



GCC Construction Industry

Residential and Commercial Building Construction

March 27, 2012



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“Qatar is ranked as one of the most stable and safe countries in the world, it is a growing economic power in the middle of a dynamic and exciting region. With its ambitious growth plans, and fast developing infrastructure as part of the National Vision 2030, and with it being the official host of the 2022 FIFA World Cup and the 8th World Chambers Congress in 2013, Qatar will become the leader in the construction field, the business hub of the region, and a world-class events nation.”

Remy Rowhani

Director General

Qatar Chamber and ICC Qatar

“The UAE’s construction sector has enjoyed a positive start to 2012, as reflected in market valuations of major companies. Indices that track real estate and construction stocks have risen more than 30% this year and the industry accounts for nearly half of all traded value. As the UAE makes further enhancements to its capital markets infrastructure, construction companies will find renewed opportunities to fund their expansion.”

Jeff Singer

Chief Executive

NASDAQ Dubai

“The World Cup 2022 will give a big boost to infrastructure growth in Qatar. This growth in infrastructure is expected to be followed after a period of time by growth in the construction sector. There are a lot of international players in the sector but they ultimately need support of local companies to be able to deliver the project. Enhanced government support to local companies will further enhance the capabilities of these companies”.

Ali Bin Hamad Al Thani

Chairman & Managing Director

HBK Contracting Co. WLL, Qatar

“While the private sector has been cautious making investments in recent years, the outlook for the construction sector in Oman remains positive, driven by a positive outlook for the economy. The government has taken many measures to make Oman, investor friendly for foreign investors. The foreign investments in the recent past have been on the upswing. If the government maintains the present level of spending and with increased investments from private and foreign investors, the construction industry can achieve a high growth level”.

Ivor Braganza

Chief Executive Officer - Property & Construction Group

WJ Towell & Co, Oman

“There are signs of recovery in the UAE construction sector and a number of stalled projects are being restarted as developers find alternative solutions. There is oversupply in the market due to which we don’t expect to see much new construction activity in the short term. The outlook for the sector however, from a medium to longer term perspective is positive because of stability in the region, government initiatives and renewed economic activity”.

Paul Schneider

General Manager

Al Rostamani Pegel LLC.

Although the acute phase of the global financial crisis has passed, there was a marked slowdown in the award of construction projects in the UAE during 2011. The cautious approach to new investment is expected to continue into the first half of 2012. In a market where supply currently outstrips demand, private sector development will be modest but will include malls and hotels as tourism continues to play an increasing role in the economy. Large infrastructure projects offer some of the best current construction opportunities for the major contracting companies. Some contractors, recognizing these trends, are gradually focusing their attention on civil and infrastructure projects, where opportunities are greater”.

Richard B Corish

Business Development Director

Habtoor Leighton Group

“GCC economies have strong economic fundamentals and as they recover from the aftermath of the global financial crisis, we are once again seeing healthy growth rates. Diversifying into non-oil sectors like construction has been a priority for the governments of the GCC countries and we expect the sector to grow further on the back of robust growth drivers like positive economic outlook, increased government spending and increasing population”

Rohit Walia

Executive Vice Chairman and Chief Executive Officer

Alpen Capital Group

1. Executive Summary

Realizing their overdependence on oil revenues, the governments of GCC member countries placed strong emphasis on non-oil sectors like construction and real estate in the last decade. The sector saw a period of spectacular boom and was subsequently adversely affected by the global economic meltdown and the subsequent debt crisis. Though the construction and real estate sector has started recovering from the lows of 2008-2009, growth is still far from pre-crisis levels. The growth is also not uniform across all regions within the GCC and while some countries are leading the recovery; others continue to take a more careful approach. Prospects in the Qatari construction market are looking optimistic on the back of strong GDP growth and the successful bid for the 2022 FIFA World Cup. In Bahrain and Saudi Arabia, the focus of the residential construction sector has shifted to providing affordable homes to the low and middle income group population. UAE's reputation as a safe and stable country amid the recent 'Arab Spring' is likely to have a positive impact on the construction sector despite the current oversupply and cautious approach to new investments.

GCC region continues to enjoy premium on rental yields as compared to the mature markets of the US and Europe, which will keep the overseas investor's interest intact in the sector. Due to low number of transactions taking place in the marketplace, the determination of the price ranges is a challenging task, thereby making this a buyer's market. We foresee continuation of this phase in near to mid-term.

1.1. Scope of the Report

This report focuses on key emerging trends, fundamental growth drivers, noteworthy challenges in the industry, and profiles of six GCC nations while presenting the outlook for residential and commercial office construction sector based on a supply-side approach.

1.2. Industry Outlook

- The UAE residential and commercial market is still searching for equilibrium as funding has been curtailed, projects scaled back and contractor resources downsized. Developers in the UAE will continue to take a cautious approach in the short-term in view of existing oversupply.
- We expect both, the residential as well as commercial office construction market of Saudi Arabia to show positive growth trends in the next five years on the back of rising population and a booming economy.
- We have an optimistic outlook on the Qatari residential as well as commercial office construction market on the back of healthy growth in population and increasing economic activity.
- We anticipate Bahrain's residential market to have substantial undersupply in the affordable homes segment as developers continue to focus on the premium segment of the market but will continue to face uncertainty due to political unrest.
- We expect the Omani residential properties market to stabilize in the near-term.
- In Kuwait, we expect the demand for private housing to be particularly strong in the long term due to undersupply but the commercial space will face oversupply issues.

1.3. Key Growth Drivers

- GCC countries have sound economic fundamentals and healthy growth forecasts. The governments of these countries are increasingly looking at developing their non-oil sectors like construction and real estate. With oil prices expected to be stable, any further increases in government spending will support investment and consumer spending, thereby having a positive effect on GDP growth, which will bode well for the overall economy in general and construction sector in particular.
- An expanding population base and increasing urbanization is likely to translate into higher demand of residential as well as commercial office properties across the GCC region.

- The GCC, which is home to more than 16 million expatriates from around the world with strong aspirations and preferences for their own homes, is likely to drive the housing demand across the region.
- The change in regulatory norms is likely to increase foreign investment in the construction sector.
- We expect that manageable inflation levels and low property prices is likely to act as a demand driver for residential as well as commercial construction markets across the GCC region.
- UAE and Qatar attracting the emerging market status from MSCI will give an impetus to the growth environment within these countries, inducing increased allocation of funds in the real estate and construction sector.

1.4. Key Challenges

- Oversupply remains the biggest challenge for the construction and real estate sector across the GCC, which has led to cancellation of several projects in the recent past. This has resulted in a decline in prices as well as rentals of residential and commercial office properties in most of the GCC member countries.
- Investor sentiment is expected to be weak in the near-term due to tightening credit conditions. Numerous large projects were cancelled across the GCC in 2010 and 2011 due to weak investor sentiment and lack of funds. Weak investor sentiment is expected to act as a hurdle in the growth of the residential and commercial properties market across the GCC
- The GCC residential and commercial construction market is highly competitive and fragmented, marked by presence of several small and big players across the value chain. The increased competition within the sector is likely to result in competitive bidding by the players which is expected to drive down the margins of construction companies further.
- The margins of the players in the construction sector are highly sensitive to the prices of the building materials.
- The GCC construction markets are less transparent compared to their global peers, thereby having an adverse effect on FDI inflows in the sector.
- High attrition rates among expatriate labor workforce remains a hurdle for the GCC construction sector, as the skilled expatriate workers are drawn towards their home countries due to better job opportunities. This is likely to act as a major barrier for the labor-intensive construction sector.

1.5. Trends

- Demand for affordable homes is set to increase significantly in the long term, which will force the construction companies to put extra emphasis on the affordable homes segment.
- All the nations under the GCC have developed their own green building standards through their councils and are actively reviewing and adopting these mandates in the new building laws. The region is likely to witness increasing number of registered green buildings in the future. The increasing number of registered green buildings in the GCC is likely to transform the construction sector in the region and boosted the creation of healthy buildings.
- Foreign companies, having capabilities of handling large and complex projects entered the GCC construction sector either in partnership or joint venture with established local players. The partnership or the joint venture model mitigates the business risk of both the partners significantly.
- In pursuit of expanding their top line and geographical presence, the established construction and real estate companies are looking to grow both organically as well as inorganically (through M&A route).

2. GCC Construction Sector

2.1 GCC Construction Market Overview

Boom in oil prices led to enormous economic activity in the GCC region in the last decade

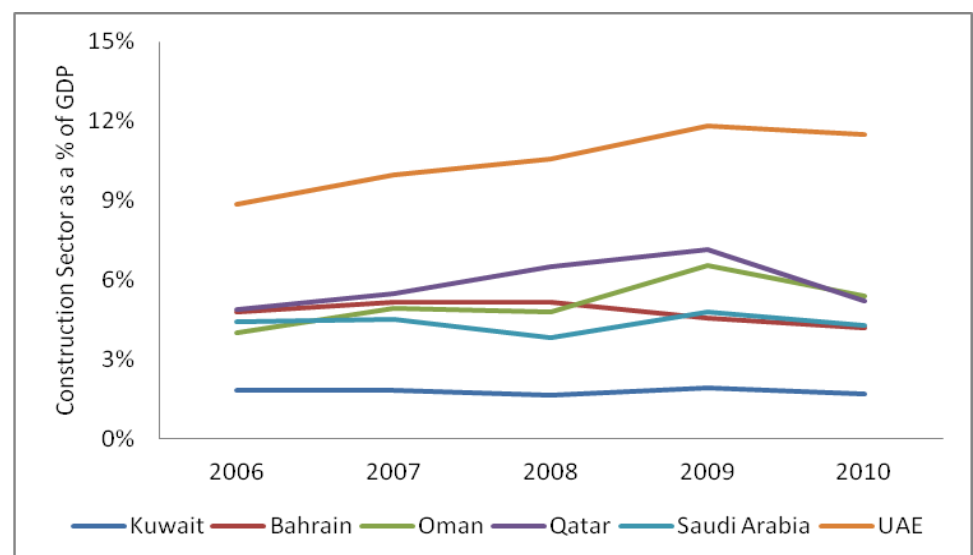
The spectacular boom in oil prices from 2003 to 2008 spurred enormous economic activity in the GCC region. In their quest to diversify from predominantly oil-based economies to a more balanced state, GCC nations initiated several big projects, with construction being one of their top-most priorities. This diversification strategy resulted in a paradigm shift in the construction market in the region with marked changes in the complexity, type, and size of projects. However, the global economic crisis of 2008, coupled with a steep fall in oil prices materially slowed down the pace of growth of the GCC construction sector. The construction market in Dubai took the biggest hit, causing several large projects to be kept on hold or cancelled during this period. However, the region is recovering steadily, and the construction sector is expected to exhibit favorable growth prospects in the years ahead. This growth is expected to be spurred by a healthy growth in population and significant state spending on social infrastructure projects.

Over the years, the construction sector in the GCC has transformed from being simple and small to massive and multifaceted. Rather than developing small to medium sized projects, developers are looking at multi-billion dollar projects involving complex civil works, electromechanical systems, and other vital infrastructure. The complexity involved in large projects has forced developers to rely on specialized sub-contractors. Further, as customer stake has grown significantly and capital has become scarce, customers are taking an active interest in projects leading to a rise in their expectations. With an evolving supply chain and increasing volatility in prices of construction inputs like cement and steel, customers are putting pressure on developers to assume greater level of risk (for example, moving from cost-plus to fixed-price contracts). Also, earlier, where most projects were financed through internal cash flows or single bank loans, developers are now seeking larger and more complex financing structures.

Construction sector across the GCC has transformed from simple and small to massive and multifaceted

Construction sector contributed 5.4% of the overall GDP of the GCC region. Construction sector as a percentage of GDP of the UAE most notably increased from 8.9% in 2006 to 11.5% in 2010 (see Exhibit 1).

Exhibit 1: Contribution of construction sector to GDP



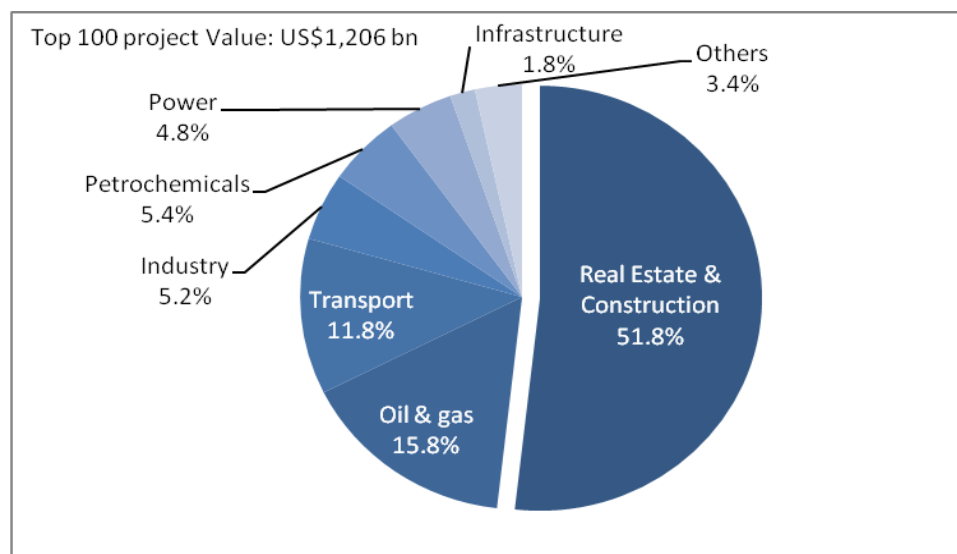
Source: Central Bank Report of respective countries, International Monetary Fund

In 2011, construction and real estate projects continued to remain the top priority of the GCC member countries

The construction sector in the GCC witnessed mixed fortunes in 2011 amid rising concerns of a double-dip recession, which forced investors to adopt a cautious approach for a major part of the year. However, despite the challenging economic environment that affected the sector in 2011, the pipeline in the GCC region has remained stable at around US\$1.8 trillion¹.

In 2011, construction and real estate projects continued to remain the top priority of the GCC member countries. There were 46 construction and real estate projects in the "Top 100 Projects" (encompassing sectors like construction, real estate, oil & gas, infrastructure, petrochemicals, transport, etc.) across the GCC countries, as released by MEED. Total worth of construction and real estate projects in the top 100 projects amounted to US\$625 billion (as compared to US\$756 billion in 2010)². Real estate and construction projects constituted 51.8% of total project value in top 100 projects across the GCC region (see Exhibit 2). These construction and real estate projects include residential and commercial construction projects including free zones and economic cities under development.

Exhibit 2: Top 100 project in GCC region (2011)



Source: MEED Projects

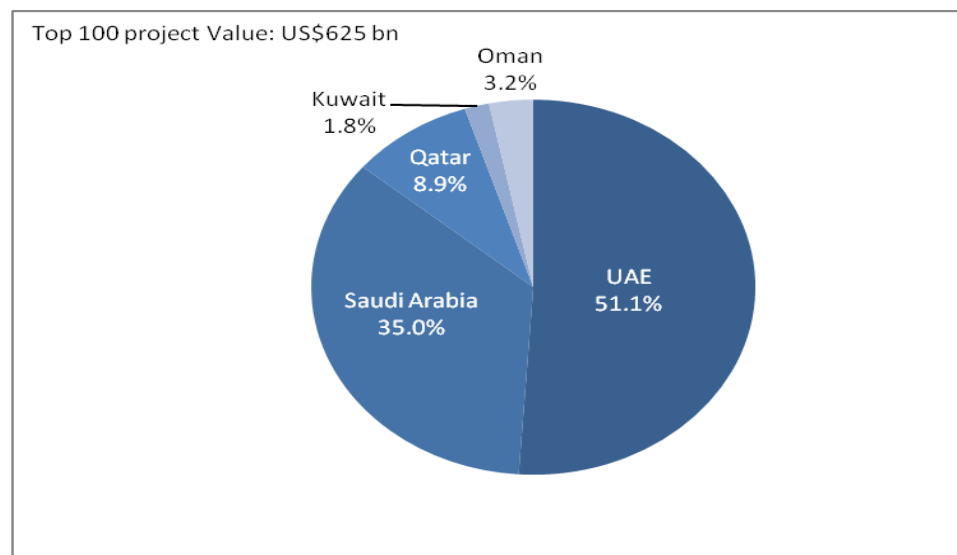
Note: The project value is taken from the above source and there is a possibility of inclusion of projects on hold

In 2011, UAE had the highest real estate and construction project value, worth US\$319.1 billion, followed by Saudi Arabia at US\$218.9 billion, constituting 51.1% and 35.0% respectively of the total construction and real estate project value in Top 100 projects (see Exhibit 3). As numerous large projects in the UAE were kept on hold or cancelled, the gap in project value between the UAE and Saudi Arabia reduced in 2011.

¹ MEED

² MEED Projects

Exhibit 3: Region Wise Bifurcation of Real Estate and Construction Projects (2011)



Source: MEED Projects

Note: Region wise bifurcation of real estate and construction projects in MEED Top 100 Projects in GCC (2011)

2010 and 2011 witnessed cancellation of some big construction projects in the GCC

As per MEED Projects, in 2011, real estate projects worth US\$188.7 billion were cancelled due to poor investor sentiment and lack of adequate funding.

Exhibit 4: Large Construction Projects Kept on Hold/Cancelled in GCC region (2011)

Project Name	Project Owner	Location	Budget (US\$ billion)
Madinat al-Hareer (City of Silk)	Government of Kuwait	Kuwait	77.0
Business Bay	Dubai Properties	UAE	30.0
Mina Zayed Port Redevelopment	Aldar Properties	UAE	15.0
The World	Nakheel Corporation	UAE	13.5
Qasr Khuzam	Khuzam Real Estate Development Company	Saudi Arabia	13.3
Urjuan Mixed	Barwa Al Khor	Qatar	10.0
Al-Shamiyah Mecca Development	Al-Shamiyah Urban Development Company	Saudi Arabia	9.3
Prince Abdulaziz Bin Mosaed Economic City	Al-Mal Investment Company	UAE	8.0
Water Garden City	Albilad Real Estate Investment Company	Bahrain	6.6
Bubiyah Island	Public Works Ministry	Kuwait	6.0

Source: MEED Projects

Note: Madinat al-Hareer (City of Silk)- cancelled, Qasr Khuzam- returned to design stage, all other projects are on hold

2.2 Market Structure of the GCC Construction sector

The GCC residential and commercial construction sector can be classified into the following strategic groups:

- Real estate developer
- Project manager
- Property consultants
- Contractor
- Sub-contractor (MEP)
- Building materials and services suppliers

The real estate developers acquire land and announce the project. Further they assign a project management firm to supervise and develop the project. Later, the contracting companies submit their bid for the project. Once the developer awards the contract, the contractor assumes all the responsibility for completion of the contract within an accepted budget and time frame. The contractor, depending on the complexity of the project and available resources at its end, may sub-contract the job or part of job to a sub-contractor. Finally, the contractor and sub-contractor group will involve the building material suppliers in the value chain to supply the essential inputs of construction.

The above lists of stakeholders in the GCC construction sector are not in direct competition with each other group but only with companies in the same group. For successful completion of any big construction project, there needs to be co-operation between different stakeholders. With an increase in the number of large and complex projects across the GCC, the role of sub-contractors has become very important, as they come up with the required technical skill set to execute a complex project. Many large international firms have also entered into the GCC residential and commercial construction market either through tie-ups (with existing and established civil or MEP contractors) or solely into potential markets such as the UAE, Saudi Arabia and Qatar. Real estate developers are also looking to enter newer markets in the GCC by forming joint ventures with other established players in the market.

2.3 Raw Materials used in Construction Projects

Key building materials used in the construction sector ranges from steel and cement and its by-products, wood, cladding, kitchen systems, sanitary ware and systems, glazing systems, and paints, to name a few. In a typical construction project, building material cost comprises approximately 33%³ of the overall cost of the project.

The price movements of cement in the GCC region varies from country to country, based on the demand-supply scenario in the respective countries. Demand for cement in the GCC is expected to be 88 million tons in 2013⁴ (see Exhibit 5). Additionally, cement capacity in the GCC is expected to reach 120.7 million tons registering a 13% increase from 2011 levels⁵. The increase in capacity is driven mainly by Saudi Arabia, where the capacity is expected to reach 58 million tons while demand is expected to be at par with the capacity increase and is expected to increase by 8.3% during 2011 and 2013⁶.

