Is Morocco an attractive destination for foreign investors looking to invest in the residential real estate segment?

by

Khadija Oubala

Master in Business Administration, 2005
New York University
Bachelor in Business Administration, 2000
Alakhawayn University

Submitted to the Program in Real Estate Development in Conjunction with the Center for Real Estate in Partial Fulfillment of the Requirements for the Degree of Master of Science in Real Estate Development

at the

Massachusetts Institute of Technology

September, 2011

Signature of Author____
Center for Real Estate
August 16, 2011

Certified by____
Peter Roth
Lecturer, Department of Urban Studies and Planning
Thesis Supervisor

Accepted by____
David M. Geltner
Chairman, Interdepartmental Degree Program in
Real Estate Development

Is Morocco an attractive destination for foreign investors looking to invest in the residential real estate segment?

by

Khadija Oubala

Submitted to the Program in Real Estate Development in Conjunction with the Center for Real Estate on August 16, 2011 in Partial Fulfillment of the Requirements for the Degree of Master of Science in Real Estate Development

ABSTRACT

Over the last decade, Morocco has witnessed an accelerated process of political, economic and social reforms aimed at improving the business climate and solidifying the economic indicators. Morocco's structural reforms share the objective of positioning the country as an attractive investment destination. The impact of these reforms has been felt in many sectors particularly real estate which has been developing at phenomenal rates in recent years. Aware of the great strides that Morocco has taken to position the country as an attractive investment destination, many foreign real estate developers expressed their interest to participate in the real estate sector. However, the financial crisis forced these developers to revise their business plans and put their projects on hold. Structured into three sections, the thesis aims to answer the question of: Is Morocco an attractive destination for foreign investors looking to invest in the residential real estate segment?

The first chapter introduces the country and highlights key social and economic reforms which establish Morocco as a growing emerging economy whose government is proactively introducing investor-friendly reforms, incentives and programs. The second chapter presents an analysis of the housing sector, its demand drivers and supply indicators. A market segmentation is then performed which coupled with a market analysis, case studies and interviews, reveals that the low income segment is the best segment to target for investment. The third chapter sheds light on the evolution of foreign direct investments in the real estate sector. It proceeds to identify the differences between the local and foreign developers in terms of focus, strategy and profitability as well as outline key measures that the Moroccan government should take in order to encourage foreign participation in the sector. The paper concludes with a summary of findings and an investment framework for future developers looking to participate in what seems to be a lucrative and rewarding sector.

Thesis Supervisor: Peter Roth
Title: Lecturer, Department of Urban Studies and Planning

Contents

CHAPTER I

1. Introduction to Morocco:

The Kingdom of Morocco is situated on the north-west seaboard of Africa. Morocco's neighbors are Algeria to the east, Mauritania to the south-west, to the Atlantic Ocean the west and Mediterranean Sea to north. With 173,746 square miles, Morocco is about twice the size of the UK. The dominant feature of the country is the Atlas Mountain range, which rises 2,225 meters from the Mediterranean in the north east and continues to rise to 4,175 meters in the south west. There is an extensive fertile plain on the Atlantic side, which supports the majority of the agricultural activity. To the south and east of the Atlas Mountains the land consists of dry steppe which eventually merges into the Sahara Desert.

The territory is divided into 16 regions which in turn are divided into 40 provinces called prefectures, or Wilayas. Population which stands today at 31 million people has more than doubled since the country got its independence in 1956. Up to 50% of the Moroccans still live in rural areas, although there is a steady and constant urban drift. Almost half the population is below the age of 20.

Politically stable, with Free trade Agreements with the EU, USA and Africa, the country has made substantial progress in recent years in the political, social and economic reforms to increase efficiency and attract greater levels of foreign investment. This has enabled the country to achieve an investment rate Grade Ba1by Moody's and a BBB Fitch rating. Morocco has close relations with the EU and it is the largest recipient of EU funding under the European Neighborhood policy. As a result, FDI has increased from an average of US$600 million in the mid 1990's to over UD$4 billion in 2010. Substantial inflows of capital from Moroccans living abroad and tourism receipts are the main supporters of the Moroccan economy.

Until recently, the country has been dependent on tourism, agriculture and garments, but Morocco has been working hard to diversify its economy and reduce its dependence on traditional industries. In this context, the country's economic development strategy is based on three pillars: setting up comprehensive reforms aimed at improving the business climate;

monitoring and improving macroeconomic indicators (inflation, budget deficit, growth rate, etc.); and establishing of sectoral strategies, with short-term and long-term objectives.

With a skilled workforce close to Europe (14 km from Spain), Morocco aims to become a major trade conduit with Europe. Its advanced status with the European Union under the European Neighborhood Policy, a free trade agreement with the United States and its adherence to the Arab League already encouraged the establishment of numerous foreign companies: historically French and Spanish and recently Chinese and Japanese. A representative from the Ministry of Commerce and Industry said that foreign investment in Morocco operating in the context of liberalization and privatization target the sectors of ICT, energy, water and electricity distribution and infrastructure, etc.

The gradual opening of the economy, which affects almost every sector, is accompanied by the establishment of an investment-friendly environment. With the adoption of the Investment Charter, the Kingdom has undertaken an extensive remodeling of the regulatory and fiscal frameworks to provide all necessary guarantees to investors. Through the Investment Promotion Fund, Morocco ensures that each operator/investor finds a business location that matches its needs, whether it is free zones, near-shoring parks or integrated industrial platforms. This Fund also ensure that education support for training in electrical, communication and information systems is provided so as to improve employment.

2. Economic & Social Developments:

To enhance the overall attractiveness of the country to tourists, Morocco launched a program called Vision 2010 which includes several components, such as the Azur Plan for seaside tourism, the Mada'in Plan for the repositioning of major tourist attractions, rural tourism, niche tourism and domestic tourism. The Kingdom has also proceeded to the liberalization of air transport, which resulted in the proliferation of air flights. Measures to support the financing, improve the fiscal framework and enhance the promotion of tourism were also taken. By 2012, the industry should be generating 450 million Euros, equivalent to 20% of national GDP, and help create 600,000 direct and indirect jobs. The seaside segment will account for nearly 70% of the tourist supply, requiring an additional capacity of approximately 65,000 rooms, which will include the creation of 6 stations: Saidia, Lixus, Mazagan, Mogador, Taghazout and White Beach. The objective is to welcome 15 million by 2020. In 2009, a Vision for 2020 was re-defined, taking into account economic and social changes in the country. The revised Vision 2020 plan includes actions for enhancing the attractiveness of the trade sector, on the one hand, and improving the environment of commercial operators, on the other hand. By 2020, The Ministry of Commerce expects the trade sector to contribute 15% to GDP, against 11% in 2006, and drive up the creation of 450,000 jobs.

Recognizing the great potential for agricultural development, the Minister of Agriculture Akhannouch Aziz launched the Green Morocco Plan (Maroc Vert), which is based on 2 objectives: the first is to upgrade the social and solidarity aspects of agriculture and the second is to develop of modern agriculture. Given the heavy reliance of Morocco on its agricultural production, from which 60% of the population directly or indirectly lives off, the success of this plan could generate twice the impact of the Emergence Plan.

In addition, Morocco has embarked on an extensive program of investment in basic infrastructure, social facilities, business parks, housing, etc. Between 2005 and 2009, spending on these facilities have steadily increased, rising from US$2.5billion to US$4billion and from 3.9% to 5.2% of GDP[1]. By upgrading its transport infrastructure, Morocco hopes to become a global platform for processing and transit through leveraging its unique geographic location.

In the field of water, Morocco pledged to implement an integrated and sustainable management of resources. Distribution, and soon production, has been opened to private operators. To meet the growing energy demand while reducing its vulnerability to global risks, Morocco has pledged to diversify its energy sources (coal, natural gas, renewable, petroleum). The success of these plans which started in 2008 depends largely on the private sector as it accounts for 60% of the total production.

On the transport front, a high-speed train linking Tangiers, Rabat and Casablanca is under construction. Moreover, the motorway network which was 856 km long in 2008, should be increased to 1,420 km by 2011 and 1,803 km by 2015. A total investment of around 3.2 billion

[1] Ministry of Commerce and Industry

Euros is expected over the 2008-15 period. Meanwhile, the end of the monopoly of the national offices for transport (ONT), railways (ONCF) and ports (ONEDP) opened the door for players such as CMA-CGM: one of the world's leading container shipping companies. Finally, faced with the challenges of urbanization growth, the government has undertaken a number of projects in the fields of urban planning, transport and infrastructure.

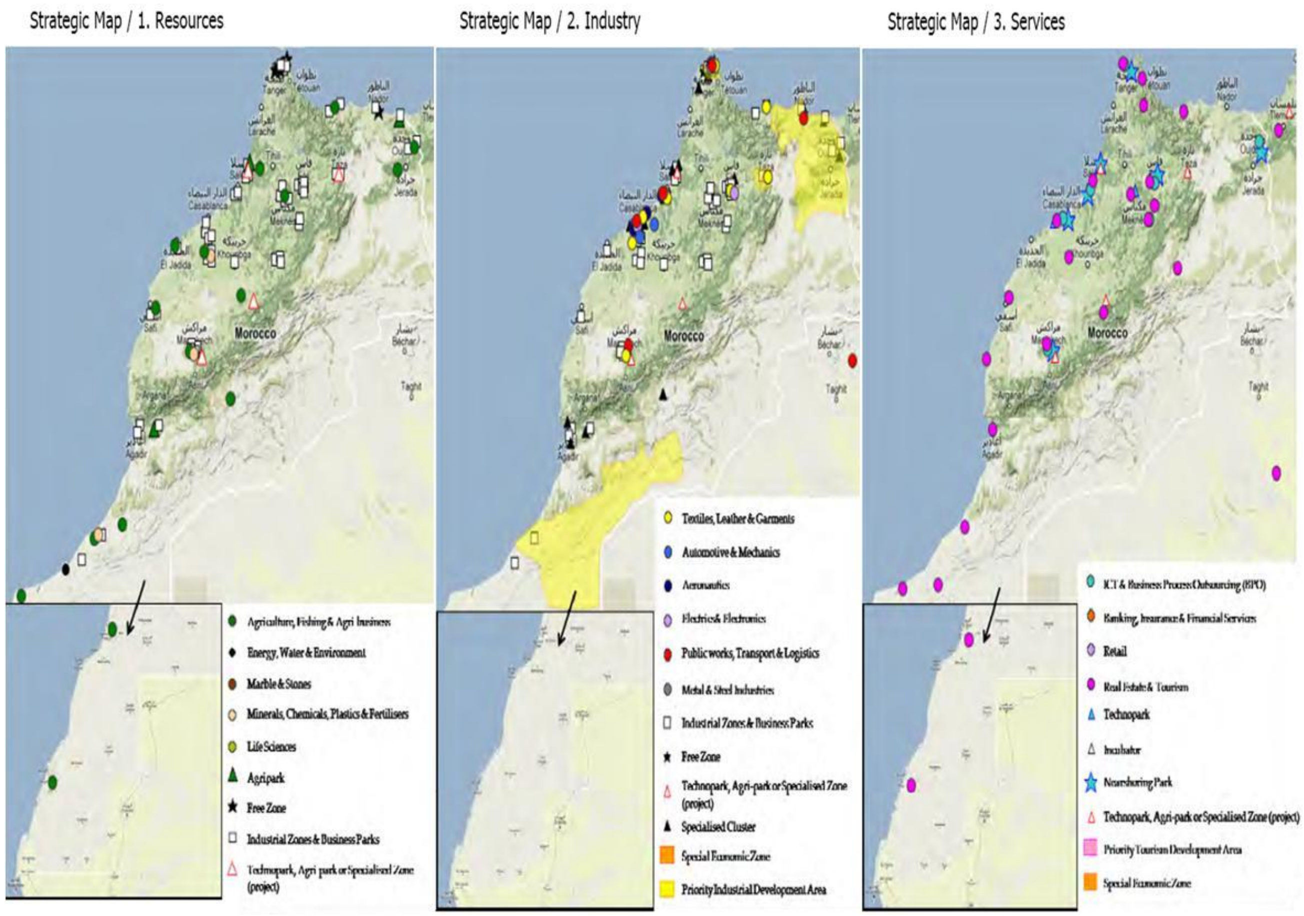
3. National Pact for Industrial Emergence[2]:

Adopted in 2006, the Emergence Plan sets the strategic objectives of the country's industrial policy by targeting key sectors for which Morocco has competitive advantages and which should represent 70% of the industrial growth by 2015. The Plan is expected to generate 91 billion dirhams (8.2 billion Euros), create 440,000 jobs and reduce by more than 50% the deficit in the trade balance by 2013. In 2009, the Kingdom and the private sector have consolidated the commitments made under the Emergence Plan by sealing a 2009-2015 National Pact for Industrial Emergence. With a total budget of 12.4 billion dirhams (1.1 billion Euros), including 34% dedicated to training and human resources and 24% to encourage investment, the program should generate 50 billion dirhams (4.5 billion Euros) in private investment, 50 billion dirhams in additional GDP, 220,000 new jobs and 95 billion dirhams (8.5 billion) in additional exports by 2015.

The Emergence plan which is positioning Morocco as a platform for the assembly and exports of goods to the USA, EU, the Mediterranean, Asia and Africa builds on the Free trade agreements reached with the EU, USA, Turkey, Tunisia and Egypt together with enhanced production facilities in Tangier with the Tangier Mediterranean Port located 35 km from Tangiers. Partnered with Jebel Ali Free Zone of Dubai, Tangier port will be one of the largest container terminals in the Mediterranean with a deepwater basin and 5 terminals connected by railway and with the potential to host the largest container vessels in the world, as it will also be a positioned to be a distribution hub.

