Dubai Property Market 2023

Demand Should Hold Up Against Global Economic Pressures

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S&P Global
Ratings

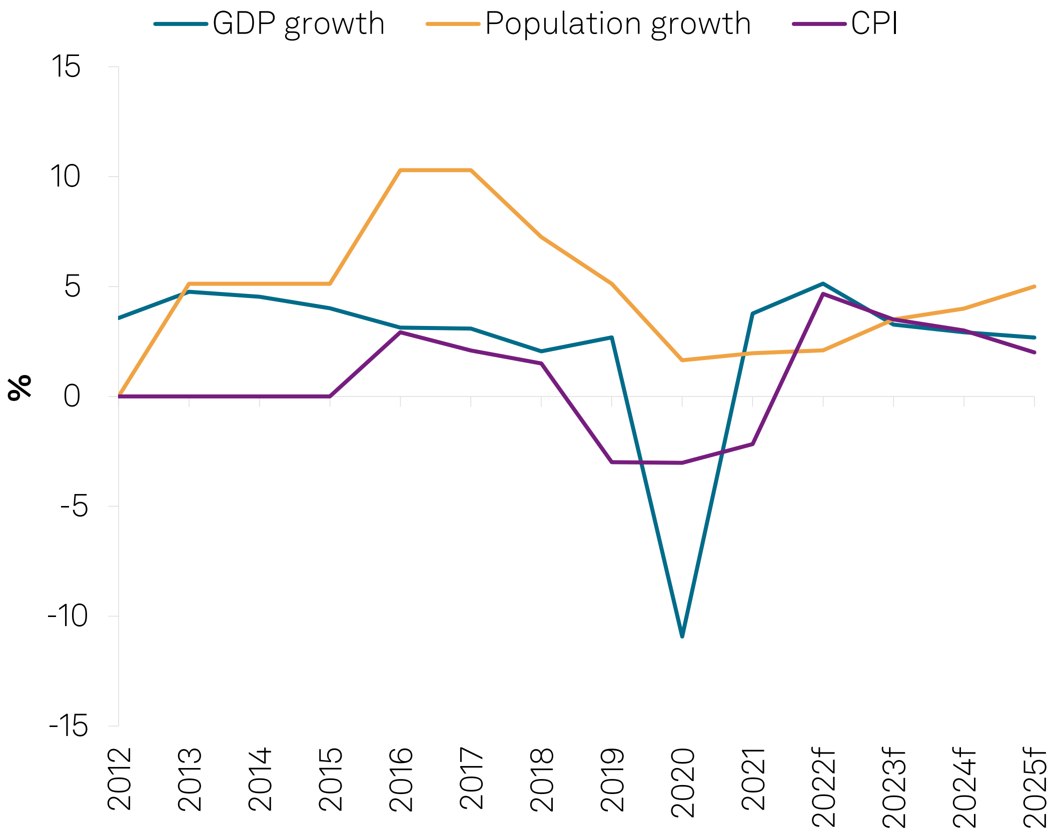
This report does not constitute a rating action

Contents

Key Takeaways

- The outlook for rated Dubai-based real estate companies is stable, reflecting our expectation that growth will support strong cash flow, steady profitability, and improving credit metrics.
- Dubai's GDP will expand by about 3% in 2023, with modest annual inflation of about 3%, while the population will grow by 3%-4%. High oil prices will sustain positive investor sentiment in the Gulf Cooperation Council (GCC) region, while international tourism will continue to recover from its 2020 trough.
- Mounting economic pressures globally--including rising interest rates, inflation, and the devaluation of emerging currencies--may cool the demand for residential real estate. This will lead residential real estate prices to stabilize in 2023.
- Developers will benefit from good revenue visibility for the next couple of years, thanks to their robust revenue backlogs following strong presales in 2021-2022.
- Operators will benefit from rising footfall and a growing number of international visitors, but face the risk of reduced spending due to economic headwinds. Rents will remain under pressure due to new supply.

Dubai's macroeconomic drivers



CPI--Consumer Price Index. f--Forecast. Source: S&P Global Ratings, Dubai Statistics Center.

