

IMPACT ON SAUDI ARABIA AND THE UAE'S REAL ESTATE MARKETS FROM COVID-19 POLICY RESPONSES

22ND MARCH 2020





INTRODUCTION



With the spread of the Coronavirus (COVID-19) disease, now a pandemic, from East to West all GCC countries have swiftly enacted a range of measures to control the spread of the disease. These measures, mostly enacted in the week of the 15th March, have been vital in suppressing the spread of the disease in GCC countries.

Given the scale of this pandemic, there have been significant impacts on social mobility and in turn there will be far reaching impacts on global and regional economic growth, most of which are almost impossible to quantify at the moment.

In the major economies of the region, Saudi Arabia and United Arab Emirates, anecdotal evidence suggests that in the short run these could be material, however the scale unlikely to be captured by any meaningful economic indicators for months.

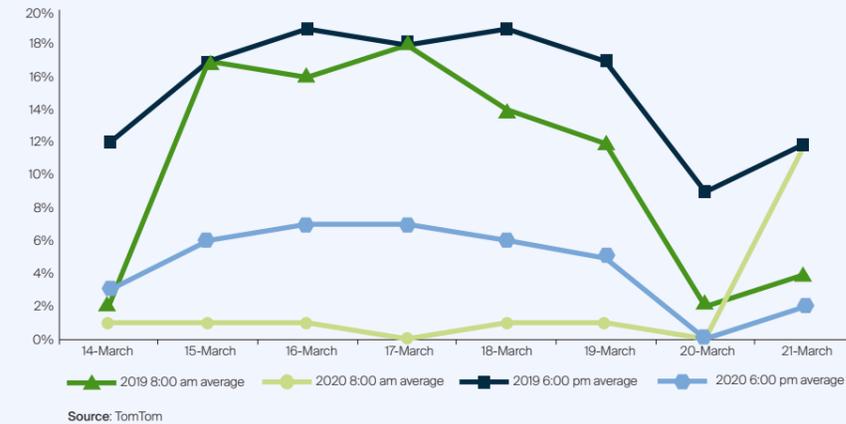
Data from TomTom's Traffic index is one of the timeliest measures of mobility and can be used

as an indicator for economic activity up to a point.

Data from the index shows that congestion levels in some of the region's key economic centres decreased substantially over the last week as governments and corporates enacted business continuity measures. In Abu Dhabi and Dubai we have seen congestions levels reduce substantially over this period and in Riyadh and Jeddah they are almost non-existent. Whilst such measures may cause significant short term challenges they no doubt pale in comparison to the implications of not enacting such measures.

In order to support corporates and residents in these challenging times, governments have enacted a range of economic stimulus packages and significantly increased the ease of doing business. There have been a number of announcements over the last week, many of which will help support corporates and residents. In order to help disseminate these announcements, Knight Frank has highlighted some of the major announcements in Saudi Arabia and the UAE with brief focus on the sectors that are most likely to be impacted.

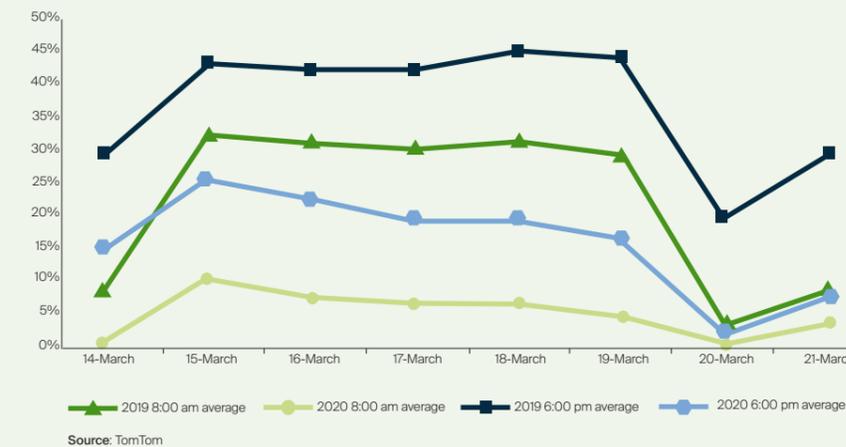
Abu Dhabi congestion levels - 2019 vs 2020



