

Managing Geopolitical Risk: A Strategic Imperative for Real Estate

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What is geopolitical risk?

The trajectory of key determinants of successful real estate development and investment, such as construction costs, rents, capitalisation rates and prices, can be substantially altered by geopolitical events, including elections, sanctions, wars, and resultant hydrocarbon price spikes. This is as true in the Gulf as anywhere else. The region is structurally exposed to geopolitical risk due to hydrocarbon-linked liquidity cycles, expatriate population dynamics and, as demonstrated so clearly by the present conflict, regional security architecture. The current conflict has exposed the extent to which Gulf real estate is intertwined with regional security dynamics, making geopolitical risk management no longer optional, but foundational.

In the midst of the present conflict in particular, it is important to bear in mind that the extent to which real estate market variables are influenced by geopolitical crises is often exaggerated¹, as real estate markets are resilient and often anticipate the end of crises even as they develop.² During the pandemic, for example, real estate markets served as an excellent hedge to globalised effects on other markets.³ Nevertheless, geopolitics remains a critical consideration for Gulf developers and investors in their decision-making processes. This is especially the case since, as has already been observed, real estate firms and Real Estate Investment Trusts (REITs) with sophisticated geopolitical risk frameworks will likely outperform their competitors.⁴ Yet, the absence of coherent geopolitical risk management strategies among developers and investors globally remains striking. Why is this the case?

Taking geopolitical risk seriously

Perception of Unforecastability and Unmanageability

A prevalent but incorrect perception exists that geopolitical events are both impossible to forecast and intrinsically unmanageable. This perception strongly influences developer and investor attitudes toward geopolitical risk management, creating a false sense of helplessness.

Frequency and Memory Fade

Geopolitical crises are less frequent than real estate cycles and therefore tend to fade from both public and corporate consciousness. This reduced visibility makes it easier for organizations to deprioritize geopolitical risk management compared to more recurring concerns.

Potentially Deal-Breaking Consequences

Managing geopolitical risk may have deal-breaking consequences that fundamentally differ from other risk categories. Whereas legal or environmental risks typically affect how projects are structured and delivered, geopolitical risk may determine whether projects proceed at all, or even which jurisdictions are included within a strategy. As such, it can impose a greater constraint on management freedom than other risk categories.

Corporate Tendency to Procrastinate

A broader reflection of corporate behaviour is the tendency to procrastinate and avoid difficult decisions. This explains the prevalence of "ostrich-like" behaviour among both developers and investors when confronted with serious risks, whether geopolitical, macroeconomic, or local market-based.

The combination of these four factors has resulted in geopolitical risk operating in the shadows of real estate decision-making, often confined to informal discussions and rarely formalised within due diligence or strategic frameworks.

Strategies for managing geopolitical risk

1. Structured use of Intelligence

Effective risk management begins with accurate forecasting. Geopolitical risk today occupies a similar conceptual space to climate risk two decades ago. Since then, climate risk has evolved from being perceived as unknowable to being systematically modelled, following the adoption of probabilistic forecasting and scenario-based planning. Geopolitics is now undergoing a similar transition. The question is not whether geopolitical events can be predicted with certainty, but whether their probability distributions can be incorporated into investment decision-making. The answer, as with climate risk, is yes—provided that systematic expertise replaces informal judgment. Equipped with robust forecasting frameworks, developers and investors can integrate geopolitical risk into their strategic planning. For the Gulf, effective strategy should incorporate crisis scenario modelling, ideally anchored around an NBCR (neutral, balanced, central, and reasonable) forecast. These scenarios should include assumptions around hydrocarbon prices and fiscal impacts. NBCR forecasting does not eliminate uncertainty; rather, it imposes discipline on it.

2. Diversification

Traditional portfolio diversification focuses on historical correlations between markets. However, this approach does not adequately capture future risks arising from structural or qualitative change. Gulf real estate markets are heavily correlated, but geopolitical crises may affect them differently. Green and conventional real estate may similarly exhibit different performance during a geopolitical crisis,⁵ although research is as yet insufficiently extensive to draw a universal pessimistic conclusion. Diversification may also include indirect investment, such as REITs, that provide both liquidity and local expertise in markets that are being introduced into the portfolio for specific reasons of diversification.⁶ Perfect diversification is not what is needed: for obvious reasons no one wants equal exposure to a market that performs in an exactly opposite way to the Gulf. Diversification seeks low correlation, not negative correlation; the goal is to preserve upside, not neutralise it. A strategy advocated by several international investors is 'barbell diversification',⁷ which pairs the Gulf with a low-correlation, income-driven market, for example multi-family occupation in the USA, Germany or Japan.⁸ Pairing maturing markets with low-volatility, income-driven sectors such as Tokyo or German multi-family reduces drawdowns without eliminating upside.

