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Dubai Macro View

Dubai's property boom: friend or foe?

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- Dubai's recovery from the global economic downturn goes from strength to strength. Over the past couple of years, economic data have pointed to robust growth in the core economy: transport, tourism, logistics and trade. Investor confidence has returned, with Dubai-related risk assets rallying strongly. And now the feel good factor appears to be spreading to the property sector: the volume of property transactions is on the rise, and valuations are climbing sharply.

- In October's Cityscape, the key real estate event of the year, the announcement of bold projects such as the Taj Arabia, a luxury hotel replica of the Taj Mahal (only 5 times bigger), left little room for doubt: Dubai's property market is launching a comeback.

- In this paper, we argue that Dubai's real estate recovery is in line with the wider economic recovery, and is well supported by economic fundamentals.

- However, we caution against early signs of exuberance, such as the re-emergence of off plan sales and the risks of excessive supply given some of the recently announced projects. Such exuberance could undermine not only the sustainability of the real estate recovery but lead to dislocations in the wider economy as well.

- For investors, we think the economic recovery and pick-up in the real estate market is unambiguously good news in the near-term. They signal a strengthening in cash flows to the Dubai sovereign and its Government Related Entities (GREs), most of which have a significant stake in the local economy and, specifically, the property sector.

- The recovery should also accelerate balance sheet repair at some key conglomerates, alleviate refinancing risks, and hence support valuations on Dubai-related risk assets.

- However, the risks we point out regarding the sustainability of the real estate recovery and possible future dislocations in the economy as a whole apply equally here, and could manifest themselves on a 2-3 year horizon, in our view.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Dubai's property boom: friend or foe?

Dubai's recovery from the global economic downturn goes from strength to strength. Over the past couple of years, economic data have pointed to robust growth in the core economy: transport, tourism, logistics and trade. Investor confidence has returned, with Dubai-related risk assets rallying strongly. And now, the feel good factor appears to be spreading to the property sector: the volume of property transactions is on the rise, and valuations are climbing sharply. In October's Cityscape, the key real estate event of the year, the announcement of bold real estate projects such as the Taj Arabia, a luxury hotel replica of the Taj Mahal (only 5 times bigger), left little room for doubt: Dubai's property market is launching a comeback.

In this paper, we argue that Dubai's real estate recovery is in line with the wider economic recovery, and is well supported by economic fundamentals. However, we caution against early signs of exuberance, such as the re-emergence of off plan sales and the risks of excessive supply given some of the recently announced projects. Such exuberance could undermine not only the sustainability of the real estate recovery but lead to dislocations in the wider economy as well.

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Strong tailwinds to Dubai's economic recovery

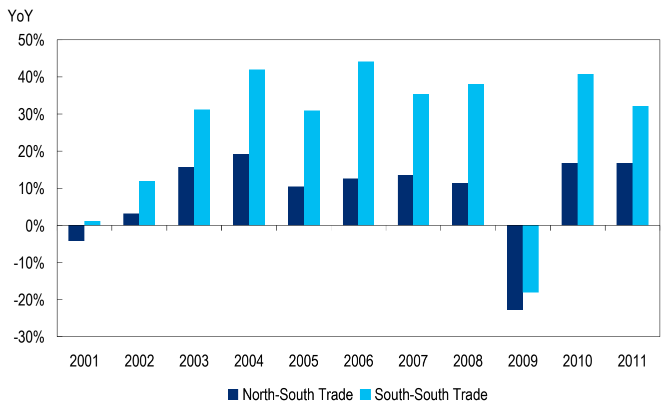
The global economic downturn pulled the rug from under Dubai's overheated real estate market in 2009, and exposed some of the highly-leveraged local conglomerates to substantial refinancing risk. Problems in these areas appeared structural, requiring years to correct. By contrast, however, the downturn in the core economy – trade, tourism, transportation, logistics – was a cyclical phenomenon. Having spent most of the previous 50 years establishing itself as a regional hub for trade and commerce, Dubai's economic fortunes had become in many respects linked to the ebb and flow of regional and global trade and commerce, and remain so.

It is in this context that we have long argued that Dubai is experiencing a two-speed recovery: the real estate sector and debt overhang remain a drag on growth, but the core economy has bounced back strongly, thanks to the following factors:

- **Recovery in the global economy and trade**. As figure 1 shows, global trade has made a strong recovery from the global economic downturn, especially so-called South-South trade (ie intra-emerging markets trade). Dubai has benefitted from this resurgence as a gateway to the Middle East, South-West Asia and east Africa for Asian, mainly Chinese, trade.

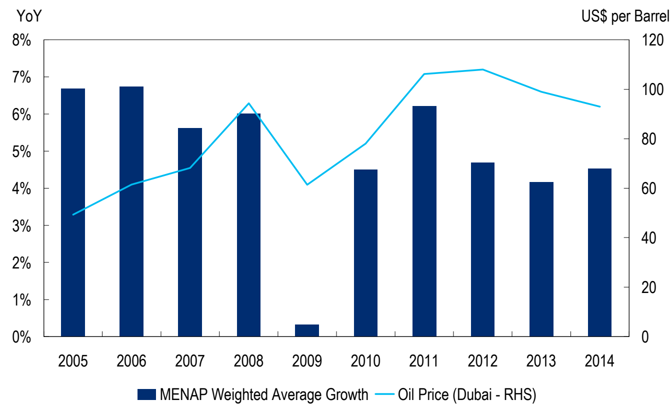
- **Strong regional growth on the back of high oil prices**. Many companies come to Dubai primarily to do business with other parts of the region. High oil prices and domestic economic priorities (eg the need to diversify the oil economies of the Gulf) have meant strong regional investment and growth, attracting foreign business, much of which bases itself in Dubai (fig 2).

Figure 1. Growth in global trade, particularly South-South trade, has rebounded strongly from the 2009 global economic downturn



Source: IMF, Haver Analytics, Citi Research

Figure 2. Regional growth has returned to a strong trajectory, largely due to high oil prices



Source: IMF, BP Statistical Review, Citi Research

- **Recovery of cost competitiveness**. In the years before the 2009 slump, the cost of living in Dubai rose sharply, led by a property bubble that saw rents, both residential and commercial, rise to unsustainable levels. With the crash, rents fell by as much as 50%, reducing the cost of living and doing business in Dubai, in turn restoring much of its competitiveness as an investment destination.