---

[2] *Information provided from the Pacte National Pour l'Emergence Industrielle 2009-2015, issued by the Kingdom of Morocco Ministry of Industry, Commerce and New Technologies.*



The strategy of the Emergence Plan is to focus on Morocco's world class FDI oriented activities which include: aeronautics, automotive, electronics, near-shoring and traditional activities (agri-business, textiles & leather):

- **Off-shoring/Near-shoring:** With its French and Spanish language skills, and the competitive cost of its averagely qualified workforce, Morocco is looking to promote itself as a destination for business process outsourcing (BPO) and information technology outsourcing (ITO) to European companies. First pillar of the Emergence Plan, off-shoring presents a strong potential for the Moroccan economy that is expected to contribute 1.3 billion Euros to GDP and create 100,000 new jobs by 2015. In order to encourage its development, the government is committed to meet the operators' expectations. To do so, a tailored framework has been put in place covering: high quality infrastructure, world class services, training, incentives, etc.

In addition, the government has also dedicated two special economic zones to foreign investors: the Casa Near-Shore Park and the Rabat Technopolis. To complement the expected influx of foreign corporations looking to take advantage of Morocco's capabilities, 4 more parks are currently in varying degrees of development; such as the Fes Shore, Tetouan Shore and the Oujda Marrakech Shore. Other sites are still under consideration and are undergoing feasibility studies, such as the Ifrane Park.

- **Automotive:** As an established player in bodywork and trailers manufacturing as well as the assembly of vehicles, the automotive industry in Morocco is still oriented towards the domestic market. Benefiting from competitive production costs and its proximity from Europe, Morocco aims to develop products for export. The goal is to move up the value chain (moving from assembly to more noble manufacturing activities such as boxes and engines). The development of the sector should generate 630 million Euros of additional GDP and 40,000 new jobs by 2015. Examples of new assembly projects include the Renault Nissan agreement to invest 600 million Euros in a car manufacturing complex in the Tangier Free Zone. The facility will have a capacity for 400,000 cars annually and will create 6,000 jobs. It will produce 200,000 low-cost Logan sedans and other cars for Renault, Nissan and the Romanian affiliate Dacia.

- **Aerospace:** Benefiting from its proximity to the French poles of competitiveness, Morocco wants to develop aeronautical subcontracting targeting 5,000 potential customers worldwide (mainly French, British, Italian and Spanish). This is to be serviced by the development of a 200 hectare aviation hub near Mohamed V International Airport. By 2015, the industry is expected to contribute US$500million to GDP and create 12,000 new jobs. To achieve these targets, the Kingdom will dedicate major investment efforts to optimize the infrastructure, connectivity and necessary services. The dedicated free zone in Tangiers Med is the main center for his sector. The Training Plan for this highly technical field is of the utmost importance, and it will be centered around: AeroCampus, which is created jointly by Steinbais and the National Airports Authority and the CasaAero training centre which is created by Alteon/Boeing and Royal Air Maroc, the national airline of Morocco.

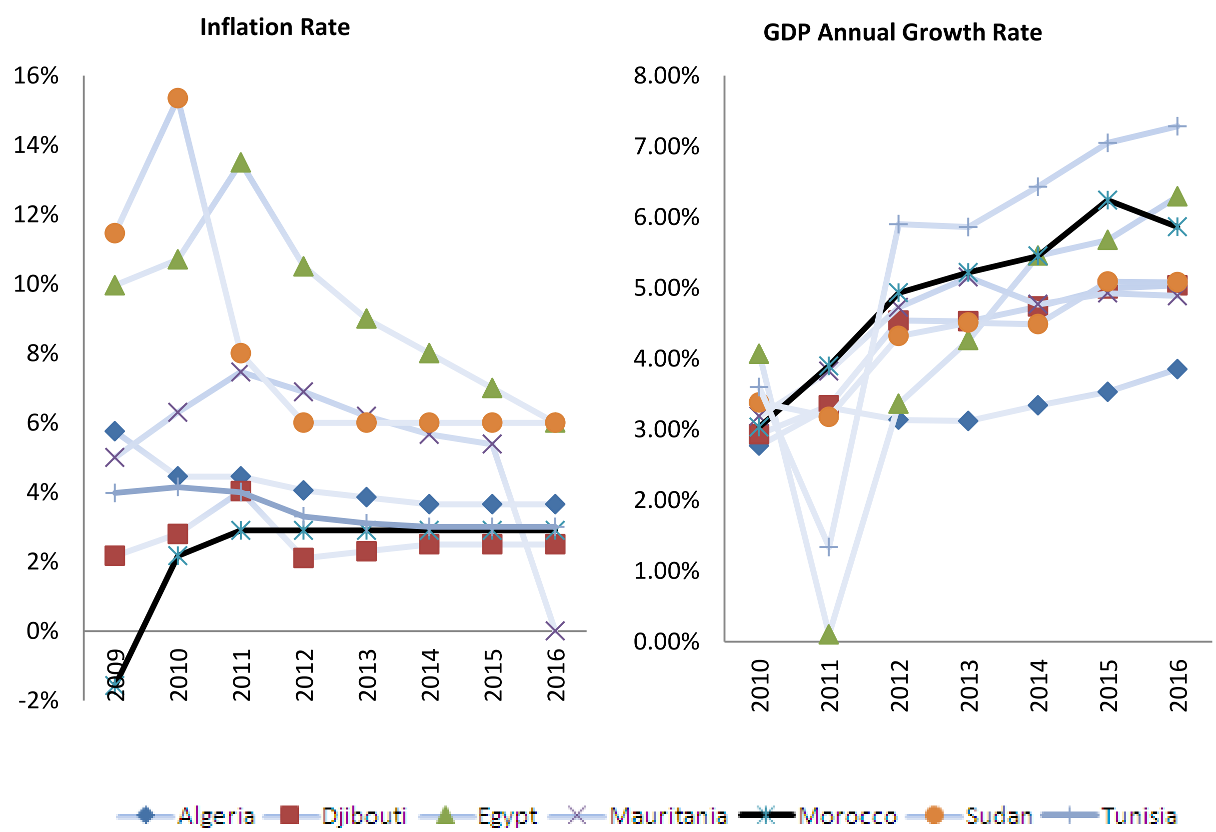
- **Electronics:** The focus is primarily on specialty and integrated electronics, particularly in synergy with the automobile and aeronautics industries. With a relatively cheap skilled labor and proximity to Europe (which produces 44% of global electronic equipment), Morocco wants to develop electronic subcontracting. Faced with global competition, Morocco targets niche markets such as specialty/integrated electronics. The objective is to target 5,000 international players producing small and medium equipments in the fields of defense, medical equipment, and electronics. This initiative is expected to generate 450 million Euros of additional turnover and 11,000 new jobs by 2015. In the field of secure electronic transactions (TES), the Moroccan technology is already recognized worldwide (5th in market share), particularly in banking, telecom, retail, etc.

- **Textile:** Textiles and clothing is the first industrial sector in the country. In 2006, it generated a turnover of US$4billion, i.e. 14% of the industrial turnover. This industry plays a major role in the economies of many Moroccan cities. Because of globalization, this industry still offers opportunities for development through increased exports. In order to effectively respond to these new challenges, the government launched in 2005 a plan for the modernization of manual operations, the transition from subcontracting to co-contracting and to finished products, the improvement of technical performance and the reduction of production costs.

- **Agriculture, Fishing and Agri-business**: This sector plays a substantial role in the economic as well as social balance of the country as 80% of the 14 million rural inhabitants depend on revenues from the agricultural sector. However, since the independence, the sector combines the problems of parcel subdivision, low yields, weather hazards, etc. By modernizing agriculture and integrating the agri-business sector, Morocco intends to diversify its production and increase exports to international markets. Adopted in 2008, the Green Morocco Plan provides an overall investment of US$14billion aiming at making agriculture a principal lever for growth, generating additional annual turnover of US$400 million and creating 6,000 new jobs.

- **Vocational Training:** Given the degree of programs and initiatives developed to attract foreign investments, an extensive training program is necessary to ensure the availability of a sufficiently trained and skilled workforce. In the National Pact for Industrial Emergence, training activities represent 34% of the US$1.5billion funding, which corresponds to the largest share of total budget. By 2015, 220,000 people should be trained to meet the need of companies operating in Morocco. The myriad of training programs under the Emergence Plan also aim to improve the competitiveness of the small and medium sized enterprises (SME) which currently make up 95% of Moroccan companies.

4. Economic Indicators[3]:

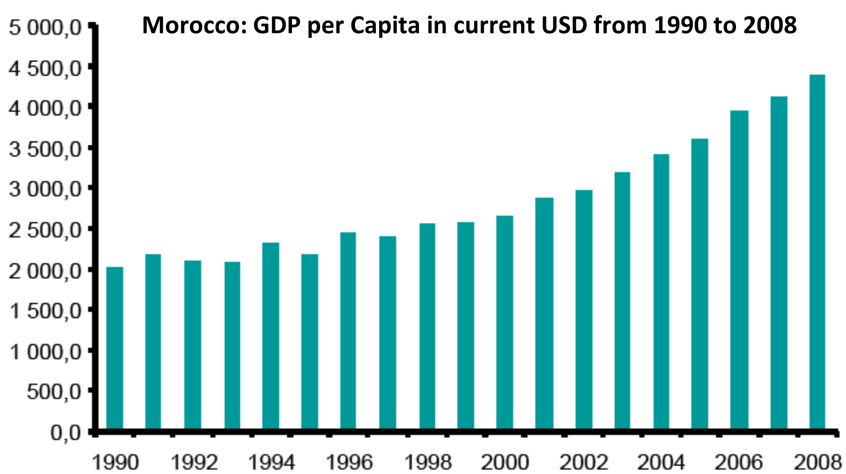


Source: International Monetary Fund, World Economic Outlook Database

[3] *All data provided by the International Monetary Fund, World Economic Outlook Database, April 2011*

A steady growth rate is preferred over exaggerated spikes as it results in sustainable growth for the health of the economy in the long run. Tunisia and Egypt are expected to experience relatively high growth rate given the recent ousting of their respective presidents hence the bullish growth forecasts. However, above average growth must be closely monitored as it is often creates inflationary pressures. As per the above charts, we see that inflation is expected to remain steady for the next 6 years, which will be marginally higher than Djibouti, the lowest of the group of North African countries selected in this analysis. This projects a stable political and economic environment for the country, unlike the highly volatile rates forecasted for Sudan and Egypt. Gross Domestic Product (GDP) on the other hand is expected to grow at a healthy rate as we progress into this decade.

The below chart highlights the growth in Morocco's per capita GDP between 1990 and 2008[4]. The growth rate of GDP over the period 2000-2009 was 4.7% against a rate of 2.1% over the period 1990-1999. GDP per capita (purchasing power parity) increased from US$2,600 to US$4,400 between 2000 and 2009. While unemployment rate fell from 21.5% to 9.6% between 2000 and 2009, the minimum wage increased by 15.3%[5].



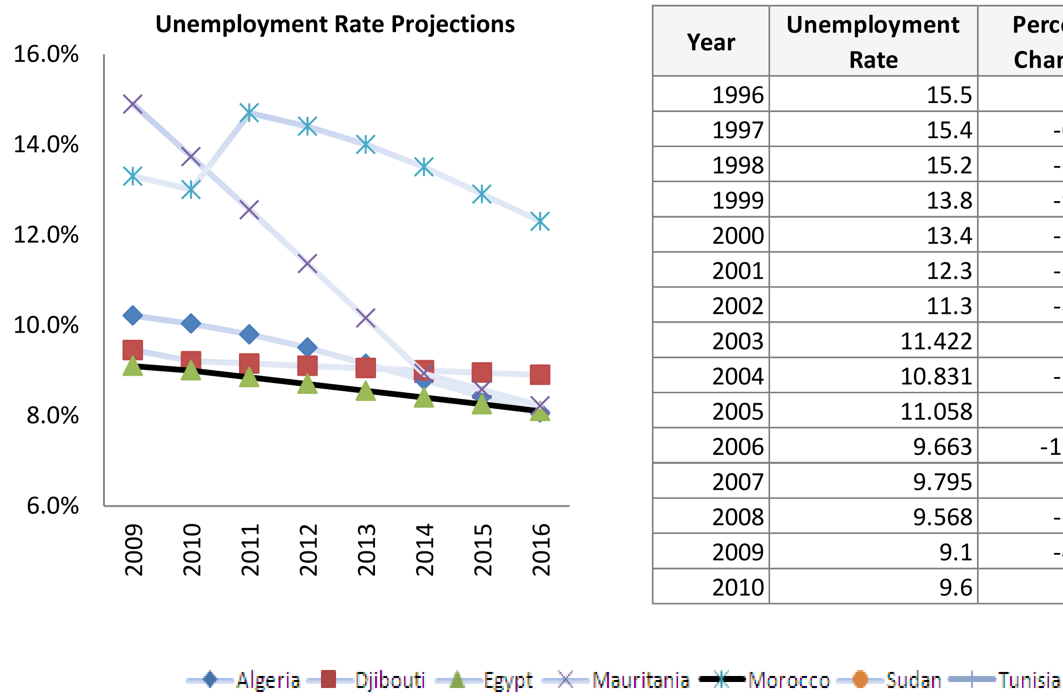
Source: International Monetary Fund, World Economic Outlook Database, April 2011

This economic development and improvement has resulted in a drastic increase in housing demand, as evident with the increase in urban-area homeownership rate from 52.8% to 65% for

[4] *All data provided by the International Monetary Fund, World Economic Outlook Database, April 2011*
[5] Ministry of Employment & Professional Training or "Ministere de l'Emploi et de la Formation Professionnelle"

the same period of 2000-2009. There percentages translate to 73,000 households becoming homeowners every year for the 2005-2009 as opposed to only 50,000 between 1995 and 1999.

