KAMCO INVEST

Investment Strategy & Research

GCC Real Estate Update Aug-2021

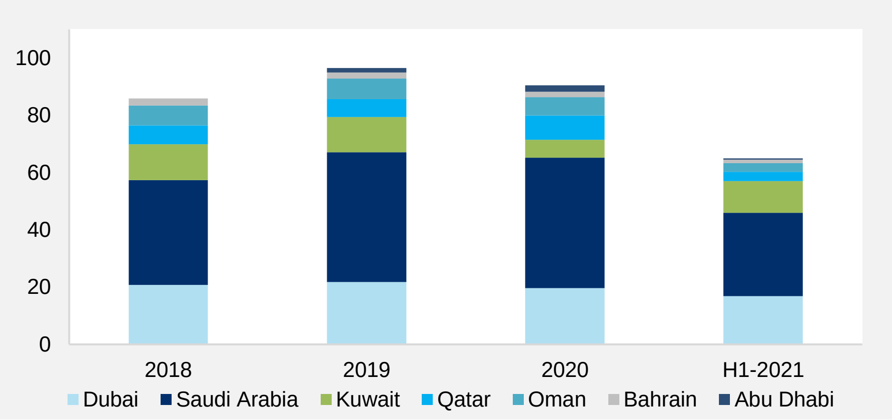
Pinning hopes on a 'Resi'lient recovery

Ongoing remodeling of office and retail real estate landscape: The drivers of demand and preference of tenants in GCC real estate market continued to transform in 2021. In the office space market, operators continue to optimize their portfolios between traditional and flexible spaces, while occupiers negotiate hard and look for higher quality spaces. Occupiers are likely to prefer sustainable built environments, as more companies start incorporating Environmental, Social and Corporate Governance (ESG) strategies. Technology, Media & Telecom (TMT) is another sector that is likely to witness growth in their contribution towards new office space demand. In the industrial segment, growth in demand from themes such as e-commerce and 3PL logistics witnessed in 2020 should normalize, and focus should return towards more conventional sources of demand such as construction and industrial materials, white goods etc. Competition amongst spaces could intensify, and will potentially lead to downward pressure on rents, as landlords look to preserve market share. Separately, the transformation of retail mall spaces deriving a higher footprint from entertainment and F&B tenants is expected continue in 2021. Event-specific spikes in footfalls and sales conversion from events such as Expo 2020 Dubai should provide temporary respite to mall space owners.

Residential prices may have bottomed; but a late-stage cycle rental recovery is required for a more structural argument: GCC real estate value transacted in H1-2021 reached USD 64.9 Bn and has approached within 26% and 32% of the full year figures of 2020 (USD 90.5 Bn) and 2019 (USD 96.5 Bn) respectively. The higher transaction activity y-o-y in H1-2021 was largely due to opportunistic buying of bargain-priced properties, as property prices reached multi-year lows from the impact of Covid-19 in early 2020. Moreover, a higher average value per transaction was achieved in H1-2021 for key markets, when compared to pre-pandemic levels of H1-2019, pointing towards the investment appetite for attractively priced real estate. While our view on the residential real estate market in the GCC has become more constructive than from our previous update (Dec-2020), we still require rents to move towards a late-stage recovery phase in the cycle, before establishing the segment as the clear leader amongst real estate segments.

RE equities already pricing in a sustainable rebound: Real estate equity indices in all GCC markets barring Qatar witnessed strong double-digit percentage gains in H1-2021. The Refinitiv GCC Real Estate Total Return Index gained by 22.0%, while the MSCI GCC index moved up by 22.6% over the same period. At current market levels (H1-2021), we believe that GCC RE equities prices are not just pricing in a cyclical recovery from Covid-19, but a more broader structural rebound. Real estate rents and prices in all sub-segments remain in different stages of recovery, and would need significant growth in fundamental performance indicators from here on to warrant a further rerating in the stock prices of developers and REITs, in our view. Apart from project IRRs and cashflow visibility, developers are seeking portfolio investments into PropTech and Property Management companies in order to capture more recurring and diversified revenues.

