



EMEA PROPERTY NAVIGATING CRISIS, EYEING UPTURN

INTRODUCTION

As the global financial storm enters its second year with no signs of abating, property markets in Europe and the Middle East continue to be wrecked by a weakening demand and plunging prices.

In the UK, highly leveraged real estate firms struggle to lighten their debt burdens, Germany’s once-influential open-ended property funds are hamstrung by a rush in redemptions, while Spanish developers feel the pain of restructuring by creditor banks.

Europe’s emerging markets fare no better, as investors flee countries such as the Czech Republic and Poland, while collapsing oil prices and first-time economic deficits force investors to rethink their exposure to the Middle East, with Dubai now bearing the brunt of the exodus.

But amid the widespread gloom, some longer-term property investors and opportunistic buyers are now preparing to enter the market, enticed by prospects of snapping up rare prime buildings in major cities such as London to Paris, or hefty returns from distressed debt and assets.

The following are key stories about EMEA’s property markets, filed by Reuters journalists across the region.

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MATURE EUROPE ANALYSIS

TIME RUNNING OUT FOR UK PROPERTY RIGHTS ISSUES

By Sinead Cruise

LONDON, FEB 24 (REUTERS)

British property sector investors are preparing to shut the door on new rights issues after being besieged by over 2 billion pounds (\$2.9 billion) in cash calls by top names, condemning smaller firms to an uncertain future.

FTSE 100 titans Land Securities, British Land and Hammerson have all secured rights issues this month but shareholders are running out of cash and the appetite to rescue smaller peers trailing in their wake.

"Queuing is seen as a special gift of the British, fair and orderly, but it's looking a little less so in the UK REIT sector at the moment," Nomura analyst Mike Prew said.

"The rights process may dribble into the second quarter but money is getting more discerning, with the 'going concern' risk concentrated in the small caps," Prew said.

The signs of rights issue fatigue do not bode well for firms still hoping to tap institutions for funds to soothe loan-to-value ratios swollen by a record 27 percent crash in UK commercial property prices last year.

Mall owner Liberty International, industrial property landlords Segro and Brixton and asset manager Warner Estate Holdings are staging fiercely competitive beauty parades to convince investors they are most deserving of their support.

"There is a finite amount of capital available so investors will discriminate between issues based on portfolio quality and management strength," said Patrick Long, a director at Lazard, who advised Hammerson on its issue.

But many more companies are still pondering such roadshows, and the longer they wait, the harder it will be to attract institutions overwhelmed by competing demands for their cash.

WEAK BALLAST

Recent share price performance and alarming projected returns for UK commercial property undermine the cash calls.

Average real estate share price discounts to net asset value have widened to 59 percent after months of extreme market volatility, according to JPMorgan estimates.

Investment Property Forum forecasts for another 12.3 percent drop in bricks and mortar values by end-2010 have driven many risk-averse institutions further away from property. Luring them back will be no small feat.

"It is certainly a question of how much appetite is left," said a senior European equities manager, who asked not to be named.

"We are fatigued, holding as we do to the three (blue chips) that have raised so far. The market expects to hear from Liberty, Brixton and Segro, but they will struggle to find underwriting among the banks," the manager said, adding that Liberty had the stronger pulling power of the trio.

The post-rights issue performance of small business landlord Workspace adds to the worry. Its shares are trading at its 10 pence offer price less than a month after its 90 million pounds rights issue, after a 78 percent tumble this year.

SHORT-TERM SOLUTION

Even if stalwart investors take up their rights, some analysts claim the fundraising efforts merely suspend rather than stop the rot in Britain's tortured listed property market.

Rights issue proceeds may relieve short-term debt problems but they are no remedy for the potent combination of plunging real estate values and barren credit markets, which remain beyond a property company's control.

"There does appear to be capital out there, but two of the key things blocking the movement of that money are the continued lack of debt and unusually brittle sentiment," Phil Clark, joint head of property at Aegon Asset Management, told Reuters.

"UK real estate is certainly looking cheap on a relative basis to historic prices but investors remain concerned as to whether capital value falls will bottom out at around 50 percent peak to trough or slide a little further. They are still trying to judge possible outcomes of many great unknowns," he said.

If investors are unwilling to bail out cash-poor real estate companies, they may be forced to sell more assets at fire sale prices to raise the funds needed or consider debt-for-equity swaps like house builder Crest Nicholson, Nomura's Prew said.

