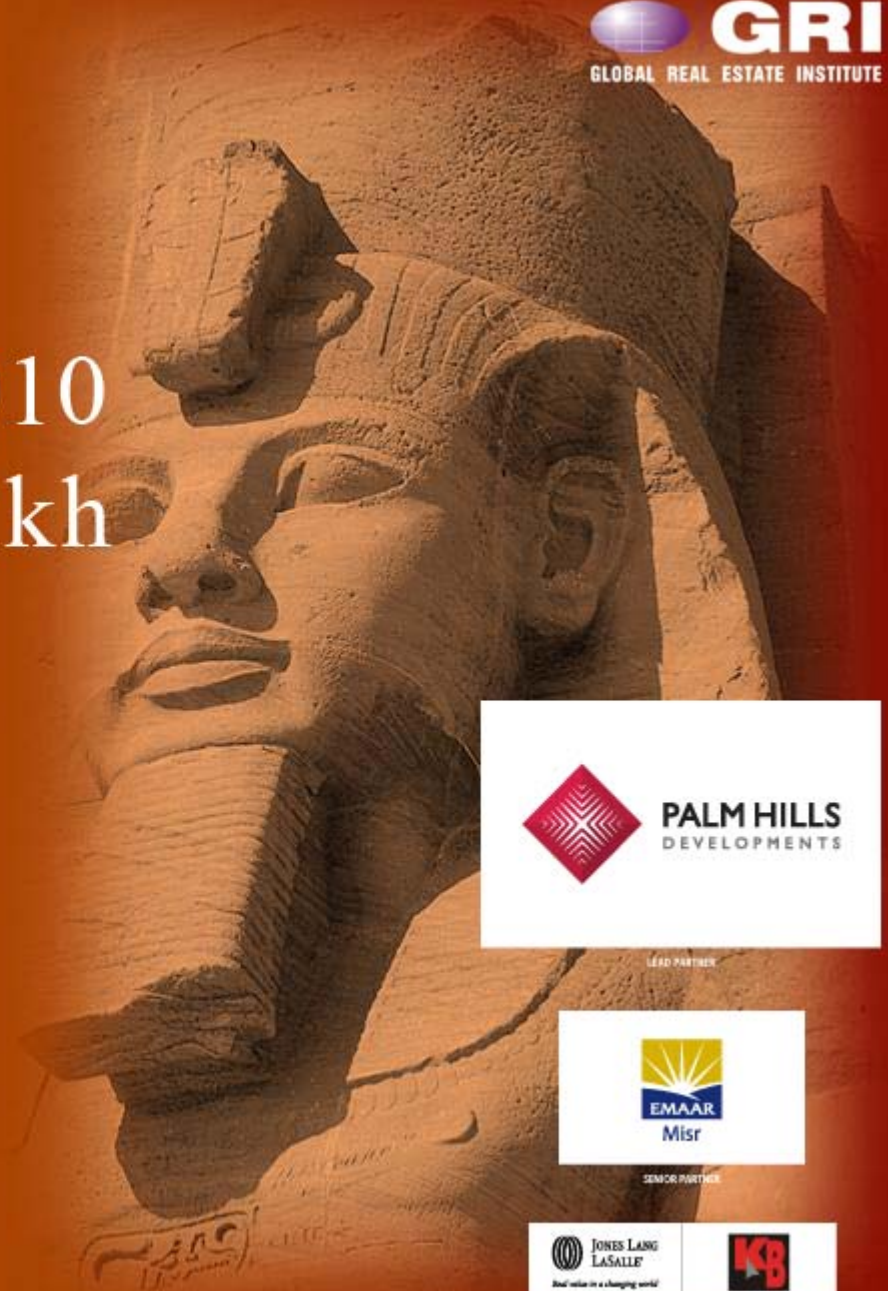
MENA GRI 2010

GRI
GLOBAL REAL ESTATE INSTITUTE

MENA GRI 2010
Sharm El Sheikh

November 4th, 2010



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Sessions Notes

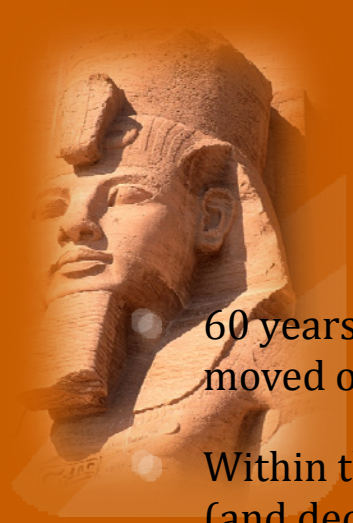
Notes prepared by American University in Cairo, IEEI.

Sherine Gad EL Mawla
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THE AMERICAN UNIVERSITY IN CAIRO SCHOOL OF BUSINESS IEEI INTERNATIONAL EXECUTIVE EDUCATION INSTITUTE



- Talk Show: MENA real estate investment today - where the opportunities, what the risks?
- Middle Eastern Investors Abroad - what does it take to attract them?
- Crisis in the UAE and GCC - who will benefit?
- North African Real Estate - a new global hub for investors?
- Investors in MENA - who's looking and what for?
- Affordable & Workforce Housing - social and market forces dictate success?
- Morocco Tourism - investors' favourite?
- Debt Financing - fuelling boom or bubble?
- Residential & Second Homes - next investment wave?
- Levant Real Estate - "New Frontier" or too late?
- Investing in Egypt - challenges and opportunities
- Saudi Arabia - organic growth or next bonanza?
- Hotel Developments in MENA - are supply and demand matched?