In a typical construction project, building material cost comprises around 33% of the overall cost of the project

³ Constructionweekonline.com

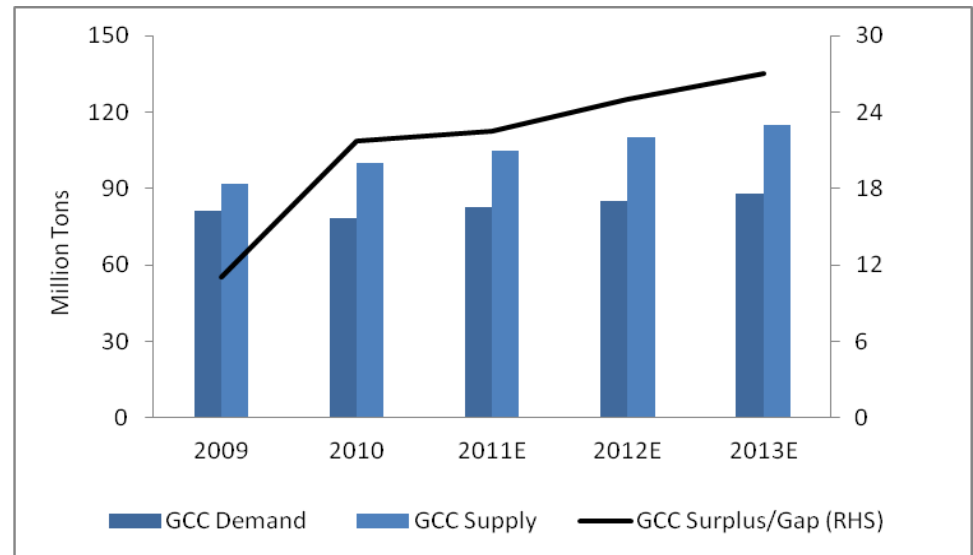
⁴ Global Research

⁵ Global Research

⁶ Global Research



Exhibit 5: GCC Cement Demand-Supply Gap Scenario (in Million Tons)

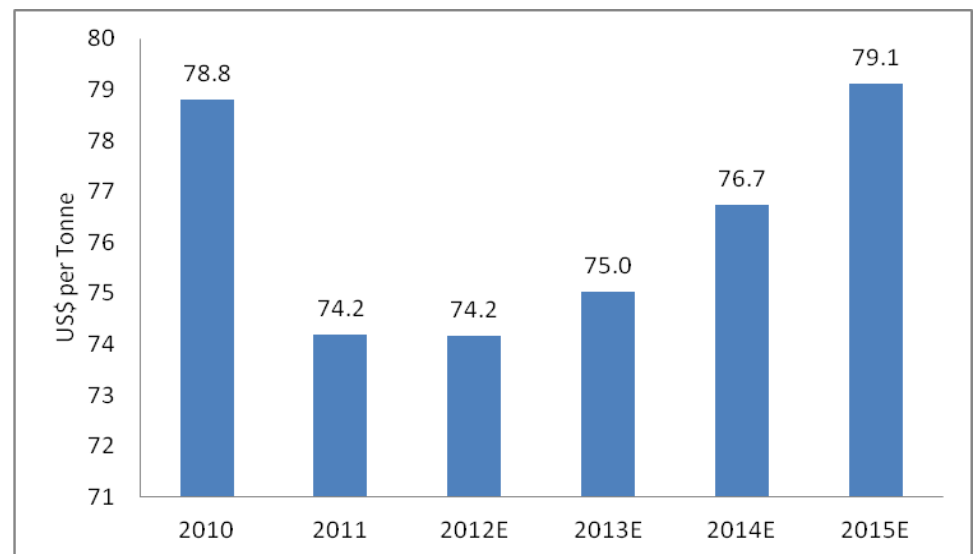


Source: Global Research

The prices of cement across the GCC region corrected after the global economic recession of 2008

The prices of cement across the GCC region corrected after the global economic recession of 2008. The prices of cement are expected to be firm in Saudi Arabia and Qatar as a result of increase in manufacturing activities in these countries. Demand in building materials in Saudi Arabia is expected to be driven by start of several new projects, while FIFA World Cup in 2022 is expected to fuel the demand in Qatar. It is estimated that around 50% of the building materials supplied is expected to be consumed by Saudi Arabia and Qatar in the next decade or so⁷.

Exhibit 6: Average Price Trend of Portland Cement Across GCC Region



Source: Davis Langdon, Alpen Capital

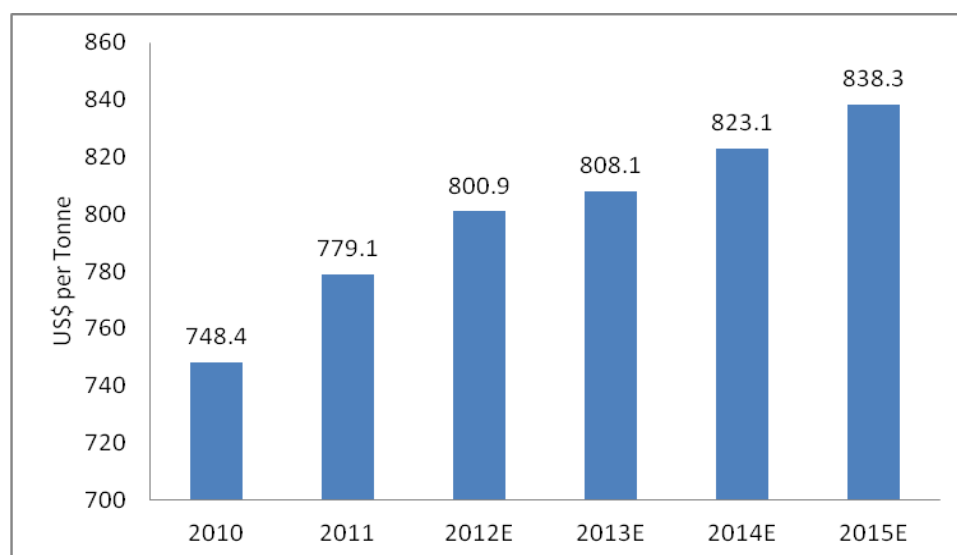
⁷ Constructionweekonline.com (Article dated: December 28, 2011)

Cement prices to be under pressure in the near term due to oversupply

We expect cement prices in the UAE to be under pressure in near term mainly due to oversupply as a result of significant capacity expansion by the cement manufacturers. UAE is expected to witness an increase in supply with capacity touching 43 mtpa by 2013 and demand expected to remain in the range of 18-20 mtpa.

Cement prices in Oman have also been under pressure in the recent past, declining by around 13% Y-o-Y for the first nine month of 2011, reaching US\$74 per ton⁸. Low cost cement supplies from the UAE have also ignited fresh price wars among the local Omani cement manufacturers, thereby having an adverse effect on their margins. However, we expect the prices of cement to bottom out in Oman, on the back of an increase in demand, due to high planned infrastructure spending by the government. We expect prices of cement in Bahrain to consolidate in 2012 and 2013 after witnessing a 12.2% y-o-y decline in 2011⁹.

Exhibit 7: Average Price Trend of Reinforcing Steel Across GCC Region



Source: Davis Langdon, Alpen Capital

Historically, to meet the demand of steel, the GCC region has been dependent on imports from China, India, and Turkey. However this scenario is likely to change due to capacity additions by local steel manufacturers primarily in Qatar on the back of an increase in demand due to surge in infrastructure spending. The GCC region along with other Middle East countries is expected to produce 35% to 40% of the world's total steel production by 2015¹⁰. As per Frost & Sullivan estimates, annual demand of steel products in the GCC which currently stands at around 40 mt is expected to grow at around 6% over the next five years. We expect steel prices across the GCC region to be firm on account of increasing demand, strong competition, and increase in input cost of steel production (see Exhibit 7).

⁸ Zawya

⁹ Zawya, Davis Langdon

¹⁰ Frost & Sullivan

Residential construction market across the GCC region witnessed a slowdown after 2008 mainly due to tight credit situation

2.4 Residential Construction Market of the GCC Region

The residential construction market in the GCC region, like the overall construction market, witnessed a significant slowdown after 2008 due to the fragile global economy. Huge petro dollar surpluses and diversification efforts of nations led to enormous growth of the construction market across the GCC region. The increase in economic activities across the GCC region resulted in increase in per capita income of the working class. This had a multiplier effect on the residential construction market. Numerous residential projects were started across the GCC region in the pre-economic crisis period, particularly in the UAE and Saudi Arabia. Additionally, changes in regulatory norms by the GCC's member countries like UAE, Qatar, and Oman, which allowed foreign nationals to purchase property in designated areas, also triggered a boom in the residential property market in these countries in the last decade. The demand for residential property across the GCC region was also high due to the increase in income level of locals as well as expatriates. In the last decade, most of the residential construction across the GCC was focused primarily on the high income group of the population.

However, subsequent to the global economic meltdown and the ensuing credit crisis the overall sentiment of the property investor turned negative. Job losses across the GCC (primarily in UAE) also dampened the overall sentiment of prospective buyers. Due to the subdued demand, several big and small residential construction projects were either kept on hold or scrapped altogether. Though there was a sharp correction in building material prices like cement and steel, the contractors were not able to benefit from it due to this lowered demand in some regions. Dampened demand resulted in oversupply in the residential construction market, primarily in the UAE. The Arab Spring also had a negative effect on the residential and construction market particularly in Bahrain and Oman. All these factors led to a sharp correction in property prices across the GCC, particularly till 2010.

Residential construction market across the GCC showed signs of stabilization in 2011

In the latter half of 2011, things began to change for the GCC residential construction market. Today, most of the residential property markets are showing signs of stabilization. However, the focus of the governments of the GCC countries has shifted from the high income groups to the middle and low income groups, which are largely under-supplied. Countries like Saudi Arabia and Bahrain have already announced the construction of affordable homes in the country catering to the low and middle income group of the population

In the long-term, the residential construction market across the GCC presents an optimistic picture mainly due to healthy growth in population, increasing income levels, increasing expatriate population (particularly the UAE and Qatar), and favorable policies of governments.

United Arab Emirates (UAE)

The residential construction and real estate market in the UAE (particularly Dubai) started to take shape in the 60s and 70s due to a significant increase in population. During the last decade, the UAE witnessed a considerable increase in the number of residential projects as the region became the hub of economic activities which led to influx of expatriates particularly from the Indian Subcontinent. In 2002, freehold rights were created in Dubai which allowed foreign nationals to buy property in select areas of Dubai. This set the stage for a boom in the residential construction and real estate sector in Dubai. Increased economic activity, which the region witnessed for most part of the last decade, resulted in an increase in disposable income of the locals as well expatriates, leading to an increase in housing demand. High demand of residential units and delays in major construction projects led to a sharp increase in residential property prices in the UAE between 2000

Residential prices in the UAE witnessed a sharp correction after 2008

and 2008, particularly in Dubai and Abu Dhabi. The regulatory changes also led to an increase in foreign investments in the sector during the last decade.

The region witnessed the start and completion of several big residential projects like The Palm Islands (Jumeirah) and Burj Khalifa in Dubai during the period. However, the situation turned drastically with the global economic meltdown in 2008. Dampened investor sentiments led to a slump in property prices across the region. The situation was further exacerbated by the Dubai debt crisis in 2009, which led to cancellation of many projects in the UAE. Housing prices as well as rentals continued to fall in 2009 and 2010 due to subdued housing demand.

In 2011, the residential construction market of the UAE struggled to reach its pre-debt crisis levels. Mounting debt issues in both the Eurozone and the US and fears of mature markets slipping back into a recessionary phase made investors wary of investing in UAE realty projects, particularly in Dubai. This led to many big projects across the UAE, being kept on hold in 2011. The average prices and rentals of residential units have yet to reach their 2008 levels and continue to witness a fall in some areas.

The market did show some signs of stability, particularly in the second half of 2011. Moreover, the real estate market of UAE (particularly Dubai) was affected positively by the recent "Arab Spring" in some parts of the Middle East, reinforcing UAE's reputation of being a safe and stable country.

In the short term we maintain a cautious outlook of the UAE residential market due to prevalent oversupply situation in the market. However, in the longer term, we maintain an optimistic view of the residential construction market of the UAE on the back of rising population and stable economic growth. The International Monetary Fund (IMF) estimates that GDP at constant price and population is expected to grow at a CAGR of 4.1% and 3% respectively between 2011 and 2016. We also believe that the UAE market will continue to enjoy a premium on rental yield as compared to mature markets of the US and Europe. This is expected to attract foreign investors for better long-term returns towards the UAE's property market.

Dubai

Dubai had approximately 336,000 units of residential stock at the end of Q4 2011

As per global real estate services firm Jones Lang LaSalle (JLL), Dubai had approximately 336,000 units of residential stock at the end of Q4 2011¹¹. Around 13,000 additional units were completed in 2011 of which approximately two-third of these new units are located in Dubailand, Jumeirah Village, Dubai Marina, and Business Bay areas¹².

Significant oversupply resulted in decline in rentals and average prices of residential units across Dubai in 2010 and 2011. Average prices of residential units and average apartment rents in Dubai witnessed a dip of 12% and 9% respectively in 2011¹³. However, the villa market which outperformed the apartment market in 2011, witnessed an average increase in asking price of 5%, 8%, and 1% within the Palm Jumeirah, Arabian Ranches, and The Springs areas respectively in 2011. Palm Jumeirah remained the most expensive location with an average asking price of AED15,160 per square meter in Q4 2011¹⁴. Average asking price of apartments in Dubai declined by 9% Y-o-Y to approximately AED8,960 per square meter in Q4 2011¹⁵. Apartment prices in Burj Dubai Downtown and Dubai Marina

¹¹ Jones Land LaSalle

¹² Jones Lang LaSalle

¹³ Global Research Report

¹⁴ Jones Lang LaSalle

¹⁵ Jones Lang LaSalle

Currently, the residential market of Abu Dhabi is marked by lack of investor confidence

Abu Dhabi is expected to add around 28,000 and 14,000 residential units in 2012 and 2013 respectively

witnessed a decline of around 11% in 2011¹⁶. Average rental yields in Dubai's residential market also declined from 7.3% in 2009 to 6.2% in Q4 2010¹⁷.

Dubai is expected to add around 23,000 and 11,000 residential units in 2012 and 2013 respectively¹⁸. The residential properties market of Dubai is currently facing an oversupply situation due to lack of investor interest in acquiring new property. Though the market is expected to remain oversupplied in the near term, the residential real estate and construction market of Dubai is likely to outperform the commercial offices markets in the short-term. We believe the recovery in residential unit prices in 2012 and beyond in Dubai will be driven by economic growth, improving investor sentiment, and improving global economic scenario.

Abu Dhabi

According to JLL, Abu Dhabi had approximately 195,000 units of residential stock at the end of Q4 2011. The residential construction market of Abu Dhabi was also hit by a lack of investor confidence in purchasing new properties. Led mainly by oversupply, average asking prices of residential properties have declined significantly by 49% from the highs of AED21,500 per square meter in 2008 to AED11,800 per square meter in Q2 2011, further dropping to AED11,000 per square meter in Q3 2011¹⁹. However, prices remained stable in Q4 2011. The average rental yields of Abu Dhabi's residential markets also declined from 9.1% in Q1 2009 to 7.7% in Q4 2010²⁰.

Although over reliance by developers on pre sales led to cancellations or delays in many residential projects announced prior to 2008, Abu Dhabi is, nonetheless, expected to add around 28,000 and 14,000 residential units in 2012 and 2013 respectively²¹. Future supply in 2012 is expected to be delivered primarily in the Reem Island, Raha Beach, Al Reef Villas, Danet, Saadiyat Island, and Raudhat. Majority of the upcoming supplies in 2012 and 2013 will comprise apartments and villas²².

Abu Dhabi's residential market is likely to be oversupplied over the next two years due to fresh supply in the market. Consequently, we expect rentals of residential properties to trend further downwards. Further, we expect the average selling price of residential units to be under pressure as the market adjusts due to an increase in supply.

¹⁶ Jones Lang LaSalle

¹⁷ Global Research

¹⁸ Jones Lang LaSalle

¹⁹ Jones Lang LaSalle

²⁰ Global Research

²¹ Jones Lang LaSalle

²² Jones Lang LaSalle

Exhibit 8: Select New Residential Developments in UAE

Project Name	Region	Developer	Project Value (US\$ million)	Status
Al Falah	Abu Dhabi	Aldar Properties	2,560	Ongoing
Al Furjan Development - Phase 1	Dubai	Nakheel Properties	817	Ongoing
Al Bateen Park	Abu Dhabi	Aldar Properties	800	Ongoing
Arzanah-Rihan Heights	Abu Dhabi	Capitala	550	Ongoing
Rainbow Towers	Ajman	-	463	Ongoing
The Pentominium Tower	Dubai	Arabian Construction Co	400	Ongoing
Bloom Gardens	Abu Dhabi	Bloom Properties	400	Ongoing
Al Odaid Beach Residence	Dubai	Al Odaid/ACI	354	Ongoing

Source: Zawya

Kingdom of Saudi Arabia (KSA)

The residential construction and real estate market of Saudi Arabia witnessed a phase of cyclical developments due to fluctuating oil prices during 1975 and 2000. The market was marked by extreme undersupply of residential units, especially in the low and middle income segment, as a result of rapid population growth in both the local and expatriate populations. However, the residential construction market picked up pace post 2000 after the enactment of the Foreign Investment Act, which was enacted to promote Foreign Direct Investment (FDI) in the sector. The act liberalized the foreign investment laws in Saudi Arabia. The Saudi Arabian General Investment Authority was created under the act with a responsibility of licensing all new foreign investments across Saudi Arabia. Later a new real estate law was enacted allowing legally-resident non-Saudis to own real estate for their private residence, provided they received a license from the government.

As a result of changes in regulations and increase in population, the region witnessed huge surge in housing demand which led to a sharp increase in property as well as land prices. From 2002 to 2005, the prices of house units and land increased by around 13.7% and 16.5% per year respectively²³. The market remained largely unfazed by the global economic recession mainly due to pent-up demand of housing units from both local as well as foreign investors.

The residential construction market of Saudi Arabia remained largely immune to the downturn in the construction sector for a major part of 2011, with a marked imbalance between demand and supply of residential units. The region witnessed the start of several large and small residential projects in the last two years. The commencement of a 500,000 affordable housing unit project by Saudi Arabia in 2011 has also helped maintain the upbeat mood in the market. However, there is further scope to provide homes to nationals

The Saudi Arabian residential market has been marked by extreme undersupply of units, especially in the low and middle income segment

Commencement of the affordable homes project in Saudi Arabia is likely to boost the residential construction market

²³ National Commercial Bank Capital

falling in the low and middle income groups. Only 35% of Saudi nationals own a home and low and middle-income households comprise approximately 80% of the current unmet housing demand²⁴.

High land prices are the biggest roadblock in developing low-cost homes for lower and middle income groups in Saudi Arabia. As per global real estate services firm Jones Lang LaSalle (JLL), prices of developable land in Saudi Arabia have been increasing at around 15% per annum (land prices ranged SAR400 to SAR4,000 per square meter in Riyadh in 2008²⁵). Following the global financial crisis, the average price of a residential plot in Saudi Arabia fell by around 10% in the first quarter of 2010. However, since then, a recovery in the global economy and continued shortage of residential units has pushed land prices for housing projects to approximately SAR1,631 per square meter in Q1 2011²⁶.

Going forward, a combination of a shortage of affordable housing, stable interest rates, encouraging government policies which promote FDI in real estate sector, and an increasing expatriate population, is expected to result in high demand for housing in the short to medium term. On the other hand, low supply is expected to drive prices of residential units higher. We believe the average selling price of residential units in major cities of Saudi Arabia like Riyadh and Jeddah will further increase in 2012.

Our long term outlook on residential real estate and construction markets of Saudi Arabia point towards a positive future over the next five years on the back of rising population and a booming economy (supported by stable oil prices). IMF's estimates indicate that the GDP and population of Saudi Arabia are expected to grow at a CAGR of 4.2% and 2.1% respectively between 2011 and 2016.

Riyadh

Riyadh had approximately 876,000 units of residential stock at the end of Q3 2011

Riyadh had approximately 876,000 units of residential stock at the end of Q3 2011²⁷. Most of the units completed till Q3 2011 have been sold, signifying demand-supply imbalance in the market.

Increased prices of land coupled with a rise in prices of key inputs like steel and cement led to an increase in the average selling price of residential units across Riyadh. In Q3 2011, the average sales price of villas and apartments stood at SAR3,050 per square meter and 2,343 per square meter respectively²⁸. Further, as per real estate research and services firm Colliers, rental yields of villas/duplexes across Riyadh increased from 7.9% in Q4 2010 to 8.6% in Q4 2011. Further, rental yields of apartments across Riyadh also increased from 7.4% in Q4 2010 to 7.8% in Q4 2011²⁹.

JLL estimates that Riyadh will add around 126,000 residential units between 2012 and 2015³⁰. Further, by 2013 around 2,000 residential units will cater to the demands of expatriates across Riyadh³¹. We expect that future supplies will focus on low and middle income groups of population.

We expect that future supplies in Riyadh will focus on low and middle income groups

Our expectation is that residential rental yields across Riyadh will increase mainly due to rising rental rates on the back of a shortage of new residential units. The government's effort to curb the speculation of land prices with the establishment of the Ministry of

²⁴ Dow Jones Newswire

²⁵ www.arabnews.com

²⁶ Saudi-US Relations Information Service / SUSRIS

²⁷ Jones Lang LaSalle

²⁸ Jones Lang LaSalle

²⁹ Colliers

³⁰ Jones Lang LaSalle

³¹ Jones Lang LaSalle

Housing is also likely to stabilize the residential prices in Riyadh, which will result in strengthening rental yields

Jeddah

Jeddah had approximately 703,000 units of residential stock at the end of Q3 2011³². Jeddah's residential market is also marked by demand-supply imbalance and nearly all additional supply till Q3 2011 has already been sold. Most of the recent construction activity across the city was concentrated in the upper-mid to high-end segments of the market³³. Jeddah Development & Urban Regeneration Company (JDURC) is currently providing affordable housing and redeveloping the Khuzam and Ruwais area of Jeddah. However, the private developers are still struggling to offer solutions that can absorb high land prices.