Morocco's primary economic challenge is to sustain economic growth in order to reduce high levels of unemployment. While overall unemployment improved tremendously in the past 10 years, underemployment is significantly high in Morocco. Having said that, when compared to peer countries, unemployment rate scores quite low and is only second to Egypt when looking at the 5 years projections.



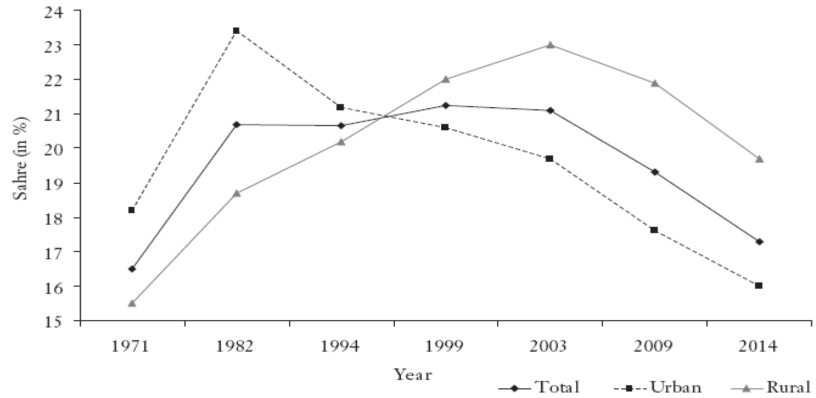
Year	Unemployment Rate	Percent Change
1996	15.5	
1997	15.4	-0.65%
1998	15.2	-1.30%
1999	13.8	-9.21%
2000	13.4	-2.90%
2001	12.3	-8.21%
2002	11.3	-8.13%
2003	11.422	1.08%
2004	10.831	-5.17%
2005	11.058	2.10%
2006	9.663	-12.62%
2007	9.795	1.37%
2008	9.568	-2.32%
2009	9.1	-4.89%
2010	9.6	5.49%

The age structure of the Moroccan population is skewed toward youth, with those aged 15–24 constituting the largest proportion. This group has grown substantially in recent decades, rising from about 17 percent in 1971 to a little over 21 percent, or 6 million youth, in 2004. Even though the share of this cohort is expected to decline to 18 percent in 2014, its relative weight will remain considerable, greatly impacting the future of Morocco. The roots of the changes sweeping Moroccan society can be found in demographic growth. In 2004, the population of Morocco was 29.9 million, compared with 11.6 million in 1960. The country is experiencing a slowdown in the rate of population growth, which fell from 2.6 per cent between 1971 and 1982 to 2.1 percent between 1982 and 1994 and then plummeted to 1.4 per cent between 1994 and 2004. This significant decline in population growth reflects Morocco's entry into what has been called the "demographic transition." This is characterized by an ongoing drop in mortality rates followed by an accelerated reduction in fertility.

The "youth bulge generates enormous needs in education and training, employment, and housing. For instance, the share of the public expenditure on education in the government budget is significantly high and increases continuously - 28.2 percent in 2003, up from 24.1 percent in 1990 - which limits the capacity of the government to invest in other sectors. Also, the youth bulge is regarded as one of the main causes of youth unemployment because the number of jobseekers is increasing much faster than the number of jobs that the economy can create. While these arguments are valid, at least in light of the current situation, the youth bulge should clearly be considered a "demographic gift." By building the human capital of young workers and providing them with opportunities to use their skills, Morocco can increase its income per capita, boost savings and improve social welfare.

As far as urbanization is concerned, Moroccan population has urbanized rapidly particularly over the years 1970 and 1980. The size of the urban population increased from 3.4 million in 1960 to 16.7 million in 2005—a average annual growth of nearly 3.5 percent—whereas the size of the rural population went up from 8.2 million to 13.5 million during the same period, an average annual growth of 1.1 percent. This increase in urban population was the result of the combined actions of population growth, rural exodus and the expansion of urban areas. In 2009, the annual growth rate of urban population was 1.86%, while that of the rural population was only 0.06%. It is estimated that by 2030, urban population will reach 24.41 million while rural population will reach 13.57 million, against 18.39 and 13.46 million respectively in 2010.

Share of 15-24 segment of the population, by area



Conclusion

This chapter highlights the attributes that make Morocco a vibrant and growing economy. The economic and social reforms that have been implemented are conducive to attracting foreign investors, increasing GDP, reducing unemployment and attaining sustainable growth. It has also highlighted the economic indicators and forecasts that support the country's continued growth. The below table summarizes the myriad of programs and initiatives that the government has committed to in order to attract foreign investments.

Program Name	Intended Impact
National Pact for Industrial Emergence	The plan outlines 111 measures designed to propel the country's industry through the next decade. Objective is to create of 220,000 new jobs, increase GDP by US$7billion and exports by US$10billion
Azur Plan	Designed to create of six coastal resort with the objective to attract 10 million visitors per year.
Vision 2020	The aim is to make Morocco one of the top 10 destinations by doubling the number of tourists. A total investment of US$20billion aimed to increase tourism revenue and create 147,000 new jobs.
Green Morocco Plan	This national agriculture strategy aims at increasing water usage efficiency and replacing existing irrigation systems with micro-irrigation. This plan is expected to cost US$18billion.
National Initiative for Human Development	To mobilize the country's institutional and financial resources to improve living conditions amoung the population and raise national social indicators.
City Without Slums	To eradicate all shantytowns and slums in Morocco, at an estimated cost of US$1.6billion
Solidarity Housing Fund	Created in 1984 to offers tax relief, as well as subsidizes to promote construction and home ownership
Mortgage Guarantee Fund for Low or Seasonal Income Groups	Providing 25 year mortgages for low income households that would not otherwise qualify for commercial bank mortgages
The Hassan II Fund for Economic and Social Development	Intended to finance economic and social projects. Initial funding of US$3billion from the privatization of three companies. Continued funding provided from government receipts.
Mortgage Guarantee Fund for Civil Servants	Fund reserved for civil servants with a minimum of a 7 year public employment record which finances 100% a 25 year mortgage, at a predetermined rate, up to a maximum value of US$40,000

This chapter has also discussed Morocco's population and the urbanization trends that will be one of the demand drivers for the real estate sector, as will be discussed in the following chapters. Having established that Morocco is a growing economy, with investor-friendly government and policies, the research will now move into exploring the residential real estate sector to determine whether or not investment opportunities exist for foreign investors.

CHAPTER II

Introduction

Having established Morocco as a viable destination for investment capital in Chapter 1, chapter 2 will proceed to introduce the residential housing sector and determine its key demand drivers by analyzing demographic indicators as well as other factors including income growth, availability of mortgages and households' preferences. Supply indicators will be studied by looking at the construction activity and evolution of cement consumption. The following section will present a market analysis of the residential segment which will entail market segmentation and demand supply gap analysis. The result of the analysis will lead to identifying investment opportunities in the low-income housing space.

The chapter will conclude by highlighting measures the government is actively taking to encourage the private sector participation in the low-income housing, by means of reforms, strategic partnerships and generous incentive programs.

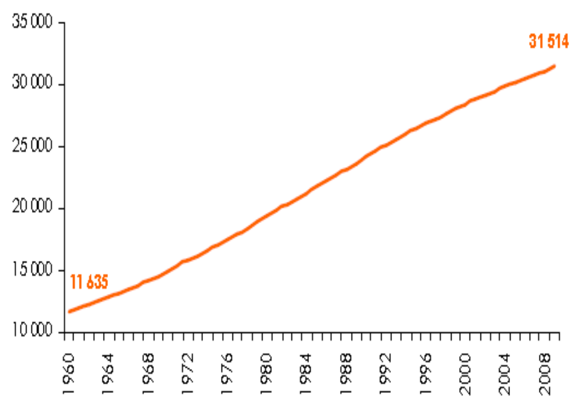
1. Demand Analysis:

1.1. Housing Demand Drivers:

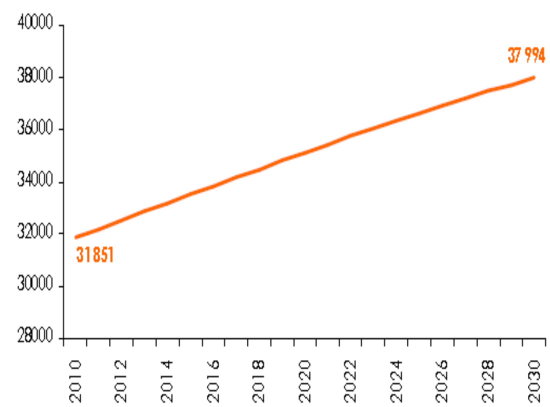
The main determinants of housing demand are demographic related and rely on the population trends and household growth. However, other factors like income, housing prices, availability of mortgages and consumer preferences also play a role.

Population & Households: The Moroccan population experienced a drastic increase since gaining its independence, multiplying by 2.7 times as it grew from a bit over 11 million in 1960 to 32 million in 2010. The strong year to year growth continued until the 1980s, falling below 2% in the mid 1990s and stabilizing around 1.8% since 2005. Moroccan population is projected to reach 38 million by 2030, although the annual growth rate of population is expected to decline from 1.7% to 0.68%. [6]

Population 1960-2008 in thousands



Population Projection 2010-2030 in thousands



Source: HCP

Over the past 25 years, the number of additional households increased from 98,210/year in 1982 to 148,000/ year in 2010. This upward trend is estimated to continue over the next decade as the number of household increases to 190,000 by 2020, out of which 140,000 would be urban and 50,000 would be rural.

---

[6] Information and Data from the High Commission for Planning

	Incremental Annual Households (000)		
Year	Total	Urban	Rural
1982	98	80	15
1994	95	90	4
2004	162	99	62
2005	146	106	40
2006	140	106	33

	Projected Incremental Annual Households (000)		
Year	Total	Urban	Rural
2010	148	128	21
2015	172	135	36
2020	190	140	50
2025	198	135	63
2030	193	123	71

Source: HCP

As far as the average household size is concerned, it moved from 5.9 persons in 1982 to 5.1 in 2006 and was more pronounced in urban areas. By 2030, the number is expected to decrease to 3.8 persons as per the table below:

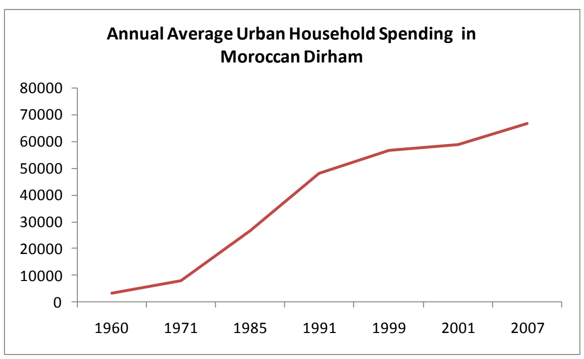
	Household Size		
Year	Total	Urban	Rural
1982	5.9	5.5	6.4
1994	5.9	5.3	6.6
2004	5.2	4.8	6
2005	5.2	4.7	5.9
2006	5.1	4.6	5.8

	Projected Household Size		
Year	Total	Urban	Rural
2010	4.9	4.4	5.7
2015	4.6	4.2	5.5
2020	4.3	3.9	5.1
2025	4	3.7	4.6
2030	3.8	3.6	4.2

Source: HCP

The increase in the number of households in Morocco was accompanied by an increase in household spending. Between 1960 and 2007, the average annual household spending increased by more than 20 times indicating an improvement of the living standards in the country.

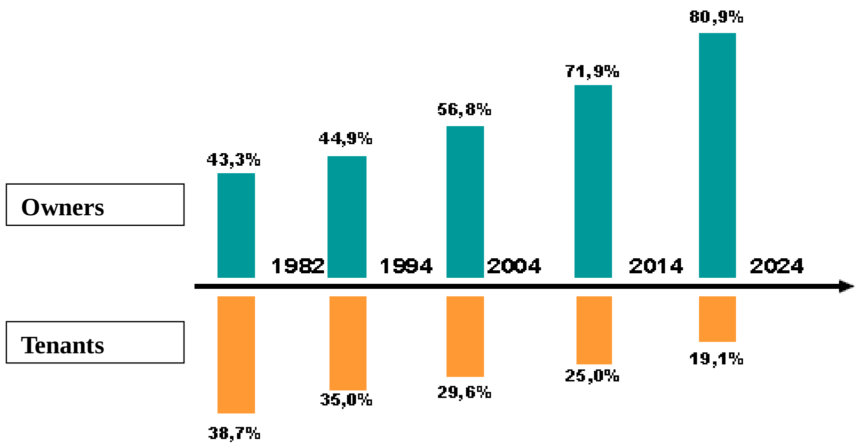
	Annual Average Household Spending (Dirhams)		
Year	Total	Urban	Rural
1960	2,480	3,350	2,160
1971	5,380	8,057	4,003
1985	21,475	26,667	16,824
1991	38,600	48,192	28,584
1999	46,339	56,781	32,372
2001	49,333	58,900	33,994
2007	57,925	66,723	43,334



Source: HCP

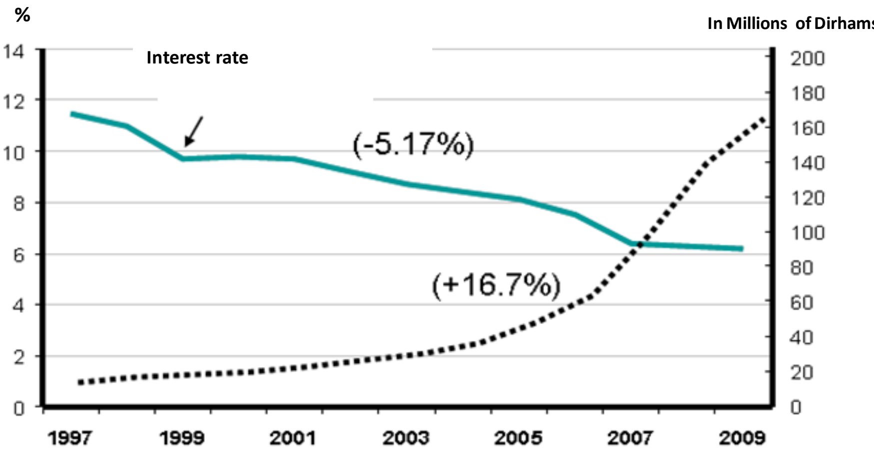
Consumer Preferences: Another contributor to housing demand is the rental market which loses 15,000 households every year to the owners market. The rental market in Morocco represents 29% of the urban space in 2004, compared to 35% in 1994. Because of the incentive programs that the state introduced to encourage access to ownership, it is estimated that the rental market will decrease further to 25% in 2014 and 19% by 2024. As a result, home ownership in Morocco is one of the highest in comparison to countries of similar economic level. Expressed as a percentage of the stock of primary homes, it reached 56.8% in 2004 against 84.8% in Spain, 63.4% in France and 43.8% in Germany.

