Emirates NBD
بنك الإمارات دبي الوطني

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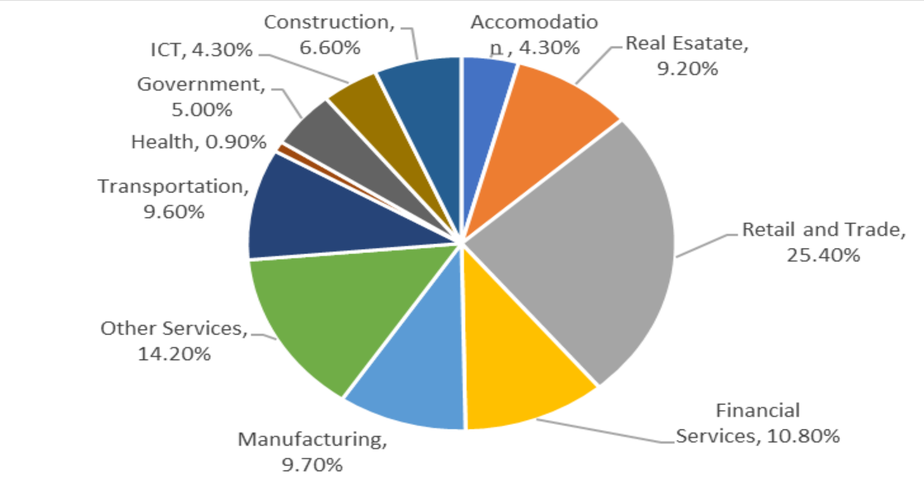
Dubai: Positioning for the future

Dubai's economy is by all good measures the region's most diversified. The emirate's leadership and its policymakers have begun the path that now places Dubai as an important global axis for trade, with construction in the 70's of its key ports; first Rashid Port in 1972 and then Jebel Ali port in 1979, the latter the world's largest man-made harbour, and the biggest port in the Middle East. Building outsized capacity in infrastructure has come to define the emirate's drive to diversify. Dubai Airport along with Emirates Airlines have delivered on successfully connecting the emirate as crucial nexus in global travel, and the growth of both positioned Dubai to leverage on its leisure infrastructure and trade enabled economy. Policy execution, and a government focused on service excellence, offered businesses operating in the region the needed framework to operate efficiently. The business community in the emirate has benefited from both excellent physical infrastructure and supportive government policies.

COVID-19 placed considerable pressure on an economy that was very firmly integrated on the global trade map. Policy makers adopted some of the most stringent restrictions early in the pandemic before focusing on the remedial actions needed to keep the emirate open. This included the early and speedy rollout of Covid-19 vaccinations and strict adherence to public safety regulations. The emirate was among the first global travel destinations to re-open for travellers, and its logistics and transport infrastructure was able to successfully transition to meet the needs of a global economy in flux, with Emirates for example re-fitting its planes to move cargo and vaccines as global travel dropped. These policies have allowed the emirate to weather the pandemic and rebound robustly in 2021. While metrics across most economic parameters are yet to reach pre-pandemic levels, Dubai sits in a good place with its high-quality infrastructure capacity, and proactive policies that keep the economy open for business as the pandemic continues to evolve.

Dubai's economy is well position to successfully transition onto the next phase of its economic cycle. Capacity uptake will be a key measure of that success, and we will see an increasing shift from physical infrastructure build-up to policy measures that hone and deliver on the "soft-infrastructure" needed to support the emirate's long term growth strategies. In this paper we look at some of the highlights we believe, are critical to the long-term economic potential of the emirate. We start by trade, looking at the post pandemic recovery, and how important a role Dubai plays as global trade axis. We also look at pan-UAE manufacturing policies that will drive the path forward for that sector as a critical part of the emirate's economic diversification. E-commerce has become an important backbone of the Dubai's retail sector, and fintech solutions are playing a critical part in empowering that. Sustainability is now central to every enterprise operating in the emirate given the UAE net zero 2050 goals. Finally, the property market recovered strongly in 2021, and tourism is on a recovery path facing the headwinds of the pandemic, for both sectors adaptability is key.

Key contributors to Dubai GDP (Jan - Sep 2021)



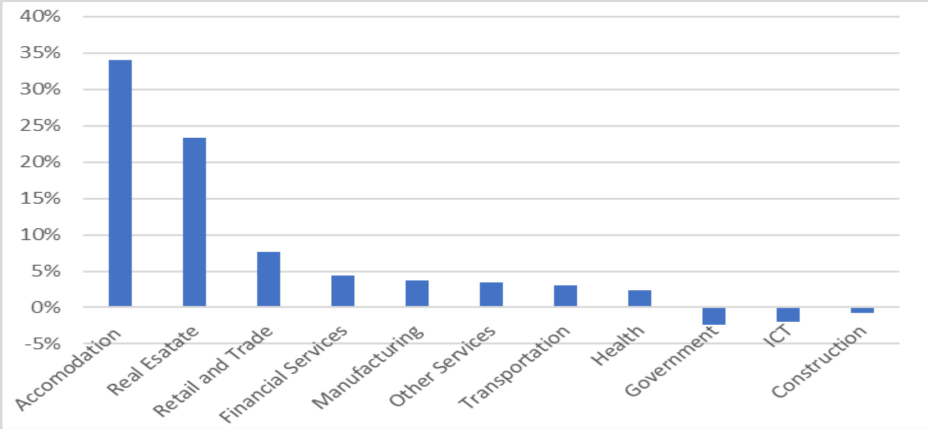
Source: Dubai Statistics Centre, Emirates NBD Research

GDP dynamics rebound strongly post pandemic

The most recently released GDP figures reflect that Dubai's growth dynamics are starting to recover post the challenges of the onset of the pandemic in 2020. Preliminary data released by Dubai Statistics Centre showed Dubai's economy grew 6.3% y/y in the first nine months of 2021, underpinned by a strong rebound in hospitality, trade and real estate sectors. While growth is likely to slow somewhat in 2022, Dubai's economy will continue to recover from the pandemic-related contraction in 2020.

The data also showed real GDP increased 17.8% y/y in Q2 off the low 2020 base, before moderating to 6.3% y/y in Q3 21. Real GDP contracted -10.9% over the course of 2020, so while the economy has made good progress with the recovery, it was not back to pre-pandemic levels of real output by the end of Q3 2021.