Demand-supply imbalance in the market has resulted in increase in prices as well as rentals across Jeddah. Jeddah's residential market also witnessed a strong demand for a major part of 2011, which led to an increase in the average sale price of both villas as well as apartments. In Q3 2011, average selling prices of villas and apartments was SAR4,000 and SAR2,800 per square meter respectively³⁴. Jeddah also witnessed an increase in rents in 2011, due to an under-supply of residential compounds, particularly for expatriates. Developers have launched several projects to encounter the problem of under-supply in Jeddah.

Rental yields of villas/duplexes across Jeddah declined from 9.1% in Q4 2010 to 8.8% in Q4 2011. Also, rental yields of apartments in Jeddah also declined from 11.5% in Q4 2010 to 10.8 % in Q4 2011³⁵. The decline in the rental yields across Jeddah was mainly due to an increase in prices of residential units on the back of a sharp rise in land prices across Saudi Arabia in the recent past.

In Jeddah, JLL projects an addition of around 78,000 residential units between 2012 and 2015³⁶. We expect extreme shortage of residential properties is likely to result in increase in both rentals as well as prices in the short to medium term. In longer term also we maintain an optimistic outlook of Jeddah residential properties market.

Jeddah expects to add around 78,000 residential units between 2012 and 2015

³² Jones Lang LaSalle

³³ Jones Lang LaSalle

³⁴ Jones Lang LaSalle

³⁵ Colliers

³⁶ Jones Lang LaSalle

Exhibit 9: Select New Residential Developments in Saudi Arabia

Project Name	Developer	Project Value (US\$ million)	Status
Shams Al Arous	Dar Al Arkan	2,000	Ongoing
Housing Project 5,000 Villas	Saudi Binladin Group	1,400	Ongoing
Jeddah Housing Project	-	1,000	Ongoing
Al Mada Towers	-	600	Ongoing
Jubail Housing Complex	Azmeel Contracting & Const Company	235	Ongoing
SASREF - Housing Project	Khonaini International Company Ltd	100	Ongoing
Construction of 280 Villas located in Haii Al-Oyoun and Haii Al-Nakheel in Yanbu Industrial City	Asad Saeed Company for Contracting	73	Ongoing
Family Apartments in Jubail Industrial City	Al Kifah Construction Equipment Company	37	Ongoing
National Guards Villas	Saudi Oger Limited	-	Ongoing

Source: Zawya, Constructionweekonline

Qatar

Residential construction markets in Qatar showed signs of stabilization in the latter part of 2011

The residential construction and real estate market of Qatar witnessed a period of high growth between 2001 and 2009, mainly on account of high natural gas production and increased public infrastructure spending which led to a robust economic growth. Qatar's GDP growth outpaced all other GCC member countries for most part of the last decade, peaking between 2008 and 2009 when it grew at 26.8% and 25.4% annually³⁷. Moreover, growth in the number of apartments and villas increased sharply by 270% and 200% respectively between 1997 and 2010³⁸.

Qatar witnessed increase in rentals before the economic recession with changes in ownership law allowing foreigners to buy property in designated areas of Qatar. The increase in rentals resulted in yields of around 12% in 2008. However, the global economic slowdown materially affected the residential construction market of Qatar in 2010 and 2011, mainly due to a contraction in demand. The recession had a profound effect on selling price and rentals. This led to a decline in average rental yields across Qatar as a fall in rentals was more when compared to a fall in property prices. Currently, gross rental yields in Qatar stands at around 10%³⁹.

³⁷ International Monetary Fund (IMF)

³⁸ Asteco Report (May 2011)

³⁹ Numebo.com (Bifurcation of gross rental yield between residential and commercial is not provided, hence assumed to be same for both)

Around 5,000 residential units are likely to be delivered across Doha in 2012

We have an optimistic outlook on Qatari residential market on the back of healthy growth in population and increasing economic activity

Global recession, change in regulatory norms and tight credit situation had an adverse effect on Kuwaiti residential construction markets after 2008

The residential construction and real estate market in Qatar has showed signs of stabilizing, particularly post announcement of the FIFA World Cup 2022. Average rental rates of two bedroom apartments remained stable at QAR4,000 to QAR14,000 per month in Q4 2011⁴⁰. In Q4 2011, there was an increase in apartment sales transactions in the freehold zone of Pearl-Qatar, signifying increasing investor confidence.

Around 5,000 residential units are likely to be delivered across Doha in 2012⁴¹. The market is faced with an oversupply situation which has led to a decline in prices of apartments and villas in recent past. We expect that average selling prices of the residential units will bottom out in the near term, which will result in increasing number of sales transactions across the region.

We have an optimistic outlook on the Qatari residential market on the back of healthy growth in population and increasing economic activity. The population of Qatar, according to IMF's estimates, is expected to grow at a CAGR of 4.7% between 2011 and 2016 due to an influx of expatriates. This is likely to translate into higher demand for properties between 2012 and 2016. Massive construction plans in preparation for the FIFA 2022 World Cup is also likely to fuel demand for the residential market in Qatar. We do not foresee further fall in residential unit prices in the short as well as long-term. Further, we expect the rental rates of residential properties will increase in 2012, resulting in increase in rental yields.

Exhibit 10: Select New Residential Developments in Qatar

Project Name	Developer	Project Value (US\$ million)	Status
Msheireb Project	Drake & Skull International	5,500	Ongoing
Lusail Project	Sinohydro Corporation	5,500	Ongoing
Barwa City	Consolidated Contractors Company	1,360	Ongoing

Source: Zawya

Kuwait

The residential and real estate construction markets of Kuwait witnessed increased activity between 2003 and 2007, mainly on account of a surge in petrodollars and increasing population. During this time, the share of the real estate and construction sector in Kuwait's GDP rose strongly by a CAGR of 6.8%⁴². Historically, the Kuwaiti residential construction and real estate market primarily comprises of properties under the government housing program, such as Public Authority for Housing Welfare (PAHW). The growth rate in the residential construction and real estate sector exceeded the population growth during the last 30 years. However, the global recession (which led to a decline in the number of expatriates), introduction of law 8 & 9 in February 2008 (which forbids shareholding companies from dealing in private residences, whether financing, acquiring, selling, or mortgage), a tight monetary policy, and harsh credit regulations by the Central Bank of Kuwait (impacting total credit facilities available to construction sector), severely impacted the residential construction and real estate market in Kuwait.

⁴⁰ Asteco Report

⁴¹ Colliers

⁴² Kamco Research



***Land prices in Kuwait
corrected by 25% to 35%
between 2008 and 2010***

***Our long term outlook for
the Kuwaiti residential
construction and real
estate market remains
positive on the back of
healthy economic growth***

Consequently, there was a decline in the average selling price of residential units after 2008. Land prices also witnessed a decline of 25%-35% between 2008 and 2010. The rental yield of residential properties pre the global economic crisis stood at 7% to 9%. However, the financial crisis and a ban on corporate trading in land/property led to a significant drop in property prices which pushed rental yields of residential properties from 8.5% to 11.5% at the end of 2009⁴³.

Recent transaction data suggests signs of improvement in the residential construction and real estate market in Kuwait, signifying increasing confidence among investors. As per the Ministry of Justice, sale of residential units declined sharply by around 45% in 2008, but the situation started improving in 2010 when residential transactions increased by 73.7% Y-o-Y in 2010 to reach KD1.1 billion. The situation continued to improve in 2011 with private residential transactions increasing by 35.3% Y-o-Y to reach KD1.5 billion⁴⁴.

We expect the trend to continue in future on growing population and shortage in supply. We expect demand for private housing (defined as a single family dwelling located in areas of low population density and mostly owned and occupied by Kuwaiti nationals) to be particularly strong in the long-term due to undersupply. The scarcity of developed land is also likely to result in an increase in prices of private housing across Kuwait. We expect the KWD37-billion Kuwait Development Plan to stimulate growth in the residential properties market in the long-term.

Our long term outlook for the Kuwaiti residential construction and real estate market remains positive on the back of healthy economic growth. IMF estimates Kuwait's GDP to grow at a CAGR of 4.8% between 2011 and 2016.

Exhibit 11: Select New Residential Developments in Kuwait

Project Name	Developer	Project Value (US\$ million)	Status
Khairan Residential City	Kuwait PAHW	27,000	Ongoing
North West Sulaibikhat Residential City	Kuwait PAHW	419	Ongoing
North West Sulaibikhat Residential City (310 Apartments Package)	Kuwait PAHW	130	Ongoing
North West Sulaibikhat Residential City (396 Houses Package)	Kuwait PAHW	-	Ongoing

Source: Zawya

⁴³ Markaz Research

⁴⁴ Ministry of Justice, Kuwait

Oman's residential construction market gained significant pace after changes in regulatory norms in 2006

Currently, Oman's residential construction and real estate market is undergoing a correction in prices due to oversupply of units

Over the long-term, we have an optimistic outlook on residential construction markets on the back of increasing population and rising employment levels

Oman

Oman's construction and real estate market did not witness the same boom as exhibited by other GCC member countries mainly due to government regulations (non-GCC nationals were not allowed to acquire freehold interest in land till 2006). However, post 2006, when the government introduced a change in law, allowing foreign nationals ownership rights in land located in designated Integrated Tourist Complexes (ITCs), the residential construction and real estate market received a big boost. Land prices increased sharply from OMR16.3 per square meter in June 2006 to OMR81 per square meter in June 2008⁴⁵ as a result of a change in the ownership law. The increase in residential construction across Oman from 2006 till recession struck in 2008 was supported by a growing expatriate population, liberalization of real estate laws and positive demographics with a large young population. Since the construction and real estate sector was not as large as compared to other GCC member countries, the global recession in 2008 did not have as severe an impact on Oman as it did on some of its counterparts in the GCC region.

With an oversupply of residential units, Oman's residential construction and real estate market underwent a correction and average lease rates in Muscat dropped by nearly 13% between 2009 and 2010⁴⁶.

Rental yield from property in Muscat stood at around 5.5% gross return to value in H1 2011. However, based on original purchase price off plan, the rental yields stood at around 10% per annum⁴⁷. In the last few quarters, the lease rentals have shown some signs of stabilization. An improving private sector is the primary driver for the recent growth in Oman's economy. The number of employees in the private sector has grown by 20.7% from 2008 to 2010 leading to a surge in demand for properties⁴⁸.

The residential prices which fell significantly from their peak in 2008 showed signs of stabilization in 2011. We expect this trend to continue in future (particularly in Muscat) on the back of a recovering economy. We expect demand for residential properties to be strong in the well developed localities of Qurum, Shatti Al Qurum, Madinat Qaboos, The Wave and Muscat Hills.

Over the long-term, we have an optimistic outlook on residential construction markets on the back of increasing population and rising employment levels. The population of Oman is expected to increase at CAGR of 3.1% between 2011 and 2016.

Exhibit 12: Select New Residential Developments in Oman

Project Name	Developer	Project Value (US\$ million)	Status
Batinah Coastal Road Residential Project	Al Rajhi Development Company	348	Ongoing
Dar Al Zain	Abjar Trading and Contracting Company	44	Ongoing
Salalah Gardens	Alargan	-	Ongoing

Source: Zawya

⁴⁵ Al Mazaya Holding Co

⁴⁶ CB Richard Ellis

⁴⁷ Savills Oman Associate (Muscat Property Insight H1 2011)

⁴⁸ Cluttons Q3 2011 report



The recent political unrest in Bahrain had an adverse effect on the residential construction market

We expect the residential market of Bahrain to see substantial undersupply in the affordable homes segment as developers continue to focus on the premium segment of the market

Bahrain

Much like its GCC counterparts, Bahrain also experienced remarkable growth in its residential construction market in the last decade. However, the recession led to a deceleration in the construction market, which led to a decline in property prices, albeit at a slower pace as compared to its regional peers. The recent political unrest that engulfed Bahrain also had an adverse effect on the residential construction and real estate market which led to a weakness in both freehold as well as the leasehold segment. We believe the Bahraini residential market will remain soft for a while mainly due to oversupply and a cautious approach by investors post the recent political unrest. However, the government's aggressive plan to provide affordable homes is expected to come as a respite for the struggling residential construction market. The government plans to develop three new cities in East Hidd, East Sitra and Northern Town, which is expected to provide approximately 23,000 units by the end of 2016⁴⁹.

According to DTZ, around 15,900 residential apartments are likely to be delivered across Bahrain during 2012 to 2015. Despite a shortage of affordable homes across Bahrain, developers are currently focusing on high-end luxury apartments section.

We expect the residential market of Bahrain to see substantial undersupply in the affordable homes segment as developers continue to focus on the premium segment of the market. The future delivery pipeline of apartments in Bahrain will lead to further oversupply in the premium segment of residential properties market. This is expected to put more pressure on prices as well as rentals of residential units across Bahrain. However, we believe any further positive step by the government to build the proposed satellite cities in Bahrain to address the issue of affordable homes is likely to act as a catalyst for the struggling residential construction markets across Bahrain.

Exhibit 13: Select New Residential Developments in Bahrain

Project Name	Developer	Project Value (US\$ million)	Status
Janayin Al Hamala	Abdulla Hussain Al Mutawa Sons Group	1,325	Ongoing
Social Housing Complex	Chase Perdana	550	Ongoing
Wahat Al Muharraq	Great Lakes Dredge & Dock Company	213	Ongoing
Bahrain Reef Island - Le Reef	Ahad Holdings	100	Ongoing

Source: Zawya

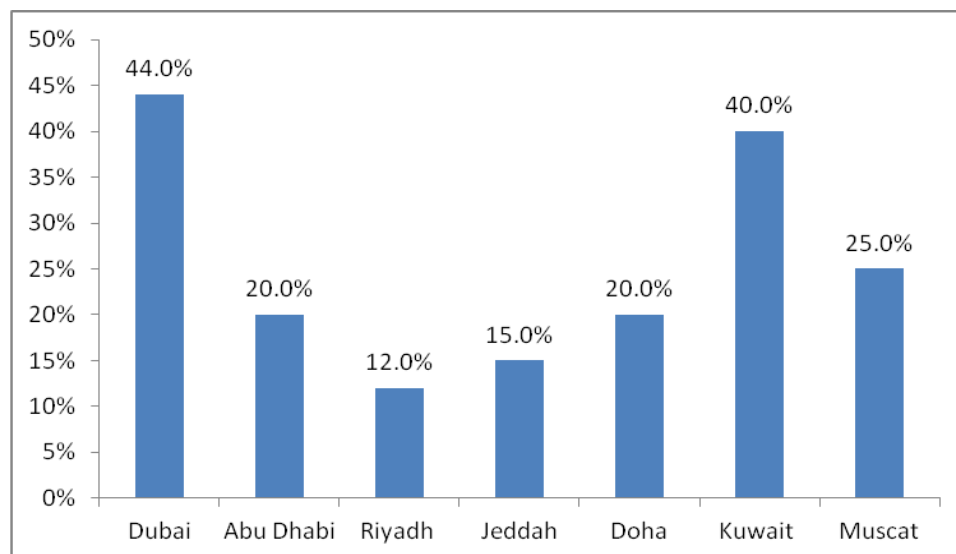
⁴⁹ CB Richard Ellis

The commercial office construction and real estate markets across the GCC are marked by declining prices and rentals, and high vacancy rates due to oversupply

2.5 Office Construction Market of the GCC Region

The commercial office construction market like the residential construction market of the GCC witnessed robust growth in the last decade. However, the global recession and subsequent steep decline in oil prices coupled with the regional debt crisis impacted growth of the commercial office construction market across the region. The post-crisis period has been marked by declining office prices, rentals, and high vacancy rates due to oversupply of commercial properties. Many large projects, particularly in the UAE which was worst affected by the crisis, were either kept on hold or scrapped altogether. Further, as companies pursued the strategy of reducing their workforce to counter the steep decline in demand for their products and services, vacancy rates of commercial properties kept increasing. We believe the commercial office construction market in the GCC region will remain subdued in the near-term and will continue to have an issue of oversupply. Its stabilization and growth will be a function of the improving global scenario (particularly in the Euro Zone) and rising business confidence of the corporate sector. Exhibit 14 below outlines the average office vacancy rates across key cities in the GCC region.

Exhibit 14: Average Office Vacancy Rates (Q3 2011)



Source: Jones Lang LaSalle

Note: Vacancy rates for CBD in Dubai, Riyadh and Jeddah stood at 27%, 16% and 26% respectively.

UAE

The commercial office construction and real estate sector of the UAE took a hard hit after the global economic recession of 2008 and subsequent credit crisis

Post the subprime crisis in the US, the UAE commercial office construction market was severely affected by a slowdown in growth, an over-stretched banking sector, and fallout from the bursting of the Dubai property bubble. The region witnessed spectacular growth in commercial office construction in the last decade, which led to an oversupply of commercial office space as investors and companies were reluctant to invest in the property market post the crisis. The oversupply which subsequently led to high vacancy rates resulted in a steep decline in property prices in the UAE. The property yield of UAE's office markets stood at around 9% in June 2011⁵⁰. We expect the rental yields to be under pressure in the near-term due to declining rentals on the back of high vacancy rates. However we believe the UAE market will still enjoy a premium on rental yield as compared to mature markets of the US and Europe which will help in attracting foreign investments in the sector.

⁵⁰ Cushman & Wakefield

Dubai

Post the debt crisis, the Dubai commercial office market took the hardest hit with numerous office construction projects being cancelled or kept on hold.

Dubai had 5.9 million square meters of completed commercial office stock at the end of Q4 2011, with around 135,000 square meters of office space added in Q4, according to JLL. Vacancy rates within the Central Business District (CBD) area increased marginally in Q3 2011 to reach around 27%. City-wide vacancies stood at 44% in Q3 2011⁵¹ (see Exhibit 14). Some of the major additions to office space in Q4 2011 include Marina Plaza in Dubai Marina and three new towers in the Business Bay area⁵². Further, around 57% of the total 5.9 million square meters of completed stock are located in onshore locations, available to companies licensed by the Department of Economic Development, while the balance 43% are available in free zones⁵³.

Rental rates in the CBD area have shown signs of stabilization since Q4 2010 after declining for a major part of 2009 and 2010 (see Exhibit 15). Average city-wide rental rates outside the CBD area remained stable at approximately AED1,060 per square meter per annum in Q4 2011 as compared to Q3 2011⁵⁴. As per Jones Lang LaSalle, the gap in price expectation between buyers and sellers narrowed in 2011, which is expected to have a positive effect in terms of bringing to fruition a number of successful transactions in the near future. However, many old buildings (particularly around Sheikh Zayed Road within the CBD) have witnessed a decline in average rental rates, as they compete with new supplies. Rental rates within DIFC remained stable at around AED1,615 to AED2,370 per square meter per annum during Q4 2011 as compared to Q3 2011⁵⁵.

Dubai is expected to add approximately 1.5 million square meters of commercial office stock between 2012 and 2012⁵⁶. JLL expects that additional office space supply in Dubai will drop in 2012 and 2013 on account of huge existing oversupply in the market. Some of the major expected completions in 2012 include Vision Tower (Business Bay), Empire Heights (Business Bay), and Platinum Tower.

Rental rates have shown signs of stabilization since Q4 2010 after declining for a major part of 2010

⁵¹ Jones Lang LaSalle

⁵² Jones Lang LaSalle

⁵³ Jones Lang LaSalle

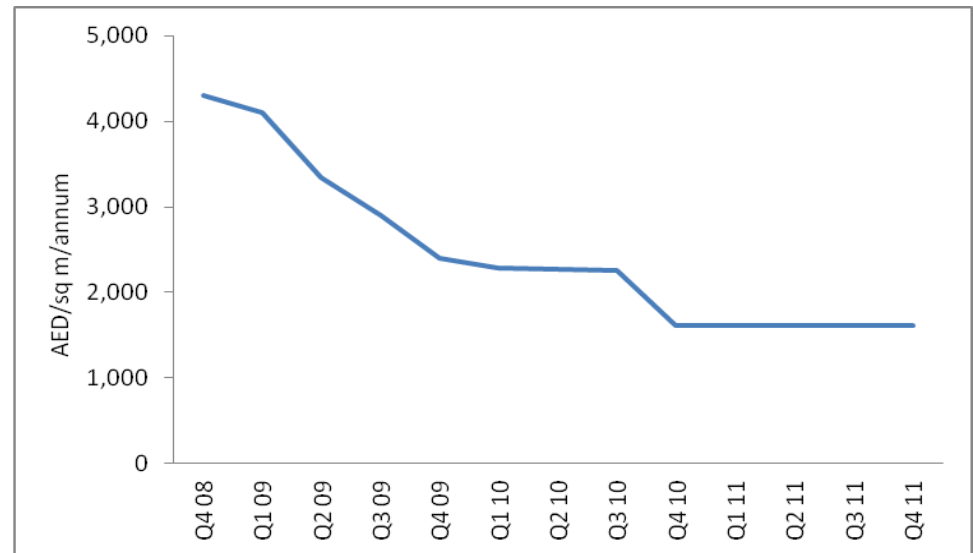
⁵⁴ Jones Lang LaSalle

⁵⁵ Jones Lang LaSalle

⁵⁶ Jones Lang LaSalle



Exhibit 15: Prime CBD Rents (Excluding DIFC)- Dubai



Source: Jones Lang LaSalle

Any signal of stabilization in the global economy will act as a catalyst for an increase in transactions as well as rental rates across the Dubai commercial office market

Although effective rentals of commercial office properties across Dubai is likely to fall further in 2012 due to oversupply and as owners look to attract and retain new tenants, we believe any signal of stabilization in the global economy will act as a catalyst for an increase in transactions as well as rental rates across the Dubai commercial office market in the long term. For example, the recent decision of Standard Chartered Bank to build its MENA headquarters in the Burj Khalifa Downtown Area, Dubai, signifies an increase in business confidence. We expect that once the global economic environment, particularly in the Eurozone, improves, Dubai, with its calm political environment, excellent infrastructure and low commercial property prices (as compared to historical prices) will lure property investors, high net worth individuals and the corporate sector to invest in commercial office space. In the longer term, we maintain an optimistic view of the commercial office construction market of Dubai on the back of rising population and stable economic growth.