Talk Show

- 60 years ago the MENA region was quite similar to the Far East and Brazil but while the latter moved on to become developed countries, the MENA region was in stagnation.
- Within the last two decades due to changes in legislations and relaxation of strict regulations (and decrease in oil supply), the MENA region started to grow.
- The MENA region is becoming a very attractive location for Foreign Direct Investment.
- The hub of real estate has moved after the financial crisis from Dubai to Egypt.
- Reasons for this include: real demand, high population, reform in political and investment regulations and location.
- Egypt: destination, result of the crisis is a change in direction of funds from certain decadent countries to more promising ones.
- A prediction for the future looks at Cairo as a hub for real estate with satellite offices in the North African region.
- Creating gated communities vs. creating integrated communities – the pros and cons were argued
- Challenges facing affordable housing include price of land, location, and government agenda.



Talk Show

- The panelists were asked to sum up in two words their advice with regards to investment within the next decade, the answers included:
- Invest in MENA
- Invest in Egypt, Syria and Morocco??
- Lifestyle MENA
- Residential North Africa







Middle Eastern Investors Abroad – *What Does it Take to Attract Them*

- There are only 20 Global Transactions that fit La Salle's measures with only 5 above $ 100 million.
- The Middle East was viewed as an Exporter of Capital.
- Recently, GCC suffered : Examples Al Dar -the main investor in Abu Dhabi- is suffering and the govt bailed them out and is now a govt semi-owned developer and Dubai also suffered and there are legal reforms taking place now to remedy situation
- The main reason for Dubai's very fast growth was the pressure from the govt for rapid growth .
- One of the main reasons why Dubai failed was because there was no sustainable end-user.



Middle Eastern Investors Abroad- *What Does it Take to Attract Them*?

- What is Fundamental for a Country to Attract Investment ?
  - Infrastructure
  - Population especially younger aged
  - Stable Political System and Governments
  - Supportive Legal System
- The Middle East is an Exporter of Capital with interest in preservation of Capital and investing in Europe, Eastern Europe and the USA
- Investors have to go where the end-user is and where yield is high which poses a challenge to investors.



Middle Eastern Investors Abroad- *What does it Take to Attract Them?*

- What is Qatar Doing and Why?
  - Qatar is and will continue to be an exporter of Capital
  - Qatar is looking for international recognition
  - Qatar applies several agendas: political, diplomatic, etc
  - Major players include : Barwa /Qatari Diar/QIA/Qatar Holding which did Harrodd's transaction



Middle Eastern Investors *Abroad- What does it Take to Attract Them?*

- What can Developers do to Attract Sovereign Funds ?
  - Create a favorable environment
    - Egypt is currently a recipient with the likes of Barwa and others operating in the market
    - Although GCC is running out of cash, La Salle and the likes are attracted to work in Dubai and Abu Dhabi in the" Recovery Services.



Middle Eastern Investors *Abroad-What does it Take to Attract Them? (cont)*

Navigation Advice for foreign investors in MENA especially among millionaires in GCC:

- Establish an office in the Region to show commitment and reciprocity
- Network through Associations
- Private Banking : important tool to reach audience and market one's product
- Co invest in two countries in a balanced equation



Crisis in the UAE and GCC – *Who will Benefit?*

- Crisis in the UAE is debatable : Some participants believe there is a crisis while others believe there is no crisis
- Some sectors have been affected : hospitality sector and there is an issue in the residential sector
- Other markets are attractive: Egypt/ Dubai/ Lebanon
- Dubai is a very secure hub in the Region
- Dubai and the Middle East are attractive to investors from different countries including Iran –Iraq-Pakistan and India
- Real Estate Market is segmented
  - Some buy units for Investment purposes
  - Some buy units because they find the country convenient to live in especially coming from other countries



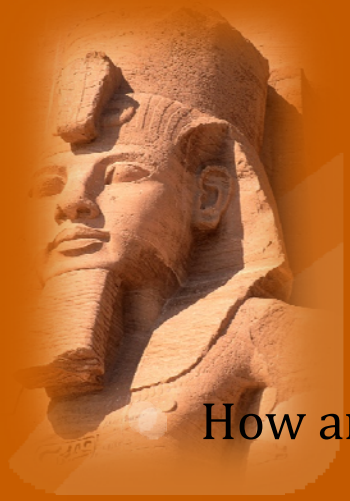
Crisis in the UAE and GCC
Who will Benefit?

- Discussing and Debating Dubai Business Model
- Define the Business Model
- Relevance of the model nowadays
- What changes need to be made to address the issues in Dubai
- Is there a need for sectoral correction
- What would happen to the Real Estate Market in Dubai if the system allowed expats including Iranians are allowed Residency in Dubai



Crisis in the UAE and GCC
Who will Benefit?

