

Real Estate Investments and Project Financing: Latest Trends and Developments

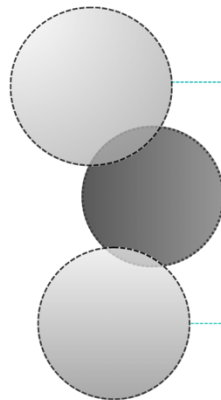
The UAE's real estate sector has always played a game of love and betrayal with the country, being both generous and loyal to its real estate. However, in the year 2023, which the UAE has declared as "the Year of Sustainability" under the banner of "Today for Tomorrow," it seems that the sun has set on any schisms between the two, and the time of their final union is at hand.

Like any good story, several characters have played their roles. There are two major trends in the UAE's real estate market sector, both having a profound impact on the outlook, social, and economic priorities – from individuals to the country at large:

1. The unprecedented, perhaps too good to be true, soaring real estate market in 2023.
2. The elevated responsibility to combat the soaring carbon footprint of this surging real estate sector.

KEY TAKEAWAYS

REAL ESTATE FINANCE AND
DEVELOPMENT TRENDS IN THE
UAE



RECORD-BREAKING MARKET BOOM

2022 comparison through June 2023:

- Dubai property values have risen 44% in the past twelve months
- Abu Dhabi increased substantially to AED 6.1 billion, or by 103%

YEAR OF SUSTAINABILITY

- Tailored journey as per its unique market dynamics.
- USD 160b committed and USD 40billion spent on green infrastructure.
- Over 800 sustainable buildings (new and existing since 2021)

Sustainable Finance Regulations

- banks and private capital remains the main source
- Green bond issuance in the first half of 2023 reaches \$310 billion.
- Green standards imposed at developer level for new and existing building.
- DIFC and ADGM, home to REITs imposing disclosure obligations

The Trends: Record-breaking Rise

It is estimated that Abu Dhabi recorded 10,557 real estate transactions worth Dh46.33 billion in the first half of 2023 due to an upward trend in buyer demand.

According to the Abu Dhabi media office, citing data from the Department of Municipalities and Transport, the value of the deals more than doubled during the six-month period, while the volume of transactions grew by 41% annually.

Residential property sales in Dubai also experienced a significant surge in the first half of 2023, generating approximately \$28 billion (AED 93.18 billion) in revenue. Notably, the number of units sold during this period experienced a remarkable spike of 35.25%, totaling 46,835 units, representing a 46.71% increase over the previous year. Sales values in commercial real estate were also up 30%, indicating robust growth.

Another study by CBRE showed that average residential prices in Dubai grew by 15.9% in the year through May 2023, with average apartment prices increasing by 15.9% and average villa prices by 16.0% over the same period.

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Abu Dhabi's wealth fund ADQ and International Holding Co. are combining their shareholdings in Modon Properties and ADQ's stake in Abu Dhabi National Exhibitions Co. into a single real estate firm called "Q Holding," creating a \$12 billion property giant with a portfolio of real estate developments, venues, land plots, and hospitality assets.

Trends Behind the Boom: Influx of Foreign Funds

A significant influx of Chinese investors has been coming to the UAE in recent years, driving the UAE's real estate market forward.

In early 2023, Chinese travel restrictions were lifted, enabling Chinese investors to access Dubai's property market. This came after China reopened its borders following the COVID-19 pandemic, while China's property crisis prompted investors to seek safe havens for their capital globally.

According to Emaar Properties, Dubai's largest developer, Chinese investments in its projects nearly doubled to account for 7% of total sales in the first half of 2023, up from approximately 3% to 4% in the same period a year earlier.

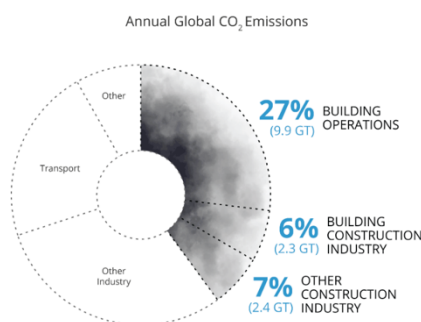
Russian investors also heavily finance the UAE real estate boom. The outbreak of the Russia-Ukraine war and the EU's ban on Russian transactions have led to Russian investment becoming a major source of financing in the UAE real estate market, causing property prices to increase by 47%.

Trends: The Year of Sustainability

While the real estate boom is beneficial for the economy, its timing could have been better. The record-breaking rise in the price and value of real estate transactions, and the Conference of Parties 28 (COP28) fast approaching, in less than 8 weeks, the pressure to accelerate the race speed towards Net Zero has quadrupled, becoming the most significant trend and development of this time.

Real Estate has one of the highest carbon footprints contributing 30% of global annual greenhouse gas (GHG) emissions and consumes around 40% of the world's energy¹.

THE BUILT ENVIRONMENT



The built environment generates 40% of annual global CO₂ emissions.

