Real Estate and Construction Sector in the UAE: Growth Strategies

Case prepared by Professor B. Rajesh KUMAR, Abhas AGARWAL and Rajat KHULLAR

Real Estate and Construction Sector in the UAE

Macro perspective

Gulf Cooperation Council (GCC)

The Gulf Cooperation Council, commonly known as GCC, was established in 1981 to promote cooperation among the GCC nations as part of a unified economic agreement. GCC members include the countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. In 2008, GCC nations’ combined Gross Domestic Product totalled $1.1 trillion, with Saudi Arabia being the largest contributor, with approximately 47%, followed by UAE at 23%, Kuwait at 14% and Qatar at 10%.

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Nominal GDP Values for GCC Countries (in US billion dollars)

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<tbody>
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<td>188.00</td>
<td>183.00</td>
<td>189.00</td>
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<td>316.00</td>
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<td>19.90</td>
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<td>13.50</td>
<td>15.80</td>
<td>18.84</td>
<td>21.24</td>
</tr>
</tbody>
</table>

Construction and Real Estate Sector in GCC Nations

Strong crude prices over the last five years have played a significant role in boosting the economic growth of GCC nations, and even now, oil is still the major contributor to the economies of these nations. However, there has been a gradual shift in focus away from a reliance on the hydrocarbon sector and towards diversification. This shift has given a significant boost to many sectors, with one of the most important areas to have emerged being the construction and real estate sector. In tandem with the increasing contribution of construction and real estate activity to the GDP, credit distribution to this sector increased astronomically due to close links with increasing construction activity.

United Arab Emirates

The United Arab Emirates, or UAE, is a constitutional federation formally established on December 2, 1971. UAE consists of seven emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm al-Qaiwain, Ras al-Khaimah and Fujairah.

The UAE presently has one of the most rapidly growing economies and one of the largest GDPs and energy consumption per capita in the world. The UAE’s major sources of revenue are petroleum and natural gas, with Abu Dhabi having the highest share compared to other emirates.

As a key to achieving sustainable growth, the local government started encouraging the non-oil sectors to reduce their reliance on oil and gas. At Dh467.9 billion, the UAE’s non-oil sector contributed around 64% of total GDP in 2007. The UAE’s economy posted growth of 7.5% in 2008, despite a global recession. Total GDP at current prices amounted to Dh 929.4 billion in 2008, compared to 729.7 billion in 2007. The country’s impressive economic growth can be attributed to key factors such as the strong oil market, active development of public joint stock companies, increased involvement of free zones and buoyant local stock markets, together with the launch of a number of significant new projects.

One of the major beneficiaries of this drive has been the infrastructure and real estate sector.
In 2007, the construction and real estate sector each accounted for 8% of total GDP.

**Construction and real estate sector in the UAE**

In the last five years, the GCC has experienced a record boom in the infrastructure sector. Construction projects in the GCC exceeded $1 trillion, with two-thirds of the projects being undertaken in the UAE. The construction and real estate sector in the UAE posted double-digit growth on a year-on-year basis and contributed 15% to GDP. The unprecedented growth in the UAE’s construction and real estate sector had Dubai and Abu Dhabi observing the highest increase in the number of construction projects. Dubai has seen a major boom in the construction and real estate sector, making it a hub for some of the world’s biggest construction companies, including Nakheel PJSC and Emaar Properties PJSC. Abu Dhabi is also a major hub for construction companies, including Aldar Properties PJSC. Significant construction projects have also been carried out in other emirates.

Diversification remains the key to achieving sustainable growth in the UAE and the government is firmly focused on encouraging the non-oil sector to maintain its major role in the country’s economy.

Proof of the massive boom in economic activity throughout the country is apparent in the high concentration of cranes in Abu Dhabi and Dubai. It is no surprise, therefore, that the construction sector grew by an impressive 25.6% in 2007, compared to 2006.

The United Arab Emirates (UAE) accounts for 23% of the GCC’s economy. It remains the driving force behind the economic transformation of the GCC into a global hub.

In nominal terms, the CAGR of UAE’s real estate and business services sector witnessed record growth of 20% during the 2003-2007 period.

The sector’s key drivers include, among others: a growing expatriate population, ample liquidity and a friendly regulatory environment. Moreover, as a regional hub for investments, the UAE attracts international companies to establish offices.

Abu Dhabi, Dubai and Sharjah have been the main beneficiaries of the exceptional growth in construction and real estate projects, mainly due to the liberalization of real estate and property laws, which has generated unprecedented development in this sector.

The creation of free zones has also acted as a major catalyst for local and foreign investment by offering incentives such as 100% foreign ownership, one-stop locations for paperwork and other procedures, exemption from import duties and taxes, full repatriation of capital and profits, and, in some cases, subsidized water and energy prices.