Key sectors growth rate (Jan-Sept 2021)



Source: Dubai Statistics Centre, Emirates NBD Research

Real value added by hotels & restaurants more than doubled in Q2 2021, after contracting by -60% the previous year due to peak Covid-related lockdown measures in Q2 2020. Over Jan-Sep 2021, the sector grew 34% y/y, as travel and capacity restrictions in the sector were eased.

Real estate services also saw strong growth of 23.3% y/y in the year to September 2021, more than making up for the contraction in the sector in 2020. Strong demand for residential real estate saw the number of transactions grow 75% y/y over the period. Low interest rates, demand for larger units and increased foreign demand for homes in Dubai supported the recovery in the real estate market last year.

The wholesale & retail trade sector also benefitted from the normalization of economic activity and the recovery in consumer demand last year. The trade sector's value added grew 7.6% y/y in the year to September 2021 but has not fully made up the ground lost in 2020 due to the impact of the pandemic.

Transport & storage, manufacturing, financial services and the arts & entertainments sectors all posted positive GDP growth last year, as did professional and administrative services.

Several sectors contracted in the first nine months of 2021 relative to the same period in 2020. Oil and gas GDP declined more than -8% y/y, information & communication contracted -1.9% y/y and the government services sector declined -2.4%. Construction GDP contracted -0.7% y/y in that period after declining -2.6% y/y for the full year 2020

We had pencilled in growth of 4.0% for Dubai in 2021 but the data through September, and expected growth in Q4 2021, suggest that there is significant upside risk to this forecast. We now estimate Dubai's economy grew around 5.5% for the full year 2021. With headwinds to growth in 2022 including slower global growth, higher interest rates and a stronger USD, we expect growth to slow in 2022 to 4.0%-4.5%.

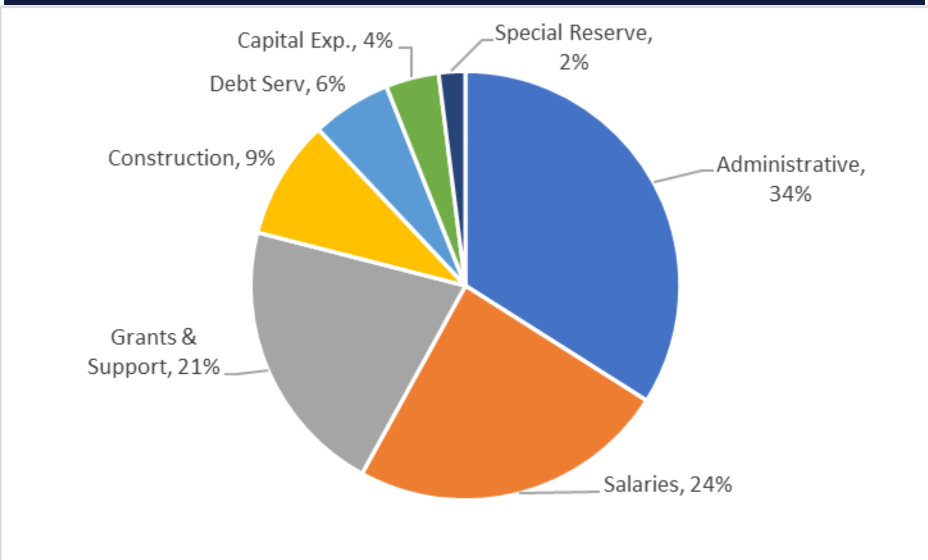
We expect inflation in Dubai to accelerate in 2022, after several years of declining prices driven by falling rents (housing forms the largest component of the CPI index). CPI averaged -2.1% in 2021, an improvement on the -3.0% average CPI recorded in 2019 and 2020. The index turned positive in November 2021 and ended last year at 1.1% y/y as higher food and energy prices offset lower housing costs.

The official CPI readings showed housing and utilities costs trended downwards by both m/m and y/y measures almost every single month of last year. We believe this is largely due to a lag in the capture of housing data into the official housing component of the CPI. We expect that data to start feeding into CPI over the course of this year, pushing inflation in the emirate to over 2% in 2022.

Budget Spending to pick up

In January the government of Dubai approved a general budget for the fiscal cycle of 2022-2024, with a total expenditure set at AED 181bn, implying spending of AED 60.3bn in 2022. Salary and wage allowances of the 2022 budget account for 34% of total government spending, grants and social support expenditure accounts for 21% of all expenditure.

Dubai Fiscal Expenditures (2022)



Source: Dubai Dept of Finance, Emirates NBD Research

The government has allocated an amount of AED 5.2bn for construction projects, despite the completion of Expo-related projects, the government has also allocated 9% of the total expenditure to maintain the volume of investments in infrastructure. Around 2% of the total expenditure is allocated to the private reserve to support emergency preparedness programs, while public debt accounts for 6% of the total expenditure.

The 2022 budget expects revenues of AED 57.55bn, a 10% y/y increased the previous budget for the fiscal year 2021. Oil revenues account for 6% of the total projected revenues for the fiscal year 2022, given Dubai's diversified economy. Non-tax revenues, which come from fees, account for 57% of total expected revenues, while tax revenues account for 31%, and government investment revenues represent 6% of total expected revenues. As part of its economic stimulus measures, Dubai has reduced some government fees for businesses and put a freeze on fee increases until 2023.

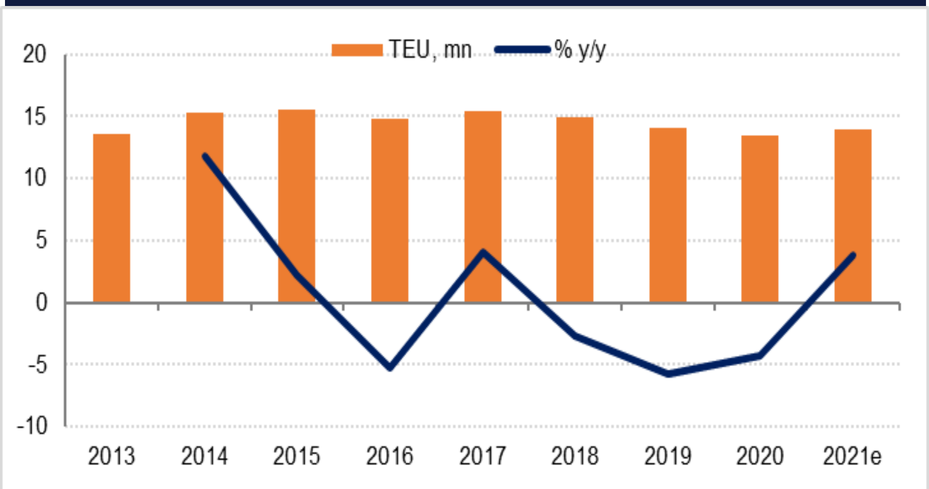
The budget deficit is expected to narrow to AED 2.7bn in 2022 from a planned AED 4.8bn deficit in 2021.