Abu Dhabi

Abu Dhabi is expected to add 617,000 square meters and 473,000 square meters of additional commercial office stock in 2012 and 2013 respectively

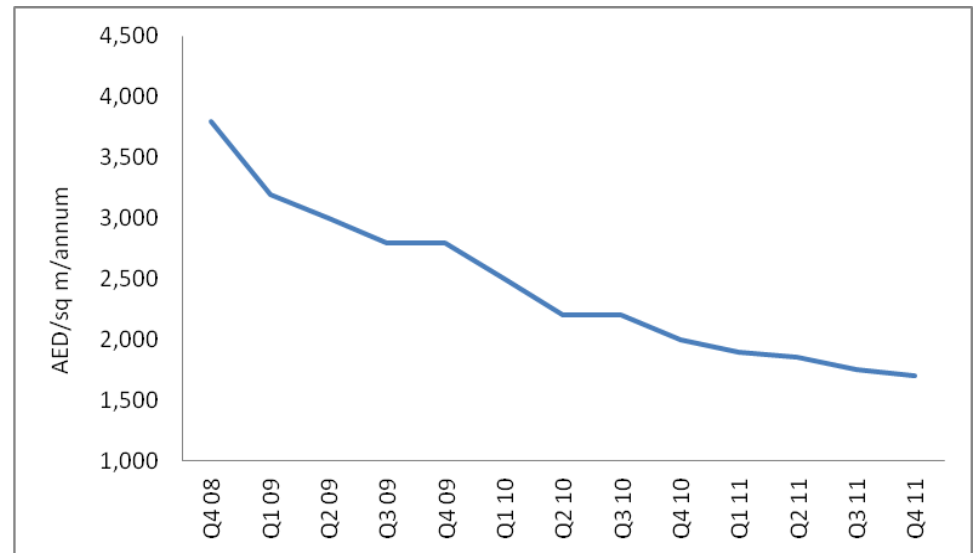
The commercial office construction market in Abu Dhabi also faced rough weather due to a lack of investor confidence and oversupply. Rental rates have declined by around 55% from the highs seen in Q4 2008 to reach AED1,700 per square meter per annum at the end of Q4 2011 (see Exhibit 16).

Meanwhile, JLL's estimates for Abu Dhabi's commercial office construction market show that it had around 2.5 million square meters of office stock at the end of Q4 2011⁵⁷. Additionally, Abu Dhabi is expected to add 617,000 square meters and 473,000 square meters of additional office stock in 2012 and 2013 respectively⁵⁸. Some of the future supply to be delivered in 2012 includes Tower 3 at Sowwah Square, and International Tower at Capital Centre.

⁵⁷ Jones Lang LaSalle

⁵⁸ Jones Lang LaSalle

Exhibit 16: Grade A Office Rents: Abu Dhabi



Source: Jones Lang LaSalle

We expect further oversupply of commercial office space is likely to increase vacancy rates in Abu Dhabi

Abu Dhabi's commercial office market is likely to be oversupplied over the next two years due to fresh supply in the market. We expect further oversupply (due to new office space entering the markets in 2012 and 2013) to increase vacancy rates from 23% registered at the end of 2011⁵⁹.

We expect the average price and rental rates to decline further, albeit at a lower rate, as new supplies enter the market. We expect increasing relocation of tenants from old buildings to new high quality, modern buildings in the near future. Declining rent is also expected to act as a demand booster, as business confidence increases in the region.

Free Zones in UAE

UAE has also been very proactive in developing free zones since the last three decades. These free zones have gained significant prominence in trade and investment and have helped foreign investors' by-pass several local laws that restrict them from doing business in the UAE. The global recession and subsequent debt crisis had affected the future development plans of several free zones under construction. However, as the economic environment stabilized, there was a renewed interest in the development of several free zones across the UAE. Some of the free zones under development include, Khalifa Industrial Zone Abu Dhabi (KIZAD), Fujairah Free Trade Zone, Dubai Auto Parts City, Dubai Biotechnology & Research Park (Dubiotech or Dubai Biotech), Dubai Maritime City, Dubai Studio City – Dubailand, Dubai Techno Park (TP), Dubai Textile Village, and Mohammad Bin Rashid Technology Park, to name a few.

UAE has several free zones under development

⁵⁹ Jones Lang LaSalle

Exhibit 17: Select New Office Developments in UAE

Project Name	Developer	Project Value (US\$ million)	Status
Dubai Studio City	Dubai Civil Engineering	1,100	Ongoing
Dubai Logistics City - Office Park	Mohammed Abdulmohsin Al-Kharafi & Sons Company	410	Ongoing
ADIC Headquarters	Al-Futtaim Carillion	355	Ongoing
ADTA/TDIC Headquarters	Surbana Corporation (Consultant)	272	Ongoing
The Domain	Mada'in Properties	110	Ongoing
Burlington Tower	Deyaar Development	82	Ongoing
Central Market Towers - Trust Tower	Aldar Properties	80	Ongoing
Capital Bay	Damac Properties	60	Ongoing

Source: Zawya

Kingdom of Saudi Arabia (KSA)

The Saudi Arabian commercial office construction market which was adversely affected by the global economic downturn received a respite in the form of a SAR500-million stimulus package announced in Q1 2011. Saudi Arabia's relatively stable political status during the recent 'Arab Spring' is also likely to boost the confidence of investors. The Saudi Arabian commercial office construction market is witnessing numerous new projects, particularly in Riyadh and Jeddah. Our outlook for the commercial office real estate and construction markets of Saudi Arabia point towards a positive future on the back of rising population, high liquidity, low interest rates and a booming economy.

Riyadh

The average office rent in Riyadh has recovered marginally post the recession. Average grade A office rentals increased by around 13% Q-o-Q to reach SAR1,400 per square meter per annum mainly due to the addition of some quality projects in the region and an increase in rents announced by Riyadh Business Gate⁶⁰. However, grade B rentals remained almost unchanged Q-o-Q in Q3 2011 at around SAR1,000 per square meter per annum⁶¹. Average (grade A & grade B) building rentals were around SAR1,150 per square meter per annum during Q3 2011⁶².

Riyadh had commercial office property stock of 3,211,000 square meters at the end of Q3 2011⁶³. The vacancy rates of office space in Riyadh were much lower as compared to the UAE and stood at 12% and 16% for city wide and CBD area in Q3 2011 respectively⁶⁴.

Further, Riyadh expects to add 818,000 square meters of commercial office space in 2012 and 2013⁶⁵. The first buildings of the much-anticipated KAFD are expected to be

⁶⁰ Jones Lang LaSalle

⁶¹ Jones Lang LaSalle

⁶² Jones Lang LaSalle

⁶³ Jones Lang LaSalle

⁶⁴ Jones Lang LaSalle

⁶⁵ Jones Lang LaSalle

We expect Saudi Arabia commercial office construction and real estate markets to be attractive in the long run

Average commercial office rents in Riyadh showed marginal recovery in recent quarters after witnessing decline after 2008

The commercial office construction markets of Jeddah is marked by oversupply, resulting in declining prices and rentals

Currently, there are four new economic cities under development in Saudi Arabia

completed by the end of 2012. The ITCC Project, being developed by the Public Pension Agency (PPA), is also likely to be completed by the end of 2012.

We expect prices and lease rentals to have a negative bias in the short to medium term due to oversupply of commercial office space. We also expect an increase in relocations in Riyadh after the completion of new business districts around the periphery of Riyadh. Rentals and re-sale prices of old commercial offices are expected to decline further, once the new business centers like the ITC Complex and King Abdullah Financial District come into the market. However, we maintain an optimistic outlook for Riyadh commercial office construction market mainly on the back of increasing economic activity in the city.

Jeddah

The commercial office construction market of Jeddah is also marked by oversupply which has led to a decrease in prices and rentals. Average (grade A & grade B) building rentals were around SAR900 per square meter per annum during Q3 2011⁶⁶.

Jeddah had around 357,000 square meter of office space stock at the end of 2010.⁶⁷ Further, JLL estimates an addition of 190,000 square meters of commercial office space in 2012 and 2013. Zahran Business Center and Headquarters is expected to be completed in 2012. Upcoming supply of quality office space may also further hamper owners to create value propositions. The demand for commercial office space in Jeddah is likely to come primarily from the private sector and is expected to be concentrated around the CBD area.

We foresee commercial office prices and rentals to decline further in 2012 as supply is expected to outstrip demand. Oversupply will lead to an increase in vacancy rates from around 26%⁶⁸ (for CBD) during Q3 2011. We believe the Jeddah commercial office construction and real estate market will be attractive in the long run due to an increase in demand from foreign investors and strong economic performance.

Economic Cities in Saudi Arabia

In Saudi Arabia, there is a renewed drive to increase employment of Saudi nationals. Currently there are four new economic cities namely King Abdullah Economic City, Prince AbdulAziz bin Mousaed Economic City, Knowledge Economic City, and Jazan Economic City under development in Saudi Arabia. In these four economic cities around five million residents are expected to reside, work, and play. With a total investment of around US\$69 billion, these four economic cities are expected to add around 428 million square meters of space to residential, commercial, hotel, port, and industrial sector. These four economic cities, once developed are expected to contribute significantly to the Saudi Arabian GDP⁶⁹.

⁶⁶ Jones Lang LaSalle

⁶⁷ Jones Lang LaSalle

⁶⁸ Jones Lang LaSalle

⁶⁹ Saudi Arabian General Investment Authority (SAGIA)

Exhibit 18: Select New Office Developments in Saudi Arabia

Project Name	Developer	Project Value (US\$ million)	Status
Bawwabab Al Sharq	Ansab General Contracting	400	Ongoing
King Abdullah Financial District - Capital Market Authority Tower	Saudi Binladen Group	300	Ongoing
Olaya Towers	Nesma Construction Co	235	Ongoing
Headquarters Business Park	Freyssinet Saudi Arabia Company Limited	214	Ongoing
Al Rajhi Bank (Headquarters Building)	-	200	Ongoing
King's Road Tower	Saqeifat Al Safa	133	Ongoing
Al Reziza Commercial Tower	-	100	Ongoing
Granada Business Park	GOSI	-	Ongoing
ITCC	The Rayadah Investment Company (RIC)	-	Ongoing
KAJD	RIC	-	Ongoing

Source: Zawya, Jones Lang LaSalle

Qatar

In the long term, we have an optimistic outlook on the Qatari commercial office market on the back of healthy growth in population and increasing economic activity

After significant activity in the last decade, the Qatari commercial office construction market is also facing a problem of oversupply. Substantial increase in stock and subdued demand for office space has put pressure on property prices as well as rentals in key business locations of Qatar.

Average office prices in Q4 2011 remained stable at QAR14,000 per square meter as compared to Q3 2011⁷⁰. However, new supplies in 2012 are expected to lead to a readjustment in prices over the medium-term. As per Asteco Q4 2011 Qatar report, there are still some potential tenants, particularly the oil and gas companies, who are looking to purchase/lease large office space. However, most of the new demand is coming from new entrants looking for smaller offices in the 100 to 600 square-meter range.

Around 80,000 square meters of commercial supplies are likely to be delivered across Doha during 2012 and 2013⁷¹. Our expectation is that the commercial office market will be oversupplied in the near-term, with several new developments nearing completion in the near future.

In the long term, we have an optimistic outlook on the Qatari commercial office market on the back of healthy growth in population and increasing economic activity. Massive construction plans in preparation for the FIFA 2022 World Cup is also likely bode well for

⁷⁰ Asteco Reports

⁷¹ Colliers

the office properties market in Qatar. We also expect the rental rates of commercial offices properties will increase from current yields of 10%⁷².

Exhibit 19: Select New Office Developments in Qatar

Project Name	Developer	Project Value (US\$ million)	Status
Barwa Financial District	Barwa Real Estate Company	1,360	Ongoing
World Trade Center	Arabtec	250	Ongoing

Source: Zawya

Kuwait

Oversupply in Kuwaiti market has led to decline in prices and rentals

In Kuwait, commercial office demand has historically been driven by local players, primarily due to legal restrictions on foreign company ownership in Kuwait and taxation of international companies. All multi-national organizations in Kuwait are either represented by a Kuwaiti company or joint venture or have a silent Kuwaiti partner. The Kuwaiti commercial office market is primarily located within the CBD/Sharq area of Kuwait city and Kuwait Free Trade Zone (KFTZ).

The Kuwaiti commercial office construction market has witnessed spectacular growth in the past on the back of robust average real GDP growth of around 6.5% between 2005 and 2009. However, the Kuwaiti office property market was hit hard on the back of oversupply in the market after the global economic crisis of 2008. The oversupply of commercial office space led to an increase in vacancy rates and decline in rental rates. Rental rates dropped by almost 50% from the peak rentals witnessed in 2008. Prime rents in Kuwait declined by around 22% Y-o-Y in Q3 2011 reaching around KWD 7 per square meter per month. Prices of commercial offices also declined sharply by 50-60% from their peak on the back of oversupply. Rental yields of office properties also increased from 6% to 7% during the pre-crisis period to around 9% at the end of 2009⁷³.

At the end of Q3 2011, total office stock in Kuwait stood at around 1.2 million square meters⁷⁴. Currently, Kuwaiti commercial office properties market is faced with a problem of oversupply. In Q1 2011, the Kuwait Investment Authority (KIA) announced that it intended to allocate KWD1 billion to invest in the local commercial property market in an attempt to stabilize the commercial property market. We believe that muted demand from corporate customers and investors coupled with increasing supplies (around 400,000 square meters of commercial office space being under construction at the end of Q3 2011⁷⁵) will continue to put pressure on the Kuwaiti commercial office market. This oversupply will lead to further decline in prices, lease rentals and increase in vacancy rates.

Muted demand from corporate customers and investors coupled with increasing supplies will continue to put pressure on the Kuwaiti commercial office market

We expect that the commercial office properties segment will continue to suffer from the current state of oversupply in the short to medium-term. However, in the longer term we expect the commercial office properties markets to stabilize on the back of increasing economic activity.

⁷² Numebo.com

⁷³ Markaz Research (Note: Last available data point for rental yields is 2009)

⁷⁴ Jones Lang LaSalle

⁷⁵ Jones Lang LaSalle

Exhibit 20: Select New Office Developments in Kuwait

Project Name	Developer	Project Value (US\$ million)	Status
Kuwait Investment Authority Headquarters	Keo International Consultants	200	Ongoing
Kuwait Institute for Scientific Research Headquarters	Al Enma'a Real Estate Company	57	Ongoing
Burgan Office Complex - Phase 2	Kuwait Dynamics Ltd	23	Ongoing
National Bank of Kuwait Headquarters	Edrasis Middle East General Trading and Contracting Co	-	Ongoing

Source: Zawya

Oman

Modern office space has increased drastically over the last few years in Muscat

Oman, too, is currently facing a steep fall in property prices due to oversupply and muted demand. Average rentals in the prime area of Shatti Al Qurum have dropped by around a third since the highs of 2008⁷⁶.

In Muscat, stock of modern commercial office space has increased drastically over the last few years on the back of economic and demographic growth, government diversification and privatization initiatives. At the end of Q3 2011, graded office stock stood at around 600,000 square meters in Muscat. However, Grade A buildings which meet the requirements of multi-national companies still remain in short-supply. This situation might change in the next one year with the completion of several office buildings like Al Rawaq Building in Qurum and Tilal Complex in Al Khuwair.

Prime office rentals in Muscat fell by around 33% between Q3 2010 and Q2 2011⁷⁷. Rental yield from property in Muscat stood at around 5.5% gross return to value. However, based on original purchase price off plan, the properties rental yields stood at around 10% per annum⁷⁸.

As per JLL's estimates, Muscat is expected to add between 200,000 and 250,000 square meters of office space over the next five years⁷⁹. We expect that the commercial office properties market will continue to be marked by oversupply in the short to medium-term as new supply enters the market. However, though the overall commercial office properties market will remain oversupplied, we expect quality new office space in smaller modular units to be in undersupply.

We believe, prices as well as rentals will continue their downward spiral in the near-term. Due to lack of suitable office space around Muscat, many companies are looking at the option of constructing purpose built offices, which may result in further downward pressure on occupancy levels and rentals in Muscat.

In the long term we have an optimistic outlook for Omani residential and commercial office construction market on the back of increasing population and rising employment levels

⁷⁶ Cluttons

⁷⁷ Jones Lang LaSalle

⁷⁸ Savills Oman Associate (Muscat Property Insight H1 2011) (Bifurcation of property rental yield between residential and commercial is not provided, hence it has been assumed to be same for both)

⁷⁹ Jones Lang LaSalle November 2011 report

Over the long-term, we have an optimistic outlook commercial office construction markets on the back of increasing population and rising employment levels.

Free Zones in Oman

Oman too has put emphasis on development of free zones which is expected to act as a catalyst for economic development, investment and providing employment to Omani nationals. Currently, there are two new free zones under development, namely Al Duqm Free Trade Zone and Sohar Free Trade Zone. The Duqm Free Trade Zone and Industrial Area is proposed to be housed on a 24,000-hectare plot near Duqm port. The Sohar free zone is being built on an area of 4,500 hectare and had begun its first phase development in 2010. We expect the completion of these Free Zones to boost demand for commercial office space in Oman.

Exhibit 21: Select New Office Developments in Oman

Project Name	Developer	Project Value (US\$ million)	Status
Telephone Exchange Buildings and Allied Services at Wattayah Coastal Station	Galfar Engineering & Contracting LLC	-	Ongoing

Source: Constructionweekonline.com

Bahrain

The Bahraini commercial office construction market is facing oversupply post the global recession. According to DTZ, approximately 135,000 square meters of new office stock was delivered to the market in 2010, increasing the total stock in the country to more than 700,000 square meters as on December 2010. The commercial office space in Bahrain is currently facing an oversupply leading to a significant fall in the vacancy and rental rates of office properties across Bahrain.

Lease rates of class A office space witnessed a decline of around 29% from Q4 2008 to Q4 2011. Lease rates of class B office space also witnessed a decline of around 33% from Q4 2008 to Q4 2011⁸⁰. Commercial rental yields in Bahrain fluctuated throughout 2010. Rental yields increased to 15-20% in major cities of Bahrain in the first half of 2010 and later declined to around 10% in the second half of 2010⁸¹. Further, commercial office rental yields across Bahrain stood at around 11% in June 2011⁸².

DTZ forecasts that commercial space supply in Bahrain will reach 0.36 million square meters between 2012 and 2013⁸³. We believe that the Bahraini commercial office construction will be under pressure mainly due to oversupply, subdued economic environment, reduced occupier demand, and political unrest. In the near-term, political unrest is expected to have a significant effect on corporate decision to acquire new office space in Bahrain.

We expect commercial office rental yields to be stable in the near-term due to a decline in both rentals as well as prices in the short to medium-term. We believe the selling price of properties will fall more in comparison to rentals which will also support rental yields in the office property markets across Bahrain.

⁸⁰ CBRE

⁸¹ Business Monitor International

⁸² Cushman & Wakefield

⁸³ DTZ

In Bahrain, approximately 135,000 square meters of new office stock was delivered to the market in 2010

We believe that the Bahraini commercial office construction will be under pressure mainly due to oversupply, subdued economic environment, reduced occupier demand, and political unrest



Exhibit 22: Select New Office Developments in Bahrain

Project Name	Developer	Project Value (US\$ million)	Status
Bahrain Financial Centre Infrastructure	Ahmed Mansoor Al A'ali Company	50	Ongoing
Al Baraka Banking Group Headquarters	Arabtec Construction LLC	-	Ongoing

Source: Zawya

3. Growth Drivers

Large expatriate population

The GCC is home to more than 16 million expatriates from around the world, with the UAE and Saudi Arabia accounting for approximately 14.4 million of these⁸⁴. In a bid to drive real estate growth and investment, the governments of several GCC countries have opened up the real estate sector to foreigners, allowing them to own/lease properties. Increasing investments in the UAE by people from countries like Pakistan, Iran and other Middle Eastern countries due to the perception of UAE being a safe haven, further boosts demand for residential and commercial properties. This, coupled with the increasing influx of expatriate population in the region is likely to drive housing demand in the GCC's member countries.