This sector has been buoyed by the increasing investment in infrastructure, due to the country’s positioning as an attractive tourist destination in addition to the increase in residential and non-residential units. Both sectors accounted for 16% of GDP in 2007.
Projects such as the Jumeirah Beach Residences, one of the world’s largest synchronized real estate developments; the Jumeirah Palm, one of the world’s largest manmade islands; Aldar’s massive Abu Dhabi Central Market project; Burj Khalifa, the magnificent Sheikh Zayed Grand Mosque; and mega projects such as Saadiyat Island, Al Reem, Jebel Ali Palm, Deira Palm; Al Maktoum International Airport, Dubai World Central and Dubailand, all reflect the rapid development phase being experienced by the UAE’s construction sector.

**Abu Dhabi**

Abu Dhabi is the largest emirate in the UAE, covering most of its territory. Discovery of oil and gas transformed this emirate into one of the world’s richest locations. The wealth derived from oil and gas resources has been poured into major investments aimed at spurring and maintaining development in this emirate. Abu Dhabi is observing a reduced dependency on oil wealth due to the large number of economic activities being carried out that contribute to GDP.

The real estate and construction sector has received the largest chunk of total investments, indicating that this sector is a priority in this emirate. It is estimated that the government will spend about $200 billion on the new infrastructure and development projects in the coming five years.\(^1\) The government of Abu Dhabi has initiated changes in its foreign ownership laws in order to encourage greater investment. The concept of freehold property is still not allowed in this emirate for non-GCC nationals.

In order to manage the development process throughout the emirate, Abu Dhabi developed a “Plan Abu Dhabi 2030: Urban Structure Framework Plan” in 2007, aimed at planning infrastructural and environmental development and thus transforming it into a contemporary Arab city.

Aldar Properties PJSC actually rejuvenated the real estate sector in Abu Dhabi with the announcement of the development of the Al Reem Development Scheme, followed by the Al Raha Development project.

According to experts at the MEED Conference 2007, the construction and real estate sector in Abu Dhabi would surpass Dubai, since it is the wealthiest emirate in the UAE.

The main high-level economic activities in Al Gharbia, which covers five-sixths of the emirate, are construction and real estate, oil and gas, and agriculture. Recently, the UAE government invested around $26.7 billion in development projects.

Al Ain, the fourth largest city in the UAE, is a natural hub for trade and business due to its proximity to Oman. It encompasses mainly scale industries and includes a Coca-Cola bottling plant and cement works. Recently, with the launch of the Plan Al Ain 2030, the government announced the development of residential, community, neighbourhood, district centres, educational, healthcare, leisure, and commercial facilities.\(^2\)

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\(^1\) UAE Year Book 2009.

Major projects in Abu Dhabi

**i. Yas Island – Aldar Properties PJSC**
- Approx. $39-billion project.
- Developed on an area of about 25 million square metres.
- Mainly comprised of theme parks, Ferrari World Abu Dhabi, and Warner Bros.
- Expected to complete in 2014.

**ii. Saadiyat Island – Tourism, Development and Investment Company**
- Approx. $27-billion project.
- Developed on an area of 27 million square metres with 19 km of beachfront.
- Includes residential areas, hotels, and cultural and leisure areas.
- Incorporates development of six islands:
  • Cultural District
  • Al Marina
  • Saadiyat Beach
  • South Beach
  • Saadiyat Park, and
  • The Wetlands
- Expected to complete by 2018.

**iii. Khalifa Port and Industrial Zone – Abu Dhabi Ports Company**
- Also known as Mina Zayed Port and slated to replace this port by 2012.
- Estimated value of approx. $24 billion.
- Construction of port and industrial zone to be done separately.
- Developed to cater to almost all the major industrial sectors.
- Expected to complete in 2028.

**iv. Masdar City Project – Abu Dhabi Future Energy Company**
- Touted as a zero-carbon city.
- Approx. $22 billion project.
- Aimed at becoming a “net-zero” carbon area.
- Developed on an area of approx. 6 million square metres.
- Includes research and technology labs and institutes, commercial areas, service and transportation areas, and shopping, leisure and cultural areas.
- Expected to complete by 2016.

**v. Al Raha Beach – Aldar Properties PJSC**
- Approx. $13 billion project.
- Built on the mainland coast, 11 km long.
- Developed area of about 12 million square metres.
- Expected to provide housing to approx. 120,000 people.
- Expected to complete in 2014.

