

Moroccan Real Estate

North African Property



**International
Real Estate
Institute**

Moroccan Real Estate

North African Property

Dr. M.A. Hines
Clarence W. King Endowed Professor
or Real Estate & Finance
Washburn University
Topeka, KS 66621

Phone: 785-267-4672 • Fax: 785-231-1063

Table of Contents

Moroccan Real Estate

North African Property

Introduction	5
The Economy and the Employment Situation	6
Some Demographic and Infrastructure Characteristics	6
Construction	7
Housing Trends	10
Office Building Trends	10
Some Hotel Observations	10
Property Finance	11
Industrial Finance	11
The Business Environment Including Tax Regulations and Organizational Forms	12
The Nature of the Business Environment	12
The Valuation of Property	13
The Corporate Organizational Forms Available	13
Basic Tax Regulations	13
<i>Corporate Income Taxation in General</i>	
<i>Individual Income Taxation in General</i>	
<i>Other Taxes</i>	
<i>Tax Treaties</i>	
<i>Investment Incentives</i>	
The Licensing of Real Estate Agents	15
Summary	15

Moroccan Real Estate

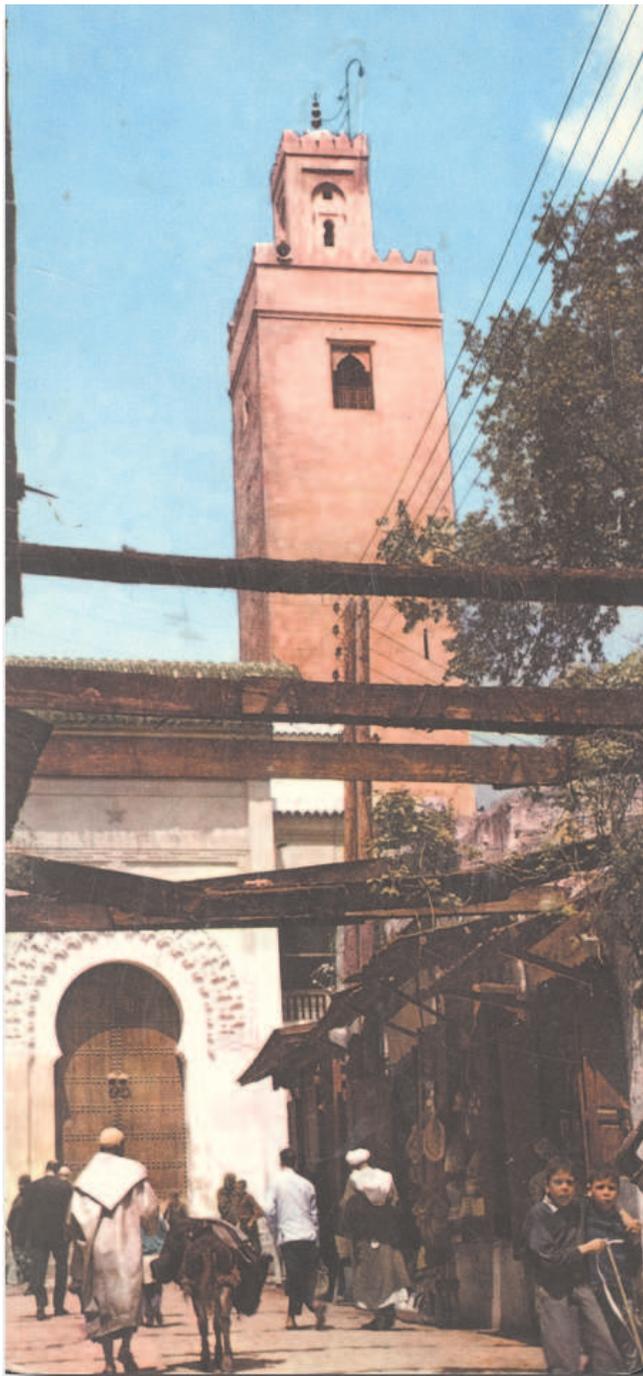
North African Property

Dr. M.A. Hines



The exotic Arabic-like landscape and the Middle-Eastern style land improvements form the backdrop for this northwestern Africa real estate analysis. The Moroccan landscape ranges from walled adobe farm compounds in the arid rural locations between the Atlantic Coastal region and the interior Atlas mountains to the splendid world-renown Casablanca mosque and modern, spacious homes of the wealthy in Marrakesh and in Casablanca. These wide ranging architectural features are inhabited by traditionally clad citizens in their floor-length robes of a myriad of colors as well as residents and visitors in modern apparel. They do business in modern high-rise office buildings that blend with residential and commercial structures that exhibit architectural characteristics from the Berber era of the past. The variety of the Moroccan apparel and architecture is one indication of the extent of modernization of this Moslem north African country that is still ruled by a monarch, King Hassan II, who ascended to the throne in 1961. Why is Moroccan real estate worthy of investor interest?

