CB RICHARD ELLIS
MarketView
Morocco
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MarketView Morocco

"The real estate sector has undoubtedly undergone a crucial period of transition, characterised by new opportunities, bold decisions and hard work, all the while using creativity and perseverance in the search of the highest levels of professionalism in our industry. Those who are capable of accurately analysing the situation and adjusting their strategies accordingly will continue to strengthen their position in a region which is expected to sustain growth for many years to come.

CB Richard Ellis, with over two hundred years experience in key global markets, 5 years' presence in Morocco and the multidisciplinary expertise of its team, will continue to support developers, investors, and bankers alike, as well as other institutions dedicated to real estate in this market."

Karim Beqqali,
Managing Director
CB Richard Ellis Morocco

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INTRODUCTION

Morocco currently boasts a sound macroeconomic framework conducive to achieving its growth objectives. This was corroborated by Standard's & Poors recent elevation of Morocco's rating to that of "Investment Grade". It has also shown itself to be resilient against the effects of the international crisis (growth rate of around 5% in 2009) and has promising future growth prospects. Morocco has also proven itself a fine example of the successful implementation of a policy adjustment strategy initiated and sponsored by the International Monetary Fund and World Bank. This program was initiated in the 1990's to stimulate economic growth and overcome the major obstacles of structural reform based on the advice of the IMF and the World Bank. In conjunction with this, over the past few years Morocco has launched a number of major projects which have been an effective catalyst for growth.

Moreover, we are now seeing a strong desire from the government to increase development activities to support the national economy. In fact, special attention is being paid to infrastructure projects such as public transport, urban management and energy, including renewable energy – an area in which Morocco has a great deal of potential. Many advances have also been made in social / health care with the establishment of Mandatory Medical Insurance.

Thus, Morocco has taken great steps towards achieving its goal of improving social indicators, improving its image abroad and strengthening its national investment, which has subsequently made it more attractive to foreign investors.

Examples of this include the recent buyout of Morocco's second largest mobile operator, Meditel, for 640 million euros, or the successful completion of the 1 billion euro bond issuance by Morocco on the European financial markets. These transactions show foreign investors how stable the country is and the future potential the country has.

Furthermore, Morocco has succeeded in attracting a large volume of real estate investment in the holiday home sector, in no small part thanks to its favorable qualities as a destination, namely its ideal climate, its rich culture and its proximity to major European capitals.

Nevertheless, the international crisis has had a severe impact on the holiday home real estate market, due to the withdrawal of foreign private investors, who were responsible for the frenzy for second homes in Morocco a few years earlier.

By contrast, the residential sector (excluding holiday homes) has borne the crisis well with demand driven predominantly by domestic (economic) growth. The recent emergence of the progressive middle-class Moroccan suggests great potential for major retailers and traders and consequently the development of shopping centres.

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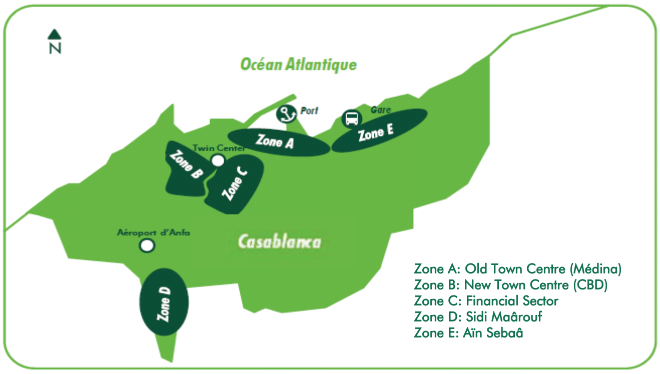
OFFICES



The office market in the city of Casablanca has a total stock of over 1,000,000 m² (CBRE survey, not including public institutions) which is primarily made up of buildings whose floor space does not exceed 8,000 m². This stock is spread over five main areas.

Zone A: The Old Town Centre

Area "A" is the old town and former business centre of the city of Casablanca. This area is primarily made up of a large number of government buildings (courts, Casablanca stock exchange, etc..), large Moroccan companies (insurance, etc..) and the Port and is located near the industrial zone of Aîn Sebaâ.

Zone B: New Town Centre (CBD)

The new town centre area makes up for 35% of the city's existing offices, including Casablanca's iconic "Twin Centre" building, as well as various other buildings. Zone B also offers a host of high end residential properties, as well as the city's most dynamic retail area and numerous hotels and company headquarters. The types of offices in this area are relatively varied, and consist of buildings used exclusively for office use but also mixed-use (residential / office). In terms of demand, this area is very popular with international consulting firms, law firms, banks and other companies seeking a prestigious address.

Zone C: The Financial Sector

This area, located near the old town and the central "Al-Maghrib Bank", is a business district where the country's major insurance companies and financial institutions are located. The offices in this area are made up of a large number of residential apartments converted into offices and a large number of smaller offices (70-150 m²) for freelance industries and other regulated professional bodies.