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1 Source: [www.zawya.com](http://www.zawya.com).
**Other major projects in Abu Dhabi**

<table>
<thead>
<tr>
<th>Company</th>
<th>Project</th>
<th>Value</th>
</tr>
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<tbody>
<tr>
<td>Aldar Properties PJSC</td>
<td>Al Raha Beach</td>
<td>$13 billion</td>
</tr>
<tr>
<td>Aldar Properties PJSC</td>
<td>Motor World</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Sorouh Real Estate PJSC</td>
<td>Reem Islands</td>
<td>$10 billion</td>
</tr>
<tr>
<td>Sorouh Real Estate PJSC</td>
<td>Gate District</td>
<td>$3 billion</td>
</tr>
<tr>
<td>Sorouh Real Estate PJSC</td>
<td>Lulu Islands</td>
<td>$2 billion</td>
</tr>
<tr>
<td>Tourism Development and Investment Company</td>
<td>The Lagoon Club Hotel and Residencies</td>
<td>$400 million</td>
</tr>
<tr>
<td>(TDIC)</td>
<td></td>
<td></td>
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<tr>
<td>Abu Dhabi Municipality and Town Planning</td>
<td>Mohammed Bin Zayed City</td>
<td>$7 billion</td>
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<tr>
<td>Department</td>
<td></td>
<td></td>
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<tr>
<td>Capitala</td>
<td>Zayed Sports City Development</td>
<td>$6 billion</td>
</tr>
<tr>
<td>Mubadala Development Company</td>
<td>MGM Grand</td>
<td>$3 billion</td>
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<tr>
<td>Mubadala Development Company</td>
<td>Sowwah Island (Phase 1)</td>
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<tr>
<td>Abu Dhabi National Exhibitions Company</td>
<td>Capital Centre</td>
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<tr>
<td>(ADNEC)</td>
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<tr>
<td>Abu Dhabi Municipality and Town Planning</td>
<td>Emerald Gateway</td>
<td>$2 billion</td>
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<tr>
<td>Department</td>
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**Dubai scenario**

Dubai is globally recognized as the international hub of the Middle East region. UAE’s second largest emirate, Dubai is a bustling, cosmopolitan city with a population of over one million and a well-established global reputation as the tourism and business capital of the region. The stable political environment, multicultural society (comprising some 200 nationalities), sound infrastructure and excellent lifestyle are just some of the facets that have contributed to Dubai’s global reputation.

The boom in the real estate and construction sector can be attributed to the influx of expatriates from all over, which has turned the city into a hub for some of the best projects in the world. The Dubai economy has undergone tremendous structural changes in the last two decades. This has been reflected in the pattern of sectoral production in the context of an environment characterized by a modern infrastructure, efficient financial markets, complete transportation and telecommunication networks and free trade-oriented public policy. The Dubai strategic plan of HH Sheikh Mohammed bin Rashid Al Maktoum envisages sustaining real economic growth at a rate of 11% per annum to reach a GDP of US$108 billion in 2015 and to increase per capita GDP to US$44,000.¹

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¹ [www.uaeinteract.com/economic](http://www.uaeinteract.com/economic) development (Broken link).
Dubai GDP by sector in 2008

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value (million AED)</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Non oil</td>
<td>295,226</td>
<td>97.89</td>
</tr>
<tr>
<td>Oil sector (mining and quarrying)</td>
<td>6,370</td>
<td>2.11</td>
</tr>
<tr>
<td>GDP</td>
<td>301,596</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Dubai Statistical Centre

According to a report by the real estate consultancy Colliers International, Dubai witnessed a high y-o-y growth rate of about 80% by Q3 2008, as compared to Q3 2007. However, the global slowdown caused a reduction in growth levels in the last quarter of 2008, although the economy still posted net growth due to good performance in the first three quarters. Moreover, Dubai was the first emirate in the UAE to introduce the concept of freehold real estate projects. This made Dubai a prominent and important centre for business and property investments across the world.

By 2007, Dubai’s construction and real estate sector was contributing about 24% to the GDP.

Some of the main macroeconomic reasons for the real estate and construction boom were support for strong domestic and regional economic growth, high levels of liquidity and major, emirate-specific reform processes oriented towards economic integration, liberalization and diversification and away from its declining hydrocarbon-based resources. As a result, property demand and prices in Dubai have increased more than tenfold over the last eight years. The specific microeconomic reasons for the increasing housing demand in Dubai can be attributed to the following factors:

1. **Strong population growth:**
   The emirate’s expected strong population growth of 7% p.a. over the period 2008-2012 is one of the most common arguments used to justify this demand. Analyzing the emirate’s current population composition, a significant portion of the existing or incremental population is not the target market for most of the current “affluent” housing projects under development.

2. **High number of people per dwelling versus that of developed countries:**
   The average number of people living per dwelling (5.5) in Dubai provides a skewed picture when compared to developed countries, mainly due to the demographic mix of the city’s population and disparity in living standards.

3. **A low mortgage to GDP ratio:**
   UAE has a relatively low mortgage to GDP ratio of 8% compared to developed countries (averaging around 53%). The mortgage to GDP ratio for Dubai stands at 23%, more than twice that of UAE.