In the recent turn of world interest to the developing countries of the African continent and South America from the developed countries of Asia, Europe, and North America, we note that Morocco is one of the most stable countries of Africa. Its economy continues to grow under conditions of low inflation with some volatility under the guidance of the monarch and the nation's parliament. As its economy thrives, foreign investment in property and business is encouraged. The foreign and domestic real estate business of several countries of Africa has supported for many decades multiple African offices of Knight Frank, one of the leading international chartered surveyor firms based in London. The foreign and domestic African accounting business has long supported multiple African offices of international accounting firms such as that of the U.S.-based PricewaterhouseCoopers in Casablanca. As a primarily French-speaking country with second language expertise in English, Moroccan firms do much of their business with Europe, the Middle East, and the United States.



The Economy and the Employment Situation

As the economies of South Africa, Zimbabwe, Malawi, and other countries of the African continent have languished under high rates of inflation and high building costs, the kingdom of Morocco has weathered the continental recession through implementation of a privatization program, expanded public works and

housing programs, and encouragement of foreign direct investment. The 17 percent Moroccan unemployment rate is relatively low for the African continent at present. The employed Moroccans are associated with agriculture, forestry, and fisheries (26.5 percent), commerce (18 percent), other services (12.5 percent), government (11 percent), services provided to collectivity (9.2 percent), and building and public works (8.9 percent).

Some Demographic and Infrastructure Characteristics

Morocco, like many other African countries, exhibits a wide disparity of economic conditions: A small high-income group, a relatively small middle-income group, and a relatively large low-income group that is particularly associated with the rural areas. The disparity of the population distribution by household income is reflected in the distribution of school-age children in the educational system. Most students finish only the first of two primary cycles of education. Less than a third of the first primary cycle students participate in the second primary cycle of schooling. Most of the primary and second school students attend public schools. About five percent of the students attending primary schools go on to Moroccan university undergraduate and Master's degree programs. Some students attend management and vocational training schools to gain vocational skills and expertise as technicians.

The Moroccan population numbers approximately 28 million of which a little more than half live in urban places. Since almost half of the northwest African country live in rural areas which reflect the lowest household incomes and low density per kilometer, the overall Gross Domestic Product per capita runs only U.S. D. 1,200, and the overall population density is low at 38 persons per square kilometer. Casablanca, Morocco's commercial center, is inhabited by a little more than three million people; Rabat, the capital city, by a little more than one million people.

While the official language is a dialect of Arabic, the language of business and administration is French. The northern provinces that are centered on Tanger, which is located across from Gibraltar in Spain, speak the Spanish language. In addition, due to the continuing influences from Great Britain, the United States, and other English-speaking countries, many Moroccans - especially those involved in international business -

speak English. Where many Moroccans are multilingual, their religion is predominantly Muslim; 90 percent of the population is Muslim.

