



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

Islamic Real Estate World Summit 2008

Organized by: Council of Saudi Chambers of Commerce and Industry and Naseeba

Risks in Financing Real Estate Projects – Rating Agency Perspectives

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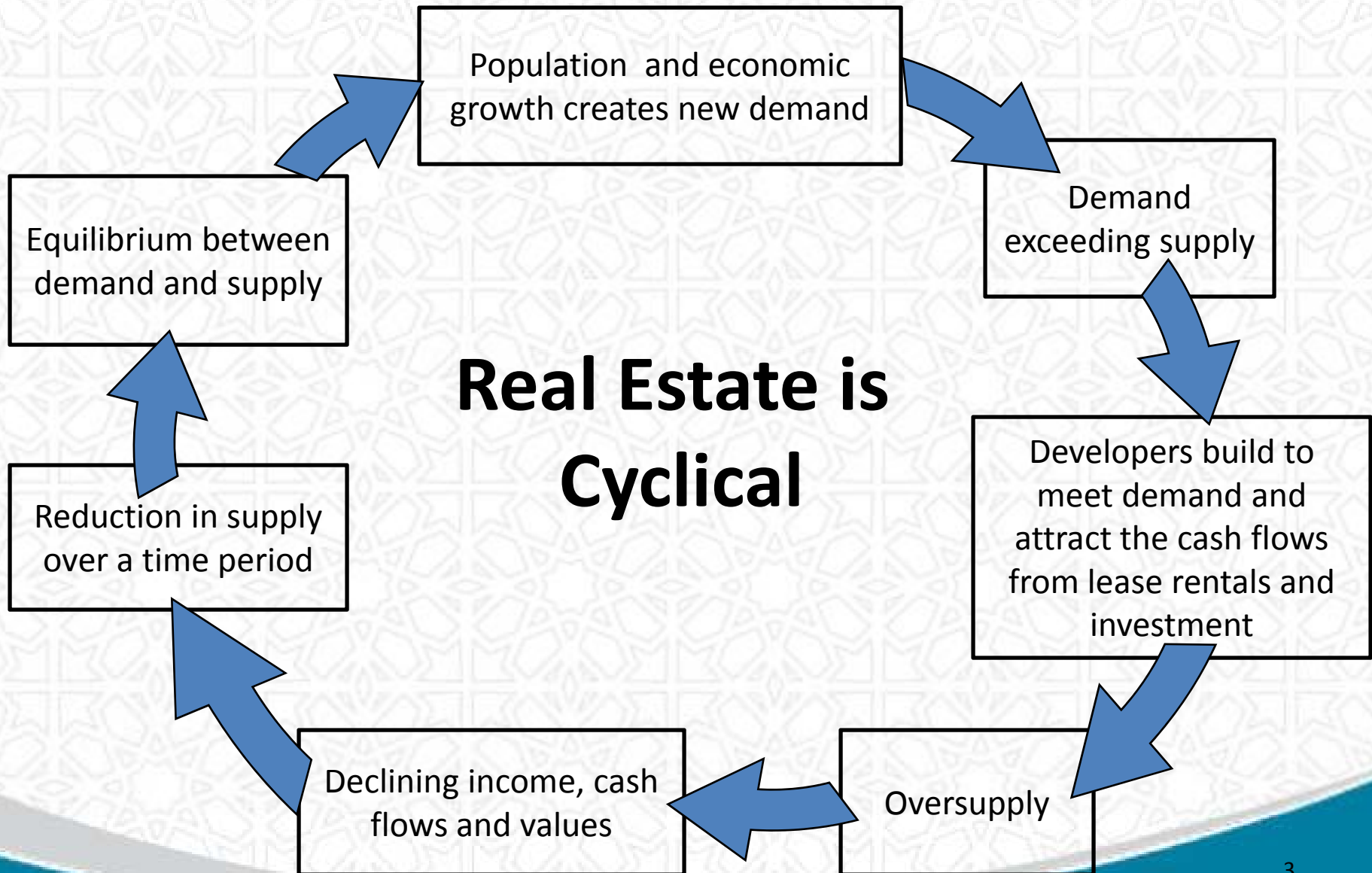