4. **Investment by foreigners is a major factor in driving demand, with key incentives including:**
   (1) a zero tax regime; (2) residence visa sponsorship by developers; (3) lack of restrictive regulations; and (4) strong domestic and international marketing campaigns. Relatively high rental yields in the residential property market have also helped influence investor sentiment. Moreover, speculation for short-term gains in a heated market has also contributed to demand.
Major projects in Dubai

i. Jumeirah Gardens City – Meraas Development
   - Approx. $95 billion project.
   - Expected capacity of 60,000 residents.
   - Comprised of developments to be constructed on natural land and seven islands.
   - Includes development of residential units, offices, retail spaces, entertainment and infrastructure facilities.
   - Expected to complete by 2024.

ii. Burj Khalifa Tower – Emaar Properties PJSC
   - Part of the $20-billion Downtown Burj Dubai project.
   - Approx. $1 billion project.
   - World’s largest tower, with an official height of 818 metres.
   - Includes residential, office, retail and hotel areas.
   - Opened in 2009.

iii. The Dubai Mall – Emaar Properties PJSC
   - Part of the $20-billion Downtown Burj Dubai project.
   - Developed on an area of 1 million square metres.
   - Includes retail outlets (1,200), department stores (2), Gold Souk Stores (220) and food and beverage outlets (150).
   - Project completed in 2008.

iv. Dubai land – Tatweer
   - Approx. $64-billion project.
   - Developed on an area of 279 million square metres.
   - Includes 45 major projects and 200 sub-projects.
   - Comprised of residential, shopping, hotels, theme parks, sports complexes, and cultural facilities.
   - Some of the third-party projects undertaken are:
     - Global Village
     - Universal Studios
     - DreamWorks
     - Six Flags
     - Legoland
     - Marvel
     - Six Flags
   - Expected to complete by 2020.

v. Dubai Land Community Development – Bawadi
   - Approx. $54.5-billion project.
   - Developed over an area of 139 million square metres.
   - Includes development of hotels, shopping malls, and other leisure facilities.
   - Development of the world’s largest hotel, the Asia-Asia.
- **Major developments:**
  - Asmaran Development
  - Bawadi/Al Ghurair Shopping Mall
  - Galadari Palace Hotel & Resort
- **Major FINANCING SOURCES:**
  - Bawadi (Tatweer) - $22 billion
  - Emaar Properties PJSC - $1 billion
  - Other financial institutions
- **Expected to complete in 2014.**

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### vi. Dubai World Central (DWC)

- **Approx. $33-billion project.**
- **Developed over an area of 140 million square metres.**
- **Includes the following major developments:**
  - **Airport** to be developed over an area of 55 million square metres.
  - **Aviation City:**
    - Approx. $1.4-billion project.
    - Developed over an area of 6.7 million square metres.
  - **Commercial City:**
    - Approx. $32-million project.
    - Developed over an area of 14.5 million square metres.
  - **Dubai Logistics City:**
    - Approx. $2.2-billion project.
    - Developed over an area of 25 million square metres.
    - Includes development of $410-million office park project.
  - **Golf City:**
    - Approx. $200-million project.
    - Developed over an area of 15.8 million square metres.
  - **Residential City:**
    - Approx. $6.5-million project.
    - Developed over an area of 8 million square metres.
    - Expected to house approx. 900,000 people.
  - **Grand Central**
- **Expected to complete by 2020.**
**Other major projects in Dubai**

<table>
<thead>
<tr>
<th>Project</th>
<th>Developer</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palm Triology</td>
<td>Nakheel PJSC</td>
<td>$14 billion</td>
</tr>
<tr>
<td>The World</td>
<td>Nakheel PJSC</td>
<td>$12 billion</td>
</tr>
<tr>
<td>Mina Rashid</td>
<td>Nakheel PJSC</td>
<td>$3.5 billion</td>
</tr>
<tr>
<td>Dubai Waterfront</td>
<td>Nakheel PJSC</td>
<td>$6 billion</td>
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<td>Dubai Marina</td>
<td>Emaar Properties PJSC</td>
<td>$13.6 billion</td>
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<td>Cultural Village</td>
<td>Dubai Properties</td>
<td>$6.5 billion</td>
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<tr>
<td>Business Bay</td>
<td>Dubai Properties</td>
<td>$11 billion</td>
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<tr>
<td>Arabian Canal Development</td>
<td>Limitless</td>
<td>$18 billion</td>
</tr>
<tr>
<td>The Lagoons</td>
<td>Sama Dubai</td>
<td>$14 billion</td>
</tr>
</tbody>
</table>

**Northern Emirates**

These emirates mainly include Sharjah, Ajman, Ras Al Khaimah, Fujairah and Umm Al Quwain. These northern emirates accounted for 18% of the UAE’s GDP in 2008.