- Dubai will continue to succeed:
  - Increased lateral tourism
  - Diversity of attractions and activities: eg Formula One
  - Big segment go for shopping especially younger generations
- Dubai is attractive for investors:
  - lenient legal system
  - Tax free economy: Today Dubai realizes it needs to develop a taxation system
- Dubai is very attractive to expats to live in :
  - Government does not interfere in personal life
  - Infrastructure is well developed
  - Dubai created ‘Quality Service that ranks very highly



North African Real Estate
A new Global Hub for Investors

- How are investment opportunities in Real Estate in North Africa seen?
- One of the major advantages in North Africa (Algeria/Libya/Morocco)
  - They have Real Demand
  - They are underdeveloped
  - They have Financing abilities especially Libya and Algeria
- There is Demand but without enough Financing in Egypt/Morocco/Tunisia
- Three countries were discussed : Libya / Egypt / Morocco



North African Real Estate
A new Global Hub for Investors

- **1. Libya**
- Why is Libya moving slowly
  - Unique Country that was closed off for 40 years
  - It has a lot of catching up to do in the coming few years
- The three Real Estate Sectors (Hospitality/Residential/Commercial) are under similar conditions of underdevelopment
- Connections are very important in Libya for investors/developers
- Demand in Libya is for Affordable Housing



North African Real Estate
A new Global Hub for Investors

2. Egypt

- Egypt has a more developed market
- Real Estate Market started with small investments
- There is sustainability in the Real Estate Market in Egypt
- Mortgages in Egypt represent only between 3 and 5% of the market
- Egypt Real Estate Market is characterized by mismatch between Deman and Purchasing Power
- Egypt's situation now is similar to that of Eastern Europe 10 years ago



North African Real Estate
A new Global Hub for Investors

- Is Egypt Ready to offer in the Construction Industry?
- Egypt is still short in most aspects
- Some are trying to fill in the gaps but it will not accommodate in terms of construction, consultants and contractors
- In conclusion, Education and Development in the Real Estate and Construction Industry is necessary in Egypt and MENA



North African Real Estate
A new Global Hub for Investors

- **3. Morocco**
- Morocco has an older and more developed Mortgage Market
- Interest is around 4%
- Second homes are very expensive



North African Real Estate
A new Global Hub for Investors

- Europe is no longer the future for the industry and all Big Players are moving put to Asia and North Africa
- North Africa is Source of energy for North Africa and to re export to Europe (solar and wind energy) creating job opportunities
- Both Morocco and Egypt will enjoy the benefits
- How does foreign Investment see the development in North Africa?
  - There is huge potential
  - Sustainable
  - A need for a system to support the opportunity including legal, financial aspects



North African Real Estate
A new Global Hub for Investors

- Concluding Remarks/Questions:
  - Is the North Africa hub ready to receive outsiders or not?
  - Is the market allowing infrastructure and logistics for the development in Egypt and North Africa
  - Is there a clear master plan?
  - Demand varies from one area to the other in North Africa
  - Capital is available
  - A mismatch exists among major players Developers/Investors/Infrastructure/Providers




PALM HILLS





Investors in MENA
Who's Looking and What For?

- What is MENA definition?
- MENA is a very heterogeneous Market and poses Challenges
- What is the profile of investors and what markets are they interested in
- Perception of Risk
- Is the existing Infrastructure supportive or a hurdle?
- How can we see the Real Estate Industry attracting Investment?
  - Jeddah as a good example
  - Infrastructure in Real Estate is huge
  - Availability of Sovereign Funds
  - The result is a better Equity Capital Market and Debt Capital Market



Investors in MENA
Who's Looking and What For?

- Why are local investors investing in Egypt and MENA?
- Majority of investment is Local and Regional with very small portion of international Investment
- Different Views:
  - Local are followers to international investors because they lack the experience
  - Local and Regional investment comes first and is followed by International Investors coming in
- What rates do investors want ?



Affordable & Workforce Housing: Social and Market Forces dictate Success?

- Participants started the session by defining “affordable housing” and “what is the difference between affordable housing and workforce housing”.
- Affordable housing is targeting the middle class which is considered to be the backbone of any economy.
- Affordable housing ties up to the minimum income’s segment.
- The financing of affordable housing should be maximum 1/3 of the household income.
- Workforce housing is targeting labors and workers, like in the UAE, for the labors and workforce coming from abroad.
- Is the private sector ready to move and give a push to the government?
- Master planning should be the responsibility of government, while building the infrastructure should be the responsibility of the private sector for the benefit of the consumer.



Affordable & Workforce Housing: Social and Market Forces dictate Success? Cont'd

- The government role should focus on regulations, setting the process, and facilitating the execution.
- In young economies in some MENA countries, there is no regulated real estate market such as Qatar and Kuwait. In general, there is a need for Real Estate Regulations in the GCC.
- There is a need to mature the standards of the market through well educated and certified HR.
- The problem in MENA region is that the Private Public Partnership "PPP" doesn't exist, while the execution of affordable housing projects is all about cooperation and costs.
- 70% of Saudi Arabians cannot afford buying houses. Mortgage's duration is usually from 15 to 29 years.
- There is a risk of creating low income neighborhoods if we keep on building and developing gated communities categorized by social class and income levels. Each neighborhood should include a mix of all social segments.