3. Use of Derivatives

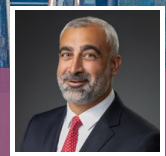
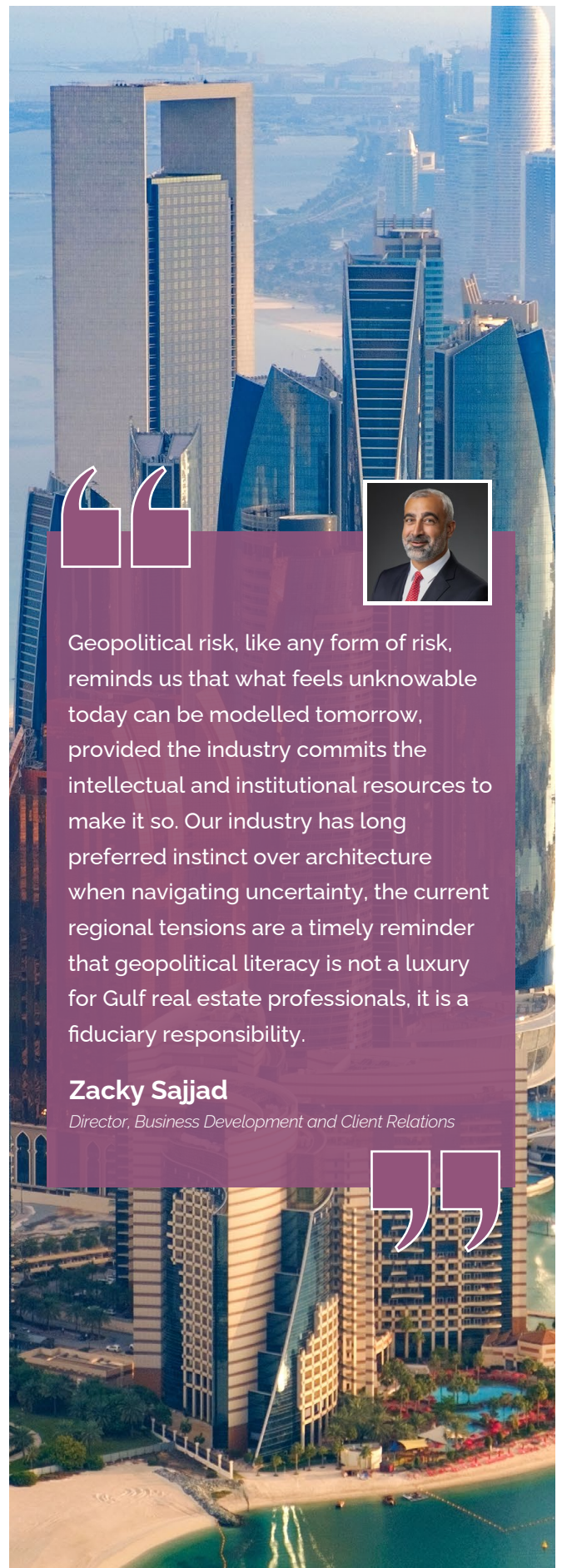
Property derivatives have had a chequered history, from their early beginnings in London last century through to their implementation on US and European derivative exchanges and occasional Over-the-Counter (OTC) trades in Asia and the Middle East.⁹ Today, the ability to hedge real estate using derivatives is still only partial, but there are workable – if imperfect – hedging

architectures using a basket of indirect, macro and proxy instruments that Gulf developers and family offices can actually use when geopolitical risk spikes. They can short bundles of real estate stocks such as the Morgan Stanley Capital International (MSCI) Saudi Real Estate 20/35 Index¹⁰ and the MSCI UAE Investable Market Index (IMI) Real Estate Index¹¹ using an option or a synthetic mechanism such as an OTC Total Return Swap. Although correlations between listed real estate indices and direct property markets are imperfect, these instruments provide meaningful protection. Investors may also short individual REITs or use equity index futures, while hedging macroeconomic drivers such as liquidity, sentiment, funding costs, and oil prices through instruments like Brent crude options or interest rate derivatives. These strategies do not perfectly hedge real estate assets, but they are sufficiently effective to justify their use.

4. Insurance

Insurance complements hedging and diversification by addressing the physical and operational consequences of geopolitical events. While derivatives protect against valuation risk, insurance responds to tangible disruptions, such as damage from conflict or interruption to rental income. Insurers themselves emphasise that real estate assets will always remain vulnerable without appropriate specialist cover.¹² Industry research shows a staggering potential quantity of global loss running into trillions of dollars, accompanied by a marked rise in demand for terrorism, political-violence and war-risk extensions, alongside expanded business-interruption and denial-of-access coverage.¹³ This evidence underlines that, in the Gulf, as elsewhere, insurance is not a compliance formality but a core instrument of geopolitical resilience.

Finally, the importance of transparency and networks. Concealment of information has often led to accumulated information reaching markets, generating disproportionate effects. While this is largely beyond the control of individual investors and developers, choosing markets that are transparent about geopolitical risks is evidently advantageous.¹⁴ Fortunately, the importance of this transparency for investor confidence has been firmly grasped by Gulf Governments in the present regional conflict.¹⁵ The UAE and Saudi Arabia have both adopted unusually transparent communication strategies during the current crisis, recognising that investor confidence depends on timely and credible information. Developers and investors who follow the example of their host Governments in tracking the impact of geopolitical crises on their operations will likely obtain commensurate benefits from their own transparency. Research also supports what many developers and investors feel instinctively: that continuous geopolitical monitoring, building financial reserves, fostering innovation and partnerships with Government and international organisations – in sum, fostering networks of stakeholders, including supply chains, regulators and investors – all serve their firms well in times of crisis.¹⁶



Geopolitical risk, like any form of risk, reminds us that what feels unknowable today can be modelled tomorrow, provided the industry commits the intellectual and institutional resources to make it so. Our industry has long preferred instinct over architecture when navigating uncertainty, the current regional tensions are a timely reminder that geopolitical literacy is not a luxury for Gulf real estate professionals, it is a fiduciary responsibility.

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| Conclusions

Geopolitical risk is ever-present and demands continuous, serious attention from both developers and investors. While it cannot be eliminated, it can be managed effectively through three key shifts. First, geopolitical risk must be elevated in importance within decision-making frameworks. Second, expertise in this domain must be recognised as equivalent to financial, legal or environmental expertise, and resourced accordingly. Third, stakeholders must accept that effective risk management may require some trade-off in returns. These changes are likely to become increasingly embedded across the Gulf real estate ecosystem. Real estate advisers have a critical role to play in supporting developers and investors in implementing these strategies cost-effectively, balancing risk and return while maintaining competitiveness as current geopolitical tensions eventually recede.



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