

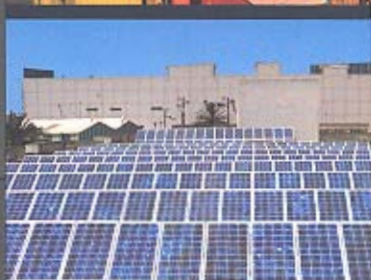
THE REPORT

Morocco 2009

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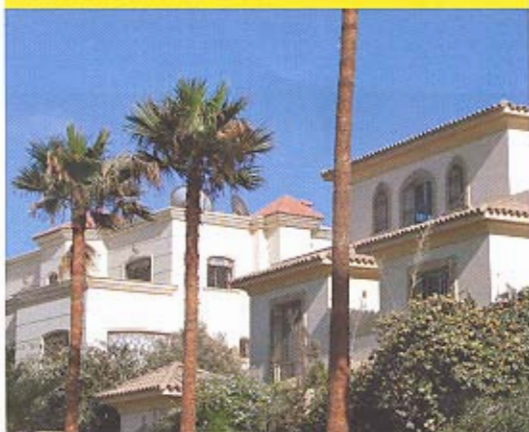
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About 95% of buyers are Moroccan, many of whom live abroad

Moving on

Price competition after a correction in the market

Despite remaining relatively insulated from the global financial downturn, 2008 was a turbulent year for the Moroccan real estate market. According to Mohammed Iqbal El Kettani, the executive director of the National Federation of Real Estate Promoters (Fédération Nationale des Promoteurs Immobiliers), about 95% of real estate buyers are local and most projects are developed by local firms and financed by Moroccan banks. After several years of rapid growth and rising real estate prices, the bubble burst in 2008. This resulted in falling demand in the luxury housing market and a decrease in foreign demand overall, which was only exacerbated by the global economic slowdown and the downturn in international real estate markets.

DEMAND AND SUPPLY: Speculation in the luxury and second-home market beginning in 2003 drove prices up, creating a large gap between book values and real values by 2008. A focus on luxury housing meant that developers neglected the low- and middle-income segments, which led to an imbalance in the market. This problem was worse in some areas, especially Marrakech and Tangier, and there was a 10-15% price correction in the luxury real estate market in 2008. According to Karim Tazi, the deputy general director of Lazrak Immobilier, a local property consultancy, the average property price in Marrakech had fallen from Dh25,000 (€2250) per sq metre before the downturn to Dh18,000 (€1620) per sq metre as of early 2009. Youssef Benmansour, the capital markets manager at CB Richard Ellis Morocco, a real estate consulting firm, told OBG, "International demand is very low right now and sales prices for second residences are falling." However, he added that sales prices for primary residences and urban real estate are stable.

Demand continues to be strong in Casablanca and Rabat, where there are housing shortages, especially for social housing and medium-income properties. The total housing deficit in Morocco is estimated at 610,000 units, with 123,000 new homes built yearly in urban areas. El Kettani told OBG that there was a slight decrease

in demand for medium-income units at the end of 2008, as the international economic downturn had made potential buyers nervous enough to wait to buy properties. The global economic crisis also affected Moroccans living and working abroad, who have traditionally been big buyers of property. "With the economy so poor, they may hold off buying or even sell," said Ismail Azennar, the business development manager at Europtima, a real estate management and consultancy firm. Although foreign demand is certainly down, which affects the luxury and second-home markets, most players remain optimistic about local demand. "Moroccan developers have modified their prices to meet local demand," said Tazi. "Moroccans have money and they want to buy, as we have seen from projects in Casablanca and Rabat, which sold quickly. However, the product must accurately reflect the price," he added. There is also potential for growth in new markets, such as Oujda, Al Hoceima and Nador.

LUXURY: A surge in the luxury market in 2006-07, especially in Marrakech and Tangier, was driven in part by foreign demand for second residences. However, the global downturn has led to a decrease in demand, and many luxury projects are behind projected sales. "There are unsold properties in tourist-oriented cites like Marrakech and Tangier, which has led to price decreases," said El Kettani. Benmansour estimated that many developers of secondary housing with projects with even already pre-sold units are today seeking equity and debt financing in tourist cities to complete their projects. Others have lost financing and have been forced to halt their projects. "The luxury market in Morocco was hit by the crisis with decreasing demand from foreign investors who don't have as much liquidity and from Moroccan investors who are more cautious in their investments," said Yves Delmar, the CEO of Emaar Morocco. Some luxury real estate is still selling, however. Al Maaden, a luxury development in Marrakech, for example, has already sold 100 riads and 45 villas. Prestigia, Addoha's new luxury real estate line, has begun to sell

A surge in the luxury market in 2006-07 was driven in part by foreign demand. A focus on luxury housing has meant that the low- and middle-income housing segments have not received much attention, creating an opportunity for investment.