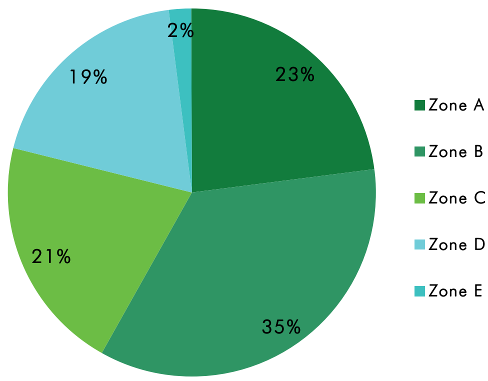
Zone D: Sidi Maârouf

This area is now the only business district in Casablanca which is exclusively made up of office buildings. The area is served by the motorway to Rabat, El Jadida and Marrakech and attracts multinational companies in the technology sector.

Zone E: Aïn Sebaâ

Zone "E" is Morocco's foremost industrial area. The office space on offer here is varied, including apartments converted to offices, mezzanine levels in industrial and logistics units and some buildings used exclusively for offices.

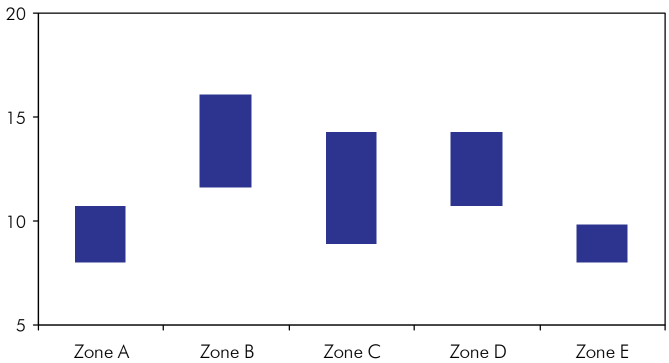
Distribution of the office market by zone (m²) in Casablanca



Over the past few years the real estate market has seen new players come in to the market, namely investment funds specialising in real estate, who are looking for income producing properties. The presence of these investment companies has given rise to a more appropriate supply of rental properties, which has subsequently made the market more dynamic.

The target gross yield for these institutional investors fluctuates between 8.5% and 11% depending on the type of property, its inherent characteristics (quality of the buildings, fixtures and fittings, vacancy rates, etc..), as well as the extrinsic factors involved, namely location and immediate surrounding area.

Monthly office market rents by zone (MAD/m², not including tax or charges)



However, the volume of transactions in the office market and for land for developing office properties is relatively low. Indeed, the development rate in Casablanca is limited by the scarcity and high cost of the land. Rental prices and sale prices have remained relatively stable over the period 2009-2010, despite a slight decline in the volume of rental transactions. An important part of the current rental demand in the market comes from SMEs (Small and Medium sized Businesses), who are looking for space of between 80 and 200 m². It has also been noted that many large companies are not satisfied with their current offices, but are forced to stay there due to a lack of viable alternatives.

The office market in Casablanca is characterised by a dominance of medium to low quality buildings, namely category B (35% of stock) and category C (31% of stock). At present, no office building in the market corresponds to internationally accepted standards for prime office space. However, there is office space which stands out by nature of its architecture and design, facade, fit-out, property management services, etc. This space corresponds to category A buildings and represents 24% of the market.

The commercial property market in Casablanca is currently undergoing notable changes with the launch of major projects designed to meet an increasing demand for higher levels of quality.

Several strategic projects are underway in different areas of Greater Casablanca, such as Casanearshore, AnfaPlace, Casa-Port Station and the Marina of Casablanca. By 2014, these projects are expected to comprise a total area of 300,000 m² of office space, not including the future project for Casablanca's new financial hub due to be developed at the old Anfa airport.

INDUSTRIAL / LOGISTICS

Morocco is home to 79 industrial zones, 61 of which are equipped and fully functioning, 6 are currently under completion, and a remaining 12, which should be operational in the next few years. However, much of the existing industrial stock is old and does not meet the required building and safety standards.

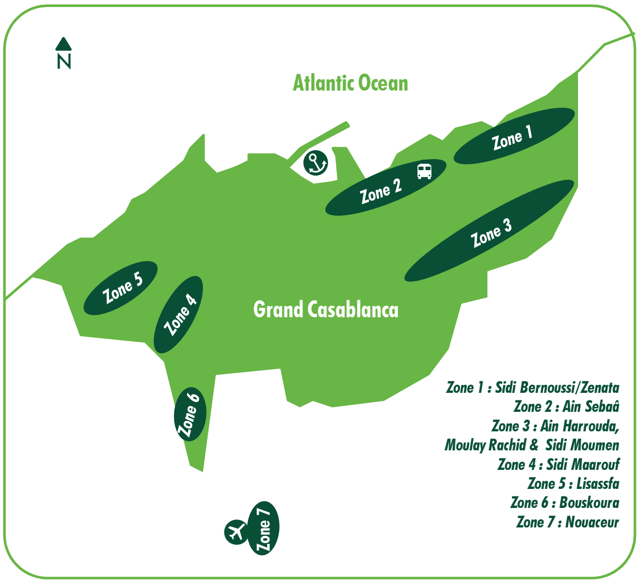
Industrial Areas in Morocco

	Urbanised	Urb. In progress	Non-urb.	Total
# zones	61	6	12	79
Area (ha)	3,144	957	388	4,489
# lots	9,801	2.217	1,442	13,460
Units being processed	3,021	158	155	3,334
Units under Constr.	949	70	190	1,209
Progress rate	40.51%	10.28%	23.93%	33.75%

