

# Real Estate & Construction

Sustaining growth in a burgeoning real estate market  
Alternatives to an underdeveloped mortgage system  
Providing bigger, better and cheaper options  
Construction sector going from busy to busier  
Innovation and scale key to new developments





Ajman added approximately 1.2% to the UAE's overall GDP in 2005

## Fast forward

### Efforts are underway to sustain Ajman's rapid growth

The UAE has seen its population grow by nearly 75% in the past decade. As a result, new property laws have had to be introduced in order to accommodate both nationals and expatriates. Ajman has led the UAE in this respect, being the first emirate to offer 100% freehold rights to non-nationals in 2004.

The UAE's real estate sector is frequently described as the world's most buoyant property market or some such superlative. From the blurbs of real estate brokers to the designs for ever-more unique or individual buildings to catch the eye of the cash-wielding investor, it certainly has its fair share of attention.

There is some justification. Less than a decade ago, property rights in the UAE reflected the traditional social structures of the small, tribal, fishing and trading community that the UAE used to be. Land was given as a gift from the emirs, and despite the fact that the local population was vastly outnumbered by guest labour, only nationals could own it. Even when they could own, Emiratis were often unable to sell their asset freely.

Returning to the present, natural resource revenues, trade, industry and tourism have turned the larger emirates in the federation into economic giants. There is money to be made in the UAE, and the country is very consciously open for business.

As a result, the UAE has a strong pull that now extends far beyond its own borders. Family business magnates from around the Gulf, Iranian traders, executives from European and US multinationals, South-east Asian school teachers, bricklayers from the subcontinent and countless other workers all want to be in Dubai, taking their slice of the pie. The UAE's population has grown a staggering 75% in the past 10 years. Non-nationals outnumber nationals to a ratio of 4:1.

All of these people need somewhere to live, work and relax. The old rules applying to ownership clearly would not do. New property laws in the individual emirates are now beginning to emerge, with the shared aims of regularising property transfers for nationals and granting varying degrees of ownership rights for non-nationals. Ajman is in the vanguard of this fundamental shift currently taking place in the UAE's economy.

An emirate of modest population and covering only 260 sq km of land, or 0.31% of the federation's total area – the smallest of the emirates – Ajman is now home to 250,000 people. In 2004 the government of Ajman

passed legislation for 100% freehold rights for non-nationals, two years prior to similar laws coming into effect in neighbouring Dubai. The bureaucratic wrangling of tagging a coveted UAE residence visa to a freehold sale certainly makes buying property all the more attractive to those wishing to invest in the UAE.

Dubai contributed approximately 28.9% to the UAE's GDP in 2005, while Ajman added about 1.2%. The pressures of land prices, rent inflation and construction delays in Dubai have driven a significant percentage of property investors and residents out of the Dubai market and into the similarly open – but more forgiving – property environment of Ajman. Many Ajmani real estate developers simply attribute the emirate's recent real estate success to the Dubai overspill.

But while Ajman is clearly in the orbit of the heavy spinning mass of its neighbour, its real estate market will not be fully subsumed into the urban entity of Dubai. Although the Ajman freehold market is barely three years old, there are already signs that developers and planners have learned rapidly, and the emirate now seems to be carefully apportioning its limited land bank to give the city a sustainable mix of residential, retail and commercial uses that will safeguard local identity and rebut the claim that it is becoming just another dormitory town for Dubai.

**STRUCTURE:** Ajman's real estate sector has a heavy government presence, in the form of three major developers that are controlled by the ruling family. The Real Estate Investment Establishment (REIE) is Ajman's pioneering freehold firm and, until recently, the only firm licensed to sell freehold property in the emirate. REIE opened the 15-tower Al Naeymiah Towers development in mid-2004, and followed it with projects such as Rashidiya Towers – made up of 11 buildings – and Al Khor Towers, comprised of nine developments that are scheduled for completion by the end of 2007.

REIE's projects are generally considered to be Ajman's first generation of freehold projects – relatively straightforward residential towers that are specifically designed

## BUT CAN I AFFORD IT?

The growth of Ajman's property sector has outstripped just about every other area of the emirate's economy, including banking and financial services. Although the UAE's mortgage market in 2007 nearly doubled the figures from the previous year, at Dh45.7bn (\$12.44bn), in Ajman the industry has been slow to get off the ground.

This slow growth of the mortgage industry is likely to place constraints on the property sector for at least the short to medium term. While some banks and mortgage lenders allow UAE nationals to borrow anywhere between 70% and 90% of the sales price, purchasers are often not approved and when they are, have to pay rates that range from 6-8%. However, specialised mortgage lenders, such as Amlak, which has 33% of the housing finance market, and Tamweel, 22%, are looking to make borrowing more attractive.

In the absence of much in the way of formal financial products to help buyers get on the property ladder, developers have been presenting a number of creative payment plans tailored to the specifics of the Ajman market.

For many of the emirate's major residential freehold developments, the target buyer is a young family that works in or around Dubai and is looking to purchase a first home, but at the moment are unable to afford both the rent on their current apartment and the large upfront payments for a flat that they might not be able to move into for a number of years.

For example, Aqaar, Ajman's government-owned developer, has presented a six-year payment scheme for its Ajman One project that only requires approximately 30% of the value of the property to be paid before the due completion date in 2009, through one pre-completion payment, followed by small monthly instalments and a final payment upon completion.

Once the property is finally handed over to the buyer, the remaining 70% of the total cost is to be paid in fixed instalments over the following three years. Rami Dabbas, Aqaar's chief operating officer, said, "The repayments with a fixed interest rate allows buyers to enter the freehold market without having to take large loans or mortgages of variable interest rates."

R-Holding, the developer behind the 41,000-unit Emirates City, has a similar product for its residential towers. In the absence of long-term mortgage products from dedicated financial institutions, developers have accordingly stepped in to fill the gap with shorter-term plans that can work for first-time buyers. Of course, the plans also create an incentive for developers to both keep their projects on time, and on budget.



Aqaar, a government-owned developer, has presented a six-year payment scheme for Ajman One

for middle-class buyers and investors who may have found prices prohibitive elsewhere in the UAE.