Owners and Tenants Markets share from 1982 till 2004 and projected to 2024



Availability of Mortgages: Between 1997 and 2009, outstanding real estate loans increased by 17% and represented nearly 23% of GDP against 6% in the earlier decade. The growth in outstanding real estate loans is driven by the decrease in bank interest rates, from 11.5% in 1997 to 6.2% in 2009 as well as the introduction of long-term loans which were not previously available.

Interest Rate (Left axis) and contribution of mortgages to total outstanding loans (dotted line) between 1997 to 2009.



Source:Bank al Maghrib

Despite the improvement in real estate financing, mortgages are still concentrated on middle to high-end income households as low-income groups usually don't satisfy the loan application and requirements set forth by the lending institutions. The absence of steady income flow, credit history and collateral disqualifies them from accessing the financial services offered by these institutions. Based on 2009 World Bank figures, it was estimated that banks financed only 20% of housing construction, leaving 80% to self-funding. As it currently stands, the ratio of mortgage loans to GDP is only 7% and the annual growth rate is estimated at less than 1%.

While commercial banks have been reluctant to extend housing loans to low-income groups, exacerbating the housing deficit, the government established "FOGARIM" the Mortgage Guarantee Fund for Low- or Seasonal-Income Groups (Fonds de Garantie en Faveur de Populations à Revenues Irréguliers et Modestes) in 2003. Reserved for low-cost housing, the fund provides Moroccan citizens the state's guaranteed 25-year mortgages that finance up to 100% of housing costs at a fixed interest rate determined by the bank. Also established in 2003, the Mortgage Guarantee Fund for Civil Servants (Fonds de Garantie des Prêts Destinés au Logement du Secteur Public) provides government workers with the same 25-year mortgage to finance up to 100% of housing costs at a bank-determined fixed interest rate. The fund is reserved for civil servants employed for a minimum of seven years and earning a net yearly income of US$9200 or less, for homes with a total cost of US$45,200. Both funds fall under the aegis of the Ministry of Finance, and are available for construction or purchase of housing units. Local banks are also starting to develop their own mortgage products for middle-class Moroccans and special products for the lucrative segment of Moroccans living abroad, similar to the product offered by The Central Guarantee Fund (Caisse Centrale de Garantie), for instance, which offers a 100% loan of up to US$103,000 at a fixed rate determined by the bank.

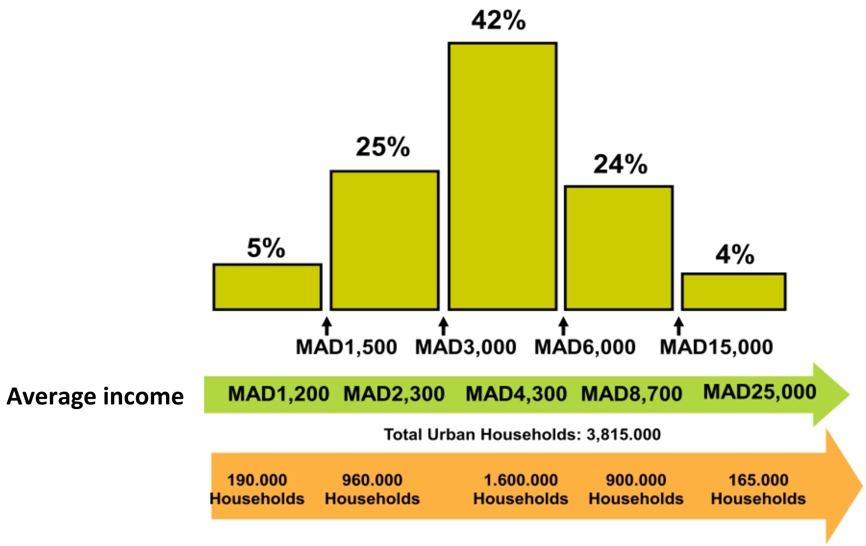
1.2. Housing Demand:

There exist 4 main housing segments in Morocco:

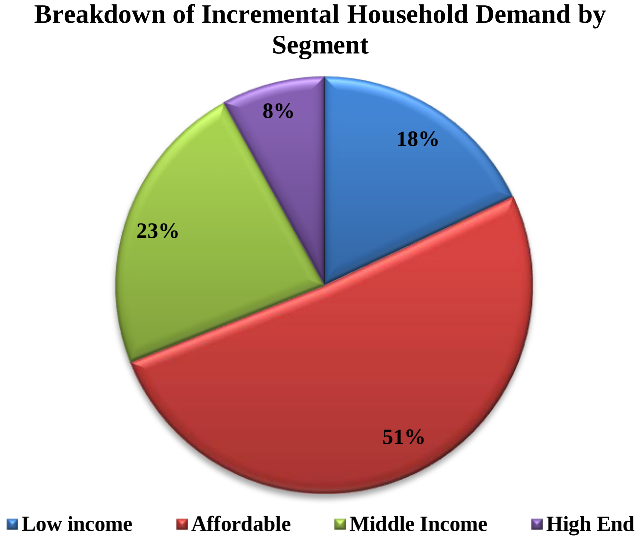
Low cost	Affordable	Middle Income	High End
• Housholds with monthly income less than MAD 3,500 • 18% of the population • Price/unit less than MAD 200,000	• Households with monthly income ranging from MAD 3500 and MAD 8000 • 51 % of the population • Price/unit ranges between MAD 300,000 and MAD 400,000	• Households with monthly income ranging from MAD 8000 et MAD 16000 • 23 % of the population • Price/unit varies by geography and product type. • Price/sqm ranges between MAD 6000 and 10,000 square meter	• Households with monthly income higher than MAD 16,000 • 8 % of the population • Price/unit varies by geography and product type. • Price/sqm higher than MAD 10,000 per square meter

Morocco does not have relevant statistics that trace demand for residential housing. Indeed, data on the real estate sector in general and the housing segment in particular is limited and outdated. The keys determinant for housing demand is population growth which is updated every 10 years and household growth which is assessed every 4 years by the Ministry of Housing and Urban Planning. The last census dates back to 2008.

The following chart provides a breakdown of total households per income level. It indicates that households with income level less than Moroccan Dirhams (MAD) 4,300 constitute more than 70% of the total households. Followed by households with income levels averaging MAD 8700 representing 24% of total urban households. In third place are households earning MAD 25000, contributing 4% to the total households.



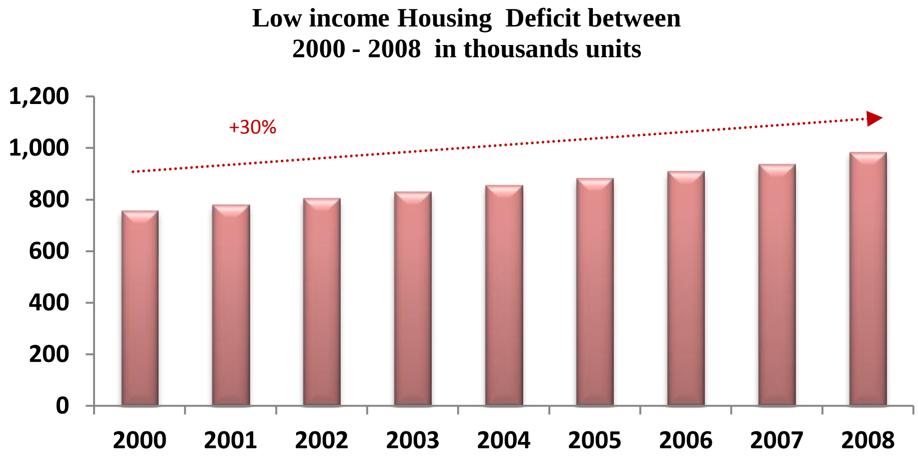
Each year, it is estimated that nearly 148,000 households are created, out of which 128,000 are urban households and 21,000 are rural. Based on a study conducted by the Ministry of Housing and Urban Planning in 2008, nearly 70% of the incremental households are targeted for low-income and affordable segments.



In addition to the incremental demand recorded every year, there is a need for additional housing to support the accumulated deficit in the low-income segment. The deficit is comprised of households living in slums (shacks, informal/illegal buildings) and those living in sub-standards housing with insufficient amenities. According to the Ministry of Housing and Urban planning, the deficit breakdown in 2009 was:

Housing Deficit Breakdown	**Units**
Shacks	163480
Illegal/Informal housing	375000
Sub-standard Housing	206000
Cohabitation	240000
Total Deficit	**984480**

The graph below represents the evolution of low-income housing deficit between 2000 and 2008. According to the figure, there is a need for one million housing units just to cover the accumulated deficit.

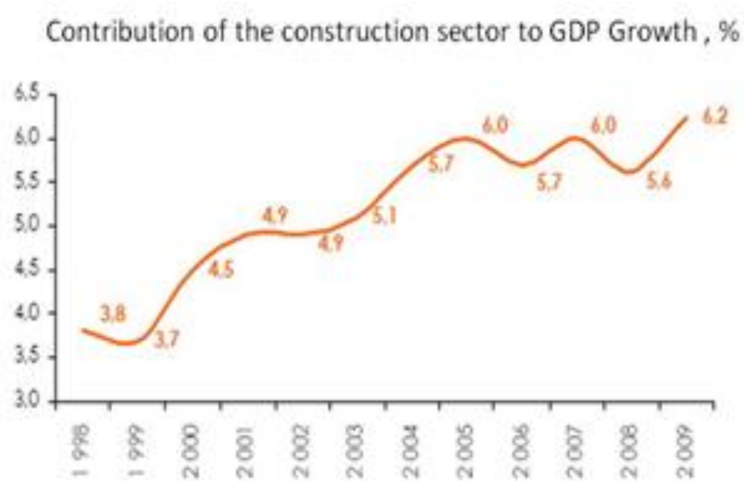


Source: Ministry of Housing & Urban Planning

2. Supply Analysis:

2.1. Housing Supply Indicators:

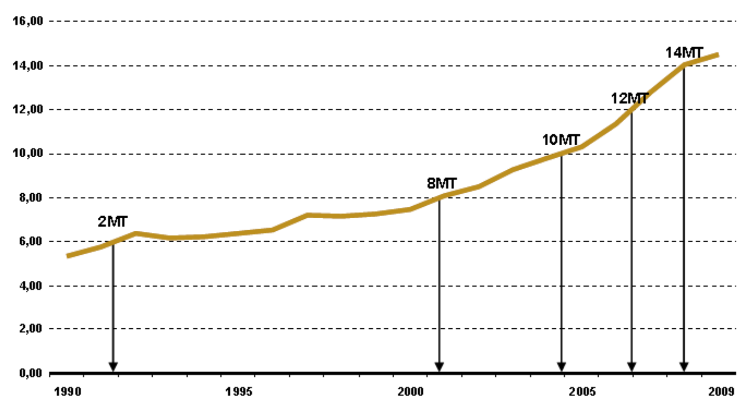
Construction: has always been a major activity of the economy and one of the most dynamic sectors. Its contribution to GDP growth continues to increase, accounting for over 6% of the country's GDP and employing 11% of the population in 2009. In addition to its importance for the Moroccan workforce, the construction sector accounts for nearly half of the total Gross Fixed Capital Formation (GCFC).



Source: HCP

Cement Consumption: Another major indicator of housing supply is consumption of cement as 58% of cement is consumed by the construction industry. The below chart depicts the increase in consumption of cement over the 20 year period. More significantly, is the double digit rate of increase in the last couple of years. For example, it took 10 years from 1991 to 2001 for the annual consumption to increase by 2 million tons, whereas it took less than two years for it to increase by the same amount between 2007 and 2009[7]. In 2008, 14.05 million tons of cements was consumed which is 9.86% greater than in 2007. With the sale of construction materials decreasing since 2009 and throughout 2010, developers have enjoyed slightly higher margins. Cement sales fell by 2% since the beginning of the downtrend, while the production index for other aggregates increased by 0.5%.

Cement Consumption between 1990 and 2009 in millions of tons



Source: Association of Cement Professionals

Cement production decreased in early 2010 due to bad weather and flooding in certain parts of Morocco. The sector growth remains week, compared to the year before, and well below the strong growth seen before the onset of the global economic crisis in 2008. Though this downward trend is expected to continue in the short term, growth potential is strong and activity is expected to pick up due to the renewed focus on low-income housing sparked by the 2010 Finance Law, Vision 2020 and other large projects.

