

THE FUTURE OF REAL ESTATES MARKET IN DUBAI: HOW SUSTAINABLE IS THE BUBBLE?

Ali Parsa

Rotary International Professor of Urban Planning and Business Development
Faculty of Art Design and the Built Environment

ABSTRACT

Dubai's development has been subject of much media attention in terms of image promotion, development of mega projects, glitzy and fantasy real estate projects. Much of the research on Dubai has tended to focus the emergence of a global city built on the back of petro dollars. In terms of real estate however, there has been a severe lack of academic scrutiny. This paper will discuss the development of the real estate market in Dubai and analyses the levels of maturity of the market against a set of criteria for mature markets. Amongst factors considered are institutional framework, property ownership, legal framework, professionalization and transparency of the real estate market.

Introduction

Dubai is located on the Persian Gulf coast in the northern part of the United Arab Emirates. Dubai is one of the emirates that makes up the United Arab Emirates. The growth of Dubai began in the early part of the Nineteenth Century when members of the Bani Yas Tribe led by Sheikh Maktoum Bin Butti left Abu Dhabi and moved north to found an independent Sheikhdom in the area now known as Dubai. When a maritime truce agreement was later signed with the British, the area became known as the Trucial Coast. Dubai quickly came to be regarded as the principal port on the Trucial Coast and established itself as the main center for trade, attracting traders from India, Europe and neighbouring Arab countries. The souks in Dubai became legendary and Dubai was quickly established as a leading center for the trade of gold and pearls. "The British remained in the area in a protective capacity (mainly to protect the merchant vessels from piracy) until 1968.

Following the withdrawal of the British moves began (led by Sheikh Zayed bin Sultan Al

Nahayan of Abu Dhabi and the late Sheikh Rashid bin Saeed Al Maktoum of Dubai) to bring the individual Sheikhdoms (then known as the Trucial States) together into a single federation. This was achieved in 1971 when the Sheikhdoms of Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain and Fujairah came together to form the United Arab Emirates. The Sheikhdom of Ras Al Khaimah joined a year later.

The city of Dubai is home to more than 1.48 million people today and it is one of the world's most rapidly growing cities. Not long ago, Dubai was considered a small fishing and pearl diving village, but its rapid expansion has turned Dubai into a modern metropolis. Dubai's development has more than any city in the MENA region been shaped by forces of regional and global events including trade and conflict. Rulers of Dubai have been particularly aggressive in enticing entrepreneurs and human capital from surrounding countries for more than a century. Dubai's development has been based on the partnership between the rulers and the merchant class (public-private ties)

The institutional approach

The institutional approach has gained importance for analyzing the diversity of economic formations in different localities in recent years. New institutionalism emphasized collective decisions in economic processes as compared to simply focusing on economic explanations. It analyses the existence and importance of political, legal and social institutions, which govern human behavior within the "bounded rationality" of agents' decisions (D'Arcy and Keogh, 1996; Healey, 1999; Hodgson, 1998; North, 1990; Powell and DiMaggio, 1991). To North (1990), institutions are "rules of the game" in a society. Organizations, whether political, economic or social, behave and perform within a framework defined by institutions, which are regarded as both formal and informal rules. Formal rules are laws and regulations while the informal rules are norms, conventions, traditions and customs. Institutions were seen to be the principles found in acknowledged norms, rules of behavior (Healey, 1999; Powell and DiMaggio, 1991). Thus, the institutionalist's viewpoint is that economic, social and political decisions cannot be explained merely as expressed in the decisions of individual actors operating independently. Decisions and actions are "structured" by their interactions with others, their social obligations and networks and their frames of reference (Healey, 1999; Powell and DiMaggio, 1991).

The emphasis is on "embeddness", that is, economic action and outcomes are affected by actors' dyadic relations and by the structure of overall network of relations (Grabher, 1993). The institutional approach emphasized the importance of seeing economic action as social action, of understanding networks which function between markets and hierarchies on a semi-permanent basis, and of tracking the processes of institution-building (Granovetter, 1985). Amin and Thrift (1994) postulated the idea that the performance of local economies in a globalizing world is critically dependent upon their "institutional thickness". This concept is elaborated as a strong institutional presence—"a plethora of institutions of different kinds (including firms; financial institutions; local chambers of commerce; training agencies; trade

associations; local authorities; development agencies; innovation centers; clerical bodies; unions; government agencies providing premises, land and infrastructure; business service organizations; marketing boards) to provide the basis for the growth of particular local practices and collective representations" (Amin and Thrift, 1994, p 14).

In addition to the first factor, they added three further factors identified by Powell and DiMaggio (1991). These are as follows:

1. High levels of interaction amongst the institutions in a local area. Institutions must actively interact with each other—high levels of contact, cooperation, and information exchange, which may lead, in time, to a degree of isomorphism. Contacts and exchanges are often embodied in shared rules, conventions, and knowledge, which serve to constitute the "social atmosphere" of a particular place or locality.
2. Development of well-defined structures of domination and/or patterns of coalition resulting in the collective representation of what are normally sectional and individual interests and serving to socialize costs or to control rogue behavior.
3. Development amongst participants in the set of institutions of a mutual awareness that they are involved in a common enterprise, that is a commonly held industrial agenda which the collection of institutions both depends on and develops.

This "thickness", which both establishes legitimacy and trust will continue to encourage and foster entrepreneurship and consolidate the local embeddedness of industry. Thus, the institutional approach does not only emphasize on the presence of institutions per se but also the process of institutionalization i.e., the institutionalizing processes that both encourage and support

diffused entrepreneurship i.e., a recognized set of conduct, supports, and practices. The "right" institutional mix is also important; it is only through the construction of adaptable institutional mixes that places can hold down the global (Amin and Thrift, 1994, p 260)

Studies on Dubai as a global city

In comparison to other cities, the cities of UAE or the greater Middle East for that matter have been subject to practically zero studies from the global cities perspective until early twenty first century. The only exception to this was a study by Parsa and Keivani (2002) on urban flows and networks between the three main UAE cities and Iran, examining the potential for a growth corridor based on cities around the Straits of Hormuz in the two countries. In addition another recent study by Stanley (2001) considers the role of Middle Eastern and North African cities, including Dubai, as part of the greater globalisation debate. Finally, there is also mentions of Dubai and Abu Dhabi in the 1999 study by Beaverstock et al on a roster of world cities and in a study by Shin and Timberlake (2000) on world cities in Asia in terms of air travel and urban connectivity.