Inflation Trends

Inflation for the overall GCC region increased from almost zero percent in the last decade to a high of around 11% in 2008 mainly on account of increasing commodity prices, particularly oil, significant increase in rentals, and depreciation of the dollar. However, sharp decline in oil prices as an after effect of the global economic recession led to a decline in inflation to around 3%. In 2010 and 2011, the region witnessed return of inflationary pressures due to high and stable oil prices. Saudi Arabia recorded higher inflation as compared to its counterparts in the region followed by Kuwait and Oman.

Going forward, we expect the inflation to be in a manageable range of 3% to 4% between 2012 and 2015 (see Exhibit 23). Movement in commodity prices, particularly oil is likely to be the main driver of inflation during 2012 to 2015. We expect inflation in countries like Saudi Arabia and Kuwait will be in line with the global commodity prices, whereas inflation in Oman will decline from current levels and stabilize near 3.5% as food prices stabilizes. We expect inflation in UAE to remain stable till 2013 as the region is expected to witness a further decline in property prices. We expect inflation in Qatar to increase mainly on account of increased liquidity in the market due to increases in salaries of government employees. Further, the GCC region will continue to enjoy premium on rental yields as compared to mature economies of the US and Europe due to manageable inflation range of 3% to 4% in future. We believe that manageable inflation level in the GCC region coupled with low property prices (as compared to historical prices) is likely to act as a demand driver for residential as well as commercial construction markets.

Shortage of local manpower has resulted in substantial presence of foreign workers in the GCC workforce

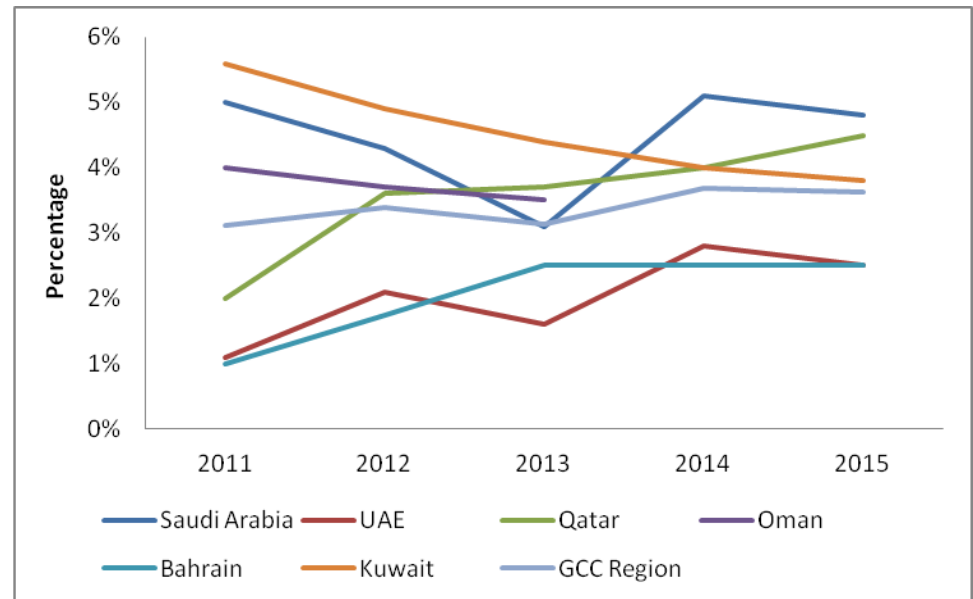
Inflation increased from almost zero percent to 11.8% in 2008

We expect inflation to be in manageable range of 3% to 4% during 2012 and 2015

⁸⁴ Source: International Organization for Migration, Switzerland



Exhibit 23: Inflation Trends in the GCC Region



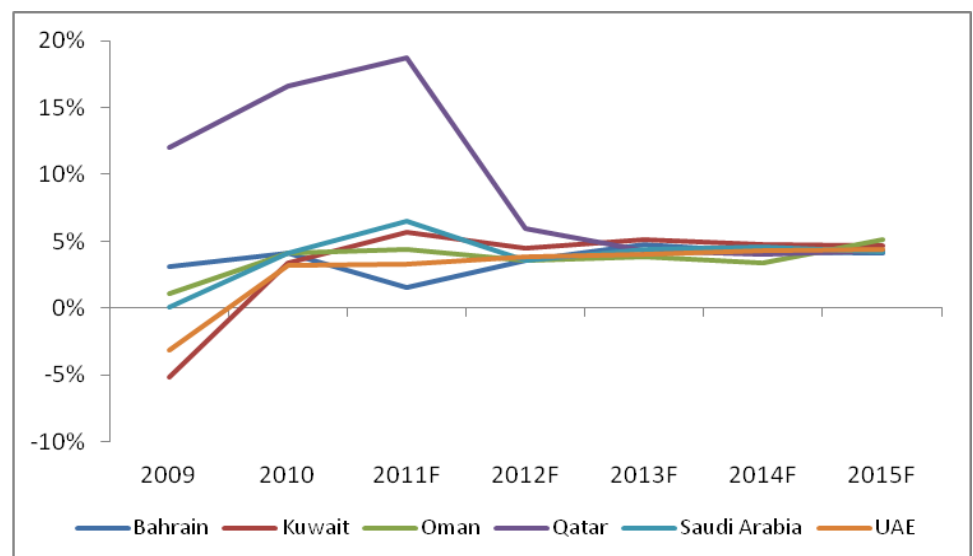
Source: Economic Intelligence Unit

Strong Economic Outlook

With stable oil prices, any further increases in government spending will support investment and consumer spending, thereby having a positive effect on GDP growth of the region

Renewed focus on economic diversification, and a positive GDP growth forecast for the region may translate into an increase in construction activities in the GCC. In 2011, crude oil production by GCC member countries increased as OPEC countries (led by Saudi Arabia) acted proactively to replace 1.5 mbpd of lost output from Libya, due to the political unrest in that country. This has had a positive effect on the GDP growth of oil producing nations of the GCC.

Exhibit 24: Real GDP Growth Rates



Source: International Monetary Fund

Young population will continue to account for a large chunk of the entire GCC population in the near future as well, which will drive housing demand

The growth in the GCC region was hit hard by the global recession in 2009. However, the region rebounded with a GDP growth rate of 5.9% (at constant price) in 2010 as compared to 1.3% in 2009⁸⁵. Led by robust growth in Saudi Arabia and Qatar, the GDP (at constant price) grew at 6.7% in 2011(estimated) (see Exhibit 24), mainly due to stable oil prices. Recently EIA has raised its oil price forecast for 2012 to US\$106 per bbl amid tensions in the Middle East region, particularly Iran. Consequently, the outlook for 2012 and 2013 remains positive.

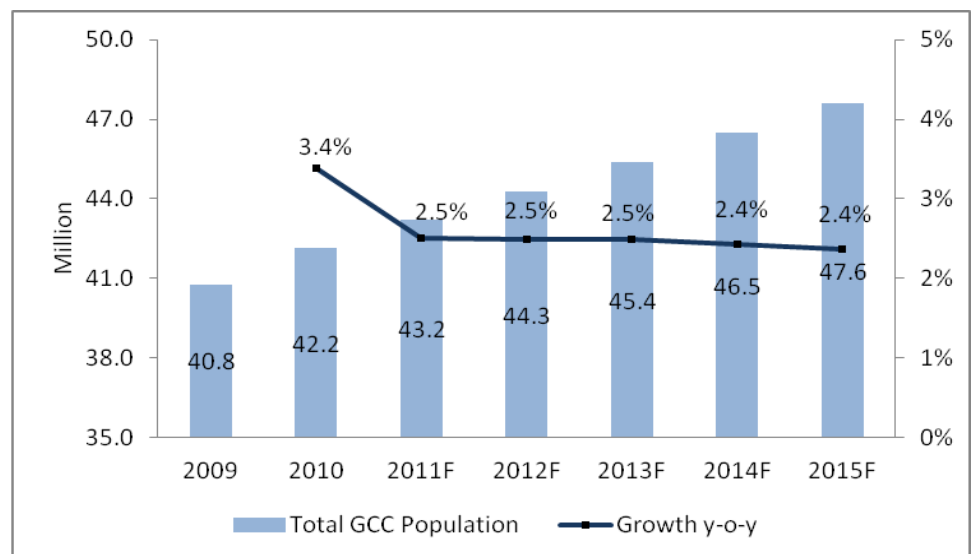
With oil prices expected to be stable, any further increases in government spending will support investment and consumer spending, thereby having a positive effect on GDP growth. Presently, the risk from external financial distress from Europe, in particular, seems to be controllable.

Favorable Demographic Factors

Population in the GCC region has been growing rapidly in the last decade (see Exhibit 25). GCC's total population grew 3.5% during the period between 2003 and 2009 as compared to the global growth of 1.3% during the same period. In addition to increasing population, GCC member countries are seeing a high rate of urbanization. GCC member countries like Kuwait and Qatar have more than 90% of their population living in urban areas. However, there is still room for growth in the urban population, particularly in more populated member countries like Saudi Arabia and UAE.

Apart from increasing urbanization, GCC is characterized by a young and growing population base, an important growth driver for the construction sector. As per the EIU, approximately 30% of GCC's population is under the age of 15 years, while 50% is in the age group of 15 to 65 years. It is expected that the young population will continue to account for a large portion of the entire GCC population in the near future as well, which will drive housing demand. Additionally, changing lifestyles and rise of nuclear families is also likely to drive demand for residential units.

Exhibit 25: GCC Population Trend



Source: Economic Intelligence Unit, International Monetary Fund

⁸⁵ IMF

The GCC member countries are increasingly looking at developing their non-oil sectors like real estate, construction, tourism, and manufacturing

Focus on Developing the Non-Oil Sectors across the GCC Region

The oil price boom in the last decade particularly between 2003 and 2008 resulted in large fiscal and external surpluses in the GCC member countries. However, this also generated domestic imbalances that began to unfold with the onset of the global economic recession and subsequent correction in oil prices after 2008. With sharp decline in oil prices the external surpluses of the GCC member countries declined, which had profound effect on the investment plans of the governments of the GCC member countries.

To keep the economy insulated from volatility in the prices of oil, the GCC member countries are increasingly looking at developing their non-oil sectors like real estate, construction, tourism, and manufacturing, to name a few. For instance, non-oil sectors like construction, transportation & telecommunication in Saudi Arabia grew at 11.6% and 10.1% respectively in 2011⁸⁶. Further, the Saudi government has allocated US\$45 billion (24% of total budgeted spending) and US\$23 billion (13% of total budgeted spending) on education and training, and health and social affairs sectors in 2012⁸⁷. Recently, the government of Oman also announced that the projected spending on the construction sector will reach around US\$10 billion in 2012, witnessing an increase of 23% of the 2011 spending⁸⁸.

Additionally, the government in order to increase the employment opportunities among the region's fast growing young population is putting strong emphasis on developing the alternative sectors. Continued efforts of the governments of the GCC member countries to diversify their growth portfolio by developing alternative sectors to oil is likely to result in growth of non-oil sector at approximately 5.1% between 2010 and 2020⁸⁹. During the same period the oil and gas sector across the GCC region is expected to grow at an average rate of 3.3%⁹⁰. We believe the various governments' thrust on developing alternative sectors like real estate and tourism is likely to bode well for the construction industry across the GCC region.

Possible "Emerging Market" status for UAE and Qatar by MSCI

Morgan Stanley Capital International (MSCI) will be reviewing Qatar and the UAE for their possible re-classification from being a frontier market to emerging market. A promotion to emerging markets status could provide a huge boost to stocks in both the UAE and Qatar by attracting investors who track the company's benchmark equity indices. We believe that markets like the UAE and Qatar attracting the emerging market status will provide a huge impetus to the growth environment, generally inducing increased allocation to all asset classes in these countries including the real estate and construction sector.

Key Regulatory Changes

Regulatory changes in most of the countries across the GCC region are also likely to boost the demand in the residential as well as office construction market. Countries like Saudi Arabia and UAE attracted 82% of the total FDI investment in the region between 2003 and 2008. We expect the FDI investment in Qatar is likely to increase significantly on the back of FIFA World Cup in 2022. Oman too should benefit from a favorable attitude of the government towards improving transparency in the real estate sector.

⁸⁶ U.S.-Saudi Arabian Business Council

⁸⁷ www.al-monitor.com

⁸⁸ www.albawaba.com (news article dated January 31, 2012)

⁸⁹ EIU

⁹⁰ EIU

Most of the GCC member countries have been proactive in changing their existing real estate regulations

We expect further changes in regulatory environment will help in the growth of residential and commercial construction sector across the GCC region

Saudi Arabia

In order to promote FDI in construction sector, the government of Saudi Arabia enacted “the Foreign Investment Act” in 2000, which allowed foreign businesses to own real estate required for licensed activities, private residences and employee accommodation. In 2010 the government allowed foreign nationals to own property in King Abdullah Economic City after the enactment of “The Economic Cities Act”. Recently in 2011, the Saudi Arabian Shura Council granted its approval to the mortgage law. We expect that the changes in regulations and mortgage laws are likely to bode well for the construction sector of Saudi Arabia.

UAE

The UAE had the most lenient regulations with respect to ownership of land by foreign nationals. As per the current regulations by the seven Emirates, a non-UAE national can own freehold as well as leasehold property in designated areas of the UAE. In addition, foreign ownership is also allowed in the free zones like DIFC, Dubai Silicon Oasis, and TECOM. We expect the UAE to attract investments from foreign nationals due to encouraging policies pursued by the government.

In 2007, Dubai established the Real Estate Regulatory Authority (RERA) with objectives of monitoring and regulating the Dubai real estate market. Recently, the Dubai Land Department (DLD) introduced two initiatives, Tayseer and Tanmia, in order to revive the real estate market across Dubai. Tayseer launched in July 2010 aims to support projects in Dubai through the arrangement of financing through local banks. Tanmia is an initiative by Real Estate Investment, and Promotion and Management Centre (REIPMC) under DLD which aims at reducing the number of incomplete projects, reignite stalled projects and improve Dubai's appeal for investment. Dubai International Financial Center (DIFC) has also enacted a law in Dubai permitting foreigners to seek investment participation through the use of DIFC-formed Real Estate Investment Trusts (REITs). However, these laws must be considered in the context of laws governing the right of foreign investors to acquire real estate in the different Emirates of UAE, particularly Dubai and free zones of the UAE.⁹¹

Qatar

Qatar following the footsteps of Saudi Arabia and UAE, made changes in its regulatory norms in 2004 allowing foreign nationals to acquire both freehold as well leasehold properties in designated localities of Qatar. Recently in 2011, Qatar enacted a law allowing foreigners to own real estate and acquire residency permits in the country. The focus of the Qatari government allowing foreigners to acquire residency permits in the region is likely to act as catalyst for infusion of FDI in the residential and construction sector.

Bahrain

Though foreign nationals in Bahrain were allowed to own land since 2001, they were allowed to do so only in certain designated areas of Bahrain. Later the government of Bahrain enacted legislations in 2003 and 2006, allowing foreign nationals to own real estate on freehold basis (in certain designated areas) and residential units of certain types in Bahrain. Though the government has focused on providing access of accommodation to foreign nationals in the last decade, we expect the focus to shift to the low and middle income population of the country, as a result of the pipeline of several affordable homes projects. We expect the government to make changes in the mortgage laws which will enable the low and middle class population to get access to easy credit for acquisition of homes.

⁹¹ Patton Boggs LLP

Oman

In 2006, the Sultanate of Oman enacted a law allowing foreign ownership rights in respect of land located in designated Integrated Tourist Complexes (ITCs). The government is also looking to establish a real estate regulatory agency. In January 2012, the Council of Ministers took a preliminary step towards setting up of the agency after it directed that a committee be formed to get the opinions of the real estate companies to determine the exact role of the agency. We expect co-ordination and transparency of the real estate and construction sector in Oman to increase significantly once the regulatory agency is finally set up.

Kuwait

As per Article 23 of the Kuwaiti Commercial Code, non-Kuwaitis can undertake business activities in Kuwait only in partnership with a Kuwaiti national. Further, the Kuwaiti national should have at least 51% equity holding in the partnership. Additionally, Article 24 of the code restricts foreign companies from establishing a branch in Kuwait and not engaging in commercial activities in Kuwait, except through a Kuwaiti agent. The expatriate population is also not allowed to own properties in Kuwait. Going forward, the Kuwaiti government will need to review its regulatory environment in the real estate and construction sector if it wants to attract foreign investors.

4. Challenges

Tight Liquidity Condition

Banks have become over-cautious about defaults and are reluctant to extend loans to the construction sector

With tightening credit markets and a slowdown of economic activity across the GCC, the construction and real estate sectors came under enormous stress. Banks in general became over-cautious about defaults and were reluctant to extend loans to the construction sector. The delays and cancellations of 19% of the 3,000 construction projects in 2009 and 2010, had a profound effect on the sentiments of property investors. As per a Standard & Poor's (S&P) report, banks in the GCC booked losses and impaired investments amounting to more than US\$20 billion since the beginning of 2008 through to September 2010. Numerous large projects were cancelled in 2010 and 2011 due to weak investor sentiments and lack of funds. Currently, banks have limits in funding real estate transactions and many banks have already reached these limits reiterating the tight liquidity conditions. We expect the banks across the GCC regions to remain cautious in extending funds to the construction and real estate sector on the back of current uncertain economic conditions and an oversupply in most markets.

Oversupply

Oversupply will remain the biggest challenge for the GCC construction industry

Oversupply remains the biggest challenge for the construction and real estate sector across the GCC. The commercial construction segment has been hit the hardest due to oversupply of space. Oversupply has led to a sharp decline in property prices as well as rentals in the last two years. We expect prices to slide further (particularly in the commercial office construction segment) as fresh units enter into the market. The oversupply situation has also led to postponement of some large projects across the GCC region. UAE remains the worst affected out of the member countries, witnessing a sharp decline in prices and rentals. We expect slower than expected recovery to further lead to project cancellations across the GCC region.

Shrinking Margins

The margins of contractors in the GCC have remained significantly higher than that of their international peers. These were higher as during the construction sector boom (pre-crisis period), developers were awarded high margin contracts. High margins attracted many companies to enter into the market leading to intense competition. Consequently, margins are now under pressure, forcing contractors to shift their business mix. We expect that margins would continue to be under pressure in the long run due to increase in competition and oversupply in the market.

Receivables Management

At the end of Q3 2011, combined receivables of the UAE construction contractors stood at AED7.5 billion, higher by 1.3% Q-o-Q and 21.5% Y-o-Y⁹². Moreover, overall receivables size as a percentage of sector balance sheet size stood at 53.8% as of Q3 2011⁹³. The receivables outstanding days of the sector stood at 354 days at the end of Q3 2011 as compared to 345 days at the end of Q2 2011 and 329 days in Q3 2010⁹⁴. Similar conditions prevail in key markets of Saudi Arabia, signifying poor receivables management by developers. Deteriorating receivables management by companies in the GCC's construction sector is likely to have an adverse effect on investor sentiments and financial

⁹² Global Investment House: GCC Investment Strategy 2012

⁹³ Global Investment House: GCC Investment Strategy 2012

⁹⁴ Global Investment House: GCC Investment Strategy 2012

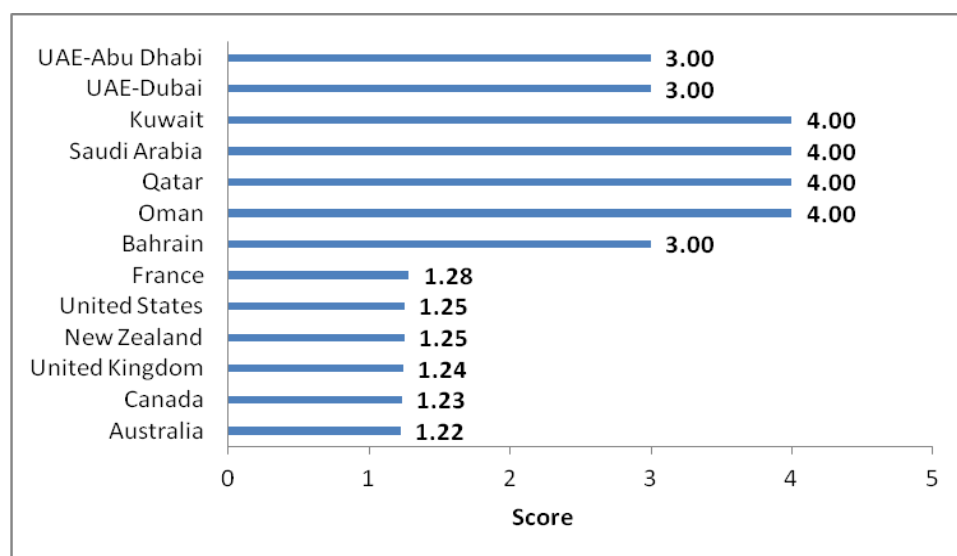
Poor regulations and transparency issues is likely to hamper FDI investment in the residential and commercial construction sector

institutions that have a large stake in the sector. Construction companies across the GCC need to keep a strict check on receivables management in order to avoid any crisis.

Low Transparency

The recent global financial crisis attracted heightened transparency issues among the investors. A more transparent market is likely to enhance participation, not just at the regional level but also at the international level. The GCC construction and real estate market is considered to be one of the least transparent markets in the world. The level of transparency across the construction and real estate sector in the region remains much below the Top-10 transparent real estate markets in the world like Australia, Canada, UK, the US, France and Germany (see Exhibit 26). As per Jones Lang LaSalle (JLL), in the Global Real Estate Transparency Index, which is compiled every year, most real estate markets in the GCC fall under the Semi-Transparent (UAE and Bahrain) and Low-Transparency (Kuwait, Oman, Qatar and Saudi Arabia) categories, indicating room for significant increase in transparency in the sector. This is also likely to hamper FDI in the sector.

