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Large and Long Term: Middle Eastern Investment in Global Real Estate

This white paper examines the real estate investment activities of Middle Eastern investors, including sovereign wealth funds (SWFs), pension funds and family offices. It looks at the major players, how and where they invest and how their real estate investments will evolve in the future.

PEI

An investor group which can't be ignored

Middle Eastern real estate investors are some of the largest in the world, including two of the top 10 in the PERE GI 100 list of global real estate investors. With elevated oil revenues and an increasingly global approach by Middle Eastern nations, the region's real estate investors are set to be an increasingly important source of capital for projects across the world.

Who are the Middle East's real estate investors?

Much of Middle Eastern investment in global real estate comes from its sovereign funds, such as Abu Dhabi Investment Authority (ADIA) and the Qatar Investment Authority (QIA), which have become household names in global real estate.

These are amongst the largest investors in the world. There are nine Middle Eastern SWFs amongst the 20 largest global sovereign funds and the largest – ADIA – has nearly one trillion dollars of assets under management.

Data from Global SWF shows that the top 10 Middle Eastern real estate investors have a total of $456 billion of property assets under management (AUM), making them one of the most significant investor groups in global real estate. Of this top 10, seven are sovereign wealth funds, with a total of $388.5 billion in real estate AUM.

The remaining three investors in the top 10 are all public pension funds, another important Middle Eastern investor category. Groups such as the Saudi Arabian General Organization for Social Insurance (GOSI) provide social and medical care for citizens.

While large sovereign funds are the backbone of Middle Eastern real estate investment, they are by no means the whole story. PERE holds data on nearly 150 Middle Eastern LPs, of which less than 10 percent are SWFs. There is also a significant number of investment firms, banks and corporations which invest in real estate.

Middle Eastern real estate LPs are not evenly spread across the region, but tend to be located in larger and wealthier territories. Kuwait, the United Arab Emirates (UAE) and Saudi Arabia are home to more than half the Middle Eastern LPs tracked by PERE. A further 20 are headquartered in Israel.

Many of the larger Middle Eastern investors have been involved in global real estate for decades and their allocations and geographical spread has grown as they have grown in size and sophistication. Global SWF data suggests overall SWF investment in real estate has more than tripled since 2008 and this is likely to apply to Middle Eastern sovereigns too.

Top 10 ME investors in real estate

#	Fund	Country	Type	AuM $b	RE %	RE $b
1	QIA	Qatar	SWF	510	19%	97.2
2	ADIA	UAE	SWF	993	7%	74.1
3	PIF	Saudi	SWF	978	7%	68.5
4	KIA	Kuwait	SWF	969	6%	53.6
5	DH	UAE	SWF	47	87%	41.4
6	GOSI	Saudi	PPF	320	10%	32.0
7	ICD	UAE	SWF	360	8%	29.6
8	Mubadala	UAE	SWF	302	8%	24.2
9	PIFSS	Kuwait	PPF	137	15%	20.6
10	Amitim	Israel	PPF	98	15%	14.7
	Total			**4716**	**10%**	**456**

Source: Global SWF, Oct'24

What drives Middle Eastern investors' strategies?

The key motivation for the largest Middle Eastern investors in real estate is diversification. The region's economy is dominated by the fossil fuels business. For example, the International Monetary Fund (IMF) estimates that, for the seven nations of the Gulf Cooperation Council, oil contributes one third of GDP and three-quarters of both government revenues and exports.

The fluctuating price of crude oil (it has ranged from less than $20 per barrel to more than $110 in the past five years) means fluctuating revenues for many Middle Eastern nations. However, compared with their long-term average, oil prices have been higher in the past two decades.

Oil-producing nations across the world are cognizant that oil and gas are finite resources and have been seeking to diversify their economies over the long term. The move predated the recent focus on decarbonization in Europe and some other developed economies, which is expected to reduce global demand for oil.

For example, Saudi Arabia – where oil accounts for 40 percent of GDP and 75 percent of fiscal revenues – has been working to decrease its dependence on oil since the 1970s. In 2016, it launched Saudi Vision 2030, a program which aims to increase diversification economically, socially and culturally, in line with the vision of Saudi crown prince and prime minister Mohammed bin Salman.

A considerable part of the program involves real estate and construction within Saudi Arabia, including projects such as the NEOM smart city and a number of tourism developments. This is in line with the focus of Saudi Arabia's Public Investment Fund (PIF) which undertakes 60% of its activities domestically. However, the remaining 40% gives the $978 billion fund a lot of capacity to invest overseas.