2023 | Outlooks Are Mostly Stable After Several Upgrades

Business risk profile \ Financial risk profile	Highly leveraged	Aggressive	Significant	Intermediate	Modest	Minimal
Excellent						
Strong						
Satisfactory				**Majid Al Futtaim** BBB/Stable/A-2 gcAA/--/gcA-1+		
Fair					**Emaar Properties** BBB-/Stable	**Emaar Malls** BBB-/Stable
Weak			**Damac** BB-/Positive			
Vulnerable						

Rated Dubai-based companies

- UAE dirham (AED) 36 billion in cumulative debt
- 25%-30% of debt is floating rate
- 9x average EBITDA interest coverage

Rating actions in 2022-2023

Damac

- B+/Positive in March 2022
- BB-/Stable in June 2022
- BB-/Positive in February 2023

Emaar Properties

- BBB-/Stable in June 2022

Emaar Malls

- BBB-/Stable in June 2022

2022 Highlights | Growth Across All Real Estate Segments

Residential real estate

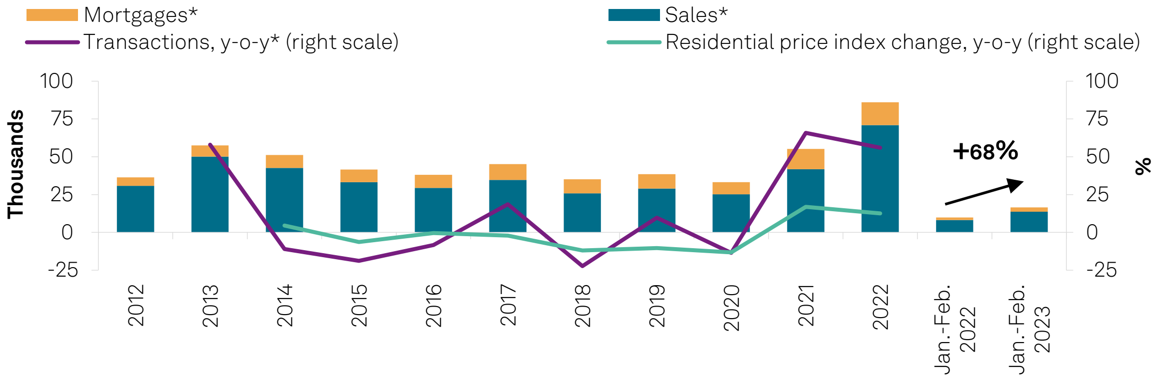
- Close to a 45% increase in the number of transactions (sales, mortgages, and gifts), with a 76.5% increase in value to AED528 billion. Off-plan property sales made up an estimated 45% of transactions (40% in 2021).
- Strong interest from international buyers, who continued to flock to Dubai, thanks to its reputation as a low-tax, investor-friendly jurisdiction and a safe-haven for conflict-exposed regions and for buyers and investors from emerging markets facing currency depreciation.
- Double-digit price increases of 18% on average for villas and 16% for apartments. Rental rates accelerated compared to 2021, up 23% for villas and 19% for apartments.
- A fall in mortgage transactions to about 17% of total transactions (24% average in 2015-2021), and to about 34% of the total transaction value (over 50%).

Retail real estate

- A slower rental decline of -1% in 2022, with positive traction for higher-quality assets, supported by higher tenant sales than in 2019 for rated issuers.
- Footfall approaching or exceeding pre-pandemic levels, supported by tourists and visitors to international events.
- New gross leasable area (GLA) of 200,000 square meters (up 4.5%), largely down to the Dubai Hills Mall opening in February 2022, which had reached 91% occupancy by December 2022.