But a fresh wave of asset discounting — on top of the 40 percent falls already seen — could extend peak-to-trough assumptions on the drop in UK real estate prices from around 50 percent to as much as 70 percent.

"The Investment Property Databank (IPD) index will never have been so closely watched as it will be for the February data when we'll see if the real estate market crash deepens or shows signs of slowing," Prew said.

"However, most REIT portfolios are underperforming IPD and futures are predicting another circa 30 percent fall in values. In that case some REITs could risk re-entering their 'covenant danger zone' as early as the summer," he said.

ANALYSIS

SPAIN BANKS TAKE PROPERTY RISK TO AVOID BAD LOANS

By Andres Gonzalez and Judy MacInnes

MADRID, FEB 17 (REUTERS)

Spanish banks are returning to property ownership to avoid loading more bad loans on to their balance sheets but the strategy is risky and unlikely to be as profitable as their real estate buying spree 15 years ago.

Spain's eight biggest banks last year formed or resurrected property wings that have bought up 7.8 billion euros (\$9.9 billion) worth of property from struggling home-owners and developers.

"The banks are taking on a huge number of assets and they are now having to strengthen their real estate units to manage this avalanche," said Fortis analyst Emilio Rotondo.

The main threat to Spanish banks has come not from the toxic U.S. mortgage debt that has poisoned U.S. and British institutions, but a rapidly deepening recession propelling their bad loan rate to an expected 7 percent this year and 9 percent in 2010 from 2.8 percent last October, according to the Bank of Spain.

Mindful of the need to keep bad loans to a minimum, bankers are doing everything to stop another major developer filing for administration as Spain's biggest house builder Martinsa Fadesa did last summer.

Not only will creditors likely take years to recover debts from Martinsa but the default also ramped up non-performing loan (NPL) rates as they provisioned 25 percent of the loan, or 250 million euros in the case of No.2 savings bank Caja Madrid.

"By buying real estate assets the banks stop loans becoming bad loans. In so doing, the client's debt with the bank is cancelled and they avoid not only increasing bad loans, but they also avoid having to make more provisions," said Nuria Alvarez, an analyst at Madrid brokerage Rentia 4.

The tactic is not new.

Banks owned large chunks of the industry after the 1993-95 recession before making up to seven times their original investment by selling them on in the 1997-2007 property bubble says Robert Tornabell, banking professor and former Dean of Barcelona's ESADE business school.

DELAYING LOSSES

However analysts say that the banks' haste to buy property, rather than allow failing businesses to go bust, artificially lowers NPLs and only delays future loan losses that will hit sooner or later as the market takes years to revive.

Standard & Poors has said it expects house prices to fall 30 percent from peak to trough and may not hit bottom until 2010. In contrast to the last downturn, the stock of unsold new homes could touch a daunting 1.5 million by year's end, surveyors Tinsa estimate — equivalent to over three years of peak demand.

"I'm sure that if asset values were 10 percent below their book value banks would be more than happy to sell them tomorrow. The problem is that you can't get rid of them, so they will have to keep them and take the pain little by little," said Antonio Ramirez, a London based analyst at Keefe Bruyette & Wood.

A key issue is therefore the extent to which banks have enough financial leeway to tuck assets away until the market returns.

Ramirez said Bankinter was best placed to ride out the storm thanks to its strong asset quality and BBVA was in a good relative position thanks to its cautious approach. However Banco Popular has seen a much faster deterioration in its NPL ratio which would fast eat into generic provisions.

But while the double digit profit growth seen at Spanish banks over recent years is likely to be sharply eroded by increased provisioning needs in 2009 and 2010, the main banks' capital base is solid and government intervention on the scale seen in other European countries is ruled out.

MAKING THE BEST OF IT

Bank balance sheets for last year show Spain's major players are already making provisions for the falling value of property assets, some of them up to 10 percent of book value.

Santander bought 2.6 billion euros of property last year at 10 percent under the market rate, it said, adding that had it not swapped that debt for property, loans on 13 percent of those assets would have defaulted.

In order to clear some of these assets, Spain's biggest bank has already offered employees homes at discounts of up to 45 percent.

"Santander has been much more active than BBVA in buying properties," said KBW's Ramirez. "We have a question mark over the future value of its much bigger real estate portfolio."