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Dubai congestion levels - 2019 vs 2020



Riyadh congestion levels - 2019 vs 2020

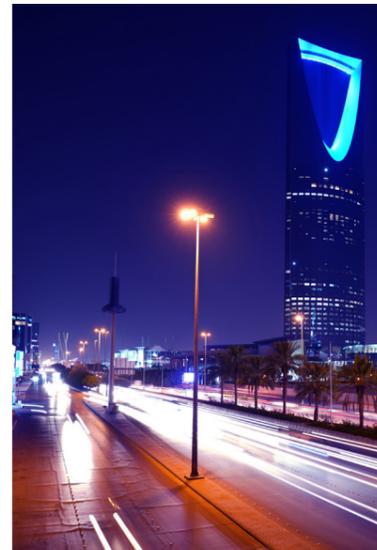
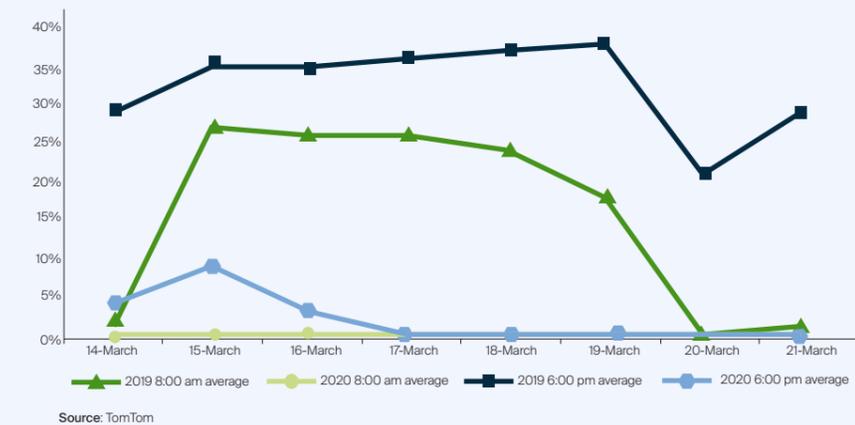


ABU DHABI



The Abu Dhabi government has announced a 16-point economic stimulus package, which seeks to support economic activity and reduce the cost of living in the Emirate. As part of the announcement, the government has also announced the continuation of all approved capital expenditure and development projects in the Emirate. Alongside this, we have seen various initiatives undertaken by private or semi-private entities to support businesses and residents.

Jeddah congestion levels - 2019 vs 2020



UNITED ARAB EMIRATES



In the UAE, we have seen a swift enactment of policy from both the federal and from local governments in an attempt to support businesses and in turn residents at the current time.

The federal stimulus in the UAE has primarily come in the form of an AED 100 billion stimulus package from the UAE Central Bank. The stimulus package aims, through monetary stimulus, easing of regulations and reduction in fees, to provide support for corporate and retail customers. Whilst there are a range of measures that have been enacted, the following advisory notes and mandates will be of particular importance to corporates and residents:

- The UAE central Bank has advised banks to use the funding provided to grant temporary relief of up to six months to corporates and retail clients
- Increase in the loan-to-value (LTV) ratio

applicable to mortgages for first time buyers by five percentage points

1. For a first time expat buyer this would increase the ratio from 75% to 80% for properties below AED 5 million and from 65% to 70% for properties above AED 5 million
2. For a first time Emirati buyer this would increase the ratio from 80% to 85% for properties below AED 5 million and from 70% to 75% for properties above AED 5 million
3. For both first time Emirati and expat buyers this would increase the maximum off-plan LTV from 50% to 55%.

- Increase the maximum exposure banks can have to the real estate sector from 20% to 30%, with banks being required to hold additional capital if they surpass the 20% exposure threshold
- The UAE Central Bank has mandated that all banks open bank accounts for small and medium enterprise customers within two days, providing all documentation and legal obligations are met

In addition to this, we have seen a broad range of measures introduced by the governments of Abu Dhabi and Dubai and various semi-private and private entities to support their respective economies.