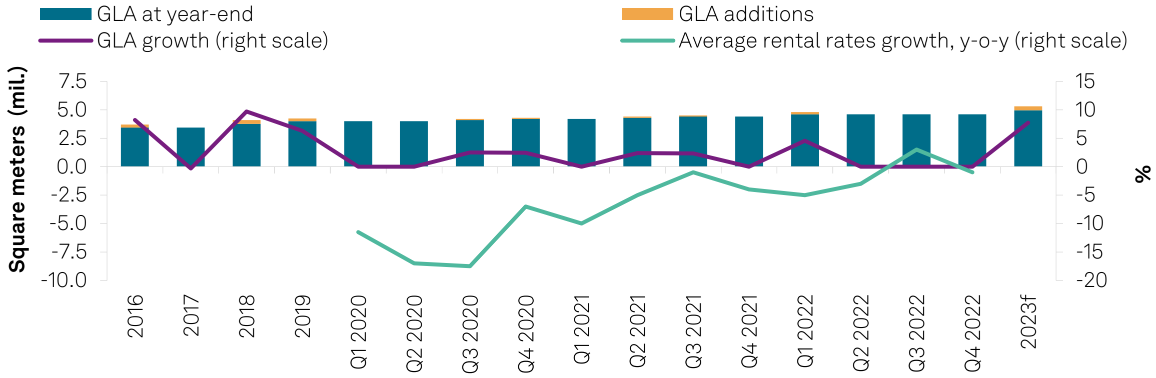
Sources: Dubai Land Department, JLL, Asteco.

Number of sales transactions and prices



*Excluding buildings and land. y-o-y--year on year. Sources: Dubai Land Department, ValuStrat.

Retail GLA and rental rates



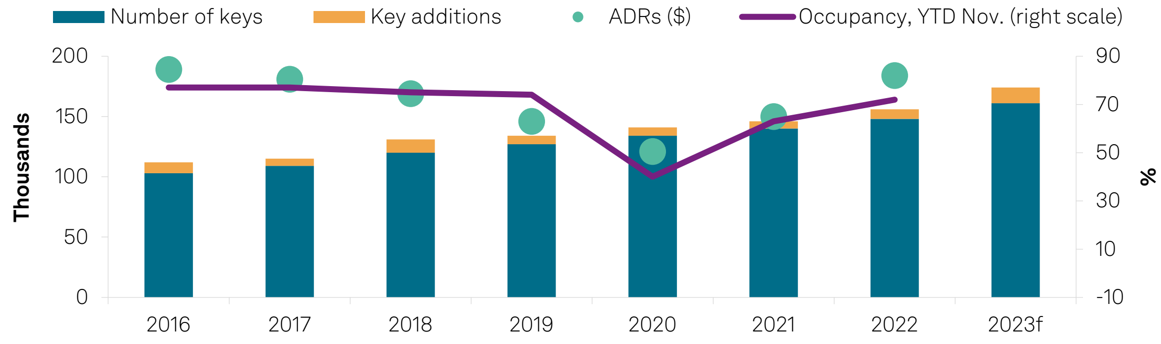
GLA--Gross leasable area. f--Forecast. Source: JLL.

2022 Highlights | Growth Across All Real Estate Segments

Hospitality

- A doubling in international visitors versus 2021, to over 14 million, boosted by the Dubai Expo and the World Cup in Qatar. Most visitors came from the GCC region (21%), Western Europe (21%), and South Asia (17%).
- A strong rebound in average daily rates (ADRs) and improved occupancy to 73% versus 67% in 2021, still below the pre-pandemic level.
- New hotel openings, which increased the number of hotel keys by 6% to 148,000.

