GCC Real Estate Update Jun-2024

Late-cycle selectiveness without a supply glut

Report Highlights:

This report analyzes GCC real estate fundamentals in Q1 2024. We analyze demand-supply drivers and examine trends in transactions, prices and rents that drive our 2024 outlook for real estate in the region.

Segments covered in the report include:

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

Access previous reports:

- *Slim pickings & selective focus in 2024 – Dec 2023*
- *Pockets of late-cycle opportunities remain – July 2023*
- *Late-cycle disparities emerge – Dec 2022*
- *Divergent cap rate narratives in 2022 – Mar 2022*
- *Pinning hopes on a 'Resi'lient recovery - Aug 2021*
- *Cyclical or Structural Conundrum – Dec 2020*
- *Déjà vu or Different this time? – May 2020*

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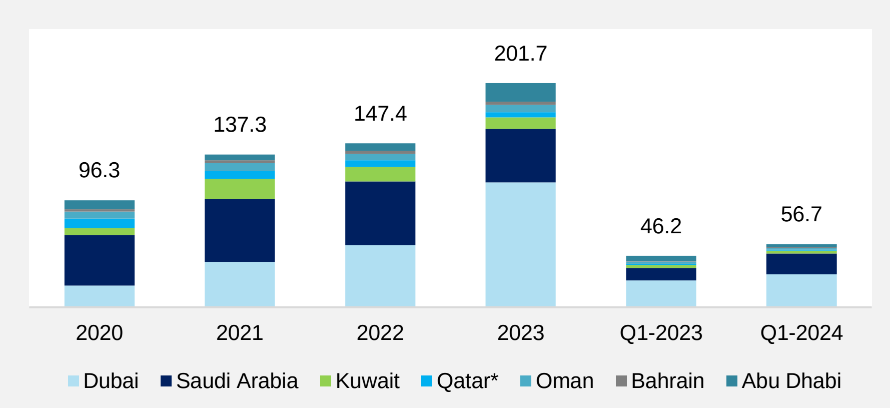
Prime assets still have pricing power: Real estate trends for prime assets in all sub-segments across leading markets in the GCC remained in demand as of Q1-2024, while classic late-cycle pricing trends play out for secondary assets. For residential real estate, new residency options such as the blue visa and amendments to golden visa requirements in the UAE, and Saudi's premium residency program & RHQ initiative should support the residential sector in key markets within those geographies. In the office market, BFSI (banking, financial services and insurance) and healthcare/pharma along with newer sources of incremental demand such as TMT (Technology, Media & Telecom), AI, Robotics will remain primary drivers of additional take-up of quality spaces in GCC's office markets such Riyadh, Dubai, and Abu Dhabi for the rest of 2024, in our view. Quality and specialized newer stock of industrial warehouse spaces remained in demand throughout the GCC, even as supply tightness began to ease. Rents for high quality warehouse spaces continued to move higher, further widening the rental gap with lower quality spaces. Separately, best-in-class super regional malls and community-linked retail spaces should keep natural vacancy rates of 4%-5% and witness rental growth as retail real estate establishes itself as late-cycle favorites.

Saudi & UAE propel GCC RE transacted value growth in Q1-2024: Real estate sale transactions registered in the GCC in Q1-2024 reached USD 56.7 Bn, up 23% y-o-y from USD 46.2 Bn over the same period in 2023, based on our analysis of available official estimates. Saudi was the key growth market for the region, as transacted value (~USD 18.8 Bn) jumped by over 70% y-o-y from strong residential demand across its main cities while Dubai continued its strong growth from 2023 into Q1-2024, as transacted value grew by 22% y-o-y over the same period. Both markets contributed to +85% of the total GCC real estate transacted value in Q1-2024 and were able to offset declines from other key real estate markets from the region. We continue to believe that real estate supply in most segments could quickly get sensitive to market wide headwinds in H2-2024, but also highlight that strong late-cycle pricing outperformance will further continue for unique superior-quality assets in GCC's real estate sub-segments in specific markets as investors become selective and watch overall economic activity and interest rates.

