Dubai's Recovery Will Be Subdued

- As a global aviation and transportation hub, and a major tourism and retail shopping destination, Dubai’s economy has been hit by the impact of COVID-19.

- We expect GDP growth to recover this year from the sharp recession of 2020 triggered by the pandemic and low oil prices.

- Last year, Dubai saw the sharpest population decline in the Gulf Cooperation Council (GCC): 8.4% versus the region average of 4%.

- Expo 2020 will now take place from Oct. 1, 2021 to March 31, 2022, after a delay due to COVID-19, and should provide a platform for a recovery in activity.

- However, we think the 2020 shock will continue to reverberate through the economy, and GDP (in dollar terms) will return to the 2019 level only in 2023, keeping the pressure on most sectors until then.

Dubai in numbers: 2020 estimates

- GDP per capita: $33,650
- Real GDP down: 10.8%
- Proportion of GDP from nonhydrocarbon sectors: 98%
- Total population: 3.07 mil.
- Proportion of population who are expats: 92.1%
Pandemic Impact | Economic Uncertainty Will Continue

Key sectors in Dubai, particularly real estate, tourism, hospitality, and retail, will likely remain under pressure for the next 12-24 months.

The United Arab Emirates (UAE) is reportedly leading the vaccination effort in the region, with the immunization rate at 55% -60% of the population, the second highest globally. High vaccination rates could help the UAE's tourism sector recover earlier than others.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.
### Dubai Real Estate | Current Situation

**Since the COVID-19 pandemic started in 2020***

<table>
<thead>
<tr>
<th>Category</th>
<th>Changes</th>
</tr>
</thead>
</table>
| Residential | - High availability of housing  
- Expats' exodus after job losses, which led to increased vacancies |
| Retail | - Movement restrictions  
- Low discretionary spending in 2020 that hampered sales |
| Office | - Staff reduction and cost cutting  
- Greater polarization of rent and occupancy |
| Hotels | - Travel restrictions that depressed international tourism  
- Postponement of Expo 2020 to 2021 |

*Dubai real estate trends were already constrained by oversupply of properties before the pandemic.
**Dubai Real Estate Trends | Recovery Phase**

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Key trends 2021-2022</th>
<th>Estimated timeframe to return to pre-pandemic level*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Rental decline, price decline, oversupply</td>
<td>2021</td>
</tr>
<tr>
<td>Retail</td>
<td>Rental decline, sales-linked leases, oversupply</td>
<td>2021</td>
</tr>
<tr>
<td>Office</td>
<td>Rental decline, tenant friendly leases, high vacancy</td>
<td>2021</td>
</tr>
<tr>
<td>Hotels</td>
<td>Low ADRs, low occupancy rate, high competition</td>
<td>2021</td>
</tr>
</tbody>
</table>

*Dubai real estate trends were already highly constrained by oversupply of properties before the pandemic. ADR—Average daily rate.*
The residential real estate recovery would be led by:

- Cutback of new supply, assuming new launches by developers remain minimal
- Low mortgage interest rates that encourage residents to buy property rather than rent
- Declining prices that make investing in Dubai's residential property attractive

We expect:

- Transaction volumes to remain robust because housing units will be cheaper
- Villa prices to be more resilient as people look for larger homes as movement restrictions continue
- Increasing secondary market transaction volumes

Number Of Sales Transactions
Thousands

Numbers excluding Donations. Source: Dubai Land Department.
The retail real estate recovery could be curbed by:
- Weak tourism activity, which we don’t expect will return to prepandemic levels in 2021
- Slow economic rebound and low consumer confidence depressing discretionary spending
- Increased competition as new malls are delivered

We expect:
- Rent relief measures to continue leading to revenue and EBITDA declines
- Turnover rents to become a more common feature in leases
- Exponential growth in online shopping and omni-channel trade
Dubai Office Space Trends | Recovery Phase

Office real estate recovery would be led by:
- Dubai remaining a key business hub in the GCC including through rising demand from fintech companies for office space
- Employees returning to the office faster than in other financial hubs across the globe
- Limited new supply
- Flight to quality led by rental declines

We expect:
- Ongoing polarization of rents and occupancy, with Grade A spaces benefitting relative to the rest of the market
- Continued rationalization of office space as more companies opt for work-from-home for the long term
- Coworking spaces to continue disrupting the market for traditional office space
Dubai Hotel Trends | Recovery Phase

Hotel real estate recovery could be curbed by:
- Continued international travel restrictions
- Limited air traffic recovery due to structurally lower demand
- New supply in 2021-2022 causing a steep increase in competition

We expect:
- Domestic demand to increase but not sufficiently to compensate for loss of international tourism
- Beach front and tourism hotels should fare better than business hotels
- Expo 2020’s rescheduling to 2021 to temporarily ease pressures on average daily rates and occupancy

Source: Department of Tourism & Commerce Marketing.