There is potential for growth in the middle-income housing segment

The government is working to reduce the housing shortage to 27% by 2012. Social housing units accounted for 129,000 out of a total of 300,000 units built in 2008.

units in its Marrakech Golf City. According to Kenza Sefrioui, the administrator of Addoha Group, 60% of apartments that were put on the market sold in three months or less, while all units for sale in the company's Bouskoura resort sold in just two days.

MIDDLE-INCOME HOUSING: The housing shortage in many cities resulted in part from a lack of housing products geared toward middle-class customers. Middle-income Moroccans, finding few options in their price range, resorted to buying housing aimed at lower-income groups, which drove up prices in this segment. A poll published by La Vie éco in July 2008 found that 84% of professionals reported difficulty in finding a house that met their needs. Apartment prices in expensive parts of Casablanca, such as Racine, Boulevard d'Anfa and Californie, range from about Dh8000 (€720) to Dh22,000 (€1980) per sq metre. Tazi sees potential for growth in middle-class housing. "This demographic is becoming more interested in living outside the cities in planned developments," he said.

SOCIAL HOUSING AND BANK LENDING: The social housing segment of the real estate market continues to be active, as the government works to reduce the housing shortage to 27% by 2012. Social housing units – 100-sq-metre units that are usually listed at a price of Dh200,000 (€18,000) – accounted for 129,000 out of a total of 300,000 units constructed in 2008. Moroccans are also getting more help in purchasing social housing units. In February 2009 the government signed a law to inject more money into the Damane Assakane (housing guarantee) programme, primarily through Fonds de Garantie en Faveur de Populations à Revenus Irréguliers et Modestes (FOGARIM) and Fonds de Garantie des Prêts Destinés au Logement au Profit du Personnel des Secteurs Public et Privé et aux Personnes Exerçant pour leur Propre Compte (FOGALOGÉ) loans. Under the FOGARIM programme, people with low incomes or irregular incomes are eligible for housing loans for properties up to Dh200,000 (€18,000). The loan covers 70% of the price of the home. As of March 2009, 47,473 household had benefitted from FOGARIM loans, totalling Dh6.9bn (€621m). FOGALOGÉ loans cover 50% of the price of homes up to Dh800,000 (€72,000) for individuals making up to Dh120,000 (€10,800) per year, or Dh180,000 (€16,200) for couples. Banks have also begun to develop FOGALOGÉ products. Attijariwafa Bank recently began offering its Miftah Assaad (key of happiness) housing loans to target the middle classes, for example. This fixed-rate mortgage covers up to Dh800,000 (€72,000) of the purchase price or construction price of a home. Additionally, the Groupement Professionnel des Banques du Maroc recently announced that it would support the financing of real estate projects, including social housing. It also confirmed support for small developers, allowing them to strengthen their position in the market and participate in bigger projects, such as new cities.

Social housing projects represent the latest step in the government's plan to provide homes for more of Morocco's low-income families. The Cities Without Slums (Villes Sans Bidonvilles, VSB) programme aims

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to move 289,000 households from shantytowns into permanent residences. The rate of makeshift housing demolition has sped up considerably in recent years, from 5000 improvised residences demolished in 2004 to 50,000 demolished in 2008. As of 2008, 64 new cities containing a total of 268,000 homes had been planned. Some 21 cities and towns were declared VSB projects, bringing the total number to 30.

TOURISM/RETIREMENT COMMUNITIES: As part of Morocco's Vision 2010 plan, the country hopes to welcome 10m tourists by 2010. Plan Azur, a major component of Vision 2010, includes building six seaside tourist resorts – Plage Blanche in Guelmim, Taghazout in Agadir, Mogador in Essaouira, Mazagan in El Jadida, Lixus in Larache and Mediterranean Saïdia, near Oujda. However, several of the resorts are facing difficulties and delays, including Taghazout, which saw contracts with two major developers cancelled. The state has acknowledged these hurdles and has pushed back the deadline for completion of the resorts to 2016. It also revised the planned bed capacity downward from 85,000 beds to about 35,000 in total.

Saïdia, which will be Morocco's first major Mediterranean resort, was officially inaugurated by King Mohammed IV in June 2009, with the opening of two hotels with a total bed capacity of 2200. The resort includes a marina, a golf course, a shopping centre, and private villas and apartments. Saïdia will eventually have nine luxury hotels. The resort will be marketed in the Spanish, Italian and French markets. Though tourism is down and some tourist-oriented real estate projects are on hold, Tazi does not expect the economic crisis to have a major impact on real estate. "Tourism plans are long-term and the number of tourists will rebound," he said, "so major hotel projects will still go forward."

