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MEDIA BRIEFING

UAE real estate has long legs

Market dynamics remain positive for the UAE's real estate sector

The UAE's real estate sector will continue to perform strongly over the coming years, according to a leading financial advisor based in Dubai.

"Supply and demand have reached a good state of equilibrium, there is more transparency and regulation and that means more stability," says Cyril Lincoln, executive vice president, global head of real estate finance and advisory at Mashreq Bank. "The market has long legs and I expect it has a long way to go before opportunities are fully exploited."

Real estate in the UAE has gone through a dramatic transformation over the past three years. The sector initially benefitted from the government's effective management

AT A GLANCE

- Off-plan sales are driving new projects as existing stock does not satisfy demand
- Existing masterplanned projects are reaching completion and in the medium term the market will pivot to major new development areas that will drive the long-term growth of the market
- Waterfront development and the aerotropolis at Dubai South are key areas of focus for long-term development
- Banks have supported developers with major transactions as they advance major projects

of the Covid-19 pandemic, and since then the market has gone from strength to strength as demand remains strong and prices continue to increase.

The reversal in fortunes can best be seen in the financial results. "When looking at the financials that the publicly listed real estate developers are publishin,g you see very strong balance sheets and solid income statements, with record revenues, record sales and record prices," says Lincoln.

"These companies are in very good positions and that is a far cry from where we were two or three years ago in 2019 before Covid. Then there was the pandemic, and after that, there has been strong demand for people wanting to visit, live and invest in the UAE."

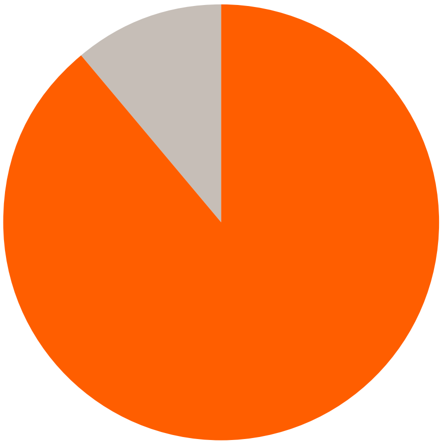
Hotel sector

The first market to rebound from the pandemic was the hotel sector. After reopening for staycations in mid-2020, hotels were able to adapt to new post-pandemic market dynamics as the UAE began to open up to international visitors again.

"The hotel sector was very quick to respond to the improving market conditions as they increase room rates, so that sector has been the main beneficiary," says Lincoln. "This elastic response also makes them quite resilient in an inflationary environment and are able to parry and counter rising interest rates effectively."

Both Dubai and Abu Dhabi have reported strong tourism numbers in 2022. During the first half of the year, Dubai attracted 7.12 million international overnight visitors, which represented more than 183 per cent growth compared to the 2.52 million tourists that visited the city during the same period in 2021, according to the emirate's Department of Economy and Tourism (DET).

Real estate projects in the UAE ($m)



EXECUTION	265,677
PLANNED	35,285

Source: MEED Projects, as of December 2022

DUBAI

7.12 million

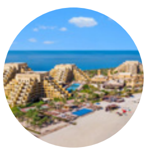
VISITORS IN H1 2022

ABU DHABI

2.9 million

HOTEL STAYS IN FIRST 9 MONTHS OF 2022

RAS AL-KHAIMAH



803,962

VISITORS IN FIRST 9 MONTHS OF 2022

Even more encouraging was the fact that the number of tourists visiting Dubai in 2022 between the start of January and the end of June was close to the numbers achieved during the first nine months of 2019 before the pandemic when 12.08 million tourists visited the emirate.

Average occupancy for the hotel sector for January to September 2022 stood at 71 per cent, and the average occupancy rate was just short of the 73 per cent level registered during the first nine months of 2019 despite a 19 per cent increase in room capacity, as per the DET.

Abu Dhabi has also posted strong numbers. During the first nine months of 2022 the emirate's Tourism & Culture Authority (TCA) reported 2.9 million hotel guest stays, a 24 per cent increase on the same period in 2021. It also said that the average hotel occupancy was 69 per cent, up 1 per cent when compared to the first nine months of 2021.

The hotel sector in the smaller emirate of Ras al-Khaimah has also performed well. It benefited from an influx of domestic tourists enjoying staycations during the second half of 2020 and 2021, and since then its occupancy rates have held firm as international visitors return.

According to the Ras al-Khaimah Tourism Development Authority (Raktda), there were 803,962 visitors to the emirate during the first nine months of 2022.

Of that total, 469,643 or 58 per cent were domestic visitors, while 334,319 or 42 per cent were from international source markets. Occupancy rates reached 57.9 per cent during the first three quarters of 2022, marginally down from 59.6 per cent during the same period in 2021.