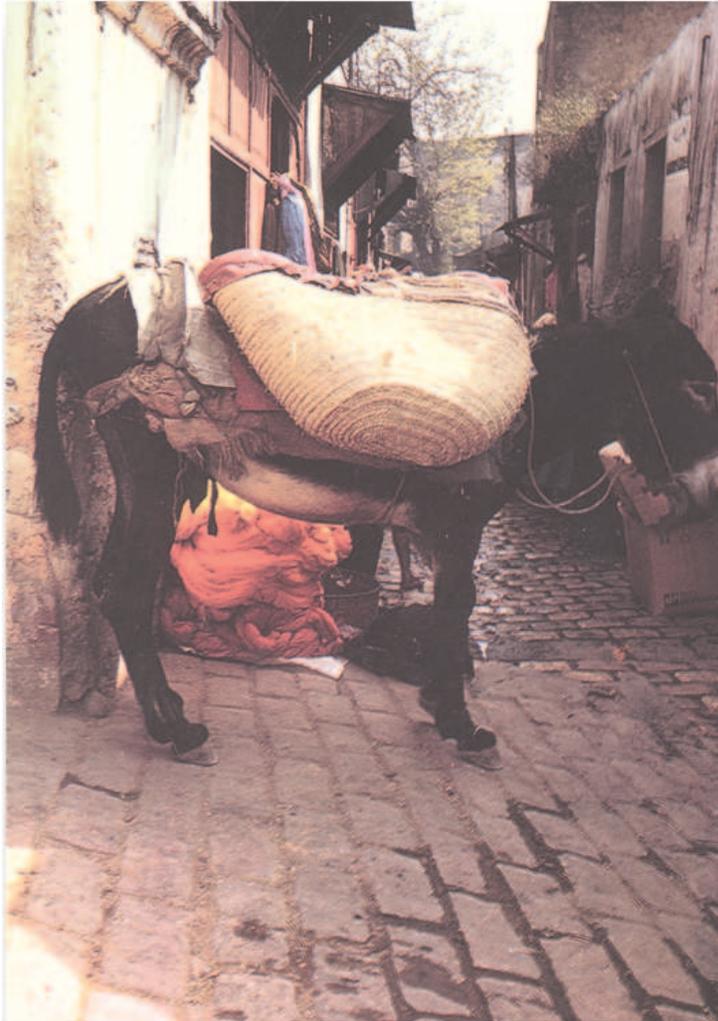
Even though French influences predominate in most parts of Morocco, the national currency is the Dirham (DH) rather than the French franc. The Dirham is managed by the national monetary authority to be approximately 8.5 Dirham to the U.S. dollar and 1.7 Dirham to the French franc. The deliberately weak Dirham encourages the export sales of Moroccan companies.

The infrastructure, like the per capital income, needs improvement by world standards. The ports need improvement for foreign shipping. The rail network is very limited for freight and passenger transport. The fixed line phone network is being supplemented by mobile phone networks. The energy sources have recently been expanded by the installation and operation of a power plant by CMS Energy Co., a U.S.-based corporation, a few miles south of Casablanca. In general, the infrastructure of the rural areas needs major improvement.

Construction

According to the latest Moroccan government figure, there was a small decline in building authorizations, floor areas, total area constructed, projected value, and the number of dwellings from 1996 to 1997. While the building authorizations for multifamily apartment buildings (labelled “residential buildings”) declined over 24 percent, administrative buildings declined over 16 percent, and commercial and industrial buildings declined over 3 percent, the building authorizations for villas, traditional houses, and other types of buildings increased from 1996 to 1997. As the

floor area for multifamily apartment buildings decreased over 26 percent, the floor area for villas and traditional houses increased over 18 percent and about 2 percent, respectively. Therefore, the construction market for villas and traditional houses remained strong in terms of building authorizations, floor area, and projected value. The projected value for commercial and industrial buildings increased more than the projected value for apartment buildings declined. While construction in general declined in Marrakesh and Rabat, construction increased in greater Casablanca. Construction, by these figures, appeared to continue on a relatively stable basis. The production and delivery of cement increased by 10 percent. By a visual inspection of a limited number of areas, apartment unit supply seemed to outpace demand in 1999.



The high-rise buildings of the major cities consume large amounts of concrete and steel; steel construction cranes are in constant use. Otherwise, concrete blocks and adobe bricks are used for most other structures. The Berber-based architecture of low buildings features columnar supports within room spaces for support of ceilings, mosaic decorative tile work, inner courtyards for homes, and walled farm compounds that enclose farm outbuildings as well as living space.

Some building supplies and materials must be imported such as wood and iron and steel plates and sheets. Looking at imports as a whole, Europe is the chief regional supplier with Asia and America coming in much lower in second and third places. The chief overall national sources of imports are France, Spain, Saudi Arabia, and the United States. France and Spain



Morocco

Location: Northern Africa, bordering the North Atlantic Ocean and the Mediterranean Sea, between Algeria and Western Sahara.

Area-comparative: slightly larger than California.

Climate: Mediterranean, becoming more extreme in the interior.

Terrain: northern coast and interior are mountainous with large areas of bordering plateaus, intermontane valleys, and rich coastal plains.

Natural resources: phosphates, iron ore, manganese, lead, zinc, fish, salt.



Land use:

arable land: 21%
 permanent crops: 1%
 permanent pastures: 47%
 forests and woodlands: 20%
 other: 11%



Irrigated land: 12,580 sq. km.