GCC RE Transactions Breakdown – USD Bn



Source: Kamco Invest Research, Govt Sources

Report Highlights:

This report analyzes GCC real estate fundamentals in 2021 amidst the backdrop of Covid-19. We analyze demand-supply drivers and examine trends in transactions, prices and rents that drive the outlook for real estate in the region in H2-2021 and beyond. Segments covered in the report include:

- *Residential RE*
- *Commercial Office RE*
- *Retail RE*
- *Industrial RE*
- *GCC RE Equities*

Access previous reports:

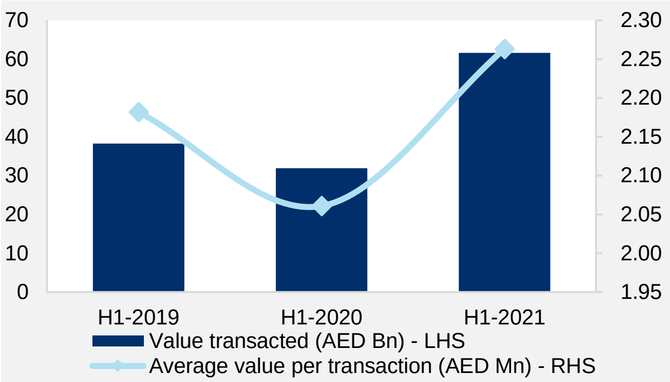
- *Cyclical or Structural Conundrum – Dec 2020*
- *Déjà vu or Different this time? – May 2020*

Thomas Mathew
+ (965) 2233 6741
tmathew@kamcoinvest.com

GCC RE on course to eclipse 2019 transactions

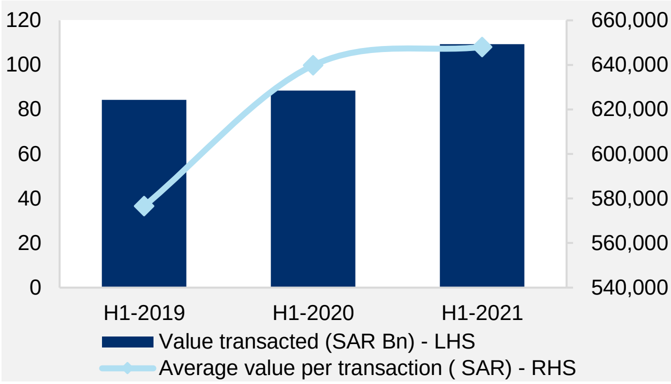
Real estate value transacted in H1-2021 reached USD 64.9 Bn and has reached within 26% and 32% of the full year figures of 2020 (USD 90.5 Bn) and 2019 (USD 96.5 Bn) respectively, based on our analysis of official transaction releases. Although on a y-o-y basis, the H1-2021 estimate already represents strong growth, actual growth is expected to be higher, since an accurate like-for-like analysis was not possible as certain markets were yet to report Q2-2021 and June-2021 transactions. Saudi contributed to over 44% of the aggregate value transacted, while UAE added 26% to the region's H1-2021 transactions. The number of transactions in H1-2021 reached 321,936 from to 568,586 for full year 2020. The higher transaction activity y-o-y in H1-2021 was largely due to opportunistic buying of bargain-priced properties, as property prices reached multi-year lows from the impact of Covid-19 since early 2020.