However, since the initial success of REIE's projects – the three previously mentioned have sold out – the sector has seen the arrival of other players determined to dramatically alter the landscape. R Holding, an integrated construction and development firm owned by Sheikh Rashid bin Humaid Al Nuaimi, is currently laying the foundations for Emirates City, a Dh15bn (\$4.08bn), 92-tower master-planned development with significant retail and leisure elements. The project, which will eventually be home to approximately 100,000 people, should be completed by 2010. Apartments in Emirates City's sold out as of mid-2007.

The third major state developer is Aqaar, which is, again, wholly owned by Sheikh Rashid. The ambition of Aqaar, considering that it is a firm less than a year old, and operating in the UAE's smallest emirate, is impressive. In addition to its 72,000-sq-metre Ajman One project located in the heart of the city, Aqaar has pulled something of a coup by contracting Solidere, the company behind the reconstruction of downtown Beirut, to develop the Al Zorah area of Ajman into an integrated city-within-a-city, featuring a first-rate residential, retail and entertainment complex, with investments of approximately Dh50bn (\$13.62bn).

Several private companies from outside the emirate are also entering the market. Saudi Arabia's Tanmiyat (developing Ajman Marina), Sharjah's Tameer (building Al Aameera Village) and Dubai's ETA Star have all announced large projects in Ajman. Ajman Holding, a private company that will invest more than \$1.5bn over the next three years in real estate related ventures in Ajman, announced plans to develop 14 mixed-use towers called The Boulevard. They will include residential and commercial spaces, a five-star hotel, parking and a mall. According to company officials, the project offers freehold ownership and a residence visa. Since its legalisation in 2004, Ajman boasts 200 freehold residential towers either under construction or completed.

Sheikh Rashid is determined to put Ajman on the map. Owning two of the major developers in the sector – R Holding and Aqaar – his developments, such as Emirates City and the Ajman One project, are going to give the emirate a much-needed facelift and provide many in the UAE with options that are more affordable than Dubai.



Landlords can only raise rents a maximum of 20% each year

In 2006 property transactions totalled \$953.05m, well up from \$119.81m in 2003. The rises in land prices are just as shocking: what used to be just \$11 per sq foot, can now fetch 1000% more.

**PERFORMANCE:** When REIE's Al Naeymiyah Towers went on the market in 2004, it was priced at around Dh150 (\$41) per sq foot – a fraction of the price for a similar purchase in Dubai at the time. In 2007 Dh350 (\$95) per sq foot is a typical price for one of REIE's developments – a 230% appreciation in three years might seem a lot in comparison to Dubai's 150% average appreciation over five years since the beginning of its boom in 2002, but of course, Ajman has been starting from a much lower level. Ajman still offers significant savings on a similar product. Rental yields in the early part of the Ajman boom were accordingly handsome, and in fact the government intervened to apply a rent cap in September 2006. In the year prior to September 2006, average rents for one-, two- and three-bedroom apartments in Ajman shot up by approximately 70%, according to Gulf News. Following the administrative intervention, Ajman landlords are now only permitted to raise rents three years after the signing of the contract, and then by a maximum of 20% per year.

Nevertheless, the magnitude of returns on property investment has been causing something of a stir in Ajman. Figures provided by the Ajman Department of Land and Planning describe a dramatic boost to the emirate's economy. Property transactions in Ajman approached Dh3.5bn (\$953.05m) in 2006, up from Dh440m (\$119.81m) in 2003. In particular, land prices have become distorted even beyond the factor of limited availability, due to the cascading temptation to put up an apartment block and watch the cash roll in. The

price of Dh40 (\$11) per sq foot was a reasonable fee back in 2004. Now, according to Abdullah Al Marzooqi at the Ajman Chamber of Commerce, the asking prices, in some cases, can be as much as 1000%, or higher.

There is not much chance, however, of Ajman's real estate sector being seriously undermined by a rush of speculative behaviour. This is mostly due to the fact that the amount of land available is very limited and the strong control of the sector exercised by the Ruler's Court. In fact, some analysts refer to the Ajman government as a master developer for the emirate. With this in mind, the notable characteristic of the sector in mid-2007 was the scale and ambition of investment.

For example, four of the top developers – two from the government and two from the private sector, including Aqaar, R Holding, Tanmiyah, and Tameer – currently hold Dh80bn (\$21.78bn) worth of master-planned developments in Ajman, a five-fold increase in two years. Can the first swellings of a property bubble be perceived in Ajman? Insiders think not. Ghalib Jaber, CEO of REIE, told OBG, "There are no risks of oversupply of real estate property in the Northern Emirates. In Ajman, current supply covers only 30 to 40% of the demand."

REIE is doing its part to cover that demand, as it will be delivering 16 new buildings by April 2008, according to its sales department. As prices for apartments in Ajman rise, some have begun expressing worries that the emirate will lose its low-cost attractiveness, demand will plateau just as so many new units are delivered and that a long-foreseen price correction in Dubai will wipe out Ajman's advantage.

Not so, said Ghalib Jaber. "The price correction will never reach the point where prices in Dubai fall to the levels that Ajman can offer," he told OBG. Ajman's developers are focusing on tailoring their offers to what Ajman needs most – value for money. Ahmad Omar Awwad, the director of communications for R Holdings, said his company eschews the sales gimmicks seen elsewhere. "We are maximising the space you get for your money, and giving above-average finishing. We are not offering a swimming pool and jacuzzi in every apartment. We are not offering rotating buildings."

**OUTLOOK:** There is a sense that Ajman's developers are taking a sober approach to their projects – something that bodes well for the progress of the city towards being a sustainable and desirable place to live, beyond the ups and downs of real estate fashions.

Ajman is in the early and steep part of the real estate curve, but signs are that it has learned from the experiences of other emirates. The guiding hand of Ajman's government, which is present in most of the emirate's projects in one way or another, acts against excess speculation and price-gouging. Challenges remain, however, particularly cost and time overruns.

However, such difficulties have not yet significantly dented confidence in other UAE markets, and there is evidence that players in Ajman are working to avert them. Ajman has learned from elsewhere in the emirates, but it is also looking forward, and through its list of impressive developments, it should develop a sustainable and relatively sophisticated real estate sector.