In respect of their urban hierarchy and functions both Parsa and Kievani (2002) and Stanley (2001) identify UAE cities, particularly Dubai, as having significant regional functions which can be used as a basis for enhancing their global positions and empowerment. The former focuses on their potential for HQ and producer services while the latter emphasises Dubai's potential in the creative and cultural industries as well as leisure tourism. In comparison to other regions, however, UAE cities as well as other major cities in the greater Middle East make a very poor showing in terms of their functions in the global economic system. In their study of the ranking of world cities Beaverstock et al (1999) show that only Abu Dhabi and Dubai exhibit some evidence of world city formation in terms of their provision of corporate service functions with a score of 2. This compares to Alpha world cities with a score 10-12, Beta world cities with a score of 7-9 and Gamma world cities with a

score of 4-6. Nevertheless, an important positive outcome from this study and others mentioned is the continuously improving position of UAE cities. As noted by Stanley (2001, p7) the fact that "Dubai was not on the global map in 1992 but by 2000 was linked by 78 airlines directly with 125 other cities and handling 12m passengers/year" is indicative of how temporary any ranking is.

However, recently there has been a number of studies on different aspects of Dubai's development. Pacione (2005) identifies key forces and process underlying the economic, social and physical transformation of Dubai as well as examining major developments in city's urban structure considering future directions for urban growth. By analysing Dubai's strategy of marketing and promotion of iconic projects Bagaeen (2007) argues that the catalyst for much of development has been the emirate's decision to allow non-nationals to purchase freehold property therefore placing the property market on the world stage. Other studies have also focused on the role of Dubai in the regional hierarchy of cities and city networks in the MENA region, city networks and globalisation (Stanley 2005, Sassen 2002, Parsa and Keivani 2002, 2003).

Grant et al (2007) provide a review of the business conduct and modern state in Dubai examining economic conditions, regional conflicts, the investment climate and the regulatory environment. Commenting on the investment climate in Dubai, Grant et al argue that this has been positively influenced by the property boom in Dubai which began in 2002 when sales were opened for foreign investors. Davis (2005) analyses Dubai's real estate and economic boom noting that Dubai after Shanghai is the world's biggest building site: an emerging dream-world of conspicuous consumption and what locals dub "supreme life-styles (Davis 2005 cited in Bagaen 2007). By contrast (Davis 2006) examines the "gigantism" and "fantasy" driven aspects of Dubai's development comparing the city's vision and characteristics with other world cities calling Dubai the "Miami of the Persian Gulf". Furthermore, he attributes much of Dubai's economic boom and FDI largely due to the Islamic Revolution in Iran and flight of wealthy

Iranians who use the city more like Hong Kong than Miami as a base for trade and bi-national life-styles owning as much as 30 per cent of Dubai's current real estate development.

Other studies have also focused on the relationship between the ruling families and the merchant classes and its impact on shaping Dubai's development in the past century. In his "historical institutionalist" analysis of Dubai's development and transformation Hvidt (2007) argues that "a critical juncture took place in early twentieth century when the ruler of Dubai chose to provide economic incentives to the Persian-based merchant class to relocate to Dubai. It instituted an extreme pro-business path on which Dubai has based its subsequent development. Due to the success of including the merchant class from Persia and other successful state interventions in the economy, the belief that the state (in early days the ruler) not only could but also should influence the future development of the emirate through being pro-active became dominant". Hvidt (2007) divides Dubai's transformation into four periods;

The Relocation of Trade (1870sc-1925)

In late 19th century, the city of Langeh in Persia was the dominating harbour in the Persian Gulf region functioning as the major entry point for most goods into the Gulf. Furthermore, Langeh was the undisputed centre for the Gulf pearling trade. At the end of 19th century the Persian government imposed taxes on the Al Qassemi run governorate of Langeh and eventually in 1887 after years of repeated tax rises, the business community looked for more suitable places to do business. Learning about this situation, the ruler of Dubai, Sheikh Maktoum, took the decision to do whatever was necessary to persuade the merchants of Langeh to move to Dubai. By 1901, there were some 500 Persians and 52 Banians (British-Indian subjects) in Dubai. According to Hvidt (2007), the Persian merchants had made significant contribution to Dubai's prosperity, and by deciding to remain they cemented Dubai's commercial pre-eminence. As such, business skills, entrepreneurship, and trading links with Asia and Africa were effectively transferred from Iran to Dubai.

In order to entice the Persian merchants to move to Dubai the Ruler implemented the following;

- Firstly, Dubai was declared a free trade port and all import and export tariffs were abolished
- Secondly, in 1901 the ruler and his trusted men made personal contact with key businessmen in Langeh offering free land and other benefits in return for a commitment to set up in Dubai.
- Thirdly, the ruler offered the business community guarantees of protection and
- Fourthly, he demanded that all who resided in Dubai or used it as a trading post were tolerant of each other, thereby signalling that tribal, ethnic or religious issues would not influence the individual merchants' social standing.

The Pre-oil Era (1926-1968)

This period was characterised by consolidation and expansion of Dubai's entrepreneurial and commercial focus. In the pre-war years due to the introduction of cultured pearls by Japan Dubai suffered economic downturn as the pearling industry collapsed. Dredging of Dubai Creek in the 1950s was made possible with securing £500,000 loan from Emir of Kuwait and issuance of Creek Bonds for dredging of the Creek between 1958-1960. Another important decision was the launch of Dubai International Airport in 1960 to ensure a stable flow of tourism. The commencement of construction of Port Rashid in 1966 also facilitated the expansion of trade and re-exporting to other Gulf countries.