Dubai Hotel Performance

Source: Department of Tourism & Commerce Marketing.
## Dubai Real Estate | The Outlook Bias Is Negative

<table>
<thead>
<tr>
<th>Company</th>
<th>Rating</th>
<th>Debt to EBITDA (x) 2020e</th>
<th>Debt to EBITDA (x) 2021f</th>
<th>Business profile*</th>
<th>Financial profile*</th>
<th>Business mix</th>
<th>Revenue generated in Dubai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majid Al Futtaim Holding LLC</td>
<td>BBB/Stable/A-2</td>
<td>4.0-4.5</td>
<td>4.0-4.3</td>
<td>3. Satisfactory</td>
<td>3. Intermediate</td>
<td>Retail real estate with substantial retail exposure</td>
<td>60%-65% of property business; 30%-35% of retail business (Carrefour)</td>
</tr>
<tr>
<td>Emaar Properties PJSC</td>
<td>BB+/Negative/--</td>
<td>4.0-4.1</td>
<td>2.0-2.5</td>
<td>4. Fair</td>
<td>4. Significant</td>
<td>Majority developer with substantial real estate exposure</td>
<td>About 70%</td>
</tr>
<tr>
<td>Emaar Malls Group LLC</td>
<td>BB+/Negative/--</td>
<td>2.4-2.5</td>
<td>3.0-3.2</td>
<td>4. Fair</td>
<td>2. Modest</td>
<td>Retail real estate</td>
<td>100% of property business; 21% of retail business (Namshi)</td>
</tr>
<tr>
<td>DAMAC Real Estate Development Ltd.</td>
<td>B/Negative/--</td>
<td>8.0-8.5</td>
<td>4.5-5.5</td>
<td>5. Weak</td>
<td>6. Highly leveraged</td>
<td>Developer</td>
<td>95%-98%</td>
</tr>
</tbody>
</table>

*On a scale of 1-6, 1 being the best. e--Estimate. f--Forecast.
Dubai Real Estate | Operational Challenges Will Continue In 2021

- 2020 results will likely be weak, with only marginal improvements in 2021.

- Normalization of relations with Israel, as well as restoration of ties between Qatar and the four Arab countries previously boycotting the country, should support tourism and real estate investments.

- However, we expect real estate companies' profitability to remain under pressure and leverage to be high.

- Absent a substantial recovery in revenue, companies are likely to focus on cost optimization, proactively managing their liquidity, and preserving their cash flows.

- Some companies are expected to reduce or eliminate dividends to conserve cash, and sell assets to reduce leverage.

- Rated Dubai-based real estate companies have good liquidity and access to funding, despite currently trying times.
## Related Research

- [Expat Exodus Adds To Gulf Region's Economic Diversification Challenges](#), Feb. 15, 2021
- [GCC Corporate And Infrastructure Outlook 2021: Proceeding With Caution](#), Feb. 2, 2021
- [Industry Top Trends 2021 | Homebuilders and Developers: Credit Quality Improvement Continues Into 2021](#), Dec. 10, 2020
- [Industry Top Trends 2021 | Real Estate: Recovery In The REIT Sector Could Be Long And Uneven](#), Dec. 10, 2020
- [Credit FAQ: Dubai’s Already High Debt Burden Set To Worsen Amid A Deep Pandemic-Related Macroeconomic Shock](#), Sept. 30, 2020
- [Twin Shocks Of Low Oil And COVID-19 Mean Double Trouble For GCC Corporates](#), July 21, 2020
- [Three Dubai-Based Real Estate Companies Downgraded On Increased Economic Pressures Stemming From Spread Of COVID-19](#), July 9, 2020
- [COVID-19 Dampens The Prospects Of EMEA Real Estate Developers And Homebuilders](#), April 22, 2020
- [Various Rating Actions Taken On Dubai-Based Real Estate Firms On Economic Pressure And COVID-19 Uncertainty](#), March 26, 2020
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