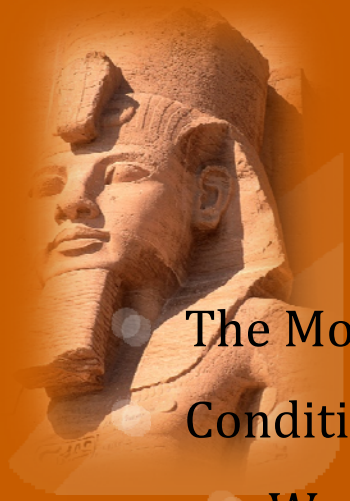
Affordable & Workforce Housing: Social and Market Forces dictate Success? Cont'd

- In Saudi Arabia, the traditional model was to build for each level separately: lower, medium, and higher incomes. Nowadays the model is changing to allow all segments sharing same facilities and same school in a trial to avoid social discrimination. In the new model, the size of the house is the only difference but the physical external aspect of the houses is the same.
- In The GCC, developers are looking for the government to cover the expenses of maintenance and infrastructure, as no investor is willing to spend more on these issues.
- Real Estate developers in the GCC are ready to invest in affordable housing only if the government sets favorable conditions for their investments.
- Banks stopped lending when Qatar's Emir ordered no one should be deprived of his house in case of failure to pay back the loan's installments.
- Orascom Housing is considered as a success story in building affordable housing and avoiding gated communities pitfalls. They established parallel systems to be self sufficient and overcome governmental and bureaucratic obstacles.
- The conclusion is that the government should take the initiative in master planning and then the private sector takes the lead in building the infrastructure




REAL ESTATE INVESTORS & DEVELOPERS IN MIDDLE EAST & NORTH AFRICA
GRI
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Morocco Tourism: Investors' Favorite?

- The Moroccan government is supporting the touristic infrastructure
- Conditions favoring the investment in tourism in Morocco:
  - Weather.
  - Nature
  - History
  - Infrastructure
  - Political stability
  - Ease of entry for foreign investors as they do not need a local partner.
  - For most nationalities, no entry visa to Morocco is required.
  - Sustainable development.



Morocco Tourism: Investors' Favorite?

- Morocco's efforts and investments in sustainable development:
  - The first real ecotourism project will be launched in Morocco. (45 min from the airport).
  - All golf courses are being irrigated by recycled water.



Morocco Tourism: Investors' Favorite?

- Competitors to Morocco's tourism are mainly: Egypt, Tunisia, Spain, and Italy.
- Diversity is what makes Morocco a touristic attraction: weather, culture, entertainment.
- 200 km south of Agadir there is a great opportunity for touristic development. Orascom and Pick Albatros already have their investments there.
- Average stay in Morocco for tourism is 3 days in Marakesh and 6 days in Agadir.
- Out of 6 million tourists, 2 million are French speakers.



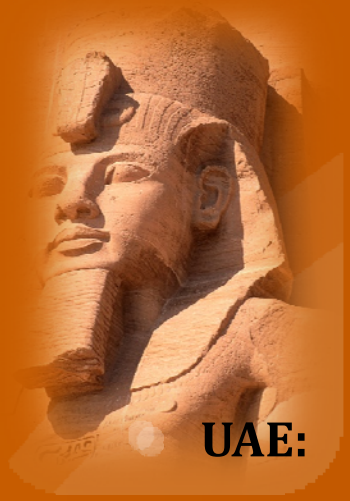
Morocco Tourism: Investors' Favorite

- The majority of tourists come from Western Europe, Spain, UK, and Italy.
- They mainly head to Marakesh as a cultural destination and to Agadir for entertainment.
- Addressing the Arab countries is not in the Moroccan government plan currently, the main focus is on Western Europe.
- There are not enough shopping outlets in Morocco to attract tourists aiming shopping destinations
- French and British nationalities are buying second homes in Morocco for retirement.
- In 2009 the internal tourism in Morocco was a great success, 90% average rate of occupancy in the new and luxurious hotels all over the year.
- The government strategy to support tourism in Morocco will focus on 2 directions:
  - Adding more retail outlets to attract shoppers.
  - Sustainable development and ecotourism.



Debt Financing: Fuelling Boom or Bubble?

- What are the lending decisions for a bank?
- The market dictates the lending conditions and decisions, not the bank itself.
- **EGYPT:**
  - Egypt was exempt from bad debt because of tradition as Egyptians usually do not lend to buy their houses.
  - In 2009, 2010, only 5% of transactions were financed by the banks in Egypt, which prevented the market from crashing, but currently it is preventing it from growing.
- Leasing for retail is the norm in Egypt, but there is no clear direction to educate the companies on how to convert from leasing to full ownership



Debt Financing: Fuelling Boom or Bubble?

UAE:

- In the UAE, mortgage financing in minimal. The Real Estate Development now is caused by the drop in deposits that people are willing to pay so the developers became unable to accomplish the construction.
- Even though people have the cash, they are not willing to pay in unfinished projects.
- The payment system was based on fixed payments that are not related to project milestones.
- Payment to Damac in Egypt is based on project's milestones while it is not the case in the UAE.
- There is no real demand in Dubai currently for properties which makes banks even more reluctant to finance debts.
- RERA supports developers to terminate the contracts in case of borrower's failure to commit to installments' payments.

- Venture capitalists are also reluctant due to the financial situation and their previous losses during 2008and 2009.



Debt Financing: Fuelling Boom or Bubble?

- Regulators are creating the problem by hindering the lending.
- Leveraging and low interest rates are making the situation more complicated because we think it is cheaper while the interest turn it into a very expensive investment.
- A suggestion was made that the way out could be to invite the middle well educated class from other countries to relocate to dubai to enjoy the lifestyle and infrastructure and at the same time revive the cycle. But this depends on legal and political issues and need a revision to the residents visa conditions.