RE developer equities outperformed YTD-2024: The Refinitiv GCC Real Estate Total Return Index gained by 3.8% and outperformed the MSCI GCC index (-8.2%) over the first five months of the year, driven by strong performances from real estate indices of Saudi Arabia's RE Management & Development companies (+7.2%), Kuwait (+6.0%) and Dubai (+5.1%). For the rest of 2024, stock price volatility of real estate equities will continue and selecting developer names with strong liquidity on their balance sheets will be preferred as they would be able launch opportunistically and maintain market share of launches. Having said that, we continue to believe that share price sensitivity to potential interest rate cuts and fluctuation of occupancy rates could potentially impact equity prices of secondary income generating properties operators to a larger extent.

GCC RE Transactions Breakdown – USD Bn

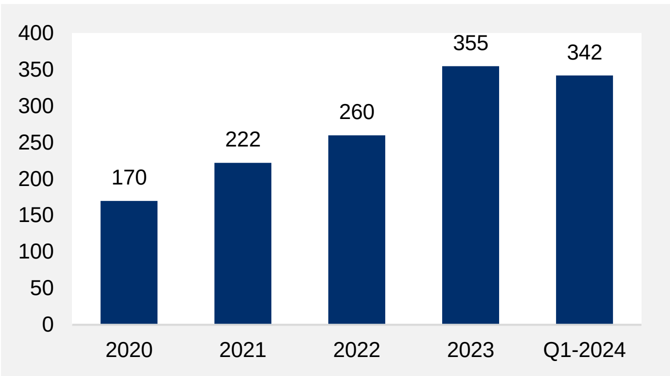


*Source: Kamco Invest Research, Govt Sources, DXB Interact, *Mar-2024 not available*

Saudi & UAE propel GCC RE transacted value growth in Q1-2024

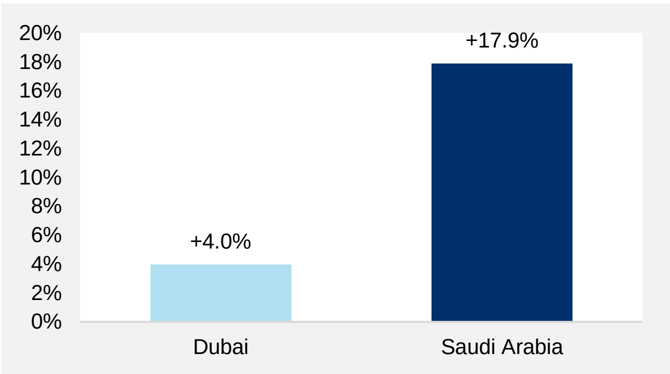
Real estate sale transactions registered in the GCC in Q1-2024 reached USD 56.7 Bn, up 23% y-o-y from USD 46.2 Bn over the same period in 2023, based on our analysis of available official estimates. Growth in RE transacted value sustained from 2023 when the region's transacted value jumped by almost 37% to USD 201.7 Bn. For Q1-2024, Saudi was the key growth market for the region, as transacted value (~USD 18.8 Bn) jumped by over 70% y-o-y from strong residential demand across its main cities. Dubai continued its strong growth from 2023 into Q1-2024, as transacted value grew by 22% y-o-y in the first quarter of the year, ascribed to the pricing power for leading developers, off-plan demand for luxury properties and both single-family and multi-family homes. Both markets contributed to +85% of the total GCC real estate transacted value in Q1-2024 and were able to offset declines from other key real estate markets from the region. The number of transactions in the GCC moved higher y-o-y as well in Q1-2024 (+12.9%) and reached 165,836 deals, mainly ascribed to a jump of over 44% and 17% witnessed in Saudi & Dubai's RE transactions respectively. These trends pushed the average value per transaction achieved in Q1-2024 for GCC's real estate market up by 17.0% y-o-y, as investors continued to see value for market leading residential real estate products despite the strong pricing demanded by developers.

