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Highlights

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For further information please contact:

Dubai
Office 403, Building 1, Emaar Square
Sheikh Zayed Road, PO Box 214029, Dubai UAE
T. +971 (0)4 426 6999
F. +971 (0)4 365 3260

Abu Dhabi
Office 1003/4 10th Floor, Al Niyadi Building
Airport Road, PO Box 36788, Abu Dhabi UAE
T. +971 (0)2 443 7772
F. +971 (0)2 443 7762

Riyadh
Level 3, Western Tower, Al Hoshan Building
El Ehasa St., PO Box 9629
Riyadh 11423, Saudi Arabia
T. +966 (0)1 472 8309
F. +966 (0)1 472 9478

Jeddah
Office 122, Enso Offices, Saudi Business Center
PO Box 13711, Jeddah 21414, Saudi Arabia
T. +966 (0)2 651 5333
F. +966 (0)2 652 0700

Email: info-mena@jll.com
www.joneslanglasalle-mena.com

Second Investor Sentiment Survey Released at Cityscape Abu Dhabi

Sentiment will be a critical factor in determining when real estate markets across the region start to recover from their current downturn. To obtain an up-to-date insight into investors thinking and how this is influencing their investment decisions, Jones Lang LaSalle has recently undertaken its second **Investor Sentiment Survey** for the Middle East & North Africa region, with the findings being released at Cityscape Abu Dhabi.

The major findings from this survey can be summarized as follows:

- Investors consider Abu Dhabi to be the stand-out market likely to provide the strongest return over the next 12-24 months.
- Investors are becoming more prudent with greater attention being paid to the regulatory framework and market risk. There has also been a marked shift from capital gain to seeking sustainable rental income.
- 2010 looks set to be the **"vintage year"** (the optimum time to buy real estate) in the current cycle.
- Investors expect market conditions to get worse before they get better, with all markets considered to be in the downturn stage of their cycle.
- Saudi Arabia is expected to recover first and is the only market where investors expect values to increase over the next 12 months.

Please see overleaf to read more details about the findings...

Positive Sentiment Drives Growth in Saudi Arabia

Investors expect Saudi Arabia to be one of the best performing markets in the MENA Region over the next 12 months. The fundamental demand drivers that make the Kingdom "The Gulf's Powerhouse" (see Jones Lang LaSalle WWC report – Oct 2008) remain in place. Confidence levels and debt capacity are both starting to return following a post-Lehman period of hesitation between the two Eid holidays during the last quarter of 2008.

Our second Investor Sentiment Survey (undertaken in March 2009) shows that investors believe Saudi Arabia will be the first market in the GCC to recover, being the only country expected to see an increase in price levels over the next 12 months.

We are seeing a number of new entrants into the market, including new development companies, GCC or KSA registered funds and joint ventures with foreign developers. Even though oil revenues are down sharply, the non-oil private sector continues to grow and the government has increased spending by 15% to support infrastructure, education and health spending.

Capturing Value in Abu Dhabi

While the Abu Dhabi market has been negatively impacted by global economic conditions over the past 6 months, we remain firmly of the view that Abu Dhabi is well on the way to being a World Winning City by 2020. The factors behind our confidence in the Abu Dhabi market are examined in a new Jones Lang LaSalle report entitled **'Capturing Value in Abu Dhabi'** (April 2009).

The Government has established a clear strategic vision for the development of the city over the next 20 years, based around common themes including environmental sustainability. This ensures that new developments are supported by a step change in demand and respecting Arabic culture and Islamic values to ensure that Abu Dhabi serves as a model for the 21st Century Arabic city.

This vision, supported by strong governance and the abundance of investment capital, will ensure that Abu Dhabi will emerge as a city of increasing global significance. The factors contributing to the success include:

- Clear planning framework
- Strong economic base
- Investment in urban infrastructures
- Improving regulatory environment
- Positive city governance

Our report examines the current economic and demographic dynamics of Abu Dhabi, the regulatory regime and the steps required to further improve transparency going forward. We further analyse the current status of real estate markets and how we see these evolving in the short to medium term as markets recover.

Our second Investor Sentiment Survey shows that investors believe Abu Dhabi will be the stand-out performer across MENA over the next 12-24 months, with values stabilizing within the next 12-18 months and increasing again from 2011. As investor and consumer confidence is restored, liquidity returns and the government's infrastructure investment and economic development initiatives take hold, Abu Dhabi's market prospects will be favourable. At the point of this recovery, the improved regulatory framework and market transparency will ensure Abu Dhabi's underlying fundamentals are stronger than ever.

