

# Banks warned over property exposure

By Pratap John



*Wright... calls for a sensible ratio*

**LOCAL banks have been warned to watch their real estate exposure closely with the ripples of the global credit crisis being felt in the region and around the world.**

Leading banker John R Wright said foreigners who snapped up properties in the Gulf region, mainly Dubai, would be 'squeezed at home and that might impact their ability to repay'.

Recently, the international credit rating agency Moody's had expressed concern at the regional banks' exposure to the real estate sector, where over \$1tn in new projects is on the table.

Moody's said: 'While the property sector is growing rapidly throughout the Gulf, Dubai, in particular, has been the focal point of purely speculative purchases. What has really distorted the market is all these speculators who believed this was a one-way bet. They were buying in

bulk with quite a bit of borrowing without much transparency about who they were or where they were borrowing.'

Wright, a former chief executive officer of Oman International Bank and Gulf Bank, Kuwait, said the local banks must limit their exposure to the property sector as there was considerable chance for a real estate slowdown in view of the current global economic crisis.

'When you have an explosive growth in property development, you will always have a major adjustment. It is inevitable,' he told Gulf Times.

The regional banks must make sure their exposure to property maintained a 'sensible ratio' in their lending book. They must be very careful about having too much exposure to property.

Glasgow-based Wright said there were also concerns about gross oversupply of property in some parts of the Gulf such as Dubai.

'Foreigners who have placed deposits will start to walk away again as they are under pressure elsewhere with the collapse of equity and property prices and indeed banks. It is all very well to say that local demand will compensate,' he said.

'But I don't believe it will. Or at any rate if there is interest they will wait until the market really goes down to have their pick of the bargains.'

Wright said a real estate slowdown could lead to construction/home furnishing and supplies side declining rapidly.

The local banks have something to learn from the sub prime situation in the US though it may probably be too late, he said.

'The whole sales/broking/finance chain has been corrupted by greed and this will cause real problems as things start to unravel,' Wright pointed out.

'There is a property cycle. We have seen this in the US, Europe and many other places. In the last few months, many well-established traditional banks in the US and Europe have either gone broke or got themselves into very hot deep water with their property exposure. So the potential for something negative to happen in the Gulf region's property sector is considerable,' he cautioned.

'The other element is poor regulation.'

*This article was published in the Gulf Times, October 2008*

'This has proven to be a real Achilles heel in the West. I see no reason why this should not be so in the Gulf,' Wright said.

He said local banks needed to focus on liquidity though they have it sufficiently now to keep things afloat.

'I advise the local banks to be pragmatic about recognition of problems, move quickly to isolate these, get their costs down and get much more efficient. The days of 'free lunch' is now coming to an end,' Wright said.