Of those total emissions, building operations are responsible for 27% annually, while building and infrastructure materials and construction (typically referred to as embodied carbon) are responsible for an additional 13% annually.

¹ 2019 global status report for buildings and construction, International Energy Agency, December 2019.

UAE's Unique Roadmap to Achieving Sustainable Building Goals: Different Economy Different Priorities.

Understanding the UAE's economic dynamics reveals why the country is not following the same roadmap to reach net zero as recommended and judged upon by the rest of the world.

While the UN talks about diversity and inclusion, it fails to recognize the diversity of the UAE's economic culture and customs. The UAE culturally and economically adjusts the manner of conducting its trade relations with the world as per their ways, to make them feel inclusive. However, even the masterminds at the UN or World Bank do not consider the evident (the source of real estate financing, for example) and apparent (the community and customs elements of the economy).

UAE's source of Real Estate Finance

Unlike many other countries, equity from sponsors, investment funds, and other institutional investors are not the main source of real estate project financing in the UAE.

The two key finance sources in the UAE are local banks and owners' equity and capital. Besides the foregoing, the national's six major banks that have a record of funding the most projects are closely connected to the central bank and government executives.

This community style culture is deeply rooted in the economic legal dynamics of the country, and in such cultures, encouraging and respectfully asking banks to make ESG disclosures is no more or less effective than passing mandatory disclosure regulations upon them. There is proof that these banks are undertaking voluntary sustainability disclosures.

How the UAE is Steering Sustainable Real Estate Goals

There are doubts and fingers pointing at the UN level that UAE is all talk of Net Zero but no 'walk'. But the facts on the ground, and the history of the UAE shows a different trend. The UAE's leadership has a 'first principles thinking' style. Look at the root problem, solve it – dispense all associated noise. over UAE's legislative lagging

The question being asked by world leaders is, "Who is going to do the checks and balance? What about the risks of greenwashing?"²

Whether we like it or not, the UAE shows results as the culture believes in accountability not answerability. **It's going green that matters –**

What we have deciphered from the trends is that UAE is following more or less the below roadmap.

Step 1 – enabling to go green with the right infrastructure. Sustainable Finance Regulations, SCGR and Disclosures are a means to an end, not the end goal.

The UAE's priority appears to have been the infrastructure. Get that will enable real estate developers to develop sustainable projects. If the country doesn't have a proper waste management system or solar plants with the capacity to meet its people's energy needs, then any disclosure regulations on investors or green building standards imposed will be simply futile.

² To date, however, there have been no mandatory reporting obligations on banks in the UAE with respect to how they consider their sustainability risks and climate change risks in when lending or investing monies. Nor are there any standards or requirements as to which products can be considered as "green" or "sustainable" – this creates a risk of greenwashing and an uneven playing field. NortonRoseFullBright (2021)

As such, one can understand why the country is not following the same path towards the journey to net zero as the rest. UAE's strategic positioning in the global real estate market and its unique socio-economic dynamics play a significant role. The UAE is making the market ready for green investments in two ways:

1. The country has invested billions in renewable energy and waste management projects, which are the two major contributors to the real estate and construction sector's carbon footprint. No green building can be built without national access to clean energy.
2. The UAE has spent more than \$40 billion on clean energy over the last 15 years.

Some of the solar power plants already completed or shortly due for completion are:

1. Abu Dhabi's upcoming renewable energy projects, including the (5.6 GW) Barakah nuclear energy plant and the (2-GW) Al Dhafra Solar PV project, will produce a total clean power generation capacity of 8.8 GW by 2025.
2. Shams Solar Power Station (the Abu Dhabi Solar Project) and the Mohammed bin Rashid Al Maktoum Solar Park in Dubai, whose production capacity will reach 5,000 megawatts (MW) by 2030.
3. The UAE is also building the world's largest independent solar power plant, the Al Dhafra Solar PV facility, with a capacity of up to 2 gigawatts (GW) of electricity. The plant aims to reduce the emirate's carbon emissions by more than 2.4 million metric tonnes annually, equivalent to removing some 470,000 cars from the road and providing electricity to over 160,000 homes in the UAE.
4. The fourth phase of the Mohammed bin Rashid Al Maktoum Solar Park, managed by the Dubai Electricity and Water Authority (DEWA), has a capacity of 950 MW under the independent power producer system and is the world's largest Concentrated Solar Power Plant (CSP) plant located in one area. The plant combines CSP and photovoltaic solar energy technologies, and its fourth phase will generate 700 MW of CSP energy and 250 MW of energy from photovoltaic solar panels.
5. Emirates Development Bank, the state-owned lender focused on financing the UAE's priority sectors, also launched a Dh100 million (\$27.2 million) solar energy finance program as part of the country's 2050 net-zero targets.

Step 2: controlling the goal not the road.