- **Successful damage limitation from the bursting of the real estate bubble and debt overhang**. The fallout from the bursting of the real estate bubble as well as the debt overhang has been managed through a series of successful debt restructurings at top conglomerates. The avoidance of default on traded debt, in particular, has helped engender a renewed sense of confidence in Dubai's financial management and helped attract foreign investment.

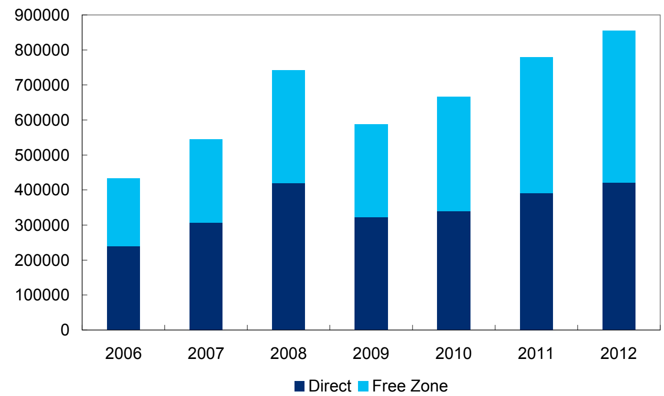
- **The misfortune dividend**. Dubai has inadvertently benefitted from the unrest caused by the so-called "Arab Spring", which has diverted capital and commerce away from affected countries towards perceived safe-havens. Economic stagnation in advanced economies has also been an added impetus for commerce and investment seeking opportunities in emerging markets, and the Middle East, from which Dubai benefits.

So what are the latest data telling us?

Recent data help put some meat on the bones when talking about the Dubai recovery, and we run through some of the main indicators here.

We begin with the external trade sector: this is the lifeline of the logistics industry, including the ports of Jebel Ali and Sheikh Rashid, as well as the associated economic free zones, such as JAFZA. Fig 3 shows that total (non-gold) trade has recovered strongly from the 2009 dip, and figures released in the past month reveal that in H1 of this year, trade exceeded peak levels for the same period in 2008. Within this, free-zone exports are doing particularly well, growing at about 15% annualised rate in H1 2012 (fig 4). Although still significant, the figures showed that direct export growth has fallen in 2012, largely we think reflecting the impact of tougher sanctions against Iran, one of Dubai's largest trading partners.

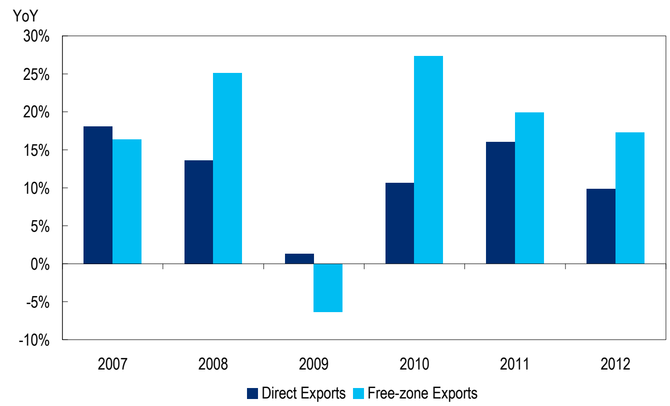
Figure 3. Non-Gold trade has been growing steadily since the 2009 slump (AED mn)



Source: Dubai Statistics Centre, Citi Research estimate.

NB. 2012 figure is annualized H1 data

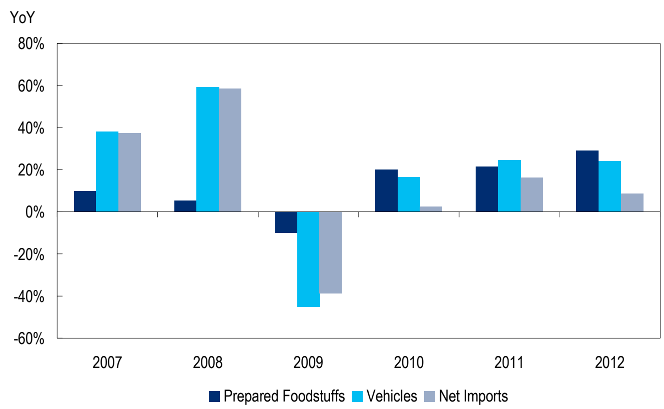
Figure 4. Dubai's free zone exports have been doing particularly well



Source: Dubai Statistics Centre, Citi Research estimate.

NB. 2012 figure is annualized H1 data

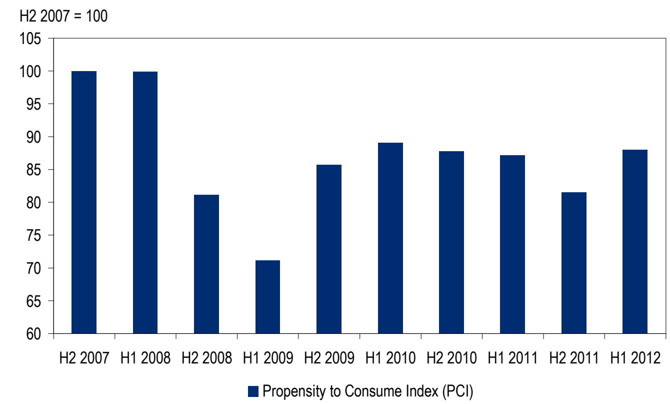
Figure 5. Import growth patterns point to strong recovery in domestic demand



Source: Dubai Statistics Centre, Citi Research estimate.

