



Six steps to sustainability

A point of view on developing sustainable Real Estate markets in the Middle East



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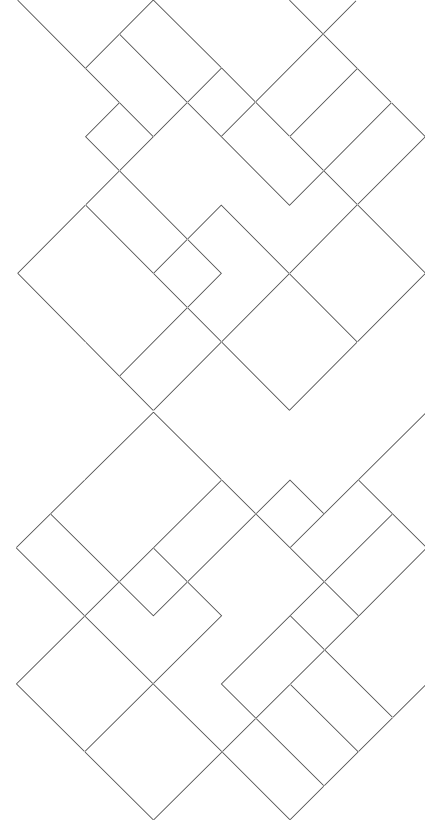


Foreword

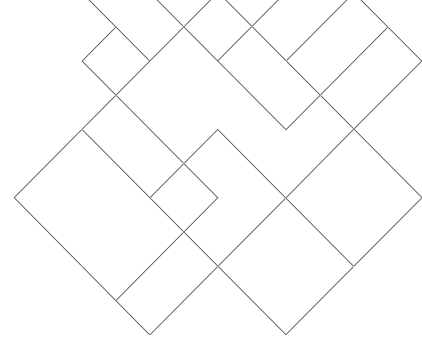
A well-regulated, technology enabled Real Estate sector together with a robust mortgage finance market, play a fundamental role in developing economies. A solid real estate sector seeks to facilitate transition and consolidation of green economies with employment generation and growth. Moreover, sound real estate markets not only stimulate economic recovery in the short run, but also promote long-term sustainability.

Although governments in the Middle East have taken economic measures and launched incentive packages to support development of various sectors, including the Real Estate sector, certain fundamentals, such as legislative and regulatory frameworks, can still be improved in order to achieve long term sustainability and facilitate economic development.

In this point of view, we highlight six guiding principles that could help achieve social and economic objectives while providing long-term solutions for the Real Estate market across the Middle East.



How do Middle East Real Estate markets compare?



According to leading global indices such as the International Protection Rights Index, the Real Estate Transparency Index, and the UN E-Government Development Index, to name a few, the majority of the Middle East Real Estate markets are still at a developing stage and need to address market fundamentals such as, transparency, regulatory frameworks, and governance.

As per the Global Real Estate Transparency Index report and its six components of: performance measurement, market fundamentals, governance of listed vehicles, regulatory and legal frameworks, transaction process and environmental sustainability, the Middle East markets rank lower than developed real estate markets globally.

<p>Opaque</p> <p>Markets hampered by unclear regulatory frameworks.</p>	<p>Middle East region</p> <p>Oman (rank 81)</p> <p>Iraq (rank 97)</p>	<p>Lebanon (rank 87)</p>
<p>Low transparency</p> <p>Market tracking and Real Estate regulations remain nascent.</p>	<p>Middle East region</p> <p>Egypt (rank 60)</p> <p>Bahrain (rank 70)</p> <p>Qatar (rank 75)</p>	<p>Jordan (rank 66)</p> <p>Kuwait (rank 74)</p> <p>Iran (rank 76)</p>
<p>Semi-transparent</p> <p>Relatively developed Real Estate markets, but corporate governance and regulatory enforcement are lacking.</p>	<p>Middle East region</p> <p>UAE: Dubai (rank 36)</p> <p>KSA (rank 57)</p>	<p>UAE: Abu Dhabi (rank 48)</p>
<p>Transparent</p> <p>Strong regulation and good governance. Areas of improvement are market data and performance measurement.</p>	<p>Leading economies (top 5)</p> <p>Switzerland</p> <p>Belgium</p> <p>Hong Kong</p>	<p>Finland</p> <p>Singapore</p>
<p>Highly - transparent</p> <p>Leading investment destinations, pushing boundaries of transparency.</p>	<p>Leading economies (top 5)</p> <p>United Kingdom</p> <p>Australia</p> <p>Canada</p>	<p>United States</p> <p>France</p>

Learnings from mature Global Real Estate markets

Evolution of Real Estate markets

Majority of the Real Estate markets have evolved and matured over a period of 15-20 years by introducing market influencing regulations and legislations, and implementing new technology to enhance market efficiency

Regulators create certainty over time starting with investor confidence and evolving to consumer protection once a dynamic market has been created

Delegation of authority

Majority of Real Estate markets globally have one or two parent bodies with dedicated subsidiaries responsible for administering different portions of the Real Estate sector to prevent overlap of responsibilities

There are dedicated legislations that outline the duties of the Real Estate regulatory body and form the basis of administering the Real Estate sector