GCC average value per transaction (USD '000)



Sources: DLD, Kamco Invest Research

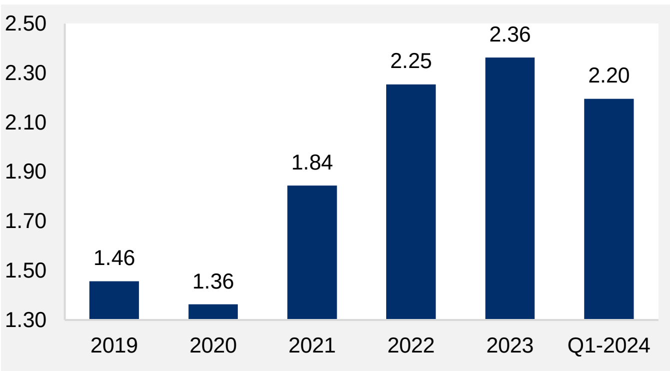
Average value per transaction y-o-y over Jan-Oct 2023



Sources: MOJ, Kamco Invest Research

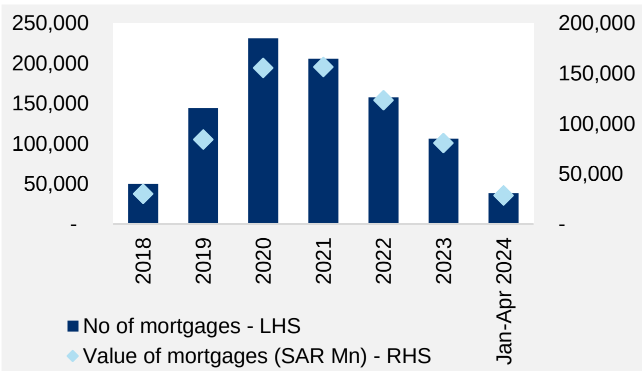
Nevertheless, the average value per transaction achieved over Q1-2024 for GCC real estate was down by 3.6% y-o-y, as the mix of transactions included the higher contribution of Saudi transactions where average transaction size was smaller. Having said that average value per transaction in both Saudi and Dubai moved up by 17.9% and 4.0% respectively y-o-y. In Dubai, off-plan transactions continued their strong momentum with off-plan volumes over Q1-2024, however the average value per transaction for off-plan sales was 7.1% lower than the average of full year 2023 estimate, as project launches had a lesser contribution of luxury residences.

Dubai off-plan value per transaction average (AED Mn)



Sources: DXB Interact, Kamco Invest Research

Total Saudi residential new mortgages from banks & finance companies



Sources: SAMA, Kamco Invest Research

Separately in Saudi Arabia, mortgage activity recovered marginally y-o-y over Jan-Apr 2024 both in terms of volumes of new mortgage from banks & finance companies (+4.8%) and value of mortgage (+1.6%), however the market remains sensitive to higher mortgage rates and higher pricing of residential products. In H2-2024, we expect a slower pace of price increases across key residential markets, early signs of which have already been evident in off-plan and resale properties as typical late-cycle stabilization is witnessed. Further, mortgage rates and rental affordability should impact end user ownership trends especially in Saudi Arabia, while new supply type and configuration should remain the important theme in Dubai, both of which should determine the future course of residential transaction activity in these leading markets, in our view.

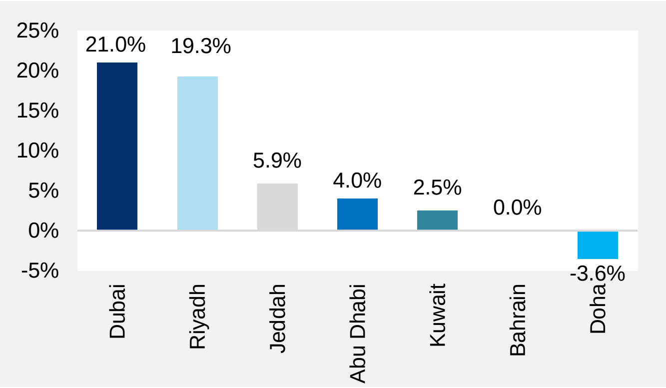
Late-cycle selectiveness; but still no real supply glut for quality assets