A national programme called "Pacte Emergence" was created in order to develop industrial and logistics activity throughout the country. The Moroccan government's initiative also includes the development of integrated industrial distribution platforms (P2i) to meet the standards expected by foreign companies. We are therefore seeing units to let being developed which are being carefully tailored to meet the ever-growing international demand, predominantly from the offshoring sector, as well as industrial subcontractors. The "Pacte Emergence" also aims to strengthen existing industries such as handcraft, textiles and fishing.

The Moroccan government has created a wide array of attractive benefits, with a view to attracting both foreign and specific local investors, including numerous tax incentives, a more simplified administrative procedure, and more attractive land prices. Thanks to its proactive nature, the "Pacte Emergence" has already produced tangible results in various sectors, most notably in Casablanca and Tangiers. As a result, several international companies such as Yamazaki, Sumitomo, Lear and Faurecia have already relocated parts of their business to Morocco.

Casablanca's Industrial and Logistics Markets



Greater Casablanca is the driving force behind the Moroccan economy. According to the Casablanca Regional Investment Centre it represents 44% of the industrial workforce in Morocco, 48% of its domestic investment, and 35% of the country's companies are located there. Industrial supply is not structured, and its development is hampered by the scarcity and high prices of available land in this region's key industrial zones. The majority of the industrial parks are old and have insufficient infrastructure and local services (restaurants, etc..) for the needs of the businesses located there. These older industrial areas include (see map below):

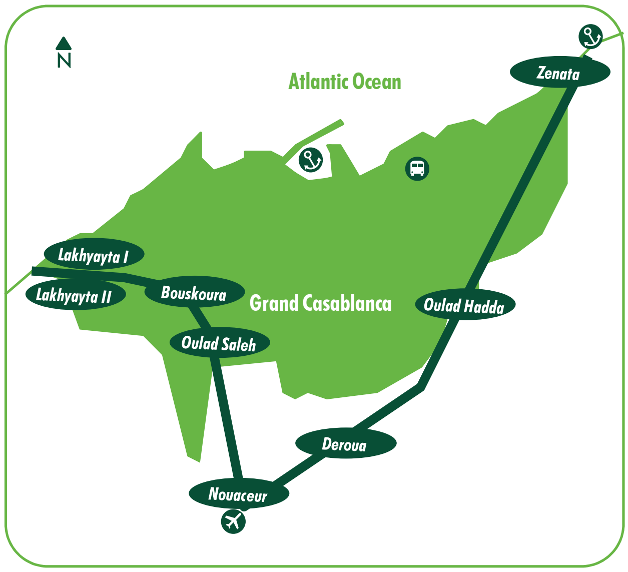
- AIN SEBAA-HAY MOHAMMADI which accommodates 46% of the overall industrial output.
- SIDI BERNOUSSI-ZENATA which represents 23% of industrial production.
- AIN CHOCK-HAY HASSANI-CASABLANCA ANFA with nearly 16% of the region's total production.

If we are to assume that demand is historically linked to the economic vitality of the city of Casablanca, then international demand is on the up and operators are currently looking for fully-integrated industrial parks, equipped with modern management systems that meet international standards. In Greater Casablanca, new industrial zones have also emerged more recently, including:

- MOULAY RACHID (29 ha);
- DAR BOUAZZA (10 ha);
- NOUACEUR comprised of Sapino (262 ha) and the Aéropole (200 ha);
- MOHAMMEDIA (120 ha);
- BOUSKOURA (28 ha).

The land sales prices in the Ain Seba, Moulay Rachid Sidi Bernoussi areas remain relatively high given the potential for residential development in a number of these areas.

Logistics Map of Casablanca



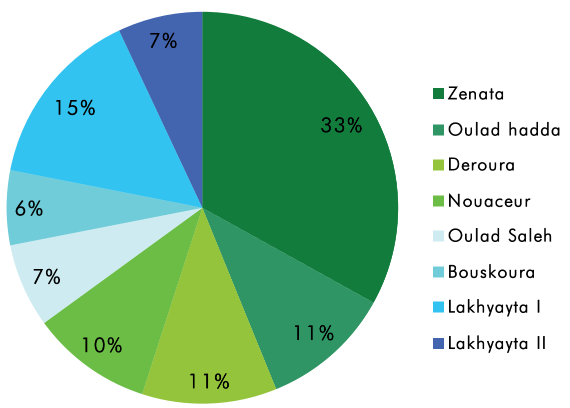
The logistics industry is seeing growing demand from manufacturers to outsource part of their logistics activity, which in turn has led to an increase in demand for distribution centres that meet logistics operator international standards. However, the development of these distribution centres is hampered by the lack of adequate land at prices that allow investors expected returns at market rents.