Exhibit 26: JLL Real Estate Transparency-2010 (Composite Score-0 to 5)



Source: Jones Lang LaSalle

Note: (1.0 to 1.49: Highly Transparent), (1.50 to 2.49: Transparent), (2.50 to 3.49: Semi-Transparent), (3.50 to 4.49: Low-Transparent, (4.50 to 5.0: Opaque)

Competition

Local players are looking to follow the strategy of competitive bidding for big ticket projects in order to beat the competition from foreign players

The GCC residential and commercial construction market is highly competitive and fragmented, comprising of several small and big players across the value chain. Contractors in the GCC enjoyed higher margins as compared to their international peers, which attracted several local and international players to enter the sector. Increase in the number of companies (local as well as international) has led to intense competition in the market place. The local players are looking to follow the strategy of competitive bidding for big ticket projects in order to beat the competition from foreign players, who bring in significant technical expertise with them. We expect the competition to intensify in future due increase in number of players in the sector.

To maintain margins as a result of volatility in prices of key inputs of construction, the companies are constantly looking at changing the composition of building materials

The construction sector across the GCC region is highly dependent on expatriate labor, particularly from the Indian Subcontinent

Volatility in prices of building materials

The margins of the players in the construction sector are highly sensitive to the prices of the building materials (which account for approximately 33% of total construction cost). Prices of key inputs like cement and steel are highly sensitive to both global as well as the local economy, thus having a significant effect on the margins of the construction firms as a result of price fluctuations. Additionally, the situation is worsened due to cost overruns as a result of delay in project execution. The raw material prices witnessed incredible surge in prices between 2004 and 2008. However, the global economic recession and subsequent declining demand led to a sharp correction in prices of key inputs like cement and steel.

To maintain margins as a result of volatility in prices of building materials, the construction companies are constantly looking at changing the composition of building materials used in the construction activities. Construction companies which employ the strategy of competitive bidding are worst affected by the volatility in prices of inputs of construction.

High attrition rate among expatriate labor workforce

Labor cost forms a significant portion of overall cost of construction, accounting for around 15% to 20% of project-related costs⁹⁵. The construction sector across the GCC region is highly dependent on expatriate labor, particularly from the Indian Subcontinent. The influx of expatriates increased significantly in the last three decade due to higher salaries as compared to salaries offered in their home country. The dearth in skilled labor in the GCC construction sector led to sharp increase in labor cost in the last decade. However, the global economic recession and subsequent debt crisis resulted in significant churn in the labor force across the GCC region.

Currently, high attrition rates among expatriate labor workforce remains a major hurdle for the GCC construction sector, as the expatriate laborers are drawn towards their home countries due to better job opportunities (particularly relevant for expatriates from the Indian Subcontinent) on the back of significant growth in economic activity. This is likely to slow down the influx of expatriate workforce across the GCC, which in turn will have a profound effect on the labor-intensive construction sector of the GCC. We expect that the retention of skilled labor force will become increasingly difficult for the GCC construction industry players. To encounter the challenge from lack of skilled labor, the GCC construction companies are likely to increasingly pursue the policy of executing projects on a joint venture basis.

⁹⁵ Zawya

Governments of several GCC member countries have ambitious plan to develop affordable homes in future

All the nations under the GCC have already developed their own green building standards through their councils

5. Trends

Affordable Housing

Affordable housing plays a key role in providing housing to the low and middle income population. Currently, there is a shortfall in the supply of affordable homes across the GCC, although there is an oversupply of housing (like apartment, villas) for higher-income group population. An estimated shortage of more than 3.5 million such houses across the MENA region suggests the importance of this segment⁹⁶. Although active private development can quickly fill this shortfall, there are certain constraints such as high value of land and high costs associated with developing other infrastructural facilities like sewerage, water, and electricity for these structures. Additionally, an immature mortgage market in the GCC region also limits the financing capabilities of the low and middle-income population to buy affordable homes. Government involvement in this development could ease the situation and necessary mortgage policy revisions would benefit the affordable housing scenario. Recent commencement of affordable housing projects in Saudi Arabia and Bahrain is a good step in this direction.

Going Green

Green buildings are focused on improving energy efficiency in new as well as existing buildings. All the nations under the GCC have already developed their own green building standards through their councils and are actively reviewing and adopting these mandates in the new building laws. For example, the Urban Planning Council and Department of Municipal Affairs has mandated Green building and sustainable infrastructure under the new building codes effective from September 2010 in Abu Dhabi. These initiatives are aimed at reducing energy bills by 40% in all new homes built across the emirates.

Presence of Global Players

The favorable policies of governments of the GCC member countries and high margins enjoyed by the sector (as compared to the Global peers), attracted several foreign companies particularly in the lucrative residential and commercial office construction markets of Saudi Arabia, UAE, and Qatar. Very few local companies across the GCC region have the required skills to deliver a complex project independently. In the last decade the region witnessed the start of several big ticket complex projects, which also led to the entry of several foreign contracting companies, who had prior experience of handling similar projects.

Foreign companies, having capabilities of handling large and complex projects entered the GCC construction sector either in partnership or joint ventures with established local players. For example South African construction company Murray & Roberts entered into the GCC region in partnership with the Al-Habtoor Group while German construction firm Gustav Pögel & Sohn GmbH entered into a joint venture with the Al Rostamani Group to enter the GCC market. This JV model of business pursued by foreign companies combines the knowledge, capital, and expertise of the global firm with the contacts and deep understanding of the regional market conditions of the local firm. The JV model of entering a new market is advantageous for both the JV partners as it reduces their risk significantly. The joint venture model also facilitates easier execution of projects as the JV partners typically share their domain expertise.

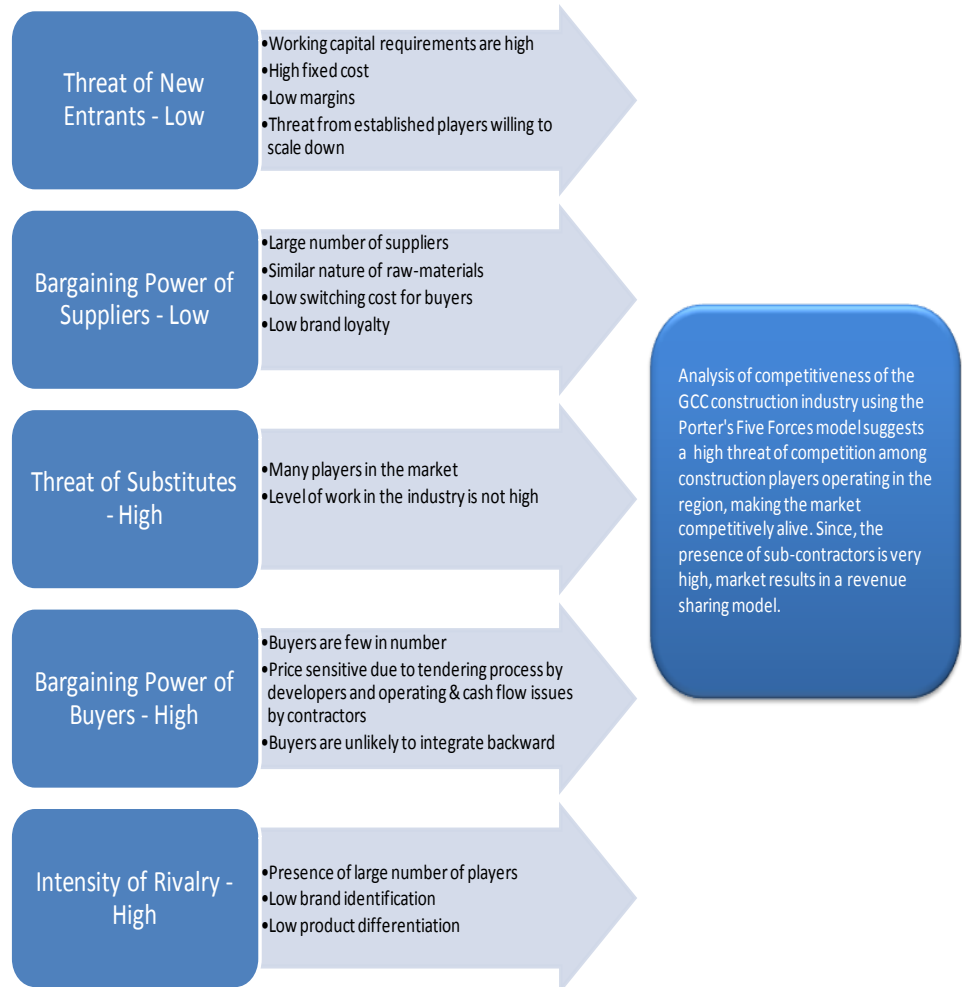
⁹⁶ Jones Lang LaSalle

Geographical Diversification through M&A

Before the global economic slowdown and subsequent debt crisis, the sharp increase in projects under development and attractive margins of the construction industry players based across the GCC region pushed the existing players to expand their operations. Apart from growing organically, well-established contractors took the M&A route to expand their operations and diversify into newer geographies. This trend again gained momentum in 2011, after the somber mood in 2009 and 2010. Recent acquisition of Saudi Arabia based International Center for Contracting Co by UAE based Drake & Scull International is an example of this trend. We expect this trend will continue in future as major contracting companies look to expand their top line.

6. Porter's Five Forces Model

Exhibit 27: Competitiveness of the GCC Construction Sector



Source: Alpen Capital

Increasing business confidence and stabilizing global economy will lead to increasing number of M&A deals

7. Merger and Acquisition (M&A) Activities

In the last three years the GCC construction industry was adversely affected by global recession and subsequent Dubai debt crisis. M&A activity in the Middle East was also hit by recent political unrest in the region. A number of other M&A transactions have taken place over the period in the GCC region including Drake & Scull International PJSC, and Suliman Hamoud Al Khalid Sons & Partners Co. With increasing business confidence and stabilizing global economy, M&A activity is expected to pick up in the residential and commercial office construction sector as companies look to diversify their mix by expanding into different verticals and multiple geographies.

Exhibit 28: Major M&A deals in GCC Construction sector

Acquirer	Acquirer's Country	Target Company	Target's Country	Year	Consideration (US\$ million)
Barwa Real Estate Co QSC	Qatar	Qatar Real Estate Investment Co QSC	Qatar	2010	890.6
Drake & Scull International PJSC	UAE	International Center for Contracting Co	Saudi Arabia	2011	34.1
Undisclosed	-	Abdullah AM Al Khodari Sons Co (Equipments & Machineries division)	Saudi Arabia	2010	14.8
Undisclosed	-	Mushrif National Construction Co LLC	UAE	2011	8.20
Aldar Properties PJSC *	UAE	Sorouh Real Estate PJSC	UAE	2012	N/A
Suliman Hamoud Al Khalid Sons & Partners Co	Kuwait	Shira Real Estate Development & Investment LLC	Jordan	2011	N/A
AECOM Technical Services Inc	United States	Tishman Construction	UAE	2010	N/A
Arabtec Holding PJSC	UAE	House of Equipment LLC	UAE	2010	NA

Source: Thomsonone Database

Note: The Aldar/Sorouh deal was announced on March 3, 2012 and is pending completion

Country Profiles

UAE

Key Growth Drivers

- **Population:** The population of UAE is expected to reach 5.7 million by 2012. Increase in expatriate population, which accounts for more than 80% of the country's population, would be the main growth driver for increasing demand for residential and commercial units.
 - **GDP:** The growth in Real GDP is estimated to be 3.8% in 2012, signifying a revival of the overall economy, after being hit significantly during the global recession. The GDP growth rate is expected to gain momentum in the next few years on the back of increase in consumer spending.
 - **Government policies:** Favorable government policies like allowing a non-UAE/GCC national freehold, leasehold or usufruct in designated areas of the UAE, are likely to attract FDI in construction and real estate sector as more and more foreigners will look at acquiring properties across the UAE.
- Focus on middle and low income groups:** In 2010, Abu Dhabi Urban Planning Council directed multi-unit building developers to allocate 20% of residential gross floor area to middle income groups. This is likely to increase housing supply for the middle and low income population.

Recent Industry Developments

- UAE's federal government extended visas of real estate investors from six months to three years in June 2011.
- UAE emerged as a safe haven during the recent Arab Spring and was largely unaffected by the recent political turmoil and civil unrest in the region. This safety factor would be a huge boost to bringing in new investments into UAE's construction and real estate sector.
- Dubai established Real Estate Regulatory Authority (RERA) in 2007 with objectives of monitoring and regulating Dubai real estate market. RERA also had developed a rental index, based on actual rental transactions.
- The Dubai Land Department (DLD) introduced two initiatives, Tayseer and Tanmia in order to revive the real estate market across Dubai. Tayseer aims to support projects in Dubai through the arrangement of financing through local banks while Tanmia aims at reducing the number of incomplete projects, reignite stalled projects and improving Dubai's appeal for investment.

Macro-economic Indicators

Indicators	Unit	2011E	2013E	2015E
GDP growth at constant prices	%	3.3	4.0	4.4
GDP at constant price	AED bn	677.5	731.3	796.3
GDP per capita at constant prices	AED	126,050	128,250	131,648
Population	mn	5.4	5.7	6.0
Inflation	%	2.5	2.5	2.1

Source: International Monetary Fund, Alpen Capital

Key Projects

Project Name	Investment (in US\$ mn)	Sector	Status
Al Falah	2,560	Residential	Ongoing
Al Furjan Development - Phase 1	817	Residential	Ongoing
The Pentominium Tower	400	Residential	Ongoing
Dubai Logistics City - Office Park	410	Commercial	Ongoing
Burlington Tower	82	Commercial	Ongoing
Central Market Towers - Trust Tower	80	Commercial	Ongoing

Source: Zawya, Alpen Capital

Key Players

Company	Type
Al Habtoor Leighton Group	Residential, commercial and mixed developer
Al Hamad Contracting	Contracting and real estate developer
Al Rostamani Pegel	High-rise buildings and towers
Arabian Construction Company	Residential, commercial and mixed developer
Arabtec Construction	Residential, commercial and mixed developer
Belhasa Six Construct	Civil and electromechanical contracting
Brookfield Multiplex	Residential and commercial contractor
Consolidated Contractors Company	General Contractor
Dubai Contracting Company	Residential, commercial and mixed developer

Saudi Arabia

Key Growth Drivers

- **Population:** Construction and real estate growth in Saudi Arabia is driven by increasing population, rapid urbanization, and increasing number of expatriates. As per the IMF estimates, population is expected to reach 29.4 million by the end of 2013. Further, expatriate population is also expected to increase significantly in the next few years.
- **Government policies:** The nation's mortgage penetration rate is at 2% currently, which is much lower than 14% in UAE. This was mainly due to the inadequate property and mortgage laws, resulting in less than 35% of Saudi population as home owners. However, in 2011, to address the issue, the Saudi Arabian Shura Council granted its approval to mortgage law which would widen the funding options available particularly for low and middle-income group population.

Recent Industry Developments

- In 2011, Saudi Arabian government announced plans to spend SAR100 billion (US\$26.66 billion) on implementing infrastructure and housing projects in the holy city of Mecca.
- Accepting shortage of affordable homes as a serious issue post the recent Arab Spring, King Abdullah announced the construction of 500,000 affordable homes in various provinces of Saudi Arabia in March 2011.
- Construction work on the US\$1.2 billion Kingdom Tower (which will be the tallest in the world post construction) is scheduled to start shortly. Earlier, Saudi Binladin Group won the deal to construct the tower with founding partner Adrian Smith (who was also the architect behind Dubai's Burj Khalifa).

Macro-economic Indicators

Indicators	Unit	2011E	2013E	2015E
GDP growth at constant prices	%	6.5	4.4	4.2
GDP at constant price	SAR bn	928.0	1,004.1	1,094.5
GDP per capita at constant prices	SAR	32,945	34,127	35,721
Population	Mn	28.2	29.4	30.6
Inflation	%	5.4	4.3	4.0

Source: International Monetary Fund, Alpen Capital

Key Projects

Project Name	Investment (in US\$ mn)	Sector	Status
Shams Al Arous	2,000	Residential	Ongoing
Jeddah Housing Project	1,000	Residential	Ongoing
Jubail Housing Complex	235	Residential	Ongoing
GOSI - Jubail Housing Complex	235	Residential	Ongoing
Bawwabab Al Sharq	400	Commercial	Ongoing
Olaya Towers	235	Commercial	Ongoing
Headquarters Business Park	214	Commercial	Ongoing

Source: Zawya, MEED, Alpen Capital

Key Players

Company	Type
Abdullah A.M. Al-Khodari Sons Company	Residential, commercial and infrastructure contractor
Al-Latifa Trading and Contracting Company	Residential and commercial contractor
Almabani General Contractors	Residential, commercial and infrastructure contractor
El-Seif Engineering Contracting Company	Construction and engineering services
Saudi Binladin Group	Residential, commercial and infrastructure contractor
Saudi Oger Limited	Residential, commercial and infrastructure contractor

Qatar

Key Growth Drivers

- **Population:** Qatar's population grew at CAGR of 11.5% between 2007 and 2010. It is expected to grow at CAGR of 4.0% between 2010 and 2015 mainly on the back of massive influx of foreigners, which account for around three-fourth of total population. Moreover, expatriate workers comprise more than 90% of the total labor force of Qatar.
- **Revival in construction growth:** Qatar will host the FIFA World Cup in 2022, which is expected to spur significant investment in its construction and real estate sector. As per Research and Markets, it is estimated that Qatar will invest around US\$60 to US\$70 billion in hotels, leisure, tourism, sports, recreational and infrastructure projects as a part of its preparation for the FIFA World Cup 2022.
- **Government Regulations:** Recently in 2011, Qatar passed a law allowing foreigners to own real estate and acquire residency permits in the country. This new rule would allow foreign homeowners to substitute a sponsor for property ownership and is expected to drive demand for property investments.

Recent Industry Developments

- Qatari real estate sector is likely to witness the launch of US\$10 billion worth projects over the next few years, with the continuing demand-supply gap.
- Banks in Qatar are now again open to extending credit for real estate investments. This is expected to boost the confidence of the real estate sector which suffered a set-back owing to impact of global recession.

Macro-economic Indicators

Indicators	Unit	2011E	2013E	2015E
GDP growth at constant prices	%	18.7	4.3	4.3
GDP at constant price	QAR bn	337.2	372.8	404.3
GDP per capita at constant prices	QAR	190,748	194,926	195,485
Population	mn	1.8	1.9	2.1
Inflation	%	2.3	4.3	4.0

Source: International Monetary Fund, Alpen Capital

Key Projects

Project Name	Investment (in US\$ mn)	Sector	Status
Msheireb Project	5,500	Residential	Ongoing
Lusail Project	5,500	Residential	Ongoing
Barwa City	1,360	Residential	Ongoing
Barwa Financial District	1,360	Commercial	Ongoing
World Trade Center	250	Commercial	Ongoing

Source: Zawya, MEED, Alpen Capital

Key Players

Company	Type
HBK Contracting Group	Residential, commercial and infrastructure contractor
MIDMAC Contracting Company	General and civil contractors

Kuwait

Key Growth Drivers

- **Population:** Kuwait's aggregate population stood at 3.6 million at the end of 2010, registering a steady growth of around 3.0% between 2006 and 2010. The expatriate population accounts for around 69% of the total population. In Kuwait, expatriates drive demand for investment housing.
- **Government policies:** The ministry of commerce and industry has put a cap of 1% on profit booked on any deal by real estate agents. The ministry also directed that only registered and licensed agents would qualify for real estate transactions. Further, as per the new rules, real estate agents must be Kuwaiti or GCC nationals, aged 21 or older, with no past history of breach of law.
- **Per capita income:** Kuwait has one of the wealthiest populations in the world with a very high per capita income. This provides ample opportunities for construction and real estate players to expand their business in the region.

Recent Industry Developments

- In 2011, Public Authority for Housing Welfare (PAHW) of Kuwait announced that it will implement a residential construction project of 2,100 units in Sabah Al Ahmad.
- The state aims to build 70,000 housing units by 2015. Kuwait also plans to develop new satellite cities and town in the outlying regions mainly in Subiya, Khairan, Jaber Al Ahmed City, Arifjan, and other smaller city developments such as Al Mutlaa, Saad Al Abdullah, Sabah Al Ahmad city which are currently witnessing an increase in activity related to large scale public housing projects.