One senior banker who asked not to be named said investments in bricks and mortar still retained some safe-haven status at a time when volatile markets were wiping out other asset classes.

And Fox Pitt Kelton analyst Jagoba Garcia said that by buying before a company files creditor protection, banks get to pick prime assets rather than scraps.

"You are in a better position than when you have to divide up any spoils with other creditors," he said.

Keen to strengthen banks, the Spanish government has tabled legislation, firstly to give banks greater guarantees when borrowers go into administration and secondly to introduce real estate investment trusts (REITs) into the financial system.

Although property companies have branded the bill bringing REITs to Spain as unwieldy, analysts say that for banks REITs — traded companies pooling property assets — offered an important vehicle to offload billions of the assets that are likely to continue mounting for some time to come.

ANALYSIS

GERMAN HOMES AS GOOD AS GOLD

By Peter Starck

FRANKFURT, FEB 16 (REUTERS)

German residential property is joining gold as a safe haven for investors disillusioned with equities and afraid other assets will be eaten away as measures to combat the financial crisis prompt a spike in inflation.

"Residential property is boring. There is no 'sexy story'. But today, boring is beautiful. Today, capital preservation is more important than high returns," said Udo Scheffel, Chief Executive of German residential property company GBW.

The German cities of Munich and Hamburg were the top two investment locations in Europe for 2009 in accountancy firm PricewaterhouseCoopers' latest annual survey of real estate executives and fund managers, and four German cities were in Europe's top 10.

In both Munich and Hamburg, residential was the most popular category, PwC said.

"Germany is the best port in a storm right now," said one survey respondent.

"Residential will become more popular as it retains its value," said another.

Some economists say the huge monetary and fiscal measures deployed by governments and central banks worldwide to boost growth and lending could lead to significant inflation down the road, which would benefit real estate prices.

In such a scenario even triple-A-rated government bonds, usually a safe haven for investors, stand to lose in value.

Inflation could turn into an "enormous problem" leading to "massive risks" for investors on a two to five-year horizon, Credit Suisse Global Investment Strategist Stefan Keitel told a recent mutual funds conference in Germany.

"The safe haven will turn into a battlefield," he said.

CASH FLOW

Such fears have prompted many risk averse investors to bet on gold, the price of which has risen over 25 percent in the past three months.

With diversification the golden rule of asset allocation, investors are looking elsewhere, too.

One of those drawn to German homes is Peter Brock, managing director of Grainger Deutschland GmbH, the German arm of Grainger, Britain's largest residential property landlord.

"German residential is going to become increasingly attractive for institutional investors seeking long-term, low-risk cash flows," he said.

"We still see a market that is extremely stable and a market that has certainly proved its investment worth, especially when you look at the comparative price falls in the UK," said Brock, whose company entered Germany in 2006 and now owns or has majority interests in around 7,300 German housing units, with a market value of around 530 million euros (\$676 million).

Adjusted for inflation, German house prices fell less than 1 percent in the year to end-September, compared with a fall of more than 14 percent in Britain, according to data compiled by property consultancy Bulweingesa.

Residential real estate proved more stable and less risky during a turbulent 2008 than offices, retail space, hotels or warehouses, measured by property consultants KingSturge's German market sentiment index published in January.

"Residential will become more attractive for investment because low new housing construction volumes mean rents will grow and small valuation fluctuations guarantee stable returns," said Sascha Hettrich, partner at KingSturge in Germany.

BACK TO BASICS

"British and U.S. funds are back again, having forgotten all about us for the past 18 months," said Johann Kowar, Chief Executive of Austria-based residential property company Conwert, which is also active in Germany.

"It's back to basics, away from exotic products such as collateralised debt obligations or the securitisation of soccer players' future transfer fees," he said.

"Stock market investors have a bloody nose. Those who are holding bonds are worried whether they will have lost capital a year from now. That uncertainty heightens the motivation to go into tangible assets such as residential property," Kowar added.

This year AXA Investment Managers, part of French insurer AXA, launched a new German residential property fund, AXA Immoresidential and is aiming for an annual return of at least 5 percent.

"Institutional investor interest in residential property has increased noticeably," said AXA fund manager Ulf-Harald Koepke.