Jones Lang LaSalle's Abu Dhabi team is moving from strength to strength and is playing a leading role in shaping the future development of the city. Advising from strategy through to value realisation and transactions, our experts deliver the full range of services to clients including strategic consulting, valuations, corporate finance advisory, leasing and tenant representation, investment, capital raising and research.

For a full copy of the report – 'Capturing Value in Abu Dhabi', please visit our website: www.joneslanglasalle-mena.com

Emerging Opportunities in Saudi Arabia

While Saudi Arabia is by far the most populous country and the largest economy in the GCC, the real estate market remains relatively under developed. Driven by strong internal growth dynamics, this is beginning to change with widespread opportunities emerging across many different sectors of the real estate market throughout the Kingdom.

The **residential** sector is widely perceived as having the most potential, although converting this potential into reality remains challenging. Home financing is still relatively small in scale due to the delayed passage of the sharia-compliant 'mortgage law' and other inhibiting factors include limited transaction data, inaccessible registry information, and uncertain security of land titles. Developers are faced with a number of choices to make about location, houses vs. apartments, construction vs. plot sales, etc.

There is a substantial pipeline of new **office** development being delivered in the main cities. While many multi-nationals are now reviewing their expansion plans for emerging markets, there remains continued demand from this sector, especially in Riyadh. The slowdown in overseas generated demand has also been offset by the continued expansion of private Saudi groups and the public sector. There is a definite trend to more peripheral locations in the main cities which offer better access and parking. The quality and selection of office space in Saudi Arabia is improving and Jones Lang LaSalle is using its global best practices to help occupiers identify and select the most suitable options for their operations.

Perhaps the least cyclical real estate markets within the MENA region are the Holy Cities of Makkah and Madinah. Religious tourism has been expanding with international demand facilitated by increasing visa allocations and transportation capacity. New terminals for Jeddah airport and a high speed rail link linking Madinah and Makkah will ensure that this growth continues. Development of hotels and other accommodation is driving these markets and has resulted in land values in central Makkah being among the highest in the world.

The Economic Cities programme being sponsored by SAGIA (Saudi Arabian General Investment Authority) is going to have a major impact on both the real estate and the national economy over the next few years with a number of these hugely ambitious projects starting to become a reality. The most advanced is the King Abdullah Economic City (KAEC), to the north of Jeddah, where roads and canals are in place and several residential and commercial buildings facing the Red Sea are nearing completion. Jones Lang LaSalle has been involved in such projects across the Kingdom, providing feasibility and market studies to help developers plan phasing and align product to market needs.

There is a wide range of tenure and funding options available in the Saudi market, including IPOs, private placements, BOT leases, investment funds, sharia-compliant debt, management agreements, etc. Jeddah municipality is innovating with new redevelopment vehicles modelled on Beirut's Solidere project for the Khozama and Jeddah Central Districts. These new ventures will be empowered to expropriate or acquire land to enable a new generation of neighbourhoods to emerge.

If you would like further information on opportunities in KSA, please contact john.harris@jll.com

Recent Assignments

Reem Island, Abu Dhabi, UAE

- Jones Lang LaSalle has conducted a market research and financial feasibility assessment for five land plots with a total land area of 10 hectares on Reem Island. The proposed development will include residential, retail, hospitality and office components.

Industrial Development, Al Ain, UAE

- This mixed use industrial development consists of retail, warehouses, labour accommodation and commercial uses spread oven an area of 1,600 hectares. Jones Lang LaSalle conducted detailed market research, development recommendations and a financial feasibility assessment for the project.

Mixed Use Educational City Development, Dubai, UAE

- The development plot is adjacent to an existing 180 hectares educational zone within Dubai. Jones Lang LaSalle has been commissioned to conduct a highest and best use study for complimentary uses to educational facilities whilst having a commercially driven development.

King Abdullah Economic City, Jeddah, KSA

- Jones Lang LaSalle has been commissioned to undertake a valuation and conduct detailed market research to support the residential, retail and office components of this major new economic city located to the North of Jeddah.

City Centre Development, Jeddah, KSA

- This mixed use development in central Jeddah extends to over 500 hectares and involves the redevelopment of the urban waterfront. Jones Lang LaSalle has been appointed to undertake a market and development validation exercise as well as provide input to the development strategy of the project.

Industrial Development, Jeddah, KSA

- We are currently undertaking a development validation and financial assessment for an industrial site with an area of 50 hectares. The proposed uses include warehouses, labour accommodation and retail facilities.

