UAE Realty:

How much has changed?

Many of the UAE's planned real estate projects were put on hold following the global financial recession of 2008-2009 and several were cancelled, causing property prices to crash by as much as 60%. But booms and busts are a well-established phenomenon in the capital investment cycle and even more so in the property market.

As the real estate market picks up again to similar levels to those of the pre-recession period, we take a closer look at how investment fundamentals have changed over the past few years.

One of the most badly hit sectors in the UAE during the global recession was the property market, given that Dubai's economy largely depended and still depends on real estate, retail, tourism and finance.

It didn't take long before a legal committee was formed to take charge of settling liquidation and disputes between property developers and investors in the schemes cancelled by Dubai's Real Estate Regulatory Agency (RERA).

The list of cancelled projects was finally published in June 2014, showing a total of 36 projects by 18 developers being cancelled. And while 187 projects have been completed since the beginning of 2009 and 232 are expected to be completed in due course, 253 projects remain on hold.

Indeed, the financial difficulties left by the real estate bubble burst resulted in some hard lessons for developers, investors, and lending institutions.

Smarter market

According to the 2014 Top Trends for UAE Real Estate report, published by financial services firm Jones Lang LaSalle's (JLL), mega projects are returning to the picture, but there are several differences this time that make for a 'smarter' market. For example, investors have become more cautious, relying less on pre-sales and sub-developers, which was the case prior to the recession.

'In a rapidly rising housing market, buying off-plan actually enables investors and home buyers to buy a property at a lower price as opposed to the post construction phase," explains Robin Teh, Country Manager,

Proposed Master Plan of Masdar City

Director Valuations and Advisory at international property agency Chesterton MENA.

However, a huge stock of ready properties has affected investment in the off-plan market, he notes, as end-users now have a choice of a ready property market that was non-existent in the 2006 period.

In addition, the pace of property development is changing with larger projects being phased according to demand. 'The plans (for mega projects) are more measured and there is an increased focus on phasing projects over many years in line with end user demand," states the JLL report.

Among the latest mega projects under construction now are Habtoor City, due to be completed in early 2016, and the Mohammed Bin Rashid City, targeting completion by 2018-2019 – both clearly striving to hand over units within the timeslot of the Expo2020. In Abu Dhabi, mega projects such as Al Maryah Island, Zayed City and Masdar are unfolding as construction progresses.

Meanwhile, new trends in the retail market have seen UAE retailers struggle to find quality locations at affordable costs, with large primary malls mostly full. The shortage of lower cost retail space is creating a growing demand for secondary malls such as Ibn Batuta and Al Ghurair Centre, as well as 'street shops', as seen in the rising number of food and beverage units opening on the Sheikh Mohammed Bin Rashid Boulevard in Downtown Dubai.

Large, super-regional shopping centres are still expected to continue dominating the market, especially since the majority of announced and

Aerial view of Nakheel's The World Islands

under-construction malls have gross leasable areas of more than 30,000 square metres.

'Our Dubai-based shopping malls have seen an eight percent growth in footfall to 81 million visitors, with a significant share for tourists who accounted for 25 percent of visitors to Mall of Emirates in 2013. We are certain that demand will continue to rise and, as such, we are investing AED 3 billion to ensure that our facilities are enhanced and expanded in order to meet future demand," says George Kostas, CEO of Majid Al Futtaim Properties.

The investment will cover a multi-phase redevelopment of Mall of Emirates worth AED 1 billion, a AED 22 million redevelopment project of City Centre Deira, and a new shopping mall in the International Media Production Zone of Dubai, among other projects.

On the other hand, the office market is experiencing the opposite: more relocations are taking place from older and secondary areas to newer locations, which doesn't come as a surprise considering the supply-demand imbalance in today's office space market.

Nearly 245,000 square metres of office space were delivered in the last quarter of 2013, and another 1.2 million square metres will be available by 2016 if all projects are completed on time. Despite the sizable pipeline of supply, a shortage of large, high-quality office units for global occupiers remains, and therefore, built-to-suit options are being considered, particularly by multinational companies.