Natural hazards: northern mountains geologically unstable and subject to earthquakes; periodic droughts.

Environment-current issues: land degradation/desertification (soil erosion resulting from farming of marginal areas, overgrazing, destruction of vegetation); water supplies contaminated by raw sewage; siltation of reservoirs; oil pollution of coastal waters.

Environment-international agreements: *party to:* Biodiversity, Climate Change, Desertification, Endangered Species, Hazardous Wastes, Marine Dumping, Nuclear Test Ban, Ozone Layer Protection, Ship Pollution, Wetlands *signed, but not ratified:* Environmental Modification, Law of the Sea.

Population: 29,661,636 (July 1999 est.)

Population growth rate: 1.84% (1999 est.)

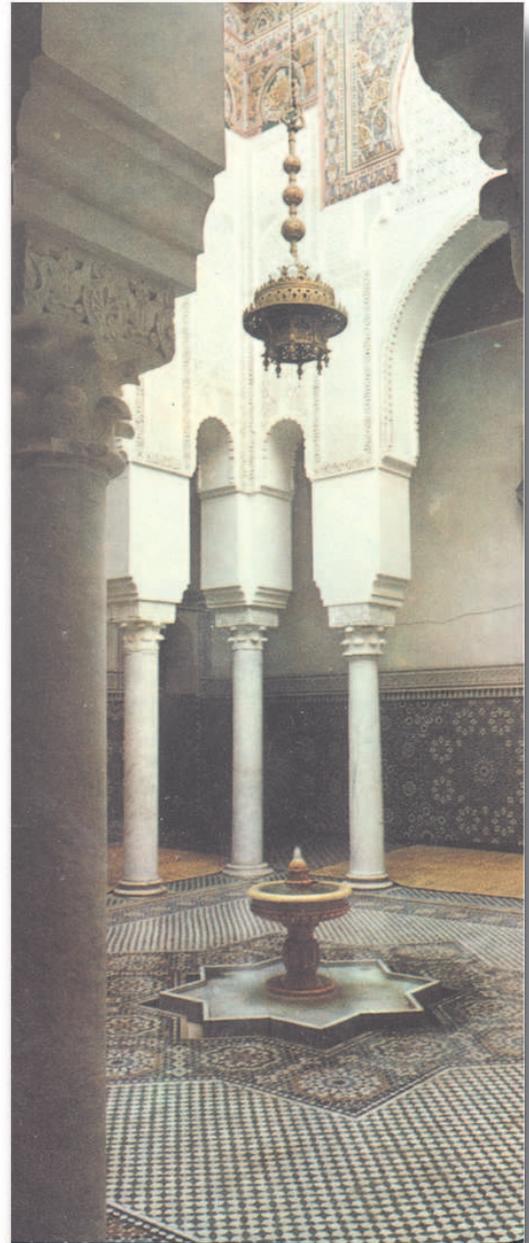
Ethnic groups: Arab-Berber 99.1%, other 0.7%, Jewish 0.2%.

Religions: Muslim 98.7%, Christian 1.1%, Jewish 0.2%.

Languages: Arabic (official), Berber dialects, French often the language of business, government, and diplomacy.

Government type: constitutional monarchy

Economy-overview: Morocco faces the problems typical of developing countries-restraining government spending, reducing constraints on private activity and foreign trade, and keeping inflation within manageable bounds. Since the early 1980's the government has pursued an economic program toward these objectives with the support of the IMF, the World Bank, and the Paris Club of creditors. The dirham is now fully convertible for current account transactions; reforms of the financial sector have been implemented; and state enterprises are slowly being privatized. Drought conditions in 1997 depressed activity in the key agricultural sector, holding down exports and contributing to a 2.2% contraction in real GDP. Favorable rainfalls in the fall of 1997 have led to 6.8% real GDP growth in 1998. Growth is forecast to be about 4.0% in 1999. Formidable long-term challenges include: servicing the external debt; preparing the economy for freer trade with EU; and improving education and attracting foreign investment to improve living standards and job prospects for Morocco's youthful population.



are also at the top and second from the top export markets for Moroccan exporters; farther down the exporting hierarchy are Saudi Arabia and the United States.

Recently construction companies from the Middle East and, in particular, from Kuwait and Saudi Arabia have been active in Moroccan office and apartment construction. They have built 3- to 5-story apartment buildings and even higher rise office buildings whose units have been sold to prospective occupants and investors primarily.