Importance of Real Estate Industry

- It generally represents a strong commitment by the investor
- Significant factors in the growth of a number of other industries
- Creator of Jobs



Industry Dynamics



Industry Dynamics

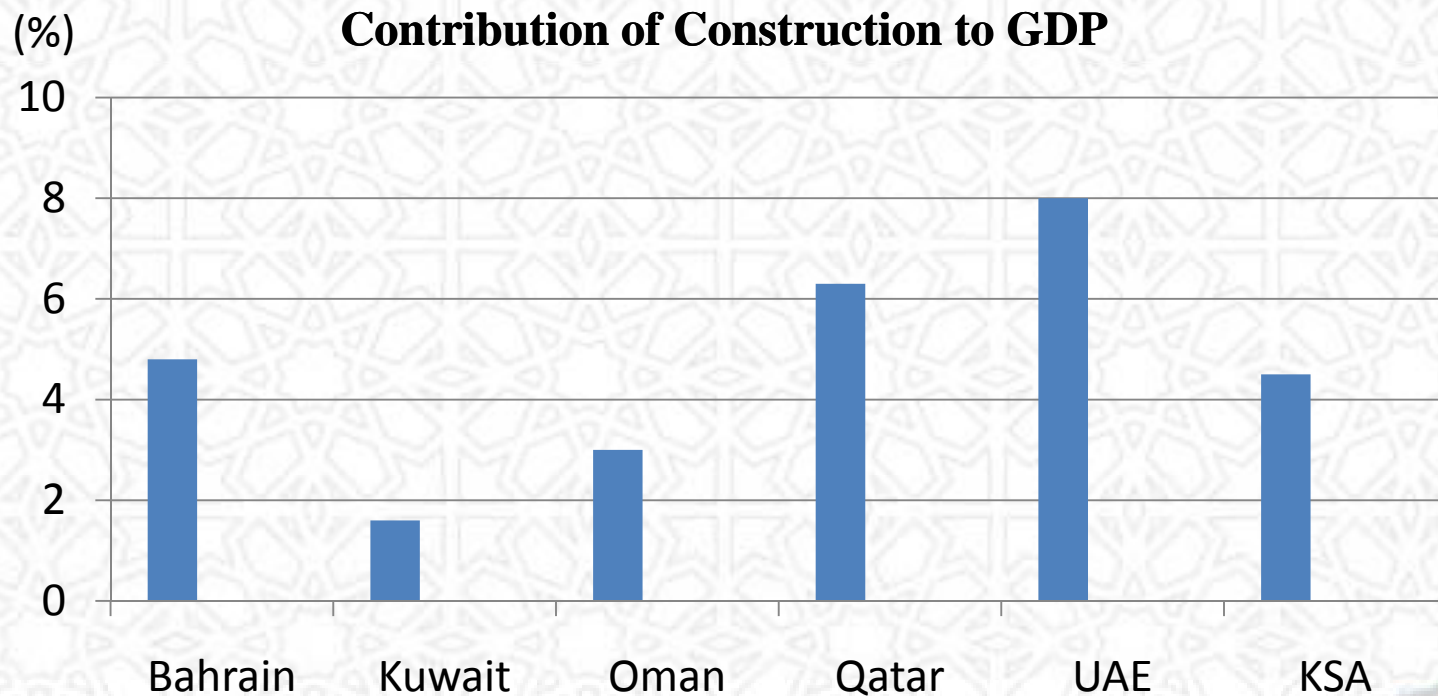
There are several factors that affect the growth of the industry:

- The level of pent-up demand in the real estate sector
- GDP growth of the country
- Capital formation
- Population, per capita income and disposable income together with growth trends
- Inflow of expatriates and nature of expatriates in the economy
- Number of industry players, and competition status
- Regulatory environment
- Supply of raw material (i.e. production or imports)
- New projects expected to be completed within next 2-3 years
- Historical and projected absorption rate of new projects