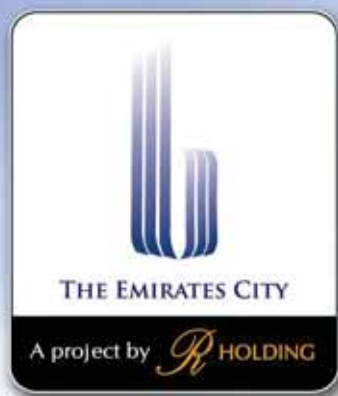
#### Population, 1975-2005\*

	1975	1980	1985	1995	2005
Urban male	8729	20,727	29,347	68,389	n/a
Urban female	5622	12,924	19,761	46,006	n/a
Rural male	1791	1517	3488	4443	n/a
Rural female	548	932	1950	2653	n/a
Total	16,690	36,100	54,546	121,491	197,834

SOURCE: Ministry of Planning, UAE

\*Mid-year

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**R**  
HOLDING



Ajman's population has grown rapidly in the past decade

## Appeal to their sensibilities

### Property developers attempt to meet market demand

Estimates indicate that Ajman's population currently stands at 260,000 and is growing at 18% per year. Such growth is a result of several factors, including the introduction of the freehold law in 2004 and the rapid expansion of the industrial sector.

Analysing supply and demand factors in the real estate sector in the UAE can sometimes be a back-of-the-envelope sort of affair. The country's economy and population have grown so far in a short amount of time that official statisticians are often left gasping for breath. Real estate developers, attempting to estimate the inestimable and put figures on how demand will progress in any given period, will no doubt be pleased to learn of the planned establishment of the National Bureau of Statistics by the end of 2007, according to an IMF report.

In the meantime, the information available from the 2005 census, figures provided by the Ajman Chamber of Commerce and Industry (ACCI), reports issued by investment banks, who do not always agree with each other, and the press releases from real estate developers is the raw material at hand. The all-important caveat here, then, is that the following represents an estimation of how Ajman's real estate market could possibly develop in the coming five-year period, not a guarantee.

The all-important integer in assessing demand is population. New houses or developments are of no use unless there are new people to live in them. The UAE's population grew almost 75% in the 10-year period prior to 2005, when it was 4.1m. The majority of that growth was caused and absorbed by the economic centres of Abu Dhabi and Dubai. Despite not having quite the same economic momentum throughout that period, Ajman's population nevertheless grew by nearly 62%, arriving at an official figure of approximately 197,834 in 2005.

**ALL GROWN UP:** The UAE population as a whole is expected to maintain its growth rate in the coming five-year period. Estimates for Dubai in particular posit 8% growth per annum as a likely figure. Estimates provided by the ACCI put the 2007 population of Ajman at 260,000 – a trend that indicates growth of 18% per year. The combined effects of industrial acceleration, such as the dynamic Ajman

Free Zone, the freehold law of 2004 and an influx of residents that continue to arrive from neighbouring emirates are the predominant factors.

Naturally, past increases cannot be taken as an indicator of future growth, but it is perhaps enough to suggest that Ajman will continue to exceed the national average for annual population growth for the time being. Expected increases in population have to be propped up by sound economic expectations – people do not emigrate to countries with falling job prospects. The UAE as a whole gets a clean bill of health from, amongst others, the IMF, which released a consultation paper in September 2007: "The UAE's economic performance remains very strong. Real GDP growth was in excess of 9% in 2006, with oil production rising by 8% and non-oil sectors growing at double-digit growth rates. The rapid expansion is also supported by an outward-oriented development strategy, a favourable business climate and sustained high oil prices." So far, so good.

**SYMBIOSIS:** Also relevant to what happens in Ajman is what happens in Dubai. The second largest of the emirates and the most populous, which contributed 43% to the UAE's non-oil GDP in 2006, Dubai is one of the main hubs of economic activity in the region. The majority of Dubai's non-oil industries, with the exception of manufacturing, continue to outpace their rate of growth. As of mid-2005 Ajman has been linked to Dubai via the Emirates Road, which now runs from the Jebel Ali Free Zone to Sharjah.

The rapid changes that continually occur in Dubai's economy are thus more likely to have a knock-on effect for the surrounding urban area, including Ajman. The outlook found in the *Cost of Living Dubai Report 2007* that was published by Kershaw Leonard, a Dubai-based recruitment consultancy firm, suggests that living in Dubai gets anywhere between 15% and 20% more expensive with each passing year, thus leading more and more people to seek cheaper refuge elsewhere, in places like Sharjah or Ajman.

In Ajman itself, the drive to attract more businesses in commerce and industry that are looking to relocate to the UAE continues. According to the latest available figures from ACCI, industrial investment rose by 65% in the 2000-05 period. Double-digit growth rates for the Ajman economy, departing from a low absolute level, seem set to continue.

**KNOWLEDGE IS KEY:** The added draw of Ajman's University of Science and Technology, a top-flight institution in the UAE and the Arab world, and the Gulf Medical College, a co-educational medical school that offers its services to all nationalities, should also come into consideration. The emirate is now beginning to position itself as another centre in the Gulf Cooperation Council for the production of competitive individuals entering the UAE's rapidly growing, knowledge-based economy, and not just as an industrial port town. In the first three years of Ajman's freehold status, the split between property investors and end-users was approximately 60:40. Speculators that are trading on unfinished projects bear no relation to actual population movements, and their interest can evaporate in an instant.

However, with new financing packages that will be aimed at families moving from overpriced Dubai being developed by Ajman's main government developers Aqaar, the Real Estate Investment Establishment and R Holdings, this ratio seems set to change. The as-yet undeveloped mortgage sector in Ajman, when it finally gets off the ground, could also serve to boost demand. Consequently, on the demand side there are sound reasons to expect Ajman to at least maintain the UAE average population growth rate of 8% per year over the course of the next five years.

If this is the case, the population will rise to around 380,000 by 2012 – translating into a demand for housing for an extra 120,000 people, or 48,000 units at an average occupancy of 2.5. There are other, more intangible factors, which could produce much higher population growth in Ajman. Unchecked price inflation in Dubai, or if the long-expected real estate price correction does not occur, could keep property prices in Dubai well out of reach for the first-time buyer, leading to a boon for the neighbouring emirates and their economies.