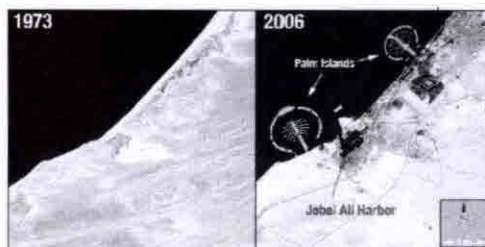
The Oil Era (1969-1980)

Unlike Abu Dhabi, Kuwait, Qatar and Saudi Arabia Dubai did not benefit from oil revenues due to limited and poor quality oil supplies. This was a major factor influencing the direction of Dubai's economic diversification away from reliance on oil towards production, tourism and trade. Inauguration of Port Rashid in 1971 and opening of Dubai Dry Docks in 1976 further cemented this

policy. Commencement of Jebel Ali in 1976 and its completion in 1983 as the largest free port in the world further expanded trade. A new wave of Persian merchants moved to Dubai in 1970s due to the Iranian revolution and conflict. Imposition of gold trade duties by India resulted in relocation of businesses to Dubai. Once again Dubai benefitted from its liberal economic policies by attracting capital and expertise from other countries.

The Globalised Era (1981-present)

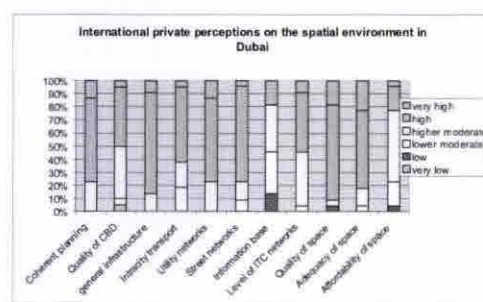
Dubai's aim has been implementation of strategies to take full advantage of globalisation with the key aim to attract private investment from regional and international firms. The Iran-Iraq War in the 1980s facilitated the expansion of trade between with Iran and relocation of capital from Iran to Dubai. The Gulf War in 1991 provided further opportunities for attraction of capital from Iraq and re-export of the 9/11 terrorist attack and relocation of Middle Eastern capital from the US and Europe to Dubai. According to United Nations Conference on Trade and Development (UNCTAD) foreign direct investments reached \$840m in 2004 whilst the Financial Times Business estimates FDI at around \$2 billion per year. Subsequently, there was a sharp rise in FDI from 14% of GDP in 2004 to 50% in 2005. By 2000, the non-oil contributions to Dubai's GDP amounted to 94% indicating that the diversification strategy was well underway. In 2005 Dubai won an fDi magazine award as the Middle Eastern City of the Future due to its investment friendly climate (Hvdt M, 2007).



Southern Dubai in 1973 (left) and in 2006 (right). The famous manmade Palm Islands are easily discernible on the Landsat 7 2006 image. Source: NASA <http://landsat.gsfc.nasa.gov/images/archive/c0009.html>

PLANNING AND INSTITUTIONAL PERSPECTIVES

Dubai has changed dramatically over the last three decades, becoming a major business centre with a more dynamic and diversified economy. The need to meet the future challenges adequately and make Dubai an International business and investment centre, has required a 'Development Vision' and 'Strategic Plan' which covers the Emirates's development and growth impulses. Parsa et al (2003) in their survey of international firms analysed their perception of Dubai's development vision.



The discussion considered the views of the international respondents on policies implemented at the city level for encouraging more coherent urban development. The following figure indicates that international private respondents have a very high view of urban planning in Dubai as reflected in all respondents giving a higher moderate to very high ranking.

Similarly, while Dubai was considered a polycentric city with no single definable CBD some 90% of the respondents have very positive views of the quality of its polycentric CBD with several areas of the city identified as established high quality centres for financial and commercial activities. Furthermore, the respondents had a very high view of Dubai capacities in terms of its spatial development and infrastructural capacities for supporting international business activity in general and their own activities in particular.

To address the rapid urban development, a number of strategic vision plans and development plans were commissioned from early pre-independence to most recent years.

Year	City	Consultant(s)	Population ¹	Main targets
1962 (1969)*	AD	Scot, Wilson, Kirkpatrick & Partners along with Sir William Halcrow & Partners (= Abu Dhabi Consultants)	20.000	• Demolish of old buildings (compensation for residents), creation of new housing areas • Main roads in straight lines (gridiron), use of roundabouts. • Providing all necessary facilities (administrative buildings, industrial & commercial complexes)
1961	D	John Harris	50.000	• Provision of a road system • Zoning of town areas suitable for industry, commerce, schools, public buildings • New residential areas • Sites for schools, open spaces & local centres within new residential quarters • Creation of a town centre
1963 (1969)*	S	Sir Halcrow & Partners	4.000	• Dividing city into Residential-, Industrial- and Business districts • Providing road system (gridiron) • Water, electricity supply, sewage system

Source: Development Plans of the GCC States 1962-1995. ¹estimated data, * adaptation

Source: cited in Samarai 2006

Dubai Municipality was established in 1940s with total staff of three operating out of a single room. However, it was officially launched in 1965. today Dubai Municipality has a staff of 10,171 with 31 organisational units (Samarai and Qudah 2007). The first attempt at modern town planning was in the shape of a zoning plan prepared by the British Consultant John Harris in 1961. Dubai's population at the time was 50,000. The 1961 Master Plan laid out the foundation of the urban road network and the system of municipal services.

Pacione (2005) identifies four major phases of urban development in Dubai

- 1900-1955: A period of slow growth and limited physical expansion due to constrained economic growth and managerial increase in population.
- 1956-1970: A period of compact growth based on a 1960 master plan,
- 1971-1980: a period of planned suburban growth
- 1980-present: a period of rapid urban expansion, in terms of both the scale and diversity of development projects and physical spread of the city

The 1990s Dubai Urban Area Strategic Plan 1993-2012 was commissioned to guide the economic

and physical development of the city into the twenty-first century. The Strategic plan also represented an effort to provide an explicit spatial framework for urban growth to

- encourage co-operation between private sector companies and government agencies in undertaking development of mega projects
- encourage expatriates to reinvest capital and profits in local enterprises
- develop an inter-departmental planning framework capable of implementing the Structure Plan
- devise a regulatory environment capable of operating within a strong market economy and incorporating the needs and interests of a large number of agencies and organisations (Pacione 2005).