Also known as the cultural capital of UAE, Sharjah is the third largest emirate and accounts for 47% of the industrial GDP of UAE. It has become a cost-effective residential alternative to Dubai, although foreign ownership is still restricted.

Nujoom Islands, also referred to as Stars Islands, is the largest commercial, residential and tourism development project in the city of Sharjah.

**Major projects in Sharjah**

<table>
<thead>
<tr>
<th>Project</th>
<th>Developer</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Nujoom Islands</td>
<td>Al Hanoo Holding Company</td>
<td>$5 billion</td>
</tr>
<tr>
<td>Sharjah Marina</td>
<td>Burooj Properties</td>
<td>$4 billion</td>
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<tr>
<td>Hamriyah Power and Desalination Plant</td>
<td>Sharjah Electricity and Water Authority</td>
<td>$2.8 billion</td>
</tr>
<tr>
<td>Sahara City</td>
<td>Al Nahda Real Estate and Trading Company</td>
<td>$1.6 billion</td>
</tr>
<tr>
<td>Al Wasit Power Station Conversion</td>
<td>Sharjah Electricity and Water Authority</td>
<td>$1.1 billion</td>
</tr>
</tbody>
</table>

**Ra’s al-Khaimah**

Ra’s al-Khaimah is the fourth largest emirate in the UAE. The absence of major oil resources has led it to shift its focus to developing its industrial sector. It is the UAE’s largest cement producer and the world’s largest ceramics producer, in addition to being a major agricultural producer in the UAE. In order to kick-start development processes and economic activities, the “freehold concept” was introduced, attracting both foreign and expatriate investors. Some of the major projects in RAK are RAK Gateway City, Al Marjan Island, Dana Island, Mina Al Arab, Saraya Island.
Fujairah

Fujairah is the fifth largest emirate in the UAE. Local industry is mainly comprised of cement, stone crushing, and mining. In recent years, there has been an increase in construction activity, mainly aimed at supporting these industries. There has been a focus on commercialization to support the enactment of free trade zones, which is the major reason behind the flourishing construction activities around the emirate. Moreover, in order to promote tourism, there have been proposed developments of hotels and resorts in the emirate.

Some of the major projects in Fujairah are Fujairah Refinery, Abu Dhabi Crude Oil Pipeline, Fujairah 2 Independent Water & Power Provider (IWPP), Fujairah 1 IWPP Extension and Al Fujairah Paradise.

Umm al-Quwain

Umm al-Quwain, the least populated and second smallest emirate in the UAE, initially did not show much interest when the attention was focused on other emirates such as Dubai and Abu Dhabi. However, as it started to absorb overflowing demand from other emirates (especially Dubai), which were undergoing huge development, construction and business activities started to rise, especially in free trade zones, and property prices started to rise in this northern emirate as well. But unlike the major construction and real estate projects undertaken in other emirates, Umm al Quiwain saw a relatively smaller number of large projects at the outset. But as the rules were modified to attract investors, a number of huge development projects were launched, which resulted in Umm al-Qaiwain being tipped as “The Next Dubai.” Other factors included good infrastructure, less stringent rules and a booming market. Some of the major projects are Al Salam City, Umm Al Quwain Marina and White Bay.

Ajman

Ajman, the smallest emirate in the UAE, did not see a construction and real estate boom until 2005. But recently it has witnessed phenomenal growth in all major sectors. Land and space constraints in key emirates led to price increases, making investors shift their attention to Ajman for real estate investment opportunities. As the only emirate in the UAE after Dubai to allow freehold property, Ajman attracted a large number of investors, resulting in major investments in numerous towers and making it the market leader in the northern emirates in terms of the real estate projects on offer. Moreover, as in other emirates, tourism is also a major reason why this beautiful emirate saw strong growth in real estate and construction. Some of the major projects in Ajman are Ajman 1, Emirates City, Ajman Marina, Al Zorah Development and Al Tallah City.

Current Scenario

September 2008 marked the end of the unprecedented period of growth experienced by the UAE in the previous five years. The property market slowed down, jobs were cut, rents and property prices started to decline and numerous projects were halted or cancelled. HSBC reduced its loan value ratio to 70% from 85% and Lloyds TSB stopped loans for apartment purchases and lowered its loan-to-value ratio on villas in the UAE to 50%. There was a 49% increase in real
estate mortgage loans?? from AED 58.8 billion in December 2007, to AED 87.5 billion by June 2008. The final quarter of 2008 saw the earnings of Dubai real estate companies fall by approximately $671 million.

According to Mazaya, the general price index for real estate transactions executed in the UAE continued to follow a downward trend from September 2008 onwards.

