THE REPORT
Dubai 2008

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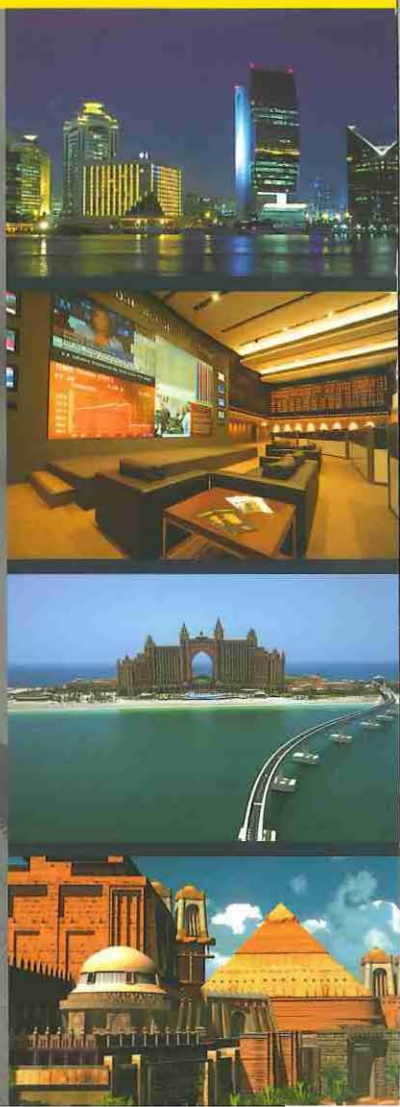

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The emirate is at the forefront of regional environmental efforts

Best practices

Aiming to change perceptions about green building

In addition to adopting green building standards in all new construction projects, Dubai is also looking at new ways to save energy and recycle waste.

In October 2007 the Prime Minister of the UAE and the ruler of Dubai, Sheikh Mohammed bin Rashid Al Maktoum, issued a decree ordering builders and developers to meet a set of green building standards. The decree was put into effect in January 2008. The chairman of the Dubai Executive Office, Mohammed Al Gergawi, said the decision reflected Sheikh Mohammed's focus on "responsible, sustainable development". The environmentally-conscious decree is the first of its kind in the region and another initiative in which Dubai has established itself as a regional leader.

SAVING GREEN: Aside from obvious environmental implications, going green can actually serve to save money for companies, developers and end-users. If best practices are employed, construction costs can be lower. According to Richard Rodriguez, the CEO of Emaar Dubai, "The rising costs of building supplies have driven us to better practices of value engineering without jeopardising the end product or our profit margins."

Green building has historically been viewed by builders and developers as more expensive. They argue that the additional costs associated with it either force a change in the target market or eat into profit margins. As technology has developed, so have material costs.

The Leadership in Energy and Environmental Design (LEED) rating system was developed by the US Green Building Council and is the most widely accepted standard of measurement for green building. LEED silver rated buildings will not increase the base price of a development, especially if the green building engineers and consultants are involved at an early stage. A LEED silver ranked building has the capacity to reduce energy and water costs by between 20% and 30% per year; a LEED Gold ranked building may increase base costs by 2%, but will reduce energy costs by 30-40%; and, finally a LEED Platinum building will increase base costs by approximately 8% and save 40-50% on energy costs.

According to Mario Seneviratne, the director of Green Technologies, "The real obstacle in the development of green buildings is a misconception that green building is a product and that a green building costs more than a conventional building. Green buildings have similar costs and green building needs to be developed as a process of good building practice rather than trying to fit it out with products that usually cost more."

WASTE PRODUCTION: One of Dubai's most pressing environmental issues is waste. On a per-capita basis, the emirate has the highest waste production in the world, and the amount is increasing. The lifetime of Dubai's five landfills is shortening. In 2007 there was a total of 3.4m tonnes of domestic waste. As of March 2008, Dubai was producing 10,000 tonnes of domestic waste per day. In 2007 construction waste alone reached a total of 27.8m tonnes.

According to Lina Chaaban, the "envirocare" manager at Tadweer, "The Middle East is still in the infancy of adopting best environmental practice and technology, especially in comparison with Europe and the US. In 2007 some 1.4% of total waste was recycled in Dubai. The Dubai Municipality has just signed a deal to recycle an unspecified amount of construction waste. Tadweer is exploring a waste-to-energy solution that involves gasification, as well as source recycling and composting. There are no real recycling plants in the area, so all of the material that is sorted still needs to be exported.

"In order for the environmental effort to take off, there needs to be more legislation and participation from local business. There needs to be a market created for recycled goods as well as educational and environmental mandates that regulate waste," Chaaban continued.

Tadweer is the only sorting and recycling plant in Dubai. It also provides consulting and advisory services to developers and construction companies that are required to adhere to Sheikh Mohammed's green decree. Although the Middle East does not have a strong tradition and legacy of environmental practice, better practices are being incorporated.

As is the case with many other sectors of the economy and modes of diversification, the emirate of Dubai is at the forefront of the regional environmental effort.