In a rapidly urbanising context, as early as the 1950s, Meyerson and Banfield (1955) argued that planning practice was different from the theory of planning. This has particularly proved to be true in rapidly urbanizing societies where future plans need to be continuously modified to cope with development pressure and subtle contextual changes, so that theory always lags behind practice. Confirming as claimed by municipality

officials in April 2005, Raheem et al (2005) stated that in the city of Dubai, the city plan was changing by the day. However, adoption of such an approach might complicate the situation both in losing the sight of strategic issues and misrepresentation of data to serve the interest of the more powerful stakeholders (Ouf, 2007).

The Real Estate Market

The development of the Real Estate Market in Dubai has been based on different scale, different principles, different rules and different benchmarks. However, the analysis of the real estate market in Dubai requires a "reality check" against other more mature markets. Whereas Singapore's real estate market is based on clear cut and transparent rules and market practices, Dubai's market has developed based on "find as you go legal framework". This is best observed by Davis (2006)

"As the plane slowly banks toward the desert mainland, you gasp at the even more improbable vision ahead. Out of a chrome forest of skyscrapers soars a new Tower of Babel. It is an impossible half-mile high: taller than the Empire State building stacked on top of itself. You are still rubbing your eyes with wonderment as the plane lands and you are welcomed into an airport shopping emporium where seductive goods entice: Gucci bags, Cartier watches and one-kilogram bars of solid gold Friends had recommended the Armani Inn in the 170 storey tower, or the 7 star hotel with an atrium so huge that the rooms come with personal butlers; but instead you have opted to fulfil a childhood fantasy. You always have wanted to play Captain Nemo in Twenty Thousand Leagues Under the Sea" (Davis M, 2006).

Major Real Estate Projects in Dubai

Name	Description
Internet City	Provides infrastructure and environment enabling ICT enterprises to operate locally, regionally and internationally Media City Locates studios and offices of major media organizations including CNN and the Reuters News Agency
Festival City	A private sector development comprising fifteen residential communities with a complementary world class environment of entertainment, shopping and leisure facilities
Dubailand	- The world's most ambitious tourism, leisure and entertainment project, designed to catalyze the position of Dubai as an international hub of family tourism covering an area of 3 billion square feet - The DUBAILAND™ venture is estimated at AED 235 billion
Dubai Marina	The world's first intelligent city which will accommodate 35,000 residents in 10 districts of upmarket apartments with advanced IT systems as standard in every house
International City	An 800 hectare mixed use development comprising 21,000 residences for 60,000 people, a 21 hectare central business district, an international exhibition centre and hotels and a range of tourist facilities.
Dubai International Financial Centre	With a 50-story headquarters building and 14 other towers DIFC is intended to become the financial centre for a region encompassing the countries of GCC, the Indian sub-continent, Caspian states, Levant and East Africa.

Name	Description
Burj Dubai	A planned office and hotel complex capturing the distinction to be the world's tallest building
Dubai Mall	Planned to be the largest shopping mall in the world, and is expected to attract 35 million visitors in the first year of operation.
Dubai World Central (DWC)	By the size of 140 km ² , designed to support Dubai's aviation, tourism, commercial and logistic requirements.
Dubai World Central International Airport	Planned to become the largest in the world, eclipsing the current record holder –Atlanta– by 50%, with its current value of US \$33billion

Dubai Real Estate Market must be evaluated against a set of criteria that has been applied to the analysis of other merging and mature markets. Institutional analysis in terms of role of actors and agents provides a suitable framework. Market Maturity Paradigm developed by Keigh and Armitage (1995) can be a useful tool in evaluating the characteristics of the real estate market in Dubai.

Keigh and Armitage (1995) and D'Arcy and Keigh (1996) applied the Market Maturity Paradigm to analysis of Asian and European real estate markets. They identify six major characteristics that indicate a mature market. These include the ability to accommodate a full range of use and investment objectives, flexible market adjustment, a sophisticated property profession, extensive information flows, market openness, standardisation of property rights.

In this context Dubai's policy was dictated by exogenous factors rather than an outcome of a long term vision. This unprecedented move towards land market policy has been introduced during the last 5 years. It targeted real estate as one of the sectors of the economy which attracts

investments in order to enhance accumulation of capitals in the local banks (Ben-Hamouche et al 2006). The following sections will discuss the different conceptual frameworks that are pertinent for the analysis of the real estate market.

Structure of the urban land market

Whilst there have been many studies on land and property development issues in capitalist countries (for example, Adams et al., 1997; Gore and Nicholson, 1985, 1991; Healey, 1991; Healey and Barrett 1990), the amount of similar research on land development in rapidly changing societies is considerably less. The most widely used models of the development process in developed capitalist economies include: the neo-classical models, emphasising that development decisions are made individually within a market framework (Healey, 1991); event sequence models, identifying the various stages of the development process using the 'development pipeline' concept describing the flow of development schemes (Gore and Nicholson, 1985); agency models, focusing on various actors such as land-owners, developers, planners and financiers in the development process, their roles and the interests that guide their strategies and the interrelationships between them (Healey, 1991); structural models, based on theoretical understandings of the structural dynamics of land development with a deep root in Marxist economics and urban political economy (Adams et al., 1997; Healey, 1991); and structure and agency theory developed by Healey and Barrett (1990), suggesting that a thorough understanding of the development process can be achieved only by linking the strategies, interests and actions of various actors with the context of broader social, economic and political processes.

Based on a critical review of previous research, Gore and Nicholson (1991) conclude that it is futile to search for a 'generally applicable model' of the development process. Among the four categories of approaches reviewed are sequential or descriptive approaches, behavioural or decision-making approaches, production-based approaches and structures-of-provision

approaches, which accordingly correspond to four of the models stated above, i.e. event sequence models, agency models, structural models, and structure and agency theory. It is recognised that the development process is so complicated that it cannot be fully understood by a single model. Gore and Nicholson (1991) suggest that the principles of the structures-of-provision approach are more useful in understanding the development process. Also, while advocating their structure and agency approach, Healey and Barrett (1990, p. 99) indicate that "no one piece of research could address this substantial agenda" for the study of the development process. As Healey (1994) indicates property development and investment activity exploit the specific qualities of cities and locations to create development opportunities and extract value as rent or development gain (Healey, 1994, p. 177). Therefore, to analyse the structure of urban land and property markets it is pertinent to ask four important questions: Who? Why? How and where? The first question is who owns land and property. Owners of land and property may be companies with their interests at various spatial levels, individuals, governments, public and private institutions and charitable organisations. The second question concerns the motivation and incentives for land and property ownership. There may be a variety of reasons. As Cameron et al. point out:

Major owners of urban land appear to utilise their land holdings in a variety of ways. In both the public and private sectors, some seek to maximise revenue by active participation in the land market releasing and buying surplus land as appropriate conditions arise. Others hold excess land as a measure of coping with future growth without the accompanying need for future land acquisition or relocation of production elsewhere. And others appear to have no explicit policy for their surplus land (Cameron et al., 1988, pp. 124–125); cited in Adams et al., 1996, p. 1).