The major challenges facing the construction and real estate sector at present are falling property prices, a lack of mortgage availability and a serious confidence crunch in the market.

Construction has been halted for one year on Dubai’s Nakheel Tower, which was supposed to be the world’s tallest tower on completion. Nakheel has put a hold on several flagship projects such as the Turnip International Hotel and Tower. Projects such as Gateway Towers, Trump Towers and Frond N Villas on Palm Jumeirah have also been delayed.¹

Some of the main consequences of the global slowdown are:

- A sharp drop in off-plan sales compared to projects nearing completion;
- Dubai is the emirate most affected by the downturn:
  - 15-30% drop in the price of freehold properties;
  - 10-25% decrease in office rents;
- Other emirates have proved more resilient to the downturn;
- Decline in overall demand and slowdown of financial activity.

Dubai debt crisis

On November 25, 2009, Dubai shocked the financial world by announcing that it was planning for a debt standstill at Dubai World, which is the government’s flagship holding conglomerate. Creditors of Dubai World and Nakheel, builder of Palm Shaped Islands, agreed to a standstill on billions of dollars of debt, marking the start of a $26-billion debt restructuring process. This news sent ripples through financial markets, denting equities and currencies. Out of Dubai’s total obligations of $80 billion, $59 billion of liabilities were associated with Dubai World alone and a $4 billion repayment was due to Nakheel on December 14, 2009. Stock markets crashed around the world. The FTSE 100 and Germany’s Dax plunged by 1.05%, France’s CAC 40 slid 0.99% and the Dow Jones remained flat. Nakheel requested suspension of trading of its Islamic Bonds. Banks were hit hard, with major banks like RBS sliding 4.45%, while Lloyds dropped even further, falling by 5.89%. Standard & Poor’s and Moody’s investors downgraded the rating of all government-related issues in Dubai.

The UAE Central Bank announced the setting up of a facility to aid all local and foreign banks operating in the UAE with extra liquidity. Subsequently, the Dubai government denied any responsibility for the debt of Dubai World, dashing the initial hopes of creditors that the emirate would guarantee its obligations.

Subsequently, Abu Dhabi provided a bailout of $10 billion to help prevent Dubai World from defaulting on $4 billion in debt. The announcement instilled confidence in European banking stocks led by Standard Charted Plc, HSBC Holding Plc, Royal Bank of Scotland Plc.

**Growth Strategies of Real Estate and Construction Companies**

**Emaar Properties PJSC**

Emaar Properties PJSC is one of world’s largest real estate companies. The company was established in 1997 and listed on the Dubai Financial Market in 2000. It is also listed on the Dow Jones Arabia Titans Index and the S&P IFCG Extended Frontier 150 Index. The company is primarily engaged in real estate development and the acquisition and management of residential and commercial properties. Emaar is a majority shareholder in Amlak Finance, a major Islamic financing company, in addition to being a 30% shareholder in Dubai Bank, a major retail and commercial bank. Emaar’s business spans the markets of Europe, North America, North Africa, pan-Asia and the Middle East.

*Growth strategy*

The company has been active in expanding its presence across various developed as well as emerging economies, in line with its Vision 2010 goal of becoming one of the most valuable companies in the world. The company mainly targets the high-end and well-off populace in the regions where it is present.

One of the company’s strategies has been brand building of the countries in which it operates in order to promote them as an attractive destination for people around the world. Thus, its growth strategy relies on geographic expansion and business segmentation. Strategic partnerships and acquisitions have been a key driver in the company’s unprecedented growth.

Landmark projects such as the development of 150 malls in MENA and the Indian subcontinent, the “Cairo Gate Project” in Egypt along with diversification into the education sector through the Singapore-based Raffles campus all reflect the growth potential of Emaar group.

**Areas of expertise:**

1. Real Estate Management
   - General Property Management
   - Shopping Malls Management
2. Construction and Design
3. Education
   - Childcare, Elementary and Secondary Schools
   - Colleges and Universities
4. Financial Services
• Banking
• General Financial Services

5. Health Care Services

6. Leisure and Tourism
• Hotels, Motels and Resorts

Major milestones:
1. Year 2006:
   • Established Emaar Education and Emaar Healthcare
   • New major projects launched:
     - $500 million Dead Sea Project in Jordan.
     - Arabian Ranches Project in the UAE.
     - $3.3 billion Umm Al Quwain Project.
     - Projects in Tunisia, Libya, and Syria.

2. Year 2007:
   • Planned a $40 billion share listing on London Stock Exchange.

Nakheel PJSC

Nakheel PJSC was founded under the guidance of the ruler of Dubai in order to support the transformation of Dubai into a world-class city. The company’s most well-known waterfront projects, The Palm Islands and The World Islands, have helped Nakheel grow into a world-renowned real estate developer.