[7] The above data was provided from the "*Association des Professionnels du Ciment"* or Association of Cement Professionals (APC)

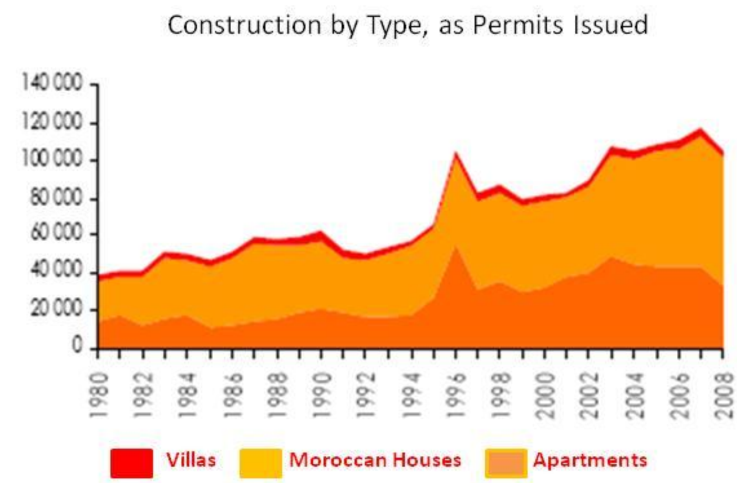
2.2. Housing Supply:

The Moroccan residential market can be classified into three types when discussing new dwelling units:

- **Villas**, making up the smallest share of the market, are the most expensive and typically built by the owner with the intention of occupying it. The exception to the rule would be the high-end gated communities developed on prime real estate by local or international developers as stand-alone communities or part of a larger development. Average size: 272 m²

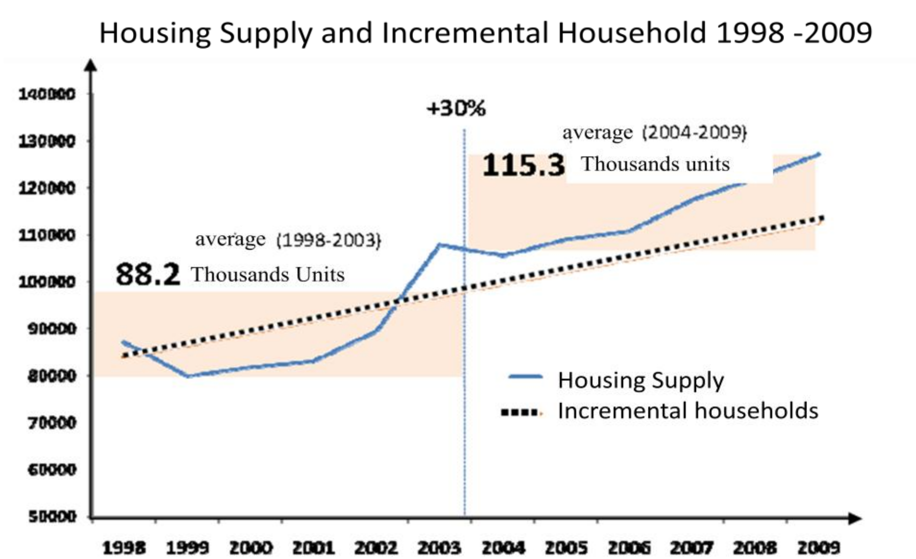
- **Moroccan houses**, multi-storey dwellings, are also built by the owner, but are often occupied by the entire family. It is common to have the owner, his wife and unmarried children on one floor, with his married son and his wife and children on another floor of the same house. These Moroccan houses are typically narrow structures occupying almost the entire tight plot of land on which they rest. Unlike the villas, no precious land is allocated to luxurious amenities such as a back yard or swimming pool. These houses are mostly for the middle to upper-middle income group. Construction of Moroccan houses grew at an average annual rate of 4.17% between 1980 and 2008. It continued its trend, to account for 64% of all dwelling in 2008 versus 55% in 1980. Average size: 117 m²

- **Apartments or condominiums**, the most diverse of the classes, range from the high-end penthouses found in prime brand new waterfront developments, to government funded low-income housing condos away from the downtown core in newly created suburbs and close to the city's larger infrastructure network. Apartments also come in the plain vanilla flavor that caters to the middle income class or recently married young professionals. Supply of this product type increased at an annual rate of 3.28% between 2000 and 2008. However, its share in total housing supply declined from 37% in 1980 to 32% in 2008. Average size: 121 m²



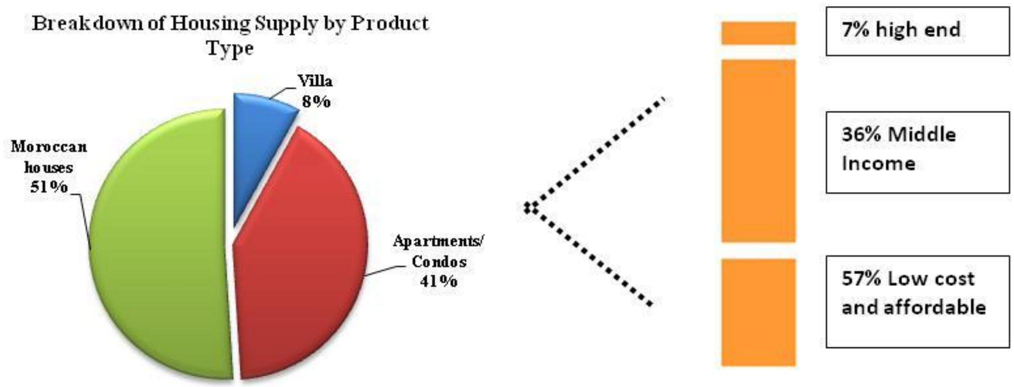
Source: Ministry of Housing & Urban Planning

Based on the data provided by the ministry of housing, the total number of dwelling constructed every year increased from 88,000 units between 1998 and 2003 to more than 115,000 units between 2004 and 2009. Housing supply has been growing at an average rate of 4.9% over the 10 years compared to a population growth of 1.2%. Since 2003, housing supply exceeds the threshold of 100,000 homes per year which has contributed to control the growth of the housing deficit in the country.



Source: HCP

Market segmentation indicates that supply remains dominated by the affordable and low-cost segments which represent about 57% of total annual supply. The share of middle income housing stands at 36%, while high-end housing share is still as low as 7%.



Despite the increase in housing supply over the last decade, production does not meet the actual demand particularly in the low-income space.

Over the past four decades, the supply of low-income housing had increased from an annual average of 26,500 units during the 1970s to an average of 70,000 units during the 2000s. However, the housing deficit grew at an average of 12,300 units in the 1970s, 34,300 units during the 1980s, 30,000 units during the 1990s, and then to 20,800 during the period of 2000s. As per the below table, the annual supply of new homes fell short every decade, with the largest deficit being in the 1980s when it exceeded 100% of total supply.

Low Income Housing Policy Measured by Annual Supply and Unsatisfied Demand between 1970 and 2009

	1970-1980	1981-1990	1991-2000	2001-2009
Supply				
Homeowners	22,000	25,000	31,000	52,000
State & Private developers	4,500	4,000	7,200	18,000
Average Annual Supply	**26,500**	**29,000**	**38,200**	**70,000**
Unsatisfied Demand				
Slums Development	5,200	11,300	15,700	9,800
Informal Housing	7,100	23,000	14,200	11,000
Average Annual Deficit	**12,300**	**34,300**	**29,900**	**20,800**
% Annual Deficit	46%	118%	78%	30%

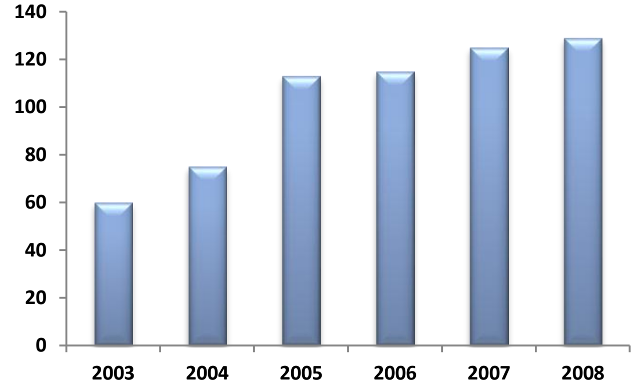
Source: Ministry of Housing and Urbanization

During the 1970s, supply was provided for by the sole effort of the government through the Public Facilities for Planning and Construction (ERAC) entity which operates under the Ministry of Housing to set up programs for low-income housing across the country. Seeing that it wasn't enough, the government established the National Company for Equipment and Construction (ANHI) to accelerate the pace of low-income production in order to stop the growth of slums and help produce affordable units under a new housing policy.

In 2000, seeing that more needed to be done, the state prioritized housing and launched a national program to stimulate the production of low-income housing. The main objective of the program was to double the rate of production of low-income housing to reach 100,000 units per year over the medium term and gradually eliminate the deficit of housing through a massive supply of adequate units.

The policies that the government has taken have been successful in exceeding the targeted 100,000 units by recording 115,000 in 2006, 121,000 in 2007 and 129,000 in 2008. However, in 2008, the state revoked tax breaks which discouraged most private developers and caused low-income housing construction to plunge from 129,000 in 2008 to only 35,000 in 2009.

Low income Housing Supply between 2003 - 2008 in thousands of units

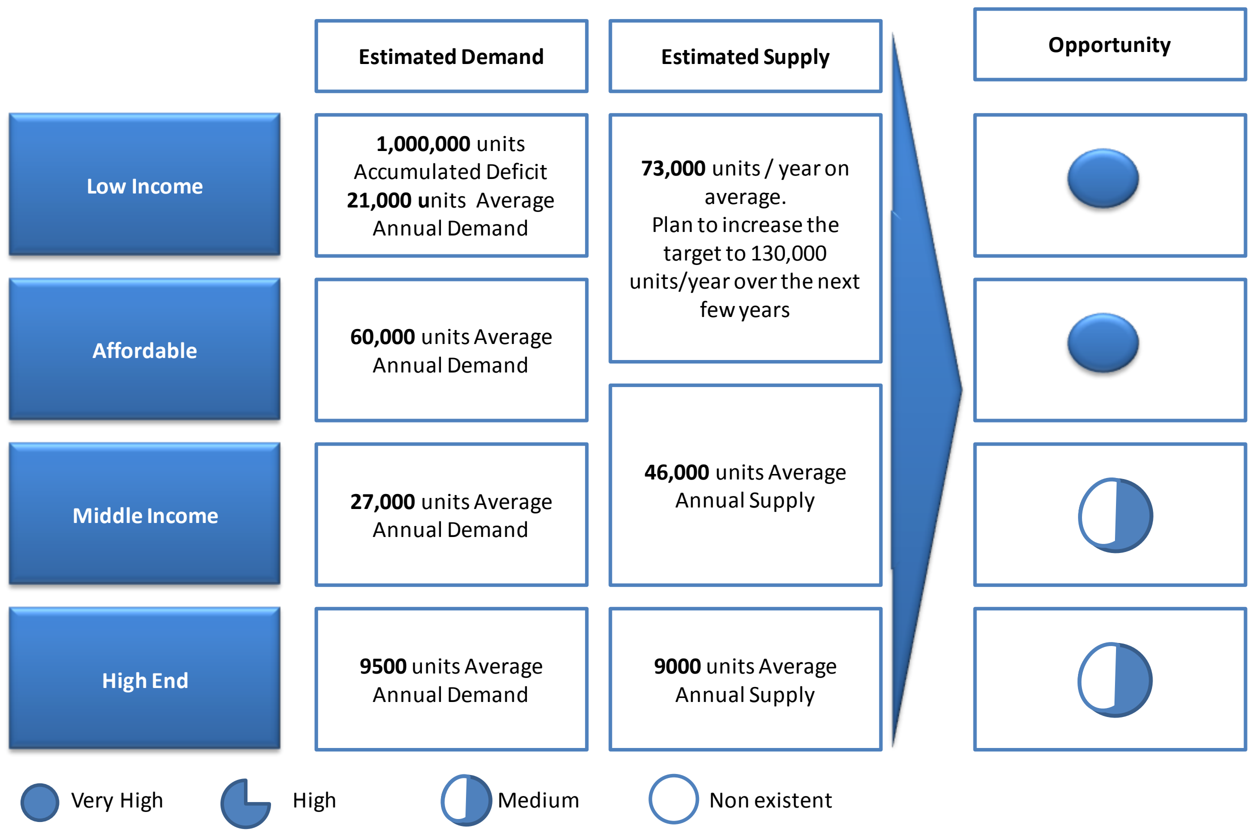


Source: Ministry of Housing and Urban Planning

To offset the decrease in production, the government took a number of initiatives and mobilized public land, including opening-up 3853 hectares in 2009 for the construction of low-income housing. In January 2010, the Ministry of Housing and Urban Planning launched a stimulus plan aimed to accelerate construction of 300,000 low-income housing units over 5 years with a price tag ranging from MAD 250,000 and MAD 270,000. State-owned real estate developer Al Omrane Holding led the program and pledged to build 100,000 low-income housing units annually. To support the program, the government proposed several incentives including: reducing taxes and assisting prospective buyers with grants as high as 30% of the unit cost. As soon as the new laws were passed, private real estate developers rushed to participate announcing multiple projects with hundreds of thousands units. The largest Moroccan developer, Addoha, was the first to answer the call, and announced plans to build 120,000 homes over 5 years. This figure was later revised upwards to 150,000 units, during which, the down payment from future owners was lowered from MAD 70,000 DH to MAD 40,000. Another developer, Palmeraie Group, through its affiliate, Les Espaces Saada, pledged to build 80,000 additional housing units over five years. Meanwhile, another developer, Chaabi Group, offered units at MAD 180,000, lead by an aggressive marketing campaign. CGI also announced plans to build 100,000 units by 2020. Other operators including medium and small developers also pledged to participate in high demand cities with, such as Casablanca, Tangier, Agadir, Kenitra and Tamesna.