Depending on the methodological framework, the role of land-owner can be examined in different ways. In the neo-classical model of the development process, for example, the land-owner is viewed as a profit maximiser "to supply enough land to meet demand by responding rapidly to any changes signalled from the market" (Adams et al., 1997, p. 22). Thirdly, how land and property are owned needs to be examined.

The prerequisite to property ownership is the existence of a legislative framework outlining legal rights of ownership, regulating transactions in land and property and providing for a clear register of ownership. Property ownership may be subject to leases or licences, land held in trust, land subject to restrictive covenants, multiple ownership and ownership subject to easements (Adams et al., 1997). Land and property may be owned for own-occupation, used for investment or made available to others on a charitable and non-profit basis. Finally, location of land is a major determinant of price and income. The value of locations may increase or change as urban areas expand or are transformed (Ball, 1983). Healey (1994, p171) argues that the demand for land and property in turn arises, in part, from factors internal to a local economy, but also increasingly from the strategies of companies, both within and beyond a locality, for whom a specific local economy offers particular attractions at a point in time. This is particularly important when international investors view location as the most important factor in their investment decisions. According to Harvey (1985), particular locations are key factors to attract finance capital into particular property developments which provides the highest international returns compared with other types of investment.

The analysis of the structure of the real estate market in Dubai requires an understanding of the role of different actors and agents involved in the development of the emerging real estate market. In the light of the brief theoretical discussions above, it is pertinent to deploy the structure and agency theory by Healey and Barrett (1990) as a methodological framework for the examination of the real estate market in Dubai. The theory

provides a general approach to analysis of the real estate market rather than one confined within a specific socio-political context.

The following analysis is not intended to include all actors in the real estate market, but focuses on how the state, land-owners (the ruling family and semi-public and private firms) and urban land users are related with one another under the existing condition. To simplify our analysis, other actors such as financiers and intermediate agents are briefly looked at. Urban planning is legally a prerequisite for any land and property transaction and its role and problems are discussed.

Land ownership

Land tenure system influenced in Dubai and other city states in the Persian Gulf is based on tribal structure, Islamic values and traditional economy. In Bedouin societies, land was held under collective ownership and had no economic value in itself but was regarded as sacred. Gradually, the collective ownership passed to the hands of the ruler (Ben Hamouche et al 2006). In the nineteenth century, the British introduced new systems of tenure and private tenure gave the right of ownership to individuals, regardless of their tribe or family. Public tenure was another system that was introduced in order to obtain access for municipal authorities to land. The old tenure, in the hands of the ruler, was redefined as the Crown land. However, most of the land remains in the hands of the ruler but it is often given free to citizens. Crown land is different from the ruling family land that is considered private land and it is subdivided among members of the ruling family according to the Islamic inheritance law. In their analysis of the land market in the Gulf countries, Ben Hamouche et al (2006) assert that "Accordingly, modern cities in the Gulf had mostly grown away from the land market mechanisms and were a direct consequence of the public action that is often summed up in the ruler's directives. This could explain to a large extent their striking characteristics such as the domination of towers and free standing buildings, the excessive width of roads and the perfect geometry of their urban structures that are mostly based on the grid network and roundabouts".

In Dubai however, the government made a considerable impact on urban land development by first of all, adding to the city of Dubai a stock of land through preparing desert and hilly land with building potential. Second, a substantial number of land tracts have been prepared and vested for various residential, commercial, industrial and leisure development. Third, the policy has attracted local, regional and foreign investors with high potential of housing and service development without putting pressure on the government budget. Fourth, Dubai government policy has also adopted a mass production method of housing construction as advised by international consultants and applied in various countries with different levels of success (Gray S, 2005).

Emergence of land and property market

In 2002, Dubai government allowed the sale of property to foreign investors through government owned developers such as Nakheel Properties, EMAAR Properties and Dubai Properties (Bagaeen 2007). However, ownership of such property was still blurred. The Dubai Law No 7 of 2006 declared that all nationalities could purchase freehold ownership, a 99 year lease or usufruct in certain locations marketed by leading developers, such as the Palms, Jumeriah Islands, Emirates Hills, the Meadows, etc. Under the old land regime, real estate in Dubai could only be owned by UAE nationals and to some extent by GCC nationals (Ben Hamouche et al 2006). The following diagrams indicate the extent of ownership by different nationals from GCC, Europe, Middle East and Asia.

The buyers are tempted by life-style concepts, glitzy and iconic developments promoted through sophisticated marketing and promotion by developers. This is further influenced in most cases forced relocation of their capital due to unstable political environment to the perceived safety of Dubai. Rahman (2006) points out that some 13,000 families had already moved into freehold homes and that another 7000 had been expected to move by the end of 2006 (cited in Bagaeen 2007). As stated above, these properties

had been purchased indirectly via contacts with government owned property developers prior to the introduction of the March 2006 legitimizing property ownership by foreigners.

The introduction of foreign property ownership by leasehold and freehold methods has provided the right investment climate for commercial property. As a consequence, a number of locally based and foreign origin dedicated funds have been set up to invest in commercial property in Dubai.

Real estate profession

Despite the fact that much of the development of Dubai and other city states in the Persian Gulf has been on real estate development, the real estate profession has been severely underdeveloped. Surveying and allied disciplines have been non-existence until recently. No formal university based real estate education was on offer in any of the rapidly developing states in the Persian Gulf. The establishment of Dubai Real Estate Institute (DREI) a privately owned organisation in early 2007 has seen the introduction of short executive courses in collaboration with a number of international universities.