NB. 2012 figure is annualized H1 data

Figure 6. And consumer confidence is holding up, albeit not fully recovered to pre-slump levels



Source: Bayt.com/Youguv, Citi Research

The trade data also point to a recovery in domestic demand. After a sharp contraction in 2009, imports have grown strongly over the past couple of years. In fig 5, we've isolated imports of food and vehicles (mainly cars) as a proxy for consumer demand. These rose 20% in the first half of 2012. The figures are supported by evidence from some of Dubai's key retail operators. In its 9-month earnings announcement earlier this month, Emaar, owner of the giant Dubai Mall, announced that revenues from its retail activities had increased by 17% in the first nine months of 2012, compared with the same period last year. It added that footfall at the Dubai Mall had risen by 15% during that period. Similar claims were made by other major retail operators, including Nakheel and the Majid Al Futtaim Group. According to a Bayt.com/Youguv survey of consumer confidence, consumer propensity to spend has held strong since recovering from a dip in 2009 (fig 6).

Moving to the transport, travel and tourism sectors of the economy, the data here are equally encouraging. According to Airports Council International (ACI), so far this year Dubai international airport has handled the second largest number of international passengers in the world, behind only London Heathrow (fig 7). Annual growth in passenger traffic was almost 14%, the highest level of growth in the top

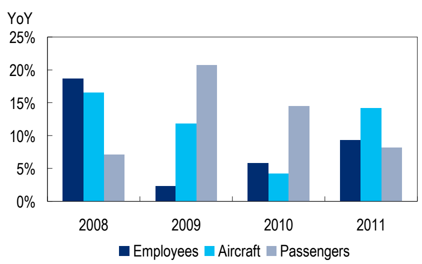
ten international airports. At current growth rates, we estimate that Dubai airport is on track to becoming the world's busiest international passenger airport by the end of next year. The story on the freight side is also one of strong relative growth.

Figure 7. Overall rankings and growth in Dubai Airport's passenger and freight volumes point to strong momentum in the transport sector (YTD August)

	Rank	Airport	No. of Passengers	Change over previous year (%)
International passenger traffic	1	LONDON, GB (LHR)	25 448 813	2.6
	2	DUBAI, AE (DXB)	22 945 469	13.8
	3	HONG KONG, HK (HKG)	22 695 000	8.6
	4	PARIS, FR (CDG)	21 974 913	2.8
	5	SINGAPORE, SG (SIN)	20 098 067	11.9
	6	FRANKFURT, DE (FRA)	19 340 834	3.6
	7	AMSTERDAM, NL (AMS)	19 319 641	4.1
	8	BANGKOK, TH (BKK)	16 522 330	7.5
	9	INCHEON, KR (ICN)	15 169 570	11.6
	10	MADRID, ES (MAD)	12 170 838	-3.1

Source: Airports Council International (ACI)

Figure 8. Emirates Airlines expanding rapidly

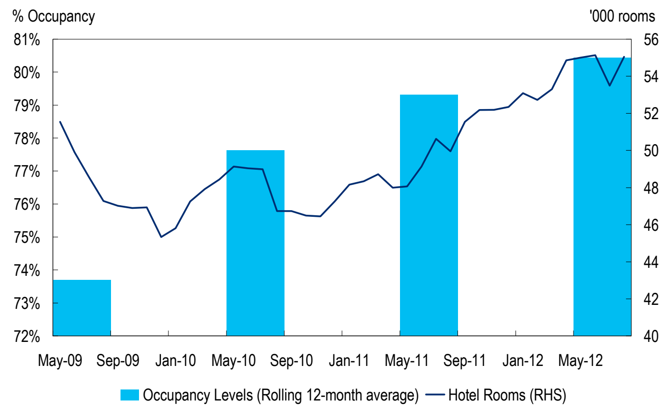


Source: Emirates Airlines Annual Report 2011, Citi Research

The ACI figures hint at momentum in the transport, travel and tourism industries. This is confirmed by data from Emirates Airlines' annual accounts, shown in fig 8. One of the largest companies in Dubai, Emirates has been expanding aggressively. The number of aircraft it operates rose by almost 15% in 2011, necessitating the hiring of hundreds of ground and cabin crew, increasing total employee headcount by around 10%. This comes at a time when the global airline industry continues to struggle with high fuel prices and global economic uncertainties. We expect this growth to continue in the medium term, given the record order of 50 Boeing 777 aircraft that the company placed at the last Dubai Air Show in November 2011. The airline also has 90 Airbus A380 superjumbos on order, most of which are yet to be delivered.

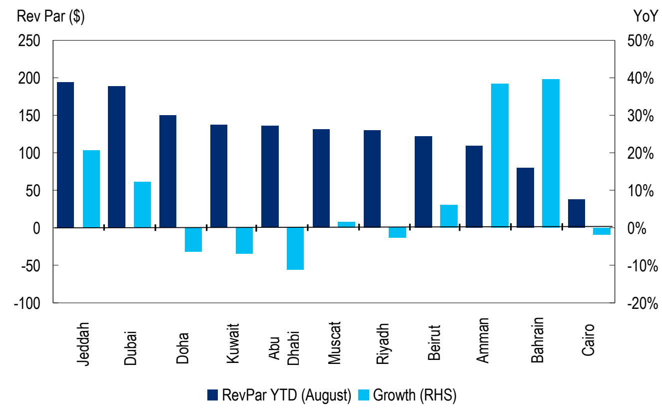
One would expect growth of the local airline industry and of passenger traffic to correlate to growth in the domestic tourism industry. Fig 9 shows that the occupancy rate in Dubai's hotels has risen steadily since 2010, from the mid 70s to the low 80s. What is particularly encouraging about this statistic is that it coincides with a 10% increase in the number of available hotel rooms over this period. Importantly, the rise in occupancy rates has not come as a result of aggressive downward pricing of Dubai's tourism product. Revenues per average room (RevPAR) so far this year are second only to Jeddah in the region (fig 10). Moreover, average revenues have actually increased by over 10% in the year to August, compared with the same period last year. Aside from Jeddah, most other GCC cities saw a fall in RevPAR. Bahrain is an exception, which, like Amman, saw a massive leap mainly due to base effects (revenues were depressed last year due to the political unrest in those countries).