Despite their enthusiasm, the pace of housing starts in the low-income space remains weak. Cement professionals indicated that they have not yet felt the impact of the low-income housing stimulus plan. According to a 2010 interview with Mr. Bouhaouli, Managing Director of the Association of Cement Professionals in Morocco: "We followed the developers' press releases and their plans to build thousands of low-income housing units. We expected this to result in orders… So far, we observed no increase in demand of cement from this segment".

3. Summary of Supply and Demand Analysis:



With the deficit remaining intact, and supply constant, a simple comparison by segment indicates that the low-cost and affordable segments present clear opportunities for investment. In fact, these segment account for 70% of total annual demand every year. The low-income housing deficit has plagued the real estate sector for years and is the result of decades of ineffective programs and policies that did more harm than good. Unfortunately, the state only started to take the right steps in recent years and only when the deficit reached alarming levels.

Despite the large scale incentive programs, and the participation of public and private developers, it will take many years of increasing supply before the deficit is finally eliminated.

The middle income and high-end segments offer fewer investment opportunities based on the supply and demand mismatch. However, niche opportunities exist in those segments given the absence of high-end and middle income projects with good finishing. For example, middle income households may settle for affordable housing units given the absence of a wider selection.

4. Investment Vehicles and Incentive Programs:

4.1. Public Private Partnerships:

In order for the government to address the housing deficit, the state decided to partner with private organizations for a joint effort in finding a potent solution that is both commercially feasible and socially acceptable. The idea was for the state to provide the land at very low-cost and entrust the private sector to develop the affordable housing units. Public private partnership first attempt in 1996 failed miserably because of the weak structure of the partnership which resulted in mediocre production rates and worsened the expansion of the slums. The follow on attempt at PPP in 2003 had yielded positive results as it was structured more professionally. The creation of Al Omrane and its role in management and oversight was a key element in ensuring that the PPP were effective.

The new housing policy was set with the main objective of producing 100,000 units annually through the development of 3500 hectares of land, as well as the creation of the Solidarity Housing Fund "*Fonds de Solidarité de l'Habitat*". This was the first time the government had dedicated so many resources to the housing sector during the last 40 years. The new public-private partnership policy introduced major reforms on procedures for partner's selection, objectives and principles, such as targeting low-cost and affordable housing, establishing price ceilings to ensure affordability, allowing small and medium real estate developers the opportunity to participate in these partnership, and attracting the latest technology and innovation used in construction. The goal is to make transparent and commercially oriented partnership agreements that are attractive enough for the private sector.

The government's goal is to have the private sector select and construct the developments in new neighborhoods around the main cities and close to established infrastructure. Even though these partnerships are not without their critics, it is generally accepted that their use was instrumental in developing the real estate sector in Morocco as well as boosting the property market throughout the country. Their use has also prompted foreign investors to play a more active role as they made up more than 15% of the first wave of PPP.

City Without Slums introduced in 2004, along with the introduction of the National Initiative for Human Development (NIDH), signaled a significant commitment from the government to eradicate sub-standard housing and slums. The program aimed at eliminating 1000 slum neighborhoods, housing a total of 277,000 households, across 83 cities. A pledge of US$2billion was made in support of this initiative, and by the end of 2009, 82 contracts had been signed to supply 206,000 households. With almost half of the objectives achieved, 42 cities were officially certified as "slum-free". A total of 81,500 shacks have been destroyed and replaced, making the initiative's progress average 24,000 annually, as opposed to the meager effort in 2000 of only 5,000.

Given the number of construction and public works developments in the pipeline, the housing sector is forecast to undergo sustained growth in the medium to long-term. Several projects have been delayed and some foreign developers have left, but the industry has stood firm in the downturn. As the global economy starts to pick up, foreign direct investment is expected to increase. Private investment in the low-income housing sector in particular is set to expand over the next decade. Demand will also rise as homeownership becomes increasingly accessible for low-income groups.

4.2. New Cities & Incentive Programs:

To absorb part of the housing deficit and reduce overcrowding in urban areas, in 2004 the Ministry of Habitat and Urban Planning called for the creation of 15 new cities by 2020. These cities are designed to cater to increasing demand for affordable housing. Economic zones have been integrated into the master plans to activate socioeconomic activity.

Despite some delays, the Tamesna and Tamansour projects are nearing completion. Construction at Chrafate, Lakhyayta and Zenata is also under way. Al Omrane is the leading developer, though several public-private partnerships (PPPs) have been established.

Built over 840 hectares Tamesna will cover an estimated 38% of housing needs for the greater Rabat area. The US$2.8billion project includes 54,000 housing units and is set to accommodate 250,000 inhabitants. In addition to basic amenities including schools, hospitals and recreation infrastructure, a 52-hectare business park and an 18-hectare industrial zone are included in the master plan. Low-income housing accounts for the largest share of properties, with 8300 units priced under US$20,000, 9000 units under US$25,000 and 1500 villas ranging from US$100,000 to US$150,000. A number of foreign firms have partnered with Al Omrane including Spain's Marina d'Or International, which built 7000 units. Despite experiencing some delays, the first residences were completed in spring 2009.

Construction of Tamansourt, near Marrakech, is divided into two phases. The first phase is currently nearing completion. Built over 1,200 hectars, it will accommodate some 300,000 people around 200 hectares of green areas and seven economic zones. The US$3billion project includes 58,000 housing units, of which low-income housing takes the largest share. While Al Omrane is the primary developer, 170 hectares have been reserved for private developers to build 26,800 units. To date, an estimated 10,000 units have been sold. Phase two includes an additional 700 hectares and 30,000 units for 150,000 people.

The city of Chrafate, near Tangier, is set to meet the housing needs of the industrial area emerging near the Tanger-Med complex. Built over 1,300 hectares, the city is expected to accommodate 150,000 people. Construction was launched in 2009 and the first housing units are due for completion in January 2012. The US$2.9billion city will also house Tangier Automotive City and other downstream activities. The city will meet the demand created by the Tanger-Med complex and related industrial activities.

Along with the new cities to be constructed, the government is also making strides through the introduction of different incentive schemes. In order to overcome the increasing housing deficit, the government has reinstated fiscal incentives for the construction of affordable housing. As per the 2010 Finance Law, which will be effective for the next 10 years, low-income housing developers are exempt from the capital gains, value-added, registration, professional and cement taxes. In addition to the affordable housing plan, the government launched a program for the construction of low-cost housing units in 2008 to facilitate home ownership among low-income buyers. These units sell for under US$20,000 and are reserved for people that earn up to 1.5 times the monthly minimum wage.

With the onset of the global economic downturn, investment in the segment contracted considerably, which the led the government to react swiftly with the institution of a 50% tax break for all property developers in 2009. While the tax breaks helped stimulate real estate development, it led to a decrease in investment in low-income housing as developers concentrated on the profitable high-end segment. In order to incentivize developers to focus on the low-income space, specific perks had to be introduced. Incentives included exoneration from the capital gains, value-added, registration, professional and cement taxes. These are available for a 10-year period and apply to developments of over 500 units that are constructed within a five-year period, down from 1,500 units under the previous law. The 2010 law also redefines low-income housing as units with a surface area of between 50 and 100 sq meters that sell for less than US$32,900, a threshold 25% higher than the previous listed limit. The cost of low-income housing was adjusted to compensate for the rise in land and construction prices, though the developer is also expected to improve the quality of the end-product.

To promote home ownership, low-income home buyers receive a value-added tax rebate of US$5,100. Ministry of Habitat and Urban Planning commented that this is the first time an incentive of this kind has been offered; a direct financial contribution to the Moroccan household. To ensure that this initiative has the intended impact, it has been implemented with the necessary measures to curb speculation. A notary must draft all sales contracts, and to obtain the tax rebate homeowners must prove that this will be their primary residence for a minimum of four years. If the property is resold within four years the tax rebate must be repaid.

A strong and flexible housing industry is a vital component to capital advancement in low and medium income economies. Development in the Moroccan housing market is being stalled by the lack of availability of low-income housing, land and poor financial infrastructure. However, recent movements towards greater transparency and financial liberalization suggest a future where there are many opportunities for increased private sector involvement in all levels of the Moroccan housing sector. This expansion of private participation will generate broad communal and economic benefits for the overall population and the developers.

Conclusion:

It is clear from this chapter the drivers for the residential real estate sector in Morocco are strong and diverse. Whether demographic, economic or policy driven, there are many factors that support the development and growth of the residential sector and that call for additional investment from private developers as well as foreign developers. The market analysis indicates that the low-cost and affordable segments present clear opportunities for investment. Indeed, the current deficit of 1million units in the low income space will require multiple years of dedicated supply and will call for the joint effort of state companies, private domestic developers as well as foreign investors.

CHAPTER III

Introduction

As introduced in the earlier chapters, Morocco's attitude and reform initiatives, gradual economic liberalization and steady disengagement of the state to promote foreign investors should be reiterated, given its significance in attracting the necessary investments in order to stimulate its economy and sustain future growth. The private sector and international investors are essential not only for providing the investment funding but also for their contribution to improve the competitiveness of the country and facilitate its integration into the global economy.

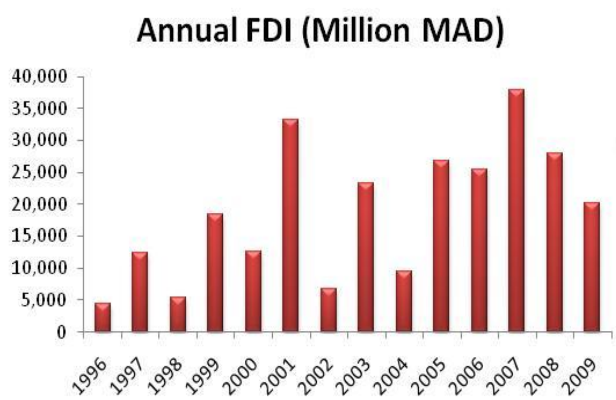
Chapter three will introduce the growth of foreign investment in Morocco before drilling down into real estate-specific analysis. The chapter will highlight the growth, as well as introduce the reasons behind the increase of interest in Moroccan real estate. The research will then proceed to determine the differences between the local and foreign developers, in their view of the sector as well as their preferences by segment and geography. From there, it will highlight some of the challenges that still face foreign developers and calls for serious measures that the state should take to stimulate foreign investment in the housing segment.

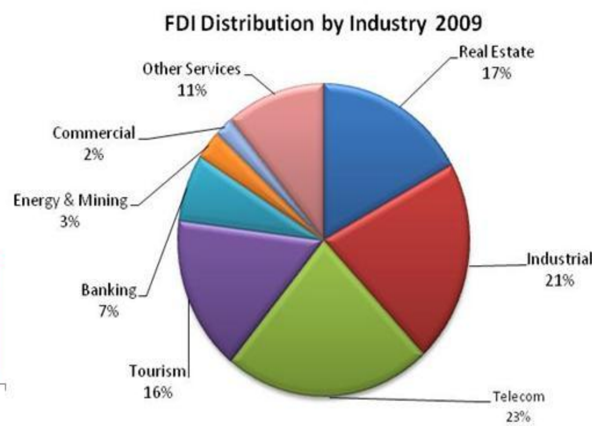
The research will conclude with a summary of its findings and a framework of how foreign investors should take advantage of the investment proposition identified. This section will hopefully shed light on some of the lessons learned from both the failure and successful projects for future developers looking to participate in what seems to be a lucrative and rewarding real estate sector.

1. Foreign Direct Investments in Morocco:

The economic and institutional reforms undertaken since the mid 1990s have had a positive impact on the country's economic performance during 2000-2009, since it enabled Morocco to attract significant FDI inflows. Changes in annual flows of FDI from 2000 to 2005 were due to the opportunities offered by the privatization program. Since the first privatization performed in 1993, a total of 47 companies and 26 institutions have been transferred to the private sector at total value of US$12billion. Beyond the financial aspect, these privatizations have improved employment, productivity and the quality of service.

Growth in FDI inflows to Morocco has widely fluctuated since 1996 recording a nose dive decline in 2002, from MAD 35 billion in 2001 to MAD 6 billion in 20002. As a matter of fact, 2001 was an exceptional year for FDI because of the large acquisition that took place in the telecommunications sector. However, the following years experienced a number of ups and downs leveling out at MAD 20 billion currently.





Source: Foreign Exchange Bureau

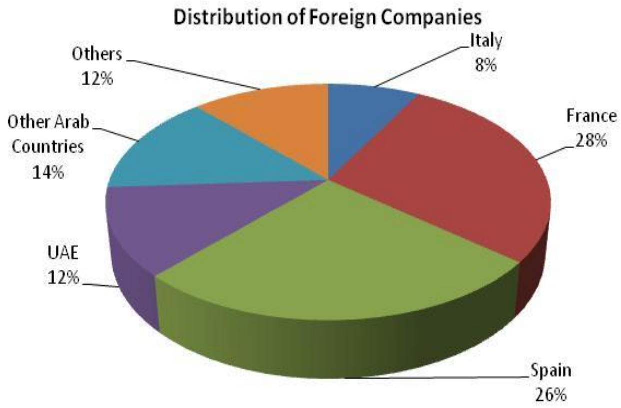
The share of telecommunications in FDI still dominates other sectors, accounting for 25% of total FDI, followed by industry at 21%. In third place is real estate and tourism which began to attract significant FDI in recent years.