Dubai H1-2021 RE transactions vs previous years



Sources: DLD, Kamco Invest Research

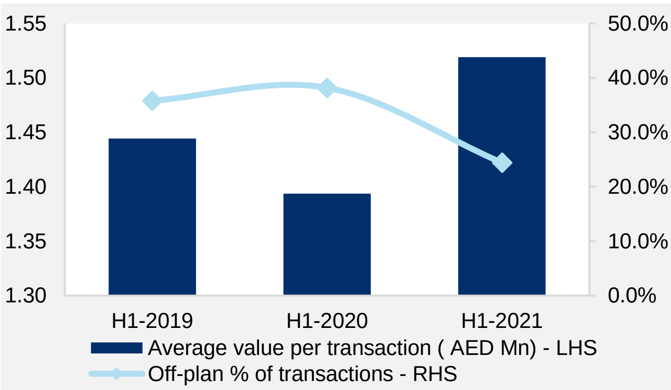
Saudi H1-2021 RE transactions vs previous years



Sources: MOJ, Kamco Invest Research

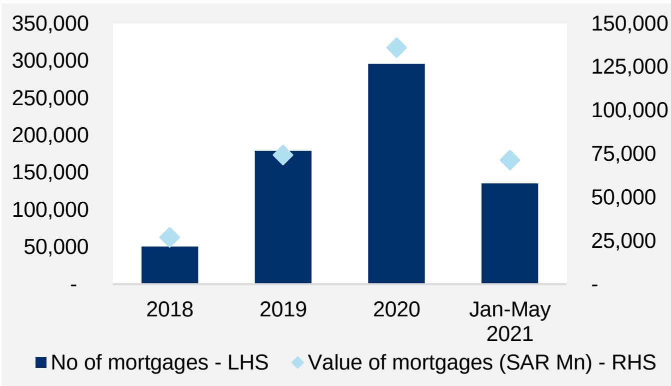
For markets such as Dubai and Saudi Arabia, transactions in H1-2021 surpassed both H1-2020 and normalized H1-2019 figures. Moreover, a higher corresponding average value per transaction was achieved in H1-2021 for both markets when compared to H1-2019, pointing towards the investment appetite for attractively priced real estate. Value transacted in Dubai reached AED 61.6 Bn in H1-2021, up from AED 31.9 Bn in H1-2020 and AED 38.2 Bn in H1-2019, while average value per transaction grew to AED 2.26 Mn from AED 2.18 Mn in H1-2019, and AED 2.06 Mn in H1-2020. Value transacted in Saudi Arabia reached SAR 109.3 Bn in H1-2021, up from SAR 88.5 Bn in H1-2020, while average value per transaction grew to over SAR 648,000 from SAR 640,000 in H1-2020. In Dubai, a tightening of project launches from developers and skepticism from buyers was witnessed, as the contribution of off-plan transactions in H1-2021 fell, both in terms of its contribution to volumes (36.4%) and value transacted (24.4%) from the corresponding figures of 56.4% and 38.2% respectively in H1-2020.

Dubai off-plan sales trends in H1



Sources: DLD, Kamco Invest Research

Saudi mortgage contract trends



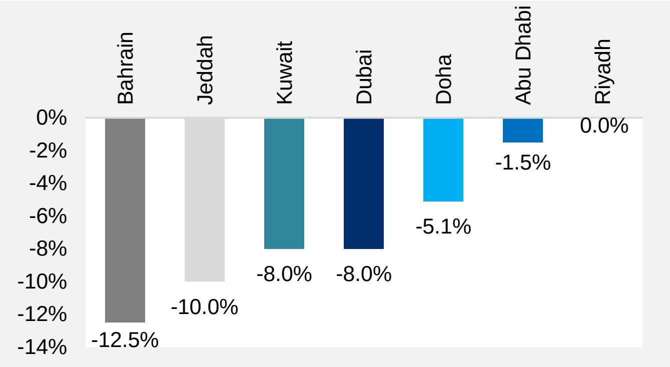
Sources: MOJ, Kamco Invest Research

Recovery for Saudi Arabia's real estate prices was driven by government support mainly, in the form of mortgage financing and housing initiatives to support the Vision 2030 objective of increasing the home ownership rate to 70% by 2030. Moreover, government initiatives such as new visa schemes in Dubai, and initiatives to increase home ownership such as witnessed in Saudi Arabia, should support the residential segment in the region going forward. A rebound in off-plan residential transactions and a pick-up in Core-Plus and Core commercial properties could signal the confirmation beginning of the next real estate cycle, before which rents would need to stabilize and recover in all real estate segments.