The UAE has announced a new corporate tax which will come into effect from July 2023. The 9% tax will apply to annual audited company profits over AED 375k for financial years starting 1 July 2023; companies will therefore make payments – if they generate profits over AED 375kfrom - mid-2024 onwards. It is expected that the bulk of corporate tax receipts will be disbursed to the emirates as is the case with VAT. Dubai has already indicated that it will review existing fees and charges on businesses with a view to reducing them by the time the new corporate tax becomes effective.

Trade infrastructure in Dubai, an "Enabler"

The geographic axis of Dubai in addition to its prowess as regional trade and logistics hub have made it among the most strategic trade corridors the Middle East and North Africa region. Its seaports are the most developed in the region with Dubai's Jebel Ali port the 11th busiest in the world, and the largest container port between Singapore and Rotterdam with an annual TEU throughput of around 15mn, an annual capacity of 19mn TEU, and a draught of 16m at some berths. The port handles almost 60% of the cargo that is destined for the Gulf Cooperation Council.

Jebel Ali throughput



Source: Emirates NBD Research

Dubai's investment in trade-enabling infrastructure like its seaports and airports, allows it to be a crucial East-West transshipment point, very much like other trade-enabled economies like Singapore and Hong Kong in their respective regions. Furthermore, Dubai's diversified portfolio of free trade zones covers a wide range of sectors from light and heavy industries, technology, and financial services. This ensured the build-up of a critical mass of businesses across a wide range of sectors, and this in turn drives the attractiveness of Dubai as a regional business hub for many multinationals and has been a key reason why many global corporates see Dubai as a natural base for operations into the immediate region and into Africa (through strong maritime and air links).

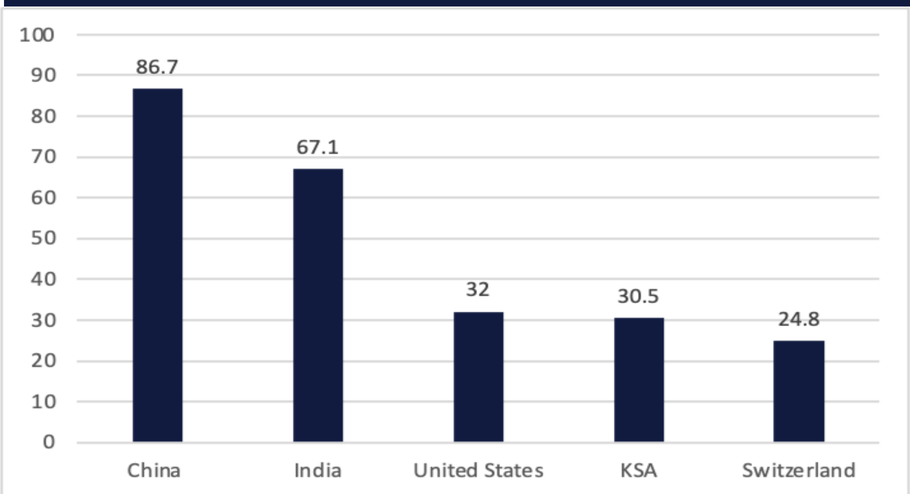
Dubai's Dubai's non-oil external trade surged 31% in H1 2021 to reach AED 722.3bn from AED 550.6bn in H1 2020, as the economy's trade enabled infrastructure positioned it to realize gains from the rebound in global and regional trade. Exports grew 45% y/y in H1 2021 to AED109.8bn from AED 75.8bn, which supports the goal of the 10 x 10 programme (one of the UAE's 'Projects of the 50' initiatives) to increase the UAE's exports to 10 global markets by 10% annually. Imports rose by 29.3% y/y to AED 414bn from AED 320bn. Re-exports grew 28.3% y/y to AED198.6bn from AED154.79bn.

China maintained its position as Dubai's biggest trading partner in H1 2021 with AED86.7 bn worth of trade compared to AED 66.3 billion in H1 2020, up 30.7% y/y. Trade with India grew 74.5% y/y to AED 67.1bn from AED 38.bn. Trade with the United States reached AED 32bn up 1% y/y from AED31.7bn. Saudi Arabia came fourth with AED 30.5bn up 26% y/y from AED 24.1bn, followed by Switzerland with AED 24.8bn up 2.3% y/y from AED 24.2bn. The total share of the five biggest trade partners in H1 2020 amounted to AED 241.21bn compared to AED 185.06bn in H1 2020, up 30.34% y/y.

Direct trade in H1 2021 totalled AED 445.6bn, up 39.5% y/y, while trade through free zones reached AED 272bn, up 19.8% y/y. Customs warehouse trade weighed in at AED 4.5bn, up 8.1% y/y. Airborne trade accounted for AED 364.8bn, jumping 46.15% y/y from AED 249.6bn in H1 2020. Sea trade reached AED 247.5bn, up 16.7% y/y compared to AED 212.18bn, while land trade touched AED110bn, up 23.7% y/y compared to AED88.8 billion

In one important measure, looking at Dubai's close links to China, it is estimated that 4,000 Chinese companies are registered in emirate alone, and almost 200,000 Chinese residents reside in the UAE, the largest Chinese diaspora in the Middle East. Dubai's Dragon Mart is the largest Chinese wholesale market outside of China and attracts traders and businesses seeking Chinese goods both from the Middle East, Africa and Southeast Asia. In fact, the UAE, and especially Dubai plays an important role in China's Belt & Road initiative, given its position as the leading regional logistics hub, through maritime, air and land logistics capabilities. The emirate's trade-ready infrastructure is crucial to enabling Chinese goods transiting through the immediate and near region and into Africa.