Policy	Policy Content (Abbreviated)	Benefitting Industries	Time period
Exemption of fees	A range of fees have been removed including: <ul style="list-style-type: none"> • An annual registration fee for commercial vehicles • Toll gate tariffs for all vehicles • Real estate registration fees • Tawtheeq fees for the commercial and industrial sectors 	All	End of 2020
Water and electricity subsidies	AED 5 billion fund to subsidise water and electricity for citizens and for those firms undertaking commercial and industrial sector activities. Subsidies will also be provided for the electricity connection fee for start-ups connecting in 2020	Commercial, industrial and residential	On-going
Financial support for businesses and financial markets support	Enactment of a AED 3 billion credit guarantee programme for small and medium enterprises which is to be managed by the Abu Dhabi Investment Office For financial markets, a AED 1 billion fund has been established to stabilise markets A committee to review lending options for local companies has been set up; this committee will be headed up by the Department of Finance and will include members of the Department of Economic Development and local banks	All	On-going
Removal of performance guarantees	Performance guarantees for start-up projects with a value up to AED 50 million have been removed	All	On-going
Waivers	A number of fees or requirements have been reduced or removed including: <ul style="list-style-type: none"> • Suspension of bid bonds • A 25% reducing of land leasing fees for industrial lands • Waving of industrial and commercial fees 	Commercial, construction and industrial sectors	On-going
Tourism related costs	Up to a 20% rebate on rents for restaurants, tourism and entertainment related occupiers. In addition to this municipality fees relating to these sectors have been suspended for the remainder of 2020	Hospitality and leisure	End of 2020
Government Payments	All approved government payables and invoices will be settled within 15 days	All	On-going
Aldar Properties support package	Aldar Properties has announced a range of initiatives, worth an estimated AED 100 million, to support its residents, occupiers, customers and partners, these include: <ul style="list-style-type: none"> • Providing monthly payment plans to its residential tenants, which total above 5,000 residents, until the end of 2020 • Waiving of all administrative fees associated with transacting with Aldar, including transfer and late payment fees during 2020 • Allocating AED 4 billion towards the timely payment of its commitments to its contractors and suppliers. • A AED 50 million fund to support its retail partners with a particular focus on small and medium enterprises and start-ups • Monthly payment plans for education fees for its Aldar Education Portfolio • A commitment of up to AED 10 million to enhance distance learning capabilities 	Residential, Retail and Education	Various
International Capital Trading (ICT) support package	ICT has announced a range of measures to support all retail and hospitality sector tenants, partners and suppliers, these measures include: <ul style="list-style-type: none"> • A three month rent waiver for all retail and hospitality tenants • The introduction of flexible payment plans • A commitment to continue paying all suppliers and partners without delay • A commitment to continue on all projects currently under execution 	Hospitality and Retail	3 months / On-going

DUBAI



The government of Dubai has launched a AED 1.5 billion economic stimulus package over the next three months to support its economy. The package consists of 15 initiatives and focuses on the commercial sector, retail, external trade, tourism, and the energy sectors. After the initial three month period, the package will be reviewed based on the then economic situation. Alongside this, we have seen various initiatives undertaken by private or semi-private entities to support businesses and residents.