Dubai hotel performance



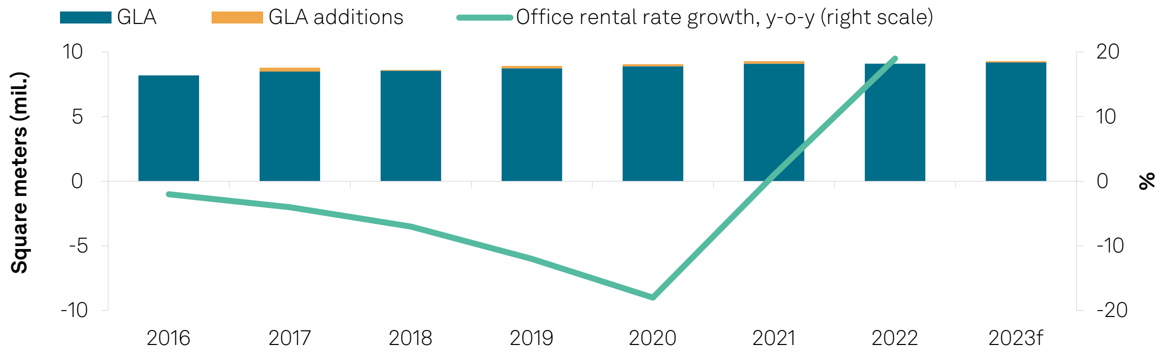
Note: August 2020 data are not available. ADRs--Average daily rates. YTD--Year to date. f--Forecast. Sources: JLL, STR Global (November-end).

Offices

- An increase in rents for the first time since 2016, of 7% on average, or double digits in prime locations.
- An 11% vacancy rate in prime locations, down from 19% in 2021, supported by new business registrations and limited new office space.
- A boost from a 2021 law allowing full foreign ownership of mainland companies, as well as from new visa rules.

Sources: Dubai Land Department, JLL, Asteco, STR Global.

Office performance



f--Forecast. GLA--Gross leasable area. y-o-y--Year on year. Sources: Asteco (Dubai average rental rates), JLL (Grade A CBD GLA).

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2023 Outlook | Dubai's Economic Prospects Will Be Supportive

	Global economic trends remain uncertain in 2023	Dubai will show resilience, but won't escape global economic headwinds due to its open economy
GDP	Global GDP growth of 2.2%, with a shallow recession in the U.S. in first-half 2023. Close to 5% growth in China and no growth in Europe.	About 3% GDP growth in 2023, a slowdown from 2022, in line with other GCC countries. Dubai plans to double GDP in 10 years.
Inflation	High inflation of 5.7% in the eurozone and 4.3% in the U.S.	Average inflation of about 3% in 2023, hence less pressure on consumer spending.
Population	Global population growth of just below 1%.	Population growth of 3%-4%, supported by government initiatives and Dubai's attractiveness as a place to live and do business, despite the introduction of corporate tax in June 2023.
Interest rates	A hike in the U.S. policy rate to above 5% in first-half 2023, remaining there in 2024.	The UAE Central Bank's practice of matching rate hikes in the U.S.
Geopolitical risks	Uncertainty around the consequences of geopolitical tensions, including for energy and raw material prices.	A boost to consumer sentiment, spending, and real estate transactions from high oil prices.
Currency	Depreciation of emerging market currencies versus the U.S. dollar.	The dirham's peg to the U.S. dollar, which provides currency stability and an attractive hedging option for buyers and investors from emerging markets.
Tourism	An ongoing recovery in tourism, with pent-up demand from China.	A rising number of international visitors (14.4 million in 2022, still 14% below pre-pandemic levels). Dubai's hosting of international events will sustain its prominence.