Dubai Key Trade Partners H1 2021 (AED bn)



Source: Dubai Customs, Emirates NBD Research

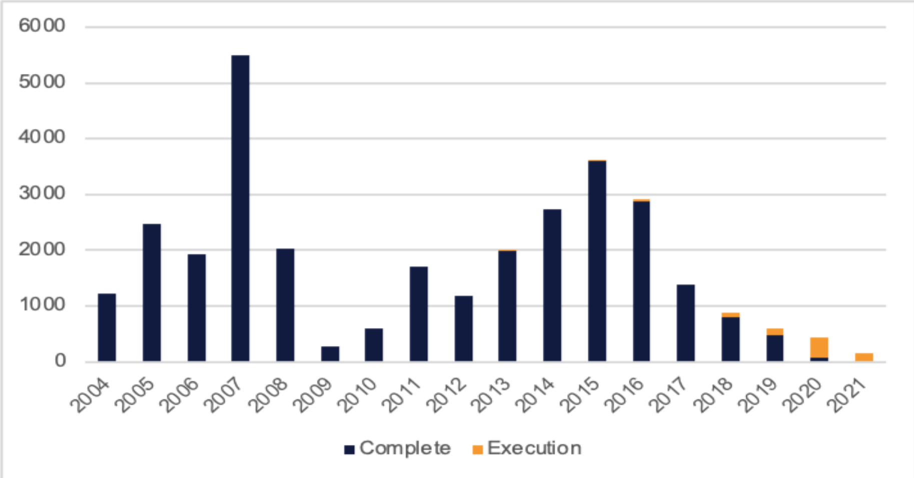
Manufacturing a key component of diversification

Manufacturing plays an increasingly important role in Dubai's economic structure, especially in driving some of the earliest diversification initiatives that policy makers have undertaken. Dubai has built a strong industrial ecosystem in metals and high-value downstream processing sectors through companies like DUCAB and Emirates Global Aluminum (EGA). The emirate sees that developing its manufacturing sector will be an important element in reducing economic vulnerabilities especially to external shocks such energy price volatility, which is a key goal of economic diversification. It also makes the economy more self-reliant and reduces dependence on imports, which is positive for its long-term trade dynamics.

At a wider policy level, the core driver of the UAE and Dubai's long term industrial and manufacturing goals is Operation 300bn which was launched on 22nd of March 2021. The plan is a 10-year comprehensive strategy which aims to empower and expand the industrial sector to become the driving force of a sustainable economy, increasing its contribution to GDP from the current AED 133bn to AED 300bn by 2031. The Ministry of Industry and Advanced Technology will lead the strategy and roll out programmes and initiatives to support 13,500 industrial small and medium enterprises. The strategy is centered primarily on future industries making use of advanced technologies and the Fourth Industrial Revolution (4IR) solutions and applications. The strategy will also focus sustainable development. It aims to add value to local output and increase the competitiveness of UAE exports globally. The plan also aims to offer a competitive package of facilities and incentives with that attracts talents and the human capital needed to achieve those goals.

An important focus will be on what are what are termed industries of the future, including space, biotech, medi-tech and other sectors that are enabled by 4IR technologies. The regulatory framework will be key; this includes updating the existing law to allow for 100% foreign ownership of individual enterprises. Additionally, the plan will focus on SME growth by providing more attractive financing options for those enterprises. Dubai is well positioned to capitalize on those longer term national industrial plans particularly given, its logistics and overall infrastructure readiness.

UAE Projects in the Industrial Sector (USD mn)



Source: MEED Projects, Emirates NBD Research

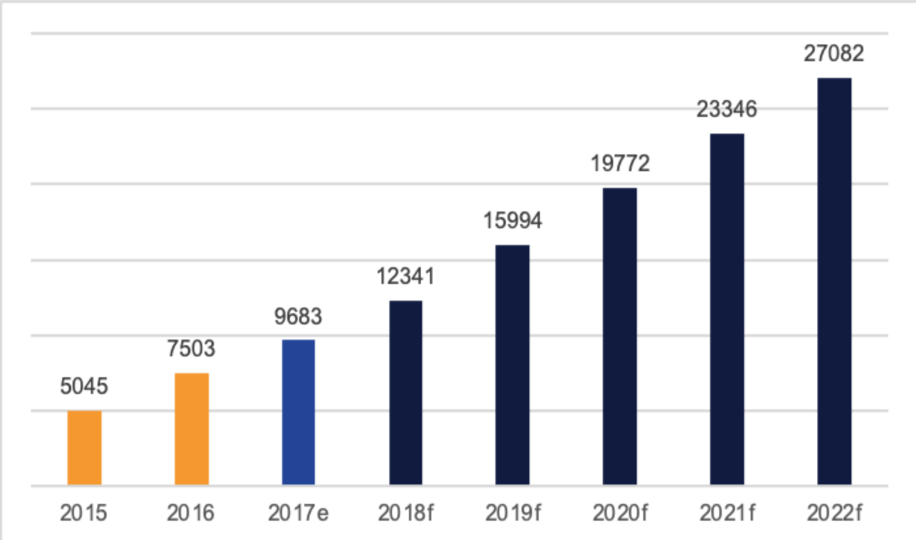
In terms of existing manufacturing footprint, Dubai has several large-scale industrial companies. In aluminum for example, Dubai is a global player through Emirates Global Aluminum (EGA), which is owned equally by Mubadala Investment Company and the Investment Corporation of Dubai. EGA's two smelters make the UAE the fifth-largest aluminum-producing country in the world. In copper, Ducab, a joint venture between the Investment Corporation of Dubai and Senaat, runs five manufacturing facilities for cables, a copper rod mill, and a PVC plant. It has a manufacturing capability of over 115,000 metal tons of high, medium, and low-voltage cables and 110,000 tons of copper rod and wire per annum. In glass manufacturing, Dubai based Glass LLC owned by Dubai Investments and comprising five subsidiaries: Emirates Float Glass, Emirates Glass, Saudi American Glass, Lumiglass Industries, and Emirates Insolaire, and has a market share of almost a third of the GCC coated glass market. These are some examples, with the emirate holding a much deeper basin of manufacturing enterprises across a wide range of sectors.

Building Dubai's e-commerce ecosystem

E-commerce is emerging as a key platform for Dubai's important retail and trade sectors. And there are several drivers that define the success of e-commerce in the UAE and Dubai. First, demographics in the UAE with a younger population and high per capita GDP, is an important driver for product take-up and appetite for digital channels to access shopping. High internet penetration, with close to 99.2% of the population having access to internet, and the role the internet plays in a consumer's path to purchase – from discovery, research, to buying. It is the combination of factors ranging from the available infrastructure, the demographics, and the extremely high internet penetration, that make the UAE the region's leading e-commerce market.

