



MAZAYA

AIM TO LEAD

# The Monthly Real Estate Report

Issue No. 103



(Kuwait) Tel: +965 22243333 | (Dubai) Tel: +971 4 3635455/6  
www.mazayaholding.com

The Monthly Report - December 2014

## Feasibility of the Investment in Middle-Class Residences poses New Order for Real-Estate Development Companies



Mr. Rasheed Al Nafisi

Chairman

nifisi@mazayarealestate.com

Tel : + 965 2224 3333

Eng. Ibrahim Al Soqabi

Group CEO

alsoqabi@mazayarealestate.com

Tel : + 965 2224 3332

Eng. Salwa Malhas

Chief Business Development &  
Marketing Officer

salwa@mazayarealestate.com

Tel : + 965 2224 3355

Sylvia Gabriel

Coordinator Research

sylvia@mazayarealestate.com

Tel : + 965 2224 3362

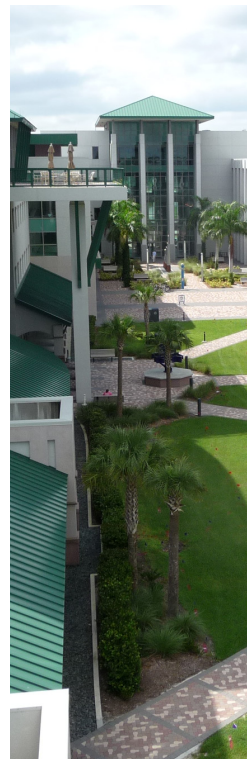
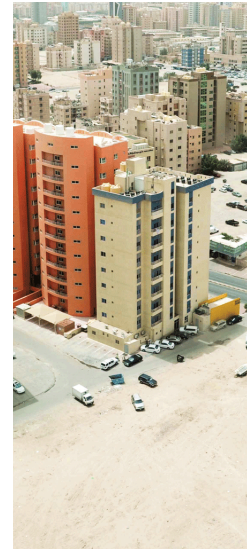
## Feasibility of the Investment in Middle-Class Residences poses New Order for Real-Estate Development Companies



The multiplicity and variety of real-estate projects are no longer the decisive factors in GCCs' real-estate domain, nor does the innovative architecture shape the promotion for such projects. The announced prices are now the main drivers behind the demand for most real-estate projects. Moreover, it is quite explicit now that many real-estate events – regardless of their timing or targeted segments – have neglected to provide offers tailored to meet the varied scale of GCCs community requirements for accommodation. Unfortunately, most real-estate projects now offer quality residencies of world standards, in doing so, targeting only limited segments of the local, regional and world community members. This trend, if continued, will only add more to the instability of the community as well as to the real-estate market -eventually driving real-estate projects to failure for being unable to meet different demands in different circumstances.

Al-Mazaya Holdings Weekly Report suggests that constructing more residence units tailored to middle and low-income classes will uplift the feasibility of real-estate projects and better allocate market shares amongst real-estate development companies not only currently, but even in subsequent stages, and will positively affect social stability and minimize the price inflation in high-class residencies regarded as an indicator for real-estate upturns. The increase in the provision of middle-class residence units may be equally regarded as a key for success of real-estate events in the coming phases especially considering the inconsistent requirements for accommodation whether from the wealthy segments to businessmen or even projects owners. The continuity of the real-estate sector to serve only definite social segments will require official parties to influence and manage the real-estate sector to prevent this market from flowing down towards serious risk that may not be affordably solved.

Al-Mazaya Report highlighted the challenges hindering the expansion of middle-class accommodation in major GCCs cities, mainly the escalating construction cost and land prices being the major factors to affect supply in the region. Competition is yet another factor to drive companies to choose to offer high-class residence units as a base to survive in the real-estate market and allocates them greater shares of total demand. This may be clearly observed from the projects promoted by leading real-estate companies in the area.



Al-Mazaya Report adds that this issue becomes more serious when real-estate companies calculate their return on middle-class accommodation projects resting on the solid belief that it is a Government responsibility to develop and allocate lands targeting middle and low income people. Real-estate companies also argue against the increase in land prices driving the overall project cost to hike, eventually preventing such projects from targeting middle classes and causing an imbalanced state between cost-revenue standards. The degree to which the real-estate market is advanced and the elasticity of amending relevant rules and regulations to meet foreign investment requirements are far more significant factors often driving the construction of high class projects that are widely demanded by investors and business men worldwide.