The outlook for Ras al-Khaimah's tourism sector has been boosted significantly this year by the announcement of a Wynn integrated resort that will be built on Al-Marjan island and a string of other transactions involving developers such as Abu Dhabi National Hotels, Abu Dhabi-based Aldar Properties and Dubai Investments committing to hotel projects in the emirate.

Government officials across the UAE are confident that visitor numbers could increase further as other regions move out of the pandemic – most notably China where its Zero-Covid strategy has meant fewer Chinese tourists to the UAE.

For example, during the first half of 2022, nearly 22 per cent of Dubai's international visitors were from Western Europe, 34 per cent from Mena and the GCC, 16 per cent from South Asia, and 11 per cent from Russia, CIS and Eastern Europe. In 2019, Dubai welcomed almost 17 million visitors, with Chinese visitors making up almost 990,000 or about 6 per cent, of that number.

Residential

Like hotels, the residential market has also rebounded strongly since the pandemic.

"It is now a well-known story," says Lincoln. "People wanted bigger houses because they were cooped up during Covid, and that still remains the case. What we are now also seeing is inventories being sold out, and that is

133.5 PER CENT increase in off-plan market sales in Dubai for 2022 up until October

Source: CBRE

probably the story of the day at the moment as it means future demand is now being met by off-plan sales."

According to data from property consultant CBRE, there was a 133.5 per cent increase in off-plan market sales in Dubai for 2022 up until October. At the same time, secondary market sales rose by 29.4 per cent. For pricing, CBRE added that average apartment prices rose by 8.5 per cent and average villa prices by 13 per cent.

These gains reflect two things. The improved outlook for property in Dubai and the low base it was coming from in 2020. According to CBRE, average apartment prices in October reached AED1,149 a square foot, 22.8 per cent below its 2014 peak, and average villa prices were AED1,359 a square foot, 6.0 per cent below the 2014 peak.

With more potential upside for apartments, developers are launching new ambitious apartment projects.

The most-high profile so far is the world's tallest residential structure in Business Bay. Launched by local real estate developer Binghatti and jewellery brand Jacob & Co, the Burj Binghatti Jacob & Co Residences will be over 100 storeys high.

The reinvigorated real estate market has meant a lot of legacy projects that had been proceeding slowly are now being completed more quickly.

"We don't see a lot of major new launches, so far efforts have been focused on completing what is already under development. That may well take two or three more years," says Lincoln.

Dubai residential prices per square foot and average rents

The demand for Grade A office space has been particularly strong, but there is only a limited supply in Dubai and Abu Dhabi.

The Dubai market is highly competitive. As well as market leaders such as Emaar, there is a wide range of other companies developing projects and selling units.

This differs from the Abu Dhabi market, where a few key players command a far more controlling position.

"These developers really understand the market requirements and they tailor their products accordingly and their launches have really hit the sweet spot and have sold very successfully," says Lincoln.

Abu Dhabi's crafted approach to real estate has seen steady growth. In September, property consultancy firm Knight Frank said that residential values were 2 per cent higher than they were a year ago, with villas having 3.1 per cent growth and experiencing stronger gains than apartments at 1.8 per cent.

