

BANKING ON KNOWLEDGE

GCC property sector vulnerable on account of fall in oil prices

By Dr R Seetharaman

US home prices rose by 4.9% y-o-y in May 2015, pushed higher by an increase in sales this year. In recent months home sales improved as economy boosts hiring enabling more people to purchase. House prices in London grew by 4.7% in the year to May 2015, a slower rate than the UK average of 5.7% for the second month in a row. Chinese home prices rose for a second month in a row in June, on a monthly basis, indicating that government efforts to boost the struggling property sector have started to gain traction. However, on an annual basis, home prices fell 4.9% in June 2015. India property market witnesses a slowdown as developers struggle with unsold inventory.

In Saudi Arabia the impact of land fees, the rationing of mortgages and weak demand were the key factors contributing to drop in prices. The government in March 2015 announced plans for a new tax on undeveloped urban land, aimed at



pushing landowners to develop unused plots and ease the shortage of affordable housing. In first half of 2015, residential land fell, with prices falling by 20%, followed by residential buildings, which fell by 10% and, villas were the least affected, with declines of 7%.

In UAE apartment sales prices are down

6.8% year-on-year while villa sales prices registered were down 0.8% year-on-year till May 2015. Apartment sales in Q2 were marked by a shift towards more affordable properties with locations such as Dubai Silicon Oasis and International City. Villa investors also preferred affordable properties in locations such as Jumeirah Village.

The softening in Dubai's residential rental market continues and the decrease was felt across the market and areas with a significant amount of completed new supply were the most affected.

In Abu Dhabi apartment sales prices fell 4.5% year-on-year, while villa sales prices are still down 1.2% year-on-year till May 2015. In Abu Dhabi, a new law has been introduced to regulate and improve transparency in the emirate's real estate sector, requiring brokers and developers to be licensed and introducing rules to protect buyers of projects that are not yet completed.

In July 2015, the Public Authority for Housing Welfare, Kuwait, announced a mega project in Al Metla'a area which



involves construction of 12 residential complexes that will offer 30,000 units for sale to Kuwaiti citizens this year and next year. This will reduce the housing gap in Kuwait. In March 2015 property developer Tamdeen announced Al Khiran project, a \$700m mixed-use project which will be at the heart of the Sabah Al-Ahmad Sea City. The development consists of Kuwait's first outlet mall, two high-rise residential towers, one furnished apartment tower, and a marina.

In May 2015, the Omani government announced embarking on a large-scale construction plan to provide affordable residential areas for nationals across the country. The traded value of real estate activities surged by close to 46% to OMR2.2bn till end of June 2015, when compared to same period of 2014. The

traded value of mortgage contracts logged a 10.2% increase.

Bahrain's commercial real estate sector is witnessing stagnant growth as a dip in economic output and an overhanging supply of commercial space combine to keep rental rates down. It has some major projects such as Bahrain Bay project in progress. Bahrain plans to set up a regulatory authority.

The value of Qatar's real estate transactions for the first six months of 2015 was \$9.8bn, up 48% from the corresponding period of 2014, worth \$6.6bn. Qatar is expanding its hospitality sector, with 20 hotels and hotel apartments planned to open during this year alone, according to previously-issued figures by Qatar Tourism Authority.

In commercial office segment there

is a slowdown in demand on account of absence of new major projects. Rentals in commercial segment are stable. Growth in population has kept the demand for residential real estate. In residential segment, the past 12 months up to end of May 2015, the population increased by 9%.

On retail segment we have witnessed activity through the opening of Gulf Mall. Qatar real estate lending growth is up by 4.6% in first half of 2015. The local currency lending in real estate has surged from 89% in December 2014 of total lending to 93% of total lending in June 2015.

The oil prices had recovered a bit in second quarter of this year. However, they have fallen recently. WTI was at \$47.12/barrel and Brent was at \$52.21/barrel by end of last week and has witnessed drop recently on account of global oil supply glut and the Iran deal recently. The fall in oil prices has made GCC property sector vulnerable.

● Dr R Seetharaman is Group CEO of Doha Bank. The views expressed are his own.