Generally construction takes place in the suburbs of Moroccan cities. Few construction sites are available in the densely populated center cities.

Housing Trends

In past years most housing was built for high-income residents. In recent years, more housing has been built including that which is affordable by middle and lower-income citizens. The supply of housing for upper-middle and middle-income groups tends to exceed the demand at present.

Home financing is available from banks on reasonable terms that extend up to 20 years. The loan payment may reach 40 percent of the borrower's income. When borrowers finance their homes to the maximum percentage of their incomes, they tend to have little disposal income left and are very stretched financially.

Office Building Trends

Many modern office towers have been constructed, particularly by Middle Eastern construction companies and investors, with sale of office units in mind. The new class A office space has sold well. In one new office tower, units were sold for U. S. D. 300 per square foot or approximately U. S. D. 3,000 per square meter. The investors may then rent the space on a one-, two-, or three-year lease with renewal subject to negotiation. The office lease is usually indexed by the government-maintained cost of living index or a general index with a mixture of components. The lease may be oral or written, but negotiation for renewal is needed not matter what the term of the lease. Tenant tenure continues as long as the rent and other lease obligations are met.



Some Hotel Observations

Part of the national privatization effort since 1989 has been the sale of previously state-owned hotels. Thirty seven hotels and 75 companies are involved in the privatization program. By 1997 forty were transferred to the private sector. Middle Eastern investors from Saudi Arabia and Kuwait, for example, have bought hotels put up for sale by the state and, then, have proceeded with refurbishment programs. International management companies including the Marriott group have been brought in to manage the foreign and domestic owned hotels. Currently the central business district of Casablanca, for example, accommodates several internationally known hotel

management chains including Meridian, Sheraton, and Holiday Inn.

Property Finance

Banks are the prime source of property finance. If a major project is involved, a local bank may cooperate with foreign banks to cover the substantial financing. Major projects may be financed up to 25 years with advantageous interest rates or no interest during an initial period. There are no private pension funds in Morocco that could finance or invest in real estate. The majority of foreign construction companies and investors in property such as the Kuwaiti investors, bring their financing with them; they may invest in Morocco, therefore, with all equity.

The Moroccan government pays the employee's pension at retirement. Housing can be financed up to the period remaining until retirement. Close to retirement, the borrower may get an advance from the earned retirement income for a housing payment.

Banks such as the BMCE Bank of Morocco provides many financial services including short and long-term property and project finance. The bank offers services through a separate leasing company, a subsidiary credit insurance company, and a consumer credit subsidiary, according to the bank's 1997 annual report.

Industrial Finance

Privatisation is the buzzword, the state of Morocco is distancing itself from the industrial sector. The government no longer has an industrial strategy because that implies *dirigisme*. Things have changed since the 1960s when it was forced to intervene because of the lack of a private sector.

Although

the government would like to see greater vertical integration, particularly in the textile and garments sector, which is heavily dependent on the import of raw materials, the government can only try to create the conditions in which industry might prosper by measures which include providing technical centres to improve the skills of the labor force.

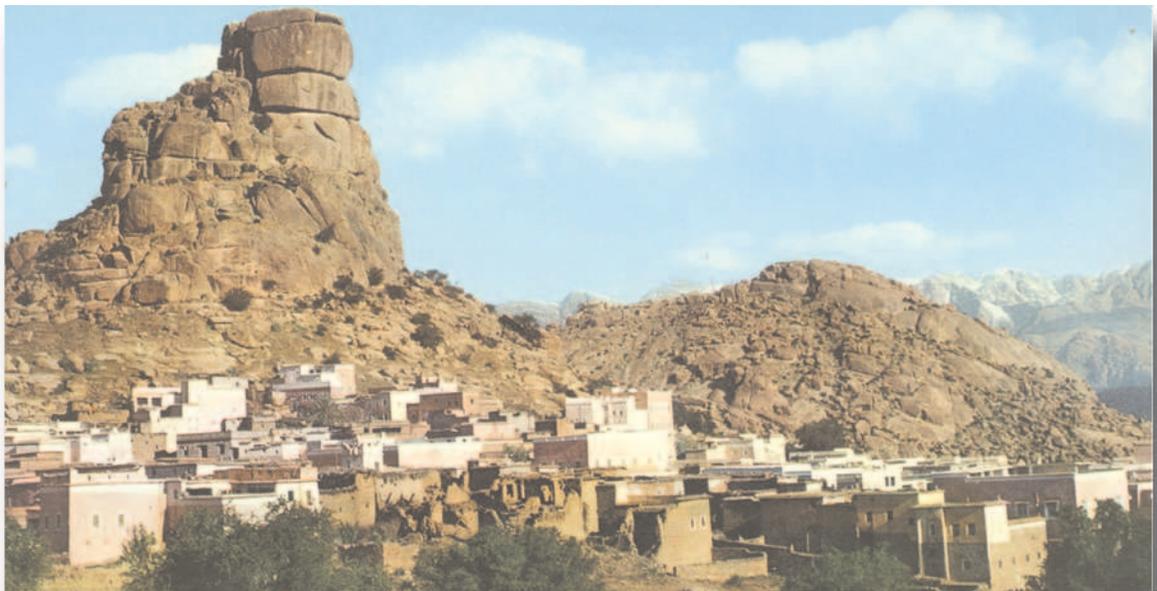
The manufacturing sector is the second largest contributor to the country's gross domestic product. The main industries are agro-industry (food-processing), textiles, chemicals, metallurgy/mechanics and electrical/electronics. Of these, the agro-industry and chemical industries contribute the most to industrial production.