Covid-19 forced onto consumers and businesses habitual and structural changes that were needed to give e-commerce in the UAE the G-force lift to hyper-accelerate growth. Bricks and mortar businesses had to accelerate investment in digital infrastructure and migrate a lot of their customer-facing resources to support their digital marketplaces. While life normalizes as people better adapt to a pandemic in flux, Dubai and the wider UAE is capitalizing on the wider e-commerce eco-system channels that allow them to shop both virtually and in-store from click-and-pickup to same day deliveries. The forging of the online and in-store retail experiences is a key dynamic defining retail in the emirate and has delivered on operational efficiencies that will define the retail landscape going forward.

UAE e-commerce sales USD mn



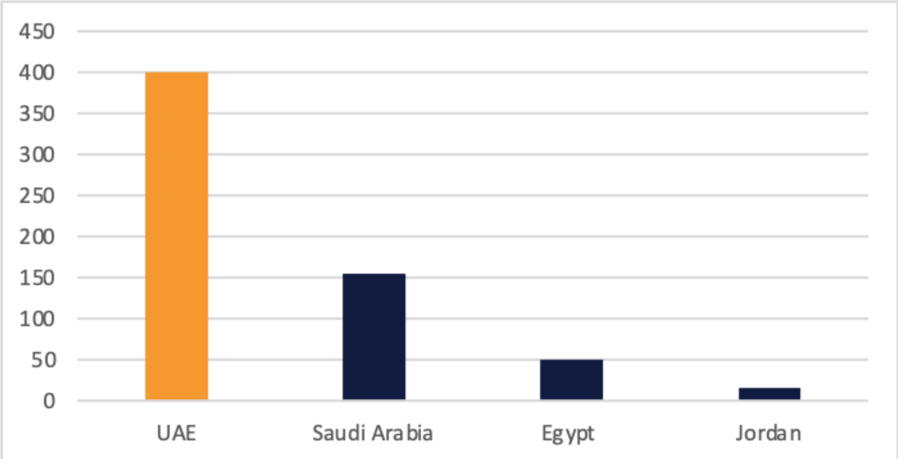
Source: Visa, Fitch Solutions Data, Emirates NBD Research

Logistics in Dubai is a very important enabler of the e-commerce boom, especially that experienced post Covid-19. Given the emirate's outsized position as a regional logistics and transport center it was able to mobilize significant resources across its transport ecosystem to address consumer and business needs, during and right after lockdowns. While delivery companies initially struggled to fulfil orders and delivery costs increased across the board, largely due to earlier restrictions, those issues were quickly ironed out, and almost all retailers now offer very efficient time-sensitive delivery options. Dubai's transport and logistics services now have the capacity and infrastructure to allow retailers the operational efficiencies needed to deliver goods to consumers more profitably. We are seeing the integration of online delivery platforms driving a new paradigm of retail, that sees online channels as an indispensable model for delivering consumers needs.

Fintech – Tech powered financial solutions

Dubai has rapidly established itself as a leading hub for fintech start-ups in the MENA region. Government support has played a differentiating role in the success of the emirate's fintech initiatives. At a national level, the UAE has issued several national level strategies revolving around blockchain technology and artificial intelligence (AI). In 2019, the UAE government began implementing its National Artificial Intelligence Strategy 2031, which seeks to invest in the latest AI technologies and tools to improve government performance and efficiency. Given the synergy of applications of AI to fintech, this is an important catalyst for the sector. The Dubai International Financial Centre (DIFC) has created a policy ecosystem in which fintech start-ups can flourish, through its fintech hives. And regulators including the Central Bank of UAE and the Securities and Commodities Authority (SCA), have adopted polices supporting the sector: in 2019 for example the central bank established a dedicated fintech office to develop national regulations for financial technology firms.

Number of FinTech's in key MENA players (2020 est.)



Source: Arab Monetary Fund, Emirates NBD Research

The UAE is the regional fintech leader and the most globally competitive country in the MENA fintech space, after Israel. In Dubai, the Dubai International Financial Centre (DIFC) is the offshore hub that holds much of the credit (along with Abu Dhabi's ADGM) for the UAE's regional fintech lead, as they both provide ideal ecosystems for fintech companies to succeed. DIFC has created a "FinTech Hive" and dedicated a USD 100mn fund that gives companies access to accelerator programs, in addition to mentorship from leading financial institutions, and insurance partners. The DIFC's Fintech Hive has signed agreements with several key financial services firms including AWS, Careem, Cigna, Emirates NBD, FAB, K&L Gates, MetLife, Microsoft, Standard Chartered, and Visa

In this space, the DIFC has developed a thriving private sector partnership scene in the fintech space that has seen both traditional large local financial institutions and larger banks play important roles as accelerator platforms for fintech startups. Emirates NBD and DIFC FinTech Hive formed a partnership to certify fintech start-ups who have successfully used Emirates NBD's Application Programming Interface Sandbox to create and demonstrate working innovative financial solutions. Other examples include VISA partnering with the DIFC Fintech Hive and Startupbootcamp with whom they provide mentoring and consultation services Many other initiatives continue to be launched through the DIFC's fintech initiatives, creating a critical mass of start-ups that lends weight to the success of Dubai's fintech scene.

Payment solutions for e-commerce is another key area driven by fintech solutions that has gained significant traction. The above-mentioned e-commerce led changes have shifted perceptions of existent model of cash on delivery to give way to remote and online payment solutions, as consumers ditched cash for health and safety reasons during the peak of lockdowns. The migration to non-cash alternatives has accelerated adoption of credit and payment solutions offered by banks. Consumers are now making a higher number of lower value transactions by card, as the data by Visa shows, reflecting the shift to reducing cash dependency. We expect the UAE continue to see growth in fintech payment solutions such as "buy now, pay later" services, digital wallets, and closed-loop payments, especially as both retailers and customers increasingly demand those. Strong uptake by retailers that have made the e-commerce transition, will make e-commerce led retail in the emirate a strong candidate for further solutions, and innovations through fintech empowered finance.