Revenue structure

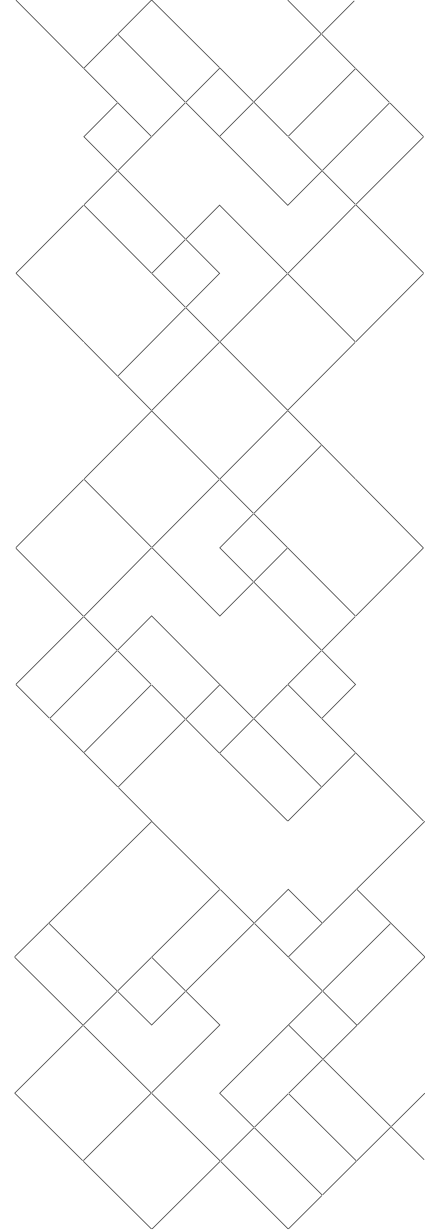
All markets have an established framework for fees and taxes to be charged along the Real Estate value chains. Globally, governments typically capture 7-12% of the total Real Estate value, with transaction fee representing a large portion of the total

Majority of developed Real Estate markets have introduced a formal licensing process for Real Estate agents and a cap on brokerage fees to encourage use of agents and reduce the likelihood of fraud

Transparency

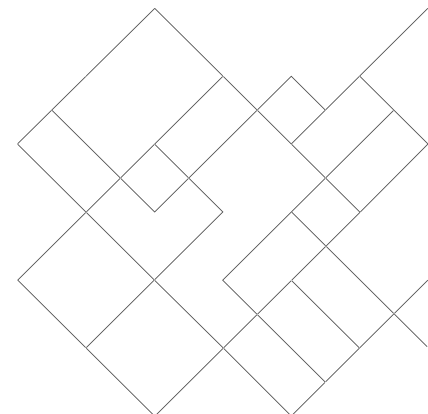
Up to date land registries with information on ownership and boundaries are available to the public online in most markets providing transparency on title deeds

A formal, transparent process for acquisition of Real Estate, including purchases by foreigners, is present in all markets and serves to increase confidence for consumers looking to invest



Six guiding principles for a sustainable Real Estate sector

An efficient and transparent Real Estate market should comprise of legal and voluntary regulations, international standards, ethical rules, and best practises. Our guiding principles provide Real Estate regulators, policy makers and other interested parties with a reference point for future developments in the sector.



Our six guiding principles cover:



Integrated legal framework



Land/property registry and cadastre system



Effective governance



Proficiency of service



Sustainable financing



Data management and transparency

We believe that addressing key aspects of these guiding principles could help overcome specific market challenges, such as the effects of market distortions, imperfect competition, asymmetric information and other externalities, leading to a more efficient and responsive Real Estate market.

Market challenges - definitions

Market distortion

This occurs when governments and/or other overseeing bodies intervene in markets and “distort” the market from being purely a function of buyers and sellers meeting (intersection of supply and demand). In the absence of any other market challenges, intervention is likely to serve as a hindrance to the Real Estate market.

Imperfect competition

This results from insufficient actual or potential competition to ensure that a market operates efficiently. High start-up costs can deter entry by competitors and create market power. This situation may be exacerbated by organisations acting strategically to protect their market position. For example, when an organisation engages in a practice known as “predatory pricing”, where prices are set low to drive out competitors and then raised once they have left.

Asymmetric information

Information is needed for markets to operate efficiently. Buyers need to know the quality of products or services to judge the value it can provide. Sellers, lenders and investors need to know the reliability of a buyer, borrower or entrepreneur. This information must be available to all or there will be an “asymmetry of information” which could lead to adverse selection or one of the parties bearing unplanned costs due to incomplete information sharing.

Externalities

An externality, in simple terms, is in one sense a side effect caused to an outside party in a transaction. The externality may have a positive or negative effect on a particular party. Property rights are often at the heart of externalities. A legal system that protects private property rights is often the most efficient at correctly distributing costs and benefits to all parties, as long as there is a measurable economic impact to each of them. If those rights are not clear, market failure can occur. Market failure, in this case, means that a transaction can have consequences to third parties that are not captured in the values in the transaction.



Integrated legal framework

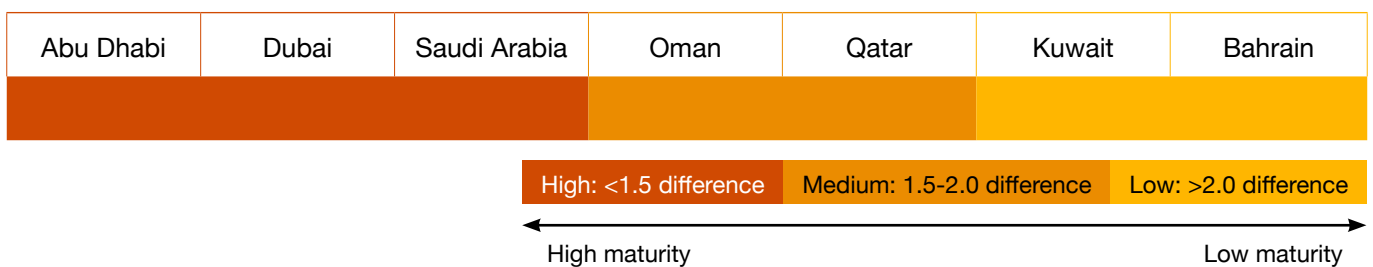
The establishment of an integrated legal system for the Real Estate sector, harmonised with regional and international norms, is crucial for the control and legal protection of the rights of ownership and use of Real Estate. It is also the building block of an efficiently functioning Real Estate sector.

A sound legal framework can reduce the risks of imperfect competition in the market, speed up the time for resolving disputes, reduce the cost of owning, renting, and buying, and thus increase the overall demand for Real Estate products.

Comprehensive property protection rights and a dispute resolution framework increase people's willingness to invest in the Real Estate sector and citizens' overall satisfaction, and positively influence their decision to rent or buy new properties. Moreover, if people feel less stressed about disputes, the negotiation process could become easier and the relationship between the parties could improve through better communication.