With 180,000 employees, the textile and leather industry is also the largest industrial employer, accounting for one third of all those employed in industry.

The industry's labor costs are the lowest of any Mediterranean country with privileged access to the EC. It also has the advantage over its south-east Asian competitors of proximity to Europe, which means lower transportation costs.

Manufacturers, however, are worried by increasing protectionism in Europe since they are heavily dependent on the European market for exports. Some 50 per cent of goods manufactured in the textile industry is exported and 80 per cent of these exports are to France.

The industry has suffered as a result of the devaluation of some European currencies, notably the



Spanish peseta, the Italian lira and sterling. By contrast, the sector which enjoys the largest investment is the chemical and pharmaceutical industry. The sector includes the phosphate industry, controlled by the influential state monopoly, the Office Cherifien des Phosphates (OCP). Morocco remains the largest exporter of phosphates in the world and the proprietor of the world's largest phosphate reserves. The most optimistic industry is the metallurgy, mechanical, electrical and electronic sector which has seen production increases.

Although some industrialists are calling for a devaluation of the dirham to help exports and the reimposition of higher tariffs to protect domestic industries from outside competition, the government appears unlikely to adopt either measure.

Industry will have to weather the recession both at home and abroad and hope that the trend towards lower domestic interest rates will continue in order to aid both production and investment in the coming years.

GSM License. A decree issuing a second license for a GSM (global standard for mobile) phone system has been awarded to Morocco.

This is not just another GSM license. It involved a payment for almost \$1.1bn, the largest received by the Moroccan government and the single most important foreign investment in the country. At a price of \$40 per inhabitant, the deal is a record for an emerging economy. The price was partly justified by the low penetration of the Moroccan market - there are only 130,000 mobile phone subscribers - and a potential 3m users in five years. Moreover Morocco, a country with a reputation for corruption and influence peddling, set up an independent regulatory telecommunications agency to handle the transaction and ensure transparency.



The GSM license is also likely to speed up privatisation of the sector, with Ittissalat expected to sell part of its capital to a foreign strategic partner in the next 12 months.

The license fetched about \$700m more than was estimated in the government budget. Economists argue that the best use of the funds would be to reduce the country's \$20bn debt. But Morocco, plagued by social problems, is looking for more near-term results and the funds will be put aside for projects aimed at alleviating some of the social burden and tackling an unemployment rate of about 20 per cent.

The Moroccan Business Environment Including the Tax Regulations and Organizational Forms

The business environment may be described in general. Then it may be viewed in terms of the regulatory structure for property valuation, the corporate organizational forms available, the basic corporate and individual tax regulations, the tax treaties in place, and the general nature of the government investment incentives.

The Nature of the Business Environment

The multinational company that may be engaged in construction or other types of property investment may find the business environment not as transparent as it finds some other international venues. One "smoke screen" that impedes efficient and profitable business investment, including real estate investment, is posed

by the language barrier. Arabic is the official language, most U.S. investors do not speak, read, or write any of the Arabic language dialects that are used in Morocco. U.S. investors find additional language barriers in the form of the French language that is pervasively used for business and personal communications in most parts of Morocco and the Spanish language that is used in north coast communities due to the close proximity of Spain. Most U.S. investors are familiar only with the English language. In contrast, property and other business investors from France use the French speaking domestic networks to enhance the profitable establishment and operation of their businesses.