Most industry insiders in Ajman are not waiting for the Dubai property bubble to burst. In fact, it is quite the opposite: they are hoping it will continue. Looking at the supply side of the equation, it seems as if Ajman's developers have pitched new projects with the expectation of future growth in mind. The key integer in the supply question, however, is market segmentation. The gross number of units available on the market is irrelevant if they are the wrong type of units for the present buyers.

This is where Ajman's real strength seems to lie. By the third quarter of 2007, developers in Ajman had announced projects with total investments of approximately Dh80bn (\$21.78bn) – a staggering figure considering that the transactions market is valued at just Dh3.5bn (\$953.05m). These projects



It is estimated that some 65,000 units will become available on the market between 2009 and 2012

will probably involve the development of a minimum of 65,000 units – seemingly in excess of what the preceding, albeit conservative, demand model would require. The majority of that supply is scheduled to become available between 2009 and 2012.

**MARKET MATH:** Dubai's residential market also seems to be oversupplied. Some 140,000 units are due to hit the market in 2008, against a population increase of just 100,000 in the intervening period. However, according to a report released by investment bank EFG-Hermes in 2006, the new supply will be unbalanced in the direction of luxury apartments. What the market really wants and needs, the bank said, was affordable condominiums, not exclusive ones. The report concluded that the less-than Dh600 (\$163.38) per sq foot market segment (low-to-mid range in Dubai) was markedly underserved.

Ajman, on the other hand, will be delivering the bulk of its scheduled inventory in precisely this price bracket. The rate of Dh600 (\$163.38) per sq foot will get you a much better deal in Ajman than it will in Dubai. The Emirates City development is the case-in-point here, with approximately 41,000 units becoming available in 2010, at an average price of Dh500 (\$136.15) per sq foot.

**OUTLOOK:** Everything being equal, Ajman will have pitched its offer just right for the prevailing conditions that exist outside of Dubai and will easily attract those seeking cheaper rents, lower purchase prices and better value for money than can be found in the larger city. The challenge, however, is to get the new units on the market in the time frame expected, and for Ajman's general cost structure to stay at a level where it is a worthwhile decision to move further away from the workplace in Dubai.

Of course if Ajman's projected urban development proceeds according to plan, then the emirate will become less and less concerned with what its larger neighbour is doing, and will have evolved into a thriving property market centre in its own right.

Though the value of property transactions currently stands at just over \$950m, by the third quarter of 2007, developers had announced that total investments in projects had reached \$21.78bn.



Nasser Chammaa

# Clean, green and convenient

OBG talks to Nasser Chammaa, Chairman and CEO, Solidere

**The Al Zorah project will be Solidere's first outside Lebanon. What made the company expand abroad?**

**CHAMMAA:** The international business of Solidere started earlier, as we were approached by a number of high-level officials, private investors and developers who envisaged embarking on large and complex real estate developments in different countries (Saudi Arabia and the UAE). Solidere engaged at first in advisory and consultancy tasks in such projects as the Abu Dhabi Tourist Club and the Tabuk Economic City in Saudi Arabia. The idea of international expansion for Solidere took on a new dimension when we decided to not just be commissioned for consultancies, but to be involved ourselves and do what we do best, namely master plans and real estate development for projects within the Middle East and around the Mediterranean Basin.

**Can you give a brief overview of your master plan for the development of the Al Zorah project?**

**CHAMMAA:** To create the master plan, we analyse the site and work backwards from opportunities that present themselves in the landscape. It's very important to have a market study done as well, locally and regionally, about development trends, demand, population growth rates, the economy and comparable projects. For example, we know there are serious problems with congestion in the Gulf, so we want to create a new style of development. We've also built a very strong conviction on the environmental side of the development. The mangroves and creeks are at the heart of this project and the real value generator for the lifestyle concept. For this kind of project, you have to do water modelling, traffic transportation modelling and quite a lot of survey work. You must also conduct an environmental impact study as well as a series of other studies.

**What features unique to Ajman is Solidere seeking to bring to Al Zorah in terms of lifestyle?**

**CHAMMAA:** Solidere aims at capitalising on Ajman's privileged geographic position in the UAE and Al Zorah's

unique natural assets in order to create a high-value and multi-use environment. The area also benefits from the emirate's favourable legislation, which includes a freehold and free-zone status.

Al Zorah will provide its residents and visitors with environmentally friendly living and working spaces in the heart of Ajman, where they will enjoy the surrounding nature while being close to the rest of the region and to the neighbouring emirates.

Our master plan responds directly to the site itself and remains committed to sustainable development and environmental protection by ensuring that environmental needs guide the planning process through the transformation of constraints to opportunities.

The Al Zorah region has an untouched beachfront that is about 3-km long and also encompasses inland creeks and mangroves. The mangroves endow the site with natural greenery that is otherwise rare in the region. It contains several species of fish, birds, waders and raptors. Our intention is to retain and conserve the mangrove as a wetland park that will be used as a central feature and attraction of the project.

While inspired by the natural beauty of the site, the project will benefit from the Solidere process and product as well, including a time-tested combination of high-quality infrastructure and public space implementation, with ongoing regimes of development control on all subsequent real estate projects.

**What are the main challenges to implementing a sustainable development process?**

**CHAMMAA:** It's kind of a green city concept. We have to have high levels of energy conservation, which means specific guidelines for building design. We have developed design guidelines, which will, in effect, force us and other developers to produce very energy-efficient types of buildings. Also, there is the task of not only keeping the mangroves, but guarding them as well to ensure the sustainability of the creek system. The water flow must be carefully designed so the mangroves will

grow and be very healthy. There will be a very large area in the centre of this project that is basically a mangrove park, where you'll be able to visit and walk through.

#### How will Al Zorah compare with other developments in Ajman and the other Northern Emirates?

**CHAMMAA:** The Al Zorah project addresses the strategic objectives of Ajman to firmly place itself within the rapid growth of the UAE. The emirate will greatly benefit from the new urban area's attributes: high accessibility, tourism, environmentally friendly design and development, all-supporting lifestyle and business, freehold and free-zone status. The project is an integral part of Ajman's development. The facilities that will be made available will attract further investors wishing to do business in such a convenient location. We are putting together a new business hub responding to the emirate's growing demand for office and business park use and building a contemporary-scale extension to the existing Ajman city centre.