'We have witnessed a widening gap between Grade A and more secondary and tertiary office spaces in recent months and we expect this gap to widen further. With stable rents at the top end of the market, many occupiers are capitalising on the stability in rents by moving into space that they perceive to be of a higher quality," says Steve Morgan, Chief Executive of Cluttons Middle East, an independent partnership of chartered surveyors.

Government intervention

The change in demand trends across the various property segments reflects the relatively more calculated approach being taken by investors. But for real, long-term improvements to be made in the local real estate market, government intervention is crucial.

'A key ingredient for 2014 will be the introduction of real estate rules and regulations," says Paul Maisfield, Chief Executive Officer of MPM Properties, the real estate services subsidiary of Abu Dhabi Islamic Bank (ADIB).

As a matter of fact, the UAE government has been rolling out carefully studied initiatives that are quickly reshaping the market. One of the first measures introduced since the recession – the Ejari system – was launched by RERA to regulate the relationship between landlords and tenants.

This was followed by the launch of Dubai Land Department's Tanmia initiative in 2012 to revive the construction of stalled projects by selling them to financially strong developers. The initiative succeeded

Dubai Eye - The Emirate's Upcoming Landmark

Dubai Mall Aquarium

in driving the resumption of halted projects, including Wind Tower 1 and 2 that were first launched in 2005 in Jumeirah Lake Towers.

More than a decade later and still halfway through construction, the project was finally bought by HABN Real Estate from its original developer Wind Tower FZ, thanks to the Tanmia scheme. The new developer is now targeting August 2016 for the completion of the towers.

Similarly, the Azizi Yasamine project in Al Furjan – a residential development located between Sheikh Zayed Road and Mohammed Bin Zayed Road – was recently relaunched by Azizi Developments.

Stricter standards

Until recently, the variety of standards used in the UAE was creating confusion and inhibiting transparency in the real estate market. In response, new international property measurement standards were introduced in September 2013, replacing feet, inches and yards with metres. The shift should help better regulate the property market in the coming years.

Another regulatory change affecting the UAE property market from 1st April 2014 is tighter restrictions on who is entitled to undertake valuation work, following a drive by the Dubai Government and Royal Institution of Chartered Surveyors (RICS) to improve valuation standards.

RICS now requires all of their UAE members to adhere to Valuer Registration – a regulation which will ensure that real estate valuations by their members meet the strictest international valuation standards (IVS), and that they are auditable and transparent.

'The new regulatory environment that now applies in the UAE will mean that standards can only go in the right direction - a RICS Registered Valuer will have to meet the same international standards that apply in the most mature real estate markets in the world. Where they don't, the RICS will take action," says Ollie Saunders, managing director and head of real estate valuation at Deloitte.

On the same day the IVS regulation came into effect, Dubai International Financial Centre Authority announced it would be hiking the freehold property transfer fee from 3.5 percent to 5 percent, only a few months after RERA raised registration fees for real estate transactions from 2 percent to 4 percent. Both decisions strive to address over-inflation and secure the long-term stability of the property market.

Abu Dhabi remains cautious

Maintaining a more conservative approach than Dubai's and driven by government rather than private sector investments, Abu Dhabi's real estate market did not suffer the same damage during the recession.

The capital city allows only UAE nationals and legal entities wholly owned by them the right to freehold ownership to property in the emirate, with the exception of Investment Zones, in which GCC nationals are also permitted to own freehold land.

Designated by the Abu Dhabi Executive Council, these zones include Reem Island, Raha Beach, Yas Island, Lulu Island, Saadiyat Island and Sowwah Island, and Masdar.

Foreigners who are not GCC nationals, have two contract options to choose from if they were to invest in Abu Dhabi, both of which are renewable by mutual consent. They can either acquire a right of 'usufruct' – to use and exploit property belonging to another person for a period of 99 years – or a right of 'musataha' – to build and develop on the land belonging to another person – for a period of up to 50 years.