Figure 9. Occupancy rates in Dubai's hotels keeps rising, despite a growing number of rooms



Source: Ernst & Young, Jones Lang Lasalle, Citi Research

Figure 10. Dubai second only to Jeddah in the region in hotel financial performance so far this year



Source: Ernst & Young, Citi Research

In summary, available data point to a broad-based economic recovery based on Dubai's comparative strengths as a regional hub for commerce and trade. The data support the notion that Dubai has bounced back from the 2009 slump by focusing on its roots, firmly entrenched in 50 years of groundwork.

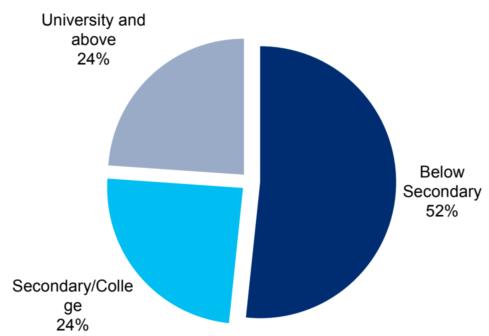
A crack at the all-important population conundrum

In an economy where 96% of the workforce is made up of expatriates whose right to reside in the emirate is linked to their ongoing employment, the feedback between growth and demographics is particularly acute. Not only does a growing population indicate higher employment and thus a healthy economy, it is also reinforces economic growth as it equates, *prima facie,* to higher domestic demand. This relationship tends to accentuate cyclical peaks and troughs in the economy, in our view: growth is reinforced by population growth, recession is deepened by population outflows.

The link between economic growth and Dubai's population is, however, complicated by the fact that a large proportion of total foreign labour consists of guest workers: mainly unskilled labour doing manual jobs. Data from Dubai Statistics Centre show that only 24% of the Dubai workforce holds a university degree, and that two thirds of the expatriate labour force earns less than US$820 per month (figs 11 and 12). The majority of these poorly paid labourers work on construction sites or as domestic household staff, and a significant part of their monthly salary is remitted to their homeland. Overall, we believe their contribution to domestic demand is significantly less than their numbers would suggest, particularly with respect to housing demand, which we will focus on later. We therefore believe any analysis of population growth in Dubai, as it relates to domestic demand, should focus on what we term the 'white collar population', ie the more privileged third, rather than total population.

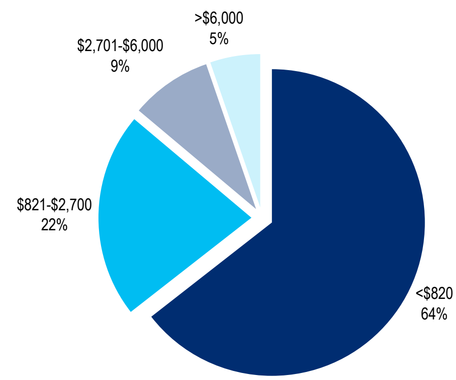
Unfortunately, timely and reliable population statistics for Dubai are not available, hindering meaningful analysis of population trends and their impact on growth. To get around this problem, we have identified one available indicator which we believe gives us a reliable proxy for growth in the white-collar expat population: enrolment of ex-pat children in private schools.[1]

Figure 11. 76% of Dubai's work force does not hold a university degree



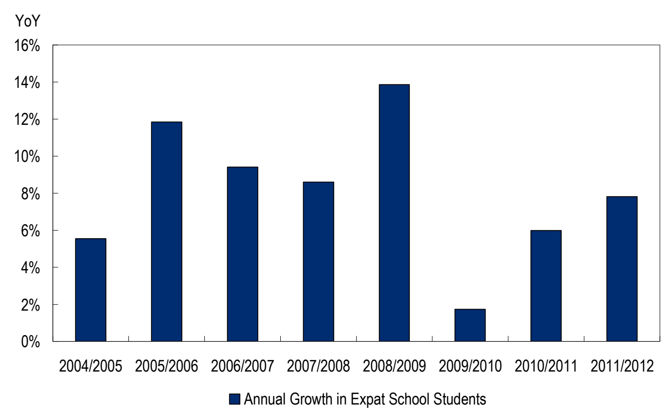
Source: Dubai Statistics Centre, Citi Research

Figure 12. 64% of the expatriate work force earns less than US$820 per month



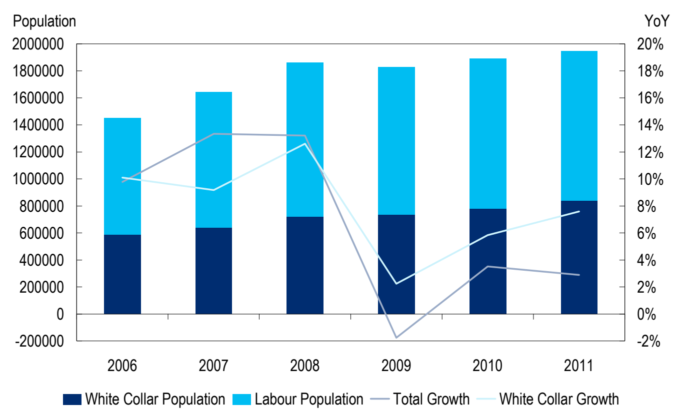
Source: Dubai Statistics Centre, Citi Research

Figure 13. We think school enrollment figures are a good proxy for population growth



Source: Dubai Knowledge and Human Development Authority, Citi Research

Figure 14. We estimate that growth in the white collar population has been less volatile and stronger than that of the labourer community



Source: Dubai Statistics Centre, Citi Research estimates

The volume of expatriate children enrolled in Dubai's schools grew strongly in the early years of the last decade, peaking at 14% in the 2008/2009 school year (fig 13). The economic slump in 2009 brought this rate crashing down. We believe that a significant number of white-collar workers and their families (mainly those associated with the real estate and construction industries) left Dubai in 2009. However, at the same time, the fall in rents and house prices improved Dubai's affordability immensely, and led to a contra-flow of expatriates from nearby emirates, such as Sharjah, Ajman, and even Abu Dhabi. The net effect was that enrolment growth remained positive in the 2009/2010 school year, albeit at just 1.7%. Since then, however, we have seen a steady recovery, with the number of expatriate schoolchildren growing 8% in the 2010/2011 school year. Anecdotal evidence suggests that this trend continues.