At the same time, we are attempting to create a unique lifestyle environment. The Al Zorah project with its extended facilities will not only service the emirate of Ajman but the Northern Emirates as a whole. Its central location, accessibility and characteristics should bring in investors to the region.

#### Will the completed development include a free zone for business as in the style of Dubai Media City?

**CHAMMAA:** With the objective to offer minimum regulations and world-class facilities to investors, the entire project will benefit from special concession rights, including becoming a free zone and offering freehold ownership to both nationals and foreigners.

#### Ajman has always been considered a commuter and industrial centre. Does the Al Zorah project plan to carry on with this tradition?

**CHAMMAA:** The Al Zorah project aims at complementing the emirate's industrial sector by offering a new

tourist destination and a rich living and working environment for current and future populations. It will thus create a landmark destination that combines residential and support facilities, business and city centre functions, together with an important new resort facility. The transport planning side is very important because the road network must sufficiently deal with the main concept of highlighting the environmental features, where landscape and water should dominate. So the only way to solve this is to introduce public transport.

We are going to use a sophisticated bus space system, shuttle services along obvious desired lines to places of entertainment, from residence to work, shopping and so on. We want to basically reduce the amount of parking and encourage people as much as possible to use public transport as part of their lifestyle.

We are paying special attention to how the emirate's roads and bridges are to be laid out, both within Al Zorah and its connections to the rest of Ajman, and to the national highway grid. With the construction of the new parkway linking the Al Zorah site to the Emirates Highway, the journey time from Ajman to Dubai Airport will be reduced, and our project will open up as an ideal commuter destination for people working in Dubai and other neighbouring emirates.

#### At whom is this development aimed – is it mainly for the expatriate population or will you be targeting nationals from around the UAE?

**CHAMMAA:** We hope that there will be a mix. In all the Gulf countries, your typical split is about 20% locals and 80% expatriates. There is inevitably a large proportion of expatriates and that is obviously a market for us, but we want to cater to all potential occupants. In the past Ajman had an image for being a slightly downmarket area, but we are hoping to create a very high-quality development. With all of our environmental aspects, entertainment, sports, water-based activities and cultural activities, we will create something that should serve to bring us a strong mix of people.



Ajman's property market was valued at \$953.05m in 2006

## Building expectations

Construction is the busiest it has ever been, and it is set to get busier

As the price of cement continues to rise, the profit margins of contractors decrease. Not so in Ajman, however. Locally operated Star Cement produces some 1m tonnes of cement per year, most of which goes into local projects. The government-imposed cap on prices will also serve to keep costs down.

The place of Ajman in the Middle East's \$1.5trn construction boom is now, after three years of rapid growth, assured. In 2006 Ajman's property market was worth an estimated Dh3.5bn (\$953.05m), according to transactions records. In 2007 the emirate's order book, measured by the combined value of the real estate projects announced by developers in the city, easily exceeded Dh80bn (\$21.78bn). The major work for construction firms operating in the emirate is clearly just beginning.

Ajman's acceleration comes at a time when conditions in the construction industry across the UAE – and the Middle East for that matter – are tighter than they have ever been. Dubai's advancement, which began in 2002, is now being partnered by the awakening of Abu Dhabi's latent property potential, while all of the Northern Emirates are at the same time experiencing rapid infrastructural and real estate development.

**DEMAND AND DELAY:** While the real estate brokers can deal with the aspirational drawings of penthouses and glittering office blocks, the contractors have to deal with the rather more prosaic concerns of materials, labour and time. All of these factors are, generally speaking, under strain across the UAE.

A report circulated in the national media during October 2007 reaffirmed what everyone had known for some time: the average price of building materials had gone up by almost 20% in the past 12 months, and the cost of outsourced labour had gone up by more than 30%. As a result, construction firms have been struggling to meet deadlines for some time now.

The factors that influence demand for real estate projects in Ajman are undoubtedly part of the wider UAE real estate picture: exogenous population growth, high foreign direct investment and liberalised property laws. But the factors that influence the ability of the emirate to supply the apartments, villas and offices required are subtly different from other parts of the country.

Ajman's construction sector has been, until very recently, dominated by a few local firms that have taken all of the contracts available within its borders. For

example, R Holding, owned by Sheikh Rashid bin Humaid Al Nuaimi, the ruler of Ajman, is the developer in charge of one of Ajman's largest real estate projects, the Dh15bn (\$4.08bn) Emirates City. R Holding is in fact a fully integrated construction and contracting firm, with divisions responsible for everything from piling to marketing. Such a structure, coupled with royal ownership, helps keep costs and overruns down.

While similar cost pressures on materials to those experienced elsewhere apply, the emirate's ability to use local contacts and knowledge to get the job done has helped to restrain inflationary forces.

Arguably, the building materials supply scenario in 2007 is evolving favourably for Ajman's growing property sector. For example, in the key market for cement – cement can account for 20% of a building's cost, so large price movements have the ability to wipe out contractors' margins – local players are less pessimistic than contractors elsewhere in the UAE.

The Ajman Cement Factory, a 1m-tonne-per-year plant that is owned by the government and leased to local operator Star Cement, places the vast majority of its production in the local market. While recent inputs have risen in price, Star Cement sees a stabilisation on the horizon, not least because of a cement price cap imposed by the Ajman government in mid-2007. "Diesel costs and shipping [for the import of clinker, one of the main ingredients in cement] are the main cost factors behind the rise over the past 12 months," Ajman Cement Factory's managing director, Mohammed El Rady, told OBG. "Diesel has risen approximately 20% in a year, and shipping costs fluctuate almost daily," he added.

Nevertheless, El Rady believes that the Dh290 (\$79)-per-tonne limit set by the government – Dh5 (\$1.36) per tonne less than the Dubai price cap set in June 2007 incidentally – is an appropriate rate to stabilise the market while at the same time maintaining adequate margins for producers. And with the addition of new supply lines in the form of proposed cement plants in Ajman's Manama area, El Rady thinks that, "in a very

## PEOPLE POWER NEEDED

The UAE's expatriate workforce comprises some 80% of the population, yet issues over the rights and conditions for non-Emirati workers remain one of the country's most contentious areas. In particular, the UAE's construction boom is largely reliant on migrant labour, both skilled and unskilled, recruited from India, Pakistan, Sri Lanka, Bangladesh and South-east Asia.