The unethical practice by a number of locally owned real estate firms has resulted in a large number of conflicts whereby foreign investors have been duped in purchasing properties with unclear ownership and titles. A number of international real estate consultants have established local offices often involved with marketing of major commercial and residential developments. Due to unclear ownership regulation governing conflict resolution, only short term leases are offered for commercial property. Even in 2005-6 leases in excess of one year were rare.

Transparency issues

Jones Lang LaSalle's 2006 Real Estate Transparency Index defines real estate transparency as "any open and clearly organized real estate market operating in a legal and regulatory framework

that is characterized by a consistent approach to the enforcement of rules and regulations and that respects private property rights". The same report also refers to the fact that some experts equate "low transparency" with "corruption". However it state that Jones Lang La Salle view a highly transparent market as being fairly free from corruption with readily available information operating in a fair and consistent manner. The same report ranks although not mentioning Dubai, ranks UAE 45 with a score of 4 in 2006 showing a slight improvement compared with 2005. This denotes a low transparency score but achieving a 3 star mark indicating significant improvement in transparency. The following news item appeared in local press in April 2008 reporting the arrest of the CEO of Dubai's second largest property developer DEYAAR.

Dubai: The CEO of Deyaar, Dubai's second-largest property developer by market value, has been detained and is under investigation for alleged financial irregularities, the company and Dubai authorities said. Deyaar said in a statement that Chief Executive Officer Zack Shahin had resigned. An official at the Dubai Public Prosecution confirmed Shahin had been detained and was under investigation (AME April 17, 2008)

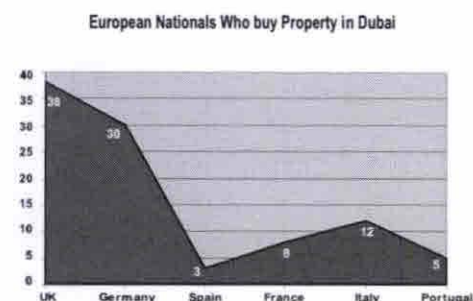
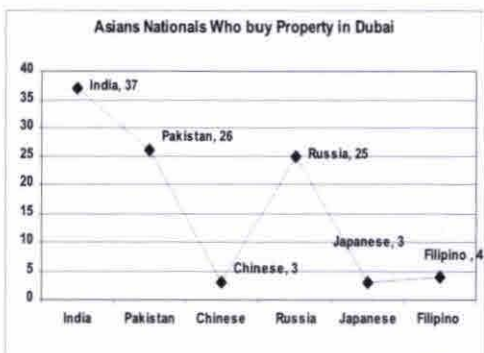
There are also numerous unreported ownership conflicts involving small investors who have been miss-led by unethical real estate brokers.

In terms of availability of property market information, the situation has improved significantly in the past year with the launch of on-line data by REIDIN.com who have acquired the rights to land transaction data by the Land Department of Dubai. They have recently announced the launch of Dubai Focus in the near future.

REIDIN.com defines DUBAIFocus as the first exclusive online information product tracking real estate deals and transactions in Dubai, with a comprehensive database going back to 1973 providing daily information on all types of

land, villa and flat deals (sales, mortgage, lease, grant, inheritance, etc.) in Dubai. REIDIN.com's exclusive partner and primary data source for this -first of its kind- information service in the Emerging Markets is Real Estate Regulatory Authority of Government of Dubai along with Dubai Land Department. DUBAIFocus is considered to be the most comprehensive and up-to-date information source on Real Estate investment deals for the Dubai market (<http://dubaifocus.reidin.com/>)

AME also provide comprehensive coverage of economic and real estate news from across the Middle East and Dubai. There are other on-line providers of real estate news providing transaction and project launch information such as eqarat.com.

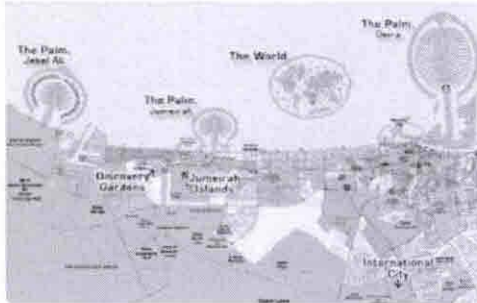


Source: Samarai A, 2006

Iconic "Floating" projects

The waterfront development consists of four mega projects that are expected to house 400,000 people. This development consists of three Palm Islands (in the shape of Palm trees) and the World (which is materialized by formation of various floating islands). As estimated in 2007, the expected cost of this development is US\$ 14 billion. Ben Hamouche et al (2006) and AlRauf (2006) refer to these island projects as "floating projects" and point out that "most of these projects are ironically sharing the same characteristics. Firstly, they are 'floating' both in the figurative sense -economic, social and environmental- and the real sense (as they are all located near or on water in forms of artificial islands). Secondly, all these four projects have mostly targeted tourism and financial sectors. But, it should be noted that although there is an open competitiveness among Gulf countries, these projects are targeting the same population of investors. At the same time and considering the high standards in building of

these projects, there would be a thin population of wealthy users. Thirdly, these all have a very short schedule for implementation due to market pressure and competitiveness".



Economic implications of the current real estate boom

The unprecedented real estate boom and the announcement of the numerous gigantic real estate projects are causing increasing uncertainty over the future of the real estate market. Further anxiety is created as a result of the sub-prime credit crunch and the likely impact on Middle Eastern banks that have been active in the US financial markets. Although central banks and government officials provide assurance about the vitality and health of the local economies, there has been rampant inflation manifested in significant rise in residential rents and cost of food and energy. Risk of Monetary inflation, Devaluation or crash due to the excess financial liquidity and speculation remains a high possibility. There are market signals that reinforce this fear. The cancellation of Palm Deira and announcement by Damac to cancel Palm Jebel Ali created fear amongst investors. Within days of the announcement, the following news item appeared in the local and international press reporting government action to mediate between the developer and investors.