[1] We have no reason to believe that there is significant annual variance in the number of children per expatriate household.

We have used the school enrolment patterns as a blueprint for white-collar expatriate population growth more widely in the emirate. We have also assumed that growth in the guest worker population follows closely that of the construction sector (for which we have data). According to our estimates, shown in fig 14, a sharp reduction in guest workers (mainly in construction) led to an overall decline in Dubai's population in 2009, although not in the 'white collar' population. Overall population growth has since recovered to around 2%, but the 'white-collar' population grew by almost 8% in 2011.

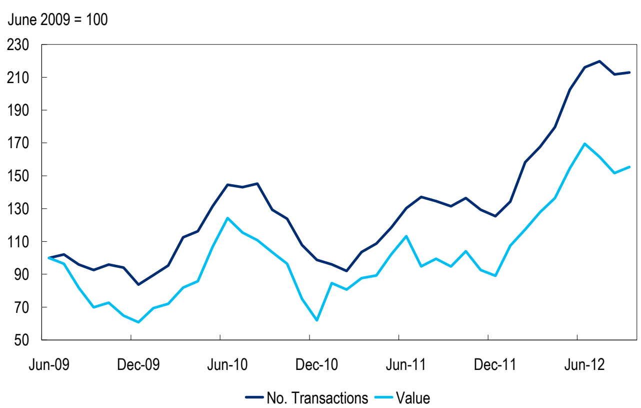
These population estimates provide additional evidence of Dubai's economic recovery, as they reflect a rise in employment in the emirate. Equally importantly, they underpin a surge in domestic demand, as the growing number of expatriates represents a rapidly expanding consumer base for local business.

Cue, recovery in the property market

Dubai's economic rebound and improved investor sentiment has breathed life into the real estate market in recent months. Since the beginning of the year, the volume and value of real estate transactions carried out in the emirate have mushroomed (fig 15).

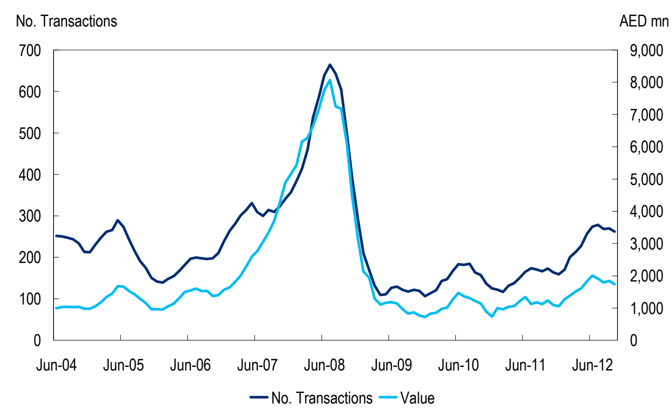
Confounding concerns about the magnitude of the supply overhang from the previous boom, property prices have responded strongly to the increased demand. Data from Cluttons, the international real estate company, show that mid-range property (both apartments and villas) has risen in price by some 20% in the past twelve months. This is below the 30%-40% annual gain in property prices during the pre-2009 boom but, according to CBRE, represents one of the sharpest gains in the property sector anywhere globally this year.

Figure 15. The volume and value of real estate transactions in Dubai has risen sharply this year…



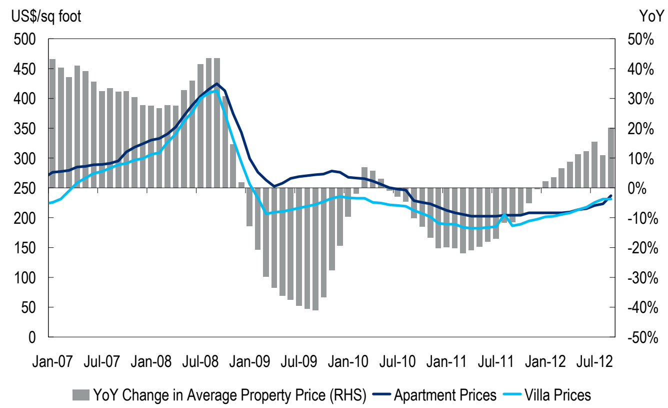
Source: Dubai Land Department, Citi Research

Figure 16. …Although both volumes and value of transactions remain significantly off the 2008 peak



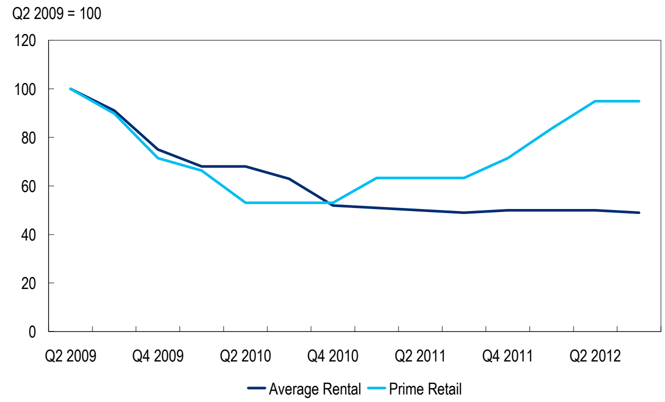
Source: Dubai Land Department, Citi Research

Figure 17. Average property prices have risen 20% in the past 12 months



Source: Bloomberg, Cluttons, Citi Research

Figure 18. Office rents have stabilised, while retail rents have almost fully recovered