Real estate trends for prime assets in all sub-segments across leading markets in the GCC remained in demand as of Q1-2024, while classic late-cycle pricing trends play out for secondary assets. We continue to believe that real estate supply in most segments could quickly get sensitive to market wide headwinds in H2-2024, however frontline developer balance sheets remain healthy with strong liquidity that should enable them to calibrate swiftly to bring the right product types to the market. Further, we believe that strong late-cycle pricing outperformance will further continue for unique superior-quality assets in GCC's real estate sub-segments in specific markets as investors become selective and watch overall economic activity and interest rates. For residential real estate, new residency options such as the blue visa and amendments to golden visa requirements in the UAE, and Saudi's premium residency program & RHQ initiative should support the residential sector in key markets within those geographies. In the office market, BFSI (banking, financial services and insurance) and healthcare/pharma along with newer sources of incremental demand such as TMT (Technology, Media & Telecom), AI, Robotics will remain primary drivers of additional take-up of quality spaces in GCC's office markets such Riyadh, Dubai, and Abu Dhabi for the rest of 2024, in our view. Quality and specialized newer stock of industrial warehouse spaces remained in demand throughout the GCC, even as supply tightness began to ease. Rents for high quality warehouse spaces continued to move higher, further widening the rental gap with lower quality spaces. Separately, best-in-class super regional malls and community-linked retail spaces should keep natural vacancy rates of 4%-5% and witness rental growth as retail real estate establishes itself as late-cycle favorites.

Fundamental tailwinds to push residential gains in Dubai & Riyadh further in H2-2024

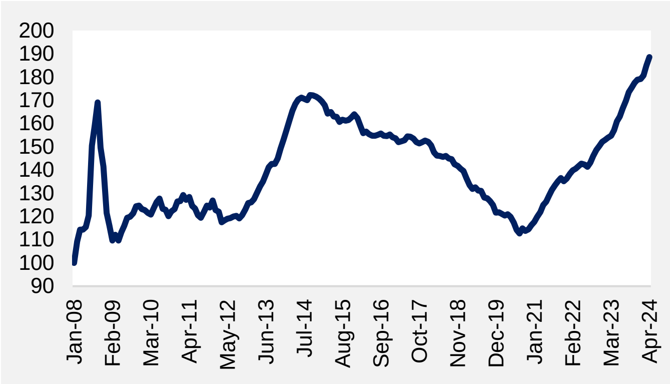
Key residential markets of Dubai and Riyadh witnessed strong pricing trends in Q1-2024 backed by strong transaction activity and investment demand. Dubai' sales price reportedly jumped by 21% as per JLL, supported by healthy off-plan sales and demand from cash buyers (+80% contribution). Luxury developments and related transactions continue to outperform in the off-plan market, leading developers to maintain launch momentum in this segment. In Abu Dhabi, villa prices moved up by 10%-15% y-o-y reportedly by Asteco, with the most significant surge recorded in prime villa communities, as demand for off-plan developments remained strong, particularly from foreign investors. Riyadh residential prices were up by 3.6% for villas and 8.4% y-o-y for apartments, as residential mortgages within Saudi that dominate buyer demand sequentially recovered in Q1-2024 (SAR 22.1 Bn) from Q4-2023 by 12.4%, and almost reached Q1-2023 mortgages disbursed.

Residential rents performance: Q1-2024 (y-o-y%)