Macro-economic Indicators

Indicators	Unit	2011E	2013E	2015E
GDP growth at constant prices	%	5.7	5.1	4.7
GDP at constant price	KWD bn	19.8	21.7	23.8
GDP per capita at constant prices	KWD	5,365	5,574	5,789
Population	mn	3.7	3.9	4.1
Inflation	%	6.2	3.2	3.1

Source: International Monetary Fund, Alpen Capital

Key Projects

Project Name	Investment (in US\$ mn)	Sector	Status
Kuwait PAHW-Khairan Residential City	27,000	Residential	Ongoing
North West Sulaibikhat Residential City	419	Residential	Ongoing
Kuwait Investment Authority Headquarters	200	Commercial	Ongoing
Kuwait Institute for Scientific Research Headquarters	57	Commercial	Ongoing
Burgan Office Complex (Phase 2)	23	Commercial	Ongoing
National Bank of Kuwait Headquarters	-	Commercial	Ongoing

Source: Zawya, MEED, Alpen Capital

Key Players

Company	Type
Mohammed Abdulmohsin Al-Kharafi & Sons Company	General and civil contractor

Oman

Key Driving Factors

- **Population:** The population of Oman is expected to reach 3.3 million by 2013. Expatriates represent around 28% of its total proportion. The growth in expatriate population is likely to fuel demand for the Sultanate's construction and real estate sector.
- **Government Plans:** In the eighth five-year plan (2011 to 2015), the government has allocated RO448 million for the housing sector's development

Recent Industry Developments

- The rents of Grade A office space are at a significant premium and could rise a further 33% as supply lags when compared to lower grade office spaces.
- Memorandums of understanding were signed for the development of integrated commercial, leisure, shopping and residential development at Sur Industrial Estate, with an estimated investment of RO120 million.
- In January 2012, the Council of Ministers took a preliminary step towards setting of the regulatory body for real estate sector, after it directed that a committee be formed to get the opinions of the real estate companies to determine the exact role of the body.

Macro-economic Indicators

Indicators	Unit	2011E	2013E	2015E
GDP growth at constant prices	%	4.6	3.8	5.1
GDP at constant price	OMR bn	12.1	13.1	14.2
GDP per capita at constant prices	OMR	3,938	3,981	4,064
Population	mn	3.0	3.3	3.5
Inflation	%	3.8	3.0	3.0

Source: International Monetary Fund, Alpen Capital

Key Projects

Project Name	Investment (in US\$ mn)	Sector	Status
Batinah Coastal Road Residential Project	348	Residential	Ongoing
Dar Al Zain	44	Residential	Ongoing
Salalah Gardens	-	Residential	Ongoing
Telephone Exchange Buildings and Allied Services at Wattayah Coastal Station	-	Commercial	Ongoing

Source: Zawya, Alpen Capital

Key Players

Company	Type
Bahwan Contracting Company	Residential, commercial and infrastructure contractor
Towell Construction & Co	Construction and electromechanical contracting services

Bahrain

Key Driving Factors

- **Population:** Bahrain's population grew at CAGR of 13.2% between 2007 and 2010 and is expected to double by 2030 to reach 2.6 million. The robust growth in population is expected to be driven by influx of expatriate labor, which constitutes a bulk of the private sector workforce.
- **Affordable Housing:** Around 80% of Bahrain's population comes within the definition of low-income population. There is a dearth of affordable housing in Bahrain as developers were earlier focused on construction of luxury apartments for the high income group. As per JLL, there was a shortage of around 40,000 affordable homes in 2010. To address the situation, the Bahraini government is providing subsidized social housing for nationals with monthly income less than BD900.
- **Government Stimulus Programs:** As per Reuters, the government of Bahrain has committed to invest US\$3.2 billion in the construction of 30,000 new residential units by 2016, which is likely to boost the construction sector.

Recent Industry Developments

- As a result of the political unrest in early 2011, certain residential areas benefitted while others suffered. Saar and Budaiya have witnessed increasing vacancy rates for many of their villa compounds, and Jasra, Janabiya and Amwaj islands have seen demand increasing on account of their safe location.
- Currently, developers are increasingly focusing on affordable housing projects due to a massive shortage of affordable homes.
- The Class A office market is experiencing significant oversupply and weak demand. Also, since rental rates have already bottomed-out, landlords are unwilling to further lower the rates. Diplomatic areas are seeing many new supplies lying idle and existing tenants such as Seef relocating upon expiration of their current contracts. Most of the planned office projects are postponed. However, several other projects are ongoing to enter the new demand cycle.

Macro-economic Indicators

Indicators	Unit	2011E	2013E	2015E
GDP growth at constant prices	%	1.5	4.8	4.1
GDP at constant price	BHD bn	5.2	5.6	6.1
GDP per capita at constant prices	BHD	4,568	4,767	4,972
Population	mn	1.1	1.2	1.2
Inflation	%	1.0	2.5	2.5

Source: International Monetary Fund, Alpen Capital

Key Projects

Project Name	Investment (in US\$ mn)	Sector	Status
Janayin Al Hamala	1,325	Residential	Ongoing
Social Housing Complex	550	Residential	Ongoing
Wahat Al Muharraq	213	Residential	Ongoing
Bahrain Reef Island - Le Reef	100	Residential	Ongoing
Bahrain Financial Centre Infrastructure	50	Commercial	Ongoing
Al Baraka Banking Group Headquarters	-	Commercial	Ongoing

Source: Zawya, Alpen Capital

Key Players

Company	Type
Almoayyed Contracting Group	Civil and electromechanical contractor

Company Profiles

Abdullah A.M. Al-Khodari Sons Co

Saudi Arabia

Company Description

Abdullah Abdul Mohsin Al Khodari Sons Company (KSC), a general contracting company based in Saudi Arabia, was established as a sole partnership entity in 1966. It later got converted in to a joint stock company. Subsequently, it was listed at the Saudi Stock Exchange in June 2010. The scope of KSC's activities include civil engineering works, roads and bridges, buildings and infrastructure, railways, water and sewerage treatment plants, oil and gas installations, pipelines for petrochemical production etc.

Business Segments/Product Portfolio

- **Housing & Resort:** This segment includes construction of various types of housing units and resorts. Among its recent projects include housing and infrastructure work in the Sunset Beach project and construction of the Sha'ab Theme Park in Kuwait.
- **Buildings & Infrastructure:** This segment provides construction of works ranging from office, education and other commercial buildings to infrastructure works such as pipeline construction and earth works etc. Recent projects include construction of sea water FRP pipeline in 2010, procurement and construction of pipeline in Jubail Industrial City in 2009 etc.,
- **Others:** Others include projects for the construction of rail, roads and bridges, water and associated works, Oil & Gas pipelines, open cast mining, transportation, operation & maintenance and environmental works. Recent projects include operation and maintenance of main road svstem in Jubail Industrial Citty in 2010.

Key Strengths

- Long experience of serving the construction sector.
- Diversified general contracting services combined with comprehensive engineering and management capabilities add competitive advantage

Recent Developments/Future plans

- KSC's board approved the decision to open a branch in Kuwait, following a decree passed by the Kuwaiti Government allowing Gulf companies to open branches in the State of Kuwait.
- KSC announced the completion of the establishment of a legal entity in Qatar on October 19, 2011.

Current price (SAR) 54.0

Price as on March 25, 2012

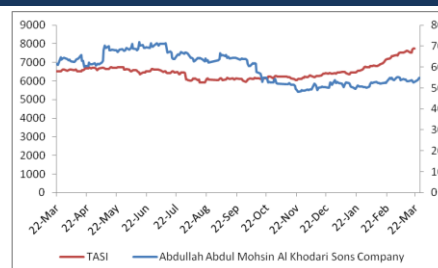
Stock Details	
Bloomberg ticker	ALKHODAR AB
52 week high/ low	73.75/48.00
Market Cap (US\$ mn)	626.1
Enterprise value (US\$ mn)	859.9
Shares outstanding (mn)	42.5

Source: Bloomberg

Average Daily Turnover (000's)

	SAR	US\$
3 M	15,663	4,176
12 M	12,730	3,394

Share Price Chart



Valuation Multiples

	2011	Current	2012E
P/E (x)	14.45x	14.85x	12.02x
P/B (x)	3.45	3.55	3.05
EV/S (x)	2.66x	2.71x	2.36x
Dividend Yield (%)	3.72	3.81	3.65

Source: Bloomberg

Shareholding Structure

Al-Khodari Holding Co	60.00%
Al-Khodari Abdulaziz	1.22%
Al-Hakeer Abdul Majd	1.22%
Al-Hokair Salman A Aziz	1.22%
Others	36.34%
Total	100.00%

Source: Bloomberg



Financial Performance				
US\$ Million	2010	2011	Change (%)	
Revenue	286.4	317.2	10.8	• Revenue of company increased by 10.8% mainly on account of 20.4% increase in contracting revenue.
COGS	209.3	248.7	18.8	
Operating Income	61.4	46.7	-24.0	
Operating Margin (%)	21.4	14.7		• Gross profit margin declined from 26.9% in 2010 to 21.6% in 2011 mainly due to 18.8% increase in COGS.
Net Income	58.1	42.2		• Net income declined by 27.4% mainly on account of 39.1% increase in SG&A and sharp decline in other non-operating income.
Net Income Margin (%)	20.3	13.3		
ROE (%)	39.8	25.3		
ROA (%)	13.3	7.6		

Source: Bloomberg, Zawya

Al Habtoor Leighton Group (Privately Owned)

UAE

Company Description

Al Habtoor Leighton Group (HLG) was formed in 2007 after the merger of Al Habtoor Engineering and Gulf Leighton. Al Habtoor Engineering was involved in the contracting business in the UAE while Gulf Leighton was the operating company of the Australia based Leighton Group in the gulf region. Currently, HLG operates as a diversified international contractor across the MENA region. The company has focus of five core markets including infrastructure, building, rail, oil & gas, and mining. HLG also operates a number of associated businesses through strategic joint ventures with leading companies to complement its core construction business. Some of the projects of the company include Dubai Pearl, Executive Towers at Business Bay, and Burj Al Arab, to name a few. HLG employs more than 25,000 people across the MENA region.

Business Segments/Product Portfolio

- **Buildings:** Through this segment the company is involved in the construction of residential, commercial, hotels, retail, hospitals and healthcare, education and culture, industrial facilities, sports facilities, and government and defense buildings. Some of the completed projects include Waterfront Residential Development in Abu Dhabi, Trader's Doha, and Dubai Tower, to name a few.
- **Infrastructure:** This segment provides engineering and infrastructure services including design, development, construction, and operation and maintenance with a strong emphasis on transport-related projects.
- **Rail:** The operations of this division are undertaken through specialist rail services provider, the Advance Rail Group (ARG). Some of the capabilities of the company in this segment include the development, design, construction, testing and commissioning, maintenance and operation of transport, mining, metro, regional and heavy haul infrastructure projects.
- **Oil & Gas:** Through this segment the company is focused on near-shore import and export facilities and onshore facilities in Greenfield and Brownfield locations.
- **Mining:** HLG is part of the Leighton Group, the world's largest contract miner. Group companies manage and operate mines for their lifetime and have been involved in developing new skills to conduct mining, processing, haulage and train load-out operations of coal, iron ore, gold, nickel, bauxite, phosphate and copper.

Key Strengths

- Ability to develop innovative and practical solutions for the client.
- Presence in all the verticals of the construction sector.
- Experience of handling large and complex construction projects.
- Strong presence in the MENA region.

Recent Developments/Future plans

- In March 2012, HLG announced a probable IPO
- In February 2012, HLG was been awarded AED480 million Jewel of the Creek development contract in Port Saeed, Dubai.
- In February 2012, HLG was been awarded a US\$515 million contract by the Al Habtoor Group as part of the US\$1.33 billion Habtoor Palace hotels development in Dubai.

Al Hamad Contracting (Privately Owned)

UAE

Company Description

Al Hamad Contracting Company is a part of the Al Hamad group, which is engaged in carrying design, execution, and maintenance of both conventional and turnkey construction projects. The group, through its various subsidiaries, has presence in numerous verticals of the construction industry. The Al Hamad Group has contracting companies in the UAE, Bahrain, Jordan, and Oman. Founded in 1985 in Dubai, UAE, it is engaged in contracting and real estate development activities, and construction of residential and commercial buildings, provision of other civil and electro mechanical contracting services, interior design and engineering consultancy services.

Key Strengths

- Part of the prestigious Al Hamad Group with more than 20 years of experience in the construction industry across the GCC region.

Recent Developments/Future plans

- The Company is one among the 17 organizations that were awarded MRM awards for their outstanding performance and contribution in development of UAE's national economy in 2007.

Al-Latifa Trading and Contracting Co (Privately Owned)

Saudi Arabia

Company Description

Al-Latifa Trading and Contracting Company was founded in 1987. It grew from being a medium-sized contractor to become a large-sized construction company. It provides building construction services, engineering and procurement services to a variety of industry sectors. The various projects that are undertaken by the company include residential, commercial, medical facilities, industrial complexes, hotels, warehouses, storage and educational buildings etc. The Company has 8,200 employees.

Business Segments/Product Portfolio

- **Residential and Housing Developments:** This involves construction of villas and other residential units. The Company had earlier constructed a complete residential complex with 80 large villas and other facilities like pool, squash courts, sauna and steam room.
- **Office Buildings and Business Centers:** This division involves constructing units for office and business purposes. The company had earlier constructed two such centers for Al-Muhaidib Group Headquarters and SABB Regional Offices.
- **Multi-use Developments:** The construction and development of multi-use developments including residential-cum-commercial buildings.
- **Retail and Commercial Centers:** The commercial retail complex involves the construction of commercial outlets. The Company had built one such center for the 'Public Pension Agency'.
- **Industrial Complexes:** Industrial complexes include the construction of various facilities for widespread industries. In the past, the Company had constructed industrial food production facilities and a printing facility.
- **Hospitals and Medical Facilities:** The Group had constructed four hospitals for the Ministry of Health with a total capacity of 500 beds. It also constructed medical staff buildings, a mosque and other facilities for the hospital building.
- **Hotels and Recreational Facilities:** The Company had constructed a luxury five-star hotel with 235 rooms including a ball room with a capacity of 600 people, and conference rooms and pools.
- **Schools and Educational Facilities:** Involves construction of schools and other educational facilities with specialized catering facilities, laboratories and other athletic facilities.
- **Military and Defense Complexes:** This involves construction of a variety of facilities for Saudi National Guard which includes construction of administration buildings, barracks, storage facilities, medical clinics etc.

Key Strengths

- Diversified project portfolio.
- Technically skilled management.

Al Rostamani Pegel (Privately Owned)

UAE

Company Description

Al Rostamani Pegel LLC (ARP) was founded in 1999 as a joint venture between Al Rostamani Group and German construction firm Gustav Pegel & Sohn GmbH. The Company transformed into a full-fledged construction company from being a project management firm in 2002. It is wholly owned now by the Al Rostamani Group. The Company operates in one of the niche segments of the construction industry where it builds premium high-rise buildings. It has built the 21st Century Tower in Dubai, which found a place in the Guinness book of world records as the world's tallest residential tower for three years.

Business Segments/Product Portfolio

- **Residential/Commercial Towers:** Under this division, the company builds high-rise towers for residential/commercial purposes. Projects currently undergoing include construction of the 55-floor Latifa Towers, and Concord Tower.
- **Commercial Towers:** This segment builds towers for office and retail occupancy. Recently undertaken projects include Indigo Tower in Dubai, UAE with a contract value of AED123.5 million.
- **Mix use buildings:** This business involves building towers for mixed use such as residential, commercial, retail, leisure etc. Current projects include the Park Lane Tower in Dubai which has a contract value of AED210 million.
- **Hotels:** Under this division, the company builds five-star hotels. Among current projects include the Aviation Club Hotel in Dubai, which has a contract value of AED351 million.
- **Healthcare:** This business segments involves construction of hospitals. The Medical Center in Healthcare City in Dubai has been built with a contract value of AED39.5 million.

Key Strengths

- Operates in niche segments i.e. prestigious skyscrapers and multi-storey developments.

Almabani General Contractors (Privately Owned)

Saudi Arabia

Company Description

Almabani General Contractors, founded in 1972, has been operating in Saudi Arabia for more than 38 years. It has undertaken many construction projects in transportation and public infrastructure. The Company provides civil and electromechanical contracting for infrastructure, buildings and heavy projects. Also, through its subsidiaries, it provides engineering consultancy, operation & maintenance services and also produces ready mix concrete. Almabani has over 6,500 employees.

Business Segments/Product Portfolio

The Company has an outstanding order book of SR6.2 billion (US\$1.6 billion) with diversified project portfolio in the following lines of activities:

- **Commercial centers and Offices:** This division includes construction of high rise commercial and office buildings within and outside Saudi Arabia. Some of the past projects undertaken are The Adham Commercial Centre, and the new western region Headquarters of the Banque Saudi Fransi in Jeddah.
- **Others:** Other activities include construction of government and public buildings, civilian & military airports and airport rehabilitation, communications, construction management, desalination plants, environment, hospitals & public care, power generation & distribution, refurbishment & renovation, road – bridges & railways, specialties division and science & technology centers.

Key Strengths

- Broad and diversified expertise with dedicated and experienced professionals.
- Diversified project portfolio.
- Rich experience of more than 38 years in the construction industry.

Almoayyed Contracting Group (Privately Owned)

Bahrain

Company Description

Almoayyed Contracting Group, established in 1982, undertakes civil and electromechanical contracts for real-estate and infrastructure projects. It also provides cleaning and maintenance services. The group operates in five divisions namely: contracting, air conditioning, scaffolding, cleaning & maintenance, and property development. The group primarily undertakes contracts for the government. Around 1,000 employees worked for the Group as on January 2012.

Business Segments/Product Portfolio

- **Contracting Division:** Through this division, the company is primarily involved in the construction of residential projects (villas and apartments) and commercial projects (offices, warehouses, shops, and showrooms). The company, in a joint venture with other players in the sector, also undertakes infrastructure projects such as road constructions, highways, and bridges. It also rents equipments to other contracting companies and provides support services such as interior decoration and landscaping.
- **Property Development Division:** Established in 2001, this segment is involved primarily in the promotion of real estate projects, residential area development, and property management. It is also involved in the trading of commercial properties and also involved in the laying out of plans with architects.
- **Air Conditioning Division:** This division provides refrigeration and district cooling facilities to Heating, Ventilation, and Air-Conditioning (HVAC) and allied industries. Some of the other services provided by the company include installation of electrical equipments, drainage, and fire protection systems. Key projects executed through this division include the installation of air conditioning for the Bahrain Grand Prix circuit, National Bank of Bahrain, Rolls Royce showroom, to name a few.
- **Scaffolding Division:** This division was created to deal with the sale/ hire and contract of scaffold systems and work. It provides scaffolding services to its clients on a contractual basis. It also provides rental services of construction equipment to its clients. Some of its key projects include the development of Riffa Palace, Bahrain Flour Mills at Mina Salman Sea Port, GDCID Head Quarters building for MOI at Adliya, to name a few.
- **Cleaning & Maintenance Division:** Through the division, the company provides cleaning and maintenance services to government ministries, hotels, embassies, universities, shopping malls, leisure and entertainment parks. Some of the services offered by the division include industrial housekeeping, residential cleaning, maintenance of public places, security guards, sewage tanks and skip services, and laundry services.

Key Strengths

- Diversified product and services offerings.
- Experience of serving the industry for last 30 years.

Arabian Construction Company (Privately Owned)

UAE

Company Description

Arabian Construction Company (ACC), founded in 1967, is a construction company with a regional network throughout the Middle East. It has expertise of delivery in a wide range of projects such as power generation plants, desalination plants, factories, hotels, hospitals etc. ACC offers its full contracting services along with additional services such as feasibility studies, preliminary designs, financing opportunities and also offers as joint venture partners for optimum project delivery. It has played a significant role in offering its construction contracting solutions to various companies and government agencies across the Middle East.

Business Segments/Product Portfolio

ACC's operating segments include the following divisions:

- **Infrastructure and civil works construction:** This division includes construction of power plants, desalination plants, skyscrapers, smart buildings, commercial developments, residential buildings, defense works, public buildings, hospitals, hotels & resorts and palaces.
- **Turnkey contracting:** Turnkey projects such as Mirfa fruit and vegetable processing factory and Rotana beach hotel were undertaken by the company. Currently, the company is working on the expansion of the Rotana beach hotel to double its capacity.
- **Others:** Others include provision of services such as telecommunication packages that it has provided in Lebanon and Egypt. The Company also provides value engineering services.

Key Strengths

- Diversified project portfolio.
- Effective management, accurate planning and property resource deployment.

Recent Developments/Future plans

- In May 2011, ACC launched a cooperation program with Masdar institute to provide a learning opportunity to its students through ACC's highly visible (underdevelopment) construction projects in UAE.
- In February 2011, ACC in joint venture with Simplex infrastructure Limited has been awarded a contract to construct tallest building in Mumbai.

Arabtec Holding PJSC

UAE

Company Description

Arabtec Holding PJSC was formed in 1975 under the name Arab Technical Construction Company (ATCC). It is a holding company which primarily invests in the construction sector by acquiring contracting and related companies. Some of the services offered by the company includes architectural modeling, civil engineering and building, construction and project management, business development, quantity surveying, high-rise development, commercial and industrial projects, offshore and onshore oil and gas installations, residential projects, luxury villas, hotel interiors, cinema complexes, hypermarket fit outs, food courts, airport development, to name a few. Some of the projects undertaken by the company include Burj Khalifa, Infinity Tower and Ocean Heights (all in Dubai), among others. Currently, the company operates in the UAE, Qatar, Saudi Arabia, Jordan, Syria, Palestine and Russia.