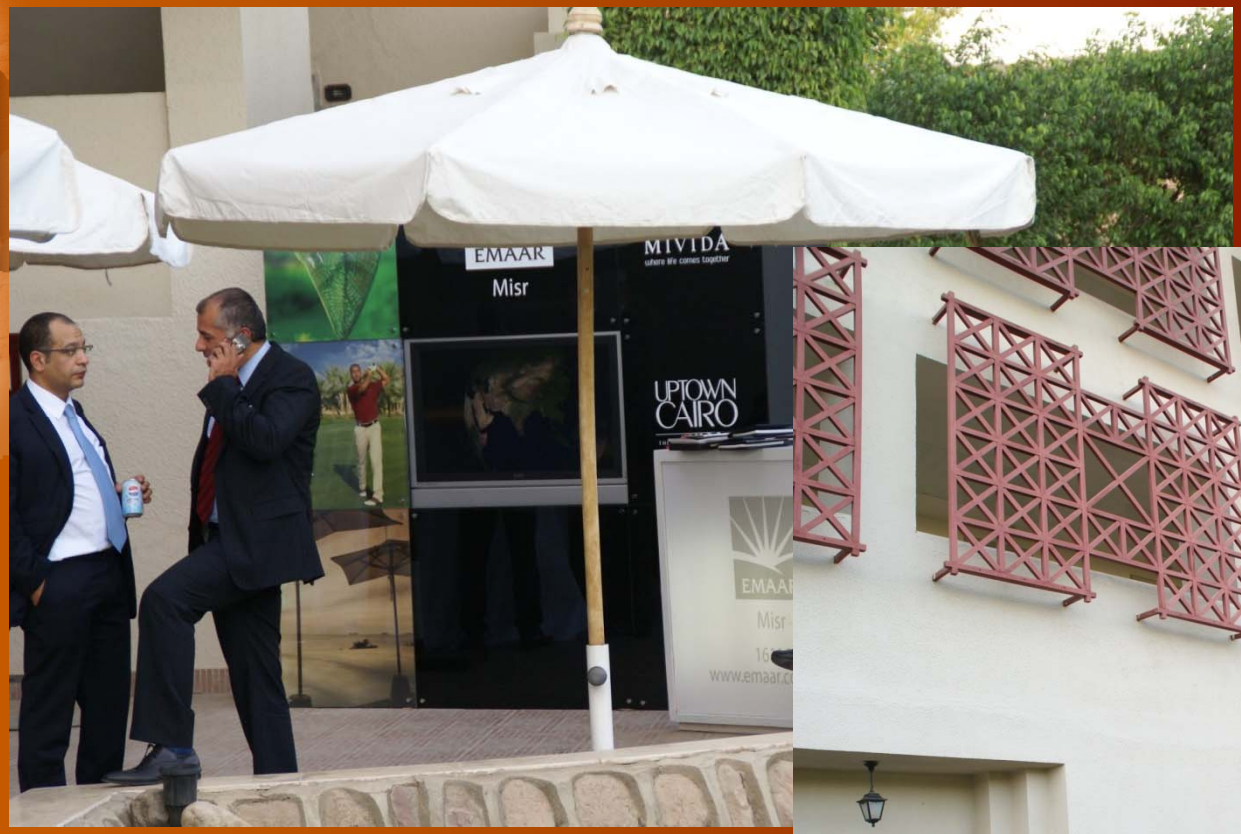


Debt Financing: Fuelling Boom or Bubble?

Conclusion:

- There is no real crisis, it is just a fear. Investors fear the decision making.
- There is a high need for regulations and confident steps.
- Banks must appoint engineers to audit on the implementation process and to check of the progress of each milestone.
- The developers must have a decent amount of equity and not to rely on sales to finish their projects. The optimum distribution would be 70% from sales, 30% equity + bank finance




EMAAR
Misr
MIVIDA
UPTOWN
CAIRO





Residential & Second Homes: Next Investment wave?

- Definition of second homes: they are seasonal homes whether for entertainment and leisure or even for investments.
- European demand for second home in north Africa in increasing.
- In Egypt, we did not set the north coast to be attractive for foreign buyers due to the seasonality that kills all life aspects in all resorts during off season months. Seasonality of the Egyptian North Coast is a myth that we created as Egyptians. There is a need to change the notion.
- There should be a proper infrastructure (hospitals, schools, facilities) to get over the seasonality and break the myth.
- Sharm El Sheikh and Hurghada are more mature models. They have the infrastructure and considered as an attraction for Europeans as second homes



Residential & Second Homes: Next Investment wave?

- To attract foreign buyers for second homes, fully fledged city must be in place.
- The availability of air services and convenient transportation boost the demand on second homes.
- Laws and regulations in some countries in MENA region sometimes hinder the foreigners to own second homes.
- Egypt lacks good marketing for the country as a touristic destination. The government doesn't invest in marketing Egypt as a destination.
- Most of marketing initiatives for Egypt are made by the ministry of tourism while it is becoming a must for developers to market for the country too in order to secure their investments and create a foreign market.



Residential & Second Homes: Next Investment wave?

- The domestic market is very strong and the Egyptian client is as important as the European, however, the Egyptians bear much higher costs in domestic tourism. A trip to Sharm el sheikh would cost the same as a trip to Turkey or Lebanon.
- Egyptians tend to invest more in second homes without looking for income generating properties. They tend to pay much more in their second homes than the main ones due to peer pressures and cultural issues.
- Orascom has 3 success stories in second homes: El Gouna, Makady, and Ras Sedr where they built integrated villages.
- There should be fully integrated cities that include workers and their families In order to create a full life.
- Participants agreed that this is the time to establish an association by all Real Estate Developers without relying on the government where all joint efforts should pitch in to break the ice and overcome obstacles.