Resi yields compress; rents need to follow-through

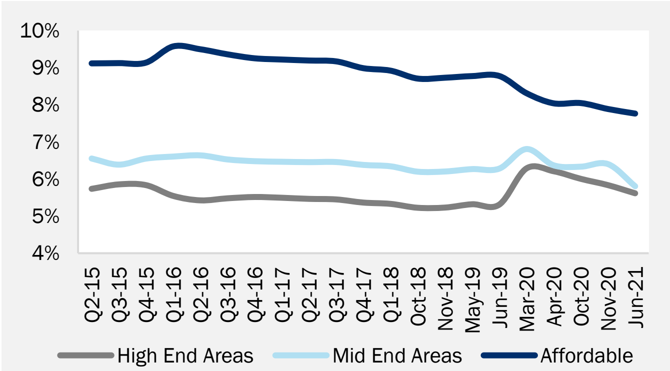
Residential real estate prices and buyer sentiment in major GCC markets have bottomed out from the impact of Covid-19, and the lows of 2020. Prices and investor sentiment continued their momentum in H1-2021, and transaction activity remains strong. However, the drivers were different, as Dubai real estate witnessed opportunistic buying from investors, especially at the higher end of the apartment and villa market. Further, developers capitalized on the demand, and also offered rent-to-own schemes, fee waivers, and lucrative post hand-over payment plans during the period. Saudi Arabia real estate prices recovered, and was driven by government support in the form of mortgage financing and housing initiatives to achieve the Vision 2030 objective of increasing the homeownership rate to 70% by 2030. Residential yields compressed as a result of higher prices by H1-2021, as was witnessed in Dubai where yields compressed 40bps-50bps across apartment types since H1-2020.

Residential rents performance: Q2-2021 (y-o-y%)



Source: Kamco Invest Research, ValuStrat, REMI, JLL

Dubai apartment yields performance



Source: Property Monitor, Kamco Invest Research

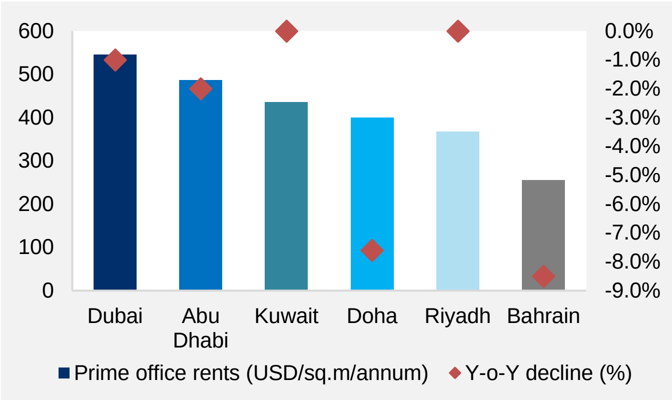
Rents on the other hand continued to decline in most markets y-o-y barring Riyadh as of H1-2021, and tenants continue to migrate to more affordable and/or larger residences, while some tenants prefer to negotiate with landlords for lower rents and other incentives. Based on consultant data, Bahrain (-12.5%) and Jeddah (-10%) witnessed the largest declines in rents y-o-y, while rents in Riyadh remained stable over the same period. Rents in Abu Dhabi (-1.5%) and Dubai (-8.0%) declined y-o-y as per JLL, as the UAE market continued to remain tenant friendly, and owners were pushed to lower rents and provide flexible payments through multiple cheques.

While our view on the residential real estate market in the GCC has become more constructive than from our previous update in Dec-2020, we still require rents to move towards a late-stage recovery phase in the cycle, before establishing the segment as the clear leader amongst real estate segments. Moreover, the potential for rate hikes in the medium term could also dampen buyer sentiment on account of lower borrowing rate to yield spread for opportunistic investors. Nevertheless, government initiatives such as new visa schemes, and initiatives to increase home ownership such as witnessed in Saudi Arabia, along with better and sustainable housing options as outlined in the Dubai 2040 Urban Master Plan should support the residential segment going forward.