Key priorities	Challenges addressed			
	Market distortion	Asymmetric information	Externalities	Imperfect competition
Property protection rights		●	●	●
Real Estate dispute resolution framework	●	●		●
Protection mechanism(s)		●	●	●

Middle East Real Estate maturity in relation to the establishment of an integrated legal framework¹



¹International Protection Rights Index (difference from highest)

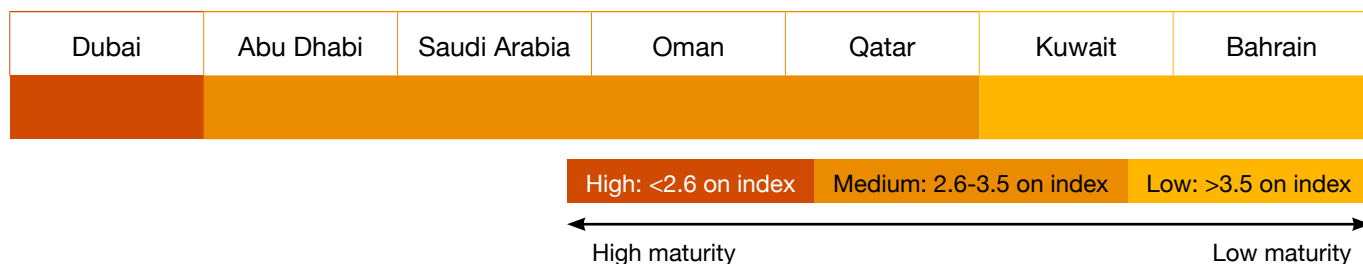


Effective governance

Maintaining an effective inter-sectoral governance structure, such as centralised control of regulatory and monitoring activities, and establishing audit and enforcement policies promotes effective governance. Additionally, developing a clear communication framework can lead to better decision making and policy implementation.

Key priorities	Challenges addressed			
	Market distortion	Asymmetric information	Externalities	Imperfect competition
Regulatory and governance model		●	●	●
Audit & enforcement policies		●		
Communication framework		●	●	

Middle East Real Estate maturity in relation to maintaining effective governance³



³Real Estate Transparency Index (Regulatory & Legal)



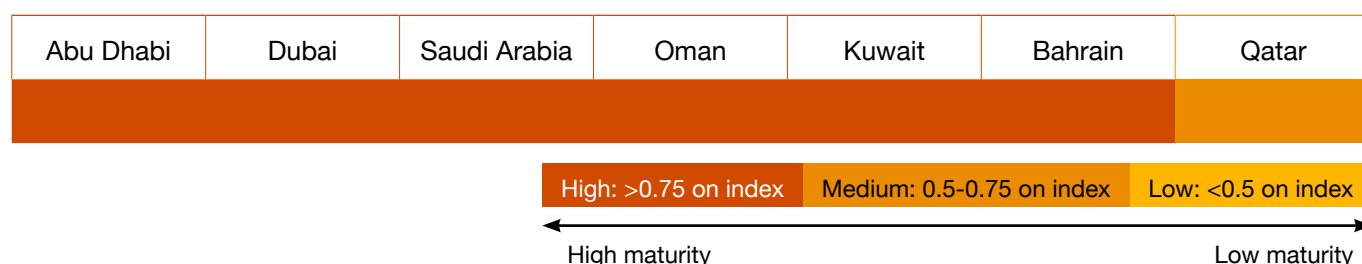
Proficiency of services

Enhancing human capital and Real Estate sector capabilities by investing in technology and emphasising technical and professional expertise, could translate into higher levels of training for industry participants, improve labour productivity, and, over time, increase the production and supply of Real Estate products.

The development of sales and marketing policies promote ethical conduct and fair practises and help overcome information asymmetry in the market. This could in turn improve trust in the Real Estate ecosystem and increase investor confidence, thereby leading to an increase in overall demand and capital investment.

Key priorities	Challenges addressed			
	Market distortion	Asymmetric information	Externalities	Imperfect competition
Human capital and sector capabilities			●	
Development, sales and marketing policies		●		●

Middle East Real Estate maturity in relation to the proficiency of services⁴



⁴UN E-Government Development Index (score basis)



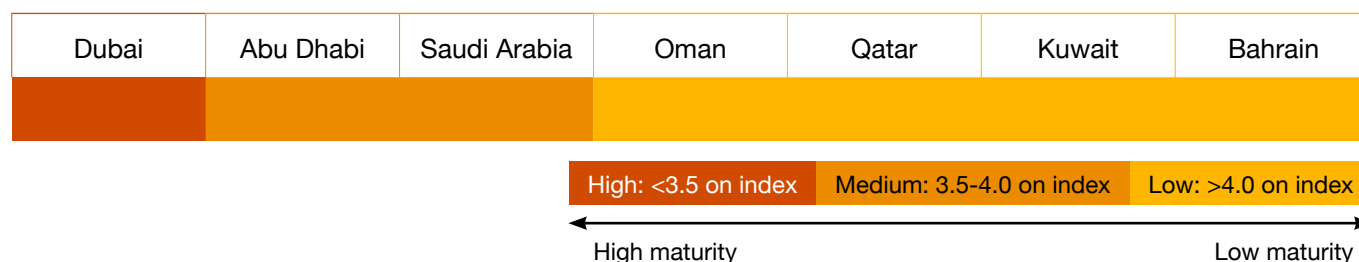
Data management and transparency

Real Estate data management and transparency influence investment decisions. A Real Estate database ensures easy access to property information and minimises the risk of fraud in transactions.

Transparency is also critical to market efficiency and attracting investment capital. Like capital markets, Real Estate markets need to move towards enhancing transparency to improve price fairness and competitiveness.