Even though the majority of Greater Casablanca's existing logistics parks do not meet the international standards in terms of services, equipment and construction quality, they have nonetheless attained an average occupancy of 90%. The logistics parks that are closest to meeting these standards have an occupancy rate of 100%.

There are, however, several logistics platform projects that are currently being developed in the Casablanca region. Given the high cost of land in the region, only state agencies and some private owners who dispose of large land banks are in the process of building logistics platforms, such as at MITA (whose owner is ONCF) and the SNTL area. Current rental prices range between 3.75 and 5.35 euros / m².

The logistics sector is one of the major challenges for the development of Morocco's industrial activity. As the economic powerhouse of the Kingdom, Greater Casablanca is subject to the deployment of Multi-Flow Logistics Zones (*Zones Logistique Multi-Flux*) as detailed in the National Scheme. As a result, 607 hectares should be upgraded to better respond to the growing need for organised logistics by 2015 in this region and 978 hectares by 2030. These logistics platforms are due to be developed at Zenata, OuladHadda, Deroua, Nouaceur, Oulad Saleh Bouskoura, Lakhyayta I and Lakhyayta II. The future development of these Multi-Flow Logisitics Zones by 2030 are as follows:

Distribution of future multi-flux logistics zones in Casablanca



Thus, two axes surrounding the area will be prioritised:

- The East-South Corridor (Zenata-Nouaceur)
- The South-West Corridor (Nouaceur Lakhyayta-I)

Tangiers Industrial Market

Whilst Casablanca is the economic capital of the Kingdom and makes up the majority of the country's industrial activity, its potential for future development nevertheless remains relatively limited compared to other Moroccan cities like Tangiers.

The Tangiers region has seen strong growth due to the increase in local and international investors, attracted by the launch of Tangier Med and the expansion of the Tangier Free-Zone. Tangier Med will have one of the largest industrial and logistics platforms in the country thanks to the construction of the great port and the arrival of the Renault plant.

Two industrial zones (Mellousa I and Mellousa II), and another logistics area covering 130 hectares will be developed near the port. Mellousa I will service an area of 300 hectares and will be host to the largest industrial project in Morocco - the Renault-Nissan plant.

The city of Tangiers is essentially comprised of four industrial areas:

- The Tangier Free Zone, which covers 145 hectares and which to date has been very successfully marketed, accommodating nearly 300 companies.
- The industrial zone of Mghogha, located on the road from Tangiers to Tetouan, representing a total area of 139 hectares.
- AlMajd, which is the smallest and oldest industrial estate covering only 22.7 hectares.
- Finally, the industrial zone of Gzenaya, located near TFZ and covering a total area of 129 hectares. This area does not meet international standards in terms of infrastructure.

Due to declining demand, due to the international crisis, a number of projects started by the authorities have had to reconsider their planning and completion dates, namely Tangier MED, the automobile zone of Melloussa, as well as other private projects. Due to the competitive climate of the international crisis and a lack of liquidity in financial markets, we have seen international players trend towards turn-key, rental properties. Moreover, an agreement was signed between the government and major Moroccan banks in order to create a financial vehicle to support these rental properties.

Zone	Plot Sales (euros/m^2)	Warehouse Lettings (euros/m^2/month)
Casablanca		
Aïn Sebaâ	360 – 540	3.60 – 5.40
Sidi Bernoussi - Zenata	270 – 540	3.60 – 4.90
Moulay Rachid	300 – 400	2.20 – 3.10
Bouskoura – Ouled Saleh	130 – 270	-
Nouaceur	60	-
Tangiers		
Tangier Free Zone	60	4.00 – 4.50
Gzenaya	55 - 70	-

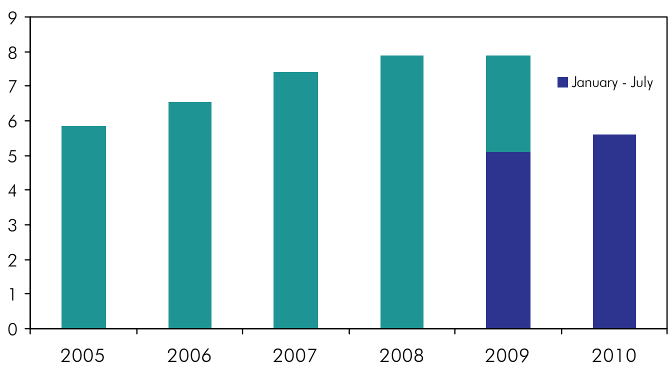
HOTEL BUSINESS

The tourism sector, which has proven to be a major source of revenue for Morocco in recent years, is at the very heart of its development strategy. The government has implemented a proactive initiative to boost this sector via its "Vision 2010" programme, whose main objective is to attract 10 million tourists and create an additional 80,000 rooms by 2010. In this context, the authorities have created new tourist areas via the Azur Plan. Other development activities have been undertaken to support this initiative, amongst others are the Mada'in Plan, and the Biladi Plan. Furthermore, major plans are currently being put into place to assure its continuity via its Vision 2020 plan.