New office space demand from TMT & ESG themes

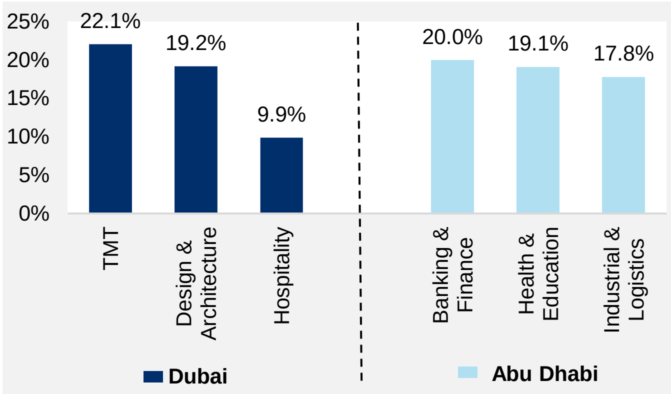
Office space rents witnessed mixed trends across the GCC, but still remain extremely sensitive to incoming supply. Markets such as Doha, and Bahrain witnessed high single-digit percentage declines y-o-y in H1-2021, as per consultant data, due to existing oversupply in the market. For Abu Dhabi & Dubai lower utilization of existing supply impacted rents that declined 1%-2% y-o-y, due to growth in remote working and working from home (WFH) models from the impact of Covid-19. Employers choose to recalibrate their office space requirements and engage in negotiations with owners over flexibility in lease terms and tenures. Dubai continues to lead in providing flex-office spaces in the GCC, as operators of flexible office spaces and hybrid models combine standardized long-term contracts and co-working spaces to keep occupancies stable at their office space portfolios. Rents for Grade-A office spaces in Riyadh and Kuwait remained flat y-o-y in H1-2021, as per JLL and REMI, due to limited incoming supply over the period. But JLL expects office supply in Riyadh to witness a significant addition of Grade A quality office buildings, with the handover of approximately 340,000 sq.m, barring any delays, which should put downward pressure back on rents.

GCC prime office rents & y-o-y declines: Q2-2021 (%)



Source: Kamco Invest Research, Knight Frank, JLL, REMI, ValuStrat

UAE new office space requirements: Q2-2021



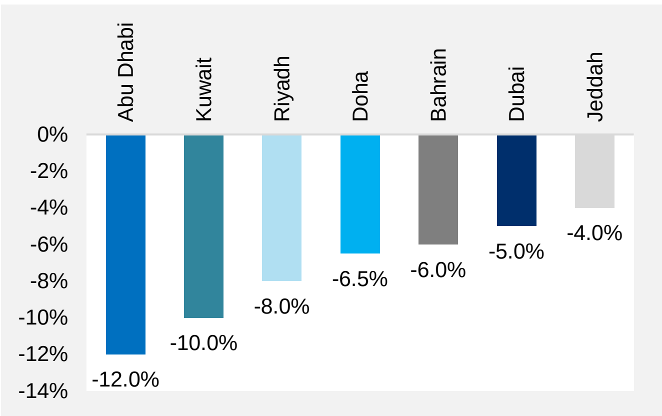
Source: Knight Frank, Kamco Invest Research

Office space operators will continue to optimize their office space portfolios between traditional and flexible spaces, while occupiers are expected to negotiate hard with operators, and look for higher quality spaces. We do expect an increasing number of occupiers to prefer sustainable built environments, as more companies start incorporating Environmental, Social and Corporate Governance (ESG) strategies into their operations. Technology, Media & Telecom (TMT) and Healthcare/Pharma related sectors are likely to witness growth in their contribution towards new office space demand, due to the significance and support towards these sectors in a post-Covid environment. As per Knight Frank, TMT contributed to over 22% of the new office space demand in Dubai during Q2-2021, a trend which could continue in our view. Government support and funding are likely to enable SMEs and startups in technology and fintech to look at office space requirements that include 'phygital' experiences. As mentioned in our previous *GCC Real Estate Update: Cyclical or Structural Conundrum – Dec 2020",* data centers will remain an alternative source of office space demand from repurposed office spaces. The ongoing transformation of new space requirements, and tenants seeking upgrades to their existing spaces would keep the market tenant friendly in our view.