Levant Real Estate: New Frontiers or Too Late?

- The Levant countries are those bordering on the eastern Mediterranean Sea from Turkey to Egypt.
- These represent a collection of real country, economies and populations and provide high potential for growth.
- Levant countries are becoming interesting for investors



Levant Real Estate: New Frontiers or Too Late? (Jordan)

- **Jordan:**

- Has a growing economy, easy to invest in and has good banking and mortgage laws.
- Trend of return of the Jordanians living abroad is leading to a boom in the real estate market.
- Jordanians go for ownership and not leasing.
- Affordable housing initiative is supported by the government.
- Tourism: part of the holy land, old attractions (Jarash, Petra)
- 7 free zones and 5 industrial parks: Aqqaba was turned into a free zone where investors can do as they please; it's becoming a business hub as well as a recreational destination leading to hotel development. There are new plan to make the whole of Jordan a free zone.
- Dead Sea unique in geographic, one of the most interesting destination spas in the world (given its characteristics doesn't go away). Embellishing it with all sorts of spa products. very close to Amman, increase inbound flights to stabilized demand year round.



Levant Real Estate: New Frontiers or Too Late? (Iraq)

- **Iraq:**
- Was off the map for a long time and is still not very attractive right now but it is providing high interest from international investors (in particular in Northern Iraq).
- Very high risk destination with great potential.
- Developments in retail, gated communities, residential.
- Development is moving fast, geographic recognition is increasing, banks are opening, and there is a lot of oil cash availably



Levant Real Estate: New Frontiers or Too Late? (Iraq: Cont'd)

- Industrial development:
  - Challenges in industrial development include the needs strong infrastructure as well as safety issues.
  - Worth noting that the country is investing very heavily in infrastructure and not in extravagant buildings.
  - The north is attractive not only for safety but since Turkey can be used for exporting.
  - Cheap labor is available, very diligent and hard working but not skilled at the moment.
- While a lot of destinations in Iraq are no go zones possible interesting locations in 10 years include:
  - Naggaf – high potential for tourism. Possible developments in service apartments, 3 to 4 stars hotel. Too volatile to put any $ investment there yet though;
  - Bagdad – amazing potential but has enormous risk right now;
  - Bazra – 45 minutes drive from Kuwait, high on recreation.



Levant Real Estate: New Frontiers or Too Late? (Syria)

- **Syria:**
- Opportunity:
  - Serious potential, real demand and real new supply.
  - Growing economy 8% increase per year.
  - Once all the legislative issues is finalized, local developers can divide the investment into tranches which can attract foreign investment. This would come with a premium though.
- Challenges:
  - High risk country due to rigid government rules and regulations
  - No support from local investors to bring in the international or regional investors.



Levant Real Estate: New Frontiers or Too Late? (Lebanon)

- **<u>Lebanon</u>:**
- There is a boom in the market.
- Surreal residency: It's a rollercoaster, occupancy can move from 36% to 72% within two years.
  - Scarcity of houses overlooking the beach, average prices for houses in Beirut is one million dollars.
  - Lebanese outside Lebanon are double those within and are positioned around the globe. High end residential homes are sold to Lebanese living abroad.
  - Around 60% occupancy predominantly from the gulf region, who treat Lebanon as a recreational short trip which has a common language, less restrictions, and is high on entertainment.



Levant Real Estate: New Frontiers or Too Late? (Lebanon Cont'd)

- Political situation:
  - Unable to plot the future on what are the factors from a political point of view that would make it stable. Cannot plot stability, we can only hope stability.
  - The minute problems are over there is no incubation period development just springs up.
- Developers should take their investment in 7 to 8 year perspective on payback
- RE could be looked at as a stable investment in time of wars.
- Very small country moving around from the mountains to the beach can be done within one day
- Lebanese have a unique way of facing challenges and wars









Investing in Egypt: Challenges and Opportunities

- The Egyptian Real Estate maker is booming with good sales and major projects by each developer are being implemented in the same time. The session included a SWOT Analysis summarized below:

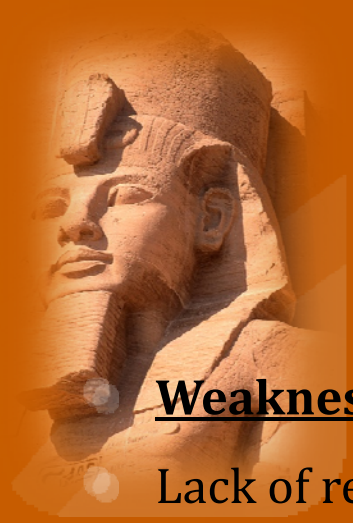
- **<u>Strength</u>**

- Real Organic Demand from within the population, steaming from growing population - average age is below 40, positive economic growth, real estate growth and perception.

- Relaxation of stringent legislations which used to control the market in the past

  - Changes in legislations led to high interest from different developers. The government is starting to act as a master planner parceling parts of this development to developers.

  - Real estate perception is altering from a government vision of small contractor's developing small residential houses to the introduction of big developers with large parcels of land.



