BANKING ON KNOWLEDGE

Non-hydrocarbon diversification can revitalise GCC property market

By Dr R Seetharaman

In Saudi Arabia, the positive outlook for the real estate sector began with the government's release of payments totalling $10.6bn to contractors and the injection of SR20bn into the banking system.

In an effort to diversify the economy and open the real estate market to smaller investors, the Capital Market Authority introduced new rules in 2016, allowing the formation of the Real Estate Investment Traded Funds (REITs) on the local stock exchange.

In the retail sector, the largest completed project in 2016 was Al Yasmin Mall, the first quality shopping centre to open in the area.

In hotels market, the decline in demand from the business and public sector segments highlights the need for Riyadh's hospitality sector to diversify and to reduce its reliance on business tourism.

In office space, the most notable completion in 2016 was Emaar Square in Jeddah.

In the residential market, sales prices may decrease further in 2017, given the decrease in residential transactions. The residential real estate market of Dubai and Abu Dhabi may have bottomed out due to limited changes in capital and rental values. However challenges remain, including a strengthening of the US dollar, anticipated increase in the cost of debt as well as sluggish regional economic growth.

In the fourth quarter to December 2016, the property prices stabilised in Dubai and certain mid-markets witnessed a small uptick.

In Abu Dhabi, there were no major completions of retail space.

Kuwait's real estate market is currently stagnant due to oversupply and low demand, but could possibly recover in early 2017. The government's recent distribution of residential complexes to citizens had resulted in the slowdown.

The continued stagnation across Oman's residential and office property market during 2016 and the rapid expansion in the hospitality sector is set to be a beacon of growth in the market heading into 2017. Projects such as the first phase of Oman Rail and the progression of works related to the $1.3bn redevelopment of Mina Sultan Qaboos bode well for the future demand for residential properties.

In Bahrain, despite slowing economic conditions, which continue to hamper the property market in the Kingdom, there has been a marked stabilisation across most real estate sectors in 2016 that is expected to carry into 2017. Similar to the residential market, office rents across the Kingdom's key submarkets remained largely unchanged during 2016.

Qatar's fiscal budget has envisaged contracts for new projects worth QR46.1bn in 2017. The investment plan of QR46bn for the current year will impact positively on the country's construction and real estate sector.

Doha will continue to experience strong demand for mid-income housing as population growth continues. Major retail developments are expected to come into the market in 2017. They include Doha Festival City, North Gate Mall and Al Hazm Mall. Doha's retail stock is expected to expand by around 1.9mn square metres over the next five years. The fourth quarter of 2016 witnessed growth in retails supply. The Q4 also saw a growth in office space availability throughout West Bay due to the completion of new buildings and fall in demand.

Qatar Rail has announced the completion of tunnelling on the Green Line of Doha Metro project. The hotel sector supply pipeline until 2017 could include over 9,600 new keys and 3,400 new hotel apartments.

Real estate lending in Qatar was at 7.7% in 2016. The low oil prices are still a concern.

However, the diversification to non-hydrocarbon sectors is expected to continue in Qatar and other parts of the GCC, which can revitalise the property sector in the region.

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