Nakheel is a part of Dubai World, which is owned by the Dubai government. Nakheel has benefitted from its vast range of operations, which have gradually allowed it to develop its expertise in a number of areas:

1. Real Estate Management
   • General Property Management
   • Shopping Malls Management

2. Construction and Design

3. Leisure and Tourism
   • Hotels, Motels and Resorts
   • Travel Agencies and Tour Operators

4. Retailers
   • Electronics and Appliances Retailers
Nakheel faced a major blow when its owner, Dubai World, requested postponement of Sukuk payments to its financers. After a $10-billion bailout package by Abu Dhabi, it was able to make Sukuk repayments.

**Aldar Properties PJSC**

Established in 2004, Aldar Properties PJSC (Aldar), is recognized as one of the largest real estate developers in Abu Dhabi. Its main area of activity is the development of retail, residential, commercial, entertainment, and hospitality properties and it is the second largest real estate company in terms of total assets in the Gulf region.

**Growth strategies**

As Abu Dhabi’s flagship real estate developer, Aldar has significant backing from the government, which encourages it to diversify economically. The year 2009 marked a restructuring of its strategies, with an emphasis on redesigning projects to address middle market requirements.

Aldar plans to expand its operations in both emerging and mature international markets, but its current focus is on development in Abu Dhabi, which is in line with the government’s growth strategies and the implementation of Abu Dhabi’s 2030 plan.

**Major events**

Aldar is currently developing the 5.2 million m$^2$ Al Raha Beach project, worth US$18 billion. Moreover, it is also involved in building an optimal mix of residential, retail, office and leisure projects. Aldar owns over 50 million square metres of land at strategic locations throughout Abu Dhabi and has already announced more than US$72 billion worth of developments.

On February 10, 2009, Aldar Properties revealed that, although its already announced projects were on track, it was considering changing its strategy for its new projects in order to target the middle market. Aldar is presently working on one of the biggest projects on Yas Island – occupying 24.9 million m$^2$, it includes a Warner Bros. and a Ferrari theme park. Aldar’s real estate projects are estimated to have exceeded US$72 billion, with the entire portfolio slated to be completed and delivered over a period of seven to 10 years. Aldar’s Al Raha Beach resort is on track for timely completion by 2014, and the Yas Island project is also likely to be completed on schedule. In January 2009, Aldar appointed John Buck International as its portfolio managing agent to provide the company with commercial property management services. In December 2008, Aldar signed an MoU with the National Bank of Ras Al Khaimah to provide mortgage services for the company’s investors in the Al Raha Beach and Yas Island projects. In November 2008, Aldar signed exclusive agreements with the Ritz-Carlton Hotels Co., wherein the latter would manage the development of hotels in Abu Dhabi. Even in the current negative environment, Aldar Properties has maintained its leadership position in the real estate segment within the region.¹

Areas of expertise:

1. Real Estate Management
   - General Property Management
   - Shopping Malls Management
2. Construction and Design
3. Education
   - Development Elementary Schools
4. Financial Services
   - Investment Banking
5. Industrial Manufacturing
   - Basic Materials and Industrial Products
6. Health Care Services
7. Leisure and Tourism
   - Hotels, Motels and Resorts
8. Retailers
   - Gift and Souvenir Retailers

**Future Scenario**

Growth in the UAE property market has slowed down significantly since the recession hit. Initially, the prices of upcoming projects (i.e., proposed projects) witnessed abrupt growth, mainly due to speculation, as one could invest in such properties by paying a minimal amount and then selling off to achieve profits. This trend was supported by cheap and readily available capital.

But now the credit crunch has caused difficulties for upcoming projects. The lack of available credit and panic selling have led to a further correction of property prices in Dubai. However, the property and real estate market in emirates like Abu Dhabi is still strong due to a resilient economy backed by huge oil income and cash reserves. Also, property demand has not fallen significantly, with the result that rental prices have not yet been affected to a very large extent.

As already mentioned, many projects have been cancelled or delayed and this slowdown may continue in the short term due to the economic crisis. The forecast for primary macroeconomic factors like the expected GDP growth has also been revised from double-digit to single-digit figures.

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In addition, layoffs have caused the expatriate population to shrink in the UAE, especially in Dubai, which has dragged down property prices due to lower demand. This phenomenon may continue for some time.

On the other hand, properties that were previously out of reach for many people now seem to be more accessible, and this may be positive news for people who were not able to invest and enter the market earlier. In an attempt to stabilize the market, the government is introducing various regulations making it more friendly for end users rather than speculators. The government will continue to back the sector with legislation and liquidity as and when needed. Moreover, a fall in the price of construction materials signals an opportunity for companies to complete the projects already in the pipeline with minimum costs.