ANALYSIS

GLOBAL PROPERTY FEELS PAIN OF GERMAN FUND FREEZE

By Daryl Loo and Peter Starck

LONDON/FRANKFURT, FEB 5 (REUTERS)

Europe's commercial property markets could slump for longer and more deeply than feared as Germany's biggest open-ended real estate funds exit the market, forced out by a lingering cash crisis.

"The worst is yet to come," said Bjoern Drescher, head of consultancy Drescher & Cie, in Frankfurt.

"There's too much uncertainty in the financial markets... nobody is in any hurry to invest in open-ended property funds right now."

Open-ended funds, at least in theory, allow investors to inject or redeem their money on a daily basis.

Germany's property funds, with over 80 billion euros in assets, spent massively in recent years to snap up prime buildings from the pricey West End of London to Tokyo's glitzy Shinjuku district.

But some of these former white knights are now exiting the market and fighting their own fire as panicked German investors, in a flight to withdraw cash, are forcing the funds to freeze redemptions and sell assets since October.

"There is a real vacuum right now, especially for larger lot sizes up to 100 million pounds (\$143 million) which only the German open-ended funds could afford to buy," said Chris Gore, a partner at UK property broker King Sturge.

The market's downturn, sparked by a credit crisis, has already dragged U.S. commercial property values down 15 percent last year, while values in the UK fell 27 percent.

Although some analysts are predicting a bottom in 2009, property players said investment enquiries from German funds have fallen by over 50 percent, and that spells more trouble for sellers hawking higher-grade assets.

Late last month, open-ended funds including those managed by KanAM, SEB, Prudential Financial Inc. unit TMW Pramerica, and AXA Investment Managers Deutschland extended closures by up to nine months.

"Before the lockdown, German funds had been spending selectively in Europe. Equity-rich, they had the field almost to themselves, especially for the big-ticket core assets they prefer," PricewaterhouseCoopers said in a report.

"With their war chests impoverished, open-ended funds are treading water," PWC said.

WORSE TO COME

Data from mutual funds association BVI show that German property funds raised a record 6.7 billion euros (\$8.9 billion) of purchasing power in 2007, but this reversed to a net outflow of 234 million euros in the first 11 months of 2008.

According to Property Data, German funds were the second-largest foreign investors in UK commercial real estate last year after oil-rich buyers from the Middle East, spending nearly 1.9 billion pounds, or 8 percent of total deals done.

Although to a lesser extent than in Europe, some German open-ended funds are also heavily invested in Asia, analysts said, where the most successful now have up to 30 percent of their assets in countries such as Japan and South Korea.

"Many of the (German open-ended property) funds are having problems with the properties they bought at the peak of the cycle. They are in for valuation downgrades," said Eckhard Sauren, head of German fund-of-funds company Sauren.

Some of these funds could now be forced to sell off their own portfolio and axe planned acquisitions, as they seek to raise cash to pay off investors.

German funds have already scrapped plans to buy a pair of up-market City of London office buildings priced at over 150 million pounds each — 88 Wood Street, designed by London's Millennium Dome architect Richard Rogers, and UBS-owned Milton Gate, King Sturge's Gore said.

"Forced sales are the key indicator of re-pricing and Germany appears to be next in line after the UK to produce a string of cash-strapped fund sponsors bringing assets to market," said property brokers Jones Lang LaSalle.

But some daring German funds continue to see the current property market downturn as an opportunity to pick up bargains, and welcomed the reduced competition.

DekaBank, Germany's largest manager of property funds, told Reuters last week that it expects to invest about 1.7 billion euros in 2009 through its real estate funds.

German property fund firm DEGI, part of Aberdeen Asset Management with 6.4 billion euros in assets under management, is also eyeing the market, noting that "rapid upward price corrections cannot be ruled out".

"Opportunities should be identified and acted upon already today, to avoid the risk of missed chances," said Thomas Beyerle, DEGI's head of research.

INTERVIEW

PRIVATE EQUITY FUNDS RAMP UP PROPERTY LENDING IN 09

By Sinead Cruise

LONDON, FEB 6 (REUTERS)

Debt funds set up by real estate private equity players could capture as much as a fifth of the global property lending market in 2009 as banks recoil further from the credit-starved sector, Swisslake Capital AG's CEO said.

Chief Executive Bernhard Koehler told Reuters many private equity funds originally set up to snare distressed bricks and mortar were now lining up to fill a vacuum left by banks smothered by losses from mortgage-related assets.