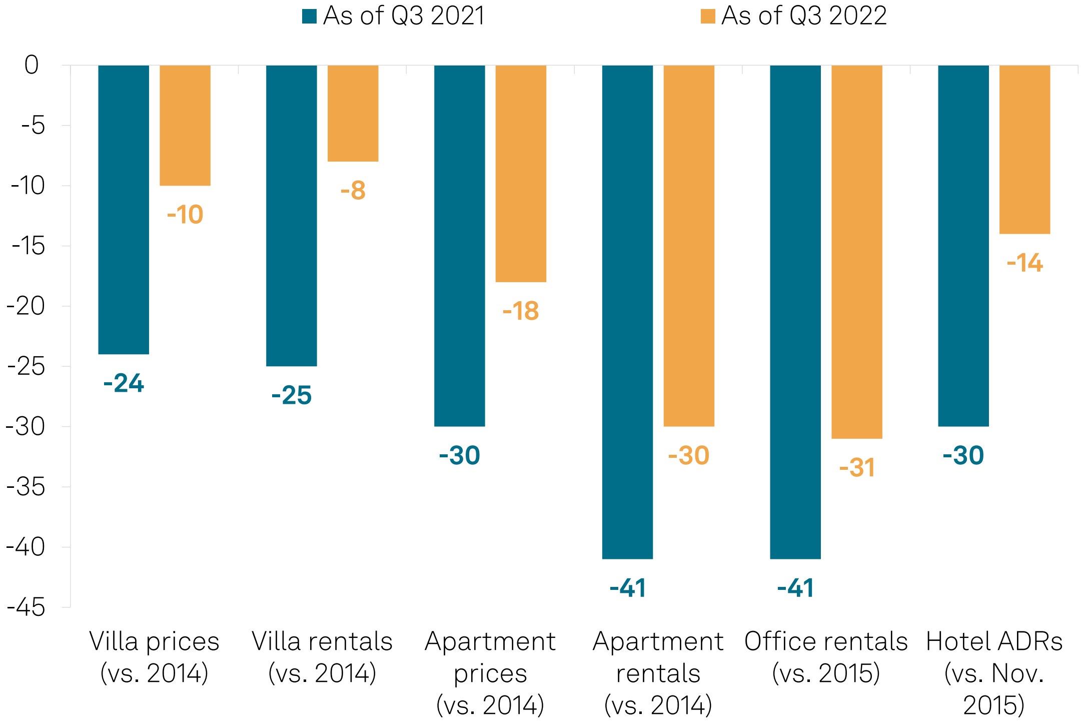
2023 Outlook | Overall Resilience But Risks Abound

Residential real estate will continue to see relatively healthy demand and price stabilization as new deliveries should remain high, at about 40,000 units. Developers' revenue growth will mainly come from new and recent sales. We don't expect significant changes in mortgage transactions, as interest rates will remain high, but the market is largely cash-based and hence has limited sensitivity to interest rates. Dubai remains attractive compared to other major international hubs, as residential prices are still below peak levels, although they are catching up. Despite the positive overall trend, we think that Dubai's real estate sector remains volatile and driven by sentiment.

Retail real estate will see rents remain under pressure due to GLA additions and inflationary pressures that could weaken discretionary spending, affecting tenants' sales. Footfall will improve thanks to tourism and population growth. Competition from online retail will mount, but Dubai's extreme heat will maintain the need for indoor commerce as a lifestyle option. Mall operators will enhance their omni-channel presence and offer more entertainment.

Sales prices and rents remain below their peaks, albeit with less of a gap

Comparison with previous peak (%)



ADRs--Average daily rates. Sources: Asteco, JLL.

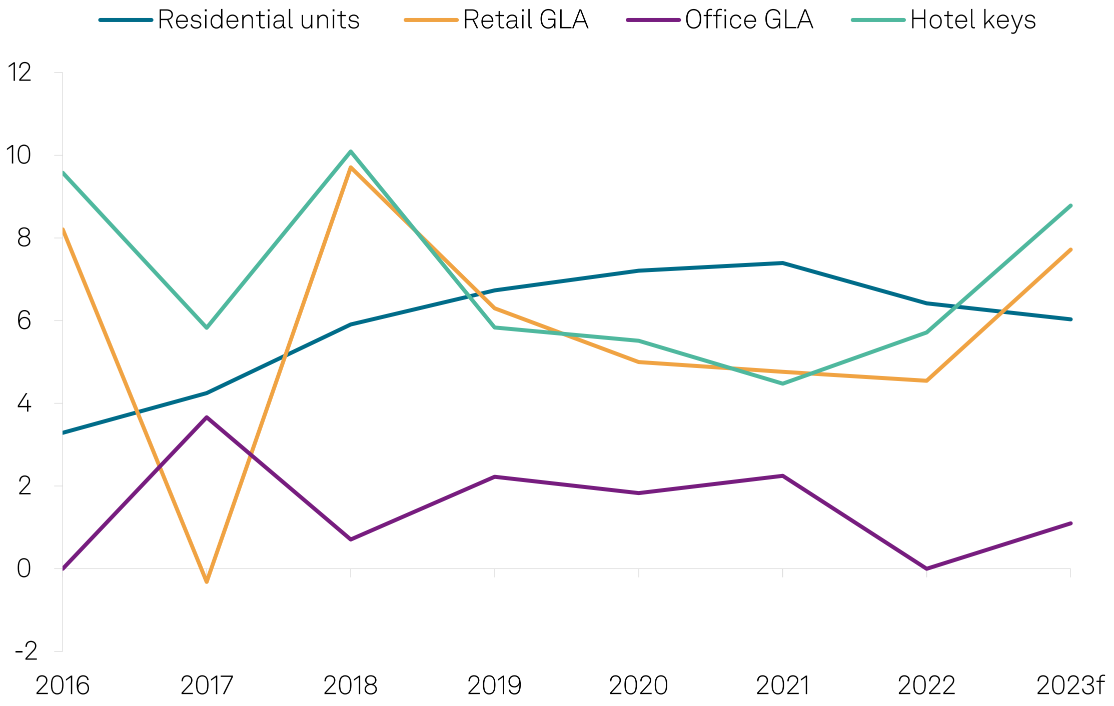
2023 Outlook | Overall Resilience But Risks Abound

