young population some 55 per cent under the age of 25 years. Therefore the Saudi demographics are favourable and has a strong demand outlook. Credit Suisse estimates that demand for housing in the Kingdom will reach at least 1 million units over the next five years.
- The new mortgage law which is currently in the final stages of approval could increase the number of first time home buyers as less than half the population own their homes. Consumer finance in Saudi Arabia was less than 0.9 per cent of GDP at end 2008.
- The Kingdom is perhaps the most attractive real estate market both in a regional and global context with average residential selling prices at a 58 per cent discount to the MENA average. In addition, Saudi residential and office markets offer above-average rental yields.
- Saudi Arabia, despite having 65 per cent of the total GCC population, only accounts for 45 per cent of total GCC retail gross leasable area (GLA). Thus the opportunity for retail growth is huge.

Indeed, in May 2009, Dar Al Arkan Real Estate Development Company (DAAR), the largest real estate developer in Saudi Arabia, closed its third Sukuk – a SR750m offering – to part finance the company's new residential projects such as Al-Qasr in Riyadh; Al-Tilal in Madina and Qasr Khozzam in Jeddah.

In the UK, Gatehouse Bank in August 2009 launched the GBP350m London Office High Income Recovery Fund whose investment strategy is to acquire real estate portfolios in the office sector in Central London and Greater London let on long leases to quality tenants.

According to Gatehouse Bank, real estate forms an essential component of a multi-asset portfolio. Middle East investors still tend to prefer 'bricks and mortar' assets as opposed to equities and bonds, which as asset classes are still under-developed in their breadth and depth in regional capital markets.

Real estate, according to Gatehouse Bank, offers a physical asset with an inherent value backed by secure contractual cash flows. Returns can be enhanced through financial structuring. It allows for diversification of risk and a hedge against inflation. And real estate is less volatile and higher yielding than other asset classes.

Despite the economic recession, the UK remains a major global property investment market (for both industrial, retail and office) with string fundamentals especially the recovery of Sterling which has made UK property inherently cheaper in US$ terms.

The UK economy is forecast to start recovery in 2010 with a return to long term growth trend over the next three years. The sector is also capitalising on the positive impact of the 2012 London Olympics and of major planned infrastructure projects such as GBP16bn Crossrail, the largest construction project in Europe. These opportunities are beckoning for tranche participation of Islamic financial solutions.

Malaysia is also expected to attract greater inward investment flows in the real estate sector as the South Johore Development Project starts to gain momentum. The uptake by GCC investors of MM2H (Malaysia My Second Home) has also been encouraging with KFH and Alrajhi bank both offering Islamic mortgage finance options to potential buyers.

Australia is also emerging as an exciting new property investment location for Islamic investors. In March 2009, LM Investment Management Ltd, for instance, launched the LM Australian Alif Fund - a 3-year fixed term unit trust and the primary asset is real estate. The investment will be in a portfolio of real estate assets in different parts of Australia across a variety of sectors such as construction, industrial, retail or residential (retirement villages).

With all these market dynamics, the annual IREF 2009, which will be held this year on 4th - 5th November 2009 at the Radisson Hotel in Central London, could not have come at a more opportune time. Real estate will always remain an attractive investment asset class for Middle East investors both in the region and out of the region.

As such IREF 2009 is the real estate event which anyone interested in the real estate market in the UK and GCC whether as a regulator, player, financier, structurer, investor, speculator, analyst or simply as an interested party, cannot afford to miss!