In 2009, the international financial crisis had a direct impact on Morocco's main target tourist markets (most of which were European). This has unquestionably destabilized the tourism trade, which now records a decrease in average lengths of stay, as well as the amount spent on leisure and travel. It has nonetheless displayed some resilience, registering a rise in tourist arrivals (+5.9%) in 2009, despite a decline in overnight stays (-1.4%) and occupancy rates (-4 pts) over the same period.

However, 2010 shows signs of recovery, as there have been promising increases in performance indicators between January to July compared to 2009. Arrivals were up 10%, overnight stays were up 12% and the occupancy rate showed a gain of 2 points.

Change in number of Arrivals in Morocco (In millions)



Comparisons with the Competition

The Moroccan tourist industry boasts a host of unique and perennial natural qualities that make the destination a major player in the international world of tourism. These include 3,500 km of coastline, a rich history and ancient culture, a favourable climate, and landscapes envied by most of the visiting nations.

In the increasingly competitive world of tourism, Morocco is performing well compared to the usual "competitive set" (Cyprus, Tunisia, Turkey, Egypt, Canary Islands and Croatia). Over the period January to June 2010, it ranked second in terms of increase in arrivals, up 13.4% on the same period in 2009. Egypt recorded the best performance (+20.7%).

Over the same period, Morocco recorded an increase in revenue of 8.6%, thus retaining its second place after Egypt (+17.6%).

Coastal Property

Morocco has taken an aggressive approach to its coastal tourism trade through its Azur Plan, including six new coastal resorts: Méditérania Saidia (Berkane), Mazagan (El Jadida), Mogador (Essaouira), Taghazout (Agadir), Port Lixus (Larache) and Plage Blanche (Guelmim). These future resorts will create more than 100,000 beds, of which 73,000 will be dedicated to hotels; and since then a further 3 resorts have been added to the project.

Since the advent of the global financial crisis, a number of international developers involved in the Azur Plan have had to transfer their projects to local operators due to the adverse effects of the crisis on their developments. Examples of this include the resorts of Saidia and Port Lixus, which were taken on by the Groups Addoha and Alliances Développement Immobilier. Consequently, it is national operators who are currently developing the majority of the Azur Plan resorts.

Furthermore, the development of the Taghazout resort which was initially meant to be carried out by a consortium of foreign developers (Colony Capital, Satocan and Lopesan) underwent considerable changes, resulting in it now having a predominantly Moroccan ownership, with Colony Capital holding onto only 25%.

Nevertheless, the Azur Plan has managed to create large projects, which have already shown signs of success, such as the Mazagan resort, the Mediterranean Saidia and Port Lixus.

The Kerzner Group, a renowned international investor in the tourism industry, boasting projects such as the iconic Atlantis, is managing the Mazagan resort. The group forecasts that it will receive approximately 4 million tourists for itself alone.

Other Vision 2010 initiatives

Other than the creation of new tourist resorts, via the implementation of the Azur Plan, Vision 2010 has helped to strengthen existing tourist destinations, such as in the Mada'in Plan and by bolstering the declining regional tourism development programmes (*Programmes de Développement Regionaux Touristiques*). This includes identifying the unique qualities of a destination and putting an action plan in place that will add the greatest value to their development. In order to consolidate the image of Morocco abroad, highlighting Morocco's natural resources is at the heart of Vision 2010.

Vision 2010 has also developed an initiative to help its domestic tourism creating eight new tourist areas with 30,000 beds, which will cater for national tourists.

Vision 2020

Vision 2010 has succeeded in establishing a solid foundation for the development of the tourist trade in Morocco. It has also helped enhance its competitiveness by strengthening its image abroad.

The major challenge that lies ahead now is to identify the lessons that can be drawn from Vision 2010 and laying out a new strategic vision for the upcoming initiative: Vision 2020. This next step is still in the process of being developed and much like Vision 2010, it will pave the way for Morocco's tourism industry over the next decade.

Investment Trends

Hotel investment has not experienced any significant decline with its urban projects. The international trend of maintaining a presence within urban areas remains unchanged, with a particular tendency towards large cities.

For international investors, the main strategy has been to develop their flagship brands in key African cities, which in Morocco's case means Casablanca, Rabat, and Tangiers.

The city of Marrakech remains Morocco's primary tourist destination oriented towards leisure, culture and city breaks. It boasts over 5.5 million overnight stays, 34% of which are at a national level. The city has managed to build a strong international image and as such, it has attracted many famous hotel brands. Marrakech lends itself towards a more luxurious tourist trade, attracting prestigious international hotel brands such as the Four Seasons, Marriott, Hyatt, Beachcomber, amongst others. Other than the urban projects, which benefit from an excellent location, investor interest in the city has declined of late.

The main hotel classification in the country's other main cities (Tangier, Rabat, Casablanca, etc.) remains 4 and 5 star hotels and primarily targets business clientele.