GCC Real Estate Background

- Real Estate Boom in GCC started in early 2000's
- Was fuelled by the rising prices of hydro carbon products
- Today industry size by one estimate is USD 2.39 trillion (Source: Futurebrand.com)



*Source: Global Investment House



Saudi Arabia Real Estate Background

- The contribution of the construction sector is around 4.5% of GDP
- The support of the Government to the sector is evident as large number of infrastructure projects are in the pipeline
- The factors which have attributed to surge in real estate market includes increasing young population (thus increasing demand), increase in disposable income, low cost government financing and low interest rates
- Saudi population has grown at a CAGR of around 2.5% over the last 5 years to reach around 24M. An estimated more than 50% of the population is less than 25 years old, signifying higher demand for new housing in the coming years



Saudi Arabia Real Estate Background - *Cont'd...*

- In its strategic 20 year plan (2005-2025) the government envisages doubling of GDP per capita from around SR 43K (in 2005) to around SR 99K (in 2025). This will lead to an increase in disposable income
- Credit facilities to building and construction sectors have increased substantially from around SR 15 billion in 2001 to over SR 50 billion in 2007 at a CAGR of more than 20%
- The real estate market is expected to get a further boost by the implementation of the mortgage financing law
- Makkah and Madinah are prime religious tourism destinations for more than 1bn Muslims worldwide. Nearly 4mn pilgrims (Saudis and foreigners) travel to Saudi Arabia every year to perform the Umrah and Hajj, with estimated spending of US\$1000 per head. Projections by the Ministry of Hajj reported total pilgrims will reach 5.62mn by the end of 2009. This translates into a CAGR of 7.4% over the period 2004-09



Saudi Arabia Real Estate Background - *Cont'd...*

- Another new trend in the real estate industry is the announcement by government of construction of new economic cities in 2005 and 2006 which will feature major residential and commercial real estate developments
- It is estimated that during the seventh development plan (2000-2004) new housing units constructed were 300K bringing cumulative housing units to around 4M, out of which 92% were in private sector
- For the 8th development plan (2005-2009) it is expected that the demand for new housing would be around 1M units. This would be met through both government and private sector construction, with latter absorbing 80% of the demand



Risk Present in Real Estate Industry

- **The Industry Risk:** cyclicalities has been discussed under the industry dynamics
- **Developer Specific Risks:**
 - A) Capacity Risk
 - A.1) Legal Risk
 - A.2) Past Construction History
 - A.3) Reputational Risk
 - B) Operational Risk
 - B.1) Organizational Risk
 - B.2) System Risk
 - B.3) Strategy Risk
 - B.4) Diversification Risk
 - C) Financial Risk
 - C.1. Existing Financial Profile
 - C.2. Lack of financial flexibility



Risk Present in Real Estate Industry - *Cont'd...*

- **Project Specific Risks:**
 - i) Demand and Supply Risk
 - ii) Legal Risk
 - iii) Participant Risk
 - iv) Completion Risk
 - v) Weather Conditions and other natural factors
 - vi) After –Sales Services / Maintenance Risk
 - vii) Financial Risk
 - viii) Likelihood of Time and Cost Overruns



IIRA'S GOAL: A Healthy Development of Real Estate Industry

- **Real Estate Developer Rating Methodology**

IIRA has designed a real estate developer rating methodology which is basically to provide the stakeholders with a balanced view about the strengths and weaknesses of the developer and to create a healthy environment in the industry. The rating provides an independent and objective opinion on the relative financial capability of the developer in line with the commitments made to the stakeholders. Since it would be very difficult to legally fence simultaneously ongoing projects of a real estate developer from one another, IIRA would analyze all the ongoing projects of the developer and arrive at an overall rating of the developer

- **Real Estate Projects Rating Methodology**

IIRA also provides ratings of individual real estate projects if they are ring fenced and developed as a legal entity, using the same analytical approach as described above



Beneficiaries of IIRA's Real Estate Ratings

Real Estate Developers

- Tool to highlight their strengths in project execution and marketing
- Acts a benchmark for the industry
- Leads to a healthy competition
- Help in mobilizing institutional funds

Banking, Financial and Lending Institutions and Investors

Government and Regulators



Thank You

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