Sustainability – Developing the ESG agenda

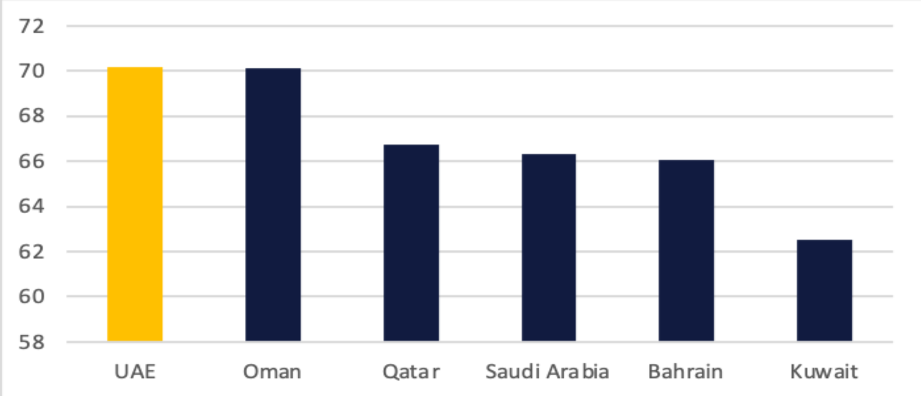
The sustainability agenda of Dubai and the wider UAE will get increasing focus going forward. In October 2021 the UAE announced a plan for net-zero emissions by 2050 and would oversee AED 600bn dirhams in investment in renewable energy, making it the first country in the MENA region to launch a concrete initiative to achieve that climate commitment. The UAE has also been selected to host the COP28 international climate conference in 2023, further adding impetus to the sustainability agenda. Clean energy will be the heart of the UAE strategy to achieve carbon neutrality by 2050. The UAE is already first country in the region to produce zero-carbon nuclear power, introduced carbon capture technology, and plans the first industrial scale, solar-driven green hydrogen facility in the MENA region in Dubai through the Mohammed bin Rashid Al Maktoum Solar Park.

Estimates put global ESG investments at almost USD 53tn and rising, with Bloomberg Intelligence estimating that almost a third of assets undermanagement global are ESG driven. With a regional drive to reduce hydrocarbon dependence and drive economic diversification across non-oil sectors, it's clear to see why regional regulators are pushing corporates towards boosting their ESG credentials, especially as it becomes an increasingly important differentiator in the fight for capital inflows. Federal and emirate regulators in the UAE are responding by not only requiring disclosures but also by driving initiatives that seek to capitalize on opportunities in the ESG space. Last year the Dubai Financial Market (DFM) launched the UAE Index for Environment, Social and Governance (ESG) to encourage listed companies in the UAE to expand embracing ESG best practices.

Corporates in Dubai are starting to adopt somewhat aggressive targets on carbon target emissions. Majid Al Futtaim, a major retail and property conglomerate, aims to achieve a Net Positive business model by 2040, producing more energy and water than it consumes. The Dubai power provider DEWA said measures it undertook over recent years contributed to reducing the net carbon emissions in Dubai by 22% in 2019, two years ahead of the target of the Dubai Carbon Abatement Strategy 2021 to reduce 16% of carbon emissions by 2021. The company is working within the framework of the Dubai Clean Energy Strategy 2050 which aims to provide 75% of Dubai's total power capacity from clean energy sources by 2050 from 9% currently.

Investing in renewables is another important focus for Dubai. The Mohammed bin Rashid Al Maktoum Solar Park is the largest single-site solar park in the world based on the Independent Power Producer (IPP) model. It has a planned production capacity of 5,000 MW by 2030, with investments totalling AED 50 bn. When completed, it will save over 6.5mn tons of carbon emissions annually

Sustainable Development Report 2021 Rankings



Source: Sustainable Development Report, Emirates NBD Research

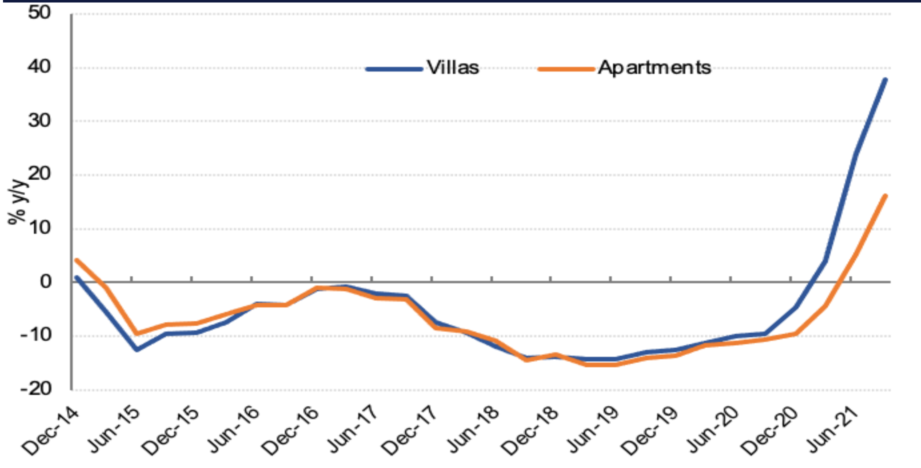
Reporting requirements have also changed. The United Arab Emirates Securities and Commodities Authority (SCA) now requires public joint stock companies listed in the UAE to adhere to specific ESG disclosure requirements. Listed companies must comply with the Global Reporting Initiative (GRI) standards and also any sustainability standards and requirements that are issued by the DFM or ADX, depending on which market the company is listed. In 2020 companies were allowed to publish the report within six months of their fiscal year end; however, thereafter the reports must be published within 90 days of the fiscal year end.

Dubai Property – Strong performance in 2021

The Dubai property market performed well in 2021, with apartment and villa sales prices showing their first yearly increase since 2014. Commercial real estate also showed signs of recovery in H2 2021. The Omicron wave arrived at the tail end of 2021, driving a return to working and schooling from home for some, trends that have driven a migration for larger spaced residential units, through H2 2020 into much of 2021. Are those trends likely to continue driving the market going forward? So far, the data shows that prices and rents for smaller sized residential units is beginning to rise and the pace of price increases for larger units at the end of the year is moderating. This is a sign the market is normalizing with uptake at the low end of the offering spectrum driven by factors such price differentials to those larger units.