The Valuation of Property

The valuation business falls under the control of the Valuation Authority. The seven members of the board of the Authority are appointed by decree.

The Corporate Organizational Forms Available

According to PricewaterhouseCoopers international accounting firm, two forms of limited liability corporations may be utilized by foreign and domestic companies in Morocco: The Societe Anonyme (SA) and the Societe Anonyme a Responsabilite Limitee (SARL). These are the two most commonly used corporate structures for commercial companies operating in Morocco. Recently they have been totally reformed.

The Societe Anonyme extends limited financial

liability to its shareholders. The shareholder is liable only for the shareholder's contributions. The minimum share capital is DH300,000. This minimum share capital rises to DH3,000,000 for companies that are listed on the Casablanca Stock Exchange. Only a quarter of the total amount of stock subscribed must be paid in cash at the time of company incorporation. The share value must be higher than DH100. The Board of Directors must be comprised of 3 to 12 shareholders or a Directoire of one to five members who are not necessarily shareholders. A supervisory board (conseil de surveillance) must consist of 3 to 12 shareholders. All types of corporations with share capital equal to or greater than DH2,000,000 or the equivalent in foreign currency may form between them a "Simplified Business Corporation" to create or manage a common branch or to create a company which will become the parent company.

The Societe Anonyme a Responsabilite Limitee requires one to fifty partners with minimum share capital of DH100,000 divided into shares of equal value. The minimum nominal value of a share must be DH100.

Basic Tax Regulations

Let us review the general corporate and individual tax regulations, other taxes, tax treaties in place, and government investment incentives.

Corporate Income Taxation in General. According to PricewaterhouseCoopers international accounting firm, a 35 percent rate is applied to profits and capital gains from the sale of assets and all operations carried out in Morocco by corporations and individuals. This corporate tax is applied to the annual net income of the taxpayer. The rate is reduced from 35 percent to 10 percent for gross income earned by non-resident foreign companies, to 12 percent for contract revenues earned by foreign companies who choose the lump-sum basis for tax assessments, and to 15 percent for capital gains from equity investments. Losses originating from expenses other than depreciation may be carried forward for a period of four years



and applied to taxable profits. But losses from depreciation can be carried forward with no time limitation. The carryback of losses is not permitted.

Individual Income Taxation in General. The individual income tax covers salary income, professional income, real estate income- (rent), income from investments other than real estate, and agricultural income. Individual incomes lower than DH24,000 or approximately U.S.D.3,000 are exempt from income taxation. Higher incomes are taxed at rates that progress from 13 percent to 44 percent. It is expected that the new Moroccan Investment Charter will lower the maximum tax rate to 41.5 percent in the near future. Social charges including retirement contributions are deductible from taxable income.

Moroccan or foreign nationals who have permanent residency in Morocco are generally subject to Moroccan income taxation on their worldwide income. Moroccan or foreign nationals who do not have permanent residency in Morocco are subject to Moroccan income taxation only on their income from Moroccan sources. The taxpayer files an annual tax return that lists income from all sources. An employee who only receives a salary from an employer who is established in Morocco does not have to file an annual tax return; his or her employer must withhold his or her income taxes from his or her paychecks.

Other Taxes. Value added tax applies to sales realized from industrial, commercial, and handicraft businesses as well as from professions and import-export trading. The usual rate is 20 percent, but reduced rates apply to foodstuffs and banking services (7 percent) and real estate, hotels, and catering services (14 percent). Exempt sales include sales from (1) items placed under special customs regimes, (2) exported projects, and (3) several equipment categories and products exclusively

used in agriculture.

The tax on income from equity investments and other similar income including dividends is 10 percent. A business tax applies to any individual or corporation conducting an industrial or commercial activity. An urban tax is applicable to real property, machinery, and equipment used in professional activities of any nature.

Tax Treaties. Morocco has signed tax treaties that permit reduced taxation such as reduced withholding taxes with the following countries: France, Spain, Italy, the United States, the United Kingdom, Belgium, Canada, Finland, Germany, the Netherlands, Norway, Romania, Sweden, Tunisia, Luxembourg, Switzerland, and Denmark.