Mixed Use Development, Sana'a, Yemen

- For a high profile GCC based developer, Jones Lang LaSalle is conducting a market research and development advisory study for a 60 hectare site. The components being assessed are retail, hospitality and leisure.

Mixed Use Development, Baghdad, Iraq

- Jones Lang LaSalle conducted a desk-based market research, master plan optimization and development strategy exercise for a 1,000 hectare mixed use development in Baghdad, Iraq on behalf of a GCC based investment group.

Business Model & Implementation Plan, Makkah, KSA

- The Jones Lang LaSalle Corporate Strategy team has been engaged by a high profile consortium to design a Business Model, Business Case, and Implementation Plan for a potential Estate Management Company being formed to manage a large 6 tower project in Makkah near the Holy Mosque.

Fund Advisory, MENA

- The Jones Lang LaSalle Corporate Finance team has been engaged to help develop a concept paper for a Middle Income Property Fund for Islamic Countries in the MENA region. The objective of the paper is to identify priority markets for investment considering such indicators as ease of entry, demand, competition and yield potential.

Investors Share Their Views

The second edition of Jones Lang LaSalle's Investor Sentiment Survey was undertaken in association with Cityscape Intelligence recently, with the subsequent report being released at Cityscape Abu Dhabi.

We received responses from over 200 of the regions leading real estate investors and are grateful to those who took the time to share their insights with us. The major findings to emerge are as follows:-

- **Abu Dhabi stands out from the crowd.** Investors feel that Abu Dhabi scores above other markets across the region in terms of a range of indicators including the level of planned infrastructure, real estate planning and vision, environmental sustainability and the quality of leadership. As a result, Abu Dhabi is considered likely to be the strongest performing real estate market over the next 12-24 months.
- **Investors become more prudent –** with a greater emphasis on regulatory issues and market risks, investors are re-focusing their investment approach on real estate fundamentals with longer-term investment horizons. The requirement for robust capital returns has given way to regulation and market risk as the most important factors influencing investment decisions.
- **2010 set to be the "vintage year" in the current cycle.** There is typically one year that hindsight reveals as the optimal time to purchase assets in any real estate cycle. As the signposts of recovery begin to emerge globally and regionally, investors believe 2010 is the optimum time to invest in MENA real estate. Expert investors keen to take advantage of these high-value investment opportunities are actively pursuing deals today.
- **Things are expected to get worse before they get better.** Investors expect real estate market conditions and performance to decline further across the entire MENA region in the short term.
- **Saudi Arabia is expected to recover first.** Investors expect Saudi Arabia to be the first market to recover, with this being the only location across MENA where values are predicted to increase over the next 12 months.
- **More buyers than sellers in Abu Dhabi, Riyadh and Jeddah.** Dubai is the only market with significantly more sellers than buyers at the present time, with a general increase in the number of investors seeking to hold rather than sell into what are perceived to be depressed markets.
- **Yield expectations are increasing.** There has been a general increase in the level of yield expectations over the past 6 months, with investors now expecting net initial yields in excess of 10% in all markets across MENA.
- **Deal size is declining as new asset classes are considered.** With reduced liquidity and increasing prudence being shown, it is not surprising that investors are focusing on relatively small deals (60% looking for deals below USD 100 million) and are exploring opportunities in non traditional asset classes (eg industrial / logistics, healthcare and labour accommodation).

The detailed report of this survey is available on www.joneslanglasalle-mena.com. We will be undertaking this survey on a regular basis in order to track how investors' sentiment is changing in different sectors of the market. If you would like to participate in subsequent editions of the survey, please contact ian.ohan@jll.com

CITYSCAPE INTELLIGENCE

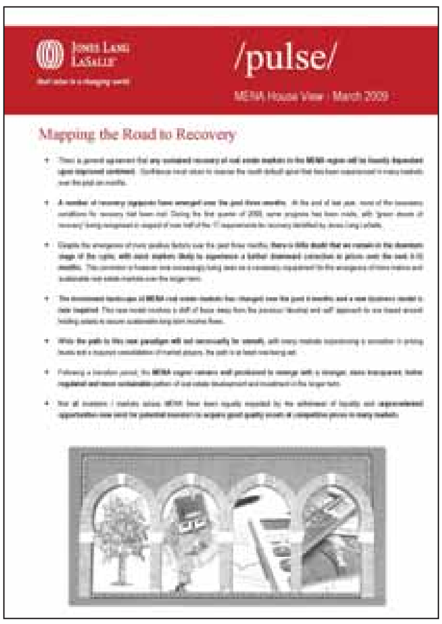
Abu Dhabi market becoming more tenant favourable

Until recently occupiers have had limited choice in the UAE Capital and have had to settle for sub-standard office space in mixed use building while paying rents in excess of AED 4,000 per sq m. The market is now changing with evidence of dealing rents on larger amounts of Grade A space at circa AED 3,000 per sq m. Supply is also set to change the market dynamics in the tenants favour going forward, with some 1.2 million sq m completing over the next 2 years the total supply will be nearly double that of today.

