Welcome to the first edition of our annual Family Business Insights report.

Family owned businesses form a crucial part of economies worldwide and play a significant role in GCC economies in particular. Despite the fact that most of the GCC economies have been relying heavily on oil revenues which have contributed to rising GDP growth figures, merchant families have always constituted the backbone of the respective private sectors.

Recently with the increasing volatility of oil prices, GCC economies have strongly focused on diversification. GCC family businesses operating in various sectors such as retail, real estate, construction, healthcare and, food and beverages therefore have become even more important to the growth and stability of the economy. The economic and social impact of family businesses can therefore not be underestimated.

NADA AL HASHIMI
Family Office Analyst

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**Social impact**

is emerging as a key third dimension along with risk and return in Investors’ wealth decisions

**Economic impact**

Family businesses have had a significant impact on the economies of both developed and emerging markets. With their diverse portfolios and different management models, their operations have proven more resilient during times of recession.

Alternately, in times of economic booms we see family businesses contributing to the expansion of the labour market, reinvesting heavily in their domestic economies, and successfully capturing overseas growth opportunities (Fig. 2).

**Social impact**

Family businesses have played a vital role in tackling social challenges that other private and public institutions have struggled with over the years.

**Tackling gender inequalities**

Family businesses have had a great impact on tackling gender inequality. Over the years they have provided women with not only opportunities for professional growth, but have also set up scholarships to support their education.

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**Increasing youth employment levels**

It is estimated that over 60% of the regional jobs are created by family businesses. This coupled with their ongoing support for entrepreneurship inside and outside the family is a key driver to engaging youth and making them part of the labour force.

Engaging in philanthropic activities

Family businesses have always been involved with various charities and in philanthropic activities. Not only is philanthropy increasing, but so is the desire to ensure that it is truly effective and actually tackles social, environmental and economical issues.

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**THE IMPACT OF FAMILY BUSINESSES**

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**Capital injection through investments**

- UK: 70%
- USA: 67%
- India: 66%

**Job creation**

- UK: 25%
- USA: 63%
- Middle East: 70%

**Capture economic growth**

- UK: 80%
- USA: 40%
- Middle East: 60%

**Stabilize economies due to diversification**

- UK: 67%
- USA: 66%
- Middle East: 67%

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Source: Knight Frank Research, Wealth Report 2016
Source: Knight Frank Research, Tharawat
IN FOCUS: WOMEN IN FAMILY BUSINESS
by Nada Al Hashmi

As part of our research we conducted interviews with several women in regional family businesses to gather insights on:
- why it is important for women to be active within the family business
- the influence they have on wealth management
- factors affecting their real estate investment decisions
- the challenges they face within wealth management and in being part of the family business.

Our interviewees’ family businesses operate across various sectors such as real estate, media, consumer goods and others. They belong to different age categories mainly (20-30 and 30-50) and their roles within the business differ from one another. Some of these women are active board members and heads of key functions, while others only play an indirect role in the business.

Our interviewees described how the increasing numbers of influential women who have assumed roles within the family business can be due to several factors:

- An increased awareness amongst women of the roles they can occupy and the opportunities they have.
- The desire amongst women to attain the proper skill sets, including education and professional training, to occupy executive roles.
- Changing mentality of family seniors who are increasingly involving women in the day to day operations of the family business.
- The rising number of influential women who have assumed roles in family businesses and are supporting other women to break barriers and take on executive and leadership roles.
- The institutionalisation of some family businesses has helped break gender barriers as it focuses on selecting the right talent, skills and experience. This has given women the opportunity to be selected for executive roles.
- In some cases, the absence of a male heir forces the family to involve their daughters in the business, which in turn allows them to evolve and become executives in the business.

The rising participation of women in family businesses
There is no doubt that the participation of women in the labour force has increased over recent decades. This is particularly evident in emerging markets where the percentage of women assuming managerial and executive roles has increased more than those in industrial economies. This is driven by the rapid growth and diversification of these economies, which has presented women with more opportunities to advance professionally and be active within their family businesses.

The increasing numbers of women visibly involved in their family businesses in the Middle East can be due to several factors:

- Industrial diversification: The recent diversification of Middle Eastern economies has contributed to the rise in women in the workforce.
- Professional growth: The increasing opportunities for women in rapidly growing economies have provided avenues for women to break barriers and take on executive roles.
- Influence on wealth management: Women’s influence on wealth management is a factor contributing to their involvement in family businesses.

In the following sections, we share our findings and the analysis we derived from our interviews.

The important of women in family businesses
Over the years, the Middle East region has seen an increasing number of women occupy executive roles within their family businesses. Research has shown that gender balance in family businesses can have various positive outcomes:

- Succession planning: Having women join the family business ensures a stronger succession plan. This is particularly evident in the absence of a male heir to take over the business.
- Corporate governance: Our interviews had shown that the participation of women has contributed to a stronger and more diversified board within the business, which is imperative for good governance. This diversification has contributed to more ideas, a new way of management and a selection of talent based on merit rather than just selecting the next available male member.
- Family governance roles: Some women take on an indirect role within the business by supporting the development and implementation of family governance systems, such as family councils that contribute to clear succession planning and that separate family and business systems. Women can play various roles in the family governance institutions and often have a great impact on the various generations by equipping them with necessary skill sets and knowledge, through mediation efforts and other key functions.