Abu Dhabi's major sovereign funds, ADIA and Mubadala (of which ADIC is a subsidiary), have somewhat different targets. ADIA is a 'typical' SWF which is intended to build and grow a long-term investment portfolio to fund the emirate's future. Mubadala, established in 2002, has a more strategic aim to make investments which diversify the Abu Dhabi economy. The difference between the two can be characterized as ADIA being a sovereign savings fund and Mubadala being a government investment fund.

The region's sovereign funds behave in broadly the same way as their global peers, investing surplus wealth in creating an investment portfolio. Also like their global peers, they have been growing in size and sophistication. The Middle East's large public pension funds also behave in the same way as their global peers as their motivation, to provide pensions and other benefits to citizens, is the same.

While the bulk of the Middle East's real estate activity comes from its largest sovereign funds and its largest oil and gas-based economies, that is not the whole story. Israel has a developed services and technology-based economy but no oil, but has 20 real estate LPs tracked by PERE. It also has a public pension fund, Amitim, which manages eight defined benefit pension funds.

Where and how are Middle Eastern LPs investing?

Middle Eastern LPs are heavily invested in real estate, with an average allocation of 10 percent amongst the region's top 10 property investors. This means they are invested across all sectors and most developed real estate markets.

Data from Global SWF shows $51.6 billion of real estate investment from the Middle East between 2016 and the year to October 2024, averaging $5.8 billion each year. In this context Middle Eastern investors were extremely active in 2022 and 2023, despite overall real estate investment volumes falling as interest rates rose in many markets.

Navid Chamdia, who leads the real estate investment activities at Qatar Investment Authority (QIA), told PERE in an interview in February this year that higher interest rates were an opportunity rather than an obstacle for equity-rich Middle Eastern investors. He said the higher cost of capital had thinned the competition for deals QIA was pursuing.

Over the period, Middle Eastern investors have invested most heavily in the office sector, with $10.4 billion of deals, closely followed by the hotels sector, with $9.5 billion. Nearly half of that investment in hotels came since 2022, suggesting that Middle Eastern investors have been tapping into the worldwide recovery of the tourism sector following the end of pandemic travel restrictions. Middle Eastern investors have also bought considerable amounts of residential real estate.

Since 2022, they have also been investing heavily in data centers, although not necessarily as part of their real estate allocation. For example, in September, Abu Dhabi's global technology investment company MGX teamed up with BlackRock, Global Infrastructure Partners and Microsoft to launch the Global AI Infrastructure Investment Partnership, which will invest up to $100 billion in AI data centers and supporting energy infrastructure.

Data centers are an important focus for countries looking to diversify and modernize their economies and Middle Eastern SWFs have the deep pockets needed to develop the next generation of AI data centers.

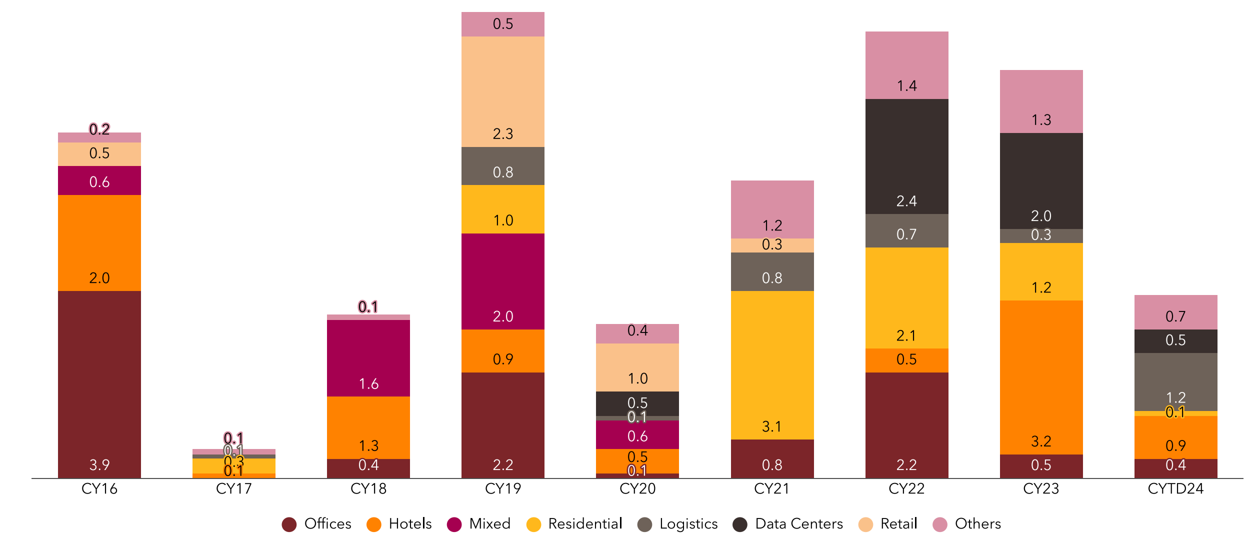
The logistics sector has also been a focus for Middle Eastern investors in recent years. This year, QIA became part of the Starwood Capital-led consortium seeking to privatize Hong Kong-listed investment manager ESR, which is heavily invested in logistics and with a burgeoning interest in data centers. Also this year, PERE reported that ADIC had co-invested with LaSalle Investment Management in two logistics facilities in Seoul, Korea.