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

Dubai Dynamic Price Index - Property Monitor



Source: Property Monitor, Kamco Invest Research

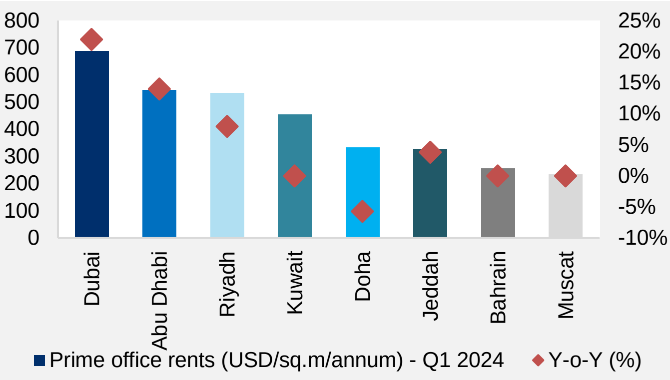
Other markets such as Jeddah reportedly witnessed mixed trends, as apartment prices fell 1.1% while villa prices remained broadly stable as per CBRE. In terms of rents, Dubai reportedly witnessed a 21% y-o-y jump in average residential rents as per JLL, while CBRE quoted a similar rental increase and mentioned that tenants chose to renew their existing residential leases rather than initiate newer leases that came with much higher rents. Riyadh also witnessed an increase of actual rentals for housing of 19.3% y-o-y, based on the General Authority for Statistics, as migration from other cities and new expats entering the market drove housing demand. Other rental markets such as Jeddah (+5.9%), Abu Dhabi (+4.0%) and Kuwait (+2.5%) also witnessed increases y-o-y, based on trends from General Authority for Statistics, JLL and REMI respectively.

For the rest of 2024, we expect the pace of price and rental growth across key markets to moderate, but strong activity should continue for unique market-leading residential projects from developers who possess strong brand equity and pricing power. New residency options such as the blue visa and amendments to golden visa requirements in the UAE, and Saudi's premium residency program & RHQ initiative should support the residential sector in key markets within those geographies.

Limited supply deliveries & dropping vacancy rates continue in RHQ markets - Riyadh & Dubai

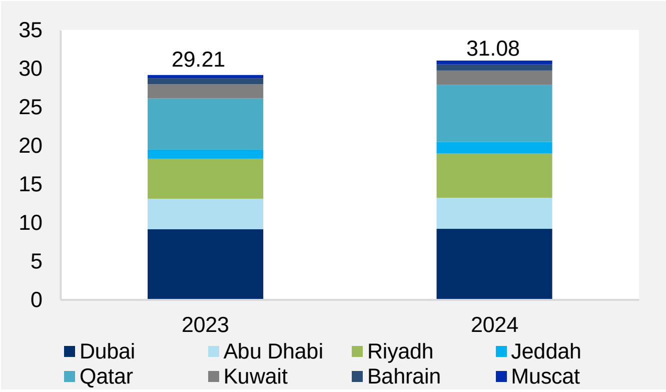
Prime office spaces in Dubai (+22%) and Riyadh (+8%) witnessed significant rental increases as demand continued for superior quality office premises amongst limited deliveries of supply, while specific industries continued to expand their footprint in these markets. Both markets also represent aspirations of becoming the regional headquarters for corporates. Saudi Arabia's regional headquarters program (RHQ Program) initiatives such as announced tax incentives for foreign companies that locate their regional headquarters in the kingdom, including a 30-year exemption for corporate income tax contributed to 104,000 commercial registrations (business licenses) in Q1-2024, a 59% rise from Q1-2023, bringing the total number of registrations to over 1.45 million across Saudi, based on Knight Frank data. In Dubai, there was notable activity from corporate occupiers, as per JLL, as they reportedly showed a preference for fitted space due to the landlords' reduced contributions to capital expenditures, while some tenants were able to negotiate the amortization of these expenditures into the rental agreement.

GCC prime office rents & y-o-y declines: Q1-2024



Source: Kamco Invest Research, Asteco JLL, Savills, REMI, ValuStrat

GCC key office markets office supply (Mn sq.m)



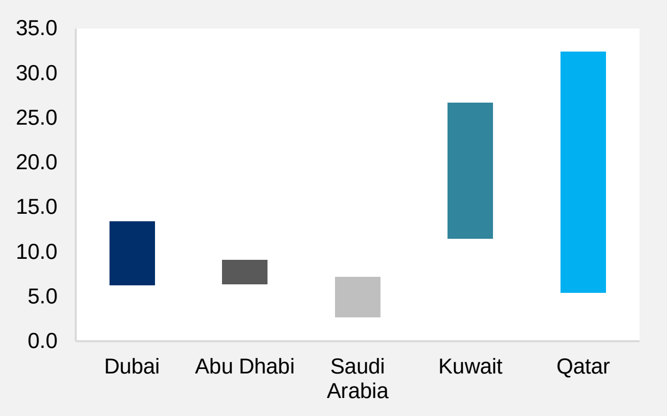
Source: JLL, ValuStrat, REMI, Savills, Kamco Invest Research