Hospitality will find ongoing support from the recovery in tourism, but new additions will sustain oversupply and limit expansion of ADRs. Rising competition from other GCC countries, mainly Saudi Arabia and Qatar, will not affect Dubai as a well-established hub in the short term. Dubai remains one of the most well-connected cities globally.

Offices will benefit from the new business flowing into Dubai, further reducing vacancy rates, as planned GLA additions for 2023 are limited. Prime locations will see more rent increases. We do not expect remote or hybrid work patterns or coworking spaces to disrupt the market, as demand is healthy, but downsizing risk persists.

Consistent capacity additions in previous years will limit the improvement

Growth in new capacity additions (%)



GLA--Gross leasable area. f--Forecast. Source: JLL.

2023 Outlook | Developers And Operators' Risk Exposure Differs

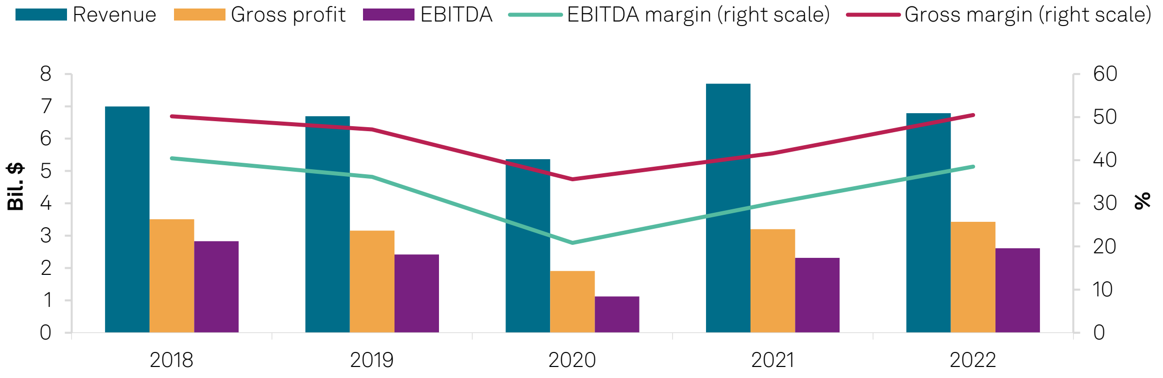
	Developers	Operators
Inflation risks	High exposure to raw material costs. This is a relatively low risk for in-progress projects since construction is outsourced on fixed terms. For new projects, cost pass-through depends on supply and demand, which was favorable in 2021-2022, as double-digit sales price increases more than offset cost inflation. We don't expect margin pressure in 2023.	Limited risks and high profitability, allowing operators to absorb higher cost increases. Turnover indexation clauses in leases allow for partial cost pass-through. Cost efficiency will remain important.
Recession risks	High cyclicality. However, GDP and projected population growth in Dubai are supportive. Healthy order books following strong presales in 2021-2022 have improved revenue visibility.	Lower sensitivity to cyclical troughs. In addition, the average lease life of three-to-four years in prime malls offers some revenue visibility. Offices have a longer average lease.
Competition	Competition from existing developers and new players, such as Aldar Properties. Many new projects in 2021-2023 will fuel oversupply in the next cyclical trough.	Pressure on mall operators' rental rates and profitability from GLA additions.
Land availability	Limited availability of prime land, with most in the hands of government-related developers. Distressed developers or those with large land banks can therefore monetize land at attractive values if needed.	Mall operators' focus on increasing their online presence.
Interest rate hikes	Limited mortgage transactions. We therefore expect higher interest rates to have a limited effect on demand. Rated issuers have low refinancing needs in 2023 and manageable exposure to floating-rate debt.	The potential for rising interest rates to dent consumers' purchasing power. Stable and high-margin mall leasing allows for better absorption of funding costs.
Changing consumer behavior	A growing preference for larger spaces and villas. Villas command a higher value per unit but require more land. As residential rents continue to rise, the decision to rent or buy becomes more salient.	Double-digit growth in online retail. However, bricks and mortar commerce remains essential due to the hot climate. Remote working is more likely to lead to a hybrid office/homeworking pattern than disrupt the market.