The availability of jobs in the UAE construction industry has consequently acted as a powerful draw for workers from these countries. So much so, in fact, that the country now has a rising problem with illegal workers being employed by firms desperate for labour. The government, however, has been attempting to streamline the workforce and regulate the movements of expatriate workers around the UAE.

In 2007 the Ministry of Labour and the Ministry of Interior announced an amnesty for workers whose visas had expired or were otherwise illegally working in the country. The amnesty, which ended in September 2007, saw thousands of the expatriate workers apply to change their status or obtain documents permitting them to leave the country, in the face of stiff penalties after the end of the amnesty period.

As around 300,000 workers – some of whom earn as little as \$200 per month – chose to leave the country, the construction industry was left facing both a labour shortage and rising costs outlook. Industry insiders complained that workers would not be likely to return for the same wages they had been paid before they left.

Another problem the Ministry of Labour has been facing is the large number of expatriate workers that are holding public demonstrations as a result of being overworked and underpaid. Many of these expatriate workers are demanding that they be better paid, be given improved living conditions and be provided with better transport services to and from the sites.

The labour environment in the UAE is, however, changing in favour of better pay and conditions for workers. In the meantime, contractors face difficulties completing projects within the scheduled times and on budget. Ajman faces the same shortages, particularly of skilled workers, that pertain to the rest of the country.

According to Shukri Al Shafi, head of the Ajman branch of Al Rai Projects and Construction, the contractor behind the Al Ameera Village development, "There is a shortage of good engineers and other industry-qualified people. These shortages and cost issues are forcing everyone to work harder, because delivery and timing are crucial and being late raises costs even further."



Ajman claims to have an advantage over the other emirates in terms of work permit procedures

short while there will be an equilibrium in the market, as many new investors begin arriving."

Steel, the other main construction commodity, is not produced in large quantities in Ajman, so it is normal for contractors to source their supply outside the emirate, leading to exposure to price movements in the UAE general market. However, the planned introduction of a steel futures contract on the Dubai Gold and Commodities Exchange should help contractors with their costs through increased price transparency and the ability to hedge risk when it finally goes ahead – the move was delayed repeatedly throughout 2007.

Ajman also claims to have an advantage over other emirates when it comes to labour. In general, the UAE's work permit procedures are well behind demand for labour from companies operating in the country. As a result, there are many illegal workers present, a situation that the federal Ministry of Labour is trying to remedy. Ajman's Chamber of Commerce and Industry (ACCI), however, says that its regulations pertaining to permits for foreign workers are more liberal than elsewhere in the UAE. "It's cheaper here, and the bureaucratic process relating to labour is much easier [than elsewhere]," said ACCI's Abdullah Al Marzooqi. The ACCI says that, on average, it grants more licences for non-national workers per firm than other parts of the UAE. Such flexibility is certainly to Ajman's advantage, as during 2007, a federal amnesty for illegal workers resulted in around 300,000 leaving the country, to the despair of contractors drastically short of manpower.

**MOVING FORWARD:** So while Ajman has certain advantages when it comes to getting projects done on time and within budget, it is still too early to tell whether or not the city can avoid the high-profile project delays that have occurred elsewhere as most of the large-scale projects in the emirate are still in the early stages. For the time being, the developers of Ajman's new projects are awarding contracts and getting to work. For an emirate that is currently home to an estimated 260,000 people, the level of residential inventory that is due to

In September 2007, after an amnesty period granted to expatriate workers, approximately 300,000 people left the UAE. This exodus was a result of either worker's visas running out or had been illegally working.



Infrastructure investments are needed to keep projects on schedule

Emirates City, a project currently being developed by R Holdings, will be the largest single-phase project in the world, stripping the Jumeira Beach Residences project in Dubai of the title. The project will consist of 92 residential towers, retail space and entertainment complexes. When finished, it will contain over 41,000 apartment units.

come onto the Ajman real estate market over the next five years is truly impressive.

Of the many developments, the Emirates City project contains 92 residential towers, plus retail and entertainment complexes. The project claims to be the largest single-phase development in the world and should, by completion, have 41,000 apartments. R Holdings has also announced a Dh2.5bn (\$680.7m), 1299-unit villa development, known as Ajman Uptown, due for completion in 2010. The project is being developed by Sweet Homes and located adjacent to Emirates City.

Aqaar, the real estate arm of the Ajman Development and Investment Corporation, awarded a Dh1.4bn (\$381.22m) contract in September 2007 for the Ajman One project. The 72,000-sq-metre, mixed-use project will be located in the old city with 12 freehold residential towers consisting of 3000 units, and an additional four towers for a hotel, a convention centre, and leisure and retail amenities. Phase one is due for completion in 2010. Plans for Ajman Two are underway.

For the massive Dh50bn (\$13.62bn) Al Zorah project, it has hired Beirut master-planner Solidere, who

are undertaking the transformation of the beachfront, which has a series of lagoons, into a city-within-a-city.

Private sector firm Tanmiyat announced in mid-2007 that the \$3bn Ajman Marina project, dubbed the "jewel in the crown of Ajman", will consist of 30 towers and buildings, located on 1.6m sq metres of land and will deliver 8000 residential units, a marina, waterfront facilities, office space and shopping facilities. Ajman Marina is due for completion in 2012.

Barwa International's Ajman Corniche Residence project will consist of seven interlinked towers, containing residential, commercial and retail space. This freehold development will offer 100% ownership rights.

Tameer, a Sharjah-based firm, is in charge of building the Dh1.2bn (\$326.76m) Al Ameera Village, which has plans for more than 41 residential towers. Key to Al Ameera Village is its location: it is ideally positioned on the Emirates Rd, thus avoiding serious traffic problems. It will also be home to a five-star hotel, a shopping mall, residential and business facilities.

