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Publication: THE EDGE

Date: June, 2010

Country: Qatar/Pan Arab

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BUSINESS INSIGHT

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A PLACE TO CALL HOME

Qatar, a developing country at the centre of economic growth and market development, has created an alluring picture of itself for both migrating professional expatriates and investors alike. However, while people flock to the state in search of professional advancement and lucrative



- CGI CEO, Naveed Siddiqui -

investment opportunities, there remains a real gap in Qatar's mortgage finance industry and homeownership market. Saudi Arabia-based Capitas Group International (CGI) – established with the mission to work with private and public sector institutions to develop innovative Shari'ah compliant financing solutions to serve homeowners, small and medium sized enterprises (SME) and real estate investors – is one company that has its eye's firmly set on bridging that gap and is in discussions to

establish a local presence in Qatar. Kelly Lewis spoke with CGI's CEO, Naveed Siddiqui, to get his view on Qatar's mortgage finance industry.

To get an overview of CGI and its operations, what is CGI's relationship with the Qatari market?

CGI is a joint venture with the Islamic Development Bank and Capitas Group USA. Primarily, the idea has been to establish a management team that will build, operate and then finally transfer mortgage finance industry components to local markets.

There is a huge gap in the local markets here when it comes to home ownership. There are homebuyers, who want to become homeowners, but they do not understand their purchasing power and they do not have financing vehicles to help them get there.

We look at the real estate market as being very simple: The real estate market [in the Gulf] is as good as the transactions that are happening here.

However, the supply side is not understanding what the real purchasing power of these potential home buyers and home owners is,

so specialised finance and mortgage finance components have to be set up in these industries.

Therefore, what we do is we locate a particular market; we look at progress towards regulation, real estate regulation, home ownership regulation and financial regulation.

Then if we see there is willingness on the part of the country, coupled with growth opportunities and a significant population that cannot own homes, we enter the market and advise local governments on how to create the right regulation to satisfy financiers issues, as well as create transparency for home owners, and potential home owners. We also work with the private sector, both banks and developers, to take liquidity and create the right transactions. From the supply side, we coordinate with developers to make sure they have business plans that are more real to market, taking in mind the actual affordability of their target

market, so they can sell the homes that they are building, rather than building something that is not saleable.

In Qatar, and the Gulf, there is a growing expatriate population that also has a healthy disposable income. However, there is a distinct lack of homeownership in the region. Considering this, coupled with the concerns that the property market here may be headed for an unsustainable future, what are your thoughts on the role that homeownership plays in a healthy economy?

Homeownership creates a real sense of belonging and also a sense of responsibility – if you are taking on financing to own a house, then you're going to plan to live in that country for a while. So, whether it's an expatriate community or an indigenous community, that sense of belonging and of ownership is instilled and it's imminent.

Sooner or later, everybody wants

to buy a house, so we don't consider this market demand, we actually consider it a market desire. As far as the expatriate community in Qatar...I think the expatriate community here, if offered the opportunity to own a home and settle, would make a longer-term commitment to this market and create a real substantial consumer market, rather than a transitory one. I think Qatar needs to be branded as a place where you want to come and live, not just a place to come and work and then go.

This is a key problem. Currently, Qatar appears (largely to expatriates) as a place with an expiry date. But to truly build a sustainable economy, things like population longevity and home ownership, where people are actually investing into the state, are key economic drivers.

Yes, developers, financiers and regulators have to look at building a long-term plan to stimulate this market, not the short-term five-year plan, which is currently happening.

Is this something that you are talking to the Qatari government about?

We are talking to the government through the Islamic Development Bank about sustainable framework and in regard to the SME sector, we have also created a dialogue as we have expertise in the SMEs field and we believe that both go hand in hand.

On the home finance side, we are exploring the market, but we haven't yet begun discussions because we are still in an exploratory mode. Let me say that we have got the comfort level that we need and there are a few other things that we are exploring in the market, mainly the continuous attraction of the expatriate market. So, if that can continue and we can help build the right infrastructure with the government, then we will approach them at the right time to see if they are willing to entertain us.

In regard to Qatar's legal and the regulatory framework, where do you think things currently stand and where do you think things need to be?

It's not that different from other emerging markets. In most emerging markets there is a reaction to demand and then, in fact, I think that the private sector, or the financial sector, reacts first and then regulation is sort of rushed in.

I think there is an opportunity in Qatar to really do things the right way and to look at regulation that enables affordability; regulation that enables transactions and also regulation that prevents indebtedness – affordability is the key, not indebtedness, so there is an opportunity for the Qatari's to do that.

I think Qatar has shown willingness, like any other country where the central bank has already started creating guidelines around mortgage banking, but that information now has to be translated to the policy makers and regulators, not just to policy makers and not just to regulators because any such policy has to then evolve into law, and the law has to be enacted.

I think Qatar is dynamic because there is a lot of communication between government bodies right now, willing communication. Whereas in other countries, where there is a lack of communication, it just delays things for everyone. Therefore, if Qatari's can keep that in mind and create the regulations sooner, rather than later, it will be the right step.

In terms of the financial transparency and risk management, Qatar is moving to establish a credit bureau. How will this help build confidence and investment into the local market?

I think the credit bureau will help, but from a financiers perspective you can create a credit bureau, but will it really have the history that I need?

Because the bureau will be new, financiers will have to be a little more innovative and entrepreneurial in their approach to this market.

There isn't going to be the credit information that's needed, so the risks will have to be assessed by working with the developers to make sure the underlying property valuation is good and so quality can be stimulated in the market. Consumers will also have to be worked with, from an employment and education perspective, as to how to manage the risk because there won't be much in the way of credit history to begin with, but five years from now that credit bureau is going to be dynamic in making decisions – I will be able to write more loans, more comfortably five years from now based on the credit bureau of today.

Some of the research conducted by CGI found disparities between the amount of lending applications received and the amount of loans that were actually dispersed into the market. Can you explain the reason for this disparity?

There are a few reasons. Firstly, there is only the banking sector that is flying itself against those applications. Additionally, the banking sector has a tremendous level of regulation and requirements placed on it – how much of the portfolio can they lend?

I think the capital of real estate financing in Qatar is around 15 percent, but how much of a home real estate risk can banks take?

In certain environments, banks aren't allowed to own real estate so they go through an summary plan description.

In the mortgage finance business, it is specifically a real estate sector business; it is not a financial sector business that has to be created.

There are three main things that are needed by the mortgage financier: a buyer, a supplier and the underlying asset (the property).

Mortgage bankers learn to bring all three together, with risk management and credit focus management. They don't have to worry about depositors' money; they have to worry about creating more assets that can be sold in the secondary market.

Therefore, the reason I think that applications are pending up and deliveries of liquidity of loans are not happening is because it's being targeted at just the banking sector.

Overall the banking sector is very slow and a mortgage finance industry also has to be created. When I say mortgage finance, I mean mortgage finance companies, title companies and proper appraisal companies. These three factors have to be created, so that they can quickly process applications that could be turned into funding.

How much do you think the mortgage finance industry could contribute to Qatar's gross domestic product?

Definitely I think the mortgage finance business will contribute greatly to Qatar's economy – in other markets we have seen an contribution of anywhere from a five to a 15 percent increase. ■