Investment Incentives. The Investment Charter of

1995 sets forth the overall investment policy, a government guarantee of the free transfer of dividends and capital, reduction of normal investment cost, tax holidays for investments located in certain areas, tax incentives for exporting companies, exemption from the business and urban taxes, and provisions for negotiated settlement



agreements with the government.

Let us peruse the incentives most directly related to real estate investment, land development, and construction. The acquisition of land for a new development project is exempt from the registration tax. As an exception, a 2.5 percent registration tax is applied to the acquisition of land for a housing estate and related construction. A one-half of one percent registration tax is applicable to the equity contributions of a new company or the raising of capital for a new company. Companies located in particular economic zones may benefit from a 50 percent reduction on the individual or corporate tax during the first five years of the

company's operations. Profit and income that are entirely exempt from the corporate tax are still liable to a minimum contribution equal to 25 percent of the tax amount which should have normally been applied if the exemption did not exist. Declining depreciation methods may be applied to equipment. Profit from construction for social housing is exempt from the estate profit tax. New buildings and additions to buildings are exempt from the urban tax during the first five years after their completion or initial use.

When an investment is made in a foreign currency, the foreign investment can be made in Morocco without any prior authorization from the Moroccan Exchange Control Office. Foreign investment can take a number of forms including real estate investment. Morocco guarantees the repatriation without restrictions of foreign investors' capital and related dividends, capital gains, and liquidation net proceeds. Fixed asset investment may be exempt from the value added tax. Investment in industrial land may be exempt from registration duty. Tax holidays may amount to a 50 percent reduction in corporation income taxation for the first five years of company operation in specific regions whose economic situation requires a preferential tax treatment. Also, for the first five years, new construction and equipment are exempt from the urban tax.

Special settlement agreements may be negotiated with the government that provide more extended preferential treatment. Generally, the proposed

investment qualifies for such extended treatment when unusually large sums are committed, a considerable number of jobs are created, and the geographic location qualifies for special treatment.

The Licensing of Real Estate Agents

A license from the commune, province, prefecture, federal government, or any other government subdivision is not required for marketing real estate in Morocco. But approval of a local government officials with this particular function - a fonctionnaire of the commune - of the good character of the candidate is required. There are no educational or experience requirements at this time.

Summary

As international real estate portfolios expand to the continent of Africa to further increase portfolio returns and reduce risk through greater investment diversification, the investor should not overlook the desirable investment opportunities of Morocco, a relatively stable northwestern African country. The return-risk characteristics of Morocco's commercial and industrial properties may be very appealing as they are compared to property return-risk characteristics of other African countries and other emerging market economies.

SELECTED REFERENCES

1. BMCE Bank. Annual Report 1997. Casablanca, Morocco.
2. BMCE Bank. Morocco: Your New Business Horizon. Brochure. Rabat, Morocco: Foreign Investment Department, BMCE Bank
3. El Alama, Rabia, Directeur Adjoint, American Chamber of Commerce in Morocco, May, 1999.
4. Gordon, Frances Linzee, Dorinda Talbot, and Damien Simonis. January, 1998. Vic, Australia: Lonely Planet Publications.
5. Matthews, Roger and Francis Ghiles. Morocco. November 3, 1993. Financial Times Survey. Financial Times, pp. 4-6.
6. Moroccan Ministry of Economic Forecasting and Planning, Direction de la Statistique. Morocco in Figures 1997, 37th Edition. Casablanca, Morocco: Research Department, Banque Marocaine du Commerce Exterieur, BMCE Bank
7. Outline Law No. 18-95 Establishing Investment Charter, Morocco.
8. Price Waterhouse. Morocco Business Guide. January 1997. Casablanca, Morocco: Price Waterhouse Morocco.
9. Turner, Mark. "African Banking," Financial Times Survey. Financial Times, Friday, May 21, 1999, pp. 21-24.

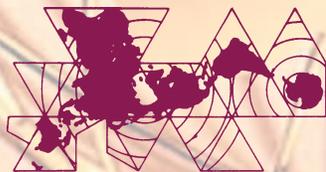
RIM - Registered International Member

SCV - Senior Certified Valuer

RPM - Registered Property Manager

Associate Membership

Corporate Membership



**International
Real Estate
Institute**

P.O. Box 879 • Palm Springs, California 92263 • USA

Tel: (877)743-6799 • Fax: (760)327-5631

E-Mail: info@irei-assoc.org • Website: <http://www.irei-assoc.org>