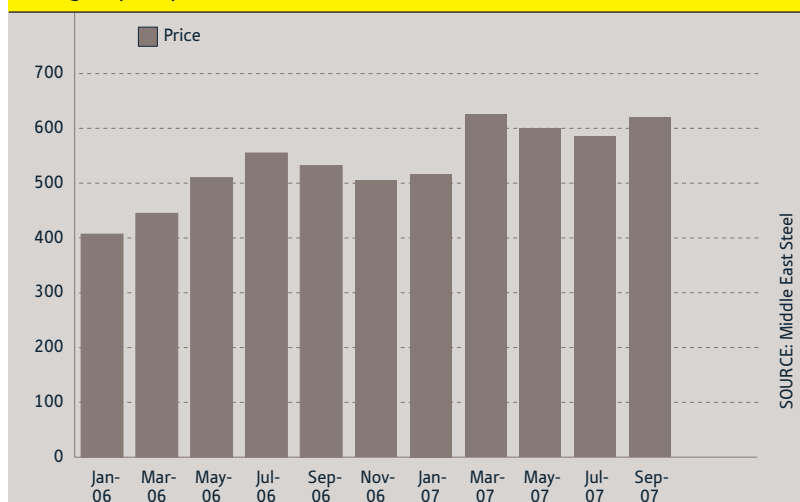
The head of Al Rajhi's executive office, Shukri Al Shafi, discussed with OBG the particular challenges facing the large projects underway in Ajman. "The tricky part is to coordinate suppliers and material, to supervise the whole development, and ensure a harmonious development of the whole project," he said. "Training of contracting firms and government would allow both to determine precisely what problems contractors are facing and how exactly they can be solved, and put better systems and procedures into place. Pressure is building up to implement these changes. If it is not done, delays and costs will continue to rise."

Despite Ajman's natural advantages, challenges to getting the job done remain. One of the major worries for developers is infrastructure. Some insiders have indicated that the emirate is in need of a dramatic increase in the level of investment in roads, electricity and other public services to both keep the construction projects running on time, and to deal with the influx of people that they inherently entail. While Ajman Municipality and the Federal Electricity have made significant expenditure of late, they have in the past been willing to encourage private sector investment, as the Ajman sewage project demonstrates.

Yasser Khalil, head of the planning department at Ajman Municipality, notes that there are difficulties. "In the last few months the market began to feel the effects of the electricity shortage. But on the big projects, they will not stop. There will have to be a solution."

**OUTLOOK:** As in other parts of the UAE, Ajman's property and construction expansion has its naysayers. Developers, buyers and the government have all continued to consistently exceed expectations. It is true that there are difficulties facing the construction industry, but a combination of Ajman's distinct characteristics, and a little bit of local inventiveness, will likely help Ajman overcome them. In the meantime, the emirate remains a key destination for new investment in real estate ventures, and with some high-quality, high-ambition projects already moving off the drawing board and into reality, the momentum seems set to accelerate.

Avg. import price of steel rebars, 2006-07 (\$)



SOURCE: Middle East Steel



Sulyman bin Abdulaziz Al Majed

## Prime time

### OBG talks to Sulyman bin Abdulaziz Al Majed, Chairman, Tanmiyat

#### What prompted you to invest in Ajman? What will attract residents and visitors?

**SULYMAN:** Ajman holds a great deal of untapped potential. It is ideally located, as it is close enough to Dubai International Airport and business centres for convenient access, yet far enough away from the city to be considered a peaceful retreat. Additionally, the emirate's freehold policies, combined with very reasonable prices, make Ajman an appealing alternative to some of the other options available to the public.

#### Who exactly is in the market for property in Ajman?

**SULYMAN:** People are looking for different things. While some prefer to live in Ajman and commute to work in Dubai, the combination of residential and commercial facilities available in Ajman will no doubt be attractive to investors who would prefer to both live and work in their own community. This type of demand can only be strengthened by Ajman's economic growth and the increasing job opportunities that are being created locally. Also, the hospitality and leisure facilities will establish Ajman as a world-class tourist destination, attracting many holidaymakers, some of whom will look to acquire second residences. Ajman Marina is designed with all of these groups in mind.

#### Many other developments are being promoted, such as Emirates City, Al Ameera Village and Al Zorah. Is there too much development happening?

**SULYMAN:** Considering the staggering growth of the UAE's population – that shows no signs of slowing down – demand for housing and business premises still far outstrips supply and is likely to continue to do so for the foreseeable future. This observation holds true in Ajman, but also I think in the UAE as a whole.

#### How would you characterise Ajman's authorities' cooperation with developers?

**SULYMAN:** Ajman's authorities have demonstrated high levels of cooperation with developers in relation

to project site updates, support for surveying works and enthusiasm for project reviews and comments. Through the Ajman Development and Investment Authority, Tanmiyat is provided with valuable advice on project performance and our team is offered all the necessary resources. In fact Tanmiyat is forging valuable contacts initiated by the Ajman government. The government is also fully supporting us in terms of releasing previous proposals and studies conducted before.

#### Is the legislative framework in Ajman conducive to real estate development? Do you believe there are improvements that need to be made?

**SULYMAN:** Ajman was one of the first emirates to allow freehold ownership of property and is well known for the transparency of the laws regulating these transactions. Additionally, frequent reviews keep property laws in Ajman up to date with current trends and requirements, creating an ideal environment for investors to purchase and develop their projects.

#### What would you say are the main challenges for real estate developers in the UAE?

**SULYMAN:** Challenges are an element present in every industry and sector, and real estate is no different. Many of the newcomers we see coming to this industry today can't meet the standards expected of them by consumers, which can have a knock-on effect on the image of the sector in general.

Another element that needs to be considered is the increase in the costs of raw materials, which pose a challenge to the consumer rather than the developer. In addition, the fact that products and procedures in the region are still underdeveloped compared to those in other parts of the world should be considered.

Finally, the majority of middle-class buyers, who constitute the mass market, are still unable to obtain loans easily, which, as a result, places restraints on their buying capacity. However, we are witnessing initial steps in the region that are shaping up to face such challenges.



Freehold ownership became available to foreigners in 2004

## Ajmani for common sense

### New real estate projects are both innovative and monumental

There are several real estate developments currently underway that are set to give Ajman a fresh look, combining modern aesthetics and sustainable design.

A drive through the central part of Ajman reveals distinct phases of the city's history through its architecture. In the port area, for example, traces of the past remain in the old houses and courtyards. This was the centre of Ajmani life when fishing and pearl diving comprised the lion's share of the emirate's economy.