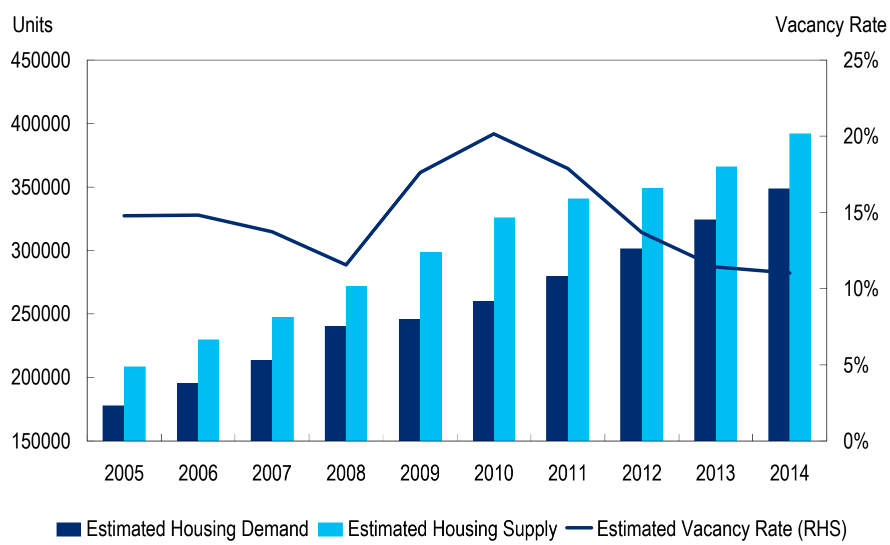


Source: Jones Lang Lasalle, Citi Research

The picture in the commercial real estate market is more mixed. The extent of oversupply in the office market during the boom was greater than that in the residential market. Vacancy rates remain high – Jones Lang Lasalle estimates vacancy rates in the Central Business District of Dubai at 31% in Q3, 2012, while Cluttons puts the number for the whole of Dubai at 40%. However, both companies have reported an increase in demand, particularly for prime office space, and expect to see strengthening in the market in the near future. Overall, office rental rates remain flat, having bottomed out in Q4 2010 (fig 20).

In the retail market, the growth in consumer demand described earlier has led to significant rises in the demand for retail space. Average retail rentals have increased steadily since the 2010 trough, and are now reportedly at near pre-2009 levels (fig 20).

Figure 19. Population growth is outstripping current expectations of housing supply, supporting a recovery in the housing market



Source: Jones Lang Lasalle, Dubai Statistics Centre, Citi Research estimates

In our view, the strengthening of demand in the property sector is correlated to the wider economic recovery. Focusing on the housing market, in fig 19, we estimate historical housing demand and supply in Dubai based on our population estimates (see above) and offer some projections for the coming two years.[2] According to these, rapid population growth pre-2009 led to a relative tightening in the housing market as demand out-paced supply. In 2009/2010, a retrenchment in demand growth and rising completions on the supply side saw vacancy rates climb rapidly. This coincided with a tumble in property prices. In the past two years, the situation has begun to reverse yet again: a slow down in completions and a rise in population growth is reducing vacancy rates, a trend we expect to continue.

Squaring the recovery with the supply overhang

We find the data and arguments explaining the surge in property demand compelling. However, given the extent of the supply overhang, it is not obvious to us why prices are responding so strongly to this rising demand. Our own estimates suggest that the current stock of housing exceeds demand by some 50,000 units (15% of total supply – see fig 19). While we accept these are rough estimates and honing in on accurate supply/demand figures in Dubai is notoriously difficult, a drive around some of the in-land developments around the Al Khail and Emirates roads seemingly confirms the notion that supply does not appear to be particularly tight. So why the surge in prices?

Part of the answer, we think, has to do with the fact that the property market is highly segmented. As Jones Lang Lasalle and others argue in their Q3 property surveys, the driver of the recovery has been the ‘prime’ market, in both the residential and retail spaces. Demand is strongest in mature developments, in villas, and for newer, shinier retail space. Demand is considerably weaker for property in less desirable areas, further out and with less developed infrastructure, or for the older, more tired retail space.

So what will become of this excess capacity? One possibility is that market forces will continue to drive up the price of ‘prime property’ such that affordability concerns begin to push demand towards the less desirable but more affordable property segment. Overall vacancy rates would thus diminish, bringing balance to supply and demand over time. However, in the past 12 months, the announcement of a slew of developments aimed at capitalising on the surge in ‘prime’ property demand leads us to believe that the risk of the supply overhang remaining a feature of the property market for the foreseeable future is rising (see below).

But segmented markets may only be part of the answer why prices are rising in the context of a persistent supply overhang. The other part of the answer could be down to a re-emergence of speculative activity, driving a wedge between supply/demand fundamentals and pricing.

Keeping an eye on the risks

While we believe that the recovery in Dubai’s property sector is underpinned by a broader economic recovery and largely justified by supply/demand fundamentals, we also recognise that risks may emerge that could jeopardise the long-term momentum of the recovery, and may even create further turbulence in the Dubai economy down the line.

[2] We estimate housing demand on the basis of a household size of 3 for the ‘white collar’ (as measured above). Supply is based on a combination of estimates from Jones Lang Lasalle, and data on building completions from the Dubai Statistics Centre.

Risks of an overshoot in prices

The return of off plan sales and potential for speculative behaviour

In the lead up to the 2008 property bubble in Dubai, one of the key drivers of speculative activity in the property market was the practice of off plan sales. This entailed a developer marketing a project at the design phase. Purchasers would make a down-payment, typically 10% of the total agreed cost, which the developer would then use to begin construction. As certain construction milestones were met, a call on further stage payments by the purchaser was made.

The off plan sales model was seen as beneficial to developers in that it allowed them to minimise leverage, using cash flow from purchasers to finance the build. A key lesson from the bursting of the property bubble in 2009, however, was that the model also encouraged ‘flipping’. This practice involved investors purchasing a number of properties with the sole intention of selling these on in the secondary market for a profit, sometimes within days of purchase. While prices were rising, the risks were contained. Once prices softened, liquidity dried up as investors rushed for the door. Defaults on stage payments shot up, projects stalled, demand slimmed down to size, and the extent of the oversupply problem became apparent.