Meanwhile PERE data shows at least two-thirds of Middle East LPs keen to invest in major real estate sectors, with industrial the favorite, chosen by 72 percent of investors, followed by office (71 percent), retail (69 percent) and residential (68 percent). Data centers were chosen by only 29 percent, most likely because the sector is limited to large investors and because data centers may not form part of the real estate allocation.

PERE research into the investment appetite of Middle Eastern investors reveals a preference for investing in their home region, picked by 78 percent of investors. However, a significant minority of investors were also keen to invest in other regions. The most popular was Europe (chosen by 19 percent of investors), followed by Asia Pacific (17 percent) and North America (16 percent). Interestingly, 15 percent of Middle Eastern investors were interested in sub-Saharan Africa, suggesting considerable comfort with developing markets.

Data from PERE also shows a broad appetite for investing across the risk/return scale, with a slight preference for higher risk/return strategies. The most popular real estate strategy is opportunistic, chosen by 86 percent of investors, followed by value-add (81 percent), core (75 percent) and core-plus (69 percent). Middle Eastern investors are also prepared to allocate to real estate debt (67 percent) and proptech (63 percent).

ME Funds Investments in RE (value $b)



Source: Global SWF, Oct'24

Evolving strategies with a long-term focus

The evolution of the Middle East's largest real estate investors has been part of a wider evolution in the strategies of SWFs. In the early days of inception, sovereign funds were scattered pools of capital, often regarded as the 'dumb money'; however those days are long gone with Middle Eastern SWFs being amongst the most sophisticated real estate investors, as well as the biggest.

Over time, they have progressed from being passive investors in funds, to being co-investors and direct investors. SWFs increasingly have dedicated real estate investment teams and hire from all over the world to get the best people for them. They have also forged significant long-term relationships with managers.

Furthermore, Middle Eastern nations, particularly Saudi Arabia and the UAE, are emerging as global players and forging national alliances which drive real estate investment. For example, in 2023 the UAE announced that it would invest $30 billion in South Korea as part of increased economic cooperation between the two nations. Meanwhile Saudi Arabia has been forging links with countries from Finland to India, as well as strengthening links with the OECD.

A key differentiator for SWFs, especially those from the Middle East, is that they are long-term, patient capital. As QIA's Chamdia told PERE: "As a sovereign, we can take a longer-term view." This could involve looking beyond traditional risk/return profiles, he said.

This long-term approach means that Middle Eastern investors have continued to invest in China, when many European and US LPs have shied away due to the nation's slow recovery from COVID. For example, ADIA and Mubadala joined China's CITIC Capital, Hong Kong's PAG and US manager Ares to invest $8.3 billion into a retail property joint venture with Chinese developer Dalian Wanda. The venture manages nearly 500 Chinese shopping malls.

More recently, Middle East real estate investors have been tailoring their US investments to changing real estate markets. Writing in PERE after a research trip to the region, Noam Franklin, of real estate finance company Berkadia, reported that Middle Eastern real estate investors were turning to debt and to the residential market. He added that they are also keener to invest closer to home, in the Middle East and in Asia.

The high oil prices since the pandemic mean countries such as Saudi Arabia, the UAE, Qatar and Kuwait are generating significant surpluses, which means billions of dollars of investment in real estate over the coming years. That capital will be invested in a sophisticated fashion, increasingly aligned with global megatrends such as AI.

Learning and linking with Middle Eastern investors

Some of the Middle East's largest investors will be taking to the stage at the PERE Asia Summit on February 24-26 at the Grand Hyatt Singapore. Hear from senior real estate executives from ADIA, Mubadala, and QIA, Middle Eastern SWFs with an estimated $195.5 billion of real estate AUM between them. They will speak about the opportunities Middle Eastern investors are exploring in APAC's dynamic real estate markets.

Join us at the PERE Asia Summit where we will mark PERE's 20th anniversary edition. The conference will attract some of the biggest investors, offering the chance to build relationships with them and gain deeper insights into their appetite for overseas real estate investment. For more information on this key real estate forum, see the event website:
www.peievents.com/en/event/pere-asia/ or contact PERE conference producer Rida Shaikh at: rida.s@pei.group.