"There's a big need for these funds, even if they can't solve all the problems," Koehler said.

"The majority of fund managers are skilled in identifying opportunities in any market, and they see good returns can be achieved by taking on the role of a bank," he said.

In research exclusively obtained by Reuters, Swisslake — one of Europe's biggest real estate private equity investment advisors — said debt funds managed by private equity players grabbed a 12.6 percent foothold in the world's real estate lending market in 2008.

Koehler estimated this market share could grow to 20 percent this year, as a wave of fresh financing requirements threatened to overwhelm the world's barren credit markets.

"Our calculations show around 85 billion pounds (of UK real estate debt) will need to be refinanced before 2012... and that's just the UK," said Koehler.

"That's an enormous challenge for the whole industry. And there are very few banks willing to satisfy this," he said.

According to Swisslake, a total 43 debt funds comprising more than 57 billion euros of seed capital were launched by real estate private equity specialists in 2008, almost double the number of launches seen in 2007.

These funds provide all types of debt, ranging from conventional mortgages to mezzanine finance. In some cases, where owners fail to refinance, debt funds can also profit by taking possession of the underlying asset and restructuring it.

Koehler said he expected the number of 2009 debt fund launches to eclipse the 2008 tally as the potential to make double-digit percentage returns tempts more cash-rich fund managers to act.

"From our point of view, debt funds can be great income-producing investments. With cash-on-cash yields of between 7 and 8 percent and average target IRRs of around 15-16 percent on a net basis, these are quite attractive numbers," he said.

Real estate specialists are not the only private equity players to spot potential to make handsome returns from stricken credit markets.

At the SuperReturn private equity industry conference on Tuesday, Leo Black, the founder of Apollo Management LP, told delegates he expected to strike more debt investments than classic buyout deals over the next two years.

In the past, real estate debt funds were mainly focused on plugging demand for finance in the United States, with very few vehicles launched in 2006 and 2007 targeting European or Asian markets, Swisslake's research showed.

But last year, Swisslake identified a remarkable move towards these more neglected markets, and Koehler said this trend was set to continue in 2009.

"We could see double the number of new launches in Europe, but it is hard to predict because there is demand for debt everywhere," he said.

EMERGING EUROPE ANALYSIS

INFRASTRUCTURE LEFT TO ROT MAY CRIPPLE RUSSIA

By Simon Shuster

MOSCOW, FEB 20 (REUTERS)

The global downturn is forcing Russia to shelve indefinitely the long-delayed renewal of its infrastructure, leaving it at risk of a new era of stagnation that could last well beyond the present financial crisis.

In spheres such as transport and housing, infrastructure inherited from the Soviet Union is already breaking down. Analysts have warned for years that the life-span of most roads, bridges and other basics is running out.

The Kremlin has seen this coming. Last year, Prime Minister Vladimir Putin laid out an ambitious plan to spend \$1 trillion on infrastructure over the next 10 years. But that was when Russia's oil was expensive and western loans were cheap.

"Now there is nothing left for infrastructure," said Igor Gorchakov, an industry analyst at law firm Baker & McKenzie. "The sector has ceased to be a priority."

Analysts and investors warn that the consequences of such a policy will be dire. It will sap 6 percent in GDP growth every year until the infrastructure work is done, Gorkachov said, and that could leave Russia treading water when global growth eventually starts to recover.

BRAKE ON ECONOMY

For the Russian public, poor infrastructure is a daily problem. They feel it in the perpetual traffic jams, the weeks without hot water every summer, and the bumpy landings in many regional airports, where about half of the runways are unpaved.

The same holds true for Russia's oil fields, power grids, ports and other nuts and bolts of the economy. It explains at least some of the deadly gas explosions and mine accidents that have plagued Russia in recent years.

"Infrastructure has become one of the main brakes on the growth of the economy," Yury Molchanov, deputy governor of Russia's second largest city of St. Petersburg, told a recent business conference.

"Even when the budget situation was fine, there was not enough money to go around because the need for investment was virtually limitless," he said.

The budget situation is no longer fine. It is set for a deficit of 8 percent this year, while gross domestic product is due to shrink by 2.2 percent, according to state forecasts.

SPENDING SLASHED

Faced with this contraction, and the 70 percent fall in the price of Russia's main export — oil — the government is currently working on a major federal budget revision and infrastructure has been outlined as the main area for cuts.

