United Arab Emirates

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Foreword

Dubai is one of seven emirates within the UAE, but is probably the most recognised amongst them. The last ten years in particular have seen it grow from a sandy wasteland to a spectacular metropolis attracting attention from every corner of the world. Both its population and gross domestic product have shown explosive growth in recent years and currently display no signs of abating. With an ever increasing quantity of foreign investment being directed into this tiny emirate however, one has to question the sustainability of this growth or whether, like the technology stocks in the late 1990s, it is merely another anomaly, subject to correction in the future.

The United Arab Emirates has been one of the worlds fastest growing economies in the last five years, eclipsing the growth of western economies such as the US, the UK and even up and coming emerging markets such as China. This fact is reflected not only in the GDP and population figures for the country, and for Dubai in particular, but it is also very apparent when visiting the emirate.

The impressive skyline with its numerous high rise towers, where ten years ago there were little more than sand dunes, is the first thing to leave an impression. As much as the construction of these and many other superlative buildings, such as the world first seven star hotel and the tallest building in the world, represent the growth of Dubai, what is more relevant is the sheer quantity of construction still in progress.

In a country with a land mass of about one third of that of the United Kingdom, there currently reside almost 20% of the world's cranes.

The entire emirate resembles one large building site, with roads closed and diverted on a daily basis, the skyline populated with more cranes than buildings in some areas and the roads permanently congested with traffic, even at night. The city has expanded from a small fishing town, to a trading town and appears to be on its way to becoming a full scale metropolis to rival any in the western world.

While this expansion has unquestionably been fuelled by the judicious use of petrodollars in an attempt to diversify income away from purely hydrocarbon related activities, what attracts the 800 people a day that move to Dubai? What attracts the multinational companies to set up regional and in some cases even head offices in this small Middle Eastern province? It is certainly not the small indigenous population of around one million inhabitants across the UAE. What is attracting major world brands to the region is access to a large pool of relatively cheap skilled labour (though the costs are increasing due to high levels of inflation), a geographical location that provides good access to the world, coupled with excellent sea and airport facilities (Emirates, the Dubai based airline is currently one of the fastest growing carriers in the world). Compound this with a tax free regime, low levels of crime and little red tape and it starts to become apparent why the UAE would be an attractive proposition for setting up a business headquarters, where suitable infrastructure is available. It is precisely this infrastructure that the Emirati government have been busily building over the last 30 years.

Whilst the economic fundamentals for the growth of the UAE are sound, not all money invested in this market over the next year will necessarily do well. Although the local economy is buoyant, the global downturn has the potential to affect house prices and production costs in the UAE as well as other parts of the world. Whilst overall the economy is still likely to prosper, there will be pockets of downturn and any investment decision in the UAE and in Dubai in particular, needs to be shrewder.

The retail property market illustrates this point rather well. Whilst overall property prices do look set to continue increasing, appetite for off plan purchases is subdued compared to this time last year. There is increased hesitancy and concerns over the quality of finish with certain developers, delays in handover and with some areas in Dubai now quite clearly rising above others in reputation, it is far from certain that an off plan purchase will turn a profit.

Overall, the UAE including Dubai is still an attractive proposition, backed by strong fundamentals, but it is increasingly important to have a good appreciation of the local market and conditions before investing. Other emirates, in particular Abu Dhabi and Ajman, are embarking on similar expansion programmes and in some cases offer more attractive propositions.

Macro economic outlook

The United Arab Emirates was formed in 1971 and is composed of seven individual emirates, namely; Abu Dhabi, Dubai, Sharjah, Ras Al-Khaimah, Umm Al Quwain, Ajman and Fujairah.

Of these the capital, Abu Dhabi, is the largest (in terms of geographical area) and wealthiest emirate with the greatest income from oil and natural gas related industries. Overall the UAE still derives approximately 40% of its Gross Domestic Product from oil and gas, despite sustained development and diversification over the last 30 years. The estimated GDP figure for 2007 for the UAE is projected at approximately $122 billion with Dubai contributing around 28% of this overall figure. Interestingly, non oil GDP for Dubai is lower at approximately 70% of the GDP. All of this points to a very wealthy economy that is slowly shaking its dependency on hydrocarbon production (whilst still financing this diversification with petrodollars).