Dubai: Damac's Palm Springs project on Palm Jebel Ali is back on track following mediation by Dubai's Land Department. The Land Department has successfully mediated between Damac and the Palm Springs investors to put an end to the dispute,

according to Sultan Bin Butti Bin Mejrín, director general of the Land Department. Bin Mejrín said the Land Department intervened to protect both investors' interests and Dubai's global reputation as a thriving property market. The Palm Springs project is now due to go ahead five years after its launch. It will be developed in keeping with the original investor contracts and Damac's contract with Nakheel, master-developer of the Palm Jebel Ali.

As Ben Hamouche et al (2006) assert "The near future will inevitably witness the losers and winners among these projects as they are all targeting mostly the same population of local investors. In the absence of other fields of investments and unawareness of investors, they are considered as an easy way of profit making through speculation and auctions sales. Their high building standards and expected low rate occupancy exclude most social categories except the thin wealthy investors. Most of these projects that are destined to entertainment may become parasitic entities that will depend on the existing cities. Reinforce the bazaar economy of these countries that depends mostly on importation".

There are already signs of inflation and devaluation is only delayed due to political pressure on local states by the US government. The indigenous population is protected by generous salary increases sometimes up-to 70 per cent. However, the expatriate community does not enjoy the same protection specially the lower middle incomes.

Social and cultural dimensions

Letting alone other social and cultural considerations, emerging land markets in the Persian Gulf region are not yet matured in terms of regulations and administrative procedure. Furthermore, many illiterate investors have entered the market as a controversial response due to the fragile population structure of the young city states and societies in the Gulf that comprises

an important percentage of expatriate. Social values and community in these projects are the least considerations as most owners and would-be residents have been gathered on the basis of their economic affordability and speculation. As Ben Hamouche et al (2006) argue 'Meanwhile, low and middle classes are discarded and driven away to lower rents areas, a factor that might sharpen social segregation in local societies and initiate a geographic dislocation of social classes and urban activities'. This economic segregation might entrench a cycle of poverty, in some less wealthy Gulf countries, such as in Bahrain. Such gigantic fantasy based developments have started to attract critical analysis from some commentators. According to Davis (2006) 'thanks to his (the ruler of Dubai) boundless enthusiasm for concrete and steel, the coastal desert has become a huge circuit board upon which the elite of transnational engineering firms and retail developers are invited to plug in high-tech clusters, entertainment zones, artificial islands, glass-domed snow mountain, Truman show suburbs, cities within cities – whatever is big enough to be seen from space and bursting with architectural steroids'. Ben Hamouche et al go further by stating that "From another view, these projects are conceived in the most fashionable and exhibitionist way of contemporary styles that reflect globalization; a flat view to heritage and local patrimony. In this regard, local identity considered either in metaphoric figures or by the injection of some design details in a caricature way (e.g. Nakheel and Crescent). Consequently, the way of life promoted through these projects entirely alien to the local culture and promotes the modern values such as individualism and consumerism.

Sustainability and environmental consideration

Despite the impressive marketing brochures promising healthy and sustainable living, the environmental impact of large scale developments on local and regional eco-systems in land and off-shore has not been adequately evaluated. Massive dredging, earthworks and land reclamations for the Palm Islands, and the World projects have

caused significant changes in the marine habitat burying coral reefs, oyster beds and subterranean fields of sea grass (Bagaeen 2007). Regarding the environmental issues, concerns are rarely raised on discussing these projects in mass-media as most of the projects are destined primarily for profit making and leisure; a fact that might have many undesirable effects in the future. The irrational use of land and natural resources such as water and energy and continuous pollution and deterioration of sea life are the most broadly addressed agendas in this view. Furthermore, in the absence of master and structure plans or an urban policy, urban development becomes in the hands of speculators and big investors. At the same time urban growth such as expansion and outskirt projects and extension of road networks are just shaped by speculators' desires and priorities. Subsequently, the shape of the cities is altered by sprawling, leap-frog, ribbon-like and corridor development; leaving large pockets of undeveloped land (Pacione 2005, Ben Hamouche et al 2006).

Conclusion

The rapid urban development in Dubai based on ambitious and gigantic real estate projects has been unprecedented globally. This has been achieved due to Dubai ruler's strategic decision to attract the first community of elite merchants from Persia towards the end of the 19th century. Furthermore Dubai's decision to launch itself as the centre of business, trade and tourism through massive infrastructure projects including Port Rashid and Dubai International Airport has helped diversify its economy away from dependence on oil.

As has been shown throughout its development Dubai has benefitted from regional and global events including the Iranian revolution, the Iran-Iraq war in the 1980s, the Persian Gulf war in the 1991, the 9/11 terrorist attack on the World Trade Centre and more recently the Iraq war in 2003. Dubai's decision to allow foreign ownership of real estate in 2002 and introduction of freehold and leasehold property ownership in 2006 has helped

the emergence of a booming real estate market that has lasted over 5 years.

Targeting of wealthy international investors through aggressive marketing and successful branding of Dubai as a global city has created a real estate bubble. However, the constant launch of gigantic commercial, leisure, retail and residential projects will provide an abundance of real estate space. Dubai has a limited population base and already has more per capita retail and office space than many other mature real estate markets and economies.

Major global and regional events that have helped propel Dubai to its current position could easily undermine the City's future. These include the likely impact of the current global credit crunch, the potential conflict between the United States and Iran that could undermine regional security could have disastrous implications.

The speculative activity in the real estate market requires careful attention through regulation and taxes.

Under conditions of rapid urbanization, land scarcity and competition for secure and serviced land, there is an increasing pressure for a new land policy for rational use of land. This requires establishing a strategic territorial policy for long-term urbanization that guides the land and property market and urban development.

The environmental impact of large scale development must be considered through conduct of impact studies.

There is need for market regulation and increased transparency in the real estate market through provision of independent real estate data. The recent arrest of CEO of Deyyar Properties is an indication of the potential unethical market practices by private and public owned developers and market operators.

As Dubai has targeted international investors, it will be under increased scrutiny. The recent issues concerning the Palm projects should be seen as

strong market signals indicating the potential oversupply of residential, retail and commercial space.

The following news article in the Guardian on 26th April 2008 demonstrates the increased scrutiny by international media that could seriously undermine investor sentiment in Dubai with damaging consequences for the real estate market.