Industrial RE normalizes; Retail remodeling ongoing

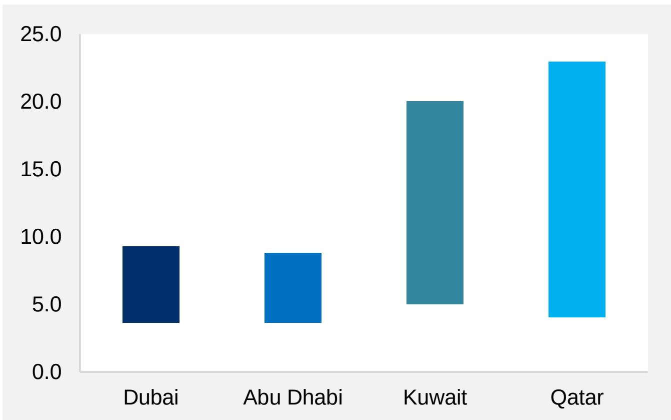
The structural and cyclical trends favoring industrial warehouse demand for spaces tailored towards unique storage needs, are expected to normalize after witnessing strong trends in 2020. Demand from e-commerce and 3PL logistics, pharma, vertical farming, and newer F&B models such as cloud kitchens should see more typical demand-supply trends going forward.

GCC retail space rents performance – 2021 (y-o-y%)



Source: JLL, REMI, Valustrat, Kamco Invest Research

GCC industrial warehouse rents (USD/sq.m/month)



Source: Valustrat, REMI, Kamco Invest Research

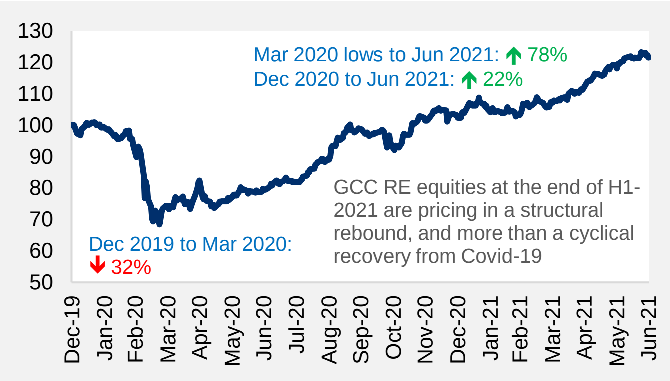
Focus should return towards more conventional sources of industrial warehouse demand such as construction and industrial materials, high value items such as cars, white goods etc. We expect competition to intensify as supply increases across storage types, putting downward pressure on rents, as landlords look to preserve market share. Leasing is likely to turn into a two-tiered market, as secondary and lower quality assets that are not refurbished adequately would face significant challenges in keeping occupancy rates and rents stable. Longer term, national initiatives like Saudi Arabia's National Industrial Development and Logistics Program, UAE's Operation 300bn, and Kuwait's plan to establish logistics cities, should support the industrial real estate segment.

Retail rents in the GCC continued to correct between 4%-12% y-o-y across various markets at the end of H1-2021, as per consultant data. The trend sustained despite achieving higher Covid-19 vaccination rates, leading to a recovery in fundamental drivers such as footfalls, POS transactions etc. Retailers persisted with negotiations over restructuring tenancy deals, bargaining for additional rent-free periods. The ongoing theme of changing consumer spending habits, combined with retailers driving expansion plans via omnichannel strategies remained. Initiatives such as Click & Collect and product returns via the store also witnessed an increase. The transformation of retail mall spaces deriving a higher footprint from entertainment and F&B tenants should continue in 2021. Event-specific spikes in footfalls and footfall-to-sales conversion from events such as Expo 2020 Dubai should provide temporary respite to mall space owners.