2023 Outlook | Profitability Is Improving Despite Rising Costs

Developers benefit from outsourcing construction on fixed terms, with contractors bearing the raw material risk. Hence, short-term risk on construction projects is low, although in the medium term, contractors may try to renegotiate terms. We estimate that price increases for new projects in Dubai by far outpace construction cost inflation, as evident from improved gross margins. We expect margins to remain strong in 2023, as raw material pressures have subsided, and the price environment is supportive.

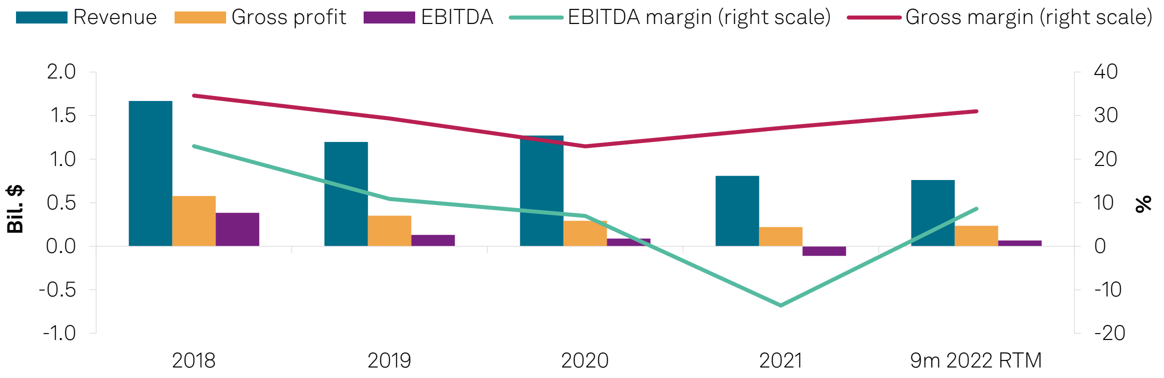
Real estate mall operators enjoy high margins that can accommodate moderate cost rises. Most costs relate to staff and services (maintenance, security, and facility management), while energy costs remain insignificant. In 2022, some prime mall operators were able to increase rents on lease renewal, partly offsetting inflationary pressures. The strong rebound in tenant sales and footfall has improved landlords' ability to increase rents based on turnover.

Emaar Properties' profitability



Note: All metrics are on an S&P Global Ratings-adjusted basis, except 2022. Source: Company report.

Damac's profitability



Note: All metrics are on an S&P Global Ratings-adjusted basis. Source: Company report.