Investing in Egypt: Challenges and Opportunities (Cont'd)

- **Weaknesses :**
- Lack of reliable information and historical data
  - No access to accurate information. Info is old and non scientific..
  - Lack of transparency which lead to spending more on due-diligence including research.
  - Developers collect data which they see as private and are not willing to share.
- This has to be an industry collaboration issues. If the industry isn't willing to come together then this issue would not be settled.
- Legal and legislative framework:
  - Land ownership issues: 85 – 90% of properties are not registered – due to high registration fees as well as cultural factors. Also land in new areas are not owned until developed
  - Execution of laws and legislations.
- Non active mortgage finance



Investing in Egypt: Challenges and Opportunities (Cont'd)

Threats:

- Need to look consciously into the real demand: demand to be stratified and patterns to developed
- Domestic investment institutions do not invest in real estate (Ex: insurance companies) which leads to international investor's reluctance to invest. Although the National Bank of Egypt is becoming a RE investor and developer.
- Terrorism: although this is becoming more of a global issue than a local one.
- Marketing of Egyptian real estate development among foreign investors.
  - We (the government and developers) have to move to show ourselves: market the country and certain destinations prior to individual investment
  - This could include Road Shows and Egypt profile in international tabloids.



Opportunities in the Egyptian Market

- **Retail:**
  - Cairo has a shortage of shopping centers, there are a lot in the pipeline but how much will actually see the light is another issues. An important point is not to take European or US rules to develop this market.
  - How developed are the real estate tenants:
    - A lot of international brands are playing catch up.
    - Major hypermarkets are expanding seeing a huge opportunity.
    - Developer's/franchisors relationship are not factored in. there is a large opportunity for a more diverse tenant mix.
  - Skilled retail staff is a huge weakness



- **Tourism:**
  - Demand is much higher than supply (33,000 rooms shortage)
  - Heritage sites are not properly tapped into.
  - The North Coast is becoming a hot destination: very large growth due to its attractive location (close to major Egyptian cities, proximity to Europe, while sandy beaches and mild weather)
  - Red Sea is almost all bought if not all developed yet.



Availability of funds in the local money market (local equity) for new investor coming into the Egyptian market:

- Listing in the stock market an investor has to be in the market for a number of years.
- Banks and financial institutions in Egypt are rich and becoming aggressive in investing – foreign investors with proven records in their home land have a good chance of receiving finance from banks. (Although there are restrictions by the Center Bank)
- Real Estate Funds should be available in the market shortly; this would help in office space, commercial and retail more than residential.
- Big syndicated loans to the RE market has been finalized within the last three month, money is there it's all a case of presenting a bankable model (business model, corporate guarantees,) .



Saudi Arabia: Organic Growth or Next Bonanza?

- **<u>Where are the real opportunities</u>**? Opportunities were you can avoid the bureaucracy side of the list and avoid state dominated competition.
- Real Estate Management – Saudi is the only country in the gulf with a population - 24 million and growing of 2.4 – 3.5%.
- KSA has the right macro combination for organic growth: young population, per capita income, economic growth.
- With such a young population where are the jobs be coming from? The number of people working in the KSA population is small due to a very large young population
- Areas for development include:
  - Tourism: Jeddah has a huge potential with regards to touristic hotels and facilities.
  - Industrial: with 5 major industrial zones.
  - Commercial and retail is a challenge due to government involvement (including pension funds)
  - Retail: large need for tourism, hospitality, medical developments.



Saudi Arabia: Organic Growth or Next Bonanza? (Cont'd)

- **<u>Issues in Regulatory Environment:</u>**

- Lots of issues with tenancy laws, foreclosure laws. One of the major issues is the ability to foreclose and repossess assets. New laws are in the pipelines which would amend some of these issues.

- Mortgage: average of mortgage payment in most of the countries should be around 30% of income, in Saudi 30% of 3000 Riyals per month is not enough? It's very difficult to subsidize for sale housing. Saudi has a tradition of buying not renting.

- Limited availability of commercial loans and a need for a land registry

- Resale licenses are a big issue: a committee meeting on adhoc bases with no organization or regulations

- KSA has a proactive government but you don't know what they are planning.

- Major government initiatives like King Abdulla Economic City and King Abdulla Technological City are not planned to alienate private investors but rather to give the economy of the country a boost. The problem is that these initiatives are political in nature.

- Regulators are always look at the consumer protection but no regards to developer's protection is currently addressed.

- Bank loans are unsecured; the bank provides the loan through consumer salaries backing.



Saudi Arabia: Organic Growth or Next Bonanza? (Cont'd)

- **Issues within the Business Environment**
- Lack of large scale housing development builders due to
  - Regulations make it very difficult to own a big parcel of land.
  - Developers have been mainly consisting of individual builders and contractors.
  - Foreign land ownership was restricted until recently, foreign investor had to strike a strategic Joint Venture with a local owner. (still restricted in Mecca and Medina)
  - Currently only 5 foreign companies own land in KSA, requirements include 30 million Riyals minimum investment and development has to be finalized within 5 years.
- Large scale communities (home owners association) affect long term sustainability of development projects.
- Saudi's are not marketing their real estate developments to international players.
- Working population is Saudi is limited with a high level of dependency as well as a 50/50 expats to local workers.