Separately, Knight Frank reported that rising demand predominantly from the public sector combined with limited quality supply drove rents in Jeddah's office market higher. A similar trend was witnessed in Abu Dhabi, as per CBRE, as entities with direct and indirect government links remain the largest source of occupier demand in onshore locations, while limited availability of quality stock remains one of the main challenges being faced. Aggregate office space in GCC's key markets is expected to reach 31.08 Mn sq.m by the end of 2024, from 29.21 Mn sq.m in 2023, based on our analysis of consultant data. As a result of the lower supply of quality spaces, prime office spaces in Abu Dhabi (+14%) and Jeddah (+3.8%) witnessed gains in rents y-o-y at the end of Q1-2024. BFSI (banking, financial services and insurance) and healthcare/pharma along with newer sources of incremental demand such as TMT (Technology, Media & Telecom), AI, Robotics will remain primary drivers of additional take-up of quality spaces in GCC's office markets such Riyadh, Dubai, and Abu Dhabi for the rest of 2024, in our view. Further influx of multi-national corporates will drive preference for sustainable and energy-efficient office spaces that are LEED certified, with allocation towards wellness components and better infrastructure connectivity.

Newer stock of industrial warehouses attracts capital & demand

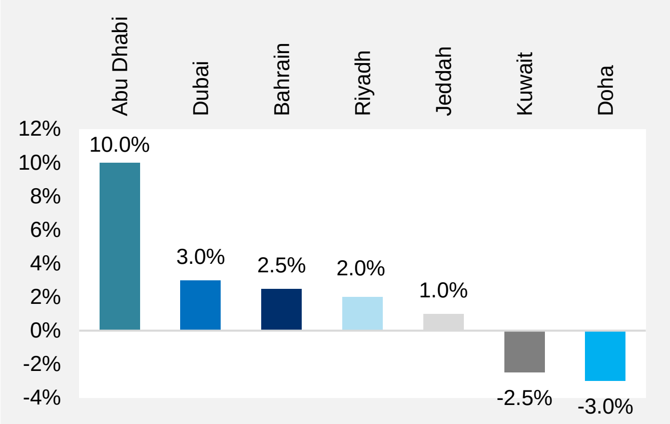
Quality and specialized newer stock of industrial warehouse spaces remained in demand throughout the GCC, even as supply tightness began to ease. Rents for such spaces continued to move higher, further widening the rental gap with lower quality spaces. In Riyadh and Jeddah average rents moved up by 8.1% and 3.1% respectively, even as the logistics ecosystem in Saudi continued to evolve. In Q1 2024, two notable directives were launched at the LEAP 24 forum, starting with the announcement of the "LOGISTI 2 "platform offering over 140 electronic logistical services, expedited and enhanced experiences while adopting best practices, as per CBRE. Additionally, they mentioned that a Port Cluster System (PCS) was announced providing over 250 related services targeting elevating Saudi efficiency and aiding in achieving Vision 2030 logistics objectives. Separately, alternative investments company Gulf Islamic Investments (GII) signed an agreement with Saudi's industrial and logistics real estate developer Logipoint to create a joint venture (JV) for a logistics platform starting in Riyadh and Jeddah providing warehousing and handling facilities across Saudi in a deal worth over SAR 1 Bn (USD 300 Mn) as per Zawya. In Dubai, elevated levels of demand along with the limited supply of new developments witnessed recently have created an undersupply of quality stock pushing up average rents by 14.3% y-o-y in Q1-2024, as per CBRE. They further mentioned that the primary inhibitor that is limiting new developments is the absence of the necessary infrastructure required or available land plots.