Some hotel investors do also have a growing interest in 3 star hotels and have followed in Accor's footsteps, who themselves already own several Ibis hotels in Morocco. In the same vein, new operators such as Campanile and Ramada are expected to make their presence known.

Casablanca's hotel sector is primarily focused on business clientele, with 4 star hotels being the most prevalent. These represent 34% of the city's bed capacity, followed by 5 star hotels which hold 27%.

The city currently has numerous hotel projects under development including:

- Anfaplace (234 rooms);
- Ryad Mogador (400 rooms);
- Casablanca Marina (500 rooms);
- Sofitel (171 rooms);
- Park Hyatt;
- Casablanca Plaza;
- A hotel at the heart of the Sindibad project;
- Boutique hotels at Bouskoura.

RETAIL

The retail market in Morocco is developing significantly. This is due to the small number of shopping centres, as well as the country's rise in purchasing power and domestic consumption. Morocco has, in fact, suffered less from the crisis than other countries, which is reflected in its domestic consumption rate increasing by 8.3% in 2009; and it can be said that the retail market in Morocco remains under developed.

Operators with international franchises such as Zara, Celio, Aldo and Carrefour enjoy little competition and dominate the market as a result. Nevertheless, some Moroccan brands have begun to establish themselves in areas such as appliances, furniture and supermarkets. The Kitéa group, for example, is very present in the furniture industry, recently adding 3 new stores to the 23 already existing in 2009 and each store has an average of almost 1,500 m² of lettable area. That said, the groups ONA and Label'Vie maintain their lead in larger supermarket chains.

However, the existing shopping centres, are currently suffering from major design problems. In addition, their management is often carried out by local owners who lack the management expertise of larger international groups.

That said, shopping centres such as the Mega Mall in Rabat have been very successful, which points towards the potential for future projects which apply a more structured approach.

Top brands on the street take prime locations such as Al Massira Boulevard in Casablanca, and Avenue Fal Ould Omeir in Rabat. In this type of location, Key Money is often paid which produces a more reasonable rent.

Casablanca's old city centre does not cater to any specific needs, meaning that the main brands have set themselves up on Maarif, the Maârif extension, Racine and Gauthier. Today, these new retail zones are somewhat varied and supply is limited. One reason for this is that owners hold onto their land, buildings or villas in the hope of them appreciating in value in the future. Existing retail premises are often sold via a lease signed between landlord and tenant granting the latter the commercial ownership after a 2 year period, which in turn can lead to fragility in terms of rental payment by tenants. Furthermore, high sales prices, high rents and high key money payments in prime areas make it harder for retailers to locate themselves there.

In terms of the franchise market, many retail traders are awaiting the arrival of new malls similar to that of Al Mazar in Marrakech, which is the first modern shopping centre of its kind to be in line with modern standards. The new real estate projects in Marrakech, Rabat, Tangier and Fez will allow retailers to expand throughout the country.

A large number of new projects, due to be completed between 2011 and 2013, will have a significant impact on the development of the retail market in Morocco, primarily in the regions concerned.

In Casablanca, the shopping centres of Anfaplace (30,000 m²) and Morocco Mall are due to open between 2011 and 2012. Carrefour will take 3,500 m² at Anfaplace and Marjane will take 10,000 m² at Morocco Mall. These centres will be the first wave of new generation malls in the economic capital to be up to international standards.

These new shopping centres will offer the owner a greater understanding of their customer's activity and thus allow them to better respect the merchandising plan in order to maintain a more balanced retail mix.

In addition to these types of Shopping Centres, out of town retailing is welcoming a new concept: the Retail Park. The first Retail Park was opened in 2008 in Marrakech (Marjane Square). This concept is based on a centralised car park with access to a number of big box retailers occupying medium to large floor areas (1,000 m²+)

Schedule of main projects for shopping centres in Morocco

Centre	Town	m²	Year
Anfaplace	Casablanca	30,000	2011/ early 2012
Morocco Mall	Casablanca	70,000	2011/ early 2012
Al Mazar	Marrakech	40,000	2010 (open)
Carré Eden	Marrakech	19,000	2012/13
Tangier City Centre	Tangier	30,000	2012

RESIDENTIAL

High End

Generally speaking, in the "high end" residential market, the disparity between the quality of properties and their asking price has contributed to a readjustment of values, as well as a slowdown in demand in the holiday home market.

During the boom years the market was very liquid and the quality of construction, finishes and services offered seemed insignificant in view of the returns that were made or that were anticipated. However, now that the market has contracted somewhat, buyers have become more reticent when it comes to acquiring a property and protect themselves by analysing all aspects of the property before investing. Consumers have become increasingly demanding and do not hesitate to delay the purchase date of a property.

Given that the "High End" market is facing difficulties in certain cities, the lower and middle-end segments show significant growth potential due to a structural shortfall in housing supply (estimated at nearly 1 million units), coupled with a growing population. In recent years the scarcity of available land in Morocco's major cities has impeded the development of such projects. Today, these sectors have been driven forward by the new legal framework, access to finance, new town planning policies aimed at bringing peripheral areas into the urban framework, and through the country's sustained economic growth.

