MARKET PROFILE

Hot as the Dubai sands

The value of Dubai's real estate is soaring as an economic boom sweeps much of the Middle East, says **STEVE MACVICAR**.

In 2004, Dubai's property market was as hot as its desert sands. When developers Nakheel put the Jumeirah Village residential complex on the market in September, 7,000 villas were snapped up in a day. This stampede beat the previous record held by The Palm Jumeirah, where 2,000 units were sold in three days.

Within months Nakheel was in Qatar showcasing another project, The Palm, Deira which will supply a further 8,000 villas; and although as developers behind the 250 islands that will make up The World they are guaranteed an audience, they are by no means the only ones banking on the current level of demand for both residential and commercial property remaining unabated for some years to come. According to Dubai's Building and Housing Department, there were 461 multi-storey buildings under construction last October—and that was before Emaar Properties appointed the Samsung Corporation to start construction of the Burj Dubai tower which, on completion, will be the tallest structure in the world. But with 15,000 residential units due to come available in the next three years alone, will demand keep up with supply?

There is little precedent on which to base any predictions, because Dubai's freehold property market is in its infancy. Less than three years ago, only UAE nationals could own property, and even then often on restricted gifted-land tenure. It was a decree in May 2002 from Dubai Crown Prince General Sheikh Mohammed bin Rashid Al Maktoum allowing foreign nationals to buy property freehold that has triggered the current explosion in demand. As a result, developers and customers alike are sailing into unchartered waters.

But there are reasons to believe that the bull market has some way to go yet. The first is the strength and depth of the economic boom now sweeping not just Dubai, but most of the Middle East. Since 9/11, Arab investment has been flooding back home, partly due to anti-Islam sentiment abroad, partly because of sluggish returns on Western stock markets, but also because the political climate is changing.

It is a startling fact that 73% of Saudi nationals are under the age of 30, a demographic trend reflected across the region. Governments recognise that the oil revenues will not last forever, and are looking

Emaar's Burj Dubai tower.

to diversify in order to harness their young subjects' energy and to satisfy their ambitions. Attracting inward investment and expertise is seen as critical to this process, and this in turn has triggered a wave of reforms and liberalisation packages to make the business environment more conducive to outside interests.

With the price of crude oil touching $50 a barrel this year, for instance, Saudi Arabia—now in the final stages of negotiating its membership of the World Trade Organisation—is using its enormous and unexpected windfall to reduce its public debt, actively promote the private sector and create favourable conditions for Western investors; and Dubai's fellow emirate Bahrain has just signed a Free Trade Agreement with the US which will see tariffs between the countries disappear altogether within 10 years. In the property sector, both developers and buyers are placing increasing demands on regional governments to put in place legal frameworks in which both parties can transact confidently.

"Changes are taking place that would have been unimaginable a few decades ago," Khalid Abdullah Al Bassam, deputy governor of the Bahrain Monetary Agency said recently. "These changes are transforming the practice of business across the Middle East, and more specifically they are transforming the economies of the Gulf region. One of the most important of these changes is the role of the private sector in the diversification strategy." There is consequently a new air of confidence around and a feeling that the Middle East now makes sense as a long-term investment.

Despite—or possibly because of—its relatively small oil revenues, Dubai is in pole position to benefit from this new optimism. Overshadowed in the oil stakes by neighbouring Abu Dhabi, it made a conscious decision some time ago to position itself as the most business-friendly capital of the region. Tourism was initially targeted as a major growth sector and the The World project is just one of a series of spectacular hotel projects that have placed the emirate firmly on the luxury traveller's map; but the existence of free zones and industry-specific clusters such as the Dubai Internet, Media, Health Care and Maritime Cities are also proof of its determination to establish itself as the technological, financial and media hub of the Gulf.

"Dubai has earned a name for itself for its fast-track processing and registration of businesses, without any red tape," says Wahid Attalla, executive director of commercial and operations at Nakheel. "This approach has served as a magnet for the world's largest business enterprises and most dynamic entrepreneurs."

Nakheel's Palm Deira.

It also explains why developers such as Nakheel and Emaar Properties are confident that demand for residential property will be met, because they are banking on the steady flow of businesses setting up in Dubai to continue, bringing with them employees who need somewhere to live. A case in point is the Dubai International Financial Centre which was established to position Dubai as a universally recognised hub for institutional finance and as the regional gateway for capital and investment to the Middle East.

In June last year it announced the development of The Hexagon, a $260m high quality mixed-use real-estate complex in Central Dubai. The complex will include world-class smart offices, first-class residences, a five-star boutique hotel and quality serviced apartments. The joint-venture project with Nexus Capital is aimed specifically at attracting foreign direct investment.

Perhaps more than anywhere else in the world today, the fortunes of Dubai's property market are inextricably linked with the successful development of the emirate's overall economy. One analyst recently predicted that the total Dubai real estate market would be worth around $50bn by 2010 compared to $10.5bn in 2002. With Dubai's "joined up" approach to attracting foreign investment, he could well be right.

Dubai International Financial Centre.