Women’s roles in wealth management
As part of our research we wanted to understand the relationship between the role of women in the family business and their involvement in managing wealth.

Based on our findings, we have divided wealth into three distinct categories: personal wealth, family wealth, and corporate wealth. We found a relationship between the level of involvement of women within their family businesses and their impact on wealth management decisions.

- The data has shown that when women do not have an active role in the business, they may make all decisions with regards to their personal wealth, but are merely informed of decisions regarding family investments and have no influence on corporate wealth.
- However, when they hold senior roles that are imperative to the core of the business, they move up in the wealth management spectrum to have influence on decisions regarding both their personal wealth and the larger family wealth.
- Finally, women who are active members of the board of directors are empowered to manage and influence all three aspects of wealth, including personal, family and corporate wealth.

The importance of gender diversification has been recognised in the GCC, where we see 32% of family owned firms have mixed gender boards

Philanthropy
Many philanthropic activities of family businesses are led by the women in the family, who are more directly and strategically involved in instigating change.
Challenges to women participation in family businesses

Despite evolving attitudes towards female participation in family businesses, responses from our interviews confirm that, women in the Middle East still struggle to assume active executive positions within the business.

There is a cultural belief that a woman’s main role is to raise the children and nurture her family and not hold leadership roles within the business.

We lack the confidence to take on leadership roles, especially when we are met with more scrutiny compared to our male counterparts.

The lack of access to information and lack of transparency play a big part in preventing us from taking on executive roles.

There is a wide gap between the skills and education we attain, and the requirements of the business.

Why women invest in real estate

Our interviews revealed a clear recognition that real estate is an important asset in our interviewees’ investment portfolios. This is related to three overarching reasons.

1. Personal factors driven by notions of legacy and family. As a result, women tend to invest their own personal wealth into residential property as it is seen as a ‘home’ they can then pass onto their children. They also view this asset as less risky compared to commercial assets be it offices or hotels.

2. Social factors driven by providing for and impacting the wider society. Investing in parks, children’s play areas and affordable housing for students were high on the agenda of our interviewees.

3. Financial factors driven by returns generated from the assets held. This is predominant when considering commercial investments. A more sophisticated approach to investing is considered here, whereby questions on tenant profiles, return on investments and other technical aspects are investigated.

HIGH NET-WORTH INDIVIDUALS & FAMILY BUSINESSES AS STRATEGIC REAL ESTATE INVESTORS

by Dana Salbak, Associate Partner, Research

While few markets escaped the effects of the global financial crisis, we have seen large amounts of capital and new wealth created and traded. Indeed, cross-border investments undertaken by both the private and the public sector is on the rise, with property forming an integral part of the story.

Over the past decade, this has been led by massive outflows from China and the United States. Economic instabilities in Europe, particularly in Italy and Greece saw strong outbound investment flows in a European context. Looking at inbound investments, emerging markets such as Brazil saw notable growth, alongside Asian markets such as Singapore and Hong Kong.

Fast forward to 2016 and in the context of uncertain global economic conditions and volatility in oil prices, the performance of markets in general and real estate more specifically has come under scrutiny.

With investors becoming more multi-jurisdictional and seeking opportunities in previously untapped markets and asset classes, an investigation of attitudes and appetites is becoming increasingly in demand.

This is particularly true in the case of individuals and family businesses, who not only occupy an active role in the ownership and trading of residential property, but are becoming vital players in global commercial real estate.

The following section looks at the behaviour of high net worth individuals (HNWI’s) in MENA who run successful family businesses, tracking their investment strategies, preferred asset classes and preferred investment destinations throughout the year-to-August 2016.

Disclaimer: The information presented is based on internal databases maintained by Knight Frank. While we assert the information is factual, we acknowledge it is not inclusive of all cross-border transactions and therefore do not claim it to be representative of the whole market.
Diversification and long-term income take centre stage

While HNWI's continue to view residential property as a secure investment, commercial real estate is becoming an established component of the investment portfolios of HNWI's from the Middle East. An asset class that was previously dominated by sovereign wealth funds, pensions and institutional investors, we see a clear capacity and willingness among private investors to adopt an active investment role in commercial property.

Portfolio diversification and the potential to generate recurring income are some of the key factors informing commercial investment strategies. This is in addition to the improved market transparency and expertise across markets, which have contributed to the maturity of the commercial real sector.

Looking ahead, HNWI's are expected to continue playing a central role in commercial real estate, including the industrial sector, as they seek higher returns from risk-adjusted investments.

Global gateway destinations remain the primary target

While the search for higher returns has driven some investors towards commercial assets, global gateway cities remain the key preference for cross-border investments.