Business Segments/Product Portfolio

- **Building Construction:** Through this segment the company is engaged in the construction of high-rise towers, buildings, and residential villas.
- **Precast and Concrete Production:** This segment produces ready-mix concrete and precast to cater to its building construction segment.
- **Drainage and Electromechanical Work:** This segment executes drainage, electrical, and mechanical works.
- **Marine Construction:** This segment is engaged in marine construction.
- **Equipment Trading:** This segment is involved in heavy equipments and steel.

Key Strengths

- Diversified project portfolio.
- Deep market knowledge and extensive project coverage.

Recent Developments/Future plans

- In November 2011, Arabtec was awarded a construction project worth SAR670 million in Jeddah, Saudi Arabia.

Current price (AED) 2.89

Price as on March 25, 2012

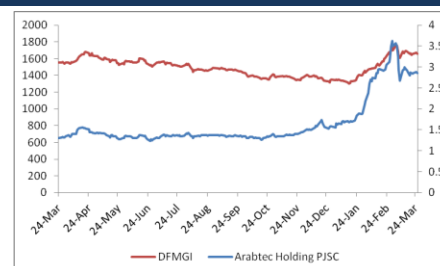
Stock Details	
Bloomberg ticker	ARTC UH
52 week high/ low	3.75/1.23
Market Cap (US\$ mn)	1,160.0
Enterprise value (US\$ mn)	1,188.3
Shares outstanding (mn)	1,495

Source: Bloomberg

Average Daily Turnover (000's)

	AED	US\$
3 M	46,382	12,628
12 M	26,920	7,329

Share Price Chart



Valuation Multiples

	2011	Current	2012E
P/E (x)	9.12x	16.35x	22.27x
P/B (x)	0.80x	1.44x	1.33x
EV/S (x)	0.5x	0.87x	0.77x
Dividend Yield (%)	3.14	-	-

Source: Bloomberg

Shareholding Structure

International Petroleum Investment Company	5.28%
Emirates Construction Material Company	5.03%
Eaton Vance Management	1.34%
Others	88.35%
Total	100.00%

Source: Bloomberg



Financial Performance				
US\$ Million	2010	2011	Change (%)	
Revenue	1,487.6	1,362.2	-8.4	<ul style="list-style-type: none">• Revenue of the company declined by 8.4% in 2011 mainly due to 55.1% and 7.4% decline in drainage division revenue and contract revenue respectively.• Gross profit margin declined from 15.1% in 2010 to 12.6% in 2011 mainly due to increase in COGS as a percentage of revenue.
COGS	1,262.4	1,190.9	-5.7	
Operating Income	115.6	86.7	-25.0	
Operating Margin (%)	7.8	6.4		
Net Income	83.6	70.9	15.2	
Net Income Margin (%)	5.6	5.2		
ROE (%)	12.1	9.2		
ROA (%)	3.5	3.0		

Bahwan Contracting Company LLC (Privately Owned)

Oman

Company Description

Bahwan Contracting Company LLC is a part of the Suhail Bahwan Group, Oman's leading business house. The group, through its three subsidiaries namely Bahwan Engineering Company, Bahwan Contracting Company, and Universal Engineering Services is engaged in executing various kinds of construction projects including civil, mechanical, electrical construction, elevators, and escalators, to name a few. Bahwan Contracting Co, established in 1975, is engaged in end-to-end project management of industrial projects, commercial buildings, residential buildings, schools, and mosques. The company also has experience in infrastructure development and Engineering, Procurement and Construction projects (EPC) projects. In the past, it has been associated with several international companies to complete various prestigious and complex projects in Oman. Its operations are supported by excellent world class infrastructure of office, plant & machinery, transport and carpentry shop spanning more than 75,000 square meters. The company along with its other sister concerns have completed several civil engineering contracts including multi-storey buildings, hospitals, mosques, showrooms, villas and housing complexes, industrial construction projects, etc. Some of the projects completed by the company include Sohar Seawater Intake and Return Systems, Grand Mosque, New General Hospital at Ibra, television studio, Sojex Villas, and BMW and Nissan showrooms. The company has more than 10,000 employees.

Key Strengths

- Presence in several verticals of construction industry.
- Experience of handling complex projects.
- Part of a prestigious group with rich experience of around 35 years of serving the construction industry.

Belhasa Six Construct Co L.L.C (Privately Owned)

UAE

Company Description

Belhasa Six Construct is a joint venture between the Belgium-based Besix Group and the UAE's Belhasa International Company. It was established in 1986. The company is engaged in providing civil and electromechanical contracting for buildings, infrastructure, heavy, offshore and marine engineering projects. The company operates with around 8,000 employees. Some of the projects of the company include skyscrapers, residential and commercial complexes, clinics, hospitals, ports, quay walls, breakwaters, and jetties. Some of the projects of the company include The Address Hotel in Dubai, and Emirates Hotel Tower Complex in Dubai.

Key Strengths

- Experience of more than 25 years of serving the construction sector in the UAE.
- Experience of handling complex projects across several verticals of construction sector

Recent Developments/Future plans

- In 2010, the company was awarded US\$490 million contract to build Abu Dhabi's tallest tower, the Abu Dhabi National Oil Company Headquarters.

Brookfield Multiplex – Middle East & Asia (Privately Owned)

UAE

Company Description

Brookfield Multiplex is global contractor and developer engaged in building engineering and maintenance of property and infrastructure assets. The company, based in Australia operates throughout Australasia, Middle East & Asia, and Europe. It entered into the Middle East construction market in 90's. The company is primarily engaged in the construction of residential as well as commercial towers. The company's ability to provide solutions across the broad property cycle resulted in the formation of Brookfield Multiplex Services, Project & Development Management and Construction Logistics businesses in the Middle East in 2008. The company employs around 1,865 employees across three offices in the Middle East. Some of the completed projects in the Middle East region include Emirates Towers, Index Tower, UP Tower, The Gate Building DIFC; all in Dubai. Till date Brookfield Multiplex has completed 22 projects worth US\$4.3 billion across the Middle East region.

Key Strengths

- Experience of handling large and complex projects.
- Strong presence in the UAE construction market.

Consolidated Contractors Company (Privately Owned)

UAE

Company Description

Consolidated Contractors Company (CCC), one of the first Arab construction companies founded in 1952, provides project management, engineering, procurement and construction services for oil & gas, petrochemical, building and civil engineering works and marine industries. CCC is a family owned business with headquarters in Athens. It employs over 110,000 people for its overall operations.

Business Segments/Product Portfolio

- **Heavy Civil Construction:** This section comprises construction activities such as power plants, bridges and highway interchanges, harbor and decks, civil work for process plants and petrochemical industry.
- **Infrastructure:** Under the infrastructure segment, construction of buildings, highways, roads and airports are carried out. It also includes the construction of water and sewerage treatment plants, pumping stations etc., pipelines for water, gas and oil.
- **Mechanical Construction:** This division provides work related to fabrication and installation of pipes, structural steel works for refineries, petrochemical plants, gas oil separation plants, oil loading and offloading terminals, and assembly of equipment and vessels.

Key Strengths

- Diversified business portfolio.
- About 60 years of business experience in the Middle East construction industry.

Recent Developments/Future plans

- Qatari Diar Real Estate Investment Co has signed a contract for more than US\$543.8 million with CCC for the development of projects in Cairo and Sharm El Sheikh in October 2011.
- CCC Oman won a contract worth US\$2.59 billion for mixed use development of 'Omagine', which constitutes of residences, educational buildings, hotels and theme park in Oman in Oct 2011.

Dubai Contracting Company (Privately Owned)

UAE

Company Description

Dubai Contracting Company LLC, founded in 1962, is a Dubai-based construction company specializing in building, residential, commercial, hospitality, leisure, and mixed use buildings. It provides planning, designing, engineering and interior designing services for turnkey projects. It also provides service contracts including IP-Ready buildings. The Company has expanded its geographical presence within the UAE, Jordan and Saudi Arabia.

Business Segments/Product Portfolio

■ Construction:

- **Residential developments:** This division undertakes construction work for residential developments including high-rise towers. Amongst its past undertakings include the Ariyana Residential Tower and Fairmont Palm Residence in Dubai. Some of the ongoing projects include AD-1 Building (in Abu Dhabi) to be completed in 2012 and the Vertex tower in Amman, Jordan.
- **Commercial developments:** This division includes the construction of commercial developments such as office towers. Some of the completed projects include ADCB Headquarters in Abu Dhabi and Code Building in Dubai.
- **Mixed-use developments:** The mixed-use developments division provides a combination of residential, commercial, leisure, hotel and other infrastructure construction. In the past, it has undertaken projects like the Bonnington tower and Chelsea tower in Dubai. Some of its ongoing projects include Burj Rafal in Riyadh, Saudi Arabia, Kindergarten school in Dubai, Burj Al Salam in Dubai, and Kingdom of SHEBA (phase 1) in Dubai.
- **Hotels:** This division constructs hotels and resorts. Recent projects include the construction of a hotel building for Fairmont Hotel in Dubai and the ongoing projects include Fairmont Palm Hotel in Dubai to be completed in 2012.

■ **Turnkey Projects:** The turnkey projects involve undertaking projects from planning stage to design, engineering and interior designing of the development. Past undertakings include Rolex Tower, Saratoga and Capricorn Tower in Dubai.

■ **Service Contracts:** The service contracts include standard services such as installation of mechanical systems, lighting, plumbing and other services. Additionally, the company offers services such as IP-ready buildings incorporating facilities such as wireless/broadband connectivity, telephone (VoIP) and a range of video solutions.

Key Strengths

- Focused project portfolio.
- Involvement in building some of the most iconic developments in the UAE in recent years.

Recent Developments/Future plans

- In July 2010, the company completed one of its biggest projects, the Commerce One building, a commercial complex owned by Juba Development and Investment Company in Amman, Jordan

Company Description

El-Seif Engineering Contracting Company, established in 1975 is a member of El-Seif Group, a diversified group that served as leading service provider to the Saudi business community, including the defense and security sector. El-Seif Engineering Contracting Company is a construction and engineering services company that operates in Saudi Arabia and the Middle East region. Some of the services provided by the company include project construction management, general contracting civil works, Engineering, Procurement and Construction (EPC), design/ build, international procurement, logistics, mechanical and electrical installation, operation and maintenance. The company provides its services over a wide range of projects like high-rise towers and mixed use buildings, residential and commercial complexes, large scale housing projects, infrastructure projects, airports, hospitals and health sector projects, oil and gas plants, power generation, transmission & desalination plants, communication projects, heavy duty equipment rental and leasing, industrial installations and electro-mechanical works. Some of the projects of the company include Green Community Motor City in Dubai, Jewels Twin Tower in Dubai, and Silhouette Tower in Qatar. The company also has joint ownership in National Power Company (NPC) and Modern Arab Construction Co. (MAC) in Saudi Arabia.

Key Strengths

- Excellent track record of business relations with foreign partners.
- Experience of more than 35 years in construction industry.
- Experience of catering to several verticals of construction sector.

HBK Contracting Group (Privately Owned)

Qatar

Company Description

HBK Contracting Group was established as a construction firm in Qatar in 1970. The Company's services include designing, installation, testing, commissioning and maintenance in the construction industry. It employs over 6,000 people.

Business Segments/Product Portfolio

▪ Towers and other projects:

- **Infrastructure:** This division undertakes construction of developments such as stadiums, facilities for health. Its past undertakings include construction of the Al Sadd Sports Club Phase 2 in Qatar, Ministry of Public Health Building in Doha Asian Games Village.
- **Residential:** This division builds high-rise towers for residential purpose. The recent examples of undertakings include Aayan Tower in Doha.
- **Commercial:** This division includes construction of office complexes with facilities for car parking. The recent projects include Al Sadd Development Office Tower, Al Jazeera international English Channel etc.
- **Healthcare:** This segment constructs healthcare facilities such as hospitals. The past projects include construction of Cardiology Center for HMC & Northern Area Hospital at Al Khore,
- **Mixed-use:** This segment uses a combination of developments such as residential, commercial, leisure, hotel etc. in a single project. The recent undertakings done are the office building & showroom at old airport, Qatar.
- **Others:** Under this segment, undertakes construction of villas and other miscellaneous developments. Recently, it constructed 100 villas at Ain Khalid, Animal & Agriculture Quarantine Building & Truck inspection & clearance building at Abusamra.

- **Pipeline and infrastructure projects:** The Company undertakes various water treatment, sewerage treatment, waste management facilities, pumping stations and constructs pipeline systems for various facilities. The recent projects include Doha North Sewerage Treatment Plant, Domestic solid waste management center at Mesaieed etc.

Key Strengths

- In-house capacity to handle and execute the entire contract work for building sector, pipeline networks and infrastructure contracts.

MIDMAC Contracting Co. (Privately Owned)

Qatar

Company Description

MIDMAC Contracting Co., one of the largest contracting companies in Qatar, was established in 1975. From the mid 1960's till 1975, it operated in Qatar under different names. In 2002, Qatar Investment and Project Development Company (QIPCO) acquired a majority stake in MIDMAC, and subsequently in 2005 it became a wholly-owned subsidiary of QIPCO. The company provides civil and electromechanical contracting services to residential and commercial buildings, hospitals, universities, stadiums, to name a few. Additionally, it also undertakes infrastructure projects including the construction of road works and bridges, civil and military airport facilities, oil & gas, and petrochemical projects. Since 2006, MIDMAC expanded its services via subsidiaries to produce and lay asphalt, concrete blocks, and steel reinforcement bars. Some of the projects of the company include the Doha Convention Center, Tornado office tower, QIPCO residential compound, Al Sadd Development Center, QIPCO Twin Tower, and Al Hodaifi Tower, to name a few. The company employs over 6,000 people.

Business Segments/Product Portfolio

- **Building Construction:** Provides turnkey contracts for designing and building residential and commercial properties such as educational institutions, leisure and sports facilities, palaces, government and industrial properties. This division also provides turnkey contracts for interior decoration.
- **Civil Engineering:** Performs contractual services for building roads, bridges, and airports, military installations such as aircraft and ammunition shelters. It also performs contractual services for water and waste management and irrigation and landscaping.
- **Electro-Mechanical:** Executes mainly turnkey projects of unlimited HVAC and capacities electrical loads for residential and commercial properties.

Key Strengths

- Strong government backing and executor of key government initiated projects.
- Excellent track record of delivering large and challenging projects on schedule, within budget, and as per the required specifications.
- Presence in several verticals of the construction and real estate sector

Recent Developments/Future plans

- In 2010, MIDMAC Contracting Co. along with a consortium consisting of Orascom Construction Industries and Besix Group won a US\$675 million contract to build an additional phase of Doha Convention Center and Tower in Qatar.

Mohamed Abdulmohsin Al Kharafi and Sons Co (Privately Owned)

Kuwait

Company Description

Mohammed Abdulmohsin Al-Kharafi & Sons Company (MAK) is a general contracting and civil construction company. Within its construction division, the group has general contracting companies, HVAC, marine, piping and drilling specialists, in addition to its own ready mix concrete service.

Business Segments/Product Portfolio

- **Buildings:** This division includes the construction of residential, office, stadiums, and other commercial buildings including the adjacent infrastructure and landscaping work. Recent projects undertaken include Al-Sheikh Jaber Al-Ahmad International Sports Stadium, Kuwait, Al-Kharafi Building, Kuwait City etc.
- **Hotels & Resorts:** This division includes the construction of new hotels and extension projects on existing hotels including the provision of services such as electro-mechanical works, site improvements, etc. Recent projects include construction of Four Seasons Hotel, Beirut, Lebanon; annexe to the Four Points Sheraton Hotel, Lebanon, etc.
- **Housing:** This segment includes construction of housing projects such as staff housing facilities for various government as well as private agencies. Past projects include construction of Port Ghalib Staff Housing, Egypt; construction of Airport Staff Housing, Egypt; Police accommodation at SSG Camp, Botswana, etc.
- **Others:** Others include provision of construction services for infrastructure, oil & gas, roads & bridges, sewerage networks, storm water drainage, BOT, industrial, marine and piling, pipelines, schools & universities and sewerage & water treatment plants. Its recent projects include water supply treatment and pumping station, construction of reclaimed water pipelines, etc.

Key Strengths

- Diversified project portfolio
- Operating experience in 25 different countries alongside major consultants and contractors.

Saudi Binladin Group (Privately Owned)

Saudi Arabia

Company Description

The Saudi Binladin Group was only a general contracting company at the time of its inception in 1931, when it was established under the name, Mohammad Binladin Organization. It has eventually expanded its operations from road works and construction activities to other diversified activities with numerous branches internationally. However, the business was reorganized in 1989, when the Saudi Binladin group was established. The group operates in projects such as airports, bridges, tunnels, houses, industrial and power projects.

Business Segments/Product Portfolio

- **Infrastructure:** The group has constructed more than 5,000 km of road in Saudi Arabia. It has also constructed tunnels, underpasses, underground parking, and underground water storage systems. Also, it has constructed bridges and elevated expressways of length totaling more than 26 kilometers.
- **Airports:** The group has undertaken the construction of the Aden international airport, Royal terminal – Jeddah, Cairo's international airport, the Kuala Lumpur international airport, King Abdul Aziz Airport – New Haj terminal and expansion, and the development of Sharjah's international airport.
- **Buildings and real estate development & management:** The group had developed many special capabilities, so that it completes construction of residential, commercial and public complexes on fast track and delivers them on time at the expected quality levels. The 50,000 sq meters GCC conference complex in Riyadh is one such example.
- **Mosques:** The group has constructed two holy Mosques in Mecca & Medina. It has also rebuilt most of the historic mosques in the kingdom.
- **Electro-mechanical, Industrial & Power:** The group has diversified into the business of constructing air conditioning networks and power generation by developing its own electro-mechanical capabilities. Also, in cooperation with General Electric and Raytheon, the group has built the largest power generating complexes in the Kingdom.
- **Others:** Includes capabilities in Applied Technology, Petro-Chemicals & Minerals, Universities & Educational buildings, and

Key Strengths

- Strong footprint in Saudi Arabia.
- Diversified service portfolio.

Saudi Oger (Privately Owned)

Saudi Arabia

Company Description

Saudi Oger Ltd, founded in 1978 as a construction company based in Riyadh, is a multi-divisional organization with additional businesses in facilities management, real estate development, printing, telecommunication, utilities and IT services. Its construction activities include design and construction of various types of buildings for urban development such as hospitals, hotels, commercial centers, military facilities, government buildings, and other industrial complexes.

Business Segments/Product Portfolio

- **Private Project Construction Division (PPCD):** This division undertakes projects involving higher quality levels, stringent controls and higher degrees of client specifications like prestigious facilities and government complexes.
- **General Projects and Construction Division (GPCD):** This division undertakes a variety of general projects like residential, hospitals, commercial centers, educational institutions etc.

Key Strengths

- Strong footprint in Saudi Arabia

Recent Developments/Future plans

- Saudi Oger was recognized as Saudi Arabia's best construction company in 2010, for the second time in two years by "Arabian Business Achievement Awards KSA".

Towell Construction & Co. (Privately Owned)

Oman

Company Description

Towell Construction & Co, established in 1994, is a part of the WJ Towell Group. It is engaged in providing construction and electromechanical contracting services. The company initially operated as a maintenance wing of WJ Towell's property division for carrying out construction and redevelopment of the Group's properties. However, over the last decade, the Company has established itself as a construction company specializing in executing medium-scale projects and expanded its operations beyond residential properties construction. Some of its construction projects include building multiplexes, cinema halls, warehouses, and construction for industries. Besides undertaking projects on the behalf of its parent company, it also undertakes competitive third-party projects. The company has also completed various projects outside Muscat in Sur and Sohar.

Key Strengths

- Part of a prestigious group.
- Experience of handling diversified construction projects including residential construction, multiplexes, cinema halls, and warehouses, to name a few.
- Presence in key cities of Sur and Sohar in addition to Muscat.

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**Boubyan Petrochemicals Co.
(K.S.C.)**

US\$ 100,000,000

Term Credit Facility

Private Equity Placement



Vison Industries Limited

THE CARLYLE GROUP

INR 1,100 million

Exclusive Transaction Advisor



JK PAPER LTD.
Creating lasting impressions

JK Paper Limited

EUR 35,000,000

Foreign Currency
Convertible Bond



**Al Khaliji Commercial Bank,
QSC**

US\$ 100,000,000

Medium Term Credit Facility



Oman Insurance Co. (P.S.C.)

US\$ 100,000,000

Syndicated Working Capital
Revolver Facility



Berber Cement Company

US\$ 130,000,000

Musharaka Sakuk



Tameer Real Estate Company W.L.L.

US\$ 82,000,000

Term Financing Facility



Axiom Telecom LLC



Pantaleon Retail (India) Ltd

Strategic Joint Venture



**Mohammed Jalal & Sons
W.L.L.**

US\$ 65,000,000

Syndicated Secured Term
Loan Facility



Acquisition of



Construction Services LLC



ANC Group of Companies

USD 21,840,000

Acquisition Financing



Participants
Al Hilal Bank
Commercial Bank International



**Al Jazeera Steel Products
Company S.A.O.G.**
(Listed on Muscat Securities Market)
Acquisition of Strategic Equity Stake



Global Buyout Fund LP



Connecting you with the
right opportunities.

Debt Advisory • Mergers & Acquisition Advisory • Equity Advisory



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CAPITAL**
Investment Banking

Bahrain | Doha | Dubai | Mumbai
Muscat | New Delhi