Educated tenants are seeking to take advantage of this shift in market sentiment and are adopting a short term view on their space requirements. Why commit to a 5 year lease on poor quality stock when you could remain flexible on short term leases and take advantage of the increased new supply due to enter the market from 2010 onwards?

While there remains a steady trickle of enquiries from advisory and consulting businesses, large scale demand has softened significantly as most major companies are looking to reduce costs and consolidate in these uncertain times.

Ground Rules for a Return of Liquidity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MENA House View | March 2009

Mapping the Road to Recovery

An essential pre-requisite for any real estate market recovery is for the global financial markets to be recapitalised. Governments around the world have intervened to recapitalise the banks and those in the Gulf region have made considerable and concerted efforts to underpin the financial sector over the past 2 months. Significant levels of liquidity have been injected directly or indirectly.

To date, this liquidity has not found its way back to the property sector, but this may be about to change. It is understood that over 50% of the USD 10 billion of funding recently secured from the UAE Central Bank has been allocated to help finance the various real estate bodies operated by the Dubai Government and that this funding will be made available immediately.

There is also some USD 2 billion of equity raised for real estate investment across the region over the first three quarters of 2008 that is currently waiting in the wings. Much of this capital is now actively seeking deployment opportunities as investors seek to take advantage of distressed asset sales which are becoming available on an opportunistic basis.

Additional capital is beginning to pool as investors regain their balance and refocus on current regional opportunities. Some previously internationally oriented investment funds are being redirected to the regional markets.

Institutional investors are now looking more strategically at assets with long-term contractual income attached, generally with 10-year plus leases attached with strong covenants. Smaller deal sizes are more palatable, owing to restricted debt markets and more limited and cherished equity. This is leading to increased interest in alternative asset classes including industrial and workforce accommodation as well as deals in the education, healthcare and infrastructure real estate related sectors.

Today, more than ever before, vendors and investors are more malleable and willing to explore creative deals that can be structured to meet their respective objectives centering around a shared pain – shared gain ethos.

Investors today are primarily concerned with protecting the deal floor, rather than driving maximum exit value scenarios.

The above is an extract of the Jones Lang LaSalle MENA House View March 2009. For a full copy of the report please visit our website at www.joneslanglasalle-mena.com

KSA Offers Unique Hospitality Opportunities

The Kingdom of Saudi Arabia is by far the largest market in the GCC in terms of economic activity, population and geography. Covering almost 2 million square kilometers area across 13 provinces, the Kingdom offers a wide range of hospitality opportunities from Tabuk to Jizan and from Abha to Jubail and Dammam in support of its rapid economic development.

Being home to the two holiest Islam sites, the Kingdom has seen its hospitality infrastructure being geared towards accommodating Muslim pilgrims for Hajj and for Umrah and who make up over 50% of the visitors to the Kingdom.

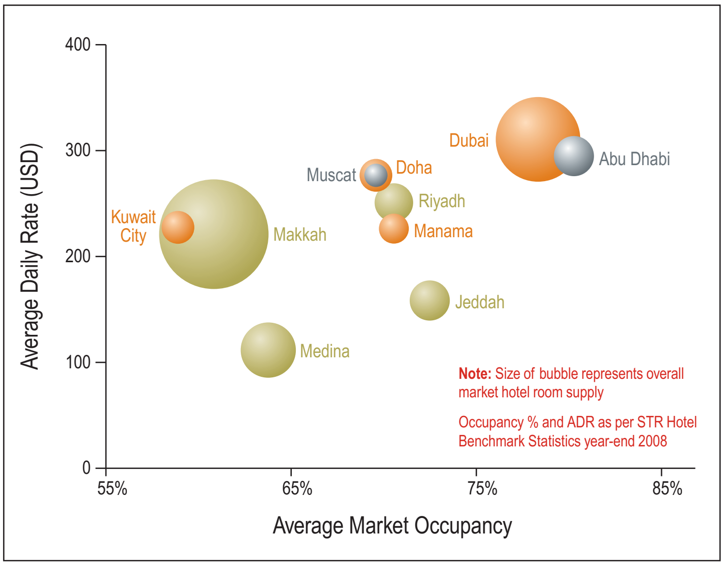
Hajj and Umrah pilgrims continue to be of the highest importance to the Kingdom development and planning authorities. The upgrade of Makkah pilgrim accommodation and hospitality infrastructure along with the planned expansion of the Holy Haram, is creating a unique wealth of development activity in Islam's holiest city.