In recent months, we have seen a re-emergence of the off plan sales model, something which the property company CBRE tactfully described as ‘not necessarily seen as a positive change for the market’ in a report released in October. Emaar, for example, has launched two developments off plan this year, the most recent of which (The Address BLVD) sold within the day of its launch in September. Reports of investors queuing overnight for the launch are a worrying throwback to the pre-2009 days. Earlier this year, Damac properties took the unusual step of offering a guaranteed 8% annual return on units purchased in it Burjside development. In both cases, the properties were serviced apartments and thus the investor base is buy-to-let, limiting the risks of rampant flipping. However, the resurgence of the off-plan sales model is a potential risk that should be closely monitored, in our view.

Inflationary pressures

Whatever the reasons behind the rise in property prices, these are a threat to price stability and, ultimately, the competitiveness of Dubai as an investment destination. So far, rental increases have been more modest than the 20% rise in property prices – according to Jones Lang Lasalle, villa rents are up 7% over last year, while apartment rents are up 5%. Rents are an important component of Dubai’s Consumer Price Index (CPI). Rising rent would increase the cost of living to Dubai’s expatriate labour force, which could, in turn, increase the cost of doing business for foreign companies. The same is true of industrial and office rents, although there is less evidence there of price rises for the time being.

We believe that Dubai possesses many other significant competitive advantages as a regional hub, such as a first class infrastructure and superior quality of life. However, cost remains an important factor in investment decisions for the companies Dubai is hoping to attract to drive economic growth going forward. Indeed, we credit the return to cost competitiveness as one of the factors behind Dubai’s economic recovery (see above).

Risks of an overshoot in supply

There are early signs that the recovery in the real estate market may herald a new construction boom in Dubai. After the property crash, most of Dubai's real estate developers shelved or cancelled ambitious projects due to the general collapse in demand and the apparent over-supply in the market that would take years to correct. This left parcels of prime real estate undeveloped, much of which has since been written down on the developers' balance sheets at the insistence of their auditors. With the sudden surge in demand in the prime real estate segment in the past 12 months, these developers have begun to dust off some of the old plans and put them to tender. They have also announced a slew of new projects. We have put together a list of as many of these as we were able to identify in fig 20.

Insofar as this construction activity remains in line with demand fundamentals, we welcome the contribution this is making to Dubai's economic recovery. However, there are early signs of exuberance in some of the planned projects that make us pause for thought. The scale of some of the projects recently announced, both in terms of cost and in terms of additional supply, does raise concerns. The lack of co-ordination among Dubai's top (often state-owned) developers and the sheer ambition of some of the master developments contributed to over-supply issues in the pre-2009 boom. Looking down the list in fig 20, we have concerns that, if all the announced developments come into fruition, history may repeat itself over the coming 2-3 years.

The risk of a softening in demand

The recovery in real estate demand is, in our view, subject to the broader macroeconomic risks faced by Dubai. As we have argued, Dubai's economic fortunes follow closely those of the global economy and of the region. Uncertainty surrounding the outcome of the ongoing Eurozone crisis, the risks of a hard landing in China, and the potential US fiscal cliff continue to threaten the global growth outlook, although we believe some of these risks have receded somewhat in recent weeks (see next section). As far as the regional outlook is concerned, geo-political risks remain elevated, particularly with respect to the ongoing conflict in Syria and the crisis over Iran's nuclear fuel cycle. An escalation in these risks, particularly in the latter, could undermine the economic performance of the region as a whole, in our view. Equally important is the oil outlook: while we expect supply constraints and geopolitical heat to remain supportive of oil prices in the medium term, a sharp downward movement could slow economic growth in the region and thus impact Dubai's hub economy.

Financing risks

We expect that the majority of the US$11bn+ in projects highlighted in fig 20 is likely to be debt financed. The risk of a further build up in leverage in some of the real estate developers should therefore, in our view, be monitored closely. Moreover, depending on where the developers raise the debt, creditors will face risks from any potential future dislocation in the real estate market. For domestic banks, that means renewed concerns over future asset quality.

Figure 20. At least US$11bn in real estate projects have (re-)entered the pipeline in the past year or so