It is often difficult to compare GDP figures at a conceptual level, to illustrate these levels however it is useful to examine the per capita figures. The estimated GDP per capita for 2007 in the UAE is $55,200, this compares with a figure of $35,300 for the UK and $46,000 for the US (figures from CIA).

Non oil GDP growth over the last six years averages in the region of 16% per year overall, but is projected to grow at a staggering rate of 21% this year, with growth being driven primarily by the financial services, tourism, manufacturing and construction industries. Economists project real GDP growth in the region of 6 to 7% in 2008 and 2009.

Inflation, driven by the slow supply of additional housing and rising oil prices providing greater surpluses, remains a problem, with the level for 2008 projected to be in the region of 11%, still significantly lower than the rates of up to 15 to 20% seen in recent years. Rental rates have increased by as much as 50% in some areas and were frozen in 2007. They have now been capped in an effort to dampen excessive levels of inflation.

Regulatory regime

The UAE, and Dubai in particular, has a relatively free and open trade policy and is tax free. These factors have been instrumental in both attracting multinational industries and the expansion of Dubai, from a small fishing town in the 1960s, to its current state. There are however a number of important restrictions, largely designed to positively discriminate in favour of the local population.

Not all land (or the property built on it) can be purchased by foreigners, in some emirates such as Sharjah land may only be purchased by Emirati's and other GCC nationals, although leaseholds of up to 99 years are available to residents and in some cases non resident foreign investors. Even in Dubai, land is zoned with ownership in some areas restricted to GCC nationals, others to GCC residents only and with some areas sold to foreign investors without residence. It is possible to obtain residence in many cases through the purchase of property, however nationality is not generally granted to foreigners, even in cases where they marry locals.

Limited liability companies incorporated in Dubai (LLCs) must be majority owned by Emirati or other GCC nationals, thus requiring foreign companies setting up in the region to either partner with a local or establish themselves in one of the "Free Zones".

Dubai has established a number of Free Zones, such as the Jebel Ali Free Zone, Dubai Internet City, Dubai Media City and the Dubai Airport Free Zone. These areas allow the formation of companies with 100% foreign ownership, however their business activities are often limited in scope in comparison to an LCC established outside of the free zone. Most multinational companies, especially technology, media and shipping companies have chosen to establish themselves within these free zones.

Population

Whilst estimates vary widely and it is hard to determine an accurate figure due to the large scale immigration, the CIA estimates the United Arab Emirates has a population of 4.4 million, based on a 2005 census results. Within this, Dubai accounts for a population of 1.42million. The population contains a large immigrant community with expatriates composing almost 75% of the total population in the UAE and 82% of the population of Dubai.

Of this immigrant community, the vast majority, around 80%, are from South Asia (particularly the Indian subcontinent), with the rest predominantly European and other Arab nationals.

The gender distribution of the UAE population is massively skewed, with a 75% male population. This is attributed largely to the large influx of unskilled labour from the Indian subcontinent required by the rapidly expanding construction industry. This is also consistent with the fact that 54% of the population are in the 25 to 39 age bracket. Figures for the workforce are further skewed with women only representing 8.3% of the total workforce in the Dubai.

Population growth in the region is dramatic at approximately 3 to 4% per annum and the year 2005 to 2006 saw the population of Dubai increase by 292,000, or expressed in another way approximately 800 people (enough to fill a small tower block) per day.

Development history (Dubai)

Dubai in the 1990s was little more than a desert wasteland sparsely populated with inhabited areas. Primarily still a port city and fishing village commerce was limited and income was almost entirely derived from its hydrocarbon industries largely based in the neighbouring emirate of Abu Dhabi. **THE REMAINDER OF THIS RESEARCH PAPER IS ONLY AVAILABLE TO SHAREHOLDERS OF FAQAT SAFI REAL ESTATE LIMITED AND COVERS THE FOLLOWING :**

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