Policy	Policy Content (Abbreviated)	Benefitting Industries	Time period
Market Fee Freeze	Freeze on the 2.5% market fee levied on all firms in Dubai	All	3 Months
Customs Fee Refund	20% refund on custom fess which are levied on imported goods sold in the local market	Manufacturing, industrial and logistics and importers	3 Months
Removal of AED 50,000 bank guarantee requirement	The requirement of an AED 50,000 bank or cash guarantee to undertake customs clearance activity has been removed, with fees already paid to be refunded	Manufacturing, industrial and logistics, importers and exporters	3 Months
Reduction of customs fees	Fees imposed on customs clearance documents will be reduced by 90%	Manufacturing, industrial and logistics, importers and exporters	3 Months
Easing of regulation on port related trade	The requirement of providing banking instruments when submitting customs related grievances has been removed Traditional wooden vessels will no longer be required to pay mooring fees Direct and indirect fees will be removed at Dubai Harbour and Hamriyah Ports	Importers and Exporters	3 Months
Easing of regulations on commercial activities and reduction of fees on commercial activities	The requirement of a 25% down payment when requesting instalment based payments for government payments relating to obtaining and renewing licences has been removed Commercial leases can now be renewed without the mandatory requirement to renew lease contracts The permit requirement for new sales and offers has also been removed	All	3 Months
Hotel Municipality Fees	The municipality fee imposed on sales at hotels has been reduced from 7% to 3.5%	Hospitality	3 Months
Removal of fees relating to cancellation and postponement of events	Fees charged for the cancellation of tourism or sports events due to be held in 2020 Fees relating to the issuance of permits and other government fees relating to business and entertainment events have also been frozen	Hospitality and Leisure	3 Months
Reduction of DEWA Fees	A 10% reduction on DEWA bills for the residential, commercial and industrial sectors alongside a 50% reduction in the deposit requirement for DEWA services	Residential, commercial and industrial sectors	3 Months
Dubai Holdings and Meeras Economic support package	Dubai Holdings and Meeras have announced an economic relief package which amounts to more than AED 1 billion which will support existing business partners and customers	Hospitality, residential and retail	On-going
Al-Futtaim Group rent relief	Al-Futtaim Group has set aside a fund of AED 100 million to help relieve the pressure on retail tenants where retailers will receive up to three months rent relief	Retail	Up to 3 months

SAUDI ARABIA



The government of Saudi Arabia has rolled-out two stimulus packages of SAR 50 billion and SAR 70 billion to support its private sector during the pandemic. The primary goal of the stimulus packages is to mitigate the impact of cash flow fluctuations on small and medium enterprises, which in turn is expected to support businesses and employment. A number of sub-committees have also been created as part of the latest stimulus round to study the impact of the virus on selected industries with further measures to follow as and when needed based on the recommendations of these committees.

Policy	Policy Content (Abbreviated)	Benefitting Industries	Time period
Deferral payments program	SAR 30 billion fund for financial institutions to defer payment of dues for small and medium enterprises	All	Up to 6 Months
Funding for lending program	SAR 13.2 billion fund to grant loans to the small and medium enterprise sector to support business continuity and growth in order to maintain economic growth and employment	All	On-going
Loan guarantee program	An SAR 6 billion fund to relieve the financing costs of small and medium enterprises enrolled in the KAFALA program during the Fiscal Year 2020	KAFALA program participants	FY 2020
Fees associated with POS and E-commerce	The Saudi Arabian Monetary Authority (SAMA) has set aside a figure in excess of SAR 800 million to pay the fees associated with such transactions to payment service providers participating in the national system	E-commerce and retail	3 Months
Makkah and Medina	Due to the strict lock-down in place in the holy cities of Makkah and Medina, SAMA will now work with lenders to facilitate repayments due from entities in these cities	All	3 Months
Work-Visas (Iqama)	Exemption from expat levy for those whose Iqama has expired from now until 30 June 2020, by extending their Iqama for a period of three months without charge Employers are entitled to a refund of fees of issued work visas that were not used during the ban on entry and exit, even if they were stamped in the passport, or extend them for a period of three months without charge Employers are also able to extend exit and re-entry visas that were not used during the ban on entry and exit from the Kingdom for a period of three months without charge	All	Until 30th June 2020/ 3 Month extensions
Taxes, customs, government fees and Zakat	Enabling business owners, for a period of three months, to postpone the payment of value-added tax, excise tax, income tax, and the submission of Zakat declarations and the payment of obligations due therefrom Postponing the collection of customs duties on imports for a period of thirty days against the submission of a bank guarantee, for the next three months and setting the necessary criteria for extending the postponement period for the most affected activities as needed Postponing the payment of some government services fees and municipal fees due on private sector activities, for a period of three months, and setting the necessary criteria to extend the postponement period for the most affected activities as needed	All	Up to 3 Months

Sources: Knight Frank Research/ National news agencies

Note: All policies noted are done so with the best of Knight Frank's knowledge and understanding as at 22nd March 2020

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