As such, what we see is that the UAE has indeed defined what constitutes 'green' and 'sustainable.' Both Dubai and Abu Dhabi have implemented building codes and regulations on new projects to promote sustainable and green building practices. Here are the notable regulations and standards:

1. Dubai Green Building Regulations & Specifications (DGBRS): Mandatory since 2014, it applies to all new buildings in Dubai and focuses on sustainability aspects including site selection, energy use, water efficiency, and materials and resources.
2. Safat Green Building Rating System: Introduced in 2016, Al Safat replaces the earlier DGBRS for new constructions. It sets requirements in areas such as energy, water, air quality, and waste, and buildings are rated from platinum (highest) to bronze based on adherence to these criteria.

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3. Estidama: A building sustainability program initiated by the Abu Dhabi Urban Planning Council, with the most known tool being the Pearl Rating System. It sets mandatory requirements and optional credits in various categories.
4. Pearl Building Rating System (PBRS): Specifically for buildings, it sets requirements and credits in various categories and rates buildings from 1 to 5 pearls.
5. UAE Ministry of Climate Change and Environment issued Decree No. (138) of 2023, regulating the use and distribution of Hydrofluorocarbons (HFCs) in the country to control their circulation and prevent emissions.

The onus of meeting green or sustainability criteria is on the government bodies responsible for issuing permissions and permits, not on financiers. Permissions and permits are only granted if a project meets minimum sustainability requirements

As of now, the UAE is proactively retrofitting existing buildings and acquiring globally recognized sustainability certifications for new projects:

1. Dubai has completed retrofitting for over 10,000 buildings, improving air quality and public health.
2. Since January 2021, UAE has retrofitted 43 existing buildings.
3. Abu Dhabi has retrofitted 27 existing hospitals, shopping malls, hotels, warehouses, and offices, obtaining LEED Platinum Certification.
4. 504 buildings have received LEED Certification since 2021, with 77 having platinum ratings and over 200 having Gold ratings.

By imposing regulations on developers rather than financiers, the UAE might be following a more efficient path to ensure sustainability in real estate.

More on the Funding side...

Developers have access to financing earmarked for green/ESG-compliant projects, including:

1. Green Sukook bonds:
 - a. First Abu Dhabi Bank issued the UAE's first dirham-denominated green sukuk, raising Dh1.3 billion (\$353.93 million) in funds.
 - b. Majid Al Futtaim Holding raised \$500 million through a green sukuk.
 - c. Aldar Investment Properties raised \$500 million through its debut green sukuk.
 - d. Masdar raised \$750 million through the sale of 10-year senior unsecured notes for renewable energy projects.
 - e. Abu Dhabi Commercial Bank priced a \$650 million green bond for financing eligible projects meeting environmentally friendly standards.
 - f. Dubai Islamic Bank raised \$1 billion from its second sustainable sukuk.
2. Chimera Investment LLC, part of Abu Dhabi's business empire overseen by Sheikh Tahnoon bin Zayed Al Nahyan, set up a \$50 billion fund focusing on various investments.

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Step 3: Sustainable Finance Framework and Disclosure regulations

With most of the groundwork on infrastructure and mandatory green building policies already in progress, the UAE is now paving the way for private equity, REITs, and asset managers to benefit from funding sustainable projects without starving developers or losing opportunities. Starting with DIFC and ADGM, the country has mandated disclosure requirements specific to financial service firms.

ADGM Sustainable Finance Framework

After giving precedence to the green construction mechanism, concentrating on infrastructure, and implementing initial disclosure policies tailored to real estate development financiers, the UAE has shifted its focus to regulating the secondary entities overseeing real estate financing, including funds, investment firms, and asset managers.

With 102 asset managers, consisting of investment firms and hedge funds, collectively managing 128 funds, establishing a presence in the capital's financial center during the past six months, the Abu Dhabi Global Market (ADGM) emerges as the ideal testing ground for these disclosure and reporting requirements.

The Authority imposes on directors and senior management, the duty to identifying and considering opportunities, as well as any associated risks and threats, afforded by ESG compliant investing. A high level of due diligence should be applied to lending and investments decisions where ESG impacts are material;

ADGM has encouraged stakeholders, including issuers, investors, and the financial industry, to rely on internationally recognized taxonomies for 'sustainable' and 'green' products and instruments until an appropriate taxonomy is adopted in the UAE.

Asset owners will have to maintain clear accounting of proceeds, investment, and returns to enable investors to track sustainability. Information on the use of proceeds should be up to date, recorded, disclosed, and reported. Annual reviews of the post-issuance allocation of proceeds of a green sustainable project will be conducted, along with assessments of the impact on sustainable goals and climate-related risks by rating agencies.

In conclusion, the UAE's real estate sector is undergoing a significant transformation in the context of sustainability.

The government's focus on infrastructure, sustainable building standards, and innovative financing options is setting the stage for a more sustainable future in real estate. By regulating developers and incentivizing green practices, the UAE aims to make a lasting impact on the industry while addressing the challenges of sustainability and carbon reduction.