'Musataha contracts allow for the acceptance of applications from property developers within Abu Dhabi Investment Zones, besides issuing all documents necessary for obtaining freehold title deeds," says Owaida Al Qubaisi, Acting Executive Director of Municipal Services Sector at Abu Dhabi Municipality.

Earlier this year, the municipality had announced its registration of "musataha" contracts for residential units of Aldar Properties that are located within the Investment Zones, which include Yas Island and Raha Beach.

'All our future developments will be carefully developed in line with market demand in Abu Dhabi. This exciting pipeline of real estate developments showcases our ability to monetise our land bank to increase cash flows," says Abubaker Seddiq Al Khoori, Chairman of Aldar Properties.

Besides retail and commercial projects, however, such restrictive foreign ownership schemes are unlikely to succeed in attracting residential buyers.

According to Al Tamimi & Company, one of the Middle East's largest law firms, in practice, very little registration has occurred to date in Abu Dhabi's Investment Zones. 'Although ownership rights to property are generally registered for UAE nationals outside the investment areas, registration of long lease, musataha and usufruct rights is not common".

Nevertheless, Abu Dhabi's elimination of the five per cent cap on annual rent increases last November is said to have boosted investment, with some landlords hiking rents by as much as 50 per cent.

Funding approach

Overall, government efforts have been positively influencing the country's real estate market and boosting investor confidence, despite the potentially excessive supply in new properties and Abu Dhabi's limitation on foreign ownership.

Last year, residential sale prices surged by 24% in Dubai and 21% in Abu Dhabi, according to the UAE Central Bank's Financial Stability Report 2013. In contrast to the months preceding the 2008 property crises, the recovery in the current property market is not characterized by rapid credit growth, as highlighted by the UAE Central Bank.

'The Central Bank has in place a maximum debt-to-income ratio of 50 percent, which can be varied up or down to impact the credit cycle. The Central Bank has also introduced a loan-to-value ratio which limits the amount banks can lend against residential real-estate and shares".

'These measures can mitigate against excessive increases in property prices or stock markets when fuelled by bank credit," the central bank notes.

As banks continue to be wary of entering into new relationships, JLL expects sale and leasebacks, real-estate investment trusts, initial public offerings and last mile financing to dominate the property funding landscape.

Speaking on behalf of Abu Dhabi Islamic Bank (ADIB), Jamal Alvi, Business Head of Assets, Retail Banking, affirms that the bank has been facilitating the financing process but with careful assessments. 'ADIB is now making the process of applying for home financing simpler and more transparent, while maintaining a strict approval criteria."

Banks' exposure to the real estate sector currently amounts to AED 287 billion, or less than 23 percent of overall loans, while lending for residential properties grew a moderate 12 percent in 2013. This indicates that the market has been mostly fuelled by cash transactions.

'Analyses of banking data support the hypothesis that the current market recovery is mostly driven by equity buyers and reliance on external funding sources," the central bank notes.

The origin of UAE property buyers carries implications for the market's future, as even here trends have changed. According to the JLL report findings, around 120 nationalities were involved in UAE property sales over the past years, most of which were either land or individual homes.

'We have noted growing interest from Kuwait investment firms in all asset classes of the Dubai real estate market," the report reveals. Abu Dhabi, too, is attracting Kuwaiti investments – the developer behind Reem Mall on Reem Island is the Kuwait-based National Real Estate Company (NREC).

The mall was originally scheduled for completion by 2017, but after halting construction, NREC said it would resume work in 2015 to finish the project by 2018.

In addition, increased involvement from Chinese investors has been observed, predominantly through the delayed Pearl Dubai project, in which Chow Tai Fook Endowment Industry invested a staggering AED 7 billion last February.

There is no doubt that the UAE's property landscape is flourishing, boosted by stronger laws, higher standards, and resumption of halted developments. If this pace is kept up, under the watchful eyes of regulatory bodies, the market will certainly win back any investor confidence that was lost in recent years.

- Heba Hashem