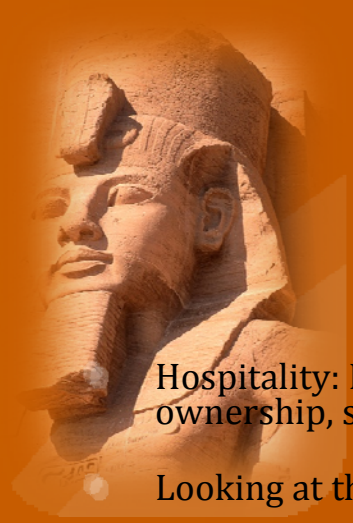
Saudi Arabia: Organic Growth or Next Bonanza? (Cont'd)

- Many of the UAE companies were coming into KSA but retracted with the financial crisis.
- Saudis working in real estate are working in moderate they aren't going into large scale due to the risk factors.
- The market is driven by land price with no incentive to develop it. This is due to:
  - It takes a very long time to get things accomplished in KSA vs. the rest of the world including Egypt
  - ROI of 10 – 12% with a very high risk
  - You're better off getting the land and selling it than you are developing the whole project. Approvals take one to two years given a proposal with basic utilities factored in then this land is sold in small parcels of two to three houses to small contractors to build.




GRI
ORGANIC GROWTH OR





Hotel Developments in MENA: Are Supply and Demand Matched?

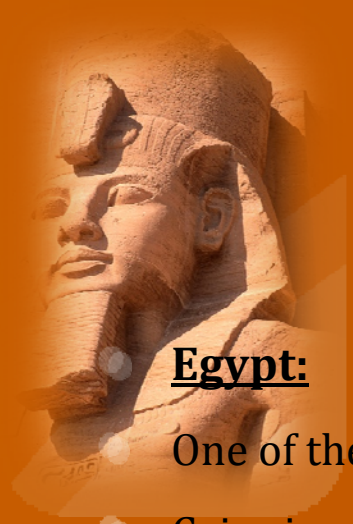
Hospitality: Includes not only hotels and resorts but has subsectors including: fractional ownership, multi ownership, secondary homes, serviced apartments. It is quite obvious that there isn't enough supply.

- Looking at the MENA Region in General:
- Tourist number almost quadrupled in the last decade. Majority of them in recreational followed by business travelers
- 66% of global tourism comes out of Europe, this is about to shift. The trend will include tourism from:
  - Indian subcontinent and china. MENA region is closer to the east (those generating the highest increasing demand)
  - American tourists will increase but not that much
- New growth potential hospitality areas
  - Service apartments
  - Medical and health care hospitality.
  - Time shares.
- Hospitality is one of the most stable investments with low volatility even after huge events like bomb attacks.
- Tourism sector in this region is still in its early stages, growing very aggressively



Hotel Developments in MENA: Are Supply and Demand Matched? (Cont'd)

- Feasibility study looking at location, type of consumer, demand …etc would dictate the profitability of a hospitality investment.
- North Africa need to be more creative in developing entertainment facilities to attract tourists to your location:
  - Nature - developing for example desert lodges.
  - Attractions: Building a whole attraction area around a development is a competitive edge.
  - Integrating retail and shopping with hospitality developments
  - Mixed use developments including condominiums



Demand in the MENA region

Egypt:

- One of the MENA favorite destinations
- Cairo is undersupplied with regards to hotel rooms: 15 – 16000 rooms out of a total of 39000 in the county. You need at least 12 – 13000 rooms within the coming couple of years.
- Upper up-scale and boutique high end hotels are still growing, and there is also an undersupply of 3 to 4 star segment for middle level business or leisure travelers.
- 50 – 60% of tourists coming to Egypt are European
- Challenges in the market include:
  - Egypt isn't positioned right. The country has been positioned as a cheap destination.
  - We need to look at how much are individual tourists spending and how many are coming back? Tour operator's influence affects price in low to mid level traveler. Egypt is still locked into group travel
  - Master planning is an issue. Some parts of the country can be reclassified easily even if repositioning the whole country is difficult. Mexico and Spain repositioned parts of the country for higher position destination areas.



Dubai:

Surprisingly doing very well although investments like budj el arab doesn't make any sense

- **Saudi Arabia:**
- Well position
- hajj season is the top tourism period in KSA
- Hurdles of legislations if resolved can lead to becoming a hot destination
- With excess cash its one of the most attractive investments



Libya:

- An emerging market
- New hotels are signing agreements including Marriott and Sheraton
- Closed market setting the trends and prices, valuing hotels in Libya a problem.
- A lot of investment is going into the country. Hospitality investment is not as attractive as other investments.
- Dictated strategy of luxury hotels although there is not responding to actual demand to measure at the moment except for business demand. These are more into positioning of the country.
- Some sensible developments will come up as well as the trophy assist.
- As a Mediterranean country if well positioned it may work.
- International knowhow and supply line have to go into the country.



- **Syria:**
- Small economy
- A lot of local developers
- French alliance is working again
- A lot of Turkish joint ventures
- Positioning as a hot leisure destination has to be thought of
- **Sudan**
- Only targeting business no leisure
- Within north south dispute
- Any available hotels are making a fortune.
- Main interest is a good conference room and 150 to 200 rooms
- Rotana, fatteh are operating there



Beirut:

- Has always been a favorite destination
- New hotels and renovations taking place
- Hot spot for Gulf travelers

Istanbul:

- One of the hottest destinations in the world
- Land value is so high it pushes you away from hospitality
- Nothing attractive with regards to taxes or regime



THE END.