Taking advantage of CITYSCAPE-Kuwait, to be held on the seventh of this month, Al-Mazaya Report speculates the issue of supply, limited only to certain social classes, may be resolved when more projects tailored to a multitude of classes and members are offered. CITYSCAPE-Kuwait is also awaited, hoping it will contribute to creating more harmony between the overall supply and demand in Kuwait and the region generally. Al-Mazaya Report also points to success stories in neighboring markets which pushed forward to avail plenty of middle-class residence projects. The Ministry of Housing in Saudi Arabia for example, constructed around 34% of housing projects allocated to the individuals eligible to receive them. In real statistics, the Ministry has constructed more than 162 projects availing around 213 housing units in view of the lack of residential units, which exceeds one million units. This represents an annually increasing deficit of 10%, which subsequently takes place with the increase in land prices, residence units and lack of supply. Striking data revealed shows the percentage of Saudi citizens owning their personal residences is only 30%; a sign of the] supply shortage and speculated demand for residences all over the Kingdom.

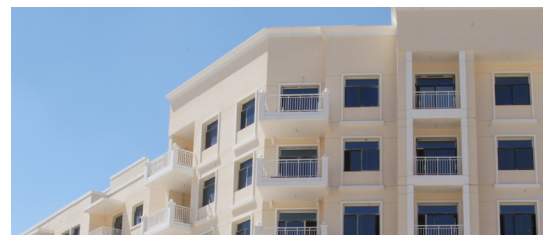


Al-Mazaya Report re-assures the stressing demand in the Saudi market to set up more projects to meet the needs of middle and low income segments without undermining the Government efforts of constructing more housing projects. The Saudi Ministry of Housing is currently setting up multi-stairs complexes and villas in partnership with the private sector as an option to accommodate the increasing number of newly established youth families and overcome the land price challenges.



These projects are offered to beneficiaries in reasonable prices along with credit facilities offered by the Real-Estate Development Fund and the Housing Support Program. Real-estate development companies in Saudi Arabia compete amongst themselves to execute the Ministry projects; in northern Riyadh for example, five real-estate development companies won the bids to construct a one-thousand flats housing project. Availing the relevant legislative infrastructure and Mortgage Regulations will further revitalize the market making middle-class accommodations more attractive and driving real-estate development companies to expand their options to be soon offered in this domain. Al-Mazaya Report calls upon making middle-class accommodation the wider ground for investors and individuals to choose from, while limiting high-class accommodation to small categories when making investment decisions, simultaneously keeping the Government role in this domain within the same momentum.

Looking at the Emirati market, housing projects are booming therein following improvements in real-estate returns driving investors to launch more housing and hospitality projects increasing the demand in the real-estate and construction sectors by more than 20% within the first mid-term; availing projects of above ten billion worth. The more than 10% increase in profit margins on construction contracts stimulated real-estate companies to continuously engage themselves in housing projects, which are specially booming in Dubai and received USD 4.8 billion worth of huge project bids, thus acquiring more than 75% of total project bids to be allocated for housing. Abu Dhabi similarly won a USD 500 million overall value of housing project bids, not to mention the on-going Government initiatives equally touching citizen housing projects. The gross value of complex projects which again recovered in first mid-term is around USD 15 million; 80% of which are multi-purpose housing projects.



Al-Mazaya Report stressed the significant role of the middle-class plans when integrated with long-term national strategies and investment decisions initiated by both public and private sectors being the pillar of the real-estate sector, adding to the market stability and demand-supply balance. When comparing middle-class residence projects to other projects, Al-Mazaya Report says the last project's return will never decline to less than 10% annually in any way. This multiplies when adding social returns and market shares to the equation as housing projects account to more than 50% of the overall local demand. As such, real-estate companies here encounter a rewarding and endless demand of investment opportunities. Al-Mazaya Holdings leads the way in this domain offering an attractive profile of middle-class accommodation projects forwarding "Q Point" project ideally located in Dubai Land to the front. The project is designed to meet middle-class residence requirements of the overall region offered in competitive prices tailored to targeted social segments.