Rental costs increased about 50% between 2004 and 2006

Money to burn... or build

The emirate is making more money than it can spend, which means expansion in the sector

The Dubai real estate market has witnessed unprecedented growth since 2003, with rapid population growth and an extensive array of projects either planned or under way. While some analysts had predicted a softening of real estate prices in 2008 on account of a large volume of construction projects that are nearing completion, it seems that the sector is set to remain one of most attractive in the world. Several factors have combined to boost confidence in recent months. These include turbulence in the Western markets, combined with low interest rates that have made Dubai property an attractive investment, growing investment from Russia and the continued expansion of the tourism industry, pushing up demand for hospitality real estate.

FUNDAMENTALS: Demand for real estate in Dubai is primarily driven by rapid economic expansion that has precipitated a sudden rise in the emirate's population. Dubai's population is expected to grow from 1.56m people in 2007 to more than 2m by the 2010, with the population increasing by 9% per annum between 2002 and 2007. Another factor in the growth of the real estate market has been the rising demand for properties from foreign investors since the partial liberalisation of the sector. In 2002 ownership by foreign nationals of residential property was allowed in designated areas. Since then the property market has been a popular investment among foreign nationals.

An abundance of liquidity in the market has also been a predominant factor in the success of the real estate market in recent years, which has been boosted by high oil and gas prices. For much of the last decade the Gulf Cooperation Council (GCC) states have enjoyed surging energy prices and, as a result, many states in the region have increased their wealth considerably over this time. Some estimates value Abu Dhabi's sovereign wealth fund at more than $1trn. While some believe that such figures could be inflated, there is little doubt about the financial power of these funds. Such abundant liquidity in the market has translated into more ready availability of credit for investment in real estate projects. The soaring price of oil and gas has brought so much liquidity to the regional markets that there are seemingly too few investment vehicles to absorb all of the capital.

Repatriated funds after the attacks of September 11, 2001 have also boosted the local market, helping boost liquidity and increase the availability of finance for investment within the domestic market. There has been a two-fold impact. First of all, a considerable proportion of repatriated capital has been invested into the residential real estate sector. Second, this money has been invested within the country's banking system, increasing the availability of funds for loans for the purchase of housing units, and thus fuelling demand for residential properties.

As the population and the number of buyers has increased, so too have the number and sophistication of financial instruments catering to property investors, which in turn has further fuelled demand for housing. With the prevailing low interest rates and the continued development of the mortgage market, purchasing a residential property has become relatively easy for middle-income earners, significantly widening the potential buyer base in Dubai. "In terms of sales, the dirham being pegged to the dollar has resulted in more attractive borrowing costs," said Nasser Rafi, the managing director of Hamptons International.

RESIDENTIAL: The high demand to supply ratio in the real estate sector has resulted in sharp increases in property prices and rental rates in recent years. Labour and materials shortages have also affected prices. "Many countries in the region are undertaking large-scale projects. This has created difficulty in obtaining skilled labour. The price of building materials has also gone up. We need to make sure that we find a way to share the risk with our suppliers," said Issam Galadari, managing director of Emaar International.

The sharpest rises have been seen in the rental market, with appreciation of approximately 50% between 2004 and 2006. Price increases have stabilised since

Demand for real estate is primarily being driven by rapid economic expansion accompanied by a rise in population. Interest from foreign investors has also increased since the partial liberalisation of the sector.

Purchasing property has become relatively easy for middle-income earners in Dubai, and sophisticated financial instruments are increasingly catering to property investors.

A number of high-profile projects will add housing to the market

2007 following action taken by the local authorities to introduce a ceiling on the maximum annual rent increase. Initially set at 7% per annum, the ceiling was lowered to 5% in January 2008. The local authorities were moved to take action after concerns grew about the affect that rental rates were having on overall inflation levels, which officially reached more than 9% during 2007. Unofficially, inflation is believed to be closer to 15% per annum. Meanwhile, few standard and budget-grade residential properties have been launched into the market and low vacancy levels in the standard and budget residential market stock has resulted in a shortage of affordable apartments in Dubai. Furthermore, the upcoming supply of new residential units by 2010 primarily caters to high-income households.

Despite these issues, the market remains attractive. "Capital values have enjoyed initial yield compression of more than 100 basis points in the past nine months. Even so, valuations here are still more attractive than some of the other bigger real estate markets in the world," Nicholas Maclean, the managing director of CB Richard Ellis, told OBG.

According to local real estate consultancy GRMC, Dubai's residential stock of housing is estimated at 205,500 units, while the upcoming supply of residential units is anticipated to add close to 163,300 by 2012. The UAE is among the few countries where the majority of the freehold residential properties have been sold off-plan. The key focus of Dubai's residential real estate construction activity is centred on carefully planned community developments following a mixed-use pattern that integrate residential units with retail, hospitality and commercial zoning. "Our strategy historically has been to take our plots of land, develop all of the infrastructure, and then develop 30% of the project while selling the other portions to other property developers," Mohammed Bin Brek, the CEO of Dubai Properties Group, told OBG.