Key priorities	Challenges addressed			
	Market distortion	Asymmetric information	Externalities	Imperfect competition
Real Estate market database	●	●		
Access to market information		●		●

Middle East Real Estate maturity in relation to data management and transparency⁶



⁶Real Estate Transparency Index (Investment Performance)

Anticipated outcomes of implementing the six guiding principles

Given the cause-and-effect relationship between market fundamentals and Real Estate market outcomes, implementation of our six guiding principles **could potentially lead to the following outcomes:**



Lower volatility and price correction in Real Estate markets



Reduction in the cost of living for households

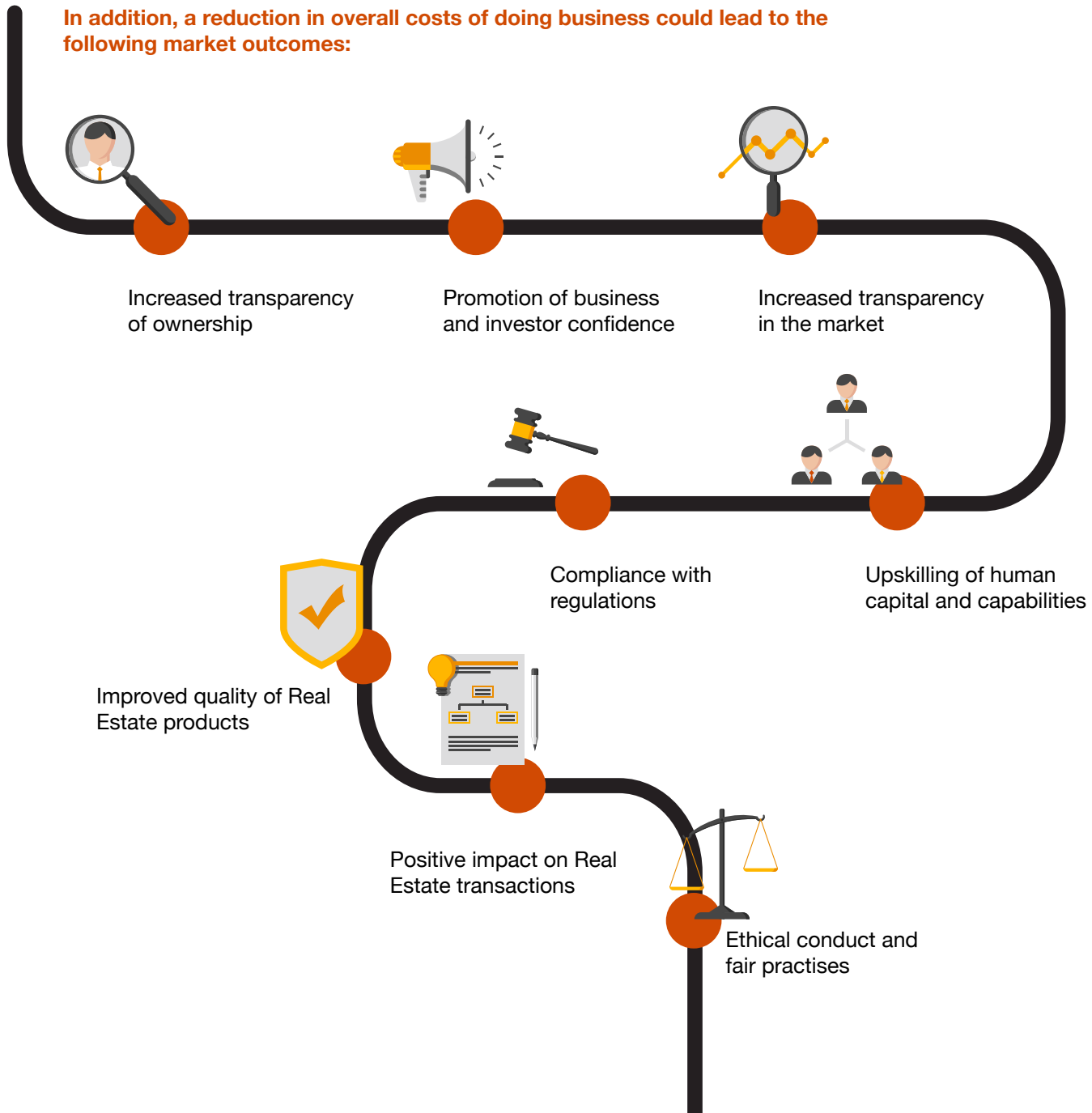


Reduction in property related costs for businesses



Reduction in inflationary pressures on wages

In addition, a reduction in overall costs of doing business could lead to the following market outcomes:

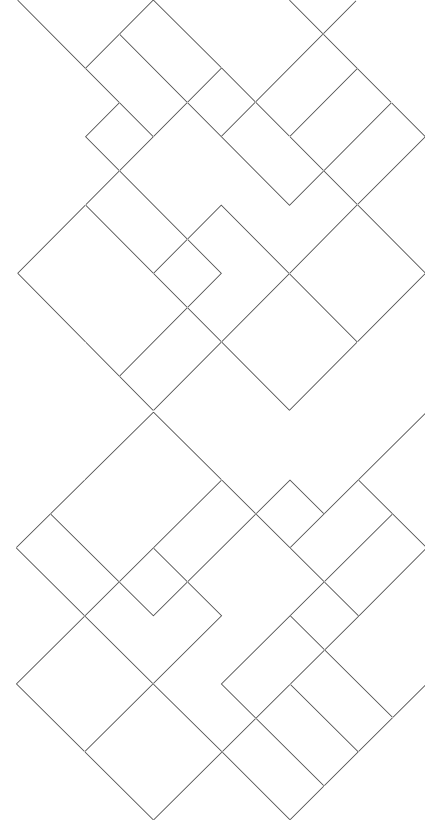


Conclusion

The triple effect of low or volatile oil prices, political uncertainty, and impending tax reform are temporarily dampening fundamental demand and creating volatility in Real Estate markets, as evidenced by the recent slowdown in sales and transaction growth, developer performance and project pipelines.

Heightened by the COVID-19 pandemic and changing macroeconomic conditions, Real Estate markets in the region need to address key market fundamentals while seeking opportunities to improve competitiveness and sustainability.

Addressing the key elements under our six guiding principles, such as developing a Real Estate dispute resolution framework or establishing land and property registration procedures, could help governments in the region promote long-term solutions that could lead to sustainable growth in Real Estate markets in the Middle East.