According to a study by the Dubai Chamber of Commerce and Industry, there are signs of optimism among top business leaders. As the recession fades and the market begins to stabilize, the outlook is still positive, especially for long-term investors. The recent corrections and amendments towards a complete recovery are expected within 12-18 months, with encouraging signs of recovery in 2010.

**Initiatives by the Government**

The UAE federal government took proactive steps by introducing policies aimed at ensuring market stability and maintaining investor confidence.

- One of the major initiatives involved pumping in $33 billion and guaranteeing protection of bank deposits and foreign and national banks from credit risks.

- The federal government also merged the country’s largest mortgage lenders: Amlak Finance and Tamweel, and two Abu Dhabi-based banks: Real Estate Bank and Emirates Industrial Bank, to form a combined entity called Emirates Development Bank. The aim of this move was to create a stronger entity and reduce the costs of funding which were high for Amlak Finance and Tamweel.

- The Abu Dhabi government launched an AED 500-million joint venture between lender Abu Dhabi Finance and Abu Dhabi Commercial Bank, Aldar, Mubadala Development Co., Sorouh Real Estate and the Tourism Development & Investment Co., which will offer mortgages with loan-to-value ratios as high as 85% and debt service ratios of up to 55%.

- The Dubai Lands Department and the Real Estate Regulatory Agency (RERA) introduced new measures aimed at reducing speculation and stabilizing the market. We believe that more measures will follow, which will restore investors’ confidence in the market. Among the new measures introduced:
  - Law No. 13 of 2008 regulating “Initial Property Registration in Dubai,” from the Real Estate Regulatory Agency (RERA), which is a mandatory system of pre-registration for off-plan sales contracts for real estate units at the Land Department.
- The Land Department recently issued a circular stipulating that in the case of the cancellation of a contract between a purchaser and a developer, the developer may retain up to 30% of the “contract’s value” or the unit’s purchase price. This means that off-plan buyers wishing to cancel purchases will have to obtain a cancellation notification from the developer and forfeit 30% of the total value of the unit.

- The previous 5% cap imposed on rents in Dubai was removed, and Decree No. 1 for 2009 was introduced to regulate rentals in Dubai. The new decree, which applies to both residential and non-residential properties, prevents increases in rents during 2009 for tenants who are renewing rental contracts signed in 2008 – as long as the rental value in 2008 was equal to, or lower by a maximum of 25% than, the average rents in the recently introduced index of RERA.
## Appendix

### Financial Highlights by Company

#### Current Ratio

<table>
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<tr>
<th>Company</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emaar PJSC</td>
<td>2.173</td>
<td>2.720</td>
<td>1.738</td>
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<tr>
<td>Nakheel PJSC</td>
<td>4.793</td>
<td>4.506</td>
<td>3.061</td>
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<tr>
<td>Aldar Properties PJSC</td>
<td>1.634</td>
<td>3.059</td>
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#### Return on Assets

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<tbody>
<tr>
<td>Emaar PJSC</td>
<td>0.152</td>
<td>0.119</td>
<td>0.051</td>
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<tr>
<td>Nakheel PJSC</td>
<td>0.009</td>
<td>0.038</td>
<td>0.003</td>
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<tr>
<td>Aldar Properties PJSC</td>
<td>0.245</td>
<td>0.086</td>
<td>0.069</td>
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#### Return on Equity

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<th>Company</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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</thead>
<tbody>
<tr>
<td>Emaar PJSC</td>
<td>0.208</td>
<td>0.176</td>
<td>0.084</td>
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<tr>
<td>Nakheel PJSC</td>
<td>0.012</td>
<td>0.054</td>
<td>0.006</td>
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<tr>
<td>Aldar Properties PJSC</td>
<td>0.382</td>
<td>0.121</td>
<td>0.448</td>
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#### Earnings per Share

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<tr>
<th>Company</th>
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<th>2008</th>
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</thead>
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<tr>
<td>Emaar PJSC</td>
<td>1.046</td>
<td>1.079</td>
<td>0.502</td>
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<tr>
<td>Nakheel PJSC</td>
<td>1.422</td>
<td>5.718</td>
<td>0.598</td>
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<tr>
<td>Aldar Properties PJSC</td>
<td>0.724</td>
<td>1.097</td>
<td>1.394</td>
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#### Debt Equity Ratio

<table>
<thead>
<tr>
<th>Company</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emaar PJSC</td>
<td>0.035</td>
<td>0.165</td>
<td>0.126</td>
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<tr>
<td>Nakheel PJSC</td>
<td>0.039</td>
<td>0.116</td>
<td>0.178</td>
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<tr>
<td>Aldar Properties PJSC</td>
<td>0.005</td>
<td>0.608</td>
<td>2.589</td>
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</tbody>
</table>
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