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



Source: CBRE, JLL, Knight Frank, Valustrat, REMI, Kamco Invest Research

GCC retail space rents: Q1 2024 (y-o-y%)



*Source: JLL, Valustrat, REMI, Kamco Invest Research, * Kuwait and Bahrain are as of May - 2024*

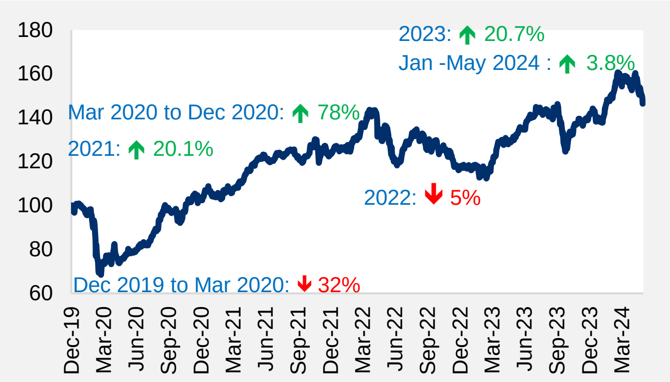
Super-regional malls to remain in vogue in 2024

In the retail real estate market, Abu Dhabi and Dubai mall spaces witnessed higher comparable rental growth y-o-y at the end of Q1-2024 at +10% and +3% respectively, as per consultant data. Demand from both markets is concentrated within quality assets in prime locations, as the lack of availability of such stock prevails. Our outlook for super regional malls is maintained as developers continue to optimize space and focus on increasing their Family Entertainment (FEC) footprint to attract footfalls. Further, we believe that brick-and-mortar retail has established its place in the overall retail market, and the risk of retail ecommerce largely pinning hopes of achieving continuous market share gains has clearly stabilized. Moreover, best-in-class super regional malls and community-linked retail spaces should keep natural vacancy rates of 4%-5% and witness rental growth as retail real estate establishes itself as late-cycle favorites. In such landmark mall spaces, retailers would continue to look for more strategic locations for their outlets and will be willing to pay a premium for better visibility. Mall owners of such spaces should be able to mitigate tenant portfolio risks by monitoring KPIs such as footfalls, tenant sales and occupancy cost ratios (OCRs), that should be enable them to achieve contract renewals or tenant rollover at favorable rental rates.

Real Estate equities outperformed MSCI GCC YTD

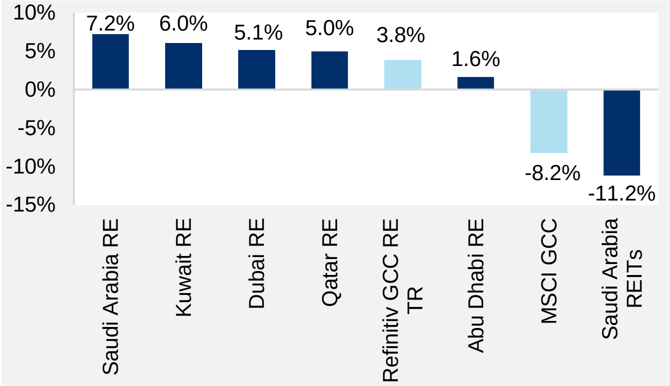
Real estate equities barring Saudi Arabian REITs (-11.2%) outperformed the broader market in the GCC from Jan-May 2024, but remained volatile throughout the period. The Refinitiv GCC Real Estate Total Return Index gained by 3.8% and outperformed the MSCI GCC index (-8.2%) over the first five months of the year, driven by strong performances from real estate indices of Saudi Arabia's RE Management & Development companies (+7.2%), Kuwait (+6.0%) and Dubai (+5.1%).

Refinitiv GCC Real Estate Total Return Index (Rebased) – Jan-May 2024



Sources: Kamco Invest Research, Refinitiv

GCC RE equity indices: Jan-May 2024 returns (%)



Sources: Kamco Invest Research, Bloomberg, Refinitiv

Investors continue to reward developers who are sector leaders with strong pricing growth and pipelines, possess ability to capture the residential demand and sell-through of their projects. For the rest of 2024, stock price volatility of real estate equities will continue and selecting developer names with strong liquidity on their balance sheets will be preferred as they would be able launch opportunistically and maintain market share of launches. Having said that, we continue to believe that share price sensitivity to potential interest rate cuts and fluctuation of occupancy rates could potentially impact equity prices of secondary income generating properties operators to a larger extent.

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