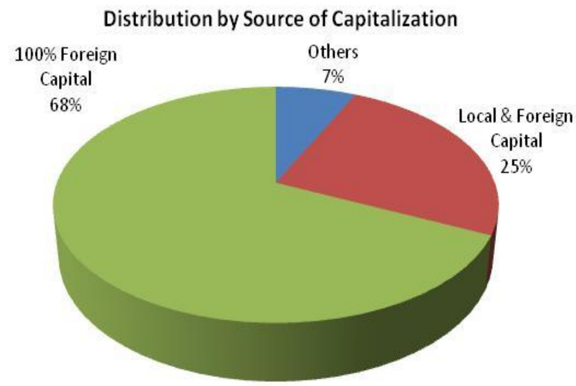
2. Foreign Direct Investments in The Real Estate Sector:

Over the past decade, the Moroccan real estate has attracted close to US$5billion of foreign investment, almost 17% of all FDI receipts. Real estate has been growing at a significant rate of 26.3% over the past ten years, while overall FDI has been growing at just 10.9%. It is important to understand the reasons behind this growth to determine its sustainability for future development. Below are some factors that have fueled the growth of real estate FDI:

1. The dynamics of growth in the international real estate sector. The sector had registered record profits in both developed and developing markets. Internationally, double digit returns prompted unprecedented interest in real estate.
2. Size of the Moroccan property market has grown considerably from US$4billion in 2000 to US$16billion in 2009 representing at an annual growth rate of 15.8%. During the same period, outstanding real estate loans increased from US$4.5billion to US$21billion, growing at an average annual rate of 19.6%.
3. Opening up the real estate sector to foreign investors back in 2000 and granting them access to public land.
4. Revival of the national economy during the last decade, registering an average annual growth rate of 4.3%, coupled with higher household income and lower bank interest rates.

Nearly two-thirds of foreign companies operating in the Moroccan residential real estate are EU companies. Of all foreign real estate developers in Morocco, 28% are French and 26% are Spanish. In second place are the Gulf Cooperative Council (GCC) countries, courtesy of their sovereign wealth funds, which have been actively investing over the past five years. As of the Arab countries, 12% of all foreign real estate companies operating in Morocco are from the UAE.





Source: Association of foreign real estate companies

The above pie charts illustrate the key foreign investors in the Moroccan residential real estate sector and their relative share of the market, as per the 2010 survey conducted by the EEPI. [8]

The charts also highlight the funding of these developers. Real estate development is very capital intensive, requiring large amounts of funds to finance projects of medium to large size. Based on a survey completed by the Foreign Real Estate Developers Association, data shows that 68% of developers operating in Morocco are 100% foreign funded, with the remaining investments being financed through bank loans and advances.

Foreign investors in Morocco represent 9.6% in terms of capitalization of the sector, versus 37% and 44% for Spain and France, respectively. These figures show the weakness of foreign presence in Morocco's residential real estate sector in comparison to more developed economies, which have had been open to foreign investors since the mid 1940s whereas Morocco's sector only opened to foreigners in 2000 as a result of the state's initiative to assist the country's in the supply of low-income housing.

The new public housing policy initiated by the government allowed foreign investors to participate in the residential real estate.   The main objective of this policy is to increase the production rate of low-income housing and to address the accumulated deficit in that space. One approach is to use public-private partnership and benefit from privileged access to private capital

[8] Association of Foreign Real Estate Companies "Entreprises étrangères de promotion immobilière"

and public land. This strategy has largely stimulated the setting up of foreign companies in Morocco.

3. Foreign Direct Investments in The Residential Segment:

80% of real estate FDI target the residential segment, which happens to be located in major Moroccan cities and cater mainly to high income classes, expatriates and foreigners. During the last 10 years, the distribution shows that 50% of foreign companies have been active in the high-end category, 34% on middle class category and the remaining targeting low-income housing, whereas 41% of local developers have been working on low-income housing projects, with 45% on middle class, and the remaining 14% working on high-end projects. This trend reveals the strategy of the foreign firms' preference to focus on the more profitable segments, which carry more risk given the financial commitment necessary to complete. Local firms are satisfied with the relatively smaller projects given the faster turnaround of projects, faster collection times and smaller budgets. Faster completion of smaller projects has the hidden benefit of giving them greater visibility on market conditions and changes on input costs, which we will see later in this chapter, is of great value to developers moving forward. Also, local developers are not as sophisticated in their planning and construction technology as foreign players to construct mega projects, therefore they have been content with smaller scale developments.

The share in the supply of new housing by foreign capital is increasingly important, representing less than 1% of total supply of new homes in 2001 to 16.3% in 2009. This participation is of great significance to Morocco, despite it being relatively low when compared to Spain (32%) and France (34%). As mentioned earlier, their general focus is on the middle and upper income developments which targets mostly foreigners, who are more interested in touristic cities and sites. This is of significance given that their niche market was hurt during the recent financial crisis that witnessed many of these projects halted.

	Commercial			Touristic		
	Casablanca	Rabat	Agadir	Marrakech	Tangier	Tetouan
Local Developers	40%	31%	18%	6%	1%	4%
Foreign Developers	10%	26%	14%	30%	10%	10%

Source: HCP

The above table highlights the geographical focus of both domestic and foreign developers operating in the Moroccan residential sector. The takeaway from this table is that the foreign developers, with their focus on middle to higher income groups and products, have narrowed their scope to the touristic sites as those are the ones of interest to foreigners and Moroccans living aboard in search for a vacation home. On the other hand, the local developers focused on the commercial cities and targeted the local population in need of primary residences. This is also of significance when discussing the case studies later in this research.

As part of its strategy to promote private real estate involvement in the housing sector, the state has also engaged in a number of partnerships with foreign institutions. The partnerships aim to facilitate access to land at advantageous prices and terms. The strategic goal was to increase the pace of production of low-income housing and to create competition between domestic and foreign developers on price, quality, processes and construction techniques.

Despite being a large country, Morocco's development land is scarce. This scarcity is an obstacle to the development of the necessary housing and a catalyst for land prices increase. The share of land cost over total construction cost is close to 17% which is very high compared to peer countries or even developed countries.

Country	Tunisia	Egypt	Turkey	Spain	France	Morocco
Land Contribution Cost	7%	10%	11%	13%	15%	17%

Land contribution costs as per 2010 figures[9]

The higher land cost has made it very difficult for developers to operate in Morocco, especially that there is a lack of financing support from local banks. It has also been one of the factors that contributed to the slowdown of real estate development and in some instances has offset the tax benefits provided by the government. With land price being set by the market, the government has done very little to regulate it, and was left only with the option to allocate public land lots to the developers interested in developing low-income housing or mega touristic projects.

[9] Land Contribution Cost data provided by the World Bank

4. Return on Real Estate Investments:

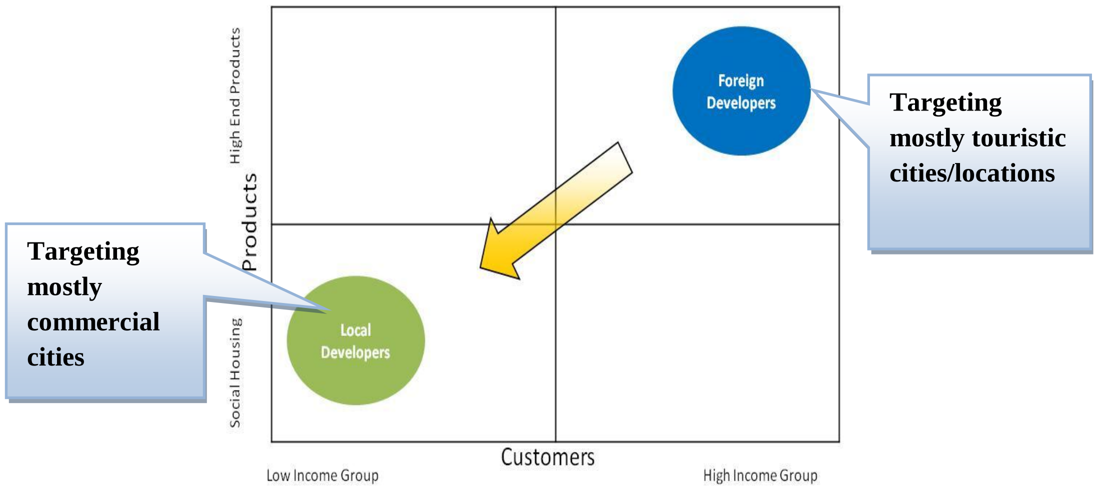
Return on real estate investments plays an important role in attracting domestic as well as foreign developers in the sector. Foreign investors estimate that 30% of their investment's decision is attributed to financial return projections. However, assessing the return on real estate investments is not an easy task for two reasons: On the one hand, there is an absence of readily available information, data and figures that provide insight on the profitability and its evolution over time. On the other hand, the nature of industry itself makes the answer to this question rather delicate. Indeed, the production cycle of real estate could take several years (3+years) while the business cycle in the sector could spread over at least seven years. Margins made three years ago, in a growth phase, are not the same today. Another important element that influences the profitability of the sector is land which as described in the previous section is an important factor in the cost structure. Indeed, margins can vary widely for the same segment and in the same territory, based on the acquisition price of land.

A study conducted by McKinsey for the Ministry of Housing and Urban Planning, reveals two important findings:

- The industry average return on investment, relative to the period 2006 - 2009, is around 11.9%. This return has grown since 2006 from 7.5% to 17.7% in 2008, an increase of 135%. As a result of the world's economic crisis, return on investment dropped to 13.6% in 2009.
- The same report reveals an important finding on the performance of public and private participants. The average return on investment for the public developers is 7.4% against 19.4% for the private developers, or 2.6 times higher. This result confirms the role that the government plays in the real estate sector in Morocco.

Based on a survey conducted by the Real Estate Developers Association in Morocco, foreign investors' return on investment for residential projects ranges from 15% to 25% for the low-income segment, 20-25% for the middle class segment and 40-100% for the high-end segment; whereas domestic real estate developers indicated a return of 40% in the low-income segment, 70% in middle income and up to 100% in high-end.

It is important to note that while domestic developers essentially focused on taping the domestic demand through the development of affordable units, foreign developers were mainly focused on catering to the high-end segment which targeted high income individuals as well as foreigners looking for a vacation or a second home.



Foreign developers had been successfully executing this strategy as the local developers were not able to finance the enormous budgets that such projects demanded nor did they have the international expertise to provide the high quality products that the affluent customers expected. The lack of competition allowed the foreign developers to demand higher margins, and they were rewarded handsomely for their high-end developments. These projects were highly regarded from several angles of the Moroccan society as they created much needed employment as well established the country as a hotbed for tourists and retirees. However, the financial crisis halted progress on these projects, and with no other residential segment targeted, they had no choice but to put their projects on hold or shut down operations. Retrospectively, these developers should not have placed all their eggs in the high-end segment, and would have been better off if they had diversified their portfolio, but then again, hindsight is 20/20 and they were caught off guard, like a lot of other global developers and investment firms that saw the capital market dry-up paralyze their projects. This is a significant take-away from their experiences and should play into the plans of all prospective or existing developers, whether domestic or foreign.

5. Strategies for Investments in the Residential Segment:

Building on what has so far been presented; this section will address how foreign investors can take advantage of the opportunities that exist within the Moroccan residential segment. It will also highlight the necessary steps that foreign investors should take using lessons learned from recent experiences of some foreign developers.

Reflecting on the market analysis presented in Chapter 2, it behooves any foreign developer to give low-income housing serious consideration. In breaking down the numbers, it became clear that even though the incremental demand for low-income housing was met, and slightly exceeded, the deficit of one million units still exists. It is estimated that 600,000 units represent the demand for housing that will replace the shacks to be destroyed under the "City without Slums" program. The government's commitment to that program means that slum dwellers cannot use affordability as an excuse not to relocate, since financing programs and state subsidies are in place to support homeowners.

As mentioned earlier in chapter 2, Al Omrane's pledge to construct 300,000 units by 2015, is a far cry from tackling the deficit issue. The pipeline announced by the different real estate developers is also not sufficient to effectively address the deficit issue. This highlights the need for additional development in the low-income housing segment and a shift of focus from the high-end resorts segment. A case in point is the experience of Emaar, which is considered the Persian Gulf largest land and real estate developer. Emaar entered the Moroccan real estate sector in 2006 and signed US$5.34 billion Memorandum of Understanding (MOU) with the State to develop communities comprising residential, commercial, retail, leisure and entertainment facilities.

The momentous MOU included six developments comprising world class golf and ski communities, Riviera living and luxury resorts. Despite the optimistic plans, the current state of Emaar activities in Morocco is dreary[10]. The World's economic crisis forced the group to put

[10] As per Emaar's corporate presentation dated June 09th, 2011, the company states that out of the 123 units completed, only 49 units have been sold, its lowest percentage sales achieved of the 10 countries it is operating in, second only to Pakistan, with 26% sales. The 49 units sold is a fry cry from their initial projections to have 209

most of its planned projects on stand-by.   Currently, only one project is still under-development but largely behind schedule. The impact of the economic recession made sure that these programs are halted but that does not mean that the company should pack-up and leave. Foreign developers just have to recognize that the opportunity in the near term exists in a different segment. The demand is currently not there for high-end projects, let alone demand for six mega projects from just one developer with no previous track record.