"Russia has enough resources only to support its banking system and the social sphere," an official in Putin's government said on condition of anonymity.

The state's Investment Fund, a coffer of oil windfalls meant mainly for regional infrastructure, was cut in half to 64 billion roubles (\$1.76 billion) last month.

Even development spending for the 2014 Winter Olympics in Sochi, a project seen as sacred a year ago, will be cut 15 percent, Deputy Prime Minister Dmitry Kozak said on Tuesday.

By contrast, the United States and some European nations are funnelling more money into infrastructure in an attempt to create jobs and support sectors such as construction, metals, cement and engineering.

CRISIS IN FOCUS

The regional head of Volvo Trucks, which services clients in all of these industries, said investors are counting on infrastructure spending above all.

"For the efficiency of the economy, that is the single most important factor: continued focus and even accelerated focus on infrastructure," said Lars Corneliusson, managing director of Volvo's division in Russia.

But gradually, the state has turned its focus to anti-crisis measures, such as supporting the value of the rouble with some \$200 billion of federal reserves in the past three months.

Private capital, which was initially to account for up to 60 percent of infrastructure investments in Russia, has meanwhile pulled out of all but a few public-private partnerships.

So the 6 percent infrastructure drag on GDP growth is likely to last longer than the global downturn. Depending on when the state can start spending and guarantee profits for private investors and banks, estimates range from 5 to 25 years.

"It can go on as long as they can stomach the economic costs of it," said Paul Roger of Renaissance Capital.

Gorchakov put it more bluntly. "Planes will start falling a bit later," he said. "But the hot water pipes will start bursting sooner. Just think about it — most of these things have not been fixed since Soviet days."

INTERVIEW

GREEK VOVOS SURE MALL PROJECT WILL GO AHEAD

By George Hatzidakis

ATHENS, JAN 30 (REUTERS)

Greece's largest real estate developer Babis Vovos (BVIC) is confident a court injunction that stopped work on its biggest project will be lifted, helping efforts to buck a construction downturn, its CEO said.

Greece's building sector has hit a slump as the global credit squeeze begins to hit home. BVIC is banking on a shopping mall, set to cost the company 250 million euros, in Athens's underdeveloped Votanikos suburb to help it counter the trend.

But construction was halted last month after a temporary court injunction, resulting in a sharp stock price drop. Vovos has appealed the decision, ahead of a final supreme court ruling scheduled for March 6.

"We strongly believe that the court will lift the injunction, and have had indications to this effect. We have a very strong case," BVIC chief executive Aris Vovos told Reuters. "We also expect a favourable ruling in the final court case."

BVIC expects about 35 million euros annually in rental income from the project, just 3 kilometres from the city centre. The

development was originally planned to reach completion by the end of the year, with its market value projected at about 600 million euros.

But a challenge to the development, brought about by a group of 130 residents on environmental grounds resulted in the injunction which now threatens to delay completion and postpone a significant cash injection for the company.

SHARES HURT

Vovos shares trade about 3 times estimated 2008 earnings, compared with an average 7.7 multiple for its European peers, according to Reuters data. The discount is mainly due to concerns over Votanikos, analysts say.

BVIC shares have lost about two-thirds since early December, with current Net Asset Value (NAV) at about 20 euros. Votanikos is seen adding about 6-8 euros to NAV by completion, Vovos says.

Construction, a key driver of Greece's economy, fell 16 percent in the 10 months to October 2008 and analysts say these kinds of developments are key to keeping the sector afloat.

Greece's largest re-development project since World War II also foresees construction of a 42,000-seat stadium for Panathinaikos soccer club, 70,000 square meters of gross lettable area and over 30 acres of green space.

The project will provide about 2,000 permanent jobs in what has traditionally been amongst the city's poorest districts.

"We just want to ensure minimal time delays," Vovos said.

Still, despite the delay, BVIC is moving ahead with other projects that will continue to provide an inflow of cash, tapping continued demand for business space.

"We have other investments in the pipeline and have had interest for other projects that are close to being finalised," Vovos said. "Already there is interest for two 15,000 and 30,000 square meter office projects."

BVIC is also set to complete a tourism project on the island of Poros, where interest has been expressed by a Russian fund.