Today there is a new economy. New projects are underway and Ajman is making strides in urban planning, redefining the vision of what a city should be. For the real estate investor, the chronological strata of Ajman are more than historical or aesthetic. They represent stages in the emirate's economic history, and the modern layer – a response to the decision in 2004 to open the emirate's property market to foreigners through 100% freehold ownership – is a test in one of the most competitive real estate markets in the world.

Good urban design produces developments that sell. Ajman is now seeing several mixed-use and residential projects that will change the face of the city and increase the mark for large-scale sustainable entities.

R Holdings' Emirates City is one of the many fine developments that are currently underway. According to R Holding's Ahmad Omar Awwad, head of corporate communications, it will also be a self-sustained place to both live and work. "The location of Emirates City is very strategic on the Emirates Road, but we are also putting all the facilities that you need there."

Emirates City will have over 40,000 apartments, 92 towers, parks and playgrounds, sports and fitness areas, medical and educational facilities, and a mixed-use commercial development with a gross leasable area of approximately 56,000 sq metres for retail and some 46,000 sq metres for offices. Total investment is set to exceed Dh15bn (\$4bn). The construction of Emirates City is scheduled for completion in 2010.

Also on the Emirates Road will be Tameer's Al Ameera Village, a 278,709-sq-metre sub-city. The design is referred to as rooted in tradition – a nod to the idea that architecture should reflect local customs and traditions. Plans show traditional Arabian architecture

complete with a mosque, nursery, fitness clubs with gymnasiums, swimming pools, latté-vending coffee shops and a modern take on the souk concept. The project was due to be completed by the end of 2007, but was not yet finished at the time of going to press.

Ajman One, closer to the heart of Ajman City, is being developed by Aqaar as an affordable community, which retains the mixed-use concept. In November 2007, Aqaar announced that nine of its towers had been sold.

Saudi Arabian development firm Tanmiyat is developing a project in line with the UAE's aspirations to become a centre for marine-based leisure, lifestyle and tourism. Sulyman bin Abdulaziz Al Majed, president of Tanmiyat, told national media that "more than 18,000 residents will live in 8000 residential units in Ajman Marina, which will have a total built-up area of over 14m sq ft (1.3m sq metres)." The project is being planned by Hellmuth, Obata and Kassabaum, the award-winning architectural consultancy behind Dubai Marina.

Similar lifestyle ideas are behind Al Zorah, the Aqaar project between Ajman port and Sharjah's Hamriyah area. Real estate developments that create jobs, leisure opportunities and quality places to live all in the same location are greatly needed in Ajman. From early indications, Al Zorah looks set to contain all these assets. It is being planned by Solidere, the Lebanese company behind the reconstruction of Beirut's city centre.

Solidere's chief planning advisor, Angus Gavin, spoke about the aims and priorities behind the Al Zorah project. "We have built a very strong conviction on the environmental side. Ajman is an ideal site. The first thing you notice [in Al Zorah] is the mangroves and creeks. We persuaded our chairman that the mangroves and creeks are at the heart of this project – that is the real value generator and part of the lifestyle concept."

Sustainable design is at the leading edge of current urban planning. There is no reason why Ajman should not benefit from these modern trends in design as it seeks to use the current expansion in real estate and investment across the region to its lasting advantage.



Omar Ayesh

# Constructing potential

OBG talks to Omar Ayesh, President, Tameer Holding

## What are the primary challenges that face real estate developers in the UAE?

**AYESH:** I am confident that the sector is strong enough to overcome all the challenges that it currently faces. Some of the more formidable hurdles that developers must surmount include the worry that foreign investor confidence might be shaken by regional instability due to armed conflict and the expected shortfall in skilled and semi-skilled workers. Following a recent amnesty declared by the government many of these workers, both legal and illegal, may leave the country. Still, I am convinced that the market boom will continue.

## What attracts people to property in Ajman, apart from prices that are significantly lower than Dubai?

**AYESH:** Many investors and homeowners may not be drawn to the Dubai brand or lifestyle, but still want the benefits that come with living in a progressive and dynamic country like the UAE. Each emirate has an individual personality and culture that makes it unique. Ajman could be the perfect alternative to Dubai.

## What are the characteristics of the Ajman market?

**AYESH:** The Ajmani government is working to make the emirate more tourist and investor friendly through implementation of new projects and developments. Real estate and housing are the top priorities on Ajman's development agenda. Although Tameer was the very first realty company to enter this market, many other property developers are becoming increasingly attracted to the emirate. Ajman, like the rest of the UAE, has garnered tremendous investor interest and will eventually become one of the region's primary attractions.

## How will the expected price correction in other UAE markets affect property prices in Ajman?

**AYESH:** Should there be a price correction in the Dubai or Sharjah real estate market, the effect as such will be limited. We don't expect drastic changes, and we do expect that the demand for midstream, affordable

housing will continue to be strong, again making Ajman an attractive alternative to more expensive markets.

## How can the city's infrastructure cope with the rapid development of Ajman?

**AYESH:** Sheikh Rashid bin Humaid Al Nuaimi, the chairman of Ajman Municipality and Planning Department, has allocated a budget of Dh150m-160m (\$41m-44m) for Ajman's infrastructural needs in 2007 alone. In addition to building an advanced road network, which is nearing completion, the emirate has embarked on a sanitation project that will be operational by the end of the year. By mid-2008 the sanitation plant will hopefully be connected to the entire emirate. Eventually, it will serve the rest of the UAE as well.

## Is there a risk of permeating the real estate markets in Ajman and the neighbouring emirates?

**AYESH:** Each emirate is a separate entity unto itself, so even though there is consensus that Dubai is likely to face oversupply in the near future, Abu Dhabi is expected to suffer from a supply shortage up to 2009. Furthermore, other emirates are still playing catch-up with Dubai in terms of realty and there is still a growing demand from investors to move to them, especially since business opportunities continue to improve. Because of the separation between emirates, the risk of oversupply in the Ajman market is fairly low.

## What constraints have you faced while planning and building in the emirate?

**AYESH:** We have not faced any constraints. On the contrary, the Ajmani authorities are making a concerted effort to boost investment possibilities in the emirate to the best of their ability. They have been pouring money into Ajman's infrastructural capacity in order to actively encourage, via procedures that are becoming more fluent and transparent, real estate firms and other businesses to establish themselves and work there. Currently, development prospects are good.



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