Overall, we see the improvement in sales and rents of both residential apartments and villas as a sign of stabilisation after a multiyear decline. The commercial property sector also started reflecting improvement in the H2 2021, and while omicron might dampen some of that recovery, the medium- and long-term outlooks strongly point to a return to office agenda, as businesses more comfortably adapt to the dynamics of the virus. Higher interests may pose some challenges, however we are mindful they are rising from a low base, so expect the impact on mortgage demand to be moderate at least into the 2022 rate hike cycle. An unexpected adverse evolution of the virus, and any related restrictions are headwinds to the market outlook.

Apartment vs Villa Sales (y/y)



Source: Asteco, Emirates NBD Research

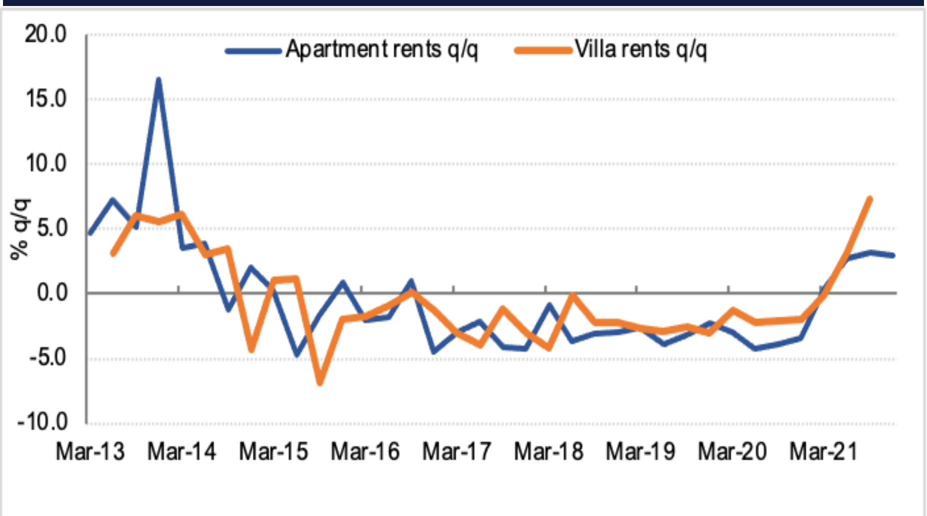
Residential real estate trends

Sales

Residential property market sales prices increased relative to 2020, however slowed on the quarter.

- Apartment prices were up almost 10% y/y and villa prices up 27% y/y in 2021. This was the first such robust performance since property prices began the long-term decline back in 2014, when the decline in oil prices then was a drag on the market.
- The rate of growth in villa prices slowed quarterly, with q/q price growth slowing from a high of 15.9% q/q in Q2 to 6.3% q/q in Q4 (8.9% q/q in Q3).
- The rate of growth in apartment prices also slowed, from a high of 7.9% q/q in Q3 2021 to 4% q/q in Q4 2021

Apartment vs Villa Rents (q/q)



Source: Asteco, Emirates NBD Research

Rents

Residential rents increased in 2021 but at a slower pace than sales prices.

- Villa rents increased by almost 12% y/y in 2021 while apartment rents were broadly unchanged.
- The full year data masks the recovery in apartment rents in H2 2021, with average rents in Q4 up more than 9% on Q4 2020. Within the apartment market, larger units saw faster rental growth in H1 2021 while smaller units outperformed q/q in the final quarter of 2021.
- Studios and single bedrooms for example were up 6.5% q/q and 8.5% q/q respectively in Q4 2021 from contractions -14.3% q/q and -10.0% q/q respectively in Q1 2021
- In the villa market, larger units continue to see faster rent growth than smaller villas, with 5BR villa rents up 5% q/q and 28% y/y in Q4 2021.

Commercial real estate trends

Sales

The commercial property segment faced multiple headwinds at the beginning of the year including a market that is oversupplied, in addition to the new work paradigms induced by the pandemics, that have reduced demand for new and existing office space.

- Office sales prices were almost flat rising just 0.83% y/y and quarterly performance was very mixed, with sales prices declining 8.4% y/y and 3.6% y/y respectively in Q1 and Q2, before recovering 4.0% y/y and 12.3% y/y respectively in Q3 and Q4.
- The recovery in both Q3 and Q4 can be clearly correlated to return to office work as virus numbers dropped to below 100 a day by October.

Rents

Commercial properties saw a broad decline in yearly rents, as Covid-19 precautions in H1 2021 saw businesses adopting work from home policies, that began to reverse after H2, as case numbers dropped and businesses got employees back into offices, prior to Omicron in December.

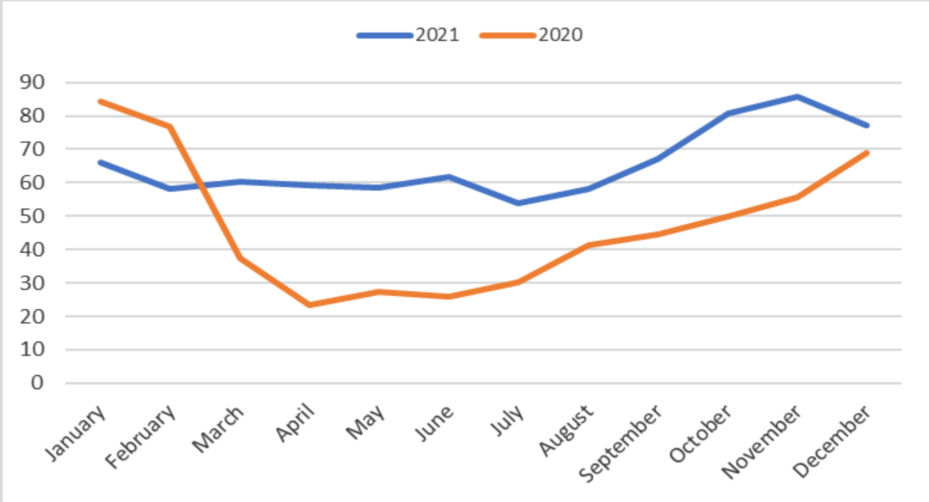
- There was a clear reflection in the pace of y/y quarterly declines that slowed to -0.3% in Q4 2021 from a high of -17.8% in Q1 2021.
- Office rents were down -11.0% y/y in 2021 compared to -15.2% y/y in 2020.
- Measured quarterly, commercial rents began to turn around in H2 2021 from declines of -2.7% q/q, -4.1% q/q in Q1 and Q2 respectively to gains of + 2.9% and +3.8% q/q, respectively in Q3 and Q4 2021.