INTERVIEW

TURKEY PROPERTY SECTOR SEEN FLAT IN 2009

By Ercan Ersoy and Paul de Bendern

ISTANBUL, JAN 23 (REUTERS)

Kiler Holding, which is building one of Europe's tallest residential skyscrapers, said it expects Turkish real estate development to post zero growth in 2009 but to bounce back to 8 to 10 percent growth in 2010.

Several Turkish property companies have cancelled or put on hold multi-million dollar projects after years of stellar growth as credit dries up and demand for residential, office and retail space shrinks due to a swift economic downturn.

"The real estate market will recover at the end of 2009. From 2010 we will return to growth levels of a few years ago," Kiler Holding Chairman Nahit Kiler told Reuters on Friday, on the roof of the aforementioned 66-floor Sapphire building scheduled for completion at the end of the year.

Kiler said the Turkish luxury residential market remained healthy despite the rapid slowdown in the Turkish economy, which ratings agency Moody's expects to contract 0.8 percent in 2009.

"A certain group of Turks with high incomes are not affected by the crisis and that's our target for such a property," he said.

Kiler said he had sold 40 percent of the 174 flats in the Sapphire building and expected to sell all of them by the first quarter of 2010. The development boasts of private gardens, a golf course, a sports complex and a shopping mall.

The \$200 million skyscraper was financed by Kiler Holding and from flat sales.

He acknowledged the difficulty the property sector was facing, but said Kiler Holding would continue investing in real estate, including a \$140 million spa hotel project.

RETAIL

Kiler Holding also owns one of Turkey's fastest growing supermarket chains, Kiler, and has recently entered the electricity grid sector.

He said Kiler Holding sales were around 1.3 billion lira (\$780 million) in 2008, with 800 million lira to 850 million lira from supermarkets. No comparative details were given.

"Our goal this year is to grow at least 15 percent in retail, increasing the number of stores to 200 from 170," said Kiler, who started his company as a modest grocery chain.

Rival budget supermarket chain BIM said this week it planned to open 350 new stores this year, as cash-strapped consumers turn to discount grocery stores. It has 2,300 stores.

Kiler Holding's investments in 2008 were worth nearly \$500 million.

**MIDDLE EAST
ANALYSIS**

DUBAI PROPERTY BUST CASTS SPOTLIGHT ON SAUDI ARABIA

By Sinead Cruise and Daryl Loo

LONDON, DEC 4 (REUTERS)

Robust economic growth prospects and escalating real estate demand have put Saudi Arabia in pole position to replace overbuilt Dubai as the Gulf's new magnet for international property investors.

Saudi Arabia's alluring property market remains largely closed to direct foreign investment but that hasn't stopped non-Saudi companies from planning investments amid rumours the Kingdom could loosen restrictions on firms who could help relieve its national housing shortage.

"We see that there will be a movement away from Dubai now... and the market that fascinates us more than any is the Saudi market," Andrew White, head of Middle East operations at UK-based investor Kenmore Property Group told Reuters.

Kenmore is one of just a handful of British real estate companies to extend its investment footprint to the Middle East after launching operations in Dubai in 2006.

Using Dubai as a base, White says the firm has aspirations to invest widely across the Gulf and the overdue Dubai slowdown could open investors' eyes to colossal opportunities in nearby Gulf territories.

"The drivers of the market in Saudi... are very different to those in Dubai. They have a huge young population who require housing, shops and offices. That demand has really not caught the attention of the international investor yet," White said.

While growth in Dubai's economy relies on a nascent financial services sector and a burgeoning expat workforce, Saudi Arabia's vast oil reserves have provided more than enough ballast to its economy in global credit market turmoil.

DUBAI LAGS

Data from the World Bank showed Saudi gross domestic product (GDP) reached \$382 billion in 2007, nearly three times the 2007 GDP of United Arab Emirates.

In contrast, house prices in Dubai are likely to fall almost 28 percent from this year's peak, according to a Reuters survey published Thursday.

While fluctuating oil prices are expected to compress economic growth in 2009, experts at global property broker Jones Lang LaSalle said demand for residential and commercial property would continue to outstrip supply next year.

"We believe the opportunity for our business in the Kingdom of Saudi Arabia (KSA) is vast," said John Harris, head of KSA operations for Jones Lang LaSalle, who last week confirmed plans to open offices in Riyadh and Jeddah.

"The Kingdom is the world's fastest growing large country with a current population in excess of 25 million people," Harris said. "In addition, almost 50 percent of the total population is below 20 years old and the country is also one of the world's fastest urbanizing countries," he said.