In our study of Morocco's "high end" housing market, we focused on the cities of Casablanca, Rabat, Marrakech and Tangiers, which are four cities that clearly represent the country's tendencies of supply and demand within this segment. Over the last decade, these areas have experienced strong growth in terms of residential projects, both completed and those under construction.

We analysed the "high end" residential sector according to the type of market: both domestic (primary residence – national demand), and tourist (second home - foreign demand).

Residential Tourist Market

The economic climate of uncertainty, brought about by the international crisis, has had a direct impact on the demand for finished products.

International demand, predominantly European, has fallen sharply. The decrease in the rate of take-up has resulted in a fall in sales prices, even declining in some cities, predominantly destined towards international clientele. In order to offset this decline, some developers have tried different marketing strategies, as offering furnished apartments at the same price as empty apartments.

Marrakech

Over the period 2008-2010, CBRE saw a decline in sale prices in Marrakech's "High End" residential sector ranging from 10% to 40%, resulting in an average of 1,600 euros/m² for apartments and 1,500 euros/m² for villas. These figures mainly reflect projects developed on the road to Tahanaout, Amizmiz and the areas of Amelkis and Palmeraie.

A great many developers, such as Groupe Palmeraie Développement, Prestigia, Alliances, Onapar, and Alain Crenn have built golf resorts on plots of land up to 400 hectares, resulting in a large demand in the "high end" residential market (apartments, tourist apartments and villas). This abundant supply of real estate coupled with a decline in demand has created an oversupply in the market. Early estimates indicate a vacancy rate of almost 50% on a total stock of about 10,000 units (both completed and under construction) between 2004 and 2009, which represents nearly 5,000 units to be sold in the short term.

Tangiers

The city of Tangiers has also seen a boom in the property market since 2004 with numerous "High End" residential projects springing up, especially in the areas of Cape Spartel, Les Pinèdes and Cap Malabata.

The average selling price is in the region of 1,450 euros/m² for villas and 1,850 euros/m² for apartments. It is important to note that there a 25% drop in price has been registered and an even greater decline in certain projects.

A sharp decline in sales rates has been seen since the second half of 2008.

Domestic Residential Market

Casablanca

The domestic housing market in Casablanca has suffered little or no housing crisis. Given that the majority of the city is already well established, there is relatively little "High End" real estate supply compared to demand.

The average selling prices are in the region of 1,950 euros/m² for apartments, and 1,450 euros/m² for villas.

Large projects are also being marketed on the outskirts of the city, most notably at Bouskoura and Dar Bouazza. In these locations, sale prices remain lower and most of the projects have already sold more than 60% of their properties in the first phase of development.

Rabat

The domestic residential market in the city of Rabat has seen a growing demand in the "High End" sector.

The sales rate for apartments has been relatively high, due to the lack of supply which has affected the city of Rabat. The average sales price for apartments currently stands at around 1,450 euros/m², rising to 2,050 euros/m² in certain projects.

Note that the Ryad Al Andalous projects in Hay Ryad Riad, and the Bab Al Bahr projects in Bouregreg alone account for 60% of the total market stock, with a total of more than 1200 units. The remaining 40% are divided between several smaller developers.

The gradual relocation of major corporations' and government headquarters to Hay Ryad has redefined this area as Rabat's new city centre. The most sought after areas are Agdal, Hay Ryad and Bir Kacem.

Social Housing: The New Practice

Morocco's residential property sector is characterised by its large lack of supply, estimated to stand at around one million homes. This is due to a lack of controlled planning in the face of a growing population and an exodus of people leaving rural areas.

In order to remedy this lack of supply, as well as avoiding the building of substandard housing, in 2003 the Moroccan government put in place a plan of action that aimed to construct 100,000 social houses per year. Several actions were implemented including making land available, tax concessions for private developers, as well as the restructuring of certain public bodies. All these measures helped to increase the production of housing, meaning that the target of 100,000 units per year was met as of 2005. The deficit has also declined slightly from 1.24 million in 2002 to 1 million in 2007. However, the Finance Act of 2009 has removed the aforementioned tax concessions granted to private developers. Consequently, public housing programmes have fallen sharply and delivery of social housing has fallen below the 100,000 units / year (90,000 units completed in 2009).

Given this decline, the government altered the regulations to encourage new private investment in this segment. The 2010 budget has now introduced a new policy for social housing and incentives have been created to benefit both purchasers and developers.

The buyer also benefits from this new policy by being reimbursed the equivalent value of VAT from the sale price by the state.

Furthermore, real estate developers now receive tax benefits, which are determined by a set of specifications, for the construction of 500 social housing units (as opposed to 2,500 beforehand) over a period not exceeding 5 years. This initiative offers greater opportunities to smaller developers. They can even spread their investment over 5 years whilst having the advantage of distributing their projects throughout different cities across Morocco. These investors will therefore be exempt from various taxes, and duties (corporation tax, registration fees and stamp duties, land conservation fees, taxes on cement etc.). These tax benefits allow them to achieve reasonable margins while investing in a sector where there is minimal commercial risk.