Project	Sector	Developer	Description	Estimated Cost (US$m)
Meydan Sobha City	Mixed	Sobha Real Estate (India)/Meydan	Spread across 8 million square feet of land in Meydan City, near Medan Race Track, this development will comprise 280 villas, 13 high-rises, garden apartments, a shopping mall, hotels, retail complex and international schools	3000
Habtoor Palace Complex	Hospitality/ Tourism	Habtoor Group	Three new hotels with a combined total of 1612 rooms, a 1100-seat theatre, 50,000 sq ft of banqueting and meetings facilities, a shopping arcade, tennis and sports academy and multiple themed restaurants on the Sheikh Zayed Road. Will be biggest hotel complex in the UAE.	1330
Crystal Towers	Mixed	Al Fattan	Two mixed-use glass-fronted towers (30 and 35 storeys) on the JBR walk. Will comprise over 1000 hotel rooms, as well as residential apartments.	700
Phoenix Mart	Retail	Chinese Investors	6,000 mainly Chinese brand outlets planned in over 350,000 sq metres of retail space, plus a 5-star hotel. Announced last year, but construction will begin later this year.	550
Hadaeq Shaikh Mohammad Bin Rashid	Residential	Meydan	A large park complex, comprising lagoons, lakes, canals and 'European style gardens', linking new-build residential communities, mainly villas, in the Nad al Sheba area.	500
Island 2	Residential	Meraas	Reclaimed island off the coast of Jumeirah 2, will house 120 villas as well as retail space. Reclamation is 40% complete.	500
Westside Phase 1	Residential	Emaar	14-Low-rise residential buildings in downtown area, near Burj Khalifa	436
The Creek Extension	Infrastructure/ Mixed	Roads and Transport Authority (RTA)	Plans approved to connect the completed 10km Business Bay creek extension to the Arabian Gulf via a 2.8km canal that cuts across the main north-south (cross town) travel arteries. Infrastructure includes bridges across the 100m canal, with plans to develop residential, retail and commercial real estate along the newly-created waterfront.	410
Al Sahara Kingdom	Mixed	Madeed Properties/Al Hokair Group (Saudi)	Part of Dubailand, will include two four-star hotels, an indoor theme park, restaurants, residential areas and a retail souk.	400
Water Discus Hotel	Hospitality/ Tourism	Dubai Drydocks	Off-shore hotel featuring under-water accommodation, announced in May but still in design phase.	400
Taj Arabia (Falcon City)	Mixed	Link Global Ltd	Announce in October, Taj Arabia will consist of two free hold residential buildings (264 units), two mixed use buildings (129 offices and 72 residences), two fully serviced apartment buildings (325 units) and an outsized replica of the Taj Mahal, to serve as a luxury hotel featuring 300 rooms.	350
DragonMart Extension	Retail	Nakheel	Doubling of existing Dragon Mart Mall, bringing total size to 335,000sq metres of retails space. Includes additional car park and 240-room Dragonmart hotel.	300
Meydan Tower	Mixed	Meydan	On Sheikh Zayed Road. Still under design, but initial spec includes 256 serviced apartments, a boutique hotel with 100 keys, more than 300 apartments and 20,000 square feet of retail space. Speculation suggests it is to be around 75 stories tall.	300
The Address, The Boulevard	Hospitality/ Tourism	Emaar	Launched in September, all units on offer to the public sold off plan within one day. Building will include 200 hotel rooms and 542 serviced apartments, and will be the second tallest building in the downtown area, after the Burj Khalifa.	200
Dubai Adventure Studio	Hospitality/ Tourism	Meraas	US-film-based theme park, with rides, hospitality, retail and Food& beverage areas spread over 2mn sq feet. At the Arabian Ranches intersection.	200
Palm Mall	Retail	Nakheel	160,000 sq metre mall to be built on the trunk of the Palm Jumeirah.	200
Ibn Battuta Extension	Retail	Nakheel	Plan announced to double Ibn Battuta Mall space. Currently this is the largest themed mall in the world, with about 111,500 square metres of leasable retail space and more than 265 stores.	150
Dubai Mall Extension	Retail	Emaar	Addition of 93,000 sq metres of retail space to existing structure In downtown area, adjascent to the Burj Khalifa, as well as a hotel.	150
Mudon	Residential	Dubai Properties	348 3- and 4-bedroom villas will be built in the Dubailand area.	150
Four Seasons Hotel	Hospitality/ Tourism	Bright Start	237-room luxury beach resort located at the northern end of Jumeirah Beach Road	110

The Outlet Village	Retail	Meraas	20,000 sq metre retail area with 160 luxury brand discount outlet stores. Inland, on the Al Khail Road.	100
Lotus Towers	Commercial	Damac Properties	Two 53 storey commercial buildings in the Business Bay area.	100
The Pointe Mall (Palm Jumeirah)	Retail	Nakheel	Mall across the bay from Atlantis Hotel on Palm Jumeirah, featuring 136,000 sq metres of retail space.	100
Marvel Theme Park	Hospitality/ Tourism	IMG (Galadari)	350,000 square feet Marvel Adventure family entertainment centre that will include retail outlets, dining facilities and a range of interactive entertainment experiences featuring Marvel characters. Located in City of Arabia (Dubailand).	100
Delta 2 Tower	Residential	Delta Properties	21-Storey residential tower in the Dubai Marina area.	85
Jumeirah Park Legacy Villas	Residential	Nakheel	360 4- and 5-bed villas in Jumeirah Park, sold offplan in October.	80
Burjside View Tower	Residential	Damac Properties	45 storey mixed-used tower in downtown area, near Burj Khalifa	70
Palma Residences	Residential	Nakheel	104 Villas on the Palm Jumeirah, sold off plan in April.	53
The Beach	Retail	Meraas	Open-air retail space with 70 outlets situated on the former public beach at Jumeirah Beach Residences.	50
Juma al-Majid Tower	Residential	Juma Al-Majid group	44-storey residential tower near the Mall of the Emirates	50
Panorama at The Views	Residential	Emaar	Launched in May, sold off plan within one day, a development of 224 apartments in The Greens overlooking Emirates Golf Club.	20
Palm Views	Residential	Nakheel	192 apartments in two shoreline buildings on the Palm Jumeirah, sold off plan in May.	14
Total				11158

Source: MEED, various press sources, Citi Research estimates

The upshot for investors

We think the broader economic recovery in Dubai and the subsequent positive momentum in the real estate market are unambiguously good news for investors in the near term. The positive consequences include:

- **Improved cash flows/balance sheets at Dubai's GREs**. Many of Dubai's GREs hold a significant stake in the Dubai economy and, importantly, in Dubai's real estate sector. We think the economic recovery will, for example, boost revenues and profits for state-owned enterprises in the hospitality, logistics and transport sectors. The real estate recovery will reinforce this as government-owned developers, such as Nakheel and Dubai Properties, experience better sale volumes and valuations in executed projects. Reviving previously shelved projects and announcing new ones also allows these companies to monetise land parcels that have lain dormant on balance sheets since 2009.

- **Strengthening of government revenues**. There are two sources for this. First, the improved outlook for profitability in the GRE sector will boost revenues for the government. Profits from state-owned enterprises (mainly funneled through the Investment Corporation of Dubai) are a critical source of income for the Dubai government. Second, the recovery will boost direct government revenues. While Dubai is a low-tax economy, fees are an important source of revenue for the governments, and are mainly levied on the expatriate population for a range of services provided to them by the authorities. The renewed growth in the population will thus boost direct fee income substantially, in our view.

- **Support to Dubai risk assets**. As a consequence of the improved cash flows for the Dubai government and its GREs, we would expect Dubai's risk assets to continue their positive trajectory in the coming 12-18 month period, *ceteris paribus*. In our view, Dubai's debt overhang is also likely to become more manageable in an environment of improving cash flows and balance sheet strengthening, combined with easier refinancing conditions.

That said, we stress that there are emerging risks to the recovery, even at this early stage. In the wider economy, these risks relate to an uncertain global outlook, as well as regional geopolitics. In the property market, these include the risks of a price and/or supply overshoot and increasing leverage. In our view, these risks are most likely to manifest themselves over a 2-3 year horizon, rather than in the near term.

Appendix A-1

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