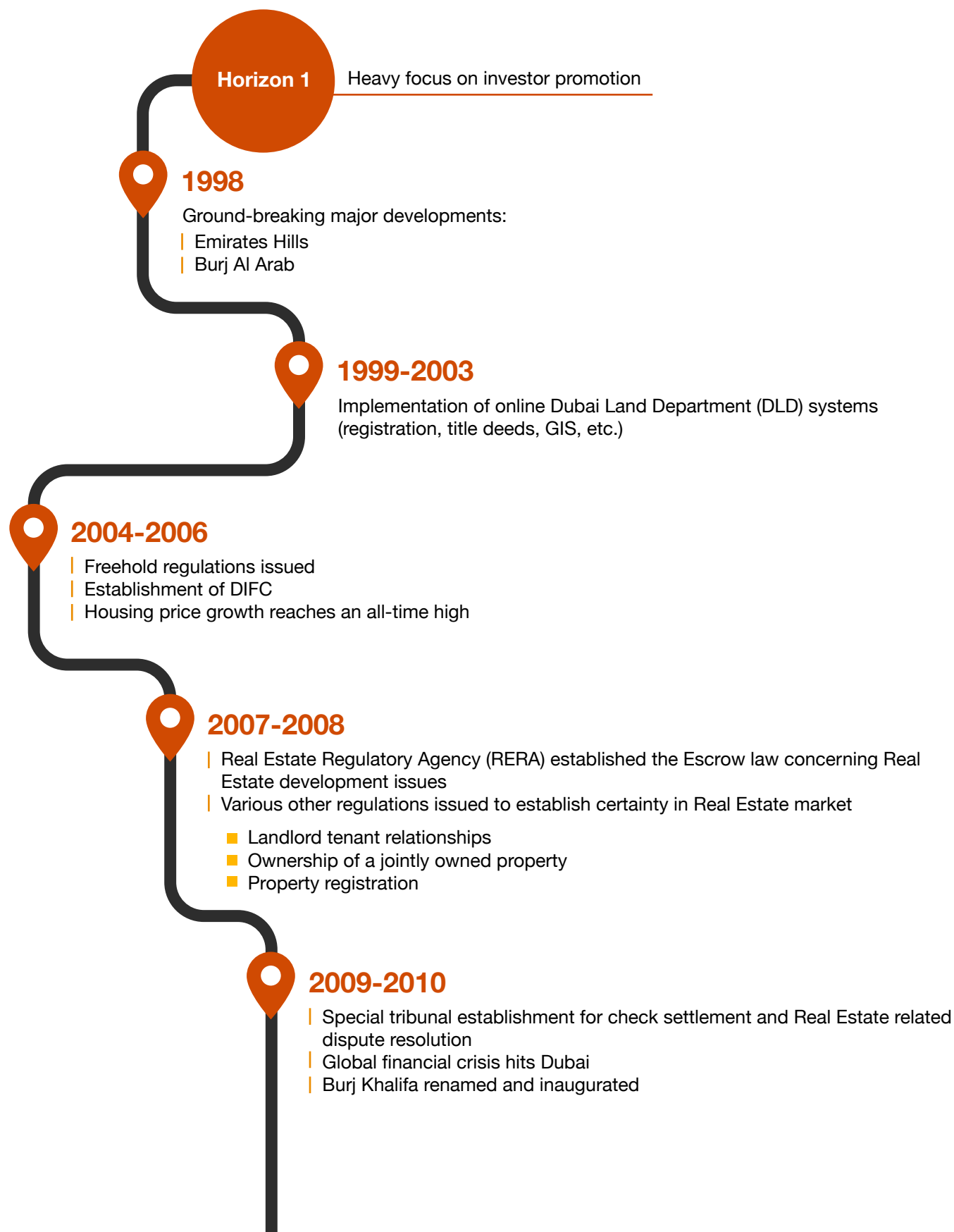


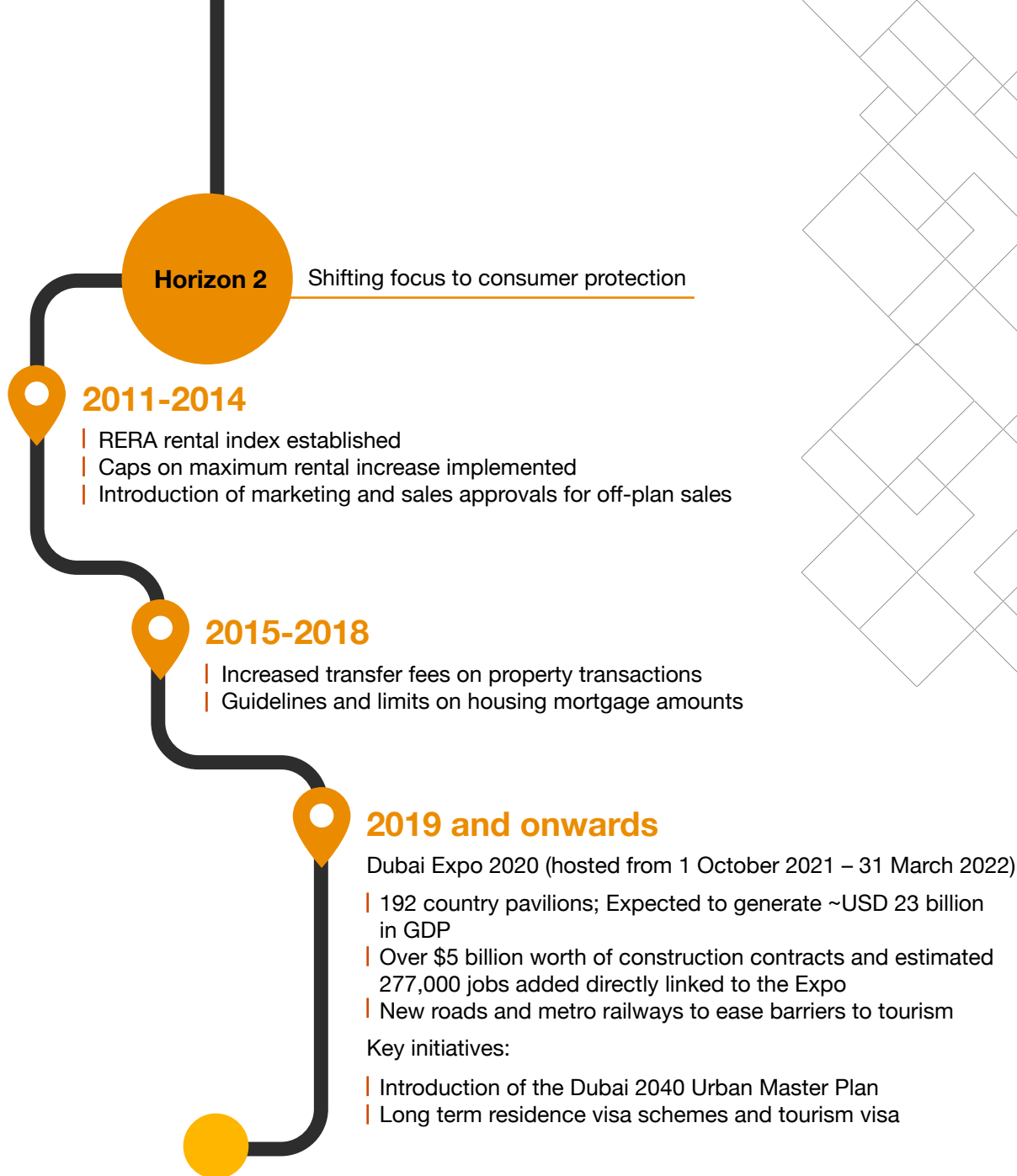
Evolution of Real Estate markets:

Case studies

UAE - Dubai

Regulations governing the Real Estate sector have strengthened over time, with focus shifting from investor promotion to consumer protection.



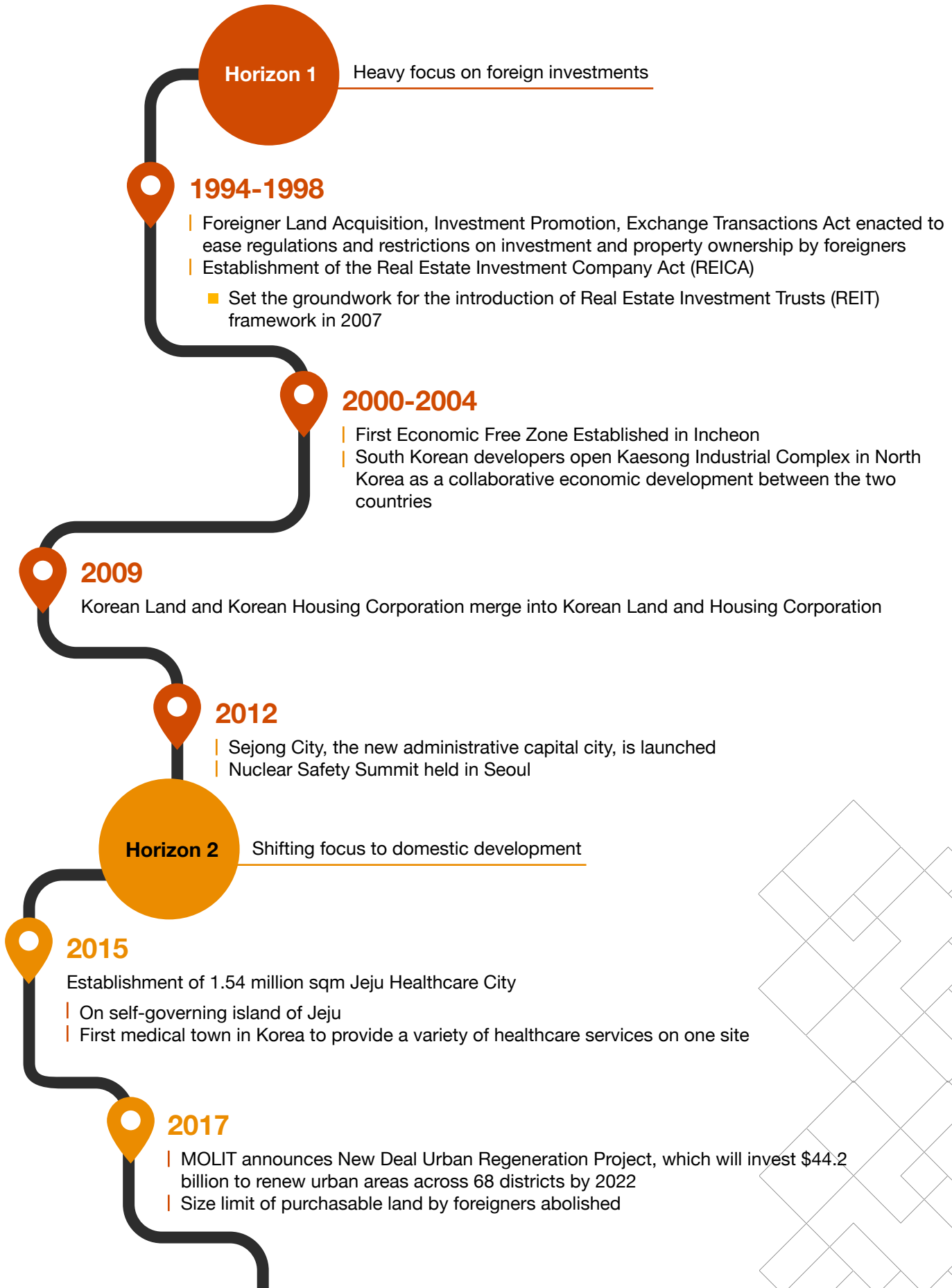


In response to the COVID-19 pandemic, the UAE swiftly introduced sector specific stimulus measures. For example, an AED 100 billion ‘targeted economic support scheme’ and a reduction on hotel municipality fees from 7% - 3% in Dubai. Swift government support in addition to the presence of a relatively development market has supported the gradual recovery of the sector. Expo 2020 is expected to yield an AED 122 billion investment windfall for the UAE.

Moreover, Dubai recorded real estate transactions worth AED 300 billion in 2021. The emirate witnessed approximately an 85k of real transactions with a 65% growth in the number of real estate transactions and a 71% increase in value compared to 2020. Dubai’s Real Estate market has shown strong recovery during 2021, with increasing demand from foreign investors.