As a result, Saudi Arabia is suffering a massive national housing shortage running at around half a million homes and this demand is expected to double by 2012 as new mortgage reforms make it easier for people to buy homes, JLL said.

Apartment prices in Riyadh have surged 16 percent per annum between 2003 and 2007 but are still among the lowest in the Gulf region. According to JLL, apartments in Riyadh are currently priced at \$943 per square metre on average — around one-fifth of Dubai prices and less than one-sixth of prices in Abu Dhabi.

Benoit Bellerose, chief financial officer of developer Dar Al Arkan, Saudi Arabia's largest real estate firm by market value, has encouraged more international developers to expand into the Kingdom to help relieve the supply shortage.

"Prices are going up, and the only reason is because of the shortage and nothing to do with speculation," said Bellerose.

"We hope that other developers will come, because it is not healthy for the country to have such a shortage of homes," he told reporters on the sidelines of a conference held in London.

While unable to accumulate Saudi bricks and mortar assets, foreign investors keen to gain a foothold in the market before the expected boom have been allowed to buy shares in Saudi firms through swap arrangements with local brokers since August.

The rules have so far helped Saudi Arabia avoid a Dubai-style market bubble fuelled by foreign speculators but they have slowed supply of commercial and residential property in the Kingdom. Bellerose feels these restrictions could be further relaxed in the future.

"It is a long-term process... Going to the swap mechanism is a good start. They want to monitor it and make sure it is working well before it becomes a free market. There is no doubt that in the long run, that is where they want to be."

DUBAI PROPERTY MAY GET MORE STATE AID-GOVT SOURCE

By John Irish

DUBAI, FEB 16 (REUTERS)

Dubai-based real estate and construction companies could get more help from the state, a member of a Dubai committee formed to tackle the fallout of the global financial crisis said on Monday.

"Everyone is facing challenging times," Omar bin Sulaiman, who is also deputy chairman of the United Arab Emirates Central Bank, told Reuters on the sidelines of a legal conference.

"You have already seen some help and I am sure you will see some more," he said, when asked if there was any consideration being given to offering financial support for Dubai's real estate sector.

Bin Sulaiman, governor of the Dubai International Financial Centre Authority, declined to be more specific.

Dubai's real estate sector is facing a sharp price correction and hundreds of billions of dollars of construction projects have been cancelled in the United Arab Emirates as a result of the economic slowdown.

The UAE finance ministry and central bank have together launched 120 billion dirhams (\$32.67 billion) of funding facilities to help banks cope with the crisis.

The government, meanwhile, is looking at ways to help troubled Dubai mortgage financiers Amlak Finance and Tamweel, including a possible merger.

But concerns are mounting about whether Dubai will be able to refinance debts it accumulated to finance expansion projects during a six-year economic boom spurred by high oil prices.

Abu Dhabi's move this month to inject 16 billion dirhams into five of its banks has also raised questions about whether Dubai could take similar steps to help its banks face growing loan defaults and investment writedowns.

MEETING DEBT OBLIGATIONS

The cost of insuring Dubai's debt with credit default swaps (CDS) has gotten more expensive in past months as investors worry the emirate could default on its debts.

On Monday, five-year CDS for Dubai held just below 1,000, around levels for insuring the sovereign debt of Iceland, where major banks and the currency collapsed under the weight of billions of dollars of debt.

Bin Sulaiman said Dubai had managed to meet its debt obligations in the past. "Of course, of course," he said, when asked if Dubai would be able to pay back its debts.

Dubai's mostly government-linked issuers will have to refinance about \$15 billion in 2009, compared with \$5 billion in the rest of the UAE and \$15-20 billion in the rest of the Gulf, Moody's Investors Service said last week.

The UAE government said on Sunday it was planning a federal law to regulate and manage the Gulf state's debt.

Dubai companies have been restructuring their businesses, consolidating operations and announcing thousands of job cuts to help them contend with an economic slowdown. Standard Chartered expects the UAE economy to contract up to 1.5 percent in the first half of the year before returning to growth.

Bin Sulaiman said there were "no job cuts planned" for the DIFC, a hub for financial companies. He added that it was not the right time for the DIFC to sell any of its foreign assets. DIFC Investments owns a stake in Deutsche Bank.

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