RE equities pricing in a more structural rebound

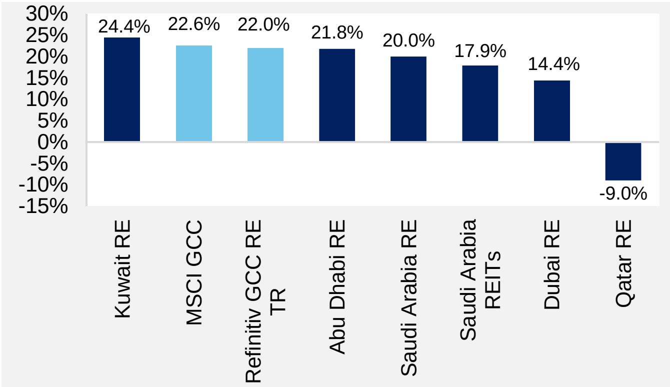
Real estate equity indices from all GCC markets barring Qatar witnessed strong double digit percentage gains in H1-2021, in line with broader indices. The Refinitiv GCC Real Estate Total Return Index gained by 22.0%, in-line with the 22.6% gains of the MSCI GCC index over the same period. Real estate indices from Kuwait (+24.4%) and Abu Dhabi (+21.8%) were top performers, while Qatar underperformed and declined by 9% YTD.

Refinitiv GCC Real Estate Total Return Index



Sources: Kamco Invest Research, Refinitiv

GCC RE equity indices YTD (Jun 2021)



Sources: Kamco Invest Research, Bloomberg, Refinitiv

Based on market levels at the end of H1-2021, we believe that GCC RE equities are not just pricing in a cyclical recovery from Covid-19, but a more broader structural rebound. Real estate rents and prices in all sub-segments remain in different stages of recovery and would need significant growth in fundamental performance indicators from here on in to warrant a further rerating in the stock prices of developers and REITs, in our view. Apart from project IRRs and cashflow visibility, developers continue to seek portfolio investments into PropTech and Property Management companies.

Disclaimer & Important Disclosures

Kamco Invest** is authorized and fully regulated by the Capital Markets Authority ("**CMA, Kuwait**") and partially regulated by the Central Bank of Kuwait **("CBK")

This document is provided for informational purposes only. Nothing contained in this document constitutes investment, an offer to invest, legal, tax or other advice or guidance and should be disregarded when considering or making investment decisions. In preparing this document, Kamco Invest did not take into account the investment objectives, financial situation and particular needs of any particular person. Accordingly, before acting on this document, investors should independently evaluate the investments and strategies referred to herein and make their own determination of whether it is appropriate in light of their own financial circumstances and objectives. The entire content of this document is subject to copyright with all rights reserved. This research and the information contained herein may not be reproduced, distributed or transmitted in Kuwait or in any other jurisdiction to any other person or incorporated in any way into another document or other material without our prior written consent.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the sector, companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Kamco Invest Ratings

Kamco Invest research is based on the analysis of regional and country economics, industries and company fundamentals. Kamco Invest company research reflects a long-term (12-month) target price for a company or stock. The ratings bands are:

* ***Outperform:** Target Price represents expected returns >= 10% in the next 12 months*
* ***Neutral:** Target Price represents expected returns between -10% and +10% in the next 12 months*
* ***Underperform:** Target Price represents an expected return of <-10% in the next 12 months*

In certain circumstances, ratings may differ from those implied by a fair value target using the criteria above. Kamco Invest policy is to maintain up-to-date fair value targets on the companies under its coverage, reflecting any material changes to the analyst's outlook on a company. Share price volatility may cause a stock to move outside the rating range implied by Kamco Invest's fair value target. Analysts may not necessarily change their ratings if this happens, but are expected to disclose the rationale behind their view to Kamco Invest clients.

Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Kamco Invest and shall be of no force or effect. The information contained in this document is based on current trade, statistical and other public information we consider reliable. We do not represent or warrant that such information is fair, accurate or complete and it should not be relied upon as such. Kamco Invest has no obligation to update, modify or amend this document or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The publication is provided for informational uses only and is not intended for trading purposes. The information on publications does not give rise to any legally binding obligation and/or agreement, including without limitation any obligation to update such information. You shall be responsible for conducting your own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Kamco Invest is a party.

Nothing in this document should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction, or to provide any investment advice or service. This document is directed at Professional Clients and not Retail Clients within the meaning of CMA rules. Any other persons in receipt of this document must not rely upon or otherwise act upon it. Entities and individuals into whose possession this document comes are required to inform themselves about, and observe such restrictions and should not rely upon or otherwise act upon this document where it is unlawful to make to such person such an offer or invitation or recommendation without compliance with any authorization, registration or other legal requirements.

Kamco Invest Investment Company (DIFC) Limited ("Kamco Invest DIFC") is regulated by the Dubai Financial Services Authority (DFSA). Kamco Invest DIFC may only undertake the financial services activities that fall within the scope of its existing DFSA license. This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA, and no other person should act upon it.'

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority. The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. The recipients of this document hereby should conduct their own due diligence on the accuracy of the information relating to the contents of this document. If you do not understand the contents of this document you should consult an authorized financial advisor.

Risk Warnings

Any prices, valuations or forecasts are indicative and are not intended to predict actual results, which may differ substantially from those reflected. The value of an investment may go up as well as down. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including, without limitation, foreseeable or unforeseeable changes in interest rates, foreign exchange rates, default rates, prepayment rates, political or financial conditions, etc.).

Past performance is not indicative of future results. Any opinions, estimates, valuations or projections (target prices and ratings in particular) are inherently imprecise and a matter of judgment. They are statements of opinion and not of fact, based on current expectations, estimates and projections, and rely on beliefs and assumptions. Actual outcomes and returns may differ materially from what is expressed or forecasted. There are no guarantees of future performance. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document does not propose to identify or to suggest all of the risks (direct or indirect) which may be associated with the investments and strategies referred to herein.

Conflict of Interest

Kamco Invest and its affiliates provide full investment banking services, and they and their directors, officers and employees, may take positions which conflict with the views expressed in this document. Salespeople, traders, and other professionals of Kamco Invest may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this document. Kamco Invest may have or seek investment banking or other business relationships for which it will receive compensation from the companies that are the subject of this document. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Kamco Invest business areas, including investment banking personnel. United Gulf Bank, Bahrain owns majority of Kamco Invest's shareholding and this ownership may create, or may create the appearance of, conflicts of interest.

No Liability & Warranty

Kamco Invest makes neither implied nor expressed representations or warranties and, to the fullest extent permitted by applicable law, we hereby expressly disclaim any and all express, implied and statutory representations and warranties of any kind, including, without limitation, any warranty as to accuracy, timeliness, completeness, and fitness for a particular purpose and/or non-infringement. Kamco Invest will accept no liability in any event including (without limitation) your reliance on the information contained in this document, any negligence for any damages or loss of any kind, including (without limitation) direct, indirect, incidental, special or consequential damages, expenses or losses arising out of, or in connection with your use or inability to use this document, or in connection with any error, omission, defect, computer virus or system failure, or loss of any profit, goodwill or reputation, even if expressly advised of the possibility of such loss or damages, arising out of or in connection with your use of this document. We do not exclude our duties or liabilities under binding applicable law.

Kamco Investment Company - K.S.C. (Public)
Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq
P.O. BOX : 28873, Safat 13149, State of Kuwait
Tel: (+965) 2233 6600   Fax: (+965) 2249 2395
Email : kamcoird@kamcoinvest.com
Website : www.kamcoinvest.com