Since the beginning of 2010, some investors and developers have revised their strategy to invest specifically in this type of project.

ARTICLE ON REAL ESTATE VALUATION

•What is a Real Estate Valuation?

A property valuation is to determine the market value of any type of property (land, industrial warehouses and logistics, hotels, office buildings etc.) as at the date of valuation. It is the "estimated amount for which a property should exchange on the date of valuation, between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing, wherein the parties have each acted knowledgeably, prudently and without compulsion." This definition therefore excludes any forced sale or conflicts of interest between parties.

•When might a Real Estate Valuation be useful?

Valuation reports can be required annually or biannually for all accounting reporting (see IFRS, listed companies) or occasionally during transfers or acquisitions of assets, or for acquiring financing for the development of a real estate project (for external use).

•What is a Valuation Report for external use ?

In Morocco, valuation reports are predominantly used for internal company use (sale, acquisition, inheritance and accounting). In certain cases, however, the report may be sent to a third party, such as a bank in order to secure financing. There is therefore a specific report prepared in cases of external use (financing purposes, acquisition of a company or parts of the company, mergers and acquisitions and for stock market listings etc.). This report, commonly used by financial institutions, is generally requested by the bank in question from its customer. It provides a complete due diligence of the real estate project, in order to advise financial institutions on loan security. Therefore, the aim is to assess the competitiveness of a property and provide an opinion on the security of the loan. Thereby, the project is thoroughly analyzed in terms of its potential for rental or sale rhythms. Business plans are analyzed in depth and adjusted if necessary, in the form of a detailed feasibility study. For external use reports, CB Richard Ellis has a specific professional indemnity insurance cover. This type of report is widely used in Europe to meet the financing needs of real estate projects at the express request of the banks themselves. The report for external use is not currently required by Moroccan banks, but we believe that the trend will change in the short term because of its benefits for financial institutions.

•How is a valuation mission conducted and what is the methodology used ?

Upon acceptance of the terms and conditions of our services proposal, the first task of the valuer is to analyze the legal and urban documents relating to the subject property. Analysis of legal documents (title deed, specifications etc.) is essential and provides information on factors that can handicap the property (easements, mortgages, prohibition to alienate etc.). The urban documents will in turn inform on what can and cannot be constructed on the property. The market value of a property will significantly depend on its urban status, classification and the current regulations in force.

Each property subject to valuation is individually visited by one of our team of valuers at CB Richard Ellis Morocco. Market research is then conducted on the property, in order to identify the market dynamics in terms of supply and demand. This market research also aims to collect comparable transactions and asking prices made on similar properties. The direct comparison method is the comparison of the subject property against recent transactions and other properties with similar characteristics and location, as well as keeping the valuation dates as close as possible to one another to ensure consistency. The report is based on the assumption that a well informed buyer will not pay more for a property than the acquisition cost of a similar property on the market. Similar properties which were recently sold or put on the market for sale are analyzed and compared to that of the property being assessed, taking into account the adjustment factors that may exist, such as the time period of sale, location, nature, age, general condition, use, occupation, etc.

With regards to a land to be developed, a residual analysis may be used. This method determines the market value of a property by projecting the potential net financial cash flows of the subject project, while setting the profit on cost, or IRR, that could be required by a potential buyer / investor.

With regard to the valuation of income producing properties (hotel, shopping centre, offices, etc.), there are several financial methods that are used, including the Discounted Cash Flow (DCF) method. This valuation method is based on the explicit forecast of the likely net income to be generated by the subject property which is then discounted at a market rate of return. The aim of this is to ensure that a well informed buyer will not pay more for the property than he would for an equivalent property subject to the same risk and similar potential profits or revenues.

Depending on the type of property studied, several methods are used to determine the market value of a property. All of our research and analysis is presented in a common standard format, available to all our valuers at CB Richard Ellis worldwide. Our reports then undergo a thorough quality control check and are read and validated by a review committee. Once the report is delivered to the customer, we are of course available for a meeting in order to explain the valuation results with our client.

•What standards are applied by CB Richard Ellis in terms of Real Estate Valuations?
All CB Richard Ellis's valuations are conducted under the strict standards set by the Charter for Real Estate Valuation, by the European Tegova regulations, as well as by the Royal Institution of Charted Surveyors, RICS.

•What are the RICS regulations ?
Founded in 1968 in the United Kingdom and active in over 140 countries, the Royal Institution of Charted Surveyors (RICS) is an international professional organisation that delivers a certification recognised throughout the world by real estate, urban planning and construction professionals. RICS Valuation Standards set the rules that members of the association must follow to provide a study which is consistent with the IVS standards (International Valuation Standards) and IFRS (International Financial Reporting Standards) and which meet the highest standards of professionalism and integrity. This certification guarantees a specific quality of report, in terms of reasoning, analysis, consistency of methods and its strict code of ethics ensures that all its users and clients are protected.

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