South Korea

Several reforms are continuously being undertaken by South Korea to increase Real Estate investments and their contribution to the overall economy.





2018

Pyeongchang Winter Olympics

- | New terminal built in Incheon International Airport
- | UAE pledges more than \$1 billion in investments into South Korean Real Estate
- | New visa regulations that ease the application process and timelines



2019 and onwards

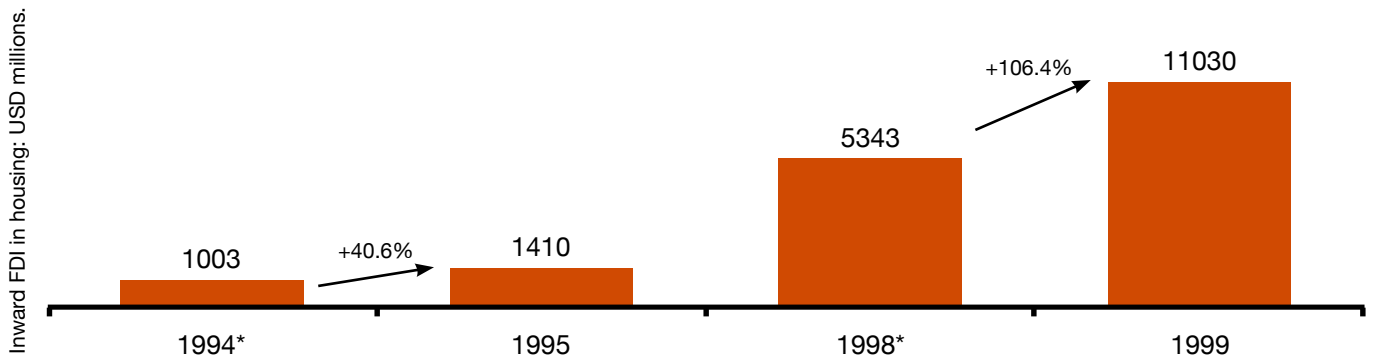
While Korea's economy continues to grow, foreign investment in the country is still at times hindered by insufficient regulatory transparency, including inconsistent and sudden changes in interpretation of regulations, as well as underdeveloped corporate governance, high labour costs, an inflexible labour system, and significant economic domination by large conglomerates.



Although future projects facilitate international visitation, the government continues to invest in domestic initiatives such as urban revitalisation, sustained employment, and affordable housing.

Opening of the South Korea Real Estate market for foreign investment contributed to the increase of inward FDI, particularly in the industrial and commercial office sectors along with housing.

Linkage between Real Estate FDI performance and the change in regulation



1994*

Second act on foreign ownership passed, allowing purchases for foreign nationals and corporations doing business in Korea (permission required from authorities).

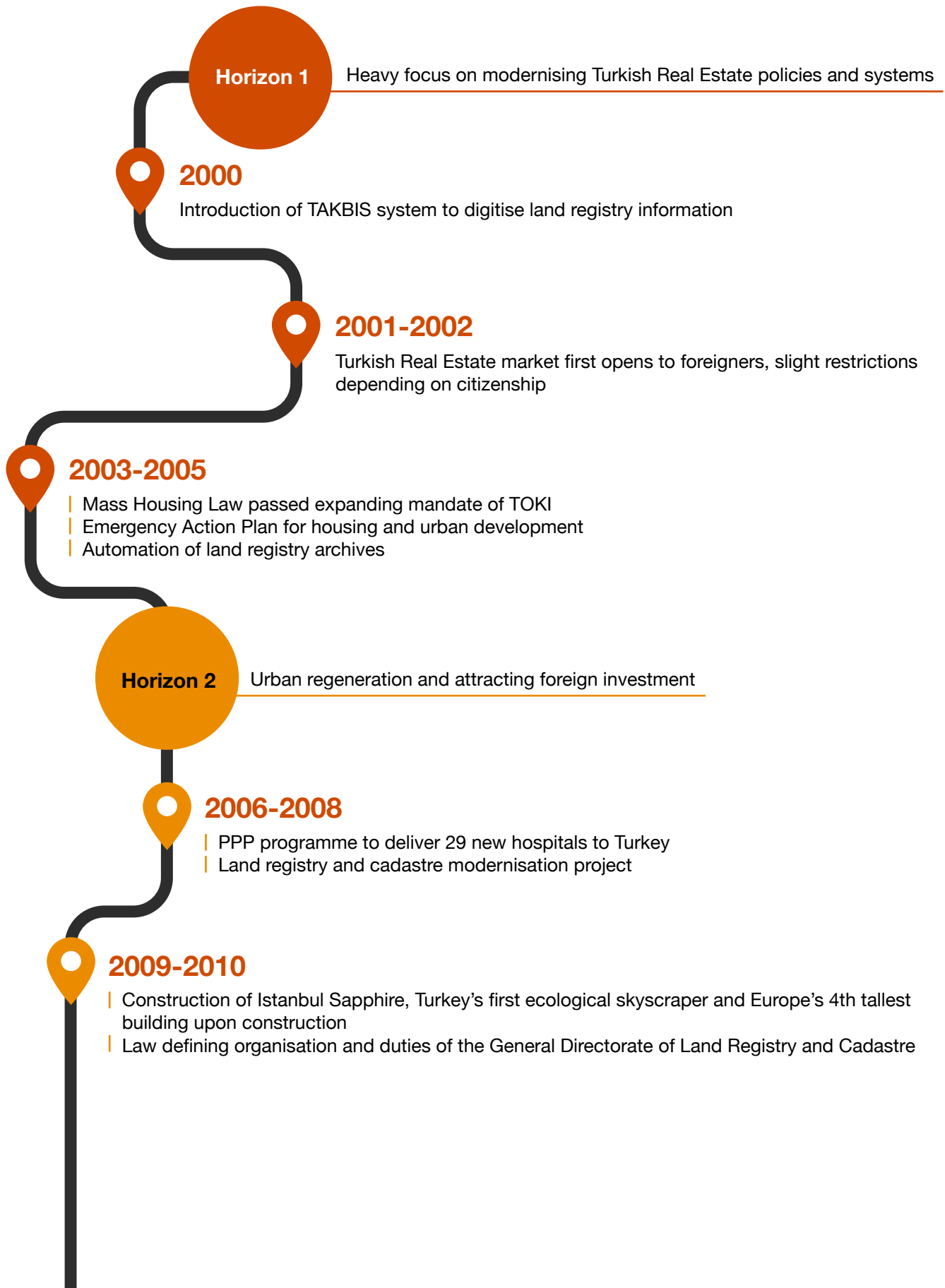
* Changes introduced in regulation for foreign ownership
Source: World Bank, PwC Analysis

1998*

Foreign ownership act amended. Foreigners allowed to purchase Real Estate for living or doing business (reporting to authorities, no permission required). Size limits on land.