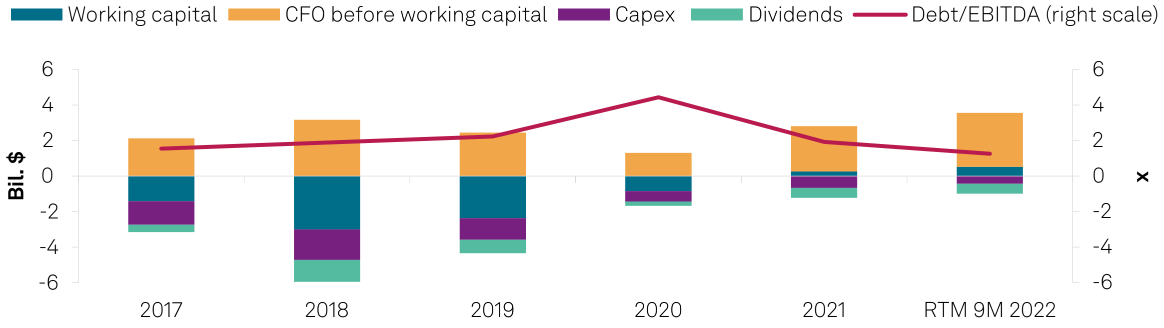
2023 Outlook | Cash Flow Will Be Positive For The Fourth Year Running

Developers' cash flow generation will continue to benefit from healthy presales and favorable payment terms, with residual cash collections of about 20%-30% of the total on handover, rather than the post-handover payment plans prevalent a few years ago.

Given the high number of new property launches in 2021-2022, which we expect to continue in 2023, and assuming a three- to five-year lead time, working capital requirements will remain high. However, scheduled handover payments will support cash flow from 2024.

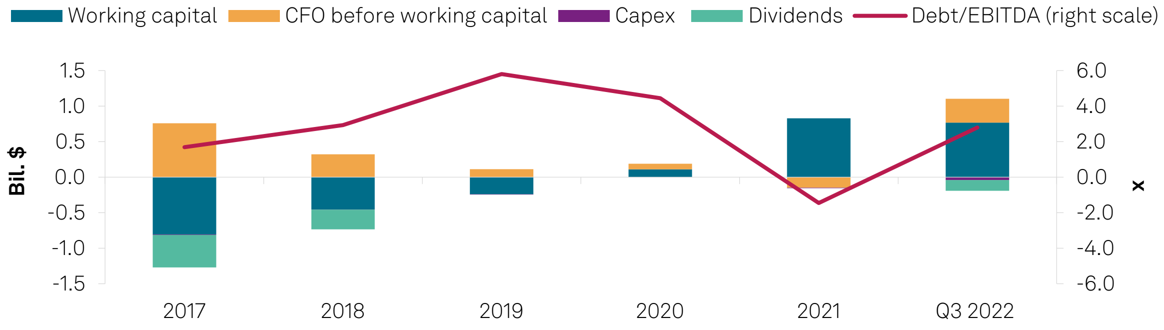
We expect continued deleveraging and improving rating headroom for Dubai-based real estate companies in 2023. We also expect ample liquidity and limited funding needs. Plentiful cash flow leaves headroom for higher capital expenditure, dividends, or acquisitions.

Emaar Properties' cash flow utilization



Note: All metrics are on an S&P Global Ratings-adjusted basis. RTM--Rolling 12 months. CFO--Cash flow from operations. Capex--Capital expenditure. Source: S&P Global Ratings.

Damac's cash flow utilization



Note: All metrics are on an S&P Global Ratings-adjusted basis. Q3 2022 debt to EBITDA calculated using annualized EBITDA. CFO--Cash flow from operations. Capex--Capital expenditure. Source: S&P Global Ratings.

Related Research

- GCC Corporate And Infrastructure Outlook 2023: Resilience Amid Slower Growth, March 7, 2023
- Industry Top Trends: Homebuilders and Developers, Jan. 23, 2023
- Industry Top Trends: Real Estate, Jan. 23, 2023
- Industry Top Trends: Transportation, Jan. 23, 2023

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