Ambitious strategies are however being drafted across all dimensions of the Saudi economy and these have major implications for the hotel sector.

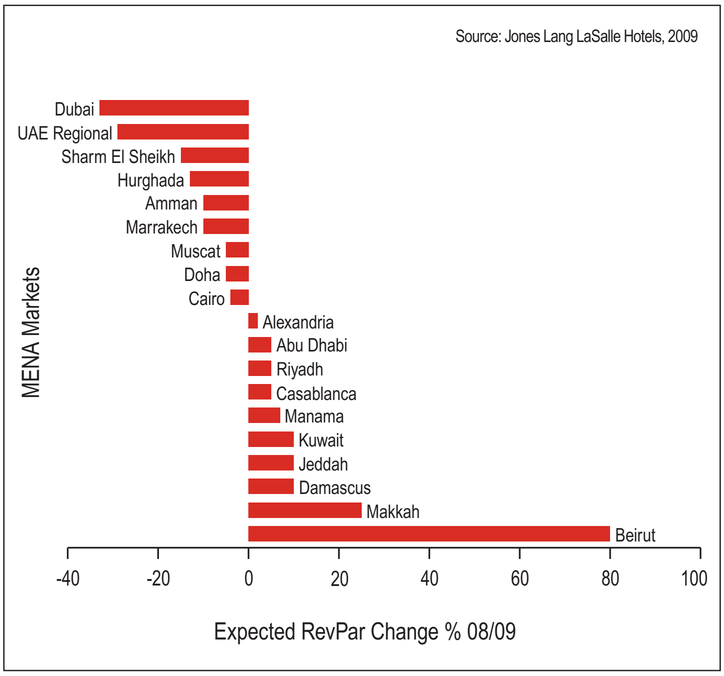
In this context, the city of Riyadh is rising to its role as the capital of the world's largest oil exporter. In the wake of landmark developments such as the Kingdom Tower and the Faisaliyah, a modern hospitality offering is being laid down, both along the King Fahd Road backbone and along the capital city's other new expansion paths.

"Jeddah the different" is being used by the Municipality of Jeddah to promote its tourism industry with a number of new hotel and mixed-used projects stretching along the Northern Corniche. The Old Airport area, east of the city is also being revitalised and is expected to host various large scale mixed projects that will significantly change the tourism landscape in Jeddah and beyond.

Under the Chairmanship of HRH Sultan bin Salman bin Abdulaziz, The Saudi Committee for Tourism and Antiquities is inviting the world to share the unique heritage of the Kingdom, building upon the classification of Madain Salah in the UNESCO world heritage. This Committee is embarking on an active hospitality strategy in order to meet the requirements of both the increasingly important domestic tourism as well as those of the sophisticated travellers who are in for a new and unique tourism experience combining the exotics of Arabia Felix with the "must" of modern comfort and technology.



MENA Hotel Performance Outlook



The primary markets in the MENA region showed moderate to strong growth in RevPAR over 2008. The rate of growth however varied considerably and was influenced by the economic health of the respective tourism source markets and new supply additions entering the market. As shown in the graph to the left, we consider 2009 will provide far less positive results. Whilst moderate growth in RevPAR is forecast in many markets, those absorbing high levels of new hotels are expected to experience a strong contraction in occupancy and average daily rate (ADR).

Recorded RevPAR change was led by Beirut which achieved growth of 89% followed by Abu Dhabi at 48% in 2008. RevPAR growth was more moderate in Dubai which had recorded strong hotel room supply additions in the second half year as well as in Kuwait and the two Moroccan markets surveyed. KSA cities also posted a record level of growth in 2008, mainly due to substantial increases of religious, business and domestic leisure travellers.

Our market forecasts based on YTD 2009 performance indicate a softening in RevPAR growth for approximately half the markets surveyed with other key markets expected to decline. Those markets reliant principally on European leisure arrivals such as Sharm El Sheikh and Hurghada are expected to see a softening of occupancy and ADR as a result of fewer and discounted group bookings. This is applicable to Dubai which is also forecast to experience additional room supply.

Moderate to strong growth is projected for key city Saudi Arabian markets as well as those in Bahrain, Oman, Syria and Lebanon which have limited supply increases and diverse tourism generators.

For further information, please contact jalil.mekouar@jll.com