Now that the opportunity has been identified, foreign developers should look to forge partnerships with the right firms and public entities to acquire a certain level of familiarity with the country. Securing building permits had proved to be challenging to some of the foreign developers that attempted to build projects in Morocco without local partners. There exists a certain degree of bureaucracy in the system, making it rather difficult for the uninitiated to maneuver around it. For example, Al Futtaim Capital, the investment arm of the largest conglomerate operating in the United Arab Emirates, announced in June 2009 that after 5 years of market research, it is moving forward with the development of a 40,000 units low-income housing project in Morocco. More than a year later, in September 2010, the company announced that it was still trying to secure the necessary permits but reconfirmed its commitment to the project. By the end of the year, it became clear to the management that it was not going to secure the necessary permits on time and therefore decided to abandon its plans.

First, reaching out to Al Omrane Group is highly recommended, as the public entity responsible for eliminating the housing deficit. Forming a partnership with this organization will ensure that all the paperwork, permits and incentives are processed as quickly as possible. Al Omrane will help identify the critical geographic areas that are in need of these developments.

The next step is to partner with a local developer that has market and segment specific experience. Local developers understand the value in pursuing the low-income segment but are

villas and 60 apartments, completely sold by the end of year 2. It its 2009 financials, EMAAR valued its Moroccan land portfolio at US$230million, almost 2.5 times the book value. It is interesting to note that Emaar financial feasibility assumed a land cost at 2.5% of total cost, since the company was granted public land at heavily subsidized rates.   In 2010, Emaar wrote down the land book value to US$90million.

currently spread too thin and cannot commit to more projects. By partnering with a well established local firm, a foreign developer provides the much needed funding and, in return it can leverage the partner's extensive network of professionals and subcontractors. By having "skin in the game", the local developer will be incentivized to ensure that these projects are profitable and hassle-free. A local firm's support is vital for any foreign developer as pointed out by Emaar's former employee, Karim Ratby when he cited "local developers lobby against Emaar" as the main reason for the firm's failure to secure the necessary permits on time.

The final consideration for a foreign developer looking to enter the Moroccan housing market successfully is the realization that public land is scarce, as discussed earlier, and the government is looking to use it intelligently. Therefore it seeks out private partners, local or foreign, that are committed to providing sustainable growth for the Moroccan economy. Therefore, it favors foreign developers that setup offices, hire local Moroccans and work on long term plans, and not just those rushing in and out of the market in response to prevailing sentiments be it fear or overconfidence. A long term view is vital if a foreign developer is looking to enter the Moroccan market, as demonstrated by CKMD: The Moroccan-Kuwaiti Consortium of Development was founded in 1976 a result of a bilateral agreement between the State of Kuwait and the Kingdom of Morocco. For over 30 years, CMKD has been accompanying economic and social development in Morocco through many projects in the areas of real estate, tourism and finance. Through its participation in several projects, and commitment towards the growth of the Moroccan economy, this organization was able to establish its reputation and credibility throughout the country. In an interview with a local developer, Said Boukaa stated that as the oldest Gulf investment firm ever established in Morocco, CMKD enjoys the reputation of a local developer with local expertise and know-how. He added that CMKD has a reputation of a sound investment institution with sticky capital that does not get up and leave during bad times.

6. Necessary Steps for the Moroccan Government:

According to the World Bank Report on ease of doing business[11], Morocco made significant progress in improving administrative procedures, but scores poorly in the adequacy of its legal framework, which is needed for economic development.

The country recently adopted a series of financial measures to entice investments by international firms, such as financial incentives and tax exemptions. However, Morocco remains lagging within its legal framework. The World Bank Report specifically highlights the absence of/or ambiguity in the following areas: Company rights, Collateral law, Commercial judiciary and Civil procedure.

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Protecting Investors	Enforcing Contracts	Closing a Business
Saudi Arabia	1	1	1	1	1	14	7
Bahrain	2	8	2	4	4	9	1
United Arab Emirates	3	4	3	2	12	13	16
Qatar	4	11	4	6	8	5	2
Tunisia	5	5	11	7	5	3	3
Oman	6	7	6	3	8	6	8
Kuwait	7	14	7	10	2	8	6
Egypt, Arab Rep.	8	2	17	11	5	16	14
Yemen, Rep.	9	6	5	5	15	1	9
Jordan	10	12	8	13	12	12	11
Lebanon	11	10	15	14	8	10	13
Morocco	12	9	9	15	16	7	5
Iran, Islamic Rep.	13	3	16	17	17	2	12
West Bank and Gaza	14	16	18	8	3	4	17
Algeria	15	15	12	18	5	11	4
Syrian Arab Republic	16	13	14	9	11	18	10
Djibouti	17	18	13	16	18	17	15
Iraq	18	17	10	12	12	15	17

Source: International Finance Corporation

In dealing with real estate, foreign developers like Emaar and Al Futtaim had cited " securing permits on a timely manner" as a major reason behind their withdrawal from Morocco. Unsurprisingly, the Report ranks Morocco poorly on all Key Performance Indicators (KPI) dealing with construction permits, property registration and overall investor protection. The government has acknowledged these issues and the significant amount of work that needs to be done, and is committed to working towards improving real estate regulation in the country's interest of development and progress.

[11] World Bank Group. *Doing Business Morocco: Making a Difference for Entrepreneurs.* 2011

In order for the government to attract foreign developers into its real estate sector, and improve its World Bank Report ranking and ease of doing business rating, it must address the following items:

- A significant issue that needs to address is the lack of laws and regulations that govern the real estate sector. To date, the zoning code is stuck in parliament and the building standards charter remains a work in progress. The government must expedite the passing and issuing of the necessary codes and charters to ensure transparency.
- The building rating system which allows developers to claim the appropriate rating for their developments is pending.
- A clear procedure on qualifying and attaining the necessary construction permits must be developed, and enforced, so that both foreign and local developers may have transparency on their applications and avoid unnecessary expenses.
- In addition to the state sponsored programs that guarantee mortgages and financing, the government should do more to encourage commercial banks to structure products catered to low-income groups. Real estate financing is at an infancy stage, with most individual home purchases paid for through savings, and only 25% of homes are financed through bank loans.
- Consistency in policy and incentive programs. When the state revoked the tax breaks in 2008, low-income housing production plunged from 129,000 to 35,000 in 2009. The government was forced to introduce additional measures and incentives to entice developers to return to that segment.
- The government should lead the effort in promoting standardization within the construction sector. Currently, there exists no standardization on the national level, with each developer having its own standards and operating practices.
- The government, in collaboration with the banking sector, should look at promoting the country’s capital markets. Currently, only 3 companies are listed on the local stock exchange, of which, only 2 have never resorted to issuing bonds to finance their investments.

Conclusion

The above chapter aimed to provide insight into the Moroccan real estate sector and perspective on the role of foreign investment in the residential space. It can be concluded that the country's economy is vibrant and that real estate investment opportunities exist for those that can identify the appropriate segment and the correct strategy. So the answer to the question identified in the introduction of this research, on whether or not the Moroccan residential real estate sector is an attractive market for international investors is positive, however, with caveats. Below are some important lessons on how the sector should be approached based on the information and analysis provided in this paper:

1. Market Analysis: This may sound like a given, but comprehensive market analysis must be performed to reflect market trends and identify real estate drivers for sound investment opportunities in the short and long term. A case in point is Emaar's decision to develop 6 high-end projects around the country at a time where all indicators suggest that investment opportunities exist in the low-income segment rather than high-end. Unless Emaar's moto was "build it and they will come", there was a need for comprehensive market analysis to understand the depth of each segment and only select opportunities that are based on sound and sustainable market drivers.

2. Entitlement Reform & Transparency: It is important to align the interest of the policy makers and government entities with those of the developers in order to facilitate any permitting process that may hinder the progress. Despite the significant commitment made by Emaar, as per the US$6.8billion MOU signed, which was to encompass the breadth of the group's activities in the country, the official reason given when Emmar had to halt 5 of their 6 megaprojects is inability secure the necessary permits in a timely manner. Al Futtaim experience in Morocco also reflects the significance of this point. In 2009, Al Futtaim Capital, the investment arm of the Dubai based Al Futtaim Group, announced that it is to finance and develop a US$2billion, 40,000 units affordable housing project in Morocco, to be located between Casablanca and Rabat, the business center and the capital city. One would think that Al Futtaim had all the ingredients for a successful project, a well capitalized firm, in a growing economy, investing in the

profitable low-income housing segment that qualified them for free and exemption from taxes. However, the project never went underway and a year later, they announced that they were abandoning their plans given that they could not secure the necessary permits on time to proceed.

3. Local Know-How: It is imperative to acquire substantial local expertise, in the form of hiring senior management or forging partnerships with local developers, prior to the planning phase. Gaining such insight would be valuable in the decision-making process. It also wouldn't hurt to have people that know the inner workings of what may seem like a bureaucratic process to the westernized developer. The case of CMKD illustrates how the company was able to establish a strong reputation and a solid credibility throughout the country as a result of its strategy to set up a local presence with local employees and to forge several partnerships with public institutions as well as private developers.

4. Long Term Plan: Firms that had dreams of making healthy margins, over short payback periods, experienced a rude awakening. In Emaar's case, as revealed by the project's feasibility study, the firm had set both high margins and short payback periods. In discussing the fate of foreign developers with the former Minister of Tourism Adil Diouri, the response was tactful in nature but to the point: anyone looking to develop grand projects should have a long-term plan in the country. Adil Belkhir, Managing Director of Les Marbreries Centrales and a local developer thinks that a business case based on a three year payback period a land cost equal to 2% of overall development cost, should always be considered carefully and with reservation.

In conclusion, understanding the underlying culture and the country's nuances is very important to succeed commercially. Establish your brand, partner with suitable local developers, study the market, pitch a mutually beneficial long-term value proposition to the relevant public entity and reap the rewards of a growing economy in need of low-income and affordable housing developments.

Bibliography:

Achy, Lahcen, and Khalid Sekkat. *Globalization, Employment and Poverty reduction: The Case of Morocco.* Université Libre de Bruxelles. 2004

African Development Bank. *Kingdom of Morocco: 2007-2011 Country Strategy Paper.* Operations Department, 2006

Dubai School of Government, Wolfensohn Center for Development. *Youth Exclusion in Morocco: Context, Consequences and Policies*. September 2007

International Monetary Fund. *The Housing Cycle in Emerging Middle Eastern Economies and its Macroeconomic Policy Implications.* December 2009

L'immobilier en chiffres: Principaux Indicateurs du Secteur de l'Immobilier. Casablanca: Federation National des Promoteurs Immobiliers, January 2011

Morocco: Bank Al Maghrib. Rapport sur la politique monétaire. Rabat, 2007

Morocco: Bank Al Maghrib. Enquête mensuelle de conjoncture dans l'industrie. Rabat, 2009

Morocco: Bank Al Maghrib. Rapport sur la politique monétaire, n° 10. Rabat, 2009

Morocco: Bank Al Maghrib. Résultats trimestriels de l'enquête mensuelle de conjoncture. Rabat, 2009

Morocco. Caisse de Depot et de Gestion. Le Secteur Immobilier Marocain: Etat des Lieux, Enjeux et Perspectives. Casablanca: Direction des Etudes Economiques, 2010

Morocco. Haut Commissariat au Plan. Les Indicateurs Sociaux au Maroc en 2009. Rabat: Direction de la statistique, 2009

Morocco: Haut Commissariat au Plan. Recensement General de la Populationet de l'Habitat 2004 Caracteristiques Demographic et Socio Economiques de la Population. Rabat, 2004

Morocco. Ministry of Housing and Urbanism. Habitat & Urbanisme un secteur en mouvement. Rabat, 2007

Morocco: Ministry of Finance and Privatization. La nouvelle stratégie de logement au Maroc Déclinaison des principaux axes et évaluation de leurs impacts. Rabat: Direction des Etudes des Previsions Financieres, 2008

Morocco: Ministry of Industry, Trade and New Technologies. *National Pact for Industrial Emergence.* 2010

"Moroccan Sands Announces the launch of Tinja by Emaar" Morocco Newsline July 2008

Sectoral Guidebook on public investment policies in the Mediterranean. Anima Investment Network, January 2010.

United States Agency for International Development. *Housing Finance for the Poor in Morocco: Programs, Policies and Institutions*. January 2008.

World Bank Group. *Doing Business Morocco: Making a Difference for Entrepreneurs*. 2011

World Bank Global Housing Finance Conference. "Housing Markets and Supply Issues in the Middle East and North Africa Region." *World Bank Group.* PowerPoint. May 2008.

Acronyms:

ALEM: Military Housing and Equipment Agency

APC: Association des Professionnels du Ciment or Association of Cement Professionals

BPO: Business Process Outsourcing

CDG: Caisse de Depot et de Gestion

CMKD: Moroccan-Kuwaiti Consortium of Development

EEPI: Entreprises Etrangères de Promotion Immobilière or Association of Foreign Real Estate Companies.

ERAC: Etablissements régionaux de l'équipement et de la construction or Public Facilities for Planning and Construction

GDP: Gross Domestic Product

FDI: Foreign Direct Investment

FNDI: Fédération Nationale des Promoteurs Immobilier or National Federation of Property Developers.

FOGARIM: Fonds de Garantie en Faveur de Populations à Revenues Irréguliers et Modestes or The Mortgage Guarantee Fund for Low- or Seasonal- Income Groups

GCFC: Gross Fixed Capital Formation

INDH: Initiative Nationale pour le Développement Humain or National Initiative for Human Development.

ITO: Information Technology Outsourcing

HCP: Haut Commissariat au Plan or High Commission for Planning

MAD: Moroccan Dirham

MOU: Memorandum of Understanding

PPP: Public Private Partnerships