NEW CITIES: General Contractor Maroc (GCM) is currently selling 2700 homes in three different developments in the new city of Tamesna, all of which were built at a cost of Dh3bn (€270m). As of April 2009, almost 1700 homes had already been reserved. The Amal development comprises 1510 housing units on 10 ha, and will house former residents of slums. These units are being sold for Dh100,000 (€9000). GCM's second site, L'Oasis, is under construction and will contain 450 villas. Hiba, the largest project, will include 4760 apartments on 30 ha, at a total investment of Dh2bn (€180m). The first of five phases of construction is nearly complete. GCM has also built two schools in Tamesna and has plans to build a health centre and nursery school. "The way of life for the middle classes is changing, and there is now a desire for self-contained communities outside of the city," said Tazi.

OTHER MAJOR PROJECTS: ONAPAR, the real estate wing of the industrial conglomerate ONA, has several luxury projects in various stages of development. A golf course and villas in Amelkis, Marrakech, have been completed, and villa sales are under way. Amelkis covers 600 ha and will also include a five-star hotel. The project was a joint venture between ONAPAR and Emaar Morocco. Bahia Bay, another partnership between the two companies, is located in Bouznika, midway between

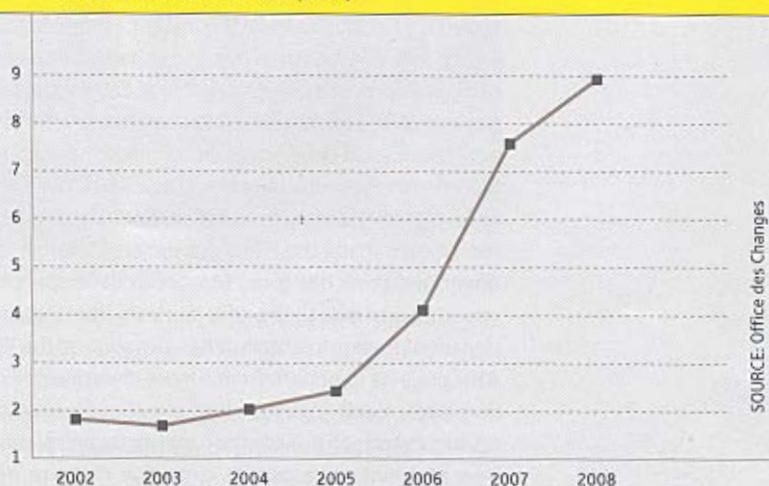
Rabat and Casablanca. The project is under construction and will include a golf course, hotels, a beach club and restaurants, in addition to 1500 villas and 4500 apartments on 530 ha. ONAPAR's newest project, Mehdiya City, is a large-scale residential development aimed at Moroccans. Situated on 602 ha between Rabat and Kenitra, the new city will be home to 40,000 people and will consist of a mix of housing types, including medium-income units that range in price from Dh300,000 (€27,000) to Dh800,000 (€72,000). The city will be convenient for those working in Rabat, as the national road passes by it, according to Khalil Kessar, the head of the development department at ONAPAR. The developer is currently working alone on the project but is willing to welcome investors.

OFFICE: Morocco currently suffers from a lack of high-quality office space. Many offices are converted residential buildings, and it can be difficult for companies to find proper office space. "There is growing demand, not only for more office space, but for better office space," said Tazi. Another challenge is the lack of professional facility management. Several of the ongoing high-end real estate projects include office buildings, including Anfaplace, Casa Marina and Morocco Mall, but these developments will not fill the need for affordable office space. Ocea, the second phase of the Emaar's Saphira project, will feature an office district at the southern entrance of Rabat.

OUTLOOK: After a real estate expansion and high levels of speculation, especially in tourist-oriented cities such as Marrakech and Tangier, a correction in the market brought prices down and made the country more price competitive. "The advantage of the crisis is that there are more human resources and construction materials available and at more competitive costs," said Delmar. For the short term, at least, the luxury and tourist real estate market will stay relatively stagnant as demand remains below supply. However, major tourist projects are moving forward. Demand for office space has the potential to grow further, especially with the upcoming openings of several high-end office facilities. For these segments to take off, however, the challenges of land registration must still be addressed.

Demand for high-end office space is expected to grow, as many major cities are facing a dearth of available space. Several ongoing projects include office buildings, but those will not be enough.

FDI in real estate, 2002-08 (Dh bn)



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