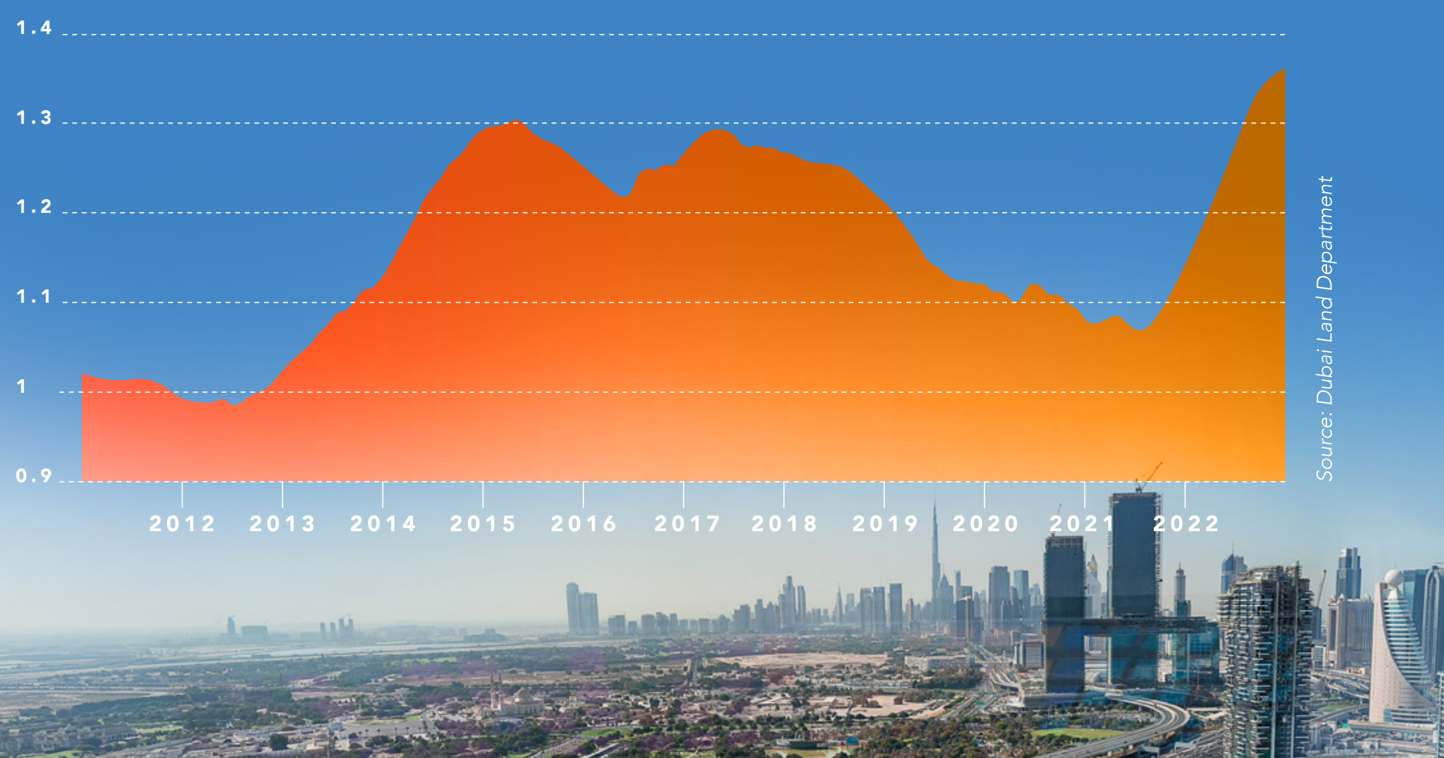
Offices

Another strongly performing sector is commercial property. "Office space has surprisingly been one of the best-performing asset classes in terms of occupancy. During the pandemic, you would have thought that everybody would be working from home and nobody wants to go to an office anymore. The data shows that is actually not true," says Lincoln.

The demand for Grade A office space has been particularly strong and there is only a limited supply of available space in Dubai and Abu Dhabi. Knight Frank says Grade A occupancy levels are hovering at around 90 per cent leaving occupiers with limited options.

The challenge is exasperated by the fact that many buildings 10-15 years ago were sold as smaller office units with strata titles, which now makes it difficult for a large corporate tenant to deal with one landlord. Newer projects such as Brookfield Place at Dubai International Financial

Residential sales price index (villas and apartments)



Centre (DIFC) and Dubai Uptown Tower at Dubai Multi Commodities Centre (DMCC) have not been sold to smaller investors and have performed well attracting large corporate clients.

The financial zones with grade A office space have reported strong figures. Earlier this year, DIFC said that demand for commercial space has surged as it continues to attract new entities to the centre. It registered 537 new entities during the first half of this year – an 11 per cent increase. The total number of companies operating in DIFC has gone up from 3,297 to 4,031 at the end of June 2022, an increase of 22 per cent year-on-year.

New build

With the developers' construction efforts centred on completing existing projects and masterplans for the next two to three years, attention is starting to turn towards longer-term masterplan schemes that will create project opportunities for the next 20 years.

In Dubai, several key locations are starting to emerge. "I see two key areas for future development," says Lincoln. "The first is Dubai South, where the aerotropolis surrounding Dubai World Central airport continues to be developed, and the second is the offshore and waterfront real estate."

At Dubai South, there have been several key developments. Following early investments from local investors such as Emaar the area is now attracting international interest.

In April 2022, US firm Discovery Land signed an agreement to develop residences and a golf club at Dubai South. The master developer Dubai South is also proceeding with its own projects such as The Pulse Beachfront villa community.

Much of the waterfront real estate that has yet to be fully developed sits with Dubai-based master developer Nakheel. In November 2022, it secured AED17bn ($4.6bn) in funding that will be used to accelerate the development of its new projects, including Dubai Islands and other large waterfront projects. The transaction showed that Dubai and Nakheel still have the appetite for major new projects, and perhaps most importantly, banks are in the position to support these ambitions.

The financing follows the release in August, of details of a new masterplan for the reclaimed islands next to the Deira corniche, now known as Dubai Islands. The expectation is that like with its previous masterplans, Nakheel will develop some assets itself, while other plots of land will be sold to third-party developers.

"Offshore projects like these are massive undertakings. The last plots on the Palm Jumeirah are now being developed, so that masterplan has been a 20-year project. The new masterplans Nakheel is working on are even larger, and when completed will also double the size of the Dubai we know today," says Lincoln.