On a location basis, the majority of HNWI's view the UK as the prime investment destination. While there has been strong debate about the impact the Brexit vote will have on the UK property market, it is our view that demand for London property rests on a wide range of drivers – most of which are unaffected by the referendum decision: the scale of London's business cluster, quality of developments, depth of skills, education, lifestyle and language.

The Middle East was identified as the second preferred investment destination. On a country-wise split, the UAE takes the lion's share. With a continually evolving economy, business-friendly regulations, modern infrastructure and diverse tourist offerings, the UAE has emerged as a popular destination for HNWI's to live, invest, educate their children, and spend their leisure time.

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INVESTMENT STRATEGIES

High level of risk aversion among HNWI's

On-going economic volatility and geopolitical tensions have compelled HNWI's to remain risk averse, with 82% looking to invest in core real estate assets providing stable cash flows. However as yields tighten on the back of continuous uncertainty, we expect HNWI's to invest on a risk-adjusted basis and move up the risk spectrum towards value-add opportunities, such as retail centres and other alternative investments.

Smaller deals dominate HNWI's portfolios

Given their risk appetite, it comes as no surprise that the majority of HNWI's prefer to invest in smaller lot sizes. In the long-term however, and as bank financing and liquidity improves, we expect to see growing interest in larger deal sizes.

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PREFERRED ASSET CLASS

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PREFERRED LOCATION
REAL ESTATE TRENDS & HOTSPOTS
Looking ahead, and amidst a lower-growth environment, picking the right property investment and location becomes a more essential issue. Our choice of select residential and commercial opportunities are led by economic and employment growth rates, new infrastructure, regeneration and the quality of life.

Residential

COUNTRY
- Germany - The EU’s largest economy. Residential prices have increased 23% in the past five years, yet wages have kept pace resulting in good levels of affordability. Cities such as Berlin and Munich outperform and, despite strong house building rates, the gap between demand and supply is set to expand.

CITY
- Shanghai - The city, along with Shenzhen, the other financial hub of mainland China, has turned a corner in economic and market terms over the past six months. Shanghai is seeing positive price growth on the back of continued urbanisation, a diverse and thriving service sector and a strong international community.

NEIGHBOURHOOD
- Lower East Side, New York - New infrastructure, amenities and restaurants are driving price growth in an area burgeoning with luxury developments by developers like Ian Schrager and architects Herzog & de Meuron. Proximity to Nolita, SoHo, and the East Village is helping market product to investors.

SKI RESORT
- Chamonix - Within easy reach of Geneva Airport, the resort offers a broad range of amenities while remaining competitively priced compared with other Alpine resorts. The pledge by the Compagnie du Mont Blanc to upgrade the lift system will strengthen demand further.

Commercial

REGION
- US West Coast - Foreign UHNWI’s have always been competitive in San Francisco’s commercial real estate market. The rapid growth and insatiable tenant demand has created many value-add opportunities, especially among properties that have yet to catch up to market rents.

COUNTRY
- Germany - Berlin is now a significant target for global investors, particularly those attracted by its young, creative business environment. The city’s growing startup community.

CITY
- New York City - Brooklyn is a metro market that has experienced sharp increases in both supply and demand and will continue to offer opportunities to UHNWI investors over the next 10 years. It remains a market of choice among creative types due to its burgeoning communities and proximity to Manhattan.

SECTOR
- Logistics - There has been a change in attitudes towards the Sub-Saharan Africa over the past decade, as a rising number of investors have recognised it as a region of long-term growth and opportunity. The logistics sector should emerge in importance, particularly in key gateway locations such as Lusaka, Zambia.

REAL ESTATE INVESTMENT GUIDELINE
Economic uncertainty and market volatility have transformed the real estate landscape. The pool of investors seeking cross-border investments and returns from diverse portfolios is becoming more sophisticated. Against this backdrop, we have identified the top considerations that need to be made when investing in property.

Define your strategy with an end in mind

Begin with identifying what it is you expect to accomplish. This will determine what types of properties to invest in and where, and will also form the basis of your investment plan.
Example: Are you looking to live off your investment returns or are you building a foundation for the next family generation?

Location matters

Where do you want to invest? This should essentially be in a growing location. Looking beyond the country and city, decisions should also be based on neighbourhoods and different real estate categories as these attract diverse tenant profiles.
Example: Second home opportunities in the Gold Coast / Pimlico in London

Hire a professional real estate advisory firm

Seek out a professional property firm that can provide insight and access to global capital markets. A global firm can leverage its networks to advise and represent investors in their cross-border investment strategies.

Identify high performance real estate

Understand the key technical investment metrics and which real estate will give you the highest returns.
Example: How to determine return on investment, internal rate of return, net operating income, capitalization rate etc.? How to assess the investment risk? How to determine the break-even occupancy rate?

‘Clean-up’ your investments regularly

Conduct an annual review of your portfolio where you cut out underperforming investments no matter how personal these are.
Example: Recognizing which properties are driving your portfolio growth versus those dragging you down.
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