"Dubai's sheikhs have claimed it is "the eighth wonder of the world", and seen from space the tree-shaped sand and rock formation of the Palm Jumeirah looks exactly that. But after the hype about David Beckham buying a mansion here and the novelty of living four miles out to sea has faded, that claim is starting to look shaky. It seems there is a little trouble in paradise. Four thousand "Palm pioneers" have moved in and are getting to grips with life in the sweltering Arabian Gulf. This week, when the Guardian visited, the gripes were as common as the plaudits among the Brits who are in the vanguard of this new community. Multimillion-pound villas have been squeezed together "like Coronation Street", air-conditioning bills are hitting £800 a month and persistent snags have led some to joke it is more "eighth blunder" than "eighth wonder". The villas were developed by the government-owned Nakheel Properties, and many residents believe the company's slogan, "Our vision inspires humanity", which flutters on flags around the place, is beginning to look over-egged. (The Guardian 2008 , p7 26 April).

REFERENCES

- Adams, D., Diseberry, A. and Huttchinson, N. (1997) "Land ownership constraints within the development process", *Aberdeen Papers in Land Economy*, pp. 97–107, Department of Land Economy, University of Aberdeen.
- Al Raouf (2006). *Dubaization vs. Glocalization: Territorial Outlook of Arab/Gulf Cities Transformed*. Paper presented at the 9th Sharjah Urban Planning Symposium, Sharjah, United Arab Emirates. 2-4 April.
- Amin, A and Thrift, N (Eds) (1994) *Globalization, Institutions, and Regional development in Europe*, Oxford University Press, Oxford
- Bagaeen, S. (2007) "Brand Dubai: The instant city; or the instantly recognizable city", *International Planning Studies*, 12:2, 173-197
- BALL, M. (1983) *Housing Policy and Economic Power*. London: Methuen.
- Beaverstock, J.V; Smith, R.G and Taylor, P.J. (1999) A roster of world cities, *Cities: The international journal of urban policy and planning*, 16 (6), pp. 445-458.
- Ben-Hamouche, M and Bedredine Belkadi (2006). *The Impact of Land Market Investment Boom on urban planning in the Gulf Cities*. Paper presented at the 9th Sharjah Urban Planning Symposium, Sharjah, United Aarb Emirates. 2-4 April.
- Cameron et al., 1988, pp. 124–125); cited in Adams et al., 1996, p. 1.
- D'Arcy, E and Keogh, G (1996) Towards a property market paradigm of urban change. *Environment and Planning A* 28, 685–706.
- Davis, B. (2006) "Fear and Money in Dubai", *New Left Review*, September & October 2006, 46-68
- GORE, A. and NICHOLSON, D. J. (1991) Models of the land-development process: a critical review, *Environment and Planning A*, 23, pp. 705–730.
- Grabher, G (Ed.) (1993) *The Embedded Firm: On the Socio-Economics of Industrial Networks*, Routledge, London.
- Granovetter, M (1985) Economic action and social structure: the problem of embeddedness. *American Journal of Sociology* 91, 481–510.
- Grant, J. Golawala, F.S. McKechnie, D.S. (2007) "The United Arab Emirates: The twenty first century beckons", *Thunderbird International Business Review*, 49:4, 507-533, Published online in Wiley InterScience (www.interscience.wiley.com)
- Gray S, (2005) "Dubai, A Stately Business Dome Decreed", In investorsoffshore.com, May
- HARVEY, D. (1985) "The Urbanisation of Capital", Oxford: Blackwell.
- Healey, P (1999) "Institutionalist analysis, communicative planning and shaping places", *Journal of Planning and Environment Research* 19(2), 111–122.
- HEALEY, P. (1994) "Urban policy and property development: the institutional relations of real estate development in an old industrial region", *Environment and Planning A*, 26, pp. 177–198.
- HEALEY, P. (1991) "Models of the development process: a review", *Journal of Property Research*, 8, pp. 219–238.

- HEALEY, P. and BARRETT, S. M. (1990) "Structure and agency in land and property development: some ideas for research", *Urban Studies*, 27, pp. 89–103.
- Hodgson, G (1998) The approach of institutional economics. *Journal of Economic Literature* 36(1), 166–192.
- Hvidt, M. (2007) "Public-private ties and their contribution to development: The case of Dubai", *Middle Eastern Studies*, 43:4, 557-577
- Jones Lang Lasalle (2006) Real Estate Transparency Index. JLL, Chicago.
- NASA <http://landsat.gsfc.nasa.gov/images/archive/c0009.html>
- North, D (1990) Institutions, Institutional Change and Economic Performance. In Cambridge University Press, Cambridge.
- Ouf, A.M.S. (2007) "Non-comprehensive planning approaches for rapidly urbanizing communities", *Planning Theory and Practice*, 8:1, 51-67
- Pacione, M. (2005) "Dubai, City Profile", *Cities*, 22:3, 255-265
- Sim, L.L., Ong, S.E. Agarwal, A. Parsa, A. Keivani, R. (2003) "Singapore's competitiveness as a global city: development strategy, institutions and business Environment", *Cities*, Vol. 20, No. 2, p. 115–127, 2003
- Parsa, A and R. Keivani (2002) "The Hormuz Corridor: Building a cross-border region between Iran and UAE", In S. Sassen (ed.), *Global Networks, Linked Cities: Urban connections in a Globalising World*, Routledge, New York, London.
- Powell, W and DiMaggio, P J (Eds) (1991) "The New institutionalism in organisational Analysis", University of Chicago Press, Chicago. <http://dubaifocus.reidin.com>
- Samarai, M.A. and Qudah, L.M. (2007) "Planning sustainable mega projects in the UAE", presented at World Housing Conference 2007: Affordable Quality Housing, 1st-5th July 2007, Malaysia
- Samarai A., 2006 Dubai. Paper presented at Paper presented at the 9th Sharjah Urban Planning Symposium, Sharjah, United Arab Emirates. 2-4 April.
- Sassen, S. (2002) "Locating cities on global circuits", *Environment and Urbanization*, 14:1, 13-30
- Stanley, B. (2005) Middle East city networks and the "new urbanism", *Cities*, 22:3, 189-199, Elsevier Ltd, Great Britain