Dubai Tourism – Recovery in 2021

Dubai’s tourism sector in 2021 has recovered strongly from the challenges of the pandemic year with international visitor numbers in Q4 at around 74% of pre-pandemic levels. This was despite a challenging year which was dominated by an incredibly complex picture of global travel restrictions and lockdowns that fluctuated with multiple waves of Covid-19.

Other metrics reflect a growing resilience. In the hotel sector for example, while December saw a slight drop in occupancy rates, hotels managed to keep prices steady, with RevPAR unchanged vs November, and that after 4 consecutive m/m increases. Expo 2020 continues to be a big draw, and the UAE has managed Covid-19 dynamics extremely well, with 94% of the UAE population vaccinated, and the country topped Bloomberg's Covid Resilience Ranking in January this year. While headwinds from the latest Covid variant continue to cloud for the outlook for the global tourism sector, a focus on the correct set of policies, that reduce risks and keep the doors open for tourists, in addition to leveraging on its high-quality travel infrastructure, will allow Dubai to chart a determined path to toward normalization.

Dubai hotel occupancy rates 2021 vs 2020 (%)



Source: STR Global, Emirates NBD Research

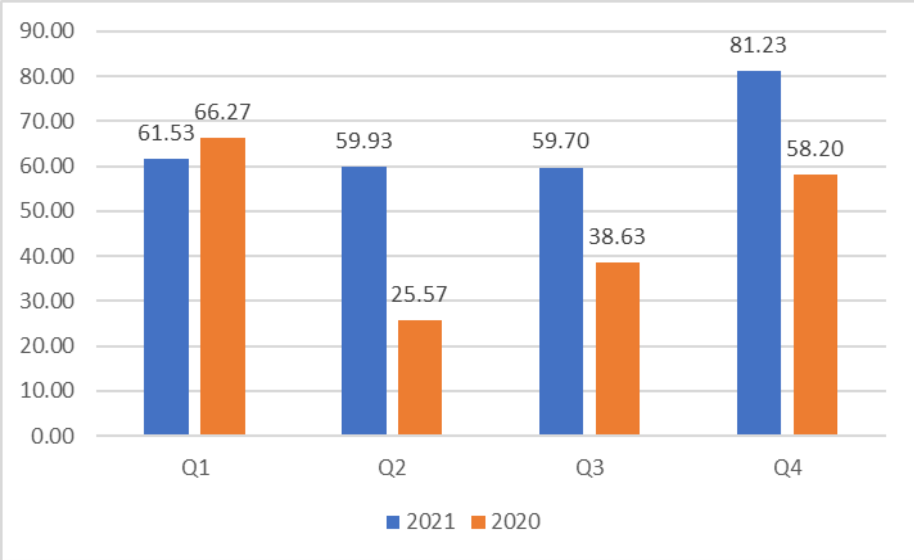
Data published by Dubai's Department of Economy and Tourism (DET) showed Dubai attracted 7.28mn international visitors for 2021, a 32% y/y growth compared to 2020. In Q4 2021, Dubai attracted 3.4mn visitors almost 74% of the total pre-pandemic tourist arrivals. In terms of key source markets India ranked 1st (910,000 visitors, up 5.3% y/y), followed by Saudi Arabia (491,000, +22.8% y/y), Russia (444,000, +50.3%) and the UK (420,000, +7.1% y/y). Tourism arrivals from regional markets (MENA and GCC) contributed to 26% of the total volumes, reinforcing Dubai's continued appeal to travellers from the near region. Western Europe accounted for 22% of total visitors in 2021 led by the UK, followed by France, Germany, Italy and the Netherlands. South Asia contributed 18% of total international visitors with Russia, CIS and Eastern Europe contributing 15%. In December, Dubai International Airport retained its position as the world's busiest for international passengers, overtaking London's Heathrow, with 3.54min seats, about 1mn more than the next busiest airport, Heathrow, according to aviation consultancy OAG. Dubai Expo 2020 reached 11.6mn visitors up to Jan 31 2021, with 30% of visitors from abroad.

Statistics from DET showed that Dubai's hotels performed strongly in Q4 2021 to achieve significant growth across all hospitality metrics compared to 2020. The hotel sector outperformed pre-pandemic levels across all measurements in Q4 2021 with 81.4% occupancy compared to 80.7% during Q4 2019. Average occupancy, overall, reached 67% in 2021 compared to 54% in 2020, which places it among the highest occupancy rates internationally, given the context of pandemic restrictions in 2021. DET data showed Dubai had 755 hotel establishments and 137,950 rooms in 2021, compared to 711 hotels establishments that were open with 126,947 rooms at the end of 2020.

The hotel occupancy measures for 2021 by DET correlate closely to latest December figures released by data provider STR which showed that hotel occupancy for last year stood at 65.9% (against 48.8% in 2020 and 74.4% in 2019). For 2021 as a whole RevPAR stood at AED 391.60 up 74% from 2020, and almost 96% of the AED 406.69 RevPAR for 2019.

Hotel occupancy in Dubai moderated to 77.3% in December from a robust 85.7% in November and 80.7% in October, according to data by STR. Revenue per available room (RevPAR) was flat in December after rising by 17% m/m in November, but is up 74% y/y. The hotel sector benefited in Q4 21 from a combination of factors lead by Expo 2020, improving Covid-19 metrics (pre-Omicron), a pick-up in international tourism footfall, and a busy schedule of events and conferences. However, the onset of the Omicron variant in December and the related restrictions led to some softening, which we expect to be temporary.

Dubai hotel occupancy quarterly 2021 vs 2020 (%)



Source: STR Global, Emirates NBD Research

Final Thoughts

Global trade and economic currents impact Dubai's economy more profoundly than any economy in the region, due to its unique position as key global axis for trade. Thus, expect the global economic growth trajectory to have an impact on the emirate's forward-looking growth projections. We reiterate our point mentioned at the introduction of this paper that Dubai is now transitioning from hard infrastructure build-up towards a stronger focus on policies "soft-infrastructure". That will drive the economy forward by giving the emirate a unique advantage and critical lead in an aspect that Dubai has already established for itself, policy leadership. Legislation and policies that both enable and reduce barriers for business will likely be a big theme for Dubai going forward. This will play key role in Dubai maintaining is position as one of the region's most dynamic economies.

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