Turkey

Turkey's Real Estate market began its journey with a strong focus on modernising Real Estate policies and systems and has since shifted towards urban regeneration and attracting foreign investment.





2011-2014

Amendment to Real Estate Reciprocity Law opening Real Estate market to further foreign investment

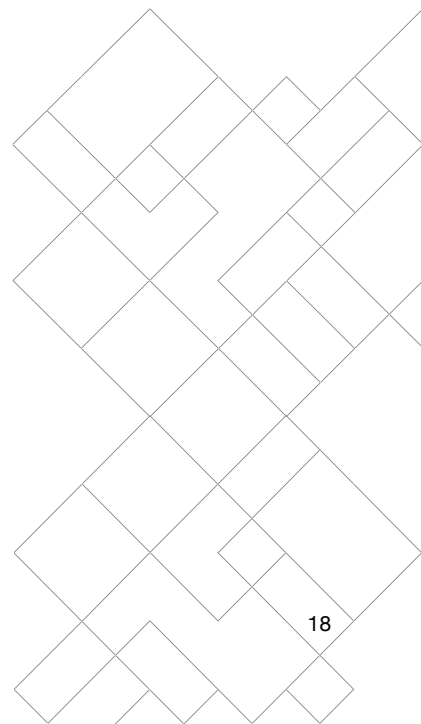
2015-2018

- | Government backed Urban Regeneration Program
- | Cross continental Yavuz Sultan Selim Bridge completed
- | First phase of New Istanbul International Airport completed

2019 and onwards

- | Future Real Estate projects in Turkey will see urban regeneration concentrated in suburbs of Istanbul where property prices are low and transportation to the city centre is well developed. These areas are prime locations for upcoming projects in quality hospitals, schools and leisure centres.
- | New projects include:
 - Istanbul International Financial Centre, 4.2 million sqm mixed use space intended on making Istanbul a top 20 global financial location
 - Kanal Istanbul, artificial sea-level waterway connecting the Black Sea to Aegean and Mediterranean seas
 - New Istanbul Airport is expected to boast passenger traffic up to 100 million in the next five years

Despite the ongoing COVID-19 pandemic, the Turkish Real Estate market has quickly rebound with foreign buyers purchasing a record number of residential properties from January – August 2021. Turkey’s ability to continue to attract foreign investors is a key by-product of having a solid foundation supporting the Real Estate market.



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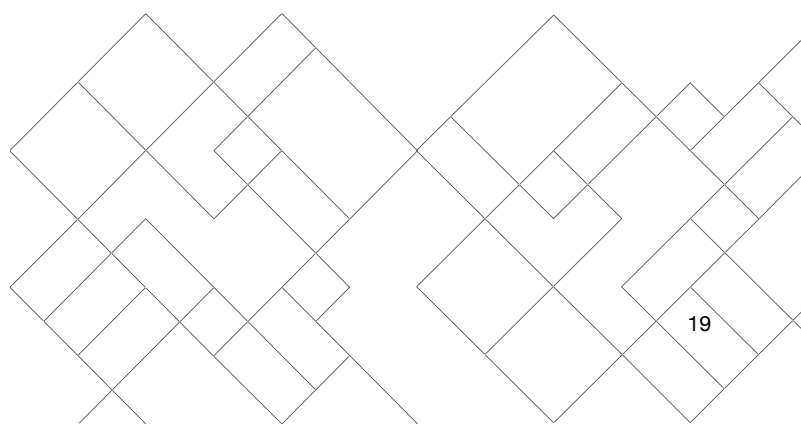
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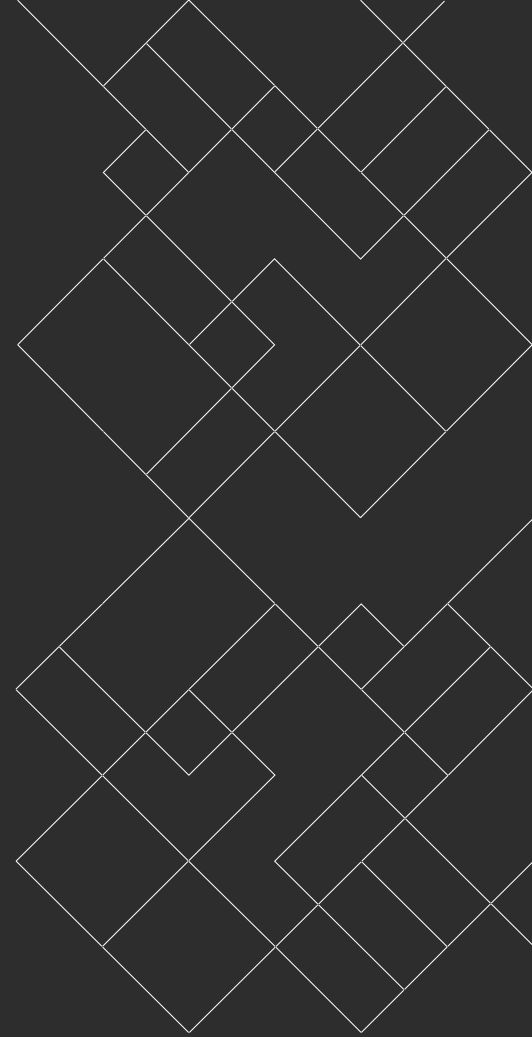


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