The rapid growth of investor interest has allowed developers to sell the majority of the freehold proper-

Investors are focusing heavily on residential property in Dubai, where rental rates increases are limited by law to 5% a year and the sale of buy-to-let properties is on the rise.

A GOOD BET

Property prices have skyrocketed in Dubai over the last decade on the back of a growing economy and a ballooning population. Industry experts have wondered how long this can continue, but just when it seems that a mismatch between supply and demand could start to slow price growth, the property market has jumped again thanks to foreign interest.

Several factors have combined to create Dubai property values. Firstly, high liquidity due to ongoing oil price surges led to high levels of investment in the economy and the infrastructure of the emirate. In conjunction with this, the population has grown rapidly and continues to do so. Between 2006 and 2010 the population is expected to grow from 1.4m to 2m people. The liberalisation of the property market that has allowed foreigners to purchase property within designated areas has attracted investors looking for second homes. "Dubai is going through a construction boom and a large amount of investment is coming from the UK, Russia and continental Europe," said Marwan Ali, the CEO of My Dream Property.

With rapid price appreciation, there has been a push by investors to buy properties off-plan, with quick returns once building is completed. Average annual rent costs have appreciated by an astonishing 50% since 2006, largely due to a shortage of affordable rental properties, which has made the buy-to-let market extremely attractive to investors.

Two factors have combined in early 2008 to convince some that 2009 could see a softening of housing prices in Dubai. First, with the volume of new properties coming to market, particularly luxury ones, some have speculated that new developments could finally start to catch up with demand by 2010. "The wider GCC region currently has over $1.5trn of real estate projects under construction or in the planning stages," Soheil Abedian, the founder and managing director of Emirates Sunland Group, told OBG. Second, government caps on rents, at first to 7% per annum, subsequently amended to 5%, would dampen investor enthusiasm for properties as they can no longer expect the kind of returns on a new property purchase in the buy-to-let market that were possible just 12 months ago.

However, low interest rates in the US and Europe have meant 5% annual growth in rent is extremely attractive. Property investors seem to be more interested and the market has responded positively. Asking prices for properties in the emirate grew by 10% to 15% in spring 2008.

The major concerns for the Dubai market are the long-term effects of a property price bubble. Much will eventually depend on external investor confidence, which is likely to remain as long as conditions look conducive for further growth.

ties before they are constructed. The high demand for residential units has resulted in extremely low vacancy rates across Dubai in 2008, averaging approximately 6%. According to GRMC, the average price per sq metre for residential property in 2007 was Dh12,700 ($3460) for a studio apartment, Dh11,700 ($3187) for a one-bedroom and Dh11,800 ($3214) for a two-bedroom.

IN THE WORKS: There are a number of high-profile projects underway that will add a significant amount of residential stock to the real estate market. These include the Palms at Jumeirah, Jebel Ali and Deira, Dubai Waterfront and the World, as well as residential tower developments at Dubai Marina, Downtown Burj Dubai and Business Bay. Such a proliferation of residential construction activity has led some to express concern that there could soon be an oversupply in the luxury real estate market as some of these projects near completion during the course of the next few years or so.

Despite this, many believe that the growing demand from foreign investors will be sufficient to sustain demand for luxury properties. Housing demand is expected to be met by growth in residential units by 2010, but supply is expected to continue to be tight as a result of growing interest from foreign investors and second-home buyers.

COMMERCIAL: The commercial office sector in Dubai can be characterised by high rents, high occupancy rates, growing demand and insufficient supply. The commercial real estate sector has been witnessing unprecedented growth largely as a result of a robust local economy that has increased demand for office and retail space. Business expansion and new business development not only demonstrate the continued rise in confidence levels in Dubai, but also reveal the current economic strength of the UAE and the wider region. The emirate is rapidly expanding its business infrastructure with the aim of becoming a financial services centre to rival London, New York and Tokyo.

While this looks ambitious, the recent moves by major multinationals to Dubai and the amount of commercial office space under construction suggest that it is not beyond the realm of possibility that Dubai could rival Singapore or Hong Kong as a centre for trade and financial services. Recent examples of strong commercial interest in Dubai's market include Halliburton's decision to relocate its global headquarters from Houston to Dubai, and Standard Chartered relocated approximately 100 of its staff from the company's London offices to the emirate. Arrival of foreign corporate entities and domestic commercial expansion are key forces fuelling demand for commercial office space in Dubai. In addition, Barclays Capital, Merrill Lynch, Alliance Re, Credit Suisse and Ansbacher are examples of international entities that have already won the licence to operate from Dubai International Financial Centre (DIFC).

With developers having focused on residential projects over the last decade, office space has lagged behind somewhat, leading to faster growth in leasing

It is possible Dubai could rival Singapore and Hong Kong as a centre for trade and financial services, as several major corporations have relocated their headquarters or staff to the emirate recently.